



DG ECFIN

Strengthening European Economic Governance – Surveillance of Fiscal and Macroeconomic Imbalances

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Rethinking economic policy in Europe – A new era of EU economic governance



Outline

I. Pre-crisis economic governance

- The 'Great Moderation' paradigm
- The crisis as eye opener

II. Post-crisis economic governance

- Strengthening existing instruments
- Adding new instruments



The “Great Moderation” Paradigm

“Fiscal discipline in combination with low and stable inflation are necessary and sufficient conditions for overall macroeconomic stability“

→ The Maastricht Treaty laid down the architecture of EU economic governance in reflection of the main tenets of the “Great Moderation” paradigm



Pre-crisis economic governance

The crisis as an eye opener

- The crisis has seriously questioned the validity of the “Great Moderation” paradigm
- Rethinking of macro-economic policy is underway

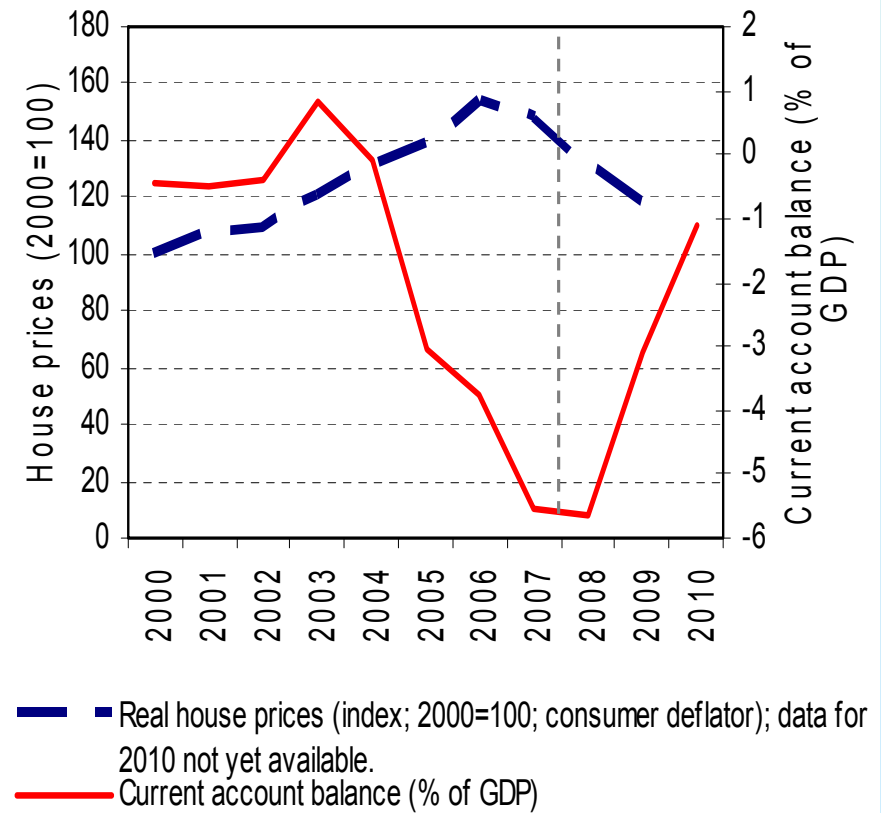
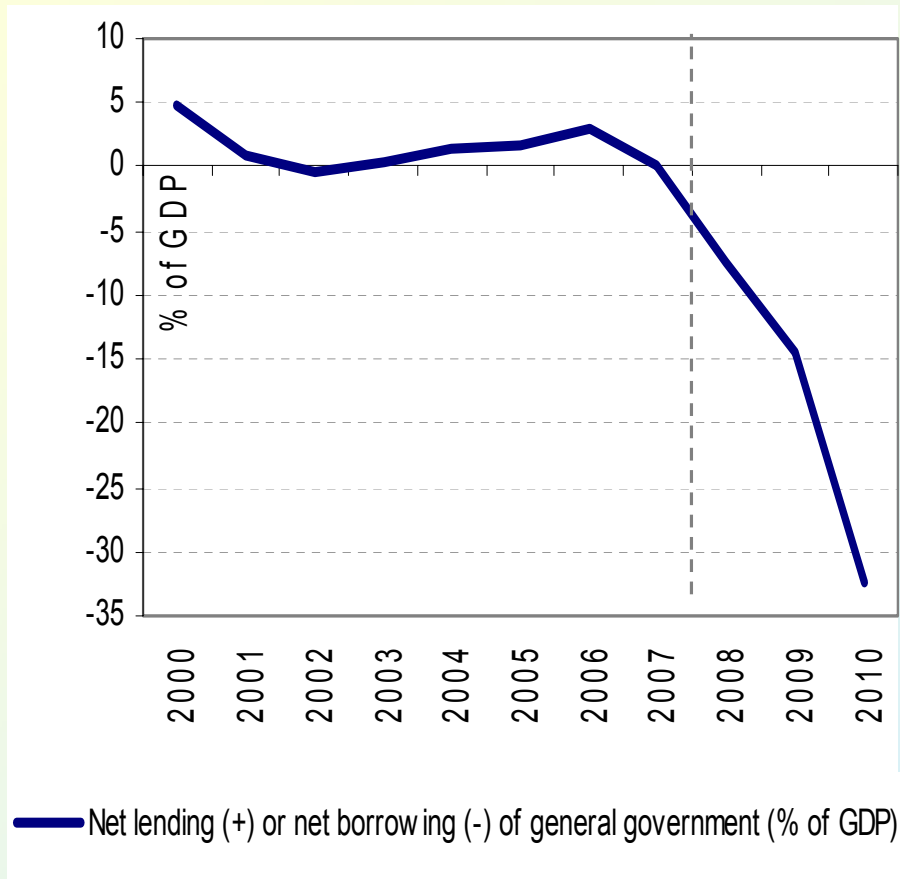
→ *The Maastricht assignments are still valid for the EU but they need to be strengthened and complemented with new elements*



