

CONSIDERATIONS CONCERNING THE EUROPEAN FISCAL PACT

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Abstract: *The economic and financial crisis has generated and is still generating serious problems to many governments worldwide but particularly in the European Union countries. There are more and more obvious the concerns about the reimbursement of debts, adoption of the measures necessary to keep under control public expenses, trying, at the same time to find the appropriate measures for promoting the economic growth. The Treaty on Stability, Coordination and Governance in the European and Monetary Union aims precisely to solve these problems. We will insist in this work over the provisions of the Treaty, the actual situation in the EU member states and particularly of Romania, including the consequences of the application of this Treaty.*

Key words: *stability, coordination, governance, deficit, public debt.*

INTRODUCTION

It was decided at the European Council of 8th – 9th December 2011 to conclude an inter-governmental agreement concerning the fiscal governance that would include the states from the Euro area and those states within the European Union wishing to associate in this step.

On 2 March 2012, the state and government Presidents from the EU member states, except United Kingdom and Czech Republic signed the **Treaty on Stability, Coordination and Governance in the European and Monetary Union**. This Treaty named also the European Fiscal Pact has a priority objective to maintain the stability of the Euro area through a real consolidation of the public finance. The objective extends over the other member states that signed this Treaty, under the conditions imposed by it. The Treaty was to enter into force on 1st January 2013, after the submission of the documents of ratification of twelve member states whose currency is euro or on the first day of the month following the submission of these documents. This condition was fulfilled in 21st of December 2012 when Finland ratified the Treaty and submitted to the competent European bodies its ratification instrument.

The States signing the Treaty have the obligation to introduce the requirements related to the budgetary discipline and to the automate correction mechanism, that is started up in case that a member state infringe the rule of a balanced budget, in their national legal systems, preferably at constitutional level, until the date of 1st January 2014.

MATERIAL AND METHOD

The methods used were the analysis, synthesis, comparison, deduction and induction. The used information was overtaken from the statistics of the European Union (Eurostat) and from the national statistics, and from various national and international publications, on the basis of which we made our own calculations and interpretations.

RESULTS AND DISCUSSIONS

The Treaty on Stability, Coordination and Governance in the European and Monetary Union has a determination generated by the evolution of the financial monetary relations in the Union, particularly in the euro area, from the last years of crisis, of multiple unbalance problems arising between the member states, as they are described in the preamble of the Treaty. It was particularly taken into consideration that *''the need for governments to maintain solid and sustainable public finance and to prevent the evolution*

of the public administration deficit to an excessive level presents a vital importance for guaranteeing the Euro area as aggregate and that, consequently, it is necessary to introduce some specific rules, including a rule concerning a balanced budget and an automate mechanism for making the necessary corrective actions”.

The purpose of the Treaty results precisely from the contents of the first article: „*The contracting parties, in capacity of European Union member states agree by this Treaty, to consolidate the economic pillar of the European and monetary Union by adopting a set of rules aiming to promote budgetary discipline through a budgetary pact, consolidate the coordination of their economic and policies and improve the governance in the euro area, thus supporting the achievement of the European union’s objectives by the sustainable economic growth, workforce employment, competitiveness and social cohesion”*

The content of this article identifies at least six fundamental principles of the balanced economic development of all member states which are the budgetary discipline, improvement of the governance in the euro area, sustainable economic growth, workforce employment, economic competitiveness and social cohesion.

All these provisions constitute targets which every state should aim to reach, irrespective of its development stage, its quality of member or non-member of the euro area.

In order to accomplish such provisions, the new treaty includes the requirement that the national budgets of the participating member states be **balanced or in excess**. This objective will be considered as reached if the following two fundamental conditions are fulfilled:

1- **the public structural annual deficit** does not exceed **0,5 % of the nominal GDP** (art. 3, 1st paragraph, let. b);

2- **the ration between the public debt and the gross domestic product, at the market prices, is under 60%.**

The approach of the deficit from the perspective of the structural deficit supposes serious adjustments of all the aggregates defining cash budgetary (as difference between the budgetary income and the budgetary expenses compared to GDP) depending on their **cyclical character** but also on the **optimal potential of economic growth** of every state. In principle, in the boom periods, the structural deficit exceeds the budgetary deficit, but when economic difficulties arise, the structural deficit becomes less than the budgetary deficit.

