

# **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**?

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**1. Have EU fiscal rules ensured sustainable public finances?**

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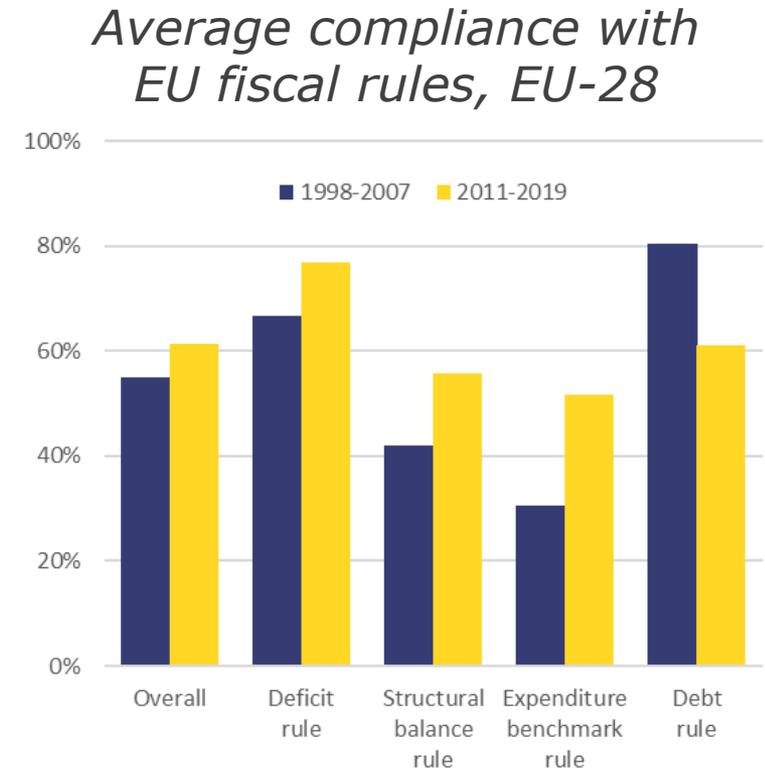
## Positive developments

### 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**



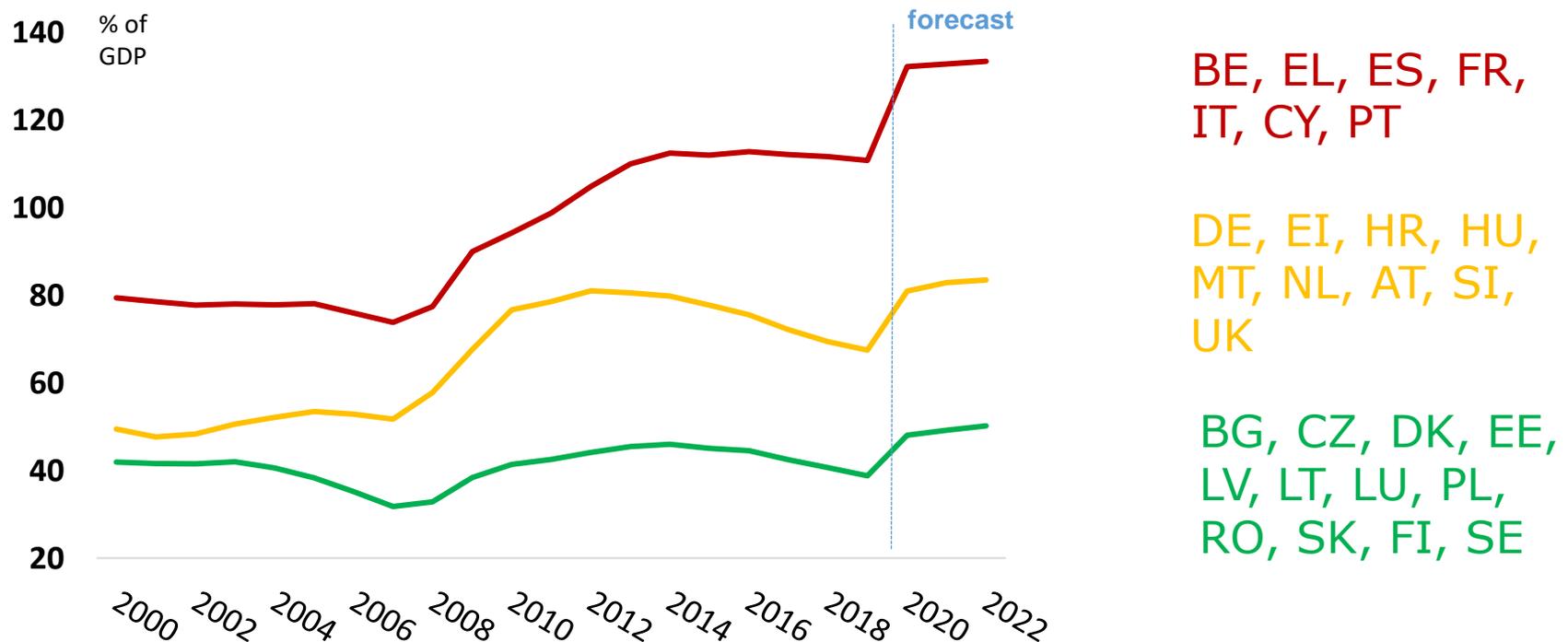
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## Negative developments

