ECO/506
Economic governance review 2020

OPINION

European Economic and Social Committee

Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions – 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) 55 final]

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1. **Conclusions and recommendations**

1.1 The EESC welcomes this review because a revision of the economic governance framework is necessary. We are living through a historic phase in which there is an urgent need to breathe fresh life into the founding values of the European Union and achieve a genuine economic and social union in order to form the basis for a political union based on democracy and cohesion. The EU must demonstrate that it is a solidarity-based community, promoting the well-being of the people, as set out in the Treaty on European Union (TEU)[1],[2]. The COVID-19 crisis is a massive shock, requiring full financial power. Harmony of purpose is needed to contain the economic and social consequences of this pandemic and to share the burden of the resulting damage equitably within and between Member States. Important short-term measures have already been established like the activation of the fiscal framework's general escape clause. Instead of a "return to normal" too quickly, the EESC recommends a "turn" towards a revised economic governance framework as set out in the present opinion.

1.2 The EESC points out that to be comprehensive, this second five-yearly review of the specific measures introduced since the financial crisis, known as the "Six Pack" and "Two Pack", would also have to cover all the rules established since 2010 aimed at ensuring the implementation, closer coordination and greater convergence of the economic and financial policies of the Member States. The EESC also calls for the pivotal question of how to shape economic governance to be debated at the upcoming conference on the future of Europe. In such a context, adapting the TFEU's economic governance provisions to the EU's current economic reality should not be taboo. For example, despite a very expansionary monetary policy, we are facing the threat of deflation.

1.3 The EESC believes that a proper review of economic governance requires a comprehensive review of economic policy objectives. The EESC advocates a prosperity-focused economic governance, where people's social and economic well-being is prioritised so that no one is left behind. Therefore, the Committee calls for a balanced economic policy that stresses the importance of and gives equal weight to a range of key policy objectives such as sustainable and inclusive growth, full employment and decent work, fair distribution of material wealth, public health and quality of life, environmental sustainability, financial market stability, price stability, well-balanced trade relations, a competitive social market economy and stable public finances. Within the economic cycle, flourishing public and private investment is both the basis and the result of a stable economic environment.

1.4 Stable public finances create economic resilience and confidence and are in the self-interest of each Member State. However, they depend on many parameters and in many instances cannot be steered at national level. Efforts to reduce public expenditure, particularly if poorly designed, are likely to have adverse short to medium term effects on other key policy objectives, as well as impacting, potentially negatively on other Member States. The current fiscal rules and country-specific recommendations have led to restrictions on government expenditure and

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1 EESC opinion on the *Future of European Solidarity Fund*, [OJ C 181, 21.6.2012, p 52](#).

2 Treaty on European Union, Article 3(1).

public investment, especially in health systems, resulting in a prolongation of the economic crisis and massive hardship for many citizens. Enforcing the rules in this way turned out to be in part procyclical. In times of downturn they even further depressed economies, again putting pressure on public finances. A solidarity-based economic governance should be carried out in such a way that a Member State is not punished but enabled to strengthen its crisis resilience and achieve sustainable and inclusive growth and public finances.-

1.5 The EESC calls for the Commission to begin work on a reform of European economic governance which, particularly in crisis situations, avoids asymmetric effects in the Member States and makes sure that no one is left behind. Decisive action is needed to stimulate economic recovery by implementing the golden rule and activating and coordinating wide-ranging investment plans. In response to the COVID-19 crisis, extraordinary countercyclical policies must be established at EU and national level. The EESC urgently recommends tackling the crisis on the basis of solidarity, as set out in its resolution in June 2020[3]. EU investments are needed in fundamental and priority sectors such as tangible and intangible infrastructure (focusing on health infrastructure), training at every level (particularly vocational and professional lifelong training), ecological recovery and energy, and research (particularly to solve the climate and health crises and to achieve a fair framework for international competition). The best way forward would be to revise and rebalance the economic governance framework as follows:

1.6 Make public finances sustainable in the long run and eliminate macroeconomic imbalances by:

- acknowledging that economic difficulties make budget consolidation and countercyclical fiscal policy extremely difficult;
- supporting sustainable growth and thereby enabling public finances to be strengthened;
- prioritising sustainable and inclusive growth while being aware of fiscal multipliers;
- ensuring sufficient revenues and a fair distribution of the tax burden by combating aggressive tax planning and tax fraud;
- implementing symmetrical indicators showing surpluses as well as deficits;
- placing more weight on employment and social development within the Macroeconomic Imbalance Procedure (MIP) or the European Semester, where an integrated scoreboard with a set of indicators representing key economic objectives should be considered.

1.7 Ensure that fiscal policies safeguard sustainability while allowing for short-term stabilisation by:

- strongly mitigating the influence of economically and technically questionable indicators;
- placing more weight on increasing revenue;
- conducting further analyses in the event of significant deviations, instead of threatening the Member States concerned with financial sanctions.

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3 Resolution on the *EESC proposals for post-COVID-19 crisis reconstruction and recovery* https://www.eesc.europa.eu/en/documents/resolution/eesc-proposals-post-COVID-19-crisis-reconstruction-and-recovery-eu-must-be-guided-principle-being-considered-community

1.8 Bring about key reforms and stimulate sustainable investment by:

- applying the "golden rule" and safeguarding the amount of public assets required to ensure future productivity and prosperity;
- implementing a strategic investment plan;
- making public support conditional on sustainable and social criteria.

1.9 Put forward an economic governance framework based on solidarity with responsibility, by:

- developing solutions together with the affected countries on an equal footing in the event of significant deviations by targeting sustainable and inclusive growth;
- basing economic governance on a balanced technical assessment as well as on a more democratic decision-making process by enhancing the role of the European Parliament;
- involving the social partners and civil society to a greater extent so that all interests are reconciled;
- making consultation of the EESC mandatory as the competent EU body to pass on civil society's views to EU decision-makers.

1.10 Provide balanced economic governance by deepening the Economic and Monetary Union (EMU) in the following areas:

- reinforcing its financial, economic, social and political pillar in a balanced way;
- implementing a stabilisation function in order to pursue a common countercyclical policy;
- combating the disastrous consequences of the COVID-19 crisis in a solidarity-based way;
- issuing a long-term common debt instrument accompanied by measures to distribute the tax burden fairly;
- deepening the banking and the capital market unions to further consolidate the single market by introducing effective regulation.

2. Background

2.1 Following the financial crisis of 2008, the SGP was tightened through the 2011 "Six Pack" legislative package. The preventive part of the SGP requires countries which deviate from their medium-term budgetary objective to improve their structural budgetary positions by at least 0.5% of GDP per year. An expenditure benchmark was also set. For countries with debt levels exceeding 60% of GDP, it also requires a debt reduction of approximately 1/20th per year, with the prospect of an EDP under the corrective arm of the SGP in the event of non-compliance. A procedure for addressing macroeconomic imbalances (MIP) was also introduced. Non-compliance with the SGP or "Six Pack" rules was generally associated with the prospect of harsh penalties[4]. Closer surveillance of budget policy and macroeconomic indicators was embedded in the European semester, thus imposing a timeline. The 2013 "Two Pack" rules created a framework for countries experiencing, or having experienced, financial difficulties. It also provided for a specific EU review of the euro area Member States' draft budgets before their adoption by national parliaments.

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4 So far, this procedure has never been used, either because the Commission was satisfied with the reforms offered by the Member State or because it considered it politically unfeasible. (See *The European Semester for economic policy coordination: A reflection paper*, European Parliament, October 2019, PE 624.440).

2.2 The European Commission is reviewing the economic governance framework, in particular the "Six Pack" and "Two Pack". It noted even before the COVID-19 crisis that the environment had changed, referring to lower potential growth, lower interest rates and inflation and the challenge to become more climate-friendly and adjust to digitalisation and an ageing population. The Commission has drawn positive conclusions about the EDP, as all Member States had respected the 3% of GDP deficit criterion, while noting that the preventive component of the SGP has lacked traction, as some countries still had deficits that do not provide a sufficient safety margin with regard to that deficit criterion. Debt-to-GDP ratios in the euro area have fallen overall, but discrepancies between countries have widened.