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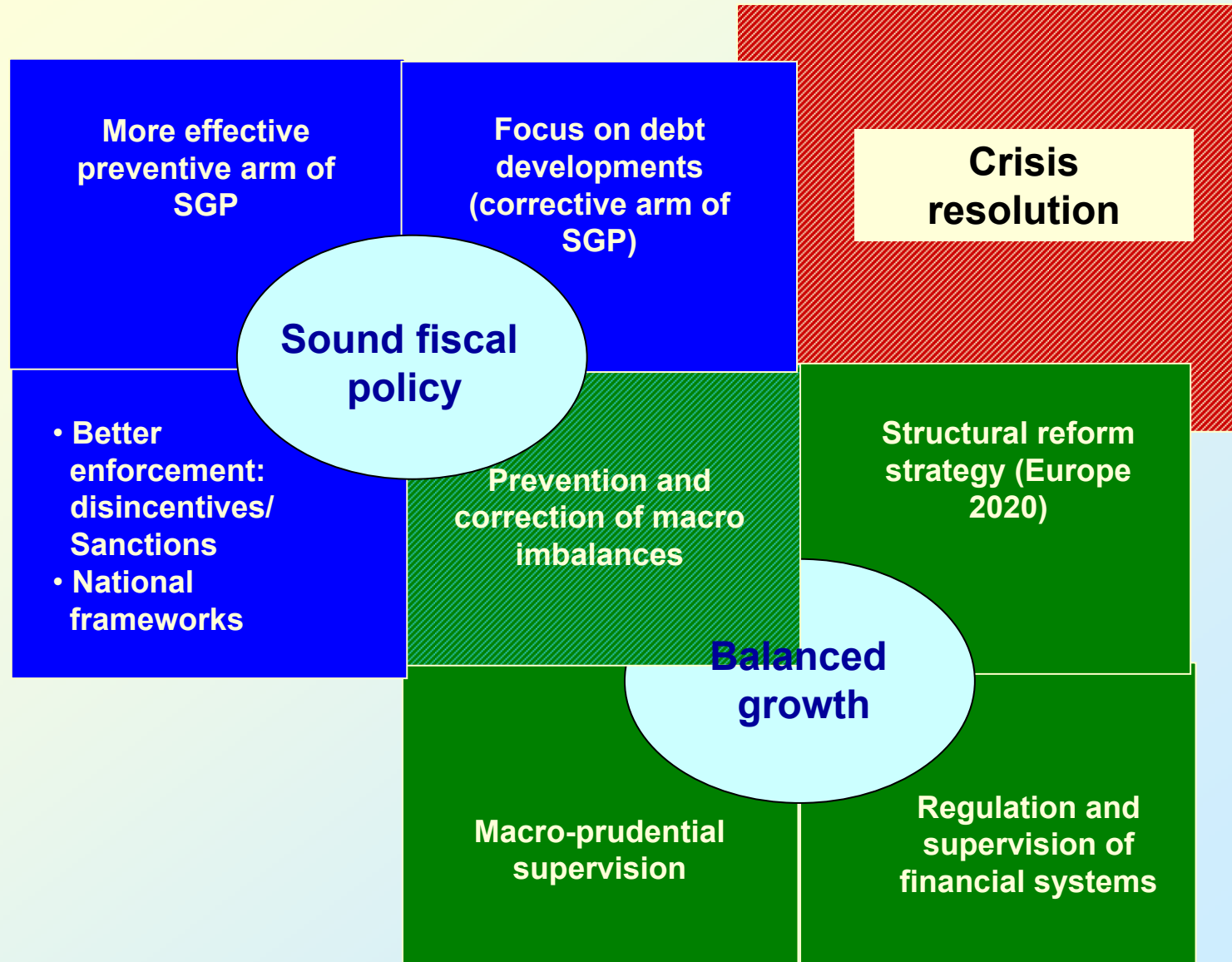
Pre-crisis economic governance

