Union of European Federalists
Union Europäischer Föderalisten
Union des Fédéralistes Européens

RESOLUTION
regarding the reform of the Stability and Growth Pact

Adopted by the Federal Committee of UEF, Online 11 December 2022

The Federal Committee of the Union of European Federalists, meeting online, on 11 December 2022

Considering that

- fiscal stability and sustainable economic growth are essential conditions for the prosperity of both the European Union and its citizens;
- the establishment of the single market and of the monetary union has created deep interdependence between the Member States, thus urging sound management of national public finances, coordination of economic policies and fiscal stabilizers;
- regardless of the recent development of common fiscal tools (e.g. SURE, NGEU), the management of fiscal policy is mainly part of Member States' competence;
- moral hazard behaviors in the management of national budgets do undermine mutual trust and solidarity among EU member states and citizens, thus jeopardizing the future of European political integration;
- since1997 the Stability and Growth Pact has pursued macroeconomic convergence and sound public finances in the Member States;
- despite expectations, its rules, procedures and enforcement have proven progressively weak, by not generating sufficient fiscal consolidation at national level;
- 2008 financial crisis and ensuing sovereign debt crisis in 2009 revealed the poor administration of public finances in several Member States, the scarce effectiveness of European supervision on national budgets and the inability for existing EU economic policy instruments to manage long term remediation and address long term needs for investment.
- the strengthening of EU fiscal rules through a number of reforms between 2011 and 2013 (e.g. Six pack, Two Pack, Fiscal Compact) did not fix the longstanding deficits of the Stability and Growth Pact, these consisting of excessive complexity of the rules, insufficient adaptability of budgetary corrections to the national context, scarce credibility of the prohibitions, inability to impose sanctions;
- after the outbreak of the pandemic, the general escape clause of the Stability and Growth Pact was timely activated;
- the adoption of sizeable fiscal support at European and national level to handle the health emergency and the consequent economic and social crisis have resulted in a significant increase in public- and private sector debt ratios in most Member States;
- the level of indebtedness is particularly worrying in some countries this posing a threat to the future stability of the euro area and of the European Union as a whole;
- the intergovernmental functioning of the Stability and Growth pact, according to which key decisions are taken by national governments in the Council and Eurogroup, undermines the democratic legitimacy and transparency of budgetary coordination.

welcomes the proposals of reform of the Stability and Growth Pact presented by the European Commission in the Communication "Orientations for the reform of the EU economic governance framework" of 9th November 2022, in particular:

- debt ratios shall be reduced to adequate fiscal levels in a gradual, sustained and growth-friendly manner;
- the revised Growth and Stability Pact shall provide for more differentiation between Member States and a more effective risk-based surveillance considering the specific vulnerabilities and strengths of each country;
- national ownership of fiscal consolidation shall be strengthened through the introduction of credible fiscal targets and more effective enforcement ;
- as the debt reduction benchmark has not proved to be realistic, greater differentiation in debt reduction trajectories are needed to ensure gradual, realistic and steady adjustment paths;
- Member States shall commit to a set of measures and reforms aimed at bringing debt on a sustainable and gradual adjustment path: the latter should be the object of a "consolidation pact" between the Member State and the Union, which will fix the budgetary commitment that each country shall fulfill within the common EU fiscal framework;
- the range of available sanctions to enforce compliance with fiscal rules shall be broadened: smarter sanctions should impose initially lower costs on negligent Member States, while increasing exponentially in case of consolidated incompliance; partial or total access to the EU funds (e.g. Next Generation EU) should also be precluded as last resort measure;

demands

EU institutions to take into consideration the following priorities in the reform of the Stability and Growth Pact:

- effective implementation of economic coordination and budgetary consolidation shall be done in a way that allows for addressing economic and social vulnerabilities, completing the green and digital transitions and pursuing EU common objectives;
- in light of the growing complexity of EU fiscal rules, it is urgent to simplify the legal framework and improve the transparency of its implementation;
- the EU budget needs to be better equipped to react to future fiscal challenges and macroeconomic shocks and finance key Union policy objectives such as cohesion and the green and digital transition. This will also help Member States to achieve a better budgetary position. Against this background, the debate about new own resources and the establishment of European fiscal capacity needs to be accelerated;
- EU economic governance should become less intergovernmental: while the Commissions should be able to make final assessment on Member States' compliance with EU fiscal rules and impose sanctions, the European Parliament should also be involved it in the surveillance procedure.