ECO/ESG

Brussels, 30 April 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 30th meeting
of the
European Semester Group,
held at the Committee building in Brussels
on
30 April 2024

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The European Semester Group (ESG) held its 30th meeting at the Committee building in Brussels **from 9:30 to 12:30 on Tuesday 30 April 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 29th European Semester Group meeting, held on 23 February 2024 (EESC-2024-01316-00-00-PV-REF).

The minutes were approved.

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

4. **How to accelerate EU investment within the revised framework of EU economic governance?** With **Zsolt Darvas**, senior fellow at Bruegel, **Alessandro Carano**, managerial adviser and head of unit at the European Investment Bank, **Åsa Johannesson Lindén**, senior expert, DG ECFIN, European Commission, and **Dominika Biegon**, EESC member and rapporteur for the opinion ECO/642 on *An EU investment fund for economic resilience and sustainable competitiveness*.

Mr Darvas took the floor and explained that:

- The **main incentive for reforms and investments** in the new fiscal framework is the **possibility of extending the fiscal adjustment period from four to a maximum of seven years,** which reduces the annual adjustment requirement significantly, resulting in a strong incentive for reforms;
- **The extension depends on a number of requirements** (supporting fiscal sustainability, contributing to the priorities of the EU, etc.). **There are also two requirements regarding the level of public investments**: 1) The plan should include new investments compared to the baseline before the adoption of the plan. 2) Nationally-funded public investments cannot be lower than the average achieved over the period covered by the RRP;
- **Net expenditure is the main operational target** in the new fiscal framework. **The national co-financing of EU programmes is excluded from this net expenditure**;
- **Projects related to RRF loans as well as national co-financing of EU funds in 2025 and 2026 will be taken into account whenever a Member State requests an exception** to the no-backloading safeguard. However, for most countries, the expenditures financed by the RRF loans are expected to decline in 2026. There is a declining expenditure that is equivalent to a fiscal consolidation. There could be two results of this provision: incentives to delay the spending to 2026, or simply EU countries would not request an exception;
- The 'no policy change' assumption means that only reforms and investments that have already been approved are included in the DSA (the debt sustainability analysis). This implies that **the growth-enhancing impacts of reforms and investments proposed by EU countries in their medium-term fiscal structural plans** (MTFSPs) will not be incorporated in the DSA. Another weakness is that the current methodology assumes that in the long term the total factor

productivity (TFP) is the same for all EU countries. The **EU should improve its methodology** to quantify such impacts;

- When Member States submit their MTFSPs and propose reforms and investments, they will likely argue that these will increase growth. We suggest that this should be incorporated in the DSA. However, there are two main risks that should be managed properly: 1) **The implementation risk** – meaning that Member States don't implement the reform and investment planned in the next 4 to 7 years, and 2) **The uncertainty of the impact of a reform ,** which could be lower than what models suggest. To prevent implementation risks, the **EU should set benchmarks that would indicate whether a reform is on track.**

Mr Jahier gave the floor to **Mr Carano**, highlighting that the EIB was the largest investment bank in the world and the key asset that Europe possessed to raise investment.

- The EIB has seven areas of focus:

  1. Support for EU priorities – with the experience of the RRF, it is very beneficial to look at reforms and investments together;

  2. The effort of consolidation in this MFF – notably with InvestEU, which combines 36 previous financial instruments, and there is an ongoing reflection on how to ensure even better complementarity between the various instruments;

  3. Promotion of the 'one-stop shop' concept, especially for beneficiaries – at the EIB, we have developed a 'green check for SMEs'[1], which aims to enable them to check their ability to finance investments that comply with the taxonomy;

  4. The focus on the impact of reforms and investments – we have a variety of tools, some focused on outputs, others on inputs, and we have models for estimating the impact on growth, greenhouse gas emissions, employment, etc. It would be useful to develop a methodology for assessing the impact *ex ante* and *ex post*, especially when it comes to reforms for which support can be difficult;

  5. Having the appropriate incentives for each stakeholder involved in future investments across Europe to meet the various priorities – we have several models of different types of management and there should be appropriate incentives at all levels;

  6. The financial instruments – the EIB also has an advisory body financed by InvestEU, as part of a joint partnership with the Commission. The EIB provides advice to stakeholders and the public and private sectors, in order to implement the instruments openly and improve local capacity;

  7. The partnership model – the RRF is an excellent example of partnership between Member States and the Commission or other EU institutions.

