Fiscal Compact Treaty: Scorecard for 2015

How far are EU Member States meeting their European Council commitments?

STUDY

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European Council Oversight Unit

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Abstract

The European Council Oversight Unit within the European Parliamentary Research Service (EPRS) has undertaken a detailed analysis that seeks to assess how far participating EU Member States have met their commitments within the framework of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). This intergovernmental treaty was agreed and signed by 25 Heads of State or Government in early 2012 and entered into force on 1 January 2013.

As part of a reformed economic governance framework, the TSCG has sought to introduce more effective and stricter fiscal rules, including further automaticity of sanctions and the transposition of a balanced budget rule into national legislation (under the 'Fiscal Compact'). It has also aimed to enhance economic policy coordination and convergence and improve the governance of the euro area.

This study reviews the main elements of the Treaty and seeks to evaluate how far the Contracting Parties have met their commitments. It shows that, three years after its entry into force, against the backdrop of a modest economic recovery across the euro area and the EU, the implementation of the TSCG has delivered mixed results. Most notably, efforts to comply with the terms of the Fiscal Compact – including the set of rules aiming to strengthen budgetary discipline – varied from one country to another. Admittedly, the increasing complexity of the EU fiscal framework, following a series of reforms that took place after the onset of the sovereign debt crisis, did not help foster compliance and monitoring. In addition, the Contracting Parties made some progress on enhancing economic policy coordination and convergence; however, there is still room for improvement. Lastly, the analysis reveals that compliance with the TSCG provisions on the governance of the euro area has not been complete.

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ABOUT THE PUBLISHER

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List of abbreviations

CCI	Competitiveness and Convergence Instrument
CSRs	Country-specific recommendations
EAC	Ex ante coordination (of major economic reforms)
ECB	European Central Bank
Ecofin	Economic and Financial Affairs Council
EDP	Excessive Deficit Procedure
EFB	European Fiscal Board
EFC	Economic and Financial Committee
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EPP	Economic Partnership Programme
ESM	European Stability Mechanism
EU	European Union
GDP	Gross Domestic Product
IGAs	Intergovernmental Agreements
IMF	International Monetary Fund
MTO	Medium-Term Objective
NRP	National Reform Programme
SGP	Stability and Growth Pact
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TEU	Treaty on the European Union
TFEU	Treaty on the Functioning of the European Union
TSCG	Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

1. Background

Following the onset of the sovereign debt crisis in 2010 and amid heightened uncertainty about the integrity of the euro area, the European Council decided to undertake a comprehensive overhaul of the EU economic governance framework in order to ensure economic and financial stability and restore market confidence. Firstly, a reform of the Stability and Growth Pact (SGP) was carried out through the introduction of the six-pack as the SGP had failed to deliver incentives to maintain sound and sustainable public finances. The six-pack legislation also reinforces the surveillance of macroeconomic imbalances and institutionalises the European Semester, i.e. the annual process of economic and budgetary coordination.

Additionally, EU Heads of States or Government embarked on further strengthening of fiscal discipline and improvements to economic policy surveillance and coordination, on the basis of the report Ten measures to improve the governance of the euro area presented at the Euro Summit of 26 October 2011. This report was prepared by a Task Force led by European Council President Herman Van Rompuy and also called for closer integration and stronger governance in the euro area. This paved the way for the negotiation of an agreement on an intergovernmental treaty[1] held between early-December 2011 and the end of January 2012.

The rationale behind this agreement was mainly to introduce more effective and stricter fiscal rules including further automaticity in order to assuage concerns about the credibility and sustainability of public finances in many euro-area Member States. In addition it aimed to mitigate the potential negative spill-overs stemming from the high degree of interdependence of economies in a monetary union as revealed by the sovereign debt crisis. Indeed, following the 2008 global financial crisis, public finances in many euro-area economies sharply deteriorated as a result of a deep economic recession, the full functioning of automatic stabilisers, expansionary budgetary and fiscal policies, and substantial support to the financial sector.

Originally supported by 26 out of 27 EU Member States, on 30 January 2012, 25 EU Member States reached a final agreement on the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). The United Kingdom and the Czech Republic opted out, but accession to the treaty remains open (Article 15).[2] The treaty was formally signed during the European Council meeting of 1 and 2 March 2012 and entered into force on 1 January 2013 following its ratification by 12 euro-area Member States, in line with Article 14(2). Note that for some Contracting Parties[3] the TSCG came into force from the first day of the month following the deposit of their respective instrument of ratification (Article 14(3)). All the signatory Contracting Parties have now successfully ratified the TSCG (Table 1).

It should also be noted that financial assistance through the euro-area rescue mechanism, the European Stability Mechanism (ESM) established in September 2012, can be granted only to Member States having ratified the TSCG.

[1] Initially, euro-area leaders had explored the possibility of a marginal EU Treaty amendment in order to strengthen the economic union, similarly to the introduction of the European Stability Mechanism, which had required the amendment of Article 136 TFEU. However, the United Kingdom's Prime Minister, David Cameron, firmly opposed an additional Treaty amendment. That is why the other Heads of State or Government decided to negotiate an intergovernmental agreement outside the EU institutional framework.
[2] Note that Croatia – which joined the EU on 1 July 2013 – did not sign the TSCG either.
[3] In line with the TSCG, the 25 EU Member States that signed and ratified the treaty are referred to as 'the Contracting Parties' throughout this study.

The TSCG comprises three main titles:

(i) the Fiscal Compact (Title III, i.e. Articles 3 to 8), which basically reinforces fiscal discipline including, inter alia, further automaticity of sanctions, transposition of a balanced budget rule into national legislation and ex ante reporting of public debt issuance plans;
(ii) Title IV (i.e. Articles 9 to 11) on economic policy coordination and convergence, including commitments to deepen the Economic and Monetary Union and ex ante coordination of major economic policy reforms; and
(iii) Title V (i.e. Articles 12 and 13) on the governance of the euro area, including the organisation of Euro Summits and of a conference of members of national parliaments and the European Parliament.

Three years after the entry into force of the TSCG and two years prior to a potential assessment of whether or not its provisions should be integrated into the EU Treaties (Article 16 TSCG), this study reviews the main elements of the Treaty and seeks to evaluate how far the Contracting Parties have met their commitments. However, it refrains from assessing the effectiveness of the Treaty, including its impact on the economy.

The remainder of this study is structured as follows. Section 2 outlines the main findings of this paper while Section 3 provides an assessment of the implementation of the Treaty articles by the 25 Contracting Parties.

Table 1 – Ratification of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

	Contracting Party	Notification of ratification	Entry into force	Binding provisions
EURO AREA	**Austria**	30 July 2012	1 January 2013	All Titles
	Belgium	28 March 2014	1 April 2014	All Titles
	Cyprus	26 July 2012	1 January 2013	All Titles
	Germany	27 September 2012	1 January 2013	All Titles
	Estonia	5 December 2012	1 January 2013	All Titles
	Spain	27 September 2012	1 January 2013	All Titles
	France	26 November 2012	1 January 2013	All Titles
	Greece	10 May 2012	1 January 2013	All Titles
	Italy	14 September 2012	1 January 2013	All Titles
	Ireland	14 December 2012	1 January 2013	All Titles
	Lithuania	6 September 2012	1 January 2013	All Titles*
	Luxembourg	8 May 2012	1 June 2013	All Titles
	Latvia	22 June 2012	1 January 2013	All Titles*
	Malta	28 June 2013	1 July 2013	All Titles
	Netherlands	8 October 2013	1 November 2013	All Titles
	Portugal	25 July 2012	1 January 2013	All Titles
	Finland	21 December 2012	1 January 2013	All Titles
	Slovenia	30 May 2012	1 January 2013	All Titles
	Slovakia	17 January 2013	1 February 2013	All Titles
NON EURO AREA	**Bulgaria**	14 January 2014	1 January 2014	Only Titles III, V
	Denmark	19 July 2012	1 January 2013	Only Titles III, IV, V
	Hungary	15 May 2013	1 June 2013	Only Title V
	Poland	8 August 2013	1 September 2013	Only Title V
	Romania	6 November 2012	1 January 2013	Only Titles III, IV, V
	Sweden	3 May 2013	1 June 2013	Only Title V

* For Latvia and Lithuania, Titles III and IV apply as of 1 January 2014 and 1 January 2015, respectively, in line with the date they joined the euro area.

Source: Council of the EU

2. Main findings

This study shows that, three years after its entry into force, and against the backdrop of a modest economic recovery across the euro area and the EU, driven largely by low oil prices and an ultra-accommodative monetary policy[4], the implementation of the TSCG has delivered mixed results.

Efforts to comply with the terms of the Fiscal Compact – including the set of rules aiming to strengthen budgetary discipline – varied from one country to another. Some countries managed to cut public deficits while maintaining a sound budget position thereafter, in line with Fiscal Compact requirements. A few also reduced their public debt at the pace required by the Fiscal Compact. Some countries made only limited progress with regard to those targets. That led some researchers[5] to conclude that the Fiscal Compact has been 'ineffective', referring, for example, to the 2015 budgets of France and Italy which were 'clearly out of line with the Fiscal Compact' and 'break previous commitments on deficit reductions'. In a similar vein, the IMF and the ECB highlighted that compliance with the EU fiscal framework 'has remained weak' despite efforts to foster policymaking and coordination.[6] In a recent report, the EU Court of Auditors underlined the increasing complexity of the EU fiscal framework, which in turn hampers its effectiveness. Nonetheless, other provisions under the Fiscal Compact (i.e. Articles 5, 6 and 7 dealing with economic partnership programmes, ex ante debt issuance plans and supporting the Commission's proposals on breaches of the deficit criterion, respectively) were fully met by the Contracting Parties.[7] Still, it should be noted that the Commission has been reviewing the transposition into national law of the balanced budget rule and the attached automatic correction mechanism (Articles 3(2) and 8) and might conclude that some countries have failed to comply with these provisions.

