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**ECO/ESG**

Brussels, 6 December 2022

To the members of the
**European Semester Group**

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

**MINUTES**
of the 23rd meeting
of the
**European Semester Group,**
held at the Committee building in Brussels
on
**6 December 2022**

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The European Semester Group (ESG) held its 23rd meeting at the Committee building in Brussels **on Tuesday, 6 December 2022, from 9.30 a.m. to 1 p.m**.The meeting was held as a hybrid meeting, with some members connecting remotely via the Interactio videoconferencing system, while others attended in person. The meeting was chaired by the ESG president, **Mr Doz Orrit**.

# **Adoption of the draft agenda**

The draft agenda was approved.

# **Approval of the minutes of the** 22nd European Semester Group meeting held on 27 September 2022.

# The minutes were approved.

1. **Own-initiative opinion *ECO/600 EESC's recommendations for a solid reform of the European Semester*: presentation of the finalised questionnaire and the planned round tables**
* *Opening statement on the need for a reformed European Semester*

**The president, Mr Doz Orrit,** opened the meeting with a description of the aims of the own-initiative opinion, ECO/600, on a solid reform of the European Semester. The president stated that ECO/600 focuses on the framework of the European Semester, setting the opinion apart from the other opinion on the European Commission's communication on orientations for a review of the EU economic governance framework (ECO/597) that the EESC is currently also preparing. He emphasised that the own-initiative opinion's (ECO/600) focus on the process of the European Semester distinguishes it from opinion ECO/597. The objective of this consultation is to determine how to simplify the Semester and make it more participatory, with more ownership at national level and the closer involvement of organised civil society (OCS). This opinion consists of a summary of the results of the consultation carried out in the Member States (MS) through a questionnaire and the organisation of country visits. Therefore, it was based not only on the contribution of the rapporteurs but also on that of OCS.

Afterwards, the president shared some initial ideas on how to make the European Semester more democratic and increase national ownership. This would include in particular increasing the involvement of the European Parliament, national parliaments and OCS, which could, for example, veto recommendations issued as part of the Semester. In addition, Article 18 of the Regulation establishing the Recovery and Resilience Facility (RRF) required MS to report on the results of consultations throughout the implementation of the national Recovery and Resilience Plans (RRPs). Such consultation (of local and regional authorities, social partners, civil society organisations, youth organisations and other relevant stakeholders) should be more tangible on the ground.

* *Briefing on the current state of preparations regarding the round tables (country visits)*

**Mr Andersen** provided an overview of the ESG secretariat's current work on the organisation of round tables, which were planned as part of the consultation process of opinion ECO/600. Delegations of EESC members from five countries had already confirmed their interest and availability (Luxembourg – 19/01/2023, Belgium – 20/01/2023, Spain – 07/02/2023, Italy – 02/2023 and France – 06/03/2023). In addition, the secretariat was discussing with five other national delegations the possibility of organising country visits in Romania, Latvia, Finland, Croatia and Germany[[1]](#footnote-1).

* *Discussion and Q&A:*

Following the presentation, **Mr** **Doz Orrit** opened the floor to comments and questions on the ECO/600 opinion and the consultation carried out. During the debate, **Mr Andersson, Mr Balon, Mr Dandea, Mr O'Connor, Mr Edelényi, Mr Jahier, Mr Morkis, Mr Vardakastanis** and **Mr de Leeuw** took the floor to raise the following concerns:

