

# IMF Fiscal forum

Roundtable Discussion on Fiscal Policy Agenda

Washington, 14 April 2011

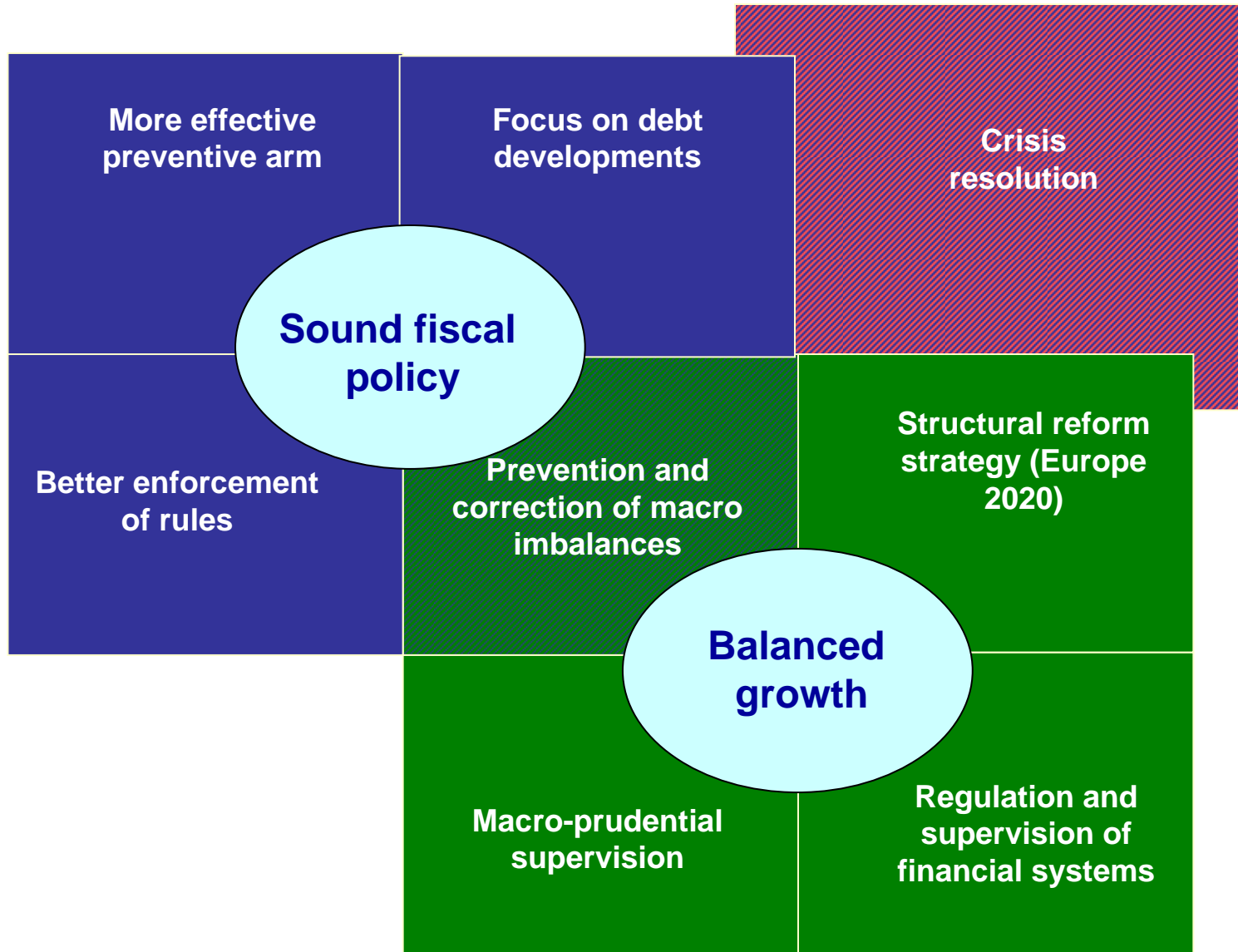
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Director General

