

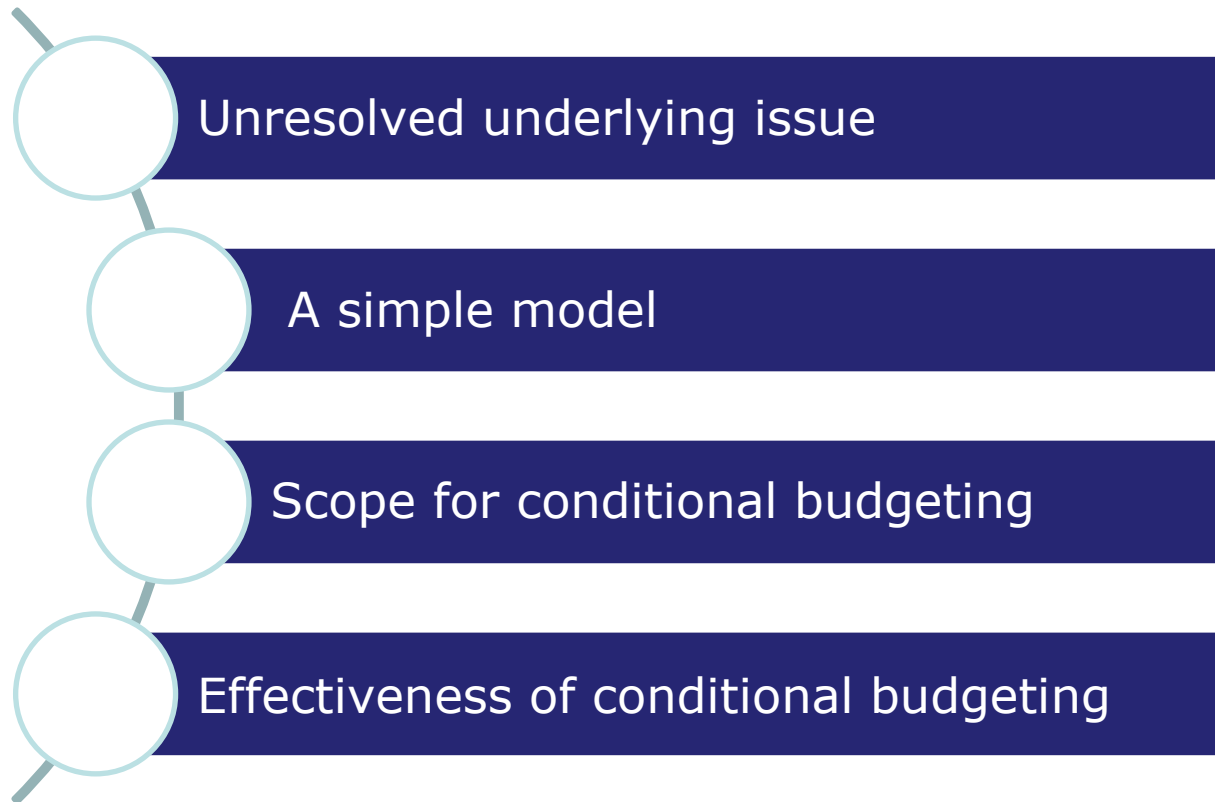
Fiscal arrangements safeguarding the EU's capacity to act in an evolving geopolitical and economic context

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European Fiscal Board, European Commission and
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ESM-SUERF-Bruegel Conference: Europe Ready for Extreme Events?
Luxembourg, 3-4 April 2025

Disclaimer: Views expressed are not necessarily those of the EFB or IEP



Recurring but unheeded calls:
EU budget is too small! EU needs a CFC!

➤ ...

➤ 2015 Five Presidents' report

➤ 2016 Monti report

➤ 2024 Draghi report

Lack of credibility in recurring calls

“We cannot say we are more European than others when our debt is the obstacle for others to accept common solutions“

„To be more European with the money of others is something the others are not ready to accept“

25 March 2024, IEP@BU Webinar Series: The Future of the EU Institutions

Giuliano Amato, former Italian Finance Minister and Vice President of the Convention on the Future of Europe

Unresolved underlying issue

To: M. Lamfalussy

Copy to: Dr. Baer

From: Claudio Borio

Macro-fiscal policy co-ordination in an EMU

- the need to avoid disproportionate use of Community savings by one country;
- a possible bias towards lack of fiscal restraint;

Source: Archive of the Delors committee, DelC 5.4 Delors Committee documents:
https://www.ecb.europa.eu/ecb/access_to_documents/archives/delors/html/index.en.html

