



EUROPEAN CENTRAL BANK

EUROSYSTEM

Investing in tomorrow: Future-proofing fiscal policies and governance in Europe

Opening remarks at the ECB workshop
“European fiscal policy and governance
reform in uncertain times”

20/09/2023

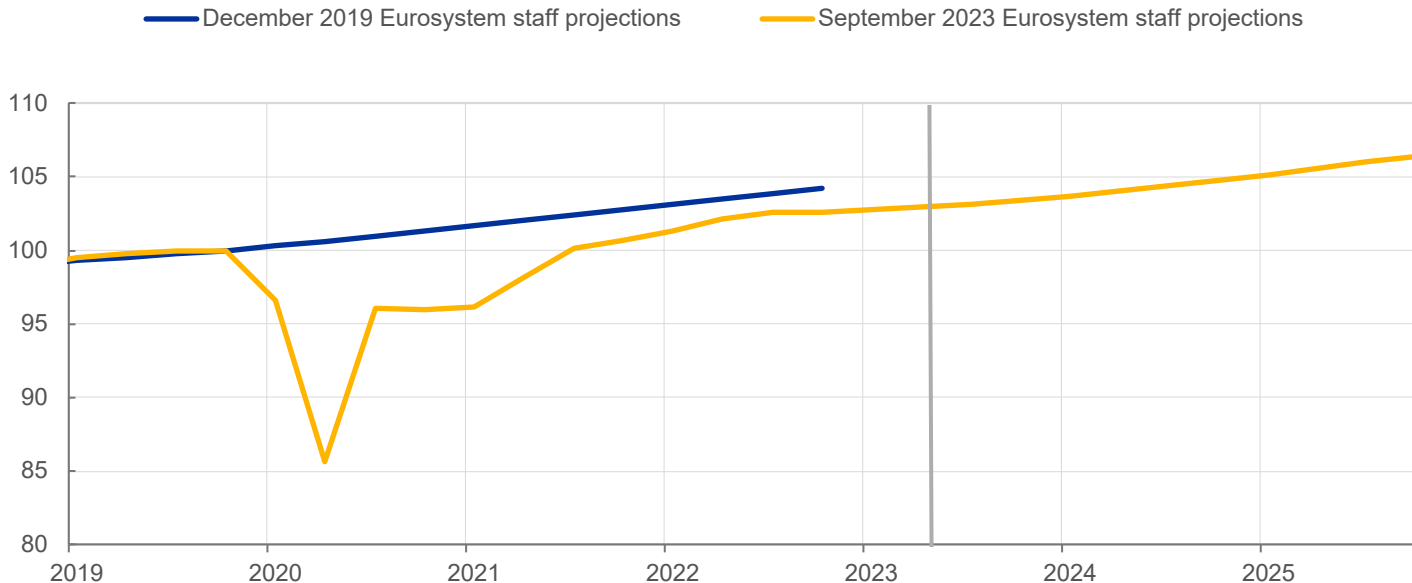


Fabio Panetta
Member of the Executive Board of the ECB

The response to the pandemic resulted in an almost full recovery

Chart 1: Euro area real GDP

(chain-linked volumes, Q4 2019 = 100)

