



EUROPEAN COMMISSION

DIRECTORATE-GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 19 July 1996
II/409/96-EN

**ENSURING BUDGETARY DISCIPLINE
IN STAGE THREE OF EMU**

(Note for the Monetary Committee)

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ENSURING BUDGETARY DISCIPLINE IN STAGE THREE OF EMU

SUMMARY

- The Madrid European Council in December 1995 stressed the crucial significance of budgetary discipline and noted the Commission's intention "*to present its conclusions on ways to ensure budgetary discipline and coordination in the monetary union...*". This note presents a suggested approach to this important issue, in order to clarify and advance the discussion.
- Any new arrangements should be achieved in the context of the Treaty, without any changes in the requirements for participation in EMU, and should be agreed at EU level.
- Maintaining budgetary discipline in stage three is an essential condition to reap all the benefits of the single currency. The 3% of GDP reference value for the deficit is to be seen as an upper limit in normal circumstances. The strategy will build upon a two-layer approach to budgetary discipline and coordination: medium-term budgetary targets of close to balance or in surplus, consistent with remaining below the 3% ceiling in normal conditions and allowing a certain differentiation between countries; coordination of budgetary policies at EU/EMU level to ensure that the different budgetary positions form a coherent picture for the EU/EMU as a whole.
- This approach would involve strengthening budgetary surveillance and coordination in Article 103 and clarifying and speeding up the excessive deficit procedure of Article 104c. It would also require a strong political commitment from all those involved to apply rigorously the procedures of the Treaty, as further specified and clarified by secondary legislation. This commitment could be enshrined in a declaration by the European Council.
- Using the possibilities for secondary legislation provided by Article 103(5), the budgetary aspects of multilateral surveillance would be reinforced so as to provide an early warning system in which serious slippages from Member States' medium-term budgetary adjustment paths are identified and recommendations made by the Council to take corrective action well before a deficit position becomes excessive. This enhanced monitoring would rely on an obligation on Member States participating in EMU to submit "stability programmes" setting out their medium-term budgetary objectives and other relevant information. Surveillance procedures at Community level would also be specified more fully.

- The application of the excessive deficit procedure (including the final step of sanctions) needs to be clarified and accelerated so that it acts as a genuine deterrent. Some of the definitions of Article 104c can be clarified to remove uncertainty, but there will always have to remain some room for Council discretion. The procedure can be speeded up substantially by setting time limits for the completion of key steps. It is suggested that the decision on the existence of an excessive deficit and the issuing of recommendations should be completed by May in the year following that in which an excessive deficit emerges; in the event that the Council judges that insufficient effective action is being taken by a Member State to correct the excessive deficit, then the remaining steps of the procedure and the imposition of sanctions should be completed by December of the same year. It would be possible to move even faster in situations where planned deficits already exceeded the 3% limit and/or recommendations to take corrective action have already been made by the Council under Article 103 procedures.
- Further specification of how sanctions would be applied is also necessary. It is suggested that there should be a presumption that a non-interest bearing deposit will be required whenever sanctions are triggered (possibly supplemented by the non-pecuniary sanctions foreseen by the Treaty). The scale of these deposits should be calculated (as a % of GDP) to include a fixed component and a variable component proportional to the deviation of the deficit from the 3% reference value. The initial deposit would be transformed into a fine if, after two years, sufficient action to correct the excessive deficit has not been taken. Deposits would be lodged with the Community and the proceeds of fines and the interest on deposits would be transferred to the EU budget.
- The legal basis for secondary legislation on the excessive deficit procedure is provided by Article 104c(14). Two possibilities exist and need to be considered further, but it is likely that the legislation suggested would require the use of the second indent which sets out the procedure to replace the Protocol on the excessive deficit procedure annexed to the Treaty. It would be desirable to keep the existing provisions of the Protocol totally unchanged, but they would be supplemented by provisions on interpretation, time delays and specification of sanctions.

1. INTRODUCTION

The Madrid European Council in December 1995 stressed the crucial significance of budgetary discipline and noted the Commission's intention "*to present its conclusions on ways to ensure budgetary discipline and coordination in the monetary union...*". On the basis of input from the Commission and the Monetary Committee, the informal Ecofin Council, meeting in Verona in April 1996, discussed the issue. Progress reports, covering this theme *inter alia*, were sent by the Commission and the Ecofin Council to the European Council in Florence in June 1996.

In the approach to the problem taken in this note, it is considered important that any new arrangements should be based on the following principles:

- they should be achieved in the context of the Treaty;
- the requirements for participation in EMU (either in the first group or at a later date) should in no way be changed;
- they should be agreed at EU level, even though full application would only concern the Member States participating in the single currency.

The approach put forward in this note respects these principles. Budgetary discipline and coordination can be enhanced in stage three of EMU through creating a framework in which clear medium-term objectives are set and by strengthening the application of two of the procedures already existing in the Treaty — multilateral surveillance and the excessive deficit procedure. The possibilities offered by the Treaty can be used effectively in the pursuit of appropriate budgetary policies, but this will also depend on a commitment from all the parties involved — the Member States, the Council and the Commission — to apply procedures rigorously.

The suggestions in this note take into account the discussion which has taken place so far and, by putting forward concrete preferred choices from a range of possible options for some of the detailed and technical features, are intended to advance the debate and build upon the emerging consensus. In particular, this note serves as a basis for input on this matter to the informal Ecofin Council to be held in September in Dublin. In the Autumn the Commission will finalise its position and present formal proposals to the Council, European Parliament and, where appropriate, the EMI.

2. THE ECONOMIC AND BUDGETARY FRAMEWORK

Suggested approach

The overriding concern of this note is to explore the necessary conditions to ensure budgetary discipline in stage three of EMU and respect the 3% reference value set by the Treaty. This strategy will build upon a two-layer approach to budgetary discipline and coordination: (a) medium-term national budgetary targets of close to balance or in surplus which would be consistent with the 3% ceiling and still allow a certain differentiation to account for national specificities; and (b) coordination of budgetary policies at the EMU level to ensure that the different budgetary positions form a coherent picture for EMU as a whole. The implementation of this commitment will involve strengthening budgetary surveillance in Article 103 and clarifying and speeding up the excessive deficit procedure in Article 104c.

2.1 Budgetary policy in EMU: flexibility and coordination

The introduction of a single currency and the creation of a European Central Bank implies that a single monetary policy is set for EMU as a whole. Budgetary policy, which remains under the responsibility of national authorities, will have a more important role in macroeconomic stabilisation and in the event of shocks.

