



## How could the Stability and Growth Pact be simplified?

11 December 2019

16:30 - 18:30

European Parliament, Brussels

Meeting room: Spinelli 3E2

Chaired by **Irene Tinagli**,  
Chair of the Economic and Monetary Affairs Committee (ECON)

Presentation of key findings of three studies “How could the Stability and Growth Pact be simplified?” by the respective authors:

- [Carlo Cottarelli - April 2018](#) (Director, Observatory on Public Accounts Cattolica University)
- [Friedrich Heinemann - April 2018](#) (Centre for European Economic Research, ZEW, Mannheim and University of Heidelberg)
- [George Kopits - April 2018](#) (Woodrow Wilson Center and Portuguese Public Finance Council)

Which EU perspectives?

- **Niels Thygesen**, Chair of the European Fiscal Board, will present the [recent EFB assessment on the EU fiscal rules](#).

Exchange of views

Contact and registration: [egov@ep.europa.eu](mailto:egov@ep.europa.eu)

## BACKGROUND

### **Objective of the workshop**

In the last years, the complexity of the EU fiscal rules has been subject to various academic debates and to Eurogroup and ECOFIN discussions.

The “six pack” and the “two pack” regulations require periodic reports evaluating their application. Such assessment takes place every five years and aims to evaluate, *inter alia*, the effectiveness of the regulations and progress made to ensure closer coordination of economic and fiscal policies and sustained convergence of economic and fiscal performances. The next review of the regulations is due by 14 December 2019. Given the delays regarding the confirmation of the new Commission, it might be postponed.

Against this background, the purpose of the workshop is to discuss how the fiscal rules could be simplified ahead of the upcoming review by the Commission.

### **Background information**

The studies that will be presented at the workshop were commissioned in 2018 by the EP, at the request of the ECON Coordinators. The experts were requested to make proposals on how the rules of the SGP could be simplified in order to enhance credibility, transparency and enforceability, while allowing for some room for flexibility. The analysis and policy recommendations had to take account of the fact that there may be a trade-off between “simple rules” that are easy to understand and “complex rules” that try to take into account very different economic and cyclical circumstances.

[C. Cottarelli](#) proposes in his study (i) removing some margins of flexibility, without changes in the legislation; (ii) a legal simplification, including relaxing some of the SGP long-term parameters or reconsidering the coexistence of the MTO rule and the expenditure benchmark; and a more radical solution (iii) by shifting to a single rule in which an “operational target” responds to deviations of public debt from its long-term objective.

[F. Heinemann](#) reflects in his study on a number of possible amendments where (i) the greatest potential for simplification would result from a shift of discretionary power to an independent fiscal institution; (ii) the preventive and corrective arms could be integrated into one procedure, the integrated procedure would be centred on a net expenditure rule combined with a debt feedback mechanism and a memory for expenditure overruns; further fiscal indicators (headline deficit rule and structural balance) would be downgraded to non-binding reference values and the planned transposition of the Fiscal Compact into European law should follow SGP reforms, in order to promote consistency between European and national fiscal rules.

[G. Kopits](#) offers three options for future reform: (i) the structural balance and the debt convergence targets are replaced with a debt-stabilizing or -reducing primary surplus target, while retaining the expenditure benchmark; (ii) to consolidate all current rules into a single operational debt rule by setting a limit on the discretionary budget deficit, derived from the debt reduction target; (iii) a market-based approach which is essentially an autonomous regime of rules, in contrast to coordinated or centralised regimes.

The **European Fiscal Board** (EFB) proposes in its recent [assessment on the EU fiscal rules](#) to overcome the complexity of the current EU fiscal framework by simplifying the EU fiscal rules and by improving the governance of the fiscal framework. It advocates for a reformed SGP, which would be based on: (a) one single target (sustainable public debt), which could be made country-specific and cover a seven-year cycle; (b) one single instrument (controlling net expenditure growth, to be linked to potential growth); (c) one general escape clause, triggered based on independent economic judgement. In that context, the EFB proposes the introduction of a limited “golden rule” to protect public investment, while avoiding overburdening the EU fiscal rules with too many conflicting objectives.