

A little less conversation A little **more action**, please

George Kopits

**Banca d'Italia Workshop on the EU Fiscal Governance Framework
Rome, October 11, 2022**

Overview

- **Urgent steps toward closer fiscal union**
- **Further reform of the SGP**

Urgent steps toward closer fiscal union

Basic rationale, background

- **Subsidiarity principle** per Maastricht Treaty
- **Drivers:** pandemic crisis
Russian military threat
energy crisis
climate change
- **Initial response:** fragmentary, at national level

Urgent steps toward closer fiscal union

Central EU budget: existing facilities

- Limited, allocated to specific tasks (SFs, CFs, CAP, etc.),
financed from dedicated indirect EU-wide taxes
- RRF in response to pandemic crisis,
financed from Eurobonds

Central EU budget: pending functions?

- Consolidated defense and security
- Support of common energy strategy
- Support of joint environmental protection
- Macro-stabilization facility to offset multi-country shocks
- To be financed from dedicated EU taxes plus Eurobonds

Further reform of the SGP

Some myths about SGP

- Excessively stringent, rigid?
Non-compliance (120 since inception) was never penalized
- Fiscal rules are growth-unfriendly and procyclical?
Experience: fiscal rules favor both growth and stability

Further reform of the SGP

Experience of compliance with fiscal rules

	Effective Date	Growth		Volatility	
		Own	Comparator	Own	Comparator
New Zealand	1994	2.8	2.1	0.5	0.7
Poland	1998	3.8	3.3	0.4	0.7
Sweden	1998	2.3	1.5	1	1.2
Austria (€)	1998	1.7	1.5	1	1.2
Belgium (€)	1998	1.7	1.5	0.7	1.2
Estonia (€)	1998	5.4	3.3	0.5	0.7
Finland (€)	1998	1.8	1.5	1.6	1.2
Ireland (€)	1998	5.5	1.5	1	1.2
Luxembourg (€)	1998	3.7	1.5	0.8	1.2
Netherlands (€)	1998	1.7	1.5	1.1	1.2
Spain (€)	1998	2.1	1.5	1.2	1.2
Chile	2000	3.4	2.5	0.6	0.9
Peru	2000	4.8	2.5	0.5	0.9
Norway	2001	1.6	1.1	0.8	1.7
Switzerland	2002	1.8	1.2	0.8	1.5

Further reform of the SGP

Proposal: Market-based approach

- Reference values (deficit, debt) become indicative
- Formal penalties for non-compliance are abandoned
- No-bailout clause reaffirmed
- Member governments adopt own rules and IFIs
- Commission, EFB: technical assistance and surveillance
- Council: policy advisory role, control over EU budget

References

- Beetsma, R., and G. Kopits [2020] “Is the EU Ready to Truly Apply the Subsidiarity Principle?” VoxEU, CEPR Portal (June 15)
- Beetsma, R., and G. Kopits [2022] “Designing a Permanent EU-Wide Stabilization Facility” CESifo Working Paper 8735; forthcoming in D. Adamski, et al., eds., *Handbook on European Monetary, Economic and Financial Market Integration*, Cambridge University Press.
- Kopits, G. [2017] “Toward a Closer Union in Europe: Elusive Mirage or Reality within Grasp?” in N. Costa Cabral and others, eds., *The Euro and the Crisis: Future Perspectives for a Monetary and Budgetary Union*, Springer International.
- Kopits, G. [2017] “Managing the Euro Debt Crisis” in L. Odor, ed., *Rethinking Fiscal Policy after the Crisis*, Cambridge University Press.
- Kopits, G. [2018] “How Could the Stability and Growth Pact be Simplified?” Economic and Monetary Policy Committee, European Parliament.