Beata Lipková[1]

FISCAL (NON)INTEGRATION IN THE EUROPEAN MONETARY UNION AND ITS IMPACTS

While within the European Monetary Union (EMU) member states submitted competences to the European Central Bank (ECB), the fiscal area remains sovereign and member states sovereign actors are committed to comply with the rules. This article deals with the analysis of the current state of integration in the fiscal area, noting the measures taken in the financial and debt crisis in the euro area in order to restore financial discipline of member states. The article demonstrates the macroeconomic imbalances and the current strategy of economic growth following the severe fiscal austerity. This article aims to contribute to the analysis of the current state of integration in the EMU in the fiscal area.

Keywords: *debt, excessive deficit, macroeconomic imbalances, fiscal austerity, euro area.*

Беата Ліпкова

ФІСКАЛЬНА (НЕ)ІНТЕГРАЦІЯ В РАМКАХ ЄВРОПЕЙСЬКОГО МОНЕТАРНОГО СОЮЗУ ТА ЇЇ НАСЛІДКИ

У статті вказано, що хоча країни-члени Європейського монетарного союзу передали Європейському центральному банку ряд компетенцій, фіскальна область залишається суверенною і в ній країни-члени діють незалежно в рамках встановлених правил. Проаналізовано поточний стан інтеграції фінансових процесів у Європі, включаючи заходи, прийняті під час фінансової і боргової кризи в єврозоні для відновлення фінансової дисципліни країн-членів. Продемонстровано економічний дисбаланс і нинішню стратегію економічного зростання, що наступає за жорсткою фінансовою економією. Проаналізовано стан інтеграції в рамках Європейського монетарного союзу у фіскальній сфері.

Ключові слова: *борг, надлишковий дефіцит, макроекономічні дисбаланси, жорстка фінансова економія, єврозона.*

Беата Липкова

ФИСКАЛЬНАЯ (НЕ)ИНТЕГРАЦИЯ В РАМКАХ ЕВРОПЕЙСКОГО МОНЕТАРНОГО СОЮЗА И ЕЕ ПОСЛЕДСТВИЯ

В статье указано, что хотя страны-члены Европейского монетарного союза передали Европейскому центральному банку ряд компетенций, фискальная область остается суверенной и в ней страны-члены действуют независимо в рамках установленных правил. Проанализировано текущее состояние интеграции финансовых процессов в Европе, включая меры, принятые во время финансового и долгового кризиса в еврозоне для восстановления финансовой дисциплины стран-членов. Продемонстрированы экономический дисбаланс и нынешняя стратегия экономического роста, следующего за жесткой финансовой экономией. Проанализировано состояние интеграции в рамках Европейского монетарного союза в фискальной сфере.

Ключевые слова: *долг, избыточный дефицит, макроэкономические дисбалансы, жесткая финансовая экономия, еврозона.*

Introduction. The project of the EMU was from the outset asymmetrical, based on the transfer of competencies in the monetary area and respecting the sovereignty of countries in the fiscal area. Compliance with the requirement of fiscal discipline

[1] Assistant Professor, Faculty of International Relations, University of Economics in Bratislava, Slovakia.

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has been enshrined in the Maastricht Treaty provisions on excessive deficit procedures (EDP), which set annual limit of the budget deficit (3% of GDP) and public debt (60% of GDP). In addition to the fiscal discipline, to ensure compliance after joining the monetary union Stability and Growth Pact (SGP) was adopted in 1997.

The political coordination of fiscal policies should eliminate the risks arising from the incomplete EMU. The pressure to comply with fiscal discipline by the EA member countries was meant to be increased by introducing the "no bailout" clause, which explicitly prohibits the ECB and central banks of member states to provide governments with any loan or direct purchase of public debt.

