



EUROPEAN COMMISSION
DIRECTORATE GENERAL ECONOMIC AND FINANCIAL AFFAIRS

Fiscal Surveillance in EMU

New Issues and Challenges

Introduction

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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