Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

# RESOLUTION

**on "COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS - ECONOMIC GOVERNANCE REVIEW"**

**Sofia, 2020**

The President Board of the ESC decided to elaborate a resolution on the topic "Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions - Economic Governance Review".

Mr. Vasil Velev - member of ESC from Group I - Employers and Mr. Plamen Dimitrov - member of ESC from Group II - Trade Unions were appointed rapporteurs.

At its meeting on 15 June 2020 the Plenary Session adopted the resolution.

Abbreviations used

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| COVID-19 | Corona virus infection |
| EC | European Commission |
| ECB | European Central Bank |
| EDP | Excessive Deficit Procedure |
| EP | European Parliament |
| EPSR | European Pillar of Social Rights |
| ESC | Economic and Social Council of the Republic of Bulgaria |
| ESM | European Stability Mechanism |
| EU | European Union |
| GDP | Gross Domestic Product |
| MIP | Macroeconomic Imbalances Procedure |
| SGP | Stability and Growth Pact |
| SMEs | Small and medium-sized enterprises |
| TFEU | Treaty on the Functioning of the European Union |

## 1. General conclusions and recommendations

1.1. ESC finds both the economic governance review of EU and the questions raised for public consultation by the EC timely and well-formulated.

1.2. ESC reaffirms the repeatedly expressed opinion that the framework of economic governance in the EU has its role and achievements, but in its current form it is not sufficient to implement an effective combination of monetary and fiscal policies[1].

1.3. ESC views the economic governance framework as a process and therefore welcomes the current public consultation.

1.4. ESC is of the opinion that in the absence of significant fiscal instruments and powers at the EU level, the main goal of the economic governance framework is to ensure maximum coordination between national fiscal policies, on the one hand, and their combination with the monetary policy of the ECB, on the other. This must be done by ensuring the long-term stability of public finances while allowing Member States to manage economic and social processes, including through the implementation of counter-cyclical and anti-crisis policies.

1.5. ESC declares its conviction that the framework for economic governance should not lead to differentiation between Member States that have adopted the common currency and others. Every EU Member State outside the euro area should be able to voluntarily join all the mechanisms open to euro-area countries. Economic governance actions must not deviate from the provisions of the TFEU.

1.6. ESC emphasizes that in order for economic governance to be recognized by each Member State, the measures aimed at it must be implemented after extensive discussion and ensuring maximum transparency of the results. In this sense, ESC supports the greater role of the European Parliament and national parliaments, as well as that of the social partners. ESC welcomes the positive example of Bulgaria for active involvement of the social partners in this dialogue. It considers that their greater involvement in the process and their opinions should be more carefully taken into account and better reflected by the representatives of the European Commission in the preparation of the periodic reports. ESC will continue at its discretion to adopt positions related to the European Semester, which will be supported by the social partners and representatives of the civil society[2].

1.7. ESC is of the opinion that in terms of macroeconomic objectives, maintaining the debt of Member States at manageable levels is the biggest challenge and the economic governance must focus its efforts towards it. As a rule, financial markets must be a source of liquidity for national budgets. Where this is not possible due to speculative pressure, the EU should have a resource allocation mechanism, with the recipient country making clear commitments to budgetary reforms and return to market financing.

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[1] ESC Resolution on „Communication from the Commission - The Annual Growth Survey for 2015“.

[2] ESC Resolution on “Institutional mechanisms to involve social partners and other civil society organizations in the European semester”- 2016.

1.8. ESC maintains its position that the financing of the balance of payments of a Member State through EU instruments should be based on guarantees from countries that are in the euro area or would like to participate as guarantors and beneficiaries in such a scheme. Alternatively, guarantees can be provided from future revenues of increased own resources for the EU budget.

1.9. ESC is convinced that based on the experience so far, the exit from excessive deficit programmes should be made taking into account the complex economic and social effects in order to ensure tolerance and public acceptance of economic governance.

1.10. ESC calls for more active use of the investment clause and the growth clause, as they will lead to more disciplined and effective management of public investment at the national level.

1.11. ESC proposes to periodically review the indicators that are monitored in the procedure for macroeconomic imbalances. They must be relatively constant in composition and reflect economic and social processes in a balanced way. Current priorities should be taken into account with current indicators that do not conflict and do not overcomplicate the basic and constant system of indicators.

1.12. As practice has shown so far, the corrective part of the SGP is an effective tool for influencing the national reform programmes, and ESC is of the opinion that its elements should be attributed to the preventive part, which so far has been quite ineffective. In addition, consideration could be given to extending the number of cases in which a Member State is required to present its National Reform Programme. Currently, this is only required under the Excessive Deficit Procedure.

1.13. ESC insists that the policy of industrialization, the strengthening of supply chains, the development of small and medium enterprises should be part of the goals of economic governance.

1.14. ESC shares the position that economic governance must aim to reduce all imbalances, including the abuse of a dominant market position, as well as to ensure the inviolability of private property and predictability of the legal and regulatory environment. Social imbalances also pose serious risks to social progress and should be monitored in particular by the European Semester.

