

# FISCAL RULES FOR THE NEW NORMAL

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Euro50 Group Conference

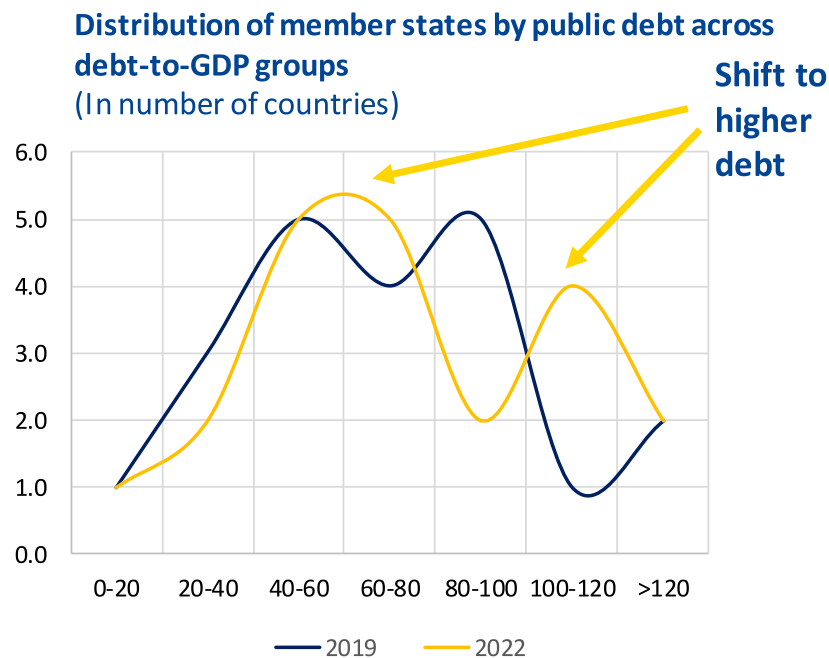
Rolf Strauch, ESM Chief Economist and Management Board Member

19 June 2023, Luxembourg



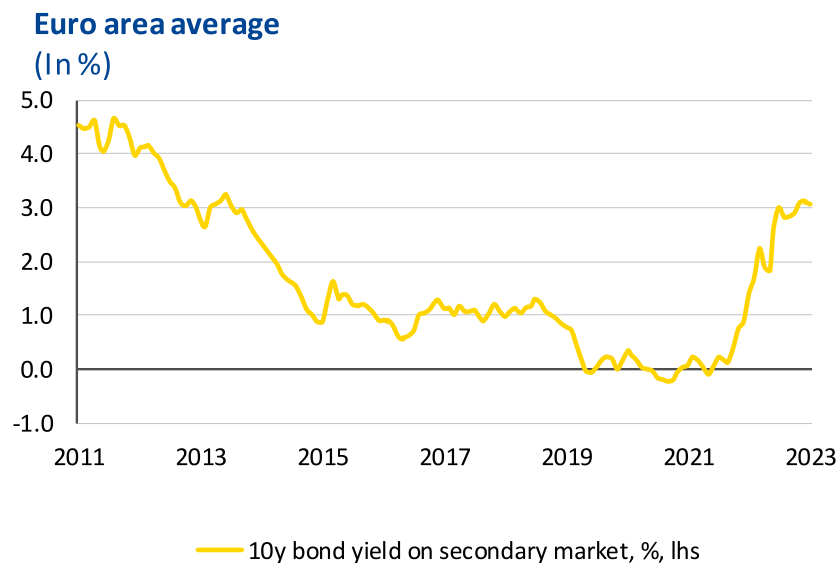
# THE PANDEMIC, ENERGY CRISIS AND HIGHER INTEREST RATES CHALLENGE PUBLIC FINANCES.....

## Debt vulnerabilities have increased



Source: ESM based on European Commission.

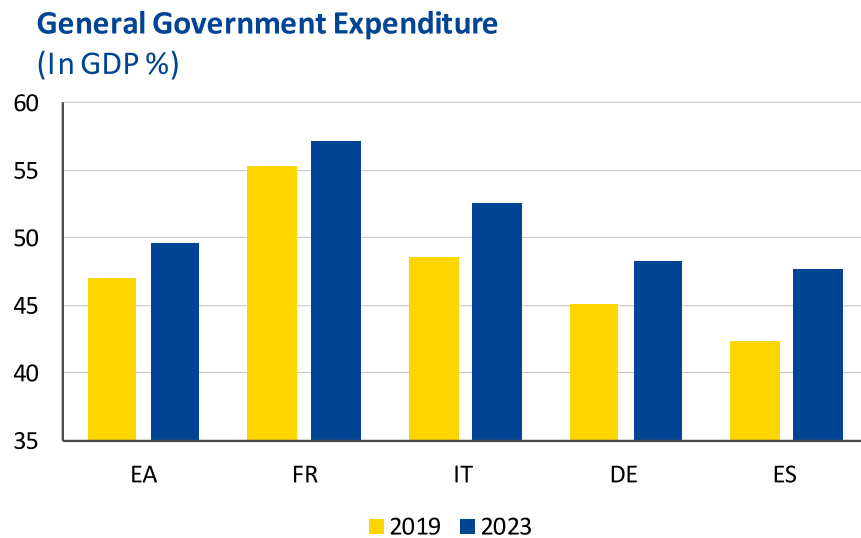
## Higher interest rates will reduce fiscal space over the coming years



Source: ESM based on Ameco and ECB

## ...AND SPENDING PRESSURES ARE STILL TO INCREASE

### Post-pandemic spending remains above pre-pandemic levels



### Sources of spending pressures going forward

- Climate change
- Digitalisation
- Security
- Advanced stages of ageing dynamics

Source: ESM based on European Commission.

