European Economic
and Social Committee

ECO/ESG

Brussels, 23 February 2024

To the members of the
European Semester Group

The secretary-general of the European Economic and Social Committee is pleased to enclose the

MINUTES

of the 29th meeting
of the
European Semester Group,
held at the Committee building in Brussels
on
23 February 2024

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The European Semester Group (ESG) held its 29th meeting at the Committee building in Brussels **from 09:30 to 13:00 on Friday 23 February 2024.** It was a hybrid meeting, with some members connecting remotely via the Interactio videoconferencing system and others attending in person. The meeting was chaired by the ESG president, **Luca Jahier**.

1. Adoption of the draft agenda.

The draft agenda was adopted.

2. Approval of the minutes of the 28th European Semester Group meeting, held on 29 November 2023 (EESC-2024-00529-00-00-PV-REF).

The minutes were approved.

3. **Introduction** by the president of the group, **Mr Jahier**.

4. State of play of **the revision of the EU economic governance framework**. Presentations by representatives of the European Commission, the European Parliament and the Council of the EU:

Mr Jahier gave the floor to **Margarita Marques** MEP, expressing his gratitude for her incredible work, dedication and also her attentiveness and close collaboration with the Committee. **Ms Marques** expressed her gratitude to the Committee's members for their valuable input, especially regarding the EU economic governance framework. She then started to present her appraisal of what had been achieved in the European Parliament regarding **the revision of the EU economic governance framework**, noting that:

- the role of the EP had been key during the negotiations;
- the deal had only been possible because of the **awareness around the table of the importance of the issue, the productive time pressure and the tight deadline**;
- the economic governance review had often been referred to as the never-ending reform in the EU and this agreement suggested that this **reform would** certainly **not be the last**;
- the negotiations had been challenging not only due to the **highly political dimension** of the subject, but also because fiscal rules bore a significant stigma dating from the euro crisis era and any attempt to reform was easily perceived as a return to austerity policies;
- it was **not a perfect agreement**, but it should be considered as major progress nonetheless and as **an improvement on the existing rules**;
- the **new rules were more flexible** and more **democratic**, and **provided room for investment**, greater **ownership** and an enhanced **social dimension**.

Ms Marques highlighted the following **achievements** of the **EP** and the **EESC**:

- removing **co-financing** from the net expenditure would provide a way for the Member States to include all EU-funded programmes and pave the way for new options in the MFF after 2027 and in future EU instruments. This had been a significant request from the EESC;

- introducing more **favourable criteria for extending the plans**, extending adjustment periods from 4 to 7 years, thereby nearly doubling the time, would facilitate smoother adjustments and impact safeguards;
- commitments to reforms and investment in EU priorities would be crucial factors considered when checking account deviations in order to **prevent excessive deficit and debt**, while also **allowing more room for investment**;
- making social investment an EU priority on an equal footing with defence and green technology, including a social convergence framework, was essential;
- investment from the RRF and Cohesion funds would also influence extensions now and in the future, alongside new instruments created after NextGenerationEU;
- maintaining the four priorities, particularly emphasising social rights and the implementation of the social pillar, was crucial;
- newly-elected governments could request a new, revised plan, enhancing the democratic system and national democracies;
- increasing national ownership, granting more influence to the social partners and national parliaments, and improving the dialogue with the EP would provide a more democratic framework.

Despite the efforts made, some **disappointments** were acknowledged. Efforts to eliminate the **safeguards imposed by the Council were unsuccessful**. Initially, it had been thought that these safeguards were unnecessary and complicated the framework. However, in the end, the Council and the Member States accepted them. The most problematic issues concerning the safeguard framework were that:

- they were only used to calculate the reference trajectory and not the imposed trajectory, providing a provisional expenditure pass;
- according to Commission simulations, safeguards had limited or no effect compared to debt agreement. Member States with deficits above 3%, such as France, Italy and Belgium, would not apply the debt reduction safeguard until they were below the 3% threshold.

Until 2027, the increased interest rates would also be netted out for their mandatory 0.5% adjustment imposed. These two conditions would afford these Member States significantly more fiscal space in order to improve their finances with a view to complying with the rules.

Ms Marques concluded that:

- this reform presented a **significant opportunity** and a major improvement, although the **implementation** would have to be carefully monitored;
- the discussion was about a stability and growth pact, not just a stability pact;
- there was a need to push for **investment** outside of this framework as well and to foster debate and consensus on how to create **EU investment capacity**.

Mr Jahier commented that it should nonetheless be considered a **drastic improvement** on the previous rules. Mr Jahier then passed the floor to **Gilles Mourre**, head of the Fiscal Policy and Surveillance Unit at DG ECFIN, European Commission, highlighting his role as another key stakeholder in this dossier and in these negotiations, having been at the core of the process of preparing this legislative package. The real hard work would come once the EP and the Council ratified the provisional political agreement to ensure its implementation within a strict timeframe. **Mr Mourre** took the floor to give his insight into the negotiation process from the point of view of the European Commission, mentioning his pleasure at regularly briefing EESC members about the progress made over this two-year process. He started his speech by addressing five important points:

- **first**, the political agreement had been achieved after fruitful cooperation between the EP **and the Council**, with the **Belgian presidency** playing a key role. Despite **diverging views** among the Member States and among parties in the EP, convergence had been achieved after **only 3 weeks of negotiations**, a real marathon. It was also important to mention the energy, dedication and competence of those involved in this endeavour. The **Commission** had tried to support the work of the legislative bodies by adopting the role of **honest broker**;
- **the second point** emphasised the **importance of the endeavour,** as **everyone had agreed that the old framework was broken** and a new one was needed. Under the old framework, the rules were complex, debt rules were not realistic, ownership was low, enforcement was weak and there were no incentives for investment and reform. While the system made sense from an economic point of view, it lacked political economy feasibility. It had also been important to come up with a new framework, as there were high expectations from various stakeholders, including economic agents, governments, the social partners, international institutions and think-tanks. Additionally, other institutions, such as the ECB, the OECD and the IMF, shared similar opinions and conclusions about the shortcomings of the old framework;
- **the third point** concerned the **philosophy of the reform**, which aimed at **ensuring sound public finances while also promoting growth**. The new framework proposed a more gradual consolidation, emphasising that **fiscal consolidation** needed to be **partnered with investment and reform** that supported growth. The gist of the framework was to focus not only on the fiscal adjustment aspect but also on fostering the growth aspect. Another important element was to promote national ownership within a strong EU framework, ensuring equal treatment among the Member States. Thus, this reform did not only focus on the new economic objectives but also on strengthening governance. The old framework made sense but it did not withstand the test of the political economy; it had failed when it came to practical implementation within the Member States. The key element of the framework had been listed as follows:
    - a medium-term fiscal plan over a four-year horizon proposed by the Member States but framed by common EU requirements;
    - a country-specific net expenditure path as the primary fiscal indicator, aimed at ensuring debt convergence to prudent levels while strengthening counter-cyclicality;
    - an **adjustment phase varying across the board**, but with common numerical safeguards. The adjustment period **could be extended up to a maximum of 7 years**, underpinned by a credible and relevant set of reforms and investment;
    - provision for general and country-specific escape clauses to allow for macroeconomic stabilisation during extraordinary situations;
    - enhanced enforcement measures, including the introduction of a country report and enhanced credibility concerning the launch of a debt-based excessive deficit procedure (EDP) alongside the existing deficit-based EDP;
    - gradual sanctions and adjustment phased in and tailored to individual countries' circumstances.
- **the fourth point** was about the main ingredients and the main philosophy of what was being pursued. There had been important changes, like the system safeguards, which had been added by the Council and were not included in the Commission's proposals. There were now more

incentives for investment, and a strong push from the EP. Moreover, co-financing had been removed from the main indicator, eliminating the disincentive to lower **co-financing** to create fiscal space elsewhere, especially during periods of economic distress. The main criteria for investment and reforms, along with the timeframe adopted, underpinning an extension for the adjustment period and allowing milder annual adjustment, would be applied as a general rule and via a **more flexible approach**. Investment in defence would be a relevant factor taken into consideration before launching an excessive deficit procedure. Moreover, the social dimension had been strengthened, as had the role of the EFB, among other things;

- finally, **the fifth point** focused on **implementation,** which was now on the agenda, and it was time to conclude the legislative process. The calendar was included in the legal text; the plan had been supposed to be finished in April, but this had proved impossible. It should now be submitted by **20 September**. The Commission was expected to provide guidance as it was a case of learning by doing. By 21 June, the Member States should be consulted and it was essential to communicate to the Member States the main ingredients of the plan in order to emphasise **ownership**. Additionally, defining the exact indicator would be crucial. Now the focus needed to shift to the implementation aspect. At the end of the process, the dialogue with the EP had been enhanced, with regular reporting to the Parliament on fiscal surveillance results;
- In summary, the five points presented were as follows: a) the **agreement** had been an **extraordinary *tour de force* within a tight 3-week deadline,** despite significant potential for derailment; b) this was an important endeavour, given the broken current system and high expectations; c) the major philosophy had been preserved; d) important changes had been made by both the Parliament and the Council; and, lastly, e) the next step was to transition from the **legislative process** to **implementation**.

Mr Jahier responded by emphasising one of the points that Mr Mourre had raised, namely the fact that it was extraordinary in the history of the EU legislative process that a deal had been reached within 3 weeks; it constituted a major success for the EU to deliver some of most complicated and structural legislation of the EU.

Mr Jahier then presented and gave the floor to **Peter Van der Stoelen**, Financial Counsellor and ECOFIN Coordinator, also **congratulating** the **Belgian presidency** for the impressive work done in mediating between the different positions within the Council, within the strictest of margins. **Mr Van der Stoelen** took the floor to further explain the process of the negotiations:

- he also referred to the tight deadline of three weeks and the very fast deal achieved in this time, noting that **building trust had been vital** at the beginning of the negotiations, where the positions were very divergent between the Parliament and the Council from the Commissions' initial text;
- the work had started immediately after the plenary vote on 17 January and the **technical meetings with the advisors** had been key in pathing the way to a **compromise** between the Council and the Parliament with the help of the **Commission**, which had operated as an **honest broker.** It had been the result of a **long process, as initial discussions over fiscal rule changes had started even before the COVID-19 outbreak.** After that, the Commission had come up with the RRF, providing room on investment and reforms, and drawing more attention to that balanced compromise. The **deficit resilience safeguard** had been **instrumental in getting Germany** and other **fiscally strict countries on board**;

- the **reforms recognised common values**, such as the **European Pillar of Social Rights**. The **extension of the adjustment periods** had introduced more **flexibility** and **increased transparency** (more information flowing to the EP). The **European Fiscal Board would be strengthened**, as would the involvement of the Parliament in terms of consultation, as well as the role of independent national fiscal institutions, especially when submitting a plan and when revising it. Moreover, the consultation of stakeholders had been strengthened, as had the role of national parliaments, providing more room for dialogue;
- from the Belgian perspective, a **balanced compromise** had been achieved and there had not been too much criticism from the Council, despite there not having been much scope for consultations because of the short deadline (18 working days compared to 84 working days in 2011);
- this pressure had indicated the need for revised **fiscal rules** because the old ones **were unworkable**, especially the debt safeguard. In this context, reforms and more focus on **investment** were absolutely necessary, as **important lessons had been learned from the RRF and the financial crisis**;
- it was necessary to start working on the **implementation aspect**, as the trajectory was for June and a plan needed to be submitted **by September**; the Commission had already begun the necessary preparations;
- Mr Van der Stoelen **thanked the co-rapporteurs** and their **advisors**, who had been **vital in creating an atmosphere of pragmatism and trust**, which had been **key** in achieving the **compromise.**

Mr Jahier acknowledged the strict deadline and the strict mandate, as well as the fact that a solution had been agreed in such a short space of time. He then opened the floor for debate. The discussion was opened up to questions and contributions from the members. **Mr Doz Orrit, Mr Andersson** and **Mme Calistru** took the floor.

