

(English version)

**Question for written answer E-001956/24
to the Commission**

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Subject: Debt sustainability analysis framework

Debt sustainability analysis (DSA) plays a key role in the reformed EU fiscal rules. DSA is used to assess how much fiscal adjustment is required to ensure that the public debt ratio is on a plausible downward trajectory. For the first round of ‘reference trajectories’ submitted to Member States in June 2024, the Commission used its existing DSA framework based on the last Debt Sustainability Monitor. It assumes a constant short-run fiscal multiplier of 0.75, a fast dissipation of the output effect of fiscal adjustment, and that fiscal consolidation efforts by trading partners do not spill over into domestic economic activity.

Against this background:

1. Can the Commission provide a justification for these assumptions?
2. How does the Commission justify its hypothesis according to which fiscal adjustment by a given government only affects domestic economic activities and does not spill over into other countries, considering its oft-repeated emphasis on the importance of accounting for how individual fiscal stances affect the euro area aggregate as a whole?
3. Can the Commission explain whether including spillover effects into other countries in the methodology could alter the results of the DSA, and if so, how?

Submitted: 4.10.2024

Answer given by Mr Gentiloni on behalf of the European Commission
(28 November 2024)

The 0.75 average value for the fiscal multiplier is supported by the empirical literature ⁽¹⁾ and is a technical assumption that has been used for many years in the Commission's debt sustainability analysis (DSA).

When submitting their plans, Member States could depart from this technical assumption provided that they specify with sufficient detail the composition of the planned fiscal adjustment that justify this departure, in line with the empirical finding that multipliers can differ depending on the type of fiscal measure enacted.

Possible spill-over impacts could be factored in in the plans submitted by Member States. It is also worth noting that, under the new EU fiscal framework, fiscal policies will be more differentiated by taking into account the public debt and economic challenges of each Member State.

As provided for by Regulation 2024/1263 ⁽²⁾, a working group on debt sustainability analysis has been established to explore possible methodological improvements.

⁽¹⁾ Other than Carnot N. and De Castro F., 2015, ‘The Discretionary Fiscal Effort: an Assessment of Fiscal Policy and its Output Effect’, European Commission, Economic Papers, n°543; see also for instance: Gechert S., 2015, ‘What fiscal policy is most effective? A meta-regression analysis’, Oxford Economic Papers, n°67; Klein M. and Winkler R., 2018, ‘The Government Spending Multiplier at the Zero Lower Bound: International Evidence from Historical Data’, University of Antwerpen, research paper, n° 2018/1; Le Garrec G. and Touzé V., 2020, ‘Le multiplicateur d'investissement public une revue de littérature’, Sciences Po OFCE Working Paper, n° 28/2020.

⁽²⁾ <https://eur-lex.europa.eu/eli/reg/2024/1263>