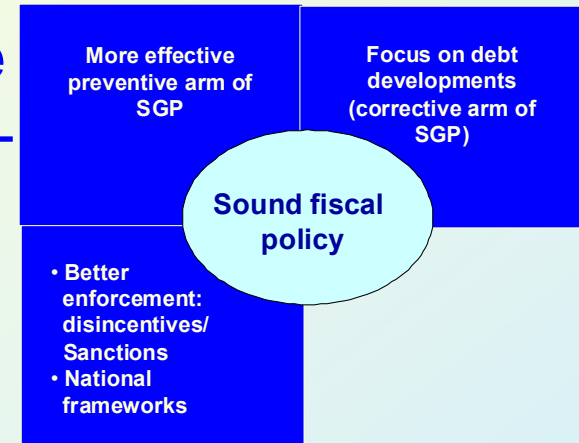
Ireland: Solid public finances but unsustainable imbalances





The broader 'geography' of reform





Sound fiscal policy

Expenditure benchmark

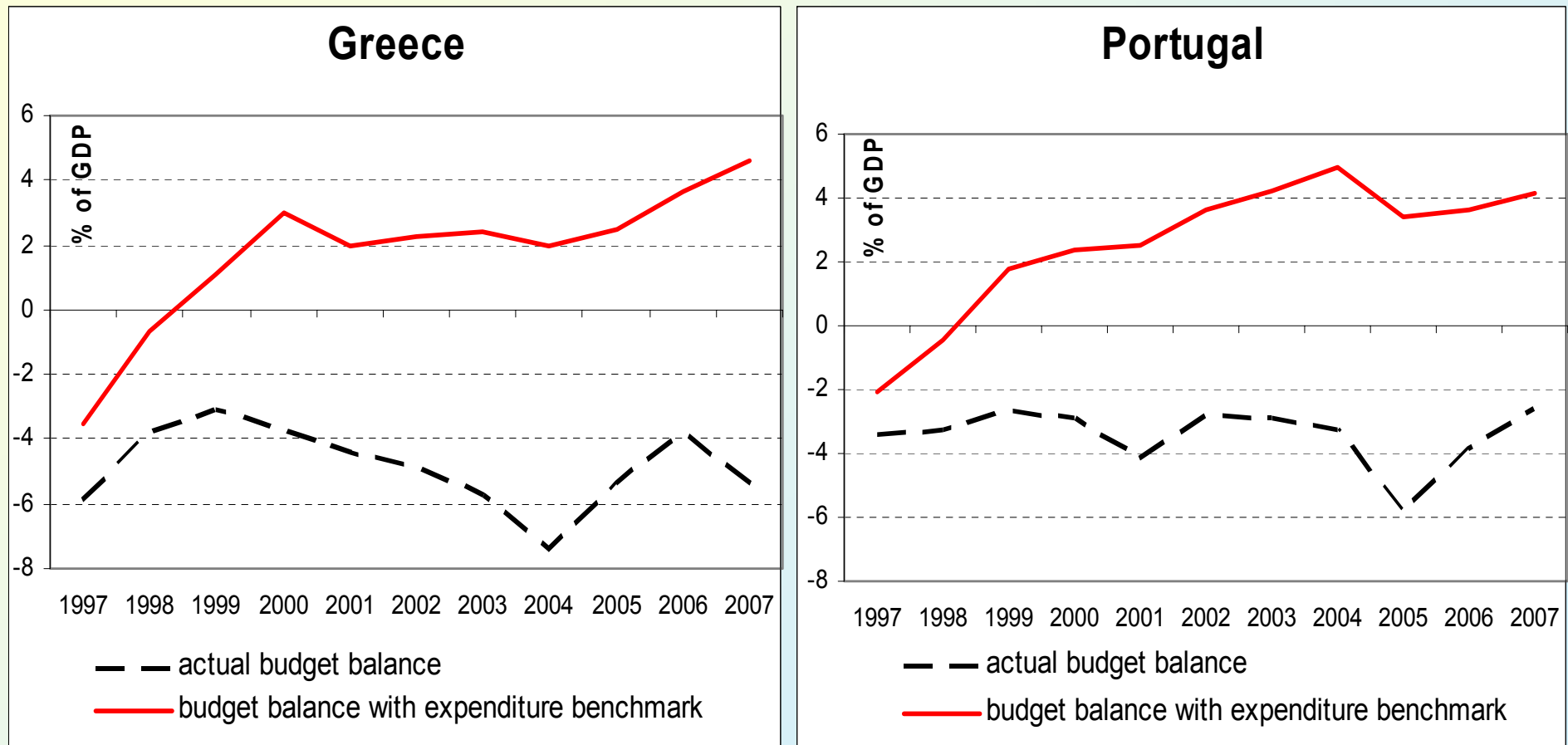
→ *Anchoring expenditure to sustainable path and stabilising the economy over the cycle*

