Agreeing a post-independence currency union:

Are there fiscal rules that Scotland can follow to satisfy UK concerns?

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AGREEING A POST-INDEPENDENCE CURRENCY UNION:
ARE THERE FISCAL RULES THAT SCOTLAND CAN FOLLOW TO SATISFY UK CONCERNS?

EXECUTIVE SUMMARY

This Analysis Paper considers what fiscal rules a Scottish government could put forward that might help to allay the technical fears of the UK government with regards to a possible currency union. (However, it does not assess whether a sterling area currency union is the best currency option for an independent Scotland).

UK government objections

In his letter to the UK Chancellor of the Exchequer in February 2014, the Permanent Secretary to H M Treasury laid out the four concerns he had over entering a currency union post-independence.

Objection 1: The Scottish government is still leaving the option open of moving to a different currency option in the longer term.

Any currency union will most likely involve a degree of 'looseness', on the grounds that if extreme events occur then one party might want to reconsider its position and perhaps leave. However, the Scottish government could give a clearer commitment to the desirability of such a currency union over the longer term, perhaps through it being enshrined in any new Scottish Constitution, or to be put to a referendum vote.

Objection 2: Scotland's banking sector is so big, in relation to its national income, that the continuing UK would end up bearing most of the liquidity and solvency risk.

This objection might be addressed by having common supervisory rules and standards and a deposit guarantee scheme that applies to the financial sector across the sterling area currency union. This would help to minimise the risk of any large UK tax payer subsidy being required. However, such rules will never be strong enough to eliminate all risk of further financial disruption and the need for financial support. As such, agreeing to this approach remains a decision for the UK government, and will be dependent on its perception of the costs and benefits of a formal currency union with Scotland.

Objection 3: There is 'asymmetry' in relation to the fact that the UK would be at risk of providing taxpayer support to the Scottish financial sector if it got into trouble but that the reverse would not be possible due to the relative sizes of each economy.

This objection refers to the degree to which asymmetry implies a risk of Scotland 'free riding' on the back of UK support. This issue is known as the problem of moral hazard; what stops the Scottish government from downplaying the risky implications of its own policies on the financial sector, where it could gain from higher taxes in the good times but then seeks to share bailout losses in the bad times. Overcoming this objection could again involve the introduction of common, or very similar supervisory standards applying across the currency union.

Objection 4: The risk that fiscal policy in Scotland and the rest of the UK would become increasingly misaligned in the medium term.

This suggests that there would be a greater risk of the rest of the UK missing its proposed fiscal targets because Scotland adopted a different fiscal policy stance relative to the rest of the UK. There is a considerable difference of opinion between the two governments on Scotland's future fiscal and debt position. However, for the Scottish government to deal with this objection, it will need to agree to uphold all pre-agreed rules on both the budget deficit and debt level targets irrespective of the fiscal outcome.

Scottish government-appointed Fiscal Commission Working Group proposals

The Scottish government-appointed Fiscal Commission Working Group (FCWG) has suggested there should be a fiscal sustainability agreement between the members of the Sterling area. It recommends rules "*to govern the short to medium term path for net borrowing*"; and to "*govern the medium to long-term limit on net debt*" and that these might be similar to, or even tougher than, those proposed by the UK government.

Bank of England Governor's comments

Mark Carney has said that the Bank of England will operate to the best of its ability within whatever system politicians end up choosing, but if both governments want such a system to work they need to pay heed to key factors that he outlined.

Academic and publics views

Responses to a variety of surveys suggest that there is scope for an agreement over a currency union that would not, at this stage, be overwhelmingly opposed by either experts or the general public. But, at present, such scope only allows for <u>the possibility</u> of such a currency union not for the certainty that such a union would ultimately receive majority approval.

Further issues

Even if agreement on a currency union were to be seen as viable in principal, there are many further difficulties that would need to be resolved. These include negotiations over Scotland's debt-related payments and responses to how markets react to any such currency union details.

Conclusions

Our analysis suggests that the HM Treasury objections to any post-independence currency union would place considerable obstacles in the way of a newly independent Scotland achieving one. However, these objections may be overcome should the Scottish government agree to:

- a common regulatory framework and supervisory standards applying across the currency union;
- a clear support framework to operate in times of crisis;
- adherence to UK government fiscal targets.

