

EUROPEAN MONETARY INSTITUTE

OPINION OF THE EUROPEAN MONETARY INSTITUTE

(97/C 211/05)

following a request for consultation from the Council of the European Union under Article 104c (14) of the Treaty establishing the European Community (the 'Treaty') on a Commission Amended Proposal for an EU Council Regulation on speeding up and clarifying the implementation of the excessive deficit procedure

CON/97/09

1. The present consultation was initiated by the Council of the European Union which, for this purpose, transmitted to the EMI on 10 April 1997 document COM(97) 117 containing the text of the amended proposal from the Commission for an EU Council Regulation and its explanatory memorandum and on 23 April 1997 document 6931/2/97 containing the text of the original proposal from the Commission for an EU Council Regulation as amended following the political agreements reached within the Council of the EU. The EMI is competent for this consultation, in accordance with Articles 104c (14) and 109f (8) of the Treaty.
2. The objective of the amended draft Regulation is to further specify the provisions relating to the implementation of the excessive deficit procedure under Article 104c of the Treaty. These further implementing provisions, which are intended to complement those contained in Protocol No 5 and in Council Regulation EC No 3605/93, are felt to be necessary to strengthen the credibility and effectiveness of the excessive deficit procedure. This is to be achieved, in particular, by establishing clear deadlines for the consecutive stages of the excessive deficit procedure, defining the 'exceptional and temporary' circumstances under which the 3% reference value for the deficit can be exceeded if the ratio remains close to this value, laying down general rules governing the imposition of sanctions, and

further specifying the pecuniary sanctions to be imposed.

3. The Treaty recognizes that fiscal discipline will be required in Stage Three of Economic and Monetary Union to ensure price stability. High fiscal imbalances typically fuel inflationary expectations and contribute to a sub-optimal mix of monetary and fiscal policies. Fiscal discipline is indeed a necessary condition for safeguarding the Monetary Union from adverse developments which may ultimately hamper the achievement of sustainable non-inflationary growth of output and employment. As from the start of Stage Three, Article 104c of the Treaty therefore prohibits excessive government deficits for all Member States⁽¹⁾ and contains provisions to correct them in the event that they nonetheless occur — including the possibility of imposing sanctions on EU countries participating in the single currency.
4. The EMI agrees that it is desirable to further specify the relevant Treaty provisions in secondary Community legislation in order to ensure that the excessive deficit procedure is both credible and effective and thereby acts as a genuine deterrent. While the EMI does not see a need to express an opinion on the specific provisions of this draft Regulation, it fully endorses the undertakings made by all parties to strengthen the framework for ensuring fiscal discipline in Stage Three.
5. This opinion will be published in the *Official Journal of the European Communities*.

⁽¹⁾ An exception for the United Kingdom is provided for in Protocol No 11.