

# WORKSHOP

COMMITTEE ON BUDGETS AND  
COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS



Wednesday 21.03.2018 – **14:30-17:00**

PAUL-HENRY SPAAK BUILDING – ROOM **3C50**

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## A FISCAL CAPACITY TO STRENGTHEN AND ENLARGE THE EURO AREA

Budgetary aspects for stabilising  
Economic and Monetary Union

*Organised by*  
**Policy Department D**



### **Chairs:**

Jean ARTHUIS and  
Roberto GUALTIERI

### **Rapporteurs:**

Reimer BÖGE and  
Pervenche BERÈS



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# **WORKSHOP PROGRAMME**

# **WORKSHOP ON A FISCAL CAPACITY TO STRENGTHEN AND ENLARGE THE EURO AREA**

## ***BUDGETARY ASPECTS FOR STABILISING ECONOMIC AND MONETARY UNION***

*Organised by the Policy Department D on Budgetary Affairs*

**Wednesday, 21 March 2018,  
14:30 pm - 17:00pm**

**European Parliament, Brussels  
Paul-Henry Spaak Building (PHS), Room 3C50**

### **WORKSHOP PROGRAMME**

## **14:30 - 14:35 Welcome**

**Mr Jean Arthuis MEP**

Chair of the Committee on Budgets

**Mr Roberto Gualtieri, MEP,**

Chair of the Committee on Economic and Monetary Affairs

\* \* \*

## **14:35 - 14:40 Introduction**

**Ms Pervenche Berès, MEP,**

Member of the Committee on Economic and Monetary Affairs and  
rapporteur for the event

**Mr Reimer Böge, MEP,**

Member of the Committee on Budgets and rapporteur for the event

\* \* \*

## **14:40 - 15:40 Budgetary aspects of the European Commission package for completing Europe's Economic and Monetary Union**

14:40 - 14:55

**Prof. Agnès Bénassy-Quéré**

*Professor at the Paris School of Economics - University of Paris 1  
Panthéon-Sorbonne*

14:55 - 15:10

**Prof. Federico Fabbrini,**

*Professor of European Law, School of Law & Government, Dublin City  
University*

15:10 - 15:25

**Dr Jorge Nuñez Ferrer,**

*Centre for European Policy Studies (CEPS)*

15:25 - 15:40

**Mr Klaus Regling,**

*Managing Director, European Stability Mechanism*

\* \* \*

## **15:40 - 17:00 Debate and conclusions**

15:40 - 16:45      **Q&A and general debate**

16:45 - 16:55      **Concluding remarks**

**Mr Reimer Böge, MEP,**

Member of the Committee on Budgets and rapporteur for the event

**Ms Pervenche Berès, MEP,**

Member of the Committee on Economic and Monetary Affairs and  
rapporteur for the event

16:55 - 17:00      **Closing remarks**

**Mr Roberto Gualtieri, MEP,**

Chair of the Committee on Economic and Monetary Affairs

**Mr Jean Arthuis, MEP,**

Chair of the Committee on Budgets

\* \* \*

# **BIOGRAPHIES OF SPEAKERS**





**Ms Agnès Bénassy-Quéré,**  
*Professor at the Paris School of Economics -  
University of Paris 1 Panthéon-Sorbonne*

Agnès Bénassy-Quéré is a Professor at the Paris School of Economics - University of Paris 1 Panthéon-Sorbonne. She is also a Member of the French macro-prudential authority, the board of the Banque de France, a fellow the Institute for the Study of Labour (IZA) and a member of CESifo.

From 2012 until 2017, she chaired the French Council of Economic Advisors. Prior positions include Director of CEPII, the main French research institute in international economics (2006-2012), and academic positions at École Polytechnique, the University of Paris-Ouest and the University of Lille 2.

Her research interests focus on the international monetary system and European macroeconomic policy.



**Mr Federico Fabbrini,**  
*Professor of European law at the School of Law & Government of DCU and the Principal of the Brexit Institute.*

Federico Fabbrini is Full Professor of European law at the School of Law & Government of DCU and the Principal of the Brexit Institute. He holds a PhD in Law from the European University Institute and previously had academic positions in the Netherlands and Denmark.

He is the author of “Fundamental Rights in Europe” (Oxford University Press 2014) and “Economic Governance in Europe” (Oxford University Press 2016) as well as the editor, among others of “The Law & Politics of Brexit” (Oxford University Press 2017).



