Specifications on the implementation of the Stability and Growth Pact

and

Guidelines on the format and content of Stability and Convergence Programmes

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INTRODUCTION

This Opinion updates and replaces the opinion of the Economic and Financial Committee on the content and format of the Stability and Convergence Programmes, endorsed by the Ecofin Council on 10 July 2001.

The Stability and Growth Pact fully entered into force on 1 January 1999 and consists of a rules-based framework with both preventive and corrective elements. It initially consisted of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure and the Resolution of 17 June 1997 on the Stability and Growth Pact. On 20 March 2005 the Council adopted a report entitled “Improving the implementation of the Stability and Growth Pact”. The report was endorsed by the European Council in its conclusions of 22 March 2005, which stated that the report updates and complements the Stability and Growth Pact, of which it is now an integral part. On 27 June 2005 the Pact was complemented by two additional Regulations amending the Regulations 1466/97 and 1467/97.

The Stability and Growth Pact is an essential part of the macroeconomic framework of the Economic and Monetary Union, which contributes to achieving macroeconomic stability in the EU and safeguarding the sustainability of public finances. A rules-based system is the best guarantee for commitments to be enforced and for all Member States to be treated equally. The two nominal anchors of the Stability and Growth Pact - the 3% of GDP reference value for the deficit ratio and the 60% of GDP reference value for the debt ratio - and the medium-term budgetary objectives are the centrepiece of multilateral surveillance.

Member States, the Commission and the Council are committed to deliver on their respective responsibilities, applying the Treaty and the Stability and Growth Pact in an effective and timely manner. In addition, since effectiveness of peer support and peer pressure is an integral part of the Stability and Growth Pact, the Council and the Commission are expected to motivate and make public their positions and decisions at all appropriate stages of the procedure of the Stability and Growth Pact. Member States are expected to take into account guidance and recommendation from the Council in particular when preparing national budgets., and to ~~Member States are expected to regularly~~ properly involve~~inform the~~ national Parliaments in the various steps of ~~developments in the~~ procedures.

In order to enhance ownership of the EU budgetary framework, national budgetary rules should be complementary to the Stability and Growth Pact. Without prejudice to the balance between national and Community competences, their implementation could be discussed at European level in the context of the Stability and Convergence Programmes. In the same vein, governance arrangements at national level should complement the EU framework. National institutions could play a more prominent role in budgetary surveillance to enhance enforcement through national public opinion and complement the economic and policy analysis at EU level. In particular, Member States could establish an economic council of wise people who would advise on the main macro-economic projections.

These Guidelines for the implementation of the Stability and Growth Pact consist of 2 sections. The first section elaborates on the implementation of the Stability and Growth Pact. The second section consists of guidelines on the content and format of the stability and convergence programmes.

SECTION II

GUIDELINES ON THE FORMAT AND CONTENT OF STABILITY AND CONVERGENCE PROGRAMMES

The Stability and Growth Pact requires Member States to submit Stability or Convergence Programmes and updates thereof, which are at the basis of the Council's surveillance of budgetary positions and its surveillance and co-ordination of economic policies. The Council may, on a recommendation from the Commission, and after consulting the Economic and Financial Committee, deliver an opinion on each of the updated programmes and, if it considers that its objectives and contents should be strengthened, invite the Member State concerned to adjust its programme.

Member States are expected to take the corrective action they deem necessary to meet the objectives of their Stability or Convergence Programmes, whenever they have information indicating actual or expected significant divergence from those objectives.

The submission and assessment of Stability and Convergence Programmes is a fundamental component of the "European Semester" of economic policy coordination and surveillance. Under the European semester, the Commission and the Council assess Stability and Convergence Programmes before key decisions on the national budget for the following year are taken, to provide ex ante policy advice on fiscal policy. The timing of submissions and assessments of Stability and Convergence Programmes and National Reform Programmes is aligned.

