European Economic and Social Committee

OPINION

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Additional considerations on the Annual Sustainable Growth Survey 2022

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[own-initiative opinion]
Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank
Annual Sustainable Growth Survey 2022
[COM(2021) 740 final]

ECO/589

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1. Conclusions and recommendations

1.1 Since the adoption of the first opinion on the Annual Sustainable Growth Survey 2022 (ASGS 2022), the situation has changed dramatically due to the Russian aggression against Ukraine. In the following, EU real GDP growth estimations were downgraded and inflation forecasts of the Eurozone were revised up to an all-time high, triggered largely by price hikes in the gas market. The EESC acknowledges that all key objectives of a prosperity-oriented economic policy are under pressure, while geoeconomic fragmentation and tensions as well as COVID-19 remain serious risk factors.

1.2 The EESC explicitly reiterates its call for a balanced economic policy approach to tackle longstanding problems and to respond to the current crises. The EU's goals as outlined in Article 3 of the TEU constitute the basis for the EU's past, present and future prosperity, political stability, upward convergence, competitiveness and resilience. The current crisis must not be allowed to jeopardise fairness and environmental goals. With regard to rising prices, there is an urgent need to protect the most vulnerable and specifically exposed companies, in particular SMEs. Moreover, it is crucial to safeguard the purchasing power of low and medium-income households, who constitute a major part of economic demand. Solidarity with the people in the Ukraine, enhancing the EU's strategic autonomy and striving for peace should also take centre stage.

1.3 The Recovery and Resilience Facility (RRF) has become the key tool for delivering on the EU policy priorities under the European Semester (the Semester). It has helped to stabilise the economy during the pandemic and is playing a key role in responding to the current crisis. The EESC calls for the National Recovery and Resilience Plans (NRRPs) to be implemented in a such way that they have a tangible impact on people's wellbeing. As the Country Specific Recommendations (CSRs) are going to play a more significant role, the EESC calls for careful monitoring and a balanced approach. The EESC calls for a reform of the Semester which guarantees quality participation of organised civil society (OCS). Concerning the NRRPs, the EESC welcomes the recommendation "*drawing on the successful application of the partnership principle*", and calls for making the involvement of OCS mandatory.

1.4 The EESC welcomes the increase in the renewable energy and efficiency targets and stresses that environmental sustainability must take centre stage, while also calling for a reform of the European electricity market to be promoted swiftly and as a matter of urgency. Massive investment is needed to promote the green transition and enhance strategic autonomy, and the EESC calls on the Commission to provide a structured view, showing which EU funds should be used and to what extent investment should be covered by EU programmes, Member States, or private or blended financing tools. The EESC recommends implementing a Climate Adjustment Fund and, in future, also looking into strengthening NextGenerationEU (NGEU) and/or InvestEU. When restructuring funds or drawing up the new Multiannual Financial Framework, the EESC warns against cutting funds relating to social objectives.

1.5 The completion of the single market should further upward convergence between Member States. Distortions and barriers should be tackled and the regions should be supported to unlock their full potential. Progress is needed in completing the Capital Market and Banking Union as well in implementing the sustainable finance strategy is equally needed as ensuring financial market stability. The EESC calls for a fair and balanced approach to the enhancement of the business environment and productivity. Training and research remain vital tools to boost competitiveness and a fair twin transition and strategic autonomy. The EESC welcomes the proposals highlighted in the Communication on *Our European Growth Model*, but also stresses the importance of enhancing strategic autonomy, relocating the production of key products in the EU and not neglecting social and environmental goals along supply chains.

1.6 The Commission rightly claims that public support to stimulate private investment needs to be well directed towards projects with clear added value, and competition policy should play a key role. The EESC stresses the importance of transparency and monitoring to ensure integrity and to achieve the intended goals. Windfall effects should be avoided by ensuring that investments that would have been made anyway are not subsidised, and public budgets should not be overburdened with risks. Finally, state aid measures should also be linked to the creation of quality jobs and to respect for workers' rights, environmental standards and fiscal obligations.

