

European Sovereign Debt Crisis and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union—New Instrument of the European Union’s Economic Governance

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Abstract

In December 2011, the European Union heads of state or government, with the exception of the United Kingdom, agreed to adopt a “Fiscal Compact” as part of an overall strategy to tackle the sovereign debt crisis in the euro area. The United Kingdom vetoed its adoption as an EU treaty, so the other member states agreed to adopt it as an intergovernmental treaty instead. On 30 January 2012, 25 member states formally agreed to the “Treaty on Stability, Coordination and Governance in the Economic and Monetary Union” (Fiscal Compact Treaty), signing it in March 2012. The Fiscal Compact Treaty entered into force on 1 January 2013, owing to its

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ratification on 21 December 2012 by a 12th country. However, the United Kingdom and the Czech Republic are not parties to the new treaty. This paper offers a review of the Fiscal Compact Treaty, with the aim of assessing whether and how the new treaty can be expected to strengthen EU fiscal governance and national fiscal discipline. This paper looks at some of the issues that arise, such as its legal status, its relationship with the EU treaties and EU law, the use of EU institutions, and whether the treaty could constitute a cornerstone of a fiscal union.

Key Words: euro area, European sovereign debt crisis, Fiscal Compact Treaty, European Stability Mechanism, European fiscal union