„STABILITY AND GROWTH PACT, COMMUNITY DOCUMENT „REVIVED" IN THE CURRENT GLOBAL ECONOMIC CRISIS"

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Abstract:
The article proposes to make a reasoned radiography Stability and Growth Pact, EU document revived therefore need to strengthen financial discipline and budget 6 to 7 September 2010 meeting of the Economic and Financial Affairs Council (ECOFIN). He talked about the introduction of the Stability and Growth in a 'European quarter' which will be monitored in structural and fiscal policies of the Member States. He also held a first exchange of views about the possible introduction of a levy on banks and a tax on financial transactions. Thus, the European Union has moved to create the world's first supranational system of control over the financial markets, particularly in order to reduce the risk of global financial crisis. The system will act in early 2011. For the first time in history, European financial control agencies will have more seats than national governments. In addition, the European Central Bank will see a branch that will track the emergence of crisis risk.
The financial crisis has diminished the EU's growth potential, and made it clear just how interdependent its members' economies are, particularly inside the eurozone.
The most important priority now is to restore growth and create effective mechanisms for regulating financial markets - in Europe and internationally.
In strengthening its system of economic governance, Europe must learn from previous shortcomings which have put the financial stability of the whole eurozone at risk:
- *poor observance of the EU's sound rules and procedures for economic policy coordination*
- *insufficient reduction in public debt during the good times – with peer pressure proving an adequate incentive*
- *failure to deal effectively with the build-up of macroeconomic imbalances - despite the Commission's warnings – resulting in high current account deficits, large external indebtedness and high public debt levels in a number of countries (above the official 60% limit for eurozone countries).*

Greater economic policy coordination in the EU will be achieved by tools designed to:
- *strengthen the preventive and corrective arms of the Stability & Growth Pact*
- *address imbalances through stronger macroeconomic surveillance, including alert and sanction mechanisms*
- *set out effective enforcement mechanisms to ensure that member countries will act in compliance with the EU framework they have agreed.*

Key words: *Stability and Growth Pact, enforcement mechanisms, current account deficits, large external indebtedness, high public debt levels, structural and fiscal policies, the risk of global financial crisis*

1. Introductory remarks:

Stability and Growth Pact (SGP) is a regulatory framework for coordinating national tax policies in the Economic and Monetary Union (EMU), designed to ensure the stability of public finances, an important requirement for the proper functioning of EMU.

Pact includes a component of preventive and corrective component. For EMU to function smoothly, Member States must avoid excessive budgetary deficits. In accordance with the provisions of the Stability and Growth Pact, Member States agreed to meet two criteria: a deficit-GDP ratio not exceeding 3% and a debt-GDP ratio exceeding 60%.[1]

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[1] See: http://ec.europa.eu/economy_finance/sgp/deficit/index_ro htm

While this document is important for the proper functioning of the euro area, due to the historical moment we live is marked by global economic crisis and the difficulties of every European country covered in a separate development, the subject is not considered in the literature. (Maybe because it is constantly moving and controversy at all meetings of the Council of Finance Ministers of the Member States and of the European Councils).

This topic is of particular importance, both from theoretical perspective, legal, given that there is a procedure for sanctioning of Member States that violate the Stability and Growth Pact, but for any case unfinished state), but mostly practice.

A practical component is essential to optimize the effects, especially as the recasting of the measures discussed at the European level, can have positive effects on economies and the growing trend of European finance.

2. Principles underlying the achievement of Economic and Monetary Union. (EMU)

EMU is based on three principles: the principle of the single currency convergence principle and the principle of irreversibility in three-stage process of monetary unification.

The principle of the single currency issue involves a monetary unit equal power movement and the disappearance of national currencies. Therefore there will be no national monetary policy, quotes of various community currencies in the currency markets, but a single currency for all EU countries.

The principle of convergence can be summarized in three stages caledarului presentation introducing the euro, which is in fact the achievement of monetary integration.

The principle of irreversibility of the process of monetary unification is in meeting the five criteria of convergence:

1. Price stability is expressed by an inflation rate of max.1, 5% of the most well-located three countries in this regard;
2. Interest rate on term loans under 2% of average interest rates ranked top three but not more than 8.5%;
3. **The budget deficit must not exceed 3% of GDP;**
4. **Public debt below 60% of GDP;**
5. Stability of course, that the national currency exchange rate over the past two years have maintained the margin of fluctuation of exchange rates agreed by the mechanism of the EMS (2.25%), not to proceed with the realignments.

