

**Surveillance of budgetary positions and surveillance and coordination of economic policies \*\*\*I**

**European Parliament amendments adopted on 23 June 2011 to the proposal for a regulation 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 (COM(2010)0526 – C7-0300/2010 – 2010/0280(COD))<sup>1</sup>**

**(Ordinary legislative procedure: first reading)**

**[Amendment No 2]**

**AMENDMENTS BY PARLIAMENT\***

to the Commission proposal

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**REGULATION 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**

**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,**

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<sup>1</sup> The matter was then referred back to committee pursuant to Rule 57(2), second subparagraph (A7-0178/2011).

\* Amendments: new or amended text is highlighted in bold italics; deletions are indicated by the symbol ■.

***Having regard to the opinion of the European Central Bank<sup>1</sup>,***

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

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) The coordination of the economic policies of the Member States within the Union, as provided 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 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<sup>2</sup>, Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure<sup>3</sup> and the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact<sup>4</sup>. Regulations (EC) No 1466/97 and (EC) No 1467/97 were amended in 2005 by Regulations (EC) No 1055/2005 and (EC) No 1056/2005 respectively. In addition Council Report of 20 March 2005 on 'Improving the implementation of the Stability and Growth Pact' was adopted.
- (3) The Stability and Growth Pact 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*** .
- (4) The preventive part of the Stability and Growth Pact requires that Member States should achieve and maintain a medium-term budgetary objective and submit stability and convergence programme to that effect.
- (4a) ***The preventive part of the Stability and Growth Pact 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 Union level*** in the light of the experience gained with the implementation of the Stability and Growth Pact.
- (5a) ***The budgetary targets in the stability and convergence programmes should explicitly take into account of 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.***

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<sup>1</sup> OJ C 150, 20.5.2011, p. 1.

<sup>2</sup> OJ L 209, 2.8.1997, p. 1.

<sup>3</sup> OJ L 209, 2.8.1997, p. 6.

<sup>4</sup> OJ C 236, 2.8.1997, p. 1.

- (5b) *The submission and assessment of Stability and Convergence programmes should be made before key decisions on the national budgets for the following years are taken. A particular deadline for submission of the Stability and Convergence programmes should therefore 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.*
- (5c) *The Commission should have a stronger role in the enhanced surveillance procedure as regards assessments that are specific to each Member State, monitoring, missions, recommendations and warnings.*
- (5d) *Experience gained and mistakes during the first decade of functioning of the economic and monetary union shows 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 surveillance framework at the Union level of national economic policies.*
- (5e) *The improved economic governance framework should rely on several inter-linked policies for sustainable growth and jobs, which need to be coherent with each other, in particular a Union strategy for growth and jobs, with particular focus upon development and strengthening of the internal market, fostering international trade and competitiveness, an effective framework for preventing and correcting excessive government deficit (the Stability and Growth Pact), a robust framework for preventing and correcting macro-economic imbalances, minimum requirements for national budgetary frameworks, enhanced financial market regulation and supervision including macro-prudential supervision by the European Systemic Risk Board.*
- (5f) *The Stability and Growth Pact and the complete economic governance framework complement and support the Union strategy for growth and jobs. Inter linkages between the different strands should not provide for exemptions from the provisions of the Stability and Growth Pact.*
- (5g) *Strengthening economic governance should include a closer and more timely involvement of the European Parliament and the national parliaments. The competent committee of the European Parliament may offer the opportunity to the Member State concerned by the Council recommendation in accordance with Article 6(2) and Article 10(2) to participate in an exchange of views.*
- (5h) *The Stability or Convergence Programmes and the National Reform Programmes should be prepared in a coherent manner and the timing of their submissions should be aligned. These programmes should be submitted to the Council and the Commission. These programmes should be made public.*
- (5i) *Under the European Semester the policy surveillance and coordination cycle starts early in the year with a horizontal review under 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 will 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. Member States are expected to take into account the horizontal*

*guidance by the European Council when preparing their Stability or Convergence Programmes and National Reform Programmes.*