3. General comments

3.1 The EESC welcomes this statutory five-year review process of the economic governance framework. It is now coinciding with the biggest crisis in peacetime for a century. This review must reflect the impacts of that shock, and provide equitable solutions for a governance framework that restores growth and prosperity to all Member States. This can only be achieved if they all firmly support a genuine economic and social union, which is the basis for a political union based on democracy, cohesion, mutual assistance, solidarity and responsibility. However, the Commission's Communication is incomplete because it focuses mainly on evaluating the results of the "Six Pack" and "Two Pack" rules without giving equal consideration to the other approved measures for fostering economic policy coordination. The EESC calls for the pivotal question of how to modernise economic governance to be debated at the Conference on the Future of Europe. Adapting the TFEU's economic governance provisions should not be taboo. As the questions for the public debate (see section 4) are formulated in a way that limits the ability to gain a comprehensive overview, the EESC puts its general reflections in this section.

3.2 The EESC advocates prosperity-focused economic governance, where people's social and economic well-being is prioritised so that no one is left behind. Therefore, the Committee calls for a balanced economic policy that stresses the importance of and gives equal weight to a range of key economic and societal policy objectives that are highly interconnected: sustainable and inclusive growth, full employment and decent work, fair distribution of material wealth, public health and quality of life, environmental sustainability, financial market stability, price stability, well-balanced trade relations, a competitive social market economy[5] and stable public finances. These objectives are consistent with both the objectives set out in Article 3 of the EU Treaty and with the current UN Sustainable Development Goals (SDGs).

3.3 In terms of policy measures, the above means, firstly, achieving sustainable and inclusive growth by increasing demand, and therefore output, through sustainable consumption and productive investment; secondly, addressing social inequalities through a high level of social protection, high-quality jobs and living wages within the Member States and the EU as a whole; thirdly, tackling the climate and health crises by promoting public and private investment in digital technology, healthcare, energy saving, infrastructure, training, research and development.

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5 See the concept of competitiveness outlined in EESC opinion on *National Competitiveness Boards*, OJ C 177, 18.5.2016, p. 35.

Stable public finances and the ability to boost demand during economic downturns are in the self-interest of every Member State. However, economic policy goals are highly interconnected and many parameters cannot be steered at national level. A solidarity-based economic governance should help Member States to achieve sustainable and inclusive growth and finances and become resilient against crises.

3.4 The EESC regrets that the economic governance adopted so far has mainly been focused on achieving stable public finances by reducing sovereign deficit and debt. The EESC acknowledges that the MIP and the European Semester may have played a role in putting forward country-specific recommendations aimed at promoting structural reforms. In order to implement a balanced economic policy, it will be important that these tools also focus on key economic and societal policy objectives (see point 3.2) and play a more prominent and effective role in any governance reform. The Sustainable Growth Survey considers the environment, productivity, stability and fairness. Nevertheless, the procedural imbalance remains: The Sustainable Growth Survey is a non-binding process based on the principle of naming and shaming, whereas the SGP provides for a procedure with clearly defined time limits and specific sanctions (see point 4.7.1).

3.5 Economies in which national fiscal policies recognise the need to build revenue reserves in times of growth, while still ensuring the investment necessary for future prosperity, will be more resilient in combatting the adverse impacts of an economic downturn. Poorly designed and implemented budget-balancing – particularly if this comes at a time when countries are still in an early phase of recovery – dangerously restricts room for manoeuvre in fiscal policy, and if undertaken in an uncoordinated way within the euro area also leads to significant falls in demand in other Member States. Adjustment via national fiscal policy is especially important in the euro area, given that national monetary, interest rate and exchange rate policies are not an option at Member State level. Some concurrent fiscal consolidation measures across the EU dragged out the economic and financial crisis until 2014, and austerity during the downturn meant massive hardship for many ordinary people. Although social indicators in the euro area have improved overall between 2014 and 2020, they have remained below pre-crisis levels in a number of countries. Public investment also shrank from 3.7% of GDP in 2009 to 2.7% of GDP in 2017. Moreover, this has negatively affected GDP growth and therefore also the debt-to-GDP ratio. The Commission must pay greater heed to the worsening consequences of the slowdown in growth. The EESC draws attention to its previous recommendations[6] – not, as yet, taken on board – regarding a review of the rules.

