CAN EUROPE'S SUBMISSION ON THE REVIEW OF THE EU ECONOMIC GOVERNANCE

Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With over 180 member organisations from 38 European countries, representing over 1.500 NGOs and more than 47 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

1. IMPROVING THE FRAMEWORK

In the light of experience, effective delivery on the objectives of ensuring sustainable public finance positions and avoiding macroeconomic imbalances is key. Effective economic coordination and surveillance is a cornerstone for ensuring resilience in the EU and the Economic and Monetary Union in view of potential negative spillovers resulting from the building up of unsustainable positions. While there has been progress overall in terms of debt sustainability and correction of macroeconomic imbalances, that progress has not always been sufficient, with large differences across Member States. Therefore, an effective framework needs to ensure the sustainability of public debt, including where it is most necessary, and the prevention and correction of macroeconomic imbalances.

Question: How can the framework be improved to ensure sustainable public finances in all Member States and to help eliminate existing macroeconomic imbalances and avoid new ones arising?

1. **Fiscal and macroeconomic policies are means to achieve societal goals, not ends in themselves**

Fiscal and macroeconomic policies are means to achieve societal goals rather than ends in and of themselves: ensuring sustainable public finances and avoiding macroeconomic imbalances are legitimate objectives to the extent that they contribute to societal and environmental goals – not when they are achieved to the detriment of social rights and the environment. Current rules have had adverse social impacts in several Member States[i], with differentiated gender impacts, especially after the Eurozone crisis in 2010. Cuts in social spending, public health and public services contributed to rising inequality and made our societies less resilient to shocks such as pandemics or climate havoc. The adverse social impacts of cuts in public spending make it much more challenging today for Europe to operate the green transition. In addition, the medium to long-term costs of inaction far outweigh the costs of action. “Balanced budgets” today may be triggering the imbalances of the future. Therefore, we need ***a new balance between economic objectives and societal and environmental goals***.

2. Agree on new rules to avoid austerity

CAN Europe considers that the EU should agree on new rules before 2023, so that there will be no return to austerity when the escape clause will be de-activated in January 2023.

3. Credible country-specific debt targets

The uniform 60% debt to GDP rule and pathway to get there should be replaced with country-specific debt targets (e.g. over five years). A credible debt reduction objective adapted to each country’s situation will allow a differentiation of the pace of convergence towards debt sustainability, without excessive pressure stifling public spending or increasing poverty and inequality. This will ensure sustainable public finances while allowing investments in climate action and social justice.

These adapted debt reduction pathways, together with the permission for public spending to escape the deficit rule (green investment rule), should be tied to a requirement that national budgets will not contradict the EU’s climate and environmental objectives. I.e. public money will not be used for projects and activities which increase CO_2 emissions or harm nature and biodiversity; fossil fuel subsidies will be terminated with a binding pathway while accompanying measures will mitigate the possible adverse social impacts of ending these subsidies.

4. Take into account climate risk to assess whether a debt is sustainable

Under current EU rules, a debt to GDP ratio above 60% is considered unsustainable. There is no academically accepted threshold over which gross public debts can be considered “unsustainable”. For the moment, interest rates on public debt are very low, despite the increase in debt volume. Markets’ confidence (and thereby the interest rate) is not dependent on a particular debt-to-GDP ratio, as many other factors play a role, most importantly the existence of a lender of last resort, and forward-looking risks including climate-related risk. Worryingly, for the moment, climate-related risks are not considered when determining the medium to long-term sustainability of Member States’ public debt.

Climate change-induced disasters trigger public spending, from responding to wildfires or floods, to supporting farmers or people who lost their homes and livelihoods. As recently highlighted by the IPCC, even under the most optimistic scenario, extreme weather events will intensify till mid-century.[ii] In the EU, the JRC estimates[iii] that the largest socio-economic impacts are expected on countries with already high levels of debt, hence exacerbating existing macroeconomic and fiscal divergences among Member States. CAN Europe considers that whether a debt is sustainable should be assessed based on a set of criteria applied to each Member State taking into account the national context (expected GDP, future interest rates, climate change risks for the public budget, etc.). Debt sustainability needs to take into account medium to long-term climate related risks. The EU fiscal framework needs to encourage Member States to spend to mitigate those risks, and disincentivize fiscal positions that are exacerbating future costs by failing to address climate-related risks.