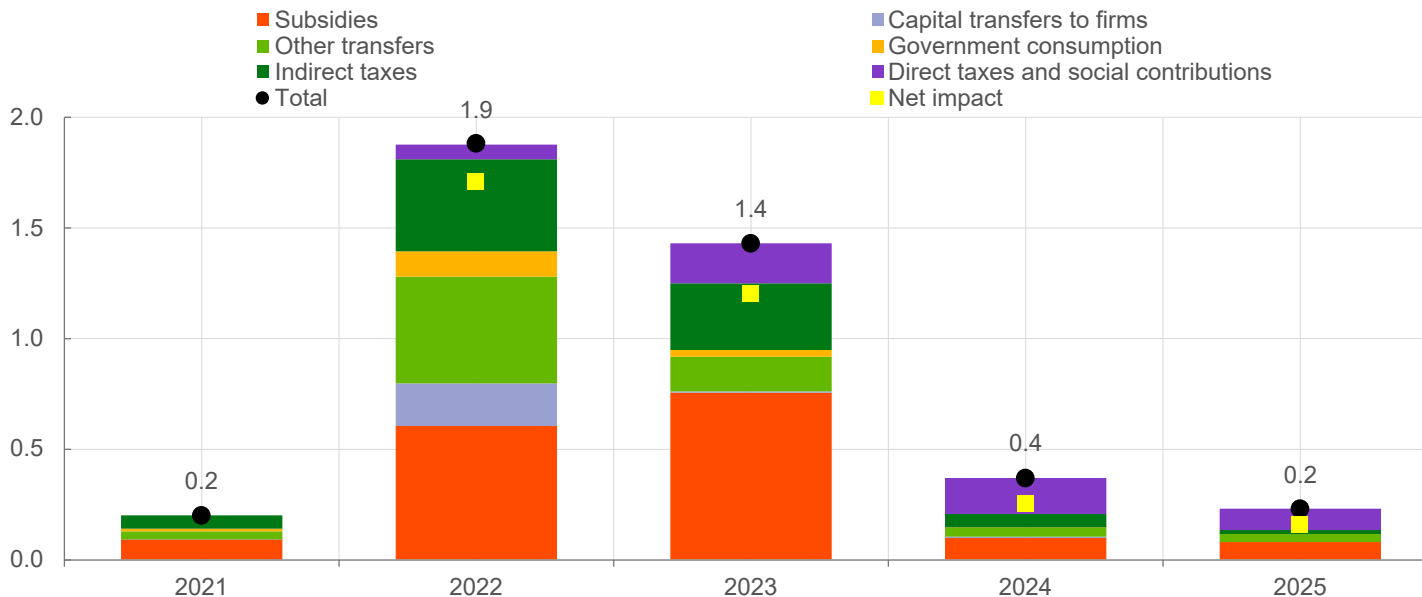


Sources: ECB, Eurosystem staff macroeconomic projections for the euro area (BMPE), December 2019 BMPE, ECB staff macroeconomic projections for the euro area (MPE), September 2023 MPE, and ECB staff calculations.

Notes: Data are seasonally and working day-adjusted. Historical data may differ from the latest Eurostat publications due to data releases after the projections cut-off date. The vertical line indicates the start of the current projection round.

Temporary fiscal measures to alleviate the burden of high energy prices...