It is appreciated that the structural deficit is a more efficient instrument to monitor the fulfillment of the budgetary deficit criterion from Maastricht (the consolidated budget deficit should not exceed 3% of GDP). Moreover, the **Treaty on Stability, Coordination and Governance in the European and Monetary Union** binds the European Union member states to comply with a medium term budget objective (the budget structural balance) that is balanced or in excess in order to allow the cyclic budgetary balance to fluctuate so that the margin of 3% of GDP is not exceeded.

The message of the IMF officials for Romania is that the main objective for the years 2013- 2014 should be the reduction of the structural deficit from 1.9% in 2012 to 1% in 2014, the level set for the current year being 1.4%. It also results from here the need of the acceleration of structural reforms that should include at least a part of the channels through which the public money flows. This key objective enables passing to the cash deficit objective that was established at 2.1% for 2013, and on medium term, it would follow its diminution and getting closer to a value of the structural; deficit stabilized at 1%.

The temporary deviation from the medium term objective will be allowed according to the Treaty (art 3. 1st paragraph, let. c), only in case of an exceptional event,

that cannot be controlled with a major impact over budgetary income and even over budgetary expense, or in the periods of severe economic slowdown, a situation that was analyzed and confirmed as such by the competent European bodies.

The structural deficit may reach the maximum level of 1% from the gross domestic product, at the market prices when the ratio between the public debt and the gross domestic product at the market prices is significantly less than 60% and when the risks relating the long term sustainability of the public finances are low.

According to the article 3, 1st paragraph, let. e, “*in case that significant deviations are noticed from the medium term objective or from the adjustment strategy for its achievement, a correction mechanisms starts automatically. The mechanism includes the obligations of the aimed contracting party to enforce measures for the correction of the deviations in an established period.*”

The budgetary deficits of the European Union member states, according to the data provided by Eurostat, according to the cash method are far from the limits provided in the Maastricht Treaty (table 1)

Table 1.

Budgetary deficit/excess at E.U. level % from GDP

Country	2007	2008	2009	2010	2011
E.U.27	-0.9	-2.4	-6.9	-6.5	-4.4
E.U. 17	-0.7	-2.1	-6.3	-6.2	-4.1
Austria	-0.9	-0.9	-4.1	-4.5	-2.5
Belgium	-0.1	-1.0	-5.5	-3.8	-3.7
Bulgaria	+1.2	+1.7	-4.3	-3.1	-2.0
Czech Republic	-0.7	-2.2	-5.8	-4.8	-3.3
Cyprus	+3.5	+0.9	-6.1	-5.3	-6.3
Denmark	+4.8	+2.2	-2.7	-2.5	-1.8
Estonia	+2.4	-2.9	-2.0	+0.2	+1.1
Finland	+5.9	+4.4	-2.5	-2.5	+0.6
France	-2.7	-3.3	-7.5	-7.1	-5.2
Germany	+0.2	-0.1	-3.1	-4.1	-0.8
Greece	-6.5	-9.8	-15.6	-10.7	-9.4
Ireland	+0.1	-7.4	-13.9	-30.9	-13.4
Italy	-1.6	-2.7	-5.4	-4.5	-3.9
Latvia	-0.4	-4.2	-9.8	-8.1	-3.4
Lithuania	-1.0	-3.3	-9.4	-7.2	-5.5
Luxembourg	+3.7	+3.2	-0.8	-0.8	-0.3
Malta	-2.3	-4.6	-3.9	-3.6	-2.7
The Netherlands	+0.2	+0.5	-5.6	-5.1	-4.5
Poland	-1.9	-3.7	-7.4	-7.9	-5.0
Portugal	-3.1	-3.6	-10.2	-9.8	-4.4
United Kingdom	-2.9	-5.1	-11.5	-10.2	-7.8
Romania	-2.9	-5.7	-9.0	-6.8	-5.5
Slovakia	-1.8	-2.1	-8.0	-7.7	-4.9
Slovenia	0.0	-1.9	-6.0	-5.7	-6.4
Spain	+1.9	-4.5	-11.2	-9.7	-9.4
Sweden	+3.6	+2.2	-0.7	+0.3	+0.4
Hungary	-4.1	-3.7	-4.6	-4.4	+4.3

