Fiscal Surveillance in EMU
New Issues and Challenges

Introduction

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Brussels, 12.11.2004
EU fiscal framework: rules and surveillance

Rules:

• Numerical (3% GDP budget balance and 60% GDP general government debt).
• Procedural (Excessive Deficit Procedure)

Surveillance:

• What are the reasons for budgetary imbalances?
• Are imbalances of temporary or structural nature?
• Impact on fiscal sustainability
• Impact on economy (e.g. output, inflation)
Fiscal Surveillance: evolution in EMU

• From focus on short-run compliance to assessing the credibility of the medium-term adjustment path
• Analysis of long-run sustainability, absent in 2000, became important part of the assessment in 2004
• Compliance with debt criterion assessed in relatively few cases, both in 2000 and 2004
• More attention for quality of fiscal adjustment (Lisbon) and institutional issues (e.g. national stability pacts; national expenditure rules); degree of assessment still low however
• Increase in transparency: assessments now publicly available
• Ongoing efforts to improve data quality and availability
Challenges in Fiscal Surveillance

In addressing causes of budgetary imbalances, fiscal surveillance must incorporate:

- **changes in the economic and geo-political environment** (e.g. enlargement, fiscal decentralisation);
- **trends directly affecting the outlook for fiscal policy** (e.g., ageing; risk exposures in fiscal policy);
- **behavioural response of fiscal authorities to fiscal rules** (e.g., the tendency to carry out one-off budgetary operations)
Purpose of the Workshop

Upgrading the quality of fiscal surveillance requires research, analysis, discussion and – at the end of the process – informed economic judgement.

Topics:

- Enlargement
- Fiscal decentralisation
- Measurement issues
- Lisbon: trade-offs in public finances?

Challenges in fiscal surveillance need to be addressed irrespective of SGP reform.