1.15. ESC holds the opinion that the general objectives of the EU, which have a proven added value in taking them outside the national framework, such as the European Green Deal, migration management, common defence, etc. should be funded as a matter of priority from the general budget of the EU, without putting undue pressure on Member States and their public finances[3].

1.16. ESC draws attention to the fact that economic governance within the EU must carefully focus on areas that are of interest to all Member States and in which the EU creates added value, without replacing the principles of subsidiarity and sovereign powers of Member States[4].

[3] ESC Resolution on the topic "Multiannual Financial Framework of the European Union for the Period 2021-2027" – 2019.

[4] Ibid.

## 2. Context of economic governance in the EU

2.1. ESC welcomes the review of the effectiveness of the legal framework for economic governance in the EU, published on 5 February 2020 by the European Commission under the title "Taking Stock at a Time of New Challenges". The review aims to assess the effectiveness of economic governance measures by optimizing them and adapting them to the new priorities stated by the European Commission - the European Green Deal and digitization.

2.2. ESC appreciates the initiative that the review is subject to a public discussion procedure, which should end by 30 June, and then, by the end of 2020 the EC will summarize the results.

2.3. ESC notes that in the Communication of the EC, which presents the Review (COM (2020) 55) final), an analysis is made of what has been achieved so far in the field of economic governance according to the opinions and recommendations of the European Parliament, the European Court of Auditors, the European Fiscal Council and various stakeholders and institutions, including the academia.

2.4. ESC welcomes the **fundamental questions** that the EC raises for public discussion and in this resolution will provide its answers.

2.5. ESC puts its positions in the context of the development of **coordination of national economic policies** in the EU, which is constantly improving since its establishment in the early 1990s. The logic and the lessons of economic coordination should be used optimally in designing the future of it.

2.5.1. In the 1992 Maastricht Treaty for the first time, measures are being taken to coordinate national economic policies. Several criteria are defined that the Member States undertake to comply with - no more than 3% of GDP budget deficit, debt not exceeding 60% of GDP, interest rates on long-term government bonds not more than 1.5% above the arithmetic average of the three lowest.

2.5.2. These measures are largely a response to high inflation in the 1970s and 1980s. They are also preparing the ground for the introduction of the single European currency.

2.5.3. Despite the envisaged sanctions for non-compliance with the Maastricht criteria, in the following years some Member States exceeded the deficit requirement, which remains without consequence. At the same time, we would like to note that in recent years Bulgaria has pursued a consistent policy of compliance with the Maastricht criteria and in this context ESC appeals for unequivocal support from the Commission regarding the candidacy of our country for the fastest possible entry into the Exchange Rate Mechanism (ERMII) of the euro area[5].

[5] On this position the ESC has adopted with full unanimity opinion on "Accelerating the Preparations for Bulgaria's Accession to the Eurozone" – 2017.

2.5.4. Subsequently, with the adaptation of the requirements, the interpretation of the specific economic requirements is relaxed, being assessed as a trend and a medium-term goal. This is in response to the lack of specific mechanisms for enforcing the Maastricht criteria, while giving Member States more room to make greater use of the potential of fiscal policy to counter the economic cycle.

2.5.5. In 1997 the Stability and Growth Pact (SGP) was adopted. It has the task of making up for the shortage of instruments to ensure compliance with the Maastricht criteria. It is envisaged that the measures will be imposed through a corrective mechanism, which through a specially established Excessive Deficit Procedure (EDP) imposes mandatory measures and procedures on the respective country, aimed at limiting the deficit for a certain period of time. A preventive mechanism is also being set up, through which a specific medium-term programme for achieving sustainable deficit levels is set for each Member State with increased indicators.

2.5.6. As a result of the economic crisis at the turn of the century, the requirements of the SGP had to be relaxed in order to allow Member States to take adequate fiscal anti-crisis measures. The reform of SGP in 2005 give more flexibility to its mechanisms so as to take into account the economic cycle and long-term risks to national economies, such as population ageing. Thus, the focus was correctly shifted from short-term measures and specific target values to the structure of the economy and its resilience to risks.

2.5.7. The economic crisis of 2007-2008 showed that the existing economic governance mechanisms are not effective enough to reduce the risks of "exporting" the fiscal problems of one Member State to the euro area and the EU as a whole. Started by financial institutions, the crisis quickly spilled over into the budget sphere and increased the fiscal risks of several European countries.

2.5.7.1. The state of the euro area posed particularly high risks during this period, because serious problems with the budget deficits of one or more countries could call into question the existence of the single currency.

2.5.7.2. Significant resources had to be mobilized to the countries concerned, which committed to conducting structural reforms in return. To the extent that this took place in an evolving crisis and without pre-established tools and procedures, the crisis response was improvised and gave rise to new institutions, such as the European Stability Mechanism (ESM), and political decisions were made under pressure from events and amid a high degree of mistrust between Member States.

