

Financial austerity in the European Union Member States – common measures for financial stability

Author: Ábel Czékus¹

Abstract

The global economic crisis hit the European Union in 2008. The crisis that blocked financial activity throughout the world evolved real economy slow down as well. EU Member States invoked separate crisis management measures combating the negative effects of the recession. These measures, however, raised not only competition policy questions but financial as well. Since the common competition policy of the European Union allows granting State aid, financial incentives granted by the Member States reached high volume in respect of MS budgetary expenditures.

Emphasize is put in our paper on the consequences in financial expenditures and imbalances of the EU Member States resulted by the rescue measures and relaunching growth. Sovereign indebtedness, as the consequence of these issues, deepened and prolonged the economic crisis. The crisis therefore stepped across into another sort of economic crisis. Nowadays major challenge in the EU is the refinancing of credits and financing national budgets, that's maintaining the capability of solvency. These features could easily determine the long term growing perspectives of the Member States.

We examine the public finance and debt in the years of crisis. Consequence is drawn from statistical data. Special emphasize is put on the (pre-crisis) legislative measures assuring fiscal stability as well.

Key words: budgetary deficit, public debt, legislative measures, fiscal stability, surveillance

The publication is supported by the European Union and co-funded by the European Social Fund.

Project title: "Broadening the knowledge base and supporting the long term professional sustainability of the Research University Centre of Excellence at the University of Szeged by ensuring the rising generation of excellent scientists."

Project number: TÁMOP-4.2.2/B-10/1-2010-0012

1. Introduction

¹ PhD student, University of Szeged (Hungary), Faculty of Economics and Business Administration.
E-mail: czekus.abel@eco.u-szeged.hu

The financial crisis escalated in mid-2008 (in the European Union) is the deepest crisis in the history of the European integration. The crisis, that had in particular financial aspects in the initial period, affected mostly the most vulnerable economies throughout the Europe (for example Ireland, Hungary, Greece). As it can be seen from the listed countries, economies with a very different background suffered severely from the loose of confidence. However, these countries went through on 'unusual developing' process. The case of Ireland, as the magic country of the cohesion policy and foreign direct investment (FDI) revealed the dangers of the misshapen economic growth. In spite of the fast economic growth in the years of the new millennium, the absence of the parallel development of the banking/financial sector lead to a serious slowdown in the Irish real economy. The rescue measures of the Irish government resulted in the second biggest budget deficit in the EU in 2009 (14,2% of the GDP) and to the biggest in 2010 (31,3% respectively) (Eurostat [2012]). On the other hand, Hungary entered the global financial crisis as a washed-out economy due to the wrong-headed and socially compensatory 'well-fare' economic policy. The government debt in 2002 and 2008 was 55,9% and 72,9% as of the GDP respectively (Eurostat [2012]). The problems of Greece, however, have deeper and had diversified roots. Firstly, the fundamentals of the Greek euro introducing policy are still argued; and the competitiveness data of the Greek economy show(ed) an alarming future (due to the structure of the Greek labour market and taxation).

In the 50 years long history of the European integration several attempts were made to deepen the economic integration. The Werner plan and other studies relating to a common currency was topped by the establishing of the euro in the 1990'. In parallel with the long and sophisticated work establishing the European Central Bank (ECB) and ensuring the stable operating of the Monetary Union, strict convergence rules were being adopted (the Maastricht criteria more specifically see later). Two of these relates to the fiscal stability and sovereign indebtedness. These features are of highly importance in the nowadays crisis. However, stricter and more sophisticated fiscal rules have been adopted in recent months combating long-term indebtedness and vulnerability.

The initiating thoughts reflect a controversial situation in the EU financial and economic system. Strict rules were being adopted a lot of years before the financial and economic crisis, but the negative effects of the recession and loose of confidence resulted in a very perverse and disadvantageous situation for the EU economies. We will highlight the rules adopted ensuring financial stability, and observation of these rules (or missing of it) in our paper.

The structure of the paper is as follows. Firstly the legislative framework for financial stability established in the beginning of the 1990-is will be examined. Observance of these measures will be illustrated by statistical data. In the second main section new measures will be presented. These measures are tended to elaborate financial surveillance and stability for the Member States and therefore to the European Union as well. However, examination is not spread out on measures that were not agreed by all of the Member States.

In our paper we do not deal with the concrete bail-out instruments (European Financial Stability Facility – EFSF, European Financial Stability Mechanism – EFSM, IMF activity). The focus remains on theoretical approach.

2. EU rules assuring financial stability before the crisis: in theory and in practice

Examining the financial stability and sovereign indebtedness of the EU MSs we should go back to the 1990-ies. The Maastricht criteria could be viewed as the first comprehensive set of rules regulating financial aspects of a MS economy. These criteria are aligned with the introduction of the common currency, and contribute ensuring stable and sustainable economies (as parts of the Euro Area [€A]).

The criteria are as follows:

“1. An inflation rate not exceeding by more than 1,5% of that of the three best-performing Member States in terms of **price stability**.