Economic and Financial Affairs

European Commission

# The broad 'geography' of the reform



# The economic governance package

## Fiscal surveillance

- Preventive arm of SGP: principles of prudent fiscal policy making (amend. to Reg. 1466/97, *co-decision with EP*).
- Corrective arm of SGP: benchmark for sufficiently diminishing debt ratio (amend. to Reg. 1467/97; *EP and ECB consulted*)
- Minimum requirements of national fiscal frameworks (new Directive *on national fiscal frameworks, Council decides after consulting Parliament*)

## Macroeconomic surveillance

**New regulation on prevention and correction of macroeconomic imbalances** (*Co-decision with EP*)

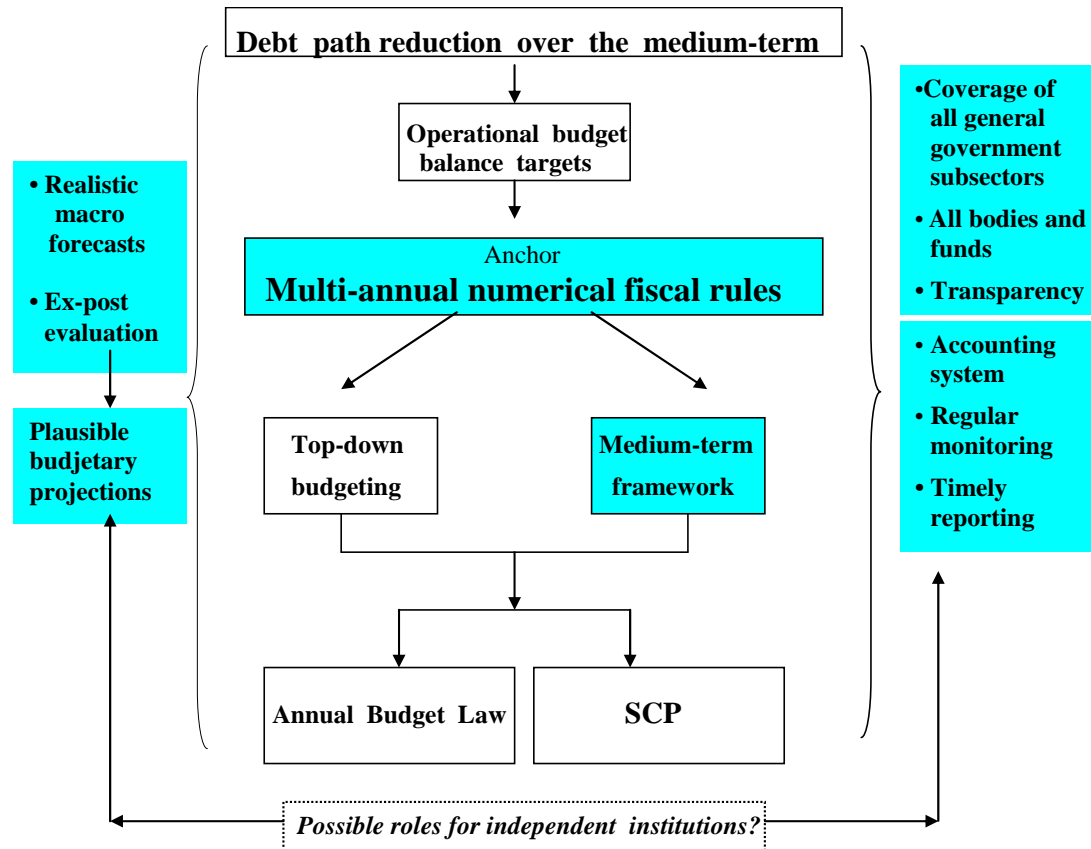
## Enforcement

**New disincentives/sanctions in case of non-compliance in preventive and corrective arm of SGP** ( new draft regulation, *co-decision with EP* )