- (5j) *In order to enhance national ownership of the Stability and Growth Pact, national budgetary frameworks should be aligned with the objectives of multilateral surveillance in the Union, and, in particular, with the Semester.*
- (5k) *In line with the legal and political arrangements of each Member State, national parliaments should be duly involved in the Semester and in the preparation of Stability Programmes, Convergence Programmes and National Reform Programmes in order to increase the transparency, ownership and accountability of the decisions taken. The Economic and Financial Committee, the Economic Policy Committee, the Employment Committee and the Social Protection Committee will be consulted within the framework of the Semester where appropriate. Relevant stakeholders, in particular the social partners, will be involved within the framework of the Semester, on the main policy issues where appropriate, in accordance with the provisions of the TFEU and national legal and political arrangements.*
- (6) Adherence to the medium-term budgetary objective of 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 needs of public investment. *The medium-term budgetary objective should be updated regularly on the basis of a commonly agreed methodology reflecting appropriately risks of explicit and implicit liabilities for public finance as embodied in the aims of the Stability and Growth Pact.*
- (7) 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. These 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.*
- (8) The obligation to achieve and maintain the medium-term-objective should equally apply to participating Member States and *to non-participating* Member States ■ .
- (9) *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 methodology. The Commission shall make public the calculation method of 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.*

- (9a) *A faster adjustment path towards the medium-term budgetary objectives 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.*
- (10) A temporary departure from *the adjustment path towards the medium-term objective* should be allowed *when resulting from an unusual event outside the control of the Member State concerned and 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 EU as a whole, on condition 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. A 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.*
- (11) 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 one 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 five 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 in the deadline set by the Council, the Council should adopt a decision establishing that no effective action has been taken and report to the European Council. The decision should be deemed adopted by the Council, unless it decides by qualified majority to reject it within ten days from the Commission adoption. At the same time, the Commission may recommend to the Council to adopt revised recommendations. The Commission may invite the ECB for euro area Member States and for ERM II Member States, if appropriate, to participate in a surveillance mission. The Commission will report to the Council on the outcome of the mission and, if appropriate, may decide to make its findings public.*
- (12) In order to ensure compliance with the fiscal surveillance framework of the Union for participating Member States, 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*.
- (13) References contained in Regulation (EC) No 1466/97 should take account of the new Article numbering of the TFEU.
- (14) Regulation (EC) No 1466/97 should therefore be amended accordingly,

HAVE ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 1466/97 is 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 deficits and to promote the surveillance and coordination of economic policies thereby supporting the achievement of the Union's objectives for growth and employment."***

**1. Article 2 is replaced by the following:**

***"Article 2***

***For the purpose of this Regulation:***

- (a) 'participating Member States' means those Member States whose currency is the euro;***
- (b) 'non-participating Member States' means Member States other than those whose currency is the euro."***

**1a. The following section is inserted:**

***"SECTION 1-A***

***EUROPEAN SEMESTER FOR ECONOMIC POLICY COORDINATION***

***Article 2-a***

***1. In order to ensure closer coordination of economic policies and sustained convergence of the economic performance of the Member States, the Council will conduct multilateral surveillance as an integral part of the European Semester for economic policy coordination in accordance with the objectives and requirements set out in the Treaty on the Function of the European Union (TFEU).***

***2. The Semester includes:***

- (a) the formulation and surveillance of the implementation of the broad guidelines of the economic policies of the Member States and of the Union (Broad Economic Policy Guidelines) in accordance with Article 121(2) TFEU;***
- (b) the formulation and examination of the implementation of the employment guidelines that must be taken into account by Member States in accordance with Article 148(2) TFEU (Employment Guidelines);***
- (c) the submission and assessment of Member States' Stability or Convergence Programmes in line with the provisions of this Regulation;***

- (d) *the submission and assessment of Member States' National Reform Programmes supporting the Union's strategy for growth and jobs and established in line with the guidelines set out in point i) and ii) above and with the general guidance to Member States issued by the Commission and the European Council at the beginning of the annual cycle of surveillance;*
- (e) *the surveillance to prevent and correct macroeconomic imbalances under Regulation (EU) No .../2011 of the European Parliament and of the Council of ...<sup>+</sup> on the prevention and correction of macroeconomic imbalances\*.*

*3. In the course of the Semester, in order to provide timely and integrated policy advice on macro-fiscal and macro-structural policy intentions, the Council shall, following the assessment of these Programmes on the basis of recommendations by the Commission, address guidance to the Member States making full use of the legal instruments provided under Articles 121 and 148 TFEU, and under this Regulation and Regulation (EU) No .../2011<sup>++</sup> [on the prevention and correction of macroeconomic imbalances].*

*Member States will take due account of the guidance addressed to them in the development of their economic, employment, budgetary policies before taking key decisions on the national budgets for the following years. Progress should be monitored by the Commission.*

*Failure by a Member State to act upon the guidance received may result in:*

- (a) *further recommendations to take specific measures;*
- (b) *a warning by the Commission under Article 121(4) TFEU;*
- (c) *measures under this Regulation, Regulation (EC) No 1467/97 and Regulation (EU) No .../2011<sup>++</sup> [on the prevention and correction of macroeconomic imbalances].*