Numerical debt benchmark (on average 1/20 per year over three preceeding years)

→ *Stronger emphasis on debt developments so as to put deficit and debt criteria on equal footing*



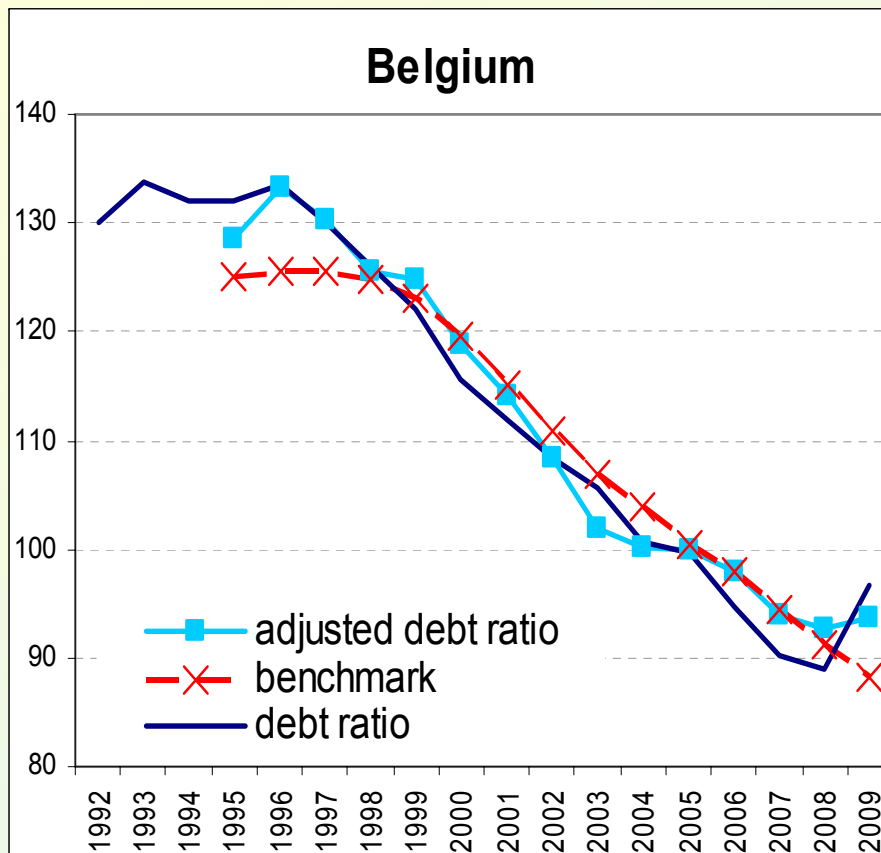
Potential benefits of expenditure benchmarks



