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from: General Secretariat
to: Permanent Representatives Committee / Council

Subject: Proposal for a Regulation of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area
- Outcome of the European Parliament's first reading
(Strasbourg, 11 to 14 March 2013)

I. INTRODUCTION

In accordance with the provisions of Article 294 of the TFEU and the joint declaration on practical arrangements for the codecision procedure ¹, a number of informal contacts have taken place between the Council, the European Parliament and the Commission with a view to reaching an agreement on this dossier at first reading, thereby avoiding the need for second reading and conciliation.

¹ OJ C 145, 30.6.2007, p.5.

The Parliament debated the proposal in plenary on 12 June 2012 and voted to adopt a number of amendments on 13 June 2012, but did not at that sitting adopt its legislative resolution, thereby not closing the first reading and leaving open the possibility of reaching an agreement in first reading¹. The matter was then referred back to the Committee pursuant to Rule 57(2) of the European Parliament's Rules of Procedure. The subsequent informal contacts resulted in an agreement. In this context, the Rapporteur, Mr Jean-Paul GAUZÈS (EPP, FR), presented one compromise amendment (amendment 73) on behalf of the Committee on Economic and Monetary Affairs. This amendment had been agreed during the informal contacts referred to above.

II. VOTE

When it voted on 12 March 2013, the plenary adopted the compromise amendment to the proposal for a Regulation.

The amendment adopted corresponds to what was agreed between the institutions and ought therefore to be acceptable to the Council². Consequently, once scrutinized by the lawyer-linguists, the Council should be in a position to approve the the European Parliament's position.

¹ See doc. 11130/12.

² The text of the amendment adopted and the European Parliament's legislative resolution are set out in the Annex hereto. The amendment is presented in the form of a consolidated text where added wordings are highlighted in ***bold and italics***, the symbol "■" indicates deleted text and the symbol "||" indicates changes of a linguistic or clerical nature.

Economic and budgetary surveillance of Member States with serious difficulties with respect to their financial stability in the euro area *I**

European Parliament legislative resolution of 12 March 2013 on the proposal for a regulation of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area (COM(2011)0819 – C7-0449/2011 – 2011/0385(COD))

(Ordinary legislative procedure: first reading)

The European Parliament,

- having regard to the Commission proposal to Parliament and the Council (COM(2011)0819),
 - having regard to Article 294(2), and Articles 136 and 121(6) of the Treaty on the Functioning of the European Union, pursuant to which the Commission submitted the proposal to Parliament (C7-0449/2011),
 - having regard to Article 294(3) of the Treaty on the Functioning of the European Union,
 - having regard to the opinion of the European Central Bank of 7 March 2012¹,
 - having regard to the undertaking given by the Council representative by letter of 28 February 2013 to approve Parliament's position, in accordance with Article 294(4) of the Treaty on the Functioning of the European Union,
 - having regard to Rule 55 of its Rules of Procedure,
 - having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Employment and Social Affairs (A7-0172/2012),
1. Adopts its position at first reading hereinafter set out²;
 2. Takes note of the Commission statement annexed to this resolution;
 3. Calls on the Commission to refer the matter to Parliament again if it intends to amend its proposal substantially or replace it with another text;
 4. Instructs its President to forward its position to the Council, the Commission and the national parliaments.

¹ OJ C 141, 17.5.2012, p. 7.

² This position replaces the amendments adopted on 13 June 2012 (Texts adopted, P7_TA(2012)0242).

P7_TC1-COD(2011)0385

Position of the European Parliament adopted at first reading on 12 March 2013 with a view to the adoption of Regulation (EU) No .../2013 of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area *

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136 in combination with Article 121(6) thereof,

Having regard to the proposal from the European Commission,

Having regard to the opinion of the European Central Bank,

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with the ordinary legislative procedure¹,

* TEXT HAS NOT YET UNDERGONE LEGAL-LINGUISTIC FINALISATION.

¹ Position of the European Parliament of 12 March 2013.

Whereas:

- (1) The unprecedented global crisis that has hit the world *since 2007* has seriously damaged economic growth and financial stability and provoked a strong deterioration in the government deficit and debt position of the Member States, leading a number of them to seek financial assistance outside *and within* the framework of the Union.
- (1a) Article 9 of the Treaty on the Functioning of the European Union (TFEU) provides that, in defining and implementing its policies and actions, the Union is to take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health.*

- (2) The full consistency between the Union multilateral surveillance framework established by the TFEU and the possible policy conditions attached to this financial assistance should be enshrined in Union law. The economic and financial integration of *all* Member States, *in particular those* whose currency is the euro, calls for *enhanced* surveillance to prevent **█** contagion from a Member State experiencing difficulties with respect to its financial stability to the rest of the euro area *and, more broadly, to the Union as a whole*.
- (3) The intensity of the economic and fiscal surveillance should be commensurate *with and proportionate* to the severity of the financial difficulties encountered and should take due account of the nature of the financial assistance received, which may range from a mere precautionary support based on eligibility conditions up to a full macroeconomic adjustment programme involving strict policy conditionality. *Any macroeconomic adjustment programme should take into account the national reform programme of the Member State concerned in the context of the Union strategy for growth and jobs*.