*Implementation of the measures will be subject to reinforced monitoring by the Commission and may include surveillance missions under Article -11 of this Regulation.*

*4. The European Parliament will be duly involved in the Semester in order to increase transparency, ownership and accountability of the decisions taken, in particular by means of the economic dialogue carried out pursuant to Article 2ab of this Regulation. The Economic and Financial Committee, the Economic Policy Committee, the Employment Committee and the Social Protection Committee will be consulted within the framework of the Semester where appropriate. Relevant stakeholders, in particular the social partners, will be involved within the framework of the Semester, on the main policy issues where appropriate, in accordance with the provisions of the TFEU and national legal and political arrangements.*

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<sup>+</sup> *Number and date of the regulation.*

<sup>++</sup> *Number of the regulation.*

*The President of the Council and the Commission in accordance with Article 121 TFEU, and where appropriate the President of the Eurogroup, shall report annually to the European Parliament and the European Council on the results of the multilateral surveillance. These reports should be a component of the Economic Dialogue referred to in Article 2-ab of this Regulation.*

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*\* OJ L ....".*

**1b.** *The following section is inserted:*

**"SECTION 1-Aa  
ECONOMIC DIALOGUE**

**Article 2-ab**

*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 invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss:*

- (a) information provided to it by the Council on the broad guidelines of economic policy pursuant to Article 121(2) TFEU;*
- (b) general guidance to Member States issued by the Commission at the beginning of the annual cycle of surveillance;*
- (c) any conclusions drawn by the European Council on orientations for economic policies in the context of the European Semester;*
- (d) the results of multilateral surveillance carried out under this Regulation;*
- (e) any conclusions drawn by the European Council on the orientations for and results of multilateral surveillance;*
- (f) any review of the conduct of multilateral surveillance at the end of the European Semester;*
- (g) Council recommendations addressed to Member States in accordance on Article 121(4) TFEU in the event of significant deviation as defined in Article 6(2) and Article 10(2) of this Regulation;*

*2. The competent committee of the European Parliament may offer the opportunity to the Member State concerned by the Council recommendation in accordance with Article 6(2) and Article 10(2) to participate in an exchange of views.*

*3. The Commission and the Council shall regularly inform the European Parliament of the application of this Regulation."*



1c. Article 2a is replaced by the following:

*"Each Member State shall have a differentiated medium-term objective for its budgetary position. These country-specific medium-term budgetary objectives may diverge from the requirement of a close to balance or in surplus position, while providing a safety margin with respect to the 3% of GDP government deficit ratio. The medium-term budgetary objectives shall ensure the sustainability of public finances or a rapid progress towards such sustainability while allowing room for budgetary manoeuvre, considering in particular the needs public investment.*

*Taking these factors into account, for Member States that have adopted the euro and for ERM II Member States the country-specific medium-term budgetary objectives shall be specified within a defined range between -1% of GDP and balance or surplus, in cyclically adjusted terms, net of one-off and temporary measures.*

*The medium-term budgetary objective shall be revised every three years. A Member State's medium-term budgetary objective may be further revised in the event of the implementation of a structural reform with a major impact on the sustainability of public finances.*

*The respect of the medium-term budgetary objective shall be included in the national medium-term budgetary frameworks in accordance with Article 6(1) of Council Directive 2011/.../EU of ...<sup>+</sup> on requirements for budgetary frameworks of the Member States\*.*

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*\* OJ L ....".*

2. Article 3 is amended as follows:

(a) paragraph 1 is replaced by the following:

"1. Each participating Member State shall submit to the Council and Commission information necessary for the purpose of multilateral surveillance at regular intervals under Article 121 TFEU in the form of a stability programme, which provides an essential basis for ***the sustainability of public finances which is conducive to*** price stability, strong sustainable growth ***and*** employment creation.";

(b) ***in*** paragraph 2, ***points (a), (b) and (c) are*** replaced by the following:

"(a) the medium-term budgetary objective and the adjustment path towards this objective for the general government balance as a percentage of GDP, the expected path of the general government debt ratio, the planned growth path of government expenditure, ***including the corresponding allocation for gross fixed capital formation, in particular bearing in mind the conditions and criteria to establish the expenditure growth under Article 5(1),*** the

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<sup>+</sup> Number and date of the directive.

planned growth path of government revenue at unchanged policy and a quantification of the planned discretionary revenue measures;