In good economic times, many euro area countries did not accelerate their fiscal adjustment and did not reduce government loans (Larch, Noord, Jonung, 2010, p.17). After the outbreak of sovereign debt crisis in Greece and worsening fiscal sustainability in Ireland and Portugal, the key issue was whether the debt crisis will force the euro area countries to deepen integration in the fiscal area. The absence of fiscal integration is compensated by tightening of existing rules and their coercive mechanisms. Since 2010 measures have been gradually adopted that are expected to avoid unsustainable public finance and greatly unbalanced competitiveness between member states.

Assistance began to be provided to fiscally weak countries through intergovernmental loans, creating EFSF (European Financial Stabiliy Facility), monetary care for, when the ECB began to make substantial purchases of government bonds of the problem countries and finally was approved the establishment of permanent ESM (European Stability Mechanism). Bagus points out that by the creation of these funds the euro area confirmed the formation of funds transfer union (Bagus, 2011, p. 126). Limited capacity of EFSF/ESM suggests there is no political intention of becoming closer to a transfer union.

The collective efforts of member states of the euro zone to stabilize the situation by tightening fiscal rules and convincing financial markets that appropriate measures are taken resulted in March 2012 in the adoption of the Fiscal Stability Treaty (Fiscal Compact, FC). The budget agreement in the FC is based on the rules of the new SGP and its basis is the obligation of balance or surplus budgetary positions and debt, and if it goes over 60% of GDP annual reduction of 1/20. FC can not be regarded as a shift to a fiscal union, but rather a tightening of rules to ensure fiscal stability, which is the basis of prudent fiscal austerity. The plan of this concept is to ensure balanced or surplus budgets, eliminating the need for a fiscal union; on the other hand, it commits to the establishment of ESM. FC or its content is not likely to guarantee the fulfillment of this ambitious undertaking. Feldstein notes that FC will have no predictable effect on the behavior of euro area countries and the current political process will not create a strong fiscal discipline (Feldstein, 2012).

1. The fiscal situation in the EMU after the outbreak of the crisis.

By 2007, when the financial crisis engulfed the global economy, including the EU economy, the rules laid down for observance of fiscal discipline were considered sufficient, and their violation was not considered a serious threat to fiscal sustainability, as demonstrated later. Given that in 2007 many member states have reported acceptable fiscal deficit and government deficit in the EA fell to -0.7 % of GDP compared with -2.5% GDP average 2002-2006 (EC, 2012a), as shown in Table 1 and

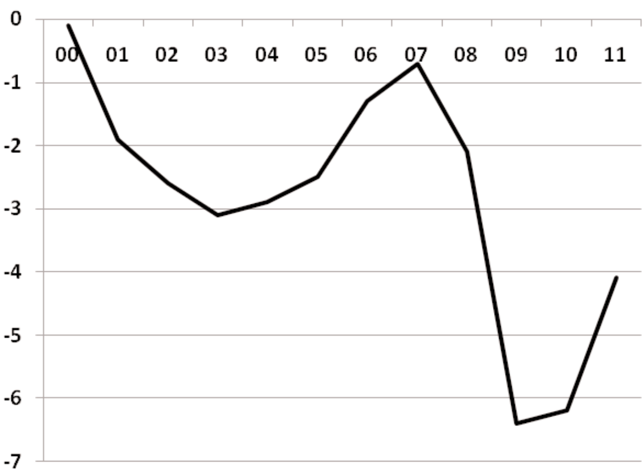
Figure 1, the situation in the euro area was considered satisfactory. Fiscal sustainability was supported by low stable inflation. Also, macroeconomic imbalances, such as large current account deficits and the price boom at the housing market in some peripheral countries were not considered threats to the overall macroeconomic stability. After the 2007, the crisis revealed weaknesses in the EU fiscal surveillance, especially in the euro area, which lacks deeper fiscal integration. In 2008 the general government deficit increased in the EA to -6.4% of GDP and to -6.9% in the EU (EC, 2012a).

