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 26th meeting
of the
European Semester Group,
held at the Committee building in Brussels
on
23 May 2023
The European Semester Group (ESG) held its 26th meeting at the Committee building in Brussels on **Tuesday 23 May 2023, from 14:30 to 18:00**. 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 new ESG president, **Luca Jahier**.

1. **Adoption of the draft agenda.**
   
The draft agenda was adopted.

2. **Approval of the minutes of the 25th European Semester Group meeting, held on 29 March 2023.**
   
The minutes were adopted.

3. **Introduction** by the new president of the group, **Mr Jahier**, and the new ECO section president, **Ioannis Vardakastanis**.
   
   - Mr Vardakastanis welcomed Mr Jahier and thanked him for his engagement within the ESG presidency and expressed his support for the work of the ESG, both as a member and as ECO section president.
   - Mr Jahier announced that the new group was composed of 25 members who were also members in the previous term of office and 14 new members, 3 of whom were the presidents of the NAT, SOC and ECO sections.
   - Mr Jahier highlighted the contributions of the previous ESG presidents, Mr Lobo Xavier and Mr Doz Orrit, who had been involved in creating and maintaining a framework for consultation with organised civil society (OCS) representatives in the Member States, working together with the ESG national delegations and through questionnaires and round tables. This was now the participatory structure within the group.
   - Mr Jahier outlined the ESG's ongoing work on the mid-term evaluation of the Recovery and Resilience Facility (RRF), carried out in collaboration with the European Commission, and the ESG's involvement in contributing to the economic and fiscal reform of EU governance.

   Mr Jahier presented the **group's guidelines for this new term of office**:
   
   - It was essential to maintain links and continue consultations with OCS, and local and regional authorities, while ensuring that they did not become fatigued.
   - There was a need to ensure horizontal coherence and close relations with other EESC sections and bodies given the various policies concerned by the European Semester.
   - The group should draw up new proposals for the upcoming legislative term of the Commission's programme after the elections in 2024, taking into account the revision of the RRF and, potentially, other instruments.
   - The ESG needed to encourage a more extensive reflection on the necessary national structural reforms, as a powerful instrument of governance and convergence within the EU.
   - The group needed to improve external exposure and recognition of its proposals, for instance for the proposed structured formal consultation mechanism under opinion ECO/600.
On the basis of five questions to guide a reflection on the Group’s new term of office, Ms Ochędzan, Mr Gobiņš and Mr Edelényi already made oral suggestions:

- there was a need to call for relevant social policies and investment aspects to be more fully integrated through the review of the RRF;
- the lack of a well-functioning monitoring system for implementing the recovery and resilience plans (RRPs), which was the case in Latvia and other countries, should be further addressed within the group;
- to meet the new social, economic, energy and environmental challenges, the group had to continue focusing on adapting and evaluating the content and methodology of the European Semester process itself.

4. Presentation and debate on "The Commission’s support for Member States in implementing the tailor-made reforms needed for economic and social recovery, resilience and convergence: What works, what does not? What role should civil society and the social partners play in improving ownership of reforms in the respective Member States’ agendas?", with Mario Nava, Director-General of the Directorate-General for Structural Reform Support (DG REFORM).

- **How does structural reform support work for Member States?**
  - The Technical Support Instrument (TSI) was an independent support mechanism for all Member States in structural reform processes. It had been in place for three years and had received around 3 000 technical support requests from the Member States, of which 20% could be fulfilled.
  - The TSI was at the service of the Member States for reform processes within EU guidelines and transition processes, mainly in the areas of energy, digitalisation and public administrations. There were also single and multi-country projects where Member States benefitted from support, discussions, learning, exchanges of best practices, expertise, challenges and topics of common interest.
  - Supporting Member States in identifying the main areas for effective structural reforms and policies, and in designing and developing structural reforms: this year was closely related to the Year of Skills and the development of capacities, training, upskilling and reskilling (Youth First, PACE).
  - Projects had increased in size and volume in recent years.

- **What works, what does not?**
  - The support for structural reform has enhanced the commitment of the local public authorities in charge of structural reforms.
  - It accelerated the pace of reforms due to well-structured mechanisms, timetables and instruments.
  - Budget and human resources could be extended to provide greater support to Member States.

