

Evaluierung der EU-Fiskalregeln mit Fokus auf die Six- und Two-pack Gesetzgebung

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FISK-Veranstaltung: „Weiterentwicklung des EU-Fiskalrahmens“

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Outline

(i) Has the SGP worked?

- Sustainability
- Stabilisation
- Quality of public finances

(ii) How to reform the SGP?

Main questions addressed:

Have EU fiscal rules...

- ensured the long-term **sustainability of public finances**?
- allowed counter-cyclical **economic stabilisation**?
- improved the **quality of public finances**?

1. Have EU fiscal rules ensured sustainable public finances?

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Positive developments

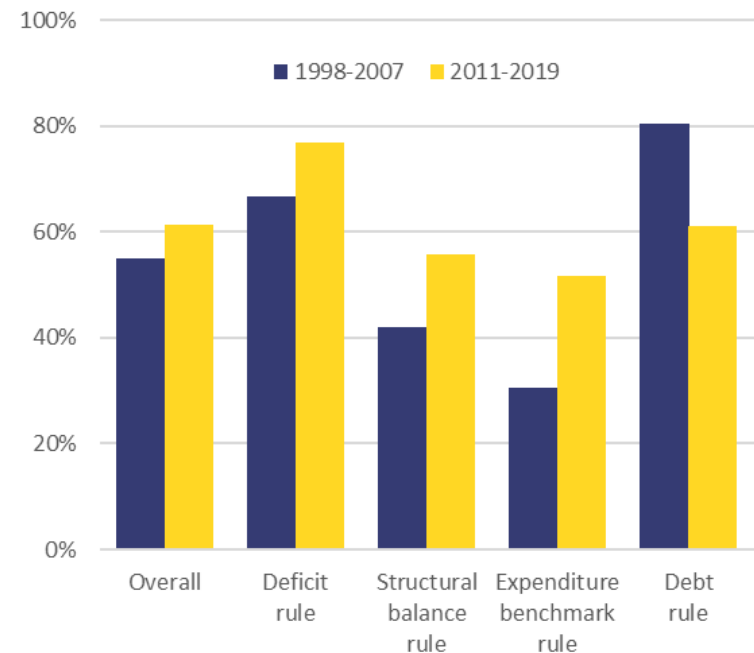
Outcomes

- **Compliance with fiscal rules** has improved on average after 2011
- All EU Member States **out of EDP** in 2019; first time since 2003
- **Headline deficit** in the EU at lowest level since 2000, below 1% of GDP
- Over 40% of EU Member States **at their MTO**

Processes

- EU fiscal framework better equipped to **monitor expenditure growth** and **identify revenue windfalls**
- Better scrutiny of **macroeconomic forecasts**
- Involvement of national **independent fiscal institutions**

Average compliance with EU fiscal rules, EU-28



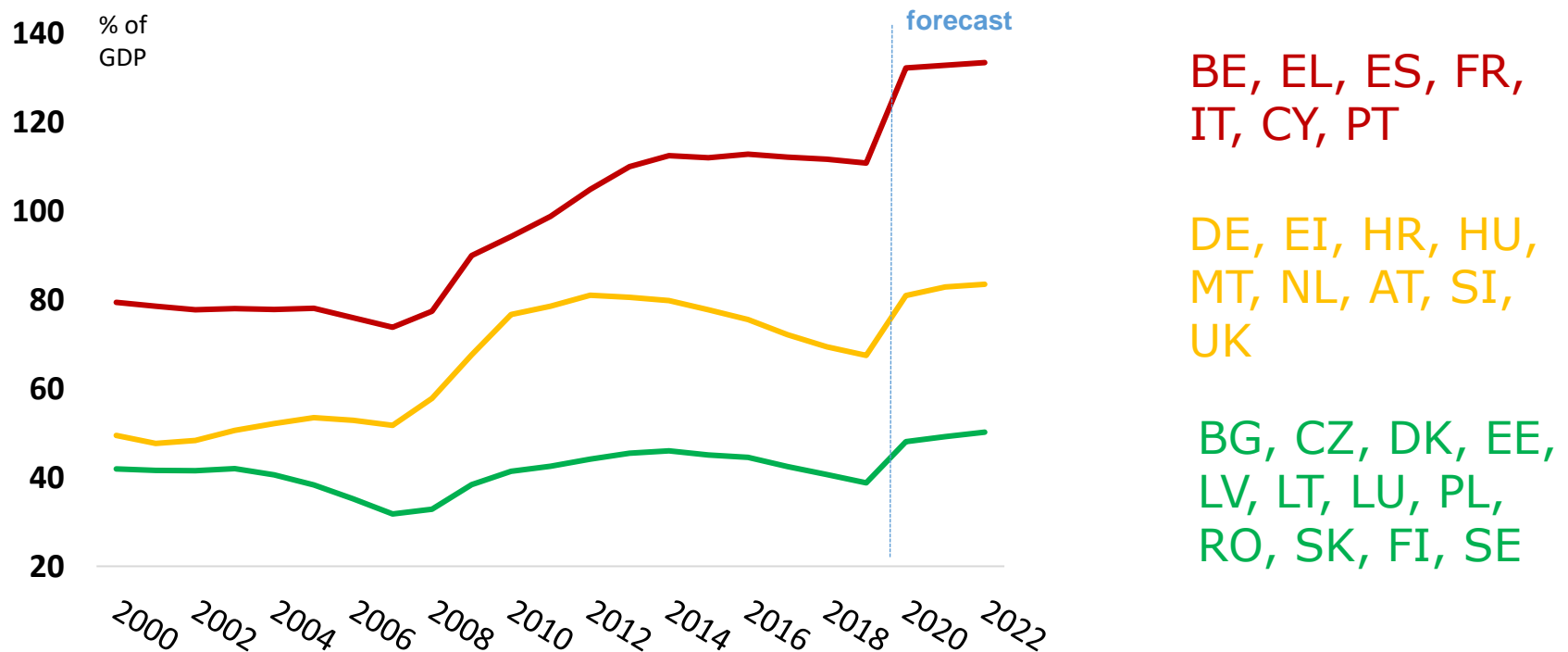
1. Have EU fiscal rules ensured sustainable public finances?