2.5.7.3. This atmosphere was reflected in the subsequent changes in economic governance adopted by the legislative packages known as the six-pack (2011) and the two-pack (2013).

2.5.7.4. The six-pack, consisting of five regulations and one directive, strengthens surveillance of the fiscal sector by strengthening the preventive arm of the SGP and broadens the focus of economic governance to include an assessment of macroeconomic balances. The aim is to use the periods of economic growth for consolidating fiscal parameters so that in times of crisis countries have more of their own resources to take anti-crisis measures.

2.5.7.5. This is done by observing trends and the so-called significant deviation from the medium-term budgetary targets and a prescription from the EC to take specific measures.

2.5.7.6. With regard to the Maastricht criterion for a maximum debt level, a change was introduced, as a result of which the long-term sustainable trajectory of debt levels is monitored.

2.5.7.7. The six-pack strengthens the corrective part of the SGP. The EC monitors macroeconomic imbalances in each Member State and, if necessary, proposes to the Council to activate the excessive deficit procedure, by which the Member State undertakes to comply with strictly defined regulations and target parameters in order to return its budget to a sustainable position.

2.5.7.8. These measures are applied with greater care and binding force for the euro area countries, as national risks in these countries affect much faster the euro area as a whole.

2.5.7.9. The two-pack, in turn, provides additional tools for monitoring the euro area countries in order to protect it from adverse developments in any of the national economies. The two regulations that make it up are targeted at euro area countries that are at risk of excessive deficits, receiving or withdrawing from the financial assistance programme.

2.5.7.10. These two packs of altogether seven regulations and one directive as a whole provide greater transparency in the fiscal policies of the euro area countries, allow for assessment and intervention by the Council to ensure fiscal coordination and avoid risks.

2.5.7.11. Last but not least, as emphasized in the Commission document, "in recent years, the focus of the European Semester has been on employment and social aspects, especially after the integration of the European Pillar of Social Rights into it". The evaluation and coordination of policies to achieve the Sustainable Development Goals together with the resulting challenges in the areas of economy, employment, environment and social development, have also become important.

2.6. ESC accepts that the **Public Consultation** on Economic Governance launched by the EC is explained by the new political cycle after the last elections for the European Parliament in 2019 and the need to assess the achievements and problems so far, making the necessary legislative adjustments within this mandate of the EP and the EC.

2.7. ESC expresses the conviction of its members that the reassessment of economic governance is required by the new realities. When adopting the measures undertaken so far, the main priority was to reduce the risks for the euro area. Meanwhile, a period of economic stabilization and growth followed, albeit weak in the euro area and more pronounced outside of it. At the same time, it is difficult to say that trust between Member States has increased significantly.

2.8. ESC notes that in recent years there have been a number of undeniably positive changes - countries that were in a programme of financial assistance, such as Greece and Portugal, exited from it. The Banking Union, although slower than expected, strengthened and reduced the risk of new crisis, thus increasing the stability of the banking sector. The European Stability Mechanism also gained experience with fiscal assistance.

2.9. These circumstances provide examples, on the one hand, of successful measures in economic governance, but on the other, of insufficient focus, lack of commitment from Member States and insufficiently ambitious results. According to ESC, this mixed picture provides a basis for **reviewing the priorities and tools of economic governance**.

2.10. ESC is convinced that the deep and unexpected crisis caused by COVID-19 also creates new reasons for policy reassessment. The shock of the sharp economic slowdown has affected all Member States symmetrically, but **the consequences and recovery are at risk of very asymmetric effects** and further widening disparities between national economies. In any case, the recovery from this shock will be preceded by a recession and strong pressure on national budgets.

2.11. Recovery from the COVID-19 crisis must also be considered, taking into account **the priorities of the current policy cycle**. According to ESC, the European Green Deal and digitisation have the potential to bring national economies out of the crisis quickly or vice versa - to burden them with additional costs without leading to visible effects. There is also a danger that different countries will make different efforts to achieve the goals of the European Green Deal or digitisation, which could lead to a further increase in disparities and risks for both the euro area and the EU as a whole.

2.12. ESC reminds that Brexit should be taken into account in terms of public perceptions of policies pursued at the level of the European Union.

## 3. Results of economic governance in the EU

3.1. ESC reports that the **budget deficit** of the Member States falls within the 3% of GDP set by the Maastricht Treaty.

3.1.1. This is a lasting effect, although over the years, especially during and after the economic crisis, the rates have risen in many countries. In 2010 only three Member States had budget deficits below 3%, with the EU average reaching 6% of GDP. This was due to the need in some countries to recapitalise or restructure banks with budgetary funds, and in others the interest rates on government debt on international markets rose sharply, which created severe liquidity problems for national budgets.

3.1.2. However, the 3% target remains an anchor to which governments generally adhere. In 2018 now all EU countries comply with the Maastricht budget deficit criterion. Parameters such as the structural fiscal effort, the medium-term budgetary objective, the expenditure benchmark and the minimum benchmark are also observed.

