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European Integration by Stealth Budgetary Coordination in the Eurozone

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1. Introduction

The birth of the EMU featured almost unprecedented transfer of sovereignty from the European member states to a newly created European institution. Ever since, the monetary policy has been the sole responsibility of the ECB at least for the countries in the Eurozone. The budgetary policy though still belongs to the domain of the European member states. However, they are not completely free to pursue their own budgetary policy as this is subject of economic governance or either coordination by the SGP. Sound public finances are considered to be a necessary, though not sufficient condition for price stability.

The financial crisis and notably the situation in Greece brought a number of new instruments. In addition to a framework for crisis management, the Task Force on Strengthening Economic Governance called for broader and deeper policy coordination through the introduction of a so-called European Semester, allowing the European institutions to assess the draft budget and to come up with recommendations before it is submitted to national parliaments. In this paper we will critically assess the various proposals that have been done to reinforce budgetary coordination, addressing the question what would make the European member states comply under the new rules of the game where they did not under the old ones.

2. The Call for a Gouvernement Economique

The term 'gouvernement économique' was coined by Pierre Bérégovoy during the run-up to the Maastricht treaty. In the French draft of the EMU-treaty he insisted that everywhere in

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the world, central banks in charge of monetary policy were in dialogue with the governments in charge of the rest of economic policy. The ignorance of this parallelism between economic and monetary matters could easily lead to failure [quoted in Howarth 2007: 1067]. In addition, he proposed that the European Council, on the basis of ECOFIN reports, would define the broad orientations for both monetary and the economic policy. Within these orientations, the ECB would manage the European monetary policy and the ECOFIN would co-ordinate the policies of European member states and make recommendations to individual governments. The French draft treaty sought to limit the margin of maneuver of the ECB as much as possible².

The French government called for the creation of an economic government just before they took over the presidency on July 1, 2008, but had to withdraw because of the opposition led by Germany who saw it as a threat to the ECB and the common monetary union. In a speech about the global financial crisis for European Parliament on October 21, 2008 the French president Nicolas Sarkozy reiterated his proposal for the establishment an economic government to work with the European Central Bank and help finances within the Eurozone:

'... c'est qu'il n'est pas possible que la zone euro continue sans un gouvernement économique clairement identifié. On ne peut plus continuer comme cela. Je veux rendre hommage à l'action de la BCE, je veux dire ma conviction que la BCE doit être indépendante mais pour que l'action de la BCE trouve toute sa pleine mesure elle doit pouvoir discuter avec un gouvernement économique. C'était cela, l'esprit du traité. L'esprit du traité, c'est le dialogue, la démocratie et l'indépendance réciproque. Et dans mon esprit d'ailleurs, le vrai gouvernement économique de l'Eurogroupe c'est un Eurogroupe, qui se réunit au niveau des chefs d'Etat et de gouvernement' [Sarkozy 2008].

At the joint press conference, the French president received support from the president of the European Commission, José Manuel Barroso, though he was afraid to jeopardize the independent status of the ECB and consequently to put the common monetary policy at risk:

'Nous sommes pour un renforcement de tous les mécanismes de coordination des politiques économiques de l'Europe, des états européens. En même temps, je crois qu'il ne faut pas créer l'illusion qui serait, à mon avis, très dangereuse, de donner des instructions à la Banque centrale ou ne pas mettre en cause l'indépendance de la Banque centrale, mettre en cause aussi l'acquis communautaire, le Traité de Rome et tous nos acquis' [Barroso 2008].

The president of the Eurogroup, Jean-Claude Juncker, while sympathetic with a concerted action to cope with the consequences of the financial crisis, stated that the Eurogroup was quite able to deal with these issues and that there was no need to institutionalize a meeting at such a high level.

2. He also argued in favor of giving the ministers of economics and finance control over exchange rate policy

The issue of an economic government has been put back on the agenda by the Spanish prime minister Jose Luis Rodriguez Zapatero on April 28, 2009 after a visit of Nicolas Sarkozy to Madrid.

'I agreed with president Sarkozy that if the European Union really wants to be a political union, which works for its citizens, it has to have much more solid economic government and tools' [Phillips 2009].

Most recently, the president of the ECB, Jean-Claude Trichet, talking about the EU after the crisis envisaged a 'confederation of sovereign states of a new type':

'In this Union of tomorrow, or the day after tomorrow, would it be too bold, in economic field, with a single market, a single currency and a single central bank, to envisage a ministry of finance of the Union?' [Trichet 2011a]³.

The creation of an economic government is misleading for it suggests as has been argued correctly by Jacquet & Pisani-Ferry that something like a government exists or is about to exist in Europe. Since, the economic situation has changed substantially, but economic *government* should not be confused with economic *governance* that refers to 'a plurality of actors and the necessity to define and adopt 'best practice' in a number of economic areas' [Jacquet & Pisani-Ferry 2000: 14]. To put it differently the first is referring to a supranational mode of governance, the latter to a more intergovernmental mode of governance, including private actors.