### Fiscal performance varies markedly

## Debt reduction has stalled for important group of countries

Average debt-to-GDP ratios

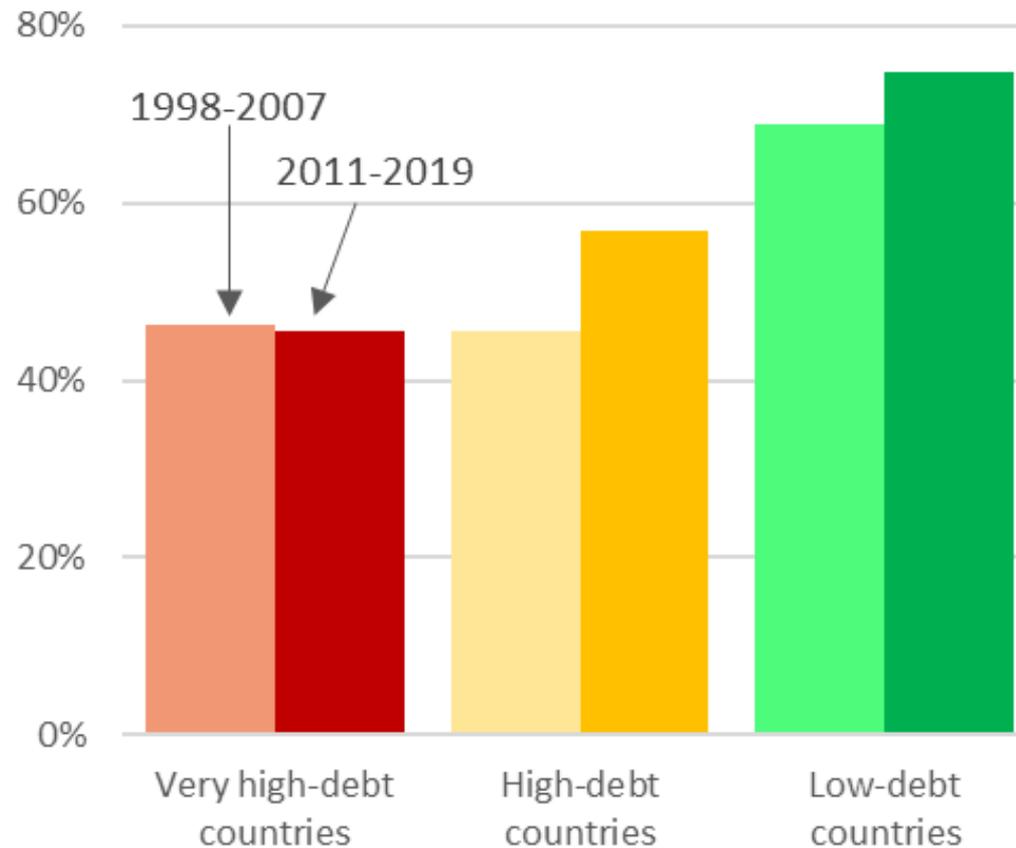


Note: Countries are grouped based on their average debt levels in 2011-2019.

