

Fiscal compact

Third version of draft watered down

By Gaspard Sebag | Wednesday 11 January 2012

The third draft of the fiscal compact, now entitled 'Treaty on stability, coordination and governance in the Economic and Monetary Union', lessens the role of the European Commission and the Court of Justice of the EU, waters down the constitutional requirement for the balanced budget rule, creates more room for "temporary" deviation from objectives and aims for entry into force on 1 January 2013 with twelve eurozone ratifications. The door is also opened for the United Kingdom to partake at a later stage.

The latest version, seen by *Europolitics* and to be discussed by member state, Commission and Parliament representatives on 12 January, backpedals on giving the Commission the power to drag participating countries breaching the excessive deficit rules to court. Instead, it goes back to the first draft, which relied on peer pressure amongst member states with regard to putting in place a 'debt brake' at national level. The Commission can only be asked to draft a report by a contracting party. Furthermore, it is no longer a requirement that this balanced budget rule be introduced at "constitutional or equivalent level," though this is recommended, but rather it must have "binding force and permanent character [...] that are guaranteed to be respected throughout the national budgetary processes".

Following an Italian request for more leeway in defining exceptional circumstances that would allow member states to temporarily incur deficits, contracting parties may now "temporarily deviate" from their medium-term budgetary plans and targets under the Stability and Growth Pact "in cases of unusual event outside the control of the contracting party with a major impact on the financial position of the general government or in periods of severe economic downturn for the euro area, the EU or the concerned contracting party [...] provided that this does not endanger fiscal stability in the medium term".

The debate over the number of ratifications needed for the fiscal compact treaty to enter into force is still unresolved. The current tentative figure is 12 - smack in the middle of the two initial proposals (nine and 15). The aim to have the treaty "enter into force on 1 January 2013" provided enough countries have ratified it is, however, a novelty.

The objective of incorporating the fiscal compact in the legal framework of the EU is firmer. Instead of mentioning "an initiative" to do so within five years of entry into force of the new treaty, the latest draft stipulates that "the necessary steps shall be taken". In addition, a new article opens the door to the UK's accession to the fiscal compact - an invitation British Deputy Prime Minister Nick Clegg will surely welcome but that Premier David Cameron has already turned down.

All three EP representatives have criticised the latest draft of the new treaty. ALDE leader Guy Verhofstadt (Belgium) called it a "step backwards". "We must avoid a parallel system of sanctions and bypassing of the Community method," he added on Twitter.

The latest draft is available at www.europolitics.info > Search = 306830