- (4) A Member State whose currency is the euro should be subject to enhanced surveillance when it is experiencing - or at risk of experiencing - severe financial disturbance, with a view to ensuring its swift return to a normal situation and to protecting the other euro area Member States against possible negative spill-over effects. This enhanced surveillance should ***be proportionate to the seriousness of the problems and should be graduated accordingly. It should*** include a wider access to the information needed for a close monitoring of the economic, fiscal and financial situation and a regular reporting to the ***competent committee of the European Parliament and to the*** Economic and Financial Committee (EFC) or to any sub-committee the latter may designate for that purpose. The same modalities of surveillance should apply to Member States requesting precautionary assistance from the European Financial Stability Facility (EFSF), the European Stability Mechanism (ESM) the International Monetary Fund (IMF) or another international financial institution.

- (4a) *A Member State subject to enhanced surveillance should also adopt measures aimed at addressing the sources or potential sources of its difficulties. To that end, all recommendations addressed to it in the course of an excessive deficit procedure or an excessive macroeconomic imbalance procedure should be taken into account.*
- (5) The surveillance of the economic and fiscal situation should be strongly reinforced for Member States under macroeconomic adjustment programme. Because of the comprehensive nature of the latter, the other processes of economic and fiscal surveillance should be suspended *or, where appropriate, streamlined* for the duration of the macroeconomic adjustment programme, with a view to *ensuring consistency of economic policy surveillance and* avoiding a duplication of reporting obligations. *However, when preparing the macroeconomic adjustment programme, all recommendations addressed to the Member State in the course of an excessive deficit procedure or an excessive macroeconomic imbalance procedure should be taken into account.*

- (5a) *The challenge posed by tax fraud and evasion has increased considerably. The globalisation of the economy, technological developments, the internationalisation of fraud and the resulting interdependence of Member States reveal the limits of strictly national approaches and reinforce the need for joint action.*
- (5b) *The problems posed by tax fraud and evasion in programme countries should be tackled by improving revenue collection in the Member State concerned and enhancing the cooperation between the Union's and third countries' revenue administrations.*
- (6) Rules should be provided in order to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability. *The parliament of the Member State concerned should be informed in accordance with national rules and practices.*

- (6a) *Member States should involve, in accordance with current national rules and practices, the social partners and civil society organisations in the preparation, implementation, monitoring and evaluation of financial assistance programmes.***
- (7) *The relevant bodies of the EFSF or ESM should have the opportunity to hold a discussion on the outcome of the negotiation between the Commission – acting on behalf of the EFSF or ESM, in liaison with the ECB and where appropriate the IMF – and the beneficiary Member State on the possible policy conditions attached to a financial assistance before the Council decision referred to in Article 6(2), 6(4) and 6(8a) is adopted. The Memorandum of understanding setting the detailed conditions upon which financial assistance is granted will be adopted under the rules set in the EFSF Framework Agreement or the Treaty establishing the ESM.***

- (7a)** *References to financial assistance in this Regulation should also cover financial support granted on a precautionary basis and loans for banks recapitalisation, unless provided otherwise.*
- (7b)** *The decision of the Commission to subject a Member State to enhanced surveillance under this Regulation should be taken in close cooperation with the EFC, the European Systemic Risk Board (ESRB) and the relevant European Supervisory Authorities¹ (ESAs). The Commission should also cooperate with the EFC when deciding on whether to prolong enhanced surveillance.*
- (7c)** *The Commission may recommend to reduce or cancel any existing non-interest-bearing deposit or fines decided by the Council in the framework of the preventive or corrective part of the Stability and Growth Pact for a Member State subject to a macroeconomic adjustment programme on grounds of exceptional economic circumstances.*

¹ *The European Supervisory Authorities comprise the European Supervisory Authority (European Banking Authority) established by Regulation (EU) No 1093/2010 of the European Parliament and of the Council¹, the European Supervisory Authority (European Insurance and Occupational Pensions Authority) established by Regulation (EU) No 1094/2010 of the European Parliament and of the Council¹ and the European Supervisory Authority (European Securities and Markets Authority) established by Regulation (EU) No 1095/2010 of the European Parliament and of the Council¹.*