Unresolved underlying issue

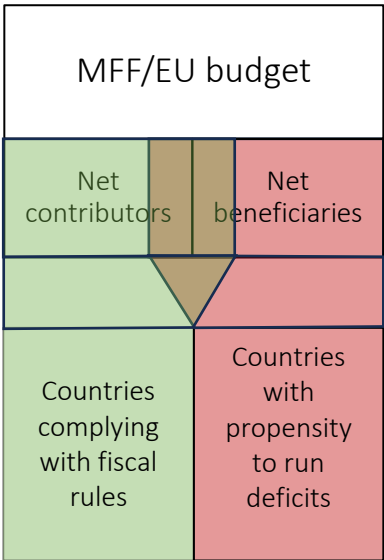
One way that this could happen would be if a particular government encountered refinancing difficulties. Since a certain part of claims on that government might result from earlier voluntary lending by residents of other Community countries, there could be strong political pressure throughout the Community to bail out the government in financial trouble. Such pressure might be difficult to resist, especially if the country facing refinancing problems was relatively large and if the EMU implied stronger solidarity ties. Through these bail-out arrangements, citizens of other member countries would effectively be taxed and their savings "exploited" by the national government concerned.

Source: Archive of the Delors committee, DelC 5.4 Delors Committee documents:
https://www.ecb.europa.eu/ecb/access_to_documents/archives/delors/html/index.en.html

Unresolved underlying issue

Original Maastricht architecture

Redistribution
agreed ex ante



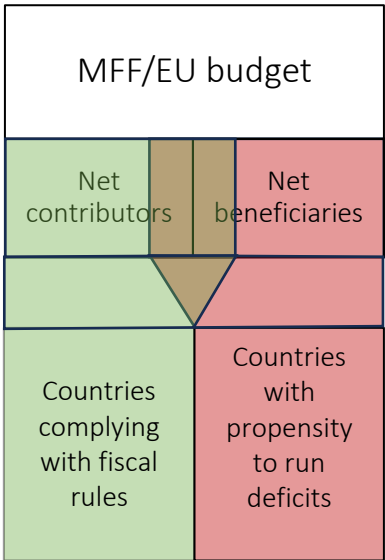
Fiscal
performance

**Fiscal rules +
no-bail-out clause**

Redistribution
by recurring
accidents in
vulnerable
countries

NO

Post – 2008 architecture



**Fiscal rules +
no-bail-out-clause**

Countries with high
debt get financial
support (EFSM, ESM,
NGEU, SURE, SAFE)

A simple model

2 groups of countries

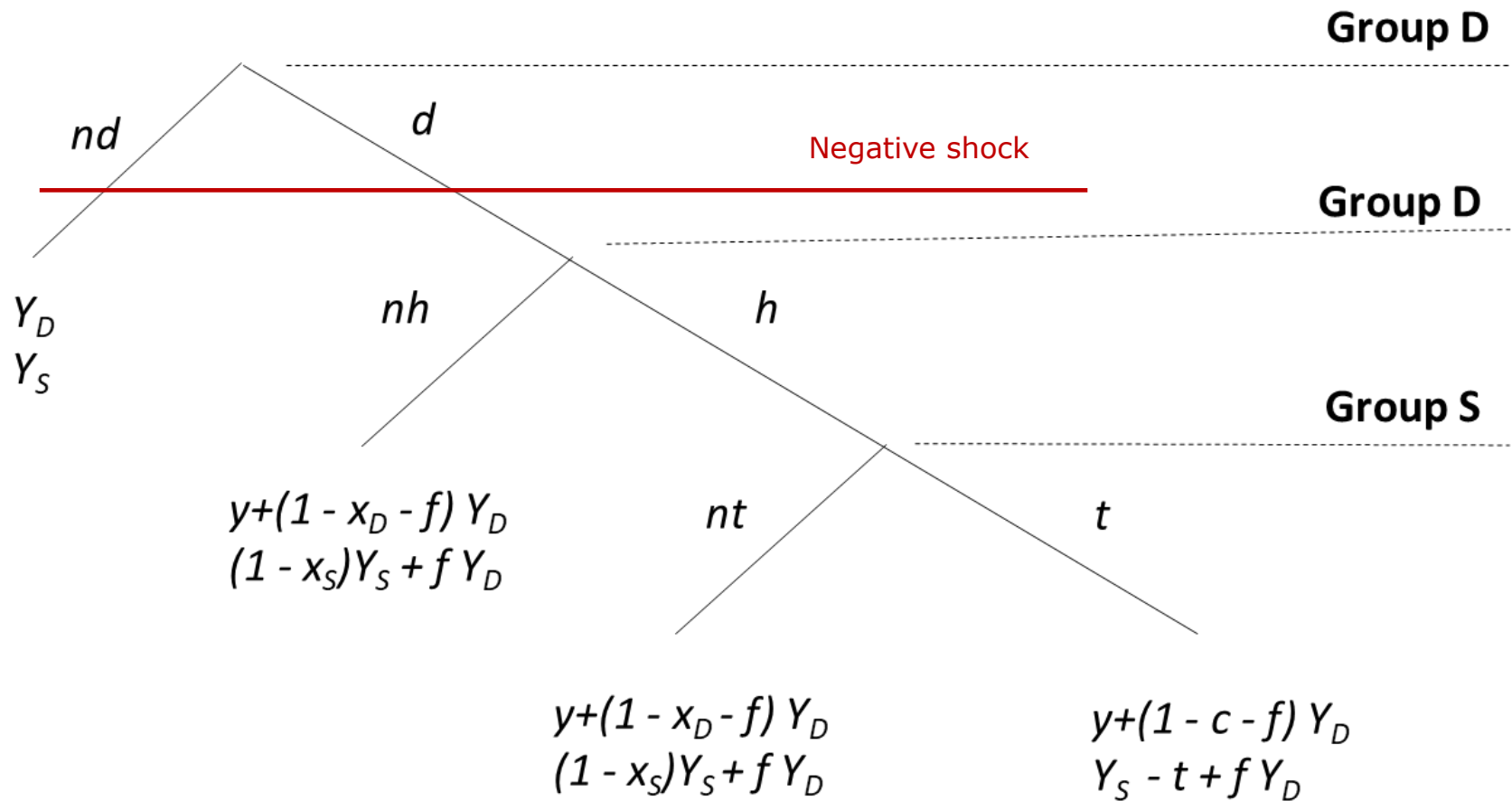
- Group D: enjoys political + economic benefits from running deficits in normal/good times
- Group S: runs sustainable fiscal policies