Mr Jahier thanked Mr Carano for these valuable insights into the EIB's strategy. **Ms Johannesson Lindén** took the floor and explained that:

- The **Commission recognises the need for investments and reforms**. Europe is emerging from a crisis and there is a great need for a structured response to meet all the challenges ahead. **In terms of investment,** the Commission has calculated that we need an additional EUR 480 billion just to fight the climate crisis and complete the green transition;
- In addition, **we need structural reforms** and a strong economy, capable of reallocating its resources correctly and undertaking these transitions;
- **We need to mobilise private finance**. We have **to create a conducive regulatory framework** that provides incentives, and to have bankable products;

[1] EIB Green Eligibility Checker.

- **Public funding must complement private investment**. Therefore, as regards public funding, we should focus on market failures, distribution concerns and where we can get extra leverage. We have EU funding and we should also use it to leverage private funding. For this, we have the EIB, InvestEU and other EU instruments. The RRF is also a good example of an instrument that combines reforms and investments, it encourages reforms by linking them to the necessary investments;
- **The revised EU economic governance framework** puts the emphasis on investment. It aims to ensure macroeconomic stability, economic resilience, the safeguard of future investments and strengthening growth;
- Member States will draw up national MTFSPs, which will include both the fiscal targets and priority for reforms and investments. The idea is **to safeguard investments through fiscal consolidation, to combine reforms and investments and to take into account EU priorities, CSRs and other priorities identified in the European Semester**.

Ms Biegon took the floor and underlined that:

- The investment deficit is especially glaring in the green transition. **The Commission put the additional investment needs for the green transition at EUR 450 billion annually**;
- On the national level, the new economic governance framework is not supporting a rise in investment. It is urgent to change the methodology of the DSA;
- **Financing is the Achilles heel that will have to be tackled in the next mandate**;
- **Promoting private investment will be key**. According to the EIB investment report, the top three barriers to investment mentioned by companies are availability of staff, energy prices and uncertainty about the future. These issues can be tackled by targeted investment, such as retraining programmes, childcare facilities and energy and transport infrastructure. **Public and private investment are intrinsically linked**. An ideal future EU investment capacity should cover both: it should support Member States to expand public investment, but it should also include programmes for private investments by offering low interest loans, public guarantees for companies and close cooperation with the EIB;
- The mid-term evaluation of the RRF has shown that **the RRF was a successful debt-financed model**, having had a range of positive macroeconomic impacts like lowering bond yields, lowering inflation in the medium-term and contributing to an easier finance situation for Member States.

Mr Jahier then opened the floor for debate, discussion, questions and contributions from the members.

Mr Doz Orrit, Mr Gobiņš, Mr O'Connor, Ms Ochędzan, Mr Salafranca Sanchez-Neyra, Mr Wagener, Mr Sipko and **Mr Andersson** took the floor.

- Concerning the methodology of the investment impact: *How can we achieve a more profound impact in the future?*
- Concerning the new economic governance framework: the financial markets do not focus on the headline debt to GDP ratio figure, instead they look at the structure of the sovereign debt, what percentage is domestic debt, what is the duration of the debt, the pricing structure, the demographics of the country, etc. *Where can we get the exact figures?* Concerning demographic aging: this could potentially have a positive effect as well in the sense that aging societies tend to have higher savings. *Can someone comment on that?*
- *What kind of indicators do you have to work with the Member States on the implementation of the RRPs, especially at the social level?*

- *How do we avoid a similar recession as in 2008 following the insufficient room to boost the economy with debt-financed investments?*
- The investment needs for the green and digital transitions as well as defence were calculated at EUR 5 billion. *Do you think that this is a realistic figure?* Meanwhile we are looking at serious demographic decline, more and more companies are shifting abroad. *How do you think the EU should proceed given this very difficult backdrop?*
- Worry that investment expenditure is going to be counterbalanced by reductions and cuts in the budget, resulting in an austerity risk to social spending and domestic demand hampering growth. *Doesn't all this mean that the orthodoxy of the new plans will in fact not lead to growth? Does the Commission have sufficient space to manoeuvre?*
- *Why will total factor productivity (TFP) be the same for all EU member countries? What is the cost of the current very high interest rate? How can we attract foreign investment in Europe to take pressure off public finances?*
- *What are the possibilities to boost private investment instead of further borrowing?*

Ms Johannesson Lindén responded to the comments from the members:

- **The framework is also about growth-enhancing reforms**, this is not a zero-sum game, having policies in place that enable growth leads to more fiscal capacity and more investment, **thus creating a virtuous cycle**.

Mr Carano responded by stating that:

- An impact assessment that can reliably link results with a specific reform is very difficult to draw up, there are reporting indicators in each instrument like the RRF or cohesion policy: they either look at the **input** (e.g. how much money for the green transition) or **output** (number of investments mobilised, etc.);
- As regards the cost of EIB financing, there is no cost to taxpayers. We are entirely self-financing. Borrowers of EIB loans and other products have to pay interest.

