



ECONOMIC AND MONETARY UNION

Legal and political texts



Council of the
European Union



ECONOMIC AND MONETARY UNION

Legal and political texts



Council of the
European Union

Introductory note

This publication includes extracts from the consolidated versions of the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU). The extracts are numbered in accordance with the provisions of the Lisbon Treaty. Consequently, references to the Treaties in other texts which do not correspond to the numbering according to the Lisbon Treaty should be read in conjunction with the Table of equivalences referred to in Article 5 of the latter.

Regarding amendments to secondary Community legislation, this publication contains unofficial consolidated versions, which entails the integration of the basic legal instrument, its amendments and corrections in a single document. The basis legal act with amendments and corrections remain however the only legally binding texts.

Further relevant texts to the functioning of EMU are included in this publication in the form of external links to EU websites, notably EUR-Lex. Although we make every effort to ensure these links are accurate and up to date, the EU institutions cannot take responsibility for links falling to work properly. If you should come across external links that do not work, you could report them to the Public Information Department of the General Secretariat of the Council.

The publication has been produced for documentary purposes and does not involve the responsibility of the EU institutions.

For information on the European Council and the Council, you can consult the following websites:

www.european-council.europa.eu

www.consilium.europa.eu

or contact the Public Information Department of the General Secretariat of the Council at the following address:

Rue de la Loi/Wetstraat 175

1048 Bruxelles/Brussel

BELGIQUE/BELGIË

Tel. +32 2 281 5650

Fax +32 2 281 4977

www.consilium.europa.eu/infopublic

More information on the European Union is available on the Internet (<http://europa.eu>).

Luxembourg: Publications Office of the European Union, 2014

ISBN 978-92-824-4457-3

doi:10.2860/34684

QC-02-13-820-EN-1

© European Union, 2014

Reproduction is authorised provided the source is acknowledged.

Contents

Introductory note	2
Preface	9
1. Primary law	11
1.1. Extract from the Treaty on European Union (TEU)	11
1.1.1. TEU - Title I - Common provisions, article 3.....	11
1.2. Extracts from the Treaty on the Functioning of the European Union (TFEU)	12
1.2.1. Part One - Principles - Title I - Categories and areas of Union competence, Articles 2, 3 and 5	12
1.2.2. Part Three - Union policies and internal actions -Title VIII - Economic and Monetary Policy - Chapters 1, 2, 3, 4 and 5, Articles 119 -144	13
1.2.3. European Council Decision of 25 March 2011 amending Article 136 of the Treaty on the Functioning of the European Union with regard to a stability mechanism for Member States whose currency is the euro	22
1.2.4. Part Five - The Union's external action, Title V - International Agreements: Article 219 (ex Article 111(1) to (3) and (5) TEC).....	24
1.2.5. Part Six - Institutional and financial provisions, Title I - Institutional provisions, Chapter 1 - The institutions, Section 6 on the European Central Bank (ECB), Articles 282-284	25
1.3. Protocols annexed to the Treaty on the Functioning of the European Union	27
1.3.1. Protocol (No 4) on the Statute of the European System of Central Banks and of the European Central Bank	27
1.3.2. Protocol (No 12) on the Excessive Deficit Procedure	40
1.3.3. Protocol (No 13) on the convergence criteria	41
1.3.4. Protocol (No 14) on the Euro Group	42
1.3.5. Protocol (no 15) on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland	43
1.3.6. Protocol (No 16) on certain provisions relating to Denmark	45
1.3.7. Protocol (No 17) on Denmark	46
1.3.8. Declaration 30 on Article 126 of the Treaty on the Functioning of the European Union	47
1.3.9. Declaration 52 on the symbols of the European Union	48
1.4. Extracts from acts of accession	49
1.4.1. Act concerning the conditions of accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic and the adjustments to the Treaties on which the European Union is founded	49
1.4.2. Act concerning the conditions of accession of the Republic of Bulgaria and Romania and the adjustments to the treaties on which the European Union is founded (2005)	50
1.4.3. Act concerning the conditions of accession of the Republic of Croatia and the adjustments to the Treaty on European Union, the Treaty on the Functioning of the European Union and the Treaty establishing the European Atomic Energy Community (2012)	51

2. Intergovernmental instruments	52
2.1.1. <i>European Council - 24-25 March 2011 - Conclusions (extract - Annex I – The Euro Plus Pact</i>	<i>52</i>
2.1.2. <i>Treaty on Stability, Coordination and Governance (TSCG)</i>	<i>55</i>
2.1.3. <i>European Council - 24-25 March 2011 - Conclusions (extract - Annex II - Term Sheet on the ESM)</i>	<i>62</i>
2.1.4. <i>Treaty establishing the European Stability Mechanism (ESM)</i>	<i>68</i>
3. Economic policy coordination.....	85
3.1. General framework.....	85
3.1.1. <i>European Council - Amsterdam - 16 June 1997 - Resolution on growth and employment - (97/C 236/02)....</i>	<i>85</i>
3.1.2. <i>European Council - 13 December 1997 - Resolution on economic policy coordination in stage 3 of EMU and on Treaty Articles 109 and 109b of the EC Treaty - (98/C 35/01).....</i>	<i>87</i>
3.1.3. <i>European Council - Lisbon – 23-24 March 2000 - Conclusions (extract)</i>	<i>89</i>
3.1.4. <i>European Council - Brussels – 22-23 March 2005 - Conclusions (extract - Re-launching the Lisbon Strategy: A partnership for growth and employment)</i>	<i>97</i>
3.1.5. <i>European Council - 17 June 2010 - Conclusions (extract - A New European Strategy For Jobs And Growth)</i>	<i>102</i>
3.1.6. <i>Ecofin - 7 September 2010 - Main results (extract - Economic Policy Coordination - European Semester)..</i>	<i>105</i>
3.2. Multilateral Surveillance Procedures and the Stability and Growth Pact (SGP).....	106
3.2.1. <i>European Council - Amsterdam - 17 June 1997 - Resolution on the Stability and Growth Pact (97/C 236/01)</i>	<i>106</i>
3.2.2. <i>Ecofin - 1 May 1998 - Declaration by the Council and the Ministers.....</i>	<i>108</i>
3.2.3. <i>European Council - 22 and 23 March 2005 - Conclusions (extract - Improving the implementation of the Stability and Growth Pact).....</i>	<i>110</i>
3.2.4. <i>Ecofin - 10 October 2006 - Conclusions (extract - The quality of public finances).....</i>	<i>117</i>
3.2.5. <i>Ecofin - 9 October 2007 - Conclusions (extract - Improving the effectiveness of the Stability and Growth Pact and The quality of public finances).....</i>	<i>118</i>
3.2.6. <i>Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (repeals Council Regulation (EC) No 3605/93 of 22 November 1993), amended by Council Regulation (EU) No 679/2010 of 26 July 2010 amending Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the excessive deficit procedure</i>	<i>120</i>
3.2.7. <i>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, amended by Council Regulation (EC) No 1055/2005 of 27 June 2005 and by Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011.....</i>	<i>129</i>
3.2.8. <i>Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, amended by Council Regulation (EC) No 1056/2005 of 27 June 2005 and by Council Regulation (EU) No 1177/2011 of 8 November 2011.....</i>	<i>141</i>
3.2.9. <i>Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area</i>	<i>150</i>
3.2.10. <i>Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States</i>	<i>157</i>
3.2.11. <i>Ecofin - 24 January 2012 - Conclusions (Stability and growth pact - revised code of conduct)</i>	<i>164</i>
3.2.12. <i>Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes</i>	<i>165</i>
3.2.13. <i>Regulation (EU) No 472/2013 of the European Parliament and of the council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability</i>	<i>187</i>

3.2.14. Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area	197
3.2.15. Commission Delegated Regulation (EU) No 877/2013 of 27.6.2013 (Commission document C (2013) 4164 final) supplementing Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.....	210
3.2.16. Ecofin - Conclusions (Economic Governance - Two-Pack) - 9 July 2013 and 7 November 2014	212
3.2.17. Specifications on the implementation of the Regulation (EU) No 473/2013 of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, and, Regulation (EU) No 472/2013 of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability) and Guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance reports - 1 July 2013.....	213
3.2.18. Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area	242
3.2.19. Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances	246
3.2.20. Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism (EFSM)	255

4. Introduction and use of the euro 259

4.1.1. European Council - Madrid - 15 and 16 December 1995 - Conclusions (extract)	259
4.1.2. Council Regulation (EC) No 2866/98 of 31 December 1998 on the conversion rates between the euro and the currencies of the Member States adopting the euro, amended by Council Regulation (EC) No 1478/2000 of 19 June 2000, Council Regulation (EC) No 1086/2006 of 11 July 2006, Council Regulation (EC) No 1134/2007 of 10 July 2007, Council Regulation (EC) No 1135/2007 of 10 July 2007, Council Regulation (EC) No 694/2008 of 8 July 2008, Council Regulation (EU) No 671/2010 of 13 July 2010, and Council Regulation (EU) No 870/2013 of 9 July 2013.....	260
4.1.3. Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro, as amended by Council Regulation (EC) No 2595/2000 of 27 November 2000	262
4.1.4. Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended by Council Regulation (EC) No 2596/2000 of 27 November 2000, Council Regulation (EC) No 2169/2005 of 21 December 2005, Council Regulation (EC) No 835/2007 of 10 July 2007, Council Regulation (EC) No 836/2007 of 10 July 2007, Council Regulation (EC) No 693/2008 of 8 July 2008, Council Regulation (EU) No 670/2010 of 13 July 2010, and Council Regulation (EU) 678/2013 of 9 July 2013	265
4.1.5. Council Regulation (EC) No 975/98 of 3 May 1998 on denominations and technical specifications of euro coins intended for circulation, last amended by Council Regulation (EU) No 566/2012 of 18 June 2012.....	272
4.1.6. Regulation (EU) No 651/2012 of the European Parliament and of the Council of 4 July 2012 on the issuance of euro coins.....	276

5. Exchange rate mechanism (ERM II) between the euro and participating national currencies	279
5.1.1. <i>European Council - Amsterdam - 16 June 1997 - Resolution on the establishment of an exchange rate mechanism in the third stage of economic and monetary union</i>	<i>279</i>
5.1.2. <i>Ecofin - Nice - 8 November 2000 - Report on the exchange rate aspects of enlargement</i>	<i>281</i>
5.1.3. <i>Common Statement on acceding countries and ERM2 - Athens - 5 April 2003</i>	<i>283</i>
5.1.4. <i>Agreement of 16 March 2006 between the European Central Bank (ECB) and the national central banks (NCBs) of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of Economic and Monetary Union</i>	<i>285</i>
5.1.5. <i>Agreement of 21 December 2006 between the European Central Bank and the national central banks of the Member States outside the euro area amending the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union</i>	<i>292</i>
5.1.6. <i>Agreement of 14 December 2007 between the European Central Bank and the national central banks of the Member States outside the euro area amending the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union</i>	<i>295</i>
5.1.7. <i>Agreement of 8 December 2008 between the European Central Bank and the national central banks of the Member States outside the euro area amending the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union</i>	<i>298</i>
5.1.8. <i>Agreement of 13 December 2010 between the European Central Bank and the national central banks of the Member States outside the euro area amending the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union</i>	<i>302</i>
5.1.9. <i>Agreement of 21 June 2013 between the European Central Bank and the national central banks of the Member States whose currency is not the euro amending the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union</i>	<i>305</i>
6. External representation of the EMU	308
6.1.1. <i>European Council - 13 December 1997 - Resolution on economic policy coordination in stage 3 of EMU and on Treaty Articles 109 and 109b of the EC Treaty</i>	<i>308</i>
6.1.2. <i>Report to the European Council on the state of preparation for State III of EMU, in particular the external representation of the Community</i>	<i>309</i>
7. Euro area governance	311
7.1.1. <i>Statement by the Heads of State or Government of the Euro area - 26 October 2011</i>	<i>311</i>
7.1.2. <i>Rules for the organisation of the proceedings of the Euro Summits</i>	<i>317</i>

8. Statutes of the Committees	320
8.1. Economic and Financial Committee (EFC).....	320
8.1.1. Council Decision of 21 December 1998 on the detailed provisions concerning the composition of the Economic and Financial Committee	320
8.1.2. Council Decision of 26 April 2012 on a revision of the Statutes of the Economic and Financial Committee (2012/245/EU) (implicit repeal of 2003/476/EC: Council Decision of 18 June 2003 on a revision of the Statutes of the Economic and Financial Committee)	322
8.2. Economic Policy Committee (EPC)	325
8.2.1. Council Decision of 29 September 2000 on the composition and the statutes of the Economic Policy Committee, amended by Council Decision of 18 June 2003 amending Council Decision 2000/604/EC on the Composition and the Statutes of the Economic Policy Committee.....	325
9. Annexes	329
9.1. Tables of equivalences.....	329
9.2. List of other legal and political texts concerning economic and monetary union	349

Preface



© European Union

The Economic and Monetary Union (EMU) deepens the economic integration of the Member States that have adopted the single currency. It is designed to create the foundations for sustainable long-term economic growth by providing macroeconomic stability. The introduction of the euro on 1 January 1999 and the introduction of the euro banknotes and coins on 1 January 2002 are two key events in the history of the EU. Since then, the euro area has been enlarged several times. Since the adoption of the euro by Latvia in 2014, it is comprised of 18 Member States. A population of more than 333 million now shares the single currency and benefits from the euro.

The global financial and economic crisis that began in 2008 had a profound impact on the European Union and the euro area Member States' economies. The public debt crisis that followed exposed structural weaknesses in some European economies, such as unsustainable levels of public or private debt, or declining competitiveness. It also revealed systematic shortcomings in the architecture of the economic and monetary union itself. In response, national governments and the European institutions took a wide range of measures to safeguard the euro area's financial stability and strengthen the institutional architecture of the euro area and of the EU as a whole.

As a result, important elements of the economic governance have been strengthened to allow EMU to function properly in the long term. The introduction of the European Semester in 2010 improved economic policy coordination and helped strengthen macroeconomic stability and growth in line with the EU's 2020 strategy for jobs and growth. In March 2011, the euro area and six non-euro area countries adopted the Euro Plus Pact, going beyond the European Semester. In October 2012 euro area finance ministers inaugurated a permanent crisis management mechanism, the European Stability Mechanism (ESM). The Treaty on Stability, Coordination and Governance, which entered into force on 1 January 2013, further improved the governance of the euro area. The entry into force of six-pack legislation on 13 December 2011 and of two-pack legislation on 27 May 2013 ensured that the necessary degree of coordination and surveillance is now in place to avoid the accumulation of excessive imbalances and maintain sustainable public finances.

This compilation brings together the core legal and political texts on EMU and the euro. The idea of this publication is to cover the key provisions governing EMU in a handy electronic format. To be user-friendly, we have had to be selective. A number of texts that are also relevant to the functioning of EMU could not be included. These are listed in the Annex, together with references to the Official Journal.

Carsten Pillath

Director-General

DG Economic Affairs and Competitiveness

General Secretariat of the

Council of the European Union

1. Primary law

1.1. Extract from the Treaty on European Union (TEU)

COMMON PROVISIONS

Article 3

(ex Article 2 TEU)

1. The Union's aim is to promote peace, its values and the well-being of its peoples.
2. The Union shall offer its citizens an area of freedom, security and justice without internal frontiers, in which the free movement of persons is ensured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime.
3. The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.

It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child.

It shall promote economic, social and territorial cohesion, and solidarity among Member States.

It shall respect its rich cultural and linguistic diversity, and shall ensure that Europe's cultural heritage is safeguarded and enhanced.
4. The Union shall establish an economic and monetary union whose currency is the euro.
5. In its relations with the wider world, the Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter.
6. The Union shall pursue its objectives by appropriate means commensurate with the competences which are conferred upon it in the Treaties.



1.2. Extracts from the Treaty on the Functioning of the European Union (TFEU)

PART ONE

PRINCIPLES

TITLE I

CATEGORIES AND AREAS OF UNION COMPETENCE

Article 2

1. When the Treaties confer on the Union exclusive competence in a specific area, only the Union may legislate and adopt legally binding acts, the Member States being able to do so themselves only if so empowered by the Union or for the implementation of Union acts.
2. When the Treaties confer on the Union a competence shared with the Member States in a specific area, the Union and the Member States may legislate and adopt legally binding acts in that area. The Member States shall exercise their competence to the extent that the Union has not exercised its competence. The Member States shall again exercise their competence to the extent that the Union has decided to cease exercising its competence.
3. The Member States shall coordinate their economic and employment policies within arrangements as determined by this Treaty, which the Union shall have competence to provide.
4. The Union shall have competence, in accordance with the provisions of the Treaty on European Union, to define and implement a common foreign and security policy, including the progressive framing of a common defence policy.
5. In certain areas and under the conditions laid down in the Treaties, the Union shall have competence to carry out actions to support, coordinate or supplement the actions of the Member States, without thereby superseding their competence in these areas.

Legally binding acts of the Union adopted on the basis of the provisions of the Treaties relating to these areas shall not entail harmonisation of Member States' laws or regulations.

6. The scope of and arrangements for exercising the Union's competences shall be determined by the provisions of the Treaties relating to each area.

Article 3

1. The Union shall have exclusive competence in the following areas:
 - (a) customs union;
 - (b) the establishing of the competition rules necessary for the functioning of the internal market;
 - (c) monetary policy for the Member States whose currency is the euro;
 - (d) the conservation of marine biological resources under the common fisheries policy;
 - (e) common commercial policy.
2. The Union shall also have exclusive competence for the conclusion of an international agreement when its conclusion is provided for in a legislative act of the Union or is necessary to enable the Union to exercise its internal competence, or in so far as its conclusion may affect common rules or alter their scope.

Article 5

1. The Member States shall coordinate their economic policies within the Union. To this end, the Council shall adopt measures, in particular broad guidelines for these policies.

Specific provisions shall apply to those Member States whose currency is the euro.
2. The Union shall take measures to ensure coordination of the employment policies of the Member States, in particular by defining guidelines for these policies.
3. The Union may take initiatives to ensure coordination of Member States' social policies.



PART THREE**UNION POLICIES AND INTERNAL ACTIONS****TITLE VIII****ECONOMIC AND MONETARY POLICY***Article 119*

(ex Article 4 TEC)

1. For the purposes set out in Article 3 of the Treaty on European Union, the activities of the Member States and the Union shall include, as provided in the Treaties, the adoption of an economic policy which is based on the close coordination of Member States' economic policies, on the internal market and on the definition of common objectives, and conducted in accordance with the principle of an open market economy with free competition.
2. Concurrently with the foregoing, and as provided in the Treaties and in accordance with the procedures set out therein, these activities shall include a single currency, the euro, and the definition and conduct of a single monetary policy and exchange-rate policy the primary objective of both of which shall be to maintain price stability and, without prejudice to this objective, to support the general economic policies in the Union, in accordance with the principle of an open market economy with free competition.
3. These activities of the Member States and the Union shall entail compliance with the following guiding principles: stable prices, sound public finances and monetary conditions and a sustainable balance of payments.

CHAPTER 1**ECONOMIC POLICY***Article 120*

(ex Article 98 TEC)

Member States shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Union, as defined in Article 3 of the Treaty on European Union, and in the context of the broad guidelines referred to in Article 121(2). The Member States and the Union shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 119.

Article 121

(ex Article 99 TEC)

1. Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council, in accordance with the provisions of Article 120.
2. The Council shall, on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Union, and shall report its findings to the European Council.
The European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Union.
On the basis of this conclusion, the Council shall adopt a recommendation setting out these broad guidelines. The Council shall inform the European Parliament of its recommendation.
3. In order to ensure closer coordination of economic policies and sustained convergence of the economic performances of the Member States, the Council shall, on the basis of reports submitted by the Commission, monitor economic developments in each of the Member States and in the Union as well as the consistency of economic policies with the broad guidelines referred to in paragraph 2, and regularly carry out an overall assessment.
For the purpose of this multilateral surveillance, Member States shall forward information to the Commission about important measures taken by them in the field of their economic policy and such other information as they deem necessary.
4. Where it is established, under the procedure referred to in paragraph 3, that the economic policies of a Member State are not consistent with the broad guidelines referred to in paragraph 2 or that they risk jeopardising the proper functioning of economic and monetary union, the Commission may address a warning to the Member State concerned. The Council, on a recommendation from the Commission, may address the necessary recommendations

to the Member State concerned. The Council may, on a proposal from the Commission, decide to make its recommendations public.

Within the scope of this paragraph, the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.

A qualified majority of the other members of the Council shall be defined in accordance with Article 238(3)(a).

5. The President of the Council and the Commission shall report to the European Parliament on the results of multilateral surveillance. The President of the Council may be invited to appear before the competent committee of the European Parliament if the Council has made its recommendations public.
6. The European Parliament and the Council, acting by means of regulations in accordance with the ordinary legislative procedure, may adopt detailed rules for the multilateral surveillance procedure referred to in paragraphs 3 and 4.

Article 122

(ex Article 100 TEC)

1. Without prejudice to any other procedures provided for in the Treaties, the Council, on a proposal from the Commission, may decide, in a spirit of solidarity between Member States, upon the measures appropriate to the economic situation, in particular if severe difficulties arise in the supply of certain products, notably in the area of energy.
2. Where a Member State is in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control, the Council, on a proposal from the Commission, may grant, under certain conditions, Union financial assistance to the Member State concerned. The President of the Council shall inform the European Parliament of the decision taken.

Article 123

(ex Article 101 TEC)

1. Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as 'national central banks') in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.
2. Paragraph 1 shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, shall be given the same treatment by national central banks and the European Central Bank as private credit institutions.

Article 124

(ex Article 102 TEC)

Any measure, not based on prudential considerations, establishing privileged access by Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States to financial institutions, shall be prohibited.

Article 125

(ex Article 103 TEC)

1. The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.
2. The Council, on a proposal from the Commission and after consulting the European Parliament, may, as required, specify definitions for the application of the prohibitions referred to in Articles 123 and 124 and in this Article.

Article 126

(ex Article 104 TEC)

1. Member States shall avoid excessive government deficits.
2. The Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with budgetary discipline on the basis of the following two criteria:

- (a) whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value, unless:
 - 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;
- (b) whether the ratio of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

The reference values are specified in the Protocol on the excessive deficit procedure annexed to the Treaties.

3. If a Member State does not fulfil the requirements under one or both of these criteria, the Commission shall prepare a report. The report of the Commission shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State.

The Commission may also prepare a report if, notwithstanding the fulfilment of the requirements under the criteria, it is of the opinion that there is a risk of an excessive deficit in a Member State.

4. The Economic and Financial Committee shall formulate an opinion on the report of the Commission.
5. If the Commission considers that an excessive deficit in a Member State exists or may occur, it shall address an opinion to the Member State concerned and shall inform the Council accordingly.
6. The Council shall, on a proposal from the Commission, and having considered any observations which the Member State concerned may wish to make, decide after an overall assessment whether an excessive deficit exists.
7. Where the Council decides, in accordance with paragraph 6, that an excessive deficit exists, it shall adopt, without undue delay, on a recommendation from the Commission, recommendations addressed to the Member State concerned with a view to bringing that situation to an end within a given period. Subject to the provisions of paragraph 8, these recommendations shall not be made public.
8. Where it 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.
9. If a Member State persists in failing to put into practice the recommendations of the Council, the Council may decide to give notice to the Member State to take, within a specified time limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation.

In such a case, the Council may 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.

10. The rights to bring actions provided for in Articles 258 and 259 may not be exercised within the framework of paragraphs 1 to 9 of this Article.
11. As long as a Member State fails to comply with a decision taken in accordance with paragraph 9, the Council may decide to apply or, as the case may be, intensify one or more of the following measures:
 - to require the Member State concerned to publish additional information, to be specified by the Council, before issuing bonds and securities,
 - to invite the European Investment Bank to reconsider its lending policy towards the Member State concerned,
 - to require the Member State concerned to make a non-interest-bearing deposit of an appropriate size with the Union until the excessive deficit has, in the view of the Council, been corrected,
 - to impose fines of an appropriate size.

The President of the Council shall inform the European Parliament of the decisions taken.

12. The Council shall abrogate some or all of its decisions or recommendations referred to in paragraphs 6 to 9 and 11 to the extent that the excessive deficit in the Member State concerned has, in the view of the Council, been corrected. If the Council has previously made public recommendations, it shall, as soon as the decision under paragraph 8 has been abrogated, make a public statement that an excessive deficit in the Member State concerned no longer exists.
13. When taking the decisions or recommendations referred to in paragraphs 8, 9, 11 and 12, the Council shall act on a recommendation from the Commission.

When the Council adopts the measures referred to in paragraphs 6 to 9, 11 and 12, it shall act without taking into account the vote of the member of the Council representing the Member State concerned.

A qualified majority of the other members of the Council shall be defined in accordance with Article 238(3)(a).

14. Further provisions relating to the implementation of the procedure described in this Article are set out in the Protocol on the excessive deficit procedure annexed to the Treaties.

The Council shall, acting unanimously in accordance with a special legislative procedure and after consulting the European Parliament and the European Central Bank, adopt the appropriate provisions which shall then replace the said Protocol. Subject to the other provisions of this paragraph, the Council shall, on a proposal from the Commission and after consulting the European Parliament, lay down detailed rules and definitions for the application of the provisions of the said Protocol.

CHAPTER 2

MONETARY POLICY

Article 127

(ex Article 105 TEC)

1. The primary objective of the European System of Central Banks (hereinafter referred to as 'the ESCB') shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 119.
2. The basic tasks to be carried out through the ESCB shall be:
 - to define and implement the monetary policy of the Union,
 - to conduct foreign-exchange operations consistent with the provisions of Article 219,
 - to hold and manage the official foreign reserves of the Member States,
 - to promote the smooth operation of payment systems.
3. The third indent of paragraph 2 shall be without prejudice to the holding and management by the governments of Member States of foreign-exchange working balances.
4. The European Central Bank shall be consulted:
 - on any proposed Union act in its fields of competence,
 - by national authorities regarding any draft legislative provision in its fields of competence, but within the limits and under the conditions set out by the Council in accordance with the procedure laid down in Article 129(4).

The European Central Bank may submit opinions to the appropriate Union institutions, bodies, offices or agencies or to national authorities on matters in its fields of competence.

5. The ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.
6. The Council, acting by means of regulations in accordance with a special legislative procedure, may unanimously, and after consulting the European Parliament and the European Central Bank, confer specific tasks upon the European Central Bank concerning policies relating to the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings.

Article 128

(ex Article 106 TEC)

1. The European Central Bank shall have the exclusive right to authorise the issue of euro banknotes within the Union. The European Central Bank and the national central banks may issue such notes. The banknotes issued by the European Central Bank and the national central banks shall be the only such notes to have the status of legal tender within the Union.
2. Member States may issue euro coins subject to approval by the European Central Bank of the volume of the issue. The Council, on a proposal from the Commission and after consulting the European Parliament and the European Central Bank, may adopt measures to harmonise the denominations and technical specifications of all coins intended for circulation to the extent necessary to permit their smooth circulation within the Union.

Article 129

(ex Article 107 TEC)

1. The ESCB shall be governed by the decision-making bodies of the European Central Bank which shall be the Governing Council and the Executive Board.
2. The Statute of the European System of Central Banks and of the European Central Bank (hereinafter referred to as 'the Statute of the ESCB and of the ECB') is laid down in a Protocol annexed to the Treaties.
3. Articles 5.1, 5.2, 5.3, 17, 18, 19.1, 22, 23, 24, 26, 32.2, 32.3, 32.4, 32.6, 33.1(a) and 36 of the Statute of the ESCB and of the ECB may be amended by the European Parliament and the Council, acting in accordance with the ordinary legislative procedure. They shall act either on a recommendation from the European Central Bank and after consulting the Commission or on a proposal from the Commission and after consulting the European Central Bank.
4. The Council, either on a proposal from the Commission and after consulting the European Parliament and the European Central Bank or on a recommendation from the European Central Bank and after consulting the European Parliament and the Commission, shall adopt the provisions referred to in Articles 4, 5.4, 19.2, 20, 28.1, 29.2, 30.4 and 34.3 of the Statute of the ESCB and of the ECB.

Article 130

(ex Article 108 TEC)

When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body. The Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks.

Article 131

(ex Article 109 TEC)

Each Member State shall ensure that its national legislation including the statutes of its national central bank is compatible with the Treaties and the Statute of the ESCB and of the ECB.

Article 132

(ex Article 110 TEC)

1. In order to carry out the tasks entrusted to the ESCB, the European Central Bank shall, in accordance with the provisions of the Treaties and under the conditions laid down in the Statute of the ESCB and of the ECB:
 - make regulations to the extent necessary to implement the tasks defined in Article 3.1, first indent, Articles 19.1, 22 and 25.2 of the Statute of the ESCB and of the ECB in cases which shall be laid down in the acts of the Council referred to in Article 129(4),
 - take decisions necessary for carrying out the tasks entrusted to the ESCB under the Treaties and the Statute of the ESCB and of the ECB,
 - make recommendations and deliver opinions.
2. The European Central Bank may decide to publish its decisions, recommendations and opinions.
3. Within the limits and under the conditions adopted by the Council under the procedure laid down in Article 129(4), the European Central Bank shall be entitled to impose fines or periodic penalty payments on undertakings for failure to comply with obligations under its regulations and decisions.

Article 133

Without prejudice to the powers of the European Central Bank, the European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall lay down the measures necessary for the use of the euro as the single currency. Such measures shall be adopted after consultation of the European Central Bank.

CHAPTER 3**INSTITUTIONAL PROVISIONS***Article 134*

(ex Article 114 TEC)

1. In order to promote coordination of the policies of Member States to the full extent needed for the functioning of the internal market, an Economic and Financial Committee is hereby set up.
2. The Economic and Financial Committee shall have the following tasks:
 - to deliver opinions at the request of the Council or of the Commission, or on its own initiative for submission to those institutions,
 - to keep under review the economic and financial situation of the Member States and of the Union and to report regularly thereon to the Council and to the Commission, in particular on financial relations with third countries and international institutions,
 - without prejudice to Article 240, to contribute to the preparation of the work of the Council referred to in Articles 66, 75, 121(2), (3), (4) and (6), 122, 124, 125, 126, 127(6), 128(2), 129(3) and (4), 138, 140(2) and (3), 143, 144(2) and (3), and in Article 219, and to carry out other advisory and preparatory tasks assigned to it by the Council,
 - to examine, at least once a year, the situation regarding the movement of capital and the freedom of payments, as they result from the application of the Treaties and of measures adopted by the Council; the examination shall cover all measures relating to capital movements and payments; the Committee shall report to the Commission and to the Council on the outcome of this examination.

The Member States, the Commission and the European Central Bank shall each appoint no more than two members of the Committee.

3. The Council shall, on a proposal from the Commission and after consulting the European Central Bank and the Committee referred to in this Article, lay down detailed provisions concerning the composition of the Economic and Financial Committee. The President of the Council shall inform the European Parliament of such a decision.
4. In addition to the tasks set out in paragraph 2, if and as long as there are Member States with a derogation as referred to in Article 139, the Committee shall keep under review the monetary and financial situation and the general payments system of those Member States and report regularly thereon to the Council and to the Commission.

Article 135

(ex Article 115 TEC)

For matters within the scope of Articles 121(4), 126 with the exception of paragraph

14, 138, 140(1), 140(2), first subparagraph, 140(3) and 219, the Council or a Member State may request the Commission to make a recommendation or a proposal, as appropriate. The Commission shall examine this request and submit its conclusions to the Council without delay.

CHAPTER 4**PROVISIONS SPECIFIC TO MEMBER STATES WHOSE CURRENCY IS THE EURO***Article 136*

1. In order to ensure the proper functioning of economic and monetary union, and in accordance with the relevant provisions of the Treaties, the Council shall, in accordance with the relevant procedure from among those referred to in Articles 121 and 126, with the exception of the procedure set out in Article 126(14), adopt measures specific to those Member States whose currency is the euro:
 - (a) to strengthen the coordination and surveillance of their budgetary discipline;
 - (b) to set out economic policy guidelines for them, while ensuring that they are compatible with those adopted for the whole of the Union and are kept under surveillance.
2. For those measures set out in paragraph 1, only members of the Council representing Member States whose currency is the euro shall take part in the vote.

A qualified majority of the said members shall be defined in accordance with Article 238(3)(a).

Article 137

Arrangements for meetings between ministers of those Member States whose currency is the euro are laid down by the Protocol on the Euro Group.

Article 138

(ex Article 111(4), TEC)

1. In order to secure the euro's place in the international monetary system, the Council, on a proposal from the Commission, shall adopt a decision establishing common positions on matters of particular interest for economic and monetary union within the competent international financial institutions and conferences. The Council shall act after consulting the European Central Bank.
2. The Council, on a proposal from the Commission, may adopt appropriate measures to ensure unified representation within the international financial institutions and conferences. The Council shall act after consulting the European Central Bank.
3. For the measures referred to in paragraphs 1 and 2, only members of the Council representing Member States whose currency is the euro shall take part in the vote.

A qualified majority of the said members shall be defined in accordance with Article 238(3)(a).

CHAPTER 5**TRANSITIONAL PROVISIONS***Article 139*

1. Member States in respect of which the Council has not decided that they fulfil the necessary conditions for the adoption of the euro shall hereinafter be referred to as 'Member States with a derogation'.
2. The following provisions of the Treaties shall not apply to Member States with a derogation:
 - (a) adoption of the parts of the broad economic policy guidelines which concern the euro area generally (Article 121(2));
 - (b) coercive means of remedying excessive deficits (Article 126(9) and (11));
 - (c) the objectives and tasks of the ESCB (Article 127(1) to (3) and (5));
 - (d) issue of the euro (Article 128);
 - (e) acts of the European Central Bank (Article 132);
 - (f) measures governing the use of the euro (Article 133);
 - (g) monetary agreements and other measures relating to exchange-rate policy (Article 219);
 - (h) appointment of members of the Executive Board of the European Central Bank (Article 283(2));
 - (i) decisions establishing common positions on issues of particular relevance for economic and monetary union within the competent international financial institutions and conferences (Article 138(1));
 - (j) measures to ensure unified representation within the international financial institutions and conferences (Article 138(2)).

In the Articles referred to in points (a) to (j), 'Member States' shall therefore mean Member States whose currency is the euro.

3. Under Chapter IX of the Statute of the ESCB and of the ECB, Member States with a derogation and their national central banks are excluded from rights and obligations within the ESCB.
4. The voting rights of members of the Council representing Member States with a derogation shall be suspended for the adoption by the Council of the measures referred to in the Articles listed in paragraph 2, and in the following instances:
 - (a) recommendations made to those Member States whose currency is the euro in the framework of multilateral surveillance, including on stability programmes and warnings (Article 121(4));
 - (b) measures relating to excessive deficits concerning those Member States whose currency is the euro (Article 126(6), (7), (8), (12) and (13)).

A qualified majority of the other members of the Council shall be defined in accordance with Article 238(3)(a).

Article 140

(ex Articles 121(1), 122(2), second sentence, and 123(5) TEC)

1. At least once every two years, or at the request of a Member State with a derogation, the Commission and the European Central Bank shall report to the Council on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union. These reports shall include

an examination of the compatibility between the national legislation of each of these Member States, including the statutes of its national central bank, and Articles 130 and 131 and the Statute of the ESCB and of the ECB. The reports shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the following criteria:

- the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability,
- the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 126(6),
- the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the euro,
- the durability of convergence achieved by the Member State with a derogation and of its participation in the exchange-rate mechanism being reflected in the long-term interest-rate levels.

The four criteria mentioned in this paragraph and the relevant periods over which they are to be respected are developed further in a Protocol annexed to the Treaties. The reports of the Commission and the European Central Bank shall also take account of the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices.

2. After consulting the European Parliament and after discussion in the European Council, the Council shall, on a proposal from the Commission, decide which Member States with a derogation fulfil the necessary conditions on the basis of the criteria set out in paragraph 1, and abrogate the derogations of the Member States concerned.

The Council shall act having received a recommendation of a qualified majority of those among its members representing Member States whose currency is the euro. These members shall act within six months of the Council receiving the Commission's proposal.

The qualified majority of the said members, as referred to in the second subparagraph, shall be defined in accordance with Article 238(3)(a).

3. If it is decided, in accordance with the procedure set out in paragraph 2, to abrogate a derogation, the Council shall, acting with the unanimity of the Member States whose currency is the euro and the Member State concerned, on a proposal from the Commission and after consulting the European Central Bank, irrevocably fix the rate at which the euro shall be substituted for the currency of the Member State concerned, and take the other measures necessary for the introduction of the euro as the single currency in the Member State concerned.

Article 141

(ex Articles 123(3) and 117(2) first five indents, TEC)

1. If and as long as there are Member States with a derogation, and without prejudice to Article 129(1), the General Council of the European Central Bank referred to in Article 44 of the Statute of the ESCB and of the ECB shall be constituted as a third decision-making body of the European Central Bank.
2. If and as long as there are Member States with a derogation, the European Central Bank shall, as regards those Member States:
 - strengthen cooperation between the national central banks,
 - strengthen the coordination of the monetary policies of the Member States, with the aim of ensuring price stability,
 - monitor the functioning of the exchange-rate mechanism,
 - hold consultations concerning issues falling within the competence of the national central banks and affecting the stability of financial institutions and markets,
 - carry out the former tasks of the European Monetary Cooperation Fund which had subsequently been taken over by the European Monetary Institute.

Article 142

(ex Article 124(1) TEC)

Each Member State with a derogation shall treat its exchange-rate policy as a matter of common interest. In so doing, Member States shall take account of the experience acquired in cooperation within the framework of the exchange-rate mechanism.

Article 143

(ex Article 119 TEC)

1. Where a Member State with a derogation is in difficulties or is seriously threatened with difficulties as regards its balance of payments either as a result of an overall disequilibrium in its balance of payments, or as a result of the type of currency at its disposal, and where such difficulties are liable in particular to jeopardise the functioning of the internal market or the implementation of the common commercial policy, the Commission shall immediately investigate the position of the State in question and the action which, making use of all the means at its disposal, that State has taken or may take in accordance with the provisions of the Treaties. The Commission shall state what measures it recommends the State concerned to take.

If the action taken by a Member State with a derogation and the measures suggested by the Commission do not prove sufficient to overcome the difficulties which have arisen or which threaten, the Commission shall, after consulting the Economic and Financial Committee, recommend to the Council the granting of mutual assistance and appropriate methods therefor.

The Commission shall keep the Council regularly informed of the situation and of how it is developing.

2. The Council shall grant such mutual assistance; it shall adopt directives or decisions laying down the conditions and details of such assistance, which may take such forms as:
 - (a) a concerted approach to or within any other international organisations to which Member States with a derogation may have recourse;
 - (b) measures needed to avoid deflection of trade where the Member State with a derogation which is in difficulties maintains or reintroduces quantitative restrictions against third countries;
 - (c) the granting of limited credits by other Member States, subject to their agreement.
3. If the mutual assistance recommended by the Commission is not granted by the Council or if the mutual assistance granted and the measures taken are insufficient, the Commission shall authorise the Member State with a derogation which is in difficulties to take protective measures, the conditions and details of which the Commission shall determine.

Such authorisation may be revoked and such conditions and details may be changed by the Council.

Article 144

(ex Article 120 TEC)

1. Where a sudden crisis in the balance of payments occurs and a decision within the meaning of Article 143(2) is not immediately taken, a Member State with a derogation may, as a precaution, take the necessary protective measures. Such measures must cause the least possible disturbance in the functioning of the internal market and must not be wider in scope than is strictly necessary to remedy the sudden difficulties which have arisen.
2. The Commission and the other Member States shall be informed of such protective measures not later than when they enter into force. The Commission may recommend to the Council the granting of mutual assistance under Article 143.
3. After the Commission has delivered a recommendation and the Economic and Financial Committee has been consulted, the Council may decide that the Member State concerned shall amend, suspend or abolish the protective measures referred to above.



EUROPEAN COUNCIL DECISION**of 25 March 2011****amending Article 136 of the Treaty on the Functioning of the European Union with regard to a stability mechanism for Member States whose currency is the euro (2011/199/EU)**

THE EUROPEAN COUNCIL,

Having regard to the Treaty on European Union, and in particular Article 48(6) thereof,

Having regard to the proposal for revising Article 136 of the Treaty on the Functioning of the European Union submitted to the European Council by the Belgian Government on 16 December 2010,

Having regard to the opinion of the European Parliament⁽¹⁾,Having regard to the opinion of the European Commission⁽²⁾,After obtaining the opinion of the European Central Bank⁽³⁾,

Whereas:

- (1) Article 48(6) of the Treaty on European Union (TEU) allows the European Council, acting by unanimity after consulting the European Parliament, the Commission and, in certain cases, the European Central Bank, to adopt a decision amending all or part of the provisions of Part Three of the Treaty on the Functioning of the European Union (TFEU). Such a decision may not increase the competences conferred on the Union in the Treaties and its entry into force is conditional upon its subsequent approval by the Member States in accordance with their respective constitutional requirements.
- (2) At the meeting of the European Council of 28 and 29 October 2010, the Heads of State or Government agreed on the need for Member States to establish a permanent crisis mechanism to safeguard the financial stability of the euro area as a whole and invited the President of the European Council to undertake consultations with the members of the European Council on a limited treaty change required to that effect.
- (3) On 16 December 2010, the Belgian Government submitted, in accordance with Article 48(6), first subparagraph, of the TEU, a proposal for revising Article 136 of the TFEU by adding a paragraph under which the Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole and stating that the granting of any required financial assistance under the mechanism will be made subject to strict conditionality. At the same time, the European Council adopted conclusions about the future stability mechanism (paragraphs 1 to 4).
- (4) The stability mechanism will provide the necessary tool for dealing with such cases of risk to the financial stability of the euro area as a whole as have been experienced in 2010, and hence help preserve the economic and financial stability of the Union itself. At its meeting of 16 and 17 December 2010, the European Council agreed that, as this mechanism is designed to safeguard the financial stability of the euro area as whole, Article 122(2) of the TFEU will no longer be needed for such purposes. The Heads of State or Government therefore agreed that it should not be used for such purposes.
- (5) On 16 December 2010, the European Council decided to consult, in accordance with Article 48(6), second subparagraph, of the TEU, the European Parliament and the Commission, on the proposal. It also decided to consult the European Central Bank. The European Parliament⁽⁴⁾, the Commission⁽⁵⁾ and the European Central Bank⁽⁶⁾, respectively, adopted opinions on the proposal.
- (6) The amendment concerns a provision contained in Part Three of the TFEU and it does not increase the competences conferred on the Union in the Treaties,

(1) Opinion of 23 March 2011 (not yet published in the Official Journal).

(2) Opinion of 15 February 2011 (not yet published in the Official Journal).

(3) Opinion of 17 March 2011 (not yet published in the Official Journal).

(4) Opinion of 23 March 2011 (not yet published in the Official Journal).

(5) Opinion of 15 February 2011 (not yet published in the Official Journal).

(6) Opinion of 17 March 2011 (not yet published in the Official Journal).

HAS ADOPTED THIS DECISION:

Article 1

The following paragraph shall be added to Article 136 of the Treaty on the Functioning of the European Union:

- '3. The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality.'

Article 2

Member States shall notify the Secretary-General of the Council without delay of the completion of the procedures for the approval of this Decision in accordance with their respective constitutional requirements.

This Decision shall enter into force on 1 January 2013, provided that all the notifications referred to in the first paragraph have been received, or, failing that, on the first day of the month following receipt of the last of the notifications referred to in the first paragraph.

Article 3

This Decision shall be published in the Official Journal of the European Union.

Done at Brussels, 25 March 2011.

For the European Council

The President

H. VAN ROMPUY



PART FIVE
THE UNION'S EXTERNAL ACTION
TITLE V
INTERNATIONAL AGREEMENTS

Article 219

(ex Article 111(1) to (3) and (5) TEC)

1. By way of derogation from Article 218, the Council, either on a recommendation from the European Central Bank or on a recommendation from the Commission and after consulting the European Central Bank, in an endeavour to reach a consensus consistent with the objective of price stability, may conclude formal agreements on an exchange-rate system for the euro in relation to the currencies of third States. The Council shall act unanimously after consulting the European Parliament and in accordance with the procedure provided for in paragraph 3.

The Council may, either on a recommendation from the European Central Bank or on a recommendation from the Commission, and after consulting the European Central Bank, in an endeavour to reach a consensus consistent with the objective of price stability, adopt, adjust or abandon the central rates of the euro within the exchange-rate system. The President of the Council shall inform the European Parliament of the adoption, adjustment or abandonment of the euro central rates.

2. In the absence of an exchange-rate system in relation to one or more currencies of third States as referred to in paragraph 1, the Council, either on a recommendation from the Commission and after consulting the European Central Bank or on a recommendation from the European Central Bank, may formulate general orientations for exchange-rate policy in relation to these currencies. These general orientations shall be without prejudice to the primary objective of the ESCB to maintain price stability.
3. By way of derogation from Article 218, where agreements concerning monetary or foreign exchange regime matters need to be negotiated by the Union with one or more third States or international organisations, the Council, on a recommendation from the Commission and after consulting the European Central Bank, shall decide the arrangements for the negotiation and for the conclusion of such agreements. These arrangements shall ensure that the Union expresses a single position. The Commission shall be fully associated with the negotiations.
4. Without prejudice to Union competence and Union agreements as regards economic and monetary union, Member States may negotiate in international bodies and conclude international agreements.



PART SIX
INSTITUTIONAL AND FINANCIAL PROVISIONS

TITLE I

INSTITUTIONAL PROVISIONS

CHAPTER 1

THE INSTITUTIONS

SECTION 6

THE EUROPEAN CENTRAL BANK

Article 282

1. The European Central Bank, together with the national central banks, shall constitute the European System of Central Banks (ESCB). The European Central Bank, together with the national central banks of the Member States whose currency is the euro, which constitute the Eurosystem, shall conduct the monetary policy of the Union.
2. The ESCB shall be governed by the decision-making bodies of the European Central Bank. The primary objective of the ESCB shall be to maintain price stability. Without prejudice to that objective, it shall support the general economic policies in the Union in order to contribute to the achievement of the latter's objectives.
3. The European Central Bank shall have legal personality. It alone may authorise the issue of the euro. It shall be independent in the exercise of its powers and in the management of its finances. Union institutions, bodies, offices and agencies and the governments of the Member States shall respect that independence.
4. The European Central Bank shall adopt such measures as are necessary to carry out its tasks in accordance with Articles 127 to 133, with Article 138, and with the conditions laid down in the Statute of the ESCB and of the ECB. In accordance with these same Articles, those Member States whose currency is not the euro, and their central banks, shall retain their powers in monetary matters.
5. Within the areas falling within its responsibilities, the European Central Bank shall be consulted on all proposed Union acts, and all proposals for regulation at national level, and may give an opinion.

Article 283

(ex Article 112 TEC)

1. The Governing Council of the European Central Bank shall comprise the members of the Executive Board of the European Central Bank and the Governors of the national central banks of the Member States whose currency is the euro.
2. The Executive Board shall comprise the President, the Vice-President and four other members.

The President, the Vice-President and the other members of the Executive Board shall be appointed by the European Council, acting by a qualified majority, from among persons of recognised standing and professional experience in monetary or banking matters, on a recommendation from the Council, after it has consulted the European Parliament and the Governing Council of the European Central Bank.

Their term of office shall be eight years and shall not be renewable.

Only nationals of Member States may be members of the Executive Board.

Article 284

(ex Article 113 TEC)

1. The President of the Council and a Member of the Commission may participate, without having the right to vote, in meetings of the Governing Council of the European Central Bank.
The President of the Council may submit a motion for deliberation to the Governing Council of the European Central Bank.
2. The President of the European Central Bank shall be invited to participate in Council meetings when the Council is discussing matters relating to the objectives and tasks of the ESCB.

3. The European Central Bank shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and current year to the European Parliament, the Council and the Commission, and also to the European Council. The President of the European Central Bank shall present this report to the Council and to the European Parliament, which may hold a general debate on that basis.

The President of the European Central Bank and the other members of the Executive Board may, at the request of the European Parliament or on their own initiative, be heard by the competent committees of the European Parliament



1.3. Protocols annexed to the Treaty on the Functioning of the European Union

PROTOCOL (No 4)

ON THE STATUTE OF THE EUROPEAN SYSTEM OF CENTRAL BANKS AND OF THE EUROPEAN CENTRAL BANK

THE HIGH CONTRACTING PARTIES,

DESIRING to lay down the Statute of the European System of Central Banks and of the European Central Bank provided for in the second paragraph of Article 129 of the Treaty on the Functioning of the European Union,

HAVE AGREED upon the following provisions, which shall be annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union:

CHAPTER I

THE EUROPEAN SYSTEM OF CENTRAL BANKS

Article 1

The European System of Central Banks

In accordance with Article 282(1) of the Treaty on European Union, the European Central Bank (ECB) and the national central banks shall constitute the European System of Central Banks (ESCB). The ECB and the national central banks of those Member States whose currency is the euro shall constitute the Eurosystem.

The ESCB and the ECB shall perform their tasks and carry on their activities in accordance with the provisions of the Treaties and of this Statute.

CHAPTER II

OBJECTIVES AND TASKS OF THE ESCB

Article 2

Objectives

In accordance with Article 127(1) and Article 282(2) of the Treaty on the Functioning of the European Union, the primary objective of the ESCB shall be to maintain price stability. Without prejudice to the objective of price stability, it shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 119 of the Treaty on the Functioning of the European Union.

Article 3

Tasks

- 3.1. In accordance with Article 127(2) of the Treaty on the Functioning of the European Union, the basic tasks to be carried out through the ESCB shall be:
 - to define and implement the monetary policy of the Union;
 - to conduct foreign-exchange operations consistent with the provisions of Article 219 of that Treaty;
 - to hold and manage the official foreign reserves of the Member States;
 - to promote the smooth operation of payment systems.
- 3.2. In accordance with Article 127(3) of the Treaty on the Functioning of the European Union, the third indent of Article 3.1 shall be without prejudice to the holding and management by the governments of Member States of foreign-exchange working balances.
- 3.3. In accordance with Article 127(5) of the Treaty on the Functioning of the European Union, the ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.

*Article 4***Advisory functions**

In accordance with Article 127(4) of the Treaty on the Functioning of the European Union:

- (a) the ECB shall be consulted:
 - on any proposed Union act in its fields of competence;
 - by national authorities regarding any draft legislative provision in its fields of competence, but within the limits and under the conditions set out by the Council in accordance with the procedure laid down in Article 41;
- (b) the ECB may submit opinions to the Union institutions, bodies, offices or agencies or to national authorities on matters in its fields of competence.

*Article 5***Collection of statistical information**

- 5.1. In order to undertake the tasks of the ESCB, the ECB, assisted by the national central banks, shall collect the necessary statistical information either from the competent national authorities or directly from economic agents. For these purposes it shall cooperate with the Union institutions, bodies, offices or agencies and with the competent authorities of the Member States or third countries and with international organisations.
- 5.2. The national central banks shall carry out, to the extent possible, the tasks described in Article 5.1.
- 5.3. The ECB shall contribute to the harmonisation, where necessary, of the rules and practices governing the collection, compilation and distribution of statistics in the areas within its fields of competence.
- 5.4. The Council, in accordance with the procedure laid down in Article 41, shall define the natural and legal persons subject to reporting requirements, the confidentiality regime and the appropriate provisions for enforcement.

*Article 6***International cooperation**

- 6.1. In the field of international cooperation involving the tasks entrusted to the ESCB, the ECB shall decide how the ESCB shall be represented.
- 6.2. The ECB and, subject to its approval, the national central banks may participate in international monetary institutions.
- 6.3. Articles 6.1 and 6.2 shall be without prejudice to Article 138 of the Treaty on the Functioning of the European Union.

CHAPTER III**ORGANISATION OF THE ESCB***Article 7***Independence**

In accordance with Article 130 of the Treaty on the Functioning of the European Union, when exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and this Statute, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body. The Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks.

*Article 8***General principle**

The ESCB shall be governed by the decision-making bodies of the ECB.

*Article 9***The European Central Bank**

- 9.1. The ECB which, in accordance with Article 282(3) of the Treaty on the Functioning of the European Union, shall have legal personality, shall enjoy in each of the Member States the most extensive legal capacity accorded to legal persons under its law; it may, in particular, acquire or dispose of movable and immovable property and may be a party to legal proceedings.

- 9.2. The ECB shall ensure that the tasks conferred upon the ESCB under Article 127(2), (3) and (5) of the Treaty on the Functioning of the European Union are implemented either by its own activities pursuant to this Statute or through the national central banks pursuant to Articles 12.1 and 14.
- 9.3. In accordance with Article 129(1) of the Treaty on the Functioning of the European Union, the decision making bodies of the ECB shall be the Governing Council and the Executive Board.

Article 10

The Governing Council

- 10.1. In accordance with Article 283(1) of the Treaty on the Functioning of the European Union, the Governing Council shall comprise the members of the Executive Board of the ECB and the governors of the national central banks of the Member States whose currency is the euro.
- 10.2. Each member of the Governing Council shall have one vote. As from the date on which the number of members of the Governing Council exceeds 21, each member of the Executive Board shall have one vote and the number of governors with a voting right shall be 15. The latter voting rights shall be assigned and shall rotate as follows:
- as from the date on which the number of governors exceeds 15, until it reaches 22, the governors shall be allocated to two groups, according to a ranking of the size of the share of their national central bank's Member State in the aggregate gross domestic product at market prices and in the total aggregated balance sheet of the monetary financial institutions of the Member States whose currency is the euro. The shares in the aggregate gross domestic product at market prices and in the total aggregated balance sheet of the monetary financial institutions shall be assigned weights of 5/6 and 1/6, respectively. The first group shall be composed of five governors and the second group of the remaining governors. The frequency of voting rights of the governors allocated to the first group shall not be lower than the frequency of voting rights of those of the second group. Subject to the previous sentence, the first group shall be assigned four voting rights and the second group eleven voting rights,
 - as from the date on which the number of governors reaches 22, the governors shall be allocated to three groups according to a ranking based on the above criteria. The first group shall be composed of five governors and shall be assigned four voting rights. The second group shall be composed of half of the total number of governors, with any fraction rounded up to the nearest integer, and shall be assigned eight voting rights. The third group shall be composed of the remaining governors and shall be assigned three voting rights,
 - within each group, the governors shall have their voting rights for equal amounts of time,
 - for the calculation of the shares in the aggregate gross domestic product at market prices Article 29.2 shall apply. The total aggregated balance sheet of the monetary financial institutions shall be calculated in accordance with the statistical framework applying in the Union at the time of the calculation,
 - whenever the aggregate gross domestic product at market prices is adjusted in accordance with Article 29.3, or whenever the number of governors increases, the size and/or composition of the groups shall be adjusted in accordance with the above principles,
 - the Governing Council, acting by a two-thirds majority of all its members, with and without a voting right, shall take all measures necessary for the implementation of the above principles and may decide to postpone the start of the rotation system until the date on which the number of governors exceeds 18.

The right to vote shall be exercised in person. By way of derogation from this rule, the Rules of Procedure referred to in Article 12.3 may lay down that members of the Governing Council may cast their vote by means of teleconferencing. These rules shall also provide that a member of the Governing Council who is prevented from attending meetings of the Governing Council for a prolonged period may appoint an alternate as a member of the Governing Council.

The provisions of the previous paragraphs are without prejudice to the voting rights of all members of the Governing Council, with and without a voting right, under Articles 10.3, 40.2 and 40.3.

Save as otherwise provided for in this Statute, the Governing Council shall act by a simple majority of the members having a voting right. In the event of a tie, the President shall have the casting vote.

In order for the Governing Council to vote, there shall be a quorum of two-thirds of the members having a voting right. If the quorum is not met, the President may convene an extraordinary meeting at which decisions may be taken without regard to the quorum.

- 10.3. For any decisions to be taken under Articles 28, 29, 30, 32 and 33, the votes in the Governing Council shall be weighted according to the national central banks' shares in the subscribed capital of the ECB. The weights of the votes of the members of the Executive Board shall be zero. A decision requiring a qualified majority shall be adopted if the votes cast in favour represent at least two thirds of the subscribed capital of the ECB and represent at least half of the shareholders. If a Governor is unable to be present, he may nominate an alternate to cast his weighted vote.

- 10.4. The proceedings of the meetings shall be confidential. The Governing Council may decide to make the outcome of its deliberations public.
- 10.5. The Governing Council shall meet at least 10 times a year.

Article 11

The Executive Board

- 11.1. In accordance with the first subparagraph of Article 283(2) of the Treaty on the Functioning of the European Union, the Executive Board shall comprise the President, the Vice-President and four other members.

The members shall perform their duties on a full-time basis. No member shall engage in any occupation, whether gainful or not, unless exemption is exceptionally granted by the Governing Council.

- 11.2. In accordance with the second subparagraph of Article 283(2) of the Treaty on the Functioning of the European Union, the President, the Vice-President and the other members of the Executive Board shall be appointed by the European Council, acting by a qualified majority, from among persons of recognised standing and professional experience in monetary or banking matters, on a recommendation from the Council after it has consulted the European Parliament and the Governing Council.

Their term of office shall be eight years and shall not be renewable.

Only nationals of Member States may be members of the Executive Board.

- 11.3. The terms and conditions of employment of the members of the Executive Board, in particular their salaries, pensions and other social security benefits shall be the subject of contracts with the ECB and shall be fixed by the Governing Council on a proposal from a Committee comprising three members appointed by the Governing Council and three members appointed by the Council. The members of the Executive Board shall not have the right to vote on matters referred to in this paragraph.
- 11.4. If a member of the Executive Board no longer fulfils the conditions required for the performance of his duties or if he has been guilty of serious misconduct, the Court of Justice may, on application by the Governing Council or the Executive Board, compulsorily retire him.
- 11.5. Each member of the Executive Board present in person shall have the right to vote and shall have, for that purpose, one vote. Save as otherwise provided, the Executive Board shall act by a simple majority of the votes cast. In the event of a tie, the President shall have the casting vote. The voting arrangements shall be specified in the Rules of Procedure referred to in Article 12.3.
- 11.6. The Executive Board shall be responsible for the current business of the ECB.
- 11.7. Any vacancy on the Executive Board shall be filled by the appointment of a new member in accordance with Article 11.2.

Article 12

Responsibilities of the decision-making bodies

- 12.1. The Governing Council shall adopt the guidelines and take the decisions necessary to ensure the performance of the tasks entrusted to the ESCB under these Treaties and this Statute. The Governing Council shall formulate the monetary policy of the Union including, as appropriate, decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in the ESCB, and shall establish the necessary guidelines for their implementation.

The Executive Board shall implement monetary policy in accordance with the guidelines and decisions laid down by the Governing Council. In doing so the Executive Board shall give the necessary instructions to national central banks. In addition the Executive Board may have certain powers delegated to it where the Governing Council so decides.

To the extent deemed possible and appropriate and without prejudice to the provisions of this Article, the ECB shall have recourse to the national central banks to carry out operations which form part of the tasks of the ESCB.

- 12.2. The Executive Board shall have responsibility for the preparation of meetings of the Governing Council.
- 12.3. The Governing Council shall adopt Rules of Procedure which determine the internal organisation of the ECB and its decision-making bodies.
- 12.4. The Governing Council shall exercise the advisory functions referred to in Article 4.
- 12.5. The Governing Council shall take the decisions referred to in Article 6.

*Article 13***The President**

- 13.1. The President or, in his absence, the Vice-President shall chair the Governing Council and the Executive Board of the ECB.
- 13.2. Without prejudice to Article 38, the President or his nominee shall represent the ECB externally.

*Article 14***National central banks**

- 14.1. In accordance with Article 131 of the Treaty on the Functioning of the European Union, each Member State shall ensure that its national legislation, including the statutes of its national central bank, is compatible with these Treaties and this Statute.
- 14.2. The statutes of the national central banks shall, in particular, provide that the term of office of a Governor of a national central bank shall be no less than five years.
- A Governor may be relieved from office only if he no longer fulfils the conditions required for the performance of his duties or if he has been guilty of serious misconduct. A decision to this effect may be referred to the Court of Justice by the Governor concerned or the Governing Council on grounds of infringement of these Treaties or of any rule of law relating to their application. Such proceedings shall be instituted within two months of the publication of the decision or of its notification to the plaintiff or, in the absence thereof, of the day on which it came to the knowledge of the latter, as the case may be.
- 14.3. The national central banks are an integral part of the ESCB and shall act in accordance with the guidelines and instructions of the ECB. The Governing Council shall take the necessary steps to ensure compliance with the guidelines and instructions of the ECB, and shall require that any necessary information be given to it.
- 14.4. National central banks may perform functions other than those specified in this Statute unless the Governing Council finds, by a majority of two thirds of the votes cast, that these interfere with the objectives and tasks of the ESCB. Such functions shall be performed on the responsibility and liability of national central banks and shall not be regarded as being part of the functions of the ESCB.

*Article 15***Reporting commitments**

- 15.1. The ECB shall draw up and publish reports on the activities of the ESCB at least quarterly.
- 15.2. A consolidated financial statement of the ESCB shall be published each week.
- 15.3. In accordance with Article 284(3) of the Treaty on the Functioning of the European Union, the ECB shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and the current year to the European Parliament, the Council and the Commission, and also to the European Council.
- 15.4. The reports and statements referred to in this Article shall be made available to interested parties free of charge.

*Article 16***Banknotes**

In accordance with Article 128(1) of the Treaty on the Functioning of the European Union, the Governing Council shall have the exclusive right to authorise the issue of euro banknotes within the Union. The ECB and the national central banks may issue such notes. The banknotes issued by the ECB and the national central banks shall be the only such notes to have the status of legal tender within the Union.

The ECB shall respect as far as possible existing practices regarding the issue and design of banknotes.

CHAPTER IV**MONETARY FUNCTIONS AND OPERATIONS OF THE ESCB***Article 17***Accounts with the ECB and the national central banks**

In order to conduct their operations, the ECB and the national central banks may open accounts for credit institutions, public entities and other market participants and accept assets, including book entry securities, as collateral.

*Article 18***Open market and credit operations**

- 18.1. In order to achieve the objectives of the ESCB and to carry out its tasks, the ECB and the national central banks may:
- operate in the financial markets by buying and selling outright (spot and forward) or under repurchase agreement and by lending or borrowing claims and marketable instruments, whether in euro or other currencies, as well as precious metals;
 - conduct credit operations with credit institutions and other market participants, with lending being based on adequate collateral.
- 18.2. The ECB shall establish general principles for open market and credit operations carried out by itself or the national central banks, including for the announcement of conditions under which they stand ready to enter into such transactions.

*Article 19***Minimum reserves**

- 19.1. Subject to Article 2, the ECB may require credit institutions established in Member States to hold minimum reserve on accounts with the ECB and national central banks in pursuance of monetary policy objectives. Regulations concerning the calculation and determination of the required minimum reserves may be established by the Governing Council. In cases of non-compliance the ECB shall be entitled to levy penalty interest and to impose other sanctions with comparable effect.
- 19.2. For the application of this Article, the Council shall, in accordance with the procedure laid down in Article 41, define the basis for minimum reserves and the maximum permissible ratios between those reserves and their basis, as well as the appropriate sanctions in cases of non-compliance.

*Article 20***Other instruments of monetary control**

The Governing Council may, by a majority of two thirds of the votes cast, decide upon the use of such other operational methods of monetary control as it sees fit, respecting Article 2.

The Council shall, in accordance with the procedure laid down in Article 41, define the scope of such methods if they impose obligations on third parties.

*Article 21***Operations with public entities**

- 21.1. In accordance with Article 123 of the Treaty on the Functioning of the European Union, overdrafts or any other type of credit facility with the ECB or with the national central banks in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the ECB or national central banks of debt instruments.
- 21.2. The ECB and national central banks may act as fiscal agents for the entities referred to in Article 21.1.
- 21.3. The provisions of this Article shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, shall be given the same treatment by national central banks and the ECB as private credit institutions.

*Article 22***Clearing and payment systems**

The ECB and national central banks may provide facilities, and the ECB may make regulations, to ensure efficient and sound clearing and payment systems within the Union and with other countries.

*Article 23***External operations**

The ECB and national central banks may:

- establish relations with central banks and financial institutions in other countries and, where appropriate, with international organisations;

- acquire and sell spot and forward all types of foreign exchange assets and precious metals; the term ‘foreign exchange asset’ shall include securities and all other assets in the currency of any country or units of account and in whatever form held;
- hold and manage the assets referred to in this Article;
- conduct all types of banking transactions in relations with third countries and international organisations, including borrowing and lending operations.

Article 24

Other operations

In addition to operations arising from their tasks, the ECB and national central banks may enter into operations for their administrative purposes or for their staff.

CHAPTER V

PRUDENTIAL SUPERVISION

Article 25

Prudential supervision

- 25.1. The ECB may offer advice to and be consulted by the Council, the Commission and the competent authorities of the Member States on the scope and implementation of Union legislation relating to the prudential supervision of credit institutions and to the stability of the financial system.
- 25.2. In accordance with any regulation of the Council under Article 127(6) of the Treaty on the Functioning of the European Union, the ECB may perform specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings.

CHAPTER VI

FINANCIAL PROVISIONS OF THE ESCB

Article 26

Financial accounts

- 26.1. The financial year of the ECB and national central banks shall begin on the first day of January and end on the last day of December.
- 26.2. The annual accounts of the ECB shall be drawn up by the Executive Board, in accordance with the principles established by the Governing Council. The accounts shall be approved by the Governing Council and shall thereafter be published.
- 26.3. For analytical and operational purposes, the Executive Board shall draw up a consolidated balance sheet of the ESCB, comprising those assets and liabilities of the national central banks that fall within the ESCB.
- 26.4. For the application of this Article, the Governing Council shall establish the necessary rules for standardising the accounting and reporting of operations undertaken by the national central banks.

Article 27

Auditing

- 27.1. The accounts of the ECB and national central banks shall be audited by independent external auditors recommended by the Governing Council and approved by the Council. The auditors shall have full power to examine all books and accounts of the ECB and national central banks and obtain full information about their transactions.
- 27.2. The provisions of Article 287 of the Treaty on the Functioning of the European Union shall only apply to an examination of the operational efficiency of the management of the ECB.

Article 28

Capital of the ECB

- 28.1. The capital of the ECB shall be euro 5000 million. The capital may be increased by such amounts as may be decided by the Governing Council acting by the qualified majority provided for in Article 10.3, within the limits and under the conditions set by the Council under the procedure laid down in Article 41.
- 28.2. The national central banks shall be the sole subscribers to and holders of the capital of the ECB. The subscription of capital shall be according to the key established in accordance with Article 29.

- 28.3. The Governing Council, acting by the qualified majority provided for in Article 10.3, shall determine the extent to which and the form in which the capital shall be paid up.
- 28.4. Subject to Article 28.5, the shares of the national central banks in the subscribed capital of the ECB may not be transferred, pledged or attached.
- 28.5. If the key referred to in Article 29 is adjusted, the national central banks shall transfer among themselves capital shares to the extent necessary to ensure that the distribution of capital shares corresponds to the adjusted key. The Governing Council shall determine the terms and conditions of such transfers.

Article 29

Key for capital subscription

- 29.1. The key for subscription of the ECB's capital, fixed for the first time in 1998 when the ESCB was established, shall be determined by assigning to each national central bank a weighting in this key equal to the sum of:
- 50 % of the share of its respective Member State in the population of the Union in the penultimate year preceding the establishment of the ESCB;
 - 50 % of the share of its respective Member State in the gross domestic product at market prices of the Union as recorded in the last five years preceding the penultimate year before the establishment of the ESCB.

The percentages shall be rounded up or down to the nearest multiple of 0,0001 percentage points.

- 29.2. The statistical data to be used for the application of this Article shall be provided by the Commission in accordance with the rules adopted by the Council under the procedure provided for in Article 41.
- 29.3. The weightings assigned to the national central banks shall be adjusted every five years after the establishment of the ESCB by analogy with the provisions laid down in Article 29.1. The adjusted key shall apply with effect from the first day of the following year.
- 29.4. The Governing Council shall take all other measures necessary for the application of this Article.

Article 30

Transfer of foreign reserve assets to the ECB

- 30.1. Without prejudice to Article 28, the ECB shall be provided by the national central banks with foreign reserve assets, other than Member States' currencies, euro, IMF reserve positions and SDRs, up to an amount equivalent to euro 50000 million. The Governing Council shall decide upon the proportion to be called up by the ECB following its establishment and the amounts called up at later dates. The ECB shall have the full right to hold and manage the foreign reserves that are transferred to it and to use them for the purposes set out in this Statute.
- 30.2. The contributions of each national central bank shall be fixed in proportion to its share in the subscribed capital of the ECB.
- 30.3. Each national central bank shall be credited by the ECB with a claim equivalent to its contribution. The Governing Council shall determine the denomination and remuneration of such claims.
- 30.4. Further calls of foreign reserve assets beyond the limit set in Article 30.1 may be effected by the ECB, in accordance with Article 30.2, within the limits and under the conditions set by the Council in accordance with the procedure laid down in Article 41.
- 30.5. The ECB may hold and manage IMF reserve positions and SDRs and provide for the pooling of such assets.
- 30.6. The Governing Council shall take all other measures necessary for the application of this Article.

Article 31

Foreign reserve assets held by national central banks

- 31.1. The national central banks shall be allowed to perform transactions in fulfilment of their obligations towards international organisations in accordance with Article 23.
- 31.2. All other operations in foreign reserve assets remaining with the national central banks after the transfers referred to in Article 30, and Member States' transactions with their foreign exchange working balances shall, above a certain limit to be established within the framework of Article 31.3, be subject to approval by the ECB in order to ensure consistency with the exchange rate and monetary policies of the Union.
- 31.3. The Governing Council shall issue guidelines with a view to facilitating such operations.

*Article 32***Allocation of monetary income of national central banks**

- 32.1. The income accruing to the national central banks in the performance of the ESCB's monetary policy function (hereinafter referred to as 'monetary income') shall be allocated at the end of each financial year in accordance with the provisions of this Article.
- 32.2. The amount of each national central bank's monetary income shall be equal to its annual income derived from its assets held against notes in circulation and deposit liabilities to credit institutions. These assets shall be earmarked by national central banks in accordance with guidelines to be established by the Governing Council.
- 32.3. If, after the introduction of the euro, the balance sheet structures of the national central banks do not, in the judgment of the Governing Council, permit the application of Article 32.2, the Governing Council, acting by a qualified majority, may decide that, by way of derogation from Article 32.2, monetary income shall be measured according to an alternative method for a period of not more than five years.
- 32.4. The amount of each national central bank's monetary income shall be reduced by an amount equivalent to any interest paid by that central bank on its deposit liabilities to credit institutions in accordance with Article 19.
- The Governing Council may decide that national central banks shall be indemnified against costs incurred in connection with the issue of banknotes or in exceptional circumstances for specific losses arising from monetary policy operations undertaken for the ESCB. Indemnification shall be in a form deemed appropriate in the judgment of the Governing Council; these amounts may be offset against the national central banks' monetary income.
- 32.5. The sum of the national central banks' monetary income shall be allocated to the national central banks in proportion to their paid up shares in the capital of the ECB, subject to any decision taken by the Governing Council pursuant to Article 33.2.
- 32.6. The clearing and settlement of the balances arising from the allocation of monetary income shall be carried out by the ECB in accordance with guidelines established by the Governing Council.
- 32.7. The Governing Council shall take all other measures necessary for the application of this Article.

*Article 33***Allocation of net profits and losses of the ECB**

- 33.1. The net profit of the ECB shall be transferred in the following order:
- (a) an amount to be determined by the Governing Council, which may not exceed 20 % of the net profit, shall be transferred to the general reserve fund subject to a limit equal to 100 % of the capital;
 - (b) the remaining net profit shall be distributed to the shareholders of the ECB in proportion to their paid-up shares.
- 33.2. In the event of a loss incurred by the ECB, the shortfall may be offset against the general reserve fund of the ECB and, if necessary, following a decision by the Governing Council, against the monetary income of the relevant financial year in proportion and up to the amounts allocated to the national central banks in accordance with Article 32.5.

CHAPTER VII**GENERAL PROVISIONS***Article 34***Legal acts**

- 34.1. In accordance with Article 132 of the Treaty on the Functioning of the European Union, the ECB shall:
- make regulations to the extent necessary to implement the tasks defined in Article 3.1, first indent, Articles 19.1, 22 or 25.2 and in cases which shall be laid down in the acts of the Council referred to in Article 41;
 - take decisions necessary for carrying out the tasks entrusted to the ESCB under these Treaties and this Statute;
 - make recommendations and deliver opinions.
- 34.2. The ECB may decide to publish its decisions, recommendations and opinions.
- 34.3. Within the limits and under the conditions adopted by the Council under the procedure laid down in Article 41, the ECB shall be entitled to impose fines or periodic penalty payments on undertakings for failure to comply with obligations under its regulations and decisions.

*Article 35***Judicial control and related matters**

- 35.1. The acts or omissions of the ECB shall be open to review or interpretation by the Court of Justice of the European Union in the cases and under the conditions laid down in the Treaty on the Functioning of the European Union. The ECB may institute proceedings in the cases and under the conditions laid down in the Treaties.
- 35.2. Disputes between the ECB, on the one hand, and its creditors, debtors or any other person, on the other, shall be decided by the competent national courts, save where jurisdiction has been conferred upon the Court of Justice of the European Union.
- 35.3. The ECB shall be subject to the liability regime provided for in Article 340 of the Treaty on the Functioning of the European Union. The national central banks shall be liable according to their respective national laws.
- 35.4. The Court of Justice of the European Union shall have jurisdiction to give judgment pursuant to any arbitration clause contained in a contract concluded by or on behalf of the ECB, whether that contract be governed by public or private law.
- 35.5. A decision of the ECB to bring an action before the Court of Justice of the European Union shall be taken by the Governing Council.
- 35.6. The Court of Justice of the European Union shall have jurisdiction in disputes concerning the fulfilment by a national central bank of obligations under the Treaties and this Statute. If the ECB considers that a national central bank has failed to fulfil an obligation under the Treaties and this Statute, it shall deliver a reasoned opinion on the matter after giving the national central bank concerned the opportunity to submit its observations. If the national central bank concerned does not comply with the opinion within the period laid down by the ECB, the latter may bring the matter before the Court of Justice of the European Union.

*Article 36***Staff**

- 36.1. The Governing Council, on a proposal from the Executive Board, shall lay down the conditions of employment of the staff of the ECB.
- 36.2. The Court of Justice of the European Union shall have jurisdiction in any dispute between the ECB and its servants within the limits and under the conditions laid down in the conditions of employment.

*Article 37 (ex Article 38)***Professional secrecy**

- 37.1. Members of the governing bodies and the staff of the ECB and the national central banks shall be required, even after their duties have ceased, not to disclose information of the kind covered by the obligation of professional secrecy.
- 37.2. Persons having access to data covered by Union legislation imposing an obligation of secrecy shall be subject to such legislation.

*Article 38 (ex Article 39)***Signatories**

The ECB shall be legally committed to third parties by the President or by two members of the Executive Board or by the signatures of two members of the staff of the ECB who have been duly authorised by the President to sign on behalf of the ECB.

*Article 39 (ex Article 40)***Privileges and immunities**

The ECB shall enjoy in the territories of the Member States such privileges and immunities as are necessary for the performance of its tasks, under the conditions laid down in the Protocol on the privileges and immunities of the European Union.

CHAPTER VIII**AMENDMENT OF THE STATUTE AND COMPLEMENTARY LEGISLATION***Article 40 (ex Article 41)***Simplified amendment procedure**

- 40.1. In accordance with Article 129(3) of the Treaty on the Functioning of the European Union, Articles 5.1, 5.2, 5.3, 17, 18, 19.1, 22, 23, 24, 26, 32.2, 32.3, 32.4, 32.6, 33.1(a) and 36 of this Statute may be amended by the European Parliament and the Council, acting in accordance with the ordinary legislative procedure either on a recommendation from the ECB and after consulting the Commission, or on a proposal from the Commission and after consulting the ECB.
- 40.2. Article 10.2 may be amended by a decision of the European Council, acting unanimously, either on a recommendation from the European Central Bank and after consulting the European Parliament and the Commission, or on a recommendation from the Commission and after consulting the European Parliament and the European Central Bank. These amendments shall not enter into force until they are approved by the Member States in accordance with their respective constitutional requirements.
- 40.3. A recommendation made by the ECB under this Article shall require a unanimous decision by the Governing Council.

*Article 41 (ex Article 42)***Complementary legislation**

In accordance with Article 129(4) of the Treaty on the Functioning of the European Union, the Council, either on a proposal from the Commission and after consulting the European Parliament and the ECB or on a recommendation from the ECB and after consulting the European Parliament and the Commission, shall adopt the provisions referred to in Articles 4, 5.4, 19.2, 20, 28.1, 29.2, 30.4 and 34.3 of this Statute.

CHAPTER IX**TRANSITIONAL AND OTHER PROVISIONS FOR THE ESCB***Article 42 (ex Article 43)***General provisions**

- 42.1. A derogation as referred to in Article 139 of the Treaty on the Functioning of the European Union shall entail that the following Articles of this Statute shall not confer any rights or impose any obligations on the Member State concerned: 3, 6, 9.2, 12.1, 14.3, 16, 18, 19, 20, 22, 23, 26.2, 27, 30, 31, 32, 33, 34, and 49.
- 42.2. The central banks of Member States with a derogation as specified in Article 139(1) of the Treaty on the Functioning of the European Union shall retain their powers in the field of monetary policy according to national law.
- 42.3. In accordance with Article 139 of the Treaty on the Functioning of the European Union, 'Member States' shall be read as 'Member States whose currency is the euro' in the following Articles of this Statute: 3, 11.2 and 19.
- 42.4. 'National central banks' shall be read as 'central banks of Member States whose currency is the euro' in the following Articles of this Statute: 9.2, 10.2, 10.3, 12.1, 16, 17, 18, 22, 23, 27, 30, 31, 32, 33.2 and 49.
- 42.5. 'Shareholders' shall be read as 'central banks of Member States whose currency is the euro' in Articles 10.3 and 33.1.
- 42.6. 'Subscribed capital of the ECB' shall be read as 'capital of the ECB subscribed by the central banks of Member States whose currency is the euro' in Articles 10.3 and 30.2.

*Article 43 (ex Article 44)***Transitional tasks of the ECB**

The ECB shall take over the former tasks of the EMI referred to in Article 141(2) of the Treaty on the Functioning of the European Union which, because of the derogations of one or more Member States, still have to be performed after the introduction of the euro.

The ECB shall give advice in the preparations for the abrogation of the derogations specified in Article 140 of the Treaty on the Functioning of the European Union.

*Article 44 (ex Article 45)***The General Council of the ECB**

- 44.1. Without prejudice to Article 129(3) of the Treaty on the Functioning of the European Union, the General Council shall be constituted as a third decision-making body of the ECB.
- 44.2. The General Council shall comprise the President and Vice-President of the ECB and the Governors of the national central banks. The other members of the Executive Board may participate, without having the right to vote, in meetings of the General Council.
- 44.3. The responsibilities of the General Council are listed in full in Article 46 of this Statute.

*Article 45 (ex Article 46)***Rules of Procedure of the General Council**

- 45.1. The President or, in his absence, the Vice-President of the ECB shall chair the General Council of the ECB.
- 45.2. The President of the Council and a Member of the Commission may participate, without having the right to vote, in meetings of the General Council.
- 45.3. The President shall prepare the meetings of the General Council.
- 45.4. By way of derogation from Article 12.3, the General Council shall adopt its Rules of Procedure.
- 45.5. The Secretariat of the General Council shall be provided by the ECB.

*Article 46 (ex Article 47)***Responsibilities of the General Council**

- 46.1. The General Council shall:
- perform the tasks referred to in Article 43;
 - contribute to the advisory functions referred to in Articles 4 and 25.1.
- 46.2. The General Council shall contribute to:
- the collection of statistical information as referred to in Article 5;
 - the reporting activities of the ECB as referred to in Article 15;
 - the establishment of the necessary rules for the application of Article 26 as referred to in Article 26.4;
 - the taking of all other measures necessary for the application of Article 29 as referred to in Article 29.4;
 - the laying down of the conditions of employment of the staff of the ECB as referred to in Article 36.
- 46.3. The General Council shall contribute to the necessary preparations for irrevocably fixing the exchange rates of the currencies of Member States with a derogation against the euro as referred to in Article 140(3) of the Treaty on the Functioning of the European Union.
- 46.4. The General Council shall be informed by the President of the ECB of decisions of the Governing Council.

*Article 47 (ex Article 48)***Transitional provisions for the capital of the ECB**

In accordance with Article 29.1, each national central bank shall be assigned a weighting in the key for subscription of the ECB's capital. By way of derogation from Article 28.3, central banks of Member States with a derogation shall not pay up their subscribed capital unless the General Council, acting by a majority representing at least two thirds of the subscribed capital of the ECB and at least half of the shareholders, decides that a minimal percentage has to be paid up as a contribution to the operational costs of the ECB.

*Article 48 (ex Article 49)***Deferred payment of capital, reserves and provisions of the ECB**

- 48.1. The central bank of a Member State whose derogation has been abrogated shall pay up its subscribed share of the capital of the ECB to the same extent as the central banks of other Member States whose currency is the euro, and shall transfer to the ECB foreign reserve assets in accordance with Article 30.1. The sum to be transferred shall be determined by multiplying the euro value at current exchange rates of the foreign reserve assets which have already been transferred to the ECB in accordance with Article 30.1, by the ratio between the number of shares subscribed by the national central bank concerned and the number of shares already paid up by the other national central banks.

- 48.2. In addition to the payment to be made in accordance with Article 48.1, the central bank concerned shall contribute to the reserves of the ECB, to those provisions equivalent to reserves, and to the amount still to be appropriated to the reserves and provisions corresponding to the balance of the profit and loss account as at 31 December of the year prior to the abrogation of the derogation. The sum to be contributed shall be determined by multiplying the amount of the reserves, as defined above and as stated in the approved balance sheet of the ECB, by the ratio between the number of shares subscribed by the central bank concerned and the number of shares already paid up by the other central banks.
- 48.3. Upon one or more countries becoming Member States and their respective national central banks becoming part of the ESCB, the subscribed capital of the ECB and the limit on the amount of foreign reserve assets that may be transferred to the ECB shall be automatically increased. The increase shall be determined by multiplying the respective amounts then prevailing by the ratio, within the expanded capital key, between the weighting of the entering national central banks concerned and the weighting of the national central banks already members of the ESCB. Each national central bank's weighting in the capital key shall be calculated by analogy with Article 29.1 and in compliance with Article 29.2. The reference periods to be used for the statistical data shall be identical to those applied for the latest quinquennial adjustment of the weightings under Article 29.3.

Article 49 (ex Article 52)

Exchange of banknotes in the currencies of the Member States

Following the irrevocable fixing of exchange rates in accordance with Article 140 of the Treaty on the Functioning of the European Union, the Governing Council shall take the necessary measures to ensure that banknotes denominated in currencies with irrevocably fixed exchange rates are exchanged by the national central banks at their respective par values.

Article 50 (ex Article 53)

Applicability of the transitional provisions

If and as long as there are Member States with a derogation, Articles 42 to 47 shall be applicable.



PROTOCOL (No 12)
ON THE EXCESSIVE DEFICIT PROCEDURE

THE HIGH CONTRACTING PARTIES,

DESIRING TO lay down the details of the excessive deficit procedure referred to in Article 126 of the Treaty on the Functioning of the European Union,

HAVE AGREED upon the following provisions, which shall be annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union:

Article 1

The reference values referred to in Article 126(2) of the Treaty on the Functioning of the European Union are:

- 3 % for the ratio of the planned or actual government deficit to gross domestic product at market prices;
- 60 % for the ratio of government debt to gross domestic product at market prices.

Article 2

In Article 126 of the said Treaty and in this Protocol:

- ‘government’ means general government, that is central government, regional or local government and social security funds, to the exclusion of commercial operations, as defined in the European System of Integrated Economic Accounts;
- ‘deficit’ means net borrowing as defined in the European System of Integrated Economic Accounts;
- ‘investment’ means gross fixed capital formation as defined in the European System of Integrated Economic Accounts;
- ‘debt’ means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government as defined in the first indent.

Article 3

In order to ensure the effectiveness of the excessive deficit procedure, the governments of the Member States shall be responsible under this procedure for the deficits of general government as defined in the first indent of Article 2. The Member States shall ensure that national procedures in the budgetary area enable them to meet their obligations in this area deriving from these Treaties. The Member States shall report their planned and actual deficits and the levels of their debt promptly and regularly to the Commission.

Article 4

The statistical data to be used for the application of this Protocol shall be provided by the Commission.



PROTOCOL (No 13)
ON THE CONVERGENCE CRITERIA

THE HIGH CONTRACTING PARTIES,

DESIRING to lay down the details of the convergence criteria which shall guide the Union in taking decisions to end the derogations of those Member States with a derogation, referred to in Article 140 of the Treaty on the Functioning of the European Union,

HAVE AGREED upon the following provisions, which shall be annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union:

Article 1

The criterion on price stability referred to in the first indent of Article 140(1) of the Treaty on the Functioning of the European Union shall mean that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1 ½ percentage points that of, at most, the three best performing Member States in terms of price stability. Inflation shall be measured by means of the consumer price index on a comparable basis taking into account differences in national definitions.

Article 2

The criterion on the government budgetary position referred to in the second indent of Article 140(1) of the said Treaty shall mean that at the time of the examination the Member State is not the subject of a Council decision under Article 126(6) of the said Treaty that an excessive deficit exists.

Article 3

The criterion on participation in the Exchange Rate mechanism of the European Monetary System referred to in the third indent of Article 140(1) of the said Treaty shall mean that a Member State has respected the normal fluctuation margins provided for by the exchange-rate mechanism on the European Monetary System without severe tensions for at least the last two years before the examination. In particular, the Member State shall not have devalued its currency's bilateral central rate against the euro on its own initiative for the same period.

Article 4

The criterion on the convergence of interest rates referred to in the fourth indent of Article 140(1) of the said Treaty shall mean that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than two percentage points that of, at most, the three best performing Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions.

Article 5

The statistical data to be used for the application of this Protocol shall be provided by the Commission.

Article 6

The Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, the ECB and the Economic and Financial Committee, adopt appropriate provisions to lay down the details of the convergence criteria referred to in Article 140(1) of the said Treaty, which shall then replace this Protocol.



PROTOCOL (No 14)
ON THE EURO GROUP

THE HIGH CONTRACTING PARTIES,

DESIRING to promote conditions for stronger economic growth in the European Union and, to that end, to develop ever-closer coordination of economic policies within the euro area,

CONSCIOUS of the need to lay down special provisions for enhanced dialogue between the Member States whose currency is the euro, pending the euro becoming the currency of all Member States of the Union,

HAVE AGREED UPON the following provisions, which shall be annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union:

Article 1

The Ministers of the Member States whose currency is the euro shall meet informally. Such meetings shall take place, when necessary, to discuss questions related to the specific responsibilities they share with regard to the single currency. The Commission shall take part in the meetings. The European Central Bank shall be invited to take part in such meetings, which shall be prepared by the representatives of the Ministers with responsibility for finance of the Member States whose currency is the euro and of the Commission.

Article 2

The Ministers of the Member States whose currency is the euro shall elect a president for two and a half years, by a majority of those Member States.



PROTOCOL (No 15)**ON CERTAIN PROVISIONS RELATING TO THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND**

THE HIGH CONTRACTING PARTIES,

RECOGNISING that the United Kingdom shall not be obliged or committed to adopt the euro without a separate decision to do so by its government and parliament,

GIVEN that on 16 October 1996 and 30 October 1997 the United Kingdom government notified the Council of its intention not to participate in the third stage of economic and monetary union,

NOTING the practice of the government of the United Kingdom to fund its borrowing requirement by the sale of debt to the private sector,

HAVE AGREED upon the following provisions, which shall be annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union:

1. Unless the United Kingdom notifies the Council that it intends to adopt the euro, it shall be under no obligation to do so.
2. In view of the notice given to the Council by the United Kingdom government on 16 October 1996 and 30 October 1997, paragraphs 3 to 8 and 10 shall apply to the United Kingdom.
3. The United Kingdom shall retain its powers in the field of monetary policy according to national law.
4. Articles 119, second paragraph, 126(1), (9) and (11), 127(1) to (5), 128, 130, 131, 132, 133, 138, 140(3), 219, 282(2), with the exception of the first and last sentences thereof, 282(5), and 283 of the Treaty on the Functioning of the European Union shall not apply to the United Kingdom. The same applies to Article 121(2) of this Treaty as regards the adoption of the parts of the broad economic policy guidelines which concern the euro area generally. In these provisions references to the Union or the Member States shall not include the United Kingdom and references to national central banks shall not include the Bank of England.

5. The United Kingdom shall endeavour to avoid an excessive government deficit.

Articles 143 and 144 of the Treaty on the Functioning of the European Union shall continue to apply to the United Kingdom. Articles 134(4) and 142 shall apply to the United Kingdom as if it had a derogation.

6. The voting rights of the United Kingdom shall be suspended in respect of acts of the Council referred to in the Articles listed in paragraph 4 and in the instances referred to in the first subparagraph of Article 139(4) of the Treaty on the Functioning of the European Union. For this purpose the second subparagraph of Article 139(4) of the Treaty shall apply.

The United Kingdom shall also have no right to participate in the appointment of the President, the Vice-President and the other members of the Executive Board of the ECB under the second subparagraph of Article 283(2) of the said Treaty.

7. Articles 3, 4, 6, 7, 9.2, 10.1, 10.3, 11.2, 12.1, 14, 16, 18 to 20, 22, 23, 26, 27, 30 to 34 and 49 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank ('the Statute') shall not apply to the United Kingdom.

In those Articles, references to the Union or the Member States shall not include the United Kingdom and references to national central banks or shareholders shall not include the Bank of England.

References in Articles 10.3 and 30.2 of the Statute to 'subscribed capital of the ECB' shall not include capital subscribed by the Bank of England.

8. Article 141(1) of the Treaty on the Functioning of the European Union and Articles 43 to 47 of the Statute shall have effect, whether or not there is any Member State with a derogation, subject to the following amendments:
 - (a) References in Article 43 to the tasks of the ECB and the EMI shall include those tasks that still need to be performed in the third stage owing to any decision of the United Kingdom not to adopt the euro.
 - (b) In addition to the tasks referred to in Article 46, the ECB shall also give advice in relation to and contribute to the preparation of any decision of the Council with regard to the United Kingdom taken in accordance with paragraphs 9(a) and 9(c).
 - (c) The Bank of England shall pay up its subscription to the capital of the ECB as a contribution to its operational costs on the same basis as national central banks of Member States with a derogation.

9. The United Kingdom may notify the Council at any time of its intention to adopt the euro. In that event:
- (a) The United Kingdom shall have the right to adopt the euro provided only that it satisfies the necessary conditions. The Council, acting at the request of the United Kingdom and under the conditions and in accordance with the procedure laid down in Article 140(1) and (2) of the Treaty on the Functioning of the European Union, shall decide whether it fulfils the necessary conditions.
 - (b) The Bank of England shall pay up its subscribed capital, transfer to the ECB foreign reserve assets and contribute to its reserves on the same basis as the national central bank of a Member State whose derogation has been abrogated.
 - (c) The Council, acting under the conditions and in accordance with the procedure laid down in Article 140(3) of the said Treaty, shall take all other necessary decisions to enable the United Kingdom to adopt the euro.

If the United Kingdom adopts the euro pursuant to the provisions of this Protocol, paragraphs 3 to 8 shall cease to have effect.

10. Notwithstanding Article 123 of the Treaty on the Functioning of the European Union and Article 21.1 of the Statute, the Government of the United Kingdom may maintain its 'ways and means' facility with the Bank of England if and so long as the United Kingdom does not adopt the euro.



PROTOCOL (No 16)**ON CERTAIN PROVISIONS RELATING TO DENMARK**

THE HIGH CONTRACTING PARTIES,

TAKING INTO ACCOUNT that the Danish Constitution contains provisions which may imply a referendum in Denmark prior to Denmark renouncing its exemption,

GIVEN THAT, on 3 November 1993, the Danish Government notified the Council of its intention not to participate in the third stage of economic and monetary union,

HAVE AGREED UPON the following provisions, which shall be annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union:

1. In view of the notice given to the Council by the Danish Government on 3 November 1993, Denmark shall have an exemption. The effect of the exemption shall be that all Articles and provisions of the Treaties and the Statute of the ESCB referring to a derogation shall be applicable to Denmark.
2. As for the abrogation of the exemption, the procedure referred to in Article 140 shall only be initiated at the request of Denmark.
3. In the event of abrogation of the exemption status, the provisions of this Protocol shall cease to apply.



PROTOCOL (No 17)**ON DENMARK**

THE HIGH CONTRACTING PARTIES,

DESIRING to settle certain particular problems relating to Denmark,

HAVE AGREED upon the following provisions, which shall be annexed to the Treaty on European Union and the Treaty on the Functioning of the European Union:

The provisions of Article 14 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank shall not affect the right of the National Bank of Denmark to carry out its existing tasks concerning those parts of the Kingdom of Denmark which are not part of the Union.



**ANNEXED TO THE FINAL ACT OF THE INTERGOVERNMENTAL CONFERENCE
WHICH ADOPTED THE TREATY OF LISBON,**

signed on 13 December 2007

A. DECLARATIONS CONCERNING PROVISIONS OF THE TREATIES

30. Declaration on Article 126 of the Treaty on the Functioning of the European Union

With regard to Article 126, the Conference confirms that raising growth potential and securing sound budgetary positions are the two pillars of the economic and fiscal policy of the Union and the Member States. The Stability and Growth Pact is an important tool to achieve these goals.

The Conference reaffirms its commitment to the provisions concerning the Stability and Growth Pact as the framework for the coordination of budgetary policies in the Member States.

The Conference confirms that a rule-based system is the best guarantee for commitments to be enforced and for all Member States to be treated equally.

Within this framework, the Conference also reaffirms its commitment to the goals of the Lisbon Strategy: job creation, structural reforms, and social cohesion.

The Union aims at achieving balanced economic growth and price stability. Economic and budgetary policies thus need to set the right priorities towards economic reforms, innovation, competitiveness and strengthening of private investment and consumption in phases of weak economic growth. This should be reflected in the orientations of budgetary decisions at the national and Union level in particular through restructuring of public revenue and expenditure while respecting budgetary discipline in accordance with the Treaties and the Stability and Growth Pact.

Budgetary and economic challenges facing the Member States underline the importance of sound budgetary policy throughout the economic cycle.

The Conference agrees that Member States should use periods of economic recovery actively to consolidate public finances and improve their budgetary positions. The objective is to gradually achieve a budgetary surplus in good times which creates the necessary room to accommodate economic downturns and thus contribute to the long-term sustainability of public finances.

The Member States look forward to possible proposals of the Commission as well as further contributions of Member States with regard to strengthening and clarifying the implementation of the Stability and Growth Pact. The Member States will take all necessary measures to raise the growth potential of their economies. Improved economic policy coordination could support this objective. This Declaration does not prejudge the future debate on the Stability and Growth Pact.



C. DECLARATIONS BY MEMBER STATES

52. Declaration by the Kingdom of Belgium, the Republic of Bulgaria, the Federal Republic of Germany, the Hellenic Republic, the Kingdom of Spain, the Italian Republic, the Republic of Cyprus, the Republic of Lithuania, the Grand-Duchy of Luxembourg, the Republic of Hungary, the Republic of Malta, the Republic of Austria, the Portuguese Republic, Romania, the Republic of Slovenia and the Slovak Republic on the symbols of the European Union, Belgium, Bulgaria, Germany, Greece, Spain, Italy, Cyprus, Lithuania, Luxemburg, Hungary, Malta, Austria, Portugal, Romania, Slovenia and the Slovak Republic declare that the flag with a circle of twelve golden stars on a blue background, the anthem based on the 'Ode to Joy' from the Ninth Symphony by Ludwig van Beethoven, the motto 'United in diversity', the euro as the currency of the European Union and Europe Day on 9 May will for them continue as symbols to express the sense of community of the people in the European Union and their allegiance to it.



1.4. Extracts from acts of accession

ACT

concerning the conditions of accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic and the adjustments to the Treaties on which the European Union is founded

PART ONE

PRINCIPLES

Article 4

Each of the new Member States shall participate in Economic and Monetary Union from the date of accession as a Member State with a derogation within the meaning of Article 122 of the EC Treaty.



ACT**concerning the conditions of accession of the Republic of Bulgaria and Romania and
the adjustments to the treaties on which the European Union is founded**

In accordance with Article 2 of the Treaty of Accession, this Act shall be applicable in the event that the Treaty establishing a Constitution for Europe is not in force on 1 January 2007 until the date of entry into force of the Treaty establishing a Constitution for Europe.

PART ONE**PRINCIPLES***Article 5*

Bulgaria and Romania shall participate in Economic and Monetary Union from the date of accession as Member States with a derogation within the meaning of Article 122 of the EC Treaty.



ACT

concerning the conditions of accession of the Republic of Croatia and the adjustments to the Treaty on European Union, the Treaty on the Functioning of the European Union and the Treaty establishing the European Atomic Energy Community

PART ONE**PRINCIPLES***Article 5*

Croatia shall participate in the Economic and Monetary Union from the date of accession as a Member State with a derogation within the meaning of Article 139 of the TFEU.



2. Intergovernmental instruments

EUROPEAN COUNCIL

24–25 MARCH 2011

CONCLUSIONS

ANNEX I

THE EURO PLUS PACT

STRONGER ECONOMIC POLICY COORDINATION FOR COMPETITIVENESS AND CONVERGENCE

This Pact has been agreed by the euro area Heads of State or government and joined by Bulgaria, Denmark, Latvia, Lithuania, Poland, Romania to strengthen the economic pillar of the monetary union, achieve a new quality of economic policy coordination, improve competitiveness, thereby leading to a higher degree of convergence. This Pact focuses primarily on areas that fall under national competence and are key for increasing competitiveness and avoiding harmful imbalances. Competitiveness is essential to help the EU grow faster and more sustainably in the medium and long term, to produce higher levels of income for citizens, and to preserve our social models. Other Member States are invited to participate on a voluntary basis.

This renewed effort for stronger economic policy coordination for competitiveness and convergence rests on four guiding rules:

- a. It will be in line with and strengthen the existing economic governance in the EU, while providing added value. It will be consistent with and build on existing instruments (Europe 2020, European Semester, Integrated Guidelines, Stability and Growth Pact and new macro-economic surveillance framework). It will involve a special effort going beyond what already exists and include concrete commitments and actions that are more ambitious than those already agreed, and accompanied with a timetable for implementation. These new commitments will thereafter be included in the National Reform and Stability Programmes and be subject to the regular surveillance framework, with a strong central role for the Commission in the monitoring of the implementation of the commitments, and the involvement of all the relevant formations of the Council and the Eurogroup. The European Parliament will play its full role in line with its competences. Social partners will be fully involved at the EU level through the Tripartite Social Summit.
- b. It will be focused, action oriented, and cover priority policy areas that are essential for fostering competitiveness and convergence. It will concentrate on actions where the competence lies with the Member States. In the chosen policy areas common objectives will be agreed upon at the Heads of State or Government level. Participating Member States will pursue these objectives with their own policy-mix, taking into account their specific challenges.
- c. Each year, concrete national commitments will be undertaken by each Head of State or Government. In doing so, Member States will take into account best practices and benchmark against the best performers, within Europe and vis-à-vis other strategic partners.

The implementation of commitments and progress towards the common policy objectives will be monitored politically by the Heads of State or Government of the euro area and participating countries on a yearly basis, on the basis of a report by the Commission. In addition, Member States commit to consult their partners on each major economic reform having potential spill-over effects before its adoption.

- d. Participating Member States are fully committed to the completion of the Single Market which is key to enhancing the competitiveness in the EU and the euro area. This process will be fully in line with the treaty. The Pact will fully respect the integrity of the Single Market.

Our goals

Participating Member States undertake to take all necessary measures to pursue the following objectives:

- Foster competitiveness
- Foster employment
- Contribute further to the sustainability of public finances
- Reinforce financial stability

Each participating Member State will present the specific measures it will take to reach these goals. If a Member State can show that action is not needed on one or the other areas, it will not include it. The choice of the specific policy actions necessary to achieve the common objectives remains the responsibility of each country, but particular attention will be paid to the set of possible measures mentioned below.

Concrete policy commitments and monitoring

Progress towards the common objectives above will be politically monitored by the Heads of State or Government on the basis of a series of indicators covering competitiveness, employment, fiscal sustainability and financial stability. Countries facing major challenges in any of these areas will be identified and will have to commit to addressing these challenges in a given timeframe.

a. Foster competitiveness

Progress will be assessed on the basis of wage and productivity developments and competitiveness adjustment needs. To assess whether wages are evolving in line with productivity, unit labour costs (ULC) will be monitored over a period of time, by comparing with developments in other euro area countries and in the main comparable trading partners. For each country, ULCs will be assessed for the economy as a whole and for each major sector (manufacturing; services; as well as tradable and non-tradable sectors). Large and sustained increases may lead to the erosion of competitiveness, especially if combined with a widening current account deficit and declining market shares for exports. Action to raise competitiveness is required in both all countries, but particular attention will be paid to those facing major challenges in this respect. To ensure that growth is balanced and widespread in the whole euro area, specific instruments and common initiatives will be envisaged to foster productivity in regions lagging behind.

Each country will be responsible for the specific policy actions it chooses to foster competitiveness, but the following reforms will be given particular attention:

- (i) respecting national traditions of social dialogue and industrial relations, measures to ensure costs developments in line with productivity, such as:
 - review the wage setting arrangements, and, where necessary, the degree of centralisation in the bargaining process, and the indexation mechanisms, while maintaining the autonomy of the social partners in the collective bargaining process;
 - ensure that wages settlements in the public sector support the competitiveness efforts in the private sector (bearing in mind the important signalling effect of public sector wages).
- (ii) measures to increase productivity, such as:
 - further opening of sheltered sectors by measures taken at the national level to remove unjustified restrictions on professional services and the retail sector, to foster competition and efficiency, in full respect of the Community acquis;
 - specific efforts to improve education systems and promote R&D, innovation and infrastructure;
 - measures to improve the business environment, particularly for SMEs, notably by removing red tape and improving the regulatory framework (e.g. bankruptcy laws, commercial code).

b. Foster employment

A well functioning labour market is key for the competitiveness of the euro area. Progress will be assessed on the basis of the following indicators: long term and youth unemployment rates, and labour participation rates.

Each country will be responsible for the specific policy actions it chooses to foster employment, but the following reforms will be given particular attention:

- labour market reforms to promote “flexicurity”, reduce undeclared work and increase labour participation;
- life long learning;
- tax reforms, such as lowering taxes on labour to make work pay while preserving overall tax revenues, and taking measures to facilitate the participation of second earners in the work force.

c. Enhance the sustainability of public finances

In order to secure the full implementation of the Stability and Growth Pact, the highest attention will be paid to:

Sustainability of pensions, health care and social benefits

This will be assessed notably on the basis of the sustainability gap indicators⁽¹⁾. These indicators measure whether debt levels are sustainable based on current policies, notably pensions schemes, health care and benefit systems, and taking into account demographic factors.

Reforms necessary to ensure the sustainability and adequacy of pensions and social benefits could include:

- aligning the pension system to the national demographic situation, for example by aligning the effective retirement age with life expectancy or by increasing participation rates;
- limiting early retirement schemes and using targeted incentives to employ older workers (notably in the age tranche above 55).

National fiscal rules

Participating Member States commit to translating EU fiscal rules as set out in the Stability and Growth Pact into national legislation. Member States will retain the choice of the specific national legal vehicle to be used, but will make sure that it has a sufficiently strong binding and durable nature (e.g. constitution or framework law). The exact formulation of the rule will also be decided by each country (e.g. it could take the form of a «debt brake», rule related to the primary balance or an expenditure rule), but it should ensure fiscal discipline at both national and sub-national levels. The Commission will have the opportunity, in full respect of the prerogatives of national parliaments, to be consulted on the precise fiscal rule before its adoption so as to ensure it is compatible with, and supportive of, the EU rules.

d. Reinforce financial stability

A strong financial sector is key for the overall stability of the euro area. A comprehensive reform of the EU framework for financial sector supervision and regulation has been launched.

In this context, Member States commit to putting in place national legislation for banking resolution, in full respect of the Community acquis. Strict bank stress tests, coordinated at EU level, will be undertaken on a regular basis. In addition, the President of the ESRB and the President of the Eurogroup will be invited to regularly inform Heads of State or Government on issues related to macro-financial stability and macroeconomic developments in the euro area requiring specific action. In particular, for each Member State, the level of private debt for banks, households and non-financial firms will be closely monitored.

In addition to the issues mentioned above, attention will be paid to tax policy coordination.

Direct taxation remains a national competence. Pragmatic coordination of tax policies is a necessary element of a stronger economic policy coordination in the euro area to support fiscal consolidation and economic growth. In this context, Member States commit to engage in structured discussions on tax policy issues, notably to ensure the exchange of best practices, avoidance of harmful practices and proposals to fight against fraud and tax evasion.

Developing a common corporate tax base could be a revenue neutral way forward to ensure consistency among national tax systems while respecting national tax strategies, and to contribute to fiscal sustainability and the competitiveness of European businesses.

The Commission has presented a legislative proposal on a common consolidated corporate tax base.

Concrete yearly commitments

In order to demonstrate a real commitment for change and ensure the necessary political impetus to reach our common objectives, each year participating Member States will agree at the highest level on a set of concrete actions to be achieved within 12 months. The selection of the specific policy measures to be implemented will remain the responsibility of each country, but the choice will be guided by considering in particular the issues mentioned above. These commitments will also be reflected in the National Reform Programmes and Stability Programmes submitted each year which will be assessed by the Commission, the Council, and the Eurogroup in the context of the European Semester.



(1) The sustainability gap are indicators agreed by the Commission and Member States to assess fiscal sustainability.