SGP implementation takes place in three stages

- Stage 1: Group D decides its fiscal policy course
- Stage 2: An economic shock hits and Group D decides whether to ask for help or not
- Stage 3: Group S decides whether to offer help and under which conditions

A simple model

Extensive form



Main conclusion: enforcement dilemma

In event of large shock, Group S will provide financial support if asked by D **because** $t < x_S Y_S$ ($x_S Y_S$ economically and politically the worst possible outcome)

Group D will ask for financial support if $c < x_D$. Policy conditions cannot be too strict (corollary: non-EU power may offer help which reduces x_D)

If Group D has a blocking minority in Council, sanctions will not be applied: $f=0$. Hence, the decision of D mainly depends on the policy conditions in the event of a major shock: $y < c Y_D$

Extension of simple model

2 groups of countries

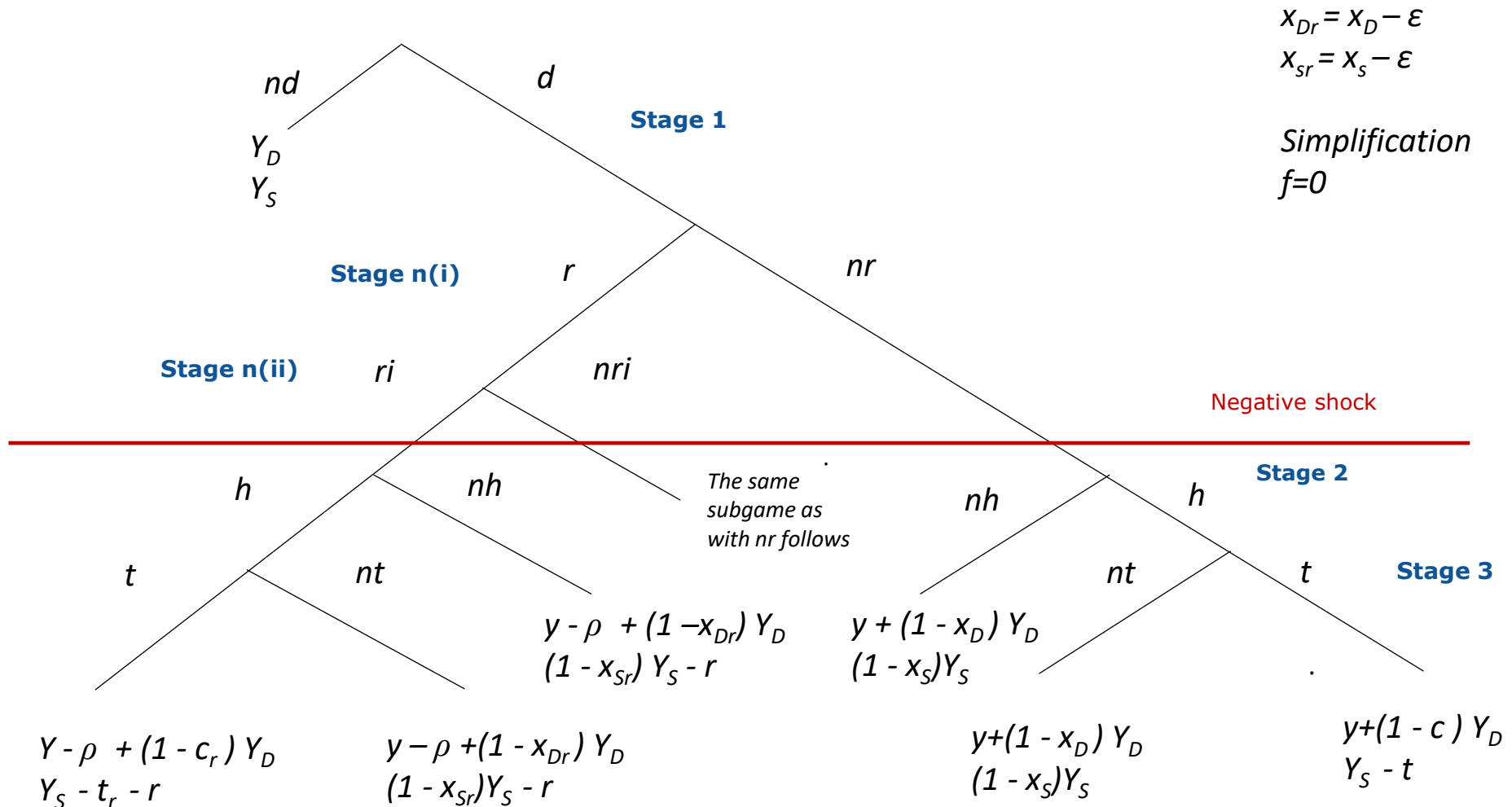
- Group D: enjoys political + economic benefits from running deficits
- Group S: runs sustainable fiscal policies

