EU contribution to the questionnaire from OHCHR on promoting and protecting ESCR within the context of addressing inequalities in the recovery of the COVID-19 pandemic

Introduction:

The European Union would like to thank OHCHR for their call for contributions to a questionnaire on promoting and protecting ESCR within the context of addressing inequalities in the recovery of the COVID-19 pandemic. The contribution from the European Union is comprised of inputs from EEAS, DG EMPL, ECFIN, RECOVER and TAXUD.

On **EU COVID-response** in general:

The European Union activated the **general escape clause**[1] in March 2020 to allow Member States to pursue a fiscal policy that facilitates the implementation of all measures necessary to adequately deal with the crisis, both in terms of health-related needs and in terms of mitigating its direct socio-economic consequences.

The **State aid Temporary Framework**[2] was adopted in that same month to enable Member States to use the full flexibility foreseen under State aid rules to support the economy in the context of the coronavirus outbreak. It has enabled viable businesses to survive and preserve employment.

The European Union introduced the **temporary Support to mitigate Unemployment Risks in an Emergency (SURE)**[3] to support Member States that needed to mobilize significant financial means to fight the negative economic and social consequences of the coronavirus outbreak on their territory. SURE has provided financial assistance of 98.4 billion in the form of favourable loans from the EU to Member States to address sudden increases in public expenditures for the preservation of employment.

The current **EU's long-term budget**, coupled with **NextGenerationEU**[4], forms the largest stimulus package ever financed at the EU level. A total amount of around EUR 2 trillion EUR (in current prices) has been earmarked to help rebuild a post-Covid-19 Europe. More than 50% of the provided funds support modernisation, inter alia by promoting research and innovation, and a successful green and digital transition. The centrepiece of NextGenerationEU is the Recovery and Resilience Facility.

On the **Recovery and Resilience Facility in general**:

The **Recovery and Resilience Facility (RRF)**[5] was established by Regulation (EU) 2021/241 on 19 February 2021. It is the cornerstone of NextGenerationEU, an unprecedented EU recovery instrument to help repair the immediate economic and social

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[1] https://ec.europa.eu/commission/presscorner/detail/%5Beuropa_tokens:europa_interface_language%5D/ip_20_499
[2] https://commission.europa.eu/strategy-and-policy/coronavirus-response/jobs-and-economy-during-coronavirus-pandemic/state-aid-cases_en
[3] https://economy-finance.ec.europa.eu/eu-financial-assistance/sure_en
[4] https://commission.europa.eu/strategy-and-policy/recovery-plan-europe_en
[5] https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility_en

damage of the coronavirus pandemic, and will disburse up to **EUR 723.8 billion (in current prices) in grants and loans** to EU Member States.

Member States use the funds provided by the RRF to implement **ambitious reforms and investments to make their economies and societies more sustainable, resilient and prepared for the green and digital transitions**.

The RRF provides a **sizable fiscal impulse** over the medium to long term and **help mitigate the risk of divergences in the euro area and the EU**.

The implementation of the RRF will also have **important implications for national fiscal policies**. Expenditure financed by grants from the RRF will substantially boost the economy in coming years, without increasing national deficits and debt. It will also spur Member States to improve the growth-friendliness of their fiscal policies.

The **implementation of the Recovery and Resilience Facility is ongoing:** All national plans are in place and implementation is firmly underway, and we have put in place a **Recovery and Resilience Scoreboard**[6] showing clearly how the money is being spent. You can find it online and we invite you to regularly consult it for the latest updates on the RRF and its implementation.

The Scoreboard includes detailed and up-to-date information on each Member State plan's state of play, as well as overall information on the Facility, including on expenditure per pillar. As of 20 January 2023, Member States have committed **€200 billion for climate expenditure** and **€138 billion for digital expenditure**. These amount to 40% and 26%, respectively, of the RRF as a whole, well over the 37% and 20% targets established by the RRF Regulation.

To this date, the Commission has **disbursed a total of over €142 billion under the Facility**, in both grants and loans (€85.7 billion) and pre-financing (€56.5 billion).

