



Advancing new tools for the EU budget  
to foster crisis management and  
economic convergence

OECD-France Stratégie workshop

*Session 2*

*How can the EU budget be used for  
stabilisation?*

Laurence Boone, February 5<sup>th</sup> 2018, Paris



# Outline and main messages

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## **The EU needs a fiscal tool for crisis management**

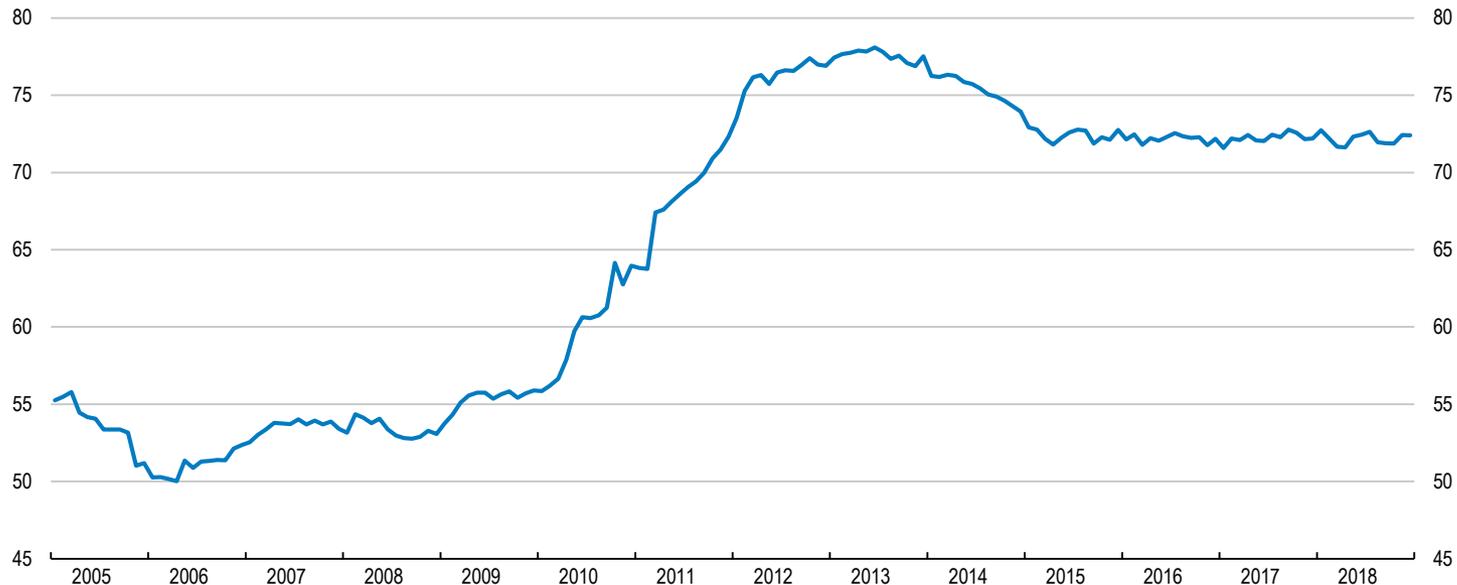
- **Public risk sharing in the EU is necessary because private risk sharing is low vs other monetary unions**
- **Failure to stabilize the cycle leaves long lasting scars**
- **EU fiscal rules have not provided enough incentives or room for manoeuvre for individual countries to smooth the cycle**
- **Reforming the rules in the current set-up and without a central fiscal capacity may prove complex**



# Do we need public risk sharing?

- **Private risk sharing is unlikely to be enough, and it actually decreased with the crisis**