- (7d) *Access to information on the preparatory work done in the run up to the adoption of a recommendation under Article 3(4) shall be subject to Regulation (EC) No 1049/2001 regarding public access to European Parliament, Council and Commission documents¹.*
- (7e) *When a decision is taken under Article 6 for a Member State, and events and analyses clearly show that a mechanism is needed to ensure the respect of the obligations towards its creditors and the stabilisation of its economic and financial situation, the Commission is invited to make proposals for such mechanism.*

¹ *OJ L 145, 31.5.2001, p. 43.*

(7f) The power to adopt recommendations on the adoption of precautionary corrective measures or on the preparation of a macroeconomic adjustment programme, the power to approve the macroeconomic adjustment programmes, the power to adopt decisions on the main policy requirements which the EFSF or ESM plan to include in the conditionality concerning financial assistance granted on a precautionary basis, loans made for the recapitalisation of financial institutions or in any new financial instrument agreed in the framework of the ESM, as well as the power to recommend the adoption of corrective measures to Member States under post programme surveillance, should be conferred on the Council. These are measures of particular relevance for the policy of economic coordination of Member States, that according to Article 121 TFEU shall take place within the Council,

HAVE ADOPTED THIS REGULATION:

Article 1

Subject matter and scope

1. This Regulation sets out provisions for strengthening the economic and budgetary surveillance of Member States *whose currency is the euro and which:*
 - *experience or are threatened with serious difficulties with respect to their financial stability and/or the sustainability of their public finances, leading to potential negative spill-over effects on other Member States of the euro area; and/or*
 - *request or receive financial assistance from one or several other Member States, the European Financial Stability Mechanism (EFSM), the European Financial Stability Facility (EFSF), the European Stability Mechanism (ESM) or other international financial institutions such as the International Monetary Fund (IMF).*

1a. This Regulation sets out provisions for enhanced economic policy coordination.

2. This Regulation shall apply to Member States whose currency is the euro.

2a. In applying this Regulation, the Commission, the Council and the Member States shall fully observe Article 152 TFEU. In applying this Regulation and the recommendations adopted hereunder, the Commission, the Council and the Member States shall take into account national practices and Article 28 of the Charter of Fundamental Rights of the European Union, and, accordingly, their application does not affect the right to negotiate, conclude and enforce collective agreements and to take collective action in accordance with national law.

Article 2

Member States under enhanced surveillance

1. The Commission may decide to make a Member State experiencing severe difficulties with regard to its financial stability *likely to have adverse spill-over effects on other Member States of the euro area*, subject to enhanced surveillance. *When assessing whether a Member State is threatened with serious difficulties with respect to its financial stability, the Commission shall use among other parameters the alert mechanism or, where available, the latest in-depth review, and conduct a comprehensive assessment, taking notably into account the borrowing conditions of that Member State, the repayment profile of its debt obligations, the robustness of its budgetary framework, the long term sustainability of its public finances, the importance of the debt burden and the risk of contagion from severe tensions in its financial sector on its fiscal situation or on the financial sector of other Member States.* The Member State concerned shall be given the possibility to express its views beforehand. The Commission shall decide every six months whether to prolong the enhanced surveillance.

- 1a. Where the Commission decides to make a Member State subject to enhanced surveillance under paragraph 1, it shall duly inform the Member State concerned of all the results of the enhanced surveillance and notify the ESRB, the ECB in its capacity as supervisor and the relevant ESAs and the ESFS.**
2. The Commission shall decide to make a Member State receiving a financial assistance on a precautionary basis from one or several other States, **the EFSM**, the EFSF, the ESM or any other international financial institution, such as the IMF, subject to enhanced surveillance. **The Commission shall make public its decisions taken in accordance with paragraph 1 and this paragraph.**

3. Paragraph 2 shall not apply to a Member State receiving a financial assistance on a precautionary basis in the form of a credit line which is not conditioned to the adoption of new policy measures by the concerned Member State, as long as the credit line is not drawn.
- 3a. *The Commission shall publish, for information purposes, a list of the precautionary financial assistance instruments concerned and keep it updated to take into account possible changes in the financial support policy of the EFSF, the ESM or of any other relevant international financial institution.*

Article 3

Enhanced surveillance

1. A Member State ***subject to*** enhanced surveillance shall, in consultation and cooperation with the Commission, acting in liaison with the European Central Bank (ECB), ***the ESAs, the ESRB and, where appropriate, the IMF,*** adopt measures aimed at addressing the sources or potential sources of difficulties, ***taking into account any recommendations addressed to them under Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of budgetary positions and the surveillance and coordination of economic policies¹, Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure², or Regulation (EU) No 1176/2011, concerning their national reform programmes and their stability programmes. The Eurogroup Working Group, the EFC, and the relevant committee of the European Parliament and the parliament of the Member State concerned where relevant and in accordance with national practises shall be informed of those measures by the Commission.***

¹ *OJ L 209, 2.8.1997, p. 1.*

² *OJ L 209, 2.8.1997, p. 6.*

- 1a. *When preparing the assessment foreseen in Article 3(4), the Commission shall take into account the results of a possible in depth review under Regulation 1176/2011, including the evaluation of spill-over effects of national economic policies on the Member State subject to enhanced surveillance, in accordance with the principles established in Article 5(2) of the above-mentioned Regulation.*
2. The closer monitoring of the fiscal situation laid down in Article 7, paragraphs 2, 3 and 6, of Regulation (EU) No .../2012 of the European Parliament and of the Council *of... [on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area]* shall apply to a Member State under enhanced surveillance, irrespective of the existence of an excessive deficit. The report in accordance with paragraph 3 of this Article shall be submitted on a quarterly basis.

