

Public debate on the review of the EU economic governance

Background

Following the 2008-2009 economic and financial crisis, the EU took a series of measures to strengthen its economic governance and surveillance framework.

The six-pack and two-pack legislation was introduced to enhance the coordination of economic policy and promote sustained convergence of economic performance through strengthening budgetary surveillance under the **Stability and Growth Pact (SGP)**.

The legislation also introduced requirements for national fiscal frameworks and broadened the scope of surveillance to include macroeconomic imbalances. The revamped macroeconomic and budgetary surveillance was **integrated into the European Semester**, the framework for coordination of the economic policies, which was established in the same context.

Some of the EU economic governance rules do **have a direct impact on local and regional governments**. For instance, the Maastricht Treaty established a requirement for Member States to avoid government deficits exceeding 3 % of GDP and to keep public debt levels below 60 % of GDP. Yet, local and regional governments debt evolution (and debt) is taken into account in the national debt evolution (and debt) hence limiting the capacities to borrow and invest.

In 2020, the Commission initiated an assessment of the application of the “six and two-packs”. Its [Communication on “Economic governance review”](#) (February 2020) highlights in particular that, although the role of public investment to deliver public goods and to support sustainable public finances is well recognised in the EU’s fiscal framework; *“the current fiscal framework did not prevent a decline in the level of public investment during periods of fiscal consolidation, nor did it make public finances more growth-friendly”*.

At the time, the Commission launched a first consultation to which CEMR responded. However the COVID-19 crisis led to a suspension of this process, as the European Commission had to unfold unprecedented mechanisms to support EU economy such as the State Aid Temporary Framework, the Next Generation EU package or the escape clause from the Stability and Growth Pact. Now that the Recovery and Resilience Facility is on track, the Commission is relaunching the public debate on this new ground.

The new public consultation [Public debate on the review of the EU economic governance](#) is **open until 31 December**

This is a proposal to update CEMR answer to the consultation based on the first answer submitted. Please send your comments, suggestions and remarks to marine.gaudron@ccre-cemr.org by **9 December cob**.

Most of the questions are identical to the first survey with only two new questions on lessons from the RRF and new challenges due to the COVID-19 crisis; and changes in the question on interplay between the SGP and MIP.

Resources:

- CEMR [policy monitoring on cohesion and local finances](#) (regularly updated)

- CEMR draft position paper “[Boosting public investment capacities at local and regional level](#)” (October 2021)
- European Commission Communication “[The EU economy after COVID-19: implications for economic governance](#)” (October 2021)
- [CEMR answer to 1st consultation on revision of EU economic governance](#) (January 2021)
- European Parliament Research Service study “[Benefits and drawbacks of an “expenditure rule”, as well as of a “golden rule”, in the EU fiscal framework](#)” (September 2020)
- European Parliament Research Service study “[The role of fiscal rules in relation with the green economy](#)” (September 2020)
- European Commission [Communication on “Economic governance review”](#) (February 2020)
- European Commission [Report on the application of the economic governance framework - Staff Working Document](#) (February 2020)
- European Commission, Staff Working Document, [Review of the suitability of the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States](#) (February 2020)
- CEMR, Eurocities and Polis [Open letter to EU institutions: Municipalities, cities and regions call on the EU to support long-term investments](#) (May 2017)
- CEMR position paper [Reviving local public investments – Flexibility is needed in the existing rules of the Stability and Growth Pact](#) (December 2015)
- European Commission communication “[Making the best use of flexibility within the existing rules of the Stability and Growth pact](#)” (January 2015)

Glossary:

BICC: Budgetary Instrument for Convergence and Competitiveness

CRI: Convergence and Reform Instrument

EIB: European Investment Bank

EIP: Excessive Imbalance Procedure

EMU: Economic and Monetary Union

ESIF: European Structural and Investment Funds

MIP: Macroeconomic Imbalance Procedure

SGP: Stability and Growth Pact

TFEU: Treaty on the Functioning of the European Union

TSCG: Treaty on Stability, Coordination and Governance

Public debate on the review of the EU economic governance

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?

5000 character(s) maximum (3491/5000)

The current EU economic governance framework does not make a clear distinction between debt for macroeconomics stabilisation and debt for public investments, nor does it distinguish between the different levels of governments. The national governments use debt for macroeconomic stabilisation as well as for public investments. The subnational governments on the other hand use debt mainly for public investments and therefore should be given more flexibility. It is at this subnational level that most of the public investment is needed to enhance resilience of European territories and citizens and to prepare for a sustainable future for next generations. (eg. the renovation wave will be conducted at the local and regional level).

