Reforming the EU's fiscal rules: Debt sustainability analysis (DSA) as an anchor

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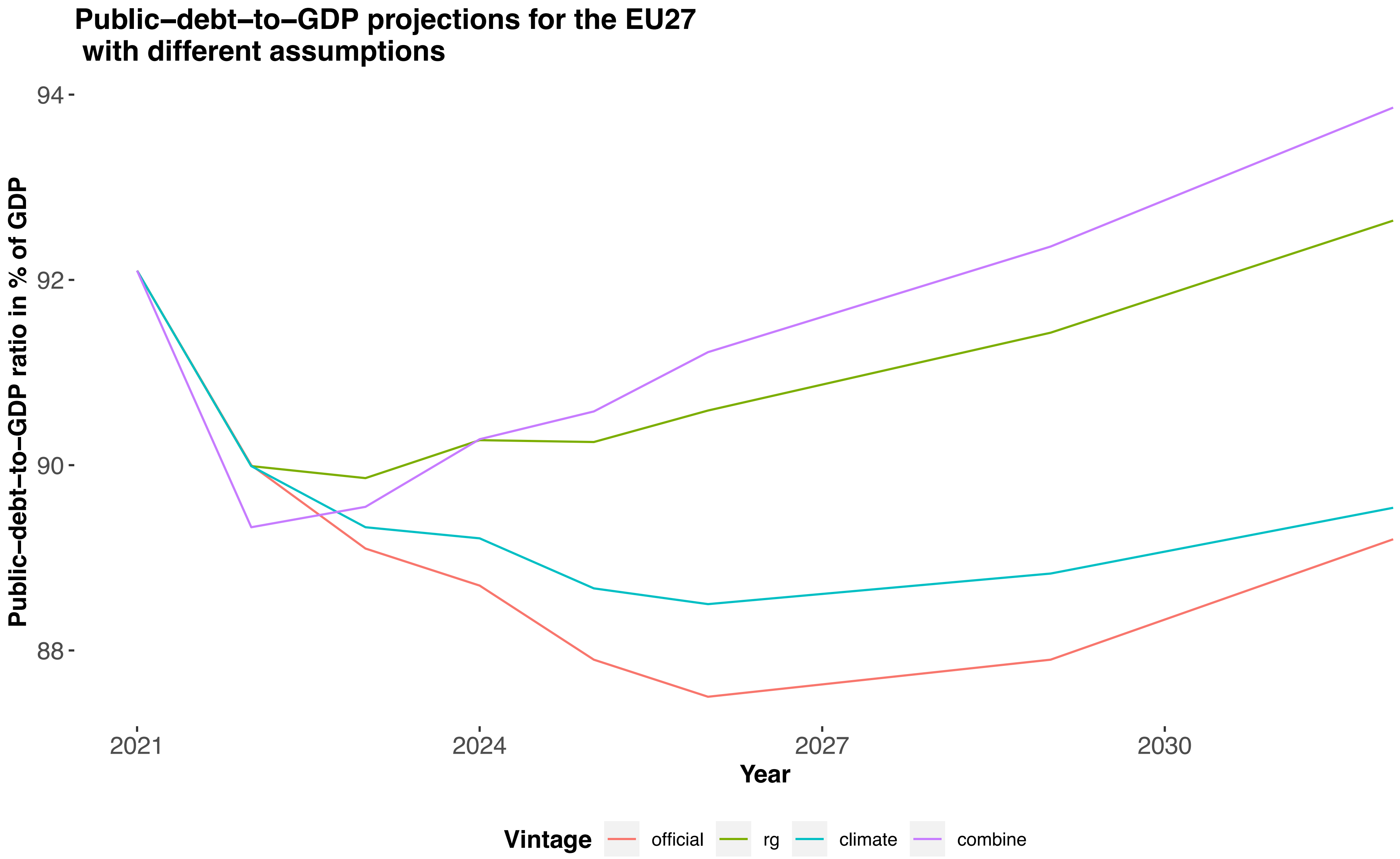
Reform of EU fiscal rules according to the European Commission orientations: DSAs as an anchor

National ownership embedded in EU framework	Simplification and focus on fiscal risks	Enforcement
0. Commission puts forward reference adjustment paths 1. Member States propose medium-term fiscal-structural plans 2. Annual budgets will commit to follow the fiscal trajectory and ensure that debt will start converging to prudent levels within the adjustment period 3. Member States can request a longer adjustment period underpinned by reforms and investments 4. Council endorsement of the plan 5. Stronger role of national IFIs	1. Net expenditure path anchored on debt sustainability and agreed by Council will be the single fiscal indicator 2. Surveillance and enforcement will be risk-based 3. Debt reduction benchmark, benchmark for reduction in structural balance, significant deviation procedure and matrix of requirements no longer exist	1. Deficit-based EDP (3% of GDP threshold) maintained 2. Debt-based EDP will be operationalised and strengthened, as a tool to ensure compliance with the agreed net expenditure path 3. Financial sanctions toolbox will be enriched with smarter sanctions 4. Macroeconomic conditionality will be maintained

