

# Discussion: Session 2, Fiscal Governance

ECB/IMF conference

# Questions

- What **long term goals** for fiscal governance?
- Will current **reforms** be enough?
- Do we underestimate their **impact** and the **practical difficulties** involved?

# Objective: Support Integration

- Roadmap to anchor expectations
- Banking union
- Fiscal union (“AAA Union” ...)
  - Strong governance frameworks
  - Minimum necessary risk sharing
  - Commensurate accountability

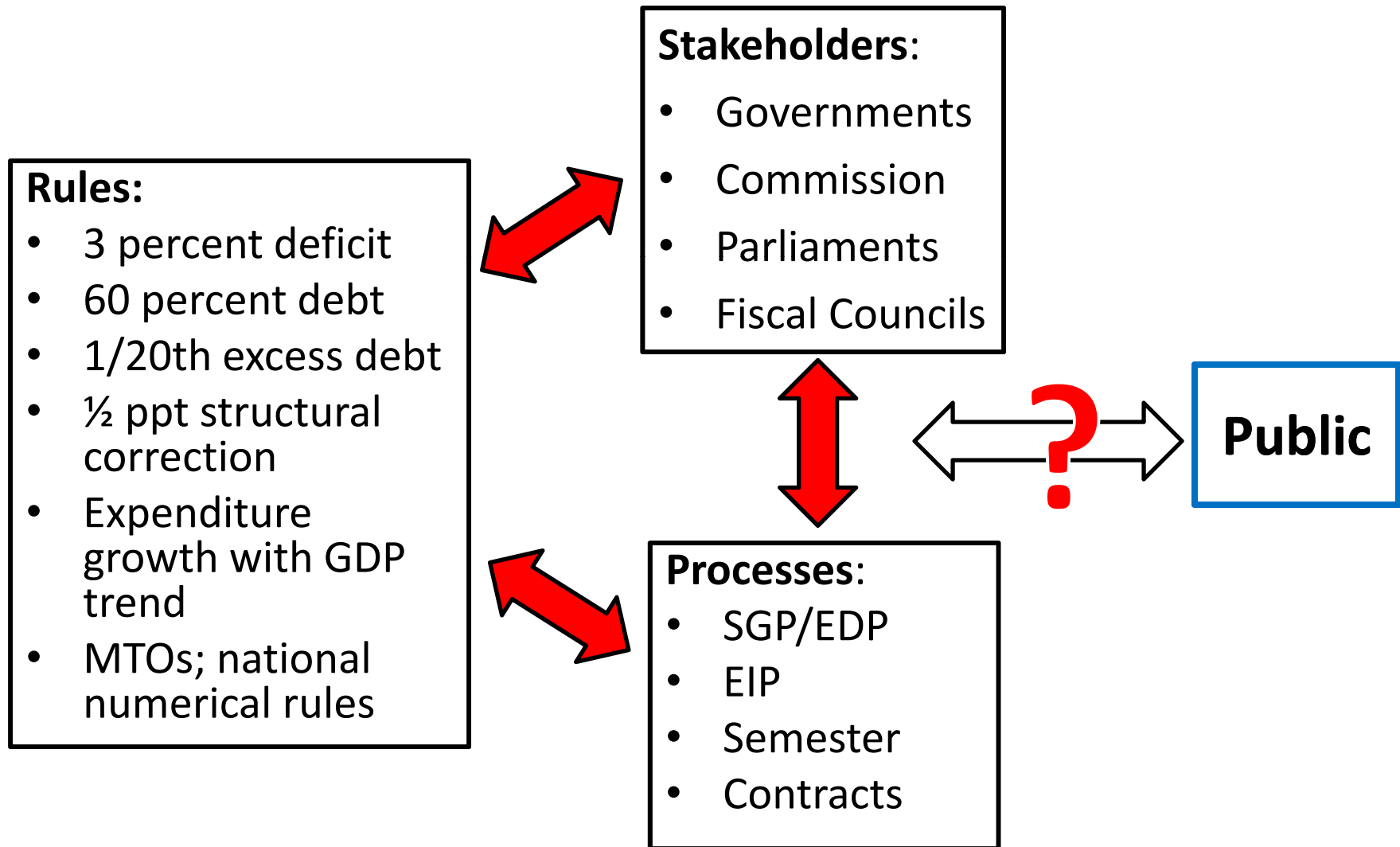
*ex ante*

→ Session 3

# Reforms: Right Direction

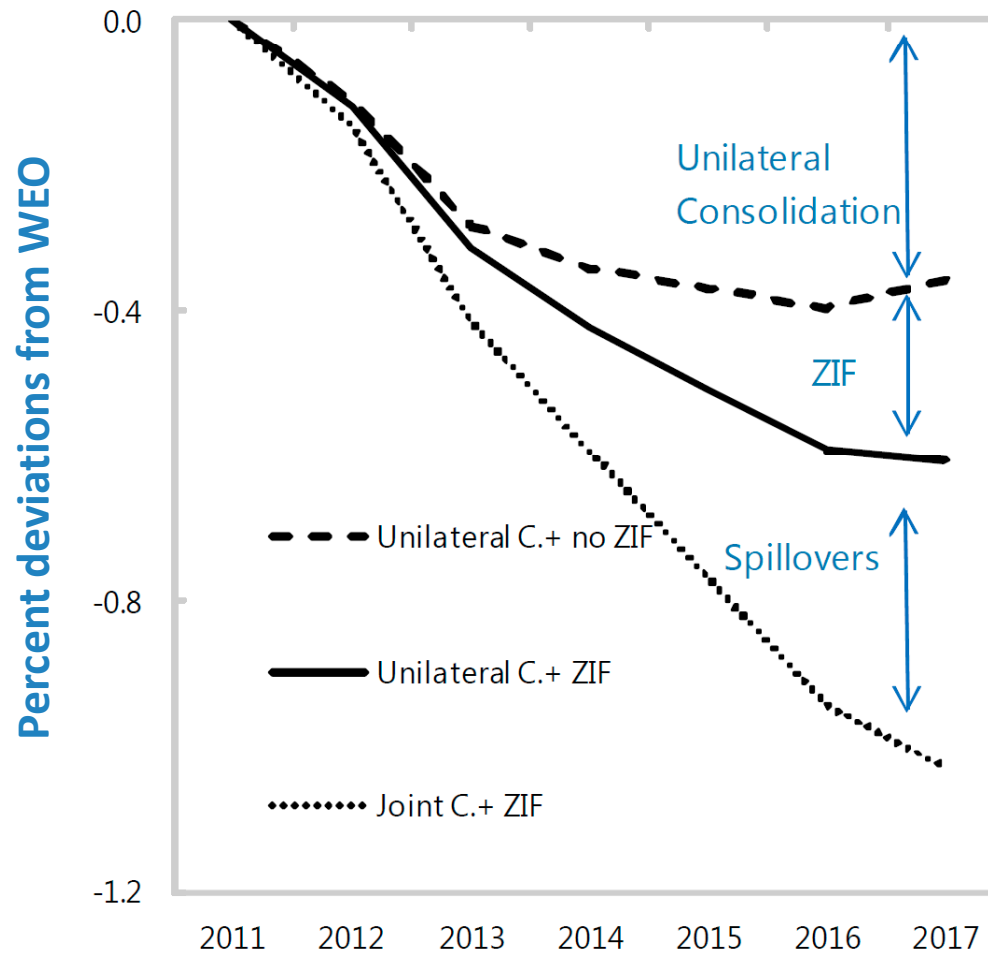
- Clearly improving governance frameworks...
  - debt brakes; Fiscal Councils; contracts
  - RQMV; Semester; EIP
- ...and welcome focus on structural balances
- But enough to support a Fiscal union?
- More progress needed, including on
  - **Enforcement** (national ↔ EU-level)
  - **Transparency**