At least four objectives of economic governance can be discerned from French policy statements [Howarth 2007]:

1. Economic governance as an 'effective policy mix' aimed at the increase of economic growth and employment
2. Economic governance as interventionism, for instance by job creation strategies and infrastructure programs.
3. Economic governance as credibility building in order to improve the legitimacy of the ECB and the common monetary policy.
4. Economic governance as explicit challenge to the goals and independence of the ECB and the common monetary policy.

In this context, we are primarily concerned with the first, although the various modes of economic governance are not completely independent of each other. We will then zoom in on the coordination of fiscal and/or budgetary policy of the European member states.

3. One may argue that either the president of the European Council, Herman van Rompuy, or the president of the Eurogroup, Jean-Claude Juncker, is already serving in that capacity, but both are chairing an intergovernmental group rather than a supranational body.

3. The Van Rompuy Task Force on Economic Governance

In the spring of 2010 the European Council discussed *Europe 2020, A New European Strategy for Jobs and Growth*. One of the outcomes was a Task Force on Economic Governance that has been commissioned to generate measures needed to reach the objective of an improved crisis resolution framework and better budgetary discipline, exploring all options to reinforce the legal framework [EC Conclusions 25/26 March 2010 EUCO 7/10].

The task force was chaired by the President of the European Council, Herman van Rompuy, and composed of representatives [primarily the Minister of Finance] of all member states. In addition, Jean Claude Juncker, chairman of the Eurogroup and Olli Rehn, Commissioner for Economic and Monetary Affairs and Jean-Claude Trichet, president of the ECB, participated in the work of the task force⁴. The preparatory has been done by a group of a Sherpa's a group of personal representatives of the Heads of State and Government, chaired by the Head of Cabinet of the president of the European Commission, Jose Manuel Barroso⁵.

The mission of the task force can be split into four objectives:

1. The reinforcement of economic governance, in institutional terms, in order to be able to act more quickly and in a more coordinated and efficient manner.
2. The achievement of greater budgetary discipline, i.e. the reinforcement and effectiveness of the Stability and Growth Pact.
3. The reduction of the divergences in competitiveness in order to reach a more even economic development within the European Union, and in particular, in the euro area.
4. The establishment of an effective crisis mechanism in order to be able to deal with problems such as the consequences of the financial crisis.

In this paper I focus on the first two objectives even though the other two constitute the new elements in architecture of economic governance as my main interest is in [the reinforcement of] fiscal governance in the eurozone.

The European Council welcomes the progress report of the President of the Task Force on economic governance delivered at the EC on June 17, 2010 and agreed on a first set of orientations regarding the strengthening and implementation of the present rules on budgetary discipline:

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4. Note that the rotating president of the Council of Ministers was not invited to participate in the task force.
 5. The task force has met six times. The first meeting took place on May 21, 2010, the last on October 18, 2010. Twice, the chairman Herman van Rompuy, delivered an interim report to the European Council on June 17, respectively September 16, 2010. The report has been endorsed by the European Council on October 29-30, 2010.

- a. The reinforcement of both the preventive and corrective arms of the Stability and Growth Pact, with sanctions attached to the consolidation path towards the medium term objective;
- b. A much more prominent role to levels and evolutions of debt and overall sustainability in budgetary surveillance, as originally foreseen in the Stability and Growth Pact;
- c. A change of the timetable for the submission of the stability and convergence reports in the context of a European semester, taking account of national budgetary procedures;
- d. The alignment of national budgetary rules and medium term budgetary frameworks with the Stability and Growth Pact;
- e. The assurance of the quality of statistical data, essential for a sound budgetary policy and budgetary surveillance. To that purpose statistical offices should be fully independent for data provision.

The report of the task force has been endorsed by the European Council on October 28-29, 2010. The conclusions can be categorized in roughly five areas, respectively aiming at:

1. A reinforcement of fiscal discipline, notably through a stronger Stability and Growth Pact (SGP)
2. A broadening of economic surveillance to encompass macro imbalances and competitiveness
3. A deepening and broadening of policy coordination through the European Semester
4. A robust framework for crisis management
5. The strengthening institutions for more effective economic governance

Taken separately, some of these reforms may seem to be small steps, but taken together they constitute what Jean Claude Trichet, the president of the ECB, has called a 'quantum leap' in economic governance.

4. A New Architecture of Economic Governance

From the very start, the asymmetry between the monetary policy and economic, notably fiscal policy has been a concern [Verdun 1996; Dyson & Featherstone 1999: 28-33; 765-768]. Most recently former commissioner Mario Monti plead for compensation by paying more attention for the E in the build-up of the EMU and the single currency [Monti 2011]. The new architecture of economic governance is composed of three pillars of which the procedure for fiscal and structural policy were already more or less in place. However, as we will see they are reinforced and brought into an overall framework, called European semester that is geared to the objectives of the Euro 2020 strategy.