Pending a revision of the EU Treaties, the risk generated by climate and environmental shocks to the economy should immediately be taken into account in the framework of the assessment of Member States' budgetary situation and macro-economic imbalances. In the longer term, the Treaty on the Functioning of the EU (TFEU) should be amended to replace the reference values (fixed at 3% and 60% by Protocol 12) with standards, i.e. general objectives such as "keeping debt at a sustainable level" and "avoiding excessive fiscal deficit".

2. SAFEGUARDING SUSTAINABILITY AND STABILIZATION

Fiscal policy guidance supports Member States in ensuring the long-term sustainability of public finances and in pursuing counter-cyclical fiscal policies to contribute to a better macroeconomic stabilisation in both good and bad times. While an effective framework should aim to be counter-cyclical in good and bad times, it has often not been achieved in practice. An appropriate fiscal effort and debt reduction in good economic times helps to create the space to use fiscal policy in bad times. Appropriate medium-term policy planning, both regarding fiscal targets and structural reforms to promote productivity and investment, and an appropriate policy anchor help in that regard.

Question: How to ensure responsible and sustainable fiscal policies that safeguard long-term sustainability, while allowing for short-term stabilisation?

1. A fiscal policy that does not encourage climate action is irresponsible

Massive public and private investments in climate mitigation and adaptation are **urgent** to avoid runaway catastrophic climate scenarios. Under such scenarios, there can be no **sustainable fiscal policies**, and no stable economy. As noted by the European Central Bank (ECB), "there are clear benefits to acting early: the short-term costs of the transition pale in comparison to the costs of unfettered climate change in the medium to long term". More frequent and severe natural disasters could lead to a decrease in European GDP should policies to mitigate climate change not be introduced.[iv] But beyond the impact on GDP, the cost of inaction would be immense in terms of humanitarian needs to deal with climate-related disasters and increase in food prices[v], public health impacts[vi], or additional annual welfare loss in Europe (175bn € under a 3°C global warming scenario, and 83bn € under a 2°C global warming scenario).[vii] And a **responsible fiscal policy** requires important investments in climate and nature protection right now. Indeed, EU funds alone cannot fulfill the investment needs for hitting EU targets, and the onus is consequently on Member States and the private sector to bridge this financing gap.[viii]

As indicated above, the uniform 60% debt to GDP rule and pathway to achieve it should be replaced with country-specific debt targets (for example over five years). A credible debt reduction objective adapted to each country's situation will allow a differentiation of the pace of convergence towards debt sustainability, without excessive pressure stifling public spending or increasing poverty and inequality. This will ensure sustainable public finances while avoiding massive cuts in public spending on climate action and social justice.

2. **The future EU fiscal framework should incentivize public investments for climate and environment, and discourage harmful investments**

CAN Europe considers that ***allowing*** investments in climate action is not enough: The future EU fiscal framework needs to encourage, ***incentivize*** such public investments, and ***discourage*** public investments that are harmful for the climate or the environment.

The country-specific debt reduction pathways and five-year objectives are not sufficient therefore. To incentivize green public spending and investments, these expenditures should get a favourable treatment, i.e. escape from the calculation of the deficit rule to a certain extent (green investment rule). To benefit from such exemption, Member States should commit to implement the reforms needed in order to deliver their commitment under the Paris Agreement, as translated in updated and robust National Energy and Climate Plans (NECPs).

In addition, efforts to avoid corruption and misuse of public funds, including funds from the EU budget, need being tightened and should be a condition for Member States to benefit from additional fiscal space for socially just climate action.

3. INCENTIVISING REFORMS AND INVESTMENTS

The framework should be consistent with today and tomorrow's challenges. It needs to be discussed what the appropriate role of the EU surveillance framework is in helping to promote a growth-friendly composition of public finances and for Member States to sustain adequate levels of investment. In particular, significant investment will be required to meet the broader ambition of the European Green Deal. This raises the question of the extent to which the fiscal framework can support the investments needed for the transition to a climate-neutral, resource-efficient, and competitive economy, in a manner that leaves no one behind. This includes re-assessing the appropriateness of the current flexibility clauses in terms of their scope and eligibility, in order to facilitate the right type and level of investment while preserving debt sustainability. In addition, thought should be given to the role of the fiscal framework in greening national budgets.

