Europe, at a crossroad of fiscal policy

The relaxation of the European fiscal policy is determined by the favorable conditions of the bond market, together with the unfavorable economical climate and the public demands for supporting the short term policies, after the years of austerity.

Given the situation in the Euro zone, there is a necessity for assurance regarding the conformity of the national policies with maintaining the integrity of the Euro zone. In this regard, there is a need for structural reforms combined with immediate fiscal support, given the fact that there are countries which managed to implement structural changes despite their difficult financial status, such as Greece, Portugal or Spain.

The credible commitments on medium term regarding the fiscal consolidation represent an important pillar. While there are disagreements regarding the supply and demand in the Euro zone countries, all the involved factors agree on the need for growth.

In the context of a slow economic growth, high unemployment and decreasing inflation, already at minimum levels, the President of the Central European Bank, Mario Draghi, has pointed out the necessity of a fiscal policy that will play a more important role in supporting the demand in the euro zone.

The most available measure of the economical impact on fiscal policy, as Fitch Ratings analyst James McCormack says, is represented by the annual change of the primary balance cyclic adjusted. This is, practically, the financial impulse for the real economy - positive when fiscal policy supports growth or negative when it does not.

According to the latest data from the European Commission, the negative fiscal impulse was in decline in throughout Euro zone since 2011. Excepting states like Ireland or Cyprus, where the negative fiscal impulse has remained consistent, the trend for relaxation could be seen throughout the entire European Union. The reasons for this effect were:

1. The yields dropped considerably in all Euro zone states, mostly in the peripheral ones, thus decreasing the discipline policy which was imposed on the market in 2011 and beginning of 2012.
2. In many states, the fiscal burden sets practical limits to austerity measures. The publics' perspective is that expanding the austerity prolongs the economical crisis, but the most recent monitoring of the International Monetary Fund indicates the need for primary adjustments in many advanced economies, including the ones in the Euro zone.
3. Recent macro-economic data, mostly the ones referring to the GDP growth in the second quarter, are weak, thus supporting the idea that there is a need for firm action at the decision-making levels.
4. The factors that trigger the demand, although they have a short term positive impact, engage more costs on the long term, while the measures for supporting the offer bring short term costs and medium to long term benefits. Thus, the public will always prefer the first option to the second.