

## Proposal for a regulation on common provisions for draft budgetary plans and the correction of excessive deficit of the Member States in the euro area (23 November 2011)

**Caption:** Proposal for a regulation of the European Parliament and of the Council, dated 23 November 2011, on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro zone.

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[http://www.cvce.eu/obj/proposal\\_for\\_a\\_regulation\\_on\\_common\\_provisions\\_for\\_draft\\_budgetary\\_plans\\_and\\_the\\_correction\\_of\\_excessive\\_deficit\\_of\\_the\\_member\\_states\\_in\\_the\\_euro\\_area\\_23\\_november\\_2011-en-e207b869-ef19-468a-998b-8dabcb062b1e.html](http://www.cvce.eu/obj/proposal_for_a_regulation_on_common_provisions_for_draft_budgetary_plans_and_the_correction_of_excessive_deficit_of_the_member_states_in_the_euro_area_23_november_2011-en-e207b869-ef19-468a-998b-8dabcb062b1e.html)

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2011/0386 (COD)

Proposal for a

**REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**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**

2011/0386 (COD)

Proposal for a

**REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**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 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 procedure,

Whereas:

- (1) The Treaty requires that Member States' regard their economic policies as a matter of common concern and that their budgetary policies are guided by the need for sound public finances and that their economic policies do not risk jeopardising the proper functioning of Economic and Monetary Union.
- (2) The Stability and Growth Pact, in particular Regulations (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies<sup>1</sup> and Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure<sup>2</sup>, designed to secure budgetary discipline across the Union, sets out the framework for preventing and correcting excessive government deficits. It has been further strengthened by Regulation No .../2011 of the European Parliament and of the Council amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies and Regulation (EU) No .../2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure. Regulation (EC) No .../2011 of the European Parliament and of the Council on the effective enforcement of budgetary surveillance in the euro area added a system of effective, preventive and gradual enforcement mechanisms in the form of financial sanctions for the Member States whose currency is the euro.

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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

<sup>2</sup> OJ L 209, 2.8.1997, p. 6.

- (3) The amendments to the Stability and Growth Pact increase both the guidance, and, for the Member States whose currency is the euro, incentives for the setting and the implementation of a prudent budgetary policy, while avoiding excessive government deficits. These provisions have created a more robust framework at the level of the Union for the surveillance of national economic policies.
- (4) The Treaty allows the adoption of specific measures in the euro area which go beyond the provisions applicable to all Member States in order to ensure the proper functioning of the Economic and Monetary Union.
- (5) Strong public finances are best ensured at the planning stage and gross errors should be identified as early as possible. Member States should benefit not just from the setting of guiding principles and budgetary targets but also from a synchronised monitoring of their budgetary policies.
- (6) Setting-up a common budgetary timeline for Member States whose currency is the euro should better synchronize the key steps in the preparation of national budgets, thus contributing to the effectiveness of the European semester for budgetary policy coordination. Adopting a common budgetary timeline should lead to stronger synergies by facilitating policy coordination among Member States whose currency is the euro and ensure that the Council and Commission recommendations are appropriately integrated in the national process for budget adoption.
- (7) There is strong evidence showing the effectiveness of rules-based fiscal frameworks in supporting sound and sustainable fiscal policies. The introduction of national fiscal rules that are consistent with the budgetary objectives set at Union level should be a crucial element to ensure the respect of the Stability and Growth Pact provisions. In particular, Member States should put in place structural balanced budget rules which transpose into national legislation the main principles of the Union fiscal framework. This transposition should be effective through binding rules preferably of a constitutional nature so as to demonstrate the strongest commitment of national authorities in relation to the Stability and Growth Pact.
- (8) Biased and unrealistic macroeconomic and budgetary forecasts can considerably hamper the effectiveness of budgetary planning and consequently impair commitment to budgetary discipline. Forecasts from independent bodies can provide unbiased and realistic macroeconomic forecasts.
- (9) This gradually strengthened surveillance will further complement the existing provisions of the Stability and Growth Pact and strengthen the surveillance of budgetary discipline in Member States whose currency is the euro. A gradually enhanced monitoring procedure should contribute to better budgetary outcomes to the benefit of all Member States whose currency is the euro. As part of a gradually strengthened procedure, a closer monitoring is particularly valuable to Member States that are subject to an excessive deficit procedure.
- (10) As demonstrated by the sovereign debt crisis, and in particular by the need to put in place common financial backstops, Member States whose currency is the euro share enhanced spillovers from their budgetary policy. Each of the Member States whose currency is the euro should consult the Commission and other Member States whose currency is the euro before the adoption of any major fiscal policy reform plans with