The Commission is now assessing the payment requests submitted by Spain, Slovakia, Slovenia, Lithuania, Denmark, Malta, Romania, the Czech Republic, Austria, Luxembourg and Italy.

The European Parliament and the Council reached a political agreement on 14 December 2022 on financing **REPowerEU**[7] and enabling Member States to introduce REPowerEU chapters in their recovery and resilience plans with reforms and investments to phase out imports of Russian fossil fuels and provide clean, affordable, and secure energy to households and businesses across Europe.

For overview and timeline of EU COVID-response, please see Timeline of EU action[8].

Questionnaire:

Describe economic policies, legislation, promising practices or strategies and national, regional or local processes that can support States in:

1. **Achieving inclusive and green economic growth in line with international human rights norms and standards;**

Europe is striving to become the first climate-neutral continent. The **European Green Deal**[9] is the EU's roadmap for making its economy sustainable by turning climate and environmental challenges into opportunities across all policy areas, and by making the

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[6] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/index.html
[7] https://ec.europa.eu/commission/presscorner/detail/en/ip_22_3131
[8] https://commission.europa.eu/strategy-and-policy/coronavirus-response/timeline-eu-action_en
[9] https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en

transition just and inclusive for all. The European Green Deal is the long-term growth strategy for the EU, placing sustainable development at the heart of EU policymaking. The EU is fully committed to implementing the 2030 Agenda for Sustainable Development and delivering on the 17 UN Sustainable Development Goals (SDGs).

In 2021 the EU enshrined in the **European Climate Law**[10] the targets of reaching climate neutrality by 2050 and reducing net greenhouse gas (GHG) emissions by at least 55% by 2030 compared to 1990. To put the EU economy on track for this green transition, the European Commission also proposed a package of legislative proposals – the '**Fit For 55**' package[11] – which covers a wide range of policy areas, including climate, energy, land use, agriculture, transport and taxation policies and contributes directly to implementing a large number of the SDGs.

At the same time, the EU aims for an 'economy that works for the people' The EU's unique social market economy allows economies to grow and to reduce poverty and inequality, with the aim of leaving no one behind. The **European Pillar of Social Rights Action Plan**[12] adopted in March 2021 represents a joint effort by the EU and its Member States with the active involvement of social partners and civil society to address challenges related to employment, skills, and social protection.

The European Semester is a process by which the EU integrates surveillance and coordination of economic and employment policies to promote sustainable economic growth, job creation, financial stability and sound public finances. The EU's most recent **Annual Sustainable Growth Survey**[13] published in November 2022 outlines an economic policy agenda to mitigate the negative impacts of energy shocks in the short term and to keep up efforts to support sustainable and inclusive growth and increase resilience in the medium term, while maintaining flexibility to tackle new challenges. The approach is structured around the four dimensions of competitive sustainability - promoting environmental sustainability, productivity, fairness, and macroeconomic stability, and in line with the SDGs.

To support these efforts EU has created NextGenerationEU which is a temporary (implemented over 6 years) recovery instrument to help repair the immediate economic and social damage brought about by the COVID-19 pandemic. The "Recovery and Resilience Facility" makes loans and grants available to support reforms and investments undertaken by EU countries. The RRF aims to finance reforms and investments with long-lasting impact, making the EU more sustainable, resilient, and better prepared for the challenges and opportunities of the green and digital transitions.

The twin transitions and other short- and long-term challenges that EU Member States are facing necessitate adopting numerous policy reforms and investments. More attention needs to be paid to distributional considerations in the planning of such measures. For that, Member States would need to make greater use of ex ante distributional impact

[10] https://climate.ec.europa.eu/eu-action/european-green-deal/european-climate-law_en
[11] https://www.consilium.europa.eu/en/policies/green-deal/fit-for-55-the-eu-plan-for-a-green-transition/
[12] https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights/european-pillar-social-rights-action-plan_en
[13] https://commission.europa.eu/publications/2022-european-semester-annual-sustainable-growth-survey_en

assessments (DIAs). In the European Pillar of Social Rights Action Plan the Commission committed to adopting guidance to Member States on making greater use of this tool[14].