As regards economic policy coordination and convergence, the Contracting Parties undertook some measures to enhance the functioning of the EMU and boost growth and competitiveness (Article 9). However, additional efforts are required to discuss, coordinate and implement major economic policy reforms so as to significantly address the erosion of the EU's competitiveness and put the EU on a prosperous path (Article 11).

This study also reveals that Heads of State or Government have not honoured their commitment to meet in a Euro Summit at least twice a year (see Section 3.3). In addition, most of those meetings that did take place were akin to by the euro-area leaders (e.g. negotiating a bailout package so as to safeguard the integrity of the euro area). By contrast, 'strategic orientations for the conduct of economic policies to increase convergence in the euro area' were rarely discussed.

Lastly, fully consistent with Article 13 of the TSGC, interparliamentary conferences have taken place twice a year in coordination with the European Semester process. They have contributed to reinforcing cooperation between the European Parliament and national parliaments and to ensuring democratic accountability and legitimacy on economic governance issues and budgetary and fiscal policy.

[4] Coeuré, B., 'The future of the euro area', Remarks at Le Cercle Europartenaires, Paris, 21 March 2016.
[5] Gros, D., and Alcidi, C., 'The case of the disappearing Fiscal Compact', *CEPS Commentary*, November 2014.
[6] See Andrle, M. et al., May 2015, 'Reforming Fiscal Governance in the European Union', IMF Staff Discussion Note 15/09, May 2015.
[7] Except France concerning the article on economic partnership programmes.

Table 2 – Overview of Contracting Parties' compliance with the TSCG (Fiscal Compact)

	Contracting Party	Article 3(1) on government budget balance	Article 4 on government debt reduction	Article 5 on economic partnership programmes	Article 6 on ex ante debt issuance plans	Article 7 on breaches of the deficit criterion
EURO AREA	Austria	Green	Red	×	Green	Green
	Belgium	Red	Orange	×	Green	Green
	Cyprus	×	Red	×	Green	Green
	Germany	Green	Green	×	Green	Green
	Estonia	Green	×	×	Green	Green
	Spain	Orange	Red	Green	Green	Green
	France	Orange	Red	Red	Green	Green
	Greece	×	Orange	×	Green	Green
	Italy	Red	Red	×	Green	Green
	Ireland	Orange	Green	×	Green	Green
	Lithuania	Green	×	×	Green	Green
	Luxembourg	Green	×	×	Green	Green
	Latvia	Red	×	×	Green	Green
	Malta	Green	Green	Green	Green	Green
	Netherlands	Red	Green	Green	Green	Green
	Portugal	Orange	Orange	×	Green	Green
	Finland	Red	×	×	Green	Green
	Slovenia	Red	Red	Green	Green	Green
	Slovakia	Orange	×	×	Green	Green
NON EURO AREA	Bulgaria	Red	×	×	Green	×
	Denmark	Green	×	×	Green	×
	Hungary	×	×	×	×	×
	Poland	×	×	×	×	×
	Romania	Green	×	×	Green	×
	Sweden	×	×	×	×	×

Source: Author's analysis

Green: Full or notable compliance; Orange: Progress but further efforts required; Red: Limited compliance; ×: N/A

Table 3 – Overview of compliance with the TSCG titles on Fiscal Compact, Coordination, Convergence and Governance

	Article 8 on no compliance with Article 3(2)	Article 9 on economic policy coordination	Article 10 on enhancing the proper functioning of the euro area	Article 11 on ex ante discussion and coordination of economic reforms	Article 12 on Euro Summits	Article 13 on a conference of Members of the EP and NPs
Contracting Parties (collectively)	*unused*	🟠	*unused*	🔴	×	×
European Commission	*under way*	×	×	×	×	×
European Council	×	×	×	×	🔴	×
European and national parliaments	×	×	×	×	×	🟢

Source: Author's analysis

🟢 Full or notable compliance 🟠 Progress but further efforts required 🔴 Limited compliance × N/A

3. Assessment of implementation by the Contracting Parties

3.1. Analysis of the articles under the Fiscal Compact (Title III of the TSCG)

Article 3(1)

Article 3(1) TSCG stipulates that a government's budgetary position shall be balanced or in surplus. The latter provision is deemed to be respected if the annual structural balance – i.e. the annual cyclically-adjusted balance net of one-off and temporary measures – is in line with the country-specific medium-term objective (MTO).[8] The lower limit of the MTO is a structural deficit of 0.5% of GDP.[9] However, if the Contracting Party's debt-to-GDP-ratio is substantially lower than 60% and if its public finances are deemed sound and sustainable in the long term, the lower limit of a structural deficit increases to 1% of GDP.

The Contracting Parties also committed to ensuring rapid convergence towards their MTO[10], as proposed by the European Commission.[11] It should be noted that a Contracting Party may temporarily deviate from its MTO or the adjustment path towards it in exceptional circumstances.

According to the Commission communication Making the best use of the flexibility within the existing rules of the Stability and Growth Pact (SGP), released after the entry into force of the TSCG in January 2015, there are three specific cases allowing for temporary deviations from the MTO or the adjustment path towards it, namely: (i) the implementation of structural reforms improving the long-term sustainability of public finances, e.g. pension reforms, noting that some public investments may qualify as structural reforms as well; (ii) an unusual event outside the control of the Member State having a negative impact on its budgetary position; and (iii) periods of economic downturn for the euro area or the EU as a whole.

Article 3(1) TSCG specifies that progress on and respect for the MTO must be assessed in the light of an analysis of the evolution of the structural balance, including an evaluation of expenditure net of discretionary revenue measures, consistent with the revised SGP (preventive arm). This expenditure benchmark requires that public spending increase at a slower pace than medium-term potential GDP growth so as to ensure an appropriate adjustment towards the MTO.

Additionally, the TSCG provides that should a Contracting Party deviate significantly from its MTO or the adjustment path towards it there will be an automatic correction mechanism compelling the government to implement correcting measures. The EU fiscal framework is widely perceived as being too complex, notably following the successive reforms undertaken after the crisis (six-pack in 2011, Fiscal Compact in 2012, two-pack in 2013 and the special Commission communication on flexibility rules in 2015). As a result, both effective monitoring of compliance and public communication have been hampered.[12]

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[8] MTOs are updated every three years or on a more frequent basis if a Member State has undertaken a structural reform that has a substantial impact on its public finances.

[9] By contrast, the lower limit is more lenient in the corrective arm of the Stability and Growth Pact (SGP) and amounts to a structural deficit of 1% of GDP.

[10] Note that, under the preventive arm of the SGP, EU Member States which have not met their MTO yet must improve their structural balance by 0.5% per annum as a benchmark. Once the MTO has been met, the Member State is required to maintain this structural budget balance. For Member States in excessive deficit procedure, the fiscal effort to be achieved, upon request of the Council, shall be consistent with a minimal improvement of the structural balance of 0.5% of GDP (corrective arm of the SGP).

[11] The country-specific recommendations adopted on an annual basis by the Council within the framework of the European Semester include a specific recommendation on progress to be made towards the MTO.

[12] For example, see EU Court of Auditors, 'Further improvements needed to ensure effective implementation of the excessive deficit procedure', April 2016; Andrle, M. et al., 'Reforming Fiscal Governance in the European Union', May 2015; and Claeys, G. et al., 'A proposal to revive the European fiscal framework', March 2016.

Within the framework of the Fiscal Compact, but also of the SGP since 2005, one indicator has been the focal point, namely the structural balance. However, this indicator too has received widespread criticism (see Box 1), despite the economic rationale behind it being praiseworthy, as it seeks to calculate budget balances adjusted for the economic cycle and one-off measures. Put differently, authorities have been recommended to do less in economically-unfavourable times so as not to further aggravate the economic situation (i.e. not to raise taxes or cut public expenditures too significantly) on the basis of the estimated structural budget balance. By contrast, they should do more in economically-favourable times (i.e. not to cut taxes or raise public expenditures too significantly).

Box 1 – Uncertainties regarding the structural balance indicator

Measuring the (unobservable) structural balance is prone to substantial uncertainties and shortcomings, as there are many distinct methods for estimating the cyclical component of the budget, which is based on measuring the output gap (i.e. difference between the actual and potential GDP) and estimating revenue and expenditure elasticities. Studies show that estimating the levels of potential output (and, therefore, of the structural budget balance) is highly volatile and subject to major revisions, even ex post and particularly in years of crisis. As a result, relying on this indicator can lead to misguided fiscal policy recommendations. That is why some analysts suggest using public expenditure rules, over which the authorities have direct control contrary to structural budget rules. Additionally, expenditure rules rely on potential growth, estimates of which are more robust.[13] The EU fiscal framework would thus benefit from reduced complexity and enhanced predictability.

This section seeks to assess whether the Contracting Parties went in the direction set by Article 3(1) TSCG, namely adjusting towards a budgetary position balanced or in surplus and/or converging towards the MTO at a rapid pace. In order to carry out such an analysis, it is assumed that information on the structural balance estimates provided by the Commission – in line with a commonly agreed methodology for estimation – is accurate. It also builds upon the country-specific recommendations (CSRs) endorsed by the European Council and adopted by the Council every June and July respectively, which provide information on the country-specific MTO levels and the deadlines for attaining the MTO.[14]

Importantly, it should be noted that all the EU Member States met their obligations under the reformed preventive and corrective arms of the SGP, which is also consistent with the Fiscal Compact. Those obligations comprise fiscal efforts to be made or annual budgetary targets to be met while taking into account potential flexibility or escape clauses granted by the Commission, essentially setting an updated adjustment path towards the MTO.