3.1.3. The six-pack, the two-pack, and in particular the excessive deficit procedure, have played a key role in this stabilization. Contributing to the achievement of the nominal targets for the level of the budget deficit is the fact that in the decade after the crisis of 2007 and 2008 the European economy was developing steadily and was not affected by significant internal or external shocks.

3.1.4. With the emergence of COVID-19, the accumulated fiscal buffers have proved too insufficient and Member States cannot afford the necessary public spending to strengthen health systems, mitigate negative social and economic problems and rebuild economies without again resorting to rapid increase of budget deficits. Some of them are in danger of reaching record deficits of 10% of GDP by the end of 2020.

3.1.5. The result, especially in the non-euro area countries, of the implementation of the instrument designed for preventive medium-term regulation of the budget deficit - the procedure for significant deviation - is also unconvincing. Without the possibility of sanctions, recommendations to adapt medium-term budgetary projections have sometimes been ignored by Member States. This fact has so far not aroused particular political tensions, as the countries' fiscal risk does not threaten the single currency and is broadly limited to the country concerned.

3.1.6. ESC recognizes that the goal of maintaining the budget deficit within 3% of GDP is achieved, not as a lasting long-term goal, but rather in periods of economic stability and growth.

3.2. ESC found that **government debt**, in contrast to the deficit, is a parameter that is much more difficult to achieve.

3.2.1. After rising as expected after the 2008 crisis and in 2014 reaching 90% of GDP, the total debt of EU Member States fell to about 80% by 2019. This is a much lower rate than that in the US or Japan, for example, and half of the member states fit below the 60% threshold.

3.2.2. At the same time, there are still Member States in the euro area whose debt is high and is likely to remain so, at least in the medium term. These countries are vulnerable individually, but also pose a significant threat to the euro area as a whole.

3.2.3. In the event of a shock or crisis, like the one we are witnessing now as a result of COVID-19, budget expenditures inevitably increase substantially and rapidly. In such a situation, high-debt countries need additional liquidity, but at the same time the markets increase the risk and accordingly - the interest rates. This takes fiscal resources and exacerbates the problems.

3.2.4. In these cases the question emerges of providing additional resources through the mechanisms of the EU and the euro area in particular - the ECB, the European Stability Mechanism, the issuance of total debt. According to ESC, there is an economic logic in these ideas, but they are accompanied by severe political clashes, which risk to be transferred to public opinion and lead to strong tensions, even to disintegration processes.

3.2.5. For these reasons, ESC reports that the management of debt levels has had some success, but in general has failed to lead to the expected reduction of risks for the euro area. This can be due both to ineffective instruments and errors in determining the objectives. If during the last few years, in a period of persistently low interest rates and low inflation, the main goal of governments was to reduce debt levels, this would be at the expense of severely limited public investment and economic downturn.

3.3. ESC recognizes that **economic stability and the possibility of conducting a policy of managing the economic cycle** are the basis of the six-pack and the two-pack adopted in 2011 and 2013, respectively.

3.3.1. The aim is for each Member State to create sufficient buffers during the periods of economic growth to counteract a negative economic cycle. The main instrument for this is the medium-term forecasts and the preventive part of the SGP.

3.3.2. ESC is of the opinion that this objective has definitely not been achieved. In general, government policies remain pro-cyclical. Although automatic stabilisers work when the economic cycle changes - in each Member State differently - their effect is often offset by policies that work in the opposite direction.

3.3.3. For example, in a period of relatively stable, albeit weak, growth – governments continued to stimulate the economy through increased government spending. In practice, the medium-term budgetary projections and the preventive arm of the SGP have not fulfilled their function.

3.3.4. ESC finds that EU institutions do not have the tools to enforce the achievement of fiscal targets. At this stage, Member States refuse to provide the EU with sufficient fiscal resources to be able to influence the general status of the European economy or that of the euro area in particular. Thus, the EU is left with very few opportunities for fiscal policy and more power in monetary policy, mainly through the ECB.

3.4. ESC supports the objective set in the SGP for **the quality of public finances**.

3.4.1. Achieving this objective implies that both the revenue side and the expenditure side contribute to sustainable economic growth and social inclusion. The quality of public finances requires periodic and regular reassessment of budgetary policy priorities, the design of individual measures in both revenue and expenditure, and the effectiveness of their implementation.

3.4.2. For this ambitious task, the medium-term budget forecast provides for the allocation of resources for public investment. Planned public investment should increase growth in a favourable economic environment and act as a counter-cyclical factor in case of economic downturn. In addition, when submitting budget estimates, Member States are encouraged to provide information, as far as possible, on the expected impact of budgetary expenditure on the respective area.

