Editorial

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The global financial and economic crisis and the subsequent public finance crises in some EU Member States have exposed weaknesses in the EU's economic and fiscal governance architecture. Despite the European fiscal framework, many EU and euro area members failed to achieve sufficiently sustainable fiscal positions in the years preceding the outbreak of the global crisis. This contributed to the fact that the financial and economic crisis turned into a sovereign debt crisis. Economic policymakers' attempts to promote the implementation of the EU's Lisbon strategy using the "open method of coordination" – a soft, nonbinding mechanism based on peer review and benchmarking – did not prove very effective either. Moreover, emerging macroeconomic imbalances that may affect the functioning of individual euro area economies, or the EU economy as a whole, were not given the appropriate attention prior to the onset of the crisis. Also, the Treaty of Lisbon did not make adequate institutional and economic policy provisions to prevent or cope with the banking and sovereign debt crisis in the EU.

In light of these realizations, a reform of the EU's economic governance framework consisting of several sets of measures was agreed. The introduction of the European semester, for one part, is supposed to better align the EU's economic policy and budgetary surveillance measures with national budgetary procedures, both in terms of timing and content. Both the preventive arm and the dissuasive arm of the Stability and Growth Pact (SWP) as well as the monitoring of national fiscal frameworks will be strengthened. Second, a new framework for the surveillance of macroeconomic imbalances has been introduced to complement fiscal surveillance. An alert mechanism based on specific indicators, together with a stringent surveillance mechanism, is supposed to facilitate the prevention and correction of such imbalances, in particular with regard to unsustainable debt positions in the private and public sectors, in the finance sector and vis-à-vis non-EU countries. Third, EU-wide monitoring of structural reforms in the Member States is to achieve actual progress toward the objectives laid down in the Europe 2020 strategy in the interest of smart, sustainable and inclusive growth. Moreover, the adoption of the European Stability Mechanism as a permanent crisis management mechanism designed to safeguard financial stability in the euro area as a whole represents an important step toward financial solidarity.

Given the complexity of the governance reform, the Oesterreichische Nationalbank (OeNB) has dedicated this issue of its quarterly publication "Monetary Policy & the Economy" to this intricate topic, aiming to provide the broad public with a comprehensive overview of the EU's new governance architecture, while at the same time explaining the intentions and objectives behind the new provisions. This special issue is the result of a cooperation between authors representing four different institutions, i.e. Austria's Federal Ministry of Finance, the Austrian Federal Chancellery, the Federal Ministry of Economy, Family and Youth, and the OeNB.
The cutoff date for this issue was December 9, 2011.

The first contribution, authored by *Gloggnitzer* and *Lindner,* analyzes the legal foundations of the economic governance reform and provides an overview of the financial and economic policy measures taken in response to the crisis from fall 2008 to early December 2011. The authors offer a preliminary

review of the reforms on the basis of the standard EU procedures as laid down in the Treaty of Lisbon and the initiatives taken by Member States and assess the perspective for future developments. The starting point of the discussion is the fact that the Treaty of Lisbon did not make adequate institutional or economic policy provisions to prevent or cope with banking and sovereign debt crises in the EU and that the institutional decision-making processes put in place by the Treaty proved too sluggish during the crisis. As a result, most of the measures taken to remedy the situation were agreed through intergovernmental decision-making rather than through standard EU procedures (the "Community Method"). The authors show that, by deepening a separate euro governance structure, the states in effect lent expression to the fact that the euro area required a more coherent and efficient economic governance structure.

The following article by *Köhler-Töglhofer* and *Part* addresses the EU's new coordination and surveillance structure, i.e. the European semester, which was first applied in early 2011. The authors explain the contents, objectives and procedures of the European semester, which aims to promote an improved ex ante coordination of EU Member States' economic and fiscal policies by harmonizing the different economic and fiscal policy coordination procedures. As a result, national fiscal and economic policies will be monitored in a coordinated and integrated manner rather than separately, and national policies will be aligned with integrated guidelines. This is to ensure that key economic policy priorities are jointly discussed at EU level and that the complementarity of national economic policy plans is ensured at EU level before related decisions are actually adopted at the national level.

