Strengthening the EMU: way forward for the next 5 years

Pierre Gramegna - Managing Director, European Stability Mechanism

Riccardo Barbieri - Director General of the Treasury, Ministry of Economy and Finance, Italy

Markus Ferber -MEP, Committee on Economic and Monetary Affairs, European Parliament

Gintarė Skaistė - Minister of Finance, Lithuania

Tuomas Saarenheimo - President, Eurogroup Working Group

Jacques de Larosière - Honorary President, EUROFI

Pierre Gramegna

Good evening. It is a pleasure to have so many of you listening to us. It is a honour for me to moderate this panel dedicated to the strengthening of the European economic and monetary union and the way forward in the next five years. I would say there is a way forward for a longer period. The Stability and Growth Pact (SGP), which is in place now, was established in 1997. It has already quite some history. Four years ago, ministers of finance started to discuss how to modernise and revamp the SGP and called the discussion the Economic Governance Review.

Let us jump very quickly to the decision made by the finance ministers in December 2023. The trilogue was successful. We now have a provisional agreement, which needs to be finalised. I think we are on the right track to finish this on time. You might say this is the obvious. I can tell you, having attended these discussions over many years, it was not obvious at all and there were many – probably not only in the room here, but also outside – who thought that Europe would never make it to amend those rules.

It has happened and the new rules will reduce debt and deficit, while at the same time ensuring that there is sufficient room for manoeuvre for public investments in the dual transition, be it the green one or the digital one. I think that is one of the major lessons learned from the existing SGP, which was penalising public investment too much. There are many topics to be discussed, so I will just say that I think that the new fiscal rules are ambitious. I am going to ask the panellists to react to that. Do they find them ambitious enough?

The second key point, I think, which needs to be underlined is that the new rules are intended to be implemented in a better way than the old ones. This is thanks to the fact that they will be catered more to the specificities of every country, to ensure ownership of the reduction of debt. The third point is that this new SGP should make Europe ready for future challenges, including not only the double transition that I mentioned, but also make Europe more competitive. Also, it makes sure that these SGP rules will work in the future when another crisis strikes. It means having sufficient room for manoeuvre.

Last but not least, as the European Stability Mechanism (ESM), we have followed this very closely, and in fact reduction of debt is one aspect that the ESM considered carefully. The SGP triggers the use of certain instruments of the ESM. For us, the whole discussion was totally meaningful. I am glad to be here with you today. I will start by asking you, Gintarė, how you see this new SGP.

Gintarė Skaistė

You were talking about whether these new rules are ambitious or not. From my perspective, the discussions started not because the old rules were not ambitious. The discussions started from one side because they became not realistic and some of the countries were not implementing them with all the necessary strictness. For another part of Europe, the key issue was that investment was not sufficiently supported under the old rules. I think everybody wanted to change the rules, but to match different desires into one point was pretty difficult, just because the intentions as to why we are changing the rules were quite different from the beginning.

From my perspective, I am from the country that has low debt. For us, the old rules were not the problem. However, the problem was that in some cases at EU level the old rules were not realistic anymore. When we were discussing about the debt reduction rule, you may imagine that some countries from the southern part of Europe understood that they cannot implement it with the normal functioning of the economy, not to speak about the investment side. Everybody understood that we have to adopt a more country-specific approach to ensure realistic debt reductions paths and, at the same time, still have room for growth enhancing investment.

The discussions were not really easy among the ministers of finance but, as everybody wanted the new rules, they are there. Are they better than the old ones? I do not know for sure. Maybe yes because there are more built-in incentives to follow the rules. For example, countries should have more ownership when constructing individual fiscal structural plans and there should be more realistic and achievable fiscal goals. Also, an important element of the new rules, especially for countries with less fiscal space, is the flexibility to accommodate necessary investment that enhances growth. The possibility to extend the fiscal adjustment period for up to three years will give countries more incentives as implementation of structural reforms will allow for a longer adjustment period.

