



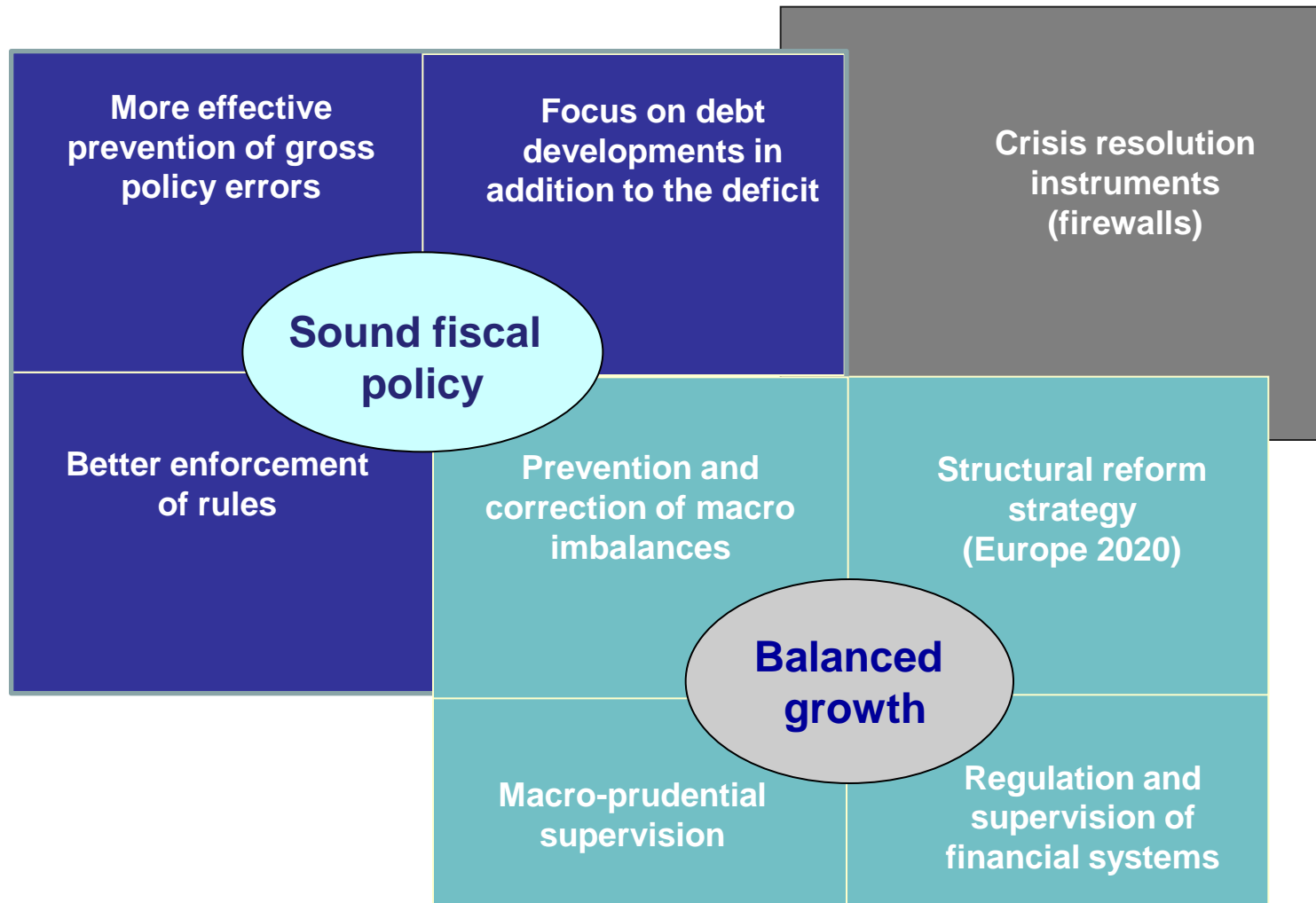
Recent Developments in fiscal governance in the EU

