TREATY ON STABILITY, COORDINATION AND GOVERNANCE IN THE ECONOMIC AND MONETARY UNION
(The 'Fiscal Compact')

(translated into laymans' terms)
Gavan Reilly, TheJournal.ie, March 2012

DISCLAIMER:
This 'translation' of the treaty should not be treated as a full, legally valid document. It is offered only to try and help people understand the requirements and terms of the treaty by 'translating' each point into more everyday English.
A full 'official' copy of the original treaty is available in English at http://bit.ly/yRwsIr and in Irish at http://bit.ly/AzoGyu.

Note:
The treaty is split into six chapters, or 'Titles', with an introductory 'Preamble' outlining the general intention of each country. Most of the points contained in the Preamble are repeated later in the treaty, so it can be skipped over, but it may be helpful for readers to read it in full as it helps to underline the motivations and desires of each country.

Preamble

BELGIUM, BULGARIA, DENMARK, GERMANY, ESTONIA, IRELAND, GREECE, SPAIN, FRANCE, ITALY, CYPRUS, LATVIA, LITHUANIA, LUXEMBOURG, HUNGARY, MALTA, THE NETHERLANDS, AUSTRIA, POLAND, PORTUGAL, ROMANIA, SLOVENIA, SLOVAKIA, FINLAND AND SWEDEN (referred to in the rest of this treaty as the 'countries'):

- Considering their requirement, as EU members, to think of their economies as a matter of interest for each other;
- Looking to promote stronger economic growth in the EU, and looking to coordinate their economic policies more closely to try and achieve this;
- Bearing in mind that governments need to maintain sound public finances, and not to let their debt become unmanageable, in order to help guard the stability of the euro; and remembering that this requires the introduction of rules such as a 'debt brake'[1] and an automatic mechanism to correct any budget shortfalls (referred to in the rest of this treaty as a "balanced budget rule");

[1] This is legislation which will create a legal limit beyond which a country cannot overspend. It will effectively limit the amount a government can spend in any given year, set as a proportion of how much it takes in during the same period.

- Conscious of the need to ensure that budget deficits do not exceed 3% of the size of a national economy (its GDP, which is the total value of its output for the year), and that their general government debt does not exceed 60% of the size of the national economy;

- Remembering that as EU members, countries must avoid any measures which could put the EU's overall objectives in jeopardy;
- Bearing in mind that EU leaders, on December 9 2011, agreed new rules on the setup and architecture of the Eurozone, on top of the EU's founding treaties;
- Bearing in mind that the goal of countries is to incorporate the provisions of this treaty into EU law as soon as possible;
- Welcoming the European Commission's plans for improving oversight of member states which are struggling financially, and noting its intention to come up with more plans which would, for example, require each country to give advance notice whenever it intends to sell new government bonds;
- Expressing their willingness to support the European Commission's medium-term plans which will further strengthen this deal;
- Noting that any powers used by the European Commission have been given to the Commission by previous EU treaties;

- Noting that the application of the 'balanced budget rule' in Article 3 will require countries to set medium-term objectives for lowering their debt, and to compile a calendar of when they will cut their spending so that this can be achieved;
- Noting that these targets will be updated regularly on the basis of a method agreed by every country;
- Noting that progress in reaching these targets should be examined under the terms of existing EU law,
- Noting that the automatic mechanism to limit budget overspending should be geared towards bringing countries back into line with these targets;

- Noting that the European Court of Justice should be given the power to examine whether each country has correctly adopted the 'balanced budget rule' mentioned above;
- Recalling that current EU law allows the European Court of Justice to impose financial penalties on EU members which fail to follow its judgments, and recalling that the European Commission has set out rules on how these penalties can be imposed;
- Recalling that countries whose general government debt is larger than 60% of the size of the national economy are obliged to reduce their debt, at a guideline rate of 5% per year;

- Bearing in mind the need to respect the roles of social partners in each country;
- Stressing that this treaty does not alter the conditions under which any country is receiving cash from the EU, its member states or the IMF;
- Noting that the Eurozone cannot work properly without participating countries moving towards a joint economic policy where they take all action necessary to ensure the proper functioning of their currency;

