The informative value of national fiscal indicators in respect of debt at the European level

Fiscal policy has been playing a significant stabilising role during the coronavirus crisis, and measures funded nationally are at the forefront of these efforts. That said, extensive fiscal packages have been initiated at the European level, too. More than €1 trillion in borrowing – i.e. above 7% of the European Union's gross domestic product (EU GDP) – has been lined up for grants and concessional loans. This is fundamentally different than before. First, this move is intended to usher in a significant increase in borrowing. Second, the funds raised will no longer be used only to supply assistance loans but also for issuing grants to Member States on a considerable scale. The upshot of this is that the European level will have notable deficits for the first time, and debt servicing will weigh on future EU budgets.

This article illuminates the impact of this European debt, and these European deficits, on the informative value of national fiscal indicators. Analyses are usually based on national data and examine matters such as the sustainability of public finances or the effect of fiscal impulses on economic activity. Up until now, the EU budget has largely featured in these analyses as a direct component of national fiscal indicators, given that it is mostly funded by contributions made in the same year by Member States. This meant it could be disregarded by analysts. The situation is now set to change. Looking ahead, national deficits and debt will be lower initially if a Member State's expenditure is funded not by national borrowing but by debt-financed EU grants. While this improves the Member State's national fiscal indicators, its financial position will not be any better overall. This is because European debt will need to be serviced by taxpayers in the Member States at some point in the future on top of the national debt burden. Instead of interest and principal payments on national debt, there will be larger contributions to the EU budget.

Given this backdrop, it is crucially important, from the perspective of economic and fiscal policy analysis, for government revenue, expenditure, deficits and debt to be computed using statistical methods and reported in a transparent manner not just nationally but at the European level, too. Disclosures should follow the definitions used in the national accounts and be made available in a timely manner, just as they are for the Member States. That particularly goes for the Maastricht deficit and the Maastricht debt level. This is not currently the case. The final decision adopting the programmes needs to enshrine this form of statistical reporting on developments at the European level.

These disclosures could be used to provide a more comprehensive picture of the fiscal burdens weighing on Member States, amongst other things. There would be less risk of losing sight of European debt and the fiscal strain it involves. Budgetary rules should likewise take the European fiscal burdens into account. Rules that apply only to national indicators will be hollowed out if deficits and debt are transferred on a significant scale to the European level. It would also make sense for the national fiscal indicators designed to measure the effects of a fiscal impulse on economic activity to give consideration to payment flows with the EU.

European government sector borrowing enters new dimensions

European assistance mechanisms in the coronavirus crisis

Fiscal policy has been playing a significant stabilising role during the coronavirus crisis, with individual Member States bearing the brunt of this challenge. That said, extensive packages have also been rolled out at the European level[1] in support of Member States.[2] Measures include:[3]

– Up to €240 billion in debt raised by the European Stability Mechanism (ESM) for concessional loans to euro area countries;

– EU debt of up to €100 billion for concessional SURE loans[4] to EU countries; and

– EU debt of up to €750 billion (at 2018 prices)[5] for Next Generation EU (NGEU) assistance in the form of grants and concessional loans to EU countries.

New assistance heralds substantial changes …

The European level had already raised debt before the advent of the coronavirus crisis, though the volume at that time was considerably smaller (EU: just over €50 billion; ESM: just under €120 billion). The newly adopted assistance programmes are set to be significantly larger in scope. On top of this, the NGEU programme is designed not only to provide loans to Member States but to issue non-repayable grants as well. In the past, EU debt was normally backed by claims on Member States, the idea being that it would be serviced out of the borrowers' debt service payments. In effect, the European government level reported no deficits (within the meaning of the national accounts) because the (net) financial assets remained unchanged. Under the new grant programmes, however, there are no credit claims to offset the European debt, which means the European government level will run deficits as defined in the national accounts. In subsequent years, the debt raised to fund these programmes will then have to be serviced out of the EU budget using Member State contributions.[6] The EU budget will need to cover any interest charges that accrue plus the principal payments over the period from 2028 to 2058. Contribution-financed surpluses (as defined in the national accounts) would need to be generated in the EU budget in the amount needed to cover the principal payments.