1.7 The EESC supports the Commission's recommendations for allowing automatic stabilisers to operate, enhancing investment and to continuing to apply the general escape clause throughout 2023. However, the EESC has reservations concerning the limitation of the growth of nationally-financed current expenditure below medium-term potential output, and the intention to assess the relevance to open excessive deficit procedures in spring 2023. Thus far, the EU fiscal rules have barely been implemented and the sanctions have never been applied. The EESC reiterates its call for the fiscal framework to be modernised by setting realistic targets and incorporating a golden rule without jeopardising medium-term fiscal sustainability, while guidelines for a transition period should be put forward. A sound of value of the Euro has to be safeguarded, through a balanced monetary and fiscal approach in line with sound macroeconomic governance. Finally, the EESC highlights that a fair system of expenditure *and* revenue is a precondition for fiscal sustainability.

2. General comments

2.1 In February 2022, the EESC adopted an opinion on the ASGS 2022[1]. At that time, the EU had recently gone through the deepest recession in its history[2], while unprecedented supportive measures had been taken to soften the blow and stave off an unstable situation. With NGEU the EU had reached a new phase of economic policy and solidarity. As the Commission had allotted a significant role to the Semester in the RRF and therefore increased its importance for policy coordination, the EESC reiterated its call for closer involvement of OCS. The EESC welcomed the competitive sustainability agenda, while highlighting that its four dimensions – environmental sustainability, productivity, fairness and macroeconomic stability – should be placed on equal footing in order to achieve the intended reinforcing effects and a just green and digital transition.

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1 See EESC opinion on Annual Sustainable Growth Survey 2022, OJ C 275, 18.07.2022, p. 50.

2 See European Economic Forecast. Spring 2020 (europa.eu), page 1.

2.2 As in previous years, the additional opinion takes into account the ongoing Semester process and provides input for the next cycle. This is particularly important this year. Since the Russian aggression against Ukraine, the geopolitical landscape has changed dramatically, priorities have been shifted and policy has been adapted, as reflected in the Communications on *RepowerEU*[3] and *Our European Growth Model*[4]. The Semester, which is itself undergoing a systemic change, has proved to be a credible framework for EU policy coordination during the pandemic. In the Spring Package, the implications of the current crisis are again reflected comprehensively. Similar to the Communication[5], this opinion is structured around the dimensions of the competitive sustainability agenda.

2.3 The war in the Ukraine and the ensuing sanctions, together with containment measures applied in China and the deceleration of growth in the US, are hitting the EU economy. The rapid increase in energy and food commodity prices is feeding inflation, which erodes purchasing power and impedes competitiveness. The EU is vulnerable because of its geographical location, its heavy reliance on imported fuels and high integration in global value chains. In the Summer Forecast, real GDP growth estimations were downgraded to 2.7% in 2022, while inflation forecasts were revised up to an all-time average high of 8.3% in 2022[6]. The Commission stresses that the "*unprecedented nature and size of the shocks ushered in by the war*" make projections highly uncertain. Further price increases, combined with second round effects, could reinforce stagflationary forces and political repercussions are likely. Geopolitical tensions and COVID-19 remain serious risk factors[7].

2.4 The recent crisis puts pressure on all the key objectives of a prosperity-oriented economic policy[8], namely environmental sustainability, sustainable and inclusive growth, full employment and high-quality work, fair distribution, health and quality of life, financial stability, price stability, balanced trade based on a fair and competitive industrial and economic structure, and stable public finances. The EESC explicitly repeats its call for a balanced policy approach, which focuses on all of these objectives in order to tackle longstanding problems and to respond adequately to the present recent crises, in line with Article 3 TEU. Sticking to the EU's aims and principles was the basis of the EU's past prosperity, and also constitutes the basis for present and future political stability, upward convergence, competitiveness and resilience to new crisis. The EU's reaction to the Russian aggression must not jeopardise fairness and environmental goals.

