



# 50th OeNB Economics Conference and 60th SUERF Anniversary Conference

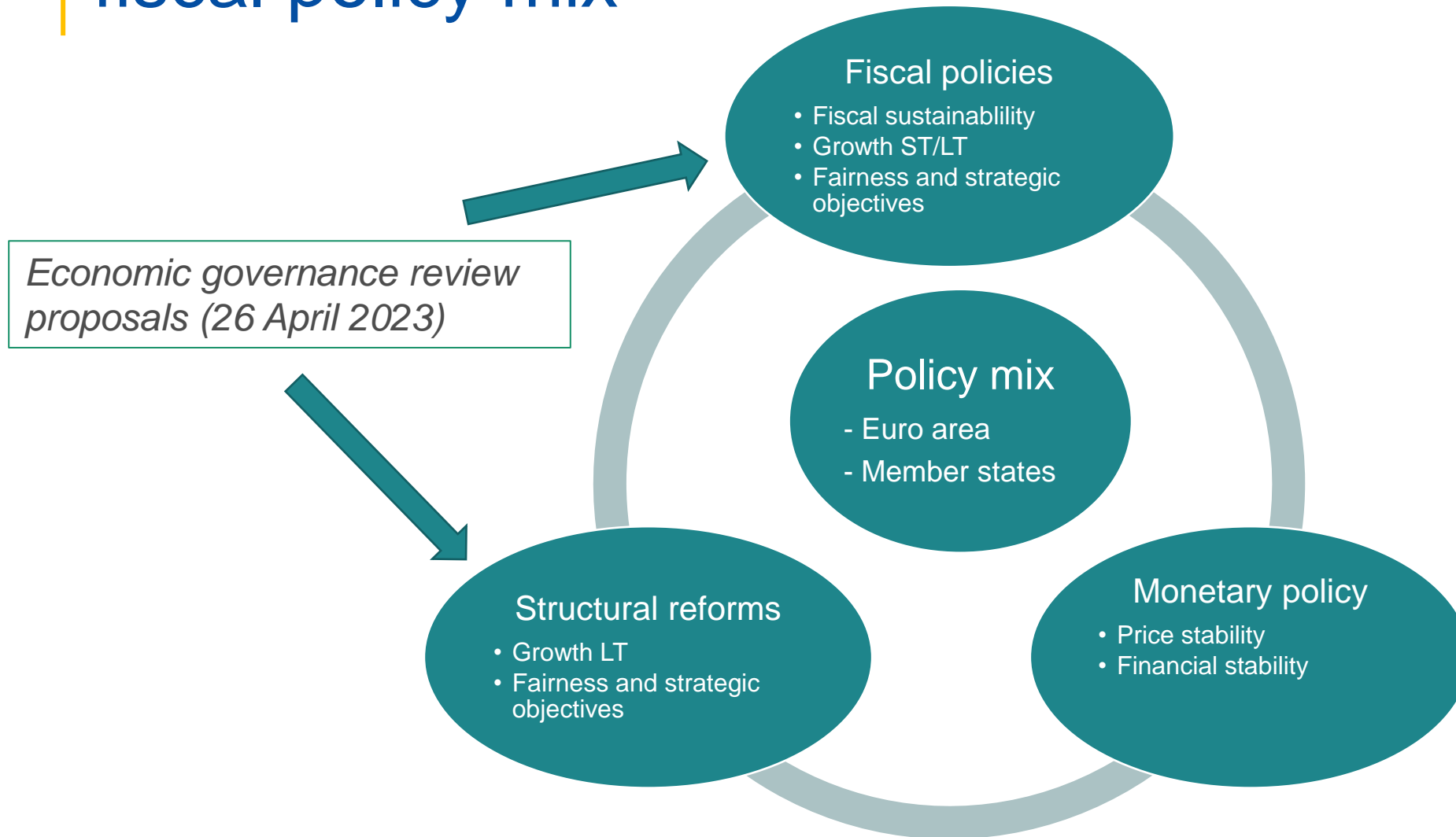
The 2023 Economic Governance Review – Considerations on fiscal-  
monetary interactions

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# Economic governance review and the monetary-fiscal policy mix