Negative developments

Fiscal performance varies markedly

Debt reduction has stalled for important group of countries

Average debt-to-GDP ratios

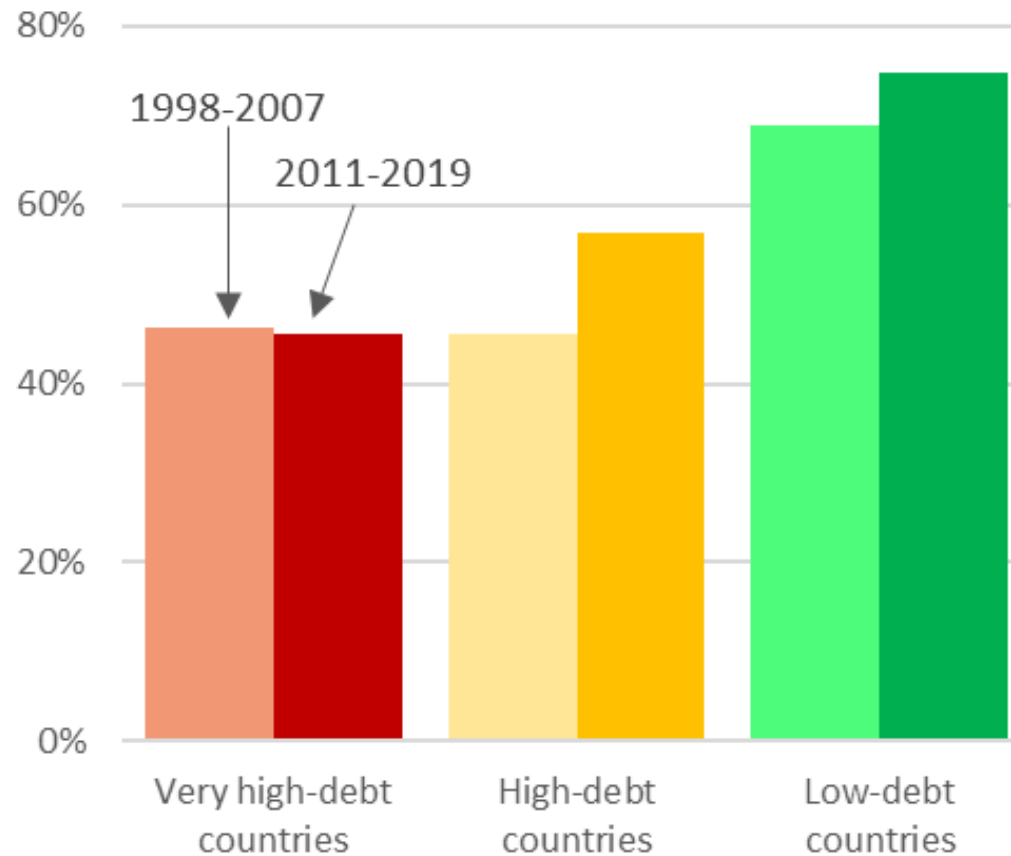


Note: Countries are grouped based on their average debt levels in 2011-2019.