* Should national parliaments really be given the power to veto recommendations made in the European Semester? Did rapporteurs envisage giving them the power to veto only certain recommendations or all recommendations? What process did the rapporteurs suggest for the use of the veto power in national parliaments?
* When discussing the prospect of giving national parliaments veto power over the recommendations made in the Semester, it should be borne in mind that in some Member States there were concerns about governments' democratic integrity. It was therefore preferable to empower civil society rather than national governments under the Semester. Dialogue should be improved between OCS and other stakeholders involved in the Semester.
* If national parliaments had the right to veto the country-specific recommendations (CSRs), this would increase the cherry-picking behaviour of governments. As a result, governments might only implement CSRs that were in their direct interest and neglect CSRs that were necessary but less popular within their societies.
* The greatest weakness of the European Semester framework was its inability to enforce the implementation of its CSRs. The success of crucial transformations, including the environmental goals of the Green Deal, depended on the effective implementation of investments.
* Was OCS even interested in becoming more involved in the European Semester? Was participation in the Semester actually high on the priority list of most OCS organisations? Many of them might not even know what the European Semester was and what exactly it did.
* When recommending greater representation of OCS in the European Semester, it had to be taken into account that most of these organisations did not care about the Semester for most of the year. They would only remember its existence once a year when the Commission organised an event to announce the publication of the CSRs.
* It should be ensured that the voices of national and local governments and of OCS were heard when recommendations were drawn up in the Semester. If these three groups of stakeholders were not included in the process, the Semester's recommendations might end up being unrealistic.
* The European Semester framework was working better than its predecessors, the Lisbon Strategy and Europe2020. Nonetheless, the EESC should recommend closing the implementation gap. It should suggest establishing a monitoring committee bringing together all stakeholders. A similar process was already in place to monitor cohesion policy matters. It should also be set up to assess the implementation of CSRs. National economic and social councils should be allowed to participate in these monitoring bodies.
* The mandate of the European Central Bank (ECB) should also be reconsidered. It was an isolated institution with a limited mandate.

**The president** thanked the members for their comments. He stated that it was too early yet to provide conclusive answers to a number of their questions on this opinion, as it was still in the early stages of preparation. Nevertheless, he defended the idea of giving national stakeholders more say in European Semester matters. The president said that the Commission should take into account debates in national parliaments on CSRs when drafting recommendations. He welcomed the idea of Mr Vardakastanis setting up a monitoring committee for CSR implementation, composed of relevant stakeholders at national and European level. This would not only make the implementation of CSRs more effective but also give civil society and national parliaments a way to make their opinions heard.

1. **2023 Autumn Package: Presentation by Roxane Romme, Policy Officer, Recovery and Resilience Task Force (RECOVER), Secretariat-General, and discussion**

**Ms Romme** explained that the Commission had launched the 2023 European Semester cycle on 22 November 2022 with the publication of the 2023 Autumn Package. It contained, in particular, the Annual Sustainable Growth Survey, in which the Commission emphasised that Member States should not lose sight of the EU's medium- and long-term objectives despite the crisis. The implementation of the four dimensions of competitive sustainability – fairness, productivity, environmental sustainability and macroeconomic stability – not only supported the EU's long-term economic development but also the recovery from the current crisis in the short and medium term. The four dimensions further promoted the fulfilment of the United Nations' Sustainable Development Goals.

The Draft Budgetary Plans for 2023, which were also part of this Autumn Package, were intended for the euro area MS. They recommended the expansion of public investment in the green and digital transitions as well as in building energy security. They also provided tailored advice depending on whether a MS is a low- or medium-debt country or a high-debt country. These plans also recommended that all MS should generally encourage the reduction of energy consumption and ensure that support for energy consumers was targeted at vulnerable households and businesses. The allocation of energy support measures by Member States had generally not been targeted in 2022. In order to help them target their support measures to address the energy crisis, the Commission had also issued five euro area recommendations: euro area MS needed to (1) coordinate their fiscal policies, (2) sustain public investment, (3) monitor wage and social policies, (4) improve the business environment (temporary and targeted) and (5) preserve macro-financial stability.

In the 2023 Alert Mechanism Report, which identified areas of common concern to MS, the Commission argued that an in-depth review in the following sectors was required: (1) the housing market, (2) competitive dynamics (wages developments) and (3) external sustainable balance of trade (reduction of trade imbalances). The post-programme surveillance, which was also set out in the Autumn Package, included details on the debt developments in Ireland, Greece, Spain and Portugal. The Commission had concluded that all countries covered by the programme had retained the capacity to repay their debts.

Ms Romme explained that the proposal for a 2023 Joint Employment Report described key employment and social developments in the Member States. The Commission also monitored the implementation of the employment guidelines. The report focused on monitoring the implementation of the European Pillar of Social Rights (EPSR). The social scoreboard on the implementation of the EPSR showed that, although the labour market had recovered swiftly from the pandemic, the energy crisis and associated inflation might disrupt this favourable trend. While the labour market remained strong, businesses in EU economies were reporting increased uncertainty. Finally, in this report, the Commission also highlighted that national RRPs were helping to achieve the objectives of the EPSR.

