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Review paper

NEW FISCAL FRAMEWORK OF THE EUROPEAN MONETARY UNION

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Abstract. *European Economic and Monetary Union faces the most serious crisis since its foundation. The concept of the Union with a single monetary policy and autonomous fiscal policy, which is partially limited by the fiscal rules, as defined by the Maastricht Treaty (later confirmed by the Lisbon Treaty) and specified by the provisions of the Stability and Growth Pact, has proved to be totally inadequate to address the problems of fiscal discipline of the member states. In such circumstances, the need for institutional reform of the European Economic and Monetary Union has been imposed. Revised fiscal rules and regulations on the coordination of economic policies promote institutional base of EMU. The effectiveness and credibility of the new fiscal framework depends on its strict application, readiness of the Commission to monitor fiscal discipline of the member states and the willingness of other institution, firs of all Council to limit the degree of political discretion.*

Key Words: *fiscal rules, Stability and Growth Pact, European monetary union, economic policy.*

INTRODUCTION

The sovereign debt crisis that has impacted the eurozone exposed the shortcomings of the institutional framework of the European Monetary Union. The only exception are institutional arrangements in the monetary sphere, especially the position of the European Central Bank and the acceptance of price stability as the priority goal, which proved to be

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relatively efficient as evidenced by satisfactory results when it comes to the rate of inflation. However, other institutional arrangements that are important for the functioning of the monetary union have shown significant weaknesses, which had an impact on the occurrence and depth of economic crisis in the monetary union. The weakest links in the monetary union are fiscal institutions. The attempts to achieve the monetary union and at the same time keep fiscal independence of the member states have failed. Contrary to expectations, the member states have failed to maintain fiscal discipline, nor did EU institutions, in turn, manage to ensure compliance with established rules. Almost all of the rules that the European Monetary Union is based on, under the influence of debt crisis, were violated. This refers to the rule prohibiting the takeover of debts of the member states (no bailout clause), then fiscal rules laid by the Stability and Growth Pact, but also to the rule of monetary financing prohibition. Undermined credibility of fiscal institutions points to the need for their fundamental reform. In response to the sovereign debt crisis, the monetary union introduced new systemic solutions in order to ensure fiscal discipline and improve economic governance framework in the eurozone. The paper first discusses reasons for the improvement of fiscal framework of the eurozone. After that, basic guidelines of the eurozone economic management improvement, which arose as a response to the economic crisis, are analyzed. Finally, the last part of the paper discusses the Fiscal Pact and suggests the novelties which it introduces.

1. The Need for a Stronger and Stricter Fiscal Framework

Until the outbreak of the debt crisis the eurozone fiscal framework was defined by the Treaty on the Functioning of the European Union (the Treaty),[1] which otherwise took the provisions of Maastricht Treaty related to the prohibition of taking over debts (Article 125 of the Treaty) and the prohibition of financing deficit of the member states with loans granted by the European Central Bank (Article 123 of the Treaty). Another important cornerstone of fiscal discipline consists of fiscal rules defined in Article 126 of the Treaty, which establish the obligation of the member states to avoid excessive deficits and to conduct such fiscal policy that will ensure compliance with the limits in terms of public debt (60% of GDP) and the budget deficit (3% of GDP). Concretization of the obligation of the member states to conduct a responsible fiscal policy was made by adoption of the Stability and Growth Pact (SGP),[2] so that the preventive arm of the SGP obliges the member states to maintain or to adjust towards their medium-term budgetary objective, while the corrective arm of the SGP should ensure correction of excessive deficits in case they still occur. Although this act provided financial sanctions for the noncompliance with the above mentioned provisions, over time it proved to be an inefficient tool for ensuring fiscal discipline. In fact, since the beginning of the European Monetary Union (EMU), a consistent application of fiscal rules enshrined in the SGP was

[1] Treaty on the Functioning of the European Union TFEU, Official Journal of the European Union (OJ of the EU), C 115/ 49, 9.5.2008.