2. A general government deficit not exceeding 3% of GDP: an indication of **sound public finances**.

3. Public debt of less than 60% of GDP or sufficiently diminishing and approaching this value at a satisfactory pace: a measure of the longer-term **sustainability of public finances**.

4. A long-term interest rate not exceeding by more than 2% that of the three-best-performing Member States in terms of price stability: an indicator of **durability and credibility**.

5. A stable exchange rate, demonstrated by participation without severe tension in the exchange rate mechanism known as ERM-II and by keeping the exchange rate close to the central rate for two years prior to adoption of the euro. This measures the robustness of the economy and the **stability of real convergence** by showing that the government can manage the economy without resorting to currency depreciation.” (EC [2005a], p.3.).

Reaffirming the fiscal rigour, the Stability and Growth Pact (SGP) was signed in Dublin in December 1996. The Pact serves budgetary stability. The measures of the SGP envisaged financial discipline of the MSs (budgetary stability, public debt) assuring the proper working conditions of the Economic and Monetary Union. In June 1997 the European Council issued his resolution on the Stability and Growth Pact (Official Journal C 236 of 02.08.1997). The Stability and Growth Pact calls for sound public finances and budgetary expenditure. According to the European Commission’s summary (EC [2005]) the European Commission has the right to facilitate “the strict, timely and effective functioning of the stability and growth pact” (EC [2005b] homepage). According to the main functions and tasks of the Commission, it has to support the professional work of the Council in the SGP issues as well. The EC issues report in the case of risk that a MS deficit exceeds the 3%/GDP in budgetary expenditures. This measure support budgetary stability as well. The European Commission, in a proper cooperation with the Council, makes “a recommendation for a Council decision on whether an excessive deficit exists” (EC [2005] homepage).

The Stability and Growth Pact consists of two arms. The preventive arm requires Member States to submit every year stability (or convergence) programmes. The aim of this arm is to design the would-be budget, considering the prescriptions for budgetary stability. Due to this mechanism the Council could prevent Member States from deficit higher than 3% of the GDP (early warning). The European Commission also has the right addressing policy advice for the Member States. However, if the deficit is higher than the allowed 3% of GDP,

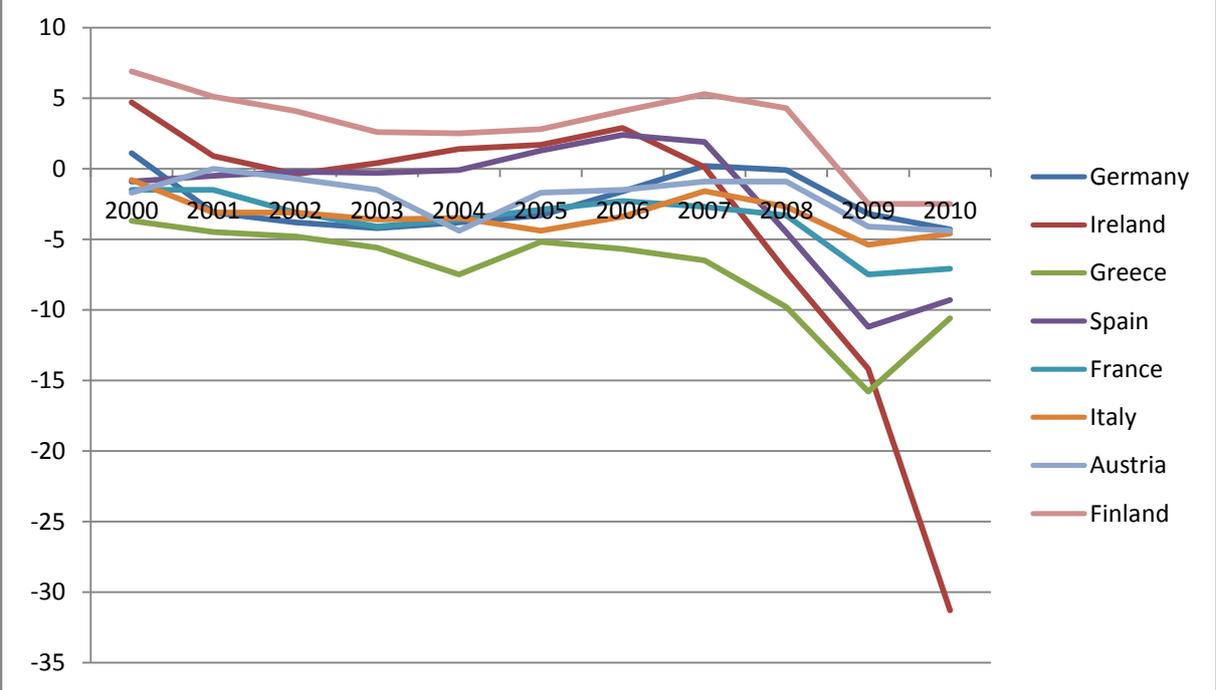
excessive deficit procedure (EDP) could be launched against the Member State. If the Member State does not comply with the rules and recommendations, sanctions could be launched. This formula is called dissuasive arm of the SGP (EC [2012a]).