- Noting the wish of countries to enhance their cooperation under existing EU laws, and their wish that Eurozone members agree to hold advance discussions of any major economic policy reforms;
- Recalling that the leaders of Eurozone member states agreed in October to improve economic oversight in the Eurozone, including at least two summits per year, attended by the leaders of countries signing up to this deal, to be held right after the usual meetings of all 27 EU leaders;
- Recalling that the leaders of Eurozone member states, and other leaders, agreed to a Euro Plus Pact in March 2011 with the goal of identifying whatever steps are needed to allow for greater competitiveness in the Eurozone;

- Stressing the importance of the new permanent European bailout fund (the European Stability Mechanism) as part of the strategy to strengthen the Eurozone, and pointing out that accessing any bailout funds will require the approval of this treaty;

- Noting that Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland already use the Euro, and that this treaty will apply to them from the first day of the month after they approve it (if the treaty is in force by then),
- Noting that Bulgaria, Denmark, Latvia, Lithuania, Hungary, Poland, Romania and Sweden are not Euro members, but may sign up to be bound by Titles III and IV if they approve this treaty,

Agree to the following:

TITLE I
Purpose and Scope

Article 1

1. Participating countries, by signing up to this treaty, agree to strengthen the economy of the Eurozone by adopting rules which will encourage countries to compile disciplined budgets through a fiscal compact, by coordinating their economic policies and improving the oversight and regulation of the Eurozone. This will help to achieve the EU's goals of sustainable economic growth, employment, competitiveness and social harmony.

2. This treaty shall apply in full to participating countries who use the Euro, and to other countries under the conditions set out in Article 14.

TITLE II
Consistency and Relationship with EU Laws

Article 2

1. This treaty will apply to participating countries in ways which do not go against the requirements of existing EU treaties and law.

2. This treaty will apply only as long as it is compatible with EU treaties and EU law. It will not effect the EU's existing right to act in the area of economic union.

TITLE III
Fiscal Compact

Article 3

1. Participating countries will apply the rules set out in this paragraph, in addition to (and not changing, replacing, or otherwise affecting) the requirements they already have under existing EU law:

   (a) Each country shall maintain a government budget which is either balanced or in surplus (i.e. where the government's income is greater than, or equal to its expenditure).

   (b) The conditions of point (a) will be deemed to have been fulfilled if a country's budget balance is within 0.5 per cent of the size of the national economy.

   The participating countries will move quickly towards their medium-term budget targets, on a timeframe proposed by the European Commission which will consider the specific risks and circumstances of each individual country. Progress towards these goals will be evaluated based on how the government is balancing its budget, and for these purposes will ignore 'discretionary' one-off measures for raising income.

   (c) Participating countries may temporarily move away from reaching this targets, but only in exceptional circumstances as outlined in part (b) of paragraph 3 below.

   (d) Governments whose debts are less than 60% of the size of their economy will be allowed to raise their deficit limit (as described in point (b) above) to 1%, provided that this will only cause a low risk to the long-term sustainability of its public finances.

   (e) If countries move away from their medium-term goals, they shall automatically activate a mechanism which will help them move back towards their targets. These mechanisms will require countries to implement certain measures over a defined period in order to restore balance to their Budgets.

2. The rules in paragraph 1 will take effect in the national laws of participating countries within one year after this treaty comes into force, through permanent and binding provisions (preferably adopted in the Constitution of each country), which will be fully respected and abided by throughout the budget

process.

Participating countries will impose a correction mechanism (as discussed in point (e) above) once this mechaism has been agreed with the European Commission. These mechanisms will take into account the size, nature and time-frame of any budget corrections. In exceptional circumstances, they will also require moves to ensure the independence and power of national bodies in order to ensure that the rules of paragrpah 1 are being followed.

Any correction mechanisms agreed in this manner will fully respect the rights of national parliaments.

3. For the purposes of this article, the definitions of a budget balance, and of 'exceptional circumstances', will be taken from existing EU law relating to countries whose budgets are in deficit beyond existing EU limits.

   (a) A country's budget balance will refer to its income, minus its expenditure, and minus the income from any one-off and temporary measures.