Table 1. **General government net lending (+) or borrowing (-) as % of GDP**

	2002-2006	2007	2008	2009	2010	2011	2012	2013
EA	-2.5	-0.7	-2.1	-6.4	-6.2	-4.1	-3.2	-2.9
EU	-2.5	-0.9	-2.4	-6.9	-6.5	-4.5	-3.6	-3.3

Notes: 2011 estimate, 2012 and 2013 forecast.
Source: European Commission. European Economic Forecast. Spring, 2012.

With regard to measures taken for fiscal consolidation the EC expects the decrease in budget deficits of 4.5% of GDP in the EU and 4.1% of GDP in the EA in 2011 to 3.6% in the EU GDP and 3.2% in the EA in 2012.



2011	
BE	-3,7
DE	-1,0
EE	1,0
IE	-13,1
EL	-9,1
ES	-8,5
FR	-5,2
IT	-3,9
CY	-6,3
LU	-0,6
MT	-2,7
NL	-4,7
AT	-2,6
PT	-4,2
SI	-6,4
SK	-4,8
FI	-0,5
EA-17	-4,1

Source: EUROSTAT (2012a) data; author's calculations.

Figure 1. **General government balance of the euro area, % of GDP**

On the fiscal side it is shown that the seemingly positive data covered 2 important facts. The first is that budgetary improvements supported by high taxes and partly achieved by economic growth were partly used to increase government spending. A decline in incomes after the development of the crisis revealed a missed opportunity for the fiscal space consolidation. The second is that the imbalances outside the government sector were significantly transferred to the responsibility of governments, which poured vast amounts of liquidity into the banking sector (Larch, Noord, Jonung, 2010, p. 4).

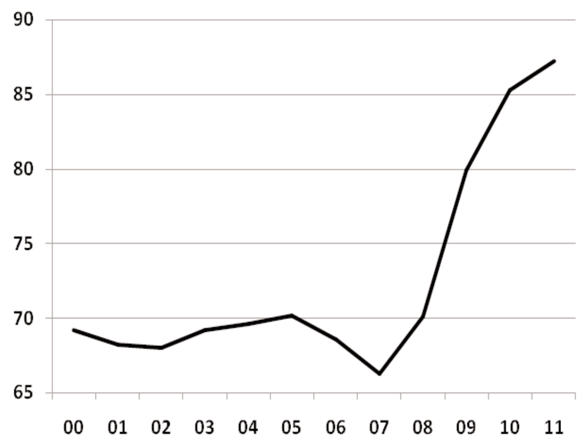
Practically from the 70's of the 20th century there was a significant increase in debt of the European Community countries. The threat of cost spillover effects caused by the debt has gained momentum after 2007, when the situation has changed radically. The average debt in the EU has increased from 59% of GDP in 2007 to 74.8% of GDP in 2009 and has been steadily increasing since (EC, 2012a).

Table 2. **General government gross debt, as % of GDP**

	2006	2007	2008	2009	2010	2011	2012	2013
EA	68.6	66.3	70.1	79.9	85.6	88.0	91.8	92.6
EU	61.6	59.0	62.5	74.8	80.2	83.0	86.2	87.2

Notes: 2011 estimate, 2012 and 2013 forecast.
Source: European Commission. European Economic Forecast. Spring, 2012.

In individual euro area countries the average debt ratio to GDP increased during 2007-2011 from 10 % to 60 % (Eichengreen et al., 2011, ch. 4, p. 53) and countries with the largest increase (Greece, Ireland, Portugal and Spain) got into serious problems with refinancing of their debts at the financial markets. The credit crisis continues and Table 2 shows that the public debt will continue to grow at least until the end of 2012.