2.1. Public finances and the 3% prescription for government deficit

The 3%/GDP limit in deficit in public finances would prevent Member States from overspending. This serves transparent and long-term sustainable budgetary expenditures. Government spending, of course, strongly correlates with public debt, since the deficit of the first increases the amount of the last. This amount should be refined with the balance of credit repayment, or, if it exists, debt forgiveness and inflation of the debt (if this last is possible according to the currency of the debt).

It should be highlighted that the financial criteria (the two relevant points in our paper) remain in force after the introducing the euro as well (i.e. the government deficit cannot exceed 3% of the GDP and the debt cannot be higher than 60% of the GDP). This serves financial stability. However, not all of the Member States have respected the financial prescription of the Maastricht criteria after introducing the euro. Figure 1 shows the government deficit (or surplus) of some of the €A countries for the period of 2000-2010.

Figure 1: Government deficit in eight €A countries, in % of the GDP, 2000-2010



Source: Own edition based on Eurostat [2012]
 Note: The countries are randomly selected.

As Figure 1 demonstrates, generally most of the examined countries breached the 3%/GDP deficit limit (especially after the escalation of the crisis). Reasons for this could be

find on both sides of the budget flows (lower income accompanied by higher [rescue] expenditures).

More specifically data show that Nordic countries (non-€A countries as well) pursue more balanced fiscal policy. Finland, as a €A country, has not had infringed the 3% Maastricht criteria for the government deficit neither during the crisis. Similarly, Sweden and Denmark show balanced budgetary expenditure. On the other hand, cohesion countries (except of Italy) produced the worst results in the €A during the financial crisis. The three-years average of the deficit for 2008-2010 in Greece was 12%, in Ireland 17,6%², in Portugal 7,8% and in Spain 8,3% (Eurostat [2012]).

Narrowing the time period and focusing more on the pre- and post-financial crisis fiscal data, Table 1 summarizes the 2006-2010 budgetary deficit (or surplus) scales. The last column shows the date when excessive deficit procedure was initiated against the Member State.

Table 1: Government deficit in the EU MSs, % of the GDP, 2006-2010

	2006	2007	2008	2009	2010	Initiating of EDP
Austria	-1,5	-0,9	-0,9	-4,1	-4,4	7 October 2009
Belgium	0,1	-0,3	-1,3	-5,8	-4,1	7 October 2009
Bulgaria	1,9	1,2	1,7	-4,3	-3,1	12 May 2010
Cyprus	-1,2	3,5	0,9	-6,1	-5,3	12 May 2010
Czech Republic	-2,4	-0,7	-2,2	-5,8	-4,8	7 October 2009
Denmark	5,2	4,8	3,2	-2,7	-2,6	12 May 2010
Germany	-1,6	0,2	-0,1	-3,2	-4,3	7 October 2009
Estonia	2,5	2,4	-2,9	-2	0,2	-
Finland	4,1	5,3	4,3	-2,5	-2,5	-
France	-2,3	-2,7	-3,3	-7,5	-7,1	18 February 2009
Greece	-5,7	-6,5	-9,8	-15,8	-10,6	18 February 2009
Hungary	-9,3	-5,1	-3,7	-4,6	-4,2	12 May 2004
Ireland	2,9	0,1	-7,3	-14,2	-31,3	18 February 2009
Italy	-3,4	-1,6	-2,7	-5,4	-4,6	7 October 2009
Latvia	-0,5	-0,4	-4,2	-9,7	-8,3	18 February 2009
Lithuania	-0,4	-1	-3,3	-9,5	-7	13 May 2009
Luxembourg	1,4	3,7	3	-0,9	-1,1	-
Malta	-2,8	-2,4	-4,6	-3,7	-3,6	13 May 2009
Netherlands	0,5	0,2	0,5	-5,6	-5,1	7 October 2009
Poland	-3,6	-1,9	-3,7	-7,3	-7,8	13 May 2009
Portugal	-4,1	-3,1	-3,6	-10,1	-9,8	7 October 2009
Romania	-2,2	-2,9	-5,7	-9	-6,9	13 May 2009
Slovenia	-1,4	0	-1,9	-6,1	-5,8	7 October 2009
Slovakia	-3,2	-1,8	-2,1	-8	-7,7	7 October 2009
Spain	2,4	1,9	-4,5	-11,2	-9,3	18 February 2009

² In Ireland the government deficit for 2010 was 31,3% of the GDP.

Sweden	2,3	3,6	2,2	-0,7	0,2	-
United Kingdom	-2,7	-2,7	-5	-11,5	-10,3	11 June 2008

Source: Own edition based on Eurostat [2012], EC [2011a]

Note: The starting date for EDP is being viewed as the date of the issue of Commission's report on EDP.

