

## **POLICY PANEL**

***“HOW MUCH OF A FISCAL UNION FOR THE EMU? HAS THE ANSWER TO THIS, AND RELATED QUESTIONS REGARDING THE EMU FISCAL AND MONETARY FRAMEWORK, CHANGED AFTER 2016?”***

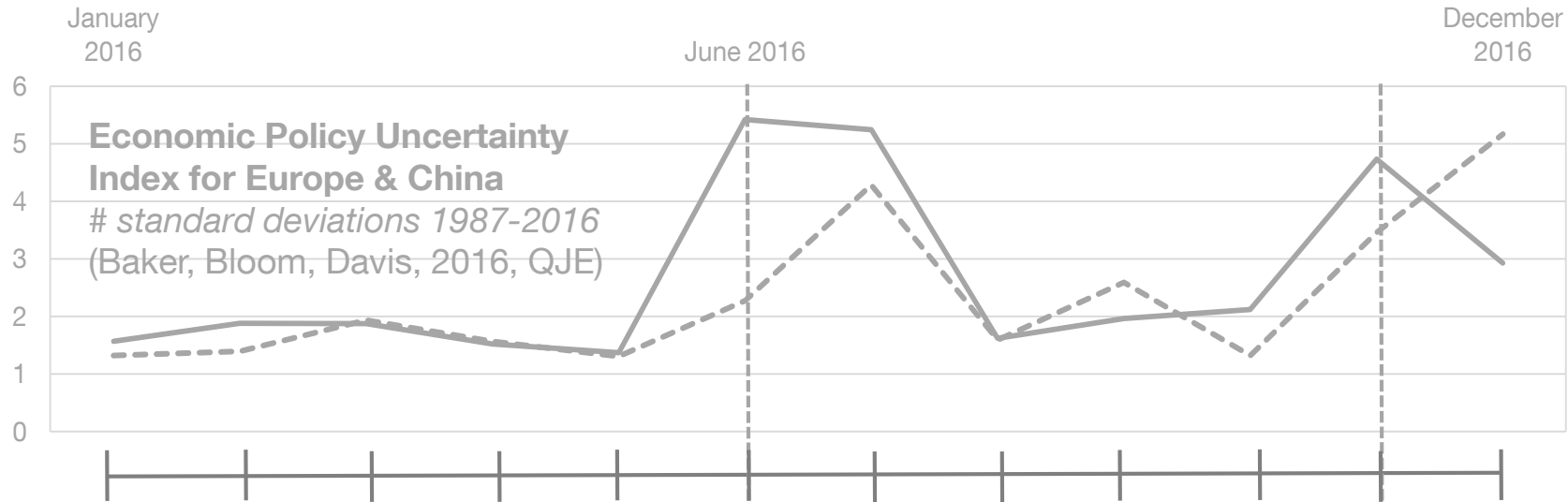
**Javier J. Pérez**  
Banco de España

ADEMU Conference “HOW MUCH OF A FISCAL UNION FOR THE EMU?”  
Banco de España, Madrid, May 18-19, 2017