- Firstly, the objective was not to achieve agreement in the trialogue, but simply to evaluate the proposal. The EESC supported the Commission's proposal and had requested that the goals should be achieved in agreement between governments and the EU institutions, and also that sustainability and growth be accompanied by investment in the Member States. There were different opinions and doubts, so it was necessary to make sure that these doubts had been resolved and that there was no fear. It was very important that the DSA tool could be used to manage the sustainability analysis. The current system dated from 2022 and, therefore, as the first national structured fiscal plans were negotiated for 2024, the issue for the Commission and others was whether it was going to be based on the current DSA or be done according to the new system. The plans therefore needed to be updated. *The question was whether these first plans would be analysed according to the current DSA because if so, doubt would turn to fear. Secondly, about the co-financing and the 1% buffer amount, was that going to be on top of the safeguards or at the end of the day would the safeguards already in place prevail?* Finally, the following question was put to **Mr Stoelen:** *At the moment, there did not seem to be negative feedback from governments; might there be some objections and some attempt to change what had been agreed?*
- The Committee had expressed support for the Commissions' initiative, all the work done and the progress made. One thing that was missing in the proposal was the lack of incentives for governments to consolidate their finances in good time and so the result was unsustainable debt

levels instead of less spending. The remaining conviction was that much of the discourse revolved around the governments' ability to persist in overspending and accumulating deficits in the future, which was a concerning situation given the generational aspect, the point being that our **children should not inherit environmental debt and fiscal debt on top of it**. There were difficulties in addressing environmental debts and there were also the populist movements in many countries profiting from this situation, which was a very dangerous situation for our future generations, unless the situation for governments could be really consolidated with the national ownership structure.

- *Did the Commission feel that, with the new agreement, the new ownership structure and the discussions held, the Member States would indeed be consolidating in good time and exercise more discipline so that we did not end up creating a really unsustainable situation for future generations?*
- It was necessary to reflect more on the new rules in view of the possibility for governments to adjust their plan after a new government was elected. *Could we have a deeper reflection on safeguards against newly elected populist regimes, as well as on how to be more certain about ensuring enough flexibility in the current framework while also ensuring predictability in the future? What was preventing newly elected governments reneging on the previous government's promises?*

Mr Jahier further noted that:

- major trust had been built between the co-legislators, and that the triangle and the dialogue would be reinforced, as long as there was more involvement of national parliaments in the process;
- *an important question was "how are you planning to set the framework or organise this dialogue when preparing the implementation phase, now that it is at a more technical level?* Connected to this, and following the good lessons learned from the RRF Regulation with regard to creating more space for consultation and dialogue, there was a feeling of satisfaction at the EESC because the democratic aspect had been taken more into consideration;
- moreover, reassurance was needed that during the dialogue with governments, national parliaments, local authorities, the social partners and civil society organisations would also be part of the process;
- the reform was an important democratic issue;
- finally, the last questions were referred to Ms Marques and Mr Stoelen and concerned the last mile of the legislative process: a) *Margarida Marques was asked if she expected any major problems from some political groups, national delegations or Member States during the final approval in the EP, leading to postponements?* b) *Peter Van der Stoelen was asked if he thought there was a risk that an individual Member State would block the reform just before the European elections?*

Mr Van der Stoelen responded by stating that:

- in the Council there had indeed been negative feedback, but **even critics understood that it was the best compromise that it had been possible to get**;
- there was also **criticism** that the **focus on social issues would overburden the European Semester process**;

- moreover, the **flexibilisation of the criteria for extending the adjustment period had also been criticised**, but fortunately it had been possible to win everyone around in time;
- a majority in the Council was expected;
- goal of reenforced dialogue between the Council, the Commission and the Parliament and also a **defined role for the EP** had been included in text, with EP representatives having played a role in forging a compromise; there would be **regular reporting to the EP** in the future.

Mr Mourre responded by stating that:

- a **compromise** from different positions had made it inevitable to introduce complexity and one element of the complexity had been the safeguard;
- there were two elements of simplification:
  1) once you agreed on the plan, you agreed on the trajectory, fixed for 4 years, which was anchored on the idea that debt should be on a descending path;
  2) **instead of having stability measures every year with which no one complied**, there would be a timeframe of **4 years** from now on, with regular progress reporting;
- the system was not based on deficit and conventional numbers but looked at the big picture, the debt issue, which was important because curbing debt was where fiscal capacity could be created, which was needed for investment and reforms in the context of the dual transition, in order to foster social resilience and to address important societal challenges, such as demographic change;
- the **new system was easier to enforce**; its counter-cyclical nature was more acceptable to the public;
- people in Europe had understood that **debt was too high, but debt could not be reduced at a brutal pace**; it had to be **accompanied by investment and reforms**;
- there was **flexibility** in the system, as it was indeed possible to revise the plans and for Member States to request a new plan for four years in exceptional, objective circumstances, such as after the election of a new government with a new legislature; this was essential for reasons of democratic accountability, but requesting a new plan was not something that governments could just do on a whim every year, as the process of revision was quite heavy;
- the general escape clause and the country-specific clauses operated as venting pipes, taking out too much steam in the system;
- the implementation process would advance if there was a **system based on principle but that was flexible nonetheless** and that could adapt to changing circumstances, based on common sense;
- the system would work if there was political ownership and, in this context, the dialogue with the EP was important. This dialogue had an *ex post* nature and when the discussion of the outcome of the surveillance was completed it could be linked with the European Semester dialogue. The dialogue would also be regular, based on reports to the EP on how the Member States had outlined their plans and the results obtained, set out in progress reports;
- the Member States had the duty, in due respect of their constitutional order, to report on dialogue with many stakeholders, their national parliament, the social partners and civil society, which would help boost ownership;
- the **new system needed political visibility and endorsement**; otherwise it would merely be a limited technocratic endorsement with a limited effect and could end up facing the same problem as the old system;