- (aa) *information on implicit liabilities related to ageing, and contingent liabilities, such as public guarantees, with potentially large impact on the general government accounts;*
- (ab) *information on the consistency of the stability programme with the broad economic policy guidelines and the national reform programme;*
- (b) *the main assumptions about expected economic developments and important economic variables which are relevant to the realisation of the stability programme, such as government investment expenditure, real GDP growth, employment and inflation;*
- (c) a quantitative assessment of the budgetary and other economic policy measures being taken or proposed to achieve the objectives of the programme, comprising a cost-benefit analysis of major structural reforms which have direct long-term *positive budgetary* effects, including by raising *sustainable* potential growth;"

(ba) *the following paragraph is inserted:*

*"2a. The stability programme shall be based on the most likely macro-fiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts shall be compared with the most updated Commission forecasts and, if appropriate, those of other independent bodies. Significant differences between the chosen macro-fiscal scenario and the Commission forecast shall be described with reasoning, in particular if the level or growth of external assumptions departs significantly from the values retained in the Commission's forecasts.*

*The exact nature of that information included in points (a), (aa), (b), (c) and (d) shall be set out in a harmonised framework established by the Commission in cooperation with the Member States."*

(c) paragraph 3 is replaced by the following:

"3. The information about the paths for the general government balance and debt ratio, the growth of government expenditure, the planned growth path of government revenue at unchanged policy, the planned discretionary revenue measures, *appropriately quantified*, and the main economic assumptions referred to in paragraph 2(a) and (b) shall be on an annual basis and shall cover, the preceding year, the current year and at least the following three years.

*4. Each programme shall include information on its status in the context of national procedures, notably whether the programme was presented to the national Parliament, and whether the national Parliament had the opportunity to discuss the Council opinion on the previous programme or, if relevant, any recommendation or warning, and whether there has been parliamentary approval of the programme."*

3. Article 4 is replaced by the following:

"Article 4

1. Stability programmes shall be submitted annually *in April, preferably by mid-April* and *not later than* 30 April. ■
2. Member States shall make public their stability programmes."

4. Article 5 is replaced by the following:

"Article 5

1. Based on assessments by the Commission and the Economic and Financial Committee, the Council shall, within the framework of multilateral surveillance under Article 121 *TFEU*, examine the medium-term budgetary objectives presented by the Member States concerned *in their stability programmes*, assess whether the economic assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate, *including consideration of the accompanying path for the debt ratio* and whether the measures being taken or proposed to respect that adjustment path are sufficient to achieve the medium-term budgetary objective over the cycle.

The Council *and the Commission*, when assessing the adjustment path toward the medium-term budgetary objective, shall examine if the Member State concerned pursues an appropriate annual improvement of its cyclically-adjusted budget balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0,5% of GDP as a benchmark. For Member States *faced* with a *debt* level *exceeding 60% of GDP or with pronounced risks of overall debt sustainability*, *the Council and the Commission* shall examine whether the annual improvement of the cyclically-adjusted budget balance, net of one-off and other temporary measures is higher than 0,5% of GDP. The Council *and the Commission* shall take into account whether a higher adjustment effort is made in economic good times, whereas the effort may be more limited in economic bad times. *In particular, revenue windfalls and shortfalls shall be taken into account.*

*Sufficient progress towards the medium-term budgetary objective shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures. To this effect, the Council and the Commission shall assess whether the* growth path of government expenditure, taken in conjunction with the effect of measures being taken or planned on the revenue side, *is in accordance with* the following conditions ■ :

- (a) for Member States that have achieved the medium-term budgetary objective, annual expenditure growth does not exceed a *reference* medium-term rate of *potential* GDP growth, unless the excess is matched by discretionary revenue measures;
- (b) for Member States that have not yet reached their medium-term budgetary objective, annual expenditure growth does not exceed a rate below a *reference* medium-term rate of *potential* GDP growth, unless the excess is matched by

discretionary revenue measures. The size of the shortfall of the growth rate of government expenditure compared to a **reference** medium-term rate of **potential** GDP growth is set in such a way as to ensure an appropriate adjustment towards the medium-term budgetary objective;

- (c) *for Member States that have not yet reached their medium-term budgetary objective*, discretionary reductions of government revenue items are matched either by expenditure reductions or by discretionary increases in other government revenue items or both.