SGP implementation takes place in **three + 2** stages

- Stage 1: Group D decides its fiscal policy course
- Stage n(i) Group S decides whether to grant r subject to reforms and investments,
- Stage n(ii) Group D decides on help r which produce net costs ρ
- Stage 2: An economic shock hits and Group D decides whether to ask for help or not
- Stage 3: Group S decides whether to offer help and under which conditions

Scope for unconditional budgeting

Extensive form of extended simple model



Main conclusions of extended model

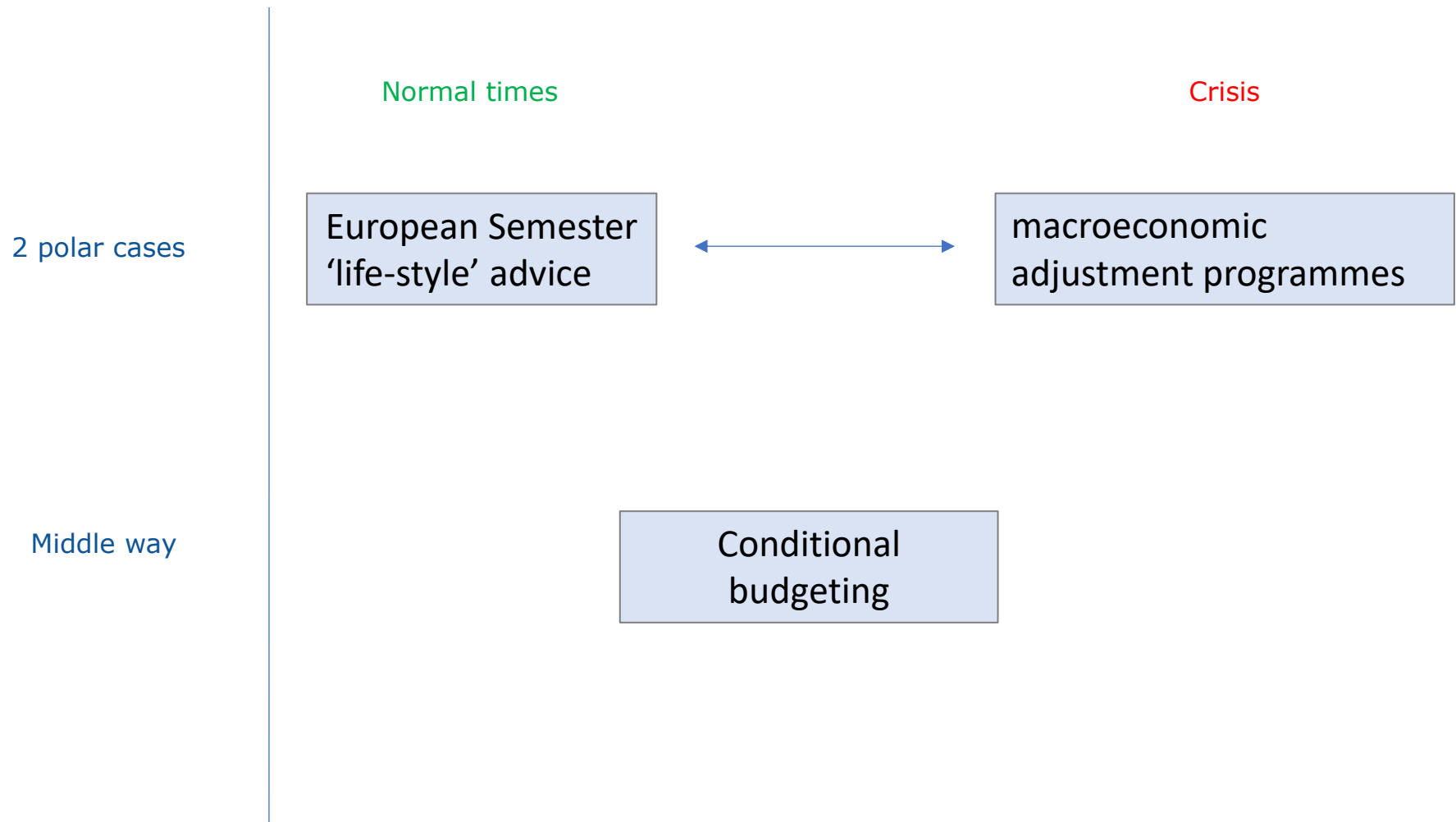
Group S offers **additional transfers r in normal times in return for investments and reforms** if costs are smaller than those incurred to avert a meltdown of the system: $Y_S(x_S - \varepsilon) + r < t$. **Effectiveness of reforms and investment is crucial.**