Lessons from the crisis: from the Six-Pack to the Fiscal Compact

The Crisis as an eye opener



A comprehensive EU response to the crisis



Enhanced economic and fiscal governance in the EU in three steps

The 1st step: the Six-Pack

A major reform for economic and fiscal governance in the EU

The 2nd step: the Two-Pack

A more stringent framework for the euro area

The latest step: the International Treaty

Mirroring EU rules at the national level

A key reform of economic governance

Fiscal rules

Prevention of gross policy errors:
introducing the concept of
expenditure benchmark

Focus on debt on top of deficit:
explicit benchmark for a sufficiently
diminishing debt ratio

Strengthening the national level:
Minimum requirements for budgetary
frameworks of the Member States

Enforcement

New sanction toolbox

Macroeconomic surveillance

New rules for the prevention and
correction of macroeconomic imbalances

Enforcement

New enforcement measures



Where did we stand?

- ✓ Central concept of the Stability and Growth Pact is the medium-term budgetary objective (MTO) = a numerical value for the structural deficit which ensures:
 - (i) a safety margin against breaching 3% of GDP;
 - (ii) sustainable public finances or rapid progress towards sustainability
 - (iii) room for stabilisation over the cycle
- ✓ Adjustment path towards MTO = 0.5% of GDP; more in good, less in bad times.
- ✓ Enforcement through peer pressure (Council recommendations).

The Six-Pack: Ensuring prudent fiscal policy



Lessons learned:

- Central concept is based on the structural balance, which is not observable → difficulties with estimates, time-lag, etc...
- No quantification of deviation, enforcement through peer pressure → lacks teeth

Innovation: a 2-pillar structure: an expenditure rule complementing the structural balance

= operational guidance for adjustment path towards MTO

Def: expenditure growth should not exceed a reference rate of potential GDP growth

- ✓ If significant deviations from the rule (= 0.5% of GDP in one or 0.25% of GDP on average in two consecutive years) → recommendation to correct + interest-bearing deposit for euro area MS
- ✓ Safeguard clauses: can deviate from the rule if unusual event or severe economic downturn for the euro area or the EU as a whole

The Six-Pack: Correcting fiscal imbalances



Where did we stand? Excessive deficit procedure only opened on the basis of the deficit criterion (3% of GDP)

Lessons learned: did not ensure decreasing debt-to-GDP ratio

Innovation: Operationalization of the "debt criterion"

= Numerical benchmark for sufficiently diminishing debt-to-GDP ratio

= distance with respect to the 60% of GDP Treaty reference value declines over 3 preceding years at an average rate of 1/20th per year

Or

= this required reduction will occur in forward-looking 2-year horizon, based on unchanged policy forecast.

- Effect of the cycle to be taken into account
- Non-respect of numerical benchmark for debt will not automatically result in the country being placed in EDP → overall assessment of relevant factors.

The Six-Pack: New sanctions toolbox



Step of the procedure	Sanction
Adjustment towards the MTO/expenditure rule not respected	Interest-bearing deposit 0.2% of GDP
Opening of the EDP	Non-interest-bearing deposit 0.2% of GDP
Failure to take effective action to correct the excessive deficit	Fine 0.2% of GDP
Repeated failure to take effective action to correct the excessive deficit	Fine 0.2% of GDP + variable component

The Six-Pack: improving national ownership



Where did we stand?

- ✓ Considerable variation in the quality of national fiscal framework
- ✓ Well-designed fiscal frameworks can substantially contribute to sound fiscal policies
- ✓ EU budgetary framework insufficiently entrenched in national frameworks

Lessons learned: Need for strengthening national ownership and having uniform requirements as regards the rules and procedures forming the budgetary frameworks of the MS

Innovation: minimum characteristics for national budgetary frameworks

- ✓ Accounting and statistical reporting
- ✓ Rules for preparation of the forecasts for budgetary planning
- ✓ Country-specific numerical fiscal rules
- ✓ Budgetary procedures
- ✓ Medium-term budgetary frameworks
- ✓ Independent monitoring and analysis
- ✓ Regulation of fiscal relationships between public authorities across sub-sectors of general government
- ✓ Implementation by end-2013 but euro area political commitment to transpose by end-2012



A more stringent framework for the euro area

Enhanced monitoring

Common provisions for

- *monitoring and assessing draft budgetary plans and*
- *ensuring the correction of excessive deficits of Member States in the euro area*

