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Opinion of the European Economic and Social Committee

Additional considerations on euro area economic policy 2024

(own-initiative opinion)

(C/2025/103)

Rapporteur: **Petru Sorin DANDEA**

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1. Conclusions and recommendations

1.1. The EESC considers that strengthening fiscal coordination among euro area Member States is crucial for ensuring real upward convergence, stability and resilience. This could involve closer coordination of national budgetary policies, as well as discussions around the possibility of common fiscal instruments. In this sense, the EESC believes that NextGenerationEU has proven just how important it is and recommends that similar instruments be part of the future MFF. In addition, the EESC strongly urges both the national and EU levels to place fiscal matters on a path towards sustainability and create fiscal space for future shocks.

1.2. The EESC call for collective action on how to complete the financial union. The small dimensions and fragmentation of the capital markets in the EU are causing investors to migrate to other global markets, especially the market in the United States. In this context, the EESC considers the completion of the Capital Markets Union to be a priority. However, financial market stability and comprehensive consumer protection will be crucial.

1.3. The existing banking regulatory and practice differences across the Member States cause financial fragmentation and prevent financial resources from being mobilised effectively, especially when it comes to financing important infrastructure projects at European level. Therefore, completion of the banking union must be a priority in the European Commission's new term.

1.4. The EESC believes that a plan of measures should be developed to speed up real convergence, and cohesion policy should continue to take centre stage of the MFF.

1.5. The EESC believes that the EU must maximise the competitive advantage offered by the single market. The EESC supports the European Commission's initiative to reduce reporting requirements by 25 %, as these requirements are one of the main obstacles to sustainable economic growth. Cutting red tape and simplifying administrative procedures would stimulate the European business sector and make it more efficient and effective. However, this must not be at the expense of social and environmental standards, and workers' and consumers' rights.

1.6. One of the greatest shortcomings of the euro area is the lack of a credible decision-making process. The EESC considers that a new approach in the field of decision making is urgently needed.

1.7. As the decarbonisation process continues, the EU must complete the single electricity market. Creating a fully interconnected network at European level is essential. This will also help to reduce energy prices, combat inflation and help EU companies to increase their competitiveness.

1.8. The EESC considers that a comprehensive policy agenda for the euro area in 2024 would need to balance short-term imperatives, such as economic recovery, with long-term priorities, such as investment, sustainability, innovation and social inclusion.

2. **Background**

2.1. Despite an extremely difficult global context, with two military conflicts on its borders and increasing geopolitical tensions, the EU economy has displayed particular resilience and even shown signs of recovery in the first quarter of 2024.

2.2. In the Spring Economic Forecast ([1]) recently presented by the European Commission, GDP growth is estimated to be 1 % for the EU and 0,8 % for the euro area in 2024, significantly below the average for developed economies.

2.3. The inflation rate is forecast to be 2,7 % in 2024 and 2,2 % in 2025 for the EU, and to be 2,5 % in 2024 and 2,1 % in 2025 for the euro area. However, core inflation is expected to reach the target by the middle of 2025.

2.4. With 2 million new jobs in 2023, EU employment reached a record 75,5 % while unemployment remained at a record low of 6 %. However, there is a significant disparity in terms of unemployment between the EU Member States. Despite the fact that real wages increased by 5,6 % in 2023, they remain below the 2021 level. The European Spring Economic Forecast shows that a return of real wages to the 2021 level will be possible after the middle of 2025.

2.5. Although there are these signs of a return to growth for the EU economy, in recent months the risks at global level have multiplied. The current process of global fragmentation, including the adoption of protectionist measures (tariffs) on global trade, and high volatilities in the energy markets seem to present the main challenges. Persistent inflation in the United States will cause delays in lowering interest rates, which will cause the European Central Bank to postpone reducing its interest rates. These two negative factors will unfortunately slow the relaunch of investments, although they are more necessary than ever to finance our competitiveness and defence efforts, and of course the twin climate and digital transitions. Furthermore, public resources will be limited due to increased expenditure on climate change, defence, the transition process and borrowing costs, as well as the costs related to the aging population.

3. **General and specific comments**

3.1. The EESC notes the agreement of the Member States regarding the reform of the Stability and Growth Pact. The new regulations ensure greater national ownership, but also more favourable rules for calculating the budget deficit by taking into account co-financing programmes with European funding. However, the EESC believes that fiscal rules may be applied rigidly and affect Member States' ability to use fiscal policy to counter economic downturns and encourage investment. Even a new phase of austerity policy cannot be excluded. As the euro area lacks a centralised fiscal authority, in the complex and difficult geopolitical context further steps towards a more coordinated fiscal policy are necessary. Strengthening fiscal coordination among euro area Member States is crucial for ensuring upward convergence, stability and resilience. This could involve closer coordination of national budgetary policies, as well as discussions around the possibility of common fiscal instruments. In this sense, the EESC believes that NextGenerationEU has proven just how important it is and recommends that similar instruments be part of the future MFF. Moreover, the EESC advocates for a balanced form of fiscal consolidation, ensuring that the most vulnerable and people on low and medium incomes do not bear the brunt. Cutting spending on education, social security and health is a serious problem for thousands of people, and undermines competitiveness, economic growth and political stability.