The EU takes strong action to **promote decent work worldwide**, contributing to improvements in the lives of people all over the globe. The Communication on Decent Work Worldwide[15] adopted in February 2022 reaffirms this commitment. It is a strong signal that the EU will strengthen further its role as responsible leader on promoting decent work worldwide. In addition, the EU actively contributes to the **International Labour Organization** processes of setting labour standards, supervising their application, and promoting their implementation. The EU cooperates closely with the ILO, particularly through joint action in multilateral fora and bilateral and development cooperation, but also through intensified information exchange, assistance and regular high-level meetings. The aim is to promote fundamental principles and rights at work, as well as other international labour standards, in particular through ratification and effective implementation of up-to-date ILO conventions and the promotion of gender equality.

2. **Increasing social spending, through national and local budgets, for the realization of economic, social and cultural rights (e.g. rights related to health, food, water and sanitation, housing, education, social protection and work);**

The European **Social Fund Plus** (ESF+)[16] is the European Union (EU)'s main instrument for investing in people and supporting the implementation of the European Pillar of Social Rights. With a budget of almost EUR 99.3 billion for the period 2021-2027, the ESF+ will continue to support the EU's employment, social, education and skills policies, including structural reforms in these areas.

Social expenditure needs to be looked at as a social investment bringing tangible returns. The Commission Communication "Towards Social Investment for Growth and Cohesion"[1] highlighted that as such it "helps to *prepare* people to confront life's risks, rather than simply *repairing* the consequences". The European Pillar of Social Rights calls on Member States to ensure their citizens have access to adequate social protection as well as to affordable quality healthcare and long-term care.

The COVID-19 pandemic has brought to the fore the role of effective social protection and social inclusion policies. Putting the granted fiscal flexibility to full use, Member States responded decisively to save lives and livelihoods. Against the background of a substantial fall in real GDP in 2020, the exceptional discretionary policies put in place to mitigate the social impact of the crisis together with the social protection and tax systems in place significantly stabilised households' incomes and as a result increased as a share of GDP. Social protection expenditures as a share of GDP increased from 28% in 2019 to 31.7% in 2020 (3.7 pps).[17]

Going forward, as Member States withdraw the emergency measures and GDP growth picks up, it is expected that the share of social expenditure will decline, as it did during the recovery over last decade.

On the **RRF's social dimension**:

[14] https://op.europa.eu/en/publication-detail/-/publication/831aab2e-408e-11ed-92ed-01aa75ed71a1/language-en/format-PDF/source-search
[15] https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1187
[16] https://ec.europa.eu/european-social-fund-plus/en
[17] Source: Statistics | Eurostat (europa.eu)

One of the aims of the RRF is to improve social cohesion and mitigate the social impact of the crisis. The recovery and resilience plans (RRPs) adopted cover a broad range of reforms and investments that will contribute to strengthening **social cohesion and resilience**, as well as the policies for the next generation, such as education and skills, thereby supporting the implementation of the European Pillar of Social Rights.

The importance of the social issues is partially reflected in the amounts invested for social aspects by Member States. Based on the information available at this stage (as of 20 January 2023), the **share of social expenditure** in four social categories ((i) employment and skills, (ii) education and childcare, (iii) health and long-term care, and (iv) social policies) **in the national recovery and resilience plans is around 28%** (i.e. EUR 138bn)[18].

In particular, practically all plans propose measures to strengthen **healthcare systems** and to boost **skills, education and training**. About half of the countries proposed measures to improve access to high-quality early childhood education and care (ECEC) supporting equal opportunities for all children and full-time employment of carers, notably women.

Most plans include **active labour market policies** and actions to make the **public employment services** more effective. A majority of national plans also include measures aimed at **improving social protection and social services.** Several plans make extensive use of the RRF to finance reforms and investments that will advance the **inclusion of disadvantaged groups.** Beyond this, we expect that many measures, such as support for SME digitalisation, will **create high-quality employment**.

