



Center for Social and Economic Research

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**Macroeconomic Surveillance
within the EU**

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Two components of EU Economic Governance Packages (according to Commission' proposal)

- Changes and amendments to the Stability and Growth Pact (SGP)
- Prevention and correction of macroeconomic imbalances within the EU and EMU



Importance of EU-wide fiscal discipline

- Fiscal crisis in most of EU countries and outside
- ... may hurt growth prospects and key objectives of Europe-2020 Strategy
- Fiscal laxity in any individual member state may cause macroeconomic destabilization within entire EU and outside (regardless of EMU membership)
- \Rightarrow Fiscal stability can be considered as global/
European public good
- Proposals to strengthen SGP are going in the right direction although do not offer a radical change



Europe: Gross debt to GDP, in %, 2004-2009

Region/ Country	2004	2005	2006	2007	2008	2009
EU-27	62.2	62.7	61.4	58.8	61.6	73.6
Euro area	69.5	70.1	68.3	66.0	69.4	78.7
Austria	64.8	63.9	62.2	59.5	62.6	66.5
Belgium	94.2	92.1	88.1	84.2	89.8	96.7
Bulgaria	37.9	29.2	22.7	18.2	14.1	14.8
Czech Republic	30.1	29.7	29.4	29.0	30.0	35.4
Cyprus	70.2	69.1	64.6	58.3	48.4	56.2
Denmark	44.5	37.1	32.1	27.4	34.2	41.6
Estonia	5.0	4.6	4.5	3.8	4.6	7.2
Germany	65.7	68.0	67.6	65.0	66.0	73.2
Greece	98.6	100.0	97.8	95.7	99.2	115.1
Hungary	59.1	61.8	65.6	65.9	72.9	78.3
Ireland	29.7	27.6	24.9	25.0	43.9	64.0
Finland	44.4	41.8	39.7	35.2	34.2	44.0
France	64.9	66.4	63.7	63.8	67.5	77.6
Italy	103.8	105.8	106.5	103.5	106.1	115.8
Latvia	14.9	12.4	10.7	9.0	19.5	36.1
Lithuania	19.4	18.4	18.0	16.9	15.6	29.3
Luxembourg	6.3	6.1	6.5	6.7	13.7	14.5
Malta	72.1	70.2	63.7	61.9	63.7	69.1
Netherlands	52.4	51.8	47.4	45.5	58.2	60.9
Poland	45.7	47.1	47.7	45.0	47.2	51.0
Portugal	58.3	63.6	64.7	63.6	66.3	76.8
Romania	18.7	15.8	12.4	12.6	13.3	23.7
Slovakia	41.5	34.2	30.5	29.3	27.7	35.7
Slovenia	27.2	27.0	26.7	23.4	22.6	35.9
Spain	46.2	43.0	39.6	36.2	39.7	53.2
Sweden	51.3	51.0	45.7	40.8	38.3	42.3
UK	40.6	42.2	43.5	44.7	52.0	68.1
Iceland	:	26.0	27.9	29.1	57.4	:
Norway	45.6	44.5	55.3	52.4	49.9	43.7

Note: Blue fields indicate countries where the public debt to GDP ratio increased by 15 percentage points or more in the period of 2007-2009

Source: Eurostat

www.case-research.eu



G7: Gross public debt to GDP, in % (2005-2015)

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Canada	70.3	68.7	64.2	70.4	81.6	82.3	80.9	78.7	76.2	73.4	70.5
France	66.3	63.7	63.8	67.5	77.4	84.2	88.6	91.6	93.2	94.3	94.8
Germany	68.0	67.6	65.0	65.9	72.5	76.7	79.6	81.4	82.1	82.0	81.5
Italy	105.8	106.5	103.4	106.0	115.8	118.6	120.5	121.6	122.8	123.9	124.7
Japan	191.1	190.1	187.7	198.8	217.6	227.3	234.1	240.1	244.0	246.7	248.8
UK	42.1	43.2	44.1	52.0	68.2	78.2	84.9	88.6	90.2	90.7	90.6
US	61.6	61.1	62.1	70.6	83.2	92.6	97.4	100.7	103.5	106.4	109.7

Source: IMF WEO Database, April 2010



The preventive arm of SGP (Art. 121 of TFEU)

- Expenditure rule: limitation of the annual rate of expenditure growth to “...*a prudent medium-term rate of growth of GDP*” (below this rate if a country fails to comply with medium term target of a close-to-balance fiscal position) unless the excess of expenditure growth is matched by discretionary measures on the revenue side
- The European Semester (in respect to SGP and BEG)



The corrective arm of SGP (Art. 126 of TFEU)

- Debt criterion: countries with debt $> 60\%$ of GDP should converge towards this level with an annual rate of at least one-twentieth of the difference over the previous three years
- EDP: stronger and less discretionary financial sanctions (“reverse voting” mechanism) but limited to EMU members
- German proposal of suspending the voting rights



National fiscal rules (draft Directive)

- increasing the level of fiscal transparency and predictability at the national level;
- increasing quality and reliability of fiscal forecasting and planning;
- extending planning horizon to at least three years;
- ensure the coverage of all subsectors within general governments;
- set national numerical fiscal rules (compatible with the Treaty and SGP provisions)
- set up independent budgetary offices or fiscal policy councils



Crisis resolution mechanism

- Replacing the temporary European Financial Stabilization Mechanism (limited to Euro area) by a permanent one (after May 2013)
- Mechanism of sovereign bankruptcy involving private sector participation
- Consistency with Article 125 of TFEU
- Moral hazard problem



Excessive Imbalance Procedure

- Doubtful conceptual foundations
 - in the world of free capital movement CA imbalances remain outside direct influence of economic policy, especially within a single currency area;
 - symptom of other types of imbalances/ distortions rather than cause of the problems itself;
 - assumption of fixed residence of capital owners
 - unclear policy responses (capital controls?)
- Highly arbitrary and discretionary procedure
 - Commission is to elaborate “...an indicative scoreboard as a tool to facilitate early identification and monitoring of imbalances”
 - Lack of exact numeric criteria of “excessive imbalances”, the speed of required adjustment, adjustment measures, etc.