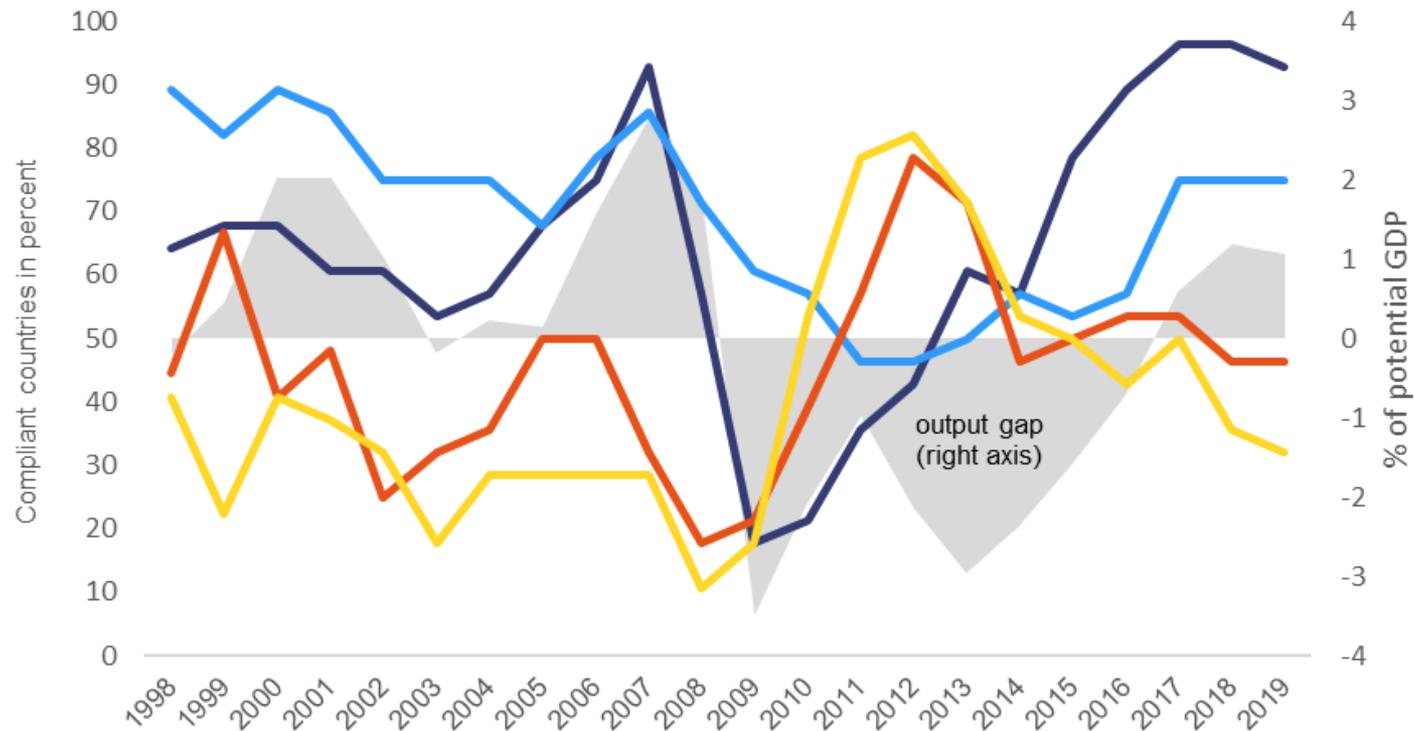
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## Overall compliance has not improved in the very high-debt countries