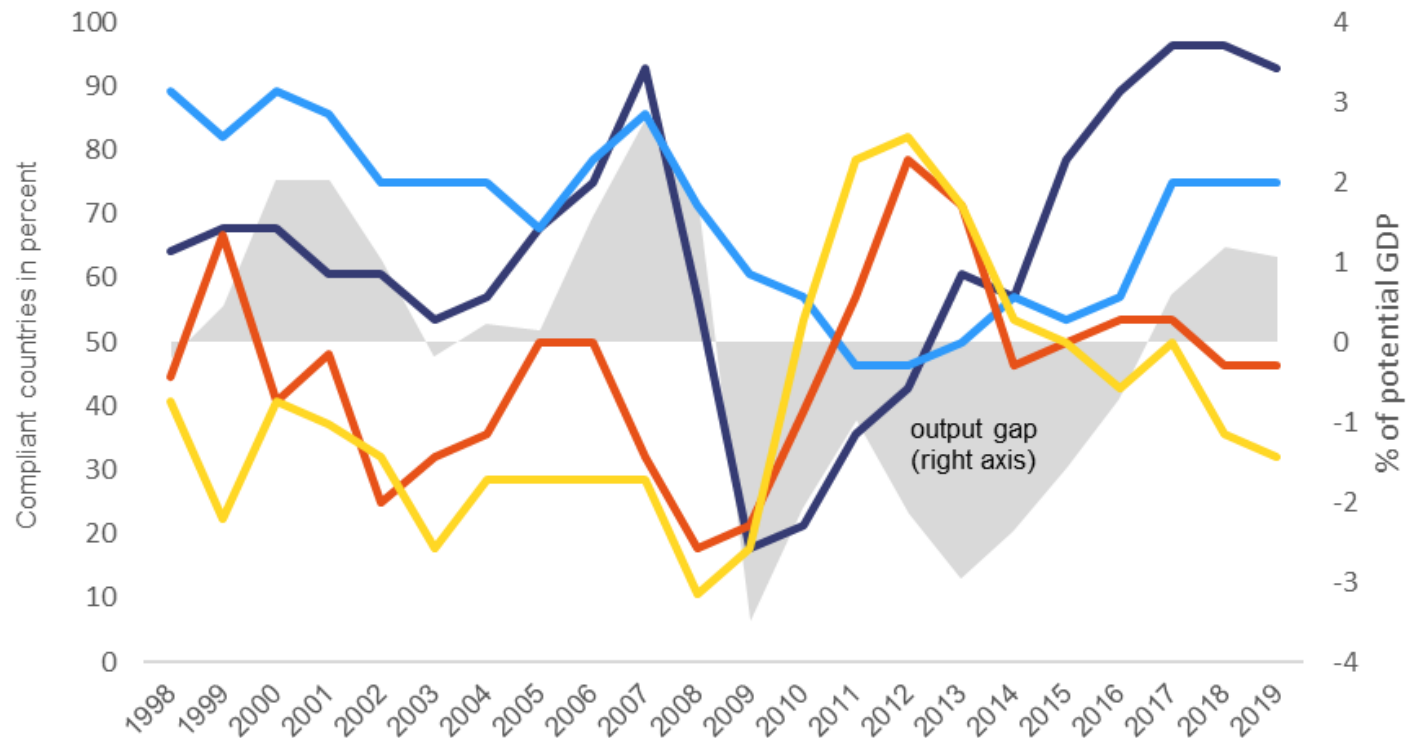
1. Have EU fiscal rules ensured sustainable public finances?

Overall compliance has not improved in the very high-debt countries

Average compliance with EU fiscal rules



1. Have EU fiscal rules ensured sustainable public finances?



Deficit rule:

Headline balance $> -3\%$ of GDP

Debt rule:

Debt $< 60\%$ of GDP
or declining by $1/20$ of the distance to 60% , on average
over the past 3 years

Structural balance rule:

SB at or above MTO
or change in SB $\geq 0.5\%$ of GDP (or distance to MTO if lower)

Expenditure benchmark rule:

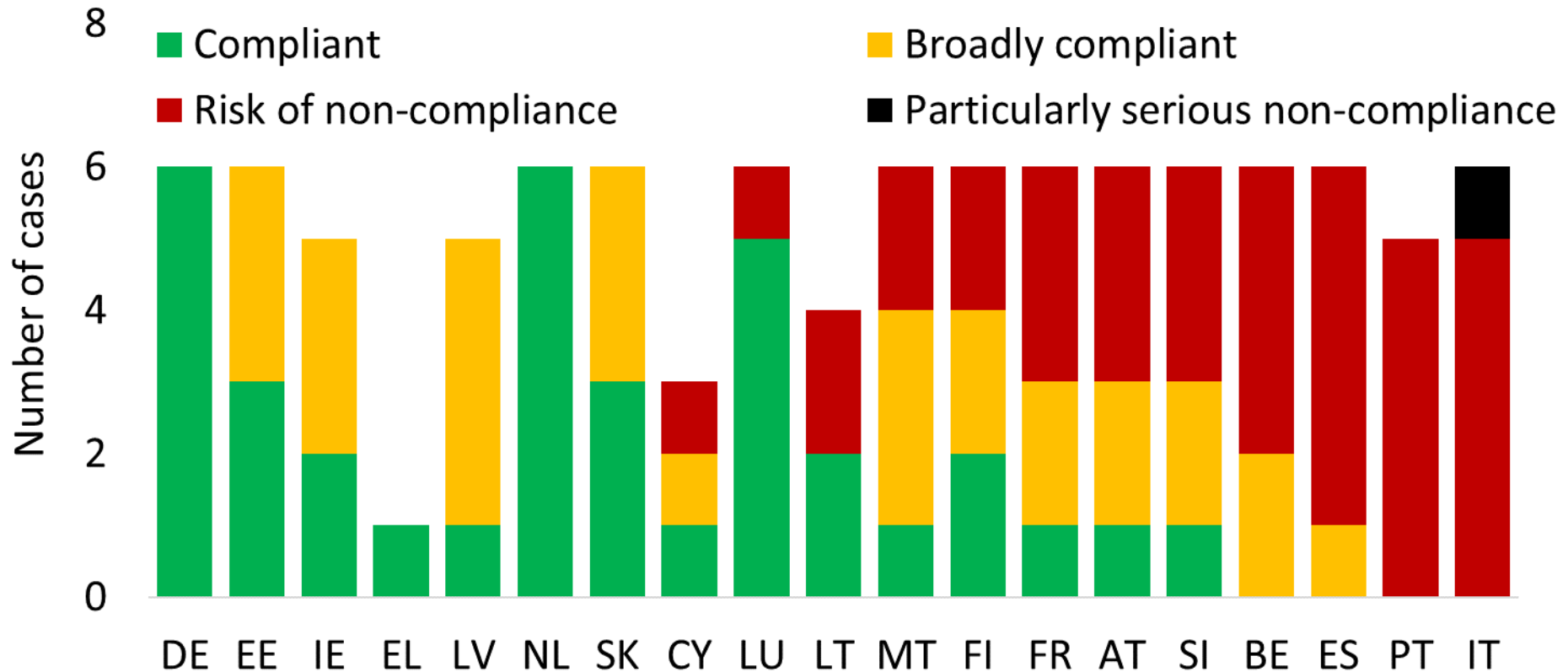
Net expenditure growth $<$ medium term potential growth
+ convergence margin