# Transparency: Missing



# Practicalities: Impact

## Euro Area: GDP loss from additional consolidation\*

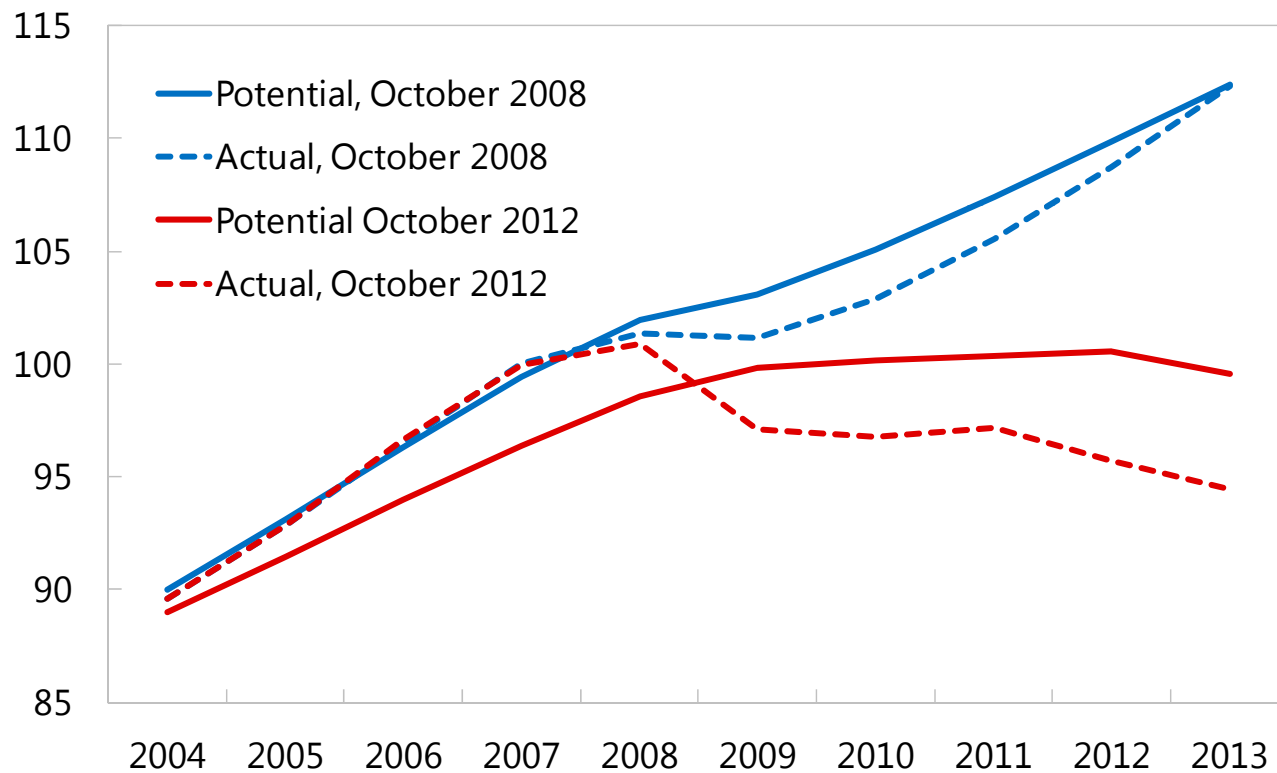


Source: IMF.

\* GIMF simulation assuming growth-friendly adjustment to new rules, based on WEO April 2012.

# Practicalities: Unobservables...

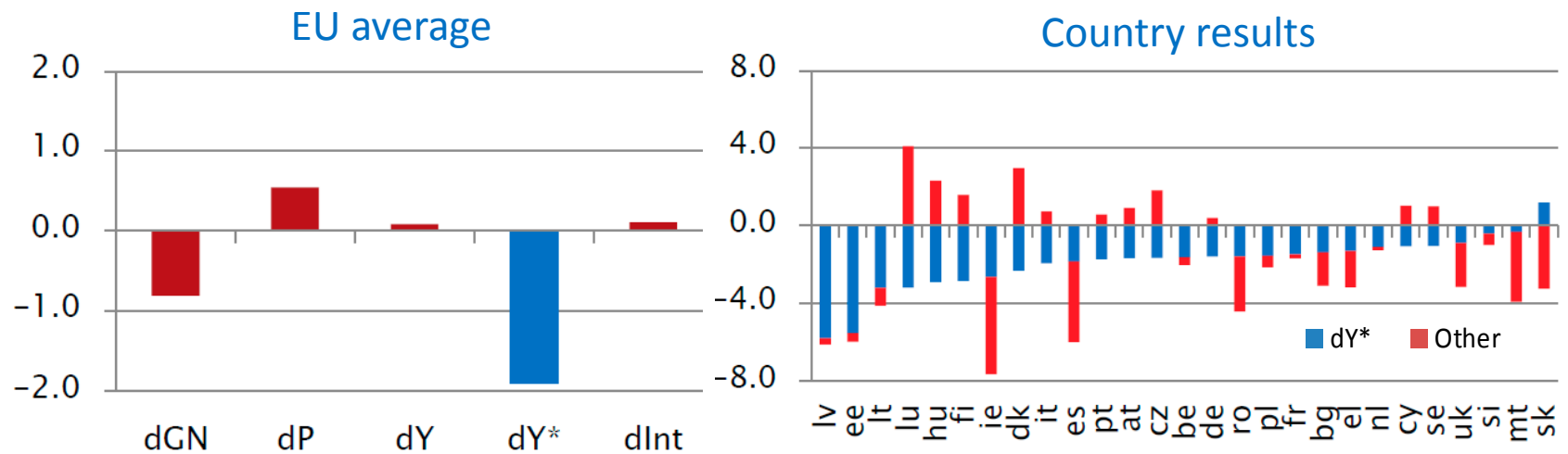
## Spain: GDP and potential output, 2004-13