*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:**

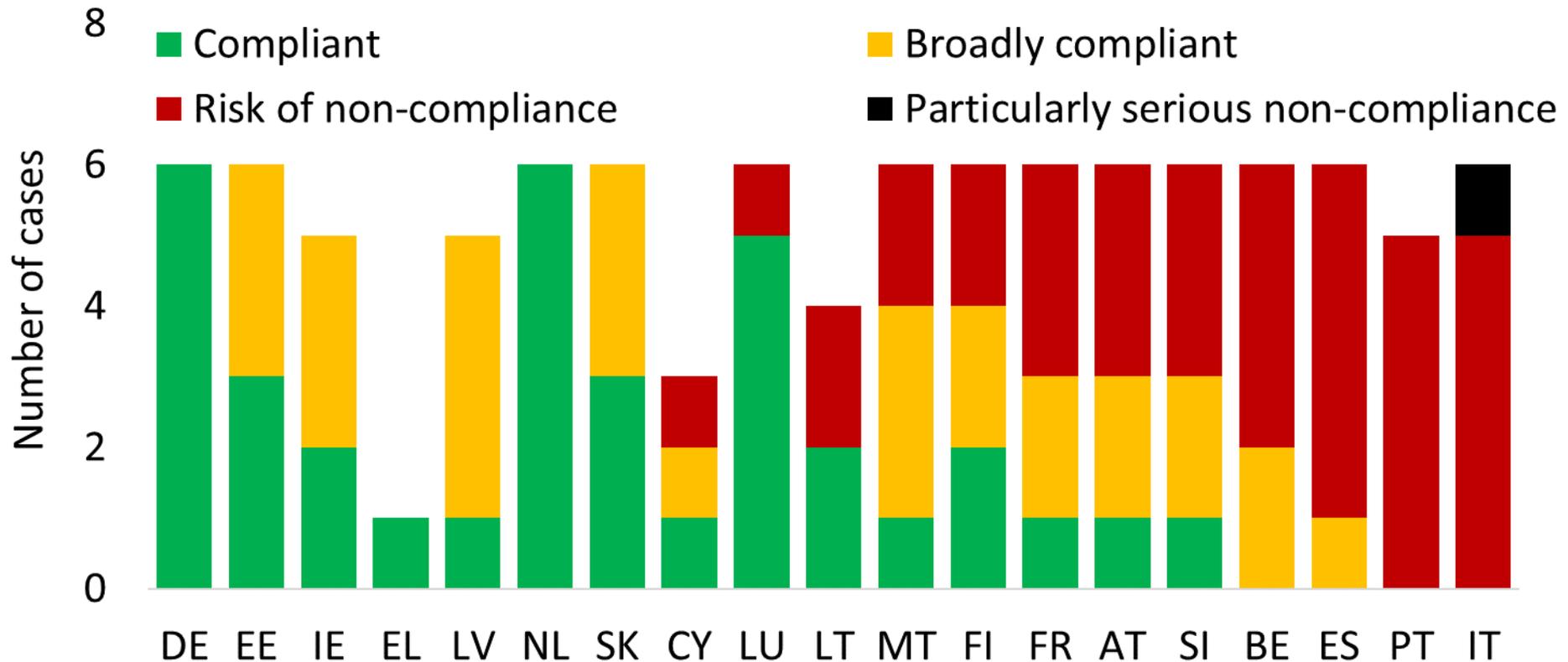
Net expenditure growth  $<$  medium term potential growth  
+ convergence margin

# 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

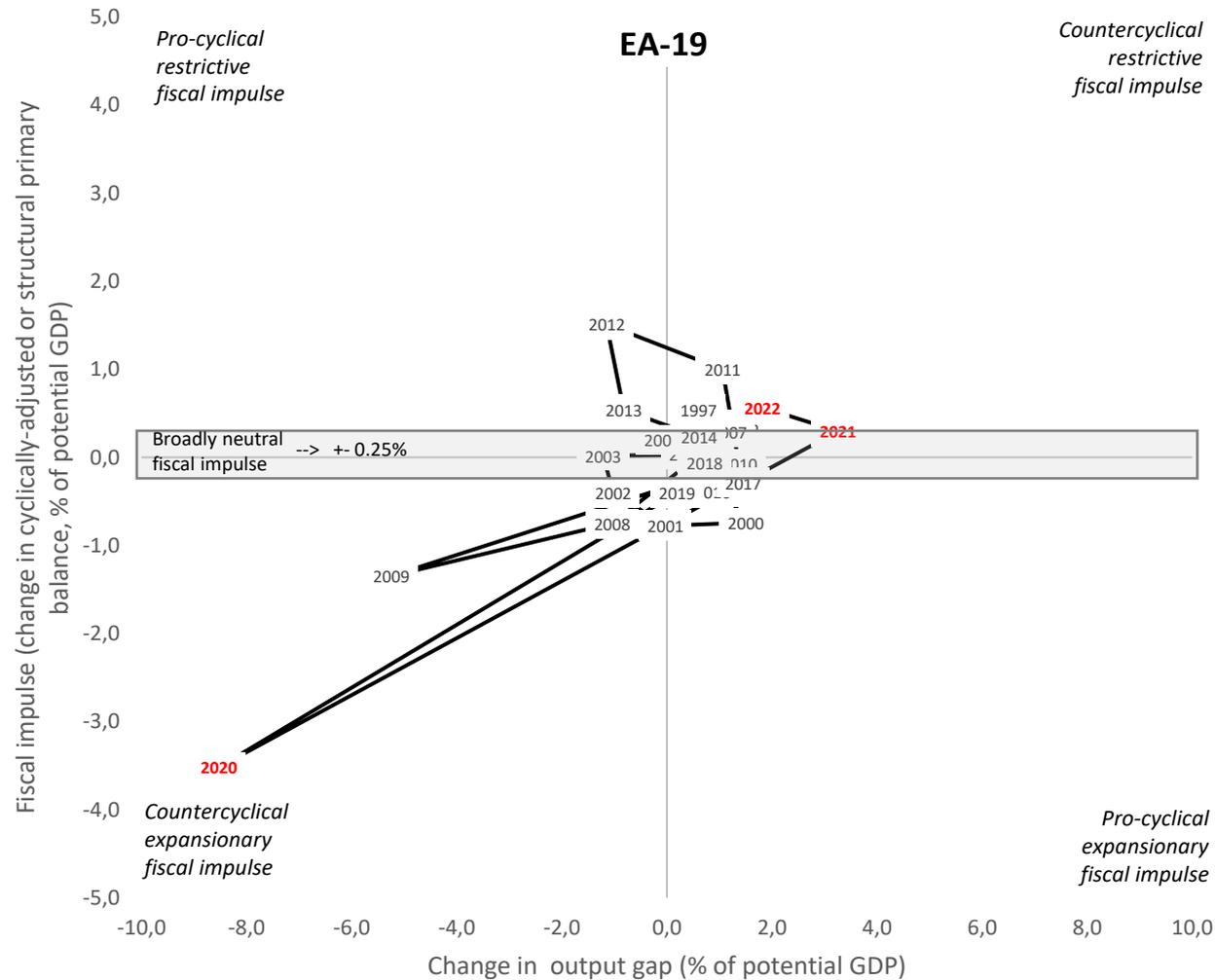
*Compliance of DBPs with the SGP, 2014-2019*