However, from my perspective, investment related flexibility might also be the Achilles heel, because everything will depend on the implementation. The key issue going forward will be how to evaluate structural reforms - whether they are truly growth enhancing or not? In this case, transparency and equal treatment of the countries is something that I would desire, but I am not necessarily sure that this will be the case. The devil is not in the details this time. The devil is in the enforcement of the rules and we will see how it will go.

From our perspective as a low debt country, we are happy that we were not left behind the eye of the European Commission. We will also have guidance about our fiscal trajectory. It is really important to have this suggested fiscal trajectory for the domestic policy debate, because if you know politicians, they want to spend all the money but they don't like to talk about taxes and revenue. To have some guidance from Brussels, not just a 3% benchmark from the Treaty, is something that I, as a minister of Finance, am really happy about as it will be useful tool in the upcoming budget drafting process.

Finally, something that is really important in the current geopolitical situation is some flexibility of the new rules related to defence spending. Without this flexibility, for a country like Lithuania, there would be a trade-off between being strict and fiscally prudent – which we tend to be – and having necessary investment into our security. In this case, I have no alternative but to make the investments, because we are dealing with existential risks. Therefore, having the flexibility plays in favour of national ownership.

Pierre Gramegna

Thank you, Gintarė. In fact, you are happy with the whole idea of ownership. You mentioned flexibility for investments and the longer duration of adjustment – four to seven years. You also touched upon the specific issue of security and defence, which, for an understandable reason, is very close to your heart and your geography but, I can tell you, even if you are further away, it is in many people's hearts and minds now. You said – and I find this quite interesting – that it all depends on the enforcement and the guidance. I will come back to that.

Riccardo Barbieri, how do you see the picture?

Riccardo Barbieri

The picture is complex, as always, but I think this has been a good compromise. I think you alluded just now to the challenges we have. We took more than a year to discuss the reform of EU fiscal rules, while we have much bigger problems looming on the horizon. Being convinced that the solution is always European, I am hoping that this is just one step and that we will accelerate in the process of trying to find European solutions to the big challenges of our time.

Having said that, I think it was a good compromise because, in actual fact, in its implementation, the existing SGP saw a complete focus on the short term. The long-term projections about ageing costs, pension systems lived in a different sphere, which was the sphere of the Ageing report, and only indirectly had an impact on fiscal plans because the medium-term objective of a country –to be precise, the so-called minimum medium-term objective (MTO) – depended on projected ageing costs. Here, we now have a framework that is based on the debt sustainability analysis (DSA), which covers a 10-year horizon, and you have between four to seven years to achieve a sustainable path for your public debt.

When you start your first fiscal structural plan, your horizon – if it is, say, a five-year plan – is effectively 15 years. There is a focus on expenditure, even though you can achieve a given adjustment in net expenditure on the revenue side. Governments that like to tax and spend can do so, that is, carry out fiscal consolidation on the revenue side, but your starting point is expenditure net of interest, excluding one-offs and costs for cyclical unemployment benefits. I think the approach is more promising than the existing rules.

I can tell you that before 2020 I went through lengthy negotiations with the European Commission over whether the adjustment in Italy was one or two tenths of a point less than it should have been. I am hoping that, with the new approach, we will talk about more fundamental issues, even though enforcement, admittedly, will be a problem in the sense that there will always be a temptation, if things go better than expected, to look for exceptions. Here, we must be prepared for that eventuality, not just for downside scenarios, but also for upside ones, because another advantage of the new system is that it is less procyclical.

In order for it to be anticyclical, as I said, if, say, you follow a certain trajectory of this net expenditure aggregate and it turns out that your deficit falls more than expected – because, say, bond yields fall more than expected and your interest expenditure is lower – then you should not spend this windfall. You should stay the course or whatever is the path that is on the expenditure target that you negotiated with the European Commission.

