**Follow-up to the European Parliament non-legislative resolution 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**

1. **Rapporteur:** Margarida MARQUES (S&D / PT)
2. **Reference number:** [2020/2075 (INI)](http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2016/2891(RSP)) / A9-0212/2021 / P9\_TA-PROV(2021)0358
3. **Date of adoption of the resolution:** 8 July 2021
4. **Competent Parliamentary Committee:** Committee on Economic and Monetary affairs (ECON)
5. **Brief analysis/assessment of the resolution and requests made in it:**

The resolution constitutes the European Parliament’s contribution to the review of the EU economic governance framework. It 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-looking legislative proposals.

The resolution agrees with the Commission on the near-term priorities for fiscal policy. It calls for a continued expansionary fiscal stance as long as needed to support the recovery from the pandemic, while ensuring fiscal sustainability in the medium term. It agrees with the Commission’s recommendation that fiscal policy should remain agile and adjust to the evolving situation as warranted and 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. Furthermore, it 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.

The resolution refers to the challenges facing the EU fiscal framework and calls for making fiscal rules simpler and improving their enforceability. The resolution highlights the sharp increase in public debt in the EU since the start of the pandemic and considers a proper and credible economic governance framework a necessary requirement for sustainable fiscal policies. It highlights the need to ensure a country-specific pace of debt reduction that safeguards both fiscal sustainability and sustainable and inclusive growth. It also 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 stabilisation function. The resolution also stresses the importance of a framework that ensures fiscal policy coordination, considers changes in economic and financing conditions, and takes into account the specificities and policy objectives of the Member States. It also calls for the reviewed framework to put greater emphasis on the quality of public finances as a way to improve both debt sustainability and growth potential. It further 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. It takes note of the European Fiscal Board’s (EFB) proposal that the EU fiscal framework should be rebuilt on three principles: (i) a debt anchor; (ii) a single indicator of fiscal performance; and (iii) a general escape clause supported by an opinion on the basis of independent analysis and advice.

The resolution, in addition, stresses the importance of the Macroeconomic Imbalance Procedure (MIP) and calls for a more effective use of the Alert Mechanism Report (AMR).

On governance, the resolution points to the need to strengthen the democratic legitimacy, accountability and scrutiny of the economic governance framework. It calls for the implementation of the European Pillar of Social Rights and for the revised Social Scoreboard to be fully taken into account for monitoring Member States’ performance on the Pillar principles. The resolution calls on the Commission to also take into account the EU’s environmental and sustainable development commitments in the economic governance of the Union. It further considers that the lack of ownership is one of the main weaknesses of the European Semester and underscores that the decision-making framework for EU economic governance should be under the Community method.

1. **Response to requests and overview of action taken, or intended to be taken, by the Commission:**

The Commission welcomes the European Parliament’s resolution, which is a timely contribution to the review of the EU economic governance framework. The Commission launched a public consultation in February 2020, which had to be put on hold due to the onset of the pandemic. When the recovery takes hold, the Commission intends to relaunch the public debate on the economic governance framework.

The Commission Communication of February 2020 on the Economic Governance Review (the ‘Commission’s Review’) identified well-recognised challenges with the fiscal framework and its implementation:

* while overall deficit and debt levels decreased, very high public debt had persisted in some Member States prior to the current crisis;
* the fiscal stance at Member-State level had frequently been pro-cyclical, both in good and in bad times;
* the composition of public finances had also not become more growth- and investment-friendly;
* in the event of large economic shocks, the ability to steer the fiscal stance for the euro area had been hampered by a lack of prudent policies in good times and remained constrained as long as it rested exclusively on coordination of national fiscal policies, in the absence of a central fiscal stabilisation capacity;
* the framework has grown increasingly complex.

