

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?”

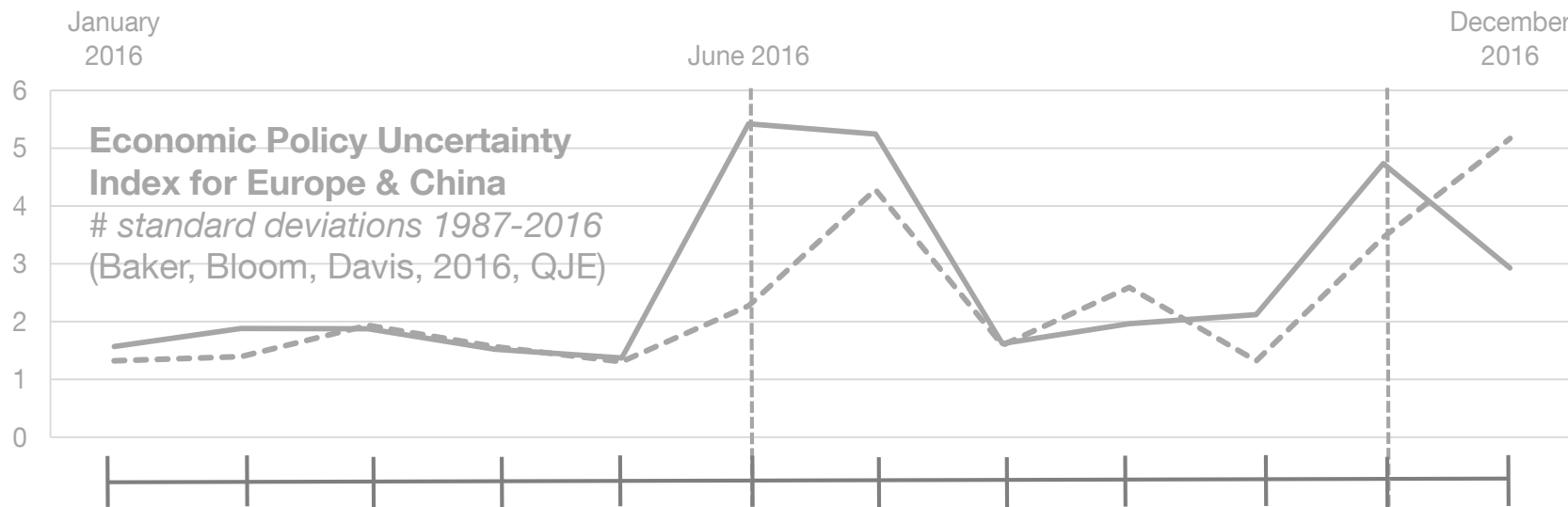
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ADEMU Conference “HOW MUCH OF A FISCAL UNION FOR THE EMU?”
Banco de España, Madrid, May 18-19, 2017

WHAT WAS SPECIAL ABOUT 2016?



EMU FRAMEWORK AFTER 2016?



Political events

**June: UK
"Brexit" referendum**

**November:
US elections**

Other:

Refugee crisis

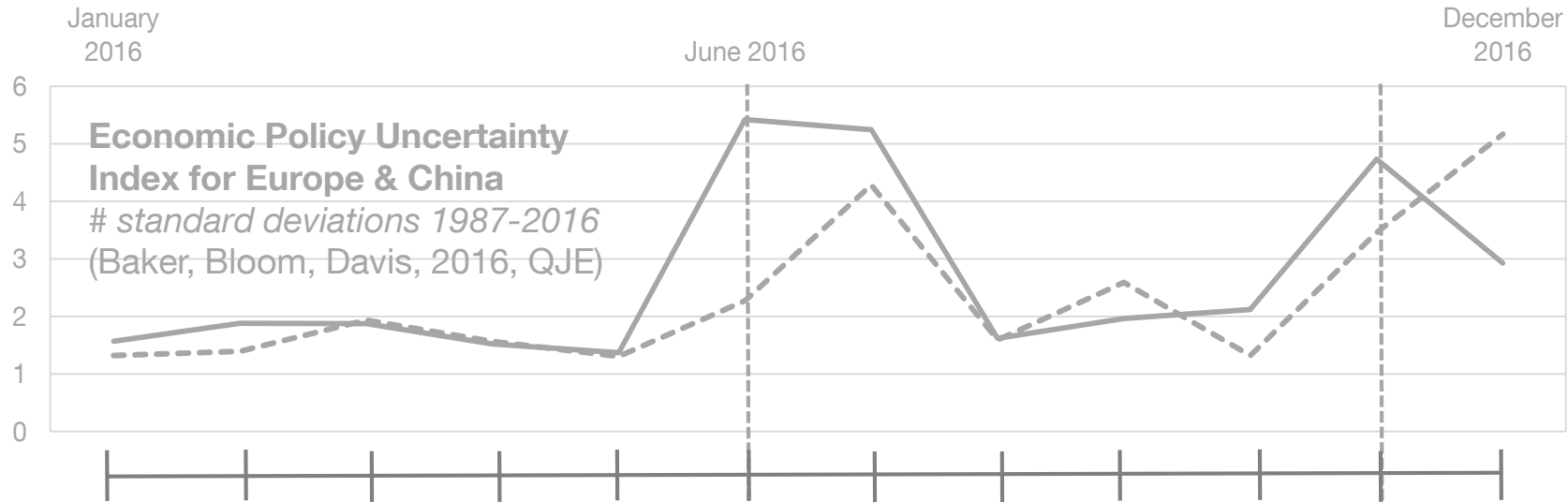
Terrorist attacks in Europe

Geopolitical events: Syria, Russia / Ukraine, ...

WHAT WAS SPECIAL ABOUT 2016?



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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

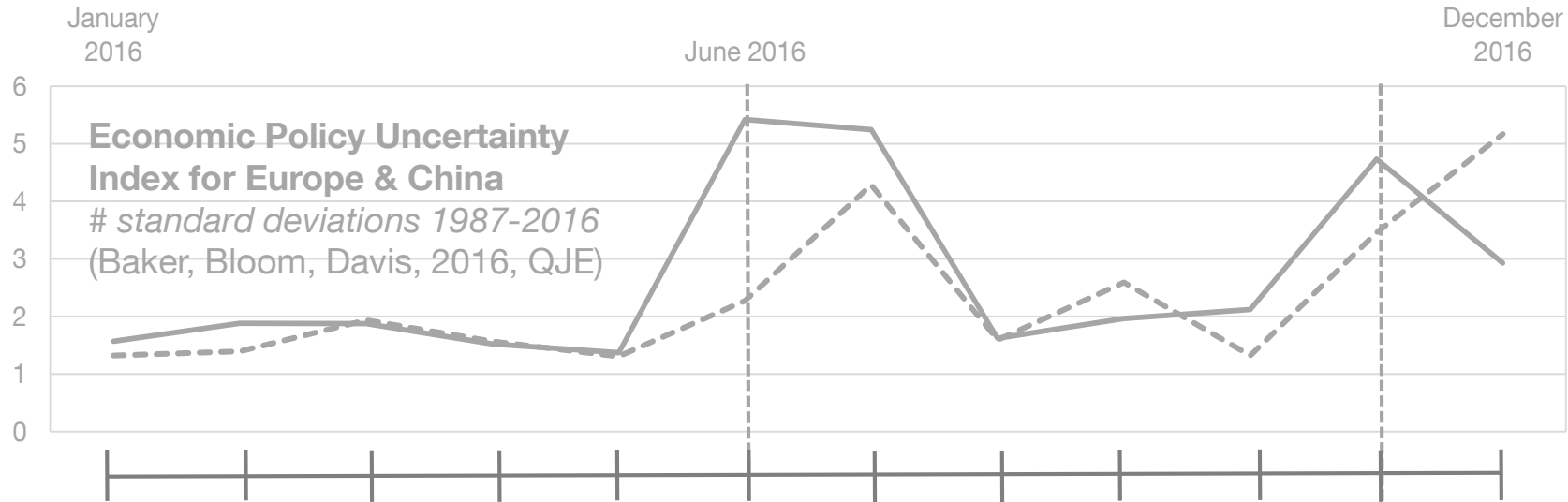
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December: Eurogroup opinion on EC (no space, composition)