Enhanced surveillance for financially fragile MS

Strengthening of economic and budgetary surveillance of Member States

- *experiencing or*
- *threatened with serious difficulties with respect to their financial stability in the euro area*

The Two-Pack: A more stringent framework for the euro area



Rationale/lessons learned

Enshrining core principles of European framework in national framework to increase ownership

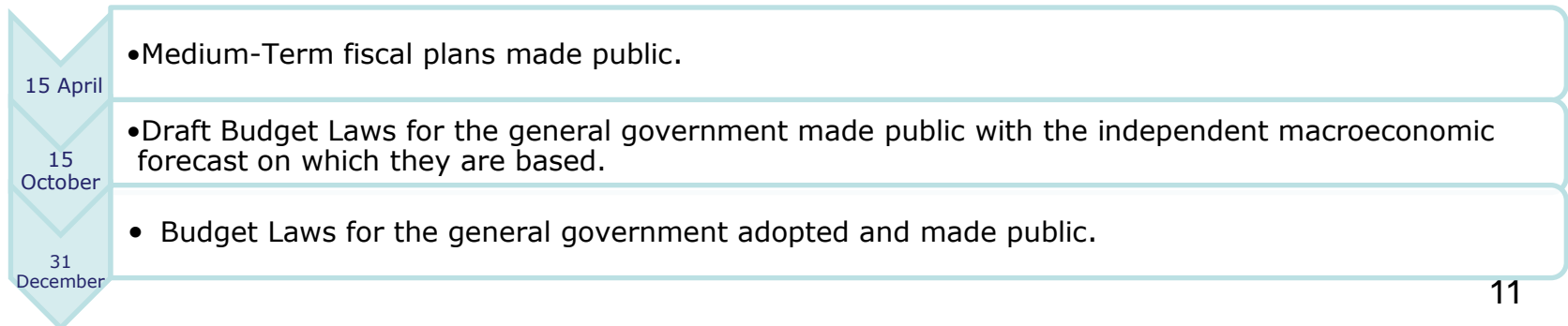
Better synchronizing key steps in preparation of national budgets

Innovation

Common Budgetary Rules

- Numerical fiscal rules on budget balance implementing MTOs in national budgetary processes
- Monitoring institution (fiscal council)
- Independent macroeconomic forecast

A Common Budgetary Timeline





Rationale/lessons learned

Ensuring appropriate integration of EU policy guidance in the national budgetary preparations:

- *Equip the national Parliaments with an independent assessment*
- *Allow an assessment of the overall situation*

Securing a timely and durable correction of excessive deficits

Innovations

Draft budgetary plans submitted before 15 October

•COMMISSION

→ might request a revision of the draft in case of serious breach of European rules

