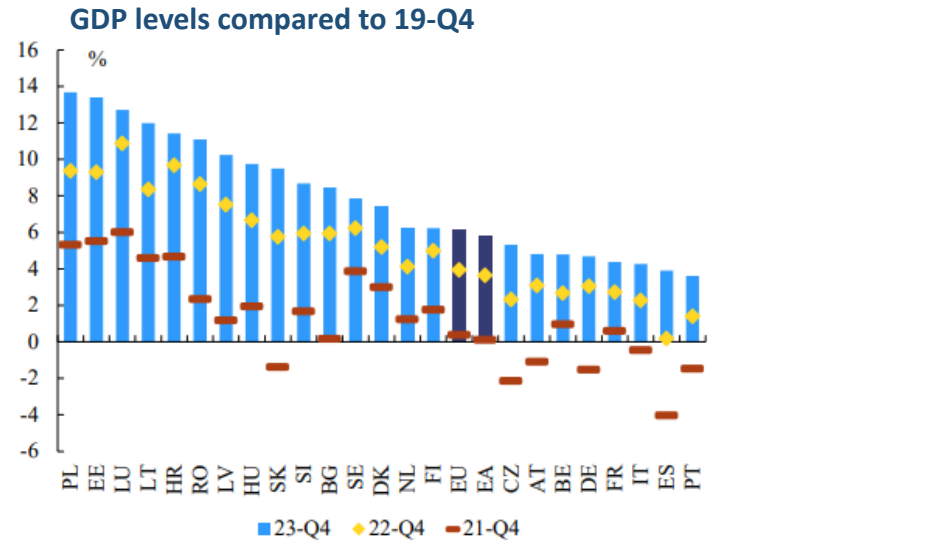


Joint ECFIN - EESC Conference

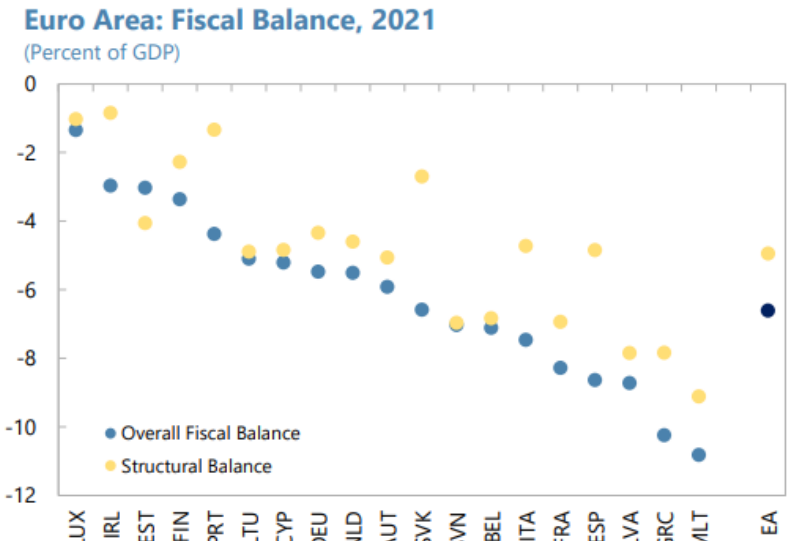
The way forward for the EU Economic Governance Review

Session 1. Social cohesion, debt sustainability and growth

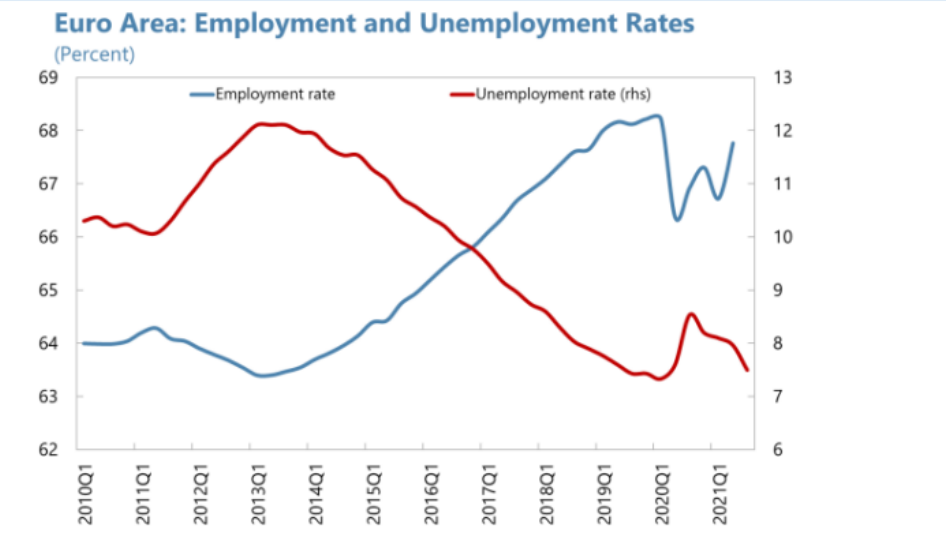
European economy is recovering ...