The analysis reveals that there is strong evidence that MTOs have become 'moving targets' over the years in many countries. The ECB[15] shows that most countries have not met their MTO in any single year, while the concept of country-specific MTOs was introduced in the 2005 reform of the SGP, well prior to the TSCG. Instead, most countries were repeatedly given postponed deadlines by the Commission for attaining their respective MTO, which has thus played a very limited role as an anchor for fiscal policy. In addition, the 2015 Commission communication on flexibility rules might have further slowed down countries' progress towards their MTOs, potentially increasing risks to debt sustainability.[16]

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[13] For example, see Tereanu, E. et al., 'Structural balance targeting and output gap uncertainty', June 2014; and Claeys, G., et al., 'A proposal to revive the European fiscal framework', March 2016.

[14] This is the case for the countries not subject to an EDP; for countries covered by an EDP, information on structural balance improvements is generally available in Council recommendations with a view to bringing to an end the EDP.

[15] ECB, *Monthly Bulletin*, 'The effectiveness of the medium-term objective as an anchor of fiscal policies', April 2015, pp. 57-59.

[16] ibid.

Moreover, progress made to converge towards the MTO between 2013 and 2015 varied from one country to another. Some countries have reached their MTO and remained at this level since the entry into force of the TSCG, such as Germany and Luxembourg, thereby fully complying with Article 3(1) of the Fiscal Compact. On the other hand, some countries (e.g. Finland, Italy and Slovenia) have been struggling with making constant progress and converging towards their 'moving-away' MTO. Admittedly, escape clauses were triggered in some cases to allow for a temporary deviation. For example, Italy was granted the right to deviate a little from its adjustment path towards its MTO, as it implemented a major structural reform in 2015. In other cases, effective action was assessed (by the Commission) to have been taken, paving the way for a deadline extension to reduce the public deficit (e.g. France).

The charts and table below seek to illustrate and sum up the assessment of progress made towards the MTOs. Trajectories towards a structural balance for the 2013-2015 period are compared with the country-specific targets set for 2013, 2014 and 2015 and adopted by the Council in the country-specific recommendations.

Table 4 – Progress towards the medium-term objective[17]

Contracting Party	State of play over the 2013-2015 period	Assess-ment
Austria	The MTO was projected to be within reach in 2015 after constant progress. The deadline for reaching the MTO was brought forward to 2015 from 2017.	
Belgium	Limited progress towards the MTO was made between 2013 and 2015; the objectives of the 2013 and 2014 calendars of convergence towards the MTO will likely be missed as it implies bringing the structural balance down from an estimated -2.7% of GDP in 2015 to +0.75% of GDP in 2016 or 2017.	
Cyprus	*Unassessed as Cyprus has been under an economic adjustment programme between 2013 and 2016*	
Germany	The MTO has been achieved since the entry into force of the TSCG in January 2013. Germany posted structural budget surpluses compared to a structural target of -0.5% of GDP.	
Estonia	The MTO was reached in 2014 and was likely to be achieved in 2015, in line with the calendars of convergence.	
Spain	The structural deficit has decreased constantly since 2011 albeit at a decreasing pace; however, the structural deficit was projected to have increased in 2015; the deadline for achieving the MTO was postponed from 2017 to 2019.	
France	The structural deficit has constantly decreased since 2010, albeit at a slower pace than recommended in the 2013 and 2014 calendars of convergence; the deadline for achieving the MTO was repeatedly postponed and the level set has been less ambitious (from 0% to -0.4% of GDP).	
Greece	*Unassessed as Greece has been under an economic adjustment programme.*	
Italy	There was limited progress towards the MTO between 2013 and 2015; the calendars of convergence successively postponed the deadline for meeting the MTO, from 2014 to 2017.	
Ireland	The MTO remains within reach and in line with the calendars of convergence following constant progress; note that the deadline was postponed from 2018 to 2019.	
Lithuania	Constant progress has been made towards the MTO, which is projected to be met in 2015, in line with the calendar of convergence; note that the year of achieving the MTO was brought forward to 2015 from 2016.	
Luxembourg	The MTO was achieved as Luxembourg posted substantial structural budget surpluses in 2013 and 2014 (and likely in 2015) while the deadline set in the calendars of convergence was systemically brought forward.	
Latvia	The MTO was reached in 2013 (the Fiscal Compact had not yet entered into force	

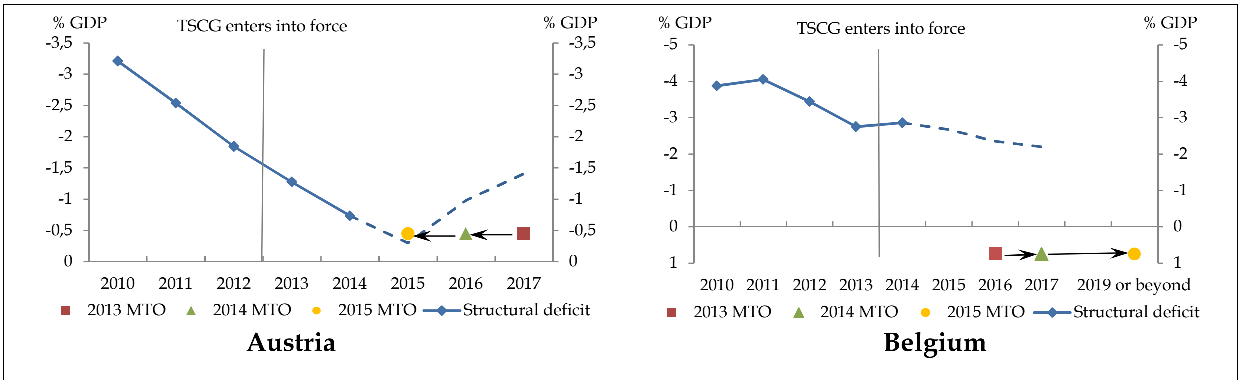
[17] See, for example, European Parliament, 'Implementation of the Stability and Growth Pact', May 2016.

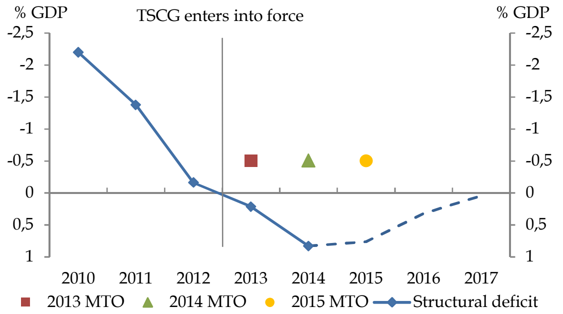
	for Latvia); however, the temporary deviation granted to Latvia for 2014 and 2015 (due to a systemic pension reform) was slightly exceeded compared with what the Commission had recommended.	
Malta	Some progress was made over the 2013-2015 period on convergence towards the MTO; the calendars of convergence towards the MTO constantly postponed the target year for achieving the MTO (i.e. from 2017 to 2019), thus making the MTO a moving target.	
Netherlands	Steady efforts to cut the structural deficit and to converge towards a firm MTO have been made since 2011; however, the target year for achieving the MTO (i.e. 2015) as recommended in the calendars of convergence may have been missed according to the Commission's 2016 winter forecasts.	
Portugal	The structural deficit has constantly and substantially decreased since 2010; the deadline for achieving the MTO was even brought forward to 2016 from 2017; however the Commission projected an increase in the structural deficit in 2015.	
Finland	Little progress was made towards the MTO in 2013; and there was significant deviation from the adjustment path towards the MTO in 2014, which is projected to continue in the years to come; the target year for achieving the MTO was substantially postponed, from 2014 to 2020 or beyond.	
Slovenia	The structural balance deteriorated in 2013 and 2014; the calendar of convergence towards the MTO extended the deadline substantially, from 2017 to 2020.	
Slovakia	Substantial progress was made in 2013 but the structural deficit rose in 2014 and is projected to have remained stable in 2015; note that the MTO deadline was brought forward from 2018 to 2017.	
Bulgaria	The structural deficit deteriorated significantly in 2014 when the TSCG entered into force (mainly due to support for the financial sector); little progress is expected in 2015; Bulgaria decided to set the MTO at a more lenient level (from -0.5% to -1% of GDP) while the deadline for achieving it was postponed from 2016 to 2018.	
Denmark	The MTO was achieved in 2013 and 2014, in line with the calendars of convergence; a deviation was expected in 2015 (driven mainly by declining revenues from the pension yield tax) while a return to the MTO is planned for 2016.	
Romania	There has been steady progress to cut the structural deficit since 2010; as a result, the MTO is projected to be met in 2015, in line with the 2013 and 2014 calendars of convergence.	

Source: Author's analysis based on AMECO data, European Commission staff working documents and country reports, and Council country-specific recommendations.