[2] Stability and Growth Pact entered into force in 1999 and includes Council Regulation on the strengthening of the survellance and coordination of economic policies, No. 1466/97; Council Regulation on speeding up and clarifying the implementation of excessive deficit procedure, No 1467/97, OJ of the EU, L 209, 02.08.1997.

absent, as in the case of Germany and France (Doukas 2005, p. 297)[3]. Favourabe economic trends, which marked the beginning of the 2000s, created a more favorable picture of public finances. For example, in 2007 excessive budget deficits (exceeding the reference value of 3% GDP) were registered in only three countries, while with the outbreak of the economic crisis in 2009 twenty two member states registered deficit over the reference value. Deterioration in public finances of the member states and the EU is also illustrated by the data on public debt, which in 2007 amounted to 59% of GDP, 74.4% in 2009 and over 80% in 2010 (McArdle 2011, p. 10).

Since the existing institutional framework proved inadequate in dealing with the crisis, from 2010 onwards a number of measures were undertaken by the Union's institutions aimed at mitigating the consequences of the crisis and, what is especially important, removing the causes of the crisis.[4] These include granting of loans by the European Central Bank to strengthen liquidity and support heavily indebted countries, through funds supported by the EU and IMF (Jurčić 2010, p. 325). Removing causes of the crisis, however, implies the reform of legislation governing the functioning of financial markets and creating loan funds, with the support of the IMF, aimed at establishing financial stability (Ruffert 2011, p. 1784). The central point of the reform is the change of legislation which imposes obligations of respecting the fiscal discipline by the member states. Reinforcement of fiscal discipline is a cornerstone of the future fiscal union and eventually political union (De Grauwe 2009, p.172). The new fiscal framework is, in a sense, a guarantee for key EMU countries (notably Germany) that loans approved to "peripheral" countries will be returned, since it introduces the practice of responsible management of public finances by the heavily indebted countries.[5]

[3] The crisis of the Stability and Growth Pact culminated when the Council of Ministers did not accept the proposal of the European Commission to apply against these countries measures provided for in Article 104 (8) and (9), which are related to publication of recommendations, since effective action was not taken (France), that is, no measures were taken up to the established deadline to reduce the deficit to the extent that Council estimated (Germany).

[4] In addition to the establishment of the funds to support countries affected by the debt crisis and the European Stability Mechanism, the economic crisis has also affected the creation of regulatory framework in other areas. This primarily relates to financial regulation and supervision. In Novembar 2010 new regulations were adopted which create regulatory bodies that cover the area of banking, insurance and securities markets. Regulation 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision 716/2009/EC and repealing Commission Decision 2009/78/EC, OJ 2010, L 331/12; Regulation 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision 716/2009/EC and repealing Commission Decision 2009/79/EC, OJ L 331/48; Regulation 1095/2010 of the European Parliamentand of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision 716/2009/EC and repealing Commission Decision 2009/77/EC, OJ 2010, L 331/84.

[5] In addition, the adoption and ratification of the Fiscal Treaty by all member states of the eurozone have significant political consequences, since easier acceptance of support measures to states affected by the economic crisis could be expected. This primarily refers to the measures taken by Germany which, as the leading country of the eurozone, until recently firmly refused such measures: strengthening of the loan fund in the eurozone and emision of the Eurobonds. In exchange for the assistance, the borrowers have to subordinate macroeconomic policies to their rich neighbors.

2. STRENGTHENING OF THE EU ECONOMIC GOVERNANCE FRAMEWORK ("SIX-PACK")

Strengthening of the existing fiscal framework in the European Monetary Union was achieved when a package of legislative changes entered into force in December 2011. These new measures, known as the Six-Pack, include five new Regulations and one Directive. The entry into force of these regulations is, in its scope, one of the most complex changes achieved since the establishment of the EMU (Schwarzer 2012, p. 36-38). The adoption of this legislative package reinforces the Pact for Stability and Growth and increases the effect of fiscal policies. In this way, conditions are created for strengthening fiscal discipline, stabilizing national economy and preventing new crises in the EU.