In order to perform a shock-absorption and stabilisation function at national level, a degree of flexibility has to be left to national budgets in order to let the automatic stabilisers work through the cycle and to allow discretionary measures in the case of shocks. A sound budgetary discipline is paramount in order to allow the necessary flexibility to cope with adverse economic circumstances without shifting the public finances onto an unsustainable course. The dual requirement of discipline and flexibility is clearly recognised by the Treaty which, whilst leaving budgetary policy under the responsibility of Member States, sets Community rules to avoid excessive public deficits.

Furthermore, national budgetary policies should together achieve an appropriate fiscal stance for EMU as a whole so as to ease the burden on the single monetary policy in preserving price stability at relatively low interest rates and thereby foster economic growth and employment. To achieve this, fiscal discipline should be supplemented by the appropriate coordination of national budgetary policies, within the procedures foreseen by Article 103 of the Treaty. Further work will be necessary in order to make this coordination operational.

2.2 Medium-term national budgetary targets

The 3% of GDP reference value is to be seen as an upper limit, except for the limited degree of flexibility stipulated by the Treaty in Article 104c. Therefore, in the medium term, the Member States should aim at a budgetary position under normal economic circumstances well below that value. A medium-term target for budgetary policy is important to provide guidance to markets and to orientate the adjustment efforts of policy makers. Whilst a single target across EMU members would have the clear advantage of simplicity and visibility, it is also characterised by a number of drawbacks.

In particular, in view of differing degrees of real convergence and demographic prospects amongst Member States, national budgetary policies face different medium-term constraints. Furthermore, the budgetary room for manoeuvre needed to accommodate cyclical developments varies across Member States; in particular, it is higher than average in smaller countries.

On the basis of the considerations above, it is suggested to retain a medium-term budgetary objective of close to balance, as in the Broad Economic Policy Guidelines, whilst allowing a certain degree of differentiation in national medium-term budgetary targets to take into account national specificities.

2.3 General approach to ensuring budgetary stability in EMU

The specific proposals for secondary legislation to strengthen budgetary discipline considered in this note fall into two parts:

- strengthening of budgetary aspects of multilateral surveillance;
- a clarification of the way the provisions of the excessive deficit procedure will be applied, in particular with regard to achieving speedy implementation and greater certainty about the nature of the sanctions to be applied.

The move into stage three implies a need for a reinforced and speedier exchange of information about Member States' budgetary positions and intentions and a stronger interaction between policy-making at Member State level and the EU level. This will be desirable for both budgetary discipline and policy coordination purposes.

Building on the existing experience with convergence programmes, it is suggested to specify more clearly (in secondary legislation) the obligations on Member States, the Commission and the Council, and the procedures to be followed. The approach is thus first to strengthen the budgetary aspects of the multilateral surveillance process so that appropriate warnings ("yellow cards") and recommendations can be made to Member States *before* they breach the 3% of GDP deficit limit and so that more attention can be given to achieving an appropriate budgetary stance for the EU and the single currency zone as a whole.

In the event that Member States did breach the 3% of GDP limit, or risk doing so, then the full force of the excessive deficit procedure would be brought into play, leading to Council decisions and recommendations, and the imposition of sanctions if adequate corrective action has not been taken by the Member States concerned; all this needs to be carried out expeditiously and in a predictable way so that the excessive deficit procedure has genuine deterrent value. To this end the interpretation of the deficit criterion, the delays between the successive steps of the procedure, and the nature of the sanctions and their application should be defined more clearly and tightly. However, it would be incompatible with the Treaty to seek to override the basic provisions of the excessive deficit procedure in the Treaty; some discretion must be retained and Member States should have a minimum period at each key step of the procedure to correct their gross errors.

While the procedures foreseen by the Treaty cannot be made fully automatic, agreement is required not just on specific aspects of secondary legislation to clarify Treaty procedures but also on rigorous and timely application of these procedures so that there is no doubt about the firm commitment of all those involved to respect budgetary discipline.

3. STRENGTHENED SURVEILLANCE AND COORDINATION OF BUDGETARY POSITIONS

Suggested approach

The budgetary aspects of multilateral surveillance should be reinforced so as to provide an early warning system in which serious slippages from Member States' medium-term budgetary adjustment paths are identified and recommendations made to take corrective action well before a deficit position becomes excessive. In this way it is intended that the use of the heavier excessive deficit procedure (Article 104c) can in most cases be avoided if timely corrective action is taken.

Using the possibilities for secondary legislation provided by Article 103(5), there would be an obligation on Member States participating in EMU to submit "stability programmes" setting out their medium-term budgetary objectives and other relevant information. These programmes would be assessed by the Council and their implementation monitored closely. The Council may make recommendations, as provided for by Article 103(4), to Member States with serious deviations from targeted deficits to take adjustment measures. If the situation persists or worsens then the recommendations can be made public. In its surveillance the Council would also have regard to the overall budgetary positions of the EU and the EMU.

3.1 The legal base

Article 103(5) allows the Council, acting in accordance with the procedure referred to in Article 189c, to "adopt detailed rules for the multilateral surveillance procedure...". This note suggests that secondary legislation be enacted according to this provision to strengthen the budgetary aspects of multilateral surveillance. This legislation would specify information about budgetary policy objectives, measures and developments to be forwarded by Member States to the Commission (see Article 103(3), second indent) and would specify more fully the procedures to be followed by the Commission and Council in the monitoring and assessment of budgetary policies, as part of the regular overall assessment required by Article 103(3), first indent.

The legislation would also specify situations in which the Council might make recommendations to Member States and decide to make those recommendations public, as provided for by Article 103(4), first indent. This secondary legislation would be applicable to all Member States.

3.2 National stability programmes

A strengthened multilateral surveillance aims at creating an early warning system to prevent Member States from drifting into an excessive deficit position. It would also provide the framework for budgetary coordination with a view to establishing the appropriate budgetary stance for EMU as a whole. The suggested legislation would create an obligation for Member States to submit programmes covering their budgetary policies and would specify some elements to be respected as regards contents and timing. Programmes to be submitted by Member States participating in EMU would be called "stability programmes"; programmes to be submitted by Member States with a

derogation would be called "convergence programmes". The suggested legislation draws on the valuable experience gained in recent years with convergence programmes¹. The voluntary basis for convergence programmes has worked reasonably well, but not all Member States have regularly submitted and updated programmes, and so there has not in all cases been a comparable standard against which to judge performance.