	2011
BE	98,0
DE	81,2
EE	6,0
IE	108,2
EL	165,3
ES	68,5
FR	85,8
IT	120,1
CY	71,6
LU	18,2
MT	72,0
NL	65,2
AT	72,2
PT	107,8
SI	47,6
SK	43,3
FI	48,6
EA-17	88,0

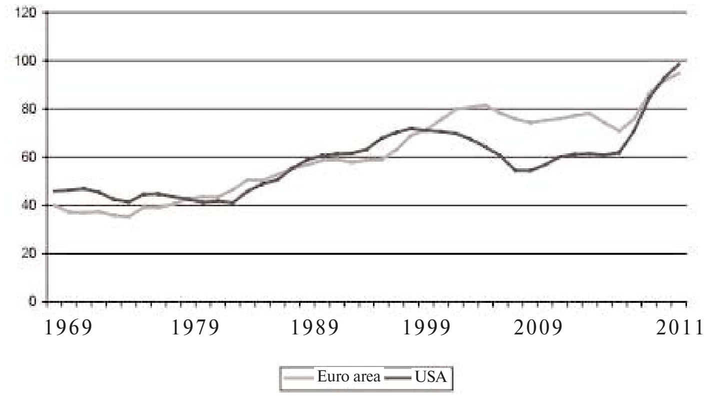
Source: EUROSTAT (2012b) data; author's calculations.

Figure 2. **General government debt of euro area, % of GDP**

In the euro area the ratio of public debt to GDP has increased from 66.3% in 2007 to 79.9% of GDP in 2009, the Commission forecasts the increase to 91.8% in 2012 (EC, 2012a).

Tendency to deficit can be recorded not only in the EA member states, but also in other major economies. From Figure 3, which shows a comparison between the evolution of public debt to GDP in the US and the EA can be seen that the EA countries managed to stabilize the public debt ratio to GDP in the first decade after the creation of monetary union, despite the fact that debt levels exceeded 60% of the specified limit.

Government debt in the US in 2011 accounted for 103.5% of GDP; in Japan in the same year — 211.4% of GDP (EC, 2012b). The inclination of governments to create deficits persisted even after the introduction of a common currency, the accumulation of public debt was related to the constant increase in provision of public services and transfers. Eichengreen points out that the situation in the area of public debt also deteriorates rapidly because of aging population, making the implicit fiscal responsibility gradually changed to an explicit and potentially increasing the debt ratio of 30-40% (Eichengreen et al., 2011, ch. 4, p. 47).



Source: Economic Outlook, OECD. In: Eichengreen et al., 2011.

Figure 3. **Public debts of the US and of the euro area (% of GDP)**

Unlike other large economies, however, high sovereign debt crisis has so far caused crisis only in the EA. One possible reason is that EA member states can not use the currency devaluation for the deficit corrections. Another possible interpretation may include the role played by the ECB and more general explanation lies in efforts to rescue countries in connection with the debt burden (Eichengreen et al., 2011, ch. 4, p. 62).

Tilford and Whyte indicate other reasons arising from the fact that common currency of fiscally sovereign states is prone to loss of confidence. In such a monetary union it is likely that macroeconomic imbalances are transformed into a sovereign debt crisis in its individual states. Since countries do not fully control the common currency in which bonds are issued also plays a role in the situation where financial markets are concerned about their fiscal position, begin to evaluate them more stringent, which will lead to higher costs of debt service. On the one hand, a market discipline for wasteful government is being proposed, on the other hand, it increases their vulnerability and the governments move closer to insolvency (Tilford, Whyte, 2011).

By now, financial markets do not consider the credibility of government bonds as the same in all the member states, thus a high polarization of the profits from the bonds and an increase in the rate for countries to create a high government deficits and debts, causing problems in debt refinancing.

2. Macroeconomic imbalances in the EMU.

Macroeconomic imbalances that existed before the debt crisis among the member states of the EA, were reflected in the constant divergence of competitiveness and current account balance of payments between member states. During the crisis of sovereign debt, however, such macroeconomic imbalances are not compatible with the sustainability of the EA. EMU economic management based on monetary stability and SGP rules indicate the fact that fiscal recklessness was regarded as the main risk to the stability of the EA. Therefore, the emergence of macroeconomic imbalances between the states is often treated as a result of fiscal indiscipline. In this context it is important to note that the introduction of a common currency for countries whose economies are too heterogeneous to some extent contributed to the loss of competitiveness of the peripheral countries and allowed extreme increase in their indebtedness. Because some of the EMU countries were highly credible, part of the risk of interest rates for the southern countries has decreased, which decreased, in countries with high inflation, the debt burden of private and public sectors and supported excessive consumption (Bagus, 2011, ch. 12, p. 143).

