



ALEXANDRU IOAN CUZA
UNIVERSITY of IAȘI



FACULTY OF ECONOMICS
AND BUSINESS ADMINISTRATION



With the support of the
Erasmus+ Programme
of the European Union



TOWARDS NEW PARADIGMS OF EU ECONOMICS: FINANCIAL AND MONETARY MILESTONES

Jean Monnet Module, projet no. 620297-EPP-1-2020-1-RO-EPPJMO-MODULE

Module 2: Public Finance and Fiscal Policy in the European Union (*Modulul 2: Finantele publice si politica fiscală în Uniunea Europeană*)



Assoc. Prof. Ph.D.
Irina BILAN



Prof. Ph.D. Ana-Maria
BERCU

e-mail: euconomics@uaic.ro

website: <http://euconomics.uaic.ro>



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Module 2: Public Finance and Fiscal Policy in the European Union

(Modulul 2: Finantele publice si politica fiscală în Uniunea Europeană)

The fiscal systems and tax policies in EU Member states

Sistemul fiscal si politica impozitelor in statele membre ale UE



Prof. Ph.D. Ana-Maria BERCU

The fiscal systems and tax policies in EU Member states



Objectives of the course:

- to understand the regulatory framework for taxes in the EU
- to highlight the pros and cons tax harmonization and tax competition in the EU
- to emphasize the structure and particularities of indirect tax systems in the EU Member States
- to emphasize the structure and particularities of direct tax systems in the EU Member States
- to understand the concept of tax policy, its objectives and instruments
- to grasp the coordinates of EU Member States' national and sub-national tax policies before and after the crisis
- to comprehend the role of EU national and sub-national tax policies in promoting growth, convergence among EU Member States and reducing regional disparities

The fiscal systems and tax policies in EU Member states

- Economic and monetary union (EMU) - economic integration in the EU - EU single market - common product regulations and free movement of goods, capital, labour and services;
- The currency – Euro - 19 EU Member States;
- Convergence criteria;
- A single monetary policy is set by the Eurosystem (comprising the European Central Bank's Executive Board and the governors of the central banks of the euro area);
- Fiscal rules and various degrees of economic policy coordination;
- Responsibility is divided between Member States and various EU institutions.



The fiscal systems and tax policies in EU Member states

A Brief History of Economic Integration

- European Coal and Steel Community 1951;
- European Economic Community 1957 (Treaty of Rome)
- Customs Union (1968): Free trade area + common external tariff
- Single (or Internal) Market (launched 1986, “completed” in 1992): breakdown of all tariff and non-tariff barriers to trade and business
- **Single currency** (approved in 1993 Maastricht Treaty, euro launched 1999, notes and coins 2002): eliminated exchange rate transaction costs and risk



The fiscal systems and tax policies in EU Member states

EMU Objectives

- to support sustainable economic growth;
- a high level of employment through appropriate economic and monetary policymaking;
- price stability;
- avoiding possible negative spillover effects;
- ensuring the smooth operation of the single market.



EMU Advantages

- the costs of financial transactions will be low;
- making travel within EU member states easier;
- strengthening the role of Europe at international level.

The fiscal systems and tax policies in EU Member states

EMU – practical implications

- Coordination of economic policy-making between Member States
- Coordination of fiscal policies, notably through limits on government debt and deficit
- An independent monetary policy run by the E (ECB)
- Single rules and supervision of financial Institutions
- The single currency and the euro area



The fiscal systems and tax policies in EU Member states

The main actors in EMU:

- The European Council – sets the main policy orientations
- The Council of the EU (the 'Council') – coordinates EU economic policy-making and decides whether a Member State may adopt the euro
- The 'Eurogroup' – coordinates policies of common interest for the euro-area Member States
- The Member States – set their national budgets within agreed limits for deficit and debt, and determine their own structural policies involving labour, pensions and capital markets
- The European Commission – monitors performance and compliance
- The European Central Bank (ECB) – sets monetary policy, with price stability as the primary objective and act as central supervisor of financial Institutions in the euro area
- The European Parliament - shares the job of formulating legislation with the Council, and subjects economic governance to democratic scrutiny in particular through the new Economic Dialogue



The fiscal systems and tax policies in EU Member states

- **Euro area:** Austria, Belgium, Cyprus, Croatia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.
- **EU Member States obliged to adopt the euro eventually:** Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Sweden.
- **EU Member States with an opt out from adopting the euro:** Denmark, United Kingdom*.



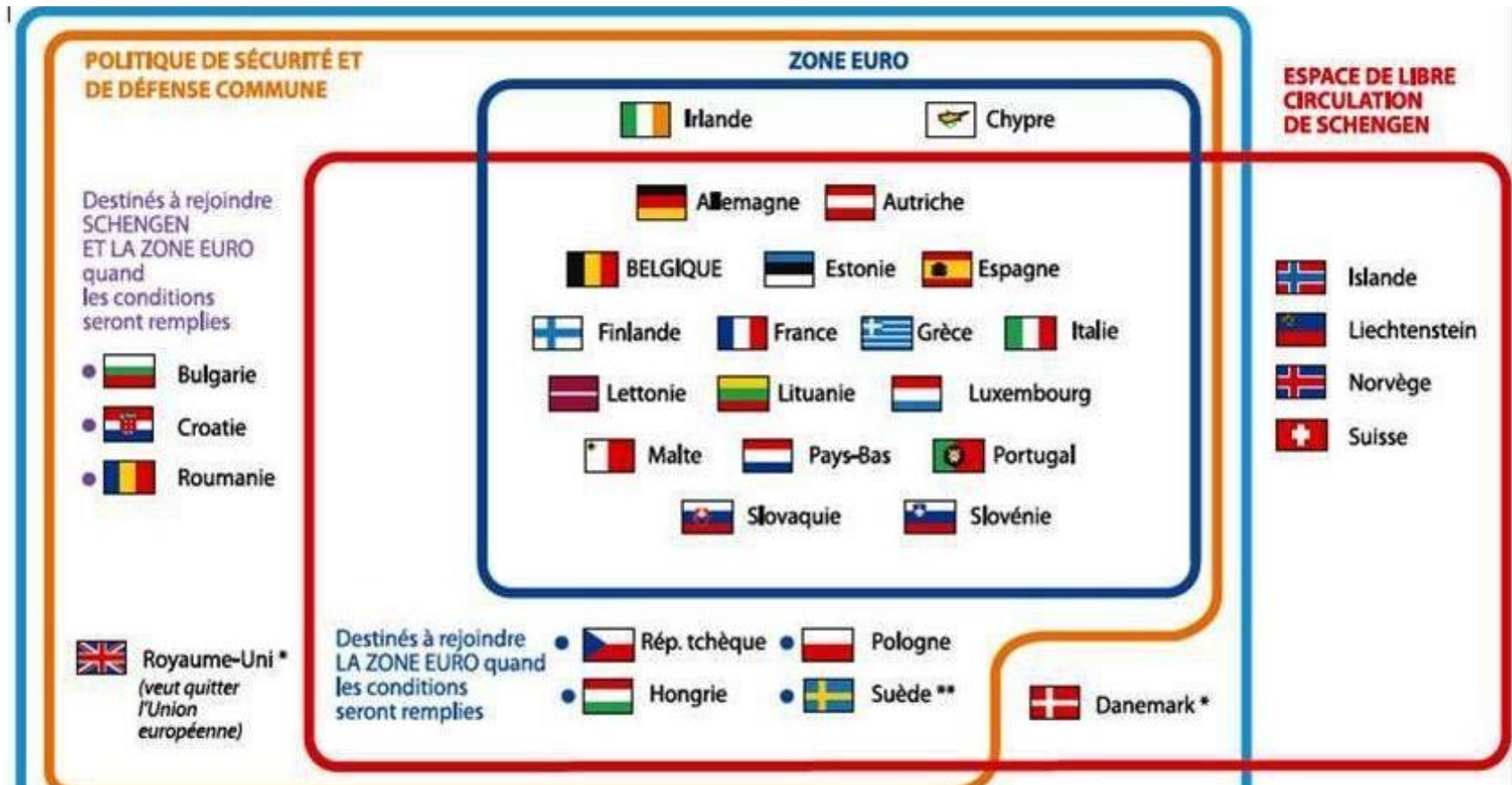
*former EU member state; UK leave EU at 31 of January 2020.

The fiscal systems and tax policies in EU Member states

EMU Legal basis

- Treaty on European Union (TEU) and Treaty on the Functioning of the European Union (TFEU);
- Protocols annexed to the Treaties: Protocol 4 on the statute of the European System of Central Banks and the European Central Bank; Protocol 12 on the excessive deficit procedure; Protocol 13 on the convergence criteria; Protocol 14 on the Eurogroup; Protocol 16, which contains the opt-out clause for Denmark;
- Intergovernmental treaties comprise the Treaty on Stability, Coordination and Governance (TSCG), the Europlus Pact and the Treaty on the European Stability Mechanism (ESM).

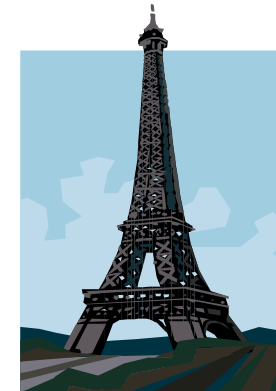




Single monetary policy set by the ECB



Fiscal and other policies set by Member States (but subject to common rules)



The fiscal systems and tax policies in EU Member states

WHY EUROPEAN FISCAL POLICY?

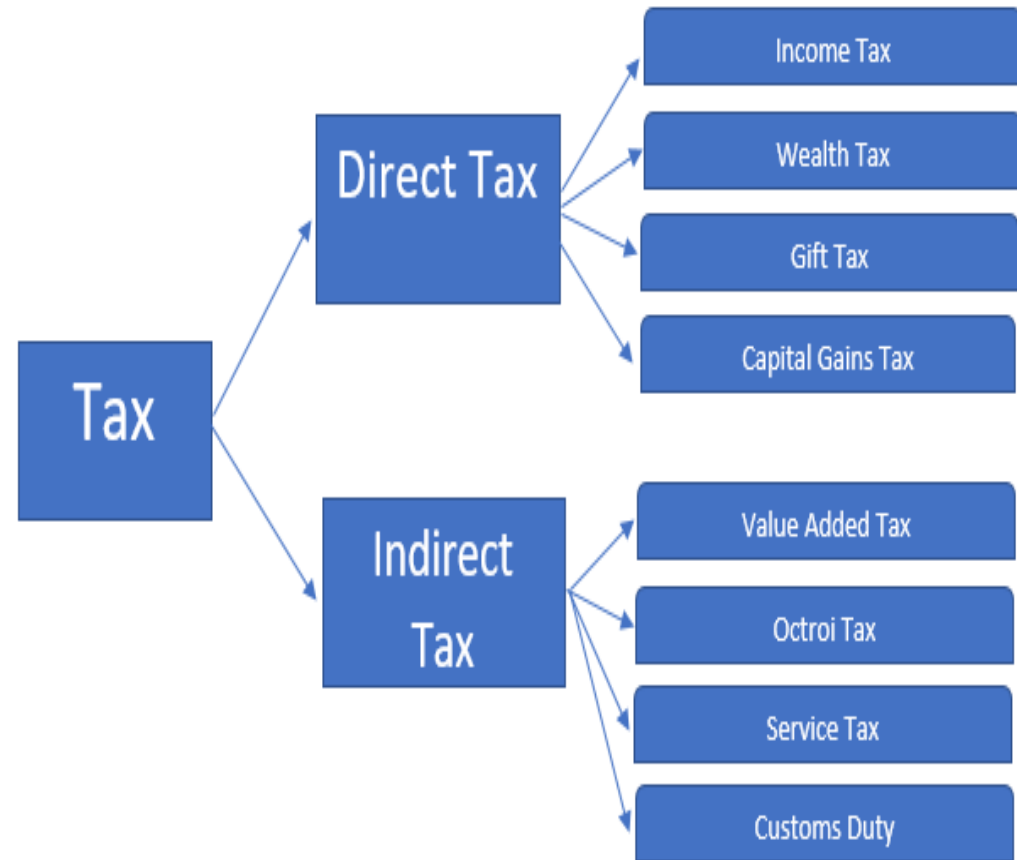
STABILITY

GROWTH

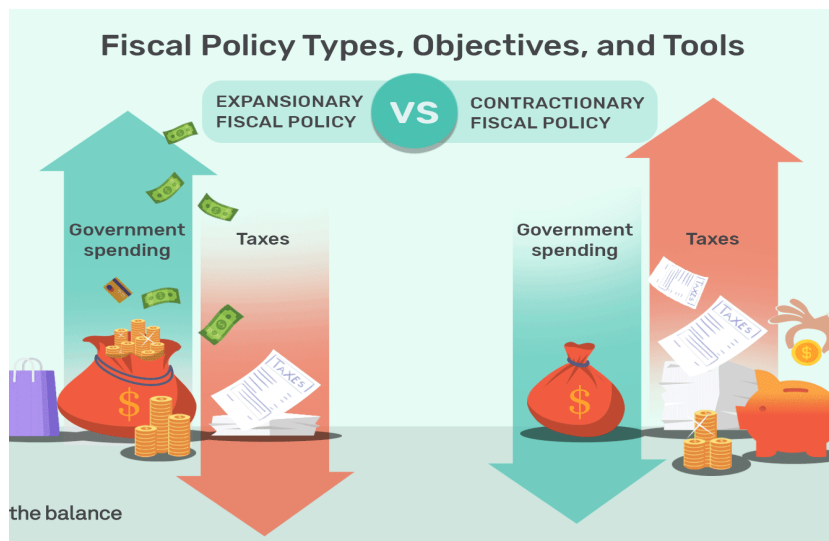
HARMONIZATION

The fiscal systems and tax policies in EU Member states

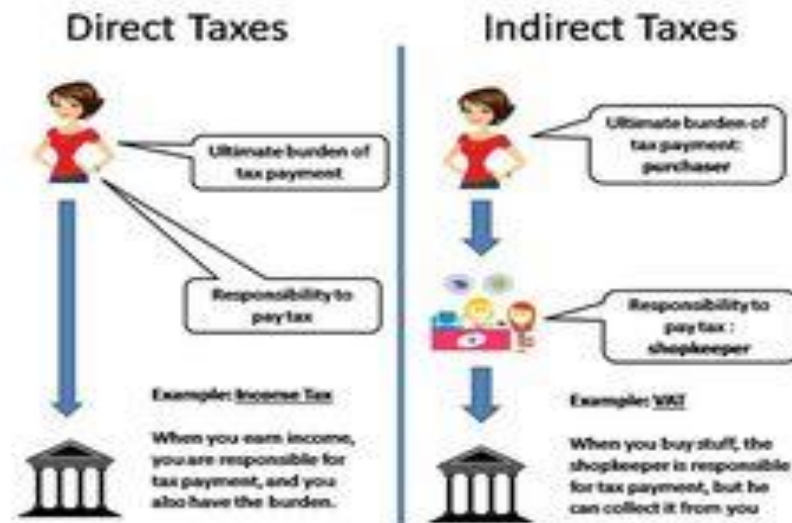
GENERAL TAX POLICY



The fiscal systems and tax policies in EU Member states



GENERAL TAX POLICY IN EU



The fiscal systems and tax policies in EU Member states

Tax policy responses to the COVID-19 crisis

GENERAL TAX POLICY

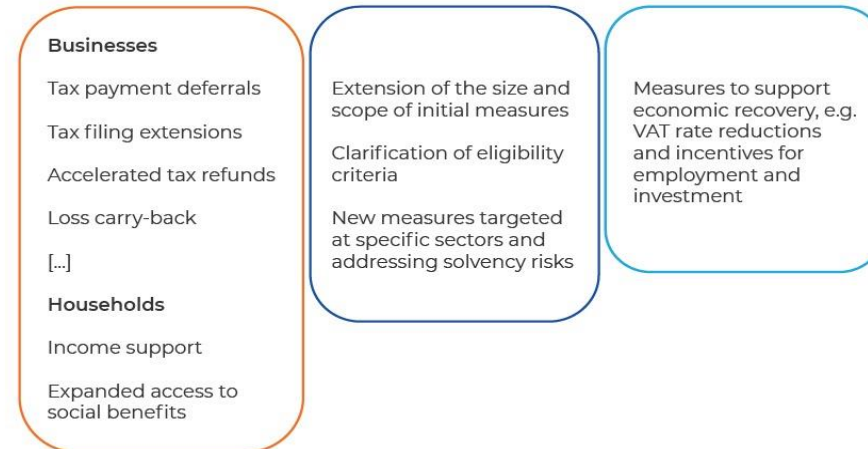
Phases of pandemic and containment



Phases of tax policy response



Tax policy measures implemented by governments





EU Tax Policy strategy

- Communication of 23 May 2001 on "Tax policy in the European Union - Priorities for the years ahead"
- **Member States are free to choose the tax systems** that they consider most appropriate and according to their preferences

Does the EU impose taxes?

- *No, the EU does not impose taxes.*
- *This is done solely at the level of each country.*
- *The EU budget is funded almost entirely by ‘own resources’.*
- *These include direct contributions from each country, customs duties and a very small share of national VAT revenues.*
- *The countries of the EU decide together on the types and maximum amounts of these ‘own resources’.*

Removing obstacles for citizens

- any proposal for EU action in the tax field needs to take account of the principles of subsidiarity and proportionality;
- co-ordination of national policies if the individual Member States could not provide an effective solution ;
- **elimination of tax obstacles to all forms of cross-border economic activity**, in addition to continuing the fight against harmful tax competition and promoting greater cooperation between tax administrations in assuring control and combating fraud;
- The Communication "Removing cross-border tax obstacles for EU citizens" outlines the most serious tax problems that EU citizens face in cross-border situations, as discrimination, double taxation, difficulties in claiming tax refunds and difficulties in obtaining information on foreign tax rules, and announces plans for solutions.

Tax policy and EU principles

- **The subsidiarity principle**

action at EU level would achieve a better result than if EU countries acted alone



Policy and principles

- **The proportionality principle**

the initiative proposed does not go beyond what is necessary to address the problem identified (the ‘proportionality’ principle).

Removing obstacles for citizens



- the Commission's problem-solving services for EU citizens and the types of tax rules that have been found incompatible with the EU Treaties could be read at the following address:
- https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/gen_info/tax_policy/citizen_summ_2010/citiz-summ_en.pdf

Direct and indirect taxation

Direct taxes:

- - are imposed upon a person, a company or entity or a property: income tax and company tax.

Indirect taxes:

- - are imposed upon a transaction, such as value added tax (VAT) on sales of goods and services and excise duties on alcohol and tobacco.



What do you see? In tax terms, please 😊



Direct taxation

- **Personal taxation - taxes on the income of individuals**
 - are mainly the responsibility of the individual EU countries.
 - they may constitute barriers to mobility in Europe.
 - individuals who move from one EU country to another or who invest or inherit across borders can face taxation in two or more EU countries as well as other difficulties such as complicated compliance obligations.
 - there are treaties in place between most EU countries that are supposed to eliminate double taxation.

Direct taxation

- **Company taxation**
- EU countries decide on their own tax rules.
- are certain areas in company taxation which require an EU approach in order to remove obstacles to the internal market, to ensure fair tax competition and to tackle common challenges, such as corporate tax avoidance.
- The aim: to eliminate double taxation i.e. where a company is taxed twice (or more) on the same income by different EU countries.

Some examples

- The interest and royalties directive eliminates withholding taxes on cross-border interest and royalty payments between associated companies that are resident in two different EU countries.
- The parent and subsidiary directive prevents double taxation of the parent company on the profits of its subsidiary located in another EU country.
- The merger directive simplifies taxation of activities aimed at restructuring companies situated in two or more EU countries.
- The EU Arbitration Convention establishes a procedure to resolve disputes where double taxation occurs between enterprises of different EU countries.

What is the EU doing?

- The trip to Danube River from Germany to Romania means:
- VAT system - a consumption tax, charged on most goods and services sold in the EU
- Since 1977, the EU states agreed on a common framework of VAT - EU VAT system.
- Under the European VAT system, only the end consumer is ultimately taxed on the goods or services.



What the EU is doing?

Excise duties are indirect taxes on the manufacture, sale or use of certain products such as:

- alcoholic beverages;
- tobacco products;
- energy products (for instance, motor and heating fuels, such as petrol and gasoline, electricity, natural gas, coal and coke).



What the EU is doing?

Through the legislation it was established:

- the minimum rates that EU countries have to apply;
- the scope for possible exemptions;
- general rules for producing, storing and moving these goods around the EU.

Lets undestand better!



- https://ec.europa.eu/taxation_customs/business/company-tax/fair-taxation-digital-economy_en

Module 2: Public Finance and Fiscal Policy in the European Union

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The EU budget and supranational fiscal policy of the EU

Bugetul UE si politica fiscala supranationala



Prof. Ph.D. Ana-Maria BERCU

The EU budget and supranational fiscal policy of the EU



Objectives of the course:

- to comprehend the legal instruments of the EU's budgetary system
- to emphasize the recent trends and particularities of the current revenue system of the EU's budget
- to emphasize the recent trends and particularities of the current expenditure system of the EU's budget
- to understand the content of European growth policies in times of crisis and the role of the EU's budget
- to critically assess the arguments pro and against a fiscal union and single fiscal policy in the EMU

EU BUDGET

1 The notion and importance of the EU budget concept



2 Budgetary principles at the level of the EU central budget



3 Budgetary procedure

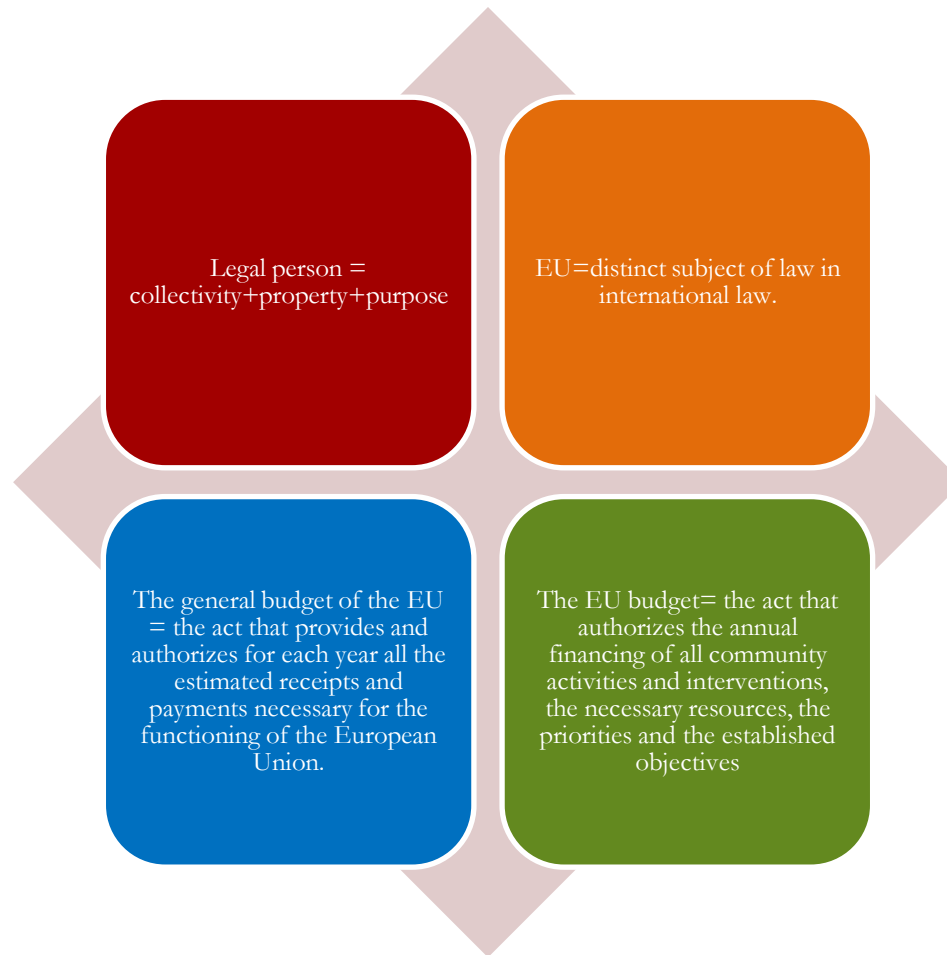


4 The structure of EU budget



5 Budgetary execution

The notion and importance of the EU budget concept





2012 Financial Regulation

It repealed the Regulation from 2007, the changes cover three aspects:

- ❖ simplification: reducing bureaucracy, speeding up procedures and shifting the focus from documentation to performance;
- ❖ accountability: ensuring even better financial management and protection of the EU's financial interests;
- ❖ innovation: the introduction of financial mechanisms that will allow the mobilization of third-party funds in addition to EU funds.

2012 Financial Regulation

The main improvements brought to the budgetary regulatory framework at the EU level concern:

- ❖ the efficiency and simplification of procedures (no obligation to open separate bank accounts, urgent payments to beneficiaries in 30, 60 or 90 days, depending on the complexity of the deliveries, use of lump sums and flat rates, for smaller amounts; reduction of documentation to be completed)
- ❖ increased responsibility of Member States, especially in the area of regional policy (national authorities will have to sign and submit annual declarations certifying that EU funds have been used appropriately)
- ❖ strengthening control (financial correction mechanisms; the Commission will publish decisions imposing penalties for the incorrect use of EU funds).
- ❖ flexibility (different financial instruments - loans, equity or guarantees - for multiplying the financial impact of EU funds; new possibilities regarding public-private PPP partnerships).
- ❖ pooling of resources.



Budgetary principles at the level of the EU central budget

the principles of
budgetary unity
and accuracy

the principle of
annuity

the principle of
balance

the principle of
account unit

the principle of
universality

the principle of
specificity

the principle of
good financial
management

the principle of
of transparency

The principles of budgetary unity and accuracy / in the previous regulation, the principle of budgetary unity and truth



Art. 7 of the financial regulation, the budget includes:

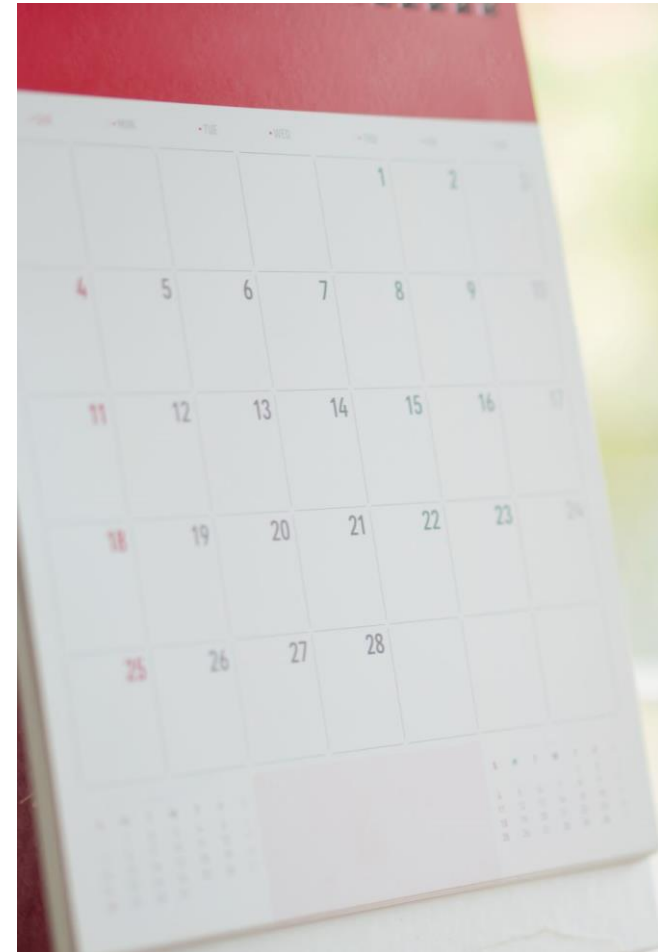
- ❖ the revenues and expenses of the Union, including the administrative expenses falling to the institutions under the provisions of the TEU, when they are incurred from the budget;
- ❖ the revenues and expenses of the European Atomic Energy Community.

