European Economic and Social Committee

Section for Economic and Monetary Union and Economic and Social Cohesion

ECO priorities for 2021

The COVID-19 pandemic that hit Europe and the whole world in 2020 triggered a sharp decline in output, huge difficulties for businesses and especially SMEs, a rapid increase in unemployment and job uncertainty, a rise in social and economic inequalities, a drastic reduction in trade, investment and mobility, and a significant deterioration in public finance indicators. The EU had to respond quickly to the on-going health, social and economic emergency with the appropriate policy measures and specific financial tools. The situation has highlighted the need for a balanced economic policy mix to ensure a good business and investment environment, high-quality jobs and sustainable economic growth. Therefore, the EU has also started looking for medium- and long-term solutions to reduce uncertainty and lead our economies and societies out of the crisis, while sustaining a healthy economic environment.

Given the current juncture, in which the pandemic is not yet under control and the cyclical economic forecasts are being revised, the ECO section has a central role to play in bringing the consensual views of organised civil society to the attention of economic policy-makers and contributing to the rapidly evolving economic policy response at European level. With its responsibility for the Economic and Monetary Union, the European semester, financial markets, the EU budget, taxation and cohesion policy, the ECO section stands at the forefront of the current EESC policy advice and must continue to explore, build and lead the European way to a sustainable and inclusive recovery in 2021 and beyond.

This can only be done in a continuous dialogue with our institutional partners and civil society stakeholders at European and national level, even if social contacts and traditional face-to-face communication have been greatly limited as a result of the pandemic. To this end, the ECO section – working in close cooperation with all relevant EESC bodies – needs to place a particular emphasis on the follow-up and communication of its opinions and other activities in an ever more digitalised communication environment.

1. Economic governance and deepening EMU

One of the six main priorities of the von der Leyen Commission is "An economy that works for people". The EESC firmly believes that the time to act on this priority by **shifting the emphasis from strategy to delivery** is now and not whenever the COVID-19 pandemic might be over. This is why putting the European economy on the track of sustained convergence, growth and employment, and bringing prosperity to the European people and companies will remain the highest priorities of the ECO section over the next few years. While preserving and trying to reach the same goals, we have to carefully keep in mind that the pandemic may have moved the starting point compared to the pre-COVID period.

There is a wide consensus among policy-makers that the **strong fiscal and monetary policy support** in response to the crisis must continue throughout 2021 and be adapted according to the evolving circumstances. In addition to national support measures, the new European financial instruments, such as the EUR 540-billion safety nets for citizens, companies and sovereigns, must be swiftly put into action. A political agreement on the EUR 1.8-trillion MFF and *NextGenerationEU* recovery plan, as well as on the necessary implementation mechanisms at European and national level, is urgently needed, so that the hardest hit citizens, companies and regions can benefit from the additional EU funds when they need them most. At the same time, Member States need to significantly improve their programming capacity in order to ensure that all recovery funds are fully absorbed and efficiently used for investments with immediate positive effects to overcome the current recession and/or investments in the transition to a sustainable, inclusive, digitalised, low-carbon economy.

The ECO section will continue to anticipate and discuss all these issues in order to promote in a timely manner the views of organised civil society on the various (macro-)economic policy aspects of the current crisis. It will focus on them more specifically in its forthcoming public debates, in the discussions of the **thematic study group on economic and fiscal Governance of the Euro Area (GEA), and in its cyclical opinions on euro area economic policy**.

Against this background, our guiding principle will be that persisting macroeconomic and social imbalances and inequalities, as well as the creation of trust and confidence among Member States and citizens, require **effective and democratic economic governance**. The EESC has already replied to the European Commission's consultation on the economic governance review by welcoming the activation of the general escape clause of the Stability and Growth Pact as a timely and necessary initiative, but also by warning against a premature return to the old rules as this would impose once again austerity in the hardest hit countries and dwarf any benefit from the EU recovery plan. Instead of a "return to normal", we demand a "turn" to a revised and rebalanced, prosperity-oriented economic governance framework, which gives equal weight to a range of key policy objectives, such as sustainable and inclusive growth, full employment and decent work, a competitive social market economy and stable public finances. Such a framework should also avoid asymmetric effects in the Member States and stimulate productive investments by implementing, for example, a well-balanced golden rule. In light of these recommendations, the ECO section will continue to follow this issue and stands ready to provide further input to the inter-institutional debate as developments evolve.

Finally, a discussion should be started on bringing the economic and monetary policy provisions of the Treaty in line with current economic realities and the indispensable requirements of a deep and genuine **Economic and Monetary Union (EMU)** that gives equal weight to its economic, financial, social and political pillars. The issues to discuss include, but are not limited to, the potential creation of an EMU executive (treasury), revised rules for decision-making in economic and fiscal policy matters, a euro area fiscal capacity, a modernised tax policy, a fully-fledged banking and capital markets union, common minimum standards in the labour market and social policy, enhanced powers of the EP and better involvement of civil society in EMU-related matters, a European solution to the issue of legacy debt. The discussion on all these elements should be geared towards the objectives of enhancing European competitiveness, productivity and investments, achieving upward convergence within the EU and strengthening the role of the Union as a global economic actor, including through a wider international use of the euro. With this in mind, the ECO section intends to contribute actively not only to the **upcoming Commission initiatives on strengthening Europe's economic and financial sovereignty**, but also to the deliberations of the much-awaited **Conference on the Future of Europe**.