The convergence criteria are set out in the Treaty on European Union (TEU) also known as the Maastricht Treaty. After the changeover, with waiver of national currencies in favor of adopting the euro by the Member States met the convergence criteria established by the Treaty, began to experience problems even for countries that adopted the single currency at the wrong time, having regard to Community-frequent violations of overcoming that deficit ceiling of 3% and 60% threshold for public debt.

Thus, there was the Stability and Growth Pact, a document which establishes a procedure for penalizing Member States which do not meet two of the five criteria set by the Treaty of Masstricht.

3. Introductory aspects of the Stability and Growth Pact before installing the global economic crisis.

Stability and Growth Pact (SGP) is a regulatory framework for the coordination of national fiscal policies in economic and monetary union (EMU). The pact was designed to ensure the stability

of public finances, an important requirement for the proper functioning of EMU. Pact includes a component of preventive and corrective component. [2]

The preventive component

Under the preventive provisions, Member States must submit annual stability programs (convergence) to show how they intend to perform or provide stable medium-term fiscal positions, taking into account the immediate impact that aging will have on the budget . These programs are evaluated by the Commission and Council shall advise each of them.

Preventive component includes two policy tools that can be used to avoid deficits "excessive."

▪ Based on a proposal from the Commission, the Council may trigger an **early warning procedure** to prevent an excessive deficit.

▪ By the **early warning system**, the Commission may recommend that a Member State to comply with the obligations of the Stability and Growth Pact.

Corrective component

▪ Corrective pact component governing the excessive deficit procedure (EDP). This is triggered when the budget deficit threshold of 3% of GDP in the Treaty. If it is concluded that the deficit is excessive under the Treaty, the Council shall issue recommendations to the Member States concerned to correct the excessive deficit and set a deadline for it. Nerespectarea recomandărilor conduce la declanşarea următoarelor etape ale procedurii, inclusiv la posibilitatea sancționării statelor membre din zona euro. Failure to recommendations leading to trigger the next steps of the procedure, including the possible sanctions in the euro area Member States.

Long-term sustainability of public finances

Given that Europe's aging population as people live longer and have fewer children, the EU Member States face the challenge of ensuring long term sustainability of public finances, given the impact this phenomenon will have on the budget. To meet this challenge and given special attention paid to long-term viability of the revised version of the Pact in 2005, are compiled shared long-term budget forecasts at EU level and monitor and evaluate the individual situation of the Member States. Complete analysis can be found in the report on its viability. Long-term sustainability of public finances is taken into account when assessing the stability and convergence programs.

Proceedings against Member States which have exceeded the budget deficit and government debt documents required by legislation in force.

Stability and Growth Pact, a document must be respected in the euro area [3]:

■* EURO area Member States undertake to respect strict rules on budget deficit and public debt levels.

■* for violating these rules will state that they support the EU imposed sanctions for failure to recommendations to avoid or correct excessive budget deficits.

Stability and Growth Pact-exceptions-

■ An excess of more than 3% of GDP budget deficit is allowed in two situations:

1) when determined by an unforeseeable event beyond the control of the Member State;

2) when the result of a severe economic drop, at least 2% respectively, calculated at the actual level of GDP.

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[2] According: http://ec.europa.eu/economy_finance/sgp/index_ro htm

[3] See: Păun Roxana-Daniela, „"Community law", Ed of Tomorrow Foundation Romania, Bucharest, 2009, Chapter VII, p.151-157

Sanctioning procedure prescribed by the Stability and Growth Pact:

■State States penalize procedure that has an excessive budget deficit, imposed by the Council of Ministers of Finance and Economy:

✓ *Issue a recommendation by the State concerned to correct excessive budget deficit, with the application within four months;

✓ * If the time limit are not taken corrective measures, the Council makes public its recommendation;

✓ * If after one month are not taken effective corrective measures, the Council shall notify the Member State to take appropriate action;

✓ * In more than two months, the Council may decide on sanctions, if the State continues to be "insensitive" to the measures recommended!

■**Size deposit =**

■ **0.2% of GDP (fixed component) +**

■ **one tenth of the difference between the deficit as a percentage of GDP this year it was described as excessive, and the reference value of 3% of GDP (variable component).**

The penalty may be enhanced by the formation of new deposits.

■The total size of the deposits made by a Member State may not exceed 0.5% of GDP.

