ECB Urges Fines for European States Breaking Reform Rules

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FRANKFURT—The European Union should consider slapping large fines on European governments that fail to adopt its economic reform proposals, the European Central Bank said, underlining the ECB's mounting frustration at a sluggish pace of eurozone reform that risks hurting the bloc's longer-term growth and stability.

The stern advice, in a report published on Monday, comes as the ECB prepares to discuss reducing its large monetary stimulus as soon as its next policy meeting on Sept. 7. Less support from Frankfurt will shift the onus onto national governments to help drive economic growth in the 19-nation currency union.

European governments can be fined up to 0.1% of gross domestic product if they repeatedly fail to address economic flaws flagged by EU authorities under a new risk-monitoring system launched during the region's recent debt crisis. The system, known as the macroeconomic imbalances procedure, aims to prevent worrisome economic developments such as high current-account deficits, unsustainable debt levels and house-price bubbles.

In practice, though, the EU has so far stopped short of issuing such sanctions.

But the ECB suggested that should change. "There seems to be a strong case for applying the corrective arm of this procedure for all countries with excessive imbalances," the central bank said.

EU policy recommendations typically address issues such as boosting the sustainability of public finances, reducing the tax burden on labor, and increasing the efficiency of public administration and state-owned enterprises.

ECB President Mario Draghi frequently scolds eurozone governments for their failure to implement reforms that could bolster the region's growth rate and lower unemployment. At a news conference 10 days ago, Mr. Draghi warned that the pace of reforms "needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost productivity growth."

The ECB has launched sweeping stimulus measures in recent years in an effort to support lending and growth in the currency bloc, to drive up inflation, which has hovered around zero. The bank is currently buying €60 billion ($70.4 billion) a month of eurozone bonds under its quantitative easing program, which is due to run through December.

But policy makers are expected to start reducing QE early next year, as the eurozone economy picks up speed.

The number of countries in which EU authorities have identified "excessive imbalances" is at an all-time high, according to the European Commission, the EU's executive arm. They include Bulgaria, France, Croatia, Italy, Cyprus and Portugal.

The commission said in February that for more than 90% of its 2016 recommendations, there had been only "some," "limited" or "no" progress on implementation, while only a very small number of recommendations had been "substantially" or "fully" implemented.

That failure "is all the more concerning given the remaining rigidities and vulnerabilities in euro area countries," the ECB said.

The use of financial sanctions for offending governments "offers a well-defined process ensuring greater traction on reform implementation for the most vulnerable member states," the central bank said.

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