The pandemic has significantly changed the context of the public debate, with higher levels of debt and deficit and significant output losses, increased investment needs and the related introduction of new policy tools at EU level, notably the Recovery and Resilience Facility (RRF) and the Support to mitigate Unemployment Risks in an Emergency (SURE). Moreover, the general escape clause (GEC) was used for the first time in the implementation of the fiscal surveillance.

In addition, the COVID-19 crisis has also called for a stronger forward-looking perspective in our MIP surveillance, which has been pursued for this past year, given the very unusual economic circumstances and exceptional uncertainty. It has also had an important impact on labour markets. The sharp increase in the unemployment rate has been contained by the significant support measures, while the social impact (poverty risks, inequalities) is not yet fully visible.

Therefore, the crisis has highlighted the relevance and importance of many of the challenges that the Commission sought to discuss and address in the public debate. Relaunching the public consultation on the economic governance framework will allow the Commission to reflect on these challenges and draw lessons **(paragraph 1)**.

***Fiscal policy towards a sustainable and inclusive recovery***

The Commission provided clear fiscal policy recommendations to the Member States for 2022 and the medium term as part of its 2021 spring package. These recommendations were adopted by the Council on 18 June 2021. More precise quantified guidance for the years to follow should be provided in 2022, once the degree of uncertainty has sufficiently declined. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

In its February 2020 Review, the Commission set out a number of issues for the public debate, based on the experience with the legislation so far. One of these questions is: “What is the appropriate role for the EU surveillance framework in incentivising Member States to undertake key reforms and investments needed to help tackle today and tomorrow’s economic, social, and environmental challenges while preserving safeguards against risks to debt sustainability?” This includes re-assessing the appropriateness of the current flexibility clauses in terms of their scope and eligibility, in order to facilitate the right type and level of investment while preserving debt sustainability.

Relaunching the public debate on the economic governance framework when the recovery takes hold, will allow the Commission to reflect on the challenges identified in the Commission’s Review of February 2020 and draw lessons from the crisis **(paragraphs 8-10)**.

As regards Member States’ exit strategies from the crisis-related measures, it is important to avoid a premature and abrupt withdrawal of fiscal support. At the same time, a belated withdrawal could increase unwarranted side effects, postponing the transition to a more sustainable and future-proof economy. Moreover, coordination of national fiscal policies is essential to support the economic recovery. The general escape clause will remain active in 2022 and is expected to be deactivated in 2023.

In 2021 and 2022, the fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should be supportive excluding the impact of the withdrawal of the COVID-19 emergency measures from the estimate of the fiscal stance. At the same time, fiscal policies should become more differentiated as of 2022, taking into account country-specific situations.

The Commission agrees that fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories. Therefore, measures should avoid creating a permanent burden on public finances. When the Member States introduce permanent measures, they should properly fund them to ensure budgetary neutrality in the medium term. Also, support measures should become more targeted and focused, promoting a resilient and sustainable recovery.

The Commission agrees that, in the medium term, it is important to maintain a credible and coordinated approach. In particular, it has recommended that, when economic conditions allow, the Member States should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. Investment, including in human capital, should be enhanced to boost growth potential and ensure an inclusive recovery **(paragraph 12)**.

***A comprehensive sovereign debt sustainability analysis (SDSA)***

The Commission agrees with the need to assess country-specific debt sustainability risks and has developed since the Global Financial Crisis a state-of-the-art framework in that regard. This framework, based on a multi-dimensional approach, provides a comprehensive assessment of debt sustainability risks over the short, medium and long term. The Commission publishes the results every year in its Debt Sustainability Monitor, along with transparent information on the assumptions and methodologies.

The Commission debt sustainability analysis (DSA) informs the implementation of EU fiscal rules. For example, it is considered as an important relevant factor in the excessive deficit procedure. The recent report under Article 126(3) of the Treaty on the Functioning of the European Union (TFEU) prepared by the Commission includes the result of the medium-term (10 year) projections of debt under an unchanged policy baseline scenario. It also has a role in the preventive arm of the Stability and Growth Pact to set up the appropriate fiscal adjustment path towards the country-specific medium-term budgetary objective.