The most significant changes brought about by this package include: the introduction of sanctions, which reinforces application of preventive and corrective part of the SGP and introduction of control over economic and especially budgetary policies of the states faced with macroeconomic imbalances. The SGP system has undergone significant changes, which relate to:

a) *Strengthening of preventive measures*. In recent years, the envisaged fiscal rules have not yielded the expected results due to the inability to establish control over the fiscal policies of the member states. Amendments to SGP reinforce the obligation of the member states to avoid excessive budget deficits (3% of GDP) and public debt growth over 60% of GDP. Strengthening preventive measures implies effective budget control and better coordination of economic policies of the member states in accordance with Article 121 of the Treaty, in order to address the problem of excessive budget deficits in the early stages. The key changes of the preventive measures of Stability and growth Pact are as follows:

- Greater transparency. The member states must make certain that their public finances, regardless of the level of government (local, regional, national), are consistent with the fiscal framework of the Union. This means that all important elements of the budget process must be in accordance with the European standards. Emphasis is placed on the need for harmonization of budget accounting, statistical reporting and budgetary projections in the medium-term budgetary programs.
- Strict enforcement of fiscal rules. The states are required to adhere to the medium-term budgetary objective (MBO), which must be evaluated on the basis of an overall assessment, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures.[6] For that purpose, the growth of public expenditure must follow a medium-term growth rate of GDP, so that the appearance of any extra income leads to higher savings, not higher costs. Faster fiscal adjustment is expected from the states in which the ratio of debt crossed the reference line, as well as the states in which the question of its sustainability is raised.
- Increase the efficiency of preventive measures. Failure to comply with the agreed principles on the part of the specific member state results in the recommendation by the EU Council about the need to conduct appropriate corrective actions. Failure to comply with the recommendations entails appropriate consequences. In the case of EMU coun-

[6] Deviation from the medium-term budgetary objective or adjustment path towards it is possible only in exceptional circumstances and only under the condition that this does not jeopardize medium-term fiscal balance.

tries, not taking any action results, according to Article 4 Decree no. 1173/2011, in a decision of the Council which state that such action is missing.[7] Within 20 days of the above mentioned decision the Commission suggests to the Council to make a decision to introduce financial sanctions against a specific country. Financial sanctions are reflected in interest-bearing deposit amounting to 0.2% of its GDP from the previous year.

b) *Strenghtening of the corrective arm.* Corrective mechanism is activated automatically in the event of significant observed deviations from the medium-term budgetary objective or the adjustment path towards it. Two key changes are related to:

- Strict enforcement of fiscal rules. In addition to the rule related to budget deficit, through the changes of the Pact another criterion is introduced, which is related to the amount of public debt. Reduction of public debt, according to Council Regulation no. 1177/2011, shall be treated as one of the criteria for assessing the state of public finances.[8] The member states of the eurozone with public debt exceeding the reference value (60% of GDP) are obliged to reduce debt in the amount by which their debt exceeds the set value by at least 1/20 yearly, in the next three years. If they do not act accordingly, procedure in the case of the excessive deficits is applied against them. It also emphasizes that during determination of the proposal and assessment of whether the debt is reduced in the satisfactory way, the Commission must take into account all relevant factors.
- More efficient use of sanctions in the case when a member state is not willing to reduce the level of deficit and the public debt. If the Council, acting in accordance with Article 126 of the Treaty on the Functioning of EU, conclude that there is an excessive deficit in a state that has already been deposited interest bearing deposit or in a state in which the Council (based on the Commission proposal) has established a serious violation of the obligations in terms of the budget deficit the Commission shall, within 20 days of decision, recommend to the Council to adopt a decision requiring from a member state to put interest-free deposit. If in spite of all, the action aimed at eliminating excessive deficit is lacking, which is ascertained by the decision of the Council, the Commission will propose to the Council, within 20 days, to transform non-interest bearing deposit into a penalty.

c) Elimination of the causes of macroeconomic imbalances in the euro area. In the past decade, the member states have applied divergent economic policies, leading to differences in the level of competitiveness and major macroeconomic imbalances within the EU. A new mechanism of control has the function to timely detect imbalances and enable corrective action. It is based on the following elements:

- Early warning system of macroeconomic imbalances. The establishment of an early warning system enables timely detection and monitoring of imbalances. The Commission prepares an annual report containing financial and economic evaluation based on

[7] Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area, *Official Journal of the European Union*, L 306/1.

