

# FINANCIAL TIMES

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## ECB calls for tougher rules on budgets

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By Ralph Atkins in Frankfurt

The European Central Bank has sharpened its hardline stance on eurozone fiscal policy by urging the still-tougher policing of member states' public finances, including by "naming and shaming" the worst offenders.

The eurozone debt crisis has led to a revamp of the bloc's fiscal rules, culminating in a German-inspired treaty enshrining tougher discipline, which was agreed in January.

But in a report on proposed European Union regulations to monitor budgets better and strengthen the surveillance of countries in difficulties, the ECB makes clear it sees significant scope for further improvement.

The German-led focus on eurozone fiscal discipline has worried many economists elsewhere in the eurozone and beyond. But Mario Draghi, the ECB president, has argued that stronger rules are essential for the eurozone's future.

Europe's newly agreed rules provided "the 'pillars of trust' between countries". "This trust is essential for the monetary union," Mr Draghi told reporters in Frankfurt last week. "In order to continue, the monetary union needs... the willingness to be subject to a discipline that cannot be changed by any government whatsoever."

It is a position that has gone down well in Germany, helping offset some of the criticism faced by the ECB from the Bundesbank over the generous terms on which it has provided more than €1tn in three-year loans to eurozone banks in recent months.

Mr Draghi argues that greater fiscal discipline will boost economic prospects by increasing confidence in public finances, but adds structural reforms, for instance to increase labour market flexibility, are also essential in many eurozone countries.

Among the proposals in the report dated March 7, the ECB suggests the surveillance of countries that run into difficulties in the future should be strengthened by public warnings for the most recalcitrant.

"The threat of publicity, if a member state is unco-operative, may provide an incentive to the member state to take more action," the report says.

Where a country under surveillance is threatening the eurozone's financial stability, there should be an automatic recommendation that it seeks financial assistance, the ECB says. It also backs the EU sending a "permanent resident adviser" to countries in difficulties.

The ECB's report welcomes steps being taken to beef-up the monitoring of countries' draft budget plans but says "there is room for improvement to make the proposed regulation more forceful and effective". It says countries should submit to the European Commission not just draft budget plans but also "updated medium-term fiscal plans".

To speed-up corrective action when public finances might spin out of control, the ECB says the Commission should demand revised budget plans whenever there was "non-compliance" with the EU's fiscal rules – and not just in cases of "particularly serious non-compliance".

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