Source: <http://epp.eurostat.ec.europa.eu/tgm/table.do>

It is observed an accentuated increase at the E.U. level of the budgetary deficit in the years of pronounced crises from -0.9 in 2007 to -6.9 in 2009 with a tendency of

resilience in 2010 (-6,5) and 2011(-4,4). This tendency is generally valid for every member state, only the rhythm of increase or decrease of the budgetary deficit being different.

In 2009, a top of the crisis, only 5 of the 27 member states succeeded to obtain a budgetary deficit less than 3% of GDP, calculated both through ESA methodology and through the cash methodology: Denmark, Finland, Estonia, Sweden and Luxembourg, of which only one (Luxembourg) was part of the euro area.

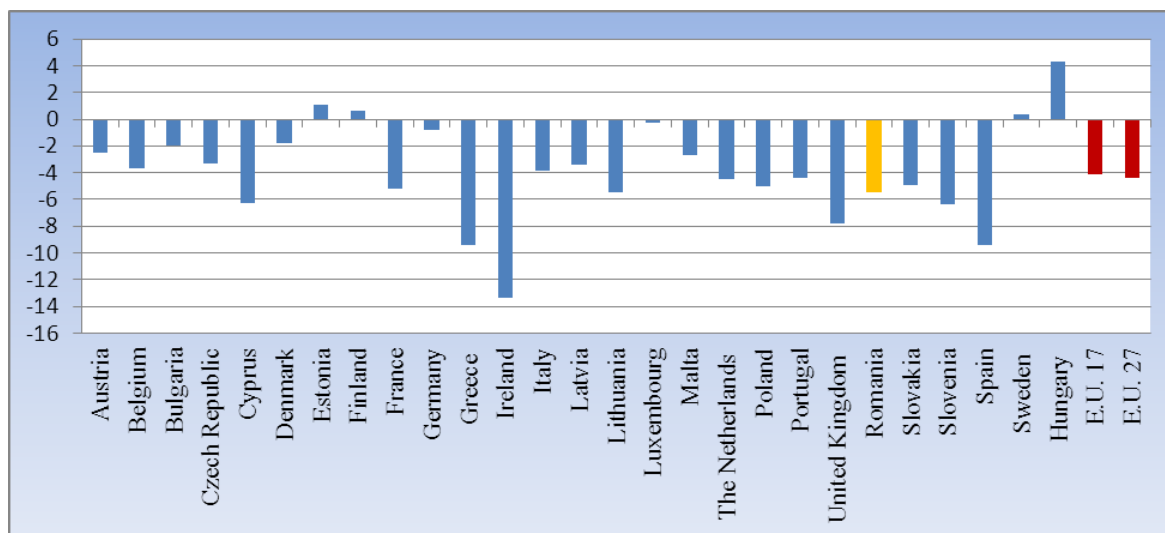


Fig.1. Budgetary deficit/excess at E.U. level % from GDP

The methodology of calculation of the structural deficit differs sometimes substantially from the cash methodology, as it takes into consideration a series of adjustments of the cyclical influences over the cash deficit as well as a dimension of the gross domestic product considered optimum. The ESA 95 methodology constitutes in fact the basis of determination of all the budgetary indicators.

In case of Romania, it was proved that the determination of the potential gross domestic product, a fundamental requirements of the process of determination of the structural deficit is a difficult step as it requires a real certain knowledge of many social and economic parameters (for example, the total population, active population remaining in the country etc.) as well as the real dimension of the budgetary duties, including all institutions, autonomous companies with more than 50% of the funds subsidized from the state budget. For example, in 2009, the adverse budgets of some companies such the national Company of Motorways and National Roads from Romania, Metrorex as well as many central heating and power plants belonging to the local administrations were introduced in the calculation of the deficit according to the ESA 95 methodology following the monitoring of the Romanian state companies by the European experts. This category was enlarged the next year with some other state companies such as: Termoelectrica, CNH Petroșani, CFR passengers and other central heating and power plants that determined an increase of the deficit by more than 0.4% of GDP. The outstanding amounts generated by the default of the payment of the budget duties to third parties constitutes also a special problem as concerns the real sizing of the budgetary deficits, by estimating that it may increase by 1-2 percentages. This aspect has become more and more stressful in relation with the ship with International Monetary Fund that imposed measures of reducing them, as found in the budget for 2013.