As Table 1 represents, only four Member States (Estonia, Finland, Luxembourg and Sweden) are not under excessive deficit procedure. In the most of the cases the procedure was initiated in 2009 (this is the case for 18 countries). The reasons for the excessive debt are strongly related to the economic features in the time of the crisis. Member States started to grant State aid rescuing national firms and spurring (more exactly: relaunching) economic growth. Total crisis aid granted by the Member States reached 2,9% of the EU-27 GDP in 2009 (Czékus [2012]). Excessive State aid activity raises not only fiscal imbalances but competition policy issues as well.

The case of Hungary is special. The excessive deficit procedure against Hungary started in May 2004 and it is far gone as the Council suspended in March 2012 495,2 million € Cohesion Fund commitment for 2013 unless there will not be corrective measures in the Hungarian budget. These corrective measures should be lead to long-term sustainability in the budget. The initial date of 2004 also means that Hungary is under EDP since his EU access. However, since 1995 the Hungarian government deficit only once complied with the Maastricht criterion for government deficit: the deficit was -3% of the GDP in 2000.

Summarizing, government deficit has become a crucial problem in MSs' fiscal latitude. The excessive deficit affects sovereign indebtedness and the ability (the price) of refinancing. After the examination of the Maastricht-based rule on public finances we are turning to the field of sovereign debt in the EU.

2.2. Public debt and the mighty indebtedness: a lesson for the future

Over the years sovereign borrowers were treated as the best debtors. De Britto [2004] states that repayment behavior of the States determines the future will of repayment of every time actual amount of debt. He adds that "the sovereign borrower will preserve its reputation, and validate the lender's expectations, because the cost of being not creditworthy exceeds the benefits" (De Britto [2004], p.5.).

Fiscal imbalances overviewed in the previous subchapter wouldn't be a source of problems and negative consequences for public finance and debt if the (treatable) deficit would be the result of expenditure granted for economic growth. According to the theoretical approach, affluent money supply together with adequate economic policy circumstances would touch up growth. The debt therefore would be dropped away. However, during the crisis excessive fiscal policy has been the result of rescue measures introduced by Member States. The approved volume of State aid in 2009 reached € 4588.90 billion, which ad hoc interventions for financial institutions amounted € 1109.94 billion of (Czékus [2012]). Partly

due to the rescue measures, not all of the MSs can respect the 60%/GDP Maastricht criterion for public debt. Table 2 shows indebtedness of the EU Member States from 2007 to 2010.

Table 2: Sovereign indebtedness in the EU, 2007-2010, % of the GDP

	2007	2008	2009	2010	2010/2007
Austria	60,2	63,8	69,5	71,8	1,19
Belgium	84,1	89,3	95,9	96,2	1,14
Bulgaria	17,2	13,7	14,6	16,3	0,94
Cyprus	58,8	48,9	58,5	61,5	1,04
Czech Republic	27,9	28,7	34,4	37,6	1,34
Denmark	27,5	34,5	41,8	43,7	1,58
Estonia	3,7	4,5	7,2	6,7	1,81
Finland	35,2	33,9	43,3	48,3	1,37
France	64,2	68,2	79	82,3	1,28
Germany	65,2	66,7	74,4	83,2	1,27
Greece	107,4	113	129,3	144,9	1,34
Hungary	67	72,9	79,7	81,3	1,21
Ireland	24,8	44,2	65,2	92,5	3,72
Italy	103,1	105,8	115,5	118,4	1,14
Latvia	9	19,8	36,7	44,7	4,96
Lithuania	16,8	15,5	29,4	38	2,26
Luxembourg	6,7	13,7	14,8	19,1	2,85
Malta	62,1	62,2	67,8	69	1,11
Netherlands	45,3	58,5	60,8	62,9	1,38
Poland	45	47,1	50,9	54,9	1,22
Portugal	68,3	71,6	83	93,3	1,36
Romania	12,8	13,4	23,6	31	2,42
Slovakia	29,6	27,8	35,3	41	1,38
Slovenia	23,1	21,9	35,3	38,8	1,67
Spain	36,2	40,1	53,8	61	1,68
Sweden	40,2	38,8	42,7	39,7	0,98
United Kingdom	44,4	54,8	69,6	79,9	1,79