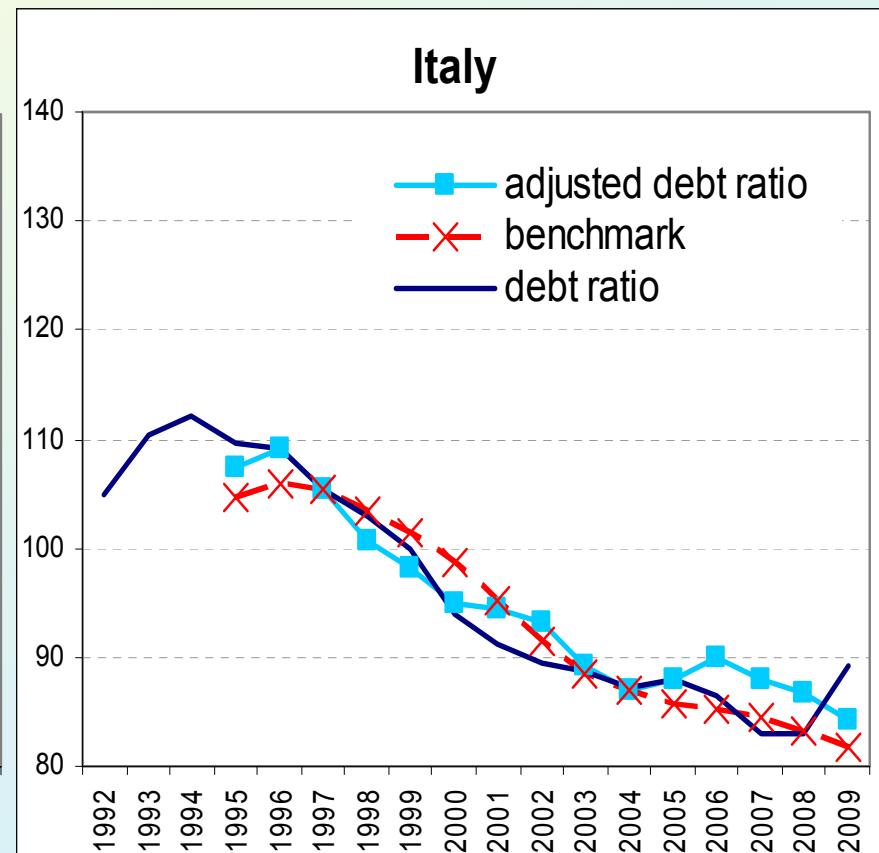


Post-crisis economic governance

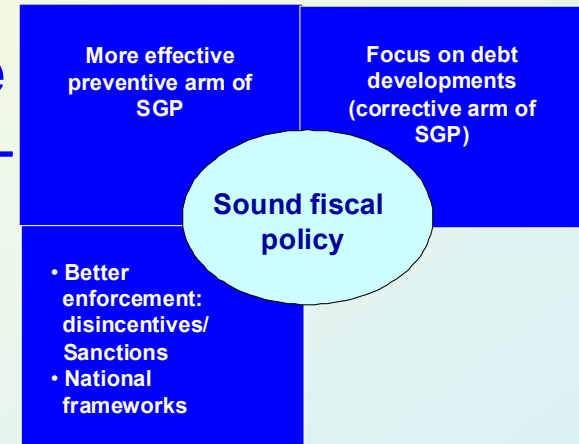
Debt benchmark: Respected by Belgium, not by Italy



Simulations using the **actual budget balances**



Simulations using the **budget balance strengthened by 1.5 percentage points of GDP compared to actual values**



Sound fiscal policy

Improving the enforcement of fiscal surveillance

→ *New sanctions from a graduated set of enforcement instruments with higher degree of deterrence*