*The expenditure aggregate shall exclude interest expenditure, expenditure on EU programmes fully matched by EU funds revenue and non-discretionary changes in unemployment benefit expenditure.*

*The excess of expenditure growth over the medium-term reference shall not be counted as a breach of the benchmark to the extent that it is fully offset by revenue increases mandated by law.*

*The reference medium-term rate of potential GDP growth shall be determined on the basis of forward-looking projections and backward-looking estimates. Projections shall be updated at regular intervals. The Commission shall make public calculation method of those projections and the resulting reference medium term rate of potential GDP growth.*

When defining the adjustment path to the medium-term budgetary objective for Member States that have not yet reached this objective and in allowing a temporary deviation from this objective for Member States that have already reached it, under the condition that an appropriate safety margin with respect to the deficit reference value is preserved and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period, the Council **and the Commission** shall take into account the implementation of major structural reforms which have direct long-term **positive budgetary** effects, including by raising potential **sustainable** growth, and therefore a verifiable impact on the long-term sustainability of public finances.

Special attention shall be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Member States implementing such reforms shall be allowed to deviate from the adjustment path to their medium-term budgetary objective or from the objective itself, with the deviation reflecting the **amount of the direct incremental impact** of the reform **on the general government balance**, under the condition that ■ an appropriate safety margin with respect to the deficit reference value is preserved.

The Council **and the Commission** shall furthermore examine whether the contents of the stability programme facilitate the achievement of sustained **and real** convergence within the euro area, closer coordination of economic policies and whether the economic policies of the Member State concerned are consistent with the broad **economic policy** guidelines **and the employment guidelines** of the Member States and of the Union.

*In case of an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in periods of severe economic downturn for the euro area or the Union as a whole*

Member States may be allowed to temporarily depart from the adjustment path *towards the medium-term objective* referred to in the *third* subparagraph, *on condition that this does not endanger fiscal sustainability in the medium term*.

2. The Council *and the Commission* shall carry out the examination of the stability programme within at most three months of the submission of the programme. The Council, on a recommendation from the Commission and after consulting the Economic and Financial Committee, shall, if necessary, *adopt* an opinion on the programme. Where the Council, in accordance with Article 121 TFEU, considers that the objectives and the content of the programme should be strengthened with particular reference to *the adjustment path towards the medium-term budgetary objective*, the Council shall, in its opinion, invite the Member State concerned to adjust its programme."

5. Article 6 is replaced by the following:

"Article 6

1. As part of multilateral surveillance in accordance with Article 121(3) *TFEU*, the Council *and the Commission* shall monitor the implementation of stability programmes, on the basis of information provided by participating Member States and of assessments by the Commission and the Economic and Financial Committee, in particular with a view to identifying actual or expected significant divergences of the budgetary position from the medium-term budgetary objective, or from the appropriate adjustment path towards it  .

2. In the event of a significant *observed deviation from the adjustment path towards the medium-term objective* referred in the *third* subparagraph of Article 5(1) of this *Regulation*, and in order to prevent the occurrence of an excessive deficit, the Commission, in accordance with Article 121(4) *TFEU* shall address a warning to the Member State concerned.

*The Council shall, within one month of the date of adoption of the early warning as referred to in the first subparagraph, shall examine the situation and adopt a recommendation for the necessary policy measures, on the basis of a Commission recommendation, based on Article 121(4). The recommendation shall set a deadline of no more than five months for addressing the deviation. The deadline shall be reduced to three months if the warning by the Commission considers that the situation is particularly serious and warrants urgent action. The Council, on a proposal from the Commission, shall make the recommendation public.*

*Within the deadline set by the Council in the recommendation under Article 121(4) TFEU, the Member State concerned shall report to the Council on action taken in response to the recommendation.*

*If the Member State concerned fails to take appropriate action within the deadline specified in a Council recommendation under the second subparagraph, the Commission shall immediately recommend to the Council to adopt a decision establishing that no effective action has been taken. The decision shall be deemed to be adopted by the Council unless it decides by qualified majority to reject it within ten*

*days of its adoption by the Commission. At the same time, The Commission may recommend to the Council to adopt revised a recommendation under Article 121(4) on necessary policy measures. The Council shall address a formal report to the European Council on the decisions taken.*

*The process from the Council recommendation referred to in the second subparagraph to the Council decision and report to the European Council referred to in the fourth subparagraph shall be no longer than six months.*

*3. A deviation from the medium-term budgetary objective or the appropriate adjustment path towards it shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures, as defined in Article 5(1).*

*The assessment of whether the deviation is significant shall notably include the following criteria:*

*For a Member State that has not reached the medium-term budgetary objective, when assessing the change in the structural balance, whether the deviation is at least 0,5% of GDP in one single year or at least 0,25% of GDP on average per year in two consecutive years; when assessing expenditure developments net of discretionary revenue measures, whether the deviation has a total impact on the government balance of at least 0,5% of GDP in one single year or cumulatively in two consecutive years.*

The deviation *of expenditure developments* shall not be considered *significant* if the Member State concerned has **■** overachieved the medium-term budgetary objective, taking into account the *possibility of significant revenue windfalls* and the budgetary plans laid out in the stability programme do not jeopardise this objective over the programme period.