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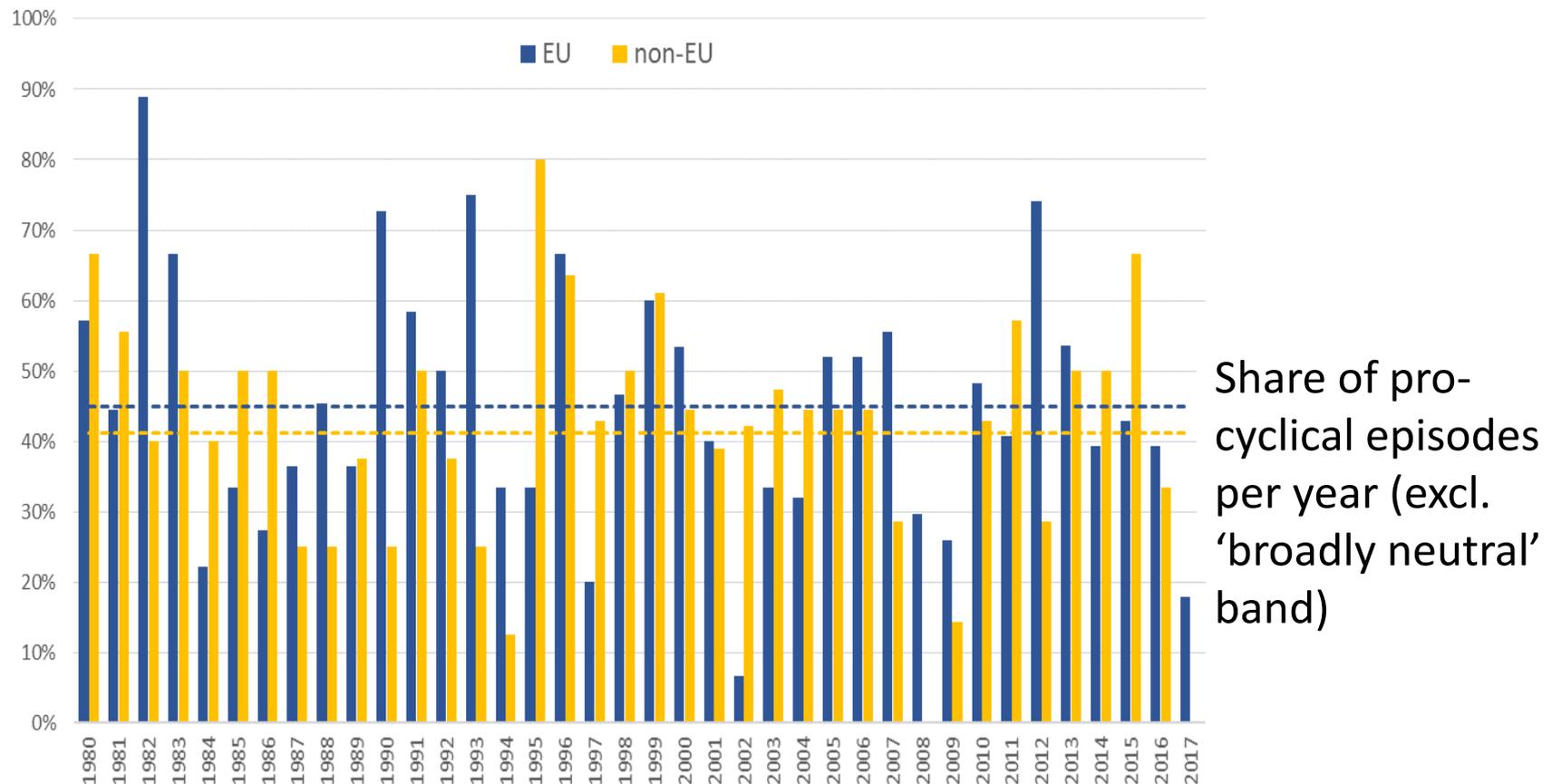
## **2. Have EU fiscal rules allowed economic stabilisation?**

