



rethink the recovery

WHY AND HOW TO REFORM THE FISCAL FRAMEWORK?

The European Fiscal Framework in five questions

Reforming the fiscal framework is important because

- 1/ It prevents us from reaching our **environmental targets**.
- 2/ It prevents us from reaching our **social objectives**.
- 3/ It could make or break the **post-Covid economic recovery**.

Key points

- The EU fiscal framework reinforces fiscal policy short-termism. A complex web of rules constraining Member States' fiscal policy, the framework leaves out factors such as economic cycle, spending quality and impacts from environmental and social imbalances on long-term debt sustainability. The framework is highly intertwined with a system of governance aimed at enforcing these fiscal rules – among others.
- While many reforms proposals were tabled in the last decade, **momentum now builds** to align the EU fiscal framework with social and environmental sustainability.
- Member States and European political groups remain divided on the direction the framework should take. Given this, **a renewed fiscal framework will require European civil society to join forces**.



Finance Watch
Making finance serve society

March 2021

Table of contents

1. Why is the European Fiscal Framework so important?	3
2. What's wrong with our fiscal framework?	4
3. Why should you care about reforming the fiscal framework?	6
4. What should new rules look like?	8
5. Why should you care now? What can you do?	10

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Acknowledgements: Many thanks to Ollivier Bodin (Greentervention) and Dominick Caddick (New Economics Foundation) for their feedbacks and inputs.

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Finance Watch has received funding from the European Union to implement its work programme. There is no implied endorsement by the EU or the European Commission of Finance Watch's work, which remains the sole responsibility of Finance Watch.



1. WHY IS THE EUROPEAN FISCAL FRAMEWORK SO IMPORTANT?

The European Fiscal framework is a set of rules constraining EU Member States' budgetary policies – what is referred to as 'fiscal policy'. It forms part of a design deemed needed to thwart some of the risks of being part of an incomplete monetary union, such as contagion risks.¹

Under scrutiny by many critics are the framework's numerical fiscal rules limiting Member States' debt stock to 60 % of their Gross Domestic Product (GDP), budget deficits to 3% of their GDP and structural budget deficit² to 0.5–1% of their GDP (see table 1). These rules are completed by a series of correction mechanisms aimed at tackling deviations from these limits,³ country-specific caps to public expenditure growth,⁴ and by a complex system of flexibility arrangements.⁵

Table 1 - The EU numerical fiscal rules

Debt rule	≤60% of the GDP
Deficit rule	≤3% of the GDP
Structural deficit rule	≤0.5-1% of the GDP

The EU Fiscal framework is highly intertwined with the “European Semester”, a three-pillar system of economic governance aimed at enforcing these rules and at coordinating EU Member States' fiscal and economic policies:

1. Fiscal surveillance

As part of this annual cycle of coordination and surveillance, Member States must submit their fiscal plans to the European Commission – [Stability and Convergence Programmes](#) by April, and [draft budgetary plans](#) by mid-October for euro area countries.⁶ The Commission then assesses compliance of these plans with EU fiscal rules. In case of non-compliance by a Member State, the Council can launch a series of escalating measures following recommendations from the European Commission. Those include submission of a revised budget draft, non-public recommendations, public recommendations, and even financial sanctions.

2. Macroeconomic surveillance

During the European Semester, the European Commission also monitors macroeconomic imbalances and economic policies, and publishes country-specific analysis and recommendations to be adopted by the Council that take the form of [Country Reports](#) and [Country-Specific Recommendations](#). In case of excessive macroeconomic imbalances, the Commission produces [in-depth reviews](#) and recommendations.

3. Socio-economic coordination

Member States submit each year [National Reform Programmes](#) that are expected to be aligned with the Commission's analyses and recommendations. Member states are also expected to



coordinate fiscal and economic policies to boost positive spillovers, while reducing negative ones. If well-coordinated fiscal policies reinforce each other – such as a joined-up fiscal stimulus during recession – then the opposite occurs for badly coordinated ones. Look no further than after the great financial crisis and eurozone mess. The EU economy since then suffered massive spending cuts in most countries not offset by rises in spending by countries able to afford it.