What I am hoping is that perhaps this more forward-looking mechanism will lead governments to also focus more on the key economic challenges we are facing. I can tell you that there has been a lot of criticism about the agreement on the governance reform in Italy, but what encourages me is that the way I think our government read it was that we now have to focus more on the medium and long-term challenges for the public finances, not only on the next year. We will see if that really happens, but this is what I am wishing for us and for all the European countries.

Pierre Gramegna

Thank you, Riccardo. I will now turn to you, Tuomas. Just to structure our discussion, we have had now two interventions focussing on the specificities and innovations of the new SGP. Maybe you can tell us a little bit about the timing, the schedule, or the transition period. How do you see it? Because you were at the heart of the negotiations and I know it is a difficult question, so I dare to ask it to you. You have the floor.

Tuomas Saarenheimo

Thanks for the question and let me now proceed to answer a different question. I actually planned to tackle the question that you asked first. The transition, the implementation timelines for this year, are still very much a work in progress. It is a challenging timetable, to squeeze them into the remaining part of this year, once the legislation is actually formally in force. It is doable, but the exact timetables you will have to wait for later.

Let me start from the question of whether these rules are likely to be implemented. I like the word 'implementation'. It is much preferable to 'enforcement', which is something that comes from outside. It is enforced upon you. That is not the way it works with fiscal policies. I think a good place to start answering the question is to ask why the old rules failed, and I think it is fair to say that they failed. The reason was that we discovered something that was kind of obvious: budgetary policies are key to sovereignty and the political life of member states. The EU just blindly enforcing rule that did not feel just in member states was always politically too heavy-handed.

Rules are enforced in the political context and, if the political price of literal enforcement is too high, then the rules will not be enforced. This was the case. They were not enforced. When this happened, the victim was not only fiscal consolidation. The other victim was the honesty of our framework because, in search of some awkward compromises that were needed to create pathways to circumvent the rules and avoid escalation, we ended up giving approval to budgetary policies that did not deserve it.

From that viewpoint, are the revised rules ambitious enough? I think the failure of the old rules was false ambition. It was ambition that was not backed up by true ability to implement. I would say, yes, the new rules are ambitious enough. If they are implemented, they will definitely be enough to put debt levels on a downward trend. My hope is that the new rules and the new framework will help us to take a different approach, to implement better and to create an implementation culture where the member states take both ownership – and by ownership I do not just mean ownership by a narrow political class and a handful of civil servants, but also ownership by wider society – and responsibility over national budgetary policies. It will create a situation where the implementation of the framework is not an antagonistic but a cooperative effort.

Not to be naïve, there will be difficult situations. Fiscal consolidation sucks. It is really unpleasant. You do not want to do it, but my hope is that better ownership, the broader debate and the better design operational target for the framework helps in implementation, so that these rules will be implemented better than the old ones.

Pierre Gramegna

Thanks, Tuomas, for the interesting and thought-provoking answer. It is doable, the timeframe, to do it this year. That is good news. Thank you for elaborating on the word implementation. Let me turn to you, Markus. What is your assessment? You followed this from the perspective of the European Parliament.

Markus Ferber

Thank you very much, Pierre. I watched this from the beginning. I was even in the Parliament when we voted in 1998 on the first 11 participants joining the euro, so I remember all these developments during the last 25 years. We said it was a success story and even what we achieve now is a next step which can create a success if we understand what was 25 years ago the common understanding: whatever you do in your national budget has an impact on the others. This is a question of trust and confidence. I have responsibility not only for my own budget, but I have responsibility for the fiscal situation all over the Eurozone. That is a key element we should not lose over time and that is why, from time to time, we have to adjust the rules, to bring that back.

Of course, we had to adjust the rules. That was described more than once. The old ones were not workable anymore, especially after Covid, and therefore a new proposal was needed, and a new decision had to be taken. I am very happy that the negotiations were concluded before 15 February, because Esther de Lange, one of the two rapporteurs left us at this date. I am now the lucky winner, as I will take over the role from her without having the need to sit in these long trilogues. That is only the personal story.