Mr Darvas responded with the following:

- Private investment should indeed be mobilised, (in our calculations we found that around 1/3 of investment should be public and 2/3 private) lower cooperate tax rates might perhaps not be the best tool, the most important aspect is the **smooth functioning of the EU single market, eliminating national regulations, leading to simplification**, e.g., bankruptcy rules;
- The TFP is the same 0.8% across the board because Member States agreed to that, though it should be more country-specific;
- We should compare the new framework to the old one, for 2/3 of countries there will be less fiscal adjustment under the new framework.

Mr Jahier concluded the debate by stating that the final reform of the economic governance rules is **important progress but they are still insufficient to allow Member States to raise sufficient funds to tackle the pressing investment needs** and thanked the guests for participating in the debate.

5. Progress of the European Semester process: presentation by a representative of the European Commission of Member States' reform programmes and stability/convergence programmes delivered in April 202.

Mr Jahier gave the floor to **Ms Taylor**, policy coordinator at the European Commission:

- 30 April is the final deadline to submit the stability and convergence plans, as well as the national reform programmes;

- This year the new fiscal rules are coming into effect and the reports will be taken into account for our spring forecast and spring package;
- We have a good dialogue with Member States through the committees, we are strongly encouraging Member States to engage with the national stakeholders and in the preparation of the MTFSPs.

Mr Jahier then opened the floor for debate, discussion, questions and contributions from the members.

Mr Lobo Xavier and **Mr Doz Orrit** took the floor.

- *How can we get better interaction and involvement from Member States and are we talking about the usual suspects among Member States that are less keen to get involved?*

Ms Taylor responded by stating that:

- **The current annual stability pact will cease to exist**, instead we are moving towards a system where we have four-year plans, ideally following the political electoral cycle: new government, new plan. The plans cover a period of four years for reform and investments with annual progress reports, those that request a longer time to adjust their fiscal budget will have seven years. **To get the extension countries will have to credibly commit to their national reform plans and CSRs**.

Mr Jahier intervened to ask whether the annual country-specific recommendations should be kept.

Ms Taylor responded in the affirmative:

- **We will continue with the annual country-specific recommendations**, part of them will be in the context of the four-year plan but another part will remain on an annual basis, same as the assessments;
- Over the summer we will have the technical dialogues covering fiscal aspects but also the reform and investment side. **The Commission will not provide a concise contract on how to proceed step by step, we don't want to restrain Member States, rather consensus should be built among the Member States according to what is feasible for them**.

Mr Jahier thanked the speaker and gave his concluding remarks: It is obvious that this is an intense period and there is still a lot of work to be done, it is also a learning period with many lessons emerging during the process.

6. **Next steps in the EU economic governance review – start of the implementation of the new rules** – presentation by Gilles Mourre, Head of Unit for Fiscal Policy and Surveillance (DG ECFIN) of the European Commission.

Mr Jahier gave the floor to **Mr Mourre**:

- **Possibility to extend the adjustment period, provided that the extension is underpinned by investment and reforms**, enhancing growth and sustainability;
- **Monitoring and enforcing the plan will be essential**: once the plan is in place and endorsed by the Council, the net expenditure path will be the single fiscal indicator for monitoring, with counter-cyclical properties;
- **Fiscal surveillance on the basis of annual progress reports**: focus on deviation from the net expenditure path;
- **Deviation from the net expenditure path may lead to opening of debt-based EDP** for Member States with debt-to-GDP ratios above 60%;
- The implementation of the fiscal rules will start with a technical exchange between the Member State and the Commission on statistical information and economic and fiscal outlook. **MTFSPs** are to be submitted by **September 2024**. **In autumn, the Commission will assess the MTFSPs**

and propose a recommendation for the Council which will then evaluate and endorse the plan (or require a revised plan). **Each year by 30 April: Member States will submit an annual progress report**, providing an assessment of the annual and cumulative deviations;

- The **reference trajectories** are a technical endeavour, they are transmitted to the EFC and the Member State concerned. These **reference trajectories follow a publicly available debt sustainability analysis which is replicable, predictable and transparent**;
- **The role of the EP has been strengthened, all information shared with the Council will also be shared with the EP**, at least twice a year an economic dialogue will take place.

Mr Jahier then opened the floor for debate. The discussion was opened up to questions and contributions from the members. **Mr Jahier**, **Ms Biegon**, **Mr Wagener**, **Mr Palmieri**, **Ms Del Rio**, **Mr Doz Orrit**, **Mr Salafranca Sanchez-Neyra** and **Mr Robyns** took the floor.