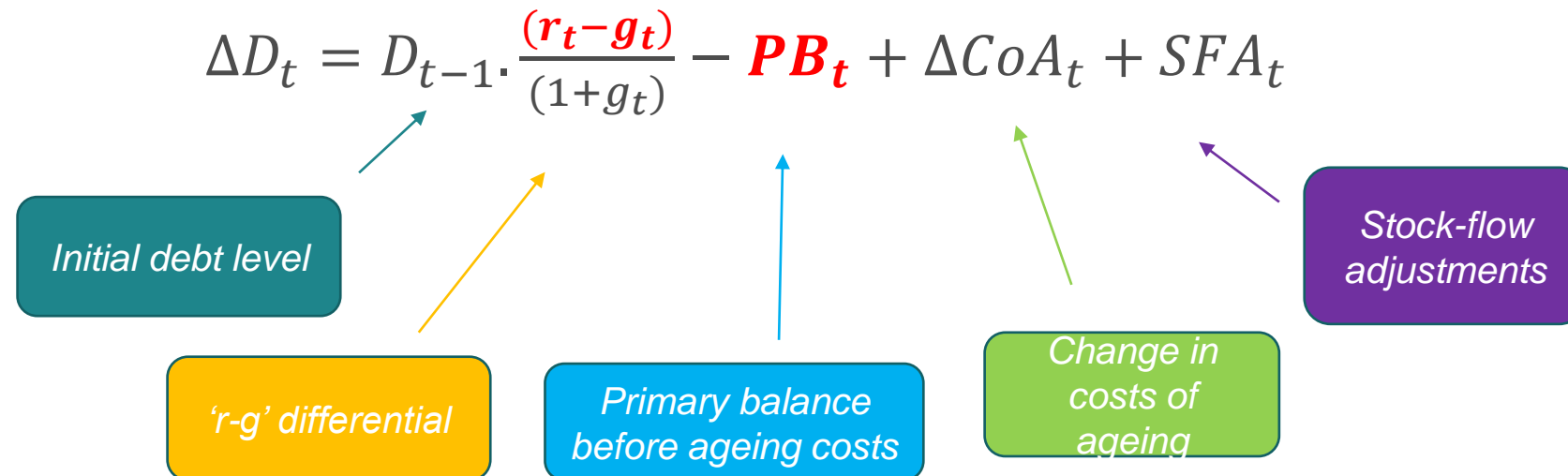
# Key objectives and principles of the reform

The key objective of the reform is to strengthen **debt sustainability** and promote **sustainable and inclusive growth**

Key principles	How?
Medium-term approach	Medium-term fiscal structural plans
Incentives for reforms and investments	Possibility of 7-year instead 4-year adjustment period
Gradual and credible debt reduction	Differentiated fiscal path to reflect public debt challenges
National ownership	Member States to design their plans based on their economic priorities
Multilateral approach	Common methodologies to set and assess the plans
Simpler rules	Single operational indicator (net primary expenditure)
Better enforcement	Credible operationalisation of debt-based EDP

