European Parliament
2019-2024

TEXTS ADOPTED

P9_TA(2021)0358

Review of the macroeconomic legislative framework

European Parliament resolution of 8 July 2021 on the review of the macroeconomic legislative framework for a better impact on Europe's real economy and improved transparency of decision-making and democratic accountability (2020/2075(INI))

The European Parliament,

– having regard to the Treaty establishing the European Economic Community, signed in Rome in 1957,

– having regard to Article 2 of the Treaty on European Union,

– having regard to the Treaty on the Functioning of the European Union (TFEU), in particular Articles 121, 122, 126 and 136 thereof and Protocol No 12 thereto,

– having regard to its resolution of 20 October 2010 on the financial, economic and social crisis: recommendations concerning measures and initiatives to be taken (mid-term report)[1] and of its resolution of 6 July 2011 on the financial, economic and social crisis: recommendations concerning the measures and initiatives to be taken[2],

– having regard to Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States[3],

– having regard to Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area[4],

– having regard to Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area[5],

– having regard to Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the

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1 OJ C 70 E, 8.3.2012, p. 19.
2 OJ C 33 E, 5.2.2013, p. 140.
3 OJ L 306, 23.11.2011, p. 41.
4 OJ L 306, 23.11.2011, p. 1.
5 OJ L 306, 23.11.2011, p. 8.

strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1],

– having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2],

– having regard to Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[3],

– having regard to Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability[4],

– having regard to Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area[5],

– having regard to its resolution of 24 June 2015 on the review of the economic governance framework: stocktaking and challenges[6],

– having regard to Commission communication of 10 February 2015 entitled 'Making the best use of the flexibility within the existing rules of the Stability and Growth Pact (COM(2015)0012/2),

– having regard to the Four Presidents' Report of 5 December 2012 entitled 'Towards a Genuine Economic and Monetary Union', to the Five Presidents' Report of 22 June 2015 on completing Europe's Economic and Monetary Union, to the Commission white paper of 1 March 2017 on the future of Europe, and to the Commission reflection paper of 31 May 2017 on the deepening of the Economic and Monetary Union,

– having regard to the European Court of Auditors Special Report No 03/2018 entitled 'Audit of the Macroeconomic Imbalance Procedure (MIP)',

– having regard to the Commission communication of 11 December 2019 on the European Green Deal (COM(2019)0640),

– having regard to its resolution of 15 January 2020 on the European Green Deal[7],

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1 OJ L 306, 23.11.2011, p. 12.
2 OJ L 306, 23.11.2011, p. 25.
3 OJ L 306, 23.11.2011, p. 33.
4 OJ L 140, 27.5.2013, p. 1.
5 OJ L 140, 27.5.2013, p. 11.
6 OJ C 407, 4.11.2016, p. 86.
7 Texts adopted, P9_TA(2020)0005.

– having regard to the Commission communication of 5 February 2020 entitled ‘Economic governance review’ (COM(2020)0055),

– having regard to the Commission communication of 13 March 2020 entitled ‘Coordinated economic response to the COVID-19 outbreak’ (COM(2020)0112),

– having regard to the Commission communication of 20 March 2020 on the activation of the general escape clause of the Stability and Growth Pact (COM(2020)0123),

– having regard to the Commission communication of 27 May 2020 entitled ‘Europe’s moment: Repair and Prepare for the Next Generation’ (COM(2020)0456),

– having regard to the Commission communication of 27 May 2020 on the EU budget powering the recovery plan for Europe (COM(2020)0442),

– having regard to the Commission proposal of 28 May 2020 for a Council regulation establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 pandemic (COM(2020)0441),

– having regard to Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088[1],

– having regard to the European Court of Auditors Special Report No 16/2020 entitled ‘The European Semester – Country Specific Recommendations address important issues but need better implementation’,

– having regard to the European Fiscal Board (EFB) assessment of EU fiscal rules with a focus on the six- and two-pack legislation of 11 September 2019, to the EFB annual report of 29 October 2019, to the EFB statement of 24 March 2020 on COVID-19, to the EFB’s assessment of 1 July 2020 of the fiscal stance appropriate for the euro area in 2021 and to the EFB 2020 annual report of 20 October 2020,

– having regard to the European Council conclusions of 11 December 2020 on the MFF and Next Generation EU, COVID-19, climate change, security and external relations,

– having regard to the Interinstitutional Agreement of 16 December 2020 on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources[2],

– having regard to its resolution of 17 April 2020 on EU coordinated action to combat the COVID-19 pandemic and its consequences[3],

– having regard to its resolution of 15 May 2020 on the new multiannual financial framework, own resources and the recovery plan[4],

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[1] OJ L 198, 22.6.2020, p. 13.
[2] OJ L 433 I, 22.12.2020, p. 28.
[3] Texts adopted, P9_TA(2020)0054.
[4] Texts adopted, P9_TA(2020)0124.

