

This document contains the original European Union Fiscal Treaty [pages 2-26], followed by a 'layman's' translation prepared and published by thejournal.ie [pages 27-35]

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TREATY ON STABILITY, COORDINATION AND GOVERNANCE
IN THE ECONOMIC AND MONETARY UNION BETWEEN
THE KINGDOM OF BELGIUM, THE REPUBLIC OF BULGARIA,
THE KINGDOM OF DENMARK, THE FEDERAL REPUBLIC OF GERMANY,
THE REPUBLIC OF ESTONIA, IRELAND, THE HELLENIC REPUBLIC,
THE KINGDOM OF SPAIN, THE FRENCH REPUBLIC,
THE ITALIAN REPUBLIC, THE REPUBLIC OF CYPRUS, THE REPUBLIC OF LATVIA,
THE REPUBLIC OF LITHUANIA, THE GRAND DUCHY OF LUXEMBOURG, HUNGARY,
MALTA, THE KINGDOM OF THE NETHERLANDS, THE REPUBLIC OF AUSTRIA,
THE REPUBLIC OF POLAND, THE PORTUGUESE REPUBLIC, ROMANIA,
THE REPUBLIC OF SLOVENIA, THE SLOVAK REPUBLIC,
THE REPUBLIC OF FINLAND AND THE KINGDOM OF SWEDEN

THE KINGDOM OF BELGIUM, THE REPUBLIC OF BULGARIA, THE KINGDOM OF DENMARK, THE FEDERAL REPUBLIC OF GERMANY, THE REPUBLIC OF ESTONIA, IRELAND, THE HELLENIC REPUBLIC, THE KINGDOM OF SPAIN, THE FRENCH REPUBLIC, THE ITALIAN REPUBLIC, THE REPUBLIC OF CYPRUS, THE REPUBLIC OF LATVIA, THE REPUBLIC OF LITHUANIA, THE GRAND DUCHY OF LUXEMBOURG, HUNGARY, MALTA, THE KINGDOM OF THE NETHERLANDS, THE REPUBLIC OF AUSTRIA, THE REPUBLIC OF POLAND, THE PORTUGUESE REPUBLIC, ROMANIA, THE REPUBLIC OF SLOVENIA, THE SLOVAK REPUBLIC, THE REPUBLIC OF FINLAND AND THE KINGDOM OF SWEDEN,

hereinafter referred to as "the Contracting Parties";

CONSCIOUS of their obligation, as Member States of the European Union, to regard their economic policies as a matter of common concern;

DESIRING to promote conditions for stronger economic growth in the European Union and, to that end, to develop ever-closer coordination of economic policies within the euro area;

BEARING IN MIND that the need for governments to maintain sound and sustainable public finances and to prevent a general government deficit becoming excessive is of essential importance to safeguard the stability of the euro area as a whole, and accordingly, requires the introduction of specific rules, including a "balanced budget rule" and an automatic mechanism to take corrective action;

CONSCIOUS of the need to ensure that their general government deficit does not exceed 3 % of their gross domestic product at market prices and that their general government debt does not exceed, or is sufficiently declining towards, 60 % of their gross domestic product at market prices;

RECALLING that the Contracting Parties, as Member States of the European Union, are to refrain from any measure which could jeopardise the attainment of the Union's objectives in the framework of the economic union, particularly the practice of accumulating debt outside the general government accounts;

BEARING IN MIND that the Heads of State or Government of the euro area Member States agreed on 9 December 2011 on a reinforced architecture for economic and monetary union, building upon the Treaties on which the European Union is founded and facilitating the implementation of measures taken on the basis of Articles 121, 126 and 136 of the Treaty on the Functioning of the European Union;

BEARING IN MIND that the objective of the Heads of State or Government of the euro area Member States and of other Member States of the European Union is to incorporate the provisions of this Treaty as soon as possible into the Treaties on which the European Union is founded;