**Dr. Jorge Núñez Ferrer,**  
***Senior Research Fellow at the Centre for European  
Policy Studies (CEPS)***

Jorge Núñez Ferrer is Senior Research fellow at the Centre for European Policy Studies (CEPS) and holds a PhD from Imperial College of the University of London. He is specialised in EU budgetary and financial instruments, but has also been involved in energy policies and in particular the development of smart cities. He is presently supporting the EIB as independent external advisor on the matters of the EU budget. He is also a member of the advisory group of the newly established 'Kazarian Center for Public Financial Management' bringing together key international specialists.

He has worked as academic, EU Commission official and consultant for governments on strategic planning for EU structural funds. He is the author of numerous studies for EU institutions on the EU budget and financial instruments, as well as on innovation policy and particularly smart cities. Amongst his latest works he has led the background study on EU resources for the High Level Group on Own Resources led by Mario Monti.



**Mr Klaus Regling,**  
***Managing Director of the European Stability***  
***Mechanism***

Klaus Regling is the current and first Managing Director of the European Stability Mechanism. The Managing Director of the ESM is appointed by the Board of Governors for a renewable term of five years.

Klaus Regling is also the CEO of the European Financial Stability Facility (EFSF), a position he has held since the creation of the EFSF in June 2010.

Klaus Regling has worked for 40 years as an economist in senior positions in the public and the private sector in Europe, Asia, and the U.S., including a decade with the IMF in Washington and Jakarta and a decade with the German Ministry of Finance where he prepared Economic and Monetary Union in Europe. From 2001 to 2008, he was Director General for Economic and Financial Affairs of the European Commission.

During 2008-09, he spent a year at the Lee Kuan Yew School of Public Policy in Singapore where he researched financial and monetary integration in Asia. Subsequently, he opened an economic and financial consultancy in Brussels.

Previously, Mr. Regling had gained experience in the private sector as Managing Director of the Moore Capital Strategy Group in London (1999-2001) and as an economist with the German Bankers' Association. Mr. Regling studied economics at the Universities of Hamburg and Regensburg.

# **POWERPOINT PRESENTATIONS**

**Presentation by Ms Agnès Bénassy-Quéré**  
*Professor at the Paris School of Economics - University of Paris 1 Panthéon-Sorbonne*

## **Fiscal union**

Agnès Bénassy-Quéré

Workshop on a fiscal capacity to strengthen and enlarge the euro area,  
European Parliament, Brussels, March 21, 2018

## **Public goods**

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### **What is the problem?** (Why euro area rather than EU or national level?)

- Different preferences euro area/EU
- Political economy at 19 rather than 27
  - A qui-pro-quo (core vs more unstable periphery)
- Specific euro area « public goods »
  - Convergence: accompanying reforms;
  - Financial stability: fiscal backing of SRF.

### **Commission's proposal**

- Fiscal backing of SRF
- Support for euro accession
- Support for structural reforms
- Safe asset (SBBS)

### **7x7 proposal**

- Fiscal backing of SRF and of EDIS
- Safe asset

## Fiscal stabilization

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### What is the problem?

- Asymmetric shocks: a gap between 2 levels of stabilization
  - National fiscal stabilization within the SGP constraints
  - ESM emergency loans for crisis countries (with reluctance to apply for assistance)
- Symmetric shocks: no aggregate fiscal stance
  - Almost no fiscal coordination + No central budget
- Pro-cyclical policies more likely in the future
  - More debt, less bail out → more fear to be kicked off the market

### Commission's proposal

- Fiscal capacity: 1% of GDP, borrowing capacity, automatic trigger, loans and transfers, investment stabilization, line in the EU budget
- Precautionary credit line at ESM/EMF
- Possibly: insurance mechanism
- Review of fiscal rules (2025)

### 7x7 proposal

- Precautionary credit line at ESM
- Fiscal capacity: rainy-day fund, 0.1% of GDP, automatic trigger, conditionality on use, no borrowing capacity
- Reform of SGP (spending rule)

## Fiscal responsibility

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### What is the problem?

- Conundrum: credible no bail-out → risk of bond crisis (Deauville syndrome)
- Status quo: accept that the no-bail out clause remains non-credible
  - In absence of a LLR at euro area level, national commercial banks act as buffers
  - This creates a close relationship between sovereign risk and redenomination risk (through bank liquidity shortage)

### Commission's proposal

- "Risk reduction" + safe asset (SBBS)

### 7x7 proposal: Separate credit risk from redenomination risk

- Diversifying sovereign exposures of the banks will secure their collateral during a crisis
- Insuring bank deposits will protect the banks against a deposit flight during a crisis
- OMT will insure the redenomination risk (not the solvency risk)
- Make debt restructuring a possibility in last resort within the euro area (not automatic!)



