Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies

REGULATION (EU) No 1175/2011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of 16 November 2011

amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies

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 121(6) thereof,

Having regard to the proposal from the European Commission,

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

Having regard to the opinion of the European Central Bank[(1)],

Acting in accordance with the ordinary legislative procedure[(2)],

Whereas:

(1) The coordination of the economic policies of the Member States within the Union, as provided for by the Treaty on the Functioning of the European Union (TFEU) should entail compliance with the guiding principles of stable prices, sound public finances and monetary conditions and a sustainable balance of payments.

(2) The Stability and Growth Pact (SGP) initially consisted of Council Regulation (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[(3)], Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure[(4)] and the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact[(5)]. Regulations (EC) No 1466/97 and (EC) No 1467/97 were amended in 2005 by Regulations (EC) No 1055/2005[(6)] and (EC) No 1056/2005[(7)] respectively. In addition, the Council Report of 20 March 2005 on 'Improving the implementation of the Stability and Growth Pact'[(8)] was adopted.

(3) The SGP is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and employment.

Changes to legislation: *There are currently no known outstanding effects for the Regulation (EU) No 1175/2011 of the European Parliament and of the Council. (See end of Document for details)*

(4) The preventive part of the SGP requires that Member States achieve and maintain a medium-term budgetary objective and submit stability and convergence programmes to that effect. It would benefit from more stringent forms of surveillance in order to ensure Member States' consistency and compliance with the Union's budgetary coordination framework.

(5) The content of the stability and convergence programmes as well as the procedure for their examination should further be developed both at national and at the level of the Union in the light of the experience gained with the implementation of the SGP.

(6) The budgetary targets in the stability and convergence programmes should explicitly take into account the measures adopted in line with the broad economic policy guidelines, the guidelines for the employment policies of the Member States and the Union and, in general, the national reform programmes.

(7) The submission and assessment of stability and convergence programmes should be made before key decisions on the national budgets for the succeeding years are taken. Therefore, an appropriate deadline for submission of the stability and convergence programmes should be established. Taking into account the specificities of the budgetary year of the United Kingdom, special provisions for the date for submission of its convergence programmes should be established.

(8) Experience gained and mistakes made during the first decade of the economic and monetary union show a need for improved economic governance in the Union, which should be built on a stronger national ownership of commonly agreed rules and policies and on a more robust framework at the level of the Union for the surveillance of national economic policies.

(9) The improved economic governance framework should rely on several interlinked and coherent policies for sustainable growth and employment, in particular a Union strategy for growth and jobs, with particular focus on developing and strengthening the internal market, fostering international trade and competitiveness, a European Semester for strengthened coordination of economic and budgetary policies (European Semester), an effective framework for preventing and correcting excessive government deficits (the SGP), a robust framework for preventing and correcting macroeconomic imbalances, minimum requirements for national budgetary frameworks, and enhanced financial market regulation and supervision, including macroprudential supervision by the European Systemic Risk Board.

(10) The SGP and the complete economic governance framework complement and support the Union strategy for growth and jobs. Interlinks between the different strands should not provide for exemptions from the provisions of the SGP.

(11) The strengthening of economic governance should include a closer and more timely involvement of the European Parliament and the national parliaments. While recognising that the counterparts of the European Parliament in the framework of the dialogue are the relevant institutions of the Union and their representatives, the competent committee of the European Parliament may offer an opportunity to participate in an exchange of views to a Member State which is the subject of a Council

recommendation in accordance with Article 6(2) or Article 10(2). The Member State's participation in such an exchange of views is voluntary.

(12) The Commission should have a stronger role in the enhanced surveillance procedure as regards assessments that are specific to each Member State, monitoring, on-site missions, recommendations and warnings.

(13) The stability and convergence programmes and the national reform programmes should be prepared in a coherent manner and the timing of their submissions should be aligned. Those programmes should be submitted to the Council and to the Commission. They should be made public.

(14) Under the European Semester the policy surveillance and coordination cycle starts early in the year with a horizontal review in which the European Council, based on input from the Commission and the Council, identifies the main challenges facing the Union and the euro area and gives strategic guidance on policies. Discussion should also take place in the European Parliament at the beginning of the annual cycle of surveillance in due time before the discussion takes place in the European Council. When preparing their stability or convergence programmes and national reform programmes, Member States should take into account the horizontal guidance by the European Council.

(15) In order to enhance national ownership of the SGP, national budgetary frameworks should be fully aligned with the objectives of multilateral surveillance in the Union, and, in particular, with the European Semester.

(16) In line with the legal and political arrangements of each Member State, national parliaments should be duly involved in the European Semester and in the preparation of stability programmes, convergence programmes and national reform programmes in order to increase the transparency and ownership of, and accountability for the decisions taken. Where appropriate, the Economic and Financial Committee, the Economic Policy Committee, the Employment Committee and the Social Protection Committee should be consulted within the framework of the European Semester. Relevant stakeholders, in particular the social partners, should be involved, within the framework of the European Semester, on the main policy issues where appropriate, in accordance with the provisions of the TFEU and national legal and political arrangements.

