



# Reinforcing Economic Governance in the European Union

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- 1. Recent developments in the EU fiscal framework: a panorama**
- 2. Ongoing efforts to reinforce national fiscal frameworks in the EU: a zoom**

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# 1. Recent developments in the EU fiscal framework: a panorama

- **The ‘six-pack’**
- **The November euro-area extension of the ‘six-pack’**
- **The Intergovernmental Treaty (aka the ‘fiscal compact’)**

European Union			
<b>Constitutional level</b>			
(Treaty on the Functioning of the EU)			
Article 126	1993		
Protocols 12-13	1993		
<b>Legislative level</b>			
<b>EU laws (Regulations and Directives)</b>			
Regulation 1466	1997	rev.2005	
Regulation 1467	1997	rev.2005	
Directive 85			
<b>Implementing text</b>			
<b>Guidelines on the format and content of Stability and Convergence Programmes (2005)</b>			

European Union				Euro Area	
<b>Constitutional level</b>					
(Treaty on the Functioning of the EU)					
Article 126	1993				
Protocols 12-13	1993				
<b>Legislative level</b>				<b>International Treaty</b>	
<b>EU laws (Regulations and Directives)</b>				(Treaty on Stability Coordination and Governance in EMU)	est.2012
Regulation 1466	1997	rev.2005	rev.2011	<b>Legislative level</b> (Measures of Article 136)	
Regulation 1467	1997	rev.2005	rev.2011		
Directive 85			2011	Regulation on common provisions on enhanced monitoring	est.2012
<b>Implementing text</b>					
<b>Guidelines on the format and content of Stability and Convergence Programmes (2005)</b>					

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# 1. The ‘six-pack’ on the strengthening of economic governance

- **Proposed by Commission on September 2010; adopted in late 2011; amends existing SGP regulations & introduces Directive on fiscal frameworks**
- **Main provisions:**
  - **National medium-term objective laid down with minimum annual structural effort (0.5%) towards it**
  - **New expenditure rule to back up consolidation**
  - **Treaty debt criterion made operational**
  - **Sanctions triggered more easily through incremental steps (early warning procedure) and reverse qualified majority voting**

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## 2. The November extension to the ‘six-pack’

- **Proposed by Commission on November 2011; currently under discussion by MS (Council) and European Parliament; applicable to euro-area Member States only**
- **Main provisions:**
  - **National medium-term objectives (MTO) for the annual structural balance in national laws of a binding and permanent nature**
  - **Need of an independent fiscal council to monitor the implementation of the balanced budget rule**
  - **Need for independent macroeconomic forecasts underpinning budget preparation**
  - **Draft budgetary plans to be submitted to the Commission by 15 October; COM has two weeks to send back national plans in serious non-compliance with the SGP**

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### 3. The fiscal compact

- **Agreed on 30 January 2012; applicable to 25 EU Member States; ratification process underway**
- **Main provisions:**
  - **National medium-term objectives (MTO) for the annual structural balance in national laws of a binding and permanent nature**
  - **Automatic correction mechanism**
  - **MS may deviate in case of “exceptional circumstances”**
  - **Independent institutions to monitor implementation**
- **The Treaty is fully compatible with existing EU law (COM to issue implementation guidelines; ECJ to enforce rules)**



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## Reinforcing Economic Governance in the European Union

### Connecting national fiscal frameworks to the EU fiscal framework: a new 'upstream' approach

- ✓ Initial set-up: Treaty-based provisions (largely backstops)
- ✓ Flanked by Stability and Growth Pact with preventive and corrective arm, fleshing out Treaty provisions
- ✓ Yet poor implementation of common rules, as evidenced by fiscal overruns
- ✓ Poor national visibility on the national stage of EU rules meant little accountability and no political credibility loss when flouting the rules
- ✓ When consolidating, need to put more emphasis on the 'how to get there' factor; need to address 'fiscal-structural' issues
- ✓ Recent stress on fiscal frameworks aim to address both accountability and implementation issues
- ✓ Efforts on fiscal frameworks complementary to SGP deepening