WELCOMING the legislative proposals made by the European Commission for the euro area, within the framework of the Treaties on which the European Union is founded, on 23 November 2011, on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability, and on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States, and TAKING NOTE of the European Commission's intention to present further legislative proposals for the euro area concerning, in particular, ex ante reporting of debt issuance plans, economic partnership programmes detailing structural reforms for Member States under an excessive deficit procedure as well as the coordination of major economic policy reform plans of Member States;

EXPRESSING their readiness to support proposals which the European Commission might present to further strengthen the Stability and Growth Pact by introducing, for Member States whose currency is the euro, a new range for medium-term objectives in line with the limits established in this Treaty;

TAKING NOTE that, when reviewing and monitoring the budgetary commitments under this Treaty, the European Commission will act within the framework of its powers, as provided by the Treaty on the Functioning of the European Union, in particular Articles 121, 126 and 136 thereof;

NOTING in particular that, in respect of the application of the "balanced budget rule" set out in Article 3 of this Treaty, that monitoring will be carried out through the setting up, for each Contracting Party, of country-specific medium-term objectives and of calendars of convergence, as appropriate;

NOTING that the medium-term objectives should be updated regularly on the basis of a commonly agreed method, the main parameters of which are also to be reviewed regularly, reflecting appropriately the risks of explicit and implicit liabilities for public finance, as embodied in the aims of the Stability and Growth Pact;

NOTING that sufficient progress towards the medium-term objectives should be evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, in line with the provisions specified under European Union law, in particular Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, as amended by Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 ("the revised Stability and Growth Pact");

NOTING that the correction mechanism to be introduced by the Contracting Parties should aim at correcting deviations from the medium-term objective or the adjustment path, including their cumulated impact on government debt dynamics;

NOTING that compliance with the Contracting Parties' obligation to transpose the "balanced budget rule" into their national legal systems, through binding, permanent and preferably constitutional provisions, should be subject to the jurisdiction of the Court of Justice of the European Union, in accordance with Article 273 of the Treaty on the Functioning of the European Union;

RECALLING that Article 260 of the Treaty on the Functioning of the European Union empowers the Court of Justice of the European Union to impose a lump sum or penalty payment on a Member State of the European Union which has failed to comply with one of its judgments and
RECALLING that the European Commission has established criteria for determining the lump sum or penalty payment to be imposed in the framework of that Article;

RECALLING the need to facilitate the adoption of measures under the excessive deficit procedure of the European Union in respect of Member States whose currency is the euro and whose planned or actual ratio of general government deficit to gross domestic product exceeds 3 %, whilst strongly reinforcing the objective of that procedure, namely to encourage and, if necessary, compel a Member State to reduce a deficit which might be identified;

RECALLING the obligation for those Contracting Parties whose general government debt exceeds the 60 % reference value to reduce it at an average rate of one twentieth per year as a benchmark;

BEARING IN MIND the need to respect, in the implementation of this Treaty, the specific role of the social partners, as it is recognised in the laws or national systems of each of the Contracting Parties;

STRESSING that no provision of this Treaty is to be interpreted as altering in any way the economic policy conditions under which financial assistance has been granted to a Contracting Party in a stabilisation programme involving the European Union, its Member States or the International Monetary Fund;

NOTING that the proper functioning of the economic and monetary union requires the Contracting Parties to work jointly towards an economic policy where, whilst building upon the mechanisms of economic policy coordination, as defined in the Treaties on which the European Union is founded, they take the necessary actions and measures in all the areas which are essential to the proper functioning of the euro area;

NOTING, in particular, the wish of the Contracting Parties to make a more active use of enhanced cooperation, as provided for in Article 20 of the Treaty on European Union and Articles 326 to 334 of the Treaty on the Functioning of the European Union, without undermining the internal market, and their wish to have full recourse to measures specific to the Member States whose currency is the euro pursuant to Article 136 of the Treaty on the Functioning of the European Union, and to a procedure for the ex ante discussion and coordination among the Contracting Parties whose currency is the euro of all major economic policy reforms planned by them, with a view to benchmarking best practices;