2.5 The reasons for the unprecedented price hikes are manifold and also include European policy deficiencies. Commission President Ursula von der Leyen has quite rightly stated that the current electricity market design no longer works and needs to be reformed[9]. The EESC urges

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3 COM/2022/230 final.

4 European Commission Communication on Towards a green, digital and resilient economy: our European Growth Model.

5 2022 European Semester: Spring Package Communication | European Commission (europa.eu).

6 Summer 2022 Economic Forecast: Russia's war worsens the outlook (europa.eu).

7 Spring 2022 Economic Forecast: Russian invasion tests EU economic resilience | European Commission (europa.eu).

8 See EESC opinion on Annual Sustainable Growth Survey 2022, OJ C 275, 18.07.2022, p. 50.

9 Speech of Commission President Ursula von der Leyen during the debate at the plenary session of the European Parliament (08/06/2022) on the conclusions of the special European Council meeting of 30 and 31 May 2022.

the Commission and the Council to swiftly push forward a reform of the EU energy market, and as part of that also to tackle detrimental short-term volatility and long-term price increases. The EESC strongly calls for drastic, extraordinary and also temporary measures to be taken. Possible starting points include the merit order effect, the EU Energy Exchange (EEX), the misuse of market power and the impact of speculative transactions and high-frequency trading. Electricity prices should be decoupled from gas prices and price caps should be taken into account. Windfall profits should be skimmed off by levies, with care taken not to discourage investments in low-carbon solutions.

2.6 The key focus of the EU's priorities must be solidarity with the people in Ukraine, enhancing the EU's strategic autonomy and striving for peace. This is in line with Article 21 TEU, which states that – amongst other things – the Union is to pursue policies to "*safeguard its values, fundamental interests, security, independence and integrity*", "*consolidate and support democracy*" and "*preserve peace, prevent conflicts and strengthen international security*". To that end, the EESC also acknowledges the objectives enshrined in the Council's Versailles Declaration, namely reinforcing EU sovereignty by reducing its strategic dependencies, increasing security of supply in the area of critical raw materials and phasing out fossil fuel dependencies on Russia. The EESC welcomes the steps being taken in order to progressively phase out fossil fuel dependencies and calls for further action in that direction.

2.7 The RRF has become the key tool for delivering the EU policy priorities under the Semester and, indeed, it already has decisively helped to stabilise the economy during the pandemic, to amplify the twin transition and to step up cooperation between Commission and Member States. Henceforth, the RRF will play a key role in mobilising and steering resources to respond to the recent crisis and to implement REPowerEU. Member States are invited to propose a dedicated REPowerEU chapter in their NRRPs on the basis of the new CSRs. The EESC stresses the importance of implementing the updated NRRPs in an effective and sustainable way, so that they have a positive and tangible impact on people's wellbeing. However, linking the achievement of the goals set out in the NRRPs to the disbursement of RRF tranches makes the CSRs more significant. This change in procedures has to be monitored and evaluated and the EESC calls on the Commission and the Council to ensure a balanced approach.

2.8 In particular, closer involvement of social partners and civil society organisations in the Semester process is necessary at national level, in order to ensure that all societal groups are properly represented, to foster tailored-made solutions fully supported by OCS and to achieve broad ownership of the NRRPs. The EESC calls for a reform of the Semester which guarantees effective and quality participation with a directive or a regulation. During a formal consultation process based on rules and transparent procedures, civil society organisations should be duly informed in writing and given sufficient time to analyse the proposals and draft their remarks and proposals. The inclusion or rejection of these proposals should be accompanied by a justification contained in public documents.

2.9 In the context of the NRRPs, the EESC appreciates the Commission's recommendation on "*drawing on the successful application of the partnership principle in cohesion policy programming and implementation*", as called for by the EESC in its opinion on ASGS 2022.