The European Commission has in its communication from 2015 (Making the best use of the flexibility within the existing rules of the stability and growth pact – COM(2015)12¹) recognised the need for more flexibility for the public investments with European funds, but this flexibility is not sufficient. In some Member States for example these EU funds make up a very small amount from the total public investments. In those Member States public authorities can raise their own funds (eg. from local or regional promotional banks where they benefit from a credit rating similar to the EIB's) and their investments serve the same policy goals as those pursued by EU funds and financial instruments, therefore they should benefit from the same flexibility.

A solution for this problem can be that of a "golden rule" which exempts debt financing of local and regional governments in tangible fixed assets from restrictions. The new budget rule should enable local and regional governments to preserve an appropriate level of debt financing of public investments in tangible fixed assets during recessions.

Another solution would be that of an expenditure rule. If well-defined this rule is less bureaucratic and simpler than the current budget rules. It also does not directly affect the level of loans for investments.

The underlying problem of the current EU debt criteria is that assets of local and regional authorities are not included in any way in these debt criteria. Some local authorities have significant assets, e.g. stocks or properties. Obviously local authorities with significant assets can bear a higher amount of debt than those without any assets. CEMR demands that the SGP's deficit and debt criteria are

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015DC0012&from=EN>

changed in a way that long-term public investments can be accounted by being spread out over time, not just during the first year in which the expenditure is made. CEMR also requests a recognition that borrowing for local governments' capital expenditures purpose is a productive investment which increases the value of local governments' assets in the medium and long-term.

*The future EU economic governance framework should allow for a **differentiation between long term investments in fixed assets for the future** and current expenditures. Currently the EU economic governance is based on a yearly calculation of debts, spending and investments. This yearly calculation means that local and regional governments' investments for long term and structural projects will necessarily be considered as structural deficit. This consideration would change if **local and regional public investments could be accounted for in a much more long-term perspective as for example a system of double entry bookkeeping does make.***

2. Safeguarding sustainability and stabilisation

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?

5000 character(s) maximum (2399/5000)

Local and regional governments play a role in fiscal policies and are even directly impacted. In many European countries, most of the revenues come from taxes income (property taxes, business taxes, tourism taxes etc.). Therefore counter-cyclical fiscal policies should also take into account their impact on the local and regional level.

At the local and regional level, it is often difficult to engage in counter-cyclical investments, as the limited resources will be targeted in priority to regular expenses (e.g. salaries, costs of running public services) and not for longer term sustainable investments. We observed this in the post 2008 economic crisis context and it is likely that similar scenario resulting in increasing local public investment gap will happen in the COVID-19 social and economic aftermath. If local and regional governments were to also act in an anticyclical way it would require coordinated guidelines from another level (regional, national and/or federal) and also European support programmes. Especially in times of crisis, it is crucial that municipalities are capable to continue investing and therefore higher state levels (including EU level) must secure sufficient funding for municipal investments.

To ensure sustainable public finances, the EU framework uses a structural balance rule for the EMU deficit. This rule takes the debt evolution of local and regional governments into account. As a consequence, local and regional public investments come under pressure, especially during recessions. During recessions the central governments tend to use most of the allowable EMU-deficit and thereby leave too little room for local and regional governments to finance their local and regional public investments. The EU should consider a different budget rule.

Even more so, the EU could promote through the EU semester country reports incentives to Member States to keep up the level of grants for local and regional governments during recessions and to take measures to increase subnational public investments during economic recessions in order to stimulate counter-cyclical measures and help re-launching the economy from the closest level to the citizen. The promotion of local and regional public investments during recessions could be stimulated through enabling legislative framework, fiscal incentives for public investments, or additional financial support.

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?

5000 character(s) maximum (4547/5000)

Leaving no one behind is also about leaving no place behind. Local and regional governments will be key to achieve a sustainable recovery in the next years. The public investments at local and regional level should be considered as the real leverage towards the decarbonisation of our society. Indeed, the sectors where transformation can be achieved the fastest to reduce carbon emissions are often at the local level: energetic renovation of buildings, clean public transport, acceleration of soft mobility, even promotion of more local and sustainable consumption goods. To meet the ambitions of the European Green Deal, actions must be taken at EU and Member States level to foster and boost local and regional public investments, especially in the context of the social and economic crisis that derived from the COVID-19 pandemic.

