



**COUNCIL OF  
THE EUROPEAN UNION**

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**2010/0280(COD)**

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**REPORT**

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from : the Presidency

to : COREPER/Council

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No. Cion prop.: 14520/10 ECOFIN 590 UEM 278 CODEC 969

14496/10 ECOFIN 582 UEM 273

14515/10 ECOFIN 589 UEM 277 SOC 618 CODEC 968

14512/10 ECOFIN 587 UEM 276 SOC 617 CODEC 966

14497/10 ECOFIN 583 UEM 274

14498/10 ECOFIN 584 UEM 275 CODEC 960

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Subject : State of play concerning the Economic Governance Package - Trialogue

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**I. INTRODUCTION**

1. On 29 September 2010, the Commission presented the following six proposals on reinforcing economic governance:

- Proposal for a Regulation of the European Parliament (EP) and of the Council amending **Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies**
- Proposal for a Council Regulation (EU) amending **Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.**

- Proposal for a **Council Directive on requirements for budgetary frameworks** of the Member States;
  - Proposal for a **Regulation** of the EP and of the Council on the **prevention and correction of macroeconomic imbalances**
  
  - Proposal for a Regulation of the EP and of the Council on **enforcement measures to correct excessive macroeconomic imbalances in the euro area**
  
  - Proposal for a Regulation of the EP and of the Council on the effective **enforcement of budgetary surveillance in the euro area**
2. On 15 March 2011 Council reached an agreement on the general approach related to all six legislative proposals.
  3. The Committee on Economic and Monetary Affairs voted on all six legislative proposals on 19 April 2011.
  4. The first triilogue meeting was held on 20 April 2011. Further triologues followed on 3, 4, 10 and 11 May.

## **II. STATE OF PLAY**

Concerning the general direction and the main elements of the proposed new economic surveillance framework the EP and the Council are broadly on the same line. The following paragraphs outline a list of the main differences between the EP's position and the Council's general approach. Considering that the EP is co-legislator on four of the six legislative proposals, the Presidency is seeking guidance from Member States on the issues on which the Council can move towards the EP's position.

After initial exchange of views with the EP, three key issues and three additional horizontal issues were identified to be addressed by the Council. The Presidency considers that a concession is crucial on these key issues at the May Ecofin as a precondition for timely conclusion of the process by June, repeatedly called for by the European Council. Clear political guidance by the Council at this stage would enable the Presidency to preserve the momentum and successfully proceed with the negotiations.

## **Key issues**

### **Issue 1: Application of fines**

The EP adopted several amendments related to fines, both in the area of budgetary and macroeconomic surveillance:

- To introduce an interest-bearing deposit in the excessive imbalance procedure as an initial enforcement measure, prior to imposing a fine.
- To introduce the possibility to raise the fine imposed in the context of enforcement of excessive imbalance procedure from 0.1 % to 0.3% of GDP in the case of deliberate and severe non-compliance with recommendations.
- To limit total yearly amount of cumulative fines imposed on an individual Member State in the context of enforcement of both excessive imbalance procedure and budgetary surveillance to 0.5% of GDP.
- To introduce an additional fine of 0.5% of GDP, in case of manipulating financial data, falsifying statistics or deliberately providing misleading information, in particular resulting in a violation of the EU statistical rules.
- To distribute the accrued interest on deposits and fines in the context of enforcement of both excessive imbalance procedure and budgetary surveillance for EU relevant projects financed by the European Investment Bank rather than the European Financial Stability Facility (EFSF) prior to the establishment of a permanent stability mechanism.

### Way forward:

The Presidency considers that the proposed introduction of the interest bearing deposit is in line with the principle of the new Stability and Growth Pact, namely that the sanctions would be applied progressively and starting at an earlier stage. At the same time, an upper limit for the cumulative yearly amount of fines imposed on a Member State in different procedures could be explicitly stated. While the Presidency considers the cumulative size of the fines should correspond to the Council's general approach, some flexibility could be envisaged as to the amount of respective fines. Therefore, the Presidency considers that the amendments concerning the amount of individual and cumulative fines, as well as introduction of an interest-bearing deposit in the excessive imbalance procedure could be further explored.

Whereas it seems reasonable to introduce an additional fine in case of repeated statistical problems, as already foreseen by the Task Force, this could be addressed more adequately within a separate Regulation. The Council could publicly invite the Commission to explore possibilities for presenting a proposal for a separate act dealing with this matter.

If the accrued interest and fines are transferred to the future permanent stability mechanism, it seems only natural that before such a mechanism is established, the beneficiary of these transfers would be its factual predecessor, the EFSF.

### **Issue 2: Reversed qualified majority voting**

The EP proposes to extend application of reversed qualified majority voting in several legislative proposals (1466, 1467 and EIP). The Council general approach is based on the principle that reversed qualified majority voting would be limited to the texts providing for sanctions.

Among others, the EP inserted the reversed qualified majority voting into 15 separate parts of the draft Regulations, including in provisions for which Council's general approach did not foresee any Council decisions.