Question: What is the appropriate role for the EU surveillance framework in incentivising Member States to undertake key reforms and investments needed to help tackle today and tomorrow's economic, social, and environmental challenges while preserving safeguards against risks to debt sustainability?

1. **Indiscriminate GDP growth should be replaced with societal goals**

The objectives of the EU fiscal framework should be adapted to the challenges of the 21st century. The simplistic reference to indiscriminate GDP growth as an objective should be replaced with societal goals, including human rights, the rights of future generations, employment, climate neutrality and nature protection. ***Whether or not there is overall GDP growth should not be an objective per se, as economic activities that are compliant with climate and environmental objectives must grow, while sectors harmful for the environment should shrink.***

2. **The European Semester should pay much greater attention to climate**

The Semester (EU macro-economic and budgetary policy coordination) should be based on improved indicators that capture the distributional impact of policies; climate and environmental protection indicators; and social indicators (beyond job creation to encompass fundamental rights such as health, education, food or housing and gender equality). For example, as per the indicators in the European Pillar of Social Rights and the Social Scoreboard.

The Country Specific Recommendations (CSR) should integrate a much stronger focus on just transformation and climate neutrality (investments and policy reforms to achieve the Paris Agreement). Convergence in Member States' performance should cover environment, social rights and gender equality. The implementation of Member States' commitments to reforms under the Recovery and Resilience Plans (RRPs) will be monitored under the Semester. This offers a starting point for greater attention to climate and just transformation in the Semester.

3. **Strict conditions for green spending to escape the deficit rule**

Public spending and investments aimed at delivering climate and environmental objectives through a just transformation should be excluded from the calculation of Member States annual fiscal deficit, up to a certain level (e.g. a proportion of the national budget and/or until risks emerge regarding debt's sustainability). This possibility should be conditional on:

a) **Greening national budgets**: The alignment of national budgets with EU's environmental objectives, including a clear pathway for the elimination of harmful taxes, subsidies and expenditures. National budgets should abide by the "Do No Significant Harm" principle. Governments should not use public money to pay for damages that polluters should pay (Polluter Pays Principle).
b) **Progressive reforms to meet the Paris Agreement** translated in updated and robust NECPs: Member States should implement EU climate and environmental legislation, eliminate environmentally harmful subsidies (with flanking measures to avoid adverse social impacts) and propose a pathway towards green, gender-just and progressive taxation.
c) A precondition to ease the fiscal rules (as well as the continuation of EU funding) must be the full implementation of the **anti-corruption recommendations** of the EC (CSR and Rule of Law Report), GRECO[ix], OECD, and the United Nations. CSOs' recommendations should also be taken into account.[x]

4. **Green investments must be *really* green**

An uncompromised taxonomy, i.e. science based, should be used to determine which spending qualify to escape the deficit rule (covering both capital investments and current spending). Taxonomy-compliant economic activities have to contribute substantially to one or more of the environmental objectives listed in the Taxonomy Regulation, do no significant harm to the environment, and respect human and labour rights.

If the final Delegated Acts generate problematic loopholes, even if they are included in the taxonomy, **investments in fossil gas, nuclear energy and unsustainable biomass should not be excluded from the calculation of Member States annual deficit**. Also, the Do No Significant Harm Principle should be interpreted in a more ambitious manner than has been the case under the Recovery and Resilience Facility.[xi] CSOs will have a crucial role to play to monitor the respect of those conditions.

5. **Social spending to accompany the green transition should benefit from favourable treatment**

The two cumulative criteria in the Regulation establishing the Just Transition Fund (JTFR) could determine the eligibility of social spending to elicit the deficit rule:

- The spending should aim at "enabling regions and people to address the social, employment, economic and environmental impacts of the transition towards the Union's 2030 targets for energy and climate and a climate-neutral economy of the Union by 2050, based on the Paris Agreement" (Art. 2).

- Only activities listed in Art. 8 of the JTFR would be eligible.