Under the European Semester the policy surveillance and coordination cycle starts early in the year with a horizontal review under which the European Council, based on analytical input from the Commission, identifies the main economic challenges facing the EU and the euro area and give strategic guidance on policies. Member States are expected to fully take into account the horizontal guidance by the European Council when preparing their Stability and Convergence Programmes. Similarly, the Commission and Council are expected to take into account guidance from the European Council when assessing the programmes.

In view of the ~~fundamental~~ strengthened role of the Stability and Convergence Programmes in the process of multilateral surveillance under the European Semester, it is important that their information content is suitable and allows for comparison across Member States. Whilst acknowledging that the programmes are the responsibility of national authorities and that the possibilities and practices differ across countries, Council Regulation (EC) No 1466/97 as amended by Council Regulation (EC) No ~~x~~ 1055/05 sets out the essential elements of these programmes. In particular, Stability and Convergence Programmes include the necessary information for a meaningful discussion on fiscal policy for the short and the medium term, including a full fledged macroeconomic scenario, projections for the main government finances variables and their main components, and a description of envisaged policies.

The experience gathered during the first years of implementation of the Pact with the Stability and Convergence Programmes shows that guidelines on the content and format of the programmes not only assist the Member States in drawing up their programmes, but also facilitate their examination by the Commission, the Economic and Financial Committee and the Council.

The guidelines set out below should be considered as a code of good practice and checklist to be used by Member States in preparing Stability or Convergence Programmes. Member States are expected to follow the guidelines as far as possible, and to justify any departure from them.

1) Status of the programme and of the measures

Each programme mentions its status in the context of national procedures, notably with respect to the national Parliament. The programme also indicates whether the Council opinion on the previous programme has been presented to the national Parliament.

The state of implementation of the measures (enacted versus planned) presented in the programme should be specified.

2) Content of Stability and Convergence Programmes

In order to facilitate comparison across countries, Member States are expected, as far as possible, to follow the model structure for the programmes in Annex 1. The standardisation of the format and content of the programmes along the lines set below will substantially improve the conditions for equality of treatment.

The quantitative information should be presented following a standardised set of tables (Annex 2). Member States should endeavour to supply all the information in these tables. The tables could be complemented by further information wherever deemed useful by Member States.

In addition to the guidelines set out below, the programmes should provide information on the consistency with the broad economic policy guidelines of the budgetary objectives and the measures to achieve them, as well as on the measures to enhance the quality of public finances and to achieve long-term sustainability.

Objectives and their implementation

Member States will present in their Stability and Convergence Programmes budgetary targets for the general government balance in relation to the MTO, and the projected path for the debt ratio. Convergence programmes shall also present the medium-term monetary policy objectives and their relationship to price and exchange rate stability.

Member States, when preparing the first update of their Stability or Convergence Programme after a new government has taken office, are invited to show continuity with respect to the budgetary targets endorsed by the Council on the basis of the previous update of the Stability/Convergence Programme and - with an outlook for the whole legislature - to provide information on the means and instruments envisaged to reach these targets by setting out its budgetary strategy.

Member States will provide in their Stability or Convergence Programme an update of the fiscal plans for the year of submission of the programme, based on the April notification. The Stability or Convergence Programme will explain revisions of fiscal targets set in the programmes submitted in year t-1 (with a special focus on developments in government expenditure).

To permit a fuller understanding of the path of the government balance and of the budgetary strategy in general, information should be provided on expenditure and revenue ratios and on their main components ~~separately identified~~, as well as on one-off and other temporary measures.[1] To permit a fuller understanding of the path of the debt ratio, information should be provided, to the extent possible, on components of the stock-flow adjustment, such as privatisation receipts and other financial operations.

The budget balances should be broken down by sub-sector of general government (central government, state government for Member States with federal or quasi-federal institutional arrangements, local government and, social security).

Assumptions and data

Stability and Convergence programmes –should be based on realistic and cautious macroeconomic forecasts. The Commission forecasts can provide an important contribution for the coordination of economic and fiscal policies. Member States are free to base their Stability/Convergence Programmes on their own projections. However, significant divergences between the national and the Commission services' forecasts should be explained in some detail. This explanation will serve as a reference when forecast errors are assessed ex post.