– having regard to Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak[1],

– having regard to the European Council conclusions of 21 July 2020,

– having regard to its resolution of 23 July 2020 on the conclusions of the extraordinary European Council meeting of 17-21 July 2020[2],

– having regard to the Commission's Annual Sustainable Growth Strategy 2021 of 17 September 2020 (COM(2020)0575),

– having regard to its position of 16 September 2020 on the draft Council decision on the system of own resources of the European Union[3],

– having regard to its resolution of 13 November 2020 on the Sustainable Europe Investment Plan - How to finance the Green Deal[4],

– having regard to Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility[5],

– having regard to the Commission's European Economic Forecast: Winter 2021 (Institutional Paper 144) of February 2021,

– having regard to the Commission communication of 3 March 2021 entitled 'One year since the outbreak of COVID-19: fiscal policy response' (COM(2021)0105),

– having regard to the Commission communication of 5 February 2020 entitled 'Economic governance review - Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU' (COM(2020)0055),

– having regard to the Commission's European Economic Forecast: Spring 2021 (Institutional Paper 149) of May 2021,

– having regard to the Commission communication of 2 June 2021 entitled 'Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy' (COM(2021)0500),

– having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Constitutional Affairs (A9-0212/2021),

– having regard to Rule 54 of its Rules of Procedure,

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1 OJ L 159, 20.5.2020, p. 1.
2 Texts adopted, P9_TA(2020)0206.
3 Texts adopted, P9_TA(2020)0220.
4 Texts adopted, P9_TA(2020)0305.
5 OJ L 57, 18.2.2021, p. 17.

A. whereas over the past 30 years the economic governance framework has undergone a number of changes to address its design and implementation flaws and adapt it to new economic challenges;

B. whereas the current governance framework presents conceptual and practical weaknesses that lead to overly complex rules, weak enforcement, lack of ownership and lack of incentives to pursue symmetrical counter-cyclical policies; whereas the current framework did not succeed in reducing divergences within the EU nor in protecting or stimulating growth-enhancing public investment;

C. whereas in the aftermath of the global financial crisis, the successive reforms of the EMU focused on risk reduction but did not introduce risk-sharing elements;

D. whereas macroeconomic adjustment programmes presented a lack of national ownership and scarred the social fabric of the countries that implemented them;

E. whereas in 2015 the Commission adopted guidance on the best use of the flexibility in the rules of the Stability and Growth Pact for strengthening the link between structural reforms, investment and fiscal responsibility;

F. whereas the European Union is confronted with multiple long-term challenges: a public health crisis, a climate crisis and a lack of investment in public infrastructure, which are aggravating socio-economic disparities;

G. whereas the challenge of the twin transitions requires additional public investment, which is hindered under the current fiscal framework; whereas both public and private sector investment were already insufficient before the crisis, despite historically low interest rates;

H. whereas gross public investment was cut following the financial and sovereign debt crisis, and in many Member States net public investment is even negative, implying that the current fiscal framework leads to excessively recessive consolidation measures and facilitates the decline of public investment during the periods of fiscal consolidation;

I. whereas there are significant investment funding gaps that should be addressed: EUR 470 billion a year until 2030 to meet EU environmental objectives[1], EUR 142 billion a year for social infrastructure such as hospitals or schools[2], and EUR 190 billion a year to stabilise the stock of public capital[3];

J. whereas public debt levels at the beginning of the pandemic were high, and whereas the unprecedented economic recession, the unprecedented national fiscal measures taken in

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1 Commission, SWD(2020)0098 - Identifying Europe's recovery needs", 27.5.2020, pp. 14-16.

2 This estimation only covers health and long-term care (EUR 70 billion), education and life-long learning (EUR 15 billion) and affordable housing (EUR 57 billion). Source: Fransen, L., Bufalo, G., Reviglio, E., 'Boosting Investment in Social Infrastructure in Europe - Report of the High-Level Task Force on Financing Social Infrastructure in Europe', 2018, p. 116.

3 Commission, 'SWD(2020)0098 - Identifying Europe's recovery needs", 27.5.2020, pp. 18-20.

response to the pandemic and the need to support a sustainable and inclusive recovery will impact public finances pushing EU debt-to-GDP to a new peak above 100 % of GDP;

K. whereas environmental[1] and social sustainability are interconnected with risks on long-term fiscal sustainability;

L. whereas the pandemic is causing an unprecedented exogenous shock with large asymmetric impacts, weighing negatively on the EU economic outlook and widening divergences between Member States;

M. whereas the pandemic has amplified pre-existing inequalities and poverty and has demonstrated the importance of the European social model and its existing social safety nets;

N. whereas, in Europe, economic forecasts[2,3] show a multispeed, incomplete and uneven recovery; whereas the vaccine rollout is accelerating, and there are considerable risks of divergences and aggravated inequalities across countries, sectors and segments of society, notably among young workers, women and low skilled workers;