3.4.3. ESC is of the opinion that experience to date shows that the system of economic governance in the EU has a limited impact on the quality of public finances. The investment clause and the growth clause have only been used several times. This is due to the fact that the prioritization of public services and the efficiency of budgets is in fact a national prerogative and the EU does not have effective tools to impose a European Union approach.

3.4.4. As a rule, the European institutions can intervene with an opinion on draft national budgets at a rather late stage of their preparation. There is no obstacle for national parliaments to ignore the recommendation of the EC.

3.4.5. The EU has more options when applying the structural reform clause to a Member State that is under the correctional part of the SGP, as well as in cases where the Member State is in an excessive deficit procedure and is required to provide a National Reform Programme showing its intentions for structural change.

3.4.6. ESC recognizes that in this case it is necessary to re-assess whether the goal of quality of public finances is achievable at the level of the European Union and, if necessary, to update the implementation mechanisms.

3.5. ESC finds the **national fiscal frameworks** as one of the good achievements of economic governance.

3.5.1. Introduced by the six-pack and the two-pack, they represent a set of requirements for the convergence of fiscal procedures and mechanisms and for greater transparency and predictability in the preparation, implementation and control of national budgets. This framework had a positive effect, especially in countries that did not have the relevant institutions and rules in place.

3.5.2. Despite the convergence of fiscal frameworks, there are a number of differences between Member States in terms of design, complexity and practices. This is not a problem, as long as efforts for more clarity and predictability in fiscal policy yield good results.

3.6. ESC assesses the **Macroeconomic Imbalances Procedure (MIP)** as an important part of the economic governance system.

3.6.1. While the SGP focuses only on fiscal indicators, the MIP expands the monitoring with an analysis of additional indicators such as external imbalances, productivity, competitiveness, housing market, indebtedness between companies. This broader view makes it possible to analyse more fully how the policies adopted to stabilize public finances will be reflected.

3.6.2. Following the launch of the European Pillar of Social Rights, indicators such as the unemployment rate and other social indicators have also become part of the MIP monitoring. The structured dialogue on recommended economic measures with the social partners and the European Parliament is being expanded.

3.6.3. To the extent that the European Semester synchronizes the monitoring procedures in the SGP and the MIP, its aim is to make a comprehensive assessment and prescribe the most appropriate measures for each Member State, taking into account the effects on fiscal stability, structural policies, the social sphere. ESC expects this to make the proposed measures more comprehensive and effective.

3.6.4. It can be assumed that the recognition of priorities such as the European Green Deal and the digitization of the European economy will require the inclusion of additional indicators in the MIP to reflect progress on them. At the same time, the excessive expansion of the observed parameters will make simultaneous compliance more difficult. It will become increasingly difficult to recommend adequate economic policies that simultaneously improve all the indicators monitored.

3.6.5. ESC is convinced that the implementation of the MIP has undoubtedly led to greater transparency and engagement of more stakeholders in the discussion of economic priorities and policies - social partners, members of parliament, etc.

3.6.6. In terms of the effectiveness of MIP, there is still significant room for improvement. There is a declining commitment of Member States to the recommendations. This can be explained both by the declining pressure on the financial markets due to the long period of economic stabilization and growth, and by the avoidance so far of initiating an Excessive Imbalance Procedure for a Member State.

3.6.7. There is almost no result, despite efforts to limit the permanent current account surpluses of some Member States. Here again, they refuse to comply with the regulations, despite the obvious benefits of limiting both permanent deficits and final current account surpluses.

3.7. ESC reminds that the **European Stability Mechanism (ESM)** was created in response to the crisis of 2007-2008, when several eurozone countries were experiencing difficulties or it was virtually impossible for them to secure funds from financial markets. In this way, the system of monitoring and coordination is complemented by an instrument for providing financial resources to protect governments from speculative pressure on the financial markets and at the same time to direct financial resources to implement reforms that will lead to stabilization of the national economy and return to financial markets.

3.7.1. The establishment of the ESM was a difficult political process that ended in 2013. It was preceded by other forms of conditional funding such as the European Financial Stability Facility.

3.7.2. Several countries were included in the scope of these mechanisms during the crisis - the second and third programmes of Greece, Portugal, Ireland, Spain and Cyprus. All these countries have gradually and successfully exited from funding programmes, returned to the financial markets and are already in the follow-up monitoring phase.

3.7.3. ESC finds that the ESM has solved several problems:

3.7.3.1. it created an instrument close to fiscal transfers to provide liquidity to euro area countries in difficulty, avoiding speculative market pressure;

3.7.3.2. by signing individual memoranda of understanding, governments make strong commitments to reforms which have so far been strictly adhered to;

3.7.3.3. the mechanism is a temporary measure that is activated at a certain moment and aims at rapid implementation of reforms in economic governance;

3.7.3.4. relatively high transparency of decision-making is achieved and the involvement of national parliaments and the European Parliament is ensured;

3.7.3.5. the economic governance monitoring processes provided for in the SGP and the MIP are significantly combined with the measures to assist the Member State concerned, to exit from the respective programme and return to monitoring thereafter.