The legislation would state the information which would have to be included in programmes. The programme is to specify the medium-term objective for the general government financial balance, the planned adjustment path for the government balance and the implied path for the debt ratio. Main economic assumptions (about economic growth and employment/unemployment, inflation and interest rates) are to be described so that the conditions in which budgetary policy operates can be understood. Budgetary measures recently introduced and proposed would also have to be described in the programmes. Commitments to take the necessary additional measures to keep the programmes on track would also be asked for.

It is suggested to set a minimum time period to be covered by the information about budgetary objectives and economic assumptions. The information should be annual and cover at least three future years as well as the previous and current year. Thus, for example, a programme submitted in 1998 should contain annual projections up to at least the year 2001. If the transition to the targeted medium-term objective takes longer than three years, then the programme should be extended as necessary

There would be a requirement that programmes be submitted before 1 January 1999, i.e. before the start of stage three of EMU. It would further be required that updated versions of programmes be submitted each year. These updates would be expected to review the implementation of the programme, confirm medium-term objectives, review economic prospects and adjustment paths for deficit and debt, and describe new measures being taken. It is suggested that updated programmes be submitted after the presentation of annual budget plans to the national parliament. Ideally, submission at Community level should take place immediately after the annual budget plans; the suggested secondary legislation would set an upper limit of two months for submission.

Member States would also be required to make their programmes public in the interests of transparency and so as to increase public understanding and market scrutiny; most Member States will probably wish to present their programme to the national parliament, but it is for individual Member States to decide how to make their programmes public.

The specification of the minimum contents of programmes does not exclude that Member States may usefully include other information relating to budgetary policy or indeed to other areas of economic policy. Desirable (but not obligatory) features of programmes might be further specified in a code of conduct approved by the Council, along the lines of that already approved in February 1994 in relation to convergence programmes. Examples of other elements which the Commission services consider it would be desirable for stability programmes to cover but for which no legal obligation is suggested, include: intentions for expenditure and revenue ratios; main categories of expenditure (e.g. investment, interest payments, non-interest current expenditure);

¹ There was an obligation from Article 109c(2)(a), second indent, to submit, if necessary, multiannual programmes before the beginning of the second stage of EMU on 1 January 1994.

surpluses/deficits in the sub-sectors of general government. Furthermore, it would be open to Member States during the preparation of their programmes to consult the Commission informally, with a view to achieving consistency in, for example, underlying assumptions about the economic environment in the EU and other aspects of content and presentation.

3.3 Community procedures

The suggested secondary legislation would also specify how some aspects of the surveillance of budgetary policies are to be carried out as part of the multilateral surveillance procedure of Article 103(3), first indent. This would in no way limit the scope of multilateral surveillance, which is much wider than budgetary policy alone.

It would be made clear how programmes shall be dealt with by the Council. There would be a requirement for the Council to complete an examination of a programme within two months of its submission, to be based on assessments by the Commission and the Economic and Financial Committee. The Council would be required in particular to examine the appropriateness of the medium-term budget objective set in the programme, the realism of the economic assumptions underlying the programme, and the adequacy of the budgetary measures to achieve the adjustment aimed for. In endorsing programmes, the Council may criticise aspects of programmes which it considers insufficient. The Member State would be expected to take such comments into account at the latest when it prepared its next updated programme; in some circumstances it might be possible and appropriate for changes to be made during the current national budgetary process..

The procedure would formalise what has already been broadly the practice in dealing with the existing generation of convergence programmes.

A somewhat less formal procedure would be allowed for updated programmes. These would in any case be assessed by the Commission and the Economic and Financial Committee, but would only be examined by the Council if necessary. It is presumed that major shifts in the direction of policy or problems in implementation would justify going to the Council.

As part of the multilateral surveillance exercises there would be regular monitoring of the implementation of stability programmes, in particular with a view to identifying major slippages from targets. The overall budgetary position of the EU and EMU should also be assessed by the Council as part of the coordination of economic policies in multilateral surveillance. The European Parliament should be kept informed of the results of the surveillance exercises. Increased attention will have to be given to coordination issues once stage three of EMU is under way.

The legislation would set out how the possibility offered by Article 103(4), for the Council to make (public) recommendations to Member States that risk jeopardising the proper functioning of EMU, might be applied in the context of the surveillance of budgetary policies. It is suggested that making a recommendation and making a recommendation public should be separate steps dependent on the persistence of a problem.

As guidance to the Council, it is suggested that a recommendation to a Member State to take corrective action would be made, if a slippage was identified from the medium-term budgetary objective (or the planned adjustment path during a transition period) which was clearly greater than the impact of cyclical factors. Significant departures from plans, which if uncorrected would risk further deterioration in the budgetary position would thus lead to an early initiative from the Council to give a "yellow card" warning.

**MAIN ELEMENTS OF SUGGESTED SECONDARY LEGISLATION TO
STRENGTHEN SURVEILLANCE AND COORDINATION OF
BUDGETARY POSITIONS**

Stability programmes

1. Each participating Member State shall submit to the Council and Commission a "stability programme". [Parallel obligation on non-participating Member States to submit "convergence programmes".]
2. A stability programme shall contain:
 - (a) medium-term objective and adjustment path for the government surplus/deficit as a ratio to GDP; path for the government debt ratio;
 - (b) main assumptions about expected economic developments (real GDP growth, employment/unemployment, inflation, interest rates);
 - (c) description of budgetary measures being taken to achieve the objectives of the programme;
 - (d) commitment to take additional measures when necessary to prevent slippage from targets.
3. The information about paths for the government surplus/deficit ratio and debt ratio and the main economic assumptions referred to in para 2(a) and (b) shall be annual and shall cover, as well as the current and preceding year, at least the following three years.
4. Stability programmes shall be submitted before 1 January 1999. Thereafter, updated programmes shall be submitted each year, not later than two months after the presentation of annual budget proposals by a Member State government to its national parliament.
5. Member States shall make public their stability programmes and updated programmes.
6. Other aspects relating to the content and format of stability programmes may be dealt with by a code of conduct which may be approved by the Council.