* *Discussion and Q&A:*

Following the presentation, **Mr Doz Orrit** opened the floor to comments and questions. **Mr Dandea, Mr Wagener, Mr Sipko, Mr Ostrowski, Mr von Brockdorff, Mr Andersson, Mr Bollon** and **Mr Doz Orrit** shared their comments and questions on the presentation.

* The Commission recommended that Member States apply prudent wage policies, but also acknowledged that wage increases in the euro area had been well below inflation. If this trend continued, inflation would turn into stagflation. The Commission's proposal would ultimately affect demand, as many would have to reduce their consumption of goods.
* Regarding the neutral budgetary position that the Commission recommended for 2023, it was contradictory that, on the one hand, the escape clause was being kept in place for the next year, and on the other hand, the Commission advised a neutral budget. Such advice was questionable, especially as a recession was likely to occur in the coming months.
* The in-depth report on housing cost increases in Luxembourg was not detailed enough. In Luxembourg, housing costs were increasing by 15-17% every year. Light needed to be shed on the causes of these increases, and increases in other MS, beyond the rate of inflation.
* It was necessary to adopt planning rules in all MS in order to tackle housing prices. These could, for example, be included in CSRs. It also needed to be ensured that low- and even medium-income earners could afford the higher housing costs observed in many MS.
* The EU was currently experiencing an economic downturn. How did energy prices impact the competitiveness of the EU economy in this time of crisis?
* What was the Commission's assessment of the impact of climate change on monetary policy?
* The Commission aimed to mitigate the energy crisis, which explained yesterday's decision to cap energy prices at USD 60 per barrel. Russia had announced that every country that introduced the cap would no longer have access to Russian oil. The EU would therefore have to import even more expensive oil from elsewhere. Did this not contradict the Commission's objective of reducing energy costs?
* Did the Commission apply a systematic method of assessing collaboration between MS and national OCS in the implementation of RRPs?
* Was the Commission analysing the impact of energy prices on citizens' wellbeing? How could the dilemma of reducing energy consumption while protecting vulnerable households be solved?
* It was striking that most of the 2023 Autumn Package was focused on transferring subsidies to households and businesses. There was practically no information on private sector competitiveness and productivity in the package. The key ingredient to ensuring growth and wellbeing across Europe was to establish a competitive business environment.
* The examples of Portugal and Spain had shown that putting caps on electricity prices could help limit inflation.

**Ms Romme** thanked the members for their questions and comments. She noted that the answers to the many questions concerning the competences of DG ECFIN and DG EMPL could be provided in writing soon. Asked how the Commission intended to better integrate social partners and civil society organisations into the European Semester framework, Ms Romme said that the Commission would present a proposal on this topic in the course of 2023. Regarding how the dilemma of protecting vulnerable households and reducing energy consumption could be resolved, she explained that the Commission proposed to introduce a two-tier system. Basic energy consumption should be subsidised by governments, while consumers who consumed higher levels of energy should be required to pay the current market price.

1. **Presentation by the rapporteur, Mr Andersson and the co-rapporteur, Ms Biegon, and discussion on the work on the own-initiative opinion *ECO/597 Communication on the future of the EU economic governance framework***

**Mr Andersson and Ms Biegon** shared the following updates on the progress of their work on *Communication on the future of the EU economic governance framework* (ECO/597):

