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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	OPINION of the European Economic and Social Committee - New economic governance rules fit for the future

Delegations will find attached the above-mentioned opinion.



OPINION

European Economic and Social Committee

New economic governance rules fit for the future

Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97
[COM(2023) 240 final – 2023/0138 (COD)]

Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure
[COM(2023) 241 final – 2023/0137 (CNS)]

Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States
[COM(2023) 242 final – 2023/0136 (NLE)]

ECO/622

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Referral	European Commission, 02/06/2023
Legal basis	Articles 121(6),126(14) and 304 of the Treaty on the Functioning of the European Union
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	08/09/2023
Adopted at plenary	21/09/2023
Plenary session No	581
Outcome of vote (for/against/abstentions)	175/3/2

1. Conclusions and recommendations

- 1.1 The EESC welcomes the several positive aspects of the proposed legislative package: the simpler and more transparent economic governance framework, the substantial reduction of the pro-cyclical bias, the improvement in national ownership and strengthened enforcement, the differentiation and more tailored fiscal adjustment path of each Member State (MS), based on a common-risk framework.
- 1.2 Thus, we call for a swift start to negotiations between co-legislators to achieve an agreed reform on this fundamental economic and fiscal governance path before the end of the current year and its implementation before next European elections. A solid, balanced, enforceable and predictable long-term framework is of upmost importance for the debt market too.
- 1.3 The EESC thinks that obliging any Member State with a budget deficit of over 3% to cut that deficit by an average of 0.5% of GDP annually, in all but exceptional circumstances, is likely to result in overly restrictive fiscal policies at a time when economies may be facing headwinds. It therefore proposes replacing this requirement with something more adaptable to Member States' specific circumstances, that should secure long term debt sustainability.
- 1.4 The EESC calls for public investment – at least on the green transition and defence – to be treated separately when deciding whether any excessive deficit procedure should be opened. This would allow all Member States to undertake the public investment needed to address the common priorities stated in the proposed legislative package.
- 1.5 The EESC believes that in due course, and by 2026 at the latest, the EU Member States should reach an agreement on establishing an EU fiscal capacity to meet at least some of the investment needs for common priorities and to allow Member States the fiscal space to meet the fiscal costs of the multiple transitions which do not qualify as investment. These include support to lower income households and smaller businesses so that they can meet the costs of the necessary climate mitigation and adaptation policies, such as higher carbon prices.
- 1.6 The EESC calls for a definition of public investment to be adopted which expands the eligible non-current public expenditure beyond the formation of fixed capital so that it includes the formation of natural and human capital allowing for public investment in green and social objectives, in line with the guidance issued by the European Commission to Member States for drafting their national Recovery and Resilience Plans, which implement the Recovery and Resilience Fund.
- 1.7 The EESC calls for further and in-depth scrutiny by the co-legislators, before the adoption of the new Regulation on of the Debt Sustainability Analysis (DSA) methodology, to avoid any unintended automatic consequences arising from new austerity policies, in particular considering the social impact of the measures to be eventually foreseen.
- 1.8 The EESC considers that sanctions under the Excessive Deficit Procedure should not be applied automatically, based on a division of countries into categories founded on public debt ratios.

- 1.9 The EESC is convinced that the "technical trajectory" should be first in the hands of national governments, subject to the opinion of independent national fiscal bodies, and, at a second stage, be the result of a technical dialogue with the European Commission in order to strengthen national ownership of the process.
- 1.10 The EESC reiterates its call for the social partners and civil society organisations to be involved in the proposed regulation, with an obligation for permanent and structured consultation procedures at the different stages of the new economic governance framework. The EESC and CoR should also be included in the "Semester dialogue".
- 1.11 National and the European Parliaments, each in their own sphere of action, have a role to play in the EU economic governance framework, to strengthen democratic accountability.