4. SIMPLIFICATION AND MORE TRANSPARENT IMPLEMENTATION

Whereas the current fiscal surveillance framework has included elements of flexibility and discretion through a complex set of provisions adopted against a background of lack of trust amongst key stakeholders, an effective application of economic judgement within a rules-based framework needs to be done in an objective and transparent manner. This includes, for example, considering whether a clear focus on gross policy errors as set out in the Treaty, based on clearly defined objectives and operational policy targets, could contribute to an effective implementation of the surveillance framework. A simpler framework and implementation could contribute to increased ownership, better communication, and lower political costs for enforcement and compliance.

Question: How can one simplify the EU framework and improve the transparency of its implementation?

1. Encourage public debates about the EU fiscal policy reform

We are calling for the EU and Member States to dedicate specific efforts and resources to make sure there are public debates about the EU fiscal policy reform. Democratic ownership of the reform is crucial to have an EU fiscal framework fit for the coming decade, and for taxpayers to adhere to our common fiscal rules. Whatever option will be retained to reform the EU economic governance, national parliaments and the European Parliament need to play a central role in the future architecture, transparency ensured and social partners and CSOs involved.

2. Democratise the European Semester

In the framework of the European Semester, the European Commission should systematically seek CSOs' input on social and environmental aspects, and all documents should be publicly available on line. CSOs will have a crucial role to play to monitor the respect of the conditions accepted by Member States for their green investments to escape the deficit rule – and they need to be resourced to be able to fully perform that role.

3. Transparency must go together with the fight against corruption

In addition, an indispensable precondition to ease the fiscal rules (as well as the continuation of EU funding) for Member States must be the full implementation of the anti-corruption recommendations of the European Commission (especially in the Country-Specific Recommendations and the Rule of Law Report), GRECO, OECD, and the United Nations. The recommendations of CSOs fighting against fraud, corruption and tax evasion should also be taken into account. Additional funding and resources to the European Public Prosecutor's office, as well as a reinforcement of national public prosecutor's office are needed, as well as increased transparency.

4. Clear milestones and targets

Any public green spending escaping the EU fiscal rules must show measurable contribution to national or/and EU objectives on energy and climate, biodiversity, waste and water quality or pollution. Specific indicators that show measurable contributions to the objectives should be used.

5. FOCUS ON PRESSING POLICY CHALLENGES

Surveillance should be commensurate to the gravity of the situation, with a stronger focus on the most pressing cases and less-intrusive procedures where overall risks are low. Therefore, it is to be considered whether the surveillance framework, in order to be effective, should focus more on 'identifying gross errors' [i.e. on Member States whose policy Cf. Article 126(2) of the Treaty on the Functioning of the European Union.] strategy puts public debt on a potentially unsustainable trajectory or leads to other macroeconomic imbalances. Moreover, a strong *policy dialogue with Member States and stakeholders is key, especially in a multilateral setting, but also bilaterally with the Commission.*

Question: How can surveillance focus on the Member States with more pressing policy challenges and ensure quality dialogue and engagement?

The Semester should recommend reforms needed for Member States to deliver the European Green Deal and their commitments under the Paris Agreement. Therefore, the Semester should pay more attention to **progressive gender-just taxation**, including but not only environmental taxes. There should be a country-by-country mapping of **environmentally harmful subsidies**, an analysis of their impact on low-income groups (consumers, farmers, etc) with distributional lens, to design flanking measures.

6. Lessons from the RRF

The RRF's commitment-based approach to policy coordination, with strong national ownership of policy design and outcomes, is expected to support implementation of agreed reforms and investments. This approach takes into account the complexities that arise from the simultaneous pursuit of various national and EU objectives, in a context of differences in socioeconomic structures and national preferences. It underpins ownership and trust. Rapidly-evolving developments since the start of the pandemic (and even before it) have illustrated the difficulty of designing comprehensive rules that are able to cater for all possible circumstances. Taking into account the lessons from the RRF, the economic governance review should consider how national ownership, mutual trust, the effective delivery of the framework on its key objectives, and the interplay between economic and fiscal dimensions can be best ensured.

Question: In what respects can the design, governance and operation of the RRF provide useful insights in terms of economic governance through improved ownership, mutual trust, enforcement and interplay between the economic and fiscal dimensions?

