The Fiscal Stability Treaty

Introduction

The Fiscal Stability Treaty (also known as the Fiscal Compact) is an intergovernmental treaty signed by 25 EU member states in March 2012. It entered into force in January 2013. Initially designed to be a new EU treaty, the refusal of two member states – the UK and the Czech Republic – to sign the agreement meant the design of the treaty had to be modified.

History

The introduction of the 'single currency' – the Euro – was seen as an important step towards economic and monetary union in the EU. However, in recent years there has been a growing financial crisis across the Eurozone. By 2010, Greece was no longer able to service its debt and the government requested a bailout. It soon became apparent that there were a number of other Eurozone countries also in financial trouble and other bailouts soon followed for Ireland, Portugal, the Spanish banking sector and potentially Cyprus. The spiralling debt of these Eurozone members led to serious questions being asked about why no preventative action had been taken earlier, and why there were not more rigid rules in place to prevent such a difficult financial situation materialising in the first place. The idea for a Fiscal Stability Treaty thus rose from the European debt crisis and the desire to prevent another such disaster evolving in the future.

In December 2011, under mounting international pressure, an EU Summit was called to try and resolve the Eurozone crisis and restore calm to the markets. The all-night session resulted in the blueprint for the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union - which later became known as the Fiscal Stability Treaty - designed to replace the Stability and Growth Pact which had failed to protect against the Eurozone crisis.

There are two EU member states that chose not to sign the treaty: the UK's Prime Minister, David Cameron, left the initial emergency summit after failing to secure safeguards for the UK's financial services. The Czech Republic continued with the negotiations but then decided not to sign the treaty with the other states in February 2012. The UK's withdrawal from the negotiating table caused widespread confusion as to how the treaty would develop and what role the EU institutions would play in its implementation. An intergovernmental agreement was decided as the best way forward and the Fiscal Stability Treaty was born.

Ratification

The treaty did not require unanimous ratification to enter into force – instead it needed to be ratified by 12 of the 17 Eurozone countries to enter into law.
As of January 2013, 17 of the 25 EU member states have ratified the treaty, including 13 Eurozone countries. The ratification process has tended to vary from member state to member state, depending on national requirements. For example, Ireland had to put the treaty to a referendum (on the 31st May 2012), which was closely watched because of the national divisions that emerged regarding the ratification of the treaty. However, concerns that refusing to ratify would make it very difficult for the Irish to access the rest of their bailout fund bolstered otherwise lukewarm support for the treaty. Other countries simply required their parliaments to vote in favour of the treaty to ratify it. Another important step was in September 2012 when Germany's Constitutional Court ruled that the treaty was compatible with German national law and therefore constitutional changes were not required. The German Bundestag ratified the treaty later that month.

© CIVITAS Institute for the Study of Civil Society 2015

Author: Natalie Hamill, Civitas, 01/2013
Last update: Rachel Maclean, 07/2015

CIVITAS

The Fiscal Stability Treaty

Key Treaty Provisions

The treaty has been likened to a 'toughened-up' Stability and Growth Pact. It aims to prevent any future opportunities for member states to get into debt by enforcing good fiscal discipline. It also allows for the development of central oversight powers. Key rules include:

- **Debt brake** – If a member state's debt is greater than 60% of its GDP it must be reduced by a certain percentage every year;
- **Balanced budget requirement** – means all member states party to the treaty must make sure their budgets are balanced or in surplus;
- **Automatic Correction Mechanism** – Still under design, this mechanism will correct any deviation from the limits put in place by the treaty.

The Fiscal Stability Treaty

Legal Details

The rules of the Fiscal Stability Treaty must be 'embedded' into the domestic laws of signatory member states. Although the Fiscal Stability Treaty is an intergovernmental treaty, the EU hopes to incorporate it into EU law within 5 years. Countries are required to reduce deficits if they are seen as 'excessive' and, if they fail, can be referred to the ECJ by the Commission. The ECJ has the power to impose a fine of not more than 0.1% of a member state's GDP if it does not comply with its ruling.

Technical Terms

- ***Eurozone:*** The EU member states that have adopted the Euro as their currency. There are currently 17 members.
- ***Stability and Growth Pact:*** Rules established in 1998 to coordinate national fiscal policy alongside EMU.

Links

- http://www.eurozone.europa.eu/media/639235/st00tscg26_en12.pdf

© CIVITAS Institute for the Study of Civil Society 2015

Author: Natalie Hamill, Civitas, 01/2013
Last update: Rachel Maclean, 07/2015