… that influence the informative value of national fiscal indicators

Under the existing arrangement, any deficits and debt incurred at the European level are not reflected in the deficits and debt levels reported by Member States. This makes future national fiscal indicators less informative. Up to now, EU expenditure has largely been reflected directly in the aggregated national indicators, given that it was normally funded by Member States in the same year by their contributions to the EU budget. This meant that Member States' deficits and debt levels were correspondingly higher. The new arrangement will see a not-

1 For the purposes of this article, "European level" means government activity at the supranational European level. The government sector at the European level comprises EU institutions, such as the EU budget, as well as intergovernmental agreements between European states, such as the ESM.
2 For the decisions from April, see Deutsche Bundesbank (2020a); for those from July, see Deutsche Bundesbank (2020b) and the box on p. 39.
3 Member States are contributing furthermore, in the form of guarantees, to the pan-European guarantee fund created by the European Investment Bank (EIB) with a view to mobilising up to €200 billion as a source of financial support, above all for small and medium-sized enterprises. The EIB does not form part of the European government sector. Routine checks are generally made to establish whether activities performed by non-government units at the request of government should be assigned for statistical purposes to the government budget (rerouting). Some activities performed by KfW Group on behalf of the Federal Government fall into this category, for example. If the pan-European guarantee fund were to provide actual funding in addition to guarantees, this would probably have to be recorded statistically in the budgets of participating Member States.
4 SURE stands for "Support mitigating Unemployment Risks in Emergency".
5 Stating figures at 2018 prices means that the authorised volume of loans and grants increases annually at a fixed rate of 2%. This arrangement means that the NGEU programme will have a volume of €795 billion (€750 billion at 2018 prices) in its scheduled launch year of 2021. Since not all the resources will be allocated in 2021, the total amount, priced accordingly, will depend on how it is distributed over time; the volume here refers to payments (rather than commitments incurred).
6 The plan is for Member States to fund these additional contributions in part by levying a new tax harmonised across the EU.

Borrowing options available at the European level for funding COVID-19 response measures

To help alleviate the impact of the COVID-19 crisis, it was agreed in April 2020 to simplify access to the credit facilities offered by the European Stability Mechanism (ESM). This step means that euro area countries can now draw on credit facilities even if they are not subject to a macroeconomic adjustment programme. Funding for this European debt is jointly guaranteed via the ESM, which is why the ESM's assistance loans (up to 2% of euro area gross domestic product (GDP) in total, which roughly equates to €240 billion) offer particularly favourable interest rates. The Member States have not yet applied to use any of the ESM's credit lines, however.

In addition a new instrument known as SURE ("Support mitigating Unemployment Risks in Emergency") was created. This authorises the European Commission to raise up to €100 billion in debt on the EU's behalf. The idea is to provide EU Member States with concessional loans so that unemployment risks can be mitigated – for example, by providing short-time work benefits. Eighteen countries intend to tap into these loans, and around €90 billion has already been earmarked. Borrowing for the SURE instrument is underwritten by guarantees issued by Member States alongside what are known as budgetary margins. These margins in future EU budgets come about because the maximum amount of Member States' contributions to the EU budget that can be drawn down (the own-resources ceiling) is higher than the annual expenditure in the EU budget.

July 2020 saw the European Council agree on the Next Generation EU (NGEU) assistance programme which, like SURE, is funded by EU borrowing. Repayment is guaranteed by increased margins in future EU budgets. NGEU's expected volume is €750 billion (at 2018 prices). Its centrepiece is the Resilience and Recovery Facility (RRF), which will see Member States receiving (non-repayable) grants totalling just over €310 billion. Further NGEU grants (of just under €80 billion) are to be provided through programmes included in the forthcoming medium-term financial framework's EU budget. Member States furthermore stand to receive a total of €360 billion in concessional loans. Funding conditions for the NGEU debt will probably be very favourable because the budgetary margin securing it is scheduled to rise sharply. Specifically, the own-resources ceiling is to be increased by 0.6% of gross national income (GNI) till 2058 (to 2% of GNI). If scheduled payments are not made (for example, if a country does not service its assistance loan), the remaining countries will generally be approached to cover payment on a pro rata basis.