Art. 8 of the regulation regulates special rules that regulate the principles of budgetary unity and accuracy, respectively:

- ❖ no income is collected and no expenditure is incurred unless recorded in a budget line.
- ❖ no expenditure may be committed or authorized in excess of the authorized credits.
- ❖ no credit can be registered in the budget unless it refers to an item of expenditure considered necessary.
- ❖ interest generated by pre-financing payments made from the budget is not owed to the Union
- ❖ the respective interests are reused in favor of the corresponding action, are deducted from the payment requests or are recovered.

The principle of annuity

- Art. 9 of the Regulation: "credits registered in the budget are authorized for a financial year that begins on January 1 and ends on December 31"
- Through Agenda 2000, multi-year financial programming was proposed, adapted to the new priorities of the union.
- Financial perspectives for 7 years, covering the period 2000-2006, 2007-2013, 2014-2020
- In case of late adoption of the budget, art. 315 TFEU (provisional twelfth regime).



The principle of balance



Art. 17 Financial regulation: revenues and payment credits are balanced and the Union and its bodies cannot make loans within the budget.

- it implies achieving a relative equivalence (equality) between the level of income and that of budget expenditures.
- in case of a budget deficit, it is prohibited to balance the budget by means of loans.
- if a budget surplus is recorded, it must be included in the budget of the next fiscal year.

The budget is a forecast plan; the execution deviates from the forecast = two possible situations:

- the balance is positive (budget surplus) is the most common situation regarding the EU budget. The surplus is registered as a receipt in the account of the following exercise and accordingly reduces the call to the resources provided by the member states;
- the balance is negative (budget deficit); rather exceptional situation, a payment will be registered in the budget account for the following year.



The principle of the unit of account

- Art. 19 of the Financial Regulation establishes that the budget is drawn up and executed in euros, and the accounts are presented in euros.
- The use of the euro is regulated as an absolute principle, i.e. for the establishment of the budget, the re-editing of accounts as well as for the execution of the budget.
- Only two exceptions are allowed for treasury needs considered justified by accounting and for advances (whose budget regularization is carried out in euros).
- In these expressly and limitedly regulated situations, the responsible credit officer is authorized to carry out operations in the national currency, in accordance with the rules of the application regulation.
- The Commission is empowered to adopt acts concerning the establishment of detailed rules on the conversion between the euro and other currencies.

The principle of universality

All incomes are included in a common table on which expenses can be imputed. :

The rule of non-affecting revenues, according to which own revenues serve the non-discriminatory financing of all expenses included in the budget;

The rule prohibiting the contracting of revenues and expenditures, that is, the prohibition to establish revenues and expenditures outside the budget.

Exception: Article 21 establishes categories of external assigned revenue and internal assigned revenue that are used to finance specific expenditures.

- The Commission may accept any donation in favor of the Union, such as foundations, grants, gifts and legacies.

Principle of specificity/ Principle of specialty

- Art. 24 of the Regulation provides that all credits are allocated, in full, to specific destinations, by titles and chapters, and the chapters are subdivided into articles and headings.
- Each expense must have a specific destination and be affected by a specific purpose, with the intention of avoiding any confusion between the various expenses between the time of authorization and that of execution.
- Neither a receipt nor a payment can be affected otherwise than by imputation to a budget item.
- Receipts must be precisely identified.
- Any important transfer must receive the authorization of the budgetary authority according to the rules provided by the financial regulation.
- The strict and centralized presentation of fund allocations would not guarantee the effectiveness of the budget execution procedure. For this purpose, the transfer of fund allocations is regulated.
- Art. 25 regulates credit transfers made by institutions other than the Commission, within its own budget section
- Transfers made by the Commission

The principle of transparency

- The obligation to publish, in the final form in which it was adopted, in the Official Journal of the European Union.
- The budget is published within three months from the date on which it is declared definitively adopted.
- The President of the European Parliament orders the publication of the budget and amending budgets, as definitively adopted, in the Official Journal of the European Union.
- The consolidated annual accounts and the report on budgetary and financial management drawn up by each institution are published in the Official Journal of the European Union.
- Information on loan and credit operations contracted by the Union for the benefit of third parties is included in an annex to the budget.

The budgetary procedure: the principle of budgetary discipline

- Art. 314 TFEU The European Parliament and the Council adopt the annulled EU budget through special legislative procedure/budgetary procedure:
 - - by July 1, each European body sends its own budget estimate to the Commission
 - - until September 1, the Commission presents the budget proposal to the Parliament and the Council
 - - until October 1, the Council adopts its position and transmits it to the European Parliament within 42 days of transmission: - the budget is adopted;
 - - did not make a decision, the budget is considered approved;
 - - adopts amendments with the majority of the members that compose it, the project so as to reach an agreement on a joint project, then the European Parliament and the Council each have a term of 14 days calculated from the date of the agreement for the approval of the joint project.
- Conciliation Committee

Structure of the EU budget: Revenues

4 categories of own resources:

- - agricultural samples;
- - the product (result) of the common customs tariff;
- - taking part of the national VAT;
- - a share of GNP.


Other financial means (complementary means)

- - the research and investment budget - which mainly finances the programs regarding the research and technological development objectives,

The financial instruments of interventions - for example:

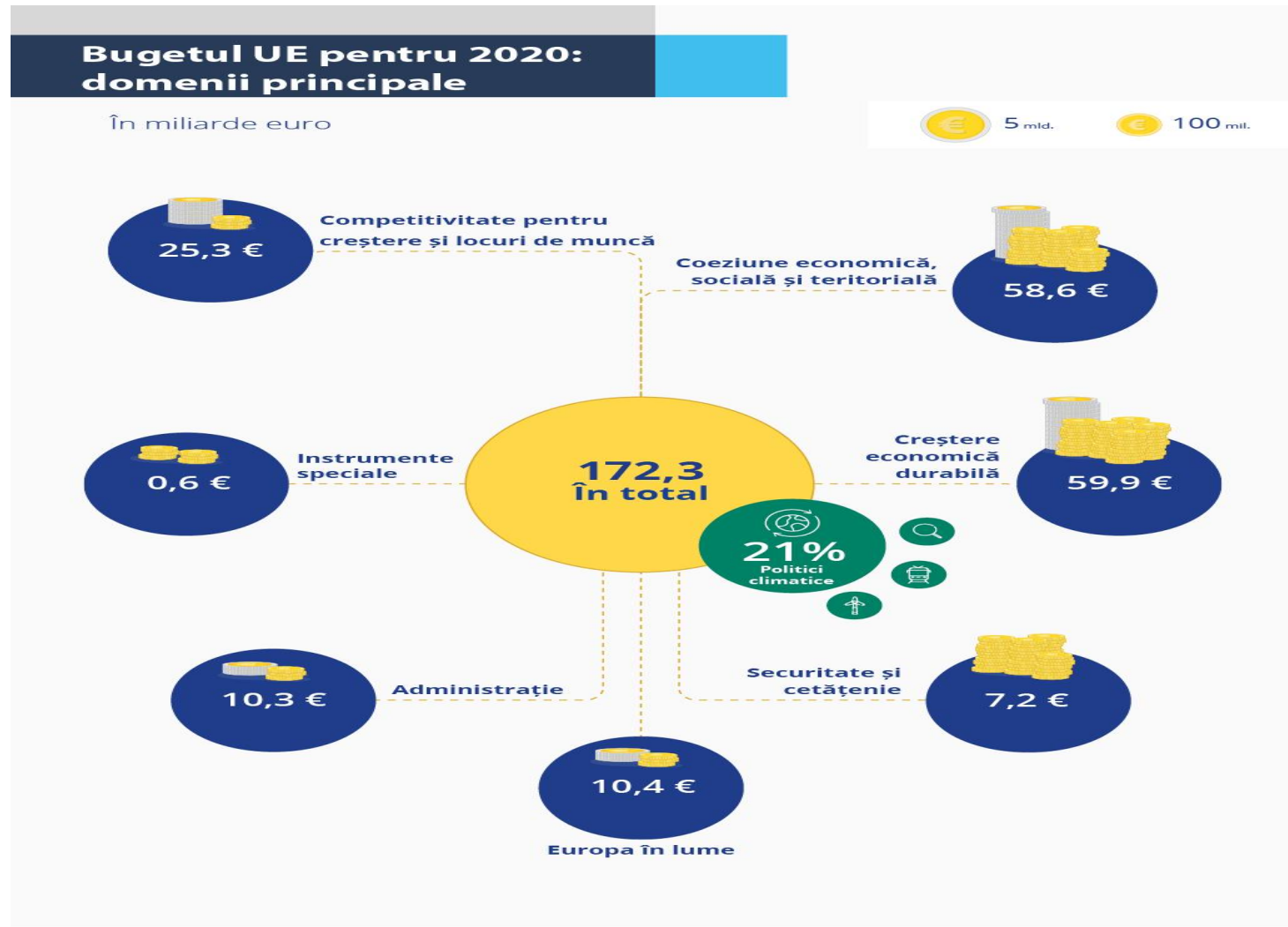
- - funds with a structural purpose (European Social Fund, European Agricultural Guidance and Guarantee Fund);
- - European Regional Development Fund;
- - Financial Cohesion Fund;
- - Financial Institute for orientation in the field of fish farming;
- - European Investment Bank.

Structure of the EU budget: Expenditures

- 
- The EU budget is divided into about 6 spending areas:
 - Competitiveness and economic, social and territorial cohesion
 - administration
 - Global Europe EU as a world actor
 - Security, citizenship, justice
 - Sustainable economic growth, natural resources
 - Special tools
 - The main categories of expenses provided for in the general budget of the EU are:
 - - agricultural guarantee expenses;
 - - structural expenses;
 - - internal expenses;
 - - administrative costs;
 - - expenses intended to cover "external actions".

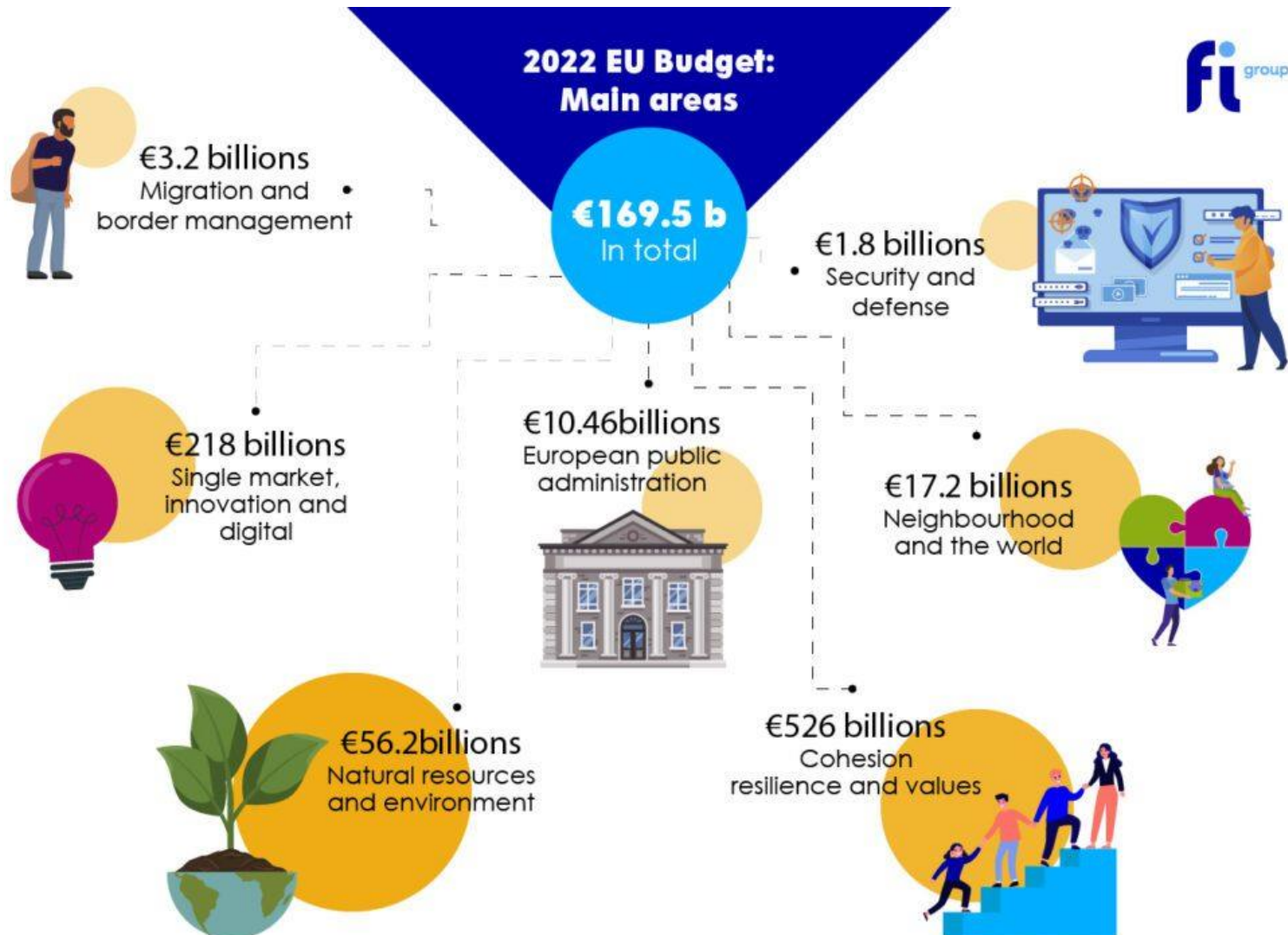
EU Budget

- For 2020



EU budget revenues

Source: <https://grants.fi-group.com/european-budget-2022/>

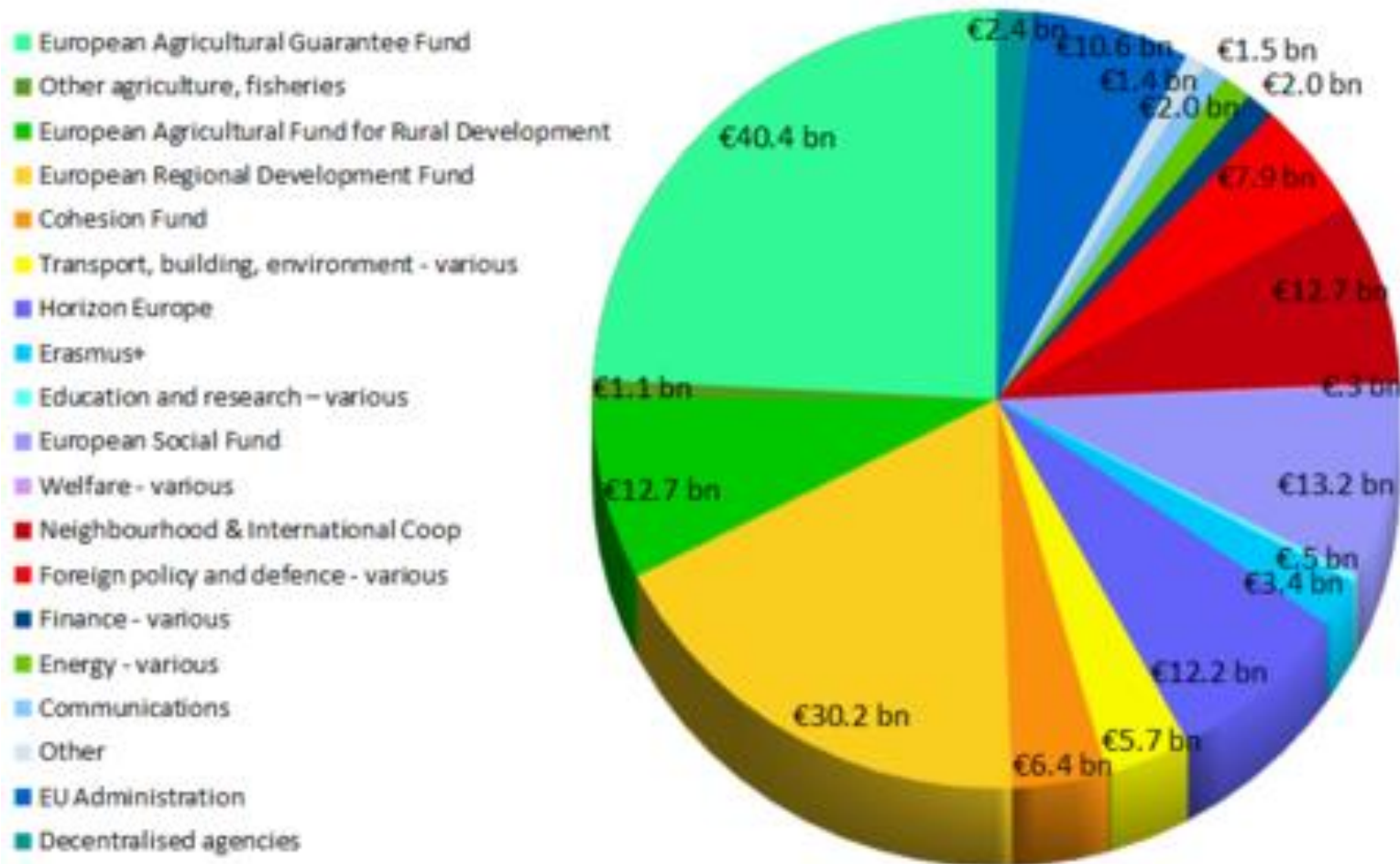


EU Budget, by category –2022

Source: https://en.wikipedia.org/wiki/Budget_of_the_European_Union

EU budget, by category, 2022

Source: Official Journal, Definitive Adoption 2022/182 (24.2.2022) L 45/18-29

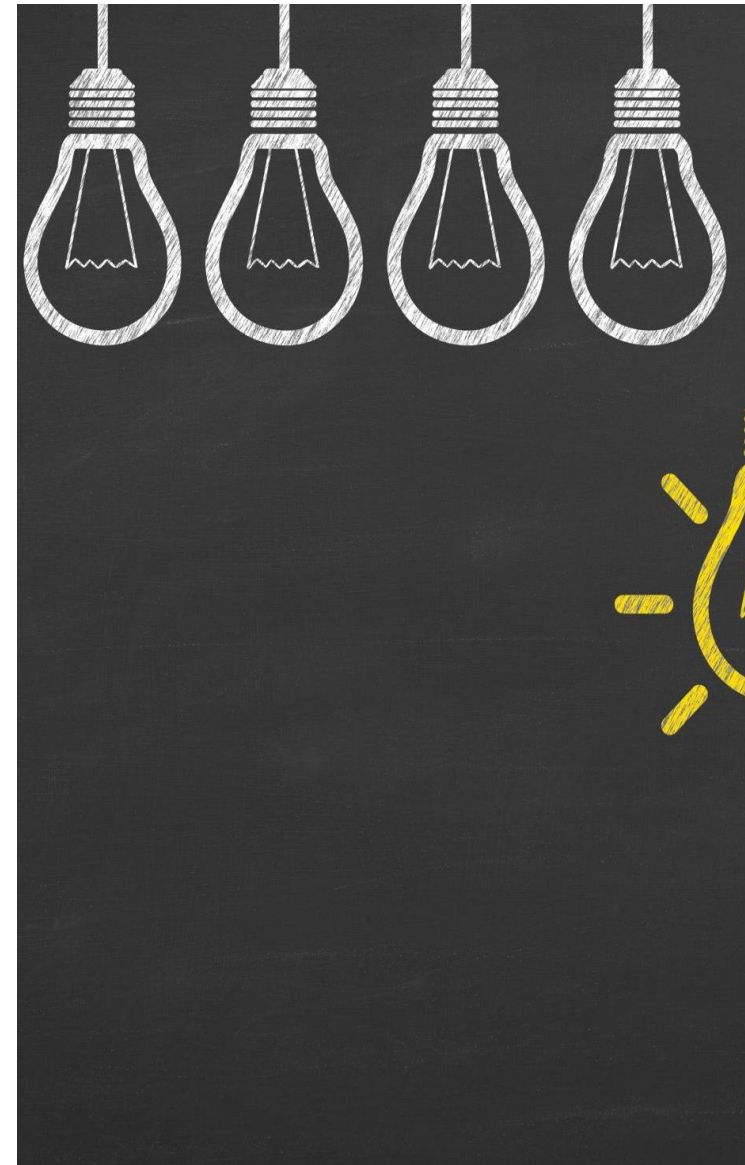


EU Budget Expenses

6 spending areas:

- ❖ Competitiveness and economic, social and territorial cohesion
- ❖ administration
- ❖ Global Europe EU as a world actor
- ❖ Security, citizenship, justice
- ❖ Sustainable economic growth, natural resources
- ❖ Special tools

Currently, most budgetary resources are directed towards stimulating economic growth, creating jobs and reducing economic gaps between different EU regions. Agriculture, rural development, the fisheries sector and environmental protection also benefit from important quotas. Other areas of spending include fighting terrorism, organized crime and illegal immigration.



EU Budget 2022

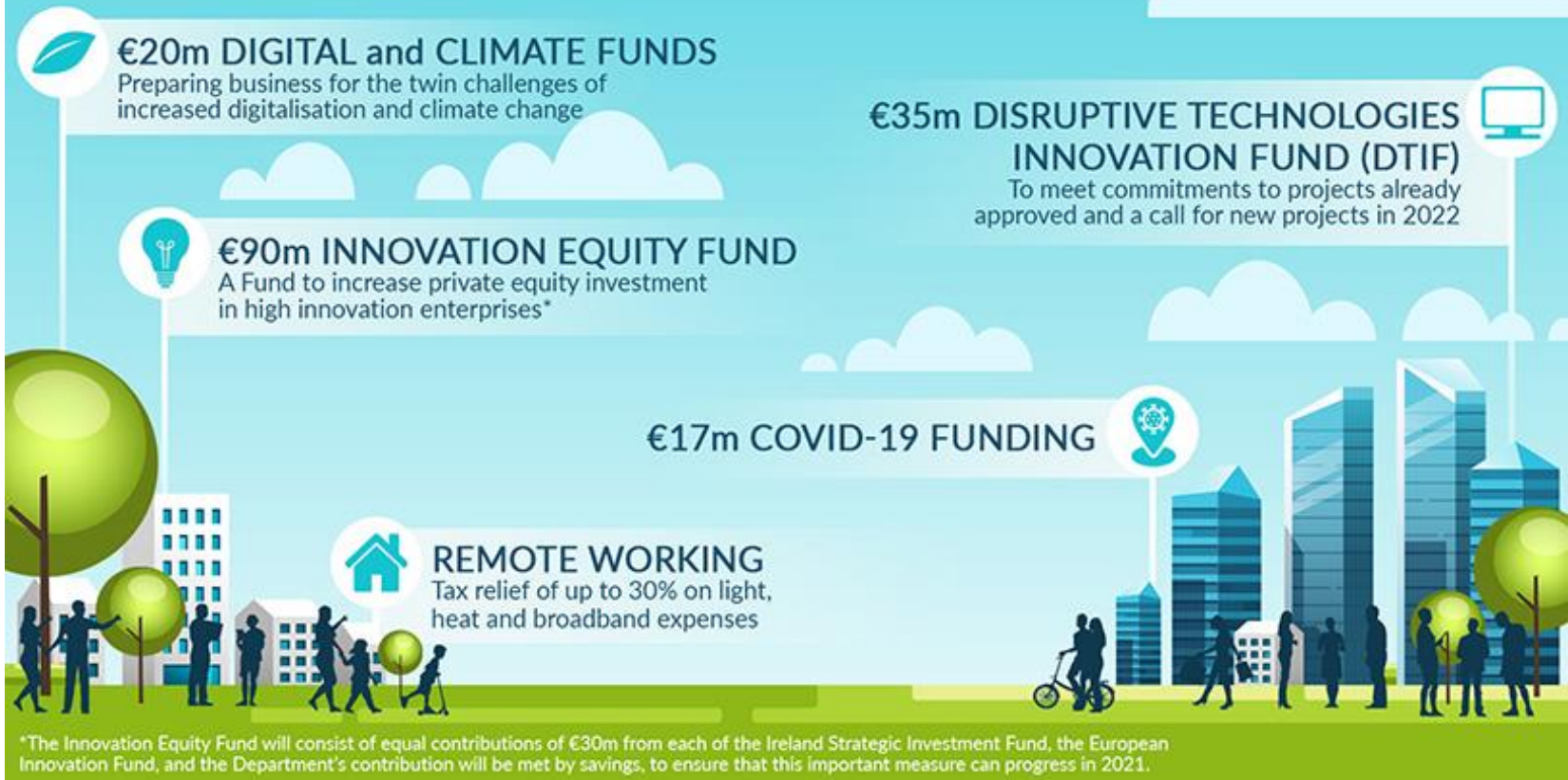
Source: <https://enterprise.gov.ie/en/publications/budget-2022.html>



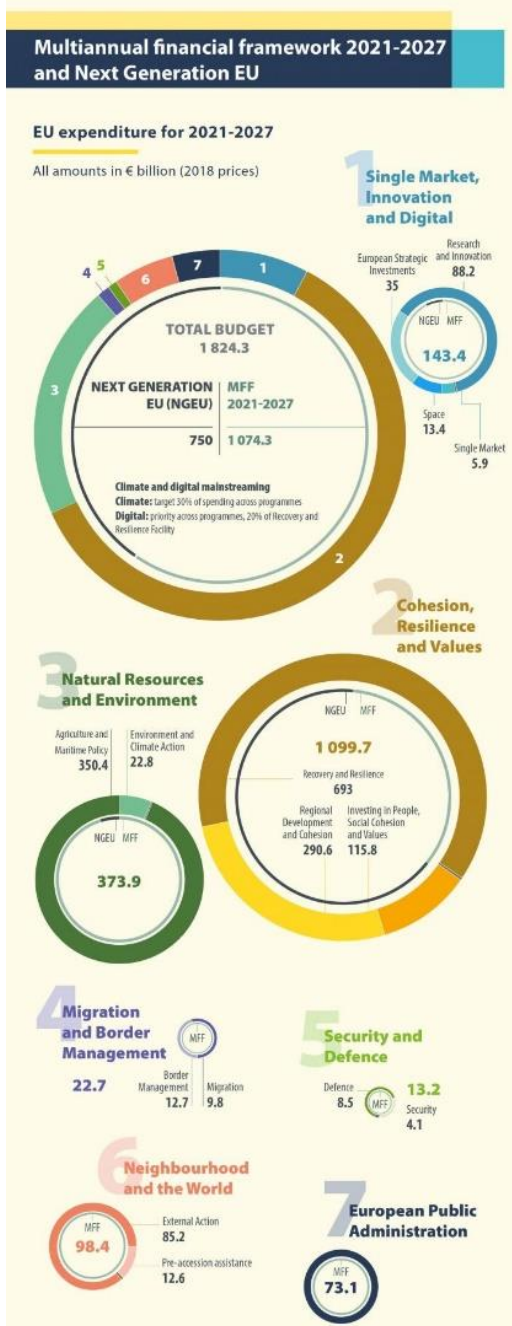
An Roinn Fiontar,
Trádála agus Fostaíochta
Department of Enterprise,
Trade and Employment