# The fiscal stance and the debt anchor

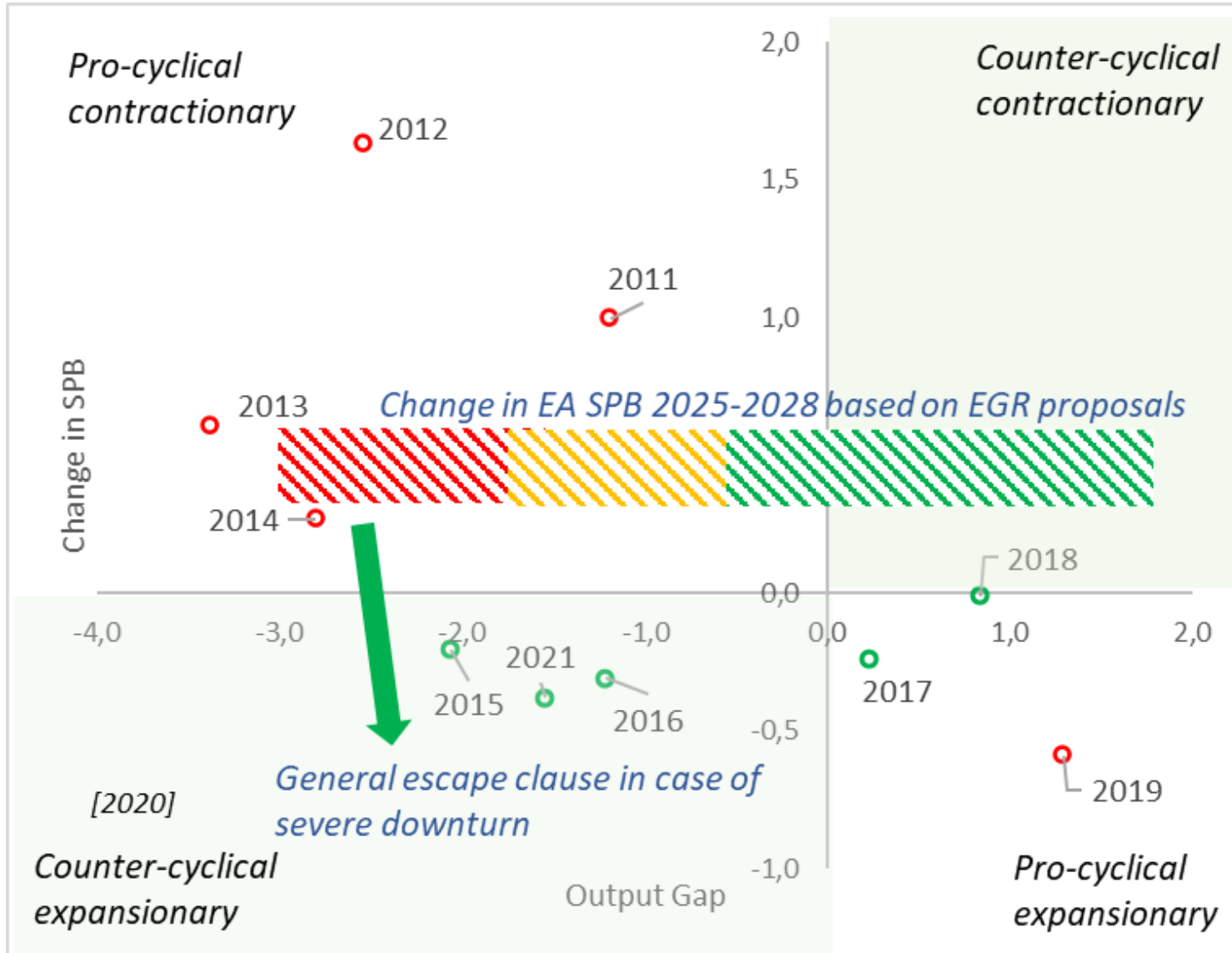
- **Fiscal path** should ensure that debt is put on a downward path, or stays at prudent levels (after 4 or 7 years) with sufficient certainty (“plausibly”) and that the deficit is brought and maintained below 3% of GDP over the medium term.
- The debt dynamic is driven by few key variables: the initial debt level, the current/projected ‘r-g’ differential, the current/projected primary balance (including costs of ageing) and stock-flow adjustments



=> These requirements would result in an estimated average annual improvement in the SPB across the EA between -0,35 and -0,55 % GDP based on current r-g projections and depending on 4 or 7 year adjustment.

