



How to make EU fiscal rules compatible with net zero

by Claudio Baccianti and Christian Odendahl, 9 May 2022

In order to be climate neutral by 2050 and to fulfil its 2030 climate targets, Europe needs more green investment. Although total European climate investment is on the rise, thanks in part to the EU's recovery fund, businesses, households and governments must spend more on green energy, infrastructure and energy efficiency. But Europe's fiscal rulebook risks holding such investment back, and some highly indebted countries cannot increase debt much further. In this new Centre for European Reform policy brief, '[How to make EU fiscal rules compatible with net zero](#)', Claudio Baccianti of Agora Energiewende, and Christian Odendahl European economics editor at *The Economist* and former chief economist of the CER calculate the spending needed for the EU to meet its climate goals and propose a reform to its fiscal rules that would allow for this.

The war in Ukraine emphasises the urgency for Europe to move away from fossil fuels: both for the climate and European security. More green investment is needed in power, transport, housing and industry; the bulk of which the private sector will undertake. But public money has a role to play, too. The authors calculate that European member-states will need to raise climate spending by around 1.7 per cent of GDP, with Italy needing to spend 1.1 per cent more, Spain an extra 1.3 per cent and France, 1.2 per cent. But Europe's fiscal rules put limits on the deficits governments can incur, and although these were suspended at the start of the pandemic and after Russia's invasion of Ukraine, at some stage they will be re-instated. The authors propose an amendment to the EU's fiscal rules, whereby a country-by-country review process could allow for some green investment to be exempted, and some to be financed by higher taxes or cuts to other spending.

"Climate investment is a common good in Europe, and the investment needs are large. The recovery fund should be made permanent, to allow some of that investment to be funded through common European borrowing," said Claudio Baccianti. *"But Europe's fiscal rules need to accommodate some of the rest, to make sure Europe can reach its climate goals without political crises."*

This work is being supported by a grant from the European Climate Foundation.

Note for editors:

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