

**WARSAW SCHOOL OF ECONOMICS
COLLEGIUM OF WORLD ECONOMY**

Justyna Sikora, MA

**REFORM OF THE SYSTEM OF FISCAL GOVERNANCE IN THE
EURO AREA**

Doctoral thesis summary

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of Prof. dr hab. Leokadia Oręziak

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SUMMARY

The global economic and financial crisis, which commenced in 2007, led to significant deterioration of economic situation and public finances of the euro area countries. It exposed macroeconomic imbalances and weaknesses in coordination of fiscal and economic policies, in the existing surveillance procedures and disciplinary instruments. Both a system of effective sanctions, which might be imposed on the Member States not complying with the requirements stemming from participation in the monetary union, and a transfer system, which would provide financial support and protect against contagion effect, were lacking. Economic crisis in the euro area Member States, especially in Greece, Ireland and Portugal, problems of Spain and Italy with financing their public debts, led in the years 2010-2013 to major reforms of fiscal governance and functioning rules of the euro area, i. e. strengthening the Stability and Growth Pact by the so called "Six-pack" and "Two-pack", signing the so-called "Fiscal Compact", enhancing coordination of budgetary cycle by the European Semester, creation of a permanent crisis management mechanism-the European Stability Mechanism. The excessive deficit procedure was improved and a new macroeconomic imbalance procedure established.

The main research objective of the thesis is to critically evaluate the functioning rules of the euro area and reforms of the fiscal governance implemented in the aftermath of the economic crisis in the years 2010-2013. In the thesis, the main weaknesses of the euro area institutional framework were determined and factors that had contributed to the sovereign debt crisis were identified. Moreover, possible directions of further reforms (including a fiscal union), which would prevent accumulation of public debt and macroeconomic imbalances in the euro area Member States, were analyzed

The following thesis was subject to verification:

The sovereign debt crisis in the euro area Member States has systemic grounds and results from the euro area framework -establishment of a monetary union without a central fiscal policy. Reforms of the fiscal governance introduced in the years 2010-2013 are characterized by many weaknesses and are insufficient to effectively exert impact on the euro area Member States to limit build-up of the public debt.

The thesis consists of five chapters. Chapter 1 is a theoretical one, in which functions of the public finance, main objectives and tools of fiscal policy as well as reasons, methods of reduction and impact of public debt on economic growth are presented on the basis of the existing

literature. Functions of the central government in the light of fiscal federalism as well as its functioning in practice on the example of the United States of America and the Federal Republic of Germany are also characterized. Chapter 2 is devoted to the process of economic and monetary integration in Europe. It explores the main stages of integration as well as theoretical benefits and costs resulting from membership in an economic and monetary union. Apart from this, origins of establishing, legal framework and functioning rules of the Economic and Monetary Union in Europe until 2010 are presented. Elements of a federal state in the institutional structure of the EU are reviewed as well. In Chapter 3, economic situation of the euro area countries in the years 1999-2013 is subject to an economic analysis, including macroeconomic situation and state of public finance, competitiveness of economies and imbalances in the current account. In addition, reforms of the financial sector and implemented anti-crisis measures are evaluated. Moreover, plans of creating a banking union in the EU as well as the role of the ECB in counteracting the crisis are presented and commented. In Chapter 4, the main reforms in the area of fiscal governance implemented in the years 2010-2013 are presented and assessed. Chapter 5 covers determinants of the future euro area framework. In this chapter, potential institutional reforms, which would ensure a long-term stability of the euro area and prevent build-up of public debt, are analyzed. At the end, conclusions of the conducted analysis are presented. They confirm the main thesis that the implemented reforms are characterized by many weaknesses and are insufficient to solve the problem of excessive public debt in the euro area.

The reformed system of fiscal governance as well as the system of surveillance over macroeconomic imbalances became more complex and less clear, and additional reporting obligations were imposed on the Member States. Moreover, they have to meet more requirements, what may make it more difficult to concentrate on decreasing the debt-to-GDP ratio. More focus should be put on pro-growth investments and mitigation of divergences in competitiveness across the euro area countries, including prevention of excessive surpluses in the current accounts.

The institutional reforms, which have been implemented in the euro area since 2010, are heading towards fiscal federalism and a fiscal union. Despite economic arguments that in the long run one should strive for stronger integration of national public finances, establishment of a fiscal union with a central budget fulfilling stabilization and redistribution function as well as

strengthening the political power at the EU level, more advanced monetary and political integration in Europe seems to be unlikely in the foreseeable future.