Excessive consumption not covered by savings and allowed by private sector, led to the formation of bubbles, especially at the housing market. Today we can see that government debt is affected by the factors that are not related to fiscal indiscipline. Massive rescue of financial institutions which, due to bubbles at the housing market, over-accumulated toxic assets now paradoxically threatens the sustainability of public finance in those euro area countries, which adhered to the rules set by the SGP. Ireland and Spain are in serious fiscal problems due to the risk actions taken by the private sector. The budget deficit rose in Ireland from -0.1% of GDP in 2007 to -14.0% of GDP in 2009; in Spain — from -1.9% of GDP in 2007 to 11.2% in 2009 (EC, 2012b). At the same time government debt significantly increased as a result of government intervention in banks and other financial institutions. In Spain, government debt increased from 36.2% of GDP in 2007 to 79.2% of GDP in 2009; in Ireland, these indicators in the same period were at 24.8% of GDP and 65.1% of GDP, respectively (EC, 2012b).

Table 3. **Current account balances in the selected EA members (% of GDP)**

Country	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
France	3.16	1.44	1.76	1.20	0.79	0.52	-0.50	-0.58	-0.99	-1.75	-1.31	-1.57	-1.97
Germany	-1.35	-1.83	-0.02	1.97	1.90	4.59	4.99	6.18	7.49	6.21	5.92	5.94	5.66
Greece	..	-7.80	-7.20	-6.51	-6.56	-5.78	-7.54	-11.26	-14.35	-14.69	-11.02	-9.96	..
Italy	0.68	-0.53	-0.06	-0.77	-1.29	-0.93	-1.65	-2.57	-2.43	-2.88	-1.98	-3.48	-3.14
Netherlands	4.06	2.03	2.55	2.57	5.58	7.85	7.54	9.29	6.69	4.18	4.10	7.13	8.53
Portugal	-8.66	-10.45	-10.28	-8.24	-6.45	-8.21	-10.50	-10.75	-9.92	-12.57	-10.73	-10.02	-6.65
Spain	-2.91	-3.96	-3.95	-3.26	-3.51	-5.24	-7.34	-8.94	-9.98	-9.62	-4.82	-4.51	-3.49

Notes: * January-June 2011.
Source: OECD Stat online.

While the core euro area countries showed rising current account surpluses, the southern countries, encouraged to increase their consumption while reducing income, recorded even higher current account deficits. Faster growth in unit wage costs than productivity growth has caused competitiveness loss, and a strong exchange rate of the single currency also contributed to the increased imbalance.

In this context, Tilford and Whyte point to the role of creditor nations and the fact that insufficient integration of the fiscal area worsens the financial vulnerability and makes it difficult to address the current debt crisis. The massive influx of capital from prosperous countries in the core to the peripheral, reducing the cost of borrowing due to the inflow of foreign capital and encouragement of governments, private sector and households to spend more than they earn, meant an explosion of current account imbalances (Tilford, Whyte, 2011). Table 3 shows the evolution of the balance of payments of the selected euro area countries, where one can see a significant departure of uncompetitive economies (Greece, Portugal, Spain) from highly competitive countries such as Germany and the Netherlands.

Given the fact that macroeconomic imbalances has not been sufficiently addressed, there was no mechanism for ensuring the convergence of competitiveness between member states, which stems from the fact that the states remained sovereign in fiscal and economic areas (taxes, spending, social policy, wage policy). The lack of deeper fiscal integration in the current period leads to unsustainable macroeconomic imbalances among the euro zone countries.