3.6 Safeguarding price stability nowadays and very likely also in the near future actually means avoiding deflation rather than inflation. Monetary policy is vital for the stability of public households and the economy as a whole. The ECB's apparent role as a lender of last resort must be consolidated so that countries do not have to rely solely on refinancing through the financial markets. In the context of the COVID-19 crisis, the EESC welcomes the ECB's measures to keep bond market spreads under control. In the face of an economic emergency, the ECB must

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6 See EESC opinions on *Economic governance review*, OJ C 268, 14.8.2015, p. 33, and on *Economic and Monetary Union package*, OJ C 262, 25.7.2018, p. 28.

be ready to extend quantitative easing. However, a balanced economic policy would be served by both an inflation target and a target for inclusive and sustainable growth for monetary policy.

3.7 In response to the COVID-19 crisis, a decisive and extraordinary common countercyclical policy approach must be taken to prevent mass unemployment and provide services of general interest and public infrastructure with more resources and personnel, where needed, especially in the social security and healthcare systems. As the experiences of the 2008 financial crisis and the 2020 pandemic crisis force us to conclude that equally critical situations may well occur in the future, the EMU must be deepened (see point 4.6). The EESC reaffirms that, in the face of any crisis, the EU must demonstrate that it is not only a community of economic interests but also – and above all – a solidarity-based community[7]. This principle must govern EU policies, as well as the principle of promoting the well-being of the European people, set out in the Treaty on European Union (TEU)[8].

3.8 The EESC welcomes the activation of the fiscal framework's general escape clause, which has fortunately been introduced as an option for all EU Member States as part of the "Six Pack". The question is how quickly a return to the "normal" fiscal rules will be demanded. The EESC warns against "returning to normal" too quickly as it could trigger a new recession. Instead of a "return", the EESC recommends a "turn" towards a revised economic governance framework as indicated below.

4. Specific comments on the issues identified in the European Commission's public consultation

As observed in point 3.1 above, the EESC points out that the questions for the public debate are formulated in a way that limits the ability to gain a comprehensive overview. The specific answers below should be seen in conjunction with the general points made by the EESC on the economic governance framework in section 3.

*4.1 Improving the framework to **ensure sustainable public finances** in the long term and **eliminating macroeconomic imbalances***

4.1.1 The Commission continues to argue for an effective preventive arm and for the swift implementation of the fiscal policy recommendations without supplying solutions to the difficulties some Member States face and without addressing the effects on other key economic objectives. Achieving the debt benchmark has proven to be extremely difficult, especially in highly indebted countries with low growth, low inflation and high debt financing costs. Cutting current expenditure and public investment to comply with the medium-term objective goes hand in hand with significant repercussions in the form of lower levels of social spending, employment and economic growth. However, the present economic crisis is a wake-up call to create fiscal space for countercyclical fiscal policy.

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7 EESC opinion on the *Future of European Solidarity Fund*, OJ C 181, 21.6.2012, p 52.

8 Treaty on European Union, Article 3(1).

4.1.2 The EESC points out that ensuring sustainable finance will not work by tightening the procedures but by changing economic policy perspectives. The EU governance framework has an essential role to play in enabling Member States to make progress on strengthening public finances and supporting them to bring public expenditure and revenues into long-term balance. Firstly, it needs to focus on sustainable and inclusive growth and take into account fiscal multipliers. When GDP slows, a fiscal stimulus may accelerate income and reduce the debt-to-GDP ratio. Higher growth creates room for more investment and sufficient financing of the social pillar and thereby triggers demand. In this connection, a further analysis to determine the extent to which improvements of fiscal indicators are due to the economic governance framework or to favourable economic developments could also help.