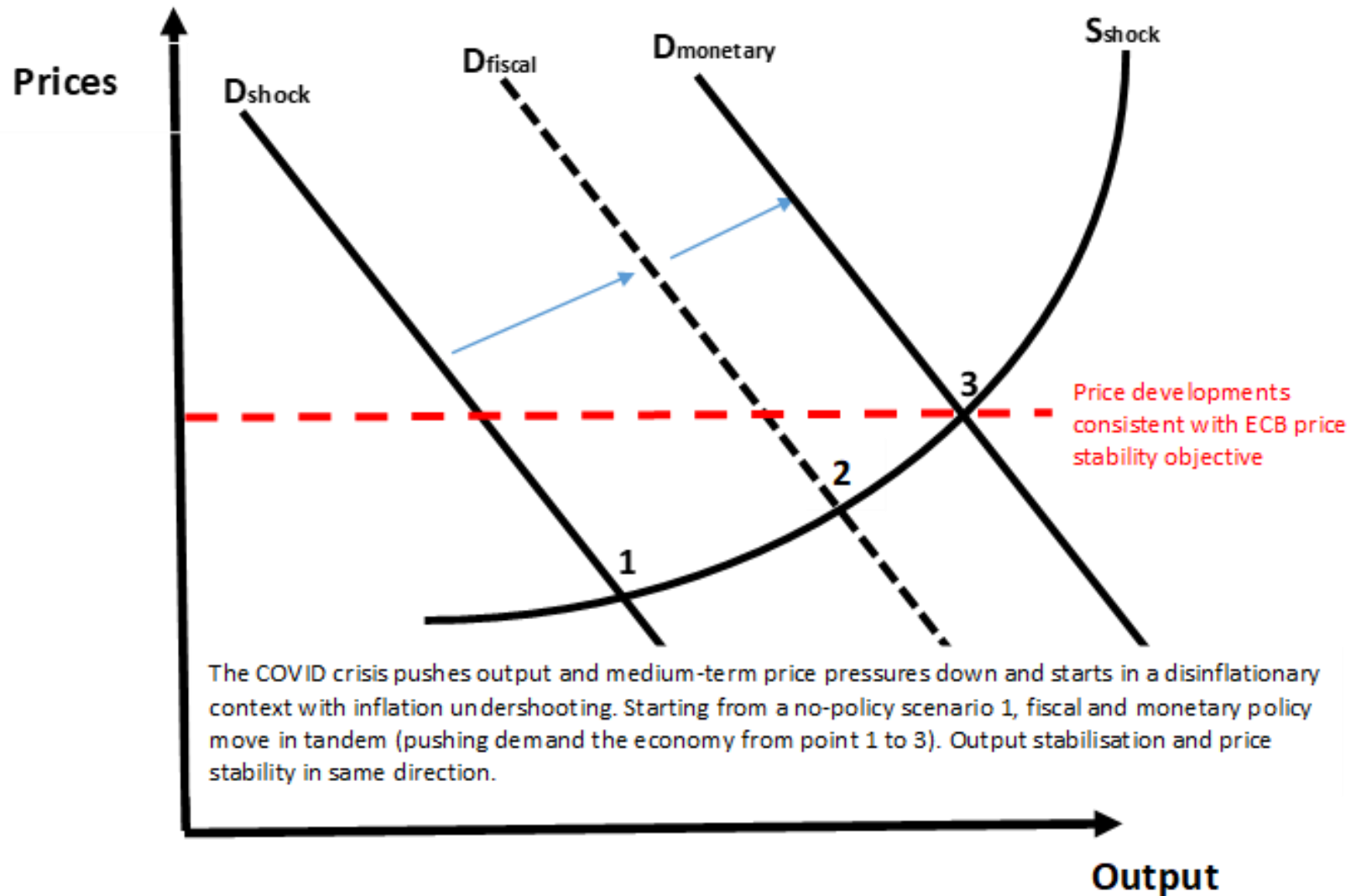
# Implication of EGR for macro-policy mix

Contractionary EA fiscal stance (except under GEC)