- **What role should civil society and the social partners play in improving ownership of reforms in the respective Member States’ agendas?**
  - The establishment of the Structural Reform Support Programme (2017-2020) integrated consultations of OCS within the structural reform process: it was a bottom-up process building on the commitment of the Member States and the ownership of all stakeholders. The involvement of OCS and social partners had shown to be an essential component of successful structural reform processes.
Questions from Mr Vardakastanis, Mr Ostrowski, Mr Edelényi, Mr Gobiņš, Mr Salafranca Sanchez-Neyra and Mr Doz Orrit:

- How were the providers of technical assistance selected and what was the degree of cooperation with the World Bank?
- What had been identified as the most important common interest in multi-country structural reform processes?
- What capacities did public authorities lack most?
- How did the final phase of the RRF impact DG REFORM's work?
- Volatility and crises impacted the fiscal and monetary framework in the EU. How did DG REFORM react to such a volatile and quickly changing environment and the need to adapt structural reforms?
- Structured participation of OCS based on the existing mechanisms was not working. The ESG had proposed a new instrument of permanent, structured and effective OCS participation. What was Mr Nava's view on this?
- What were recurring difficulties for Member States concerning structural reform processes? Why had it proven difficult to use consultation instruments and include civil society organisations in an effective and valuable way? Which bottlenecks needed to be addressed?

Mr Nava's answers:

- Collaboration with three types of providers:
  1) internal providers (European Commission DGs, European institutions and related bodies);
  2) international organisations which had undergone pillar assessments (the number of providers had been expanded and the quality improved); as an example, the multi-country strategy for REPowerEU had been based on technical assistance from the World Bank;
  3) private providers and procurement.

- DG REFORM remained the main interface with the Member States, while the providers provided specialised knowledge and a workforce.
- The most effective and most requested multi-country assistance had proven to be structural reforms of public administrations.
- Capacity building of public administrations had the objective of creating efficient national project managers: in the past, public administrations had often been neglected, lacking personnel, skills and resources.
- The DG also closely supported RRP design and reform processes: the TSI and the RRF were closely linked.
- The implementation of a "dedicated call" article in March 2022 to support member states welcoming refugees from Ukraine and the phasing out of their reliance on fossil fuel from Russia gave the TSI the required flexibility.
- Recurrent difficulties were the lack of skills and capacities in public administrations for dealing with a rapidly changing environment, and the lack of coordination between regions and local authorities.

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1 Ukraine: Commission launches special call (europa.eu)
• No clear indication on effective OCS consultation mechanisms/instruments.

5. Discussion on the update of the ESG’s work programme for the new term of office
• The draft working programme was expected to be approved during the next ESG meeting in the afternoon of 26 September.
• Mr Jahier encouraged all ESG members to participate in the discussion on the working programme and to reflect on the five questions submitted to the members. The answers would serve as a basis for drafting the working plan.
• Mr Sventek called for the ESG to be more closely involved in the explorative opinion requested by the Spanish Presidency on The Recovery and Resilience Facility and cohesion policy: towards cohesion policy 2.02.

6. Presentation on the progress of the preparatory work for evaluation report ECO/607 Mid-term evaluation of the Recovery and Resilience Facility (due to be adopted in September 2023), by the co-rapporteur, Mr Doz Orrit. Two members of the Latvian ESG delegation and the ESG president took the floor as well:
• The results so far of the fact-finding missions to Romania and Latvia had shown that the participants had been very critical of the execution and implementation of the RRPs mainly because of delayed and incomplete implementation processes. In particular, they had stressed that the implementation of the green and digital transitions had lacked the necessary funds for timely implementation.
• Positive feedback had been received regarding social and educational aspects, for which funds had already been received and implementation processes were working properly.
• The stakeholders had perceived the RRF mechanisms to be well designed but had not been satisfied with the implementation of the RRPs, especially concerning the consultation and participation of OCS.
• Implementation procedures had not started in Latvia or in other countries by the start of this mid-term evaluation. National representatives had reported increased administrative burdens, which contradicted the Commission’s intentions. The performance-based fund mechanisms had put the national representatives under additional pressure.
• There was a call to step up national and European efforts to improve the outcomes of the RRF over the coming three years.

7. “How will Member States react to the European Commission’s proposals for fiscal governance reform?”: presentation by Zsolt Darvas, one of the authors of the latest Bruegel articles on the Commission’s proposals for the review of the EU economic governance framework and debate with members (16:45-17:50)
• Positive aspects of the fiscal governance reform
  – Focus on medium- and long-term debt sustainability and risks.