## Enforcement

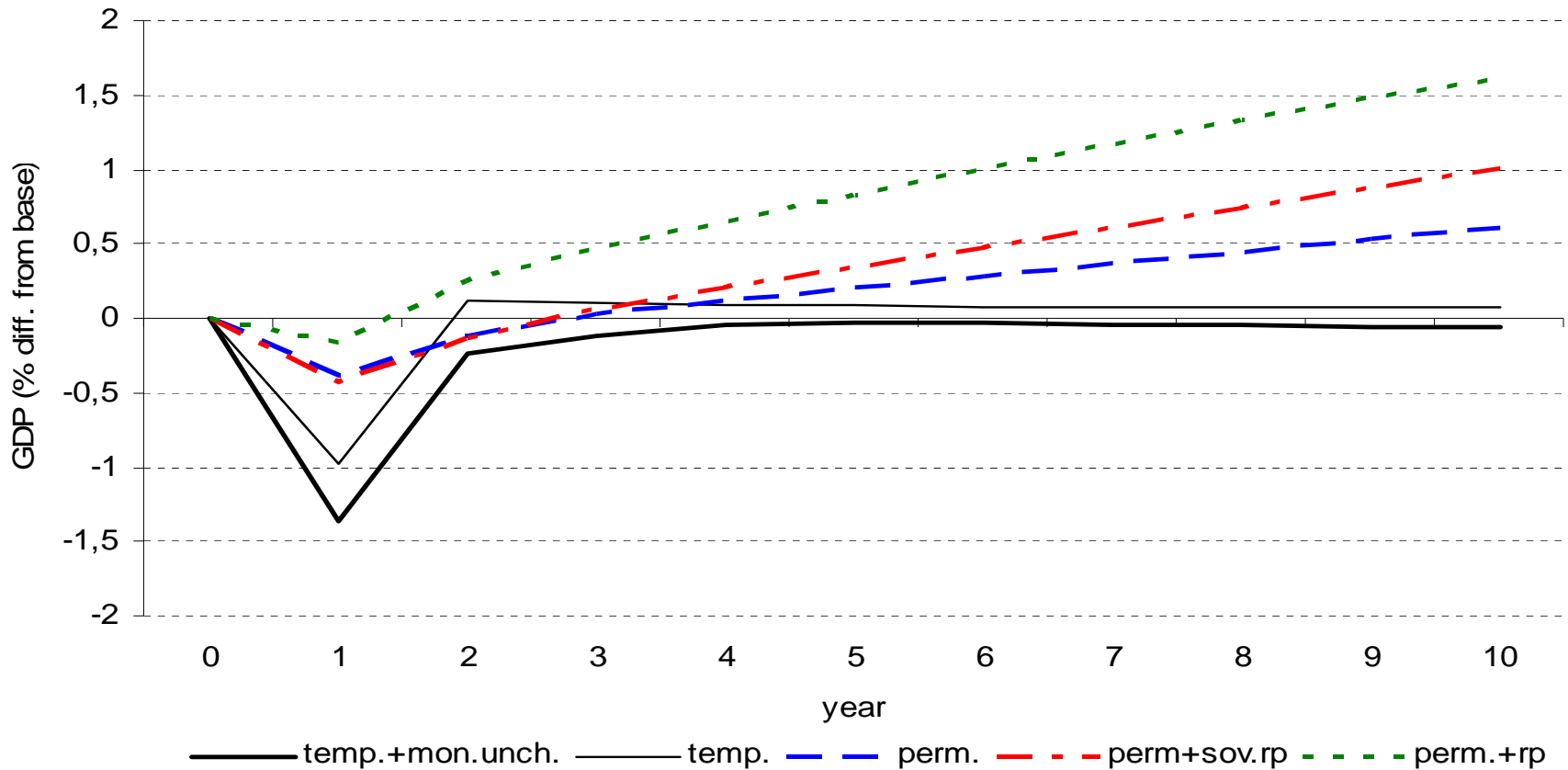
**New disincentives/sanctions in case of non-compliance with new macroeconomic surveillance** (new draft regulation, *co-decision with EP*)