RECALLING the agreement of the Heads of State or Government of the euro area Member States, of 26 October 2011, to improve the governance of the euro area, including the holding of at least two Euro Summit meetings per year, to be convened, unless justified by exceptional circumstances, immediately after meetings of the European Council or meetings with the participation of all Contracting Parties having ratified this Treaty;

RECALLING also the endorsement by the Heads of State or Government of the euro area Member States and of other Member States of the European Union, on 25 March 2011, of the Euro Plus Pact, which identifies the issues that are essential to fostering competitiveness in the euro area;

STRESSING the importance of the Treaty establishing the European Stability Mechanism as an element of the global strategy to strengthen the economic and monetary union and POINTING OUT that the granting of financial assistance in the framework of new programmes under the European Stability Mechanism will be conditional, as of 1 March 2013, on the ratification of this Treaty by the Contracting Party concerned and, as soon as the transposition period referred to in Article 3(2) of this Treaty has expired, on compliance with the requirements of that Article;

NOTING that the Kingdom of Belgium, the Federal Republic of Germany, the Republic of Estonia, Ireland, the Hellenic Republic, the Kingdom of Spain, the French Republic, the Italian Republic, the Republic of Cyprus, the Grand Duchy of Luxembourg, Malta, the Kingdom of the Netherlands, the Republic of Austria, the Portuguese Republic, the Republic of Slovenia, the Slovak Republic and the Republic of Finland are Contracting Parties whose currency is the euro and that, as such, they will be bound by this Treaty from the first day of the month following the deposit of their instrument of ratification if the Treaty is in force at that date;

NOTING ALSO that the Republic of Bulgaria, the Kingdom of Denmark, the Republic of Latvia, the Republic of Lithuania, Hungary, the Republic of Poland, Romania and the Kingdom of Sweden are Contracting Parties which, as Member States of the European Union, have, at the date of signature of this Treaty, a derogation or an exemption from participation in the single currency and may be bound, as long as such derogation or exemption is not abrogated, only by those provisions of Titles III and IV of this Treaty by which they declare, on depositing their instrument of ratification or at a later date, that they intend to be bound;

HAVE AGREED UPON THE FOLLOWING PROVISIONS:

TITLE I

PURPOSE AND SCOPE

ARTICLE 1

1. By this Treaty, the Contracting Parties agree, as Member States of the European Union, to strengthen the economic pillar of the economic and monetary union by adopting a set of rules intended to foster budgetary discipline through a fiscal compact, to strengthen the coordination of their economic policies and to improve the governance of the euro area, thereby supporting the achievement of the European Union's objectives for sustainable growth, employment, competitiveness and social cohesion.

2. This Treaty shall apply in full to the Contracting Parties whose currency is the euro. It shall also apply to the other Contracting Parties to the extent and under the conditions set out in Article 14.

TITLE II

CONSISTENCY AND RELATIONSHIP WITH THE LAW OF THE UNION

ARTICLE 2

1. This Treaty shall be applied and interpreted by the Contracting Parties in conformity with the Treaties on which the European Union is founded, in particular Article 4(3) of the Treaty on European Union, and with European Union law, including procedural law whenever the adoption of secondary legislation is required.
2. This Treaty shall apply insofar as it is compatible with the Treaties on which the European Union is founded and with European Union law. It shall not encroach upon the competence of the Union to act in the area of the economic union.

TITLE III

FISCAL COMPACT

ARTICLE 3

1. The Contracting Parties shall apply the rules set out in this paragraph in addition and without prejudice to their obligations under European Union law:
 - (a) the budgetary position of the general government of a Contracting Party shall be balanced or in surplus;
 - (b) the rule under point (a) shall be deemed to be respected if the annual structural balance of the general government is at its country-specific medium-term objective, as defined in the revised Stability and Growth Pact, with a lower limit of a structural deficit of 0,5 % of the gross domestic product at market prices. The Contracting Parties shall ensure rapid convergence towards their respective medium-term objective. The time-frame for such convergence will be proposed by the European Commission taking into consideration country-specific sustainability risks. Progress towards, and respect of, the medium-term objective shall be evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, in line with the revised Stability and Growth Pact;