4.1.3 Secondly, more emphasis is needed on increasing revenue than on cutting expenditure. The pressure to reduce taxes on mobile factors of production together with aggressive tax avoidance and tax fraud limits the design of revenues and distorts competition. However, on top of that, it also creates pressure to cut the expenditure of the social, educational and health sectors, often seen as the easiest way to reduce debt in the short run. To safeguard a sustainable public budget fairly, this shortcoming has to be countered by coordinated tax policies. Measures against tax fraud already do much to ease pressure on public budgets. However, annual losses due to VAT evasion and avoidance alone are estimated to amount to EUR 147 billion[9], whereas the sum of the deficits of all the EU Member States was EUR 114 billion in 2018.

4.1.4 Thirdly, surpluses and deficits should be treated equally seriously for the purposes of economic governance. This is the only way to correct imbalances between countries. The Commission makes the welcome argument that bringing current account balances, both deficits and surpluses, more into line in the euro area would help promote upward convergence and have a positive impact on nominal growth. In fact, some countries should have reduced current account surpluses by means of more expansionary policies aimed at stimulating domestic demand, but have not done so. And other countries with structural imbalances due to low levels of productivity and competitiveness should have stepped up investment in training, increased spending on research and development, and upgraded productive activities. However, limited financial resources have not allowed this.

4.1.5 A welcome step is the expansion of the MIP to include adjustments in relation to employment and social developments. Notwithstanding the scope of the MIP, surveillance has remained anchored to aspects that the Commission considers relevant for macroeconomic stability such as productivity and competitiveness. This perspective is too narrow, since imbalances in social spheres also pose a risk to macroeconomic stability. For instance, high unemployment has a negative impact on economic demand, the financial system (bad debts) and government budgets. Greater attention should be paid in particular to the issue of wage growth lagging behind labour productivity in 15 Member States since 2010. Environmental factors are not addressed, even though the climate crisis could have a huge negative impact on macroeconomic sustainability.

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9 COM(2019) 8 final, p. 4.

4.2 Responsible ***fiscal policies*** *to safeguard long-term sustainability while allowing for short-term stabilisation*

4.2.1 Redesigning the preventive component of the SGP was intended to ensure that the automatic stabilisers can take effect during difficult periods. This intention is welcome, but nonetheless procyclical policies have persisted. The main reasons were long-lasting economic difficulties in many Member States, which made countercyclical fiscal policy difficult. Another cause was severe problems with the indicators, such as a lack of certainty over how to define the output gap and different calculation methods for estimating potential GDP in the various countries. The complex procedures for estimating structural budget balances mean that results are repeatedly subject to major corrections[10]. However, GDP itself is also a result of statistical estimates which are subject to errors and major retrospective revisions. Moreover, there is no way to directly influence the value of these indicators through policy measures. The EESC recommends strongly mitigating their considerable influence on the development of current economic policy and, particularly, abandoning the concept of structural budget balances.

4.2.2 As an alternative, an indicator that captures the relationship between medium-term expenditure and revenue trends could become more relevant. For instance, growth in nominal expenditure can be adapted to the medium-term growth rate of potential output plus the ECB inflation target, corrected for discretionary revenue measures. But no matter how fiscal rules are designed, they can always produce unfavourable scenarios. Therefore, deviations should not entail automatic consequences, but trigger a more detailed technical analysis taking on board all key economic policy objectives and a decision-making process involving relevant stakeholders (see point 4.4). After all, budget deficits are caused by a multitude of factors. Country-specific circumstances, the overall economic situation, and the complex interplay between economic policy goals must be considered.