The cost to Scotland of such a currency union agreement with the UK government is likely to be:

- severe restrictions in Scotland's ability to run its own monetary policy AND set its overall fiscal targets;
- possible policy restrictions on setting its own tax rates (eg Corporation tax);
- regulatory restrictions that are likely to have a severe limit on Scotland's ability to have a unique financial sector, as opposed to a regional version of that operating in London.

While the Governor of the Bank of England and the Permanent Secretary of the UK Treasury accept that, in theory, such a currency union is possible, at present, UK politicians have effectively ruled out such a currency union under any conditions.

In the end, any such agreement over a currency union will not depend solely on rational economic arguments but on the political negotiations by the two governments as well as, and perhaps more importantly, on how the international financial markets react to whatever might ultimately be proposed and view it as being in Scotland's long term interests.

INTRODUCTION

This Analysis Paper considers what fiscal rules a Scottish government could propose, along with ancillary institutional commitments, that might help to allay the technical fears of the UK government with regards to a possible currency union.

In doing so we consider:

- the four concerns laid out by the Permanent Secretary to H M Treasury (Sir Nick MacPherson) in his letter to the UK Chancellor of the Exchequer in February; and

- the recommendations made by the Scottish government-appointed Fiscal Commission Working Group (FCWG) on possible future fiscal rules for Scotland.

What this paper does <u>not</u> do is:

- consider whether a sterling area currency union is the best currency option for an independent Scotland;

- consider such a currency union within the wider negotiations that would take place between the two governments in the event of a YES vote;

- consider the purely political aspects that may sway any possible agreement over a formal currency union.

AREAS OF CONCERN TO THE UK GOVERNMENT

In a letter to the Chancellor of the Exchequer, accompanying the Treasury's assessment of a sterling currency union, the Permanent Secretary of H M Treasury, Sir Nick MacPherson, outlined four reasons that underlie why he "*would strongly advise against a currency union as currently advocated*".

In brief, these were:

- First, the Scottish government is still leaving the option open of moving to a different currency option in the longer term, ie, the use of sterling is most likely to be a transition arrangement to another unspecified currency arrangement.

- Second, Scotland's banking sector is so big, in relation to its national income, that the continuing UK would in effect bear most of the liquidity and solvency risk of the Scottish banking sector as it would be too large to be supported by Scottish taxpayers alone.

- Third, there is 'asymmetry' in relation to the fact that the UK would be at risk of providing taxpayer support to the Scottish financial sector if it got into trouble but that the reverse would not be possible due to the relative sizes of each economy.

- Fourth, there is a high degree of risk that fiscal policy in Scotland and the rest of the UK would become increasingly misaligned in the medium term, and so effectively undermining the economic conditions that provided the rationale for the development of the proposed formal currency union. The Permanent Secretary pointed to recent spending and tax commitments by the Scottish government to highlight this, which were at odds with the UK government's current austerity plans and related fiscal targets.

Based on the assumption that these four issues reflect the UK government's concerns over a potential currency union post-independence, this paper addresses what commitments a Scottish government might need to give in order to allay such fears.

ADDRESSING THE OBJECTIONS

Objection 1:

The Scottish government is still leaving the option open of moving to a different currency option in the longer term.

Any currency union will most likely involve a degree of 'looseness' from the participants, on the grounds that if extreme events occur then one party might want to reconsider its position and perhaps leave. Even if no such consideration was made explicitly, such a threat is implicit in any currency union.

Presumably neither the UK government nor the Scottish government would want to make a cast iron commitment to such a currency union, as either side may decide at some future date that such an arrangement is not in their best interests.

Where the Permanent Secretary's point may be more pertinent is with regards to whether the Scottish government is simply using such an arrangement as a staging post, or if it were to continually broach the subject of dissolution, thus upsetting market expectations and introducing greater risk and uncertainty.

Such a view is encouraged, to some extent, in the Fiscal Commission Working Group's (FCWG) paper[1], which states "*Retaining Sterling would be a practical option for Scotland immediately post-independence….Over the medium term it may well be in Scotland's interests to move to an alternative arrangement, should either the performance of the Scottish economy change or the preferences of the people of Scotland change*."

It could be argued that this statement simply represents a common sense approach that should be followed by both parties in such a currency union. Alternatively, it could be seen as a lack of commitment on behalf of one of the partners. The degree of perseverance with which the current Scottish government is pursuing such a currency union suggests it is very committed to the idea, for now at least. The remaining imponderable is how long this political enthusiasm would last.

