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Joint paper by Spain and The Netherlands on priority issues in 2022 on the EU's economic and financial policy agenda

1. The coordinated, bold and swift response to the pandemic, through mutually reinforcing policies by national authorities and EU institutions, shows that we can achieve much more collectively than individually. This remains crucial, especially given Russia's unjustified aggression against Ukraine. Europe is living in unprecedented times with serious consequences for inflation, economic growth and public finances, including for future investment needs. This deserves our full attention and also underlines the need to continue to make progress on key discussions for the medium-term. In 2022, it is important to reach a consensus on priority issues to further strengthen the European Union: a renewed EU Fiscal Framework that is fit for current and future challenges, a roadmap to complete the Banking Union and strengthening of the Capital Markets Union.
2. A reformed fiscal framework should help to deliver on the core objective of reinforcing fiscal sustainability in a more effective and efficient manner. In a context of higher debt levels, Member States should credibly commit to build fiscal buffers to be ready for the next shock through country-specific consolidation strategies that are realistic, gradual but ambitious, as well as compatible with economic growth and job creation. Achieving those goals requires continued economic reforms, high quality public investments, and an improved composition of public finances to ensure that debt reduction is not just dependent on budgetary consolidation.
3. The new framework should take into account the sizeable investments effort needed to honor our ambitious commitments, particularly for the green and digital transitions. The green transition will also be crucial to reduce EU's dependency on Russian fossil fuels. This is a shared challenge that requires a decisive common response. Reforms that improve the business environment and setting the right incentives will be crucial to promote a stronger investment effort from the private sector. At the same time, it is important to recognize that substantial EU and nationally-financed public investment will be indispensable to crowd-in private investments in strategic areas where externalities can arise and to ensure a steady and fair twin transition. A renewed fiscal framework would be more effective if complemented with spending reviews and better public investment management systems that also contribute to increase high quality public investments. In the years ahead, the implementation of the Recovery and Resilience Facility will also be crucial to give a big impetus to important investments and reforms.
4. Although in its early stages, recent experience with the governance of the Recovery and Resilience Facility shows the potential to create a virtuous circle between national ownership and enforcement. National governments could be better held accountable if they are also empowered to propose country specific medium-term fiscal plans to reinforce fiscal sustainability in a growth-friendly manner, including through investment and ambitious reform commitments, that are credible and verifiable. While recognising the importance of incorporating country-specific circumstances and increasing national ownership, appropriate safeguards should also exist to ensure minimum standards to make sure fiscal

strategies contribute to the core objective of the SGP framework. Furthermore, a level playing field is important to safeguard transparency and equal treatment for all Member States. When ownership and compliance do not materialise, the system should have clear safeguards to ensure that the Commission and the Council take the necessary action in the enforcement of the rules.

5. The transformation of medium-term objectives into a simple expenditure rule would also contribute to make rules more comprehensible, easier to enforce and more countercyclical, especially if coupled with well-defined escape clauses for extraordinary events outside of governments' control. Strengthening national fiscal frameworks, including through a greater role of Independent Fiscal Institutions, could also help to bring fiscal rules closer to citizens and thereby increase the reputational costs of non-compliance.

6. The completion of the Banking Union, together with the Capital Markets Union, can also contribute to a more resilient economic and financial architecture which protects depositors and taxpayers, provides the needed long-term financing for the twin transitions, and reinforces the international role of the euro. We should therefore seize this window of opportunity to take concrete steps that deliver on our longstanding political commitment towards the completion of the Banking Union. An agreement will require concrete and balanced measures in all work streams.

7. We should furthermore aim for an ambitious objective with regard to the strengthening of the Capital Markets Union, in accordance with the Commission's 2020 action plan and in line with the Council conclusions of December 2020. Well-integrated, good-functioning and deep capital markets are vital for the European economy and ensure financial stability. Facilitating access to finance by SMEs is of the utmost importance in the post Covid-19 economic recovery. The EU financial system can play a crucial role in the supporting of the climate and digital transitions by providing the funding necessary for companies to innovate and grow. The development of the EU's capital markets should reap the benefits of local markets, and should be accompanied by clear rules, effective supervision and adequate investor protection, to increase citizens' confidence in capital markets and promote cross-border investments.