O. whereas there are still long-term risks of scarring on the economies of certain Member States, and therefore withdrawal of support should be complemented with measures to facilitate job creation and reallocation namely through retraining and reskilling programmes, together with income support as needed;

P. whereas geopolitical risks might have impacts on sovereign debt sustainability;

Q. whereas the discretionary fiscal support differed in size and composition across Member States, with a clear positive correlation between fiscal space and the size of policy response leading to an asymmetric response, which might also create risks of an uneven playing field in the internal market and further differentiate the speed of recovery;

R. whereas the EU's crisis response[4] has strengthened the EMU and has so far succeeded in creating trust and confidence, thus taming financial markets' volatility; underlines in this respect the importance of the issuance of EU bonds;

S. whereas in 2020 the Commission started a public consultation reviewing the effectiveness of the economic governance framework, which was disrupted by the onset of the COVID-19 pandemic;

1. Calls on the Commission to relaunch the public debate on the review of the European economic governance framework and to come forward with comprehensive, forward-

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[1] Extreme disasters tend to lower economic output (Botzen, Deschenes and Sanders, 2019); IMF forecasts that major weather-related disasters could have a negative impact on real GDP per capita and countries that are better equipped to address major natural disasters could more easily cushion the impact.

[2] Commission Spring 2021 Economic Forecasts show a contraction in 2020 of -6,1 % of GDP in the EU and -6,6 % of GDP in the euro area. GDP growth is expected to recover only slowly in the short-term with 4,2 % in 2021 and 4,4 % in 2022 in the EU, and 4,3 % in 2021 and 4,4 % in 2022 in the euro area.

[3] World Economic Outlook: Managing Divergent Recoveries, IMF (April 2021).

[4] Through in particular the Recovery Package and the SURE instrument.

looking legislative proposals as a result of the review; notes that the review of the economic governance framework was put on hold due to the pandemic;

Fiscal policy towards a sustainable and inclusive recovery

2. Welcomes the activation of the general escape clause of the Stability and Growth Pact, which is fully justified by the economic and social impact of the pandemic; notes that the general escape clause does not suspend the procedures of the Stability and Growth Pact and acknowledges that it will allow the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact while departing from the budgetary requirements that would normally apply; highlights that the general escape clause has allowed Member States to adopt very sizeable expenditure and revenue measures to minimise the economic and social impact of the pandemic and that the fiscal support should be phased-out gradually in order to support the efforts of the Member States to sustain the recovery and strengthen economic and social resilience; notes the degree of flexibility of the current framework for economic governance in the coordinated policy response to the COVID-19 crisis;

3. Welcomes the Commission communication of 3 March 2021 with the proposed considerations regarding the deactivation or continued activation of the general escape clause; notes that an overall assessment of the state of the economy based on, primarily, quantitative criteria should be taken into account; agrees that the level of economic activity in the EU or euro area compared to pre-crisis levels would be the key criterion; stresses, however, in this regard, the importance of the evolution of the health, social and economic situations across the EU and the euro area economy; welcomes the Commission communication on economic policy coordination indicating that the general escape clause of the Stability and Growth Pact will continue to be applied in 2022 and is expected to be deactivated as of 2023;

4. Considers that the review of the economic governance framework will take place in challenging circumstances, namely the low interest rates, the unprecedented debt legacies and in the context of a big fiscal recovery package consisting of grants and loans funded by EU debt;

5. Is of the opinion that the review of the EU economic governance framework is necessary; agrees with the European Fiscal Board (EFB) on the importance of having a clear pathway towards a reviewed fiscal framework, preferably prior to the deactivation of the general escape clause;

6. Is aware that kick-starting the review after the deactivation of the general escape clause will make it more difficult, contentious and divisive; considers, therefore, that the review of the economic governance framework should be reflected on before the possible return towards the fiscal rules could take place;

7. Notes that in the current context, the application of the current fiscal framework, in particular the adjustment paths, would lead to a high speed of debt reduction that could undermine the recovery path of the economies, and potentially weaken the Member States' commitment to respecting the rules;

8. Calls on the Commission to provide clear fiscal policy guidelines for Member States during the period of activation of the general escape clause aimed at achieving prudent

medium-term fiscal positions and ensuring fiscal sustainability in the medium term; once the general escape clause is deactivated and while a reviewed framework is not yet in place, calls for the use of all the existing flexibilities provided for in the current economic governance framework such as the 'unusual event clause' on a country-specific basis to prevent premature fiscal consolidation and limit the risks of long-term scarring;

9. Considers that economic indicators and adjustment paths need to be implemented cautiously, and therefore calls for the *Vade Mecum* and the code of conduct of the Stability and Growth Pact to be revised; stresses that fiscal guidance should avoid pro-cyclical biases, promote upward convergence, strengthen a sustainable, inclusive, green and digital recovery, by contributing to the European Green Deal and to the implementation of the European Pillar of Social Rights, consider differing situations across Member States and counteract macroeconomic imbalances;