The involvement of OCS has to become mandatory. In its first resolution[10] on civil society's involvement in the design of the plans, the EESC concluded that this was largely insufficient in a majority of Member States and called for minimum standards to be laid down for such consultation. In its second resolution[11], the EESC called on many Member States to improve CSO involvement, transparent implementation and monitoring, as well as provision of information to the public, while encouraging further dialogue on NRRPs with all stakeholders, which could also help to prevent misuse and fraud. Moreover, the resolution includes good practices, such as establishing a monitoring body that includes OSC, which can serve as an example for other Member States. During its annual conference, the EESC's European Semester Group renewed its call to make civil society participation mandatory by law[12]. The call for proper involvement of OCS and local and regional authorities is also reflected in the joint own-initiative report of the Committees on Budgets and on Economic and Monetary Affairs on implementation of the RRF[13], providing the European Parliament's input to the review report on RRF implementation which the European Commission adopted on 29 July 2022[14].

3. Specific comments

3.1 *Energy and environmental sustainability*

3.1.1 The Commission rightly highlights that accelerating decarbonisation "*will reduce our dependence on fossil fuels while also helping reach our 2030 climate goals*". The EESC stresses that environmental sustainability must take centre stage and welcomes the increase in the renewable energy target to at least 45% of the EU's overall energy mix, along with the energy efficiency target of a 13% drop in energy consumption by 2030 as part of the REPowerEU plan. Similarly, the recommendations concerning investments in energy are welcome, which should focus – among other things – on supporting vulnerable households, promoting sustainable mobility and industry decarbonisation, research and innovation and stepping up infrastructure, including in a cross-border context.

3.1.2 Before the war in the Ukraine, there was already a gap between investment needs and financing. To reach the intermediate goal of a 55% drop in emissions compared to 1990 by 2030, annual additional investment needs have been estimated at up to EUR 520 billion.[15] Further needs arise for upskilling and reskilling, climate change adaptation and key technologies, such as batteries. On the other hand, about 30% of the 2021-2027 EU budget will be spent on the green transition. Cohesion policy is expected to deliver around EUR 100 billion during this decade, and EUR

10 OJ C 155, 30.4.2021, p. 1.

11 See EESC Resolution on Involvement of Organised Civil Society in the National Recovery and Resilience Plans – How to improve it?. OJ C 323, 26.8.2022, p. 1.

12 Annual ESG Conference 2022 | European Economic and Social Committee (europa.eu).

13 2021/2251 (INI), point 88.

14 COM(2022) 383 final.

15 Up from EUR 683 billion per year invested over the last decade. In a middle scenario, additional annual investment needs were estimated at EUR 360 billion on average until 2030. See Bruegel Policy Contribution Issue No 18/21 | September 2021. Even more investment will be needed beyond 2030.

224.1 billion should come from the RRF[16]. The Commission's analysis has indicated that REPowerEU entails additional investment of EUR 210 billion between now and 2027, on top of what is needed to realise the objectives of the Fit for 55 proposals. To mobilise financing, various possibilities are proposed, largely relying on the RRF loan component. The EESC calls on the Commission to provide a structured view, showing which EU funds should be used and to what extent investment should be covered by EU programmes, Member States private investment or blended forms.

3.1.3 Given the urgency and the common interest of accelerating energy transition, the EESC highly recommends that Member States swiftly and comprehensively use the opportunities offered by NGEU, the NRRPs and the recent REPowerEU Plan. If existing measures turn out to be not enough to meet the possibly rising funding needs, further action will be needed. The EESC calls for a Climate Adjustment Fund[17] to be established in order to provide immediate support in the event of disasters. Moreover, even if a golden rule is implemented, some Member States may still not have the capacity to raise the amounts needed without jeopardising their fiscal sustainability. Thus, strengthening the NGEU and/or InvestEU should be considered. Linking grants and/or loans to investment in energy transition might constitute a turning point. The EESC calls for a fair and balanced approach to the enhancement of the business environment and productivity. In any case, when restructuring existing funds and also in the context of the new Multiannual Financial Framework, the EESC warns against cutting funds relating to social objectives and a just transition.