Design: Member States have been defining the reforms and investments they wanted to include in the RRPs, which generated ownership and makes governments accountable for the contents of the Plan towards national parliaments and civil society. **This bottom-up approach** is something that the future EU economic governance framework should encourage. Member States should propose green public investments and public spending that they consider should escape the EU deficit rule. Draft proposals should be discussed with the EC, and be part of the structured dialogue between the European Parliament and the EC, until a final proposal is made by the Member State concerned. That final proposal should, like the RRPs, be subjected to a final assessment by the EC, and then be approved by the Council before the investments at stake can be excluded from the calculation of the national deficit or the Member State can benefit from the country-specific debt reduction pathway.

However, **national consultations and public debates** about the investments and reforms in the RRPs have been patchy and insufficient. There has been no obligation to carry participatory processes and to involve civil society, no related common indicator in the Scoreboard, and no systematic milestones and targets regarding civic participation in the RRPs. That needs to change. The green investments escaping the deficit rule need to be defined through a participatory process carried at national level. The assessment carried by the EC needs to systematically examine whether such participatory processes have been taking place, before a decision is made on whether these investments can escape the deficit rules. Transparency is key, i.e. the website of the European Semester should list the climate and environmental reforms committed as part of the process, as well as the investments escaping the deficit rule, to allow public scrutiny.

For green investments and public spending to escape the fiscal rules, more stringent conditions and criteria need being applied than for the RRPs, so that the fiscal space does not translate in greenwashing. Several RRPs risk contributing to nature or biodiversity destruction because the **Do No Significant Harm (**DNSH) principle has not been implemented well enough. **The DNSH principle should be interpreted more ambitiously**[xii]. An uncompromised taxonomy based on the best available science (report of the technical expert group as a minimum) should be used to determine which investments make a substantial contribution to climate and environment.

The **distributional impacts** of investments and reforms discussed under the Semester need more attention than what happened under the RRPs. The RRF funding for digitalization and related indicators do not pay sufficient attention to the digital gap – while public investments should precisely focus on the areas neglected by private investments because not profitable enough.

Governance: The RRPs are **performance-based**: Member States need to achieve the milestones and targets agreed with the EC in order to benefit from further instalments. This represents a strong incentive for them to implement investments and reforms as agreed. A similar approach should be followed for green investments to escape the EU fiscal rules and/or for Member States to benefit from a country-specific debt reduction pathway: Member States should commit to specific reforms and investments contributing to improved NECPs.

Operation: **Nature-based solutions and biodiversity** got very limited funding in the RRPs. In addition, some of the investments present serious risk for the environment and biodiversity, even if they can be good from a carbon emission perspective. Therefore, if the DNSH principle is extended to national budgets, it will be crucial for the EC to strengthen the monitoring of it respect, including during the implementation phase of projects and activities.

It will also be crucial to analyse to which extent the investments and reforms agreed as part of the country-specific debt reduction pathways or escaping the EU deficit rules effectively contribute to **robust updated NECPs** reflecting Member States commitments under the Paris Agreement. The Scoreboard of the RRF misses the point in that regard.

Some investments not green enough to be in the RRPs were funded through national budgets. This is why it is fundamental that the new EU economic governance framework encourages the greening of national budgets. Member States should have an obligation, when submitting their draft national budget to the EC, to **identify the green and brown spending, based on a commonly agreed methodology**. They should propose workable pathways to green their national budget over time, as a condition for their green investments to escape the EU deficit rule or to benefit from a country-specific debt reduction pathway. Otherwise, opening up fiscal space may end up translating in more room for harmful investments.

7. NATIONAL FISCAL FRAMEWORKS

It has to be considered whether a stronger role for national fiscal frameworks, in particular independent fiscal institutions, would contribute to better compliance with EU fiscal rules and improve ownership of the framework at the same time. Moreover, given that high quality statistics are key for a transparent fiscal framework, it has to be assessed what further improvements in data quality would be needed.

Question: Is there scope to strengthen national fiscal frameworks and improve their interaction with the EU fiscal framework?

CAN is not responding to that question.

8. EFFECTIVE ENFORCEMENT

The appropriate balance between pecuniary sanctions and tools incentivising macroeconomic stability and sustainable growth, such as a Budgetary Instrument for Convergence and Competitiveness or the Convergence and Reform Instrument, has to be carefully considered as an element to ensure an effective implementation of the framework.