■The Council may terminate the sanctions if the Member State has corrected this deficiency.

■Penalty imposed can not be undone.

■Interest on deposits and revenues from fines are distributed to Member States without excessive deficits, in proportion to their share of their combined GDP. **The procedure can be accelerated if the excessive deficit situation deliberately planned to apply the sanction.**

Types of programs developed by Member States:

■Member States are required to develop and implement programs for Stability (euro area member states), and where appropriate, Convergence Programs (Member States outside the euro area).

Although the Stability and Growth Pact (SGP) provides preventive component includes two elements proactive avoidance of excessive deficits in an early stage that the procedure for early warning and early recommendation, in practice almost all Member States have exceeded these values.

Early warning procedure

According to a Commission recommendation, the Council can issue an "early warning" by a State prior to the occurrence of an excessive deficit.

Council acts in this way if it finds a significant deviation from the medium-term budgetary objective (MTO) or the adjustment strategy for achieving the MTO, to prevent an excessive deficit. The recommendation calls for early warning of the Member State concerned shall take the necessary adjustment measures to prevent such a situation.

Early Recommendation

As another element of proactive, can make early recommendations, where appropriate, to advise a Member State to comply with PSC requirements may petition the call when considering political stability and convergence programs**.**

A **first attempt to reform the SGP** took place at the **European Council on the Stability and Convergence, 22-23 March 2005.**

Summarizing the discussions and solutions,

■The Council adopted opinions on the stability and convergence program for 2005 set by Cyprus, Spain, Latvia, Lithuania, Hungary, Slovenia and United Kingdom.

■ Council approved a recommendation to the Hungarian budget deficit caused by excessive.

■Although the provisions relating to public deficit and public debt profile have remained unchanged,

■It was decided a "flexibility" in the application of the pact more

■The new Member States where pension reform has increased the public deficit, will have a grace period of five years, allowing them to more easily introduce the euro. (As a concession to the Poland and Hungary)

■New EU members such as Hungary and Poland, requested to be excluded costs from the calculation of pension reform budget deficit to meet the requirements for entry to the eurozone.

■Great Britain won that governments no longer have to reduce their deficits by 0.5 percentage points in years of robust economic growth

In an attempt to unblock the application of the SGP have accepted some exemptions to exclude certain expenses from the calculation of budget deficit reforms, reforms which allow Member States to justify exceeding the deficit limit:

■Supported reforms whose costs have been excluded from the calculation of the budget deficit were:

■**1. development aid (France)**

■**2. public investment (Italy)**

■**3. Research and development expenses, plus structural reforms of the pension and investment for 'achieving European policy goals'.**

In conclusion, among the 12 states that had adopted the euro in 2005 (France, Germany, Italy, Spain, Portugal, Holland, Belgium, Luxembourg, Ireland, Austria, Finland and Greece) - 10 of them violated the Stability and Growth Pact. Most violations were: excessive budget deficit: highest = 6% Greece, the largest public debt = 100% Italy.

4. Stability and Growth Pact after the global economic crisis.

Poland, Sweden, Czech Republic, Hungary, Slovakia, Romania, Bulgaria, Lithuania and Latvia in August 2010 asked to be allowed to exclude costs of pensions reform representing public debt and deficit amounts to avoid corrective action of the EU.

In response, the Commission has offered five years of transition, the budget deficits to exceed 3% of GDP ceiling and / or debt to exceed 60% of GDP.

Poland, Slovakia and other countries, however, said the proposal is not appropriate and have raised the issue again at the summit of 28-29 October 2010. But the Commission has maintained the position, saying 'not possible' to agree with such a requirement, under current rules.

Summit conclusions are merely to invite the Council of Ministers to expedite work on the integration of pension reforms in the revised Stability and Growth Pact.

Prior to the summit of 16-17 December, where he had to agree on revising the EU's economic governance, including the penalties for those who violate budget rules, reiterated the importance of systemic reforms recognizing that pensions should be provided equal rules Stability and Growth Pact. If the Euro area Member States violated the Stability and Growth Pact even before the outbreak and spread of the current global economic crisis, now in crisis conditions, is even harder to comply with the Maastricht Treaty on inflation and budget deficit. Paradoxically, the solutions are expected from Germany, financial and budgetary discipline model for other European countries.