10. Considers that NextGenerationEU (NGEU) loans should be recorded as national debt; calls on the Commission, in the updates of the implementation guidelines of the Stability and Growth Pact, to provide NGEU-loan-financed expenditure with the same treatment as for the European Fund for Strategic Investments (EFSI) in the context of the Commission communication on flexibility;

11. Calls for a continued expansionary fiscal stance for as long as needed to support the recovery from the COVID-19 pandemic and drive the transformative changes making the economies greener, more digital and inclusive, while ensuring fiscal sustainability in the medium term; warns against a premature withdrawal of support and agrees with the Commission's recommendation that fiscal policy should remain agile and adjust to the evolving situation as warranted; considers that the fiscal support measures should become more targeted as the recovery progresses; supports policies that are tailored to the stage of the pandemic, the path to the economic recovery and to countries' individual circumstances;

12. Calls on the Commission to ensure that Member States develop credible exit strategies from the crisis-related measures, while not pre-empting future fiscal trajectories;

13. Notes the risks of long-term scarring in capital accumulation and the labour market due to the pandemic, which could drag on the economy; highlights that the recovery is likely to remain uneven and fiscal policy should limit the scarring and reduce inequalities by supporting those segments of the economy and society that are at a higher risk of divergence;

14. Calls on the Member States to embed the high-quality fiscal support in credible medium-term frameworks and prepare robust plans for medium-term fiscal policy to ensure that where expansionary fiscal measures are needed, these are supported by growth and inclusive measures, and to assure the anti-cyclical role of fiscal policy bearing in mind that emergency fiscal policy measures are temporary, limited and targeted to ensure medium-term fiscal sustainability; calls on the Member States to monitor fiscal risks, namely contingent liabilities, as appropriate; recalls the growing importance of monitoring sustainability-related fiscal risks; notes that such good public financial management practices would improve transparency and accountability;

15. Welcomes the immediate and coordinated economic policy response of the EU institutions and Member States aimed at avoiding a sharp increase in corporate insolvencies and

unemployment; recommends that more general support be replaced gradually by more targeted schemes to limit the risks of corporate distress and scarring; recommends focusing the public support only on corporates that are viable in the long run, in light of the EU green and digital agenda;

16. Notes that the fiscal stance at Member-State level, as well as the macroeconomic framework, have been promoting frequently pro-cyclical fiscal policies, both in good and in bad times, respectively by not building sufficient buffers in some periods or not making sufficient use of fiscal space in others; further notes that there was a positive correlation between Member States having fiscal space and their ability to quickly mobilise fiscal stimulus packages at a much faster pace and without associated borrowing costs, which has helped to mitigate the negative socio-economic effects of the pandemic;

17. Underlines the importance of the role of fiscal policies so that Member States are equally capable of ensuring a sustainable, green, digital and inclusive recovery, on the one hand, and on the other hand, ensuring sustainable fiscal policies and that sovereign debt is sustainable in the long term;

18. Considers that the common European fiscal response (NGEU) is crucial to the recovery; calls for a quick and effective use of resources from NGEU, while fully respecting agreed criteria, which will play an important role in supporting sustainable and inclusive economic recovery and boosting productivity and investment across the EU;

A review of the macroeconomic legislative framework

19. Stresses the inherent interaction between monetary and fiscal policies while fully respecting the mandate of the ECB, its independence and safeguarding its democratic legitimacy; notes the success of a proper and responsible setting up of both policies in helping to deliver the required support to post-COVID-19 economies, the former by preserving favourable financing conditions and the latter by supporting firms, workers and people, showing the readiness of these policies to respond to this crisis; considers that premature withdrawal of fiscal policy should be also avoided to not counteract the stimulus of the recovery programme;

20. Highlights that monetary policy has been carrying the main burden of stabilisation in the past few years and crises; notes that the crisis caused by the pandemic has shown that stabilisation cannot be the responsibility of monetary policy alone and that fiscal policy should play a stronger role; while current monetary conditions are accommodative and are supporting the recovery of the economy in the crisis, warns against relying too heavily on an accommodating monetary policy stance and an extremely low cost of sovereign debt;

21. Stresses that national fiscal policies, together with Union policies, will play an important role in fulfilling the European Union's commitments and responsibilities in the global fight against climate change;

22. Underlines that there are structural factors such as ageing, increasing savings, low inflation, investment propensities and a productivity slowdown that could keep real interest rates low in the medium to long term; considers that macroeconomic policies should address the factors underlying the risk of secular stagnation by means of sustainable growth and productivity-enhancing, balanced and socially just reforms; recalls

that secular stagnation is typically characterised by a shrinking work force, low demand, excess savings and low investments, among other factors;