2. WHAT'S WRONG WITH OUR FISCAL FRAMEWORK?

Why do governments fail to plan investments necessary to avoid climate change? Why do they forgo outlays to restore nature or build out enough infrastructure for society and economy to flourish? Blame falls partly on the current design of our fiscal framework.

The EU fiscal framework earned criticism in recent years for being:

1. Unresponsive to context

The debt and deficit limits within EU fiscal rules have been criticized from the start for failing to prevent governments' overspending in good times, while forcing cuts during recessions – what economists call “procyclicality”. As many EU countries facing a debt-to-GDP ratio well above the 60% limit⁷, **governments are required to cut spending and investment regardless of any other consideration** such as the economic cycle – namely boom or recession –, interest rates level, or the building up of long-term risks such as climate or health crises. Additionally, the rule limiting public deficit to 3% of the GDP can reduce the possibility for Member States to sufficiently support the economy when crisis strikes.

Procyclicality concerns led in 2005⁸ to the creation of a structural deficit rule focused on the part of the deficit not related to the economic cycle. Each Member State now negotiates a country-specific structural deficit target, for which some cyclical wiggle room was later granted.⁹ In other words, most governments must cut spending and investment, but less so in bad times and more in good.

Meanwhile, this new structural deficit rule and its country-specific target came on **top of the general deficit rule of 3%, not instead of, making the fiscal framework even tighter** while bringing a raft of measurement issues.¹⁰

While **escape clauses** were rightly created in 2011 to allow for relaxation of rules in case of unexpected crises¹¹, **no mechanism exists to deal with the additional stock of debt** once the crisis concludes. The reactivation of automatic pressures to cut public spending and investment once the fiscal rules are reinstated can bring detrimental effects to the recovery.

2. Indifferent to spending quality

The excessive focus on numerical limits incentivises **undifferentiated reduction of government spending without regard for its quality**: was it wasteful or useful spending? Reckless or necessary investment? With a **public investment gap estimated at €100 to 190 billion per year**,¹² this lack of differentiation proves problematic as it is often politically easier to abstain from investing than to cut in regular spending.



The negative impact of the EU fiscal rules on public investment being in the spotlight in the aftermath of the financial and euro crises, **some flexibility for investment and structural reforms have been conceded** by the Council in 2015.³³ But the conditions appear **far too restrictive³⁴ to have a significant impact on the public investment gap**. So far, only Italy and Finland benefited from the investment clause in 2016.

3. Blind to environmental and social concerns and risks

While the European Semester now includes a monitoring of social³⁵ and environmental trends³⁶, **long-term environmental and social sustainability are still made secondary to short-term fiscal sustainability**. While macroeconomic and fiscal surveillance have dedicated and binding procedures³⁷ (hard law), socio-economic and environmental concerns only have a process of coordination (soft law). While this can be partly explained by the existence of other mechanisms of surveillance and coordination for environmental³⁸ and social policies, significant socio-economic aspects within those policies justify a connection to the EU Semester. As **environmental and social sustainability are interconnected with long-term fiscal sustainability**, these two aspects should arguably benefit also from dedicated procedures linked to the EU fiscal framework.

This becomes even more true as **the EU fiscal rules constrain public spending and investment regardless of their impact on the EU's environmental or social objectives**. Considering the growing certainty of the impact that climate change and social issues will have on society and on long-term public budgets' sustainability, shouldn't we rather have **precautionary exclusion of some types of green and social investment from the debt and deficit rules** in the first place?

4. Asymmetric

While the EU fiscal framework constrains deficits and can force spending cuts (i.e. fiscal contraction), it is not equipped to force spending increases (i.e. fiscal expansion) in countries with excessive commercial surplus and comfortable budgetary position. The consequences of this asymmetry can be a downward spiral which reduces aggregate demand and **creates deflationary pressure**.

5. Overly complex

Composed of more than ten regulations and directives, several articles of the European treaty and one annexed protocol, **the EU fiscal framework is the result of the sedimentation of three decades of debates** dominated by a tension between *simplicity, adaptability* and *enforceability*. While additional complexity³⁹ was justified by the need to better adapt to economic cycles, successive reforms failed to do so while **reducing compliance and transparency**.