In order to satisfy this challenge, it may be that the Scottish government has to give a clearer commitment to the desirability of such a currency union over the longer term. However, it is not in the current Scottish government's remit to give such a long term commitment. Its likelihood could be reinforced if it were to be enshrined in any new Scottish Constitution, which would then take an Act of Parliament to revoke, or to be put to a referendum vote.

The example of the euro suggests that once in a currency union then the participants will go to great lengths not to break up such an arrangement.

Objection 2:

Scotland's banking sector is so big, in relation to its national income, that the continuing UK would end up bearing most of the liquidity and solvency risk which that size creates.

This objection might be addressed in large part by having common supervisory rules and standards and a deposit guarantee scheme that applies to the financial sector across the sterling area currency union[2]. That should result in the Scottish sector being no more at risk than the rest of the UK (RUK)

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[1] See the Annex in the FCWG's first paper, 'Assessment of Key Currency Options'

[2] Whether such common standards might extend to the rates at which taxes are set is a little discussed point at present. For example, within such a currency union would a UK government be willing to accept Scotland undercutting the UK level of corporation tax by 3p, as is currently proposed? The answer is likely to be no if the UK government thought that this would result in a noticeable loss of its own tax revenues.

sector. It should also mean that, theoretically, the risk of any large tax payer subsidy is minimised as the UK government have in place rules and practices that would stop such an event occurring.

However, the reality is that such rules will never be strong enough to rule out all risks of further financial disruption that could lead to government intervention and financial support. As such agreeing to this approach remains a decision for the UK government to make, and will be dependent on its perception of the costs and benefits of such a formal currency union.

Any such costs will be highly dependent on the structure of the still to be finalised future UK banking arrangements, and on how the financial risks attached to these arrangements are perceived by the respective governments and regulatory bodies put in place. Unfortunately, as this stage such a revised framework is still a 'work in progress' and we cannot give a definitive answer to this question[3].

Overall, this is an area that remains far from clear and further and on-going negotiations are likely to be needed as the full UK, EU and international picture emerges over time.

Objection 3:

There is 'asymmetry' in relation to the fact that the UK would be at risk of providing taxpayer support to the Scottish financial sector if it got into trouble but that the reverse would not be possible due to the relative sizes of each economy.

In a sense this objection is related to the previous one, a problem in relation to the relative sizes of the two financial sectors.

However, while objection 2 relates to the asymmetric relationship in terms of how much each government could help out the other in a crisis, this objection considers more the degree to which this asymmetry implies a risk of free riding on the back of such support. This issue is known as the problem of moral hazard ie, what stops the Scottish government from downplaying the risky implications of its own policies on the financial sector, where it would gain in the good times via increased tax revenues, but then seeks to share any bailout losses in the bad times?

This is a tricky area as moral hazard tends to be implicit rather than explicit. For example, there was, and still is, moral hazard involved in the current banking system in most countries as banks know that if they fail they will most likely be bailed out by the relevant government. While banks will not explicitly make more risky decisions based on this presumption, nevertheless it can lead to such behaviour as decision makers are unconsciously factoring this 'free support' element into their calculations. This can result in more risky investments being undertaken than would otherwise be the case.

Again, overcoming this objection would probably involve the introduction of common supervisory standards applying to the financial sector across the currency union, or at least very close co-ordination over such matters. The aim being that no such 'free rider' effect exists and that any remaining moral hazard is symmetric between the two financial sectors in Scotland and in the RUK.

[3]One important aspect of this issue will be the degree to which the operations of Scottish financial sector companies are held to be the responsibility of the country in which the company is headquartered or the country in which a branch or wholly-owned subsidiary of the company is operating. If it is the first two of these options then a higher risk of UK taxpayer subsidy will exist. If it is the latter then there may be little difference pre versus post-independence. Hence, it may be that much of the risk resides in the RUK regardless of whether Scotland is an independent country or not, as the majority of a 'Scottish' banks business is undertaken in the RUK.

Objection 4:

The risk that fiscal policy in Scotland and the rest of the UK would become increasingly misaligned in the medium term.