3.7.3.6. the main problems with this mechanism are connected with its practical concentration on euro area countries, while for the others the Balance of Payments Instrument and the programmes of the International Monetary Fund are envisaged, as well as the political decision-making difficulties and the relatively small capacity of the ESM to provide assistance in cases of strong shock affecting more countries, such as the situation after the crisis caused by COVID-19;

3.7.3.7. ESC is of the opinion that to some extent the ESM has fulfilled its purpose, but its scope is limited and it is not able to provide significant assistance in severe negative shocks such as the crisis resulting from the spread of COVID-19 for example.

**4. Commentary on the public consultation questions**

4.1. The Economic and Social Council has repeatedly expressed its views on issues related to economic governance in the EU[6]. ESC finds this topic important and adequate for discussion between the social partners and representatives of the civil society.

4.2. The experience gained so far from economic governance, as well as the test provoked by the spread of COVID-19, provide a basis for reviewing the efficiency and capacity of economic governance in the EU.

4.3. ESC examined in depth the public debate questions presented by the European Commission on the basis of its analysis, and taking into account the positions expressed so far, expresses the following opinion:

4.3.1. *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?*

4.3.1.1. ESC is of the opinion that in general the economic governance in the EU manages to fulfil its objectives. Experience to date has shown that in the medium term, Member States have managed to keep their budget deficits below the reference value of 3% GDP. At the same time,

[6] ESC Resolution on "Communication from the Commission - Annual Growth Survey 2013"; ESC Resolution on „Communication from the Commission on the Annual Growth Survey (AGS) 2014“; ESC Resolution on „Communication from the Commission - The Annual Growth Survey for 2015“; ESC resolution on "Communication from the Commission – The Annual Growth Survey for 2016 – Strengthening the recovery and fostering convergence"; ESC Resolution on "Communication from the Commission - The Annual Growth Survey for 2017"; ESC Resolution on “Institutional mechanisms to involve social partners and other civil society organizations in the European semester”- 2016; ESC Resolution on "The Council Recommendation on Bulgaria's 2013 National Reform Programme and Delivering a Council Opinion on Bulgaria's Convergence Programme for 2012-2016 (SWD(2013) 352 final)"; ESC Resolution on "Recommendation for a Council Recommendation on the National Reform Programme of Bulgaria for 2014 and delivering a Council opinion on the Convergence Programme of Bulgaria for 2014"; ESC Resolution on "Recommendation concerning Council Recommendation on the National Reform Programme of Bulgaria for 2015 delivering Council opinion on the Convergence Programme of Bulgaria for 2015. "COM (2015) 253 Final.; ESC Resolution on "Recommendation concerning Council Recommendation on the National Reform Programme of Bulgaria for 2016 delivering a Council opinion on the Convergence Programme of Bulgaria for 2016. "COM (2016) 323 Final.; ESC Resolution on the topic "Multiannual Financial Framework of the European Union for the Period 2021-2027" - 2019; ESC Opinion on "Accelerating the Preparations for Bulgaria's Accession to the Eurozone"; ESC Resolution on “Institutional mechanisms to involve social partners and other civil society organizations in the European semester”- 2016.

despite the overall average reduction in the level of government debt, some Member States have failed to achieve a sustainable trend, which creates risks in the event of new negative economic shocks.

4.3.1.2. ESC believes that providing additional liquidity during an economic crisis should be combined with efforts to rapidly reduce debt on recovery. Otherwise, a moral risk and preconditions for political disagreements and tensions are created.

4.3.1.3. ESC once again insists that measures in economic governance, including access to liquidity and budget financing, should be available to all Member States, with the possibility for those outside the euro area to opt in on a voluntary basis[7].

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

4.3.2.1. ESC restates its consistent view that economic governance should be tailored to the specifics of each Member State. A balance between achieving European goals and taking into account national specifics is quite possible.

4.3.2.2. ESC emphasizes that the use of European instruments must aim at the convergence of national economies. An example that can be given to improve policies is the European Fund for Strategic Investments, which in the coming years will work under the name InvestEU. This fund mobilized significant resources in European economies, but in many countries large projects from the trans-European networks prevailed, while in Bulgaria most of the resources were directed to lending to small and medium-size enterprises. The long-term effect of these investments will be related to the deepening of the differences between Member States[8].

4.3.2.3. ESC renews its proposal to pay more attention to industrialization and strengthening of internal supply chains within the EU as part of economic governance[9].

4.3.2.4. ESC emphasizes the high potential of SMEs to achieve the goals of economic governance[10].

4.3.2.5. ESC proposes that the degree of implementation of the recommendations from the medium-term forecasts and the preventive mechanism of the SGP, adopted by the respective Member State, should be a condition for access to financing in support of the balance of payments.