23. Stresses the need to be ready for less positive scenarios; notes that the impact of the COVID-19 shock has increased savings and some investment choices have been delayed; points out that once the restrictions are eased and the economy rebounds, interest rates might have an increase driven by higher inflation expectations; highlights the importance of promoting public and private investments to unlock additional capital, especially in the context of the EU recovery; underlines that it is not only the level of investment that matters for growth but also the setting up, quality and implementation of investment programmes; notes that there was a substantial loss of investment during the last crisis and stresses the importance of the economic rebound to increase investment profitability;

24. Considers a proper and credible economic governance framework a necessary requirement for sustainable fiscal policies, debt and deficit trajectories ensuring credible paths of debt reduction, by promoting long-term sustainable and inclusive growth while ensuring favourable financing conditions, especially in the long run; further considers that the framework should integrate elements to avoid pro-cyclical policies and build sufficient buffers in good times, to be able to perform, when necessary, a short-term macro stabilisation function and to ensure improved and transparent governance, which in turn makes the economy work for people;

A comprehensive sovereign debt sustainability analysis (SDSA)

25. Notes that sovereign debt levels have considerably increased, reaching nearly 102 % of the euro area aggregate debt-to-GDP ratio, with a further increase forecast for 2021 and 2022, and that some Member States already have a sizeable debt legacy; notes that circumstances have changed since the Maastricht criteria were defined; stresses, therefore, that the economic governance framework should be reviewed in the context of the current economic environment and, while building on experiences of the existing framework and fully respecting the Treaties, it should be fact based and future oriented;

26. Considers that the Union´s economic governance framework has to be reviewed to make debt rules simpler and enforceability better and designed to support long-term economic growth, with appropriate public and private investment;

27. Considers that a reviewed economic governance framework should consider how to ensure a country-specific pace of sovereign debt reduction that safeguards long-term fiscal sustainability and sustainable and inclusive growth; calls for debt targets to properly reflect the new economic reality as well as country-specific challenges;

28. Considers that European safe assets would enhance financial stability, improve monetary policy transmission, and contribute to strengthening the international role of the euro;

29. Is aware that very high budget deficits in 2020 and 2021 and nominal GDP loss will be mirrored in the debt-to-GDP ratios;

30. Recognises that the low interest rate environment reduces pressure on fiscal policy by reducing sovereign debt servicing costs; insists that the implications of the low interest rates, the possible change of the interest rates environment and possible future monetary policy measures be properly factored into the analysis of the medium-term sustainability

of sovereign debt; notes that Member States' risk premiums may increase, especially for countries with high or increasing debt and that this could put additional pressure on fiscal policy, as well as on the economy;

31. Stresses that debt service costs are likely to remain low for the foreseeable future thanks to a large share of debt burden covered by long maturities and sometimes negative yielding bonds, and primary deficits may be offset by favourable interest-growth differentials; notes that the current positive status of the debt servicing costs can change relatively fast while a sustainable reduction of the sovereign debt stockpile takes considerably longer time; considers that the benefit of a low debt service cost is an opportunity to sustain and progressively reduce high debt levels towards a sustainable level, to boost potential growth and to increase the resilience of the economy;

32. Points out that there are structural problems underlying the asymmetric growth rates across Member States; considers that growth is not the sole objective, as making an economy that works for people and meeting the goals of the Green Deal and Paris agreement requires targeted policy support, including fiscal efforts;

33. Recalls, besides reforms, the importance of growth-enhancing policies and sustainable private and public investment aimed at increasing growth potential and achieving the EU's objectives centred around the green and digital transitions and at increasing growth potential, competitiveness and productivity and at boosting the single market; reiterates that future-oriented investment and expenditure have positive spillovers on medium-to-long-term debt sustainability; calls on the Member States to pursue sustainable fiscal policies while preserving nationally-financed and growth-supporting public investment;

34. Calls on the Commission to pursue a comprehensive and transparent sovereign debt sustainability analysis (SDSA) in order to support policymakers' decision to set an appropriate country-specific, clear and transparent adjustment path; highlights the use of innovative tools and techniques such as stress tests and stochastic analysis to better reflect risks to public debt dynamics (such as interest-growth differentials, debt composition, demographics and sustainability) and the quality of public expenditure;

EU fiscal policy coordination framework

35. Invites the Commission during the review process to reflect on the role of fiscal policy in the European economy addressing the shortcomings already identified in the EU fiscal framework before the outbreak[1], and also in view of the legacies of the pandemic;

36. Calls on the Commission to assess how to promote fiscal sustainability and counter-cyclical rules, and to consider simplifying the framework and improving the Commission's autonomy in the enforcement of the rules within a more accountable framework with stronger ownership; further calls for well defined and transparently triggered flexibility mechanisms, whenever this flexibility is well justified by ensuring greater effectiveness and credibility; stresses the importance of a framework that ensures fiscal policy coordination, considers changes in economies and financing conditions and takes into account the specificities and policy objectives of Member States; moreover, considers that the EU framework for fiscal policy coordination should enable the