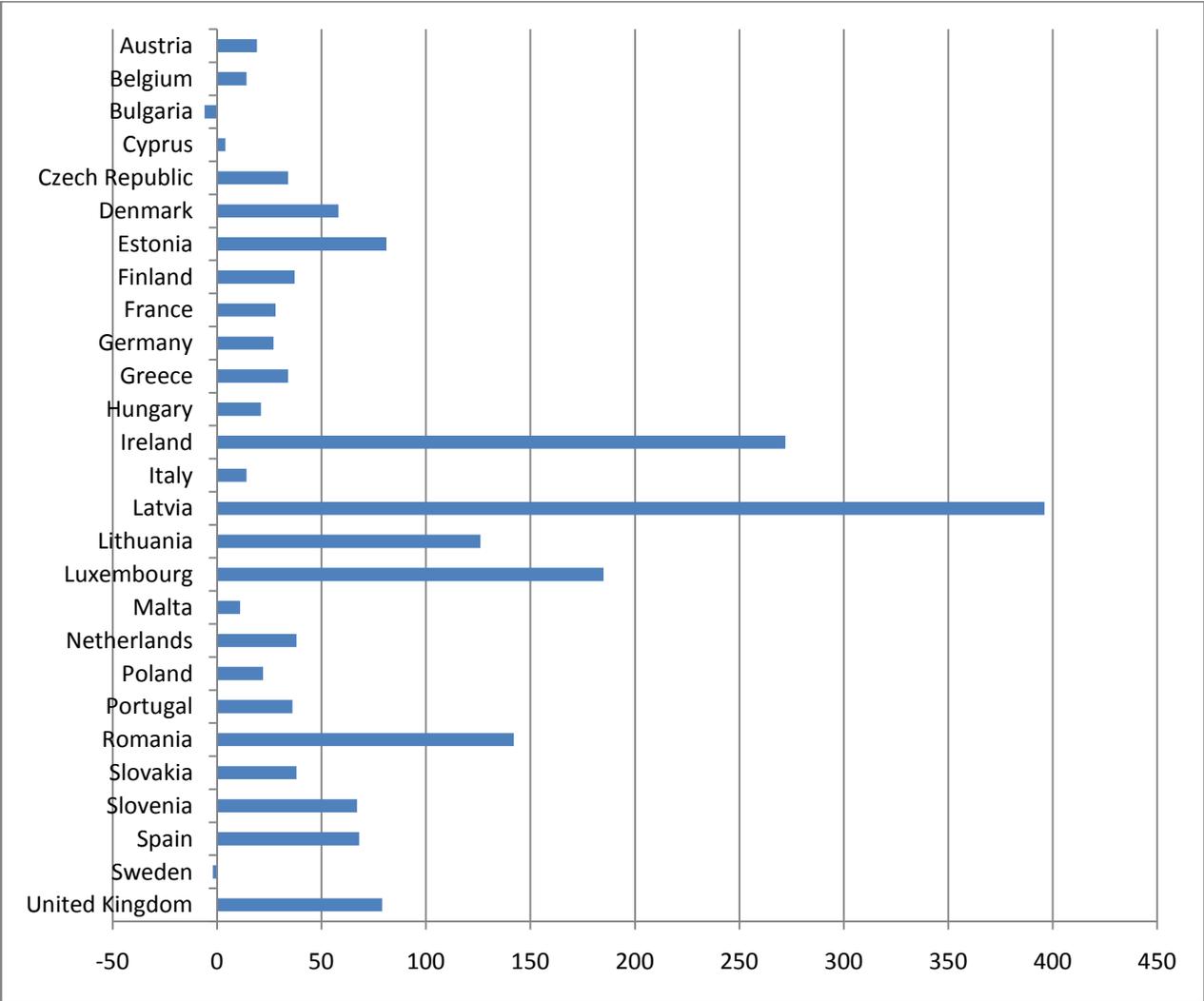
Source: Own edition based on Eurostat [2012]

Closing with the year of 2010, the Greek public debt reached the highest level in the EU. It amounted almost 145% of the gross domestic product of Greece. Since 2007 (from the last pre-crisis year) it increased 34% to 2010.³ However, measuring the increase in rates of indebtedness, this was neither the biggest nor a significant increase. The debt of Latvia became almost five times bigger as to the 2007 value, while Ireland have had to renew 3,7

³ More prominent changes in the Greek indebtedness has occurred after 2010, but – due to the absence of official EU data – this period does not constitute part of the current paper.

times bigger debt in respect of the 2007 Irish GDP. The debt/GDP ratio changes for the period of 2007-2010 are illustrated by Figure 2.

Figure 2: Debt/GDP ratio changes for the period 2007-2010, in % of the GDP



Source: Own edition based on Eurostat [2012]

In spite of the crisis measures and negative economic circumstances, Bulgaria and Sweden could reduce their public debt (Table 2 and Figure 2). The Bulgarian debt decreased by 6% for the end of the examined four years, while at the end of 2010 Swedish debt went below 40% of the GDP. Debts of these Member States do not count such a high values that could endanger budgetary stability (refinancing) of these countries.

The abundant money supply on the international financial markets (i.e. by low interest rates) allowed to the States to supply their budgetary deficits. The borrowing situation for the European Union Member States was in the years of new millennium as De Britto described. Most of the Member States were listed as best sovereign borrowers while the 10+2 candidate (and after 2004 and 2007 Member) States borrowed with suitable conditions (low interest rates) as well. Table 3 represents the Fitch Ratings country rating for 2000 and the current classification.