As a principle, the precise application of the ESA 95 methodology implies also a real transparency of the entire process of budgetary planning.

The fiscal measures in Romania applied in 2010-2012 and the budgetary forecasts on 2013, prove that the major adjustment based on the reduction of the salary expenses does not have benefic effects, and if they have, it would be only on a short term. On long and medium term, the GDP increase potential is a lot diminished due to the decrease of the consumption demand and to the number of jobs with negative effects over the social insurance, pension and health budgets, the deficits of which are increasing.

As concerns the public debt, the art. 4 of the Treaty on Stability, Coordination and Governance in the European and Monetary Union, specifies that, when the ratio between the public debt and the gross domestic product of a contracting party exceeds the reference value of 60%, the contracting party is bound to reduce this debt by an average reference rate of a twelfth a year.

The situation of the evolution of the public debts at the E.U. level and of every member state between 2007 and 2011 is shown in the table 2 below.

Table 2.

Public debt - % from GDP

Country	2007	2008	2009	2010	2011
E.U. 27	59.0	62.2	74.6	80.0	82.5
Austria	60.2	63.8	69.2	72.0	72.4
Belgium	84.0	89.2	95.7	95.5	97.8
Bulgaria	17.2	13.7	14.6	16.2	16.3
Czech Republic	27.9	28.7	34.2	37.8	40.8
Cyprus	59.8	48.9	58.5	61.3	71.1
Denmark	27.1	33.4	40.6	42.9	46.6
Estonia	3.7	4.5	7.2	6.7	6.1
Finland	35.2	33.9	43.5	46.6	49.0
France	64.2	68.2	79.2	82.3	86.0
Germany	62.5	66.8	74.5	82.5	80.5
Greece	107.4	112.9	129.7	148.3	170.6
Ireland	25.1	44.5	64.9	92.2	106.4
Italy	103.3	106.1	116.4	119.2	120.7
Latvia	9.0	19.8	36.7	44.5	42.2
Lithuania	16.8	15.5	29.3	37.9	38.5
Luxembourg	6.7	14.4	15.3	19.2	18.3
Malta	61.9	62.0	67.6	68.3	70.9
The Netherlands	45.3	58.5	60.8	63.1	65.5
Poland	45.0	47.1	50.9	54.8	56.5
Portugal	68.4	71.7	83.2	93.5	108.1
United Kingdom	44.2	52.3	67.8	79.4	85.0
Romania	12.8	13.4	23.6	30.5	33.4
Slovakia	29.6	27.9	35.6	41.0	43.3
Slovenia	23.1	22.0	35.0	38.6	46.9
Spain	36.3	40.2	53.9	61.5	69.3
Sweden	40.2	38.8	42.6	39.5	38.4
Hungary	67.0	73.0	79.8	81.8	81.4

Source: <http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab>

A pronounced increase of the public debts is noticed starting from 2008-2009, actually following the evolution in the same direction of the budgetary deficit. At the level of the European Union the public debts increased from 59% in 2007 to 74.6% in 2009, by

keeping the same ascending tendency also in 2010 (80%) and 2011 (82.5%). The public debts increased in 2011 to 87.2 % by 5.3 percentage points over the average of E.U. 27 in the euro area. The states of which debts exceed the European average (Greece, Italy, Portugal, Ireland) have created and are creating even further on special problems in the euro area and at the level of the entire European Union.