Reforming the EU's fiscal rules with DSAs as an anchor

- **Four important aspects for upcoming reform debates**
  - making judgement calls with regard to DSA assumptions
  - ensuring transparency and democratic legitimacy
  - promoting public investment in the context of climate goals
  - tackling cross-border effects of fiscal policy

Judgement calls: the role of assumptions

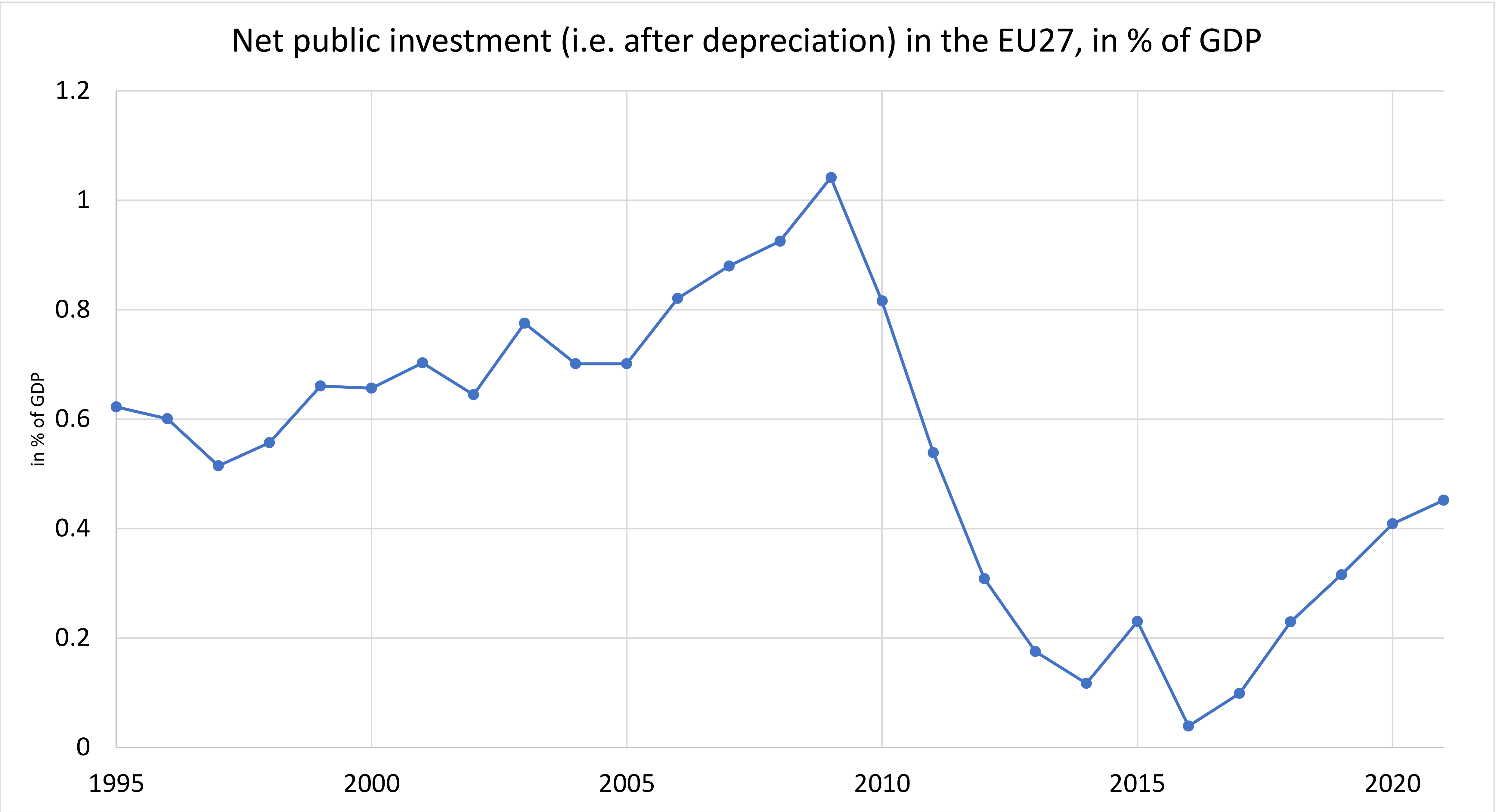


Source: European Commission (2022): Fiscal Sustainability Report 2021; own calculations.