4.3 Incentives for ***key reforms and investment*** *to tackle economic, social and environmental challenges while preserving safeguards against sustainability risks*

4.3.1 Even with investment and structural reform clauses included in the SGP, it has not been possible to prevent public investment from falling during consolidation phases. Although it is sensible to make the implementation of fiscal rules more flexible, it has proven to be insufficient. Therefore, the EESC recommends applying the "golden rule" for public investment to safeguard productivity and the social and ecological base for the well-being of future generations. This means removing net investment for the future from the calculation of relevant deficit indicators. It is incomprehensible why, unlike with private investments, the depreciation of public investments over a clear time span, defined by the serviceable lifetime of the asset, is not applied.

10 The uncertain nature of estimated structural balances can be seen in the case of Germany. In May 2017 the Commission estimated the balance to have shrunk by 0.25% between 2016 and 2017. In May 2018, these estimates were revised to show an increase of 0.35% over this period, resulting in an adjustment of the structural balance by 0.6% of potential economic performance. This is a very stiff adjustment, bearing in mind that Germany is a relatively stable economy and that no large shocks took place in 2017.

4.3.2 Public assets are needed in order to secure prosperity, and generate future income and competitiveness in the long term. This is particularly true when it comes to implementing the Green Deal and guaranteeing a modern health, education and technological infrastructure. Since this also ensures economic, social and environmental sustainability for future generations, who will also gain from potential returns, those generations should be expected to help finance such investment. Macroeconomic imbalances can also be reduced through key investment for the future. In addition, public investment is an important way to promote countercyclical but growth-friendly policy, while boosting demand fosters short-term sustainable growth.

4.3.3 The EESC also recommends a common strategic investment plan, whose scope should range from tackling the climate crisis to developing the technology sectors, and supporting structural change in traditional industrial sectors and the modernisation of social services. The Committee welcomes the announced strengthening of InvestEU, the creation of a strategic investment facility and a solvency instrument as well as the planned recovery instrument and the finance available from the EIB agreed in April 2020. As always, public aid and guarantees must be transparent and evaluated alongside social, environmental and fiscal concerns.

*4.4 A **simpler** and more transparent **EU framework** focusing on the surveillance of Member States with more **pressing challenges** and ensuring **quality dialogue***

4.4.1 The complex regulatory system reflects the difficulty of capturing highly diverse developments in harmonised rules. As an alternative, the EESC recommends a clear set of indicators and detailed analysis in the case of significant deviations from these, covering all Member States in terms both of surpluses and of deficits. Pecuniary sanctions make no sense, particularly as part of excessive deficit procedures. Reputational damage can further compromise creditworthiness and competitiveness. Sanctions also amplify centrifugal forces and it will not be possible to deepen EMU without solidarity. Economic governance should be carried out in such a way that a Member State is not punished but enabled to achieve sustainable finances.

4.4.2 Instead of discussing different kinds of incentives, economic governance has to be based on a balanced technical assessment taking into account all key economic policy objectives and on a broad democratic and transparent decision-making process. The European Parliament is to be given a much more prominent role in ongoing decisions within the economic governance framework. Since many aspects of the SGP only concern the euro area, a special EMU grouping could be responsible for this in the European Parliament. The Eurogroup's decisions should become more transparent

4.4.3 The EESC also points out the need to involve civil society to a greater extent in economic decision-making at EU level and therefore also highlights the importance of social dialogue. This way, a balanced economic policy can be established, where all interests are reconciled and basic needs can be better taken into account. Given its economic and social stance, the European Economic and Social Committee considers itself to be the competent EU body to contribute to such a bottom-up approach. However, the EESC is not mentioned at all in Title VIII of TFEU on Economic and Monetary Policy, nor in the provisions on economic dialogue in the "Six Pack" and "Two Pack" rules. This omission should be corrected in any future changes to the economic governance provisions in the TFEU, the "Six Pack" and "Two Pack".

4.4.4 In the event of significant deviations from indicators representing the economic policy objectives, a more detailed analysis should follow, as well as a discussion with the Member State concerned on an equal footing about the reasons for imbalances and the introduction of positive incentives. Promotion of inclusive and sustainable growth must be the key criterion in recommendations. Addressing deviations from, for example, deficit criteria by proposing, for instance, a green industrial policy, is in a country's own interests and makes the imposition of sanctions obsolete.

