Commissioner Paolo Gentiloni

INTER-PARLIAMENTARY CONFERENCE ON STABILITY, ECONOMIC COORDINATION AND GOVERNANCE IN THE EU

SESSION II: THE FUTURE OF THE EUROPEAN FISCAL RULES: ARE THEY STILL CONSTRUCTIVE?

12 October 2020

REMARKS AS DELIVERED

Good morning. I am very pleased to be in this conference. I am a newcomer for European fiscal policy. And of course the first months were not expected, so we had to face very difficult times and situations. For sure we live in times when coordination has proved to be essential.

The topic we are discussing today is of particular relevance in the context of the corona crisis. But in fact our fiscal rules have always been the subject of debate – at times a divisive debate as Klaus just explained. I will start by recalling that the Commission in fact started a public debate on this issue before the pandemic. In February, we launched our review of the application and the effectiveness of the governance framework, namely the Stability and Growth Pact.

When we launched this review, we remembered the positives of the functioning of our rules but we also pointed to a number of evident shortcomings in the existing framework.

Following the launch of this review we sought to engage in an open debate, guided by a number of questions. For example, how can we

simplify the rules? How can we ensure responsible fiscal policies that allow for both short-term macroeconomic stabilisation and long-term debt sustainability? What role can the rules play in incentivising investment, in particular in the context of the necessary green and digital transitions?

We had a first discussion with you after the launch of the review, during the European Parliamentary Week in February. Back then, still in person. But times have changed. The debate has since been put on hold in light of the need to focus on the challenges of the pandemic. So we will return to this debate with a view to making, next year, concrete proposals for possible reforms for the short term and the long term for economic governance.

We will of course be consulting national parliaments, in particular to discuss how to increase national ownership of the rules. The European Parliament will also contribute with its valuable views and have a key role as co-legislator, should we ultimately choose the route of legislative changes as the outcome of the review.

It goes without saying that the context of the debate has changed quite radically since February. I'll mention three main factors:

- First, the EU is now in a deep recession and most if not all Member States are expected to exceed the 3% of GDP deficit limit.
- Second, in order to facilitate these measures, the Commission and the Council for the first time activated the general escape clause of the Stability and Growth Pact in March.
- And third, new and radical policy instruments have been agreed at the EU level, notably the proposed Recovery and Resilience Facility. This instrument shows that the vision of an investment capacity that is coordinated and funded at the European level is

not a distant dream.

Let me underline that all these steps that were unthinkable a few months ago were motivated by the need to avoid worsening divergences that would have resulted in fragmentation of the internal market.

These developments open up new avenues for debate. For example, it is clear that the necessary fiscal measures adopted by Member States to deal with the crisis will give rise to much higher levels of public debt in Europe - above 100% in the euro area this year and even higher in advanced economies overall as highlighted by the OECD. The current low interest rate environment is also expected to prevail for some time to come. We must, therefore, at a minimum, reflect on the role that a 'debt rule' should play in the framework.

More generally, I think that the crisis has in fact highlighted the relevance of many of the questions that we sought to address in the public debate. In particular, how the fiscal rules can incentivise public investment. We showed ambition in our targets, for example for further reducing emissions by 55% by 2030 and in establishing a binding threshold of 37% for green investments in the RRF. We should also show ambition in our fiscal rules for investment.

As indicated by the European Fiscal Board, the creation of a permanent fiscal stabilisation capacity would help address many of the issues that I have touched upon. For example, it would allow the EU to help Member States achieve an adequate degree of macroeconomic stabilisation, thus complementing the stabilisation role of monetary policy, and facilitating compliance with stability-oriented fiscal rules.

In conclusion, are the EU fiscal rules still constructive? As I have highlighted, the EU fiscal rules have room for improvement. But let us not be too bleak:

The fiscal rules contributed to some positive outcomes over the last decade and were sufficiently flexible to adapt to the current crisis.

And the underlying rationale for our fiscal rules has also not changed. In a currency union with national budgetary policies, common fiscal rules are needed as a basis for possible common fiscal tools.

So yes, we definitely need to have a debate on the fiscal rules and how they can be reformed to better adapt to current and future challenges. But we must also recognise the underlying need for such rules in our currency union.