NGEU has not yet been adopted, so a final decision on how the resources will be allocated across Member States is still pending. The European Commission has tabled a grants allocation key per Member State, based on population size, per capita GDP and pre-crisis unemployment. The decline in GDP brought about by the coronavirus in 2020 and 2021 will only be a factor for a small part of the grants. Loans are to be capped at 6.8% of a country's GDP. All NGEU resources need to be committed by the end of 2023 but can also be disbursed at a later date. Outflows will ultimately depend on how the national plans are implemented.

able portion of deficits and debt being shifted to the European level. National deficits and debt will be depressed (c.p.) when the European level borrows funds to disburse to Member States in the form of grants. The upshot of this is that the national fiscal indicators will appear more favourable initially, though European debt will still need to be serviced out of Member States' tax revenue, in addition to their national debt. In later years, Member States will face the burden of higher contributions to the EU budget to service the debt. Analyses of economic and fiscal policy will need to take account of these shifts between the national and European levels, which is why developments at the European level merit attention alongside the national fiscal data.

Make comprehensive reporting at the European level mandatory to create transparency

Established statistical reporting system …

Economic and fiscal policy analysis can only deliver meaningful insights if the underlying national and European statistics alike are compiled in a complete, reliable and transparent manner. The European System of Accounts (ESA) is a harmonised reporting system, with Member States providing comprehensive sets of quarterly data in a timely manner. The ESA catalogues the various revenue and expenditure items for the government sector, with the balance being shown as net lending (+) or borrowing (-) as defined in the national accounts. The Maastricht debt level of Member States is likewise calculated and disclosed according to a harmonised set of standards.

… would need to be supplemented by data for the European level

Comparable data have not yet been made available for the European level, but it would be important to do so, given the plans for the European level to incur deficits and debt on a substantial scale. Like the Member States, the European level needs to provide a complete set of national accounts data in a timely manner following the same classification criteria. Similarly, the Maastricht debt level and fiscal balance should be disclosed in Eurostat's press releases together with the national indicators. Any methodological issues should be ironed out by the same bodies that already ensure that national data are harmonised and quality-assured. In addition to the EU budget and the NGEU and SURE instruments, any other government activity at the European level would also need to be reported, showing the financial links to Member States. In the integrated national accounts system, the corresponding government revenue and expenditure items at the European level should match those reported at the Member State level. Another important point is to include the European level in the data on EU and euro area aggregates. The final decision adopting the NGEU programme should include a clause requiring the relevant statistical information to be made available in the future.

Supplement national fiscal indicators by adding information on the European government sector

Allocation creates transparency

There now follows an example of how national fiscal indicators could be supplemented by disclosures on the European government sector. Since it is based on what currently appear to be plausible assumptions for the European level, the expected magnitude can be visualised for particularly relevant indicators.

Allocate European debt to Member States

Report and allocate European debt as a supplementary disclosure item

Debt at the European level is ultimately the responsibility of the Member States. For instance, they underwrite the debt, commit to servicing that debt through contributions to the EU budget, or stand ready to inject additional capital into the ESM. For these reasons, European debt should be taken into account for analytical purposes; depending on the issue being

analysed, it may also make sense to allocate them proportionally to the individual Member States.[7]

Allocate existing and …

This applies to the EU debt already accumulated by end-2019,[8] which came to just over €50 billion and is linked to balance of payments assistance to non-euro area countries, assistance from the European Financial Stabilisation Mechanism (EFSM) established during the financial and debt crisis, and financial aid to third countries. This is topped off by debt of just over €110 billion from the ESM (end-2019) which was used to grant assistance loans to euro area countries.[9]

… new European debt …

Another point is that, according to current budget plans, European debt is set to rise sharply this year and in the years thereafter.

– By the end of October, the European Commission had already borrowed €17 billion for the SURE programme. This figure could come to €30 billion by the end of the year, and the total volume of €100 billion could be disbursed by the end of 2021.

– With regard to NGEU assistance loans, the 18 Member States that have applied for SURE assistance loans to date could conceivably also take out NGEU loans to the largest extent permitted (6.8% of national GDP). Most of the maximum volume of €360 billion (at 2018 prices) would thus be taken up. It could be distributed according to a schedule similar to that for the NGEU grants.