Minimum standards for national fiscal frameworks

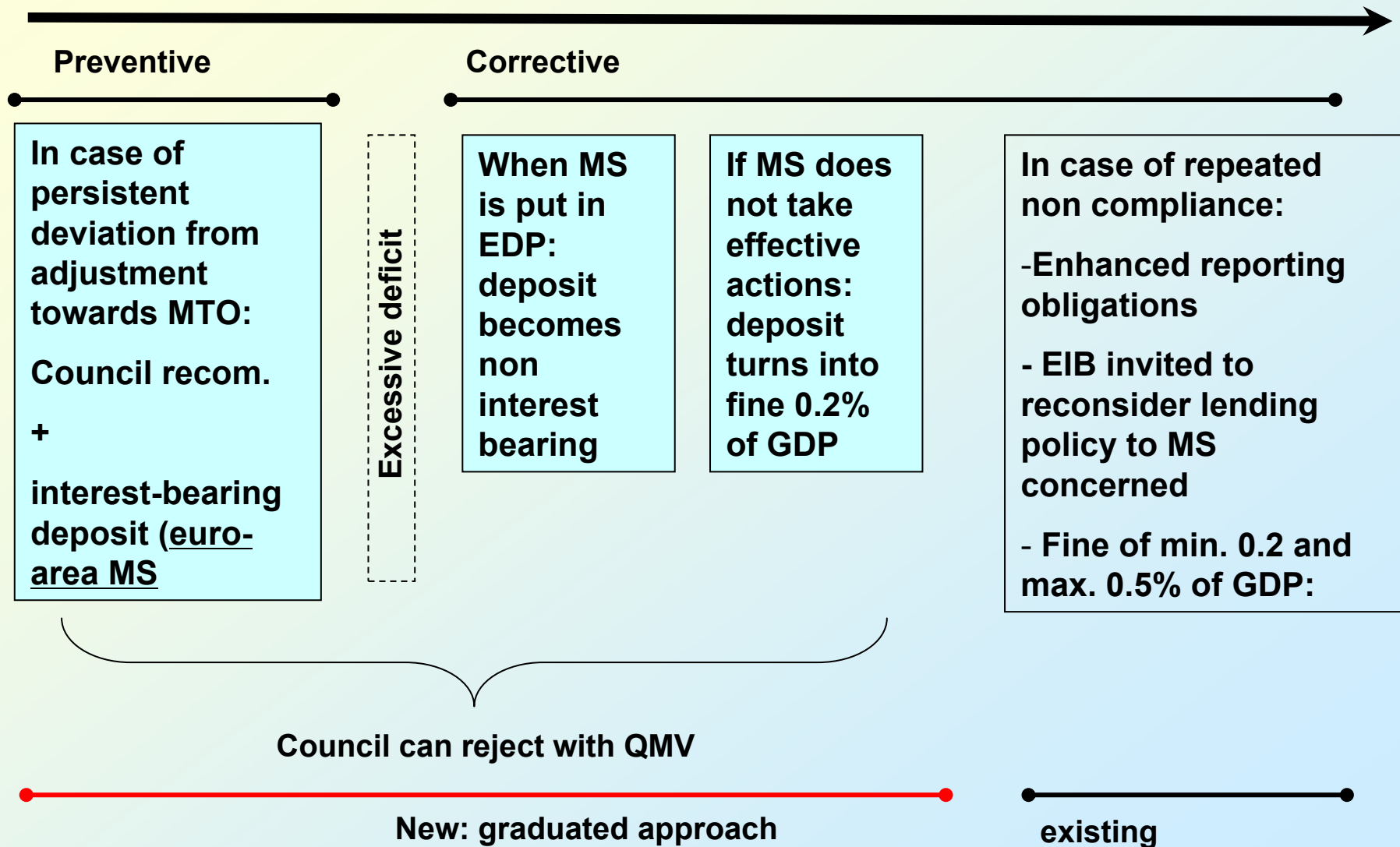
→ *Ensuring consistency between EU rules and national rules, fostering national ownership and promoting fiscal discipline*



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Post-crisis economic governance