Chart 2: Energy and inflation-related fiscal support measures in the euro area

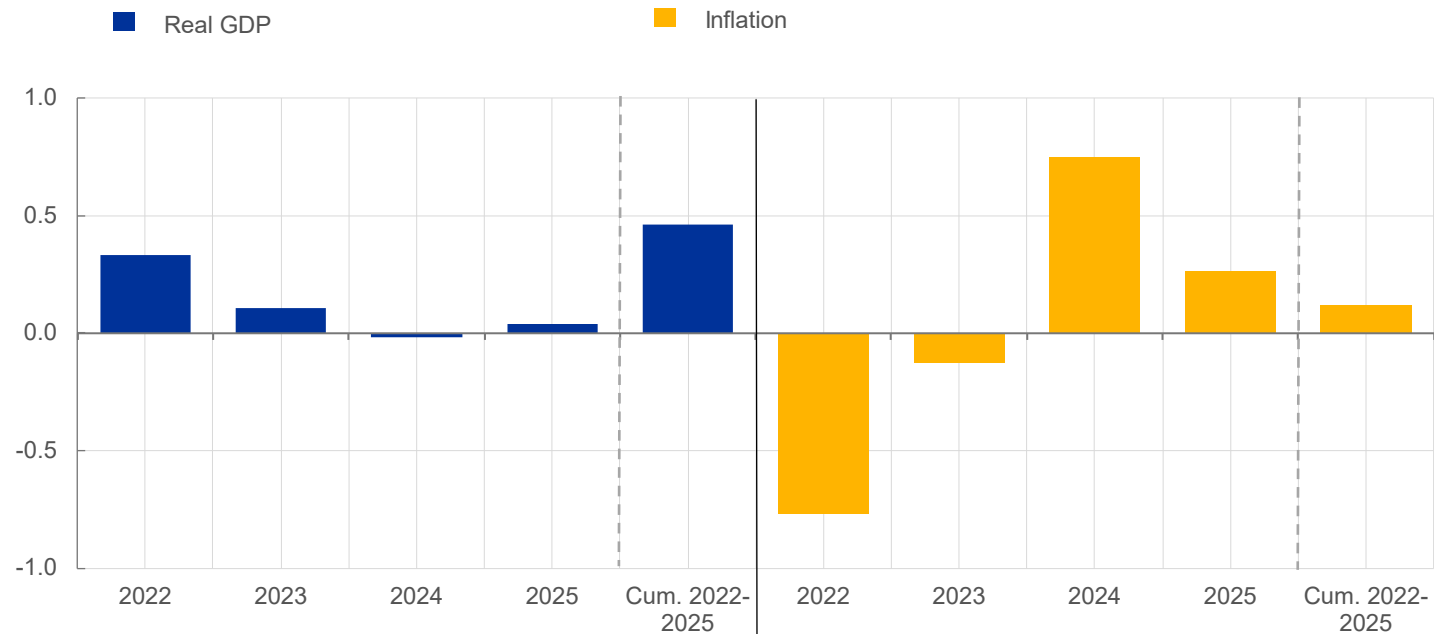


Sources: ECB, ECB staff macroeconomic projections for the euro area (MPE), September 2023 MPE, and ECB staff calculations.

Notes: The bars show the energy and inflation fiscal compensatory measures in terms of gross budget impact. The yellow dots show the net budget impact (gross support minus discretionary financing measures).

...stabilised growth and cushioned inflation

Chart 3: Estimated impact on real GDP and HICP inflation of fiscal support in the euro area
(percentage points)



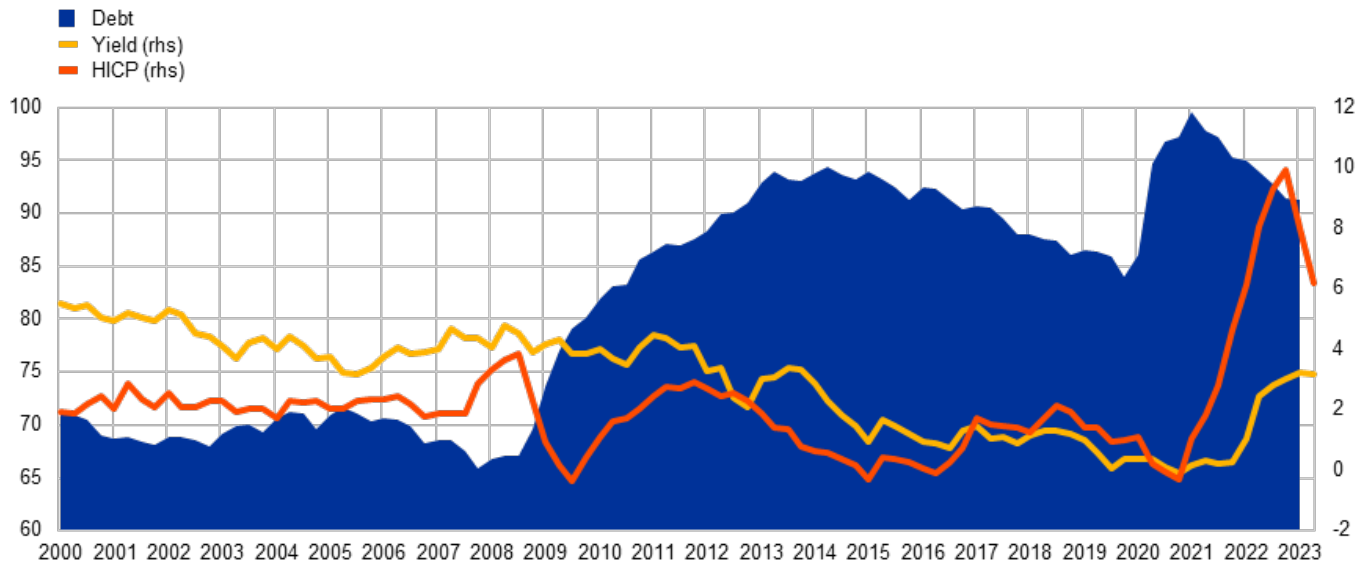
Source: ECB staff simulations.

Notes: Simulation results show deviations from a counterfactual scenario of no fiscal policy support, and include judgment as needed to better reflect on uncertainty around model estimates, especially with respect to energy price caps. Results based on the Eurosystem's Working Group of Forecasting structured questionnaire. HICP: Harmonised Index of Consumer Prices.