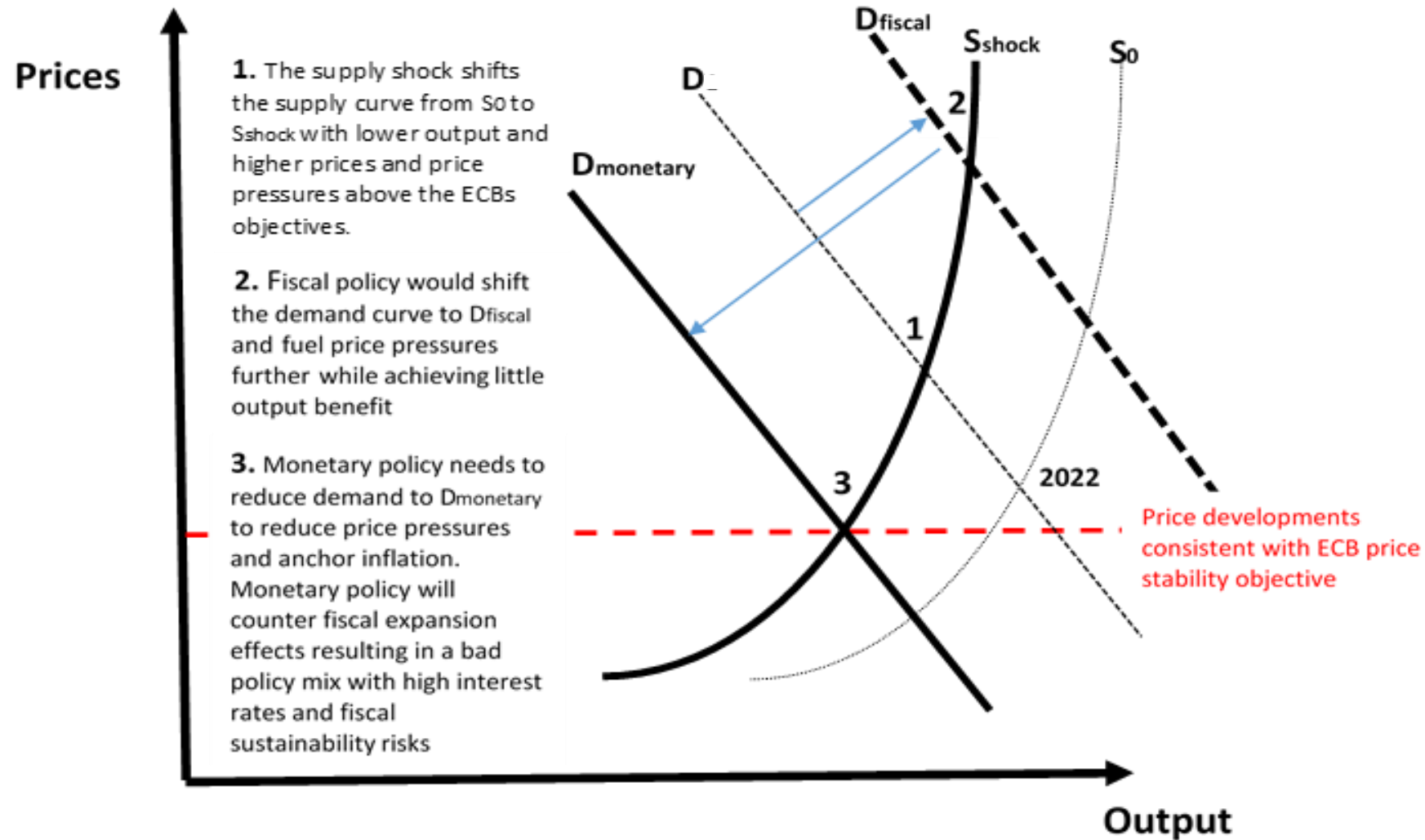
# Two recent cases under GEC : COVID shock