The programmes should present the main assumptions about expected economic developments and important economic variables that are relevant to the realisation of their budgetary plans, such as government investment expenditure, real GDP growth, employment and inflation. The assumptions on real GDP growth should be underpinned by an indication of the expected demand contributions to growth. The possible upside and downside risks to the outlook should be brought out.

Furthermore, the programmes should provide sufficient information about GDP developments to allow an analysis of the cyclical position of the economy and the sources of potential growth. The outlook for sectoral balances and, especially for countries with a high external deficit, the external balance should be analysed.

As regards external macroeconomic developments, euro area Member States and Member States participating in ERM II in particular should use the "common external assumptions" on the main extra-EU variables used by the Commission in its spring ~~if provided by the Commission in due time~~forecast or, for comparability reasons, present sensitivity analysis based on the common assumptions for these variables when the differences are significant. The assumptions are to be provided in due time by the Commission services (after consultation with national experts), on the basis of the final table in Annex 2, for discussion by the EFC.

[1] Countries that benefit, over a transition period up to the March 2007 notification, from the special treatment granted by Eurostat for the implementation of the 2 March 2004 decision on the classification of second-pillar funded pension schemes, should present in their programmes detailed information on the impact on the general government balance as well as on the revenue and expenditure side separately and, if possible, on the debt ratio.

Assumptions about interest rates and exchange rates, if not presented in the programme, should be provided to the Commission services to allow for the technical assessment of the programmes.

In order to facilitate the assessment, the concepts used shall be in line with the standards established at European level, notably in the context of the European system of accounts (ESA). The programmes should ensure the formal and substantial consistency of the required information on budgetary aggregates and economic assumptions with ESA concepts. This information may be complemented by a presentation of specific accounting concepts that are of particular importance to the country concerned.

Measures, structural reforms and long-term sustainability

The programmes should describe the budgetary and other economic policy measures being taken or ~~proposed~~ envisaged to achieve the objectives of the programme, and, in the case of the main budgetary measures, an assessment of their quantitative effects on the general government balance. Measures having significant ‘one-off’ effects should be explicitly identified. The further forward the year of the programme, the less detailed the information could be. For instance, the outer years of the programmes the authorities may provide a menu of possible measures considered to reach the targets in the programme, with an estimation of their impact.

However, to allow a meaningful discussion the programmes should provide concrete indications on policy intentions for year t+1, including preliminary projections and/or targets for the general government balance, expenditure and revenue and their main components, and a description of the policies envisaged to reach the fiscal targets. Should this not be the case, the Member State concerned should be invited to submit a revised programme, in line with the provisions of Articles 5(2) and 8(2) of regulation 1466/97. ~~budgetary targets should be backed by an indication of the broad measures necessary to achieve them.~~

Structural reforms should be specifically analysed when they are envisaged to contribute to the achievement of the objectives of the programme. In particular, given the relevance of ‘major structural reforms’ in defining the adjustment path to the medium-term objective for Member States that have not yet reached it and allowing a temporary deviation from the MTO for Member States that have already reached it (see Section I), the programmes should include comprehensive information on the budgetary and economic effects of such reforms. Programmes should notably include a detailed quantitative cost-benefit analysis of the short-term costs – if any – and of the long-term benefits of the reforms from the budgetary point of view. They should also analyse the projected impact of the reforms on economic growth over time while explaining the used methodology.

The programmes should also ~~describe measures~~provide information on measures envisaged to ~~aimed at~~ improv~~inge~~ the quality of public finances on both the revenue and expenditure side (e.g. tax reform, value-for-money initiatives, measures to improve tax collection efficiency and expenditure control).

The programmes could further include information on the implementation of existing national budgetary rules (expenditure rules, etc.) as well as on other institutional features of the public finances, in particular budgetary procedures and public finance statistical governance.

Finally, the programmes should outline the countries strategies to ensure the sustainability of public finances, especially in light of the economic and budgetary impact of ageing populations.

