

The new version of the fiscal agreement will sanction a deeper divide inside the European Union

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The latest proposal of the fiscal agreement which is to reform the eurozone appeared in the German media on 12 January. While the common arrangements in the previous version had been referred to as a 'fiscal agreement', the new one has been defined as a 'fiscal treaty', which may be proof of the desire to give its provisions a rank comparable to that of EU treaties. The scope of fiscal restrictions has been limited in the new version of the agreement. The provision imposing inevitable sanctions for exceeding the structural deficit above the level of 0.5% of GDP has been made less strict by envisaging the possibility of the occurrence of an "extraordinary economic situation caused by external factors", when it is admissible to exceed the deficit limit. Furthermore, the new agreement must be ratified by at least 12 eurozone member states, and the new restrictions resulting from it do not have to be introduced into the constitutions of the signatory states as was required in the previous version; this is instead only recommended.

Commentary

- The new provisions make the mechanisms of economic co-operation inside the eurozone itself pivotal and significantly diminish the significance of the original goal, namely forcing member states to limit expenditure and improve their budget discipline. Thus the new regulations, if adopted in the present form, will introduce a stronger divide between the eurozone member states and the rest of the EU. Pursuant to the new version of the agreement, the EU member states which do not belong to the eurozone will still have no right to participate in eurozone meetings, even as observers. This undermines the arrangements of the Euro+ Pact of last March, according to which those EU member states which did not belong to the eurozone were given the right to participate in the debate on structural reforms vital for the entire EU. The role of the European Commission has also been reduced in comparison to its tasks defined in the Euro+ Pact.
- The proposed new version of the agreement has been criticised by a part of the press, well-known economists, and some MEPs in Germany. German public opinion dislikes the restricted possibilities of imposing sanctions for excessive deficits, a provision which has also been criticised by Jörg Asmussen, a German member of the European Central Bank's Governing Council. Elmar Brok, a German MEP, concluded that the new version of the treaty did not correspond to the version agreed through negotiations by the European

Parliament and could lead to favouring the intergovernmental method at the expense of the community method in the European Union. Another important change is the removal of the provision on the prevalence of EU law over regulations of the treaty in the case of matters considered by the Court of Justice of the European Union. This may prove that the authors wanted to limit the impact of EU treaties on the regulations to be introduced by the fiscal agreement.

- The present version may still be negotiated. The German government especially wishes to convince the electorate of the effectiveness of the sanctions to be imposed on excessively indebted countries. This will allow more instruments for rescuing the eurozone to be justified, such as the European Central Bank's interventions on financial markets. For this reason the German government has been intensively consulting France and Italy over these issues, still hoping that the agreement could be signed by the end of January.