3. On a request from the Commission, **a** Member State under enhanced surveillance *pursuant to Article 2(1)* shall:
- (a) communicate to the **█** ECB *where entrusted in a supervisory capacity and where appropriate to the relevant ESAs, in accordance with Article 35 of Regulation (EU) No 1093/2010, of Regulation (EU) No 1094/2010 and of Regulation (EU) No 1095/2010*, at the requested frequency disaggregated information on *developments in its financial system, including an analysis of the results of the stress test exercises and sensitivity analyses carried out under point (b). On the basis of outcome of the analysis and taking into account the conclusions of the assessment of the relevant indicators of the scoreboard for macroeconomic imbalances, the ECB, where entrusted in a supervisory capacity, and the relevant ESAs shall prepare, in liaison with the ESRB, an assessment of the potential vulnerabilities of the financial system and submit that assessment to the Commission at the frequency indicated by the latter and to the ECB;*

- (b) carry out, under the supervision of the *ECB where entrusted in a supervisory capacity or where appropriate relevant ESA(s)*, stress test exercises or sensitivity analyses as necessary to assess the resilience of the *financial* sector to various macroeconomic and financial shocks, as specified by the Commission and the ECB *in liaison with the relevant ESAs and the ESRB. The reporting mentioned in point (a) shall include an analysis of the results of the stress test exercises and sensitivity analyses mentioned herein;*
- (c) be subject to regular assessments of its supervisory capacities over the *financial* sector in the framework of *a* specific peer review carried out by the *ECB where entrusted in a supervisory capacity or where appropriate the relevant ESAs;*
- (d) communicate any information needed for the monitoring of **█** macroeconomic imbalances *in accordance with Regulation (EU) No 1176/2011.*

3a. On a request from the Commission, a Member State under enhanced surveillance pursuant to Article 2(2) shall:

- (a) communicate to the Commission, the ECB, and where appropriate the relevant ESAs, in accordance with Article 35 of Regulation (EU) No 1093/2010, of Regulation (EU) No 1094/2010 and of Regulation (EU) No 1095/2010, at the requested frequency disaggregated information on developments in its financial system, including an analysis of the results of the stress test exercises and sensitivity analyses carried out under point (b);**
- (b) carry out, under the supervision of the ECB where entrusted in a supervisory capacity or where appropriate the relevant ESA(s), stress test exercises or sensitivity analyses as necessary to assess the resilience of the financial sector to various macroeconomic and financial shocks, as specified by the Commission and the ECB in liaison with the relevant ESAs and the ESRB, and share the detailed results with them;**

- (c) be subject to regular assessments of its supervisory capacities over the financial sector in the framework of a specific peer review carried out by the relevant ESAs;*
- (d) communicate any information needed for the monitoring of macroeconomic imbalances established by Regulation (EU) No 1176/2011.*

The Commission, the ECB, and the relevant ESAs shall keep any disaggregated information communicated to them confidential.

4. The Commission shall conduct, in liaison with the ECB *and the relevant ESAs and, where appropriate, the IMF*, regular review missions in the Member State under *enhanced* surveillance to verify the progresses made in the implementation of the measures mentioned in *paragraphs 1, 2, 3 and 3a*.

It shall communicate every quarter its findings to the █ EFC *and to the competent committee of the European Parliament* and assess, *in particular*, whether further measures are needed. These review missions shall replace the on-site monitoring *provided for* in Article 10a(2) of Regulation (EC) No 1467/97.

5. Where it is concluded - on the basis of the *review missions provided for* in paragraph 4 - that further measures are needed and the financial *and economic* situation of the Member State concerned has significant adverse effects on the financial stability of the euro area *or of its Member States*, the Council, acting by *a* qualified majority on a proposal from the Commission, may *recommend to the Member State concerned to adopt precautionary corrective measures or prepare a draft macroeconomic adjustment programme*.

The Council may decide to make its recommendations public.