All these measures support Europe's society at large.

For instance:

- **Romania's[19] recovery and resilience plan** will provide support to low-income households for the connection to the public water supply and sewers. As a result of this investment, at least 88 400 additional households will be connected to water and sewerage.
- **Lithuania's[20] recovery and resilience plan** entails a reform to improve the accessibility of integrated social and healthcare services by developing and implementing a sustainable **long-term care model**. In addition to the adoption of an action plan for training, re-skilling and upskilling of long-term care professionals, an increase of human resources and infrastructure for the provision of long-term care services are envisaged. This reform aims at improving the ability of working-age carers, most of whom are middle-aged women, to enter or return to the labour market and avoid poverty after retirement.
- The **Slovak[21] recovery and resilience plan** includes a component dedicated to curricular reform in primary and lower secondary **education**. The aim is to create new learning content, including textbooks, to develop pupils' key competences, cognitive and soft skills, and to improve teachers' skills, as well as to ensure inclusion of disadvantaged groups into mainstream education.

[18] Social categories are defined and applied based on the methodology adopted by the Commission in consultation with the European Parliament and the Member States in the Delegated Regulation 2021/2105. As of 20 January 2023, data is available for 26/27 Member States and will be updated when more data becomes available.

[19] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/scoreboard_thematic_analysis_social_protection.pdf

[20] https://data.consilium.europa.eu/doc/document/ST-10477-2021-ADD-1/en/pdf

[21] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/6_Education.pdf

- **Croatia**[22] has taken a comprehensive approach towards **early childhood education and care** in its recovery and resilience plan, combining both reforms and investments. The aim of one of the reforms is to improve access for children aged 3 or more and support participation, especially for children from disadvantaged groups. In this context, the number of teachers specifically trained for early childhood education and care is expected to increase, while affordability is expected to improve through the introduction of a new funding model.
- The **Slovenian**[23] **national recovery and resilience plan** includes dedicated measures to foster faster entry of young people into the **labour market**. The investment provides financial incentives for employers to hire young people up to 25 years of age on open-ended contracts. Employers should also commit to provide an appropriate mentor, to assist and train young people in a specific job.
- The **Italian**[24] **national recovery and resilience plan** entails a measure contributing to **labour market participation of women** and, in particular, to support women's participation in business activities. The investment will encourage the creation of women's enterprises through support to female entrepreneurs, support to the implementation of innovative business projects, mentoring and training, and communication actions.
- The horizontal training programmes included in **Greece's**[25] **national recovery and resilience plan** promote among others digital skills and green skills for over half a million beneficiaries in total. The investment will be preceded by a reform of the national life-long learning system that will ensure high quality and labour market relevance of offered trainings.
- **Latvia's**[26] **national recovery and resilience plan** comprises the strengthening of the basic social safety net through setting the minimum income level (including for pensions) at 20% of median income and introducing annual positive indexation to adjust for changes in the cost of living**.**

For thematic policy overviews and more MS-specific examples please consult RRF Scoreboard Thematic Analyses on Health[27], Social Protection[28], Education[29], Skills[30] and Employment[31].

On **gender equality and equal opportunities for all** in the RRF**:**

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[22] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/6_Education.pdf
[23] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/4_Employment.pdf
[24] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/4_Employment.pdf
[25] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/scoreboard_thematic_analysis_%20adult_learning_skills.pdf
[26] https://commission.europa.eu/select-language?destination=/node/9
[27] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/5_Health.pdf
[28] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/scoreboard_thematic_analysis_social_protection.pdf
[29] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/6_Education.pdf
[30] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/scoreboard_thematic_analysis_%20adult_learning_skills.pdf
[31] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/4_Employment.pdf

Gender equality and equal opportunities for all feature prominently in the RRF Regulation, and Member States' national recovery and resilience plans contain both direct measures aiming at enhancing (gender) equality as well as mainstreaming of equality e.g. in RRF measures related to the green and digital transitions.