Table 3: Ratings of individual countries in 2000 and in 2012

	Rating as on 21 September 2000		Last rating (if different)		
	FCR	LCR	FCR	LCR	Date
Austria	AAA	AAA			
Belgium	AA-	AA-	AA	AA	27 January 2012
Bulgaria	B+	BB	BBB-	BBB	13 December 2011
Cyprus	A+	AA	BBB-	BBB-	27 January 2012
Czech Republic	BBB+	A+	A+	AA-	13 December 2011
Denmark	AA+	AAA	AAA	AAA	10 November 2003
Estonia	BBB+	A	A+	A+	5 July 2011
Finland	AAA	AAA			
France	AAA	AAA	AAA neg.	AAA neg.	16 December 2011
Germany	AAA	AAA			
Greece	A-	A-	B-	B-	13 March 2012
Hungary	BBB+	A	BB+	BBB-	6 January 2012
Ireland	AAA	AAA	BBB+	BBB+	27 January 2012
Italy	AA-	AA-	A-	A-	27 January 2012
Latvia	BBB	A	BBB-	BBB	13 December 2011
Lithuania	BB+	BBB+	BBB	BBB+	13 December 2011
Luxembourg	AAA	AAA			
Malta	A	AA-	A+	A+	12 July 2007
Netherlands	AAA	AAA			
Poland	BBB+	A+	A-	A	18 January 2007
Portugal	AA	AA	BB+	BB+	24 November 2011
Romania	B-	B-	BBB-	BBB	4 July 2011
Slovakia	BB+	BBB+	A+	A+	8 July 2008
Slovenia	A	AA	A	A	27 January 2012
Spain	AA+	AA+	A	A	27 January 2012
Sweden	AA	AAA	AAA	AAA	8 March 2004
United Kingdom	AAA	AAA	AAA neg.	AAA neg.	14 March 2012

Source: Own edition based on Fitch Ratings [2012]

Notes: Data are collected on the 27 March 2012; FCR: Foreign currency rating; LCR: Local currency rating; Last ratings' FCR and LCR are same for €A countries; Date of first column rating for Cyprus is 1 February 2002; Date of first column rating for Estonia is 28 September 2000; Negative prospects are highlighted only in the case of France and the United Kingdom.

Sovereign indebtedness has become the major problem for the €A after the years of financial crisis. Refinancing of the Member States from the markets, especially those of

Southern Europe, became problematic. According to the rating institutions (Fitch Rating, Standard and Poor's, Moody's) majority of the EU and EA countries' long term perspectives for financing were worsened (Table 3). This led to a more expensive deficit-financing, and therefore resulted in a vicious circle for the long term perspectives.

In the Fitch Ratings' labeling only five EA economies maintained during the crisis their (best) classification of sovereign debt. All of these countries (Austria, Finland, Germany, Luxembourg and The Netherlands) had best ratings already in 2000 (at the initial date of our examination), but negative consequences of interrelatedness could lead to disturbance in their real and financial economies as well. In the case of Austria one of the major dangers was the high level of exposure to the disturbances of the Central and Eastern European economies' financial sector.

In summary, indebtedness has raised in the majority of the EU countries during the crisis. This has led to disturbances in financing the budget and refinancing the expiring credits. All of this is accompanied by worsening credibility ratings. This pressure has eased by the European Central Bank interventions (purchasing bonds and securities). On the other hand, the financial status of Germany, Finland, Luxembourg and The Netherlands is above-average.

3. New rules for budgetary stability and handling the public debt

One of the most important findings after the shock of the crisis was the need for a more comprehensive financial stability mechanism on a European level. The European politicians recognized vulnerability caused by excessive spending. In parallel, lenders' confidence in European Union sovereign debtors, as best borrowers, has evaporated. This led to two consequences of high importance. On one hand, financing of MSs' expenditure and refinancing of their credit have become more expensive (by the negative effect of the higher interest rates), and, on the other hand, aggravations should be done on the side of expenditure of the national budgets. Disregarding the option of tax increasing or imposing new types of taxes, and supposing that the tax collecting is on the higher possible level, the above mentioned goal could be achieved only by cutting or realigning of expenditure.

Not only such a mechanism is needed for achieving stability but more effective enforcement measures as well. In fact, ineffectiveness and the lobby led to the reform of the Stability and Growth Pact during the 2000' – and led to moderate rigour in national fiscal policies. Due to the negative effects of the crisis, European policy makers agreed on stricter legislative packages last years. Firstly the so-called Six-Pack will be overviewed.

3.1. Six-Pack – measures towards a greater economic stability

At the end of 2011 the Council and the European Parliament adopted six acts relating to the regulated areas by the Stability and Growth Pact. According to the European Commission release, “it [*the package of the acts – added by the author*] represents a major step towards economic stability, restoring confidence and preventing future crises in the euro area and the EU” (EC [2011b] homepage). The basic of the package consists of six acts that serves macroeconomic surveillance, fiscal stability and enforcement of these rules. These are as follows (EC [2012b]):

1. Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area
2. Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area
3. Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies
4. Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances
5. Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure
6. Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

Relating to the *budgetary imbalances*, the new rules allowed the European Union to act faster and stricter in the case of excessive deficit of a €A country. One of the most important novelties is the reversed qualified majority. Due to this procedure if a €A MS infringe its fiscal obligations, after the Commission’s recommendation, the Council has the right to impose financial sanctions unless qualified majority of the MSs reject it (EC [2011b], Darvas [2012]).