Figure 1: *The New Architecture of Economic Governance*

	Fiscal Coordination	Structural Policies	Macro-economic Imbalances
Surveillance	<p>Common Fiscal Framework</p> <p>Preventive Arm</p> <ul style="list-style-type: none"> Stability/Convergence Programs Stronger focus on debt Early warnings and Recommendations Interest bearing deposits (<u>0.2%</u> GDP) 	<p>Structural Reforms</p> <p>Monitoring Process</p> <ul style="list-style-type: none"> EU & national targets National Reform Programs COM's mission to MS Early warnings and recommendations 	<p>Surveillance of imbalances</p> <p>Preventive Surveillance</p> <ul style="list-style-type: none"> Alert mechanism Scoreboard/Indicators Reviews by COM Peer pressure MS
Enforcement	<p>Corrective Arm</p> <ul style="list-style-type: none"> Excessive Deficit Procedure (EDP) Non interest bearing deposits (0.2% GDP) Fines 	<p>Open Coordination Method</p> <ul style="list-style-type: none"> Peer pressure Blaming and shaming 	<p>Corrective Arm</p> <ul style="list-style-type: none"> Excessive Imbalances Procedure (EIP) COM recommendations National action plans MS peer pressure Fines (0.1% GDP)

Source: Memo/11/14 [adapted].

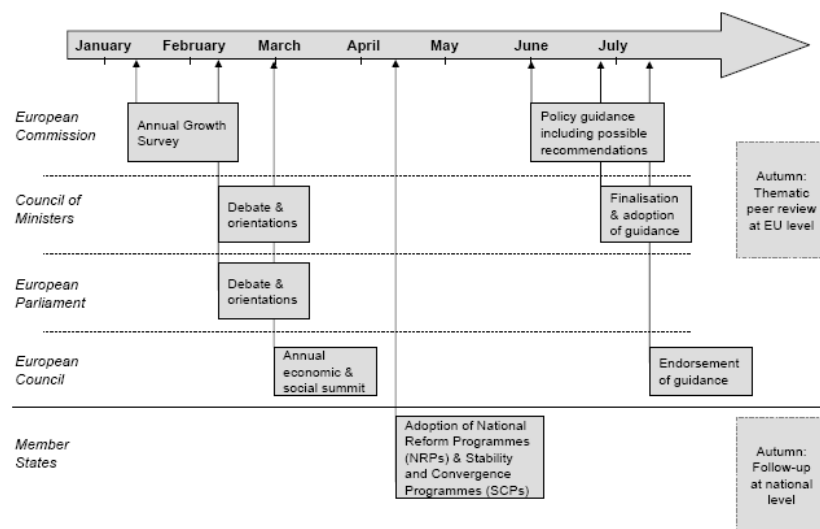
We will focus now on the proposals that have put at the table to reinforce fiscal governance. Note that the European semester is applicable to all member states whereas the reform of the SGP is only referring to the member states in the Eurozone.

5. The European Semester

One of the most far reaching proposals, at least potentially, of the task force is the introduction of the so-called European Semester. Being presented for the first time in 2004 [European Commission 2008: 258], the European Commission argued in its communication to, inter alia, the European Council that the time was ripe for a new effort to coordinate the budgetary policy of the member states on the principle that 'prevention is more effective than correction' [COM (2010) 250 Final]. It integrates existing procedures in for fiscal and

structural policies, such as under the SGP and BEPGs and the Employment Guidelines⁶, in the context of the Europe 2020 strategy. In addition, it extends the domain of surveillance to macroeconomic imbalances.

Figure 2: *The Cycle of Ex Ante of Policy Coordination; The European Semester*



Source: com_367_european_semester_en

The new cycle is takes six-months and kicks-off each year with the *Annual Growth Survey* [AGS] that serves as the basis for a discussion at the annual spring meeting of the European Council about the main challenges that the EU is facing in the coming years. The member states will then submit their *Stability and Convergence Reports* [SCRs] and *National Reform Programs* [NRPs], outlining the actions in areas such as employment research and innovation, energy and social inclusion. The cycle is completed with country-specific policy advice of the European Council and the Council of Ministers that the member states have to take into account when finalizing their budgets for next year.

As for fiscal surveillance, the European Semester basically sets a new timetable for the submission of the *Stability and Convergence Reports* [SCRs]. Being due in the fall previously, they have to be submitted from now onwards in the spring in order to enable EU to coordinate ex ante both budgetary and economy policy of the member states.

The proposal has been more or less accepted before the ink of the report was dry⁷. The heads of states and governments adopted the European semester on September 7, 2010

6. The BEPGs and Employment Guidelines are combined since the period 2005-2008 in the Integrated Guidelines for Growth and Jobs.
 7. The European Semester has been endorsed by the European Council on June 17, 2010 and validated by the European Council on October 28-29, 2011. It has been launched on January 12, 2011 with a conference on the Annual Growth Survey [AGS] in Brussels.

when the ECOFIN endorsed changes in the code of conduct regarding the implementation of SGP in order to allow the European semester to be introduced in 2011 as part of a reform of EU provisions on economic policy coordination.

