THE DEFICIT OF THE EU MEMBER STATES IN THE EURO AREA

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Abstract
The Treaty on Stability, Coordination and Governance was signed on 02.03.2012 in Brussels by the 25 heads of the European Union Member States, exceptions being the UK and the Czech Republic.

The main objective of the Treaty is fiscal consolidation. Under its provisions, the limit of the structural budget deficit is 0.5%. If the debt level is below 60% and there are no risks regarding the long term sustainability of the public finances, the structural deficit could reach 1% of GDP. The deficit is allowed a maximum of 3% of GDP.

From the analysis for the period 2010 – 2013 on the impact of the Treaty on Stability, Coordination and Governance in the European Union member states of the euro area, that deficit is within the limits allowed by the law in only three states: Luxembourg, Germany and Estonia.

Key Words: Euro, Treaty on Stability, Coordination and Governance, member states, European Union, structural deficit, Gross Domestic Product, penalty payment, derogation.

JEL Classification: E 23, E 42, E 52, F 15, F 33, F 45, H 62

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union was signed on 02.03.2012 in Brussels by the 25 heads of European Union member states, exceptions for this are the UK and the Czech Republic, and entered into force on 01.01.2013.

The Treaty aims to strengthen member states’ tax in the next period. Under the treaty, the limit structural budget deficit is 0.5%. If the public debt is below 60% and there are risks to the long-term sustainability of public finances, the structural deficit could reach 1% of GDP. The deficit is allowed a maximum of 3% of GDP.

The Fiscal Treaty introduces rules to ensure efficient budgetary discipline in the member states of the European Union. The treaty rules were accepted by the 18 euro area member states.

The rules were accepted by other EU member states, except Great Britain and the Czech Republic.

Deviations since the objective of the Treaty trigger the correction mechanism whereby member state shall apply the measures in order to comply with the limits set. Penalties must be within 0.1% of GDP.

The treaty provides that not only signatory member states can be recipients of funds from the European Stability Mechanism. The provisions of the treaty were called in the literature „golden rules” on the budget balance. The main rules consist
of imposing a maximum deficit of 3% of GDP and a public debt exceeding 60% with automatic mechanisms and sanctions compliance.

Great economists of the world have been constantly concerned about the budgetary and financial governance. The sovereign debt crisis has revealed the weaknesses of EMU, notably the absence of a crisis management device. The article focuses on supervisory failures. A treaty establishes the Economic Stability Mechanism (ESM) which aims to ensure the continuity of the European Financial Stability Fund. The second is the Treaty on Stability, Coordination and Governance (TSCG) which has as main objective the building and the continuity of budgetary policies in the euro area. Both treaties are based on financial solidarity imposed by the European Financial Stability Mechanism between euro area member states, focusing on budgetary discipline facing the countries of this region. The adoption of the T.S.C.G. by the European Council has drawn many critics. The European Parliament appreciated on January 18, 2012 that the provisions of the budgetary surveillance were detailed in previously adopted texts. Thus, Jacques Delors, former European Commission president, described the treaty as a „gas factory”. The C.E.S., which in the past has approved all the European treaties, showed opposition to the treaty.

Since the treaty is not European, but intergovernmental, national parliaments are sovereign to decide on the legal decisions of the governments.

However, legal criticism of the TSCG does not disqualify it as political text, but the compromise appears between an embryo of financial solidarity among the states and a stricter control of debt and deficits.

Criticism towards the T.S.C.G. refers, primarily, to the rules set out therein, with respect to both the content and their impact. The thresholds are not a priori economic justification and does not guarantee financial markets satisfying. It states that the treaty rules can not be implemented in all situations, which was actually demonstrated in the early 2000s, at the moment of the slowdown. At a time of economic downturn, reducing deficits and debt is becoming more difficult and can be risky if we take into account the negative effects of reduced public demand, especially when it occurs in all states simultaneously. The authors point out that the rule of balancing public finances in the medium term has no economic justification.