TREATY ON STABILITY, COORDINATION AND GOVERNANCE

IN THE ECONOMIC AND MONETARY UNION BETWEEN THE KINGDOM OF BELGIUM, THE REPUBLIC OF BULGARIA, THE KINGDOM OF DENMARK, THE FEDERAL REPUBLIC OF GERMANY, THE REPUBLIC OF ESTONIA, IRELAND, THE HELLENIC REPUBLIC, THE KINGDOM OF SPAIN, THE FRENCH REPUBLIC, THE ITALIAN REPUBLIC, THE REPUBLIC OF CYPRUS, THE REPUBLIC OF LATVIA, THE REPUBLIC OF LITHUANIA, THE GRAND DUCHY OF LUXEMBOURG, HUNGARY, MALTA, THE KINGDOM OF THE NETHERLANDS, THE REPUBLIC OF AUSTRIA, THE REPUBLIC OF POLAND, THE PORTUGUESE REPUBLIC, ROMANIA, THE REPUBLIC OF SLOVENIA, THE SLOVAK REPUBLIC, THE REPUBLIC OF FINLAND AND THE KINGDOM OF SWEDEN THE KINGDOM OF BELGIUM, THE REPUBLIC OF BULGARIA, THE KINGDOM OF DENMARK, THE FEDERAL REPUBLIC OF GERMANY, THE REPUBLIC OF ESTONIA, IRELAND, THE HELLENIC REPUBLIC, THE KINGDOM OF SPAIN, THE FRENCH REPUBLIC, THE ITALIAN REPUBLIC, THE REPUBLIC OF CYPRUS, THE REPUBLIC OF LATVIA, THE REPUBLIC OF LITHUANIA, THE GRAND DUCHY OF LUXEMBOURG, HUNGARY, MALTA, THE KINGDOM OF THE NETHERLANDS, THE REPUBLIC OF AUSTRIA, THE REPUBLIC OF POLAND, THE PORTUGUESE REPUBLIC, ROMANIA, THE REPUBLIC OF SLOVENIA, THE SLOVAK REPUBLIC, THE REPUBLIC OF FINLAND AND THE KINGDOM OF SWEDEN,

hereinafter referred to as «the Contracting Parties»;

CONSCIOUS of their obligation, as Member States of the European Union, to regard their economic policies as a matter of common concern;

DESIRING to promote conditions for stronger economic growth in the European Union and, to that end, to develop ever-closer coordination of economic policies within the euro area;

BEARING IN MIND that the need for governments to maintain sound and sustainable public finances and to prevent a general government deficit becoming excessive is of essential importance to safeguard the stability of the euro area as a whole, and accordingly, requires the introduction of specific rules, including a «balanced budget rule» and an automatic mechanism to take

corrective action;

CONSCIOUS of the need to ensure that their general government deficit does not exceed 3 % of their gross domestic product at market prices and that their general government debt does not exceed, or is sufficiently declining towards, 60 % of their gross domestic product at market prices;

RECALLING that the Contracting Parties, as Member States of the European Union, are to refrain from any measure which could jeopardise the attainment of the Union's objectives in the framework of the economic union, particularly the practice of accumulating debt outside the general government accounts;

BEARING IN MIND that the Heads of State or Government of the euro area Member States agreed on 9 December 2011 on a reinforced architecture for economic and monetary union, building upon the Treaties on which the European Union is founded and facilitating the implementation of measures taken on the basis of Articles 121, 126 and 136 of the Treaty on the Functioning of the European Union;

BEARING IN MIND that the objective of the Heads of State or Government of the euro area Member States and of other Member States of the European Union is to incorporate the provisions of this Treaty as soon as possible into the Treaties on which the European Union is founded;

WELCOMING the legislative proposals made by the European Commission for the euro area, within the framework of the Treaties on which the European Union is founded, on 23 November 2011, on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability, and on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States, and TAKING NOTE of the European Commission's intention to present further legislative proposals for the euro area concerning, in particular, ex ante reporting of debt issuance plans, economic partnership programmes detailing structural reforms for Member States under an excessive deficit procedure as well as the coordination of major economic policy reform plans of Member States;

EXPRESSING their readiness to support proposals which the European Commission might present to further strengthen the Stability and Growth Pact by introducing, for Member States whose currency is the euro, a new range for medium-term objectives in line with the limits established in this Treaty;

TAKING NOTE that, when reviewing and monitoring the budgetary commitments under this Treaty, the European Commission will act within the framework of its powers, as provided by the Treaty on the Functioning of the European Union, in particular Articles 121, 126 and 136 thereof;

NOTING in particular that, in respect of the application of the «balanced budget rule» set out in Article 3 of this Treaty, that monitoring will be carried out through the setting up, for each Contracting Party, of country-specific medium-term objectives and of calendars of convergence, as appropriate;

NOTING that the medium-term objectives should be updated regularly on the basis of a commonly agreed method, the main parameters of which are also to be reviewed regularly, reflecting appropriately the risks of explicit and implicit liabilities for public finance, as embodied in the aims of the Stability and Growth Pact;

NOTING that sufficient progress towards the medium-term objectives should be evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, in line with the provisions specified under European Union law, in particular Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, as amended by Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 («the revised Stability and Growth Pact»);

NOTING that the correction mechanism to be introduced by the Contracting Parties should aim at correcting deviations from the medium-term objective or the adjustment path, including their cumulated impact on government debt dynamics;

NOTING that compliance with the Contracting Parties' obligation to transpose the «balanced budget rule» into their national legal systems, through binding, permanent and preferably constitutional provisions, should be subject to the jurisdiction of the Court of Justice of the European Union, in accordance with Article 273 of the Treaty on the Functioning of the European Union;

RECALLING that Article 260 of the Treaty on the Functioning of the European Union empowers the Court of Justice of the European Union to impose a lump sum or penalty payment on a Member State of the European Union which has failed to comply with one of its judgments and

RECALLING that the European Commission has established criteria for determining the lump sum or penalty payment to be imposed in the framework of that Article;

RECALLING the need to facilitate the adoption of measures under the excessive deficit procedure of the European Union in respect of Member States whose currency is the euro and whose planned or actual ratio of general government deficit to gross domestic product exceeds 3 %, whilst strongly reinforcing the objective of that procedure, namely to encourage and, if necessary, compel a Member State to reduce a deficit which might be identified;

RECALLING the obligation for those Contracting Parties whose general government debt exceeds the 60 % reference value to reduce it at an average rate of one twentieth per year as a benchmark;

BEARING IN MIND the need to respect, in the implementation of this Treaty, the specific role of the social partners, as it is recognised in the laws or national systems of each of the Contracting Parties;

RESSING that no provision of this Treaty is to be interpreted as altering in any way the economic policy conditions under which financial assistance has been granted to a Contracting Party in a stabilisation programme involving the European Union, its Member States or the International Monetary Fund;

NOTING that the proper functioning of the economic and monetary union requires the Contracting Parties to work jointly towards an economic policy where, whilst building upon the mechanisms of economic policy coordination, as defined in the Treaties on which the European Union is founded, they take the necessary actions and measures in all the areas which are essential to the proper functioning of the euro area;

NOTING, in particular, the wish of the Contracting Parties to make a more active use of enhanced cooperation, as provided for in Article 20 of the Treaty on European Union and Articles 326 to 334 of the Treaty on the Functioning of the European Union, without undermining the internal market, and their wish to have full recourse to measures specific to the Member States whose currency is the euro pursuant to Article 136 of the Treaty on the Functioning of the European Union, and to a procedure for the ex ante discussion and coordination among the Contracting Parties whose currency is the euro of all major economic policy reforms planned by them, with a view to benchmarking best practices;

RECALLING the agreement of the Heads of State or Government of the euro area Member States, of 26 October 2011, to improve the governance of the euro area, including the holding of at least two Euro Summit meetings per year, to be convened, unless justified by exceptional circumstances, immediately after meetings of the European Council or meetings with the participation of all Contracting Parties having ratified this Treaty;

RECALLING also the endorsement by the Heads of State or Government of the euro area Member States and of other Member States of the European Union, on 25 March 2011, of the Euro Plus Pact, which identifies the issues that are essential to fostering competitiveness in the euro area;

STRESSING the importance of the Treaty establishing the European Stability Mechanism as an element of the global strategy to strengthen the economic and monetary union and POINTING OUT that the granting of financial assistance in

the framework of new programmes under the European Stability Mechanism will be conditional, as of 1 March 2013, on the ratification of this Treaty by the Contracting Party concerned and, as soon as the transposition period referred to in Article 3(2) of this Treaty has expired, on compliance with the requirements of that Article;

NOTING that the Kingdom of Belgium, the Federal Republic of Germany, the Republic of Estonia, Ireland, the Hellenic Republic, the Kingdom of Spain, the French Republic, the Italian Republic, the Republic of Cyprus, the Grand Duchy of Luxembourg, Malta, the Kingdom of the Netherlands, the Republic of Austria, the Portuguese Republic, the Republic of Slovenia, the Slovak Republic and the Republic of Finland are Contracting Parties whose currency is the euro and that, as such, they will be bound by this Treaty from the first day of the month following the deposit of their instrument of ratification if the Treaty is in force at that date;

NOTING ALSO that the Republic of Bulgaria, the Kingdom of Denmark, the Republic of Latvia, the Republic of Lithuania, Hungary, the Republic of Poland, Romania and the Kingdom of Sweden are Contracting Parties which, as Member States of the European Union, have, at the date of signature of this Treaty, a derogation or an exemption from participation in the single currency and may be bound, as long as such derogation or exemption is not abrogated, only by those provisions of Titles III and IV of this Treaty by which they declare, on depositing their instrument of ratification or at a later date, that they intend to be bound;

HAVE AGREED UPON THE FOLLOWING PROVISIONS:

TITLE I

PURPOSE AND SCOPE

Article 1

1. By this Treaty, the Contracting Parties agree, as Member States of the European Union, to strengthen the economic pillar of the economic and monetary union by adopting a set of rules intended to foster budgetary discipline through a fiscal compact, to strengthen the coordination of their economic policies and to improve the governance of the euro area, thereby supporting the achievement of the European Union's objectives for sustainable growth, employment, competitiveness and social cohesion.
2. This Treaty shall apply in full to the Contracting Parties whose currency is the euro. It shall also apply to the other Contracting Parties to the extent and under the conditions set out in Article 14.

TITLE II

CONSISTENCY AND RELATIONSHIP WITH THE LAW OF THE UNION

Article 2

1. This Treaty shall be applied and interpreted by the Contracting Parties in conformity with the Treaties on which the European Union is founded, in particular Article 4(3) of the Treaty on European Union, and with European Union law, including procedural law whenever the adoption of secondary legislation is required.
2. This Treaty shall apply insofar as it is compatible with the Treaties on which the European Union is founded and with European Union law. It shall not encroach upon the competence of the Union to act in the area of the economic union.

TITLE III

FISCAL COMPACT

Article 3

1. The Contracting Parties shall apply the rules set out in this paragraph in addition and without prejudice to their obligations under European Union law:
 - (a) the budgetary position of the general government of a Contracting Party shall be balanced or in surplus;
 - (b) the rule under point (a) shall be deemed to be respected if the annual structural balance of the general government is at its country-specific medium-term objective, as defined in the revised Stability and Growth Pact, with a lower limit of a structural deficit of 0,5 % of the gross domestic product at market prices. The Contracting Parties shall ensure rapid convergence towards their respective medium-term objective. The time-frame for such convergence will be proposed by the European Commission taking into consideration country-specific sustainability risks. Progress towards, and respect of, the medium-term objective shall be evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, in line with the revised Stability and Growth Pact;

- (c) the Contracting Parties may temporarily deviate from their respective medium-term objective or the adjustment path towards it only in exceptional circumstances, as defined in point (b) of paragraph 3;
 - (d) where the ratio of the general government debt to gross domestic product at market prices is significantly below 60 % and where risks in terms of long-term sustainability of public finances are low, the lower limit of the medium-term objective specified under point (b) can reach a structural deficit of at most 1,0 % of the gross domestic product at market prices;
 - (e) in the event of significant observed deviations from the medium-term objective or the adjustment path towards it, a correction mechanism shall be triggered automatically. The mechanism shall include the obligation of the Contracting Party concerned to implement measures to correct the deviations over a defined period of time.
2. The rules set out in paragraph 1 shall take effect in the national law of the Contracting Parties at the latest one year after the entry into force of this Treaty through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes. The Contracting Parties shall put in place at national level the correction mechanism referred to in paragraph 1(e) on the basis of common principles to be proposed by the European Commission, concerning in particular the nature, size and time-frame of the corrective action to be undertaken, also in the case of exceptional circumstances, and the role and independence of the institutions responsible at national level for monitoring compliance with the rules set out in paragraph 1. Such correction mechanism shall fully respect the prerogatives of national Parliaments.
3. For the purposes of this Article, the definitions set out in Article 2 of the Protocol (No 12) on the excessive deficit procedure, annexed to the European Union Treaties, shall apply.
- The following definitions shall also apply for the purposes of this Article:
- (a) "annual structural balance of the general government" refers to the annual cyclically-adjusted balance net of one-off and temporary measures;
 - (b) "exceptional circumstances" refers to the case of an unusual event outside the control of the Contracting Party concerned which has a major impact on the financial position of the general government or to periods of severe economic downturn as set out in the revised Stability and Growth Pact, provided that the temporary deviation of the Contracting Party concerned does not endanger fiscal sustainability in the medium-term.

Article 4

When the ratio of a Contracting Party's general government debt to gross domestic product exceeds the 60 % reference value referred to in Article 1 of the Protocol (No 12) on the excessive deficit procedure, annexed to the European Union Treaties, that Contracting Party shall reduce it at an average rate of one twentieth per year as a benchmark, as provided for in Article 2 of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, as amended by Council Regulation (EU) No 1177/2011 of 8 November 2011. The existence of an excessive deficit due to the breach of the debt criterion will be decided in accordance with the procedure set out in Article 126 of the Treaty on the Functioning of the European Union.

Article 5

1. A Contracting Party that is subject to an excessive deficit procedure under the Treaties on which the European Union is founded shall put in place a budgetary and economic partnership programme including a detailed description of the structural reforms which must be put in place and implemented to ensure an effective and durable correction of its excessive deficit. The content and format of such programmes shall be defined in European Union law. Their submission to the Council of the European Union and to the European Commission for endorsement and their monitoring will take place within the context of the existing surveillance procedures under the Stability and Growth Pact.
2. The implementation of the budgetary and economic partnership programme, and the yearly budgetary plans consistent with it, will be monitored by the Council of the European Union and by the European Commission.

Article 6

With a view to better coordinating the planning of their national debt issuance, the Contracting Parties shall report ex-ante on their public debt issuance plans to the Council of the European Union and to the European Commission.

Article 7

While fully respecting the procedural requirements of the Treaties on which the European Union is founded, the Contracting Parties whose currency is the euro commit to supporting the proposals or recommendations submitted by the European Commission where it considers that a Member State of the European Union whose currency is the euro is in breach of the deficit criterion in the framework of an excessive deficit procedure. This obligation shall not apply where it is established among the Contracting Parties whose currency is the euro that a qualified majority of them, calculated by analogy with the relevant provisions of the Treaties on which the European Union is founded, without taking into account the position of the Contracting Party concerned, is opposed to the decision proposed or recommended.

Article 8

1. The European Commission is invited to present in due time to the Contracting Parties a report on the provisions adopted by each of them in compliance with Article 3(2). If the European Commission, after having given the Contracting Party concerned the opportunity to submit its observations, concludes in its report that such Contracting Party has failed to comply with Article 3(2), the matter will be brought to the Court of Justice of the European Union by one or more Contracting Parties. Where a Contracting Party considers, independently of the Commission's report, that another Contracting Party has failed to comply with Article 3(2), it may also bring the matter to the Court of Justice. In both cases, the judgment of the Court of Justice shall be binding on the parties to the proceedings, which shall take the necessary measures to comply with the judgment within a period to be decided by the Court of Justice.
2. Where, on the basis of its own assessment or that of the European Commission, a Contracting Party considers that another Contracting Party has not taken the necessary measures to comply with the judgment of the Court of Justice referred to in paragraph 1, it may bring the case before the Court of Justice and request the imposition of financial sanctions following criteria established by the European Commission in the framework of Article 260 of the Treaty on the Functioning of the European Union. If the Court of Justice finds that the Contracting Party concerned has not complied with its judgment, it may impose on it a lump sum or a penalty payment appropriate in the circumstances and that shall not exceed 0,1 % of its gross domestic product. The amounts imposed on a Contracting Party whose currency is the euro shall be payable to the European Stability Mechanism. In other cases, payments shall be made to the general budget of the European Union.
3. This Article constitutes a special agreement between the Contracting Parties within the meaning of Article 273 of the Treaty on the Functioning of the European Union.

TITLE IV**ECONOMIC POLICY COORDINATION AND CONVERGENCE***Article 9*

Building upon economic policy coordination, as defined in the Treaty on the Functioning of the European Union, the Contracting Parties undertake to work jointly towards an economic policy that fosters the proper functioning of the economic and monetary union and economic growth through enhanced convergence and competitiveness. To that end, the Contracting Parties shall take the necessary actions and measures in all the areas which are essential to the proper functioning of the euro area in pursuit of the objectives of fostering competitiveness, promoting employment, contributing further to the sustainability of public finances and reinforcing financial stability.

Article 10

In accordance with the requirements of the Treaties on which the European Union is founded, the Contracting Parties stand ready to make active use, whenever appropriate and necessary, of measures specific to those Member States whose currency is the euro, as provided for in Article 136 of the Treaty on the Functioning of the European Union, and of enhanced cooperation, as provided for in Article 20 of the Treaty on European Union and in Articles 326 to 334 of the Treaty on the Functioning of the European Union on matters that are essential for the proper functioning of the euro area, without undermining the internal market.

Article 11

With a view to benchmarking best practices and working towards a more closely coordinated economic policy, the Contracting Parties ensure that all major economic policy reforms that they plan to undertake will be discussed ex-ante and, where appropriate, coordinated among themselves. Such coordination shall involve the institutions of the European Union as required by European Union law.

TITLE V**GOVERNANCE OF THE EURO AREA***Article 12*

1. The Heads of State or Government of the Contracting Parties whose currency is the euro shall meet informally in Euro Summit meetings, together with the President of the European Commission. The President of the European Central Bank shall be invited to take part in such meetings.

The President of the Euro Summit shall be appointed by the Heads of State or Government of the Contracting Parties whose currency is the euro by simple majority at the same time as the European Council elects its President and for the same term of office.

2. Euro Summit meetings shall take place when necessary, and at least twice a year, to discuss questions relating to the specific responsibilities which the Contracting Parties whose currency is the euro share with regard to the single currency, other issues concerning the governance of the euro area and the rules that apply to it, and strategic orientations for the conduct of economic policies to increase convergence in the euro area.
3. The Heads of State or Government of the Contracting Parties other than those whose currency is the euro, which have ratified this Treaty, shall participate in discussions of Euro Summit meetings concerning competitiveness for the Contracting Parties, the modification of the global architecture of the euro area and the fundamental rules that will apply to it in the future, as well as, when appropriate and at least once a year, in discussions on specific issues of implementation of this Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.
4. The President of the Euro Summit shall ensure the preparation and continuity of Euro Summit meetings, in close cooperation with the President of the European Commission. The body charged with the preparation of and follow up to the Euro Summit meetings shall be the Euro Group and its President may be invited to attend such meetings for that purpose.
5. The President of the European Parliament may be invited to be heard. The President of the Euro Summit shall present a report to the European Parliament after each Euro Summit meeting.
6. The President of the Euro Summit shall keep the Contracting Parties other than those whose currency is the euro and the other Member States of the European Union closely informed of the preparation and outcome of the Euro Summit meetings.

Article 13

As provided for in Title II of Protocol (No 1) on the role of national Parliaments in the European Union annexed to the European Union Treaties, the European Parliament and the national Parliaments of the Contracting Parties will together determine the organisation and promotion of a conference of representatives of the relevant committees of the European Parliament and representatives of the relevant committees of national Parliaments in order to discuss budgetary policies and other issues covered by this Treaty.

TITLE VI**GENERAL AND FINAL PROVISIONS***Article 14*

1. This Treaty shall be ratified by the Contracting Parties in accordance with their respective constitutional requirements. The instruments of ratification shall be deposited with the General Secretariat of the Council of the European Union ("the Depositary").
2. This Treaty shall enter into force on 1 January 2013, provided that twelve Contracting Parties whose currency is the euro have deposited their instrument of ratification, or on the first day of the month following the deposit of the twelfth instrument of ratification by a Contracting Party whose currency is the euro, whichever is the earlier.
3. This Treaty shall apply as from the date of entry into force amongst the Contracting Parties whose currency is the euro which have ratified it. It shall apply to the other Contracting Parties whose currency is the euro as from the first day of the month following the deposit of their respective instrument of ratification.
4. By derogation from paragraphs 3 and 5, Title V shall apply to all Contracting Parties concerned as from the date of entry into force of this Treaty.

5. This Treaty shall apply to the Contracting Parties with a derogation, as defined in Article 139(1) of the Treaty on the Functioning of the European Union, or with an exemption, as referred to in Protocol (No 16) on certain provisions related to Denmark annexed to the European Union Treaties, which have ratified this Treaty, as from the date when the decision abrogating that derogation or exemption takes effect, unless the Contracting Party concerned declares its intention to be bound at an earlier date by all or part of the provisions in Titles III and IV of this Treaty.

Article 15

This Treaty shall be open to accession by Member States of the European Union other than the Contracting Parties. Accession shall be effective upon depositing the instrument of accession with the Depositary, which shall notify the other Contracting Parties thereof. Following authentication by the Contracting Parties, the text of this Treaty in the official language of the acceding Member State that is also an official language and a working language of the institutions of the Union, shall be deposited in the archives of the Depositary as an authentic text of this Treaty.

Article 16

Within five years, at most, of the date of entry into force of this Treaty, on the basis of an assessment of the experience with its implementation, the necessary steps shall be taken, in accordance with the Treaty on the European Union and the Treaty on the Functioning of the European Union, with the aim of incorporating the substance of this Treaty into the legal framework of the European Union.

Done at Brussels this second day of March in the year two thousand and twelve.

This Treaty, drawn up in a single original in the Bulgarian, Danish, Dutch, English, Estonian, Finnish, French, German, Greek, Hungarian, Irish, Italian, Latvian, Lithuanian, Maltese, Polish, Portuguese, Romanian, Slovak, Slovenian, Spanish and Swedish languages, each text being equally authentic, shall be deposited in the archives of the Depositary, which shall transmit a certified copy to each of the Contracting Parties.



EUROPEAN COUNCIL**24–25 MARCH 2011****CONCLUSIONS****ANNEX II****TERM SHEET ON THE ESM**

The European Council has decided to add to Article 136 of the Treaty the following paragraph:

"The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality".

Further to this decision, the European Council has agreed on the need for euro-area Member States to establish a permanent stability mechanism: the European Stability Mechanism (ESM). The ESM will be activated by mutual agreement⁽¹⁾, if indispensable to safeguarding the financial stability of the euro area as a whole. The ESM will assume the role of the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM) in providing external financial assistance to euro-area Member States after June 2013.

Access to ESM financial assistance will be provided on the basis of strict policy conditionality under a macro-economic adjustment programme and a rigorous analysis of public-debt sustainability, which will be conducted by the Commission together with the IMF and in liaison with the ECB. The beneficiary Member State will be required to put in place an appropriate form of private-sector involvement, according to the specific circumstances and in a manner fully consistent with IMF practices.

The ESM will have an effective lending capacity of € 500 billion⁽²⁾. The adequacy of the lending capacity will be reviewed on a regular basis and at least every five years. The ESM will seek to supplement its lending capacity through the participation of the IMF in financial assistance operations, while non-euro area Member States may also participate on an ad hoc basis.

The remainder of this term sheet sets out the key structural features of the ESM:

Institutional form

The ESM will be established by a treaty among the euro-area Member States as an intergovernmental organisation under public international law and will be located in Luxembourg. The statute of the ESM will be set out in an annex to the treaty.

Function and funding strategy

The function of the ESM will be to mobilise funding and provide financial assistance, under strict conditionality, to the benefit of euro-area Member States, which are experiencing or are threatened by severe financing problems, in order to safeguard the financial stability of the euro area as a whole.

The Member States of the euro area will give to the ESM the financial sanctions received under the Stability and Growth Pact and the Macroeconomic Imbalances procedures. Such sanctions will form part of the paid-in capital.

The ESM will use an appropriate funding strategy so as to ensure access to broad funding sources and enable it to extend financial assistance packages to Member States under all market conditions. Any associated risk will be contained through adequate asset and liability management.

Governance

The ESM will have a Board of Governors consisting of the Ministers of Finance of the euro-area Member States (as voting members), with the European Commissioner for Economic and Monetary Affairs and the President of the ECB as observers. The Board of Governors will elect a Chairperson from among its voting members.

The Board of Governors will be the highest decision-making body of the ESM and will take the following major decisions by mutual agreement:

(1) A decision taken by mutual agreement is a decision taken by unanimity of the Member States participating to the vote, i.e. abstentions do not prevent the decision from being adopted.

(2) During the transition from EFSF to ESM, the combined lending capacity will not exceed this amount.

- the granting of financial assistance;
- the terms and conditions of financial assistance;
- the lending capacity of the ESM;
- changes to the menu of instruments.

All other decisions by the Board of Governors will be taken by qualified majority, unless stated otherwise.

The ESM will have a Board of Directors, which will carry out specific tasks as delegated by the Board of Governors. Each euro-area Member state will appoint one Director and one alternate Director. In addition, the Commission and the ECB will each nominate an observer and an alternate to the Board of Directors. All decisions by the Board of Directors will be taken by qualified majority, unless otherwise stated.

Voting weights within the Board of Governors and the Board of Directors will be proportional to the Member States' respective subscriptions to the capital of the ESM. A qualified majority is defined as 80 percent of the votes.

The Board of Governors will appoint a Managing Director responsible for the day-to-day management of the ESM. The Managing Director will chair the Board of Directors.

Capital structure

The ESM will aim to obtain and maintain the highest credit rating from the major credit rating agencies.

The ESM will have a total subscribed capital of € 700 billion. Of this amount, € 80 billion will be in the form of paid-in capital provided by the euro-area Member States being phased in from July 2013 in five equal annual instalments. In addition, the ESM will also dispose of a combination of committed callable capital and of guarantees from euro area Member States to a total amount of € 620 billion. During the transitional phase from 2013 to 2017, Member States commit to accelerate, in the unlikely event that this is needed, the provision of appropriate instruments in order to maintain a minimum 15 percent ratio between paid-in capital and the outstanding amount of ESM issuances.

The contribution key of each Member State in the total subscribed capital of the ESM will be based on the paid-in capital key of the ECB as annexed. By ratifying the Treaty establishing the ESM, Member States legally commit to provide their contribution to the total subscribed capital.

The Board of Governors will decide by mutual agreement when adapting the amount of total subscribed capital or when calling capital, except in the specific cases described below. First, the Board of Directors can decide, by simple majority, to restore -by calling in capital- the level of paid-in capital in the event that the amount of paid-in capital is reduced by the absorption of losses⁽¹⁾. Second, an on-demand guarantee procedure will be put in place that allows calling in capital automatically from the shareholders of the ESM if needed to avoid a payment shortfall to the creditors of the ESM. The liability of each shareholder will in all circumstances be limited to its share in the subscribed capital.

Any contribution to subscribed capital by a Member State⁽²⁾ joining the ESM after July 2013 will be made according to the same terms applied for the original contributions. The practical implications for the overall amount of subscribed capital and the distribution of capital among the Member States will be decided by the Board of Governors by mutual agreement.

As long as the ESM has not been activated and provided that the effective lending capacity is not less than 500 billion, the proceeds from the investment of the ESM paid-in capital will be returned to the Member States, after deductions for operational costs. Following the first activation of the ESM, the proceeds from the investment of ESM capital and financial assistance activity will be retained within the ESM. However, in the event that paid-in capital exceeds the level required to maintain the lending capacity of the ESM, the Board of Directors can decide, by simple majority to distribute a dividend to the euro-area Member States based on the contribution key.

Instruments

If indispensable to safeguard the stability of the euro area as a whole, in line with the amendment to Article 136 of the Treaty, the ESM will provide financial assistance subject to strict conditionality under a macro-economic adjustment programme, commensurate with the severity of the imbalances of the Member State. It will be provided through loans. However, it may intervene, as an exception, in debt primary markets on the basis of a macro-economic adjustment programme with strict conditionality and if agreed by the Board of Governors by mutual agreement.

• ESM stability support (ESS)

The ESM can grant short-term or medium term stability support to a euro-area Member State, which is experiencing severe financing problems. Access to an ESS will imply a macroeconomic adjustment programme with adequate policy

(1) The vote of the Member State whose default is at the origin of the loss to be covered is suspended for this decision.

(2) As a consequence of joining the euro area, a Member State shall become a member of the ESM with full rights and obligations.

conditionality commensurate with the severity of the underlying imbalances in the beneficiary Member State. The length of the programme and maturity of the loans will depend on the nature of the imbalances and the prospects of the beneficiary Member States regaining access to financial markets within the time that ESM resources are available.

- **Primary market support facility**

The ESM can purchase the bonds of a Member State, which is experiencing severe financing problems, on the primary market, with the objective of maximizing the cost efficiency of the support. Conditions and modalities under which bond purchasing would be conducted will be specified in the Decision on the terms and conditions of financial assistance.

The Board of Governors may review the instruments at the ESM's disposal and may decide to make changes to the menu of instruments.

IMF involvement

The ESM will cooperate very closely with the IMF in providing financial assistance⁽¹⁾. In all circumstances, active participation of the IMF will be sought, both on the technical and the financial level. The debt sustainability analysis will be jointly conducted by the Commission and the IMF, in liaison with the ECB. The policy conditions attached to a joint ESM/IMF assistance will be negotiated jointly by the Commission and the IMF, in liaison with the ECB.

Activation of financial assistance, programme monitoring and follow-up

Financial assistance from the ESM will in all cases be activated on a request from a Member State to the other Members States of the euro area. The Eurogroup will inform the Council that a request for activation of support has been made. On receipt of such a request, the Board of Governors will ask the Commission to assess, in liaison with the ECB, the existence of a risk to the financial stability of the euro area as a whole and to undertake a rigorous analysis of the sustainability of the public debt of the Member State concerned, together with the IMF and in liaison with the ECB. The subsequent steps in the activation of ESM financial assistance will be as follows:

- If an ESS is requested, the Commission, together with the IMF and in liaison with the ECB, will assess the actual financing needs of the beneficiary Member State and the nature of the required private sector involvement, which should be consistent with IMF practices.
- On the basis of this assessment, the Board of Governors will mandate the Commission to negotiate, together with the IMF and in liaison with the ECB, a macro-economic adjustment programme with the Member State concerned, detailed in a MoU.
- The Commission will propose to the Council a decision endorsing the macro-economic adjustment programme. The Board of Governors will decide on the granting of financial assistance and the terms and conditions under which assistance is provided. When the programme has been adopted by the Council, the Commission will sign the MoU on behalf of the euro area Member States subject to prior mutual agreement by the Board of Governors. The Board of Directors will then approve the financial assistance agreement which would contain the technical aspects of the financial assistance to be provided.
- The Commission, together with the IMF and in liaison with the ECB, will be responsible for monitoring compliance with the policy conditionality required by a macroeconomic adjustment programme. It will report to the Council and to the Board of Directors. On the basis of this report, the Board of Directors will decide by mutual agreement on the disbursement of the new tranches of the loan.
- After discussion in the Board of Governors, the Council can decide, on a proposal by the Commission, to implement post-programme surveillance, which can be maintained for as long as a specified amount of the financial assistance has not been repaid.

Consistency with the EU multilateral surveillance framework

Approval by the EU Member States will be sought to allow the euro-area Member States to task the Commission, together with the IMF and in liaison with the ECB, the analysis of the debt sustainability of the Member State requesting financial support, the preparation of the adjustment programme accompanying the financial assistance, as well as with the monitoring of its implementation.

While the Board of Governors has the autonomy to decide on the existence and modalities of financial assistance under an intergovernmental framework, the policy conditionality established under an enhanced surveillance or a macroeconomic adjustment programme should be consistent with the EU surveillance framework and must guarantee the respect of EU procedures. To this end, the Commission intends to propose a Regulation clarifying the necessary procedural steps under

(1) It is however understood that any IMF involvement will be consistent with its mandate under the Articles of Agreement and by applicable decision and policies of the IMF Board.

Article 136 of the Treaty in order to enshrine the policy conditionality in Council decisions and ensure consistency with the EU multilateral surveillance framework. The Council and the Commission will inform the European Parliament on a regular basis about the establishment and the operations of the ESM.

Pricing

The Board of Governors will decide on the pricing structure for financial assistance to a beneficiary Member State.

The ESM will be able to lend at a fixed or variable rate. The pricing of the ESM will be in line with IMF pricing principles and, while remaining above the funding costs of ESM, will include an adequate mark up for risks.

The following pricing structure will apply to ESM loans:

- 1) ESM funding cost
- 2) A charge of 200 bps applied on the entire loans
- 3) A surcharge of 100 bps for loan amounts outstanding after 3 years

For fixed rate loans with maturities above 3 years, the margin will be a weighted average of the charge of 200 bps for the first 3 years and 200 bps plus 100 bps for the following years.

The pricing structure will be defined in the pricing policy of the ESM, which will be reviewed periodically.

Private sector involvement

1. Modalities for involving the private sector

An adequate and proportionate form of private-sector involvement will be expected on a case by case basis where financial assistance is received by the beneficiary State. The nature and extent of this involvement will be determined on a case-by-case basis and will depend on the outcome of a debt sustainability analysis, in line with IMF practice⁽¹⁾, and on potential implications for euro-area financial stability.

- (a) If, on the basis of a sustainability analysis, it is concluded that a macro-economic adjustment programme can realistically restore the public debt to a sustainable path, the beneficiary Member State will take initiatives aimed at encouraging the main private investors to maintain their exposures (e.g. a "Vienna Initiative" approach). The Commission, the IMF, the ECB and the EBA will be closely involved in monitoring the implementation of such initiatives.
- (b) If, on the basis of a sustainability analysis, it is concluded that a macro-economic programme cannot realistically restore the public debt to a sustainable path, the beneficiary Member State will be required to engage in active negotiations in good faith with its creditors to secure their direct involvement in restoring debt sustainability. The granting of the financial assistance will be contingent on the Member State having a credible plan and demonstrating sufficient commitment to ensure adequate and proportionate private sector involvement. Progress in the implementation of the plan will be monitored under the programme and will be taken into account in the decision on disbursements.

In negotiating with creditors, the beneficiary Member State will adhere to the following principles:

- *Proportionality*: the Member State will seek solutions proportionate to its debt sustainability problem.
- *Transparency*: the Member State concerned will engage in an open dialogue with creditors and share relevant information with them on a timely basis.
- *Fairness*: the Member State will consult creditors on the design of any rescheduling or restructuring of public debt with a view to reaching negotiated solutions. Measures reducing the net present value of the debt will be considered only when other options are unlikely to deliver the expected results.
- *Cross-border co-ordination*: the risk of contagion and potential spill over effects on other Member States and third countries will be duly taken into account in the design of measures to involve the private sector. The measures taken will be accompanied with a proper communication by the Member State concerned aimed at preserving the financial stability of the Euro Area as a whole.

(1) In line with the IMF, debt is considered sustainable when a borrower is expected to be able to continue servicing its debts without an unrealistically large correction to its income and expenditure. This judgement determines the availability and the appropriate scale of financing.

2. Collective Action Clauses

Collective Action Clauses (CACs) will be included in all new euro area government securities, with maturity above one year, from July 2013. The objective of such CACs will be to facilitate agreement between the sovereign and its private-sector creditors in the context of private sector involvement. The inclusion of CACs in a bond will not imply a higher probability of default or of debt restructuring relating to that bond. Accordingly, the creditor status of sovereign debt will not be affected by the inclusion of CACs.

The main features of the CACs will be consistent with those commonly used in the US and the UK markets since the G10 report on CACs. CACs will be introduced in a way which preserves a level playing field among euro area Member States. This implies the use of identical and standardised clauses for all euro area Member States, harmonised in the terms and conditions of securities issued by the Member States. Their basis will be consistent with the CACs that are common in New York and English law.

CACs will include an aggregation clause, enabling a super majority of bondholders across multiple bond issues subject to such a clause and subject to the law of a single jurisdiction to include a majority action clause where the needed majority of creditors for the restructuring would not be attained within a single bond issue. Appropriate representation will be put in place. Most important issues – the reserve matters – (e.g. key payment terms, conversion or exchange of bonds) will be decided with a larger majority than non-reserve matters. Appropriate quorum requirements will apply. Changes agreed by the relevant majorities are binding on all bondholders.

An appropriate disenfranchisement clause will apply to ensure a proper voting process. Appropriate clauses to prevent disruptive legal action will be considered.

CACs will be introduced in a standardised manner, which ensures that their legal impact is identical in all euro-area jurisdictions and so preserves a level playing field among euro-area Member States. The euro area Member States will adopt the necessary measures to give effect to the CACs.

Euro area Member States will be allowed to continue to “tap” outstanding debt without CACs under pre-determined conditions after June 2013 in order to preserve the necessary liquidity of old bonds and to give sufficient time to euro area Member States to create, in an orderly fashion, new bonds on all benchmark maturities. The detailed legal arrangements for including CACs in euro-area government securities will be decided on the basis of work to be undertaken by the EFC Sub-Committee on EU Sovereign Debt Markets, following appropriate consultation with market participants and other stakeholders, and be finalised by the end of 2011.

3. Preferred Creditor Status of the ESM

Like the IMF, the ESM will provide financial assistance to a Member State when its regular access to market financing is impaired. Reflecting this, Heads of State or Government have stated that the ESM will enjoy preferred creditor status in a similar fashion to the IMF, while accepting preferred creditor status of IMF over ESM.

This shall be effective as of 1 July 2013 without prejudice to the terms and conditions of any other agreement provided under the EFSF and the Greek facility.

Transitional arrangements between EFSF and ESM

As originally foreseen, the EFSF will remain in place after June 2013 so as to administer the outstanding bonds. It will remain operational until it has received full payment of the financing granted to the Member States and has repaid its liabilities under the financial instruments issued and any obligations to reimburse guarantors. Undisbursed and unfunded portions of existing loan facilities should be transferred to the ESM (e.g. payment and financing of instalments that would become due only after the entry into force of ESM). The consolidated EFSF and ESM lending shall not exceed € 500 bn.

To ensure a smooth transition from the EFSF to the ESM, the CEO of the EFSF will be tasked with the practical preparation of the establishment of the ESM. He will regularly report on the progress made to the Eurogroup Working Group.

Participation of the non euro area Member States

Non euro area Member States can participate on an ad hoc basis alongside the ESM in financial assistance operations for euro area Member States. If non-euro area Member States participate in such operations, they will be represented in the relevant meetings of the ESM boards that will decide on the granting and the monitoring of the assistance. They will have access to all relevant information in a timely manner and be appropriately consulted. The euro area Member States will support equivalent creditor status of the ESM and that of other Member States lending bilaterally alongside the ESM.

Dispute settlement

If a dispute arises between a euro area Member State and the ESM in connection with the interpretation and application of the treaty establishing the ESM, the Board of Governors will decide on this dispute. If the Member State contests this decision, such dispute shall be submitted to the European Court of Justice in accordance with Art. 273 TFEU.

With regard to the relationship between the ESM and third parties, the applicable governing law and jurisdiction will be dealt with by the legal and contractual documentation which will then be put in place between the ESM and those third parties.

Annex: ESM contribution key based on the ECB key

Country	ISO	ESM key
Austria	AT	2.783
Belgium	BE	3.477
Cyprus	CY	0.196
Estonia	EE	0.186
Finland	FI	1.797
France	FR	20.386
Germany	DE	27.146
Greece	EL	2.817
Ireland	IE	1.592
Italy	IT	17.914
Luxembourg	LU	0.250
Malta	MT	0.073
Netherlands	NL	5.717
Portugal	PT	2.509
Slovakia	SK	0.824
Slovenia	SI	0.428
Spain	ES	11.904
Total	EA17	100.0

Notes: The ESM key is based on the ECB capital contribution key.

Member States with a GDP per capita of less than 75 % of the EU average will benefit from a temporary correction for a period of 12 years after their entry in the euro area.

This temporary correction will be three quarters of the difference between GNI and ECB capital shares (effectively comprising of 75 % of GNI share and 25 % of ECB capital share) as follows: $\text{ESM share} = \text{ECB key share} - 0,75 \times (\text{ECB key share} - \text{GNI share})$

The downwards compensation on those countries is redistributed among all the other countries according to their ECB key share.

GNI and GDP per capita in 2010.

Sources: ECB, Ameco and DG ECFIN calculations.



TREATY ESTABLISHING THE EUROPEAN STABILITY MECHANISM

BETWEEN THE KINGDOM OF BELGIUM, THE FEDERAL REPUBLIC OF GERMANY, THE REPUBLIC OF ESTONIA, IRELAND, THE HELLENIC REPUBLIC, THE KINGDOM OF SPAIN, THE FRENCH REPUBLIC, THE ITALIAN REPUBLIC, THE REPUBLIC OF CYPRUS, THE REPUBLIC OF LATVIA, THE GRAND DUCHY OF LUXEMBOURG, MALTA, THE KINGDOM OF THE NETHERLANDS, THE REPUBLIC OF AUSTRIA, THE PORTUGUESE REPUBLIC, THE REPUBLIC OF SLOVENIA, THE SLOVAK REPUBLIC AND THE REPUBLIC OF FINLAND

THE CONTRACTING PARTIES, the Kingdom of Belgium, the Federal Republic of Germany, the Republic of Estonia, Ireland, the Hellenic Republic, the Kingdom of Spain, the French Republic, the Italian Republic, the Republic of Cyprus, the Republic of Latvia, the Grand Duchy of Luxembourg, Malta, the Kingdom of the Netherlands, the Republic of Austria, the Portuguese Republic, the Republic of Slovenia, the Slovak Republic and the Republic of Finland (the "euro area Member States" or "ESM Members");

COMMITTED TO ensuring the financial stability of the euro area;

RECALLING the Conclusions of the European Council adopted on 25 March 2011 on the establishment of a European stability mechanism;

WHEREAS:

- (1) The European Council agreed on 17 December 2010 on the need for euro area Member States to establish a permanent stability mechanism. This European Stability Mechanism ("ESM") will assume the tasks currently fulfilled by the European Financial Stability Facility ("EFSF") and the European Financial Stabilisation Mechanism ("EFSM") in providing, where needed, financial assistance to euro area Member States.
- (2) On 25 March 2011, the European Council adopted Decision 2011/199/EU amending Article 136 of the Treaty on the Functioning of the European Union with regard to a stability mechanism for Member States whose currency is the euro⁽¹⁾ adding the following paragraph to Article 136: "The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality".
- (3) With a view to increasing the effectiveness of the financial assistance and to prevent the risk of financial contagion, the Heads of State or Government of the Member States whose currency is the euro agreed on 21 July 2011 to "increase [the] flexibility [of the ESM] linked to appropriate conditionality".
- (4) Strict observance of the European Union framework, the integrated macro-economic surveillance, in particular the Stability and Growth Pact, the macroeconomic imbalances framework and the economic governance rules of the European Union, should remain the first line of defence against confidence crises affecting the stability of the euro area.
- (5) On 9 December 2011 the Heads of State or Government of the Member States whose currency is the euro agreed to move towards a stronger economic union including a new fiscal compact and strengthened economic policy coordination to be implemented through an international agreement, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union ("TSCG"). The TSCG will help develop a closer coordination within the euro area with a view to ensuring a lasting, sound and robust management of public finances and thus addresses one of the main sources of financial instability. This Treaty and the TSCG are complementary in fostering fiscal responsibility and solidarity within the economic and monetary union. It is acknowledged and agreed that the granting of financial assistance in the framework of new programmes under the ESM will be conditional, as of 1 March 2013, on the ratification of the TSCG by the ESM Member concerned and, upon expiration of the transposition period referred to in Article 3(2) TSCG on compliance with the requirements of that article.
- (6) Given the strong interrelation within the euro area, severe risks to the financial stability of Member States whose currency is the euro may put at risk the financial stability of the euro area as a whole. The ESM may therefore provide stability support on the basis of a strict conditionality, appropriate to the financial assistance instrument chosen if indispensable to safeguard the financial stability of the euro area as a whole and of its Member States. The initial maximum lending volume of the ESM is set at EUR 500 000 million, including the outstanding EFSF stability support. The adequacy of the consolidated ESM and EFSF maximum lending volume will, however, be reassessed prior to the entry into force of this Treaty. If appropriate, it will be increased by the Board of Governors of the ESM, in accordance with Article 10, upon entry into force of this Treaty.

(1) OJ L 91, 6.4.2011, p. 1.

- (7) All euro area Member States will become ESM Members. As a consequence of joining the euro area, a Member State of the European Union should become an ESM Member with full rights and obligations, in line with those of the Contracting Parties.
- (8) The ESM will cooperate very closely with the International Monetary Fund ("IMF") in providing stability support. The active participation of the IMF will be sought, both at technical and financial level. A euro area Member State requesting financial assistance from the ESM is expected to address, wherever possible, a similar request to the IMF.
- (9) Member States of the European Union whose currency is not the euro ("non euro area Member States") participating on an ad hoc basis alongside the ESM in a stability support operation for euro area Member States will be invited to participate, as observers, in the ESM meetings when this stability support and its monitoring will be discussed. They will have access to all information in a timely manner and be properly consulted.
- (10) On 20 June 2011, the representatives of the Governments of the Member States of the European Union authorised the Contracting Parties of this Treaty to request the European Commission and the European Central Bank ("ECB") to perform the tasks provided for in this Treaty.
- (11) In its statement of 28 November 2010, the Euro Group stated that standardised and identical Collective Action Clauses ("CACs") will be included, in such a way as to preserve market liquidity, in the terms and conditions of all new euro area government bonds. As requested by the European Council on 25 March 2011, the detailed legal arrangements for including CACs in euro area government securities were finalised by the Economic and Financial Committee.
- (12) In accordance with IMF practice, in exceptional cases an adequate and proportionate form of private sector involvement shall be considered in cases where stability support is provided accompanied by conditionality in the form of a macro-economic adjustment programme.
- (13) Like the IMF, the ESM will provide stability support to an ESM Member when its regular access to market financing is impaired or is at risk of being impaired. Reflecting this, Heads of State or Government have stated that the ESM loans will enjoy preferred creditor status in a similar fashion to those of the IMF, while accepting preferred creditor status of the IMF over the ESM. This status will be effective as of the date of entry into force of this Treaty. In the event of ESM financial assistance in the form of ESM loans following a European financial assistance programme existing at the time of the signature of this Treaty, the ESM will enjoy the same seniority as all other loans and obligations of the beneficiary ESM Member, with the exception of the IMF loans.
- (14) The euro area Member States will support equivalent creditor status of the ESM and that of other States lending bilaterally in coordination with the ESM.
- (15) ESM lending conditions for Member States subject to a macroeconomic adjustment programme, including those referred to in Article 40 of this Treaty, shall cover the financing and operating costs of the ESM and should be consistent with the lending conditions of the Financial Assistance Facility Agreements signed between the EFSF, Ireland and the Central Bank of Ireland on the one hand and the EFSF, the Portuguese Republic and Banco de Portugal on the other.
- (16) Disputes concerning the interpretation and application of this Treaty arising between the Contracting Parties or between the Contracting Parties and the ESM should be submitted to the jurisdiction of the Court of Justice of the European Union, in accordance with Article 273 of the Treaty on the Functioning of the European Union ("TFEU").
- (17) Post-programme surveillance will be carried out by the European Commission and by the Council of the European Union within the framework laid down in Articles 121 and 136 TFEU,

HAVE AGREED AS FOLLOWS:

CHAPTER 1

MEMBERSHIP AND PURPOSE

Article 1

Establishment and members

1. By this Treaty, the Contracting Parties establish among themselves an international financial institution, to be named the "European Stability Mechanism" ("ESM").
2. The Contracting Parties are ESM Members.

*Article 2***New members**

1. Membership in the ESM shall be open to the other Member States of the European Union as from the entry into force of the decision of the Council of the European Union taken in accordance with Article 140(2) TFEU to abrogate their derogation from adopting the euro.
2. New ESM Members shall be admitted on the same terms and conditions as existing ESM Members, in accordance with Article 44.
3. A new member acceding to the ESM after its establishment shall receive shares in the ESM in exchange for its capital contribution, calculated in accordance with the contribution key provided for in Article 11.

*Article 3***Purpose**

The purpose of the ESM shall be to mobilise funding and provide stability support under strict conditionality, appropriate to the financial assistance instrument chosen, to the benefit of ESM Members which are experiencing, or are threatened by, severe financing problems, if indispensable to safeguard the financial stability of the euro area as a whole and of its Member States. For this purpose, the ESM shall be entitled to raise funds by issuing financial instruments or by entering into financial or other agreements or arrangements with ESM Members, financial institutions or other third parties.

CHAPTER 2**GOVERNANCE***Article 4***Structure and voting rules**

1. The ESM shall have a Board of Governors and a Board of Directors, as well as a Managing Director and other dedicated staff as may be considered necessary.
2. The decisions of the Board of Governors and the Board of Directors shall be taken by mutual agreement, qualified majority or simple majority as specified in this Treaty. In respect of all decisions, a quorum of 2/3 of the members with voting rights representing at least 2/3 of the voting rights must be present.
3. The adoption of a decision by mutual agreement requires the unanimity of the members participating in the vote. Abstentions do not prevent the adoption of a decision by mutual agreement.
4. By way of derogation from paragraph 3, an emergency voting procedure shall be used where the Commission and the ECB both conclude that a failure to urgently adopt a decision to grant or implement financial assistance, as defined in Articles 13 to 18, would threaten the economic and financial sustainability of the euro area. The adoption of a decision by mutual agreement by the Board of Governors referred to in points (f) and (g) of Article 5(6) and the Board of Directors under that emergency procedure requires a qualified majority of 85% of the votes cast.

Where the emergency procedure referred to in the first subparagraph is used, a transfer from the reserve fund and/or the paid-in capital to an emergency reserve fund is made in order to constitute a dedicated buffer to cover the risks arising from the financial support granted under that emergency procedure. The Board of Governors may decide to cancel the emergency reserve fund and transfer its content back to the reserve fund and/or paid-in capital.

5. The adoption of a decision by qualified majority requires 80 % of the votes cast.
6. The adoption of a decision by simple majority requires a majority of the votes cast.
7. The voting rights of each ESM Member, as exercised by its appointee or by the latter's representative on the Board of Governors or Board of Directors, shall be equal to the number of shares allocated to it in the authorised capital stock of the ESM as set out in Annex II.
8. If any ESM Member fails to pay any part of the amount due in respect of its obligations in relation to paid in shares or calls of capital under Articles 8, 9 and 10, or in relation to the reimbursement of the financial assistance under Article 16 or 17, such ESM Member shall be unable, for so long as such failure continues, to exercise any of its voting rights. The voting thresholds shall be recalculated accordingly.

*Article 5***Board of Governors**

1. Each ESM Member shall appoint a Governor and an alternate Governor. Such appointments are revocable at any time. The Governor shall be a member of the government of that ESM Member who has responsibility for finance. The alternate Governor shall have full power to act on behalf of the Governor when the latter is not present.
2. The Board of Governors shall decide either to be chaired by the President of the Euro Group, as referred to in Protocol (No 14) on the Euro Group annexed to the Treaty on the European Union and to the TFEU or to elect a Chairperson and a Vice-Chairperson from among its members for a term of two years. The Chairperson and the Vice-Chairperson may be re-elected. A new election shall be organised without delay if the incumbent no longer holds the function needed for being designated Governor.
3. The Member of the European Commission in charge of economic and monetary affairs and the President of the ECB, as well as the President of the Euro Group (if he or she is not the Chairperson or a Governor) may participate in the meetings of the Board of Governors as observers.
4. Representatives of non-euro area Member States participating on an ad hoc basis alongside the ESM in a stability support operation for a euro area Member State shall also be invited to participate, as observers, in the meetings of the Board of Governors when this stability support and its monitoring will be discussed.
5. Other persons, including representatives of institutions or organisations, such as the IMF, may be invited by the Board of Governors to attend meetings as observers on an ad hoc basis.
6. The Board of Governors shall take the following decisions by mutual agreement:
 - (a) to cancel the emergency reserve fund and transfer its content back to the reserve fund and/or paid-in capital, in accordance with Article 4(4);
 - (b) to issue new shares on terms other than at par, in accordance with Article 8(2);
 - (c) to make the capital calls, in accordance with Article 9(1);
 - (d) to change the authorised capital stock and adapt the maximum lending volume of the ESM, in accordance with Article 10(1);
 - (e) to take into account a possible update of the key for the subscription of the ECB capital, in accordance with Article 11(3), and the changes to be made to Annex I in accordance with Article 11(6);
 - (f) to provide stability support by the ESM, including the economic policy conditionality as stated in the memorandum of understanding referred to in Article 13(3), and to establish the choice of instruments and the financial terms and conditions, in accordance with Articles 12 to 18;
 - (g) to give a mandate to the European Commission to negotiate, in liaison with the ECB, the economic policy conditionality attached to each financial assistance, in accordance with Article 13(3);
 - (h) to change the pricing policy and pricing guideline for financial assistance, in accordance with Article 20;
 - (i) to change the list of financial assistance instruments that may be used by the ESM, in accordance with Article 19;
 - (j) to establish the modalities of the transfer of EFSF support to the ESM, in accordance with Article 40;
 - (k) to approve the application for membership of the ESM by new members, referred to in Article 44;
 - (l) to make adaptations to this Treaty as a direct consequence of the accession of new members, including changes to be made to the distribution of capital among ESM Members and the calculation of such a distribution as a direct consequence of the accession of a new member to the ESM, in accordance with Article 44; and
 - (m) to delegate to the Board of Directors the tasks listed in this Article.
7. The Board of Governors shall take the following decisions by qualified majority:
 - (a) to set out the detailed technical terms of accession of a new member to the ESM, in accordance with Article 44;
 - (b) whether to be chaired by the President of the Euro Group or to elect, by qualified majority, the Chairperson and Vice-Chairperson of the Board of Governors, in accordance with paragraph 2;
 - (c) to set out by-laws of the ESM and the rules of procedure applicable to the Board of Governors and Board of Directors (including the right to establish committees and subsidiary bodies), in accordance with paragraph 9;
 - (d) to determine the list of activities incompatible with the duties of a Director or an alternate Director, in accordance with Article 6(8);
 - (e) to appoint and to end the term of office of the Managing Director, in accordance with Article 7;
 - (f) to establish other funds, in accordance with Article 24;
 - (g) on the actions to be taken for recovering a debt from an ESM Member, in accordance with Article 25(2) and (3);

- (h) to approve the annual accounts of the ESM, in accordance with Article 27(1);
 - (i) to appoint the members of the Board of Auditors, in accordance with Article 30(1);
 - (j) to approve the external auditors, in accordance with Article 29;
 - (k) to waive the immunity of the Chairperson of the Board of Governors, a Governor, alternate Governor, Director, alternate Director or the Managing Director, in accordance with Article 35(2);
 - (l) to determine the taxation regime applicable to the ESM staff, in accordance with Article 36(5);
 - (m) on a dispute, in accordance with Article 37(2); and
 - (n) any other necessary decision not explicitly provided for by this Treaty.
8. The Chairperson shall convene and preside over the meetings of the Board of Governors. The Vice Chairperson shall preside over these meetings when the Chairperson is unable to participate.
9. The Board of Governors shall adopt their rules of procedure and the by-laws of the ESM.

Article 6

Board of Directors

1. Each Governor shall appoint one Director and one alternate Director from among people of high competence in economic and financial matters. Such appointments shall be revocable at any time. The alternate Directors shall have full power to act on behalf of the Director when the latter is not present.
2. The Member of the European Commission in charge of economic and monetary affairs and the President of the ECB may appoint one observer each.
3. Representatives of non-euro area Member States participating on an ad hoc basis alongside the ESM in a financial assistance operation for a euro area Member State shall also be invited to participate, as observers, in the meetings of the Board of Directors when this financial assistance and its monitoring will be discussed.
4. Other persons, including representatives of institutions or organisations, may be invited by the Board of Governors to attend meetings as observers on an ad hoc basis.
5. The Board of Directors shall take decisions by qualified majority, unless otherwise stated in this Treaty. Decisions to be taken on the basis of powers delegated by the Board of Governors shall be adopted in accordance with the relevant voting rules set in Article 5(6) and (7).
6. Without prejudice to the powers of the Board of Governors as set out in Article 5, the Board of Directors shall ensure that the ESM is run in accordance with this Treaty and the by laws of the ESM adopted by the Board of Governors. It shall take decisions as provided for in this Treaty or which are delegated to it by the Board of Governors.
7. Any vacancy in the Board of Directors shall be immediately filled in accordance with paragraph 1.
8. The Board of Governors shall lay down what activities are incompatible with the duties of a Director or an alternate Director, the by-laws of the ESM and rules of procedure of the Board of Directors.

Article 7

Managing Director

1. The Managing Director shall be appointed by the Board of Governors from among candidates having the nationality of an ESM Member, relevant international experience and a high level of competence in economic and financial matters. Whilst holding office, the Managing Director may not be a Governor or Director or an alternate of either.
2. The term of office of the Managing Director shall be five years. He or she may be re appointed once. The Managing Director shall, however, cease to hold office when the Board of Governors so decides.
3. The Managing Director shall chair the meetings of the Board of Directors and shall participate in the meetings of the Board of Governors.
4. The Managing Director shall be chief of the staff of the ESM. He or she shall be responsible for organising, appointing and dismissing staff in accordance with staff rules to be adopted by the Board of Directors.
5. The Managing Director shall be the legal representative of the ESM and shall conduct, under the direction of the Board of Directors, the current business of the ESM.

CHAPTER 3

CAPITAL

Article 8

Authorised capital stock

1. The authorised capital stock shall be EUR 701 935.3 million. It shall be divided into seven million nineteen thousand three hundred and fifty-three shares, having a nominal value of EUR 100 000 each, which shall be available for subscription according to the initial contribution key provided for in Article 11 and calculated in Annex I.
2. The authorised capital stock shall be divided into paid-in shares and callable shares. The initial total aggregate nominal value of paid-in shares shall be EUR 80 221.2 million. Shares of authorised capital stock initially subscribed shall be issued at par. Other shares shall be issued at par, unless the Board of Governors decides to issue them in special circumstances on other terms.
3. Shares of authorised capital stock shall not be encumbered or pledged in any manner whatsoever and they shall not be transferable, with the exception of transfers for the purposes of implementing adjustments of the contribution key provided for in Article 11 to the extent necessary to ensure that the distribution of shares corresponds to the adjusted key.
4. ESM Members hereby irrevocably and unconditionally undertake to provide their contribution to the authorised capital stock, in accordance with their contribution key in Annex I. They shall meet all capital calls on a timely basis in accordance with the terms set out in this Treaty.
5. The liability of each ESM Member shall be limited, in all circumstances, to its portion of the authorised capital stock at its issue price. No ESM Member shall be liable, by reason of its membership, for obligations of the ESM. The obligations of ESM Members to contribute to the authorised capital stock in accordance with this Treaty are not affected if any such ESM Member becomes eligible for, or is receiving, financial assistance from the ESM.

Article 9

Capital calls

1. The Board of Governors may call in authorised unpaid capital at any time and set an appropriate period of time for its payment by the ESM Members.
2. The Board of Directors may call in authorised unpaid capital by simple majority decision to restore the level of paid-in capital if the amount of the latter is reduced by the absorption of losses below the level established in Article 8(2), as may be amended by the Board of Governors following the procedure provided for in Article 10, and set an appropriate period of time for its payment by the ESM Members.
3. The Managing Director shall call authorised unpaid capital in a timely manner if needed to avoid the ESM being in default of any scheduled or other payment obligation due to ESM creditors. The Managing Director shall inform the Board of Directors and the Board of Governors of any such call. When a potential shortfall in ESM funds is detected, the Managing Director shall make such capital call(s) as soon as possible with a view to ensuring that the ESM shall have sufficient funds to meet payments due to creditors in full on their due date. ESM Members hereby irrevocably and unconditionally undertake to pay on demand any capital call made on them by the Managing Director pursuant to this paragraph, such demand to be paid within seven days of receipt.
4. The Board of Directors shall adopt the detailed terms and conditions which shall apply to calls on capital pursuant to this Article.

Article 10

Changes in authorised capital stock

1. The Board of Governors shall review regularly and at least every five years the maximum lending volume and the adequacy of the authorised capital stock of the ESM. It may decide to change the authorised capital stock and amend Article 8 and Annex II accordingly. Such decision shall enter into force after the ESM Members have notified the Depositary of the completion of their applicable national procedures. The new shares shall be allocated to the ESM Members according to the contribution key provided for in Article 11 and in Annex I.
2. The Board of Directors shall adopt the detailed terms and conditions which shall apply to all or any capital changes made under paragraph 1.
3. Upon a Member State of the European Union becoming a new ESM Member, the authorised capital stock of the ESM shall be automatically increased by multiplying the respective amounts then prevailing by the ratio, within

the adjusted contribution key provided for in Article 11, between the weighting of the new ESM Member and the weighting of the existing ESM Members.

Article 11

Contribution key

1. The contribution key for subscribing to ESM authorised capital stock shall, subject to paragraphs 2 and 3, be based on the key for subscription, by the national central banks of ESM Members, of the ECB's capital pursuant to Article 29 of Protocol (No 4) on the Statute of the European System of Central Banks and of the European Central Bank (the "ESCB Statute") annexed to the Treaty on European Union and to the TFEU.
2. The contribution key for the subscription of the ESM authorised capital stock is specified in Annex I.
3. The contribution key for the subscription of the ESM authorised capital stock shall be adjusted when:
 - (a) a Member State of the European Union becomes a new ESM Member and the ESM's authorised capital stock automatically increases, as specified in Article 10(3); or
 - (b) the twelve year temporary correction applicable to an ESM Member established in accordance with Article 42 ends.
4. The Board of Governors may decide to take into account possible updates to the key for the subscription of the ECB's capital referred to in paragraph 1 when the contribution key is adjusted in accordance with paragraph 3 or when there is a change in the authorised capital stock, as specified in Article 10(1).
5. When the contribution key for the subscription of the ESM authorised capital stock is adjusted, the ESM Members shall transfer among themselves authorised capital stock to the extent necessary to ensure that the distribution of authorised capital stock corresponds to the adjusted key.
6. Annex I shall be amended upon decision by the Board of Governors upon any adjustment referred to in this Article.
7. The Board of Directors shall take all other measures necessary for the application of this Article.

CHAPTER 4

OPERATIONS

Article 12

Principles

1. If indispensable to safeguard the financial stability of the euro area as a whole and of its Member States, the ESM may provide stability support to an ESM Member subject to strict conditionality, appropriate to the financial assistance instrument chosen. Such conditionality may range from a macro-economic adjustment programme to continuous respect of pre-established eligibility conditions.
2. Without prejudice to Article 19, ESM stability support may be granted through the instruments provided for in Articles 14 to 18.
3. Collective action clauses shall be included, as of 1 January 2013, in all new euro area government securities, with maturity above one year, in a way which ensures that their legal impact is identical.

Article 13

Procedure for granting stability support

1. An ESM Member may address a request for stability support to the Chairperson of the Board of Governors. Such a request shall indicate the financial assistance instrument(s) to be considered. On receipt of such a request, the Chairperson of the Board of Governors shall entrust the European Commission, in liaison with the ECB, with the following tasks:
 - (a) to assess the existence of a risk to the financial stability of the euro area as a whole or of its Member States, unless the ECB has already submitted an analysis under Article 18(2);
 - (b) to assess whether public debt is sustainable. Wherever appropriate and possible, such an assessment is expected to be conducted together with the IMF;
 - (c) to assess the actual or potential financing needs of the ESM Member concerned.
2. On the basis of the request of the ESM Member and the assessment referred to in paragraph 1, the Board of Governors may decide to grant, in principle, stability support to the ESM Member concerned in the form of a financial assistance facility.

3. If a decision pursuant to paragraph 2 is adopted, the Board of Governors shall entrust the European Commission – in liaison with the ECB and, wherever possible, together with the IMF – with the task of negotiating, with the ESM Member concerned, a memorandum of understanding (an "MoU") detailing the conditionality attached to the financial assistance facility. The content of the MoU shall reflect the severity of the weaknesses to be addressed and the financial assistance instrument chosen. In parallel, the Managing Director of the ESM shall prepare a proposal for a financial assistance facility agreement, including the financial terms and conditions and the choice of instruments, to be adopted by the Board of Governors.

The MoU shall be fully consistent with the measures of economic policy coordination provided for in the TFEU, in particular with any act of European Union law, including any opinion, warning, recommendation or decision addressed to the ESM Member concerned.

4. The European Commission shall sign the MoU on behalf of the ESM, subject to prior compliance with the conditions set out in paragraph 3 and approval by the Board of Governors.
5. The Board of Directors shall approve the financial assistance facility agreement detailing the financial aspects of the stability support to be granted and, where applicable, the disbursement of the first tranche of the assistance.
6. The ESM shall establish an appropriate warning system to ensure that it receives any repayments due by the ESM Member under the stability support in a timely manner.
7. The European Commission – in liaison with the ECB and, wherever possible, together with the IMF – shall be entrusted with monitoring compliance with the conditionality attached to the financial assistance facility.

Article 14

ESM precautionary financial assistance

1. The Board of Governors may decide to grant precautionary financial assistance in the form of a precautionary conditioned credit line or in the form of an enhanced conditions credit line in accordance with Article 12(1).
2. The conditionality attached to the ESM precautionary financial assistance shall be detailed in the MoU, in accordance with Article 13(3).
3. The financial terms and conditions of the ESM precautionary financial assistance shall be specified in a precautionary financial assistance facility agreement, to be signed by the Managing Director.
4. The Board of Directors shall adopt the detailed guidelines on the modalities for implementing the ESM precautionary financial assistance.
5. The Board of Directors shall decide by mutual agreement on a proposal from the Managing Director and after having received a report from the European Commission in accordance with Article 13(7), whether the credit line should be maintained.
6. After the ESM Member has drawn funds for the first time (via a loan or a primary market purchase), the Board of Directors shall decide by mutual agreement on a proposal from the Managing Director and based on an assessment conducted by the European Commission, in liaison with the ECB, whether the credit line continues to be adequate or whether another form of financial assistance is needed.

Article 15

Financial assistance for the re-capitalisation of financial institutions of an ESM Member

1. The Board of Governors may decide to grant financial assistance through loans to an ESM Member for the specific purpose of re-capitalising the financial institutions of that ESM Member.
2. The conditionality attached to financial assistance for the re-capitalisation of an ESM Member's financial institutions shall be detailed in the MoU, in accordance with Article 13(3).
3. Without prejudice to Articles 107 and 108 TFEU, the financial terms and conditions of financial assistance for the re-capitalisation of an ESM Member's financial institutions shall be specified in a financial assistance facility agreement, to be signed by the Managing Director.
4. The Board of Directors shall adopt the detailed guidelines on the modalities for implementing financial assistance for the re-capitalisation of an ESM Member's financial institutions.
5. Where applicable, the Board of Directors shall decide by mutual agreement, on a proposal from the Managing Director and after having received a report from the European Commission in accordance with Article 13(7), the disbursement of the tranches of the financial assistance subsequent to the first tranche.

*Article 16***ESM loans**

1. The Board of Governors may decide to grant financial assistance in the form of a loan to an ESM Member, in accordance with Article 12.
2. The conditionality attached to the ESM loans shall be contained in a macro-economic adjustment programme detailed in the MoU, in accordance with Article 13(3).
3. The financial terms and conditions of each ESM loan shall be specified in a financial assistance facility agreement, to be signed by the Managing Director.
4. The Board of Directors shall adopt the detailed guidelines on the modalities for implementing ESM loans.
5. The Board of Directors shall decide by mutual agreement, on a proposal from the Managing Director and after having received a report from the European Commission in accordance with Article 13(7), the disbursement of the tranches of the financial assistance subsequent to the first tranche.

*Article 17***Primary market support facility**

1. The Board of Governors may decide to arrange for the purchase of bonds of an ESM Member on the primary market, in accordance with Article 12 and with the objective of maximising the cost efficiency of the financial assistance.
2. The conditionality attached to the primary market support facility shall be detailed in the MoU, in accordance with Article 13(3).
3. The financial terms and conditions under which the bond purchase is conducted shall be specified in a financial assistance facility agreement, to be signed by the Managing Director.
4. The Board of Directors shall adopt the detailed guidelines on the modalities for implementing the primary market support facility.
5. The Board of Directors shall decide by mutual agreement, on a proposal from the Managing Director and after having received a report from the European Commission in accordance with Article 13(7), the disbursement of financial assistance to a beneficiary Member State through operations on the primary market.

*Article 18***Secondary market support facility**

1. The Board of Governors may decide to arrange for operations on the secondary market in relation to the bonds of an ESM Member in accordance with Article 12(1).
2. Decisions on interventions on the secondary market to address contagion shall be taken on the basis of an analysis of the ECB recognising the existence of exceptional financial market circumstances and risks to financial stability.
3. The conditionality attached to the secondary market support facility shall be detailed in the MoU, in accordance with Article 13(3).
4. The financial terms and conditions under which the secondary market operations are to be conducted shall be specified in a financial assistance facility agreement, to be signed by the Managing Director.
5. The Board of Directors shall adopt the detailed guidelines on the modalities for implementing the secondary market support facility.
6. The Board of Directors shall decide by mutual agreement, on a proposal from the Managing Director, to initiate operations on the secondary market.

*Article 19***Review of the list of financial assistance instruments**

The Board of Governors may review the list of financial assistance instruments provided for in Articles 14 to 18 and decide to make changes to it.

*Article 20***Pricing policy**

1. When granting stability support, the ESM shall aim to fully cover its financing and operating costs and shall include an appropriate margin.

2. For all financial assistance instruments, pricing shall be detailed in a pricing guideline, which shall be adopted by the Board of Governors.
3. The pricing policy may be reviewed by the Board of Governors.

Article 21

Borrowing operations

1. The ESM shall be empowered to borrow on the capital markets from banks, financial institutions or other persons or institutions for the performance of its purpose.
2. The modalities of the borrowing operations shall be determined by the Managing Director, in accordance with detailed guidelines to be adopted by the Board of Directors.
3. The ESM shall use appropriate risk management tools, which shall be reviewed regularly by the Board of Directors.

CHAPTER 5

FINANCIAL MANAGEMENT

Article 22

Investment policy

1. The Managing Director shall implement a prudent investment policy for the ESM, so as to ensure its highest creditworthiness, in accordance with guidelines to be adopted and reviewed regularly by the Board of Directors. The ESM shall be entitled to use part of the return on its investment portfolio to cover its operating and administrative costs.
2. The operations of the ESM shall comply with the principles of sound financial and risk management.

Article 23

Dividend policy

1. The Board of Directors may decide, by simple majority, to distribute a dividend to the ESM Members where the amount of paid-in capital and the reserve fund exceed the level required for the ESM to maintain its lending capacity and where proceeds from the investment are not required to avoid a payment shortfall to creditors. Dividends are distributed pro rata to the contributions to the paid-in capital, taking into account the possible acceleration referred to in Article 41(3).
2. As long as the ESM has not provided financial assistance to one of its members, the proceeds from the investment of the ESM paid-in capital shall be returned to the ESM Members according to their respective contributions to the paid-in capital, after deductions for operational costs, provided that the targeted effective lending capacity is fully available.
3. The Managing Director shall implement the dividend policy for the ESM in accordance with guidelines to be adopted by the Board of Directors.

Article 24

Reserve and other funds

1. The Board of Governors shall establish a reserve fund and, where appropriate, other funds.
2. Without prejudice to Article 23, the net income generated by the ESM operations and the proceeds of the financial sanctions received from the ESM Members under the multilateral surveillance procedure, the excessive deficit procedure and the macro economic imbalances procedure established under the TFEU shall be put aside in a reserve fund.
3. The resources of the reserve fund shall be invested in accordance with guidelines to be adopted by the Board of Directors.
4. The Board of Directors shall adopt such rules as may be required for the establishment, administration and use of other funds.

Article 25

Coverage of losses

1. Losses arising in the ESM operations shall be charged:

- (a) firstly, against the reserve fund;
 - (b) secondly, against the paid-in capital; and
 - (c) lastly, against an appropriate amount of the authorised unpaid capital, which shall be called in accordance with Article 9(3).
2. If an ESM Member fails to meet the required payment under a capital call made pursuant to Article 9(2) or (3), a revised increased capital call shall be made to all ESM Members with a view to ensuring that the ESM receives the total amount of paid-in capital needed. The Board of Governors shall decide an appropriate course of action for ensuring that the ESM Member concerned settles its debt to the ESM within a reasonable period of time. The Board of Governors shall be entitled to require the payment of default interest on the overdue amount.
3. When an ESM Member settles its debt to the ESM, as referred to in paragraph 2, the excess capital shall be returned to the other ESM Members in accordance with rules to be adopted by the Board of Governors.

Article 26

Budget

The Board of Directors shall approve the ESM budget annually.

Article 27

Annual accounts

1. The Board of Governors shall approve the annual accounts of the ESM.
2. The ESM shall publish an annual report containing an audited statement of its accounts and shall circulate to ESM Members a quarterly summary statement of its financial position and a profit and loss statement showing the results of its operations.

Article 28

Internal Audit

An internal audit function shall be established according to international standards.

Article 29

External audit

The accounts of the ESM shall be audited by independent external auditors approved by the Board of Governors and responsible for certifying the annual financial statements. The external auditors shall have full power to examine all books and accounts of the ESM and obtain full information about its transactions.

Article 30

Board of Auditors

1. The Board of Auditors shall consist of five members appointed by the Board of Governors for their competence in auditing and financial matters and shall include two members from the supreme audit institutions of the ESM Members - with a rotation between the latter - and one from the European Court of Auditors.
2. The members of the Board of Auditors shall be independent. They shall neither seek nor take instructions from the ESM governing bodies, the ESM Members or any other public or private body.
3. The Board of Auditors shall draw up independent audits. It shall inspect the ESM accounts and verify that the operational accounts and balance sheet are in order. It shall have full access to any document of the ESM needed for the implementation of its tasks.
4. The Board of Auditors may inform the Board of Directors at any time of its findings. It shall, on an annual basis, draw up a report to be submitted to the Board of Governors.
5. The Board of Governors shall make the annual report accessible to the national parliaments and supreme audit institutions of the ESM Members and to the European Court of Auditors.
6. Any matter relating to this Article shall be detailed in the by-laws of the ESM.

CHAPTER 6**GENERAL PROVISIONS***Article 31***Location**

1. The ESM shall have its seat and principal office in Luxembourg.
2. The ESM may establish a liaison office in Brussels.

*Article 32***Legal status, privileges and immunities**

1. To enable the ESM to fulfil its purpose, the legal status and the privileges and immunities set out in this Article shall be accorded to the ESM in the territory of each ESM Member. The ESM shall endeavour to obtain recognition of its legal status and of its privileges and immunities in other territories in which it performs functions or holds assets.
2. The ESM shall have full legal personality; it shall have full legal capacity to:
 - (a) acquire and dispose of movable and immovable property;
 - (b) contract;
 - (c) be a party to legal proceedings; and
 - (d) enter into a headquarter agreement and/or protocols as necessary for ensuring that its legal status and its privileges and immunities are recognised and enforced.
3. The ESM, its property, funding and assets, wherever located and by whomsoever held, shall enjoy immunity from every form of judicial process except to the extent that the ESM expressly waives its immunity for the purpose of any proceedings or by the terms of any contract, including the documentation of the funding instruments.
4. The property, funding and assets of the ESM shall, wherever located and by whomsoever held, be immune from search, requisition, confiscation, expropriation or any other form of seizure, taking or foreclosure by executive, judicial, administrative or legislative action.
5. The archives of the ESM and all documents belonging to the ESM or held by it, shall be inviolable.
6. The premises of the ESM shall be inviolable.
7. The official communications of the ESM shall be accorded by each ESM Member and by each state which has recognised the legal status and the privileges and immunities of the ESM, the same treatment as it accords to the official communications of an ESM Member.
8. To the extent necessary to carry out the activities provided for in this Treaty, all property, funding and assets of the ESM shall be free from restrictions, regulations, controls and moratoria of any nature.
9. The ESM shall be exempted from any requirement to be authorised or licensed as a credit institution, investment services provider or other authorised licensed or regulated entity under the laws of each ESM Member.

*Article 33***Staff of the ESM**

The Board of Directors shall lay down the conditions of employment of the Managing Director and other staff of the ESM.

*Article 34***Professional secrecy**

The Members or former Members of the Board of Governors and of the Board of Directors and any other persons who work or have worked for or in connection with the ESM shall not disclose information that is subject to professional secrecy. They shall be required, even after their duties have ceased, not to disclose information of the kind covered by the obligation of professional secrecy.

*Article 35***Immunities of persons**

1. In the interest of the ESM, the Chairperson of the Board of Governors, Governors, alternate Governors, Directors, alternate Directors, as well as the Managing Director and other staff members shall be immune from legal proceedings with respect to acts performed by them in their official capacity and shall enjoy inviolability in respect of their official papers and documents.

2. The Board of Governors may waive to such extent and upon such conditions as it determines any of the immunities conferred under this Article in respect of the Chairperson of the Board of Governors, a Governor, an alternate Governor, a Director, an alternate Director or the Managing Director.
3. The Managing Director may waive any such immunity in respect of any member of the staff of the ESM other than himself or herself.
4. Each ESM Member shall promptly take the action necessary for the purposes of giving effect to this Article in the terms of its own law and shall inform the ESM accordingly.

Article 36

Exemption from taxation

1. Within the scope of its official activities, the ESM, its assets, income, property and its operations and transactions authorised by this Treaty shall be exempt from all direct taxes.
2. The ESM Members shall, wherever possible, take the appropriate measures to remit or refund the amount of indirect taxes or sales taxes included in the price of movable or immovable property where the ESM makes, for its official use, substantial purchases, the price of which includes taxes of this kind.
3. No exemption shall be granted in respect of taxes and dues which amount merely to charges for public utility services.
4. Goods imported by the ESM and necessary for the exercise of its official activities shall be exempt from all import duties and taxes and from all import prohibitions and restrictions.
5. Staff of the ESM shall be subject to an internal tax for the benefit of the ESM on salaries and emoluments paid by the ESM, subject to rules to be adopted by the Board of Governors. From the date on which this tax is applied, such salaries and emoluments shall be exempt from national income tax.
6. No taxation of any kind shall be levied on any obligation or security issued by the ESM including any interest or dividend thereon by whomsoever held:
 - (a) which discriminates against such obligation or security solely because of its origin; or
 - (b) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the ESM.

Article 37

Interpretation and dispute settlement

1. Any question of interpretation or application of the provisions of this Treaty and the by laws of the ESM arising between any ESM Member and the ESM, or between ESM Members, shall be submitted to the Board of Directors for its decision.
2. The Board of Governors shall decide on any dispute arising between an ESM Member and the ESM, or between ESM Members, in connection with the interpretation and application of this Treaty, including any dispute about the compatibility of the decisions adopted by the ESM with this Treaty. The votes of the member(s) of the Board of Governors of the ESM Member(s) concerned shall be suspended when the Board of Governors votes on such decision and the voting threshold needed for the adoption of that decision shall be recalculated accordingly.
3. If an ESM Member contests the decision referred to in paragraph 2, the dispute shall be submitted to the Court of Justice of the European Union. The judgement of the Court of Justice of the European Union shall be binding on the parties in the procedure, which shall take the necessary measures to comply with the judgment within a period to be decided by said Court.

Article 38

International cooperation

The ESM shall be entitled, for the furtherance of its purposes, to cooperate, within the terms of this Treaty, with the IMF, any State which provides financial assistance to an ESM Member on an ad hoc basis and any international organisation or entity having specialised responsibilities in related fields.

CHAPTER 7**TRANSITIONAL ARRANGEMENTS***Article 39***Relation with EFSF lending**

During the transitional phase spanning the period from the entry into force of this Treaty until the complete run down of the EFSF, the consolidated ESM and EFSF lending shall not exceed EUR 500 000 million, without prejudice to the regular review of the adequacy of the maximum lending volume in accordance with Article 10. The Board of Directors shall adopt detailed guidelines on the calculation of the forward commitment capacity to ensure that the consolidated lending ceiling is not breached.

*Article 40***Transfer of EFSF supports**

1. By way of derogation from Article 13, the Board of Governors may decide that the EFSF commitments to provide financial assistance to an ESM Member under its agreement with that member shall be assumed by the ESM as far as such commitments relate to undisbursed and unfunded parts of loan facilities.
2. The ESM may, if authorised by its Board of Governors, acquire the rights and assume the obligations of the EFSF, in particular in respect of all or part of its outstanding rights and obligations under, and related to, its existing loan facilities.
3. The Board of Governors shall adopt the detailed modalities necessary to give effect to the transfer of the obligations from the EFSF to the ESM, as referred to in paragraph 1 and any transfer of rights and obligations as described in paragraph 2.

*Article 41***Payment of the initial capital**

1. Without prejudice to paragraph 2, payment of paid-in shares of the amount initially subscribed by each ESM Member shall be made in five annual instalments of 20 % each of the total amount. The first instalment shall be paid by each ESM Member within fifteen days of the date of entry into force of this Treaty. The remaining four instalments shall each be payable on the first, second, third and fourth anniversary of the payment date of the first instalment.
2. During the five year period of capital payment by instalments, ESM Members shall accelerate the payment of paid-in shares, in a timely manner prior to the issuance date, in order to maintain a minimum 15 % ratio between paid in capital and the outstanding amount of ESM issuances and guarantee a minimum combined lending capacity of the ESM and of the EFSF of EUR 500 000 million.
3. An ESM Member may decide to accelerate the payment of its share of paid-in capital.

*Article 42***Temporary correction of the contribution key**

1. At inception, the ESM Members shall subscribe the authorised capital stock on the basis of the initial contribution key as specified in Annex I. The temporary correction included in this initial contribution key shall apply for a period of twelve years after the date of adoption of the euro by the ESM Member concerned.
2. If a new ESM Member's gross domestic product (GDP) per capita at market prices in euro in the year immediately preceding its accession to the ESM is less than 75 % of the European Union average GDP per capita at market prices, then its contribution key for subscribing to ESM authorised capital stock, determined in accordance with Article 10, shall benefit from a temporary correction and equal the sum of:
 - (a) 25 % of the percentage share in the ECB capital of the national central bank of that ESM Member, determined in accordance with Article 29 of the ESCB Statute; and
 - (b) 75 % of that ESM Member's percentage share in the gross national income (GNI) at market prices in euro of the euro area in the year immediately preceding its accession to the ESM.

The percentages referred to in points (a) and (b) shall be rounded up or down to the nearest multiple of 0,0001 percentage points. The statistical terms shall be those published by Eurostat.

3. The temporary correction referred to in paragraph 2 shall apply for a period of twelve years from the date of adoption of the euro by the ESM Member concerned.
4. As a result of the temporary correction of the key, the relevant proportion of shares allocated to an ESM Member pursuant to paragraph 2 shall be reallocated amongst the ESM Members not benefiting from a temporary correction on the basis of their shareholding in the ECB, determined in accordance with Article 29 of the ESCB Statute, subsisting immediately prior to the issue of shares to the acceding ESM Member.

Article 43

First appointments

1. Each ESM Member shall designate its Governor and alternate Governor within the two weeks of the entry into force of this Treaty.
2. The Board of Governors shall appoint the Managing Director and each Governor shall appoint a Director and an alternate Director within the two months of the entry into force of this Treaty.

CHAPTER 8

FINAL PROVISIONS

Article 44

Accession

This Treaty shall be open for accession by other Member States of the European Union in accordance with Article 2 upon application for membership that any such Member State of the European Union shall file with the ESM after the adoption by the Council of the European Union of the decision to abrogate its derogation from adopting the euro in accordance with Article 140(2) TFEU. The Board of Governors shall approve the application for accession of the new ESM Member and the detailed technical terms related thereto, as well as the adaptations to be made to this Treaty as a direct consequence of the accession. Following the approval of the application for membership by the Board of Governors, new ESM Members shall accede upon the deposit of the instruments of accession with the Depositary, who shall notify other ESM Members thereof.

Article 45

Annexes

The following Annexes to this Treaty shall constitute an integral part thereof:

- 1) Annex I: Contribution key of the ESM; and
- 2) Annex II: Subscriptions to the authorised capital stock.

Article 46

Deposit

This Treaty shall be deposited with the General Secretariat of the Council of the European Union ("the Depositary"), which shall communicate certified copies to all the signatories.

Article 47

Ratification, approval or acceptance

1. This Treaty shall be subject to ratification, approval or acceptance by the signatories. Instruments of ratification, approval or acceptance shall be deposited with the Depositary.
2. The Depositary shall notify the other signatories of each deposit and the date thereof.

Article 48

Entry into force

1. This Treaty shall enter into force on the date when instruments of ratification, approval or acceptance have been deposited by signatories whose initial subscriptions represent no less than 90% of the total subscriptions set forth in Annex II. Where appropriate, the list of ESM Members shall be adjusted; the key in Annex I shall then be recalculated and the total authorised capital stock in Article 8(1) and Annex II and the initial total aggregated nominal value of paid-in shares in Article 8(2) shall be reduced accordingly.
2. For each signatory which thereafter deposits its instrument of ratification, approval or acceptance, this Treaty shall enter into force on the day following the date of deposit.

3. For each State which accedes to this Treaty in accordance with Article 44, this Treaty shall enter into force on the twentieth day following the deposit of its instrument of accession.

Done at Brussels on the second day of February in the year two thousand and twelve in a single original, whose Dutch, English, Estonian, Finnish, French, German, Greek, Irish, Italian, Maltese, Portuguese, Slovak, Slovenian, Spanish and Swedish texts are equally authentic, which shall be deposited in the archives of the Depositary which shall transmit a duly certified copy to each of the Contracting Parties.

Upon accession of the Republic of Latvia, the Latvian text shall be equally authentic, which shall be deposited in the archives of the Depositary which shall transmit a duly certified copy to each of the Contracting Parties.

ANNEX I

Contribution Key of the ESM

ESM Member	ESM key (%)
Kingdom of Belgium	3.4675
Federal Republic of Germany	27.0716
Republic of Estonia	0.1855
Ireland	1.5878
Hellenic Republic	2.8089
Kingdom of Spain	11.8709
French Republic	20.3297
Italian Republic	17.8643
Republic of Cyprus	0.1957
Republic of Latvia	0.2757
Grand Duchy of Luxembourg	0.2497
Malta	0.0729
Kingdom of the Netherlands	5.7012
Republic of Austria	2.7757
Portuguese Republic	2.5023
Republic of Slovenia	0.4264
Slovak Republic	0.8217
Republic of Finland	1.7924
Total	100.0

ANNEX II**Subscriptions to the authorised capital stock**

ESM Member	Number of shares subscription	Capital
Kingdom of Belgium	243 397	24 339 700 000
Federal Republic of Germany	1 900 248	190 024 800 000
Republic of Estonia	13 020	1 302 000 000
Ireland	111 454	11 145 400 000
Hellenic Republic	197 169	19 716 900 000
Kingdom of Spain	833 259	83 325 900 000
French Republic	1 427 013	142 701 300 000
Italian Republic	1 253 959	125 395 900 000
Republic of Cyprus	13 734	1 373 400 000
Republic of Latvia	19 353	1 935 300 000
Grand Duchy of Luxembourg	17 528	1 752 800 000
Malta	5 117	511 700 000
Kingdom of the Netherlands	400 190	40 019 000 000
Republic of Austria	194 838	19 483 800 000
Portuguese Republic	175 644	17 564 400 000
Republic of Slovenia	29 932	2 993 200 000
Slovak Republic	57 680	5 768 000 000
Republic of Finland	125 818	12 581 800 000
Total	7 019 353	701 935 300 000



3. Economic policy coordination

3.1. General framework

RESOLUTION OF THE EUROPEAN COUNCIL ON GROWTH AND EMPLOYMENT

Amsterdam, 16 June 1997

(97/C 236/02)

THE EUROPEAN COUNCIL,

RECALLING the conclusions of the Essen European Council, the Commission's initiative for «Action on Employment: A Confidence Pact» and the Dublin Declaration on Employment,

HAS ADOPTED THE FOLLOWING GUIDELINES:

INTRODUCTION

1. It is imperative to give a new impulse for keeping employment firmly at the top of the political agenda of the European Union. Economic and Monetary Union and the Stability and Growth Pact will enhance the internal market and will foster a non-inflationary macro-economic environment with low interest rates, thereby strengthening conditions for economic growth and employment opportunities. In addition, we will need to strengthen the links between a successful and sustainable Economic and Monetary Union, a well-functioning internal market and employment. To that end, it should be a priority aim to develop a skilled, trained and adaptable workforce and to make labour markets responsive to economic change. Structural reforms need to be comprehensive in scope, as opposed to limited or occasional measures, so as to address in a coherent manner the complex issue of incentives in creating and taking up a job.

Economic and social policies are mutually reinforcing. Social protection systems should be modernized so as to strengthen their functioning in order to contribute to competitiveness, employment and growth, establishing a durable basis for social cohesion.

This approach, coupled with stability based policies, provides the basis for an economy founded on principles of inclusion, solidarity, justice and a sustainable environment, and capable of benefiting all its citizens. Economic efficiency and social inclusion are complementary aspects of the more cohesive European society that we all seek.

Taking account of this statement of principles, the European Council calls upon all the social and economic agents, including the national, regional and local authorities and the social partners, to face fully their responsibilities within their respective sphere of activity.

DEVELOPING THE ECONOMIC PILLAR

2. The Treaty establishing the European Community, in particular Articles 102a and 103, provides for close coordination of the Member States' economic policies referred to in Article 3a of the Treaty. While primary responsibility in the fight against unemployment rests with the Member States, we should recognize the need both to enhance the effectiveness and to broaden the content of this coordination, focusing in particular on policies for employment. To this end, several steps are necessary.
3. The broad guidelines of the economic policies will be enhanced and developed into an effective instrument for ensuring sustained convergence of the economic performances of the Member States. Within the framework of sound and sustainable macro-economic policies and on the basis of an evaluation of the economic situation in the European Union and in each Member State, more attention will be given to improving European competitiveness as a prerequisite for growth and employment, so as, among other objectives, to bring more jobs within the reach of the citizens of Europe. In this context, special attention should be given to labour and product market efficiency, technological innovation and the potential for small and medium-sized enterprises to create jobs. Full attention should also be given to training and education systems including life-long learning, work incentives in the tax and benefit systems and reducing non-wage labour costs, in order to increase employability.
4. Taxation and social protection systems should be made more employment friendly thus improving the functioning of labour markets. The European Council stresses the importance for the Member States of creating a tax environment that stimulates enterprise and the creation of jobs. These and other policies for employment will become an essential part of the broad guidelines, taking into account national employment policies and good practices arising from these policies.

5. The Council is therefore called upon to take the multiannual employment programmes, as envisaged in the Essen procedure, into account when formulating the broad guidelines, in order to strengthen their employment focus. The Council may make the necessary recommendations to the Member States, in accordance with Article 103 (4) of the Treaty.
6. This enhanced coordination of economic policies will complement the procedure as envisaged in the new Title on Employment in the Treaty, which provides for the creation of an Employment Committee, which is asked to work together closely with the Economic Policy Committee. The Council should seek to make those provisions immediately effective. In both procedures the European Council will play its integrating and guiding role, in accordance with the Treaty.
7. The European Union should complement national measures by systematically examining all relevant existing Community policies, including Trans-European Networks and Research and Development programmes, to ensure that they are geared towards job creation and economic growth, while respecting the Financial Perspectives and the Interinstitutional Agreement.
8. The European Council has agreed on concrete action for making maximum progress with the final completion of the internal market: making the rules more effective, dealing with the key remaining market distortions, avoiding harmful tax competition, removing the sectoral obstacles to market integration and delivering an internal market for the benefit of all citizens.
9. Whereas the task of the European Investment Bank, as stated in Article 198e of the Treaty, is to contribute, by having recourse to the capital market and utilizing its own resources, to the balanced and steady development of the common market in the interest of the Community, we recognize the important role of the European Investment Bank and the European Investment Fund in creating employment through investment opportunities in Europe. We urge the European Investment Bank to step up its activities in this respect, promoting investment projects consistent with sound banking principles and practices, and more particular:
 - to examine the establishment of a facility for the financing of high-technology projects of small and medium-sized enterprises in cooperation with the European Investment Fund, possibly making use of venture capital with involvement of the private banking sector,
 - to examine its scope of intervention in the areas of education, health, urban environment and environmental protection,
 - to step up its interventions in the area of large infrastructure networks by examining the possibility of granting very long-terms loans, primarily for the large priority projects adopted in Essen.
10. The Commission is invited to make the appropriate proposals in order to ensure that, upon expiration of the Treaty establishing the European Coal and Steel Community in 2002, the revenues of outstanding reserves are used for a research fund for sectors related to the coal and steel industry.
11. This overall strategy will maximize our efforts to promote employment and social inclusion and to combat unemployment. In doing so, job promotion, worker protection and security will be combined with the need for improving the functioning of labour markets. This also contributes to the good functioning of Economic and Monetary Union.

RENEWED COMMITMENT

12. The European Council invites all parties, namely the Member States, the Council and the Commission, to implement these provisions with vigour and commitment.

The possibilities offered to social partners by the Social Chapter, which has been integrated into the new Treaty, should serve to underpin the Council's work on employment. The European Council recommends social dialogue and the full use of present Community law concerning the consultation of social partners, including, where relevant, in processes of restructuring, and taking into account national practices.
13. Together, these policies allow the Member States to build on the strengths of the European construction to coordinate their economic policies effectively within the Council so as to create more jobs and pave the way for a successful and sustainable stage three of Economic and Monetary Union in accordance with the Treaty. The European Council asks social partners to fully face their responsibilities within their respective sphere of activity.



RESOLUTION OF THE EUROPEAN COUNCIL
OF 13 DECEMBER 1997
ON ECONOMIC POLICY COORDINATION IN STAGE 3 OF EMU AND ON TREATY ARTICLES 109 AND 109B
OF THE EC TREATY
(98/C 35/01)

THE EUROPEAN COUNCIL, meeting in Luxembourg on 13 December 1997,

Having regard to the Treaty establishing the European Community,

Recalling the conclusions of the Amsterdam European Council, notably on improving economic coordination and on effective ways on implementing Articles 109 and 109b of the Treaty,

Recalling the Amsterdam European Council Resolution on the Stability and Growth Pact,

Recalling the Amsterdam European Council Resolution on Growth and Employment, and

Taking note of the report of the Council of 1 December 1997,

HAS RESOLVED AS FOLLOWS:

I. COORDINATION OF ECONOMIC POLICIES IN STAGE 3 OF ECONOMIC AND MONETARY UNION (EMU)

1. EMU will link the economies of the euro-area Member States more closely together. They will share a single monetary policy and a single exchange rate. Cyclical developments are likely to converge further. Economic policies, and wage determination, however, remain a national responsibility, subject to the provisions of Article 104c of the Treaty and the Stability and Growth Pact. To the extent that national economic developments have an impact on inflation prospects in the euro-area, they will influence monetary conditions in that area. It is for this basic reason that the move to a single currency will require closer Community surveillance and coordination of economic policies among euro-area Member States.
2. Economic and monetary interdependence with non-participating Member States will also be strong; they all participate in the single market. The need to ensure further convergence and a smooth functioning of the single market therefore requires all Member States to be included in the coordination of economic policies. Moreover, interdependence will be especially strong if non euro-area Member States participate in the new exchange rate mechanism, as countries with a derogation are expected to.
3. Enhanced economic policy coordination should give full attention to national economic developments and policies which have the potential to influence monetary and financial conditions throughout the euro area or the smooth functioning of the internal market. This includes:
 - close monitoring of macroeconomic developments in Member States to ensure sustained convergence, and of exchange-rate developments of the euro,
 - surveillance of budgetary positions and policies in accordance with the Treaty and the Stability and Growth Pact,
 - monitoring of Member States' structural policies in labour, product and services markets, as well as of cost and price trends, particularly insofar as they affect the chances of achieving sustained non-inflationary growth and job creation, and
 - the fostering of tax reform to raise efficiency and the discouragement of harmful tax competition.

Enhanced economic policy coordination must adhere to the Treaty principle of subsidiarity, respect the prerogatives of national governments in determining their structural and budgetary policies subject to the provisions of the Treaty and the Stability and Growth Pact, respect the independence of the European System of Central Banks (ESCB) in pursuing its primary objective of price stability and the role of the Ecofin Council as the central decision-making body for economic coordination, and respect national traditions and the competences and responsibilities of the social partners in the wage formation process.

4. To ensure the smooth functioning of EMU, the Council, the Commission and the Member States are called upon to apply the Treaty instruments for economic policy coordination fully and effectively.

To this end, the broad economic policy guidelines adopted in accordance with Article 103(2) of the Treaty should be developed into an effective instrument for ensuring sustained convergence of Member States. They should provide more concrete and country-specific guidelines and focus more on measures to improve Member States' growth

potential, thus increasing employment. Therefore, more attention should henceforth be paid in them to improving competitiveness, labour-, product- and services-market efficiency, education and training, and to making taxation and social protection systems more employment-friendly.

Enhanced coordination should be aimed at securing consistency of national economic policies and their implementation with the broad economic policy guidelines and the proper functioning of EMU. Economic policies and development in each Member State and in the Community should be monitored in the framework of multilateral surveillance according to Article 103(3) of the Treaty. Particular attention should be paid to giving early warning, not only of threatening budgetary situations in accordance with the Stability and Growth Pact, but also of other developments which, if allowed to persist, might threaten stability, competitiveness and future job creation. To this end, the Council is expected to be more ready to make the necessary recommendations in accordance with Article 103(4) of the Treaty to a Member State whenever its economic policies are not consistent with the broad economic policy guidelines. For its part, the Member State concerned should commit itself to take timely and efficient measures which it deems necessary to respond to the Council's recommendations. Moreover, the Member States should commit themselves to a comprehensive and speedy exchange of information on economic developments and policy intentions with a cross-border impact.

5. Monitoring of the economic situation and policy discussions should become a regular item on the agenda of informal Ecofin sessions. In order to stimulate an open and frank debate, the Ecofin Council should from time to time meet in restricted sessions (minister plus one), particularly when conducting multilateral surveillance.
6. Under the terms of the Treaty, the Ecofin Council⁽¹⁾ is the centre for the coordination of the Member States' economic policies and is empowered to act in the relevant areas. In particular, the Ecofin Council is the only body empowered to formulate and adopt the broad economic policy guidelines which constitute the main instrument of economic coordination.

The defining position of the Ecofin Council at the centre of the economic coordination and decision-making process affirms the unity and cohesion of the Community.

The Ministers of the States participating in the euro-area may meet informally among themselves to discuss issues connected with their shared specific responsibilities for the single currency. The Commission, and the European Central Bank (ECB) when appropriate, will be invited to take part in the meetings.

Whenever matters of common interest are concerned they will be discussed by Ministers of all Member States.

Decisions will in all cases be taken by the Ecofin Council in accordance with the procedures determined by the Treaty.

II. IMPLEMENTING THE TREATY PROVISIONS ON THE EXCHANGE-RATE POLICY, EXTERNAL POSITION AND REPRESENTATION OF THE COMMUNITY (ARTICLE 109 OF THE TREATY)

(See External representation of the EMU in this publication)

III. DIALOGUE BETWEEN THE COUNCIL AND THE ECB

11. In the light of the allocation of responsibilities laid down in the Treaty, the harmonious economic development of the Community in Stage 3 of EMU will call for continuous and fruitful dialogue between the Council and the ECB, involving the Commission and respecting all aspects of the independence of the ESCB.
12. The Council should therefore play its full part in exploiting the channels of communication provided by the Treaty. The President of the Council, using his position under Article 109b of the Treaty, should report to the Governing Council of the ECB on the Council's assessment of the economic situation of the Union and on economic policies of the Member States and could discuss with the ECB the views of the Council on exchange-rate developments and prospects. The Treaty provides in turn for the ECB President to attend Council meetings whenever the Council is discussing matters relating to the objectives and tasks of the ESCB, for instance when the broad economic policy guidelines are being developed. Importance also attaches to the annual reports which the ECB will make to the European Parliament, the Council and the Commission, as well as to the European Council.

The Economic and Financial Committee, which will bring together senior officials from the national central banks and the ECB as well as from finance ministries, will provide the framework within which the dialogue can be prepared and continued at the level of senior officials.



(1) Declaration No 3 to the Treaty on European Union affirms that for the purpose of applying the provisions set out in Title VI on economic and monetary policy of the Treaty establishing the European Community, the usual practice, according to which the Council meets in the composition of Economic and Finance Ministers, shall be continued, without prejudice in Article 109j(2) to (4) and Article 109k(2) of the Treaty.

PRESIDENCY CONCLUSIONS**LISBON EUROPEAN COUNCIL****23 AND 24 MARCH 2000**

The European Council held a special meeting on 23-24 March 2000 in Lisbon to agree a new strategic goal for the Union in order to strengthen employment, economic reform and social cohesion as part of a knowledge-based economy. At the start of proceedings, an exchange of views was conducted with the President of the European Parliament, Mrs Nicole Fontaine, on the main topics for discussion.

I. EMPLOYMENT, ECONOMIC REFORM AND SOCIAL COHESION**A STRATEGIC GOAL FOR THE NEXT DECADE***The new challenge*

1. The European Union is confronted with a quantum shift resulting from globalisation and the challenges of a new knowledge-driven economy. These changes are affecting every aspect of people's lives and require a radical transformation of the European economy. The Union must shape these changes in a manner consistent with its values and concepts of society and also with a view to the forthcoming enlargement.
2. The rapid and accelerating pace of change means it is urgent for the Union to act now to harness the full benefits of the opportunities presented. Hence the need for the Union to set a clear strategic goal and agree a challenging programme for building knowledge infrastructures, enhancing innovation and economic reform, and modernising social welfare and education systems.

The Union's strengths and weaknesses

3. The Union is experiencing its best macro-economic outlook for a generation. As a result of stability-oriented monetary policy supported by sound fiscal policies in a context of wage moderation, inflation and interest rates are low, public sector deficits have been reduced remarkably and the EU's balance of payments is healthy. The euro has been successfully introduced and is delivering the expected benefits for the European economy. The internal market is largely complete and is yielding tangible benefits for consumers and businesses alike. The forthcoming enlargement will create new opportunities for growth and employment. The Union possesses a generally well-educated workforce as well as social protection systems able to provide, beyond their intrinsic value, the stable framework required for managing the structural changes involved in moving towards a knowledge-based society. Growth and job creation have resumed.
4. These strengths should not distract our attention from a number of weaknesses. More than 15 million Europeans are still out of work. The employment rate is too low and is characterised by insufficient participation in the labour market by women and older workers. Long-term structural unemployment and marked regional unemployment imbalances remain endemic in parts of the Union. The services sector is underdeveloped, particularly in the areas of telecommunications and the Internet. There is a widening skills gap, especially in information technology where increasing numbers of jobs remain unfilled. With the current improved economic situation, the time is right to undertake both economic and social reforms as part of a positive strategy which combines competitiveness and social cohesion.

The way forward

5. The Union has today set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. Achieving this goal requires an overall strategy aimed at:
 - preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;
 - modernising the European social model, investing in people and combating social exclusion;
 - sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix.
6. This strategy is designed to enable the Union to regain the conditions for full employment, and to strengthen regional cohesion in the European Union. The European Council needs to set a goal for full employment in Europe

in an emerging new society which is more adapted to the personal choices of women and men. If the measures set out below are implemented against a sound macro-economic background, an average economic growth rate of around 3% should be a realistic prospect for the coming years.

7. Implementing this strategy will be achieved by improving the existing processes, introducing a new open method of coordination at all levels, coupled with a stronger guiding and coordinating role for the European Council to ensure more coherent strategic direction and effective monitoring of progress. A meeting of the European Council to be held every Spring will define the relevant mandates and ensure that they are followed up.

PREPARING THE TRANSITION TO A COMPETITIVE, DYNAMIC AND KNOWLEDGE-BASED ECONOMY

An information society for all

8. The shift to a digital, knowledge-based economy, prompted by new goods and services, will be a powerful engine for growth, competitiveness and jobs. In addition, it will be capable of improving citizens' quality of life and the environment. To make the most of this opportunity, the Council and the Commission are invited to draw up a comprehensive eEurope Action Plan to be presented to the European Council in June this year, using an open method of coordination based on the benchmarking of national initiatives, combined with the Commission's recent eEurope initiative as well as its communication «Strategies for jobs in the Information Society».
9. Businesses and citizens must have access to an inexpensive, world-class communications infrastructure and a wide range of services. Every citizen must be equipped with the skills needed to live and work in this new information society. Different means of access must prevent info-exclusion. The combat against illiteracy must be reinforced. Special attention must be given to disabled people. Information technologies can be used to renew urban and regional development and promote environmentally sound technologies. Content industries create added value by exploiting and networking European cultural diversity. Real efforts must be made by public administrations at all levels to exploit new technologies to make information as accessible as possible.
10. Realising Europe's full e-potential depends on creating the conditions for electronic commerce and the Internet to flourish, so that the Union can catch up with its competitors by hooking up many more businesses and homes to the Internet via fast connections. The rules for electronic commerce must be predictable and inspire business and consumer confidence. Steps must be taken to ensure that Europe maintains its lead in key technology areas such as mobile communications. The speed of technological change may require new and more flexible regulatory approaches in the future.
11. The European Council calls in particular on:
 - the Council, along with the European Parliament where appropriate, to adopt as rapidly as possible during 2000 pending legislation on the legal framework for electronic commerce, on copyright and related rights, on e-money, on the distance selling of financial services, on jurisdiction and the enforcement of judgements, and the dual-use export control regime; the Commission and the Council to consider how to promote consumer confidence in electronic commerce, in particular through alternative dispute resolution systems;
 - the Council and the European Parliament to conclude as early as possible in 2001 work on the legislative proposals announced by the Commission following its 1999 review of the telecoms regulatory framework; the Member States and, where appropriate, the Community to ensure that the frequency requirements for future mobile communications systems are met in a timely and efficient manner. Fully integrated and liberalised telecommunications markets should be completed by the end of 2001;
 - the Member States, together with the Commission, to work towards introducing greater competition in local access networks before the end of 2000 and unbundling the local loop in order to help bring about a substantial reduction in the costs of using the Internet;
 - the Member States to ensure that all schools in the Union have access to the Internet and multimedia resources by the end of 2001, and that all the teachers needed are skilled in the use of the Internet and multimedia resources by the end of 2002;
 - the Member States to ensure generalised electronic access to main basic public services by 2003;
 - the Community and the Member States, with the support of the EIB, to make available in all European countries low cost, high-speed interconnected networks for Internet access and foster the development of state-of-the-art information technology and other telecom networks as well as the content for those networks. Specific targets should be defined in the eEurope Action Plan.

Establishing a European Area of Research and Innovation

12. Given the significant role played by research and development in generating economic growth, employment and social cohesion, the Union must work towards the objectives set out in the Commission's communication «Towards a European Research Area». Research activities at national and Union level must be better integrated and coordinated to make them as efficient and innovative as possible, and to ensure that Europe offers attractive prospects to its best brains. The instruments under the Treaty and all other appropriate means, including voluntary arrangements, must be fully exploited to achieve this objective in a flexible, decentralised and non-bureaucratic manner. At the same time, innovation and ideas must be adequately rewarded within the new knowledge-based economy, particularly through patent protection.
13. The European Council asks the Council and the Commission, together with the Member States where appropriate, to take the necessary steps as part of the establishment of a European Research Area to:
 - develop appropriate mechanisms for networking national and joint research programmes on a voluntary basis around freely chosen objectives, in order to take greater advantage of the concerted resources devoted to R&D in the Member States, and ensure regular reporting to the Council on the progress achieved; to map by 2001 research and development excellence in all Member States in order to foster the dissemination of excellence;
 - improve the environment for private research investment, R&D partnerships and high technology start-ups, by using tax policies, venture capital and EIB support;
 - encourage the development of an open method of coordination for benchmarking national research and development policies and identify, by June 2000, indicators for assessing performance in different fields, in particular with regard to the development of human resources; introduce by June 2001 a European innovation scoreboard;
 - facilitate the creation by the end of 2001 of a very high-speed transeuropean network for electronic scientific communications, with EIB support, linking research institutions and universities, as well as scientific libraries, scientific centres and, progressively, schools;
 - take steps to remove obstacles to the mobility of researchers in Europe by 2002 and to attract and retain high-quality research talent in Europe;
 - ensure that a Community patent is available by the end of 2001, including the utility model, so that Community-wide patent protection in the Union is as simple and inexpensive to obtain and as comprehensive in its scope as the protection granted by key competitors.

Creating a friendly environment for starting up and developing innovative businesses, especially SMEs

14. The competitiveness and dynamism of businesses are directly dependent on a regulatory climate conducive to investment, innovation, and entrepreneurship. Further efforts are required to lower the costs of doing business and remove unnecessary red tape, both of which are particularly burdensome for SMEs. The European institutions, national governments and regional and local authorities must continue to pay particular attention to the impact and compliance costs of proposed regulations, and should pursue their dialogue with business and citizens with this aim in mind. Specific action is also needed to encourage the key interfaces in innovation networks, i.e. interfaces between companies and financial markets, R&D and training institutions, advisory services and technological markets.
15. The European Council considers that an open method of coordination should be applied in this area and consequently asks:
 - the Council and the Commission to launch, by June 2000, a benchmarking exercise on issues such as the length of time and the costs involved in setting up a company, the amount of risk capital invested, the numbers of business and scientific graduates and training opportunities. The first results of this exercise should be presented by December 2000;
 - the Commission to present shortly a communication on an entrepreneurial, innovative and open Europe together with the Multiannual Programme in favour of Enterprise and Entrepreneurship for 2001-2005 which will play an important role as catalyst for this exercise;
 - the Council and the Commission to draw up a European Charter for small companies to be endorsed in June 2000 which should commit Member States to focus in the abovementioned instruments on small companies as the main engines for job-creation in Europe, and to respond specifically to their needs;
 - the Council and the Commission to report by the end of 2000 on the ongoing review of EIB and EIF financial instruments in order to redirect funding towards support for business start-ups, high-tech firms and micro-enterprises, as well as other risk-capital initiatives proposed by the EIB.

Economic reforms for a complete and fully operational internal market

16. Rapid work is required in order to complete the internal market in certain sectors and to improve under-performance in others in order to ensure the interests of business and consumers. An effective framework for ongoing review and improvement, based on the Internal Market Strategy endorsed by the Helsinki European Council, is also essential if the full benefits of market liberalisation are to be reaped. Moreover, fair and uniformly applied competition and state aid rules are essential for ensuring that businesses can thrive and operate effectively on a level playing field in the internal market.
17. The European Council accordingly asks the Commission, the Council and the Member States, each in accordance with their respective powers:
 - to set out by the end of 2000 a strategy for the removal of barriers to services;
 - to speed up liberalisation in areas such as gas, electricity, postal services and transport. Similarly, regarding the use and management of airspace, the Council asks the Commission to put forward its proposals as soon as possible. The aim is to achieve a fully operational internal market in these areas; the European Council will assess progress achieved when it meets next Spring on the basis of a Commission report and appropriate proposals;
 - to conclude work in good time on the forthcoming proposals to update public procurement rules, in particular to make them accessible to SMEs, in order to allow the new rules to enter into force by 2002;
 - to take the necessary steps to ensure that it is possible by 2003 for Community and government procurement to take place on-line;
 - to set out by 2001 a strategy for further coordinated action to simplify the regulatory environment, including the performance of public administration, at both national and Community level. This should include identifying areas where further action is required by Member States to rationalise the transposition of Community legislation into national law;
 - to further their efforts to promote competition and reduce the general level of State aids, shifting the emphasis from supporting individual companies or sectors towards tackling horizontal objectives of Community interest, such as employment, regional development, environment and training or research.
18. Comprehensive structural improvements are essential to meet ambitious targets for growth, employment and social inclusion. Key areas have already been identified by the Council to be reinforced in the Cardiff process. The European Council accordingly invites the Council to step up work on structural performance indicators and to report by the end of 2000.
19. The European Council considers it essential that, in the framework of the internal market and of a knowledge-based economy, full account is taken of the Treaty provisions relating to services of general economic interest, and to the undertakings entrusted with operating such services. It asks the Commission to update its 1996 communication based on the Treaty.

Efficient and integrated financial markets

20. Efficient and transparent financial markets foster growth and employment by better allocation of capital and reducing its cost. They therefore play an essential role in fuelling new ideas, supporting entrepreneurial culture and promoting access to and use of new technologies. It is essential to exploit the potential of the euro to push forward the integration of EU financial markets. Furthermore, efficient risk capital markets play a major role in innovative high-growth SMEs and the creation of new and sustainable jobs.
21. To accelerate completion of the internal market for financial services, steps should be taken:
 - to set a tight timetable so that the Financial Services Action Plan is implemented by 2005, taking into account priority action areas such as: facilitating the widest possible access to investment capital on an EU-wide basis, including for SMEs, by means of a «single passport» for issuers; facilitating the successful participation of all investors in an integrated market eliminating barriers to investment in pension funds; promoting further integration and better functioning of government bond markets through greater consultation and transparency on debt issuing calendars, techniques and instruments, and improved functioning of cross-border sale and repurchase («repo») markets; enhancing the comparability of companies' financial statements; and more intensive cooperation by EU financial market regulators;
 - to ensure full implementation of the Risk Capital Action Plan by 2003;
 - to make rapid progress on the long-standing proposals on takeover bids and on the restructuring and winding-up of credit institutions and insurance companies in order to improve the functioning and stability of the European financial market;
 - to conclude, in line with the Helsinki European Council conclusions, the pending tax package.