[8] Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, *Official Journal of the European Union*, L 306/33.

internal and external indicators. Internal indicators are related to the indebtedness of public and private sector developments on the financial markets, unemployment trends and the like. External indicators refer to the state of current account balance, net investment position of the country, the real exchange rate, price trends, taking into account the different components of the level of productivity. At the stage of early warning the Commission pays particular attention to developments in the economy, including growth rates, employment rates, nominal and real convergence inside and outside the euro area, productivity growth. The report of the Commission will be considered by the Council, which, according to Article 121 of the Treaty, provides for the coordination of economic policies and the convergence of sustainable performance of member states economies. If it is concluded that a state is threatened by serious imbalance, the Commission will prepare a detailed report on macroeconomic developments. Such a report shall be made also in cases where there is a risk of sudden disturbances that require detailed analysis. On the basis of detailed analyzes, if the Commission considers that a member state is faced with an imbalance, it reports to the European Parliament, the Council and the Eurogroup. The Council, on the proposal of the Commission, provides recommendations to the member state about the main directions of economic policy.[9]

- Procedure in the case of excessive macroeconomic imbalances.[10] Based on a detailed analysis, the Commission considers whether there is excessive imbalance in the member state. If it concludes that there are serious imbalances (or the risk of their occurrence) it proposes to the Council to initiate the procedure in the case of excessive imbalances and recommends the member state to take corrective measures. It is required from the state with macroeconomic imbalances to prepare an action plan with exhaustive listing of the measures which shell be applied in the future in order to establish economic stability. The quality of the action plan is estimated by the Council based on the report composed up by the Commission.[11] An integral part of this phase is to monitor corrective actions i.e. implementation of adopted recommendations. For the eurozone member states that fail to comply with the established guidelines, non-financial measures and financial penalties are provided if the imbalance is not eliminated.[12]

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[9] According to Art. 121, Treaty on the Functioning of the European Union, about this recommendation the Council is notified and it becomes accessible to the public.

[10] Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, *Official Journal of the European Union*, L 306/25.

[11] According to Regulation 1176/2011, if the Council, on the recommendation of the Commission concludes that proposed measures or established sequence of measures envisaged by the corrective action plan is not sufficient, recommendations are made to the particular state to prepare a new corrective plan within two months.

[12] Within the forceful measures, Regulation 1174/2011 provides for the possibility of introducing interest-bearing deposits, or introduction of monetary sanctions towards a particular state in the amount of 0.1% of its GDP in the previous year. Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on Enforcement Measures to correct excessive macroeconomic imbalances in the euro area, *Official Journal of the European Union*, L 306/8.

d) *Periodic monitoring of economic policy and the state of public finances.*[13] Conducting of irresponsible economic policies by the individual members of the eurozone is the main reason for the eurozone crisis. In this regard, Council Regulation (Article 2-A, Regulation 1175/2011) creates a legal basis for closer coordination of economic policy, which includes consideration of the budget of the member states before its adoption. Harmonization of economic policies of the member states is carried out within the European Semester for Economic Policy Coordination.[14] Achieving multilateral surveillance within the European Semester includes:

- Formulation and monitoring implementation of the framework guidelines for conducting economic policies of member states and the Union in accordance with Article 121 (2) of the Treaty on the Functioning of the European Union;
- Establishing guidelines on employment policy conducted by the member states and, in accordance with Article 148 of the Treaty on the functioning of the EU, monitoring their application;
- Submission and assessment of stabilization programs of the member states, that is, convergence programs in accordance with the secondary EU legislation;
- Submission and assessment of compatibility of national programs with the EU strategy to boost growth and employment in accordance with the general guidelines set by the Council;
- Supervision of the prevention and correction of macroeconomic imbalances in accordance with Regulation No. 1176/2011.

Adoption of legislative package is the first step in improving the fiscal framework of the eurozone. With amendments to EU legislation, the set of the variables that are taken into account when making multilateral control is expanded, creating conditions for the gradual introduction of sanctions. However, the key problem that was also present in the earlier Stability Pact, which refers to the long process of coordination of economic policies of the member states and credibility of compulsory sanctions has not been resolved (Buti & Carnot 2012, p. 908). In an effort to overcome the consequences of the current crisis in the eurozone and create institutional framework that will prevent future crisis, the EU institutions initiate the procedure for acceptance of new fiscal agreement that would overcome these shortcomings.

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[13] Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, *Official Journal of the European Union*, L 306/12.