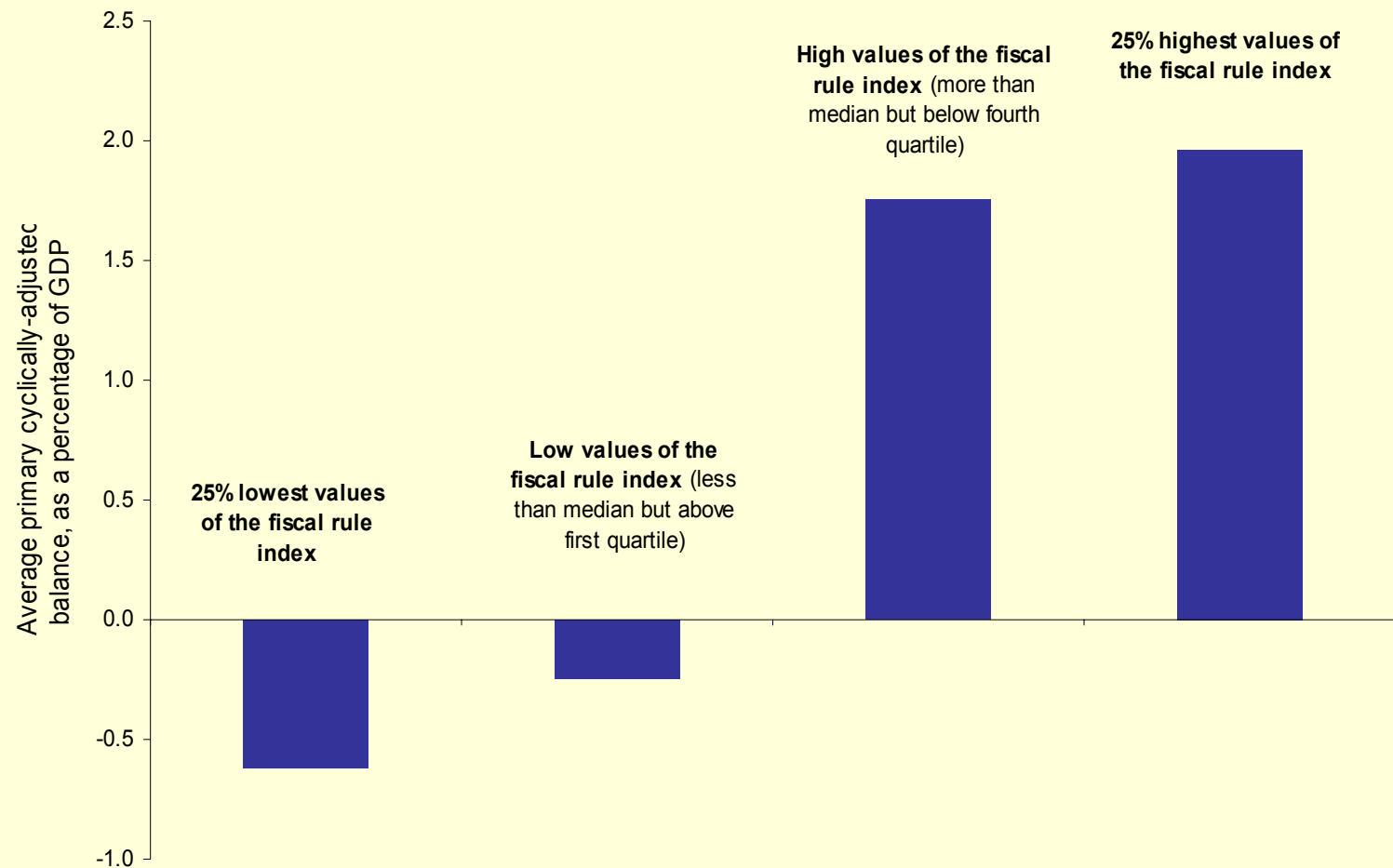
Sanctions/disincentives in fiscal surveillance

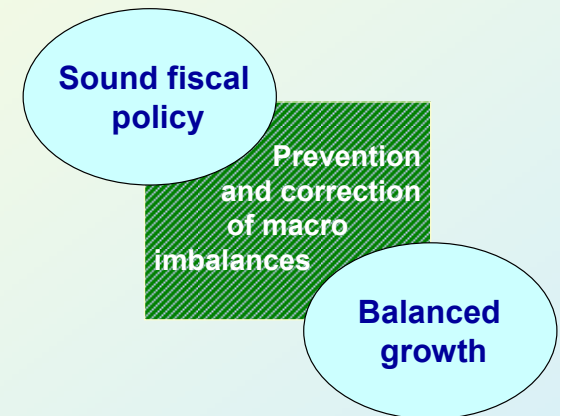




Post-crisis economic governance

The quality of fiscal frameworks makes a difference





New tools to tackle macro imbalances

■ Preventive dimension

- Alert mechanism based on expert analysis and a “scoreboard” of risk indicators
- Country-specific in-depth analysis and “preventive” recommendations where warranted

■ Corrective dimension

- Excessive imbalances procedure (EIP)
- Publication of prescriptive recommendations with deadline for corrective action and possible sanctions

→ *Avoiding imbalances due to consumption and housing booms or weaknesses in domestic demand*



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Post-crisis economic governance

Sound fiscal
policy

Prevention
and correction
of macro
imbalances

Balanced
growth

Multi-coloured scoreboard to “flash” red in case of alert

Total number of imbalances per year

WORK IN
PROGRESS

	2001	2002	2003	2004	2005	2006	2007	2008	2009
BE	3	3	4	3	3	4	3	3	3
DE	1	2	1	1	3	3	3	3	3
IE	3	2	1	4	4	4	4	5	4
EL	4	3	4	4	5	5	5	4	4
ES	3	3	3	5	6	6	5	4	4
FR	2	1	1	2	3	2	2	3	3
IT	2	3	1	2	2	2	2	2	2
CY	3	4	3	5	5	4	2	2	2
LU	2	2	2	2	1	2	3	2	2
MT	2	2	1	1	2	2	3	3	3
NL	2	2	3	3	3	2	3	4	4
AT	2	2	1	1	1	1	0	1	1
PT	3	3	4	4	5	5	6	5	5
SI	1	0	0	0	1	1	2	2	2
SK	3	2	1	2	3	4	4	3	3
FI	3	2	1	2	2	3	2	3	2
BG	2	1	3	2	5	5	6	6	4
CZ	1	2	2	2	2	1	2	1	2
DK	2	1	1	2	1	2	2	2	2
EE	2	3	3	4	5	6	5	4	3
LV	2	2	4	4	4	5	4	4	3
LT	1	1	2	3	5	4	5	4	3
HU	3	4	5	4	5	4	4	5	5
PL	2	1	1	2	1	3	2	4	3
RO	3	1	1	1	3	4	5	4	5
SE	2	2	2	2	3	2	4	2	3
UK	0	1	1	3	1	3	2	1	3