Community procedures: assessment and monitoring of stability programmes; recommendations

7. Based on assessments by the Commission and the Economic and Financial Committee, the Council shall endorse each stability programme within at most two months of its submission. The Council shall examine in particular whether, having regard to specific national characteristics, the national medium-term budget objective is consistent with that of close to balance set for the Community as a whole, whether the economic assumptions on which the programme is based are realistic and whether the measures being taken and/or proposed are sufficient to achieve the targeted adjustment path towards the medium-term objective. The Council may indicate ways in which it considers the objectives and contents of a programme should be strengthened.
8. Updated stability programmes shall be examined by the Economic and Financial Committee on the basis of assessments by the Commission; if necessary, updated programmes may also be examined by the Council.
9. As part of the regular twice-yearly multilateral surveillance exercises, the Council shall monitor the implementation of stability programmes, based on information provided by Member States and on assessments by the Commission and the Economic and Financial Committee, in particular with a view to identifying significant actual or expected divergence from the medium-term objective (or the adjustment path towards it) set in the stability programme for the government surplus/deficit.
10. In the event of significant identified slippage from the medium-term objective (or the adjustment path towards it), which is not explainable by conjunctural weakness, the Council may, as provided for by Article 103(4), make a recommendation to the Member State concerned to take budgetary adjustment measures.
11. In the event that in subsequent monitoring the slippage from target is seen to persist or worsen, the Council may make a recommendation to the Member State concerned to take specific corrective action and, as provided for by Article 103(4), may make its recommendation public.
12. As part of the multilateral surveillance exercises, the Council shall also assess the appropriateness of the overall actual and forecast budgetary positions for the area as a whole implied by national stability programmes and updated programmes.
13. The Council and Commission shall report to the European Parliament twice a year on the multilateral surveillance.

4. EXCESSIVE DEFICIT PROCEDURE

4.1 Background and underlying approach

Suggested approach

In order to enhance the effectiveness and the dissuasive character of the excessive deficit procedure, secondary legislation could be adopted with three objectives in mind: to clarify the interpretation of certain Treaty provisions, to accelerate the procedure by fixing time-limits between successive steps and to provide guidance to the Council on the type and scale of sanctions to be imposed.

The importance attached to budgetary stability is evident from Article 104c(1) which states "*Member States shall avoid excessive government deficits*". Subsequent provisions of Article 104c outline the excessive deficit procedure (EDP) to enforce this obligation. The Treaty recognises the greater obligation on countries forming part of the monetary union, and hence provides additional mechanisms which ultimately could lead to the imposition of sanctions.

The excessive deficit procedure set out in the Treaty is complicated involving some eleven separate steps. It is supplemented with the Protocol on the excessive deficit procedure, which *inter alia*, defines the reference values against which compliance is judged. There also exists Council Regulation 3605/93 on the application of the Protocol on the excessive deficit procedure, which *inter alia*, specifies the reporting requirements of Member States.

With a view to enhancing budgetary stability in stage 3, the Commission services consider that secondary legislation could be adopted on the excessive deficit procedure with three objectives in mind: to clarify the interpretation of certain Treaty provisions - to accelerate the procedure by fixing time-limits between successive steps - to provide guidance to the Council on the type and scale of sanctions to be imposed. Such legislation will help ensure that the excessive deficit procedure functions in a smooth, rapid and predictable manner.

The excessive deficit procedure came into effect at the beginning of stage two of EMU, and considerable experience and insights have been gained through its application over the past three years. Where appropriate, existing practices and procedures should be maintained. In particular, deadlines for the submission of data by the Member States and the start of the excessive deficit procedure should remain unchanged. Currently Member States are required to submit data twice annually, by 1 March and by 1 September, and the excessive deficit procedure is conducted annually on the basis of March data (although it could be launched at any time).

The Council could continue to determine the existence of an excessive deficit on the basis of actual data and not planned data alone. However, reliance on actual data to confirm the existence of an excessive deficit does not delay the start of the procedure. On the basis of planned data alone, or on the basis of forecasts (for example, estimates presented by governments when presenting annual budgets) it is possible to complete the

early steps of the procedure, up to and including Article 104c(5) where the Commission may address an opinion to the Council that there is a risk of an excessive deficit.

Concern has been raised that the credibility of the excessive deficit procedure could be called into question in cases where there is manifest evidence that a country will breach the reference value, but where the Council would be constrained from taking action until actual data is available. This could occur if a Government announced a budget in autumn of year t with a forecast deficit of 5% of GDP in year $t+1$, but which would only be confirmed by actual data in March of the following year, $t+2$. Under these circumstances, the excessive deficit procedure could begin immediately after the Government announcement (year t) leading to a Commission opinion to the Council on the risk of an excessive deficit in accordance with Article 104c(5). However, if during the course of year $t+1$, further reliable information became available confirming this eventuality (say in the planned data submissions of March or September for year $t+1$), then the Council could consider that an excessive deficit exists in accordance with Article 104c(6). The important factor is that the forecast of a deficit alone would not be sufficient to put a country into an excessive deficit position: it would have to be confirmed by additional robust information providing clear evidence that the reference value is being exceeded by a considerable margin. In other words, a prudent approach would be followed in the absence of actual data: there should be no doubt that the outcome will be a deficit clearly above the reference value.

4.2 Clarification of the interpretation of Treaty provisions

Suggested approach

Secondary legislation could define the "exceptional and temporary" circumstances allowing the reference value for government deficits to be breached. "Exceptional" could refer to unusual events outside the control of the relevant Member State which have a major impact on the financial position of the general government. Severe economic downturns could also constitute exceptional situations. A breach could be considered temporary if planned data indicate the deficit returning below the reference value within one year.

Clarification, though not in secondary legislation, of the conditions under which the Commission will prepare a report in accordance with Article 104c(3), would also be welcome. The Commission would take account of recommendations issued to a Member State under the multilateral surveillance procedure, although they would not automatically constitute a risk of an excessive deficit. To clarify its policy intentions, the Commission could state, that having identified a risk of an excessive deficit, it could be expected to prepare a report to the Council and so launch the excessive deficit procedure.

Clarification, albeit not in secondary legislation, as to what constitutes "effective action" in accordance with Article 104c(8) is essential. There is trade-off between the speed of the procedure and legislative certainty of corrective budgetary measures. Member States should be given adequate time to draw up budgetary packages, but deadlines should be sufficiently short so as to maintain a sense of urgency. The Council, when issuing its recommendation could state what effective action is considered to mean. A priori, effective action could be determined on the basis of measures agreed by a Government, provided there was a sufficient degree of certainty that it would be endorsed by the national legislature. Member States should consider whether existing national budgetary procedures are compatible with the enhanced obligations of EMU.

The Commission services consider that three key provisions of Article 104c warrant clarification, although secondary legislation would only be appropriate for the first of these:

- the exceptions on breaching the reference value for government deficits set out in Article 104c(2);
- the conditions under which the Commission will prepare a report to the Council having identified the risk of an excessive deficit position in accordance with Article 104c(3);
- clarification as to what constitutes "effective action" in accordance with Article 104c(8).

