EUROPEAN PARLIAMENTARY WEEK 2022

BACKGROUND NOTE

15-16 MARCH 2022

EUROPEAN PARLIAMENT
BRUSSELS

EU ECONOMIC GOVERNANCE FROM A PARLIAMENTARY PERSPECTIVE

CO-ORGANISED:

by the European Parliament
and the National Assembly and the
Senate of France

European Parliament
National Parliaments

European Parliament

FRANCE22

BACKGROUND NOTE

Plenary session: *The EU's Own Resources*

Four types of own resources presently finance the EU budget[1]:

- The traditional own resources (primarily customs duties)
- The VAT-based own resource
- A levy based on the quantity of non-recycled plastic packaging waste in Member States
- The (residual) GNI-based own resource remains the dominant income component.

In the context of the EU Recovery Plan, new functions have been given to the EU's general budget and, in particular, to its financing side, the legal basis of which - the Own Resources Decision (ORD) - now plays a central role in the NextGenerationEU financial architecture. Most notably, the Own Resources Decision of December 2020 authorises a temporary and precisely defined level of borrowing for the purposes laid out in the European Recovery Instrument.

The debt incurred under the NextGenerationEU bond issuance will have to be paid back by the EU budget until 2058. According to the Interinstitutional Agreement (IIA) of December 2020, in order to avoid 'crowding-out' risks and to mitigate increases in national GNI contributions in future Multiannual Financial Frameworks, the medium to long-term refinancing costs are to be covered by the income from additional new own resources. The roadmap for the introduction of new own resources in the IIA sets out principles, criteria and several concrete legislative steps to this end.

On 22 December 2021, the Commission presented a legislative proposal for a "Next Generation of EU own resources for NGEU repayment", amending the ORD. It contains the introduction of a basket of three new categories of revenue for the EU budget, which are closely interlinked with EU sectoral policy priorities in the context of the Fit for 55 climate initiatives and international efforts for fairer corporate taxation:

- An own resource based on the revenue from the revised Emissions Trading System (ETS)
- An own resource based on the proposed Carbon Border Adjustment Mechanism (CBAM)
- A contribution based on the additional corporate tax income, which is expected once the Pillar1 of the OECD/G20 agreement is operational internationally and at EU level.

Some framing questions for participants:

- ➢ *How should the new Own Resources be designed in order to provide the best added value in view of (i) facilitating the long-term repayment of NGEU debts and (ii) creating synergies with policy objectives like climate action and fairer corporate taxation?*
- ➢ *Which features should the new Own Resources have, so that they are acceptable to all EU Member States? In this context, in how far will it help to have a 'basket approach' of different types of revenue sources?*
- ➢ *How can national parliaments and the European parliament provide scrutiny, transparency, legitimacy and accountability with respect to the reform of the revenue side of the EU budget?*

[1] In recent years, there had already been several assessments and proposals to reform the EU budget and to introduce new revenue sources, see for example the final report of the High Level Group on Own Resources (Monti Report) and the Commission Reflection Paper on the future of EU finances.

BACKGROUND NOTE

Plenary session: *The reform of the Stability and Growth Pact*

In February 2020, the Commission launched the review of the EU economic governance, which includes the fiscal surveillance regulated by the Stability and Growth Pact.

In this context, the Commission published a report that assessed the application of the related legislation and launched a public debate, to give stakeholders the opportunity to provide their views on its functioning and on possible ways to enhance its effectiveness.

In October 2021, the Commission relaunched the economic governance review, based on a Commission's Communication that took into account the changed circumstances and the challenges arising from the COVID-19 outbreak (e.g. the high levels of public debts or the investment needs for the green and digital transitions) and the lessons learnt from the EU policy response, in particular from the governance of the Recovery and Resilience Facility (RRF).

In July 2021, the European Parliament adopted an own-initiative report on the reform of the macroeconomic legislative framework.