6. Where a recommendation under paragraph 5 is made public:
- (a) the **competent** committee of the European Parliament may **offer the opportunity to** the Member State concerned **and to the Commission** to participate to an exchange of views;
 - (b) representatives of the Commission may be invited by the parliament of the Member State concerned to participate to an exchange of views;
- (ba) the Council shall inform the relevant committee of the European Parliament in due time about the content of the recommendation.**
- 6a. During the whole process, the competent committee of the European Parliament and the parliament of the Member State concerned may invite representatives of the IMF, the ECB and the Commission to participate in an economic dialogue.**

Article 3a

Member States under enhanced surveillance or macroeconomic adjustment programme receiving financial support for the recapitalisation of their financial institutions shall report twice a year to the EFC on the conditions imposed on those financial institutions, including as regards executive remuneration. Member States shall report on the credit conditions offered by the financial sector to the real economy.

Article 4

Information on envisaged financial assistance requests

A Member State *intending to request* financial assistance from one or several other States, the EFSF, the ESM, the IMF or another institution outside of the Union framework shall *inform* immediately the *President of the EWG, the member of the Commission in charge of economic and monetary affairs and the President of the ECB* of its intention. The *EWG* shall hold a discussion on this envisaged request, after having received an assessment from the Commission *with a view to examining, inter alia, the possibilities available under existing Union or euro area financial instruments before the Member State concerned addresses potential lenders.*

A Member State intending to request financial assistance from the EFSM shall immediately inform the President of the EFC, the member of the Commission in charge of economic and monetary affairs and the President of the ECB of its intention.

Article 5

Evaluation of the sustainability of the government debt

Where financial assistance is sought from ***the EFSM***, the EFSF or the ESM, the Commission shall ***assess*** – in liaison with the ECB and wherever possible, the IMF - **█** the sustainability of the government debt ***and the actual or potential financing needs*** of the Member State concerned. ***This assessment shall be forwarded to the EWG if the financial assistance is to be granted under the EFSF or the ESM and to the EFC if the financial assistance is to be granted under the EFSM.***

The assessment of the sustainability of the government debt shall be based on the most likely macrofiscal scenario or a more prudent scenario and budgetary forecasts using the most up-to-date information and taking proper account of the outcome of the report referred to in point (a) of Article 3(3) as well as any supervisory task exercised according to point (b) of Article 3(3). The impact of macroeconomic and financial shocks and adverse developments on the sustainability of government debt shall be assessed.

The Commission shall make public the macroeconomic scenario, including the growth scenario, the relevant parameters underpinning the assessment of the sustainability of the government debt, and the estimated impact of the aggregate budgetary measures on economic growth.

Article 6

Macroeconomic adjustment programme

1. A Member State **requesting** financial assistance from one or several other States, the IMF, the EFSF or the ESM shall prepare in agreement with the Commission - acting in liaison with the ECB **and, where appropriate, with the IMF** - a draft **macroeconomic** adjustment programme **which shall build on and substitute any economic partnership programmes under Regulation (EU) No .../2012 [on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area], which shall also include annual budgetary targets. The draft macroeconomic adjustment programme shall address the specific risks emanating from that Member State for the financial stability of the euro area and shall aim at rapidly re-establishing a sound and sustainable economic and financial situation and restoring said Member State's capacity to finance itself fully on the financial markets. The draft macroeconomic adjustment programme shall be based on the assessment of the sustainability of the government debt– which shall be updated to incorporate the impact of the draft corrective measures negotiated with the Member State concerned – and shall take due account of the** recommendations addressed to the Member State concerned under Articles 121, 126, **136** and/or 148 **TFEU as well as** its actions to comply with them, while aiming at broadening, strengthening and deepening the required policy measures.

The draft macroeconomic adjustment programme shall take into account the practices and institutions of wage formations and the national reform programme of the Member State concerned in the context of the Union strategy for growth and jobs. The draft macroeconomic adjustment programme shall fully observe Article 151 TFEU and Article 28 of the Charter of Fundamental Rights of the European Union. The Commission shall inform orally the Chair and Vice-Chairs of the Economic and Monetary Affairs Committee of the European Parliament of the progress made in the preparation of the draft macroeconomic adjustment programme. This information shall be treated as confidential.

2. The Council, acting by qualified majority on a proposal from the Commission, shall approve the *macroeconomic* adjustment programme, *prepared by the Member State requesting the financial assistance in accordance with paragraph 1.*

The Commission shall ensure that the memorandum of understanding signed by the Commission on behalf of the EFSF or ESM is fully consistent with the macroeconomic adjustment programme approved by the Council.