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EA monetary policy

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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"?

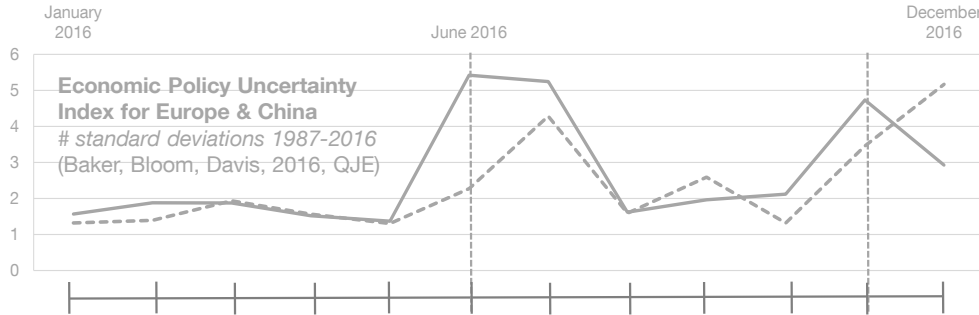


EMU FRAMEWORK AFTER 2016?

WHAT WAS SPECIAL ABOUT 2016?



FISCAL UNION AFTER 2016?



Institutions:
EU citizens' perception of usefulness

Are rules useful?
Loose implementation in expansion (noise)
More institutions?

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

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EU fiscal policy

EA monetary policy

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LESSON OF 2016 FOR FISCAL RULES – COMPLEXITY OR IMPLEMENTATION PROBLEMS?



EMU FRAMEWORK AFTER 2016?

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,...)

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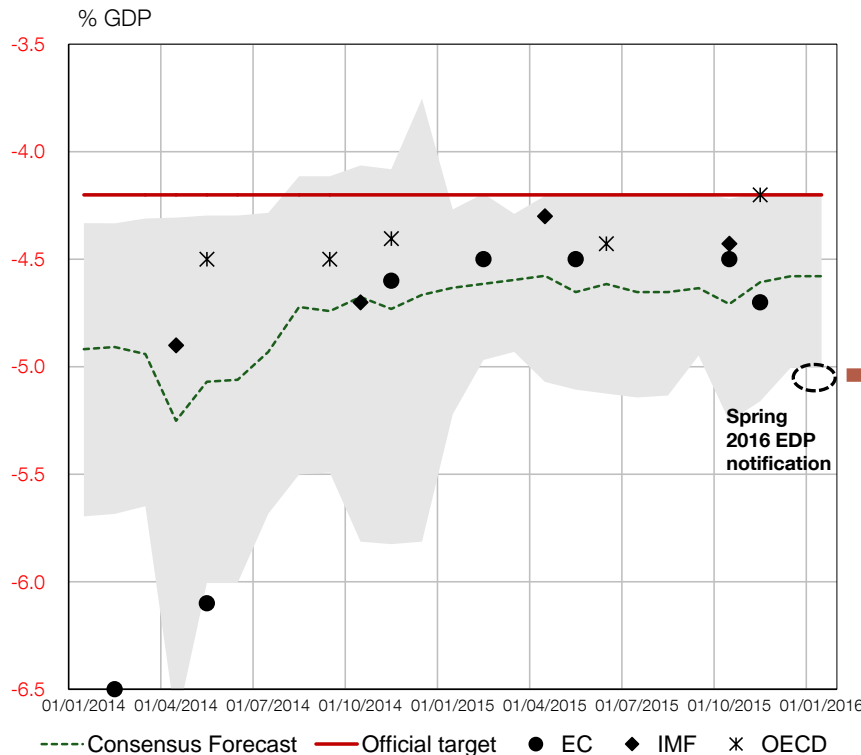


EMU FRAMEWORK AFTER 2016?