Group D **accepts transfer r** if costs of implementing investments and reforms do not exceed those of the alternative: $\rho + (x_D - \varepsilon)Y_D < c Y_D$. **Effectiveness of investment and reforms is crucial.**

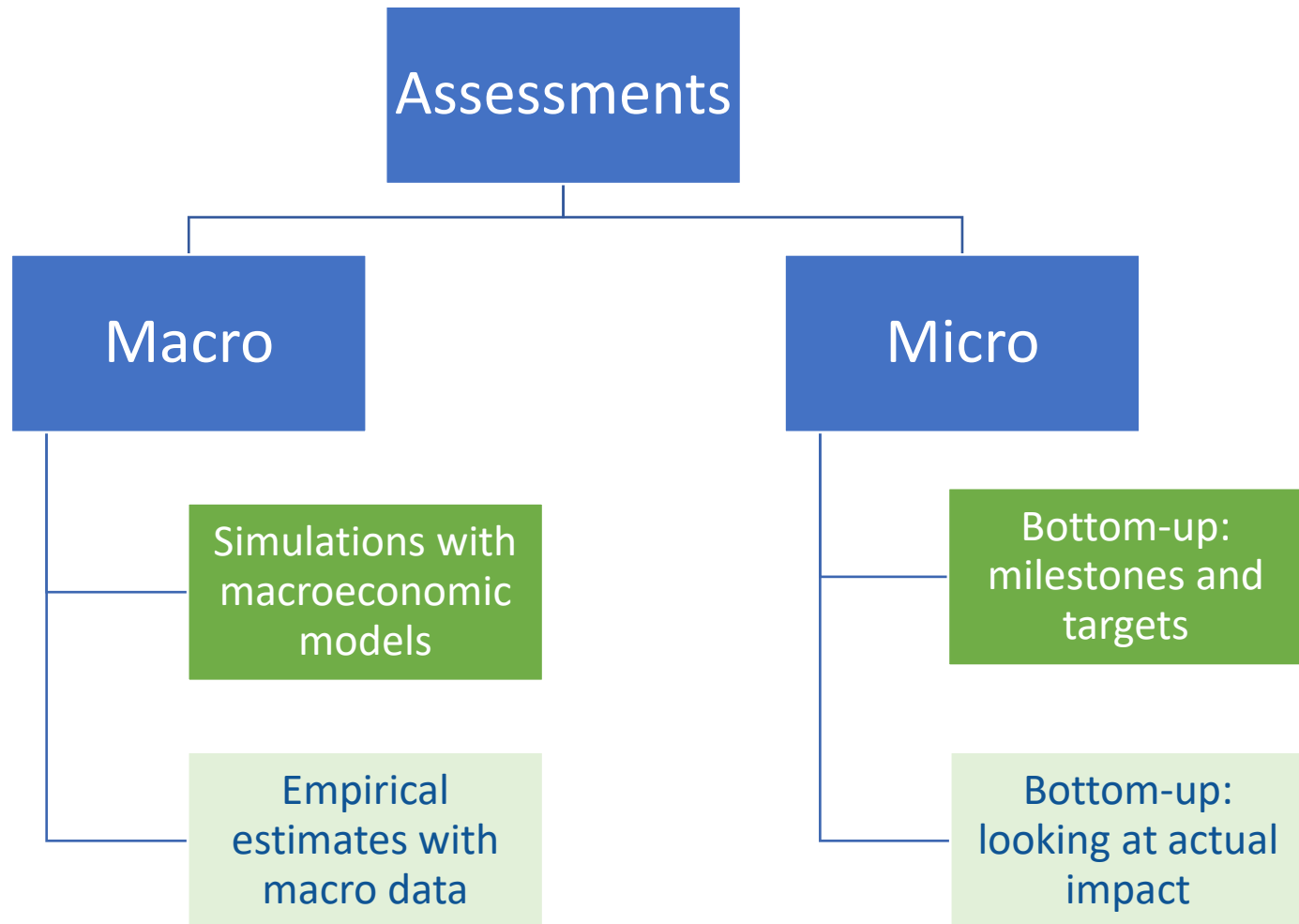
Group D **could accept the deal and not follow through**. However, in that case, given the conditionality arrangement, r would not be released. Back to basic model.