- 2a. *There shall be consistency in the process of economic and fiscal surveillance with respect to a Member State whose currency is the euro under macroeconomic adjustment programme to avoid a duplication of reporting obligations.*
3. The Commission, in liaison with the ECB *and wherever relevant the IMF*, shall monitor the progress made in the implementation of the *macroeconomic* adjustment programme. *It shall* inform:
- (a) every three months the EFC ■ . The Member State concerned shall give the Commission *and the ECB* its full cooperation. It shall in particular provide to the Commission *and the ECB* all the information that *they deem* necessary for the monitoring of the programme. Article 3(3a) shall apply;
 - (b) *orally the Chair and Vice-Chairs of the Economic and Monetary Affairs Committee of the European Parliament of the conclusions drawn from the monitoring of the macroeconomic adjustment programme. This information shall be treated as confidential.*

4. The Commission - in liaison with the ECB *and, where appropriate, with the IMF* - shall examine with the Member State concerned the changes *and updates* that may be needed to its adjustment programme *in order to take proper account of inter alia any significant gap between macroeconomic forecasts and realised figures, including possible consequences resulting from the adjustment programme, negative spill-over effects as well as macroeconomic and financial shocks*. The Council, acting by a qualified majority on a proposal from the Commission, shall decide on any change to be made to the programme.
- 4a. *The Member State concerned shall consider, in close cooperation with the Commission, whether to take all necessary measures to invite private investors to maintain their overall exposure on a voluntary basis.*

5. If the monitoring referred to in paragraph 3 highlights significant deviations from the macroeconomic adjustment programme, the Council, acting by qualified majority on a proposal from the Commission, may decide that the Member State concerned does not comply with the policy requirements contained in the **■** programme. *The proposal from the Commission shall explicitly assess whether this significant deviation is due to reasons that are not within the control of the Member State concerned.*

The fiscal consolidation efforts set out in the macroeconomic adjustment programme shall take into account the needs to ensure sufficient means for fundamental policies, such as education and health care.

Where a decision is taken under the Article 6 paragraph 5, the Member State concerned shall, in close cooperation with the Commission and in liaison with the ECB and where appropriate the IMF, take measures aimed at stabilizing markets and preserving the good functioning of its financial sector.

6. A Member State subject to *a macroeconomic* adjustment programme experiencing insufficient administrative capacity or significant problems in the implementation of its adjustment programme shall seek technical assistance from the Commission, *which may constitute, for this purpose, groups of experts with Member States and other Union and/or relevant international institutions. The objectives and the means of the technical assistance shall be explicitly outlined in the updated versions of the macroeconomic adjustment programme and focus on the area where major needs are identified. Technical assistance may include the establishment of a resident representative and supporting staff to advise authorities on the adjustment programme implementation.*
- The macroeconomic adjustment programme shall be made public, including its objectives and the expected distribution of the adjustment effort.*
- The conclusions of the assessment of the sustainability of the government debt shall be annexed to the macroeconomic adjustment programme.*

- 6a. *A Member State subject to a macroeconomic adjustment programme shall carry out a comprehensive audit of its public finances in order inter alia to assess the reasons having led to the building up of excessive levels of debt as well as to track any possible irregularity.*
7. The *competent* committee of the European Parliament may *offer the opportunity to* the Member State concerned *and to the Commission* to participate to an exchange of views on the progress made in the implementation of the adjustment programme.
8. Representatives of the Commission may be invited by the Parliament of the Member State concerned to participate to an exchange of views on the progress made in the implementation of the *macroeconomic* adjustment programme.

8a. *This Article does not apply to financial assistance granted on a precautionary basis or loans made for the recapitalisation of financial institutions, or to any new financial instrument agreed by the governing bodies of the ESM or pursuant to an amendment of the Treaty establishing the ESM for which the ESM does not foresee a macroeconomic adjustment programme.*

For information purposes, the Commission shall establish a list of the financial assistance instruments concerned and keep it updated to take into account possible changes in the financial support policy of the ESM.

Concerning these instruments, the Council - acting on a recommendation from the Commission – shall, by a decision addressed to the Member State concerned, approve the main policy requirements, which the EFSF or ESM plans to include in the conditionality for its financial support, to the extent that the content of those measures falls under the competence of the Union as laid down by the Treaties.

The Commission shall ensure that the memorandum of understanding signed by the Commission on behalf of the EFSF or ESM is fully consistent with this Council decision.

Article 6a

Involvement of social partners and civil society

The Member State concerned shall seek the views of social partners as well as relevant civil society organisations when preparing a draft macroeconomic adjustment programme, with a view to contributing to building consensus over its content.

Article 6b

Measures to safeguard tax revenue

The Member State concerned shall, where needed, take measures in close cooperation with the Commission and in liaison with the ECB and where appropriate the IMF, aimed at reinforcing the efficiency and effectiveness of collection capacity and fighting tax fraud and evasion, with a view to increasing its fiscal revenues.