[14] Regulation (EU) No 1175/2011 of the European parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, *Official Journal of the European Union*, L 306/12.

3. TREATY ON STABILITY, COORDINATION AND GOVERNANCE IN THE ECONOMIC AND MONETARY UNION

The existing fiscal framework has proven to be inadequate for solving the sovereign debt crisis of the eurozone member states and establishing fiscal balance. One of the objections to the amended Stability and Growth Pact is that legal documents which include new rules do not belong to the EU primary but secondary law. This means that these rules can be changed relatively easily by ordinary legislative procedure, as it has happened in the past. The original idea was to introduce new fiscal rules into the Treaty on the Functioning of the European Union. However, as there was no consensus to change the Treaty, the European Council adopted a solution which implies reaching the new agreement by the EU member states, which would take effect upon the completion of the ratification process in the signatory states. By adopting this approach, conditions are created for provisions of the Stability and Growth Pact to obtain the status of an interstate agreement, with options allowing individual member states (the United Kingdom and the Czech Republic) not to sign it and thus avoid its application. This agreement entered into force on January 1, 2013 with the ratification by at least 12 signatory states whose currency is euro.[15] Five years after the entry into force of the Agreement, based on evaluation of the experiences in its implementation, necessary steps shall be undertaken in accordance with the Treaty on European Union and the Treaty on the Functioning of the EU in order to incorporate substance of the agreement into primary EU law.

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union aims to strengthen the economic and monetary union (Article 1). This is achieved by the provisions of the fiscal agreement that encourage budgetary discipline and strengthen economic policy coordination and improve the management of the eurozone (Craig 2012, p. 233). In this way, support is given to the realization of the Union's objectives relating to sustainable growth, employment, competitiveness and social cohesion. One of the key issues raised with the initiative for adoption of the agreement is related to the legal basis for its adoption. The legal basis is found in Article 4 (3) of the Treaty on European Union, which regulates the principle of sincere cooperation. This principle requires from all EU member states to assist each other in carrying out tasks arising from the Treaty, or from acts of the institutions of the Union, and to refrain from any measure which could jeopardize attainment of the EU objectives. The central parts of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) are Fiscal compact and the part covering economic policy coordination and convergence.

3.1. Fiscal compact

The Fiscal compact is a central part of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and aims to foster fiscal discipline, notably in the euro area, building on and enhancing the reinforced Stability and Growth Pact. Its key elements include: 1) balanced budget rule including an automatic correction mecha-

[15] This condition was met when Finland, the twelfth euro area member state to ratify the Treaty, deposited its instrument of ratification on 21 December 2012.

nism and strengthening of the excessive deficit procedure, 2) the obligation of contracting parties to ensure a compliance with the fiscal rule at the national level, and 3) supranational control of the member states budget through a strict application of procedures in the case of an excessive deficit, including the application of sanctions and control by the European Court of Justice.

1) The biggest innovation is introduction of the "golden rule" to ensure fiscal discipline among the members. Under this rule, the budget of the member states should be balanced or in surplus. Unlike the revised SGP, which determined the obligation of the member states to avoid excessive deficits, the new Fiscal Treaty set more stringent rules as it requires budget balance or surplus budget. Exceptionally, the adopted budget rule allows the possibility of structural budget deficit that can not exceed 0.5% for the states in which the proportion of debt to GDP exceeds 60%, or 1% for the states where the share of debt is below the reference value. The new Fiscal Treaty generally assumed solution foreseen in the Stability and Growth Pact. The golden budget rule applies along with the other three fiscal rules, including the rules relating to the amount of the debt or the budget deficit that was accepted by the Maastricht Treaty, while the rule of reducing public debt by 1/20 is taken from the Annual Regulation 1177/2011, which amended Stability and Growth Pact.