The Commission DSA relies on the most innovative tools and techniques, including a wide range of stress tests and stochastic simulations. It also provides a granular analysis of various mitigating and aggravating risk factors, such as the composition of debt, government gross financing needs, the presence of public assets, and contingent and implicit liabilities. Finally, the Commission analysis pays particular attention to the implications of an ageing population **(paragraph 34)**.

***EU fiscal policy coordination framework***

The Commission’s Communication on the Economic Governance Review issued in February 2020 identified a number of well-recognised challenges with the fiscal framework and its implementation. These challenges have been usefully reiterated and highlighted in the resolution of the European Parliament. The COVID-19 crisis also highlighted the relevance of these challenges identified by the Commission. At the same time, the pandemic has changed the context of the public debate on the EU fiscal rules, not least due to the significant increase in public debt in the EU, innovations in the EU’s architecture, and increased investment needs, in particular in relation to the climate and digital transitions. The identified challenges will be discussed as part of the public consultation on the economic governance review, in line with the issues for public debate set out in the Commission’s Review **(paragraphs 35-36)**.

Through the temporary Support to mitigate Unemployment Risks in an Emergency (SURE), the EU has supported and encouraged the use of short-time work policies in the Member States as an efficient tool to protect our citizens during external shocks like the COVID-19 crisis. A majority of beneficiary Member States indicated that SURE played a role in their decision to adopt a new short-time work scheme or to modify an existing scheme (such as increasing their coverage and volume). The impact of SURE goes beyond preserving jobs and avoiding losses in human capital. SURE has also likely contributed to increasing general confidence in the EU’s ability to respond effectively to an unprecedented crisis and enabled the Member States to spend more than they otherwise would have on short-time work schemes and other pandemic-related policies. Member States can still submit requests for support under SURE until the end of 2022.

In line with Article 14 of the Regulation (EU) 2020/672, the European Commission shall prepare a report within 6 months of SURE becoming available, and every six months thereafter, on the use of financial assistance under SURE, including outstanding amounts and the applicable repayment schedule. The first such report was forwarded to the European Parliament, the Council, the Economic and Financial Committee and the Employment Committee. It includes the repayment schedule in section 2 (<https://ec.europa.eu/commission/presscorner/detail/en/ip_21_1209>). The second report was published on 22 September 2021.

NextGenerationEU (NGEU) is a EUR 806,9 billion (in current prices) temporary instrument to help repair the immediate economic and social damage brought about by the coronavirus pandemic and to emerge stronger from the crisis and transform the economies. The largest of its share is devoted to the Recovery and Resilience Facility (RRF). Having entered into force on 19 February 2021, the Recovery and Resilience Facility will make available EUR 723,8 billion non-repayable and loan support for reforms and investments in Member States. This breaks down into non-repayable support worth a total of EUR 338 billion and EUR 385,8 billion in loans. The RRF helps the European Union recover from the economic and social damage of the crisis, and make EU Member States’ economies and societies more sustainable, resilient and better prepared for a green and digital future.

In line with the Regulation establishing the RRF (Regulation (EU) 2021/241), the Member States have to submit their recovery and resilience plans to the European Commission. The reforms and investments included in these plans should be implemented by 2026 and should address a significant subset of relevant country specific recommendations issued by the Council in 2019 and 2020. The Member States are required to dedicate at least 37% of the costs of their recovery and resilience plans to investments and reforms directed to climate objectives and a minimum of 20% to the digital transition. To date, the Commission has officially received 25 recovery and resilience plans. Work on the national plans still to be submitted continues and discussions are ongoing. After a thorough assessment, the Commission has tabled proposals for a positive assessment of 20 plans to the Council for adoption. As per Article 20 of the RRF Regulation, the Council has, as a rule, four weeks to adopt the decision for the approval of the positive assessment of the plans. To date, the Council has already approved 18 national recovery and resilience plans, and the Commission has executed first disbursements of pre-financing to most of these 18 Member States.