Coordinating macro-economic policies: fiscal consolidation, quality and sustainability of public finances

22. As well as preserving macro-economic stability and stimulating growth and employment, macro-economic policies should foster the transition towards a knowledge-based economy, which implies an enhanced role for structural policies. The macro-economic dialogue under the Cologne process must create a relationship of trust between all the actors involved in order to have a proper understanding of each other's positions and constraints. The opportunity provided by growth must be used to pursue fiscal consolidation more actively and to improve the quality and sustainability of public finances.
23. The European Council requests the Council and the Commission, using the existing procedures, to present a report by Spring 2001 assessing the contribution of public finances to growth and employment, and assessing, on the basis of comparable data and indicators, whether adequate concrete measures are being taken in order to:
- alleviate the tax pressure on labour and especially on the relatively unskilled and low-paid, improve the employment and training incentive effects of tax and benefit systems;
 - redirect public expenditure towards increasing the relative importance of capital accumulation – both physical and human – and support research and development, innovation and information technologies;
 - ensure the long-term sustainability of public finances, examining the different dimensions involved, including the impact of ageing populations, in the light of the report to be prepared by the High Level Working Party on Social Protection.

MODERNISING THE EUROPEAN SOCIAL MODEL BY INVESTING IN PEOPLE AND BUILDING AN ACTIVE WELFARE STATE

24. People are Europe's main asset and should be the focal point of the Union's policies. Investing in people and developing an active and dynamic welfare state will be crucial both to Europe's place in the knowledge economy and for ensuring that the emergence of this new economy does not compound the existing social problems of unemployment, social exclusion and poverty.

Education and training for living and working in the knowledge society

25. Europe's education and training systems need to adapt both to the demands of the knowledge society and to the need for an improved level and quality of employment. They will have to offer learning and training opportunities tailored to target groups at different stages of their lives: young people, unemployed adults and those in employment who are at risk of seeing their skills overtaken by rapid change. This new approach should have three main components: the development of local learning centres, the promotion of new basic skills, in particular in the information technologies, and increased transparency of qualifications.
26. The European Council accordingly calls upon the Member States, in line with their constitutional rules, the Council and the Commission to take the necessary steps within their areas of competence to meet the following targets:
- a substantial annual increase in per capita investment in human resources;
 - the number of 18 to 24 year olds with only lower-secondary level education who are not in further education and training should be halved by 2010;
 - schools and training centres, all linked to the Internet, should be developed into multi-purpose local learning centres accessible to all, using the most appropriate methods to address a wide range of target groups; learning partnerships should be established between schools, training centres, firms and research facilities for their mutual benefit;
 - a European framework should define the new basic skills to be provided through lifelong learning: IT skills, foreign languages, technological culture, entrepreneurship and social skills; a European diploma for basic IT skills, with decentralised certification procedures, should be established in order to promote digital literacy throughout the Union;
 - define, by the end of 2000, the means for fostering the mobility of students, teachers and training and research staff both through making the best use of existing Community programmes (Socrates, Leonardo, Youth), by removing obstacles and through greater transparency in the recognition of qualifications and periods of study and training; to take steps to remove obstacles to teachers' mobility by 2002 and to attract high-quality teachers.
 - a common European format should be developed for curricula vitae, to be used on a voluntary basis, in order to facilitate mobility by helping the assessment of knowledge acquired, both by education and training establishments and by employers.
27. The European Council asks the Council (Education) to undertake a general reflection on the concrete future objectives of education systems, focusing on common concerns and priorities while respecting national diversity, with a view to contributing to the Luxembourg and Cardiff processes and presenting a broader report to the European Council in the Spring of 2001.

More and better jobs for Europe: developing an active employment policy

28. the Luxembourg process, based on drawing up employment guidelines at Community level and translating them into National Employment Action Plans, has enabled Europe to substantially reduce unemployment. The mid-term review should give a new impetus to this process by enriching the guidelines and giving them more concrete targets by establishing closer links with other relevant policy areas and by defining more effective procedures for involving the different actors. The social partners need to be more closely involved in drawing up, implementing and following up the appropriate guidelines.
29. In this context, the Council and the Commission are invited to address the following four key areas:
 - improving employability and reducing skills gaps, in particular by providing employment services with a Europe-wide data base on jobs and learning opportunities; promoting special programmes to enable unemployed people to fill skill gaps;
 - giving higher priority to lifelong learning as a basic component of the European social model, including by encouraging agreements between the social partners on innovation and lifelong learning; by exploiting the complementarity between lifelong learning and adaptability through flexible management of working time and job rotation; and by introducing a European award for particularly progressive firms. Progress towards these goals should be benchmarked;
 - increasing employment in services, including personal services, where there are major shortages; private, public or third sector initiatives may be involved, with appropriate solutions for the least-favoured categories;
 - furthering all aspects of equal opportunities, including reducing occupational segregation, and making it easier to reconcile working life and family life, in particular by setting a new benchmark for improved childcare provision.
30. The European Council considers that the overall aim of these measures should be, on the basis of the available statistics, to raise the employment rate from an average of 61% today to as close as possible to 70% by 2010 and to increase the number of women in employment from an average of 51% today to more than 60% by 2010. Recognising their different starting points, Member States should consider setting national targets for an increased employment rate. This, by enlarging the labour force, will reinforce the sustainability of social protection systems.

Modernising social protection

31. The European social model, with its developed systems of social protection, must underpin the transformation to the knowledge economy. However, these systems need to be adapted as part of an active welfare state to ensure that work pays, to secure their long-term sustainability in the face of an ageing population, to promote social inclusion and gender equality, and to provide quality health services. Conscious that the challenge can be better addressed as part of a cooperative effort, the European Council invites the Council to:
 - strengthen cooperation between Member States by exchanging experiences and best practice on the basis of improved information networks which are the basic tools in this field;
 - mandate the High Level Working Party on Social Protection, taking into consideration the work being done by the Economic Policy Committee, to support this cooperation and, as its first priority, to prepare, on the basis of a Commission communication, a study on the future evolution of social protection from a long-term point of view, giving particular attention to the sustainability of pensions systems in different time frameworks up to 2020 and beyond, where necessary. A progress report should be available by December 2000.

Promoting social inclusion

32. The number of people living below the poverty line and in social exclusion in the Union is unacceptable. Steps must be taken to make a decisive impact on the eradication of poverty by setting adequate targets to be agreed by the Council by the end of the year. The High Level Working Party on Social Protection will be involved in this work. The new knowledge-based society offers tremendous potential for reducing social exclusion, both by creating the economic conditions for greater prosperity through higher levels of growth and employment, and by opening up new ways of participating in society. At the same time, it brings a risk of an ever-widening gap between those who have access to the new knowledge, and those who are excluded. To avoid this risk and maximise this new potential, efforts must be made to improve skills, promote wider access to knowledge and opportunity and fight unemployment: the best safeguard against social exclusion is a job. Policies for combating social exclusion should be based on an open method of coordination combining national action plans and a Commission initiative for cooperation in this field to be presented by June 2000.

33. In particular, the European Council invites the Council and the Commission to:
- promote a better understanding of social exclusion through continued dialogue and exchanges of information and best practice, on the basis of commonly agreed indicators; the High Level Working Party on Social Protection will be involved in establishing these indicators;
 - mainstream the promotion of inclusion in Member States' employment, education and training, health and housing policies, this being complemented at Community level by action under the Structural Funds within the present budgetary framework;
 - develop priority actions addressed to specific target groups (for example minority groups, children, the elderly and the disabled), with Member States choosing amongst those actions according to their particular situations and reporting subsequently on their implementation.
34. Taking account of the present conclusions, the Council will pursue its reflection on the future direction of social policy on the basis of a Commission communication, with a view to reaching agreement on a European Social Agenda at the Nice European Council in December, including the initiatives of the different partners involved.

PUTTING DECISIONS INTO PRACTICE: A MORE COHERENT AND SYSTEMATIC APPROACH

Improving the existing processes

35. No new process is needed. The existing Broad Economic Policy Guidelines and the Luxembourg, Cardiff and Cologne processes offer the necessary instruments, provided they are simplified and better coordinated, in particular through other Council formations contributing to the preparation by the ECOFIN Council of the Broad Economic Policy Guidelines. Moreover, the Broad Economic Policy Guidelines should focus increasingly on the medium- and long-term implications of structural policies and on reforms aimed at promoting economic growth potential, employment and social cohesion, as well as on the transition towards a knowledge-based economy. The Cardiff and Luxembourg processes will make it possible to deal with their respective subject matters in greater detail.
36. These improvements will be underpinned by the European Council taking on a pre-eminent guiding and coordinating role to ensure overall coherence and the effective monitoring of progress towards the new strategic goal. The European Council will accordingly hold a meeting every Spring devoted to economic and social questions. Work should consequently be organised both upstream and downstream from that meeting. The European Council invites the Commission to draw up an annual synthesis report on progress on the basis of structural indicators to be agreed relating to employment, innovation, economic reform and social cohesion.

Implementing a new open method of coordination

37. Implementation of the strategic goal will be facilitated by applying a new open method of coordination as the means of spreading best practice and achieving greater convergence towards the main EU goals. This method, which is designed to help Member States to progressively develop their own policies, involves:
- fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
 - establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice;
 - translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
 - periodic monitoring, evaluation and peer review organised as mutual learning processes.
38. A fully decentralised approach will be applied in line with the principle of subsidiarity in which the Union, the Member States, the regional and local levels, as well as the social partners and civil society, will be actively involved, using variable forms of partnership. A method of benchmarking best practices on managing change will be devised by the European Commission networking with different providers and users, namely the social partners, companies and NGOs.
39. The European Council makes a special appeal to companies' corporate sense of social responsibility regarding best practices on lifelong learning, work organisation, equal opportunities, social inclusion and sustainable development.
40. A High Level Forum, bringing together the Union institutions and bodies and the social partners, will be held in June to take stock of the Luxembourg, Cardiff and Cologne processes and of the contributions of the various actors to enhancing the content of the European Employment Pact.

Mobilising the necessary means

41. Achieving the new strategic goal will rely primarily on the private sector, as well as on public-private partnerships. It will depend on mobilising the resources available on the markets, as well as on efforts by Member States. The Union's role is to act as a catalyst in this process, by establishing an effective framework for mobilising all available resources for the transition to the knowledge-based economy and by adding its own contribution to this effort under existing Community policies while respecting Agenda 2000. Furthermore, the European Council welcomes the contribution that the EIB stands ready to make in the areas of human capital formation, SMEs and entrepreneurship, R&D, networks in the information technology and telecom sectors, and innovation. With the «Innovation 2000 Initiative», the EIB should go ahead with its plans to make another billion euro available for venture capital operations for SMEs and its dedicated lending programme of 12 to 15 billion euro over the next 3 years for the priority areas.



EUROPEAN COUNCIL BRUSSELS**22 AND 23 MARCH 2005****PRESIDENCY CONCLUSIONS****II. RELAUNCHING THE LISBON STRATEGY: A PARTNERSHIP FOR GROWTH AND EMPLOYMENT****A. A STRATEGY FOR TODAY'S WORLD**

4. Five years after the launch of the Lisbon Strategy, the results are mixed. Alongside undeniable progress, there are shortcomings and obvious delays. Given the challenges to be met, there is a high price to pay for delayed or incomplete reforms, as is borne out by the gulf between Europe's growth potential and that of its economic partners. Urgent action is therefore called for.
5. To that end, it is essential to relaunch the Lisbon Strategy without delay and re focus priorities on growth and employment. Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital.
6. To achieve these objectives, the Union must mobilise to a greater degree all appropriate national and Community resources – including the cohesion policy – in the Strategy's three dimensions (economic, social and environmental) so as better to tap into their synergies in a general context of sustainable development. Alongside the governments, all the other players concerned – parliaments, regional and local bodies, social partners and civil society – should be stakeholders in the Strategy and take an active part in attaining its objectives.
7. At the same time, the financial perspective for 2007-2013 will have to provide the Union with adequate funds to carry through the Union's policies in general, including the policies that contribute to the achievement of the Lisbon priorities. Sound macroeconomic conditions are essential to underpin the efforts in favour of growth and employment. The amendments to the Stability and Growth Pact will contribute to this and at the same time enable Member States to play a full role in relaunching long-term growth.
8. The European Council welcomes the Commission communication *Working together for growth and jobs – A new start for the Lisbon Strategy* submitted for the mid term review. It welcomes the important contributions in this context by the European Parliament, the Committee of the Regions, the Economic and Social Committee and the social partners. In the light of these proposals, the European Council asks the Commission, Council and Member States to relaunch the Strategy without delay on the basis of the following elements centred on growth and employment.
9. The European Council welcomes the commitment expressed by the social partners at the Tripartite Summit on 22 March. It calls on the social partners to submit a common work programme for growth and employment in the context of their respective areas of competence.

In addition, it urges the European Economic and Social Committee to set up with Member States' economic and social committees and other partner organisations an interactive network of civil society initiatives aimed at promoting the implementation of the strategy.

B. VITAL STRANDS OF THE RELAUNCH*Knowledge and innovation – engines of sustainable growth*

10. The European area of knowledge should enable undertakings to build new competitive factors, consumers to benefit from new goods and services and workers to acquire new skills. With that in mind, it is important to develop research, education and all forms of innovation insofar as they make it possible to turn knowledge into an added value and create more and better jobs. Moreover, in the years to come, a genuine dialogue must be encouraged among those directly involved in the knowledge based society in the public and private sectors.
11. In the field of R&D, the overall objective of 3% investment is maintained, with an adequate split between private and public investment. Specific intermediate levels need to be set out at national level. This objective will be obtained inter alia by tax incentives for private investment, a better leverage effect of public investment and by a modernised management of research institutions and universities.
12. The 7th Framework Programme for Research and Development will lend fresh impetus to a European research area for the benefit of all Member States by enhancing European cooperation, mobilising private investment in areas crucial to competitiveness and helping to fill the technology gap. The programme should act as a lever on national research

budgets. The attraction which Europe holds for researchers should be enhanced by an effective improvement in the conditions under which they move and practise their profession. The creation of a European Research Council to support cutting edge research and basic research would be significant in this context. Work on the European space programme will make it possible to exploit the capacity for innovation and the considerable potential in this sector.

13. Member States should develop their innovation policies in the light of their specific characteristics and inter alia with the following objectives: establishing support mechanisms for innovative SMEs, including high tech start ups, promoting joint research between undertakings and universities, improving access to risk capital, refocusing public procurement on innovative products and services, developing partnerships for innovation and innovation centres at regional and local level.
14. The new Community Competitiveness and Innovation Programme should, for its part, lend great impetus to innovation throughout the European Union by establishing a new mechanism for financing innovative SMEs with a high growth potential, by streamlining and strengthening the technical support network for innovation in undertakings, and by supporting the development of regional centres and European networks for innovation.
15. The European Council notes the Commission's intention to submit a proposal on the establishment of a European Technology Institute.
16. Europe needs a solid industrial fabric throughout its territory. The necessary pursuit of an active industrial policy means strengthening the competitive advantages of the industrial base while ensuring the complementarity of the action at national, trans national and European level. This objective will be pursued inter alia by means of technological initiatives based on public private partnerships and the organisation of technological platforms aimed at setting long term research agendas. The Commission will report back on its preparatory work on the subject by June.
17. The European Investment Bank will have to extend its Structured Finance Facility to R&D projects and, together with the Commission, explore new ways of using Community funds as levers for EIB loans.
18. It is essential to build a fully inclusive information society, based on widespread use of information and communication technologies (ICTs) in public services, SMEs and households. To that end, the i2010 initiative will focus on ICT research and innovation, content industry development, the security of networks and information, as well as convergence and interoperability in order to establish a seamless information area.
19. The European Council reiterates the important contribution of environment policy to growth and employment, and also to the quality of life, in particular through the development of eco innovation and eco technology as well as the sustainable management of natural resources, which lead to the creation of new outlets and new jobs. It emphasises the importance of energy efficiency as a factor in competitiveness and sustainable development and welcomes the Commission's intention of producing a European initiative on energy efficiency and a Green Paper in 2005. Eco innovation and environmental technology should be strongly encouraged, particularly in energy and transport, with particular attention paid to SMEs and to promoting eco technology in public procurement. In addition to its growth in the internal market, this sector has considerable export potential. The European Council invites the Commission and the Member States to implement the action plan for eco technology as a matter of urgency, including by specific actions on a time scale agreed with economic operators. The European Council reaffirms the importance of the objective of halting the loss of biological diversity between now and 2010, in particular by incorporating this requirement into other policies, given the importance of biodiversity for certain economic sectors.

An attractive area in which to invest and work

20. In order to encourage investment and provide an attractive setting for business and work, the European Union must complete its internal market and make its regulatory environment more business friendly, while business must in turn develop its sense of social responsibility. There is also a need for efficient infrastructure aimed inter alia at the problem of missing links, high standard, affordable general interest services and a healthy environment based on sustainable consumption and production and a high quality of life.
21. The European Council calls on Member States to spare no effort in honouring the commitments given in Barcelona in March 2002 as regards – among other things – the transposition of Directives.
22. For the completion of the internal market, the European Council has identified the following priority areas:
In order to promote growth and employment and to strengthen competitiveness, the internal market of services has to be fully operational while preserving the European social model. In the light of this ongoing debate which shows that the directive as it is currently drafted does not fully meet these requirements, the European Council requests all efforts to be undertaken within the legislative process in order to secure a broad consensus that meets all these objectives.

The European Council notes that effective services of general economic interest have an important role to play in a competitive and dynamic economy.

Any agreement on REACH must reconcile environmental and health protection concerns with the need to promote the competitiveness of European industry, while paying particular attention to SMEs and their ability to innovate.

23. In addition to an active competition policy, the European Council calls on Member States to continue working towards a reduction in the general level of State aid, while making allowance for any market failures. This movement must be accompanied by a redeployment of aid in favour of support for certain horizontal objectives such as research and innovation and the optimisation of human capital. The reform of regional aid should also foster a high level of investment and ensure a reduction in disparities in accordance with the Lisbon objectives.
24. The European Council reiterates the importance it attaches to improving the regulatory environment and urges that work press ahead – as envisaged by, among other things, the initiative of the six Presidencies and the Operational Programme of the Council for 2005 – in preparation for an overall assessment at one of its forthcoming meetings. It notes the communication submitted by the Commission and stresses the need for firm action along these lines at both European and national level. The European Council requests the Commission and the Council to consider a common methodology for measuring administrative burdens with the aim of reaching an agreement by the end of 2005. That agreement should take advantage of the results of the Commission's pilot projects which are due in the course of 2005. It calls on the Commission to develop its impact analysis system in accordance with its communication, to work together with the Council to ensure faster progress in the context of simplification and, lastly, to take initiatives to encourage the participation of all players directly concerned by this process. It stresses that initiatives taken in the context of improving the regulatory environment must not themselves turn into administrative burdens.
25. Small and medium sized enterprises play a key role for growth and employment and participate in developing the industrial fabric. Member States should therefore continue with their policies to cut red tape, introduce one stop contact points and provide access to credit, micro loans, other forms of financing and accompanying services. Access by SMEs to Community programmes is also of major importance. The Commission and Member States are also called on to make best use of support networks for SMEs; to this end, they should swiftly identify, with national and regional social partners and, as far as possible, with chambers of commerce, the rationalisation and cooperation measures required.
26. The European Council would urge the European Investment Fund to diversify its activities, in particular towards the financing of innovative SMEs through individual investor (business angel) and technology transfer networks. Flexible funding suited to such activities should be found, together with the Commission. This action should also be supported by the new Community competitiveness and innovation programme.
27. The single market must in addition be based on a physical internal market free of interoperability and logistical constraints. Deployment of high speed networks in poorly served regions is a prerequisite for the development of a knowledge based economy. In general, infrastructure investment will boost growth and bring greater economic, social and environmental convergence. Under the growth initiative and quick start programmes, the European Council emphasises the importance of carrying out the priority projects in the field of transport and energy networks and calls on the Union and the Member States to keep up their investment efforts and to encourage public private partnerships.
28. The open global economy offers new opportunities for stimulating growth, competitiveness and redeployment in Europe's economy. The European Council recognises the importance of reaching an ambitious, balanced agreement in the Doha negotiations and the value of developing bilateral and regional free trade agreements; pursuit of that objective must be accompanied by a sustained effort to ensure international convergence of standards, including as regards respect for intellectual property rights.

Growth and employment making for social cohesion

29. The European Council welcomes the Commission communication on the social agenda, which will help to achieve the Lisbon Strategy objectives by reinforcing the European social model based on the quest for full employment and greater social cohesion.
30. Raising employment rates and extending working life, coupled with reform of social protection systems, provide the best way of maintaining the present level of social protection.

The Commission will reflect in the context of its ongoing work on the relaunch of Lisbon on issues arising about how to ensure sustainable funding of our social model and will report to the European Council in the autumn.
31. The objectives of full employment, job quality, labour productivity and social cohesion must be reflected in clear and measurable priorities: making work a real option for everyone, attracting more people into the labour market, improving adaptability, investing in human capital, modernising social protection, promoting equal opportunities inter alia between men and women, and fostering social inclusion.

32. It is essential to attract more people into the labour market. This aim will be achieved by following the course of an active employment policy, of making work pay and of measures to reconcile working life and family life, including the improvement of child care facilities; priority must also be given to equal opportunities, active ageing strategies, encouraging social integration and converting undeclared work into lawful employment. New sources of jobs must also be developed in services to individuals and businesses, in the social economy, in town and country planning and environmental protection and in new industrial occupations, partly through promotion of local growth and employment partnerships.
33. New forms of work organisation and greater diversity of contractual arrangements for workers and businesses, better combining flexibility with security, will contribute to adaptability. Emphasis should also be placed on better anticipation and management of economic change.
34. Human capital is Europe's most important asset. Member States should step up their efforts to raise the general standard of education and reduce the number of early school leavers, in particular by continuing with the Education and Training 2010 work programme. Lifelong learning is a sine qua non if the Lisbon objectives are to be achieved, taking into account the desirability of high quality at all levels. The European Council calls on Member States to make lifelong learning an opportunity open to all in schools, businesses and households. Particular attention should be paid to the availability of lifelong learning facilities for low skilled workers and for the staff of small and medium sized enterprises. The European Council therefore calls for the early adoption of the programme which the Commission will shortly be submitting in this connection. Availability should also be facilitated by means of working time organisation, family support services, vocational guidance and new forms of cost sharing.
35. The European education area should be developed by encouraging geographical and occupational mobility. The European Council would point to the importance of disseminating the Europass and of adopting the Directive on recognition of professional qualifications in 2005 and a European qualifications framework in 2006.
36. Social inclusion policy should be pursued by the Union and by Member States, with its multifaceted approach, focusing on target groups such as children in poverty.
37. A return to sustained and sustainable growth requires greater demographic dynamism, improved social and vocational integration and fuller utilisation of the human potential embodied by European youth. To this end, the European Council has adopted the European Youth Pact set out in Annex I as one of the instruments contributing to the achievement of the Lisbon objectives.

C. IMPROVING GOVERNANCE

38. It is important that EU and Member States' action should make a bigger and more practical contribution to growth and employment. Accordingly, a simplified arrangement will be introduced. Its aim is threefold: to facilitate the identification of priorities while maintaining the overall balance of the strategy and the synergy between its various components; to improve the implementation of those priorities on the ground by increasing the Member States' involvement; and to streamline the monitoring procedure so as to give a clearer picture of national implementation of the strategy.
39. This new approach, based on a three year cycle which starts this year and will have to be renewed in 2008, will comprise the following steps:
 - (a) The starting point of the cycle will be the Commission's synoptic document («strategic report»). This report will be examined in the relevant Council configurations and discussed at the spring European Council meeting, which will establish political guidelines for the economic, social and environmental strands of the strategy.
 - (b) In accordance with the procedures laid down in Articles 99 and 128 of the Treaty and on the basis of the European Council conclusions, the Council will adopt a set of «integrated guidelines» consisting of two elements: broad economic policy guidelines (BEPGs) and employment guidelines (EGs). As a general instrument for coordinating economic policies, the BEPGs should continue to embrace the whole range of macroeconomic and microeconomic policies, as well as employment policy insofar as this interacts with those policies; the BEPGs will ensure general economic consistency between the three strands of the strategy.
 - (c) On the basis of the «integrated guidelines»:
 - Member States will draw up, on their own responsibility, «national reform programmes» geared to their own needs and specific situation. Consultations on these programmes will be held with all stakeholders at regional and national level, including parliamentary bodies in accordance with each Member State's specific procedures. The programmes will make allowance for national policy cycles and may be revised in the event of changes in the situation. Member States will enhance their internal coordination, where appropriate by appointing a Lisbon national coordinator;

- on its side, the Commission will present, as a counterpart to the national programmes, a «Community Lisbon programme» covering all action to be undertaken at Community level in the interests of growth and employment, taking account of the need for policy convergence.
- (d) The reports on follow up to the Lisbon Strategy sent to the Commission by Member States each year – including the application of the open method of coordination – will now be grouped in a single document clearly distinguishing between the different areas of action and setting out all measures taken during the previous twelve months to implement the national programmes; the first such document will be submitted in the autumn of 2006.
- (e) The Commission will report on the implementation of the three strands of the strategy each year. On the basis of the Commission's assessment, the European Council will review progress every spring and decide on any necessary adjustments to the integrated guidelines.
- (f) For the BEPGs, the existing multilateral surveillance arrangements will apply.
40. At the end of the third year of each cycle, the integrated guidelines, the national reform programmes and the Community Lisbon programme will be renewed in accordance with the procedure described above, taking as the starting-point a strategic report by the Commission, based on an overall assessment of progress during the previous three years.
41. In 2005 the cycle will begin in April, with the Commission submitting integrated guidelines drawn up on the basis of these conclusions. Member States are asked to draw up their national reform programmes in autumn 2005.



EUROPEAN COUNCIL**17 JUNE 2010****CONCLUSIONS****I. A NEW EUROPEAN STRATEGY FOR JOBS AND GROWTH***Finalising and implementing the Europe 2020 Strategy*

1. The European Council has today finalised the European Union's new strategy for jobs and smart, sustainable and inclusive growth. The strategy will help Europe recover from the crisis and come out stronger, both internally and at the international level, by boosting competitiveness, productivity, growth potential, social cohesion and economic convergence. The new strategy responds to the challenge of reorienting policies away from crisis management towards the introduction of medium- to longer-term reforms that promote growth and employment and ensure the sustainability of public finances, inter alia through the reform of pension systems.
2. Member States are determined to ensure fiscal sustainability and achieve budgetary targets without delay. They will continue to adopt a differentiated speed in fiscal consolidation taking both fiscal and non-fiscal risks into account. Several Member States have recently strengthened and frontloaded budgetary consolidation. All Member States are ready, if necessary, to take additional measures to accelerate fiscal consolidation. Priority should be given to growth-friendly budgetary consolidation strategies mainly focused on expenditure restraint. Increasing the growth potential should be seen as paramount to ease fiscal adjustment in the long run.
3. The European Council confirms the five EU headline targets (Annex I) which will constitute shared objectives guiding the action of Member States and the Union as regards promoting employment; improving the conditions for innovation, research and development; meeting our climate change and energy objectives; improving education levels and promoting social inclusion in particular through the reduction of poverty. It agrees on the quantification of the education and social inclusion/poverty indicators, as agreed by the Council. It gives its political endorsement to the Integrated Guidelines for economic and employment policies, which will be formally adopted following the European Parliament's opinion on the latter. The guidelines will continue to be the basis for any country-specific recommendations that the Council may address to Member States. These recommendations shall be fully in line with relevant Treaty provisions and EU rules and shall not alter Member States' competences, for example in areas such as education.
4. Member States must now act to implement these policy priorities at their level. They should, in close dialogue with the Commission, rapidly finalise their national targets, taking account of their relative starting positions and national circumstances, and according to their national decision-making procedures. They should also identify the main bottlenecks to growth and indicate, in their National Reform Programmes, how they intend to tackle them. Progress towards the headline targets will be regularly reviewed.
5. All common policies, including the common agricultural policy and cohesion policy, will need to support the strategy. A sustainable, productive and competitive agricultural sector will make an important contribution to the new strategy, considering the growth and employment potential of rural areas while ensuring fair competition. The European Council stresses the importance of promoting economic, social and territorial cohesion as well as developing infrastructure in order to contribute to the success of the new strategy. Full use should be made of the strategy's external dimension, notably via the trade strategy that the Commission will present by the end of the year. Efforts should seek to address the main bottlenecks constraining growth at EU level, including those related to the working of the internal market and infrastructure, as well as the need for a common energy policy and a new ambitious industrial policy.
6. In particular, Europe's Single Market needs be taken to a new stage, through a comprehensive set of initiatives. The European Council welcomes the report presented by Mr Mario Monti on a new strategy for the Single Market and the Commission's intention to follow it up by presenting concrete proposals. The European Council will revert to this matter in December 2010.
7. Further to the presentation by the Commission of the first flagship initiative on a 'Digital Agenda for Europe', the European Council endorses the establishment of an ambitious action agenda based on concrete proposals and calls upon all institutions to engage in its full implementation, including the creation of a fully functioning digital single market by 2015. The Commission is invited to report on progress achieved by the end of 2011.
8. The European Council looks forward to the presentation of the other flagship initiatives before the end of the year.

Enhancing economic governance

9. The crisis has revealed clear weaknesses in our economic governance, in particular as regards budgetary and broader macroeconomic surveillance. Reinforcing economic policy coordination therefore constitutes a crucial and urgent priority.
10. The European Council welcomes the progress report of the President of the Task Force on economic governance and agrees on a first set of orientations.
11. The present rules on budgetary discipline must be fully implemented. As regards their strengthening, the European Council agrees on the following orientations :
 - a) strengthening both the preventive and corrective arms of the Stability and Growth Pact, with sanctions attached to the consolidation path towards the medium term objective; these will be reviewed so as to have a coherent and progressive system, ensuring a level playing field across Member States. Due account will be taken of the particular situation of Member States which are members of the euro area and Member States' respective obligations under the Treaties will be fully respected;
 - b) Giving, in budgetary surveillance, a much more prominent role to levels and evolutions of debt and overall sustainability, as originally foreseen in the Stability and Growth Pact;
 - c) from 2011 onwards, in the context of a «European semester», presenting to the Commission in the spring Stability and Convergence Programmes for the upcoming years, taking account of national budgetary procedures;
 - d) ensuring that all Member States have national budgetary rules and medium term budgetary frameworks in line with the Stability and Growth Pact; their effects should be assessed by the Commission and the Council;
 - e) ensuring the quality of statistical data, essential for a sound budgetary policy and budgetary surveillance; statistical offices should be fully independent for data provision.
12. As regards macro-economic surveillance, it agrees on the following orientations:
 - a) developing a scoreboard to better assess competitiveness developments and imbalances and allow for an early detection of unsustainable or dangerous trends;
 - b) developing an effective surveillance framework, reflecting the particular situation of euro area Member States.
13. The European Council invites the Task Force and the Commission to rapidly develop further and make operational these orientations. It looks forward to the final report of the Task Force, covering the full scope of its mandate, for its meeting in October 2010.

Regulating financial services

14. The necessary reforms to restore the soundness and stability of the European financial system must be completed urgently. The resilience and transparency of the banking sector must be ensured. Progress in the next few months is essential. The European Council agrees that the results of ongoing stress tests by banking supervisors will be disclosed at the latest in the second half of July. The Commission's communication on «Regulating Financial Services for sustainable growth» of 2 June 2010 sets out a comprehensive list of initiatives to be undertaken and completed before the end of 2011. The EU must demonstrate its determination to bring about a safer, sounder, more transparent and more responsible financial system.
15. In particular, the European Council:
 - a) calls on the Council and the European Parliament to rapidly adopt the legislative proposals on financial supervision to ensure that the European Systemic Risk Board and the three European Supervisory Authorities can begin working from the beginning of 2011;
 - b) calls for agreement on the legislative proposal on alternative investment fund managers before the summer and for the swift examination of the Commission's proposal on the improvement of the EU's supervision of credit rating agencies;
 - c) looks forward to proposals announced by the Commission on derivative markets and in particular appropriate measures on short selling (including «naked» short selling) and credit default swaps.
16. The European Council agrees that Member States should introduce systems of levies and taxes on financial institutions to ensure fair burden-sharing and to set incentives to contain systemic risk⁽¹⁾. Such levies or taxes should be part of a credible resolution framework. Further work is urgently required on their main features and issues of level playing field and the cumulative impacts of various regulatory measures should be carefully assessed. The European Council invites the Council and the Commission to take this work forward and report back in October 2010.

(1) The Czech Republic reserves its right not to introduce these measures.

ANNEX I**NEW EUROPEAN STRATEGY FOR JOBS AND GROWTH****EU HEADLINE TARGETS**

- aiming to raise to 75 % the employment rate for women and men aged 20-64, including through the greater participation of young people, older workers and low-skilled workers and the better integration of legal migrants;
- improving the conditions for research and development, in particular with the aim of raising combined public and private investment levels in this sector to 3 % of GDP; the Commission will work out an indicator reflecting R&D and innovation intensity;
- reducing greenhouse gas emissions by 20 % compared to 1990 levels; increasing the share of renewables in final energy consumption to 20 %; and moving towards a 20 % increase in energy efficiency;
- the EU is committed to taking a decision to move to a 30 % reduction by 2020 compared to 1990 levels as its conditional offer with a view to a global and comprehensive agreement for the period beyond 2012, provided that other developed countries commit themselves to comparable emission reductions and that developing countries contribute adequately according to their responsibilities and respective capabilities;
- improving education levels, in particular by aiming to reduce school drop-out rates to less than 10 % and by increasing the share of 30-34 year-olds having completed tertiary or equivalent education to at least 40 %⁽¹⁾;
- promoting social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and exclusion⁽²⁾.



(1) The European Council emphasises the competence of Member States to define and implement quantitative targets in the field of education.

(2) The population is defined as the number of persons who are at risk-of-poverty and exclusion according to three indicators (at-risk-of poverty; material deprivation; jobless household), leaving Member States free to set their national targets on the basis of the most appropriate indicators, taking into account their national circumstances and priorities.

COUNCIL MEETING ECONOMIC AND FINANCIAL AFFAIRS**BRUSSELS, 7 SEPTEMBER 2010****ECONOMIC POLICY COORDINATION - EUROPEAN SEMESTER**

The Council took note of a modified code of conduct on implementation of the EU's stability and growth pact, enabling a «European semester» to be introduced as from next year as part of a reform of EU provisions on the coordination of the member states' economic policies.

Implementation of this initiative will improve economic policy coordination and help strengthen budgetary discipline, macroeconomic stability and growth in line with the EU's 2020 strategy for jobs and growth. The changes to the code of conduct were prepared by the Economic and Financial Committee, as requested by the Council at its meeting on 13 July.

The so-called European semester is one of the first initiatives to emerge from a task force on economic governance set up at the request of the European Council in March and chaired by the President of the European Council, Herman Van Rompuy. The aim is to boost coordination of the member states' economic policies on the basis of expected results.

The new six-month cycle will start each year in March when, on the basis of a report from the Commission, the European Council will identify the main economic challenges and give strategic advice on policies. Taking this advice into account, in April the member states will review their medium-term budgetary strategies and at the same time draw up national reform programmes setting out the action they will undertake in areas such as employment and social inclusion. In June and July, the European Council and the Council will provide policy advice before the member states finalise their budgets for the following year.

Under the revised code of conduct, the member states must ensure that the necessary national procedures are in place to apply these provisions as from 2011. Furthermore, with the aim of making the requirements legally binding, the Commission announced its intention to present a proposal for modification of regulation 1466/97⁽¹⁾.



(1) Regulation 1466/97 on the surveillance of budgetary positions and the surveillance and coordination of economic policies.

3.2. Multilateral Surveillance Procedures and the Stability and Growth Pact (SGP)

RESOLUTION OF THE EUROPEAN COUNCIL

ON THE STABILITY AND GROWTH PACT

AMSTERDAM, 17 JUNE 1997

(97/C 236/01)

- I. Meeting in Madrid in December 1995, the European Council confirmed the crucial importance of securing budgetary discipline in stage three of Economic and Monetary Union (EMU). In Florence, six months later, the European Council reiterated this view and in Dublin, in December 1996, it reached an agreement on the main elements of the Stability and Growth Pact. In stage three of EMU, Member States shall avoid excessive general government deficits: this is a clear Treaty obligation⁽¹⁾. The European Council underlines the importance of safeguarding sound government finances as a means to strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation. It is also necessary to ensure that national budgetary policies support stability oriented monetary policies. Adherence to the objective of sound budgetary positions close to balance or in surplus will allow all Member States to deal with normal cyclical fluctuations while keeping the government deficit within the reference value of 3 % of GDP.
- II. Meeting in Dublin in December 1996, the European Council requested the preparation of a Stability and Growth Pact to be achieved in accordance with the principles and procedures of the Treaty. This Stability and Growth Pact in no way changes the requirements for participation in stage three of EMU, either in the first group or at a later date. Member States remain responsible for their national budgetary policies, subject to the provisions of the Treaty; they will take the necessary measures in order to meet their responsibilities in accordance with those provisions.
- III. The Stability and Growth Pact, which provides both for prevention and deterrence, consists of this Resolution and two Council Regulations, one on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies and another on speeding up and clarifying the implementation of the excessive deficit procedure.
- IV. The European Council solemnly invites all parties, namely the Member States, the Council of the European Union and the Commission of the European Communities, to implement the Treaty and the Stability and Growth Pact in a strict and timely manner. This Resolution provides firm political guidance to the parties who will implement the Stability and Growth Pact. To this end, the European Council has agreed upon the following guidelines:

THE MEMBER STATES

1. commit themselves to respect the medium-term budgetary objective of positions close to balance or in surplus set out in their stability or convergence programmes and to take the corrective budgetary 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;
2. are invited to make public, on their own initiative, the Council recommendations made to them in accordance with Article 103 (4);
3. commit themselves to take the corrective budgetary action they deem necessary to meet the objectives of their stability or convergence programmes once they receive an early warning in the form of a Council recommendation issued under Article 103 (4);
4. will launch the corrective budgetary adjustments they deem necessary without delay on receiving information indicating the risk of an excessive deficit;
5. will correct excessive deficits as quickly as possible after their emergence; this correction should be completed no later than the year following the identification of the excessive deficit, unless there are special circumstances;
6. are invited to make public, on their own initiative, recommendations made in accordance with Article 104c (7);

(1) Under Article 5 of Protocol 11, this obligation does not apply to the United Kingdom unless it moves to the third stage; the obligation under Article 109e (4) of the Treaty establishing the European Community to endeavour to avoid excessive deficits shall continue to apply to the United Kingdom.

7. commit themselves not to invoke the benefit of Article 2 (3) of the Council Regulation on speeding up and clarifying the excessive deficit procedure unless they are in severe recession; in evaluating whether the economic downturn is severe, the Member States will, as a rule, take as a reference point an annual fall in real GDP of at least 0,75 %.

THE COMMISSION

1. will exercise its right of initiative under the Treaty in a manner that facilitates the strict, timely and effective functioning of the Stability and Growth Pact;
2. will present, without delay, the necessary reports, opinions and recommendations to enable the Council to adopt decisions under Article 103 and Article 104c; this will facilitate the effective functioning of the early warning system and the rapid launch and strict application of the excessive deficit procedure;
3. commits itself to prepare a report under Article 104c (3) whenever there is the risk of an excessive deficit or whenever the planned or actual government deficit exceeds the reference value of 3 % of GDP, thereby triggering the procedure under Article 104c (3);
4. commits itself, in the event that the Commission considers that a deficit exceeding 3 % of GDP is not excessive and this opinion differs from that of the Economic and Financial Committee, to present in writing to the Council the reasons for its position;
5. commits itself, following a request from the Council under Article 109d, to make, as a rule, a recommendation for a Council decision on whether an excessive deficit exists under Article 104c (6).

THE COUNCIL

1. is committed to a rigorous and timely implementation of all elements of the Stability and Growth Pact in its competence; it will take the necessary decisions under Article 103 and Article 104c as is practicable;
2. is urged to regard the deadlines for the application of the excessive deficit procedure as upper limits; in particular, the Council, acting under Article 104c (7), shall recommend that excessive deficits be corrected as quickly as possible after their emergence, no later than the year following their identification, unless there are special circumstances;
3. is invited always to impose sanctions if a participating Member State fails to take the necessary steps to bring the excessive deficit situation to an end as recommended by the Council;
4. is urged always to require a non-interest bearing deposit, whenever the Council decides to impose sanctions on a participating Member State in accordance with Article 104c (11);
5. is urged always to convert a deposit into a fine after two years of the decision to impose sanctions in accordance with Article 104c (11), unless the excessive deficit has in the view of the Council been corrected;
6. is invited always to state in writing the reasons which justify a decision not to act if at any stage of the excessive deficit or surveillance of budgetary positions procedures the Council did not act on a Commission recommendation and, in such a case, to make public the votes cast by each Member State.



DECLARATION BY THE COUNCIL (ECOFIN) AND THE MINISTERS MEETING IN THAT COUNCIL**ISSUED ON 1 MAY 1998**

1. On 1 January 1999, the euro will be a reality, marking the end of a process culminating in the fulfilment of the economic conditions necessary for its successful launch. The Council (Ecofin) and the ministers meeting in that Council welcome the significant progress that has been made in all Member States in achieving price stability and sounder public finances. The convergence process has contributed to a high degree of exchange-rate stability and historically low interest rates, and thus to the improved economic conditions in our economies.
2. The move to the single currency enhances further the conditions for strong, sustained and non-inflationary growth conducive to more jobs and rising living standards. It eliminates the exchange-rate risk among participating Member States, reduces transaction costs, creates a broader and more efficient financial market, and increases price transparency and competition. It thus provides the decisive step for a truly single market.
3. We, the ministers, are strongly committed to the actions necessary to realise the full benefits of economic and monetary union and the Single Market in the interest of all our citizens. These actions include closer coordination of economic policies. We are confident that the full implementation of the conclusions of the Dublin, Amsterdam and Luxembourg European Councils provides a sound basis for a permanently high degree of financial stability and the smooth functioning of EMU.
4. For the coming years, strong, sustained and non-inflationary growth will continue to be based in all Member States on economic convergence. Moreover, sound and sustainable public finances are prior conditions for growth and higher employment. The Stability and Growth Pact provides the means for securing this objective and for increasing the scope in national budgets to deal with future challenges.
5. In accordance with that Pact, we will start to implement the Regulation on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies⁽¹⁾ on 1 July 1998 in the following way:
 - we are committed to ensure that the national budget objectives set for 1998 are fully met, if necessary by taking timely corrective action,
 - the Council agrees to have an early consideration of Member States' budgetary intentions for 1999 in light of the framework and objectives of the Stability and Growth Pact.
 - On these first two points, the ministers of the States participating in the euro area have decided to meet informally, in the course of the coming months, to start their monitoring work in accordance with the Luxembourg European Council resolution,
 - if economic conditions develop better than expected, Member States will use the opportunity to reinforce budgetary consolidation so as to reach the medium-term objective of government financial positions close to balance or in surplus, as embodied in the commitments of the Stability and Growth Pact,
 - the higher the debt-to-GDP ratios of participating Member States, the greater must be their efforts to reduce them rapidly. To that end, in addition to maintaining appropriate levels of primary surpluses in compliance with the commitments and the objectives of the Stability and Growth Pact, other measures to reduce gross debt should be put in place. Furthermore, debt management strategies should reduce budgets' vulnerability,
 - each of the ministers undertakes to submit, at the latest by the end of 1998, national stability or convergence programmes which will reflect these important elements.
6. The Council reiterates that the responsibility for budgetary consolidation lies and remains with the Member States and that, in accordance with the provisions of Article 104b(1) TEC, the Community in particular shall not be liable for or assume the commitments of Member States. Without prejudice to the objectives and provisions of the Treaty, it is agreed that economic and monetary union as such cannot be invoked to justify specific financial transfers.

(1) Council Regulation (EC) No 1466/97 of 7 July 1997 (OJ L 209, 2. 8. 1997, p. 1).

7. Our work on budgetary consolidation will be complemented by increased efforts for improving the efficiency of our economies so as to enhance the favourable environment for growth, high employment and social cohesion. In this context, we look forward to our meeting shortly with the social partners on economic and monetary union. Together with the social partners and all other concerned parties, we will take all necessary initiatives to create the conditions for combating unemployment, particularly for young people, the long-term unemployed and the low skilled. In following up the conclusions of the Luxembourg meeting of the European Council, we commit ourselves to play our part in implementing rapidly the national Employment Action Plans drawn up in the light of the employment policy guidelines. The Council (Ecofin) will consider these plans in contributing to the preparation of the Cardiff European Council and subsequent European Councils.
8. We will attach particular importance to increasing the degree to which growth can be translated into additional employment. We will thus put emphasis, *inter alia*, on the following structural reforms:
 - making product, labour and capital markets more efficient,
 - improving the adaptability of labour markets in order to better reflect wage and productivity developments,
 - ensuring that national education and training systems are effective and relevant to employment,
 - seeking to encourage entrepreneurship, notably by attacking the administrative obstacles which it faces,
 - enabling easier access to capital markets and to venture capital funds, particularly for small and medium-sized enterprises,
 - increasing tax efficiency and avoiding harmful tax competition,
 - addressing all aspects of social security systems in view of ageing populations.
9. The Council intends to establish a light procedure, fully respecting the subsidiarity principle, for monitoring progress on economic reform. From next year, the preparation of the broad economic policy guidelines will draw on short assessments of progress and plans by Member States and the Commission on product and capital markets, as well as on the employment action plans.



EUROPEAN COUNCIL BRUSSELS**22 AND 23 MARCH 2005****PRESIDENCY CONCLUSIONS****I. STABILITY AND GROWTH PACT**

3. The European Council endorses the report of the Council (ECOFIN) of 20 March 2005 (see Annex II) entitled "Improving the implementation of the Stability and Growth Pact" and approves its findings and proposals. The report updates and complements the Stability and Growth Pact, which consists of the European Council Resolution of Amsterdam and Council Regulations Nos 1466/97 and 1467/97. The Commission is invited to bring forward rapidly proposals for amending the Council Regulations.

ANNEX II**Improving the implementation of the****Stability and Growth Pact****– Council Report to the European Council –**

This report presents proposals for strengthening and clarifying the implementation of the Stability and Growth Pact, with the aim of improving the coordination and monitoring of economic policies according to Article 99 of the Treaty and of avoiding excessive deficits as required by Article 104(1) of the Treaty.

The Council confirms that the Stability and Growth Pact, built on Treaty Articles 99 and 104, is an essential part of the macroeconomic framework of the Economic and Monetary Union. By requesting Member States to coordinate their budgetary policies and to avoid excessive deficits, it contributes to achieving macroeconomic stability in the EU and plays a key role in securing low inflation and low interest rates, which are essential contributions for delivering sustainable economic growth and job creation.

The Council recalls the Declaration on Article III-184 (annexed to the Final Act of the Constitution), which reaffirmed the European Council's commitment to the goals of the Lisbon Strategy - job creation, structural reforms, and social cohesion – and which stated on budgetary policy: "The Union aims at achieving balanced economic growth and price stability. Economic and budgetary policies thus need to set the right priorities towards economic reforms, innovation, competitiveness and strengthening of private investment and consumption in phases of weak economic growth. This should be reflected in the orientations of budgetary decisions at the national and Union level in particular through restructuring of public revenue and expenditure while respecting budgetary discipline in accordance with the Constitution and the Stability and Growth Pact."

The two nominal anchors of the Pact - the 3 % of GDP reference value for the deficit ratio and the 60% of GDP reference value for the debt ratio - have proven their value and continue to be the centrepiece of multilateral surveillance. However, the European Council noted in June 2004 the need to strengthen and to clarify the implementation of the Stability and Growth Pact, in order to foster transparency and national ownership of the EU fiscal framework and to improve enforcement of its rules and provisions.

The Pact has to be applied across countries in a fair and consistent way and be understood by public opinion. The Council reaffirms that a rules-based system is the best guarantee for commitments to be enforced and for all Member States to be treated equally. In strengthening and clarifying the Pact it is essential to secure a proper balance between the higher degree of economic judgement and policy discretion in the surveillance and co-ordination of budgetary policies and the need for keeping the rules-based framework simple, transparent and enforceable.

However, in a European Union of 25 countries, characterised by considerable heterogeneity and diversity and given the experience of 5 years in EMU, an enriched common framework with a stronger emphasis on the economic rationale of its rules would allow to better cater for differences in economic situations across the EU. The objective is therefore to enhance the economic underpinnings of the existing framework and thus strengthen credibility and enforcement. The aim is not to increase the rigidity or flexibility of current rules but rather to make them more effective.

On this basis, the reform aims at better responding to the shortcomings experienced so far through greater emphasis to economic developments and an increased focus on safeguarding the sustainability of public finances. Also, the instruments for EU economic governance need to be better interlinked in order to enhance the contribution of fiscal policy to economic growth and support progress towards realising the Lisbon strategy.

Following the Commission Communication of 3 September 2004 on "Strengthening economic governance and clarifying the implementation of the Stability and Growth Pact", the Council has worked in order to make concrete proposals for a reform of the Stability and Growth Pact.

The Council, in reviewing the Stability- and Growth-Pact provisions, detected mainly five areas where improvements could be made:

- (i) enhance the economic rationale of the budgetary rules to improve their credibility and ownership;
- (ii) improve "ownership" by national policy makers;
- (iii) use more effectively periods when economies are growing above trend for budgetary consolidation in order to avoid pro-cyclical policies;
- (iv) take better account in Council recommendations of periods when economies are growing below trend;
- (v) give sufficient attention in the surveillance of budgetary positions to debt and sustainability.

In making the proposals for a reform of the Stability and Growth Pact, the Council gave due consideration to enhance the governance and the national ownership of the fiscal framework, to strengthen the economic underpinnings and the effectiveness of the Pact, both in its preventive and corrective arms, to safeguard the sustainability of public finances in the long run, to promote growth and to avoid imposing excessive burdens on future generations.

In accordance with the Luxembourg Resolution on economic policy coordination, the Council confirms that enhanced coordination of fiscal policies must adhere to the Treaty principle of subsidiarity, respecting the prerogatives of national Governments in determining their structural and budgetary policies, while complying with the provisions of the Treaty and the Stability and Growth Pact.

Ministers indicate in the present report the necessary legislative changes in order to make operational their views on the reform of the Stability and Growth Pact. They intend to keep changes to a minimum and look forward to proposals of the Commission to put their views into effect.

1. Improving governance

In order to increase the legitimacy of the EU fiscal framework and to strengthen support for its goals and institutional arrangements, the Council considers that Member States, the Commission and the Council, while avoiding any institutional shift, must deliver on their respective responsibilities, in particular:

- (1) The Commission and the Council respect the Member States' responsibility to implement the policies of their choice within the limits set by the Treaty, in particular by Articles 99 and 104, while the Member States have to comply with the recommendations of the Council;
- (2) The Commission has to exercise its right of initiative in a timely manner and apply the rules effectively, while the Council and the Member States respect the Commission's responsibility as guardian of the Treaty and its procedures;
- (3) The Council has to exercise responsibly its margin of discretion, while the Member States and the Commission respect the Council's responsibility for the coordination of economic policies within the European Union and its role for the proper functioning of economic and monetary union;
- (4) The Member States, the Council and the Commission should reaffirm their commitment to implement the Treaty and the Stability and Growth Pact in an effective and timely manner, through peer support and peer pressure, and to act in close and constructive cooperation in the process of economic and fiscal surveillance, in order to guarantee certainty and effectiveness to the rules of the Pact.

The Council emphasises the importance of improving governance and strengthening national ownership of the fiscal framework through the proposals outlined hereafter.

1.1. Cooperation and communication

The Council, the Commission and the Member States should apply the Treaty and the Stability and Growth Pact in an effective and timely manner. Parties should act in close and constructive cooperation in the process of economic and fiscal surveillance in order to guarantee certainty and effectiveness to the rules of the Pact.

In the spirit of transparency and accountability, due consideration should be given to full and timely communication among institutions as well as with the general public. In particular, in order to foster a frank and confidential exchange of views, the Council, the Commission and the Member States should commit to exchange advance information on their intentions at all stages of the budgetary monitoring and excessive deficit procedure, without prejudice to their respective prerogatives.

1.2. Improving peer support and applying peer pressure

The Council agrees that increasing the effectiveness of peer support and peer pressure is an integral part of a reformed Stability and Growth Pact. The Council and the Commission should commit to motivate and to make public their positions and decisions at all appropriate stages of the procedure of the Pact.

Peer support and peer pressure at euro area level should be given in the framework of the coordination carried out in the Eurogroup and be based on a horizontal assessment of national budgetary developments and their implications for the euro area as a whole. Such an assessment should be done at least once a year before the summer.

1.3. Complementary national budgetary rules and institutions

The Council agrees that national budgetary rules should be complementary to the Member States' commitments under the Stability and Growth Pact. Conversely, at EU level, incentives should be given and disincentives removed for national rules to support the objectives of the Stability and Growth Pact. In this context, the Council points out disincentives stemming from the impact in the fiscal framework of certain ESA95 accounting and statistical rules.

The implementation of existing national rules (expenditure rules, etc.) could be discussed in stability and convergence programmes, with due caution and as far as they are relevant for the respect of EU budgetary rules, as Member States are committed at European level to respect the latter, and compliance with EU budgetary rules constitutes the focus of the assessment of the stability and convergence programmes.

The Council considers that domestic governance arrangements should complement the EU framework. National institutions could play a more prominent role in budgetary surveillance to strengthen national ownership, enhance enforcement through national public opinion and complement the economic and policy analysis at EU level.

1.4. A stability programme for the legislature

The Council invites Member States, when preparing the first update of their stability/convergence programme after a new government has taken office, 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 which it intends to employ to reach these targets by setting out its budgetary strategy.

1.5. Involvement of national Parliaments

The Council invites Member States' governments to present stability/convergence programmes and the Council opinions thereon to their national Parliaments. National Parliaments may wish to discuss the follow-up to recommendations in the context of the early warning and the excessive deficit procedures.

1.6. Reliable macroeconomic forecasts

The Council recognises that it is important to base budgetary projections on realistic and cautious macroeconomic forecasts. It also recognises the important contribution that Commission forecasts can provide for the coordination of economic and fiscal policies.

In their macroeconomic and budgetary projections, Member States, in particular euro area Member States and Member States participating in ERM II, should use the "common external assumptions" if provided by the Commission in due time. Member States are free to base their stability/convergence programmes on their own projections. However, divergences between the national and the Commission forecasts should be explained in some detail. This explanation will serve as a reference when assessing a posteriori forecast errors.

Given the inevitability of forecast errors, greater emphasis should be placed in the stability/convergence programmes on conducting comprehensive sensitivity analyses and/or developing alternative scenarios, in order to enable the Commission and the Council to consider the complete range of possible fiscal outcomes.

1.7. Statistical governance

The Council agrees that the implementation of the fiscal framework and its credibility rely crucially on the quality, reliability and timeliness of fiscal statistics. Reliable and timely statistics are not only essential for the assessment of government budgetary positions; full transparency of such statistics will also allow the financial markets to better assess the creditworthiness of the different Member States, providing an important signalling function for policy errors.

The core issue remains to ensure adequate practices, resources and capabilities to produce high quality statistics at the national and European level with a view to ensuring the independence, integrity and accountability of both national statistical offices and Eurostat. Furthermore, the focus must be on developing the operational capacity, monitoring power,

independence and accountability of Eurostat. The Commission and the Council in the course of 2005 are dealing with the issue of improving the governance of the European statistical system.

Member States and EU institutions should affirm their commitment to produce high quality and reliable budgetary statistics and to ensure mutual cooperation to achieve this goal. Imposing sanctions on a Member State should be considered when there is infringement of the obligations to duly report government data.

2. Strengthening the preventive arm

There is broad consensus that periods of growth above trend should be used for budgetary consolidation in order to avoid pro-cyclical policies. The past failure to reach the medium-term budgetary objective of 'close to balance or in surplus' calls for a strengthening of the preventive arm of the Stability and Growth Pact, through a renewed commitment by Member States to take the budgetary action necessary to converge towards this objective and respect it.

2.1. Definition of the medium-term budgetary objective

The Stability and Growth Pact lays down the obligation for Member States to adhere to the medium term objective (MTO) for their budgetary positions of "close to balance or in surplus" (CTBOIS).

In light of the increased economic and budgetary heterogeneity in the EU of 25 Member States, the Council agrees that the MTO should be differentiated for individual Member States to take into account the diversity of economic and budgetary positions and developments as well as of fiscal risk to the sustainability of public finances, also in the face of prospective demographic changes.

The Council therefore proposes developing medium-term objectives that, by taking account of the characteristics of the economy of each Member State, pursue a triple aim. They should firstly provide a safety margin with respect to the 3% deficit limit. They should also ensure rapid progress towards sustainability. Taking this into account, they should allow room for budgetary manoeuvre, in particular taking into account the needs for public investment.

MTOs should be differentiated and may diverge from CTBOIS for individual Member States on the basis of their current debt ratio and potential growth, while preserving sufficient margin below the reference value of -3% of GDP. The range for the country-specific MTOs for euro area and ERM II Member States would thus be, in cyclically adjusted terms, net of one-off and temporary measures, between -1% of GDP for low debt/high potential growth countries and balance or surplus for high debt/low potential growth countries.

The long-term sustainability of public finances would be supported by the convergence of debt ratios towards prudent levels.

Implicit liabilities (related to increasing expenditures in the light of ageing populations) should be taken into account, as soon as criteria and modalities for doing so are appropriately established and agreed by the Council. By the end of 2006, the Commission should report on progress achieved towards the methodology for completing the analysis by incorporating such implicit liabilities.

The Council stresses however that fiscal policy cannot be expected in the short term to cope with the full structural effects of demographic ageing and it invites Member States to pursue their efforts in implementing structural reforms in the areas related to the ageing of their populations as well as towards increasing employment and participation ratios.

Medium-term budgetary objectives could be revised when a major reform is implemented and in any case every four years, in order to reflect developments in government debt, potential growth and fiscal sustainability.

2.2. Adjustment path to the medium-term objective

The Council considers that a more symmetrical approach to fiscal policy over the cycle through enhanced budgetary discipline in periods of economic recovery should be achieved, with the objective to avoid pro-cyclical policies and to gradually reach the medium term objective, thus creating the necessary room to accommodate economic downturns and reduce government debt at a satisfactory pace, thereby contributing to the long-term sustainability of public finances.

Member States should commit at a European level to actively consolidate public finances in good times. The presumption is to use unexpected extra revenues for deficit and debt reduction.

Member States that have not yet reached their MTO should take steps to achieve it over the cycle. Their adjustment effort should be higher in good times; it could be more limited in bad times. In order to reach their MTO, Member States of the euro zone or of ERM-II should pursue an annual adjustment in cyclically adjusted terms, net of one-offs and other temporary measures, of 0,5% of GDP as a benchmark. "Good times" should be identified as periods where output exceeds its potential level, taking into account tax elasticities.

Member States that do not follow the required adjustment path will explain the reasons for the deviation in the annual update of the stability/convergence programmes. The Commission will issue policy advice to encourage Member States to

stick to their adjustment path. Such policy advice will be replaced by early warnings in accordance with the Constitution as soon as it becomes applicable.

2.3. Taking structural reforms into account

The Council agrees that, in order to enhance the growth oriented nature of the Pact, structural reforms will be taken into account when defining the adjustment path to the medium-term objective for countries that have not yet reached this objective and in allowing a temporary deviation from this objective for countries that have already reached it, with the clear understanding that a safety margin to ensure the respect of the 3% of GDP reference value for the deficit has to be guaranteed and that the budgetary position would be expected to return to the MTO within the programme period.

Only major reforms which have direct long-term cost-saving effects, including by raising potential growth, and therefore a verifiable positive impact on the long-term sustainability of public finances, will be taken into account. A detailed cost-benefit analysis of those reforms from the budgetary point of view would need to be provided in the framework of the annual update of stability/convergence programmes.

These proposals should be introduced into Regulation 1466/97.

Moreover, the Council is mindful that the respect of the budgetary targets of the Stability and Growth Pact should not hamper structural reforms that unequivocally improve the long-term sustainability of public finances. The Council acknowledges that special attention must be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Although these reforms entail a short-term deterioration of public finances during the implementation period, the long-term sustainability of public finances is clearly improved. The Council therefore agrees that Member States implementing such reforms should be allowed to deviate from the adjustment path towards the MTO, or from the MTO itself. The deviation from the MTO should reflect the net cost of the reform to the publicly managed pillar, provided the deviation remains temporary and an appropriate safety margin to the reference value is preserved.

3. Improving the implementation of the excessive deficit procedure

The excessive deficit procedure should remain simple, transparent and equitable. Nevertheless, the experience of recent years shows possible scope for improvement in its implementation.

The guiding principle for the application of the procedure is the prompt correction of an excessive deficit.

The Council underlines that the purpose of the excessive deficit procedure is to assist rather than to punish, and therefore to provide incentives for Member States to pursue budgetary discipline, through enhanced surveillance, peer support and peer pressure. Moreover, policy errors should be clearly distinguished from forecast errors in the implementation of the excessive deficit procedure. If nevertheless a Member State fails to comply with the recommendations addressed to it under the excessive deficit procedure, the Council has the power to apply the available sanctions.

3.1. Preparing a Commission report under Article 104(3)

In order to avoid excessive government deficits, as called for by Article 104(1) of the Treaty, the reports, prepared by the Commission according to Article 104(3) of the Treaty as a result of its monitoring, form the basis of the EFC opinion, the ensuing Commission assessment and ultimately the Council decision on the existence of an excessive deficit as well as on its recommendations, including on the deadlines for the correction of the deficit.

The Council and the Commission are resolved to clearly preserve and uphold the reference values of 3% and 60% of GDP as the anchors of the monitoring of the development of the budgetary situation and of the ratio of government debt to GDP in the Member States. The Commission will always prepare a report on the basis of Article 104(3) of the Treaty. The Commission shall examine in its report if one or more of the exceptions foreseen respectively in Article 104(2)(a) and (b) apply. The Council hereafter proposes revisions or clarifications to the scope of those exceptions.

As foreseen by the Treaty, the Commission shall moreover take into account in its report whether the Member State's government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State. The Council hereafter proposes clarifications to the concept of "all other relevant factors".

3.2. An "exceptional and temporary" excess of the deficit over the reference value

The Treaty provides, in Article 104(2)(a) second indent, for an exception if an excess over the reference value is only exceptional and temporary and if the ratio remains close to the reference value.

Whereas, in order to benefit from that exception, the ratio has always to remain close to the reference value, Regulation 1467/97 gives definitions as to when an excess over the reference value, but still close to it, shall be considered exceptional and temporary: in order to be considered as exceptional, the excess has to result from an unusual event outside the control of the Member State and with a major impact on the financial position of the general government, or it has to result from

a severe economic downturn. In order for the excess to be temporary, the Commission's budgetary forecast must indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

A severe economic downturn is presently defined - as a rule - as an annual fall of real GDP of at least 2%. Moreover, in the case of an annual fall of real GDP of less than 2%, Regulation 1467/97 still allows the Council to decide that no excessive deficit exists, in the light of further evidence, in particular on the abruptness of the downturn or on the accumulated loss of output relative to past trends.

The Council considers that the current definition of "a severe economic downturn" given in Article 2(2) of Regulation 1467/97 is too restrictive. The Council considers that paragraphs (2) and (3) of Article 2 in Regulation 1467/97 need to be adapted in order to allow both the Commission and the Council, when assessing and deciding upon the existence of an excessive deficit, according to paragraphs (3) to (6) of Article 104 of the Treaty, to consider as exceptional an excess over the reference value which results from a negative growth rate or from the accumulated loss of output during a protracted period of very low growth relative to potential growth.

3.3. "All other relevant factors"

Article 104(3) of the Treaty requests that, in preparing the report on the non-fulfilment of the criteria for compliance with budgetary discipline, the Commission "shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State". A balanced overall assessment has to encompass all these factors.

The Council underlines that taking into account "other relevant factors" in the steps leading to the decision on the existence of an excessive deficit (Article 104, paragraphs (4), (5) and (6)) must be fully conditional on the overarching principle that - before other relevant factors are taken into account - the excess over the reference value is temporary and the deficit remains close to the reference value.

The Council considers that the framework to take into account "all other relevant factors" should be clarified. The Commission's report under Article 104(3) should appropriately reflect developments in the medium-term economic position (in particular potential growth, prevailing cyclical conditions, the implementation of policies in the context of the Lisbon agenda and policies to foster R&D and innovation) and developments in the medium-term budgetary position (in particular, fiscal consolidation efforts in "good times", debt sustainability, public investment and the overall quality of public finances). Furthermore, due consideration will be given to any other factors, which in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value. In that context, special consideration will be given to budgetary efforts towards increasing or maintaining at a high level financial contributions to fostering international solidarity and to achieving European policy goals, notably the unification of Europe if it has a detrimental effect on the growth and fiscal burden of a Member State.

Clearly no redefinition of the Maastricht reference value for the deficit via the exclusion of particular budgetary items should be pursued.

If the Council has decided, on the basis of Article 104(6), that an excessive deficit exists in a Member State, the "other relevant factors" will also be considered in the subsequent procedural steps of Article 104. However, they should not be taken into account under Article 104(12), i.e. in the decision of the Council as to whether a Member State has corrected its excessive deficit.

These proposals should be introduced into Regulation 1467/97.

3.4. Taking into account systemic pension reforms

The Council agrees that an excess close to the reference value which reflects the implementation of pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar should be considered carefully. Although the implementation of these reforms leads to a short-term deterioration of the budgetary position, the long-term sustainability of public finances clearly improves.

The Commission and the Council, in all budgetary assessments in the framework of the EDP, will give due consideration to the implementation of these reforms.

In particular, when assessing under Article 104(12) whether the excessive deficit has been corrected, the Commission and the Council will assess developments in EDP deficit figures while also considering the net cost of the reform to the publicly managed pillar. Consideration to the net cost of the reform will be given for the initial five years after a Member State has introduced a mandatory fully-funded system, or five years after 2004 for Member States that have already introduced such a system. Furthermore, it will also be regressive, i.e. during a period of five years, consideration will be given to 100, 80, 60, 40 and 20 percent of the net cost of the reform to the publicly managed pillar.

3.5. Increasing the focus on debt and sustainability

In line with the provisions of the Treaty, the Commission has to examine compliance with budgetary discipline on the basis of both the deficit and the debt criterion. The Council agrees that there should be increased focus on debt and sustainability, and reaffirms the need to reduce government debt to below 60% of GDP at a satisfactory pace, taking into account macroeconomic conditions. The higher the debt to GDP ratios of Member States, the greater must be their efforts to reduce them rapidly.

The Council considers that the debt surveillance framework should be strengthened by applying the concept of "sufficiently diminishing and approaching the reference value at a satisfactory pace" for the debt ratio in qualitative terms, by taking into account macroeconomic conditions and debt dynamics, including the pursuit of appropriate levels of primary surpluses as well as other measures to reduce gross debt and debt management strategies. For countries above the reference value, the Council will formulate recommendations on the debt dynamics in its opinions on the stability and convergence programmes.

No change to the existing Regulations is required to that effect.

3.6. Extending deadlines for taking effective action and measures

The Council considers that the deadline for adoption of a decision under Article 104(6) establishing the existence of an excessive deficit should be extended from three to four months after the fiscal notification deadline. Moreover, the Council considers that the timing for taking effective action following a recommendation to correct the excessive deficit under Article 104(7) could be extended from 4 to 6 months, in order to allow the Member State to better frame the action within the national budgetary procedure and to develop a more articulated package of measures. This could facilitate the adoption of corrective packages of structural (as opposed to largely temporary) measures. Furthermore, with longer deadlines it would be possible to take an updated Commission forecast into account, so that measures taken and significant changes in growth conditions that could justify an extension of the deadlines would be assessed together. For the same reasons, the one-month deadline for the Council to take a decision to move from Article 104(8) to Article 104(9) should be extended to two months, and the two-month deadline under Article 104(9) should be extended to 4 months.

These proposals would require changes to the relevant Articles of Regulation 1467/97.

3.7. Initial deadline for correcting the excessive deficit

The Council considers that, as a rule, the deadline for correcting an excessive deficit should be the year after its identification and thus, normally, the second year after its occurrence. The Council agrees however that the elements to be taken into account in setting the initial deadline for the correction of an excessive deficit should be better specified and should include, in particular, an overall assessment of all the factors mentioned in the report under Art. 104(3).

As a benchmark, countries in excessive deficit will be required to achieve an annual minimum fiscal effort of at least 0,5 percent of GDP in cyclically adjusted terms, net of one-off measures, and the initial deadline for the correction of the excessive deficit should be set taking into account this minimum fiscal effort. If this effort seems sufficient to correct the excessive deficit in the year following its identification, the initial deadline need not be set beyond that year.

However the Council agrees that in case of special circumstances, the initial deadline for correcting an excessive deficit could be set one year later, i.e. the second year after its identification and thus normally the third year after its occurrence. The determination of the existence of special circumstances will take into account a balanced overall assessment of the factors mentioned in the report under Article 104(3).

The initial deadline will be set without prejudice to the taking into account of systemic pension reforms and without prejudice to deadlines applying to new and future Member States.

3.8. Revising the deadlines for correcting the deficit

The Council agrees that deadlines for correcting the excessive deficit could be revised and extended if unexpected adverse economic events with major unfavourable budgetary effects occur during the excessive deficit procedure. Repetition of a recommendation under Article 104(7) or a notice under Article 104(9) of the Treaty is possible and should be used if effective action has been taken by the Member State concerned in compliance with the initial recommendation or notice. This should be specified in Regulation 1467/97.

Member States would be required to give evidence of having taken effective action following recommendations. If effective action was taken in response to previous recommendations and unforeseeable growth developments justify a revision of the deadlines for correcting the excessive deficit, the procedure would not move to the next step. The growth forecast contained in the Council recommendation would be the reference against which unforeseeable growth developments would be assessed.



COUNCIL MEETING ECONOMIC AND FINANCIAL AFFAIRS**LUXEMBOURG, 10 OCTOBER 2006****COUNCIL CONCLUSIONS****THE QUALITY OF PUBLIC FINANCES**

The Council held an exchange of views on national fiscal rules and institutional arrangements as regards public finances, on the basis of a report prepared by the Commission in cooperation with the economic policy committee.

It adopted the following conclusions.

"The revised Stability and Growth Pact (SGP) underlines the important role that national fiscal rules and institutions can play in the attainment of sound budgetary positions and in the respect of the provisions of the Treaty and stresses that «national budgetary rules should be complementary to the Member States' commitments under the Stability and Growth Pact» and that «national institutions could play a more prominent role in budgetary surveillance».

The Council welcomes the report on national fiscal rules and independent institutions prepared by the Economic Policy Committee and the Commission. It acknowledges the role that national fiscal rules and institutions can play in meeting budgetary targets and supporting fiscal consolidation while help avoiding pro-cyclical policies. Coupled with appropriate structural reforms, they can also contribute to improving the efficiency of public expenditure. It also acknowledges that their desirable characteristics depend on domestic circumstances, such as the institutional and political setting and the nature of fiscal problems.

The Council notes that an increasing number of Member States have implemented national fiscal rules, with a positive impact on budgetary outcomes. The analyses conducted by the Commission and the EPC have also shown that the design of fiscal rules varies widely depending on the national context and on the level of government to which they are applied.

Whilst emphasising that there is no «one-size-fits-all» solution, the Council notes a number of general features which may support the effectiveness of national fiscal rules and contribute positively to budgetary outcomes. The Council notably agrees that, to be effective, fiscal rules should benefit from strong national ownership as well as from a clear political commitment by all levels of governments and parliaments. The Council also concurs on the benefits of medium-term budgetary frameworks, and on the fact that the characteristics of fiscal rules matter for their influence on budgetary outcomes. Well-designed fiscal rules, with pre-defined enforcement mechanisms and transparent and credible monitoring procedures which stimulate the public debate, seem to be more effective.

The Council notes that reputable and credible fiscal institutions can make an important contribution to sound and sustainable fiscal policies. In some Member States independent fiscal institutions have played an important role in this respect, for example by providing analysis on fiscal policy issues or preparing macroeconomic forecasts and assumptions which can inform the preparation of the budget. This issue could be considered further at national level.

The Council:

- agrees, in line with the Guidelines on the Format and Content of Stability and Convergence Programmes, that Member States should provide relevant information on their national fiscal frameworks, including on implementation and envisaged changes, in the forthcoming Stability and Convergence Programmes. The Council encourages the Commission to continue to take these elements into account when preparing its assessment on the programmes, as far as relevant for the respect of EU budgetary rules.
- also invites the Commission to develop further in co-operation with the EFC and EPC its analysis of the quality of public finances, including the efficiency and composition of public expenditure, and to provide an overview of the implementation of the existing rules based on the 2007 updates of the SCPs."



COUNCIL MEETING ECONOMIC AND FINANCIAL AFFAIRS**LUXEMBOURG, 9 OCTOBER 2007****COUNCIL CONCLUSIONS****PUBLIC FINANCES****Improving the effectiveness of the stability and growth pact**

The Council adopted the following conclusions:

"Ministers discussed the Commission's Communication on Public finances in EMU-2007. They agreed that ensuring progress towards sustainable fiscal positions is a key priority, in line with the preventive arm of the Stability and Growth Pact (SGP) and the three-pronged sustainability strategy, so as to prepare also for the impending budgetary impact of ageing populations. Against the background of favourable economic conditions, the budgetary situation has significantly improved in most EU Member States, but there is a need to make sure that the positive momentum of fiscal adjustment is maintained. The SGP provides the appropriate framework and should be fully implemented. All countries not yet at their medium-term objective (MTO), should speed up the pace of deficit and debt reduction and allocate higher-than-expected revenues to this objective. In particular, Member States of the euro zone or ERM II should pursue an annual adjustment in cyclically adjusted terms, net of one-off and other temporary measures, of 0.5 % of GDP as a benchmark. The adjustment effort should be higher in good times.

Recalling their conclusions of October 2006, Ministers confirmed the importance of national fiscal rules and institutions, including monitoring mechanisms, in the attainment of sound budgetary positions. In particular, they acknowledged that rules-based multiannual fiscal frameworks at national level could help to ensure adherence to medium-term budgetary plans, including by controlling expenditure. In line with the Code of Conduct, information on national fiscal frameworks and relevant innovations in national rules and institutions should continue to be reported in the annual updates of the Stability and Convergence Programmes (SCPs). Ministers recall the importance of domestic ownership, including the appropriate involvement of national Parliaments.

Ministers confirmed that long-term fiscal sustainability, notably the future impact of ageing, should better be taken into account in the medium-budgetary objectives (MTOs). The Council invites the Commission to continue its work on the criteria and modalities for taking into account the resulting implicit government liabilities in the definition of MTOs, to be discussed early in 2008. The next round of long-term projections in the course of 2009 presents an opportunity to put these arrangements into place. The agreement should be reached in time to give Member States the opportunity to present their MTOs in the updates of the SCPs to be submitted in the autumn of 2009 in line with the Pact, which provides for a revision of the MTOs every four years.

To improve fiscal surveillance, the Commission is invited to develop its regular assessment of national fiscal policies by a more comprehensive analysis of the overall macroeconomic situation, including the building up of macroeconomic imbalances and their interaction with fiscal positions. The Commission should pursue its work to improve the tools for measuring the underlying fiscal position of Member States, notably with a view to avoid pro-cyclical fiscal policies in good times. Moreover, the SCPs should specify how medium-term budgetary objectives will be met, including the extent to which further measures are required to fill the gap between the medium-term targets and fiscal trends under existing and already implemented policies."

The quality of public finances: Modernisation of public administration - Council conclusions

The Council adopted the following conclusions, following on from discussion by ministers at an informal meeting in Porto on 14 and 15 September.

"The Council discussed Member States' experiences of modernising public administrations in the context of the quality of public finances. All Member States are undertaking initiatives to reform their public administration with a view to improving efficiency and effectiveness, and various approaches have been developed in line with national needs. This is illustrated in the report presented by the Economic Policy Committee and the Commission. These initiatives have been undertaken in four main areas: a greater performance orientation of public budgets, a re-organisation of public administrations, reforms in human resource management and improved use of ICT tools.

Ministers underlined that the modernisation of public administration can play an important role in enhancing competitiveness, delivering better services, achieving better value for money and ensuring the control of government expenditure. Public administration reforms can thereby contribute to meet the objectives of both the Lisbon Strategy and the Stability and Growth Pact and Ministers of Finance can play a leading role in modernising public administration. Reforms should therefore be subject to a regular analysis and exchange of best practices in particular in the context of the Lisbon National Reform Programmes in line with national priorities.

In this context, the Council considers that national systems to measure efficiency and evaluate reforms in the public sector need to be improved. It invites the EPC and the Commission to step up their efforts to improve the analysis, methodology and the measurement of the quality of public finances, including the efficiency and effectiveness of public expenditures and revenue structures, as well as of major public sector reforms. Ministers also re-iterated their June 2007 request for Member States to step up efforts in the provision and subsequent analysis of COFOG, level II data. The Council will come back to the issue of public spending efficiency and effectiveness, in particular related to specific spending categories such as social spending, education and R&D, in Spring 2008."



COUNCIL REGULATION (EC) No 479/2009⁽¹⁾**of 25 May 2009****on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community****(Codified version)**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the third subparagraph of Article 104(14) thereof,

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament⁽²⁾,

Having regard to the opinion of the European Central Bank⁽³⁾,

Whereas:

- (1) Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community⁽⁴⁾ has been substantially amended several times⁽⁵⁾. In the interests of clarity and rationality the said Regulation should be codified.
- (2) The definitions of 'government', 'deficit' and 'investment' are laid down in the Protocol on the excessive deficit procedure by reference to the European System of Integrated Economic Accounts (ESA), replaced by the European system of national and regional accounts in the Community (adopted by Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community and hereinafter referred to as 'ESA 95')⁽⁶⁾. Precise definitions referring to the classification codes of ESA 95 are required. Those definitions may be subject to revision in the context of the necessary harmonisation of national statistics or for other reasons. Any revision of ESA will be decided by the Council in accordance with the rules on competence and procedure laid down in the Treaty.
- (3) Under ESA 95, interest flows under swap contracts and forward rate agreements (FRAs) are to be classified in the financial account and require specific treatment for the data transmitted under the excessive deficit procedure.
- (4) The definition of 'debt' laid down in the Protocol on the excessive deficit procedure needs to be amplified by a reference to the classification codes of ESA 95.
- (5) In the case of financial derivatives, as defined in ESA 95, there is no nominal value identical to that for other debt instruments. Therefore, it is necessary that financial derivatives are not included with the liabilities making up government debt for the purposes of the Protocol on the excessive deficit procedure. For liabilities which are subject to agreements fixing the exchange rate, this rate should be taken into account in the conversion into national currency.
- (6) ESA 95 provides a detailed definition of gross domestic product at current market prices, which is appropriate for the calculation of the ratios of government deficit to gross domestic product and of government debt to gross domestic product referred to in Article 104 of the Treaty.
- (7) Consolidated government interest expenditure is an important indicator for monitoring the budgetary situation in the Member States. Interest expenditure is intrinsically linked to government debt. Government debt to be reported to the Commission by the Member States has to be consolidated within the government sector. The levels of government debt and of interest expenditure should be made mutually consistent. The methodology of ESA 95 (point 1.58) recognises that, for certain kinds of analysis, consolidated aggregates are more significant than overall gross figures.

(1) <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R0479-20100819>

(2) Opinion of 21 October 2008 (not yet published in the Official Journal).

(3) OJ C 88, 9.4.2008, p. 1.

(4) OJ L 332, 31.12.1993, p. 7.

(5) See Annex I.

(6) OJ L 310, 30.11.1996, p. 1.

- (8) Pursuant to the terms of the Protocol on the excessive deficit procedure, the Commission is required to provide the statistical data to be used in that procedure.
- (9) The role of the Commission, as statistical authority, in that context is specifically exercised by Eurostat, on behalf of the Commission. As the Commission department responsible for carrying out the tasks devolving on the Commission as regards the production of Community statistics, Eurostat is required to execute its tasks in accordance with the principles of impartiality, reliability, relevance, cost-effectiveness, statistical confidentiality and transparency, as laid down in Commission Decision 97/281/EC of 21 April 1997 on the role of Eurostat as regards the production of Community statistics⁽¹⁾. The implementation by the national and Community statistical authorities of the Recommendation of the Commission of 25 May 2005 on the independence, integrity and accountability of the national and Community authorities should enhance the principle of professional independence, adequacy of resources and quality of statistical data.
- (10) Eurostat is responsible, on behalf of the Commission, for assessing the quality of the data and for providing the data to be used within the context of the excessive deficit procedure, in accordance with Commission Decision 97/281/EC.
- (11) A permanent dialogue should be established between the Commission and the Member States' statistical authorities in order to ensure the quality both of the data reported by Member States and of the underlying government sector accounts compiled in accordance with ESA 95.
- (12) Detailed rules are required to organise prompt and regular reporting by the Member States to the Commission (Eurostat) of their planned and actual deficits and of the levels of their debt.
- (13) Pursuant to Article 104c(2) and (3) of the Treaty, the Commission is to monitor the development of the budgetary situation and of the stock of government debt in the Member States and to examine compliance with budgetary discipline on the basis of criteria relating to government deficit and government debt. If a Member State does not fulfil the requirements under one or both criteria, it is necessary for the Commission to take into account all relevant factors. The Commission has to examine whether there is a risk of an excessive deficit in a Member State,

HAS ADOPTED THIS REGULATION:

CHAPTER I

DEFINITIONS

Article 1

1. For the purposes of the Protocol on the excessive deficit procedure and of this Regulation, the terms given in paragraphs 2 to 6 are defined according to the European system of national and regional accounts in the Community (hereinafter referred to as ESA 95), adopted by Regulation (EC) No 2223/96. The codes in brackets refer to ESA 95.
2. 'Government' means the sector of 'general government' (S.13), that is 'central government' (S.1311), 'state government' (S.1312), 'local government' (S.1313) and 'social security funds' (S.1314), to the exclusion of commercial operations, as defined in ESA 95.

The exclusion of commercial operations means that the sector of 'general government' (S.13) comprises only institutional units producing non-market services as their main activity.

3. 'Government deficit (surplus)' means the net borrowing (net lending) (EDP B.9) of the sector of 'general government' (S.13), as defined in ESA 95. The interest comprised in the government deficit is the interest (EDP D.41), as defined in ESA 95.
4. 'Government investment' means the gross fixed capital formation (P.51) of the sector of 'general government' (S.13), as defined in ESA 95.
5. 'Government debt' means the total gross debt at nominal value outstanding at the end of the year of the sector of 'general government' (S.13), with the exception of those liabilities the corresponding financial assets of which are held by the sector of 'general government' (S.13).

Government debt is constituted by the liabilities of general government in the following categories: currency and deposits (AF.2); securities other than shares, excluding financial derivatives (AF.33) and loans (AF.4), as defined in ESA 95.

The nominal value of a liability outstanding at the end of the year is the face value.

(1) OJ L 112, 29.4.1997, p. 56.

The nominal value of an index-linked liability corresponds to its face value adjusted by the index-related change in the value of the principal accrued to the end of the year.

Liabilities denominated in a foreign currency, or exchanged from one foreign currency through contractual agreements to one or more other foreign currencies shall be converted into the other foreign currencies at the rate agreed on in those contracts and shall be converted into the national currency on the basis of the representative market exchange rate prevailing on the last working day of each year.

Liabilities denominated in the national currency and exchanged through contractual agreements to a foreign currency shall be converted into the foreign currency at the rate agreed on in those contracts and shall be converted into the national currency on the basis of the representative market exchange rate prevailing on the last working day of each year.

Liabilities denominated in a foreign currency and exchanged through contractual agreements to the national currency shall be converted into the national currency at the rate agreed on in those contracts.

6. Gross domestic product' means gross domestic product at current market prices (GDP mp) (B.1*g), as defined in ESA 95.

Article 2

1. 'Planned government deficit and government debt level figures' means the figures established for the current year by the Member States. They shall be the most recent official forecasts, taking into account the most recent budgetary decisions and economic developments and prospects. They should be produced in as short a time as possible before the reporting deadline.
2. Actual government deficit and government debt level figures' means estimated, provisional, half-finalised or final results for a past year. The planned data together with the actual data shall form a consistent time series as far as the definitions and concepts are concerned.

Article 2a

'Access' means that relevant documents and other information must be provided when requested, either immediately or as promptly afterwards as is consistent with the time needed to collect the requested information.

CHAPTER II

RULES AND COVERAGE OF REPORTING

Article 3

1. Member States shall report to the Commission (Eurostat) their planned and actual government deficits and levels of government debt twice a year, the first time before 1 April of the current year (year n) and the second time before 1 October of year n.

Member States shall inform the Commission (Eurostat) which national authorities are responsible for the excessive deficit procedure reporting.

2. Before 1 April of year n, Member States shall:
 - (a) report to the Commission (Eurostat) their planned government deficit for year n, an up-to-date estimate of their actual government deficit for year n-1 and their actual government deficits for years n-2, n-3 and n-4;
 - (b) simultaneously provide the Commission (Eurostat) with their planned data for year n and the actual data for years n-1, n-2, n-3 and n-4 of their corresponding public accounts budget deficits in accordance with the definition which is given most prominence nationally and with the figures which explain the transition between the public accounts budget deficit and their government deficit for the sub-sector S.1311;
 - (c) simultaneously provide the Commission (Eurostat) with their actual data for years n-1, n-2, n-3 and n-4 of their corresponding working balances and with the figures which explain the transition between the working balances of each government sub-sector and their government deficit for the sub-sectors S.1312, S.1313 and S.1314;
 - (d) report to the Commission (Eurostat) their planned level of government debt at the end of year n and their levels of actual government debt at the end of years n-1, n-2, n-3 and n-4;
 - (e) simultaneously provide the Commission (Eurostat), for years n-1, n-2, n-3 and n-4, with the figures which explain the contribution of the government deficit and other factors relevant to the variation in the level of their government debt by sub-sector.
3. Before 1 October of year n, Member States shall report to the Commission (Eurostat) their:
 - (a) updated planned government deficit for year n and their actual government deficits for years n-1, n-2, n-3 and n-4 and shall comply with the requirements of points (b) and (c) of paragraph 2;

- (b) updated planned level of government debt at the end of year n and their levels of actual government debt at the end of years n-1, n-2, n-3 and n-4, and shall comply with the requirements of paragraph 2(e).
- 4. The figures for the planned government deficit reported to the Commission (Eurostat) in accordance with paragraphs 2 and 3 shall be expressed in national currency and in budget years.

The figures for actual government deficit and actual government debt level reported to the Commission (Eurostat) in accordance with paragraphs 2 and 3 shall be expressed in national currency and in calendar years, with the exception of the up-to-date estimates for year n-1, which may be expressed in budget years.

Where the budget year differs from the calendar year, Member States shall also report to the Commission (Eurostat) their figures for actual government deficit and actual government debt level in budget years for the two budget years preceding the current budget year.

Article 4

Member States shall, in accordance with the procedure laid down in Article 3(1), (2) and (3), provide the Commission (Eurostat) with the figures for their government investment expenditure and interest expenditure (consolidated).

Article 5

Member States shall provide the Commission (Eurostat) with a forecast of their gross domestic product for year n and the actual amount of their gross domestic product for years n-1, n-2, n-3 and n-4, under the same timing conditions as those indicated in Article 3(1).

Article 6

1. Member States shall inform the Commission (Eurostat), as soon as it becomes available, of any major revision in their actual and planned government deficit and debt figures already reported.
2. Major revisions in the actual deficit and debt figures already reported shall be properly documented. In any case, revisions which result in the reference values as specified in the Protocol on the excessive deficit procedure being exceeded, or revisions which mean that a Member State's data no longer exceed the reference values, shall be reported and properly documented.

Article 7

Member States shall make public the actual deficit and debt data and other data for past years reported to the Commission (Eurostat) in accordance with Articles 3 to 6.

CHAPTER III

QUALITY OF DATA

Article 8

1. The Commission (Eurostat) shall regularly assess the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to ESA 95 (hereinafter referred to as government accounts). Quality of actual data means compliance with accounting rules, completeness, reliability, timeliness, and consistency of the statistical data. The assessment will focus on areas specified in the inventories of Member States such as the delimitation of the government sector, the classification of government transactions and liabilities, and the time of recording.
2. Member States shall provide the Commission (Eurostat), as promptly as possible, with the relevant statistical information requested for the needs of the data quality assessment, without prejudice to the provisions of Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics⁽¹⁾ relating to statistical confidentiality.

The statistical information referred to in the first subparagraph shall be limited to the information strictly necessary to check the compliance with ESA rules. In particular, 'statistical information' means:

- (a) data from national accounts;
- (b) inventories;
- (c) EDP notification tables;
- (d) additional questionnaires and clarification related to the notifications.

(1) OJ L 87, 31.3.2009, p. 164.

The format of the questionnaires shall be defined by the Commission (Eurostat) after consultation of the Committee on Monetary, Financial and Balance of Payments Statistics (hereinafter referred to as CMFB).

3. The Commission (Eurostat) shall report regularly to the European Parliament and to the Council on the quality of the actual data reported by Member States. The report shall address the overall assessment of the actual data reported by Member States as regards to the compliance with accounting rules, completeness, reliability, timeliness, and consistency of the data.

Article 9

1. Member States shall provide the Commission (Eurostat) with a detailed inventory of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts.
2. The inventories shall be prepared in accordance with guidelines adopted by the Commission (Eurostat) after consultation of CMFB.
3. The inventories shall be updated following revisions in the methods, procedures and sources adopted by Member States to compile their statistical data.
4. Member States shall make their inventories public.
5. The issues referred to in paragraphs 1, 2 and 3 may be addressed in the visits mentioned in Article 11.

Article 10

1. In the event of a doubt regarding the correct implementation of the ESA 95 accounting rules, the Member State concerned shall request clarification from the Commission (Eurostat). The Commission (Eurostat) shall promptly examine the issue and communicate its clarification to the Member State concerned and, when appropriate, to the CMFB.
2. For cases which are either complex or of general interest in the view of the Commission or the Member State concerned, the Commission (Eurostat) shall take a decision after consultation of the CMFB. The Commission (Eurostat) shall make decisions public, together with the opinion of the CMFB, without prejudice to the provisions relating to statistical confidentiality of Regulation (EC) No 322/97.

Article 11

1. The Commission (Eurostat) shall ensure a permanent dialogue with Member States' statistical authorities. To this end, the Commission (Eurostat) shall carry out in all Member States regular dialogue visits, as well as possible methodological visits.
2. When organising dialogue and methodological visits, the Commission (Eurostat) shall transmit its provisional findings to the Member States concerned for comments.

Article 11a

The dialogue visits are designed to review actual data reported according to Article 8, to examine methodological issues, to discuss statistical processes and sources described in the inventories, and to assess compliance with the accounting rules. The dialogue visits shall be used to identify risks or potential problems with respect to the quality of the reported data.

Article 11b

1. The methodological visits are designed to monitor the processes and verify the accounts which justify the reported data, and to draw detailed conclusions as to the quality of reported data, as described in Article 8(1).
2. The methodological visits shall only be undertaken in exceptional cases where significant risks or problems with respect to the quality of the data have been clearly identified.
3. For the purposes of this Regulation, it could be considered that there are significant risks or problems with the quality of the data notified by a Member State in such cases as:

- (a) there are frequent and sizeable revisions of the deficit or debt that are not clearly and adequately explained;
 - (b) the Member State concerned is not sending to the Commission (Eurostat) all the statistical information requested in the context of the rounds for clarification of the EDP notification or as a consequence of a dialogue visit, in the period agreed between them and has not clearly and adequately explained the reason for the delay or non-response;
 - (c) the Member State concerned changes, unilaterally and without a clear explanation, the sources and methods for estimating the deficit and debts of the general government set out in the inventory, with a material effect on estimates;
 - (d) there are outstanding methodological issues likely to have a material effect on the debt or deficit statistics which have not been resolved between the Member State and the Commission (Eurostat) arising from the rounds for clarification or the previous dialogue visits, resulting in reservations from the Commission (Eurostat) in two subsequent EDP notifications;
 - (e) there are persistent, unusually high stock-flow adjustments not clearly explained.
4. Mainly taking into account the criteria mentioned in paragraph 3, the Commission (Eurostat), after informing the CMFB, shall decide to carry out a methodological visit.
 5. The Commission should provide the Economic and Financial Committee with full information about the reasons behind the methodological visits.

Article 12

1. Member States are expected to provide, at the request of the Commission (Eurostat), and on a voluntary basis, the assistance of experts in national accounting, including for the preparation and carrying-out of the methodological visits. In the exercise of their duties, these experts shall provide independent expertise. A list of those experts in national accounting shall be constituted on the basis of proposals sent to the Commission (Eurostat) by the national authorities responsible for the excessive deficit reporting.

The Commission shall lay down the rules and procedures related to the selection of the experts, taking into account an appropriate distribution of experts across Member States and an appropriate rotation of experts between Member States, their working arrangements and the financial details. The Commission shall share with the Member States the full cost incurred by the Member States for the assistance of their national experts.

2. In the framework of the methodological visits, the Commission (Eurostat) shall have the right to access the accounts of all government entities at central, state, local and social security levels, including the provision of existing underlying detailed accounting and budgetary information.

In this context, accounting and budgetary information includes:

- transactions and balance sheets,
- relevant statistical surveys and questionnaires of general government and further related information, such as analytical documents,
- information from relevant national, regional and local authorities on the execution of the budget of all sub-sectors of the general government,
- the accounts of extra-budgetary bodies, corporations, and non-profit institutions and other similar bodies that are part of the general government sector in national accounts,
- the accounts of social security funds.

Member States shall take all necessary measures to facilitate the methodological visits. Those visits may be carried out at national authorities involved in the excessive deficit procedure reporting, as well as at all services directly or indirectly involved in the production of government accounts and debt. In both cases, the national statistical institutes as national coordinators according to Article 5(1) of Regulation (EC) No 223/2009, shall support the Commission (Eurostat) in the organisation and coordination of the visits. Member States shall ensure that those national authorities and services, and where necessary, their national authorities who have a functional responsibility for the control of the public accounts, provide the Commission officials or other experts referred to in paragraph 1 with the assistance necessary to carry out their duties, including making documents available to justify the reported actual deficit and debt data and the underlying government accounts. Confidential records of the national statistical system as well as other confidential data should be provided to the Commission (Eurostat) only for the purpose of assessing the quality thereof. Experts in national accounting assisting the Commission (Eurostat) in the framework of the methodological visits shall sign a commitment to respect the confidentiality before accessing those confidential records or data.

3. The Commission (Eurostat) shall ensure that officials and experts participating in these visits meet every guarantee as regards technical competence, professional independence and observance of confidentiality.

Article 13

The Commission (Eurostat) shall report to the Economic and Financial Committee on the findings of dialogue and methodological visits, including any comments on these findings made by the Member State concerned. Those reports, along with any comments made by the Member State concerned, after having been transmitted to the Economic and Financial Committee, shall be made public, without prejudice to the provisions concerning statistical confidentiality in Regulation (EC) No 322/97.

CHAPTER IV

PROVISION OF DATA BY THE COMMISSION

(EUROSTAT)

Article 14

1. The Commission (Eurostat) shall provide the actual government deficit and debt data for the application of the Protocol on the excessive deficit procedure, within three weeks after the reporting deadlines referred to in Article 3(1) or after revisions as referred to in Article 6(1). That provision of data shall be effected through publication.
2. The Commission (Eurostat) shall not delay the provision of the actual government deficit and debt data of Member States where a Member State has not reported its own data.

Article 15

1. The Commission (Eurostat) may express a reservation on the quality of the actual data reported by the Member States. No later than three working days before the planned publication date, the Commission (Eurostat) shall communicate to the Member State concerned and to the President of the Economic and Financial Committee the reservation it intends to express and make public. Where the issue is resolved after publication of the data and the reservation, withdrawal of the reservation shall be made public immediately thereafter.
2. The Commission (Eurostat) may amend actual data reported by Member States and provide the amended data and a justification of the amendment where there is evidence that actual data reported by Member States do not comply with the requirements of Article 8(1). No later than three working days before the planned publication date, the Commission (Eurostat) shall communicate to the Member State concerned and to the President of the Economic and Financial Committee the amended data and the justification for the amendment.

CHAPTER V

GENERAL PROVISIONS

Article 16

1. Member States shall ensure that the actual data reported to the Commission (Eurostat) are provided in accordance with the principles established by Article 2 of Regulation (EC) No 223/2009. In this regard, the responsibility of the national statistical authorities is to ensure the compliance of reported data with Article 1 of this Regulation and the underlying ESA 95 accounting rules. Member States shall ensure that the national statistical authorities are provided with access to all relevant information necessary to perform these tasks.
2. Member States shall take appropriate measures to ensure that institutions and officials responsible for the reporting of the actual data to the Commission (Eurostat) and of the underlying government accounts are accountable and act in accordance with principles established by Article 2 of Regulation (EC) No 223/2009.

Article 17

In the event of a revision of ESA 95 or of an amendment to its methodology decided on by the European Parliament and the Council or the Commission in accordance with the rules of competence and procedure laid down in the Treaty and in Regulation (EC) No 2223/96, the Commission shall introduce the new references to ESA 95 into Articles 1 and 3 of this Regulation.

Article 18

Regulation (EC) No 3605/93 is repealed.

References to the repealed Regulation shall be construed as references to this Regulation and be read in accordance with the correlation table set out in Annex II.

Article 19

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

This Regulation shall be binding in its entirety and directly applicable in all Member States.

ANNEX I

Repealed Regulation with list of its successive amendments	
Council Regulation (EC) No 3605/93	(OJ L 332, 31.12.1993, p. 7).
Council Regulation (EC) No 475/2000	(OJ L 58, 3.3.2000, p. 1).
Commission Regulation (EC) No 351/2002	(OJ L 55, 26.2.2002, p. 23).
Council Regulation (EC) No 2103/2005	(OJ L 337, 22.12.2005, p. 1).

ANNEX II

CORRELATION TABLE	
Regulation (EC) No 3605/93	This Regulation
Section 1	Chapter I
Article 1(1) to (5)	Article 1(1) to (5)
Article 2	Article 1(6)
Article 3	Article 2
Section 2	Chapter II
Article 4(1)	Article 3(1)
Article 4(2), first to fifth indents	Article 3(2), points (a) to (e)
Article 4(3), first and second indents	Article 3(3), points (a) and (b)
Article 4(4)	Article 3(4)
Article 5	Article 4
Article 6	Article 5
Article 7	Article 6
Article 8	Article 7
Section 2a	Chapter III
Article 8a(1)	Article 8(1)
Article 8a(2), first subparagraph	Article 8(2), first subparagraph
Article 8a(2), second subparagraph, first to fourth indents	Article 8(2), second subparagraph, points (a) to (d)
Article 8a(2), third subparagraph	Article 8(2), third subparagraph
Article 8a(3)	Article 8(3)
Article 8b	Article 9
Article 8c	Article 10
Article 8d, first paragraph, first and second sentences	Article 11(1)
Article 8d, first paragraph, third sentence	Article 11(3), third subparagraph
Article 8d, second paragraph, first and second sentences	Article 11(2)
Article 8d, second paragraph, third sentence	Article 11(3), second subparagraph
Article 8d, second paragraph, fourth and fifth sentences	Article 11(3), first subparagraph
Article 8d, third paragraph	Article 11(4)
Article 8e	Article 12
Article 8f	Article 13
Section 2b	Chapter IV
Article 8g	Article 14
Article 8h	Article 15
Section 2c	Chapter V
Article 8i	Article 16
Article 8j	Article 17
—	Article 18
—	Article 19
—	Annex I
—	Annex II



COUNCIL REGULATION (EC) No 1466/97⁽¹⁾**of 7 July 1997****on the strengthening of the surveillance of budgetary positions and the
surveillance and coordination of economic policies**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 (5) thereof,

Having regard to the proposal from the Commission⁽²⁾,Acting in accordance with the procedure referred to in Article 189c of the Treaty⁽³⁾,

- (1) Whereas the Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation;
- (2) Whereas the Stability and Growth Pact consists of this Regulation which aims to strengthen the surveillance of budgetary positions and the surveillance and coordination of economic policies, of Council Regulation (EC) No 1467/97⁽⁴⁾ which aims to speed up and to clarify the implementation of the excessive deficit procedure and of the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact⁽⁵⁾, in which, in accordance with Article D of the Treaty on European Union, firm political guidelines are issued in order to implement the Stability and Growth Pact in a strict and timely manner and in particular to adhere to the medium term objective of budgetary positions of close to balance or in surplus, to which all Member States are committed, and to take the corrective budgetary action they deem necessary to meet the objectives of their stability and convergence programmes, whenever they have information indicating actual or expected significant divergence from the medium-term budgetary objective;
- (3) Whereas in stage three of Economic and Monetary Union (EMU) the Member States are, according to Article 104c of the Treaty, under a clear Treaty obligation to avoid excessive general government deficits; whereas under Article 5 of Protocol (No 11) on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland to the Treaty, Article 104c(1) does not apply to the United Kingdom unless it moves to the third stage; whereas the obligation under Article 109e(4) to endeavour to avoid excessive deficits will continue to apply to the United Kingdom;
- (4) Whereas adherence to the medium-term objective of budgetary positions close to balance or in surplus will allow Member States to deal with normal cyclical fluctuations while keeping the government deficit within the 3 % of GDP reference value;
- (5) Whereas it is appropriate to complement the multilateral surveillance procedure of Article 121 (3) and (4) with an early warning system, under which the Council will alert a Member State at an early stage to the need to take the necessary budgetary corrective action in order to prevent a government deficit becoming excessive;
- (6) Whereas the multilateral surveillance procedure of Article 121 (3) and (4) should furthermore continue to monitor the full range of economic developments in each of the Member States and in the Community as well as the consistency of economic policies with the broad economic guidelines referred to in Article 121 (2); whereas for the monitoring of these developments, the presentation of information in the form of stability and convergence programmes is appropriate;
- (7) Whereas there is a need to build upon the useful experience gained during the first two stages of economic and monetary union with convergence programmes;
- (8) Whereas the Member States adopting the single currency, hereafter referred to as 'participating Member States', will, in accordance with Article 109j, have achieved a high degree of sustainable convergence and in particular a sustainable government financial position; whereas the maintenance of sound budgetary positions in these Member States will

(1) <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:01997R1466-20111213>

(2) OJ No C 368, 6. 12. 1996, p. 9.

(3) Opinion of the European Parliament of 28 November 1996 (OJ No C 380, 16. 12. 1996, p. 28), Council Common Position of 14 April 1997 (OJ No C 146, 30. 5. 1997, p. 26) and Decision of the European Parliament of 29 May 1997 (OJ No C 182, 16. 6. 1997).

(4) See p. 6 of this Official Journal

(5) OJ No C 236, 2. 8. 1997, p. 1.

be necessary to support price stability and to strengthen the conditions for the sustained growth of output and employment; whereas it is necessary that participating Member States submit medium-term programmes, hereafter referred to as 'stability programmes'; whereas it is necessary to define the principal contents of such programmes;

- (9) Whereas the Member States not adopting the single currency, hereafter referred to as 'non-participating Member States', will need to pursue policies aimed at a high degree of sustainable convergence; whereas it is necessary that these Member States submit medium-term programmes, hereafter referred to as 'convergence programmes'; whereas it is necessary to define the principal contents of such convergence programmes;
- (10) Whereas in its Resolution of 16 June 1997 on the establishment of an exchange-rate mechanism in the third stage of Economic and Monetary Union, the European Council issued firm political guidelines in accordance with which an exchange-rate mechanism is established in the third stage of EMU, hereafter referred to as 'ERM2'; whereas the currencies of non-participating Member States joining ERM2 will have a central rate vis-à-vis the euro, thereby providing a reference point for judging the adequacy of their policies; whereas the ERM2 will also help to protect them and the Member States adopting the euro from unwarranted pressures in the foreign-exchange markets; whereas, so as to enable appropriate surveillance in the Council, non-participating Member States not joining ERM2 will nevertheless present policies in their convergence programmes oriented to stability thus avoiding real exchange rate misalignments and excessive nominal exchange rate fluctuations;
- (11) Whereas lasting convergence of economic fundamentals is a prerequisite for sustainable exchange rate stability;
- (12) Whereas it is necessary to lay down a timetable for the submission of stability programmes and convergence programmes and their updates;
- (13) Whereas in the interest of transparency and informed public debate it is necessary that Member States make public their stability programmes and their convergence programmes;
- (14) Whereas the Council, when examining and monitoring the stability programmes and the convergence programmes and in particular their medium-term budgetary objective or the targeted adjustment path towards this objective, should take into account the relevant cyclical and structural characteristics of the economy of each Member State;
- (15) Whereas in this context particular attention should be given to significant divergences of budgetary positions from the budgetary objectives of being close to balance or in surplus; whereas it is appropriate for the Council to give an early warning in order to prevent a government deficit in a Member State becoming excessive; whereas in the event of persistent budgetary slippage it will be appropriate for the Council to reinforce its recommendation and make it public; whereas for non-participating Member States the Council may make recommendations on action to be taken to give effect to their convergence programmes;
- (16) Whereas both convergence and stability programmes lead to the fulfilment of the conditions of economic convergence referred to in Article 104c,

HAS ADOPTED THIS REGULATION:

SECTION 1

PURPOSE AND DEFINITIONS

Article 1

This Regulation sets out the rules covering the content, the submission, the examination and the monitoring of stability programmes and convergence programmes as part of multilateral surveillance by the Council and the Commission so as to prevent, at an early stage, the occurrence of excessive general government deficits and to promote the surveillance and coordination of economic policies thereby supporting the achievement of the Union's objectives for growth and employment.

Article 2

For the purpose of this Regulation:

- (a) 'participating Member States' means those Member States whose currency is the euro;
- (b) 'non-participating Member States' means Member States other than those whose currency is the euro.

SECTION 1-A**EUROPEAN SEMESTER FOR ECONOMIC POLICY COORDINATION***Article 2-a*

1. In order to ensure closer coordination of economic policies and sustained convergence of the economic performance of the Member States, the Council shall conduct multilateral surveillance as an integral part of the European Semester for economic policy coordination in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU).
2. The European Semester shall include:
 - (a) the formulation, and the surveillance of the implementation, of the broad guidelines of the economic policies of the Member States and of the Union (broad economic policy guidelines) in accordance with Article 121(2) TFEU;
 - (b) the formulation, and the examination of the implementation, of the employment guidelines that must be taken into account by Member States in accordance with Article 148(2) TFEU (employment guidelines);
 - (c) the submission and assessment of Member States' stability or convergence programmes under this Regulation;
 - (d) the submission and assessment of Member States' national reform programmes supporting the Union's strategy for growth and jobs and established in line with the guidelines set out in point (a) and (b) and with the general guidance to Member States issued by the Commission and the European Council at the beginning of the annual cycle of surveillance;
 - (e) the surveillance to prevent and correct macroeconomic imbalances under Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances⁽¹⁾.

3. In the course of the European Semester, in order to provide timely and integrated policy advice on macrofiscal and macrostructural policy intentions, the Council shall, as a rule, following the assessment of these programmes on the basis of recommendations from the Commission, address guidance to the Member States making full use of the legal instruments provided under Articles 121 and 148 TFEU, and under this Regulation and Regulation (EU) No 1176/2011.

Member States shall take due account of the guidance addressed to them in the development of their economic, employment and budgetary policies before taking key decisions on their national budgets for the succeeding years. Progress shall be monitored by the Commission.

Failure by a Member State to act upon the guidance received may result in:

- (a) further recommendations to take specific measures;
- (b) a warning by the Commission under Article 121(4) TFEU;
- (c) measures under this Regulation, Regulation (EC) No 1467/97 or Regulation (EU) No 1176/2011.

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

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

The President of the Council, and the Commission in accordance with Article 121 TFEU, and, where appropriate, the President of the Eurogroup, shall report annually to the European Parliament and to the European Council on the results of the multilateral surveillance. These reports should be a component of the Economic Dialogue referred to in Article 2-ab of this Regulation.

(1) OJ L 306, 23.11.2011, p. 25.

SECTION 1-AA**ECONOMIC DIALOGUE***Article 2-ab*

1. In order to enhance the dialogue between the institutions of the Union, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, the competent committee of the European Parliament may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss:
 - (a) information provided to the committee by the Council on the broad guidelines of economic policy pursuant to Article 121(2) TFEU;
 - (b) general guidance to Member States issued by the Commission at the beginning of the annual cycle of surveillance;
 - (c) any conclusions drawn by the European Council on orientations for economic policies in the context of the European Semester;
 - (d) the results of multilateral surveillance carried out under this Regulation;
 - (e) any conclusions drawn by the European Council on the orientations for and results of multilateral surveillance;
 - (f) any review of the conduct of multilateral surveillance at the end of the European Semester;
 - (g) Council recommendations addressed to Member States in accordance with Article 121(4) TFEU in the event of significant deviation and the report made by the Council to the European Council as defined in Article 6(2) and Article 10(2) of this Regulation.
2. The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly.
3. The competent committee of the European Parliament may offer the opportunity to a Member State which is the subject of a Council recommendation under Article 6(2) or Article 10(2) to participate in an exchange of views.
4. The Council and the Commission shall regularly inform the European Parliament of the application of this Regulation.