Ensuring transparency and democratic legitimacy

- All relevant data and code files should be **publicly available**
- **Debates in the ECON Committee** of the European Parliament on the plausibility of the main **DSA assumptions**
- Commission could approve member states' fiscal-structural plans by **delegated act**
  - The European Parliament and the European Council would then both have the possibility to overturn the decision within a predetermined period of time
- **National parliaments** could be involved after the respective government has negotiated expenditure plans with the Commission based on DSA inputs

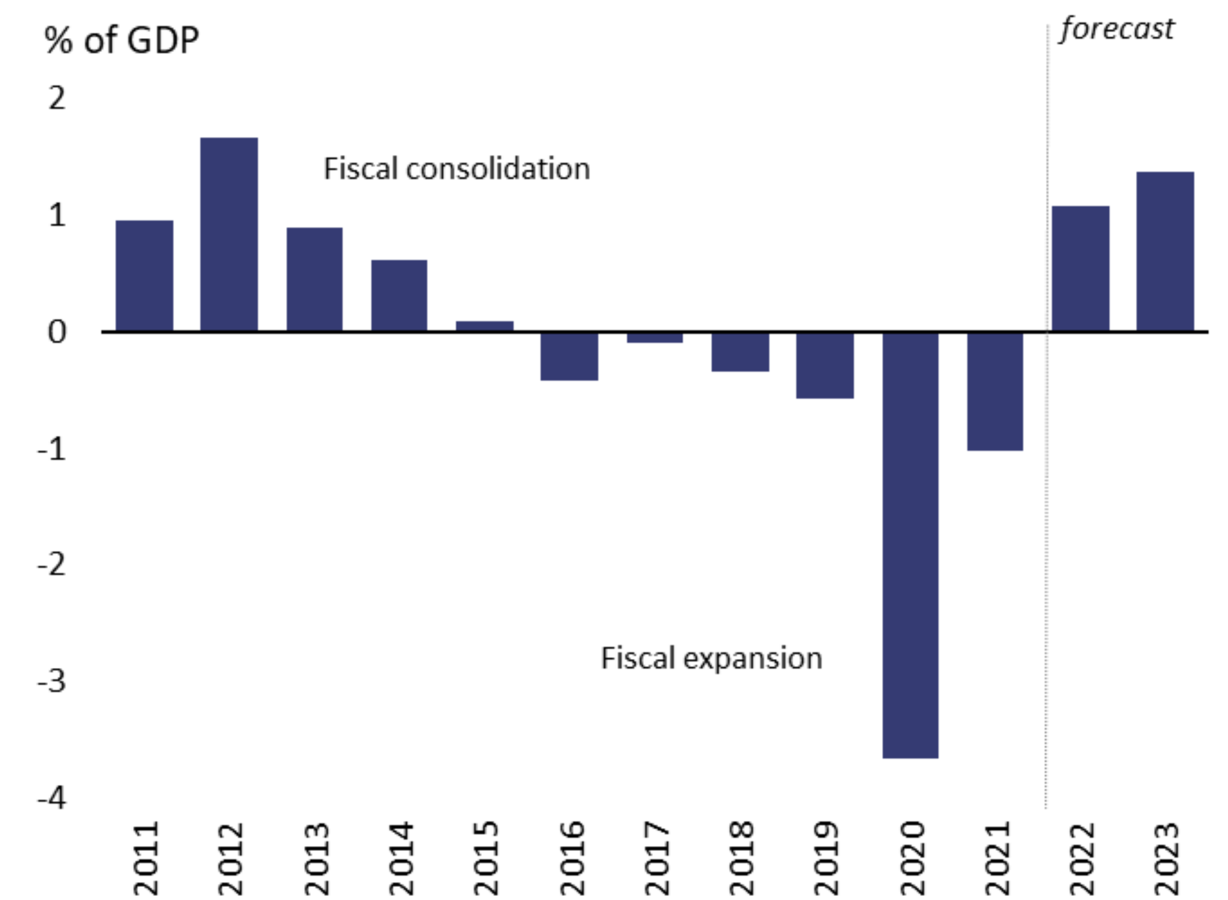
Public investment has to increase considerably to meet climate targets. Will this be compatible with a focus on falling debt ratios?



Source: European Commission (AMECO).

Individual fiscal paths derived from the European Commission's debt sustainability analysis need to make sense for the euro area as a whole.

Graph 2.5: Fiscal impulse as measured by net government expenditure growth relative to medium-term potential growth; euro area aggregate



Source: European Commission, own calculations.
Note: The graph shows the difference between net expenditure growth and medium-term potential growth (see glossary); it is multiplied by the share of expenditure in GDP to be expressed in % of GDP. If net expenditure growth exceeds medium-term potential growth, the fiscal impulse is considered expansionary.

Source: European Fiscal Board (2022).

Conclusions

- The European **Commission's power** would increase significantly
- **Additional safeguards** required
  - Transparency and democratic legitimacy
  - Public investment
  - Cross-border effects of fiscal policy
- Importance for **CESEE countries**
  - Currently lower public debt ratios, but:
  - Additional spending: investment in green industries, ageing population

Thank you for your attention.

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