The Commission agrees that it is important to have transparency about the repayment of NextGenerationEU and SURE bonds.

Repayments of the Union’s borrowing under NextGenerationEU and SURE will be done by Member States benefitting from RRF and SURE loans and by the Union budget for the NextGenerationEU non-repayable support.

The schedule for RRF and SURE loan repayments will be set out in the relevant loan agreement between the Commission and the beneficiary Member State. This schedule will follow a harmonised approach across all Member States requesting a loan. The amounts of loan repayments per Member State will depend on the amount requested and the date when the Member State requests the disbursements.

The repayments of the Union budget for NextGenerationEU non-repayable support will be determined by the budgetary appropriations made available in the context of future Multiannual Financial Frameworks and the annual budgetary procedures. Without prejudice to the decision by the budgetary authority, the Commission assumes in its maturity planning that these repayments would be around EUR 15 billion per year.

The NextGenerationEU repayment streams will enable the Commission to target a maturity profile of the bonds issued under NGEU in line with a predictable and nearly linear decline in financial liabilities. For SURE, the maturity profile is fully aligned with the corresponding loan repayments (back-to-back principle) and the annual ceiling of EUR 10 billion maximum repayments per year as set out in the SURE Regulation **(paragraph 48)**.

***Surveillance of macroeconomic imbalances***

The Commission concurs that the potential of the MIP can be further exploited, to sustain reform momentum to address and prevent risks to macroeconomic stability of the Member States, the euro area or the EU. The Commission also concurs that the MIP scoreboard used for surveillance purposes should be focused. The Commission believes that the MIP scoreboard has performed satisfactorily in capturing macroeconomic risks and stresses that it has been fine-tuned over time as per the regulation requirements.

The Commission also strives to make all the indicators and thresholds it uses, notably those in the MIP, transparent and based on high quality statistics, and efforts towards this will continue. It stresses that the MIP scoreboard is to be used as a tool to facilitate early identification and monitoring of imbalances by being subject to an economic reading in the Alert Mechanism Report, and that the interpretation of the scoreboard and its indicators is not a mechanistic exercise **(paragraph 50)**.

***Governance***

The upcoming EU economic governance review will take into account environmental objectives in accordance with the EU’s climate, environmental and sustainable development commitments. The implementation of the European Pillar of Social Rights and the 2030 headline targets on employment, skills and poverty reduction, are part of the European Semester process and will also be duly taken into account by the Commission in its review of the framework.

The revised Social Scoreboard will be part of the policy coordination framework in the context of the European Semester. It will also be used for the purpose of monitoring Member States’ performance in relation to the European Pillar of Social Rights and the recently adopted Action Plan including the three EU headline targets on employment, skills and poverty reduction which are being translated by Member States into national targets (expected by early 2022). The concepts of competitive sustainability and fairness should continue to be the overarching priorities of the EU’s long-term growth strategy. The economic and social aspects of the EU’s commitments under the Paris agreement and the Green Deal should figure prominently among these priorities and be monitored in the European Semester **(paragraph 63)**.

As regards the design and implementation of macroeconomic adjustment programmes, the Commission has taken due note of the European Parliament’s position on Regulation (EU) No 472/2013. The Commission will continue to actively engage with stakeholders and further its own reflections on the implementation of this regulation on the basis of the criteria set out in its Article 19, namely: (i) the effectiveness of the regulation; (ii) progress in ensuring closer coordination of economic policies and sustained convergence of economic performance of the Member States in accordance with the TFEU; and (iii) the contribution of this regulation to the achievement of the Union’s strategy to growth and jobs. The Commission will finalise its position regarding Regulation (EU) No 472/2013 as well as on the other pieces of legislation that are part of the Economic Governance Review after the stakeholder consultation process **(paragraph 69)**.