The reports of the World Observatory on Subnational Governments Finance and Investments² by the OECD and UCLG contains enlightening facts on the role of local and regional government's investments:

- *subnational governments invest and spend mainly on education, social protection, general public services and health*
- *In many countries – particularly high income countries – the share of subnational governments public investments exceeds 50% of total public investments.*

² <http://www.oecd.org/regional/observatory-on-subnational-government-finance-and-investment.htm>

- *However, the share of subnational public investment in GDP remains low in many countries. Subnational public investment is only 1.3% of GDP around the world. In OECD countries, subnational public investment was declining for 8 years following the 2008 crisis. It is finally starting to pick back up recently, but significant catching up is still needed, in particular in Europe, for which the level of subnational investment is particularly low: 1.2% of GDP in 2016*

The COVID-19 crisis is having a major impact on local and regional governments' finances (cf. CEMR publication - <https://bit.ly/3waGOnL>) with a real risk that if no measure is taken to encourage local and regional investments at both EU and national level; we will fail to deliver the needed investments for a sustainable and inclusive recovery. The 2008 economic crisis has shown that the priority in economic crisis period for subnational governments is to ensure the immediate necessary expenses (salary of municipal/regional employees; social care, children and school expenses, etc.) and long-term investments are sacrificed for an increased cost for the next generations.

More flexibility should be granted regarding local and regional governments' investments, capacity to borrow and possibility to contract debt. It is worthwhile to finance at least some sound investments through debt financing. Public investment is needed, given its long-term horizon and leverage effect on private sector investments, particularly in less attractive areas and sectors. Local authority investments support growth and would be in the wider interests of society.

If we want to foster investments including at the local level, Member States and the Commission must also consider the possible existing limitations to borrow for local authorities that may exist in some Member States. Access to loans from EU financial mechanisms may be hampered by such borrowing limits for municipalities. It is important to note, that EU financial mechanisms provide loans for projects that generate a positive cash flow, hence in theory such projects finance themselves and are not a future burden for the municipal budget (e.g. construction of an underground parking garage, which pays off the loan with the income from users it generates).

An option the European Commission should explore is to make it easier to combine grants and loans for a single comprehensive project under EU budget rules – as is often the case at the territorial level. For instance, a project could include a component that does not generate income (e.g. renovation of a public square) to be financed by a grant, and a component that does generate income (e.g. renovation of a public building which will be rented to businesses) to be financed through a loan.

The European Semester could also be used to encourage Member States to foster sustainable public investment at local and regional level. Furthermore, we recommend that the EU surveillance framework which is part of the Semester, take into consideration quality (sustainable and long-term dimension of local public investments) rather than only quantitative approach.

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?

5000 character(s) maximum (737/5000)

The Member States of the European Union have their own institutions and legislations to ensure that the public finances of local and regional governments remain sustainable. They also have their own mechanism to help individual local and regional governments that need financial support in case of unsustainable public finances. These institutions, legislations and mechanisms would need to be taken into account by the EU and therefore leave the subnational governments out of the fiscal surveillance framework of the SGP. This exemption could take the form of a conditional exemption: It could be granted if the internal institutions, legislations and mechanisms for sustainable local public finances meet a certain minimum standard.

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?

5000 character(s) maximum (2337/5000)

Surveillance should ensure and verify the existence of a quality multi-level governance dialogue in Member States, that includes representatives of local and regional governments. The level of local and regional public investments should be monitored and transparently available to all.

Certainly, the most pressing policy challenges for months even years to come will be the economic consequences of COVID-19. With the Communication from the Commission on “Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak” (C(2020) 1863 final), the Commission reacted to the COVID 19 outbreak. In the overall effort of Member States to tackle the effects of the COVID-19 outbreak on their economy, this Communication sets out the possibilities Member States have under EU rules to ensure liquidity and access to finance for undertakings, that face a sudden shortage in this period in order to allow them to recover from the current situation. The Commission will consider State aid compatible with the internal market on the basis of Article 107(3)(b) TFEU, provided that all the conditions mentioned in the communication are met. It is important to note that most of the economic and social services providers will still need support beyond the temporary state aid measures. Especially, for certain institutions that provide

social services without the intention of making a profit (e.g. looking after the elderly in day-care centres) but against payment from customers. These facilities were impacted by the crisis and are at risk of insolvency without government assistance. However, should these facilities become insolvent, the social services can no longer be offered even after the COVID 19 pandemic has ended. Also, these activities, which have been carried out by the institutions for years, cannot be taken over by the administrations of the member states due to a lack of available human resources and expertise. There is a threat of long-term social isolation of many older people and a huge increase in the number of unemployed in the field of social services.

6. Lessons from the RRF [New]

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?

5000 character(s) maximum (1847/5000)

The positive aspect of the RRF is that Member states have been supported in tackling the consequences of the COVID-19 pandemic and in investing in the future digital and climate transitions.