2) The application of fiscal rules at the national level. Contracting parties oblige to, at the latest one year after the entry into force of this Treaty, incorporate the balanced budget rule into national legislation and strengthen compliance with this rule through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes. According to Article 3 of TSCG, contracting parties are obliged to take necessary measures to ensure convergence to the appropriate medium-term objective. The proposed time frame in which convergence has to be achieved is established by the Commission by assessing for each country specific sustainability risk. Of course, achieving these goals requires economic stability. To ensure adequate flexibility Fiscal compact provides an exit clause. Article 3 (3) provides a temporary deviation from the balanced budget rules if unexpected circumstances occur, defined by the agreement as unusual event outside the control of the signatory states.[16] In addition, each state is required to define the corrective mechanism that is automatically activated in the case of significant deviations from the realization of the medium-term objective.[17] This model has already been applied in Germany – as a provision contained in the German Constitution that commits the federal government to reduce its structural deficit towards the medium-term target of 0.35% of GDP by 2016. Austria, Poland and Spain have implemented similar measures, although Austria has not incorporated these provisions into its Constitution. The European Commission is required to prepare a report on compliance with this transposition requirement. If the member states do not incorporate the balanced

[16] By defining exceptional circumstances as events which are unusual and acting out of control of the state, the agreement determines that they have a significant impact on the financial position or that they can cause serious economic consequences in a particular state.
[17] Each Member state at the national level defines corrective mechanism based on the principle established by the Commission, especially in relation to nature, extent and timing of application of corrective actions.

budget rule and correction mechanism into the national law, Article 8 of TSCG, the fiscal agreement provides possibility for the member states, on the basis of the report of the Commission or on its own initiative, to take action before the European Court of Justice, which decision commits the affected country to take necessary measures to comply with the judgment within a specified period.

3) Supranational control of the budget of the member states through the strict application of the procedure in the case of excessive deficit, including the application of sanctions and control by the European Court of Justice. The most significant changes when it comes to supranational control refer to procedures in the case of excessive deficit. The states subject to an excessive deficit procedure shall put in place a budgetary and economic partnership program including a detailed description of the structural reforms which must be put in place and implemented to ensure an effective and durable correction of its excessive deficit. The content and format of such programs shall be defined in the European Union law (Article 5 of TSCG). The program shall be submitted to the Commission and to the Council for approval and monitoring of its implementation within the framework of multilateral surveillance provided by SGP. Another important innovation is introduction of quasi-automatic sanctions for countries that do not meet the criteria in terms of the amount of deficit (Amtenbrink 2012, p. 139). The imposition of sanctions is facilitated by introducing the category of reverse majority voting. The Treaty on the Functioning of the EU (Article 126 (13)) requires a qualified majority for adoption of sanctions against a particular state, while the Fiscal Treaty requires that qualified majority must decide not to apply sanctions. Certainly the biggest innovation is the judicial review of compliance with the provisions of the Fiscal Treaty. By the adoption of Fiscal Treaty, the EU Court of Justice receives an important role in monitoring the implementation of fiscal rules. According to Article 8 of TSCG, the signatory states, on the basis of the report of the Commission or independently of this report, can bring the case before the Court of Justice based on the estimation that a particular state has failed to fulfill obligations related to the inclusion of rules on budgetary balance in domestic legislation in accordance with Article 3 (2) of TSCG. The court's decision is binding for the parties in the procedure, which are bound to take appropriate measures to enforce the decision of the Court in due time. If a signatory state, on the basis of self-assessment or assessment of the Commission, considers that another state has not taken necessary measures to fulfill decisions of the Court, it may bring the case before the Court of Justice and demand the introduction of financial sanctions, according to the criteria established by the Commission in accordance with Article 260 of the Treaty. [18] If the Court confirms that member state has not complied with its decision, it may order lump sum or penalty payment appropriate in the circumstances, with the sanctions imposed that do not exceed 0.1% of GDP. If sanctions are imposed on a country of the Eurozone, the monetary amount has to be paid to the European Stability Mechanism, in other cases payments are made to the general budget of the European Union. An important novelty introduced by the Fiscal

[18] Article 260 2 states: If the Commission determines that the member state has not taken steps to carry out the decisions of the Court, it may bring the case before the Court, since that country is given an opportunity to present its objections. It proposes the amount of the lump sum or penalty needed to pay by that state, which it determines in accordance with the circumstances (*The Treaty on the Functioning of the European Union*).

Treaty concerns the role of national parliaments in ensuring budgetary discipline. According to Article 13 of the Treaty, European Parliament with national parliaments of the signatory states, will together determine the organization and promotion of a conference of representatives of the relevant Committees of the European Parliament and representatives of the relevant Committees of national Parliaments in order to discuss budgetary policies and other issues covered by the Treaty.

