



Secretariat issues note

National automatic stabilisers in the euro area

As part of its thematic discussions on growth and jobs, the Eurogroup of 1 October will discuss the role of national 'automatic stabilisers' within the economic and monetary union. Public finances play an automatic stabilising role when deficits respond at unchanged policies to the economic cycle – mostly due to the cyclical behaviour of revenues. The stabilising properties of national public finances are one of the available means to overcome economic shocks, which is of particular relevance for Member States that cannot rely upon their own monetary and exchange rate policies, as is the case in the monetary union.

Analysis by the European Commission shows that public finances in the EU already provide a significant degree of automatic stabilisation of the economy, but that the situation differs markedly between Member States. Economic modelling shows that the degree of progressivity of taxes and benefits affects the strength of automatic stabilisers, together with the overall size of cyclical expenditures and revenues. Moreover, the stabilisation properties of these policies are more relevant, the quicker expenditures and revenues react to cyclical developments in the economy. However, policy setting may face a trade-off between achieving a strong degree of stabilisation and achieving other policy objectives, such as allocative efficiency.

When the economy is hit by a particularly large shock, automatic stabilisers may prove insufficient. Discretionary fiscal tightening, counteracting the effects of automatic stabilisers, can become necessary, particularly – but not only – in Member States with weaker fiscal positions. For this reason, building fiscal buffers during good economic times, as required under the SGP, is an important first line of defence. National automatic stabilisers are part of a continuum of economic structures and policy settings that determine how shocks are addressed, including: adjustment capacity in product, labour and capital markets; and the extent of private risk sharing across borders through the financial system. The efficiency of national automatic stabilisers is also relevant in the context of discussions on stabilisation instruments at central level.

Issues for discussion

- How can automatic stabilisers best be enhanced, in full respect of national prerogatives in the area of fiscal policy?
- How can automatic stabilisers best be taken into account when designing reforms of the tax and benefits systems?
- What can be done to address shocks in cases where automatic stabilisers are not enough?