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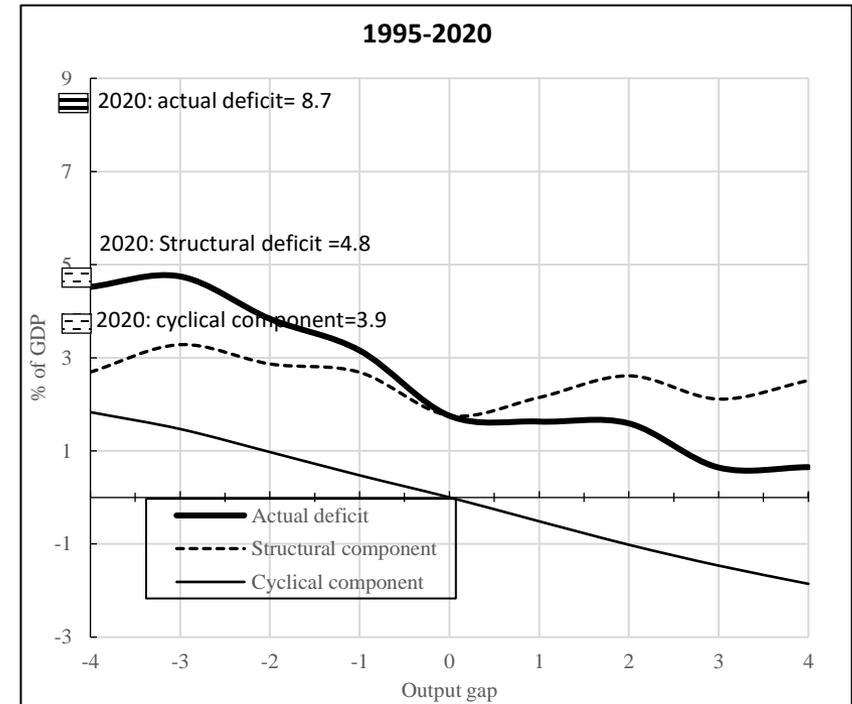
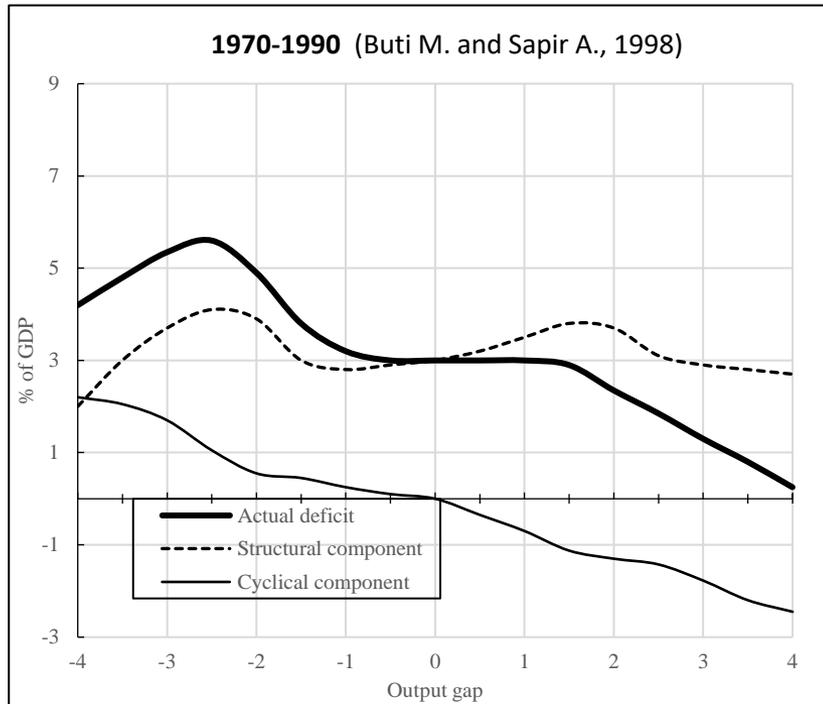


## 2. Have EU fiscal rules allowed economic stabilisation?

"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.