# WHAT WAS SPECIAL ABOUT 2016?



## EMU FRAMEWORK AFTER 2016?



**Political events**

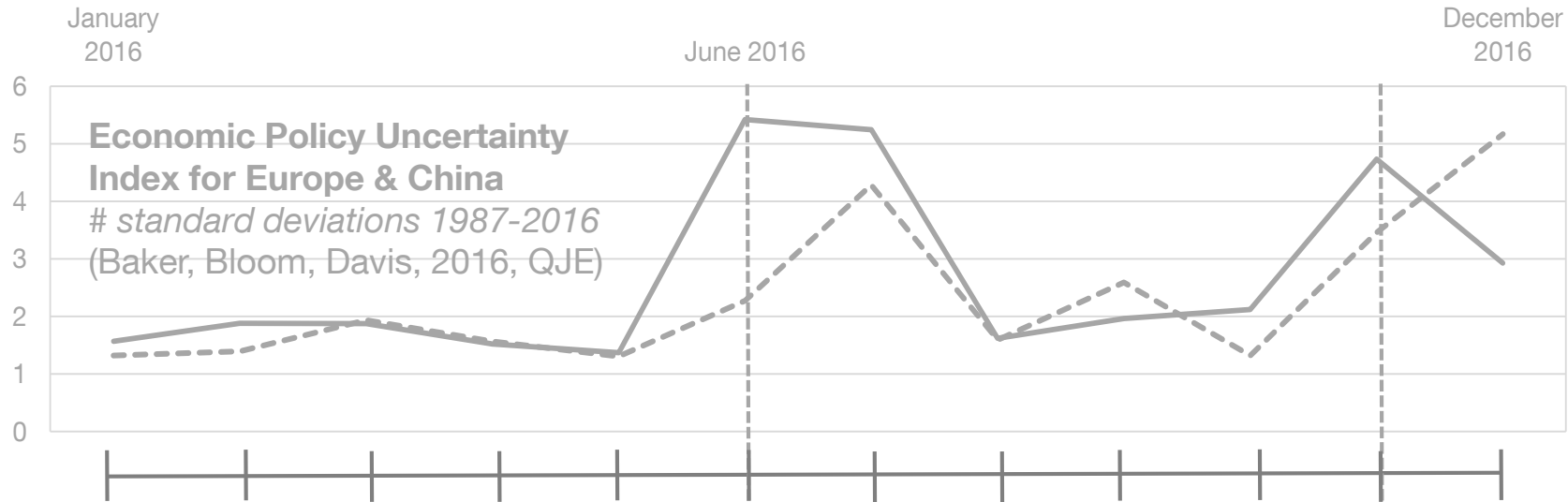
**June: UK "Brexit" referendum**

**November: US elections**

# WHAT WAS SPECIAL ABOUT 2016?



## EMU FRAMEWORK AFTER 2016?



**Political events**

**EU fiscal policy**

**June:** UK “Brexit” referendum

**November:** US elections

**May:** progress with GR’s 3rd Programme

**July:** SGP, Council Decision ES & PT not in line with EDP

**August:** SGP, Council Decision ES & PT – no fines and new deadlines

**November:** SGP, EC no suspension of EU funds for ES & PT

**October:** EFB members

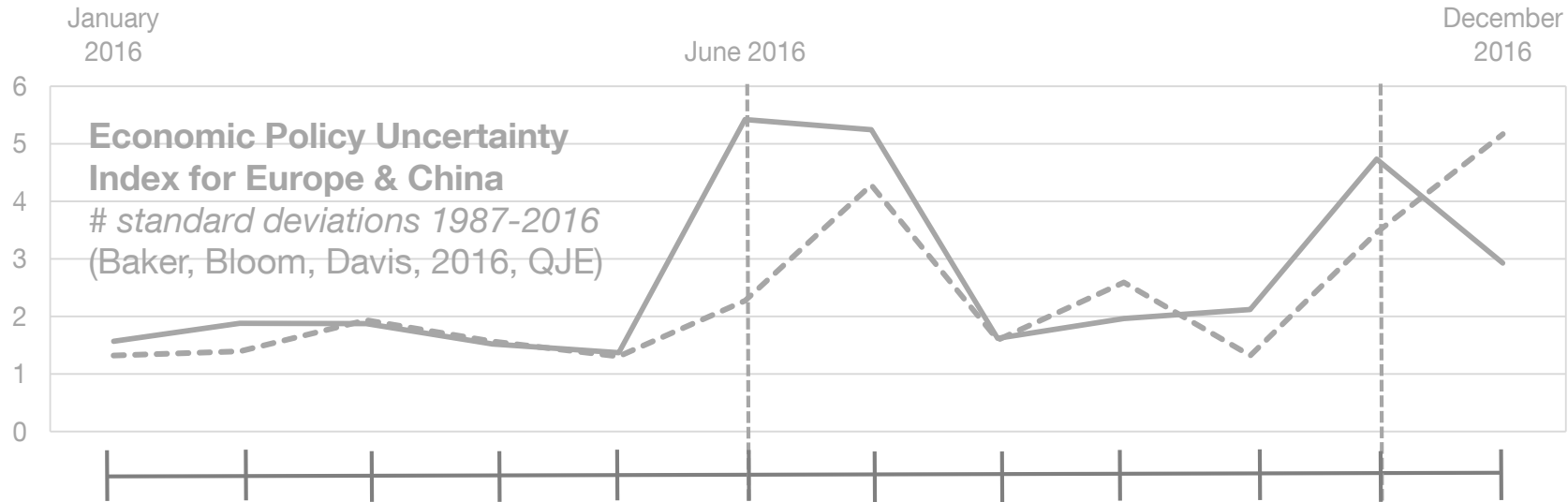
**Nov:** EC on “Euro area fiscal stance”