6. Short-termist

The EU fiscal framework reinforces fiscal policy short-termism by forcing cuts regardless of the economic cycle, of the importance of quality public investment for long-term growth and sustainability, and of long-term risks, such as climate or health crises.





3. WHY SHOULD YOU CARE ABOUT REFORMING THE FISCAL FRAMEWORK?

While the constraints imposed by the EU fiscal framework to national level policymaking and spending impacts everyone, it can appear distant from the everyday problems of most people. Meanwhile, these questions are all but separated. Here's why you should care about reforming our fiscal framework:

A. It prevents us from reaching our environmental targets

- **There is an important green funding gap** – For Europe to meet its 2030 climate and environmental targets, the European Commission recently estimated **the funding gap to be around €470 billion a year until 2030.**²⁰
- **Private finance will only bridge the part of this gap which is profitable and not too risky** – Private finance will close a fraction of this gap if some fundamentals are changed, such as higher carbon prices, better environmental regulations and taxation. But private money has limits, and will only finance activities offering stable revenue streams and appropriate risk/return ratio. And **the funding gap is precisely for investments which do not generate (enough) revenue streams, are perceived as too risky, and/or must be conducted by the public sector or by households** – e.g. residential energy efficiency represents €115 billion of the estimated green funding gap.²¹
- **Closing the funding gap requires to unlock public finance** – Governments are able to operate with a longer-term horizon than most financial institutions, are less risk-averse than corporations and households and are not profit-driven. Theoretically, **this combination gives public budgets the ability to close the remaining green funding gap** by directly financing unprofitable necessary investments, guaranteeing risky ones, and by providing grants and support to small entrepreneurs and most vulnerable households.

But **the EU fiscal framework constrains what governments can do** – among other factors on the revenue side, such as tax evasion and optimisation. With additional public spending being required at a transformational scale to meet the EU's environmental goals, increasing public debt and revenue will be needed.

B. It prevents us from reaching our social objectives

- **European social challenges require more than monitoring and recommendations** – While the European social model is a unique achievement, **a fifth of the EU population is at risk of poverty or social exclusion and a twentieth is directly touched by severe material deprivation.**²² Europe is facing other social challenges such as an ageing population, unemployment, a need for better life-long educational systems, better access to quality healthcare, but also the increased competition of economies with lower social standards.

Following its revamping in 2015 and the proclamation of the European Pillar of Social Rights in 2017, **the European Semester now contains monitoring of social trends across the EU**²³ which feeds



into the European Commission's Country Reports (CRs) and Country-Specific Recommendations (CSRs). No less than 55% of the recommendations in 2019 were related to social issues.²⁴

Meanwhile, **monitoring and making recommendations is irrelevant if it does not lead to concrete actions.** While research shows that implementation of social CSRs have deteriorated over recent years²⁵, short-term fiscal sustainability and competitiveness objectives continue to have priority over social goals²⁶ – which is actually an explicit doctrine from the Council of EU finance ministers (ECOFIN).²⁷

- **An important social investment gap that private finance is not meant to fill** – The EU suffers from a **social infrastructure investment gap estimated in 2018 at minimum €142 billion per year.**²⁹ With the recent Covid crisis revealing sub-investment in healthcare capacities, one might wonder whether the gap is not even higher.

Growing deficits and constrained public purses have laid the ground for **calls to private finance to fill the gap.** Leaving aside the debate on the desirability of private involvement, there is a limit to this approach: if some economic infrastructures produce stable revenue streams that can make them attractive for private finance,³⁰ **social infrastructures and services are not meant to generate cash flows but equal access and long-term social resilience.**

Place attention on ensuring an optimal level of public spending in social infrastructures and services that allow for a socially resilient Europe, rather than on ways to privatise them.

- **Public finance needs to be unlocked to fill this funding gap** – The current EU fiscal framework prescribes **balanced budgets irrespective of other considerations such as increasing social needs, or health crisis.** While the activation of the 'general escape clause' temporarily enables governments to ease the impacts of the current health crisis, the reactivation of the fiscal rules will mean an increased stock of debt requiring cuts in public spending and investment.

A deep overhaul of the EU fiscal framework is required if we are to fill these gaps and ensure a socially resilient EU.

