Sheet 7

THE LISBON TREATY AND ECONOMIC ISSUES

1) THE RECOGNITION OF EUROGROUP

BEFORE THE LISBON TREATY
(WITH THE NICE TREATY – 2001)

- **Monetary Policy:**
  - European Central Bank (ECB) is competent with regard to Euro Area States.
  - Each Euro Area non-member is competent with regard to its own monetary policy.
- **Budgetary and Fiscal Policies:**
  - Member States are solely responsible.
  - They must however co-ordinate their policies with other Member States and ensure the respect of the Stability and Growth Pact rules.

Euro Area Members:

- since 1999: Austria, Germany, Belgium, Spain, Finland, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal;
- since 2001: Greece;
- since 2007: Slovenia;
- since 2008: Cyprus and Malta;
- since 2009: Slovakia

WITH THE LISBON TREATY

- There have not been many modifications but they establish the official existence of the **Eurogroup**.

The structuring of links between Member States who have adopted the euro has been **clarified** in order to provide **greater co-ordination with regard to their economic, budgetary and fiscal policies.**

Eurogroup

Informal monthly meeting of Economy and Finance Ministers of the Member States of the Euro Area**.** These meetings allow them to **work together, notably, on the budgetary policy**.

Since January 2005 it has been **chaired** by **Jean-Claude Juncker**, Prime Minister and Finance Minister of Luxembourg.

2) THE STABILITY AND GROWTH PACT

What is the Stability and Growth Pact?

- The Stability and Growth Pact which was signed in 1997 by the future members of the euro area establishes three main rules:
  - **public deficit** must remain below 3% of the GDP;
  - **public debt** must be maintained below 60% of the GDP;
  - States must aim for **budgetary balance mid-term.**
- To encourage the application of the Pact several monitoring procedures were created:
  - Multilateral preventive surveillance: Euro Area States present their mid-term budgetary targets in an updated stability programme each year. On this basis the Council adopts conclusions and makes recommendations.
  - An excessive deficit procedure: if the rules of the Stability and Growth Pact are not respected the Council issues recommendations and possibly imposes sanctions in the form of a fine which may range between 0.2% and 0.5% of the GDP.

WITH THE LISBON TREATY

- The Commission maintains its **role of guardian of the treaties** in terms of the **control of public deficit** as part of the Stability and Growth Pact.
- The Commission acquires **the right to issue opinions to Member States who have an excessive deficit**.
- The **sanctions procedure will** now be adopted by the **Council of Ministers, on the basis of a proposal from the Commission** (and not on a simple recommendation as was the case before the Lisbon Treaty).

  The Council of Ministers may go against the initiative taken by the Commission.

  We see that there has been a **re-adjustment of powers** in terms of controlling the respect of the rules of the Stability and Growth Pact.

3) THE EUROPEAN BUDGET

- The Lisbon Treaty includes a clause whereby the **European Parliament will decide** in this domain on **an equal footing with the Council of Ministers.**

  Via the Council of Ministers the States will no longer have the final word, as at present, with regard to the "compulsory expenditure".

Compulsory expenditure / Non-compulsory expenditure

Operational expenses in the community budget were until now divided into two types:

- **Obligatory expenses**: they represent expenses that automatically result from the Treaties and community rules; they mainly involve agricultural expenses;
- **Non-obligatory expenses**: they cover other expenses notably the economic and social cohesion policy, internal policies (research, culture, training, environment, etc.), external activities and administrative costs.

- The unanimity rule will continue to apply in the **definition of the financial framework**.

  This means that each Member State will continue to have the right to veto with regard to:
  - the definition and establishment of its contribution to the community budget;
  - the adoption of the European Union's financial framework.

We should note however the existence of "**bridging clauses**" **which make it possible to transfer the unanimity rule over to that of the majority** which would introduce greater flexibility into the definition of the European financial framework.

Financial Framework and Financial Perspectives

This is a **multi-annual expenditure programme**, which means in financial terms, the **political priorities** of the Union. It establishes expenditure ceilings for the European Union for a given period and thereby imposes budgetary discipline.

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