

Dinner Speech

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Towards a Common Euro Area Fiscal Policy: the Challenges Ahead

Ladies and Gentlemen,
I am very pleased to hold this dinner speech with you today, particularly after so many interesting speakers and experts on this first day of the conference have shed light on a wide variety of topics relating to the debt crisis within the European Monetary Union.

The task of dealing with the financial crisis has put the previous strategies of EU economic policy and its institutional decision-making structures to a difficult test. The Lisbon Treaty did not provide for sufficient institutional and financial measures to prevent and deal with a banking and debt crisis in the EU. For example: there were no tools available for financial stabilisation of the euro area.

Although the Treaty of Maastricht and the Stability and Growth Pact did contain rules that might have been able to prevent or mitigate the current impacts of the crisis, this would have required the Member States to adhere to the economic and budget policy standards they had set for themselves. Furthermore, the decision-making processes foreseen by these treaties were too cumbersome to deal with a crisis situation. In addition, coordination of economic policy via the “open coordination method”, e.g. in the context of the Lisbon strategy (a soft, non-binding mechanism based on peer review and benchmarking) was revealed to be largely ineffective.

We saw that there was a willingness within the euro area of financial solidarity and that even Member States that had come under pressure were prepared to implement sustainable budget policies at the national level over the long term. Thus, in order to ensure the success of the euro over the longer term, we need a comprehensive, over-

all common strategy. In light of these insights, a reform of EU economic policy management was agreed in October 2010, based on the findings of the Van Rompuy Task Force.

In our struggle to deal with the crisis, a comprehensive package of measures has been put together as a basis for sustainable public finance and thus for stability and sustained growth within Europe. These measures will significantly assist in restoring confidence in the EU and in particular, in the euro area, and will place public finance on a sustainable footing. This governance reform is made up of several strands:



- Improving the synchronisation and substantive interplay of the EU mechanisms of oversight regarding economic and budget policy with the national budget processes by introducing the European semester:
 - The aim of the European semester is to achieve better ex ante coordination and substantive interplay of economic policies with budget policies.
 - Annual oversight of economic and budget policies, but also: The basic policy orientation will be holistic, in that economic policy and budget

policy will now no longer viewed in isolation from each other, but rather will be handled jointly and in an integrated way.

- All of this is intended to ensure that the major priorities at the EU level relating to economic and budget policy will be jointly discussed and that the activities of individual Member States will be “in synch” with the community goals at the EU level.
- This, however, represents an end to the „open method of coordination“ and a commitment to joint action by Member States even where such action goes beyond the individual interests of Member States.
- We will use the new rigour of the “six-pack” to combat deficits and mountains of state debt. These EU legislative measures, six in total, will give rise to efficient budget coordination by affecting a reform of the



Stability and Growth Pact and by implementing a new macroeconomic oversight mechanism:

- In the context of the “six-pack” the coordination of budget policy within the EU (particularly within the euro area) and the monitoring of national fiscal frameworks have been significantly strengthened.

- In terms of the goal of medium-term budget planning, in basic respects, we now look for „budgets to be balanced or in surplus.“ To this end, the Treaty on Stability, Coordination and Governance (Fiscal Compact) stipulated a maximum permitted structural deficit of 0.5% of GDP (for 25 Member States).
- Where a Member State fails to achieve this, then that Member State will be required to achieve structural consolidation measures on average of 0.5% of GDP per annum until such time as it is again able to comply with this requirement.
- Added to this is the rule on expenditures, linking expenditure dynamics primarily to economic growth trends.
- In addition, we have introduced the requirement that Member States adhere to debt criteria, and we have imposed the mandatory requirement to bring debt down to levels under the reference level of 60% of GDP wherever the 1/20th rule is exceeded.
- Financial sanctions will be imposed at a significantly earlier stage, even preventively, whenever deviations from the adjustment path grow too large (i.e. 0.5% of GDP).
- Beyond mere budget oversight, monitoring of macroeconomic imbalances (including private debt levels and foreign debt, competitiveness, property prices) is being introduced.
- Early detection of macroeconomic imbalances based on specific indicators (in tandem with a stringent oversight mechanism) is supposed to prevent (and/or to correct) the incidence of such imbalances, particularly the lack of competitiveness and non-sustainable levels of