What is key? Number one, equal things have to be treated equally. Sorry I have to come to this horrible phrase from Jean-Claude Juncker, 'Because it is France.' No. Equal things have to be treated equally in the Eurozone. Someone has to take care of individual agreements. I share the view that the word 'enforcement' is not a nice one, but we need a referee. The referee must have the right to take out of his jacket the yellow or red card. That is what we have missed for the last 25 years, because we have had more than 200 violations of the agreements, and we never had any meaningful sanction. The yellow or the red card were never used by the referee.

That is the question. Even in a football match, all 22 on the field know the rules, but you need referees – a central referee and two a side – and the fourth one observing the others. There is an observer of all referees and we have now this TV (video refereeing), which follows as well. It is a crucial thing to establish that the rules are obeyed and we need the same. Whether you call it enforcement or not, I prefer the referee picture. It is needed, especially when we start now with individual arrangements with the various member states.

The last point I want to mention is that whatever we agree is nice, but in the end, the market has to accept our rules. It is the market that decides whether a member state is able to ask for more debts or not. It is the markets that will ask then for higher interest rates, if the market thinks it is required. Therefore, we have to be aware of that. The market will not look whether we fulfil the criteria of our fiscal rules. The market will decide whether member states can bear the burden. That has to be in all responsible officials' minds, to be taken into account. You cannot bet against the market, whatever rules we do. Having that in mind, I think the rules are very close to what is demanded by the market and therefore can create trust and confidence, not only between the member states but with market participants as well. I think we did a good job.

Pierre Gramegna

Thank you. It is nice to hear that the European Parliament has a similar view as the Council. That is why we have an agreement. Turning to you, Jacques de Larosière, how do you see the new SGP? What are the strengths? What are the eventual weaknesses that you see?

Jacques de Larosière

Thank you very much. Before answering your question, I would like to say that this is a very fundamental matter. If you read, for instance the macroeconomic scoreboard of this financial organisation, Eurofi, you see that the countries that have the highest public debt are also the countries that have the least growth, the least productive investment and more unemployment. This is not a gentle fantasy that we are speaking about, a mania, to reduce our budget deficits. It is something absolutely fundamental because, if we continue on the path of super indebtedness that we have been taking over the last years, we will go to much less growth and to much more heterogeneous problems within the Eurozone.

Having said that, I am answering your question, Mr Gramegna. After first reading of this new pact, I was favourably impressed because of the method. It consists of a dialogue between the individual countries and the Commission, and a dialogue that is based on the observation of facts and economic facts is something better than obeying a more or less artificial figure that has no real ownership within the member countries. You struck two birds with one stone. On the one side, you had a better, in-depth examination of the problem of each country, which is always a singular problem, and on the other side you could act correspondingly; not with artificial measures, but with individually discussed gauges.

After second reading of the compromise, I was less favourably impressed because a text like this one, which is fundamental – it is part of the Treaty – has to be right in its incentives. This is a rule of economy. If you have the right incentives, you are okay. If you have the wrong incentives, you are not going to be okay – at least, not always okay. The wrong incentive, the disincentive, which is buried – you have to read very precisely the text to understand it – is that, if a country continues to run a budgetary deficit bigger than 3%, then it is exempt from the 1% annual reduction in public debt, which was something that seduced me when I read it the first time.

This is an anti-incentive. It means, if you still have a very negative budget with a deficit bigger than 3%, you are okay. We will not bother you with the reduction of an average of 1% a year of your public debt. That is, for me, incomprehensible, because it means that the country that has achieved at least a little less than 3% is going to be sanctioned by this rule requiring them to reduce their public debt by an average of 1% a year. This is the best way to encourage the worst performers not to reduce their debt to GDP ratio! It is as if the worst performers in a class were exempt from extra effort and sanctions as long as their results remain mediocre.

It would have made more sense, in my view, to examine the capability of a country to produce primary surplus, even a very small primary surplus, because that leads to the mastering of your public debt. There is nothing in the text that forces anybody to be consistent with the primary surplus notion, which is the key to reducing the future public debt.