## Home bias<sup>1</sup> in Euro area<sup>2</sup> banks' holdings of government bonds (%, MFIs excluding ESCB)



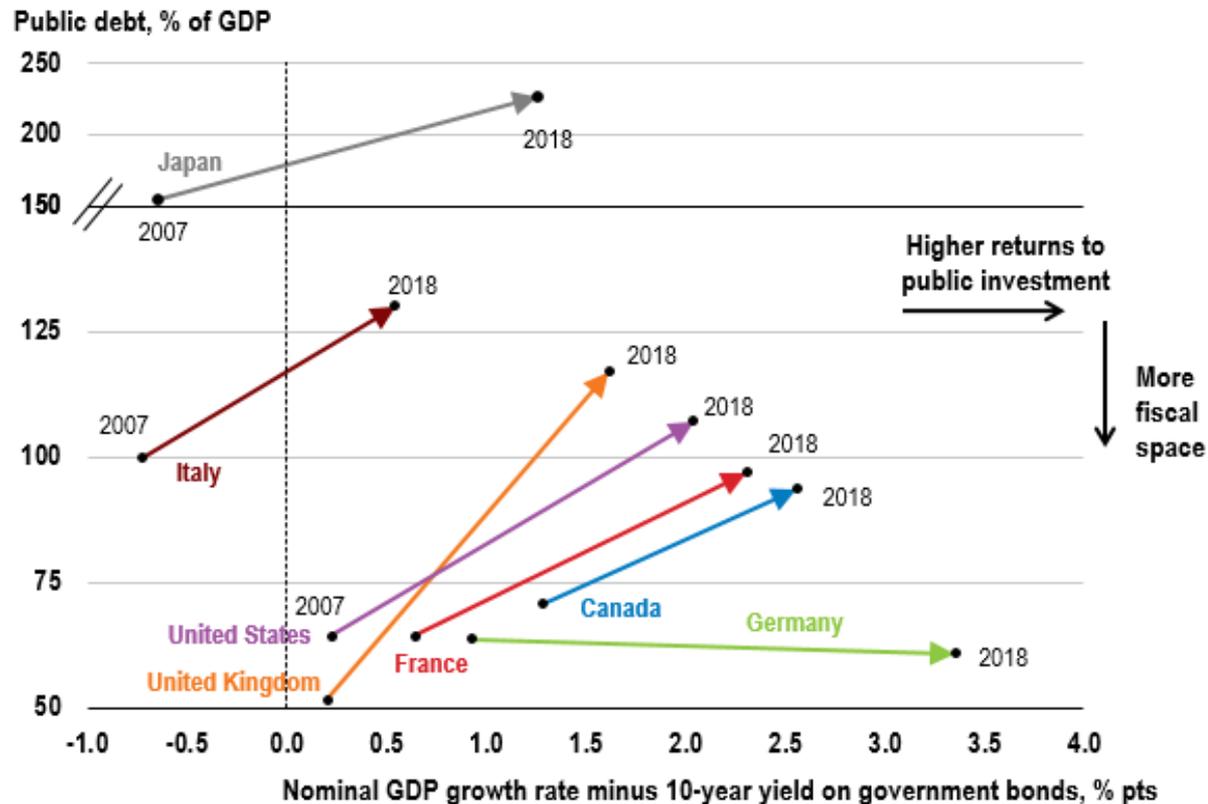
1. Share of domestic sovereign bonds in banks' portfolios of sovereign bonds issued by Euro area countries.

2. Changing composition.

Source: OECD calculations based on ECB (2019), "Balance Sheet Items statistics", Statistical Data Warehouse, European Central Bank.



# Fiscal space is uneven across the euro area



Note: Data for 2018 are projections. Public debt based on the national accounts definition except for EU countries where public debt based on Maastricht criteria is shown. Therefore, debt numbers are not fully comparable between EU and non-EU countries. Source: OECD Economic Outlook database (Sep. 2018); and OECD calculations.

