

Germany and the fiscal pact

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On 30 January at the EU summit the leaders of 25 member states (except for the UK and the Czech Republic) agreed on the signing of the fiscal pact advocated by Germany. The pact will sanction new fiscal restrictions and the possibility of the eurozone countries meeting in their own group. The treaty will be signed on 2 March and will have to be ratified by at least 12 countries in order to come into force. By entering the fiscal pact the EU states which do not hold the common currency will be granted the right to participate in the part of the eurozone meetings devoted to the architecture of the monetary union, its main principles of functioning and its competitiveness.

Commentary

- The most important economic principles of the fiscal pact are German proposals and, assuming they are implemented, they mean subordinating the rules of functioning of the eurozone to the German doctrine of a balanced budget.
- For Chancellor Merkel pushing through the agreement is a success and will enable her to bring German public opinion round to the necessity of increasing funds for saving the eurozone, which both the head of the IMF Christine Lagarde and Italian Prime Minister Mario Monti have been increasingly strongly calling for. Many European leaders have reproached Germany, claiming that the austerity policy at all costs advocated by them is leading to intensified economic problems within the monetary union. It is therefore more and more likely that Germany will accept an increase in the resources of the European Stabilisation Mechanism which from July 2012 will grant loans to the eurozone states with the weakest economic foundations. Germany assumes that in this way it will succeed in maintaining the confidence of these countries even if Greece goes bankrupt.
- The EU member states have agreed on the concept which Germany and France had been pushing for in order to increase assistance from structural funds for the countries which are the most heavily hit by unemployment among young people. For Germany the presentation of this proposal is favourable as it improves its image of a country which is also taking care of the economic situation in other countries. For France the channelling of the assistance to states from the Southern eurozone increases the chances of the French concept of integration within the eurozone while overlooking Central European states. In the future such a concept may be linked with a risk of curbing assistance from structural funds to countries from Central Europe.