



# SESSION III: NEW RULES FOR EMU

"The good, the bad and the ugly"

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**Discussion**

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# Outline

- I. Summary of the paper.
- II. The European Fiscal Framework against the K-S criteria: our own assessment.
- III. An evaluation of the paper's proposals.
- IV. The European Fiscal Framework in a snapshot (really).

# I. SUMMARY OF THE PAPER



- Discusses the European Fiscal Framework (SGP + Fiscal Compact), following a long tradition: *Kopits – Symansky* criteria.
- Puts forward a set of proposals: from the very detailed to the very sweeping.

## II. EFF AGAINST K-S: OUR ASSESSMENT

L.O. (-)

### 1. Well-defined

L.R.P. (neutral)

- *SB is an unobservable variable*

- *Raw  $\Delta SB$  not so central.*
  - **'Corrected'  $\Delta SB$  is stable**
- *But other variables may be in need of more definition*
  - **DRM, 'good' or 'bad' economic times**

L.O. (+)

### 2. Transparency

L.R.P. (neutral)

- *EFF promoted transparency at national level*

- *More doubts about transparency at EU level: operationalization not always straightforward (e.g. DRM)*

L.O. (--)

### 3. Simplicity

L.R. P. (--)

- *EFF very complex*

- *Cannot claim differently: however, transparency is a good counterbalance.*

L.O. (+)

### 4. Flexibility

L.R. P. (+)

- *The new EFF serves the flexibility requirement relatively well*

- *The history of the Pact is a quest for constrained flexibility.*
  - **Flexibility without discretion implies high complexity**

## 5. Adequacy

L.O. (neutral)

L.R.P. (+)

- *60% debt: too high*
- *MTO not necessarily adequate for sustainability*
- *EB and SB in contradiction*

- *The two arms of the SGP are complementary*
- *Pension debt  $\neq$  public debt*
- *EB meant to remedy weaknesses identified in the SB*

## 6. Enforceability

L.O. (-)

L.R.P. (?)

- *Sanctions should be more automatic.*
- *Sanctions in the preventive arm should be harsher*

- *Latest reforms:*
  - **More automaticity**
  - **Graduated response**
- *Political viability of sanctions to be tested.*

**L.O.** (-)

## 7. Consistency

**L.R.P.** (neutral)

- *Inconsistencies between the SGP and the Fiscal Compact*

- *There is basic consistency between the two, except for secondary aspects.*

**L.O.** (neutral)

## 8. Efficiency

**L.R.P.** (neutral)

- *EFF not enough catalyst for fiscal and structural reforms*

- *MTO incentivises reforms on pension system.*
- *Should fiscal rules encourage other types of reforms?*
  - **Lack of transparency and moral hazard**

## III. AN EVALUATION OF THE PAPER PROPOSALS

1. Get rid of some of the fiscal rules
  - Some simplification is possible but it is wrong to target the EB and fixate on the debt level.
2. Improve the definition of one-offs
  - More transparency is indeed needed.
3. Link the SGP and MIP via the output gap
  - Direct procedural link between SGP and MIP is problematic. They serve different purposes.
  - SO is an additional indicator of sustainability.
4. Medium-term targets based on sustainability
  - Debatable: pension debt is not like public debt.
5. Restore the credibility of the no-bail-out clause
  - Outside the scope of the fiscal rules.



6. Encourage nominal expenditure ceilings
  - Composition of the adjustment is a sovereign choice.
7. Abolish or redefine the investment clause
  - The investment clause is not a lasting feature of the EFF.
8. Use the estimate of the SB in ending EDP
  - The Treaty states that abrogation is linked to a 3% nominal deficit.
  - Besides, it would raise a problem of observability.
9. More RQMV
  - This would require changes in the Treaty.
  - The TSCG already implements this for its signatories.
10. Involve IFIs in evaluating effective action
  - Useful input but need to preserve respective responsibilities.

## 11. Move away from the 60% debt threshold

- Difficult to find a one-size-fits-all new level.
- No pre-emption of more ambitious national targets.

## 12. Increase the severity of sanctions in the preventive arm

- Treaty base (Art. 121) problematic.

## 13. Increase the incentives for reforms in bad times.

- This risks decreasing transparency and promoting moral hazard; possible inconsistency with the TSCG.

## 14. Introduce professional requirements for IFI members

- Principle of competence already enunciated by the Commission.

## 15. Equal treatment across Member States

- Linked to the increase in transparency.

# IV. THE EUROPEAN FISCAL FRAMEWORK IN A SNAPSHOT