Scope for conditional budgeting

Implications for EU economic governance



Effectiveness of conditional budgeting (RRF experience)

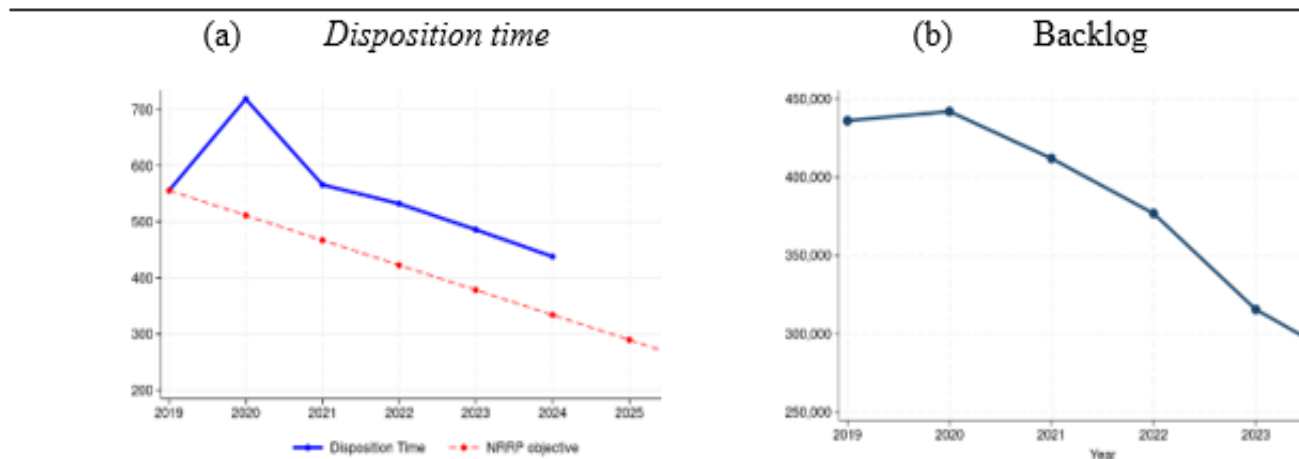


Effectiveness of conditional budgeting (RRF experience)

Bottom-up: looking at actual impact - civil judicial system

The case of Italy (single largest beneficiary of RRF)

Figure 1: Disposition time and backlog



Source: Own calculations based on data from the Ministry of Justice.

(a) The benchmark scenario (dashed red line) is calculated under the assumption of a steady annual decrease in disposition time until the NRRP target is reached (-56% compared to 2019 by 2026).