The main implication of this final point appears to be that there would be a greater risk of the RUK missing its proposed fiscal targets because Scotland adopted a different fiscal policy stance relative to the RUK and that this would undermine the currency union and have further market-related, repercussions.

The Permanent Secretary pointed to recent spending and tax commitments by the Scottish government to highlight this, suggesting that the scope for future disputes between the two governments involved could undermine the currency union. As the Permanent Secretary puts it, "*If the dashing of Scottish expectations were perpetually blamed on continuing UK intransigence within the currency union, relations between the nations of these islands would deteriorate, putting intolerable pressure on the currency union*."

Given past experience of strongly diverging views on fiscal matters, this appears to be a legitimate concern. However, if new rules are agreed, and if these rules are consistent with the RUK's fiscal rules, then the scope for such arguments could be minimised.

THE UK'S EXISTING FISCAL RULES

What are the UK's existing rules and how well might an independent Scotland be placed to fulfil them?

The UK government has currently set itself two targets:

- a <u>medium-term fiscal</u> mandate to balance the cyclically-adjusted current budget by the end of a rolling, five-year period, which is now 2018-19; and
- a <u>supplementary target</u> to see public sector net debt falling as a share of GDP in 2015-16.

The Office for Budget Responsibility (OBR) is tasked with judging whether the UK government is likely to meet these fiscal targets. In its latest analysis[4], the OBR judges the UK government has a greater than 50 per cent chance of meeting the fiscal mandate, but that it is not on course to achieve the supplementary target. (See Box 1 for more on the track record of governments in sticking to their own fiscal rules over time.)

Whether Scotland would be in a better or worse position with regards to these two targets very much depends on the treatment of two contentious issues:

- Scotland's share of existing UK debt, and the related annual debt payments; and,
- Scotland's share of North Sea oil and gas related tax revenues.

Based on the UK government's assumptions, using the OBR's estimate of North Sea revenues and a population share of debt, then Scotland would be in a worse position on both.

Based on the Scottish government's assumptions, using higher estimates of North Sea revenues and a share of debt that could goes as low as zero, then Scotland could be in a better position on both fiscal rules.

[4] See OBR (March 2014), 'Economic and Fiscal Outlook'.

Despite the variation in views on Scotland's future fiscal and debt positions, the salient point at issue is whether, regardless of the fiscal outcome, the Scottish government sticks to any agreed rules with regards to the budget deficit and debt level targets agreed as part of any currency union.

If it does agree to do this then, in terms of objection 4, any differences in future forecasts of Scotland's public finances becomes largely irrelevant, although the markets may still view them with interest.

Box 1

Targets, rules and reality

The history of fiscal rules is largely one of failure when faced with a pessimistic reality. For example, prior to the financial problems that started in 2008, the UK government had a clear target for debt levels; as a % of GDP it should not rise above 40%. However, this target was soon dropped, in the face of large annual fiscal deficits and a growing debt burden.

Equally, the EU had clear rules over the maximum size of any annual deficit (3% of GDP) and of debt as a % of GDP (up to 60%), as outlined in the Maastricht Treaty criteria. These were abandoned when the scale of the deficit and debt problems became apparent across the Euro countries. Even before 2008, the degree to which the EU applied its rules was not strict, with long term members, like France, breaching the limits without penalties being imposed.

VIEWS OF THE SCOTTISH GOVERNMENT-APPOINTED FISCAL COMMISSION WORKING GROUP (FCWG)

In its fullest assessment of fiscal rules[5], the Scottish government-appointed Fiscal Commission Working Group (FCWG) commented that "*fiscal rules can play a vital role in promoting fiscal sustainability*", and went on to highlight the merit in:

- a first rule "*to govern the short to medium term path for net borrowing*"; and
- a second rule to "*govern the medium to long-term limit on net debt*".

It also suggested there should be a fiscal sustainability agreement between the members of the Sterling area to help ensure that net debt and government borrowing in an independent Scotland and the rest of the UK do not diverge significantly. This means that "*overarching fiscal rules, in principle should be applied consistently, while allowing each member to take a flexible approach to decisions over the level and composition of their tax systems and public spending*."

The FCWG also hinted that Scotland's fiscal rules might be similar to, or even tougher than, those proposed by the UK government. It suggests that "*in the transition period …Scotland could adopt similar fiscal rules..(to)..ensure that both countries operated under broadly similar parameters during the transition period*". It then went on to say "*the Scottish Government could then complement these rules with its own national fiscal rules which reflected Scotland's economic circumstances, such as the contribution of North Sea oil and gas production to the country. This should also reflect a greater commitment to fiscal responsibility than past UK governments*."

