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**A5-0013/2000**

26 January 2000

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## **REPORT**

on the proposal for a Council regulation amending Regulation (EC) No 3605/93 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (COM(1999) 444 – C5-0174/1999 – 1999/0196(CNS))

Committee on Economic and Monetary Affairs

Rapporteur: Gorka Knörr Borràs

### ***Symbols for procedures***

- \* Consultation procedure  
*majority of the votes cast*
- \*\*I Cooperation procedure (first reading)  
*majority of the votes cast*
- \*\*II Cooperation procedure (second reading)  
*majority of the votes cast, to approve the common position*  
*majority of Parliament's component Members, to reject or amend the common position*
- \*\*\* Assent procedure  
*majority of Parliament's component Members except in cases covered by Articles 105, 107, 161 and 300 of the EC Treaty and Article 7 of the EU Treaty*
- \*\*\*I Codecision procedure (first reading)  
*majority of the votes cast*
- \*\*\*II Codecision procedure (second reading)  
*majority of the votes cast, to approve the common position*  
*majority of Parliament's component Members, to reject or amend the common position*
- \*\*\*III Codecision procedure (third reading)  
*majority of the votes cast, to approve the joint text*

(The type of procedure depends on the legal basis proposed by the Commission)

### ***Abbreviations for committees***

- I. AFET Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy
- II. BUDG Committee on Budgets
- III. CONT Committee on Budgetary Control
- IV. LIBE Committee on Citizens' Freedoms and Rights, Justice and Home Affairs
- V. ECON Committee on Economic and Monetary Affairs
- VI. JURI Committee on Legal Affairs and the Internal Market
- VII. INDU Committee on Industry, External Trade, Research and Energy
- VIII. EMPL Committee on Employment and Social Affairs
- IX. ENVI Committee on the Environment, Public Health and Consumer Policy
- X. AGRI Committee on Agriculture and Rural Development
- XI. PECH Committee on Fisheries
- XII. REGI Committee on Regional Policy, Transport and Tourism
- XIII. CULT Committee on Culture, Youth, Education, the Media and Sport
- XIV. DEVE Committee on Development and Cooperation
- XV. AFCO Committee on Constitutional Affairs
- XVI. FEMM Committee on Women's Rights and Equal Opportunities
- XVII. PETI Committee on Petitions

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## PROCEDURAL PAGE

By letter of 24 September 1999, the Council consulted the European Parliament pursuant to Article 104(14)(3) of the EC Treaty on the proposal for a Council regulation amending Regulation (EC) No 3605/93 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (COM(1999)444 - 1999/0196 (CNS)).

At the sitting of 7 October 1999, the President of the European Parliament announced that she had referred this proposal to the Committee on Economic and Monetary Affairs (C5-0174/99).

At its meeting of 25 October 1999, the Committee on Economic and Monetary Affairs appointed Mr Knörr Borràs rapporteur.

It considered the Commission proposal and the draft report at its meetings of 7 December 1999, 11 January 2000 and 25 January 2000.

At the last meeting it adopted the legislative resolution by 36 votes to 1, with 1 abstention.

The following were present for the vote: Christa Randzio-Plath, chairman; William Abitbol, José Manuel García-Margallo y Marfil and Ioannis Theonas, vice-chairmen; Gorka Knörr Borràs, rapporteur; Alejandro Agag Longo, Richard A. Balfe, Luis Berenguer Fuster, Hans Udo Bullmann, Martin Callanan (for Jonathan Evans), Richard Graham Corbett (for Pervenche Berès), Göran Färm (pursuant to Article 153(2)), Carles-Alfred Gasòliba i Böhm, Norbert Glante (pursuant to Article 153(2)), Robert Goebbels, Christopher Huhne, Othmar Karas, Giorgos Katiforis, Piia-Noora Kauppi, Werner Langen (for Christoph Werner Konrad), Alain Lipietz, Astrid Lulling, Thomas Mann (for Alain Madelin), Ioannis Marinou, Juan Andrés Naranjo Escobar (for José Javier Pomés Ruiz), Karla M.H. Peijs (for Staffan Burenstam Linder), Fernando Pérez Royo, John Purvis (for Amalia Sartori), Alexander Radwan, Bernhard Rapkay, Karin Riis-Jørgensen, Olle Schmidt, Charles Tannock, Marianne L.P. Thyssen, Helena Torres Marques, Bruno Trentin, Theresa Villiers and Karl von Wogau.

The report was tabled on 26 January 2000.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part session.

## LEGISLATIVE PROPOSAL

**Proposal for a Council regulation amending Regulation (EC) No 3605/93 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (COM(1999)444 - C5-0174/1999 – 1999/0196(CNS))**

The proposal is approved.

## DRAFT LEGISLATIVE RESOLUTION

**European Parliament legislative resolution on the proposal for a Council regulation amending Regulation (EC) No 3605/93 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (COM(1999)444 - C5-0174/1999 – 1999/0196(CNS))**

### **(Consultation procedure)**

*The European Parliament,*

- having regard to the Commission proposal to the Council (COM(1999)444<sup>1</sup>),
  - having been consulted by the Council pursuant to Article 104(14)(3) of the EC Treaty (C5-0174/1999),
  - having regard to Rule 67 of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs (A5-0013/2000),
1. Approves the Commission proposal;
  2. Calls on the Council to notify Parliament should it intend to depart from the text approved by Parliament;
  3. Calls for the conciliation procedure to be initiated should the Council intend to depart from the text approved by Parliament;
  4. Asks to be consulted again should the Council intend to amend the Commission proposal substantially;
  5. Instructs its President to forward its position to the Council and Commission.

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<sup>1</sup> OJ not yet available.