● Full or notable compliance with Art. 3(1) ● Progress but further efforts required ● Limited progress ● N/A

Figure 1 – Contracting Parties' structural budget balance and medium-term objective





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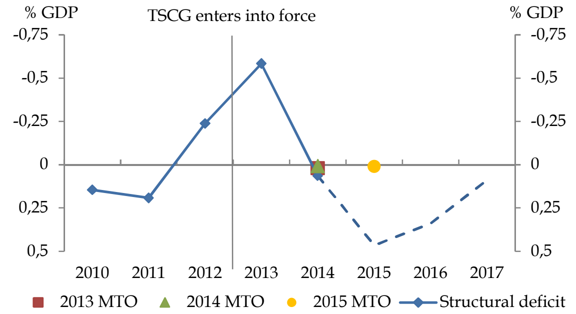

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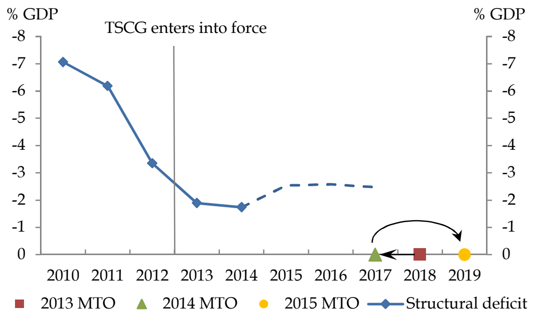

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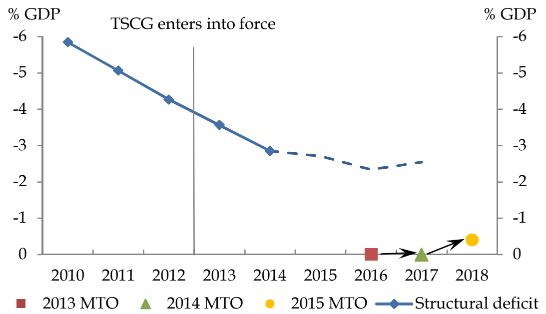
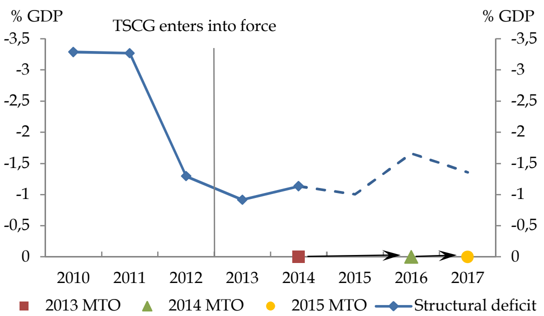


France



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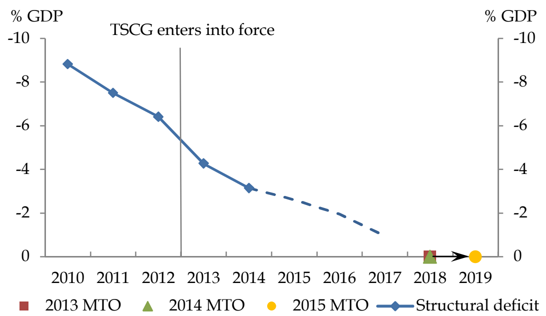
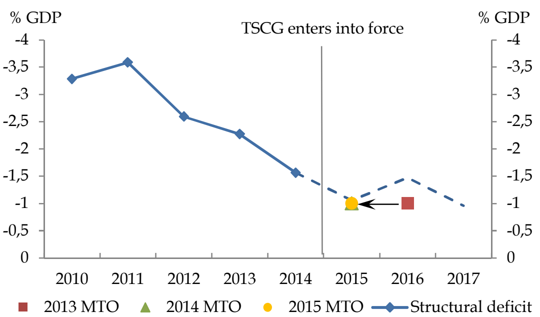
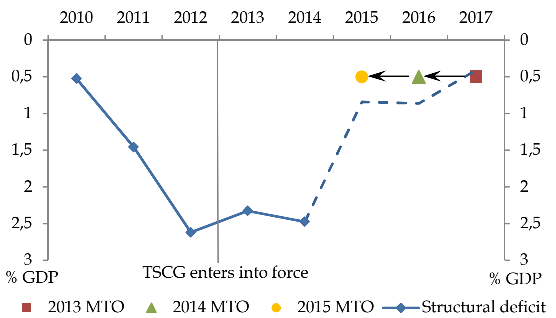


Ireland



Lithuania



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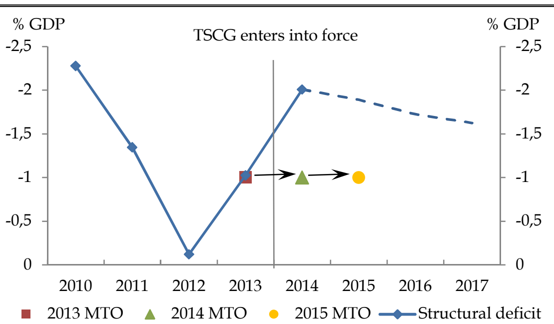

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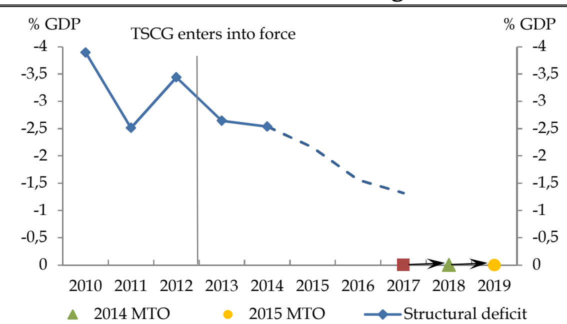
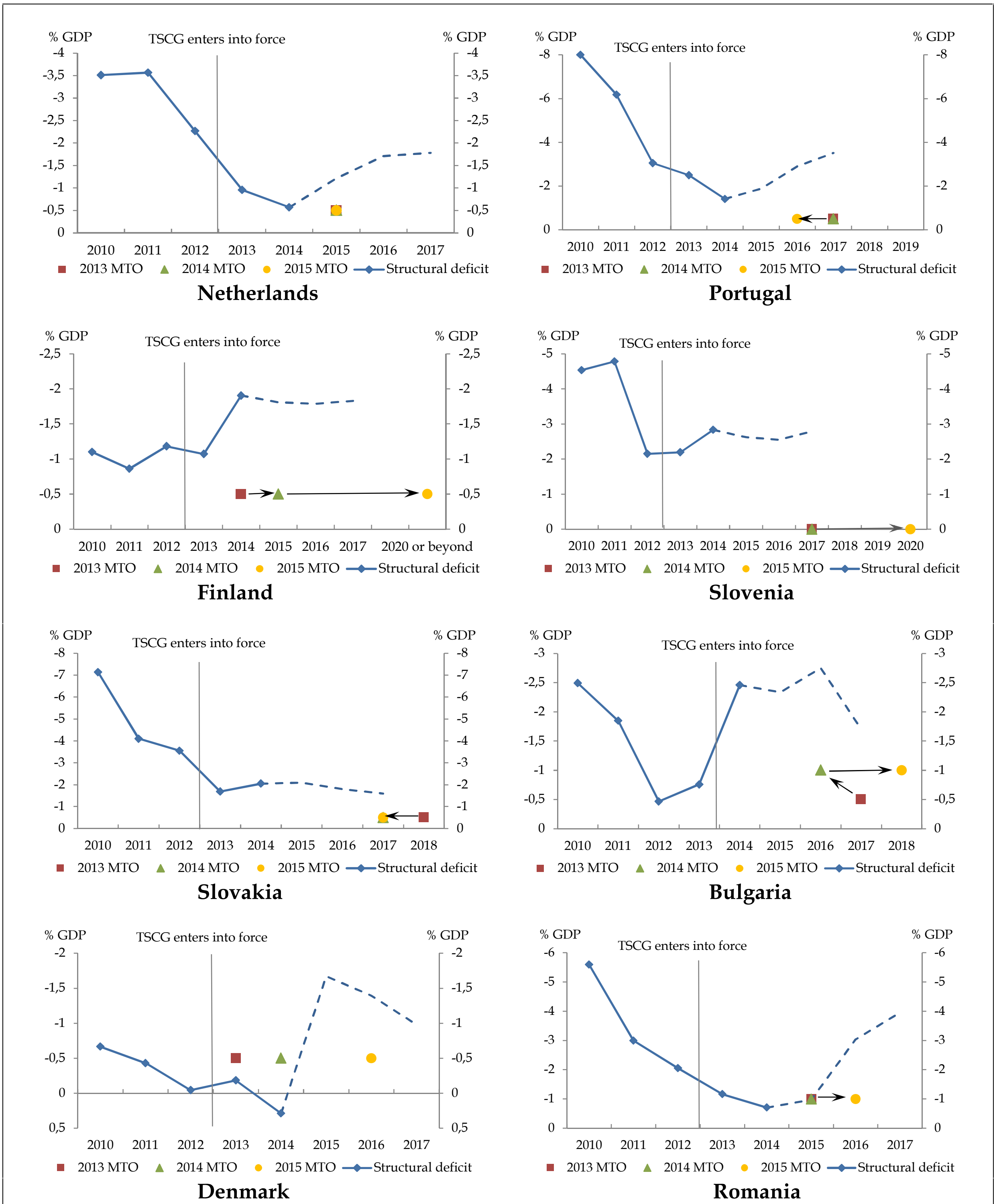


Malta



Source: EPRS based on AMECO and Council country-specific recommendations.

Article 3(2)

In accordance with Article 3(2) TSCG, the Contracting Parties must insert into national law a balanced budget rule 'at the latest one year after the entry into force of the TSCG through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to'.

In addition, the Contracting Parties are required to complement the balanced budget rule by putting in place a correction mechanism in case of significant observed deviations from the medium-term objective (or the adjustment path towards it) on the basis of principles, proposed by the Commission, on the nature, size and timeframe of the corrective action to be undertaken.

The Contracting Parties must also define the role and guarantee the independence of the institutions responsible at national level for monitoring compliance with the balanced budget rule, consistent with Council Directive 2011/85 (part of the six-pack) and Regulation (EU) 473/2013 (part of the two-pack).

In late October 2015, the Commission was still reviewing the transposition of the above-mentioned rules, as required under Article 8 TSCG. It has engaged in consultations with Contracting Parties in order to give them the opportunity to submit their remarks on the Commission's findings prior to the publication of a report on the provisions adopted by each Contracting Parties in compliance with Article 3(2). The report is due to be published in the course of 2016.

Article 4

Article 4 TSCG requires Contracting Parties with a debt-to-GDP ratio exceeding the 60% reference value to reduce it by an average of one 20th per year in line with the reformed Stability and Growth Pact. The rationale behind this requirement is to reduce sovereigns' vulnerability to potential shocks.

In spite of windfalls from the historically low interest rate environment, public debt levels in most of the Contracting Parties exhibit an upward trend (or at best stable) due to the very low inflation and modest recovery across the EU (apart from Spain and Ireland notably). As a result, government debt levels have remained very high, thereby not providing any fiscal buffer in the event of a future shock.