At first sight these statements suggest that the fiscal rules envisioned by the FCWG are likely to be in line with those currently proposed by the UK government, though this would need to be spelt out much more clearly.

[5] Fiscal Commission, 'Fiscal Rules and Fiscal Commissions', November 2013

Finally, the FCWG's statement about a 'transition period' would also need to be more clearly understood or the markets may test the long-term sustainability of any currency union from day one.

In other areas of relevance, the FCWG has recommended that[6]:

- *"Scotland establish an independent authority to oversee financial conduct regulation",* and that *"key supervisory standards underpinning prudential regulation should be discharged on a consistent basis across the Sterling Area";*

- *"lender of last resort facilities and crisis management responses be co-ordinated and discharged on a shared basis"*

However, no detail has been forthcoming on exactly what such 'sharing' might amount to.

VIEWS OF THE BANK OF ENGLAND

In a speech in Edinburgh in January of 2014, Mark Carney gave "*a technocratic assessment of what makes an effective currency union between independent nations*".

This first area of importance highlighted was the free movement of labour, capital and goods in such a union, in line with the 'five tests' formulated by the UK government to analyse the merits of joining the euro in 2003. In general terms, he judged these markets to be highly open and integrated between Scotland and the rest of the UK.

The second feature of a successful currency union is seen to be a banking union that involves a wide range of institutions to support an integrated and efficient financial sector. These include:

- common supervisory standards;
- access to central bank liquidity and lender of last resort facilities;
- common resolution mechanisms; and
- a credible deposit guarantee system.

Mr Carney concluded that "*a durable successful currency union requires some ceding of national sovereignty*" and that "*it is likely that similar institutional arrangements would be necessary to support a monetary union between an independent Scotland and the rest of the UK.*" However, Mr Carney pointed out that "*decisions that cede sovereignty and limit autonomy are rightly choices for elected governments and involve considerations beyond mere economics*".

In effect, Mr Carney was saying the Bank of England will operate to the best of its ability within whatever system politicians end up choosing, but if those governments want such a system to work they need to pay heed to key factors, as outlined above.

SCOTTISH GOVERNMENT'S CONCERNS OVER UK GOVERNMENT ACTIONS

While there may be grounds for the UK government to have concerns over Scottish government's fiscal policy, the reverse may also apply. In some senses there may be as much, if not more, danger to Scotland of a UK government changing policy tack.

[6] Fiscal Commission Working Group, 'The Economic Foundations of an Independent Scotland', speech by Crawford Beveridge, August 2014

For example, if an RUK election resulted in a change of government that introduced significantly different fiscal rules, then the Scottish government might well simply have to accept these, even if there had been little in the way of prior consultation.

The Scottish government would no doubt make its views known on what fiscal rules it thought were appropriate at that time. However, with Scotland accounting for less than one-tenth of both the UK's population and its GDP, this would not leave it in a very strong bargaining position.

As Scotland would be the smaller partner in such a currency union and as the OBR and the Bank of England would presumably be largely charged with helping meet whatever targets an RUK government set, then Scotland's ability to diverge from whatever a UK government was doing could be severely curtailed.

In contrast, the ability of any subsequently newly elected Scottish government to push through a shift in its own fiscal rules is likely to be much more constrained.

PLAUSIBILITY: THE ACADEMIC AND PUBLIC VIEWS

The willingness of the two governments to negotiate over a currency union may also be affected by expert views of its viability and by the public's view of its desirability.

Academic view

The belief amongst economists over whether such a currency union is viable is reflected in the views expressed to the Centre for Macroeconomics in a recently conducted survey.

In answering the question "*Do you agree that Scotland would be better off in economic terms as an independent country?"*, only 1 economist of the 28 who expressed an opinion agreed.

However, in answer to the question "*Assuming that Scotland becomes an independent country, do you agree that the UK government's position of ruling out a monetary union is in the economic interests of the continuing UK?"*, a much larger share (40% of the 34 economists who expressed an opinion), said that they believe it is in the continuing UK's economic interest to have such a currency union. While a majority still believe it was not in the UK's interests, it appears to be the case that academic views are much more split on this question.

