FinUnions

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EU fiscal rules must be reformed rapidly

- **The debt rule must be abandoned**
- **The deficit rule should allow for public investments**
- **Current account management more strongly involved in the regulatory framework**

FinUnions' member organizations SAK and STTK consider it necessary to reform the rules of EU fiscal policy. Even before the COVID-19 crisis, the European Commission began reforming its debt and deficit rules, but the work was not completed.

During the COVID-19 crisis, fiscal policy rules have been shelved. Instead of returning to the old regulatory framework, we need to move to comply with revised rules after the crisis. The current rules have proved to be pro-cyclical, reinforcing economic fluctuations when they should instead support counter-cyclical fiscal policies.

The debt rule must be abandoned. Following the COVID-19 crisis, it is unrealistic to return to the public debt ceiling of 60% of GDP. It is difficult to find an economic justification for the ceiling of the debt rule, and it is not even necessary to achieve it in the near future.

The deficit rule should make public investments possible. The 3% of GDP deficit rule set out in the Maastricht Treaty can serve as a basis for a new regulatory framework, but it must exclude public investments. This will ensure that the public sector has the opportunity to revitalize and sustain investments even in recessions. This follows the so-called the golden rule that investments should be financed with debt and current expenditure with income over cyclical fluctuations.

Deficit rules also need to be simplified. The definition of a structural deficit is uncertain and often changes over time. For this reason, rules based on a structural deficit should be abandoned.

Current accounts at the heart of the new regulatory framework. Current account imbalances were largely the cause of the Eurozone crisis. Rules based on current account management should therefore be significantly strengthened. Current account deficits and surpluses should be treated symmetrically, for example by requiring the 3% deviation to be invested in the European Investment Fund.

Additional information:

- Katja Lehto-Komulainen, Director, FinUnions, tel. +32 492 41 61 17, katja.lehto-komulainen@finunions.org
- Anni Marttinen, Economist, SAK, tel. +358 40 765 8584, anni.marttinen@sak.fi
- Patrizio Lainà, Chief Economist, STTK, tel. +358 40 583 4432, patrizio.laina@sttk.fi