C. It will impact post-Covid recovery

- **National recovery plans will be impacted by EU recommendations** – In the framework of the European Semester, **Member States have to present their economic and fiscal plans** in April of each year – i.e. respectively their *National Reform Programs* and their *Stability or Convergence Programs*. Based on their analysis, **the European Commission drafts Country Specific Recommendations (CSRs).**

While most of these recommendations are politically but not legally binding,³¹ they appear to be only followed when they fit the agenda of the Member State's ruling party. The Resilience and Recovery Facility (RRF) could change this situation for a simple reason. To receive financial support under the RRF, Member States need to prepare **National Recovery and Resilience Plans (NRRPs)** that set out a coherent package of reform and investment for the years 2021-23 that **will have to be aligned with the CSRs 2019 and 2020** – among other criteria.³²



While the content of the latest CSRs will partly shape the direction of the recovery, **ensuring that the future recommendations are well balanced** between economic, fiscal, social and environmental concerns will become increasingly key if the RRF is to become a permanent component of the European toolbox³³ and/or inspire a future common budgetary tool.³⁴

- **The reactivation of EU fiscal rules could break the recovery** – The Covid crisis leading to swelling budget deficits for the years to come and an increased debt stocks, **reactivation of fiscal rules and its requirement to cut spending could have a detrimental effect on the recovery.**

4. WHAT SHOULD NEW RULES LOOK LIKE?

A renewed EU fiscal framework needs to...

1. Reduce reliance on arbitrary numerical fiscal limits

The 60% debt-to-GDP and 3% deficit limits have come under increased criticisms over the years. First, **these limits are not scientifically defined optimal ratios but arbitrary anchors.**³⁵ Conceived as convergence criteria at a time of higher growth rates than today and divergent interest rates among Member States, they are widely considered – in the current low growth and even lower interest rates context – as **dampening growth and employment while failing to account for the variables that truly impact debt sustainability** (e.g. interest rate, growth rate, structure, maturity and ownership of the debt, external shocks).

Considering these shortfalls, the last decade has seen more and more proposals to reduce the reliance on these arbitrary numerical fiscal limits by... ▼

- Replacing strict fiscal rules by more flexible **fiscal standards.**³⁶
- Replacing these numerical fiscal rules by **an unique ‘expenditure rule’** that would cap the growth rate of public expenditure around **country-specific targets.**³⁷
- Shifting the focus from debt-to-GDP ratios towards **servicing-cost-to-GDP ratios.**³⁸
- Or at least by **relaxing these limits** (e.g. from 3 to 5%, or from 60% to 90%).³⁹



2. Improve quality of spending by accounting for it

As previously discussed, the current lack of regard for the quality of the spending reinforces a bias against public investment. The IMF database shows that **the general government net worth has, on average, worsened in euro area countries since 2000**. Against this background, many proposals have been made these past ten years among which... ▼

- **Distributing the cost of public investment** over future years, during the service life of investment (similarly to the way corporate investment is treated in corporate accounting).⁴⁰
- **Targeting public sector net worth (PSNW)** rather than public sector debt.⁴¹ Better accounting for both public liabilities and assets would allow to capture the full benefits of public sector interventions in the economy.
- A **'Golden Rule' of public finance exempting public investment** from the constraints of the fiscal framework.⁴² Along a similar line of thought, the European Fiscal Board proposed the introduction of a 'Golden rule' protecting specific growth enhancing public investment.⁴³
- A **'Green Golden Rule' (GGR) that would only exempt green public investment** from the constraints of the fiscal framework – e.g. taxonomy-compliant investment and/or green public investment foreseen in Member States' National Energy and Climate Plans (NECPs).

3. Take context into account

The debt and deficit rules are insufficiently responsive to economic cycles and other contextual components. Attempts to add cyclical flexibilities to the framework failed to address this issue, resulting instead in a tightened fiscal framework. Designing a fiscal framework which better accounts for the context will be key. It could take the form of reforms such as: ▼

- **Reinforcing and harmonising automatic stabilisers**, such as unemployment benefits,⁴⁴ and excluding related spending from the calculation of deficit.
- Replacing 'structural deficit' by **'adjusted nominal expenditure growth' as the main operational target** and exclude spending related to automatic stabilisers and interest payments.⁴⁵
- Relying on **country and context specific fiscal targets**, rather than one-size-fits-for-all limits.



