

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

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

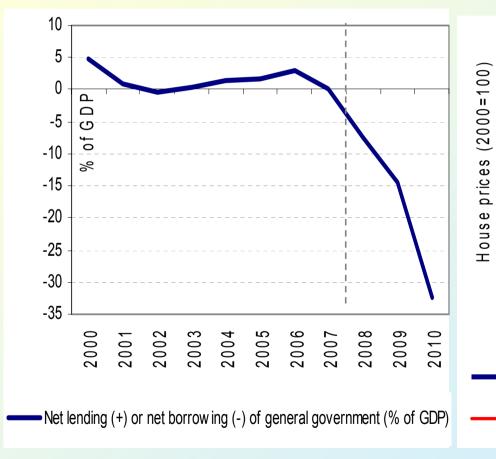


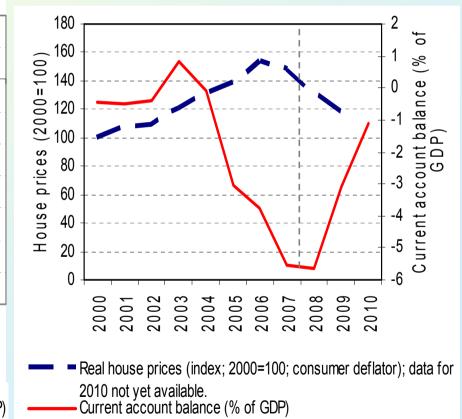
The crisis as an eye opener

- 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



Ireland: Solid public finances but unsustainable imbalances

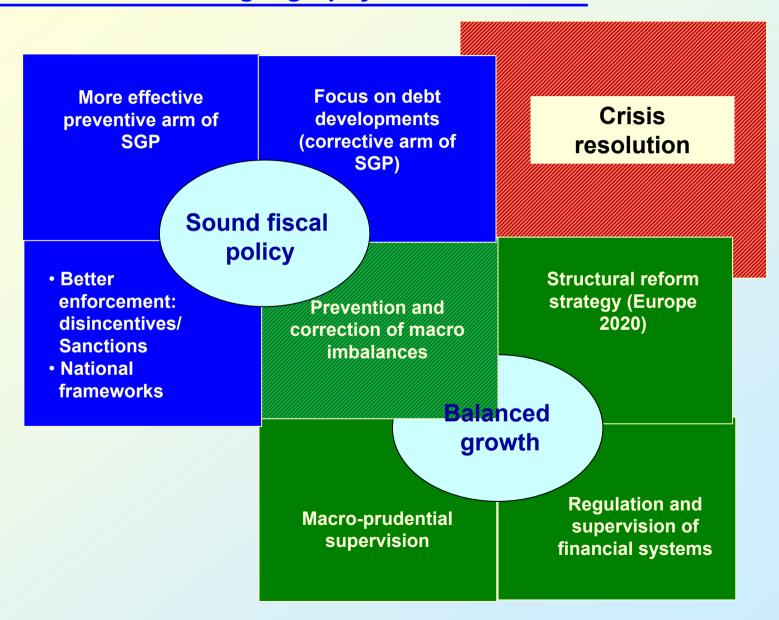






Post-crisis governance:

The broader 'geography' of reform





More effective preventive arm of SGP

Sound fiscal policy

Better enforcement: disincentives/ Sanctions
National frameworks

Sound fiscal policy

Expenditure benchmark

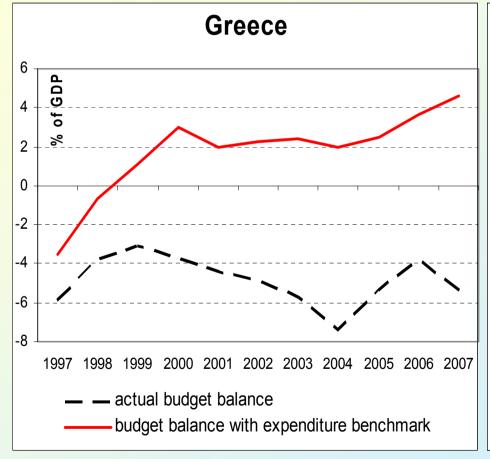
→ Anchoring expenditure to sustainable path and stabilising the economy over the cycle

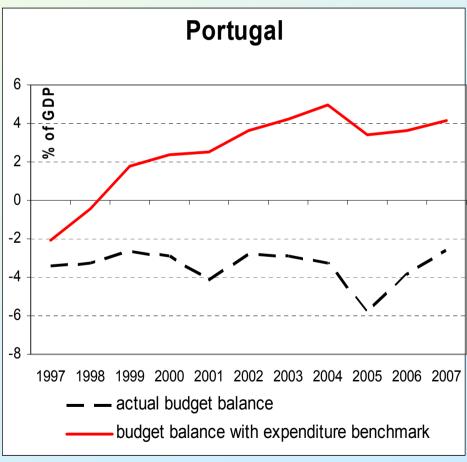
Numerical debt benchmark (on average 1/20 per year over three preceding years)