The level of the affordable *debt* has also been prescribed by the Maastricht criteria and should be respected after introducing the euro as well. This latter prescription has, however, not been all the times observed. This is also represented in Table 2 (see above). According to the new rules, the debt/GDP ratio has not changed (remained on 60% of GDP), but the enforcement has become more effective. If a Member State does not respect the prescribed debt/GDP ratio, EDP will be initiated against it. The measure of the budgetary deficit does not matter in this case. It can be less than 3% of the GDP, the EDP will be in force, “after taking into account all relevant factors and the impact of the economic cycle, if the gap between its debt level and the 60% reference is not reduced by 1/20th annually (on average over 3 years)” (EC [2011b] homepage). Public debt reaches high proportion of the GDP in several Member States, therefore complying with this measure could be a great challenge (see Table 2 above). The policy makers were aware of this problem; it was agreed that “each Member State in excessive deficit procedure is granted a three-year period following the correction of the excessive deficit for meeting the debt rule” (EC [2011b] homepage). In any case, „Member

States should make sufficient progress towards compliance during this transitional period” (EC [2011b] homepage).

The third novelty introduced in December 2011 is the *expenditure benchmark*. The benchmark is *related to the preventive arm* of the Stability and Growth Pact which leads Member States towards financial sustainability. For this purpose medium-term budgetary objective (so-called MTO) should be done for each of the countries concerned. The essence of the system is the linking of the public expenditure to the economic growth expected on medium term. Thanks to this system of spending, expenditures should not exceed public revenues and therefore assures sustainability. However, expenditure benchmark is an open option only for Member States that are not under EDP (see also from adjective ‘preventive’). Only four Member States are under the preventive arm (Estonia, Finland, Luxembourg and Sweden), the other 23 are in the corrective arm since they are subject to EDP (EC [2011b]).

As it was mentioned above, on enforcement of the newly accepted stricter rules was put greater emphasize. The European Union has got the right to supervise budgetary plans. If these are not in line with the preventive arm, Member States can be asked for a revision to comply with the parameters (EC [2011b]). Stressing the Member States’ obligation complying with the measures, “deviations have been quantified and can lead to a financial sanction (an interest-bearing deposit of 0.2% of GDP as a rule) in case of continuous non-correction. Such a sanction is proposed by the Commission and adopted by “reverse qualified majority” voting in the Council (EC [2011b] homepage).

The fourth element of the Six-Pack is relating to the *reduction of macro-economic imbalances*. Measures under this provision are addressed to reduce detriment in competitiveness and overcome imbalances on macroeconomic level. The Excessive Imbalances Procedure (EIP), a new procedure was established combating these disadvantages (EC [2011b]). The EIP has three elements (EC [2011b], Darvas [2012]):

1. *The preventive arm* that aims avoiding the emergence of large imbalances. Corrective measure, with the supervision of the European Commission, could also be executed in serious cases.

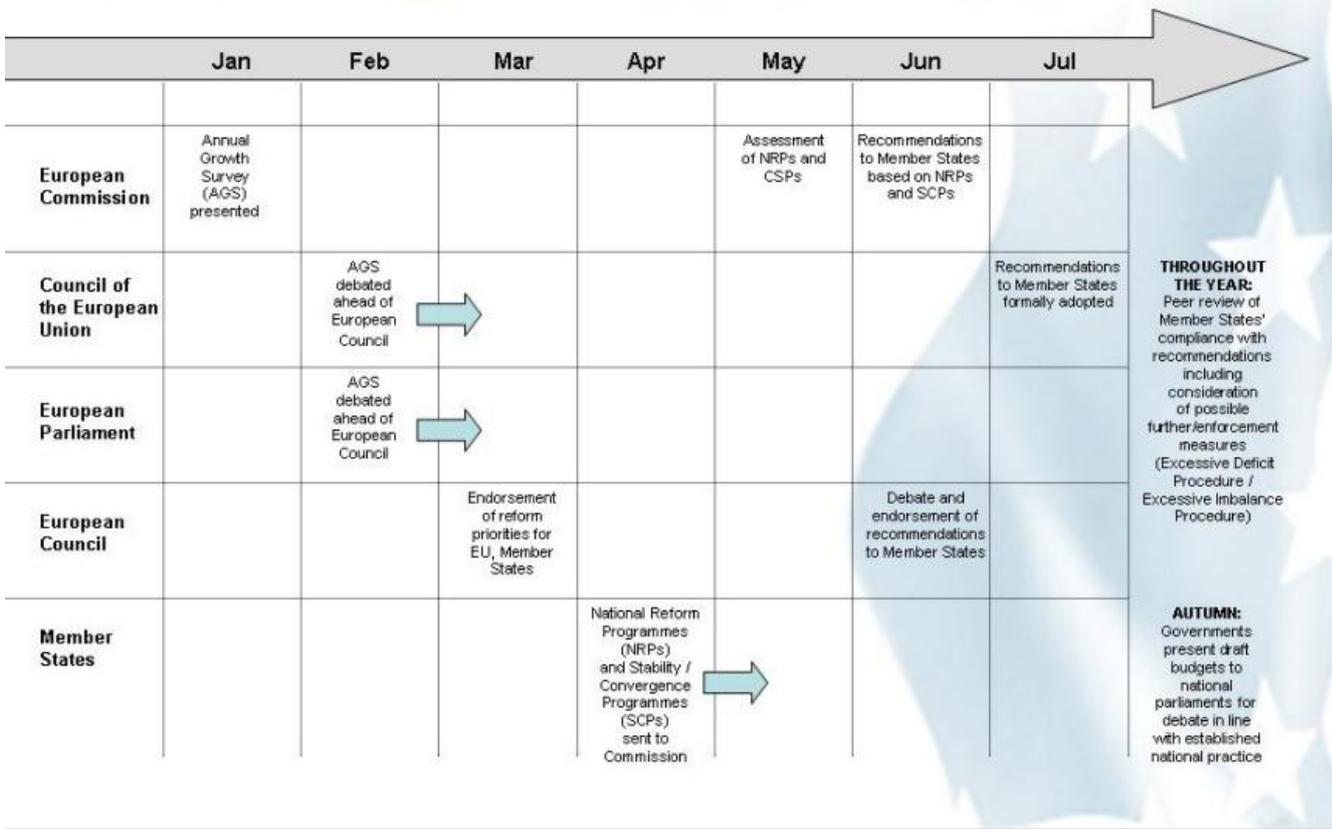
2. *Rigorous enforcement*, which is addressed to €A countries, consists of a two separate actions (the second is conditional). The essence of the mechanism can be read out from the Commissions’ release stating that “an interest-bearing deposit can be imposed after one failure to comply with the recommended corrective action. After a second compliance failure, this interest-bearing deposit can be converted into a fine (up to 0.1% of GDP). Sanctions can also be imposed for failing twice to submit a sufficient corrective action plan” (EC [2011b] homepage). Assuring greater stability for the €A, reverse qualified majority voting is required taking decisions in this procedure.