Article 7

Consistency with the excessive deficit procedure

1. The *macroeconomic* adjustment programme and the changes thereto provided for by Article 6 of this Regulation shall ■ replace the submission of stability programmes provided for by Article 4 of Council Regulation (EC) No 1466/97.
2. If *a* Member State *subject to a macroeconomic adjustment programme* is the subject of a recommendation under Article 126(7) TFEU or a notice under Article 126(9) TFEU for the correction of an excessive deficit:
 - (a) The *macroeconomic* adjustment programme provided for by Article 6 of this Regulation shall also ■ replace as appropriate the reports provided for by Article 3(4a) and Article 5(1a) of Council Regulation (EC) No 1467/97;

- (b) The annual budgetary targets in the adjustment programme provided for by Article 6(3) of this Regulation shall ■ replace as appropriate the annual budgetary targets foreseen in accordance with Article 3(4) and Article 5(1) of Regulation (EC) No 1467/97 in the mentioned recommendation and notice. If the Member State concerned is subject to notice under Article 126(9) TFEU, the adjustment programme foreseen by Article 6(3) of this Regulation shall also ■ replace the indications on measures conducive to those targets foreseen in the notice in accordance with Article 5(1) of Regulation (EC) No 1467/97.
- (c) The monitoring provided for by Article 6(3) of this Regulation shall ■ replace the monitoring provided for by Article 10(1) and Article 10a of Council Regulation (EC) No 1467/97 and the monitoring underlying any decision provided for by Article 4(2) and 6(2) of Regulation (EC) No 1467/97.

Article 8

Consistency with the excessive imbalances procedure

The implementation of Regulation (EU) No **1176/2011** on the prevention and correction of macroeconomic imbalances shall be suspended for the Member States subject to a macroeconomic adjustment programme approved by the Council in accordance with Article 6(2) of this Regulation. This suspension shall be applicable for the duration of the macroeconomic adjustment programme. ***The indicators in the scoreboard established in Regulation (EU) No 1176/2011 shall however be integrated in the monitoring of the macroeconomic adjustment programme.***

Article 9

Consistency with the European Semester for economic policy coordination

The monitoring provided for by Article 6(3) of this Regulation shall ■ replace the monitoring and assessment of the European Semester for economic policy coordination provided for by Article 2a of Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and coordination of economic policies. ***The suspension shall be applicable for the duration of the macroeconomic adjustment programme.***

Article 10

Consistency with Regulation (EU) No XXX on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area

The implementation of Regulation (EU) No .../2012 [on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area] shall be suspended for the Member States subject to a macroeconomic adjustment programme approved by the Council in accordance with Article 6(2) of this Regulation *with the exception of Articles 1 to 4 of Regulation (EU) No .../2012*. This suspension shall be applicable for the duration of the macroeconomic adjustment programme.

Article 11

Post-programme surveillance

1. A Member State shall be under post-programme surveillance as long as a minimum of 75% of the financial assistance received from one or several other State(s), the EFSM, the EFSF or the ESM has not been repaid. The Council, on a proposal from the Commission, may extend the duration of the post programme surveillance ***in case of persistent risks on the financial stability or fiscal sustainability of the Member State concerned. The proposal from the Commission shall be deemed to be adopted by the Council unless it decides by qualified majority to reject it within 10 days of the Commission's adoption thereof.***
2. Article 3(3) shall apply. On a request from the Commission, the Member State shall also provide the information mentioned in Article 7(3) of Regulation (EU) No XXX on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.

3. The Commission shall conduct, in liaison with the ECB, regular review missions in the Member State under post programme surveillance to assess its economic, fiscal and financial situation. It shall communicate every semester its findings to the *competent committee of the European Parliament, to the EFC* and *to the parliament of the Member State concerned and shall assess, in particular*, whether corrective measures are needed.

The competent committee of the European Parliament may offer the opportunity to the Member State concerned to participate to an exchange of views on the progress made under post-programme surveillance.

4. The Council, acting **■** on a proposal from the Commission, may recommend to the Member State under post programme surveillance to adopt corrective measures. ***The proposal from the Commission shall be deemed to be adopted by the Council unless it decides by qualified majority to reject it within 10 days of the Commission's adoption thereof.***
- 4a. ***The parliament of the Member State concerned may invite the Commission to participate in an exchange of views on the post-programme surveillance.***

Article 12

Voting within the Council

For the measures referred to in ***this Regulation***, only members of the Council representing Member States whose currency is the euro shall vote and the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.

A qualified majority of the members of the Council referred to in the first paragraph shall be calculated in accordance with Article 238(3)(a) TFEU.



Article 13a

Transitional provision

Article 11 shall not apply to Members States already under post-programme surveillance at the date of entering into force of this regulation. Instead, post-programme surveillance rules, conditions and procedures adopted in relevant documents related to the granting of financial assistance shall be applied.

Article 13b

Informing the European Parliament

The European Parliament may invite representatives of the Council and of the Commission for a dialogue on the application of this Regulation.