4.3.3. *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*

[7] ESC Resolution on the topic "Multiannual Financial Framework of the European Union for the Period 2021-2027" – 2019.
[8] ESC Resolution on the topic "Multiannual Financial Framework of the European Union for the Period 2021-2027" – 2019.
[9] ESC Resolution on „Communication from the Commission - The Annual Growth Survey for 2015“.
[10] ESC Opinion on the Opportunities and Factors for Promoting the Small and Medium Enterprises in Bulgaria for the Planning Period 2021-2027.

*economic, social, and environmental challenges while preserving safeguards against risks to debt sustainability?*

4.3.3.1. ESC is of the opinion that the main indicator that needs to be improved to ensure the long-term sustainability of public finances is the level of indebtedness. In this sense, fiscal expansion in crises or to promote economic growth must be coordinated with the EC according to previously adopted rules and restrictions and should be limited as much as possible in time. Each Member State must make visible efforts to limit public debt when it exceeds the reference values.

4.3.3.2. ESC maintains its position that in the absence of the possibility of fiscal transfers within the euro area, the provision of funds through the ESM and the ECB's quantitative easing programme should be activated as an exception, leaving financial markets as the main source of public debt financing.

4.3.3.3. ESC is convinced that the common priorities of the EU, including the achievement of ambitious goals in climate protection, joint defence, migration policy and other areas where there is visible added value of action at the supranational level, should be financed mainly through the EU budget[11]. Of course, this should be done under much stricter control over cost-effectiveness and adequate combating of misuse of public funds.

4.3.3.4. ESC emphasizes that structural reforms and changes in the fiscal sector are a national prerogative. Within the scope of economic governance, the EU should focus on fiscal stability, analysis, expertise and publicity. At the same time, the lack of reforms and streamlining of fiscal policy should not be encouraged and should lead to restrictions of the access to EU budget funds.

4.3.4. *How can one simplify the EU framework and improve the transparency of its implementation?*

4.3.4.1. ESC restates its opinion that in order for the national reform programmes to be successful, they must be prepared in dialogue and recognized by the main institutions in the respective country. It is particularly important for us to involve the social partners and representatives of civil society at the national level in this dialogue. ESC is ready to provide such a platform for discussion of the National Reform Programmes in Bulgaria[12].

4.3.4.2. ESC confirms its repeatedly expressed position that EU economic governance should not focus solely on fiscal indicators[13]. The inclusion of social indicators to be analysed after the adoption of the European Pillar of Social Rights is a positive step. Given the new priorities, environmental indicators are expected to be included in the monitoring system.

4.3.4.3. ESC is of the opinion that the excessive expansion of the criteria observed within the framework of economic management leads to blurring of the goals and lack of comparability. A

[11] ESC Resolution on the topic "Multiannual Financial Framework of the European Union for the Period 2021-2027" – 2019.

[12] ESC Resolution on “Institutional mechanisms to involve social partners and other civil society organizations in the European semester”- 2016.

[13] ESC Resolution on „Communication from the Commission - The Annual Growth Survey for 2017“.

good approach would be to review the current indicators and to systematize them into two groups - permanent economic and social indicators and temporary ones, related to the achievement of certain goals in the medium term. In this way, on the one hand, coherence will be ensured in the assessments of economic policy at the national level, and on the other hand, the implementation of the set common goals for the EU will be monitored.

4.3.5. *How can surveillance focus on the Member States with more pressing policy challenges and ensure quality dialogue and engagement?*

4.3.5.1. ESC expresses its conviction that the economic governance of the EU must target the coordination of national policies and the achievement of certain economic and social goals, taking into account national characteristics and achieving an increase in the quality of life and reduction of inequalities in the Union.

4.3.5.2. ESC considers financial and economic sustainability as very important objectives, which are an element of achieving an objective of a higher order - higher competitiveness of the EU economy and a better quality of life for all European citizens.

4.3.5.3. ESC is of the opinion that economic monitoring should be tailored to the specifics of each Member State and at the same time seek ways to coordinate and achieve pan-European goals and priorities.

4.3.5.4. ESC finds it normal for economic surveillance to be more comprehensive for Member States that are in an excessive deficit procedure or where the monitored parameters suggest risks to the sustainability of the economy. In these cases, the EC must work in the clearest and most predetermined framework and fully involve the relevant national and European parliaments.

4.3.5.5. Based on the good practice in Bulgaria, ESC finds very effective the commitment of the social partners not only in discussing the framework and objectives of economic governance, but also in the implementation of specific policies – e.g. by participating in vocational training, monitoring efficiency, cutting red tape and increasing the transparency of policies[14].

4.3.5.6. ESC is of the opinion that the best commitment of the Member States can be obtained when, with full transparency and automaticity of the legal framework, the deviation from the commitments above a certain threshold would lead to future constraints on the financial resources provided by the EU institutions and full access to financial markets.

4.3.5.7. ESC expresses the position that it is not permissible to compensate problems of the national fiscal policy sustainably with the instruments of the ECB monetary policy. To this end, EU economic governance should have effective tools in both the corrective and preventive part of the SGP to regulate access to ECB and ESM programmes, depending on the behaviour of the national government and the results achieved in fiscal consolidation.