→ Opinion if necessary

•Ministers of finance => discussion based on an overall assessment

Closer monitoring for Member States in EDP

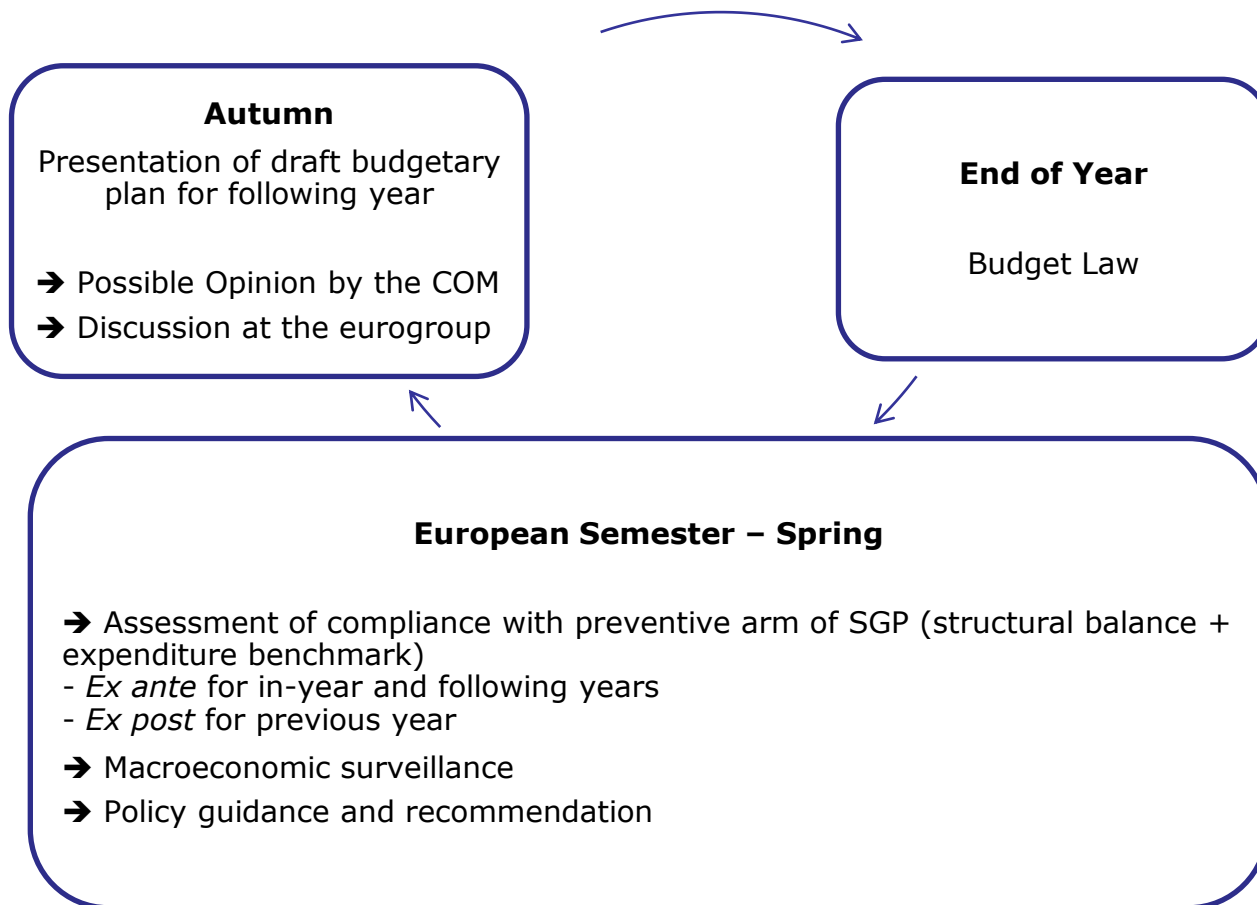
•comprehensive and regular reporting including audit of quality of statistics

•Any additional information on a request from the COM

•In case of risk of non-compliance with the deadline for correction → additional recommendations



The new fiscal governance framework in the euro area: scenario for a Member State compliant with all rules



The Latest step: the International Treaty



25 Member States (all but CZ, UK)

Entry into force requires ratification by 12 euro area MS (Greece, Portugal, Slovenia and Poland have already ratified – Irish referendum on 31 May)

3 main chapters:

Economic Policy Coordination

- Coordination of major economic policy reform plans in euro area MS
- Coordination of debt issuance plans

Reinforced Governance

- Euro Summit meetings shall take place at least twice a year
- Appointment of a President of the Euro Summit (by Heads of State or Government of euro area)

and... the Fiscal Compact

The Fiscal compact: Mirroring EU rules at national level



General government budget shall be balanced or in surplus

- Implementation of the EU medium-term objectives (MTOs) at national level
- Automatic correction mechanism triggered when significant deviations from the objective (as in the SGP) surveyed by independent institutions
- ... but deviation allowed in case of "exceptional circumstances" (as in SGP)

Reinforcement of the correction of fiscal imbalance

- Change in the voting rule
- Economic partnership programme to ensure a durable effective correction of excessive deficits through implementation of structural reforms

Enforcement

- rules in national law through provisions of "binding force and permanent character, preferably constitutional"
- If MS fails to transpose properly, the matter will be brought to EU Court of Justice (possibility of financial sanction of up to 0.1% of GDP)
- Compliance with the national rule monitored at the national level by independent institutions



Commission
européenne

Thank you