**December:** Eurogroup opinion on EC (no space, composition)

# WHAT WAS SPECIAL ABOUT 2016?



## EMU FRAMEWORK AFTER 2016?



**Political events**

**EU fiscal policy**

**EA monetary policy**

**June: UK "Brexit" referendum**

**November: US elections**

**May:** progress with GR's 3rd Programme

**July:** SGP, Council Decision ES & PT not in line with EDP

**August:** SGP, Council Decision ES & PT – no fines and new deadlines

**November:** SGP, EC no suspension of EU funds for ES & PT

**October:** EFB members

**Nov:** EC on "Euro area fiscal stance"

**December:** Eurogroup opinion on EC (no space, composition)

**March:** ECB adds CSPP to the APP / APP from €60 to €80 bn / TLTRO II

**December:** APP from €80 to €60 bn as of April until Dec 2017 or beyond

# LESSONS FOR EMU "FISCAL UNION"?

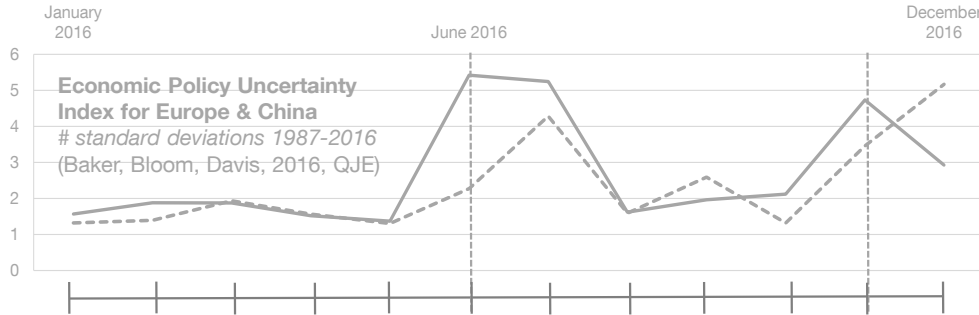


## EMU FRAMEWORK AFTER 2016?

### WHAT WAS SPECIAL ABOUT 2016?



#### FISCAL UNION AFTER 2016?



**Institutions:**  
EU citizens'/"territories"  
perception of usefulness

**Is the FP framework useful?**  
Loose implementation in expansion (noise)  
More institutions?

**The policy mix**  
Support monetary policy  
EMU vs. national govnt's

**Political events**

**EU fiscal policy**

**EA monetary policy**

**June: UK "Brexit" referendum**

**November: US elections**

**May:** progress with GR's 3rd Programme

**July:** SGP, Council Decision ES & PT not in line with EDP

**August:** SGP, Council Decision ES & PT – no fines and new deadlines

**November:** SGP, EC no suspension of EU funds for ES & PT

**December:** Eurogroup opinion on EC (no space, composition)

**October:** EFB members

**Nov:** EC on "Euro area fiscal stance"

**March:** ECB adds CSPP to the APP / APP from €60 to €80 bn / TLTRO II

**December:** APP from €80 to €60 bn as of April until Dec 2017 or beyond



## COMPLEXITY?

**Institutions evolve: “complexity” is the result of coverage against multiple contingencies**

*Is any rule doomed to become too complex?*

*Is EU + national legislation simpler in other areas?*

*New “institutions”: EFB within Executive – no agency competition (US – CBO, Legislative, OMB, Executive)*

