

An Assessment of the EU Fiscal Framework

George Kopits

**Panel Session at the
20th Banca d'Italia Workshop on Public Finance
Rome, March 21-23, 2018**

Evaluation of the SGP

Basis: criteria of good practice

Criterion	Original version	Present version
Definition	+++	+++
Transparency	+++	++
Simplicity	++	
Flexibility	++	+++
Adequacy	++	++
Enforceability	++	+
Consistency	++	++
Efficiency	++	++

Key: +++ very good; ++ good; + fair.

Options for reform

1. *Consolidation of SB/MTO and debt reduction*

[roots: Sweden, Brazil]

- **Convergence to debt reference value**

$$d_n^* < d_t \quad \rightarrow \quad s_t^* \geq \left(\frac{r-g}{1+g} \right) d_{t-1} + \Delta d_t^*$$

- **Retain expenditure benchmark**
- **Commission: technical surveillance role only**
- **Council: political role, policy recommendations**
- **Junior sovereign bonds to finance unjustified excess deficits**

Options for reform

2. *Operational real debt rule*

[roots: Hungary, US]

- Convergence to (nominal) debt reference value

in year t:
$$S_{t+3}^* = r_{t+3}^f D_{t+2}^f + \Delta D_{t+3}^*$$

in year t+1:
$$B_{t+3}^* \geq S_{t+3}^* - M_{t+3}^f$$

- Commission: technical surveillance role only
- Council: political role, policy recommendations
- Junior sovereign bonds to finance unjustified excess deficits

Options for reform

3. Market-based autonomous approach

[roots: Canadian, Swiss, US subnational gov'ts]

- **Member states choose own national fiscal rules**
- **IFIs: monitoring compliance with national rules**
- **Commission: overall surveillance and guidance**
- **Effective enforcement of no-bailout principle**

References

- Buti, M., and G. Giudice (2002) “Maastricht Fiscal Rules at Ten: An Assessment,” *Journal of Common Market Studies*, vol. 40.
- Fuest, C., and F. Heinemann (2017) “Accountability Bonds: Reconciling Fiscal Policy Based on Market Discipline with Financial Stability,” *Economic Policy Brief*, vol. 1.
- Kopits, G., and S. Symansky (1998) *Fiscal Policy Rules*, IMF Occasional Paper 162
- Kopits, G., and B. Romhanyi (2013) “Hungary: A Short-Lived Watchdog” in G. Kopits, ed., *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*, Oxford University Press.
- Kopits, G. (2017) “Managing the Euro Debt Crisis” in L. Odor, ed., *Rethinking Fiscal Policy after the Crisis*. Cambridge University Press.