   (b) 'Exceptional circumstances' includes unusual events outside of a country's control, which has a major impact on its economy, or which leads to significant periods of economic downturn. Exceptional circumstances may only allow countries to deviate from their medium-term plans if doing so does not put their finances in danger.

Article 4

Whenever a country's general government debt is higher than 60% of the value of its economy, that country will reduce its debt at a benchmark average rate of 5% per year. Article 126 of the (existing) Treaty on the Functioning of the European Union will be used to decide whether a country's deficit is 'excessive'[2].

Article 5

1. Participating countries which are subject to excessive deficit procedures will introduce a budget programme including detailed descriptions of the reforms each government will introduce, in order to bring its deficit back to acceptable levels. The format of these programmes will be defined in EU law. These programmes will be submitted to the European Commission and to the European Council[3] for their approval and monitoring.

2. The implementation of any programme mentioned in point 1 above will be monitored by the European Commission and by the European Council.

[2] Existing EU treaties allows the EU to declare countries as having an 'excessive deficit' (greater than 3% of the size of their economies). If this is the case, the EU will work with a country in setting targets for this deficit to be reduced over time. This should not be confused with a bailout procedure, which is specifically different. The excessive deficit procedure is further discussed in Article 5.

[3] The European Council is the meeting involving the heads of government of every single EU member state, and not just those of the Eurozone members or participating countries.

Article 6

Participating countries shall inform the European Commission and European Council of their plans to issue government bonds, in advance of those bonds being issued.

Article 7

Eurozone member states agree to support the European Commission's proposals, or recommendations, on how to deal with other Eurozone countries who are part of excessive deficit procedures. Any proposals or recommendations brought forward by the European Commission can be overturned by a qualified majority of the *other* Eurozone members, calculated under the same formula set out in other EU treaties[4].

Article 8

1. Countries invite the European Commission to present, in due course, a report on the various medium-term goals each country will adopt. Countries will have an opportunity to respond to this report. Countries may bring other countries to the European Court of Justice if they believe the requirements of Article 3(2) (under which each country must introduce an automatic mechanism to correct a budget deficit). If the European Commission believes a country has not met this requirement, referral to the European Court of Justice will be mandatory. In either case, the court's ruling is final, and the court may take whatever steps needed for countries to comply with its ruling, within a period of its own decision.

2. If a country believes that another country is not meeting the terms of a ruling from the European Court of Justice (as referred to in paragraph 1), it can bring a case to the European Court of Justice requesting financial sanctions, based on criteria set out by the European Commission in line with existing EU treaties. If the Court of Justice upholds this complaint, it can impose a financial penalty of up to 0.1% of that country's GDP (i.e. the total size of its domestic economy). Such fines will be paid into the European Stability Mechanism in the case of Eurozone members, or into the EU's general budget in the case of other countries.

3. This Article should be interpreted as a 'special agreement' within the meaning of Article 273 of the Treaty on the Functioning of the European Union[5].

---

[4] The Nice Treaty gives each country a voting weight which is based on its population. Proposals need to be passed by a certain number of countries which also represent a certain proportion of the EU's population. The Lisbon Treaty amends this formula from 2014 onward. A calculator showing how each country can vote can be found on the European Council's website at http://bit.ly/A7VWw0.

[5] This article (which can be read at http://bit.ly/A6k10Z) specifically gives the European Court of Justice the power to rule in any dispute between EU members over the terms or interpretation of European treaties, once the dispute is submitted under a 'special agreement'.

TITLE IV
Economic Policy Coordination and Convergence

Article 9

The participating countries agree to work together in pursuing plans which will allow the Eurozone to work fully and properly, by making the Eurozone more competitive and converging their economic policies. In order to achieve this goal, they will take whatever actions are needed to make themselves more competitive, encourage the creation of jobs, ensure that government budgets are sustainable, and generally ensure that each country has a stable economy.

Article 10

Countries agree to use the measures already provided for in existing EU treaties, to make sure that the Eurozone works fully and properly, without compromising or effecting the internal market among member states.

In the case of Eurozone members this includes EU laws creating the new European Stability Mechanism, the permanent bailout fund being established in July 2012.

In the case of all participating countries, and not just those in the Eurozone, this includes the rights of EU citizens to move, live and work freely among member states, and the ability of countries to set up further co-operations such as those outlined in this treaty.

