

# Legislative package of six texts (the ‘Six-Pack’) on economic governance (November 2011)

**Caption:** In November 2011, in reaction to the crisis and the weakness of the economic pillar of Economic and Monetary Union, the European Parliament and the Council of the EU adopt a series of six legislative texts (five regulations and a directive) to strengthen the coordination of economic policies and fiscal discipline. Two texts specifically concern the Member States in the euro area: they provide for an increased regime of sanctions at an early stage to prevent public deficits and macroeconomic imbalances.

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**URL:**

[http://www.cvce.eu/obj/legislative\\_package\\_of\\_six\\_texts\\_the\\_six\\_pack\\_on\\_economic\\_governance\\_november\\_2011-en-2fb4b94b-a83b-4c9b-96c1-db56c863edo3.html](http://www.cvce.eu/obj/legislative_package_of_six_texts_the_six_pack_on_economic_governance_november_2011-en-2fb4b94b-a83b-4c9b-96c1-db56c863edo3.html)

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I

(Legislative acts)

REGULATIONS

REGULATION (EU) No 1173/2011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL  
of 16 November 2011  
on the effective enforcement of budgetary surveillance 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,

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

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

Having regard to the opinion of the European Economic and Social Committee <sup>(2)</sup>,

Acting in accordance with the ordinary legislative procedure <sup>(3)</sup>,

Whereas:

- (1) Member States whose currency is the euro have a particular interest in and a responsibility to conduct economic policies that promote the proper functioning of the economic and monetary union and to avoid policies that jeopardise that functioning.
- (2) The Treaty on the Functioning of the European Union (TFEU) allows the adoption of specific measures in the euro area which go beyond the provisions applicable to all Member States, for the purpose of ensuring the proper functioning of the economic and monetary union.
- (3) 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 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.

- (4) The improved economic governance framework should rely on several interlinked and coherent policies for sustainable growth and jobs, 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, an effective framework for preventing and correcting excessive government deficits (the Stability and Growth Pact (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.
- (5) The SGP and the complete economic governance framework should complement and be compatible with the Union strategy for growth and jobs. The interlinks between different strands should not provide for exemptions from the provisions of the SGP.
- (6) Achieving and maintaining a dynamic internal market should be considered an element of the proper and smooth functioning of the economic and monetary union.
- (7) The Commission should play 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. When taking decisions on sanctions, the role of the Council should be limited, and reversed qualified majority voting should be used.

<sup>(1)</sup> OJ C 150, 20.5.2011, p. 1.  
<sup>(2)</sup> OJ C 218, 23.7.2011, p. 46.  
<sup>(3)</sup> Position of the European Parliament of 28 September 2011 (not yet published in the Official Journal) and decision of the Council of 8 November 2011.



- (8) In order to ensure a permanent dialogue with the Member States aiming at achieving the objectives of this Regulation, the Commission should carry out surveillance missions.
- (9) A broad evaluation of the economic governance system, in particular of the effectiveness and adequacy of its sanctions, should be undertaken by the Commission at regular intervals. Such evaluations should be complemented by relevant proposals if necessary.
- (10) When implementing this Regulation, the Commission should take into account the current economic situation of the Member States concerned.
- (11) The strengthening of economic governance should include a closer and a more timely involvement of the European Parliament and the national parliaments.
- (12) An economic dialogue with the European Parliament may be established, enabling the Commission to make its analyses public and the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to discuss. Such a public debate could enable discussion of the spill-over effects of national decisions and enable public peer pressure to be brought to bear on the relevant actors. While recognising that the counterparts of the European Parliament in the framework of that 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 decision taken pursuant to Articles 4, 5 and 6 of this Regulation. The Member State's participation in such an exchange of views is voluntary.
- (13) Additional sanctions are necessary to make the enforcement of budgetary surveillance in the euro area more effective. Those sanctions should enhance the credibility of the fiscal surveillance framework of the Union.
- (14) The rules laid down in this Regulation should ensure fair, timely, graduated and effective mechanisms for compliance with the preventive and the corrective parts of the SGP, in particular 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>(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>, where compliance with the budgetary discipline is examined on the basis of the government deficit and government debt criteria.
- (15) Sanctions under this Regulation and based upon the preventive part of the SGP in respect of Member States whose currency is the euro should provide incentives for adjusting to and maintaining the medium-term budgetary objective.
- (16) In order to deter against the misrepresentation, whether intentional or due to serious negligence, of government deficit and debt data, which data is an essential input to economic policy coordination in the Union, fines should be imposed on Member States responsible.
- (17) In order to supplement the rules on calculation of the fines for manipulation of statistics as well as the rules on the procedure to be followed by the Commission for the investigation of such actions, the power to adopt acts in accordance with Article 290 TFEU should be delegated to the Commission in respect of detailed criteria for establishing the amount of the fine and for conducting the Commission's investigations. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level. The Commission, when preparing and drawing up delegated acts, should ensure a simultaneous, timely and appropriate transmission of relevant documents to the European Parliament and the Council.
- (18) In respect of the preventive part of the SGP, adjustment and adherence to the medium-term budgetary objective should be ensured through an obligation imposed on a Member State whose currency is the euro that is making insufficient progress with budgetary consolidation to lodge temporarily an interest-bearing deposit. This should be the case when a Member State, including a Member State with a deficit below the 3 % of Gross Domestic Product (GDP) reference value, deviates significantly from the medium-term budgetary objective or the appropriate adjustment path towards that objective and fails to correct the deviation.
- (19) The interest-bearing deposit imposed should be released to the Member State concerned together with the interest accrued on it once the Council has been satisfied that the situation giving rise to the obligation to lodge that deposit has come to an end.
- (20) In respect of the corrective part of the SGP, sanctions for Member States whose currency is the euro should take the form of an obligation to lodge a non-interest-bearing deposit linked to a Council decision establishing the existence of an excessive deficit if an interest-bearing deposit has already been imposed on the Member State concerned in the preventive part of the SGP or in cases of particularly serious non-compliance with the
- <sup>(1)</sup> OJ L 209, 2.8.1997, p. 1.  
<sup>(2)</sup> OJ L 209, 2.8.1997, p. 6.

budgetary policy obligations laid down in the SGP, or the obligation to pay a fine in the event of non-compliance with a Council recommendation to correct an excessive government deficit.

- (21) In order to avoid the retroactive application of the sanctions under the preventive part of the SGP provided for in this Regulation, they should apply only in respect of the relevant decisions adopted by the Council under Regulation (EC) No 1466/97 after the entry into force of this Regulation. Similarly, in order to avoid the retroactive application of the sanctions under the corrective part of the SGP provided for in this Regulation, they should apply only in respect of the relevant recommendations and decisions to correct an excessive government deficit adopted by the Council after the entry into force of this Regulation.
- (22) The amount of the interest-bearing deposits, of the non-interest-bearing deposits and of the fines provided for in this Regulation should be set in such a way as to ensure a fair graduation of sanctions in the preventive and corrective parts of the SGP and to provide sufficient incentives for the Member States whose currency is the euro to comply with the fiscal framework of the Union. Fines under Article 126(11) TFEU and as specified in Article 12 of Regulation (EC) No 1467/97 are composed of a fixed component that equals 0,2 % of GDP and of a variable component. Thus, graduation and equal treatment between Member States are ensured if the interest-bearing deposit, the non-interest-bearing deposit and the fine specified in this Regulation are equal to 0,2 % of GDP, that being the amount of the fixed component of the fine under Article 126(11) TFEU.
- (23) A possibility should be provided for the Council to reduce or to cancel the sanctions imposed on Member States whose currency is the euro on the basis of a Commission recommendation following a reasoned request by the Member State concerned. In the corrective part of the SGP, the Commission should also be able to recommend reducing the amount of a sanction or cancelling it on grounds of exceptional economic circumstances.
- (24) The non-interest-bearing deposit should be released upon correction of the excessive deficit, while the interest on such deposits and the fines collected should be assigned to stability mechanisms to provide financial assistance, created by Member States whose currency is the euro in order to safeguard the stability of the euro area as a whole.
- (25) The power to adopt individual decisions for the application of the sanctions provided for in this Regulation 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 measures adopted by the Council in accordance with Articles 121 and 126 TFEU and Regulations (EC) No 1466/97 and (EC) No 1467/97.

- (26) Since this Regulation contains general rules for the effective enforcement of Regulations (EC) No 1466/97 and (EC) No 1467/97, it should be adopted in accordance with the ordinary legislative procedure referred to in Article 121(6) TFEU.
- (27) Since the objective of this Regulation, namely to create a system of sanctions for enhancing the enforcement of the preventive and corrective parts of the SGP in the euro area, cannot be sufficiently achieved at the level of the Member States, the Union may adopt measures in accordance with the principles of subsidiarity as set out in Article 5 of the Treaty on European Union (TEU). In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve that objective,

HAVE ADOPTED THIS REGULATION:

CHAPTER I

SUBJECT MATTER, SCOPE AND DEFINITIONS

Article 1

Subject matter and scope

- 1. This Regulation sets out a system of sanctions for enhancing the enforcement of the preventive and corrective parts of the Stability and Growth Pact in the euro area.
- 2. This Regulation shall apply to Member States whose currency is the euro.

Article 2

Definitions

For the purposes of this Regulation, the following definitions apply:

- (1) ‘preventive part of the Stability and Growth Pact’ means the multilateral surveillance system as organised by Regulation (EC) No 1466/97;
- (2) ‘corrective part of the Stability and Growth Pact’ means the procedure for the avoidance of Member States’ excessive deficit as regulated by Article 126 TFEU and Regulation (EC) No 1467/97;
- (3) ‘exceptional economic circumstances’ means circumstances where an excess of a government deficit over the reference value is considered exceptional within the meaning of the second indent of point (a) of Article 126(2) TFEU and as specified in Regulation (EC) No 1467/97.

## CHAPTER II

**ECONOMIC DIALOGUE***Article 3***Economic dialogue**

In order to enhance the dialogue between the institutions of the Union, 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 decisions taken pursuant to Articles 4, 5 and 6 of this Regulation.

The competent committee of the European Parliament may offer the opportunity to the Member State concerned by such decisions to participate in an exchange of views.

## CHAPTER III

**SANCTIONS IN THE PREVENTIVE PART OF THE STABILITY AND GROWTH PACT***Article 4***Interest-bearing deposits**

1. If the Council adopts a decision establishing that a Member State failed to take action in response to the Council recommendation referred to in the second subparagraph of Article 6(2) of Regulation (EC) No 1466/97, the Commission shall, within 20 days of adoption of the Council's decision, recommend that the Council, by a further decision, require the Member State in question to lodge with the Commission an interest-bearing deposit amounting to 0,2 % of its GDP in the preceding year.

2. The decision requiring a lodgement shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.

3. The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.

4. The Commission may, following a reasoned request by the Member State concerned addressed to the Commission within 10 days of adoption of the Council's decision establishing that a Member State failed to take action referred to in paragraph 1, recommend that the Council reduce the amount of the interest-bearing deposit or cancel it.

5. The interest-bearing deposit shall bear an interest rate reflecting the Commission's credit risk and the relevant investment period.

6. If the situation giving rise to the Council's recommendation referred to in the second subparagraph of Article 6(2)

of Regulation (EC) No 1466/97 no longer exists, the Council, on the basis of a further recommendation from the Commission, shall decide that the deposit and the interest accrued thereon be returned to the Member State concerned. The Council may, acting by a qualified majority, amend the Commission's further recommendation.

## CHAPTER IV

**SANCTIONS IN THE CORRECTIVE PART OF THE STABILITY AND GROWTH PACT***Article 5***Non-interest-bearing deposits**

1. If the Council, acting under Article 126(6) TFEU, decides that an excessive deficit exists in a Member State which has lodged an interest-bearing deposit with the Commission in accordance with Article 4(1) of this Regulation, or where the Commission has identified particularly serious non-compliance with the budgetary policy obligations laid down in the SGP, the Commission shall, within 20 days of adoption of the Council's decision, recommend that the Council, by a further decision, require the Member State concerned to lodge with the Commission a non-interest-bearing deposit amounting to 0,2 % of its GDP in the preceding year.

2. The decision requiring a lodgement shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.

3. The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.

4. The Commission may, on grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned addressed to the Commission within 10 days of adoption of the Council's decision under Article 126(6) TFEU referred to in paragraph 1, recommend that the Council reduce the amount of the non-interest-bearing deposit or cancel it.

5. The deposit shall be lodged with the Commission. If the Member State has lodged an interest-bearing deposit with the Commission in accordance with Article 4, that interest-bearing deposit shall be converted to a non-interest-bearing deposit.

If the amount of an interest-bearing deposit lodged in accordance with Article 4 and of the interest accrued thereon exceeds the amount of the non-interest-bearing deposit to be lodged under paragraph 1 of this Article, the excess shall be returned to the Member State.

If the amount of the non-interest-bearing deposit exceeds the amount of an interest-bearing deposit lodged in accordance with Article 4 and the interest accrued thereon, the Member State shall make up the shortfall when it lodges the non-interest-bearing deposit.