I would add one point: For the transitory period in 2025, 2026 and 2027, the Commission may exclude the expected rise in the debt service costs when calculating the adjustment effort, despite the fact that it could become the largest item of budget expenditure in some over indebted countries, such as France. This measure raises questions insofar as it reduces the effectiveness of this EU mechanism and weakens efforts to consolidate the public finances of over-indebted Member States. You are going to have a length in the adjustment process that is extremely long.

Furthermore, I am not so sure that this transitional measure is legitimate because during the 15 years of zero real interest rate, were there provisions made to pile up these benefits, which were extraordinary, and which could be used today? No. Nothing was done in some over-indebted countries to reduce their primary deficit. I do not buy this argument of excluding completely the rise in the debt service costs when calculating the adjustment fiscal effort and I buy even less the argument saying that, if you have a very high budget deficit of more than 3%, you are okay. If it is less than 3%, you are not okay. That is something that is, for me, incompréhensible.

Pierre Gramegna

Thank you, Jacques, for highlighting one of these European texts that seems paradoxical. I am being nice by saying paradoxical, but I think that describes it well. That would then lead to the second part of the debate, where I would as Tuomas eventually to elaborate a little bit on how this came about and what the rationale is, noting that the excessive deficit procedure was a very important theme during the whole negotiation. Quite quickly, it emerged that this procedure should remain basically untouched as far as possible, because it is linked with implementation and enforcement. It is a key point and I think, Tuomas, you are probably in the best position to clarify the paradox.

Tuomas Saarenheimo

I do recognise, Jacques, what you said. The first reading was positive, the second reading not so positive and, once you get to the fifteenth reading, then you just find acceptance of the fact that this is what it is going to be. Out of that acceptance grows an appreciation of its beauty. That is where I am right now. Your question is why does the debt safeguard not apply to countries in the excessive debt procedure (EDP) – I asked the same question when this was posed to me. There is a political story to it and then there is an economic story. I will tell you the economic story.

There were two motivations. First, for countries with high initial deficits, the debt safeguard would lead to very high – and, one could say, unrealistically high – adjustment efforts, just because of the pure deficit/debt mechanistic dynamics. The second point is that both the debt and deficit safeguards are meant to create guardrails around the DSA methodology, to ensure that the DSA does not lead to anomalous outcomes. In the context of the EDP, there is already inherently such a guardrail, in the form of the 0.5% structural adjustment requirement. Adding another safeguard did not seem really necessary or consistent with the broader approach.

Do you want me to stop here? I was prepared to address whether the adjustment horizon is credible. In the questions we received, there was a question as to whether 50 years is too long for some countries to reach 60%. I think the question is whether any shorter adjustment period would be credible. Look at what happened over the last 50 years, from the oil crisis to today. In 1974, during the oil crisis, debt levels in the Maastricht 12 EU countries was about 30% of GDP. 25 years later, by the time the SGP came into existence or took effect, that 30% had grown into 60%. Then, the next 25 years, we had the SGP. Did that hold the increase? Of course not. You know that.

During the existence of the SGP, our rate of debt went up from 60% to 100% of GDP. If, in the next 50 years, we manage to get the debt levels back down to 60%, I would define that as a magnificent success, compared to the previous 50 years.

Pierre Gramegna

Thank you, Tuomas. Let me just rebound on what you said. Let us face it. In a period like Covid, you add 10 to 20 percentage points to the debt to GDP ratio in one or two years, and then it takes many years to go back to the position you were in earlier. That is why I think having buffers and not using the 3% deficit as a target, which some countries underlined a lot, is key. 3% is the maximum. On a transitory basis, you can have countries – if we do a photograph today – that are above the 3%, but this must be avoided by all means. I think this focus on the 3%, independently from the paradox you described, Jacques, is maybe something that is a focus for every year. It is only if you respect that target that you will be in a position to slowly but surely reduce your debt.

Let me ask Gintarė and then Riccardo how they would like to rebound on this discussion or highlight other aspects. I will leave to you to decide which ones you intend to elaborate on further.