Public's view

Within Scotland there appears to be a clear preference for the maintained use of sterling, with the latest British Social Attitudes Survey finding that 79% of Scots would like an independent Scotland to continue to use the pound, although only 57% think that an independent Scotland would end up using the pound.

In the same survey, 69% of English and Welsh said that Scotland should either definitely or probably be able to keep using the pound.

However, such views can vary depending on the panel surveyed and the question asked. For example, a Populus survey undertaken on behalf of the Financial Times (June 2014) found that 68% of those surveyed in England and 59% in Wales opposed an independent Scotland being able to continue using the pound. The latest such survey[7] found voters in England oppose an independent Scotland sharing the pound by more than two to one: 53% to 23%.

Finding an explanation for these differing survey results could involve:

[7] Yougov, 'Future of England' survey, August 2014,

- the full wording of the question influencing the public's response;

- the course of the debate may be changing people's views on this matter.

Responses to these surveys suggest that there is scope for an agreement over a currency union that would not, at this stage, be overwhelmingly opposed by either experts or the general public. But such scope only allows for <u>the possibility</u> at present of such a currency union, not for the certainty that such a union would ultimately receive majority approval.

UNDER-EXPLORED ISSUES

This paper has concentrated on how the Permanent Secretary's objections might be overcome. However, even if agreement on a currency union were to be seen as viable in principle, there are many further difficulties that would need to be negotiated and resolved.

For example:

- assuming that Scotland did take some share of the UK's national debt, what interest rate would be appropriate for Scotland to pay on this debt and over what time scale would it be repaid?

- how might any new Scottish borrowing be raised and what interest rate might be attached to it?

- how might the markets view any proposed formal currency union arrangement, and, if viewed negatively, what might the subsequent reaction of the Scottish and RUK governments be?

- how might a dual regulatory arrangement, even with some commonality, be made to work in practice and can the markets get totally comfortable with such an arrangement?

- what would any common deposit guarantee scheme look like and will Scottish depositors be comforted with such an arrangement?

- how would any common 'lender of last resort' facility and crisis management support mechanism actually work and will financial companies and the markets have faith in them?

- the answers to these issues will then clarify whether a sterling area currency union would remain the preferred option for an independent Scotland or whether some other option (eg, its own currency), may actually be more appropriate.

So, until suitable answers to these, and probably more, issues are forthcoming, any 'agreement in principle' to a formal currency union between Scotland and the RUK would be very much a first stage agreement towards a fully effective and long-term sustainable working currency union.

CONCLUSIONS

This analysis suggests that the HM Treasury stated objections to any post-independence currency union would place considerable obstacles in the way of a newly independent Scotland achieving one. However, these objections may be overcome should the Scottish government agree:

- to a common regulatory framework and common supervisory standards applying to the financial sector across the currency union;

- to a clear support framework to operate in times of crisis;

- to current (and future) RUK government fiscal targets;

- that in the event of a worse than expected fiscal balance and/or debt position, this would not deflect a future Scottish government from sticking to the pre-agreed fiscal targets.

The cost for Scotland of such a sterling area currency union agreement with the UK government is likely to mean:

- severe restrictions in a Scottish government's ability to run its own monetary policy and overall fiscal targets;

- possible policy restrictions on a Scottish government setting its own tax rates (eg Corporation tax), when any such changes might lead to a loss of tax revenues to the RUK;

- regulatory restrictions that are likely to have a severe limit on Scotland's ability to have a unique financial sector, as opposed to a regional version of that operating in London.

A common currency union between Scotland and the RUK is only plausible if both sides recognise there are some benefits to such an arrangement and that these would outweigh any anticipated offsetting costs. Analysis by both governments agree that such potential benefits do exist, for example, in the field of reduced trading costs.

Equally, the Governor of the Bank of England accepts that such a currency union is possible. The Permanent Secretary implicitly does too, as his letter only advises against one "*as currently advocated*", not under any conditions.

However, at present, UK politicians have effectively ruled out such a currency union under any conditions, their rationale being that the potential benefits to the RUK are less than the potential costs.

In the end, any such agreement over a currency union will not depend solely on rational economic arguments but also on the political negotiations by the two governments and, perhaps just as importantly, on how the international financial markets react to whatever is ultimately proposed.

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