

14th Meeting of the Network of Public Finance Economists in Public Administration

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The informative value of national fiscal indicators in respect of debt at the European level

Deutsche Bundesbank, Monthly Report, December 2020, pp. 37-47

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Cause of action: European Covid measures

- **Coronavirus crisis: fiscal policy playing an important stabilising role**
 - National response at the forefront
 - Supplemented by European level initiatives (SURE, ESM, NGEU)
- **New features at European level were introduced**
 - *Quantity*: EU debt increases substantially
 - *Quality*: EU deficits – new –, i.e. debt not only for loans but also for transfers
 - **→ affecting informative value of national fiscal indicators**

Intention: Transparency

- Mostly national fiscal indicators of interest
 - **Up until now:** EU level automatically included in national data
 - Because funded by contributions made in the same year by Member States
 - **From now on:** European level debt and deficit not included in national data
 - Incomplete indicators → incomplete analyses → **Policy (recommendations) prone to error**
- **Need: transparency**

Problem: Misleading information

- **Not visible in national indicators ≠ not relevant**
 - National fiscal indicators appear more favourable, bc. expenditure will be funded by EU grants
 - **Recording shifted** from national to European level
 - **Burden remains:** Member States have to service European debt as if it were national debt
 - Member States' contribution to EU budget c.p. increases in later years, instead of interest and principle for national debt
- **Risks**
 - “Out of sight, out of mind”
 - Incentive to shift more and more debt to European level → propensity to borrow could increase

Problem illustrated with a simplifying example

EU taps capital market for 10 % of GDP ...

- ... financing transfers to every member state 2 ½ % of GDP for four years

→ EU level

- Debt 10 % of GDP
- Deficit for four years 2 ½ % of GDP

→ Member State level (compared to situation without EU transfers)

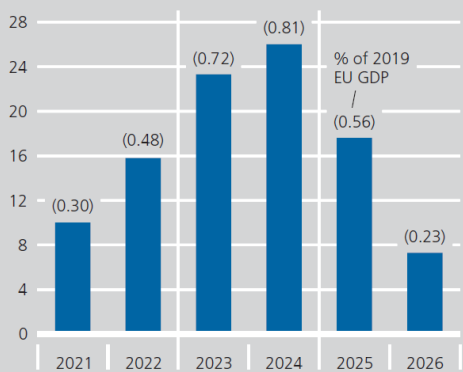
- Deficit ratio lower by 2 ½ PP in four years
- Debt ratio lower by 2 ½ PP in year 1; by 5 PP lower in year 2... ; by 10 PP in year 4
- Later years: increasing future burden not indicated in national data ...
... unless analysis is broadened

Dimension: notable and relevant

based on information available End November 2020 and assumptions (e.g. time profile)

NGEU* grant payments: possible time profile

As a percentage of total resources

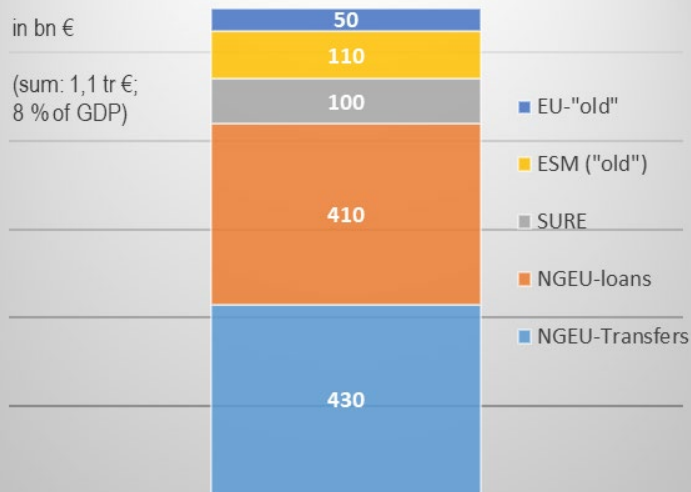


* Next Generation EU.
Deutsche Bundesbank

Possible European level debt 2026

in bn €

(sum: 1,1 tr €;
8 % of GDP)



Approach: disclose !

- **Provide complete set of national accounts data for European level**
 - For any government activity at the European level
 - ESA standard
 - Disclose in Eurostat's press release together with national indicators
 - Include European level data in data on EU and Euro area aggregates
- **Show financial links to member states**
 - Items at the European level should match those reported at Member State level

Use information *(tentative)*

- **Supplement national fiscal indicators for analysis (\neq change NA/ESA)**
 - **Allocate European debt and European deficits to member states according to GNI share**
 - As contributions to EU budget are (broadly) according to GNI share
 - Comparison possible with data prior to EU debt/deficit
- **Deduct EU transfers from ESA-primary-balance when gauging fiscal impulse**
 - fiscal stance more accurate

Key points

- Fiscal policy action in Covid crisis indispensable
- New features were introduced through European initiatives
- Transparency needs to be enhanced
 - **Provide** ESA information for European level government sector
 - **Use** information
- ➔ **Increase informative value of national fiscal indicators**
 - fiscal rules: must not be undermined
 - sustainability: EU debt must not be neglected
 - fiscal impulse: fiscal stance must not deliver wrong picture

End of presentation

Thank you for your attention

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