Question: How can the framework ensure effective enforcement? What should be the role of pecuniary sanctions, reputational costs and positive incentives?

1. **There should be conditions for green spending to escape the deficit rule**

Investments and reforms are needed to deliver the EU ambitions and international commitments on climate and environmental protection. Member States need to advance the just transition agenda in a coherent and coordinated way, in order to ensure cohesion and avoid deepening the gap between them. CAN Europe considers that the country-specific debt reduction pathways and the country-specific exclusion of green spending from the deficit rule should be subjected to strict conditions:

a) **Greening national budgets**: The alignment of national budgets with environmental objectives, including a clear pathway for the elimination of taxes, subsidies and overall expenditures that are demonstrably harming environmental objectives. All expenditures in the national budgets should abide by a science-based "Do No Significant Harm" principle. In addition, governments should make sure they abide by the "Polluter Pays" Principle, i.e. do not use public money to pay for damages that polluters should pay.
b) **Progressive reforms** to meet their climate commitments under the Paris Agreement translated in updated and robust NECPs: Member States should timely implement EU climate and environmental legislation (breaches of EU environmental legislation should be addressed by the Member States concerned as a condition to benefit from more fiscal space); eliminate fossil fuel and other environmentally harmful subsidies (with flanking measures to avoid adverse social impacts); and propose a pathway towards green, gender-just and progressive taxation.
c) **The full implementation of anti-corruption recommendations:** An indispensable precondition to ease the fiscal rules (as well as the continuation of EU funding) for Member States must be the full implementation of the anti-corruption recommendations of the European Commission (especially in the Country-Specific Recommendations and the Rule of Law Report), GRECO[xiii], OECD, and the United Nations. The recommendations of CSOs fighting against fraud, corruption and tax evasion should also be taken into account. Hungarian CSOs have made numerous concrete proposals for such preconditions, which need serious consideration.[xiv]

Debt sustainability is ultimately determined by creditors' trust. Would a Member State not comply with agreed conditions, it may face higher interest rates on the markets – which is an incentive to comply with agreed conditions.

2. More efforts to calculate the green investment gap

Reports on macro-economic imbalances should assess the investment gap of each Member State to deliver ambitious NECPs. Such assessments can only be estimates, but they can provide an indication that may be useful to support national decision-makers. At the moment, the data included in NECPs is either partial or highly questionable, each country using its own methodology, which translates in inconsistent results. For investment needs concerning the circular economy and biodiversity, calculation is even more difficult. Elaborating a consistent methodology across Member States could be considered.

9. Interplay between the SGP and MIP

Multiple surveillance streams partially overlap but the links have not always been fully exploited. While the integration of the MIP and the SGP within the framework of the European Semester has helped to strengthen the interaction between those surveillance strands, there *is further scope to make them work better together while avoiding overlaps between them when addressing at the same time macroeconomic imbalances, potential growth challenges and risks to public fiscal sustainability. MIP surveillance may also have so far insufficiently taken account of interactions between new emerging economic challenges, notably related to climate change and other environmental pressures.*

Question: In light of the wide-ranging impact of the COVID-19 crisis and the new temporary policy tools that have been launched in response to it, how can the framework – including the Stability and Growth Pact, the Macroeconomic Imbalances Procedure and, more broadly, the European Semester – best ensure an adequate and coordinated policy response at the EU and national levels?

The Semester needs to be the place where all these elements converge. As indicated in Question 1 and 2, the Semester should pay much more attention to social and environmental goals to strike a better balance with debt and deficit goals. It must be based on improved indicators that capture the distributional impact of policies; climate action and environmental protection indicators; and social indicators. The Country Specific Recommendations (CSRs) should cover investments and reforms to deliver updated and robust NECPs/Fit for 1.5.

