

PLMJ

Sharing Expertise. Innovating Solutions.

March 2012

www.plmj.com



TREATY ON STABILITY, COORDINATION AND GOVERNANCE IN THE EU

2 MARCH 2012

On 2 March, 25 of the 27 EU members committed to the new "Fiscal Compact" concept, signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

The Treaty, which is technically an intergovernmental treaty and not an EU instrument (due to the UK and the Czech Republic not wishing to sign up to it), was introduced in December 2011 by Germany and France. The signed treaty is the result of a concerted effort by the Eurozone and the majority of the other EU members to impose fiscal and financial discipline among themselves.

The main elements of the Treaty include:

- the introduction of the "balanced budget rule" which effectively means that that national budgets should be balanced or in surplus; this principle will be deemed respected if, as a rule, the annual structural deficit does not exceed 0.5% of GDP;
- the balanced budget rule is to be incorporated into national (constitutional) legislation;
- the European Courts of Justice may impose a penalty of up to 0.1% of GDP, payable to the ESM, if the balanced budget rule is not transposed to national legislation correctly or within the given timeframe;
- an automatic correction mechanism will be triggered in the event a government deviates from the balanced budget rule;
- there will be reversed qualified majority voting in respect of the decision whether to place a country in an excessive deficit procedure; and
- the treaty also includes provisions on the coordination and convergence of EU Member State's economic policies and on governance of the Eurozone. In particular Euro Summit meetings will take place at least twice a year.

Now the Treaty has been signed, it must now be ratified by the Member States. In some cases, such as Ireland, this may require a referendum to be held. Provided at least 12 parties to the Treaty ratify it, the Treaty will enter into force on 1 January 2013.

"Portuguese Law Firm of the Year"
Chambers European Excellence Awards, 2009; Shortlisted 2010, 2011/ Who's Who Legal Awards, 2006, 2008, 2009, 2010, 2011/The Lawyer European Awards-Short-listed, 2010, 2011

"Best Portuguese Law Firm for Client Service"
Clients Choice Award - International Law Office, 2008, 2010

"5th Most Innovative Law Firm in Continental Europe"
Financial Times - Innovative Lawyers Awards, 2011

"Corporate Law Firm of the Year - Southern Europe"
ACQ Finance Magazine, 2009

"Best Portuguese Tax Firm of the Year"
International Tax Review - Tax Awards 2006, 2008

Mind Leaders Awards™
Human Resources Suppliers 2007

This Update is intended for general distribution to clients and colleagues and the information contained herein is provided as a general and abstract overview. It should not be used as a basis on which to make decisions and professional legal advice should be sought for specific cases. The contents of this Update may not be reproduced, in whole or in part, without the express consent of the author. If you should require further information on this topic, please contact **Ricardo Oliveira** (ricardo.oliveira@plmj.pt), **Hugo Rosa Ferreira** (hugo.rosafferreira@plmj.pt) ou **Jodie Lazell** (jodie.lazell@plmj.pt).

PLMJ
INTERNATIONAL
LEGAL NETWORK

MEMBER OFFICES

ANGOLA • BRAZIL • CAPE VERDE • CHINA
MACAO • MOZAMBIQUE • PORTUGAL