Adverse shocks pushed up inflation, debt and financing costs

Chart 4: Debt level, cost of borrowing and inflation in the euro area

(left-hand scale: percentage of GDP, right-hand scale: percentage points)

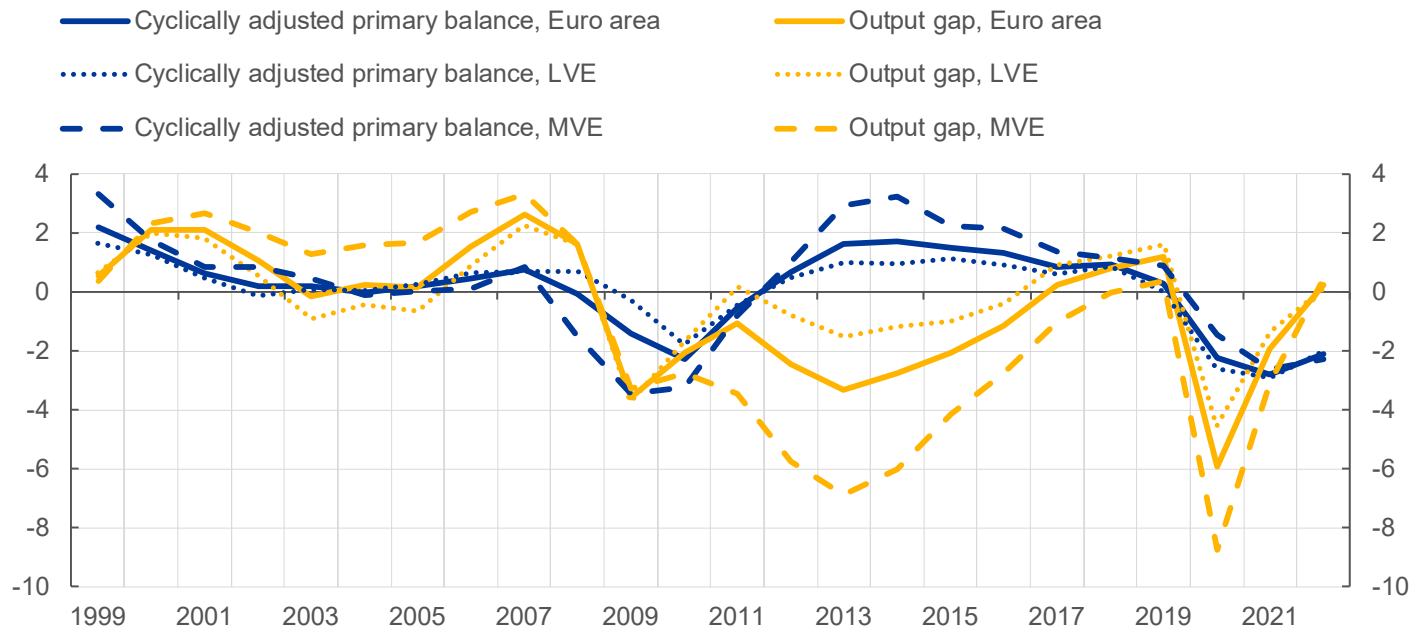


Sources: Eurostat and ECB staff calculations.

Note: Yield refers to the euro area 10-year government benchmark bond yield. The latest observations are for the first quarter of 2023 for debt and the second quarter of 2023 for yield and HICP.

The euro area followed different fiscal policies in past crises

Chart 5: Fiscal policy stance and business cycle in the euro area
(percentage of GDP)



Sources: ECB staff calculations based on the European Commission's Spring 2023 Economic Forecast.

Notes: The euro area aggregate shown in this chart comprises the 12 original member countries. LVE stands for less vulnerable economies, which comprise Belgium, Germany, France, Luxembourg, the Netherlands, Austria and Finland. MVE stands for more vulnerable economies, which include Ireland, Greece, Spain, Italy and Portugal. This distinction aims to highlight the different macroeconomic dynamics that these two "groups" have shown over the lifespan of the monetary union. The distinction involves some simplification. Macroeconomic simulations suggest that if a consistently countercyclical fiscal policy for the euro area had been maintained over time, fiscal buffers could have been built up in the good times (e.g. before the great financial crisis) that would have helped to cushion the second downturn during the sovereign debt crisis.