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



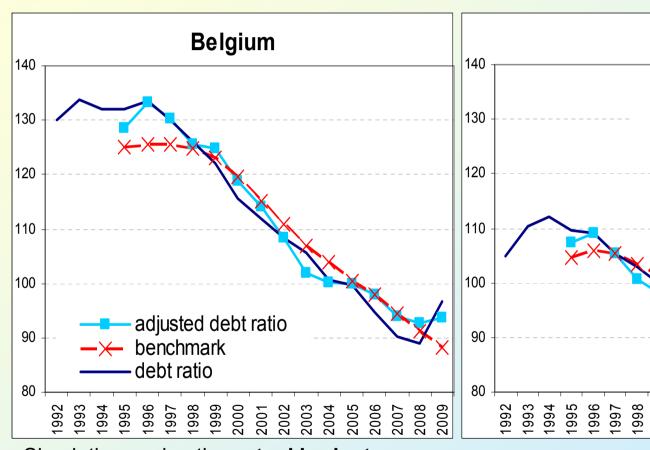
Potential benefits of expenditure benchmarks

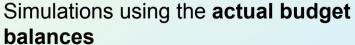


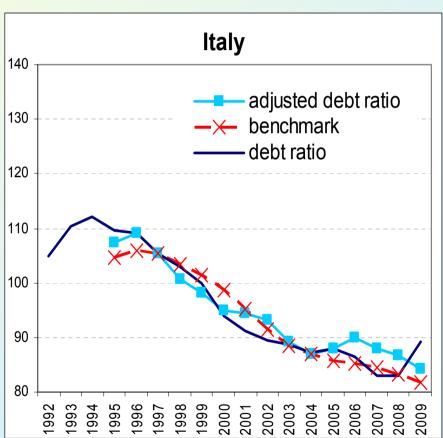




Debt benchmark: Respected by Belgium, not by Italy







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



More effective preventive arm of SGP

Sound fiscal policy

Better enforcement: disincentives/ Sanctions

National frameworks

Sound fiscal policy

Improving the enforcement of fiscal surveillance

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

Minimum standards for national fiscal frameworks

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



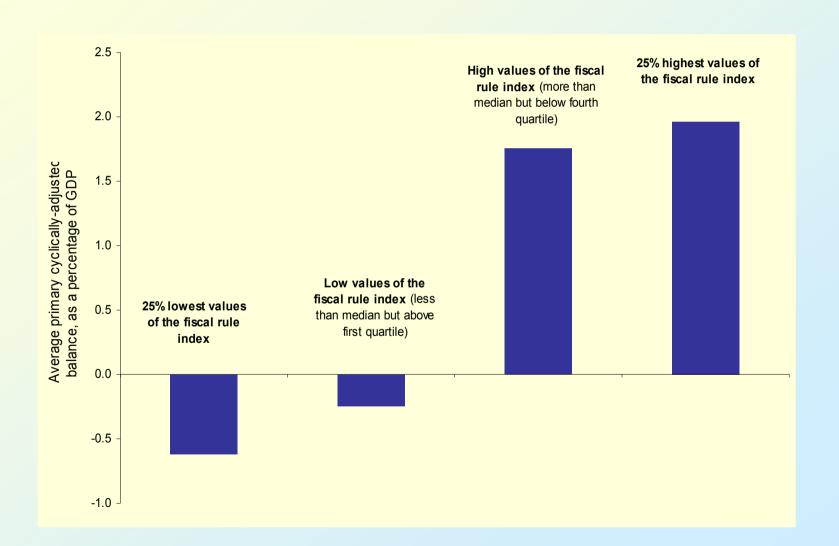
New: graduated approach

Sanctions/disincentives in fiscal surveillance

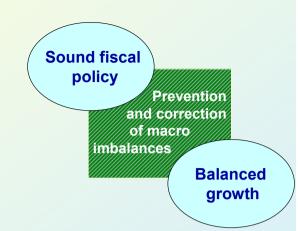
Preventive Corrective In case of If MS does When MS In case of repeated persistent is put in not take non compliance: deviation from EDP: Excessive deficit effective -Enhanced reporting adjustment deposit actions: obligations towards MTO: becomes deposit turns into - EIB invited to non Council recom. interest fine 0.2% reconsider lending of GDP policy to MS bearing concerned interest-bearing deposit (euro-- Fine of min. 0.2 and area MS max. 0.5% of GDP: Council can reject with QMV

existing

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



Sound fiscal policy

Prevention and correction of macro imbalances

Multi-coloured scoreboard to "flash" red in case of alert

Total number of imbalances per year

WORK IN PROGRESS

Balanced growth

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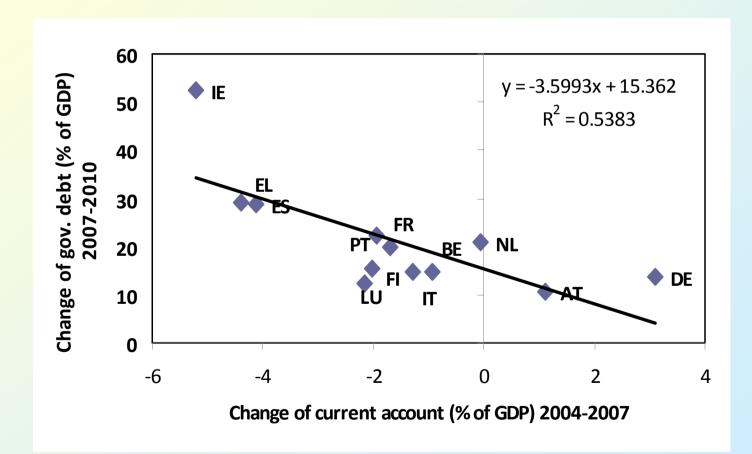
Sound fiscal policy

Prevention and correction of macro

imbalances

Balanced growth







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 calender for assessing economic policy making in the Member States
- New rules interacting with increased attention of financial markets