- the **old system had made sense but had not withstood the pressures of the political dimension**;
- the **Council was eager to proceed** as there was an awareness that the old system was broken;
- a DSA working group would make modifications and would basically feed into the way the system worked and the Council would be involved and consulted by the Parliament. The DSA would evolve and would essentially be subject to a wide range of consultations;
- the safeguards would apply *ex ante* to check if debt reduction was on the right path over the long run, modulated according to whether extensions against investment and reform were requested in order to allow the adjustment period to be extended;
- this project required a strong presidency; the Belgian and Spanish presidencies had done an excellent job;
- the system was better and more enforceable; there was willingness on the part of the Member States and all stakeholders to play an important role in its implementation; moreover, the system was compatible with more ownership within a strong framework, but was also conducive to equal treatment, which was a difficult balance to achieve;
- a major achievement had been the **operationalisation of the debt-based EDP**.

Ms Marques responded by stating that:

- it was up to the Commission to implement the framework, but the discussions and agreements with the EP during the negotiations should be kept in mind, maintaining the spirit of the negotiations;
- two points were important: ownership and democracy; it was crucial to have in mind the current rules, the impact that they had had during the financial crisis and the difficulties that some Member States had to face. For example, in Portugal, the risk of sanctions had been averted and interest rates decreased as a consequence;
- firstly, on the safeguards, it was not an accident that the EP was suggesting **replacing technical trajectory with reference trajectory**. Safeguards were an *ex ante* exercise providing references to prepare the national plans, as well as allowing for a focus on ownership and democracy:
  - concerning the issue of **ownership,** it was the Member States who could decide how to reach the targets by themselves, so it was up to the Member States, the national governments, the social partners, civil society and the national parliaments to decide what to do in order to achieve the targets and to reduce the debt;
  - the other point, on **democracy**, concerned the possibility for the Member States **to request revised national plans, which was very important from a political point of view and was also important for democratic legitimacy (e.g. in Greece,** confidence in democracy had been shattered because different governments could only implement the same political programme and elections had no visible effect on policy, despite the fact that a new political party had arrived in government;
- the second point was about how this framework would work in the future. The **credibility and trust in the EU depended on the Member States' ability to shape their own destiny**; an example of support for the EU declining drastically had been seen in Portugal during the Troika years; it was also important to have in mind the **RRF**, which was an exercise in which the Member States prepared their national plans and was an important tool for creating trust among the European institutions and between the European institutions and the Member States. This exercise was democratic and based on trust, as citizens and governments did not have the

feeling that this was imposed by the European Union but that it was a common responsibility and a common effort to achieve results; it was therefore vital to have security, flexibility, predictability and trust, and that governments and populations felt that it was not imposed on them but was their own choice;

- during the negotiations, it had been a challenge to find a balance between giving ownership to the Member States and using this instrument to implement reforms, investments, green transitions, etc.; the need for investments was therefore imperative and it was key to convince the Member States to use this new mechanism as an opportunity to invest more and to implement EU priorities;
- **the third point concerned austerity and the counter-cyclical mechanism. Austerity would not be back**; austerity would be the decision of an individual Member State but would never be imposed by the EU;
- finally, getting the votes in the EP was not easy, but a majority was not at risk as yet; in every group there were some national delegations criticising the framework, but the atmosphere in the press was generally positive.

Mr Jahier concluded the debate by stating that:

- it was a **major achievement and an impressive political result.** The financial markets had understood the significance and strength of this new framework**.** It had been mentioned several times that it was not an austerity policy but an attempt to find a balance between debt sustainability and the responsibility towards counter-cyclicality;
- it had been a hard exercise to put together so many diverse and conflicting perspectives and overall it was an enormous improvement;
- **many opinions and suggestions of the EESC had been heard in the legislative process**, such as national ownership, not imposing technical trajectory, etc;
- it was a plan of fiscal responsibility but also a plan for investment and reform, and, in order to proceed, it was vital that the **national constituencies agreed and contributed**, and that national parliaments, national authorities, the social partners and civil society participated in the dialogue;
- it was also clear that this important and innovative reform created a better system, but it was not fit to withstand further major systemic crises;
- it was important to complement this important reform in order to manage the economic framework and to think how to have new financial instruments and space to address the crisis and the investment needed.

Ms Marques took the floor to thank the Belgian Finance Minister for his key role in the negotiations.

5. European Commission's mid-term evaluation of the Recovery and Resilience Facility. Presentation by **Muriel Jakubowicz** (SG.RECOVER) and **Johannes Ziemendorff** (DG ECFIN), and discussion with ESG members (in line with the EESC evaluation report ECO/607 adopted in September 2023). **Mr Ziemendorff** took the floor to present the mid-term evaluation of the RRF:

- the RRF was an unprecedented instrument, because it was performance driven; that meant that there was a system of milestones and targets that needed to be fulfilled for disbursement, instead of costs simply being reimbursed costs;