Article 6

Fines

1. If the Council, acting under Article 126(8) TFEU, decides that a Member State has not taken effective action to correct its excessive deficit, the Commission shall, within 20 days of that decision, recommend that the Council, by a further decision, impose a fine, amounting to 0,2 % of the Member State's GDP in the preceding year.

2. The decision imposing a fine shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.

3. The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.

4. The Commission may, on grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned addressed to the Commission within 10 days of adoption of the Council's decision under Article 126(8) TFEU referred to in paragraph 1, recommend that the Council reduce the amount of the fine or cancel it.

5. If the Member State has lodged a non-interest-bearing deposit with the Commission in accordance with Article 5, the non-interest-bearing deposit shall be converted into the fine.

If the amount of a non-interest-bearing deposit lodged in accordance with Article 5 exceeds the amount of the fine, the excess shall be returned to the Member State.

If the amount of the fine exceeds the amount of a non-interest-bearing deposit lodged in accordance with Article 5, or if no non-interest-bearing deposit has been lodged, the Member State shall make up the shortfall when it pays the fine

Article 7

Return of non-interest-bearing deposits

If the Council, acting under Article 126(12) TFEU, decides to abrogate some or all of its decisions, any non-interest-bearing deposit lodged with the Commission shall be returned to the Member State concerned.

CHAPTER V

SANCTIONS CONCERNING THE MANIPULATION OF STATISTICS

Article 8

Sanctions concerning the manipulation of statistics

1. The Council, acting on a recommendation by the Commission, may decide to impose a fine on a Member State

that intentionally or by serious negligence misrepresents deficit and debt data relevant for the application of Articles 121 or 126 TFEU, or for the application of the Protocol on the excessive deficit procedure annexed to the TEU and to the TFEU.

2. The fines referred to in paragraph 1 shall be effective, dissuasive and proportionate to the nature, seriousness and duration of the misrepresentation. The amount of the fine shall not exceed 0,2 % of GDP of the Member State concerned.

3. The Commission may conduct all investigations necessary to establish the existence of the misrepresentations referred to in paragraph 1. It may decide to initiate an investigation when it finds that there are serious indications of the existence of facts liable to constitute such a misrepresentation. The Commission shall investigate the putative misrepresentations taking into account any comments submitted by the Member State concerned. In order to carry out its tasks, the Commission may request the Member State to provide information, and may conduct on-site inspections and accede to the accounts of all government entities at central, state, local and social-security level. If the law of the Member State concerned requires prior judicial authorisation for on-site inspections, the Commission shall make the necessary applications.

Upon completion of its investigation, and before submitting any proposal to the Council, the Commission shall give to the Member State concerned the opportunity of being heard in relation to the matters under investigation. The Commission shall base any proposal to the Council only on facts on which the Member State concerned has had the opportunity to comment.

The Commission shall fully respect the rights of defence of the Member State concerned during the investigations.

4. The Commission shall be empowered to adopt delegated acts in accordance with Article 11 concerning:

- (a) detailed criteria establishing the amount of the fine referred to in paragraph 1;
- (b) detailed rules concerning the procedures for the investigations referred to in paragraph 3, the associated measures and the reporting on the investigations;
- (c) detailed rules of procedure aimed at guaranteeing the rights of the defence, access to the file, legal representation, confidentiality and provisions as to timing and the collection of the fines referred to in paragraph 1.

5. The Court of Justice of the European Union shall have unlimited jurisdiction to review the decisions of the Council imposing fines under paragraph 1. It may annul, reduce or increase the fine so imposed.

## CHAPTER VI

### ADMINISTRATIVE NATURE OF THE SANCTIONS AND DISTRIBUTION OF THE INTEREST AND FINES

#### Article 9

##### Administrative nature of the sanctions

The sanctions imposed pursuant to Articles 4 to 8 shall be of an administrative nature.

#### Article 10

##### Distribution of the interest and fines

The interest earned by the Commission on deposits lodged in accordance with Article 5 and the fines collected in accordance with Articles 6 and 8 shall constitute other revenue, as referred to in Article 311 TFEU, and shall be assigned to the European Financial Stability Facility. When the Member States whose currency is the euro create another stability mechanism to provide financial assistance in order to safeguard the stability of the euro area as a whole, the interest and the fines shall be assigned to that mechanism.

## CHAPTER VII

### GENERAL PROVISIONS

#### Article 11

##### Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.

2. The power to adopt delegated acts referred to in Article 8(4) shall be conferred on the Commission for a period of 3 years from 13 December 2011. The Commission shall draw up a report in respect of the delegation of power not later than 9 months before the end of that 3-year period. The delegation of power shall be tacitly extended for periods of an identical duration, unless the European Parliament or the Council opposes such extension not later than 3 months before the end of each period.

3. The delegation of power referred to in Article 8(4) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the *Official Journal of the European Union* or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

4. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.

5. A delegated act adopted pursuant to Article 8(4) shall enter into force only if no objection has been expressed either by the European Parliament or the Council within a period of 2 months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by 2 months at the initiative of the European Parliament or of the Council.

#### Article 12

##### Voting in the Council

1. For the measures referred to in Articles 4, 5, 6 and 8, only members of the Council representing Member States whose currency is the euro shall vote, and the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.

2. A qualified majority of the members of the Council referred to in paragraph 1 shall be defined in accordance with point (b) of Article 238(3) TFEU.

#### Article 13

##### Review

1. By 14 December 2014 and every 5 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, including the possibility to enable the Council and the Commission to act in order to address situations which risk jeopardising the proper functioning of the monetary union;

(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, that report 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.

4. Before the end of 2011 the Commission shall present a report to the European Parliament and to the Council on the possibility of introducing euro-securities.



Article 14

Entry into force

This Regulation shall enter into force on the 20th day following 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 Strasbourg, 16 November 2011.

For the European Parliament  
The President  
J. BUZEK

For the Council  
The President  
W. SZCZUKA

**REGULATION (EU) No 1174/2011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL  
of 16 November 2011**

**on enforcement measures to correct excessive macroeconomic imbalances 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,

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

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

Having regard to the opinion of the European Economic and Social Committee <sup>(2)</sup>,

Acting in accordance with the ordinary legislative procedure <sup>(3)</sup>,

Whereas:

(1) The improved economic governance framework should rely on several interlinked and coherent policies for sustainable growth and jobs, in particular a Union strategy for growth and jobs, with particular focus upon developing and strengthening the internal market, fostering international trade and competitiveness, a European Semester for strengthened coordination of economic and budgetary policies, an effective framework for preventing and correcting excessive government deficits (the Stability and Growth Pact (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.

(2) Reliable statistical data is the basis for the surveillance of macroeconomic imbalances. In order to guarantee sound and independent statistics, Member States should ensure the professional independence of national statistical authorities, 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 <sup>(4)</sup>. In addition, the availability of sound fiscal data is also relevant for the surveillance of macroeconomic imbalances. This requirement should be guaranteed by the rules provided in this regard by Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area <sup>(5)</sup>, in particular its Article 8.

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

(4) 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 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.

(5) Achieving and maintaining a dynamic internal market should be considered an element of the proper and smooth functioning of the economic and monetary union.

(6) In particular, surveillance of the economic policies of the Member States should be broadened beyond budgetary surveillance to include a more detailed and formal framework to prevent excessive macroeconomic imbalances and to help the Member States affected to establish corrective plans before divergences become entrenched and before economic and financial developments take a durable turn in an excessively unfavourable direction. Such broadening of the surveillance of economic policies should take place in parallel with a deepening of fiscal surveillance.

(7) To help correct such excessive macroeconomic imbalances, it is necessary to lay down a detailed procedure in legislation.

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

<sup>(2)</sup> OJ C 218, 23.7.2011, p. 53.

<sup>(3)</sup> Position of the European Parliament of 28 September 2011 (not yet published in the Official Journal) and decision of the Council of 8 November 2011.

<sup>(4)</sup> OJ L 87, 31.3.2009, p. 164.

<sup>(5)</sup> See page 1 of this Official Journal.

- (8) It is appropriate to supplement the multilateral surveillance procedure referred to in paragraphs 3 and 4 of Article 121 TFEU with specific rules for the detection of macroeconomic imbalances as well as the prevention and correction of excessive macroeconomic imbalances within the Union. It is essential that the procedure be embedded in the annual multilateral surveillance cycle.
- (9) Strengthening 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 decision imposing an interest-bearing deposit or an annual fine in accordance with this Regulation. The Member State's participation in such an exchange of views is voluntary.
- (10) 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.
- (11) Enforcement of Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances<sup>(1)</sup> should be strengthened by establishing interest-bearing deposits in case of non-compliance with the recommendation to take corrective action. Such deposits should be converted into an annual fine in the case of continued non-compliance with the recommendation to address excessive macroeconomic imbalances within the same imbalances procedure. Those enforcement measures should be applicable to Member States whose currency is the euro.
- (12) In the case of failure to comply with Council recommendations, the interest-bearing deposit or the fine should be imposed until the Council establishes that the Member State has taken corrective action to comply with its recommendations.
- (13) Moreover, repeated failure of the Member State to draw up a corrective action plan to address the Council recommendation should also be subject to an annual fine as a rule, until the Council establishes that the Member State has provided a corrective action plan that sufficiently addresses its recommendation.
- (14) To ensure equal treatment between Member States, the interest-bearing deposit and the fine should be identical for all Member States whose currency is the euro and equal to 0,1 % of the gross domestic product (GDP) of the Member State concerned in the preceding year.
- (15) The Commission should be able to recommend reducing the amount of a sanction or cancelling it on grounds of exceptional economic circumstances.
- (16) The procedure for applying sanctions to those Member States which fail to take effective measures to correct excessive macroeconomic imbalances should be construed in such a way that the application of the sanctions to those Member States would be the rule and not the exception.
- (17) Fines referred to in this Regulation should constitute other revenue, as referred to in Article 311 TFEU, and should be assigned to stability mechanisms to provide financial assistance, created by Member States whose currency is the euro in order to safeguard the stability of the euro area as a whole.
- (18) The power to adopt individual decisions for the application of the sanctions provided for in this Regulation 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 measures adopted by the Council in accordance with Article 121 TFEU and Regulation (EU) No 1176/2011.
- (19) Since this Regulation contains general rules for the effective enforcement of Regulation (EU) No 1176/2011, it should be adopted in accordance with the ordinary legislative procedure referred to in Article 121(6) TFEU.
- (20) Since the objective of this Regulation, namely the effective enforcement of the correction of excessive macroeconomic imbalances in the euro area, cannot be sufficiently achieved by the Member States because of the deep trade and financial interlinks between Member States and the spill-over effects of national economic policies on the Union and the euro area as a whole, and can therefore be better achieved at the level of the Union, the Union may adopt measures in accordance with the principle of subsidiarity, as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary to achieve that objective,

<sup>(1)</sup> See page 25 of this Official Journal.



HAVE ADOPTED THIS REGULATION:

#### Article 1

##### Subject matter and scope

1. This Regulation lays down a system of sanctions for the effective correction of excessive macroeconomic imbalances in the euro area.

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

#### Article 2

##### Definitions

For the purposes of this Regulation, the definitions set out in Article 2 of Regulation (EU) No 1176/2011 shall apply.

In addition, the following definition shall apply:

'exceptional economic circumstances' means circumstances where an excess of a government deficit over the reference value is considered exceptional within the meaning of the second indent of point (a) of Article 126(2) TFEU and as specified in Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure<sup>(1)</sup>.

#### Article 3

##### Sanctions

1. An interest-bearing deposit shall be imposed by a Council decision, acting on a recommendation from the Commission, if a Council decision establishing non-compliance is adopted in accordance with Article 10(4) of Regulation (EU) No 1176/2011, where the Council concludes that the Member State concerned has not taken the corrective action recommended by the Council.

2. An annual fine shall be imposed by a Council decision, acting on a recommendation by the Commission, where:

- (a) two successive Council recommendations in the same imbalance procedure are adopted in accordance with Article 8(3) of Regulation (EU) No 1176/2011 and the Council considers that the Member State has submitted an insufficient corrective action plan; or
- (b) two successive Council decisions in the same imbalance procedure are adopted establishing non-compliance in accordance with Article 10(4) of Regulation (EU) No 1176/2011. In this case, the annual fine shall be imposed by means of converting the interest-bearing deposit into an annual fine.

<sup>(1)</sup> OJ L 209, 2.8.1997, p. 6.

3. The decisions referred to in paragraphs 1 and 2 shall be deemed adopted by the Council unless it decides, by qualified majority, to reject the recommendation within 10 days of its adoption by the Commission. The Council may decide, by qualified majority, to amend the recommendation.

4. The Commission's recommendation for a Council decision shall be issued within 20 days of the conditions referred to in paragraphs 1 and 2 being met.

5. The interest-bearing deposit or the annual fine recommended by the Commission shall be 0,1 % of the GDP in the preceding year of the Member State concerned.

6. By derogation from paragraph 5, the Commission may, on grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned addressed to the Commission within 10 days of the conditions referred to in paragraphs 1 and 2 being met, propose to reduce or cancel the interest-bearing deposit or the annual fine.

