COM fiscal (debt) sustainability analysis: use and dissemination

Stéphanie Pamies Sumner
European Commission
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• General considerations: DSA functions in the EU context
• COM DSA: use and dissemination for regular & post-programme surveillance
General considerations: DSA functions in the EU context

Fostering sustainability – the EU context
The right tool for the job(s) – conceptually

**Integrated tool**
- Integrates all aspects
- Covers broad range of issues

**Common tool**
- Coordinated and clear dialogue across many stakeholders
- Shared ownership

The right tool – in practice

**DSA tools should consider trade-offs:**
- Complexity vs clarity (communication effectiveness)
- Mechanical vs qualitative assessment
  - *Standardised / mechanical approach increases transparency*
  - *Yet, importance of judgement to interpret appropriately the results*

✓ **Solution:** Provide a clear overall assessment + detailed information (enhanced analysis) + account for qualifying factors
COM fiscal (debt) sustainability analysis: a multi-purpose tool
- Use and dissemination for regular and post-programme surveillance

Fiscal sustainability in the EU, an evolving challenge

- 2000-01: First long-term budgetary projections (costs of ageing)
- 2006: First COM Sustainability Report (FSR)
- 2009: Global financial crisis
- 2010-12: EA sovereign debt crisis
- 2005: First reform of the SGP
- 2009: Global financial crisis
- 2011: First Debt Sustainability Monitor (internal report)
- 2011: "Six-Pack" (including MIP)
- 2012: FSR integrating EWS & risk-based approach
- 2012-13: TSCG and "Two-Pack"
- 2015: FSR fully integrating DSA
- 2017: First release of the DSM (annual publication)
- 2013: new IMF MAC DSA Framework

- 2006: First COM Fiscal Sustainability Report (FSR)
- 2011: First Debt Sustainability Monitor (internal report)
- 2012: FSR integrating EWS & risk-based approach
- 2014: COM DSA Framework (occasional paper)
- 2015: FSR fully integrating DSA
- 2017: First release of the DSM (annual publication)
COM fiscal sustainability analysis in the EU surveillance framework today

**Comprehensive sustainability analysis** (regularly updated, including impact of population ageing)

**Stability and Growth Pact**
- Fiscal Sustainability Report (every three years)
- Debt Sustainability Monitor (once a year)
- Country Reports (once a year)
- Post-Programme Surveillance Reports (once a year)
- Ageing Report (every three years)

**Treaties’ provisions and policy recommendations**

**European Semester** - Country-specific recommendations
- SGP related
- CSRs related to pensions, healthcare and long-term care

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### COM DSA and EU fiscal surveillance (Stability and Growth Pact)

<table>
<thead>
<tr>
<th>EU surveillance process</th>
<th>Legal provisions</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stability and Growth Pact</strong></td>
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<tr>
<td><strong>Corrective arm</strong></td>
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<tr>
<td>Assessment of debt developments</td>
<td>Council regulation (EC) no. 1467/97</td>
<td>The Commission, when preparing a report under Article 136(1) of the TFEU, assesses the developments in the medium-term government debt position, its dynamics and sustainability.</td>
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<td><strong>Preventive arm</strong></td>
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<tr>
<td>Assessment of Stability and Convergence Programmes</td>
<td>Council Regulation (EC) No 1466/97 (Article 3)</td>
<td>Includes an assessment of debt sustainability implying a full-fledged DSA according to the methodology presented in the FSR / DSM.</td>
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<tr>
<td>Setting-up of the (minimum) MTOs</td>
<td>Council Regulation (EC) No 1466/97 (Article 2a)</td>
<td>The MTOs are set so as to ensure sustainability or rapid progress towards sustainability. To that purpose, the Commission estimates country-specific lower bounds of the MTOs, also based on the jointly prepared Commission / Council long-term budgetary projections.</td>
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<tr>
<td>Required fiscal adjustment to the MTO</td>
<td>Regulation (EC) no. 1466/97, and 2015 Council Commonly agreed position on flexibility with the SGP (no. 14586/15)</td>
<td>The 2015 Council Commonly agreed position on flexibility within the SGP includes a “matrix” of requirements for adjustment towards the MTOs with a specific reference to risks to debt sustainability as a relevant criterion for differentiating fiscal requirement across countries. Also, impact on long-term fiscal sustainability assessed by the Commission for the “structural reform clause” or the “investment clause”.</td>
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<tr>
<td>Degree of discretion</td>
<td>Article 6(3) and Article 10(3) of Regulation no. 1466/97</td>
<td>The analysis of sustainability challenges is used for the exercise of a degree of discretion.</td>
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<td>Assessment of Draft Budgetary Plans</td>
<td>Regulation (EU) No 473/2013 of the European Parliament and of the Council</td>
<td>Includes sensitivity analyses that provide an indication of the risks to public finance sustainability in the event of adverse economic, financial or budgetary developments.</td>
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</table>
COM DSA and European Semester - a basis for Country-Specific Recommendations (CSRs)

- In addition to SGP-related CSRs, fiscal (debt) sustainability assessment used for the identification of cases (diagnosis) where a CSR in the areas of pensions, health-care and long-term care is warranted (policy recommendation)
  - See COM, 2014, ‘Identifying fiscal sustainability challenges in the areas of pension, health care and long-term care policies’
  - Also an integrate part of the Macroeconomic Imbalance Procedure (see COM, 2016)

COM fiscal sustainability framework: a transparent and shared analysis

- Guidance note published in 2014
- Regular publications (e.g. FSR, DSM, SCP / DBP assessment notes)
- Calculations shared in particular with Member States and Fiscal Councils
- Analysis discussed with Council committees
- FSR: Conclusions endorsed by ECOFIN Council
COM fiscal sustainability framework: also used for in-depth country analysis

- Regular publication in country-specific reports (CRs, PPSRs)
- With additional customised sensitivity tests provided in the context of regular / post-programme surveillance
- Qualified analysis, based on additional risk indicators

COM DSA: an integrated process, a shared ownership with Member States

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<tr>
<th>DSA inputs</th>
<th>DSA results</th>
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<tr>
<td>Key assumptions <em>(baseline)</em> commonly agreed with Member States (MSs)</td>
<td>Results presented and discussed with MSs (Council Committees)</td>
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<tr>
<td>Costs of ageing projections jointly prepared with MSs</td>
<td>Publicly released (horizontal, country-specific reports and assessment notes)</td>
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<tr>
<td>Methodologies shared and discussed with MSs</td>
<td>Calculations shared with MSs and national IFIs</td>
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- Used for fiscal surveillance (SGP) and macroeconomic surveillance (EurSem)
- FSR: Conclusions formally endorsed by the Council
Conclusion

• DSA in EU context (market access countries) can be a market sensitive information (especially in crisis periods)
• COM DSA: multilateral surveillance tool used for several purposes (surveillance, dialogue, policy prescriptions, programme)
• Transparent approach and analysis
• Strong ownership by Member States, through an integrated process

Thank you for your attention