2. Background

- 2.1 On 26 April 2023, the Commission presented legislative proposals, namely two regulations and one directive, to reform the EU's economic governance rules, with the stated key objective of strengthening debt sustainability and promoting sustainable and inclusive growth through reforms and investment. To that end, the proposals aim to make the economic governance framework simpler and more transparent, improve national ownership and strengthen enforcement.
- 2.2 The proposed economic governance rules would be embedded in the European Semester. In this context of fiscal, economic and employment policy coordination, each Member State would have to submit a national medium-term fiscal-structural plan (FSP) that will spell out its fiscal, investment and reforms plan for the next four years at least, starting from its endorsement by the Council following a Commission recommendation, and under certain conditions for up to three more years if the Member State requests an extension of the programme.
- 2.3 The fiscal policy of a Member State would be summarised in the FSP by the evolution for the duration of the programme of the nationally-financed net primary public expenditure (NPPE). Member States would have to state in their FSPs how their NPPE would evolve over the duration of the FSP and this evolution would define their adjustment path of their fiscal policy in order to meet the requirement of maintaining sound public finances.
- 2.4 MS with a public debt ratio under 60% of GDP and budget deficit smaller than 3% of GDP would have to set their net public expenditure path so that it satisfies two requirements: first, that by the end of the adjustment period of their FSP, it results in the structural primary balance, that the Commission would have specified for them based on its Debt Sustainability Analysis framework (DSA). Secondly, that their general budget deficit is below the 3% of GDP reference value and, according to the Commission's forecasts, expected to stay so for the 10 years following the end of the FSP adjustment period without any additional policy measures.
- 2.5 For MS with public debt higher than 60% of GDP or a fiscal deficit greater than 3% of GDP, the Commission would propose in advance a so-called "technical trajectory", that is, a path for the Member State's NPPE for the adjustment period of the FSP. This technical trajectory would

have to meet certain requirements for bringing the public debt ratio on a "plausibly downward" path (assessed in the context of the Commission's DSA), the deficit below 3% and NPPE growth below the forecasted medium-term output growth.

- 2.6 Each MS, regardless of its debt ratio and public budget balance, would also propose in its FSP a set of reforms and investments and show how they would address the country-specific recommendations (CSRs) issued by the Council to each MS in line with the Broad Economic Guidelines and the Employment Guidelines and any recommendations issued under the preventive or corrective arms of the Macroeconomic Imbalances Procedure. The proposed reforms and investments should also address the "Common Priorities" of the EU and should be aligned with the ones planned under the national Recovery and Resilience Plans (NRRPs) of the MS.
- 2.7 A MS can request that the adjustment period of its FSP be extended by up to three years by proposing reforms and public investment for which it makes a case that, in addition to pursuing the above purposes, they would also enhance growth, support fiscal sustainability and result in higher nationally-financed public investment.
- 2.8 The legislative proposals also include a reform of the so-called "corrective arm" of the fiscal rules. Under the proposals, a public debt ratio above 60% would only be considered as "excessive" if net public expenditure deviates from the path set out in the endorsed FPS of the MS. This operationalisation proposes to link the compliance of a MS with the public debt fiscal rule with the DSA framework of the Commission. A budget deficit over 3% of GDP would require correction by 0.5% of GDP per year, unless there are Member-State-specific or EU circumstances justifying the activation of escape clauses.
- 2.9 MS should submit every year by mid-April their annual progress report on the implementation of their FSP instead of the annual national stability, convergence and reform plans.
- 2.10 The legislative package does not propose any changes that would substantially increase the role of the European or national parliaments, let alone of social partners and civil society organisations, in the preventive or corrective arms of the Stability and Growth Pact (SGP). By contrast, an enhanced role is introduced for national independent fiscal institutions ("fiscal councils") which would provide their independent opinion on whether a MS has been complying with the net public expenditure path set out in its FSP and if not, why.

3. **General comments**

- 3.1 The proposed fiscal reform arrives at a critical juncture where the EU is dealing with the impacts of subsequent and significant crises. The robust economic response to the COVID-19 pandemic, enabled by the activation of the "general escape clause" of the SGP, resulted in rising public debt ratios in almost all MS. This response has, however, been largely credited with a far faster and more solid economic recovery and showed one of the limitations of the current rules, namely when dealing with large shocks. Given the challenges lying ahead such shocks are likely to become the new normality.