For instance:

- **Finland** has included in its plan an ambitious reform to improve the continuous learning system and provide specialised trainings to career guidance professionals on digital skills, language and cultural awareness, the green transition and the promotion of gender equality.
- **Greece** is reforming its active labour market policies system putting particular emphasis on the support to be provided to vulnerable groups, including women. In this regard, the Greek plan envisages support in the field of green skills, jobs, economy.
- The **Spanish** recovery and resilience plan mainstreams equality in many different sectors. As an example, the set of measures to improve the labour market integration of women includes the creation of a support line for women in rural and urban areas covering training actions in the areas of digital, green, long-term care, entrepreneurship and social economy.
- The **Slovak** recovery and resilience plan promotes equality in a variety of areas and through a wide range of reforms and investments, e.g. concerning the inclusion of Roma people in mainstream education and persons with disabilities.

Please consult the RRF Scoreboard Thematic Analysis on Equality[32] for equality-related policy overview as well as more MS-specific examples.

3. Addressing structural discrimination in economic planning and budget decisions;

While the EU has not developed a budgetary framework that specifically addresses structural discrimination, the EU has been encouraging EU Member States to adapt their budgetary planning to new priorities, through a more **pronounced emphasis on the quality of public spending**.

EU has promoted the exchange of best practice, targeted training and capacity development in the EU Member States on how to make the best use of public expenditure and budgeting and re-orient it towards new priorities. Within these, country-specific priorities, including structural discrimination, can be better addressed.

More specifically, a 2013 EU Regulation[33] invites EU Member States to present distributional impact assessments of expenditure and revenue in their draft budgetary plans. The practice of distributional impact assessments of measures has been recently encouraged in a Commission Communication[34]. In 2017, the Eurogroup has issued guidance[35] on how to improve expenditure allocation in a view to ensure a reprioritisation of spending towards new sectors. Many EU Member States have followed this guidance.

[32] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/scoreboard_thematic_analysis_equality.pdf
[33] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0473&from=EN
[34] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022DC0494&from=EN
[35] https://www.consilium.europa.eu/en/press/press-releases/2016/09/09/eurogroup-statement/

Further, in 2020 the European Commission has promoted the use of green budgeting through the European Commission **Green Budgeting** Reference Framework[36]. The European Commission has also examined and compared **gender budgeting**[37] practices across the EU Member States. See details above.

4. Maximizing available resources, including progressive taxation, industrial policies and curtailing illicit financial flows, for progressively achieving the full realization of all economic, social and cultural rights;

Fair taxation is at the core of the EU tax policy agenda. The EU is engaged to fight tax evasion and avoidance by increasing tax transparency and preventing tax abuse.

Concerning **tax transparency**, several Directives on Administrative Cooperation (DAC) have been adopted and a new one, DAC8, has been announced on cryptocurrencies with reporting requirements for crypto and digital asset service providers[38].

Concerning **tax abuse** two Anti-Tax Avoidance Directives (ATAD)[39] have been implemented to prevent profit shifting between companies located in high-tax and low-tax

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[36] https://economy-finance.ec.europa.eu/system/files/2022-01/european_commission_green_budgeting_reference_framework.pdf

[37] https://economy-finance.ec.europa.eu/publications/gender-budgeting-practices-concepts-and-evidence_en

[38] On tax transparency:
DAC1, Directive on administrative cooperation, Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC. It concerns all legal and natural persons accounts and generalised spontaneous exchange of information between tax authorities and introduced some automatic exchange.
DAC2, Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation. It generalises automatic exchange of information between tax authorities (adoption of the Common Reporting Standards agreed at the OECD).
DAC3, Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation. It concerns tax rulings.
DAC4, Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation. It concerns Country By Country Report (CBCR).
DAC5, Council Directive (EU) 2016/2258 of 6 December 2016 amending Directive 2011/16/EU as regards access to anti-money-laundering information by tax authorities. It concerns beneficial ownership data access.
DAC6, Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements. It concerns tax schemes at risk of enabling tax avoidance or evasion to be reported by the tax intermediaries that design, finance or facilitate them or the firm for which it is designed.
DAC7, Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation. It concerns exchange of income from platform providers.