## EXPLANATORY STATEMENT

As we pointed out on a previous occasion in respect of another Commission proposal concerned with the switch to the 1995 European System of Accounts (A5-0000/2000), it is generally agreed that statistical data need to be more than just reliable; they also in particular need to be comparable. This aspect is of particular importance when it comes to the actual work which European integration (and more explicitly, the single market) involves and this applies both to the current Member States and to the countries applying for membership.

In this connection it should be recalled that, under Council Regulation (EC) No 2223/96 of 25 June 1996, the earlier System of Integrated Accounts was replaced by the new European System of National and Regional Accounts in the Community (known as ESA 95) and that the latter is (in the words of the Commission itself) 'the instrument for calculating and comparing the economic accounts and aggregates of the Member States'.

The proposal for an amendment to Regulation (EC) No 3605/93 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community raises issues concerning the switch to the ESA 95 system of accounts and in particular the emergence of new financial product categories, consistency in the calculation of the ratios of government deficit to gross domestic product on the basis of ESA 95, the importance of calculating interest expenditure and the consistency of the latter with ESA 95 methodology.

In our view the main purpose of the proposal for a regulation on the excessive deficit procedure is to update the definitions and the assessments of some of the economic operations involved in the calculation of deficits, as reflected in the Treaty establishing the European Community (Maastricht).

That Treaty lays down the maximum percentages which the government deficit must not exceed as a ratio of the country's gross domestic product at market prices in the various EU Member States.

To date the Member States have calculated gross domestic product at market prices (GDP mp) and government deficit in accordance with the criteria laid down in ESA 79. The most recent estimate of the deficit was submitted in September 1999 and it relates to the 1998 accounting year. In this connection it should be pointed out that, under the transitional provisions (specifically Article 8(2)) laid down in Regulation 2223/96 of 25 June 1996 on the system of national and regional accounts in the Community, it is stated that for the purpose of the Member States' reports to the Commission under the excessive deficit procedure laid down in Regulation (EC) No 3605/93, the European system of integrated economic accounts shall be the ESA second edition until the 1 September 1999 reports. It is intended that, once the regulation is adopted, the estimate which is due to appear in March 2000 (the first estimate of the deficit for the 1999 accounting year) will be made using the ESA 95 definitions, assessments and concepts.

The EU Member States have been bringing the preparation of their national accounts into line with ESA 95 and they have already published their corresponding estimates. In addition to incorporating a new methodology, this has meant making slight changes to most accounting

aggregates and operations on account of the abovementioned methodological changes and also the improved statistical information included in the estimates.

These changes may of course alter the government deficits in terms of the Member States' national accounting.

A brief summary is perhaps called for here of what the adoption of the ESA 95 European System of Accounts meant vis-à-vis ESA 79.

ESA 95 differs from ESA 79 (in 1978 there appeared a new version with small changes) in both scope and concepts.

The main differences of scope include the following:

- (a) the inclusion of balance sheets;
- (b) the inclusion of other changes in assets accounts, i.e. the introduction of the concepts 'other changes in volume', 'nominal holding gains' and 'real holding gains';
- (c) the introduction of a subsectoring of households;
- (d) the introduction of a new concept of final consumption: actual final consumption;
- (e) the inclusion of the concept of purchasing power parities.

Some of the major differences in concepts are:

- (a) literary-artistic work is now regarded as production, for which reason payments for literary-artistic work are payments for services rather than property income;
- (b) there is more detailed treatment of trade and transport margins;
- (c) the introduction of chain linking for calculating constant prices;
- (d) expenditure on computer software is now regarded as capital formation rather than intermediate consumption;
- (e) capital consumption should also be recorded for infrastructural works of government such as roads, dikes, etc.;
- (f) identification of new financial instruments such as repurchase agreements and derivative financial instruments such as options.

Lastly, other major differences could be mentioned, such as:

1. the introduction of supply and use tables;
2. a clear choice in favour of valuing output at basic prices (under earlier accounting systems, valuation at producers' prices was also accepted);

3. the introduction of the concepts of economically active population and unemployment.

Having briefly summarised the main changes made to ESA 95 by comparison with ESA 79, we shall now give our views on the proposed amendment to Regulation (EC) No 3605/93 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community.

The most important changes which the proposal for a regulation is intended to make are:

- (a) Adjustments to the scope of what is meant by the Government Institutional Sector under ESA 95. This is important since 'government deficit' relates to the deficit accumulated by *all* forms of government. In this connection, note should be taken of Article 1(2) of the Commission proposal, which makes the point that 'government sector' means that which relates to government, subdivided into central government, state government, local government and social security funds.
- (b) The non-availability of precise criteria for the definition of government deficit would produce distortions in the estimates of the Member States' government deficits.
- (c) 'Government deficit (surplus)' means the ESA 95 government sector's net borrowing requirement or lending ability respectively.
- (d) 'Government investment' means the gross fixed capital formation of the general government sector, as defined in ESA 95.
- (e) 'Government debt' is defined in accordance with ESA 95, as are the flows (interest generated) stemming from assets/liabilities.

The aggregate to which government debt will relate will be gross domestic product at current market prices (GDP mp), estimated in accordance with ESA 95 definitions.

To summarise, we consider that this proposal constitutes a satisfactory adaptation of the criteria laid down in the abovementioned European system of accounts (ESA 95) as regards debt and the ratio thereof to gross domestic product (GDP), for which reason we regard the proposal (in principle, and subject to further and more detailed analysis) as satisfactory and as acceptable in the form in which it has been submitted to us by the Commission, since the rapporteur also accepts the explanations given by the Commission representatives concerning the failure to include financial derivatives in the debt total since they have no identical nominal value.