1. Have EU fiscal rules ensured sustainable public finances?

Problems already at planning phase

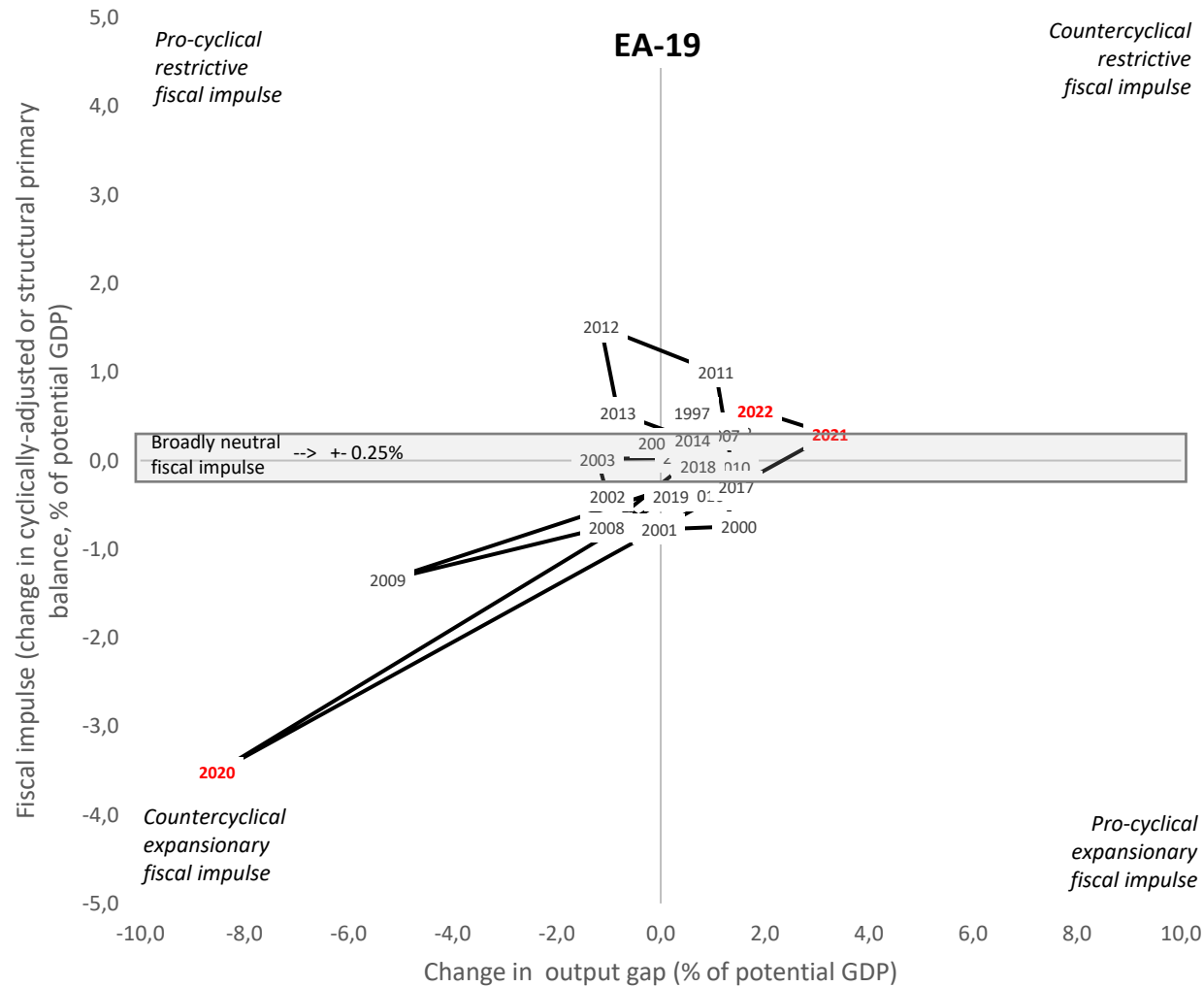
- **Draft budgetary plans** never (fully) compliant with SGP in 4 countries
- **Medium term:** consolidation back-loaded