The third contribution, authored by *Auböck, Burger* and *Mangler,* highlights the special features of the Europe 2020 strategy, which defines a new growth and employment policy framework for the EU. The Europe 2020 strategy has been shaped, on the one hand, by the weaknesses of its predecessor, the Lisbon strategy, and on the other hand by the major economic policy challenges brought on by the crisis. In the future, quantitative targets that have been defined early on as well as transparent surveillance are supposed to make it easier to monitor compliance. With its three priorities – smart growth, sustainable growth and inclusive growth – Europe 2020 builds on its predecessor strategy in programmatic terms; at the same time, the new strategy is based on a completely new governance concept: continuous process management, embedded in the coordination and surveillance framework of the European semester. This makes it possible to align the previously separate fiscal policy coordination processes within the SGP framework and the coordination processes relating to economic policy in terms of timing. While the Lisbon strategy was based on the "open method of coordination," the integration of the Europe 2020 strategy into the European semester represents a step toward comprehensive country-specific surveillance.

Four of the six EU legislative acts (the so-called "six-pack") through which the new EU economic governance framework was established relate to aspects of fiscal policy. In the fourth contribution, *Holler* and *Reiss* discuss the changes to the Stability and Growth Pact. The amendments to the SGP – the fiscal surveillance mechanism in place to safeguard the stability of Europe's Economic and Monetary Union (EMU) – are supposed to give more teeth to the SGP framework, which failed to provide

sufficient incentives for correcting fiscal imbalances even prior to the crisis. The core elements of the SGP reform are strengthening the preventive arm by introducing a spending rule, operationalizing the debt criterion in the dissuasive arm by amending Regulation (EC) 1466/97 and Regulation (EC) 1467/97, and tightening sanctions by adopting the new Regulation 1173/2011. The latter regulation provides for a new set of graduated financial sanctions. The changes to the SGP are complemented by new minimum requirements regarding national budgetary frameworks as laid down in Council Directive 2011/85/EU.

Two of the legal instruments constituting the "six-pack" are new regulations governing the procedure applicable in case of macroeconomic imbalances in the EU and euro area. These regulations are analyzed by *Essl* and *Stiglbauer* in the fifth paper published in this issue. Macroeconomic imbalances are viewed as one of the fundamental causes of the global financial and economic crisis. Owing to diverging competitiveness developments and a lack of adequate structural reforms, such imbalances also materialized among euro area countries. Consequently, the financial and economic crisis affected EMU member countries to varying degrees, leading to unexpected challenges for the single monetary policy and the coordinated fiscal policy. To prevent similar developments in the future, a procedure for preventing and correcting macroeconomic imbalances has been created – in analogy with the SGP – and integrated into the European semester. The preventive arm of the procedure provides for the detection and analysis of possible macroeconomic problems. If, in the course of the procedure, a Member State is found to be in an "excessive" imbalance position, the procedure's corrective arm enters into force. This usually means that the EU Council will issue recommendations, based on which the relevant Member State must present a corrective action plan. Failure to comply with Council recommendations may lead to sanctions. The new procedure comprehensively strengthens economic policy coordination in the EU and within EMU.

The last contribution in this special issue, compiled by *Nauschnigg* and *Schieder,* focuses on crisis financing in the EU. To facilitate the management of crises that threaten to spill over to the euro area, or the EU, as a whole, policymakers have established and reinforced stability mechanisms under which financial assistance may be granted to EU Member States and euro area countries. The introduced novelties most notably include mechanisms for the financing of Member States, which had not seemed a necessity for sustaining the monetary union project prior to the case of Greece. Since May 2010, the EU medium-term financial assistance (balance of payments) facility has been increased to EUR 50 billion. Additionally, Greece has been granted bilateral loans, and new financing institutions have been established: the European Financial Stability Facility (EFSF), the European Financial Stabilisation Mechanism (EFSM) and the planned European Stability Mechanism (ESM). These new financing measures complement the global funds of the IMF at the European level.

Next to implementing the reforms and crisis resolution mechanisms discussed in the six contributions, the euro area countries will aim to anchor the economic policy stance within EMU more firmly. Efforts to implement the "Euro Plus Pact" are already under way. On December 9, 2011, the Heads of State or Government of 26 EU Member

States agreed on several measures toward a fiscal stability union. It remains to be seen which effects these reform efforts will actually have on competitiveness, employment, long-term sustainability of public finances and financial stability in the EU and euro area. At this point it seems crucial, however, to safeguard not only the European Union's economic success but also its democratic legitimation.