The Working Group on Ageing (AWG) attached to the Economic Policy Committee (EPC) is responsible for producing common budgetary projections on: public spending on pensions; health-care; long-term care; education; unemployment transfers; and where possible and relevant, age-related revenues, such as pension contributions. These common projections will provide the basis for the assessment by the Commission and the Council of sustainability of the Member States’ public finances within the context of the SGP. They should be included in the programmes.

The programmes should include all the necessary additional information, both of qualitative and quantitative nature, so as to enable the Commission and the Council to assess the sustainability of Member States of public finances based on current policies. To this end, information included in programmes should focus on new relevant information that is not fully reflected in the latest common EPC projections. For example, Member States might want to include information on the latest demographic trends and major policy changes in pension and health-care systems. Programmes should clearly distinguish between measures that have been enacted and measures that are envisaged.

Given the uncertainty surrounding long-term projections, the assessment by the Commission and the Council should include stress tests that provide an indication of the risks to public finance sustainability in the event of adverse demographic, economic or budgetary developments.

In addition to the requirements mentioned above, Member States may present different projections, based on national calculations. In such a case, Member States should explain in detail the underlying assumptions of these projections, the used methodology, the policies implemented or planned to meet the assumptions, and the divergences between the national projections and the common projections produced by the Working Group on Ageing attached to the Economic Policy Committee.

These national projections and their assumptions, including their plausibility, will enter the basis for the assessment by the Commission and the Council of sustainability of the Member States' public finances within the context of the SGP.

Sensitivity analysis

Given the inevitability of forecast errors, Stability and Convergence Programmes include comprehensive sensitivity analyses and/or develop alternative scenarios, in order to enable the Commission and the Council to consider the complete range of possible fiscal outcomes.

In particular, the programmes shall provide an analysis of how changes in the main economic assumptions would affect the budgetary and debt position and indicate the underlying assumptions about how revenues and expenditures are projected to react to variations in economic variables. This should include the impact of different interest rate assumptions and, for non-participating Member States, of different exchange rate assumptions, on the budgetary and debt position. Countries that do not use the common external assumptions should endeavour to provide a sensitivity analysis also on main extra-EU variables when the differences are significant.

In the case of 'major structural reforms' (see section I), the programmes shall also provide an analysis of how changes in the assumptions would affect the effects on the budget and potential growth.

Time horizon

The information about paths for the general government surplus/ deficit ratio, the expenditure and revenue ratios and their components as well as for debt ratio and the main economic assumptions should be on an annual basis and should cover, as well as the current and preceding year, at least the three following years (Article 3(3) and Article 7(3)), leaving it open to Member States to cover a longer period if they so wish.

The horizon for the long-term projections on the budgetary implications of ageing should cover the same period as the EPC projections.

Updating of programmes

In order to ensure proper ex ante coordination and surveillance of economic policies, ~~promote the efficiency of the budgetary and economic surveillance and achieve a better interaction between different procedures,~~ submissions of SCP updates should take place each year –in the first ~~shortly after national governments~~15 days of April. ~~–have presented their budget proposals to parliaments, but not earlier than mid-October and not later than the 1st of December.[2,3,4] This should increase the comparability of the programmes, the consistency of the assessments and the equality of treatment. The EFC and the ECOFIN should examine the SCP updates in a maximum of three sessions.~~ The whole process should be completed with the adoption of Council Opinions on the programmes as a rule before the end of July ~~March~~ each year.

Annual updates of Stability and Convergence Programmes should show how developments have compared with the budgetary targets in the previous programme or update. When applicable, they should explain in detail the reasons for the deviations from these targets. When substantial deviations occur, the update should mention whether measures are taken to rectify the situation, and provide information on these measures.

[2] In the case of the UK, which has a different fiscal year, submission should be as close as possible to the presentation of the autumn pre-Budget report.

[3] Austria and Portugal cannot comply at this stage with this schedule, but they will submit their Stability Programmes no later than 15 December.

[4] Ireland will be regarded as meeting this commitment by submitting its Stability Programme update on its annual Budget day, which traditionally takes place on the first Wednesday of December.