4. Prioritise long-term environmental and social sustainability over short-term fiscal sustainability

Reforms aimed at accounting for the quality of public spending could do much to allow Member States to close their share of the green and social infrastructure funding gaps. Meanwhile, **the current framework does not bring any attention to these gaps nor any obligation to bridge them.** While procedures exist to ensure that macroeconomic and fiscal imbalances are noticed and resorbed, there seems good reason to: ▼

→ Create a **Social Imbalances Procedure (SIP)**⁴⁶ and an **Environmental Imbalances Procedure (EIP)**. These new procedures would rely on the existing monitoring of related indicators (i.e. SDGs and social scoreboard). Breaching certain thresholds would launch a procedure requesting the Member State to correct the related environmental or social imbalance.⁴⁷ The procedures could also clarify under which conditions green and social public spending could be exempted from the fiscal rules.

Designing a renewed EU fiscal framework that takes into account these priorities marks a crucial task undertaken before fiscal rules are reinstated.

Finance Watch will release its own proposal in a forthcoming report in the first quarter of 2021.

5. WHY SHOULD YOU CARE NOW? WHAT CAN YOU DO?

While these discussions have been stuck for quite some time:

1. Legislative momentum exists with the launch of the 2020 EU economic governance review

The European Commission has launched a **public consultation on [the review of the EU economic governance](#)**, which covers the fiscal framework, macroeconomic framework and socio-economic coordination and was foreseen to run from February to June 2020. Meanwhile, with the change of the parameters of the debate brought by the Covid crisis, the process has been put on hold until further notice.

2. The Covid crisis pushes public deficit higher and bulging new debt

With an EU real GDP forecast to fall by almost 8% in 2020, the EU has rightly deactivated the fiscal rules, via activation of the 'general escape clause', to allow Member States to spend as much as they felt needed – 4.2% of GDP in 2020. While these necessary measures are expected to lead to **an aggregate deficit of EU Member States of almost 6% of GDP and a debt-to-GDP ratio of around 100% in 2021**,⁴⁸ the reinstatement of the fiscal rules will force governments to reduce spending and investment. Considering the risk that such cuts could break the recovery, there is both a debate on the appropriate timing to reactivate the rules, and a growing understanding of the momentum to change them.

3. Growing agreement among experts on the need for a renewed EU fiscal framework

There is a growing consensus on the need for a less complex, easier to enforce, more responsive and investment-friendly fiscal framework. **A significant amount of reform proposals have been made** to tackle all or some of the related issues by groups of experts such as the European Fiscal Board, the German Council of Economic Experts, the French Council of Economic Analysis, IMF staff, OECD, but also think tanks such as the Peterson Institute for International Economics or Bruegel.

Meanwhile, the review could remain a public consultation exercise leading to **no proposals from the Commission if there is no sufficient political support for reforms**.⁴⁹ Divergences still exist among EU Member States and European political families:

- **EU Member States are divided on the need for reform and on the road to follow** – The **Netherlands** first stressed during their 2016 Council presidency the need to simplify rules and strengthen their medium-term orientation. **Spain, Portugal and Italy** have **thrown support** for some time to include a Golden Rule that excludes certain types of investments from fiscal rules. While acknowledging the need for more public investments in public infrastructure, **Germany**'s Finance Minister recently showed **less enthusiasm** about reforming the fiscal framework, expressing how fiscal rules had demonstrated their flexibility.⁵⁰ While **France** had been **cautious in the past**, it recently stated that the fiscal rules were necessary but **needed revision**. **Poland**'s Finance Minister also **recently called** for shutting out green investment from the EU's limits on budget deficits.
- **A split European Parliament along traditional left-right lines** – **Left-leaning European political groups appear, on average, in favour of reforms** aimed at simplifying fiscal rules, reducing their procyclicality, and excluding some type of public investment from the debt and deficit rules.⁵¹ **The right side of the political spectrum generally opposes flexibility for public investment.**^{52, 53}

While the changing macroeconomic situation could facilitate a long-overdue reform of the fiscal framework, **political will is not fully there yet: this where you can help.** ▼

Bridging the gap of political will in certain countries requires civil society, NGOs, researchers and think tanks to join forces and...