6. Six-pack

About the same time, to be precisely on September 29, 2010 the European Commission issued a bunch of measures to reinforce economic governance, popularly known as ‘six pack’ of legislative measures – three new regulations, two amendments of current regulations and a directive – of which four that have to do with fiscal consolidation. The other two deal with microeconomic imbalances [COM (2010) 522-527], expanding the existing system of surveillance to macroeconomic imbalance, introducing a system that is alike the system in operation regarding fiscal surveillance. In this paper we focus on the consequences for fiscal consolidation.

6.1 The Preventive Arm

The medium-term objectives [MTO] are key in the process of fiscal surveillance. Originally set at ‘... close to balance or in surplus’, they have been made country-specific in the revision of the SGP of 2005 in order to take national differences into account. They range between -1.0% of GDP and balance or surplus, in cyclically adjusted terms, net of one-off and temporary measures for member states in the Eurozone as well as in ERM2 [Council Regulation 2005].

The progress towards MTOs has been ‘generally insufficient, leaving public finances badly exposed to the economic downturn’ [COM(2010) 526 Final] as illustrated by a survey conducted by the Commission as part of the *Public Finances in EMU 2010*. None of the member states is expected to achieve its MTO in the next few years with the exception of Bulgaria which is predicted to attain its MTO from 2010 onwards although the structural balance is deteriorating over time [European Commission 2010:15]. In most cases even no target are set for goal-attainment.

In order to compensate for these shortcomings the path towards the MTOs they are from now on directed by the ‘*principle of prudent fiscal policy making*’, that basically curbs government expenditures to avoid that windfalls on the revenue side are spent instead of being used for debt reduction. A distinction should be made between member states that achieved their MTOs and member states which have not yet reached their MTOs. In the first case, the annual growth rate of government expenditures may not exceed the prudent

medium term rate of GDP growth⁸. In the latter case, the annual growth rate will be set at a lower level than the prudent medium-term rate of GDP growth in such a way as to ensure that appropriate adjustments are made towards the medium-term budgetary objective.

The preventive arm of the SGP has been further strengthened by an enforcing mechanism. A member state that does not take the principle of prudent fiscal policy making into account is liable to a warning from the Commission and ultimately a recommendation [TFEU 121] backed by an *interest bearing* deposit of 0.2 percent of GDP for those countries whose currency is the euro [TFEU 136]⁹. The decision to impose a sanction is subject of the ‘reversed voting mechanism’, i.e. a proposal of the Commission will be adopted unless it is rejected by the Council within ten days. Decisions are made by QMV and restricted to member states in the Eurozone, leaving out the vote of the member state under scrutiny.

6.2 The Corrective Arm

The reform of the SGP of 2005 featured a list of relevant variables – the impact of the cycle, the level of debt, a period of slow growth and productivity-enhancing procedures – that the Council should take into account when declaring a member state in derogation regarding the reference value of the budget deficit. The implementation of the SGP and, more specifically the EDP is completed by a more prominent role of the debt criterion:

‘While the deficit and the debt criterion are in principle on an equal footing, and persistently high levels of debt arguably represent a more serious threat to public finance sustainability than occasionally high deficits, in practice the ‘3% of GDP’ threshold has been the almost exclusive focus of the EDP, with debt playing a marginal role so far’ [EC (2010) 522].

The budget deficit and the consequent debt service is one of the many variables that shape the debt and provide as such a separate argument to pay more attention to the debt. It has made operational by the adoption of a numerical benchmark. Specifically, a debt-to-GDP ratio above 60% is to be considered sufficiently diminishing if its distance with respect to the 60% of GDP reference value has reduced over the previous three years at a rate of the order of one-twentieth per year. In line with the greater emphasis on debt, more consideration should be given to relevant factors in the event of non-compliance with the deficit criterion, if a country has a debt below the 60% of GDP threshold.

The enforcement of budgetary surveillance in the Eurozone is further strengthened by a more timely action as sanctions

8. The prudent medium-term of growth will be assessed on the basis of projections over a ten-year horizon updated at regular intervals.

9. The deposit will be returned with accrued interest once the Council considers that the deviation is corrected.

'... arguably come into play too late in the process to represent an effective deterrent against gross fiscal policy errors, not least because the financial situation of the country concerned may have deteriorated so much as to make the threat of a fine less credible at the very time when it should become real' [European Commission, COM (2010) 522]

A new set of financial sanctions for euro-area, which would apply much earlier in the process, i.e. the Commission may issue a proposal for sanctions from the very start and at each step of the EDP and not only in last resort¹⁰. Moreover, sanctions – a *non-interest* bearing deposit to be turned into a fine in case of non-compliance – are semi-automatic as the decision is subject of the 'reversed voting mechanism', leaving out the vote of the member state in derogation.