Clarify in secondary legislation the exceptions on breaching the reference value for government deficits: the purpose of including a clarification in secondary legislation would be to enhance the status of the reference value as an upper limit. In practice, however, it is extremely difficult to provide a watertight definition governing all exceptional situations which is why the Treaty provides room for the Council to exercise its judgement.

The Commission services consider that the term "*exceptional and temporary*" in Article 104c(2a) 2nd indent could be interpreted as follows. A breach of the reference value could be considered exceptional under two conditions: (1) when resulting from an unusual event outside the control of the relevant Member State and which has a major impact on the financial position of the general government; (2) when resulting from severe economic downturns. A breach of the reference value in year $t-1$ could be considered temporary if planned data for year t , as defined in the Council Regulation 3605/93, indicate that the deficit will return below the reference value in the calendar year following the year in which the deficit exceeded the reference value.

Two types of exceptional events are identified above. Firstly, there are unusual events outside the control of the Member State and which have a large impact on public finances. This includes natural disasters or other events of a catastrophic nature. Secondly, it refers to severe economic disturbances going beyond the normal downturns of the economic cycle. Past example of such economic disturbances could include German unification or the collapse of Finnish export markets in the former USSR.

The term "temporary" described above refers to a situation where a country breaches the reference value in year $t-1$ but where planned data indicate that the deficit will return below the reference value in year t . However, should data become available during this intervening period which indicates otherwise, the Council could act immediately and decide that an excessive deficit situation exists.

Clarify the conditions under which the Commission will prepare a report in accordance with Article 104c(3): this Article states that the "*Commission may prepare a report if it is of the opinion that there is a risk of an excessive deficit in a Member State*". It is the responsibility of the Commission to identify the risk of an excessive deficit, and having done so, to decide whether to forward a report to the Council. As such, Commission action is required to proceed with successive steps of the excessive deficit procedure.

As regards what constitutes a risk of an excessive deficit, there is a substantive link with the multilateral surveillance procedure of Article 103, even though no formal legal link exists. The Commission, in assessing risk, would clearly take account of recommendations issued to a Member State under the multilateral surveillance procedure in accordance with Article 103(4), and in particular if those recommendations had been made public. Indeed, the purpose of reinforced surveillance is provide early warning of significant slippages from medium-term targets which could lead a risk of reference values being breached. However, Council recommendations under Article 103(4) could not automatically constitute a risk of an excessive deficit.

In order to demonstrate its commitment to budgetary stability, the Commission would make a clear statement of its policy intentions to the effect that having identified the risk

of an excessive deficit, the Commission could be expected to prepare a report to the Council in accordance with Article 104c(3).

It should be borne in mind, that where the Council or a Member State differs from the Commission in its assessment of the risk of an excessive deficit, Article 109d allows them to request the Commission to act in accordance with Article 104c(3). The Commission is obliged to examine this request and submit its conclusions without delay. Indeed, this rule applies to all provisions of Article 104c with the exception of paragraph 14.

Clarification as to what constitutes "effective action" in accordance with Article 104c(8): the time lag between the decision on the existence of an excessive deficit and the decision as to whether effective action has been taken determines the overall length of the procedure. There is a trade-off between the speed of the procedure and legislative certainty of corrective budgetary measures. For example, if the judgement on effective action can be made following an examination of measures agreed by the Government concerned without waiting for their formal adoption by national legislatures, then a short time limit could be envisaged, i.e. the time required to prepare a budgetary package. The alternative would be to await formal adoption of measures before judging whether or not they are effective. Depending on national budgetary procedures, this could take many months.

The Commission services consider that an appropriate balance needs to be struck: on the one hand Member States should be given sufficient time to draw up, and if possible enact, corrective budgetary packages; on the other hand, deadlines should be sufficiently short so as to maintain a sense of urgency. It would be up to the Council, when issuing its recommendation in accordance with Article 104c(7), to state clearly what effective action is considered to mean, i.e. whether budgetary measures must be enacted by the national legislature. *A priori*, effective action could be judged on the basis of measures agreed by a Government, provided there was a sufficient degree of certainty that it would be endorsed by the national Parliament. If Government packages were subsequently not enacted within a given time-limit, or if they are not implemented in full, then the Council could reconsider its decision.

Member States should consider whether existing national budgetary procedures are compatible given the enhanced obligations of EMU.

4.3 Establishment of deadlines in the excessive deficit procedure

Suggested approach

The suggested time path is based on the procedure commencing in March following the first reporting by the Member States and the suggested time limits represent maximum delays which could be tightened where appropriate, for example if the Member State had an early warning under Article 103. It is suggested that a single deadline be established in secondary legislation for the steps up to the issuing of the Council recommendations under Article 104c(7), and that deadlines be set for individual steps thereafter.

The Commission services consider that the decision on sanctions should be taken in the same calendar year as the decision on the existence of the excessive deficit. A maximum of three months would be required between the submission of data (by 1 March) and the determination of an excessive deficit (May). Member States would then have no more than four months (September) to take effective action. Persistent failure to take corrective measures could lead to sanctions being imposed three months later (December).

To avoid over-determining the procedure, it is suggested to establish a single time limit for the completion of the early steps of the procedure, up to and including the issuing of a Council recommendation following a decision on the existence of an excessive deficit. For subsequent steps of the excessive deficit procedure, it would be appropriate to establish individual deadlines.

As mentioned previously, deadlines should represent a balance between the need to maintain a sense of urgency and the need to provide sufficient time to Member States to take appropriate actions. The suggested time path is based on the procedure commencing after the March reporting deadline. Moreover, the suggested time limits represents maximum delays. The Council could fix shorter deadlines where appropriate, for example if the Member State had an early warning under Article 103.

In determining its maximum time-delays, the Commission services consider that, to the extent possible, the decision on sanctions should be taken in the same calendar year as the decision on the existence of the excessive deficit. For this reason, it is suggested that the decision on sanctions be taken no later than nine months after the data submission deadlines.

The following deadlines could be enshrined in secondary legislation:

- *between the submission of actual data and the Council decision on the existence of an excessive deficit and the issuance of Council recommendations.* A period of three months could be provided from reporting deadline of Regulation 3605/93 until the Council decision on the existence of an excessive deficit. The Council could issue its recommendations at the same time. Based on the 1 March reporting date, the Council would have to act before 1 June (i.e. the May Ecofin). This is considerably

faster than current procedures where the decision on the existence of an excessive deficit is taken at the June Ecofin Council and recommendations are issued at the July Ecofin Council. The proposed acceleration would be feasible if a number of conditions are respected: a small number of countries have an excessive deficit; Member States strictly respect the 1 March deadline for the submission of data; the Commission and the (future) Economic and Financial Committee are prepared to act swiftly.