- **More fiscal risk-sharing would improve the mix of monetary and national fiscal policy, prevent pro-cyclical tightening and help achieve a better aggregate fiscal stance.**



# Strengthening resilience through a common fiscal capacity

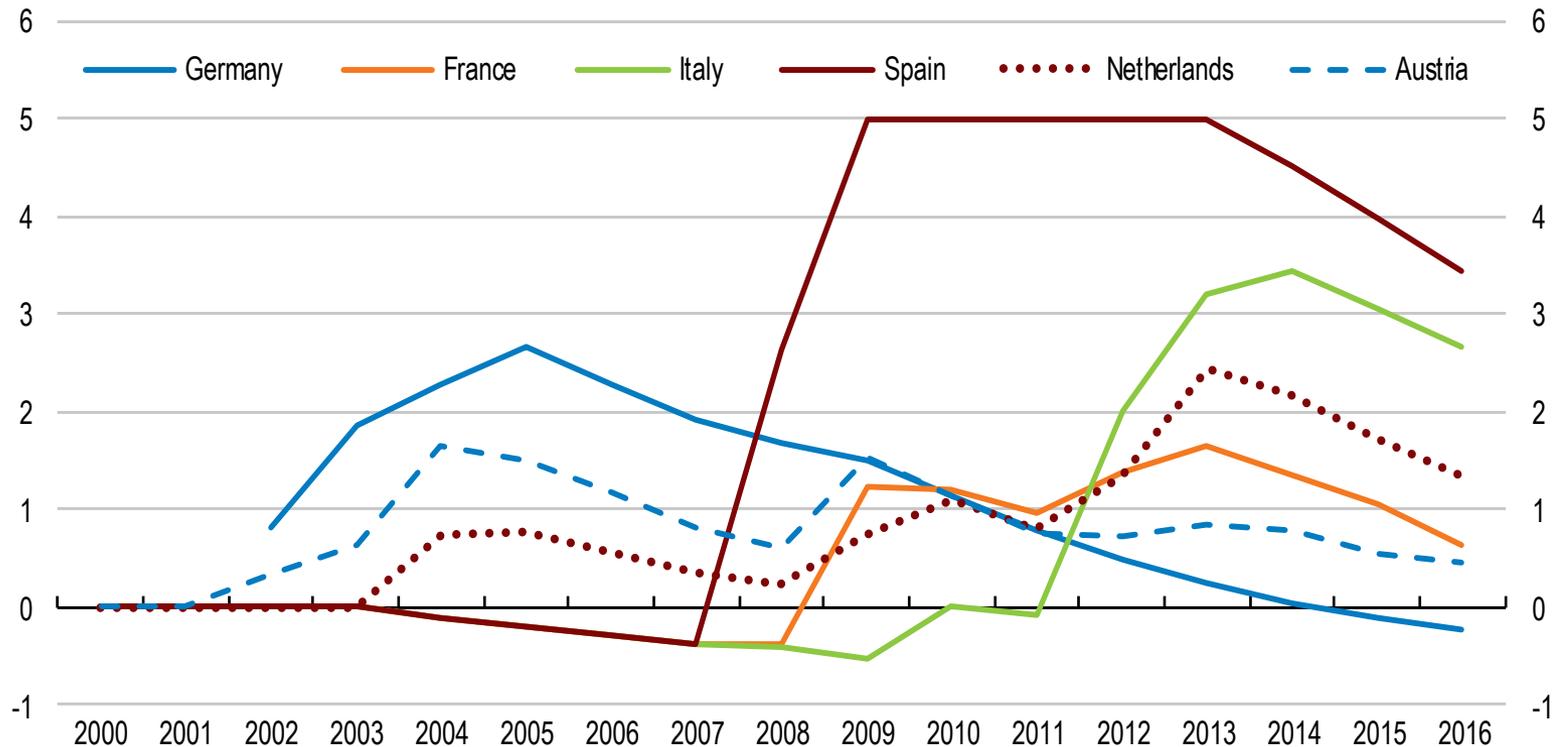
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- **The 2018 OECD Survey of Euro Area proposed an unemployment-triggered scheme:**
  - **Automatic trigger based on unemployment.**
  - **Support is proportioned to the size of the shock.**
  - **Cumulative support is up to 5% of GDP.**
  - **Regular annual contribution to build up the fund is 0.1% of GDP (but can be less or more)**
  - **The scheme can borrow to provide support.**



# A scheme well-balanced across countries

Cumulative net balances towards the scheme (% of GDP)