7. Budgetary Framework of the Member States

The reform of the SGP is completed with a directive on the requirements for budgetary frameworks as:

'Effective enforcement of the EMU budgetary coordination framework cannot be expected to derive only from provisions laid down at EU level. The particular decentralised nature of fiscal policy-making in the EU and the general need for national ownership of EU rules make it essential that the objectives of the EMU budgetary coordination framework are reflected in the national budgetary frameworks' [COM (2010) 522: 6].

Next to the alignment of national systems to minimum standards set at the European level [accounting, statistics, forecasting], countries in the Eurozone should adopt rules that effectively promote compliance with their obligations under the Treaty in the area of budgetary policy [COM (2010) 523 Final: Art. 5], notably:

- The reference value of the budget deficit and public debt as well as other key variables;
- A multi-annual fiscal planning horizon of at least three years as a single year provides a poor basis for a sound budgetary policy.

The proposals can be organized in roughly four categories of budgetary requirements:

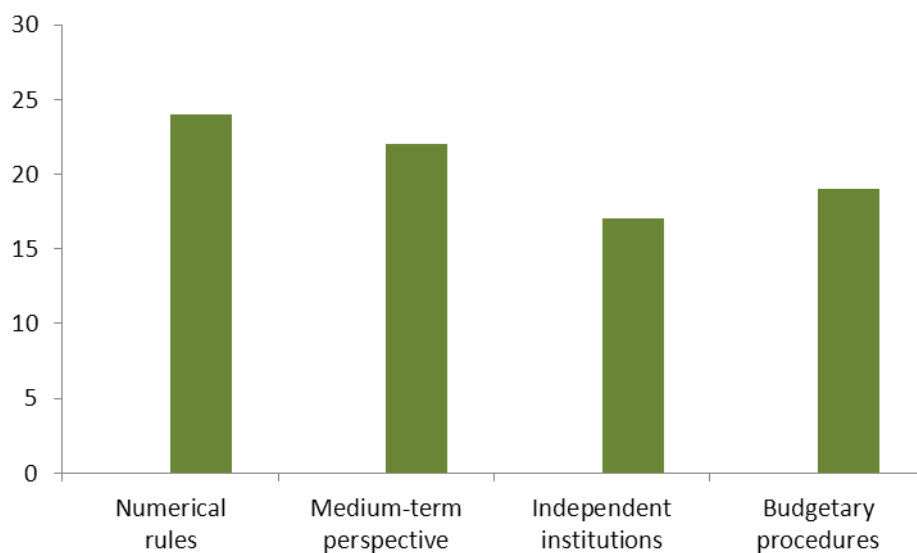
- Numerical rules, such as a balance budget [constitutional amendment], a revenue rule, an expenditure rule or debt rule.

10. The imposition of sanctions in an early stage of the EDP is due to an intervention of European Parliament, supported by the Commission and ECB, that has made more than 2000 amendments in the 'six pack'.

- Independent budget institutions that effectively and timely monitor compliance of the numerical fiscal rules¹¹.
- Medium term budgetary perspective, extending the horizon to at least three years
- Budgetary procedures such as more centralization and top-down budgeting

A survey conducted by the Commission indicates that elements of a budgetary framework is already in place in most member states, in many cases even more than one. In many countries there is more than one numerical rule, in some countries – Denmark and France – even five. Only Malta is lagging behind. The same applies to the number of independent institutions with Denmark again as front-runner and Austria as runner up. However there is no such a thing as an independent institutions in 10 of the 27 member states [Annex 3].

Figure 3: *Budgetary Frameworks in the EU-27 [FY 2008]*



Source: Ayuso-i-Casals 2010

New is that the budgetary requirements should be transposed in national rules and regulations. The transposition of the directive should be completed before December 31, 2013.

11. The establishment of independent national budget office refers to standing practice in countries as Austria, the Netherlands and Sweden [ECOFIN 596]

8. A Balance Sheet

The question may be raised if the new architecture of economic governance is going to work: will it lead to budgetary discipline inducing fiscal consolidation: a reduction of the deficit in order to avoid debt accumulation?¹² A number of arguments are pleading in favor of the new set-up which constitutes a revision of the existing SGP rather than the establishment of a completely new architecture¹³. First, the draft budget – stability and convergence reports – are now due in the spring so that they not only codify, but may also modify the fiscal plans for coming year. In the past recommendations came often too late as the stability and convergence reports were due in the fall, ‘... simply reporting what they have already passed into law’ [Hallerberg 2010: 8]. Besides, fiscal governance is now directed by a numerical rules, curbing expenditures and backed by an enforcing mechanism – an interest bearing deposit in the preventive arm and a non-interest bearing deposit to be converted into a fine in the corrective arm – that may be invoked in an earlier stage of the procedure. Last, but not least it has become more difficult to avoid sanctions as the decision to impose penalties is subject of the ‘reversed voting mechanism’. However, the door is not completely closed as the final say is left in the hands of the member states¹⁴, which may lead to the conclusion that the effectiveness of fiscal governance is sacrificed at the altar of sovereignty of the member states. The experience from the past in that regard is not very promising. After all, the SGP has been watered down in 2005 due a clique between France and Germany for different reasons, but with same effect and the same applies to the proposal of the Commission and supported by the ECB and EP to complete the new architecture of economic governance with automatic sanctions¹⁵.