2. The European Semester

The European Semester must fully play its role in coordinating economic and related policies with its new focus on ensuring a quick socio-economic recovery and on achieving sustainable and inclusive growth in line with the **new growth strategy based on the European Green Deal and the concept of competitive sustainability**. The Semester is going to play a very important role in the **national implementation of the proposed Recovery and Resilience Facility**. The Facility should, inter alia, help Member States address the challenges identified in the European Semester. Support to Member States will be made dependent on respecting recommendations made in the framework of the Semester. The size of the sums involved and the new orientation of the Semester exercise makes this a significant and important task, which will require significant engagement of the ECO section and its **dedicated European Semester Group**. The outcomes of these discussions will feed notably into our opinions drawn up regularly within the European semester cycle, notably on the **Annual Sustainable Growth Strategy**.

The participation of all Europeans, through civil society organisations, is needed to make the process of reforming the economy and society possible. The EESC has therefore already called for a **more active role for social partners and organised civil society in every relevant phase of the European semester process**, for instance in obtaining agreement between the European Commission and the Member States on the content of the integrated national reform programmes and the recovery and resilience plans. In line with this, the ECO section's European Semester Group intends to continue its important work to collect, channel and promote policy views from national civil society organisations through the organisation of regular **national country visits and discussion fora**.

3. Stable and resilient European financial markets for sustainable growth

The ECO section sees as a priority the efficient functioning of financial markets. **EU financial markets need to be integrated and stable** in order to support the European recovery and to get the EU back on track towards the transition into a climate-neutral and increasingly digital economy that is characterised by sustainable and inclusive economic growth. The recovery will crucially depend on the ability of **European financial markets to ensure sufficient liquidity and better risk sharing**. It is imperative to take decisive steps to **develop an efficient and integrated Capital Markets Union and a fully-fledged Banking Union**, encompassing all Member States and geared to further harmonisation and the removing of cross-border obstacles while safeguarding sound regulation and surveillance.

Strengthening investment activities, especially by promoting socially and environmentally sustainable productive investments to support achieving the objectives of the European Green Deal will be crucial in the coming years. The ECO section will monitor closely the **implementation of the European Green Deal Investment Plan** (also known as the Sustainable Europe Investment Plan (SEIP) which was the first comprehensive policy measure to fulfil very ambitious targets of carbon neutrality until 2050.

The EESC emphasised in several opinions that any attempt to achieve and enhance sustainable growth would require an emphasis on **mainstreaming environmental protection into economic activity**. The

ECO section will therefore contribute to the **renewed Sustainable Finance Strategy** that will aim to redirect private capital flows towards green and socially sustainable investments and promote the creation of a culture of sustainable corporate governance. Building on its previous work on a common taxonomy and benchmarks to facilitate sustainable investment, the ECO section will also discuss the proposal to establish an **EU Green Bond Standard**. An open dialogue with the civil society is key in this respect, thus, the ECO section will continue its work to ensure that climate mainstreaming indeed becomes the new norm and that social and governance aspects are increasingly taken into account.

The ECO section will also **closely follow the start of the implementation of the InvestEU programme** in the framework of the next Multiannual Financial Framework. The success of this programme will be important for strengthening investment activities in the EU, including long-term investment projects that are of high public interest, while also respecting the sustainable development criteria.

The beginning of the new EESC mandate coincides with the presentation of a **new action plan on the Capital Markets Union**. The ECO section will seize this opportunity to build upon the expertise of its new and reappointed members to analyse the plans of the Commission to build deep, integrated and liquid European capital markets that are able to give businesses access to finance for growth and investments. SMEs' well-accessible financing and in this context the financing of start-ups and scale-ups needs to be tackled as a priority, as SMEs are so important for the European economy, being responsible for a large part of employment. The ECO section will express its view on the **revision of prudential rules for insurance and reinsurance companies** (Solvency II) and on the **framework for investment protection and facilitation**.

<u>The digital transformation presents new opportunities and challenges for the financial markets.</u> In order to explore new ways of financing economic activity, the Committee will contribute to the discussion on a **new Digital Finance Strategy, including a legislative proposal on crypto assets and their underlying distributed ledger technology.** As it is also imperative to improve the safety of the financial system vis-à-vis cyberattacks, the ECO section will also work on the Commission proposal on **improving the digital operational resilience of the European financial sector**. The ECO section will also continue its work on **anti-money laundering** initiatives.