[39] On tax abuse:
ATAD I, Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market. It limits profit shifting, among others, through loans (interest limitation rules) and to low-tax jurisdictions where there is no real economic activities (controlled foreign company rules).
ATAD II, Council Directive (EU) 2017/952 of 29 May 2017 amending Directive (EU) 2016/1164 as regards hybrid mismatches with third countries. It prevents the use of reverse hybrid mismatches with third countries to shift profits abroad.
UNSHELL, Proposal for a COUNCIL DIRECTIVE laying down rules to prevent the misuse of shell entities for tax purposes of 22 December 2021. It prevents the use within the EU of entities without enough substance to benefit from tax advantages.

countries. A third one has been tabled on 22 December 2021 and is being discussed at the Council to prevent the use of shell companies within the EU to benefit from tax advantages.

Furthermore, the EU has adopted a Directive establishing a **minimum effective corporate tax rate** of 15% for large multinationals (so-called OECD Pillar 2) with a transposition into Member States law by the end of this year. The EU is also actively supporting the negotiations on the reallocation of the taxing rights (Pillar 1)[40].

In the context of the European Semester, the **Employment Guidelines[41]** advise Member States to fight poverty and social exclusion and addressing inequalities, including through the design of their tax and benefit systems and by assessing the distributional impact of policies. Taxation should be **shifted away from labour** to other sources more supportive of employment and inclusive growth and in line with climate and environmental objectives, taking account of the redistributive effect of the tax system, as well as its effects on women's participation in the labour market, while protecting revenue for adequate social protection and growth-enhancing expenditure.

5. Adopting budget transparency, accountability and meaningful participation of civil society and other stakeholders;

As also reiterated in the 2023 Annual Sustainable Growth Strategy[42], the EU is committed to an inclusive process and the timely involvement of social partners and other relevant stakeholders during all stages of the RRF implementation process and European Semester cycle. A sustainable recovery and the twin transition can only succeed if we act together, in close cooperation with all relevant stakeholders. Consequently, the EU continuously underlines the importance of stakeholder involvement - in particular, regarding regular exchanges with social partners, local and regional authorities and civil society organisations - in its interactions with all Member States.

Stakeholder involvement is essential to jointly identify challenges, improve policy solutions, and it ensures broader ownership of the economic and social policy agenda. The EU will make use of the existing forums and channels linked to the European Semester process to inform and involve social partners also on RRF implementation.

In several RRPs, there are clear references on the need to take into account the outcome of social dialogue with respect to key reforms, especially in the areas of labour market and pension reforms. The EU will pay close attention to how the relevant milestones are being implemented.

Furthermore, the **European Union is a Union of values**: fundamental rights, democracy, and the rule of law. This is the bedrock of EU society and identity. The rule of law benefits everyone in the EU and it is clear that citizens in every Member State strongly support the rule of law principles.

The European Commission's annual **Rule of Law Report** (latest July 2022) includes a comprehensive review of institutional checks and balances across the European Union and

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[40] On OECD agreement
Commission proposal for a Council Directive on ensuring a global minimum level of taxation for multinational groups in the Union, COM(2021) 823 final, establishing a minimum effective corporate tax rate of 15% for large multinationals (i.e., with an annual turnover of at least €750M).
[41] https://ec.europa.eu/social/main.jsp?catId=101&intPageId=3427
[42] https://commission.europa.eu/publications/2023-european-semester-annual-sustainable-growth-survey_en

highlights how EU Member States have continued to improve the quality of the legislative process. The European Commission highlights that civil society organisations, and independent authorities such as equality bodies, the Ombudsperson and National Human Rights Institutions are an indispensable element in the system of checks and balances in a healthy democracy. Following the **challenges of the COVID-19 pandemic,** where emergency measures were both used and then phased out, EU Member States are now drawing the lessons from this experience and are in some cases updating their legal frameworks to improve preparedness for future crises.