3.2. Coordination of economic policy and convergence

The institutional framework of European Economic and Monetary Union responsibility for economic policy carries over to the member states.[19] However, the economic crisis has shown that macroeconomic imbalances in one country lead to potential instability of the economy of other countries. This is the reason why TSCM is especially devoted to strengthening the economic policy coordination in order to achieve nominal and real convergence. It further elaborates the provision of the Treaty on the Functioning of the EU (Article 121), which prescribe the obligation of the member states to coordinate their economic policies. In December 2011, The European Council defined Macroeconomic Imbalance Procedure, which emphasises obligation for the member states to draft their economic policy in order to avoid or correct excessive macroeconomic imbalances.[20] The TSCG adds new elements to the policy coordination framework. According to Article 9, signatory states commit to work together to ensure normal functioning of Economic and Monetary Union, economic growth through convergence and strengthen competitiveness. The emphasis is placed on the obligations of signatory states to take necessary actions and measures in all areas, which are necessary for the stable functioning of the euro area and fulfillment of objectives relating to strengthening of the competitiveness, rising employment, sustainability of public finances and restoring financial stability.

In order to contribute to successful functioning of Economic and Monetary Union, signatory states have expressed their commitment to raise the level of coordination whenever necessary. Closer economic policy coordination has been achieved in several ways: a) stronger coordination and surveillance of budgetary discipline among eurozone members b) acceptance of special guidelines for economic policy in the euro area and c) obligations of contracting parties to discuss ex ante all planned economic-political reforms, while respecting the principle of coordination and benchmarking best practices.[21] Alt-

[19] On the other hand, national economic policy under EU law is treated as a matter of common concern of the Union as a whole, and especially the eurozone.

[20] At this meeting a statement was adopted on the need to strengthen the economic union. The statement stresses that the stability and integrity of the Economic and Monetary Union and the European Union as a whole require the swift and vigorous implementation of already agreed measures as well as further qualitative progress toward a "stable fiscal union" in the eurozone. In addition to the single currency, a strong economic pillar is necessary. It primarily involves improved management that will introduce fiscal discipline and enhance the integration of the internal market, as well as growth, competitiveness and social cohesion. The emphasis is placed on the need to strengthen coordination on issues of vital importance for the functioning of the eurozone. In this regard, the Council members have pledged to work towards conducting a common economic policy. European Council, "Statement by the Euro area Heads of State or Government", Brussels, 9 December 2011.

[21] The decision about adopting these measures is brought by the Council, with only members of the Council represented by the member states vote on these measures. Article 136 (2) of the Treaty on the Functioning of the European Union.

hough it recognizes the need for a greater level of coordination in the conduct of economic policies of the member states, TSCG does not introduce fundamentally new mechanisms that will ensure it in practice. Without it, these provisions are of a declaratory character without the possibility of legal enforceability.

In an effort to improve the governance of the euro area TSCM institutionalize new body - Euro Summit, whose main function is the improvement of the economic management of the monetary union. It consists of the presidents and prime ministers of the states whose currency is euro, together with the President of the Commission. This body functions through informal meetings in whose work the president of the European Central Bank can also participate. Euro Summit meetings are held whenever necessary, at least twice a year, to discuss issues related to the responsibility of the states whose currency is euro, in terms of a single currency, other issues related to management of the eurozone and guidelines for the conduct of economic policy. The main task of this body is taking measures to speed up the nominal and real convergence of the member states. In addition, Euro Summit discusses issues related to: improving the competitiveness of signatory states; modification of institutional arrangements of the eurozone and, especially, consideration of the rules that will apply in the future; consideration when necessary, and at least once a year, issues relating to the application of TSCM.

With the entry into force of the Fiscal Treaty, one body, which in the past usually had meetings on an *ad hoc* basis, became a regular form of an exchange of views about management of the eurozone. The role of the Euro Summit is almost identical to the role of the EU Council, but the questions it addresses are primarily related to the functioning of the eurozone.