The sting is drawn from the proposal at the informal gathering of Angela Merkel and Nicolas Sarkozy at Deauville on October 18, 2010 while the Ministers of Finance were meeting in Luxembourg to deal with the consequences of the financial crisis. In an in-depth reconstruction of the Irish situation based on dozens of interviews with European officials, reporters of The Wall Street Journal revealed that automatic sanctions that were pursued by Germany and supported by Finland and the Netherlands as well as the ECB, were traded-off for a change of the ‘no bailout clause’ [TFEU, Article 125] through a simplified procedure for the revision of the treaty that would enable member states to support each other:

12. Fiscal consolidations is measured as a reduction of the cyclically adjusted primary budget balance [OECD 2010].

13. The main innovation is the introduction of the European semester and the resulting expansion of the surveillance to macroeconomic imbalances.

14. The decision to impose sanctions is made by qualified majority of the countries whose currency is the euro, i.e. 9 out of 17. In addition they need 74 percent of the voting rights that accumulate to 213 votes. The votes of the country under scrutiny though should be left out. At request of one or more countries will be checked of the countries in favor of the decision represent 62 percent of the population. Note though that the Council is pursuing consensus and that not often votes are taken.

15. The imposition of automatic sanction would require an amendment of the Lisbon-treaty which would be justified in order to deal with economic crises effectively, but turned to be a ‘bridge too far’.

'Ms. Merkel proposed a compromise. Germany would drop its demand for automatic sanctions, but in exchange, the chancellor wanted France to support an idea her advisers had worked on for months: In the future, if a eurozone country needed a bailout, its bondholders would have to accept a reduction on what they were owed, known as a 'haircut' [Forelle et al. 2010].

The compromise, known as the Deauville Pact, generated so much turmoil that Angela Merkel was forced to water down the application of 'haircuts': bondholders would only face losses when 'a country were formally deemed insolvent by all other euro-zone members'. It paved the way for the conversion of the temporary European Financial Stability Facility [EFSF] into a permanent European Stability Mechanism [ESM]. On December 16, 2010 the European Council agreed with the addition of a new paragraph to TFEU, Art. 136 that deals with the member states whose currency is the euro, reading:

'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'.

We turn back now to the proposals that have been put at the table for the reinforcement of fiscal governance. What are the consequences for the member states in terms of sovereignty? At face value they do not constitute an infringement on the sovereignty of the member states in the field of budgetary policy. The prerogative of the member states is left untouched [Memo/11/14]. However, behind that veil we feature an almost unprecedented transfer to the European level of governance. Obviously, it is far too early to judge, but the European semester constitutes a potential threat for national sovereignty in the field of budgetary policy as the draft budget should be submitted to the Commission before it is sent off to national parliament. It will make the Commission '... less of an impartial referee and more of an active player in domestic politics' [Charlemagne 2010]. The composition of the budget – taxation and allocation – may be left to national governments and parliaments, but the parameters are set at the European level¹⁶. The discretionary power of the member states to pursue a budgetary policy of their own may become victim to what Philippe Schmitter has coined '*European integration by stealth*'. It is paving the way to an economic *government* with a European minister of Finance in charge of a common budgetary policy rather than a strengthening of economic *governance* for which the Eurogroup seems to be the more appropriate platform.

16. In addition, the strings are picked up regarding the path towards the MTO to provide for a safety margin with respect to the reference value for the budget deficit

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Annex 1: Summary of the SGP reform

Sanctions under the preventive arm of the SGP	
Current rules	Recommendation by the Task Force
<p>In case of deviation from the adjustment path:</p> <ul style="list-style-type: none"> • Early warning by the Commission • Council may address a recommendation setting a deadline for correcting the deviation. The recommendation may be made public. 	<p>In case of deviation from the adjustment path:</p> <ul style="list-style-type: none"> • Early warning by the Commission • Council recommendation (within one month) setting a deadline for correcting the deviation. The recommendation may be made public.
	<ul style="list-style-type: none"> • Interest-bearing deposit applies if no appropriate action is taken within a maximum of five months (three months in serious cases).