- the press release could be consulted for more details[1];
- there was a legal requirement to publish; the publication consisted of three main parts: a) the external evaluation study, b) the Communication from Commission to the EP, the Council, the EESC and the CoR, which had been adopted by the College and outlined the political interpretation of this evaluation, also sending a message to the other institutions, and c) the Staff Working Document, which presented the mid-term evaluation of the RRF findings and which constituted the detailed evaluation of the Commission. The external evaluation study had been conducted between March and November of the previous year and the cut-off dates for information had been between July and September of the previous year, so it was not fully up to date;
- on mid-term evaluation: it was too early to fully assess the impact of the measures supported by the RRF. The plans had been approved in 2021; the Regulation on enforcement had come on 1 March 2021, followed by the plans in the summer; there were two years max until the evaluation, so the data lag came into play and only the *ex post* evaluation would provide the full data and the full overview, especially concerning results and impacts. The RRF mid-term evaluation provided useful lessons for the design of potential future performance-based instruments;
- internal and external sources were used for the evaluation: use of independent sources with open public consultations at the end of 2022; high-level inter-service group composed of 26 DGs; independent external study led by a consortium, thus allowing for a quality consultation;
- external study: very interesting; eight case-studies had been done by consultants (green and digital transition; smart, sustainable and inclusive growth; social and territorial cohesion; health and economic; social and institutional resilience; policies for the next generation; cross-border, comparison with other EU funds). These case studies went on the ground looking at the implementation. There were also extensive literature reviews, market studies, country-specific analysis, macroeconomic simulations, cost-benefit analyses, consultations of relevant stakeholders; after COVID-19, one could observe an impact on spreads: high spreads, a huge spike during COVID-19 but **speedy descent after the announcement of the RRF**; the EU had been on the edge with its borders closed; there had been a lot of tensions between the Member States and negative views on the joint union; it was important to remember what a critical moment that had been; it had been vital at the time that the funds were dispersed quickly;
- the goal of preserving public investments: during previous crises, public investment had reliably gone down, threatening potential growth, but this time, it had stayed stable or even grown and the **RRF played an effective role in keeping investment stable.** GDP had been estimated to increase by 1.4% in 2026 and unemployment was predicted to fall;
- **delays had been reported relating to the pay-out**; implementation had not been delayed but payments were only made after the Member States requested the payments and they could only do so after the milestones and targets had been reached and once the projects were finished. Member States reported that measures had been completed to a much larger extent than the disbursements showed, as there was a lag built in to the system between the start of a project and the payments; Ms Jakubowicz added that delays were also due to the revision of the plans in 2023.

Ms Jakubowicz took the floor to deliver the second half of the presentation and the final results:

[1] Mid-term evaluation of the Recovery and Resilience Facility (RRF) - European Commission (europa.eu)

- **The objectives of the REPowerEU chapters had been covered by reforms and investments** made at Member State level. An additional sum of EUR 60 bn would speed up the green transition through the REPowerEU chapters (EUR 40 bn in new loans, plus EUR 20 bn in new grants);
- An innovative feature of the instrument was the **combination of reforms and investments**. There were investments in all key sectors for the transition as well as reforms to facilitate permitting and the deployment of renewables; in particular, the payment of the disbursement of funds for investments was conditional upon the implementation of reforms;
- The RRF had delivered on supporting the implementation of key reforms, including structural reforms within a broad area, from justice system reform to public administration reform, labour market reform and all across the six pillars. The success was also measurable from the increase in the percentage of country-specific recommendations implemented;
- The **RRF was delivering on strengthening the single market through enabling reforms**: all over Europe, long-awaited challenging reforms were being supported by the RRF (e.g. Croatia's reform of professional services and public administration; Cyprus had adopted reforms to tackle corruption and protect whistle-blowers; Italy had implemented reforms of its civil service and justice system); another case of supporting the single market was the reforms aimed at limiting late payment that had been adopted by Italy: the Italian plan contained a reform aimed at reducing late payments by public administrations and health authorities;
- The **RRF** was **delivering unprecedented financial support,** in line with and accelerating the larger **EU goals/priorities, such as the digital and climate targets:**
  - implementing multi-country and cross-border projects;
  - enhancing energy efficiency in buildings;
  - digitalising public administration;
  - contributing to the Pillar of Social Rights target of 78% employment by 2030;
- **The RRF was the first major performance-based instrument at EU level:**
  - **There was broad support for the performance-based feature of the model**; the milestones and targets guaranteed effective monitoring of the plans;
  - **Faster disbursements rewarded progress** towards results and actual performance on the ground;
  - **There was increased predictability and accountability;** the specific results to be achieved were set out clearly in advance;
  - **A combination of reforms and investments** meant more coherent intervention in line with EU and national priorities;
- Concerning the lessons learned to ensure implementation was the:
  - **need to increase the flexibility of the instrument**, as regards both **the design and the implementation of the plan**;
  - fact that the rule that targets had to be achieved before payment was requested was making the implementation of the plan too rigid;
  - fact that the process was sometimes too **cumbersome**; the **interpretation of national targets was too literal**; any deviation was considered an error by the Court of Auditors;
  - **lack of involvement of local and regional authorities in the design and implementation, as well as of the social partners and civil society organisations and other relevant stakeholders**; this was due to the instrument having been largely devised during COVID-19, leaving almost no time for consultations;

  - fact that the **administrative capacity of the Member States** was a key factor in ensuring successful implementation.

- **The RRF was an effective response** to the unprecedented economic and societal impact of the pandemic;
- The RRF had proven to be **a key tool to boost Member States' delivery on the European Semester's country-specific recommendations**;
- All elements were in place to ensure that the Member States **delivered on their commitments by 2026**;
- The evaluation at the half-way point provided **useful lessons for future performance-based instruments**.

The discussion was opened up for questions and contributions from the members. **Ms Calistru, Mr Sipko, Mr Doz Orrit, Mr Sventek, Mr Pocivavsek and Mr Edelenyi** took the floor.