#### Way forward:

A list of these proposals is presented in the annex of the report, where reversed qualified majority voting is proposed by the EP. They are divided into different cases:

- in several instances, the Commission proposal, the Council general approach and the proposed EP amendments already coincide;
- for some others, legal analysis has shown that introduction of reversed qualified majority voting would not be in line with the decision-making process set out by the Treaty;

The Presidency considers that the possibility to introduce the reversed qualified majority voting in some steps of the Excessive Imbalance Procedure could be explored, namely in the case of a decision on interest-bearing deposit, and of a recommendation on declaring non compliance.

#### **Issue 3: Role of the EP in the adoption of the scoreboard**

The EP attaches great importance to the adoption and content of the scoreboard within the draft Regulation on the prevention and correction of macroeconomic imbalances. The Council's general approach was based on the principle that the legislative proposal defines only the process through which the scoreboard will be defined, but not the content of the scoreboard.

The EP has two suggestions: first the adoption of the list of indicators by means of delegated act and a listing of wider set of indicators (including R&D, unemployment rate, etc.) in the legislative text itself.

#### Way forward:

The Presidency considers that the scoreboard is an analytical tool therefore it needs to be flexible and updated from time-to-time. While the consultation with the Parliament seems to be indispensable, a heavy legal procedure must be avoided. Moreover, consideration should be given to include some basic guiding principles for selection of indicators in the scoreboard in the present regulation.

## **Additional important horizontal issues**

Furthermore, several additional important horizontal issues were identified, on which the Presidency would also like to seek guidance from the Council.

### **Issue 4: Economic dialogue and transparency**

The EP included provisions on economic dialogue in several proposals. These provisions aim at introducing a framework for dialogue among the EP, the Council, the Commission and national parliaments on macro-economic and budgetary surveillance, whereby the EP may conduct hearings with the President of the Eurogroup, organise public debates and invite Member States in certain steps of the surveillance procedure. It is also foreseen that Member States under a procedure might turn to the EP and request a hearing for themselves. Furthermore, the EP proposes the Council and the Commission to take into account the outcome of these debates in their decisions.

#### **Way forward:**

From a legal perspective, provisions on hearings, public debates on macro economic and budgetary surveillance may affect the inter-institutional balance as set out by the Treaties whereby economic coordination is to take place within the Council and whereby economic coordination is conceived as a peer review exercise.

The Presidency considers that the concept of the economic dialogue is worth to consider, the same way as for example the Monetary Dialogue is conducted. Some elements of the economic dialogue could be aligned with the implementation of the European Semester, providing a framework for a better flow of information between the institutions. In addition, the EP may invite Member States at certain important stages of the procedure as long as this discussion does not interfere the decision making procedure of the Council.

### **Issue 5: Medium-term solutions for crisis management**

The EP proposes to empower the Commission to adopt emergency measures in case of a risk to the stability in the euro area, followed by a debate in the EP, in the presence of all relevant institutions. It furthermore proposes setting up a European Monetary Fund and introducing “euro-securities”.

#### Way forward:

The European Council has already decided on a limited Treaty change empowering the Member States whose currency is the euro to establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole.

Taking this fact into account, the Presidency considers that tasking the Commission to prepare a report on the introduction of “euro-securities” could be explored as part of the review exercise.

### **Issue 6: Codification of the European Semester**

The EP included provisions on the European Semester in several proposals. This choice responds to the need to have a formalised procedure for the enforcement of the Europe 2020 goals.

#### Way forward:

The Presidency considers that the main elements of the European Semester and the National Reform Programmes could be described in a concise manner in the legislation/a recital, without threatening the effectiveness of the budgetary surveillance procedure.

### **III. CONCLUSION**

As a general way forward, the Council may wish to ask the Presidency to pursue the negotiations with the EP on the basis of the above report.



**Reversed QMV proposals**

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| <b>EIP / EDP sanctions</b>   |
| decision on interest-bearing deposit (Article 3.1, EDP sanctions)  |
| decision on mom-interest-bearing deposit (Article 4.1, EDP sanctions)  |
| decision on fine (Article 5.1, EDP sanctions)  |
| decision on EIP fine (Article 3.1a, EIP sanctions)   |
| decision on interest-bearing deposit (Article 3.1a, EIP sanctions)   |
| <b>EIP</b>   |
| rejection of COM alert mechanism report (Article 4(3)a)  |
| recommendations under Article 121 (2) TFEU for preventive actions (Article 6.1).   |
| recommendations under Article 121 (4) for corrective policy actions and declaring the existence of excessive imbalance (Article 7.2) |
| endorsing the corrective action plan or inviting the MS concerned to submit a new one (Article 8.2)                                  |
| rejection of COM report assessing whether or not the MS concerned has taken the recommended action (Article 10.1)                    |
| recommendation on declaring non-compliance (Article 10.4)  |
| decision on state of abeyance (Article 10.5)   |
| <b>SGP preventive arm</b>  |
| adoption of the opinion on the Stability programme   |
| decision in case of non-compliance of the recommendation   |
| <b>SGP corrective arm</b>  |
| adoption of the recommendations 126(7) and 126(9)  |