Compliance of DBPs with the SGP, 2014-2019



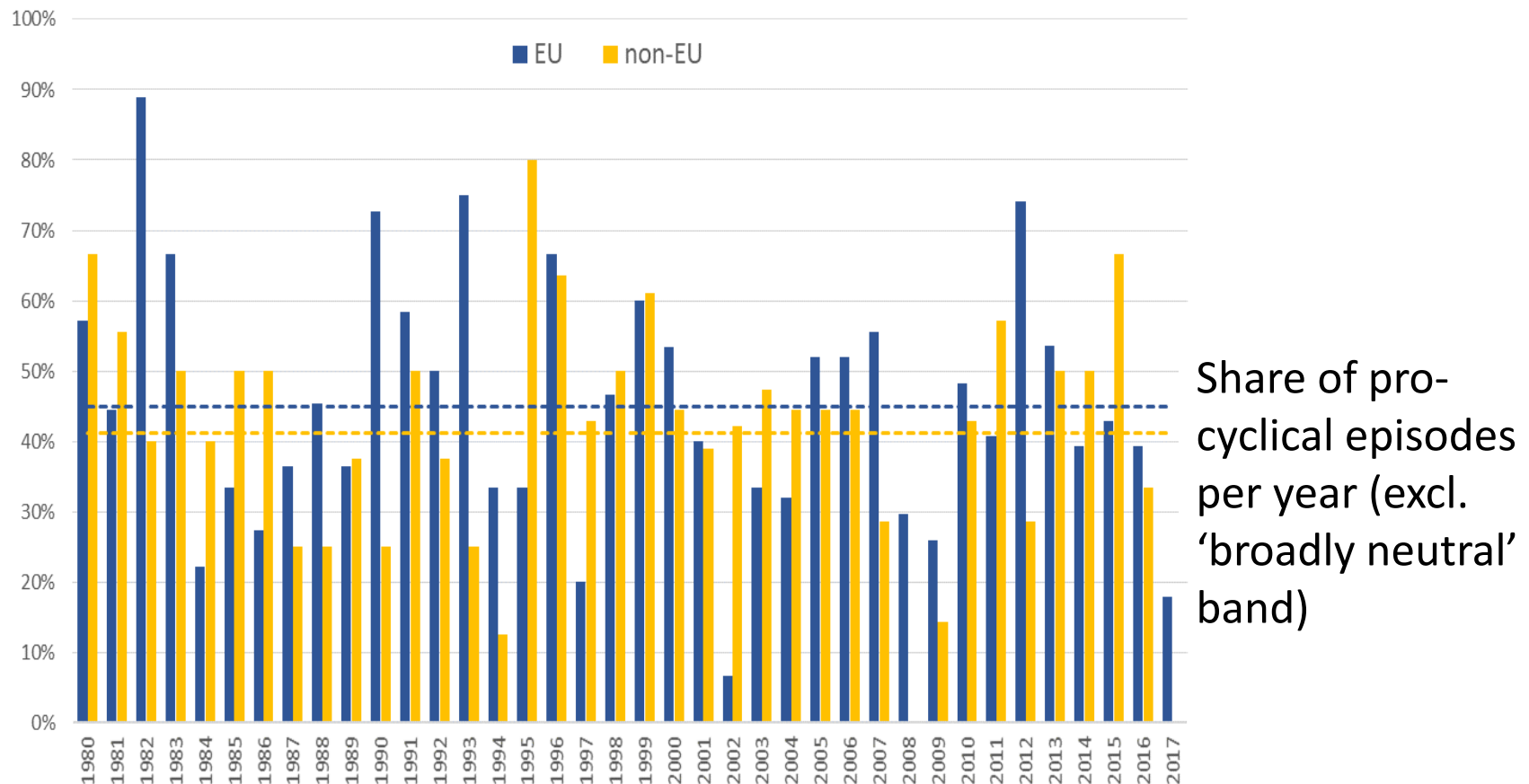
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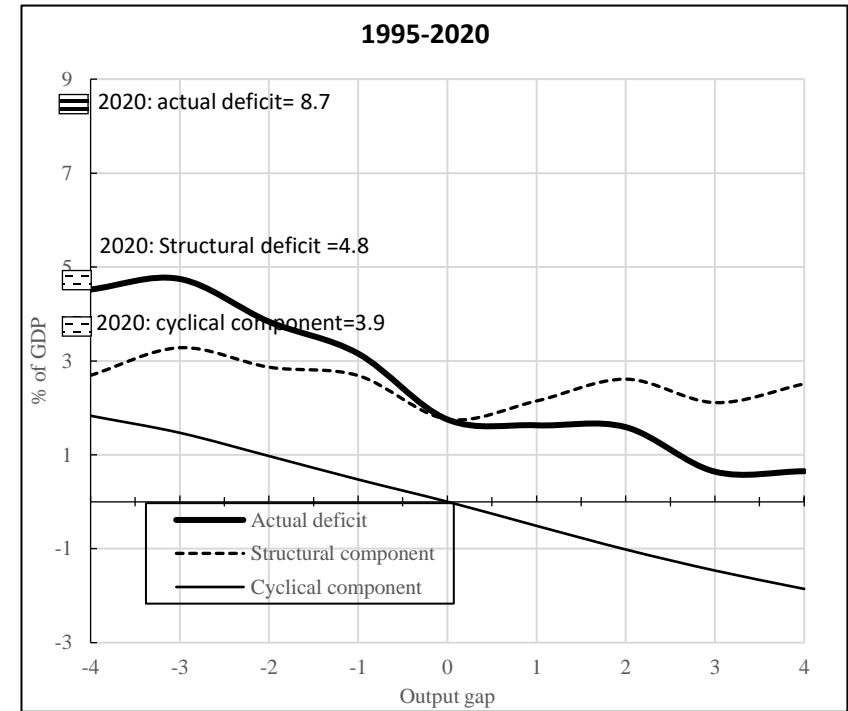
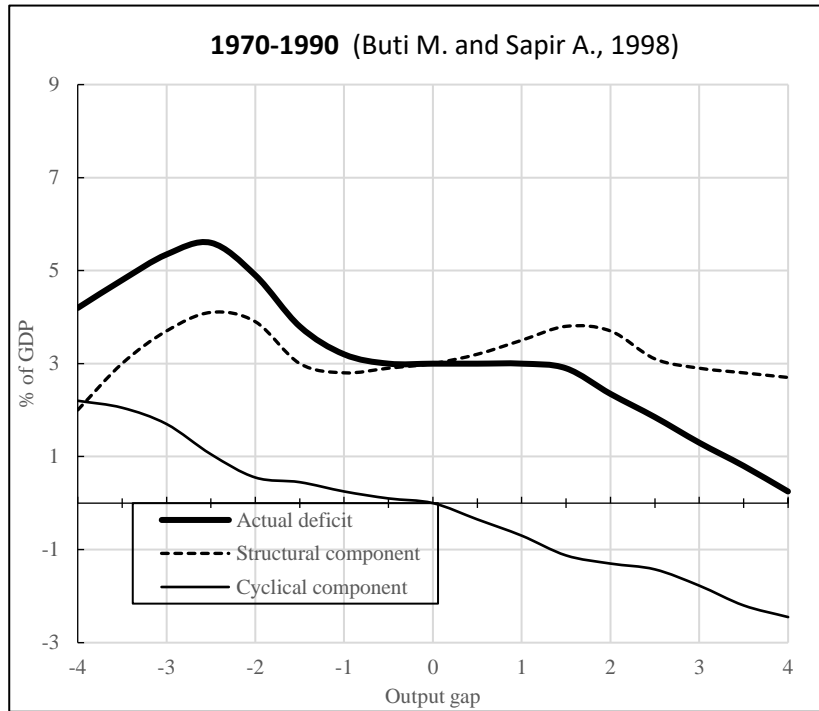