In the wake of the global financial crisis, the Eurpean Commission has substantially pushed for an improvement of **budgetary transparency**. The Council Directive 2011/85[43] requires Member States to regularly publish budgetary data, at high frequency and covering all sectors of the general government. The Directive also sets requirements in terms of transparency of tax expenditure, contingent liabilities, including non-performing loans, state-owned enterprises, and public sector participation into corporations. In addition, a number of additional data requirements have been established in the context of the reporting to national and EU statistical offices, as part of the regular fiscal notification exercise.

As regards, the participation of civil society and stakeholders, the **EU has promoted the set -up of independent fiscal institutions** (now present in almost all EU Member States) who play an important role in communicating news on fiscal policy and budgetary planning to the media and the public, while at the same time keeping a role of watchdog on the conduct of fiscal policy.

Furthermore, Eurofound’s COVID-19 EU PolicyWatch[44] maps measures introduced to cushion the social and economic effects on businesses, workers and citizens. It also includes information on the role played by social partners in the design and implementation of the measures.

6. ring-fencing and/or increasing social spending;

See question 2.

7. Investing in social spending to comply with the obligation of realizing minimum essential levels of all economic, social and cultural rights and to progressively achieve the full realization of these rights by: - implementing counter-cyclical fiscal policies efficiently, effectively and equitably to avoid retrogression of economic, social and cultural rights; - reallocating public expenditure (e.g. re-directing resources towards social spending from areas such as defence).

EU Member States provided sizeable **fiscal support in response to the COVID-19 crisis** that, together with EU-level measures and instruments, and social safety nets and health systems at the national level, **helped to mitigate the economic and social damage** of the crisis. This has underlined the need for fiscal policy to act in a counter-cyclical manner, both in supporting the economy during crises and building up fiscal buffers in periods of economic growth.

The EU is of the opinion that **social protection expenditure** should not be perceived as deadweight cost but needs to be looked at as social investment bringing tangible returns.

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[43] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011L0085&from=en
[44] https://www.eurofound.europa.eu/data/covid-19-eu-policywatch

For example, expenditure on active labour market services supports employment, which contributes to higher public revenue due to the associated income and consumption taxation and social security contributions, as well as lower social expenditure. Well-designed social protection systems combine the interrelated objectives of protection, stabilisation, and social investment in a balanced way. They should be designed in such a way that they achieve their social goals at the lowest possible budgetary costs and in ways that support economic performance, thanks to a strong focus on investment in human capital, strong labour force participation and financing methods that minimise distortions and disincentives, which could weaken the economy.

Higher levels of social protection spending are typically associated with lower volatility in economic growth and a higher poverty reduction effect of social transfers. Social investment can also contribute to stronger economic growth thanks to lower precautionary saving. Social protection systems are the main contributors to the stabilisation of household incomes in economic slowdowns. This was clearly illustrated during the pandemic as social transfers (both as automatic stabilisers and new emergency measures) significantly contributed to stabilising real GDP and household incomes in 2020. At the same time, they helped containing possible scarring effects that would have negatively affected the longer-term growth prospects and it is expected that their share in GDP will decline with economic growth resuming.

This Synthesis Report produced for the EU by the European Social Policy Network (ESPN)[45] explores how 35 European countries monitor social spending through dedicated national frameworks, and investigates the review processes assessing the outcomes and effectiveness of public social spending. It is based on 35 country-specific reports.

In November 2022 the EU published a Communication setting out orientations for a reformed EU economic governance framework[46], with the aim of improving the effectiveness of integrated surveillance and economic policy coordination in the EU. The objective is to reach agreement on a revised framework that ensures debt sustainability and promotes sustainable growth through investment and reforms. The central elements of the Commission’s orientations are: national medium-term fiscal-structural plans that include investment and reform commitments; reducing high public debt ratios in a realistic and sustained manner; greater national ownership and better enforcement; and a more effective framework to detect and correct macroeconomic imbalances. The reformed framework should help build the green, digital and resilient economy of the future, while ensuring the sustainability of public finances in all Member States.

[45] https://ec.europa.eu/social/main.jsp?catId=1135&langId=en

[46] https://ec.europa.eu/commission/presscorner/detail/en/ip_22_6562