(17) Adherence to the medium-term objective for budgetary positions should allow Member States to have a safety margin with respect to the 3 % of GDP reference value in order to ensure sustainable public finances, or rapid progress towards sustainability, while leaving room for budgetary manoeuvre, in particular taking into account the need for public investment. The medium-term budgetary objective should be updated regularly on the basis of a commonly agreed method reflecting appropriately the risks of explicit and implicit liabilities for public finance, as embodied in the aims of the SGP.

(18) The obligation to achieve and maintain the medium-term budgetary objective needs to be put into operation, through the specification of principles for the adjustment path towards the medium-term objective. Those principles should, inter alia, ensure that

revenue windfalls, namely revenues in excess of what can normally be expected from economic growth, are allocated to debt reduction.

(19) The obligation to achieve and maintain the medium-term budgetary objective should apply to all Member States.

(20) Sufficient progress towards the medium-term budgetary objective should be evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures. In this regard, and as long as the medium-term budgetary objective is not achieved, the growth rate of government expenditure should normally not exceed a reference medium-term rate of potential GDP growth, with increases in excess of that norm being matched by discretionary increases in government revenues and discretionary revenue reductions being compensated by reductions in expenditure. The reference medium-term rate of potential GDP growth should be calculated according to a commonly agreed method. The Commission should make public the calculation method for those projections and the resulting reference medium-term rate of potential GDP growth. The potentially very high variability of investment expenditure should be taken into account, especially in the case of small Member States.

(21) A faster adjustment path towards the medium-term budgetary objective should be required for Member States faced with a debt level exceeding 60 % of GDP, or with pronounced risks in terms of overall debt sustainability.

(22) A temporary departure from the adjustment path towards the medium-term budgetary objective should be allowed, when it results from an unusual event outside the control of the Member State concerned, which has a major impact on the financial position of the general government or in case of severe economic downturn for the euro area or the Union as a whole, provided that this does not endanger fiscal sustainability in the medium-term, in order to facilitate economic recovery. The implementation of major structural reforms should also be taken into account in allowing a temporary departure from the medium-term budgetary objective or the appropriate adjustment towards it, on condition of maintaining a safety margin with respect to the deficit reference value. Special attention should be paid in this context to systemic pension reforms, where the departure should reflect the direct incremental cost of the diversion of contributions from the publicly managed to the fully funded pillar. Measures transferring the assets of the fully funded pillar back to the publicly managed pillar should be considered one-off and temporary in nature and hence excluded from the structural balance used for assessing progress towards the medium-term budgetary objective.

(23) In the event of a significant deviation from the adjustment path towards the medium-term budgetary objective, a warning should be addressed by the Commission to the Member State concerned, to be followed within 1 month by an examination of the situation by the Council and a recommendation for the necessary adjustment measures. The recommendation should set a deadline of no more than 5 months for addressing the deviation. The Member State concerned should report to the Council on the action taken. If the Member State concerned fails to take appropriate action within the deadline set by the Council, the Council should adopt a decision establishing that no effective action

has been taken and should report to the European Council. It is important that failures by Member States to take appropriate action are established in due time, in particular where the failure persists. The Commission should be able to recommend to the Council to adopt revised recommendations. The Commission should be able to invite the ECB to participate in a surveillance mission for euro area Member States and for Member States that are participating in the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of Economic and Monetary Union[9] (ERM2), when appropriate. The Commission should report to the Council on the outcome of the mission and, if appropriate, should be able to decide to make its findings public.

(24) The power to adopt individual decisions establishing non-compliance with the recommendations adopted by the Council on the basis of Article 121(4) TFEU establishing policy measures in case a Member State significantly deviates from the adjustment path towards the medium-term budgetary objective should be conferred on the Council. As part of the coordination of the economic policies of the Member States conducted within the Council, as provided for in Article 121(1) TFEU, those individual decisions are an integral follow-up to the referred recommendations adopted by the Council on the basis of Article 121(4) TFEU. The suspension of the voting rights of the members of the Council representing Member States whose currency is not the euro for adoption by the Council of a decision establishing non-compliance with the recommendations addressed to a Member State whose currency is the euro on the basis of Article 121(4) TFEU, is a direct consequence of such decision being an integral follow-up of that recommendation and the provision in Article 139(4) TFEU reserving the right to vote on such recommendations to the Member States whose currency is the euro.

(25) In order to ensure compliance with the budgetary surveillance framework of the Union for Member States whose currency is the euro, a specific enforcement mechanism should be established on the basis of Article 136 TFEU for cases of significant deviation from the adjustment path towards the medium-term budgetary objective.

(26) References contained in Regulation (EC) No 1466/97 should take account of the new Article numbering of the TFEU.

(27) Regulation (EC) No 1466/97 should therefore be amended accordingly,

HAVE ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 1466/97 is hereby amended as follows:

(1) Article 1 is replaced by the following:

Article 1

This Regulation sets out the rules covering the content, the submission, the examination and the monitoring of stability programmes and convergence programmes as part of multilateral surveillance by the Council and the Commission so as to prevent, at an early stage, the occurrence of excessive general government