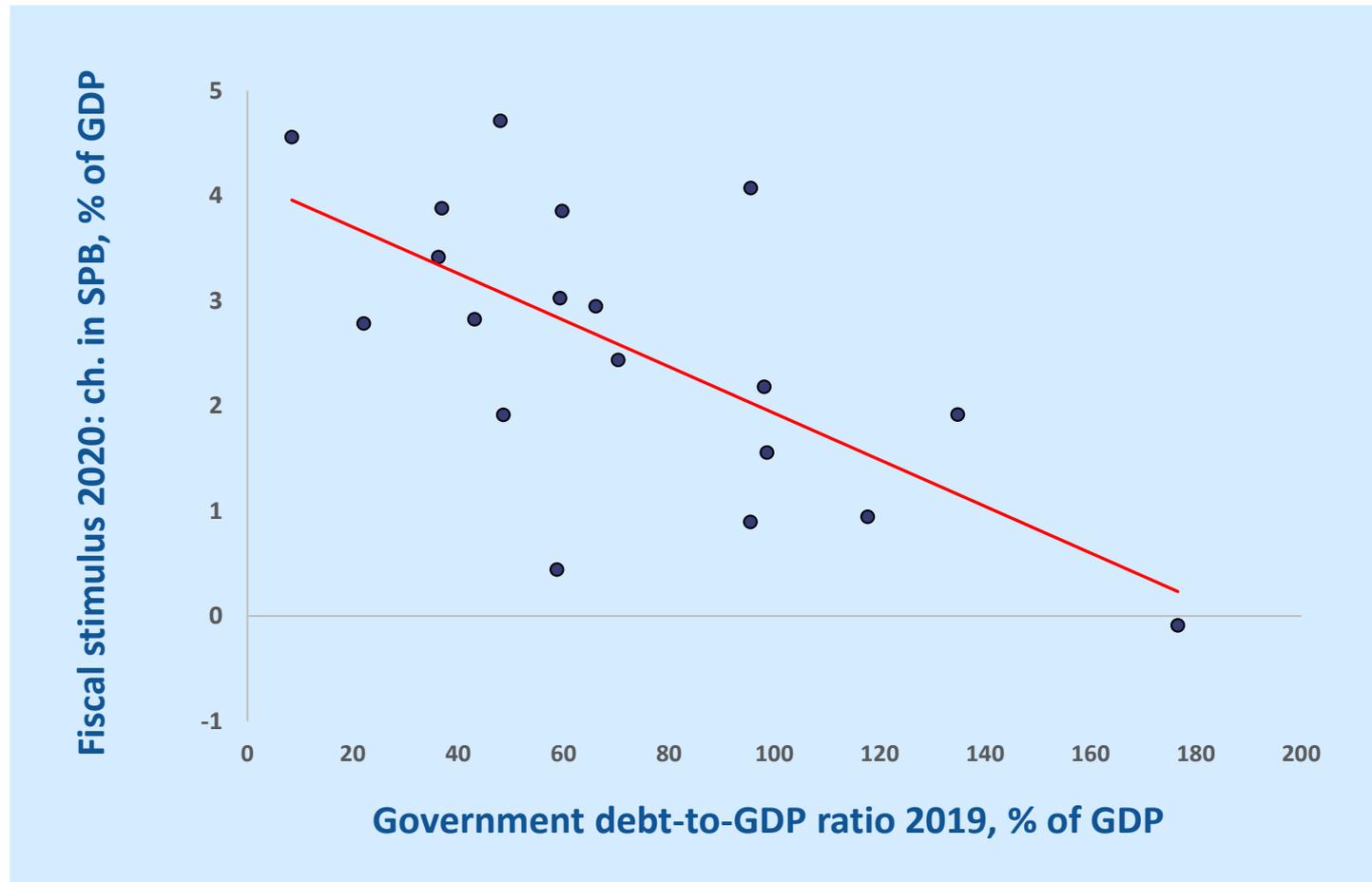
Larch, Orseau, van der Wielen (2021) Do EU fiscal rules support or hinder counter-cyclical fiscal policy? *Journal of International Money and Finance*, Vol 112.