([1]) Spring 2024 Economic Forecast: A gradual expansion amid high geopolitical risks, European Commission, 15 May 2024.

3.2. Aware of the importance of the European elections in June, the EESC believes that the fair Green Deal and Digitisation should remain the EU's main long-term policies. Unfortunately, both suffer from underfunding, with the European Central Bank estimating an additional annual funding requirement of over EUR 740 billion. The small dimensions and fragmentation of the capital markets in the EU are causing investors to migrate to other global markets, especially the market in the United States. In this context, the EESC considers the completion of the Capital Markets Union to be a priority and reiterates the recommendation it made in its opinion on Euro area economic policy 2024 ([2]). However, any deepening of the Capital Market Union must not be at the expense of financial market stability. The EESC recalls the proposals made in its opinion 'A Capital Markets Union for people and businesses – new action plan' ([3]).

3.3. Although there has been progress towards a banking union, it remains incomplete. The lack of a fully implemented common deposit insurance scheme and a robust framework for bank resolution can lead to financial instability. The existing regulatory and practice differences across the Member States cause financial fragmentation and prevent financial resources being mobilised effectively, especially when it comes to financing important infrastructure projects at European level. One example is the way that all European systemic banks are using the cloud service offered by American companies because there is no European equivalent. The completion of the banking union must be a priority in the European Commission's new term.

3.4. More than two decades after the introduction of the euro, the euro area is still facing serious disparities in economic performance between the core (e.g. Germany, Netherlands) and the periphery (e.g. Greece, Spain, Italy). These disparities can put serious burdens on people, create tension and limit the effectiveness of a unitary monetary policy. The EESC believes that a plan of measures should be developed to speed up real convergence. Cohesion policy should continue to take centre stage of the MFF. It could include more a flexible European Commission policy on regarding mergers or acquisitions that could lead to stronger European corporations being established with a development, research and innovation capacity that would put them on an equal footing with other corporations operating globally.

3.5. Many euro area countries face challenges, with structural reforms needed to enhance investment, competitiveness and productivity in a social and environmentally sustainable way. In the challenging global context, the EU must maximise the competitive advantage offered by the single market. The EESC supports the European Commission's initiative to reduce reporting requirements by 25 %. Cutting red tape and simplifying administrative procedures would stimulate the European business sector and make it more efficient and effective. However, this must not be at the expense of social and environmental standards, and workers' and consumers' rights.

3.6. One of the greatest shortcomings of the euro area is the lack of a credible decision-making process. In many situations, this process has proved slow and complicated due to the principle of consensus. Political disagreements and different national interests undermine the coherence and effectiveness of euro area policies. The EESC considers that a new approach in the field of decision making is urgently needed. Democratic institutions, fundamental rights and involving civil society organisations more effectively in the decision-making process should be prioritised.

3.7. As part of broader efforts to combat climate change, euro area policies could prioritise investments in sustainable infrastructure, support for green and low carbon industries and for the transition of all economic activities, including services, finance and real estate and the implementation of carbon pricing mechanisms. Additionally, integrating climate considerations into monetary policy frameworks would help align financial flows with climate objectives. As the decarbonisation process continues, the EU must complete the single electricity market. Creating a fully interconnected network at European level is a pre-requisite.

([2]) Opinion of the European Economic and Social Committee on the 'Recommendation for a Council Recommendation on the economic policy of the euro area' (COM(2023) 903 final) (OJ C, C/2024/2104, 26.3.2024, ELI: http://data.europa.eu/eli/C/2024/2104/oj).

([3]) Opinion of the European Economic and Social Committee on 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – A Capital Markets Union for people and businesses – new action plan' (COM(2020) 590 final) (OJ C 155, 30.4.2021, p. 20).

3.8. In a complex and challenging geopolitical landscape, the euro area should actively engage in global cooperation and diplomacy. This includes advocating for multilateralism, promoting free and fair trade and contributing to global efforts to address pressing challenges such as public health, climate change and security threats.

3.9. A comprehensive policy agenda for the euro area in 2024 would need to balance short-term imperatives such as economic recovery with long-term priorities such as sustainability, investment, productivity, competitiveness, financial stability, innovation and social inclusion. Collaboration among euro area Member States, along with effective governance mechanisms at both national and European levels, will be essential if such policies are to be successfully implemented.

Brussels, 23 October 2024.

The President
of the European Economic and Social Committee
Oliver RÖPKE