Since the entry into force of the TSCG, only a few EU Member States have managed to put their public debt firmly on a downward trajectory, as required by the TSCG (Table 5 and Figure 2).

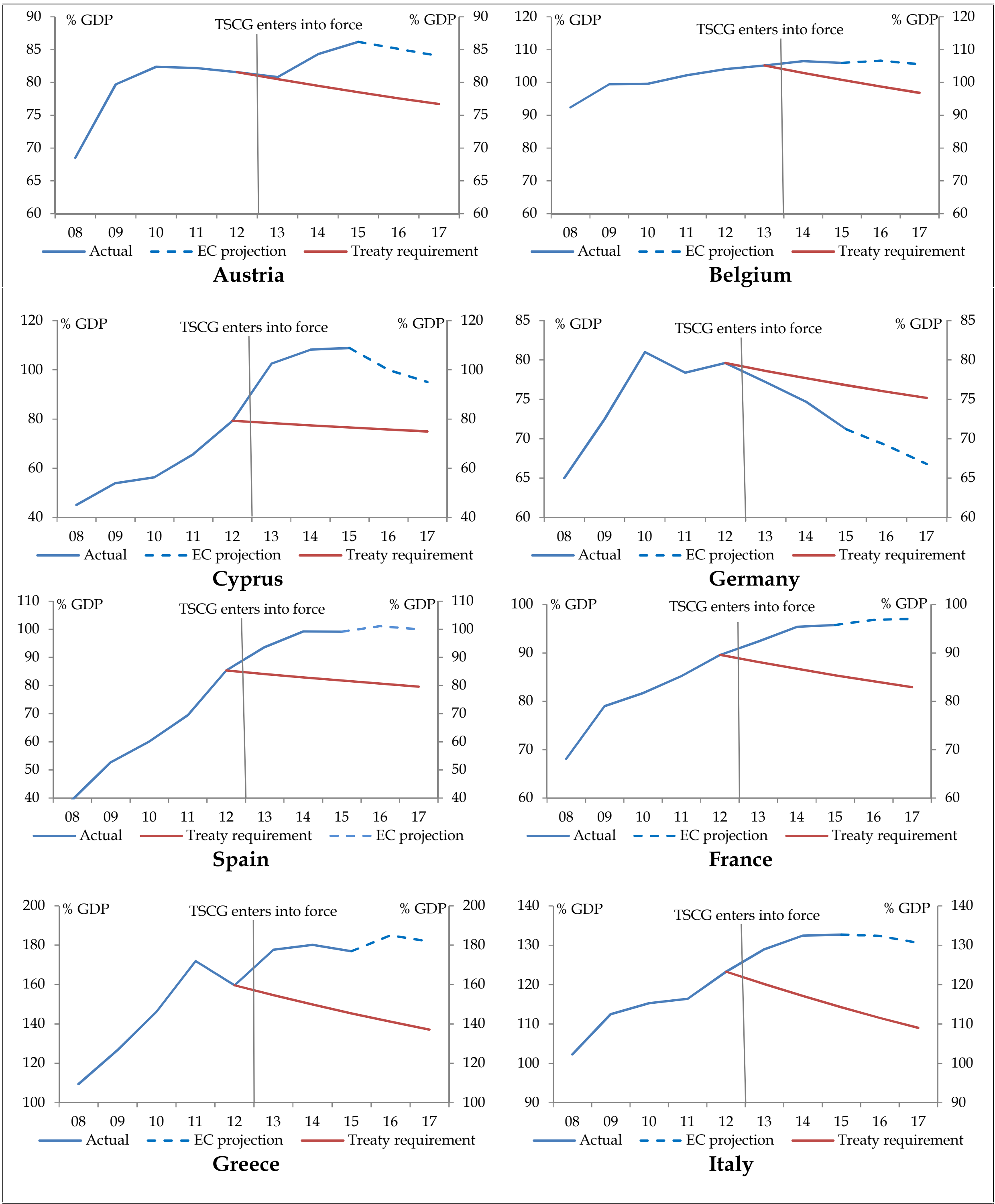
Table 5 – Progress towards the government debt objective

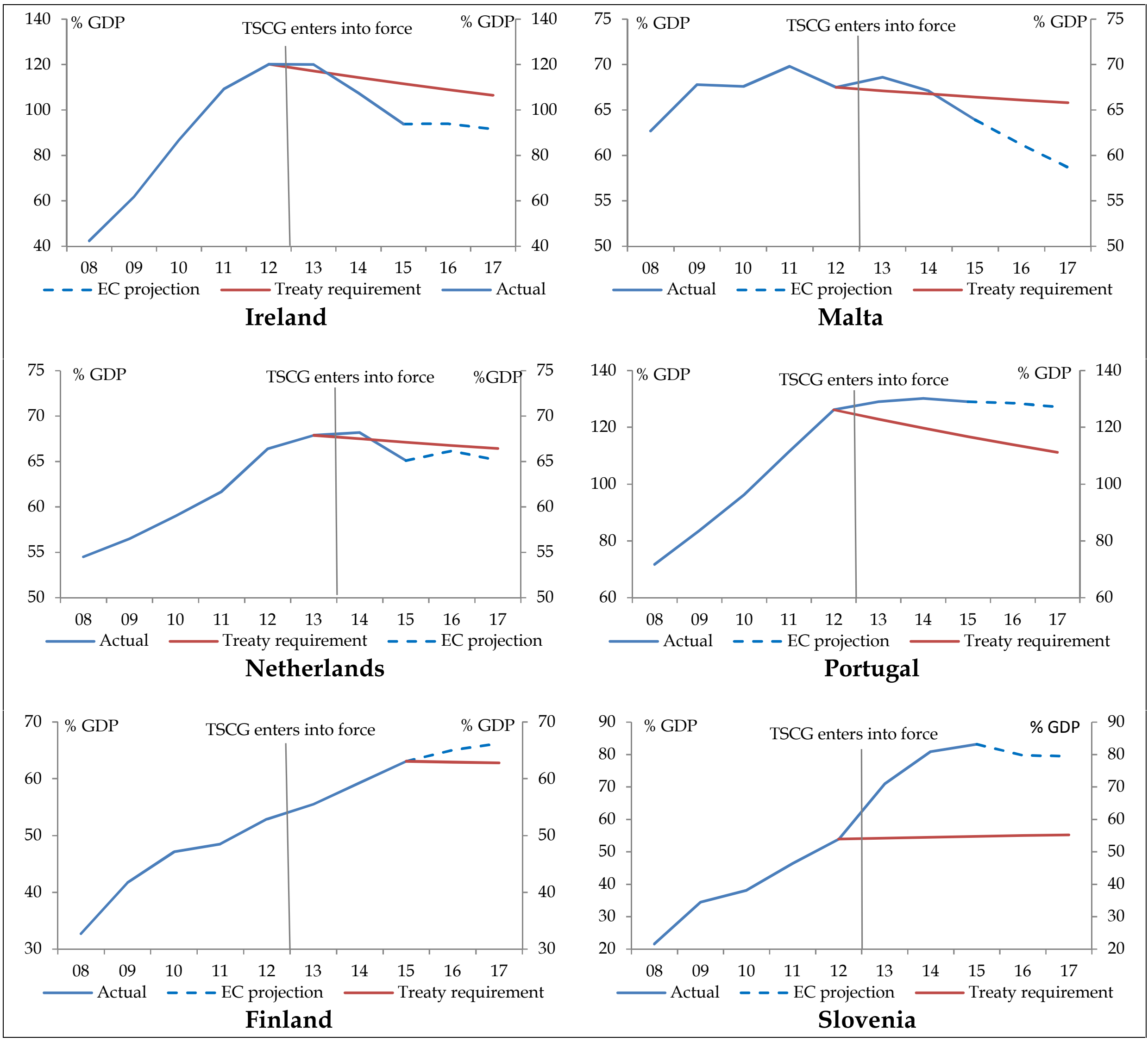
Situation over 2013-2015	Contracting Parties
Public debt firmly on a downward trajectory at the required pace	Germany, Ireland, Malta, Netherlands
Public debt on a downward trajectory, albeit at a slower pace than required	Belgium, Greece, Portugal
Public debt on an upward (or flat) trajectory	France, Spain, Italy, Cyprus, Austria, Slovenia

Notice that the Commission expects government debt to start decreasing from 2016 or 2017 onwards in the following economies (based on its winter 2016 forecasts): Belgium, Italy, Spain, Cyprus and Slovenia. However, those public debt projections do not catch up with the downward path required in 2013 when the TSCG came into force. By contrast, a steady increase in the public debt-to-GDP ratio is expected in the coming two years for France and Finland.

The Stability and Growth Pact (SGP) mentions that the debt reduction requirement is met if the Commission forecasts over the next two-year period show reduction in the debt-to-GDP ratio at the required pace (Article 2 of the Council Regulation (EC) No 1467/97). In addition, for a Member State which was in an EDP on 8 November 2011 and following a three-year transition period from the correction of the excessive deficit, the debt reduction requirement is met if the Member State concerned makes sufficient progress towards compliance as assessed in the opinion adopted by the Council on its stability or convergence programme. In other words, the debt reduction criterion will be applicable under the SGP only as of 2016 for Belgium and Italy, as of 2017 for Austria and the Netherlands and as of 2018 for Malta. As far as Ireland, Greece, Spain, France, Cyprus, Portugal, Slovenia are concerned, the debt rule will become applicable after the transition period of three years, once the excessive deficit is corrected. Lastly, it has already been made applicable for Germany and Finland.

Figure 2 – Contracting Parties' general government debt and TSCG requirement





Source: Eurostat, AMECO, EPRS

Article 5

Article 5 TSCG requires that Contracting Parties experiencing an Excessive Deficit Procedure (EDP) provide an Economic Partnership Programme (EPP) setting out in detail a set of structural reforms, which they intend to undertake and implement to boost competitiveness and growth while correcting durably and effectively the excessive deficit through fiscal consolidation. EPPs shall be submitted to the Commission and the Council for endorsement. The implementation of the EPPs and of the annual Draft Budgetary Plans shall be monitored by the Council and the Commission as well.

