

European Fiscal Board

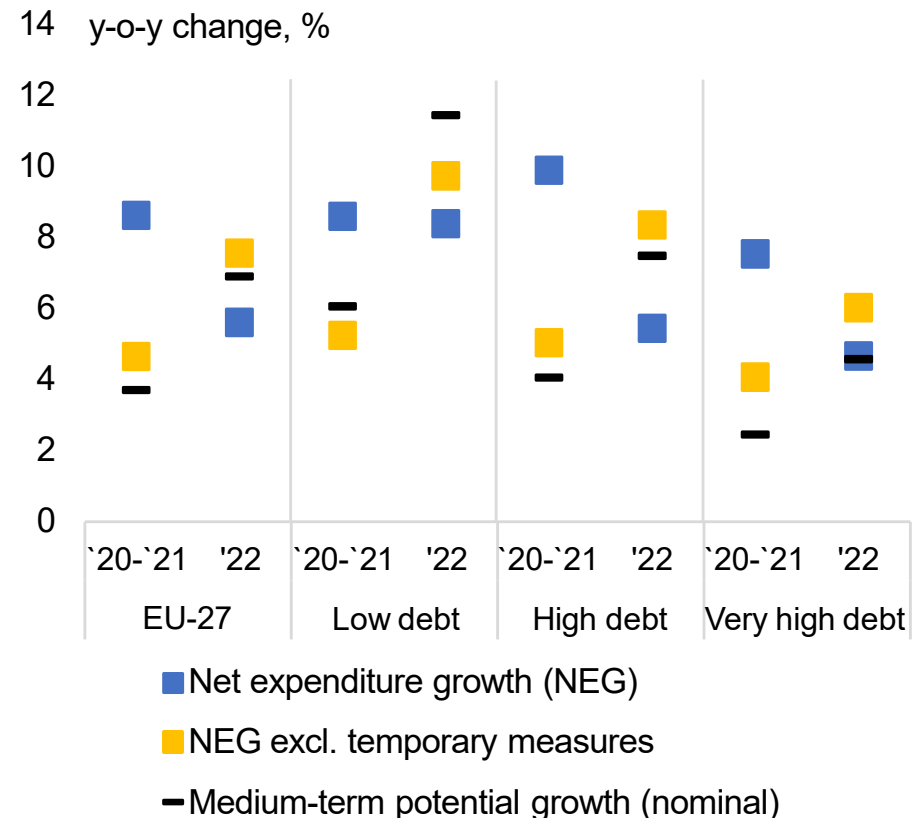
**Panel discussion Sixth ECB biennial conference on
fiscal policy and EMU governance**

**Roel Beetsma, Dean UvA and Member EFB
r.m.w.j.beetsma@uva.nl**

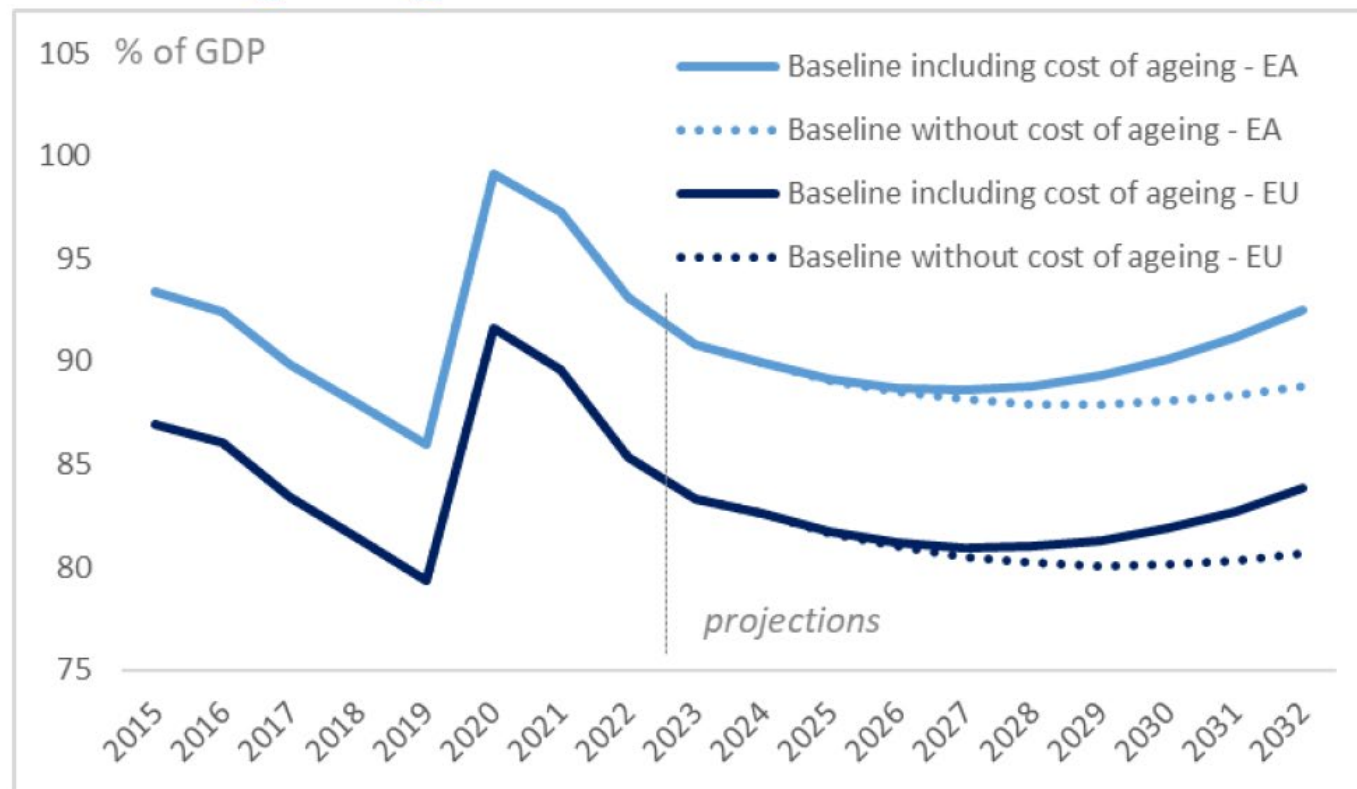
...worrying underlying expenditure trends persist