At the last European Council (4 February 2011), Chancellor Angela Merkel came up with a proposal called "Stability Pact" in the euro area. Thus, Member States would be unable to score in their Constitution exceeded a certain threshold of budget deficit and public debt. Working time should be standardized, as well as retirement age, which would be 67 years. Also, Germany wants

the legislation states that the automatic indexation of wages to waive this provision. There are also proposals for the harmonization of tax legislation.

"If this proposal is a strong will to coordinate and monitor economic policies in the euro area, I will strongly support, as is consistent with what the ECB Governing Council has repeatedly claimed. We see the results of consultations undertaken by the EU Council President, Herman van Rompuy, "said President of the European Central Bank (ECB), Jean Claude Trichet.

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„Our message is very clear: we call on all concerned to exercise responsibility. And not by words but by deeds. Therefore, our strong message is that monetary union based on the euro, it works. Coin is reliable and has proved able to maintain price stability. Now is the time for economic union to work just as well, "said ECB president.

At the same time raising salaries in the countries of the euro area would be "a foolish measure" to the States out of recession, while the monetary union increase inflationary pressures.

European authorities should make every effort to avoid raising other prices above the levels set by the ECB definition of price stability.

As can be seen easily, the series of measures prescribed by the Stability and Growth Pact can not be analyzed only in the context of global economic and financial. Thus, the budget deficit and inflation threshold set by the Maastricht Treaty (below 3%) becomes a challenge for European countries in the euro area, ruled by an unshakeable political will, catalysed around France and Germany, seeking solutions viable exit from recession, to position their economies back on an upward trend of growth, not least by strengthening Eurozone.

5. Conclusions:

Currently, European economies are facing a classic problem of too much indulgence. A state spends more than people can pay and short-term benefits generated domestically. But long-term costs are transferred to all other members of the euro area are suffering because of rising interest rates.

Bigger deficits are covered with a capital that would otherwise be invested in the private sector, which raises interest rates. The economic situation in Greece is living proof of the failure of a State to manage its own economy and financial difficulties, but those who are charged to their European partners.

But other major European countries faced with the prospect of growing budget deficits because of their generous social insurance programs and the continually aging population. Thus, Spain, France, Germany, Portugal, Italy and other EU nations should introduce fiscal measures, primarily to reduce spending on pensions and health insurance, as European tax rates are already high.

Without adjustments, rising budget deficits would cause higher risks of inflation and would erode the euro as a safe image. A country with a less gradualist monetary policy, the euro and the monetary policy of the European Central Bank (ECB) implies that a recession becomes too restrictive monetary policy, while in periods of "boom" is too lax.[4]

To maintain the credibility of the euro on international markets, the EU needs a common tax plan long term, which would generate the necessary budgetary savings.

All EU members should take part in a coordinated process of consolidating budgets, regardless of their economic positions. Consolidation should be subject to demographic profiles,

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[4] Opinion expressed by Caraiani Petre in „Models of monetary policy. Applications for Romania, Ed Wolters Kluwer, 2009, p.148."

budget structures, financial vulnerabilities and capacities to produce revenues to the budget of each state.

An attempt to control the financial and fiscal policy coordination of Member States is also a goal of specialists, since all the current difficulties arise amid internal imbalances of the national budget, affecting European finances. Mutual aid system is designed to save states in the threshold of entry into default, but the system can not work of carrying long. To paraphrase, no European country that fall within the targets set by the Maastricht Treaty can not accept failure than a solution, temporary, substantial financial support granted to a state in domestic politics does not prove serious economic and financial-monetary.

Although there have been personalities who have harshly criticized the Stability and Growth Pact, it can be observed under normal conditions, but the economic crisis. Thus, during favorable budget balance should be maintained, in which the pact appears to be flexible ("flexibility" that I argued it in Section 3. Introductory aspects of the Stability and Growth Pact before the onset of economic crisis). This "flexibility" is the Covenant to be "questionable" in the binding character of the fines, which raised the political struggle in the Council discussion

We share views on the pact that removes threats to maintaining a policy of debt, use more debt means higher inflation, higher taxes ... that reduces investment.[5]"

A policy of borrowing money means lack of investment, only winners are the banks. "But this is not about the European notion of social market economy" [6].

Certainly, the future will demonstrate the political will of European leaders in saving the "Euro Zone" and the Stability and Growth Pact is one of the instruments can do this!

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[5] Idem 7, p. 80

[6] HG Pöttering, From vision to reality. On the way to Unite Europe, Ed Day, Bucharest, 2007, p. 251