10. Euro area dimension

There are a number of concrete links between the economic governance framework and the broader agenda to complete the Economic and Monetary Union. First, both the SGP and the MIP focus exclusively on national policies, in particular on the prevention and correction of high public debt levels and current account deficits. In such a context and in the absence of a central fiscal capacity with stabilisation features, the ability to steer the fiscal stance for the euro area as a whole remains constrained. The introduction of a stabilisation capacity of appropriate size would allow fiscal policy to contribute more to macroeconomic stabilisation at the level of the euro area as a whole. Second, the completion of the financial union (Banking Union and Capital Markets Union), the introduction of a common safe asset and the review of the regulatory treatment of bank sovereign exposures, could – depending on the specific design – facilitate market discipline and allow further simplification of the design of an effective fiscal surveillance framework. Third, a vibrant and resilient Economic and Monetary Union, resting on solid foundations, is the best means to increase financial stability in Europe. It is a prerequisite to strengthening the international role of the euro, which in turn is a tool to enhance Europe's clout in the world and on global markets, thereby helping protect European firms, consumers and governments from unfavourable external developments.

Question: How should the framework take into consideration the euro area dimension and the agenda towards deepening the Economic and Monetary Union?

CAN is not responding to that question.

11. NEW CHALLENGES DUE TO THE COVID-19 CRISIS

Question: **Considering how the COVID-19 crisis has reshaped our economies, are there any other challenges that the economic governance framework should factor in beyond those identified so far?**

In addition to those identified in the EC Communication, we see three additional challenges that the EU economic governance framework should take into account.

Challenge 1: Member States' budgets must be greened as well
While EU countries seem to have performed better than other G20 economies in terms of the greenness of the fiscal stimulus in response to the pandemic, a number of RRPs paid little attention to nature and biodiversity, and may ultimately harm nature.[xv] In addition, support to fossil fuel industries as part of the non-EU funded national stimulus packages has been significant in some Member States.[xvi]

It is therefore indispensable to green national budgets, and not just the EU budget, using the highest standards to avoid greenwashing; and to identify brown investments in national budgets, with a view to phase them out, with accompanying measures to mitigate the possible adverse social impacts. This should be a condition for green public spending to escape the deficit rule or for Member States to benefit from country-specific debt reduction pathways.

Challenge 2: The Semester should support a care economy

The pandemic has seen a further deepening of existing socio-economic and gender inequalities. The wealthiest have become even richer during the pandemic.[xvii] This deteriorated social context is making the green transition even more difficult.

The pandemic also showed that the State has an indispensable role to play in the economy, as a regulator, as a provider of public services such as health and education, and as an investor. Without State intervention, the socio-economic impacts of the pandemic would have been much more devastating –and political unrest may have erupted in many countries. The reformed EU economic governance framework needs to embrace a different approach, supporting a care economy whereby the care sector is valued, supported, and essential workers benefit from decent working conditions. **The green transition and the transition towards a care economy are the twin transitions that Europeans need.** Promoting the care economy through investments in gender-responsive public services (childcare, elderly care, dependency care, etc.)[1] is an indispensable ingredient for a just transition.[xviii] Care work is performed for pay by care workers (nurses, teachers, doctors, domestic workers). But the majority of the care work worldwide is undertaken by unpaid carers, mostly women and girls.

Unpaid care work is a key factor in determining both whether women enter into and stay in employment and the quality of jobs they perform.[xix] Investing in the care sector has the potential to generate massive employment opportunities for women and men.[xx] It redistributes women's unpaid care load, but also yields returns to the economy and society well into the future in the form of a better educated and healthier population.

Challenge 3: Investments and reforms promoted through the Semester should serve improved NECPs

As noted by the EC in its Communication on the EU economic governance review, the pandemic significantly increased the levels of public and private debt across Member States. In some Member States, many private companies who benefitted from the State support during the pandemic now face the risk of bankruptcy, would they not be able to refund their loans. This situation, combined with a possible return to strict fiscal rules, would make the green transition impossible.

If European countries do not want to miss the last train for the transition, the new economic governance framework, with the European Semester at its center, should encourage reforms and investments able to deliver improved NECPs, that make and strengthen links between climate and resource/material use by including reductions in resource and energy use. The more and more frequent shortages of raw materials in global supply chains during and post-pandemic highlight the need to accomplish giant steps towards reduced resource and energy use, including through circular economy efforts.

Possibility to attach a file: CAN Europe position on the reform of the EU fiscal framework: https://caneurope.org/can-europes-position-on-the-reform-of-the-eu-fiscal-framework/

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