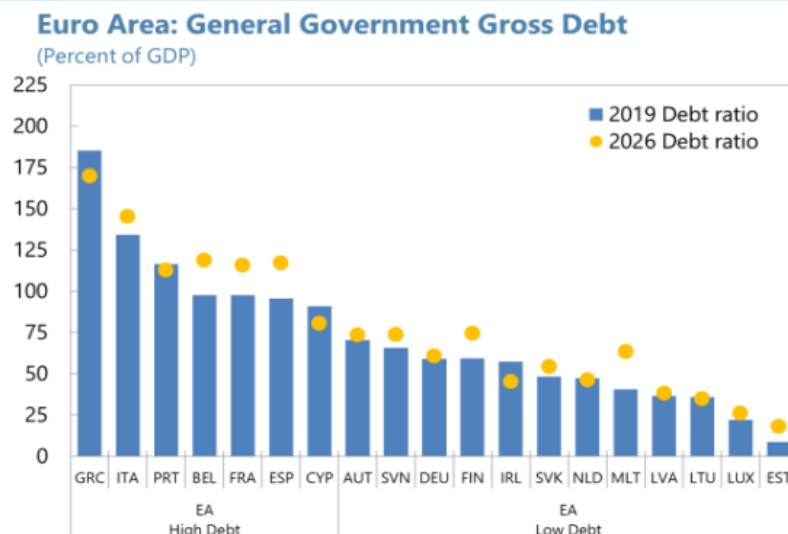
Note: Quarterly GDP forecasts are not reported for IE, CY, EL and MT. Source: European Commission, Winter Forecast 2022



Source: IMF, World Economic Outlook.



Sources: Eurostat; and Haver Analytics.

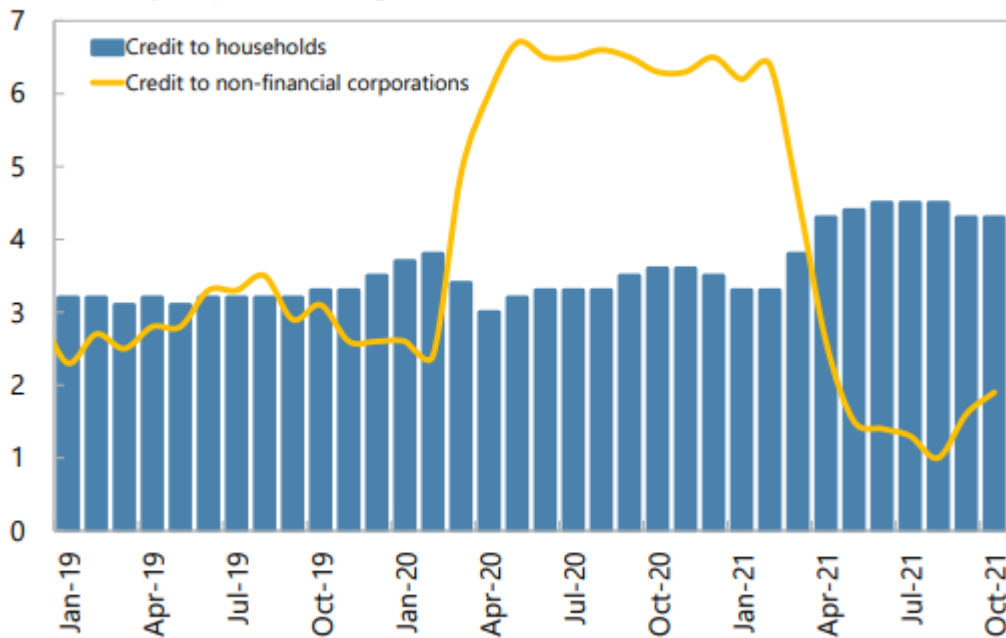


Source: IMF, World Economic Outlook; and IMF staff calculations.

But uncertainty remains high!