- *Compared to the initial expectations of the RRP, the results of the mid-term evaluation seemed modest, especially in view of projected GDP growth. In retrospect, had we been too ambitious when setting the targets, in terms of the calendar and the pace?*
- *A significant aspect of the RRF was sending a strong signal to the markets. Had the RRF been successful in creating confidence about the Europe's economic recovery? Recent articles, especially in the Financial Times, had been painting a rather gloomy picture of the implementation of the RRF.*
- *Would this strategic project bring real convergence to the EU and the euro area or would there be even deeper divergences as a result?*
- *A lot of funds had already been committed to Member States by the Commission; how could we ensure their proper implementation?*
- *Based on her evaluation of the cohesion mechanism, did Ms Jakubowicz have any recommendations for the future?*
- *How did Ms Jakubowicz see that the involvement of the social partners and civil society organisations would be more efficient and active in practice, given that it had been mentioned that during the design and implementation of the RRPs it had been insufficient, due to the fact that the RRPs had had to be drafted in a very short time? Concerning the reform of the fiscal system, should there not be more proposals relating to the sanction aspect and not only the involvement aspect?*
- *Were the results/communications being discussed here public?*
- *Was there a reference in the Staff Working Document to the competitiveness and performance of the RRF? Was the capacity of the different actors dropping? What was Ms Jakubowicz's opinion?*

Ms Jakubowicz responded as follows: on the first question concerning the GDP impact and the modest achievements in the modelling, the explanation was simple: a) the simulations done initially had taken into account the whole amount and the loans share had been left out; b) the pace of disbursement had been slowing down, and c) inflation. It was also important to highlight that the models on GDP growth only took into account the impact of investment but not the impact of reforms, so the true impact on GDP was much higher, due to the major reform effort. On the question about being too ambitious: the goals had not been overly ambitious, but **external factors, such as the war in Ukraine, inflation and the energy crisis had been very impactful; nonetheless it was possible to see the agility of the**

instrument, enabling the Member States to revise plans. On the question about cohesion: there was a huge interservice group; the evaluation in the Commission about prefinancing, speed of disbursement, and support for reforms where key lessons had been learned and taken into account for the debate going forward. On the question about the involvement of the social partners: the **social partners had had a key impact on legislation when they had been involved, e.g., labour market reforms**. On the question about convergence: the RRF was contributing to convergence as the allocation key had been designed so as to allocate more funds to helping Member States in need; there had been a spill-over effect whereby investment implemented in one Member State was having an effect in other Member States; cross-border effects were therefore visible.

Mr Ziemendorff briefly took the floor, noting that many question raised here that had not been answered, but also those that had been answered, had also been put by the press to the Commissioners. He highlighted that detailed answers, especially regarding the FT article, had been provided and he encouraged everyone to have a look.

6. Winter Economic Forecast of the European Commission. Presentation by **Susanne Hoffmann**, economist at DG ECFIN, followed by discussion with ESG members.

Ms Hoffmann took the floor to present the key messages concerning the 2024 Winter interim economic forecast for Europe:

- This winter interim economic forecast covered the current economic environment and provided an update on GDP and inflation forecasts for all Member States and the EU as a whole.
- This presentation would be focused on developments in the EU; the audience was encouraged to take a look at the actual document, which set out in detail the forecasts and revisions in the country chapters for each Member State. GDP and inflation were very divergent in the EU at the moment, so the developments might differ.
- First, currently EU economic activity was barely expanding and this weak momentum meant the **growth forecast** had been lowered for this year. Real GDP growth in the EU had barely moved; also taking into account that a post-pandemic rebound had followed in 2021 and much of 2022. In 2023, the deceleration of growth had to be seen in a context of falling purchasing power, collapsing external demand, forceful monetary tightening, as well as some withdrawal of fiscal support. This was evident in private consumption, as well as in investment, most notably investment in construction. There was an overall feeling of decline in the EU economy and this was most prominent in industry and construction (weakness in manufacturing). The PMI indicators for the euro area had moved up slightly and this confirmed that economic momentum might slowly start to pick up again. In the first quarter of this year, economic momentum was still going to be weak; however, there were a number of factors that spoke of a rebound that was around the corner and the first of these were the recent developments in energy commodity prices. A decline in prices had been observed, meaning that prices, as well as expectations for future prices, were much below what they had been in the autumn; they were on a trajectory of gradually decreasing to a lower level. This decline in prices had been even stronger for European natural gas and electricity prices. On the positive side, the tensions in the Middle East had had only a limited effect on the European economy.
- Second, a **gradual easing of monetary conditions** was expected. The ECB had so far left key policy rates unchanged and had also dismissed speculations about a reversal in monetary policy. However, markets had adjusted their expectations to the lower than previously expected

inflation and now thought that monetary loosening was going to start sooner and would be more vigorous. Interest rates for sovereign bonds had already fallen and spreads had narrowed, which meant that conditions for market base funding had already become more favourable. In the bank lending cycle, tight conditions were currently being experienced, but a turnaround was expected.

- Third, the conditions for growth were still in place; inflation was expected to continue to ease, slightly faster than expected in the autumn. The **EU labour market remained strong**; the labour market was the success story of the previous year; **the unemployment rate was at a record low** and employment growth continued. Eurostat estimated that employment grew by 1.3% in the EU; that was above the autumn expectations and also above GDP growth, which was estimated to be at 0.5% in the EU this year. In addition, wage growth had accelerated and there had been increases in the minimum wages in a number of countries, **which allowed households to recover some purchasing power.** Even going forward, labour market seemed to be resisting the low growth.
- Finally, economic growth in the economy, excluding the EU, was slightly above 3% this year and the next, and risks were tilting to the downside. Concerning **global trade**, an impact on import growth and in export demand was expected; the trade volume had been depressed in 2024 and trade growth was expected to pick up as monetary tightening decreased.
- If all these elements were taken into account, growth was set to rebound as we moved towards 2025. Thus, a modest pickup in growth was expected in the first quarter and the strengthening continued going forward. This strengthening of growth was followed by an increase in domestic demand and a pick-up in consumption thanks to strong labour markets, rising wages, and lower inflation. The gradual easing of monetary conditions as well as the continued implementation of the RRF would provide a boost to investment. In annual terms, GDP growth had been revised down for 2024 to 0.9%, but that was due to the weak momentum witnessed last year and the weak growth expected to materialise in the first quarter. The **conditions for an economic rebound were still in place**, which explained why the annual forecast for 2025 remained unchanged at 1.7%.
- Inflation had declined due to lower energy prices and inflation for services and non-energy goods had also been moderated by the weak demand and forceful monetary tightening. In the last quarter of 2023, inflation had unexpectedly fallen. Inflation was expected to gradually stabilise and to arrive at slightly above 2% by the end of the forecast horizon. In annual terms, especially for 2024, this represented a strong downswing compared to the autumn forecast.
- It was not possible to end the presentation on a positive note; the balance of risks was tilted towards more adverse outcomes, geopolitical tensions and global policy uncertainty.

