

**THEMATIC  
MACRO POLICY**



**Didier BOROWSKI,**  
Head of Macro Policy Research,  
Amundi Institute

*The new governance proposed by the Commission goes in the right direction, but risks of failing are high*

**When fiscal policy puts the European institutions under pressure**

After several months of informal negotiations, the European Commission proposed on 9 November a reform of the Stability and Growth Pact (SGP) to be debated. Only the broad outlines of the reform have been presented. The Commission has deliberately left the most politically sensitive details open. The reform of the fiscal rules must thus be adopted next year.

**While investors’ eyes remain riveted on the timing and extent of the ECB’s monetary policy normalisation** (key rates and balance sheet), **it is on the fiscal policy side that tensions are most acute among Europeans.**

The ‘general escape clause’ made it possible to suspend the fiscal rules of the SGP during the Covid-19 crisis. With the war in Ukraine, this safeguard clause was extended until 2024, allowing European states to implement stabilisation measures without any institutional constraints.

At the same time, a consensus emerged that the rules of the SGP needed to be reviewed. Many proposals were on the table. After several months of informal negotiations, **the European Commission proposed on 9 November a reform of the SGP to be debated.** The Commission calls for “*a simpler and integrated architecture for macro-fiscal surveillance to ensure debt sustainability and promote sustainable and inclusive growth*”.

**Only the broad outlines of the reform have been presented.** The two fundamental pillars of the pact have been maintained (a public deficit limited to 3% of GDP and a debt-to-GDP ratio below 60%). However, these numerical targets are no longer binding: the focus has shifted to the medium-term adjustment and the ‘one-size-fits-all’ approach is de facto abandoned. The aim is to avoid pro-cyclical fiscal policies, which is good news.

**In practice, it would be up to each country to define its own debt and deficit reduction path,** instead of the current uniform rules. The idea is to empower member-states. The Commission would present each member-state with a debt adjustment path over a

period of four years, with an additional three years warranted to countries whose public debt exceeds 60% of GDP, provided that they commit to structural reforms and strategic growth-enhancing investments.

**The new framework should address current challenges and help make Europe more resilient** by reducing public debt ratios in a realistic way without sacrificing strategic investment spending. **The Commission proposes to play a greater role in assessing national budgetary plans.** Two difficulties arise here: firstly, this process presupposes calm negotiations between each state and the Commission. What will happen in the event of disagreement? The second difficulty, linked to the first, lies in the typology that will be adopted. Which criteria will be used to differentiate among countries? **The Commission has deliberately left the most politically sensitive details open.** The problem posed is anything but new: how can northern countries be reassured about debt sustainability if indebted countries are given too much leeway to avoid pro-cyclical policies or the sacrifice of necessary spending.

**Divisions remain deep in the Eurozone concerning this reform.** The four-to-seven-year adjustment period for countries that ‘break’ the rules to put their debt on a permanent downward trajectory is considered too lax by the Germans. Germany has proposed that an independent budgetary watchdog should replace the Commission to analyse debt sustainability independently and make recommendations. This proposal has little chance of being accepted by other member-states.

**A new governance architecture**



Source: Amundi Institute, European Commission, as of 24 November 2022.

THEMATIC  
MACRO POLICY

---

*The Commission has deliberately left the most politically sensitive details open*

---

**Meanwhile, the ECB is concerned about the lack of coordination of fiscal policies.**

Governments must continue to support the fight against inflation, but they should not stimulate demand. This is the '3Ts rule' presented by Christine Lagarde: budgetary measures must be Temporary, Targeted, and Tailored. The fact is that they are insufficiently targeted. Moreover, countries need to align their fiscal policies and energy support measures better with the monetary policy stance. Otherwise, the ECB may have to raise its key interest rates further (i.e., more than currently expected) to anchor inflation expectations.

**At present, divisions prevail and a deadlock cannot be completely ruled out.** Long months of negotiations lie ahead. The Commission is due to receive comments from member states by the beginning of 2023. It is unlikely that the Europeans will reach an agreement quickly. However, they need to agree as soon as possible on the main principles and best practices for fiscal support, because, at the end of the day, the current approach may not only lead to undesirable results on inflation, but may also prove incompatible

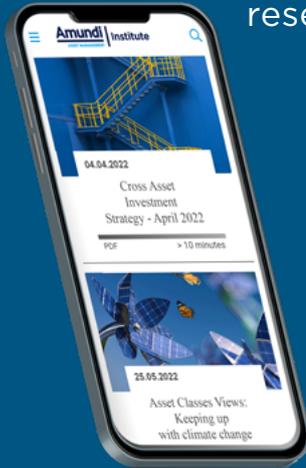
with medium-term debt sustainability. **Discussions on the fiscal policy stance in the Eurozone are expected to take place** in the context of the discussions on the reform of the EU's SGP **at the 5-6 December Ecofin meeting.**

**The general escape clause will be deactivated at end-2023. The reform of the fiscal rules must thus be adopted next year,** before the summer. It may be necessary to agree not to clarify everything and to allow the Commission some flexibility in the way it applies the rules, rather than adding complexity to a reform designed to simplify the existing SGP.