1. **Develop joint proposals and tailored narratives** to gain support in different countries;
2. **Create political appetite** via dedicated advocacy campaigns on the need for a renewed fiscal framework;
3. **Respond to the EU consultation** to feed the debate and create political legitimacy over some desirable features of a new framework,
4. **Build joint capacity**, by learning from each other skills and knowledge. ►

To join a growing network of NGOs, researchers, think tanks, activists, convinced of the need to renew the EU fiscal framework:

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Endnotes

1. In the context of a monetary union, contagion risk is defined as the risk that a sovereign debt crisis in one or more Member State(s) spills over to other(s). The European monetary union is coined as incomplete as it lacks a lender of last resort and fiscal transfers.
2. The **structural budget deficit** is that part of the budget deficit that is not related to the state of the economy and that would exist even if the economy were at full employment and running full steam. The Fiscal Compact (2013) sets a structural budget deficit rule for Euro area Member States at 0.5% of their GDP, with a possibility to run a structural deficit up to 1% of GDP for countries with debt ratio significantly below 60%.
3. If the public debt-to-GDP ratio is higher than 60%, it must decline by at least one twentieth of the gap to the 60% target every year. In case of non compliance with the debt or deficit limits, the Member State will be required to achieve a minimum annual improvement in its structural balance of at least 0.5% of GDP per year.
4. Introduced in 2011, the expenditure benchmark caps public expenditure growth in order to help countries meet their structural budget balance objectives.
5. There are, first, **escape clauses** in case of economic recession or extraordinary events and, second, **flexibility clauses** aimed at promoting structural reform and investment – among other things. Lastly, there is also some **flexibility for cyclical conditions** which applies to the fiscal adjustment path.
6. All EU Countries must submit their [Stability or Convergence Programs](#) by April, and Euro area countries must additionally submit their [Draft budgetary Plans](#) by mid-October.
7. This is notably due to an important socialisation of private debt in the aftermath of the 2009 financial crisis, as well as an important stock of legacy debt. As illustration, the level of Italian public debt is not due to any excessive spending in the last 20 years but to legacy debt from the 1980s and 1990s. Indeed, the Italian government has achieved since 1995 a substantial primary surplus almost continuously. Source: HEIMBERGER, P., Italy is of systemic importance – European solution are needed, 2020.
8. [Council Regulation \(EC\) No 1055/2005 of 27 June 2005](#) amending Regulation (EC) No 1466/97.
9. The adjustment effort that should be made in order to reach the MTO should be equal to 0.5% of GDP per year, as a benchmark. Since the addition in 2015 of some cyclical modulation via the so-called Matrix of requirements, the adjustment effort should be higher in good times, and possibly lesser in bad times.
10. The structural deficit is an unobservable variable, of which calculation depends on highly contestable and contested hypotheses. See for example: HEIMBERGER, P., KAPPELLER, J., “[«Output Gap Nonsense» and the EU’s Fiscal Rules](#)”, January 2020; or BUTI, M., CARNOT, N. et al., “[Potential output and EU fiscal surveillance](#)”, September 2019.
11. The general escape clause is set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 (as amended by Regulation (EU) 1175/2011), and Articles 3(5) and 5(2) of Regulation (EC) 1467/97 (as amended by Regulation (EU) 1177/2011).
12. European Commission, “*Identifying Europe’s Recovery Needs*”, SWD(2020) 98 final, 2020.
13. While some of these flexibilities were already existing, they were largely clarified in 2015. EC, “*Communication – Making the best use of the flexibility within the existing rules of the stability and growth pact*”, 2015.
14. NBB, “*Public investments – Analysis and recommendations*”, National Bank of Belgium, October 2017, p.21.