- *between the issuance of Council recommendations and the assessment as to whether effective action has been taken:* as mentioned above, this is the decisive step in ensuring a rapid procedure. An upper limit of four months is suggested which would imply that Council would have to confirm that no effective action has been taken before 1 October (i.e. the September Ecofin) based on a recommendation from the Commission. This should provide sufficient time to develop (and in many cases adopt) substantial budgetary packages and would also be convenient as several Member States draw up national budget plans in late summer and early autumn.
- *between the Council's assessment as to whether effective action has been taken and the giving of notice to the Member State concerned:* a one month deadline would imply that this step be taken no later than 1 November, i.e. the October Ecofin Council.
- *between the Council giving of notice to the Member State and the Council decision whether to impose sanctions :* A two months deadline would imply that the decision on sanctions be taken by the end of the calendar year, i.e. the December Ecofin Council.
- *between the Council decision to impose sanctions and the decision to intensify or abrogate sanctions:* in general, the Council would base its decision on March data. Assuming sanctions were imposed in December (year t), this would imply that the first opportunity to intensify or abrogate sanctions would arise some three to four months later (March or April of year $t+1$).

4.4. Sanctions

Suggested approach

The Treaty establishes that persistent failure to correct an excessive deficit may lead to sanctions being imposed on the Member State concerned. Although the Council retains discretion on whether to implement sanctions and which sanctions to implement, there is a strong presumption that effective sanctions will be the natural consequence at the end of the excessive deficit procedure if effective measures to correct the deficit are not put into place.

Within this framework, it is envisaged that whenever sanctions are triggered the Member State concerned would, as a rule, be required to make a non-interest-bearing deposit. The non-interest-bearing deposit, expressed as a share of GDP, should consist of a fixed amount and a variable amount; the latter would depend on the deviation of the budget deficit from the 3% reference value. The Council may decide to supplement this deposit with the first and second types of sanctions foreseen by the Treaty, i.e. require the Member State concerned to publish additional information before issuing public debt and invite the European Investment Bank to reconsider its lending policy towards the Member State concerned. The initial deposit could be transformed into a fine if, after two years, the excessive deficit has not yet been corrected. An upper limit, in percentage of GDP, could be set to the annual amount of sanctions. Deposits will be lodged with the Community, as stated by the Treaty, and the proceeds of fines and the interest on deposits will be transferred to the EU budget.

4.4.1 Treaty provisions and general principles

Sanctions serve as a measure of last resort imposed on those Member States which have failed to put into practice or which have ignored successive recommendations of the Council to implement effective actions to correct an excessive deficit. Four types of sanctions are envisaged in Article 104c(11) of the Treaty: to require the Member State to publish additional information before issuing public debt; invite the European Investment Bank to reconsider its lending policy towards the Member State concerned; require the Member State to make a non-interest-bearing deposit; impose fines of an appropriate size.

According to the Treaty, the Council retains discretion on the appropriateness of and on the type of sanctions, within the range of possibilities envisaged by the Treaty. However, in order to make the present commitment to budgetary discipline credible, there is the presumption that failure to comply with the request of the Council to take effective measures to correct the excessive deficit will lead to sanctions being imposed on the Member State concerned.

In the Progress report to the European Summit in Florence, the Ecofin Council states that there is a presumption that, "*after having decided that an excessive deficit persists, the Council will impose sanctions on a prescribed scale - the objective being to create clear expectations of fines sufficient to have deterrent effect*". The Commission, in its communication to the European Council, stated that "*secondary legislation, adopted on*

the basis of Article 104c(14), could ... clarify the conditions under which sanctions will be imposed and define the type, scale and timing of sanctions".

Adequate sanctions in the context of the excessive-deficit procedure should, in principle:

- have a pre-emptive deterrent impact, i.e. those authorities which are threatened by potential sanctions should have an incentive to avoid an excessive deficit in the first place;
- have the necessary degree of certainty and ease of computation, so that the Member State concerned would know what penalties it would incur, in the various circumstances, if it persists in not correcting the deficit;
- be credible, i.e. be expected to be really applied on Member States failing to correct the deficit; to this end, the credibility of very tough sanctions would be put into question during the first years of EMU when some members are still likely to be close to the 3% deficit limit;
- contribute to the adjustment process and not risk unduly aggravating the economic and budgetary situation of the country in question; in this sense, sanctions must respect the proportionality principle established in Article 3b of the Treaty;
- be timely, by limiting as far as possible the delay between the occurrence of an excessive deficit and the potential application of sanctions, so as to give an incentive to correct the deficit immediately.

These principles should provide guidance in assessing the type of sanctions provided for by the Treaty and devising the mechanism of concrete application.

4.4.2 Implementing sanctions

This paper suggests that, whenever sanctions are triggered, the Council will, as a rule, impose non-interest-bearing deposits. The amount of these deposits could consist of a constant term (expressed as a share of GDP) and a variable term proportional to the deviation of the budget deficit from the 3% of GDP reference value².

In the case in which an excessive deficit is due to a rising stock of debt, even though the deficit remains below 3% of GDP³, the deposit would be equal to the constant term.

The above approach has a number of advantages:

- the constant amount shows clearly that there exists a clearly different position between having or not having an excessive deficit;

² Deposits would be calculated according to the following expression:

$$S_t = a + b(d_{t-1} - 3\%)$$

where S_t is the sanction applied in year t and d_{t-1} is the budget deficit of the previous year (i.e. the year in which the deficit was considered to be excessive), both as a share of GDP. The terms a and b are constant, appropriately chosen.

³ This may occur if both the rate of growth of nominal GDP is very low and the stock of debt is not far higher than the 60% of GDP reference value or in case of high and recurrent stock-flow adjustment.

- the constant amount should provide a powerful incentive for a country being close to the reference value to make the necessary effort to put the deficit under control or to correct it;
- the proportional, linear part of the sanction would penalise/reward budgetary behaviour in a continuous fashion; it would avoid discrete jumps in sanctions, and thus discourage a clustering of budget deficits just below "round figures" (full percentage points of GDP), above which sanctions would be stepped up.

The fixed component could be of the order of 0.2% of GDP and the coefficient of proportionality could be set at 0.1. These values, which appear to satisfy the general principles of credibility, proportionality and deterrence, imply that failing to correct the excessive deficit entails a penalty which is equal to 0.2% of GDP plus a tenth of the difference between the actual deficit and the reference value⁴.