# A rule-based fiscal framework



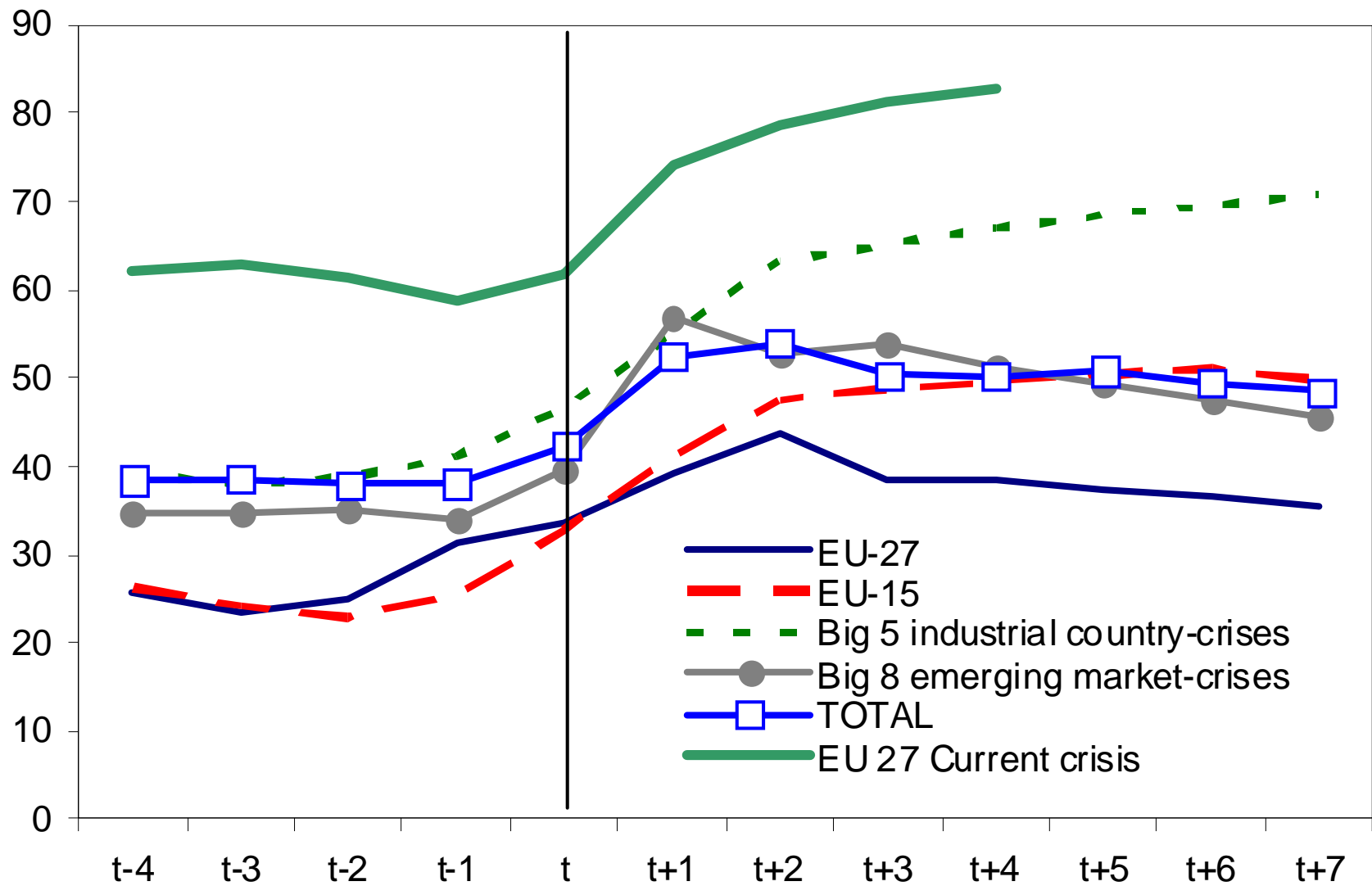


# The importance of credibility



- Temp.+mon.unch. : 1 year reduction gov. cons (1% of GDP) with nominal interest rates unchanged
- Temp. : 1 year reduction government consumption (1% of GDP)
- Perm. : permanent reduction gov. consumption
- Perm.+sov.rp : permanent reduction plus sovereign bond risk premium reduction by 100 bp.
- Perm.+rp : permanent reduction plus sov. bond risk premium reduced 100bp plus risk premium reduction by 25bp