Independent fiscal institutions (IFIs) can support fiscal sustainability

Figure 1: The role of IFIs



IFIs have a positive impact on fiscal space, compliance and sustainability

- IFIs have a **positive and significant** influence on the government budget balance for European Union Member States, as well as on countries' **compliance with fiscal rules** ([Căpraru et al. 2022](#)).
- When well-designed, fiscal councils can promote **stronger fiscal discipline** ([IMF 2013](#)).
- Throughout the Covid-19 crisis, IFIs played a critical role by promoting **transparency** and **accountability**. They support the policy debate, **identify risks** to the public finances and assist governments and legislatures in their efforts to keep public finances on a **sustainable path** ([OECD 2020](#)).
- Involvement of IFIs in macroeconomic forecasts is associated with a **reduction in forecasting bias** ([OECD 2011](#); [EFB 2022](#)).
- IFIs contribute to **greater fiscal sustainability, reduced procyclicality of fiscal policies** within the EU, and increased national ownership of fiscal rules ([Gorčák & Šaroch 2021](#)).

The role of IFIs can be strengthened

Figure 2: National IFIs, the European Fiscal Board and EU Governance



The Role of IFIs in the proposed reform

The ECB supports **strengthening their role** provided their **overall capacity** is also improved, commensurate with their tasks, and they have **adequate and stable resources**



The Future of IFIs in EU Governance

The ECB supports **further enhancing their role:**

- Preventive arm: **advisory role** in the preparation of national plans
- Corrective arm: preparing an **opinion** on **relevant factors** for the opening of an excessive deficit procedure

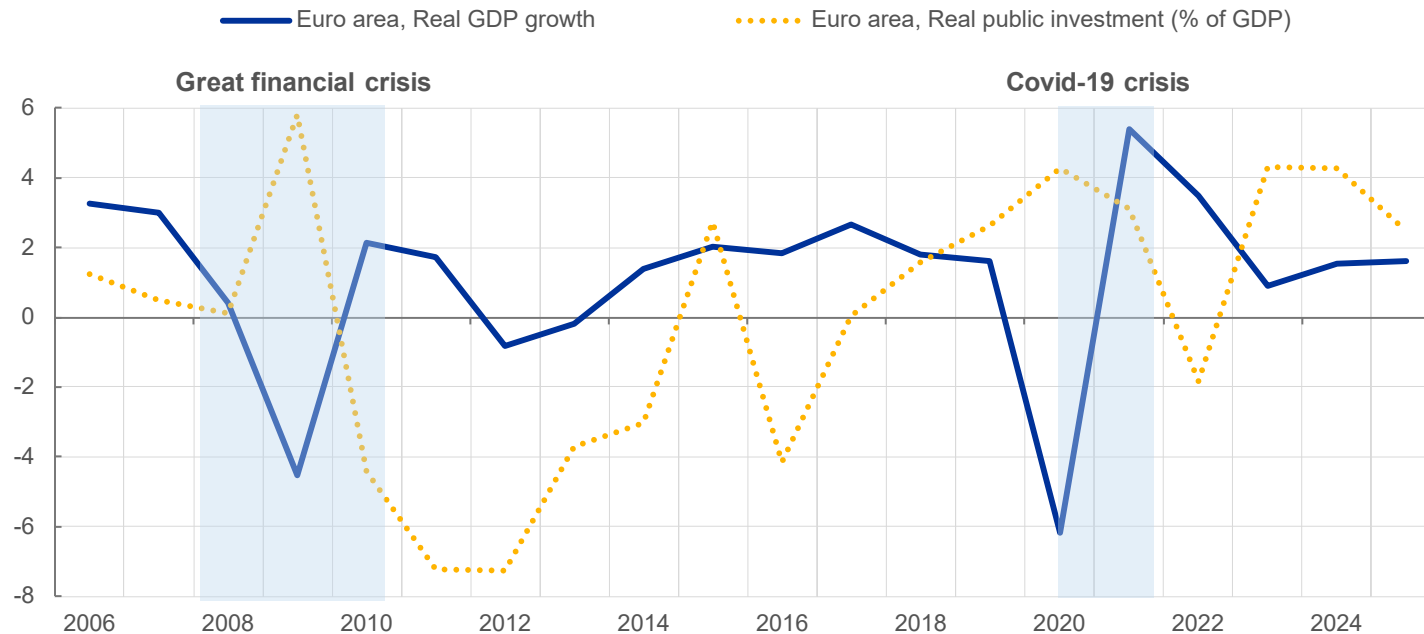


The Role of the European Fiscal Board

The ECB supports a **significant role for the European Fiscal Board** in the economic governance framework, and **recommends** enhancing its role in **assessing the appropriate fiscal stance of the euro area**