potential spillover effects, so as to give the possibility for an assessment of possible impact for the euro area as a whole. They should consider their budgetary plans to be of common concern and submit them to the Commission for monitoring purposes in advance of the plans becoming binding. The Commission should be in a position, if necessary, to adopt an opinion on the draft budgetary plan, that the Member State and in particular budgetary authorities should be invited to take into account in the process of the budget law adoption. Such an opinion should ensure that Union's policy guidance in the budgetary area is appropriately integrated in the national budgetary preparations. In particular, this opinion should include an assessment of whether or not the budgetary plans appropriately address the recommendations issued in the context of the European semester in the budgetary area. The Commission should stand ready to present this opinion to the Parliament of the Member State concerned at its request. The extent to which this opinion has been taken into account should be part of the assessment, if and when the conditions are met, leading to the decision to place the concerned Member State in excessive deficit procedure, where no follow-up to the early guidance from the Commission should be considered as an aggravating factor. Also, based on an overall assessment of the plans by the Commission, the Eurogroup should discuss the budgetary situation and prospects for the euro area.

- (11) Member States whose currency is the euro and which are subject to an excessive deficit procedure should be monitored more closely to secure a full and timely correction of the excessive deficit. A closer monitoring should ensure early correction of any deviations from the Council recommendations to correct the excessive deficit. Such monitoring should complement the provisions set out in Regulation (EC) No 1467/97. The modalities of this closer monitoring should be graduated depending on the stage of the procedure the Member State is subject to, as provided for in Article 126 of the Treaty.
- (12) The closer monitoring for Member States subject to an excessive deficit procedure should allow the identification of risks in the compliance of a Member State's deadline to correct the excessive deficit. In the event of such risks being identified, the Commission should issue a recommendation to the Member State for measures to be taken within a given timeframe that should be presented to the Parliament of the Member State concerned at its request. This assessment should allow rapid correction of any developments putting at risk the correction of the excessive deficit within the established deadline. Assessment of compliance with this Commission recommendation should be part of the continuous assessment made by the Commission of effective action to correct an excessive deficit. When deciding whether effective action to correct the excessive deficit has been taken, the Council should also base its decision on whether or not the Member State complied with the Commission recommendation.
- (13) 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 competent committee of the European Parliament may offer the opportunity to the Member State concerned by a Commission recommendation to participate in an exchange of views,

HAVE ADOPTED THIS REGULATION:

## Chapter I

### General provisions

#### *Article 1*

#### *Subject matter and scope*

1. This Regulation sets out provisions for enhanced monitoring of budgetary policies in the euro area by:
  - (a) complementing the European semester as defined in Article 2a of Regulation (EC) 1466/97 with a common budgetary timeline;
  - (b) complementing the multilateral surveillance system of budgetary policies as established by Regulation (EC) No 1466/97 with additional monitoring requirements in order to ensure that Union policy recommendations in the budgetary area are appropriately integrated in the national budgetary preparations;
  - (c) complementing the procedure for correction of a Member State's excessive deficit as established by Article 126 of the Treaty and Regulation (EC) No 1467/97 by a closer monitoring of budgetary policies of Member States subject to an excessive deficit procedure in order to secure a timely durable correction of excessive deficits.
2. This Regulation shall apply to Member States whose currency is the euro.

#### *Article 2*

#### *Definitions*

1. For the purposes of this Regulation, the following definitions shall apply:
  - (1) "independent fiscal council" means a body endowed with functional autonomy vis-à-vis the fiscal authorities of the Member State in charge of monitoring the implementation of national fiscal rules;
  - (2) "independent macroeconomic forecasts" means the macroeconomic and/or budgetary forecasts produced by an independent body or a body endowed with functional autonomy vis-à-vis the fiscal authorities of the Member State;
  - (3) "medium-term budgetary framework" has the meaning set out in point e of Article 2 of the Council Directive [.../...];
  - (4) "stability programme" has the meaning set out in Article 3 of Regulation (EC) 1466/97;

- (5) "government" and "deficit" have the meaning' set out in Article 2 of the Protocol (No 12) on the excessive deficit procedure annexed to the Treaty on European Union and the Treaty on the Functioning of the European Union.
2. The definition of general government and of sub-sectors of general government set out in point 2.70 of Annex A to Regulation (EC) No 2223/96 shall also apply.

## Chapter II

### Common Budgetary Provisions

#### *Article 3*

#### *Common Budgetary Timeline*

1. Member States shall make public annually their medium-term fiscal plans in accordance with their medium-term budgetary framework based on independent macroeconomic forecast together with their Stability Programmes, no later than 15 April.
2. Draft budget laws for the general government shall be made public annually no later than 15 October together with the independent macroeconomic forecasts on which they are based.
3. Budget laws for the general government shall be adopted and made public annually no later than 31 December.