2. Have EU fiscal rules allowed economic stabilisation?

"Nobody uses fiscal policy as a macroeconomic policy tool, except macroeconomists in their models" (Eurointelligence 06-02-2020)



2. Have EU fiscal rules allowed economic stabilisation?



Average country-cyclical properties have not changed much since introduction of SGP

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Inferential analysis: What are the determinants of pro-cyclical fiscal policy? Unbalanced panel: 40 EU and non-EU middle to high-income countries; 1970-2017.

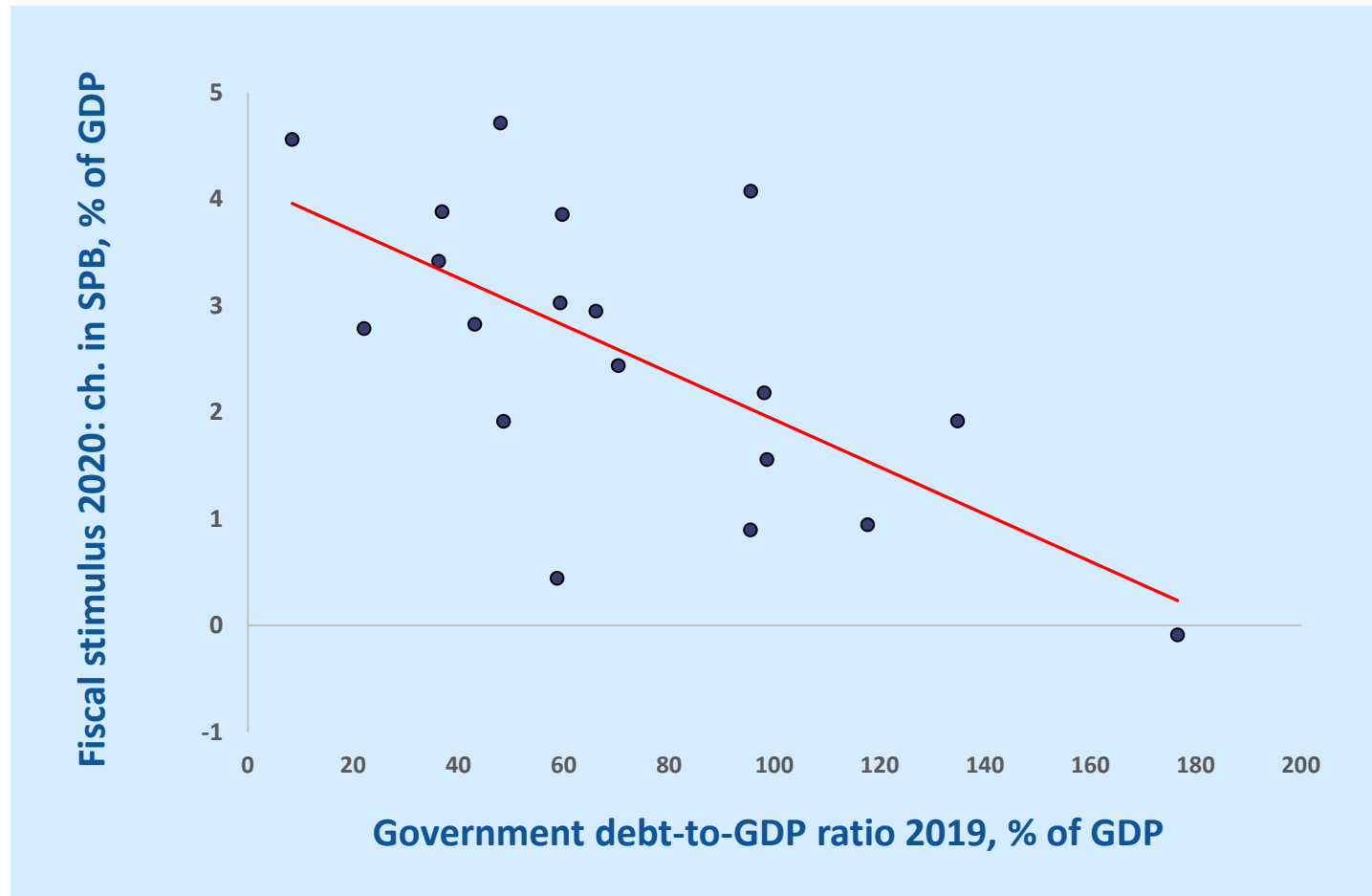
Larch, Orseau, van der Wielen (2021) Do EU fiscal rules support or hinder counter-cyclical fiscal policy? *Journal of International Money and Finance*, Vol 112.