*4.5 **National fiscal frameworks** and their interaction with the EU fiscal framework*

4.5.1 The budget rules of the fiscal compact and the "debt brakes" anchored in the constitutions of some countries are less flexible than economic governance at EU level. This can result not only in complexity and discrepancies but also in counterproductive adherence to fiscal policy rules. At Member State level, balancing the budget should be part of a prosperity-oriented economic policy.

*4.6 Taking account of the **euro area dimension** and the agenda for **deepening EMU***

4.6.1 The EESC fully shares the Commission's view that the effectiveness of economic governance would be improved by deepening the EMU. The EESC recommends reinforcing the monetary policy/financial, economic, social and political pillars in a balanced way[11]. Overall, a plan for the deepening of the euro area is needed that goes beyond the limits set out in the Maastricht Treaty. Efforts must be immediately directed towards the key economic policy objectives of an economic policy geared to well-being. Member States that have not yet joined the euro area will need to join it and they should do so as soon as possible. In the light of current developments, the objective of economic recovery in particular needs to be given the highest priority.

4.6.2 The EESC notes that the Commission repeatedly mentions that, in the absence of a central fiscal capacity with stabilisation features, the ability to steer the fiscal stance remains limited. In the past, the EESC has stressed that enhanced fiscal capacity is key for the proper management of the EMU. Common countercyclical economic policy is needed to underpin countercyclical policies at national level. A stabilisation function has to be introduced, but its support must be tied to conditionalities in line with the SDGs and the European Pillar of Social Rights. If the European Stability Mechanism (ESM) is used for this purpose, its intervention must not be bound to conditions harming sustainable and inclusive growth.

4.6.3 The EESC strongly supports the idea of kick-starting the recovery on the basis of solidarity, as set out in its resolution of June 2020[12]. In the long run, an instrument backed by common guarantees from euro area countries would help to reduce budgetary imbalances. However, it

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11 EESC opinion on *A new vision for completing the Economic and Monetary Union*, OJ C 353, 18.10.2019, p. 32.

12 Resolution on the *EESC proposals for post-COVID-19 crisis reconstruction and recovery* https://www.eesc.europa.eu/en/documents/resolution/eesc-proposals-post-COVID-19-crisis-reconstruction-and-recovery-eu-must-be-guided-principle-being-considered-community

can only be a safe asset and resilient against major crises affecting the eurozone as a whole if public revenues are not further jeopardised by tax evasion. The EESC therefore recommends implementing accompanying measures to combat aggressive tax planning and tax fraud. A safe asset should be issued via a vehicle under democratic control and focus on supporting social progress and sustainability. Joint government bonds would also lessen the fragility of the financial sector.

4.6.4 Financial markets and public finances are highly interconnected. Financial crises have shown the potential for market participants to increase instability by raising borrowing costs for governments in difficulty. Within a "doom loop", the government may need to raise debt to recapitalise banks, resulting in a decrease in confidence in public finances and the value of bonds, again putting pressure on banks. Trying to avert these risks mainly through restrictive fiscal rules puts even more harmful pressure on public budgets. To efficiently mitigate the financial market risk, the banking and capital market unions also need to be deepened by prioritising efficient regulation. After all, fiscal stability will be compromised unless systemic financial market risks are contained. Finally, the international role of the euro needs to be strengthened on the basis of a stable, economically strong and socially balanced EMU.

4.7 Interplay between the SGP and the MIP in the ***European Semester***

4.7.1 The general intention is for both the European semester, together with the sustainable growth survey, and economic governance to be based on the goals of a prosperity-focused economic policy. This being the case, together with a more democratic approach, the European semester should become more binding. An integrated scoreboard with all social, environmental, economic and fiscal targets would help to introduce a balanced approach.

Brussels, 18 September 2020

Luca JAHIER
The president of the European Economic and Social Committee

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