7. If a Member State has constituted an interest-bearing deposit or has paid an annual fine for a given calendar year and the Council thereafter concludes, in accordance with Article 10(1) of Regulation (EU) No 1176/2011 that the Member State has taken the recommended corrective action in the course of that year, the deposit paid for that year together with the accrued interest or the fine paid for that year shall be returned to the Member State pro rata temporis.

#### Article 4

##### Allocation of the fines

Fines referred to in Article 3 of this Regulation shall constitute other revenue, as referred to in Article 311 TFEU, and shall be assigned to the European Financial Stability Facility. When the Member States whose currency is the euro create another stability mechanism to provide financial assistance in order to safeguard the stability of the euro area as a whole, those fines shall be assigned to that mechanism.

#### Article 5

##### Voting in the Council

1. For the measures referred to in Article 3, only members of the Council representing Member States whose currency is the euro shall vote, and the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.

2. A qualified majority of the members of the Council referred to in paragraph 1 shall be defined in accordance with point (b) of Article 238(3) TFEU.

Article 6

Economic dialogue

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 decisions taken pursuant to Article 3.

The competent committee of the European Parliament may offer the opportunity to the Member State concerned by such decisions to participate in an exchange of views.

Article 7

Review

1. By 14 December 2014 and every 5 years thereafter, the Commission shall publish a report on the application of this Regulation.

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

Done at Strasbourg, 16 November 2011.

For the European Parliament  
The President  
J. BUZEK

For the Council  
The President  
W. SZCZUKA

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 TFEU.

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

3. The Commission shall send the report and any accompanying proposals to the European Parliament and to the Council.

Article 8

Entry into force

This Regulation shall enter into force on the 20th day following its publication in the *Official Journal of the European Union*.

**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 <sup>(1)</sup>,

Acting in accordance with the ordinary legislative procedure <sup>(2)</sup>,

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

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

<sup>(2)</sup> Position of the European Parliament of 28 September 2011 (not yet published in the Official Journal) and decision of the Council of 8 November 2011.

<sup>(3)</sup> OJ L 209, 2.8.1997, p. 1.

<sup>(4)</sup> OJ L 209, 2.8.1997, p. 6.

<sup>(5)</sup> OJ C 236, 2.8.1997, p. 1.

<sup>(6)</sup> Council Regulation (EC) No 1055/2005 of 27 June 2005 amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 174, 7.7.2005, p. 1).

<sup>(7)</sup> Council Regulation (EC) No 1056/2005 of 27 June 2005 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 174, 7.7.2005, p. 5).

<sup>(8)</sup> See document 7423/3/05 on <http://www.consilium.europa.eu/documents.aspx?lang=en>.

(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.

(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<sup>(1)</sup> (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.

(<sup>1</sup>) OJ C 73, 25.3.2006, p. 21.



- (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 deficits and to promote the surveillance and coordination of economic policies thereby supporting the achievement of the Union’s objectives for growth and employment.’.

- (2) 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.’.

- (3) 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 shall 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 Functioning of the European Union (TFEU).

2. The European Semester shall include:

- (a) the formulation, and the 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 the 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 under 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 (a) and (b) 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 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (\*).

3. In the course of the European Semester, in order to provide timely and integrated policy advice on macrofiscal and macrostructural policy intentions, the Council shall, as a rule, following the assessment of these programmes on the basis of recommendations from 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 1176/2011.

Member States shall take due account of the guidance addressed to them in the development of their economic, employment and budgetary policies before taking key decisions on their national budgets for the succeeding years. Progress shall 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 or Regulation (EU) No 1176/2011.

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

4. The European Parliament shall be duly involved in the European Semester in order to increase the transparency and ownership of, and the accountability for the decisions taken, in particular by means of the economic dialogue carried out pursuant to Article 2-ab of this Regulation. The Economic and Financial Committee, the Economic Policy Committee, the Employment Committee and the Social Protection Committee shall be consulted within the framework of the European Semester where appropriate. Relevant stakeholders, in particular the social partners, shall 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.

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 to 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.

(\*) OJ L 306, 23.11.2011, p. 25.’

(4) The following section is inserted:

‘SECTION 1-Aa

#### **ECONOMIC DIALOGUE**

##### *Article 2-ab*

1. In order to enhance the dialogue between the institutions of the Union, 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 the committee 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 with Article 121(4) TFEU in the event of significant deviation and the report made by the Council to the European Council as defined in Article 6(2) and Article 10(2) of this Regulation.

2. The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly.

3. The competent committee of the European Parliament may offer the opportunity to a Member State which is the subject of a Council recommendation under Article 6(2) or Article 10(2) to participate in an exchange of views.

4. The Council and the Commission shall regularly inform the European Parliament of the application of this Regulation.’

(5) Article 2a is replaced by the following:

##### *‘Article 2a*

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 need for public investment.

Taking these factors into account, for participating Member States and for Member States that are participating in ERM2 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 3 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 Chapter IV of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (\*).

(\*) OJ L 306, 23.11.2011, p. 41.’

(6) 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 to the 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 that 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 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 a 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 achievement 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 potential sustainable growth';

(c) the following paragraph is inserted:

'2a. The stability programme shall be based on the most likely macrofiscal 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 macrofiscal scenario and the Commission's 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 the information included in points (a), (aa), (b), (c) and (d) of paragraph 2 shall be set out in a harmonised framework established by the Commission in cooperation with the Member States.';

(d) 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 points (a) and (b) of paragraph 2 shall be on an annual basis and shall cover the preceding year, the current year and at least the following 3 years.

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

(7) 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'.

(8) 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 might 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 end, 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 their 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 Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure.

The excess 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 the calculation method for 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, provided 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.

Particular 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, provided that an appropriate safety margin with respect to the deficit reference value is preserved.

The Council and the Commission shall also examine whether the stability programme facilitates the achievement of sustained and real convergence within the euro area and the 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 the case of 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 periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph, provided that this does not endanger fiscal sustainability in the medium term.

2. The Council and the Commission shall examine the stability programme within at most 3 months of its submission. 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 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 budgetary objective referred to in the third subparagraph of Article 5(1) of this Regulation, and in order to prevent the occurrence of an excessive deficit, the Commission shall address a warning to the Member State concerned in accordance with Article 121(4) TFEU.

The Council shall, within 1 month of the date of adoption of the warning referred to in the first subparagraph, examine the situation and adopt a recommendation for the necessary policy measures, on the basis of a Commission recommendation, based on Article 121(4) TFEU. The recommendation shall set a deadline of no more than 5 months for addressing the deviation. The deadline shall be reduced to 3 months if the Commission, in its warning, 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, by qualified majority, a decision establishing that no effective action has been taken. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

In the event that the Council does not adopt the decision on the Commission recommendation that no effective action has been taken, and failure to take appropriate action on the part of the Member State concerned persists, the Commission, after 1 month from its earlier recommendation, shall recommend to the Council to adopt the decision establishing that no effective action has been taken. The decision shall be deemed to be adopted by the Council unless it decides, by simple majority, to reject the recommendation within 10 days of its adoption by the Commission. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

When taking the decision on non-compliance referred to in the fourth and fifth subparagraphs, only members of the Council representing participating Member States shall vote and the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.

The Council shall submit a formal report to the European Council on the decisions taken accordingly.

3. A deviation from the medium-term budgetary objective or from 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, in particular, include the following criteria:

- (a) 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 a single year or at least 0,25 % of GDP on average per year in 2 consecutive years;
- (b) 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 a single year or cumulatively in 2 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 that objective over the programme period.

Similarly, the deviation may be left out of consideration when it results 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 Union as a whole, provided that this does not endanger fiscal sustainability in the medium-term.’.

(10) 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 to the 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 a potentially large impact on the general government accounts;

(ab) information on the consistency of the convergence 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 achievement 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’;

(c) the following paragraph is inserted:

‘2a. The convergence programme shall be based on the most likely macrofiscal 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 macrofiscal 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 the information included in points (a), (aa), (b), (c) and (d) of paragraph 2 shall be set out in a harmonised framework established by the Commission in cooperation with the Member States.’;

(d) 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 points (a) and (b) of paragraph 2 shall be on an annual basis and shall cover the preceding year, the current year and at least the following 3 years.

4. Each programme shall include information on its status in the context of national procedures, in particular 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.’.

(11) 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.’.

(12) 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 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 might 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 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. For Member States that are participating in ERM2, 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 end, 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 their 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 Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure.

The excess 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 the calculation method for 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, provided 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.

Particular 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, provided that an appropriate safety margin with respect to the deficit reference value is preserved.



The Council and the Commission shall also examine whether the convergence programme facilitates the achievement of sustained and real convergence and the 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 Member States that are participating in ERM2, the Council shall examine whether the convergence programme ensures a smooth participation in the exchange rate mechanism.

In the case of 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 periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph, provided that this does not endanger fiscal sustainability in the medium term.

2. The Council and the Commission shall examine the convergence programme within at most 3 months of its submission. 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.’.

(13) 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 budgetary 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

shall address a warning to the Member State concerned in accordance with Article 121(4) TFEU.

The Council shall, within 1 month of the date of adoption of the warning referred to in the first subparagraph, examine the situation and adopt a recommendation for the necessary policy measures, on the basis of a Commission recommendation, based on Article 121(4) TFEU. The recommendation shall set a deadline of no more than 5 months for addressing the deviation. The deadline shall be reduced to 3 months if the Commission, in its warning, 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, by qualified majority, a decision establishing that no effective action has been taken. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

In the event that the Council does not adopt the decision on the Commission recommendation that no effective action has been taken, and failure to take appropriate action on the part of the Member State concerned persists, the Commission, after 1 month from its earlier recommendation, shall recommend to the Council to adopt the decision establishing that no effective action has been taken. The decision shall be deemed to be adopted by the Council unless it decides, by simple majority, to reject the recommendation within 10 days of its adoption by the Commission. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

When taking the decision on non-compliance referred to in the fourth and fifth subparagraphs, the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.

The Council shall submit a formal report to the European Council on the decisions taken accordingly.

3. A deviation from the medium-term budgetary objective or from 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, in particular, include the following criteria:

(a) 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 a single year or at least 0,25 % of GDP on average per year in two consecutive years;

(b) 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 a 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 that objective over the programme period.

Similarly, the deviation may be left out of consideration 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 Union as a whole, on the condition that this does not endanger fiscal sustainability in the medium term.’

(14) The following section is inserted:

‘SECTION 3A

#### PRINCIPLE OF STATISTICAL INDEPENDENCE

##### Article 10a

With a view to 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.

(\*) OJ L 87, 31.3.2009, p. 164.’

(15) The following Article is inserted:

##### ‘Article -11

1. The Commission shall ensure a permanent dialogue with the relevant 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 economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.

2. The Commission may undertake enhanced surveillance missions in Member States which are the subject of recommendations issued under Article 6(2) or Article 10(2) for the purposes of on-site monitoring. The Member States concerned shall provide all necessary information for the preparation and the conduct of those missions.

3. When the Member State concerned is a participating Member State or a Member State that is participating in ERM2, 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 missions referred to in paragraph 2 and, if appropriate, may decide to make its findings public.

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

(16) The following Article is inserted:

##### ‘Article 12a

1. By 14 December 2014 and every 5 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, particularly whether the provisions governing decision-making have proved sufficiently robust;

(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, including to the decision-making procedures.

(17) All references to 'Article 99 of the Treaty' shall be replaced throughout the Regulation by references to 'Article 121 TFEU'.

Article 2

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

This Regulation shall enter into force on the 20th day following 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 Strasbourg, 16 November 2011.

For the European Parliament  
The President  
J. BUZEK

For the Council  
The President  
W. SZCZUKA

**REGULATION (EU) No 1176/2011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**  
**of 16 November 2011**  
**on the prevention and correction of macroeconomic imbalances**

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 <sup>(1)</sup>,

Having regard to the opinion of the European Economic and Social Committee <sup>(2)</sup>,

Acting in accordance with the ordinary legislative procedure <sup>(3)</sup>,

Whereas:

- (1) The coordination of the economic policies of the Member States within the Union should be developed in the context of the broad economic policy guidelines and the employment guidelines, as provided for by the Treaty on the Functioning of the European Union (TFEU), and should entail compliance with the guiding principles of stable prices, sound and sustainable public finances and monetary conditions and a sustainable balance of payments.
- (2) There is a need to draw lessons from the first decade of functioning of the economic and monetary union and, in particular, for improved economic governance in the Union built on stronger national ownership.
- (3) Achieving and maintaining a dynamic internal market should be considered an element of the proper and smooth functioning of the economic and monetary union.
- (4) The improved economic governance framework should rely on several interlinked and coherent policies for sustainable growth and jobs, 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 Stability and Growth Pact (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 (ESRB).

- (5) 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 or decision in accordance with Article 7(2), Article 8(2) or Article 10(4) of this Regulation. The Member State's participation in such an exchange of views is voluntary.
- (6) 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.
- (7) In particular, surveillance of the economic policies of the Member States should be broadened beyond budgetary surveillance to include a more detailed and formal framework to prevent excessive macroeconomic imbalances and to help the Member States affected to establish corrective plans before divergences become entrenched. Such broadening of the surveillance of economic policies should take place in parallel with a deepening of fiscal surveillance.
- (8) To help correct such excessive macroeconomic imbalances, it is necessary to lay down a detailed procedure in legislation.
- (9) It is appropriate to supplement the multilateral surveillance procedure referred to in paragraphs 3 and 4 of Article 121 TFEU with specific rules for the detection of macroeconomic imbalances, as well as the prevention and correction of excessive macroeconomic imbalances within the Union. It is essential that the procedure should be aligned with the annual multilateral surveillance cycle.