Supervision of correction of excessive macroeconomic imbalances is based on the argument that the member states as a result of deep trade and financial ties that exist between them can not effectively enforce the remedy at the national level. Therefore, a new mechanism processing the excessive imbalance (Excessive Imbalances Procedure, EIP) is being implemented; the logic is similar to the EDP for public finances.

The EIP should be applied symmetrically which means that the surplus countries should change their policy in favor of balancing. In the meantime, countries with high trade surplus, continue with prudent fiscal savings, which is likely to further increase savings and reduce domestic demand. However, the strengthening of the competitiveness of the South through rigorous austerity and implementation of fiscal structural reform (whose effects are visible only in the longer term) to improve productivity by reducing unit labor costs (resulting in a further increase in social tensions) is uncertain. A possible solution to enhance their competitiveness is by the currency devaluation, which can not be implemented. The ECB continues to ensure low inflation, which is difficult to create conditions for the restoration of competitiveness of the South EA countries.

Roubini in this regard asserts that in addition to a significant loosening of monetary policy by the ECB and the provision of lender of last resort to support illiquid but potentially solvent countries, competitiveness and economic growth in the peripheral euro area countries can restore only through the steep devaluation of the euro, thus the current account deficits changed to surpluses. While saving within peripheral countries, fiscal incentives in the core area must strengthen (Roubini, 2011). The introduction of strict fiscal policy for all euro area member states is currently accompanying by criticism based on the fact that strict austerity alone is not a way to overcome the debt crisis. Economists have given, in relation to criticism of strict fiscal austerity, options of elimination of macroeconomic imbalances. Legrain argues that at present, attention should focus on increasing investment and exports in economies with current account deficits and to stimulate consumption in surplus countries (Legrain, 2012). While removing trade imbalances, Tilford and Whyte point to the need to reduce compensation costs and increase savings of households and firms in the deficit countries by increasing spending and reducing savings in surplus countries (Tilford, Whyte, 2011).

3. The fiscal austerity and economic growth.

After the introduction of common currency in the EA, lower rates of economic growth were observed than those of other developed economies. Financial and debt crisis has significantly deteriorated the situation and the EU economy is now in recession. Long-term rates of economic growth and anticipated development in the EU, USA and the EA are shown in Table 4.

Table 4. **GDP at current prices (annual % change)**

	1992-96*	1997-01*	2002-06*	2007	2008	2009	2010	2011	2012	2013
EU	1.3	3.0	2.1	3.2	0.3	-4.3	2.0	1.5	0.0	1.3
EA	1.5	2.8	1.8	3.0	0.4	-4.3	1.9	1.5	-0.3	1.0
USA	3.3	3.8	2.7	1.9	-0.4	-3.5	3.0	1.7	2.0	2.1

Notes: * 5-years average. Estimated 2011, 2012 and 2013 forecast.
Source: European Commission. European Economic Forecast. Spring, 2012.

Report on macroeconomic developments expects in 2012 the fall of economic growth at -0.3 % for the EA. Southern European member states will record in 2012 the largest decline: 4.7 % in Greece, Portugal — 3.3 %, Spain — 1.8 %, and Italy — 1.4 % (EC, 2012a).

At present, when the member states of the EU and the EA are forced to significant fiscal austerity, the EU economy suffers from weak domestic demand, which is affected by many factors. The credits from the banking sector are reduced despite the fact that the ECB has provided banks with long-term refinancing operations (LTROs), which helped to solve liquidity problems, but does not solve the problem of access to capital. Weak private consumption in many member states is also dampened by high unemployment, slow wage growth and inflation, but also household indebtedness. During 2012, in connection with reduced economic activity, reduced employment is expected to decrease by 0.2% in the EU and 0.5% in the EA. In 2011, the unemployment rate in the EU was at 9.7% and 10.2% in the EA (EC, 2012a).

Private sector investments are also weak and insufficient. Reduction in demand due to global slowdown causes a decrease in exports. The structure of the EU's economic growth in the years 2006-2013 is presented in Table 5, which shows a significant decline in the share of all indicators in 2009 and continued decline in the share of private and public consumption and investment to GDP of the EU.