SECTION 1A**MEDIUM-TERM BUDGETARY OBJECTIVES***Article 2a*

Each Member State shall have a differentiated medium-term objective for its budgetary position. These country-specific medium-term budgetary objectives may diverge from the requirement of a close to balance or in surplus position, while providing a safety margin with respect to the 3 % of GDP government deficit ratio. The medium-term budgetary objectives shall ensure the sustainability of public finances or a rapid progress towards such sustainability while allowing room for budgetary manoeuvre, considering in particular the need for public investment.

Taking these factors into account, for participating Member States and for Member States that are participating in ERM2 the country-specific medium-term budgetary objectives shall be specified within a defined range between -1 % of GDP and balance or surplus, in cyclically adjusted terms, net of one-off and temporary measures.

The medium-term budgetary objective shall be revised every 3 years. A Member State's medium-term budgetary objective may be further revised in the event of the implementation of a structural reform with a major impact on the sustainability of public finances.

The respect of the medium-term budgetary objective shall be included in the national medium-term budgetary frameworks in accordance with Chapter IV of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States⁽¹⁾.

SECTION 2**STABILITY PROGRAMMES***Article 3*

1. Each participating Member State shall submit to the Council and to the Commission information necessary for the purpose of multilateral surveillance at regular intervals under Article 121 TFEU in the form of a stability programme, which provides an essential basis for the sustainability of public finances which is conducive to price stability, strong sustainable growth and employment creation.

(1) OJ L 306, 23.11.2011, p. 41.

2. A stability programme shall present the following information:
 - (a) the medium-term budgetary objective and the adjustment path towards that objective for the general government balance as a percentage of GDP, the expected path of the general government debt ratio, the planned growth path of government expenditure, including the corresponding allocation for gross fixed capital formation, in particular bearing in mind the conditions and criteria to establish the expenditure growth under Article 5(1), the planned growth path of government revenue at unchanged policy and a quantification of the planned discretionary revenue measures;
 - (aa) information on implicit liabilities related to ageing, and contingent liabilities, such as public guarantees, with a potentially large impact on the general government accounts;
 - (ab) information on the consistency of the stability programme with the broad economic policy guidelines and the national reform programme;
 - (b) the main assumptions about expected economic developments and important economic variables which are relevant to the achievement of the stability programme, such as government investment expenditure, real GDP growth, employment and inflation;
 - (c) a quantitative assessment of the budgetary and other economic policy measures being taken or proposed to achieve the objectives of the programme, comprising a cost-benefit analysis of major structural reforms which have direct long-term positive budgetary effects, including by raising potential sustainable growth;
 - (d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position;
 - (e) if applicable, the reasons for a deviation from the required adjustment path towards the medium term budgetary objective.
- 2a. The stability programme shall be based on the most likely macrofiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts shall be compared with the most updated Commission forecasts and, if appropriate, those of other independent bodies. Significant differences between the chosen macrofiscal scenario and the Commission's forecast shall be described with reasoning, in particular if the level or growth of external assumptions departs significantly from the values retained in the Commission's forecasts.

The exact nature of the information included in points (a), (aa), (b), (c) and (d) of paragraph 2 shall be set out in a harmonised framework established by the Commission in cooperation with the Member States.
3. The information about the paths for the general government balance and debt ratio, the growth of government expenditure, the planned growth path of government revenue at unchanged policy, the planned discretionary revenue measures, appropriately quantified, and the main economic assumptions referred to in points (a) and (b) of paragraph 2 shall be on an annual basis and shall cover the preceding year, the current year and at least the following 3 years.
4. Each programme shall include information on its status in the context of national procedures, in particular whether the programme was presented to the national parliament, and whether the national parliament had the opportunity to discuss the Council's opinion on the previous programme or, if relevant, any recommendation or warning, and whether there has been parliamentary approval of the programme.

Article 4

1. Stability programmes shall be submitted annually in April, preferably by mid-April and not later than 30 April.
2. Member States shall make public their stability programmes.

Article 5

1. Based on assessments by the Commission and the Economic and Financial Committee, the Council shall, within the framework of multilateral surveillance under Article 121 TFEU, examine the medium-term budgetary objectives presented by the Member States concerned in their stability programmes, assess whether the economic assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate, including consideration of the accompanying path for the debt ratio, and whether the measures being taken or proposed to respect that adjustment path are sufficient to achieve the medium-term budgetary objective over the cycle.

The Council and the Commission, when assessing the adjustment path toward the medium-term budgetary objective, shall examine if the Member State concerned pursues an appropriate annual improvement of its cyclically-adjusted budget balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0,5 % of GDP as a benchmark. For Member States faced with a debt level exceeding 60 % of GDP or with pronounced risks of overall debt sustainability, the Council and the Commission shall examine whether the annual improvement of the cyclically-adjusted budget balance, net of one-off and other temporary measures is higher than

improvement of the cyclically-adjusted budget balance, net of one-off and other temporary measures is higher than 0,5 % of GDP. The Council and the Commission shall take into account whether a higher adjustment effort is made in economic good times, whereas the effort might be more limited in economic bad times. In particular, revenue windfalls and shortfalls shall be taken into account.

Sufficient progress towards the medium-term budgetary objective shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures. To this end, the Council and the Commission shall assess whether the growth path of government expenditure, taken in conjunction with the effect of measures being taken or planned on the revenue side, is in accordance with the following conditions:

- (a) for Member States that have achieved their medium-term budgetary objective, annual expenditure growth does not exceed a reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures;
- (b) for Member States that have not yet reached their medium-term budgetary objective, annual expenditure growth does not exceed a rate below a reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures. The size of the shortfall of the growth rate of government expenditure compared to a reference medium-term rate of potential GDP growth is set in such a way as to ensure an appropriate adjustment towards the medium-term budgetary objective;
- (c) for Member States that have not yet reached their medium-term budgetary objective, discretionary reductions of government revenue items are matched either by expenditure reductions or by discretionary increases in other government revenue items or both.

The expenditure aggregate shall exclude interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure.

The excess expenditure growth over the medium-term reference shall not be counted as a breach of the benchmark to the extent that it is fully offset by revenue increases mandated by law.

The reference medium-term rate of potential GDP growth shall be determined on the basis of forward-looking projections and backward-looking estimates. Projections shall be updated at regular intervals. The Commission shall make public the calculation method for those projections and the resulting reference medium-term rate of potential GDP growth.

When defining the adjustment path to the medium-term budgetary objective for Member States that have not yet reached this objective, and in allowing a temporary deviation from this objective for Member States that have already reached it, provided that an appropriate safety margin with respect to the deficit reference value is preserved and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period, the Council and the Commission shall take into account the implementation of major structural reforms which have direct long-term positive budgetary effects, including by raising potential sustainable growth, and therefore a verifiable impact on the long-term sustainability of public finances.

Particular attention shall be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Member States implementing such reforms shall be allowed to deviate from the adjustment path to their medium-term budgetary objective or from the objective itself, with the deviation reflecting the amount of the direct incremental impact of the reform on the general government balance, provided that an appropriate safety margin with respect to the deficit reference value is preserved.

The Council and the Commission shall also examine whether the stability programme facilitates the achievement of sustained and real convergence within the euro area and the closer coordination of economic policies, and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines and the employment guidelines of the Member States and of the Union.

In the case of an unusual event outside the control of the Member State concerned which has a major impact on the financial position of the general government or in periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph, provided that this does not endanger fiscal sustainability in the medium term.

2. The Council and the Commission shall examine the stability programme within at most 3 months of its submission. The Council, on a recommendation from the Commission and after consulting the Economic and Financial Committee, shall, if necessary, adopt an opinion on the programme. Where the Council, in accordance with Article 121 TFEU, considers that the objectives and the content of the programme should be strengthened with particular reference to the adjustment path towards the medium-term budgetary objective, the Council shall in its opinion invite the Member State concerned to adjust its programme.

Article 6

1. As part of multilateral surveillance in accordance with Article 121(3) TFEU, the Council and the Commission shall monitor the implementation of stability programmes, on the basis of information provided by participating Member States and of assessments by the Commission and the Economic and Financial Committee, in particular with a view to identifying actual or expected significant divergences of the budgetary position from the medium-term budgetary objective, or from the appropriate adjustment path towards it.
2. In the event of a significant observed deviation from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph of Article 5(1) of this Regulation, and in order to prevent the occurrence of an excessive deficit, the Commission shall address a warning to the Member State concerned in accordance with Article 121(4) TFEU.

The Council shall, within 1 month of the date of adoption of the warning referred to in the first subparagraph, examine the situation and adopt a recommendation for the necessary policy measures, on the basis of a Commission recommendation, based on Article 121(4) TFEU. The recommendation shall set a deadline of no more than 5 months for addressing the deviation. The deadline shall be reduced to 3 months if the Commission, in its warning, considers that the situation is particularly serious and warrants urgent action. The Council, on a proposal from the Commission, shall make the recommendation public.

Within the deadline set by the Council in the recommendation under Article 121(4) TFEU, the Member State concerned shall report to the Council on action taken in response to the recommendation.

If the Member State concerned fails to take appropriate action within the deadline specified in a Council recommendation under the second subparagraph, the Commission shall immediately recommend to the Council to adopt, by qualified majority, a decision establishing that no effective action has been taken. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

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

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

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

3. A deviation from the medium-term budgetary objective or from the appropriate adjustment path towards it shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures, as defined in Article 5(1).

The assessment of whether the deviation is significant shall, in particular, include the following criteria:

- (a) for a Member State that has not reached the medium-term budgetary objective, when assessing the change in the structural balance, whether the deviation is at least 0,5 % of GDP in a single year or at least 0,25 % of GDP on average per year in 2 consecutive years;
- (b) when assessing expenditure developments net of discretionary revenue measures, whether the deviation has a total impact on the government balance of at least 0,5 % of GDP in a single year or cumulatively in 2 consecutive years.

The deviation of expenditure developments shall not be considered significant if the Member State concerned has overachieved the medium-term budgetary objective, taking into account the possibility of significant revenue windfalls and the budgetary plans laid out in the stability programme do not jeopardise that objective over the programme period.

Similarly, the deviation may be left out of consideration when it results from an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in case of severe economic downturn for the euro area or the Union as a whole, provided that this does not endanger fiscal sustainability in the medium-term.

SECTION 3**CONVERGENCE PROGRAMMES***Article 7*

1. Each non-participating Member State shall submit to the Council and to the Commission information necessary for the purpose of multilateral surveillance at regular intervals under Article 121 TFEU in the form of a convergence programme, which provides an essential basis for the sustainability of public finances which is conducive to price stability, strong sustainable growth and employment creation.
2. A convergence programme shall present the following information in particular on variables related to convergence:
 - (a) the medium-term budgetary objective and the adjustment path towards this objective for the general government balance as a percentage of GDP, the expected path of the general government debt ratio, the planned growth path of government expenditure, including the corresponding allocation for gross fixed capital formation, in particular bearing in mind the conditions and criteria to establish the expenditure growth under Article 9(1), the planned growth path of government revenue at unchanged policy and a quantification of the planned discretionary revenue measures, the medium-term monetary policy objectives, the relationship of those objectives to price and exchange rate stability and to the achievement of sustained convergence;
 - (aa) information on implicit liabilities related to ageing, and contingent liabilities, such as public guarantees, with a potentially large impact on the general government accounts;
 - (ab) information on the consistency of the convergence programme with the broad economic policy guidelines and the national reform programme;
 - (b) the main assumptions about expected economic developments and important economic variables which are relevant to the achievement of the convergence programme, such as government investment expenditure, real GDP growth, employment and inflation;
 - (c) a quantitative assessment of the budgetary and other economic policy measures being taken or proposed to achieve the objectives of the programme, comprising a cost-benefit analysis of major structural reforms, which have direct long-term positive budgetary effects, including by raising potential sustainable growth;
 - (d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position;
 - (e) if applicable, the reasons for a deviation from the required adjustment path towards the medium term budgetary objective.
- 2a. The convergence programme shall be based on the most likely macrofiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts shall be compared with the most updated Commission forecasts and, if appropriate, those of other independent bodies. Significant differences between the chosen macrofiscal scenario and the Commission forecast shall be described with reasoning, in particular if the level or growth of external assumptions departs significantly from the values retained in the Commission's forecasts.
 The exact nature of the information included in points (a), (aa), (b), (c) and (d) of paragraph 2 shall be set out in a harmonised framework established by the Commission in cooperation with the Member States.
3. The information about the paths for the general government balance and debt ratio, the growth of government expenditure, the planned growth path of government revenue at unchanged policy, the planned discretionary revenue measures, appropriately quantified, and the main economic assumptions referred to in points (a) and (b) of paragraph 2 shall be on an annual basis and shall cover the preceding year, the current year and at least the following 3 years.
4. Each programme shall include information on its status in the context of national procedures, in particular whether the programme was presented to the national parliament, and whether the national parliament had the opportunity to discuss the Council opinion on the previous programme or, if relevant, any recommendation or warning, and whether there has been parliamentary approval of the programme.

Article 8

1. Convergence programmes shall be submitted annually in April, preferably by mid April and not later than 30 April.
2. Member States shall make public their convergence programmes.

Article 9

1. Based on assessments by the Commission and the Economic and Financial Committee, the Council shall, within the framework of multilateral surveillance under Article 121 TFEU, examine the medium-term budgetary objectives presented by the Member States concerned in their convergence programmes, assess whether the economic

assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate, including consideration of the accompanying path for the debt ratio, and whether the measures being taken or proposed to respect that adjustment path are sufficient to achieve the medium-term budgetary objective over the cycle and to achieve sustained convergence.

The Council and the Commission, when assessing the adjustment path toward the medium-term budgetary objective, shall take into account whether a higher adjustment effort is made in economic good times, whereas the effort might be more limited in economic bad times. In particular, revenue windfalls and shortfalls shall be taken into account. For Member States faced with a debt level exceeding 60 % of GDP or with pronounced risks of overall debt sustainability, the Council and the Commission shall examine whether the annual improvement of the cyclically-adjusted budget balance, net of one-off and other temporary measures, is higher than 0,5 % of GDP. For Member States that are participating in ERM2, the Council and the Commission shall examine if the Member State concerned pursues an appropriate annual improvement of its cyclically adjusted balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0,5 % of GDP as a benchmark.

Sufficient progress towards the medium-term budgetary objective shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures. To this end, the Council and the Commission shall assess whether the growth path of government expenditure, taken in conjunction with the effect of measures being taken or planned on the revenue side, is in accordance with the following conditions:

- (a) for Member States that have achieved their medium-term budgetary objective, annual expenditure growth does not exceed a reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures;
- (b) for Member States that have not yet reached their medium-term budgetary objective, annual expenditure growth does not exceed a rate below a reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures. The size of the shortfall of the growth rate of government expenditure compared to a reference medium-term rate of potential GDP growth is set in such a way as to ensure an appropriate adjustment towards the medium-term budgetary objective;
- (c) for Member States that have not yet reached their medium-term budgetary objective, discretionary reductions of government revenue items are matched either by expenditure reductions or by discretionary increases in other government revenue items or both.

The expenditure aggregate shall exclude interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure.

The excess expenditure growth over the medium-term reference shall not be counted as a breach of the benchmark to the extent that it is fully offset by revenue increases mandated by law.

The reference medium-term rate of potential GDP growth shall be determined on the basis of forward-looking projections and backward-looking estimates. Projections shall be updated at regular intervals. The Commission shall make public the calculation method for those projections and the resulting reference medium-term rate of potential GDP growth.

When defining the adjustment path to the medium-term budgetary objective for Member States that have not yet reached this objective, and in allowing a temporary deviation from this objective for Member States that have already reached it, provided that an appropriate safety margin with respect to the deficit reference value is preserved and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period, the Council and the Commission shall take into account the implementation of major structural reforms which have direct long-term positive budgetary effects, including by raising potential sustainable growth, and therefore a verifiable impact on the long-term sustainability of public finances.

Particular attention shall be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Member States implementing such reforms shall be allowed to deviate from the adjustment path to their medium-term budgetary objective or from the objective itself, with the deviation reflecting the amount of the direct incremental impact of the reform on the general government balance, provided that an appropriate safety margin with respect to the deficit reference value is preserved.

The Council and the Commission shall also examine whether the convergence programme facilitates the achievement of sustained and real convergence and the closer coordination of economic policies, and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines and the employment guidelines of the Member States and of the Union. In addition, for Member States that are participating in ERM2, the Council shall examine whether the convergence programme ensures a smooth participation in the exchange rate mechanism.

In the case of an unusual event outside the control of the Member State concerned, which has a major impact on the financial position of the general government or in periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph, provided that this does not endanger fiscal sustainability in the medium term.

2. The Council and the Commission shall examine the convergence programme within at most 3 months of its submission. The Council, on a recommendation from the Commission and after consulting the Economic and Financial Committee, shall, if necessary, adopt an opinion on the programme. Where the Council, in accordance with Article 121 TFEU, considers that the objectives and the content of the programme should be strengthened with particular reference to the adjustment path towards the medium-term budgetary objective, the Council shall in its opinion invite the Member State concerned to adjust its programme.

Article 10

1. As part of multilateral surveillance in accordance with Article 121(3) TFEU, the Council and the Commission shall monitor the implementation of convergence programmes, on the basis of information provided by Member States with a derogation and of assessments by the Commission and the Economic and Financial Committee, in particular with a view to identifying actual or expected significant divergences of the budgetary position from the medium-term budgetary objective, or from the appropriate adjustment path towards it.

In addition, the Council and the Commission shall monitor the economic policies of non-participating Member States in the light of convergence programme objectives with a view to ensure that their policies are geared to stability and thus to avoid real exchange rate misalignments and excessive nominal exchange rate fluctuations.

2. In the event of a significant observed deviation from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph of Article 9(1) of this Regulation, and in order to prevent the occurrence of an excessive deficit, the Commission shall address a warning to the Member State concerned in accordance with Article 121(4) TFEU.

The Council shall, within 1 month of the date of adoption of the warning referred to in the first subparagraph, examine the situation and adopt a recommendation for the necessary policy measures, on the basis of a Commission recommendation, based on Article 121(4) TFEU. The recommendation shall set a deadline of no more than 5 months for addressing the deviation. The deadline shall be reduced to 3 months if the Commission, in its warning, considers that the situation is particularly serious and warrants urgent action. The Council, on a proposal from the Commission, shall make the recommendation public.

Within the deadline set by the Council in the recommendation under Article 121(4) TFEU, the Member State concerned shall report to the Council on action taken in response to the recommendation.

If the Member State concerned fails to take appropriate action within the deadline specified in a Council recommendation under the second subparagraph, the Commission shall immediately recommend to the Council to adopt, by qualified majority, a decision establishing that no effective action has been taken. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

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

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

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

3. A deviation from the medium-term budgetary objective or from the appropriate adjustment path towards it shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures, as defined in Article 9(1).

The assessment of whether the deviation is significant shall, in particular, include the following criteria:

- (a) for a Member State that has not reached the medium-term budgetary objective, when assessing the change in the structural balance, whether the deviation is at least 0,5 % of GDP in a single year or at least 0,25 % of GDP on average per year in two consecutive years;

- (b) when assessing expenditure developments net of discretionary revenue measures, whether the deviation has a total impact on the government balance of at least 0,5 % of GDP in a single year or cumulatively in two consecutive years.

The deviation of expenditure developments shall not be considered significant if the Member State concerned has overachieved the medium-term budgetary objective, taking into account the possibility of significant revenue windfalls and the budgetary plans laid out in the convergence programme do not jeopardise that objective over the programme period.

Similarly, the deviation may be left out of consideration when resulting from an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in case of severe economic downturn for the euro area or the Union as a whole, on the condition that this does not endanger fiscal sustainability in the medium term.

SECTION 3A

PRINCIPLE OF STATISTICAL INDEPENDENCE

Article 10a

With a view to ensuring that the multilateral surveillance is based on sound and independent statistics, Member States shall ensure the professional independence of national statistical authorities, which shall be consistent with the European statistics code of practice as laid down in Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European Statistics⁽¹⁾. As a minimum this shall require:

- (a) transparent recruitment and dismissal processes which must be solely based on professional criteria;
- (b) budgetary allocations which must be made on an annual or a multiannual basis;
- (c) the date of publication of key statistical information which must be designated significantly in advance.

SECTION 4

COMMON PROVISIONS

Article -11

1. The Commission shall ensure a permanent dialogue with the relevant authorities of the Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular, carry out missions for the purpose of the assessment of the economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.
2. The Commission may undertake enhanced surveillance missions in Member States which are the subject of recommendations issued under Article 6(2) or Article 10(2) for the purposes of on-site monitoring. The Member States concerned shall provide all necessary information for the preparation and the conduct of those missions.
3. When the Member State concerned is a participating Member State or a Member State that is participating in ERM2, the Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions.
4. The Commission shall report to the Council on the outcome of the missions referred to in paragraph 2 and, if appropriate, may decide to make its findings public.
5. When organising the missions referred to in paragraph 2, the Commission shall transmit its provisional findings to the Member States concerned for comments.

Article 11

As part of the multilateral surveillance described in this Regulation, the Council shall carry out the overall assessment described in Article 121 (3).

Article 12

In accordance with the second subparagraph of Article 121 (4) the President of the Council and the Commission shall include in their report to the European Parliament the results of the multilateral surveillance carried out under this Regulation.

(1) OJ L 87, 31.3.2009, p. 164.

Article 12a

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

That report shall evaluate, inter alia:

- (a) the effectiveness of this Regulation, particularly whether the provisions governing decision-making have proved sufficiently robust;
 - (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU.
2. Where appropriate, this report shall be accompanied by a proposal for amendments to this Regulation, including to the decision-making procedures.
3. The report shall be forwarded to the European Parliament and the Council.

Article 13

This Regulation shall enter into force on 1 July 1998.

This Regulation shall be binding in its entirety and directly applicable in all Member States.



COUNCIL REGULATION (EC) No 1467/97⁽¹⁾**of 7 July 1997****on speeding up and clarifying the implementation of the excessive deficit procedure**

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to the proposal from the Commission⁽²⁾,

Having regard to the opinion of the European Parliament⁽³⁾,

Having regard to the opinion of the European Monetary Institute,

- (1) Whereas it is necessary to speed up and to clarify the excessive deficit procedure set out in Article 126 TFEU in order to deter excessive general government deficits and, if they occur, to further their prompt correction; whereas the provisions of this Regulation, which are to the above effect and adopted under Article 126(14) second subparagraph, constitute, together with those of Protocol (No 5) to the Treaty, a new integrated set of rules for the application of Article 126;
- (2) Whereas the Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation;
- (3) Whereas the Stability and Growth Pact consists of this Regulation, of Council Regulation (EC) No 1466/97⁽⁴⁾ which aims to strengthen the surveillance of budgetary positions and the surveillance and coordination of economic policies and of the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact⁽⁵⁾, in which, in accordance with Article 4 of the Treaty on European Union, firm political guidelines are issued in order to implement the manner and in particular to adhere to the medium term objective for budgetary positions of close to balance or in surplus, to which all Member States are committed, and to take the corrective budgetary action they deem necessary to meet the objectives of their stability and convergence programmes, whenever they have information indicating actual or expected significant divergence from the medium-term budgetary objective;
- (4) Whereas in stage three of Economic and Monetary Union (EMU) the Member States are, according to Article 126 TFEU, under a clear Treaty obligation to avoid excessive government deficits; whereas under Article 5 of Protocol (No 11) to the Treaty, paragraphs 1, 9 and 11 of Article 126 do not apply to the United Kingdom unless it moves to the third stage; whereas the obligation under Article 116 (4) to endeavour to avoid excessive deficits will continue to apply to the United Kingdom;
- (5) Whereas Denmark, referring to paragraph 1 of Protocol (No 12) to the Treaty has notified, in the context of the Edinburgh decision of 12 December 1992, that it will not participate in the third stage; whereas, therefore, in accordance with paragraph 2 of the said Protocol, paragraph 9 and 11 of Article 126 shall not apply to Denmark;
- (6) Whereas in stage three of EMU Member States remain responsible for their national budgetary policies, subject to the provisions of the Treaty; whereas the Member States will take the necessary measures in order to meet their responsibilities in accordance with the provisions of the Treaty;
- (7) Whereas adherence to the medium-term objective of budgetary positions close to balance or in surplus to which all Member States are committed, contributes to the creation of the appropriate conditions for price stability and for sustained growth conducive to employment creation in all Member States and will allow them to deal with normal cyclical fluctuations while keeping the government deficit within the 3 % of GDP reference value;
- (8) Whereas for EMU to function properly, it is necessary that convergence of economic and budgetary performances of Member States which have adopted the single currency, hereafter referred to as 'participating Member States', proves stable and durable; whereas budgetary discipline is necessary in stage three of EMU to safeguard price stability;

(1) <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:01997R1467-20111213>

(2) OJ No C 368, 6. 12. 1996, p. 12.

(3) OJ No C 380, 16. 12. 1996, p. 29.

(4) See p. 1 of this Official Journal.

(5) OJ No C 236, 2. 8. 1997, p. 1.

- (9) Whereas according to Article 109k (3) Article 126(9) and (11) only apply to participating Member States;
- (10) Whereas it is necessary to define the concept of an exceptional and temporary excess over the reference value as referred to in Article 126(2) (a); whereas the Council should in this context, *inter alia*, take account of the pluriannual budgetary forecasts provided by the Commission;
- (11) Whereas a Commission report in accordance with Article 126(3) is also to take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State;
- (12) Whereas there is a need to establish deadlines for the implementation of the excessive deficit procedure in order to ensure its expeditious and effective implementation; whereas it is necessary in this context to take account of the fact that the budgetary year of the United Kingdom does not coincide with the calendar year;
- (13) Whereas there is a need to specify how the sanctions provided for in Article 126 could be imposed in order to ensure the effective implementation of the excessive deficit procedure;
- (14) Whereas reinforced surveillance under the Council Regulation (EC) No 1466/97 together with the Commission's monitoring of budgetary positions in accordance with paragraph 2 of Article 126 should facilitate the effective and rapid implementation of the excessive deficit procedure;
- (15) Whereas in the light of the above, in the event that a participating Member State fails to take effective action to correct an excessive deficit, an overall maximum period of ten months from the reporting date of the figures indicating the existence of an excessive deficit until the decision to impose sanctions, if necessary, seems both feasible and appropriate in order to exert pressure on the participating Member State concerned to take such action; in this event, and if the procedure starts in March, this would lead to sanctions being imposed within the calendar year in which the procedure had been started;
- (16) Whereas the Council recommendation for the correction of an excessive deficit or the later steps of the excessive deficit procedure, should have been anticipated by the Member State concerned, which would have had an early warning; whereas the seriousness of an excessive deficit in stage three should call for urgent action from all those involved;
- (17) Whereas it is appropriate to hold the excessive deficit procedure in abeyance if the Member State concerned takes appropriate action in response to a recommendation under Article 126(7) or a notice issued under Article 126(9) in order to provide an incentive to Member States to act accordingly; whereas the time period during which the procedure would be held in abeyance should not be included in the maximum period of ten months between the reporting date indicating the existence of an excessive deficit and the imposition of sanctions; whereas it is appropriate to resume the procedure immediately if the envisaged action is not being implemented or if the implemented action is proving to be inadequate;
- (18) Whereas, in order to ensure that the excessive deficit procedure has a sufficient deterrent effect, a non-interest-bearing deposit of an appropriate size should be required from the participating Member State concerned, whenever the Council decides to impose a sanction;
- (19) Whereas the definition of sanctions on a prescribed scale is conducive to legal certainty; whereas it is appropriate to relate the amount of the deposit to the GDP of the participating Member State concerned;
- (20) Whereas, whenever the imposition of a non-interest-bearing deposit does not induce the participating Member State concerned to correct its excessive deficit in due time, it is appropriate to intensify the sanctions; whereas it is then appropriate to transform the deposit into a fine;
- (21) Whereas appropriate action by the participating Member State concerned in order to correct its excessive deficit is the first step towards abrogation of sanctions; whereas significant progress in correcting the excessive deficit should allow for the lifting of sanctions in accordance with paragraph 12 of Article 126; whereas the abrogation of all outstanding sanctions should only occur once the excessive deficit has been totally corrected;
- (22) Whereas Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community contains detailed rules for the reporting of budgetary data by Member States;
- (23) Whereas, according to Article 117 (8), where the Treaty provides for a consultative role for the European Central Bank (ECB), references to the ECB shall be read as referring to the European Monetary Institute before the establishment of the ECB,

HAS ADOPTED THIS REGULATION:

SECTION 1

DEFINITIONS AND ASSESSMENTS

Article 1

1. This Regulation lays down the provisions for speeding up and clarifying the excessive deficit procedure. The objective of the excessive deficit procedure is to deter excessive government deficits and, if they occur, to further prompt their correction, where compliance with the budgetary discipline is examined on the basis of the government deficit and government debt criteria.
2. For the purposes of this Regulation, 'participating Member States' shall mean those Member States whose currency is the euro.

Article 2

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

In addition, the excess over the reference value shall be considered temporary if budgetary forecasts as provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

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

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

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

2. The Commission and the Council, when assessing and deciding upon the existence of an excessive deficit in accordance with Article 126(3) to (6) TFEU, may consider an excess over the reference value resulting from a severe economic downturn as exceptional in the sense of the second indent of Article 126(2)(a) if the excess over the reference value results from a negative annual GDP volume growth rate or from an accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential.
3. The Commission, when preparing a report under Article 126(3) TFEU, shall take into account all relevant factors as indicated in that Article, in so far as they significantly affect the assessment of compliance with the deficit and debt criteria by the Member State concerned. The report shall reflect, as appropriate:
 - (a) the developments in the medium-term economic position, in particular potential growth, including the various contributions provided by labour, capital accumulation and total factor productivity, cyclical developments, and the private sector net savings position;
 - (b) the developments in the medium-term budgetary positions, including, in particular, the record of adjustment towards the medium-term budgetary objective, the level of the primary balance and developments in primary expenditure, both current and capital, the implementation of policies in the context of the prevention and correction of excessive macroeconomic imbalances, the implementation of policies in the context of the common growth strategy of the Union, and the overall quality of public finances, in particular the effectiveness of national budgetary frameworks;
 - (c) the developments in the medium-term government debt position, its dynamics and sustainability, including, in particular, risk factors including the maturity structure and currency denomination of the debt, stock-flow adjustment and its composition, accumulated reserves and other financial assets, guarantees, in particular those linked to the financial sector, and any implicit liabilities related to ageing and private debt, to the extent that it may represent a contingent implicit liability for the government.

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

4. The Council and the Commission shall make a balanced overall assessment of all the relevant factors, specifically, the extent to which they affect the assessment of compliance with the deficit and/or the debt criteria as aggravating or mitigating factors. When assessing compliance on the basis of the deficit criterion, if the ratio of the government debt to GDP exceeds the reference value, those factors shall be taken into account in the steps leading to the decision on the existence of an excessive deficit provided for in paragraphs 4, 5 and 6 of Article 126 TFEU only if the double condition of the overarching principle — that, before these relevant factors are taken into account, the general government deficit remains close to the reference value and its excess over the reference value is temporary — is fully met.

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

5. When assessing compliance with the deficit and debt criterion and in the subsequent steps of the excessive deficit procedure, the Council and the Commission shall give due consideration to the implementation of pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar and the net cost of the publicly managed pillar. In particular, consideration shall be given to the features of the overall pension system created by the reform, namely whether it promotes long-term sustainability while not increasing risks for the medium-term budgetary position.
6. If the Council, acting under Article 126(6) TFEU, decides that an excessive deficit exists in a Member State, the Council and the Commission shall, in the subsequent procedural steps of that Article of the TFEU, take into account the relevant factors referred to in paragraph 3 of this Article, as they affect the situation of the Member State concerned, including as specified in Article 3(5) and Article 5(2) of this Regulation, in particular in establishing a deadline for the correction of the excessive deficit and eventually extending that deadline. However, those relevant factors shall not be taken into account for the decision of the Council under Article 126(12) TFEU on the abrogation of some or all of its decisions under paragraphs 6 to 9 and 11 of Article 126 TFEU.
7. In the case of Member States where the excess of the deficit over the reference value reflects the implementation of a pension reform introducing a multi-pillar system that includes a mandatory, fully funded pillar, the Council and the Commission shall also consider the cost of the reform when assessing developments of deficit figures in excessive deficit procedures as long as the deficit does not significantly exceed a level that can be considered close to the reference value, and the debt ratio does not exceed the reference value, provided that overall fiscal sustainability is maintained. The net cost shall be taken into account also for the decision of the Council under Article 126(12) TFEU on the abrogation of some or all of its decisions under paragraphs 6 to 9 and 11 of Article 126 TFEU, if the deficit has declined substantially and continuously and has reached a level that comes close to the reference value.

SECTION 1A

ECONOMIC DIALOGUE

Article 2a

1. In order to enhance the dialogue between the institutions of the Union, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, the competent committee of the European Parliament may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup, to appear before the committee to discuss Council decisions under Article 126(6) TFEU, Council recommendations under Article 126(7) TFEU, notices under Article 126(9) TFEU, or Council decisions under Article 126(11) TFEU.

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

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

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

SECTION 2

SPEEDING UP THE EXCESSIVE DEFICIT PROCEDURE

Article 3

1. Within two weeks of the adoption by the Commission of a report issued in accordance with Article 126(3), the Economic and Financial Committee shall formulate an opinion in accordance with Article 126(4).
2. Taking fully into account the opinion referred to in paragraph 1, the Commission, if it considers that an excessive deficit exists, shall address an opinion and a proposal to the Council in accordance with paragraphs 5 and 6 of Article 126 TFEU and shall inform the European Parliament thereof.
3. The Council shall decide on the existence of an excessive deficit in accordance with Article 126(6) TFEU, as a rule within four months of the reporting dates established in Article 3(2) and (3) of Regulation (EC) No 479/2009. When it decides that an excessive deficit exists, the Council shall at the same time make recommendations to the Member State concerned in accordance with Article 126(7) TFEU.
4. The Council recommendation made in accordance with Article 126(7) TFEU shall establish a maximum deadline of six months for effective action to be taken by the Member State concerned. When warranted by the seriousness of the situation, the deadline for effective action may be three months. The Council recommendation shall also establish a deadline for the correction of the excessive deficit, which shall be completed in the year following its identification unless there are special circumstances. In its recommendation, the Council shall request that the Member State achieve annual budgetary targets which, on the basis of the forecast underpinning the recommendation, are consistent with a minimum annual improvement of at least 0,5 % of GDP as a benchmark, in its cyclically adjusted balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the recommendation.
- 4a. Within the deadline provided for in paragraph 4, the Member State concerned shall report to the Council and the Commission on action taken in response to the Council's recommendation under Article 126(7) TFEU. The report shall include the targets for government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side consistent with the Council's recommendation, as well as information on the measures taken and the nature of those envisaged to achieve the targets. The Member State shall make the report public.
5. If effective action has been taken in compliance with a recommendation under Article 126(7) TFEU and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that recommendation, the Council may decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU. The revised recommendation, taking into account the relevant factors referred to in Article 2(3) of this Regulation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule. The Council shall assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its recommendation. In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU provided that this does not endanger fiscal sustainability in the medium term.

Article 4

1. Any decision by the Council under Article 126(8) TFEU to make public its recommendations where it is established that no effective action has been taken, shall be taken immediately after the expiry of the deadline set in accordance with Article 3(4) of this Regulation.
2. The Council, when considering whether effective action has been taken in response to its recommendations made in accordance with Article 126(7) TFEU, shall base its decision on the report submitted by the Member State concerned in accordance with Article 3(4a) of this Regulation and its implementation, as well as on any other publicly announced decisions by the government of the Member State concerned.

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

Article 5

1. Any Council decision to give notice to the participating Member State concerned to take measures for the deficit reduction in accordance with Article 126(9) TFEU shall be taken within two months of the Council decision under Article 126(8) TFEU establishing that no effective action has been taken. In the notice, the Council shall request that the Member State achieve annual budgetary targets which, on the basis of the forecast underpinning the notice, are consistent with a minimum annual improvement of at least 0,5 % of GDP as a benchmark, in its cyclically adjusted

balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the notice. The Council shall also indicate measures conducive to the achievement of those targets.

- 1a. Following a Council notice under Article 126(9) TFEU, the Member State concerned shall report to the Council and the Commission on action taken in response thereto. The report shall include the targets for the government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side, as well as information on the actions being taken in response to the specific Council recommendations so as to allow the Council to take, if necessary, a decision in accordance with Article 6(2) of this Regulation. The Member State shall make the report public.
2. If effective action has been taken in compliance with a notice under Article 126(9) TFEU and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that notice, the Council may decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU. The revised notice, taking into account the relevant factors referred to in Article 2(3) of this Regulation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule. The Council shall assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its notice. In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU, on condition that this does not endanger fiscal sustainability in the medium term.

Article 6

1. The Council, when considering whether effective action has been taken in response to its notice made in accordance with Article 126(9) TFEU, shall base its decision on the report submitted by the Member State concerned in accordance with Article 5(1a) of this Regulation and its implementation, as well as on any other publicly announced decisions by the government of the Member State concerned. The outcome of the surveillance mission carried out by the Commission in accordance with Article 10a of this Regulation shall be taken into account.
2. Where the conditions to apply Article 126(11) TFEU are met, the Council shall impose sanctions in accordance with that Article. Any such decision shall be taken no later than four months after the Council decision under Article 126(9) TFEU giving notice to the participating Member State concerned to take measures.

Article 7

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

Article 8

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

SECTION 3

ABEYANCE AND MONITORING

Article 9

1. The excessive deficit procedure shall be held in abeyance:
 - if the Member State concerned acts in compliance with recommendations made in accordance with Article 126(7),
 - if the participating Member State concerned acts in compliance with notices given in accordance with Article 126(9).
2. The period during which the procedure is held in abeyance shall be included neither in the period referred to in Article 6 nor in the period referred to in Article 7 of this Regulation.
3. Following the expiry of the period referred to in the first sentence of Article 3(4) and following the expiry of the period referred to in the second sentence of Article 6(2) of this Regulation, the Commission shall inform the Council if it considers that the measures taken seem sufficient to ensure adequate progress towards the correction of the excessive deficit within the time limits set by the Council, provided that they are fully implemented and that economic developments are in line with forecasts. The Commission statement shall be made public.

Article 10

1. The Council and the Commission shall regularly monitor the implementation of action taken:
 - by the Member State concerned in response to recommendations made under Article 126(7),
 - by the participating Member State concerned in response to notices given under Article 126(9).
2. If action by a participating Member State is not being implemented or, in the Council's view, is proving to be inadequate, the Council shall immediately take a decision under Article 126(9) or Article 126(11) respectively.
3. If actual data pursuant to Regulation (EC) No 479/2009 indicate that an excessive deficit has not been corrected by a participating Member State within the time limits specified either in recommendations issued under Article 126(7) or notices issued under Article 126(9), the Council shall immediately take a decision under Article 126(9) or Article 126(11) respectively.

Article 10a

1. The Commission shall ensure a permanent dialogue with authorities of the Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular, carry out missions for the purpose of the assessment of the actual economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.
2. Enhanced surveillance may be undertaken for Member States which are the subject of recommendations and notices issued following a decision pursuant to Article 126(8) TFEU and decisions under Article 126(11) TFEU for the purposes of on-site monitoring. The Member States concerned shall provide all necessary information for the preparation and the conduct of the mission.
3. The Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions in a Member State whose currency is the euro or which is participating in the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of Economic and Monetary Union⁽¹⁾ (ERM II).
4. The Commission shall report to the Council on the outcome of the mission referred to in paragraph 2 and may decide to make its findings public.
5. When organising surveillance missions referred to in paragraph 2, the Commission shall transmit its provisional findings to the Member States concerned for comments.

SECTION 4**SANCTIONS***Article 11*

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

Article 12

1. The amount of the fine shall comprise a fixed component equal to 0,2 % of GDP, and a variable component. The variable component shall amount to one tenth of the absolute value of the difference between the balance as a percentage of GDP in the preceding year and either the reference value for government balance or, if non-compliance with budgetary discipline includes the debt criterion, the government balance as a percentage of GDP that should have been achieved in the same year according to the notice issued under Article 126(9) TFEU.
2. In each year following that in which a fine is imposed, until the decision on the existence of an excessive deficit is abrogated, the Council shall assess whether the participating Member State concerned has taken effective action in response to the Council notice in accordance with Article 126(9) TFEU. In this annual assessment the Council shall decide, in accordance with Article 126(11) TFEU, to intensify the sanctions, unless the participating Member State concerned has complied with the Council's notice. If the Council decides to impose an additional fine, it shall be calculated in the same way as for the variable component of the fine referred to in paragraph 1.
3. No single fine referred to in paragraphs 1 and 2 shall exceed 0,5 % of GDP.

(1) OJ C 73, 25.3.2006, p. 21.

Article 14

In accordance with Article 126(12), the Council shall abrogate the sanctions referred to in the first and second indents of Article 126(11) depending on the significance of the progress made by the participating Member State concerned in correcting the excessive deficit.

Article 15

In accordance with Article 126(12), the Council shall abrogate all outstanding sanctions if the decision on the existence of an excessive deficit is abrogated. Fines imposed in accordance with Article 12 of this Regulation will not be reimbursed to the participating Member State concerned.

Article 16

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

SECTION 5**TRANSITIONAL AND FINAL PROVISIONS***Article 17*

For the purpose of this Regulation and for as long as the United Kingdom has a budgetary year which is not a calendar year, the provisions of sections 2, 3 and 4 of this Regulation shall be applied to the United Kingdom in accordance with the Annex.

Article 17A

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

That report shall evaluate, inter alia:

- (a) the effectiveness of this Regulation;
 - (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU.
2. Where appropriate, the report referred to in paragraph 1 shall be accompanied by a proposal for amendments to this Regulation.
3. The report shall be forwarded to the European Parliament and to the Council.

Article 18

This Regulation shall enter into force on 1 January 1999.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

ANNEX**TIME LIMITS APPLICABLE TO THE UNITED KINGDOM**

1. In order to ensure equal treatment of all Member States, the Council, when taking decisions in Sections 2, 3 and 4 of this Regulation, shall have regard to the different budgetary year of the United Kingdom, with a view to taking decisions with regard to the United Kingdom at a point in its budgetary year similar to that at which decisions have been or will be taken in the case of other Member States.
2. The provisions specified in Column I shall be substituted by the provisions specified in Column II.

Column I	Column II
'as a rule, within four months of the reporting dates established in Article 3(2) and (3) of Council Regulation (EC) No 479/2009' (Article 3(3))	'as a rule, within six months after the end of the budgetary year in which the deficit occurred'
'the year following its identification' (Article 3(4))	'the budgetary year following its identification'
'as a rule, within sixteen months of reporting dates established in Article 4(2) and (3) of Regulation (EC) No 3605/93' (Article 7)	'as a rule, within eighteen months from the end of the budgetary year in which the deficit occurred'
'the preceding year' (Article 12(1))	'the preceding budgetary year'



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

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136, in combination with Article 121(6) thereof,

Having regard to the proposal from the European Commission,

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

Having regard to the opinion of the European Central Bank⁽¹⁾,

Having regard to the opinion of the European Economic and Social Committee⁽²⁾,

Acting in accordance with the ordinary legislative procedure⁽³⁾,

Whereas:

- (1) Member States whose currency is the euro have a particular interest in and a responsibility to conduct economic policies that promote the proper functioning of the economic and monetary union and to avoid policies that jeopardise that functioning.
- (2) The Treaty on the Functioning of the European Union (TFEU) allows the adoption of specific measures in the euro area which go beyond the provisions applicable to all Member States, for the purpose of ensuring the proper functioning of the economic and monetary union.
- (3) Experience gained and mistakes made during the first decade of the economic and monetary union show a need for improved economic governance in the Union, which should be built on stronger national ownership of commonly agreed rules and policies and on a more robust framework at the level of the Union for the surveillance of national economic policies.
- (4) The improved economic governance framework should rely on several interlinked and coherent policies for sustainable growth and jobs, in particular a Union strategy for growth and jobs, with particular focus on developing and strengthening the internal market, fostering international trade and competitiveness, a European Semester for strengthened coordination of economic and budgetary policies, an effective framework for preventing and correcting excessive government deficits (the Stability and Growth Pact (SGP)), a robust framework for preventing and correcting macroeconomic imbalances, minimum requirements for national budgetary frameworks, and enhanced financial market regulation and supervision, including macroprudential supervision by the European Systemic Risk Board.
- (5) The SGP and the complete economic governance framework should complement and be compatible with the Union strategy for growth and jobs. The interlinks between different strands should not provide for exemptions from the provisions of the SGP.
- (6) Achieving and maintaining a dynamic internal market should be considered an element of the proper and smooth functioning of the economic and monetary union.
- (7) The Commission should play a stronger role in the enhanced surveillance procedure as regards assessments that are specific to each Member State, monitoring, on-site missions, recommendations and warnings. When taking decisions on sanctions, the role of the Council should be limited, and reversed qualified majority voting should be used.
- (8) In order to ensure a permanent dialogue with the Member States aiming at achieving the objectives of this Regulation, the Commission should carry out surveillance missions.
- (9) A broad evaluation of the economic governance system, in particular of the effectiveness and adequacy of its sanctions, should be undertaken by the Commission at regular intervals. Such evaluations should be complemented by relevant proposals if necessary.

(1) OJ C 150, 20.5.2011, p. 1

(2) OJ C 218, 23.7.2011, p. 46.

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

- (10) When implementing this Regulation, the Commission should take into account the current economic situation of the Member States concerned.
- (11) The strengthening of economic governance should include a closer and a more timely involvement of the European Parliament and the national parliaments.
- (12) An economic dialogue with the European Parliament may be established, enabling the Commission to make its analyses public and the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to discuss. Such a public debate could enable discussion of the spill-over effects of national decisions and enable public peer pressure to be brought to bear on the relevant actors. While recognising that the counterparts of the European Parliament in the framework of that dialogue are the relevant institutions of the Union and their representatives, the competent committee of the European Parliament may offer an opportunity to participate in an exchange of views to a Member State which is the subject of a Council decision taken pursuant to Articles 4, 5 and 6 of this Regulation. The Member State's participation in such an exchange of views is voluntary.
- (13) Additional sanctions are necessary to make the enforcement of budgetary surveillance in the euro area more effective. Those sanctions should enhance the credibility of the fiscal surveillance framework of the Union.
- (14) The rules laid down in this Regulation should ensure fair, timely, graduated and effective mechanisms for compliance with the preventive and the corrective parts of the SGP, in particular Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies⁽¹⁾ and Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure⁽²⁾, where compliance with the budgetary discipline is examined on the basis of the government deficit and government debt criteria.
- (15) Sanctions under this Regulation and based upon the preventive part of the SGP in respect of Member States whose currency is the euro should provide incentives for adjusting to and maintaining the medium-term budgetary objective.
- (16) In order to deter against the misrepresentation, whether intentional or due to serious negligence, of government deficit and debt data, which data is an essential input to economic policy coordination in the Union, fines should be imposed on Member States responsible.
- (17) In order to supplement the rules on calculation of the fines for manipulation of statistics as well as the rules on the procedure to be followed by the Commission for the investigation of such actions, the power to adopt acts in accordance with Article 290 TFEU should be delegated to the Commission in respect of detailed criteria for establishing the amount of the fine and for conducting the Commission's investigations. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level. The Commission, when preparing and drawing up delegated acts, should ensure a simultaneous, timely and appropriate transmission of relevant documents to the European Parliament and the Council.
- (18) In respect of the preventive part of the SGP, adjustment and adherence to the medium-term budgetary objective should be ensured through an obligation imposed on a Member State whose currency is the euro that is making insufficient progress with budgetary consolidation to lodge temporarily an interest-bearing deposit. This should be the case when a Member State, including a Member State with a deficit below the 3 % of Gross Domestic Product (GDP) reference value, deviates significantly from the medium-term budgetary objective or the appropriate adjustment path towards that objective and fails to correct the deviation.
- (19) The interest-bearing deposit imposed should be released to the Member State concerned together with the interest accrued on it once the Council has been satisfied that the situation giving rise to the obligation to lodge that deposit has come to an end.
- (20) In respect of the corrective part of the SGP, sanctions for Member States whose currency is the euro should take the form of an obligation to lodge a non-interest-bearing deposit linked to a Council decision establishing the existence of an excessive deficit if an interest-bearing deposit has already been imposed on the Member State concerned in the preventive part of the SGP or in cases of particularly serious non-compliance with the budgetary policy obligations laid down in the SGP, or the obligation to pay a fine in the event of non-compliance with a Council recommendation to correct an excessive government deficit.
- (21) In order to avoid the retroactive application of the sanctions under the preventive part of the SGP provided for in this Regulation, they should apply only in respect of the relevant decisions adopted by the Council under Regulation (EC) No 1466/97 after the entry into force of this Regulation. Similarly, in order to avoid the retroactive application of

(1) OJ L 209, 2.8.1997, p. 1.

(2) OJ L 209, 2.8.1997, p. 6.

the sanctions under the corrective part of the SGP provided for in this Regulation, they should apply only in respect of the relevant recommendations and decisions to correct an excessive government deficit adopted by the Council after the entry into force of this Regulation.

- (22) The amount of the interest-bearing deposits, of the non-interest-bearing deposits and of the fines provided for in this Regulation should be set in such a way as to ensure a fair graduation of sanctions in the preventive and corrective parts of the SGP and to provide sufficient incentives for the Member States whose currency is the euro to comply with the fiscal framework of the Union. Fines under Article 126(11) TFEU and as specified in Article 12 of Regulation (EC) No 1467/97 are composed of a fixed component that equals 0,2 % of GDP and of a variable component. Thus, graduation and equal treatment between Member States are ensured if the interest-bearing deposit, the non-interest-bearing deposit and the fine specified in this Regulation are equal to 0,2 % of GDP, that being the amount of the fixed component of the fine under Article 126(11) TFEU.
- (23) A possibility should be provided for the Council to reduce or to cancel the sanctions imposed on Member States whose currency is the euro on the basis of a Commission recommendation following a reasoned request by the Member State concerned. In the corrective part of the SGP, the Commission should also be able to recommend reducing the amount of a sanction or cancelling it on grounds of exceptional economic circumstances.
- (24) The non-interest-bearing deposit should be released upon correction of the excessive deficit, while the interest on such deposits and the fines collected should be assigned to stability mechanisms to provide financial assistance, created by Member States whose currency is the euro in order to safeguard the stability of the euro area as a whole.
- (25) The power to adopt individual decisions for the application of the sanctions provided for in this Regulation should be conferred on the Council. As part of the coordination of the economic policies of the Member States conducted within the Council as provided for in Article 121(1) TFEU, those individual decisions are an integral follow-up to the measures adopted by the Council in accordance with Articles 121 and 126 TFEU and Regulations (EC) No 1466/97 and (EC) No 1467/97.
- (26) Since this Regulation contains general rules for the effective enforcement of Regulations (EC) No 1466/97 and (EC) No 1467/97, it should be adopted in accordance with the ordinary legislative procedure referred to in Article 121(6) TFEU.
- (27) Since the objective of this Regulation, namely to create a system of sanctions for enhancing the enforcement of the preventive and corrective parts of the SGP in the euro area, cannot be sufficiently achieved at the level of the Member States, the Union may adopt measures in accordance with the principles of subsidiarity as set out in Article 5 of the Treaty on European Union (TEU). In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve that objective,

HAVE ADOPTED THIS REGULATION:

CHAPTER I

SUBJECT MATTER, SCOPE AND DEFINITIONS

Article 1

Subject matter and scope

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

Article 2

Definitions

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

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

CHAPTER II**ECONOMIC DIALOGUE***Article 3***Economic dialogue**

In order to enhance the dialogue between the institutions of the Union, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, the competent committee of the European Parliament may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss decisions taken pursuant to Articles 4, 5 and 6 of this Regulation.

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

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

1. If the Council adopts a decision establishing that a Member State failed to take action in response to the Council recommendation referred to in the second subparagraph of Article 6(2) of Regulation (EC) No 1466/97, the Commission shall, within 20 days of adoption of the Council's decision, recommend that the Council, by a further decision, require the Member State in question to lodge with the Commission an interest-bearing deposit amounting to 0,2 % of its GDP in the preceding year.
2. The decision requiring a lodgement shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.
3. The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.
4. The Commission may, following a reasoned request by the Member State concerned addressed to the Commission within 10 days of adoption of the Council's decision establishing that a Member State failed to take action referred to in paragraph 1, recommend that the Council reduce the amount of the interest-bearing deposit or cancel it.
5. The interest-bearing deposit shall bear an interest rate reflecting the Commission's credit risk and the relevant investment period.
6. If the situation giving rise to the Council's recommendation referred to in the second subparagraph of Article 6(2) of Regulation (EC) No 1466/97 no longer exists, the Council, on the basis of a further recommendation from the Commission, shall decide that the deposit and the interest accrued thereon be returned to the Member State concerned. The Council may, acting by a qualified majority, amend the Commission's further recommendation.

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

1. If the Council, acting under Article 126(6) TFEU, decides that an excessive deficit exists in a Member State which has lodged an interest-bearing deposit with the Commission in accordance with Article 4(1) of this Regulation, or where the Commission has identified particularly serious non-compliance with the budgetary policy obligations laid down in the SGP, the Commission shall, within 20 days of adoption of the Council's decision, recommend that the Council, by a further decision, require the Member State concerned to lodge with the Commission a non-interest-bearing deposit amounting to 0,2 % of its GDP in the preceding year.
2. The decision requiring a lodgement shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.
3. The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.

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

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

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

Article 6

Fines

1. If the Council, acting under Article 126(8) TFEU, decides that a Member State has not taken effective action to correct its excessive deficit, the Commission shall, within 20 days of that decision, recommend that the Council, by a further decision, impose a fine, amounting to 0,2 % of the Member State's GDP in the preceding year.
2. The decision imposing a fine shall be deemed to be adopted by the Council unless it decides by a qualified majority to reject the Commission's recommendation within 10 days of the Commission's adoption thereof.
3. The Council, acting by a qualified majority, may amend the Commission's recommendation and adopt the text so amended as a Council decision.
4. The Commission may, on grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned addressed to the Commission within 10 days of adoption of the Council's decision under Article 126(8) TFEU referred to in paragraph 1, recommend that the Council reduce the amount of the fine or cancel it.
5. If the Member State has lodged a non-interest-bearing deposit with the Commission in accordance with Article 5, the non-interest-bearing deposit shall be converted into the fine.

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

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

Article 7

Return of non-interest-bearing deposits

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

CHAPTER V

SANCTIONS CONCERNING THE MANIPULATION OF STATISTICS

Article 8

Sanctions concerning the manipulation of statistics

1. The Council, acting on a recommendation by the Commission, may decide to impose a fine on a Member State that intentionally or by serious negligence misrepresents deficit and debt data relevant for the application of Articles 121 or 126 TFEU, or for the application of the Protocol on the excessive deficit procedure annexed to the TEU and to the TFEU.
2. The fines referred to in paragraph 1 shall be effective, dissuasive and proportionate to the nature, seriousness and duration of the misrepresentation. The amount of the fine shall not exceed 0,2 % of GDP of the Member State concerned.

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

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

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

4. The Commission shall be empowered to adopt delegated acts in accordance with Article 11 concerning:
 - (a) detailed criteria establishing the amount of the fine referred to in paragraph 1;
 - (b) detailed rules concerning the procedures for the investigations referred to in paragraph 3, the associated measures and the reporting on the investigations;
 - (c) detailed rules of procedure aimed at guaranteeing the rights of the defence, access to the file, legal representation, confidentiality and provisions as to timing and the collection of the fines referred to in paragraph 1.
5. The Court of Justice of the European Union shall have unlimited jurisdiction to review the decisions of the Council imposing fines under paragraph 1. It may annul, reduce or increase the fine so imposed.

CHAPTER VI

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

Article 9

Administrative nature of the sanctions

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

Article 10

Distribution of the interest and fines

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

CHAPTER VII

GENERAL PROVISIONS

Article 11

Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Article 8(4) shall be conferred on the Commission for a period of 3 years from 13 December 2011. The Commission shall draw up a report in respect of the delegation of power not later than 9 months before the end of that 3-year period. The delegation of power shall be tacitly extended for periods of an identical duration, unless the European Parliament or the Council opposes such extension not later than 3 months before the end of each period.
3. The delegation of power referred to in Article 8(4) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

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

Article 12

Voting in the Council

1. For the measures referred to in Articles 4, 5, 6 and 8, only members of the Council representing Member States whose currency is the euro shall vote, and the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.
2. A qualified majority of the members of the Council referred to in paragraph 1 shall be defined in accordance with point (b) of Article 238(3) TFEU.

Article 13

Review

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

That report shall evaluate, inter alia:

- (a) the effectiveness of this Regulation, including the possibility to enable the Council and the Commission to act in order to address situations which risk jeopardising the proper functioning of the monetary union;
 - (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU.
2. Where appropriate, that report shall be accompanied by a proposal for amendments to this Regulation.
 3. The report shall be forwarded to the European Parliament and to the Council.
 4. Before the end of 2011 the Commission shall present a report to the European Parliament and to the Council on the possibility of introducing euro-securities.

Article 14

Entry into force

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

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

Done at Strasbourg, 16 November 2011.

For the European Parliament

The President

J. BUZEK

For the Council

The President

W. SZCZUKA



COUNCIL DIRECTIVE 2011/85/EU**of 8 November 2011****on requirements for budgetary frameworks of the Member States**

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to the proposal from the European Commission,

Having regard to the opinion of the European Parliament⁽¹⁾,

Having regard to the opinion of the European Central Bank⁽²⁾,

Whereas:

- (1) There is a need to build upon the experience gained during the first decade of the economic and monetary union. Recent economic developments have posed new challenges to the conduct of fiscal policy across the Union and have in particular highlighted the need for strengthening national ownership and having uniform requirements as regards the rules and procedures forming the budgetary frameworks of the Member States. In particular, it is necessary to specify what national authorities must do to comply with the provisions of the Protocol (No 12) on the excessive deficit procedure annexed to the Treaty on European Union (TEU) and to the Treaty on the Functioning of the European Union (TFEU), and in particular Article 3 thereof.
- (2) Member State governments and government sub-sectors maintain public accounting systems which include elements such as bookkeeping, internal control, financial reporting, and auditing. Those systems should be distinguished from statistical data which relate to the outcomes of government finances based on statistical methodologies, and from forecasts or budgeting actions which relate to future government finances.
- (3) Complete and reliable public accounting practices for all sub-sectors of general government are a precondition for the production of high-quality statistics that are comparable across Member States. Internal control should ensure that existing rules are enforced throughout the sub-sectors of general government. Independent audits conducted by public institutions such as courts of auditors or by private auditing bodies should encourage best international practices.
- (4) The availability of fiscal data is crucial to the proper functioning of the budgetary surveillance framework of the Union. The regular availability of timely and reliable fiscal data is the key to proper and well timed monitoring, which in turn allows prompt action in the event of unexpected budgetary developments. A crucial element in ensuring the quality of fiscal data is transparency, which must entail the regular public availability of such data.
- (5) With regard to statistics, Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics⁽³⁾ established a legislative framework for the production of European statistics with a view to the formulation, application, monitoring and assessment of the policies of the Union. That Regulation also laid down the principles governing the development, production and dissemination of European statistics: professional independence, impartiality, objectivity, reliability, statistical confidentiality and cost-effectiveness, giving precise definitions of each of these principles. Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community⁽⁴⁾, strengthened the Commission's powers to verify statistical data used for the excessive deficit procedure.
- (6) The definitions of 'government', 'deficit' and 'investment' are laid down in the Protocol (No 12) on the excessive deficit procedure by reference to the European System of Integrated Economic Accounts (ESA), replaced by the European system of national and regional accounts in the Community, adopted by Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community⁽⁵⁾ (ESA 95).

(1) European Parliament opinion of 28 September 2011 (OJ C 56 E, 26.2.2013, p. 156-157).

(2) OJ C 150, 20.5.2011, p. 1.

(3) OJ L 87, 31.3.2009, p. 164.

(4) OJ L 145, 10.6.2009, p. 1.

(5) OJ L 310, 30.11.1996, p. 1.

- (7) The availability and quality of ESA 95 data is crucial to ensure the proper functioning of the Union's fiscal surveillance framework. ESA 95 relies on information provided on an accrual basis. However, these accrual fiscal statistics rely on the previous compilation of cash data, or their equivalent. These can play a relevant role in enhancing timely budgetary monitoring, so as to avoid the late detection of significant budgetary errors. The availability of cash-data time series on budgetary developments can reveal patterns warranting closer surveillance. The cash-based fiscal data (or equivalent figures from public accounting if cash-based data are not available) to be published should at least include an overall balance, total revenue and total expenditure. Where justified, for example where there is a large number of local government bodies, timely publication of data could rely on suitable estimation techniques based on a sample of bodies, with a subsequent revision using complete data.
- (8) Biased and unrealistic macroeconomic and budgetary forecasts can considerably hamper the effectiveness of fiscal planning and consequently impair commitment to budgetary discipline, while transparency and discussion of forecasting methodologies can significantly increase the quality of macroeconomic and budgetary forecasts for fiscal planning.
- (9) A crucial element in ensuring the use of realistic forecasts for the conduct of budgetary policy is transparency, which should entail the public availability not only of the official macroeconomic and budgetary forecast prepared for fiscal planning, but also of the methodologies, assumptions and relevant parameters on which such forecasts are based.
- (10) Sensitivity analysis and corresponding budgetary projections supplementing the most likely macrofiscal scenario allow the analysis of how main fiscal variables would evolve under various growth and interest rates assumptions, and thus greatly reduce the risk of budgetary discipline being jeopardised by forecast errors.
- (11) Forecasts by the Commission and information regarding the models on which they are based can provide Member States with a useful benchmark for their most likely macrofiscal scenario, enhancing the validity of the forecasts used for budgetary planning. However, the extent to which Member States can be expected to compare the forecasts used for budgetary planning with the Commission's forecasts varies according to the timing of forecast preparation and the comparability of the forecast methodologies and assumptions. Forecasts from other independent bodies can also provide useful benchmarks.
- (12) Significant differences between the chosen macrofiscal scenario and the Commission's forecast should be described and reasons therefor should be given, in particular if the level or growth of variables in external assumptions departs significantly from the values contained in the Commission's forecasts.
- (13) Given the interdependence between Member States' budgets and the Union's budget, in order to support Member States in preparing their budgetary forecasts, the Commission should provide forecasts for the Union's expenditure based on the level of expenditure programmed within the multiannual financial framework.
- (14) In order to facilitate the production of the forecasts used for budgetary planning and to clarify differences between the forecasts of the Member States and those of the Commission, each Member State should, on an annual basis, have the opportunity to discuss with the Commission the assumptions underpinning the preparation of macroeconomic and budgetary forecasts.
- (15) The quality of official macroeconomic and budgetary forecasts is critically enhanced by regular, unbiased and comprehensive evaluation based on objective criteria. Thorough evaluation includes scrutiny of the economic assumptions, comparison with forecasts prepared by other institutions, and evaluation of past forecast performance.
- (16) Considering the documented effectiveness of rules-based budgetary frameworks of the Member States in enhancing national ownership of the Union's fiscal rules promoting budgetary discipline, strong country-specific numerical fiscal rules that are consistent with the budgetary objectives at the level of the Union should be a cornerstone of the strengthened budgetary surveillance framework of the Union. Strong numerical fiscal rules should be equipped with well-specified target definitions together with mechanisms for effective and timely monitoring. Those rules should be based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States. In addition, policy experience has shown that for numerical fiscal rules to work effectively, consequences must be attached to non-compliance, where the costs involved may be simply reputational.
- (17) By virtue of the Protocol (No 15) on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland annexed to the TEU and to the TFEU, the reference values mentioned in the Protocol (No 12) on the excessive deficit procedure annexed to those Treaties are not directly binding on the United Kingdom. The obligation to have in place numerical fiscal rules that effectively promote compliance with the specific reference values for the excessive deficit, and the related obligation for the multiannual objectives in medium-term budgetary frameworks to be consistent with such rules, should therefore not apply to the United Kingdom.
- (18) Member States should avoid pro-cyclical fiscal policies, and fiscal consolidation efforts should be greater in economic good times. Well-specified numerical fiscal rules are conducive to these objectives and should be reflected in the annual budget legislation of the Member States.

- (19) National fiscal planning can be consistent with both the preventive and the corrective parts of the Stability and Growth Pact (SGP) only if it adopts a multiannual perspective and pursues the achievement, in particular, of the medium-term budgetary objectives. Medium-term budgetary frameworks are strictly instrumental in ensuring that budgetary frameworks of the Member States are consistent with the legislation of the Union. In the spirit of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies⁽¹⁾ and Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure⁽²⁾, the preventive and corrective parts of the SGP should not be regarded in isolation.
- (20) Although the approval of annual budget legislation is the key step in the budget process in which important budgetary decisions are adopted in the Member States, most fiscal measures have budgetary implications that go well beyond the annual budgetary cycle. A single-year perspective therefore provides a poor basis for sound budgetary policies. In order to incorporate the multiannual budgetary perspective of the budgetary surveillance framework of the Union, planning of annual budget legislation should be based on multiannual fiscal planning stemming from the medium-term budgetary framework.
- (21) That medium-term budgetary framework should contain, inter alia, projections of each major expenditure and revenue item for the budget year and beyond, based on unchanged policies. Each Member State should be able appropriately to define unchanged policies and those definitions should be made public together with the assumptions involved, the methodologies and other relevant parameters.
- (22) This Directive should not prevent a Member State's new government from updating its medium-term budgetary framework to reflect its new policy priorities. In this case, the new government should highlight the differences from the previous medium-term budgetary framework.
- (23) Provisions of the budgetary surveillance framework established by the TFEU and in particular the SGP apply to general government as a whole, which comprises the sub-sectors central government, state government, local government, and social security funds, as defined in Regulation (EC) No 2223/96.
- (24) A significant number of Member States have experienced a sizeable fiscal decentralisation with the devolution of budgetary powers to sub-national governments. The role of such sub-national governments in ensuring that the SGP is complied with has thereby increased considerably, and particular attention should be paid to ensuring that all general government sub-sectors are duly covered by the scope of the obligations and procedures laid down in domestic budgetary frameworks, in particular, but not exclusively, in those Member States.
- (25) To be effective in promoting budgetary discipline and the sustainability of public finance, budgetary frameworks should comprehensively cover public finances. For this reason, operations of those general government bodies and funds which do not form part of the regular budgets at sub-sector level and that have an immediate or medium-term impact on Member States' budgetary positions should be given particular consideration. Their combined impact on general government balances and debts should be presented in the framework of the annual budgetary processes and in the medium-term budgetary plans.
- (26) Similarly, due attention should be paid to the existence of contingent liabilities. More specifically, contingent liabilities encompass possible obligations depending on whether some uncertain future event occurs, or present obligations where payment is not probable or the amount of the probable payment cannot be measured reliably. They comprise for instance relevant information on government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including, where appropriate, the likelihood and potential due date of expenditure of contingent liabilities. Market sensitivities should be duly taken into account.
- (27) The Commission should regularly monitor the implementation of this Directive. Best practices concerning the provisions of this Directive dealing with the different aspects of national budgetary frameworks should be identified and shared.
- (28) Since the objective of this Directive, namely uniform compliance with budgetary discipline as required by the TFEU, cannot be sufficiently achieved by the Member States and can therefore be better achieved at the level of the Union, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the TEU. In accordance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to achieve that objective.

(1) OJ L 209, 2.8.1997, p. 1.

(2) OJ L 209, 2.8.1997, p. 6.

- (29) In accordance with point 34 of the Interinstitutional Agreement on better law-making⁽¹⁾, Member States are encouraged to draw up, for themselves and in the interests of the Union, their own tables illustrating, as far as possible, the correlation between this Directive and the transposition measures, and to make them public,

HAS ADOPTED THIS DIRECTIVE:

CHAPTER I

SUBJECT MATTER AND DEFINITIONS

Article 1

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

Article 2

For the purposes of this Directive, the definitions of 'government', 'deficit' and 'investment' set out in Article 2 of the Protocol (No 12) on the excessive deficit procedure annexed to the TEU and to the TFEU shall apply. The definition of sub-sectors of general government set out in point 2.70 of Annex A to Regulation (EC) No 2223/96 shall also apply.

In addition, the following definition shall apply:

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

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

CHAPTER II

ACCOUNTING AND STATISTICS

Article 3

1. As concerns national systems of public accounting, Member States shall have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government and containing the information needed to generate accrual data with a view to preparing data based on the ESA 95 standard. Those public accounting systems shall be subject to internal control and independent audits.
2. Member States shall ensure timely and regular public availability of fiscal data for all sub-sectors of general government as defined by Regulation (EC) No 2223/96. In particular Member States shall publish:
 - (a) cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:
 - monthly for central government, state government and social security sub-sectors, before the end of the following month, and
 - quarterly, for the local government sub-sector, before the end of the following quarter;
 - (b) a detailed reconciliation table showing the methodology of transition between cash-based data (or the equivalent figures from public accounting if cash-based data are not available) and data based on the ESA 95 standard.

(1) OJ C 321, 31.12.2003, p. 1.

CHAPTER III

FORECASTS

Article 4

1. Member States shall ensure that fiscal planning is based on realistic macroeconomic and budgetary forecasts using the most up-to-date information. Budgetary planning shall be based on the most likely macrofiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts shall be compared with the most updated forecasts of the Commission and, if appropriate, those of other independent bodies. Significant differences between the chosen macrofiscal scenario and the Commission's forecast shall be described with reasoning, in particular if the level or growth of variables in external assumptions departs significantly from the values contained in the Commission's forecasts.
2. The Commission shall make public the methodologies, assumptions and relevant parameters that underpin its macroeconomic and budgetary forecasts.
3. In order to support Member States in preparing their budgetary forecasts, the Commission shall provide forecasts for the expenditure of the Union based on the level of expenditure programmed within the multiannual financial framework.
4. Within the framework of a sensitivity analysis, the macroeconomic and budgetary forecasts shall examine paths of main fiscal variables under different assumptions as to growth and interest rates. The range of alternative assumptions used in macroeconomic and budgetary forecasts shall be guided by the performance of past forecasts and shall endeavour to take into account relevant risk scenarios.
5. Member States shall specify which institution is responsible for producing macroeconomic and budgetary forecasts and shall make public the official macroeconomic and budgetary forecasts prepared for fiscal planning, including the methodologies, assumptions and relevant parameters underpinning those forecasts. At least annually, the Member States and the Commission shall engage in a technical dialogue concerning the assumptions underpinning the preparation of macroeconomic and budgetary forecasts.
6. The macroeconomic and budgetary forecasts for fiscal planning shall be subject to regular, unbiased and comprehensive evaluation based on objective criteria, including ex post evaluation. The result of that evaluation shall be made public and taken into account appropriately in future macroeconomic and budgetary forecasts. If the evaluation detects a significant bias affecting macroeconomic forecasts over a period of at least 4 consecutive years, the Member State concerned shall take the necessary action and make it public.
7. Member States' quarterly debt and deficit levels shall be published by the Commission (Eurostat) every 3 months.

CHAPTER IV

NUMERICAL FISCAL RULES

Article 5

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

- (a) compliance with the reference values on deficit and debt set in accordance with the TFEU;
- (b) the adoption of a multiannual fiscal planning horizon, including adherence to the Member State's medium-term budgetary objective.

Article 6

1. Without prejudice to the provisions of the TFEU concerning the budgetary surveillance framework of the Union, country-specific numerical fiscal rules shall contain specifications as to the following elements:
 - (a) the target definition and scope of the rules;
 - (b) the effective and timely monitoring of compliance with the rules, based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States;
 - (c) the consequences in the event of non-compliance.
2. If numerical fiscal rules contain escape clauses, such clauses shall set out a limited number of specific circumstances consistent with the Member States' obligations deriving from the TFEU in the area of budgetary policy, and stringent procedures in which temporary non-compliance with the rule is permitted.

Article 7

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

Article 8

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

CHAPTER V**MEDIUM-TERM BUDGETARY FRAMEWORKS***Article 9*

1. Member States shall establish a credible, effective medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least 3 years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective.
2. Medium-term budgetary frameworks shall include procedures for establishing the following items:
 - (a) comprehensive and transparent multiannual budgetary objectives in terms of the general government deficit, debt and any other summary fiscal indicator such as expenditure, ensuring that these are consistent with any numerical fiscal rules as provided for in Chapter IV in force;
 - (b) projections of each major expenditure and revenue item of the general government with more specifications on the central government and social security level, for the budget year and beyond, based on unchanged policies;
 - (c) a description of medium-term policies envisaged with an impact on general government finances, broken down by major revenue and expenditure item, showing how the adjustment towards the medium-term budgetary objectives is achieved compared to projections under unchanged policies;
 - (d) an assessment as to how in the light of their direct long-term impact on general government finances, the policies envisaged are likely to affect the long-term sustainability of the public finances.
3. Projections adopted within medium-term budgetary frameworks shall be based on realistic macroeconomic and budgetary forecasts in accordance with Chapter III.

Article 10

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

Article 11

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

CHAPTER VI**TRANSPARENCY OF GENERAL GOVERNMENT FINANCES AND
COMPREHENSIVE SCOPE OF BUDGETARY FRAMEWORKS***Article 12*

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

Article 13

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

Article 14

1. Within the framework of the annual budgetary processes, Member States shall identify and present all general government bodies and funds which do not form part of the regular budgets at sub-sector level, together with other relevant information. The combined impact on general government balances and debts of those general government bodies and funds shall be presented in the framework of the annual budgetary processes and the medium-term budgetary plans.
2. Member States shall publish detailed information on the impact of tax expenditures on revenues.
3. For all sub-sectors of general government, Member States shall publish relevant information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof. Member States shall also publish information on the participation of general government in the capital of private and public corporations in respect of economically significant amounts.

CHAPTER VII**FINAL PROVISIONS***Article 15*

1. Member States shall bring into force the provisions necessary to comply with this Directive by 31 December 2013. They shall forthwith communicate to the Commission the text of those provisions. The Council encourages the Member States to draw up, for themselves and in the interests of the Union, their own correlation tables which will, as far as possible, illustrate the correlation between this Directive and the transposition measures, and to make them public.
2. When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.
3. The Commission shall prepare an interim progress report on the implementation of the main provisions of this Directive on the basis of relevant information from Member States, which shall be submitted to the European Parliament and to the Council by 14 December 2012.
4. Member States shall communicate to the Commission the text of the main provisions which they adopt in the field covered by this Directive.

Article 16

1. By 14 December 2018 the Commission shall publish a review of the suitability of this Directive.
2. The review shall assess, inter alia, the suitability of:
 - (a) the statistical requirements for all sub-sectors of government;
 - (b) the design and effectiveness of numerical fiscal rules in the Member States;
 - (c) the general level of transparency of public finances in the Member States.
3. By 31 December 2012, the Commission shall assess the suitability of the International Public Sector Accounting Standards for the Member States.

Article 17

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

Article 18

This Directive is addressed to the Member States.

Done at Brussels, 8 November 2011.

For the Council

The President

J. VINCENT-ROSTOWSKI



3141ST COUNCIL MEETING
ECONOMIC AND FINANCIAL AFFAIRS
BRUSSELS, 24 JANUARY 2012

STABILITY AND GROWTH PACT – REVISED CODE OF CONDUCT

The Council discussed the modification of a code of conduct on implementation of the EU's Stability and Growth Pact.

Changes to the code of conduct have been prepared by the Economic and Financial Committee in the light of a reform of EU provisions on economic governance. The so-called "six-pack" of economic governance measures was adopted by the Council in November⁽¹⁾.

The code of conduct contains specifications on implementation of the Stability and Growth Pact and guidelines on the format and content of the member states' stability and convergence programmes.

In conclusion to the discussion, all member states except one endorsed the modified code of conduct, whilst one member state maintained a reservation on the whole code. The Council noted that the Commission and the EFC intend to review this issue later in the year.



(1) For details, see [press release 16446/11](#)

SPECIFICATIONS ON THE IMPLEMENTATION OF THE STABILITY AND GROWTH PACT
AND
GUIDELINES ON THE FORMAT AND CONTENT OF STABILITY AND CONVERGENCE PROGRAMMES
3 SEPTEMBER 2012

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 7 September 2010.

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 1055/05 and 1056/05, 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.

On 16 November 2011 and 8 November 2011, Regulations 1466/97 and 1467/97 were further amended by Regulation (EU) No 1175/2011 of the European Parliament and of the Council and Council Regulation (EU) No 1177/2011 and flanked by Regulation (EU) No 1173/2011 of the European Parliament and of the Council, which endowed the Stability and Growth Pact with effective enforcement mechanisms for euro-area Member States and on 8 November 2011, the Council adopted Directive 2011/85/EU on requirements for budgetary frameworks of the Member States. While not a part of the Stability and Growth Pact, this Directive is instrumental to the achievement of its objectives.

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 relevant stages of the procedure of the Stability and Growth Pact, also by means of economic dialogue with the European Parliament, where appropriate. The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly. Member States are expected to take into account guidance and recommendation(s) from the Council in particular when preparing their budgets, and to appropriately involve national Parliaments in the EU procedures, taking into account national parliamentary and budgetary procedures.

In order to enhance ownership of the EU budgetary framework, national budgetary rules and procedures should ensure compliance with the Stability and Growth Pact⁽¹⁾. Without prejudice to the balance between national and Community competences, implementation of provisions going beyond the minimum requirements established by Directive 2011/85/EU, should be discussed at the European level in the context of the assessment of Stability and Convergence Programmes. The effectiveness of national budgetary frameworks is also a relevant factor to consider in the context of the Excessive Deficit Procedure.

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.

(1) As a result of Protocol 15 and Article 7(bis) of the Council Directive on requirements for budgetary frameworks of the Member States, articles 5 to 7 (on country-specific numerical fiscal rules) of the Directive do not apply to the United Kingdom.

SECTION I SPECIFICATIONS ON THE IMPLEMENTATION OF THE STABILITY AND GROWTH PACT

A. THE PREVENTIVE ARM OF THE STABILITY AND GROWTH PACT

1) *The Medium term budgetary objective (MTO)*

Definition of the MTO

The MTO is defined in cyclically adjusted terms, net of one-off and other temporary measures. The reference method for the estimation of potential output is the one adopted by the Council on 12 July 2002⁽¹⁾. One-off and temporary measures are measures having a transitory budgetary effect that does not lead to a sustained change in the intertemporal budgetary position⁽²⁾.

The MTO pursues a triple aim:

- (i) providing a safety margin with respect to the 3% of GDP deficit limit. This safety margin is assessed for each Member State taking into account past output volatility and the budgetary sensitivity to output fluctuations.
- (ii) ensuring rapid progress towards sustainability. This is assessed against the need to ensure the convergence of debt ratios towards prudent levels taking into account the economic and budgetary impact of ageing populations.
- (iii) taking (i) and (ii) into account, allowing room for budgetary manoeuvre, in particular taking into account the needs for public investment.

The MTOs are differentiated for individual Member States to take into account the diversity of economic and budgetary positions and developments as well as of fiscal risk to the sustainability of public finances, also in face of prospective demographic changes. The country-specific MTOs may diverge from the requirement of a close to balance or in surplus position.

Specifically, the country-specific MTOs should take into account three components:

- i) the debt-stabilising balance for a debt ratio equal to the (60% of GDP) reference value (dependent on long-term potential growth), implying room for budgetary manoeuvre for Member States with relatively low debt;
- ii) a supplementary debt-reduction effort for Member States with a debt ratio in excess of the (60% of GDP) reference value, implying rapid progress towards it; and
- iii) a fraction of the adjustment needed to cover the present value of the future increase in age-related government expenditure.

according to the formula

$$MTO = \max(MTO^{ILD}, MTO^{MB}, MTO^{EuroERM2})$$

where the components MTO^{MB} and $MTO^{EuroERM2}$ refer to the "minimum benchmark" as agreed by the EFC and to the Pact obligation for euro area Member States and Member States participating in ERM II to have an MTO not lower than -1 % of GDP, respectively, while the component MTO^{ILD} relates to implicit and explicit liabilities:

$$MTO^{ILD} = \underbrace{Balance_{debt-stabilizing(60\%ofGDP)}}_{(i)} + \underbrace{\alpha * AgeingCosts}_{(ii)} + \underbrace{Effort_{debt-reduction}}_{(iii)}$$

The first term on the right hand-side is the budgetary balance that would stabilise the debt ratio at 60% of GDP. The second term is the budgetary adjustment that would cover an agreed fraction of the present value of the increase in the age related expenditure. Alternatively, Member States can choose a fraction of the cost of ageing corresponding to the pre-financing of age-related expenditure up to an agreed number of years before the end of the AWG projections. The third term represents a supplementary debt-reduction effort, specific to countries with gross debt above 60% of GDP. In order to operationalize this formula, explicit parameters will be made public through a Commission services paper, endorsed by the EFC.

This methodology implies a partial frontloading of the budgetary cost of ageing irrespective of the current level of debt.

(1) Due to data problems, a different method may be used for the estimation of potential output in the case of recently acceded member states (RAMS). The method used should be agreed by the Economic Policy Committee on the basis of a proposal of the Output Gap Working Group.

(2) Examples of one-off and temporary measures are the sales of non-financial assets; receipts of auctions of publicly owned licenses; short-term emergency costs emerging from natural disasters; tax amnesties; revenues resulting from the transfers of pension obligations and assets.

In addition to these criteria, MTOs should provide a safety margin with respect to the 3% of GDP deficit reference value and, for euro area Member States and Member States participating in ERM II, in any case not exceed a deficit of 1% of GDP. The examination of the country-specific MTOs by the Commission and the Council in the context of the assessment of Stability and Convergence programmes should indicate whether they adequately reflect the objectives of the Stability and Growth Pact on the basis of the above criteria. Potential growth and the budgetary cost of ageing should be assessed in a long-term perspective on the basis of the projections produced by the EPC.

Member States may present more ambitious MTOs than implied by the formula above if they feel their circumstances call for it.

For Member States outside of the euro area and not participating in ERM II, country-specific MTOs would be defined with a view to ensuring the respect of the triple aim mentioned above.

Art. 2a of Regulation (EC) No 1466/97 states that the respect of the MTO shall be included in the national budgetary framework in accordance with Chapter IV of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States⁽¹⁾.

Procedure for defining and revising the MTOs

In order to ensure a consistent application of the principles mentioned above for defining the country-specific MTOs, regular methodological discussions take place in the Economic and Financial Committee.

Taking into account the results of these discussions, Member States present their MTO in their Stability or Convergence programme. The MTOs are examined by the Commission and the Council in the context of the assessment of the Stability and Convergence Programmes. In accordance with Article 121(3) of the Treaty and Articles 5(2) and 9(2) of Regulation 1466/97, where the Council considers that the MTO presented in a Stability or Convergence programme should be strengthened, it shall, in its opinion, invite the Member State concerned to adjust its programme.

The MTO shall be revised every three years, preferably following the publication of the "Ageing Report". The MTOs could be further revised in the event of the implementation of a structural reform with a major impact on the sustainability of public finances. In particular, the MTO should be revised in the special case of systemic pension reforms with an impact on long term fiscal sustainability in line with the provision foreseen in section 2 below for major structural reforms.

2) *The adjustment path toward the medium-term budgetary objective and deviations from it*

Fiscal behaviour over the cycle and adjustment path toward the MTO

Member States should achieve a more symmetrical approach to fiscal policy over the cycle through enhanced budgetary discipline in periods of economic recovery, with the objective to avoid pro-cyclical policies and to gradually reach their medium-term budgetary objective, thus creating the necessary room to accommodate economic downturns and reduce government debt at a satisfactory pace, thereby contributing to the long-term sustainability of public finances.

Sufficient progress towards the MTO shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures. The presumption is to use revenue windfalls, namely revenues in excess of what can normally be expected from economic growth, for deficit and debt reduction, while keeping expenditure on a stable sustainable path over the cycle. For that purpose, the Commission and the Council will assess the growth path of government expenditure against a reference medium-term rate of potential GDP growth. The reference-medium-term rate of potential GDP growth is based on regularly updated forward-looking projections and backward-looking estimates, taking into account the relevant calculation method provided by the EPC. The reference-medium-term rate of potential GDP growth will be the average of the estimates of the previous 5 years, the estimate for the current year and the projections for the following 4 years.

The government expenditure aggregate to be assessed should exclude interest expenditure, expenditure on EU programmes fully matched by EU funds revenue, and non-discretionary changes in unemployment benefit expenditure. Due to the potentially very high variability of investment expenditure, especially in the case of small Member States, the government expenditure aggregate should be adjusted by averaging investment expenditure over 4 years.

- Member States that have already reached their MTO could let automatic stabilisers play freely over the cycle. They should in particular avoid pro-cyclical fiscal policies in 'good times'. Avoidance should be expected to result in annual expenditure growth not exceeding the reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures.

(1) As a result of Protocol 15 and Article 7(bis) of the Council Directive on requirements for budgetary frameworks of the Member States, articles 5 to 7 (on country-specific numerical fiscal rules) of the Directive do not apply to the United Kingdom.

- Member States that have not yet reached their MTO should take steps to achieve it over the cycle. Their adjustment effort should be higher in good times; it could be more limited in bad times. In order to reach their MTO, Member States of the emu area or of ERM-II should pursue an annual adjustment in cyclically adjusted terms, net of one-off and other temporary measures, of 0.5 of a percentage point of GDP as a benchmark. In parallel, the growth rate of expenditure net of discretionary revenue measures in relation to the reference medium-term rate of potential GDP growth should be expected to yield an annual improvement in the government balance in cyclically adjusted terms net of one-offs and other temporary measures of 0.5 of a percentage point of GDP. The reasons for differences between the results yielded by the two benchmarks should be carefully assessed.
- A Member State that has overachieved the MTO could temporarily let annual expenditure growth exceed a reference medium-term rate of potential GDP growth as long as, taking into account the possibility of significant revenue windfalls, the MTO is respected throughout the programme period.

For Member States that have not yet reached their MTO and are faced with a debt level exceeding 60% of GDP or with pronounced risks in terms of overall debt sustainability, a faster adjustment path towards the medium-term budgetary objectives should be expected, i.e. above 0.5 of a percentage point of GDP as a benchmark in cyclically adjusted terms, net of one-off and other temporary measures.

Member States that do not follow the appropriate adjustment path will explain the reasons for the deviation in the annual update of their Stability/Convergence Programme.

Based on the principles mentioned above and on the explanations provided by Member States, the Commission and the Council, in their assessments of the Stability or Convergence Programmes, should examine whether a higher adjustment effort is made in economic good times.

In case of an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in periods of severe economic downturn for the emu area or the Union as a whole, Member States may be allowed to temporarily depart from the adjustment path towards the medium-term objective implied by the benchmarks for the structural balance and expenditure, on condition that this does not endanger fiscal sustainability in the medium-term.

In case the Council considers that the adjustment path towards the MTO should be strengthened, it shall, in accordance with Article 121(3) of the Treaty and Articles 5(2) and 9(2) of Regulation 1466/97, invite the Member State concerned to adjust its programme.

Definition of economic 'good times'

The identification of periods of economic 'good times' should be made after an overall economic assessment.

In principle, economic 'good times' should be identified as periods where output exceeds its potential level, taking into account tax elasticities.

In this context, tax revenue windfalls and shortfalls should also be taken into account. Windfall tax revenues should be understood as revenues in excess of what can normally be expected from economic growth.

The reference for the estimation of potential output is the methodology adopted by the Council on 12 July 2002⁽¹⁾. The reference to 'tax elasticities' should be understood as the overall elasticity of taxes to GDP, resulting from the influence of economic factors (fiscal leads and lags, supply and demand composition of growth), abstracting from the implementation of discretionary measures.

Differences between the adjustment implied by the structural balance and the expenditure benchmarks should be duly taken into account in the assessment of the adjustment effort in economic good versus bad times.

Given the uncertainty surrounding output gap levels' estimates, the change in the output gap could also be considered, especially when the output gap is estimated to be close to zero. For instance, periods where the output gap is slightly negative but moving rapidly towards positive values could be considered as 'good times'. Symmetrically, periods where the output gap is slightly positive but moving rapidly towards negative values could not be considered as 'good times'.

Structural reforms

In order to enhance the growth oriented nature of the Pact, structural reforms will be taken into account when defining the adjustment path to the medium-term objective for countries that have not yet reached this objective and in allowing a temporary deviation from this objective for countries that have already reached it.

(1) See footnote 1 page 166

Only major reforms that have direct long-term positive budgetary effects, including by raising potential growth, and therefore a verifiable positive impact on the long-term sustainability of public finances will be taken into account. For instance, major health, pension and labour market reforms may be considered.

Special attention will be paid to pension reforms introducing a multi-pillar system that includes a mandatory fully funded pillar, which have a direct negative impact on the general government deficit (as defined in Article 1 of Regulation 3605/93). This impact stems from the fact that revenue, which used to be recorded as government revenue, is diverted to a pension fund, which is fully-funded and classified in a sector other than general government, and that some pensions and other social benefits, which used to be government expenditure, will be, after the reform, paid by the pension scheme⁽¹⁾. In this specific case, the allowed deviation from the adjustment path to the MTO or the objective itself should reflect the amount of the direct incremental impact of the reform on the general government balance, provided that an appropriate safety margin with respect to the deficit reference value is preserved.

The direct impact of a pension reform that involves a transfer of pension obligations to or from general government is made up of two elements⁽²⁾:

- (i) the social contributions or other revenue collected by the pension scheme taking over the pension obligations and which is meant to cover for these obligations and
- (ii) the pension and other social benefits paid by this pension scheme in connection to the obligations transferred. The direct impact of such pension reforms does not include interest expenditure that is linked to the higher accumulation of debt due to forgone social contributions or other revenues.

Following such reforms, the MTO should be adjusted to reflect the new situation, in line with the procedures for defining and revising MTO in section 1 above.

Only adopted reforms should be considered, provided that sufficient, detailed information is provided in the Stability and Convergence Programmes (see Section II). The budgetary effects of the reforms over time are assessed by the Commission and the Council in a prudent way, making due allowance for the margin of uncertainties associated to such an exercise.

Major structural reforms as identified above will be taken into account when defining the adjustment path to the medium-term objective for countries that have not yet reached this objective and in allowing a temporary deviation from this objective for countries that have already reached it, with the clear understanding that:

- (i) *a safety margin to ensure the respect of the 3% of GDP reference value for the deficit is guaranteed.* This safety margin will be assessed for each Member State taking into account past output volatility and the budgetary sensitivity to output fluctuations.
- (ii) *the budgetary position is expected to return to the MTO within the period covered by the Stability or Convergence Programme.* For this purpose, the period under consideration will be limited to - at most - the four years following the year of the presentation of the programme.

In case a temporary deviation from the medium-term objective or the adjustment path toward it is allowed, this should be specified in the Council Opinion on the Stability/Convergence Programme.

3) *A significant deviation from the appropriate adjustment path*

The identification of a significant deviation from the medium-term budgetary objective or the appropriate adjustment path towards it should be based on outcomes as opposed to plans. It should follow an overall assessment, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures.

For a Member State that has not reached its MTO, the deviation will be considered significant if:

both

- (i) the deviation of the structural balance from the appropriate adjustment path is at least 0.5 % of GDP in one single year or at least 0.25 % of GDP on average per year in two consecutive years; and
- (ii) an excess of the rate of growth of expenditure net of discretionary revenue measures over the appropriate adjustment path defined in relation to the reference medium-term rate of growth has had a negative impact on the government balance of at least 0.5 of a percentage point of GDP in one single year, or cumulatively in two consecutive years;

(1) See 'Eurostat's Manual on Government Deficit and Debt'.

(2) Such transfer of pension obligations occurs when a mandatory fully funded pillar is introduced, enhanced or scaled down with an equivalent change in the outstanding pension obligations of the public pension scheme. Therefore, a transfer of pension obligation effectively takes place between a pension scheme classified outside general government and another scheme that is classified inside.

or if one of the two conditions (i) and (ii) is verified and the overall assessment evidences limited compliance also with respect to the other condition.

The government expenditure aggregate to be assessed should exclude interest expenditure, expenditure on EU programmes fully matched by EU funds revenue, and non-discretionary changes in unemployment benefit expenditure. Due to the potentially very high variability of investment expenditure, especially in the case of small Member States, the government expenditure aggregate should be adjusted by averaging the investment expenditure over four years. The excess of expenditure growth over the medium-term reference will not be counted as a breach of the expenditure benchmark to the extent that it is fully offset by revenue increases mandated by law.

For a Member State that has overachieved the MTO, the occurrence of condition (ii) is not considered in the assessment of the existence of a significant deviation, unless significant revenue windfalls are assessed to jeopardise the MTO over the programme period.

A deviation may not be considered significant in the case of severe economic downturn for the euro area or the EU as a whole or when resulting from an unusual event outside of the control of the Member State concerned which has a major impact on the financial position of the general government, provided that this does not endanger fiscal sustainability in the medium-term.

B. THE EXCESSIVE DEFICIT PROCEDURE

In line with the provisions of the Treaty, the Commission has to examine compliance with budgetary discipline on the basis of both the deficit and the debt criteria.

1) *Preparation of a Commission report under Article 126(3)*

The Commission will always prepare a report under Article 126(3) of the Treaty when at least one of the conditions (a) or (b) below holds:

- (a) a reported or planned government deficit exceeds the reference value of 3% of GDP;
- (b) a reported government debt ratio is above the reference value of 60% of GDP and
 - (i) its differential with respect to the reference value has not decreased over the past three years at an average rate of one-twentieth as a benchmark, which is measured by an excess of the debt ratio reported for the year t over a backward-looking element of a benchmark for debt reduction computed as follows

$$bb_t = 60\% + 0.95/3 (b_{t-1} - 60\%) + 0.95^2/3 (b_{t-2} - 60\%) + 0.95^3/3 (b_{t-3} - 60\%)$$
 - (ii) the budgetary forecasts as provided by the Commission services indicate that, at unchanged policies, the required reduction in the differential will not occur over the three-year period encompassing the two years following the final year for which the data is available, which is measured by an excess of the debt ratio forecast by the Commission services for the year $t+2$ over a forward-looking element of a benchmark for debt reduction computed as follows

$$bb_{t+2} = 60\% + 0.95/3 (b_{t+1} - 60\%) + 0.95^2/3 (b_t - 60\%) + 0.95^3/3 (b_{t-1} - 60\%),$$
 where bbt stands for the benchmark debt ratio in year t and bt stands for the debt-to-GDP ratio in year t
 - (iii) the breach of the benchmark cannot be attributed to the influence of the cycle, to be assessed according to a common methodology to be published by the Commission.

The Commission may, in accordance with Article 126(3), also prepare a report notwithstanding the fulfilment of the requirements under the criteria laid down in Article 126(2)(a) of the Treaty if it is of the opinion that there is a risk of an excessive deficit in a Member State.

For a Member State that is subject to an excessive deficit procedure on 8 November 2011 and for a period of three years from the correction of the excessive deficit, occurrence of condition (b) above will not trigger the preparation of a report under Article 126(3) of the Treaty, provided that the Member States concerned makes sufficient progress towards compliance with the debt reduction benchmark as assessed in the Opinion adopted by the Council on its Stability and Convergence Programmes. Specifically, the Member State concerned should present in its Stability or Convergence Programme budgetary objectives consistent with the respect of the debt reduction benchmark, including the forward-looking element, by the end of the three-year transitional period. The assessment should in particular consider whether the budgetary plans are adequate to the task of avoiding breaching the benchmark by the end of the programme period.

In order to define "sufficient progress towards compliance" during the transition period, the Commission will identify a minimum linear structural adjustment ensuring that - if followed - Member States will comply with the debt rule at the end of the transition period. This minimum linear structural adjustment path will be built taking into account both the influence of the cycle and the forward-looking nature of the debt benchmark. Also, in order to ensure continuous and realistic progress towards compliance during the transition period, Member States should respect simultaneously the two below conditions:

- First, the annual structural adjustment should not deviate by more than 1/4 % of GDP from the minimum linear structural adjustment ensuring that the debt rule is met by the end of the transitional period.
- Second, at any time during the transition period, the remaining annual structural adjustment should not exceed 3/4 % of GDP.

When the deficit ratio exceeds the reference value, the Commission shall examine in its report if one or more of the exceptions foreseen in Article 126(2)(a) apply. In particular, the Commission shall consider whether the deficit ratio has declined substantially and continuously and reached a level that comes close to the reference value.

The Commission shall also consider whether the excess of the deficit ratio over the reference value is only exceptional and temporary and whether the ratio remains close to the reference value. In order to be considered as exceptional, the excess has to result from an unusual event outside the control of the Member State concerned and with a major impact on the financial position of the general government, or it has to result from a 'severe economic downturn'. The Commission and the Council may consider an excess over the reference value resulting from a 'severe economic downturn' as exceptional in the sense of the second indent of Article 126(2)(a) of the Treaty if the excess over the reference value results from a negative annual GDP volume growth rate or from an accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential. The indicator for assessing accumulated loss of output is the output gap, as calculated according to the method agreed by the Council on 12 July 2002⁽¹⁾. The excess over the reference value shall be considered as temporary if the forecasts provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

The Commission report under Article 126(3) shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors.

Before establishing that an excessive deficit exists on the basis of the debt criterion, the whole range of relevant factors covered by the Commission report under Article 126(3) should be taken into account.

The Commission report should appropriately reflect the following relevant factors:

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

Furthermore, due consideration will be given in the report to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria. To this end, the Member State concerned may put forward to the Council and to the Commission the specific factors that it considers relevant, in due time for the preparation of the report under Article 126(3) and as a rule within one month of the reporting dates established in Article 3 (2) and (3) of Regulation (EC) No 479/2009. The Member State shall provide the information necessary for the Commission and the Council to make a comprehensive assessment of the budgetary impact of these factors. In that context, special consideration will be given to: budgetary efforts towards increasing or maintaining at a high level financial contributions to fostering international solidarity and to achieving Union policy goals; the debt incurred in the form of bilateral and multilateral support between Member States in the context of safeguarding financial stability; the debt related to financial stabilisation operations during major financial disturbances. A balanced overall assessment has to encompass all these factors.

The Commission report will give due consideration to the implementation of pension reforms introducing a multi-pillar system that includes a mandatory fully funded pillar and to the net cost of the publicly managed pillar. The net cost of the reform is measured as its direct impact on the general government deficit (as defined in Article 1 of Regulation 479/2009). This impact stems from the fact that revenue, which used to be recorded as government revenue, is diverted to a pension fund, which is fully-funded and classified in a sector other than general government, and that some pensions and other social benefits, which used to be government expenditure, will be, after the reform, paid by the pension scheme. Thus,

(1) See footnote 1 page 166

net costs do not include interest expenditure that is linked to the higher accumulation of debt due to forgone social contributions or other revenues. This consideration should be part of a broader assessment of the overall features of the pension system created by the reform, namely whether it promotes long-term sustainability while not increasing risks for the medium-term budgetary position.

2) *The decision on the existence of an excessive deficit*

When assessing compliance on the basis of the deficit criterion, if the debt ratio exceeds 60% of GDP, the relevant factors assessed in the Commission report under Article 126(3) will also be taken into account in the steps leading to the decision on the existence of an excessive deficit foreseen in paragraphs (4), (5) and (6) of Article 126 of the Treaty only if the double condition of the overarching principle - that, before the relevant factors mentioned in Article 2 (3) of Regulation 1467/97 are taken into account, the general government deficit remains close to the reference value and its excess over the reference value is temporary - is fully met. However, the relevant factors assessed in the Commission report under Article 126(3) will be taken into account in the steps leading to a decision on the existence of an excessive deficit foreseen in paragraphs (4), (5) and (6) of Article 126 of the Treaty when assessing compliance on the basis of the debt criterion. The balanced overall assessment to be made by the Council in accordance with Article 126(6) shall encompass all these factors.

Where the excess of the deficit over the reference value reflects the implementation of a pension reform introducing a multi-pillar system that includes a mandatory fully funded pillar, the Commission and the Council shall also consider the net cost of the reform to the publicly managed pillar when assessing developments in EDP deficit figures as long as the general government deficit does not significantly exceed a level that can be considered close to the 3% of GDP reference value and the debt ratio does not exceed the 60% of GDP reference value, on condition that overall fiscal sustainability is maintained.

The Council shall decide on the existence of an excessive deficit in accordance with Article 126 (6) of the Treaty, on the basis of a Commission recommendation, as a rule within four months of the reporting dates established in Article 3 (2) and (3) of Regulation (EC) No 479/2009. The Council may decide later on the cases in which the budgetary statistical data have not been validated by the Commission (Eurostat) shortly after the reporting dates established in Regulation (EC) No 479/2009.

3) *The correction of an excessive deficit*

Minimum fiscal effort for countries in excessive deficit and initial deadline for its correction

The Council recommendations under Article 126(7) and notices under Article 126(9), based on recommendations of the Commission, will request that the Member State concerned achieves annual budgetary targets that, on the basis of the underlying forecast, are consistent with a minimum annual improvement in its cyclically adjusted balance net of one-off and temporary measures of at least 0.5 of a percentage point of GDP as a benchmark, in order to correct the excessive deficit within the deadline set in the recommendation.

As a rule, the initial deadline for correcting an excessive deficit should be the year after its identification and thus, normally, the second year after its occurrence unless there are special circumstances. This deadline should be set taking into account the effort that the Member State concerned can undertake, with a minimum of 0.5% of GDP, based on a balanced assessment of the relevant factors considered in the Commission report under Article 126(3). If this effort seems sufficient to correct the excessive deficit in the year following its identification, the initial deadline should not be set beyond the year following its identification.

Longer deadlines could be set, in particular in the case of excessive deficit procedures based on the debt criterion, when the government balance requested to comply with the debt criterion is significantly higher than a 3% of GDP deficit.

Further steps in the excessive deficit procedure and clarifying the conditions for abeyance

The Council recommendation made in accordance with Article 126(7) of the Treaty shall establish a deadline of no longer than six months for effective action to be taken by the Member State concerned. When warranted by the seriousness of the situation, the deadline to take effective action to comply with a recommendation in accordance with Article 126(7) may be three months.

Following the expiry of the deadline established for taking effective action in a recommendation under Article 126(7) or the four months period following the adoption of a notice under Article 126(9), the Commission shall assess whether the Member State concerned has acted in compliance with the recommendation or notice. This assessment should consider whether the Member State concerned has publicly announced or taken measures that seem sufficient to ensure adequate progress towards the correction of the excessive deficit within the time limits set by the Council.

The assessment should take into account the report on action taken in response to the Council recommendation or notice that, within the deadline provided for, the Member State concerned should submit to the Commission and the Council. The report on action taken in response to the Council recommendation in accordance with Article 126(7) should include the targets for the government expenditure and revenue and for the discretionary measures, on both the expenditure

and the revenue side, consistent with the Council recommendation as well as information on the measures taken and the nature of those envisaged to achieve the targets. The report on action taken in response to a notice in accordance with Article 126(9), should include the targets for the government expenditure and revenue and for the discretionary measures, on both the expenditure and the revenue side, as well as information on the actions being taken in response to specific Council recommendations, so as to allow the Council to take, if necessary, a decision to impose sanctions in accordance with Article 126(11) of the Treaty. Any such decision shall be taken no later than four months after the Council decision giving notice to the euro area Member State concerned to take measures in accordance with Article 126 (9) TFEU.

In case it appears that the Member State concerned has not acted in compliance with the recommendation or notice, the following step of the procedure provided by Article 126 of the Treaty, as clarified by Regulation (EC) No 1467/97, shall be activated.

If the Commission considers that the Member State has acted in compliance with the recommendation or notice, it shall inform the Council accordingly, and the procedure shall be held in abeyance. If, thereafter, it appears that action by the Member State concerned is not being implemented or is proving to be inadequate and if the possibility of repeating the same step does not apply, the following step of the procedure provided by Article 126 of the Treaty, as clarified by Regulation (EC) No 1467/97, shall be immediately activated. When considering whether the following step of the procedure should be activated, the Commission and the Council should take into account whether the measures required in the recommendation or notice are fully implemented and whether other budgetary variables under the control of the government, in particular expenditure, are developing in line with what was assumed in the recommendation or notice.

In the specific case of recommendations or notices which have set a deadline for the correction of the excessive deficit more than one year after its identification, the assessment of the action taken made by the Commission after the expiry of the deadline established in the recommendation under Article 126(7) or the four month period following a notice under Article 126(9) should mainly focus on the measures taken in order to ensure the achievement of the recommended budgetary targets in the year following the identification of the excessive deficit. The Commission should, during the period of abeyance, assess whether the measures already announced or taken are being adequately implemented and whether additional measures are announced and implemented in order to ensure adequate progress toward the correction of the excessive deficit within the time limits set by the Council.

Clarifying the concept of effective action and repetition of steps in the excessive deficit procedure

If effective action has been taken in compliance with a recommendation under Article 126(7) (or notice under Article 126(9)) of the Treaty and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that recommendation or notice, the Council may decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) (or notice under Article 126(9)) of the Treaty. The revised recommendation (or notice) may, taking into account the relevant factors mentioned in Article 2 (3) of Regulation 1467/97, notably extend the deadline for the correction of the excessive deficit by one year as a rule.

A Member State should be considered to have taken 'effective action' if it has acted in compliance with the recommendation or notice, regarding both the implementation of the measures required therein and budgetary execution. The assessment should in particular take into account whether the Member State concerned has achieved the annual budgetary targets initially recommended by the Council and the underlying improvement in the cyclically adjusted balance net of one off and other temporary measures. In case the observed budget balance proves to be lower than recommended or if the improvement of the cyclically adjusted balance net of one off and other temporary measures falls significantly short of the adjustment underlying the target, a careful analysis of the reasons for the shortfall would be made. In particular, the analysis should take into account whether expenditure targets have been met and the planned discretionary measures on the revenue side have been implemented.

The occurrence of unexpected adverse economic events with major unfavourable budgetary effects shall be assessed against the economic forecast underlying the Council recommendation or notice.

4) *Conditions of abrogation of Council decisions in the context of the EDP*

When considering whether an excessive deficit procedure should be abrogated, the Commission and the Council should take a decision on the basis of notified data.

Moreover, the excessive deficit procedure should only be abrogated if the Commission forecasts indicate that:

- the deficit will not exceed the 3% of GDP threshold over the forecast horizon; and
- the debt ratio fulfils the forward-looking element of the debt benchmark.

5) *Abrogation of Council decisions in the context of the EDP based on the deficit criterion for Member States having implemented multi-pillar pension reforms*

When considering under Article 126 (12) whether some or all of the Council decisions under Article 126(6) to (9) and (11) related to excessive deficit procedures based on the deficit criterion should be abrogated, the Commission and the Council, take into account the net cost of a pension reform introducing a multi-pillar system that includes a mandatory fully-funded pillar only if the general government deficit has declined substantially and continuously and has reached a level that comes close to the reference value.

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, which are at the basis of the Council's surveillance of budgetary positions and its surveillance and co-ordination of economic policies. The Council, on a recommendation from the Commission, and after consulting the Economic and Financial Committee, will, if necessary, adopt an opinion on the programmes. If it considers that its objectives and contents should be strengthened, in particular with regard to the adjustment path towards the MTO, the Council will, in its opinion, invite the Member State concerned to adjust its programme.

Member States are expected to take the policy measures 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 an important component of the "European Semester" of economic policy coordination and surveillance. Under the European Semester, the Commission and the Council shall assess Stability and Convergence Programmes before key decisions on the national budgets for the following years are taken, to provide policy advice on fiscal policy intentions. Member States shall align the timing of submissions and assessments of Stability and Convergence Programmes and National Reform Programmes⁽¹⁾. For reasons of expediency, a copy of the programmes should be submitted to a single electronic email addressed at the Commission⁽²⁾.

Under the European Semester the policy surveillance and coordination cycle starts with a horizontal review under which the European Council, based on input from the Commission and the Council, identifies the main economic challenges facing the EU and the emu area and give strategic guidance on policies. Member States are expected to take into account the horizontal guidance by the European Council when preparing their Stability and Convergence Programmes and justify any departure from it. Similarly, the Commission and Council are expected to take due account of the guidance from the European Council when assessing the individual programmes.

In view of the 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 1055/05 and by Regulation (EU) Y of the European Parliament and of the Council, 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 fully-fledged multi-annual macroeconomic scenario, projections for the main government finances variables and the relevant components, and a description and quantification of the envisaged budgetary strategy.

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, thus providing for a consistent implementation of the Stability and Growth Pact.

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, and to justify any departure from them. Member States under financial programme assistance could submit only the tables as in annex 2.

1) *Status of the programme and of the measures*

Each programme mentions its status in the context of national procedures, notably whether the programme was presented to the national Parliament and whether there has been parliamentary approval of the programme. The programme also indicates whether the national Parliament had the opportunity to discuss the Council opinion on the previous programme and, if relevant, any recommendation, decision, or warning.

(1) In the case of the UK, which has a different fiscal year, submission will follow the presentation of the Spring Budget and be as close as possible to its publication.

(2) ec-european-semester@ec.europa.eu

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 and the National Reforms Programmes 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 general government 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 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 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, including a description and quantification of the policies and measures. The Stability or Convergence Programme will explain revisions of general government balance and expenditure targets set in the programmes submitted in year-1.

To permit a comprehensive 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, as well as on one-off and other temporary measures. Bearing in mind the conditions and criteria to establish the expenditure growth under Article 5(1) of Regulation 1466/97, the programmes should also present the planned growth path of government expenditure, including the corresponding allocation for gross fixed capital formation, the planned growth path of government revenue at unchanged policy and a quantification of the planned discretionary revenue measures.