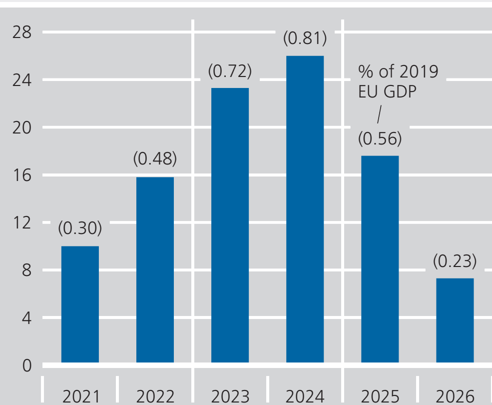
– The payment of the NGEU grants and the associated debt (around €390 billion at 2018 prices) will depend on how the national plans are implemented. The European Commission had assumed that outflows would rise fairly continuously until 2024 before falling again rapidly (see the chart above).[10]

– With regard to the timeline of the NGEU programme the planned annual price adjustment of 2% should be taken into account (for more information, see footnote 5). By the end of 2026, this would culminate in a total volume of debt of just over €820 billion at current prices.

– As ESM credit lines have not yet been used to finance COVID-19 response measures, the analysis does not include any additional European debt stemming from this.

NGEU* grant payments: possible time profile

As a percentage of total resources



* Next Generation EU.
Deutsche Bundesbank

7 The Maastricht debt level is a gross figure and also reports debt which is matched by financial assets. Financial assets can be included in more in-depth analyses. For European debt, these would be European financial assets (such as claims on Member States).
8 The debts from the European Financial Stability Facility (EFSF) are attributed to the Member States. For the purposes of the national accounts, it is assumed that EFSF loans are not granted by the EFSF, but by the Member States. Equally, it is assumed that Member States will refinance themselves via loans from the EFSF. In this way, the debts from the EFSF are already captured in the Member States' national debt.
9 The recipient countries' debts vis-à-vis the ESM amount to €90 billion.
10 The European Commission outlined the potential timeline for the disbursement of the Recovery and Resilience Facility (RRF) grants in its proposal of May 2020. By contrast, this article assumes that 10% (rather than just under 6%) of the grants will be up and running in 2021, and that all grants will be disbursed to the Member States by the end of 2026 (rather than 2028), which is what the European Council had agreed. See European Commission (2020a), p. 40, and Council of the European Union (2020), p. 9 and p. 11. No information is available about the envisaged timeline for the non-RRF grants. For the purposes of the calculations performed in this article, they are distributed according to the same schedule as the RRF grants. The country shares expected by the European Commission sometimes differ from the share for RRF grants. See European Commission (2020b, 2020c, 2020d).

… to Member States according to GNI share

To allocate this European debt to the Member States for analytical purposes, a distribution key first needs to be established. In terms of EU debt, a country's share of financing in the EU budgets is a key factor. It is likely to remain broadly the same as a country's share of EU gross national income (GNI).[11] According to this, around one-quarter of European debt would be allocated to Germany. In the scenario described above, by 2026, this would amount to more than €280 billion, or around 8% of GDP of the year 2019 (including the ESM).[12]

Allocate European deficits to Member States

European deficits and surpluses should likewise be allocated to the Member States for greater transparency

Deficits at the European level create a definite – rather than just a potential – future burden for Member States. It is therefore particularly important to take these into account when interpreting national indicators. This can be demonstrated using an illustrative example. The EU could borrow 10% of EU GDP and use these funds to disburse equally tranched grants to Member States over a period of four years. This would reduce their national deficits in each of these four years by around 2½% of their GDP. A glance at the national indicators alone would overstate the fiscal situation for this period. Although the deficits would have been shifted to a different level, this would not ease the burden on taxpayers. Shifts such as this could also hollow out those fiscal rules that target the national indicators. This would be the case, for example, for the 3% ceiling on national budget deficits under the Stability and Growth Pact.[13]

Markedly higher deficit ratios at times, owing to allocating burdens from NGEU grants

Specifically, because of the NGEU grants (according to the assumptions outlined above), deficits of around €430 billion or 3% of EU GDP of the year 2019 are planned at the European level.[14] The deficit would be highest in 2024, at over €110 billion, or 0.8% of GDP of the year 2019. In turn, each Member State would then be allocated around 0.8% of the relevant GDP figure, according to its share of funding in the EU budget.[15] Around €30 billion would be allocated to Germany in 2024, for example.