Public investment has been weak in the euro area

Chart 6: Euro area real GDP growth, real public investment growth and crisis episodes

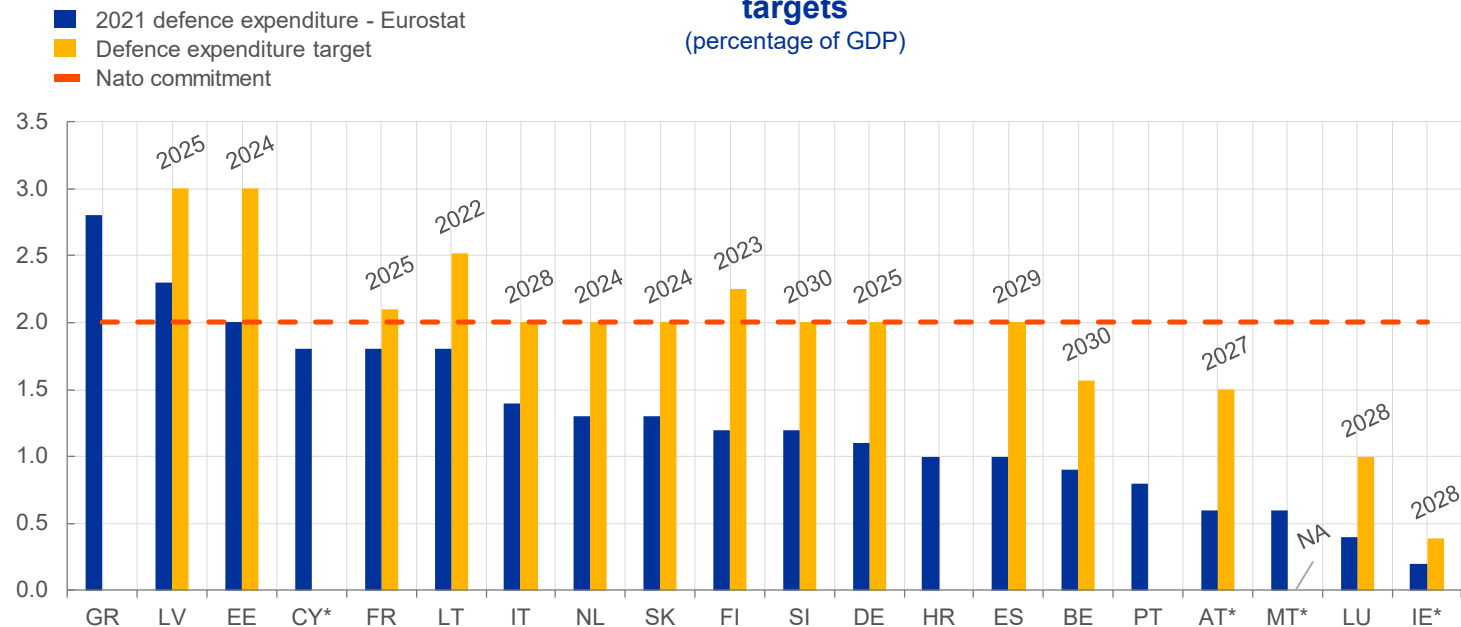


Sources: ECB, Eurosystem staff macroeconomic projections for the euro area (BMPE), June 2023 BMPE, and ECB staff calculations.

Notes: Year-on-year change in euro area real public investment calculated as percentage of three-year-moving average real GDP.

Defence expenditures are expected to increase in the euro area

Chart 7: Defence expenditure in 2021 and announced spending targets
(percentage of GDP)



Sources: Category 2 in COFOG data (Eurostat, OECD, IMF).

Notes: Ordering is according to defence spending as a percentage of GDP. * denotes the countries that are not NATO members. Announced spending targets according to media reports in October 2022. Spending targets may be subject to frequent revisions.

Thank you for your attention!