# EU FISCAL RULES: IMPLEMENTATION WEAKNESSES TO BE ADDRESSED

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## **Complexity and opacity:**

- Multitude of unobservable indicators
- Extensive methodology allowing cherry-picking

## **Short-sighted procyclical budgetary policy:**

- No incentives to build up fiscal buffers for rainy days
- No differentiated approach to spending items: cuts in public investments to ensure compliance
- Backloaded fiscal adjustment

## **Low compliance and political considerations:**

- Insufficient incentives and enforcement
- Blurred lines between technical analysis and political assessment

## EU FISCAL RULES: OBJECTIVES TO BE ACHIEVED

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### Transparency:

- Single operational anchor
- Common DSA methodologies
- Stronger national IFIs

### Credibility:

- Stronger national ownership
- Multi-year commitments
- Clear escape clauses

### Equal treatment:

- Stronger enforcement
- Common safeguards
- Account tracking deviations

## KEY POINTS IN THE ONGOING DISCUSSION

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**DSA methodology:  
transparency**

**Enforcement**

**Additional  
safeguards**

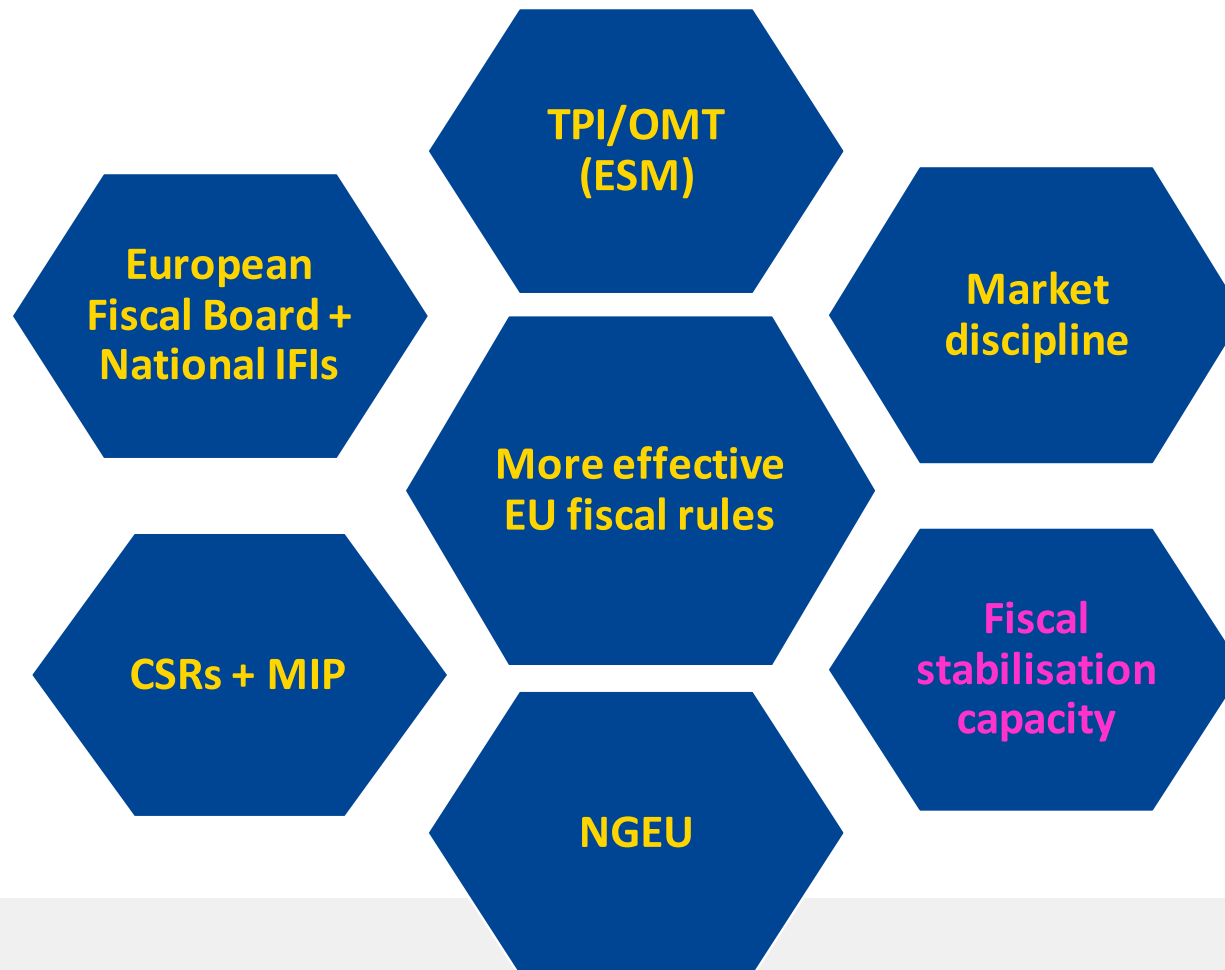
**Assessing  
sustainability  
impact of national  
reforms**

**Interaction with  
Commission reform  
recommendations**

**Leeway for  
investment**

## PUTTING THE REDESIGNED FRAMEWORK INTO CONTEXT

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## CONTACT

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