Recent developments on Economic governance

Conference *Economic governance in the EU*
June 9-10, 2011, Bucharest

IULIANA MIHAELA DASCALU

MINISTRY OF PUBLIC FINANCE

General Directorate for Macroeconomic Analysis and Financial Policies

Outline

- Stylized facts on Economic governance
- Reinforcing EU economic governance
- New economic governance cycle
- European Semester
- Romania faces new challenges
- Conclusions

1. Stylized facts on Economic governance (1)

- 2009 Nobel prize awarded to Elinor Ostrom and Oliver Williamson for major contributions to understanding economic governance.
- Recent financial crises revealed the utmost importance of fiscal sound behaviour;
- Fiscal consolidations - extensively studied topic in the EU; EU fiscal framework relies notably on the SGP;
- Features: assessing sound fiscal policy stance taking into account the quality of public finances and medium term perspective
- Focus on sustainability giving accelerate processes of aging and globalization.

1. Stylized facts on Economic governance (2)

- organization of collective action with respect to production, distribution, consumption and investment of resources
- includes governmental and labor organizations, private enterprises and households, financial institutions
- focus on macroeconomic stabilization neglects the role of the institutional environment and state as a governance institution in economic management
- state role in economic activity - counterbalance market failure (macroeconomic instability , missing markets, externalities and public goods) but what if government failure (no efficient allocation of resources) ?
- scope and form of government interventions- to be based on a rational determination of the basic economic state functions

2. Reinforcing EU economic governance

EU needs of sound fiscal policies

- in most EU MS increasingly public deficits and debts - impeding growth and welfare; worsened fiscal sustainability; negatively affect monetary policy , reduce effectiveness of automatic fiscal stabilisers, lowering economic confidence;
- ageing costs burden in addition
- expenditure reform in focus given its contribution to growth
- preventing "excessive deficits" accompanied by preventing excessive macroeconomic imbalances
- crisis management, crisis resolution framework needed

Plus strengthen regulatory framework for financial services: European System of Financial Supervisors, creation of three European Supervisory Authorities: European Banking Authority (EBA) European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA) and an independent EU body responsible for the macro-prudential oversight - European Systemic Risk Board (ESRB)

3. New economic governance cycle (1)

- deepen coordination of fiscal policies to support stability, growth and cohesion;
- improved rules and surveillance of financial markets thus limiting contagion effects
- extending fiscal surveillance adding effectively macroeconomic surveillance addressing vulnerabilities
- binding fiscal rules and focus on macroeconomic stability : lowering deficits and debt ratios → sustainable public finances, more predictable expenditure and tax policies and a healthy economic environment
- Annual Growth Survey, launching European semester - SPs/CPs complementarily to NRPs
- main elements of European Semester and NRPs described in related legislation

3. New economic governance cycle (2)

Strengthen preventive and corrective arm

- lowering deficits and debt in a coherent manner, a new expenditure rule
- focus on fiscal sustainability , structural deficits and adjustment path towards the country specific medium-term objective (MTOs)
- setting annual adjustment of 0.5% of GDP, taking into account structural reforms
- sanctions to be set automatically -disputable
- correcting excessive deficits and/or macroeconomic imbalances
- prevention and correction of macroeconomic imbalances-scoreboard (still to be improved)

4. European Semester

- enhance policy coordination and incorporate EU priorities in national legislation
- national fiscal frameworks better reflect the priorities of EU budgetary surveillance
- Stability and Convergence Programs coherent with National Reform Programs
- **minimum requirements** on domestic fiscal frameworks *1.Statistics and reporting* 2. *Fiscal rules* -binding medium term budgetary framework, more transparent and predictable, numerical targets 3. *Multi-annual budgetary planning* 4. *Coverage of general government finances*-consistency, accounting
- reliable economic forecast and independent fiscal councils

5. Romania faces new challenges (1)

- in 2008 economy increased by 7,3%, in 2009 contracted by -7,1%
- financial assistance program EC/IMF 2009-2011 and a follow up precautionary program EC/IMF 2011-2013
- starting 2009, ongoing ambitious fiscal consolidation reducing budget deficit from -8.5% to 3% in 2012
- major structural reforms: fiscal budgetary responsibility law, pension sector, public sector unitary pay system, social assistance, health sector, labor and products markets
- EuroPlus Pact objectives to be met- further consolidation of fiscal sustainability and financial stability
- Inter-ministerial Committee for Euro admission under Prime minister coordination

5. Romania faces new challenges (2)

Firm measures towards greater fiscal discipline

- *motivating expansionary fiscal consolidations* - expectation and labour market channel, cautious taxation policy, focus on expenditure composition
- *reform institutional framework of fiscal policy*- fiscal and budgetary rules, management rules
- enhance fiscal sustainability: structural reforms, in-depth markets reforms
- Compliance with EU fiscal rules : MTBF, setting independent fiscal council
- CP and NRP under first European semester
- participate at EC meetings for ESM setting up

6. Conclusions

Strengthening economic governance in the EU

- sound fiscal policy and adequate policy mix create expectations that foster economic growth
- institutional framework - important to support sustainable growth and higher quality of public finances
- robust framework for crisis management: EFSF, EFSM, future ESM
- public investment- main growth element when focus on human capital and – under certain conditions - in R&D while physical capital can enhance growth if spent on infrastructures serving private investment
- major expenditure reforms as part of comprehensive strategy lead to strong fiscal and economic performance.

Thank you!

Disclaimer: The views expressed in this presentation do not reflect the official position of Ministry of Public Finance