3.1.4 The Commission rightly highlights that the "*transformation of the European economy will only succeed if it is fair and inclusive and if everybody can gain from the opportunities the twin transition brings*."[18] These must not be empty words. The EESC reiterates its call for mapping and analysis of the impact the transition will have on employment and skills[19]. Social dialogue and sound corporate governance with worker participation and the involvement of the social partners and civil society organisations in policymaking should be turned to even more in times of insecurity and crises. Finally, all aspects of environmental sustainability, including biodiversity and pollution prevention, should remain high on the agenda. The "do no significant harm principle" should also be applied in the context of the updated NRRPs.

3.2 *Productivity*

3.2.1 The completion of the single market should further economic and social upward convergence between Member States. The EESC agrees with the Commission that distortions within and barriers to the single market need to be tackled. Helping the regions to unlock their full potential will not only contribute to a more integrated single market but also enhance the EU's productivity and contribute to energy sustainability, as the capacity to produce renewables

16 COM/2022/231 final.

17 See EESC opinion on *Climate Adjustment Fund financed by Cohesion and NGEU* (not yet published).

18 European Commission Communication *Towards a green, digital and resilient economy*.

19 See EESC opinion on Fit for 55: Delivering the EU´s 2030 Climate Target on the way to climate neutrality, OJ C 275, 18.07.2022, p. 101.

varies substantially between regions. Progress in completing the Capital Market and Banking Union is needed while ensuring financial market stability in order to further reliable and sound finance and investment. In particular, the borrowing for NGEU strengthens EU capital markets and the international role of the euro. Moreover, the EESC points to the sustainable finance framework which aims to channel private investment towards sustainability, while also stressing the importance of considering climate-related risks.

3.2.2 The EESC welcomes a comprehensive policy approach that includes investment and reforms in order to enhance the business environment and promote productivity in a fair and balanced way. Reforms should focus on efficient public administration, modern transport infrastructure, quality training and education and resource efficiency. The EESC agrees with the Commission that independent, quality and efficient justice systems and well-functioning anti-corruption frameworks are essential. Research and innovation, together with education, remain vital tools for boosting productivity, competitiveness, the green and digital transitions, upward convergence and the EU's strategic autonomy. The EESC welcomes the Commission's recommendations to – among other things – facilitate knowledge transfers, produce excellence, foster business innovation and attract talent.

3.2.3 The EESC comments on the Communication on *Our European Growth Model* as follows. The Commission highlights actions to reduce strategic dependencies, such as international partnerships, industrial alliances, public and private investment and, in particular, the diversification of supply chains. The EESC stresses how important it is that the EU promote a free trade agenda in a fair way without neglecting environmental and social goals along supply chains. When it comes to the supply of critical raw materials and supplies, the EU should not create new dependencies on states which do not share EU values, but strive for strategic autonomy. Moreover, the production of key products, such as medicines, should be relocated to the EU to secure their availability in the event of an emergency.

3.2.4 Digitalisation is an enabler for the green transition, productivity and competitiveness. The Commission rightly highlights four areas of action, namely digital education, skills and competences, secure and sustainable digital and connectivity infrastructures, digital transformation of businesses, and the digitalisation of public services and education systems. To achieve these goals, more investments in key digital technologies are needed, including cyber security, artificial intelligence, data spaces and semiconductors. The EESC calls for sustainable digitalisation by safeguarding social rights, enhancing energy efficiency, and reducing electronic waste and water usage.

3.2.5 The Commission claims that a major share of investments to finance the twin transition and to enhance resilience will come from the private sector, while public investments should be well targeted and help to crowd in private investments and correct market failures. Actually, the EU aims to mobilise at least EUR 1 trillion over the next decade through the EU budget and associated instruments. The Commission rightly states that public support needs to be well directed towards projects with clear added value, and competition policy should play a key role. In particular in the context of InvestEU or similar programmes, the EESC stresses the need for transparency and monitoring to ensure integrity and to achieve the intended goals. Windfall effects should be avoided by ensuring that investments that would have been made anyway are not subsidised. Allocations must be transparent and risks should be shared in a legally binding manner so that public sectors are not overburdened. In comparison to public funding, no higher costs should accrue, and state aid measures should be linked to the creation of quality jobs and to respect for workers' rights, environmental standards and fiscal obligations.

