Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (also known as the fiscal compact)

SUMMARY OF:

Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

WHAT IS THE AIM OF THE TREATY?

The aim of this intergovernmental agreement is to reinforce the budget discipline of euro area governments following the sovereign debt crisis that started in 2010.

KEY POINTS

This ‘fiscal compact’ imposes requirements on euro area countries concerning their budgetary policies. Other EU countries may participate if they wish. Of the 28 EU countries ([1]), only the Czech Republic, Croatia and the United Kingdom ([1]) have not signed the accord. It buttresses the reformed Stability and Growth Pact, under which:

- national deficits must not exceed 3% of gross domestic product (GDP),
- national public debt must remain below 60% of GDP.

The **intergovernmental agreement** has 3 main objectives.

1. **To ensure national budgets are balanced or in surplus**

To comply with this ‘balanced budget rule’, countries must keep their annual structural deficits at 0.5% of GDP or lower. A structural deficit is the general deficit minus the impact of the economic cycle on government spending and revenue (e.g. higher expenditure on unemployment benefits in a recession).

Governments must put in place an automatic correction mechanism triggered by any departure from the balanced budget rule. That means that if the budget balance deviates from the projected line, corrective measures are taken automatically.

Countries may be temporarily exempted from the **balanced budget rule** in exceptional circumstances, such as a severe economic downturn. Moreover, if a government’s public debt is well below the Stability and Growth Pact's reference value (60% of GDP), it may be granted a higher structural deficit of up to 1% of GDP.

EU countries may be brought before the European Union's Court of Justice if they fail to abide by these requirements. The Court may impose financial sanctions on countries that do not comply with its judgments.

2. To boost the impact of recommendations made by the European Commission when euro area countries' public deficits become too large

This intergovernmental agreement commits EU countries, when voting in the Council of the EU, to adopting the Commission's proposals and recommendations on the excessive deficit procedure unchanged — unless there is a qualified majority among them against such a decision.

3. To improve coordination of national economic policies

The intergovernmental agreement requires governments to report their debt issuance plans (raising funds by borrowing from bond-holders) in advance to the Commission and Council of the EU. They have to make sure that their plans for major economic policy reforms are discussed or coordinated among themselves in advance. The agreement also covers governance of the euro area. For instance, summits of the heads of state or government of the euro area countries should be held at least twice a year (Euro summits).

FROM WHEN DOES THE TREATY APPLY?

The treaty entered into force on 1 January 2013.

Background

For more information, see:

- The Fiscal Compact — Taking Stock (*European Commission*)

MAIN DOCUMENT

Treaty on Stability, Coordination and Governance in the Economic and Monetary Union of 2 March 2012 — not published in the Official Journal.

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([1]) The United Kingdom withdraws from the European Union and becomes a third country (non-EU country) as of 1 February 2020.