#### *Article 4*

#### *Rules on the budgetary balance and independent national fiscal council*

1. Member States shall have in place numerical fiscal rules on the budget balance that implement in the national budgetary processes their medium-term budgetary objective as defined in Article 2a of Regulation (EC) No 1466/97. Such rules shall cover the general government as a whole and be of binding, preferably constitutional, nature.
2. Member States shall have in place an independent fiscal council for monitoring the implementation of national fiscal rules as referred to in paragraph 1.

## Chapter III

### Monitoring and assessment of Member States draft budgetary plans

#### *Article 5*

#### *Monitoring requirements*

1. Member States shall submit annually to the Commission and the Eurogroup a draft budgetary plan for the forthcoming year no later than 15 October.
2. The draft budgetary plan shall be made public at the same time.
3. The draft budgetary plan shall contain the following information for the forthcoming year:
  - (a) the targeted budget balance for the general government as a percentage of Gross Domestic Product (GDP), broken down by sub-sector of general government;
  - (b) the projections at unchanged policies for expenditure and revenue as a percentage of GDP for the general government and their main components.;
  - (c) the targeted expenditure and revenue as a percentage of GDP for the general government and their main components, taking into account the conditions and criteria to establish the growth path of government expenditure net of discretionary revenue measures under Article 5(1) of Regulation (EC) No 1466/97;
  - (d) a detailed description and a well-documented quantification of the measures to be included in the budget for the year to come in order to bridge the gap between the targets referred to in point (c) and the projections at unchanged policies provided in accordance with point (b). The description may be less detailed for measures with a budgetary impact estimated to be lower than 0.1% of GDP. Particular attention shall be paid to major fiscal policy reform plans with potential spillover effects for other Member States whose currency is the euro.
  - (e) the main assumptions about expected economic developments and important economic variables which are relevant to the achievement of the budgetary targets. These assumptions shall be based on independent macroeconomic growth forecast;
  - (f) where applicable, additional indications on how the current recommendations addressed to the Member State concerned in accordance with Article 121 of the Treaty in the budgetary area will be met.



4. Where the budgetary targets reported in the draft budgetary plan in accordance with points (a) and (c) of paragraph 3 or the projections at unchanged policies differ from those in the most recent stability programme, the differences shall be duly explained.
5. Where the Commission identifies particularly serious non-compliance with the budgetary policy obligations laid down in the Stability and Growth Pact, it shall, within two weeks from the submission of the draft budgetary plan, request a revised draft budgetary plan from the Member State concerned. This request shall be made public.

Paragraphs 2 to 4 shall apply in case of revised draft budgetary plan.

6. The Commission shall specify the content of the draft budgetary plan referred to in paragraph 1.

#### *Article 6*

##### *Assessment of the draft budgetary plan*

1. The Commission shall, if necessary, adopt an opinion on the draft budgetary plan by 30 November.
2. The Commission opinion shall be made public and, at the request of the Parliament of the Member State concerned, shall be presented by the Commission to the Parliament concerned.
3. The Commission shall make an overall assessment of the budgetary situation and prospects in the euro area as a whole. The assessment shall be made public.
4. The Eurogroup shall discuss opinions of the Commission on the national budgetary plans and the budgetary situation and prospects in the euro area as a whole on the basis of the overall assessment made by the Commission in accordance with paragraph 3. The assessment shall be made public.

## **Chapter IV**

### **Ensuring the correction of excessive deficit**

#### *Article 7*

##### *Closer monitoring for Member States in excessive deficit procedure*

1. When the Council decides in accordance with Article 126(6) of the Treaty that an excessive deficit exists in a Member State, the Member State concerned shall be subject to paragraphs 2 to 5 of this Article, until the abrogation of its excessive deficit procedure.
2. The Member State subject to closer monitoring shall without delay carry out a comprehensive assessment of in-year budgetary execution for the general government and its sub-sectors. The financial risks associated to government-owned

entities and government contracts shall also be covered by the assessment to the extent that they may contribute to the existence of an excessive deficit. The result of this assessment shall be included in the report submitted in accordance with Article 3(4a) or 5(1a) of Regulation (EC) No 1467/97 on action taken to correct the excessive deficit.

3. Member State shall report regularly to the Commission and to the Economic and Financial Committee or any sub-committee it will designate for that purpose, for the general government and its sub-sectors, the in-year budgetary execution, the budgetary impact of discretionary measures taken on both the expenditure and the revenue side, targets for the government expenditure and revenues, as well as information on the measures adopted and the nature of those envisaged to achieve the targets. The report shall be made public.

The Commission shall specify the content of the report referred to in this paragraph.