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

<sup>(2)</sup> OJ C 218, 23.7.2011, p. 53.

<sup>(3)</sup> Position of the European Parliament of 28 September 2011 (not yet published in the Official Journal) and decision of the Council of 8 November 2011.



- (10) That procedure should establish an alert mechanism for the early detection of emerging macroeconomic imbalances. It should be based on the use of an indicative and transparent 'scoreboard' comprising indicative thresholds, combined with economic judgement. This judgement should take into account, inter alia, nominal and real convergence inside and outside the euro area.
- (11) In order to function efficiently as an element of the alert mechanism, the scoreboard should consist of a limited set of economic, financial and structural indicators relevant to the detection of macroeconomic imbalances, with corresponding indicative thresholds. The indicators and thresholds should be adjusted when necessary, in order to adapt to the changing nature of macroeconomic imbalances due, inter alia, to evolving threats to macroeconomic stability, and in order to take into account the enhanced availability of relevant statistics. The indicators should not be understood as goals for economic policy in themselves but as tools to take account of the evolving nature of the macroeconomic imbalances within the Union.
- (12) The Commission should closely cooperate with the European Parliament and the Council when drawing up the scoreboard and the set of macroeconomic and macrofinancial indicators for Member States. The Commission should present suggestions for comments to the competent committees of the European Parliament and of the Council on plans to establish and adjust the indicators and thresholds. The Commission should inform the European Parliament and the Council of any changes to the indicators and thresholds and explain its reasons for suggesting such changes.
- (13) In developing the scoreboard, due consideration should also be given to catering for heterogeneous economic circumstances, including catching-up effects.
- (14) The crossing of one or more indicative thresholds need not necessarily imply that macroeconomic imbalances are emerging, as economic policy-making should take into account interlinks between macroeconomic variables. Conclusions should not be drawn from an automatic reading of the scoreboard: economic judgement should ensure that all pieces of information, whether from the scoreboard or not, are put in perspective and become part of a comprehensive analysis.
- (15) Based on the multilateral surveillance procedure and the alert mechanism, or in the event of unexpected, significant economic developments that require urgent analysis for the purpose of this Regulation, the Commission should identify the Member States to be subject to an in-depth review. The in-depth review should be undertaken without the presumption that an imbalance exists and should encompass a thorough analysis of sources of imbalances in the Member State under review, taking due account of country-specific economic conditions and circumstances and of a wider set of analytical tools, indicators and qualitative information of country-specific nature. When the Commission is undertaking the in-depth review, the Member State should cooperate to ensure that the information available to the Commission is as complete and correct as possible. Furthermore, the Commission should give due consideration to any other information which, in the opinion of the Member State concerned is relevant, and which the Member State has put forward to the Council and to the Commission.
- (16) The in-depth review should be discussed within the Council, and within the Eurogroup for the Member States whose currency is the euro. The in-depth review should take into account, where appropriate, Council recommendations or invitations addressed to Member States under review adopted in accordance with Articles 121, 126 and 148 TFEU and under Articles 6, 7, 8 and 10 of this Regulation, and the policy intentions of the Member State under review, as reflected in its national reform programmes, as well as international best practices as regards indicators and methodologies. When the Commission decides to undertake an in-depth review in the event of significant and unexpected economic developments that require urgent analysis, it should inform the Member States concerned.
- (17) When assessing macroeconomic imbalances, account should be taken of their severity and their potential negative economic and financial spill-over effects which aggravate the vulnerability of the Union economy and are a threat to the smooth functioning of the economic and monetary union. Actions to address macroeconomic imbalances and divergences in competitiveness are required in all Member States, particularly in the euro area. However, the nature, importance and urgency of the policy challenges may differ significantly depending on the Member States concerned. Given vulnerabilities and the magnitude of the adjustment required, the need for policy action is particularly pressing in Member States showing persistently large current-account deficits and competitiveness losses. Furthermore, in Member States that accumulate large current-account surpluses, policies should aim to identify and implement measures that help strengthen their domestic demand and growth potential.

- (18) The economic adjustment capacity and the track record of the Member State concerned as regards compliance with earlier recommendations issued under this Regulation and other recommendations issued under Article 121 TFEU as part of multilateral surveillance, in particular the broad guidelines for the economic policies of the Member States and of the Union, should also be considered.
- (19) A procedure to monitor and correct adverse macroeconomic imbalances, with preventive and corrective elements, will require enhanced surveillance tools based on those used in the multilateral surveillance procedure. This could include enhanced surveillance missions to Member States by the Commission, in liaison with the European Central Bank (ECB) for Member States whose currency is the euro or Member States 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<sup>(1)</sup> (ERM II), and additional reporting by Member States in case of severe imbalances, including imbalances that jeopardise the proper functioning of the economic and monetary union. Social partners and other national stakeholders should, where appropriate, be involved in the dialogue.
- (20) If macroeconomic imbalances are identified, recommendations, where appropriate involving the relevant committees, should be addressed to the Member State concerned to provide guidance on appropriate policy responses. The policy response of the Member State concerned should be timely and should use all available policy instruments under the control of public authorities. Where appropriate, relevant national stakeholders, including social partners, should also be involved in accordance with the TFEU and national legal and political arrangements. The policy response should be tailored to the specific environment and circumstances of the Member State concerned and should cover the main economic policy areas, potentially including fiscal and wage policies, labour markets, product and services markets and financial sector regulation. The commitments under ERM II should be taken into account.
- (21) The warnings and recommendations by the ESRB to Member States or to the Union address risks of a macrofinancial nature. These should also warrant appropriate follow-up action by the Commission in the context of the surveillance of macroeconomic imbalances, where appropriate. The independence and confidentiality of the ESRB should be strictly observed.
- (22) If severe macroeconomic imbalances are identified, including imbalances that jeopardise the proper functioning of the economic and monetary union, an excessive imbalance procedure should be initiated that may include issuing recommendations to the Member State, enhanced surveillance and monitoring requirements and, in respect of Member States whose currency is the euro, the possibility of enforcement in accordance with Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area<sup>(2)</sup> in the event of sustained failure to take corrective action.
- (23) A Member State subject to the excessive imbalance procedure should establish a corrective action plan setting out details of its policies designed to implement the Council's recommendations. The corrective action plan should include a timetable for implementing the measures envisaged. It should be endorsed by a recommendation of the Council. That recommendation should be transmitted to the European Parliament.
- (24) The power to adopt individual decisions establishing non-compliance with the recommendations adopted by the Council within the framework of the corrective action plan 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 recommendations adopted by the Council on the basis of Article 121(4) TFEU in the context of the corrective action plan.
- (25) In applying this Regulation, the Council and the Commission should fully respect the role of national parliaments and social partners, as well as differences in national systems, such as the systems for wage formation.
- (26) If the Council considers that a Member State is no longer affected by an excessive macroeconomic imbalance, the excessive imbalance procedure should be closed following the Council's abrogation, on a recommendation from the Commission, of its relevant recommendations. That abrogation should be based on a comprehensive analysis by the Commission showing that the Member State has acted in line with the relevant Council recommendations and that the underlying causes and associated risks identified in the Council recommendation opening the excessive imbalance procedure no longer exist, taking account, inter alia, of macroeconomic developments, prospects and spill-over effects. The closure of the excessive imbalance procedure should be made public.

<sup>(1)</sup> OJ C 73, 25.3.2006, p. 21.

<sup>(2)</sup> See page 8 of this Official Journal.

(27) Since the objective of this Regulation, namely the establishment of an effective framework for the detection of macroeconomic imbalances and the prevention and correction of excessive macroeconomic imbalances, cannot be sufficiently achieved by the Member States because of the deep trade and financial interlinks between Member States and the spill-over effects of national economic policies on the Union and the euro area as a whole, and can therefore be better achieved at the level of the Union, the Union may adopt measures in accordance with the principle of subsidiarity, as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary to achieve that objective,

HAVE ADOPTED THIS REGULATION:

#### CHAPTER I

##### SUBJECT MATTER AND DEFINITIONS

###### Article 1

###### Subject matter

1. This Regulation sets out detailed rules for the detection of macroeconomic imbalances, as well as the prevention and correction of excessive macroeconomic imbalances within the Union.

2. This Regulation shall be applied in the context of the European Semester as set out in 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 <sup>(1)</sup>.

3. The application of this Regulation shall fully observe Article 152 TFEU, and the recommendations issued under this Regulation shall respect national practices and institutions for wage formation. This Regulation takes into account Article 28 of the Charter of Fundamental Rights of the European Union, and accordingly does not affect the right to negotiate, conclude or enforce collective agreements or to take collective action in accordance with national law and practices.

###### Article 2

###### Definitions

For the purposes of this Regulation:

(1) 'imbalances' means any trend giving rise to macroeconomic developments which are adversely affecting, or have the potential adversely to affect, the proper functioning of the economy of a Member State or of the economic and monetary union, or of the Union as a whole;

<sup>(1)</sup> See page 12 of this Official Journal.

(2) 'excessive imbalances' means severe imbalances, including imbalances that jeopardise or risks jeopardising the proper functioning of the economic and monetary union.

#### CHAPTER II

##### DETECTION OF IMBALANCES

###### Article 3

###### Alert mechanism

1. An alert mechanism shall be established to facilitate the early identification and the monitoring of imbalances. The Commission shall prepare an annual report containing a qualitative economic and financial assessment based on a scoreboard with a set of indicators the values of which are compared to their indicative thresholds, as provided for in Article 4. The annual report, including the values of the indicators of the scoreboard, shall be made public.

2. The Commission's annual report shall contain an economic and financial assessment putting the movement of the indicators into perspective, drawing, if necessary, on other relevant economic and financial indicators when assessing the evolution of imbalances. Conclusions shall not be drawn from a mechanical reading of the scoreboard indicators. The assessment shall take into account the evolution of imbalances in the Union and in the euro area. The report shall also indicate whether the crossing of thresholds in one or more Member States signifies the possible emergence of imbalances. The assessment of Member States showing large current-account deficits may differ from that of Member States that accumulate large current-account surpluses.

3. The annual report shall identify Member States that the Commission considers may be affected by, or may be at risk of being affected by, imbalances.

4. The Commission shall transmit the annual report to the European Parliament, the Council and the European Economic and Social Committee in a timely manner.

5. As part of the multilateral surveillance in accordance with Article 121(3) TFEU, the Council shall discuss and carry out an overall assessment of the Commission's annual report. The Eurogroup shall discuss the report as far as it relates to Member States whose currency is the euro.

###### Article 4

###### Scoreboard

1. The scoreboard comprising the set of indicators, shall be used as a tool to facilitate early identification and monitoring of imbalances.

2. The scoreboard shall comprise a small number of relevant, practical, simple, measurable and available macroeconomic and macrofinancial indicators for Member States. It shall allow for the early identification of macroeconomic imbalances that emerge in the short-term and imbalances that arise due to structural and long-term trends.

3. The scoreboard shall, *inter alia*, encompass indicators which are useful in the early identification of:

- (a) internal imbalances, including those that can arise from public and private indebtedness; financial and asset market developments, including housing; the evolution of private sector credit flow; and the evolution of unemployment;
- (b) external imbalances, including those that can arise from the evolution of current account and net investment positions of Member States; real effective exchange rates; export market shares; changes in price and cost developments; and non-price competitiveness, taking into account the different components of productivity.

4. In undertaking its economic reading of the scoreboard in the alert mechanism, the Commission shall pay close attention to developments in the real economy, including economic growth, employment and unemployment performance, nominal and real convergence inside and outside the euro area, productivity developments and its relevant drivers such as research and development and foreign and domestic investment, as well as sectoral developments including energy, which affect GDP and current account performance.

The scoreboard shall also include indicative thresholds for the indicators, to serve as alert levels. The choice of indicators and thresholds shall be conducive towards promoting competitiveness in the Union.

The scoreboard of indicators shall have upper and lower alert thresholds unless inappropriate, which shall be differentiated for euro and non-euro area Member States if justified by specific features of the monetary union and relevant economic circumstances. In developing the scoreboard, due consideration shall be given to catering for heterogeneous economic circumstances, including catching-up effects.

5. The work of the ESRB shall be taken into due consideration in the drafting of indicators relevant to financial market stability. The Commission shall invite the ESRB to provide its views regarding draft indicators, relevant to financial market stability.

6. The Commission shall make the set of indicators and the thresholds in the scoreboard public.

7. The Commission shall assess on a regular basis the appropriateness of the scoreboard, including the composition of

indicators, the thresholds set and the methodology used, and it shall adjust or modify them where necessary. The Commission shall make changes in the underlying methodology and composition of the scoreboard and the associated thresholds public.