  The risk factors included the following: a) geopolitical tensions, especially Russia's ongoing war of aggression against Ukraine, continued to be a key factor in the uncertainty and the risks of further escalation of the tensions in the Middle East added to this uncertainty; b) in addition, global policy uncertainty remained high as the **historic election year 2024 brought huge risks** for the global and European economy; c) the increase in inflation was weighing on consumption and delaying monetary easing, but stronger domestic consumption and inflation forecasts were somewhat more balanced.
- To sum up, the EU had entered 2024 on a weak footing, but a rebound was still expected towards 2025: a strong labour market, easing inflation, rising wages, the gradual easing of monetary conditions as well as the RRF provided a solid foundation for growth. The future still

looked still very uncertain; however, it was in our power to support sustainable growth, the effective implementation of RRPs, and efforts to support the twin transition to a more green and digital economy. Moreover, coordination between prudent investment, fiscal policies and monetary policy was key to ensuring that inflation was kept to a sustainable level of around 2% or other central bank targets.

The discussion was opened up for questions and contributions from the members. **Mr Libaert, Mr Wagener, Mr Doz Orrit** and **Mr Sipko** took the floor.

- *Could we quantify the risk that the election year 2024 might pose for growth and inflation, as well as the EU economy in general?*
- *Regarding the construction sector and the speculation boom, especially in Luxembourg, with its dire repercussions, was there data available on the 2023 crisis and housing prices?*
- *Oil and gas prices were going down but the price of electricity was going up. Wasn't that a contradiction?*
- *What about your assessment of the main engine of the euro area economy that last year had seen -0.3% growth while the euro area had 0.7%? In comparison to other competitors, there was a question of productivity and competition, including inflation.*
- *Why was core inflation still so high? When would it go back to 2%?*
- *What about the trade balance?*
- *What had we learned during the last 3 years about systemic shocks? Was our current microeconomic model still working or should we switch to other models as we faced really unpredictable shocks?*

Ms Hoffmann responded to the questions as follows:

- regarding the **European elections of 2024, these presented a major risk** as, in 2024, the number of people that were being called to the ballots was historically high; it was hoped that the economic ramifications would be limited, but it was not possible to speculate on the outcome of an election in the forecast; that was why this added to the uncertainty;
- **regarding the construction sector**, there had been a lot of **negative inputs, such as increasing prices and decreasing demands**; it was hoped that we would see a recovery; **permits for new housing had already bottomed out**;
- regarding **electricity prices, these were highly political**; it was therefore difficult for an economist to comment, as the electricity market was complex in Europe and there were different actors at play;
- regarding productivity, one European problem was **Germany underperforming**; structural reasons were a root cause, but so were the recent economic shocks in energy prices; the war in Ukraine had hit Germany especially hard; there was a need for Germany to change its growth model;
- regarding core inflation, the forecast for core inflation was not updated in an interim edition; however, the underlying price pressure, which was another way of talking about core inflation, had recently moderated; this trend was expected to persist. In our autumn forecast, we had not reached the 2% core inflation target, and that was unlikely to have changed, so there was still significant ground to cover when it came to inflation;
- regarding the trade balance, a pick-up in export demand might help. Artificial improvement of the trade balance had most likely happened in 2023, but it was necessary to wait for the spring

forecast, which was supposed to be published on 15 May, for a proper assessment of the latest developments and the forecasts.

7. State of play of the consultation carried out in the framework of the own-initiative opinion **ECO/631** on *Reform and investment proposals and their implementation in the Member States – what was the opinion of organised civil society? (2023-2024 European Semester cycle)*

Mr Jahier mentioned that eight round tables had been concluded, with one remaining in Lithuania and one in Cyprus.

Ms Gregoire took the floor to thank the national ESG delegations for their work, noting that really valuable contributions had been received presenting the state of play of opinion ECO/631. She noted that:

- 16 delegations had contributed to this exercise by providing a response to the questionnaire (based on their own knowledge of the subject and/or by consulting representatives of national organisations attached to their group);
- 10 delegations had contributed to this exercise by organising a roundtable in their country in order to meet stakeholders directly and listen to their views through an interactive debate. These roundtables had been held in France, Slovakia, Slovenia, Poland, Finland, Portugal, Romania, Greece, Cyprus and Lithuania. The consultation via the roundtables had also been based on the key questions of the questionnaire;
- the questions had also been sent to the EESC Liaison Group, which brought together European civil society organisations and networks;
- the next steps in preparing the opinion and the appendix were: a) the 2nd study group meeting on the afternoon of 14 March 2024; b) the ECO section meeting on 10 April 2024, and c) the EESC plenary session on 24-25 April 2024.

8. Reports from the roundtables

Mr Liabert from France took the floor, noting that:

- the meeting with the Economic Social and Environmental Committee in France had been held on 5 December and representatives of the prime minister's department had been present;
- the short timeframe of two weeks had been a problem;
- there had been a lack of formality, which had led to a lack of clarity;
- a number of individuals had said that were not involved and others said that were very much involved; there was no clear criterion as to why some were involved and others not;
- it was paradoxical that in France green investment was very prominent, while social investment was less so; the two belonged together;
- **a more formally organised approach would be appreciated**, because sometimes it was not clear who was asked to contribute and who not.

Mr Sipko from Slovakia took the floor, noting that:

- all three groups had participated in the roundtable, with representatives from the **Commission** and the European Investment Bank;

- there had been a very interesting discussion and the main message was that **civil society was not involved in the RRP**; more active involvement was called for.