Source: Banca d'Italia annual report 2023

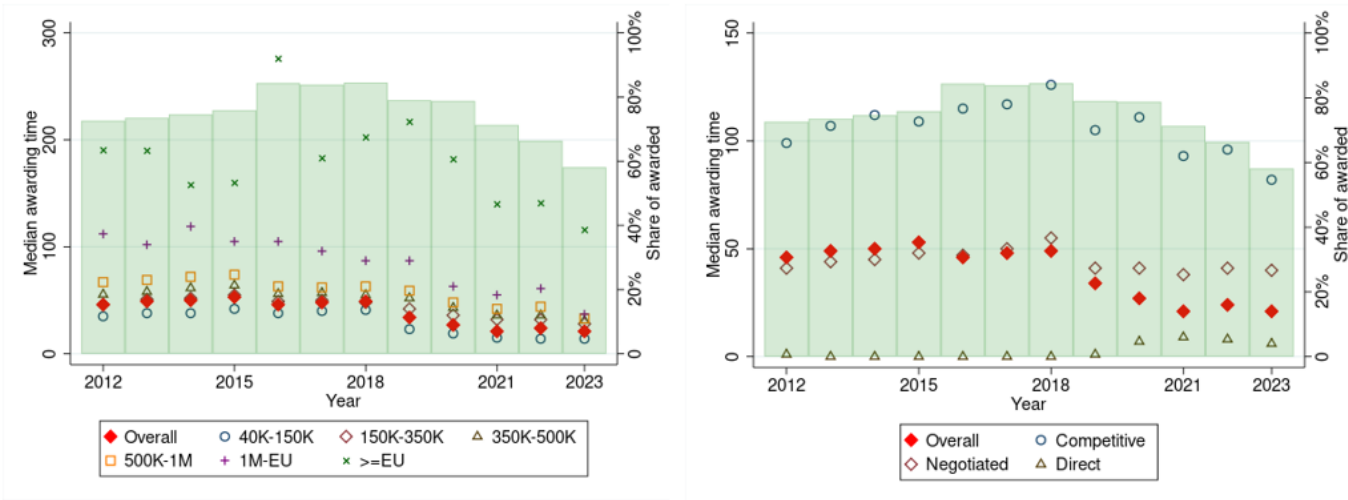
Effectiveness of conditional budgeting (RRF experience)

Bottom-up: looking at actual impact – public procurement

The case of Italy (single largest beneficiary of RRF)

Figure 2: Awarding time of Public works contracts between 2012 and 2023

Median awarding times per dimensional class Median awarding times per awarding criterion



Source: Own calculations based on data from the ANAC.

Source: Banca d'Italia annual report 2023

Effectiveness of conditional budgeting (RRF experience)

Bottom-up: looking at actual impact – reforms
The case of Italy (single largest beneficiary of RRF)



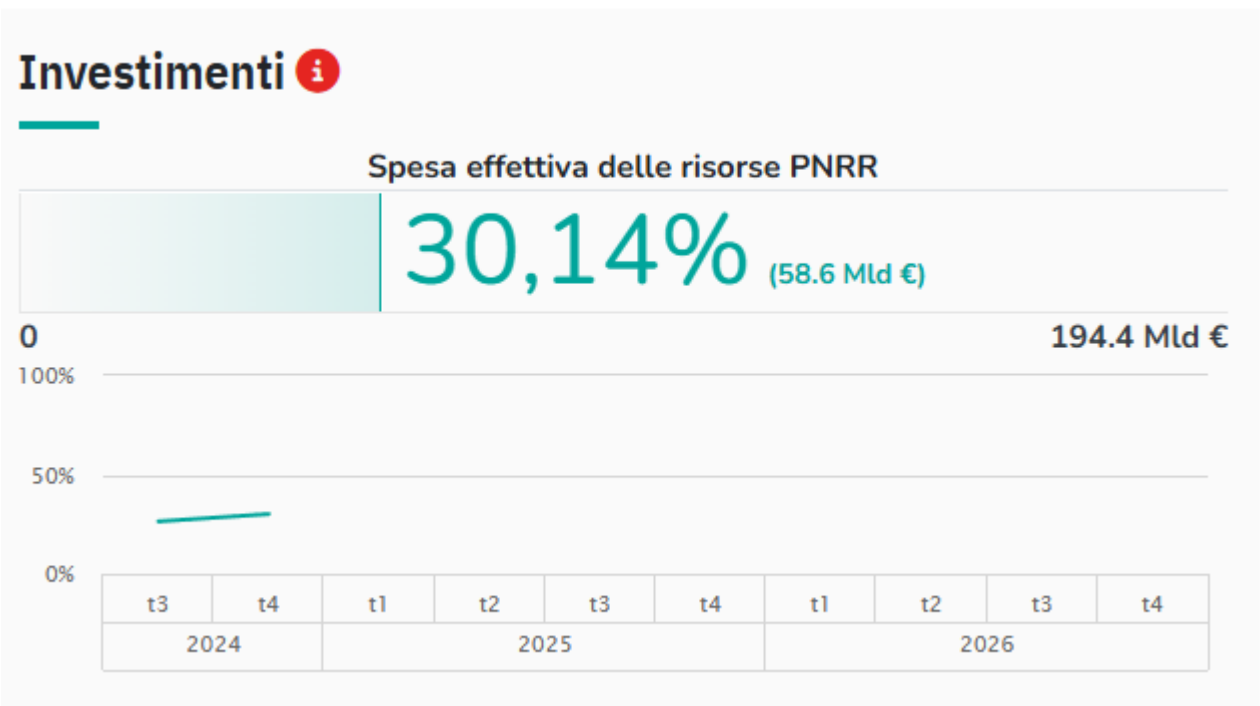
Source: Openpolis.it

Bottom-up looking at actual impact: reforms

Effectiveness of conditional budgeting (RRF experience)