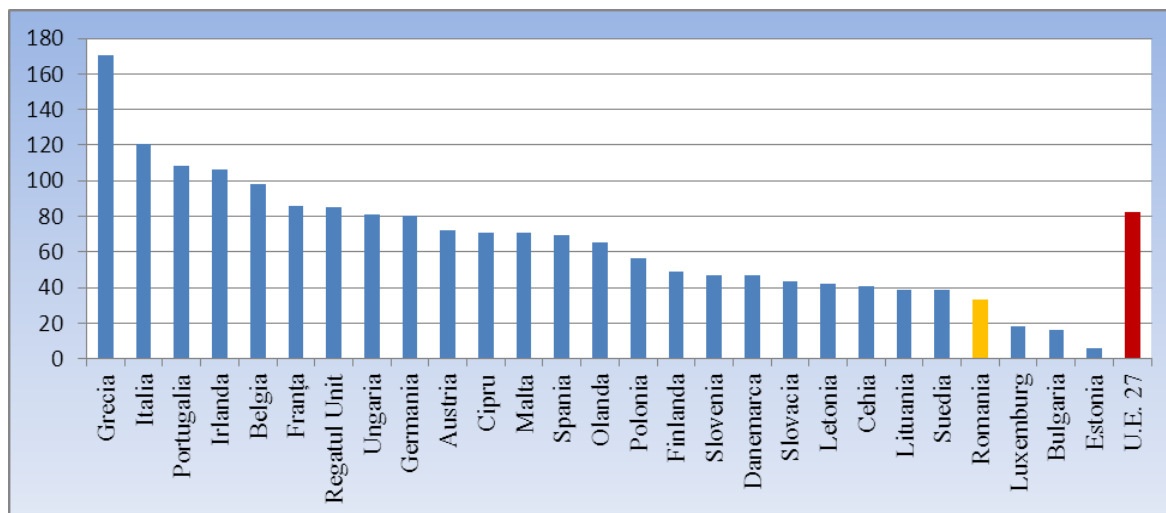


Fig. 2. Public debt % from GDP

In case of Greece, Italy, Portugal and Ireland, it may be noticed during the entire period analyzed, that the public debt recorded a permanent increase reaching to alarming levels endangering both their national stability and the stability of the entire euro area, with negative implications over all the European Union member states.

Romania's public debts, although it recorded a pronounced augmentation from 12.8% in 2007 to 33.4% in 2011 is under the level provided by the Treaty on Stability, Coordination and Governance in the European and Monetary Union. It must be specified however, that the public debt in case of Romania, with a view to the country rating, cost of the debts, economic potential and the structure of the national economy, it estimated to not being able to exceed 45%-50% from the gross domestic product. The weight of the interests paid for covering public debt raised from 1.6% from GDP in 2011, reaching to 1.8% from GDP reached in 2012 and at the same level in the budget planned for 2013. That fact generates serious stress over the budget in the following periods as well.

The correlation between the evolution of the budgetary deficit and the evolution of the public debts emphasizes some aspects confirming the major difficulty to diminish the public debt compared to the decrease of the budgetary deficit. At the level of the European Union, this correlation is presented in the chart below.