One major difficulty local and regional governments identify with the RRF is that it is a centralised instrument: meaning developed and owned by national governments. While the RRF will be used to finance investments and reforms similar to those that can be financed under Cohesion Policy. The major difference is the time frame (much shorter delivery expected with the RRF) and the absence of Partnership Principle in the RRF.

A recent [report of the CoR on the implementation of the Recovery and Resilience Facility](https://bit.ly/3qiUfj6)³ (<https://bit.ly/3qiUfj6>) and the survey conducted by CEMR and Committee of the Regions in early 2021 (<https://bit.ly/3CHz2UU>) show that the RRF regulation was not strong enough to enforce consultation and involvement of main stakeholders such as the local and regional governments, and in too many countries, this was not done seriously. The advantage of Partnership Agreement is that it allows for better coordination of the various Cohesion Policy funds implemented in the same territory. This is a matter of consistency, and allows a “do no harm to cohesion policy” approach. As the national recovery and resilience plans were not submitted to Partnership Agreement, this is clearly a missed opportunity in the RRF to secure consistency between EU funds.

During the implementation of the National Recovery and Resilience Plans, Member States must ensure they are working in full partnership with all levels of governance, and use this opportunity to evaluate the potential of the local and regional governments to contribute to investments in line with the recovery plans, but also seize this opportunity to identify potential and difficulties that they could

³ [“The implementation of the Recovery and Resilience Facility”](#), December 2021, Rob Jonkmen

face because of national or European legislation. In particular, the EU and Member States must ensure that local **sustainable investments won't be artificially constrained** by the EU or national rules when they are needed for common good and well-being of EU citizens. The Commission could help by making sure that local and regional governments will receive a reasonable share of the RRF corresponding to their competencies, share of public investments and responsibilities for implementation of the necessary EU and national legislation.

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?

5000 character(s) maximum (1942/5000)

It is important that the EU develops a multi-level government approach. Many of the EU's fiscal rules are not appropriate for the local and regional level of governments. When implementing the rules of the Stability and Growth Pact (3% deficit ceiling and public debt below 60% of GDP) and the Treaty on Stability, Coordination and Governance, Member States include local and regional authorities' finances in their national calculations. As a consequence, central governments generally apply the rules in a way that forces local and regional government to reduce their expenditures by the same proportions as their own. Also, the statistical requirements in European System of Accounts (ESA) 2010 and administrative requirements in European Public Sector Accounting Standards (EPSA) accounting rules are not well suited for the local and regional administration of the public finances.

It will therefore be important to pay particular attention to the impact of a stronger national fiscal framework and (statistical) transparency measures on local and regional governments, to make sure they do not hinder but rather help local and regional authorities. The EU rules should leave enough room for national fiscal authorities to adopt a flexible approach to the implementation of EU fiscal rules and to statistical and administrative requirements when it comes to the local and regional level.

In addition, representatives of local and regional governments should be consulted by the national ministry in charge of budget and fiscal policies to ensure the national and EU rules are not preventing subnational public investments, and foster a multi-level dialogue on this issue. This consultation could be guaranteed by a "regulated procedure" to be included in EU regulations.

As mentioned in question 3, the EU financial instruments and mechanisms should be excluded from national limits of borrowing for local and regional governments.

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?

5000 character(s) maximum (424/5000)

Local and Regional governments should not suffer from poor budgetary management at national level. The EU must ensure that sanctions would not have adverse effects on subnational governments when they have no responsibility on the macroeconomic stability of a Member States. The Convergence and Reform Instrument can be an appropriate tool to stimulate public investments at local and regional level (see previous questions)

9. Interplay between the SGP and MIP [new question]

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?

5000 character(s) maximum (2895/5000)

Better coordination between European, national and local level on EU economic governance is needed. A new framework should allow for true exchanges between representatives of local governments, EU Member States and the EU Institutions. A code of conduct should make the Partnership Principle also mandatory for the future of the European Semester. Only through multi-level dialogue, can we collectively remove the barriers to subnational investments. When drafting country recommendations, the European Commission should systematically consult the national associations representing local and regional governments in the country. The involvement of local and regional authorities in the Semester has so far remained too limited. It is not proportionate with the large responsibilities of those authorities in the policies covered in the Semester, but it is also in contradiction with the partnership principle that applies in the ESIF funds. This trend is now even reinforced with the recovery and resilience facility (centralised at national level). As the macroeconomic surveillance framework is part of the Semester, the role of multi-level governance in this framework needs to be reinforced (see Committee of the Regions reports “The European Semester and cohesion policy: aligning structural reforms with long term investments” - CDR 5504/2018 and “Improving the governance of the European Semester: a code of conduct for the

involvement of local and regional authorities” - CDR 5386/2016 and the CoR report on implementation of the Recovery and Resilience Facility⁴).