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[1] European Fiscal Board (2018), 2018 Annual Report, September, EFB and European Fiscal Board (2020), 2020 Annual Report, September.

promotion of the EU's long-term sustainable and inclusive growth, while preserving safeguards against risk to debt sustainability;

37. Notes the EFB's proposal that the EU fiscal framework should be rebuilt on three principles: (i) a debt anchor – that is a debt ratio objective and a country-specific adjustment declining path towards it, (ii) a single indicator of fiscal performance – that is an expenditure rule for countries with debt in excess of the debt ratio objective, and (iii) a general escape clause supported by an opinion on the basis of independent analysis and advice;

38. Points out the need for a realistic and transparently set country-specific debt adjustment path in order to better tailor to countries' realities and reflect the degree of debt sustainability of Member States;

39. Considers that, in line with the EFB proposal, an expenditure rule with a ceiling[1] on nominal public expenditure when a country's public debt exceeds a certain threshold can provide more transparent fiscal rules within the EU; considers that the growth rate of the expenditure ceiling would depend on the expected potential output growth, expected inflation and the distance from the debt anchor; notes that debt servicing costs and unemployment benefit payments (at unchanged rates) are excluded. and expenditure growth is adjusted for the impact of discretionary changes in government revenues (i.e. direct and indirect tax rates);

40. Notes that the country-specific path with Member States' ownership will strengthen credibility and improve Member States' compliance with the rules; further notes that the country-specific path should result from a transparent and comprehensive economic analysis and a discussion between Member States and the European Commission, in the context of the European Semester, in which a consultation with the EFB and national Independent Fiscal Institutions (IFIs) could be envisaged whenever appropriate;

41. Underlines that expenditure rules have built-in automatic stabilisation properties[2]; notes that expenditure rules have shown to be more effective in reducing the procyclicality bias of fiscal policy[3]; stresses the importance of automatic stabilisers in the face of rising uncertainties; further notes the EFB recommendation to establish a compensation account in which deviations from planned net primary expenditure growth are accumulated;

42. Points out that the metrics at the heart of the economic governance framework must be easily observable and controllable by political decision-makers in order to increase transparency and comprehensibility for both policy-makers and the public; notes that concepts such as an output gap analysis do not satisfy those criteria; stresses that, in the post-crisis period, uncertainty around an output gap will be even higher than in the past;

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[1] A ceiling fixed for 3-5 years that would depend on the expected potential output growth, expected inflation and the distance from the debt anchor.

[2] EFB Assessment of EU fiscal rules with a focus on the six- and two-pack legislation: 'the net primary expenditure ceiling has a built-in automatic stabilising property: when actual output grows more slowly than at the trend rate of potential output, net primary expenditure growth will exceed the latter, while a rising expenditure to GDP ratio will help to stabilise the economy; vice versa, when actual GDP grows faster than trend, net expenditures will shrink as a share of GDP.'

[3] Manescu, C., Bova, E. (2021), Effectiveness of national expenditure rules: Evidence from EU member states.

argues that while potential output growth is unobservable and has to be estimated, it is less likely to be subject to revisions than the output gap;

43. Proposes, in line with the EFB, a general escape clause to be recommended by the Commission in the case of unforeseen economic developments and decided by the Council and that can be supported by an opinion based on an independent and well defined economic analysis in order to reduce complexity and to preserve the ability to act in the event of unforeseeable circumstances; nevertheless, if an independent body is involved, stresses the need for further clarification on the composition of the independent body in order to ensure objectivity in judgement for rules, which would ensure its independence and guarantee that there are no delays in the process;

44. Underlines that when public finances come under pressure, there is the tendency to cut government investment; notes that current economic, social and environmental challenges in the EU require targeted efforts related namely to social resilience, climate change and digitalisation; highlights the importance of the EU economic governance framework, to enable governments to protect public investment without jeopardising debt sustainability; underlines that further efforts need to be undertaken to improve the quality of public finances; calls for the reviewed framework to have a greater emphasis on the quality of public debt; highlights that the quality of public finances improve the country's long-term debt sustainability and enhance the long-term growth potential;

45. Highlights the EFB's opinion that some clearly delineated sustainable growth-enhancing expenditure would be excluded from the net primary expenditure growth ceiling;

46. Stresses that governments' revenues are an important part of the sustainability of public finances and their stability can help to ensure a credible strategy for reducing sovereign debt; calls on the Member States to take action to further tackle tax fraud, tax avoidance, and tax evasion, as well as money laundering; reiterates that effective actions in this area from Member States instil confidence in the governance of public finances; notes the need to ensure a responsible expenditure policy to avoid pressure to increase taxes;

47. Notes that the EFB has been a strong advocate of introducing a common fiscal capacity at the European level, which would create incentives for better compliance with EU fiscal rules; further notes that this opinion has been shared by other institutions such as the IMF and the ECB;

48. Welcomes the NGEU and SURE initiatives; stresses that the NGEU is financed through debt issuance guaranteed by the EU budget; underlines that EU-issuance of debt[1] will provide a new supply of European high-quality safe assets; calls on the Commission to fully exploit the potential of the Recovery Package and the SURE instrument to improve convergence between Member States, promote EU policies and reduce the EU's vulnerability to economic shocks; notes that the current NGEU and SURE instruments have been designed to be temporary and stresses the importance of a transparent repayment plan for the debt arising from the NGEU and SURE bonds;

Surveillance of macroeconomic imbalances

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[1] NGEU and SURE bonds.