- 3.2 Russia's invasion of Ukraine resulted in the energy crisis and brought back inflation rates unseen for decades, but also raised concerns as to how the EU should reinforce its defence capacity. Monetary policy across the world has moved away from the accommodating stance of several years. The war and the energy crisis have also brought into sharp relief Europe's need to rethink how to achieve energy security in the short- to medium-term and how to speed up its transition away from fossil fuels in the medium- to longer-term, for which large amounts of public investment would have to be put forward to crowd-in private investment.
- 3.3 The pandemic, the war and the EU's climate ambitions but also policy initiatives such as the US IRA have also led to a rethinking of the global supply chains upon which the EU's economic model has been relying, as well as its industrial policy, which now should be guided by the notion of "open strategic autonomy". The Commission has presented its *Green Deal Industrial Plan for the Net-Zero Age*. Additional public funding needs in climate and defence alone have been estimated at 1% of GDP per year¹. The EESC believes that energy, health, food, and geopolitical and defence security are common European assets and that economic governance and its fiscal rules should take these fundamental challenges and related transitions into account.
- 3.4 All these transitions are mentioned in the proposed reform as "common priorities". A pertinent question is how the different transitions can and should be financed, so as to preserve the foundations of the single market and support sustainable growth. Common priorities should be financed at least partly by common funds and not left to a larger use of State aid, based on the fiscal space of each MS, which would undermine the single market and the EU cohesion and convergence.
- 3.5 The EESC views positively the fact that the proposed economic governance framework allows for differentiation and tailoring in the fiscal adjustment path of each MS, following a common risk-based framework for assessing the sustainability of its public debt. In several cases, that should prevent the situation where fiscal policy aims to reduce public debt too fast and for too long, especially given the large differences in public debt ratios following the latest crises.
- 3.6 The EESC also commends the fact that net public expenditure is proposed to be the key indicator that defines the path of national fiscal policy, a variable which, unlike the structural budget balance before, is within the direct control of governments and which should simplify and make more transparent the EU multi-lateral budgetary surveillance.
- 3.7 The proposed rules aim at coordinating more closely the multilateral budgetary surveillance and macroeconomic imbalances procedures by incorporating and adjusting the policy actions necessary to comply with the recommendations that MS receive for each into one national plan, the FSP. That should in principle maximise synergies between preventing and correcting fiscal and other macroeconomic imbalances.

¹

Bruegel Policy Brief 10/23 (April 2023); Jeromin Zettelmeyer and others: *The longer-term fiscal challenges facing the European Union*.

- 3.8 Giving MS the opportunity to set up their own fiscal-structural plans combining fiscal, economic and structural policies over several years into coherent plans should improve the national ownership of and, hopefully, better compliance with these plans.
- 3.9 However, there is still the risk that some MS would be forced into fiscal austerity, that is, budget savings when their economies are slowing down or in recession, due to the requirement that they keep their general budget deficits below 3% of GDP at all but "exceptional" times, and when this reference value is exceeded, even during the adjustment period of a fiscal-structural plan, that they reduce their budget deficit by 0.5% of GDP per year. Neither is it reasonable that countries whose public debt is less than 60% of GDP and whose public deficit is above 3%, for conjunctural reasons, are obliged to reduce it at such a rate. The same risk is present due to the requirement that for MS with public debt ratio over 60%, this ratio would have to have declined already by the end of the FSP.
- 3.10 That is why the EESC disagrees with the mechanical application – irrespective of the debt indicator and any specific national circumstances such as progress in meeting common green and social priorities – of the deficit adjustment benchmark of 0.5% of GDP per year. This is a "one fits all solution" that goes against the logic of such a reformed framework. We do prefer more space for specific negotiations with each government concerned, to ensure a more solid and long- term debt sustainability.
- 3.11 The new pact on EU fiscal rules must strike a balance between sustainable growth and stability. As structural conditions in the economy put limits on growth, and stability depends on it, the EESC believes that sustainable growth drivers must be prioritised to ensure the sustainability of public finances in the medium and long-term.
- 3.12 The EESC regrets that despite acknowledging the importance of public investment, the proposed fiscal surveillance framework maintains through two safeguards significant pressure on Member States to build up fiscal savings as they implement their fiscal-structural plans, especially in the discretionary part of their budget, which includes public investment. All MS would need to manage their net public expenditure so that by the end of the adjustment period the general (headline) budget balance should be forecasted to remain below 3% of GDP in the 10-year period that follows even without any additional policy measures. Additionally, for MS with a public debt ratio over 60% or a budget deficit more than 3% of GDP, net public expenditure would have to grow by less than the (expected) medium-term output growth.
- 3.13 The only requirement regarding public investment levels in the proposed framework is that MS seeking an extension in the adjustment period of their fiscal-structural plans would get their request approved if, inter alia, they show that following the implementation of their plan the overall level of nationally financed public investment over the lifetime of the FSP would be higher than the medium-term level in the period preceding FSP. As public investment under the criterion is not measured as a share of GDP, this requirement would not even ensure that the size of public investment would grow with the economy, especially during times of slow growth.