Sanctions under the corrective arm of the SGP	
Current rules	Recommendation by the Task Force
<p>When Member States are placed in Excessive Deficit Procedure (EDP), a deadline of 6 months is given to take effective action to correct the situation (article 126.6)</p>	<p>When Member States are placed in EDP, two possibilities:</p> <ul style="list-style-type: none"> • Non-interest bearing deposit will be applied immediately for Member States that have already been subject to financial sanctions under the preventive arm. • For those Member States that have not been sanctioned under the preventive arm, the Council will adopt a recommendation setting a deadline for effective action. However, in case of particularly serious slippages, sanctions could be applied immediately. <p>When warranted by the situation, the steps under the EDP should be accelerated (e.g. 3 months rather than 6 for effective action)</p>
<p>If no effective action has been taken within the given deadline, the Council may make its recommendation public (article 126.8). It may also give notice to the Member State concerned to take measures to reduce the deficit (article 126.9).</p>	<p>If no effective action is taken within the given deadline, Member States will be subject to a fine.</p>
<p>If the Member State persists in failing to comply with the Council recommendations, the Council may apply sanctions (article 126.11)</p>	<p>If a Member State persists in failing to put into practice the Council recommendation, the fine will be increased, including a variable component related to the level of the deficit.</p>

Source: European Council Secretariat

Annex 2: Budgetary Developments 2009-2012

Table I.3.3: Budgetary developments according to the 2009-2010 Stability and Convergence Programme updates

	Real GDP growth				Government balance				Structural balance				Government gross debt			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
BE	-3.1	1.1	1.7	2.2	-5.9	-4.8	-4.1	-3.0	-3.8	-3.4	-2.9	-2.2	98	101	101	101
DE	-5.0	1.4	2	2	-3.2	-5%	-4%	-3%	-1.8	-4.4	-3.9	-3.0	72%	76%	79%	81
IE	-7.5	-1.3	3.3	4.5	-11.7	-11.6	-10	-7.2	-9.3	-9.2	-8.2	-6.3	65	78	83	84
EL	-1.2	-0.3	1.5	1.9	-12.7	-8.7	-5.6	-2.8	-11.4	-7.7	-4.4	-1.9	113	120	121	118
ES	-3.6	-0.3	1.8	2.9	-11.4	-9.8	-7.5	-5.3	-9.9	-7.9	-6.1	-4.6	55	66	72	74
FR	-2.25	1.4	2.5	2.5	-7.9	-8.2	-6	-4.6	-6.5	-6.8	-4.9	-4.0	77	83	86	87
IT	-4.8	1.1	2.0	2.0	-5.3	-6.0	-3.9	-2.7	-3.8	-3.3	-2.7	-1.9	115	117	117	115
CY	-1.7	0.5	1.5	3	-6.1	-6.0	-4.5	-3.4	-5.6	-5.2	-3.6	-2.9	56	61	63	63
LU	-3.9	2.5	3	2.7	-1.1	-3.9	-5	-4.6	0.9	-2.2	-3.6	-3.4	15	18	24	29
MT	-2	1.1	2.3	2.9	-3.8	-3.9	-2.9	-2.8	-3.2	-3.5	-2.8	-3.3	67	69	68	67
NL	-4	1.5	2	2	-4.9	-6.1	-5	-4.5	-3.8	-4.8	-3.9	-3.5	62	67	70	73
AT	-3.4	1.5	1.5	1.9	-3.5	-4.7	-4.0	-3.3	-2.7	-3.9	-3.3	-2.7	67	70	73	74
PT	-2.7	0.7	0.9	1.3	-9.3	-8.3	-6.6	-4.7	-8.3	-7.5	-5.9	-4.1	77	86	89	91
SI	-7.3	0.9	2.5	3.7	-5.7	-5.7	-4.2	-3.1	-4.2	-4.0	-2.8	-2.4	34	40	42	43
SK	-5.7	1.9	4.1	5.4	-6.3	-5.5	-4.2	-3	-6.0	-4.7	-3.3	-2.7	37	41	43	42
FI	-7.6	0.7	2.4	3.5	-2.2	-3.6	-3.0	-2.3	0.3	-0.9	-1.0	-1.2	42	48	52	54
EA-16 (2)	-4.0	1.0	2.0	2.3	-6.3	-6.7	-5.3	-3.9	-4.8	-5.3	-4.2	-3.2	79	84	87	87
BG	-4.9	0.3	3.8	4.8	-1.9	0.0	0.1	0.1	-0.7	1.9	1.7	1.0	15	15	15	14
CZ	-4.0	1.3	2.6	3.8	-6.6	-5.3	-4.8	-4.2	-6.1	-4.1	-3.7	-3.5	35	39	41	42
DK	-4.3	1.3	1.6	2	-2.9	-5.3	-4.1	-3.1	1.4	-1.1	-1.0	-0.9	39	42	46	46
EE	-14.5	-0.1	3.3	3.7	-2.6	-2.2	-2	-1.0	-1.1	-1.5	-0.9	-0.1	8	10	13	14
LV	-18	-4.0	2.0	3.8	-10	-8.5	-6	-2.9	-7.6	-5.5	-3.9	-1.8	35	55	59	57
LT	-15.0	1.6	3.2	1.2	-9.1	-8.1	-5.8	-3.0	-7.2	-6.8	-4.8	-2.3	30	37	40	41
HU	-6.7	-0.3	3.7	3.8	-3.9	-3.8	-2.8	-2.5	-1.6	-1.5	-1.5	-2.5	78	79	77	74
PL	1.7	3	4.5	4.2	-7.2	-6.9	-5.9	-2.9	-7.0	-6.2	-5.3	-2.3	51	53	56	56
RO	-7	1.3	2.4	3.7	-8	-6.3	-4.4	-3	-7.5	-5.2	-3.2	-2.1	23	28	29	30
SE	-5.2	0.6	3.1	3.8	-2.2	-3.4	-2.1	-1.1	0.6	-0.8	-0.7	-0.9	43	46	46	45
UK (1)	-4%	1 to 1%	3% to 3%	3% to 3%	-12.6	-12	-9.1	-7.3	-10.7	-10.0	-7.7	-6.6	72.9	82.1	86.0	90.9
EU-27 (2)	-4.1	1.1	2.4	2.6	-7.0	-7.2	-5.6	-4.2	-5.4	-5.7	-4.5	-3.5	74	80	82	83