- debt in the private and public sector, in the financial sector as well as debt owing to third countries. This process likewise contemplates imposing financial sanctions.
- The “two-pack” is intended to help countries to avoid exceeding their budgets and to offer them protection in times of crisis. In specific respects, preventive coordination of national budget processes and increased preventive monitoring of problem countries within the euro area are intended to prevent a “second Greece” situation from developing:
 - With respect to the “two-pack”, we now find ourselves in the midst of the legislative process.
 - Member States’ budget plans will be required to be submitted prior to adoption of national budgets and they will be required to contain detailed information on State spending and revenues.
 - In addition to this, a new framework for monitoring vulnerable countries is planned in order to obtain timely information on the financial status of the affected Member States and to be in a position to react in time.
 - The European Fiscal Compact against loose fiscal policy will represent a further and broader strengthening of budget discipline and convergence of Member States’ economic policy within the euro area:
 - The Fiscal Compact, which was signed on 2 March 2012 by the heads of state and governments, contains further extended measures to strengthen coordination of economic policy within the euro area.
 - The Member States are undertaking to balance their budgets or to generate surpluses. This rule will require measurement of the structural deficit, which is not permitted to exceed a reference value that will be specifically defined for each country (maximum -0.5% of GDP).
 - This rule should preferably be enshrined in the constitutions of Member States (debt brake).
 - With the establishment of the European Stability Mechanism (ESM), an important step has been taken towards achieving financial solidarity within the EU:
 - The ESM was established to be a permanent financial “shield” for euro area Member States.
 - Access to ESM financial assistance is to be based on more strict conditions, relevant to the tool in question. Those conditions can range from macroeconomic adjustment programmes to compliance with criteria specified in advance.
 - The ESM is to take up its work in mid-2012, and is to have an initial loan fund volume of EUR 500 billion.
- The euro area Member States have profoundly changed and improved their way of working together in respect of coherent crisis management and uniform communications vis-à-vis the public and the financial markets.
- They will need to continue acting in concert in order to improve confidence in the ability of EU institutions to resolve crises and in order to restore the credibility of those institutions as a whole. However, it remains to be seen how this new system of “euro governance” will perform in practice. The big challenge of the coming year will be to rapidly and precisely implement these new rules. We know that uncertainties regarding future European developments continue to be very great, just as they have been until today. However, the measures we have implemented

should contribute to further stabilisation and simultaneously lay a foundation for new, innovative growth in Europe.

This is all the more important in light of the fact that our major issues for the future continue to be globalisation, demographic ageing and the climate change.

And for this purpose we will also need a significantly broader leeway in our public budgets than we have today.

The crisis and the consequences of that crisis have afforded us a major opportunity to change many things that have gone wrong in the past and that had been tacitly tolerated.

In this regard, we will also need a new culture of honesty – including in respect of Member States' finance – and a paradigm shift which will have to be driven by Member States' citizens, companies and banks.

We have launched and implemented these necessary steps and paradigm

shifts both at the EU level and at the national level here in Austria.

With the debt brake and package of reforms we have adopted, we have taken the proper steps to place Austria on a firm footing. I am proud to say that we have managed to adopt this package of reforms, which has a ratio of 76 to 24; three quarters of the reforms were spending cuts, one quarter were savings achieved by closing tax loopholes. This represents a unique achievement in Europe in respect of expenditure consolidation and it is our best result in 25 years. This package of reforms gives us breathing space, takes the burden off the backs of our children and will make Austria fit for the future.

Thanks to the course of consolidation on which we have embarked, we are putting Austria on a path towards a zero deficit. Our national efforts have paid off and the result is that we need not fear international comparisons.