## IMPLEMENTATION?

**Willingness (delays/noise), but also some “practical” issues**

*Transparency: data, measures (narrative), plans (anchor)*

*Role of EC vs. national bodies (knowledge, language,...)*

# 2016 LESSONS FOR FISCAL POLICY FRAMEWORK – COMPLEXITY OR IMPLEMENTATION PROBLEMS?

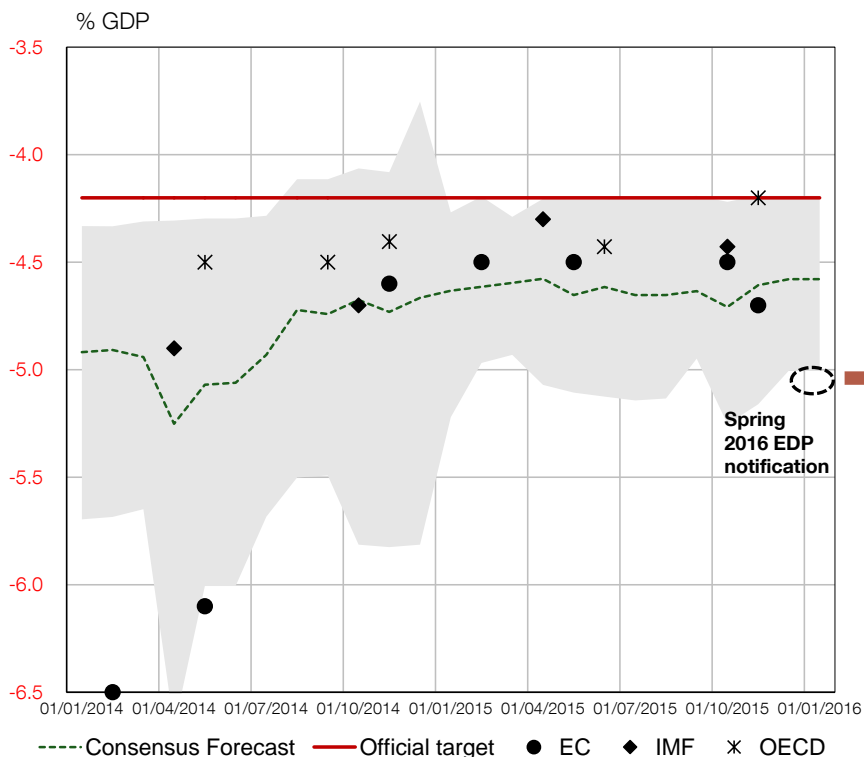


EMU FRAMEWORK AFTER 2016?