The deviation may be equally not considered *when resulting from an unusual event outside the control of the Member State concerned and 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 EU as a whole, on the condition that this does not endanger fiscal sustainability in the medium-term.*".

6. Article 7 is **■** amended as follows:

(a) paragraph 1 is replaced by the following:

"1. Each *non-participating* Member State **■** shall submit to the Council and **■** Commission information necessary for the purpose of multilateral surveillance *at* regular intervals under Article 121 TFEU in the form of a convergence programme, which provides an essential basis for *the sustainability of public finances which is conducive to* price stability, strong sustainable growth *and* employment creation.";

(b) *in* paragraph 2, *points (a), (b) and (c) are* replaced by the following:

- "(a) the medium-term budgetary objective and the adjustment path towards this objective for the general government balance as a percentage of GDP, the expected path of the general government debt ratio, the planned growth path of government expenditure, ***including the corresponding allocation for gross fixed capital formation, in particular bearing in mind the conditions and criteria to establish the expenditure growth under Article 9(1)***, the planned growth path of government revenue at unchanged policy and a quantification of the planned discretionary revenue measures, the medium-term monetary policy objectives, the relationship of those objectives to price and exchange rate stability and to the achievement of sustained convergence;
- (aa) ***information on implicit liabilities related to ageing, and contingent liabilities, such as public guarantees, with potentially large impact on the general government accounts;***
- (ab) ***information on the consistency of the stability programme with the broad economic policy guidelines, the employment guidelines and the national reform programme;***
- (b) ***the main assumptions about expected economic developments and important economic variables which are relevant to the realisation of the convergence programme, such as government investment expenditure, real GDP growth, employment and inflation;***
- (c) a quantitative assessment of the budgetary and other economic policy measures being taken or proposed to achieve the objectives of the programme, comprising a cost-benefit analysis of major structural reforms, which have direct long-term ***positive budgetary*** effects, including by raising potential ***sustainable*** growth;"

(ba) ***the following paragraph is inserted:***

***"2a. The convergence programme shall be based on the most likely macro-fiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts shall be compared with the most updated Commission forecasts and, if appropriate, those of other independent bodies. Significant differences between the chosen macro-fiscal scenario and the Commission forecast shall be described with reasoning, in particular if the level or growth of external assumptions departs significantly from the values retained in the Commission's forecasts.***

***The exact nature of that information included in paragraph 2(a), (aa), (b), (c) and (d) shall be set out in a harmonised framework established by the Commission in cooperation with the Member States."***

(c) paragraph 3 is replaced by the following:

**"3. The information about the paths for the general government balance and debt ratio, the growth of government expenditure, the planned growth path of government revenue at unchanged policy, the planned discretionary revenue measures, *appropriately quantified*, and the main economic assumptions referred**

to in paragraph 2(a) and (b) shall be on an annual basis and shall cover the preceding year, the current year and at least the following three years.

**4. Each programme shall include information on its status in the context of national procedures, notably whether the programme was presented to the national parliament, and whether the national parliament had the opportunity to discuss the Council opinion on the previous programme or if relevant, any recommendation or warning, and whether there has been parliamentary approval on the programme."**

7. Article 8 is replaced by the following:

"Article 8

1. Convergence programmes shall be submitted annually ***in April, preferably by mid April and not later than 30 April***.
2. Member States shall make public their convergence programmes."

8. Article 9 is replaced by the following:

"Article 9

1. Based on assessments by the Commission and the Economic and Financial Committee, the Council shall, within the framework of multilateral surveillance under Article 121 ***TFEU***, examine the medium-term budgetary objectives presented by the Member States concerned ***in their convergence programmes***, assess whether the economic assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate, ***including consideration of the accompanying path for the debt ratio***, and whether the measures being taken and/or proposed to respect that adjustment path are sufficient to achieve the medium-term budgetary objective over the cycle and to achieve sustained convergence.

The Council ***and the Commission***, when assessing the adjustment path toward the medium-term budgetary objective, shall take into account whether a higher adjustment effort is made in economic good times, whereas the effort may be more limited in economic bad times. ***In particular, revenue windfalls and shortfalls shall be taken into account***. For Member States ***faced*** with a ***debt*** level ***exceeding 60% of GDP*** or ***with pronounced risks of overall debt sustainability***, the Council shall examine whether the annual improvement of the cyclically-adjusted budget balance, net of one-off and other temporary measures is higher than 0,5% of GDP. For ERM II Member States, the Council ***and the Commission*** shall examine if the Member State concerned pursues an appropriate annual improvement of its cyclically adjusted balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0,5% of GDP as a benchmark.