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 <sup>o</sup> of observations	578	451	421	421
	N <sup>o</sup> 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

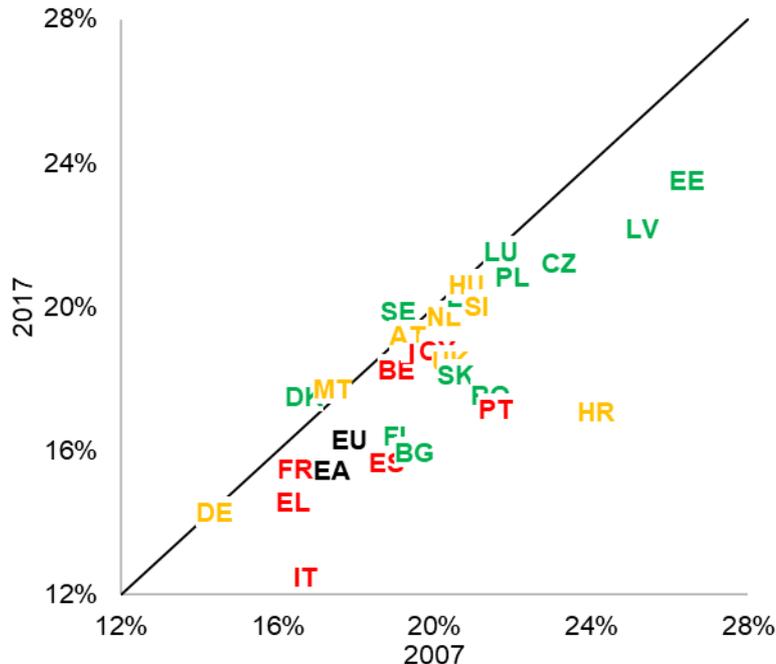
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### **3. Have EU fiscal rules improved the quality of public finances?**

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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

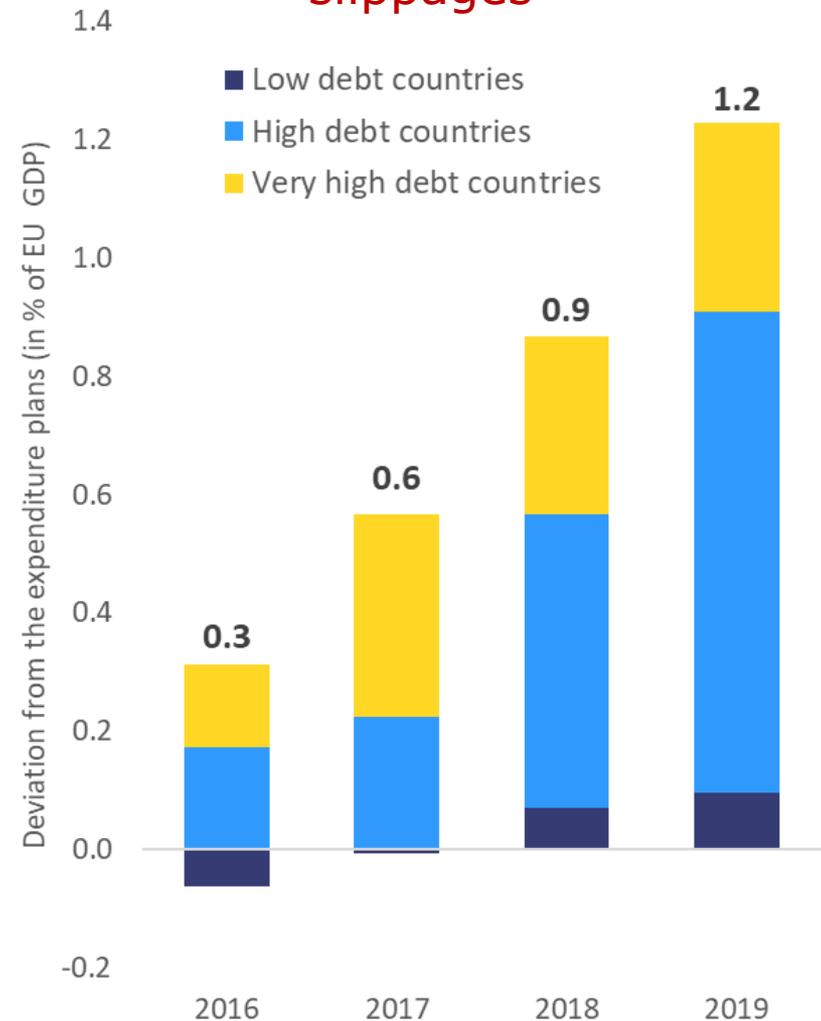
*Note: Productive public expenditure includes expenditure on R&D, education and transport (COFOG classification).*

→ **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%).

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## **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>**