## **Presentation by Mr Federico Fabbrini**

*Professor of European law at the School of Law & Government of DCU and  
the Principal of the Brexit Institute.*

European Parliament  
21 March 2018

# **Fiscal Capacity for the Eurozone Constitutional Perspectives**

**Federico Fabbrini**

Ollscoil Chathair Bhaile Átha Cliath  
Dublin City University

## **Plan de l'exposé**

- 1. Constitutional basis**
- 2. Constitutional challenges**
- 3. Constitutional opportunities**

Ollscoil Chathair Bhaile Átha Cliath  
Dublin City University

## 1. Constitutional Basis

- **Fiscal Capacity**
  - Article 311 TFEU
  - Article 113 TFEU
  - Structure & Spirit of the Treaties

**Legally possible & necessary**

## 2. Constitutional Challenges

- **Euro-area budget faces:**
  - Challenge of asymmetry
  - Challenge of unanimity
  - Challenge of representation

**It must avoid interstate transfers;  
overcome veto; and secure voice**

### 3. Constitutional Opportunity

- **Brexit**
  - Creates funding gap -> new MFF
  - Removes some opposition -> new OR
  - Compels wide constitutional reforms

**Window to address the challenges**



## **Presentation by Dr Jorge Nuñez Ferrer**

*Senior Research fellow at the Centre for European Policy Studies (CEPS)*



www.ceps.eu

**Workshop on a Fiscal Capacity to Strengthen and Enlarge the Euro Area  
Budgetary Aspects for Stabilising the Economic and Monetary Union**

Jorge Núñez, Senior Research Fellow, CEPS  
European Parliament, BUDG Committee, 21 March 2018

 CEPS\_thinktank

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## ASPECTS FOR EURO AREA STABILITY

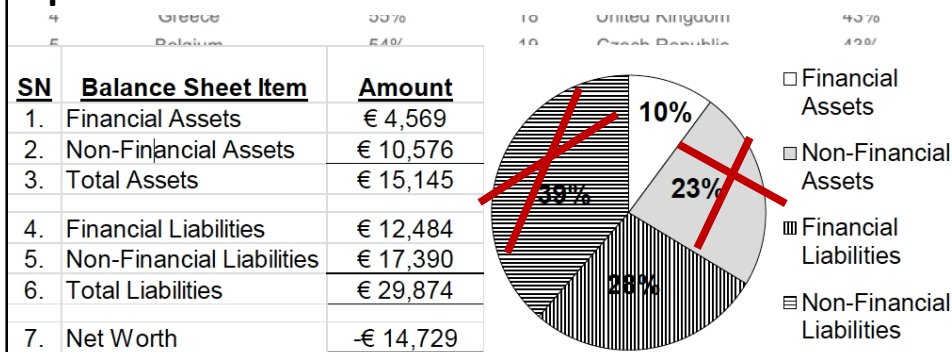
- ‘Fiscal’ capacity by the EU is only a **reactive instrument**
- What about building a **preventive capacity**, ‘Six Pack’, Country Recommendations are not addressing the roots of instability
- A key root of instability, making nations fragile and leading to large GDP losses over time is the absence of Public Financial Management at national level.
- This is now being increasingly understood by the OECD, but unfortunately a subject relegated to accountants, such as IPSASB.
- Member states do not have balance sheets which clearly state all liabilities and assets, which means underlying health of governments is not clear!
- Please pay attention to getting balance sheets (EPSAS) and Public Financial Management in place, PT is doing it!

**LESSON 1: Stability starts with NATIONAL good management**

## MEMBER STATE FISCAL SPHERE



OF THE ESTIMATED TOTAL 45 trillion assets and liabilities, member state accounts usually only present 15.



