



Brussels, 21 December 2012
18019/12
PRESSE 551

Fiscal compact enters into force

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union – better known as the "fiscal compact" – will enter into force on 1 January 2013 after ratification by twelve member states of the euro area.

The treaty, which was signed on 2 March 2012 by the leaders of 25 EU member states, introduces strengthened fiscal discipline and stricter surveillance within the euro area, in particular by establishing a "balanced budget rule".

It has now been ratified by Austria, Cyprus, Germany, Denmark, Estonia, Spain, France, Greece, Italy, Ireland, Lithuania, Latvia, Portugal, Romania, Finland and Slovenia. Finland deposited its instrument of ratification today.

National budgets must be in balance or in surplus under the balanced budget rule, a criterion that is met if the annual structural government deficit does not exceed 0.5% of GDP at market prices. They must also be in line with the country-specific medium-term budgetary objective, as defined in the EU's stability and growth pact.

The balanced budget rule must be incorporated into the member states' national legal systems, preferably at constitutional level, within one year after the entry into force of the treaty, i.e. by 1 January 2014.

In the event of deviation from the balanced budget rule, an automatic correction mechanism will be triggered. It will be defined by each member state on the basis of principles proposed by the European Commission last June and endorsed by the signatories.

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The EU Court of Justice will be able to verify national transposition of the balanced budget rule. Its decisions are binding, and can be followed up with a penalty of up to 0.1% of GDP, payable to the European Stability Mechanism in the case of euro area member states.

The fiscal compact also reinforces budgetary rules by incorporating a commitment made by euro area contracting parties to adopt EU Council recommendations and decisions under the excessive deficit procedure unless opposed by a qualified majority.

The granting of new financial assistance under the European Stability Mechanism is conditional on ratification of the fiscal compact and transposition of the balanced budget rule into national legislation in due time.

The treaty additionally contains provisions on the coordination and convergence of member states' economic policies and on governance of the euro area. It includes the requirement for euro summit meetings to take place at least twice a year.

The fiscal compact is legally binding as an international agreement. (Its entry into force is conditional on ratification by at least 12 euro area member states.) It only applies to contracting parties whose currency is the euro, while the others will be bound by its provisions once they adopt the euro, unless they declare their intention to be bound by certain provisions at an earlier date.

The necessary steps to incorporate the provisions of the new treaty into the legal framework of the EU are to be taken within five years of its entry into force.

More information:

[The text of the Treaty on Stability, Coordination and Governance](#)