Low-inflation context



# Two recent cases under GEC : energy supply shock

## Inflationary context



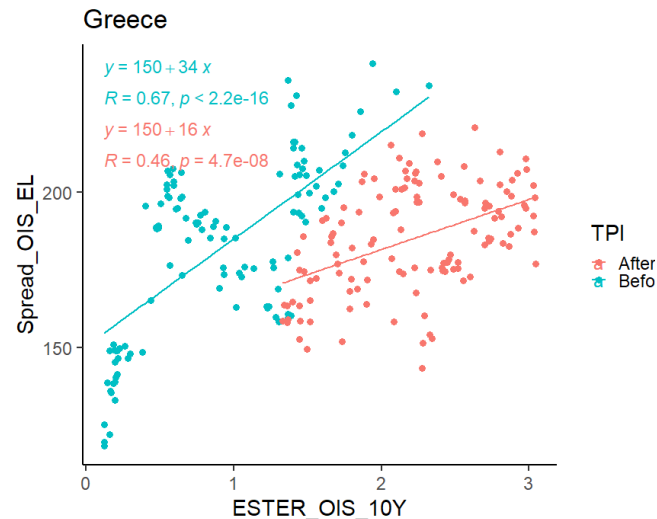
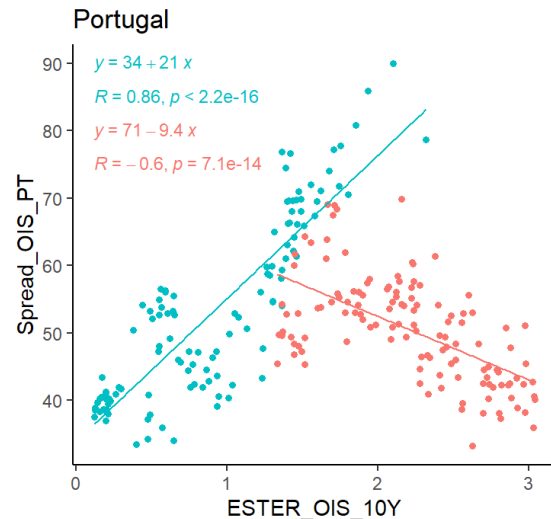
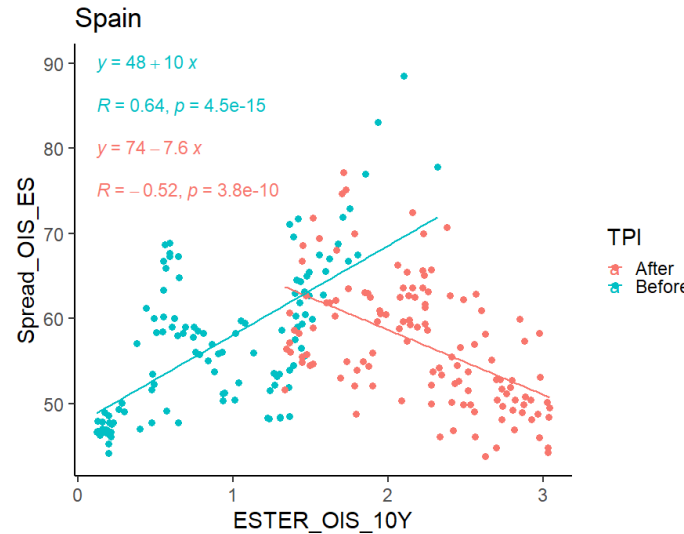
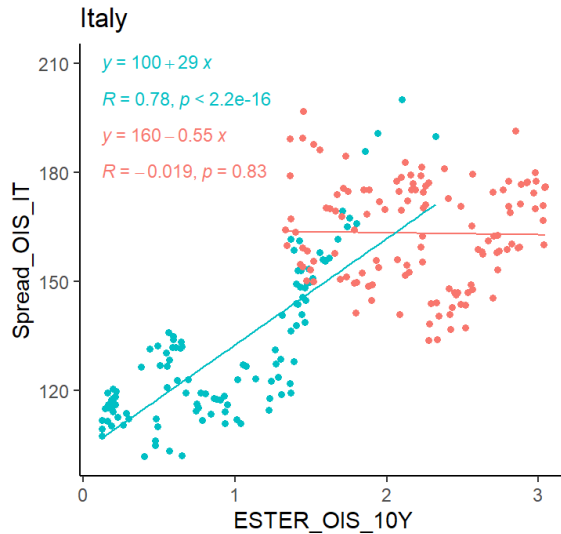
# Fiscal policy working in tandem with monetary policy towards price stability

- In 2023 and 2024, fiscal space created by the phasing out of energy measures should be used to reduce deficits and thus support monetary policy in pursuing price stability.
- Any future support measures for households and firms (if necessary) should be better targeted to the most vulnerable.
- Swift agreement on reform of the economic governance framework would help anchor expectations on predictable fiscal policy, investments and reforms, and debt sustainability.
- In case of severe shocks and general escape clause, the appropriate fiscal stance and measures should seek complementarities with the monetary policy objectives.



# Some considerations on the Transmission Protection Instrument (TPI)

Sovereign spreads depending on the level of the 10-year EA safe benchmark before and after the announcement of the TPI by the ECB



- Announcement of **TPI reassured investors**.
- Impact on r-g and DSA appears substantial.
- Assessment criteria for TPI eligibility may provide **additional incentives for compliance efforts** with the EU framework.
- To ensure predictable and transparent EU governance, and clear signals to markets, **timely agreement and implementation of the new framework is essential**.

# Thank you !