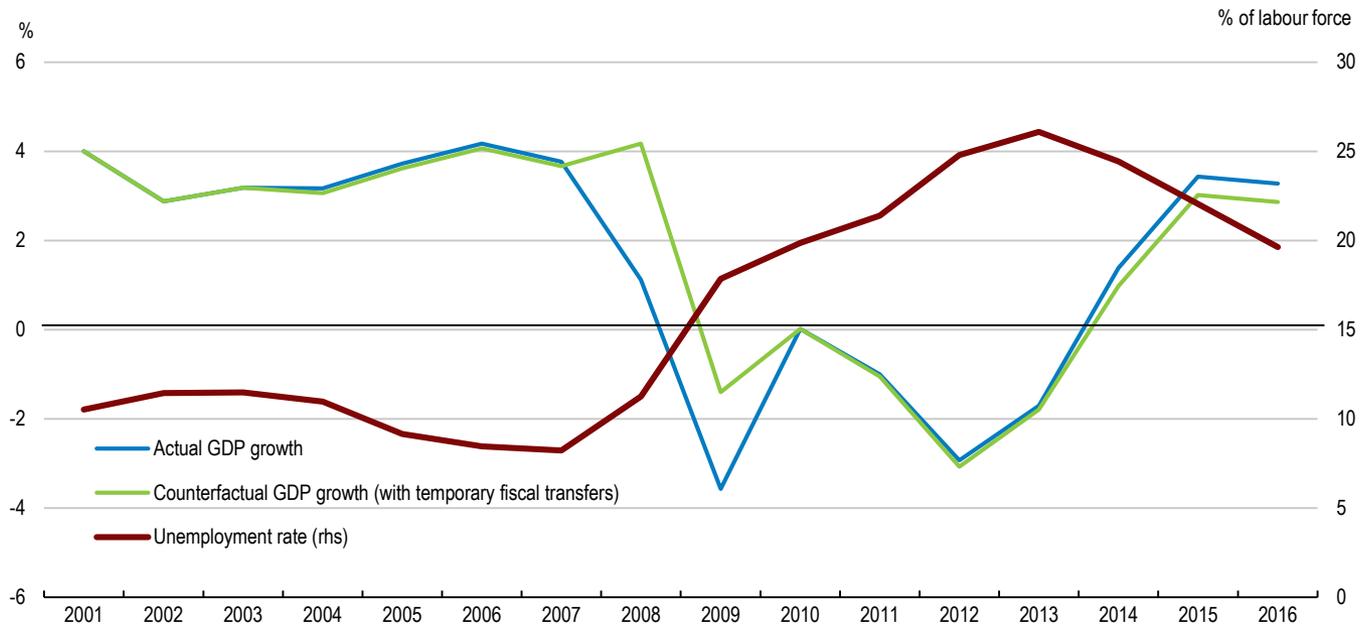


Source: Claveres and Stráský (2018).



# How the scheme would have worked – Spain as an example

## Spain: real GDP growth and unemployment rate



Source: OECD (2018), OECD Economic Outlook No. 103: Statistics and Projections (database) and authors' calculations.



# Reforming EU fiscal rules with a common fiscal capacity

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- **Key features for successful fiscal rules : simplicity, flexibility, enforceability**
  - **Consistent debt targets and expenditure ceilings should provide a long-term anchor and short term guidance**
  - **There is a need for an independent fiscal council**
- **There is a strong case for jointly reforming fiscal rules and designing a common fiscal capacity:**
  - **This would combine risk reduction (better rules) and risk sharing (a common fiscal capacity)**
  - **The stabilization potential would be better assessed by considering rules and fiscal capacity together, not in isolation**



## **For discussion: in the long run, more ambition may be needed**

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- **Why could a dedicated euro area budget reinforce EMU in the long run?**
  - ❑ **Convergence and cohesion: energy transition, security, defense and immigration, and other projects that boost potential growth more directly, such as education and infrastructure**
  - ❑ **If sizeable enough, restore market discipline by allowing national debt restructuring**
  - ❑ **A European safe asset**
  - ❑ **Increase democratic oversight and political legitimacy, enhancing trust**



THANK YOU!