BUDGET 2022

DETE's full allocation for 2022 is €898m: €358m in current funding, €523m in core capital and €17m in Covid capital funding



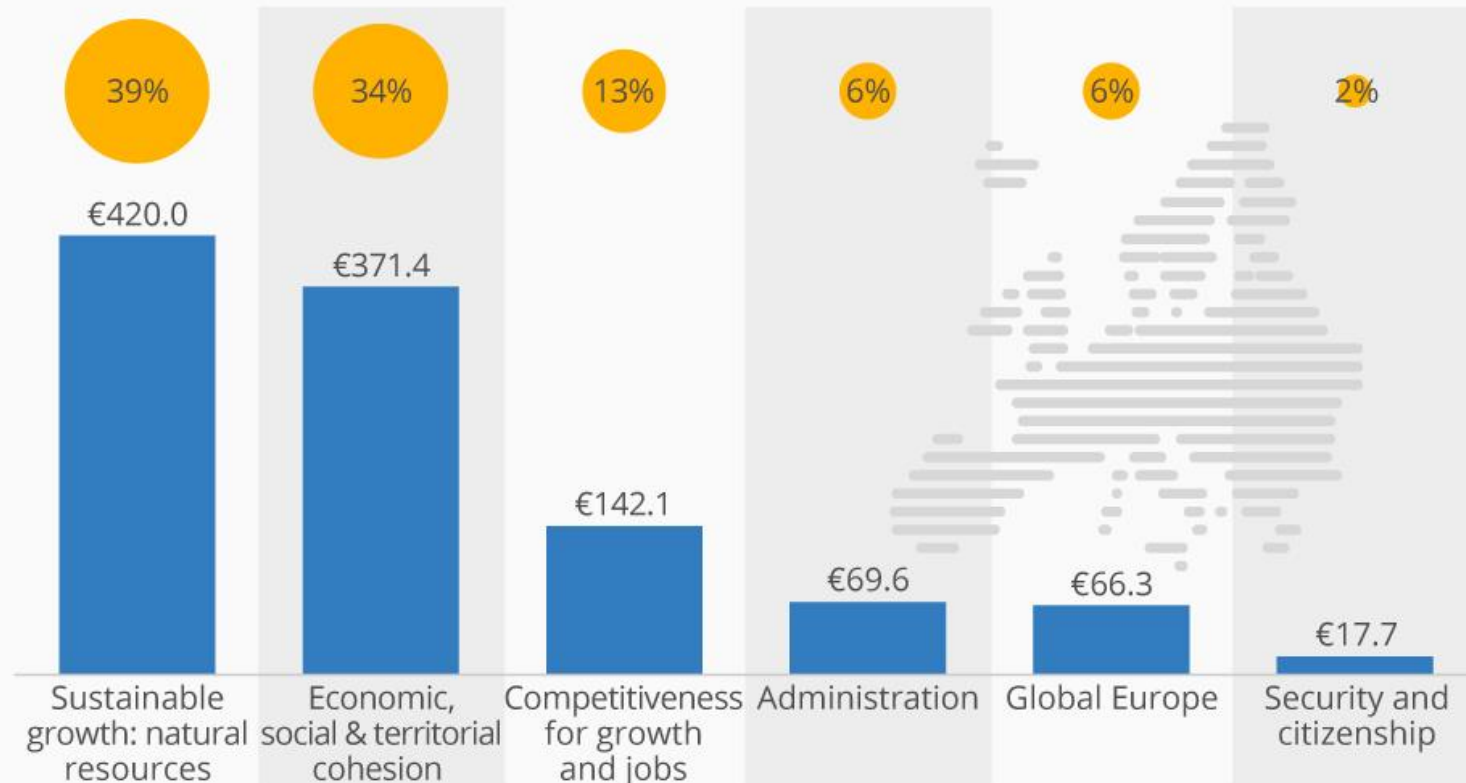
EU Budget expenses 2021-2027



EU Budget expenses

EU Budget: Where The Money Goes

Long term EU budget 2014–2020 (in billion euro and percentage)



@StatistaCharts Source: European Commission

statista

EU Budget 2023

Source: <https://www.consilium.europa.eu/en/press/press-releases/2022/11/22/council-gives-go-ahead-to-eu-budget-for-2023/>

EU budget 2023

in billion euros

- 2022 budget*
- 2023 draft budget**
- 2023 budget as agreed between Council and Parliament

Commitments



Payments



Module 2: Public Finance and Fiscal Policy in the European Union

(Modulul 2: Finantele publice si politica fiscală în Uniunea Europeană)

The public expenditure systems and expenditure policies of the EU Member States

*Sistemul cheltuielilor publice si politica cheltuielilor publice în statele
membre ale UE*



Assoc. Prof. Ph.D. Irina BILAN

Public expenditure

PUBLIC SPENDING refers to money spent by the public sector (government) on the acquisition of goods and provision of services (education, healthcare, social protection, defense, etc.)



Items of government expenditure:

- A. Functional classification** – by the *type of service* that government expenditure provide: education; health; social security, social insurance and assistance; defense; foreign affairs; others: energy & natural resources, transportation, agriculture, commerce & housing; interests
- B. Economic classification** – by the *type of factor paid or economic use of output*: current expenditure (wages and salaries; goods and services; subsidies and transfers; interest payments); capital expenditure; net lending

Public expenditure policy

Budgetary/ fiscal policy



Decisions with regard to:

- I. Overall expenditure and the way the government spends money to provide goods and services
- II. The way government pays for those expenditures through taxation and borrowing



Public expenditure policy

- ✓ objectives
- ✓ instruments

The **EU does not intervene** in EU Member States' national and sub-national expenditure policies... **BUT**

BUT... there are some “sensitive” issues

STATE AID - an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities.



Features of the state aid:

- there has been an intervention by the State or through State resources which can take a variety of forms;
- the intervention gives the recipient an advantage on a selective basis, for example to specific companies or industry sectors, or to companies located in specific regions;
- competition has been or may be distorted;
- the intervention is likely to affect trade between Member States.

BUT... there are some “sensitive” issues



Some forms of public expenditure may be qualified as **STATE AID**.

- ❑ State aid is **generally PROHIBITED** but in some circumstances government interventions is necessary for a well-functioning and equitable economy and therefore, there is scope for a number of policy objectives for which State aid can be considered compatible.
- ❑ Aid measures can **only be implemented after APPROVAL BY THE EUROPEAN COMMISSION** (except for the categories which fall under the General Block Exemption Regulation (GBER)).

CASE STUDY

Romanian support measure to BLUE AIR

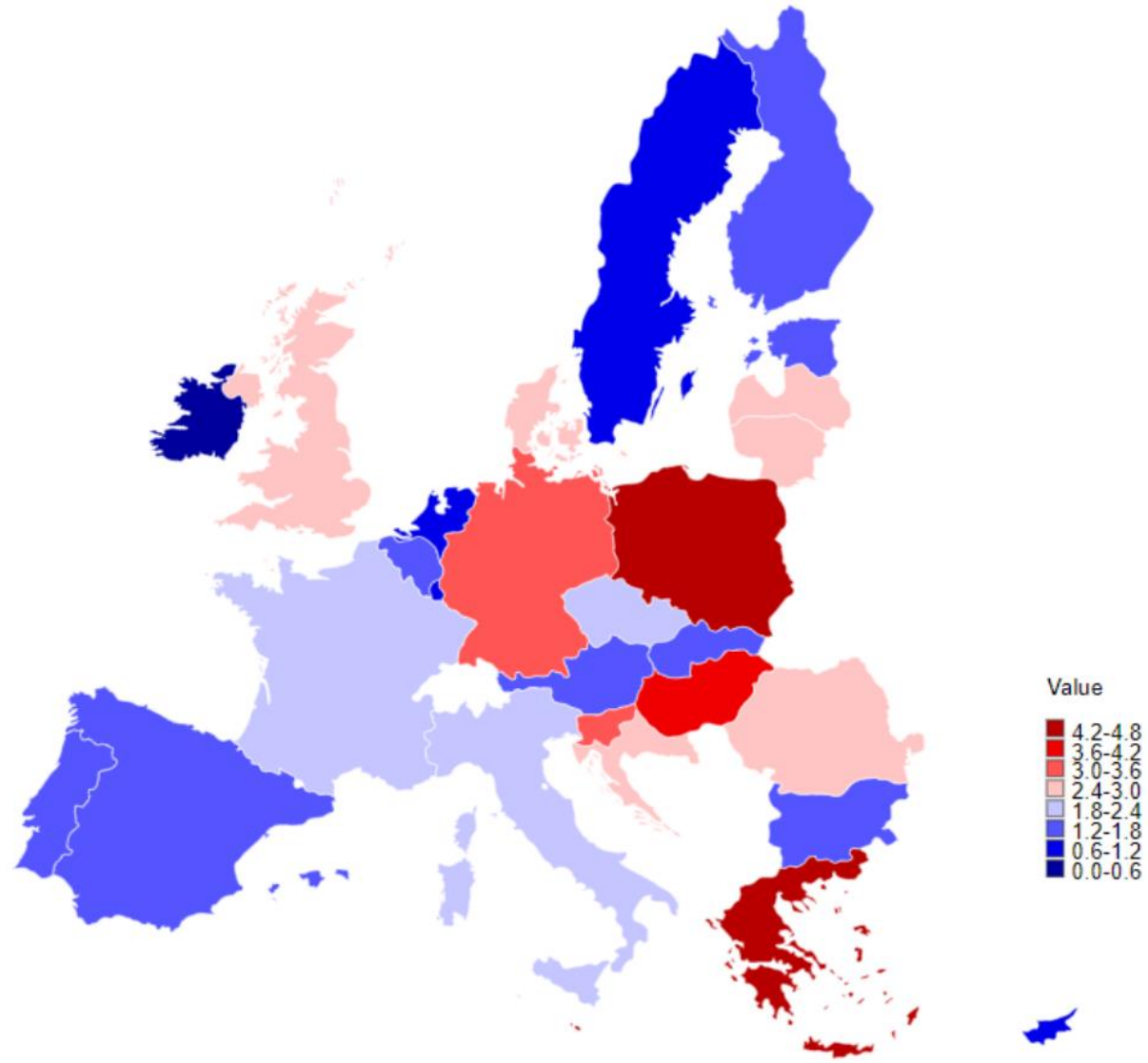
April 2020

Romania notified to the Commission, under Article 107(2)(b) TFEU and the 2014 Guidelines on State aid for rescue and restructuring a €62 million aid measure to support Blue Air, with the aim of compensating the airline for the losses directly caused by the coronavirus outbreak and of providing the company with resources to address its urgent and immediate liquidity needs until January 2021. The measure consists of a public guarantee of up to around €62 million (approximately RON 301 million) on a loan to the airline.

The Commission found that the measure will help ensure the orderly continuation of flight services for around 400,000 passengers that have either booked a flight with Blue Air in the coming months or are expecting a refund of their cancelled ticket. Moreover, the measure will contribute to maintaining regional connectivity for the significant number of Romanian citizens working abroad as well as for small local businesses that depend on affordable tickets offered by Blue Air on a network of routes developed by the company to address their travel needs. At the same time, the strict conditions attached to the loan in terms of remuneration and use of the funds and the limited duration of the aid will reduce the distortion of competition potentially triggered by the State support to a minimum.

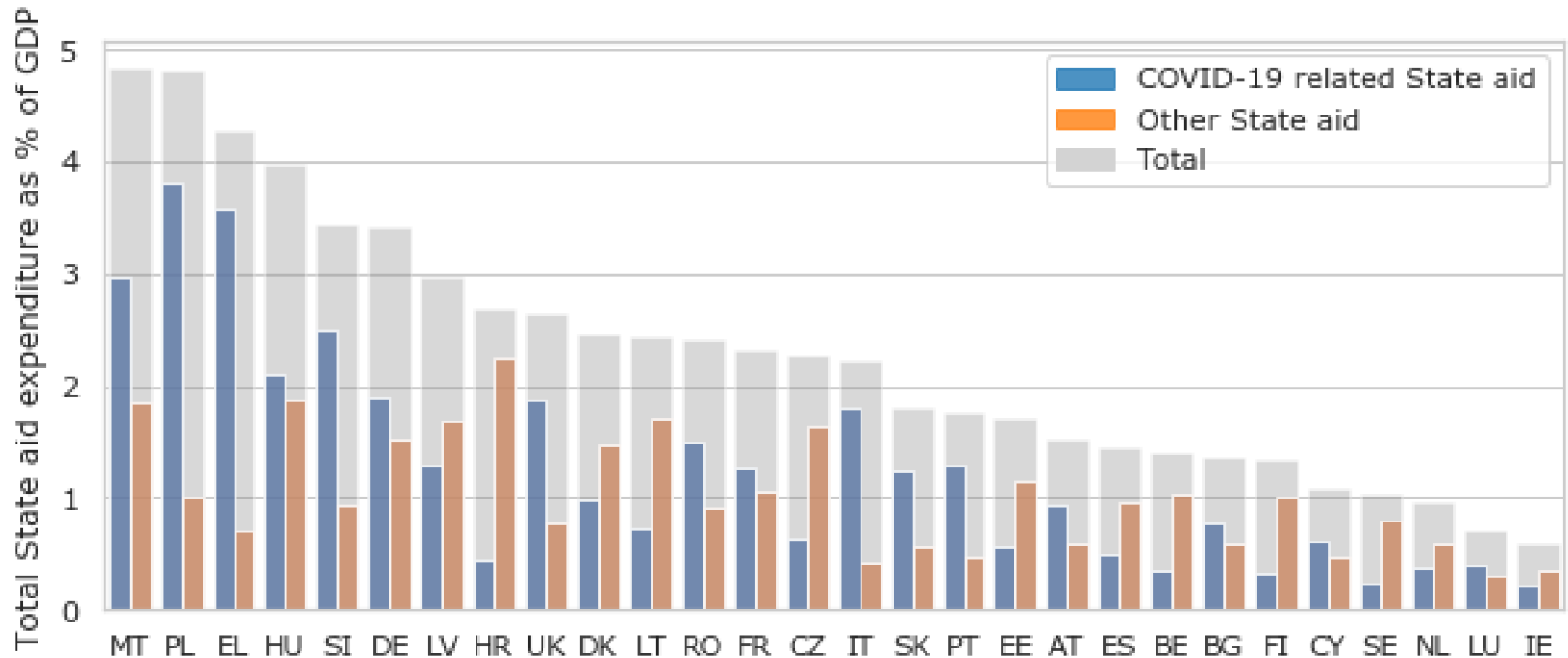
On this basis, the Commission therefore concluded that the Romanian measure is in line with EU State aid rules.

Total state aid expenditure in 2020 as % of national GDP, in EU Member States



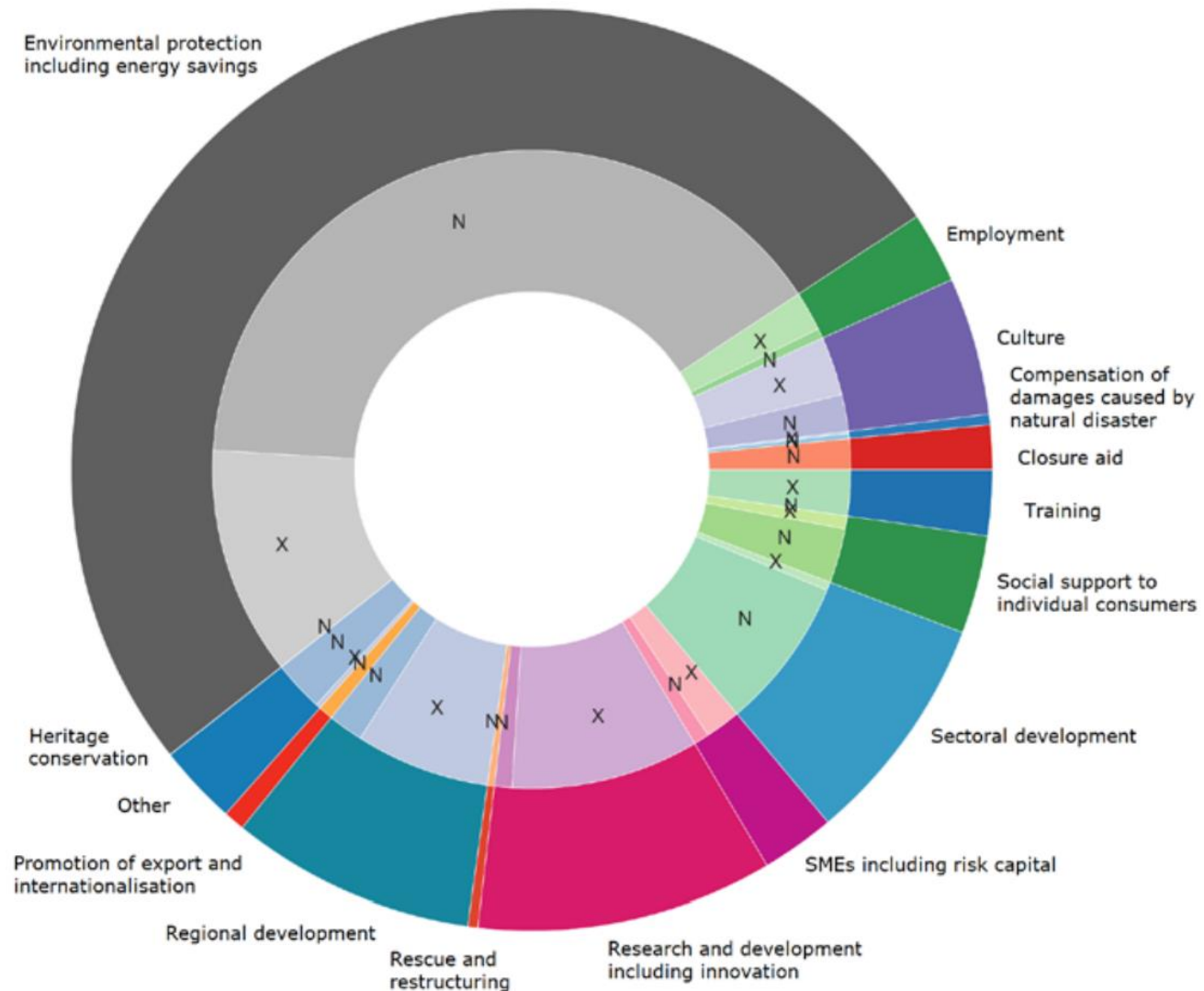
Source: European Commission, State Aid Scoreboard 2021

Total state aid expenditure by Member State in 2020 as % of national GDP – breakdown between COVID-19 and other State aid measures



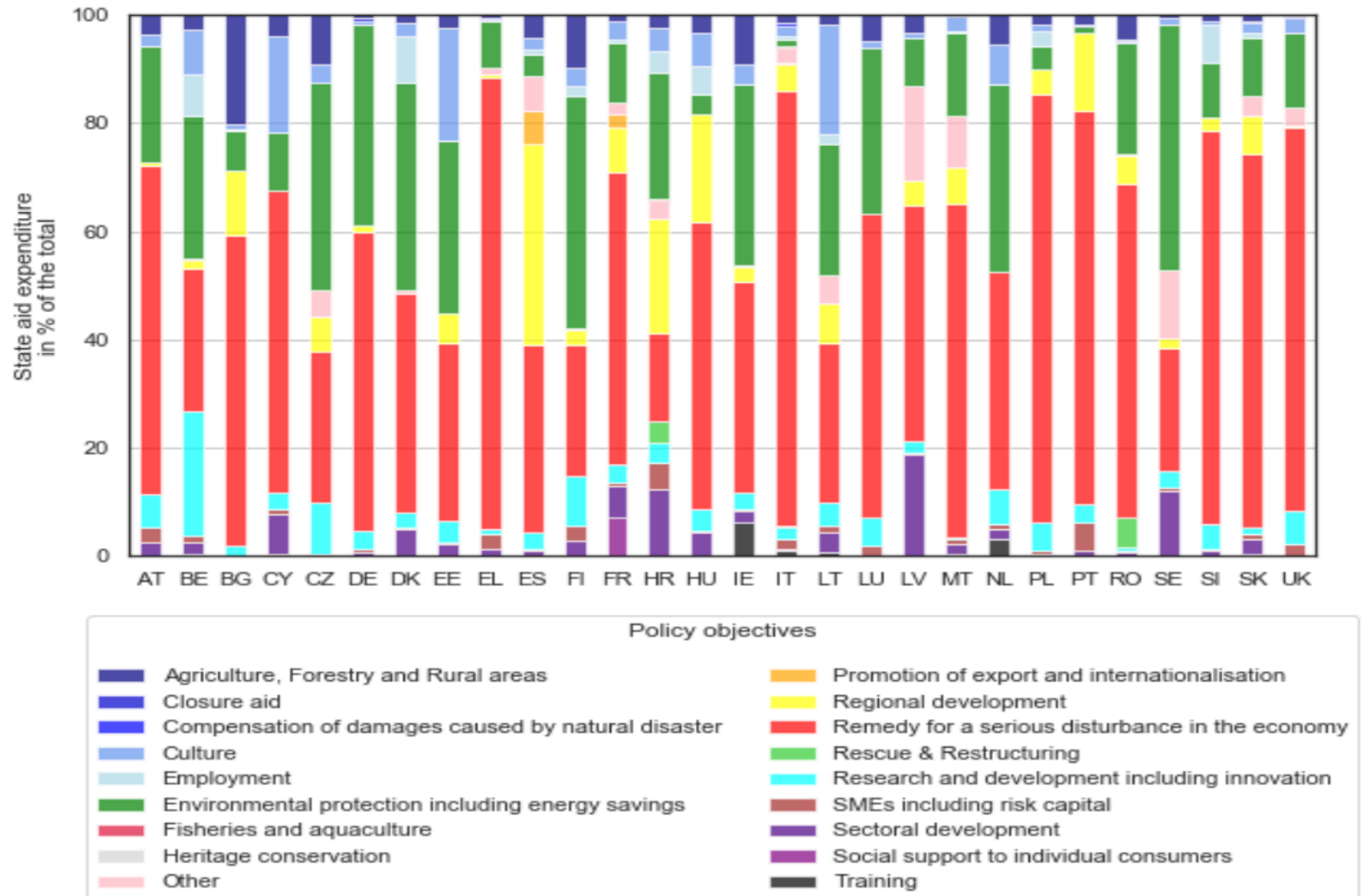
Source: European Commission, State Aid Scoreboard 2021

State aid expenditure, excluding aid to agriculture, fisheries, and railways by policy objectives in 2019, in percentage of total



Source: European Commission, State Aid Scoreboard 2020

State aid expenditure by policy objectives in 2020, in percentage of total



Source: European Commission, State Aid Scoreboard 2021

ECONOMIC BENEFITS of public expenditure



- ❑ Provision of **goods and services** that are not supplied by the private sector
- ❑ Responding to **economic crisis** (bank bailout; support to the financial sector; economic stimulus)
- ❑ Support for **long-term economic growth** (investment in infrastructure; support for an educated and healthy workforce; etc.)
- ❑ Support for **industry**, including through technological innovation
- ❑ Support for **direct and indirect employment** (direct employment of public service workers; subsidies to support employment by private companies; employment guarantees; etc.)

SOCIAL AND ENVIRONMENTAL BENEFITS of public expenditure



- ❑ Ensure universal **education** and access to **healthcare**
- ❑ Provide long-term **insurance mechanisms** against different **social risks** (through public systems of collective support in sickness, unemployment, old age, etc.)
- ❑ **Alleviate poverty** and **reduce inequality**
- ❑ Address **environmental objectives** (reduction of greenhouse gas emissions and switching to renewable energy; management of waste; etc.)

CASE STUDY

Municipalities as key actors of renewable energy governance

MUNICH- target: 100% of electricity from renewable energy sources by 2025

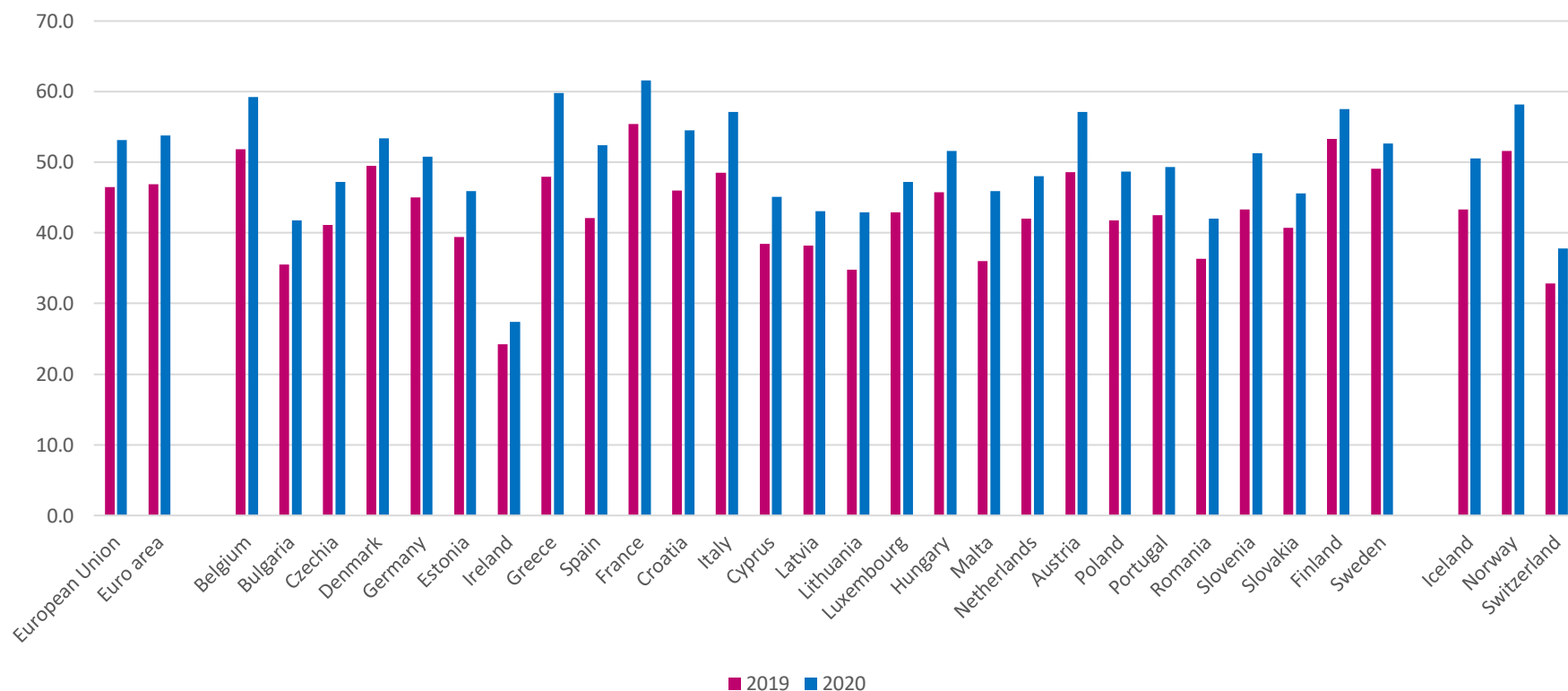
The city of Munich in Germany produced in 2019 2.9 billion kWh per year from renewable sources, exceeding the demand of all private households. By 2025, the current share of 39% is projected to increase to 100% equaling to 7.5 billion kWh/year and requiring investments of roughly 9 billion €. While projects in Munich and its hinterland are prioritized, the electricity will be produced by power plants located in Germany and across Europe. The energy will be harvested from geothermal energy as well as biomass and wind power. **A crucial aspect that made the fast advancement of renewable energy possible is the fact that Munich's public utilities are entirely in public hands** which enabled the city council to pursue their ambitious plan.



