DSA Session Discussion
FIFTH ANNUAL EFB CONFERENCE
BRUSSELS - MAY 11, 2023

Nathaniel Arnold
IMF Deputy Representative to the EU
Debt Sustainability Analysis

- **Best tool available** for assessing debt sustainability risks (IMF, ECB, EC)
  - Stochastic analysis + scenarios on specific risks
  - Variety of risks over different horizons
  - Inform fiscal policy → help make sustainable with high probability
  - Some aspects require professional judgement
Using the DSA

• More comprehensive assessment of risks → more complexity
  • But complexity ≠ opacity

• Results will depend on forecasts and assumptions
  • Need for realism and prudence
  • DSAs frameworks should check these

• Transparency on methodology, forecasts, assumptions, and conclusions

• Embed DSA in broader macroeconomic framework
Rethinking the policy framework and DSA

- **Corsetti**: Need for rethinking broader policy framework
  - Lessons from crises
  - Fiscal and monetary policy interaction
  - Strengthen EMU architecture
  - Implications for DSA
Monetary policy and the DSA

- **Alberola**: Incorporate monetary policy in DSA, incl. QE (novel)
  - Quantitative analysis of PEPP effect on sovereign yields
  - Impact of PEPP unwinding on borrowing costs/debt sustainability
  - Important to factor into long-run DSA assumptions
  - Winding down of APP reinvestments?
DSA in the Commission’s reform proposal

• DSA plays important role in determining country-specific adjustment
  • Needs to deliver **sufficiently prudent MT anchor**

• **Long-run forecasts and assumptions** critical
  • Checks on realism/optimism bias in forecasts and assumptions?
  • Risks related to projections of aging related spending pressures?

• **Transparency** is essential
  • Publish the Excel files (incl. assumptions, stress tests) → allows independent assessment of implementation

• **Bolster role of NFCs** in assessing fiscal risks and DSA

• Role for an **independent** European Fiscal Board?
Thank you