**Mr Andersson** (rapporteur):

* This opinion concerned the long-awaited reform of the EU economic governance framework. The Commission had declared that the current framework had reached the point of no return, as this was now the third year in which the general escape clause had been activated. Many Member States were facing unsustainable levels of debt. According to the Commission, there was still no solid agreement on exactly how the framework could be reformed.
* One of the many problems with the current framework was that Member States did not feel committed to it. Both the rapporteurs of ECO/597 and the Commission agreed that strengthening national ownership in MS was key to establishing a better economic governance framework.
* In terms of the effects on vulnerable households when debts skyrocketed, it needed to be ensured that MS retained budgetary surpluses so that there would be room for manoeuvre and the means to support low-income households in times of crisis.
* The establishment of a framework for economic governance created a conflict of sovereignty. Control over budgetary expenditure was a core aspect of the decision-making powers of national parliaments. The EESC had to ensure that a framework for this was put in place at EU level so that MS commit to it.
* In the past, the economic governance framework had operated using the "golden rule". Under this tool, certain types of investment had not been counted as adding to a country's deficit. The Commission and the Member States were opposed to maintaining the golden rule. The Commission was therefore proposing an expenditure plan, according to which the 3% deficit rule in the treaties would remain in place. Mr Andersson expressed his approval of the Commission's plan, which advocated that all investments and expenditure should be reflected in a four-year plan for each Member State (which might be extended by up to three years). These plans should be controlled by strict enforcement rules. Penalties were not intended to be punitive, however, as this would run counter to debt stability. The rapporteur nevertheless noted that the potential for national governments to deceive the Commission due to the incentive to falsify figures for fear of penalties remained an open issue with the Commission's proposal. The EESC would again be asked to deliver an opinion when the Commission had fully reviewed the framework in the near future.

**Ms Biegon** (co-rapporteur):

* She added the Workers' Group's view to the Employers' Group's position on the proposals made by Mr Andersson and the Commission. One of her priorities was to ensure that the Commission's proposal did not allow a return to austerity, despite the multiple crises currently facing the Member States. The co-rapporteur supported a more growth-friendly debt reduction system, which needed to be coupled with the guarantee that there would be sufficient room for public investment, considering the need to invest in the green transition.
* An identified shortcoming of the Commission's proposal was the lack of attention paid to democratic governance. She stated that the Commission's proposal should be seen as another power grab by the Commission. The Commission was giving itself a central role in monitoring the performance and debt sustainability of MS. The EESC, as the house of OSC, needed to curb the Commission's excessive power. Democratic legitimacy had to be guaranteed. The EESC proposal should specify how national parliaments and OCS could contribute to the economic governance framework.
* *Discussion and Q&A:*

After the presentation on ECO/597, **Mr Doz Orrit** opened the floor to questions and comments. During the discussion, **Ms Vorbach, Mr Sipko, Mr Wagener** and **Mr Doz Orrit** shared their views.

* The EESC had to ensure that it emphasised the need to call for democratic accountability in this opinion. Fiscal rules had an enormous impact on people's lives as well as on geopolitical matters.
* Since its creation, the Stability and Growth Pact had not worked well and had had to be reviewed and amended many times. Mistakes had to be avoided, especially in the evaluation of debt sustainability.
* According to the Commission's communication, the only indicator that would be used in the future was the expenditure path. Would the Budgetary Pact, which had been ratified by all Member States, still exist as a structure?
* How could it be ensured that private money did not disappear into tax havens but rather contributed to development through investment?

**Mr Andersson and Ms Biegon's** response to these questions:

* The Commission did not intend to distinguish between debts that were structural/dynamic and other types of debts. The problem lay in the uncertainty of calculating structural debts. The opinion could take into account the fact that there were large amounts of money in the capital markets.
1. **Presentation by the rapporteur, Mr Lobo Xavier, and discussion on the forthcoming work to be carried out on opinion *ECO/599 The Annual Sustainable Growth Survey 2023***

**Mr Lobo Xavier** shared the following information about the progress of the opinion on *The Annual Sustainable Growth Survey 2023*:

* The 2023 Annual Sustainable Growth Survey (ASGS) was again based on the four dimensions of competitive sustainability: fairness, productivity, environmental sustainability and macroeconomic stability. The rapporteur explained that, as well as taking this into account, he also wanted to address the current geopolitical crisis, caused by the war in Ukraine and the resulting energy impasse. The energy crisis was the issue that would dominate the economic debate in 2023.
* For example, in Portugal, the energy crisis was likely to become the most important economic issue in 2023. If no solution was found soon, the difficulties currently facing the Portuguese economy would increase in the short and medium term. Portugal should give priority to energy efficiency. Portugal and many other Member States were not using their assets, such as the abundance of sunlight, to produce energy. The legislative and bureaucratic barrier blocking the production of renewable energy needed to be reduced. The EU should not abandon its environmental objectives and investments in sustainable energy sources, even though it was facing multiple crises. Decarbonisation had to be a priority.
* Many MS were trying to mitigate the negative effects of inflation by attempting to reduce food prices and increase wages in combination with other economic policies. These methods were far from helpful. In addition, in a number of MS, some politicians were blaming business for high inflation. Demonising companies in this way caused avoidable conflict between citizens and companies.
* With regard to employment, in Portugal for example, there were high levels of youth unemployment as well as a lack of skilled workers and job opportunities in the industry, leading to a brain drain. More effort had to be made to recover production lines that had been moved from Europe to Asia.
* As a link with opinion ECO/600 on the reform of the European Semester, the rapporteur would like to include a short section on better involving OCS in the Semester cycle.
* *Discussion Q&A:*

Following Mr Lobo Xavier's presentation**, Mr Sipko, Mr Doz Orrit, Ms Vorbach** and **Mr O'Connor** participated in the debate**:**

* Member States' economies were suffering from multiple crises. New standards were required for trade and investment, and concerted efforts needed to be made to address this issue.
* The EESC should consider recommending energy price caps, and it needed to encourage social partner negotiation to find smart labour market and wage agreements. Both were necessary to avoid social unrest.
* As regards the criticism of some politicians who blamed companies for inflation, this should be formulated in a way that highlighted the fairness and distribution aspects.
* There was no section on strategic autonomy. Would the issue be included in a later version?
* Attention should be paid to the front-loading of energy production.

**Mr Lobo Xavier** responded that he would make an effort to include the objective of front-loading energy production in the opinion. Portugal was an example of how legal barriers could hinder the strengthening of the renewable energy sector. Part of the problem was also the established energy companies that prevented Member States from making progress on renewables.

1. **Presentation by the rapporteur, Mr Dandea on the work on opinion *ECO/598 Euro area economic policy 2023***

**Mr Dandea** shared the following information about the progress of the opinion on the *Euro area economic policy 2023*:

* The opinion generally supported the Commission's five proposals for the 2023 euro area economic policy and also proposed a number of additional considerations. The Commission proposed a two-tier system for energy consumption, which aimed to protect low- and medium-income households by subsidising energy bills up to a certain consumption threshold. According to the rapporteur, this measure did not go far enough. Small and medium-sized enterprises would not be sufficiently protected against the impact of the energy crisis, as they were less resilient than large companies. This was a difficult situation for the European economy, as most companies in Europe were either small or medium-sized enterprises.
* With regard to financial policies, the Commission's objective was to ensure that fiscal policy remained in line with the ECB's monetary policy. This objective would not be achieved without the cooperation of national governments. According to the rapporteur, the Commission's proposal was useful but each national government should have the right to make its own decisions, considering the individual debt levels of the Member States.
* The Commission did not go far enough with the proposed plans to protect the purchasing power of low-earners. It was necessary to protect a wider spectrum of the population in order to ensure that demand did not drop, otherwise inflation would turn into stagflation.
* The Commission recognised the efforts needed from MS to make progress on the issue of the Capital Markets Union and the Banking Union. This opinion reinforced the Commission's endorsement and complemented it by emphasising the need to ensure that the current crisis did not affect the banking sector.
* *Discussion Q&A:*

Following the presentation, **Ms Vorbach and Mr Doz Orrit** took part in the ensuing debate:

* What was meant by "fiscal and monetary policies should be aligned"?
* It would be important to highlight in the opinion that there was a risk that the neutral fiscal stance that the Commission was promoting would not lead in a recession.
* The Commission was trying to promote the idea that the Member States' fiscal stances should be kept below the forecast economic growth. In this period of crisis, it was very difficult to meet this objective, as the growth forecast was only 1% for 2023.

**Mr Dandea** responded to these questions and comments by explaining that "maintaining the alignment of fiscal and monetary policies" meant that both should be moving in the same direction, so that the effect of one did not cancel out the impact of the other. The latter occurred when Member States were under pressure from their citizens to mitigate the effects of a crisis through expansionary fiscal policy while the ECB pursued an opposing strategy to resolve the crisis. During the current crisis, the Commission supported the position that only the most vulnerable should benefit from an expansionary fiscal policy. According to the rapporteur, this position was questionable, as governments should not be forced to ignore the economic difficulties of wider sections of their society. Nevertheless, fiscal policy should remain prudent.