The financial system has to act as an intermediary between savers and investors and fulfil the financing needs of the real economy. Against this background, the Committee will continue to work on **initiatives to complete the Banking Union**. In light of the COVID-19 pandemic and the recession, the EESC supported the decision to postpone the implementation of certain remaining elements of the Basel III framework. However, the proposal to review the **capital requirements directives and regulations and the regulatory framework for investment firms and market operators (MiFID, MiFIR)** is becoming more and more timely. The ECO section will express its view on a new action plan to tackle non-performing loans (NPLs) as well as on the **revision of the bank crisis management and deposit insurance framework** that aims to complete the Banking Union. The ECO section will contribute to these discussions by building on its past recommendations and taking into account the new developments.

4. Taxation

The COVID-19 pandemic and the consequent huge global leap to digitalisation has put the issue of **Taxation in the digitalised economy** straight into the centre of the public debate. The Committee has expressed that the solution must ultimately be a global one in order to better harness the benefits of globalisation, with proper global governance and global rules. Both the OECD and the UN Committee of Experts on International Cooperation in Tax Matters are working on finding a globally acceptable solution. The ECO section follows the global efforts and contributes to the analysis and debate whether an envisaged international agreement is reached or not. The ECO section underlines the fact that, if an international solution cannot be reached, the EU must propose its own solution.

The ECO section will continue its successful cooperation with **the UN Committee of Experts on International Cooperation in Tax Matters** on **taxation and the Sustainable Development Goals.** The section considers that taxation policies are fundamental for the SDGs as they determine the economic environment in which investment, employment and innovation take place while providing the government with revenues for financing public spending. It is of the utmost importance for advancing the global dialogue that civil society plays an active role in this crucial international debate.

The ECO section will also address **reforms of the corporate tax framework** in order to combat abuses, tax fraud, ensure sustainable revenues and help boost businesses in the internal market. Specific attention will be paid to the initiatives of the European Commission regarding the **revision of the tobacco taxation Directive** and the amendment of the **Directive on general arrangements for excise duties**.

The ECO section will also continue to work on the **EU VAT reform** with a view to advancing towards a definitive VAT regime.

5. EU Budget and own resources

The EESC has repeatedly called for the **Multiannual Financial Framework** (MFF) to be geared towards jobs, growth and competitiveness, and has called for a strong EU budget endowed with commensurate financial resources to achieve the Union's objectives.

With this in mind, the EESC will continue to actively feed into the legislative process **shaping the future of EU finances** from 2021 onwards, building on the conclusions and recommendations drawn up in its recent opinions on the *Multiannual Financial Framework post 2020* and on the *Recovery Plan for Europe and the MFF 2020-2027.*

To fight the economic and social consequences of the COVID crisis, the EESC strongly welcomed the decision to provide the Union with a substantial recovery fund implemented within the multiannual financial framework, and to raise sustainable common debt in order to spread out the cost over a long period of time. The EESC considers this response could be a signal as to how to mobilise and utilise the EU's common financial resources in the future, and welcomes the fact that the newly proposed instrument should be closely coordinated with the European Semester process.

The ECO section will continue to discuss how the EU budget could be funded to a larger extent by genuine own resources. The ECO section will therefore work on the legislative proposals expected for

2021 on new own resources coming from revenues from the EU Emissions Trading System, from a Carbon Border Adjustment Mechanism (CBAM), and from a digital levy.

6. Cohesion and urban policy

COVID-19 has caused the biggest economic and social crisis the EU has ever faced. **Cohesion policy** must play a key and central role in ensuring a balanced recovery to sustained growth, fostering convergence, **combating social exclusion and making sure that no one is left behind**. The EESC will continue to insist that cohesion should help to advance agreed policies in relation to digitalisation and accessibility of services, reindustrialisation, SMEs and broadband services in the regions.

Moreover, the EESC believes that cohesion policy transfers should be spent on those factors which have the biggest contribution to the improvement of development prospects and competitiveness in the given regions. These factors are research and innovation, digital transition as well as the European Green Deal agenda and sustainable development.

The ECO section will closely look at how cohesion policy can power the recovery plans, address the widening of regional disparities both before and after the COVID-19 crisis and contribute to tackle social and economic issues. Cohesion policy has shown, and will continue to demonstrate, its added value bringing together EU Member States, regions and cities to protect the people, reduce social, including demographic, disparities, save jobs and preserve local economies during the pandemic. The ECO section aims to assess the situation in European regions and will help ensure that new cohesion instruments will be implemented if necessary.

The COVID-19 pandemic has changed policy making and future development outlooks. As implications and policy responses vary across territories, the pandemic shows that territorial and urban issues matter and that our territories and cities are highly interdependent. Territorial cohesion should play an important role in the recovery process. Territorial development policies and the cooperation on joint objectives are essential to increase the resilience of municipalities, regions and countries, and strengthen their recovery processes. In this context, the ECO section will follow up on proposals made on the **Urban and Territorial Agenda 2030**.

Finally, we believe that the macro-regional strategies can help economic recovery among regions, especially in the post COVID-19 period where a lot of synergies are required to give a much needed boost to GDP, and increase European added value. The ECO section will therefore continue stressing the **importance of the macro-regional strategies** having an increasing role to play in the resilience of the EU.

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