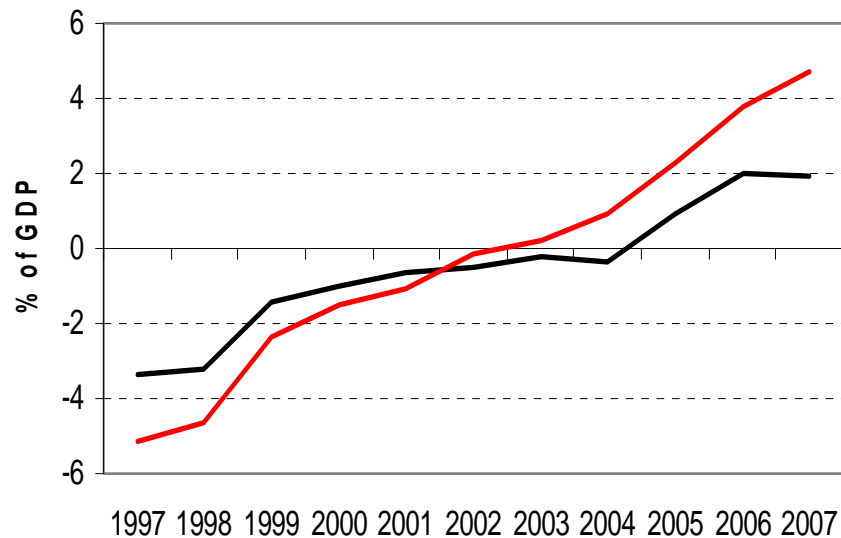
# Gross public debt in crises episodes (% of GDP)



# Strengthening fiscal governance

Preventive arm of SGP: retrospective illustration of expenditure benchmark

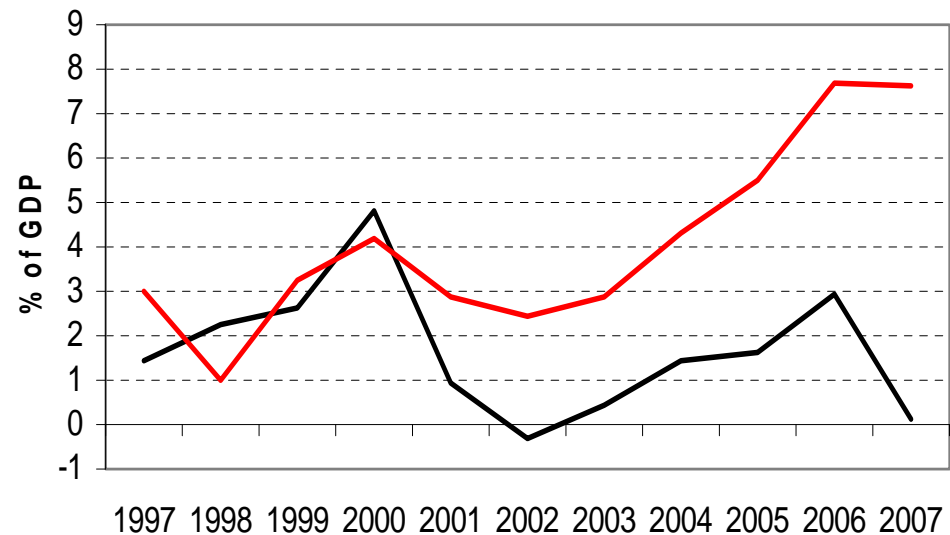
Spain



— actual budget balance

— budget balance with PFM

Ireland



— actual budget balance

— budget balance with PFM