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DIRECTION GÉNÉRALE

Franco-German workshops on the Euro area

Session 1: FISCAL ADJUSTMENT AND FISCAL RULES

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MINISTÈRE DE L'ÉCONOMIE
DES FINANCES ET DE L'INDUSTRIE

1 - THE EUROPEAN DEBT CRISIS

2 – THE REFORM OF THE EUROPEAN ECONOMIC GOVERNANCE

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The euro area debt crisis

- **Public deficit and debt numbers in the euro area and in other industrialised countries**

IMF Fiscal Monitor forecast (24th January)		
percent of GDP	2011	2012
Overall fiscal balance		
United States	-9.5	-8.0
Japan	-10.1	-10.2
Euro Area	-4.3	-3.4
United Kingdom	-8.6	-7.8
General government gross debt		
United States	102.0	107.6
Japan	233.4	241.0
Euro Area	88.4	91.1
United Kingdom	80.8	86.6

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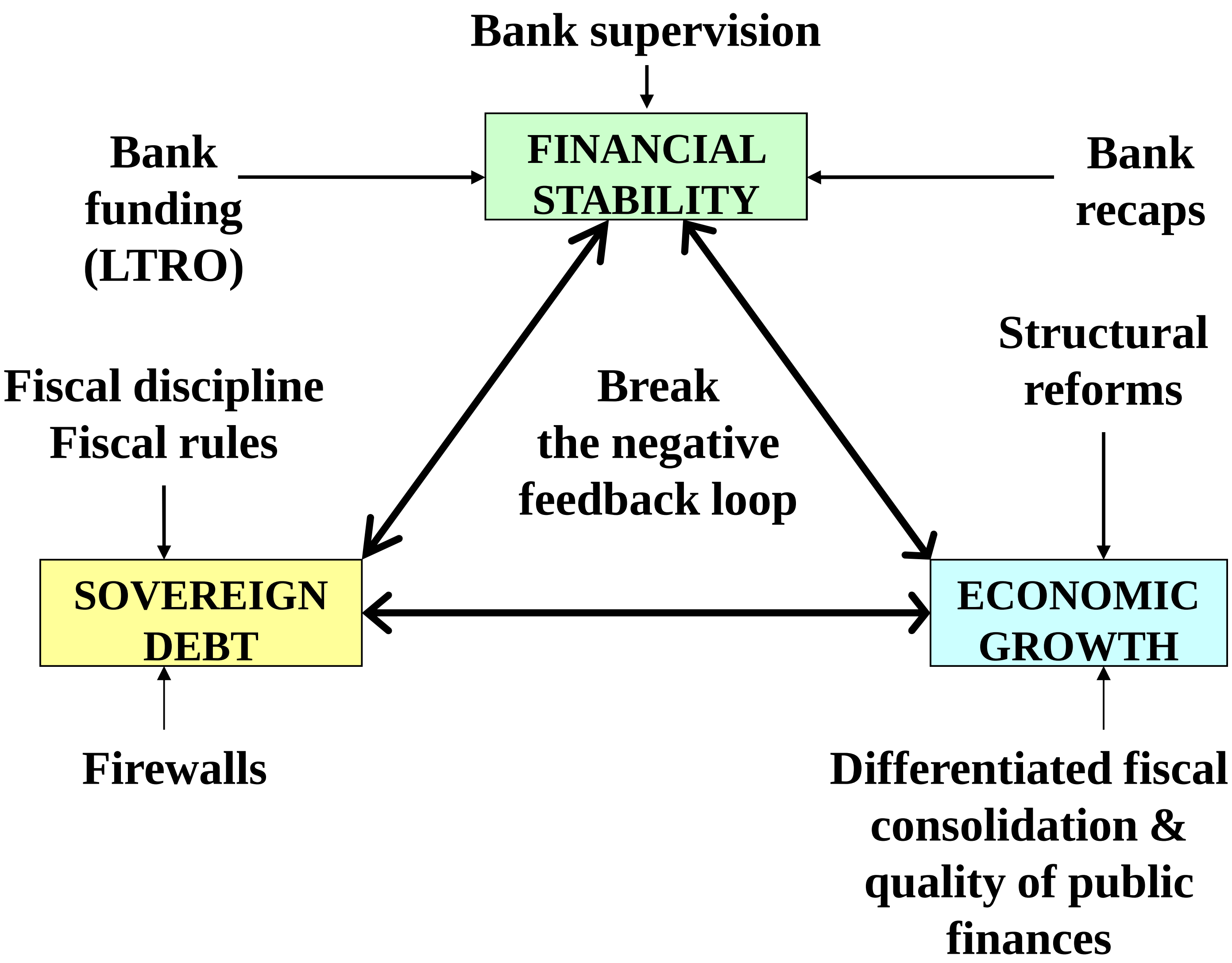
A comprehensive solution to the euro area crisis



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1 - THE EUROPEAN DEBT CRISIS

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Corrective arm of the SGP (1): introduction of the debt criteria and quasi-automatic sanctions (for euro area MS)