Source: Munich, Germany – 100% Renewable Energy Atlas (100-percent.org)

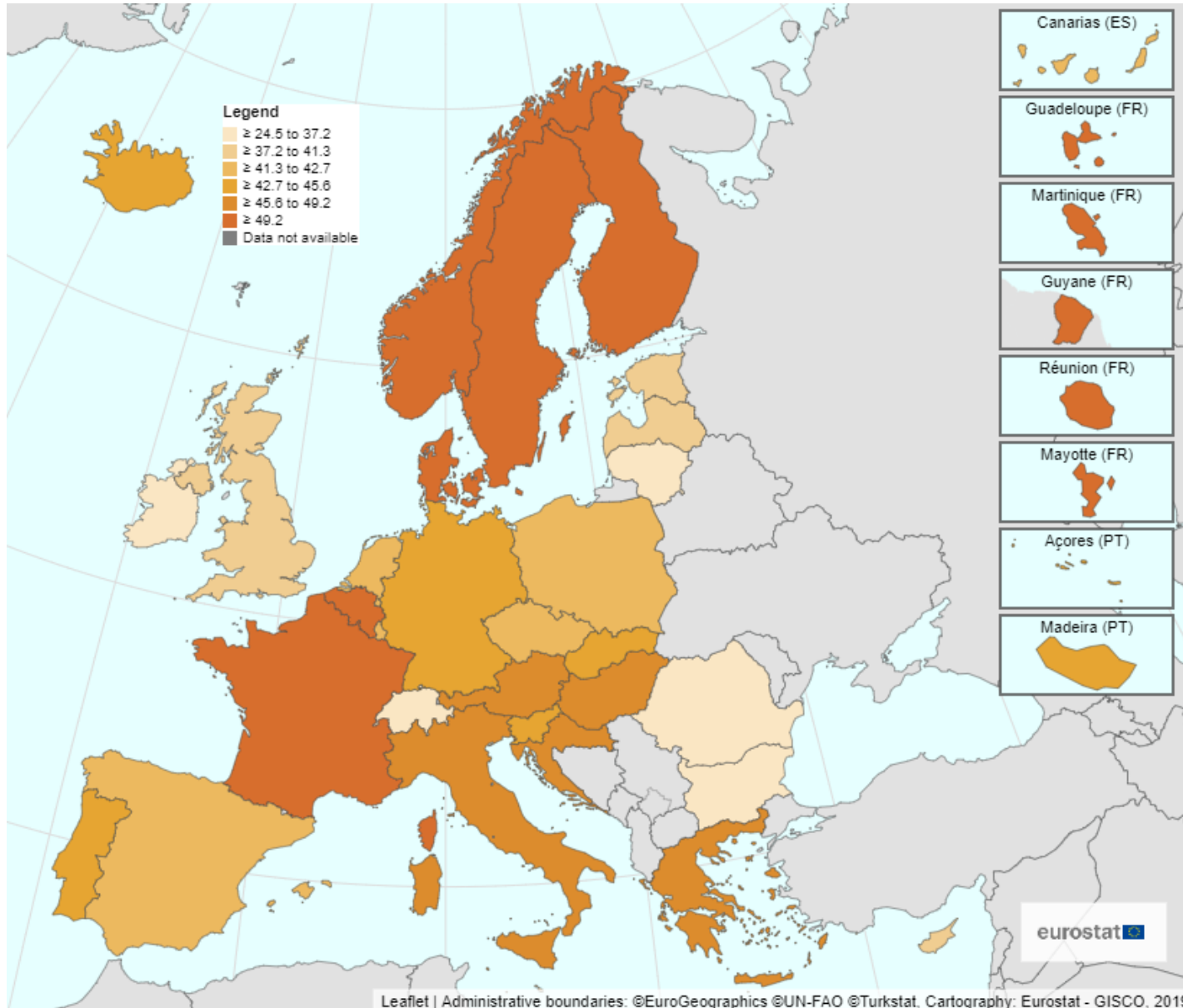
HOW MUCH do governments from the European Union spend?

Total general government expenditure, % of GDP



Source: European Commission, Eurostat

General government expenditure (% of GDP) in 2019



Exercise

We all (*or almost all*) pay taxes and expect to get something in return, although *not directly*.



Priorities

- _____
- _____
- _____
- _____



It is your tax which pays for public spending. The government have no money of their own. There is only taxpayers' money.

Margaret Thatcher

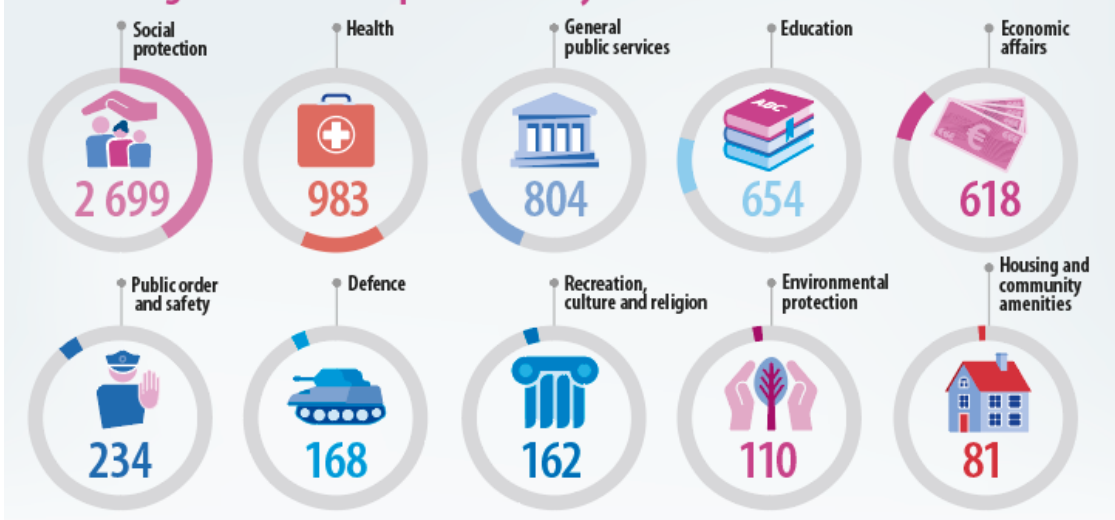
www.idlehearts.com

What do you expect the government to do for you? List your top 5 priorities. Explain your choice.

WHERE do our taxes go?

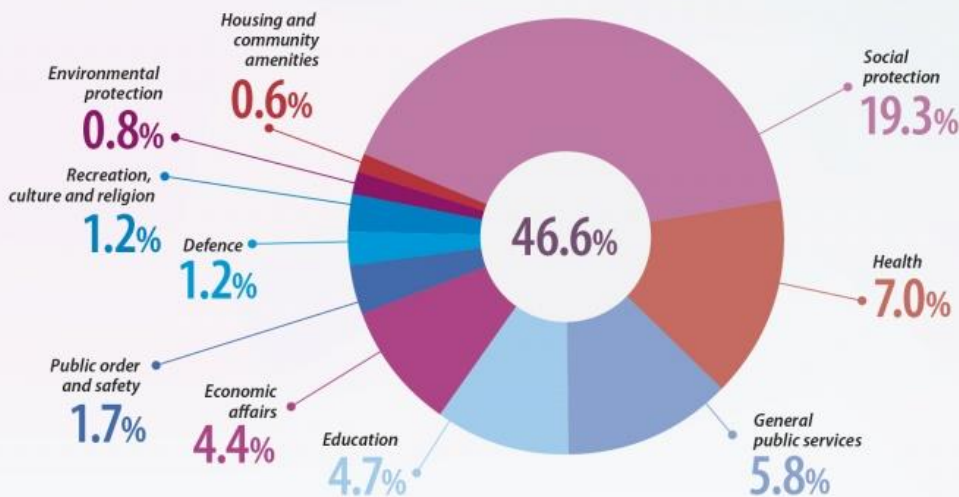
2019

General government expenditure by function in the EU (in billion EUR, 2019)



ec.europa.eu/eurostat

General government expenditure by function in the EU (2019, % of GDP)

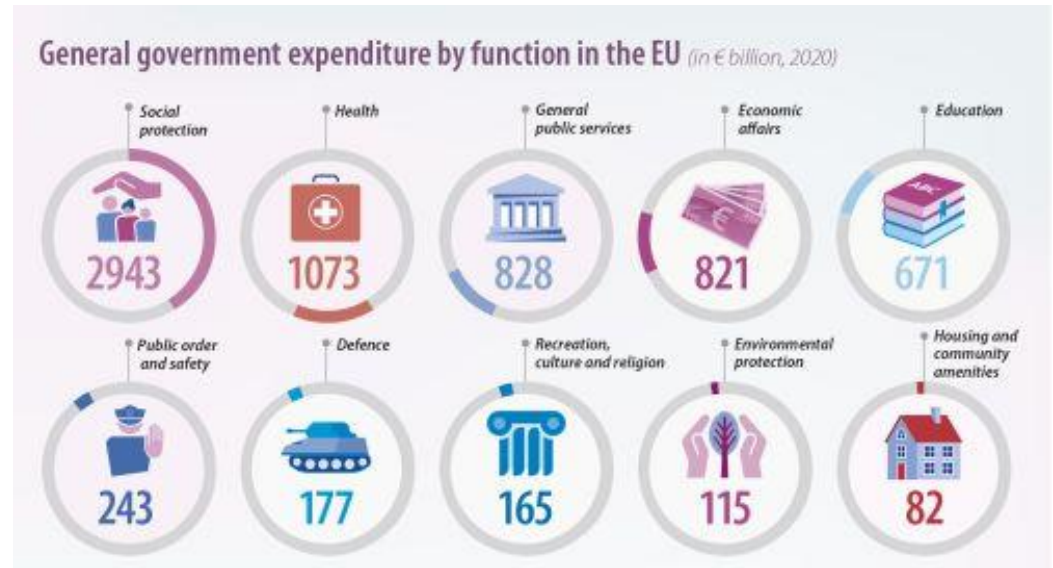


ec.europa.eu/eurostat

Government expenditure by function (COFOG)

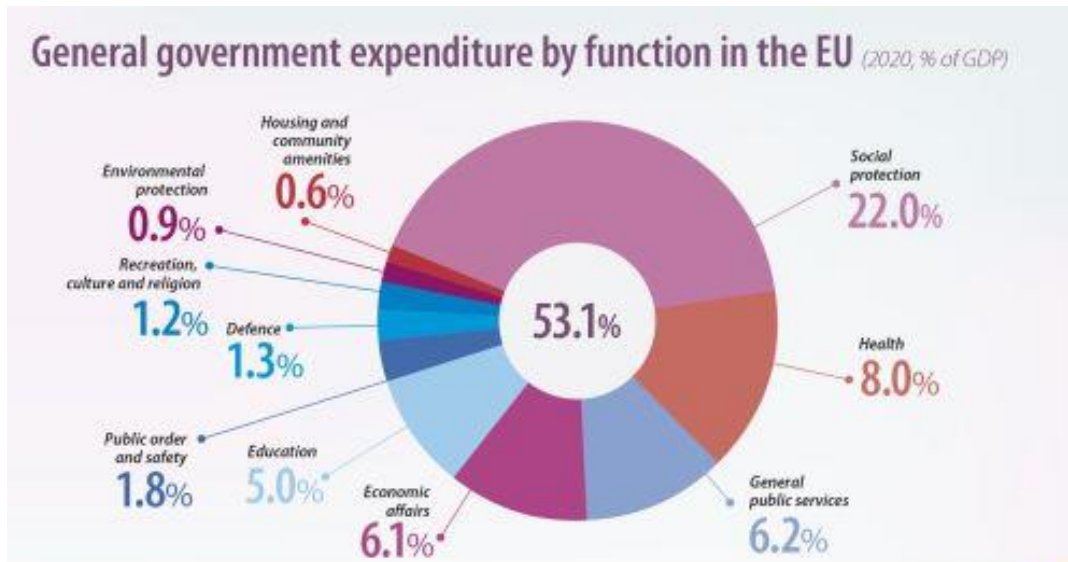
WHERE do our taxes go?

2020



Note: Data are provisional.

ec.europa.eu/eurostat



Note: Data are provisional.

ec.europa.eu/eurostat

Government expenditure by function (COFOG)

Government expenditure by function in EU countries (COFOG)

Total general government expenditure by function, 2020 (% of GDP)

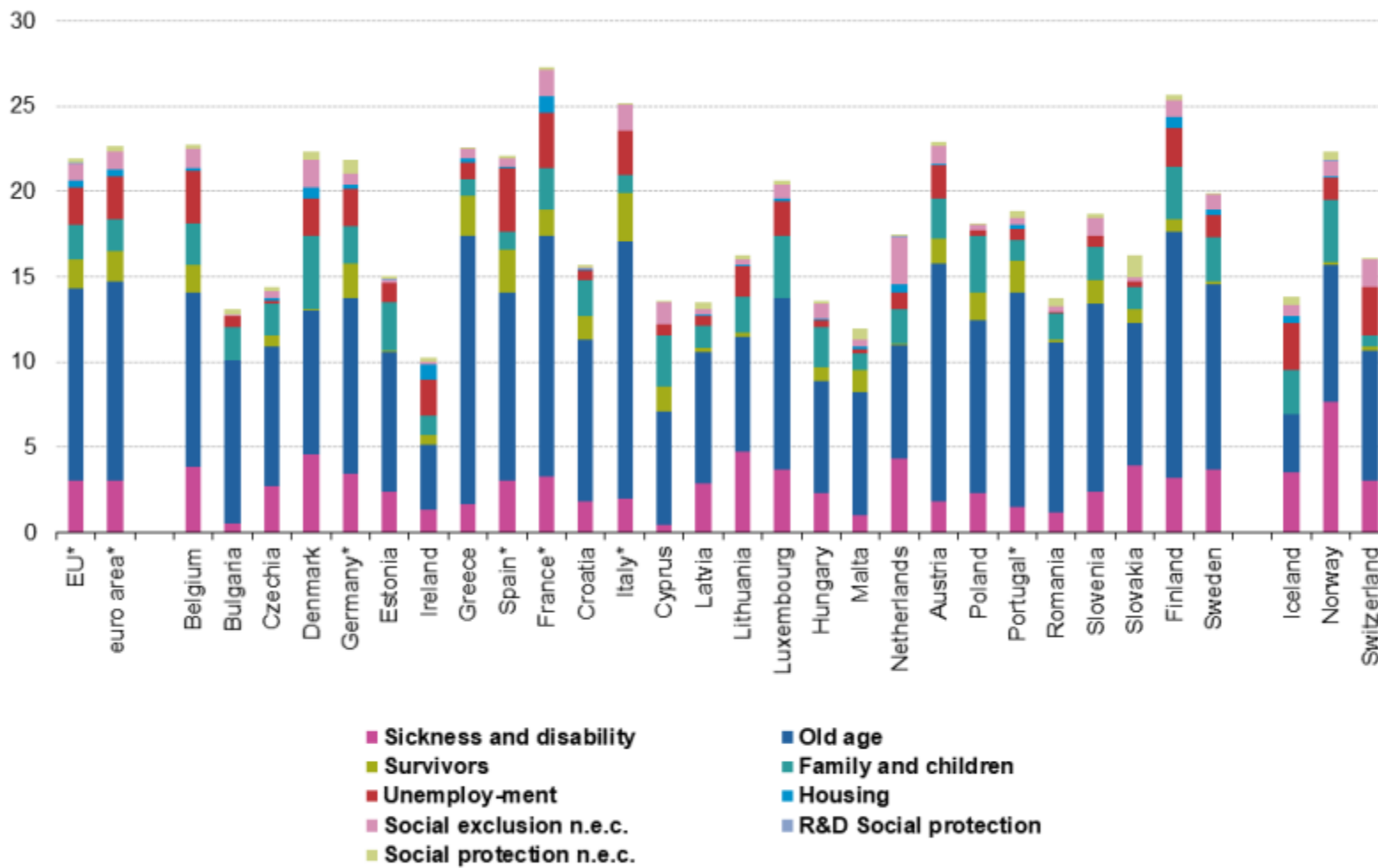
	General public services	Defence	Public order and safety	Economic affairs	Environmental protection	Housing and community amenities	Health	Recreation, culture and religion	Education	Social protection	Total
EU*	6.2	1.3	1.8	6.1	0.9	0.6	8.0	1.2	5.0	22.0	53.1
euro area*	6.3	1.3	1.8	5.9	0.9	0.6	8.2	1.2	4.9	22.7	53.8
Belgium	7.4	0.9	1.8	7.8	1.5	0.4	8.8	1.3	6.6	22.7	59.2
Bulgaria	3.5	1.5	2.7	8.5	0.7	0.9	5.9	0.9	4.0	13.1	41.8
Czechia	5.2	1.0	2.1	7.2	0.9	0.7	9.2	1.4	5.1	14.4	47.2
Denmark	6.3	1.2	1.0	5.1	0.4	0.2	8.9	1.7	6.4	22.4	53.4
Germany*	6.1	1.1	1.7	4.6	0.7	0.5	8.5	1.1	4.7	21.8	50.8
Estonia	4.0	2.5	2.0	5.9	0.7	0.4	6.7	2.1	6.6	15.0	45.9
Ireland	2.3	0.2	0.9	3.5	0.4	0.7	5.4	0.5	3.1	10.2	27.4
Greece	8.4	2.6	2.4	9.9	1.6	0.3	6.7	1.0	4.5	22.5	59.8
Spain*	5.9	0.9	2.1	6.6	1.0	0.5	7.6	1.3	4.6	22.1	52.4
France*	5.8	1.9	1.8	6.8	1.0	1.1	9.0	1.5	5.5	27.3	61.6
Croatia	6.2	1.1	2.4	11.3	0.8	2.4	7.3	1.7	5.4	15.7	54.5
Italy*	8.7	1.4	2.0	5.4	1.0	0.5	7.9	0.8	4.3	25.2	57.1
Cyprus	7.6	1.9	1.9	5.6	0.3	1.5	5.9	0.9	5.9	13.6	45.1
Latvia	4.0	2.5	2.3	7.0	0.6	1.2	4.8	1.4	5.9	13.5	43.1
Lithuania	3.5	2.3	1.5	5.6	0.5	0.6	5.9	1.4	5.2	16.3	42.9
Luxembourg	5.1	0.7	1.3	5.8	1.1	0.5	5.9	1.2	5.0	20.6	47.2
Hungary	8.2	1.1	2.1	9.6	0.8	1.0	6.4	4.0	4.7	13.6	51.6
Malta	5.6	0.5	1.5	10.0	1.5	0.4	7.2	1.3	5.9	12.0	45.9
Netherlands	4.1	1.3	2.0	6.7	1.5	0.5	8.0	1.3	5.3	17.4	48.0
Austria	6.2	0.6	1.4	9.8	0.4	0.3	9.2	1.2	5.1	22.9	57.1
Poland	4.4	1.7	2.3	9.1	0.6	0.5	5.4	1.3	5.2	18.2	48.7
Portugal*	7.1	0.8	1.9	6.2	0.7	0.5	7.2	1.0	5.0	18.8	49.3
Romania	5.1	2.4	2.5	6.3	0.7	1.1	5.5	1.0	3.7	13.8	42.0
Slovenia	5.4	1.0	1.8	8.1	0.6	0.6	7.9	1.4	5.8	18.7	51.3
Slovakia	6.2	1.4	2.5	5.8	0.9	0.5	6.3	1.2	4.6	16.3	45.6
Finland	8.4	1.4	1.2	5.2	0.2	0.3	7.7	1.5	5.9	25.7	57.5
Sweden	7.0	1.3	1.4	5.7	0.5	0.7	7.4	1.4	7.2	19.8	52.6
Iceland	7.6	0.1	1.6	6.2	0.8	0.7	8.5	3.5	7.7	13.8	50.5
Norway	5.1	2.0	1.3	8.0	1.0	0.9	9.6	2.0	5.9	22.3	58.2
Switzerland	4.5	0.9	1.7	4.5	0.6	0.2	2.5	1.1	5.7	16.0	37.8

Source: Eurostat (gov_10a_exp)

* provisional

WHERE do our taxes go? ... Social protection

Total general government expenditure on social protection, 2020 (% of GDP)

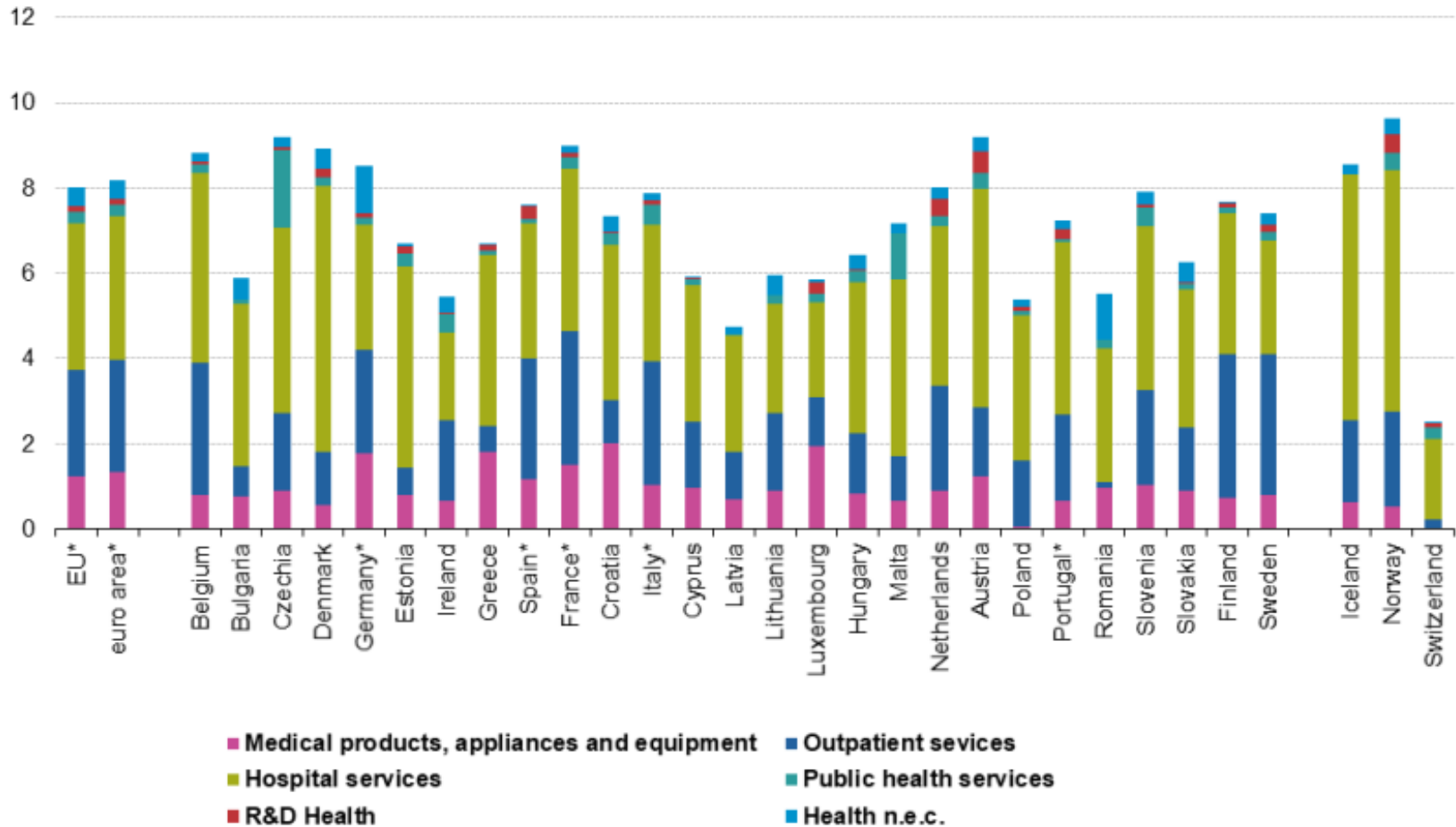


* provisional

Source: Eurostat (gov_10a_exp)

WHERE do our taxes go? ... Health care

Total general government expenditure on health, 2020 (% of GDP)

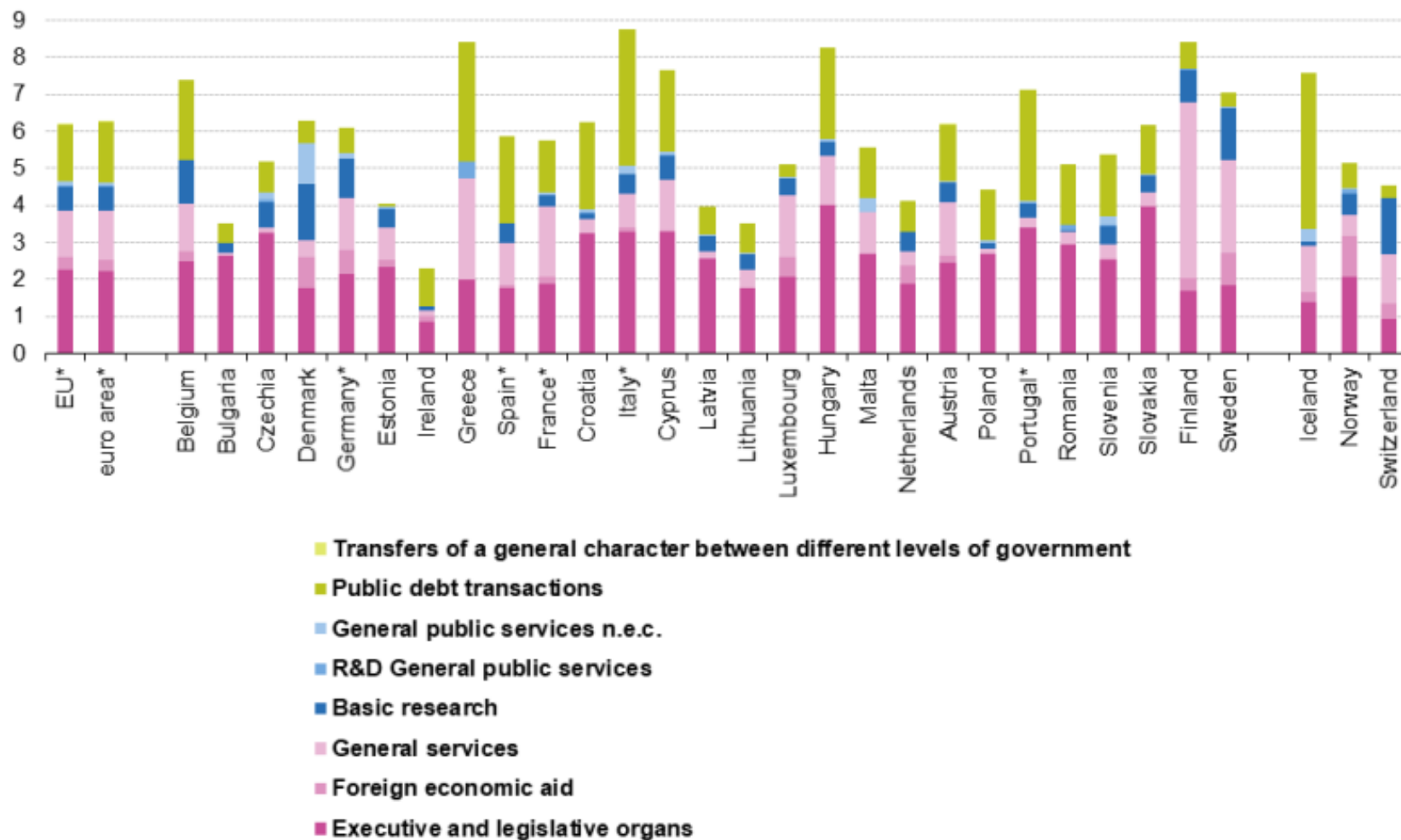


* provisional

Source: Eurostat (gov_10a_exp)