CONCLUDING REMARKS

The institutional structure of the European Monetary Union according to Maastricht Treaty (also adopted by the Lisbon Agreement) establishes three levels of protection: a) coordination of economic policy and, in particular, fiscal policies of the member states, which serve the purpose of overcoming the weaknesses of the EU fiscal system, b) strengthening fiscal discipline by respecting the principle of non debt assumption, that is by moratorium on financing the fiscal deficit with the loans of European Central Bank, iv) as the last level of protection, substantive EU law provides for the introduction of supranational fiscal rules and definition of the procedure in the case of excessive deficit of the member states. Central to this system is the set of fiscal rules enshrined in the Stability and Growth Pact. The Union tried to overcome the imperfections of the European monetary unification through development of certain mechanisms which had a dual function: the function of prevention and corrective function.

A favorable economic environment during the first decade of the functioning of the eurozone concealed structural weaknesses of the European Monetary Union, as well as imperfection of institutional solutions adopted, particularly those relating to fiscal discipline. They become visible at the outbreak of the economic crisis and incompetence of some member countries of the monetary union to deal with the augmented state debt. With the outbreak of the economic crisis, first in the US housing market and later in the EU countries, notably Greece, Italy, Spain and Ireland, the weaknesses of the European

Monetary Union come to the fore. The debt crisis in the eurozone showed that preventive or corrective measures envisaged by Fiscal Treaty have not been sufficient to ensure fiscal discipline among the member states. In such circumstances, the need for institutional reform of the European Economic and Monetary Union is imposed.

The central point of the reform is acceptance of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The main objective of this agreement is to strengthen the economic and monetary union. The agreement brings the following elements in the fiscal framework: the golden budget rule (balanced budget rule), whose application is expected to establish fiscal discipline in the eurozone, application of the "golden rule" on a national level through the so-called debt brakes and supranational control of the budget of the member states through the strict application of the procedure in the case of excessive deficits, including the application of sanctions and control by the European Court of Justice.

In the following period the eurozone will face two major challenges. The first, particularly inherent to other developed countries, is related to the consolidation of public finances and restoring economic growth. The second challenge is strengthening the institutional base of the monetary union, which would create conditions for avoiding problems in the functioning of the monetary union, which were evident in the debt crisis. Past experience tells us that in the monetary union it is not possible to simultaneously achieve the fiscal sovereignty of the member states, no bail-out clause and the independence of the monetary authorities. If the current solution persists, it means that in the future monetary union will be forced to sacrifice not taking debt clause or monetary policy independence. Of course, takeover of debts can not protrude forever, nor is it possible for the monetary policy which is subordinated to fiscal policy to ensure price stability. The Agreement on Stability, Coordination and Governance in Economic and Monetary Union restricts the fiscal autonomy of the member states. If new fiscal rules proved to be effective, it would mean achieving the objectives in terms of fiscal discipline in the monetary union. Of course, it should be noted that institutional arrangements on which EMU is based are not final. Starting from the experience of monetary unions in the past, it seems that the survival of the eurozone in the future depends on the willingness of the member states to take steps towards establishing a fiscal union and establishing a closer political community.

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NOVI FISKALNI OKVIRI EVROPSKE MONETARNE UNIJE

Evropska ekonomska i monetarna unija (EMU) suočava se sa najozbiljnijom krizom od svog osnivanja. Koncept Unije sa jedinstvenom monetarnom politikom i autonomnom fiskalnom politikom, koja je delimično ograničena fiskalnim pravilima, definisan sporazumom iz Mastrihta, (kasnije potvrđen Lisabonskim sporazumom) i konkretizovan odredbama Pakta o stabilnosti i rastu, pokazao se potpuno neadekvatnim za rešavanje problema fiskalne nediscipline država članica. U takvim uslovima, nametnula se potreba reforme institucionalnih okvira EMU. Izmenjena fiskalna pravila i pravila o koordinaciji ekonomske politike unapređuju institucionalnu osnovu EMU. Efektivnost i kredibilitet novih fiskalnih okvira zavisi od njihove striktne primene, spremnosti Komisije da prati fiskalnu disciplinu država članica i spremnosti ostalih institucija, pre svega Saveta da ograniče stepen političke diskrecije.

Ključne reči: *fiskalna pravila, Pakt o stabilnosti i rastu, Evropska monetarna unija, ekonomska politika*