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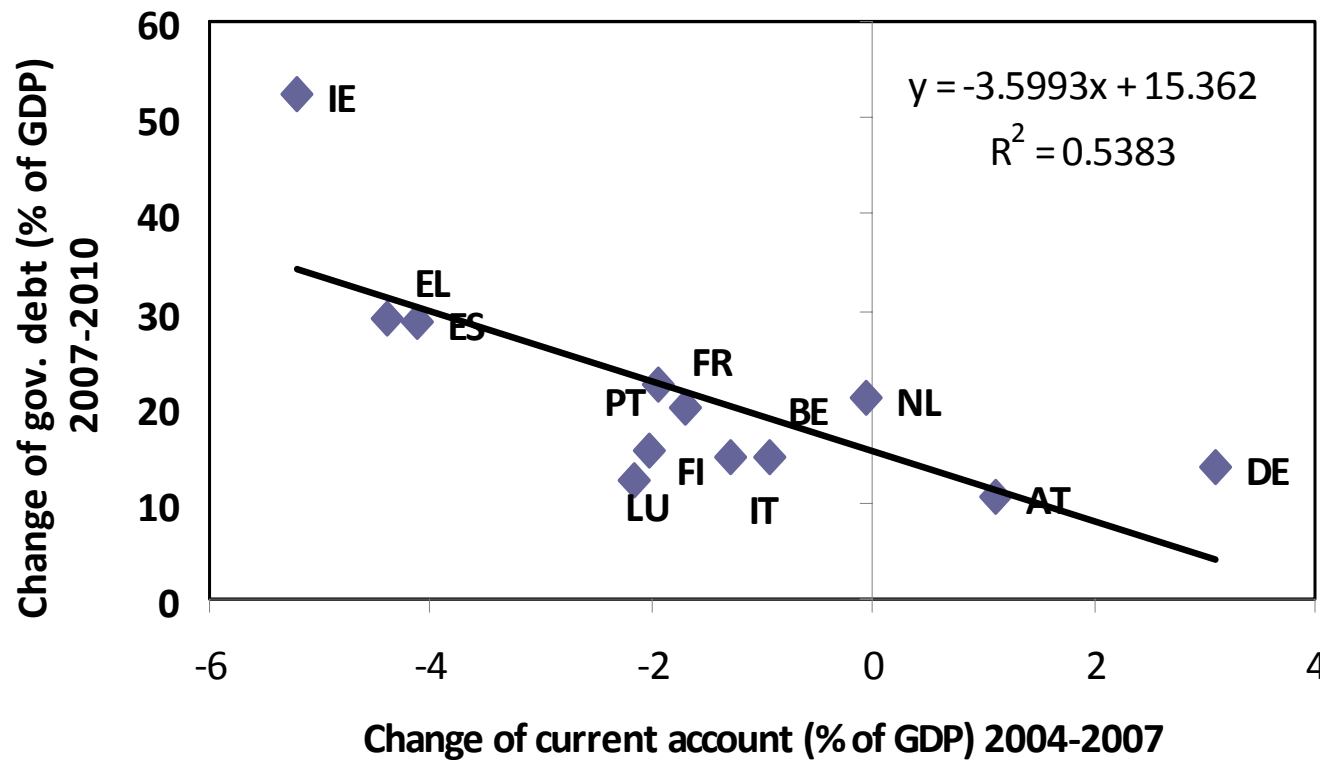
Post-crisis economic governance

Sound fiscal
policy

Prevention
and correction
of macro
imbalances

Balanced
growth

Unwinding of imbalances and public finances





Will it work this time?

- **Crisis has heightened our awareness of previous weaknesses**
 - New governance approach much broader
 - Increased ownership by Member States
- **Accompanied by other important measures**
 - New EU financial supervision framework
 - Measures dealing with sovereign debt crises
 - European Semester: a more effective calendar for assessing economic policy making in the Member States
- **New rules interacting with increased attention of financial markets**