The initial deposit should turn into a fine if within two years the excessive deficit has not yet been corrected or effective actions have not been taken. According to this approach, after the first two years and until the excessive deficit is re-absorbed, the procedure works *de facto* on an yearly basis as each year the deposit made two years earlier would become a fine.

An upper limit on the annual amount of deposits of the order of 0.5% of GDP could be envisaged. This would prevent sanctions from becoming unbearable and thereby being counter-productive. In case of the above-mentioned values of the components of the sanctions rule, this figure corresponds to the amount of sanctions triggered by a budget deficit of 6% of GDP. Hence, any deficit above this level would not carry a proportionally higher sanction.

The deposits will be lodged with the Commission. Interests on the deposits and proceeds of fines will be transferred to the EU budget.

The Council may decide to supplement the initial or subsequent deposit with the sanctions mentioned in Article 104c(11), first and second indent, in order to strengthen the punitive character of its decision. Contrary to the abrogation of deposits, which, according to the Treaty, can only take place once the excessive deficit has been corrected, these non-pecuniary sanctions could be lifted, on the basis of the provisions of Article 104c(12), in case of good, though still partial progress in re-absorbing the deficit.

According to the time schedule envisaged in section 4.3 for the various steps of the excessive deficit procedure, the first application of sanctions would take place no later than December of the year following that in which the excessive deficit arose. Thereafter, sanctions would be reviewed once a year or, as to the transformation of deposits into a fine, once every two years, following the March reporting by the Member States. The amount of deposits could be adapted technically later on in the year as revised figures for the deficit become available.

⁴ Hence, a Member State having an excessive budget deficit of 5% of GDP would be hit by a pecuniary sanction in the form of a deposit equal to 0.4% of GDP.

4.5 Legal base

As regards the legal base, secondary legislation could be adopted in accordance with Article 104c(14) either by replacing the Protocol (2nd subparagraph) or by adopting detailed rules and definitions for the application of the provisions of the Protocol (3rd subparagraph). The latter involve complementing Regulation 3605/93, OJ L 332/7 of 31.12.93. Under both provisions, the Council acts in its full composition of all fifteen Member States, even though the specific procedural requirements differ.⁵

According to Article 104c(14) 1st subparagraph, the Protocol contains "*further provisions relating to the implementation of the procedure described in this Article*". The potential scope of the Protocol is therefore larger than what is set out in the present Protocol. Secondary legislation would take the form of a Regulation which would not have to be ratified by the Member States. Amending this new Regulation would require unanimity.

Whereas the 2nd subparagraph is open to wide interpretation, the 3rd subparagraph has a narrower scope. It is limited to the "*detailed rules and definitions for the application of the provisions of the said Protocol*", i.e. for the application of the provisions relating to the implementation of the excessive deficit procedure.

Given that possible secondary legislation identified in this text mainly refers to the application of Treaty provisions rather than to rules and provisions for application of the Protocol, there is a strong possibility, that Article 104c(14) 2nd subparagraph will provide the legal base. Formal confirmation of this must await the availability of draft legal text.

The replacement of the Protocol would require that existing provisions are copied into a new Regulation. The Commission services are of the view that existing Protocol provisions form part of the *acquis communautaire* and should not be amended. Otherwise, there is a risk of introducing damaging uncertainty in the progress towards EMU.

⁵ To replace the Protocol under the 2nd subparagraph, the Council acts unanimously on a proposal from the Commission after consulting the European Parliament and the European Central Bank. To adopt detailed rules and definitions for the application of the provisions of the Protocol under the 3rd subparagraph, the Council acts by qualified majority on a proposal from the Commission and after consulting the European Parliament and the European Central Bank.

**MAIN ELEMENTS OF SUGGESTED SECONDARY LEGISLATION TO
CLARIFY AND SPEED UP THE EXCESSIVE DEFICIT PROCEDURE AND TO
IMPLEMENT SANCTIONS**

Clarification of the interpretation of Treaty provisions

1. The term "exceptional and temporary" in Article 104c(2a) 2nd indent could be interpreted as follows:
 - breach of the reference value could be considered exceptional when resulting from an unusual event outside the control of the relevant Member State and which has a major impact on the financial position of the general government. Severe economic downturns could also constitute exceptional situations;
 - breach of the reference value in year $t-1$ could be considered temporary if planned data for year t , as defined in the Council Regulation 3605/93, indicate that the deficit will return below the reference value in the calendar year following the year in which the deficit exceeded the reference value.

Establishment of deadlines

2. The Council shall decide on the existence of an excessive deficit in accordance with Article 104c(6), within three months of the reporting dates pursuant to Council Regulation EC/3605/93 of 22 November 1993. The Council shall issue recommendations to the Member State concerned in accordance with Article 104c(7) immediately following the decision on the existence of an excessive deficit in accordance with Article 104c(6).
3. Any Council decision that no effective action has been taken in accordance with Article 104c(8), shall be taken within four months of the decision on the existence of an excessive deficit in accordance with Article 104c(6) and the issuing of recommendations in accordance with Article 104c(7).
4. Any Council decision to give notice to the Member State to take measures for the deficit reduction in accordance with Article 104c(9), shall be taken within one month of a Council decision that no effective action has been taken in accordance with Article 104c(8).
5. Where the conditions to apply Article 104c(11) are met, there is a presumption that the Council will decide to impose sanctions in accordance with Article 104c(11) no later than two months after the Council decision to give notice to the Member State to take measures in accordance with Article 104c(9).
6. Any Council decision to intensify sanctions in accordance with Article 104c(11) or to abrogate some or all of its decisions in accordance with Article 104c(12) shall be taken no later than two months after the reporting dates pursuant to Council Regulation EC/3605/93 of 22 November 1993.

Type and scale of sanctions

7. Whenever the Council decides to apply sanctions to a Member State in excessive deficit which has failed to take measures to correct it, a non-interest-bearing deposit would, as a rule, be required. The Council may decide to supplement this deposit by the measures foreseen in the first and second indent of Article 104c(11).
8. The amount of the deposit could comprise of a fixed component (expressed as a share of GDP) and a variable component proportional to the difference between the deficit as a percentage of GDP of the year in which such deficit was considered to be excessive and the 3% of GDP reference value. An upper limit of 0.5% of GDP could be set for the annual amount of deposits.