3.3 *Fairness*

3.3.1 While the EU is relatively prosperous by global standards, inequalities between and within Member States and regions constitute a major challenge. The Commission illustrates that, thanks to a prompt policy response, overall income inequalities and risk of poverty or social exclusion remained relatively stable in 2019 and 2020, while mid-term effects are uncertain. Many that were already facing worse conditions have been disproportionally hit. The price hikes hit lower income households the hardest. Moreover, house prices continued to grow strongly, in some Member States recording the fastest growth in a decade, while interest rates are starting to increase. Millions of people suffer from reduced disposable incomes and are struggling to make ends meet. Huge uncertainties persist, climate-related disasters are on the rise and the twin transition is causing structural changes.

3.3.2 Social sustainability is not only a goal in itself but also a precondition for a stable economic and political situation, fair productivity and competitiveness. Declining real incomes and clouded expectations affect not only individual wellbeing, but also economic demand and therefore investment plans, production and growth. Moreover, while the banking sector proved to be resilient and non-performing loans have been substantially reduced, except in the case of three Member States, this resilience may be jeopardised should there be a further economic downturn. The EESC warns against such second round effects. With a view to rising prices, there is an urgent need to protect the most vulnerable and to safeguard the purchasing power of low and medium-income households, who create a major part of demand.

3.3.3 The EESC warmly welcomes the measures taken to protect the most vulnerable and to alleviate the social impact of the multiple crises in the EU, such as for instance SURE, and to support people fleeing from Ukraine. The EESC also agrees with the Commission on the importance of ensuring access to quality education at all levels, of adequate coverage by social safety nets and of affordable and social housing together with effective, resilient and sustainable healthcare systems. The EESC draws attention to the need to also support young people who are affected by the energy crisis. Indeed, the full implementation of European Pillar of Social Rights is crucial: its implementation in the European Semester cycle together with its monitoring via the Social Scoreboard is a step in the right direction. Last but not least, the reforms and investments within the NRRPs, which contribute to social inclusion and resilience, are very welcome.

3.3.4 Interviews conducted in the context of the EESC's resolution on OCS involvement indicate that the social dimension is relatively underdeveloped in some NRRPs. The EESC recommends paying attention to the distributive effects and carefully considering the European Pillar of Social Rights in the context of the NRRPs. Moreover, the EESC asks for an estimate to be provided of the investment needed to implement the Pillar. The EESC stresses the importance of striking a balance between economic freedoms and social and labour market rights. National protection rights in favour of employees should never be classified as administrative barriers to the market[20]. When strengthening the single market, social and labour rights should be equally respected in order to safeguard the EU's progress towards economic, social and environmental sustainability in a fair way.

3.4 *Macroeconomic Stability*

3.4.1 Enabling and implementing large-scale national and EU fiscal support contributed decisively to safeguarding economic, social and political stability, not least because they increased confidence. Moreover, while economic recovery has been seriously affected since the outbreak of war, the expansionary fiscal stance in 2022 is very likely to help moderate the impact of the recent crisis again and to safeguard stability. The EESC supports the Commission's recommendations for allowing automatic stabilisers to operate and to enhance investment to implement the twin transitions. In particular, it is very pleased to see the general escape clause continue to apply throughout 2023, as, indeed, the economic situation of the EU has not returned to normal and Member States need to be able to react promptly when necessary. Acknowledging that the ECB has raised interest rates for the first time in eleven years, the EESC calls strongly for policy actions that ensure that the European bond spreads are moderate and prevent financial market turbulences, in order to not endanger private investment in the energy transition and to avoid a recession. While these targets may require making extensive use of the ECB's toolbox, even so, monetary policy alone will not be able to curb current price dynamics in a sustainable way.