# **Any other business**

* *Report on the progress of Hungary's RRP*

**Mr Doz Orrit** gave the floor to **Mr Edelényi,** who was asked provide brief information on the approval of Hungary's RRP. Mr Edelényi explained that the plan had finally been approved by the Commission, provided that many of the reforms that already applied to Poland were also introduced in Hungary. The grant Hungary would receive amounted to EUR 5.9 billion. The loan component was still pending and might be used to finance Hungary's plans for REPowerEU. Hungary had already started implementing some of the objectives of its RRP on the basis of its own risk financing. However, only 32 of the projects set out in the RRP had yet been announced.

**Mr Doz Orrit** closed the meeting by wishing all the participants a Merry Christmas and expressed his hope that 2023 would return the gift of peace to Europe.

# Confirmation of the date of the next meeting: **Wednesday, 18 January 2023.**

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**ANNEX**

**ATTENDANCE LIST**

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| **List of members** |
| **Mr/Ms** | **Present****in situ** | **Present remotely** | **Absent** | **Apologies** |
| ANDERSSON, Krister  | X |  |  |  |
| BALON, Krzysztof Stanislaw | X |  |  |  |
| BIEGON, Dominika |  | X |  |  |
| BOLLON, Pierre |  | X |  |  |
| CABRA DE LUNA, Miguel Ángel |  | X |  |  |
| CALISTRU, Elena-Alexandra |  |  | X |  |
| DANDEA, Petru Sorin | X |  |  |  |
| DE LEEUW, Rudy | X |  |  |  |
| DIMITROV, Plamen  |  |  | X |  |
| DOZ ORRIT, Javier | X |  |  |  |
| EDELÉNYI, András | X |  |  |  |
| GOBIŅŠ, Andris |  |  |  | X |
| HAUKANÕMM, Monika |  |  | X |  |
| HOLST, Sif |  | X |  |  |
| JAHIER, Luca | X |  |  |  |
| KIUKAS, Vertti |  | X |  |  |
| LANNOO, Ronny | X |  |  |  |
| LOBO XAVIER, Gonçalo | X |  |  |  |
| LUSTENHOUWER, Colin |  |  | X |  |
| MAVROMMATIS, Manthos |  | X |  |  |
| MEYNENT, Denis | X |  |  |  |
| MORKIS, Gintaras | X |  |  |  |
| O'CONNOR, Jack | X |  |  |  |
| OSTROWSKI, Krzysztof |  | X |  |  |
| PALMIERI, Stefano |  | X |  |  |
| PARTHIE, Sandra |  |  | X |  |
| PLOSCEANU, Aurel Laurenţiu |  |  | X |  |
| POČIVAVŠEK, Jakob Krištof |  | X |  |  |
| REALE, Maurizio |  |  |  | X |
| RELIĆ, Danko |  | X |  |  |
| SCHLÜTER, Bernd |  | X |  |  |
| SCHMIDT, Peter |  |  |  | X |
| SIPKO, Juraj | X |  |  |  |
| SÕBER, Kristi | X |  |  |  |
| STUDNIČNÁ, Lucie | X |  |  |  |
| SVENTEK, David |  | X |  |  |
| VARDAKASTANIS, Ioannis |  | X |  |  |
| VON BROCKDORFF, Philip | X |  |  |  |
| VORBACH, Judith | X |  |  |  |
| WAGENER, Marco | X |  |  |  |

**European Commission**

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| Romme, Roxane  | Policy Officer, Recovery and Resilience Task Force (RECOVER), Secretariat-General  |

**EESC secretariat**

|  |  |
| --- | --- |
| Andersen, Jakob | ECO – Administrator |
| Grégoire, Colombe | ECO – Administrator |
| Carmona Gonzaléz, María Dolores | ECO – Assistant |
| Pick, Cécile Cathérine | ECO – Trainee |

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1. In the meantime, two other round tables were currently planned in Finland (23/01/2023) and in Romania (02/01/2023). [↑](#footnote-ref-1)