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

[14] ESC Resolution on “Institutional mechanisms to involve social partners and other civil society organizations in the European semester”- 2016.

4.3.6.1. ESC restates its position that economic governance within the EU must be conducted using clear criteria and instruments for both sanctions and incentives. Sanctions may relate to the access to ECB funds and instruments, ESM, as well as EC-managed programmes such as InvestEU, research programs, EIB funds. Conversely, incentives may be linked to expanded access to these tools and programmes.

4.3.6.2. ESC does not find appropriate sanctions that involve the payment of amounts from the budgets of the respective Member States or restriction of access to funds under joint management programmes financed by the EU budget. In this way, the liability would be transferred to subjects that do not participate in the decision-making on the government's economic policy[15].

4.3.6.3. ESC finds that reputational risk is not a sufficient incentive to meet economic governance commitments. On the contrary, it often becomes a tool for turning public opinion against European rules.

4.3.6.4. ESC finds that the needs of the European Semester are largely consistent with the procedures for the adoption of national budgets. The EC has the opportunity to rule on the amount of debt and the budget deficit before the final adoption of the annual budgets. In this way, a clear signal is given to national parliaments about the risks of breaking the rules.

4.3.6.5. ESC is of the opinion that the attention of the EC should be focused on structural reforms in national budget policies, which can be traced in the medium-term budget forecasts. This is the right place to make recommendations, which should be followed in the adoption of annual budgets.

4.3.6.6. ESC pays special attention to the importance of a functioning labour market to meet the objectives of economic governance. The transfer of labour from lower to higher paid countries should be taken into account in economic governance procedures. This process creates significant tensions and an increase in the production deficit in some Member States, which should be compensated with respect to the affected Member States.

4.3.7. *Is there scope to strengthen national fiscal frameworks and improve their interaction with the EU fiscal framework?*

4.3.7.1. Given the fact that monetary policy is common for euro area countries and is conducted by the ECB, and fiscal policies are conducted by Member States, economic governance aims to avoid fatal discrepancies. ESC is of the opinion that the monitoring framework must be constantly strengthened and improved in order to ensure alignment between national fiscal policies, on the one hand, and between them and the ECB's monetary policy, on the other. Non-euro area Member States should be subject to a simplified version of economic surveillance, unless they otherwise request. In any case, the long-term objective should be convergence and alignment of national economies both in the euro area and across the EU.

4.3.7.2. ESC finds that the inclusion of additional indicators in the monitoring framework such as those related to the European Green Deal or digitization, for example, carries the risk of losing

[15] ESC Resolution on the topic "Multiannual Financial Framework of the European Union for the Period 2021-2027" – 2019.

focus and blurring economic governance. Achievements on these priorities should be monitored in a separate framework.

4.3.8. *How should the framework take into consideration the euro area dimension and the agenda towards deepening the Economic and Monetary Union?*

4.3.8.1. ESC is convinced that the deepening of the Economic and Monetary Union is the right way for further development of the EU. The competitive external environment requires that the efforts to strengthen and align the European economy should continue. The goal to maintain the competitiveness of the world's second largest economy is of crucial importance. All Member States and European citizens benefit from a strong, modern and flexible economy.

4.3.8.2. At the same time, ESC maintains its repeatedly expressed position that the deepening of economic integration should be a harmonious process that includes all Member States. In parallel, the development of Economic and Monetary Union must be a process in which each Member State should participate under clearly defined conditions and while maintaining the role of its democratic institutions.

4.3.8.3. In this regard, ESC is of the opinion that the monitoring framework should follow the measures for deepening the Economic and Monetary Union, while taking into account the willingness clearly expressed by the national institutions for full participation in this process.

4.3.8.4. New tools that emerged after the 2008 crisis and are about to increase after the crisis caused by COVID-19 are the various EU and ECB programmes for provision of additional liquidity. ESC is of the opinion that the allocation of such funds in the form of debt should lead to an automatic strengthening of the monitoring framework. In these cases, the SGP correction mechanism should be automatically activated and maintained until the repayment of 80% of the received loan.

4.3.9. *Within the context of the European Semester, how can the SGP and the MIP interact and work better together, so as to improve economic policy coordination among Member States?*

4.3.9.1. ESC is of the opinion that the approval of economic governance within the European Semester should, as a matter of priority, seek a more direct link between the SGP and the MIP. MIP should be at the forefront of the assessment, especially if it is simplified and focused on the most important parameters. This procedure gives a much more balanced view of the overall socio-economic environment and is the basis for the preparation of more adequate regulations, adopted as own priorities by the respective Member States.

4.3.9.2. At the same time, ESC finds that the SGP instruments and especially the corrective mechanism are effective in ensuring the implementation of the commitments made. The preventive mechanism should be further strengthened, as the period of growth of Member States generally decreases during periods of growth.

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