(1) Convergence programme and autumn forecast: financial years ending in following March.

(2) In case of missing programmes: weighted average of the figures for those countries that have submitted a programme.

Source: Commission services.

Annex 3: Domestic Fiscal Frameworks

Table I.5.1: Measures included in the 2009-2010 SCPs to reform domestic fiscal frameworks

	Numerical rules			MTBF			Independent institutions			Budgetary procedures		
	Number of rules in 2008	Reform existing rules	New rules	Already in place in 2008	Reform existing MTBF	New MTBF	Number in place in 2008	Reform current bodies	New bodies	Measures upgrading procedures	of which higher centralisation	of which top-down budgeting
BE	4	0	0	Yes	No	No	2	No	No	No	—	—
BG	2	0	0	Yes	No	No	0	—	No	No	No	—
CZ	2	0	0	Yes	No	No	0	—	No	Yes	No	No
DK	3	0	0	Yes	No	No	1	No	No	No	—	—
DE	5	0	1 ⁽¹⁾	Yes	No	No	4	No	No	Yes	No	Yes
EE	2	1	0	Yes	No	No	1	No	No	Yes	No	No
EI	3	0	0	Yes	No	No	0	—	No	Yes ⁽²⁾	—	—
EL	0	—	— ⁽³⁾	No	—	— ⁽³⁾	1	No	— ⁽³⁾	Yes	Yes	Yes
ES	4	0	0	Yes	No	No	2	No	No	No	—	—
FR	5	0	1	Yes	No	No	2	No	No	Yes	No	No
IT	4	0	1	Yes	Yes	No	1	No	No	Yes	Yes	No
CY	0	—	0	No	No	Yes	0	—	No	Yes	No	No
LV	2	0	0	Yes	No	No	0	—	No	Yes	No	No
LT	4	0	0	Yes	No	No	1	No	No	Yes	Yes	No
LU	3	0	0	No	—	—	1	No	No	No	—	—
HU	2	0	1	No	—	Yes	1	No	Yes	Yes	Yes	No
MT	0	—	0	Yes	No	No	0	—	No	No	—	—
NL	2	0	1	Yes	No	No	1	No	No	Yes	No	No
AT	1	0	1	Yes	No	Yes	3	No	No	Yes	No	No
PL	1	1	4	Yes	Yes	No	0	—	No	Yes	No	No
PT	3	0	1	No	—	Yes	2	No	No	Yes	No	No
RO	2	0	3	Yes	No	Yes	0	—	Yes	Yes	No	No
SI	2	0	1	Yes	No	No	1	No	Yes	Yes	No	No
SK	2	0	2	Yes	Yes	No	0	—	No	Yes	No	No
FI	4	0	0	Yes	No	No	0	—	No	No	—	—
SE	3	0	0	Yes	Yes	No	2	No	No	No	—	—
UK	2	0	2 ⁽⁴⁾	Yes	No	Yes	1	No	No	Yes	No	No
Total	67	2	19	22	4	6	27	0	3	19	4	2

(1) The programme announces the introduction of new rules but neither the number nor their features are specified. (2) The programme does not specify whether some multiannual measures strengthening fiscal planning and monitoring constitute the basis for introducing an effective MTBF. (3) The programme does not clarify whether a new body to be implemented in the next future can be considered an independent fiscal institution. (4) The existing golden rule for the Federal Government was abolished in 2009 and replaced by a new cyclically adjusted balance rule. (5) Inclusion of multiannual budgetary targets in the annual budgetary documentation. (6) The two prevailing fiscal rules in 2008 were replaced as of 2010 by binding balance and debt targets over the period from 2009 to 2016. As a result, the total number of fiscal rules in place remains unchanged between 2008 and 2010.

Source: 2009-2010 SCPs