Article 11

Participating countries agree to discuss major changes to their economic policies with other countries before they are introduced, and will coordinate these policy changes where appropriate, involving the EU's various institutions as needed. This is to ensure that countries pursue more coordinated economic policies, and to allow countries to learn from each others' practices.

TITLE V
Governance of the Euro Area

Article 12

1. The leaders of the Eurozone members, and the President of the European Commission, will meet informally in meetings called the 'Euro Summit'. The President of the European Central Bank will be invited to take part in these meetings.

   There will be a President of the Euro Summit, who will be elected by the leaders of Eurozone member states by a simple majority, and at the same as the European Council (the meeting of all EU leaders) elects its President. The President of the Euro Summit and the President of the European Council will have the same term of office.

2. Euro Summit meetings will take place whenever necessary, and at least twice every year. They will discuss the specific responibilities of Eurozone member states, various other issues relating to the management of the Euro and the Eurozone, and other strategies to increase convergence within the Eurozone.

3. The leaders of participating countries who do not use the Euro will participate in Euro Summit meetings to discuss competitiveness, amending the general structures and fundamental rules of the Euro, and (at least once per year) specific issues affecting the implementaiton of this Treaty.

4. The President of the Euro Summit, working closely with the President of the European Commission, will arrange the agenda for the Euro Summit meetings. The Euro Group (the group of finance ministers for countries using the Eurozone) will prepare each meeting of the Euro Summit and that its results are followed up, and the President of the Euro Group might be asked to attend each meeting in order to help with this.

5. The President of the European Parliament may be invited to address meetings of the Euro Summit. The President of the Euro Summit will issue a report to the European Parliament after each meeting.

6. The President of the Euro Summit will keep non-Eurozone countries, including EU members who do not adopt this Treaty, informed on the preparation and result of all Euro Summit meetings.

Article 13

The European Parliament, and the national parliaments of participating countries, will organise conferences to discuss budget policies and other issues dealt with by these treaties. These will involve members of the relevant committees of the European Parliament, and the budget and finance committees of each national parliament.

TITLE VI
General and Final Provisions

Article 14

1. This treaty shall be approved by participating countries in accordance of the requirements of their own national laws. Official papers from each country, confirming their approval of this treaty, will be deposited with the General Secretariat of the European Council (in Brussels).

2. This treaty will take effect on January 1, 2013, provided that 12 Eurozone countries have approved it by that date. If 12 Eurozone countries have not approved it by then, it will take effect on the first day of the month after the 12th Eurozone country approves it.

3. This treaty will apply from January 1, 2013 to whichever non-Eurozone countries have already approved it, provided that it has already come into effect by this time.

   Once it has come in effect, any other non-Eurozone country approving this treaty will be bound by its terms from the first day of the following month.

4. Title V, on the Governance of the Euro Area, will apply to all participating countries from the date the treaty comes into force, subject to the terms of paragraph 3 above and paragraph 5 below.

5. Countries which do not currently qualify for membership for the Eurozone (including Denmark, which has qualified for membership but opted out of it), and who have approved this treaty, will be bound by the terms of the treaty whenever they qualify for membership of the Euro, and whenever they have approved this treaty, unless they have decided to voluntarily adopt the terms of Titles III and IV before then.

Article 15

EU member states who are not participating in this treaty may choose to join it at a later date. Other countries will join the treaty by approving it and lodging official papers in Brussels. When a new country joins, the treaty will be translated into any of its official languages which are also working languages of the EU, and an official translation will be filed in Brussels.

Article 16

Within a maximum of five years after this treaty has come into force, the participating countries will consider its effectiveness and take the necessary steps to transfer its substantial points into the laws of the European Union.

Signed in Brussels on March 2, 2012.

This treaty will be translated into of the following languages, with each translation considered equally authentic:
Bulgarian, Danish, Dutch, English, Estonian, Finnish, French, German, Greek, Hungarian, Irish, Italian, Latvian, Lithuanian, Maltese, Polish, Portuguese, Romanian, Slovak, Slovenian, Spanish and Swedish.

The translations will be filed in Brussels, which will send an official copy to each of the paritipcating countries.