- (c) the Contracting Parties may temporarily deviate from their respective medium-term objective or the adjustment path towards it only in exceptional circumstances, as defined in point (b) of paragraph 3;
- (d) where the ratio of the general government debt to gross domestic product at market prices is significantly below 60 % and where risks in terms of long-term sustainability of public finances are low, the lower limit of the medium-term objective specified under point (b) can reach a structural deficit of at most 1,0 % of the gross domestic product at market prices;
- (e) in the event of significant observed deviations from the medium-term objective or the adjustment path towards it, a correction mechanism shall be triggered automatically. The mechanism shall include the obligation of the Contracting Party concerned to implement measures to correct the deviations over a defined period of time.

2. The rules set out in paragraph 1 shall take effect in the national law of the Contracting Parties at the latest one year after the entry into force of this Treaty through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes. The Contracting Parties shall put in place at national level the correction mechanism referred to in paragraph 1(e) on the basis of common principles to be proposed by the European Commission, concerning in particular the nature, size and time-frame of the corrective action to be undertaken, also in the case of exceptional circumstances, and the role and independence of the institutions responsible at national level for monitoring compliance with the rules set out in paragraph 1. Such correction mechanism shall fully respect the prerogatives of national Parliaments.

3. For the purposes of this Article, the definitions set out in Article 2 of the Protocol (No 12) on the excessive deficit procedure, annexed to the European Union Treaties, shall apply.

The following definitions shall also apply for the purposes of this Article:

- (a) "annual structural balance of the general government" refers to the annual cyclically-adjusted balance net of one-off and temporary measures;
- (b) "exceptional circumstances" refers to the case of an unusual event outside the control of the Contracting Party concerned which has a major impact on the financial position of the general government or to periods of severe economic downturn as set out in the revised Stability and Growth Pact, provided that the temporary deviation of the Contracting Party concerned does not endanger fiscal sustainability in the medium-term.

ARTICLE 4

When the ratio of a Contracting Party's general government debt to gross domestic product exceeds the 60 % reference value referred to in Article 1 of the Protocol (No 12) on the excessive deficit procedure, annexed to the European Union Treaties, that Contracting Party shall reduce it at an average rate of one twentieth per year as a benchmark, as provided for in Article 2 of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, as amended by Council Regulation (EU) No 1177/2011 of 8 November 2011. The existence of an excessive deficit due to the breach of the debt criterion will be decided in accordance with the procedure set out in Article 126 of the Treaty on the Functioning of the European Union.

ARTICLE 5

1. A Contracting Party that is subject to an excessive deficit procedure under the Treaties on which the European Union is founded shall put in place a budgetary and economic partnership programme including a detailed description of the structural reforms which must be put in place and implemented to ensure an effective and durable correction of its excessive deficit. The content and format of such programmes shall be defined in European Union law. Their submission to the Council of the European Union and to the European Commission for endorsement and their monitoring will take place within the context of the existing surveillance procedures under the Stability and Growth Pact.

2. The implementation of the budgetary and economic partnership programme, and the yearly budgetary plans consistent with it, will be monitored by the Council of the European Union and by the European Commission .

ARTICLE 6

With a view to better coordinating the planning of their national debt issuance, the Contracting Parties shall report ex-ante on their public debt issuance plans to the Council of the European Union and to the European Commission .

ARTICLE 7

While fully respecting the procedural requirements of the Treaties on which the European Union is founded, the Contracting Parties whose currency is the euro commit to supporting the proposals or recommendations submitted by the European Commission where it considers that a Member State of the European Union whose currency is the euro is in breach of the deficit criterion in the framework of an excessive deficit procedure. This obligation shall not apply where it is established among the Contracting Parties whose currency is the euro that a qualified majority of them, calculated by analogy with the relevant provisions of the Treaties on which the European Union is founded, without taking into account the position of the Contracting Party concerned, is opposed to the decision proposed or recommended.