15. The monitoring of a set of social indicators (e.g. exclusion rate, rate of youth unemployment, early leaving from school), i.e. the social scoreboard, has been added as part of the European Pillar of Social Rights and of the 2015's reform of the European Semester.
16. As part of the European Green Deal, a series of indicators monitoring the Member States progress towards achieving the SDGs have been added to the European Semester.
17. These two procedures are the 1997's *Excessive Deficit Procedure* (EDP) and the 2011's *Macroeconomic Imbalances Procedure* (MIP).
18. E.g. [governance of the Energy Union and Climate action, Environmental Implementation Review](#).
19. As a matter of illustration, the vademecum clarifying the application of the fiscal framework has now more than 240 pages covering every situation through detailed rules.
20. Comprising EUR 240 billion for climate and energy, EUR 100 billion for transport infrastructure and EUR 130 billion for the other environmental objectives. Source: EC, "[SWD\(2020\) 98 final - Identifying Europe's recovery needs](#)", Communication accompanying the document 'Europe's moment: Repair and Prepare for the Next Generation', 27.5.2020, p.14-16.
21. EC, "[SWD\(2020\) 98 final - Identifying Europe's recovery needs](#)", Communication accompanying the document 'Europe's moment: Repair and Prepare for the Next Generation', 27.5.2020, p.14-16.
22. The EU's average rate of people at risk of poverty or social exclusion is 20.9%, with only one country below 15%. The severe material deprivation rate (SMD) is at 5.4% in Europe (min. 1.8%; max. 19.9%). Source: [Social scoreboard](#) 2019.
23. The European Pillar of Social Rights is accompanied by a '[social scoreboard](#)' which monitors the implementation of the Pillar by tracking trends and performances across EU countries in 12 areas and feeds into the European Semester.
24. Such as wage-setting mechanisms, employment protection, social protection system, pension reforms, childcare facilities, etc. Source: ETUI, "[The country-specific recommendations \(CSRs\) in the social field. Update CSRs 2019-2020](#)", 2019.
25. AL-KADI, R., CLAUWAERT, S., "[Socialising the European Semester? Measuring Member States' implementation of country-specific recommendations in the social policy field](#)", ETUI, Working Paper 2019.08, 26p., p.20.
26. HACKER, B., "[A European Social Semester? The European Pillar of Social Rights in practice](#)", 2019, ETUI.
27. "[Council Conclusions on Alert Mechanism Report 2016](#)", 15 January 2016.
28. The term 'Social infrastructure' includes physical facilities and spaces where the community can access social services. These include health-related services, education and training, social housing programs, police, courts and other justice and public safety provisions, as well as arts, culture and recreational facilities.
29. This estimation only cover health and long-term care (EUR 70 billion), education and life-long learnings (EUR 15 billion) and affordable housing (EUR 57 billion). The total minimum investment gap is estimated at around EUR 1.5 trillion between 2018- 2030. Source: FRANSEN, L., Del BUFALO, G., REVIGLIO, E., "[Boosting Investment in Social Infrastructure in Europe - Report of the High-Level Task Force on Financing Social Infrastructure in Europe](#)", 2018, 116 p.
30. Economic infrastructure, such as toll roads, ports, airports or power generation plants, usually collect revenues from end users.



