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# EU Economic governance "Six Pack" - State of Play

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**MEMO/11/647**

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**EU Economic governance "Six Pack" - State of Play**

***In September 2010 the Commission presented six legislative proposals on economic governance (the so-called Six-Pack). The legislative package contained the most comprehensive reinforcement of economic governance in the EU and the euro area since the launch of the Economic and Monetary Union. Broader and enhanced surveillance of fiscal policies, but also macroeconomic policies and structural reforms was proposed. New enforcement mechanisms are foreseen for non-compliant euro area Member States. The European Parliament has today given it final agreement and voted to adopt the package. The Council is expected to give its agreement on 4 October 2011 allowing entry into force by end-2011-beginning of 2012 – and ensuring that the next European Semester of economic policy coordination gets underway with a more solid legal base (see MEMO/11/364).***

The package has two main objectives:

1. **Stronger preventive and corrective action to ensure fiscal sustainability**

Member States must regard their fiscal policies as a matter of common concern and avoid excessive deficits. These rules are enshrined in the Treaties and detailed in the Stability and Growth Pact (SGP). The preventive arm of the SGP (based on Article 121 of the Treaty) aims to provide guidance ex ante to ensure that fiscal policy making is consistent with fiscal sustainability. To this effect, each year Member States set out in their budgetary plans the measures needed to achieve their medium-term budgetary objectives (MTO) in their Stability or Convergence Programmes (SCP).

The new governance system introduces **changes in 3 key areas:**

**Stronger preventive arm**

- **Stricter rules:** Progress towards the MTO will be assessed also on the basis of expenditure developments. Expenditure growth should be linked to the mid-term GDP growth rate, so that any extra expenditure is financed by either expenditure cuts or an increase in revenue.

- **Better enforcement:** Failure to respect the agreed principles will make the concerned Member State liable to **a warning** from the Commission. Following the warning, the Commission may draft **a recommendation** to the Member State to take corrective action. The recommendation will be adopted by the Council by qualified majority voting. If the Member State does not take appropriate action within the deadline specified in this Council recommendation, the Commission will immediately recommend to the Council that it adopts a **decision** establishing that no effective action has been taken qualified majority. If the Council does not adopt the decision and the Member State concerned persists in failing to take appropriate action, one month later the decision will be considered again and will be adopted unless a simple majority of Member States vote **against** it (the so-called reverse simple majority voting procedure). For euro area Member States, the recommendation will be backed by an enforcement mechanism (based on Article 136 of the Treaty) in the form of **an interest-bearing deposit** amounting to 0.2% of GDP. For euro area Member States which misrepresent deficit and debt data relevant to the SGP, an additional fine of up to 0.2% of GDP can be imposed. At the same time, the professional independence of national statistical authorities is reinforced.

**Excessive Deficit Procedure**

The **Excessive Deficit Procedure (EDP)** implements the obligations in the Treaty for Member States to keep deficits below 3% of GDP and government debt below or sufficiently declining towards 60% of GDP. The high debt-to-GDP ratios reached in many Member States already before the crisis, and the related sovereign debt problems in some, show that the existing EDP was not effective in curbing debt developments. The Commission has proposed giving teeth to the corrective part of the SGP through a numerical benchmark for debt reduction and stepping up financial sanctions for euro area Member States. The two key changes concerning the EDP are:

- **Stricter rules:** it will be possible to open an EDP on the basis of the debt criterion. Member States with government debt ratios in excess of 60% of GDP should reduce this ratio in line with a numerical benchmark, which implies a decline of the amount by which their debt exceeds the threshold at a rate in the order of 1/20th per year over three years. If they do not, they could be placed in EDP depending on the assessment of all relevant factors and taking in particular into account the influence of the cycle on the pace of debt reduction.

- **Better enforcement:** a **non-interest-bearing deposit of 0.2% of GDP** may be requested from a euro area country that is placed in EDP. On a recommendation by the Commission, a decision to impose this sanction will be adopted by the Council unless a qualified majority of Member states vote **against** it (the so-called reverse qualified majority voting procedure). In case of non-compliance with the initial recommendation for corrective action, this non-interest-bearing deposit will be converted into a **fine.** The fine will be increased in case of repeated non-respect of the recommendations.

