JACQUES DELORS INSTITUT
BERLIN

BLOG POST 29.07.2016

The excessive deficit procedure has never led to a fine.

So what does it actually do?

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On July 27 the European Commission announced that it would not fine Portugal and Spain for their excessive deficits. Had the Commission decided to impose the fines, it would have been the first time: No country has ever paid one. So what does the excessive deficit procedure actually do? Here is an overview of its track record.

1 When did most excessive deficit procedures happen?

There were three waves of excessive deficit procedures. The first happened in the early 2000s. In total, the Commission opened excessive deficit procedures against 13 countries. The second wave started in 2009 when the financial crisis turned into a debt crisis. 15 countries were placed in the procedure within just one year. The third wave started in 2010: Since then 9 countries have been added to the list. Most procedures have been closed after the crisis. Today there are 6 ongoing excessive deficit procedures. In short, most excessive deficit procedures were opened during one of the largest global recessions from 2009-2013.

2 How many excessive deficit procedures were there in total and what was the average duration?

Until today, the European Commission has opened 38 excessive deficit procedures. 32 of them have been closed again. On average countries were 1.4 times affected. Malta holds the record with 3 procedures. Estonia, Luxembourg and Sweden have never gone through the whole process. An excessive deficit procedure takes time as it has to follow different steps, including a decision of the European Council at the beginning and the end. The average duration of the closed procedures was 4 years. One of Malta's three procedures was also the shortest with just 2 years. The record for the longest (and now closed) procedure goes to Hungary with 9 years from 2004 to 2013.

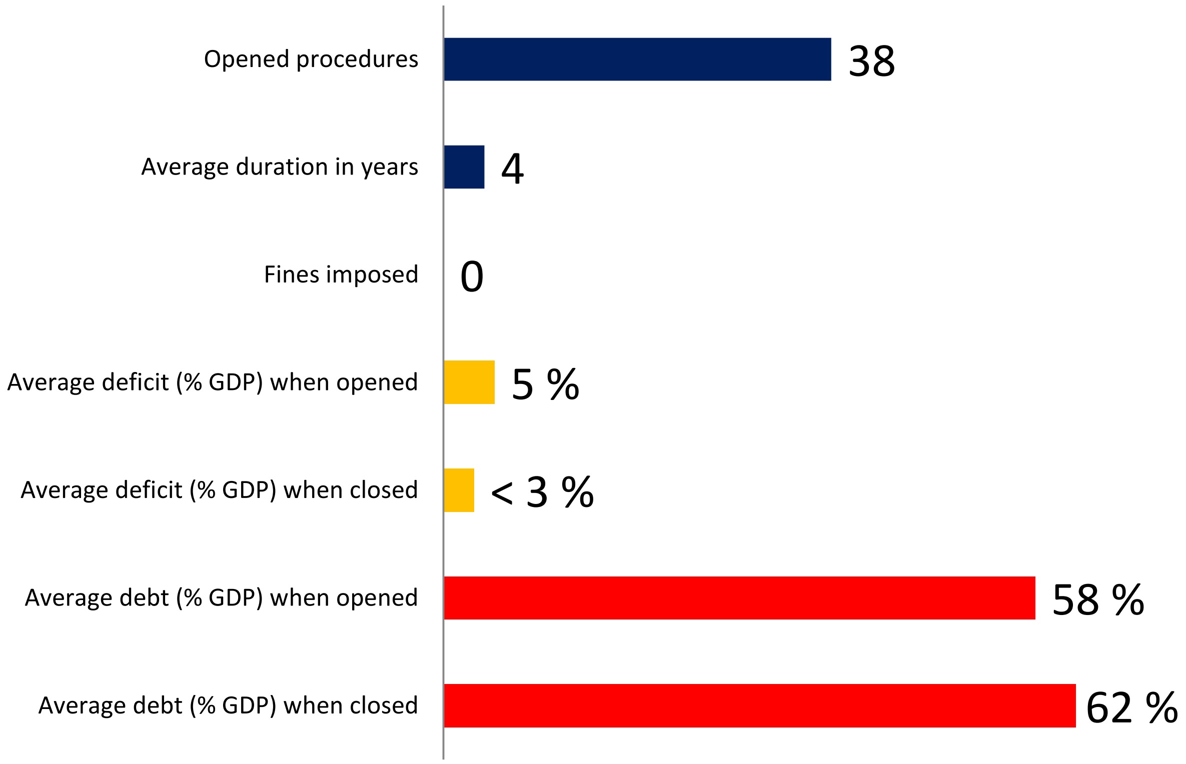
3 What was the deficit before and after?

On average the annual deficit-to-GDP ratio was 5 % when the procedure was opened. This is 2 % higher than the Stability and Growth Pact tolerates. The highest deficit was counted in the Czech Republic with close to 13 % (although this includes a one-off transaction). When the procedure was close almost all countries were below the 3 % threshold again – the exceptions being Italy, Lithuania and Poland, which were just a little above the mark. We cannot know for certain what role the procedure played in bringing down the deficit but it is a fact that on average the procedure was closed after 4 years and there was no longer an excessive deficit.

4 What was the debt before and after?

The debt story is different. When the procedure opened the annual debt-to-GDP ratio was on average 58 %. In almost half the cases (45 %) the debt-to-GDP ratio exceeded the threshold of 60 % enshrined in the Stability and Growth Pact. When the procedure was closed, debt was higher and stood at 62 %. In other words: Of the 38 procedures, more than one third were closed although the debt was still larger than 60 %. Only in three cases (or less than a tenth of the closed procedures) was the debt reduced to be below the 60%-threshold again. This is no surprise: Governments need to run a large surplus over a long time to bring down the high levels of debt in general and the legacy debt of the crisis in particular. This is even more difficult in the current low-growth and low-inflation environment.

The excessive deficit procedure in numbers



Sources: Author based on documentation from the European Commission available [here](#).

5 What do the numbers tell us about what the excessive deficit procedure really does?

There are three important take-home messages: First, the excessive deficit procedure has been invoked many times and most EU countries have gone through one or more. 38 deficit procedures have been opened and those concluded lasted on average 4 years, which adds up to more than 150 years of experience in these procedures. Second, when the procedure was closed, the deficit-to-GDP ratio was below (or very close to) the threshold again but the same does not apply to the debt-to-GDP ratio. Put differently, the procedures were closed when the deficit was in line again no matter the debt, reflecting the impossibility to bring down government debt substantially also in the medium term of 4 years. Third, no country has ever paid a fine. Effectively, the excessive deficit procedure is a frequently applied soft policy tool for monitoring budget reforms.

Gefördert durch:
Bundeskanzleramt

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