Gintarė Skaistė

I would like to tell you a story. During the Covid period, countries increased their debt level by 10%, 20% and to decrease that would take a lot of years. I will give you an example. My country, Lithuania, during the Covid years increased its debt level by 12%. Guess what? We are at the pre-Covid level today. I think everything is in defence of the national implementation. As everybody mentioned, you have implementation and you have enforcement. I think these two forces must work together: national implementation but, at the same time, somebody has to be the referee. Without a referee, we see that some national authorities are not implementing rules as they should be.

I think everything is achievable if you are really dedicated and focused and know what you are doing but, at the same time, you really have ambition to implement the rules, and not only follow some loose guidelines by somebody else. You are implementing, at the national level, everything that you can. At the same time, you expect some results.

For example, we in Lithuania are now reviewing the expenditure that we have, because we have increased needs for defence expenditure. We are reviewing all of the other expenditure to maybe have some spare money to fund defence. At the same time, we are also implementing the mid-term budget project, so maybe some money will also be spent more prudently than it was previously, because at the end of the year everybody was spending a lot just to have all the funds that were dedicated to the same institution. Everything depends on the national implementation, but also the enforcement, the referee role is really important. Without a referee, without red cards, we see that implementation is lagging a bit.

Pierre Gramegna

Thank you, Gintarė. Riccardo.

Riccardo Barbieri

I think, first of all, we need to clarify a little bit the apparent laxity of these fiscal rules. The agreement –

saying that as long as a country is in EDP in the early years of implementation of these rules is not subject to the debt safeguard – was a compromise. We favoured a transitional period. We favoured not basing that exemption on the fact that you are in EDP, but simply that, in the first four years of implementation of these rules, we knew that some countries had some issues with stock-flow adjustments. In other words, there is a difference between what you would expect based on the trend in the budget deficit and what happens because of the evolution of the cash borrowing requirement, which may be different. That is, for example, true in Italy's case.

Aside from that, what is important to understand is that this is the combination of the original proposal – which, as I said, is based on DSA and an expenditure rule – and the safeguards that were required by some member states. We know that in Europe we have a wide diversity of budget deficits, debt debt-to-GDP ratios, of views about fiscal policy, of the desirability of having a very low debt to GDP ratio. Some countries believe that, if you look around the world and you see the debt ratios of the United States, Japan, it is not that we have to imitate them – we should not follow the excessive debt of some of these countries – but, at the same time, we have to be in the real world.

Other countries are actively using subsidies for renewables, for chips, for EV batteries, and we might end up with a wonderful budget balance but being dead industrially. I am not favouring fiscal laxity, but what I am saying is that you have to find the right balance between these two views. In the end, for Germany to sign off the agreement, there were to be some safeguards. We have, first of all, a debt reduction safeguard, at least one percentage point of GDP per annum. It does not say, 'This is the rule.' It is the minimum you have to do. It is the guardrail, as Tuomas said.

Then, there is, in the medium term, an equivalent of the existing medium-term objective. Your structural balance should not be worse than 1.5% of GDP. In addition, there are rules about the speed at which you converge towards these balances: in the corrective arm, at least 0.5% per annum, with an exception (if an increase in interest payments is recorded) in the early years, and, in the preventive arm, there are different rules, depending on the level of your debt to GDP ratio, to converge to that 1.5%. When you simulate the effects of these rules, you have to take into account that you have the overlay of these two mechanisms: the DSA, which would take you towards debt reduction – but not as much as under the existing rules – and the safeguards.

We have run several simulations. If all goes well – meaning that the rules are applied and we do not die in the meantime – by the end of the next decade, to give you the example of Italy, the debt to GDP ratio will be at levels that today would be viewed as high but in line with the European average or the average of countries like France and Spain. My key message is that when they tell you, 'The rules have been simplified', you should assume the opposite. In order to reach a compromise, bringing together two different philosophies, it was necessary to make the mechanisms quite complicated.