31. The CSRs are underpinned by various coordination instruments with different legal bases: the Stability and Growth Pact (SGP), the Macroeconomic Imbalance Procedure (MIP) and the employment policy coordination. While the CSRs related to the SGP and the MIP are more often followed by Member States as failure to comply could lead to sanctions, it is less the case for CSRs related to employment, social or environmental concerns.
32. European Commission, SWD(2020) 205 final, Part 1/2, "[Guidance to Member States Recovery and Resilience Plans](#)", 17 September 2020.
33. As recommended by the European Central bank's president, Christine Lagarde in a [recent interview](#): "We should discuss the possibility of it remaining in the European toolbox so it could be used again if similar circumstances arise." "I hope that there will also be a debate about a common budgetary tool for the euro area, and that it will be enriched by our current experience," she added in October 2020 in an interview with [Le Monde](#).
34. C. Lagarde also express hoping "that there will also be a debate about a common budgetary tool for the euro area, and that it will be enriched by our current experience".
35. They were respectively the median debt-to-GDP ratio in the 1990's, and an invention of two civil servants in the French Ministry of Finance in 1981. "Tietmeyer, a key German negotiator from the German Ministry of Finance, recollected that in the debates a "rough connection" was seen between the 3 and the 60 percent criteria. With expected average 5 percent nominal growth and an average deficit of 3 percent the 60 percent debt level could be maintained (Tietmeyer 2005, p. 164); yet Tietmeyer admitted that this was no precise scientific reasoning." Source: PRIEWE, J., "[Why 60 and 3 percent? European debt and deficit rules - critique and alternatives](#)", IMK Study, Nr.66, February 2020, Hans-Böckler-Stiftung; The 60% was derived as the average debt-to-GDP ratio of the EU member states in 1990. "With the same procedure, a reference value of 70 per cent could be calculated for 2000, of 86 per cent for 2010 and 101 per cent for 2020." In: BOFINGER, P., "[Easing the EU fiscal straitjacket](#)", December 2020, Social Europe.
36. E.g. BLANCHARD, O., LEANDRO, A. ZETTELMEYER, J., "[Redesigning the EU Fiscal Rules: From Rules to Standards](#)", October 2020, Presented at the 72nd Economic Policy Panel Meeting, p.3-10.
37. Expenditure minus cyclical unemployment expenditure, interest payment, and in some cases 'Eu-funded investments. In: BEETSMA, R., THYGESEN, N., et al., "[Reforming the EU fiscal framework: A proposal by the European Fiscal Board](#)", October 2018, VoxEU; DARVAS, Z., MARTIN, P., RAGOT, X., "[The economic case for an expenditure rule in Europe](#)", September 2018.
38. FURMAN, J, SUMMERS, L, <<[A Reconsideration of Fiscal Policy in the Era of Low Interest Rates](#)>>, November 2020.
39. TRUGER, A., "[Reforming EU fiscal rules: more leeway, investment orientation and democratic coordination](#)", Intereconomics, Vol. 55, 2020, Nr 5, p.277-281.
40. CLAEYS, G., DARVAS, Z., LEANDRO, A., "[A proposal to revive the European Fiscal Framework](#)", Bruegel, Issue 2016/07.
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46. CORTI, F., SABATO, S., VANHERCKE, B., “The European (Social) Union is in need of a Social Imbalances Procedure”, EuVisions, 2019.
47. While CSRs related to the *Excessive Deficit Procedure* (EDP) and to the *Macroeconomic Imbalances Procedure* (MIP) are binding for Member States, creating these two additional procedures would give some strengths to EC’s environmental and social CSRs.
48. COM(2020) 750 final, “[Communication of the European Commission on the 2021 Draft Budgetary Plans: Overall Assessment](#)”, 18.11.2020.
49. Commission vice president for the euro, [Valdis Dombrovkis](#) made clear that a review of the EU’s fiscal rules would only take place if an agreement seemed possible: “*We should avoid the scenario where we just open legislation without knowing how we’ll close it and then have a long and divisive debate on this and not achieve results*”.
50. He rather emphasized that it was a step forward that the EU could now borrow funds collectively and that repayment was to begin during the Multiannual Financial Framework’s term.
51. E.g. [Amendment n° 449 to the Draft Report 2020/2058\(INI\)](#) (S&D). [Amendments n° 232 and 210 to the Draft Report 2019/2211\(INI\)](#) (respectively Greens/EFA and GUE/NGL).
52. Using respectively the wording of EPP’s, ECR’s and ID’s MEPs. Source: [Amendments n° 231, 233, 235 to the Draft Report 2019/2211\(INI\)](#).
53. E.g. [Amendments to the Draft Report 2019/2211\(INI\)](#): While amendment 229 states that the “*SGP should be accompanied by rules that avoid procyclicality and incentivize countercyclical policy measures;*”, amendment 27 propose to suppress the call to establish a golden rule.



About Finance Watch

Finance Watch is an independently funded public interest association dedicated to making finance work for the good of society. Its mission is to strengthen the voice of society in the reform of financial regulation by conducting advocacy and presenting public interest arguments to lawmakers and the public. Finance Watch's members include consumer groups, housing associations, trade unions, NGOs, financial experts, academics and other civil society groups that collectively represent a large number of European citizens. Finance Watch's founding principles state that finance is essential for society in bringing capital to productive use in a transparent and sustainable manner, but that the legitimate pursuit of private interests by the financial industry should not be conducted to the detriment of society. For further information, see www.finance-watch.org



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Making finance serve society

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rethink the recovery

The logo features a stylized graphic of two interlocking shapes, one red and one blue, above the text "rethink the recovery".