WHERE do our taxes go? ... General public services

Total general government expenditure on general public services, 2020 (% of GDP)

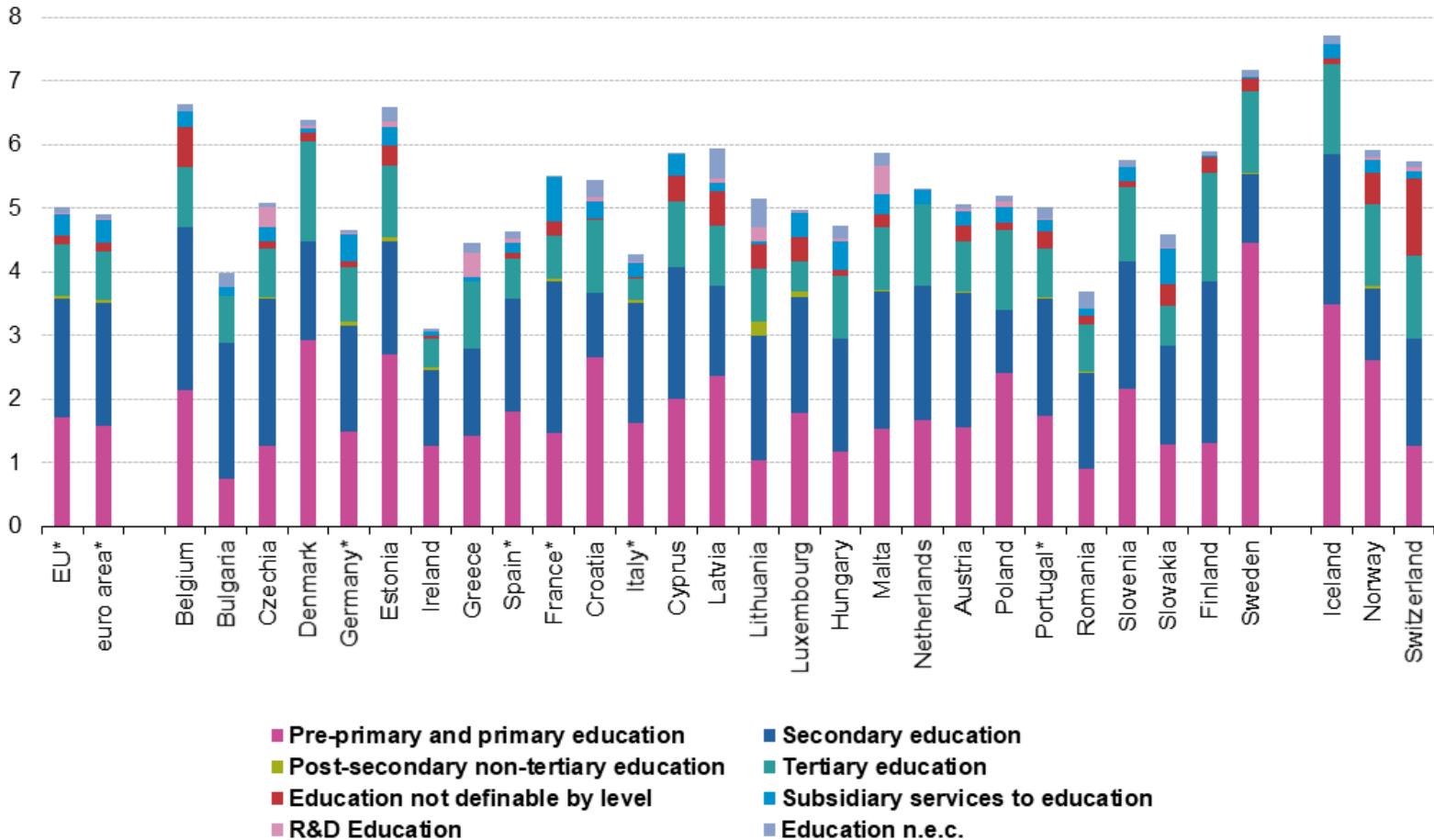


* provisional

Source: Eurostat (gov_10a_exp)

WHERE do our taxes go? ... Education

Total general government expenditure on education, 2020 (% of GDP)

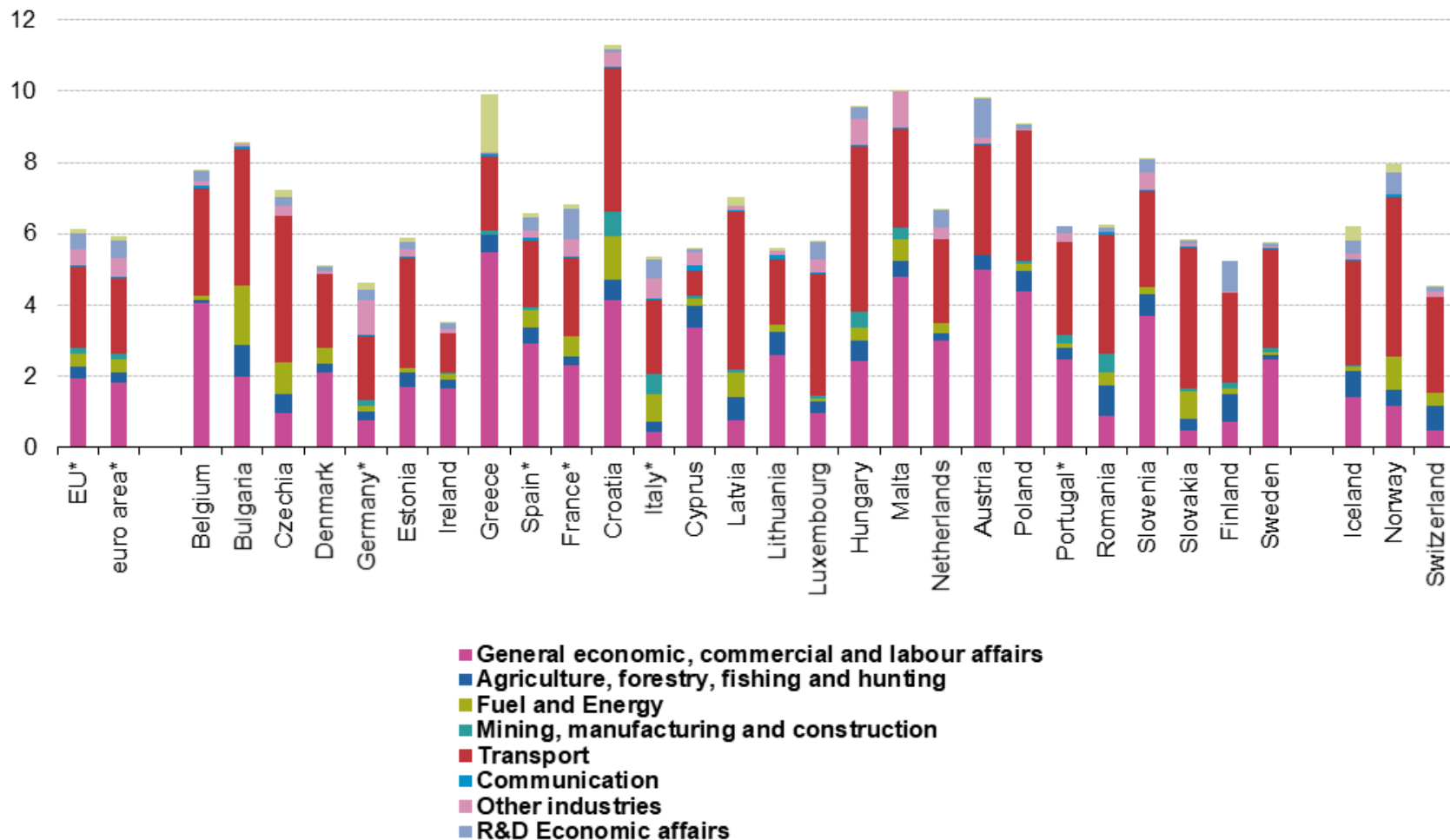


* provisional

Source: Eurostat (gov_10a_exp)

WHERE do our taxes go? ... Economic affairs

Total general government expenditure on economic affairs, 2020 (% of GDP)

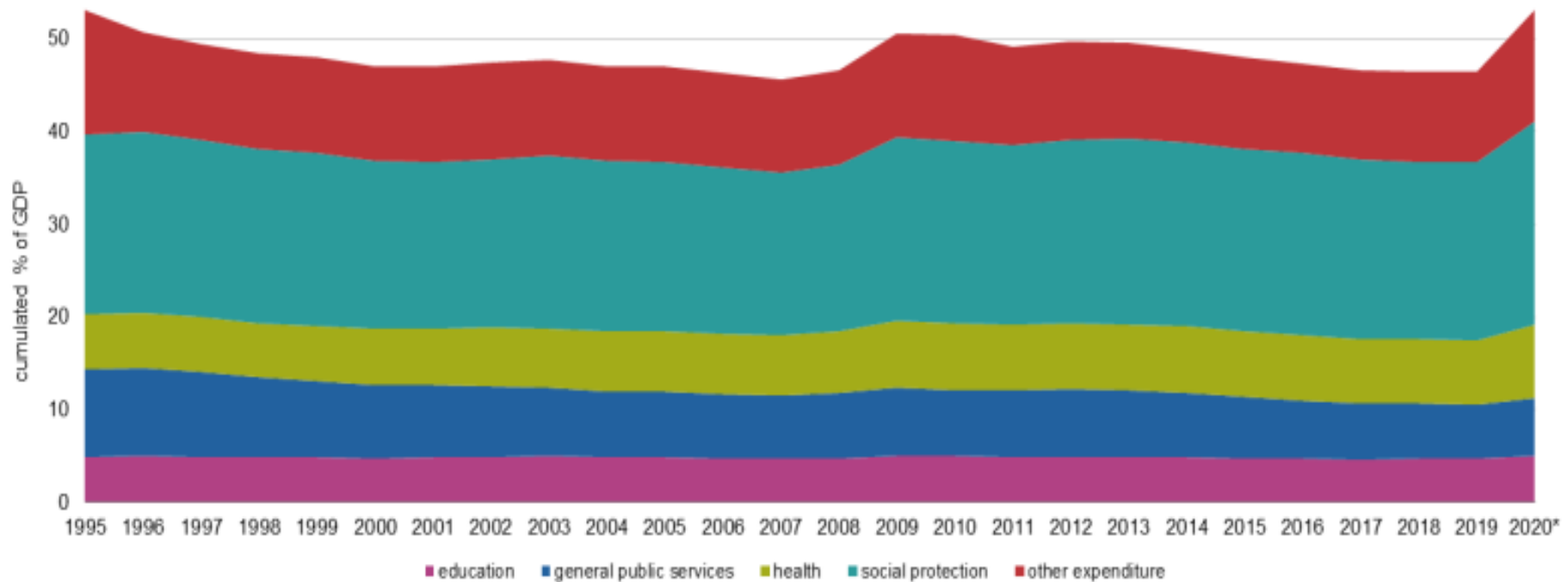


* provisional

Source: Eurostat (gov_10a_exp)

LONG-TERM TRENDS in government spending in the EU

Evolution of total general government expenditure, EU, 1995-2020, % of GDP

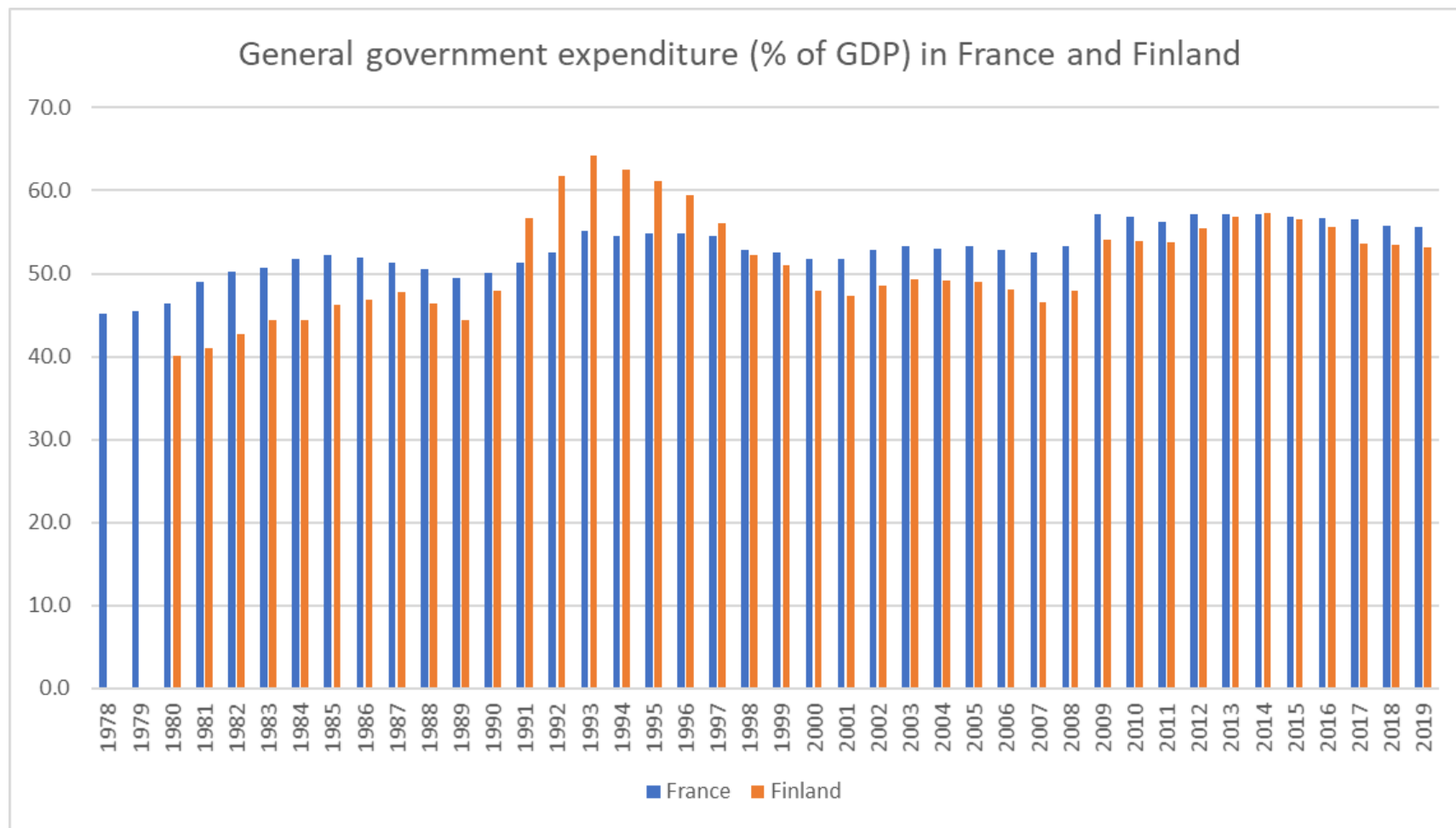


Source: Eurostat (gov_10a_exp)

* provisional

eurostat 

LONG-TERM TRENDS in government spending in the EU



Source: Eurostat

How to keep government expenditure under control?

There is high pressure on governments all over the world to **SPEND MORE AND MORE.....**

.....on account of private spending.

Brainstorming



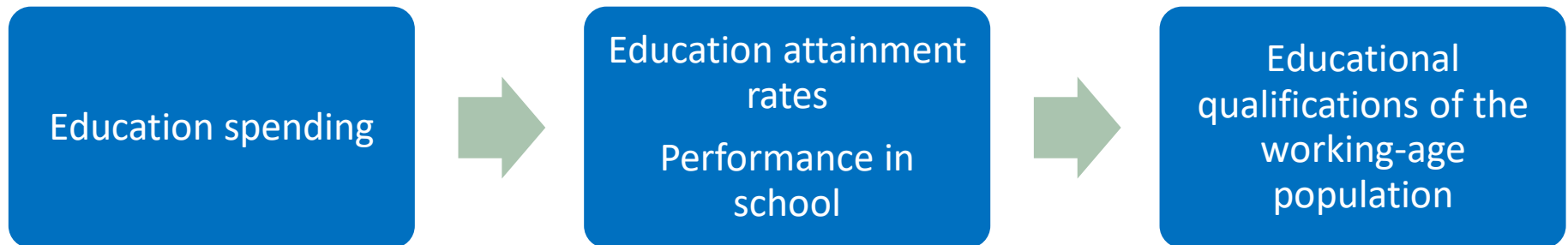
**What can we do to keep government spending under control?
What's your view?**

How to keep government expenditure under control?

IMPROVE THE EFFICIENCY OF PUBLIC SPENDING FEATURES



EXAMPLE: PUBLIC SPENDING ON EDUCATION



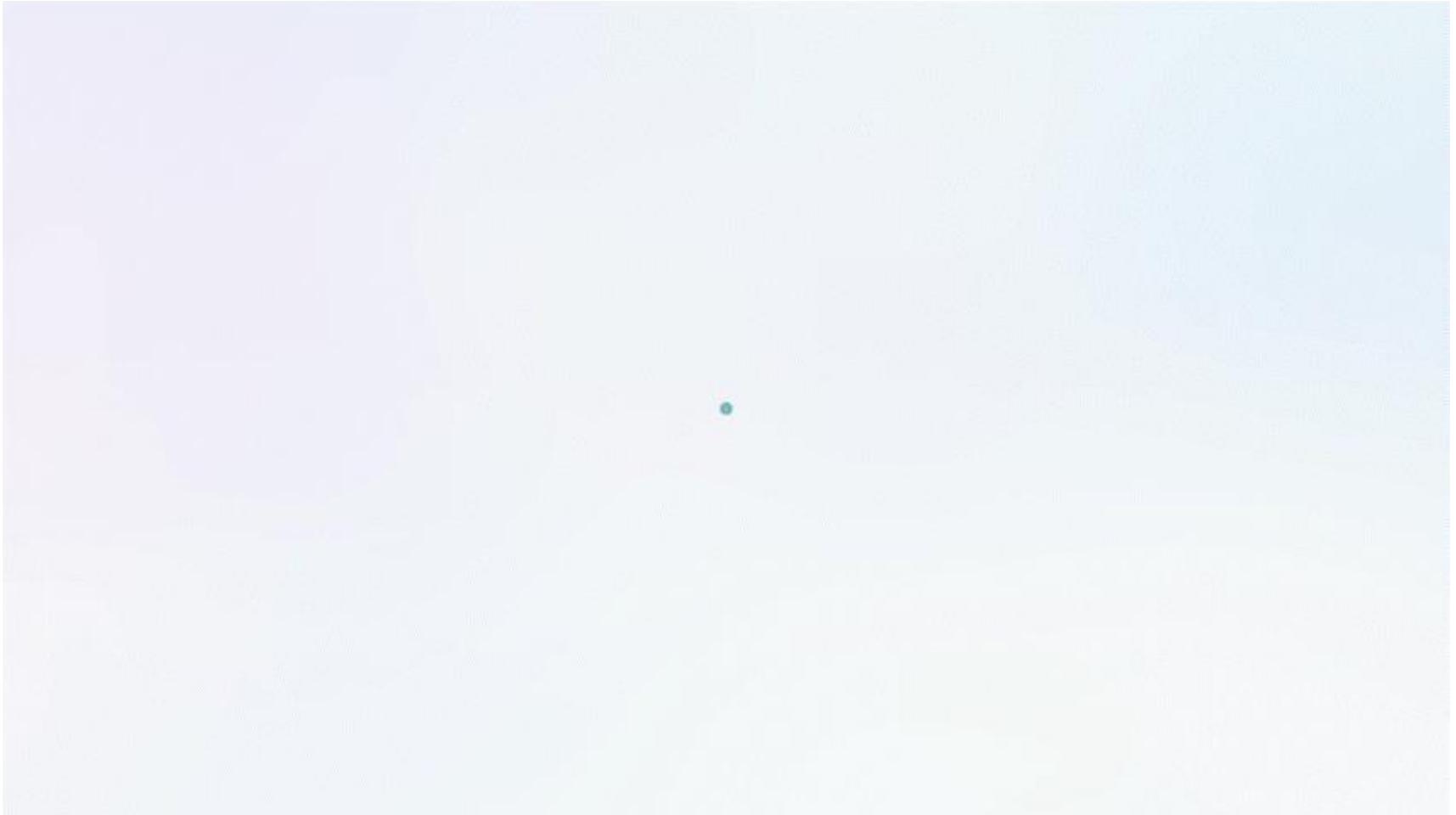
CASE STUDY

Improve the efficiency of health spending

Source of inefficiency	Possible ways of addressing inefficiency
Health care workers: Inappropriate or costly staff mix	Needs-based assessment and training; revise remuneration policies; flexible contracts; performance-related pay
Medicines: Under-use and overpricing of generic drugs Irrational use of drugs Sub-standard or counterfeit drugs	Improve prescribing guidance, information, training and practice; develop active purchasing; reduce mark-ups; raise public awareness; improve drug regulation and quality control; carry out product testing
Health care products: Over-use of procedures, investigations and equipment Sub-optimal quality of care and medical error Inappropriate hospital size Inappropriate hospital admissions or length of stay	Reform incentive and payment structures (e.g. capitation); improve and disseminate guidelines for product use; enhance monitoring and clinical audit; improve continuity of care; improve hygiene standards; use input-output data to plan hospitals; match managerial capacity to size; raise occupancy; provide alternative care (e.g. day care); alter incentives to hospital providers; raise knowledge about efficient admission practice
Health system leakages: Corruption and fraud	Improve governance, including budgetary management; undertake expenditure surveys

Source: Dan Chisholm and David B. Evans (2010)

Health and the EU: better spending, better lives



Source: European Commission (2016)

How to keep government expenditure under control?

EXPENDITURE RULES



ALLOW TO:

- Keep public expenditure under control and ensure budgetary discipline
- Reduce the pro-cyclicality of fiscal policy

FEATURES:

- ✓ Specification of the numerical target (expenditure ceilings/growth rates, annual/multiannual, etc.)
- ✓ Coverage – level of government (general, central, local, etc.)
- ✓ How to ensure the effectiveness of the rule (legal base, monitoring mechanism, consequences for non-compliance)?

How to keep government expenditure under control?

EU RULES

The Expenditure Benchmark

- ✓ was introduced as part of the 2011 reforms (the so-called "six pack")
- ✓ contains the net growth rate of government spending at or below a country's medium-term potential economic growth rate, depending on the country's position in relation to its medium-term budgetary objectives (MTOs)

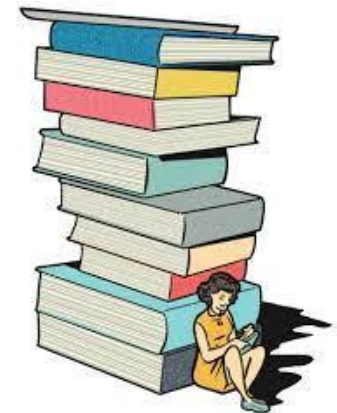
How to keep government expenditure under control?

NATIONAL EXPENDITURE RULES in the EU



Note: National rules include those covering the general government (GG) and central government (CG).

Source: Belu Manescu and Bova (2020)

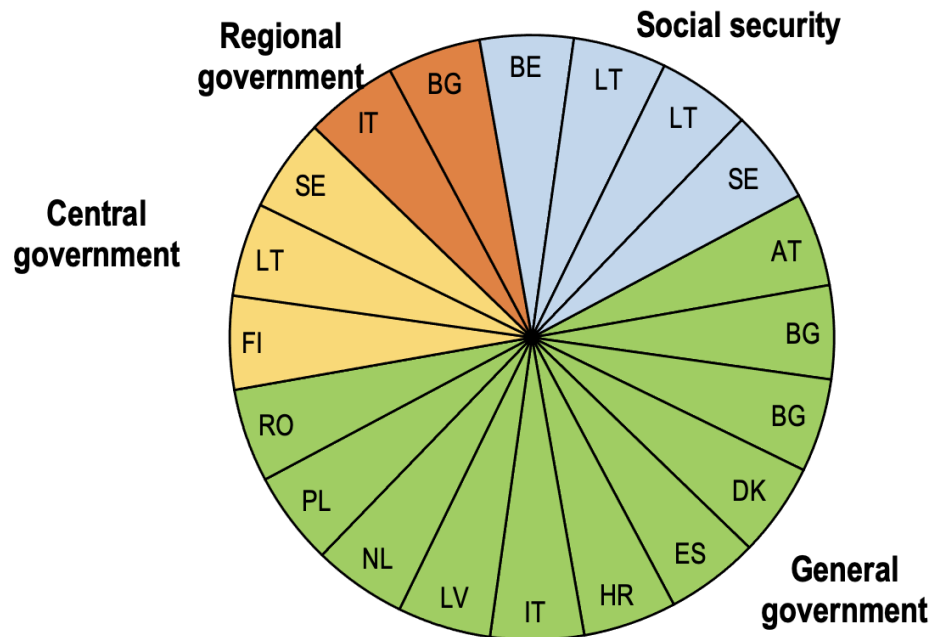


Additional readings: [Manescu, C.B., Bova, E. \(2020\). National Expenditure Rules in the EU. An Analysis of Effectiveness and Compliance](#)

How to keep government expenditure under control?