49. Stresses the importance of the Macroeconomic Imbalance Procedure (MIP) in detecting, preventing and addressing macroeconomic imbalances in the EU; takes note of the findings of the European Court of Auditors[1] that, although the MIP implementation mechanism is generally well designed, its potential has not been fully exploited in such a way as to ensure the effective prevention and correction of imbalances; further notes that the classification of Member States with imbalances lacks transparency, there is a lack of public awareness of the procedure and its implications, and the recommendations do not sufficiently promote policy actions in addressing those imbalances, notably in the euro area;

50. Calls for a more effective use of the Alert Mechanism Report (AMR), while taking note of the Commission's latest technical revision of the MIP scoreboard, and welcomes the detailed and comprehensive analysis underpinning the report; insists that the macroeconomic imbalance procedure scoreboard must be focused and streamlined around meaningful indicators and thresholds that define more clearly imbalances in the euro area, as well as data-based and transparent; recalls that country-specific recommendations be forward-looking guidance addressed to Member States; considers that greater compliance with pared-back recommendations must be achieved and MIP-relevant country-specific recommendations should focus on policy actions that can have a direct impact on imbalances and be consistent with euro area recommendations when appropriate;

51. Considers that clarity and consistency concerning the interplay between the MIP and the Stability and Growth Pact is key to ensuring that their objectives are achieved;

52. Supports in this respect the EFB proposals to incorporate considerations from the MIP in determining the aforementioned expenditure rule whereby, based on mutual agreement, countries with high current account deficits would have a lower ceiling for their expenditure targets, while countries with an excessive external surplus would have a higher floor for the rate of expenditure growth;

53. Calls for more involvement of macro prudential authorities to better identify macroeconomic imbalances from a macro-prudential viewpoint, and of national productivity councils to increase the common understanding of macroeconomic developments in the MIP process;

Governance

54. Underlines the importance of the EU institutional framework and of the community method to set and effectively enforce the rules and to safeguard and enhance strong political ownership and accountability and stresses that weak political ownership or accountability at national level exacerbates non-compliance;

55. Stresses the need to strengthen the democratic legitimacy, accountability and scrutiny of the economic governance framework; believes that to improve ownership, responsibilities must be assigned at the level where decisions are taken or implemented, with national parliaments scrutinising national governments and the European Parliament scrutinising the European executives; highlights, therefore, the role of institutions and underlines the

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[1] Special Report No 03/2018: Audit of the Macroeconomic Imbalance Procedure (MIP), European Court of Auditors.

importance of ensuring a proper balance of responsibilities between the different institutions in the implementation of the EU economic governance framework;

56. Recalls that the European Semester is a well established framework to coordinate the budgetary, economic, social and employment policies across the European Union; supporting the EU's long-standing goals of sustainable growth, sustainable public finances and upward convergence; notes that the Semester, since its inception, has been expanded to include, among other aspects, issues related to the financial sector and taxation, as well as objectives of the UN SDGs; notes that in order to further strengthen economic and social resilience, the EU must deliver on the principles of the European Pillar of Social Rights; recalls that promoting sustainable growth means promoting fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, promoting socially just structural reforms, enhancing investment to boost growth potential and supporting an inclusive transition towards a sustainable and digital economy; stresses the importance of stronger collaboration in policy coordination between employment and social affairs ministers and finance ministers, particularly in the euro area; notes that the concept of the European Semester was introduced by Regulation (EU) No 1175/2011, which is part of the review of the EU economic governance, and that proposals by the Commission on how to improve the Semester process are welcomed;

57. Points to the lack of ownership as one the main weaknesses of the European Semester; notes that the design of this framework must contain a set of long-term objectives and guidance at EU level that coordinate policy choices that properly reflect national needs and priorities underpinned by an open and inclusive policy dialogue between the EU and national institutions and stakeholders; believes that experience from the governance structure of the Recovery and Resilient Facility offers a great opportunity to be used in the area national ownership, promotion of strategic goals of the EU, sustainable growth and country-specific recommendations;

58. Calls for a proper involvement of the European Parliament in the European Semester process; highlights the importance of the full debate in defining the overarching goals and the guidance;