- Public deficit > 3% of GDP or **public debt > 60% of GDP and the differential with the reference value of 60% has not decreased at an average rate of 1/20th per year over the last three years**
- Report from the Commission (126-3), opinion addressed to the Member State concerned

- Initiation of the EDP procedure (126-6) on a proposal by the Commission, decided by the Council by **reverse qualified majority voting (RQM) if deficit criteria** / qualified majority voting (QM) if debt criteria
- Council recommendation on measures to be taken (126-7), on a recommendation of the Commission
- **Budgetary and economic partnership programme put in place by the Member State concerned**
- **Non-interest bearing deposit amounting to 0,2% of GDP lodged with the Commission, decided by the Council by RQM voting** *(where the Member State concerned has already been sanctioned under the preventive arm or in the case of particularly serious non-compliance)*

Legend: **Pre-reform** **Six-pack*** **TSCG** **Two-pack** ** Regulation n°1177/2011*

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Corrective arm of the SGP (2): introduction of the debt criteria and quasi-automatic sanctions (for euro area MS)

Enhanced surveillance: statistical audit and monitoring report every 6 months (3 months having received a formal notice), Commission recommendation in case of signifiant deviations

Within 3/6 months

- Council judgment on **effective action** (126-8) on a recommendation of the Commission decided by the Council **by reverse qualified majority voting if deficit critiera /** qualified majority voting if debt criteria
- If negative, **fine amounting to 0,2% of GDP decided by Council by RQM voting**

Within 2 months

- Council notice (126-9) **decided by RQM voting if deficit criteria** / qualified majority voting if debt criteria
- Additional sanctions (128-11) decided by QM voting up to 0,5% of GDP / **RQM voting if deficit criteria**

Legend: **Pre-reform** **Six-pack*** **TSCG** **Two-pack** ** Regulation n°1177/2011*

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Preventive arm : new expenditure evolution criteria and procedure for remedying« significant deviations »

- Medium-term objective (MTO) defined by each Member State in their stability / convergence programmes: structural balance allowing convergence towards MTO
- Structural adjustment towards MTO of at least 0,5% of GDP (more if debt > 60%).

Within 1 month

- **« Significant deviation » from this adjustment path if deviation at least 0,5% of GDP in a single year of 0,25% of GDP on average per year over 2 consecutive years or if deviation of structural adjustment (evolution of expenditures net of discretionary revenue measures compared to potential GDP growth) of 0,5% of GDP per year or cumulatively over two years**
- Warning addressed to the Member States by the Commission (121-4)
- Council recommendation decided by QM voting specifying time limit for correcting the deviation (121-4)

Within 2/5 months

- Council judgment on effective action decided by QM voting, on a recommendation of the Commission
- If the 1st decision does not produce a qualified majority and the Commission considers that the situation persists, **new recommendation decided by reverse majority within one month**
- **Interest-bearing deposit amounting to 0,2% of GDP lodged with the Commission, decided by the Council by RQM**

Légende : **Pre-reforme** **Six-pack*** **TSCG** **Two-pack** ** Regulation n°1175/2011*

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Transposition of European principles into national legal systems

- **Budgetary rules**
  - ***Transpose « balanced budget rule » into national legal systems through preferably constitutional provisions, specifying an MTO for all Member States with a lower limit of -0,5% of GDP (-1,0% of GDP for Member States with a low level of public debt)***
  - ***Automatic correction mecanisms in case of "significant deviations"***
- **National budgetary procedures**
  - ***Multiannual financial framework***
  - ***Ex-ante examination of national budget plans by the Commission: « budgetary plan » submitted to the Commission no later than 15 October, request for a revised draft budgetary plan in case of serious non-compliance with budgetary policy obligations, formal opinion before the 30th of november***
- **Forecasts**
  - ***Realistic / prudent macroeconomic forecasts compared with the Commission's own forecasts***
  - ***Economic and/or budgetary forecasts carried out by an independent fiscal council or a body endowed with functional autonomy***

Legend: **Six-pack*** **TSCG** **Two-pack** ** Directive on requirements for budgetary frameworks*

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When will the new rules start kicking in?

For Member States currently under EDP procedure:

- ***The deadline to bring the deficit below 3% of GDP, specified in the current EDP recommendations, remains binding***

  In the Euro area: 2011: Malta / 2012: Cyprus, Belgium, Italy / 2013: France, Austria, Germany, Netherlands, Slovakia, Slovenia, Spain.

- ***In case this deadline is missed and the Council adopts a new recommendation setting a new date for bringing the deficit below 3% of GDP:***

  The Commission shall propose a fine (max. 0,2% GDP) to be adopted by the Council under reverse qualified majority voting, unless effective action has been taken

When Member States are have exited the EDP procedure:

- ***''preventive'' arm: adjustment path towards their MTO / absence of significant deviation***
- ***''corrective'' arm: deficit to be kept under 3% of GDP and debt reduction criterion to be implemented***

- during the 3-year period following exit from EDP : Member States will have to make ''sufficient progress'' towards compliance, as assessed in the opinion of their Stability programme,
- As from 3 years after exit from EDP : Member States have to show that the differential between their debt level and 60% is reduced by 1/20th annually, on average over 3 years.

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