- 3.14 These considerations leave open questions as to whether governments would have the capacity and the incentives to sustain the rate of additional investment necessary to meet other policy priorities such as the just transition to a climate neutral economic model and upwards social convergence, and others such as defence. That is why the EESC suggests different means to strengthen public investments: a) the technical trajectory has to specify that the government deficit is brought down or remains on a plausibly downward path towards the 3% of GDP reference value, and stays at prudent levels in the medium term while public investment as a share of GDP remains higher during the adjustment period compared to the start of the FSP; b) those MS that are subject to the deficit adjustment benchmark of 0.5 % of GDP, if maintained, should be allowed to exclude, from the calculation, growth- or resilience-enhancing public investments; c) if MS propose investment plans that are growth or resilience enhancing, an extension of the adjustment period should be granted.
- 3.15 Moreover, given the gap especially in public investment that several MS experienced in the 2010s, and insofar as public investment is important for building productive capital stock which affects medium-term output growth, some MS may become trapped in a vicious cycle whereby their net public expenditure, which includes investment, grows more slowly because of the investment gap they experienced earlier. This would be a bigger concern once the NGEU comes to its end.
- 3.16 Additional public investment will be necessary also to close the investment gap in social infrastructures, which is essential for building lifelong human capital. Investment in these areas will have to be sustained for decades given the EU ambition on climate change and challenges such as ageing population, while these are not even the only areas mentioned in the EU common priorities.
- 3.17 In light of the above, the EESC considers it necessary for the European institutions to address without delay the debate on creating their own fiscal capacity and increasing their budgetary resources beyond the current 1.1% of GDP, in order to finance European common goods with sustainable investments: the commitments arising from the development and implementation of "open strategic autonomy", boosting the productivity and competitiveness of European businesses, fair green and digital transitions, integration and training of new workers, implementation of the European Pillar of Social Rights, etc². Beyond 2026 – the end of the RRF – the EU needs to have strong and permanent common investment instruments in place. It should also be considered that the consolidation of a euro debt market strengthens the international role of our common currency and lowers the interest rate of European debt. The EESC underlines the recent ECB Opinion³ that recalls the need for a permanent central fiscal capacity of sufficient size in the longer run.
- 3.18 The EESC believes that in spite of the logic of long-term debt sustainability, more balance is needed between this and sustainable investments than is expressed in the legislative package. If

² The recent article [European public goods](#) (Buti, Coloccia y Messori (CEPR, 09/06/2023)) identifies six policy areas (digital transition, ecological transition and energy, social transition, raw materials, security and defence, and health) that respond to the main challenges facing the EU, and where common European goods should be selected and financed.

³ [Opinion of the ECB on a proposal for economic governance reform in the Union](#) (CON/2023/20), 5 July 2023.

there is no political space today for "golden rules" for investment, alternatives must be found in a different appreciation of debt linked to investment in structural changes and just transitions, in security and defence, in the EU's priorities in short, from that arising from other public expenditures. The purpose and quality of debt must be considered when agreeing national debt reduction trajectories.

- 3.19 While building up buffers to allow space for robust fiscal policy support when a shock hits the economy is in principle a sound practice, it is not clear how the optimal choice would be made between this need and facing other pressing policy challenges. This is of particular concern as the reference value of 3% of GDP for the budget deficit which tips the direction of policy in favour of fiscal savings is not based on any theoretical grounds for defining the sustainability of public finances.
- 3.20 A country's financial stability is not only related to its public spending trajectories, as well its quality that should support growth, but depends to a large extent on the adequacy of its tax revenues and tax fairness. The European institutions and Governments need to urgently promote tax fairness throughout the Union, starting by including it in the criteria for macroeconomic conditionality, promoting effective political action against unfair tax competition and encouraging the effective implementation of all necessary instruments to combat tax fraud and tax avoidance, money laundering and the corrupt use of public resources.

4. **Specific comments**

- 4.1 Given that the single market and the EU social market economy are the EU's greatest assets, the EESC considers that the FSPs should consider the competitiveness check of enterprises in decision-making, job creation and improved working conditions, as well as sustainable economic growth and social cohesion. The regulatory and fiscal framework has to support EU industry's international competitiveness and its ability to effectively drive the digital and green transition. The EESC supports a concept of competitiveness based on improved productivity, underpinned by technological innovation, training and qualifications of workers and their good working conditions, and respect for environmental sustainability⁴.
- 4.2 The EESC acknowledges the explicit mention of social priorities such as the implementation of the European Pillar of Social Rights in the list of common priorities that need to inform the FSPs. Given that recent adjustment programmes have had even a very severe impact on social cohesion, the EESC believes that FSPs should consider the social impact and social dimension of the measures in these programmes when considering debt reduction and fiscal adjustment. In this respect, the EESC recommends implementing the Social Imbalance Procedure as part of the reformed policy coordination system under the European Semester, which should complement existing monitoring processes and tools, thereby facilitating upwards social convergence⁵.

