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# DSA with and without crises

Insights from a simplistic simulation exercise

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# Debt sustainability analysis – light and shadow

- Potentially lower revision intensity than former framework
- Still complaints about being too demanding (e.g. Darvas et al. 2024)
- Long run perspectives are highly uncertain (Larch and Busse 2024)
- “Debt Sustainability Assessment: Mission Impossible” (Wyplosz 2011)

# Even the demographic outlook is uncertain...

The German example:

Currently, the EU commission expects more than 10 million inhabitants more for 2040 than in the year 2012

	2020	2030	2040	2050	2060	2070
2024	83,9	85,3	85,2	84,8	84,3	84,2
2021	83,1	83,4	83,2	82,6	81,8	81,7
2018	83,8	84,6	84,1	82,6	80,7	79,2
2015	80,6	79,7	77,7	74,5	70,8	
2012	80,0	77,7	74,6	70,6	66,2	
2009	81,5	80,2	77,8	74,5	70,8	

Population forecasts for Germany (in millions).

Source: Ageing reports of the European Commission

*A further source of uncertainty*

**Will the rules be enforced all the time?**

# 23% of the time fiscal rules were abandoned in the euro area



**Particularly volatile times?**

**German perspective: oil crises (70s) and reunification (early 90s)**

**What about future crises?**

**And what does this mean for fiscal surveillance in the EU?**

# Impact of crises on DSA?

- During crises structural deficits can increase -> neglected so far
- What happens to the structural budget balance in times of crises?
- *The GDP effect of crises may be implicitly included*
  - » *lower long run growth via potential growth estimates based on a crisis-affected past*
  - » *but...*

# Digression: impact of crises on growth perspectives

*no further consideration here*

The German example again:

<b>Ageing report</b>	<b>Growth 2030</b>	<b>Revision</b>
2024	0.70	0.02
<b>2021</b>	<b>0.68</b>	<b>-0.28</b>
2018	0.96	0.27
2015	0.69	0.19
<b>2012</b>	<b>0.50</b>	<b>-0.80</b>
2009	1.30	

Growth forecasts for Germany.

Source: Ageing reports of the European Commission

# Structural budget balances in times of crises

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Cyclical adjusted	-2,5	-2,2	-3,1	-4,3	-5,1	-3,6	-2,4	-1,4	-1,1	-0,9	-0,9	-1,2	-0,9	-1,2	-3,8	-4,6	-4,2	-3,6	-2,8
Structural					-4,3	-3,6	-2	-1,3	-0,9	-0,8	-0,9	-1,1	-0,8	-1	-3,7	-4,6	-4,1	-3,6	-2,7
Difference to last year under control (CA)				-1,2	-2,0										-2,6	-3,4	-3,0	-2,4	
Difference to last year under control (struc.)					-1,2										-2,7	-3,6	-3,1	-2,6	
Difference to previous year (CA)				-1,2	-0,8										-2,6	-0,8	0,4	0,6	
Difference to previous year (struc.)															-2,7	-0,9	0,5	0,5	

In times of crises (fiscal rules not enforced) structural budget balances are alleviated.

During Corona stronger effect as in the financial crisis, however 2008 already higher deficit.

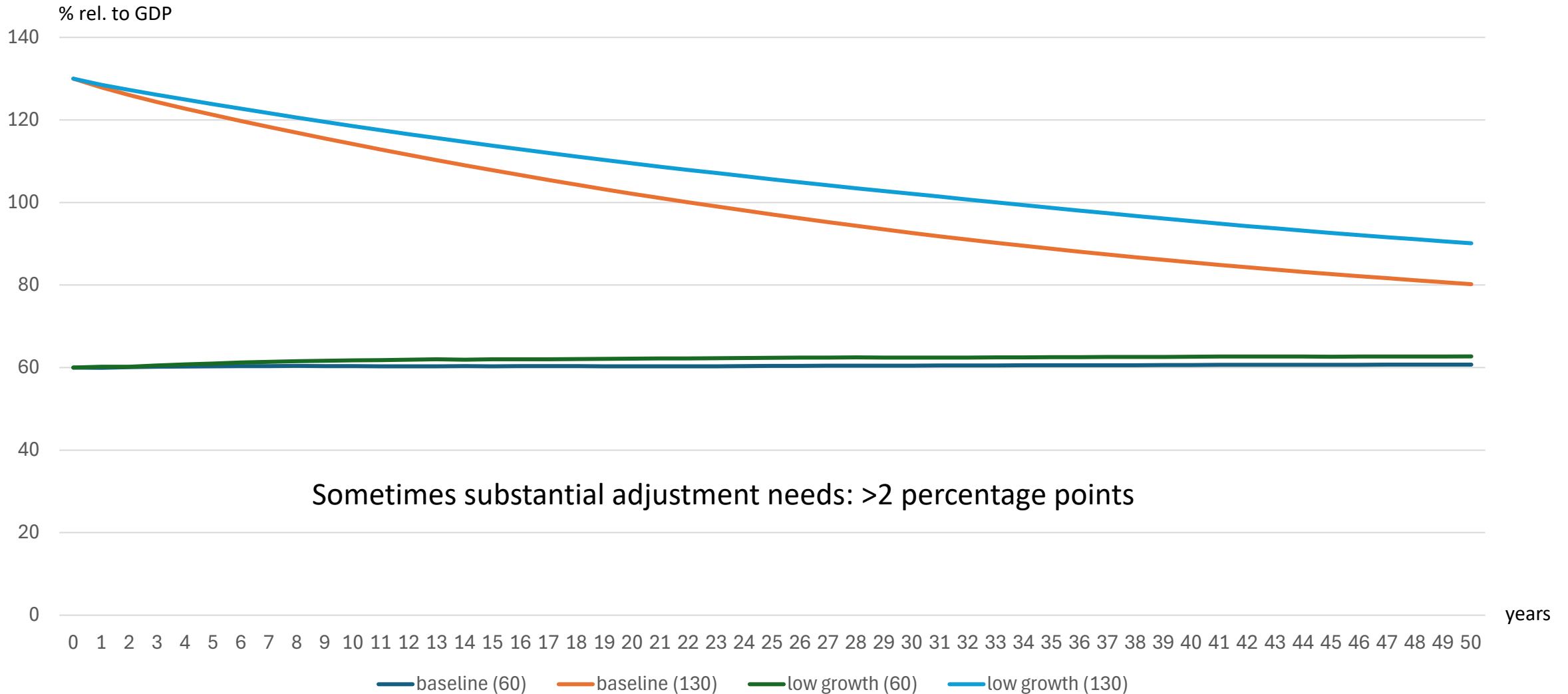
During the financial crisis, budget balance was affected by one-offs not reported by AMECO.