Source: IMF.

# ...move the structural balance...

## EU: Adjustment of structural balance, 2008\*



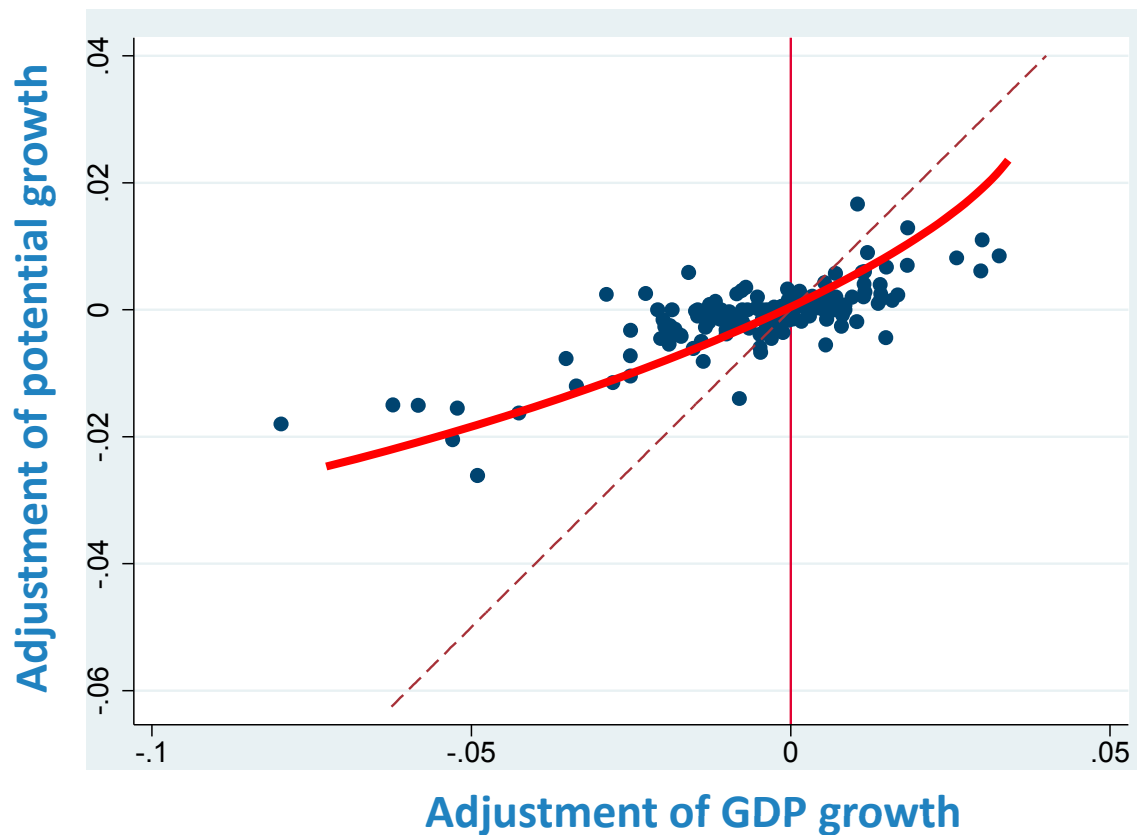
Source: EC, IMF calculations.

\* Adjustment between Fall 2007 and Spring 2009



# ...possibly asymmetrically

## Advanced Economies: Forecast revisions, 1999-2012\*



Source: IMF.

\* 12 countries (incl. UK, US, JP);  $GDP_t$  and  $Pot_t$  between October WEO in  $t-1$  and in  $t$

# Questions

- What **long term goals** for fiscal governance?
- Will current **reforms** be enough?
- Do we underestimate their **impact** and the **practical difficulties** involved?

Thank you