Measure fiscal stance more accurately

The fiscal stance …

Besides the deficit and the debt level, the fiscal stance is an indicator that is commonly used in analyses.[16] It is designed to show whether fiscal policy in a given year has been eased or tightened compared to the year before. It is often measured as the annual change in the cyclically adjusted primary balance,[17] which is the fiscal balance (deficit or surplus) excluding interest expenditure and cyclical influences.

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11 Deviations from this are the result of agreed contribution rebates. See Deutsche Bundesbank (2020c). For the sake of simplicity, these will be disregarded below. The financing shares could well change in the future, for instance in connection with the introduction of a new tax harmonised across the EU. With regard to ESM debt, the current ESM capital key of the euro area Member States would apply. This is based primarily on a country's share of euro area GDP. Population size and special clauses are also taken into account. See ESM (2020).
12 As usual, the allocated NGEU debt is expressed over GDP, while the distribution key is based on GNI. On balance, however, the ratios are largely identical for most countries. As is the case for the Maastricht debt level, the calculations here refer to gross debt. However, it should be borne in mind that some countries are in receipt of assistance loans that are included in the national debt level and that capital has already been injected into the ESM. There are several ways to take this into account when fine-tuning the calculations.
13 In the repayment phase of EU debt (surplus at the European level), the budgetary rules would inversely oblige Member States to commit to a more frugal fiscal policy than would be the case when including the EU level.
14 There is no (marked) deficit in the ESM.
15 The actual ratio depends on the extent to which GDP differs from that of the base year 2019. Moreover, the results of some countries may differ (slightly) from the EU-wide figure. This is the case for Ireland, for instance. In the example figures selected, the deficit ratio rises by 0.2 percentage point less because Irish GDP is markedly higher than GNI.
16 See, for example, European Commission (2020e), p. 58, and European Fiscal Board (2020).
17 In other analyses, the fiscal stance is also measured as a change in the structural primary balance. This is calculated by excluding temporary policy measures as well as cyclical components and interest expenditure. In addition, both the change in the structural and in the cyclically adjusted primary balance ratio are often used as an indicator of fiscal consolidation or easing. In the European rules, this is measured by the change in the structural balance.

… is often used to assess the impulse from fiscal policy

The fiscal stance is also interpreted as an impulse which emanates from fiscal policy to macroeconomic developments. The term "expansionary fiscal policy" is used, for example, when the cyclically adjusted primary balance falls compared to the previous year. This happens, for instance, if cyclically adjusted primary expenditure rises faster than cyclically adjusted revenue. It is then assumed that fiscal policy stimulates economic activity. Conversely, a rise in the cyclically adjusted primary balance tends to have a dampening impact on the economy. It may be the result of tax increases or spending cuts, for example.

Special factors distort the indicator

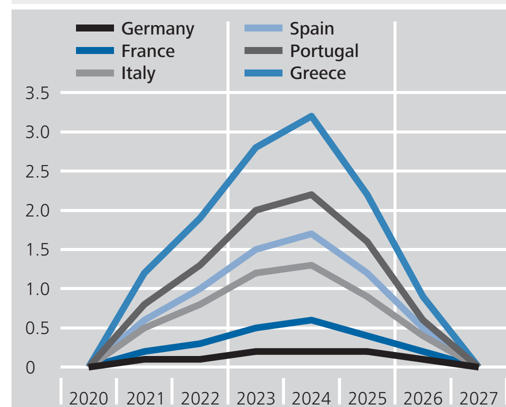
The indicator is calculated on the basis of the national accounts balances for the relevant years. In the case of NGEU grants, however, the resulting picture is distorted in terms of the cyclical impulse. If, for instance, a Member State receives large NGEU grants for the first time in 2021, this will increase the national balance compared with the previous year (revenue and expenditure being otherwise unchanged). This means that the cyclically adjusted primary balance in 2021 will also be higher than in 2020, and the fiscal stance for 2021 is measured as being restrictive. However, the grants received from abroad (the EU) do not have a dampening effect on national economic activity. This is because no domestic resources are withdrawn, as would be the case, for instance, if higher government revenue were the result of an income tax hike. If the NGEU grants decrease over time, national deficits will increase in themselves without triggering an expansionary stimulus.