To permit a comprehensive understanding of the path of the debt ratio, information should be provided, to the extent possible, on components of the stock-flow adjustment, planned privatisation receipts, and other financial operations. In order to assess the extent of possible risks to the budgetary outlook, information should also be provided on implicit liabilities related to ageing and private debt, to the extent that it may represent a contingent implicit liability for the government, and other contingent liabilities, such as public guarantees, with potentially large impact on the general government accounts.

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. Budgetary planning shall be based on the most likely macro-fiscal scenario or on a more prudent scenario. Particular caution should be used in including the effects of recently implemented structural reforms. If such effects are included in the projections, these should be explicitly quantified together with the underlying assumptions and/or model, including variables and parameters. 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, emu 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 forecast, which shall be provided in due time by the Commission (on the basis of the final table in Annex 2), or, for comparability reasons, present sensitivity analysis based on the common assumptions for these variables when the differences are significant.

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, envisaged or assumed 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, but could contain quantified examples of measures that would allow reaching the programme targets.

However, in order to allow a meaningful discussion the programmes should provide concrete indications on the budgetary strategy for year $t+1$, including preliminary projections under unchanged policy and targets for the general government balance, expenditure and revenue and their main components, and a description and quantification of the policies taken, envisaged or assumed to reach the fiscal targets. Should the Council consider that the information provided in the programme is insufficient, it shall, in its opinion, invite the Member State concerned to submit a revised programme, in line with the provisions of Articles 5(2) and 9(2) of regulation 1466/97.

As implied by the Commission services for the purpose of forecasting, the ‘no-policy change’ assumption involves the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail. In particular, only measures that have been specified and committed to by governments will be taken into account. Each Member State should appropriately define a scenario at unchanged policies and make public the involved assumptions, methodologies and relevant parameters.

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 quantitative cost-benefit analysis of the short-term costs - if any - and of the direct 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 provide information on measures taken or envisaged to improve 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 existing and envisaged 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 and the fiscal risks stemming from contingent liabilities.

The Working Group on Ageing (AWG) of 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’ 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, financial, 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 AWG.

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, in particular the planned growth of government expenditure, the planned growth path of government revenue at unchanged policy and the planned discretionary revenue measures, appropriately quantified, 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, submissions of Stability and Convergence Programmes should take place each year preferably by mid-April, but in any case not later than the end of April.

The whole process should be completed with the adoption of Council Opinions on the programmes as a rule before the end of July each year.

Stability and Convergence Programmes should show how developments have compared with the budgetary targets in the previous programme or update, including the information on how the last year's policy guidance in the Council Opinions on the Stability and Convergence Programmes and country- specific recommendations have been reflected in national budgets. When applicable, they should explain in detail the reasons for the deviations from the budgetary targets (with a special focus on developments in government expenditure). When significant deviations occur, the update should mention whether measures are taken to rectify the situation, and provide information on these measures. The Commission and the Council will assess the implementation of the commitments announced by the Member States in their previous Stability and Convergence programmes and of the policy guidance provided by the Council on the previous programme. The outcome of this assessment will be duly taken into account when addressing new policy guidance to Member States.

ANNEX I**MODEL STRUCTURE FOR THE STABILITY AND CONVERGENCE PROGRAMMES**

1. Overall policy framework and objectives
2. Economic outlook (on the basis of Tables Ia-IId, 5 and 8)
 - World economy/technical assumptions
 - Cyclical developments and current prospects
 - Medium-term scenario
 - Sectoral balances
 - Growth implications of “major structural reforms”
3. General government balance and debt (on the basis of Tables 2, 3, 4 and 5)
 - Policy strategy
 - Medium-term objectives
 - Actual balances and updated budgetary plans for the current year
 - Medium-term budgetary outlook, including description and quantification of fiscal strategy
 - Structural balance (cyclical component of the balance, one-off and temporary measures), fiscal stance, including in terms of expenditure benchmark
 - Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments
 - Budgetary implications of “major structural reforms”
4. Sensitivity analysis and comparison with previous programme (on the basis of Table 6)
 - Alternative scenarios and risks
 - Sensitivity of budgetary projections to different scenarios and assumptions
 - Comparison with previous programme
5. Sustainability of public finances (on the basis of Table 7 and 7a)
 - Policy strategy
 - Long-term budgetary prospects, including the implications of ageing populations
 - Contingent liabilities.
6. Quality of public finances (on the basis of Tables 2 and 3)
 - Policy strategy
 - Composition, efficiency and effectiveness of expenditure
 - Structure and efficiency of revenue systems
7. Institutional features of public finances
 - National budgetary rules
 - Budgetary procedures, incl. public finance statistical governance
 - Other institutional developments in relation to public finances

ANNEX II

TABLES TO BE CONTAINED IN THE STABILITY AND CONVERGENCE PROGRAMMES

Provision of data on variables in bold characters is a requirement.

Provision of data on other variables is optional but highly desirable.

The tables should be submitted to the Commission by means of the dedicated web application.

Table 1a. Macroeconomic prospects

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	Bl*g						
2. Nominal GDP	Bl*g						
Components of real GDP							
3. Private consumption expenditure	P.3						
4. Government consumption expenditure	P.3						
5. Gross fixed capital formation	P.51						
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53						
7. Exports of goods and services	P.6						
8. Imports of goods and services	P.7						
Contributions to real GDP growth							
9. Final domestic demand		-					
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-					
11. External balance of goods and services	B.II	-					

Table 1b. Price developments

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator							
2. Private consumption deflator							
3. HICP⁽¹⁾							
4. Public consumption deflator							
5. Investment deflator							
6. Export price deflator (goods and services)							
7. Import price deflator (goods and services)							
⁽¹⁾ Optional for stability programmes.							

Table 1c. Labour market developments

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, persons⁽¹⁾							
2. Employment, hours worked⁽²⁾							
3. Unemployment rate (%)⁽³⁾							
4. Labour productivity, person^{s(4)}							
5. Labour productivity, hours worked⁽⁵⁾							
6. Compensation of employees	D.1						
7. Compensation per employee					optional	optional	optional
⁽¹⁾ Occupied population, domestic concept national accounts definition. ⁽²⁾ National accounts definition. ⁽³⁾ Harmonised definition, Eurostat; levels. ⁽⁴⁾ Real GDP per person employed. ⁽⁵⁾ Real GDP per hour worked.							

Table 1d. Sectoral balances

% of GDP	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Net lending/borrowing vis-à-vis the rest of the world	B.9					
<i>of which:</i>						
- Balance on goods and services						
- Balance of primary incomes and transfers						
- Capital account						
2. Net lending/borrowing of the private sector	B.9					
3. Net lending/borrowing of general government	EDP B.9					
4. Statistical discrepancy			optional	optional	optional	optional

Table 2a. General government budgetary prospects

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B.9) by subsector							
1. General government	S.13						
2. Central government	S.1311						
3. State government	S.1312						
4. Local government	S.1313						
5. Social security funds	S.1314						
General government (S13)							
6. Total revenue	TR						
7. Total expenditure	TE ⁽¹⁾						
8. Net lending/borrowing	EDP B.9						
9. Interest expenditure	EDP D.41						
10. Primary balance ⁽²⁾							
11. One-off and other temporary measures ⁽³⁾							
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)							
12a. Taxes on production and imports	D.2					optional	optional
12b. Current taxes on income, wealth, etc	D.5					optional	optional
12c. Capital taxes	D.91					optional	optional
13. Social contributions	D.61					optional	optional
14. Property income	D.4					optional	optional
15. Other ⁽⁴⁾						optional	optional
16=6. Total revenue	TR						
p.m.: Tax burden (D.2+D.5+D.61+D.91 -D.995) ⁽⁵⁾							
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2						
17a. Compensation of employees	D.1						
17b. Intermediate consumption	P.2						
18. Social payments (18=18a+18b)							
of which Unemployment benefits ⁽⁶⁾							
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131						
18b. Social transfers other than in kind	D.62						
19=9. Interest expenditure	EDP D.41						
20. Subsidies	D.3						
21. Gross fixed capital formation	P.51						
22. Capital transfers	D.9						

23. Other⁽⁷⁾							
24=7. Total expenditure	TE ⁽¹⁾						
p.m.: Government consumption (nominal)	P.3						
⁽¹⁾ Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9. ⁽²⁾ The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9). ⁽³⁾ A plus sign means deficit-reducing one-off measures. ⁽⁴⁾ P. 11+P. 12+P. 131 +D.39+D.7+D.9 (other than D.91). ⁽⁵⁾ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate. ⁽⁶⁾ Includes cash benefits (D.621 and D. 624) and in kind benefits (D.631) related to unemployment benefits. ⁽⁷⁾ D.29+D4 (other than D.41) + D.5+D.7+P.52+P.53+K.2+D.8.							

Table 2b. No-policy change projections⁽¹⁾

		Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenue at unchanged policies							
2. Total expenditure at unchanged policies							
⁽¹⁾ The projections shall start at the time when the Stability or Convergence Programme is drafted (please indicate the cut-off date) and show revenue and expenditure trends under a 'no-policy change' assumption, as defined on p.176. Therefore, figures for X-1 should correspond to actual data for revenue and expenditure.							

Table 2c. Amounts to be excluded from the expenditure benchmark

		Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue							
2. Cyclical unemployment benefit expenditure⁽¹⁾							
3. Effect of discretionary revenue measures⁽²⁾							
4. Revenue increases mandated by law							
⁽¹⁾ Please detail the methodology used to obtain the cyclical component of unemployment benefit expenditure. It should build on unemployment benefit expenditure as defined in COFOG under the code 10.5 ⁽²⁾ Revenue increases mandated by law should not be included in the effect of discretionary revenue measures: data reported in rows 3 and 4 should be mutually exclusive.							

Table 3. General government expenditure by function

% of GDP	COFOG Code	Year X-2	Year X+3
1. General public services	1		
2. Defence	2		
3. Public order and safety	3		
4. Economic affairs	4		
5. Environmental protection	5		
6. Housing and community amenities	6		
7. Health	7		
8. Recreation, culture and religion	8		
9. Education	9		
10. Social protection	10		
11. Total expenditure (=item 7=23 in Table 2)	TE ⁽¹⁾		
⁽¹⁾ Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.			

Table 4. General government debt developments

% of GDP	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Gross debt⁽¹⁾						
2. Change in gross debt ratio						
Contributions to changes in gross debt						
3. Primary balance⁽²⁾						
4. Interest expenditure⁽³⁾	EDP D.41					
5. Stock-flow adjustment						
of which:						
- Differences between cash and accruals ⁽⁴⁾						
- Net accumulation of financial assets ⁽⁵⁾						
of which:						
- privatisation proceeds						
- Valuation effects and other ⁽⁶⁾						
p.m.: Implicit interest rate on debt⁽⁷⁾						
Other relevant variables						
6. Liquid financial assets⁽⁸⁾						
7. Net financial debt (7=1-6)						
8. Debt amortization (existing bonds) since the end of the previous year						
9. Percentage of debt denominated in foreign currency						
10. Average maturity						
<p>⁽¹⁾ As defined in Regulation 3605/93 (not an ESA concept).</p> <p>⁽²⁾ Cf. item 10 in Table 2.</p> <p>⁽³⁾ Cf. item 9 in Table 2.</p> <p>⁽⁴⁾ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.</p> <p>⁽⁵⁾ Liquid assets (currency), government securities, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.</p> <p>⁽⁶⁾ Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.</p> <p>⁽⁷⁾ Proxied by interest expenditure divided by the debt level of the previous year. SAF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares)</p> <p>⁽⁸⁾ AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares)</p>						

Table 5. Cyclical developments

% of GDP	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Real GDP growth (%)						
2. Net lending of general government	EDP B.9					
3. Interest expenditure	EDP D.41					
4. One-off and other temporary measures⁽¹⁾						
5. Potential GDP growth (%)						
contributions:						
- labour						
- capital						
- total factor						
6. Output gap						
7. Cyclical budgetary component						
8. Cyclically-adjusted balance (2-7)						
9. Cyclically-adjusted primary balance (8 + 3)						
10. Structural balance (8 - 4)						
⁽¹⁾ A plus sign means deficit-reducing one-off measures.						

Table 6. Divergence from previous update

% of GDP	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
Real GDP growth (%)						
Previous update						
Current update						
Difference						
General government net lending (% of GDP)	EDP B.9					
Previous update						
Current update						
Difference						
General government gross debt (% of GDP)						
Previous update						
Current update						
Difference						

Table 7. Long-term sustainability of public finances

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
<i>Of which: age-related expenditures</i>							
Pension expenditure							
Social security pension							
Old-age and early pensions							
Other pensions (disability, survivors)							
Occupational pensions (if in general government)							
Health care							
Long-term care (<i>this was earlier included in the health care</i>)							
Education expenditure							
Other age-related expenditures							
Interest expenditure							
Total revenue							
<i>Of which: property income</i>							
<i>Of which, from pensions contributions (or social contributions if appropriate)</i>							
Pension reserve fund assets							
<i>Of which, consolidated public pension fund assets (assets other than government liabilities)</i>							
Systemic pension reforms⁽¹⁾							
Social contributions diverted to mandatory private scheme ⁽²⁾							
Pension expenditure paid by mandatory private scheme ⁽³⁾							
Assumptions							
Labour productivity growth							
Real GDP growth							
Participation rate males (aged 20-64)							
Participation rates females (aged 20-64)							
Total participation rates (aged 20-64)							
Unemployment rate							
Population aged 65+ over total population							
⁽¹⁾ Systemic pension reforms refer to pension reforms that introduce a multi-pillar system that includes a mandatory fully funded pillar.							
⁽²⁾ Social contributions or other revenue received by the mandatory fully funded pillar to cover for the pension obligations it acquired in conjunction with the systemic reform							
⁽³⁾ Pension expenditure or other social benefits paid by the mandatory fully funded pillar linked to the pension obligations it acquired in conjunction with the systemic pension reform							

Table 7a. Contingent liabilities

% of GDP	Year X-1	Year X
Public guarantees		Optional
<i>Of which:</i> linked to the financial sector		Optional

This table should preferably be included in the programme itself; if not, these assumptions should be transmitted to the Council and the Commission together with the programme.

	Year X-1	Year X	Year X+1	Year X+2	Year X+3
Short-term interest rate⁽¹⁾ (annual average)					
Long-term interest rate (annual average)					
USD/C exchange rate (annual average) (euro area and ERM II countries)					
Nominal effective exchange rate (for countries not in euro area or ERM II) exchange rate vis-à- vis the € (annual average)					
World excluding EU, GDP growth					
EU GDP growth					
Growth of relevant foreign markets					
World import volumes, excluding EU					
Oil prices (Brent, USD/barrel)					
⁽¹⁾ If necessary, purely technical assumptions.					



REGULATION (EU) No 472/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**of 21 May 2013****on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136 in combination with Article 121(6) thereof,

Having regard to the proposal from the European Commission,

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

Having regard to the opinion of the European Central Bank⁽¹⁾,

Acting in accordance with the ordinary legislative procedure⁽²⁾,

Whereas:

- (1) The unprecedented global crisis that has hit the world since 2007 has seriously damaged economic growth and financial stability and has given rise to a strong deterioration in the government deficit and debt position of the Member States, leading a number of them to seek financial assistance within and outside the framework of the Union.
- (2) Article 9 of the Treaty on the Functioning of the European Union (TFEU) provides that, in defining and implementing its policies and activities, the Union is to take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health.
- (3) Full consistency between the Union multilateral surveillance framework established by the TFEU and the possible policy conditions attached to financial assistance should be enshrined in Union law. The economic and financial integration of all Member States, in particular those whose currency is the euro, calls for enhanced surveillance to prevent contagion from a Member State experiencing or threatened with serious difficulties with respect to its financial stability to the rest of the euro area and, more broadly, to the Union as a whole.
- (4) The intensity of economic and budgetary surveillance should be commensurate with, and proportionate to, the severity of the financial difficulties encountered and should take due account of the nature of the financial assistance received, which may range from mere precautionary support based on eligibility conditions to a full macroeconomic adjustment programme involving strict policy conditionality. Any macroeconomic adjustment programme should take into account the national reform programme of the Member State concerned in the context of the Union's strategy for growth and jobs.
- (5) A Member State whose currency is the euro should be subject to enhanced surveillance under this Regulation when it is experiencing or is threatened with serious financial difficulties, with a view to ensuring its swift return to a normal situation and to protecting the other euro area Member States against potential adverse spill-over effects. Such enhanced surveillance should be proportionate to the seriousness of the problems and should be adjusted accordingly. It should include wider access to the information needed for a close monitoring of the economic, fiscal and financial situation and a regular reporting to the competent committee of the European Parliament and to the Economic and Financial Committee (EFC) or to any subcommittee the latter may designate for that purpose. The same arrangements for surveillance should apply to Member States requesting precautionary assistance from one or several other Member States or third countries, the European Financial Stabilisation Mechanism (EFSM), the European Stability Mechanism (ESM), the European Financial Stability Facility (EFSF), or another relevant international financial institution such as the International Monetary Fund (IMF).
- (6) A Member State subject to enhanced surveillance should also adopt measures aimed at addressing the sources or potential sources of its difficulties. To that end, all recommendations addressed to it in the course of an excessive deficit procedure or of an excessive macroeconomic imbalance procedure should be taken into account.

(1) OJ C 141, 17.5.2012, p. 7.

(2) Position of the European Parliament of 12 March 2013 (not yet published in the Official Journal) and decision of the Council of 13 May 2013.

- (7) Economic and budgetary surveillance should be strongly reinforced for Member States subject to a macroeconomic adjustment programme. Because of the comprehensive nature of the latter, the other processes of economic and budgetary surveillance should be suspended or, where appropriate, streamlined for the duration of the macroeconomic adjustment programme, with a view to ensuring consistency of economic policy surveillance and to avoiding duplication of reporting obligations. However, when preparing the macroeconomic adjustment programme, all recommendations addressed to the Member State in the course of an excessive deficit procedure or an excessive macroeconomic imbalance procedure should be taken into account.
- (8) The challenge posed by tax fraud and evasion has increased considerably. Globalisation of the economy, technological developments, the internationalisation of fraud and the resulting interdependence of Member States reveal the limits of strictly national approaches and reinforce the need for joint action.
- (9) The problems presented by tax fraud and evasion in Member States subject to a macroeconomic adjustment programme should be tackled by improving revenue collection in those Member States and enhancing cooperation between the revenue administrations in the Union and in third countries.
- (10) Rules should be laid down to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability. The parliament of a Member State subject to a macroeconomic adjustment programme or to enhanced surveillance should be kept informed in accordance with national rules and practice.
- (11) Member States should involve the social partners and civil society organisations in the preparation, implementation, monitoring and evaluation of financial assistance programmes, in accordance with national rules and practice.
- (12) Before a Council decision relating to a macroeconomic adjustment programme under this Regulation is adopted, the relevant bodies of the ESM and of the EFSF should have the opportunity to hold a discussion on the outcome of negotiations between the Commission – acting on behalf of the ESM or the EFSF, in liaison with the European Central Bank (ECB) and, where appropriate, the IMF – and the beneficiary Member State on the possible policy conditions attached to that Member State's financial assistance. Memoranda of understanding setting down the detailed conditions for granting financial assistance are to be adopted under the Treaty establishing the European Stability Mechanism and the EFSF Framework Agreement.
- (13) Unless otherwise provided, references to financial assistance in this Regulation should also cover financial support granted on a precautionary basis and loans for the recapitalisation of financial institutions.
- (14) The decision of the Commission to subject a Member State to enhanced surveillance under this Regulation should be taken in close cooperation with the EFC, the European Supervisory Authority (European Banking Authority) established by Regulation (EU) No 1093/2010 of the European Parliament and of the Council⁽¹⁾, the European Supervisory Authority (European Insurance and Pensions Authority) established by Regulation (EU) No 1094/2010 of the European Parliament and of the Council⁽²⁾, the European Supervisory Authority (European Securities and Markets Authority) established by Regulation (EU) No 1095/2010 of the European Parliament and of the Council⁽³⁾ (collectively referred to as the 'ESAs') and the European Systemic Risk Board (ESRB) established by Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board⁽⁴⁾. The Commission should also cooperate with the EFC when deciding on whether to prolong enhanced surveillance.
- (15) Following a reasoned request by the Member State concerned or, where appropriate, on grounds of exceptional economic circumstances, the Commission is able to recommend reducing or cancelling any existing interest-bearing deposit, non-interest-bearing deposit or fine imposed by the Council in the framework of the preventive or corrective part of the Stability and Growth Pact for a Member State subject to a macroeconomic adjustment programme.
- (16) Access to information on the preparatory work undertaken before the adoption of a recommendation under this Regulation should be subject to Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents⁽⁵⁾.
- (17) Where a decision is taken under this Regulation that a Member State does not comply with the requirements contained in its macroeconomic adjustment programme, and events and analyses clearly show that a mechanism is needed to ensure respect for the obligations towards its creditors and the stabilisation of its economic and financial situation, the Commission is invited to make proposals for such mechanism.

(1) OJ L 331, 15.12.2010, p. 12.

(2) OJ L 331, 15.12.2010, p. 48.

(3) OJ L 331, 15.12.2010, p. 84.

(4) OJ L 331, 15.12.2010, p. 1.

(5) OJ L 145, 31.5.2001, p. 43.

- (18) The power to adopt recommendations on the adoption of precautionary corrective measures and on the preparation of a macroeconomic adjustment programme; the power to approve macroeconomic adjustment programmes; the power to adopt decisions on the main policy requirements which the ESM or the EFSF plan to include in the conditionality for financial assistance granted on a precautionary basis, loans for the recapitalisation of financial institutions or any new financial instrument agreed within the framework of the ESM; and the power to recommend the adoption of corrective measures to Member States under post-programme surveillance, should be conferred on the Council. Those powers are of particular relevance to the policy of economic coordination of Member States, which, pursuant to Article 121 TFEU, is to take place within the Council,

HAVE ADOPTED THIS REGULATION:

Article 1

Subject matter and scope

1. This Regulation lays down provisions for strengthening the economic and budgetary surveillance of Member States whose currency is the euro, where those Member States:
 - (a) experience or are threatened with serious difficulties with respect to their financial stability or to the sustainability of their public finances, leading to potential adverse spill-over effects on other Member States in the euro area; or
 - (b) request or receive financial assistance from one or several other Member States or third countries, the European Financial Stabilisation Mechanism (EFSM), the European Stability Mechanism (ESM), the European Financial Stability Facility (EFSF), or another relevant international financial institution such as the International Monetary Fund (IMF).
2. This Regulation also lays down provisions for enhanced economic policy coordination.
3. This Regulation shall apply to Member States whose currency is the euro.
4. In applying this Regulation, the Council, the Commission and the Member States shall fully observe Article 152 TFEU. In applying this Regulation and the recommendations adopted hereunder, the Council, the Commission and the Member States shall take into account national rules and practice and Article 28 of the Charter of Fundamental Rights of the European Union. Accordingly, the application of this Regulation and of those recommendations does not affect the right to negotiate, conclude and enforce collective agreements or to take collective action in accordance with national law.

Article 2

Member States subject to enhanced surveillance

1. The Commission may decide to subject to enhanced surveillance a Member State experiencing or threatened with serious difficulties with respect to its financial stability which are likely to have adverse spill-over effects on other Member States in the euro area.

When assessing whether a Member State is threatened with serious difficulties with respect to its financial stability, the Commission shall use, among other parameters, the alert mechanism established under Article 3(1) of Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances⁽¹⁾ or, where available, the latest in-depth review. The Commission shall also conduct a comprehensive assessment, taking into account, in particular, the borrowing conditions of that Member State, the repayment profile of its debt obligations, the robustness of its budgetary framework, the long-term sustainability of its public finances, the importance of its debt burden and the risk of contagion from severe tensions in its financial sector on its budgetary situation or on the financial sector of other Member States.

The Member State concerned shall be given the opportunity to express its views before the Commission adopts its decision to subject that Member State to enhanced surveillance. Every six months, the Commission shall decide whether to prolong the enhanced surveillance on that Member State.

2. Where the Commission decides to subject a Member State to enhanced surveillance under paragraph 1, it shall duly inform the Member State concerned of all the results of the assessment and shall notify the European Central Bank (ECB), in its supervisory capacity, the relevant ESAs and the ESRB accordingly.
3. Where a Member State is in receipt of financial assistance on a precautionary basis from one or several other Member States or third countries, the EFSM, the ESM, the EFSF, or another relevant international financial institution such as the IMF, the Commission shall subject that Member State to enhanced surveillance.

(1) OJ L 306, 23.11.2011, p. 25.

The Commission shall make public its decisions taken in accordance with paragraph 1 and with this paragraph.

4. Paragraph 3 shall not apply to a Member State receiving financial assistance on a precautionary basis in the form of a credit line, which is not conditional on that Member State adopting new policy measures, provided that the credit line is not drawn.
5. The Commission shall publish, for information purposes, a list of the instruments providing precautionary financial assistance, as referred to in paragraph 3 and shall keep it updated to take into account possible changes in the financial support policy of the ESM, the EFSF or of another relevant international financial institution.

Article 3

Enhanced surveillance

1. A Member State subject to enhanced surveillance shall, after consulting, and in cooperation with, the Commission, acting in liaison with the ECB, the ESAs, the ESRB and, where appropriate, the IMF, adopt measures aimed at addressing the sources or potential sources of difficulties. In so doing, the Member State shall take into account any recommendations addressed to it under Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of budgetary positions and the surveillance and coordination of economic policies⁽¹⁾, Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure⁽²⁾, or Regulation (EU) No 1176/2011 concerning its national reform programme and its stability programme.

The Commission shall inform the competent committee of the European Parliament, the EFC, the Eurogroup Working Group, and the parliament of the Member State concerned, where relevant and in accordance with national practice, of the measures referred to in the first subparagraph.

2. The closer monitoring of the fiscal situation laid down in Article 10(2), (3) and (6) of Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area⁽³⁾ shall apply to a Member State subject to enhanced surveillance, irrespective of the existence of an excessive deficit in that Member State. The report drawn up in accordance with Article 10(3) of that Regulation shall be submitted on a quarterly basis.
3. On a request from the Commission, a Member State subject to enhanced surveillance pursuant to Article 2(1) shall:
 - (a) communicate to the ECB in its supervisory capacity, and, where appropriate, to the relevant ESAs, in accordance with Article 35 of Regulations (EU) No 1093/2010, (EU) No 1094/2010 and (EU) No 1095/2010, at the requested frequency, disaggregated information on developments in its financial system, including an analysis of the results of any stress test exercises or sensitivity analyses carried out under point (b) of this paragraph;
 - (b) carry out, under the supervision of the ECB in its supervisory capacity, or, where appropriate, under the supervision of the relevant ESAs, stress test exercises or sensitivity analyses, as necessary, to assess the resilience of the financial sector to various macroeconomic and financial shocks, as specified by the Commission and the ECB, in liaison with the relevant ESAs and with the ESRB;
 - (c) be required to submit to regular assessments of its supervisory capacities over the financial sector in the framework of a specific peer review carried out by the ECB, in its supervisory capacity, or, where appropriate, by the relevant ESAs;
 - (d) communicate to the Commission any information needed for the monitoring of macroeconomic imbalances in accordance with Regulation (EU) No 1176/2011.

On the basis of the analysis of the results of the stress test exercises and sensitivity analyses referred to in point (a) of the first subparagraph, and taking into account the conclusions of the assessment of the relevant indicators of the scoreboard for macroeconomic imbalances established in Regulation (EU) No 1176/2011, the ECB, in its supervisory capacity, and the relevant ESAs shall prepare, in liaison with the ESRB, an assessment of the potential vulnerabilities of the financial system and shall submit that assessment to the Commission, at the frequency indicated by the latter, and to the ECB.

4. On a request from the Commission, a Member State subject to enhanced surveillance pursuant to Article 2(3) shall:
 - (a) communicate to the Commission, the ECB and, where appropriate, the relevant ESAs, in accordance with Article 35 of Regulations (EU) No 1093/2010, (EU) No 1094/2010 and (EU) No 1095/2010, at the requested frequency, disaggregated information on developments in its financial system, including an analysis of the results of any stress test exercises or sensitivity analyses carried out under point (b);

(1) OJ L 209, 2.8.1997, p. 1.

(2) OJ L 209, 2.8.1997, p. 6.

(3) See page 197.

- (b) carry out, under the supervision of the ECB, in its supervisory capacity, or, where appropriate, under the supervision of the relevant ESAs, stress test exercises or sensitivity analyses, as necessary, to assess the resilience of the financial sector to various macroeconomic and financial shocks, as specified by the Commission and the ECB, in liaison with the relevant ESAs and with the ESRB, and share the detailed results with them;
- (c) be required to submit to regular assessments of its supervisory capacities over the financial sector in the framework of a specific peer review carried out by the ECB, in its supervisory capacity, or, where appropriate, by the relevant ESAs;
- (d) communicate to the Commission any information needed for the monitoring of macroeconomic imbalances in accordance with Regulation (EU) No 1176/2011.

The Commission, the ECB and the relevant ESAs shall treat any disaggregated information communicated to them as confidential.

5. The Commission, in liaison with the ECB and with the relevant ESAs and, where appropriate, with the IMF, shall conduct regular review missions in the Member State subject to enhanced surveillance to verify the progress made by that Member State in the implementation of the measures referred to in paragraphs 1, 2, 3 and 4.

Every quarter, the Commission shall communicate its assessment to the competent committee of the European Parliament and to the EFC. In that assessment, it shall examine, in particular, whether further measures are needed.

The review missions referred to in the first subparagraph shall replace the on-site monitoring provided for in Article 10a(2) of Regulation (EC) No 1467/97.

6. When preparing the assessment referred to in paragraph 5, the Commission shall take into account the results of any in-depth review under Regulation (EU) No 1176/2011, including the evaluation of spill-over effects of national economic policies on the Member State subject to enhanced surveillance, in accordance with Article 5(2) of that Regulation.
7. Where the Commission concludes that, on the basis of the review missions provided for in paragraph 5, further measures are needed and the financial and economic situation of the Member State concerned has significant adverse effects on the financial stability of the euro area or of its Member States, the Council, acting by a qualified majority on a proposal from the Commission, may recommend to the Member State concerned to adopt precautionary corrective measures or to prepare a draft macroeconomic adjustment programme.

The Council may decide to make its recommendation public.

8. Where a recommendation referred to in paragraph 7 is made public:
 - (a) the competent committee of the European Parliament may offer the opportunity to the Member State concerned and to the Commission to participate in an exchange of views;
 - (b) representatives of the Commission may be invited by the parliament of the Member State concerned to participate in an exchange of views;
 - (c) the Council shall inform the relevant committee of the European Parliament in due time about the content of the recommendation.
9. During the course of the enhanced surveillance process, the competent committee of the European Parliament and the parliament of the Member State concerned may invite representatives of the Commission, the ECB and the IMF to participate in an economic dialogue.

Article 4

Reporting in the event of financial support for the recapitalisation of financial institutions

Member States subject to enhanced surveillance or to a macroeconomic adjustment programme receiving financial support for the recapitalisation of their financial institutions shall report twice a year to the EFC on the conditions imposed on those financial institutions, including the conditions relating to executive remuneration. Those Member States shall also report on the credit conditions offered by the financial sector to the real economy.

Article 5

Information on envisaged financial assistance requests

A Member State intending to request financial assistance from one or several other Member States or third countries, the ESM, the EFSF, or another relevant international financial institution, such as the IMF, shall immediately inform the President of the Eurogroup Working Group, the member of the Commission responsible for Economic and Monetary Affairs and the President of the ECB of its intention.

After receiving an assessment from the Commission, the Eurogroup Working Group shall hold a discussion about the intended request with a view to examining, inter alia, the possibilities available under existing Union or euro area financial instruments before the Member State concerned addresses potential lenders.

A Member State intending to request financial assistance from the EFSM shall immediately inform the President of the EFC, the member of the Commission responsible for economic and monetary affairs and the President of the ECB of its intention.

Article 6

Evaluation of the sustainability of the government debt

Where a Member State requests financial assistance from the EFSM, the ESM, or the EFSF, the Commission shall assess, in liaison with the ECB and, where possible, with the IMF, the sustainability of that Member State's government debt and its actual or potential financing needs. The Commission shall submit that assessment to the Eurogroup Working Group where the financial assistance is to be granted under the ESM or the EFSF, and to the EFC where the financial assistance is to be granted under the EFSM.

The assessment of the sustainability of the government debt shall be based on the most likely macroeconomic scenario or a more prudent scenario and budgetary forecasts using the most up-to-date information and taking proper account of the outcome of the reporting referred to in point (a) of Article 3(3) as well as any supervisory task exercised in accordance with point (b) of Article 3(3). The Commission shall also assess the impact of macroeconomic and financial shocks and adverse developments on the sustainability of government debt.

The Commission shall make public the macroeconomic scenario, including the growth scenario, the relevant parameters underpinning the assessment of the sustainability of the government debt of the Member State concerned, and the estimated impact of the aggregate budgetary measures on economic growth.

Article 7

Macroeconomic adjustment programme

1. Where a Member State requests financial assistance from one or several other Member States or third countries, the EFSM, the ESM, the EFSF or the IMF, it shall prepare, in agreement with the Commission, acting in liaison with the ECB and, where appropriate, with the IMF, a draft macroeconomic adjustment programme which shall build on and substitute any economic partnership programme under Regulation (EU) No 473/2013 and which shall include annual budgetary targets.

The draft macroeconomic adjustment programme shall address the specific risks emanating from that Member State for the financial stability in the euro area and shall aim at rapidly re-establishing a sound and sustainable economic and financial situation and restoring the Member State's capacity to finance itself fully on the financial markets.

The draft macroeconomic adjustment programme shall be based on the assessment of the sustainability of the government debt referred to in Article 6, which shall be updated to incorporate the impact of the draft corrective measures negotiated with the Member State concerned, and shall take due account of any recommendation addressed to that Member State under Articles 121, 126, 136 or 148 TFEU and of its actions to comply with any such recommendation, while aiming at broadening, strengthening and deepening the required policy measures.

The draft macroeconomic adjustment programme shall take into account the practice and institutions for wage formation and the national reform programme of the Member State concerned in the context of the Union's strategy for growth and jobs.

The draft macroeconomic adjustment programme shall fully observe Article 152 TFEU and Article 28 of the Charter of Fundamental Rights of the European Union. The Commission shall orally inform the Chair and Vice-Chairs of the competent committee of the European Parliament of the progress made in the preparation of the draft macroeconomic adjustment programme. That information shall be treated as confidential.

2. The Council, acting by a qualified majority on a proposal from the Commission, shall approve the macroeconomic adjustment programme prepared by the Member State requesting financial assistance in accordance with paragraph 1.

The Commission shall ensure that the memorandum of understanding signed by the Commission on behalf of the ESM or of the EFSF is fully consistent with the macroeconomic adjustment programme approved by the Council.

3. The Commission shall ensure consistency in the process of economic and budgetary surveillance with respect to a Member State under a macroeconomic adjustment programme to avoid duplication of reporting obligations.
4. The Commission, in liaison with the ECB and, where appropriate, with the IMF, shall monitor the progress made by a Member State in the implementation of its macroeconomic adjustment programme.

Every three months, the Commission shall inform the EFC of such progress. The Member State concerned shall fully cooperate with the Commission and with the ECB. It shall, in particular, provide the Commission and the ECB with all the information that they consider to be necessary for the monitoring of the implementation of the macroeconomic adjustment programme in accordance with Article 3(4).

The Commission shall inform the Chair and Vice-Chairs of the competent committee of the European Parliament orally of the conclusions drawn from the monitoring of the macroeconomic adjustment programme. That information shall be treated as confidential.

5. The Commission, in liaison with the ECB and, where appropriate, with the IMF, shall examine with the Member State concerned the changes and updates that may be needed to its macroeconomic adjustment programme in order to take proper account, inter alia, of any significant gap between macroeconomic forecasts and realised figures, including possible consequences resulting from the macroeconomic adjustment programme, adverse spill-over effects and macroeconomic and financial shocks. The Council, acting by a qualified majority on a proposal from the Commission, shall decide on any change to be made to that programme.
6. The Member State concerned shall consider, in close cooperation with the Commission, whether to take all necessary measures to invite private investors to maintain their overall exposure on a voluntary basis.
7. Where the monitoring referred to in paragraph 4 highlights significant deviations from a Member State's macroeconomic adjustment programme, the Council, acting by a qualified majority on a proposal from the Commission, may decide that the Member State concerned does not comply with the policy requirements contained in its programme. The Commission, in its proposal, shall assess explicitly whether such significant deviations are due to reasons that are not within the control of the Member State concerned.

The budgetary consolidation efforts set out in the macroeconomic adjustment programme shall take into account the need to ensure sufficient means for fundamental policies, such as education and health care.

Where a decision is taken under this paragraph, the Member State concerned shall, in close cooperation with the Commission and in liaison with the ECB and, where appropriate, with the IMF, take measures aimed at stabilising markets and preserving the good functioning of its financial sector.

8. A Member State subject to a macroeconomic adjustment programme experiencing insufficient administrative capacity or significant problems in the implementation of the programme shall seek technical assistance from the Commission, which may constitute, for that purpose, groups of experts composed of members from other Member States and other Union institutions or from relevant international institutions. The objectives and the means of the technical assistance shall be explicitly outlined in the updated versions of the macroeconomic adjustment programme and focus on the area where major needs are identified. Technical assistance may include the establishment of a resident representative and supporting staff to advise authorities on the implementation of the programme.

The macroeconomic adjustment programme, including its objectives and the expected distribution of the adjustment effort, shall be made public.

The conclusions of the assessment of the sustainability of the government debt shall be annexed to the macroeconomic adjustment programme.

9. A Member State subject to a macroeconomic adjustment programme shall carry out a comprehensive audit of its public finances in order, inter alia, to assess the reasons that led to the building up of excessive levels of debt as well as to track any possible irregularity.
10. The competent committee of the European Parliament may offer the opportunity to the Member State concerned and to the Commission to participate in an exchange of views on the progress made in the implementation of the macroeconomic adjustment programme.
11. Representatives of the Commission may be invited by the parliament of the Member State concerned to participate in an exchange of views on the progress made in the implementation of its macroeconomic adjustment programme.
12. This Article shall not apply to instruments providing financial assistance on a precautionary basis, to loans made for the recapitalisation of financial institutions, or to any new ESM financial instrument for which the ESM rules do not provide for a macroeconomic adjustment programme.

For information purposes, the Commission shall establish a list of the financial assistance instruments referred to in the first subparagraph and shall keep it updated to take into account possible changes in the financial support policy of the ESM.

Concerning those instruments, the Council, acting on a recommendation from the Commission, shall, by a decision addressed to the Member State concerned, approve the main policy requirements which the ESM or the EFSF plans

to include in the conditionality for its financial support, to the extent that the content of those measures falls within the competence of the Union as laid down by the Treaties.

The Commission shall ensure that the memorandum of understanding signed by the Commission on behalf of the ESM or the EFSF is fully consistent with such a Council decision.

Article 8

Involvement of social partners and civil society

A Member State shall seek the views of social partners as well as relevant civil society organisations when preparing its draft macroeconomic adjustment programmes, with a view to contributing to building consensus over its content.

Article 9

Measures to safeguard tax revenue

A Member State shall, where necessary, take measures in close cooperation with the Commission and in liaison with the ECB and, where appropriate, with the IMF, aiming to reinforce the efficiency and effectiveness of revenue collection capacity and the fight against tax fraud and evasion, with a view to increasing its fiscal revenue.

Article 10

Consistency with the Stability and Growth Pact

1. Where a Member State is subject to a macroeconomic adjustment programme, and the changes thereto, under Article 7 of this Regulation, it shall be exempt from submitting a stability programme, under Article 3 of Regulation (EC) No 1466/97, and shall integrate the content of such a stability programme into its macroeconomic adjustment programme.
2. Where a Member State subject to a macroeconomic adjustment programme is also the subject of a recommendation under Article 126(7) TFEU or of a decision to give notice under Article 126(9) TFEU for the correction of an excessive deficit:
 - (a) it shall be exempt from submitting, as appropriate, the reports under Article 3(4a) and Article 5(1a) of Regulation (EC) No 1467/97;
 - (b) the annual budgetary targets in each macroeconomic adjustment programme shall be integrated into the recommendation or decision to give notice, respectively under Article 3(4) and Article 5(1) of Regulation (EC) No 1467/97, and, where the Member State concerned is subject to a decision to give notice under Article 126(9) TFEU, the measures conducive to those targets in the macroeconomic adjustment programme shall be integrated into the decision to give notice in accordance with Article 5(1) of Regulation (EC) No 1467/97;
 - (c) with regard to the monitoring provided for by Article 7(4) of this Regulation, it shall be exempt from monitoring under Article 10(1) and Article 10a of Regulation (EC) No 1467/97 and monitoring underlying any decision under Article 4(2) and Article 6(2) of that Regulation.

Article 11

Consistency with Regulation (EU) No 1176/2011

Where a Member State is subject to a macroeconomic adjustment programme, Regulation (EU) No 1176/2011 shall not apply to that Member State for the duration of that programme, save that the indicators in the scoreboard established in Regulation (EU) No 1176/2011 shall be integrated into the monitoring of that programme.

Article 12

Consistency with the European Semester for economic policy coordination

Where a Member State is subject to a macroeconomic adjustment programme, it shall be exempt from the monitoring and assessment of the European Semester for economic policy coordination under Article 2-a of Regulation (EC) No 1466/97 for the duration of that programme.

Article 13

Consistency with Regulation (EU) No 473/2013

Where a Member State is subject to a macroeconomic adjustment programme, Regulation (EU) No 473/2013 shall not apply to that Member State for the duration of that programme, with the exception of Articles 1 to 5 and 13 to 18 of that Regulation.

*Article 14***Post-programme surveillance**

1. A Member State shall be under post-programme surveillance as long as a minimum of 75 % of the financial assistance received from one or several other Member States, the EFSM, the ESM or the EFSF has not been repaid. The Council, on a proposal from the Commission, may extend the duration of the post-programme surveillance in the event of a persistent risk to the financial stability or fiscal sustainability of the Member State concerned. The proposal from the Commission shall be deemed to be adopted by the Council unless the Council decides, by a qualified majority, to reject it within 10 days of the Commission's adoption thereof.
2. On a request from the Commission, a Member State under post-programme surveillance shall comply with the requirements under Article 3(3) of this Regulation and shall provide the information referred to in Article 10(3) of Regulation (EU) No 473/2013.
3. The Commission shall conduct, in liaison with the ECB, regular review missions in the Member State under post-programme surveillance to assess its economic, fiscal and financial situation. Every six months, it shall communicate its assessment to the competent committee of the European Parliament, to the EFC and to the parliament of the Member State concerned and shall assess, in particular, whether corrective measures are needed. The competent committee of the European Parliament may offer the opportunity to the Member State concerned to participate in an exchange of views on the progress made under post-programme surveillance.
4. The Council, acting on a proposal from the Commission, may recommend to a Member State under post-programme surveillance to adopt corrective measures. The proposal from the Commission shall be deemed to be adopted by the Council unless the Council decides, by a qualified majority, to reject it within 10 days of the Commission's adoption thereof.
5. The parliament of the Member State concerned may invite representatives of the Commission to participate in an exchange of views on the post-programme surveillance.

*Article 15***Voting within the Council**

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

A qualified majority of the members of the Council referred to in the first paragraph shall be calculated in accordance with Article 238(3)(a) TFEU.

*Article 16***Application to Member States in receipt of financial assistance**

Member States in receipt of financial assistance on 30 May 2013 shall be subject to this Regulation as from that date.

*Article 17***Transitional provisions**

Notwithstanding Article 14, Member States that are under post-programme surveillance on 30 May 2013 shall be subject to the post-programme surveillance rules, conditions and procedures applicable to the financial assistance from which they benefit.

*Article 18***Informing the European Parliament**

The European Parliament may invite representatives of the Council and of the Commission to enter into a dialogue on the application of this Regulation.

*Article 19***Reports**

By 1 January 2014, and every five years thereafter, the Commission shall submit to the European Parliament and to the Council a report on the application of this Regulation, accompanied, where appropriate, by a proposal to amend this Regulation. The Commission shall make that report public.

The reports referred to in the first subparagraph shall evaluate, inter alia:

- (a) the effectiveness of this Regulation;
- (b) progress in ensuring closer coordination of economic policies and sustained convergence of economic performance of the Member States in accordance with the TFEU;
- (c) the contribution of this Regulation to the achievement of the Union's strategy for growth and jobs.

Article 20

Entry into force

This Regulation shall enter into force on the third day following that of its publication in the Official Journal of the European Union.

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

Done at Strasbourg, 21 May 2013.

For the European Parliament

The President

M. SCHULZ

For the Council

The President

L. CREIGHTON



REGULATION (EU) No 473/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
of 21 May 2013

**on common provisions for monitoring and assessing draft budgetary plans and ensuring
the correction of excessive deficit of the Member States in the euro area**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136 in combination with Article 121(6) thereof,

Having regard to the proposal from the European Commission,

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

Having regard to the opinion of the European Central Bank⁽¹⁾,

Acting in accordance with the ordinary legislative procedure⁽²⁾,

Whereas:

- (1) The Treaty on the Functioning of the European Union (TFEU) requires that Member States regard their economic policies as a matter of common concern, that their budgetary policies are guided by the need for sound public finances and that their economic policies do not risk jeopardising the proper functioning of economic and monetary union.
- (2) The Stability and Growth Pact (SGP) aims to secure budgetary discipline across the Union and sets out the framework for preventing and correcting excessive government deficits. It is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and jobs. The SGP includes the multilateral surveillance system laid down in 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⁽³⁾ and the procedure for the avoidance of excessive government deficit laid down in Article 126 TFEU and further specified in Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure⁽⁴⁾. The SGP has been further strengthened by Regulation (EU) No 1175/2011 of the European Parliament and of the Council⁽⁵⁾ and Council Regulation (EU) No 1177/2011⁽⁶⁾. Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area⁽⁷⁾ added a system of effective, preventive and gradual enforcement mechanisms in the form of the imposition of sanctions on Member States whose currency is the euro.
- (3) The strengthening of the SGP has enhanced the guidance provided to Member States concerning prudent fiscal policy-making, and, for the Member States whose currency is the euro, has reinforced and made more automatic the imposition of sanctions for non-compliance with prudent fiscal policy-making, in order to avoid excessive government deficits. Those provisions have created a more comprehensive framework.
- (4) In order to ensure closer coordination of economic policies and sustained convergence of the economic performance of Member States, the European Semester, as established in Article 2-a of Regulation (EC) No 1466/97, provides a framework for economic policy coordination. The European Semester includes the formulation, and the surveillance of the implementation, of the broad guidelines of the economic policies of the Member States and of the Union (broad economic policy guidelines) in accordance with Article 121(2) TFEU; the formulation, and the examination of the implementation, of the employment guidelines that must be taken into account by Member States in accordance with Article 148(2) TFEU (employment guidelines); the submission and assessment of Member States' stability or convergence programmes under that Regulation; the submission and assessment of Member States'

(1) OJ C 141, 17.5.2012, p. 7.

(2) Position of the European Parliament of 12 March 2013 (not yet published in the Official Journal) and decision of the Council of 13 May 2013.

(3) OJ L 209, 2.8.1997, p. 1.

(4) OJ L 209, 2.8.1997, p. 6.

(5) OJ L 306, 23.11.2011, p. 12.

(6) OJ L 306, 23.11.2011, p. 33.

(7) OJ L 306, 23.11.2011, p. 1.

national reform programmes supporting the Union's strategy for growth and jobs and established in line with the broad economic guidelines, with the employment guidelines and with the general guidance to Member States issued by the Commission (the annual growth survey) and the European Council at the beginning of the annual cycle of surveillance; and surveillance to prevent and correct macroeconomic imbalances under Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances⁽¹⁾. Where appropriate, opinions issued in the context of an economic partnership programme, as established by this Regulation, should also be taken into account.

- (5) To enable the Union to emerge stronger from the crisis, both internally and at an international level, by boosting competitiveness, productivity, growth potential, social cohesion and economic convergence, the European Council, in its conclusions of 17 June 2010, adopted a new Union's strategy for growth and jobs which also contains objectives in the fields of poverty, education, innovation and the environment.
- (6) In order to ensure the proper functioning of the economic and monetary union, the TFEU allows the adoption of specific measures in the euro area which go beyond the provisions applicable to all Member States to strengthen the coordination and surveillance of their budgetary discipline. Such reinforced coordination and surveillance should be accompanied by commensurate involvement of the European Parliament and of national parliaments as appropriate. Active use, where appropriate and necessary, should be made of specific measures provided for in Article 136 TFEU.
- (7) The application of this Regulation should be in full compliance with Article 152 TFEU and the recommendations issued under this Regulation should respect national practice and institutions for wage formation. This Regulation takes into account Article 28 of the Charter of Fundamental Rights of the European Union, and, accordingly, does not affect the right to negotiate, conclude or enforce collective agreements or to take collective action in accordance with national law and practice.
- (8) Article 9 TFEU provides that, in defining and implementing its policies and activities, the Union is to take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health.
- (9) Gradually strengthened surveillance and coordination, as set out in this Regulation, will further complete the European Semester for economic policy coordination, will complement the existing provisions of the SGP and strengthen the surveillance of budgetary and economic policies in Member States whose currency is the euro. A gradually enhanced monitoring procedure should contribute to better budgetary and economic outcomes, macro-financial soundness and economic convergence, to the benefit of all Member States whose currency is the euro. As part of a gradually strengthened process, closer monitoring is particularly valuable to Member States that are subject to an excessive deficit procedure.
- (10) Biased and unrealistic macroeconomic and budgetary forecasts can considerably hamper the effectiveness of budgetary planning and, consequently, impair commitment to budgetary discipline. Unbiased and realistic macroeconomic forecasts can be provided by independent bodies or bodies endowed with functional autonomy vis-à-vis the budgetary authorities of a Member State and which are underpinned by national legal provisions ensuring a high degree of functional autonomy and accountability. Such forecasts should be used throughout the budgetary procedure.
- (11) Strong public finances are best ensured at the planning stage and gross errors should be identified as early as possible. Member States should benefit not just from the setting of guiding principles and budgetary targets but also from a synchronised monitoring of their budgetary policies.
- (12) Setting up a common budgetary timeline for Member States whose currency is the euro should better synchronise the key steps in the preparation of national budgets, thus contributing to the effectiveness of the SGP and of the European Semester for economic policy coordination. This should lead to stronger synergies by facilitating policy coordination among Member States whose currency is the euro and by ensuring that Council and Commission recommendations are appropriately integrated in the budgetary procedure of the Member States. That procedure should be consistent with the framework for economic policy coordination in the context of the annual cycle of surveillance which includes, in particular, the general guidance to Member States issued by the Commission and the European Council at the beginning of the cycle. Member States' budgetary policies should be consistent with the recommendations issued in the context of the SGP and, where appropriate, with recommendations issued in the context of the annual cycle of surveillance, including the macroeconomic imbalances procedure as established by Regulation (EU) No 1176/2011, and with opinions on economic partnership programmes, as established by this Regulation.
- (13) As a first step of that common budgetary timeline, Member States should make public their national medium-term fiscal plan at the same time as their stability programmes preferably by 15 April and no later than by 30 April. Those

(1) OJ L 306, 23.11.2011, p. 25.

fiscal plans should include indications on how the reforms and measures set out are expected to contribute to the achievement of the targets and national commitments established within the framework of the Union's strategy for growth and jobs. The national medium-term fiscal plan and the stability programme can be the same document.

- (14) One important milestone of that common budgetary timeline should be the publication of the draft central government budget by 15 October. Since compliance with the rules of the SGP is to be ensured at the level of the general government and achievement of the budgetary objectives requires consistent budgeting across all subsectors of the general government, the publication of the draft central government budget should be accompanied by the publication of the main parameters of the draft budgets of all the other subsectors of the general government. Such parameters should include, in particular, the projected budgetary outcomes of the other subsectors, the main assumptions underlying those projections and the reasons for expected changes with respect to the stability programme assumptions.
- (15) The common budgetary timeline also provides for the budget to be adopted or fixed upon annually by 31 December together with the updated main budgetary parameters for the other subsectors of the general government. Where, for objective reasons beyond the control of the government, the budget is not adopted by 31 December, reversionary budget procedures should be put in place to ensure that the government remains able to discharge its essential duties. Such arrangements could include the implementation of the government's draft budget, of the preceding year's approved budget, or of specific parliament-approved measures.
- (16) With a view to better coordinating the planning of their national debt issuance, the Member States should report ex ante on their public debt issuance plans to the Eurogroup and to the Commission.
- (17) Compliance with effective rules-based fiscal frameworks can be important in supporting sound and sustainable fiscal policies. Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States⁽¹⁾ established that monitoring of compliance with country-specific numerical fiscal rules should be supported at national level by independent bodies or bodies endowed with functional autonomy. It is important to note that given the diversity of possible and existing arrangements, while not the preferred option, it should be possible for more than one independent body to be in charge of monitoring compliance with those rules as long as there is a clear allocation of responsibility and as long as there is no overlap of competency over specific aspects of the monitoring. Excessive institutional fragmentation of monitoring tasks should be avoided. In order for monitoring bodies to fulfil their mandate effectively, national legal provisions ensuring a high degree of functional autonomy and accountability should underpin such bodies. The design of those monitoring bodies should take into account the existing institutional setting and the administrative structure of the Member State concerned. In particular, it should be possible to endow a suitable entity of an existing institution with functional autonomy provided that such an entity is designated to carry out specific monitoring tasks, has a distinct statutory regime and complies with the other principles referred to in this recital.
- (18) This Regulation does not impose on Member States additional requirements or obligations with regard to country-specific numerical fiscal rules. Strong country-specific numerical fiscal rules consistent with the budgetary objectives at the level of the Union and monitored by independent bodies are a cornerstone of the strengthened budgetary surveillance framework of the Union. The rules with which those bodies should comply, and their specific tasks, are set out in this Regulation.
- (19) Member States whose currency is the euro are particularly subject to spill-over effects from each other's budgetary policies. Member States whose currency is the euro should consult the Commission and each other before adopting any major fiscal policy reform plans with potential spill-over effects, so as to allow an assessment of the possible impact for the euro area as a whole. They should also consider their budgetary plans to be of common concern and submit them to the Commission for monitoring purposes in advance of their becoming binding. The Commission, in cooperation with the Member States, should propose guidelines in the form of a harmonised framework for the specification of the content of draft budgetary plans.
- (20) In the exceptional cases where, after consulting the Member State concerned, the Commission identifies in the draft budgetary plan particularly serious non-compliance with the budgetary policy obligations laid down in the SGP, the Commission, in its opinion on the draft budgetary plan, should request a revised draft budgetary plan, in accordance with this Regulation. This will be the case, in particular, where the implementation of the draft budgetary plan would put at risk the financial stability of the Member State concerned or risk jeopardising the proper functioning of the economic and monetary union, or where the implementation of the draft budgetary plan would entail an obvious significant violation of the recommendations adopted by the Council under the SGP.
- (21) The Commission's opinion on the draft budgetary plan should be adopted as soon as possible and in any event by the end of November, taking into account, to the extent possible, the specific national fiscal schedule and parliamentary

(1) OJ L 306, 23.11.2011, p. 41.

procedures, in order to ensure that Union's policy guidance in the budgetary area can be appropriately integrated in the national budgetary preparations. In particular, the opinion should include an assessment of whether the budgetary plans appropriately address the recommendations issued in the context of the European Semester in the budgetary area. At the request of the parliament of the Member State concerned or of the European Parliament, the Commission should be prepared to present its opinion to the parliament making the request, after it has been made public. Member States are invited to take into account, in the process of adopting their budget law, the Commission opinion on their draft budgetary plan.

- (22) The extent to which that opinion has been taken into account in a Member State's budget law should be part of the assessment, if and when the conditions are met, leading to a decision on the existence of an excessive deficit in the Member State concerned. In such a case, no follow-up to the early guidance from the Commission should be considered as an aggravating factor.
- (23) Also, based on an overall assessment of the draft budgetary plans by the Commission, the Eurogroup should discuss the budgetary situation and prospects for the euro area as a whole.
- (24) Member States whose currency is the euro and which are subject to an excessive deficit procedure should be monitored more closely, in order to secure a full, sustainable and timely correction of the excessive deficit. Closer monitoring by means of additional reporting requirements should ensure prevention and early correction of any deviations from the Council recommendations to correct the excessive deficit. Such monitoring should complement the provisions set out in Regulation (EC) No 1467/97. Those additional reporting requirements should be proportionate to the stage of the procedure to which the Member State is subject, under Article 126 TFEU. As a first step, the Member State concerned should carry out a comprehensive assessment of in-year budgetary execution for the general government and its subsectors, taking into account in particular financial risks associated to contingent liabilities with potentially large impacts on public budgets.
- (25) Additional reporting requirements for Member States whose currency is the euro and which are subject to an excessive deficit procedure should enable a better exchange of information between the Member States concerned and the Commission, and, as a consequence, the identification of risks in the compliance of a Member State with the deadline which has been set by the Council to correct its excessive deficit. In the event of such risks being identified, the Commission should issue a recommendation to the Member State concerned setting out appropriate measures to be taken within a given timeframe. Upon request, the Commission should present its recommendation to the parliament of the Member State concerned. Compliance with the recommendation should lead to a prompt correction of any developments putting at risk the correction of the excessive deficit within the established deadline.
- (26) Assessment of compliance with the Commission recommendation should be part of the continuous assessment made by the Commission of effective action to correct an excessive deficit. When deciding whether effective action to correct the excessive deficit has been taken, the Council should also base its decision on whether or not the Member State complied with the Commission recommendation, while giving due consideration to Article 3(5) and Article 5(2) of Regulation (EC) No 1467/97.
- (27) Indeed, Regulation (EC) No 1467/97, which sets out in detail the excessive deficit procedure based on Article 126 TFEU, embeds elements of flexibility which allow unexpected adverse economic events to be taken into account. Article 3(5) and Article 5(2) of that Regulation provide that if effective action has been taken in compliance with, respectively, a recommendation under Article 126(7) TFEU or a decision to give notice under Article 126(9) TFEU, and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that recommendation or decision to give notice, the Council may decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU or a revised decision to give notice under Article 126(9) TFEU. The revised recommendation or revised decision to give notice, taking into account the relevant factors referred to in Article 2(3) of Regulation (EC) No 1467/97 may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule.

The Council should assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its initial recommendation or decision to give notice. In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU or a revised decision to give notice under Article 126(9) TFEU, provided that that does not endanger fiscal sustainability in the medium term. In addition, Article 2(1a) of Regulation (EC) No 1467/97 provides that, in implementing the debt ratio adjustment benchmark, account shall be taken of the influence of the cycle on the pace of debt reduction. Thus, a Member State would not be considered as having breached the debt criterion laid down in Article 126(2)(b) TFEU if that is only because of negative cyclical conditions.

- (28) Also, since budgetary measures might be insufficient to ensure a lasting correction of the excessive deficit, Member States whose currency is the euro and are subject to an excessive deficit procedure should present an economic partnership programme detailing the policy measures and structural reforms needed to ensure an effective and

lasting correction of the excessive deficit, building on the latest update of their national reform programme and their stability programme.

- (29) Furthermore, strengthening economic governance has involved a closer dialogue with the European Parliament. While recognising that the counterparts of the European Parliament in the framework of the dialogue are the relevant institutions of the Union and their representatives, the competent committee of the European Parliament may offer an opportunity to participate in an exchange of views to a Member State which is the subject of a Commission recommendation or of a Council opinion in accordance with this Regulation. The Member State's participation in such an exchange of views is voluntary.
- (30) In order to specify the extent of the reporting obligations for Member States subject to an excessive deficit procedure, the power to adopt acts in accordance with Article 290 TFEU should be delegated to the Commission in respect of the content and scope of such reporting. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level. The Commission, when preparing and drawing up delegated acts, should ensure a simultaneous, timely and appropriate transmission of relevant documents to the European Parliament and to the Council.
- (31) The power to adopt opinions on economic partnership programmes, as established by this Regulation should be conferred on the Council. Those opinions are complementary to the excessive deficit procedure laid down under Article 126 TFEU in accordance with which the Council is to decide on the existence of an excessive deficit and on the measures required to put an end to it.
- (32) Recalling the importance of sound public finances, structural reform and targeted investment for sustainable growth, the Member States' Heads of State or Government signed a Compact for Growth and Jobs on 29 June 2012, demonstrating their determination to stimulate job-creating growth in parallel to their commitment to sound public finances. The Compact includes, in particular, measures to boost the financing of the economy. EUR 120000 million (equivalent to around 1 % of the Union's Gross National Income) are being mobilised for fast-acting growth measures. As recommended in the annual growth survey in 2012 and 2013, the Member States should strive to maintain an adequate pace of fiscal consolidation while preserving investment aiming to achieve the Europe 2020 goals for growth and jobs.
- (33) The Commission is monitoring the impact of tight budget constraints on growth enhancing public expenditure and on public investment. The Union's fiscal framework offers scope to balance the acknowledgement of productive public investment needs with fiscal discipline objectives: while fully respecting the SGP, the possibilities offered by the Union's existing fiscal framework to balance productive public investment needs with fiscal discipline objectives can be exploited in the preventive arm of the SGP. The Commission has announced its intention to report on the scope for possible action within the boundaries of the existing Union fiscal framework.
- (34) The European Parliament's resolution of 20 November 2012 with recommendations to the Commission on the report of the Presidents of the European Council, the European Commission, the European Central Bank and the Eurogroup 'Towards a Genuine Economic and Monetary Union' and the Commission's Communication of 28 November 2012 entitled 'A blueprint for a deep and genuine EMU' outline, respectively, the views of the European Parliament and of the Commission on the steps needed to achieve a deeper and better integrated economic and monetary union. Following the report 'Towards a Genuine Economic and Monetary Union', the European Council, in its conclusions in December 2012, set out its views on a number of issues with a view to the further strengthening of EMU,

HAVE ADOPTED THIS REGULATION:

CHAPTER I

GENERAL PROVISIONS

Article 1

Subject matter and scope

1. This Regulation sets out provisions for enhanced monitoring of budgetary policies in the euro area and for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the SGP and the European Semester for economic policy coordination, by:
 - (a) complementing the European Semester, as established in Article 2-a of Regulation (EC) No 1466/97, with a common budgetary timeline;
 - (b) complementing the procedure for the prevention and correction of excessive macroeconomic imbalances, as established by Regulation (EU) No 1176/2011;

- (c) complementing the multilateral surveillance system of budgetary policies, as established by Regulation (EC) No 1466/97, with additional monitoring requirements in order to ensure that Union policy recommendations in the budgetary area are appropriately integrated in the national budgetary preparations;
 - (d) complementing the procedure for correcting a Member State's excessive deficit, as established by Article 126 TFEU and by Regulation (EC) No 1467/97, with closer monitoring of the budgetary policies of Member States subject to an excessive deficit procedure in order to secure a timely and lasting correction of an excessive deficit;
 - (e) guaranteeing the consistency between budgetary policies and measures and reforms taken in the context of the procedure for prevention and correction of excessive macroeconomic imbalances as established by Regulation (EU) No 1176/2011 and, where appropriate, in the context of an economic partnership programme as referred to in Article 9.
2. The application of this Regulation shall be in full compliance with Article 152 TFEU and the recommendations issued under this Regulation shall respect national practice and institutions for wage formation. In accordance with Article 28 of the Charter of Fundamental Rights of the European Union, this Regulation shall not affect the right to negotiate, conclude or enforce collective agreements or to take collective action in accordance with national law and practice.
 3. This Regulation shall apply to Member States whose currency is the euro.

Article 2

Definitions

1. For the purposes of this Regulation, the following definitions shall apply:
 - (a) 'independent bodies' means bodies that are structurally independent or bodies endowed with functional autonomy vis-à-vis the budgetary authorities of the Member State, and which are underpinned by national legal provisions ensuring a high degree of functional autonomy and accountability, including:
 - (i) a statutory regime grounded in national laws, regulations or binding administrative provisions;
 - (ii) not taking instructions from the budgetary authorities of the Member State concerned or from any other public or private body;
 - (iii) the capacity to communicate publicly in a timely manner;
 - (iv) procedures for nominating members on the basis of their experience and competence;
 - (v) adequate resources and appropriate access to information to carry out their mandate;
 - (b) 'independent macroeconomic forecasts' means macroeconomic forecasts produced or endorsed by independent bodies;
 - (c) 'medium-term budgetary framework' means medium-term budgetary framework as described in point (e) of Article 2 of Directive 2011/85/EU;
 - (d) 'stability programme' means stability programme as described in Article 3 of Regulation (EC) No 1466/97.

In order to ensure consistency across the independent macroeconomic forecasts referred to in point (b) of the first subparagraph, the Member States and the Commission shall, at least annually, engage in a technical dialogue concerning the assumptions underpinning the preparation of macroeconomic and budgetary forecasts in accordance with Article 4(5) of Directive 2011/85/EU.

2. The definitions of 'general government sector' and of 'subsectors of the general government sector', set out in point 2.70 of Annex A to Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community⁽¹⁾ shall also apply to this Regulation.
3. The application of this Regulation is without prejudice to Article 9 TFEU.

(1) OJ L 310, 30.11.1996, p. 1.

CHAPTER II**ECONOMIC POLICY COORDINATION***Article 3***Consistency with the framework for economic policy coordination**

The Member States' budgetary procedure shall be consistent with:

- (1) the framework for economic policy coordination in the context of the annual cycle of surveillance, which includes, in particular, the general guidance to Member States issued by the Commission and the European Council at the beginning of the cycle;
- (2) the recommendations issued in the context of the SGP;
- (3) where appropriate, recommendations issued in the context of the annual cycle of surveillance, including the macroeconomic imbalances procedure as established by Regulation (EU) No 1176/2011; and
- (4) where appropriate, opinions on economic partnership programmes, as referred to in Article 9.

CHAPTER III**COMMON BUDGETARY PROVISIONS***Article 4***Common budgetary timeline**

1. Member States shall, in the context of the European Semester, make public, preferably by 15 April but no later than 30 April each year, their national medium-term fiscal plans in accordance with their medium-term budgetary framework. Such plans shall include at least all the information to be provided in their stability programmes and shall be presented together with their national reform programmes and the stability programmes. Such plans shall be consistent with the framework for economic policy coordination in the context of the annual cycle of surveillance, which includes, in particular, the general guidance to Member States issued by the Commission and the European Council at the beginning of the cycle. They shall also be consistent with the recommendations issued in the context of the SGP and, where appropriate, with recommendations issued in the context of the annual cycle of surveillance, including the macroeconomic imbalances procedure as established by Regulation (EU) No 1176/2011, and with opinions on economic partnership programmes referred to in Article 9.

National medium-term fiscal plans and national reform programmes shall include indications on how the reforms and measures set out are expected to contribute to the achievement of the targets and national commitments established within the framework of the Union's strategy for growth and jobs. Furthermore, national medium-term fiscal plans or national reform programmes shall include indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact. National medium-term fiscal plans and stability programmes may be the same document.

2. The draft budget for the forthcoming year for the central government and the main parameters of the draft budgets for all the other subsectors of the general government shall be made public annually not later than 15 October.
3. The budget for the central government shall be adopted or fixed upon and made public annually not later than 31 December together with the updated main budgetary parameters for the other sub-sectors of the general government. Member States shall have in place reversionary budget procedures to be applied if, for objective reasons beyond the control of the government, the budget is not adopted or fixed upon and made public by 31 December.
4. National medium-term fiscal plans and draft budgets referred to in paragraphs 1 and 2 shall be based on independent macroeconomic forecasts, and shall indicate whether the budgetary forecasts have been produced or endorsed by an independent body. Those forecasts shall be made public together with the national medium-term fiscal plans and the draft budgets that they underpin.

*Article 5***Independent bodies monitoring compliance with fiscal rules**

1. Member States shall have in place independent bodies for monitoring compliance with:
 - (a) numerical fiscal rules incorporating in the national budgetary processes their medium-term budgetary objective as established in Article 2a of Regulation (EC) No 1466/97;
 - (b) numerical fiscal rules as referred to in Article 5 of Directive 2011/85/EU.

2. Those bodies shall, where appropriate, provide public assessments with respect to national fiscal rules, *inter alia* relating to:
 - (a) the occurrence of circumstances leading to the activation of the correction mechanism for cases of significant observed deviation from the medium-term objective or the adjustment path towards it in accordance with Article 6(2) of Regulation (EC) No 1466/97;
 - (b) whether the budgetary correction is proceeding in accordance with national rules and plans;
 - (c) any occurrence or cessation of circumstances referred to in the tenth subparagraph of Article 5(1) of Regulation (EC) No 1466/97 which may allow a temporary deviation from the medium-term budgetary objective or the adjustment path towards it, provided that such a deviation does not endanger fiscal sustainability in the medium term.

CHAPTER IV

MONITORING AND ASSESSMENT OF MEMBER STATES DRAFT BUDGETARY PLANS

Article 6

Monitoring requirements

1. Member States shall submit annually to the Commission and to the Eurogroup a draft budgetary plan for the forthcoming year by 15 October. That draft budgetary plan shall be consistent with the recommendations issued in the context of the SGP and, where applicable, with recommendations issued in the context of the annual cycle of surveillance, including the macroeconomic imbalances procedure as established by Regulation (EU) No 1176/2011, and with opinions on the economic partnership programmes referred to in Article 9.
2. As soon as the draft budgetary plans referred to in paragraph 1 have been submitted to the Commission, they shall be made public.
3. The draft budgetary plan shall contain the following information for the forthcoming year:
 - (a) the targeted budget balance for the general government as a percentage of Gross Domestic Product (GDP), broken down by subsector of general government;
 - (b) the projections at unchanged policies for expenditure and revenue as a percentage of GDP for the general government and their main components, including gross fixed capital formation;
 - (c) the targeted expenditure and revenue as a percentage of GDP for the general government and their main components, taking into account the conditions and criteria to establish the growth path of government expenditure net of discretionary revenue measures under Article 5(1) of Regulation (EC) No 1466/97;
 - (d) relevant information on the general government expenditure by function, including on education, healthcare and employment, and, where possible, indications on the expected distributional impact of the main expenditure and revenue measures;
 - (e) a description and quantification of the expenditure and revenue measures to be included in the draft budget for the year to come at the level of each subsector in order to bridge the gap between the targets referred to in point (c) and the projections at unchanged policies provided in accordance with point (b);
 - (f) the main assumptions of the independent macroeconomic forecasts and important economic developments which are relevant to the achievement of the budgetary targets;
 - (g) an annex containing the methodology, economic models and assumptions, and any other relevant parameters underpinning the budgetary forecasts and the estimated impact of aggregated budgetary measures on economic growth;
 - (h) indications on how reforms and measures in the draft budgetary plan, including in particular public investment, address the current recommendations to the Member State concerned in accordance with Articles 121 and 148 TFEU and are instrumental to the achievement of the targets set by the Union's strategy for growth and jobs.

The description referred to in point (e) of the first subparagraph may be less detailed for measures with a budgetary impact estimated to be lower than 0,1 % of GDP. Particular and explicit attention shall be paid to major fiscal policy reform plans with potential spill-over effects for other Member States whose currency is the euro.
4. Where the budgetary targets reported in the draft budgetary plan in accordance with paragraph 3 or the projections at unchanged policies differ from those in the most recent stability programme, the differences shall be duly explained.
5. The specification of the content of the draft budgetary plan shall be set out in a harmonised framework established by the Commission in cooperation with the Member States.

*Article 7***Assessment of the draft budgetary plan**

1. The Commission shall adopt an opinion on the draft budgetary plan as soon as possible and in any event by 30 November.
2. Notwithstanding paragraph 1, where, in exceptional cases, after consulting the Member State concerned within one week of submission of the draft budgetary plan, the Commission identifies particularly serious non-compliance with the budgetary policy obligations laid down in the SGP, the Commission shall adopt its opinion within two weeks of submission of the draft budgetary plan. In its opinion, the Commission shall request that a revised draft budgetary plan be submitted as soon as possible and in any event within three weeks of the date of its opinion. The Commission's request shall be reasoned and shall be made public.

Article 6(2), (3) and (4) shall apply to revised draft budgetary plans submitted pursuant to the first subparagraph of this paragraph.

The Commission shall adopt a new opinion on the revised draft budgetary plan as soon as possible and in any event within three weeks of submission of the revised draft budgetary plan.

3. The Commission's opinion shall be made public and shall be presented to the Eurogroup. Thereafter, at the request of the parliament of the Member State concerned or of the European Parliament, the Commission shall present its opinion to the parliament making the request.
4. The Commission shall make an overall assessment of the budgetary situation and prospects in the euro area as a whole, on the basis of the national budgetary prospects and their interaction across the area, relying on the most recent economic forecasts of the Commission services.

The overall assessment shall include sensitivity analyses that provide an indication of the risks to public finance sustainability in the event of adverse economic, financial or budgetary developments. It shall also, as appropriate, outline measures to reinforce the coordination of budgetary and macroeconomic policy at the euro area level.

The overall assessment shall be made public and shall be taken into account in the annual general guidance to Member States issued by the Commission.

The methodology (including models) and assumptions of the most recent economic forecasts of the Commission services for each Member State, including estimates of the impact of aggregated budgetary measures on economic growth, shall be annexed to the overall assessment.

5. The Eurogroup shall discuss opinions of the Commission on the draft budgetary plans and the budgetary situation and prospects in the euro area as a whole on the basis of the overall assessment made by the Commission in accordance with paragraph 4. The results of those discussions of the Eurogroup shall be made public where appropriate.

*Article 8***Reporting on debt issuance**

1. Member States shall report to the Commission and the Eurogroup, ex ante and in a timely manner, on their national debt issuance plans.
2. The harmonised form and content of the report referred to in paragraph 1 shall be laid down by the Commission, in cooperation with the Member States.

CHAPTER V**ENSURING THE CORRECTION OF EXCESSIVE DEFICIT***Article 9***Economic partnership programmes**

1. If the Council, acting under Article 126(6) TFEU, decides that an excessive deficit exists in a Member State, the Member State concerned shall present to the Commission and to the Council an economic partnership programme describing the policy measures and structural reforms that are needed to ensure an effective and lasting correction of the excessive deficit, as a development of its national reform programme and its stability programme, and fully taking into account the Council recommendations on the implementation of the integrated guidelines for the economic and employment policies of the Member State concerned.
2. The economic partnership programme shall identify and select a number of specific priorities aiming to enhance competitiveness and long-term sustainable growth and addressing structural weaknesses in the Member State concerned. Those priorities shall be consistent with the Union's strategy for growth and jobs. Where appropriate,

potential financial resources shall be identified, including credit lines of the European Investment Bank and other relevant financial instruments, as appropriate.

3. The economic partnership programme shall be presented at the same time as the report provided for in Article 3(4a) of Regulation (EC) No 1467/97.
4. The Council, acting on a proposal from the Commission, shall adopt an opinion on the economic partnership programme.
5. A corrective action plan as referred to in Article 8(1) of Regulation (EU) No 1176/2011 may be amended in accordance with Article 9(4) of that Regulation to replace the economic partnership programme provided for in this Article. Where such a corrective action plan is submitted after the adoption of an economic partnership programme, the measures set out in the economic partnership programme may, as appropriate, be included in the corrective action plan.
6. The implementation of the programme, and the annual budgetary plans consistent with it, shall be monitored by the Council and by the Commission.

Article 10

Reporting requirements for Member States in excessive deficit procedure

1. Where the Council decides in accordance with Article 126(6) TFEU that an excessive deficit exists in a Member State, the Member State concerned shall, on a request from the Commission, be subject to reporting requirements in accordance with paragraphs 2 to 5 of this Article, until the abrogation of its excessive deficit procedure.
2. The Member State shall carry out a comprehensive assessment of in-year budgetary execution for the general government and its subsectors. The financial risks associated with contingent liabilities with potentially large impacts on public budgets, as referred to in Article 14(3) of Directive 2011/85/EU shall also be covered by the assessment to the extent that they may contribute to the existence of an excessive deficit. The result of that assessment shall be included in the report submitted in accordance with Article 3(4a) or Article 5(1a) of Regulation (EC) No 1467/97 on action taken to correct the excessive deficit.
3. The Member State shall report regularly to the Commission and to the Economic and Financial Committee, for the general government and its subsectors, the in-year budgetary execution, the budgetary impact of discretionary measures taken on both the expenditure and the revenue side, targets for the government expenditure and revenues, and information on the measures adopted and the nature of those envisaged to achieve the targets. The report shall be made public.

The Commission shall be empowered to adopt delegated acts in accordance with Article 14 specifying the content of the regular reporting referred to in this paragraph.

4. If the Member State concerned is the subject of a Council recommendation under Article 126(7) TFEU, the report referred to in paragraph 3 of this Article shall be submitted for the first time six months after the report provided for in Article 3(4a) of Regulation (EC) No 1467/97, and thereafter on a six-monthly basis.
5. If the Member State concerned is the subject of a Council decision to give notice under Article 126(9) TFEU, the report in accordance with paragraph 3 of this Article shall also contain information on the actions being taken in response to the specific Council notice. It shall be submitted for the first time three months after the report provided for in Article 5(1a) of Regulation (EC) No 1467/97, and thereafter on a quarterly basis.
6. Upon request and within the deadline set by the Commission, a Member State subject to an excessive deficit procedure shall:
 - (a) carry out and report on a comprehensive independent audit of the public accounts of all subsectors of the general government conducted preferably in coordination with national supreme audit institutions, aiming to assess the reliability, completeness and accuracy of those public accounts for the purposes of the excessive deficit procedure;
 - (b) provide available additional information for the purposes of monitoring progress towards the correction of the excessive deficit.

The Commission (Eurostat) shall assess the quality of statistical data reported by the Member State concerned under point (a) in accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community⁽¹⁾.

(1) OJ L 145, 10.6.2009, p. 1.

*Article 11***Member States at risk of non-compliance with their obligation under their excessive deficit procedure**

1. When assessing whether compliance with the deadline to correct the excessive deficit, as established by a Council recommendation under Article 126(7) TFEU or a Council decision to give notice under Article 126(9) TFEU, is at risk, the Commission shall base its assessment, *inter alia*, on the reports submitted by the Member States in accordance with Article 10(3) of this Regulation.
2. In the case of a risk of non-compliance with the deadline to correct the excessive deficit, the Commission shall address a recommendation to the Member State concerned regarding full implementation of the measures provided for in the recommendation or decision to give notice referred to in paragraph 1, adoption of other measures, or both, within a timeframe consistent with the deadline for the correction of its excessive deficit. The recommendation by the Commission shall be made public and shall be presented to the Economic and Financial Committee. At the request of the parliament of the Member State concerned, the Commission shall present the recommendation to that parliament.
3. Within the timeframe set by the Commission recommendation referred to in paragraph 2, the Member State concerned shall report to the Commission on measures adopted in response to that recommendation together with the reports provided for in Article 10(3). The report shall include the budgetary impact of all discretionary measures taken, targets for the government expenditure and revenues, information on the measures adopted and the nature of those envisaged to achieve the targets, and information on the other actions being taken in response to the Commission recommendation. The report shall be made public and shall be presented to the Economic and Financial Committee.
4. On the basis of the report referred to in paragraph 3, the Commission shall assess whether the Member State has complied with the recommendation referred to in paragraph 2.

*Article 12***Impact on the excessive deficit procedure**

1. The extent to which the Member State concerned has taken into account the Commission's opinion referred to in Article 7(1) shall be taken into account by:
 - (a) the Commission when conducting a report under Article 126(3) TFEU and when recommending the imposition of a non-interest bearing deposit in accordance with Article 5 of Regulation (EU) No 1173/2011;
 - (b) the Council when deciding whether an excessive deficit exists in accordance with Article 126(6) TFEU.
2. The monitoring established by Articles 10 and 11 of this Regulation shall be an integral part of the regular monitoring, as provided for in Article 10(1) of Regulation (EC) No 1467/97, of the implementation of action taken by the Member State concerned in response to Council recommendations under Article 126(7) TFEU or Council decisions to give notice under Article 126(9) TFEU to correct the excessive deficit.
3. When considering whether effective action has been taken in response to recommendations under Article 126(7) TFEU or to decisions to give notice under Article 126(9) TFEU, the Commission shall take into account the assessment referred to in Article 11(4) in this Regulation and shall recommend, as appropriate, that the Council take decisions under Article 126(8) or Article 126(11) TFEU, giving due consideration to Article 3(5) and Article 5(2) of Regulation (EC) No 1467/97.

*Article 13***Consistency with Regulation (EU) No 472/2013⁽¹⁾**

Member States subject to a macroeconomic adjustment programme shall not be subject to Articles 6 to 12 of this Regulation.

(1) Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (see page 1 of this Official Journal).

CHAPTER VI**FINAL PROVISIONS***Article 14***Exercise of the delegation**

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Article 10(3) shall be conferred on the Commission for a period of three years from 30 May 2013. The Commission shall draw up a report in respect of the delegation of power not later than nine months before the end of the three-year period. The delegation of power shall be tacitly extended for periods of an identical duration, unless the European Parliament or the Council opposes such extension not later than three months before the end of each period.
3. The delegation of power referred to in Article 10(3) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.
4. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.
5. A delegated act adopted pursuant to Article 10(3) shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.

*Article 15***Economic Dialogue**

1. In order to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, the competent committee of the European Parliament may invite, where appropriate, the President of the Council, the Commission, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss:
 - (a) the specification of the content of the draft budgetary plan as set out in a harmonised framework established in accordance with Article 6(5);
 - (b) the results of the discussion of the Eurogroup on the Commission opinions adopted in accordance with Article 7(1), to the extent that they have been made public;
 - (c) the overall assessment of the budgetary situation and prospects in the euro area as a whole made by the Commission in accordance with Article 7(4);
 - (d) Council acts referred to in Article 9(4) and in Article 12(3).
2. The competent committee of the European Parliament may offer the opportunity to the Member State that is the subject of a Commission recommendation under Article 11(2) or Council acts as referred to in paragraph 1(d) to participate in an exchange of views.
3. The European Parliament shall be duly involved in the European Semester in order to increase the transparency and ownership of, and the accountability for the decisions taken, in particular by means of the economic dialogue carried out pursuant to this Article.

*Article 16***Review and reports on the application of this Regulation**

1. By 14 December 2014, and every five years thereafter, the Commission shall submit to the European Parliament and to the Council a report on the application of this Regulation, accompanied, where appropriate, by a proposal to amend this Regulation. The Commission shall make that report public.

The reports referred to in the first subparagraph shall evaluate, inter alia:

- (a) the effectiveness of this Regulation;
- (b) progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU;
- (c) the contribution of this Regulation to the achievement of the Union's strategy for growth and jobs.

2. By 31 July 2013, the Commission shall report on the possibilities offered by the Union's existing fiscal framework to balance productive public investment needs with fiscal discipline objectives in the preventive arm of the SGP, while complying with it fully.

Article 17

Transitional provisions

1. Member States already subject to an excessive deficit procedure at the time of the entry into force of this Regulation shall comply with the regular reporting in accordance with Article 10(3), (4) and (5) by 31 October 2013.
2. Article 9(1) and Article 10(2) shall apply to Member States that are already subject to an excessive deficit procedure at the time of the entry into force of this Regulation only when a Council recommendation in accordance with Article 126(7) TFEU, or a Council decision to give notice in accordance with Article 126(9) TFEU, is taken after 30 May 2013.
In such cases, the economic partnership programme shall be presented simultaneously with the report submitted in accordance with Article 3(4a) or Article 5(1a) of Regulation (EC) No 1467/97.
3. Member States shall comply with Article 5 by 31 October 2013.

Article 18

Entry into force

This Regulation shall enter into force on the third day following that of its publication in the Official Journal of the European Union.

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

Done at Strasbourg, 21 May 2013.

For the European Parliament

The President

M. SCHULZ

For the Council

The President

L. CREIGHTON



COMMISSION DELEGATED REGULATION (EU) No 877/2013**of 27 June 2013****supplementing Regulation (EU) No 473/2013 of the European Parliament and of the Council
on common provisions for monitoring and assessing draft budgetary plans and ensuring
the correction of excessive deficit of the Member States in the euro area**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area⁽¹⁾, and in particular Article 10(3) thereof,

Whereas:

- (1) Regulation (EU) No 473/2013 sets up a closer monitoring for Member States whose currency is the euro in excessive deficit procedure by means of additional reporting requirements aiming at ensuring prevention and early correction of any deviations from the Council recommendations or decisions to give notice to correct the excessive deficit.
- (2) Such monitoring complements the existing reporting obligations set out in Article 3(4)(a) and Article 5(1)(a) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure⁽²⁾ which require that a Member State in excessive deficit procedure subject to a Council recommendation made in accordance with Article 126(7) of the Treaty or a notice made in accordance with Article 126(9) of the Treaty shall report to the Council and the Commission on action taken to correct the excessive deficit. This report shall include the targets for government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side consistent with the Council's recommendation, as well as information on the measures taken and the nature of those envisaged to achieve the targets.
- (3) Regulation (EU) No 473/2013 complements this initial reporting requirement by requiring a more frequent reporting from Member States whose currency is the euro which are in excessive deficit. The latter will have to report to the Commission and to the Economic and Financial Committee (EFC) every six months if subject to a Council recommendation made in accordance with Article 126(7) and every three months if subject to a Council decision to give notice in accordance with Article 126(9) TFEU on the action taken to correct the excessive deficit. The reporting should contain, for the general government and its sub-sectors, the in-year budgetary execution, the budgetary impact of discretionary measures taken on both the expenditure and the revenue side, targets for the government expenditure and revenues and information on the measures adopted and the nature of those envisaged to achieve the targets. This more frequent reporting will help the Commission and the EFC to continuously monitor whether the Member State concerned is on track to correct its excessive deficit.
- (4) According to Article 10(3) of Regulation (EU) No 473/2013, the content of this additional reporting is to be specified by the Commission. This delegated act provides a clear framework for the information to be reported by Member States whose currency is the euro and which are subject to an excessive deficit procedure. The reporting established by this delegated Regulation will provide a structured and harmonised view of the budgetary situation of the Member States concerned. The report should contain annual and quarterly data in order to provide details on the on-going correction. Data should be reported on a cash and accrual basis (according to the European System of National Accounts ESA) in order to allow a better understanding of the dynamics of the budgetary situation. Given that an excessive deficit procedure can be open on the basis of non-compliance with either or both the deficit and the debt-to-GDP Treaty reference values, the evolution of the main components of the general government deficit and debt developments should be reported.
- (5) Actual data reported under this delegated act should be consistent with data reported to Eurostat in the context of the excessive deficit procedure,

HAS ADOPTED THIS REGULATION:

(1) OJ L 140, 27.5.2013, p. 11.

(2) OJ L 209, 2.8.1997, p. 6.

*Article 1***Subject matter**

This Regulation lays down specifications concerning the content of the reports that may be requested by the Commission from Member States whose currency is the euro which are subject to an excessive deficit procedure.

*Article 2***Structure and content of the reporting**

1. The reports referred to in Article 1 shall have the following structure:
 - Actual balances, debt developments, and updated budgetary plans for the period of correction for the general government and its sub-sectors;
 - Description and quantification of the fiscal strategy in nominal and structural terms (cyclical component of the balance, net of one-off and temporary measures) to correct the excessive deficit by the deadline set by the Council in the view of the latest Council recommendation or decision to give notice in accordance with Article 126(7) or Article 126(9) TFEU, including detailed information on budgetary measures planned or already taken to achieve these targets and their budgetary impact.
2. The reports shall include tables as indicated in the Annex to this Regulation.

*Article 3***Entry into force**

This Regulation shall enter into force on the third day following that of its publication in the Official Journal of the European Union.

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

Done at Brussels, 27 June 2013.

For the Commission

The President

José Manuel BARROSO



3252nd COUNCIL MEETING
ECONOMIC AND FINANCIAL AFFAIRS
BRUSSELS, 9 JULY 2013
ECONOMIC GOVERNANCE – TWO-PACK

The Council endorsed, without discussion, two documents relating to the implementation of the "two-pack" of economic governance regulations:

- a code of conduct on enhanced monitoring and assessment of draft budgetary plans of euro area member states⁽¹⁾ and
- a communication from the Commission⁽²⁾ on a harmonised framework for draft budgetary plans and debt issuance reports in the euro area.

The Council also decided not to raise objections to a draft Commission delegated decision on the content and scope of reporting obligations for member states subject to an excessive deficit procedure⁽³⁾.

Under the two-pack (regulations 472/13 and 473/13), which was adopted by the Council on 13 May and entered into force on 30 May, euro area member states must submit their draft budgets for the following year by 15 October each year. If examination of a draft budget reveals serious non-compliance with budgetary obligations laid down in the EU's Stability and Growth Pact, the Commission asks the member state to revise its draft budget.

Article 6(5) of regulation 473/13 requires the Commission, in cooperation with the member states, to establish a harmonised framework to specify the content of member states' draft budgets. The code of conduct has been drawn up in accordance with this requirement.



3343RD COUNCIL MEETING
ECONOMIC AND FINANCIAL AFFAIRS
BRUSSELS, 7 NOVEMBER 2014
ECONOMIC GOVERNANCE - TWO-PACK

The Council endorsed a new consolidated text of a code of conduct specifying obligations for euro area member states under the stability and growth pact, the EU's fiscal rulebook ([14928/14](#)).

Implementing two fiscal policy regulations ("two-pack"), in July 2013 the Council endorsed a code of conduct containing commonly agreed guidelines for harmonised frameworks for the member states' draft budgetary plans and for debt issuance reports.

The changes to that code now endorsed relate to:

- the submission of draft budgetary plans not reflecting a proper draft budget but only a no-policy change scenario;
- the submission of draft budgetary plans showing particularly serious non-compliance with the stability and growth pact and the ensuing consultation with the concerned member state.



(1) [11993/13](#)

(2) [9331/13](#)

(3) [10014/13](#)

**SPECIFICATIONS ON THE IMPLEMENTATION OF THE TWO PACK
(REGULATION (EU) NO 473/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL ON COMMON
PROVISIONS FOR MONITORING AND ASSESSING DRAFT BUDGETARY PLANS AND ENSURING THE
CORRECTION OF EXCESSIVE DEFICIT OF THE MEMBER STATES IN THE EURO AREA, AND, REGULATION
(EU) NO 472/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL ON THE STRENGTHENING OF
ECONOMIC AND BUDGETARY SURVEILLANCE OF MEMBER STATES IN THE EURO AREA EXPERIENCING
OR THREATENED WITH SERIOUS DIFFICULTIES WITH RESPECT TO THEIR FINANCIAL STABILITY)**

AND

**GUIDELINES ON THE FORMAT AND CONTENT OF DRAFT BUDGETARY PLANS, ECONOMIC
PARTNERSHIP PROGRAMMES AND DEBT ISSUANCE REPORTS.**

7 November 2014

INTRODUCTION

The new legislation on economic governance, the so-called Two Pack, has entered into force on 30 May 2013.

The Two Pack consists of two Regulations: Regulation (EU) No 473/2013 of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (hereinafter, Regulation 1) and, Regulation (EU) No 472/2013 of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (hereinafter, Regulation 2).

These two new Regulations contribute to strengthening the surveillance mechanisms applicable to all Member States in the Euro Area (EA), while at the same time establish a comprehensive and better aligned surveillance regime for those Member States in the EA threatened with or experiencing serious difficulties with respect to their financial stability, those in receipt of financial assistance, and those that are in the process of exiting such assistance.

The Two Pack builds on and complements the Stability and Growth Pact (SGP), the European framework for fiscal surveillance.

Regulation 1 applies to all Member States in the EA, with special provisions made for those which are subject to an excessive deficit procedure (EDP). According to this Regulation, all EA Member States will follow a common budgetary timeline and common budgetary rules; in particular, the soundness of national budgetary processes will be enhanced with the obligation to be based on independent macroeconomic forecasts and to set up independent bodies to monitor compliance with national fiscal rules, including the functioning of the automatic correction mechanism called for by the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). As part of this common timeline, a new coordinated surveillance exercise will take place annually in the Autumn. This Regulation also fosters a better coordination of national debt issuance plans, establishing a reporting obligation that concerns all EA Member States. For EA Member States in EDP, Regulation 1 introduces additional reporting requirements that will complement those already envisaged in the SGP, allowing for an enhanced monitoring. In this sense, EA Member States in EDP should submit an economic partnership programme describing the structural reforms needed to ensure an effective and lasting correction of the excessive deficit.

Regulation 2 strengthens the monitoring and surveillance procedures for EA Member States experiencing or threatened with serious difficulties with respect to their financial stability, including those EA Member States in receipt of financial assistance and those in the process of exiting such assistance. The strength of the monitoring and the surveillance will depend on the severity of a Member State's particular situation. Surveillance of budgetary policy will build on but go further than the requirements for Member States under an EDP.

These Guidelines consist of four sections and two annexes and concern Member States whose currency is the euro. The first section elaborates on the fiscal surveillance aspects of the implementation of Regulation 1 and Regulation 2. The subsequent sections consist of guidelines on the content and format of draft budgetary plans, debt issuance reports and economic partnership programmes respectively. Annex I presents standardized tables to be contained in draft budgetary plans, for data required in accordance with Article 6 of Regulation 1. Finally, Annex II details some considerations

for the national arrangements framing the involvement of independent bodies in the production or endorsement of macroeconomic forecasts pursuant to Regulation 1.

SECTION I SPECIFICATIONS ON THE IMPLEMENTATION OF THE TWO PACK

The new fiscal surveillance features stemming from the Two Pack for EA Member States are five-fold:

- The new common budgetary provisions of Regulation 1 include a common budgetary timeline according to which, by 15 October every Autumn, all Member States in the EA will make public their draft budgets for the forthcoming year for the central government and the main parameters of the draft budgets for all the other sub-sectors of the general government. By that same date, 15 October, all Member States in the EA will submit the draft budgetary plans (DBPs) for the forthcoming year, along with the independent macroeconomic forecast on which they are based. For each EA Member State, the Commission will issue an opinion on the DBP before the final adoption of the budget; in case of particularly serious non-compliance of a plan with the obligations under the SGP, a revised draft plan will be requested. Based on all DBPs, the Commission will also provide a comprehensive overview of the budgetary outlook of the EA as a whole, to be discussed by the Eurogroup. In addition, this new common budgetary timeline also provides for the budget to be adopted or fixed upon by 31 December each year and for reversionary budget procedures to be put in place to ensure that the government remains able to discharge its essential duties in all circumstances.
- According to the new common budgetary provisions, EA Member States will have in place independent bodies for monitoring compliance with budgetary rules at the national level, including those incorporating the MTO into national law and assessing the functioning of the national automatic correction mechanism. The independent bodies will also play a role in either the production or endorsement of the independent macroeconomic forecasts upon which the budgetary process should be based.
- All EA Member States are required to ex-ante and timely report on their national debt issuance plans.
- More stringent reporting requirements are introduced by Regulation 1 for all EA Member States under EDPs. Firstly, a graduated monitoring system for EA Member States in EDP is established, in order to ensure a timely correction of excessive deficit. This should allow an early detection of risks that a Member State does not correct its excessive deficit by the deadline set by the Council, so that appropriate action is taken. Secondly, once this Regulation enters into force, any new EDP (or new step in current EDPs) would imply the submission of an economic partnership programme (EPP), i.e. a roadmap for structural reforms instrumental to ensure an effective and lasting correction of the excessive deficit.
- The fiscal dimension of the enhanced monitoring and surveillance established in Regulation 2 builds on but goes further than the requirements for Member States under an EDP. The intensity of the fiscal surveillance is proportionate to the severity of the financial difficulties encountered and to the nature of the financial assistance received.

Accordingly, the fiscal monitoring of Member States subject to enhanced surveillance differs from that applicable to Member States subject to a macroeconomic adjustment programme or to post-programme surveillance.

This section details the implications of these new provisions in the following subsections: those concerning all EA Member States (subsection A), new provisions concerning EA Member States in EDP (subsection B) and new provisions concerning EA Member States in financial difficulties (subsection C).

A. NEW PROVISIONS CONCERNING ALL EURO AREA MEMBER STATES.

The new requirements introduced by Regulation 1 concerning all EA Member States include the annual adoption of national medium-term fiscal plans and submission of DBPs, the setting-up of independent fiscal bodies, the use of independent macroeconomic forecasts and reporting on debt issuance plans. However, Member States subject to a macroeconomic adjustment programme are required neither to submit DBPs nor to report on national debt issuance plans.

The following subdivisions provide some specifications for each of these new obligations.

A.1 National medium-term fiscal plans (Article 4 of Regulation 1)

As a first step of the new common budgetary timeline, Member States will make public their national medium-term fiscal plan at the same time as their Stability Programme (SP) and national reform programmes preferably by 15 April and no later than 30 April. The national medium-term fiscal plan and the stability programme can be the same document.

National medium-term fiscal plans are targeted at the national audience and aim at enhancing national ownership of the fiscal strategy. Given their national dimension, there is no specific guideline on the format and content of such plans, however, they should comply with the minimum requirements set-up by Directive 2011/85/EU.

According to Regulation 1, they should be published at the same time as SPs, contain at least the information required for the SPs, be based on independent macroeconomic forecasts and include information on how the reforms and measures set out are expected to contribute to the targets and national commitments established within the framework of the Union's Strategy for growth and jobs. They should also indicate whether the budgetary forecasts have been produced or endorsed

by an independent body. Their content should be consistent with the framework for economic policy coordination in the context of the annual cycle surveillance, as established in Article 4 of Regulation 1. Additionally, indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact should be included either in these national medium-term fiscal plans or in the National Reform Programmes.

A.2 Assessment of DBPs.

All EA Member States will make public their draft budget for the forthcoming year no later than 15 October every year. By that same date, they must submit their DBP to the Commission and the Eurogroup. Without prejudice to the provisions of Article 4.2 of Regulation 1, the timing of the DBP submission should allow the Eurogroup to discuss the DBP and the national parliaments to take this discussion into account before adoption of the budget. Whereas the draft budget is a national act that, according to national procedures typically involving the national parliament, proposes the nature, amount and allocation of the resources of the State, the DBP is a synthetic document presenting the main aspects of the budgetary situation of the general government and its sub-sectors for the year to come.

According to Article 6 of Regulation 1, the DBP will be consistent with the recommendations issued in the context of the SGP and the annual cycle of surveillance, including the macroeconomic imbalances procedure as established by Regulation (EU) No 1176/2011.

As described in Article 6(3) of Regulation 1, DBPs will provide detailed information on budgetary policy measures for the year to come. Guidelines on DBPs' content and format are contained in section II.

The DBPs will be assessed by the Commission, taking into account to the extent possible the specific national fiscal schedule and parliamentary procedures. Two assessments will be provided: an opinion on each Member State's DBP and an overall assessment of the budgetary situation and prospects of the EA as a whole. This latter exercise mirrors the horizontal assessment of Stability and Convergence Programmes taking place in Spring, but, instead of looking at medium-term fiscal plans, it will be focusing only on the year to come. Its main purpose will be to focus on the adequacy of draft measures contained in the DBP to comply with SGP requirements and existing country-specific recommendations. It will also include additional elements such as sensitivity analyses that provide indications of the risks to public finance sustainability in the event of adverse economic, financial or budgetary developments. Thus, the Autumn exercise provides an important milestone to assess whether the orientations contained in the SPs and assessed by the European Commission and the Council during the European Semester have been translated into concrete plans.

Commission opinions on national DBPs concern all EA Member States, either indicating a positive assessment of the plan or pointing out underlying risks which could stem from its implementation, with the possibility – after having consulted with the Member State concerned, in line with Article 7.2 of Regulation 1 – to request a revised plan in case of particularly serious non-compliance with the SGP. If, as a result of the consultation process, the concerned Member State decides to modify the draft budget, notably through additional measures, to avoid being issued a negative opinion, the changes to the DBP should be publicly announced and ideally embedded, if feasible, in an updated DBP before the expiry of the two weeks deadline for the adoption of an opinion requesting a new DBP. If not feasible, a specific monitoring of the changes would be put in place. Particularly serious non-compliance could be found in the following situations. These examples are non-exhaustive:

- If an obvious breach of the criteria laid down in Article 126(2) of the TFEU would follow from the implementation of the DBP;
- For Member States in the preventive arm of the SGP, if the fiscal effort envisaged in the DBP falls clearly short of the fiscal effort recommended by the Council in accordance existing Council recommendation issued in accordance with Article 121(4) of the TFEU;
- For Member States in the corrective arm of the SGP, if the fiscal effort envisaged in the DBP, i.e. the forecast change in the structural balance, falls clearly short of the recommended fiscal effort by the Council in accordance with Article 126(7) or 126(9) TFEU;
- Where the implementation of the initial budgetary plan would put at risk the financial stability of the Member State concerned or risk jeopardizing the proper functioning of the economic and monetary union.

The opinions are to be adopted by the Commission, made public and be presented to the Eurogroup. The Commission may also present its opinion to the Parliament of the Member State concerned and/or to the European Parliament at their request.

The timeline for the Commission's assessment and corresponding actions to be taken are presented in Table I:

Table I – Process for the Autumn assessment of DBPs (Article 7)

By when?	Who?	What?
15 October	Each Member State	Submits its DBP
Normal process		
End-November at the latest	Commission	Adopts an Opinion on each DBP
If Commission detects particularly serious non-compliance with SGP obligations in a DBP		
1 week of submission [indicative: 23 October]	Commission	Consults the Member State concerned
2 weeks of submission [indicative: 30 October]		Adopts an Opinion requesting a revised DBP to be submitted within 3 weeks
3 weeks of the date of Commission's Opinion at the latest [indicative: 21 November at the latest]	Member State concerned	Submits a revised DBP
3 weeks of submission of revised DBP at the latest [indicative: 12 December at the latest]	Commission	Adopts a new Opinion on revised DBP
No fixed deadline (in principle end-November)	Commission	Overall assessment of the budgetary situation and prospects in the EA as a whole, on the basis of national DBPs and their interaction.

However, a Member State may be ruled by a government not enjoying full budgetary powers according to the national constitutional rules and/or conventions at the time when the draft budget law should be submitted to the national parliament (e.g. caretaker government; end-of mandate government in reason of upcoming national elections). In these cases, the incoming government should submit an updated draft budgetary plan to the Commission and to the Eurogroup once it takes office.

The submission of the updated draft budgetary plan should as a rule take place at least one month before the draft budget law is planned to be adopted by the national parliament, except where this would prove not feasible due to the country specific parliamentary approval calendar. In the latter case, the submission should still take place in time to allow the Commission to adopt an informed opinion on the DBP and the Eurogroup to hold a proper discussion well before the draft budget law is planned to be adopted by the national parliament.

A.3 The setting-up of independent bodies (Article 2(1)(a) and Article 5 of Regulation 1).

Regulation 1 mandates the setting-up of independent bodies, spelling out principles to ensure the independence of these bodies. As established in Article 2(1)(a), 'independent bodies' means

bodies that are structurally independent or bodies endowed with functional autonomy vis-à-vis the budgetary authorities of the Member State, and which are underpinned by national legal provisions ensuring a high degree of functional autonomy and accountability, including:

- (i) a statutory regime grounded in national laws, regulations or binding administrative provisions;
- (ii) not taking instructions from the budgetary authorities of the Member State concerned or from any other public or private body;
- (iii) the capacity to communicate publicly in a timely manner;
- (iv) procedures for nominating members on the basis of their experience and competence; (v) adequate resources and appropriate access to information to carry out their given mandate;'

According to Regulation 1, these independent bodies have two major roles to play, which can be fulfilled by a single independent body or different ones. Firstly, they should produce or endorse the macroeconomic forecasts underpinning the budgetary process. Secondly, they should monitor Member States' compliance with national fiscal rules, including those rules incorporating in the national budgetary processes their medium-term budgetary objective (MTO) and the related activation of the correction mechanism linked to significant deviations from the MTO or the adjustment path towards it. In this sense, Regulation 1 echoes Article 6(1) of the Council Directive 2011/85/EU on requirements for budgetary

frameworks of the Member States and Principle (7) of the Communication from the Commission on the common principles on national fiscal correction mechanisms⁽¹⁾.

The role of independent fiscal institutions

With the strengthening of the legal framework regarding fiscal governance in the EU, independent fiscal institutions have gradually become a prominent feature of national fiscal frameworks. This development is supported in a coherent way by several provisions in the "Six Pack", the inter-governmental TSCG and more recently the "Two Pack".

First, the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States established that effective and timely monitoring of compliance with the national numerical fiscal rules should be based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States (Article 6(1)(b)). This requirement applies to all Member States except the United Kingdom.

Second, the Member States that are bound by the provisions in Title III of the TSCG have agreed upon involving national independent bodies in monitoring compliance with the structural budget balance rule enshrining the medium-term budgetary objective (MTO) at national level (Article 3(2)), including as regards the associated correction mechanism. Further specifications on this role stemming from the TSCG provisions are laid down in the Commission Communication COM(2012)342 on common principles on the national fiscal correction mechanism, namely as regards: i) the carrying out of assessments related to activating the correction mechanism, monitoring whether the correction is proceeding in accordance with national rules and plans as well as to triggering, extending or exiting escape clauses; ii) the obligation of Member States to comply or alternatively explain publicly why they are not following the assessments of the independent bodies; iii) features ensuring a high degree of functional autonomy (Principle 7).

Third, Regulation 1 of the "Two-Pack" further reinforces the role of independent fiscal institutions in the EA Member States by firmly anchoring in the EU law the definition, independence-related features and tasks of such bodies, in correlation with the relevant provisions of the Council Directive 2011/85/EU and the TSCG. In particular, Article 5 of Regulation 1 lays down the following key functions: i) monitoring compliance with numerical fiscal rules incorporating in the national budgetary processes the MTO and numerical fiscal rules as referred to in the Council Directive 2011/85/EU; ii) providing public assessments with respect to national fiscal rules, inter alia relating to activation of the correction mechanism for cases of significant observed deviation from the MTO or the adjustment path towards it, monitoring whether the correction is proceeding in accordance with national rules and plans as well as the occurrence and cessation of circumstances allowing a temporary deviation from the MTO or the adjustment path towards it.

A.4 Production or endorsement of independent macroeconomic forecasts

Article 2(1)(b) and Article 6(3)(f) of Regulation 1.

According to Regulation 1, DBPs, national medium-term fiscal plans and draft budgets should be based on independent macroeconomic forecasts, which are those produced or endorsed by independent bodies in the sense of Article 2(1)(a). Member States are required to communicate whether those independent macroeconomic forecasts are either produced or endorsed by the independent body.

According to Article 4(4) of Regulation 1, Member States may decide to involve the independent body in the preparation of the budgetary forecasts (either by production or endorsement), or on the contrary, assign the development of these budgetary forecasts to another institution with no further involvement of the independent body. In this sense, Member States are therefore required to report in their national medium-term fiscal plans whether the independent body was involved

in the preparation of budgetary forecasts (through their production or their endorsement) or not. These budgetary forecasts will be made public together with the national medium-term fiscal plans and the draft budgets that they underpin.

Member States will define and adopt transparent procedures for the independent production/endorsement of the macroeconomic forecasts underpinning the budgetary process, therefore setting out specific criteria and procedural

(1) COM(2012)342: Communication on common principles for national fiscal correction mechanisms. Following-up on Articles 3(1)(e) and 3(2) of the Treaty on Stability, Coordination and Governance in the EMU (TSCG), this Communication establishes that independent bodies acting as monitoring institutions should support the credibility and transparency of the correction mechanism.

safeguards in accordance with the provisions of Chapter III of Council Directive 2011/85/EU⁽¹⁾. The following paragraphs outline key milestones that Member States should consider when deciding on the precise internal procedures.

In the case of macroeconomic forecasts produced by the independent body, the latter should have in place a dedicated procedure for this purpose, in accordance with Directive 2011/85/EU, which should be consistent with the stages of the national budgetary process and related timetable. The Ministry of Finance should provide support to facilitate the production of the macroeconomic forecasts by the independent body, such as access rights to relevant budgetary information, including budgetary execution data. Additionally, the national legislation or the internal procedures of the Ministry of Finance should define rules governing the handling of forecasts received from the independent body.

Analogously, for the macroeconomic forecasts produced by public sector entities and submitted for endorsement to the independent body, Member States should lay down implementing aspects of the endorsement process (including deadlines for action and the consequences arising from the forecast-related decisions of the independent body), without prejudice to the independent assessment of the endorsing body. The independent body should make clear whether it endorses or not the forecasts and provide the underlying justifications. It is understood that, while the endorsement would enable the use of the respective forecasts for fiscal planning purposes, a negative decision would typically trigger a review of the forecasts in the light of comments issued by the independent body. A revised forecast may be produced and submitted for assessment to the independent body, which would have to issue a new decision.

Irrespective of the choice of having forecasts produced or endorsed independently, Member States should have in place specific mechanisms to cope with situations in which there are different views between the independent body and the Ministry of Finance on the main variables of the forecast. These could, for example, take the form of arrangements to reach an agreement.

In order to support the setting up or strengthening of effective national arrangements framing the involvement of independent bodies in the production or endorsement of macroeconomic forecasts, some optional considerations and suggestions are provided in Annex II.

A.5 Reporting on debt issuance plans (Article 8 of Regulation 1).

EA Member States are required to ex-ante report on their national debt issuance plans to the Commission and the Eurogroup. According to Article 8 of Regulation 1, the harmonised form and content of these report requirements should be laid down by the Commission in cooperation with the Member States.

Against this background, Section III sets out some Guidelines on the implementation of this provision.

B. NEW PROVISIONS CONCERNING EURO AREA MEMBER STATES IN EDP.

The reporting requirements set out below concern all EA Member States in EDP, with the exception of those subject to a macroeconomic adjustment programme in accordance with Article 7 of Regulation 2.

B. 1 Additional reporting by EDP Member States.

Article 10 of Regulation 1 allows the Commission to request the activation of additional reporting requirements in the form of a letter, when recommending to the Council to place a Member State in EDP.