Note that the two-pack (Article 9 of Regulation (EU) No 473/2013) – which came into force on 30 May 2013 – defines the content and format of the EPPs in line with Article 5 TSCG.

When the TSCG entered into force on 1 January 2013, there were twelve Member States in an EDP, out of which only five had to submit an EPP, namely Spain, France, Malta, the Netherlands and Slovenia.

On the other hand, Austria, Denmark and Slovakia did not have to submit an EPP – although they were in an EDP in 2013 as well – because the deadline for correction of the excessive deficit was to end that same year. Similarly, countries that were under an economic adjustment programme (i.e. Cyprus, Greece, Ireland and Portugal) did not submit any EPP so as to avoid duplication with measures outlined in the economic adjustment programme reports.

Spain, Malta, the Netherlands and Slovenia submitted an EPP. However, France did not comply with its reporting obligations in 2013, in accordance with the Article 5 TSCG and the two-pack. In a recent report, the European Court of Auditors concluded that 'France submitted an extract from its 2014 draft budget, which was meant to replace the report on action taken and the EPP. However, the report is not consistent with the required format and content for an EPP...'. The Court regretted that 'EPP assessments are a one-off exercise, and the Commission does not systematically follow up the weaknesses identified', pointing out the case of Malta, which 'failed to address all the aspects of the Council's Opinion in respect of a number of reforms, the Commission did not mention the missing details in its assessment of the relevant national reform programme'.[18]

Table 6 – Economic Partnership Programmes

	Contracting Party	Excessive Deficit Procedure (since 2013)	Economic Partnership Programme	Assess-ment
EURO AREA	**Austria**	2013	-	
	Belgium*	2013-2014	-	
	Cyprus	2013-Present	Under an Economic Adjustment Programme until March 2016	
	Spain	2013-Present	2013 Economic Partnership Programme Commission proposal for Council opinion Council opinion on the EPP	
	France	2013-Present	2013 Economic, Social and Financial report Commission proposal for Council opinion Council opinion on the EPP	
	Greece	2013-Present	Under an Economic Adjustment Programme	
	Ireland	2013-Present	Under an Economic Adjustment Programme until December 2013	
	Malta**	2013	2013 Economic Partnership Programme Commission proposal for Council opinion Council opinion on the EPP	
	Netherlands**	2013	2013 Economic Partnership Programme Commission proposal for Council opinion Council opinion on the EPP	
	Portugal	2013-Present	Under an Economic Adjustment Programme until June 2014	
	Slovenia	2013-Present	2013 Economic Partnership Programme Commission proposal for Council opinion Council opinion on the EPP	
	Slovakia	2013	-	
	Denmark	2013	-	

Source: Commission, Council, EPRS
* The TSCG entered into force in Belgium on 1 April 2014.
** Although Malta and the Netherlands corrected their excessive deficit one year earlier than required, the EDP deadline was initially for 2014, hence the obligation of submitting an EPP in autumn 2013.

[18] EU Court of Auditors, 'Further improvements needed to ensure effective implementation of the excessive deficit procedure', April 2016, p. 62.

Within the framework of the European Semester the Commission monitors and evaluates the implementation of the various reform commitments undertaken by Member States and outlined in National Reform Programmes and Economic Partnership Programmes. In late February, it releases Country Reports (formerly known as staff working documents), which analyse the economic policies of EU Member States and include an assessment of potential progress made by Member States in addressing the last year's country-specific recommendations (CSRs). Country Reports also provide in-depth reviews for all EU Member States identified in the Alert Mechanism Report and evaluate potential internal and/or external (excessive) imbalances, in line with the Macroeconomic Imbalance Procedure. In addition, the Commission analyses and assesses the Economic Partnership Programmes alongside the draft budgetary plans of euro area Member States every November.

The Commission reports to the Council, which discusses the Commission proposals for Council opinions on the EPPs. Similarly, the Country Reports are presented in March to the Council, which holds an exchange of views on the implementation of the reform commitments undertaken by Member States.

Article 6

Contracting Parties are required to report ex ante on their public debt issuance plans to the Council and to the Commission, in order to improve coordination of debt issuance. Note that this article is fully in line with Article 8 of Regulation (EU) No 473/2013 (part of the two-pack).

In a communication on a harmonised framework for draft budgetary plans and debt issuance reports within the euro area, the Commission issued guidelines on the form and content of debt issuance reports. Member States should submit two kinds of report: an annual and a quarterly report. The former essentially outlines the (indicative) issuance plans of Member States for the next year including a detailed breakdown into short-term and medium- to long-term securities. It also contains information on the overall funding requirement. The latter report sets out similar information on (indicative) issuance plans per quarter, namely for the current quarter (q), for the previous quarter (q-1) and for the upcoming quarter (q+1).

The Commission requests that these reports be submitted at least one week prior to the start of the next quarter. Note that these reports should not be made public in order not to disclose any potentially sensitive information to financial markets.

The Economic and Financial Committee's Sub-Committee on EU Sovereign Debt Markets (in the Council) monitors the EU bond market in order to promote the efficient functioning of the EU's primary and secondary public debt markets. The sub-committee works in close cooperation with national debt agencies and finance ministries and holds an indicative calendar of debt issuance plans for all EU Member States. It also reports on a regular basis to the EFC on key developments and strategic issues, including Member States' debt issuance plans.

Article 7

Article 7 TSCG calls on euro-area Contracting Parties to support the European Commission's proposals or recommendations considering that a euro area Member State is in breach of the deficit criterion within the framework of the excessive deficit procedure. It should be noted that this provision does not apply if a qualified majority of euro-area Contracting Parties is opposed to the decision proposed or recommended (this is referred to as reverse qualified majority voting).

All euro-area Member States have complied with this article as the Commission's proposals or recommendations concerning excessive deficit procedures were supported.

The Council abrogated the decisions on the existence of an excessive deficit – on the basis of a Commission recommendation – between 2013 and 2015, as the excessive deficit was corrected within the set timeframe (Table 7).

Table 7 – Abrogation of the excessive deficit procedure (2013-2015)

2013	2014	2015
Italy	Austria	Malta
	Belgium	
	Netherlands	
	Slovakia	

Source: Commission, Council

On the other hand, the Commission adopted Recommendations to the Council extending the deadlines for correcting excessive deficit following an assessment (by the Commission and the Council) that effective action was taken for the euro area Member States mentioned below (Table 8).

Table 8 – Extension of deadline for correction of excessive deficit

2013	2015
France (to 2015)	France (to 2017)
Netherlands (to 2014)	
Portugal (to 2015)	
Slovenia (to 2015)	
Spain (to 2016)	

Source: Commission, Council

As far as Belgium is concerned, the Council decided to step up the excessive deficit procedure in June 2013 (under Article 126(8) TFEU), assessing that Belgium had not taken effective action in response to its December 2009 recommendation. It also adopted a decision (under Article 126(9) TFEU) giving notice to Belgium to take measures to correct the deficit in 2013. As noted above, the Council decided to abrogate the existence of an excessive deficit in June 2014, as Belgium's general government deficit was reduced to 2.6 % of GDP in 2013.

Article 8

Article 8(1) TSCG requires the Commission to present to the Contracting Parties a report on the provisions adopted by each of them in compliance with Article 3(2), i.e. Contracting Parties, at the latest one year after the entry into force of the TSCG, shall put into national law: (i) the balanced budget rule 'through provisions of binding force and permanent character, preferably constitutional or otherwise guaranteed to be fully respected and adhered to'; and (ii) the correction mechanism on in cases of significant deviations from the medium-term objective (or the adjustment path towards it) on the basis of common principles to be proposed by the Commission, notably on the nature, size and timeframe of the corrective action to be implemented and also the role and independence of the institutions responsible at national level for monitoring the compliance with the balanced budget rule.

In the event that the Commission assesses that a Contracting Party has failed to comply with the requirements of Article 3(2) or if another Contracting Party raises that same issue independently of the Commission's report, the case may be taken to the EU Court of Justice, which then rules on whether this Contracting Party complied with Article 3(2). A financial sanction of up to 0.1% of GDP may be levied if the Contracting Party does not comply with the Court's judgement.

In late October 2015, the Commission was still reviewing the transposition of the above-mentioned rules. It has engaged in consultations with Contracting Parties in order to give them the opportunity to submit their remarks on the Commission's findings prior to the publication of a report on the provisions adopted by each Contracting Parties in compliance with Article 3(2). The report is due to be published in the course of 2016.

3.2. Analysis of the articles relating to economic policy coordination and convergence (Title IV TSCG)

Article 9

Contracting Parties commit to undertaking all necessary actions and measures to ensure the proper functioning of economic and monetary union and economic growth through enhanced competitiveness and convergence. Thus, their actions should aim to foster competitiveness, promote employment, contribute further to the sustainability of public finance and safeguard the financial stability of the euro area.

First of all, this specific article echoes the Euro Plus Pact, an intergovernmental agreement signed at the March 2011 European Council by 23 EU Member States[19] focusing on the same issues, namely competitiveness, employment, sustainable public finances and financial stability. As stated in the European Council Conclusions, 'the Euro Plus Pact will further strengthen the economic pillar of the EMU and achieve a new quality of policy co-ordination, with the objective of improving competitiveness and thereby leading to higher degree of convergence'. The aim is to ensure stronger economic policy coordination and to establish a system of monitoring by the European Commission of a number of variables presumed to predicate financial and economic imbalances in individual EU countries. The implementation of commitments was due to be monitored politically by the Heads of State or Government of the participating Member States on a yearly basis while at the same time concrete national commitments would be set – to be achieved over the following 12 months – and reflected in the National Reform Programmes and Stability or Convergence Programmes. The Open Method of Coordination was considered 'largely ineffective' and resulted in the Pact being quite dormant and receiving little attention in Member States.[20] However, the Five Presidents' Report of June 2015 argues that the rationale behind the Pact is still relevant. That is why its integration into the EU legal framework is foreseen as part of the first stage of the deepening process (before mid-2017).