The only thing that worries me is whether public opinion, and the body politic, will understand what the rules are about. In terms of the rules being too lax, I would say that they are less stringent than the existing ones, because you are not supposed to go down to the MTO of a balanced budget – or even a surplus, in the case of Italy – but you do have to achieve a structural balance of no worse than minus 1.5% of GDP in the medium term.

Pierre Gramegna

Thank you, Riccardo. Now the whole room understands the rules much better, I am sure. We need to keep some sense of humour despite all these numbers. The safeguards in the last part of the new negotiations are quite important. They also brought in a more reasoned position, which we really needed, and I am glad that a compromise could be found. Riccardo, you described this dynamic very well about the objectives and the safeguards.

Markus, what last comment would you like to make?

Markus Ferber

I will make only a short remark. Firstly, I have similar calculations as you have, Jacques. That is really one of the concerning issues, establishing whether we are on the right track. If I take the member state I know best, we do not have a problem on the income side. €1,000 billion income from taxation in Germany is quite a huge amount. We have a problem on the spending side, which is not attracting investments. It is not bringing more people to the labour market. These are the challenges and we do not have a problem on the demand side. We have a problem on the supply side and even that has to be addressed.

I refer to what Executive Vice-President Dombrovskis said before our meeting: one of the headlines for the next five years is competitiveness. We have to get back onto the road of growth. That is the main problem in the member state I know best, because we calculate everything in relation to GDP. If the GDP goes down, automatically the ratio goes up, even if you do not make new debts. If you create growth all over Europe – and I think there are possibilities, with a great deal of things to be done in the years to come to achieve that – even that is a helpful tool, without taking into account what you have mentioned is needed as well.

Therefore, I think we should concentrate on this agenda. We have to deliver on the supply side. It is very important not to leave this. We have to deliver on the path back to growth in the European Union. We have some tools. We have discussed these at a lot of panels, and we will do that in the next and tomorrow. Then, we are on the right track, and that even helps to reduce the debt burden.

Pierre Gramegna

Thank you, Markus, for that last point. I am going to conclude now. We are a little bit over time already. It is difficult to conclude. I would like to thank the panellists for their insightful comments. I will start with the last one that Markus just made. These rules will function if we have sustainable growth in Europe. By definition, they will. If we have no growth, I think whatever rules we would have come up with, we would have difficulties to comply with.

The second point is that high deficits do not ensure growth. High deficits, as Jacques de Larosière rightly pointed out, just ensure the contrary. Let me underline that the five countries that the ESM supported financially had to do structural reforms because it was part of the conditionality framework. These countries have, today, higher growth in the euro area than other countries, because they did some reforms. My third point – and we mentioned this at the ESM all the time – is about two things we really need in the new set up of the new SGP.

The first is credibility. Credibility was mentioned by a few of you. That is credibility for ourselves, for each country, which is public opinion, and you do not want to be alone there. Commission do not let the ministers of finance be there alone. They need your guidance. The second point is on equal treatment. They need you to ensure equal treatment and it is extremely important. You need credibility towards the markets and you need credibility because we are all on the same boat. If one country has major problems, it has a domino effect on others, both in the economy and also in public finances.

Last, but not least, is implementation or enforcement. In this context, the Commission has a huge responsibility and tasks to accomplish. I would like to say that it is not only about ensuring equal treatment and serious analysis, because I trust they will do that. It will be how the Commission itself will communicate this to the larger public. If we have to communicate to the larger public the structural balance – as we used to have it – safeguards or complicated ratios, we will lose the interest of the public. I think that part is in the making or needs to be reinvented, in terms of commenting on it so that member countries, when they get the grading and the comments, they can use it in a way so that they can explain it.

The simplification task is still out there to be achieved, but communication is very often a large part of simplification. If the math behind the calculation is complicated, let that be for specialists. Yet the result needs to be understandable for all. I hope you understand much more now than an hour ago. I enjoyed the debate very much. Thanks to all of you and I wish you all a good evening. Thank you.