Legrain points out the danger of falling in a spiral, when the rapid and extensive austerity, while a significant loss of private credits and government spending, can cause a sharper slowdown in economic growth (Legrain, 2012). Roubini in this context refers to the "paradox of thrift" where too fast and too large an increase in savings leads to a return to recession and converts debt to become even more unsustainable (Roubini, 2011).

Table 5. **Structure of the EU's economic growth**

%	2006	2007	2008	2009	2010	2011	2012	2013
Private consumption	2.3	2.2	0.3	-1.8	1.0	0.1	-0.3	0.7
Public consumption	2.0	1.8	2.3	2.1	0.7	-0.1	-0.5	-0.1
Investments	6.4	5.9	-0.9	-12.5	- 0.2	1.3	-0.9	2.2
Reserves	0.5	0.8	0.6	- 0.5	0.4	0.5	0.3	0.3
Export of goods and services	9.7	5.8	1.5	-12.0	10.9	6.3	2.4	4.8
Import of goods and services	9.6	6.0	1.2	-12.2	9.8	3.9	0.9	3.9
GDP	**3.3**	**3.2**	**0.3**	**-4.3**	**2.0**	**1.5**	**0.0**	**1.3**

Source: European Commission. Statistical Annex of European Economy, Spring, 2012.

At the Union's level, the priorities have been taken (the Compact for Growth and Jobs) that are supposed to lead to the strengthening of economic growth (by removing the remaining obstacles to the single market, increasing investment in energy, transport, and IT infrastructure as well as investing in infrastructure for peripheral countries). The Compact may be considered, in some sense, as a counterpart to savings strategy, which takes on Germany, and which is included in the FC. We assume, however, that the implementation of these measures will require a long period (if they are managed to be implemented in reality), and therefore will not trigger the fast start of economic growth that should allow the EA to alleviate the debt crisis and calm financial markets.

Gros points out that the key concepts of the growth strategy are the same as in 1996-1997 when the Union's economy sunk into deep recession, and states that these concepts are not adapted to present conditions (Gros, 2012).

The creators of fiscal policy base their assumptions on the fact that fiscal austerity will not lead to economic contraction, but will increase confidence of households and businesses in the sustainability of public finances, leading to the recovery in consumption and investment. There is no historical precedent to confirm this fact and the examples of the current fiscal saving and economic growth are accompanied by currency depreciation and/or lowering interest rates, which is not the possibility, that euro area member states may use (Tilford, Whyte, 2011).

Roubini argues that fiscal savings accelerate rapidly shrinking economies as a result of higher taxes and lower government spending and transfer payments, all of which reduce disposable income and aggregate demand. The deepening of recession will also cause wider fiscal deficits, causing a need for further austerity measures (Roubini, 2011).

It is clear that the rescue plan of the ECB of buying bonds and banks' supply of cheap cash in late 2011 and early 2012 did not stop the deepening crisis. The pressure of financial markets forced the government representatives of the EA member states to adopt a solution that provided a political agreement with the ECB's action, combined with tight fiscal austerity. There are ongoing long-term discussions in scientific and political circles about the possibility of issuing common EU bonds. Germany today, but also countries with low borrowing costs, resolutely refuses this option. The reason for this attitude is the fact that their credibility will be shared through debt mutualisation and so the affected countries will not be forced by financial markets to ensure their fiscal sustainability. Another reason is that there is no political mandate for sovereign debt mutualisation. At present, the possibility of resolving the crisis in the euro area is seen in the planned shift to federalism through which changes in the original concept of the EMU take place: a shift in the financial field to wide regional banking supervision, recapitalization, deposit insurance and regulation. In the fiscal area, the only way for euro area member states to manage and reduce their fiscal burden is limited mutualization of debt (The Economist, 2012). Tilford and Whyte note that the debt mutualization will not save euro, but can generate a low risk-free interest rates, which would help to restore public finances and create a basis for the return of economic growth (Tilford, Whyte, 2011).

