16 October 2023

JOINT LETTER

Make the most of the SGP reform for green investment in the EU

Dear Spain Presidency of the Council of the European Union,
Dear Members of the Economic and Financial Affairs Council (ECOFIN),

The planned reform of the Stability and Growth Pact (SGP), presented by the Commission on 26th April 2023, would constitute the most significant change since its inception. The SGP was set up as a key instrument for macroeconomic and budgetary coordination for the euro area, aiming to limit public debt levels and thus reduce fiscal risks. Its success over the last decades has, however, been limited so far. Importantly, the SGP has often disincentivised public investments.

Given the hundreds of billions of euros of extra investment annually required **to achieve the green transition, the SGP needs to be redesigned to incentivise Member States to invest.** Recent research suggests that green public investment has unique and significant fiscal multipliers, through the crowding-in of private investment, and thus supports economic growth while cutting CO^2-emissions. In the last years, researchers, think tanks and NGOs have provided many ambitious SGP reform proposals, most notably through the introduction of a 'green golden rule'. This proposed rule would exclude green investments from the common public deficit/debt rules and therefore give more leeway to Member States to achieve their climate objectives.

The signatories deeply regret that the Commission proposal has fallen short of this ambition but welcome the introduction of an extension clause for fiscal adjustment in exchange for national investments and reforms as a step in the right direction. The proposed extension clause of the new fiscal-structural plans specifies that eligible investments and reforms would need to be growth enhancing, support fiscal sustainability, address the common priorities of the Union and relevant country-specific recommendations. In addition, the overall level of nationally financed public investment needs to be higher than in the period before the use of the extension clause.

While this extension clause does provide more incentives to foster public investment, it falls short of directing such investment towards the green transition. Some of the criteria even risk a backsliding towards, and a lock-in of, climate-harming investments. This is unconscionable and is why **we call on the Council of the EU, the Commission and the European Parliament to strengthen the green investment dimension of the planned extension clause.**

Concretely, we call for the following **focused modifications of the SGP reform proposal to address this**:

1) **A minimum share for green investments and reforms contained in national fiscal-structural plans benefitting from an extension should be defined.** The 37% requirement for green investments and reforms for NGEU's Recovery and Resilience Facility was a powerful tool to channel investment towards the green transition. Such a requirement should be included for the reformed SGP's extension clause. We suggest a minimum share of 50% of green investments and reforms, clearly setting a direction while leaving room for other important areas in need of public investment.

2) **All reforms and investments included in fiscal-structural plans that form the basis of an extension should be compliant with the do-no-significant harm (DNSH) principle.** As not only green public investment can have high fiscal multipliers, a focus on growth-enhancing investments and reforms could have adverse effects for the green transition. Adding the DNSH-principle to the extension clause would limit this risk.

3) **Member States should only receive an extension if they reduce climate-harming subsidies over the course of a fiscal-structural plan.** This requirement would help to redirect public spending towards public investment, freeing up additional resources to finance the green transition.

Beyond the planned extension clause, **we urge the EU institutions to revisit the articulation between country-specific fiscal adjustment paths based on debt sustainability analysis and the various proposed numerical benchmarks.** Pushed by some member states, some of the latter have been included in the Commission proposal. These 'one size fits none' deficit and debt rules, however, unnecessarily reduce the fiscal space of member states and undermine the clarity and coherence of the overall reform approach. **Their removal would considerably improve the design of the SGP and allow member states to use all available fiscal space to achieve the green transition and address other major challenges in line with debt sustainability**. If this proves difficult to agree, at least green investment should be excluded from the numerical benchmarks.

Finally, **the negotiating partners should seriously consider giving preferential treatment to national green investment which is co-financed through EU funds**. The European nature of such investments ensures a high quality of projects and should thus be uncontroversial in their utility and efficiency.

The inclusion of these amendments in the SGP reform would be a decisive improvement to help the EU achieve its climate objectives. These measures would support the increase of public investment to develop a competitive European green economy and facilitate the transfer of budgetary resources from climate-harming to climate-protecting activities.

Yours sincerely,

The undersigned

Airborne Wind Europe

Cleantech for Europe

CLIMATE & STRATEGY PARTNERS

EUREC The Association of European Renewable Energy Research Centres

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