**National budgetary frameworks**

The reform of the SGP is complemented by a new directive on national budgetary frameworks. It is increasingly clear that the structures and processes in place in the Member States which determine how fiscal policy is undertaken are key to the fiscal decisions taken. Setting minimum requirements for their quality and for consistency with the common fiscal framework of the EU, the Directive will trigger a substantial improvement of the budgetary decisions of those Member States where institutional weaknesses have interfered with their ability to ensure effective economic governance.

The main key features are:

- **Enhanced reliability:** Member States should ensure that their fiscal frameworks, are in line with minimum quality standards and cover all administrative levels (national, regional and local), allowing for more clarity and peer pressure.

- **Consistency with the SGP:** National fiscal planning should adopt a multi-annual perspective, so as to achieve the MTO. Numerical fiscal rules should also promote compliance with the reference values for the deficit and debt in the Treaty.

- **Greater transparency:** Member States must guarantee the transparency of the budget process by providing the relevant information on existing extra-budgetary bodies and funds, tax expenditures and contingent liabilities with potentially large impacts on public budgets, for example government guarantees.

Member States bring their fiscal frameworks in line with the requirements set by the directive by 2013. However, euro area Member States have committed to achieve this objective already in 2012.

1. **Reducing macro-economic imbalances and promoting competitiveness through preventive and corrective action.**

Over the past decade, Member States have made divergent economic choices, leading to competitiveness gaps and to major macroeconomic imbalances within the EU. A new surveillance and enforcement mechanism will be set up to identify and correct such issues much earlier called the **Excessive Imbalance Procedure (EIP)** based on Article 121.6 of the Treaty. It will rely on the following main elements:

- **An early warning system:** an alert system is established based on an economic reading of a **scoreboard** consisting of a set of indicators covering the major sources of macro-economic imbalances. The composition of the scoreboard indicators may evolve over time. The aim of the scoreboard is to trigger in-depth studies which will do deep dive analyses to determine whether the potential imbalances identified in the early-warning system are benign or problematic. The Commission can organise missions, with the ECB if appropriate, to conduct the in-depth reviews which shall be made public.

- **Preventive and corrective action:**. The new procedure allows the Commission and the Council to adopt preventive recommendations under article 121.2 of the Treaty at an early stage before the imbalances become large. In more serious cases, there is also a corrective arm where an excessive imbalance procedure can be opened for a Member State. In this case, the Member State concerned will have to submit a corrective action plan with a clear roadmap and deadlines for implementing corrective action. Surveillance will be stepped up by the Commission on the basis of regular progress reports submitted by the Member States concerned.

- **Rigorous enforcement:** A new enforcement regime is established for euro area countries. It consists of a two-step approach whereby an interest-bearing deposit can be imposed after one failure to comply with the recommended corrective action. After a second compliance failure, this interest-bearing deposit can be converted into a fine (up to 0.1% of GDP). Sanctions can also be imposed for failing twice to submit a sufficient corrective action plan. The decision-making process in the new regulations is streamlined by prescribing the use of reverse qualified majority voting to take all the relevant decisions leading up to sanctions. This semi-automatic decision-making procedure makes it very difficult for Member States to form a blocking majority.

**Next steps:** Final agreement on the legislation by Council and Parliament will allow the procedure to be applied in time for the next European Semester (beginning in January 2012). The Commission aims at finalising the scoreboard design in the coming weeks following the scoreboard adoption process outlined in the new legislation. Whilst EIP surveillance under normal circumstances will follow the European semester timetable, in case of emergency, a special clause in the legislation means the procedure can be activated at any moment allowing immediate intervention in countries where imbalances are more serious.

Throughout the six-pack, the European Parliament is given a key role in ensuring transparency, promoting accountability and monitoring enforcement at key decision-making stages through an innovative process of economic dialogue. The Economic and Monetary Affairs Committee of Parliament will be able to invite the President of the Council, the President of the Eurogroup, the President of the European Council and the Commission to present, report and explain their decisions in the SGP and in the Regulations on macro-economic imbalances. It will pay particular attention to occasions where the Council rejects Commission recommendations. It can also give the opportunity to an individual Member State which has fallen foul of the rules to be heard by the Committee.