Fiscal rule compliance dummies	Deficit compliance dummy (t)		-0.276 (0.271)		
	Spending compliance dummy (t)			-0.644** (0.288)	
	Struct. bal. compliance dummy (t)				-0.792*** (0.300)
	Debt compliance dummy (t)				-0.648** (0.300)
	Time FE: Wald-test, p-value	0.000	0.000	0.000	0.000
	Share correctly classified	0.676	0.701	0.696	0.703
	N ^o of observations	578	451	421	421
	N ^o of countries	27	27	27	27

Notes: The dependent variable is the binary indicator equal to one for pro-cyclical country-year observations. Positive (negative) coefficients indicate a higher (lower) likelihood of pro-cyclical fiscal policy. Logit is the equal-correlation logistic model estimated using a generalised estimating equation estimator. Standard errors are noted in parentheses: * p < 0.10, ** p < 0.05, *** p < 0.01. The percentage of fiscal episodes classified correctly by the model is reported as a measure of the goodness-of-fit.

2. Have EU fiscal rules allowed economic stabilisation?

Fiscal space helped in Covid crisis – Euro area countries



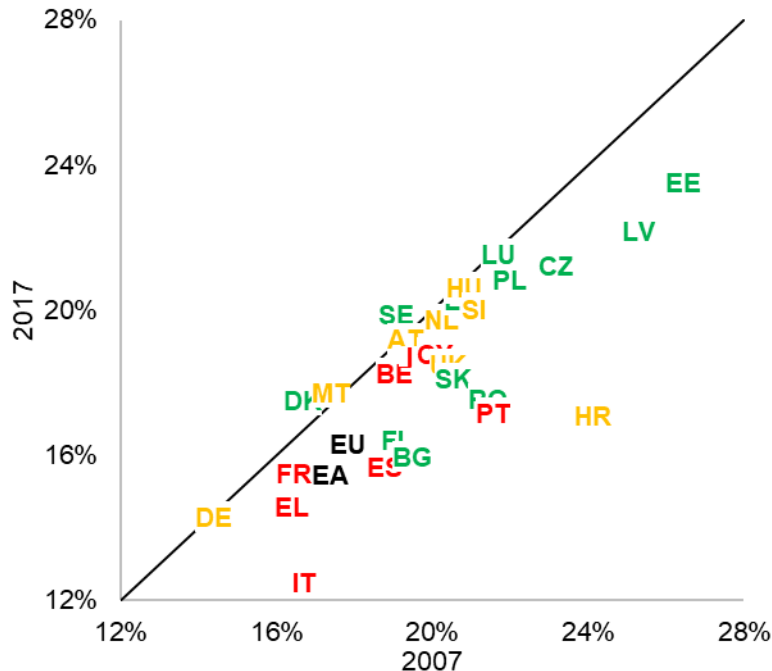
Note: Controlling for number of deaths, health expenditure and structural budget balance

3. Have EU fiscal rules improved the quality of public finances?

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- **Productive public expenditure has borne the brunt of fiscal consolidation** especially in very high-debt countries and countries subject to EDPs

Productive public expenditure as share of total public expenditure, 2017 versus 2007



- **2015: investment clause** meant to shield investment in bad times, **structural reform clause** to incentivise reforms
- **Only few countries qualified for the flexibility clauses**, even fewer have benefitted from them
- **Weak progress** with CSRs on the quality of public finances