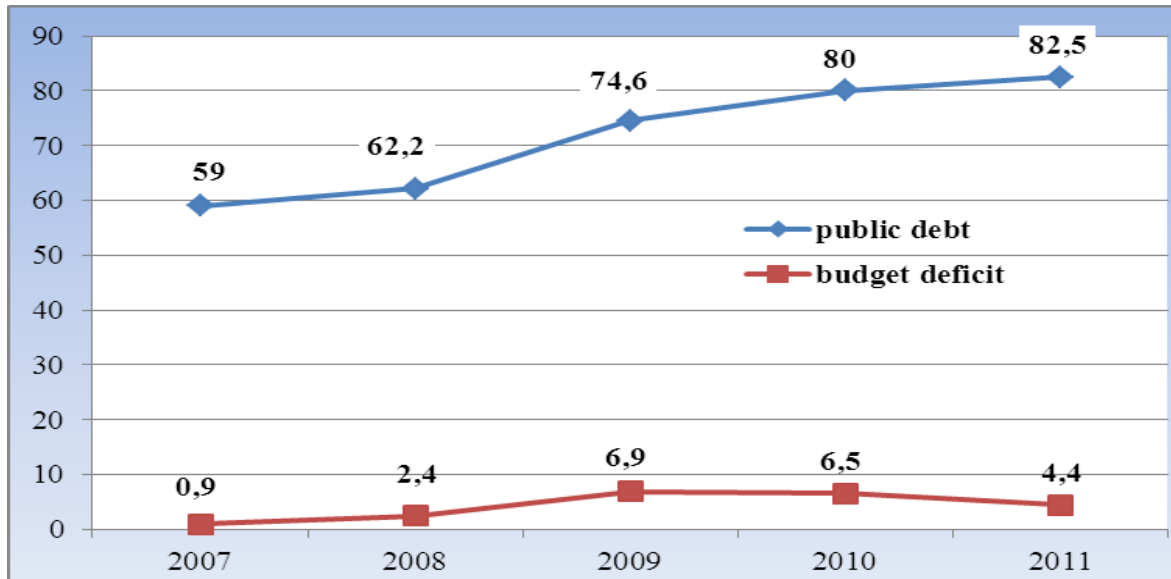


Fig. 3. Evolution of the public debts and of the budgetary deficit at the E.U. level

One may notice that the budgetary deficit that increased in an accentuated rhythm between 2007 and 2009 from 0.9% to 6.9%, is facing a tendency of resilience in the period 2009-2010 decreasing from 6.9% to 6.5%, with a stronger diminishing in 2011 when it reached to the level of 4.4% from GDP, remaining however at an upper level compared to the provisions of the Maastricht Treaty of only 3% from GDP.

In the same time, the public debt indicator as a percentage of the GDP records a continuous increase, from 59% in 2007 to 82.5% in 2011, an increasing tendency that maintains also in the following years. The increase of the sovereign debts has become an issue that particularly aggravates the sustainability of the euro area and its solving out requires further on substantial efforts.

CONCLUSIONS

- The public debt at the European Union level has constantly increased in an accentuated rhythm on the entire period 2007-2011 and in the euro area, the public debt reached to a level over the average of the entire European Union.
- the states of which debt is more than the European average (Greece, Italy, Portugal, Ireland) have created and are creating even further on special problems in the euro area and at the level of the entire European Union.
- The Treaty on Stability, Coordination and Governance in the European and Monetary Union has the objective to maintain stability in the euro area but also in the European Union as an aggregate, through an actual consolidation of the public finance.
- The member states have the obligation to introduce the requirements related to the budgetary discipline and to the automatic correction mechanism, that is started up in case that a member state infringe the rule of a balanced budget, in their national legal systems, preferably at constitutional level.
- The achievement of the parameters established in the Treaty implies severe measures of resilience of the budgetary constructions in most of the member states, particularly in the state whose sovereign debt reached very high levels endangering the stability of the euro area itself.
- The austerity measures proved to be unproductive, with a negative impact over future long and medium term evolutions, of the indicators of economic growth. Moreover, but not lacking importance, is the negative reaction of the population, justified due to the

diminishing of the living standards, reduction of the number of jobs and to the unemployment level that reached alarming values.

- The structural deficit is a more efficient instrument for monitoring the fulfillment of the budgetary deficit criterion of Maastricht bidding the member states to a more severe budgetary discipline by reaching a real balance as concerns the use of the levers of sustainable economic growth of all E.U. member states. It is aimed to facilitate the adoption of measures within the procedures applicable to the E.U. excessive deficits in the member states whose currency is euro and whose public envisaged or effective deficit exceeds 3% from the gross domestic product.

- The analysis of the evolution of the budgetary deficit and of the public debt evolution at the European Union level emphasize a series of aspects that confirm the major difficulty of diminishing the public debt compared to the decrease of the budgetary deficit.

- the implementation of the provisions of the treaty implies also a special effort from the member states that are facing the situation of giving up, at least partially, to the national sovereignty.

- Romania must apply economy restructuring measures severely diminishing the deficits created as a result of the inadequate functioning of many state-owned companies that continues to be subsidized with substantial budgetary efforts. The application of the ESA 95 methodology of budgetary construction and analysis by the Romanian authorities, in the spirit of the European provisions is specially required as an effective measure of increasing of transparenance and credibility.

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