Euro Area: Credit to Households and NFCs

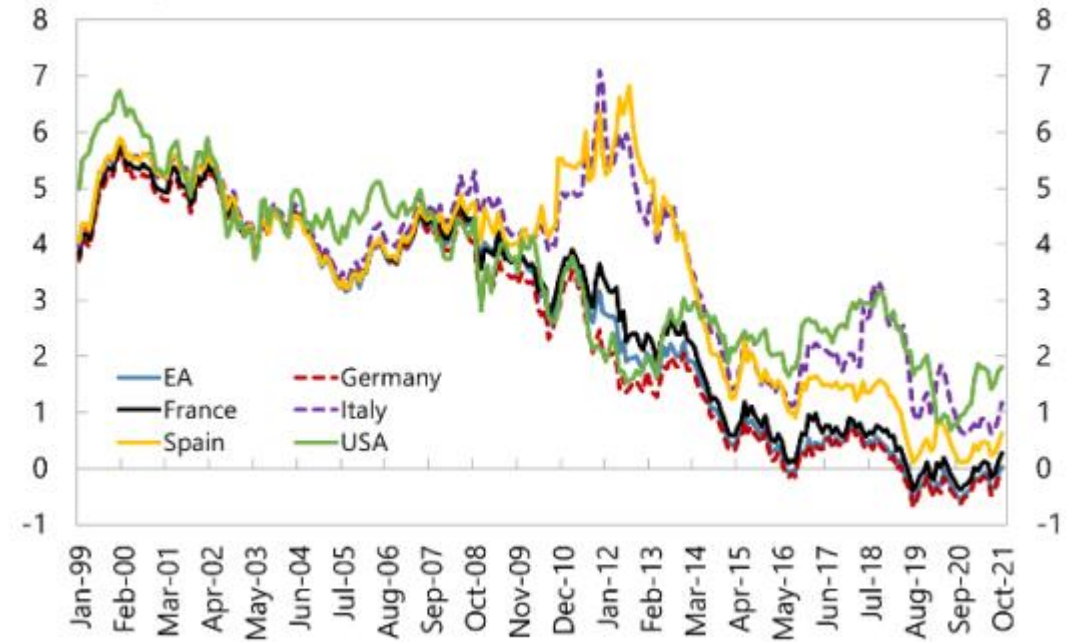
(Year-over-year percent change)



Sources: European Central Bank; and Haver Analytics.

10-Year Nominal Yields

(Percent)



Sources: Bloomberg Finance LP.; and IMF staff calculations.

A bridge solution to avoid unrealistic adjustments

- Targeted phasing-out support; Fiscal Policy should be agile and adjust to the evolving situation as warranted
- Importance of having a clear pathway towards a reviewed fiscal framework
- Application of the SGP cannot undermine the recovery path of the EU economies
- Once the GEC is deactivated and while a reviewed framework is not yet in place:
 - the full use of flexibility (e.g. unusual event clause; special treatment for NGEU-financed spending)
 - country-specific considerations;
 - revision of the *Vade Mecum* and the Code of Conduct;
 - the development of credible exit strategies from the crisis-related measures, while not pre-empting future fiscal trajectories
- Successful implementation of the RRF

A Sustainable Growth Pact /1

- **To foster sustainability, while allowing macroeconomic stabilisation**
 - A single debt anchor and an expenditure rule as a single operational rule (EP, EFB)
 - Realistic and transparently set country-specific debt adjustment paths in order to better tailor to countries' realities and reflect the degree of debt sustainability of MS (EP, EFB)
 - To move towards observable variables (EP, EFB)
 - A common fiscal capacity (IMF, ECB, ESM, EFB)
- **To ensure sustainability, while supporting countries to address their investment needs and fostering sustainable growth**
 - To improve the quality of public finances: quality of public debt and the role of revenues
 - To enhance long-term growth potential
 - Sustainable growth-enhancing expenditure: a green golden rule? EU Climate Investment Fund?

A Sustainable Growth Pact /2

- **To promote political will and ownership for a credible framework**
 - Lessons learnt from the RRF Governance
 - European Semester framework: a “renewed” semester to support a comprehensive EU strategy for sustainable and inclusive growth
 - Role of Independent Fiscal Institutions and Productivity Boards
 - Reforms to take into account national contexts
 - Long-term sustainability assessments: climate-related fiscal risks to be part of the country-specific debt sustainability analyses
 - What should be the role of the European Parliament? And the relation between ECOFIN and EPSCO?
 - EU’s Macroeconomic Dialogues
 - Decision-making framework for the EU economic governance: Community method