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THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 56 (389) • May 30, 2012 • © PISM

Ratification of the Fiscal Compact in Ireland

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Ratification of the fiscal compact in Ireland on 31 May will not determine the future of the fiscal compact, which will in any case come into force if it is ratified by at least 12 of the 17 euro-area Member States. The referendum results will, however, be of significance for Ireland itself, and could influence the EU-wide debate on how to tackle the debt crisis. Irish approval of the fiscal compact will send a positive signal to investors, and that could facilitate recovery on the financial markets. The referendum campaign has been used by politicians opposed to the Irish coalition government, including those on the far left who use public anger at austerity policies to criticise the government.

European Ramifications of the Referendum. On 31 May, Ireland will hold a referendum that will decide whether the country ratifies the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (the fiscal compact). The fiscal compact was signed on 2 March by 25 Member States, excluding the United Kingdom and the Czech Republic, and is an international treaty. It obliges the signatories to introduce a rule a law or rule limiting their structural deficit to 0.5% of GDP at market prices on an annual basis (budgetary rule). Implementation of this rule is within the jurisdiction of the Court of Justice of the European Union. The compact also obliges signatories to reduce public debt by a benchmark figure of one-twentieth per year, if the debt exceeds 60% of GDP.

If Ireland, a participant in the European Stability Mechanism (ESM), wants to access resources from it after 2013, it must ratify the compact and introduce this budgetary rule into its law. The process of ratifying the ESM Treaty in Ireland is ongoing. In November 2010, the state negotiated a three year, financial assistance rescue package amounting to €85 billion, from the temporary European Financial Stabilisation Mechanism, the European Financial Stability Facility, the International Monetary Fund, and through bilateral loans from the United Kingdom, Sweden and Denmark as well as from the Irish Treasury and the National Pension Reserve Fund. The financial assistance package is accompanied by a rigorous reform programme, which Ireland is implementing.

Ratification of the Fiscal Compact. It is not necessary for all Member States to ratify the fiscal compact in order for it to come into force. It depends on ratification by at least 12 of the 17 euro-area Member States. The fiscal compact has been already ratified in Slovenia, Greece, Portugal, and Romania.

The Irish referendum takes place against a backdrop of unfavourable European conditions. Whether the fiscal compact will have a smooth entry into force is questionable given suggestions by new French President François Hollande that it should be complemented with a growth agenda. Germany may also face a challenge in ratifying the compact as the Social Democrats are weighing acceptance of the treaty against approval of their pro-growth postulates by Chancellor Angela Merkel. Finally, an informal meeting of heads of state and government on 23 May devoted to shaping the main elements of the growth agenda before the European Council summit did not result in any coherent announcement specifying whether the fiscal compact should be extended to growth elements, and what should be the legal basis for such action. This may affect the ratification process in Ireland, causing confusion about the factual significance of the referendum among the general public.

Ratification of the fiscal compact in Ireland is related to amending Article 29 of the Constitution, and such modification requires public consent. The current referendum varies from those held on treaties constituting EU primary law, including the Nice and Lisbon treaties. All Member States, including Ireland, had to approve those treaties before they could come into force. This allowed Ireland to seek concessions in return for a guarantee of Irish support for further EU integration. The Irish protocol added to the Lisbon Treaty, after the treaty was rejected by the first Irish referendum in 2008, serves here as a good example. Ireland cannot count on similar concessions in 2012.

The Referendum Campaign in Ireland. The outcome of the referendum is yet to be decided. Although opinion polls published in the pre-election weekend put supporters of the compact ahead (with about 39% declaring they will vote “yes” versus 30% choosing “no”), up to 22% of those polled were undecided. Their votes are likely to be crucial to the result of the referendum.

The centre-right Fine Gael (FG) and the centre-left Labour Party, which make up the current Irish government, support the fiscal compact. The largest opposition party, the centre-right Fianna Fail (FF) is also supportive. The opponents of the treaty are mostly concentrated around the far-left Sinn Fein (SF), the United Left Alliance (ULA), and the conservative, Eurosceptic weighing Libertas.

According to the Irish government, the fiscal compact is a preventive measure that enforces budgetary discipline on its signatories. Its proponents refer to the “stability treaty”, which aims to protect EU Member States from similar crises. Moreover, the treaty’s ratification would guarantee Ireland access to ESM funds. Such funds might prove indispensable after 2013, when the current financial assistance programme is to end, and Ireland, despite its government’s declarations, might not be ready to seek new loans at market rates. According to its opponents, the fiscal compact is in fact an “austerity treaty”, and will introduce further budget cuts. In their view, the government is too keen to fulfil the conditions of the November 2010 deal as it tries to cement Ireland’s image as a country that differs from crisis-engulfed Greece, Portugal, and Spain. This entails far-reaching cuts that, according to opponents, are being implemented without social consent. According to SF and ULA, rejecting the fiscal compact should not mean that Ireland’s access to ESM funds is blocked, and the EU would continue to support the country in order to maintain the integrity of the euro area. The compact’s uncertain future, especially in light of demands from the French and the German left, also plays a part in the rhetoric of the opponents.

Conclusions and Consequences of the Referendum. Currently, ratification of the fiscal compact in Ireland does not figure prominently in the EU debate on how to tackle the crisis. This suggests that the internal EU discourse has shifted away from strengthening the fiscal rules, and towards defining instruments that could stimulate economic growth. The potential defeat of the Irish government’s referendum campaign could be interpreted as yet another display of pan-European civil disagreement with fiscal consolidation policy, and, as a consequence, could serve those who would like to prioritise the growth agenda over austerity policies.

Rejection of the fiscal compact in the Irish referendum could result in an undesirable reaction from the financial markets, while the country’s return to the markets, which the Irish government estimates will happen in 2013, could be complicated if Ireland does not have access to ESM funds. The result of the referendum could also affect cohesion, and hamper decision-making, in the euro area. The Irish far left could be the greatest beneficiary of the referendum campaign, as it was the only major political force opposed to the fiscal compact. The referendum campaign provides them with ample opportunities to criticise the coalition government. Given rising unemployment, further budget cuts, and tax increases, this could translate into significant political support during the next election, and perhaps even constitute an opportunity to create a Eurosceptic government. Such a turn of events could influence Ireland’s position in the EU.

If, however, Ireland ratifies the fiscal compact, and further implements reforms, it could limit the ongoing political fragmentation of the euro area and secure its position as the most effective and promising among the bailed-out Member States. Ratification of the fiscal compact will also strengthen Ireland’s credibility, support its image as a stable and attractive place for investment, and could help its speedy return to the path of economic growth. As a consequence, this could strengthen the position of the pro-European coalition government, which will be responsible for preparing and managing the Presidency of the Council of the European Union in the first half of 2013.