These more stringent reporting requirements by the Member State come on top of the reporting on action taken already foreseen by Regulation 1467/97, as explained in Table II:

(1) Hard-wiring the essential features of these procedures in legislation would be the preferred choice to ensure process clarity, stability and transparency, as well as effective compliance; however, given the markedly technical characteristics of the forecasting process, additional elements may be specified through other means (e.g. administrative procedure, budgetary circular/order).

Table II – EDP reporting obligations added by the Two Pack for EA Member States.

SGP reporting required by Regulation 1467/97 (as reformed by the Six-Pack)	ADDITIONAL reporting required by Regulation 1 upon request by the Commission
<i>Within deadline set in 126(7) TFEU recommendation (max. 6 months), report on action taken to correct the excessive deficit</i>	
(Article 3(4)(a)) Targets for government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side consistent with the Council's recommendation, as well as information on the measures taken and the nature of those envisaged to achieve the targets.	(Article 10(2)) Comprehensive assessment of in-year budgetary execution for the general government and its sub-sectors. The financial risks associated with contingent liabilities with potentially large impacts on public budgets, as referred to in Article 14(3) of Directive 2011/85/EU should also be covered by the assessment to the extent that they may contribute to the existence of an excessive deficit.
	<p><i>6 months later and every 6 months until abrogation/stepping up</i></p> <p>(Article 10(3)) For the general government and its sub-sectors, in-year budgetary execution, budgetary impact of discretionary measures taken on both the expenditure and the revenue side, targets for the government expenditure and revenues, and information on the measures adopted and the nature of those envisaged to achieve the targets. The specific content of these reporting requirements will be detailed in a delegated act.</p> <p>If subject to an Article 11(2) Commission recommendation for adoption of further measures because compliance with correction by the deadline is at risk: (Article 11(3)) Report on measures adopted in response to this recommendation, including the budgetary impact of all discretionary measures taken, targets for the government expenditure and revenues, information on the measures adopted and the nature of those envisaged to achieve the targets, and information on the other actions being taken in response to the Commission recommendation</p>
<i>Following 126(9) TFEU decision to give notice, report on action taken in response thereto</i>	
(Article 5(1)(a)) Same as under Article 3.4a plus information on the actions being taken in response to specific Council recommendations in the decision to give notice.	
	<p><i>3 months later and every 3 months until abrogation</i></p> <p>(Article 10(5)) Same content as biannual report following 126(7) TFEU recommendation, plus information on the actions being taken in response to the Council decision to give notice.</p>
<i>Within the deadline set by the Commission</i>	
(Article 10(a)) If Member State subject to 126(8) or 126(11) decisions, all necessary information to prepare and conduct on-site monitoring missions.	<p>(Article 10(6)(a)) Comprehensive independent audit of the public accounts of all subsectors of the general government conducted preferably in coordination with national supreme audit institutions, aiming to assess the reliability, completeness and accuracy of those public accounts for the purposes of the excessive deficit procedure.</p> <p>(Article 10(6)(b)) Any available additional information for the purposes of monitoring the progress towards the correction of the excessive deficit.</p>

B. 2 New recommendation by the Commission in case of risks of non-compliance with the deadline to correct the excessive deficit.

An important dimension of the EDP is the regular monitoring and assessment by the Commission of the Member State's compliance with EDP recommendations on the basis of the Member State's reporting on action taken, Commission forecasts and the Member States' plans, as described for example in the SP or the DBP.

When assessments are positive, the procedure is held in abeyance; when negative, the Commission recommends that the Council decides on non-effective action and the EDP is stepped-up. So far, for cases in-between, when risks to the correction were detected, warnings have been sent to the authorities to encourage them to take additional measures in order to prevent their procedure from being stepped-up at a later stage.

As a new provision included in Article 11(2) of Regulation 1, in the case of a risk of non-compliance with the deadline to correct the excessive deficit, the Commission may address an autonomous recommendation to the Member State regarding full implementation of the measures provided for in the recommendation under Article 126(7) TFEU or the decision to give notice under Article 126(9) TFEU, adoption of other measures, or both, within a timeframe consistent with the deadline for the correction of its excessive deficit. This additional recommendation would also define a timeframe for the Member State to publicly report on action taken.

B. 3 Implications of the new provisions for Commission actions under Article 126.

Some of the new provisions introduced by Regulation 1 will be taken into account by the Commission in the context of the EDP, as they will enrich its assessment. In particular, as established in Article 12 of this Regulation:

- Compliance with the Commission's opinion on the DBP will be taken into consideration in the stages leading to the opening of an EDP:
 - when drafting a report under Article 126(3);
 - when recommending a Council decision under Article 126(6) and the imposition of a non-interest bearing deposit after the opening of an EDP.
- Compliance with any autonomous Commission recommendation, issued in accordance to Article 11(2) of Regulation 1, will be taken into account when monitoring and considering whether effective action has been taken in response to Article 126(7) TFEU recommendation or Article 126(9) TFEU decision to give notice. In particular, (non-) compliance with such autonomous Commission recommendation will be considered as a mitigating (aggravating) factor in the eventual careful analysis of the reasons for the shortfall with respect to the recommended target.

B.4 Economic partnership programmes (Article 9 of Regulation 1).

Excessive public deficit may be partially rooted on structural weaknesses. Therefore, budgetary measures might be insufficient to ensure a lasting correction of the excessive deficit. In this sense, Regulation 1 provides for economic partnership programmes (EPPs) to be submitted by Member States in which an EDP is opened. Specifically, any new EDP (or, according to Article 17(2), any new step in EDPs already opened at the time the Two Pack enters into force) will trigger the submission of an EPP, defined as a roadmap for the structural reforms instrumental to an effective and lasting correction of the excessive deficit.

EPPs should build on the overall national strategy as described in the National Reform Programme. They should identify specific priorities enhancing competitiveness and long-term sustainable growth and addressing structural weaknesses, and detail the main fiscal structural reforms in particular those referring to taxation, pension and health systems and budgetary frameworks that will be instrumental to correct the excessive deficit in a lasting manner. Where appropriate, the EPPs should identify the potential financial needs and resources.

The EPP should be developed by the concerned Member State in view of its specific situation. Given the range of possible situations and the importance of national ownership of such programmes, this Code of Conduct does not provide specific instructions for the content and timeline of such programmes. To ensure cross-country consistency of EPPs, a model structure is included in Section IV.

Taking into account that structural weaknesses to be identified in EPPs may already be contained in the concerned Member State's Country Specific Recommendations (CSRs) and, as such, may already be subject to surveillance in the context of the European Semester, the EPP should be considered as a focused update of the SP and the National Reform Programme (NRP), taking into account CSRs.

In order to streamline procedures, Regulation 1 envisages some EPPs' specificities when a Member State enters into an Excessive Imbalances Procedure (EIP) or is already in one. In these cases: (i) the EPP would be subsumed as appropriate in and replaced by the corresponding Corrective Action Plan – if the Member State enters into an EIP after drafting the

corresponding EPP, or (ii) when an EIP already exists at the time the EPP should be submitted, the Corrective Action Plan will stand for it or may be adapted where relevant and thus, there is no longer an obligation to submit it⁽¹⁾.

Submission and endorsement process

According to Regulation 1, it is the Council decision on the existence of an excessive deficit that triggers the submission of an EPP. Thus, EPPs are envisaged as a 'one-off' document to be submitted when the EDP is opened, detailing the policy priorities and the fiscal structural strategy designed to accompany the correction of the excessive deficit situation.

Regulation 1 states that Member States should submit their programme to the Commission and the Council along with the report on action taken they provide in the context of the EDP, in response to Article 126(7) TFEU Council recommendation⁽²⁾. As established in Regulation 1, the Council, acting on a proposal from the Commission, will adopt an opinion on the EPP.

Monitoring

In order to streamline procedures, the monitoring of EPPs' implementation will be based on Member States reporting in NRP and/or SP, as appropriate, within the context of the European Semester. Reforms set out in the EPP would therefore be expected to be further taken up in the following updates of the NRP and SP.

In case the concerned Member State is subject to an EIP, the provisions set out in Regulation 1176/2011 on the prevention and correction of macroeconomic imbalances will apply instead. Similarly, Member States subject to a macroeconomic adjustment programme will not submit an EPP in case they enter in EDP or are already in one, as the macroeconomic adjustment programme should substitute it.

C. BUDGETARY SURVEILLANCE CONCERNING EURO AREA MEMBER STATES IN FINANCIAL DIFFICULTIES.

As stated above, Regulation 2 strengthens the monitoring and surveillance procedures for Member States experiencing or threatened with serious difficulties with respect to their financial stability, Member States in receipt of financial assistance, and Member States in the process of exiting such assistance. As this strengthened surveillance encompasses also a fiscal dimension, - which builds on the requirements under an EDP but goes beyond them-, this Regulation also introduces new provisions to be duly considered.

The fiscal side of this strengthened surveillance is modulated according to the severity of the financial difficulties faced by the Member State and to the nature of the financial assistance received. In particular, Regulation 2 envisages three different possible scenarios.

C.1. Member States subject to enhanced surveillance.

Member States subject to enhanced surveillance must, regardless of the existence of an excessive deficit, comply with the additional reporting requirements established in Article 10 (2), (3) and (6) of Regulation 1, as detailed above.

In particular, a Member State under enhanced surveillance will:

- Carry out a comprehensive assessment of in-year budgetary execution for the general government and its sub-sectors, as stated in Article 10(2) of Regulation 1;
- Report regularly on the in-year budgetary execution, the budgetary impact of discretionary measures on the expenditure and revenue sides, targets for the government expenditure and revenues and the measures adopted and envisaged to achieve the targets, according to Article 10(3) of Regulation 1;
- Carry out, on a request from the Commission, a comprehensive independent audit of the public accounts, as stated in Article 10(6) of Regulation 1.

C.2. Member States subject to a macroeconomic adjustment programme.

Where a Member State requests financial assistance, it is required to prepare together with the Commission, in liaison with the ECB, a draft macroeconomic adjustment programme, unless this assistance is on a precautionary basis, is granted for the recapitalisation of financial institutions or is not accompanied with a macroeconomic adjustment programme under the ESM rules. The Council approves the macroeconomic adjustment programme, on a proposal from the Commission.

Once a Member State is subject to a macroeconomic adjustment programme, and irrespective of the existence of an excessive deficit:

(1) The opening of an EDP qualifies as a "relevant major change in economic circumstances" in the sense of Article 9(4) of Regulation EU No 1176/2011, which in turn allows for a revision of the Corrective Action Plan, according to the same Regulation.

(2) Or, as a transitional provision, for Member States already in EDP when the Two Pack enters into force, and where any further step is being taken in the context of the EDP, the EPP should be submitted together with the report on action taken in response to the Council decision to give notice under Article 126(9) TFEU.

- It will carry out a comprehensive audit of public finances to assess the reasons that led to the building up of excessive debt levels. The scope of this audit will generally be analytical, but it can be extended to include accounting or statistical fields on a case-by-case basis, when this extension is necessary for having an accurate understanding of the Member State's fiscal situation. Additionally, in the cases where financial assistance is requested to the EFSM, the EFSF or the ESM, the Commission, in liaison with the ECB, has to assess the sustainability of government debt and the actual or potential needs of the Member State seeking the financial assistance. This sustainability assessment should be updated to incorporate the impact of the draft corrective measures negotiated with the Member State concerned.
- It will comply with the annual budgetary targets included in the macroeconomic adjustment programme, based on the assessment of the sustainability of the government debt.
- In case there is an EPP for the Member State concerned, the programme will build on and substitute it.
- The implementation of Regulation 1 is suspended for the Member State subject to a macroeconomic adjustment programme, for the duration of the programme, with the exception of Articles 1 to 5 and 13 to 18.

Programme Member States have their budgetary surveillance framework considerably simplified so as to avoid overlaps and duplications of reporting obligations. In this sense:

- Programme Member States are exempted from submitting a SP (but should submit the SP tables) and are required to integrate the content of such SP into its macroeconomic adjustment programme.
- If the Member State is the subject of a recommendation under Article 126(7) TFEU:
 - it is exempted from submitting, as appropriate, the reports on actions taken in response to the 126(7) TFEU recommendation;
 - annual budgetary targets set in the macroeconomic adjustment programme will be integrated into the above-mentioned recommendation;
 - monitoring of the progress made in the implementation of the macroeconomic adjustment programme replaces monitoring of implementation of action taken by the Member State in response to the recommendation of Article 126(7) TFEU.
- If the Member State is under an Article 126(9) TFEU decision to give notice:
 - it is exempted from submitting, as appropriate, the reports on actions taken in response to the 126(9) TFEU decision to give notice;
 - annual budgetary targets set in the macroeconomic adjustment programme, as well as the measures conducive to those targets will be integrated into the above-mentioned decision to give notice;
 - monitoring of the progress made in the implementation of the macroeconomic adjustment programme replaces monitoring of implementation of action taken by the Member State in response to the decision to give notice of Article 126(9) TFEU.

C.3. Member States under post-programme surveillance.

According to Regulation 2 a Member State will be under post-programme surveillance until it has repaid at least 75% of the financial assistance received. From the fiscal monitoring perspective, the post-programme surveillance implies that, on a request from the Commission, the Member State must provide the information mentioned in Article 10(3) of Regulation 1, as summarized above.

SECTION II GUIDELINES ON THE FORM AND CONTENT OF DRAFT BUDGETARY PLANS⁽¹⁾

Regulation 1 foresees the annual submission of a DBP by each Member State in the EA to the Commission and the Eurogroup no later than 15 October. The requirements for the DBP are described in Article 6 of this Regulation.

According to Article 6(5), the specification of the content of the DBP is set out in a harmonised framework established by the Commission in cooperation with the Member States. The purpose of this section is to provide such harmonised framework.

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

The DBP should essentially present an update of some of the standardized set of tables from the Stability Programmes, complemented by detailed information on the measures presented in the DBP.

(1) See COM(2014) 675, *Communication from the Commission replacing the Communication from the Commission on 'Harmonized framework for draft budgetary plans and debt issuance reports within the euro area'* (COM(2013) 490 final), Brussels, 28.10.2014

In line with existing guidelines provided for Stability and Convergence Programmes, the concepts used should be consistent with the standards established at European level, notably in the context of the European system of accounts (ESA).

The DBP should allow the identification of sources of possible discrepancies from the budgetary strategy in the most recent Stability Programme. For this reason, besides the required data for the forthcoming year, i.e. the year for which the budget is being drafted (year $t+1$ in the standardized tables in Annex I), the corresponding estimates for the current year (t in the standardized tables in Annex I) should also be included, together with the outcomes of the previous year ($t-1$ in the standardized tables in Annex I), consistent with data reported under the excessive deficit procedure.

A. INDEPENDENT MACROECONOMIC FORECASTS AND ASSUMPTIONS. ESTIMATED IMPACT OF AGGREGATED BUDGETARY MEASURES ON ECONOMIC GROWTH.

DBPs should be based on independent macroeconomic forecasts. Accordingly, Tables 1a, 1b, 1c, 1d of the DBP, included in Annex I, present the main expected economic developments and important economic variables used in the preparation of the DBP.

In particular, Table 1a contains data on real GDP rate of change observed in year $t-1$, and real GDP rate of change forecasted for years t and $t+1$. The estimated impact on economic growth of the aggregated budgetary measures envisaged in the DBP should be included in these forecasted growth rates for years t and $t+1$. Therefore, following Article 6(3)(g) of Regulation 1, this estimated impact on economic growth is recommended to be specified in Table 1a or otherwise detailed in the methodological annex.

The basic assumptions upon which macroeconomic forecasts are based should be presented in table 0.i) of Annex I. Further main assumptions typically relevant for the production of macroeconomic forecasts are presented in table 0.ii). Member States may find useful to check the latter when trying to summarise the assumptions upon which the independent macroeconomic forecasts are based.

Member States should also make explicit whether the independent macroeconomic and budgetary forecasts have been produced or endorsed by the independent body.

B. BUDGETARY TARGETS

The budgetary targets for the general government balance, broken-down by sub-sector of the general government (central government, state or regional government for Member States with federal or largely decentralized institutional arrangements, local government and social security) should be presented in the corresponding tables also included in Annex I. As stated in Article 7(2) of Regulation 1, the Commission should assess whether the DBP complies with the budgetary policy obligations laid down in the SGP. In order to make this assessment possible, structural budgetary targets and one-off and other temporary measures are also among the required information in this section. Compliance with the debt benchmark is assessed against debt developments data, which should be consistent with the previously detailed budgetary targets and macroeconomic forecasts. This information, which is required in the tables 2.a, 2.b and 2.c of Annex I, could be complemented with data on contingent liabilities that could affect the medium-term government debt position.

To allow for a comprehensive understanding of the government balance and of the budgetary strategy in general, information should be provided on expenditure and revenue targets and on their main components. This information is contained in table 4a of Annex I. Bearing in mind the conditions and criteria to establish the expenditure growth to be assessed in accordance with Article 5(1) of Regulation 1466/97, which defines an expenditure benchmark, the DBP also presents the planned growth of government expenditure which receives a special treatment in the computation of the expenditure benchmark.

A breakdown of the general government expenditure by function is contained in the corresponding tables in Annex I. Where possible, Member States are encouraged to provide this information broken down into the categories detailed in the Classification of the Functions of Government (COFOG). In any case, according to Article 6(3)(d) of Regulation 1, relevant information on the general government expenditure on education, healthcare and employment should be provided, either in the proposed table or otherwise detailed in the DBP.

C. PUBLIC EXPENDITURE AND REVENUE UNDER THE NO-POLICY-CHANGE SCENARIO AND DISCRETIONARY BUDGETARY MEASURES.

Each Member State should appropriately define a scenario for expenditure and revenue at unchanged policies for the forthcoming year (i.e. pre-budget, excluding the new measures that have been proposed in the context of the budgetary process) and make public the underlying assumptions, methodologies and relevant parameters. The 'no-policy change' assumption involves the extrapolation of revenue and expenditure trends before adding the impact of discretionary

budgetary measures decided in the context of the budgetary process for the forthcoming year. The results of projections for the expenditure and the revenue sides on the basis of the unchanged policy assumption are presented in table 3 of Annex I, while the set of tables 5.a, 5.b and 5.c describe and summarize the discretionary measures in the process of being adopted by the different sub-sectors to reach the budgetary targets.

These three tables should contain an exhaustive technical description of the measures being taken by the different sub-sectors, together with information concerning the motivation, the design and the implementation of the measure. The target of the budgetary measure should also be detailed, in ESA terms, specifying whether it is a discretionary expenditure or revenue measure. Furthermore, the precise component of the expenditure or revenue side targeted by the discretionary measure should also be specified. This will make the comparison between the targets and the no-policy-change outcomes feasible. In other words:

- On the revenue side, it should be stated whether it is a measure targeting:
 - Taxes on production and imports (ESA code: D.2)
 - Current taxes on income, wealth, etc. (ESA code: D.5)
 - Capital taxes (ESA code: D.91)
 - Social contributions (ESA code: D.61)
 - Property income (ESA code: D.4)
 - Other (ESA code: P.11+P.12+P.131+D.39+D.7+D.9 {other than D.91})
- On the expenditure side, it should be stated whether it is a measure targeting:
 - Compensation of employees (ESA code: D.1)
 - Intermediate consumption (ESA code: P.2)
 - Social payments (social benefits other than social transfers in kind and social transfers in kind via market producers ESA codes: D.62, D.632), of which, where applicable, unemployment benefits including cash benefits and in kind social transfers should be also specified.
 - Interest expenditure (ESA code: D.41)
 - Subsidies (ESA code: D.3)
 - Gross fixed capital formation (ESA code: P.51)
 - Capital transfers (ESA code: D.9)
 - Other (ESA code: D.29+D.4 {other than D.41} +D.5+D.7+P.52+P.53+NP+D.8)

The time profile of the measures should be specified in order to distinguish measures with a transitory budgetary effect that does not lead to a sustained change in the intertemporal budgetary position (i.e. in the permanent level of revenues or expenditure) from those having a permanent budgetary effect that leads to a sustained change in the intertemporal budgetary position (i.e. in the permanent level of revenues or expenditure). According to Regulation 1 measures with an estimated budgetary impact above 0.1% of GDP should be described in detail, whereas those with a budgetary impact below this threshold need to be identified and their aggregated budgetary impact indicated. To the extent possible, smaller measures affecting the same revenue / expenditure category could be meaningfully grouped together. However, in the context of the Economic and Financial Committee (Alternates composition) Member States have agreed to further improve the quality of discretionary tax measures (DTM) reporting, committing themselves to describe in detail all DTM with a minimum budgetary impact of 0.05% of GDP. Thus, in the context of the DBPs and to improve consistency across reporting requirements, Member States are also encouraged to provide detailed information on all discretionary budgetary measures with an estimated budgetary impact above 0.05% of GDP.

DBPs should also contain information on the estimated budgetary impact of discretionary measures at the level of each sub-sector, included in tables 5.a, 5.b and 5.c of Annex I. The budgetary impact of all measures is to be recorded in terms of the incremental impact –as opposed to recording the budgetary impact in terms of levels- compared to the previous year baseline projection. This implies that simple permanent measures should be recorded as having an effect of +/- X in the year(s) they are introduced and zero otherwise, i.e. the overall impact on the level of revenues or expenditures must not cancel out. If the impact of a measure varies over time, only the incremental impact should be recorded in the table⁽¹⁾. By their nature, one-off measures should be always recorded as having an effect of +/-X in the year of the first budgetary

(1) For instance: a measure which takes effect in July of year t may have a total impact of 100 in the first year and 200 in the years after. In the reporting tables, this should be recorded as +100 in year t and again +100 (the increment) in year t+1. The total impact of a measure in a given year can be derived as the cumulative impact of the increments since its introduction.

impact and $-/+ X$ in the following year, i.e. the overall impact on the level of revenues or expenditures in two consecutive years must be zero⁽¹⁾.

Depending on each specific measure, Member States should adapt the dimension of these three tables accordingly, so they contain as many columns as needed to reflect the complete budgetary impact over time. Underlying assumptions used to estimate the budgetary impact of each measure (e.g. elasticities or evolution of the tax base) should also be described in the DBP. Finally, DBPs should also specify the accounting principle on which the data are being reported: by default, they should be reported on accrual basis, but, if impossible, it should be indicated explicitly that the value reported is based on cash reporting.

D. UNION'S STRATEGY FOR GROWTH AND JOBS TARGETS AND COUNTRY SPECIFIC RECOMMENDATIONS

Details on how the measures adopted address the CSRs or the national targets in accordance with the Union's strategy for growth and jobs are included in tables 6.a and 6.b of Annex I.

E. INDICATIONS ON THE EXPECTED DISTRIBUTIONAL IMPACT OF THE MAIN EXPENDITURE AND REVENUE MEASURES

Information on the expected distributional impact of the main expenditure and revenue measures should also be specified in DBPs, according to Article 6(3)(d) of Regulation 1.

Whereas the majority of Member States already include in their budgets qualitative considerations on the distributional impact of fiscal measures, quantitative estimations are much less common. Certainly, quantifying the distributional impact of budgetary measures is a challenging task. For this reason no standardized table on this aspect of DBPs is included in Annex I; on the contrary, Member States should provide, to the extent possible, qualitative information and quantitative estimations on the distributional effects of budgetary measures, presented as best fits each Member State's specific measures and available analytical frameworks.

F. COMPARISON BETWEEN DBP AND THE MOST RECENT STABILITY PROGRAMME

Table 7 of Annex I compares the budgetary targets and projections at unchanged policies in the DBP with those of the latest SP. Possible differences in past and planned data with respect to those in the SP should be duly explained.

G. METHODOLOGICAL ANNEX

Finally, table 8 in Annex I contains the methodological aspects that should be included in the DBP. These should include details on the different estimation techniques applied along the budgetary process, together with its relevant features and the assumptions used. In case the estimated impact of aggregated budgetary measures on economic growth has not been reported in Table 1.a, it should be specified in this Annex.

SECTION III GUIDELINES ON THE FORM AND CONTENT OF DEBT ISSUANCE REPORTS⁽²⁾

Following Article 8(2) of Regulation 1, this section provides a harmonised form and content for euro area Member States to report on their national debt issuance plans.

In order to place the national debt issuance plans in a fiscal surveillance framework they should be accompanied by general information on the overall financing needs of the central budget. Therefore, two reports are to be submitted: an annual and a quarterly report.

Given the need for flexibility in changing market conditions, the forward-looking information in these reports is understood to be indicative and subject to market conditions. The reports should in principle not be disseminated to the public, given the potential sensitivity of this information.

1. The annual report should contain:

- general information on the overall financing needs of the central budget, such as (i) redemptions of securities with an original maturity of one year or more; (ii) stock of securities with an original maturity of less than one year; (iii) net cash financing; and (iv) cash deficit/surplus,
- the issuance plans for the next year including the break-down into short-term and medium- to long-term securities,
- and the ESA based deficit/surplus for the year to come following the template provided below.

(1) One-off measures covering more than one year (e.g. a tax amnesty generating income in two consecutive years) should be recorded as two separate measures, one as a measure having its first impact in t and one having its first impact in $t+1$.

(2) See COM(2013) 490, Communication from the Commission, 'Harmonized framework for draft budgetary plans and debt issuance reports within the euro area', Brussels, 27.06.2013.

Table III – Template to be contained in annual debt issuance reports ⁽¹⁾

Total funding requirement (EUR million)							Financing plan (EUR million)				
Redemptions of securities with an original maturity of one year or more (1)	Stock of T-bills and CPs at the end of the previous year (2)	Net cash financing (3)	Total refinancing needs (4 = 1+2+3)	Cash deficit/surplus (5)	Other (6)	Total (7 = 4+5+6)	Change in the stock of short-term debt (T-bills and CPs) (8)	Medium to long-term (9)	Other (10)	Total (11 = 2+8+9+10)	ESA deficit/surplus (EUR million) (12)

All the amounts should be expressed in million euros. The report should be submitted to the European Commission at least one week before the end of the calendar year.

2. The quarterly report should present the issuance plans, per quarter (non-cumulative) including the breakdown into short-term and medium- to long-term securities. It should cover gross issuance as well as net issuance. Issuance plans for the quarter(s) to come (q+1) should be accompanied by data on actual issuance in the preceding quarter (q-1) as well as the estimate of issuance for the current quarter (q) following the template provided below. While, in principle and under more normal market conditions, foreseen issuance plans should be reported for several quarters ahead, under the current market conditions such issuance forecasts might be difficult to make or be of limited informational value. Therefore, it is suggested that only the immediate quarter ahead would be subject to such reporting.

Table IV – Template to be contained in debt issuance report ^{(2) (3)}

Financing plan (EUR million)											
	Gross issuance				Redemptions				Net issuance		
	Short-term (T-bills + CP)*	Medium to long-term	Other	Total	Short-term (T-bills & CP)	Medium-to long-term	Other	Total	Short-term (T-bills & CP)	Medium-to long-term	Other
	(1)	(2)	(3)	(4 = 1+2+3)	(5)	(6)	(7)	(8 = 5+6+7)	(9 = 1-5)	(10 = 2-6)	(11 = 3-7)
q-1 (preceding quarter)	actual data	actual data	actual data	actual data	actual data	actual data	actual data	actual data	actual data	actual data	actual data
q (current quarter)	estimate	estimate	estimate	estimate	estimate	estimate	estimate	estimate	estimate	estimate	estimate
q+1 (next quarter)	plan	plan	plan	plan	plan	plan	plan	plan	plan	plan	plan

* Please report here the actual issuance, i.e. including multiple counting of 1-month bill rollover

All the amounts should be expressed in million euros. The report should be submitted to the European Commission at least one week before the beginning of the next quarter.

The quarterly periodicity of issuance plans reporting is considered to strike the right balance between, on the one hand, increasing the transparency and predictability of funding plans, and, on the other hand, leaving enough flexibility for issuance policies and procedures.

Where data are available, Member States are encouraged to provide comparable templates with similar information concerning national agencies and regional or local governments.

(1) Provision of data on variables in bold characters is a requirement. Provision of data on other variables is optional but highly desirable.

(2) Provision of data on variables in bold characters is a requirement. Provision of data on other variables is optional but highly desirable. Provision of data on cash management instruments (such as CPs or repos) is a requirement for backward looking data (for q and q-1). Provision of data on cash management instruments on forward looking data (q+1) is optional but highly desirable.

(3) The reporting horizon will be revisited in dependence of a stabilisation of conditions on European sovereign debt markets.

SECTION IV GUIDELINES ON THE FORM AND CONTENT OF EPPs

Regulation 1 mandates that EA Member States entering in EDP should draft and submit an EPP. EPPs should be based on the following model structure:

1. Introduction [1/2 page]

This section should contain overall information on:

- The main macroeconomic context.
- The overall strategy at national level, including the relation between the measures presented in the EPP and the country-specific recommendations (CSRs).
- Potential financial resources, including credit lines of the European Investment Bank and other relevant financial instruments.

2. Policy measures and structural reforms to accompany the correction of the excessive deficit.

EPPs should contain the following reporting table, specifically covering the description of the fiscal structural reforms instrumental to an effective and lasting correction of the excessive deficit.

Tables to be contained in the EPPs⁽¹⁾

Description of the structural reform measures in the fiscal area and information on their qualitative impact

Main objectives and relevant CSRs	Information on planned and already enacted measures				Foreseen impacts
	List of measures	Description of the measure	Timetable on upcoming steps	Specific challenges/ risks in implementing the measures	Qualitative elements

Quantitative assessment of the measures

List of measures	Methodological elements		Quantitative elements				
	Relevant features of the model used/ estimation technique	Main macro-economic/ simulation assumptions	Main outcome of macroeconomic simulations				
			Variables	Yearly and cumulated effect on GDP and other main macroeconomic variables			
				Year t	Year t+1	Year t+...	Year t+n
			GDP				
			Contribution of production factors to potential GDP (labour capital, TFP)				
			Budgetary impact				

(1) Provision of data on variables in bold characters is a requirement. Provision of data on other variables is optional but highly desirable.

Two sub-sets can be distinguished in the reporting template:

- The first table, which should always be included in EPPs, contains the description of the structural reform measures in the fiscal area and information on their qualitative impact. In particular, it should include:
 - A description about the measures' main objectives in terms of fiscal structural policy, and how the measure is relevant to address the excessive deficit situation. An indication on which CSR (if any) each fiscal structural measure relates to.
 - A description synthesising key elements of the measure as well as its coverage.
 - A timetable on the implementation steps expected in the future. Each date should be accompanied by an explanation of what is concretely planned by that date.
 - The main challenges or risks pertaining to the implementation of the measures.
 - A brief qualitative description of the foreseen impacts of the measure and their expected timing, including its budgetary implications, both on the revenue and expenditure side and whenever possible the indirect budgetary impact via the macro-economic effects
- The second table is optional and covers useful information that Member States are encouraged to provide where relevant. This includes:
 - Information on the estimated macroeconomic and budgetary impact of the respective fiscal structural measure, expressed as the yearly and/or cumulated effect on the GDP and potential GDP, as well as the policy simulation horizon. The macroeconomic impact of fiscal structural reforms needs to take the form of a number expressing the difference (in percentage points) with respect to the reference scenario, i.e. the scenario that does not include the fiscal structural measures. The budgetary impact should take an analogous form, expressing the change in the general government balance as a percentage of GDP.
 - Relevant information on the analytical and methodological approach used in the empirical exercise, such as the type of the model or estimation technique applied (e.g. econometric estimations or simulation based assessments with DSGE/dynamic CGE/static CGE models, etc.) and the sources and frequency of the macroeconomic data used;
 - The main macroeconomic and simulation assumptions underlying the estimation;

In this second part of the table, year *t* refers to the current year, that when the EPP is being drafted and submitted.

ANNEX I**MODEL STRUCTURE AND TABLES TO BE CONTAINED IN DRAFT BUDGETARY PLANS ⁽¹⁾****A. MODEL STRUCTURE FOR DRAFT BUDGETARY PLANS**

1. Macroeconomic forecasts.
 2. Budgetary targets.
 3. Expenditure and revenue projections under the no-policy change scenario.
 4. Expenditure and revenue targets. General government expenditure by function.
 5. Discretionary measures included in the draft budget.
 6. Possible links between the draft budgetary plan and the targets set by the Union's Strategy for growth and jobs and CSRs.
 7. Comparison with latest Stability Programme.
 8. Distributional impact of the main expenditure and revenue measures.
- Annex: Methodological aspects, including the estimated impact of aggregated budgetary measures on economic growth.

B. TABLES TO BE CONTAINED IN DRAFT BUDGETARY PLANS*1. Macroeconomic forecasts*

Table 0.i) Basic assumptions

	Year t-1	Year t	Year t+1
Short-term interest rate ⁽¹⁾ (annual average)			
Long-term interest rate (annual average)			
USD/€ exchange rate (annual average)			
Nominal effective exchange rate			
World excluding EU, GDP growth			
EU GDP growth			
Growth of relevant foreign markets			
World import volumes, excluding EU			
Oil prices (Brent, USD/barrel)			
⁽¹⁾ If necessary, purely technical assumptions.			

(1) Provision of data on variables in bold characters is a requirement. Provision of data on other variables is optional but highly desirable. Provision of data for year t+2 to year t+4 is optional but highly desirable for those Member States concerned by the debt rule of the SGP.

Table 0.ii). Main assumptions. Non-exhaustive check list. (Similar information can be provided in different formats)

	Year t-1	Year t	Year t+1
1. <i>External environment</i>			
a. Prices of commodities			
b. Spreads over the German bond			
2. <i>Fiscal policy</i>			
a. General government net lending / net borrowing			
b. General government gross debt			
3. <i>Monetary policy / Financial sector / interest rates assumptions</i>			
a. Interest rates:			
i. Euribor			
ii. Deposit rates			
iii. Interest rates for loans			
iv. Yields to maturity of 10 year government bonds			
b. Evolution of deposits			
c. Evolution of loans			
d. NPL trends			
4. <i>Demographic trends</i>			
a. Evolution of working-age population			
b. Dependency ratios			
5. <i>Structural policies</i>			

Table 1.a. Macroeconomic prospects

	ESA Code	Year t-1	Year t-1	Year t	Year t+1	Year t+2	Year t+3	Year t+4
		<i>Level</i>	<i>rate of change</i>	<i>rate of change</i>	<i>rate of change</i>	<i>rate of change</i>	<i>rate of change</i>	<i>rate of change</i>
1. Real GDP	B1*g							
Of which								
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth ⁽¹⁾		---	---					
2. Potential GDP						v	v	v
contributions:								
- labour								
- capital								
- total factor productivity								
3. Nominal GDP	B1*g					v	v	v
Components of real GDP								
4. Private final consumption expenditure	P.3							
5. Government final consumption expenditure	P.3							
6. Gross fixed capital formation	P.51g							
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53							
8. Exports of goods and services	P.6							
9. Imports of goods and services	P.7							
Contributions to real GDP growth								
10. Final domestic demand			---					
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		---					
12. External balance of goods and services	B.11		---					
⁽¹⁾ Please report here the estimated impact on real GDP growth of the aggregated budgetary measures contained in the DBP.								

Table 1.b. Price developments

	ESA Code	Year t-1	Year t-1	Year t	Year t+1	Year t+2	Year t+3	Year t+4
		<i>Level</i>	<i>rate of change</i>	<i>rate of change</i>	<i>rate of change</i>	<i>rate of change</i>	<i>rate of change</i>	<i>rate of change</i>
1. GDP deflator						v	v	v
2. Private consumption deflator								
3. HICP								
4. Public consumption deflator								
5. Investment deflator								
6. Export price deflator (goods and services)								
7. Import price deflator (goods and services)								

Table 1.c. Labour market developments

	ESA Code	Year t-1	Year t-1	Year t	Year t+1
		<i>Level</i>	<i>rate of change</i>	<i>rate of change</i>	<i>rate of change</i>
1. Employment, persons ⁽¹⁾					
2. Employment, hours worked ⁽²⁾					
3. Unemployment rate (%) ⁽³⁾					
4. Labour productivity, persons ⁽⁴⁾					
5. Labour productivity, hours worked ⁽⁵⁾					
6. Compensation of employees	D.1				
7. Compensation per employee					
⁽¹⁾ Occupied population, domestic concept national accounts definition. ⁽²⁾ National accounts definition. ⁽³⁾ Harmonised definition, Eurostat; levels. ⁽⁴⁾ Real GDP per person employed. ⁽⁵⁾ Real GDP per hour worked.					

Table 1.d. Sectoral balances

	ESA Code	Year t-1	Year t	Year t+1
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	% GDP	% GDP	% GDP
<i>of which:</i>				
- Balance on goods and services				
- Balance of primary incomes and transfers				
- Capital account				
2. Net lending/net borrowing of the	B.9			
3. Net lending/net borrowing of general government	B.9			
4. Statistical discrepancy				

2. Budgetary targets

Table 2.a. General government budgetary targets broken down by subsector

	ESA Code	Year t	Year t+1	Year t+2	Year t+3	Year t+4
		% GDP	% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) ⁽¹⁾ by sub-sector						
1. General government	S.13			v	v	v
2. Central government	S.1311					
3. State government	S.1312					
4. Local government	S.1313					
5. Social security funds	S.1314					
6. Interest expenditure	D.41					
7. Primary balance ⁽²⁾						
8. One-off and other temporary measures ⁽³⁾				v	v	v
9. Real GDP growth (%) (= 1 in Table 1.a)						
10. Potential GDP growth (%) (= 2 in Table 1.a)				v	v	v
contributions:						
- labour						
- capital						
- total factor productivity						
11. Output gap (% of potential GDP)				v	v	v
12. Cyclical budgetary component (% of potential GDP)				v	v	v
13. Cyclically-adjusted balance (1-12) (% of potential GDP)						
14. Cyclically-adjusted primary balance (13+6) (% of potential GDP)						
15. Structural balance (13-8) (% of potential GDP)				v	v	v
⁽¹⁾ TR-TE = B.9.						
⁽²⁾ The primary balance is calculated as (B.9, item 8) plus (D.41, item 9).						
⁽³⁾ A plus sign means deficit-reducing one-off measures.						

Table 2.b. General government debt developments

	ESA Code	Year t	Year t+1	Year t+2	Year t+3	Year t+4
		% GDP	% GDP	% GDP	% GDP	% GDP
1. Gross debt ⁽¹⁾				v	v	v
2. Change in gross debt ratio						
Contributions to changes in gross debt						
3. Primary balance (= item 10 in Table 2.a.i)						
4. Interest expenditure (= item 9 in Table 2.a.i)	D.41					
5. Stock-flow adjustment				v	v	v
<i>of which:</i>						
- Differences between cash and accruals ⁽²⁾						
- Net accumulation of financial assets ⁽³⁾						
<i>of which:</i>						
- privatisation proceeds						
- Valuation effects and other ⁽⁴⁾						
p.m.: Implicit interest rate on debt ⁽⁵⁾						
Other relevant variables						
6. Liquid financial assets ⁽⁶⁾						
7. Net financial debt (7 = 1-6)						
8. Debt amortization (existing bonds) since the end of the previous year						
9. Percentage of debt denominated in foreign currency						
10. Average maturity						
⁽¹⁾ As defined in Regulation 479/2009. ⁽²⁾ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value. ⁽³⁾ Currency and deposits, government debt securities, government controlled enterprises and the difference between listed and unlisted shares could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value. ⁽⁴⁾ Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value. ⁽⁵⁾ Proxied by interest expenditure divided by the debt level of the previous year. ⁽⁶⁾ Liquid assets are here defined as AF.1, AF.2, AF.3 (consolidated for general government, i.e. netting out financial positions between government entities), AF.511, AF.52 (only if listed on stock exchange).						

Table 2.c. Contingent liabilities

	Year t	Year t+1
	% GDP	% GDP
Public guarantees		
Of which: linked to the financial sector		

3. Expenditure and Revenue Projections under the no-policy change scenario⁽¹⁾

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components

	ESA Code	Year t	Year t+1
		% GDP	% GDP
General government (S13)			
1. Total revenue at unchanged policies	TR		
Of which			
1.1. Taxes on production and imports	D.2		
1.2. Current taxes on income, wealth, etc	D.5		
1.3. Capital taxes	D.91		
1.4. Social contributions	D.61		
1.5. Property income	D.4		
1.6. Other ⁽¹⁾			
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) ⁽²⁾			
2. Total expenditure at unchanged policies	TE ⁽³⁾		
Of which			
2.1. Compensation of employees	D.1		
2.2. Intermediate consumption	P.2		
2.3. Social payments	D.62,D.632		
of which Unemployment benefits⁽⁴⁾			
2.4. Interest expenditure	D.41		
2.5. Subsidies	D.3		
2.6. Gross fixed capital formation	P.51g		
2.7. Capital transfers	D.9		
2.8. Other ⁽⁵⁾			
⁽¹⁾ P.11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec). ⁽²⁾ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.2+D.5+D.61+D.91-D.995), if appropriate. ⁽³⁾ TR-TE = B.9. ⁽⁴⁾ Includes social benefits other than social transfers in kind (D.62) and social transfers in kind via market producers (D.632) related to unemployment benefits. ⁽⁵⁾ D.29pay+D.4pay (other than D.41pay)+D.5pay+D.7pay+P.52+P.53+NP+D.8.			

(1) Please note that the no-policy change scenario involves the extrapolation of revenue and expenditure trends before adding the impact of the measures included in the forthcoming year's budget.

4. Expenditure and Revenue targets

Table 4.a. General government expenditure and revenue targets, broken down by main components.

	ESA Code	Year t	Year t+1
		% GDP	% GDP
General government (S13)			
1. Total revenue target	TR		
Of which			
1.1. Taxes on production and imports	D.2		
1.2. Current taxes on income, wealth, etc	D.5		
1.3. Capital taxes	D.91		
1.4. Social contributions	D.61		
1.5. Property income	D.4		
1.6. Other⁽¹⁾			
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) ⁽²⁾			
2. Total expenditure target	TE ⁽³⁾		
Of which			
2.1. Compensation of employees	D.1		
2.2. Intermediate consumption	P.2		
2.3. Social payments	D.62, D.632		
of which Unemployment benefits⁽⁴⁾			
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41		
2.5. Subsidies	D.3		
2.6. Gross fixed capital formation	P.51g		
2.7. Capital transfers	D.9		
2.8. Other⁽⁵⁾			
⁽¹⁾ P.11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec) ⁽²⁾ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.2+D.5+D.61+D.91-D.995), if appropriate. ⁽³⁾ TR-TE = B.9. ⁽⁴⁾ Includes social benefits other than social transfers in kind (D.62) and social transfers in kind via market producers (D.632) related to unemployment benefits. ⁽⁵⁾ D.29pay+D.4pay (other than D.41pay)+D.5pay+D.7pay +P.52+P.53+NP+D.8.			

Table 4.b. Amounts to be excluded from the expenditure benchmark

	ESA Code	Year t-1	Year t-1	Year t	Year t+1
1. Expenditure on EU programmes fully matched by EU funds revenue		<i>Level</i>	<i>% GDP</i>	<i>% GDP</i>	<i>% GDP</i>
2. Cyclical unemployment benefit expenditure⁽¹⁾					
3. Effect of discretionary revenue measures⁽²⁾					
4. Revenue increases mandated by law					
⁽¹⁾ Please detail the methodology used to obtain the cyclical component of unemployment benefit expenditure. It should build on unemployment benefit expenditure as defined in COFOG under the code 10.5 ⁽²⁾ Revenue increases mandated by law should not be included in the effect of discretionary revenue measures: data reported in rows 3 and 4 should be mutually exclusive.					

Table 4.c. General government expenditure by function.

4.c.i) General government expenditure on education, healthcare and employment

	Year t		Year t+1	
	<i>% GDP</i>	<i>% general government expenditure</i>	<i>% GDP</i>	<i>% general government expenditure</i>
Education ⁽¹⁾				
Health ⁽¹⁾				
Employment ⁽²⁾				
⁽¹⁾ These expenditure categories should correspond respectively to items 9 and 7 in table 4.c.ii) ⁽²⁾ This expenditure category should contain, inter alia, government spending related to active labour market policies (ALMPs) including public employment services. On the contrary, items such as compensation of public employees or vocational training programmes should not be included here.				

4.c.ii) Classification of the functions of the Government

Functions of the Government	COFOG Code	Year t	Year t+1
	<i>% GDP</i>	<i>% GDP</i>	<i>% GDP</i>
1. General public services	1		
2. Defense	2		
3. Public order and safety	3		
4. Economic affairs	4		
4. Environmental protection	5		
6. Housing and community amenities	6		
7. Health	7		
8. Recreation, culture and religion	8		
9. Education	9		
10. Social protection	10		
11. Total Expenditure (= item 2 in Table 2.c.i)	TE		

5. Description of discretionary measures included in the draft budget.

Table 5.a. Discretionary measures taken by General Government

List of measures	Detailed description ⁽¹⁾	Target (Expenditure / Revenue component) ESA Code	Accounting principle	Adoption Status	Budgetary impact				
						Year t	Year t+1	Year t+2	Year t+....
						% GDP	% GDP	% GDP	% GDP
(1)									
(2)									
...									
					TOTAL				
⁽¹⁾ Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the Euro Area									

Table 5.b. Discretionary measures taken by Central Government

List of measures	Detailed description ⁽¹⁾	Target (Expenditure / Revenue component) ESA Code	Accounting principle	Adoption Status	Budgetary impact				
						Year t	Year t+1	Year t+2	Year t+....
						% GDP	% GDP	% GDP	% GDP
(1)									
(2)									
...									
					TOTAL				
⁽¹⁾ Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the Euro Area									

Table 5.c. Discretionary measures taken by sub-sectors of the General Government⁽¹⁾

List of measures	Detailed description ⁽²⁾	Target (Expenditure / Revenue component) ESA Code	Accounting principle	Adoption Status	Budgetary impact			
						Year t	Year t+1	Year t+2
						% GDP	% GDP	% GDP
(1)								
(2)								
...								
					TOTAL			
⁽¹⁾ Please name whether State Government, Local Government and/or Social Security Funds.								
⁽²⁾ Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the Euro Area								

6. Indications on how the measures in the DBP address CSR and the targets set by the Union's Strategy for growth and jobs.

Table 6.a. CSR recommendations

CSR number	List of measures	Description of direct relevance

Table 6.b Targets set by the Union's Strategy for growth and jobs

National 2020 headline targets	List of measures	Description of direct relevance to address
National 2020 employment target [...]		
National 2020 R&D target [...]		
GHG emission reduction target [...]		
Renewable energy target [...]		
National energy efficiency target [...]		
National early school leaving target [...]		
National target for tertiary education [...]		
National poverty target [...]		

7. Divergence from latest SP

Table 7. Divergence from latest SP

	ESA Code	Year t-1	Year t-1	Year t	Year t+1
		% GDP	% GDP	% GDP	% GDP
Target general government net lending/net borrowing	B.9				
Stability Programme					
Draft Budgetary Plan					
Difference					
General government net lending projection at unchanged policies	B.9				
Stability Programme					
Draft Budgetary Plan					
Difference ⁽¹⁾					
⁽¹⁾ This difference can refer to both deviations stemming from changes in the macroeconomic scenario and those stemming from the effect of policy measures taken between the submission of the SP and the submission of the DBP. Differences are expected due to the fact that the no- policy change scenario is defined differently for the purpose of this Code of Conduct with respect to the Stability Programme.					

8. Distributional impact of the main expenditure and revenue measures.

In accordance with Article 6(3)(d) of Regulation 473/2013, Member States should provide, to the extent possible, qualitative information and quantitative estimations on the distributional effects of budgetary measures, presented as best fits each Member State's specific measures and available analytical frameworks.

Quantifying the distributional impact of budgetary measures is a challenging task. For this reason no standardized table on this aspect of DBPs is included in this Annex. Quantitative estimations of the distributional impact of budgetary measures could be assessed by computing the expected changes in the Gini index, the S80/S20 indicator or the poverty rates as a result of them. This methodology could represent one possible way forward among others.

ANNEX TO THE DBP

**METHODOLOGY, ECONOMIC MODELS AND ASSUMPTIONS UNDERPINNING
THE INFORMATION CONTAINED IN THE DBP**

Table 8. Methodological aspects

Estimation Technique	Step of the budgetary process for which it was used ⁽¹⁾	Relevant features of the model/ technique used	Assumptions
Tool n.1			
Tool n.2			
...			
⁽¹⁾ Modeling tools may have been used: <ul style="list-style-type: none"> - when doing macro forecasts - when estimating expenditure and revenue under the no policy change scenario - when estimating the distributional impact of the main expenditure and revenue measures - when quantifying the expenditure and revenue measures to be included in the draft budget - when estimating how reforms included in the DBP address targets set by the Union's Strategy for growth and jobs and CSRs. 			

ANNEX II**CONSIDERATIONS FOR THE NATIONAL ARRANGEMENTS FRAMING THE INVOLVEMENT OF INDEPENDENT BODIES IN THE PRODUCTION OR ENDORSEMENT OF MACROECONOMIC FORECASTS**

Fully acknowledging that Member States are free to design their own rules and procedures taking into account the specific national legal frameworks, administrative practices and stakeholders involved, some considerations may be helpful in providing clearer and more effective national arrangements concerning the involvement of independent bodies in the production or endorsement of macroeconomic forecasts:

- In the light of the technical features of the forecasting process and the involvement of several institutions and bodies, Member States could opt for the preparation of an all-encompassing 'Code of Practice' (CoP) gathering all the relevant legal provisions and procedural elements framing the production and/or endorsement of independent macroeconomic forecasts.
- The national procedures/CoP should provide an important element fostering accountability and transparency by defining the different tasks allocated to every actor in the forecasting exercise and the milestones to be met within the annual budgetary cycle. They should also set out practical steps leading to the production and/or endorsement of forecasts and the principles of cooperation between the relevant institutional stakeholders.
- The arrangements should ensure inter alia that the independent macroeconomic forecasts are timely provided to support the relevant stages of the national budgetary process.
- For transparency purposes, it would be highly recommended to make the national procedures/CoP public.

With a view to supporting the Member States in developing the relevant procedures applicable in the case of assigning the production of macroeconomic forecasts to independent bodies, some more specific suggestions are provided below:

- The forecasting procedure of the independent body or the specific section of the CoP could include a template for an annual schedule. The annual schedule would take into account the constraints of the domestic budget cycle and provide milestones governing the preparation of the forecasts. To be agreed between the Ministry of Finance and the independent body, the schedule would be released publicly at the beginning of every year by the Ministry of Finance. In particular, the delivery date(s) of the forecasts to the authorities would be specified.

As regards the case of independent bodies being mandated to endorse the macroeconomic forecasts, the following specific suggestions may also be considered when developing the applicable procedures:

- The national legislation and/or procedures could specify deadlines for the producer of the forecasts to submit them to the independent body. A subsequent deadline could be fixed for the independent body to deliver its decision, balancing the need for providing a reasonable amount of time for the independent body to shape its informed opinion and the constraints implied by the annual budget cycle;
- If, following an initial non-endorsement by the independent body and the subsequent preparation of a revised forecast, the independent body issues another negative decision, this should be made public, along with supporting explanations.



REGULATION (EU) No 1174/2011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**of 16 November 2011****on enforcement measures to correct excessive macroeconomic imbalances in the euro area**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136, in combination with Article 121(6) thereof,

Having regard to the proposal from the European Commission,

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

Having regard to the opinion of the European Central Bank⁽¹⁾,

Having regard to the opinion of the European Economic and Social Committee⁽²⁾,

Acting in accordance with the ordinary legislative procedure⁽³⁾,

Whereas:

- (1) The improved economic governance framework should rely on several interlinked and coherent policies for sustainable growth and jobs, in particular a Union strategy for growth and jobs, with particular focus upon developing and strengthening the internal market, fostering international trade and competitiveness, a European Semester for strengthened coordination of economic and budgetary policies, an effective framework for preventing and correcting excessive government deficits (the Stability and Growth Pact (SGP)), a robust framework for preventing and correcting macroeconomic imbalances, minimum requirements for national budgetary frameworks, and enhanced financial market regulation and supervision, including macroprudential supervision by the European Systemic Risk Board.
- (2) Reliable statistical data is the basis for the surveillance of macroeconomic imbalances. In order to guarantee sound and independent statistics, Member States should ensure the professional independence of national statistical authorities, consistent with the European statistics code of practice as laid down in Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics. In addition, the availability of sound fiscal data is also relevant for the surveillance of macroeconomic imbalances. This requirement should be guaranteed by the rules provided in this regard by Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area⁽⁴⁾, in particular its Article 8.
- (3) The coordination of the economic policies of the Member States within the Union should be developed in the context of the broad economic policy guidelines and the employment guidelines, as provided for by the Treaty on the Functioning of the European Union (TFEU), and should entail compliance with the guiding principles of stable prices, sound and sustainable public finances and monetary conditions and a sustainable balance of payments.
- (4) Experience gained and mistakes made during the first decade of the economic and monetary union show a need for improved economic governance in the Union, which should be built on stronger national ownership of commonly agreed rules and policies and on a more robust framework at the level of the Union for the surveillance of national economic policies.
- (5) Achieving and maintaining a dynamic internal market should be considered an element of the proper and smooth functioning of the economic and monetary union.
- (6) In particular, surveillance of the economic policies of the Member States should be broadened beyond budgetary surveillance to include a more detailed and formal framework to prevent excessive macroeconomic imbalances and to help the Member States affected to establish corrective plans before divergences become entrenched and before economic and financial developments take a durable turn in an excessively unfavourable direction. Such broadening of the surveillance of economic policies should take place in parallel with a deepening of fiscal surveillance.

(1) OJ C 150, 20.5.2011, p. 1.

(2) OJ C 218, 23.7.2011, p. 53.

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

(4) See page 1 of this Official Journal.

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

HAVE ADOPTED THIS REGULATION:

(1) See page 25 of this Official Journal.

Article 1

Subject matter and scope

1. This Regulation lays down a system of sanctions for the effective correction of excessive macroeconomic imbalances in the euro area.
2. This Regulation shall apply to Member States whose currency is the euro.

Article 2

Definitions

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

In addition, the following definition shall apply:

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

Article 3

Sanctions

1. An interest-bearing deposit shall be imposed by a Council decision, acting on a recommendation from the Commission, if a Council decision establishing non-compliance is adopted in accordance with Article 10(4) of Regulation (EU) No 1176/2011, where the Council concludes that the Member State concerned has not taken the corrective action recommended by the Council.
2. An annual fine shall be imposed by a Council decision, acting on a recommendation by the Commission, where:
 - (a) two successive Council recommendations in the same imbalance procedure are adopted in accordance with Article 8(3) of Regulation (EU) No 1176/2011 and the Council considers that the Member State has submitted an insufficient corrective action plan; or
 - (b) two successive Council decisions in the same imbalance procedure are adopted establishing non-compliance in accordance with Article 10(4) of Regulation (EU) No 1176/2011. In this case, the annual fine shall be imposed by means of converting the interest-bearing deposit into an annual fine.
3. The decisions referred to in paragraphs 1 and 2 shall be deemed adopted by the Council unless it decides, by qualified majority, to reject the recommendation within 10 days of its adoption by the Commission. The Council may decide, by qualified majority, to amend the recommendation.
4. The Commission's recommendation for a Council decision shall be issued within 20 days of the conditions referred to in paragraphs 1 and 2 being met.
5. The interest-bearing deposit or the annual fine recommended by the Commission shall be 0,1 % of the GDP in the preceding year of the Member State concerned.
6. By derogation from paragraph 5, the Commission may, on grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned addressed to the Commission within 10 days of the conditions referred to in paragraphs 1 and 2 being met, propose to reduce or cancel the interest-bearing deposit or the annual fine.
7. If a Member State has constituted an interest-bearing deposit or has paid an annual fine for a given calendar year and the Council thereafter concludes, in accordance with Article 10(1) of Regulation (EU) No 1176/2011 that the Member State has taken the recommended corrective action in the course of that year, the deposit paid for that year together with the accrued interest or the fine paid for that year shall be returned to the Member State pro rata temporis.

Article 4

Allocation of the fines

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

(1) OJ L 209, 2.8.1997, p. 6.

*Article 5***Voting in the Council**

1. For the measures referred to in Article 3, only members of the Council representing Member States whose currency is the euro shall vote, and the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.
2. A qualified majority of the members of the Council referred to in paragraph 1 shall be defined in accordance with point (b) of Article 238(3) TFEU.

*Article 6***Economic dialogue**

In order to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, the competent committee of the European Parliament may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss decisions taken pursuant to Article 3.

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

*Article 7***Review**

1. By 14 December 2014 and every 5 years thereafter, the Commission shall publish a report on the application of this Regulation.
That report shall evaluate, inter alia:
 - (a) the effectiveness of this Regulation;
 - (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU.
2. Where appropriate, that report shall be accompanied by a proposal for amendments to this Regulation.
3. The Commission shall send the report and any accompanying proposals to the European Parliament and to the Council.

*Article 8***Entry into force**

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

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

Done at Strasbourg, 16 November 2011.

For the European Parliament

The President

J. BUZEK

For the Council

The President

W. SZCZUKA



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

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(6) thereof,

Having regard to the proposal from the European Commission,

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

Having regard to the opinion of the European Central Bank⁽¹⁾,

Having regard to the opinion of the European Economic and Social Committee⁽²⁾,

Acting in accordance with the ordinary legislative procedure⁽³⁾,

Whereas:

- (1) The coordination of the economic policies of the Member States within the Union should be developed in the context of the broad economic policy guidelines and the employment guidelines, as provided for by the Treaty on the Functioning of the European Union (TFEU), and should entail compliance with the guiding principles of stable prices, sound and sustainable public finances and monetary conditions and a sustainable balance of payments.
- (2) There is a need to draw lessons from the first decade of functioning of the economic and monetary union and, in particular, for improved economic governance in the Union built on stronger national ownership.
- (3) Achieving and maintaining a dynamic internal market should be considered an element of the proper and smooth functioning of the economic and monetary union.
- (4) The improved economic governance framework should rely on several interlinked and coherent policies for sustainable growth and jobs, in particular a Union strategy for growth and jobs, with particular focus on developing and strengthening the internal market, fostering international trade and competitiveness, a European Semester for strengthened coordination of economic and budgetary policies (European Semester), an effective framework for preventing and correcting excessive government deficits (the Stability and Growth Pact (SGP)), a robust framework for preventing and correcting macroeconomic imbalances, minimum requirements for national budgetary frameworks, and enhanced financial market regulation and supervision, including macroprudential supervision by the European Systemic Risk Board (ESRB).
- (5) The strengthening of economic governance should include a closer and more timely involvement of the European Parliament and the national parliaments. While recognising that the counterparts of the European Parliament in the framework of the dialogue are the relevant institutions of the Union and their representatives, the competent committee of the European Parliament may offer an opportunity to participate in an exchange of views to a Member State which is the subject of a Council recommendation or decision in accordance with Article 7(2), Article 8(2) or Article 10(4) of this Regulation. The Member State's participation in such an exchange of views is voluntary.
- (6) The Commission should have a stronger role in the enhanced surveillance procedure as regards assessments that are specific to each Member State, monitoring, on-site missions, recommendations and warnings.
- (7) In particular, surveillance of the economic policies of the Member States should be broadened beyond budgetary surveillance to include a more detailed and formal framework to prevent excessive macroeconomic imbalances and to help the Member States affected to establish corrective plans before divergences become entrenched. Such broadening of the surveillance of economic policies should take place in parallel with a deepening of fiscal surveillance.
- (8) To help correct such excessive macroeconomic imbalances, it is necessary to lay down a detailed procedure in legislation.

(1) OJ C 150, 20.5.2011, p. 1.

(2) OJ C 218, 23.7.2011, p. 53.

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

- (9) It is appropriate to supplement the multilateral surveillance procedure referred to in paragraphs 3 and 4 of Article 121 TFEU with specific rules for the detection of macroeconomic imbalances, as well as the prevention and correction of excessive macroeconomic imbalances within the Union. It is essential that the procedure should be aligned with the annual multilateral surveillance cycle.
- (10) That procedure should establish an alert mechanism for the early detection of emerging macroeconomic imbalances. It should be based on the use of an indicative and transparent 'scoreboard' comprising indicative thresholds, combined with economic judgement. This judgement should take into account, inter alia, nominal and real convergence inside and outside the euro area.
- (11) In order to function efficiently as an element of the alert mechanism, the scoreboard should consist of a limited set of economic, financial and structural indicators relevant to the detection of macroeconomic imbalances, with corresponding indicative thresholds. The indicators and thresholds should be adjusted when necessary, in order to adapt to the changing nature of macroeconomic imbalances due, inter alia, to evolving threats to macroeconomic stability, and in order to take into account the enhanced availability of relevant statistics. The indicators should not be understood as goals for economic policy in themselves but as tools to take account of the evolving nature of the macroeconomic imbalances within the Union.
- (12) The Commission should closely cooperate with the European Parliament and the Council when drawing up the scoreboard and the set of macroeconomic and macrofinancial indicators for Member States. The Commission should present suggestions for comments to the competent committees of the European Parliament and of the Council on plans to establish and adjust the indicators and thresholds. The Commission should inform the European Parliament and the Council of any changes to the indicators and thresholds and explain its reasons for suggesting such changes.
- (13) In developing the scoreboard, due consideration should also be given to catering for heterogeneous economic circumstances, including catching-up effects.
- (14) The crossing of one or more indicative thresholds need not necessarily imply that macroeconomic imbalances are emerging, as economic policy-making should take into account interlinks between macroeconomic variables. Conclusions should not be drawn from an automatic reading of the scoreboard: economic judgement should ensure that all pieces of information, whether from the scoreboard or not, are put in perspective and become part of a comprehensive analysis.
- (15) Based on the multilateral surveillance procedure and the alert mechanism, or in the event of unexpected, significant economic developments that require urgent analysis for the purpose of this Regulation, the Commission should identify the Member States to be subject to an in-depth review. The in-depth review should be undertaken without the presumption that an imbalance exists and should encompass a thorough analysis of sources of imbalances in the Member State under review, taking due account of country-specific economic conditions and circumstances and of a wider set of analytical tools, indicators and qualitative information of country-specific nature. When the Commission is undertaking the in-depth review, the Member State should cooperate to ensure that the information available to the Commission is as complete and correct as possible. Furthermore, the Commission should give due consideration to any other information which, in the opinion of the Member State concerned is relevant, and which the Member State has put forward to the Council and to the Commission.
- (16) The in-depth review should be discussed within the Council, and within the Eurogroup for the Member States whose currency is the euro. The in-depth review should take into account, where appropriate, Council recommendations or invitations addressed to Member States under review adopted in accordance with Articles 121, 126 and 148 TFEU and under Articles 6, 7, 8 and 10 of this Regulation, and the policy intentions of the Member State under review, as reflected in its national reform programmes, as well as international best practices as regards indicators and methodologies. When the Commission decides to undertake an in-depth review in the event of significant and unexpected economic developments that require urgent analysis, it should inform the Member States concerned.
- (17) When assessing macroeconomic imbalances, account should be taken of their severity and their potential negative economic and financial spill-over effects which aggravate the vulnerability of the Union economy and are a threat to the smooth functioning of the economic and monetary union. Actions to address macroeconomic imbalances and divergences in competitiveness are required in all Member States, particularly in the euro area. However, the nature, importance and urgency of the policy challenges may differ significantly depending on the Member States concerned. Given vulnerabilities and the magnitude of the adjustment required, the need for policy action is particularly pressing in Member States showing persistently large current-account deficits and competitiveness losses. Furthermore, in Member States that accumulate large current-account surpluses, policies should aim to identify and implement measures that help strengthen their domestic demand and growth potential.
- (18) The economic adjustment capacity and the track record of the Member State concerned as regards compliance with earlier recommendations issued under this Regulation and other recommendations issued under Article 121 TFEU as part of multilateral surveillance, in particular the broad guidelines for the economic policies of the Member States and of the Union, should also be considered.

- (19) A procedure to monitor and correct adverse macroeconomic imbalances, with preventive and corrective elements, will require enhanced surveillance tools based on those used in the multilateral surveillance procedure. This could include enhanced surveillance missions to Member States by the Commission, in liaison with the European Central Bank (ECB) for Member States whose currency is the euro or Member States participating in the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of Economic and Monetary Union⁽¹⁾ (ERM II), and additional reporting by Member States in case of severe imbalances, including imbalances that jeopardise the proper functioning of the economic and monetary union. Social partners and other national stakeholders should, where appropriate, be involved in the dialogue.
- (20) If macroeconomic imbalances are identified, recommendations, where appropriate involving the relevant committees, should be addressed to the Member State concerned to provide guidance on appropriate policy responses. The policy response of the Member State concerned should be timely and should use all available policy instruments under the control of public authorities. Where appropriate, relevant national stakeholders, including social partners, should also be involved in accordance with the TFEU and national legal and political arrangements. The policy response should be tailored to the specific environment and circumstances of the Member State concerned and should cover the main economic policy areas, potentially including fiscal and wage policies, labour markets, product and services markets and financial sector regulation. The commitments under ERM II should be taken into account.
- (21) The warnings and recommendations by the ESRB to Member States or to the Union address risks of a macrofinancial nature. These should also warrant appropriate follow-up action by the Commission in the context of the surveillance of macroeconomic imbalances, where appropriate. The independence and confidentiality of the ESRB should be strictly observed.
- (22) If severe macroeconomic imbalances are identified, including imbalances that jeopardise the proper functioning of the economic and monetary union, an excessive imbalance procedure should be initiated that may include issuing recommendations to the Member State, enhanced surveillance and monitoring requirements and, in respect of Member States whose currency is the euro, the possibility of enforcement in accordance with Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area⁽²⁾ in the event of sustained failure to take corrective action.
- (23) A Member State subject to the excessive imbalance procedure should establish a corrective action plan setting out details of its policies designed to implement the Council's recommendations. The corrective action plan should include a timetable for implementing the measures envisaged. It should be endorsed by a recommendation of the Council. That recommendation should be transmitted to the European Parliament.
- (24) The power to adopt individual decisions establishing non-compliance with the recommendations adopted by the Council within the framework of the corrective action plan should be conferred on the Council. As part of the coordination of the economic policies of the Member States conducted within the Council, as provided for in Article 121(1) TFEU, those individual decisions are an integral follow-up to the recommendations adopted by the Council on the basis of Article 121(4) TFEU in the context of the corrective action plan.
- (25) In applying this Regulation, the Council and the Commission should fully respect the role of national parliaments and social partners, as well as differences in national systems, such as the systems for wage formation.
- (26) If the Council considers that a Member State is no longer affected by an excessive macroeconomic imbalance, the excessive imbalance procedure should be closed following the Council's abrogation, on a recommendation from the Commission, of its relevant recommendations. That abrogation should be based on a comprehensive analysis by the Commission showing that the Member State has acted in line with the relevant Council recommendations and that the underlying causes and associated risks identified in the Council recommendation opening the excessive imbalance procedure no longer exist, taking account, inter alia, of macroeconomic developments, prospects and spill-over effects. The closure of the excessive imbalance procedure should be made public.
- (27) Since the objective of this Regulation, namely the establishment of an effective framework for the detection of macroeconomic imbalances and the prevention and correction of excessive macroeconomic imbalances, cannot be sufficiently achieved by the Member States because of the deep trade and financial interlinks between Member States and the spill-over effects of national economic policies on the Union and the euro area as a whole, and can therefore be better achieved at the level of the Union, the Union may adopt measures in accordance with the principle of subsidiarity, as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary to achieve that objective,

(1) OJ C 73, 25.3.2006, p. 21.

(2) See page 8 of this Official Journal.

HAVE ADOPTED THIS REGULATION:

CHAPTER I

SUBJECT MATTER AND DEFINITIONS

Article 1

Subject matter

1. This Regulation sets out detailed rules for the detection of macroeconomic imbalances, as well as the prevention and correction of excessive macroeconomic imbalances within the Union.
2. This Regulation shall be applied in the context of the European Semester as set out in Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.
3. The application of this Regulation shall fully observe Article 152 TFEU, and the recommendations issued under this Regulation shall respect national practices and institutions for wage formation. This Regulation takes into account Article 28 of the Charter of Fundamental Rights of the European Union, and accordingly does not affect the right to negotiate, conclude or enforce collective agreements or to take collective action in accordance with national law and practices.

Article 2

Definitions

For the purposes of this Regulation:

- (1) 'imbalances' means any trend giving rise to macroeconomic developments which are adversely affecting, or have the potential adversely to affect, the proper functioning of the economy of a Member State or of the economic and monetary union, or of the Union as a whole;
- (2) 'excessive imbalances' means severe imbalances, including imbalances that jeopardise or risks jeopardising the proper functioning of the economic and monetary union.

CHAPTER II

DETECTION OF IMBALANCES

Article 3

Alert mechanism

1. An alert mechanism shall be established to facilitate the early identification and the monitoring of imbalances. The Commission shall prepare an annual report containing a qualitative economic and financial assessment based on a scoreboard with a set of indicators the values of which are compared to their indicative thresholds, as provided for in Article 4. The annual report, including the values of the indicators of the scoreboard, shall be made public.
2. The Commission's annual report shall contain an economic and financial assessment putting the movement of the indicators into perspective, drawing, if necessary, on other relevant economic and financial indicators when assessing the evolution of imbalances. Conclusions shall not be drawn from a mechanical reading of the scoreboard indicators. The assessment shall take into account the evolution of imbalances in the Union and in the euro area. The report shall also indicate whether the crossing of thresholds in one or more Member States signifies the possible emergence of imbalances. The assessment of Member States showing large current-account deficits may differ from that of Member States that accumulate large current-account surpluses.
3. The annual report shall identify Member States that the Commission considers may be affected by, or may be at risk of being affected by, imbalances.
4. The Commission shall transmit the annual report to the European Parliament, the Council and the European Economic and Social Committee in a timely manner.
5. As part of the multilateral surveillance in accordance with Article 121(3) TFEU, the Council shall discuss and carry out an overall assessment of the Commission's annual report. The Eurogroup shall discuss the report as far as it relates to Member States whose currency is the euro.

Article 4

Scoreboard

1. The scoreboard comprising the set of indicators, shall be used as a tool to facilitate early identification and monitoring of imbalances.
2. The scoreboard shall comprise a small number of relevant, practical, simple, measurable and available macroeconomic and macrofinancial indicators for Member States. It shall allow for the early identification of macroeconomic imbalances that emerge in the short-term and imbalances that arise due to structural and long-term trends.
3. The scoreboard shall, inter alia, encompass indicators which are useful in the early identification of:
 - (a) internal imbalances, including those that can arise from public and private indebtedness; financial and asset market developments, including housing; the evolution of private sector credit flow; and the evolution of unemployment;
 - (b) external imbalances, including those that can arise from the evolution of current account and net investment positions of Member States; real effective exchange rates; export market shares; changes in price and cost developments; and non-price competitiveness, taking into account the different components of productivity.
4. In undertaking its economic reading of the scoreboard in the alert mechanism, the Commission shall pay close attention to developments in the real economy, including economic growth, employment and unemployment performance, nominal and real convergence inside and outside the euro area, productivity developments and its relevant drivers such as research and development and foreign and domestic investment, as well as sectoral developments including energy, which affect GDP and current account performance.

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

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

5. The work of the ESRB shall be taken into due consideration in the drafting of indicators relevant to financial market stability. The Commission shall invite the ESRB to provide its views regarding draft indicators, relevant to financial market stability.
6. The Commission shall make the set of indicators and the thresholds in the scoreboard public.
7. The Commission shall assess on a regular basis the appropriateness of the scoreboard, including the composition of indicators, the thresholds set and the methodology used, and it shall adjust or modify them where necessary. The Commission shall make changes in the underlying methodology and composition of the scoreboard and the associated thresholds public.
8. The Commission shall update the values for the indicators on the scoreboard at least on an annual basis.

Article 5

In-depth review

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

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

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

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

2. The Commission's in-depth review shall include an evaluation of whether the Member State in question is affected by imbalances, and of whether these imbalances constitute excessive imbalances. It shall examine the origin of the detected imbalances against the background of prevailing economic circumstances, including the deep trade and

financial interlinks between Member States and the spill-over effects of national economic policies. The in-depth review shall analyse relevant developments related to the Union strategy for growth and jobs. It shall also consider the relevance of economic developments in the Union and the euro area as a whole. It shall, in particular, take into account:

- (a) where appropriate, Council recommendations or invitations addressed to Member States under review adopted in accordance with Articles 121, 126 and 148 TFEU and under Articles 6, 7, 8 and 10 of this Regulation;
 - (b) the policy intentions of the Member State under review, as reflected in its national reform programmes and, where appropriate, in its stability or convergence programme;
 - (c) any warnings or recommendations from the ESRB on systemic risks addressed to, or being relevant to, the Member State under review. The confidentiality regime of the ESRB shall be observed.
3. The Commission shall inform the European Parliament and the Council of the results of the in-depth review and shall make them public.

Article 6

Preventive action

1. If, on the basis of the in-depth review referred to in Article 5, the Commission considers that a Member State is experiencing imbalances, it shall inform the European Parliament, the Council and the Eurogroup accordingly. The Council, on a recommendation from the Commission, may address the necessary recommendations to the Member State concerned, in accordance with the procedure set out in Article 121(2) TFEU.
2. The Council shall inform the European Parliament of the recommendation and shall make it public.
3. The recommendations of the Council and of the Commission shall fully observe Article 152 TFEU and shall take into account Article 28 of the Charter of Fundamental Rights of the European Union.
4. The Council shall review its recommendation annually in the context of the European Semester and may, if appropriate, adjust it in accordance with paragraph 1.

CHAPTER III

EXCESSIVE IMBALANCE PROCEDURE

Article 7

Opening of the excessive imbalance procedure

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

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

2. The Council, on a recommendation from the Commission, may, in accordance with Article 121(4) TFEU, adopt a recommendation establishing the existence of an excessive imbalance and recommending that the Member State concerned take corrective action.

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

Article 8

Corrective action plan

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

taking them, and shall establish a timetable for surveillance, paying due attention to the transmission channels and recognising that there may be long lags between the adoption of the corrective action and the actual resolution of imbalances.

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

Article 9

Monitoring of corrective action

1. The Commission shall monitor implementation of the Council's recommendation adopted under Article 8(2). For that purpose, the Member State shall present to the Council and the Commission at regular intervals progress reports, the frequency of which shall be established by the Council in the recommendation referred to in Article 8(2).
2. The Council shall make Member States' progress reports public.
3. The Commission may carry out enhanced surveillance missions to the Member State concerned, in order to monitor the implementation of the corrective action plan, in liaison with the ECB when those missions concern Member States whose currency is the euro or Member States participating in ERM II. The Commission shall, where appropriate, involve social partners and other national stakeholders in a dialogue during those missions.
4. In the event of relevant major changes in economic circumstances, the Council, on a recommendation from the Commission, may amend the recommendations adopted under Article 8(2) in accordance with the procedure laid down in that Article. Where appropriate, the Council shall invite the Member State concerned to submit a revised corrective action plan, and shall assess that revised corrective action plan in accordance with the procedure laid down in Article 8.

Article 10

Assessment of corrective action

1. On the basis of a Commission report, the Council shall assess whether the Member State concerned has taken the recommended corrective action in accordance with the Council's recommendation issued under Article 8(2).
2. The Commission shall make its report public.
3. The Council shall make its assessment by the deadline set by the Council in its recommendations adopted in accordance with Article 8(2).
4. Where it considers that the Member State has not taken the recommended corrective action, the Council, on a recommendation from the Commission, shall adopt a decision establishing non-compliance, together with a recommendation setting new deadlines for taking corrective action. In this case, the Council shall inform the European Council, and shall make public the conclusions of the surveillance missions referred to in Article 9(3).

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

5. Where the Council, on the basis of the Commission's report referred to in paragraph 1, considers that the Member State has taken the corrective action recommended in accordance with Article 8(2), the excessive imbalance procedure shall be considered to be on track and shall be held in abeyance. Nevertheless, monitoring shall continue in accordance with the timetable set out in the recommendation under Article 8(2). The Council shall make public its reasons for holding the procedure in a position of abeyance and recognising the corrective policy actions taken by the Member State concerned.

Article 11

Closing of the excessive imbalance procedure

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

*Article 12***Voting within the Council**

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

CHAPTER IV**FINAL PROVISIONS***Article 13***Surveillance missions**

1. The Commission shall ensure a permanent dialogue with the authorities of the Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular, carry out missions for the purpose of assessing the economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.
2. The Commission may undertake enhanced surveillance missions for Member States which are the subject of a recommendation as to the existence of an excessive imbalance position under Article 7(2) for the purposes of on-site monitoring.
3. Where the Member State concerned is a Member State whose currency is the euro or is participating in ERM II, the Commission may, if appropriate, invite representatives of the European Central Bank to participate in surveillance missions.
4. The Commission shall report to the Council on the outcome of the missions referred to in paragraph 2 and may, if appropriate, decide to make its findings public.
5. When organising the missions referred to in paragraph 2, the Commission shall transmit its provisional findings to the Member State concerned for comments.

*Article 14***Economic Dialogue**

1. In order to enhance the dialogue between the institutions of the Union, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, the competent committee of the European Parliament may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss:
 - (a) information provided by the Council on the broad guidelines of economic policy pursuant to Article 121(2) TFEU;
 - (b) general guidance to Member States issued by the Commission at the beginning of the annual cycle of surveillance;
 - (c) the conclusions of the European Council concerning orientations for economic policies in the context of the European Semester;
 - (d) the results of multilateral surveillance carried out under this Regulation;
 - (e) the conclusions of the European Council concerning the orientations for, and results of, multilateral surveillance;
 - (f) a review of the conduct of the multilateral surveillance at the end of the European Semester;
 - (g) the recommendations taken pursuant to Article 7(2), Article 8(2) and Article 10(4) of this Regulation.
2. The competent committee of the European Parliament may offer the opportunity to participate in an exchange of views to the Member State which is the subject of a Council recommendation or decision under Article 7(2), Article 8(2) or Article 10(4).
3. The Council and the Commission shall regularly inform the European Parliament of the results of the application of this Regulation.

*Article 15***Annual Reporting**

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

*Article 16***Review**

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

Those reports shall evaluate, inter alia:

- (a) the effectiveness of this Regulation;
- (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU.

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

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

*Article 17***Entry into force**

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

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Strasbourg, 16 November 2011.

For the European Parliament

The President

J. BUZEK

For the Council

The President

W. SZCZUKA



COUNCIL REGULATION (EU) No 407/2010⁽¹⁾**of 11 May 2010****establishing a European financial stabilisation mechanism**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union (TFEU), and in particular Article 122(2) thereof,

Having regard to the proposal from the European Commission,

Whereas:

- (1) Article 122(2) of the Treaty foresees the possibility of granting Union financial assistance to a Member State in difficulties or seriously threatened with severe difficulties caused by exceptional occurrences beyond its control.
- (2) Such difficulties may be caused by a serious deterioration in the international economic and financial environment.
- (3) The unprecedented global financial crisis and economic downturn that have hit the world over the last two years have seriously damaged economic growth and financial stability and provoked a strong deterioration in the deficit and debt positions of the Member States.
- (4) The deepening of the financial crisis has led to a severe deterioration of the borrowing conditions of several Member States beyond what can be explained by economic fundamentals. At this point, this situation, if not addressed as a matter of urgency, could present a serious threat to the financial stability of the European Union as a whole.
- (5) In order to address this exceptional situation beyond the control of the Member States, it appears necessary to put in place immediately a Union stabilisation mechanism to preserve financial stability in the European Union. Such a mechanism should allow the Union to respond in a coordinated, rapid and effective manner to acute difficulties in a particular Member State. Its activation will be in the context of a joint EU/International Monetary Fund (IMF) support.
- (6) Given their particular financial implications, the decisions to grant Union financial assistance pursuant to this Regulation require the exercise of implementing powers, which should be conferred on the Council.
- (7) Strong economic policy conditions should be imposed in case of activation of this mechanism with a view to preserving the sustainability of the public finances of the beneficiary Member State and restoring its capacity to finance itself on the financial markets.
- (8) The Commission should regularly review whether the exceptional circumstances threatening the financial stability of the European Union as a whole still exist.
- (9) The existing facility providing medium-term financial assistance for non-euro-area Member States, as established by Council Regulation (EC) No 332/2002⁽²⁾, should remain in place,

HAS ADOPTED THIS REGULATION:

*Article 1***Aim and scope**

With a view to preserving the financial stability of the European Union, this Regulation establishes the conditions and procedures under which Union financial assistance may be granted to a Member State which is experiencing, or is seriously threatened with, a severe economic or financial disturbance caused by exceptional occurrences beyond its control, taking into account the possible application of the existing facility providing medium-term financial assistance for non-euro-area Member States' balances of payments, as established by Regulation (EC) No 332/2002.

(1) See also in Annex a reference to the Council Regulation (EC) No 332/2002 of 18 February 2002.

(2) Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments (OJ L 53, 23.2.2002, p. 1).

*Article 2***Form of the Union financial assistance**

1. Union financial assistance for the purposes of this Regulation shall take the form of a loan or of a credit line granted to the Member State concerned.

To this end, in accordance with a Council decision pursuant to Article 3, the Commission shall be empowered on behalf of the European Union to contract borrowings on the capital markets or with financial institutions.

2. The outstanding amount of loans or credit lines to be granted to Member States under this Regulation shall be limited to the margin available under the own resources ceiling for payment appropriations.

*Article 3***Procedure**

1. The Member State seeking Union financial assistance shall discuss with the Commission, in liaison with the European Central Bank (ECB), an assessment of its financial needs and submit a draft economic and financial adjustment programme to the Commission and the Economic and Financial Committee.
2. Union financial assistance shall be granted by a decision adopted by the Council, acting by a qualified majority on a proposal from the Commission.
3. The decision to grant a loan shall contain:
 - (a) the amount, the average maturity, the pricing formula, the maximum number of instalments, the availability period of the Union financial assistance and the other detailed rules needed for the implementation of the assistance;
 - (b) the general economic policy conditions which are attached to the Union financial assistance with a view to re-establishing a sound economic or financial situation in the beneficiary Member State and to restoring its capacity to finance itself on the financial markets; these conditions will be defined by the Commission, in consultation with the ECB; and
 - (c) an approval of the adjustment programme prepared by the beneficiary Member State to meet the economic conditions attached to the Union financial assistance.
4. The decision to grant a credit line shall contain:
 - (a) the amount, the fee for the availability of the credit line, the pricing formula applicable for the release of funds and the availability period of the Union financial assistance and the other detailed rules needed for the implementation of the assistance;
 - (b) the general economic policy conditions which are attached to the Union financial assistance with a view to re-establishing a sound economic or financial situation in the beneficiary Member State; these conditions will be defined by the Commission, in consultation with the ECB; and
 - (c) an approval of the adjustment programme prepared by the beneficiary Member State to meet the economic conditions attached to the Union financial assistance.
5. The Commission and the beneficiary Member State shall conclude a Memorandum of Understanding detailing the general economic policy conditions laid down by the Council. The Commission shall communicate the Memorandum of Understanding to the European Parliament and to the Council.
6. The Commission shall re-examine, in consultation with the ECB, the general economic policy conditions referred to in paragraphs 3(b) and 4(b) at least every six months and discuss with the beneficiary Member State the changes that may be needed to its adjustment programme.
7. The Council, acting by a qualified majority on a proposal from the Commission, shall decide on any adjustments to be made to the initial general economic policy conditions and shall approve the revised adjustment programme as prepared by the beneficiary Member State.
8. If a financing outside the Union subject to economic policy conditions is envisaged, notably from the IMF, the Member State concerned shall first consult the Commission. The Commission shall examine the possibilities available under the Union financial assistance facility and the compatibility of the envisaged economic policy conditions with the commitments taken by the Member State concerned for the implementation of the Council recommendations and Council decisions adopted on the basis of Article 121, Article 126 and Article 136 of the TFEU. The Commission shall inform the Economic and Financial Committee.

*Article 4***Disbursement of the loan**

1. The loan shall, as a rule, be disbursed in instalments.
2. The Commission shall verify at regular intervals whether the economic policy of the beneficiary Member State accords with its adjustment programme and with the conditions laid down by the Council pursuant to Article 3(3) (b). To this end, that Member State shall provide all the necessary information to the Commission and give the latter its full cooperation.
3. On the basis of the findings of such verification, the Commission shall decide on the release of further instalments.

*Article 5***Release of funds**

1. The beneficiary Member State shall inform the Commission in advance of its intention to draw down funds from its credit line. Detailed rules shall be laid down in the decision referred to in Article 3(4).
2. The Commission shall verify at regular intervals whether the economic policy of the beneficiary Member State accords with its adjustment programme and with the conditions laid down by the Council pursuant to Article 3(4) (b). To this end, that Member State shall provide all the necessary information to the Commission and give the latter its full cooperation.
3. On the basis of the findings of such verification, the Commission shall decide on the release of the funds.

*Article 6***Borrowing and lending operations**

1. The borrowing and lending operations referred to in Article 2 shall be carried out in euro.
2. The characteristics of the successive instalments released by the Union under the financial assistance facility shall be negotiated between the beneficiary Member State and the Commission.
3. Once the decision on a loan has been made by the Council, the Commission shall be authorised to borrow on the capital markets or from financial institutions at the most appropriate time in between planned disbursements so as to optimise the cost of funding and preserve its reputation as the Union's issuer in the markets. Funds raised but not yet disbursed shall be kept at all times on dedicated cash or securities account which are handled in accordance with rules applying to off-budget operations and cannot be used for any other goal than to provide financial assistance to Member States under the present mechanism.
4. Where a Member State receives a loan carrying an early repayment clause and decides to exercise this option, the Commission shall take the necessary steps.
5. At the request of the beneficiary Member State and where circumstances permit an improvement in the interest rate on the loan, the Commission may refinance all or part of its initial borrowing or restructure the corresponding financial conditions.
6. The Economic and Financial Committee shall be kept informed of the developments in the operations referred to in paragraph 5.

*Article 7***Costs**

The costs incurred by the Union in concluding and carrying out each operation shall be borne by the beneficiary Member State.

*Article 8***Administration of the loans**

1. The Commission shall establish the necessary arrangements for the administration of the loans with the ECB.
2. The beneficiary Member State shall open a special account with its National Central Bank for the management of the Union financial assistance received. It shall also transfer the principal and the interest due under the loan to an account with the ECB fourteen TARGET2 business days prior to the corresponding due date.
3. Without prejudice to Article 27 of the Statute of the European System of Central Banks and of the European Central Bank, the European Court of Auditors shall have the right to carry out in the beneficiary Member State any financial

controls or audits that it considers necessary in relation to the management of that assistance. The Commission, including the European Anti-Fraud office, shall in particular have the right to send its officials or duly authorised representatives to carry out in the beneficiary Member State any technical or financial controls or audits that it considers necessary in relation to that assistance.

Article 9

Review and adaptation

1. The Commission shall forward to the Economic and Financial Committee and to the Council, within six months following the entry into force of this Regulation and where appropriate every six months thereafter, a report on the implementation of this Regulation and on the continuation of the exceptional occurrences that justify the adoption of this Regulation.
2. Where appropriate, the report shall be accompanied by a proposal for amendments to this Regulation with a view to adapting the possibility of granting financial assistance without affecting the validity of decisions already adopted.

Article 10

Entry into force

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

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 11 May 2010.

For the Council

The President

Á. GONZÁLEZ-SINDE REIG



4. Introduction and use of the euro

MADRID EUROPEAN COUNCIL

15 AND 16 DECEMBER 1995

PRESIDENCY CONCLUSIONS

A. ECONOMIC AND MONETARY UNION

- I. The scenario for the changeover to the single currency
1. The European Council confirms that 1 January 1999 will be the starting date for Stage 3 of Economic and Monetary Union, in accordance with the convergence criteria, timetable, protocols and procedures laid down in the Treaty.
The European Council confirms that a high degree of economic convergence is a precondition for the Treaty objective to create a stable single currency.
2. The name of the new currency is an important element in the preparation of the transition to the single currency, since it partly determines the public acceptability of Economic and Monetary Union. The European Council considers that the name of the single currency must be the same in all the official languages of the European Union, taking into account the existence of different alphabets; it must be simple and symbolize Europe.
The European Council therefore decides that, as of the start of Stage 3, the name given to the European currency shall be Euro. This name is meant as a full name, not as a prefix to be attached to the national currency names.
The specific name Euro will be used instead of the generic term "ECU" used by the Treaty to refer to the European currency unit.
The Governments of the fifteen Member States have achieved the common agreement that this decision is the agreed and definitive interpretation of the relevant Treaty provisions.
3. As a decisive step in the clarification of the process of introduction of the single currency, the European Council adopts the changeover scenario attached in Annex 1 which is based on the scenario elaborated at its request by the Council, in consultation with the Commission and the European Monetary Institute. It notes with satisfaction that the scenario is compatible with the EMI report on the changeover.
4. The scenario provides for transparency and acceptability, strengthens credibility and underlines the irreversibility of the process. It is technically feasible and aims to provide for the necessary legal certainty, to minimize adjustment costs and to avoid competitive distortions. Under the scenario, the Council, in the composition of Heads of State or Government, will confirm as early as possible in 1998 which Member States fulfil the necessary conditions for the adoption of the single currency. The European Central Bank (ECB) will have to be created early enough so as to allow preparations to be completed and full operation to start on 1 January 1999.
5. Stage 3 will begin on 1 January 1999 with the irrevocable fixing of conversion rates among the currencies of participating countries and against the Euro. From that date, monetary policy and the foreign exchange rate policy will be conducted in Euro, the use of the Euro will be encouraged in foreign exchange markets and new tradeable public debt will be issued in Euro by the participating Member States.
6. A Council Regulation, whose technical preparatory work shall be completed at the latest by the end of 1996, will enter into force on 1 January 1999 and provide the legal framework for the use of the Euro, which, from this date, will become a currency in its own right, and the official ECU basket will cease to exist. This regulation will establish, as long as different monetary units still exist, a legally enforceable equivalence between the Euro and the national units. The substitution of the Euro for national currencies should not of itself alter the continuity of contracts, unless otherwise provided in the contract. In the case of contracts denominated by reference to the official ECU basket of the European Community, in accordance with the Treaty, substitution by the Euro will be at the rate of one to one, unless otherwise provided in the contract.
7. By 1 January 2002 at the latest, Euro banknotes and coins will start to circulate alongside national notes and coins. At most 6 months later, the national currencies will have been completely replaced by the Euro in all participating Member States, and the changeover will be complete. Thereafter, national banknotes and coins may still be exchanged at the national Central Banks.
8. The European Council calls on the ECOFIN Council to speed up all the additional technical work necessary to implement the changeover scenario adopted today. The labelling of Euro banknotes and coins in the different alphabets of the Union will also be defined.



COUNCIL REGULATION (EC) No 2866/98⁽¹⁾**of 31 December 1998****on the conversion rates between the euro and the currencies of the Member States adopting the euro**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 109l(4), first sentence thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Central Bank⁽²⁾,

- (1) Whereas according to Article 109j(4) of the Treaty, the third stage of Economic and Monetary Union shall start on 1 January 1999; whereas the Council, meeting in the composition of Heads of State or Government, has confirmed on 3 May 1998 that Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland fulfil the necessary conditions for the adoption of a single currency on 1 January 1999⁽³⁾;
- (2) Whereas according to Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro⁽⁴⁾, the euro shall be the currency of the Member States which adopt the single currency as from 1 January 1999; whereas the introduction of the euro requires the adoption of the conversion rates at which the euro will be substituted for the national currencies and at which rates the euro will be divided into national currency units; whereas the conversion rates in Article 1 are the conversion rates referred to in the third indent of Article 1 of Regulation (EC) No 974/98;
- (3) Whereas according to Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro⁽⁵⁾, every reference to the ECU in a legal instrument shall be replaced by a reference to the euro at a rate of one euro to one ECU; whereas Article 109l(4), second sentence, of the Treaty, provides that the adoption of the conversion rates shall by itself not modify the external value of the ECU; whereas this is ensured by adopting as the conversion rates, the exchange rates against the ECU of the currencies of the Member States adopting the euro, as calculated by the Commission on 31 December 1998 according to the established procedure for the calculation of the daily official ECU rates;
- (4) Whereas the Ministers of the Member States adopting the euro as their single currency, the Governors of the Central Banks of these Member States, the Commission and the European Monetary Institute/the European Central Bank, have issued two Communiqués on the determination and on the adoption of the irrevocable conversion rates for the euro dated 3 May 1998⁽⁶⁾ and 26 September 1998, respectively;
- (5) Whereas Regulation (EC) No 1103/97 stipulates that the conversion rates shall be adopted as one euro expressed in terms of each of the national currencies of the Member States adopting the euro; whereas in order to ensure a high degree of accuracy, these rates will be adopted with six significant figures and no inverse rates nor bilateral rates between the currencies of the Member States adopting the euro will be defined,

HAS ADOPTED THIS REGULATION:

(1) <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:01998R2866-20110101>

(2) OJ C 412, 31. 12. 1998, p. 1.

(3) Council Decision 98/317/EC of 3 May 1998 in accordance with Article 109j(4) of the Treaty (OJ L 139, 11. 5. 1998, p. 30).

(4) OJ L 139, 11. 5. 1998, p. 1.

(5) OJ L 162, 19. 6. 1997, p. 1.

(6) OJ C 160, 27. 5. 1998, p. 1.

Article 1

The irrevocably fixed conversion rates between the euro and the currencies of the Member States adopting the euro are:

1 euro	=	40,3399	Belgian francs
	=	1,95583	German marks
	=	15,6466	Estonian kroons
	=	340,750	Greek drachma
	=	166,386	Spanish pesetas
	=	6,55957	French francs
	=	0,787564	Irish pounds
	=	1936,27	Italian lire
	=	0,585274	Cyprus pounds
	=	40,3399	Luxembourg francs
	=	0,702804	Latvian lats
	=	0,429300	Maltese liras
	=	2,20371	Dutch guilders
	=	13,7603	Austrian schillings
	=	200,482	Portuguese escudos
	=	30,1260	Slovenian tolar
	=	30,1260	Slovak korunas
	=	5,94573	Finnish marks

Article 2

This Regulation shall enter into force on 1 January 1999.

This Regulation shall be binding in its entirety and directly applicable in all Member States.



COUNCIL REGULATION (EC) No 1103/97⁽¹⁾**of 17 June 1997****on certain provisions relating to the introduction of the euro**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 235 thereof,

Having regard to the proposal of the Commission⁽²⁾,

Having regard to the opinion of the European Parliament⁽³⁾,

Having regard to the opinion of the European Monetary Institute⁽⁴⁾,

- (1) Whereas, at its meeting held in Madrid on 15 and 16 December 1995, the European Council confirmed that the third stage of Economic and Monetary Union will start on 1 January 1999 as laid down in Article 109j (4) of the Treaty; whereas the Member States which will adopt the euro as the single currency in accordance with the Treaty will be defined for the purposes of this Regulation as the «participating Member States»;
- (2) Whereas, at the meeting of the European Council in Madrid, the decision was taken that the term «ECU» used by the Treaty to refer to the European currency unit is a generic term; whereas the Governments of the fifteen Member States have achieved the common agreement that this decision is the agreed and definitive interpretation of the relevant Treaty provisions; whereas the name given to the European currency shall be the «euro»; whereas the euro as the currency of the participating Member States will be divided into one hundred sub-units with the name «cent»; whereas the European Council furthermore considered that the name of the single currency must be the same in all the official languages of the European Union, taking into account the existence of different alphabets;
- (3) Whereas a Regulation on the introduction of the euro will be adopted by the Council on the basis of the third sentence of Article 109l (4) of the Treaty as soon as the participating Member States are known in order to define the legal framework of the euro; whereas the Council, when acting at the starting date of the third stage in accordance with the first sentence of Article 109l (4) of the Treaty, shall adopt the irrevocably fixed conversion rates;
- (4) Whereas it is necessary, in the course of the operation of the common market and for the changeover to the single currency, to provide legal certainty for citizens and firms in all Member States on certain provisions relating to the introduction of the euro well before the entry into the third stage; whereas this legal certainty at an early stage will allow preparations by citizens and firms to proceed under good conditions;
- (5) Whereas the third sentence of Article 109l (4) of the Treaty, which allows the Council, acting with the unanimity of participating Member States, to take other measures necessary for the rapid introduction of the single currency is available as a legal basis only when it has been confirmed, in accordance with Article 109j (4) of the Treaty, which Member States fulfil the necessary conditions for the adoption of a single currency; whereas it is therefore necessary to have recourse to Article 235 of the Treaty as a legal basis for those provisions where there is an urgent need for legal certainty; whereas therefore this Regulation and the aforesaid Regulation on the introduction of the euro will together provide the legal framework for the euro, the principles of which legal framework were agreed by the European Council in Madrid; whereas the introduction of the euro concerns day-to-day operations of the whole population in participating Member States; whereas measures other than those in this Regulation and in the Regulation which will be adopted under the third sentence of Article 109l (4) of the Treaty should be examined to ensure a balanced changeover, in particular for consumers;
- (6) Whereas the ECU as referred to in Article 109g of the Treaty and as defined in Council Regulation (EC) No 3320/94 of 22 December 1994 on the consolidation of the existing Community legislation on the definition of the ECU following the entry into force of the Treaty on European Union⁽⁵⁾ will cease to be defined as a basket of component currencies on 1 January 1999 and the euro will become a currency in its own right; whereas the decision of the Council regarding

(1) <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:01997R1103-20010101>

(2) OJ No C 369, 7. 12. 1996, p. 8.

(3) OJ No C 380, 16. 12. 1996, p. 49.

(4) Opinion delivered on 29 November 1996.

(5) OJ No L 350, 31. 12. 1994, p. 27.

the adoption of the conversion rates shall not in itself modify the external value of the ECU; whereas this means that one ECU in its composition as a basket of component currencies will become one euro; whereas Regulation (EC) No 3320/94 therefore becomes obsolete and should be repealed; whereas for references in legal instruments to the ECU, parties shall be presumed to have agreed to refer to the ECU as referred to in Article 109g of the Treaty and as defined in the aforesaid Regulation; whereas such presumption should be rebuttable taking into account the intentions of the parties;

- (7) Whereas it is a generally accepted principle of law that the continuity of contracts and other legal instruments is not affected by the introduction of a new currency; whereas the principle of freedom of contract has to be respected; whereas the principle of continuity should be compatible with anything which parties might have agreed with reference to the introduction of the euro; whereas, in order to reinforce legal certainty and clarity, it is appropriate explicitly to confirm that the principle of continuity of contracts and other legal instruments shall apply between the former national currencies and the euro and between the ECU as referred to in Article 109g of the Treaty and as defined in Regulation (EC) No 3320/94 and the euro; whereas this implies, in particular, that in the case of fixed interest rate instruments the introduction of the euro does not alter the nominal interest rate payable by the debtor, whereas the provisions on continuity can fulfil their objective to provide legal certainty and transparency to economic agents, in particular for consumers, only if they enter into force as soon as possible;
- (8) Whereas the introduction of the euro constitutes a change in the monetary law of each participating Member State; whereas the recognition of the monetary law of a State is a universally accepted principle; whereas the explicit confirmation of the principle of continuity should lead to the recognition of continuity of contracts and other legal instruments in the jurisdictions of third countries;
- (9) Whereas the term «contract» used for the definition of legal instruments is meant to include all types of contracts, irrespective of the way in which they are concluded;
- (10) Whereas the Council, when acting in accordance with the first sentence of Article 109I (4) of the Treaty, shall define the conversion rates of the euro in terms of each of the national currencies of the participating Member States; whereas these conversion rates should be used for any conversion between the euro and the national currency units or between the national currency units; whereas for any conversion between national currency units, a fixed algorithm should define the result; whereas the use of inverse rates for conversion would imply rounding of rates and could result in significant inaccuracies, notably if large amounts are involved;
- (11) Whereas the introduction of the euro requires the rounding of monetary amounts; whereas an early indication of rules for rounding is necessary in the course of the operation of the common market and to allow a timely preparation and a smooth transition to Economic and Monetary Union; whereas these rules do not affect any rounding practice, convention or national provisions providing a higher degree of accuracy for intermediate computations;
- (12) Whereas, in order to achieve a high degree of accuracy in conversion operations, the conversion rates should be defined with six significant figures; whereas a rate with six significant figures means a rate which, counted from the left and starting by the first non-zero figure, has six figures,

HAS ADOPTED THIS REGULATION:

Article 1

For the purpose of this Regulation:

- «legal instruments» shall mean legislative and statutory provisions, acts of administration, judicial decisions, contracts, unilateral legal acts, payment instruments other than banknotes and coins, and other instruments with legal effect,
- «participating Member States» shall mean those Member States which adopt the single currency in accordance with the Treaty,
- «conversion rates» shall mean the irrevocably fixed conversion rates which the Council adopts in accordance with the first sentence of Article 109I (4) of the Treaty or in accordance with paragraph 5 of that Article,
- «national currency units» shall mean the units of the currencies of participating Member States, as those units are defined on the day before the start of the third stage of Economic and Monetary Union or, as the case may be, on the day before the euro is substituted for the currency of a Member State which adopts the euro at a later date,
- «euro unit» shall mean the unit of the single currency as defined in the Regulation on the introduction of the euro which will enter into force at the starting date of the third stage of Economic and Monetary Union.

Article 2

1. Every reference in a legal instrument to the ECU, as referred to in Article 109g of the Treaty and as defined in Regulation (EC) No 3320/94, shall be replaced by a reference to the euro at a rate of one euro to one ECU. References in a legal instrument to the ECU without such a definition shall be presumed, such presumption being rebuttable taking into account the intentions of the parties, to be references to the ECU as referred to in Article 109g of the Treaty and as defined in Regulation (EC) No 3320/94.
2. Regulation (EC) No 3320/94 is hereby repealed.
3. This Article shall apply as from 1 January 1999 in accordance with the decision pursuant to Article 109j (4) of the Treaty.

Article 3

The introduction of the euro shall not have the effect of altering any term of a legal instrument or of discharging or excusing performance under any legal instrument, nor give a party the right unilaterally to alter or terminate such an instrument. This provision is subject to anything which parties may have agreed.

Article 4

1. The conversion rates shall be adopted as one euro expressed in terms of each of the national currencies of the participating Member States. They shall be adopted with six significant figures.
2. The conversion rates shall not be rounded or truncated when making conversions.
3. The conversion rates shall be used for conversions either way between the euro unit and the national currency units. Inverse rates derived from the conversion rates shall not be used.
4. Monetary amounts to be converted from one national currency unit into another shall first be converted into a monetary amount expressed in the euro unit, which amount may be rounded to not less than three decimals and shall then be converted into the other national currency unit. No alternative method of calculation may be used unless it produces the same results.

Article 5

Monetary amounts to be paid or accounted for when a rounding takes place after a conversion into the euro unit pursuant to Article 4 shall be rounded up or down to the nearest cent. Monetary amounts to be paid or accounted for which are converted into a national currency unit shall be rounded up or down to the nearest sub-unit or in the absence of a sub-unit to the nearest unit, or according to national law or practice to a multiple or fraction of the sub-unit or unit of the national currency unit. If the application of the conversion rate gives a result which is exactly half-way, the sum shall be rounded up.

Article 6

This Regulation shall enter into force on the day following that of its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety and directly applicable in all Member States.



COUNCIL REGULATION (EC) No 974/98⁽¹⁾**of 3 May 1998****on the introduction of the euro**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 109I(4), third sentence thereof,

Having regard to the proposal from the Commission⁽²⁾,

Having regard to the opinion of the European Monetary Institute⁽³⁾,

Having regard to the opinion of the European Parliament⁽⁴⁾,

- (1) Whereas this Regulation defines monetary law provisions of the Member States which have adopted the euro; whereas provisions on continuity of contracts, the replacement of references to the ecu in legal instruments by references to the euro and rounding have already been laid down in Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro⁽⁵⁾; whereas the introduction of the euro concerns day-to-day operations of the whole population in participating Member States; whereas measures other than those in this Regulation and in Regulation (EC) No 1103/97 should be examined to ensure a balanced changeover, in particular for consumers;
- (2) Whereas, at the meeting of the European Council in Madrid on 15 and 16 December 1995, the decision was taken that the term 'ecu' by the Treaty to refer to the European currency unit is a generic term; whereas the Governments of the 15 Member States have reached the common agreement that this decision is the agreed and definitive interpretation of the relevant Treaty provisions; whereas the name given to the European currency shall be the 'euro'; whereas the euro as the currency of the participating Member States shall be divided into one hundred sub-units with the name 'cent'; whereas the definition of the name 'cent' does not prevent the use of variants of this term in common usage in the Member States; whereas the European Council furthermore considered that the name of the single currency must be the same in all the official languages of the European Union, taking into account the existence of different alphabets;
- (3) Whereas the Council when acting in accordance with the third sentence of Article 109I(4) of the Treaty shall take the measures necessary for the rapid introduction of the euro other than the adoption of the conversion rates;
- (4) Whereas whenever under Article 109k(2) of the Treaty a Member State becomes a participating Member State, the Council shall according to Article 109I(5) of the Treaty take the other measures necessary for the rapid introduction of the euro as the single currency of this Member State;
- (5) Whereas according to the first sentence of Article 109I(4) of the Treaty the Council shall at the starting date of the third stage adopt the conversion rates at which the currencies of the participating Member States shall be irrevocably fixed and at which irrevocably fixed rate the euro shall be substituted for these currencies;
- (6) Whereas given the absence of exchange rate risk either between the euro unit and the national currency units or between these national currency units, legislative provisions should be interpreted accordingly;
- (7) Whereas the term 'contract' used for the definition of legal instruments is meant to include all types of contracts, irrespective of the way in which they are concluded;
- (8) Whereas in order to prepare a smooth changeover to the euro a transitional period is needed between the substitution of the euro for the currencies of the participating Member States and the introduction of euro banknotes and coins; whereas during this period the national currency units will be defined as sub-divisions of the euro; whereas thereby a legal equivalence is established between the euro unit and the national currency units;

(1) <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:01998R0974-20110101>

(2) OJ C 369, 7. 12. 1996, p. 10.

(3) OJ C 205, 5. 7. 1997, p. 18.

(4) OJ C 380, 16. 12. 1996, p. 50.

(5) OJ L 162, 19. 6. 1997, p. 1.

- (9) Whereas in accordance with Article 109g of the Treaty and with Regulation (EC) No 1103/97, the euro will replace the ECU as from 1 January 1999 as the unit of account of the institutions of the European Communities; whereas the euro should also be the unit of account of the European Central Bank (ECB) and of the central banks of the participating Member States; whereas, in line with the Madrid conclusions, monetary policy operations will be carried out in the euro unit by the European System of Central Banks (ESCB); whereas this does not prevent national central banks from keeping accounts in their national currency unit during the transitional period, in particular for their staff and for public administrations;
- (10) Whereas each participating Member State may allow the full use of the euro unit in its territory during the transitional period;
- (11) Whereas during the transitional period contracts, national laws and other legal instruments can be drawn up validly in the euro unit or in the national currency unit; whereas during this period, nothing in this Regulation should affect the validity of any reference to a national currency unit in any legal instrument;
- (12) Whereas, unless agreed otherwise, economic agents have to respect the denomination of a legal instrument in the performance of all acts to be carried out under that instrument;
- (13) Whereas the euro unit and the national currency units are units of the same currency; whereas it should be ensured that payments inside a participating Member State by crediting an account can be made either in the euro unit or the respective national currency unit; whereas the provisions on payments by crediting an account should also apply to those cross-border payments, which are denominated in the euro unit or the national currency unit of the account of the creditor; whereas it is necessary to ensure the smooth functioning of payment systems by laying down provisions dealing with the crediting of accounts by payment instruments credited through those systems; whereas the provisions on payments by crediting an account should not imply that financial intermediaries are obliged to make available either other payment facilities or products denominated in any particular unit of the euro; whereas the provisions on payments by crediting an account do not prohibit financial intermediaries from coordinating the introduction of payment facilities denominated in the euro unit which rely on a common technical infrastructure during the transitional period;
- (14) Whereas in accordance with the conclusions reached by the European Council at its meeting held in Madrid, new tradeable public debt will be issued in the euro unit by the participating Member States as from 1 January 1999; whereas it is desirable to allow issuers of debt to redenominate outstanding debt in the euro unit; whereas the provisions on redenomination should be such that they can also be applied in the jurisdictions of third countries; whereas issuers should be enabled to redenominate outstanding debt if the debt is denominated in a national currency unit of a Member State which has redenominated part or all of the outstanding debt of its general government; whereas these provisions do not address the introduction of additional measures to amend the terms of outstanding debt to alter, among other things, the nominal amount of outstanding debt, these being matters subject to relevant national law; whereas it is desirable to allow Member States to take appropriate measures for changing the unit of account of the operating procedures of organised markets;
- (15) Whereas further action at the Community level may also be necessary to clarify the effect of the introduction of the euro on the application of existing provisions of Community law, in particular concerning netting, set-off and techniques of similar effect;
- (16) Whereas any obligation to use the euro unit can only be imposed on the basis of Community legislation; whereas in transactions with the public sector participating Member States may allow the use of the euro unit; whereas in accordance with the reference scenario decided by the European Council at its meeting held in Madrid, the Community legislation laying down the time frame for the generalisation of the use of the euro unit might leave some freedom to individual Member States;
- (17) Whereas in accordance with Article 105a of the Treaty the Council may adopt measures to harmonise the denominations and technical specifications of all coins;
- (18) Whereas banknotes and coins need adequate protection against counterfeiting;
- (19) Whereas banknotes and coins denominated in the national currency units lose their status of legal tender at the latest six months after the end of the transitional period; whereas limitations on payments in notes and coins, established by Member States for public reasons, are not incompatible with the status of legal tender of euro banknotes and coins, provided that other lawful means for the settlement of monetary debts are available;
- (20) Whereas as from the end of the transitional period references in legal instruments existing at the end of the transitional period will have to be read as references to the euro unit according to the respective conversion rates; whereas a physical redenomination of existing legal instruments is therefore not necessary to achieve this result; whereas the rounding rules defined in Regulation (EC) No 1103/97 shall also apply to the conversions to be made at the end of

the transitional period or after the transitional period; whereas for reasons of clarity it may be desirable that the physical redenomination will take place as soon as appropriate;

- (21) Whereas paragraph 2 of Protocol 11 on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland stipulates that, inter alia, paragraph 5 of that Protocol shall have effect if the United Kingdom notifies the Council that it does not intend to move to the third stage; whereas the United Kingdom gave notice to the Council on 30 October 1997 that it does not intend to move to the third stage; whereas paragraph 5 stipulates that, inter alia, Article 109l(4) of the Treaty shall not apply to the United Kingdom;
- (22) Whereas Denmark, referring to paragraph 1 of Protocol 12 on certain provisions relating to Denmark has notified, in the context of the Edinburgh decision of 12 December 1992, that it will not participate in the third stage; whereas, therefore, in accordance with paragraph 2 of the said Protocol, all Articles and provisions of the Treaty and the Statute of the ESCB referring to a derogation shall be applicable to Denmark;
- (23) Whereas, in accordance with Article 109l(4) of the Treaty, the single currency will be introduced only in the Member States without a derogation;
- (24) Whereas this Regulation, therefore, shall be applicable pursuant to Article 189 of the Treaty, subject to Protocols 11 and 12 and Article 109k(1),

HAS ADOPTED THIS REGULATION:

PART I

DEFINITIONS

Article 1

For the purpose of this Regulation:

- (a) 'participating Member States' shall mean the Member States listed in the table in the Annex;
- (b) 'legal instruments' shall mean legislative and statutory provisions, acts of administration, judicial decisions, contracts, unilateral legal acts, payment instruments other than banknotes and coins, and other instruments with legal effect;
- (c) 'conversion rate' shall mean the irrevocably fixed conversion rate adopted for the currency of each participating Member State by the Council in accordance with the first sentence of Article 123(4) of the Treaty or with paragraph 5 of that Article;
- (d) 'euro adoption date' shall mean either the date on which the respective Member State enters the third stage under Article 121(3) of the Treaty or the date on which the abrogation of the respective Member State's derogation under Article 122(2) of the Treaty enters into force, as the case may be;
- (e) 'cash changeover date' shall mean the date on which euro banknotes and coins acquire the status of legal tender in a given participating Member State;
- (f) 'euro unit' shall mean the currency unit as referred to in the second sentence of Article 2;
- (g) 'national currency units' shall mean the units of the currency of a participating Member State, as those units are defined on the day before the adoption of the euro in that Member State;
- (h) 'transitional period' shall mean a period of three years at the most beginning at 00.00 hours on the euro adoption date and ending at 00.00 hours on the cash changeover date;
- (i) 'phasing-out period' shall mean a period of one year at the most beginning on the euro adoption date, which can only apply to Member States where the euro adoption date and the cash changeover date fall on the same day;
- (j) 'redenominate' shall mean changing the unit in which the amount of outstanding debt is stated from a national currency unit to the euro unit, but which does not have through the act of redenomination the effect of altering any other term of the debt, this being a matter subject to relevant national law;
- (k) 'credit institutions' shall mean credit institutions as defined in Article 1(1) of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions⁽¹⁾. For the purpose of this Regulation, the institutions listed in Article 2(3) of that Directive with the exception of post office giro institutions shall not be considered as credit institutions.