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### Domestic fiscal rules and institutions

- ✓ Fiscal frameworks encompasses fiscal rules and fiscal institutions that are underpinning the preparation of budgetary policy
- ✓ ‘Holistic’ nature of any given fiscal framework: fiscal rules are poorly enforced without fiscal institutions, and fiscal institutions are less effective and accountable without fiscal rules as yardstick
- ✓ Experience has shown that well-designed fiscal frameworks can substantially contribute to the conduct of sound fiscal policies
- ✓ Domestic fiscal rules as ‘first defence line’ for EU rules
- ✓ Need to make sure that both sets of rules are consistent and compatible with each other

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### The two-pronged EU approach: the Directive (I)

- ✓ Two-pronged approach endorsed by the Van Rompuy Task Force on economic governance in 2010:
  - ✓ A binding approach aiming at minimum standards = materialised through Directive 2011/85/EU (part of the 6-Pack) that entered into force in December 2011
  - ✓ A non-legislative approach aiming at desirable standards = peer review of fiscal frameworks
- ✓ Both approaches are self-supporting
- ✓ **The Directive:**
  - ✓ Binding nature, although Member States have leeway to choose which instrument in their national legal system would best ensure transposition of the directive provisions
  - ✓ Transposition set for end-2013; political commitment to speed it up in the euro area

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### The two-pronged EU approach: the Directive (II)

The Directive sets out requirements with regard to 5 dimensions of national budgetary framework:

- ✓ **Accounting and statistics**
- ✓ **Macroeconomic and budgetary forecasts**
- ✓ **Numerical fiscal rules**
- ✓ **Medium-term budgetary frameworks**
- ✓ **Transparency of general government finances; comprehensive scope of budgetary frameworks**

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### The two-pronged EU approach: the peer review

- ✓ **Peer review:** Member States-led at the Economic Policy Committee, with several characteristics:
  - ✓ non-binding, relying on goodwill
  - ✓ foster exchange of information on national experiences
  - ✓ facilitate the dissemination of best practices at technical level
  - ✓ Commission services providing support with summary information and draft policy recommendations
  - ✓ Improves existing frameworks towards desirable standards (loosely defined) and 'sow the seeds' for future domestic reforms

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### The 2011 peer review: first conclusions (I)

- ✓ 27 Countries reviewed in two sessions (May and November)
- ✓ Countries received a broad range of country-specific 'policy advice' tailored to its specific situation
- ✓ Increased awareness/receptiveness of the need to strengthen frameworks (fiscal rules, MTBF, fiscal councils), especially in countries lagging behind
- ✓ Some best fiscal performers rely on relatively light frameworks; however, mutual institutional trust, strong political commitment to stability-oriented policies and popular support for fiscal discipline are an effective substitute for formal procedures

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### The 2011 peer review: first conclusions (II)

- ✓ Review of EPC-endorsed policy-advice to be conducted in 2013, with interim review for weakest countries in 2012
- ✓ Further topics to be addressed within the peer review framework include the effective inclusion of sub-national government and the design of expenditure rules
- ✓ The role of fiscal councils is likely to gain further relevance with recent legislative developments in the EU
  - o Can they make a difference?
  - o What institutional form should they take?
  - o What should be their portfolio of tasks?
  - o How to make sure they deliver independent and relevant advice?



	<b>Directive</b>	<b>Peer Review</b>
<b>Instrument</b>	Directive Provisions	<b>Policy Advice</b>
<b>Focus</b>	Standardised Approach for all 27 MS	<b>Country-based Approach</b>
<b>Legal Force</b>	Binding	<b>Voluntary</b>
<b>Scope</b>	Limited to Directive Provisions	<b>Unlimited</b>
<b>Enforcement method</b>	EU Infringement Procedure	<b>Peer Pressure</b>
<b>Strength</b>	Legal Certainty	<b>Flexibility</b>
<b>Weakness</b>	Least common denominator approach	<b>Unevenness</b>



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**Thank you for your attention**