**An agreement on the new fiscal governance architecture would pave the way for joint issuance of EU debt** (for loans) to mitigate the energy crisis. The SURE (Support to mitigate Unemployment Risks in an Emergency) programme could serve as a model. Set up in 2020 to avoid mass unemployment following lockdowns, it has been a great success with investors and has proven very effective. It has particularly benefited the most indebted Eurozone states.

*Finalised on 24 November 2022*

Find out more about  
Amundi publications  
[research-center.amundi.com](https://research-center.amundi.com)



Emerging Private Equity  
Money Markets Find Monetary  
Foreign Top-down Policies  
Exchange Corporate Equities Bottom-up  
Sovereign Bonds High Forecasts  
ESG Quant Fixed Income Yield Real Estate  
Investment Strategies Asset Allocation

#### IMPORTANT INFORMATION

This document is solely for informational purposes.

This document does not constitute an offer to sell, a solicitation of an offer to buy, or a recommendation of any security or any other product or service. Any securities, products, or services referenced may not be registered for sale with the relevant authority in your jurisdiction and may not be regulated or supervised by any governmental or similar authority in your jurisdiction.

Any information contained in this document may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices.

Furthermore, nothing in this document is intended to provide tax, legal, or investment advice.

Unless otherwise stated, all information contained in this document is from Amundi Asset Management SAS and is as of 30 November 2022. Diversification does not guarantee a profit or protect against a loss. This document is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The views expressed regarding market and economic trends are those of the author and not necessarily Amundi Asset Management SAS and are subject to change at any time based on market and other conditions, and there can be no assurance that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, a security recommendation, or as an indication of trading for any Amundi product. Investment involves risks, including market, political, liquidity and currency risks.

Furthermore, in no event shall any person involved in the production of this document have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

Date of first use: 2 December 2022

Document issued by Amundi Asset Management, "société par actions simplifiée"- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GPO4000036 - Head office: 90-93 boulevard Pasteur - 75015 Paris - France - 437 574 452 RCS Paris - [www.amundi.com](http://www.amundi.com)

Photo credit: ©MDelporte - iStock/Getty Images Plus - Charles O'Rear

#### Chief editors

**DEFEND Monica**, Head of Amundi Institute  
**MORTIER Vincent**, Group Chief Investment Officer

#### Editors

**BERTINO Claudia**, Head of Amundi Investment Insights & Publishing  
**FIOROT Laura**, Head of Investment Insights & Client Division

#### Amundi Institute contributors

**AINOUZ Valentine**, Head of Global Fixed Income Strategy, CFA  
**BERARDI Alessia**, Head of Emerging Macro and Strategy Research  
**BERTHON Jean-Baptiste**, Senior Cross-Asset Strategist  
**BERTONCINI Sergio**, Senior Fixed Income Research Strategist  
**BOROWSKI Didier**, Head of Macro Policy Research  
**CESARINI Federico**, Head of DM FX, Cross Asset Research Strategist  
**DI SILVIO Silvia**, Cross Asset Research Macro Strategist  
**DROZDZIK Patryk**, Senior EM Macro Strategist  
**GEORGES Delphine**, Senior Fixed Income Research Strategist

#### Amundi Investment Platforms contributor

**ZHAO Ethan**, Credit Analyst

#### With Amundi Investment Insights contribution

**CARULLA Pol**, Investment Insights and Client Division Specialist

#### Conception & production

**BERGER Pia**, Communication Specialist  
**PONCET Benoit**, Communication Specialist

Marketing material for the exclusive attention of professional clients, investment services providers and any other professional of the financial industry

#### Deputy editors

**BOROWSKI Didier**, Head of Macro Policy Research  
**PANELLI Francesca**, Investment Insights and Client Division Specialist  
**PERRIER Tristan**, Macroeconomist and Investment Insights Specialist

**HERVÉ Karine**, Senior EM Macro Strategist  
**HUANG Claire**, Senior EM Macro Strategist  
**PANELLI Francesca**, Investment Insights and Client Division Specialist  
**PORTELLI Lorenzo**, Head of Cross Asset Strategy, Head of Research at Amundi Italy  
**ROSENBERG Anna**, Head of Geopolitics  
**USARDI Annalisa**, Senior Economist  
**VARTANESYAN Sosi**, Senior Sovereign Analyst

**DHINGRA Ujjwal**, Investment Insights and Client Division Specialist