8. The Commission shall update the values for the indicators on the scoreboard at least on an annual basis.

#### Article 5

##### In-depth review

1. Taking due account of the discussions within the Council and the Eurogroup referred to in Article 3(5), or in the event of unexpected, significant economic developments that require urgent analysis for the purpose of this Regulation, the Commission shall undertake an in-depth review for each Member State that it considers may be affected by, or may be at risk of being affected by, imbalances.

The in-depth review shall build on a detailed analysis of country-specific circumstances, including the different starting positions across Member States; it shall examine a broad range of economic variables and involve the use of analytical tools and qualitative information of country-specific nature. It shall acknowledge the national specificities regarding industrial relations and social dialogue.

The Commission shall also give due consideration to any other information which the Member State concerned considers to be relevant and has communicated to the Commission.

The Commission shall undertake its in-depth review in conjunction with surveillance missions to the Member State concerned in accordance with Article 13.

2. The Commission's in-depth review shall include an evaluation of whether the Member State in question is affected by imbalances, and of whether these imbalances constitute excessive imbalances. It shall examine the origin of the detected imbalances against the background of prevailing economic circumstances, including the deep trade and financial interlinks between Member States and the spill-over effects of national economic policies. The in-depth review shall analyse relevant developments related to the Union strategy for growth and jobs. It shall also consider the relevance of economic developments in the Union and the euro area as a whole. It shall, in particular, take into account:

- (a) where appropriate, Council recommendations or invitations addressed to Member States under review adopted in accordance with Articles 121, 126 and 148 TFEU and under Articles 6, 7, 8 and 10 of this Regulation;



(b) the policy intentions of the Member State under review, as reflected in its national reform programmes and, where appropriate, in its stability or convergence programme;

(c) any warnings or recommendations from the ESRB on systemic risks addressed to, or being relevant to, the Member State under review. The confidentiality regime of the ESRB shall be observed.

3. The Commission shall inform the European Parliament and the Council of the results of the in-depth review and shall make them public.

#### Article 6

##### Preventive action

1. If, on the basis of the in-depth review referred to in Article 5, the Commission considers that a Member State is experiencing imbalances, it shall inform the European Parliament, the Council and the Eurogroup accordingly. The Council, on a recommendation from the Commission, may address the necessary recommendations to the Member State concerned, in accordance with the procedure set out in Article 121(2) TFEU.

2. The Council shall inform the European Parliament of the recommendation and shall make it public.

3. The recommendations of the Council and of the Commission shall fully observe Article 152 TFEU and shall take into account Article 28 of the Charter of Fundamental Rights of the European Union.

4. The Council shall review its recommendation annually in the context of the European Semester and may, if appropriate, adjust it in accordance with paragraph 1.

#### CHAPTER III

##### EXCESSIVE IMBALANCE PROCEDURE

#### Article 7

##### Opening of the excessive imbalance procedure

1. If, on the basis of the in-depth review referred to in Article 5, the Commission considers that the Member State concerned is affected by excessive imbalances, it shall inform the European Parliament, the Council and the Eurogroup accordingly.

The Commission shall also inform the relevant European Supervisory Authorities and the ESRB. The ESRB is invited to take the steps that it deems necessary.

2. The Council, on a recommendation from the Commission, may, in accordance with Article 121(4) TFEU, adopt a recommendation establishing the existence of an excessive imbalance

and recommending that the Member State concerned take corrective action.

The Council's recommendation shall set out the nature and implications of the imbalances and shall specify a set of policy recommendations to be followed and a deadline within which the Member State concerned is to submit a corrective action plan. The Council may, as provided for in Article 121(4) TFEU, make its recommendation public.

#### Article 8

##### Corrective action plan

1. Any Member State for which an excessive imbalance procedure is opened shall submit a corrective action plan to the Council and the Commission based on, and within a deadline to be defined in, the Council's recommendation referred to in Article 7(2). The corrective action plan shall set out the specific policy actions the Member State concerned has implemented or intends to implement and shall include a timetable for those actions. The corrective action plan shall take into account the economic and social impact of the policy actions and shall be consistent with the broad economic policy guidelines and the employment guidelines.

2. The Council, on the basis of a Commission report, shall assess the corrective action plan within 2 months of submission of that plan. If, upon a Commission recommendation, the Council considers the corrective action plan sufficient, it shall endorse the plan by way of a recommendation listing the specific actions required and the deadlines for taking them, and shall establish a timetable for surveillance, paying due attention to the transmission channels and recognising that there may be long lags between the adoption of the corrective action and the actual resolution of imbalances.

3. If, upon a Commission recommendation, the Council considers the actions or the timetable envisaged in the corrective action plan insufficient, it shall adopt a recommendation addressed to the Member State to submit, within 2 months as a rule, a new corrective action plan. The Council shall examine the new corrective action plan in accordance with the procedure laid down in this Article.

4. The corrective action plan, the Commission report and the Council recommendation referred to in paragraphs 2 and 3 shall be made public.

#### Article 9

##### Monitoring of corrective action

1. The Commission shall monitor implementation of the Council's recommendation adopted under Article 8(2). For that purpose, the Member State shall present to the Council and the Commission at regular intervals progress reports, the frequency of which shall be established by the Council in the recommendation referred to in Article 8(2).

2. The Council shall make Member States' progress reports public.

3. The Commission may carry out enhanced surveillance missions to the Member State concerned, in order to monitor the implementation of the corrective action plan, in liaison with the ECB when those missions concern Member States whose currency is the euro or Member States participating in ERM II. The Commission shall, where appropriate, involve social partners and other national stakeholders in a dialogue during those missions.

4. In the event of relevant major changes in economic circumstances, the Council, on a recommendation from the Commission, may amend the recommendations adopted under Article 8(2) in accordance with the procedure laid down in that Article. Where appropriate, the Council shall invite the Member State concerned to submit a revised corrective action plan, and shall assess that revised corrective action plan in accordance with the procedure laid down in Article 8.

#### Article 10

##### Assessment of corrective action

1. On the basis of a Commission report, the Council shall assess whether the Member State concerned has taken the recommended corrective action in accordance with the Council's recommendation issued under Article 8(2).

2. The Commission shall make its report public.

3. The Council shall make its assessment by the deadline set by the Council in its recommendations adopted in accordance with Article 8(2).

4. Where it considers that the Member State has not taken the recommended corrective action, the Council, on a recommendation from the Commission, shall adopt a decision establishing non-compliance, together with a recommendation setting new deadlines for taking corrective action. In this case, the Council shall inform the European Council, and shall make public the conclusions of the surveillance missions referred to in Article 9(3).

The Commission's recommendation on establishing non-compliance shall be deemed to have been adopted by the Council, unless it decides, by qualified majority, to reject the recommendation within 10 days of its adoption by the Commission. The Member State concerned may request that a meeting of the Council be convened within that period to take a vote on the decision.

5. Where the Council, on the basis of the Commission's report referred to in paragraph 1, considers that the Member State has taken the corrective action recommended in accordance with Article 8(2), the excessive imbalance procedure shall be considered to be on track and shall be

held in abeyance. Nevertheless, monitoring shall continue in accordance with the timetable set out in the recommendation under Article 8(2). The Council shall make public its reasons for holding the procedure in a position of abeyance and recognising the corrective policy actions taken by the Member State concerned.

#### Article 11

##### Closing of the excessive imbalance procedure

The Council, on a recommendation from the Commission, shall abrogate recommendations issued under Articles 7, 8 or 10 as soon as it considers that the Member State concerned is no longer affected by excessive imbalances as outlined in the recommendation referred to in Article 7(2). The Council shall make a public statement reflecting that fact.

#### Article 12

##### Voting within the Council

For the measures referred to in Articles 7 to 11, the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.

#### CHAPTER IV

##### FINAL PROVISIONS

#### Article 13

##### Surveillance missions

1. The Commission shall ensure a permanent dialogue with the 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 assessing the economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.

2. The Commission may undertake enhanced surveillance missions for Member States which are the subject of a recommendation as to the existence of an excessive imbalance position under Article 7(2) for the purposes of on-site monitoring.

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

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

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

*Article 14***Economic Dialogue**

1. In order to enhance the dialogue between the institutions of the Union, 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 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) the conclusions of the European Council concerning orientations for economic policies in the context of the European Semester;
  - (d) the results of multilateral surveillance carried out under this Regulation;
  - (e) the conclusions of the European Council concerning the orientations for, and results of, multilateral surveillance;
  - (f) a review of the conduct of the multilateral surveillance at the end of the European Semester;
  - (g) the recommendations taken pursuant to Article 7(2), Article 8(2) and Article 10(4) of this Regulation.
2. The competent committee of the European Parliament may offer the opportunity to participate in an exchange of

views to the Member State which is the subject of a Council recommendation or decision under Article 7(2), Article 8(2) or Article 10(4).

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

*Article 15***Annual Reporting**

The Commission shall report annually on the application of this Regulation, including the updating of the scoreboard as set out in Article 4 and shall present its findings to the European Parliament and to the Council in the context of the European Semester.

*Article 16***Review**

1. By 14 December 2014 and every 5 years thereafter, the Commission shall review and report on the application of this Regulation.

Those reports 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 TFEU.

Where appropriate, those reports shall be accompanied by a proposal for amendments to this Regulation.

2. The Commission shall send the reports referred to in paragraph 1 to the European Parliament and to the Council.

*Article 17***Entry into force**

This Regulation shall enter into force on the 20th day following 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 Strasbourg, 16 November 2011.

*For the European Parliament*  
*The President*  
J. BUZEK

*For the Council*  
*The President*  
W. SZCZUKA

**COUNCIL REGULATION (EU) No 1177/2011****of 8 November 2011****amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the second subparagraph of Article 126(14) 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 Parliament <sup>(1)</sup>,

Having regard to the opinion of the European Central Bank <sup>(2)</sup>,

Acting in accordance with a special legislative procedure,

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 <sup>(3)</sup>, Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure <sup>(4)</sup> and the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact <sup>(5)</sup>. Regulations (EC) No 1466/97 and (EC) No 1467/97 were amended by Regulations (EC) No 1055/2005 <sup>(6)</sup> and (EC) No

1056/2005 <sup>(7)</sup> respectively. In addition, the Council Report of 20 March 2005 on 'Improving the implementation of the Stability and Growth Pact' <sup>(8)</sup> was adopted.

- (3) The SGP is based on the objective of sound and sustainable 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) 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 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.
- (5) The common framework for economic governance needs to be enhanced, including improved budgetary surveillance, in line with the high degree of integration between Member States' economies within the Union, and particularly within the euro area.
- (6) The improved economic governance framework should rely on several interlinked and coherent policies for sustainable growth and jobs, 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, 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.
- (7) Achieving and maintaining a dynamic internal market should be considered an element of the proper and smooth functioning of the economic and monetary union.

<sup>(1)</sup> European Parliament opinion of 28 September 2011 (not yet published in the Official Journal).

<sup>(2)</sup> OJ C 150, 20.5.2011, p. 1.

<sup>(3)</sup> OJ L 209, 2.8.1997, p. 1.

<sup>(4)</sup> OJ L 209, 2.8.1997, p. 6.

<sup>(5)</sup> OJ C 236, 2.8.1997, p. 1.

<sup>(6)</sup> Council Regulation (EC) No 1055/2005 of 27 June 2005 amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 174, 7.7.2005, p. 1).

<sup>(7)</sup> Council Regulation (EC) No 1056/2005 of 27 June 2005 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 174, 7.7.2005, p. 5).

