



EUROPEAN COMMISSION  
DIRECTORATE GENERAL  
ECONOMIC AND FINANCIAL AFFAIRS  
Fiscal policy  
Fiscal policy and surveillance

# Ninth meeting of the Network of public finance economists in public administration

## PROGRAMME OF THE MEETING

Brussels, 10 February 2015

Venue: DG ECFIN, Building Charlemagne, Room Jenkins, Brussels.

<b>9.00-9.45</b>	<b>REGISTRATION AND WELCOME COFFEE</b>
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**9.45-10.00** INTRODUCTION TO THE MEETING

Welcoming address by (tbc -European Commission)

**10.00-12.30** SESSION I – UNDERSTANDING CONTINGENT LIABILITIES: WHAT AND HOW MANY ARE THEM? SHARING GOOD MANAGEMENT PRACTICES

Chair: Stefan Ciobanu (European Commission)

*Given the still limited fiscal space in several Member States and the need to revamp growth, alternative financing schemes which do not bear immediate fiscal costs may appear as an attractive alternative. Whereas the benefits of such approaches are well known in terms of leverage of private funds but also the possibility to bring in private sector management skills into the public domain, there is less awareness on the potential costs to public finances that they may entail if not properly managed. This session aims at first presenting best practices across Member States to make the best use of these measures to foster growth while containing fiscal risks and second get a better appraisal of the amount and nature of contingent liabilities following the publication of new data series by Eurostat.*

### 'HOW TO DEAL WITH CONTINGENT LIABILITIES'

– Tjeerd Tim (Ministry of Finance, NL)

This presentation will set out the Dutch approach to identify, assess and contain risks associated with contingent liabilities. Via proactively pushing contingent liabilities on the agenda of decision makers and in the daily works of government officials, the Dutch contingent liabilities framework has brought about change. Successes and lessons learned will be discussed.

### 'CONTINGENT LIABILITIES – THE SWEDISH EXPERIENCE'

– Filip Kollén (Ministry of Finance, SE)

The guarantee (and lending) model is an essential part of the Swedish fiscal policy framework. The presentation will give a short description of the design of the model and

how it is incorporated in the Swedish budget process. The presentation will further share the Swedish experience of how the model achieves the purpose of identifying and addressing risks and potential costs to public finances.

#### **'MANAGING CONTINGENT LIABILITIES IN THE UK'**

– Matthew Richmond (HM Treasury, UK)

The financial crisis caused the UK's government debt to reach its highest level since the 1960's. Since the crisis, the government has intervened to support the effective operation of various sectors which has created a number of contingent liabilities on the public balance sheet, with the risk to increase debt levels still further. The talk will cover the framework that the Treasury uses to manage these liabilities and recent work to analyse the potential crystallisation of these risks including scenario analysis. Finally, the talk will explore how you could connect these individual micro risks to the broader issue of debt sustainability.

#### **'PORTUGAL – PPP SECTOR REFORM AND PORTFOLIO RESTRUCTURING'**

– Fernando Crespo Diu (UTAP – Ministry of Finance, PT)

In 2012, within the framework of the Memorandum of Understanding on Specific Economic Policy Conditionality, Portugal launched an ambitious legal and structural reform regarding the PPP sector, based on a new legal framework for PPP and the creation of UTAP, the Ministry of Finance PPP unit. One of the key objectives of the reform was the reinforcement of the participation of the Ministry of Finance, through UTAP, in all stages of contracts lifecycle, in order to enhance its capacity to control the fiscal outcome of PPP – both in terms of consolidated financial commitments and contingent liabilities. For this purpose, the reform included dispositions regarding the prevention and treatment of contingent liabilities, as well as a comprehensive restructuring of the motorway PPP portfolio.