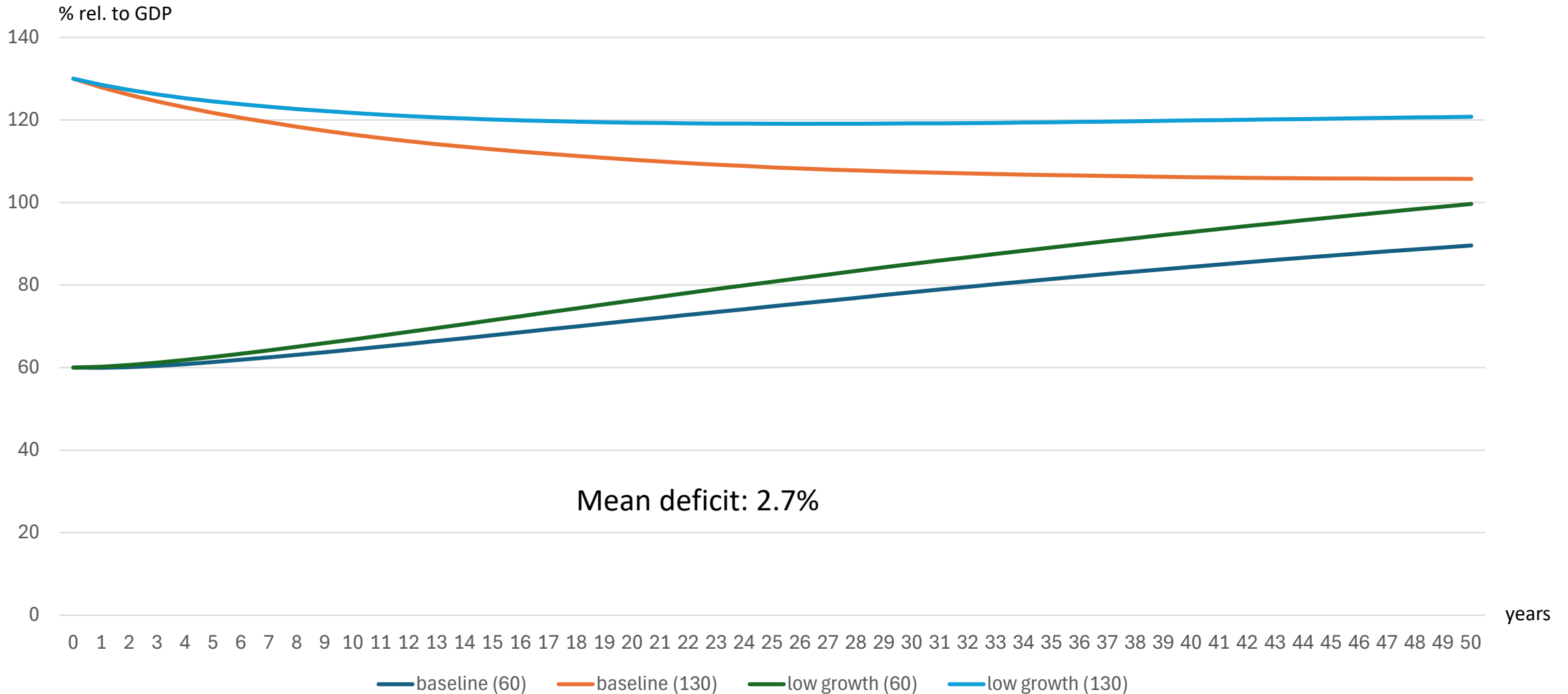
## A very rough simulation study

- Fiscal policy will obey the safeguards
  - » Structural budget balance -1.5% [I.]
  - » Debt reduction if above 60% by 0.5 pp (90% by 1 pp) [II.]
- „Normal“ adjustment steps of 0.4 pp (first safeguard)
- GDP growth of 3% (baseline) and 2.5% (low growth)
  - » No business cycle fluctuations
- Debt level at the beginning: 60% and 130%
- Crises (two years in a row) are present about 15% of the time (stochastic)
- Structural budget balance increases 1.9 pp in the first year and 0.5 pp in the second year of the crisis
- For comparison: only safeguard I.

# Debt levels with both safeguards (50 years)



# Debt levels with single safeguard (50 years)



# Conclusion

- Simple simulation study shows need to think about crisis incidence in DSA.
- Debt safeguards could guarantee 60% in the long run.
- However, resulting adjustment steps can be extremely demanding.
- *If self-defeating austerity is an issue hair cuts may be, too.*

Many thanks for  
your attention!

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