Bottom-up: looking at actual impact – spending

The case of Italy (single largest beneficiary of RRF)



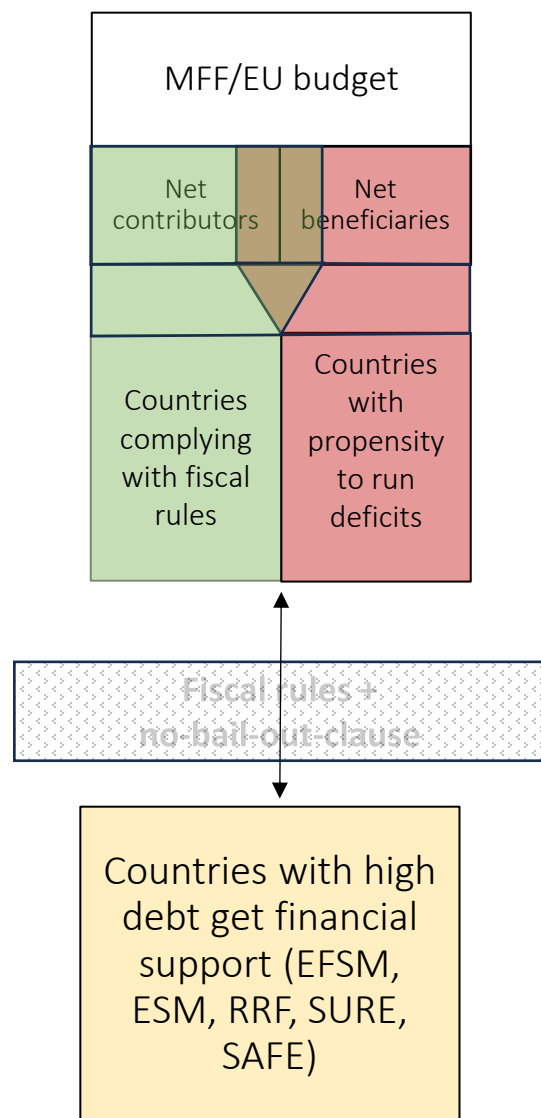
Source: Openpolis.it

Scope for a bargain

Post – 2008 architecture

Redistribution
agreed ex ante

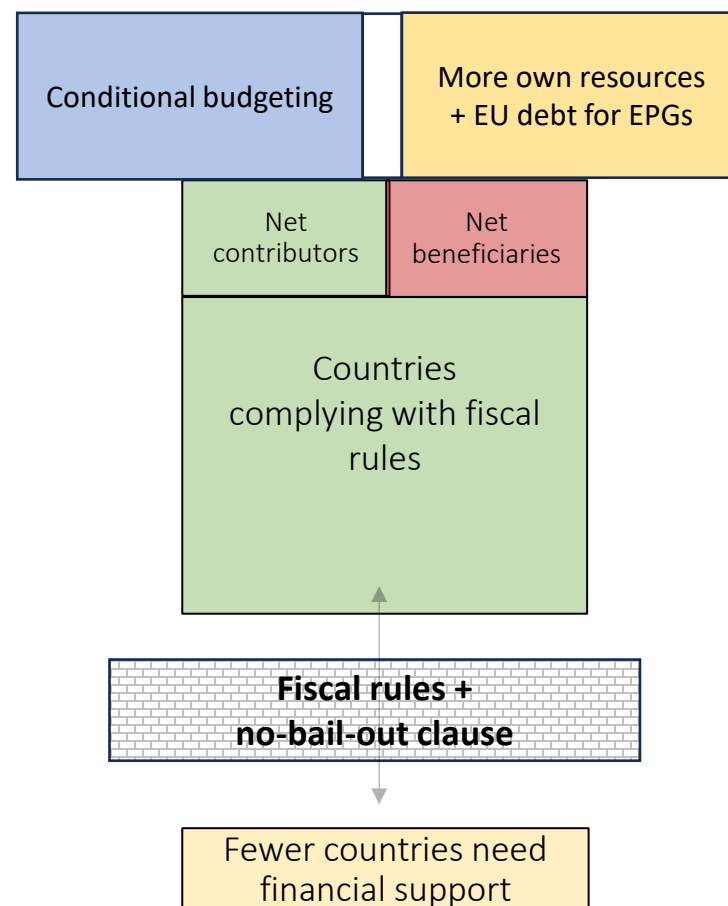
Fiscal
performance



De facto
redistribution
by recurring
accidents in
vulnerable
countries

Possible post – 2027 architecture

MFF/EU budget



Thanks for your time!

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