ARTICLE 8

1. The European Commission is invited to present in due time to the Contracting Parties a report on the provisions adopted by each of them in compliance with Article 3(2). If the European Commission, after having given the Contracting Party concerned the opportunity to submit its observations, concludes in its report that such Contracting Party has failed to comply with Article 3(2), the matter will be brought to the Court of Justice of the European Union by one or more Contracting Parties. Where a Contracting Party considers, independently of the Commission's report, that another Contracting Party has failed to comply with Article 3(2), it may also bring the matter to the Court of Justice. In both cases, the judgment of the Court of Justice shall be binding on the parties to the proceedings, which shall take the necessary measures to comply with the judgment within a period to be decided by the Court of Justice.

2. Where, on the basis of its own assessment or that of the European Commission, a Contracting Party considers that another Contracting Party has not taken the necessary measures to comply with the judgment of the Court of Justice referred to in paragraph 1, it may bring the case before the Court of Justice and request the imposition of financial sanctions following criteria established by the European Commission in the framework of Article 260 of the Treaty on the Functioning of the European Union. If the Court of Justice finds that the Contracting Party concerned has not complied with its judgment, it may impose on it a lump sum or a penalty payment appropriate in the circumstances and that shall not exceed 0,1 % of its gross domestic product. The amounts imposed on a Contracting Party whose currency is the euro shall be payable to the European Stability Mechanism. In other cases, payments shall be made to the general budget of the European Union.

3. This Article constitutes a special agreement between the Contracting Parties within the meaning of Article 273 of the Treaty on the Functioning of the European Union.

TITLE IV

ECONOMIC POLICY COORDINATION AND CONVERGENCE

ARTICLE 9

Building upon economic policy coordination, as defined in the Treaty on the Functioning of the European Union, the Contracting Parties undertake to work jointly towards an economic policy that fosters the proper functioning of the economic and monetary union and economic growth through enhanced convergence and competitiveness. To that end, the Contracting Parties shall take the necessary actions and measures in all the areas which are essential to the proper functioning of the euro area in pursuit of the objectives of fostering competitiveness, promoting employment, contributing further to the sustainability of public finances and reinforcing financial stability.

ARTICLE 10

In accordance with the requirements of the Treaties on which the European Union is founded, the Contracting Parties stand ready to make active use, whenever appropriate and necessary, of measures specific to those Member States whose currency is the euro, as provided for in Article 136 of the Treaty on the Functioning of the European Union, and of enhanced cooperation, as provided for in Article 20 of the Treaty on European Union and in Articles 326 to 334 of the Treaty on the Functioning of the European Union on matters that are essential for the proper functioning of the euro area, without undermining the internal market.

ARTICLE 11

With a view to benchmarking best practices and working towards a more closely coordinated economic policy, the Contracting Parties ensure that all major economic policy reforms that they plan to undertake will be discussed ex-ante and, where appropriate, coordinated among themselves. Such coordination shall involve the institutions of the European Union as required by European Union law.

TITLE V

GOVERNANCE OF THE EURO AREA

ARTICLE 12

1. The Heads of State or Government of the Contracting Parties whose currency is the euro shall meet informally in Euro Summit meetings, together with the President of the European Commission. The President of the European Central Bank shall be invited to take part in such meetings.

The President of the Euro Summit shall be appointed by the Heads of State or Government of the Contracting Parties whose currency is the euro by simple majority at the same time as the European Council elects its President and for the same term of office.

2. Euro Summit meetings shall take place when necessary, and at least twice a year, to discuss questions relating to the specific responsibilities which the Contracting Parties whose currency is the euro share with regard to the single currency, other issues concerning the governance of the euro area and the rules that apply to it, and strategic orientations for the conduct of economic policies to increase convergence in the euro area.