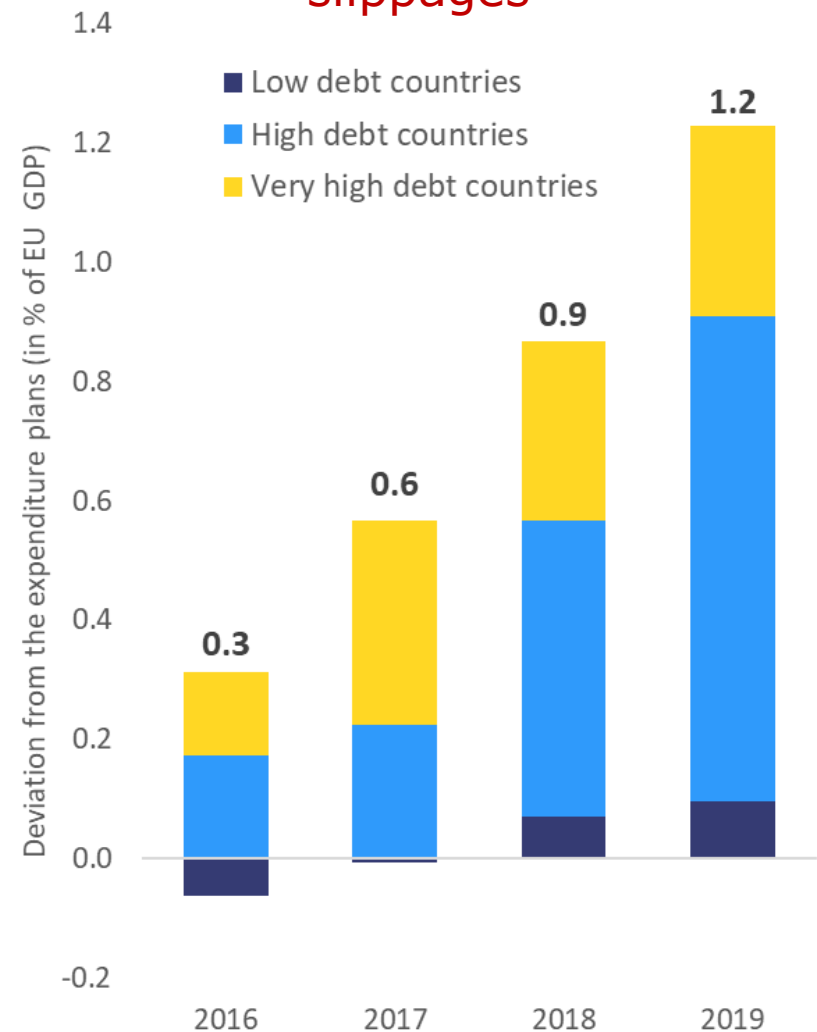
Note: Productive public expenditure includes expenditure on R&D, education and transport (COFOG classification).

→ **Need to better protect growth-enhancing public expenditure that reinforces sustainability of public finances**

3. Have EU fiscal rules improved the quality of public finances?

- **Deterioration of budgetary outcomes in EU** mainly due to expenditure slippages.
- Over the last four years, **cumulative deviations from spending plans amounted to around 3% of GDP** and only 0.1% of GDP went into additional government investment.

Persistent government expenditure slippages



Note: Difference between actual (outturn) and projected total government expenditure in the SCP. Very high debt countries: debt ratio above 90% of GDP and high debt countries between 60% and 90% (average 2016-2019). Share in EU GDP: low-debt group (18%), high-debt group (44%), very high-debt group (38%).

4. Reforming the SGP

4. Reforming the SGP: Overall performance

High debt ratios not sufficiently reduced

National fiscal policies too often **pro-cyclical**

Flexibility has not prevented **cutbacks in public investment**

4. Reforming the SGP: Issues of design and implementation

Complex and opaque rules, **unobservable indicators**

Preventive arm: **Cherry-picking** between change in structural balance and expenditure benchmark

Corrective arm: **strategy of meeting the nominal deficit target** during the recovery thanks to higher revenue, rather than delivering the (more demanding) required structural effort

Weak medium-term planning, adjustment is **back-loaded**

4. Reforming the SGP: Governance issues

Fiscal surveillance increasingly bilateral and less reliant on pressure by peers.

Sanctions prove difficult to enforce. RQMV has not helped imposing sanctions, because it has led the Commission to internalise the political consequences of its proposals.

Independent assessments have gained in importance but **actual involvement in surveillance process still limited.**

4. Reform of the SGP: Simplify

ONE fiscal anchor:
debt ceiling at 60% of GDP

ONE operational indicator:
expenditure benchmark

ONE escape clause replacing
all existing flexibility
provisions

**Demarcate policy
decisions from economic
analysis**

- Focus on sustainability
- Simple and observable
- Largely observable
- Built-in stabilising effect
- 3-yr ceiling: medium-term perspective
- Annual monitoring with compensation account
- Flexibility without current complexity and “complete contract” approach
- Triggered based on independent analysis
- Isolate underlying staff analysis from political considerations

4. Reform of the SGP: extensions of rules

Limited Golden Rule

- Protects investment by exempting specific categories of growth-enhancing expenditure from the expenditure rule
- Exemption applies to EU spending programmes
- Classification monitored by IFIs and national statistical offices

Differentiated national debt targets or adjustment paths

- In function of key socio-economic indicators: differences in saving, pension systems, borrowing costs, current account balance
- To be agreed within Council

4. Reform of the SGP: institutional extensions

Full-time President for the Eurogroup; neither a sitting national Finance Minister nor a member of the Commission

Reconsider RQMV

Replace sanctions by conditionality

- More stable governance and stronger continuity
- Strengthens political debate and peer review
- Weakens potential conflicts of interest
- Moves political responsibility of enforcing rules back to Council
- Reinforces multilateral surveillance
- Reinforces Commission's role as guardian of the Treaties
- Gives strong positive incentives
- Makes access to future CFC conditional on compliance with EU fiscal rules

Herzlichen Dank!

<https://ec.europa.eu/european-fiscal-board>