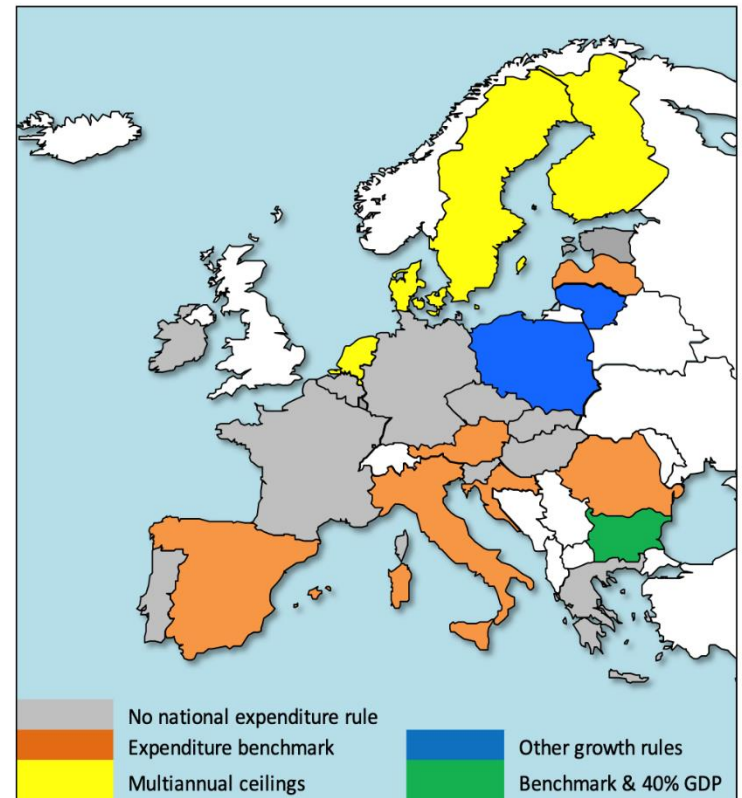
NATIONAL EXPENDITURE RULES in the EU

Coverage of EU expenditure rules



Source: Belu Manescu and Bova (2020)

Design of expenditure rules covering the general and central government



Module 2: Public Finance and Fiscal Policy in the European Union

(Modulul 2: Finantele publice si politica fiscală în Uniunea Europeană)

Budget deficits and public debt policies in the EU Member States

*Deficitul bugetar si politica de îndatorare publică
în statele membre ale UE*



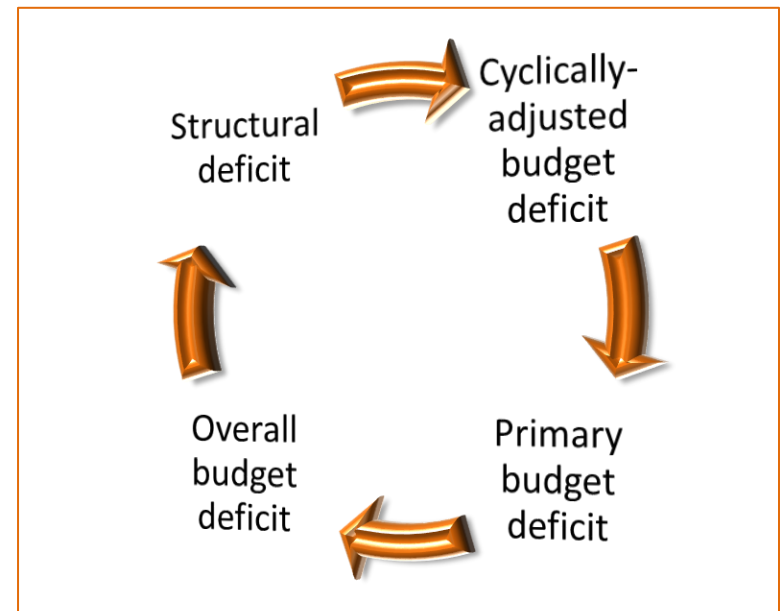
Assoc. Prof. Ph.D. Irina BILAN

BUDGET DEFICITS

Budget deficit occurs when a government spends more in a given year than it collects in revenues, such as taxes.

Some causes:

- Result of an *economic downturn*
- Result of an *expansionary fiscal policy*
- Other causes: fiscal evasion, underground economy, inefficient public economic sector, structural reforms, high public debt, etc.



Each year's deficit adds to the debt



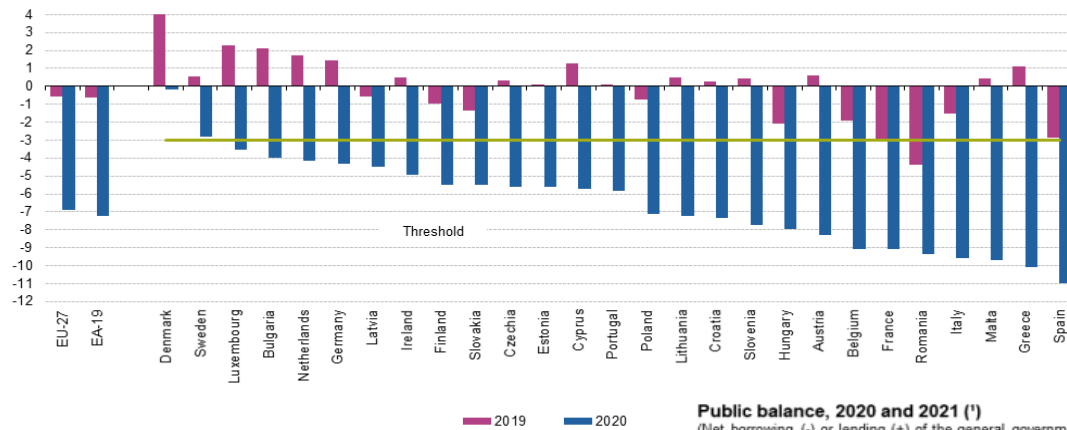
Budget deficit = Change in debt

BUDGET DEFICITS

... what about the 3% of GDP rule?

Public balance, 2019 and 2020 (1)

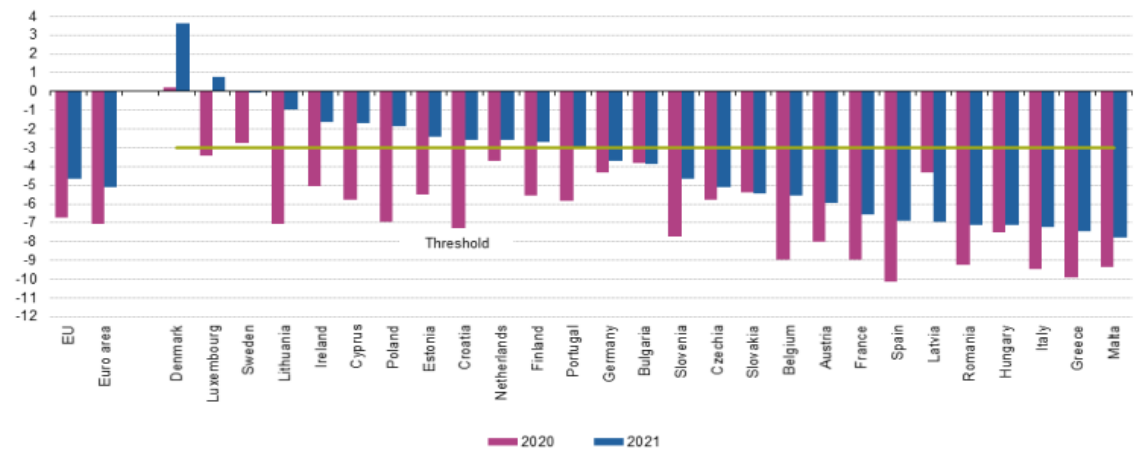
(Net borrowing (-) or lending (+) of the general government sector, % of GDP)



(1) Data extracted on 20.10.2021
Source: Eurostat(gov_10dd_edpt1)

Public balance, 2020 and 2021 (1)

(Net borrowing (-) or lending (+) of the general government sector, % of GDP)



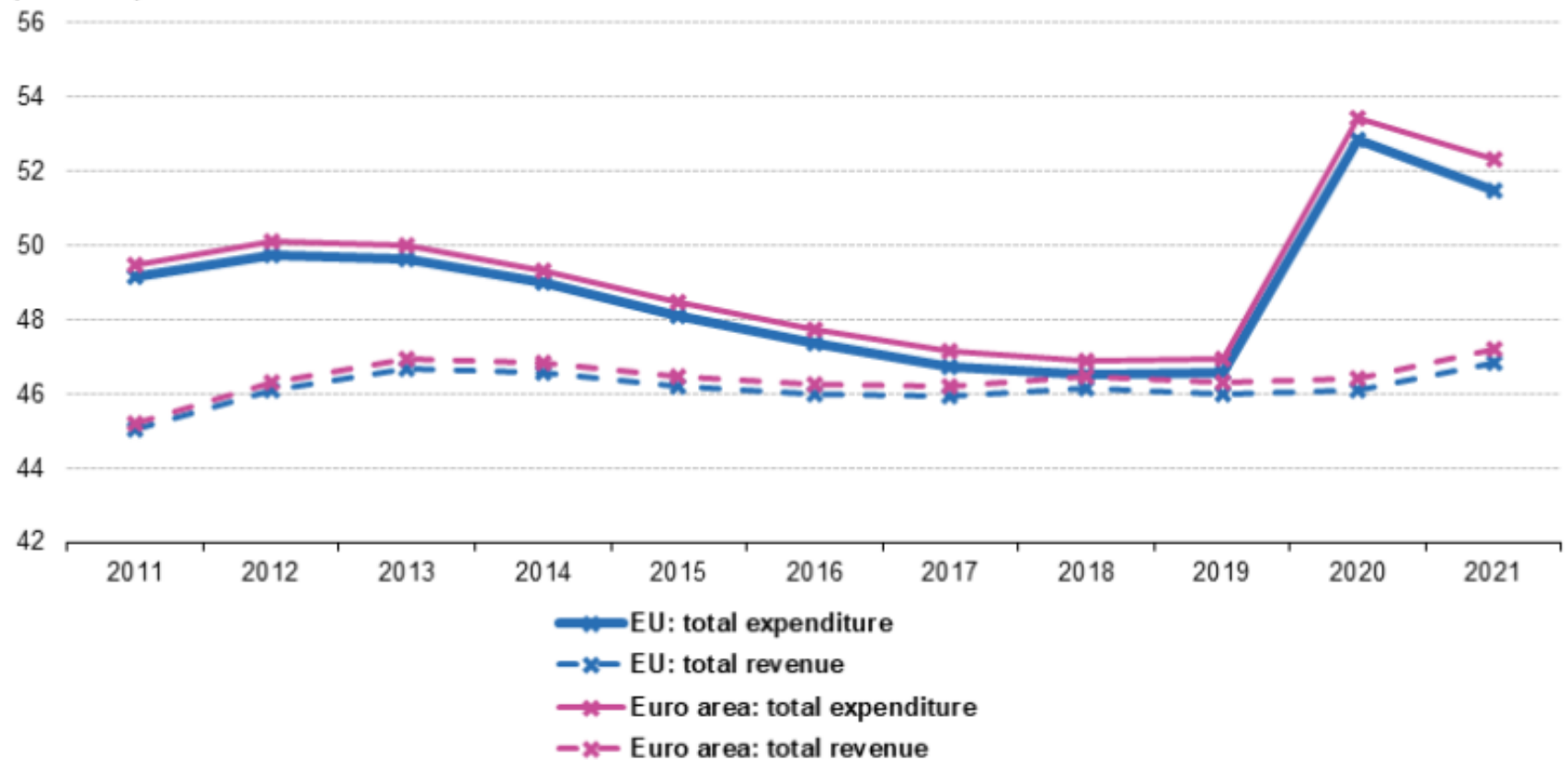
(1) Data extracted on 20.10.2022
Source: Eurostat(gov_10dd_edpt1)

BUDGET DEFICITS

... result of government expenditure and revenue dynamics

Development of total expenditure and total revenue, 2011–2021 (1)

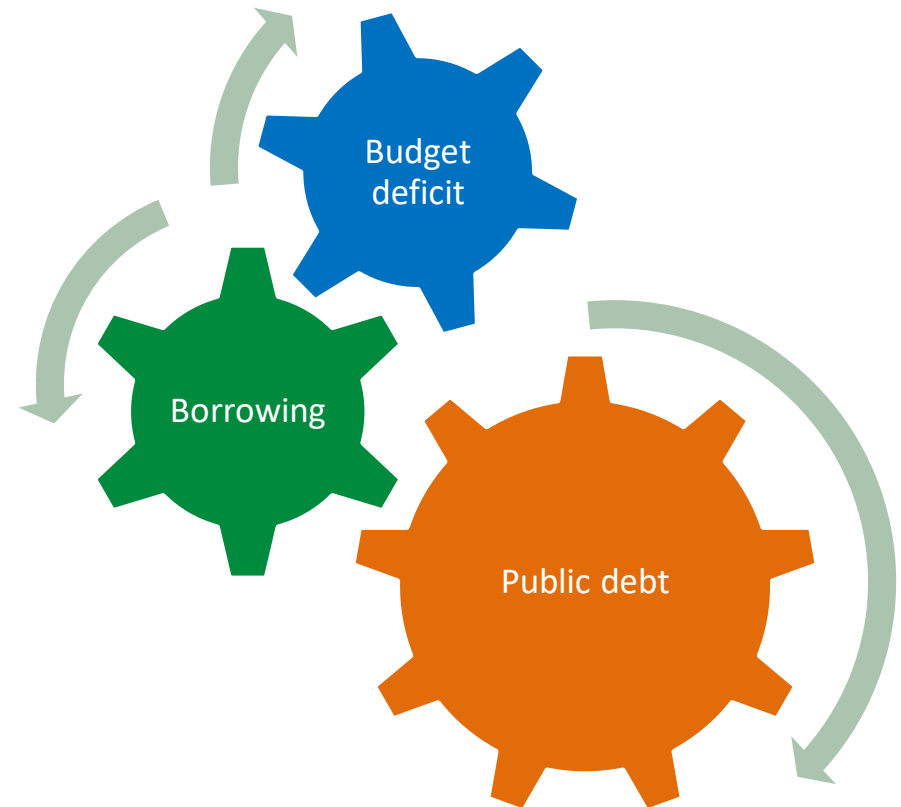
(% of GDP)



(1) Data extracted on 20.10.2022. Note that the y-axis is cut.
Source: Eurostat (gov_10a_main)

PUBLIC DEBT

- All **liabilities of public authorities** and other state entities to pay certain amounts of money, **existing at a given moment in time** and resulting from different economic relationships, mainly from contracting public loans.
- A result of public borrowing (most often), the take-over of private debts, the assuming of war debts etc.



PUBLIC DEBT

Excessive Deficit Procedure (EDP) concept of government debt

Protocol 12, annexed to the 2012 consolidated version of the Treaty on the Functioning of the European Union:

Government debt means total gross debt at nominal (face) value outstanding at the end of the year and consolidated between and within the sectors of general government.

Council Regulation (EC) No 479/2009, as amended by the Commission Regulation (EU) No 220/2014:

The stock of government debt in the Excessive Deficit Procedure (EDP debt) is equal to the sum of liabilities (currency and deposits, debt securities, and loans), at the end of year, of all units classified within the general government sector.

PUBLIC DEBT

Measurement problems... uncounted liabilities

Current measures of government debt **omit important liabilities of the government, such as:**

- future pensions and other social security payments
- contingent liabilities (e.g., government guarantees, covering federally insured deposits when banks fail)



Hard to attach a value to contingent liabilities, due to inherent uncertainty.

PUBLIC DEBT POLICY



WHY borrow and HOW much?

Exercise

Government debt may affect the economy in many, sometimes unexpected ways. **Identify 4 possible economic and/or social effects of public debt.**

PROS	CONS
⇒	⇒
⇒	⇒
⇒	⇒
⇒	⇒



Let's think... do these effects depend on the use of borrowed funds and overall debt levels?

WHY borrow and HOW much?

Some effects of government debt



- **Growth effects** of public debt
 - ✓ short-run – instrument of countercyclical fiscal policies
 - ✓ medium and long-run - finance public expenditures that increase the productive potential of a country, foster capital accumulation and productivity growth
 - ✓ public debt should **be kept at reasonable levels**, the effects of a high public debt on growth being rather negative ones
- **Inflationary effects** of government debt
- **Persistent budget deficits** that may lead to **severe budgetary consolidation** measures
- **Public default**



CASE STUDY

The Greek debt crisis

The Greek debt crisis originated from heavy government spending and problems escalated over the years due to slowdown in global economic growth.

When Greece became the 10th member of the European Union on Jan. 1, 1981, the country's economy and finances were in good shape, with a debt-to-GDP ratio of 28% and a budget deficit below 3% of GDP. But the situation deteriorated dramatically over the next 30 years because fiscal profligacy, which is defined as wasteful and excessive expenditure, caused deficits and debt levels to explode.

While the economy boomed from 2001-2008, higher spending and mounting debt loads accompanied the growth. By the time of the 2007-2008 financial crisis, the jig was up and Greece's debt loads became too big to handle—austerity measures were put in place shortly thereafter.

As Greece's economy contracted in the aftermath of the crisis, the debt-to-GDP ratio skyrocketed, peaking at 180% in 2011. The final nail in the coffin came in 2009, when a new Greek government led by Papandreou's son George came into power and revealed that the fiscal deficit was 12.7%, more than twice the previously disclosed figure, sending the debt crisis into a higher gear.

The Greek debt crisis had its origins in the fiscal profligacy of previous governments, proving that, like individuals, nations cannot afford to live way beyond their means. As a result, Greeks may have to live with stiff austerity measures for years, if not decades.

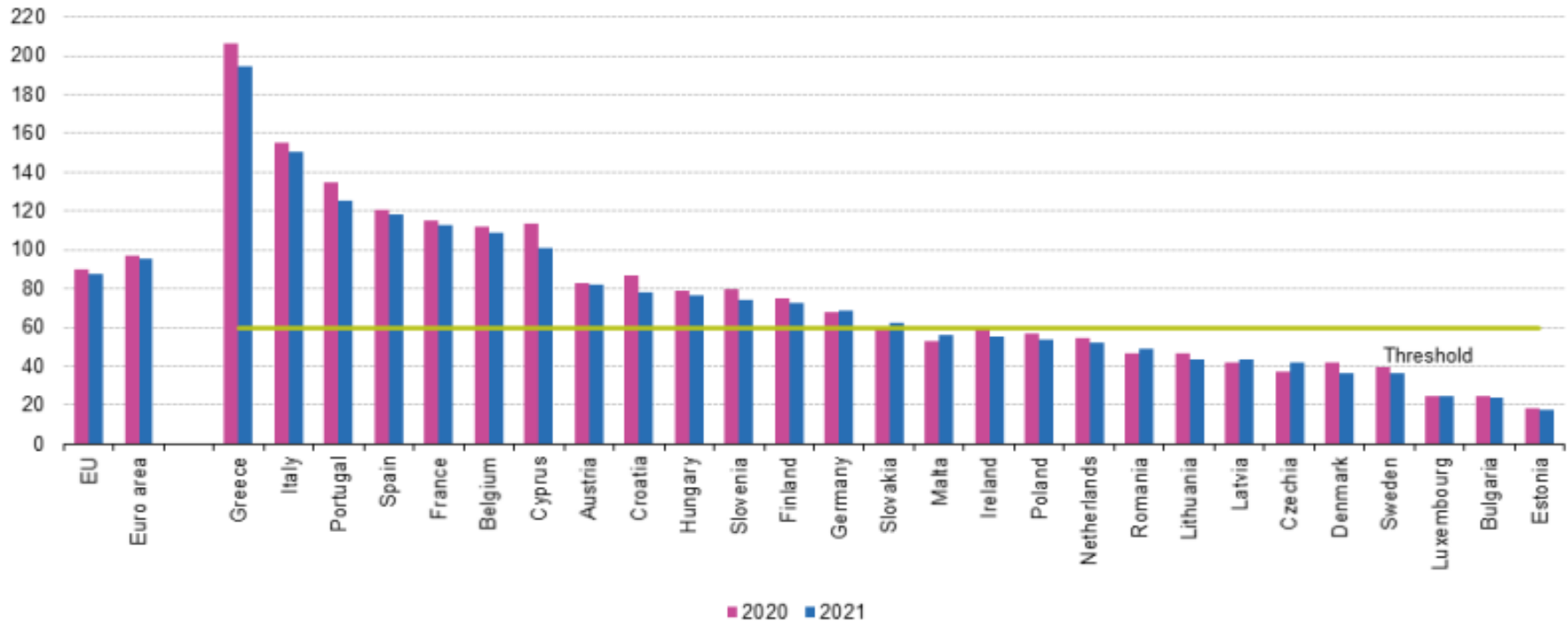
Source: <https://www.investopedia.com/>

HOW much government debt?

General government gross debt... well above 60% of GDP

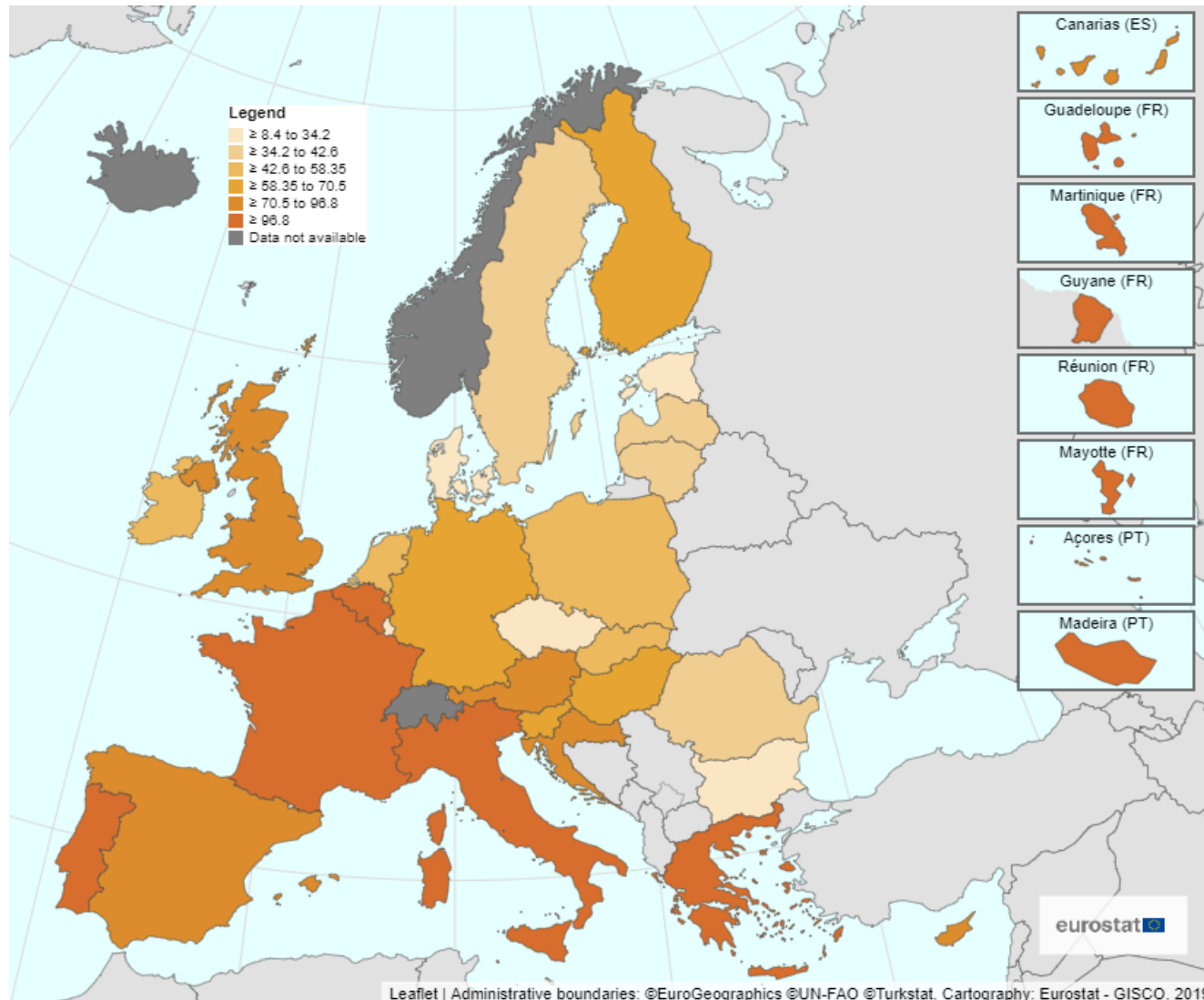
General government debt, 2020 and 2021 (1)

(General government consolidated gross debt, % of GDP)



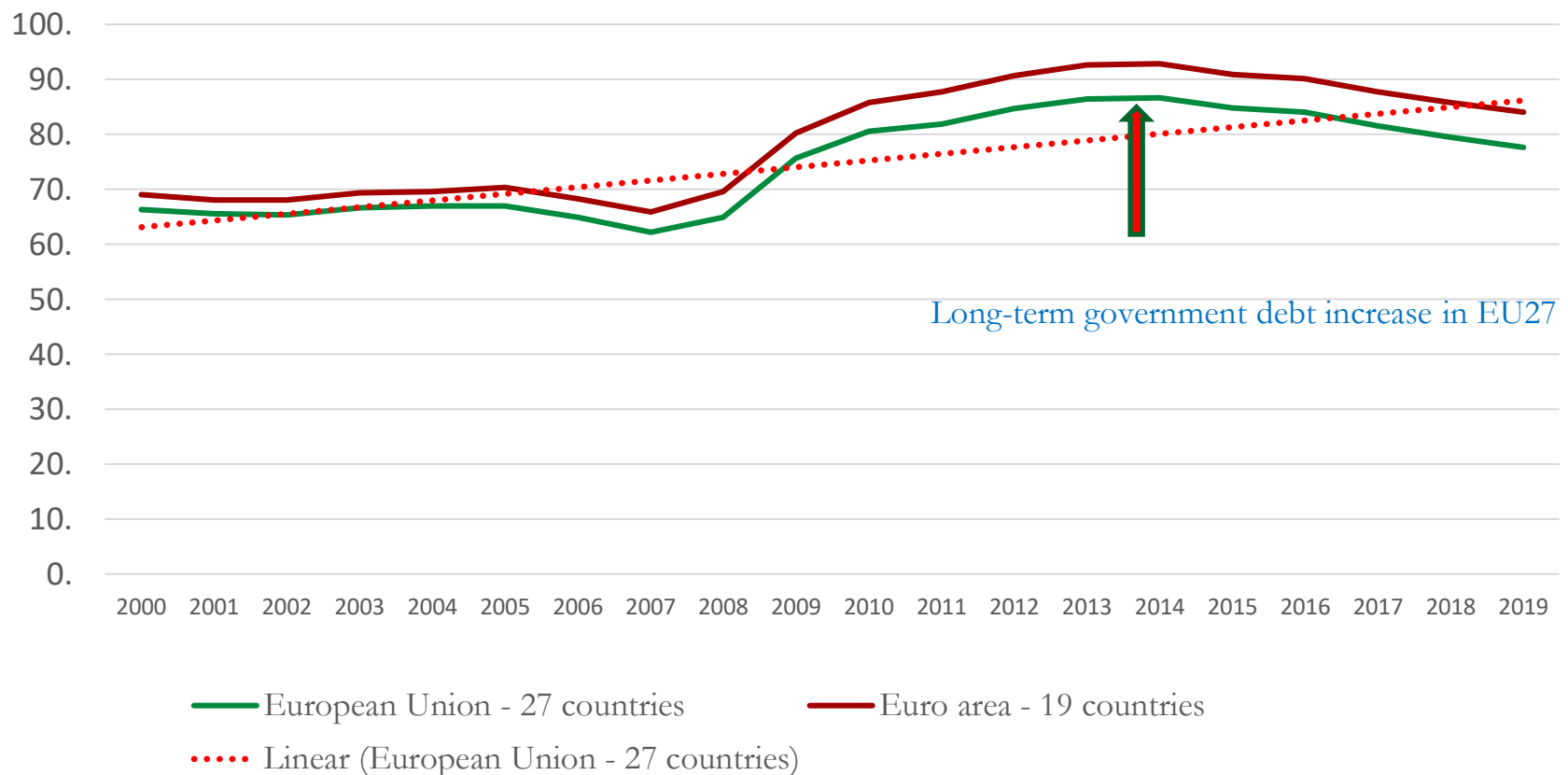
(1) Data extracted on 20.10.2022
Source: Eurostat (gov_10dd_edpt1)

General government gross debt as % of GDP in 2019



HOW much government debt?