2 The Recovery and Resilience Facility and cohesion policy: towards cohesion policy 2.0 | European Economic and Social Committee (europa.eu)
- Introduction of a more empirical indicator for measuring public expenditure growth, as structural primary expenditure had shown to be an unreliable indicator in past assessments.
- A more integrated and holistic approach towards fiscal and macro-economic imbalances.
- Improved transparency through public availability of all relevant documents: more comprehensive and complete documentation and reporting of fiscal-structure plans provided better sources of information. However, no action was taken if targets were missed.

- Main objectives and criteria of the reform
  - The 1/20 debt reduction as a "plausible downward path" rule remained for countries with debt ratios above 60%.
  - The "plausible downward path" was measured against two criteria:
    1) Public debt ratios should decline or remain at prudent levels, under the deterministic scenarios of the Commission's medium-term public debt projection framework described in the 2022 Debt Sustainability Monitor. → This was very rigid and it was hard for many countries to meet the criteria.
    2) The probability of the debt ratio not decreasing in the five years following the adjustment period of the national medium-term fiscal structural plan needed to be sufficiently low and should be assessed based on a stochastic analysis. → It would be difficult for many countries to reach a sufficiently low probability as the stochastic analysis would not allow for much margin.

- Compromises had been reached between Member States and the Commission and the following safeguards had been put in place:
  - a reduced debt ratio compared to before and after the "planning horizon", while the planning horizon still needed to be clearly defined;
  - no backloading: average annual adjustment over the period should not be lower than the average over the entire adjustment period;
  - the 0.5% minimum adjustment under the excessive deficit procedure remained;
  - it currently needed to be assessed whether these safeguards would lead to more or less binding criteria.

- Missed opportunity to foster a green transition
  - Fiscal consolidation might negatively impact financial investments, which contradicted the need to preserve and increase green public investment.
  - Proposed solution: excluding net green public investments from the fiscal indicators used to measure compliance with the EU's fiscal rules for countries without substantial debt challenges.
  - The EU should play a leading role in meeting climate targets, given the irreversibility of climate impacts and the risk of sending discouraging signals to emerging countries regarding compliance with green transition criteria.

Questions raised by Ms Vorbach, Mr Sipko, Mr Edelényi, Mr Wagener and Mr Jahier:
- Could these rules be considered a move towards new austerity policies? Did Mr Darvas consider that the reform had actually simplified the rules?
Mr Darvas was encouraged to consider national revenue indicators, including tax evasion, corruption and other issues that strongly undermined the fiscal balance. Compared to the US and Japan, did the EU’s high debt ratios create a competitive disadvantage?

- How could the interplay of the fiscal reform and the ongoing RRF procedure be considered, given the defined RRF performance indicators and the evolving financial and inflation conditions and scenarios? How did the fiscal governance reform relate to the absorption capacities of the countries under the RRF process and the continuously high regulatory burden?

- Would the structural balance as a criterion and medium-term objective stay in place for countries that were not undergoing a deficit procedure?

- How could the conflicting goals of growth and investment targets be reached under the fiscal governance structure and the increasing debt ratios?

Answers from Mr Darvas:

- It would be crucial to assess the pace and speed of fiscal consolidation at the beginning and when the structure was fully up and running. All trajectories would be country-specific, depending on national calculations and baselines, which would be transparently published by the European Commission and would allow for a simpler assessment.

- Expenditures or cuts based on government preferences could be adapted only if the revenue/expenditure ratio remained sustainable, which would lead to less fiscal tightening and smoother fiscal cycles.

- The structural balance indicator would be calculated for every country, while the net expenditure path would only be calculated for countries above the 60% debt threshold.

- Yearly updates on growth plans would provide more information for assessing reform proposals, including assessing growth and investment targets. Better fiscal outcomes could also be achieved by improving the governance and cost efficiency of public authorities to free up resources for investments.

8. Any other business.

9. Confirmation of the date of the next meeting: 26 September 2023 – the 2023 ESG conference in the morning and the 27th ESG meeting in the afternoon.

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APPENDIX

ATTENDANCE LIST
## List of members

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<tr>
<th>Mr/Ms</th>
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