Mr Pocivavsek from Slovenia took the floor, noting that:

- a roundtable had been held on 12 January; all representatives had been invited to the roundtable, approximately 20 participants from all sections of civil society organisations: employer organisations; trade unions confederations; civil society organisations, with the farming sector having been well represented; youth organisations; the Ministry of Finance, responsible for the European Semester; the Ministry of Labour, Family, Social Affairs and equal opportunities, responsible for social dialogue; the representation of the European Commission in Slovenia; and all EESC members from Slovenia had been present;
- The main key points noted had included the following:
  - **low involvement of civil society organisations** in all stages of the **RRP**;
  - the social dialogue at the national level had deteriorated significantly in recent years and the national ESC was currently not operating;
  - there had been no feedback on the proposals of civil society;
  - the deadlines for making contributions were too short;
  - milestones were important, but they provided a possible excuse for the government to leave out civil society organisations, pretending that there was not enough time for consultations;
  - delays in preparing reforms;
  - it was necessary to re-establish dialogue at the national level;
  - there was a need for fiscal policy that enabled growth and development;
  - civil society organisations had not been consulted regarding fiscal rules;
  - the burden of the green and digital transition was not always shared equally among stakeholders;
  - youth organisations should be involved more actively in the decision-making process.

Mr Ostrowski from Poland took the floor, noting that:

- the roundtable had been held on 24 January; representatives from all the social partners and civil society organisations had been invited, totalling 20 attendants in all, leading to a lively debate;
- **civil society organisations** had been **consulted but not really heard**;
- Polish ministers said when they sent their considerations, the European Commission was deaf; this fact needed to be discussed with the Commission;
- **the deadlines were far too short to achieve quality contributions**;
- Poland needed more investment.

Mr Doz Orrit from Portugal took the floor, noting that:

- the meeting had been very positive but there had been well attended; there had been a lack pf employer representatives.
- there had been a fundamental agreement on investment and reforms;
- positions on the implementation of the **RRF** had been critical.

Mr Athanasios from Greece took the floor, noting that:

- there had been a very good discussion, with about 20 partners involved;
- civil society organisations representing employers, employees and other groups from civil society had participated;
- the topics had included: investment measures in the Member States, reform of the EU economic governance rules, and the implementation of reforms and investments, including the RRP;
- overall, there had been a consensus on the need for a more and better organised dialogue between the social partners and the state;
- it had been stressed that organised civil society needed to play a crucial role in negotiations and that the views of the social partners should be included to a greater extent in the reform of EU economic governance rules;
- despite facing challenges, such as being in a memorandum status and the COVID-19 crisis, the country had successfully recovered, leading to an upgrade in its economic evaluation. Now it aimed to align with the European Semester logic and the implementation of the CSRs.

Mr Dandea from Romania took the floor, noting that:

- MEPs had been invited and had provided interesting contributions;
- the social partners and civil society organisations had participated;
- Romania had significantly increased its implementation in the CSRs;
- the dialogue in the monitoring commissions had not been effective;
- the government and the local authorities had a selective approach when picking proposals coming from civil society, but did not choose the most important ones;
- civil society needed a more consistent approach in the dialogue;
- **national overregulation was a major problem;**
- **simplification** was needed urgently.

Mr Kiukas from Finland explained that:

- the theme was unknown across civil society, resulting in low interest in participating;
- the process was predominantly driven by the Ministry of Finance;
- other ministries and stakeholders had had limited input;
- the responsibility for financing social and health services did not fall under the State's jurisdiction;
- the budget was undergoing significant changes as a result.

Mr Jahier concluded the meeting.

ATTENDANCE LIST

List of members				
Mr/Ms	**Present in situ**	**Present remotely**	**Absent**	**Apologies**
ANDERSSON, Krister	**X**			
ANTONIOU, Michalis	**X**			
ATS, Kerli		**X**		

BOLLON, Pierre		X		
CABRA DE LUNA, Miguel Ángel		X		
CALISTRU, Elena-Alexandra		X		
DANDEA, Petru Sorin	X			
DEL RIO, Cinzia	X			
DOZ ORRIT, Javier	X			
EDELÉNYI, András	X			
GOBIŅŠ, Andris	X			
IOANNIDIS, Athanasios		X		
JAHIER, Luca	X			
KINDBERG, Mette		X		
KIUKAS, Vertti		X		
LIBAERT, Thierry	X			
LOBO XAVIER, Gonçalo		X		
MANOLOV, Dimitar			X	
MARTINOVIĆ DŽAMONJA, Dragica	X			
MEYNENT, Denis EXC YILDIRIM Ozlem	X			
MORKIS, Gintaras	X			
O'CONNOR, Jack	X			
OCHĘDZAN, Justyna Kalina			X	
OSTROWSKI, Krzysztof		X		
PALMIERI, Stefano		X		
PLAT, Jacob	X			
POČIVAVŠEK, Jakob Krištof		X		
REALE, Maurizio	X			
ROBYNS DE SCHNEIDAUER, Wautier	X			
SALAFRANCA SANCHEZ-NEYRA, José Ignacio	X			
SCHLÜTER, Bernd		X		
SCHMIDT, Peter	X			
SIPKO, Juraj	X			
SVENTEK, David	X			
VARDAKASTANIS, Ioannis	X			
VON BROCKDORFF, Philip		X		
VORBACH, Judith		X		
WAGENER, Marco	X			
ZARIŅA, Katrīna	X			

European Commission

Arnold DE BOER — SG RECOVER
Francesca SCATURRO — DG ECFIN

Rafał WIELĄDEK	DG ECFIN
Zsombor CSERES-GERGELY	DG EMPL

EESC Secretariat

Colombe GREGOIRE	ECO/ESG administrator
Jakob ANDERSEN	ECO/ESG administrator

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