3.4.2 The EESC welcomes the discretionary fiscal measures for dampening the effects of high energy prices, which are estimated at 0.6% of EU GDP in 2022, for the most vulnerable and specifically exposed industries. However, the energy shortage and the impact on other commodity prices might be also relevant in the medium term, along with ongoing geopolitical tensions and further downward pressure on the EU economy. Moreover, the low growth prospects together with intensifying price pressures pose new dilemmas for the EU's economic policy. Therefore, the EESC supports the Commission's recommendation that the EU should stand ready to react to the evolving economic situation. The situation has to be observed carefully, so that new headwinds making a stabilising fiscal impulse necessary can be detected at an early stage, and the need to extend supportive measures anticipated.

3.4.3 The EESC expresses reservations about limiting the growth of nationally-financed current expenditure below medium-term potential output in high-debt Member States, while highlighting that any control of primary current expenditure has to take into account the social impact and warning against cuts in social, healthcare and education spending. In contrast, divergences between Member States should be tackled in a prosperity-orientated way, for example by promoting research and development and furthering training. The EESC also has doubts about assessing the relevance of proposing to open excessive deficit procedures (EDPs) in spring 2023, and points to the fact that EU fiscal rules were barely implemented[21] and the

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20 See Annual Sustainable Growth Survey 2022 |European Economic and Social Committee (europa.eu), OJ C 275, 18.07, 2022, p. 50, point 3.2.3.

21 According to the IMF's October 2015 forecasts, the 1/20th debt reduction rule was not expected to be observed by nine Member States in the following three years. The second phase of the excessive deficit procedure was not implemented (Bruegel Policy Contribution, March 2016).

sanctions of phase 2 of the excessive deficit procedure were never applied as in a time of economic hardship they would have made the situation even worse. Moreover, the EESC questions the possible application of EDPs while the escape clause is still active.

3.4.4 The EESC reiterates its considerations regarding the deficiencies of the current fiscal framework and repeats its call for the framework to be modernised by – among other things – setting realistic and operational deficit and debt targets[22], incorporating a golden rule of investment and permitting greater flexibility and country-specific differentiation without jeopardising medium-term fiscal sustainability. A sound value of the Euro has to be safeguarded through a balanced monetary and fiscal approach in line with sound macroeconomic governance. The EESC has also called on the Commission to put forward guidelines for a transition period, during which the excessive deficit procedure should not be triggered, before the revised framework comes into force [23]. Moreover, the EU Parliament stressed in its resolution of 8 July 2021, "*the importance of having a clear pathway towards a reviewed fiscal framework, preferably prior to the deactivation of the general escape clause*", and highlighted that "*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*". Finally, in order to avoid stability risks and to increase crisis preparedness and response capacity, the creation of appropriate EU funds should be considered.

3.4.5 The EESC fully supports the recommendation that concerted efforts should continue to be made to step up the fight against aggressive tax planning and tax evasion, as well as the resulting spillover effects among Member States, and calls for coordinated action. The EESC welcomes the OECD agreement concerning the reform of corporate taxation and encourages the Member States to swiftly implement it. The EU should promote this agreement at international level, in particular with major trading partners. In addition, shifting the tax burden away from labour and – as long as the distributive impact is carefully considered – towards supporting the twin transitions are welcome strategies. For instance, property tax is less distortive and would allow for a tax shift away from labour. Moreover, the EESC draws attention to the fact that, in the context of ensuring prudent fiscal policy, only expenditure-related measures are addressed, not revenue-based measures. All in all, a fair revenue system is a precondition for fiscal sustainability and for the restoring sound public finances, in particular in heavily indebted countries.

Brussels, 27 October 2022

Christa SCHWENG
The president of the European Economic and Social Committee

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22 Klaus Regling, Director of the European Stability Mechanism, proposes to adjust the debt ratio from 60% to 100%, while keeping the deficit per year at 3% of GDP.

23 OJ C 429, 11.12.2020, p. 227, and OJ C 105, 4.3.2022, p. 11.