NGEU grants should be disregarded, …

If the fiscal stance is to indicate how fiscal policy stimulates the domestic economy, the logical next step would be to exclude the NGEU grants received. For some countries, the difference from the unadjusted figure may be considerable in some years. For example, the fiscal stance for Greece in 2021 – based on the above-mentioned assumptions (see the chart on p. 41) – is looser by around 1% of GDP after NGEU grants have been deducted. The corresponding figure for Germany, which is expected to receive relatively small grants, would amount to just 0.1% of GDP. For the euro area as a whole (like in the EU), the fiscal stance would therefore be 0.3 percentage point looser than in the absence of adjustment for the aggregated national balances.

Expected NGEU* grants to Member States

As a percentage of each country's national GDP in 2019



* Next Generation EU.
Deutsche Bundesbank

… as should countries' financial relations with the EU budget overall …

Obtaining the best possible indicator of the fiscal stance as an economic stimulus is not achieved solely by adjusting for NGEU grants. Member States' other financial relationships with the European level can also skew the fiscal stance indicator. This is the case if a Member State's net position with regard to the EU budget fluctuates strongly from year to year. In the past, this has been fairly significant for some Member States. In view of this, adjustments would have to be made not only for NGEU grants received, but also for all revenue and expenditure vis-à-vis the EU budget.

… and with the rest of the world as a whole

An even more extensive and accurate approach would be to adjust for all the revenue and expenditure flows of the country in question with the rest of the world. However, fluctuations beyond those in connection with the EU budget are often likely to be rather small. To reliably gauge the impact of public finances on economic activity, numerous additional factors would also have to be taken into account;

"Fiscal stance" as an indicator of the fiscal impulse on economic developments

Definition and usage

The impact of fiscal policy on macroeconomic developments is a topic of interest for economic policy. An indicator often used for the fiscal impulse is the change in the cyclically adjusted primary balance of general government (as defined in the national accounts). Automatic stabilisers (cyclically induced balances) and government interest expenditure are factored out of the general government fiscal balance in the cyclically adjusted primary balance.[1] The change in the cyclically adjusted primary balance is also known as the "fiscal stance". If the relevant government revenue falls, or if expenditure rises, the balance decreases, all else being equal. According to this definition, the fiscal stance would then be described as "expansionary" or "loose". The opposite developments would be described as "restrictive" or "tight". This indicator is frequently used for fiscal policy analysis, which also forms the basis for policy recommendations.

From an analytical perspective, the fiscal stance is an indicator that provides an initial approximation, relative to the previous year, of the impulse of government finances on overall economic developments. However, the concrete macroeconomic repercussions of this impulse can only be estimated with a considerable degree of uncertainty. Amongst other things, they depend on which government revenue and expenditure categories change as well as on the circumstances. Furthermore, the cyclical development of the government budget deducted from the indicator can be evaluated differently depending on the estimation method used. In times of heightened uncertainty in particular – such as the ongoing coronavirus crisis – this can result in significant differences with regard to the fiscal stance indicated for a given country.

Impact on gross domestic product dependent on a variety of factors:

Underlying categories of revenue and expenditure

Identical changes in different categories of general government revenue and expenditure can have different effects on macroeconomic developments. Most analyses, for example, come to the conclusion that increases in government expenditure generally provide greater stimulus to the economy than tax cuts of the equivalent volume.[2] Fiscal policy can therefore have an impact on gross domestic product (GDP) even if the fiscal stance indicator reports neutrality.

In this context, the impact of individual categories is often subject to debate. The estimation is dependent on both the exact specifications of the analyses and the prevailing circumstances. For example, it is difficult to gauge how assistance for banks or for enterprises that were closed for a time due to the pandemic stabilises economic activity over the short term.

By contrast, payment flows with other countries mostly have a minimal impact on domestic economic developments. A strong

1 To a large extent, the fiscal stance is a reflection of measures actively taken by general government (such as tax increases or expansions in investment). For this reason, it is often seen as a yardstick for the active loosening or tightening of fiscal policy. However, other influencing factors can also shape the fiscal stance (such as rising pension expenditure due to a growing number of pensioners). The fiscal stance also captures temporary factors that only have an impact on the balances for a limited period of time. These may include fiscal policy measures (e.g. a one-off child bonus) as well as factors outside the control of fiscal policy, such as tax refunds as a result of court rulings. Temporary influencing factors have neither a positive nor negative impact on the fiscal outlook over the long term. Instead, their impact on macroeconomic developments depends on the specific circumstances in each case.
2 See Gechert (2015).

case can be made, then, for adjusting the fiscal stance indicator for these payment flows if they fluctuate significantly over time (see also p. 46).