General government gross debt as % of GDP in EU 27 and euro area

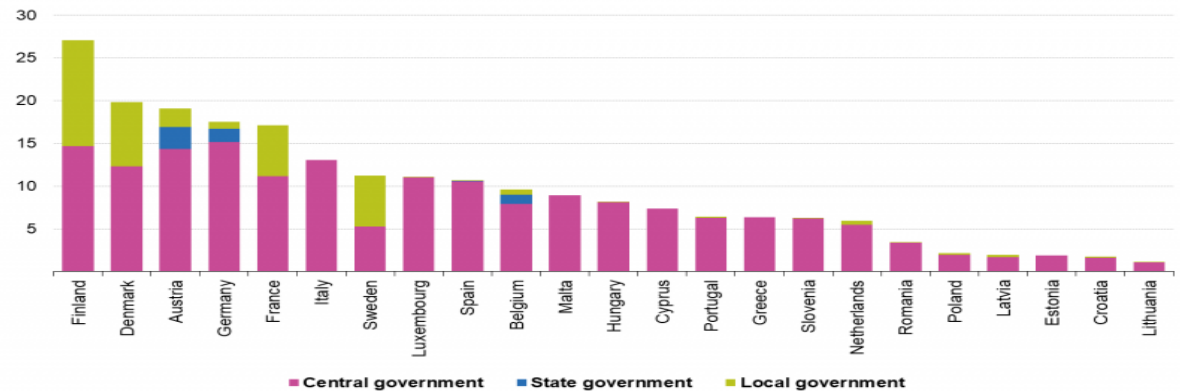


Source: Eurostat

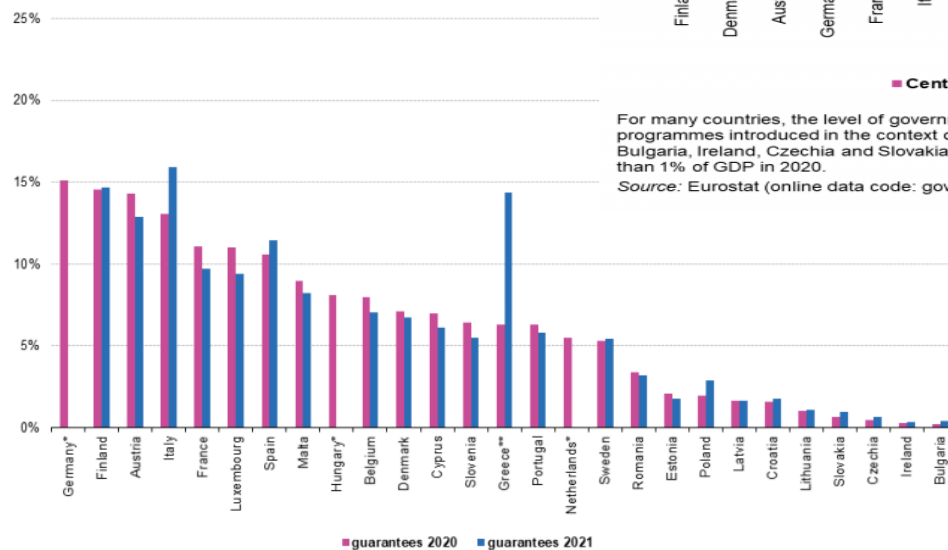
Another kind of government debt...

Government guarantees

Government guarantees, 2020
(% of GDP)



Central government guarantees as a percentage of GDP, 2020-2021



For many countries, the level of government provided guarantees increased notably in 2020 due to new guarantee programmes introduced in the context of the COVID-19 economic crisis. Bulgaria, Ireland, Czechia and Slovakia are not shown because they reported total government guarantees of less than 1% of GDP in 2020.

Source: Eurostat (online data code: gov_cl_guar)

eurostat 

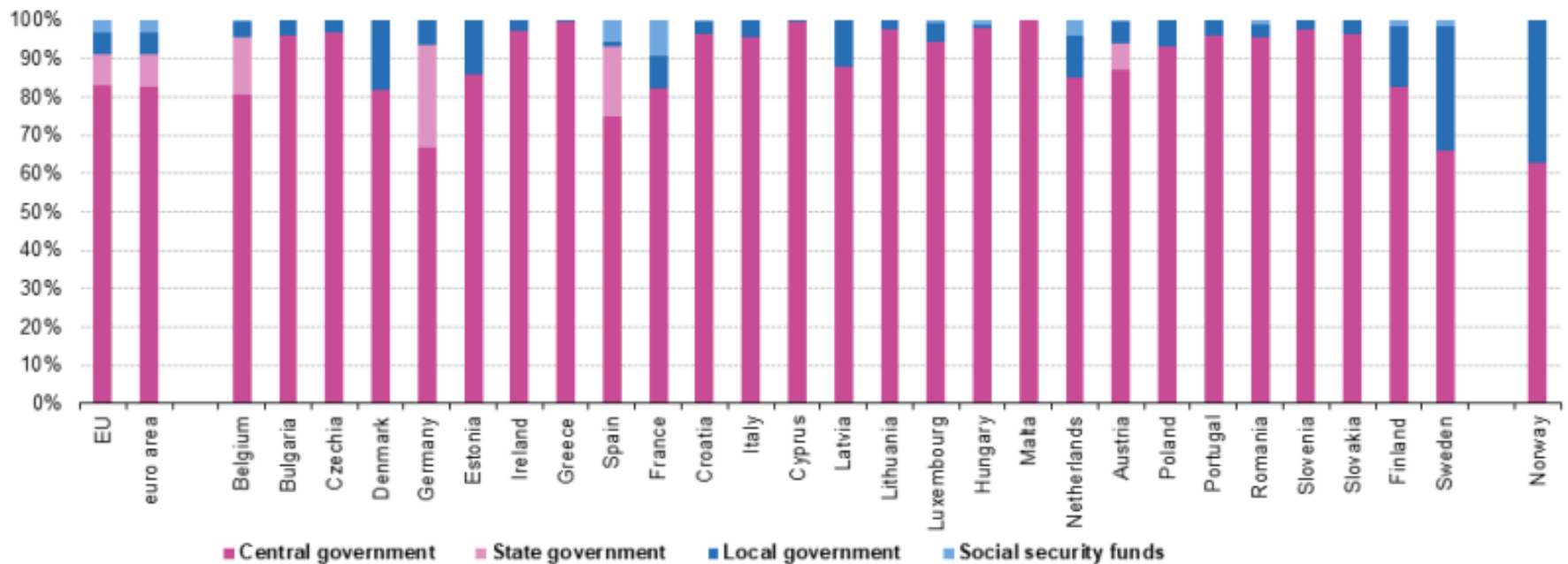
Source: Eurostat (online data code: gov_10dd_guar)
central government; data not available for Norway; *see country notes

eurostat 

WHO issues government debt?

Breakdown of general government debt by subsector

General government gross debt by subsector, percentage of total gross debt, non-consolidated between subsectors, 2021

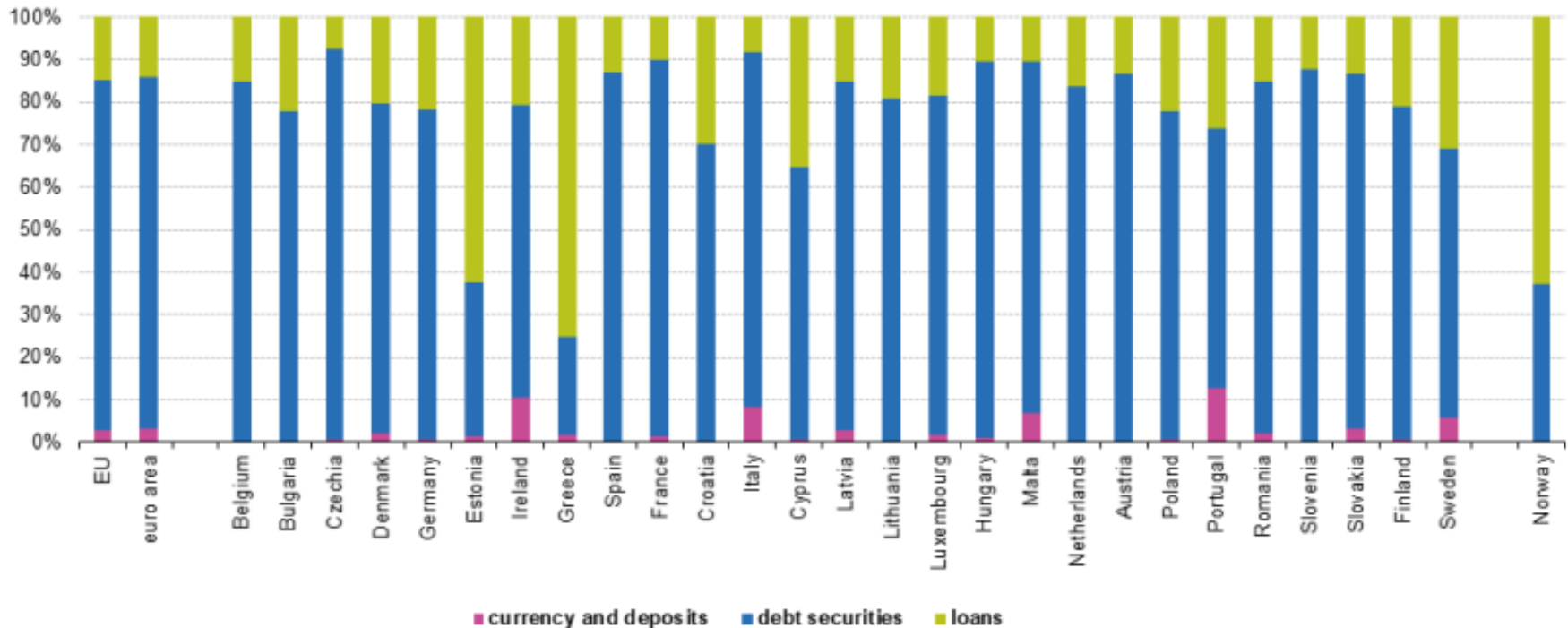


Source: Eurostat (online data codes: gov_10dd_cgd, gov_10dd_slgd, gov_10dd_logd, gov_10dd_ssf)

WHAT kind of government debt instrument?

Breakdown of general government debt by instrument

General government gross debt by financial instrument, 2021



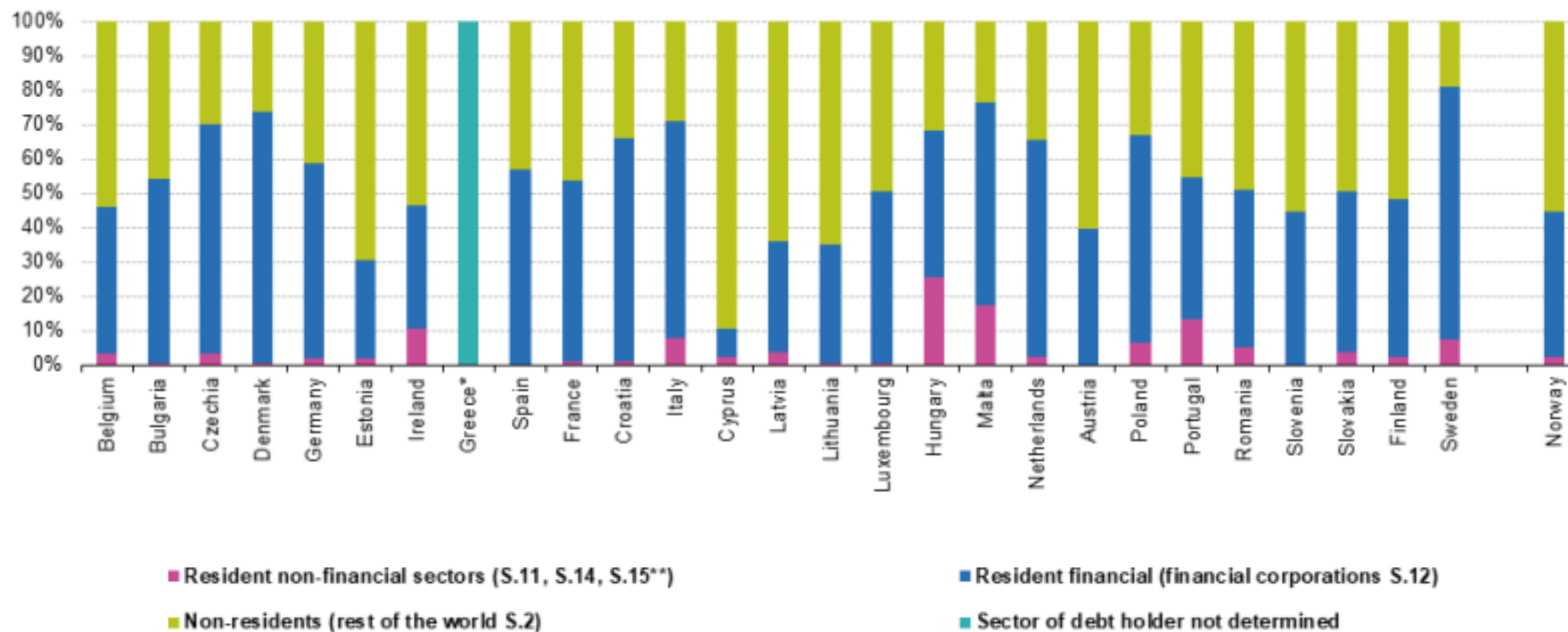
Source: Eurostat (online data code: gov_10dd_ggd, EU/EA aggregates based on gov_10q_ggdebt)

eurostat 

WHO is the creditor?

Breakdown of general government debt by debt holders

General government gross debt by sector of debt holder, 2021



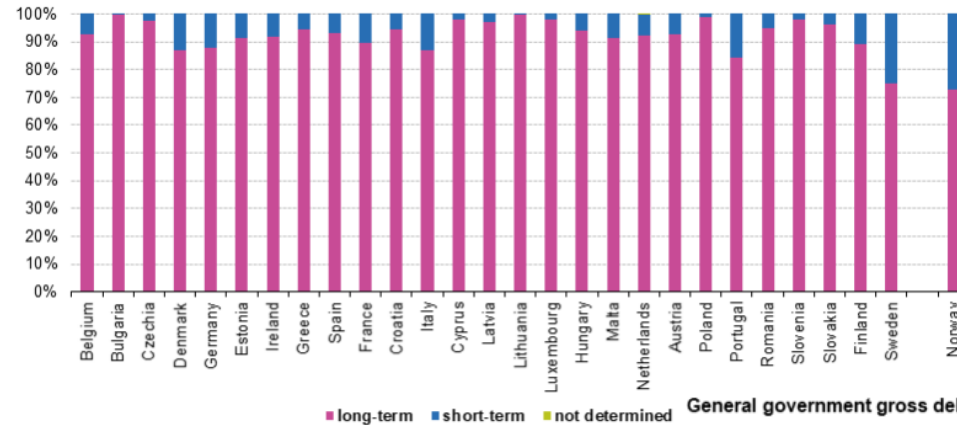
* (partially) missing information ** non-financial corporations, households, non-profit institutions serving households

Source: Eurostat (online data code: gov_10dd_ggd)

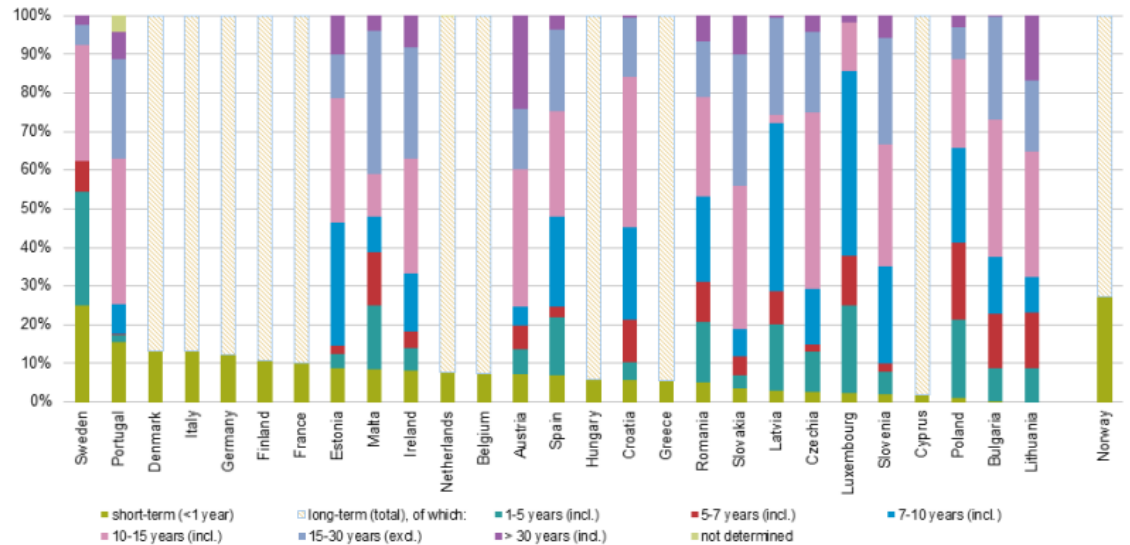
WHAT maturity?

Breakdown of general government debt by initial maturity

General government gross debt by initial maturity, 2021



General government gross debt by detailed initial maturity, 2021

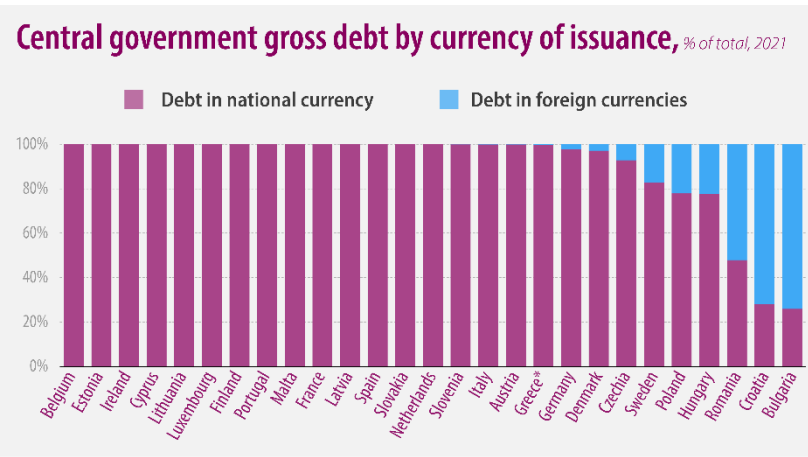


Source: Eurostat (online data code: gov_10dd_ggd, please refer to the country notes)

Source: Eurostat (online data code: gov_10dd_ggd, please refer to the country notes)

WHAT currency?

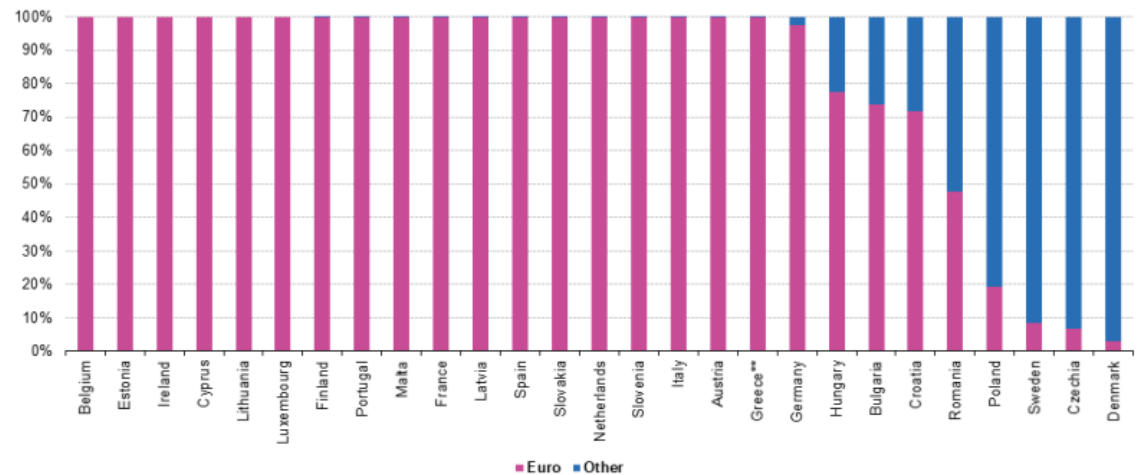
Breakdown of general government debt by currency of issuance



*See country notes

ec.europa.eu/eurostat

Central government gross debt with euro as issuing currency, % of total, 2021

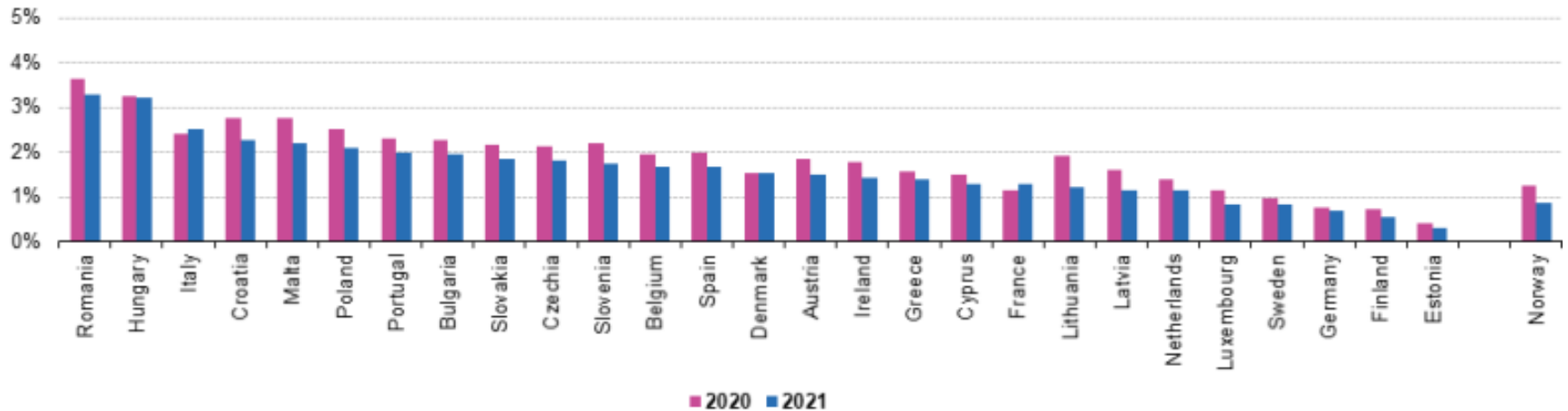


Based on central government debt, data not available for Norway; *see country notes
 Source: Eurostat (online data code: gov_10dd_cur)

THE COST of government debt

Apparent average cost of government debt = accrued interest payable over the period as a percentage of the average outstanding government debt

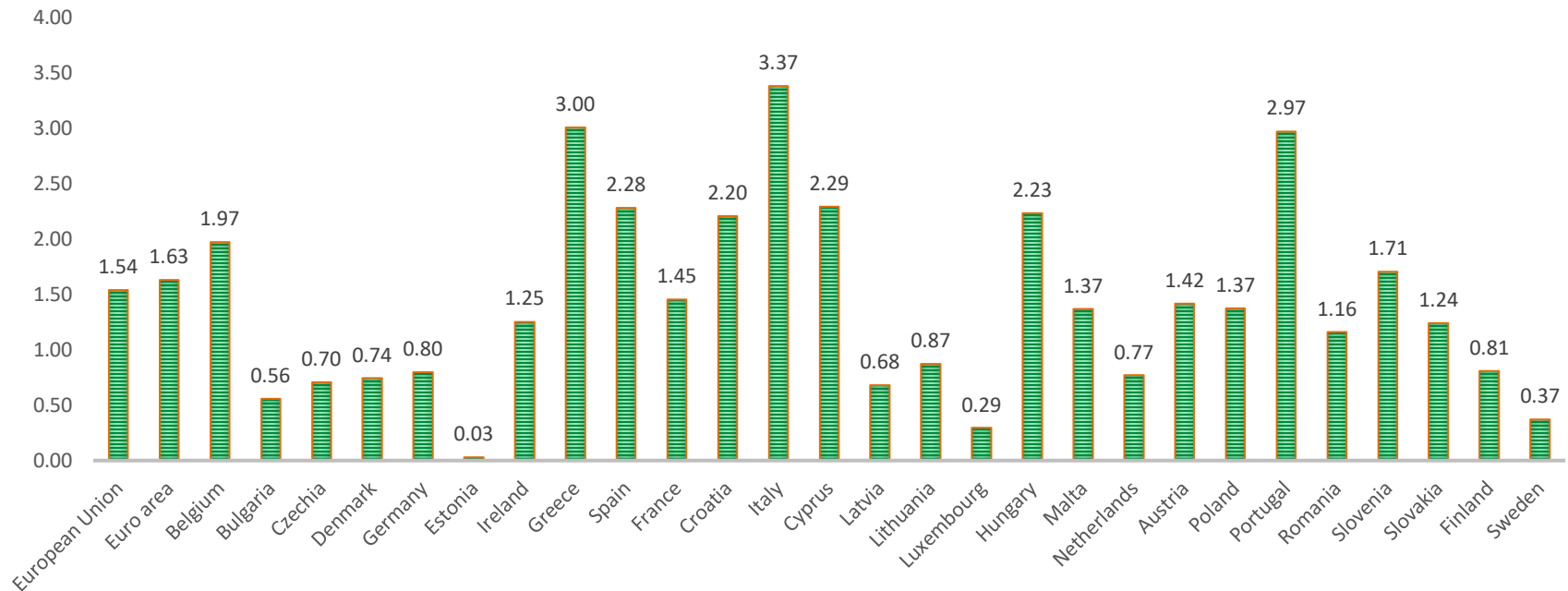
Apparent average cost of central government gross debt, 2020-2021



Source: Eurostat (online data code: gov_10dd_acd)
Based on central government debt

THE COST of government debt

Government expenditure with interest as % of GDP



Source: AMECO database

Module 2: Public Finance and Fiscal Policy in the European Union

(Modulul 2: Finantele publice si politica fiscală în Uniunea Europeană)

Sustainable fiscal policies and fiscal governance in the EU

Sustenabilitatea politicilor bugetare si guvernanta fiscală în UE



FISCAL POLICY SUSTAINABILITY

Fiscal sustainability (sustainability of fiscal policy/ public finances)

is the ability of a government to *sustain its current fiscal policy* (spending, tax and other policies) *in the long run* without threatening the government's solvency or without defaulting on some of the government's liabilities or promised expenditures.