<sup>(8)</sup> See document 7423/3/05 on <http://www.consilium.europa.eu/documents.aspx?lang=en>



- (8) The SGP and the complete economic governance framework should complement and support the Union strategy for growth and jobs. The interlinks between different strands should not provide for exemptions from the provisions of the SGP.
- (9) 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 this 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 to which the Council has addressed a decision under Article 126(6) TFEU, a recommendation under Article 126(7) TFEU, a notice under Article 126(9) TFEU or a decision under Article 126(11) TFEU. The Member State's participation in such an exchange of views is voluntary.
- (10) 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.
- (11) The Council and the Commission should, when applying this Regulation, take into account, as appropriate, all relevant factors and the economic and budgetary situation of the Member States concerned.
- (12) The rules on budgetary discipline should be strengthened, in particular by giving a more prominent role to the level and evolution of debt and to overall sustainability. The mechanisms to ensure compliance with, and enforcement of, those rules should also be strengthened.
- (13) Implementing the existing excessive deficit procedure on the basis of both the deficit criterion and the debt criterion requires a numerical benchmark, which takes into account the business cycle, against which to assess whether the ratio of the government debt to gross domestic product (GDP) is sufficiently diminishing and is approaching the reference value at a satisfactory pace.
- A transitional period should be introduced in order to allow Member States subject to an excessive deficit procedure at the date of adoption of this Regulation to adapt their policies to the numerical benchmark for debt reduction. This should also apply to Member States which are subject to a Union or International Monetary Fund adjustment programme.
- (14) Non-compliance with the numerical benchmark for debt reduction should not be sufficient to establish the existence of an excessive deficit, which should take into account the whole range of relevant factors covered by the Commission's report under Article 126(3) TFEU. In particular, the assessment of the effect of the cycle and the composition of the stock-flow adjustment on debt developments may be sufficient to avoid that the existence of an excessive deficit be established on the basis of the debt criterion.
- (15) In establishing the existence of an excessive deficit based on the deficit criterion and the steps leading to it, there is a need to take into account the whole range of relevant factors covered by the Commission's report under Article 126(3) TFEU if the ratio of government debt to GDP does not exceed the reference value.
- (16) In taking into account systemic pension reforms among the relevant factors, the central consideration should be whether those reforms enhance the long-term sustainability of the overall pension system, while not increasing the risks to the medium-term budgetary position.
- (17) The Commission's report under Article 126(3) TFEU should consider appropriately the quality of the national budgetary framework, as that plays a crucial role in supporting fiscal consolidation and sustainable public finances. That consideration should include the minimum requirements as laid down in Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States<sup>(1)</sup> and other agreed desirable requirements for fiscal discipline.
- (18) In order to support the monitoring of compliance with Council recommendations and notices for the correction of situations of excessive deficit, there is a need that these specify annual budgetary targets consistent with the required fiscal improvement in cyclically adjusted terms, net of one-off and temporary measures. In that context, the 0,5 % of GDP annual benchmark should be understood as an annual average.
- (19) The assessment of effective action will benefit from taking compliance with general government expenditure targets as a reference, in conjunction with the implementation of planned specific revenue measures.
- (20) In assessing the case for an extension of the deadline for correcting the excessive deficit, particular consideration should be given to severe economic downturns in the euro area or in the Union as a whole, provided that this does not endanger fiscal sustainability in the medium term.
- (1) See page 41 of this Official Journal

- (21) It is appropriate to step up the application of the financial sanctions provided for in Article 126(11) TFEU so that they constitute a real incentive for compliance with the notices under Article 126(9) TFEU.
- (22) In order to ensure compliance with the fiscal surveillance framework of the Union for Member States whose currency is the euro, rules-based sanctions should be designed on the basis of Article 136 TFEU, ensuring fair, timely and effective mechanisms for compliance with the SGP.
- (23) Fines referred to in this Regulation shall constitute other revenue, as referred to in Article 311 TFEU, and should be assigned to stability mechanisms to provide financial assistance, created by Member States whose currency is the euro in order to safeguard the stability of the euro area as a whole.
- (24) References contained in Regulation (EC) No 1467/97 should take account of the new Article numbering of the Treaty on the Functioning of the European Union and to the replacement of Council Regulation (EC) No 3605/93 <sup>(1)</sup> by Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community <sup>(2)</sup>.
- (25) Regulation (EC) No 1467/97 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

#### Article 1

Regulation (EC) No 1467/97 is hereby amended as follows:

- (1) Article 1 is replaced by the following:

##### 'Article 1

1. This Regulation lays down the provisions for speeding up and clarifying the excessive deficit procedure. The objective of the excessive deficit procedure is to deter excessive government deficits and, if they occur, to further prompt their correction, where compliance with the budgetary discipline is examined on the basis of the government deficit and government debt criteria.

2. For the purposes of this Regulation, "participating Member States" shall mean those Member States whose currency is the euro.;

- (2) Article 2 is amended as follows:

- (a) in paragraph 1, the first subparagraph is replaced by the following:

'1. The excess of a government deficit over the reference value shall be considered exceptional, in accordance with the second indent of point (a) of Article 126(2) of the Treaty on the Functioning of the European Union (TFEU), when resulting from an unusual event outside the control of the Member State concerned and with a major impact on the financial position of general government, or when resulting from a severe economic downturn.;

- (b) the following paragraph is inserted:

'1a. When it exceeds the reference value, the ratio of the government debt to gross domestic product (GDP) shall be considered sufficiently diminishing and approaching the reference value at a satisfactory pace in accordance with point (b) of Article 126(2) TFEU if the differential with respect to the reference value has decreased over the previous three years at an average rate of one twentieth per year as a benchmark, based on changes over the last three years for which the data is available.

The requirement under the debt criterion shall also be considered to be fulfilled if the budgetary forecasts of the Commission indicate that the required reduction in the differential will occur over the three-year period encompassing the two years following the final year for which the data is available. For a Member State that is subject to an excessive deficit procedure on 8 November 2011 and for a period of three years from the correction of the excessive deficit, the requirement under the debt criterion shall be considered fulfilled if the Member State concerned makes sufficient progress towards compliance as assessed in the opinion adopted by the Council on its stability or convergence programme.

In implementing the debt ratio adjustment benchmark, account shall be taken of the influence of the cycle on the pace of debt reduction.;

- (c) paragraphs 3 to 7 are replaced by the following:

'3. The Commission, when preparing a report under Article 126(3) TFEU, shall take into account all relevant factors as indicated in that Article, in so far as they significantly affect the assessment of

<sup>(1)</sup> Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (OJ L 332, 31.12.1993, p. 7).

<sup>(2)</sup> OJ L 145, 10.6.2009, p. 1.

compliance with the deficit and debt criteria by the Member State concerned. The report shall reflect, as appropriate:

- (a) the developments in the medium-term economic position, in particular potential growth, including the various contributions provided by labour, capital accumulation and total factor productivity, cyclical developments, and the private sector net savings position;
- (b) the developments in the medium-term budgetary positions, including, in particular, the record of adjustment towards the medium-term budgetary objective, the level of the primary balance and developments in primary expenditure, both current and capital, the implementation of policies in the context of the prevention and correction of excessive macroeconomic imbalances, the implementation of policies in the context of the common growth strategy of the Union, and the overall quality of public finances, in particular the effectiveness of national budgetary frameworks;
- (c) the developments in the medium-term government debt position, its dynamics and sustainability, including, in particular, risk factors including the maturity structure and currency denomination of the debt, stock-flow adjustment and its composition, accumulated reserves and other financial assets, guarantees, in particular those linked to the financial sector, and any implicit liabilities related to ageing and private debt, to the extent that it may represent a contingent implicit liability for the government.

The Commission shall give due and express consideration to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with deficit and debt criteria and which the Member State has put forward to the Council and the Commission. In that context, particular consideration shall be given to financial contributions to fostering international solidarity and achieving the policy goals of the Union, the debt incurred in the form of bilateral and multilateral support between Member States in the context of safeguarding financial stability, and the debt related to financial stabilisation operations during major financial disturbances.

4. The Council and the Commission shall make a balanced overall assessment of all the relevant factors, specifically, the extent to which they affect the assessment of compliance with the deficit and/or the debt criteria as aggravating or mitigating factors. When assessing compliance on the basis of the deficit criterion, if the ratio of the government debt to GDP exceeds the reference value, those factors shall be taken into account in the steps leading to the decision on the

existence of an excessive deficit provided for in paragraphs 4, 5 and 6 of Article 126 TFEU only if the double condition of the overarching principle — that, before these relevant factors are taken into account, the general government deficit remains close to the reference value and its excess over the reference value is temporary — is fully met.

However, those factors shall be taken into account in the steps leading to the decision on the existence of an excessive deficit when assessing compliance on the basis of the debt criterion.

5. When assessing compliance with the deficit and debt criterion and in the subsequent steps of the excessive deficit procedure, the Council and the Commission shall give due consideration to the implementation of pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar and the net cost of the publicly managed pillar. In particular, consideration shall be given to the features of the overall pension system created by the reform, namely whether it promotes long-term sustainability while not increasing risks for the medium-term budgetary position.

6. If the Council, acting under Article 126(6) TFEU, decides that an excessive deficit exists in a Member State, the Council and the Commission shall, in the subsequent procedural steps of that Article of the TFEU, take into account the relevant factors referred to in paragraph 3 of this Article, as they affect the situation of the Member State concerned, including as specified in Article 3(5) and Article 5(2) of this Regulation, in particular in establishing a deadline for the correction of the excessive deficit and eventually extending that deadline. However, those relevant factors shall not be taken into account for the decision of the Council under Article 126(12) TFEU on the abrogation of some or all of its decisions under paragraphs 6 to 9 and 11 of Article 126 TFEU.

7. In the case of Member States where the excess of the deficit over the reference value reflects the implementation of a pension reform introducing a multi-pillar system that includes a mandatory, fully funded pillar, the Council and the Commission shall also consider the cost of the reform when assessing developments of deficit figures in excessive deficit procedures as long as the deficit does not significantly exceed a level that can be considered close to the reference value, and the debt ratio does not exceed the reference value, provided that overall fiscal sustainability is maintained. The net cost shall be taken into account also for the decision of the Council under Article 126(12) TFEU on the abrogation of some or all of its decisions under paragraphs 6 to 9 and 11 of Article 126 TFEU, if the deficit has declined substantially and continuously and has reached a level that comes close to the reference value.’;

(3) the following section is inserted:

‘SECTION 1A

**ECONOMIC DIALOGUE**

*Article 2a*

1. In order to enhance the dialogue between the institutions of the Union, 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 Council decisions under Article 126(6) TFEU, Council recommendations under Article 126(7) TFEU, notices under Article 126(9) TFEU, or Council decisions under Article 126(11) TFEU.

The Council is, as a rule, expected to follow the recommendations and proposals of the Commission or explain its position publicly.

The competent committee of the European Parliament may offer the opportunity to the Member State concerned by such decisions, recommendations or notices to participate in an exchange of views.

2. The Council and the Commission shall regularly inform the European Parliament of the application of this Regulation.’;

(4) Article 3 is amended as follows:

(a) paragraph 2 is replaced by the following:

‘2. Taking fully into account the opinion referred to in paragraph 1, the Commission, if it considers that an excessive deficit exists, shall address an opinion and a proposal to the Council in accordance with paragraphs 5 and 6 of Article 126 TFEU and shall inform the European Parliament thereof.’;

(b) in paragraph 3, the reference to ‘Article 4(2) and (3) of Regulation (EC) No 3605/93’ is replaced by a reference to ‘Article 3(2) and (3) of Regulation (EC) No 479/2009’;

(c) paragraphs 4 and 5 are replaced by the following:

‘4. The Council recommendation made in accordance with Article 126(7) TFEU shall establish a maximum deadline of six months for effective action to be taken by the Member State concerned. When

warranted by the seriousness of the situation, the deadline for effective action may be three months. The Council recommendation shall also establish a deadline for the correction of the excessive deficit, which shall be completed in the year following its identification unless there are special circumstances. In its recommendation, the Council shall request that the Member State achieve annual budgetary targets which, on the basis of the forecast underpinning the recommendation, are consistent with a minimum annual improvement of at least 0,5 % of GDP as a benchmark, in its cyclically adjusted balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the recommendation.

4a. Within the deadline provided for in paragraph 4, the Member State concerned shall report to the Council and the Commission on action taken in response to the Council’s recommendation under Article 126(7) TFEU. The report shall include the targets for government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side consistent with the Council’s recommendation, as well as information on the measures taken and the nature of those envisaged to achieve the targets. The Member State shall make the report public.

5. If effective action has been taken in compliance with a recommendation under Article 126(7) TFEU and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that recommendation, the Council may decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU. The revised recommendation, taking into account the relevant factors referred to in Article 2(3) of this Regulation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule. The Council shall assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its recommendation. In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU provided that this does not endanger fiscal sustainability in the medium term.’;

(5) in Article 4, paragraphs 1 and 2 are replaced by the following:

‘1. Any decision by the Council under Article 126(8) TFEU to make public its recommendations where it is established that no effective action has been taken, shall be taken immediately after the expiry of the deadline set in accordance with Article 3(4) of this Regulation.



2. The Council, when considering whether effective action has been taken in response to its recommendations made in accordance with Article 126(7) TFEU, shall base its decision on the report submitted by the Member State concerned in accordance with Article 3(4a) of this Regulation and its implementation, as well as on any other publicly announced decisions by the government of the Member State concerned.

Where the Council establishes, in accordance with Article 126(8) TFEU, that the Member State concerned has failed to take effective action, it shall report to the European Council accordingly;

- (6) in Article 5, paragraphs 1 and 2 are replaced by the following:

‘1. Any Council decision to give notice to the participating Member State concerned to take measures for the deficit reduction in accordance with Article 126(9) TFEU shall be taken within two months of the Council decision under Article 126(8) TFEU establishing that no effective action has been taken. In the notice, the Council shall request that the Member State achieve annual budgetary targets which, on the basis of the forecast underpinning the notice, are consistent with a minimum annual improvement of at least 0,5 % of GDP as a benchmark, in its cyclically adjusted balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the notice. The Council shall also indicate measures conducive to the achievement of those targets.

1a. Following a Council notice under Article 126(9) TFEU, the Member State concerned shall report to the Council and the Commission on action taken in response thereto. The report shall include the targets for the government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side, as well as information on the actions being taken in response to the specific Council recommendations so as to allow the Council to take, if necessary, a decision in accordance with Article 6(2) of this Regulation. The Member State shall make the report public.