***Sufficient progress towards the medium-term budgetary objective shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures. To this effect, the Council and the Commission shall assess whether the growth path of***



government expenditure, taken in conjunction with the effect of **■** measures being taken or *planned* on the revenue side, is *in accordance with* the following conditions **■** :

- (a) for Member States that have achieved the medium-term budgetary objective, annual expenditure growth does not exceed a *reference* medium-term rate of *potential* GDP growth, unless the excess is matched by discretionary revenue measures;
- (b) for Member States that have not yet reached their medium-term budgetary objective, annual expenditure growth does not exceed a rate below a *reference* medium-term rate of *potential* GDP growth, unless the excess is matched by discretionary revenue measures. The size of the shortfall of the growth rate of government expenditure compared to a *reference* medium-term rate of *potential* GDP growth is set in such a way as to ensure an appropriate adjustment towards the medium-term budgetary objective;
- (c) *for Member States that have not yet reached their medium-term budgetary objective*, discretionary reductions of government revenue items are matched either by expenditure cuts or by discretionary increases in other government revenue items or both.

*The expenditure aggregate shall exclude interest expenditure, expenditure on EU programmes fully matched by EU funds revenue and non-discretionary changes in unemployment benefit expenditure.*

*The excess of expenditure growth over the medium-term references shall not be counted as a breach of the benchmark to the extent that it is fully offset by revenue increases mandated by law.*

*The reference medium-term rate of potential GDP growth shall be determined on the basis of forward looking-projections and backward-looking estimates. Projections shall be updated at regular intervals. The Commission shall make public calculation method of those projections and the resulting reference medium term rate of potential GDP growth.*

When defining the adjustment path to the medium-term budgetary objective for Member States that have not yet reached this objective and in allowing a temporary deviation from this objective for Member States that have already reached it, under the condition that an appropriate safety margin with respect to the deficit reference value is preserved and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period, the Council *and the Commission* shall take into account the implementation of major structural reforms which have direct long-term *positive budgetary* effects, including by raising potential *sustainable* growth, and therefore a verifiable impact on the long-term sustainability of public finances.

Special attention shall be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Member States implementing such reforms shall be allowed to deviate from the adjustment path to their medium-term budgetary objective or from the objective itself, with the deviation reflecting the *amount of the direct incremental impact* of the reform *on the general government balance*, under the

condition that ■ an appropriate safety margin with respect to the deficit reference value is preserved.

The Council *and the Commission* shall furthermore examine whether the contents of the convergence programme facilitate the *achievement of sustained and real convergence*, closer coordination of economic policies and whether the economic policies of the Member State concerned are consistent with the broad *economic policy* guidelines *and the employment guidelines* of the Member States and of the Union. In addition, for ERM II Member States, the Council shall examine whether the content of the convergence programme ensure a smooth participation in the exchange rate mechanism.

*In case of an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in periods of severe economic downturn of for the euro area or the Union as a whole Member States may be allowed to temporarily depart from the adjustment path towards the medium-term objective referred to in the third subparagraph, on condition that this does not endanger fiscal sustainability in the medium term.*

2. The Council *and the Commission* shall carry out the examination of the convergence programme within at most three months of the submission of the programme. The Council, on a recommendation from the Commission and after consulting the Economic and Financial Committee, shall, if necessary, *adopt* an opinion on the programme. Where the Council, in accordance with Article 121 TFEU, considers that the objectives and the content of the programme should be strengthened with particular reference to *the adjustment path towards the medium term budgetary objective*, the Council shall, in its opinion, invite the Member State concerned to adjust its programme."

9. Article 10 is replaced by the following:

"Article 10

1. As part of multilateral surveillance in accordance with Article 121(3) *TFEU*, the Council *and the Commission* shall monitor the implementation of convergence programmes, on the basis of information provided by Member States with a derogation and of assessments by the Commission and the Economic and Financial Committee, in particular with a view to identifying actual or expected significant divergences of the budgetary position from the medium-term budgetary objective, or from the appropriate adjustment path towards it ■ .

In addition, the Council *and the Commission* shall monitor the economic policies of *non-participating* Member States ■ in the light of convergence programme objectives with a view to ensure that their policies are geared to stability and thus to avoid real exchange rate misalignments and excessive nominal exchange rate fluctuations.