3. Integrating ten indicators than could result in macroeconomic imbalances, an *early warning system* was created. The goal of this mechanism is to reveal if imbalances could cause major problems in the EU.

3.2 . The European Semester

The other cross-European Union stabilizing mechanism created in the years of the crisis and as a respond on the spilling over crisis is named European Semester. The instrument has the role granting preventive surveillance for the Member States. According to Nicolaus Heinen, “the main new aspect is that the enforcement of economic policy coordination is now being extended right through to the budgetary process of every member state” (Heinen [2010] homepage). For this purpose, beside the national parliaments and the European Commission other policy-shaping actors are involved as well. On the European level, for example the European Parliament and the European Economic and Social Committee has various rights, while on the national level the scope of the institutions involved is not restrained to the highest representative level.

Chart 1: The European Semester: Who does what and when?



Source: European Commission edition (http://ec.europa.eu/europe2020/pdf/chart_en.pdf)

The European Semester is a half-a-year long supervising mechanism. Initiating the process of the Semester, Member States issue their Annual Growth Survey (AGS) which indicates the main economic conditions in the MSs. Assessing the forthcoming year, last-year review is also included in the AGS. On the March European Council meeting specific orientations are issued, assessing the macroeconomic situation, progress towards the initiatives and the EU-level goals (EC [2012c]). Next step, based on the assessment as well, Member States represent their Stability (or Convergence) Programmes, which indicates the budgetary strategies. One more document has to be sent to the European Commission, which consists of the operative plans (for example: research, employment, energy, etc.). These are named National Reform Programmes (NRPs) (EC [2012c], Heinen [2010]). Darvas [2012]

adds that exception is made with the Member States that are under financial assistance. Finally, the Council addresses Member States country-specific recommendations. This guidance can be built in into the national budgets which are under construction in the remained period (summer). Enhancing enforcement, non-complying with the European Semester prescription leads to policy warnings, and later, if this is not effective together with incentives, Member States can be sanctioned as well (EC [2012c]).

Conclusions

The economic crisis hit Europe shortly after the introduction of the common currency. Joining the €A Member States had to meet relatively rigorous requirements. However, the enforcement of these measures was not always strict, therefore financial imbalances sometimes remained high. This was intensified by the excessive crisis measures rescuing companies. By the progress of the crisis, these features were set up and led to long-term consequences in (re)financing of the Member States' budget.

The Maastricht criteria should be appropriate overcoming the crisis if the prescriptions of it were observed during the years. This was resulted by the inappropriate enforcement mechanism. Due to the prescriptions the criteria contained, positive steps were made, but they were not enough. The crisis hit the European countries – in a lot of cases served especially by the Mediterranean and cohesion States – in weak financial and structural positions. Exposure to the effects of the crisis was therefore high.

European policy makers recognized the need for a set of rules that are legally enforceable. By the supranational surveillance of the newly accepted measures the EU countries could regain the confidence of the financial markets and the private economic activity could be re-launched. This can promote growth that is needed to overcome permanently the crisis.

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