According to art.3.1 of the TSCG, ”the government budgetary position is in balance or in surplus.” The interpretation of the text leads to the conclusion that the state has no role in boosting demand in financing investment. It shall be noted that the concept of structural deficit, through which the Commission considers the excessive deficit is, actually, questionable.

The new rules lead to loss of autonomy and limited budget deficit and debt, because, by imposing "too burdensome” countries a rapid return to balance, creates a "mechanical device". For a country in a situation of recession or slowdown of the economy, reducing the deficit and debt amplifies the effects of recession. Therefore, the budgetary target becomes more difficult and also increases fears regarding the sustainability of public finances. Higher interest rates result in higher interest costs, and it contributes to increasing deficit and debt. The growth rate debt results in the degradation of the public debt. Treaty rules do not guarantee lowering public deficits,
because in several states simultaneous lowering public spending could generate initial worsening deficits.

It should be underlined unprecedented and firm position against the European Confederation T.S.C.G. under this new Treaty requires member states to pro-cyclical fiscal policies that give priority to harmful rigid economic rules in an era when most economies are weak and the unemployment rate reaches intolerable high levels. This will result in a downward pressure on wages and working conditions and also to a stricter control and sanctions.

The T.S.C.G. strengthens surveillance and applies rigid rules of debt and public deficits, which substantially reduces the autonomy of national budgetary policies, particularly the possibilities of governments to choose structural reforms. Digital and mechanical control can only be described as a breakthrough in the EU economic policy coordination, because it excludes growth, labor utilization and social cohesion.

This intergovernmental process on an imposed pace was achieved by increasing the power of the European Commission in the budgetary and economic area without changing the EU budget and the powers of the B.C.E. The progress took place in the context of the worsening of the sovereign debt crisis and a severe recession for many states.

Bogdan Drăgoi, the Finance Minister at the time of signing the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, said: “The signing of the Treaty for Stability, Coordination and Governance in the Economic and Monetary Union certifies Romania’s commitments to strengthen sustainability of the public finances to apply prudent and sound economic policies, Romania being one of the few EU countries that have already adopted the measures referred to in the Pact for a few years.”

It notes that Romania has registered significant economic growth before the crisis, but this opportunity was not reflected in the sustainability of the public finances, a situation that will not recur given that the structural deficit will be limited to 0,5% of GDP.

The first measures taken by Romania have resulted in the reducing of the structural deficit from 7% of GDP in 2009 to 4,4% in 2011.

The Finance Minister said that measures taken by our country increased its credibility at international and European level. The application of the Treaty will help stimulate the implementation of advanced economic policies and stimulate the process of reducing the development gap compared with other member states through the exchange of experience with performing states. The measures arising from the provisions of the Treaty will ensure increased transparency in policy implementation by member states of the European Union. These measures are, at the same time, an opportunity to quickly sanction failures to a harmonious fiscal policy.

The main objective of the Treaty for Stability, Coordination and Governance is to strengthen fiscal discipline. In this respect, the main elements are:

“ – Budgetary policy should be balanced or in surplus. This rule shall be
deemed to be respected if the annual structural balance in the medium term budgetary objective respects and does not exceed 0.5% of GDP;

- Structural deficit may have a higher value than specified above, to a maximum of 1% of GDP if the debt level is significantly below 60% of GDP and risks to long-term sustainability of public finances are low;

- Fiscal rule is introduced through national provisions legally binding and permanent character, preferably constitutional, or otherwise that level that ensures compliance in full in the national budget process. The rules set should be in force in national legislation within one year of the entry into force of the Treaty;

- The countries subject to the excessive deficit procedure establish budgetary and economic partnership programs with binding monitored by the European Commission and the EU Council;

- Parties to the treaty ensure ex-ante discussion of major structural reforms which they intend to adopt and, if necessary, to coordinate in this regard.”

Regarding this treaty, the economist Mircea Coșeșa said that the most important for our country is to foresee the consequences, which means very large sacrifices and abandoning economic forecasts, so that Romania will reach a real convergence with the European Union, given the gaps that separate us from the most developed countries of the area.