2. In the event of a significant *observed deviation from the adjustment path towards the medium-term objective* referred to in the *third* subparagraph of Article 9(1) of this Regulation, and in order to prevent the occurrence of an excessive deficit, the Commission, in accordance with Article 121(4) *TFEU*, *shall* address a warning to the Member State concerned.

*The Council shall, within one month of the date of adoption of the early warning as referred to in the first subparagraph, shall examine the situation and adopt a recommendation for the necessary policy measures, on the basis of a Commission recommendation, based on Article 121(4). The recommendation shall set a deadline of no more than five months for addressing the deviation. The deadline shall be reduced to three months if the warning by the Commission considers that the situation is particularly serious and warrants urgent action. The Council, on a proposal from the Commission, shall make the recommendation public.*

*Within the deadline set by the Council in the recommendation under Article 121(4) TFEU, the Member State concerned shall report to the Council on action taken in response to said recommendation.*

*If the Member State concerned fails to take appropriate action within the deadline specified in a Council recommendation under the second subparagraph, the Commission shall immediately recommend to the Council to adopt decision establishing that no effective action has been taken. When taking this decision the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned. At the same time, the Commission may recommend to the Council to adopt revised recommendation under Article 121(4) on necessary policy measures. The Council shall address a formal report to the European Council on the decisions taken.*

*The process from the Council recommendation referred to in the second subparagraph to the Council decision and report to the European Council referred to in the fourth subparagraph shall be no longer than six months.*

*3. A deviation from the medium-term budgetary objective or the appropriate adjustment path towards it shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures, as defined in Article 9(1).*

*The assessment of whether the deviation is significant shall notably include the following criteria:*

*For a Member State that has not reached the medium-term budgetary objective, when assessing the change in the structural balance, whether the deviation is at least 0,5% of GDP in one single year or of at least 0,25% of GDP on average per year in two consecutive years; when assessing expenditure developments net of discretionary revenue measures, whether the deviation has a total impact on the government balance of at least 0,5% of GDP in one single year or cumulatively in two consecutive years.*

*The deviation of expenditure developments shall not be considered significant if the Member State concerned has overachieved the medium-term budgetary objective, taking into account the possibility of significant revenue windfalls and the budgetary plans laid out in the convergence programme do not jeopardise this objective over the programme period.*

*The deviation may be equally not considered when resulting from an unusual event outside the control of the Member State concerned and 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 EU as a whole, on the condition that this does not endanger fiscal sustainability in the medium term."*

9a. *The following section is inserted:*

**"SECTION 3A  
PRINCIPLE OF THE STATISTICAL INDEPENDENCE**

**Article 10a**

*With a view ensuring that the multilateral surveillance is based on sound and independent statistics, Member States shall ensure the professional independence of national statistical authorities, which shall be consistent with the European statistics code of practice as laid down in Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European Statistics\*. As a minimum this shall require:*

- (a) transparent recruitment and dismissal processes which must be solely based on professional criteria;*
- (b) budgetary allocations which must be made on an annual or a multiannual basis;*
- (c) the date of publication of key statistical information which must be designated significantly in advance.*

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*\* OJ L 87, 31.3.2009, p. 164."*

9b. *The following article is inserted:*

**"Article -11**

*1. The Commission shall ensure a permanent dialogue with authorities of the Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular, carry out missions for the purpose of the assessment of the actual economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.*

*2. Enhanced surveillance may be undertaken for Member States which are the subject of recommendations issued pursuant to Article 6(2) and Article 10(2) for the purposes of monitoring in situ. The Member States concerned shall provide all necessary information for the preparation and the conduct of the mission.*

*3. When the Member State concerned is a Member State whose currency is the euro or participating in ERM II, the Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions.*

*4. The Commission shall report to the Council on the outcome of the mission referred to in paragraph 2 and if appropriate may decide to make its findings public.*

*5. When organising surveillance missions referred to in paragraph 2, the Commission shall transmit its provisional findings to the Member States concerned for comments."*

*9c. The following article is inserted:*

*"Article 12a  
Review*

*1. Within three years after the entry into force of this 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 the 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 TFEU*

*2. Where appropriate, this report shall be accompanied by a proposal for amendments to this Regulation*

*3. The report shall be forwarded to the European Parliament and the Council. "*

*10. All references to 'Article 99' shall be replaced throughout the Regulation by references to 'Article 121'.*

*Article 2*

*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 all Member States.*

*Done at,*

*For the European Parliament  
The President*

*For the Council  
The President*