The European Council Summit of June 28-29th, 2012, about the solution to the crisis brought in the decision "to break the vicious circle between banks and countries" (EC, 2012e) and to establish a single mechanism of banks supervision. Funds from the ESM will be applied for direct recapitalization of banks. In connection with the possible creation of banking union, Sinn brings attention to the risk of public debts socialization for a stable country, as banks' balance sheets are much higher than the volume of government debt. While Spain's ratio of debt to GDP is 69%, debt of Spanish banking system reached the total of 305% of GDP (Sinn, 2012). On the other hand, "The Economist" argues in favor of the creation of banking union by uncertainty of financial markets about governments able to handle their debts, which pushes bonds yields upwards and leads to stopped lending to banks, which further limits economic growth (The Economist, 2012).

The decision to realize recapitalization of banks directly from the emergency funds means the transfer of private debt in the banking sector to the level of EA member states. Other obligations of the countries suggesting the establishment of banking union, which would include in addition to shared resources to recapitalize banks other elements, such as common deposit insurance and common rules for dealing with the banks that have failed were not adopted. This reflects the fact that although the EMU member states seek to meet the political commitment to save the common currency, the measures taken are slow, cautious, and their contents are often vague. The European Council has no consensus on the future institutional arrangements of the EMU and has no political mandate for its completion.

Conclusion. The EMU based on an asymmetric approach to the implementation of monetary and fiscal policy worked quite well untill the outbreak of the financial and debt crisis. Leaving the sovereignty in the fiscal area on member states should have been balanced by respect for the rules of the SGP to ensure the sustainability of public finance in the member states and the macroeconomic stability of the EA. However, we can say that the problems to which the euro area have been involved, do not emerge from the nature of the rules, but of their violations and of the undermining influence of public (and private) debt in the member states on the stability of the monetary union. Consent of economically strong countries with the establishment of emergency funds was balanced by uniform commitment to prudent fiscal austerity.

Unlike the previous period, the SGP attributes the debt criterion the same importance as the budget deficit criterion. In response to the situation from the past, when states violated the rules, the enhanced SGP is to ensure stability through changes in the regulatory decisions. We assume that while maintaining the fiscal sovereignty of member states, this mechanism will not be effective and also will not contribute to improving the fiscal position and debt reduction, which must be primarily the self-interest of each state. Fiscal compact confirm the introduction of strict fiscal saving (which eliminates the need for fiscal transfers) regardless different structure of the economies and the possibility of countries to fulfill this commitment.

Some progress can be seen in the fact that policy makers respond to the fact that the stability of the euro area is not threaten solely by fiscal recklessness, but also by other macroeconomic imbalances reflecting the divergence of competitiveness and current account balance of payments of member states. The savings of the private sector threatened the sustainability of public finance even in those countries that respected the rules of the SGP. The unsustainability of macroeconomic imbalances in the EA, the Union responded by the introduction of EIP, which, in the same way as the EDP, in our view will not ensure the restoration of the competitiveness of the southern states and reduction of their current account deficits. The elimination of macroeconomic imbalances should be implemented by the combination of reducing spending and increasing savings in deficit countries and increasing spending and reducing savings in surplus countries. Promoting economic growth should now be focused on stimulating demand, but is prevented by the tight fiscal policy implemented in the countries with relatively sound public finance.

Measures taken to save the EMU shows on one hand the efforts of the member states to comply with the political commitment to save the political project of the union. On the other hand, these measures can not be regarded as adequate ones for the completion of the fiscal and economic monetary union. The tightening of fiscal rules and and the equal prudent fiscal policy for all states implies that the pressure of collective responsibility for the common currency remains the fundamental principle. It is evident that the member states do not possess a political mandate for the actual completion of monetary union and despite all the measures taken so far, confidence of the markets to fiscally weakened countries has not yet increased.

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