Article 1a

The euro adoption date, the cash changeover date, and the phasing-out period, if applicable, for each participating Member State shall be as set out in the Annex.

(1) OJ L 126, 26.5.2000, p. 1. Directive as last amended by Directive 2005/1/EC of the European Parliament and of the Council (OJ L 79, 24.3.2005, p. 9).

PART II**SUBSTITUTION OF THE EURO FOR THE CURRENCIES OF THE PARTICIPATING MEMBER STATES***Article 2*

With effect from the respective euro adoption dates, the currency of the participating Member States shall be the euro. The currency unit shall be one euro. One euro shall be divided into one hundred cent.

Article 3

The euro shall be substituted for the currency of each participating Member State at the conversion rate.

Article 4

The euro shall be the unit of account of the European Central Bank (ECB) and of the central banks of the participating Member States.

PART III**TRANSITIONAL PROVISIONS***Article 5*

Articles 6, 7, 8 and 9 shall apply during the transitional period.

Article 6

1. The euro shall also be divided into the national currency units according to the conversion rates. Any subdivision thereof shall be maintained. Subject to the provisions of this Regulation the monetary law of the participating Member States shall continue to apply.
2. Where in a legal instrument reference is made to a national currency unit, this reference shall be as valid as if reference were made to the euro unit according to the conversion rates.

Article 7

The substitution of the euro for the currency of each participating Member State shall not in itself have the effect of altering the denomination of legal instruments in existence on the date of substitution.

Article 8

1. Acts to be performed under legal instruments stipulating the use of or denominated in a national currency unit shall be performed in that national currency unit. Acts to be performed under legal instruments stipulating the use of or denominated in the euro unit shall be performed in that unit.
2. The provisions of paragraph 1 are subject to anything which parties may have agreed.
3. Notwithstanding the provisions of paragraph 1, any amount denominated either in the euro unit or in the national currency unit of a given participating Member State and payable within that Member State by crediting an account of the creditor, can be paid by the debtor either in the euro unit or in that national currency unit. The amount shall be credited to the account of the creditor in the denomination of his account, with any conversion being effected at the conversion rates.
4. Notwithstanding the provisions of paragraph 1, each participating Member State may take measures which may be necessary in order to:
 - redenominate in the euro unit outstanding debt issued by that Member State's general government, as defined in the European system of integrated accounts, denominated in its national currency unit and issued under its own law. If a Member State has taken such a measure, issuers may redenominate in the euro unit debt denominated in that Member State's national currency unit unless redenomination is expressly excluded by the terms of the contract; this provision shall apply to debt issued by the general government of a Member State as well as to bonds and other forms of securitised debt negotiable in the capital markets, and to money market instruments, issued by other debtors,
 - enable the change of the unit of account of their operating procedures from a national currency unit to the euro unit by:

- (a) markets for the regular exchange, clearing and settlement of any instrument listed in section B of the Annex to Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field⁽¹⁾ and of commodities; and
 - (b) systems for the regular exchange, clearing and settlement of payments.
5. Provisions other than those of paragraph 4 imposing the use of the euro unit may only be adopted by the participating Member States in accordance with any time-frame laid down by Community legislation.
6. National legal provisions of participating Member States which permit or impose netting, set-off or techniques with similar effects shall apply to monetary obligations, irrespective of their currency denomination, if that denomination is in the euro unit or in a national currency unit, with any conversion being effected at the conversion rates.

Article 9

Banknotes and coins denominated in a national currency unit shall retain their status as legal tender within their territorial limits as from the day before the euro adoption date in the participating Member State concerned.

Article 9a

The following shall apply in a Member State with a 'phasing-out' period. In legal instruments created during the phasing-out period and to be performed in that Member State, reference may continue to be made to the national currency unit. These references shall be read as references to the euro unit according to the respective conversion rates. Without prejudice to Article 15, the acts performed under these legal instruments shall be performed only in the euro unit. The rounding rules laid down in Regulation (EC) No 1103/97 shall apply.

The Member State concerned shall limit the application of the first subparagraph to certain types of legal instrument, or to legal instruments adopted in certain fields.

The Member State concerned may shorten the period.

PART IV

EURO BANKNOTES AND COINS

Article 10

With effect from the respective cash changeover dates, the ECB and the central banks of the participating Member States shall put into circulation banknotes denominated in euro in the participating Member States.

Without prejudice to Article 15, these banknotes denominated in euro shall be the only banknotes which have the status of legal tender in participating Member States.

Article 11

With effect from the respective cash changeover date, the participating Member States shall issue coins denominated in euro or in cent and complying with the denominations and technical specifications which the Council may lay down in accordance with the second sentence of Article 106(2) of the Treaty. Without prejudice to Article 15 and to the provisions of any agreement under Article 111(3) of the Treaty concerning monetary matters, those coins shall be the only coins which have the status of legal tender in participating Member States. Except for the issuing authority and for those persons specifically designated by the national legislation of the issuing Member State, no party shall be obliged to accept more than 50 coins in any single payment.

Article 12

Participating Member States shall ensure adequate sanctions against counterfeiting and falsification of euro banknotes and coins.

PART V

FINAL PROVISIONS

Article 13

Articles 10, 11, 14, 15 and 16 shall apply with effect from the respective cash changeover date in each participating Member State.

(1) OJ L 126, 26.5.2000, p. 1. Directive as last amended by Directive 2005/1/EC of the European Parliament and of the Council (OJ L 79, 24.3.2005, p. 9).

Article 14

Where, in legal instruments existing on the day before the cash changeover date, reference is made to the national currency units, these references shall be read as references to the euro unit according to the respective conversion rates. The rounding rules laid down in Regulation (EC) No 1103/97 shall apply.

Article 15

1. Banknotes and coins denominated in a national currency unit as referred to in Article 6(1) shall remain legal tender within their territorial limits until six months from the respective cash changeover date at the latest; this period may be shortened by national law.
2. Each participating Member State may, for a period of up to six months ¹ from the respective cash changeover date, lay down rules for the use of the banknotes and coins denominated in its national currency unit as referred to in Article 6(1) and take any measures necessary to facilitate their withdrawal.
3. During the period referred to in paragraph 1, credit institutions in participating Member States adopting the euro after 1 January 2002 shall exchange their customers' banknotes and coins denominated in the national currency unit of that Member State for banknotes and coins in euro, free of charge, up to a ceiling which may be set by national law. Credit institutions may require that notice be given if the amount to be exchanged exceeds a ceiling set by national law or, in the absence of such provisions, by themselves and corresponding to a household amount.

The credit institutions referred to in the first subparagraph shall exchange banknotes and coins denominated in the national currency unit of that Member State of persons other than their customers, free of charge up to a ceiling set by national law or, in the absence of such provisions, by themselves.

National law may limit the obligation under the preceding two subparagraphs to specific types of credit institutions. National law may also extend this obligation upon other persons.

Article 16

In accordance with the laws or practices of participating Member States, the respective issuers of banknotes and coins shall continue to accept, against euro at the conversion rate, the banknotes and coins previously issued by them.

PART VI**ENTRY INTO FORCE***Article 17*

This Regulation shall enter into force on 1 January 1999.

This Regulation shall be binding in its entirety and directly applicable in all Member States, in accordance with the Treaty, subject to Protocols 11 and 12 and Article 109k(1).

ANNEX

Member State	Euro adoption date	Cash changeover date	Member State with a 'phasing-out' period
Belgium	1 January 1999	1 January 2002	n/a
Germany	1 January 1999	1 January 2002	n/a
Estonia	1 January 2011	1 January 2011	No
Greece	1 January 2001	1 January 2002	n/a
Spain	1 January 1999	1 January 2002	n/a
France	1 January 1999	1 January 2002	n/a
Ireland	1 January 1999	1 January 2002	n/a
Italy	1 January 1999	1 January 2002	n/a
Cyprus	1 January 2008	1 January 2008	No
Latvia	1 January 2014	1 January 2014	No
Luxembourg	1 January 1999	1 January 2002	n/a
Malta	1 January 2008	1 January 2008	No
Netherlands	1 January 1999	1 January 2002	n/a
Austria	1 January 1999	1 January 2002	n/a
Portugal	1 January 1999	1 January 2002	n/a
Slovenia	1 January 2007	1 January 2007	No
Slovakia	1 January 2009	1 January 2009	No
Finland	1 January 1999	1 January 2002	n/a



COUNCIL REGULATION (EC) No 975/98**of 3 May 1998⁽¹⁾****on denominations and technical specifications of euro coins intended for circulation****(OJ L 139, 11.5.1998, p. 6)**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 105a(2) thereof,

Having regard to the proposal from the Commission⁽²⁾,

Having regard to the opinion of the European Monetary Institute⁽³⁾,

Acting in accordance with the procedure laid down in Article 189c of the Treaty⁽⁴⁾,

- (1) Whereas, at the meeting of the European Council in Madrid on 15 and 16 December 1995, the scenario for the changeover to the single currency was adopted which provides for introduction of euro coins by 1 January 2002 at the latest; whereas the precise date for the issue of euro coins will be decided when the Council adopts its regulation on the introduction of the euro immediately after the decision on the Member States adopting the euro as the single currency has been taken as early as possible in 1998;
- (2) Whereas, according to Article 105a(2) of the Treaty, Member States may issue coins subject to approval by the European Central Bank (ECB) of the volume of the issue and the Council may, acting in accordance with the procedure referred to in Article 189c and after consulting the ECB, adopt measures to harmonise the denominations and technical specifications of all coins intended for circulation to the extent necessary to permit their smooth circulation within the Community;
- (3) Whereas the European Monetary Institute has indicated that euro banknotes will range from EUR 5 to EUR 500; whereas the denominations of banknotes and coins will need to allow for cash payments of amounts expressed in euro and cent to be made easily;
- (4) Whereas the mint directors of the Community received a mandate from the Council to study and elaborate a report for a European single coinage system; whereas they submitted a report in November 1996 followed by a revised report in February 1997 indicating the denominations and technical specifications (diameter, thickness, weight, colour, composition and edge) of the new euro coins;
- (5) Whereas the new European single coinage system should induce public confidence and entail technological innovations that would establish it as a secure, reliable and efficient system;
- (6) Whereas the acceptance of the new system by the public is one of the main objectives of the Community coinage system; whereas public confidence in the new system would depend on the physical characteristics of the euro coins, which should be as user-friendly as possible;
- (7) Whereas consultations with consumer associations, the European Blind Union and representatives of the vending machines industry have been carried out to take into account the specific requirements of important categories of coin users; whereas, in order to ensure a smooth changeover to the euro and to facilitate acceptance of the new coinage systems by users, easy distinction between coins through visual and tactile characteristics will need to be guaranteed;
- (8) Whereas the new euro coins will be more readily distinguishable and easier to become accustomed to if there is a link between their diameter and face value;
- (9) Whereas certain special security features are needed in order to reduce the scope for fraud for the 1 and 2 euro given their high value; whereas the use of a technique whereby coins are made in three layers and the combination of two different colours in the coin are considered to be the most efficient security features available today;

(1) <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:01998R0975-20120719>

(2) OJ C 208, 9.7.1997, p. 5 and OJ C 386, 20.12.1997, p. 12.

(3) Opinion delivered on 25 June 1997 (OJ C 205, 5.7.1997, p. 18).

(4) Opinion of the European Parliament of 6 November 1997 (OJ C 358, 24.11.1997, p. 24), Council common position of 20 November 1997 (OJ C 23, 23.1.1998, p. 1) and Decision of the European Parliament of 17 December 1997 (OJ C 14, 19.1.1998).

- (10) Whereas giving the coins one European and one national side is an appropriate expression of the idea of European Monetary union between Member States and could significantly increase the degree of acceptance of the coins by European citizens;
- (11) Whereas on 30 June 1994 the European Parliament and the Council adopted Directive 94/27/EC⁽¹⁾, which limited the use of nickel in certain products in recognition that nickel could be cause of allergies under certain conditions; whereas coins are not covered by that Directive; whereas, nevertheless, some Member States already use a nickel-free alloy called Nordic Gold in their current coinage system for reasons of public health; whereas it seems desirable to reduce the nickel content of coins when moving to a new coinage system;
- (12) Whereas it is therefore appropriate to follow in principle the proposal of the aforesaid mint directors and to adapt it only to the extent necessary to take into account in particular the specific requirements of important categories of coin users and the need to reduce the use of nickel in coins;
- (13) Whereas of all prescribed technical specifications for euro coins, only the value for thickness is of an indicative nature, since actual thickness of a coin depends on prescribed diameter and weight,

HAS ADOPTED THIS REGULATION:

Article 1

The first series of euro coins will include eight denominations in the range from 1 cent to 2 euro with the following technical specifications:

Face value (euro)	Diameter in mm	Thickness in mm (1)	Weight in gr	Shape	Colour	Composition	Edge
2	25,75	1,95	8,5	Round	External part: white Internal part: yellow	Copper-nickel (Cu75Ni25) Three-layers: nickel-brass/ nickel/nickel-brass CuZn20Ni5/ Nil 2/ CuZn20Ni5	Edge lettering Fine milled
1	23,25	2,125	7,5	Round	External part: yellow External part: yellow	Nickel-brass (CuZn20Ni5) Three-layers: Cu75Ni25/ Ni7/ Cu75Ni25	Interrupted milled
0,50	24,25	1,88	7,8	Round	Yellow	Nordic Gold Cu89A15Zn5Sn1	Shaped edge with fine scallops
0,20	22,25	1,63	5,7	'Spanish flower' shape	Yellow	Nordic Gold Cu89A15Zn5Sn1	Plain
0,10	19,75	1,51	4,1	Round	Yellow	Nordic Gold Cu89A15Zn5Sn1	Shaped edge with fine scallops
0,05	21,25	1,36	3,9	Round	Red	Copper-covered steel	Smooth
0,02	18,75	1,36	3	Round	Red	Copper-covered steel	Smooth with a groove
0,01	16,25	1,36	2,3	Round	Red	Copper-covered steel	Smooth

⁽¹⁾ The values relating to thickness are of an indicative nature.

(1) OJ L 188, 22.7.1994, p. 1.

Article 1a

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

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

1. 'circulation coins' means euro coins intended for circulation, the denominations and technical specifications of which are laid down in Article 1;
2. 'regular coins' means circulation coins excluding commemorative coins;
3. commemorative coins' means circulation coins, which are intended to commemorate a specific subject as specified in Article 1h.

Article 1b

Circulation coins shall have a common European side and a distinctive national side.

Article 1c

1. The national side of circulation coins shall not repeat any indication of the denomination, or any parts thereof, of the coin. It shall not repeat the name of the single currency or of its subdivision, unless such indication stems from the use of a different alphabet.
2. By derogation from paragraph 1, the edge lettering of the 2-euro coin may include an indication of the denomination, provided that only the figure '2' or the term 'euro' in the relevant alphabet, or both, are used.

Article 1d

The national side of all denominations of circulation coins shall bear an indication of the issuing Member State by means of the Member State's name or an abbreviation of it.

Article 1e

1. The national side of circulation coins shall bear a circle of 12 stars that shall fully surround the national design, including the year mark and the indication of the issuing Member State's name. This shall not prevent some design elements from extending into the circle of stars, provided that the stars are all clearly and fully visible. The 12 stars shall be depicted as on the Union flag.
2. The designs for the national side of circulation coins shall be chosen taking into account that euro coins circulate in all Member States whose currency is the euro.

Article 1f

1. Changes to the designs used for the national sides of regular coins may only be made once every 15 years, without prejudice to changes necessary to prevent counterfeiting of the currency.
2. Without prejudice to paragraph 1, changes to the designs used for the national sides of regular coins may be made where the Head of State referred to on a coin changes. However, a temporary vacancy or the provisional occupation of the function of Head of State shall not give any additional right to such change.

Article 1g

Issuing Member States shall update their national sides of regular coins in order to fully comply with this Regulation by 20 June 2062.

Article 1h

1. Commemorative coins shall bear a different national design from that of the regular coins and shall only commemorate subjects of major national or European relevance. Commemorative coins issued collectively by all Member States whose currency is the euro shall only commemorate subjects of the highest European relevance and their design shall be without prejudice to the possible constitutional requirements of these Member States.
2. The edge lettering on commemorative coins shall be the same as on regular coins.
3. Commemorative coins may only have a face value of 2 euro.

Article 1i

1. Member States shall inform each other of the draft designs of new national sides of circulation coins, including the edge letterings, and, for commemorative coins, on the estimated volume of issuance, before the formal approval of those designs.
2. The power to approve designs for new or modified national sides of circulation coins shall be conferred on the Council acting by qualified majority in accordance with the procedure set out in paragraphs 3 to 7.
When taking the decisions referred to in this Article, the voting rights of the Member States whose currency is not the euro shall be suspended.
3. For the purpose of paragraph 1, draft designs of circulation coins shall be submitted by the issuing Member State to the Council, to the Commission and to the other Member States whose currency is the euro, in principle at least three months before the planned issue date.
4. Within seven days following the submission referred to in paragraph 3, any Member State whose currency is the euro may, in a reasoned opinion addressed to the Council and to the Commission, raise an objection to the draft design proposed by the issuing Member State if that draft design is likely to create adverse reactions among its citizens.
5. Where the Commission considers that the draft design does not respect the technical requirements set out by this Regulation, it shall, within seven days following the submission referred to in paragraph 3, submit a negative assessment to the Council.
6. If no reasoned opinion or negative assessment has been submitted to the Council within the time limit referred to in paragraphs 4 and 5 respectively, the decision approving the design is deemed to be adopted by the Council on the day following the expiry of the time limit referred to in paragraph 5.
7. In all other cases, the Council shall decide without delay on the approval of the draft design, unless, within seven days following the submission of a reasoned opinion or of a negative assessment, the issuing Member State withdraws its submission and informs the Council of its intention to submit a new draft design.
8. All relevant information on new national circulation coin designs shall be published by the Commission in the Official Journal of the European Union.

Article 1j

Articles 1c, 1d, 1e and 1h(2):

- (a) shall not apply to circulation coins which have been issued or produced prior to 19 June 2012;
- (b) shall, during a transitional period ending on 20 June 2062, not apply to the designs that are already legally in use on circulation coins on 19 June 2012. Circulation coins that have been issued or produced during the transitional period may remain legal tender without limit in time.

Article 2

This Regulation shall enter into force on 1 January 1999.

This Regulation shall be binding in its entirety and directly applicable in all Member States, in accordance with the Treaty, subject to Article 109k(l) and Protocols 11 and 12.



REGULATION (EU) No 651/2012 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
of 4 July 2012

on the issuance of euro coins

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 133 thereof,

Having regard to the proposal from the European Commission,

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

Having regard to the Opinion of the European Central Bank⁽¹⁾,

Acting in accordance with the ordinary legislative procedure⁽²⁾,

Whereas:

- (1) The Council conclusions of 23 November 1998 and of 5 November 2002 on euro coins intended for collection, the Commission Recommendation 2009/23/EC of 19 December 2008 on common guidelines for the national sides and the issuance of euro coins intended for circulation⁽³⁾, endorsed by Council conclusions of 10 February 2009, and the Commission Recommendation 2010/191/EU of 22 March 2010 on the scope and effects of legal tender of euro banknotes and coins⁽⁴⁾, recommend practices regarding the issuance of euro coins intended for circulation, including commemorative euro coins, consultation prior to the destruction of fit euro circulation coins and the use of euro collector coins.
- (2) The lack of mandatory provisions for the issuance of euro coins may result in different practices among Member States and does not achieve a sufficiently integrated framework for the single currency. In the interests of transparency and legal certainty, it is therefore necessary to introduce binding rules for the issuance of euro coins.
- (3) In accordance with Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro⁽⁵⁾, coins denominated in euro and cent and complying with the denominations and technical specifications laid down by the Council have the status of legal tender in all Member States whose currency is the euro. Denominations and technical specifications of euro coins are laid down in Council Regulation (EC) No 975/98 of 3 May 1998 on denominations and technical specifications of euro coins intended for circulation⁽⁶⁾.
- (4) Member States whose currency is the euro should also be able to issue 2-euro commemorative coins to celebrate specific subjects, subject to limits set per year and per issuing Member State for the number of issues of such coins. It is necessary to establish certain volume limits for commemorative euro coins in order to ensure that such coins remain a minor percentage of the total number of the 2-euro coins in circulation. Such volume limits should, however, allow for the issuance of a sufficient volume of coins to ensure that commemorative euro coins can circulate effectively.
- (5) Member States whose currency is the euro should also be able to issue euro collector coins, which are not intended for circulation and which should be readily distinguishable from circulation coins. Euro collector coins should have the status of legal tender only in the Member State of issuance and should not be issued with a view to their entry into circulation.
- (6) It is appropriate that issuances of euro collector coins are accounted for in the volume of coins to be approved by the European Central Bank, but on an aggregate basis rather than for each individual issue.
- (7) The use of different denominations of euro coins and euro banknotes, as currently devised, should be periodically and carefully examined by the competent institutions against the criteria of cost and public acceptability. In particular, the Commission should conduct an impact assessment on the continued issuance of 1- and 2-cent coins.
- (8) In order to avoid that fit euro circulation coins are destroyed by one Member State while there may be a need of such coins in another, Member States should consult each other prior to the destruction of such coins,

(1) OJ C 273, 16.9.2011, p. 2.

(2) Position of the European Parliament of 22 May 2012 (not yet published in the Official Journal) and decision of the Council of 26 June 2012.

(3) OJ L 9, 14.1.2009, p. 52.

(4) OJ L 83, 30.3.2010, p. 70.

(5) OJ L 139, 11.5.1998, p. 1.

(6) OJ L 139, 11.5.1998, p. 6.

HAVE ADOPTED THIS REGULATION:

Article 1

Definitions

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

- (1) 'circulation coins' means euro coins intended for circulation, the denominations and technical specifications of which are laid down in Regulation (EC) No 975/98;
- (2) 'commemorative coins' means circulation coins, which are intended to commemorate a specific subject as specified in Article 1h of Regulation (EC) No 975/98;
- (3) 'collector coins' means euro coins intended for collection that are not issued with a view to their entry into circulation.

Article 2

Types of euro coin

1. Member States may issue two types of euro coin: circulation coins and collector coins.
2. The Commission shall conduct an impact assessment on the continued issuance of 1- and 2-cent coins. That impact assessment shall include a cost-benefit analysis which takes into account the real production costs of those coins set against their value and benefits.

Article 3

Issuance of circulation coins

1. Circulation coins shall be issued and put into circulation at face value.
2. A minor proportion, not exceeding 5 % of the cumulated total net value and volume of circulation coins issued by a Member State, taking into account only years with positive net issuance, may be put on the market above face value if justified by the special quality of the coin, a special packaging or any additional services provided.

Article 4

Issuance of commemorative coins

1. Each Member State whose currency is the euro may only issue two commemorative coins per year, save where:
 - (a) commemorative coins are collectively issued by all Member States whose currency is the euro; or
 - (b) a commemorative coin is issued on the occasion of a temporary vacancy or a provisional occupation of the function of Head of State.
2. The total number of commemorative coins put into circulation for each individual issue shall not exceed the higher of the following two ceilings:
 - (a) 0,1 % of the cumulated total net number of 2-euro coins put into circulation by all Member States whose currency is the euro up to the beginning of the year preceding the year of issuance of the commemorative coin; this ceiling may be raised to 2,0 % of the cumulated total net number of 2-euro coins of all Member States whose currency is the euro if a widely recognised and highly symbolic subject is commemorated, in which case the issuing Member State shall refrain from launching another commemorative coin issue using the raised ceiling during the subsequent four years and shall set out the reasons for choosing the raised ceiling;
 - (b) 5,0 % of the cumulated total net number of 2-euro coins put into circulation by the Member State concerned up to the beginning of the year preceding the year of issuance of the commemorative coin.
3. The decision whether to issue commemorative coins with a common design collectively issued by all Member States whose currency is the euro shall be taken by the Council. The voting rights of the Member States whose currency is not the euro shall be suspended for the adoption of that decision.

Article 5

Issuance of collector coins

1. Collector coins shall have the status of legal tender only in the issuing Member State.
The identity of the issuing Member State shall be clearly and easily recognisable on the coin.
2. In order to be easily differentiated from circulation coins, collector coins shall meet all of the following criteria:
 - (a) their face value must be different from the face values of circulation coins;

- (b) their images must not be similar to the common sides of circulation coins, and if their images are similar to any national side of circulation coins, their overall appearance can still be easily differentiated;
 - (c) their colour, diameter and weight must differ significantly from circulation coins for at least two of these three characteristics; the difference shall be regarded as significant if the values including tolerances are outside the tolerance ranges fixed for circulation coins; and
 - (d) they must not have a shaped edge with fine scallops or a 'Spanish flower' shape.
3. Collector coins may be put on the market at or above face value.
 4. The issuances of collector coins shall be accounted for on an aggregated basis in the volume of coin issuance to be approved by the European Central Bank.
 5. Member States shall take all appropriate measures to discourage the use of collector coins as a means of payment.

Article 6

Consultation prior to the destruction of circulation coins

Prior to the destruction of circulation coins which are not euro coins unfit for circulation within the meaning of point (b) of Article 2 of Regulation (EU) No 1210/2010 of the European Parliament and of the Council of 15 December 2010 concerning authentication of euro coins and handling of euro coins unfit for circulation⁽¹⁾, Member States shall consult each other via the relevant subcommittee of the Economic and Financial Committee and inform the mint directors of the Member States whose currency is the euro.

Article 7

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

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

Done at Strasbourg, 4 July 2012.

For the European Parliament

The President

M. SCHULZ

For the Council

The President

A. D. MAVROYIANNIS



(1) OJ L 339, 22.12.2010, p. 1.

5. Exchange rate mechanism (ERM II) between the euro and participating national currencies

RESOLUTION OF THE EUROPEAN COUNCIL

on the establishment of an exchange-rate mechanism in the third stage of economic and monetary union

Amsterdam, 16 June 1997

(97/C 236/03)

Building on the agreements reached at its meetings in Florence and Dublin, the European Council has today agreed as follows:

AN EXCHANGE RATE MECHANISM WILL BE SET UP WHEN THE THIRD STAGE OF ECONOMIC AND MONETARY UNION BEGINS ON 1 JANUARY 1999.

With the start of the third stage of economic and monetary union, the European Monetary System will be replaced by the exchange-rate mechanism as defined in this Resolution. The operating procedures will be laid down in an agreement between the European Central Bank and the national central banks of the Member States outside the euro area.

The exchange-rate mechanism will link currencies of Member States outside the euro area to the euro. The euro will be the centre of the new mechanism. The mechanism will function within the requisite framework of stability-oriented policies in accordance with the Treaty establishing the European Community which are at the core of economic and monetary union.

1. PRINCIPLES AND OBJECTIVES

- 1.1. Lasting convergence of economic fundamentals is a prerequisite for sustainable exchange-rate stability. To this end, in the third stage of economic and monetary union all Member States must pursue disciplined and responsible monetary policies directed towards price stability. Sound fiscal and structural policies in all Member States are, at least, equally essential for sustainable exchange-rate stability.
- 1.2. A stable economic environment is necessary for the * good functioning of the single market and for higher investment, growth and employment and is therefore in the interest of all Member States. The single market must not be endangered by real exchange-rate misalignments, or by excessive nominal exchange-rate fluctuations between the euro and the other EU currencies, which would disrupt trade flows between Member States. Moreover, under Article 109m of the Treaty each Member State has an obligation to treat its exchange-rate policy as a matter of common interest. The surveillance of Member States' macroeconomic policies in the Council under Article 103 of the Treaty will be organized, inter alia, with a view to avoiding such misalignments or fluctuations.
- 1.3. The exchange-rate mechanism will help to ensure that Member States outside the euro-area participating in the mechanism orient their policies to stability, foster convergence and thereby help them in their efforts to adopt the euro. It will provide those Member States with a reference for their conduct of sound economic policies in général and monetary policy in particular. At the same time, the mechanism will also help to protect them and the Member States adopting the euro from unwarranted pressures in the foreign-exchange markets. In such cases, it may assist Member States outside the euro area participating in it, when their currencies come under pressure, to combine appropriate policy responses, including interest-rate measures, with coordinated intervention.
- 1.4. It will also help to ensure that Member States seeking to adopt the euro after 1 January 1999 receive treatment equal to that of those initially adopting the euro with respect to the fulfilment of the convergence criteria.
- 1.5. The exchange-rate mechanism will function without prejudice to the primary objective of the European Central Bank (ECB) and the national central banks to maintain price stability. It should be ensured that any adjustment of central rates is conducted in a timely fashion so as to avoid significant misalignments.
- 1.6. Participation in the exchange-rate mechanism will be voluntary for the Member States outside the euro area. Nevertheless, Member States with a dérogation can be expected to join the mechanism. A Member State which does not participate from the outset in the exchange-rate mechanism may participate at a later date.
- 1.7. The exchange-rate mechanism will be based on central rates against the euro. The standard fluctuation band will be relatively wide. Through the implementation of stability-oriented economic and monetary policies, the central rates will remain the focus for the Member States outside the euro area participating in the mechanism.

- 1.8. Furthermore, sufficient flexibility is allowed, in particular, to accommodate the varying degrees, paces and strategies of economic convergence of Member States outside the euro area joining the mechanism. Exchange-rate policy cooperation may be further strengthened, for example by allowing closer exchange-rate links between the euro and other currencies in the exchange-rate mechanism, where, and to the extent that, these are appropriate in the light of progress towards convergence. The existence of such closer links, particularly if it implied narrower fluctuation bands, would be without prejudice to the interpretation of the exchange-rate criterion of Article 109j of the Treaty.

2. MAIN FEATURES

- 2.1. A central rate against the euro will be defined for the currency of each Member State outside the euro area participating in the exchange-rate mechanism. There will be one standard fluctuation band of plus or minus 15 % around the central rate. Intervention at the margins will in principle be automatic and unlimited, with very short-term financing available. However, the ECB and the central banks of the other participants could suspend intervention if this were to conflict with their primary objective. In their decision they would take due account of all relevant factors and in particular of the need to maintain price stability and the credible functioning of the exchange-rate mechanism.
- 2.2. As is made clear in the agreement laying down the operating procedures of the exchange-rate mechanism which is expected to be concluded between the ECB and the national central banks, the flexible use of interest rates will be an important feature of the mechanism and there will be the possibility of coordinated intra-marginal intervention.
- 2.3. Decisions on central rates and the standard fluctuation band shall be taken by mutual agreement of the ministers of the euro-area Member States, the ECB and the ministers and central bank governors of the non-euro area Member States participating in the new mechanism, following a common procedure involving the European Commission, and after consultation of the Economic and Financial Committee. The ministers and governors of the central banks of the Member States not participating in the exchange-rate mechanism will take part but will not have the right to vote in the procedure. All parties to the mutual agreement, including the ECB, will have the right to initiate a confidential procedure aimed at reconsidering central rates.
- 2.4. On a case-by-case basis, formally agreed fluctuation bands narrower than the standard one and backed up in principle by automatic intervention and financing may be set at the request of the non-euro area Member State concerned. Such a decision to narrow the band would be taken by the ministers of the euro-area Member States, the ECB and the minister and governor of the central bank of the non-euro area Member State concerned, following a common procedure involving the European Commission, and after consultation of the Economic and Financial Committee. The ministers and central bank governors of the other Member States will take part in the procedure, but will not have the right to vote.
- 2.5. The standard and narrower bands shall not prejudice the interpretation of the third indent of Article 109j (1) of the Treaty.
- 2.6. The details of the very short-term financing mechanism will be determined in the agreement between the ECB and the national central banks, broadly on the basis of the present arrangements. The European Monetary Institute (EMI) has drafted such an agreement incorporating the operating procedures required by this Resolution. The EMI will submit it to the ECB and to the central banks of the non-euro area Member States on the date of the establishment of the ECB.



**REPORT BY THE (ECOFIN) COUNCIL TO THE EUROPEAN COUNCIL IN NICE
ON THE EXCHANGE RATE ASPECTS OF ENLARGEMENT**

1. This report presents the views of the Council (Ecofin) on exchange rate strategies for the twelve candidate countries with which accession negotiations are underway (hereafter "accession countries").
2. The Council (Ecofin) has drawn on a report prepared by the services of the Commission, a contribution of the European Central Bank and the report which the Economic and Financial Committee had presented to the Informal Ecofin meeting in Versailles and which had met with a broad consensus.
3. The Council (Ecofin) identified three distinct stages for the full monetary integration of candidate countries: the pre-accession stage; the accession stage, covering the period from accession to the Union to the adoption of the euro, and finally the adoption of the euro. The implications of each stage for the choice of the exchange rate policy are discussed below.

Prior to accession, there are no formal restrictions on the choice of an exchange rate regime.

4. Exchange rate regimes should not be looked at in isolation, as they are part of the overall economic and monetary policy framework of candidate countries. Policies should be oriented towards achieving real and thereby sustainable nominal convergence. They need to focus on structural adjustment and microeconomic reform so as to facilitate the fulfilment of the (economic) Copenhagen criterion of "the existence of a functioning market economy able to cope with competitive pressures and market forces within the Union". Without such policies, there is a risk that any exchange rate strategy will run into serious difficulties and macroeconomic stability will be difficult to achieve and maintain.
5. The consistency of economic policies, including the choice of exchange rate regime, and their suitability to the economic situation of the accession country are crucial. The choice of an exchange rate regime on the path from pre-accession to accession must therefore take into account several factors. Among these are: achieving macroeconomic stability, facilitating transition, growth and real convergence, preparing for integration into the EU and participation in the Single Market, adjusting to real shocks, maintaining external balance, and dealing with capital flows. Given the diversity of these factors, the appropriate policies are those aimed at creating the right conditions for the proper functioning of markets and for the success of the economic transformation process. In this context, the choice of the exchange rate regime should be consistent with and support an overall economic strategy geared towards achieving these goals.
6. During the pre-accession stage, the choice of a specific exchange rate regime is the responsibility of the individual candidate country. A plurality of approaches (i.e. different exchange rate regimes) seems to be feasible, as was already the practice with the countries that have already joined the EU. Exchange rate regimes should be compatible with the economic situation and characteristics of the country concerned and the state of transition. This does not mean the EU would treat these choices with indifference. In the context of the European Agreements, the EU monitors closely whether economic policies, including the exchange rate regime, are contributing to macro-economic stability and promoting real and nominal convergence.
7. Fixed exchange rate regimes, including Currency Board arrangements, can be sustainable in small and open economies with sufficient wage and price flexibility, strict fiscal discipline and sound financial systems. The existence of some successful experiences with Currency Board arrangements thus far, however, does not imply that such arrangements should be generally seen as a panacea. Indeed, much of their future success depends on the willingness of the countries involved to cope with the internal discipline imposed by this particular exchange rate arrangement. All twelve accession countries will undergo, to different degrees in the years ahead, a process of catching-up (i.e. real convergence). This should go along with improvements in their terms of trade and thus is likely to imply some trend real exchange rate appreciation. In the case of a fixed exchange rate regime this would result in a somewhat higher level of inflation than would be the case if the nominal exchange rate were allowed to appreciate. A clear path towards lower inflation will facilitate future nominal convergence.
8. Accession countries will also have to cope with increasing capital inflows, in particular given the orderly capital movement liberalisation that the adoption of the EMU acquis requires already in the pre-accession phase. Capital flows may be easier to tackle with some exchange rate flexibility. When dealing with external imbalances in a context of free capital movements, fiscal policy is generally a most appropriate instrument of adjustment.
9. Potential EU members wishing to join ERM II relatively swiftly after accession are already now expected to consider their policies with a view to their prospective membership in ERM II. In this context, it should be made clear that any unilateral adoption of the single currency by means of "euroisation" would run counter to the underlying economic

reasoning of EMU in the Treaty, which foresees the eventual adoption of the euro as the endpoint of a structured convergence process within a multilateral framework. Therefore, unilateral “euroisation” would not be a way to circumvent the stages foreseen by the Treaty for the adoption of the euro.

Upon accession, new Member states shall treat their exchange rate policy as a matter of common interest

10. Candidate countries will enter the EU as Member States with a derogation. In principle, it should be possible for them to bring in with them their existing exchange rate regime. Most, if not all, of the economic policy considerations that determine the choice of an exchange rate regime in the pre-accession phase will continue to apply.
11. In accordance with Article 124 of the Treaty, the new Member States shall be required to treat their exchange rates as a matter of common concern. In practice, this means that, in order to protect the smooth functioning of the Single Market, competitive devaluations are not allowed. As Member States with a derogation, the new countries will also participate in the co-ordination of economic policies to the extent required by the Treaty and will be expected to work towards fulfilling the Maastricht convergence criteria.

After accession, although not necessarily immediately, accession countries are expected to join the ERM II.

12. The new Member States will be expected to enter ERM II, established by the European Council Resolution of 16 June 1997. The key features of the ERM II are that it has stable but adjustable central rates to the euro for the participating currency with fluctuation bands of +/- 15 % around the central rate and that it uses a common procedure for the main decisions relating to the conditions of participation of a country in the mechanism. A new Member State may join ERM II, upon request, any time after accession, subject to agreement on the central parity and fluctuation band in accordance with the common procedure referred to above. Most accession countries have stated their intention to join the mechanism as soon as possible after entry into the EU.
13. The multilateral nature of the above-mentioned common procedure implies that, ultimately, final decisions related to a request for participation can only be taken on a case-by-case basis at the time of entry in the mechanism. At the same time, the ERM II is flexible enough to accommodate the features of a number of existing exchange rate strategies. The only clear incompatibilities with the ERM II that can be identified already at this stage are the cases of free floating (or managed floats without a mutually agreed central rate), crawling pegs, and pegs against anchors other than the euro.
14. When a country with a Currency Board pegged to the euro wants to join ERM II, the decision on the compatibility of a particular Currency Board arrangement with participation in ERM II could only be taken on the basis of a careful assessment of the appropriateness and sustainability of the Currency Board in question. This conclusion follows logically from the procedure foreseen in the ERM II Resolution concerning the adoption of central rates. Although Currency Board arrangements cannot be regarded as an acceptable substitute for participation in ERM II, they may in some circumstances constitute an appropriate unilateral commitment within ERM II. Such a unilateral commitment would not impose any additional obligation on the ECB beyond those deriving from the ERM II resolution and the Central Bank Agreement.

After application of the procedure provided for in the relevant parts of the Treaty, the new Member States will adopt the euro in a manner that ensures equal treatment with the initial participants in the euro area.

15. Finally, the participation in the euro area of the new Member States will be decided as soon as it complies with the conditions for the adoption of the single currency, defined by the Treaty establishing the European Community. The assessment process will ensure equal treatment between future Member States and the current participants in the euro area. The Council will adopt the rate at which the euro will be substituted for the currency of the Member State and the Member State will prepare for the introduction of the euro.



COMMON STATEMENT ON ACCEDING COUNTRIES AND ERM2**ATHENS, 5 APRIL 2003**

1. The Ecofin Council on 8 November 2000 forwarded a report to the Nice European Council on the exchange-rate aspects of enlargement, which continues to describe the position of the EU-15 on these aspects, in particular ERM2. Ministers, the ECB President, Governors, and the Commissioner in Athens on 5 April confirmed the Ecofin position and agreed to the following.
2. Upon accession, new Member States shall treat their exchange-rate policy as a matter of common interest (Treaty Article 124). Lasting convergence of economic fundamentals is a prerequisite for sustainable exchange rate stability. To this end, new Member States must pursue disciplined and responsible monetary policy directed towards price stability. Sound fiscal and structural policies are, at least, equally essential for sustainable exchange rate stability.
3. Acceding countries will enter the EU as Member States with a derogation. This means, inter alia, that:
 - they would be able in principle to bring in with them their existing exchange-rate regimes;
 - competitive devaluations will not be allowed⁽¹⁾;
 - they will participate in the coordination of economic policies (notably by virtue of Articles 99 and 104 of the Treaty and the SGP) and will be expected to work towards real and nominal convergence;
 - they are expected to join the ERM2, although not necessarily immediately after accession, and eventually the euro.
4. Economic policies of acceding Member States should be oriented towards achieving real and sustainable nominal convergence. Exchange-rate regimes should not be looked at in isolation, rather they should be part of the overall economic, financial and monetary framework of acceding countries. Participation in ERM2 should help to achieve real and nominal convergence, and should not be seen as a mere waiting room for the adoption of the euro. ERM2 provides a degree of flexibility to accommodate the varying degrees, pace and strategies of economic convergence. However, in certain cases, staying outside the ERM2 for some time may be useful in light of large and volatile capital flows, large fiscal imbalances, and/or risks of large economic shocks.
5. ERM2 is based on the European Council Resolution on the establishment of an exchange rate mechanism in the third stage of economic and monetary union (Amsterdam, 16 June 1997) and the Central Bank Agreement of 1 September 1998 laying down the operating procedures. Its key features are: (i) stable but adjustable central rates to the euro for the participating currencies (with standard fluctuation bands being +/-15 % around the central rate); and (ii) a common procedure for the main decisions relating to the conditions of participation in the mechanism (central rate and fluctuation band).
6. A new Member State may join ERM2 upon request any time after accession, subject to the agreement on the central parity and fluctuation band in accordance with the common procedure. Differences in the economic situation among new Member States, as well as the voluntary and multilateral nature of the procedure also imply that decisions are taken on a case-by-case basis at the time of entry in the mechanism. They shall ensure equal treatment between new and current Member States. While ERM2 is flexible enough to accommodate the features of a number of exchange rate strategies, some regimes have been already identified at this stage as incompatible with ERM2, namely free floating (or managed float without a mutually agreed central rate), crawling pegs and pegs against anchors others than the euro. The countries concerned will therefore need to change those regimes for participation in ERM2. Compatibility of Currency Board arrangements with participation in ERM2 will be assessed case-by-case. Unilateral 'euroisation' is not compatible with the Treaty.

(1) See section 1.2 of the Amsterdam Resolution of 16 June 1997: 'The single Market must not be endangered by real exchange rate misalignments, or by excessive nominal exchange rate fluctuations between the euro and other EU currencies, which would disrupt trade flows between Member States. The surveillance of Member States' macroeconomic policies in the Council under Article 103 (i.e. the BEPGs, now under Article 99) of the Treaty will be organised, inter alia, with a view to avoiding such misalignments or fluctuations'.

7. Decisions on central rates and the standard fluctuation band shall be taken by mutual agreement of the ministers of the euro-area Member States, the ECB and the ministers and central bank governors of the non-euro area Member States participating in the new mechanism, following a common procedure involving the European Commission, and after consultation of the Economic and Financial Committee. The ministers and governors of the central banks of the Member States not participating in the exchange rate mechanism will take part but will not have the right to vote in the procedure. All parties to the mutual agreement, including the ECB, will have the right to initiate a confidential procedure aimed at reconsidering central rates.
8. The assessment of the fulfilment of the Maastricht convergence criteria and the procedures to be followed for the introduction of the euro will ensure equal treatment between future Member States and the current participants in the euro area. A minimum stay of two years in the mechanism prior to the convergence assessment without severe tensions is expected. Moreover, the assessment of exchange-rate stability against the euro will focus on the exchange rate being close to the central rate while also taking into account factors that may have led to an appreciation, in line with what was done in the past.



AGREEMENT**of 16 March 2006****between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of Economic and Monetary Union****(2006/C 73/08)**

THE EUROPEAN CENTRAL BANK (ECB) AND THE NATIONAL CENTRAL BANKS OF THE MEMBER STATES THAT ARE OUTSIDE THE EURO AREA ON 16 MARCH 2006 (HEREINAFTER THE 'NON-EURO AREA NCBs'),

Whereas:

- (1) The Agreement of 1 September 1998 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of Economic and Monetary Union⁽¹⁾ (hereinafter the 'Agreement of 1 September 1998') has been amended three times. The introduction of a new criterion for counterparties eligible to conduct interventions at the margins directly with the ECB would require a further amendment of Annex I to the Agreement of 1 September 1998. In the interests of clarity and transparency therefore, the Agreement of 1 September 1998 should be replaced by a new Agreement.
- (2) The European Council agreed in its Resolution of 16 June 1997 (hereinafter the 'Resolution') to set up an exchange rate mechanism (hereinafter 'ERM II') when the third stage of economic and monetary union began on 1 January 1999.
- (3) Under the terms of the Resolution,
 - ERM II replaces the European Monetary System;
 - a stable economic environment is necessary for the good functioning of the single market and for higher investment, growth and employment, and is therefore in the interest of all Member States. The single market must not be endangered by real exchange rate misalignments or by excessive nominal exchange rate fluctuations between the euro and the other EU currencies, which would disrupt trade flows between Member States. Moreover, under Article 124 of the Treaty establishing the European Community, each Member State has an obligation to treat its exchange rate policy as a matter of common interest;
 - ERM II helps to ensure that non-euro area Member States participating in ERM II (hereinafter 'participating non-euro area Member States') orient their policies to stability, foster convergence and thereby help them in their efforts to adopt the euro;
 - participation in ERM II is voluntary for the non-euro area Member States. Nevertheless, Member States with a derogation can be expected to join the mechanism. A Member State which does not participate from the outset in ERM II may participate at a later date;
 - ERM II functions without prejudice to the primary objective of the ECB and the non-euro area NCBs to maintain price stability;
 - for the currency of each participating non-euro area Member State (hereinafter 'participating non-euro area currency') a central rate against the euro is defined;
 - there is one standard fluctuation band of $\pm 15\%$ around the central rates;
 - it should be ensured that any adjustment of central rates is conducted in a timely fashion so as to avoid significant misalignments. Thus, all parties to the mutual agreement on the central rates, including the ECB, have the right to initiate a confidential procedure aimed at reconsidering central rates;
 - intervention at the margins is in principle automatic and unlimited, with very short-term financing available. However, the ECB and the non-euro area NCBs participating in ERM II (hereinafter 'participating non-euro area NCBs') could suspend intervention if this were to conflict with their primary objective of price stability. In their decision they would take due account of all relevant factors and in particular of the need to maintain stability and the credible functioning of ERM II;

(1) OJ C 345, 13.11.1998, p. 6. Agreement as last amended by the Agreement of 16 September 2004 (OJ C 281, 18.11.2004, p. 3).

- exchange rate policy co-operation may be further strengthened, for example by allowing closer exchange rate links between the euro and the participating non-euro area currencies, where, and to the extent that, these are appropriate in the light of progress towards convergence.
- (4) Intervention should be used as a supportive instrument in conjunction with other policy measures, including appropriate monetary and fiscal policies conducive to economic convergence and exchange rate stability. There is the possibility of coordinated intramarginal intervention decided by mutual agreement between the ECB and the respective participating non-euro area NCB, in parallel with other appropriate policy responses, including the flexible use of interest rates, by the latter.
- (5) Sufficient flexibility needs to be allowed, in particular to accommodate the varying degrees, paces and strategies of economic convergence of the non-euro area Member States.
- (6) This Agreement does not preclude the establishment, on a bilateral basis, of additional fluctuation bands and intervention arrangements between non-euro area Member States.

HAVE AGREED AS FOLLOWS:

I. CENTRAL RATES AND FLUCTUATION BANDS

Article 1

Bilateral central rates and intervention rates between the euro and the participating non-euro area currencies

- 1.1. The parties to this Agreement shall participate in a joint notification to the market of the bilateral central rates, and any changes to them, between the participating non-euro area currencies and the euro as agreed following the common procedure specified in paragraph 2.3 of the Resolution.
- 1.2. In accordance with the fluctuation bands fixed pursuant to paragraphs 2.1, 2.3 and 2.4 of the Resolution, the ECB and each participating non-euro area NCB shall establish, by common accord, the bilateral upper and lower rates between the euro and the participating non-euro area currencies for automatic intervention. The ECB and the participating non-euro area NCBs shall jointly notify the market of these rates, which shall be quoted in accordance with the convention set forth in Annex I.

II. INTERVENTION

Article 2

General provisions

- 2.1. Intervention shall in principle be effected in euro and the participating non-euro area currencies. The ECB and the participating non-euro area NCBs shall inform each other about all foreign exchange intervention intended to safeguard the cohesion of ERM II.
- 2.2. The ECB and the non-euro area NCBs shall inform each other about all other foreign exchange intervention.

Article 3

Intervention at the margins

- 3.1. Intervention at the margins shall in principle be automatic and unlimited. However, the ECB and the participating non-euro area NCBs could suspend automatic intervention if this were to conflict with their primary objective of maintaining price stability.
- 3.2. In deciding whether to suspend intervention, the ECB or a participating non-euro area NCB shall also take due account of all other relevant factors, including the credible functioning of ERM II. The ECB and/or the participating non-euro area NCB concerned shall base any decision on factual evidence and, in this context, also give consideration to any conclusion which may have been reached by other competent bodies. The ECB and/or the participating non-euro area NCB concerned shall notify, as long in advance as possible and on a strictly confidential basis, the other monetary authorities concerned and the monetary authorities of all other participating non-euro area Member States of any intention to suspend intervention.
- 3.3. A payment after payment procedure shall be applied in the event of intervention at the margins, as set forth in Annex I.

Article 4

Coordinated intramarginal intervention

The ECB and participating non-euro area NCBs may agree to co-ordinated intramarginal intervention.

*Article 5***Procedures for intervention and other transactions**

- 5.1. Prior agreement of the non-euro area NCB issuing the intervention currency shall be obtained when another central bank of the European System of Central Banks intends to use the former's currency in amounts exceeding mutually agreed limits in connection with all non-compulsory intervention, including unilateral intramarginal intervention.
- 5.2. A non-euro area NCB shall give immediate notification to the ECB when it has used the euro in amounts exceeding mutually agreed limits in connection with all non-compulsory intervention, including unilateral intramarginal intervention.
- 5.3. Before carrying out transactions other than intervention which involve at least one non-euro area currency or the euro and which exceed mutually agreed limits, the party intending to carry out such transactions shall give prior notification to the central bank(s) concerned. In such cases the central banks concerned shall agree on an approach which minimises potential problems, including the possibility of settling the transaction, wholly or in part, directly between the two central banks.

III. VERY SHORT-TERM FINANCING FACILITY*Article 6***General provisions**

- 6.1. For the purpose of intervention in euro and in the participating non-euro area currencies, the ECB and each participating non-euro area NCB shall open for each other very short-term credit facilities. The initial maturity for a very short-term financing operation shall be three months.
- 6.2. The financing operations under these facilities shall take the form of spot sales and purchases of participating currencies giving rise to corresponding claims and liabilities, denominated in the creditor's currency, between the ECB and the participating non-euro area NCBs. The value date of the financing operations shall be identical to the value date of the intervention in the market. The ECB shall keep a record of all transactions conducted in the context of these facilities.

*Article 7***Financing of intervention at the margins**

- 7.1. The very short-term financing facility is in principle automatically available and unlimited in amount for the purpose of financing intervention in participating currencies at the margins.
- 7.2. The debtor central bank shall make appropriate use of its foreign reserve holdings prior to drawing on the facility.
- 7.3. The ECB and the participating non-euro area NCBs could suspend further automatic financing if it were to conflict with their primary objective of maintaining price stability. The suspension of further automatic financing will be subject to the provisions of Article 3.2 of this Agreement.

*Article 8***Financing of intramarginal intervention**

For the purpose of intramarginal intervention, the very short-term financing facility may, with the agreement of the central bank issuing the intervention currency, be made available subject to the following conditions:

- (a) the cumulative amount of such financing made available to the debtor central bank shall not exceed the latter's ceiling as laid down in Annex II;
- (b) the debtor central bank shall make appropriate use of its foreign reserve holdings prior to drawing on the facility.

*Article 9***Remuneration**

- 9.1. Outstanding very short-term financing balances shall be remunerated at the representative domestic three-month money market rate of the creditor's currency prevailing on the trade date of the initial financing operation or, in the event of a renewal pursuant to Articles 10 and 11 of this Agreement, the three-month money market rate of the creditor's currency prevailing two business days before the date on which the initial financing operation to be renewed falls due.
- 9.2. Accrued interest shall be paid in the creditor's currency on the date of the initial maturity of the facility, or, if applicable, on the date of the advance liquidation of a debtor balance. In the event of a renewal of the facility pursuant to Articles

10 and 11 of this Agreement, interest shall be capitalised at the end of every three-month period and shall be paid on the date of the final repayment of the debtor balance.

- 9.3. For the purpose of Article 9.1 of this Agreement, each participating non-euro area NCB shall notify the ECB of its representative domestic three-month money market rate. A representative domestic three-month money market rate in euro shall be used by the ECB and notified to the participating non-euro area NCBs.

Article 10

Automatic renewal

At the request of the debtor central bank, the initial maturity for a financing operation may be extended for a period of three months.

However:

- (a) the initial maturity may only be automatically extended once for a maximum of three months;
- (b) the total amount of indebtedness resulting from application of this Article may at no time exceed the debtor central bank's ceiling as laid down for each central bank in Annex II.

Article 11

Renewal by mutual agreement

- 11.1. Any debt exceeding the ceiling laid down in Annex II may be renewed once for three months subject to the agreement of the creditor central bank.
- 11.2. Any debt already renewed automatically for three months may be renewed a second time for a further three months subject to the agreement of the creditor central bank.

Article 12

Advance repayment

Any debtor balance recorded in accordance with Articles 6, 10 and 11 of this Agreement may be settled at any time in advance at the request of the debtor central bank.

Article 13

Netting-out of mutual claims and liabilities

Mutual claims and liabilities between the ECB and a participating non-euro area NCB arising from the operations provided for in Articles 6 to 12 of this Agreement may be netted out against each other by mutual agreement between the two parties involved.

Article 14

Means of settlement

- 14.1. When a financing operation falls due or in the event of advance repayment, settlement shall in principle be carried out by means of holdings in the creditor's currency.
- 14.2. This provision shall be without prejudice to other forms of settlement agreed between creditor and debtor central banks.

IV. CLOSER EXCHANGE RATE COOPERATION

Article 15

Closer exchange rate cooperation

- 15.1. The exchange rate policy cooperation between participating non-euro area NCBs and the ECB may be further strengthened; in particular, closer exchange rate links may be agreed on a case-by-case basis at the initiative of the interested participating non-euro area Member State.
- 15.2. On a case-by-case basis, formally agreed fluctuation bands narrower than the standard one and backed up in principle by automatic intervention and financing may be set at the request of the participating non-euro area Member State concerned, according to the procedure laid down in paragraph 2.4 of the Resolution.
- 15.3. Other types of closer exchange rate arrangements of an informal nature may also be established between the ECB and participating non-euro area NCBs.

V. MONITORING THE FUNCTION OF THE SYSTEM

Article 16

Tasks of the General Council of the ECB

- 16.1. The General Council of the ECB shall monitor the functioning of ERM II and serve as the forum for monetary and exchange rate policy coordination as well as for the administration of the intervention and financing mechanism specified in this Agreement. It shall closely monitor, on a permanent basis, the sustainability of bilateral exchange rate relations between each participating non-euro area currency and the euro.
- 16.2. The General Council of the ECB shall periodically review the operation of this Agreement in the light of experience gained.

Article 17

Reconsideration of central rates and participation in narrower fluctuation bands

- 17.1. All parties to the mutual agreement reached pursuant to paragraph 2.3 of the Resolution, including the ECB, shall have the right to initiate a confidential procedure aimed at reconsidering central rates.
- 17.2. In the event of formally agreed fluctuation bands narrower than the standard one, all parties to the joint decision made pursuant to paragraph 2.4 of the Resolution, including the ECB, shall have the right to initiate a confidential re-examination of the appropriateness of the respective currency's participation in the narrower band.

VI. NON-PARTICIPATION

Article 18

Applicability

The provisions of Article 1, 2.1, 3, 4, 6 to 15 and 17 of this Agreement shall not apply to non-euro area NCBs which do not participate in ERM II.

Article 19

Cooperation in the concertation

Non-euro area NCBs not participating in ERM II shall cooperate with the ECB and the participating non-euro area NCBs in the concertation and/or the other exchanges of information necessary for the proper functioning of ERM II.

VII. FINAL PROVISIONS

Article 20

Final provisions

- 20.1. This Agreement shall enter into force on 1 April 2006.
- 20.2. The Agreement of 1 September 1998 is repealed with effect from 1 April 2006. References to the repealed Agreement shall be construed as references to this Agreement.
- 20.3. This Agreement shall be drawn up in English and duly signed by the parties. The ECB, which is required to retain the original Agreement, shall send a certified copy thereof to each euro area and non-euro area NCB. The Agreement shall be translated into all other official Community languages and be published in the C series of the Official Journal of the European Union.

Done at Frankfurt am Main, on 16 March 2006.

For and on behalf of *The European Central Bank*

For and on behalf of *Česká národní banka*

For and on behalf of *Danmarks Nationalbank*

For and on behalf of *Eesti Pank*

For and on behalf of *Central Bank of Cyprus*

For and on behalf of *Latvijas Banka*

For and on behalf of *Lietuvos bankas*

For and on behalf of *Magyar Nemzeti Bank*

For and on behalf of *Central Bank of Malta*

For and on behalf of *Narodowy Bank Polski*

For and on behalf of *Banka Slovenije*

For and on behalf of *Národná banka Slovenska*

For and on behalf of *Sveriges Riksbank*

For and on behalf of *The Bank of England*

ANNEX I

QUOTATION CONVENTION FOR CURRENCIES PARTICIPATING IN ERM II AND THE PAYMENT AFTER PAYMENT PROCEDURE IN THE EVENT OF INTERVENTION AT THE MARGINS

A. Quotation convention

For all the currencies of the non-euro area Member States participating in ERM II, the exchange rate for the bilateral central rate vis-à-vis the euro shall be quoted using the euro as the base currency. The exchange rate shall be expressed as the value of E1 using six significant digits for all currencies.

The same convention shall be applied for quoting the upper and lower intervention rates vis-à-vis the euro of the currencies of the non-euro area Member States participating in ERM II. The intervention rates shall be determined by adding or subtracting the agreed bandwidth, expressed as a percentage, to or from the bilateral central rates. The resulting rates shall be rounded to six significant digits.

B. Payment after payment procedure

A payment after payment procedure shall be applied by both the ECB and the euro area NCBs in the event of intervention at the margins. The non-euro area NCBs participating in ERM II shall apply the payment after payment procedure when acting as correspondents of the euro area NCBs and the ECB in accordance with this Annex; the non-euro area NCBs participating in ERM II may, at their discretion, adopt the same payment after payment procedure when settling intervention at the margins that such NCBs have carried out on their own behalf.

(i) General principles

- The payment after payment procedure shall be applied when intervention at the margins in ERM II takes place between the euro and the currencies of the non-euro area Member States participating in ERM II.
- To be eligible for intervention at the margins in ERM II, counterparties shall be required to keep an account with the NCB concerned. Counterparties shall also be required to maintain SWIFT addresses and/or to exchange authenticated telex keys with the NCB concerned or with the ECB.
- Counterparties eligible for intervention at the margins in ERM II may also conduct such intervention directly with the ECB, provided that they also have the status of eligible counterparties for executing foreign exchange transactions with the ECB pursuant to Guideline ECB/2000/1 of 3 February 2000 on the management of the foreign reserve assets of the European Central Bank by the national central banks and the legal documentation for operations involving the foreign reserve assets of the European Central Bank⁽¹⁾.
- The non-euro area NCBs participating in ERM II shall act as the correspondents of the euro area NCBs and the ECB.
- When intervention at the margins takes place, the NCB concerned or the ECB shall release its payment for a given transaction only after receiving confirmation from its correspondent that the amount due has been credited to its account. Counterparties shall be required to pay in due time so as to enable the NCBs and the ECB to fulfil their respective payment obligations. Consequently, counterparties shall be required to pay before a predefined deadline.

(ii) Deadline for the receipt of funds from counterparties

Counterparties shall pay intervention amounts at the latest by 1 p.m. ECB (CET) time on value date.

(1) OJ L 207, 17.8.2000, p. 24. Guideline as last amended by Guideline ECB/2005/15 (OJ L 345, 28.12.2005, p. 33).

ANNEX II

**CEILINGS ON ACCESS TO THE VERY SHORT-TERM FINANCING FACILITY REFERRED TO IN ARTICLES 8,
10 AND 11 OF THE CENTRAL BANK AGREEMENT
WITH EFFECT FROM 1 MAY 2004**

(in millions of EUR)

Central banks party to this Agreement	Ceilings ⁽¹⁾
Česká národní banka	700
Danmarks Nationalbank	730
Eesti Pank	300
Central Bank of Cyprus	290
Latvijas Banka	340
Lietuvos bankas	390
Magyar Nemzeti Bank	680
Central Bank of Malta	270
Narodowy Bank Polski	1 830
Banka Slovenije	350
Národná banka Slovenska	470
Sveriges Riksbank	990
Bank of England	4 660
European Central Bank	nil
⁽¹⁾ The amounts indicated are notional for central banks which do not participate in ERM II.	

Euro area NCBs	Ceilings
Nationale Bank van België/Banque Nationale de Belgique	nil
Deutsche Bundesbank	nil
Bank of Greece	nil
Banco de España	nil
Banque de France	nil
Central Bank and Financial Services Authority of Ireland	nil
Banca d'Italia	nil
Banque centrale du Luxembourg	nil
De Nederlandsche Bank	nil
Oesterreichische Nationalbank	nil
Banco de Portugal	nil
Suomen Pankki	nil
European Central Bank	nil



AGREEMENT
of 21 December 2006

between the European Central Bank and the national central banks of the Member States outside the euro area amending the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union

(2007/C 14/03)

THE EUROPEAN CENTRAL BANK (HEREINAFTER REFERRED TO AS THE 'ECB') AND THE NATIONAL CENTRAL BANKS OF THE MEMBER STATES OUTSIDE THE EURO AREA (HEREINAFTER REFERRED TO AS THE 'NON-EURO AREA NCBs' AND THE 'NON-EURO AREA MEMBER STATES' RESPECTIVELY),

Whereas:

- (1) The European Council in its Resolution of 16 June 1997 (hereinafter referred to as the 'Resolution') agreed to set up an exchange rate mechanism (hereinafter referred to as 'ERM II') when the third stage of economic and monetary union began on 1 January 1999.
- (2) Under the terms of the Resolution, ERM II is designed to help to ensure that non-euro area Member States participating in ERM II orient their policies to stability, foster convergence and thereby help them in their efforts to adopt the euro.
- (3) Slovenia, as a Member State with a derogation, has participated in ERM II since 28 June 2004 and Banka Slovenije is party to the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union⁽¹⁾ (hereinafter referred to as the 'ERM II Central Bank Agreement').
- (4) Pursuant to Article 1 of Council Decision 2006/495/EC of 11 July 2006 in accordance with Article 122(2) of the Treaty on the adoption by Slovenia of the single currency on 1 January 2007⁽²⁾, the derogation in favour of Slovenia referred to in Article 4 of the 2003 Act of Accession⁽³⁾ is abrogated with effect from 1 January 2007. Banka Slovenije should therefore no longer be party to the ERM II Central Bank Agreement with effect from that date and the ERM II Central Bank Agreement should be amended accordingly.
- (5) In view of the accession of Romania and Bulgaria to the European Union, their respective national central banks (NCBs) become part of the European System of Central Banks on 1 January 2007. The ERM II Central Bank Agreement should be amended accordingly,

HAVE AGREED AS FOLLOWS:

Article 1

Amendment to the ERM II Central Bank Agreement in view of the abrogation of Slovenia's derogation

Banka Slovenije shall no longer be party to the ERM II Central Bank Agreement with effect from 1 January 2007.

Article 2

Amendments to the ERM II Central Bank Agreement in view of the accession of Romania and Bulgaria

The Bulgarian National Bank and Banca Națională a României shall become parties to the ERM II Central Bank Agreement with effect from 1 January 2007.

Article 3

Replacement of Annex II to the ERM II Central Bank Agreement

Annex II to the ERM II Central Bank Agreement is replaced by the text set out in the Annex to this Agreement.

(1) OJ C 73, 25.3.2006, p. 21.

(2) OJ L 195, 15.7.2006, p. 25.

(3) OJ L 236, 23.9.2003, p. 33.

*Article 4***Final provisions**

- 4.1 This Agreement shall enter into force on 1 January 2007.
- 4.2 This Agreement shall be drawn up in the English and duly signed by the parties. The ECB, which is required to retain the original Agreement, shall send a certified copy thereof to each euro area and non-euro area NCB. The Agreement shall be translated into all other official Community languages and be published in the C series of the Official Journal of the European Union.

Done at Frankfurt am Main, 21 December 2006.

For the *European Central Bank*

For the *Bulgarian National Bank*

For *Česká národní banka*

For *Danmarks Nationalbank*

For *Eesti Pank*

For the *Central Bank of Cyprus*

For *Latvijas Banka*

For *Lietuvos bankas*

For the *Magyar Nemzeti Bank*

For the *Central Bank of Malta*

For *Narodowy Bank Polski*

For *Banca Națională a României*

For *Banka Slovenije*

For *Národná banka Slovenska*

For *Sveriges Riksbank*

For the *Bank of England*

ANNEX

'ANNEX II

**CEILINGS ON ACCESS TO THE VERY SHORT-TERM FINANCING FACILITY REFERRED TO IN ARTICLES 8,
10 AND 11 OF THE CENTRAL BANK AGREEMENT
WITH EFFECT FROM 1 JANUARY 2007**

(EUR million)

Central banks party to this Agreement	Ceilings ⁽¹⁾
Bulgarian National Bank	490
Česká národní banka	640
Danmarks Nationalbank	670
Eesti Pank	300
Central Bank of Cyprus	280
Latvijas Banka	330
Lietuvos bankas	370
Magyar Nemzeti Bank	620
Central Bank of Malta	270
Narodowy Bank Polski	1 610
Banca Națională a României	950
Národná banka Slovenska	440
Sveriges Riksbank	900
Bank of England	4 130
European Central Bank	nil
⁽¹⁾ The amounts indicated are notional for central banks which do not participate in ERM II.	

Euro area NCBs	Ceilings
Nationale Bank van België/Banque Nationale de Belgique	nil
Deutsche Bundesbank	nil
Bank of Greece	nil
Banco de España	nil
Banque de France	nil
Central Bank and Financial Services Authority of Ireland	nil
Banca d'Italia	nil
Banque centrale du Luxembourg	nil
De Nederlandsche Bank	nil
Oesterreichische Nationalbank	nil
Banco de Portugal	nil
Banka Slovenije	nil
Suomen Pankki	nil'



AGREEMENT**of 14 December 2007**

between the European Central Bank and the national central banks of the Member States outside the euro area amending the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union

(2007/C 319/04)

THE EUROPEAN CENTRAL BANK (ECB) AND THE NATIONAL CENTRAL BANKS OF THE MEMBER STATES OUTSIDE THE EURO AREA (HEREINAFTER REFERRED TO AS THE 'NON-EURO AREA NCBs' AND THE 'NON-EURO AREA MEMBER STATES' RESPECTIVELY),

Whereas:

- (1) The European Council in its Resolution of 16 June 1997 (hereinafter referred to as the 'Resolution') agreed to set up an exchange rate mechanism (hereinafter referred to as 'ERM II') when the third stage of economic and monetary union (EMU) began on 1 January 1999.
- (2) Under the terms of the Resolution, ERM II is designed to help to ensure that non-euro area Member States participating in ERM II orient their policies to stability, foster convergence and thereby help them in their efforts to adopt the euro.
- (3) Cyprus, as a Member State with a derogation, has participated since 2 May 2005 in ERM II; whereas the Central Bank of Cyprus is party to the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union⁽¹⁾, amended by the Agreement of 21 December 2006⁽²⁾ (together hereinafter referred to as the 'ERM II Central Bank Agreement').
- (4) Malta, as a Member State with a derogation, has participated since 2 May 2005 in ERM II; whereas the Central Bank of Malta is party to the ERM II Central Bank Agreement.
- (5) Pursuant to Article 1 of Council Decision 2007/503/EC of 10 July 2007 in accordance with Article 122(2) of the Treaty on the adoption by Cyprus of the single currency on 1 January 2008⁽³⁾ the derogation in favour of Cyprus referred to in Article 4 of the 2003 Act of Accession is abrogated with effect from 1 January 2008; whereas the euro will be Cyprus' currency from 1 January 2008; whereas the Central Bank of Cyprus should no longer be party to the ERM II Central Bank Agreement from that date.
- (6) Pursuant to Article 1 of Council Decision 2007/504/EC of 10 July 2007 in accordance with Article 122(2) of the Treaty on the adoption by Malta of the single currency on 1 January 2008⁽⁴⁾ the derogation in favour of Malta referred to in Article 4 of the 2003 Act of Accession is abrogated with effect from 1 January 2008; whereas the euro will be Malta's currency from 1 January 2008; whereas the Central Bank of Malta should no longer be party to the ERM II Central Bank Agreement from that date.
- (7) It is therefore necessary to amend the ERM II Central Bank Agreement to take account of the abrogation of the derogations in favour of Cyprus and Malta,

HAVE AGREED AS FOLLOWS:

*Article 1***Amendment to the ERM II Central Bank Agreement in view of the abrogation of a Member State's derogation**

- 1.1 The Central Bank of Cyprus shall no longer be party to the ERM II Central Bank Agreement from 1 January 2008.
- 1.2 The Central Bank of Malta shall no longer be party to the ERM II Central Bank Agreement from 1 January 2008.

(1) OJ C 73, 25.3.2006, p. 21.

(2) OJ C 14, 20.1.2007, p. 6

(3) OJ L 186, 18.7.2007, p. 29.

(4) OJ L 186, 18.7.2007, p. 32.

*Article 2***Replacement of Annex II to the ERM II Central Bank Agreement**

Annex II to the ERM II Central Bank Agreement is replaced by the text set out in the Annex to this Agreement.

*Article 3***Final provisions**

- 3.1. This Agreement amends, with effect from 1 January 2008, the ERM II Central Bank Agreement.
- 3.2. This Agreement shall be drawn up in the English language and duly signed by the parties. The ECB, which shall retain the original Agreement, shall send a certified copy thereof to each euro area and non-euro area NCB. The Agreement shall be published in the Official Journal of the European Union.

Done at Frankfurt am Main, 14 December 2007.

For the *European Central Bank*

For *Българска народна банка/the Bulgarian National Bank*

For *Česká národní banka*

For *Danmarks Nationalbank*

For *Eesti Pank*

For the *Central Bank of Cyprus*

For *Latvijas Banka*

For *Lietuvos bankas*

For the *Magyar Nemzeti Bank*

For the *Central Bank of Malta*

For *Narodowy Bank Polski*

For *Banca Națională a României*

For *Národná banka Slovenska*

For *Sveriges Riksbank*

For the *Bank of England*

ANNEX

'ANNEX II

**CEILINGS ON ACCESS TO THE VERY SHORT-TERM FINANCING FACILITY REFERRED TO IN ARTICLES 8,
10 AND 11 OF THE CENTRAL BANK AGREEMENT
WITH EFFECT FROM 1 JANUARY 2008**

(EUR million)

Central banks party to this Agreement	Ceilings ⁽¹⁾
Българска народна банка/the Bulgarian National Bank	510
Česká národní banka	660
Danmarks Nationalbank	700
Eesti Pank	300
Latvijas Banka	330
Lietuvos bankas	380
Magyar Nemzeti Bank	640
Narodowy Bank Polski	1 700
Banca Națională a României	1 000
Národná banka Slovenska	450
Sveriges Riksbank	940
Bank of England	4 390
European Central Bank	nil
⁽¹⁾ The amounts indicated are notional for central banks which do not participate in ERM II.	

Euro area NCBs	Ceilings
Nationale Bank van België/Banque Nationale de Belgique	nil
Deutsche Bundesbank	nil
Central Bank and Financial Services Authority of Ireland	nil
Bank of Greece	nil
Banco de España	nil
Banque de France	nil
Banca d'Italia	nil
Central Bank of Cyprus	nil
Banque centrale du Luxembourg	nil
Central Bank of Malta	nil
De Nederlandsche Bank	nil
Oesterreichische Nationalbank	nil
Banco de Portugal	nil
Banka Slovenije	nil
Suomen Pankki	nil'



AGREEMENT**of 8 December 2008**

between the European Central Bank and the national central banks of the Member States outside the euro area amending the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union

(2009/C 16/02)1. *Българска народна банка (Bulgarian National Bank)*

1, Kynaz Alexander 1 Sq.
BG-Sofia-1000

Česká národní banka

Na Příkopě 28
CZ-115 03 Praha 1

Danmarks Nationalbank

Havnegade 5
DK-1093 Copenhagen K

Eesti Pank

Estonia pst. 13
EE-15095 Tallinn

Latvijas Banka

K. Valdemara iela 2a
LV-1050 Riga

Lietuvos bankas

Totoriu g. 4
LT-01121 Vilnius

Magyar Nemzeti Bank

Szabadság tér 8/9
H-1054 Budapest

Narodowy Bank Polski

ulica Świętokrzyska 11/21
PL-00-919 Warsaw

Banca Națională a României

Strada Lipscani nr. 25, sector 3
RO-030031 Bucharest

Národná banka Slovenska

Imricha Karvaša 1
SK-813 25 Bratislava

Sveriges Riksbank

Brunkebergstorg 11
S-103 37 Stockholm

Bank of England

Threadneedle Street
London EC2R 8AH
United Kingdom

and

2. European Central Bank (ECB)

(hereinafter the 'Parties')

Whereas:

1. The European Council in its Resolution of 16 June 1997 (hereinafter the 'Resolution') agreed to set up an exchange rate mechanism (hereinafter the 'ERM II') when the third stage of economic and monetary union began on 1 January 1999.
2. Under the terms of the Resolution, ERM II is designed to help ensure that non-euro area Member States participating in ERM II orient their policies to stability, foster convergence and thereby help the non-euro area Member States in their efforts to adopt the euro.
3. Slovakia, as a Member State with a derogation, has participated in ERM II since 2 November 2005. Národná banka Slovenska is a party to the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union⁽¹⁾, as amended by the Agreement of 21 December 2006⁽²⁾ and by the Agreement of 14 December 2007⁽³⁾ (hereinafter collectively referred to as the 'ERM II Central Bank Agreement').
4. Pursuant to Article 1 of Council Decision 2008/608/EC of 8 July 2008 in accordance with Article 122(2) of the Treaty on the adoption by Slovakia of the single currency on 1 January 2009⁽⁴⁾ the derogation in favour of Slovakia referred to in Article 4 of the 2003 Act of Accession is abrogated with effect from 1 January 2009. The euro will be Slovakia's currency from 1 January 2009 and Národná banka Slovenska should no longer be party to the ERM II Central Bank Agreement from that date.
5. The current arrangements for ERM II intervention at the margins are provided for in the ERM II Central Bank Agreement.
6. The current arrangements for ERM II interventions require further updating and revising in order to take into account the imposition of a new criterion on counterparties eligible to conduct interventions at the margins and to refine an existing eligibility criterion.
7. It is therefore necessary to amend the ERM II Central Bank Agreement to take account of the abrogation of the derogation in favour of Slovakia and changes to the eligibility criteria for ERM II intervention at the margins,

HAVE AGREED AS FOLLOWS:

*Article 1***Amendment to the ERM II Central Bank Agreement in view of the abrogation of Slovakia's derogation**

Národná banka Slovenska shall no longer be party to the ERM II Central Bank Agreement from 1 January 2009.

*Article 2***Replacement of Annexes I and II to the ERM II Central Bank Agreement**

- 2.1. Annex I to the ERM II Central Bank Agreement is replaced by the text set out in Annex I to this Agreement.
- 2.2. Annex II to the ERM II Central Bank Agreement is replaced by the text set out in Annex II to this Agreement.

*Article 3***Final provisions**

- 3.1. This Agreement amends the ERM II Central Bank Agreement with effect from 1 January 2009.
- 3.2. This Agreement shall be drawn up in English and duly signed by the Parties' duly authorised representatives. The ECB, which shall retain the original Agreement, shall send a certified copy of the original Agreement to each euro area and non-euro area national central bank. The Agreement shall be published in the Official Journal of the European Union.

(1) OJ C 73, 25.3.2006, p. 21.

(2) OJ C 14, 20.1.2007, p. 6.

(3) OJ C 319, 29.12.2007, p. 7.

(4) OJ L 195, 24.7.2008, p. 24.

Done at Frankfurt am Main, on 8 December 2008.

For *Българска народна банка (Bulgarian National Bank)*

For *Česká národní banka*

For *Danmarks Nationalbank*

For *Eesti Pank*

For *Latvijas Banka*

For *Lietuvos bankas*

For *the Magyar Nemzeti Bank*

For *Narodowy Bank Polski*

For *Banca Națională a României*

For *Národná banka Slovenska*

For *Sveriges Riksbank*

For *the Bank of England*

For *the European Central Bank*

ANNEX I

'ANNEX I

QUOTATION CONVENTION FOR CURRENCIES PARTICIPATING IN ERM II AND THE PAYMENT AFTER PAYMENT PROCEDURE IN THE EVENT OF INTERVENTION AT THE MARGINS

A. QUOTATION CONVENTION

For all the currencies of the non-euro area Member States participating in ERM II, the exchange rate for the bilateral central rate vis-à-vis the euro shall be quoted using the euro as the base currency. The exchange rate shall be expressed as the value of E1 using six significant digits for all currencies.

The same convention shall be applied for quoting the upper and lower intervention rates vis-à-vis the euro of the currencies of the non-euro area Member States participating in ERM II. The intervention rates shall be determined by adding or subtracting the agreed bandwidth, expressed as a percentage, to or from the bilateral central rates. The resulting rates shall be rounded to six significant digits.

B. PAYMENT AFTER PAYMENT PROCEDURE

A payment after payment procedure shall be applied by both the ECB and the euro area national central banks (NCBs) in the event of intervention at the margins. The non-euro area NCBs participating in ERM II shall apply the payment after payment procedure when acting as correspondents of the euro area NCBs and the ECB in accordance with this Annex; the non-euro area NCBs participating in ERM II may, at their discretion, adopt the same payment after payment procedure when settling intervention at the margins that such NCBs have carried out on their own behalf.

(i) General principles

- The payment after payment procedure shall be applied when intervention at the margins in ERM II takes place between the euro and the currencies of the non-euro area Member States participating in ERM II.
- To be eligible for intervention at the margins in ERM II, counterparties shall be required to keep an account with the NCB concerned and to maintain a SWIFT address. Counterparties shall, as an additional eligibility criterion, also be required to provide the NCB concerned in advance with their standard settlement instructions in the ERM II currencies and any further updates to these instructions. Eligible counterparties may be requested to provide the ECB or NCBs with contact details as specified by the ECB and the NCBs concerned from time to time.
- Counterparties eligible for intervention at the margins in ERM II may also conduct such intervention directly with the ECB, provided that they also have the status of eligible counterparties for executing foreign exchange transactions with the ECB pursuant to Guideline ECB/2008/5 of 20 June 2008 on the management of the foreign reserve assets of the European Central Bank by the national central banks and the legal documentation for operations involving such assets⁽¹⁾.
- The non-euro area NCBs participating in ERM II shall act as the correspondents of the euro area NCBs and the ECB.

(1) OJ L 192, 19.7.2008, p. 63.

- When intervention at the margins takes place, the NCB concerned or the ECB shall release its payment for a given transaction only after receiving confirmation from its correspondent that the amount due has been credited to its account. Counterparties shall be required to pay in due time so as to enable the NCBs and the ECB to fulfil their respective payment obligations. Consequently, counterparties shall be required to pay before a predefined deadline.

(ii) Deadline for the receipt of funds from counterparties

Counterparties shall pay intervention amounts at the latest by 1 p.m. CET on value date.'

ANNEX II

'ANNEX II

**CEILINGS ON ACCESS TO THE VERY SHORT-TERM FINANCING FACILITY REFERRED TO
IN ARTICLES 8, 10 AND 11 OF THE ERM II CENTRAL BANK AGREEMENT**

WITH EFFECT FROM 1 JANUARY 2009

(EUR million)

Central banks party to this Agreement	Ceilings ⁽¹⁾
Българска народна банка (Bulgarian National Bank)	520
Česká národní banka	690
Danmarks Nationalbank	700
Eesti Pank	310
Latvijas Banka	340
Lietuvos bankas	380
Magyar Nemzeti Bank	670
Narodowy Bank Polski	1750
Banca Națională a României	1000
Sveriges Riksbank	940
Bank of England	4700
European Central Bank	nil
⁽¹⁾ The amounts indicated are notional for central banks which do not participate in ERM II.	

Euro area national central banks	Ceilings
Nationale Bank van België/Banque Nationale de Belgique	nil
Deutsche Bundesbank	nil
Central Bank and Financial Services Authority of Ireland	nil
Bank of Greece	nil
Banco de España	nil
Banque de France	nil
Banca d'Italia	nil
Central Bank of Cyprus	nil
Banque centrale du Luxembourg	nil
Central Bank of Malta	nil
De Nederlandsche Bank	nil
Oesterreichische Nationalbank	nil
Banco de Portugal	nil
Banka Slovenije	nil
Národná banka Slovenska	nil
Suomen Pankki	nil'



AGREEMENT**of 13 December 2010**

between the European Central Bank and the national central banks of the Member States outside the euro area amending the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union

2011/C 5/041. *Българска народна банка (Bulgarian National Bank)*

1, Knyaz Alexander I Sq.

1000 София/Sofia

БЪЛГАРИЯ/BULGARIA

Česká národní banka

Na Příkopě 28

115 03 Praha 1

ČESKÁ REPUBLIKA

Danmarks Nationalbank

Havnegade 5

1093 København K

DANMARK

Eesti Pank

Estonia pst. 13

15095 Tallinn

EESTI/ESTONIA

Latvijas Banka

K. Valdemara iela 2a

Rīga, LV-1050

LATVIJA

Lietuvos bankas

Totorių g. 4

LT-01121 Vilnius

LIETUVA/LITHUANIA

Magyar Nemzeti Bank

Budapest

Szabadság tér 8–9. - 1054

MAGYARORSZÁG/HUNGARY

Narodowy Bank Polski

ul. Świętokrzyska 11/21

00-919 Warszawa

POLSKA/POLAND

Banca Națională a României

Str. Lipscani nr. 25, sector 3

030031 București

ROMÂNIA

Sveriges Riksbank

Brunkebergstorg 11

SE-103 37 Stockholm

SVERIGE

Bank of England

Threadneedle Street

London

EC2R 8AH

UNITED KINGDOM

and

2. European Central Bank (ECB)

(hereinafter the 'Parties')

Whereas:

- (1) The European Council in its Resolution of 16 June 1997 (hereinafter the 'Resolution') agreed to set up an exchange rate mechanism (hereinafter the 'ERM II') when the third stage of economic and monetary union began on 1 January 1999.
- (2) Under the terms of the Resolution, ERM II is designed to help ensure that non-euro area Member States participating in ERM II orient their policies to stability, foster convergence and thereby help the non-euro area Member States in their efforts to adopt the euro.
- (3) Estonia, as a Member State with a derogation, has participated in ERM II since 28 June 2004. Eesti Pank is a party to the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union⁽¹⁾, as amended by the Agreement of 21 December 2006⁽²⁾, by the Agreement of 14 December 2007⁽³⁾ and by the Agreement of 8 December 2008⁽⁴⁾ (hereinafter collectively referred to as the 'ERM II Central Bank Agreement').
- (4) Pursuant to Article 1 of Council Decision 2010/416/EU of 13 July 2010 in accordance with Article 140(2) of the Treaty on the adoption by Estonia of the euro on 1 January 2011⁽⁵⁾ the derogation in favour of Estonia referred to in Article 4 of the 2003 Act of Accession is abrogated with effect from 1 January 2011. The euro will be Estonia's currency from 1 January 2011 and Eesti Pank should no longer be party to the ERM II Central Bank Agreement from that date.
- (5) It is therefore necessary to amend the ERM II Central Bank Agreement to take account of the abrogation of the derogation in favour of Estonia,

HAVE AGREED AS FOLLOWS:

Article 1

Amendment to the ERM II Central Bank Agreement in view of the abrogation of Estonia's derogation

Eesti Pank shall no longer be party to the ERM II Central Bank Agreement from 1 January 2011.

Article 2

Replacement of Annex II to the ERM II Central Bank Agreement

Annex II to the ERM II Central Bank Agreement is replaced by the text set out in the Annex to this Agreement.

Article 3

Final provisions

1. This Agreement amends the ERM II Central Bank Agreement with effect from 1 January 2011.
2. This Agreement shall be drawn up in English and duly signed by the Parties' duly authorised representatives. The ECB, which shall retain the original Agreement, shall send a certified copy of the original Agreement to each euro area and non-euro area national central bank. The Agreement shall be published in the Official Journal of the European Union.

Done at Frankfurt am Main, on 13 December 2010.

For *Българска народна банка (Bulgarian National Bank)*

For *Česká národní banka*

For *Danmarks Nationalbank*

For *Eesti Pank*

For *Latvijas Banka*

(1) OJ C 73, 25.3.2006, p. 21.

(2) OJ C 14, 20.1.2007, p. 6.

(3) OJ C 319, 29.12.2007, p. 7.

(4) OJ C 16, 22.1.2009, p. 10.

(5) OJ L 196, 28.7.2010, p. 24.

For Lietuvos bankas

For the Magyar Nemzeti Bank

For Narodowy Bank Polski

For Banca Națională a României

For Sveriges Riksbank

For the Bank of England

For the European Central Bank

ANNEX

'ANNEX II

CEILINGS ON ACCESS TO THE VERY SHORT-TERM FINANCING FACILITY REFERRED TO IN ARTICLES 8, 10 AND 11 OF THE ERM II CENTRAL BANK AGREEMENT

WITH EFFECT FROM 1 JANUARY 2011

(EUR million)

Central banks party to this Agreement	Ceilings ⁽¹⁾
Българска народна банка (Bulgarian National Bank)	530
Česká národní banka	710
Danmarks Nationalbank	720
Latvijas Banka	340
Lietuvos bankas	380
Magyar Nemzeti Bank	690
Narodowy Bank Polski	1800
Banca Națională a României	1030
Sveriges Riksbank	960
Bank of England	4840
European Central Bank	nil
⁽¹⁾ The amounts indicated are notional for central banks which do not participate in ERM II.	

Euro area national central banks	Ceilings
Nationale Bank van België/Banque Nationale de Belgique	nil
Deutsche Bundesbank	nil
Eesti Pank	nil
Central Bank of Ireland	nil
Bank of Greece	nil
Banco de España	nil
Banque de France	nil
Banca d'Italia	nil
Central Bank of Cyprus	nil
Banque centrale du Luxembourg	nil
Central Bank of Malta	nil
De Nederlandsche Bank	nil
Oesterreichische Nationalbank	nil
Banco de Portugal	nil
Banka Slovenije	nil
Národná banka Slovenska	nil
Suomen Pankki	nil'

AGREEMENT**of 21 June 2013**

between the European Central Bank and the national central banks of the Member States whose currency is not the euro amending the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union

(2013/C 187/01)1. *Българска народна банка (Bulgarian National Bank)*

Knyaz Alexander I Sq. 1

1000 София/Sofia

БЪЛГАРИЯ/BULGARIA

Hrvatska narodna banka

Trg hrvatskih velikana 3

10002 Zagreb

HRVATSKA

Česká národní banka

Na Příkopě 28

115 03 Praha 1

ČESKÁ REPUBLIKA

Danmarks Nationalbank

Havnegade 5

1093 København K DANMARK

Latvijas Banka

K. Valdemara iela 2a

Rīga, LV-1050

LATVIJA

Lietuvos bankas

Totorių g. 4

LT-01121 Vilnius

LIETUVA/LITHUANIA

Magyar Nemzeti Bank

Budapest

Szabadság tér 8–9. -1054

MAGYARORSZÁG/HUNGARY

Narodowy Bank Polski

ul. Świętokrzyska 11/21

00-919 Warszawa

POLSKA/POLAND

Banca Națională a României

Str. Lipscani nr. 25, sector 3

030031 București

ROMÂNIA

Sveriges Riksbank

Brunkebergstorg 11

SE-103 37 Stockholm

SVERIGE

Bank of England

Threadneedle Street London

EC2R 8AH

UNITED KINGDOM

and

2. European Central Bank (ECB)

(hereinafter the 'Parties'), Whereas:

- (1) The European Council in its Resolution of 16 June 1997 (hereinafter the 'Resolution') agreed to set up an exchange rate mechanism (hereinafter the 'ERM II') when the third stage of economic and monetary union began on 1 January 1999.
- (2) Under the terms of the Resolution, ERM II is designed to help ensure that Member States whose currency is not the euro and who are participating in ERM II orient their policies to stability, foster convergence and thereby help the Member States whose currency is not the euro in their efforts to adopt the euro.
- (3) With the accession of Croatia to the European Union, its national central bank (NCB), Hrvatska narodna banka, becomes part of the European System of Central Banks on 1 July 2013. The ERM II Central Bank Agreement should therefore be amended accordingly,

HAVE AGREED AS FOLLOWS:

Article 1

Amendment to the ERM II Central Bank Agreement in view of the accession of Croatia

Hrvatska narodna banka shall become a party to the ERM II Central Bank Agreement with effect from 1 July 2013.

Article 2

Replacement of Annex II to the ERM II Central Bank Agreement

Annex II to the ERM II Central Bank Agreement is replaced by the text set out in the Annex to this Agreement.

Article 3

Final provisions

- 3.1. This Agreement amends the ERM II Central Bank Agreement with effect from 1 July 2013.
- 3.2. This Agreement shall be drawn up in English and duly signed by the Parties' authorised representatives. The ECB, which shall retain the original Agreement, shall send a certified copy of the original Agreement to each NCB of the Member States whose currency is the euro and each NCB of the Member States whose currency is not the euro. The Agreement shall be published in the Official Journal of the European Union.

Done at Frankfurt am Main, 21 June 2013.

For *Българска народна банка (Bulgarian National Bank)*

For *Hrvatska narodna banka*

For *Česká národní banka*

For *Danmarks Nationalbank*

For *Latvijas Banka*

For *Lietuvos bankas*

For *the Magyar Nemzeti Bank*

For *Narodowy Bank Polski*

For *Banca Națională a României*

For *Sveriges Riksbank*

For *the Bank of England*

For *the European Central Bank*

ANNEX

ANNEX II

**CEILINGS ON ACCESS TO THE VERY SHORT-TERM FINANCING FACILITY REFERRED TO IN ARTICLES 8,
10 AND 11 OF THE ERM II CENTRAL BANK AGREEMENT
WITH EFFECT FROM 1 JULY 2013**

(EUR million)

Central banks party to this Agreement	Ceilings ⁽¹⁾
Българска народна банка (Bulgarian National Bank)	510
Hrvatska Narodna Banka	430
Česká národní banka	690
Danmarks Nationalbank	700
Latvijas Banka	330
Lietuvos bankas	370
Magyar Nemzeti Bank	670
Narodowy Bank Polski	1 730
Banca Națională a României	990
Sveriges Riksbank	940
Bank of England	4 640
European Central Bank	nil
⁽¹⁾ The amounts indicated are notional for central banks which do not participate in ERM II.	

Euro area national central banks	Ceilings
Nationale Bank van België/Banque Nationale de Belgique	nil
Deutsche Bundesbank	nil
Central Bank of Ireland	nil
Bank of Greece	nil
Banco de España	nil
Banque de France	nil
Banca d'Italia	nil
Central Bank of Cyprus	nil
Eesti Pank	nil
Banque centrale du Luxembourg	nil
Central Bank of Malta	nil
De Nederlandsche Bank	nil
Oesterreichische Nationalbank	nil
Banco de Portugal	nil
Banka Slovenije	nil
Národná banka Slovenska	nil
Suomen Pankki	nil



6. External representation of the EMU

**RESOLUTION OF THE EUROPEAN COUNCIL
OF 13 DECEMBER 1997
ON ECONOMIC POLICY COORDINATION IN STAGE 3 OF EMU AND ON
TREATY ARTICLES 109 AND 109B OF THE EC TREATY
(98/C 35/01)**

(The rest of the resolution is quoted in Economic policy coordination of this publication).

II. IMPLEMENTING THE TREATY PROVISIONS ON THE EXCHANGE-RATE POLICY, EXTERNAL POSITION AND REPRESENTATION OF THE COMMUNITY (ARTICLE 109 OF THE TREATY)

7. The European Council recognises the responsibility which will fall to the Community with the introduction of the euro, one of the major currencies in the world monetary system. The contribution of the Community through the ESCB, in strict accordance with the competences and procedures established by the Treaty, will be to provide a centre of price stability. For its part, the European Council is resolved to play its full part in helping to lay the foundations for a prosperous and efficient economy in the Community, in accordance with the principle of an open economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 3a of the Treaty. The European Council is convinced that this will provide the bases for a currency which is strong and respected.
8. The Council should monitor the development of the exchange rate of the euro in the light of a wide range of economic data. The Commission should provide analyses to the Council, and the Economic and Financial Committee should prepare the Council's reviews. It is important to make full use of the Treaty provisions to ensure an exchange of information and views between the Council and the ECB on the exchange rate of the euro. While in general exchange rates should be seen as the outcome of all other economic policies, the Council may, in exceptional circumstances, for example in the case of a clear misalignment, formulate general orientations for exchange-rate policy in relation to non-EC currencies in accordance with Article 109(2) of the Treaty. These general orientations should always respect the independence of the ESCB and be consistent with the primary objective of the ESCB to maintain price stability.
9. The Council should decide on the position of the Community at international level as regards issues of particular relevance to economic and monetary union, in accordance with Article 109(4) of the Treaty. These positions will be relevant both to bilateral relations between the European Union and individual third countries and to proceedings in international organizations or informal international groupings. The scope of this provision is necessarily limited as only euro-area Member States vote under Article 109.
10. The Council and the European Central Bank will carry out their tasks in representing the Community at international level in an efficient manner and in compliance with the allocation of powers laid down in the Treaty. On elements of economic policy other than monetary and exchange-rate policy, the Member States should continue to present their policies outside the Community framework, while taking full account of the Community interest. The Commission will be involved in external representation to the extent required to enable it to perform the role assigned to it by the Treaty.

Representation in international organizations should take account of those organizations' rules. With particular regard to the Community's relations with the International Monetary Fund (IMF), they should be predicated upon the provision in that Fund's Articles of Agreement that only countries can be members of that institution. The Member States, in their capacities as members of the IMF, should help to establish pragmatic arrangements which would facilitate the conduct of IMF surveillance and the presentation of Community positions, including the views of the ESCB, in IMF fora.



**REPORT TO THE EUROPEAN COUNCIL ON THE STATE OF
PREPARATION FOR STAGE 3 OF EMU, IN PARTICULAR THE
EXTERNAL REPRESENTATION OF THE COMMUNITY**

1. After several years of intense preparation, the European Union is ready to enter into Stage 3 of EMU on 1 January 1999. Eleven of its Member States will adopt the euro as their currency. Significant work has been accomplished in reaching convergence. The Ecofin Council has also developed, for approval by the Heads of State or Government, the framework for a well functioning economic and monetary union, including the Stability and Growth Pact and procedures for economic policy co-ordination (see annex). The outstanding topic where decisions remain to be taken concerns the external representation of the Community. At the Luxembourg European Council of December 1997, the Heads of State or Government gave an important impetus to this work, and in Cardiff, they asked "the Council to take the necessary measures to ensure the external representation of the euro area Member States in an effective manner".
2. In its work on external representation, the Council has benefited from substantial help of the Commission and the ESCB/ECB in their respective fields of competence. In particular, it has been seized with a Commission proposal on "the representation and position taking of the Community at international level in the context of Economic and Monetary Union".
3. The external representation in Stage 3 of EMU will imply changes in the current organisation of international fora. Therefore, third countries and institutions will need to be persuaded to accept the solutions proposed by the European Union. The Council considers that a pragmatic approach might be the most successful which could minimise the adaptation of current rules and practices provided, of course, that such an approach resulted in an outcome which recognised properly the role of the euro.
4. It follows from the Treaty that a distinction has to be made between the representation:
 - of the Community at international level as regards issues of particular relevance to economic and monetary union (Article 109 § 4), and
 - on matters which do not belong to the Community competence, but on which it may be appropriate for Member States to express common understandings.
5. As regards the first indent of paragraph 4 - the representation of the Community at international level as regards issues of particular relevance to EMU - the Council believes that, while trying to reach early solutions pragmatically with international partners, these solutions should be further developed over time adhering to the following principles :
 - the Community must speak with one voice;
 - the Community shall be represented at the Council / ministerial level and at the central banking level⁽¹⁾;
 - the Commission "will be involved in the Community external representation to the extent required to enable it to perform the role assigned to it by the Treaty"⁽²⁾.

As regards the second indent - matters which do not belong to Community competence - the Council considered it useful to develop pragmatic solutions for the external representation.

6. In developing those pragmatic solutions, the Council concentrated its work on three important areas :
 - representation at the G7 Finance Ministers' and Governors' Group;
 - representation at the International Monetary Fund;
 - composition of Ecofin delegations for missions to third countries.
1. *Representation at the G7 Finance Ministers' and Governors' Group*
7. Regarding the European Central Bank's participation in the representation of the Community at the G7 Finance Ministers' and Governors' Group, non European partners have already accepted that the President of the ECB attends meetings of the Group for the discussions which relate to EMU, eg. multilateral surveillance, exchange-rate issues, and for agreement of the relevant sections of the published Statement.

(1) Article 6.1 of the ESCB/ECB Protocol says that "In the field of international cooperation involving the tasks to the ESCB, the ECB shall decide how the ESCB shall be represented". Article 6.3 adds : "Article(s) 6.1 (...) shall be without prejudice to Article 109(4) of (the) Treaty.

(2) Par. 10, last sentence of the Luxembourg European Council Resolution

8. Regarding the representation of the Community at ministerial level on EMU issues, the Council agreed to suggest to the other G7 partners to have the President of Ecofin, or if the President came from a non euro area Member State, the President of the Euro 11 at the table. If the President came from a non G7 euro area state, he/she would attend in addition to the euro area Ecofin members already present.

In a transitional phase, one of the euro area ministers who are involved in the G7 Group on a permanent basis will, for the sake of greater continuity, provide support for the President of the Ecofin/Euro 11 on a rotating basis for a term of one year.

9. Regarding the Commission's participation in the representation of the Community, the Council agreed to suggest to the other G7 partners that a Commission representative shall be a member of the Community delegation in the capacity of providing assistance to the President of Ecofin/Euro 11.
10. In light of the decisions on the previous paragraphs, further consideration will be given to attendance at preparatory (Deputy) meetings. The Council agreed that as an integral part of Community representation at the G7 Group, there should be an informal preparation on EMU issues in the Euro 11 before meetings. The Council also outlined the need for an efficient communication network between its members.

To this end, the possibility to set up a modern network of communication tools (audio and video conferences) between the fifteen Economic and Finance Ministries, the European Commission, the ECB and the Secretariat of the Economic and Financial Committee will be studied and carried forward urgently. This of course cannot be used for adoption of any legally binding legislative acts.

11. Solutions found for the G7 Finance Ministers' and Governors' Group will provide a basis for finding solutions for other groupings.
12. The Council recognised that the G7 Group quite often will discuss international issues which go beyond the competence of the Community and beyond the particular interest of the 11 Euro area Member States, and concern all Member States. Even on these issues, which fall to Member State competence, it may be appropriate to formulate and present common understandings. The discussions and formulation of common understandings at recent Ecofin meetings on such topics as Russia and the international financial system might serve as a model. Those common understandings shall in any case be the basis of positions to be taken in the G7 Group and other groups.

2. *Representation at the International Monetary Fund*

13. The Council considers that pragmatic solutions for presenting issues of particular relevance to EMU may have to be sought which do not require a change in the Articles of Agreement of the IMF :
 - a first necessary step has already been taken; the IMF Executive Board agreed to grant the ECB an observer position at that Board;
 - secondly, the views of the European Community / EMU would be presented at the IMF Board by the relevant member of the Executive Director' office of the Member State holding the Euro 11 Presidency, assisted by a representative from the Commission.

3. *Composition of Ecofin/Euro 11 delegations for missions to third countries*

14. The composition of Ecofin/Euro 11 delegations for missions to third countries may vary with the circumstances and the objectives. It is the responsibility of the President of the Council/Euro 11 to make the necessary arrangements.



7. Euro area governance

EURO SUMMIT STATEMENT

1. Over the last three years, we have taken unprecedented steps to combat the effects of the world-wide financial crisis, both in the European Union as such and within the euro area. The strategy we have put into place encompasses determined efforts to ensure fiscal consolidation, support to countries in difficulty, and a strengthening of euro area governance leading to deeper economic integration among us and an ambitious agenda for growth. At our 21 July meeting we took a set of major decisions. The ratification by all 17 Member States of the euro area of the measures related to the EFSF significantly strengthens our capacity to react to the crisis. Agreement by all three institutions on a strong legislative package within the EU structures on better economic governance represents another major achievement. The introduction of the European Semester has fundamentally changed the way our fiscal and economic policies are co-ordinated at European level, with co-ordination at EU level now taking place before national decisions are taken. The euro continues to rest on solid fundamentals.
2. Further action is needed to restore confidence. That is why today we agree on a comprehensive set of additional measures reflecting our strong determination to do whatever is required to overcome the present difficulties and take the necessary steps for the completion of our economic and monetary union. We fully support the ECB in its action to maintain price stability in the euro area.

Sustainable public finances and structural reforms for growth

3. The European Union must improve its growth and employment outlook, as outlined in the growth agenda agreed by the European Council on 23 October 2011. We reiterate our full commitment to implement the country specific recommendations made under the first European Semester and on focusing public spending on growth areas.
4. All Member States of the euro area are fully determined to continue their policy of fiscal consolidation and structural reforms. A particular effort will be required of those Member States who are experiencing tensions in sovereign debt markets.
5. We welcome the important steps taken by Spain to reduce its budget deficit, restructure its banking sector and reform product and labour markets, as well as the adoption of a constitutional balanced budget amendment. Strictly implementing budgetary adjustment as planned is key, including at regional level, to fulfil the commitments of the stability and growth Pact and the strengthening of the fiscal framework by developing lower level legislation to make the constitutional amendment fully operative. Further action is needed to increase growth so as to reduce the unacceptable high level of unemployment. Actions should include enhancing labour market changes to increase flexibility at firm level and employability of the labour force and other reforms to improve competitiveness, specially extending the reforms in the service sector.
6. We welcome Italy's plans for growth enhancing structural reforms and the fiscal consolidation strategy, as set out in the letter sent to the Presidents of the European Council and the Commission and call on Italy to present as a matter of urgency an ambitious timetable for these reforms. We commend Italy's commitment to achieve a balanced budget by 2013 and a structural budget surplus in 2014, bringing about a reduction in gross government debt to 113% of GDP in 2014, as well as the foreseen introduction of a balanced budget rule in the constitution by mid 2012.

Italy will now implement the proposed structural reforms to increase competitiveness by cutting red tape, abolishing minimum tariffs in professional services and further liberalising local public services and utilities. We note Italy's commitment to reform labour legislation and in particular the dismissal rules and procedures and to review the currently fragmented unemployment benefit system by the end of 2011, taking into account the budgetary constraints. We take note of the plan to increase the retirement age to 67 years by 2026 and recommend the definition by the end of the year of the process to achieve this objective.

We support Italy's intention to review structural funds programs by reprioritising projects and focussing on education, employment, digital agenda and railways/networks with the aim of improving the conditions to enhance growth and tackle the regional divide.

We invite the Commission to provide a detailed assessment of the measures and to monitor their implementation, and the Italian authorities to provide in a timely way all the information necessary for such an assessment.

Countries under adjustment programme

7. We reiterate our determination to continue providing support to all countries under programmes until they have regained market access, provided they fully implement those programmes.

8. Concerning the programme countries, we are pleased with the progress made by Ireland in the full implementation of its adjustment programme which is delivering positive results. Portugal is also making good progress with its programme and is determined to continue undertaking measures to underpin fiscal sustainability and improve competitiveness. We invite both countries to keep up their efforts, to stick to the agreed targets and stand ready to take any additional measure required to reach those targets.
9. We welcome the decision by the Eurogroup on the disbursement of the 6th tranche of the EU- IMF support programme for Greece. We look forward to the conclusion of a sustainable and credible new EU-IMF multiannual programme by the end of the year.
10. The mechanisms for the monitoring of implementation of the Greek programme must be strengthened, as requested by the Greek government. The ownership of the programme is Greek and its implementation is the responsibility of the Greek authorities. In the context of the new programme, the Commission, in cooperation with the other Troika partners, will establish for the duration of the programme a monitoring capacity on the ground, including with the involvement of national experts, to work in close and continuous cooperation with the Greek government and the Troika to advise and offer assistance in order to ensure the timely and full implementation of the reforms. It will assist the Troika in assessing the conformity of measures which will be taken by the Greek government within the commitments of the programme. This new role will be laid down in the Memorandum of Understanding. To facilitate the efficient use of the sizeable official loans for the recapitalization of Greek banks, the governance of the Hellenic Financial Stability Fund (HFSF) will be strengthened in agreement with the Greek government and the Troika.
11. We fully support the Task Force on technical assistance set up by the Commission.
12. The Private Sector Involvement (PSI) has a vital role in establishing the sustainability of the Greek debt. Therefore we welcome the current discussion between Greece and its private investors to find a solution for a deeper PSI. Together with an ambitious reform programme for the Greek economy, the PSI should secure the decline of the Greek debt to GDP ratio with an objective of reaching 120% by 2020. To this end we invite Greece, private investors and all parties concerned to develop a voluntary bond exchange with a nominal discount of 50% on notional Greek debt held by private investors. The Euro zone Member States would contribute to the PSI package up to 30 bn euro. On that basis, the official sector stands ready to provide additional programme financing of up to 100 bn euro until 2014, including the required recapitalisation of Greek banks. The new programme should be agreed by the end of 2011 and the exchange of bonds should be implemented at the beginning of 2012. We call on the IMF to continue to contribute to the financing of the new Greek programme.
13. Greece commits future cash flows from project Helios or other privatisation revenue in excess of those already included in the adjustment programme to further reduce indebtedness of the Hellenic Republic by up to 15 billion euros with the aim of restoring the lending capacity of the EFSF.
14. Credit enhancement will be provided to underpin the quality of collateral so as to allow its continued use for access to Eurosystem liquidity operations by Greek banks.
15. As far as our general approach to private sector involvement in the euro area is concerned, we reiterate our decision taken on 21 July 2011 that Greece requires an exceptional and unique solution.
16. All other euro area Member States solemnly reaffirm their inflexible determination to honour fully their own individual sovereign signature and all their commitments to sustainable fiscal conditions and structural reforms. The euro area Heads of State or Government fully support this determination as the credibility of all their sovereign signatures is a decisive element for ensuring financial stability in the euro area as a whole.

