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PRESS RELEASE

European governance framework for public finances: presentation and evaluation
(Article for the September 2015 Economic Review)

Up to now, in contrast to monetary policy, the fiscal policy of the euro area countries has remained a national competence. However, it is largely determined by a European governance framework aimed at promoting fiscal discipline and avoiding undesirable budget outcomes. That framework, which comprises binding fiscal rules, is one of the cornerstones of monetary union, and it is vital that Member States comply with the rules for that union to work well.

The basis of the European budgetary framework was laid down by the Maastricht Treaty and the Stability and Growth Pact that implemented the Treaty's requirements concerning fiscal surveillance. It comprises a preventive component aimed at avoiding the occurrence of unsustainable budget positions, and a corrective component concerning the recovery measures for Member States facing serious problems in regard to their public finances. Various adjustments to the budgetary framework have made it more intelligent but at the same time they have also increased its complexity.

However, since the start of European monetary union the most important rules of the Stability and Growth Pact have often been broken. That is undeniably the result of the rather weak support for strict compliance with the rules in some countries, but it is also due in part to the very complicated rules of the budgetary framework and the lax supervision over their implementation. The large degree of flexibility and the numerous exception clauses are key factors here. Nevertheless, in most of the euro area countries the strengthening of the Stability and Growth Pact rules in the period 2011-2013 seems to have helped bring about an improvement in public finances that had been derailed during the financial crisis and the resulting economic recession. All the same, many Member States – including Belgium – still need to make additional efforts in order to abide by the fiscal rules. For instance, most countries have not yet attained their medium-term objective: for most countries, that objective amounts to a structurally balanced budget or a small structural deficit. The debt ratio also remains too high in many countries, and owing to the costs of ageing the sustainability of public finances is not guaranteed in the long term.

In the light of that, the current Stability and Growth Pact rules need to be implemented correctly in the short and medium term. That is primarily the responsibility of the Member States, but the EC also needs to ensure greater clarity and transparency while enforcing the rules more effectively and uniformly. That could encourage the Member States to adhere strictly to the rules and would make the European budgetary framework more efficient. Attempts to make optimum use of the flexibility within the existing Stability and Growth Pact rules in order to promote a growth-friendly fiscal policy can only be a good thing, but excessive flexibility combined with too many exception clauses threatens to undermine the rule-based governance framework, and that is absolutely to be avoided.

In the long term, it is desirable for fiscal policy to become more centralised, but that requires more macroeconomic and social convergence, and fundamental steps towards political union. The five presidents' report published at the end of June 2015 contains a number of interesting proposals and in any event forms a good starting point for the reform of the budgetary framework.

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