

Contribution to roundtable on
'De toekomst van de Europese begrotingsregels:
hervorming van het Stabiliteits- en Groeipact'

bij vaste Kamercommissie Financiën van de Tweede Kamer
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Major weaknesses of current EU fiscal framework

High debt ratios not sufficiently reduced

National fiscal policies too often **pro-cyclical**

Flexibility has not prevented **cutbacks in public investment**

Difficulties of implementation

Complex and opaque rules, **unobservable indicators**

Deviations remain, **sanctions** prove difficult to enforce

Weak medium-term planning, adjustment is **back-loaded**

Political considerations interfere with economic assessment

Original EFB proposal for simplified SGP

ONE fiscal anchor:
debt ceiling at 60% of GDP

ONE operational indicator:
expenditure benchmark

ONE escape clause replacing
all existing flexibility
provisions

**Demarcate policy
decisions from economic
analysis**

- Focus on sustainability
- Simple and observable
- Largely observable
- Built-in stabilising effect
- 3-yr ceiling: medium-term perspective
- Annual monitoring with compensation account
- Flexibility without current complexity and “complete contract” approach
- Triggered based on independent analysis
- Isolate underlying staff analysis from political considerations

With or without reform of the SGP

- Differential debt reduction requirements seem unavoidable:
 - Differential debt reduction speed
 - Different ceilings X years from now
- Very high debts endanger financial stability: debt sustainability will be paramount
- For NL to agree to different speeds/ceilings, insist on:
 - Stronger commitment to revised requirements
 - Legal anchoring? Comply-or-explain debt policy advice national independent fiscal institution? ...
 - Weaken doom loop banks – governments (risk ↓ moral hazard↓)
 - Weighting sovereign debt on bank balance sheets
 - Concentration ratios on bank balance sheets

Political feasibility

- Avoid treating revision of SGP in isolation if commitments to sustainable debt paths cannot be ensured within SGP
- Proposed conditions for differentiating debt reduction requirements will be politically contentious
- Especially in area of banking
 - Germany is not by definition aligned with us
 - Potentially seek support from other small, northern countries, on banking FR (?)
- Note, though, that when it comes to demands for revision of debt reduction requirements NL is in a relatively strong negotiating position