#### **'EUROSTAT DATA COLLECTION ON CONTINGENT LIABILITIES AND POTENTIAL OBLIGATIONS'**

– Malgorzata Szczesna-Rundberg (Eurostat)

Eurostat will present a new data collection on contingent liabilities and potential obligations of governments as required by the Enhanced Economic Governance package and in particular by provisions of the Council Directive 2011/85 on requirements for budgetary frameworks of the Member States. It covers government guarantees, liabilities of public-private partnerships recorded off-balance sheet of government, liabilities of government controlled entities classified outside general government ('public corporations') as well as non-performing loans. The new data available may indicate potential impact on the general government deficit and/or debt. In this perspective, they represent an important step towards further transparency of public finances in the EU by aiming at giving a more comprehensive picture of EU Member States' financial positions. The presentation will focus on the scope of data collection as well as the concepts and definitions used. The issue of limitations in the data interpretation will be also covered. In addition, Eurostat will present an overview of very recently published results by Member State for 2013.

**12.30-13.45 LUNCH**

**13.45-15.45 SESSION II – DOES INFLATION MATTER? FISCAL CONSOLIDATION STRATEGIES AND DEBT REDUCTION IN A LOW INFLATION ENVIRONMENT**

Chair: Nicolas Carnot (European Commission)

*This session will address the issue of impact of inflation on fiscal policy. Whereas the impact of fiscal policy on inflation has been extensively examined, the reversed causality has not received as much attention. According to the latest Commission forecast, inflation in the EU is expected to remain very low to increase only moderately in the next years mainly due to constrained economic growth prospects. In this context, it is important to get a better understanding on how low inflation impacts on Member States' debt and fiscal consolidation strategies.*

**'THE EFFECTS OF LOW INFLATION ON PUBLIC FINANCES: EVIDENCE FOR SELECTED EURO AREA COUNTRIES'**

– Maria Grazia Attinasi (ECB) and Vladimir Borgy (Bank of France)

The paper provides evidence that an unanticipated disinflation shock has an adverse impact on fiscal balances given rigidities in nominal government spending, which limit the downward adjustment to lower inflation, whereas revenues tend to decline much faster. Moreover, the impact on the debt-to-GDP ratio tends to be stronger and more persistent given the adverse implications of the denominator effect. Country specific features are found to play an important role, whereas second round, though important, effects coming from the impact of low inflation on real GDP growth are not fully taken into account given the lack of available evidence for euro area countries.

**'CRISIS AND CONSOLIDATION IN THE PUBLIC FINANCES'**

– Jon Riley (Office for Budget Responsibility, UK)

Following the outbreak of the global financial crisis, the UK budget deficit rose rapidly to over 10% of GDP by 2009-10. The recession was characterised by a decline in nominal GDP and stubbornly high consumer price inflation. The fall in nominal GDP had a dramatic effect on cash receipts and the affordability of multi-year spending plans. Until recently, consumer price inflation in the UK has remained stubbornly high relative to wage growth and nominal GDP growth with effects on the fiscal drag of the income tax system and the relative generosity of benefits.

**'PUBLIC FINANCES AND INFLATION: THE CASE OF SPAIN'**

– Javier J. Pérez (Bank of Spain)

For the case of Spain, we compare the episodes of fiscal consolidation of the 1990s and the most recent one, in order to assess the differential contribution of inflation to debt reduction and the success of spending and revenue fiscal measures. The first episode occurred in a high-inflation environment, while the most recent one can be labeled as a low-inflation one. We focus, in particular, on the impact that persistently low inflation may have on the operation of medium-term fiscal sustainability safeguards, like the recently approved revaluation index of pensions, and the public debt-limit rule recently embedded into Spanish legislation.

**15.45-16.15** COFFEE

**16.15-17.00** SESSION III – DOES INFLATION MATTER? THE STABILITY AND GROWTH PACT

- Anton Mangov (European Commission)

In this session the Commission will present the general features of the Stability and Growth Pact and how inflation may be taken into consideration, when relevant, in the country-specific assessment of compliance with the fiscal rules.

**17.00-17.30** POSSIBLE TOPICS FOR FUTURE MEETINGS AND CONCLUSION