Since the entry into force of the TSCG, many measures have been carried out in with a view to meeting the four objectives set out in Article 9. Overall, there were steps in the right direction but more efforts are required to better coordinate economic policies.

In March 2013, the Commission presented a communication introducing a Competitiveness and Convergence Instrument (CCI), which encompassed the ideas both of mutually agreed contracts and of a solidarity mechanism. This measure is a combination of a contractual arrangement which would lay down the key reforms that a Member State would commit to putting in place − within a specific timeframe − related to the country-specific recommendations (CSRs) of the Council and of a mechanism for financial support for the implementation of the reforms in the contractual arrangement. The aim was to help and incentivise Member States, especially those facing a difficulty that may affect the euro area as a whole, to undertake the necessary reforms in order to, ultimately, boost competitiveness.

[19] The Euro Plus Pact was signed by the then 17 euro-area Member States plus Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania. Meanwhile, Latvia and Lithuania joined the euro area in 2014 and 2015, respectively.
[20] European Political Strategy Centre, 'The Euro Plus Pact: How Integration into the EU Framework can Give New Momentum for Structural Reforms in the Euro Area', *EPSC Strategic Notes*, Issue 3, 8 May 2015.

The CCI was included for the first time in the interim Four Presidents' Report presented by the President of the European Council in close collaboration with the Presidents of the Commission, the Eurogroup and the ECB at the European Council of October 2012. Thereafter, the European Council repeatedly displayed its support for the introduction of 'mutually agreed contracts for competitiveness and growth, and solidarity mechanisms and measures to promote the deepening of the Single Market and to protect its integrity'. Yet, despite this support and the European Parliament's calls, the Commission never followed up with the submission of a legislative proposal for the CCI.

Nevertheless, with the aim of supporting countries in their efforts to implement reforms, the Commission decided in summer 2015 to establish a new measure, namely the Structural Reform Support Service. The new service provides, following a Member State's request, practical support and guidance to assist in the implementation of growth-enhancing administrative and structural reforms, particularly those set out in the CSRs. It also help manage revenue and public finances; improves the business environment; helps to facilitate and promote exports; assists on employment, social inclusion and public health; develops efficient, modern, service-oriented public administrations and public procurement practices; promotes the effective rule of law; and combats corruption.[21]

In addition, the Commission presented a package of measures on 21 October 2015, which sets out a revised approach to the European Semester, including through enhanced democratic dialogue and further improved economic governance, such as the introduction of national Competitiveness Boards and an advisory European Fiscal Board (EFB). The package follows the introduction of new guidelines in January 2015 on the application of the existing rules of the SGP, which provide additional flexibility and possible deviation from the MTO for Member States undertaking major structural reforms or accommodating investment.[22]

The October 2015 package included a Commission recommendation on the establishment of national Competitiveness Boards within the Euro Area. The aim of the boards would be to monitor competitiveness developments in the Member State concerned, but also to provide policymakers and relevant economic actors with information to be considered within existing processes at national level, including for example collective wage bargaining. The advice should take into account national specificities and established practices, as well as the broader euro area and EU dimension and, in particular, provide advice on how to implement the CSRs.

The Ecofin Council of 10 November 2015 held an initial exchange of views on the issue, but a formal decision has not yet been adopted. The European Parliament, in its resolution of 17 December 2015 on completing Europe's Economic and Monetary Union 'regrets that the Commission chose not to use the ordinary legislative procedure for the decisions regarding National Competitiveness Boards, and calls on the Commission to make a legislative proposal to that effect'.

Moreover, the Commission presented a decision establishing an independent advisory European Fiscal Board (EFB), in line with the aim of ensuring sustainable public finances. The EFB was established on 1 November 2015 and is expected to become operational by mid-2016. Its aim is to contribute to an advisory capacity in the exercise of the Commission's functions in the multilateral fiscal surveillance, namely to provide a public and independent assessment, at European level, of how budgets – and their execution – perform against the economic objectives and recommendations set out in the EU fiscal framework. As regards transparency, the EFB should publish an annual report regarding its activities including summaries of its advice and evaluations provided for the Commission. In light of this, in its resolution of 17 December 2015, the European Parliament stressed that 'the European Fiscal Board, as the advisory board of the Commission, should be accountable to Parliament' and that, 'in this context, its assessment should be public and transparent'. A report on

21 A legislative proposal establishing the structural reform support programme (SRSP) for the period 2017-2020 was submitted in November 2015. It is a financing instrument that will allow the Union to support institutional, administrative and structural reforms in the Member States by stepping up administrative and institutional capacity and improving the implementation of Union legislation.

22 For further details on the flexibility under the SGP, see Article 3.

this subject is currently in the preparatory phase in the Economic and Monetary Affairs Committee of the European Parliament. The ECB also argued that the EFB should have been given the right to 'provide and publish assessments of the Commission's SGP-related decisions in real time', and the right to 'make submissions in the European Parliament and at the relevant Council/Eurogroup meetings'.

As regards the promotion of employment, the Commission recently presented a preliminary outline of the European Pillar of Social Rights. The aim of the Pillar is to set out a number of essential principles in the fields of employment and social policy in order to support well-functioning and fair labour markets, and welfare systems within the participating Member States that will, ultimately, drive the process of reform at national level and serve as a compass for renewed convergence between them. The Commission has launched a public consultation that will run throughout 2016; the outcome of which is meant to feed into the establishment of the European Pillar of Social Rights early in 2017.

Additionally, the Investment Plan for Europe aims to fill the investment gap and boost economic recovery, job creation, long-term growth and competitiveness, which have been hampered by the crisis. The Investment Plan for Europe is based on three 'mutually reinforcing' pillars. The first pillar foresees the mobilisation of at least €315 billion in additional investment over the next three years with a view to maximising the impact of public resources and to unlocking private investment (the 'Juncker fund'). To that end, a regulation for the establishment of the European Fund for Strategic Investments (EFSI) was swiftly adopted enabling the latter to become operational in July 2015. The European Investment Bank estimates that the EFSI has, as of March 2016, triggered around €76.1 billion of investment in Europe.

Lastly, the establishment of Banking Union has aimed to safeguard the financial stability of the euro area and restore confidence in the banking system so as to foster economic growth. In order to achieve those objectives, the Banking Union architecture comprises a common supervisor for financial institutions (i.e. the Single Supervisory Mechanism or SSM) and a common resolution mechanism for dealing with bank failures (i.e. the Single Resolution Mechanism or SRM). The SSM and the SRM have been up and running since November 2014 and January 2016, respectively. Crucially, the Banking Union structure is underpinned by a set of common rules applying to all EU Member States. In order to complete Banking Union, the establishment of a common deposit insurance scheme has been in progress following the proposal by the Commission in November 2015.

Article 10

Contracting Parties, whenever it is deemed appropriate and necessary, should make active use of the measures specific to euro-area Member States as provided for in Article 136 of the TFEU – which aims to strengthen the coordination and surveillance of their budgetary discipline and to set out economic policy guidelines for them, and provides for the creation of a European stability mechanism to safeguard financial stability of the euro area – and to use the rules on enhanced cooperation (Article 20 of the TEU and Articles 326 to 334 TFEU) on issues that are essential to the proper functioning of the euro area, without undermining the internal market.

Yet, despite the above-mentioned provisions, the Contracting Parties have not yet attempted to use the existing legal framework in practice; rather they continued to conclude separate intergovernmental agreements (IGAs). In 2014, an intergovernmental agreement on the transfer and mutualisation of contributions to the Single Resolution Fund within the framework of the Banking Union was concluded.

The Five Presidents' Report acknowledging the shortcomings of the intergovernmental method notes that the aim is to integrate intergovernmental agreements into the EU legal framework. Based on this commitment, the European Parliament in its resolution of 10 March 2016 'calls on the Commission swiftly to take the necessary steps for a quick integration of the IGA into the framework of EU law, as provided for in Article 16 of the Agreement and in the Five Presidents' Report'.

Article 11

Contracting Parties are required to discuss ex ante all major economic reforms that they plan to undertake and whenever possible coordinate them among themselves, involving the EU institutions as required by EU law. The aim is to benchmark best practices and work towards a more closely coordinated economic policy.

Prior to the TSCG, in 2010, the EU economic governance framework was overhauled including the introduction of (i) the European Semester as a tool to further discuss and coordinate budgetary, economic and employment policies of EU Member States and (ii) tighter EU surveillance of fiscal policies and macroeconomic imbalances, as part of the revised Stability and Growth Pact and the Macroeconomic Imbalance Procedure respectively.

In addition, the European Council of December of 2012 stated its intention to present – following consultations with the Commission and the Member States – to the June 2013 European Council possible measures and a time-bound roadmap on the coordination of national reforms, in line with Article 11 of the TSCG.

In response, the Commission presented in March 2013 a communication on ex ante coordination of plans for major economic policy reforms (EAC) outlining options on how large-scale economic policy reforms in the Member States could be discussed at EU-level before the final decisions are taken at national level. The rationale behind it was to properly take into account any positive or negative spill-overs on other euro area Member States early on in the decision-making process.

Notably, the communication included the Commission's considerations at the time to propose a binding framework for engagement in EAC applicable to all euro area Member States, and to require Member States to make use of existing tools, such as the National Reform Programmes (NRP), to submit to the Commission information about their major economic reform plans. The Communication provided for a formal legislative proposal, within the framework of existing Treaties, in autumn 2013.

In its resolution, the European Parliament welcomed the Commission's communication while highlighting the importance of formal ex ante coordination of economic policy and stressed the binding nature of the proposed framework for all euro area Member States as well as the possibility for other Member States to participate.

