Centrum für Europäische Politik

cep**Study**

Reform of the Stability and Growth Pact

Core Issues

Authors:

Matthias Kullas & **Dr. Jessica Koch**

Authors: Matthias Kullas and Dr. Jessica Koch | kullas@cep.eu
CEP | Kaiser-Joseph-Straße 266 | 79098 Freiburg | Germany | Telephone +49 (0)761 38693-105 | www.cep.eu

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Core Issues

(1) A reform of the Stability and Growth Pact is urgently needed in order to reduce the Member States' debts and thus restore financial stability to the EU. The opportunity represented by the current crisis to establish effective rules, must be exploited for the sake of structures with long-term applicability, and not wasted through short-term political manoeuvring. With consistent reforms, the members of the monetary union would signal to markets that they are ready for lasting solid budget management.

(2) As a "medium-term budgetary objective" the Stability and Growth Pact provides for a structural deficit of a maximum of 1% for Member States. A deficit of 3% must, however, remain an exception and must not serve as a standard yardstick to Member States. The Commission's proposal to implement the "medium-term budgetary objective" more effectively, by obliging euro-zone countries to deposit an interest-bearing contribution of 0.2% of the GDP in case of infringements, is appropriate – but it does not go far enough. A stronger incentive for deficit reduction would be non-interest-bearing deposits with the option to gradually convert them into fines.

(3) The Commission's aspired option, that the Stability and Growth Pact's deficit procedure, which is underpinned by appropriate sanctions, can be initiated even if – irrespective of the 3% deficit threshold – the total debt of a Member State exceeds the 60% threshold, is reasonable from an economic perspective. The proposed amendment of secondary law, however, constitutes an infringement of EU law, since for that purpose EU contract law would also have to be adjusted.

(4) A significant improvement would be to allow sanctions to be imposed at earlier stages of a deficit procedure rather than only at the end, and to provide for their "quasi-automatic" imposition. However, the implementation of these Commission proposals are in danger of leading nowhere: the intended reduction of politically defined discretionary decisions by the Council when imposing sanctions can be rendered obsolete by the fact that the subsequent procedural stages require a qualified majority approval from the Council. Thus, the risk of political "deals" continues to exist.

(5) The proposed macroeconomic surveillance of Member States improves the efficiency of the Stability and Growth Pact. Hence, future risks for public budgets that are caused, for instance, by bubbles on the capital markets, could also be recorded. The surveillance mechanism, however, should not provide sanctions, for the EU will be no less reliable than the market players when it comes to recognising macroeconomic imbalances, or at least its causes.

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(6) Although the recommendations made by the Van-Rompuy-Group (Task Force) of October 2010 are oriented towards the Commission's proposals, at the same time they make the imposition of sanctions more difficult through additional procedural requirements. Moreover, the Task Force is in principle opposed to sanctions being imposed at the beginning of a euro-zone country's deficit procedure, which would be detrimental to increasing the efficiency of the Stability and Growth Pact.

Positive, on the other hand, is that by cutting terms the Task Force expedites procedures. Thus, one of the weaknesses of the current procedure – namely running times that are too long – could be eliminated.

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