4. If the Member State concerned is subject of a Council recommendation under Article 126(7) of the Treaty, the report in accordance with paragraph 3 of this Article shall be submitted for the first time 6 months after the initial report provided for in Article 3(4a) of Regulation (EC) No 1467/97, and thereafter on a 6-month basis.
5. If the Member State concerned is subject of a Council notice under Article 126(9) of the Treaty, the report in accordance with paragraph 3 of this Article shall also contain information on the actions being taken in response to the specific Council recommendations. It shall be submitted for the first time 3 months after the initial report provided for in Article 5(1a) of Regulation (EC) No 1467/97, and thereafter on a quarterly basis.
6. On request and within the deadline set by the Commission, the Member State subject to closer monitoring shall:
  - (a) carry out and report on a comprehensive independent audit of the accounts of the general government conducted in coordination with national supreme audit institutions, aiming at assessing the reliability, completeness and accuracy of these public accounts for the purposes of the excessive deficit procedure. In this context, the Commission (Eurostat) shall assess the quality of data reported by the Member State concerned in accordance with Regulation (EC) No 679/2010<sup>3</sup>;
  - (b) provide additional information for the purposes of monitoring the progress towards the correction of the excessive deficit.

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<sup>3</sup> OJ L 198, 30.7.2010, p. 1.

*Article 8**Member States at risk of non-compliance with their obligation under their excessive deficit procedure*

1. When assessing whether compliance with the deadline to correct the excessive deficit, as established by the current Council recommendation under Article 126(7) of the Treaty or Council notice under Article 126(9) of the Treaty, is at risk, the Commission shall also base its assessment on the reports submitted by the Member States in accordance with Article 7(3) of this Regulation.
2. In case of risks of non-compliance with the deadline to correct the excessive deficit, the Commission shall address a recommendation to the Member State concerned for adoption of further measures within a timeframe consistent with the deadline for the correction of its excessive deficit referred to in paragraph 1. The recommendation by the Commission shall be made public, and, at the request of the Parliament of the Member State concerned, shall be presented by the Commission to the Parliament concerned.
3. Within the timeframe set by the Commission recommendation referred to in paragraph 2, the Member State concerned shall report to the Commission on measures adopted in response to this recommendation together with the reports provided for in Article 7(3). The report shall include the budgetary impact of all discretionary measures taken, targets for the government expenditure and revenues, information on the measures adopted and the nature of those envisaged to achieve the targets, as well as information on the other actions being taken in response to the Commission recommendation. The report shall be made public.
4. The competent committee of the European Parliament may offer the opportunity to the Member State concerned by a recommendation in accordance with paragraph 2 to participate in an exchange of views in accordance with Article 2a of Regulation (EC) No 1467/97.
5. On the basis of the report referred to in paragraph 3, the Commission shall assess whether the Member State has complied with the recommendation made in accordance with paragraph 2.

*Article 9**Impact on the excessive deficit procedure*

1. The extent to which the opinion referred to in Article 6(1) has been taken into account by the Member State concerned shall be taken into account by:
  - (a) the Commission when conducting a report under Article 126(3) of the Treaty and when recommending the imposition of a non-interest bearing deposit in accordance with Article 5 of Regulation (EC) No XXX/2011;
  - (b) the Council when deciding whether an excessive deficit exists in accordance with Article 126(6) of the Treaty.
2. The closer monitoring established by Articles 7 and 8 of this Regulation shall be an integral part of the regular monitoring, as provided for in Article 10(1) of Regulation

(EC) No 1467/97, of the implementation of action taken by the Member State concerned in response to recommendations made under Article 126(7) of the Treaty or notices given under Article 126(9) of the Treaty to correct the excessive deficit.

3. When considering whether effective action has been taken in response to the recommendations made in accordance with Article 126(7) of the Treaty or to the notices in accordance with 126(9) of the Treaty, the Commission shall take into account the assessment referred to in Article 8(5) in this Regulation and recommend, as appropriate, to the Council possible decisions under Article 126(8) or Article 126(11) of the Treaty.

#### *Article 10*

*Consistency with Regulation No XXX 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*

Member States subject to a macro-economic adjustment programme in accordance with Article 6 of Regulation No XXX shall not be subject to Article 5 and 7 of this Regulation.

## **Chapter V**

### **Final provisions**

#### *Article 11*

##### *Review*

1. By [same date as in Article 13 of sanctions Regulation] 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 performances of the Member States in accordance with the Treaty.
2. Where appropriate, the report referred to in paragraph 1 shall be accompanied by a proposal for amendments to this Regulation.
  3. The report shall be forwarded to the European Parliament and to the Council.

*Article 12*  
*Transitional provisions*

1. This Regulation shall apply to the Member States that are already subject to an excessive deficit procedure at the time of the entry into force of this Regulation.
2. By derogation from paragraph 1, Article 7(2) shall not apply to Member States for which the Council has already decided that effective action has been taken in accordance with Article 4(2) and Article 6(1) of Regulation (EC) No 1467/97.
3. Member States shall comply with Article 4 at the latest by [6 months after adoption of this Regulation].

*Article 13*  
*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 Brussels,

*For the European Parliament*  
*The President*

*For the Council*  
*The President*