Timing inconsistencies

Timing inconsistencies also play a key role in the impact of fiscal policy on GDP. For instance, a fiscal policy impulse occurring today often influences macroeconomic developments only after a certain amount of time. A reduction in income tax could, for example, be reflected in a lagged response of private consumption – especially if consumers are initially uncertain about their individual relief. On the other hand, the impulse could also take effect before the payment flows, for example if enterprises are provided with more generous depreciation allowances.

Cyclical conditions

Depending on the underlying cyclical conditions, a fiscal policy impulse can have different effects. For example, it is generally likely to have a stronger impact on real GDP if production capacity is not fully utilised. In the event of overutilisation, by contrast, a fiscal policy impulse would instead lead more to price inflation than to greater real growth. The monetary policy response is also important: in general, an opposing reaction is often likely (given a non-binding zero lower bound on interest rates), as an expansionary fiscal policy impulse causes inflation to rise, all else being equal. If this dampening effect does not materialise, the fiscal policy impulse has a stronger impact.

Other underlying economic conditions

In addition, other, country-specific factors can have an influence on the impact of a fiscal policy impulse.[3] For example, an expansionary impulse will probably be less effective if government solvency is subject to doubt. Under such circumstances, private investment, amongst other things, is hindered by potentially rising risk premia that spill over into the private sector as well as by heightened uncertainty overall.[4] An economy with a high import ratio would also be likely to show a weaker response to a fiscal policy impulse than a more closed economy. Furthermore, propensity to save among the general public influences the effects of the impulse. For example, for populations with high saving ratios, additional disposable income resulting from an expansionary impulse only leads to a limited rise in consumption.

Formation of expectations

Last but not least, expectations play a role. Amongst other things, these are influenced by communication. For example, if the announcement that a reduction in value added tax will be limited in time is considered credible, households will expect prices to rise again at a later point in time and bring their consumption forward accordingly. However, if new government borrowing is interpreted primarily as an indication that the future tax burden will be heavier, an intended expansionary impact can fizzle out in the form of additional private saving.

Conclusion: Indicator should be interpreted with a high degree of caution

The “fiscal stance” indicator provides a broad impression of the impulses of fiscal policy on short-term economic developments. The informative value of the indicator can be improved by adjusting it for categories of revenue and expenditure that fluctuate more strongly and that clearly have only a limited influence on the economy. These can include general government payments to and from abroad. Beyond this, however, the impact of fiscal policy on macroeconomic developments still depends on a number of additional factors. The indicator should therefore be interpreted with caution.

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3 See Ilzetzki et al. (2013).
4 See Blanchard and Zettelmeyer (2018).

however, this would, for its part, increase computational complexity. In any case, the fiscal stance indicator should generally be interpreted with caution (see the box on pp. 44 f.).

Conclusion

Extensive European debt …

Fiscal policy has been playing a significant stabilising role during the coronavirus crisis. Besides national measures, European assistance mechanisms have been set up at the price of accumulating large-scale European debt and deficits. These are not usually envisaged, and are therefore also only intended to be temporary.

… should be taken into account in fiscal analyses

The new dimension which European debt and deficits have taken on means that they need to be taken into account in fiscal analyses. Existing national indicators (such as the Maastricht deficit or Maastricht debt) do not capture European debt and deficits and will therefore no longer be fit for purpose in the future. This presents a number of risks, one being that the resulting burdens might go unnoticed. That could increase the incentive to shift ever more debt from the national level to the European level, and propensity to borrow could increase.

Transparency and statistical reporting are vital

In terms of fiscal and economic policy analysis, it is important for government activities at the European level to be statistically recorded in a comprehensible manner using relevant national accounts data. This has not been the case so far and should form part of the final decisions. One priority should be timely disclosure of the Maastricht debt and fiscal balance at the European level. This would allow European deficits and debt to be allocated to the Member States for the purposes of economic and fiscal policy analysis. They should also be taken into account in the fiscal rules. Moreover, the fiscal stance indicators for the Member States and the EU aggregate as well as for the euro area as a whole could be compiled and presented in a more suitable manner. This would place associated policy recommendations on a sounder footing, for example.

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