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The Fiscal Policy Deadlock in EU: Measuring Budgetary and Debt Performance in the light of Stability and Growth Pact

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ABSTRACT

Stability and Growth pact of 1997 incorporated annual budget deficit/GDP and Total Public Debt/GDP ratios as permanent measures not to be exceeded by the members of the euro system. However euro area debt crisis changed the mood in euro area and European Union circles so much so that some of the non-compliant countries had to be tolerated for exceeding the thresholds of Total Public Debt/GDP ratios. This resolve resulted in moving for bail-out plans which were introduced as a last resort solution. However as debt burden deepened, bailout extensions had already been problematic and controversial in Europe. Greece, Spain, Portugal Ireland have been the cases of high debt ratios with their critical magnitude. This paper investigates the well-being of the EU Countries in their scores of annual public deficit/surplus and total public debt by weighing their performances and ranking their outcome on aggregate to determine EU scale in this respect. This work highlights this crucial aspect of European Economy from different perspective: TOPSIS method is employed to perform the highlighted investigation for the EU countries. The alternatives are composed of EU member countries and criteria are composed of deficit/GDP, Total Public Debt/GDP and long term interest rates for each individual country in EU.

KEYWORDS TOPSIS Methodology; European Economic Integration; Stability and Growth Pact; Debt Crisis; Fiscal Discipline

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