On 18 January 2022, the ECOFIN Council concluded that it will continue thorough discussions on the EU economic governance review. It noted the intention of the Commission to provide orientations on possible changes to the economic governance framework and acknowledged the need to build a broad-based consensus, insofar the effective functioning of the surveillance framework is the collective responsibility of all Member States, EU institutions and key stakeholders.

As part of its Communication on fiscal policy guidance for 2023, the Commission provided further indications on the state of play of the economic governance review. It indicates in particular that the potential long-term implications from the invasion of Ukraine for resilience and security have also been raised in the contributions received.

The Commission will provide orientations on possible changes to the economic governance framework with the objective of achieving a broad-based consensus on the way forward well in time for 2023.

Some avenues for reform of the SGP identified by the Commission in its Communication include:

- Ensuring debt sustainability and promoting sustainable growth through investment and reforms.
- More attention to the medium-term in the EU fiscal surveillance. At the same time, subject to clear EU level guidance, more scope for Member States to set and implement their fiscal adjustment plan in a medium term to strengthen ownership and thus compliance.
- Taking into account lessons learnt from the design, governance and operation of the RRF.
- Simplification, stronger national ownership and better enforcement are key objectives.
- The COM would consider simpler fiscal rules using one operational rule at the EU level with observable indicators, such as a net expenditure aggregate, for assessing compliance. Moreover, were more scope to be given to Member States for the design of fiscal trajectories, a balance should be found with a more stringent enforcement of the framework by the Commission and the Council in case of non-compliance.

Some framing questions for participants:

- *How do you assess implementation of the budgetary rules? Have they achieved the objective of ensuring the sustainability of public finances, while enabling appropriate fiscal policies over the economic cycle (building up fiscal buffers in good economic times and stabilising economic activity in downturns)?*

- *Are there any need to adjust the enforcement mechanisms of the rules, improve their simplicity and/or allow for more flexibility?*
- *Should certain types of investments have a specific treatment, especially during periods of fiscal consolidation?*
- *How could national ownership and democratic accountability of the framework be improved?*

BACKGROUND NOTE

Plenary session: *High-Level Conference on the Recovery and Resilience Facility: Lessons for the future*

Following the adoption of the Recovery and Resilience Regulation setting out the Recovery and Resilience Facility, all Member States but Netherlands submitted Recovery and Resilience Plans (RRPs) to the Commission. Out of the 26 submitted plans, the Commission assessed 22 plans and the Council adopted the 22 Commission's assessments. Assessments for Hungary, Poland, Sweden and Bulgaria are pending. The Commission disbursed pre-financing to 21 Member States and positively assessed two payment requests, from Spain and France. Spain received a first disbursement of EUR 10 billion in December 2021, and more Member States are requesting disbursements from the Facility. Implementation is thus progressing and will be key going forward.

Whilst the Commission annual report and mid-term review are yet to come, a preliminary stock take can bring further elements to that debate. Looking at available information and analysis, the Facility is allowing Member States to implement reforms and recommendations proposed in previous European Semester cycles, maintaining strong national ownership. It has helped reinforce confidence and cooperation between Member States and the EU institutions and increased knowledge of Member States' specificities and challenges. On the other hand, it is argued that participation of the parliaments, the civil society and stakeholders at large could be reinforced, as well as transparency at national and EU level.

Some framing questions for participants:

- *What overall preliminary lessons can be drawn from the design and early implementation of the Recovery and Resilience Facility?*
- *Has the articulation of the Facility with the European Semester facilitated national ownership and accountability? How to reinforce democratic accountability of the Facility at national and EU level?*
- *Which national and European best practices on transparency can be replicated, to ensure the availability of sufficient information to assess implementation of the Facility?*
- *Could any other EU instruments incentivising reforms and investments benefit from the RRF experience?*

Further information:
Recovery and Resilience Plans - public documents and overview of process
The main building blocks of the Recovery and Resilience Facility