Intensification and abrogation of sanctions

9. The initial deposit will, as a rule, turn into a fine if within the two subsequent years the excessive deficit has, in the view of the Council, not been corrected. The Council may decide to supplement this fine by the measures foreseen in the first and second indent of Article 104c(11) if the latter had not been applied at the moment of imposing sanctions. At the same time the Member State should be required to make a new non-interest-bearing deposit calculated according to the rule set out in 8.
10. The Council may decide to abrogate some or all the sanctions defined in the first and second indent of art. 104c(11) to the extent that the Member State is making significant, though not yet sufficient progress in correcting the excessive deficit.
11. The Council shall abrogate all outstanding sanctions if, in the view of the Council, the excessive deficit has been corrected.

Proceeds of sanctions

12. The deposits will be lodged with the Commission. Interests on the deposits and proceeds of fines will be transferred to the EU budget.

HOW THE EXCESSIVE DEFICIT PROCEDURE COULD WORK IN STAGE 3

by 1 March: submission of data by Member States in accordance with Regulation 3605/93.

by end March: Commission prepares report in accordance with Article 104c(3).

early/mid April: Economic and Financial Committee prepares opinion in accordance with Article 104c (4).

by end April: adoption of Commission opinion in accordance with Article 104c(5) and prepares its recommendation to the Council in accordance with Article 104c(6).

May: Council decision on the existence of an excessive deficit in accordance with Article 104c(6).

May: Council recommendation to the Member State in accordance with Article 104c(7).

September: Council decision that no effective action has been taken and decision on the publication of recommendations in accordance with Article 104c(8).

October: Council decision to give notice to take measures within a specified time-limit in accordance with Article 104c(9).

December: Council decision to impose sanctions in accordance with Article 104c(11).

March: Council decision to intensify sanctions in accordance with Article 104c(11) or to abrogate sanctions in accordance with Article 104c(12).

The scenario described above would occur when a country moves into an excessive deficit position unexpectedly without early warning. It is therefore necessary to commence the procedure from the beginning in 1 March. Nevertheless, the procedure is very rapid, with only three months required to determine an excessive deficit position possibly leading to sanctions within nine months.

The deadlines presented above should be regarded as maximum time delays, with the Council having discretion to set tighter time-limits. An acceleration would be feasible if there had been advance warning of the risk of an excessive deficit. Take the case of a Member State which had been issued with a recommendation in accordance with Article 103(4). If the Commission considered that there is a risk of an excessive deficit, it would prepare a report to the Council in accordance with Article 104c(3). The Council could immediately determine the existence of an excessive deficit in March once actual data is available thus gaining three to four months compared with the scenario described above. In other words, it could be possible to decide on sanctions by October.

How the excessive deficit procedure would work beginning in March

Year N

Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
		Member States submit data	Mon. Cttee. formulates opinion	Ecofin decision on excessive deficit and issues recomm				Ecofin assesses "effective actions" and may decide to publish recommen.		Ecofin gives notice of specific measures	Ecofin decision to apply sanctions
		Comm. prepares report	Comm. prepares opinion					Member States submit data			

N+1 and thereafter

Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
		Member States submit data	Ecofin decision to abrogate or intensify sanctions					Member States submit data			

The steps of the excessive deficit procedure and suggestions for possible secondary legislation

Step	Description	Treaty reference	Existing arrangement	Suggestions for possible secondary legislation
1	Commission monitoring	Art 104c(2) and Art 1 Protocol No. 5	<p>The Commission shall in particular examine compliance with budgetary discipline on the basis of two criteria;</p> <ul style="list-style-type: none"> • whether the ratio of the planned or actual deficit to gross domestic product at market value exceeds 3 %, unless: <ul style="list-style-type: none"> - either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; - or alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value. • whether the ratio of govt. debt to gross domestic product exceeds 60 % , unless: <ul style="list-style-type: none"> - the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace. 	Clarify the interpretation of the terms "exceptional and temporary"
2	Commission report	Art 104c(3)	If a Member State does not fulfil the requirements or if there is a corresponding risk, the Commission shall prepare a report, which shall also take account of all other relevant factors, including the medium-term economic and budgetary position.	Clarify (not in secondary legislation) the conditions under which the Commission will prepare a report.
3	Report of the Econ. & Finan. Committee	Art. 104c(4)	The Committee shall formulate an opinion on basis of the report of the Commission	

4	Commission opinion	Art 104c(5)	If the Commission considers that an excessive deficit in a Member State exists or may occur, the Commission shall address an opinion to the Council	
5	Council decision	Art 104c(6)	The Council shall, acting on a recommendation from the Commission and having considered any observation which the Member State concerned may wish to make, decide after an overall assessment whether an excessive deficit exists.	Establish deadline: no later than 3 months after the deadlines for the submission of data
6	Council recomm.	Art 104c(7)	The Council shall make recommendations to the Member State concerned with a view to bringing that situation to an end within a given period	Establish deadline: no later than 3 months after the deadlines for the submission of data.
7	Publish Council recomm.	Art 104c(8)	Where the Council establishes that there has been no effective action in response to its recommendations within the period laid down, the Council may make its recommendations public	Clarify (not in secondary legislation) what constitute "effective action". Establish deadline: no later than 4 months after the decision on the existence of an excessive deficit.
8	Council decision to give notice	Art 104c(9)	<p>If a Member State persists in failing to implement the recommendation, the Council may decide to give notice to the Member State to take, within a specified time-limit, measures for the deficit reduction.</p> <p>The Council may also request the Member State concerned to submit reports in accordance with a specific timetable in order to examine the adjustment efforts of that Member State.</p>	Establish deadline: no later than 1 month after the decision that no effective action has been taken.

9	Council Decision to apply sanction(s)	Art 104c(11)	<p>If a Member State fails to comply with a decision of para. 9, the Council may::</p> <ul style="list-style-type: none"> • require the Member State to publish additional information, to be specified by the Council, before issuing bonds and securities; • invite the EIB to reconsider its lending policy towards the Member State concerned; • require the Member State concerned to make a non-interest-bearing deposit of an appropriate size with the Community until the excessive deficit has, in the view of the Council, been corrected; • impose fines of an appropriate size. 	Establish deadline: no later than two months after the decision to give notice to a Member State.
10	Council decision to intensify the sanction(s)	Art 104c(11)	As long as a Member State fails to comply with a decision according to para. 9 the Council may decide to intensify the measures.	Establish deadline: no later than 2 months after be reporting deadlines of Regulation 3605/93.
11	Abrogation of the Council decisions	Art 104c(12)	The Council shall abrogate some or all of its decisions referred to in para. 6 to 9 and 11 to the extent that the excessive deficit in the Member State has previously, in the view of the Council, been corrected:	Establish deadline: no later than 2 months after be reporting deadlines of Regulation 3605/93.