- *How are you planning to implement more national ownership, given the short timeframe until September? Or will the involvement of the social partners and other stakeholders remain at the discretion of the Member States?*
- *When could a new DSA methodology come into force? Who is in the technical working group and will there be a public consultation in order to permit civil society to give input on the methodological reform of the DSA?*
- *If the Commission wants to give more guidance on the reform process will the CSRs be more concrete in the future?*
- *Will all Member States have to submit the MTFSPs, even those that meet deficit goals? Will it be easier for compliant states?*
- *When the new Commission takes office, will there be further challenges to the methodology?*
- The requirements for annual public debt reduction plans run counter to the green and digital transitions. *Does the Commission agree with these conclusions? Does the Commission perhaps possess different assessment tools that are more optimistic in their outlook?*
- *What happens if the deficit goals aren't met? Are we going to go into the excessive deficit procedure again? What mechanisms are there for corrections? What happens if we reach a point where the national plans point in the wrong direction, moving away from the goal?*

Mr Mourre responded to the interventions of the members:

- The plan should be a contract between the EU and Member States, be transparent and accepted by a wider public. **The Commission cannot force Member States to involve social partners but it invites them to do so**;
- **The DSA methodology critique is exaggerated, the methodology is state of the art and has been discussed with leading economists as well as Member States for 10 years**;
- Debt should be on the descending path after the four-year adjustment of the plan, especially in countries with sustainability risks; sustainability is important and **there are real budget constraints**. The trajectory is defined in a counter cyclical indicator, the question here is: what maximum net spending can you afford without going further into debt? The key factor is a high sustainability risk, countries in danger are put into an **excessive debt procedure, which simply means receiving more scrutiny to get on back onto the trajectory corresponding to the plan**;
- The Commission has committed to EDP. Member States that have a debt ratio well over 3% will have to correct their path, **we have been indulgent during covid but now it's time to return to a responsible amount of debt**;

- After having spent massively to save the economy it is now time to return to sustainability, we **incentivise investment and reform. Debt will be reduced not solely by more household discipline but also more revenue from investment and reform**.

Mr Darvas asked **Mr Mourre** one last question: What is the timeline for the excessive debt procedure?
Mr Mourre answered that it had not been decided yet but the Commission will make a proposal in spring. We will look at the execution of the budget for 2023, it will probably be published with the spring package in mid-June.

7. Completion of work on ECO/631 opinion on *reform and investment proposals and their implementation in the Member States – what is the opinion of organised civil society*, which was based on a broad consultation in Member States.

Mr Jahier complimented the richness of the annex to the opinion and thanked all those involved in bringing this exciting new format to life.
Mr Lobo Xavier took over the chairing of the meeting from **Mr Jahier** for the remainder of the session.
Mr Morkis took the floor to present the report from the roundtable in Lithuania:

- **Doubts were expressed** by the participants about the content of **CSRs**, if they are really **responding to the great challenges in security and defence** facing the country, the uncertainties following the war in Ukraine also have negative consequences on investment;
- Support for the reform was expressed but questions were raised about the risks of non-compliant Member States, **fears that the possible extension of deadlines could be abused by Member States**.

Mr Antoniou took the floor to present the report from the roundtable in Cyprus:

- **Longstanding tradition of a tripartite social dialogue in Cyprus**, this played an important role in the drafting of the RRP, all national stakeholders were invited and their proposals considered;
- **Stakeholders are implied in the implementation process**, for example the employers group in the promotion of a circular economy.

Ms Gregoire took the floor to thank the national ESG delegations for their work and rich contributions:

- 10 ESG national delegations 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, and 16 delegations contributed by replying to the questionnaire. **A total of 190 participants took part in the roundtables**, and we received a lot of written contributions which are summarised in the annex;
- For this exercise we implemented the **EU youth test**. Two representatives of youth organisations attended the study group meeting and several attended the roundtables;
- We also invited **members of the Committee of the Regions**, who gave a valuable local perspective.

Mr Marani, Policy Officer in SG-RECOVER of the European Commission, took the floor:

- The **Commission remains firmly committed to fostering transparent and inclusive policy-making**. This is evident in the new economic governance framework and the **strengthened role of the European semester** as well as **the intense dialogue with national stakeholders**, as expressed in the European Semester missions and the CSRs.

Mr Lobo Xavier concluded the meeting, emphasising his conviction that the work of consulting the stakeholders in the Member States will be continued.

The 31st ESG meeting will take place on 28 June.

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
Anna PANTAZI	ECO/ESG administrator
María D CARMONA	ECO/ESG assistant

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