The European Council of June 2013 reiterated its call for 'a more effective framework for the coordination of economic policies'. As a result, the Council's Economic Policy Committee agreed in July 2013 to organise a pilot exercise on EAC in order to consider how such a framework could be designed in practice. The exercise included two rounds, covering in total ongoing economic reforms in seven Member States in the areas of labour market, product and service markets, energy generation and networks, and taxation.

Based on the experience of the pilot exercise, the Council's Economic and Finance Committee, in a cover note to the President of the Ecofin Council, raised a number of issues in June 2014 regarding the design of the EAC. One of the key points was that, irrespective of the final framework, the Member States broadly favoured voluntary participation and a non-binding outcome, contrary to their commitment under Article 11 of TSCG. Moreover, Member States seemed to question the added value of the EAC with respect to other governance frameworks by mentioning, for example, that the thematic reviews under the European Semester – albeit not explicitly ex ante – already provided a relevant framework for such discussions.

Despite its initial intention, the Commission never submitted any formal legislative proposal for the EAC framework. What seems closer to the once envisaged EAC framework are the thematic discussions regularly taking place in the Eurogroup meetings, although non-euro-area Contracting Parties of the TSCG are de facto excluded from those discussions. For example, the Eurogroup of 24 April 2015 held a discussion on how the euro area as a whole had implemented the structural reforms recommended in the context of the previous year's European Semester and noted that 'Ministers agreed to hold such discussions regularly and outlined a list of policy areas to be discussed and benchmarked against best practices by the end of the year'. Discussions have so far focused on the labour taxation, pension and pensions reforms, national insolvency frameworks, and the concept and application of benchmarking in the euro area.

3.3. Analysis of the articles relating to the governance of the euro area (Title V TSCG)

Article 12

Article 12 of the TSCG stipulates that the Heads of State or Government of the euro area must meet informally at least twice a year at Euro Summit meetings. The European Commission President also participates in those meetings while the ECB President must be invited to take part in such meetings.

At Euro Summits, euro-area leaders discuss issues 'relating to the specific responsibilities' of euro-area Member States, other issues on the economic governance of the euro area and 'strategic orientations for the conduct of economic policies to increase convergence in the euro area'.

Further, the rules for the organisation of the proceedings of the Euro Summits – adopted on 14 March 2013 – require that two Euro Summits, convened by the President, take place every year. It is also clarified that those 'ordinary' meetings are held after the European Council meetings, adding that 'only exceptional circumstances may justify derogations from the present rules'.[23]

In practice, the first Euro Summit took place in 2008 to address the financial crisis. It was initially advocated by France and long-resisted by Germany.[24] When the sovereign debt crisis began in early 2010, European Council President Herman Van Rompuy decided to convene meetings between the euro-area Heads of State or Government more frequently. At the height of the crisis, up to six Euro Summits took place between summer 2011 and summer 2012. Those meetings were also instrumental in the design and signature of the TSCG itself between October 2011 and March 2012.

However, only one meeting was held in 2013 and in 2014 when the TSCG had already entered into force. This constitutes a breach of Article 12(2).

The Euro Summit President is appointed by the euro-area Heads of State or Government by simple majority for a 30-month term, at the same time as the European Council elects its President. In March 2012 when the TSCG was signed by 25 EU leaders, Herman Van Rompuy was appointed President of the Euro Summit. On 30 August 2014, Donald Tusk was appointed European Council President and Euro Summit President for the period from 1 December 2014 to 31 May 2017, in accordance with Article 12(1) of the TSCG.

The leaders of non-euro-area Contracting Parties must also take part in Euro Summits dealing with competitiveness issues and the global architecture of the euro area and the fundamental rules that will apply to it in the future. They will participate in Euro Summits on specific issues of the implementation of the TSCG, when appropriate and at least once a year (Article 12(3)). However, this has not materialised. For example, in 2015, all meetings were between euro-area leaders, dealing with an agreement granting further financial assistance to Greece.

As regards the accountability of the Euro Summit President before the European Parliament, the TSCG requires that the Euro Summit President present a report to the EP after each meeting (Article 12(5)). The rules for the proceedings of Euro Summits also mention that 'the Euro Summit may issue statements summarising common positions and common lines, which shall be made public' (§6(1)).

[23] Council of the European Union (14 March 2013) 'Rules for the organisation of the proceedings of the Euro Summit' (§1.1 and §1.3).
[24] Wessels, Wolfgang (2016), 'The European Council', Macmillan Education, London, p. 205.

Table 9 shows that the former Euro Summit President, Herman Van Rompuy, did not report to the European Parliament on two occasions in 2010 and 2011; nevertheless, there was no obligation to do so at that time, as the TSCG entered into force only on 1 January 2013. However, Euro Summit President Donald Tusk did not report to the European Parliament following the last Euro Summit meeting of 2015, at which an agreement for Greece was found.[25]

[25] Based on an analysis of his weekly schedules and European Parliament plenary agendas.

Table 9 – Euro Summit meetings since 2010

					Reports to the European Parliament		
Year	**Date**	**Invitation letters**	**Conclusions / Statement**	**Statement**	**Remarks to the EP**	**Weekly Schedule of the European Council President**	
2010	25 March	No formal invitation letter	Euro Area statement	Speech on 7 April	No remarks	-	√
	7 May	Invitation letter	Euro Area statement	No speech	No remarks	Schedule	×
2011	11 March	Invitation letter	Euro Area conclusions	Speech on 16 March	No remarks	Schedule	√
	21 July	Invitation letter	Euro Area statement	No speech	No remarks	-	×
	23 October	Invitation letter	Euro Area statement	Speech on 16 November	Remarks on 27 October	-	√
	9 December	No formal invitation letter	Euro Area statement	No speech	Remarks on 13 December	Schedule	√
2012	30 January	No formal invitation letter	Euro Area communication	No speech	Remarks on 1 February	Schedule	√
	2 March	No formal invitation letter	Euro Area statement	No speech	Remarks on 13 March	Schedule	√
	29 June	Invitation letter	Euro Area statement	Speech on 3 July	No remarks	Schedule	√
ENTRY INTO FORCE OF THE TREATY							
2013	14 March	Invitation letter	No official conclusions/statement	Speech on 20 March	No remarks	Schedule	√
2014	24 October	Invitation letter	Euro Area statement	Speech	No remarks	Schedule	√
2015	22 June	Invitation letter	Main results	Speech on 8 July	No remarks	Schedule	√
	7 July	Invitation letter	Main results	Speech on 8 July	No remarks	Schedule	√
	12 July	No formal invitation letter	Euro Summit statement	No speech	No remarks	-	×

Source: European Council; Author's analysis.

Article 13

The European Parliament and national parliaments of Contracting Parties have regularly held Interparliamentary Conferences on Stability, Economic Coordination and Governance in the EU since October 2013, as required under Article 13 TSCG. At this event parliamentarians discuss budgetary policies and other economic and social issues in line with the provisions of the TSCG. These conferences have contributed to reinforcing the cooperation between the European Parliament and national parliaments and ensuring democratic accountability and legitimacy on economic governance issues and budgetary and fiscal policy.

Interparliamentary conferences take place twice a year in coordination with the European Semester process: over the first semester the conference is held within the framework of the European Parliamentary Week[26] and is co-presided by the European Parliament and the Member State holding the EU Presidency; over the second semester, the national parliament of the country holding the EU Presidency hosts and chairs the conference.[27]

Table 10 – Interparliamentary Conferences on Stability, Economic Coordination and Governance in the EU

Date	Presidency	Place
28-30 January 2013	European Parliament & Ireland	Brussels, Belgium
16-17 October 2013	Lithuania	Vilnius, Lithuania
20-22 February 2014	European Parliament & Greece	Brussels, Belgium
29-30 September 2014	Italy	Rome, Italy
3-4 February 2015	European Parliament & Latvia	Brussels, Belgium
9-10 November 2015	Luxembourg	Luxembourg, Luxembourg
16-17 February 2016	European Parliament & the Netherlands	Brussels, Belgium

Source: European Parliament.

[26] Note that during the European Parliamentary Week, the Interparliamentary meeting on the European Semester cycles takes place along with the Interparliamentary Conference under Article 13 TSCG.

[27] Presidency Conclusions of the Conference of Speakers of EU Parliaments (Nicosia 21-23 April 2013): 'The Speakers propose that the Conference shall meet twice a year and be coordinated with the European Semester cycle. In the first semester of each year, the Conference shall be held in Brussels and will be co-hosted and co-presided over by the European Parliament and the Parliament of the country holding the Presidency of the Council of the European Union, while in the second semester, the Conference shall be held in, and presided over by the country holding the six-monthly Council Presidency.

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The European Council Oversight Unit within the European Parliamentary Research Service (EPRS) has undertaken a detailed analysis, which seeks to assess how far participating EU Member States met their commitments within the framework of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). This intergovernmental treaty was agreed and signed by 25 Heads of State or Government in early 2012 and entered into force on 1 January 2013.

As part of a reformed economic governance framework, the TSCG has sought to introduce more effective and stricter fiscal rules, including further automaticity of sanctions and the transposition of a balanced budget rule into national legislation (under the 'Fiscal Compact'). It has also aimed to enhance economic policy coordination and convergence and improve the governance of the euro area.

This study reviews the main elements of the Treaty and seeks to evaluate how far the Contracting Parties have met their commitments. It shows that, three years after its entry into force, against the backdrop of a modest economic recovery across the euro area and the EU, the implementation of the TSCG has delivered mixed results. Most notably, efforts to comply with the terms of the Fiscal Compact – including the set of rules aiming to strengthen budgetary discipline – varied from one country to another. In addition, the Contracting Parties made some progress on enhancing economic policy coordination and convergence; however, there is still room for improvement. Lastly, the analysis reveals that compliance with the TSCG provisions on the governance of the euro area has not been complete.

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