- **Net expenditure growth slowed:** Covid support measures phased out and smaller energy support measures phased in
- However, excluding temporary measures (Covid, energy) **expenditure growth accelerated**
- In **high and very high debt countries** underlying **expenditure grew well above prudent benchmark rate**, although latter almost doubled due to inflation

Net expenditure growth



Baseline debt projections with and without cost of ageing



Source: 2023 European Commission spring forecast and 2021 Ageing Report 2021

Economic governance review:

- Governments should agree on a reform
- Otherwise, old rules will apply as of 2024
 - Additional safeguards increase complexity and do not necessarily increase credibility
- Enforcement will be key:
 - Needs to be applied early on to be credible
 - When will debt-based EDP be opened, and what is role of other relevant factors and compensation account?

Economic governance review:

- Potential to extend adjustment period may water down enforcement based on numerical criteria, e.g. role of investment and reform as other relevant factors?
- Can revised rules be designed to stimulate green investments?
 - Danger of “green washing”
 - Sustainability is based on comprehensive budget

Alternative proposal Bakker-Beetsma, VoxEU, Nov. 3

<https://cepr.org/voxeu/columns/eu-wide-investment-conditional-adherence-fiscal-structural-plans> :

- EU Fund dedicated to investments with cross-border benefits (e.g., hydrogen, high-speed trains)
- Countries have an envelope within fund
- Conditional on adherence to fiscal rules, they can draw (joint with other “virtuous” countries) resources from fund for investments that benefit multiple countries
- Failure to come up with good plans or to adhere to the fiscal rules will lead the remainder in envelope to be redistributed over the other envelopes
- Two benefits: incentive for fiscal discipline and encouraging investments with public good character

Need for completion CMU

- Huge needs for investments in digital and energy transition
- At the same time aggregate savings will fall with the progression of the demographic trend towards more retirees, who dissave
- Ceteris paribus fewer savings will be available for more investment needs
- savings need to be channeled where their positive contribution to welfare and well-being is highest

Role of the Independent Fiscal Councils and EFB

- Reformed EU fiscal framework relies more on “national ownership”
 - Gov. need come up with own fiscal-struct. plan
 - National IFIs larger role in fiscal surveillance
 - Makes sense: have more info about national economy and political process than COM
- Important: timing between IFI and COM assessment
 - Once COM has spoken, IFI has lost its leverage
 - Ideally, IFI provides COM with assessment before COM assesses budget and proposed fisc-str plan

Are IFIs up to their tasks?

- Surveys suggest mostly yes for *current* tasks
- Always some are struggling
- Minimum standards (resources, timely access to info, comply-or-explain, etc.) essential
- IFI's not always loved by Ministries of Finance – not surprising, you do not love your critics
- Even governments from countries with a strong discipline culture do not want them strengthened
- Even though they would benefit from more discipline elsewhere
- Role for COM (tried in 2017; new opportunity now)

On the EFB:

- Can play useful role in revised framework
- Can consist of current roles plus
 - assess the technical trajectories and the agreed fiscal-structural plans across countries in a horizontally comparable way across countries
 - Analyse and give an advice on invoking general escape clause
 - EFB could give a view on whether the application of the national escape clauses is done in a horizontally consistent way

Thank you for your attention

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