2. If effective action has been taken in compliance with a notice under Article 126(9) TFEU and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that notice, the Council may decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU. The revised notice, taking into account the relevant factors referred to in Article 2(3) of this Regulation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule. The Council shall assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its notice. In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU, on condition that this does not endanger fiscal sustainability in the medium term.’;

vourable consequences for government finances against the economic forecasts in its notice. In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU, on condition that this does not endanger fiscal sustainability in the medium term.’;

- (7) Articles 6 to 8 are replaced by the following:

#### ‘Article 6

1. The Council, when considering whether effective action has been taken in response to its notice made in accordance with Article 126(9) TFEU, shall base its decision on the report submitted by the Member State concerned in accordance with Article 5(1a) of this Regulation and its implementation, as well as on any other publicly announced decisions by the government of the Member State concerned. The outcome of the surveillance mission carried out by the Commission in accordance with Article 10a of this Regulation shall be taken into account.

2. Where the conditions to apply Article 126(11) TFEU are met, the Council shall impose sanctions in accordance with that Article. Any such decision shall be taken no later than four months after the Council decision under Article 126(9) TFEU giving notice to the participating Member State concerned to take measures.

#### Article 7

If a participating Member State fails to act in compliance with the successive acts of the Council in accordance with Article 126(7) and (9) TFEU, the decision of the Council under Article 126(11) TFEU to impose sanctions shall be taken as a rule within 16 months of the reporting dates established in Article 3(2) and (3) of Regulation (EC) No 479/2009. Where Article 3(5) or Article 5(2) of this Regulation is applied, the 16-month deadline shall be adjusted accordingly. An expedited procedure shall be used in the case of a deliberately planned deficit which the Council decides is excessive.

#### Article 8

Any Council decision under Article 126(11) TFEU to intensify sanctions shall be taken no later than two months after the reporting dates pursuant to Regulation (EC) No 479/2009. Any Council decision under Article 126(12) TFEU to abrogate some or all of its decisions shall be taken as soon as possible and in any event no later than two months after the reporting dates pursuant to Regulation (EC) No 479/2009.’;

- (8) in Article 9(3), the reference to ‘Article 6’ is replaced by a reference to ‘Article 6(2)’;

(9) Article 10 is amended as follows:

- (a) the introductory words of paragraph 1 are replaced by the following:

‘1. The Council and the Commission shall regularly monitor the implementation of action taken;’

- (b) in paragraph 3, the reference to ‘Regulation (EC) No 3605/93’ is replaced by a reference to ‘Regulation (EC) No 479/2009’;

(10) the following Article is inserted:

*‘Article 10a*

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 and notices issued following a decision pursuant to Article 126(8) TFEU and decisions under Article 126(11) TFEU for the purposes of on-site monitoring. The Member States concerned shall provide all necessary information for the preparation and the conduct of the mission.

3. The Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions in a Member State whose currency is the euro or which is 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 (\*) (ERM II).

4. The Commission shall report to the Council on the outcome of the mission referred to in paragraph 2 and 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;’

(\*) OJ C 73, 25.3.2006, p. 21.’

(11) Articles 11 and 12 are replaced by the following:

*‘Article 11*

Whenever the Council decides under Article 126(11) TFEU to impose sanctions on a participating Member State, a fine shall, as a rule, be required. The Council may decide to supplement such a fine by the other measures provided for in Article 126(11) TFEU.

*Article 12*

1. The amount of the fine shall comprise a fixed component equal to 0,2 % of GDP, and a variable component. The variable component shall amount to one tenth of the absolute value of the difference between the balance as a percentage of GDP in the preceding year and either the reference value for government balance or, if non-compliance with budgetary discipline includes the debt criterion, the government balance as a percentage of GDP that should have been achieved in the same year according to the notice issued under Article 126(9) TFEU.

2. In each year following that in which a fine is imposed, until the decision on the existence of an excessive deficit is abrogated, the Council shall assess whether the participating Member State concerned has taken effective action in response to the Council notice in accordance with Article 126(9) TFEU. In this annual assessment the Council shall decide, in accordance with Article 126(11) TFEU, to intensify the sanctions, unless the participating Member State concerned has complied with the Council's notice. If the Council decides to impose an additional fine, it shall be calculated in the same way as for the variable component of the fine referred to in paragraph 1.

3. No single fine referred to in paragraphs 1 and 2 shall exceed 0,5 % of GDP;’

(12) Article 13 is hereby deleted and the reference to it in Article 15 is replaced by a reference to ‘Article 12’;

(13) Article 16 is replaced by the following:

*‘Article 16*

The fines referred to in Article 12 shall constitute other revenue, as referred to in Article 311 TFEU, and shall be assigned to the European Financial Stability Facility. When the participating Member States create another stability mechanism to provide financial assistance in order to safeguard the stability of the euro area as a whole, the amount of those fines shall be assigned to that mechanism;’



(14) the following Article is inserted:

*'Article 17a*

1. By 14 December 2014 and every five years thereafter, the Commission shall publish a report on the application of this Regulation.

That report shall evaluate, inter alia:

(a) the effectiveness of this Regulation;

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

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.;

(15) throughout Regulation (EC) No 1467/97, all references to 'Article 104 of the Treaty' are replaced by references to 'Article 126 TFEU';

(16) in point 2 of the Annex, the references in Column I to 'Article 4(2) and (3) of Council Regulation (EC) No 3605/93' are replaced by references to 'Article 3(2) and (3) of Council Regulation (EC) No 479/2009'.

*Article 2*

This Regulation shall enter into force on the 20th day following 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 Brussels, 8 November 2011.

*For the Council*

*The President*

J. VINCENT-ROSTOWSKI

## II

*(Non-legislative acts)*

## DIRECTIVES

## COUNCIL DIRECTIVE 2011/85/EU

of 8 November 2011

on requirements for budgetary frameworks of the Member States

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the third subparagraph of Article 126(14) thereof,

Having regard to the proposal from the European Commission,

Having regard to the opinion of the European Parliament <sup>(1)</sup>,

Having regard to the opinion of the European Central Bank <sup>(2)</sup>,

Whereas:

- (1) There is a need to build upon the experience gained during the first decade of the economic and monetary union. Recent economic developments have posed new challenges to the conduct of fiscal policy across the Union and have in particular highlighted the need for strengthening national ownership and having uniform requirements as regards the rules and procedures forming the budgetary frameworks of the Member States. In particular, it is necessary to specify what national authorities must do to comply with the provisions of the Protocol (No 12) on the excessive deficit procedure annexed to the Treaty on European Union (TEU) and to the Treaty on the Functioning of the European Union (TFEU), and in particular Article 3 thereof.
- (2) Member State governments and government sub-sectors maintain public accounting systems which include elements such as bookkeeping, internal control, financial reporting, and auditing. Those systems should be distinguished from statistical data which relate to the

outcomes of government finances based on statistical methodologies, and from forecasts or budgeting actions which relate to future government finances.

- (3) Complete and reliable public accounting practices for all sub-sectors of general government are a precondition for the production of high-quality statistics that are comparable across Member States. Internal control should ensure that existing rules are enforced throughout the sub-sectors of general government. Independent audits conducted by public institutions such as courts of auditors or by private auditing bodies should encourage best international practices.
- (4) The availability of fiscal data is crucial to the proper functioning of the budgetary surveillance framework of the Union. The regular availability of timely and reliable fiscal data is the key to proper and well timed monitoring, which in turn allows prompt action in the event of unexpected budgetary developments. A crucial element in ensuring the quality of fiscal data is transparency, which must entail the regular public availability of such data.
- (5) With regard to statistics, Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics <sup>(3)</sup> established a legislative framework for the production of European statistics with a view to the formulation, application, monitoring and assessment of the policies of the Union. That Regulation also laid down the principles governing the development, production and dissemination of European statistics: professional independence, impartiality, objectivity, reliability, statistical confidentiality and cost-effectiveness, giving precise definitions of each of these principles. Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community <sup>(4)</sup>, strengthened the Commission's powers to verify statistical data used for the excessive deficit procedure.

<sup>(1)</sup> European Parliament opinion of 28 September 2011 (not yet published in the Official Journal).

<sup>(2)</sup> OJ C 150, 20.5.2011, p. 1.

<sup>(3)</sup> OJ L 87, 31.3.2009, p. 164.

<sup>(4)</sup> OJ L 145, 10.6.2009, p. 1.

- (6) The definitions of 'government', 'deficit' and 'investment' are laid down in the Protocol (No 12) on the excessive deficit procedure by reference to the European System of Integrated Economic Accounts (ESA), replaced by the European system of national and regional accounts in the Community, adopted by Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community <sup>(1)</sup> (ESA 95).
- (7) The availability and quality of ESA 95 data is crucial to ensure the proper functioning of the Union's fiscal surveillance framework. ESA 95 relies on information provided on an accrual basis. However, these accrual fiscal statistics rely on the previous compilation of cash data, or their equivalent. These can play a relevant role in enhancing timely budgetary monitoring, so as to avoid the late detection of significant budgetary errors. The availability of cash-data time series on budgetary developments can reveal patterns warranting closer surveillance. The cash-based fiscal data (or equivalent figures from public accounting if cash-based data are not available) to be published should at least include an overall balance, total revenue and total expenditure. Where justified, for example where there is a large number of local government bodies, timely publication of data could rely on suitable estimation techniques based on a sample of bodies, with a subsequent revision using complete data.
- (8) Biased and unrealistic macroeconomic and budgetary forecasts can considerably hamper the effectiveness of fiscal planning and consequently impair commitment to budgetary discipline, while transparency and discussion of forecasting methodologies can significantly increase the quality of macroeconomic and budgetary forecasts for fiscal planning.
- (9) A crucial element in ensuring the use of realistic forecasts for the conduct of budgetary policy is transparency, which should entail the public availability not only of the official macroeconomic and budgetary forecast prepared for fiscal planning, but also of the methodologies, assumptions and relevant parameters on which such forecasts are based.
- (10) Sensitivity analysis and corresponding budgetary projections supplementing the most likely macrofiscal scenario allow the analysis of how main fiscal variables would evolve under various growth and interest rates assumptions, and thus greatly reduce the risk of budgetary discipline being jeopardised by forecast errors.
- (11) Forecasts by the Commission and information regarding the models on which they are based can provide Member States with a useful benchmark for their most likely macrofiscal scenario, enhancing the validity of the forecasts used for budgetary planning. However, the extent to which Member States can be expected to compare the forecasts used for budgetary planning with the Commission's forecasts varies according to the timing of forecast preparation and the comparability of the forecast methodologies and assumptions. Forecasts from other independent bodies can also provide useful benchmarks.
- (12) Significant differences between the chosen macrofiscal scenario and the Commission's forecast should be described and reasons therefor should be given, in particular if the level or growth of variables in external assumptions departs significantly from the values contained in the Commission's forecasts.
- (13) Given the interdependence between Member States' budgets and the Union's budget, in order to support Member States in preparing their budgetary forecasts, the Commission should provide forecasts for the Union's expenditure based on the level of expenditure programmed within the multiannual financial framework.
- (14) In order to facilitate the production of the forecasts used for budgetary planning and to clarify differences between the forecasts of the Member States and those of the Commission, each Member State should, on an annual basis, have the opportunity to discuss with the Commission the assumptions underpinning the preparation of macroeconomic and budgetary forecasts.
- (15) The quality of official macroeconomic and budgetary forecasts is critically enhanced by regular, unbiased and comprehensive evaluation based on objective criteria. Thorough evaluation includes scrutiny of the economic assumptions, comparison with forecasts prepared by other institutions, and evaluation of past forecast performance.
- (16) Considering the documented effectiveness of rules-based budgetary frameworks of the Member States in enhancing national ownership of the Union's fiscal rules promoting budgetary discipline, strong country-specific numerical fiscal rules that are consistent with the budgetary objectives at the level of the Union should be a cornerstone of the strengthened budgetary surveillance framework of the Union. Strong numerical fiscal rules should be equipped with well-specified target
- <sup>(1)</sup> OJ L 310, 30.11.1996, p. 1.

definitions together with mechanisms for effective and timely monitoring. Those rules should be based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States. In addition, policy experience has shown that for numerical fiscal rules to work effectively, consequences must be attached to non-compliance, where the costs involved may be simply reputational.

(17) By virtue of the Protocol (No 15) on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland annexed to the TEU and to the TFEU, the reference values mentioned in the Protocol (No 12) on the excessive deficit procedure annexed to those Treaties are not directly binding on the United Kingdom. The obligation to have in place numerical fiscal rules that effectively promote compliance with the specific reference values for the excessive deficit, and the related obligation for the multiannual objectives in medium-term budgetary frameworks to be consistent with such rules, should therefore not apply to the United Kingdom.

(18) Member States should avoid pro-cyclical fiscal policies, and fiscal consolidation efforts should be greater in economic good times. Well-specified numerical fiscal rules are conducive to these objectives and should be reflected in the annual budget legislation of the Member States.

(19) National fiscal planning can be consistent with both the preventive and the corrective parts of the Stability and Growth Pact (SGP) only if it adopts a multiannual perspective and pursues the achievement, in particular, of the medium-term budgetary objectives. Medium-term budgetary frameworks are strictly instrumental in ensuring that budgetary frameworks of the Member States are consistent with the legislation of the Union. In the spirit 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>(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>, the preventive and corrective parts of the SGP should not be regarded in isolation.