- ✓ Is not a circumstantial concern, sets principles that are useful at all times and to all governments, disregarding their current leverage
- ✓ Is a mean to ensure **intergenerational fairness**

FISCAL POLICY SUSTAINABILITY

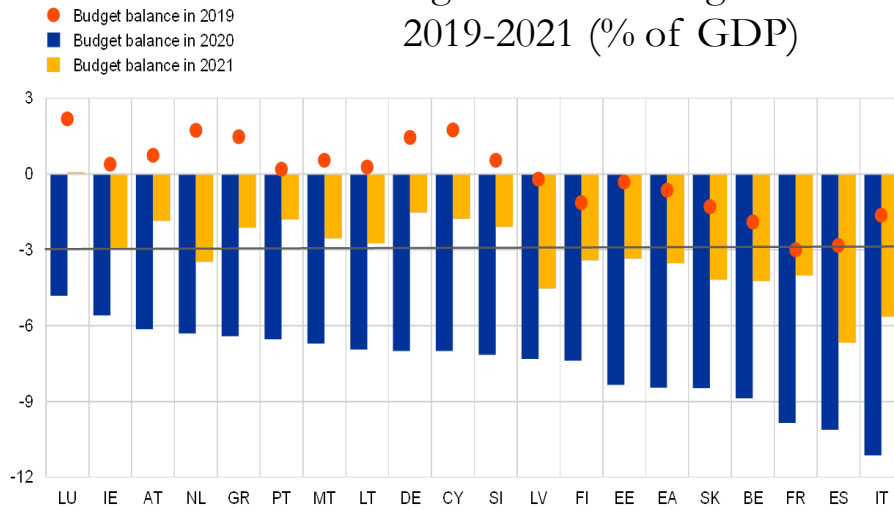
Ensuring fiscal sustainability was and still is **an acute policy challenge in the EU**, due to:

- ❑ the deterioration in fiscal positions and increases in government debt in the EU since 2008, and especially during the Covid-19 pandemic
- ❑ the budgetary pressures posed by, among others, population ageing

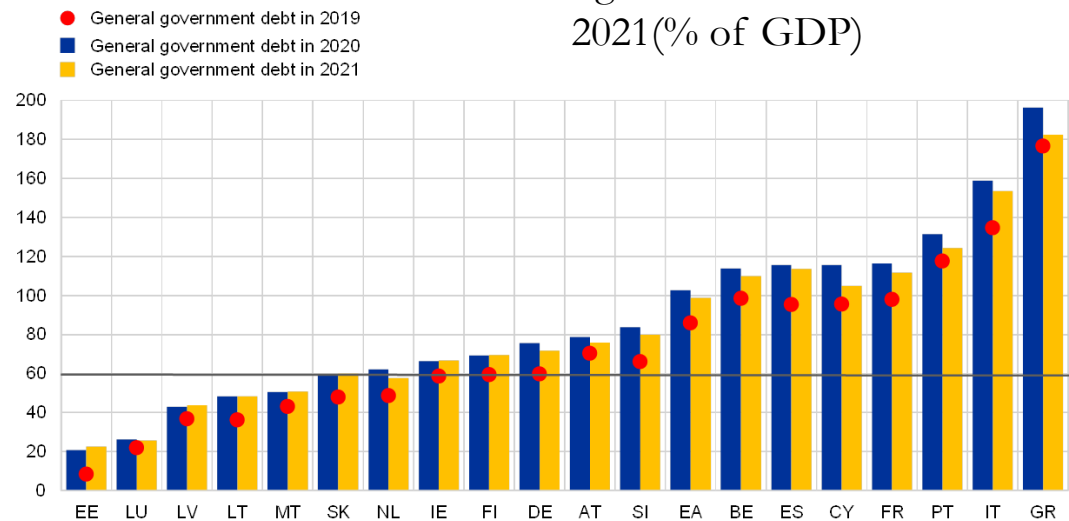


FISCAL POLICY SUSTAINABILITY (EA-19)

General government budget balances,
2019-2021 (% of GDP)



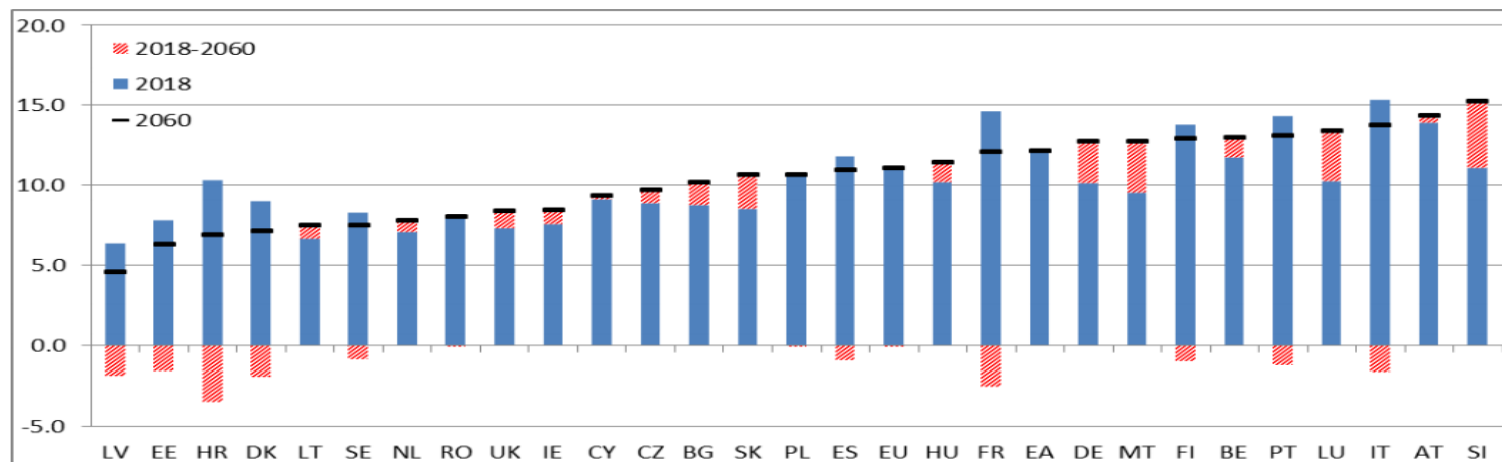
General government debt 2019-
2021 (% of GDP)



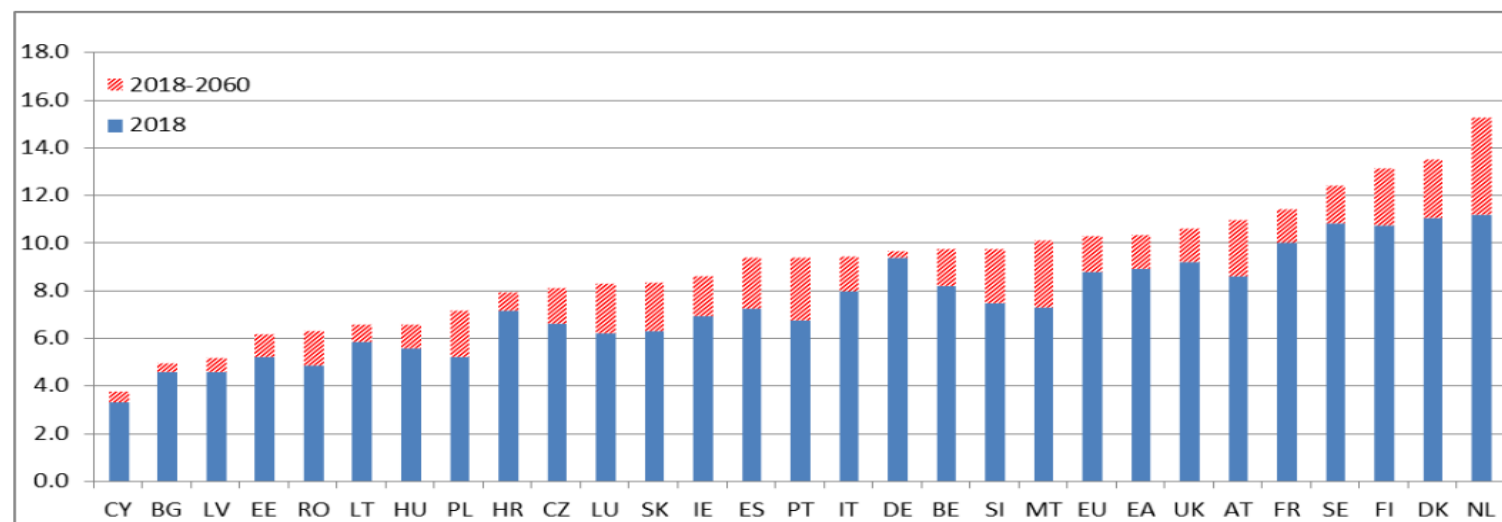
Source: European Commission and ECB

FISCAL POLICY SUSTAINABILITY

Public pension expenditure (% of GDP, 2018 vs. 2060)



Public health and long-term care expenditure (% of GDP, 2018 vs. 2060)



How can fiscal sustainability be assessed?

European Commission's Fiscal Sustainability Analysis Framework

A multi-dimensional approach is used to assess and differentiate *fiscal sustainability risks in the short, medium and long term*. This framework is meant to allow identifying the scale, nature and timing of fiscal sustainability challenges and serves as support to *design appropriate policy responses*.

- ❑ **Short-term** - S0 indicator, which allows for an early detection of short-term risks of fiscal stress (within the upcoming year) stemming from the fiscal and/ or the macro-financial and competitiveness sides of the economy.
- ❑ **Medium term** - joint use of the medium-term fiscal sustainability indicator S1 and the debt sustainability analysis – DSA- (capturing potential vulnerabilities stemming from high debt levels).
- ❑ **Long term** - joint use of the long-term fiscal sustainability indicator S2 (which captures, among others, long-term challenges deriving from population ageing) and the DSA.

Thresholds used in fiscal sustainability assessment (except for DSA variables)

	<i>Safety</i>	<i>Upper threshold</i>	<i>Lower threshold</i>				
SHORT-TERM RISKS							
S0 overall index	<	0.46	:				
S0 fiscal sub-index	<	0.36	:				
S0 financial-competitiveness sub-index	<	0.49	:				
Fiscal risks from fiscal context							
Balance (% of GDP)	>	-9.6	-7.7				
Primary balance (% of GDP)	>	0.2	0.3				
Cyclically-adjusted balance (% of GDP)	>	-2.5	-2.0				
Stabilising primary balance (% of GDP)	<	2.3	1.9				
Gross debt (% of GDP)	<	68.4	54.8				
Change in gross debt (% of GDP)	<	8.1	6.4				
Short-term public debt (% of GDP)	<	13.2	10.6				
Net debt (% of GDP)	<	59.5	47.6				
Gross financing needs (% of GDP)	<	15.9	12.8				
Interest-growth rate differential (%)	<	4.8	3.8				
Change in government expenditure (% of GDP)	<	1.9	1.5				
Change in government consumption (% of GDP)	<	0.6	0.5				
Fiscal risks from macro-financial context							
Yield curve (%)	>	0.6	0.7				
Real GDP growth (%)	>	-0.7	-0.5				
GDP per capita in PPP (% US level)	>	72.7	87.2				
Net international investment position (% of GDP)	>	-19.8	-15.8				
Net savings households (% of GDP)	>	2.6	3.1				
Private debt (% of GDP)	<	164.7	131.8				
Private credit flow (% of GDP)	<	11.7	9.4				
Short-term debt non-financial corporations (% of GDP)	<	15.4	12.3				
Short-term debt households (% of GDP)	<	2.9	2.3				
Construction (% of value added)	<	7.5	6.0				
Current account balance (% of GDP)	>	-2.5	-2.0				
Change in REER (%)	<	9.7	7.7				
Change in nominal ULC (%)	<	7.0	5.6				
Fiscal risks from financial market developments							
Sovereign yield spreads (bp) - 10 year	<	231.0	184.8				
				MEDIUM-TERM RISKS			
				S1 indicator	<	2.5	0.0
				Cost of ageing sub-component	<	0.5	:
				RSPB related to S1 - Percentile rank	>	15%	30%
				DSA variables	see Table A9.1		
				LONG-TERM RISKS			
				S2 indicator	<	6.0	2.0
				Pensions sub-component	<	0.4	:
				Health care sub-component	<	0.7	:
				Long-term care sub-component	<	0.7	:
				RSPB related to S2 - Percentile rank	>	15%	30%
				ADDITIONAL VARIABLES			
				Structure of public debt			
				Share of short-term public debt (% of debt)	<	6.6	5.3
				Share of public debt in foreign currency (% of debt)	<	31.6	25.0
				Share of public debt held by non-residents (% of debt)	<	49.0	40.0
				Contingent liabilities linked to banking sector			
				Bank loans-to-deposits ratio (%)	<	133.4	107.0
				Share of non-performing loans (% of loans)	<	2.3	1.8
				Change in share of non-performing loans (p.p.)	<	0.3	0.2
				NPI coverage ratio (% loans)	>	66.0	33.0
				Change in nominal house price index (%)	<	13.2	11.0

Fiscal sustainability risk classification by Member States in 2020 (2019 in brackets when classification has changed)

	Overall SHORT-TERM risk category	Overall MEDIUM-TERM risk category	S1 indicator - overall risk assessment	Debt sustainability analysis - overall risk assessment	S2 indicator - overall risk assessment	Overall LONG-TERM risk category
BE	HIGH (LOW)	HIGH	HIGH	HIGH	MEDIUM	HIGH
BG	LOW	LOW	LOW	LOW	MEDIUM (LOW)	MEDIUM (LOW)
CZ	LOW	LOW	LOW	LOW	MEDIUM	MEDIUM
DK	LOW	LOW	LOW	LOW	LOW	LOW
DE	LOW	LOW	LOW	LOW	MEDIUM	MEDIUM
EE	LOW	LOW	LOW	LOW	LOW	LOW
IE	LOW	LOW	LOW	LOW	MEDIUM	MEDIUM
ES	HIGH (LOW)	HIGH	HIGH	HIGH	LOW	MEDIUM
FR	HIGH (LOW)	HIGH	HIGH	HIGH	LOW	MEDIUM
HR	HIGH (LOW)	MEDIUM (LOW)	LOW	MEDIUM (LOW)	LOW	MEDIUM (LOW)
IT	HIGH (LOW)	HIGH	HIGH	HIGH	LOW (MEDIUM)	MEDIUM (HIGH)
CY	HIGH (LOW)	MEDIUM (LOW)	LOW	MEDIUM (LOW)	LOW	MEDIUM (LOW)
LV	HIGH (LOW)	LOW	LOW	LOW	LOW	LOW
LT	LOW	LOW	LOW	LOW	LOW	LOW
LU	LOW	LOW	LOW	LOW	HIGH	HIGH
HU	LOW	MEDIUM (LOW)	LOW	MEDIUM (LOW)	MEDIUM	MEDIUM
MT	LOW	LOW	LOW	LOW	MEDIUM	MEDIUM
NL	LOW	MEDIUM (LOW)	MEDIUM (LOW)	MEDIUM (LOW)	MEDIUM	MEDIUM
AT	LOW	MEDIUM (LOW)	LOW	MEDIUM (LOW)	MEDIUM	MEDIUM
PL	LOW	LOW	LOW	LOW	LOW	LOW
PT	HIGH (LOW)	HIGH	MEDIUM	HIGH	LOW	MEDIUM
RO	HIGH (LOW)	HIGH	HIGH	HIGH	HIGH	HIGH
SI	LOW	HIGH (LOW)	MEDIUM (LOW)	HIGH (LOW)	MEDIUM	HIGH (MEDIUM)
SK	HIGH (LOW)	HIGH (LOW)	HIGH (LOW)	HIGH (LOW)	HIGH (MEDIUM)	HIGH (MEDIUM)
FI	HIGH (LOW)	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM
SE	LOW	LOW	LOW	LOW	MEDIUM (LOW)	MEDIUM (LOW)

Source: European Commission, Debt Sustainability Monitor, 2020

HOW TO ENSURE FISCAL SUSTAINABILITY?

Exercise

Let's think... how could the EU and governments of the EU member states ensure fiscal sustainability?



MY PROPOSAL IS ...

⇒

⇒

⇒

⇒

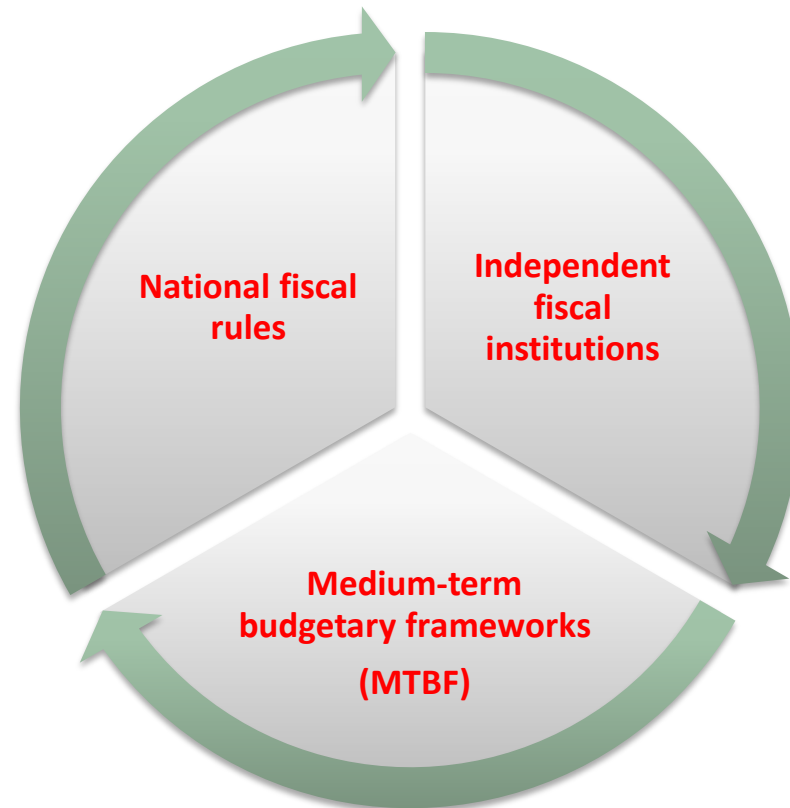
FISCAL GOVERNANCE IN THE EU

Fiscal governance has several **objectives**:

- ✓ *attaining sound budgetary positions* - tackling the tendency to conduct unsustainable fiscal policies giving rise to high deficits and increasing debt ratios;
 - ✓ reducing the cyclicity of fiscal policy making;
 - ✓ improving the efficiency of public spending;
- + Other benefits
- ✓ fostering policy coordination among different government layers;
 - ✓ reducing uncertainty about future fiscal policy developments.

FISCAL GOVERNANCE IN THE EU

Domestic fiscal frameworks (national fiscal governance) - rules, regulations and procedures that influence how budgetary policy is planned, approved, carried out, monitored and evaluated.



FISCAL GOVERNANCE IN THE EU

Domestic fiscal frameworks

❑ **National numerical fiscal rules** – rules that set permanent constraints on fiscal policy, typically defined in terms of a summary indicator of fiscal performance often expressed as a numerical ceiling or target in proportion to GDP.

Features that characterize a well-defined fiscal rule:

- 1) a permanent character, meaning that the constraint must be perceived to be binding for a sufficiently long period of time;
- 2) specification in terms of an overall fiscal performance indicator (such as the government budget deficit, debt, expenditure, revenue, etc.);
- 3) the provision of a numerical ceiling or target.



Appropriate institutions for monitoring and enforcement mechanisms must be in place, or the rules must be supported by strong political commitment.

FISCAL GOVERNANCE IN THE EU

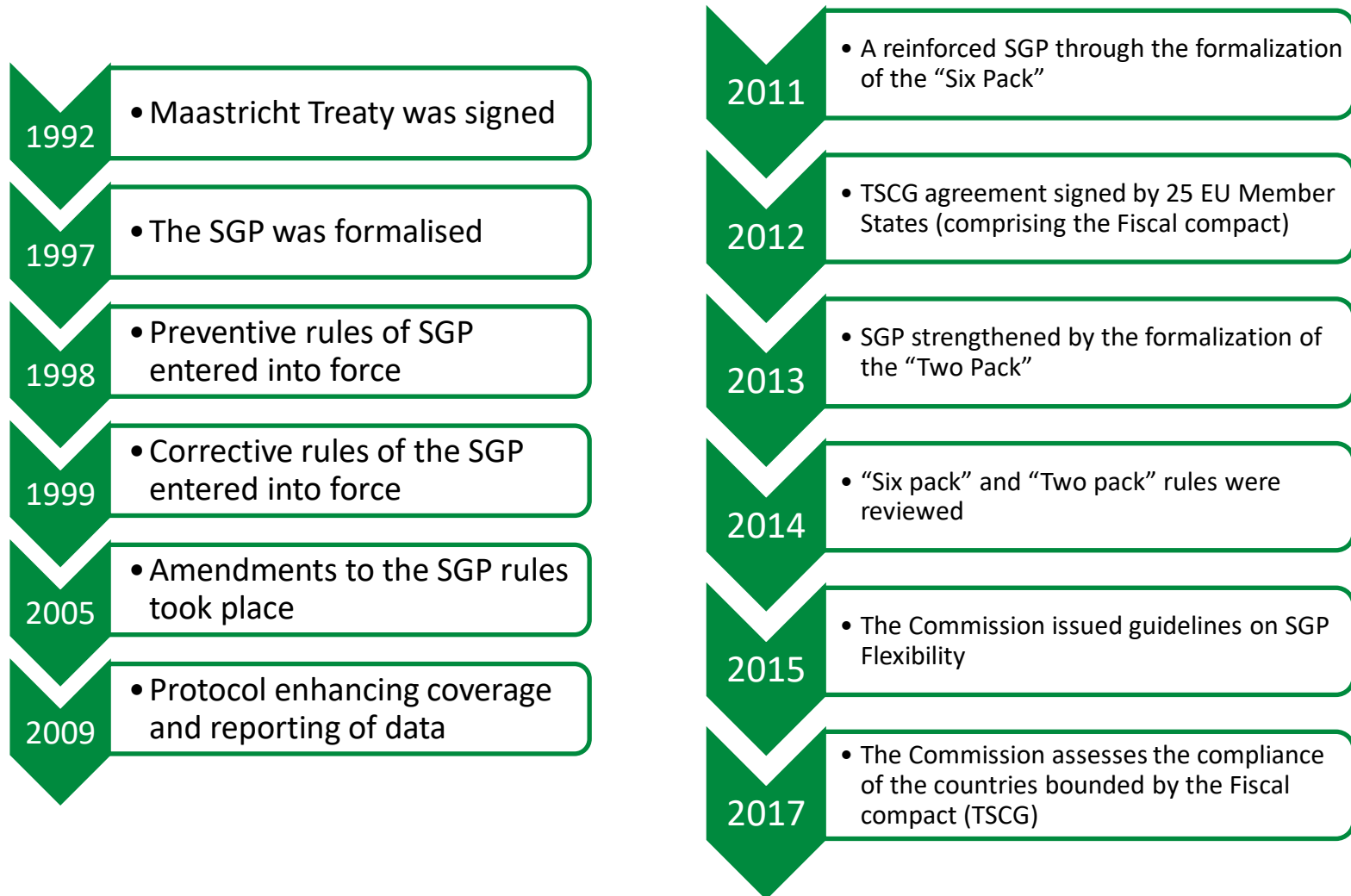
Domestic fiscal frameworks



- ❑ **Independent fiscal institutions** - Are non-partisan public bodies, other than the central bank, government or parliament aimed at promoting sustainable public finances through various functions, including monitoring compliance with fiscal rules, production or endorsement of macroeconomic forecasts for the budget, and/or advising the government on fiscal policy matters. These institutions are primarily financed by public funds and are functionally independent vis-à-vis fiscal authorities.
- ❑ **Medium-term budgetary frameworks** - Are fiscal arrangements that allow the government to extend the horizon for fiscal policy making beyond the annual budgetary calendar.

FISCAL GOVERNANCE IN THE EU

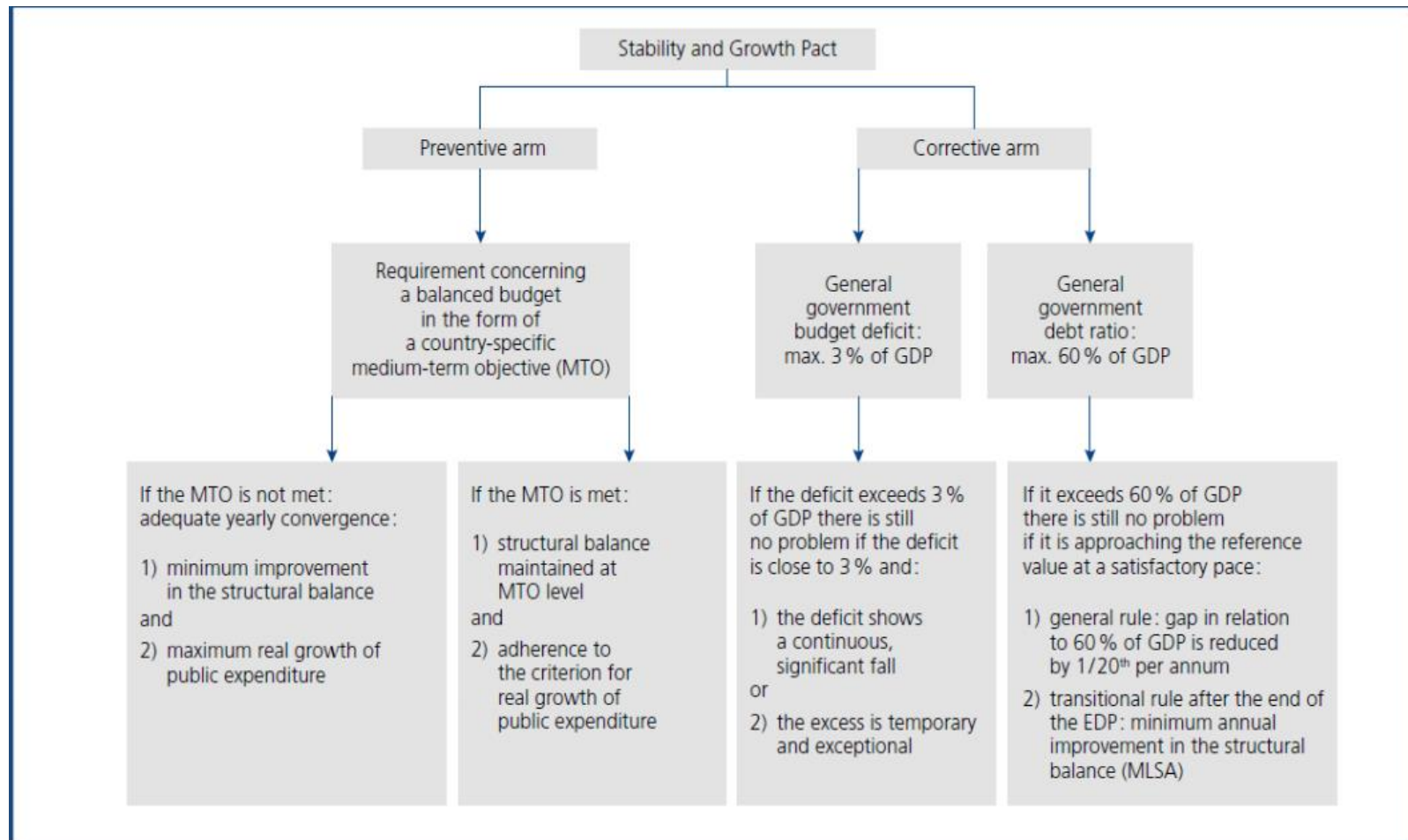
The EU framework for fiscal policies – timeline



FISCAL GOVERNANCE IN THE EU

The EU framework for fiscal policies

Summary of the main European fiscal rules



Source: National Bank of Belgium

FISCAL POLICY AND SUSTAINABLE DEVELOPMENT

Sustainable development = “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (*Bruntland Commission Report, 1987*)



Let's think... how could EU fiscal policies contribute to achieving sustainable development? Please find one policy proposal for each dimension.