⁴ [OJ C 100, 16.3.2023, p. 76.](#)

⁵ [OJ C 228, 29.6.2023, p. 58.](#)

- 4.3 The EESC regrets that while the Commission states as one of the goals of the proposed reform the increasing of national ownership, it has left to the discretion of MS the extent to which the social partners would be involved in the design and implementation of the economic, employment and social policies which would be included in the FSPs. In the EESC's view, the FSPs should report on how stable and structured consultations with the social partners, civil society and stakeholders have been carried out and which of the results of these consultations have been considered in the plan, as well as in its review and evaluation. The new regulations should give legal expression to the ECOFIN Council conclusions of 14 March 2023, which underlined that "MS should systematically involve the social partners, civil society and other relevant stakeholders in a timely and meaningful way at all stages of the European Semester and the policy-making cycle, as this is key to the successful coordination and implementation of economic, employment and social policy".
- 4.4 The EESC reiterates its call for the involvement of the social partners and civil society organisations in the various stages of the European Semester to be regulated by a European regulation⁶ laying down the rights, principles and main characteristics on which it should be based, as summarised in the RRF regulation⁷. This obligation should be included in the proposed Regulation (COM 240/2023): first in Article 26 amending the generic reference to the involvement of social partners. Precise rules should also be added in Articles 11 and 12 (content and requirement of national medium-term fiscal structural plan), 14 (revision of the national plan) and 15 (assessment of the plans by the European Commission).
- 4.5 The EESC and the CoR should also be included in the European Semester dialogue at EU level (Art. 26); there is no justification for their absence when the legislative package mentions other technical committees that are less relevant in the Treaty.
- 4.6 In order to strengthen national ownership of commitments of the FSPs, both national parliaments and the European Parliament, each in their own spheres of action, have a prominent role to play in the EU economic governance framework with a view to strengthening the democratic accountability. Consulting local and regional authorities on the elaboration and monitoring of the FSPs would also contribute to this.
- 4.7 While public investment should be given special consideration in reforming the current economic governance framework, the EESC would also like to stress that the economic governance framework should allow Member States the fiscal space for current expenditure which is needed to benefit from the use of public capital built through public investment.
- 4.8 The DSA methodology should be further scrutinised by the co-legislator before approval of the new Regulation, to avoid any unintended automatic consequences arising from new austerity policies. Given the possible additional costs (for example, for an ageing population) at the end of their FSPs, any fiscal consolidation should not be carried out at the expense of social expenditure (e.g. on health, education, long-term care services or pensions) as the "easiest

⁶ [OJ C 323, 26.8.2022, p. 1](#) and [OJ C 228, 29.6.2023, p. 1](#).

⁷ Article 18(4)(q) of the Regulation (EU) 2021/241 [OJ L 57, 18.2.2021, p. 17](#).

solution". It is crucial that such expenditure is safeguarded and guaranteed in a sustainable long-term way. The EESC agrees with the ECB opinion that the DSA should ensure replicability, predictability and transparency and to be specified in consultation with, and supported by the Member States.

- 4.9 The application of sanctions under the Excessive Deficit Procedure should not be automatic, based on a division of countries into categories according to the public debt ratio alone. This division and the application of financial or reputational sanctions may increase the cost of debt, exacerbating the problem that the procedure is intended to solve. The EESC proposes that compliance with debt reduction targets and reforms should be positively incentivised, following the model of the RRF, making the receipt of part of the EU funds depend on the Member State concerned meeting the targets committed to in the FSP.
- 4.10 Concerning the "technical trajectory", we understand the complex "*rationale*" of the Commission proposal to find a compromise between the very different views of MS on the process of assessing their compliance with core requirements of the regulation. However, questioning further rigidity and taking into account the need to strengthen ownership, the EESC thinks that such a trajectory should be first in the hands of national governments, subject to the opinion of independent national fiscal bodies and, at a second stage, be the result of a technical dialogue with the Commission, in view of the presentation of national medium-term fiscal structural plans.

Brussels, 21 September 2023.

Oliver Röpke

The president of the European Economic and Social Committee