(20) Although the approval of annual budget legislation is the key step in the budget process in which important budgetary decisions are adopted in the Member States, most fiscal measures have budgetary implications that go well beyond the annual budgetary cycle. A single-year perspective therefore provides a poor basis for sound

budgetary policies. In order to incorporate the multi-annual budgetary perspective of the budgetary surveillance framework of the Union, planning of annual budget legislation should be based on multiannual fiscal planning stemming from the medium-term budgetary framework.

(21) That medium-term budgetary framework should contain, inter alia, projections of each major expenditure and revenue item for the budget year and beyond, based on unchanged policies. Each Member State should be able appropriately to define unchanged policies and those definitions should be made public together with the assumptions involved, the methodologies and other relevant parameters.

(22) This Directive should not prevent a Member State's new government from updating its medium-term budgetary framework to reflect its new policy priorities. In this case, the new government should highlight the differences from the previous medium-term budgetary framework.

(23) Provisions of the budgetary surveillance framework established by the TFEU and in particular the SGP apply to general government as a whole, which comprises the sub-sectors central government, state government, local government, and social security funds, as defined in Regulation (EC) No 2223/96.

(24) A significant number of Member States have experienced a sizeable fiscal decentralisation with the devolution of budgetary powers to sub-national governments. The role of such sub-national governments in ensuring that the SGP is complied with has thereby increased considerably, and particular attention should be paid to ensuring that all general government sub-sectors are duly covered by the scope of the obligations and procedures laid down in domestic budgetary frameworks, in particular, but not exclusively, in those Member States.

(25) To be effective in promoting budgetary discipline and the sustainability of public finance, budgetary frameworks should comprehensively cover public finances. For this reason, operations of those general government bodies and funds which do not form part of the regular budgets at sub-sector level and that have an immediate or medium-term impact on Member States' budgetary positions should be given particular consideration. Their combined impact on general government balances and debts should be presented in the framework of the annual budgetary processes and in the medium-term budgetary plans.

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

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

- (26) Similarly, due attention should be paid to the existence of contingent liabilities. More specifically, contingent liabilities encompass possible obligations depending on whether some uncertain future event occurs, or present obligations where payment is not probable or the amount of the probable payment cannot be measured reliably. They comprise for instance relevant information on government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including, where appropriate, the likelihood and potential due date of expenditure of contingent liabilities. Market sensitivities should be duly taken into account.
- (27) The Commission should regularly monitor the implementation of this Directive. Best practices concerning the provisions of this Directive dealing with the different aspects of national budgetary frameworks should be identified and shared.
- (28) Since the objective of this Directive, namely uniform compliance with budgetary discipline as required by the TFEU, cannot be sufficiently achieved by the Member States and can therefore be better achieved at the level of the Union, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the TEU. In accordance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to achieve that objective.
- (29) In accordance with point 34 of the Interinstitutional Agreement on better law-making<sup>(1)</sup>, Member States are encouraged to draw up, for themselves and in the interests of the Union, their own tables illustrating, as far as possible, the correlation between this Directive and the transposition measures, and to make them public,

HAS ADOPTED THIS DIRECTIVE:

#### CHAPTER I

##### SUBJECT MATTER AND DEFINITIONS

###### Article 1

This Directive lays down detailed rules concerning the characteristics of the budgetary frameworks of the Member States. Those rules are necessary to ensure Member States' compliance with obligations under the TFEU with regard to avoiding excessive government deficits.

###### Article 2

For the purposes of this Directive, the definitions of 'government', 'deficit' and 'investment' set out in Article 2 of

<sup>(1)</sup> OJ C 321, 31.12.2003, p. 1.

the Protocol (No 12) on the excessive deficit procedure annexed to the TEU and to the TFEU shall apply. The definition of sub-sectors of general government set out in point 2.70 of Annex A to Regulation (EC) No 2223/96 shall also apply.

In addition, the following definition shall apply:

'budgetary framework' means the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government, in particular:

- (a) systems of budgetary accounting and statistical reporting;
- (b) rules and procedures governing the preparation of forecasts for budgetary planning;
- (c) country-specific numerical fiscal rules, which contribute to the consistency of Member States' conduct of fiscal policy with their respective obligations under the TFEU, expressed in terms of a summary indicator of budgetary performance, such as the government budget deficit, borrowing, debt, or a major component thereof;
- (d) budgetary procedures comprising procedural rules to underpin the budget process at all stages;
- (e) medium-term budgetary frameworks as a specific set of national budgetary procedures that extend the horizon for fiscal policy-making beyond the annual budgetary calendar, including the setting of policy priorities and of medium-term budgetary objectives;
- (f) arrangements for independent monitoring and analysis, to enhance the transparency of elements of the budget process;
- (g) mechanisms and rules that regulate fiscal relationships between public authorities across sub-sectors of general government.

#### CHAPTER II

##### ACCOUNTING AND STATISTICS

###### Article 3

1. As concerns national systems of public accounting, Member States shall have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government and containing the information needed to generate accrual data with a view to preparing data based on the ESA 95 standard. Those public accounting systems shall be subject to internal control and independent audits.



2. Member States shall ensure timely and regular public availability of fiscal data for all sub-sectors of general government as defined by Regulation (EC) No 2223/96. In particular Member States shall publish:

(a) cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:

— monthly for central government, state government and social security sub-sectors, before the end of the following month, and

— quarterly, for the local government sub-sector, before the end of the following quarter;

(b) a detailed reconciliation table showing the methodology of transition between cash-based data (or the equivalent figures from public accounting if cash-based data are not available) and data based on the ESA 95 standard.

#### CHAPTER III

#### FORECASTS

##### Article 4

1. Member States shall ensure that fiscal planning is based on realistic macroeconomic and budgetary forecasts using the most up-to-date information. Budgetary planning shall be based on the most likely macrofiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts shall be compared with the most updated forecasts of the Commission and, if appropriate, those of other independent bodies. Significant differences between the chosen macrofiscal scenario and the Commission's forecast shall be described with reasoning, in particular if the level or growth of variables in external assumptions departs significantly from the values contained in the Commission's forecasts.

2. The Commission shall make public the methodologies, assumptions and relevant parameters that underpin its macroeconomic and budgetary forecasts.

3. In order to support Member States in preparing their budgetary forecasts, the Commission shall provide forecasts for the expenditure of the Union based on the level of expenditure programmed within the multiannual financial framework.

4. Within the framework of a sensitivity analysis, the macroeconomic and budgetary forecasts shall examine paths of main fiscal variables under different assumptions as to growth and interest rates. The range of alternative assumptions used in macroeconomic and budgetary forecasts shall be guided by the performance of past forecasts and shall endeavour to take into account relevant risk scenarios.

5. Member States shall specify which institution is responsible for producing macroeconomic and budgetary forecasts and shall make public the official macroeconomic and budgetary forecasts prepared for fiscal planning, including the methodologies, assumptions and relevant parameters underpinning those forecasts. At least annually, the Member States and the Commission shall engage in a technical dialogue concerning the assumptions underpinning the preparation of macroeconomic and budgetary forecasts.

6. The macroeconomic and budgetary forecasts for fiscal planning shall be subject to regular, unbiased and comprehensive evaluation based on objective criteria, including *ex post* evaluation. The result of that evaluation shall be made public and taken into account appropriately in future macroeconomic and budgetary forecasts. If the evaluation detects a significant bias affecting macroeconomic forecasts over a period of at least 4 consecutive years, the Member State concerned shall take the necessary action and make it public.

7. Member States' quarterly debt and deficit levels shall be published by the Commission (Eurostat) every 3 months.

#### CHAPTER IV

#### NUMERICAL FISCAL RULES

##### Article 5

Each Member State shall have in place numerical fiscal rules which are specific to it and which effectively promote compliance with its obligations deriving from the TFEU in the area of budgetary policy over a multiannual horizon for the general government as a whole. Such rules shall promote in particular:

(a) compliance with the reference values on deficit and debt set in accordance with the TFEU;

(b) the adoption of a multiannual fiscal planning horizon, including adherence to the Member State's medium-term budgetary objective.

##### Article 6

1. Without prejudice to the provisions of the TFEU concerning the budgetary surveillance framework of the Union, country-specific numerical fiscal rules shall contain specifications as to the following elements:

(a) the target definition and scope of the rules;

(b) the effective and timely monitoring of compliance with the rules, based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States;

(c) the consequences in the event of non-compliance.



2. If numerical fiscal rules contain escape clauses, such clauses shall set out a limited number of specific circumstances consistent with the Member States' obligations deriving from the TFEU in the area of budgetary policy, and stringent procedures in which temporary non-compliance with the rule is permitted.

#### Article 7

The annual budget legislation of the Member States shall reflect their country-specific numerical fiscal rules in force.

#### Article 8

Articles 5 to 7 shall not apply to the United Kingdom.

### CHAPTER V

#### MEDIUM-TERM BUDGETARY FRAMEWORKS

##### Article 9

1. Member States shall establish a credible, effective medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least 3 years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective.

2. Medium-term budgetary frameworks shall include procedures for establishing the following items:

- (a) comprehensive and transparent multiannual budgetary objectives in terms of the general government deficit, debt and any other summary fiscal indicator such as expenditure, ensuring that these are consistent with any numerical fiscal rules as provided for in Chapter IV in force;
  - (b) projections of each major expenditure and revenue item of the general government with more specifications on the central government and social security level, for the budget year and beyond, based on unchanged policies;
  - (c) a description of medium-term policies envisaged with an impact on general government finances, broken down by major revenue and expenditure item, showing how the adjustment towards the medium-term budgetary objectives is achieved compared to projections under unchanged policies;
  - (d) an assessment as to how in the light of their direct long-term impact on general government finances, the policies envisaged are likely to affect the long-term sustainability of the public finances.
3. Projections adopted within medium-term budgetary frameworks shall be based on realistic macroeconomic and budgetary forecasts in accordance with Chapter III.

##### Article 10

Annual budget legislation shall be consistent with the provisions of the medium-term budgetary framework. Specifically, revenue and expenditure projections and priorities resulting from the medium-term budgetary framework as set out in Article 9(2) shall constitute the basis for the preparation of the annual budget. Any departure from those provisions shall be duly explained.

##### Article 11

No provision of this Directive shall prevent a Member State's new government from updating its medium-term budgetary framework to reflect its new policy priorities. In this case, the new government shall indicate the differences from the previous medium-term budgetary framework.

### CHAPTER VI

#### TRANSPARENCY OF GENERAL GOVERNMENT FINANCES AND COMPREHENSIVE SCOPE OF BUDGETARY FRAMEWORKS

##### Article 12

Member States shall ensure that any measures taken to comply with Chapters II, III and IV are consistent across, and comprehensive in coverage of, all sub-sectors of general government. This shall, in particular, require the consistency of accounting rules and procedures, and the integrity of their underlying data collection and processing systems.

##### Article 13

1. Member States shall establish appropriate mechanisms of coordination across sub-sectors of general government to provide for comprehensive and consistent coverage of all sub-sectors of general government in fiscal planning, country-specific numerical fiscal rules, and in the preparation of budgetary forecasts and setting-up of multiannual planning as laid down, in particular, in the multiannual budgetary framework.

2. In order to promote fiscal accountability, the budgetary responsibilities of public authorities in the various sub-sectors of general government shall be clearly laid down.

##### Article 14

1. Within the framework of the annual budgetary processes, Member States shall identify and present all general government bodies and funds which do not form part of the regular budgets at sub-sector level, together with other relevant information. The combined impact on general government balances and debts of those general government bodies and funds shall be presented in the framework of the annual budgetary processes and the medium-term budgetary plans.

2. Member States shall publish detailed information on the impact of tax expenditures on revenues.

3. For all sub-sectors of general government, Member States shall publish relevant information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof. Member States shall also publish information on the participation of general government in the capital of private and public corporations in respect of economically significant amounts.

CHAPTER VII

FINAL PROVISIONS

Article 15

1. Member States shall bring into force the provisions necessary to comply with this Directive by 31 December 2013. They shall forthwith communicate to the Commission the text of those provisions. The Council encourages the Member States to draw up, for themselves and in the interests of the Union, their own correlation tables which will, as far as possible, illustrate the correlation between this Directive and the transposition measures, and to make them public.

2. When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

3. The Commission shall prepare an interim progress report on the implementation of the main provisions of this Directive on the basis of relevant information from Member States, which shall be submitted to the European Parliament and to the Council by 14 December 2012.

4. Member States shall communicate to the Commission the text of the main provisions which they adopt in the field covered by this Directive.

Article 16

1. By 14 December 2018 the Commission shall publish a review of the suitability of this Directive.

2. The review shall assess, inter alia, the suitability of:

- (a) the statistical requirements for all sub-sectors of government;
- (b) the design and effectiveness of numerical fiscal rules in the Member States;
- (c) the general level of transparency of public finances in the Member States.

3. By 31 December 2012, the Commission shall assess the suitability of the International Public Sector Accounting Standards for the Member States.

Article 17

This Directive shall enter into force on the 20th day following its publication in the *Official Journal of the European Union*.

Article 18

This Directive is addressed to the Member States.

Done at Brussels, 8 November 2011.

For the Council  
The President

J. VINCENT-ROSTOWSKI





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