In order to alleviate disparities it is necessary, according to the analyst, a double economic growth as compared with that of the European Union, which results in a higher deficit: “The deficit in the fiscal governance treaty obliges us not give too many horizons, but only the capability to pay foreign debt, not economic growth.” The economic analyst believes that our state can not commit to larger loans or investment in order not to overcome the deficit established by the Treaty. The economist believes that the only solution is internal capital capitalization, but that is hardly applicable to our country. In his view, there are only two alternatives: European funds and increased foreign investment. The treaty should have been renegotiated and for the less developed countries of the European Union it had been necessary to grant certain facilities: shifting deadlines, recalculate forecasts and labor market access in the European Union. Mircea Coșeșa states: “A treaty can also be implemented without any sacrifices by countries like Germany, but for countries like Romania it is extremely difficult.” The big advantage is that Romania implements effective budgetary discipline.

Economic analyst Ilie Șerbănescu says that the key issue for Romania deriving from the Treaty provisions is the costs, and the consequence is a prolonged recession for most European countries. The analyst states: “We are sorry that we have to go to financial discipline, but Romania will not be able to do this, and if it succeeds, it will be at the cost of economic downturn, which is very easy to achieve, because anyway we are on the edge.” Șerbănescu considers that the application of the treaty is unfair because developed countries have used deficit for growth for a long period and now the less developed states are penalized.

Regarding accession to the Treaty, this was done by all member states, except Great Britain and the Czech Republic. In Great Britain, the Conservative members
accused that the treaty tightens tax laws of the euro area and “damages national interests of Great Britain.”

Prime Minister Petr Necas introduced three major objections of the Czech Republic regarding the Treaty: the limited access to the summits of euro area countries not using the euro, the failure in solving the European debt crisis and the very complicated and uncertain ratification.

The situation in the euro area deficit in the period 2010-2013 is presented as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>-4.5</td>
<td>-2.6</td>
<td>-2.3</td>
<td>-1.5</td>
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<tr>
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<td>-3.9</td>
<td>-4.1</td>
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<td>Cyprus</td>
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<td>-5.8</td>
<td>-4.9</td>
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<td>1</td>
<td>-0.3</td>
<td>-0.5</td>
</tr>
<tr>
<td>Finland</td>
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<td>-1</td>
<td>-2.1</td>
<td>-2.4</td>
</tr>
<tr>
<td>France</td>
<td>-6.8</td>
<td>-5.1</td>
<td>-4.9</td>
<td>-4.1</td>
</tr>
<tr>
<td>Germany</td>
<td>-4.1</td>
<td>-0.9</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Greece</td>
<td>-11.1</td>
<td>-10.1</td>
<td>-8.6</td>
<td>-12.2</td>
</tr>
<tr>
<td>Ireland</td>
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<td>-12.6</td>
<td>-8</td>
<td>-5.7</td>
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<tr>
<td>Italy</td>
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<td>-3.5</td>
<td>-3</td>
<td>-2.8</td>
</tr>
<tr>
<td>Latvia</td>
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<td>-3.4</td>
<td>-0.8</td>
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</tr>
<tr>
<td>Lithuania</td>
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<td>-3.2</td>
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</tr>
<tr>
<td>Luxembourg</td>
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<td>0.3</td>
<td>0.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Malta</td>
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<td>-2.6</td>
<td>-3.7</td>
<td>-2.7</td>
</tr>
<tr>
<td>Netherlands</td>
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<td>-4.3</td>
<td>-4</td>
<td>-2.3</td>
</tr>
<tr>
<td>Portugal</td>
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<tr>
<td>Slovakia</td>
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<tr>
<td>Slovenia</td>
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<tr>
<td>Spain</td>
<td>-9.4</td>
<td>-9.4</td>
<td>-10.3</td>
<td>-6.8</td>
</tr>
</tbody>
</table>
From the data presented in the reference period 2010 – 2013 of euro area countries, the situation is as follows:

- **Austria** has a steady downward trend from – 4.5% in 2010 to – 1.5% in 2013;
- **Belgium** shows a slight decrease in the deficit from – 4% in 2010 to -2.9% in 2013;
- **Cyprus** recorded an increase in the deficit in 2011 and 2012 (-5.8%) compared with 2010 (-4.8%), and its decrease in 2013 (-4.9%), but its evolution reported in the Treaty can be regarded as negative;
- **Estonia** was positive in 2010 (+0.2%) and 2011 (+1%) and negative in 2012 (-0.3%) and 2013 (-0.5%), but the values achieved deficit. This state is within the limits imposed by the provisions of the Treaty for Stability, Coordination and Governance;
- **Finland** has achieved a decrease in the deficit from -2.6% in 2010 to -1% in 2011, but later it increased to -2.1% in 2012 and -2.4% in 2013;
- **France**’s deficit steadily decreased from -6.8% in 2010 to -4.1% in 2013, but the reference state is not within the ceiling imposed by the Treaty;
- **Germany** has made significant progress in terms of deficit -4.1% in 2010 to +0.1 in 2013;
- **Greece** has a large deficit throughout the period under review, and if in 2011 (-10.1%) and 2012 (-8.6%) we can talk about a slight recovery comparative with 2010 (-11.1%) in the last year of the reference period it has achieved -12.2%;
- **Ireland** had the highest deficit of all euro area countries in 2010 (-32.4%), but then the situation improved: - 12.6% in 2011 – 8% in 2012 -5.7% in 2013, the state is still in a critical situation;
- **Italy** has made progress in terms of deficit -4.2% in 2010 to -3.5% in 2011 -3% in 2012 and -2.8% in 2013;
- **Latvia** has made significant progress from – 8.2% in 2010 to -3.4% in 2011 -0.8% in 2012 and – 0.9% in 2013;
- **Lithuania** has also had a dramatic decrease in the deficit -6.9% in 2010 to -2.6% in 2013;
- **Luxembourg** registered ,with the exception of 2010 (-0.6%), positive values: +0.3% in 2011, +0.1% in 2012 and +0.6% in 2013;
- **Malta** has seen a slight improvement from -3.3% in 2010 to -2.7% in 2013, but to hire limit imposed by the provisions of the Treaty must streamline the economic activity;
- Holland’s deficit improved steadily, falling from its values -5% in 2010 to -2,3% in 2013;
- Portugal has made great efforts to reduce the deficit, embodied in lowering its efforts to -11,2% achieved in 2010 to -7,4% in 2011, -5,5% in 2012 and -4,9% in year 2013, but the country needs to continue economic strategy used before in order to have a deficit which allows this country the classification in the scale required by the Treaty;
- Slovakia has progressed steadily in that direction, the deficit decreased from -7,5% in 2010 to -2,6% in 2013;
- Evolution of Slovenia was fluctuating, the deficit increased from -5,7% in 2010 to -6,2% in 2011, then decreased to -3,7% in 2012 and then a large increase of its deficit followed in 2013 – 14,6%;
- Spain’s deficit decreased from -9,4% in 2010 to -6,8% in 2013, but the state must take further measures to improve the national economy and thus reduce the deficit, in order not to be subject to the penalties provided for by the Treaty for Stability, Coordination and Governance.

Given the euro area deficit in 2013, the states may be classified into four groups:

a) states which fall within the limit imposed by the provisions of the Treaty (-0,5%):
  - Luxembourg + 0,6%; - Germany + 0,1%; - Estonia – 0,5%

b) states with deficit up to –2%:
  - Latvia – 0,9%; - Austria – 1,5%
c) states with deficit between – 2% și – 5%:
  - Netherlands – 2,3%; - Finland – 2,4%; - Lithuania – 2,6%; - Slovakia – 2,6%; - Malta – 2,7%; - Italy – 2,8%; - Belgium – 2,9%; - France – 4,1%; - Cyprus – 4,9%; - Portugal – 4,9%

d) states with deficit more than – 5%:
  - Ireland – 5,7%; - Spain – 6,8%; - Greece – 12,2%; - Slovenia – 14,6%

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