## IMPLEMENTATION?

Willingness (and delays), but also some “practical” issues

**Spain:**  
evolution  
of govnt  
budget  
balance  
forecasts  
for 2015



**EU-wide: data reliability – govnt Budget balance revisions (EU-15 countries)**

**Revision within the 1st year:**  
 $r^2_t = d^2_t - d^1_t$

Mean 0.00

**Revision after 4 years:**  
 $r^8_t = d^8_t - d^1_t$

Mean -0.34\*\*\*

# 2016 LESSONS FOR FISCAL POLICY FRAMEWORK – USEFULNESS OF INSTITUTIONS

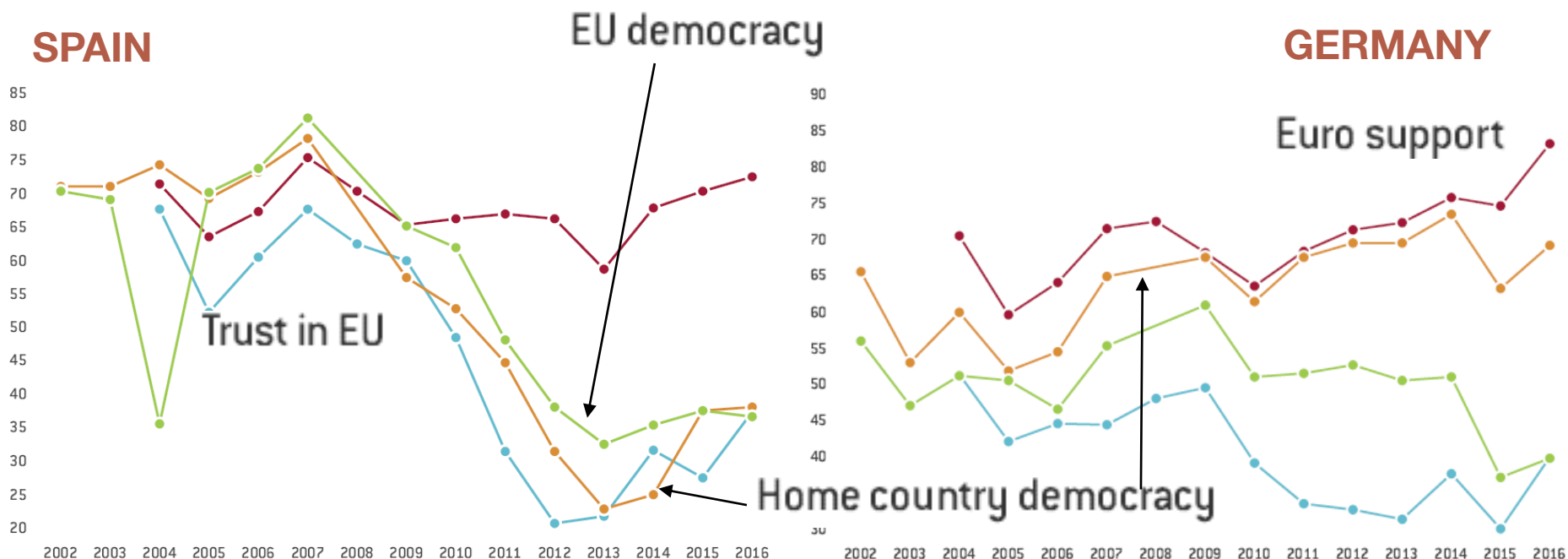


EMU FRAMEWORK AFTER 2016?

## EU FISCAL FRAMEWORK...

... Useful in the axis “EU citizens versus National Governments”?

... Specially in countries with low trust in national governments



Source: Bruegel note 24 March 2017, based on Eurobarometer





## EU FISCAL FRAMEWORK...

... Useful in the axis

“National Governments” versus “Regional governments”?

... Specially in countries with

“decentralization tensions” (ES, UK, IT, ...)



## **COORDINATION OF NATIONAL POLICIES NEEDED**

**Recent experiences mixed**

**Heterogeneity of fiscal positions and complex decision-making**

*EERP (2008), Junker Plan (2015)*

*EC Communication (2016)*

**But, spillover effects quantitatively relevant**

*[Empirical analysis for the EMU and DE, FR, IT, ES in Banco de España (2017, forthcoming)]*



## **HOW TO SOLVE THE PROBLEM OF EXPLICIT COORDINATION OF NATIONAL FISCAL POLICIES**

**Beyond the implicit mechanism provided by rules**

### **“CENTRALIZED TOOL/FISCAL CAPACITY” TO REDUCE COSTS OF BUSINESS CYCLES**

**If anything, the events of 2016 suggest that this is more pressing**

**An average contribution of some 1% of GNP would suffice to get a  
“fiscal insurance” similar to the one of the US**

*Exercise: counterfactual simulations of an scheme of reception-  
contribution based on the output gap (1999-2015)*

Empirical analysis for EU countries in Banco de España (2017, forthcoming)



**THANKS FOR YOUR ATTENTION**

**Javier J. Pérez**  
Banco de España

[http://www.bde.es/investigador/en/menu/research\\_staff\\_a/Perez\\_Javier\\_J.html](http://www.bde.es/investigador/en/menu/research_staff_a/Perez_Javier_J.html)

ADEMU Conference “HOW MUCH OF A FISCAL UNION FOR THE EMU?”  
Banco de España, Madrid, May 18-19, 2017



# ADDITIONAL SLIDES



## EMU FRAMEWORK AFTER 2016?

*Trust in EU: "How much trust you have in the European Union?" Share of those respondents who "Tend to trust" among those who answered this question.*

*Euro support: "Please tell me whether you are for or against the statement: A European economic and monetary union with one single currency, the euro." Share of those respondents who are "For" among those who answered this question.*

*Home country democracy: "How about the way democracy works in your country?" Share of those respondents who replied "Very satisfied" and "Fairly satisfied" among those who answered this question.*

*EU democracy: "How about the way democracy works in the European Union?" Share of those respondents who replied "Very satisfied" and "Fairly satisfied" among those who answered this question.*