59. Recalls that the Better Law Making Agreement reiterates that the European Parliament and the Council as co-legislators are to exercise their powers on an equal footing and that the Commission therefore needs to treat them equally and stresses the role and responsibility of national parliaments; points out that, according to Articles 121 and 126 TFEU, the European Parliament can neither scrutinise nor amend the recommendations adopted by the Council within the framework of the European Semester;

60. Calls for more rigorous democratic scrutiny at EU and national level to hold national governments to account; stresses that stronger national political ownership or accountability leads to higher compliance; calls for the further development of interparliamentary cooperation, including the conference provided for in Article 13 of the Fiscal Compact, to allow for substantial and timely discussions where needed;

61. Recognises the importance of the EU's macroeconomic dialogue to enhance ownership and improve policy coordination, and therefore calls for them to be invigorated through dialogue at euro-area and national level with representatives of government, employer federations and trade unions, and to envisage at both levels exchanges with the central banks;

62. Recalls that in line with the legislation, the competent committee of the European Parliament may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup, to appear before the committee concerned, as well as Member States subject to a specific economic governance procedure;

63. Stresses the importance of the implementation of the European Pillar of Social Rights and environmental objectives in accordance with the EU's climate, environmental and sustainable development commitments; calls urgently on the Commission and the European Council to take these commitments into account in the economic governance of the Union; calls for the Social Scoreboard of the European Pillar of Social Rights to be fully taken into account for the purposes of monitoring Member States' performance in relation to the principles of the European Pillar of Social Rights; takes note of the Commission's initiative in confirming that the revised Social Scoreboard will be part of the policy coordination framework in the context of the European Semester; takes notes that the EU leaders welcomed the European social partners' joint proposal for an alternative set of indicators to measure economic, social and environmental progress, supplementing GDP as a welfare measure for inclusive and sustainable growth; calls for scoreboards to be better reflected in policy recommendations;

64. Considers that alignment of national fiscal policies with the EU's commitments under the Paris Agreement should be a priority and that the concept of competitive sustainability and its four axes, identified at the 2020 Annual Sustainable Growth Strategy, should continue be the overarching priorities of the EU's long-term growth strategy in line with the European Green Deal; notes that the climate poses real and severe risks to the sustainability of Member States' fiscal policies;

65. Agrees with the Court of Auditors that the country-specific recommendations in the European Semester need better design and implementation[1]; suggests better targeting the policy recommendations with short and long-term country-specific policy objectives;

66. Welcomes the significant improvements in the role of independent fiscal institutions in the national budgetary process, enhancing transparency and accountability of fiscal policy through both monitoring and independent analysis; calls on the Member States to ensure that independent fiscal institutions meet the conditions to fulfil their mandates and tasks and underlines the importance to ensure the accountability of these institutions towards the European Parliament and national parliaments, as appropriate;

67. Underlines that for better enforcement each Member State should strive for strong ownership of economic policy recommendations and that, in this context, the right balance should be sought between peer support, peer pressure, incentives and disincentives;

68. Welcomes the adoption of the interinstitutional agreement between the European Parliament, the Council and the Commission on new own resources, including a roadmap towards the introduction of new own resources;

69. Calls on the Commission to further reflect on the design and implementation of macroeconomic adjustment programmes, in particular the need to further increase the transparency, ownership and democratic accountability of the decision-making process,

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[1] European Court of Auditors.

with the proper involvement of the stakeholders and the European Parliament; in this regard reminds the Commission and the Council of its position adopted in plenary regarding Regulation (EU) No 472/2013;

70. Notes that Member States exiting a macroeconomic adjustment programme are also under enhanced surveillance in the European Semester and, where relevant, in-depth reviews can be conducted;

71. Notes that the Eurogroup and the Euro Summit are informal forums of discussion within the Economic and Financial Affairs (Ecofin) Council; calls on the Member States to act within the Community framework, ensuring the European Parliament's role as co-legislator and its right to democratic oversight;

72. Calls for the Eurogroup to be subject to rules of procedure enhancing the transparency of decision-making and democratic accountability; calls for establishing a mutual understanding between the Eurogroup and the European Parliament on how these objectives could be best achieved; underlines the importance of mechanisms that allow non-euro-area member states to take part in the discussion, where appropriate;

73. Stresses the need for the decision-making framework for EU economic governance to be under the Community method;

74. Stresses the importance of an economic governance debate with citizens, civil society organisations and social partners, and a range of stakeholders at European, national, regional and local level as part of the Conference on the Future of Europe; identifies in this respect the Conference on the Future of Europe as a possible forum to consider increased democratic legitimacy through a greater involvement of the European Parliament in providing a public and democratic forum for defining and enforcing common EU rules on economic policy coordination;

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75. Instructs its President to forward this resolution to the Council, the Commission, the Eurogroup, the Committee of the Regions, the European Economic and Social Committee and the governments and parliaments of the Member States.