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***

LESSON OF 2016 FOR FISCAL RULES – USEFULNESS OF INSTITUTIONS

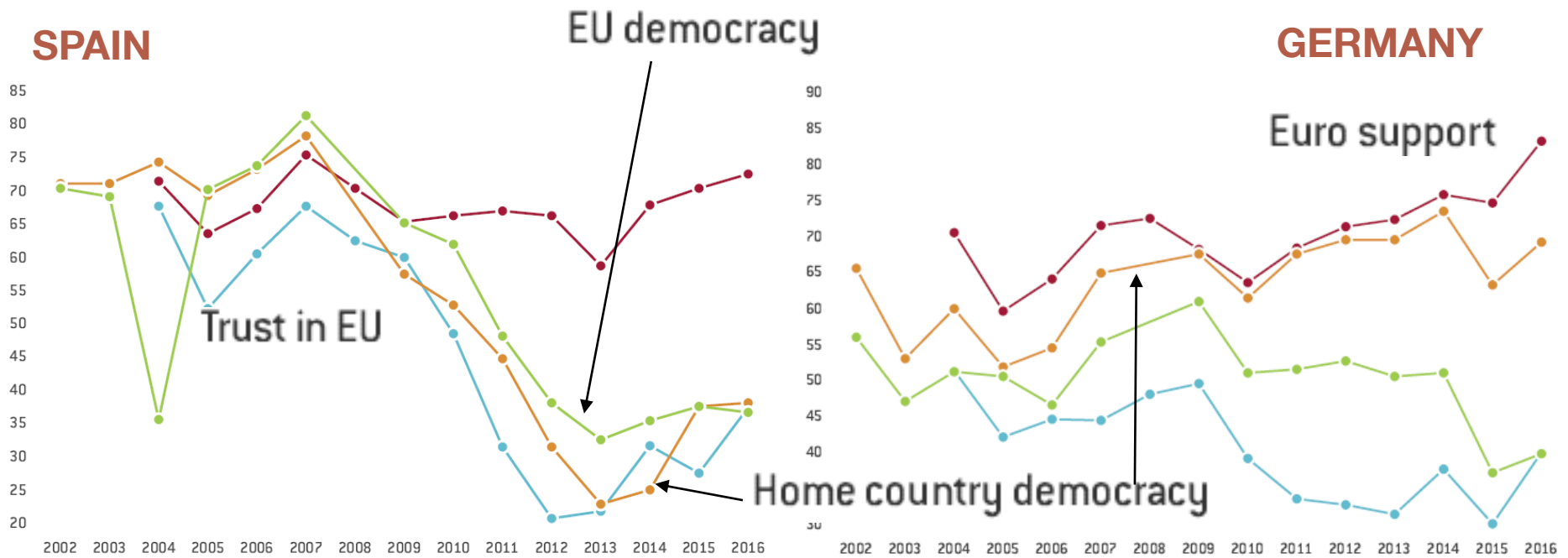


EMU FRAMEWORK AFTER 2016?

EU FISCAL FRAMEWORK – VEHICLE TO GAIN EU CITIZENS' TRUST?

Citizens: sense of reinforced control over national government

In countries with weaker institutional frameworks, lack of trust



Source: Bruegel note 24 March 2017, based on Eurobarometer



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

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http://www.bde.es/investigador/en/menu/research_staff_a/Perez_Javier_J.html

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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.