Article 13c

Transitional provisions

This Regulation shall apply to the Member States that are already subject to programme assistance on [date of entry into force of this Regulation].

Article 13d

Reports

1. *By 1 January 2014 and every five years thereafter, the Commission shall publish a report on the application of this Regulation.*

That report shall evaluate, inter alia:

- (a) *the effectiveness of this Regulation;*

(b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performance of the Member States in accordance with the TFEU;

(c) the contribution of this Regulation to the achievement of the Union strategy for growth and jobs.

2. Where appropriate, the reports referred to in paragraph 1 shall be accompanied by a proposal to amend this Regulation.

3. The reports referred to in paragraph 1 shall be sent to the European Parliament and to the Council.

Article 14

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in the Member States in accordance with the Treaties.

Done at

For the European Parliament
The President

For the Council
The President

Statement by the European Commission

Once legislation proposed by the Commission on the two-pack is adopted, the Commission intends to take steps in the short-term towards a deep and genuine EMU as outlined in the blueprint. Short-term steps (6 to 12 months) will include:

- In its Blueprint for a Deep and Genuine EMU, the Commission considered that, in the medium-term, a redemption fund and eurobills could be possible elements of deep and genuine EMU under certain rigorous conditions. The guiding principle would be that any steps to further mutualisation of risk must go hand-in-hand with greater fiscal discipline and integration. The required deeper integration of financial regulation, fiscal and economic policy and corresponding instruments must be accompanied by commensurate political integration, ensuring democratic legitimacy and accountability.

The Commission will establish an Expert Group to deepen the analysis on the possible merits, risks, requirements and obstacles of partial substitution of national issuance of debt through joint issuance in the form of a redemption fund and eurobills. The Group will be tasked to thoroughly assess, what could be their features in terms of legal provisions, financial architecture and the necessary complementary economic and budgetary framework. Democratic accountability will be a central issue to be considered.

The Group will take into account the on-going reform of the European economic and budgetary governance and assess the added value for such instruments in this context. The Group will pay particular attention to recent and on-going reforms, such as the implementation of the two-Pack, the ESM and any other relevant instruments.

In its analysis the Group will pay particular attention to sustainability of public finances, to the avoidance of moral hazard, as well as to other central issues, such as financial stability, financial integration and monetary policy transmission.

The members of the Group will be experts in law and economics, public finances, financial markets and sovereign debt management. The Group will be invited to present its final report to the

Commission not later than March 2014. The Commission will assess the report and, if appropriate, make proposals before the end of its mandate.

- An exploration of further ways within the preventive arm of the Stability and Growth Pact to accommodate under certain conditions, non-recurrent, public investment programmes with a proven impact on the sustainability of public finances made by the Member States in the assessment of their Stability and Convergence Programmes; this will be done in spring-summer 2013 in the context of the publication of its Communication on calendar of convergence towards the Medium-term Objective;

- After the decision on the next Multi-annual Financial Framework for the EU and before the end of 2013, the Commission will put forward the following proposals to complement the existing framework for economic governance: (i) measures to ensure greater ex-ante coordination of major reform projects and (ii) the creation of a "convergence and competitiveness instrument" to provide financial support for the timely implementation of sustainable growth enhancing structural reforms. This new system, fully in line with the Community method, would build on the existing EU surveillance procedures. It would combine deeper integration of economic policy with financial support and thereby respect the principle according to which steps towards more responsibility and economic discipline are combined with more solidarity. It would in particular aim at enhancing the capacity of a Member State to absorb asymmetric shocks. This instrument would serve as the initial phase towards the establishment of a stronger fiscal capacity.

- Furthermore, the Commission commits to following up in a speedy and comprehensive manner on: (i) its action plan to strengthen the fight against tax fraud and tax evasion, in particular with view to the revision of the directives identified in the action plan as well as on (ii) the measures and proposals announced by the Commission on its 2012 package on the employment and social policy area.

- Following the adoption of the Single Supervisory Mechanism, the presentation of a proposal for a Single Resolution Mechanism, which would be in charge of the restructuring and resolution of banks within the Member States participating in the Banking Union;

· Before the end of 2013, the presentation of a proposal under Article 138(2) TFEU to establish a unified position to achieve an observer status of the euro area in the IMF executive board, and subsequently for a single seat.

Building on the short-term steps announced in its Blueprint that can be realised by secondary legislation, the Commission is committed to put forward explicit ideas for Treaty changes in time for a debate before the next European Parliament elections in 2014 with a view to setting the legislative basis for the steps envisaged in the medium-term, which foresees the creation of a substantially reinforced economic and budgetary surveillance and control framework, a further developed European fiscal capacity supporting solidarity and the implementation of sustainable growth enhancing structural reforms, as well as the deeper integration of decision making in policy areas like taxation and labour markets as an important solidarity instrument.