Source: EC AMECO database, 2015 Data (accessed 5 July 2016)

**LESSON 2: Governments are key players, but do not use basic management tools**

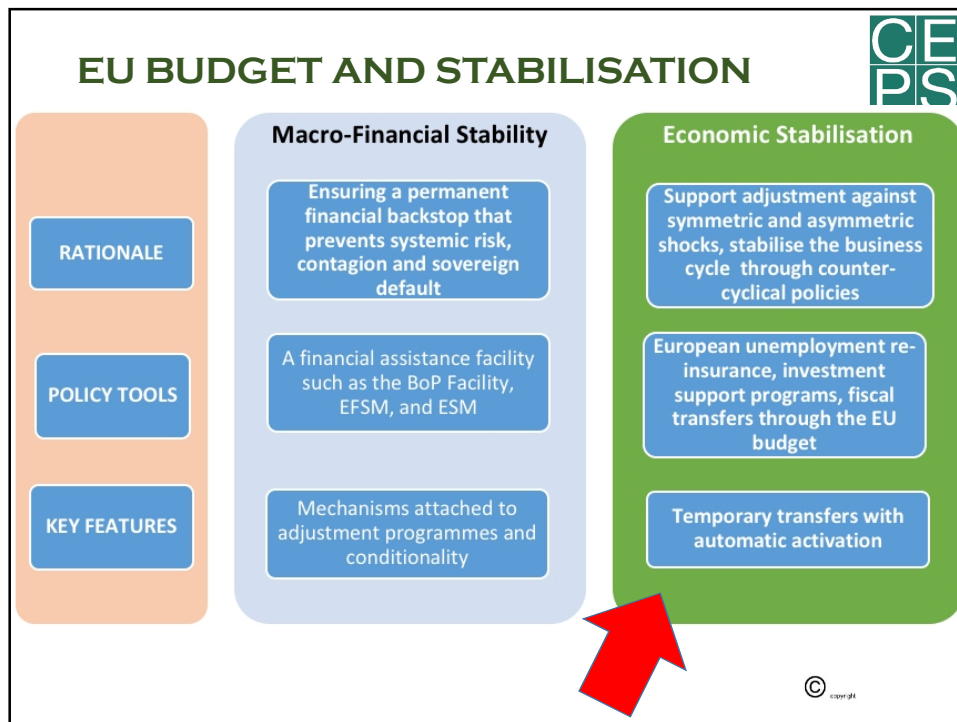
## EU BUDGET AND STABILISATION



Should the EU budget get involved in stabilization?

- EU lacks *Macro-ECONOMIC stabilization*, not macro-financial (that should be left for ESM):
- The EU budget is small and designed as an investment instrument.
- Rigid and unresponsive
- Has limited instruments:
  - 'solidarity Fund' A budget line (unfunded not in MFF) of €500m a year for natural disasters (outside budget, not immediate)
  - Globalisation Fund: €150m but not designed for a crisis (belatedly extended to crisis – outside MFF, not immediate)
  - YEI, average €1,25 bn a year, after having to adapt rules. But works by shifting margins across time.... In 2019? What shift?

**LESSON 3: EU Budget can perform some limited economic stabilisation**



**CE  
PS**

## EU BUDGET AND STABILISATION

**What role then?**

- Low hanging fruit, but not reactive nor a real stabilization tool: Strengthening economies to be more resilient – > BETTER ESIF**
  - Less pre-allocation
  - More focus on creating future value, rather than absorption
  - Creating resilience, using countercyclical logic
  - Build knowledge base
  - Macro conditionalities
- Reflection PAPER:**
- European Investment Protection scheme**
- European Unemployment reinsurance scheme**
- Rainy day fund**

**LESSON 4: We need a better ESIF, an employment insurance scheme and a dedicated rainy day fund**



### INVESTMENT PROTECTION SCHEME?

- Avoid downturn of investments, but we need also to go for the most important
- What format? What financial instrument, grant, loan or ...? What provision? In EU budget or Eurozone??

### European Unemployment Reinsurance scheme?

- Activates in downturn to cover increasing needs. How is the scheme financed in a countercyclical fashion?
- Problem of very different systems at MS level




### RAINY DAY FUND:

- Emergency fund for large shocks, financed and ready.
- How large? Will it be ready to borrow? Where? In the budget?


### EURO AREA BUDGET???

- Given restrictions on EU budget if not removed, it could be necessary to create something else, *but there is NO need for a parallel budget*, specially with UK leaving.
- It could cover all of EU MS
- Would need ceiling to increase, should be funded for immediate activation – automatic if possible
- Temporary and flexible
- Commission White Paper (2017 “significantly modernised and increased, backed up by own resources”, so that “additional EU financial support is made available to boost economic development and respond to shocks at regional, sectoral and national level”



**LESSON 5: There are functions the EU budget could take over, but the 1% ceiling religion makes it unrealistic.**



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