Also, European Commission recommendations in the European Semester process should follow a comparable approach or at least not be contradictory between countries.

*The European Semester, as an instrument for fiscal discipline, is **not the right instrument to relaunch growth and to allow strategic investments in the EU**. If the Semester is going to become the main mechanism of policy coordination between European, national and sub-national levels of government, it will have to move away from the pure macroeconomic and budgetary surveillance, thus transforming into a **more flexible platform** that can adapt to the fast-changing needs of the European economy and society and that **“do no harm” to other EU policies such as Cohesion Policy or the Green Deal**.*

The European Semester country reports should assess the finance, fiscal stability and the level of investments of local and regional governments in each Member States, that would help better understanding the impact of EU and national fiscal framework on local and regional governments’ finance and investments.

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?

5000 character(s) maximum (1647/5000)

The EU’s criteria for assessing public finances do not take into account the differences between the public finance of the national government and the public finances of the local and regional governments. This leads to the situation where the European rules do not properly assess the financial situation of local and regional authorities. The main problem is that the fiscal rules do not make a distinction between debt-financed current

⁴ Reports of the Committee of the Regions “[The European Semester and cohesion policy: aligning structural reforms with long term investments](#)” CDR 5504/2018 ; “[Improving the governance of the European Semester: a code of conduct for the involvement of local and regional authorities](#)” CDR 5386/2016 ; and “[The implementation of the Recovery and Resilience Facility](#)” all by Rob Jonkman (NL/ECR).

operational expenditures and debt-financed regional and local public investments. This concern should be present also in the Economic and Monetary Union.

The EU should also take the initiative to improve the European market for issuing and trading local and regional government bonds (debt obligations). This could be part of the EU public capital market union.

Subnational governments need sufficient fiscal autonomy and financial capacity to undertake investments, but also, they need necessary skills and competences. We call on the European Commission to include in its recommendations for country reforms an evaluation of subnational investment levels, and come up with proposed suggestions to further boost local and regional public investments, in full consultation of the representatives of local and regional governments.

More flexibility and opportunities for subnational governments borrowing. *The Stability and Growth Pact still constraints the capacities of local governments to borrow by including them in the calculation of national debt. We argue that more flexibility should be granted for local and regional governments, particularly when investing for long term and sustainable development.*

11. New challenges due to the COVID-19 crisis [New]

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?

(20363)

A municipal and regional investment backlog *has been observed in several European countries before the COVID-19 crisis. Even more so, in period of crisis, municipalities and regions will use their limited resources to ensure the running of their administration and delivery of essential services. The long-term investments, especially for sustainable development, green and digital transitions (renovation of building and infrastructure for instance) may be postponed. But the longer it will take, the more expensive it will become for local and regional governments. It is therefore urgent to take **the necessary measures at EU and national level to reduce this investment backlog**. This has been aggravated by the consequences of the COVID crisis resulting in lower revenues and higher costs for local and regional governments. These costs are in many countries not fully compensated by the national governments⁵.*

The creation of a European municipal and regional bank within the EIB *could assist municipalities and regions in using bonds especially green, digital and social “mini-bonds”, more adapted to the specificities of subnational governments. Such structure could also facilitate **pooling of resources by European municipalities** towards joint investments which would be less costly if done through mutualisation. The EIB could offer lower borrowing rates to municipalities and regions, even more so if it is to finance sustainable and climate related projects.*

Supports municipalities through capacity building *so that they can participate and drive the provision of services, especially in the health and care sector. Fosters the creation of local social enterprises and use Corporate Social Responsibility to encourage commercial enterprises to invest in local communities. Banks should communicate publicly on the share of loans they provide to social economy enterprises, and contributing to inclusive growth (e.g., loans to women-owned start-ups and companies.)*

⁵ CEMR analysis october 2021 “[Uncertainty Amidst Recovery – 2021 estimates of COVID’s impact on local and regional finances](#)”

*Local and regional governments **are willing to contribute to the EU Green Deal and the green and digital transitions.** They are already engaged in the process with concrete actions such as sustainable mobility plans, improving energy efficiency of public buildings or providing digital public services. But achieving these objectives require long term investments which are very difficult to engage for municipalities and regions alone. In the current context, following the COVID-19 crisis impact on local and regional governments and inflation, many municipalities are already being forced to cancel planned investments.*

Attach a file

Please upload your file :

https://www.ccre.org/img/uploads/piecesjointe/filename/Boosting_public_investment_capacities_at_local_and_regional_level_EN.pdf

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