3. The Heads of State or Government of the Contracting Parties other than those whose currency is the euro, which have ratified this Treaty, shall participate in discussions of Euro Summit meetings concerning competitiveness for the Contracting Parties, the modification of the global architecture of the euro area and the fundamental rules that will apply to it in the future, as well as, when appropriate and at least once a year, in discussions on specific issues of implementation of this Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.
4. The President of the Euro Summit shall ensure the preparation and continuity of Euro Summit meetings, in close cooperation with the President of the European Commission. The body charged with the preparation of and follow up to the Euro Summit meetings shall be the Euro Group and its President may be invited to attend such meetings for that purpose.
5. The President of the European Parliament may be invited to be heard. The President of the Euro Summit shall present a report to the European Parliament after each Euro Summit meeting.
6. The President of the Euro Summit shall keep the Contracting Parties other than those whose currency is the euro and the other Member States of the European Union closely informed of the preparation and outcome of the Euro Summit meetings.

ARTICLE 13

As provided for in Title II of Protocol (No 1) on the role of national Parliaments in the European Union annexed to the European Union Treaties, the European Parliament and the national Parliaments of the Contracting Parties will together determine the organisation and promotion of a conference of representatives of the relevant committees of the European Parliament and representatives of the relevant committees of national Parliaments in order to discuss budgetary policies and other issues covered by this Treaty.

TITLE VI

GENERAL AND FINAL PROVISIONS

ARTICLE 14

1. This Treaty shall be ratified by the Contracting Parties in accordance with their respective constitutional requirements. The instruments of ratification shall be deposited with the General Secretariat of the Council of the European Union ("the Depositary").

2. This Treaty shall enter into force on 1 January 2013, provided that twelve Contracting Parties whose currency is the euro have deposited their instrument of ratification, or on the first day of the month following the deposit of the twelfth instrument of ratification by a Contracting Party whose currency is the euro, whichever is the earlier.
3. This Treaty shall apply as from the date of entry into force amongst the Contracting Parties whose currency is the euro which have ratified it. It shall apply to the other Contracting Parties whose currency is the euro as from the first day of the month following the deposit of their respective instrument of ratification.
4. By derogation from paragraphs 3 and 5, Title V shall apply to all Contracting Parties concerned as from the date of entry into force of this Treaty.
5. This Treaty shall apply to the Contracting Parties with a derogation, as defined in Article 139(1) of the Treaty on the Functioning of the European Union, or with an exemption, as referred to in Protocol (No 16) on certain provisions related to Denmark annexed to the European Union Treaties, which have ratified this Treaty, as from the date when the decision abrogating that derogation or exemption takes effect, unless the Contracting Party concerned declares its intention to be bound at an earlier date by all or part of the provisions in Titles III and IV of this Treaty.

ARTICLE 15

This Treaty shall be open to accession by Member States of the European Union other than the Contracting Parties. Accession shall be effective upon depositing the instrument of accession with the Depositary, which shall notify the other Contracting Parties thereof. Following authentication by the Contracting Parties, the text of this Treaty in the official language of the acceding Member State that is also an official language and a working language of the institutions of the Union, shall be deposited in the archives of the Depositary as an authentic text of this Treaty.

ARTICLE 16

Within five years, at most, of the date of entry into force of this Treaty, on the basis of an assessment of the experience with its implementation, the necessary steps shall be taken, in accordance with the Treaty on the European Union and the Treaty on the Functioning of the European Union, with the aim of incorporating the substance of this Treaty into the legal framework of the European Union.

Done at Brussels this second day of March in the year two thousand and twelve.

This Treaty, drawn up in a single original in the Bulgarian, Danish, Dutch, English, Estonian, Finnish, French, German, Greek, Hungarian, Irish, Italian, Latvian, Lithuanian, Maltese, Polish, Portuguese, Romanian, Slovak, Slovenian, Spanish and Swedish languages, each text being equally authentic, shall be deposited in the archives of the Depositary, which shall transmit a certified copy to each of the Contracting Parties.

**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 mechanism 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 paragraph 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 Council³ 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 allow 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 treaties⁴.

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 Union⁵.

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 responsibilities 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 implementation 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 with 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 participating countries.