Stabilisation mechanisms

17. The ratification process of the revised EFSF has now been completed in all euro area Member States and the Eurogroup has agreed on the implementing guidelines on primary and secondary market interventions, precautionary arrangements and bank recapitalisation. The decisions we took concerning the EFSF on 21 July are thus fully operational. All tools available will be used in an effective way to ensure financial stability in the euro area. As stated in the implementing guidelines, strict conditionality will apply in case of new (precautionary) programmes in line with IMF practices. The Commission will carry out enhanced surveillance of the Member States concerned and report regularly to the Eurogroup.
18. We agree that the capacity of the extended EFSF shall be used with a view to maximizing the available resources in the following framework:
 - the objective is to support market access for euro area Member States faced with market pressures and to ensure the proper functioning of the euro area sovereign debt market, while fully preserving the high credit standing of the EFSF. These measures are needed to ensure financial stability and provide sufficient ringfencing to fight contagion;

- this will be done without extending the guarantees underpinning the facility and within the rules of the Treaty and the terms and conditions of the current framework agreement, operating in the context of the agreed instruments, and entailing appropriate conditionality and surveillance.
19. We agree on two basic options to leverage the resources of the EFSF:
 - providing credit enhancement to new debt issued by Member States, thus reducing the funding cost. Purchasing this risk insurance would be offered to private investors as an option when buying bonds in the primary market;
 - maximising the funding arrangements of the EFSF with a combination of resources from private and public financial institutions and investors, which can be arranged through Special Purpose Vehicles. This will enlarge the amount of resources available to extend loans, for bank recapitalization and for buying bonds in the primary and secondary markets.
 20. The EFSF will have the flexibility to use these two options simultaneously, deploying them depending on the specific objective pursued and on market circumstances. The leverage effect of each option will vary, depending on their specific features and market conditions, but could be up to four or five.
 21. We call on the Eurogroup to finalise the terms and conditions for the implementation of these modalities in November, in the form of guidelines and in line with the draft terms and conditions prepared by the EFSF.
 22. In addition, further enhancement of the EFSF resources can be achieved by cooperating even more closely with the IMF. The Eurogroup, the Commission and the EFSF will work on all possible options.

Banking system

23. We welcome the agreement reached today by the members of the European Council on bank recapitalisation and funding (see Annex 2).

Economic and fiscal coordination and surveillance

24. The legislative package on economic governance strengthens economic and fiscal policy coordination and surveillance. After it enters into force in January 2012 it will be strictly implemented as part of the European Semester. We call for rigorous surveillance by the Commission and the Council, including through peer pressure, and the active use of the existing and new instruments available. We also recall our commitments made in the framework of the Euro Plus Pact.
25. Being part of a monetary union has far reaching implications and implies a much closer coordination and surveillance to ensure stability and sustainability of the whole area. The current crisis shows the need to address this much more effectively. Therefore, while strengthening our crisis tools within the euro area, we will make further progress in integrating economic and fiscal policies by reinforcing coordination, surveillance and discipline. We will develop the necessary policies to support the functioning of the single currency area.
26. More specifically, building on the legislative package just adopted, the European Semester and the Euro Plus Pact, we commit to implement the following additional measures at the national level:
 - (a) adoption by each euro area Member State of rules on balanced budget in structural terms translating the Stability and Growth Pact into national legislation, preferably at constitutional level or equivalent, by the end of 2012;
 - (b) reinforcement of national fiscal frameworks beyond the Directive on requirements for budgetary frameworks of the Member States. In particular, national budgets should be based on independent growth forecasts;
 - (c) invitation to national parliaments to take into account recommendations adopted at the EU level on the conduct of economic and budgetary policies;
 - (d) consultation of the Commission and other euro area Member States before the adoption of any major fiscal or economic policy reform plans with potential spillover effects, so as to give the possibility for an assessment of possible impact for the euro area as a whole;
 - (e) commitment to stick to the recommendations of the Commission and the relevant Commissioner regarding the implementation of the Stability and Growth Pact.
27. We also agree that closer monitoring and additional enforcement are warranted along the following lines:
 - (a) for euro area Member States in excessive deficit procedure, the Commission and the Council will be enabled to examine national draft budgets and adopt an opinion on them before their adoption by the relevant national parliaments. In addition, the Commission will monitor budget execution and, if necessary, suggest amendments in the course of the year;
 - (b) in the case of slippages of an adjustment programme closer monitoring and coordination of programme implementation will take place.

28. We look forward to the Commission's forthcoming proposal on closer monitoring to the Council and the European Parliament under Article 136 of the TFEU. In this context, we welcome the intention of the Commission to strengthen, in the Commission, the role of the competent Commissioner for closer monitoring and additional enforcement.
29. We will further strengthen the economic pillar of the Economic and Monetary Union and better coordinate macro- and micro-economic policies. Building on the Euro Plus Pact, we will improve competitiveness, thereby achieving further convergence of policies to promote growth and employment. Pragmatic coordination of tax policies in the euro area is a necessary element of stronger economic policy coordination to support fiscal consolidation and economic growth. Legislative work on the Commission proposals for a Common Consolidated Corporate Tax Base and for a Financial Transaction Tax is ongoing.

Governance structure of the euro area

30. To deal more effectively with the challenges at hand and ensure closer integration, the governance structure for the euro area will be strengthened, while preserving the integrity of the European Union as a whole.
31. We will thus meet regularly - at least twice a year- at our level, in Euro Summits, to provide strategic orientations on the economic and fiscal policies in the euro area. This will allow to better take into account the euro area dimension in our domestic policies.
32. The Eurogroup will, together with the Commission and the ECB, remain at the core of the daily management of the euro area. It will play a central role in the implementation by the euro area Member States of the European Semester. It will rely on a stronger preparatory structure.
33. More detailed arrangements are presented in Annex 1 to this paper.

Further integration

34. The euro is at the core of our European project. We will strengthen the economic union to make it commensurate with the monetary union.
35. We ask the President of the European Council, in close collaboration with the President of the Commission and the President of the Eurogroup, to identify possible steps to reach this end. The focus will be on further strengthening economic convergence within the euro area, improving fiscal discipline and deepening economic union, including exploring the possibility of limited Treaty changes. An interim report will be presented in December 2011 so as to agree on first orientations. It will include a roadmap on how to proceed in full respect of the prerogatives of the institutions. A report on how to implement the agreed measures will be finalised by March 2012.

Annex 1

Ten measures to improve the governance of the euro area

There is a need to strengthen economic policy coordination and surveillance within the euro area, to improve the effectiveness of decision making and to ensure more consistent communication. To this end, the following ten measures will be taken, while fully respecting the integrity of the EU as a whole:

1. There will be regular Euro Summit meetings bringing together the Heads of State or government (HoSG) of the euro area and the President of the Commission. These meetings will take place at least twice a year, at key moments of the annual economic governance circle; they will if possible take place after European Council meetings. Additional meetings can be called by the President of the Euro Summit if necessary. Euro Summits will define strategic orientations for the conduct of economic policies and for improved competitiveness and increased convergence in the euro area. The President of the Euro Summit will ensure the preparation of the Euro Summit, in close cooperation with the President of the Commission.
2. The President of the Euro Summit will be designated by the HoSG of the euro area at the same time the European Council elects its President and for the same term of office. Pending the next such election, the current President of the European Council will chair the Euro Summit meetings.
3. The President of the Euro Summit will keep the non euro area Member States closely informed of the preparation and outcome of the Summits. The President will also inform the European Parliament of the outcome of the Euro Summits.
4. As is presently the case, the Eurogroup will ensure ever closer coordination of the economic policies and promoting financial stability. Whilst respecting the powers of the EU institutions in that respect, it promotes strengthened surveillance of Member States' economic and fiscal policies as far as the euro area is concerned. It will also prepare the Euro Summit meetings and ensure their follow up.

5. The President of the Eurogroup is elected in line with Protocol n°14 annexed to the Treaties.
A decision on whether he/she should be elected among Members of the Eurogroup or be a full-time President based in Brussels will be taken at the time of the expiry of the mandate of the current incumbent. The President of the Euro Summit will be consulted on the Eurogroup work plan and may invite the President of the Eurogroup to convene a meeting of the Eurogroup, notably to prepare Euro Summits or to follow up on its orientations. Clear lines of responsibility and reporting between the Euro Summit, the Eurogroup and the preparatory bodies will be established.
6. The President of the Euro Summit, the President of the Commission and the President of the Eurogroup will meet regularly, at least once a month. The President of the ECB may be invited to participate. The Presidents of the supervisory agencies and the EFSF CEO / ESM Managing Director may be invited on an ad hoc basis.
7. Work at the preparatory level will continue to be carried out by the Eurogroup Working Group (EWG), drawing on expertise provided by the Commission. The EWG also prepares Eurogroup meetings. It should benefit from a more permanent sub-group consisting of alternates/officials representative of the Finance Ministers, meeting more frequently, working under the authority of the President of the EWG.
8. The EWG will be chaired by a full-time Brussels-based President. In principle, he/she will be elected at the same time as the chair of the Economic and Financial Committee.
9. The existing administrative structures (i.e. the Council General Secretariat and the EFC Secretariat) will be strengthened and co-operate in a well coordinated way to provide adequate support to the Euro Summit President and the President of the Eurogroup, under the guidance of the President of the EFC/EWG. External expertise will be drawn upon as appropriate, on an ad hoc basis.
10. Clear rules and mechanisms will be set up to improve communication and ensure more consistent messages. The President of the Euro Summit and the President of the Eurogroup shall have a special responsibility in this respect. The President of the Euro Summit together with the President of the Commission shall be responsible for communicating the decisions of the Euro Summit and the President of the Eurogroup together with the ECFIN Commissioner shall be responsible for communicating the decisions of the Eurogroup.

Annex 2

Consensus on banking package

1. Measures for restoring confidence in the banking sector (banking package) are urgently needed and are necessary in the context of strengthening prudential control of the EU banking sector. These measures should address:
 - a. The need to ensure the medium-term funding of banks, in order to avoid a credit crunch and to safeguard the flow of credit to the real economy, and to coordinate measures to achieve this.
 - b. The need to enhance the quality and quantity of capital of banks to withstand shocks and to demonstrate this enhancement in a reliable and harmonised way.

Term funding

2. Guarantees on bank liabilities would be required to provide more direct support for banks in accessing term funding (short-term funding being available at the ECB and relevant national central banks), where appropriate. This is also an essential part of the strategy to limit deleveraging actions.
3. A simple repetition of the 2008 experience with full national discretion in the setting-up of liquidity schemes may not provide a satisfactory solution under current market conditions. Therefore a truly coordinated approach at EU-level is needed regarding entry criteria, pricing and conditions. The Commission should urgently explore together with the EBA, EIB, ECB the options for achieving this objective and report to the EFC.

Capitalisation of banks

4. Capital target: There is broad agreement on requiring a significantly higher capital ratio of 9 % of the highest quality capital and after accounting for market valuation of sovereign debt exposures, both as of 30 September 2011, to create a temporary buffer, which is justified by the exceptional circumstances. This quantitative capital target will have to be attained by 30

June 2012, based on plans agreed with national supervisors and coordinated by EBA. This prudent valuation would not affect the relevant financial reporting rules. National supervisory authorities, under the auspices of the EBA, must ensure that banks' plans to strengthen capital do not lead to excessive deleveraging, including maintaining the credit

flow to the real economy and taking into account current exposure levels of the group including their subsidiaries in all Member States, cognisant of the need to avoid undue pressure on credit extension in host countries or on sovereign debt markets.

5. Financing of capital increase: Banks should first use private sources of capital, including through restructuring and conversion of debt to equity instruments. Banks should be subject to constraints regarding the distribution of dividends and bonus payments until the target has been attained. If necessary, national governments should provide support, and if this support is not available, recapitalisation should be funded via a loan from the EFSF in the case of Eurozone countries.

State Aid

6. Any form of public support, whether at a national or EU-level, will be subject to the conditionality of the current special state aid crisis framework, which the Commission has indicated will be applied with the necessary proportionality in view of the systemic character of the crisis.



RULES FOR THE ORGANISATION OF THE PROCEEDINGS OF THE EURO SUMMITS

The guiding principles for the conduct of proceedings of Euro Summit meetings⁽¹⁾ shall be to ensure the transparency and effectiveness of the working methods, allowing the Euro Summit Members the full capacity to discuss among themselves all issues of common interest to the euro area while respecting the substantive and procedural rights of the other Members of the Union and giving preference to inclusive methods whenever justified and possible.

For points of organisation not decided in the rules, the Rules of Procedure of the European Council shall be used *mutatis mutandis* as a source of reference.

1. Notice and venue of meetings

1. The Euro Summit shall meet at least twice a year, convened by its President. Its ordinary meetings shall, whenever possible, take place after the European Council meetings.
2. The Euro Summit shall meet in Brussels, unless otherwise decided by the President and in agreement with the Members of the Euro Summit.
3. Exceptional circumstances or cases of urgency may justify derogations from the present rules.

2. Preparation and the follow-up to the proceedings of the Euro Summit

1. The President of the Euro Summit will ensure the preparation and continuity of the work of the Euro Summit, in close cooperation with the President of the Commission, and on the basis of the preparatory work of the Euro Group.
2. The Euro Group shall conduct preparatory work for and ensure the follow-up to the meetings of the Euro Summit. Information to Coreper shall be ensured before and after meetings of the Euro Summit.
3. The President shall establish close cooperation with the President of the Commission and the President of the Euro Group, particularly by means of regular meetings, as a rule once a month. The President of the European Central Bank may be invited to participate.
4. In the event of an impediment because of illness, in the event of his or her death or if his or her office is ended in accordance with Article 12 (1) of the TSCG, the President shall be replaced, where necessary until the election of his or her successor, by the member of the Euro Summit representing the Member State holding the six-monthly Presidency of the Council, or, if not applicable, the next Member State whose currency is the euro holding the Presidency of the Council.

3. Preparation of the agenda

1. In order to ensure the preparation provided for in Rule 2(1), the President of the Euro Summit shall, at least four weeks before each ordinary meeting of the Euro Summit as referred to in Rule 1(1), in close cooperation with the President of the Commission and the President of the Euro Group, forward an annotated draft agenda to the Euro Group.
2. The Euro Group shall, as a rule, be convened within the fifteen days preceding a Euro Summit meeting to examine the draft agenda and its President shall report the outcome of the discussions to the President of the Euro Summit. In the light of this report, the President of the Euro Summit shall forward the draft agenda to the Heads of State or Government.
3. When the Heads of State or Government of the Contracting Parties to the TSCG, other than those whose currency is the euro, which have ratified the TSCG, participate in discussions of Euro Summit meetings, these contracting Parties shall be involved in the preparation of the Euro Summit meetings on the issues referred to in Rule 4(5) in a form to be decided by the President of the Euro Summit.
4. At the beginning of the meeting, the agenda shall be agreed by the Euro Summit, by simple majority.

(1) Article 12 of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), the Statement of the Euro Summit meeting of 26 October 2011 and the Conclusions of the European Councils of 18/19 October 2012 (EUCO 156/12) and of 13/14 December 2012 (EUCO 205/12) are relevant to the organisation of Euro Summit meetings.

4. *Composition of the Euro Summit, delegations and the conduct of proceedings*

1. The Euro Summit shall consist of the Heads of State or Government of the Member States of the European Union whose currency is the euro, together with its President and with the President of the Commission.
2. The President of the European Central Bank shall be invited to take part.
3. The President of the Euro Group may be invited to attend..
4. The President of the European Parliament may be invited to be heard.
5. The Heads of State or Government of the Contracting Parties to the TSCG, other than those whose currency is the euro, which have ratified the TSCG, shall participate in discussions of Euro Summit meetings concerning competitiveness for the Contracting Parties, the modification of the global architecture of the euro area and the fundamental rules that will apply to it in the future, as well as, when appropriate and at least once a year, in discussions on specific issues of implementation of the TSCG.
6. The total size of the delegations authorized to have access to the building where the meeting of the Euro Summit is held shall be limited to 20 persons for each Member State and for the Commission. That number shall not include technical personnel assigned to specific security or logistic support tasks. The names and functions of the members of the delegations shall be notified in advance to the General Secretariat of the Council.
7. The President of the Euro Summit shall be responsible for the application of these rules and for ensuring that discussions are conducted smoothly. To that end, the President may take any measure conducive to promoting the best possible use of the time available, such as organising the order in which items are discussed, limiting speaking time and determining the order in which contributors speak.
8. Meetings of the Euro Summit shall not be public.

5. *The President of the Euro Summit*

1. The President of the Euro Summit shall be appointed by the Heads of State or Government of the Member States of the European Union whose currency is the euro by simple majority at the same time as the European Council elects its President and for the same term of office.
2. The President of the Euro Summit:
 - (a) shall chair it and drive forward its work;
 - (b) shall draw up meeting agendas;
 - (c) shall ensure the preparation and continuity of the work of the Euro Summit in cooperation with the President of the Commission and on the basis of the work of the Euro Group;
 - (d) shall ensure that the work of all relevant Council and ministerial meetings is reflected in the preparation of the Euro Summit;
 - (e) shall report to the European Parliament after each of the meetings of the Euro Summit;
 - (f) shall keep the Contracting Parties of the TSCG other than those whose currency is the euro and the other Member States of the European Union closely informed of the preparation and outcome of the Euro Summit meetings;
 - (g) shall present the outcomes of Euro Summit discussions to the public, together with the President of the Commission.

6. *Statements*

1. The Euro Summit may issue statements summarizing common positions and common lines of actions, which shall be made public.
2. Draft statements of the Euro Summit shall be prepared under the authority of the President of the Euro Summit, in close cooperation with the President of the Commission and the President of the Euro Group, on the basis of the preparatory work of the Euro Group.
3. Statements shall be agreed by consensus of the Members of the Euro Summit.
4. The Euro Summit shall issue statements in the official languages of the European Union.
5. Upon proposal by the President of the Euro Summit, draft statements on an urgent matter may be approved by a written procedure, when all Members of the Euro Summit agree to use that procedure.

7. Professional secrecy and production of documents in legal proceedings

Without prejudice to the provisions on public access to documents applicable under the law of the Union, the deliberations of the Euro Summit shall be covered by the obligation of professional secrecy, except insofar as the Euro Summit agrees otherwise.

8. Secretariat and security

1. The Euro Summit and its President shall be assisted by the General Secretariat of the Council under the authority of its Secretary-General.
2. The Secretary General of the Council shall attend the meetings of the Euro Summit and shall take all the measures necessary for the organisation of proceedings.
3. The Council's security rules shall apply *mutatis mutandis* to the Euro Summit.

9. Amendment of the rules

Upon proposal by the President of the Euro Summit, these rules may be amended by consensus. The written procedure may be used for this purpose. The rules should in particular be adapted if this is required by the evolution of the governance of the Euro area.

10. Correspondence addressed to the Euro Summit

Correspondence to the Euro Summit shall be sent to its President at the following address:

Euro Summit

Rue de la Loi/Wetstraat 175

1048 Bruxelles/Brussel

BELGIQUE/BELGIË



8. Statutes of the Committees

8.1. Economic and Financial Committee (EFC)

COUNCIL DECISION

of 21 December 1998

on the detailed provisions concerning the composition of the Economic and Financial Committee

(98/743/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 109c(3) thereof,

Having regard to the proposal from the Commission⁽¹⁾,

Having regard to the opinion of the European Central Bank⁽²⁾,

Having regard to the opinion of the Monetary Committee⁽³⁾,

- (1) Whereas the Treaty provides that an Economic and Financial Committee should be set up at the start of the third stage of economic and monetary union;
- (2) Whereas the Treaty requires the Council to adopt detailed provisions concerning the composition of the Economic and Financial Committee; whereas the Member States, the Commission and the European Central Bank are each to appoint no more than two members of the Committee;
- (3) Whereas the tasks of the Economic and Financial Committee are set out in Article 109c(2) of the Treaty; whereas as part of those tasks the Economic and Financial Committee is to keep under review the economic and financial situation of the Member States and of the Community and to report regularly thereon to the Council and to the Commission in particular on financial relations with third countries and international institutions; whereas the Economic and Financial Committee is to contribute to the preparation of the work of the Council, *inter alia*, for recommendations required as part of multilateral surveillance and the broad economic guidelines set down in Article 103 of the Treaty, and for decisions required as part of the excessive deficit procedure set down in Article 104c of the Treaty; whereas given the nature and importance of those tasks, it is essential that members of the Committee and alternate members be selected from among experts possessing outstanding competence in the economic and financial field;
- (4) Whereas in its Resolution⁽⁴⁾ on Economic Policy Coordination in stage 3 of EMU, the European Council of Luxembourg of 12 and 13 December 1997 concluded that the Economic and Financial Committee will provide the framework within which the dialogue between the Council and the European Central Bank can be prepared and continued at the level of senior officials; whereas those officials will come from the national central banks and the European Central Bank as well as from national administrations;
- (5) Whereas 'administration' refers to the services of the ministers attending the Council when meeting in the composition of Economic and Finance ministers;
- (6) Whereas the membership of the Committee of officials from the European Central Bank and national central banks is to be without prejudice to Article 107 of the Treaty,

HAS DECIDED AS FOLLOWS:

Article 1

The Member States, the Commission and the European Central Bank shall each appoint two members of the Economic and Financial Committee. They may also appoint two alternate members of the Committee.

(1) OJ C 125, 23. 4. 1998, p. 17.

(2) Opinion delivered on 26 November 1998 (not yet published in the Official Journal).

(3) Opinion delivered on 17 November 1998 (not yet published in the Official Journal).

(4) OJ C 35, 2. 2. 1998, p. 1.

Article 2

The members of the Committee and the alternates shall be selected from among experts possessing outstanding competence in the economic and financial field.

Article 3

The two members appointed by the Member States shall be selected respectively from among senior officials from the administration and the national central bank. The alternates shall be selected under the same conditions.

Article 4

This Decision shall be published in the Official Journal of the European Communities.

It shall take effect as from 1 January 1999.

Done at Brussels, 21 December 1998.

For the Council

The President

M. BARTENSTEIN



COUNCIL DECISION**of 26 April 2012****on a revision of the Statutes of the Economic and Financial Committee****(2012/245/EU)**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 242 thereof,

Having regard to the opinion of the European Commission,

Whereas:

- (1) In accordance with Article 114(2) of the Treaty establishing the European Community, an Economic and Financial Committee ('Committee') was set up on 1 January 1999.
- (2) On 21 December 1998, the Council adopted Decision 98/743/EC on the detailed provisions concerning the composition of the Economic and Financial Committee⁽¹⁾.
- (3) On 31 December 1998, the Council adopted Decision 1999/8/EC adopting the Statutes of the Economic and Financial Committee⁽²⁾; these Statutes were revised by Council Decision 2003/476/EC of 18 June 2003⁽³⁾ in order to ensure the continued effective functioning of the Committee after the accession of ten Member States on 1 May 2004.
- (4) The Heads of State or Government of the Member States whose currency is the euro stated on 26 October 2011 that the preparatory body referred to in Article 1 of Protocol (No 14) on the euro Group, composed of representatives of the Ministers with responsibility for finance of the Member States whose currency is the euro and of the Commission ('the Eurogroup Working Group'), would be chaired by a full-time President. As a consequence, the person nominated to this post will cease to be an official in a national administration and will be employed by the EU Institutions.
- (5) On the same day, the Heads of State or Government of the Member States whose currency is the euro stated that the existing administrative structures providing assistance to the Council and to the Committee, namely, the General Secretariat of the Council and the Secretariat of the Economic and Financial Committee, would provide adequate support to the euro Summit President and the President of the Eurogroup, under the guidance of the President of the Committee/Eurogroup Working Group.
- (6) The Committee should be able to choose its President from among the most qualified candidates, including the President of the Eurogroup Working Group.
- (7) The Statutes of the Committee should therefore be revised,

HAS ADOPTED THIS DECISION:

Article 1

The Statutes of the Economic and Financial Committee, as set out in the Annex to Decision 1999/8/EC, as amended by Decision 2003/476/EC, shall be replaced by the text set out in the Annex hereto.

Article 2

This Decision shall enter into force the day following its publication in the Official Journal of the European Union.

Done at Luxembourg, 26 April 2012.

For the Council

The President

M. BØDSKOV

(1) OJ L 358, 31.12.1998, p. 109.

(2) OJ L 5, 9.1.1999, p. 71.

(3) OJ L 158, 27.6.2003, p. 58.

ANNEX**'STATUTES OF THE ECONOMIC AND FINANCIAL COMMITTEE***Article 1*

The Economic and Financial Committee ("Committee") shall carry out the tasks described in Article 134(2) and (4) of the Treaty on the Functioning of the European Union.

Article 2

The Committee may, inter alia:

- be consulted in the procedure leading to decisions relating to the exchange-rate mechanism of the third stage of economic and monetary union,
- without prejudice to Article 240 of the Treaty, prepare the Council's reviews of the development of the exchange rate of the euro,
- provide the framework within which the dialogue between the Council and the European Central Bank (ECB) may be prepared and continued at the level of senior officials from ministries, national central banks, the Commission and the ECB.

Article 3

Members of the Committee and alternates shall be guided, in the performance of their duties, by the general interests of the Union.

Article 4

The Committee shall meet under the chairmanship of the President in two configurations: either with the members selected from administrations, the national central banks, the Commission and the ECB, or with the members from administrations, the Commission and the ECB. The Committee in its full composition shall regularly review the list of the issues on which the national central bank members are expected to attend the meetings.

Article 5

Opinions, reports and communications shall be adopted by a majority of the members if a vote is requested. Each member of the Committee shall have one vote. However, when advice or an opinion is given on questions on which the Council may subsequently take a decision, members from central banks, when they are present, and the Commission may participate fully in the discussions but shall not participate in a vote. The Committee shall also report on minority or dissenting views expressed in the course of the discussion.

Article 6

The Committee shall elect, by a majority of its members, a President for a two-year term, which shall be renewable. Those eligible for election as President shall be Committee members who are senior officials in national administrations and the President of the preparatory body referred to in Article 1 of Protocol No 14 on the euro Group, composed of representatives of the Ministers with responsibility for finance of the Member States whose currency is the euro and of the Commission ("the Eurogroup Working Group").

If the President of the Committee is a Committee member from a national administration, he shall delegate his voting right to his alternate.

Article 7

In the event of being prevented from fulfilling his duties, the President of the Committee shall be replaced by the Vice-President of the Committee. The Vice-President shall be elected for a term of two years, by a majority of Committee members. Those eligible for election as Vice-President shall be Committee members who are senior officials in national administrations and the President of the Eurogroup Working Group, unless the latter has been appointed as President of the Committee.

Article 8

If the President of the Eurogroup Working Group is not President of the Committee, he may attend meetings of the Committee and take part in the discussions, unless the Committee decides otherwise.

Unless the Committee decides otherwise, alternates may attend meetings of the Committee. The alternates shall not vote. Unless the Committee decides otherwise, they shall not take part in the discussions.

A member who is unable to attend a meeting of the Committee may delegate his functions to one of the alternates or to another member. The Chairman and the Secretary of the Committee should be informed in writing before the meeting. In exceptional circumstances the President may agree to alternative arrangements.

Article 9

The Committee may entrust the study of specific questions to its alternate members, to subcommittees or to working parties. In these cases, the Presidency shall be assumed by a member or an alternate member of the Committee, appointed by the Committee. The members of the Committee, its alternates, and its subcommittees or working parties may call upon experts to assist them.

Article 10

The Committee shall be convened by the President on his own initiative, or at the request of the Council, of the Commission or of at least four members of the Committee.

Article 11

As a rule, the President represents the Committee; in particular, the President may be authorised by the Committee to report on discussions and deliver oral comments on opinions and communications prepared by the Committee. The President shall have the responsibility of maintaining the Committee's relations with the European Parliament.

Article 12

The proceedings of the Committee shall be confidential. The same rule shall apply to the proceedings of its alternates, subcommittees or working parties.

Article 13

The Committee shall be assisted by a Secretariat under the direction of a Secretary. The Secretary and the Secretariat's staff shall be supplied by the Commission. The Secretary shall be appointed by the Commission after consultation of the Committee. The Secretary and his staff shall act on the instructions of the Committee when carrying out their responsibilities towards the Committee.

The expenses of the Committee shall be included in the estimates of the Commission.

Article 14

The Committee shall adopt its own procedural arrangements.'



8.2. Economic Policy Committee (EPC)

COUNCIL DECISION⁽¹⁾

of 29 September 2000

**on the composition and the statutes of the Economic Policy Committee
(2000/604/EC)**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community and in particular Article 209 thereof,

Having regard to the opinion of the Commission,

Whereas:

- (1) The Economic Policy Committee (hereinafter «the Committee») was set up by Council Decision 74/122/EEC⁽²⁾.
- (2) The Committee has exercised all the functions hitherto assigned to the Short-term Economic Policy Committee set up by Council Decision of 9 March 1960 on coordination of the conjunctural policies of the Member States⁽³⁾, the Budgetary Policy Committee set up by Council Decision of 8 May 1964 on cooperation between the competent government departments of Member States in the field of budgetary policy⁽⁴⁾, and the Medium-term Economic Policy Committee set up by Council Decision of 15 April 1964 setting up a Medium-term Economic Policy Committee⁽⁵⁾.
- (3) The Committee is provided for in Article 272 of the Treaty.
- (4) The statutes of the Committee should reflect the new institutional environment created by entry into the third stage of economic and monetary union; it seems advisable to maintain the basic structure of the Committee while making the necessary adjustments to improve its functioning and to describe its tasks more precisely.
- (5) The task assigned to the Committee shall be without prejudice to the right of the Commission to formulate recommendations or deliver opinions on matters dealt with in the Treaty.
- (6) The introduction of the euro reinforces the need for a close coordination of economic policies and sustained convergence of the economic performances of the Member States; according to the resolution of the European Council of 13 December 1997 on economic policy coordination in stage 3 of economic and monetary union⁽⁶⁾ enhanced economic policy coordination should include a closer monitoring of macroeconomic developments in Member States and of Member States structural policies in labour, product and services markets, as well as of cost and price trends, particularly in so far as they affect the chances of achieving sustained non-inflationary growth and job creation.
- (7) The broad economic policy guidelines and the multilateral surveillance procedure as provided for in Article 99 of the Treaty are at the centre of economic policy coordination; without prejudice to the tasks of the Economic and Financial Committee, the Committee should provide support for the formulation of the guidelines and contribute to the multilateral surveillance procedure in the areas mentioned in this Decision.
- (8) The European Council at its meeting in Cardiff on 16 June 1998 welcomed the decision of the Ecofin Council and the ministers meeting in that Council on 1 May 1998⁽⁷⁾ to establish a light procedure, fully respecting the subsidiarity principle, for monitoring progress on economic reform.
- (9) The resolution of the European Council of 3 and 4 June 1999 launched a process of macroeconomic dialogue at Community level. This macroeconomic dialogue is aimed at improving the interaction between wage developments and macroeconomic policies. The European Council has concluded that the macroeconomic dialogue at technical level should take place in a working party set up in the framework of the Committee in collaboration with the Employment and Labour Market Committee, with the participation of representatives of both committees (including the European

(1) <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02000D0604-20030701>

(2) OJ L 63, 5.3.1974, p. 21.

(3) OJ 31, 9.5.1960, p. 764/60.

(4) OJ 77, 21.5.1964, p. 1205/64.

(5) OJ 64, 22.4.1964, p. 1031/64.

(6) OJ C 35, 2.2.1998, p. 1.

(7) OJ L 139, 11.5.1998, p. 28.

Central Bank), of the Commission and of the Macroeconomic Group of the Social Dialogue. The Committee should in particular organise the contribution of government representatives to the dialogue at this level.

- (10) The resolution of the European Council of 16 June 1997 on growth and employment⁽¹⁾ called for an enhanced coordination of economic policies to complement the procedure as envisaged in the new title on employment in the Treaty, and requested that the Employment Committee should work closely together with the Committee.
- (11) The Treaty provides for the establishment of an Economic and Financial Committee. The tasks of the Economic and Financial Committee are set out in Article 114(2) of the Treaty. The statutes of the Economic and Financial Committee have been adopted by Council Decision of 31 December 1998⁽²⁾. The Committee should work in close cooperation with the Economic and Financial Committee when assisting the Council.
- (12) The Treaty calls for the establishment of an employment committee. Close cooperation with that committee is also required.
- (13) The description of the tasks of the Committee is to be without prejudice to any possible future secondary legislation on the multilateral surveillance procedure as provided for in Article 99(5) of the Treaty.
- (14) The Member States, the Commission and the European Central Bank should be adequately represented in the Committee. They should each nominate two members.
- (15) Members of the Committee should be appointed in their personal capacity and should be guided in performing their duties by the general interests of the Community.
- (16) The President of the Committee should be elected for a period of two years. As a rule, this term should not be renewable. It should be possible to extend the term if there is no other candidate for the Presidency.
- (17) The membership of the Committee of officials from the European Central Bank and national central banks is to be without prejudice to Article 108 of the Treaty,

HAS DECIDED AS FOLLOWS:

Article 1

The statutes of the Economic Policy Committee provided for in Article 272 of the Treaty («the Committee») are hereby adopted.

The text of the statutes is set out in the Annex hereto.

Article 2

Decision 74/122/EEC is hereby repealed.

Article 3

This Decision shall take effect from the day following its publication.

ANNEX

STATUTES OF THE ECONOMIC POLICY COMMITTEE

PART I

TASKS OF THE COMMITTEE

Article 1

1. Without prejudice to Articles 114 and 207 of the Treaty, the Economic Policy Committee (hereinafter referred to as the Committee), shall contribute to the preparation of the work of the Council of coordinating the economic policies of the Member States and of the Community and provide advice to the Commission and the Council.
2. The Committee shall contribute to the preparation of the work of the Council by providing economic analyses, opinions on methodologies and draft formulations for policy recommendations, particularly on structural policies for improving growth potential and employment in the Community. In this context, it shall focus in particular on:
 - (a) the functioning of goods, capital, services and labour markets, including wage, productivity, employment and competitiveness developments,

(1) OJ C 236, 2.8.1997, p. 3.

(2) OJ L 5, 9.1.1999, p. 71.

- (b) the role and efficiency of the public sector and the long-term sustainability of public finances,
 - (c) the economy-wide implications of specific policies, such as those relating to the environment, to research and development and to social cohesion.
3. In the areas mentioned above, the Committee shall, without prejudice to Articles 114 and 207 of the Treaty, provide support for the work of the Council, in particular in the formulation of the broad economic policy guidelines, and shall contribute to the multilateral surveillance procedure referred to in Article 99(3) of the Treaty. In this context, the Committee shall conduct regular country reviews focused in particular on structural reforms in Member States.
 4. Without prejudice to Articles 130 and 207 of the Treaty, the Committee shall contribute to the work of the Council under the Employment Title of the Treaty.
 5. The Committee shall support the Economic and Financial Committee, in particular in keeping under review the short and medium-term macroeconomic developments in the Member States and the Community by providing analysis and opinions mainly on methodological questions relating to the interaction between structural and macroeconomic policies and on wage developments in the Member States and the Community.
 6. The Committee shall provide the framework within which the macroeconomic dialogue involving representatives of the Committee (including the European Central Bank), the Economic and Financial Committee, the Employment Committee, the Commission and social partners shall take place at technical level.
 7. The Committee shall be consulted by the Commission on the maximum rate of increase for non-compulsory expenditure of the general budget of the European Union as provided for in Article 272 of the Treaty.

Article 2

The Committee shall deliver opinions at the request of the Council, the Commission or the Economic and Financial Committee or on its own initiative.

Article 3

In the fulfilment of its tasks the Committee shall work in close relation with the Economic and Financial Committee when reporting to the Council. In contributing to the preparation of the broad economic policy guidelines, the Committee will report to the Economic and Financial Committee. It shall coordinate its work with the Employment Committee and other committees and working groups preparing the work of the Council in the areas where these committees and working groups are competent.

PART II

COMPOSITION

Article 4

1. The Member States, the Commission and the European Central Bank shall each appoint two members of the Committee.
2. The members of the Committee shall be selected from among senior officials possessing outstanding competence in the field of economic and structural policy formulation.

Article 5

Members of the Committee shall be guided, in the performance of their duties, by the general interests of the Community.

PART III

PRESIDENT AND SECRETARIAT

Article 6

1. The Committee shall elect from among its members, by a majority of its members, a president and up to three vice-presidents for a period of two years. As a rule, the two-year term shall not be renewable.
2. The president shall delegate his/her voting right to another member of his/her delegation.

Article 7

In the event of being unable to fulfil his/her duties, the president shall be replaced by one of the vice-presidents of the Committee.

Article 8

1. The Committee shall be assisted by a secretariat under the direction of a secretary. The secretary and the staff of the secretariat needed for carrying out the tasks of the secretariat shall be supplied by the Commission. The secretary shall be appointed by the Commission after consultation of the Committee. The secretary and his/her staff shall act on the instructions of the Committee when carrying out their responsibilities to the Committee.
2. The expenses of the Committee shall be included in the estimates of the Commission.

PART IV**PROCEEDINGS***Article 9*

Opinions or reports shall be adopted by a majority of members if a vote is requested. Each member shall have one vote. However, when advice or an opinion is given on questions on which the Council may subsequently take a decision, members from central banks and the Commission may participate fully in the discussion but shall not participate in a vote. The Committee shall also report on minority or dissenting views expressed in the course of the discussion.

Article 10

As a rule only members may speak during the meetings of the Committee. In exceptional circumstances the president may agree to alternative arrangements.

Article 11

The Committee may entrust the study of specific questions to subcommittees or working parties. The presidency of such groups shall be assumed by a member of the Committee, appointed by the Committee.

Article 12

The Committee, the subcommittees or working parties may invite experts to assist them.

Article 13

The Committee shall be convened by the president on his/her own initiative, or at the request of the Council, the Commission or at least five members.

Article 14

1. As a rule the president shall represent the Committee; in particular the president may be authorised by the Committee to report on discussions and deliver oral comments on opinions and reports prepared by the Committee.
2. The president of the Committee shall have the responsibility of maintaining the Committee's relations with the European Parliament, which shall be kept informed of the Committee's work, as appropriate.

Article 15

1. Unless decided otherwise, the proceedings of the Committee shall be confidential. The same rule shall apply to the proceedings of its subcommittees or working parties.
2. Reports or opinions prepared by the Committee shall be publicly available after they have been transmitted to the addressee unless there are overriding reasons to keep them confidential.

Article 16

The Committee shall adopt its own procedural arrangements.



9. Annexes

9.1. Tables of equivalences⁽¹⁾

<i>Treaty on European Union</i>	
Old numbering of the Treaty on European Union	New numbering of the Treaty on European Union
TITLE I — COMMON PROVISIONS	TITLE I — COMMON PROVISIONS
Article 1	Article 1
	Article 2
Article 2	Article 3
Article 3 (repealed) ⁽²⁾	
	Article 4
	Article 5 ⁽³⁾
Article 4 (repealed) ⁽⁴⁾	
Article 5 (repealed) ⁽⁵⁾	
Article 6	Article 6
Article 7	Article 7
	Article 8
⁽²⁾ Replaced, in substance, by Article 7 of the Treaty on the Functioning of the European Union ('TFEU') and by Articles 13(1) and 21, paragraph 3, second subparagraph of the Treaty on European Union ('TEU'). ⁽³⁾ Replaces Article 5 of the Treaty establishing the European Community ('TEC'). ⁽⁴⁾ Replaced, in substance, by Article 15. ⁽⁵⁾ Replaced, in substance, by Article 13, paragraph 2.	
TITLE II — PROVISIONS AMENDING THE TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY WITH A VIEW TO ESTABLISHING THE EUROPEAN COMMUNITY	TITLE II — PROVISIONS ON DEMOCRATIC PRINCIPLES
Article 8 (repealed) ⁽⁶⁾	Article 9
	Article 10 ⁽⁷⁾
	Article 11
	Article 12
⁽⁶⁾ Article 8 TEU, which was in force until the entry into force of the Treaty of Lisbon (hereinafter 'current'), amended the TEC. Those amendments are incorporated into the latter Treaty and Article 8 is repealed. Its number is used to insert a new provision. ⁽⁷⁾ Paragraph 4 replaces, in substance, the first subparagraph of Article 191 TEC.	

(1) Tables of equivalences as referred to in Article 5 of the Treaty of Lisbon. The original centre column, which set out the intermediate numbering as used in that Treaty, has been omitted.

TITLE III — PROVISIONS AMENDING THE TREATY ESTABLISHING THE EUROPEAN COAL AND STEEL COMMUNITY	TITLE III — PROVISIONS ON THE INSTITUTIONS
Article 9 (repealed) ⁽¹⁾	Article 13
	Article 14 ⁽²⁾
	Article 15 ⁽³⁾
	Article 16 ⁽⁴⁾
	Article 17 ⁽⁵⁾
	Article 18 ⁽⁶⁾
	Article 19
<p>⁽¹⁾ The current Article 9 TEU amended the Treaty establishing the European Coal and Steel Community. This latter expired on 23 July 2002. Article 9 is repealed and the number thereof is used to insert another provision.</p> <p>⁽²⁾ – Paragraphs 1 and 2 replace, in substance, Article 189 TEC; – paragraphs 1 to 3 replace, in substance, paragraphs 1 to 3 of Article 190 TEC; – paragraph 1 replaces, in substance, the first subparagraph of Article 192 TEC; – paragraph 1 replaces, in substance, the first subparagraph of Article 192 TEC;</p> <p>⁽³⁾ Replaces, in substance, Article 4.</p> <p>⁽⁴⁾ – Paragraph 1 replaces, in substance, the first and second indents of Article 202 TEC; – paragraphs 2 and 9 replace, in substance, Article 203 TEC; – paragraphs 4 and 5 replace, in substance, paragraphs 2 and 4 of Article 205 TEC.</p> <p>⁽⁵⁾ – Paragraph 1 replaces, in substance, Article 211 TEC; – paragraphs 3 and 7 replace, in substance, Article 214 TEC. – paragraph 6 replaces, in substance, paragraphs 1, 3 and 4 of Article 217 TEC.</p> <p>⁽⁶⁾ – Replaces, in substance, Article 220 TEC. – the first subparagraph of paragraph 2 replaces, in substance, the first subparagraph of Article 221 TEC.</p>	
TITLE IV — PROVISIONS AMENDING THE TREATY ESTABLISHING THE EUROPEAN ATOMIC ENERGY COMMUNITY	TITLE IV — PROVISIONS ON ENHANCED COOPERATION
Article 10 (repealed) ⁽⁷⁾	Article 20 ⁽⁸⁾
Articles 27a to 27e (replaced)	
Articles 40 to 40b (replaced)	
Articles 43 to 45 (replaced)	
<p>⁽⁷⁾ The current Article 10 TEU amended the Treaty establishing the European Atomic Energy Community. Those amendments are incorporated into the Treaty of Lisbon. Article 10 is repealed and the number thereof is used to insert another provision.</p> <p>⁽⁸⁾ Also replaces Articles 11 and 11a TEC.</p>	

TITLE V — PROVISIONS ON A COMMON FOREIGN AND SECURITY POLICY	TITLE V — GENERAL PROVISIONS ON THE UNION'S EXTERNAL ACTION AND SPECIFIC PROVISIONS ON THE COMMON FOREIGN AND SECURITY POLICY
	Chapter 1 — General provisions on the Union's external action
	Article 21
	Article 22
	Chapter 2 — Specific provisions on the common foreign and security policy
	Section 1 — Common provisions
	Article 23
Article 11	Article 24
Article 12	Article 25
Article 13	Article 26
	Article 27
Article 14	Article 28
Article 15	Article 29
Article 22 (moved)	Article 30
Article 23 (moved)	Article 31
Article 16	Article 32
Article 17 (moved)	Article 42
Article 18	Article 33
Article 19	Article 34
Article 20	Article 35
Article 21	Article 36
Article 22 (moved)	Article 30
Article 23 (moved)	Article 31
Article 24	Article 37
Article 25	Article 38
	Article 39
Article 47 (moved)	Article 40
Article 26 (repealed)	
Article 27 (repealed)	
Article 27a (replaced) ⁽¹⁾	Article 20
Article 27b (replaced) ⁽²⁾	Article 20
Article 27c (replaced) ⁽³⁾	Article 20
Article 27d (replaced) ⁽⁴⁾	Article 20
Article 27e (replaced) ⁽⁵⁾	Article 20
Article 28	Article 41

	Section 2 — Provisions on the common security and defence policy
Article 17 (moved)	Article 42
	Article 43
	Article 44
	Article 45
	Article 46
<p>(1) The current Articles 27a to 27e, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU.</p> <p>(2) The current Articles 27a to 27e, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU.</p> <p>(3) The current Articles 27a to 27e, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU.</p> <p>(4) The current Articles 27a to 27e, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU.</p> <p>(5) The current Articles 27a to 27e, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU.</p>	
TITLE VI — PROVISIONS ON POLICE AND JUDICIAL COOPERATION IN CRIMINAL MATTERS (repealed) ⁽¹⁾	
Article 29 (replaced) ⁽²⁾	
Article 30 (replaced) ⁽³⁾	
Article 31 (replaced) ⁽⁴⁾	
Article 32 (replaced) ⁽⁵⁾	
Article 33 (replaced) ⁽⁶⁾	
Article 34 (repealed)	
Article 35 (repealed)	
Article 36 (replaced) ⁽⁷⁾	
Article 37 (repealed)	
Article 38 (repealed)	
Article 39 (repealed)	
Article 40 (replaced) ⁽⁸⁾	Article 20
Article 40 A (replaced) ⁽⁹⁾	Article 20
Article 40 B (replaced) ⁽¹⁰⁾	Article 20
Article 41 (repealed)	
Article 42 (repealed)	
<p>(1) The current provisions of Title VI of the TEU, on police and judicial cooperation in criminal matters, are replaced by the provisions of Chapters 1, 5 and 5 of Title IV of Part Three of the TFEU.</p> <p>(2) Replaced by Article 67 TFEU.</p> <p>(3) Replaced by Articles 87 and 88 TFEU.</p> <p>(4) Replaced by Articles 82, 83 and 85 TFEU.</p> <p>(5) Replaced by Article 89 TFEU.</p> <p>(6) Replaced by Article 72 TFEU.</p> <p>(7) Replaced by Article 71 TFEU.</p> <p>(8) The current Articles 40 to 40 B TEU, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU.</p> <p>(9) The current Articles 40 to 40 B TEU, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU.</p> <p>(10) The current Articles 40 to 40 B TEU, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU.</p>	

TITLE VII — PROVISIONS ON ENHANCED COOPERATION (replaced)	TITLE IV — PROVISIONS ON ENHANCED COOPERATION
Article 43 (replaced) ⁽¹⁾	Article 20
Article 43 A (replaced) ⁽²⁾	Article 20
Article 43 B (replaced) ⁽³⁾	Article 20
Article 44 (replaced) ⁽⁴⁾	Article 20
Article 44 A (replaced) ⁽⁵⁾	Article 20
Article 45 (replaced) ⁽⁶⁾	Article 20
⁽¹⁾ The current Articles 43 to 45 and Title VII of the TEU, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU. ⁽²⁾ The current Articles 43 to 45 and Title VII of the TEU, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU. ⁽³⁾ The current Articles 43 to 45 and Title VII of the TEU, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU. ⁽⁴⁾ The current Articles 43 to 45 and Title VII of the TEU, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU. ⁽⁵⁾ The current Articles 43 to 45 and Title VII of the TEU, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU. ⁽⁶⁾ The current Articles 43 to 45 and Title VII of the TEU, on enhanced cooperation, are also replaced by Articles 326 to 334 TFEU.	
TITRE VIII — FINAL PROVISIONS	TITLE VI — FINAL PROVISIONS
Article 46 (repealed)	
	Article 47
Article 47 (replaced)	Article 40
Article 48	Article 48
Article 49	Article 49
	Article 50
	Article 51
	Article 52
Article 50 (repealed)	
Article 51	Article 53
Article 52	Article 54
Article 53	Article 55

<i>Treaty on the Functioning of the European Union</i>	
<i>Old numbering of the Treaty establishing the European Community</i>	<i>New numbering of the Treaty on the Functioning of the European Union</i>
PART ONE — PRINCIPLES	PART ONE — PRINCIPLES
Article 1 (repealed)	Article 1
Article 2 (repealed) ⁽¹⁾	
	Title I — Categories and areas of union competence
	Article 2
	Article 3
	Article 4
	Article 5
	Article 6
	Title II — Provisions having general application
	Article 7
Article 3, paragraph 1 (repealed) ⁽²⁾	
Article 3, paragraph 2	Article 8
Article 4 (moved)	Article 119
Article 5 (replaced) ⁽³⁾	
	Article 9
	Article 10
Article 6	Article 11
Article 153, paragraph 2 (moved)	Article 12
	Article 13 ⁽⁴⁾
Article 7 (repealed) ⁽⁵⁾	
Article 8 (repealed) ⁽⁶⁾	
Article 9 (repealed)	
Article 10 (repealed) ⁽⁷⁾	
Article 11 (replaced) ⁽⁸⁾	Articles 326 to 334
Article 11a (replaced) ⁽⁹⁾	Articles 326 to 334
Article 12 (moved)	Article 18
Article 13 (moved)	Article 19
Article 14 (moved)	Article 26
Article 15 (moved)	Article 27
Article 16	Article 14
Article 255 (moved)	Article 15
Article 286 (moved)	Article 16
	Article 17
⁽¹⁾ Replaced, in substance, by Article 3 TEU. ⁽²⁾ Replaced, in substance, by Articles 3 to 6 TFEU. ⁽³⁾ Replaced by Article 5 TEU. ⁽⁴⁾ Insertion of the operative part of the protocol on protection and welfare of animals. ⁽⁵⁾ Replaced, in substance, by Article 13 TEU. ⁽⁶⁾ Replaced, in substance, by Article 13 TEU and Article 282, paragraph 1, TFEU. ⁽⁷⁾ Replaced, in substance, by Article 4, paragraph 3, TEU. ⁽⁸⁾ Also replaced by Article 20 TEU. ⁽⁹⁾ Also replaced by Article 20 TEU.	

PART TWO — CITIZENSHIP OF THE UNION	PART TWO — NON-DISCRIMINATION AND CITIZENSHIP OF THE UNION
Article 12 (moved)	Article 18
Article 13 (moved)	Article 19
Article 17	Article 20
Article 18	Article 21
Article 19	Article 22
Article 20	Article 23
Article 21	Article 24
Article 22	Article 25
PART THREE — COMMUNITY POLICIES	PART THREE — POLICIES AND INTERNAL ACTIONS OF THE UNION
	Title I — The internal market
Article 14 (moved)	Article 26
Article 15 (moved)	Article 27
Title I — Free movement of goods	Title II — Free movement of goods
Article 23	Article 28
Article 24	Article 29
Chapter 1 — The customs union	Chapter 1 — The customs union
Article 25	Article 30
Article 26	Article 31
Article 27	Article 32
Part Three, Title X, Customs cooperation (moved)	Chapter 2 — Customs cooperation
Article 135 (moved)	Article 33
Chapter 2 — Prohibition of quantitative restrictions between Member States	Chapter 3 — Prohibition of quantitative restrictions between Member States
Article 28	Article 34
Article 29	Article 35
Article 30	Article 36
Article 31	Article 37
Title II — Agriculture	Title III — Agriculture and fisheries
Article 32	Article 38
Article 33	Article 39
Article 34	Article 40
Article 35	Article 41
Article 36	Article 42
Article 37	Article 43
Article 38	Article 44
Title III — Free movement of persons, services and capital	Title IV — Free movement of persons, services and capital
Chapter 1 — Workers	Chapter 1 — Workers
Article 39	Article 45
Article 40	Article 46

Article 41	Article 47
Article 42	Article 48
Chapter 2 — Right of establishment	Chapter 2 — Right of establishment
Article 43	Article 49
Article 44	Article 50
Article 45	Article 51
Article 46	Article 52
Article 47	Article 53
Article 48	Article 54
Article 294 (moved)	Article 55
Chapter 3 — Services	Chapter 3 — Services
Article 49	Article 56
Article 50	Article 57
Article 51	Article 58
Article 52	Article 59
Article 53	Article 60
Article 54	Article 61
Article 55	Article 62
Chapter 4 — Capital and payments	Chapter 4 — Capital and payments
Article 56	Article 63
Article 57	Article 64
Article 58	Article 65
Article 59	Article 66
Article 60 (moved)	Article 75
Title IV — Visas, asylum, immigration and other policies related to free movement of persons	Title V — Area of freedom, security and justice
	Chapter 1 — General provisions
Article 61	Article 67 ⁽¹⁾
	Article 68
	Article 69
	Article 70
	Article 71 ⁽²⁾
Article 64, paragraph 1 (replaced)	Article 72 ⁽³⁾
	Article 73
Article 66 (replaced)	Article 74
Article 60 (moved)	Article 75
	Article 76
⁽¹⁾ Also replaces the current Article 29 TEU. ⁽²⁾ Replaces the current Article 36 TEU. ⁽³⁾ Also replaces the current Article 33 TEU.	

	Chapter 2 — Policies on border checks, asylum and immigration
Article 62	Article 77
Article 63, points 1 et 2, and Article 64, paragraph 2 ⁽¹⁾	Article 78
Article 63, points 3 and 4	Article 79
	Article 80
Article 64, paragraph 1 (replaced)	Article 72
	Chapter 3 — Judicial cooperation in civil matters
Article 65	Article 81
Article 66 (replaced)	Article 74
Article 67 (repealed)	
Article 68 (repealed)	
Article 69 (repealed)	
	Chapter 4 — Judicial cooperation in criminal matters
	Article 82 ⁽²⁾
	Article 83 ⁽³⁾
	Article 84
	Article 85 ⁽⁴⁾
	Article 86
	Chapter 5 — Police cooperation
	Article 87 ⁽⁵⁾
	Article 88 ⁽⁶⁾
	Article 89 ⁽⁷⁾
Title V — Transport	Title VI — Transport
Article 70	Article 90
Article 71	Article 91
Article 72	Article 92
Article 73	Article 93
Article 74	Article 94
Article 75	Article 95
Article 76	Article 96
Article 77	Article 97
Article 78	Article 98
Article 79	Article 99
Article 80	Article 100
⁽¹⁾ Points 1 and 2 of Article 63 EC are replaced by paragraphs 1 and 2 of Article 78 TFEU, and paragraph 2 of Article 64 is replaced by paragraph 3 of Article 78 TFEU. ⁽²⁾ Replaces the current Article 31 TEU. ⁽³⁾ Replaces the current Article 31 TEU. ⁽⁴⁾ Replaces the current Article 31 TEU. ⁽⁵⁾ Replaces the current Article 30 TEU. ⁽⁶⁾ Replaces the current Article 30 TEU. ⁽⁷⁾ Replaces the current Article 32 TEU.	

Title VI — Common rules on competition, taxation and approximation of laws	Title VII — Common rules on competition, taxation and approximation of laws
Chapter 1 — Rules on competition	Chapter 1 — Rules on competition
Section 1 — Rules applying to undertakings	Section 1 — Rules applying to undertakings
Article 81	Article 101
Article 82	Article 102
Article 83	Article 103
Article 84	Article 104
Article 85	Article 105
Article 86	Article 106
Section 2 — Aids granted by States	Section 2 — Aids granted by States
Article 87	Article 107
Article 88	Article 108
Article 89	Article 109
Chapter 2 — Tax provisions	Chapter 2 — Tax provisions
Article 90	Article 110
Article 91	Article 111
Article 92	Article 112
Article 93	Article 113
Chapter 3 — Approximation of laws	Chapter 3 — Approximation of laws
Article 95 (moved)	Article 114
Article 94 (moved)	Article 115
Article 96	Article 116
Article 97	Article 117
	Article 118
Title VII — Economic and monetary policy	Title VIII — Economic and monetary policy
Article 4 (moved)	Article 119
Chapter 1 — Economic policy	Chapter 1 — Economic policy
Article 98	Article 120
Article 99	Article 121
Article 100	Article 122
Article 101	Article 123
Article 102	Article 124
Article 103	Article 125
Article 104	Article 126
Chapter 2 — monetary policy	Chapter 2 — monetary policy
Article 105	Article 127
Article 106	Article 128
Article 107	Article 129
Article 108	Article 130

Article 109	Article 131
Article 110	Article 132
Article 111, paragraphs 1 to 3 and 5 (moved)	Article 219
Article 111, paragraph 4 (moved)	Article 138
	Article 133
Chapter 3 — Institutional provisions	Chapter 3 — Institutional provisions
Article 112 (moved)	Article 283
Article 113 (moved)	Article 284
Article 114	Article 134
Article 115	Article 135
	Chapter 4 — Provisions specific to Member States whose currency is the euro
	Article 136
	Article 137
Article 111, paragraph 4 (moved)	Article 138
Chapter 4 — Transitional provisions	Chapter 5 — Transitional provisions
Article 116 (repealed)	
	Article 139
Article 117, paragraphs 1, 2, sixth indent, and 3 to 9 (repealed)	
Article 117, paragraph 2, first five indents (moved)	Article 141, paragraph 2
Article 121, paragraph 1 (moved) Article 122, paragraph 2, second sentence (moved) Article 123, paragraph 5 (moved)	Article 140 ⁽¹⁾
Article 118 (repealed)	
Article 123, paragraph 3 (moved) Article 117, paragraph 2, first five indents (moved)	Article 141 ⁽²⁾
Article 124, paragraph 1 (moved)	Article 142
Article 119	Article 143
Article 120	Article 144
Article 121, paragraph 1 (moved)	Article 140, paragraph 1
Article 121, paragraphs 2 to 4 (repealed)	
Article 122, paragraphs 1, 2, first sentence, 3, 4, 5 and 6 (repealed)	Article 140, paragraph 2, first subparagraph
Article 122, paragraph 2, second sentence (moved)	
Article 123, paragraphs 1, 2 and 4 (repealed)	
Article 123, paragraph 3 (moved)	Article 141, paragraph 1
Article 123, paragraph 5 (moved)	Article 140, paragraph 3
⁽¹⁾ – Article 140, paragraph 1 takes over the wording of paragraph 1 of Article 121. – Article 140, paragraph 2 takes over the second sentence of paragraph 2 of Article 122. – Article 140, paragraph 3 takes over paragraph 5 of Article 123.	
⁽²⁾ – Article 141, paragraph 1 takes over paragraph 3 of Article 123. – Article 141, paragraph 2 takes over the first five indents of paragraph 2 of Article 117.	

Article 124, paragraph 1 (moved)	Article 142
Article 124, paragraph 2 (repealed)	
Title VIII — Employment	Title IX — Employment
Article 125	Article 145
Article 126	Article 146
Article 127	Article 147
Article 128	Article 148
Article 129	Article 149
Article 130	Article 150
Title IX — Common commercial policy (moved)	Part Five, Title II, common commercial policy
Article 131 (moved)	Article 206
Article 132 (repealed)	
Article 133 (moved)	Article 207
Article 134 (repealed)	
Title X — Customs cooperation (moved)	Part Three, Title II, Chapter 2, Customs cooperation
Article 135 (moved)	Article 33
Title XI — Social policy, education, vocational training and youth	Title X — Social policy
Chapter 1 — social provisions (repealed)	
Article 136	Article 151
	Article 152
Article 137	Article 153
Article 138	Article 154
Article 139	Article 155
Article 140	Article 156
Article 141	Article 157
Article 142	Article 158
Article 143	Article 159
Article 144	Article 160
Article 145	Article 161
Chapter 2 — The European Social Fund	Title XI — The European Social Fund
Article 146	Article 162
Article 147	Article 163
Article 148	Article 164
Chapter 3 — Education, vocational training and youth	Title XII — Education, vocational training, youth and sport
Article 149	Article 165
Article 150	Article 166
Title XII — Culture	Title XIII — Culture
Article 151	Article 167

Title XIII — Public health	Title XIV — Public health
Article 152	Article 168
Title XIV — Consumer protection	Title XV — Consumer protection
Article 153, paragraphs 1, 3, 4 and 5	Article 169
Article 153, paragraph 2 (moved)	Article 12
Title XV — Trans-European networks	Title XVI — Trans-European networks
Article 154	Article 170
Article 155	Article 171
Article 156	Article 172
Title XVI — Industry	Title XVII — Industry
Article 157	Article 173
Title XVII — Economic and social cohesion	Title XVIII — Economic, social and territorial cohesion
Article 158	Article 174
Article 159	Article 175
Article 160	Article 176
Article 161	Article 177
Article 162	Article 178
Title XVIII — Research and technological development	Title XIX — Research and technological development and space
Article 163	Article 179
Article 164	Article 180
Article 165	Article 181
Article 166	Article 182
Article 167	Article 183
Article 168	Article 184
Article 169	Article 185
Article 170	Article 186
Article 171	Article 187
Article 172	Article 188
	Article 189
Article 173	Article 190
Title XIX — Environment	Title XX — Environment
Article 174	Article 191
Article 175	Article 192
Article 176	Article 193
	Titre XXI — Energy
	Article 194
	Title XXII — Tourism
	Article 195
	Title XXIII — Civil protection
	Article 196

	Title XXIV — Administrative cooperation
	Article 197
Title XX — Development cooperation (moved)	Part Five, Title III, Chapter 1, Development cooperation
Article 177 (moved)	Article 208
Article 178 (repealed) ⁽¹⁾	
Article 179 (moved)	Article 209
Article 180 (moved)	Article 210
Article 181 (moved)	Article 211
Title XXI — Economic, financial and technical cooperation with third countries (moved)	Part Five, Title III, Chapter 2, Economic, financial and technical cooperation with third countries
Article 181a (moved)	Article 212
PART FOUR — ASSOCIATION OF THE OVERSEAS COUNTRIES AND TERRITORIES	PART FOUR — ASSOCIATION OF THE OVERSEAS COUNTRIES AND TERRITORIES
Article 182	Article 198
Article 183	Article 199
Article 184	Article 200
Article 185	Article 201
Article 186	Article 202
Article 187	Article 203
Article 188	Article 204
	PART FIVE — THE UNION'S EXTERNAL ACTION
	Title I — General provisions on the Union's external action
	Article 205
Part Three, Title IX, Common commercial policy (moved)	Title II — Common commercial policy
Article 131 (moved)	Article 206
Article 133 (moved)	Article 207
	Title III — Cooperation with third countries and humanitarian aid
Part Three, Title XX, Development cooperation (moved)	Chapter 1 — development cooperation
Article 177 (moved)	Article 208 ⁽²⁾
Article 179 (moved)	Article 209
Article 180 (moved)	Article 210
Article 181 (moved)	Article 211
Part Three, Title XXI, Economic, financial and technical cooperation with third countries (moved)	Chapter 2 — Economic, financial and technical cooperation with third countries
Article 181a (moved)	Article 212
	Article 213
⁽¹⁾ Replaced, in substance, by the second sentence of the second subparagraph of paragraph 1 of Article 208 TFEU.	
⁽²⁾ The second sentence of the second subparagraph of paragraph 1 replaces, in substance, Article 178 TEC.	

	Chapter 3 — Humanitarian aid
	Article 214
	Title IV — Restrictive measures
Article 301 (replaced)	Article 215
	Title V — International agreements
	Article 216
Article 310 (moved)	Article 217
Article 300 (replaced)	Article 218
Article 111, paragraphs 1 to 3 and 5 (moved)	Article 219
	Title VI — The Union's relations with international organisations and third countries and the Union delegations
Articles 302 to 304 (replaced)	Article 220
	Article 221
	Title VII — Solidarity clause
	Article 222
PART FIVE — INSTITUTIONS OF THE COMMUNITY	PART SIX — INSTITUTIONAL AND FINANCIAL PROVISIONS
Title I — Institutional provisions	Title I — Institutional provisions
Chapter 1 — The institutions	Chapter 1 — The institutions
Section 1 — The European Parliament	Section 1 — The European Parliament
Article 189 (repealed) ⁽¹⁾	
Article 190, paragraphs 1 to 3 (repealed) ⁽²⁾	
Article 190, paragraphs 4 and 5	Article 223
Article 191, first paragraph (repealed) ⁽³⁾	
Article 191, second paragraph	Article 224
Article 192, first paragraph (repealed) ⁽⁴⁾	
Article 192, second paragraph	Article 225
Article 193	Article 226
Article 194	Article 227
Article 195	Article 228
Article 196	Article 229
Article 197, first paragraph (repealed) ⁽⁵⁾	
Article 197, second, third and fourth paragraphs	Article 230
Article 198	Article 231
Article 199	Article 232
Article 200	Article 233
Article 201	Article 234
⁽¹⁾ Replaced, in substance, by Article 14, paragraphs 1 and 2, TEU. ⁽²⁾ Replaced, in substance, by Article 14, paragraphs 1 to 3, TEU. ⁽³⁾ Replaced, in substance, by Article 11, paragraph 4, TEU. ⁽⁴⁾ Replaced, in substance, by Article 14, paragraph 1, TEU. ⁽⁵⁾ Replaced, in substance, by Article 14, paragraph 4, TEU.	

	Section 2 — The European Council
	Article 235
	Article 236
Section 2 — The Council	Section 3 — The Council
Article 202 (repealed) ⁽¹⁾	
Article 203 (repealed) ⁽²⁾	
Article 204	Article 237
Article 205, paragraphs 2 and 4 (repealed) ⁽³⁾	
Article 205, paragraphs 1 and 3	Article 238
Article 206	Article 239
Article 207	Article 240
Article 208	Article 241
Article 209	Article 242
Article 210	Article 243
Section 3 — The Commission	Section 4 — The Commission
Article 211 (repealed) ⁽⁴⁾	
	Article 244
Article 212 (moved)	Article 249, paragraph 2
Article 213	Article 245
Article 214 (repealed) ⁽⁵⁾	
Article 215	Article 246
Article 216	Article 247
Article 217, paragraphs 1, 3 and 4 (repealed) ⁽⁶⁾	
Article 217, paragraph 2	Article 248
Article 218, paragraph 1 (repealed) ⁽⁷⁾	
Article 218, paragraph 2	Article 249
Article 219	Article 250
Section 4 — The Court of Justice	Section 5 — The Court of Justice of the European Union
Article 220 (repealed) ⁽⁸⁾	
Article 221, first paragraph (repealed) ⁽⁹⁾	
Article 221, second and third paragraphs	Article 251
Article 222	Article 252
Article 223	Article 253
Article 224 ⁽¹⁰⁾	Article 254
<p>⁽¹⁾ Replaced, in substance, by Article 16, paragraph 1, TEU and by Articles 290 and 291 TFEU.</p> <p>⁽²⁾ Replaced, in substance, by Article 16, paragraphs 2 and 9 TEU.</p> <p>⁽³⁾ Replaced, in substance, by Article 16, paragraphs 4 and 5 TEU.</p> <p>⁽⁴⁾ Replaced, in substance, by Article 17, paragraph 1 TEU.</p> <p>⁽⁵⁾ Replaced, in substance, by Article 17, paragraphs 3 and 7 TEU.</p> <p>⁽⁶⁾ Replaced, in substance, by Article 17, paragraph 6, TEU.</p> <p>⁽⁷⁾ Replaced, in substance, by Article 295 TFEU.</p> <p>⁽⁸⁾ Replaced, in substance, by Article 19 TFEU.</p> <p>⁽⁹⁾ Replaced, in substance, by Article 19, paragraph 2, first subparagraph, of the TEU.</p> <p>⁽¹⁰⁾ The first sentence of the first subparagraph is replaced, in substance, by Article 19, paragraph 2, second subparagraph of the TEU.</p>	

	Article 255
Article 225	Article 256
Article 225a	Article 257
Article 226	Article 258
Article 227	Article 259
Article 228	Article 260
Article 229	Article 261
Article 229a	Article 262
Article 230	Article 263
Article 231	Article 264
Article 232	Article 265
Article 233	Article 266
Article 234	Article 267
Article 235	Article 268
	Article 269
Article 236	Article 270
Article 237	Article 271
Article 238	Article 272
Article 239	Article 273
Article 240	Article 274
	Article 275
	Article 276
Article 241	Article 277
Article 242	Article 278
Article 243	Article 279
Article 244	Article 280
Article 245	Article 281
	Section 6 — The European Central Bank
	Article 282
Article 112 (moved)	Article 283
Article 113 (moved)	Article 284
Section 5 — The Court of Auditors	Section 7 — The Court of Auditors
Article 246	Article 285
Article 247	Article 286
Article 248	Article 287
Chapter 2 — Provisions common to several institutions	Chapter 2 — Legal acts of the Union, adoption procedures and other provisions
	Section 1 — The legal acts of the Union
Article 24	Article 288
	Article 289

	Article 290 ⁽¹⁾
	Article 291 ⁽¹⁾
	Article 292
	Section 2 — Procedures for the adoption of acts and other provisions
Article 250	Article 293
Article 251	Article 294
Article 252 (repealed)	
	Article 295
Article 253	Article 296
Article 254	Article 297
	Article 298
Article 255 (moved)	Article 15
Article 256	Article 299
	Chapter 3 — The Union's advisory bodies
	Article 300
Chapter 3 — The Economic and Social Committee	Section 1 — The Economic and Social Committee
Article 257 (repealed) ⁽²⁾	
Article 258, first, second and fourth paragraphs	Article 301
Article 258, third paragraph (repealed) ⁽³⁾	
Article 259	Article 302
Article 260	Article 303
Article 261 (repealed)	
Article 262	Article 304
Chapter 4 — The Committee of the Regions	Section 2 — The Committee of the Regions
Article 263, first and fifth paragraphs (repealed) ⁽⁴⁾	
Article 263, second to fourth paragraphs	Article 305
Article 264	Article 306
Article 265	Article 307
Chapter 5 — The European Investment Bank	Chapter 4 — The European Investment Bank
Article 266	Article 308
Article 267	Article 309
Title II — Financial provisions	Title II — Financial provisions
Article 268	Article 310
	Chapter 1 — The Union's own resources
Article 269	Article 311
Article 270 (repealed) ⁽⁵⁾	
	Chapter 2 — The multiannual financial framework
	Article 312
⁽¹⁾ Replaces, in substance, the third indent of Article 202 TEC. ⁽²⁾ Replaced, in substance, by Article 300, paragraph 2 of the TFEU. ⁽³⁾ Replaced, in substance, by Article 300, paragraph 4 of the TFEU. ⁽⁴⁾ Replaced, in substance, by Article 300, paragraphs 3 and 4, TFEU. ⁽⁵⁾ Replaced, in substance, by Article 310, paragraph 4, TFEU.	

	Chapter 3 — The Union's annual budget
Article 272, paragraph 1 (moved)	Article 313
Article 271 (moved)	Article 316
Article 272, paragraph 1 (moved)	Article 313
Article 272, paragraphs 2 to 10	Article 314
Article 273	Article 315
Article 271 (moved)	Article 316
	Chapter 4 — Implementation of the budget and discharge
Article 274	Article 317
Article 275	Article 318
Article 276	Article 319
	Chapter 5 — Common provisions
Article 277	Article 320
Article 278	Article 321
Article 279	Article 322
	Article 323
	Article 324
	Chapter 6 — Combating fraud
Article 280	Article 325
	Title III — Enhanced cooperation
Articles 11 and 11a (replaced)	Article 326 ⁽¹⁾
Articles 11 and 11a (replaced)	Article 327 ⁽²⁾
Articles 11 and 11a (replaced)	Article 328 ⁽³⁾
Articles 11 and 11a (replaced)	Article 329 ⁽⁴⁾
Articles 11 and 11a (replaced)	Article 330 ⁽⁵⁾
Articles 11 and 11a (replaced)	Article 331 ⁽⁶⁾
Articles 11 and 11a (replaced)	Article 332 ⁽⁷⁾
Articles 11 and 11a (replaced)	Article 333 ⁽⁸⁾
Articles 11 and 11a (replaced)	Article 334 ⁽⁹⁾
PART SIX — GENERAL AND FINAL PROVISIONS	PART SEVEN — GENERAL AND FINAL PROVISIONS
Article 281 (repealed) ⁽¹⁰⁾	
Article 282	Article 335
Article 283	Article 336
Article 284	Article 337
Article 285	Article 338
⁽¹⁾ Also replaces the current Articles 27a to 27e, 40 to 40b, and 43 to 45 TEU. ⁽²⁾ Also replaces the current Articles 27a to 27e, 40 to 40b, and 43 to 45 TEU. ⁽³⁾ Also replaces the current Articles 27a to 27e, 40 to 40b, and 43 to 45 TEU. ⁽⁴⁾ Also replaces the current Articles 27a to 27e, 40 to 40b, and 43 to 45 TEU. ⁽⁵⁾ Also replaces the current Articles 27a to 27e, 40 to 40b, and 43 to 45 TEU. ⁽⁶⁾ Also replaces the current Articles 27a to 27e, 40 to 40b, and 43 to 45 TEU. ⁽⁷⁾ Also replaces the current Articles 27a to 27e, 40 to 40b, and 43 to 45 TEU. ⁽⁸⁾ Also replaces the current Articles 27a to 27e, 40 to 40b, and 43 to 45 TEU. ⁽⁹⁾ Also replaces the current Articles 27a to 27e, 40 to 40b, and 43 to 45 TEU. ⁽¹⁰⁾ Replaced, in substance, by Article 47 TEU.	

Article 286 (replaced)	Article 16
Article 287	Article 339
Article 288	Article 340
Article 289	Article 341
Article 290	Article 342
Article 291	Article 343
Article 292	Article 344
Article 293 (repealed)	
Article 294 (moved)	Article 55
Article 295	Article 345
Article 296	Article 346
Article 297	Article 347
Article 298	Article 348
Article 299, paragraph 1 (repealed) ⁽¹⁾	
Article 299, paragraph 2, second, third and fourth subparagraphs	Article 349
Article 299, paragraph 2, first subparagraph, and paragraphs 3 to 6 (moved)	Article 355
Article 300 (replaced)	Article 218
Article 301 (replaced)	Article 215
Article 302 (replaced)	Article 220
Article 303 (replaced)	Article 220
Article 304 (replaced)	Article 220
Article 305 (repealed)	
Article 306	Article 350
Article 307	Article 351
Article 308	Article 352
	Article 353
Article 309	Article 354
Article 310 (moved)	Article 217
Article 311 (repealed) ⁽²⁾	
Article 299, paragraph 2, first subparagraph, and paragraphs 3 to 6 (moved)	Article 355
Article 312	Article 356
Final Provisions	
Article 313	Article 357
	Article 358
Article 314 (repealed) ⁽³⁾	
⁽¹⁾ Replaced, in substance by Article 52 TEU. ⁽²⁾ Replaced, in substance by Article 51 TEU. ⁽³⁾ Replaced, in substance by Article 55 TEU.	



9.2. List of other legal and political texts concerning economic and monetary union

This list comprises other legal and political texts which are relevant for economic and monetary union, but which have not been reproduced in this Compendium. The ECB's legal acts and instruments are not covered in this list⁽¹⁾.

Extracts from the Treaties, annexed Protocols and Declarations

Title IV, Chapter 4 EC Treaty — Capital and payments — OJ C 326, 26.10.2012 (consolidated version)

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2012.326.01.0001.01.ENG#C_2012326EN.01004701

Protocol amending the Protocol on the privileges and immunities of the European Communities — unofficial consolidated version http://www.ecb.int/ecb/legal/pdf/ppi_en.pdf

Protocol (No 18) on France — OJ C 326, 26.10.2012 (consolidated version)

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2012.326.01.0001.01.ENG#C_2012326EN.01020101

Protocol (NO 5) on the Statute of the European Investment Bank — OJ C 326, 26.10.2012 (consolidated version)

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2012.326.01.0001.01.ENG#C_2012326EN.01020101

Economic policy coordination

Report by the Ecofin Council to the European Council in Helsinki on economic policy coordination: review of instruments and experience in Stage III of EMU (29 November 1999)

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/misc/13123-r1.en9.htm

Council report of 3 December 2002 on the streamlining of the policy coordination processes

[http://www.consilium.europa.eu/uedocs/cms_data/docs/2004/4/29/Streamlining %20of %20the %20policy %20coordination %20processes %20- %20Adopted %20by %20the %20ECOFIN %20Council %20of %2003122002.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/2004/4/29/Streamlining%20of%20the%20policy%20coordination%20processes%20-%20Adopted%20by%20the%20ECOFIN%20Council%20of%2003122002.pdf)

Regulation (EC) No 501/2004 of the European Parliament and of the Council of 10 March 2004 on quarterly financial accounts for general government — OJ L 81, 19.3.2004, p. 1

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02004R0501-20130701>

Compact for Growth and Jobs: EC conclusions 28-29 June 2012

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131388.pdf

Terms of reference of the methodology of assessment of effective action under the Excessive Deficit Procedure, as endorsed by ECOFIN on 20 June 2014

<http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010945%202014%20REV%201>

<http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010945%202014%20REV%201%20ADD%201%20REV%201>

<http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010945%202014%20REV%201%20ADD%202>

<http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010945%202014%20REV%201%20ADD%203>

Regulation (EU) No 1303/2013 of the European Parliament and the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 - Chapter IV - Measures linked to sound economic governance.

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1303>

Communication from the Commission Harmonized framework for draft budgetary plans and debt issuance reports within the euro area

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013DC0490>

Communication from the Commission Common principles on national fiscal correction mechanisms

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012DC0342>

Commission favours margins for public investment for growth (Vice-President Rehn's letter to the finance ministers)

http://ec.europa.eu/commission_2010-2014/rehn/documents/letter_on_investment_clause_en.pdf

(1) For the ECB's legal acts and instruments see <http://www.ecb.int/ecb/legal/1341/1342/html/index.en.html>

ECOFIN Council's report to the European Council, "Improving the implementation of the Stability and Growth Pact", adopted at the extraordinary ECOFIN meeting on 20 March 2005

<http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%207423%202005%20REV%203>

Monetary policy

General framework

Council Decision of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions (98/415/EC) — OJ L 189, 3.7.1998, p. 42-43

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31998D0415>

Council Regulation (EC) No 2531/98 of 23 November 1998 concerning the application of minimum reserves by the European Central Bank [OJ L 318, 27.11.1998, p. 1–3], as amended by Council Regulation (EC) No 134/2002 of 22 January 2002 [OJ L 24, 26.1.2002, p. 1–1] (consolidated version 2002-01-26)

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:01998R2531-20020126>

Council Regulation (EC) No 2532/98 of 23 November 1998 concerning the powers of the European Central Bank to impose sanctions — OJ L 234, 4.9.1999, p. 12

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31998R2532>

Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank [OJ L 318, 27.11.1998, p. 8–19], as amended by Council Regulation (EC) No 951/2009 of 9 October 2009 [OJ L 269, 14.10.2009, p. 1–6] (consolidated version 2009-10-15)

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:01998R2533-20091015>

Texts on the European Central Bank

Decision of the council, meeting in the composition of the Heads of State or Government of 21 March 2003 on an amendment to Article 10.2 of the Statute of the European System of Central Banks and of the European Central Bank (2003/223/EC) — OJ L 83, 14.4.2003, p. 66

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32003D0223>

Decision taken by common accord of the Governments of the Member States adopting the single currency at the level of Heads of State or Government of 26 May 1998 appointing the President, the Vice-President and the other members of the Executive Board of the European Central Bank (98/345/EC) — OJ L 154, 28.5.1998, p. 33

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1998.154.01.0033.01.ENG

Decision taken by common accord of the Governments of the Member States adopting the single currency at the level of Heads of State or Government of 16 October 2003 appointing the President of the European Central Bank (2003/767/EC) — OJ L 277, 28.10.2003, p. 16

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2003.277.01.0016.01.ENG

Decision taken by common Agreement between the Representatives of the Governments of the Member States, meeting at Head of State and Government level, on the location of the seats of certain bodies and departments of the European Communities and of Europol [OJ C 323, 30.11.1993, p. 1–5]

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:1993:323:0001:0005:EN:PDF>

Decision taken by common accord of the governments of the Member States that have adopted the euro at the level of Heads of State or Government of 23 May 2003 appointing a Member of the Executive Board of the European Central Bank (2003/379/EC) — OJ L 131, 28.5.2003, p.17

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2003.131.01.0017.01.ENG

Decision taken by common accord, at the level of Heads of State or Government, by the governments of the Member States having the euro as their currency of 27 April 2004 appointing a Member of the Executive Board of the European Central Bank (2004/488/EC) — OJ L 163, 30.4.2004, p. 113

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2004.163.01.0113.01.ENG

Decision taken by common accord, at the level of Heads of State or Government, by the Governments of the Member States having the euro as their currency of 20 May 2005 appointing a Member of the Executive Board of the European Central Bank (2005/391/EC) — OJ L 130, 24.5.2005, p. 16

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2005.130.01.0016.01.ENG

Decision taken by common accord of the governments of the Member States having the euro as their currency at the level of Heads of State or Government of 19 May 2006 appointing a member of the Executive Board of the European Central Bank (2006/371/EC) — OJ L 136, 24.5.2006, p. 41

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2006.136.01.0041.01.ENG

Decision taken by common agreement between the representatives of the Governments of the Member States, meeting at Head of State or Government level, on the location of the seats of certain bodies and departments of the European Communities and of Europol (93/C 323/01) — OJ C 323, 30.11.1993, p. 1

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:1993:323:0001:0005:EN:PDF>

Council Decision of 5 June 1998 on the statistical data to be used for the determination of the key for subscription of the capital of the European Central Bank (98/382/EC) — OJ L 171, 17.6.1998, p. 33

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1998.171.01.0033.01.ENG

Council Decision of 15 July 2003 on the statistical data to be used for the adjustment of the key for subscription to the capital of the European Central Bank (2003/517/EC) — OJ L 181, 19.7.2003, p. 43-44

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2003.181.01.0043.01.ENG

Council Regulation (EC) No 1009/2000 of 8 May 2000 concerning capital increases of the European Central Bank — OJ L 115, 16.5.2000, p. 1

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2000.115.01.0001.01.ENG

Council Regulation (EC) No 1010/2000 of 8 May 2000 concerning further calls of foreign reserve assets by the European Central Bank — OJ L 115, 16.5.2000, p. 2-3

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2000.115.01.0002.01.ENG

External aspects of the euro

Council Decision of 23 November 1998 concerning exchange rate matters relating to the CFA franc and the Comorian franc (98/683/EC) — OJ L 320, 28.11.1998, p. 58

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1998.320.01.0058.01.ENG

Council Decision of 21 December 1998 concerning exchange rate matters relating to the Cape Verde escudo (98/744/EC) — OJ L 358, 31.12.1998, p. 111

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1998.358.01.0111.01.ENG

Council Decision of 31 December 1998 concerning the monetary arrangements in the French territorial communities of Saint-Pierre-et-Miquelon and Mayotte (1999/95/EC) — OJ L 30, 4.2.1999, p. 29-30

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1999.030.01.0029.01.ENG

Council Decision of 31 December 1998 on the position to be taken by the Community regarding an agreement concerning the monetary relations with the Principality of Monaco (1999/96/EC) — OJ L 30, 4.2.1999, p. 31-32

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1999.030.01.0031.01.ENG

2011/190/EU: Council Decision of 25 February 2011 on the arrangements for the renegotiation of the Monetary Agreement between the Government of the French Republic, on behalf of the European Community, and the Government of His Serene Highness the Prince of Monaco, OJ L 81, 29.3.2011, p. 3-4

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2011.081.01.0003.01.ENG

Monetary Agreement between the European Union and the Principality of Monaco, OJ C 310, 13.10.2012, p. 1-11

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.C_.2012.310.01.0001.01.ENG

Council Decision of 31 December 1998 on the position to be taken by the Community regarding an agreement concerning the monetary relations with the Republic of San Marino (1999/97/EC) — OJ L 30, 4.2.1999, p. 33-34

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1999.030.01.0033.01.ENG

Council Decision (2009/904/EC) of 26 November 2009 on the position to be taken by the European Community regarding the renegotiation of the Monetary Agreement with the Republic of San Marino [OJ L 322, 9.12.2009, p. 12-13]

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2009.322.01.0012.01.ENG

Monetary Agreement between the European Union and the Republic of San Marino

— OJ C 121, 26.4.2012, p. 5-17

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.C_.2012.121.01.0005.01.ENG

Council Decision of 31 December 1998 on the position to be taken by the Community regarding an agreement concerning the monetary relations with Vatican City (1999/98/EC) — OJ L 30, 4.2.1999, p. 35

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1999.030.01.0035.01.ENG

Council Decision of 7 October 2003 on the adoption of amendments to be made to Articles 3 and 7 of the Monetary Convention between the Italian Republic, on behalf of the European Community, and the Vatican City State, represented by the Holy See (2003/738/EC) — OJ L 267, 17.10.2003, p. 27

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2003.267.01.0027.01.ENG

Council Decision of 26 November 2009 on the position to be taken by the European Community regarding the renegotiation of the Monetary Agreement with the Vatican City State (2009/895/EC) [OJ L 321, 8.12.2009, p. 36–37]

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2009.321.01.0036.01.ENG

Monetary Agreement between the European Union and the Vatican City State [OJ C 28, 4.2.2010, p. 13–18]

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.C_.2010.028.01.0013.01.ENG

Council Decision of 11 May 2004 on the position to be taken by the Community regarding an agreement concerning the monetary relations with the Principality of Andorra (2004/548/EC) — OJ L 244, 16.7.2004, p. 47–49 and OJ L 142M, 30.5.2006, p. 123–125

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2004.244.01.0047.01.ENG

Council Decision of 21 October 2004 on the opening of the negotiations on an agreement concerning monetary relations with the Principality of Andorra (2004/750/EC) — OJ L 332, 6.11.2004, p. 15

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2004.332.01.0015.01.ENG

Monetary Agreement between the European Union and the Principality of Andorra [OJ C 369, 17.12.2011, p. 1–13]

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.C_.2011.369.01.0001.01.ENG

Council Decision of 12 July 2011 on the signing and conclusion of the Monetary Agreement between the European Union and the French Republic on keeping the euro in Saint-Barthélemy following the amendment of its status with regard to the European Union [OJ L 189, 20.7.2011, p. 1–2]

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011D0433>

Monetary Agreement between the European Union and the French Republic on keeping the euro in Saint-Barthélemy following the amendment of its status with regard to the European Union [OJ L 189, 20.7.2011, p. 3–4]

[http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22011A0720\(01\)](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22011A0720(01))

Legal and practical aspects of the euro

From the ecu to the euro

Council Regulation (EC) No 3320/94 of 22 December 1994 on the consolidation of the existing Community legislation on the definition of the ecu following the entry into force of the Treaty on European Union — OJ L 350, 31.12.1994, p. 27; Corrigendum: OJ L 15, 21.1.1995, p. 16

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1994.350.01.0027.01.ENG

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1995.015.01.0016.01.ENG

Joint communiqué of 3 May 1998 by the Ministers and central bank governors of the Member States adopting the euro as their single currency, the Commission and the European Monetary Institute on the determination of the irrevocable conversion rates for the euro — OJ C 160, 27.5.1998, p. 1

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.C_.1998.160.01.0001.01.ENG

Joint Communiqué on the adoption of the irrevocable conversion rates for the euro, 26 September 1998

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/misc/COMMEURE.htm

Decisions on Member States adopting the euro

Council Decision of 3 May 1998 in accordance with Article 109j(4) of the Treaty (98/317/EC) — OJ L 139, 11.5.1998, p. 30

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1998.139.01.0030.01.ENG

Council Decision of 19 June 2000 in accordance with Article 122(2) of the Treaty on the adoption by Greece of the single currency on 1 January 2001 (2000/427/EC) — OJ L 167, 7.7.2000, p. 19

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2000.167.01.0019.01.ENG

Council Decision of 11 July 2006 in accordance with Article 122(2) of the Treaty on the adoption by Slovenia of the single currency on 1 January 2007 (2006/495/EC) — OJ L 195, 15.7.2006, p. 25

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2006.195.01.0025.01.ENG

Council Decision of 10 July 2007 in accordance with Article 122(2) of the Treaty on the adoption by Malta of the single currency on 1 January 2008 (2007/504/EC) — OJ L 186, 18.7.2007, p. 32

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2007.186.01.0032.01.ENG

Council Decision of 10 July 2007 in accordance with Article 122(2) of the Treaty on the adoption by Cyprus of the single currency on 1 January 2008 (2007/503/EC) — OJ L 186, 18.7.2007, p. 29

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2007.186.01.0029.01.ENG

Council Decision of 8 July 2008 in accordance with Article 122(2) of the Treaty on the adoption by Slovakia of the single currency on 1 January 2009 (2008/608/EC) — OJ L 195, 24.7.2008, p. 24

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2008.195.01.0024.01.ENG

Council Decision of 13 July 2010 in accordance with Article 140(2) of the Treaty on the adoption by Estonia of the euro on 1 January 2011 (2010/416/EU) — OJ L 196, 28.7.2010, p. 24

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2010.196.01.0024.01.ENG

Council Decision of 9 July 2013 on the adoption by Latvia of the euro on 1 January 2014 (2013/387/EU) — OJ L 195, 18.7.2013, p. 24

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2013.195.01.0024.01.ENG

Euro coins

Commission Recommendation 2010/191/EU of 22 March 2010 on the scope and effects of legal tender of euro banknotes and coins — OJ L 83, 30.3.2010, p. 70-71

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2010.083.01.0070.01.ENG

Commission Recommendation 2009/23/EC of 19 December 2008 on common guidelines for the national sides and the issuance of euro coins intended for circulation (2008/C 8625) — OJ L 9, 14.1.2009, p. 52-55

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2009.009.01.0052.01.ENG

Decision of the European Central Bank (ECB/2008/20) of 11 December 2008 on the approval of the volume of coin issuance in 2009 (OJ L 352, 31.12.2008, p. 58), as amended by Decision of the European Central Bank (ECB/2009/15) of 25 June 2009 as regards the volume of euro coins that Austria may issue in 2009 — OJ L 172, 2.07.2009, p. 35 (consolidated version 2009-07-02)

[http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02008D0020\(01\)-20090702](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02008D0020(01)-20090702)

Council conclusions of 23 November 1998 on euro collector coins

<http://register.consilium.europa.eu/doc/srv?l=EN&t=PDF&gc=true&sc=false&f=ST 5189 2001>

[INIT&r=http%3A%2F%2Fregister.consilium.europa.eu%2Fpd%2Fen%2F01%2Fst05%2Fst05189.en01.pdf](http://register.consilium.europa.eu/doc/srv?l=EN&t=PDF&gc=true&sc=false&f=ST 5189 2001)

Council conclusions of 10 May 1999 on the Quality Management System for euro coins and on collector coins, medals and tokens

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/ACF54.htm

Commission Communication on copyright protection of the common face design of the euro coins (COM(2001) 600) — OJ C 318, 13.11.2001, p. 3

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52001DC0600>

Commission Communication on copyright protection of the common face design of the euro coins (2011/C 41/03) — OJ C 41, 10.2.2011, p. 4

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.C_.2011.041.01.0004.01.ENG

Commission Recommendation of 13 January 1999 concerning collector coins, medals and tokens (1999/63/EC) — OJ L 20, 27.1.1999, p. 61

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1999.020.01.0061.01.ENG

Commission Recommendation of 19 August 2002 concerning medals and tokens similar to euro coins (2002/664/EC) — OJ L 225, 22.08.2002, p. 34

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2002.225.01.0034.01.ENG

Council conclusions of 5 November 2002 on euro collector coins

<http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2013490%202002%20INIT>

Commission Recommendation of 29 September 2003 concerning a common practice for changes to the design of national obverse sides of euro circulation coins (2003/734/EC) — OJ L 264, 15.10.2003, p. 38

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2003.264.01.0038.01.ENG

Council conclusions of 8 December 2003 on changes in the design of the national sides of euro coins

<http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2015535%202003%20INIT>

Council Regulation (EC) No 2182/2004 of 6 December 2004 concerning medals and tokens similar to euro coins [OJ L 373, 21.12.2004, p. 1–6 and OJ L 153M, 7.6.2006, p. 287–292], as amended by Council Regulation (EC) No 46/2009 of 18 December 2008 [OJ L 17, 22.1.2009, p. 5–6] (consolidated version 2009-02-11)

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02004R2182-20090211>

Council Regulation (EC) No 2183/2004 of 6 December 2004 extending to the non-participating Member States the application of Regulation (EC) No 2182/2004 concerning medals and tokens similar to euro coins [OJ L 373, 21.12.2004, p. 7–7 and OJ L 153M, 7.6.2006, p. 293–293], as amended by Council Regulation (EC) No 47/2009 of 18 December 2008 [OJ L 17, 22.1.2009, p. 7–7] (consolidated version 2009-02-11)

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02004R2183-20090211>

Commission Recommendation of 3 June 2005 on common guidelines for the national sides of euro circulation coins (2005/491/EC) — OJ L 186, 18.7.2005, p. 1

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32005H0491>

Council conclusions of 7 June 2005 on common guidelines for the national sides of euro circulation coins

<http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%209202%202005%20REV%201>

Council conclusions of 7 June 2005 on change to the common sides of the euro circulation coins

<http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%209202%202005%20REV%201>

Commission Recommendation of 27 May 2005 concerning authentication of euro coins and handling of euro coins unfit for circulation (2005/504/EC) — OJ L 184, 15.7.2005, p. 60

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2005.184.01.0060.01.ENG

Technical and practical aspects of the introduction of the euro

Council conclusions of 3 May 1998 on the Commission recommendations on the practical aspects of the introduction of the euro

http://europa.eu/rapid/press-release_PRES-98-125_en.htm

Commission Recommendation of 23 April 1998 concerning banking charges for conversion to the euro (98/286/EC) — OJ L 130, 1.5.1998, p. 22

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1998.130.01.0022.01.ENG

Commission Recommendation of 23 April 1998 concerning dual display of prices and other monetary amounts (98/287/EC) — OJ L 130, 1.5.1998, p. 26

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1998.130.01.0026.01.ENG

Commission Recommendation of 23 April 1998 on dialogue, monitoring and information to facilitate the transition to the euro (98/288/EC) — OJ L 130, 1.5.1998, p. 29

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1998.130.01.0029.01.ENG

Commission Recommendation of 11 October 2000 on measures to facilitate the preparation of economic operators for the changeover to the euro (2000/C 303/05) — OJ C 303, 24.10.2000, p. 6

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.C_.2000.303.01.0006.01.ENG

Commission communication of 23 July 1997 on the use of the euro symbol (€) (COM(97) 418)

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:51997DC0418>

Commission Recommendation of 10 January 2008 on measures to facilitate future changeovers to the euro (2007/C 6912) — OJ L 23, 26.1.2008, p. 30-32

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2008.023.01.0030.01.ENG

Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001 — OJ L 266, 9.10.2009, p. 11-18

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R0924-20120331>

Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC — OJ L 319, 5.12.2007, p. 1

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2007.319.01.0001.01.ENG

Communication from the Commission pursuant to Article 9 of Regulation (EC) No 2560/2001 of the European Parliament and of the Council (2002/C 165/08) — OJ C 165, 11.7.2002, p. 36

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.C_.2002.165.01.0036.01.ENG

Protection of the euro against counterfeiting

Council Decision 29 April 1999 extending Europol's mandate to deal with forgery of money and means of payment (1999/C 149/02) — OJ C 149, 28.5.1999, p. 16

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.C_.1999.149.01.0016.01.ENG

Council Framework Decision of 29 May 2000 on increasing protection by criminal penalties and other sanctions against counterfeiting in connection with the introduction of the euro (2000/383/JAI) [OJ L 140 14.6.2000, p.1-3], as amended by Council Framework Decision (2001/888/JHA) of 6 December 2001 [OJ L 329, 14.12.2001, p. 3-3] (consolidated version 2001-12-14)

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02000F0383-20011214>

Council Framework Decision of 28 May 2001 combating fraud and counterfeiting of non-cash means of payment (2001/413/JHA) — OJ L 149, 2.6.2001, p. 1

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2001.149.01.0001.01.ENG

Council Regulation (EC) No 1338/2001 of 28 June 2001 laying down measures necessary for the protection of the euro against counterfeiting [OJ L 181, 4.7.2001, p.6-10], as amended by Council Regulation (EC) No 44/2009 of 18 December 2008 [OJ L 17, 22.1.2009, p. 1-3] (consolidated version 2009-01-23)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2001R1338:20090123:EN:PDF>

Council Regulation (EC) No 1339/2001 of 28 June 2001 extending the effects of Regulation (EC) No 1338/2001 laying down measures necessary for the protection of the euro against counterfeiting to those Member States which have not adopted the euro as their single currency [OJ L 181, 4.7.2001, p. 11-11], as amended by Council Regulation (EC) No 45/2009 of 18 December 2008 [OJ L 17, 22.1.2009, p. 4-4] (consolidated version 2009-02-11)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2001R1339:20090211:EN:PDF>

Regulation (EU) No 1210/2010 of the European Parliament and of the Council of 15 December 2010 concerning authentication of euro coins and handling of euro coins unfit for circulation [OJ L 339, 22.12.2010, p. 1]

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2010.339.01.0001.01.ENG

Decision ECB/2001/11 of the European Central Bank of 8 November 2001 on certain conditions regarding access to the Counterfeit Monitoring System (CMS) (2001/912/EC) [OJ L 337, 20.12.2001, p. 49-51]

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2001.337.01.0049.01.ENG

Decision ECB/2003/4 of the European Central Bank of 20 March 2003 on the denominations, specifications, reproduction, exchange and withdrawal of euro banknotes (2003/205/EC) [OJ L 78, 25.3.2003, p. 16-19]

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2003.078.01.0016.01.ENG

Decision ECB/2010/14 of the European Central Bank of 16 September 2010 on the authenticity and fitness checking and recirculation of euro banknotes (2010/597/EU) [OJ L 267, 9.10.2010, p. 1]

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2010.267.01.0001.01.ENG

Council Decision of 6 December 2001 on the protection of the euro against counterfeiting (2001/887/JHA) — OJ L 329, 14.12.2001, p. 1

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2001.329.01.0001.01.ENG

Council Decision of 17 December 2001 establishing an exchange, assistance and training programme for the protection of the euro against counterfeiting (the Pericles programme) (2001/923/EC) — OJ L 339, 21.12.2001, p. 50

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2001.339.01.0050.01.ENG

Council Decision of 17 December 2001 extending the effects of the Decision establishing an exchange, assistance and training programme for the protection of the euro against counterfeiting (Pericles programme) to the Member States which have not adopted the euro as the single currency (2001/924/EC) — OJ L 339, 21.12.2001, p. 55

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2001.339.01.0055.01.ENG

Council Decision of 8 December 2003 concerning analysis and cooperation with regard to counterfeit euro coins (2003/861/EC) — OJ L 325, 12.12.2003, p. 44

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2003.325.01.0044.01.ENG

Council Decision of 8 December 2003 extending the effects of Decision 2003/861/EC concerning analysis and cooperation with regard to counterfeit euro coins to those Member States which have not adopted the euro as their single currency (2003/862/EC) — OJ L 325, 12.12.2003, p. 45

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2003.325.01.0045.01.ENG

Commission Decision of 29 October 2004 establishing the European Technical and Scientific Centre (ETSC) and providing for coordination of technical actions to protect euro coins against counterfeiting (2005/37/EC) — OJ L 19, 21.1.2005, p. 73

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2005.019.01.0073.01.ENG

Commission Decision of 25 February 2005 amending Decision 94/140/EC setting up an advisory committee for the coordination of fraud prevention (2005/223/EC) — OJ L 71, 17.3.2005, p. 67

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2005.071.01.0067.01.ENG

Council Decision 2005/511/JHA of 12 July 2005 on protecting the euro against counterfeiting by designating Europol as the Central Office for combating euro counterfeiting — OJ L 185, 16.7.2005, p. 35

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2005.185.01.0035.01.ENG

Council Decision of 6 April 2009 establishing the European Police Office (Europol) [OJ L 121, 15.5.2009, p. 37-66]

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2009.121.01.0037.01.ENG

Council Decision of 30 January 2006 amending and extending Decision 2001/923/EC establishing an exchange, assistance and training programme for the protection of the euro against counterfeiting (the Pericles programme) (2006/75/EC) — OJ L 36, 8.2.2006, p. 40

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02001D0923-20070101>

Council Decision of 30 January 2006 extending to the non-participating Member States the application of Decision 2006/75/EC amending and extending Decision 2001/923/EC establishing an exchange, assistance and training programme for the protection of the euro against counterfeiting (the Pericles programme) (2006/76/EC) — OJ L 36, 8.2.2006, p.42

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2006.036.01.0042.01.ENG

Council Decision of 20 November 2006 amending and extending Decision 2001/923/EC establishing an exchange, assistance and training programme for the protection of the euro against counterfeiting (the Pericles programme) (2006/849/EC) — OJ L 330, 28.11.2006, p. 28–29

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2006.330.01.0028.01.ENG

Council Decision of 20 November 2006 extending to the non-participating Member States the application of Decision 2006/849/EC amending and extending Decision 2001/923/EC establishing an exchange, assistance and training programme for the protection of the euro against counterfeiting (the Pericles programme) (2006/850/EC) — OJ L 330, 28.11.2006, p. 30

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2006.330.01.0030.01.ENG

International Convention for the Suppression of Counterfeiting Currency of 20 April 1929

Agreement between the European Police Office (Europol) and the European Central Bank (ECB) [OJ C 23, 25.1.2002, p. 9-11].

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.C_.2002.023.01.0009.01.ENG

Council Regulation (EU) No 729/2014 of 24 June 2014 on denominations and technical specifications of euro coins intended for circulation (Recast)

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2014_194_R_0001

Other legislation

General

Council Decision of 18 February 2003 concerning the establishment of the Financial Services Committee (2003/165/EC) [OJ L 67, 12.3.2003, p. 17–17]

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2003.067.01.0017.01.ENG

Council Regulation (EC) No 3603/93 of 13 December 1993 specifying definitions for the application of the prohibitions referred to in Articles 104 and 104b(1) of the Treaty — OJ L 332, 31.12.1993, p. 1-3

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1993.332.01.0001.01.ENG

Council Regulation (EC) No 3604/93 of 13 December 1993 specifying definitions for the application of the prohibition of privileged access referred to in Article 104a of the Treaty — OJ L 332, 31.12.1993, p. 4-6

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1993.332.01.0004.01.ENG

Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonized indices of consumer prices [OJ L 257, 27.10.1995, p. 1–4] as amended by Regulation (EC) No 1882/2003 of the European Parliament and of the Council of 29 September 2003 adapting to Council Decision 1999/468/EC the provisions relating to committees which assist the Commission in the exercise of its implementing powers laid down in instruments subject to the procedure referred to in Article 251 of the EC Treaty [OJ L 284, 31.10.2003, p. 1–53] as amended by Regulation (EU) No 1337/2011 of the European Parliament and of the Council of 13 December 2011 concerning European statistics on permanent crops and repealing Council Regulation (EEC) No 357/79 and Directive 2001/109/EC of the European Parliament and of the Council Text with EEA relevance [OJ L 347, 30.12.2011, p. 7–20] (consolidated version of 20.11.2003)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1995R2494:20031120:EN:PDF>

Capital and payments

Council Directive 88/361/EEC of 24 June 1988 for the implementation of Article 67 of the Treaty — OJ L 178, 8.7.1988, p. 5

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1988.178.01.0005.01.ENG

Notice on the application of the EC competition rules to cross-border credit transfers (95/C 251/03) – OJ C 251, 27.9.1995, p. 3

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.C_.1995.251.01.0003.01.ENG

Statistics

Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics and repealing Regulation (EC, Euratom) No 1101/2008 of the European Parliament and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No 322/97 on Community Statistics, and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2009.087.01.0164.01.ENG

Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (Text with EEA relevance (ESA 2010))

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2013.174.01.0001.01.ENG

Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.1996.310.01.0001.01.ENG

Regulation (EC) No 2558/2001 of the European Parliament and of the Council of 3 December 2001 amending Council Regulation (EC) No 2223/96 as regards the reclassification of settlements under swaps arrangements and under forward rate agreements (Text with EEA relevance)

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2001.344.01.0001.01.ENG

Commission Regulation (EC) No 995/2001 of 22 May 2001 implementing Regulation (EC) No 2516/2000 of the European Parliament and of the Council modifying the common principles of the European system of national and regional accounts in the Community (ESA 95) as concerns taxes and social contributions

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2001.139.01.0003.01.ENG

Regulation (EC) No 2516/2000 of the European Parliament and of the Council of 7 November 2000 modifying the common principles of the European system of national and regional accounts in the Community (ESA) 95 as concerns taxes and social contributions and amending Council Regulation (EC) No 2223/96

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2000.290.01.0001.01.ENG

Commission Regulation (EC) No 113/2002 of 23 January 2002 amending Council Regulation (EC) No 2223/96 with regard to revised classifications of expenditure according to purpose (Text with EEA relevance)

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2002.021.01.0003.01.ENG

Regulation (EC) No 400/2009 of the European Parliament and of the Council of 23 April 2009 amending Council Regulation (EC) No 2223/96 on the European system of national and regional accounts in the Community as regards the implementing powers conferred on the Commission

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2009.126.01.0011.01.ENG

Commission Regulation (EC) No 1500/2000 of 10 July 2000 implementing Council Regulation (EC) No 2223/96 with respect to general government expenditure and revenue

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2000.172.01.0003.01.ENG

Financial assistance mechanisms

Decision of the European Central Bank of 14 October 2010 concerning the administration of the borrowing and lending operations concluded by the Union under the European financial stabilisation mechanism (2010/574/EU and ECB/2010/17) (OJ L 275, 20.10.2010, p. 10)

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2010.275.01.0010.01.ENG

Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments, OJ L 53 of 23.2.2002, pages 1-3, as last amended by Council Regulation (EC) No 431/2009 of 18 May 2009 [OJ L 128, 27.5.2009, p. 1-2] (consolidated version of 28.5.2009)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2002R0332:20090528:EN:PDF>

Council Regulation (EC) No 1360/2008 of 2 December 2008 amending Regulation (EC) No 332/2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments, OJ L 352 of 31.12.2008, page 11

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2008.352.01.0011.01.ENG

Council Regulation (EC) No 431/2009 of 18 May 2009 establishing a facility providing medium-term financial assistance for Member States' balances of payments, OJ L 128 of 27.5.2009, pages 1-2

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2009.128.01.0001.01.ENG

Extraordinary ECOFIN Council meeting 9-10 May 2010 on an European Stabilisation Mechanism to preserve financial stability, (Council document 9596/10 of 9.5.2010)

<http://register.consilium.europa.eu/doc/srv?l=EN&t=PDF&gc=true&sc=false&f=ST%209596%202010%20INIT&r=http%3A%2F%2Fregister.consilium.europa.eu%2Fpd%2Fen%2F10%2Fst09%2Fst09596.en10.pdf>

EFSF framework agreement

http://www.efsf.europa.eu/attachments/20111019_efsf_framework_agreement_en.pdf

Decision of the European Central Bank of 21 September 2010 concerning the administration of EFSF loans to Member States whose currency is the euro (2010/574/EU, ECB/2010/15) [OJ L 253, 28.9.2010, p. 58–59] as amended by Decision of the European Central Bank of 31 October 2011 (2011/728/EU, ECB/2011/16) amending Decision ECB/2010/15 concerning the administration of EFSF loans to Member States whose currency is the euro, and amending Decision ECB/2010/31 concerning the opening of accounts for the processing of payments in connection with EFSF loans to Member States whose currency is the euro [OJ L 289, 8.11.2011, p. 35–36]

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=uriserv:OJ.L_.2010.253.01.0058.01.ENG

Commission Delegated Decision of 29 June 2012 on investigations and fines related to the manipulation of statistics as referred to in Regulation (EU) No 1173/2011 of the European Parliament and of the Council on the effective enforcement of budgetary surveillance in the euro area (2012/678/EU)

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012D0678>

HOW TO OBTAIN EU PUBLICATIONS

Free publications:

- one copy:
via EU Bookshop (<http://bookshop.europa.eu>);
- more than one copy or posters/maps:
from the European Union's representations (http://ec.europa.eu/represent_en.htm);
from the delegations in non-EU countries (http://eeas.europa.eu/delegations/index_en.htm);
by contacting the Europe Direct service (http://europa.eu/europedirect/index_en.htm) or
calling 00 800 6 7 8 9 10 11 (freephone number from anywhere in the EU) (*).

(*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

Priced publications:

- via EU Bookshop (<http://bookshop.europa.eu>).

Priced subscriptions:

- via one of the sales agents of the Publications Office of the European Union
(http://publications.europa.eu/others/agents/index_en.htm).



Rue de la Loi/Wetstraat 175
1048 Bruxelles/Brussel
BELGIQUE/BELGIË
Tel. +32 (0)2 281 61 11
www.consilium.europa.eu

ECONOMIC AND MONETARY UNION, LEGAL AND POLITICAL TEXTS

Economic and Monetary Union (EMU) deepens the economic integration of the Member States that have adopted the single currency.

The global financial and economic crisis that began in 2008 had a profound impact on the European Union and the euro area Member States' economies. As a result, important elements of the EU's economic governance have been strengthened to allow EMU to function properly in the long term.

This electronic publication provides extensive coverage of the legal, political and technical texts that are relevant to the functioning of EMU, such as legal acts relating to institutional and external aspects of the euro, technical and practical aspects of the introduction of the euro, EMU-related statistical legislation and financial assistance mechanisms.

The aim of the publication is to cover a large variety of key provisions governing EMU in a handy electronic format.

You will find relevant extracts from:

- the treaties and some protocols and acts of accession,
- political texts (European Council conclusions, Ecofin conclusions),
- recent instruments adopted as a response to the economic crisis, such as the Euro Plus Pact, revisions to the Stability and Growth Pact (including the six-pack and the two-pack).

The texts are presented in their consolidated versions. This offers the reader a full picture of the evolution of the texts over time.

The annex contains an exhaustive list of other relevant texts, with links to the original documents in the Official Journal. It also contains a table of equivalences as referred to in Article 5 of the Treaty of Lisbon.



Publications Office

doi:10.2860/34684
ISBN 978-92-824-4457-3