

What are the implications of the reformed economic governance rules for (social) investment?

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The new EU economic governance

Objective:

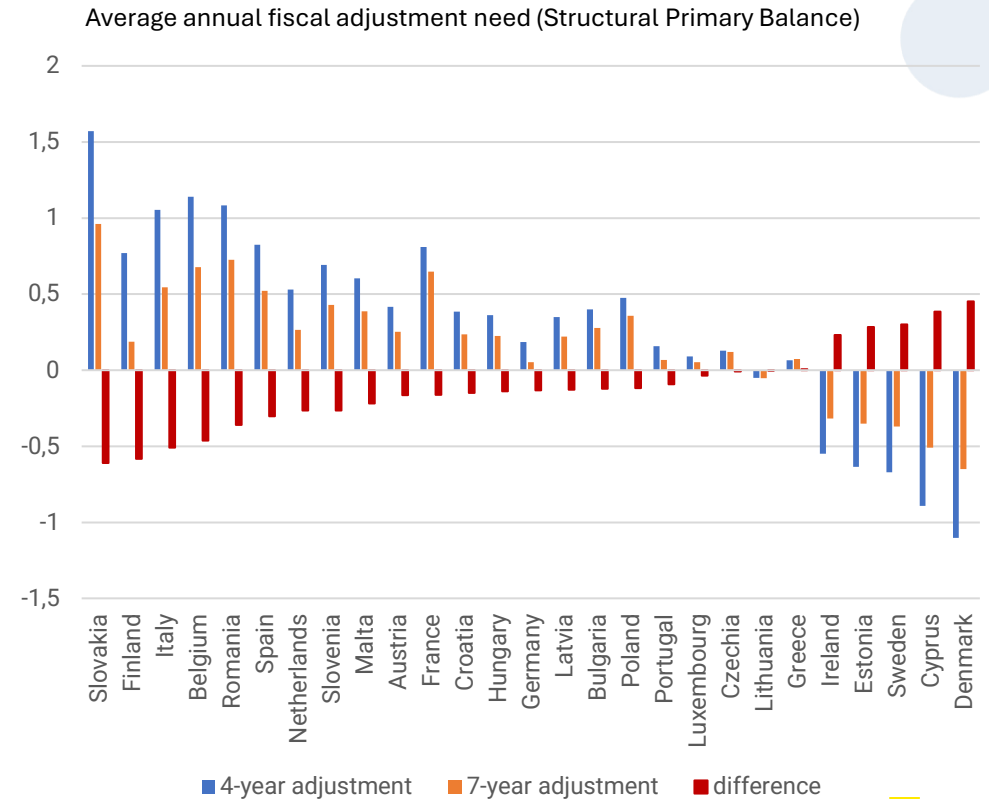
- Strengthen Member States' debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments.

Key elements of the new framework

- Medium term and risk-based approach, country specific, based on a common DSA framework (risk-based surveillance);
- Basis for fiscal surveillance: medium-term fiscal-structural plans setting out their fiscal targets prepared by MSs, annual progress reports;
- Possibility to extend the adjustment period, if investment and reforms;
- Common numerical safeguards to ensure minimum annual reduction in debt and deficits ex ante;
- Net expenditure path: single fiscal indicator for monitoring; with counter-cyclical properties.
- Deficit-based EDP largely unchanged

Timeline:

- 21 June 2024 = definition of the trajectory by the EC for each MSs
- September 2024 = deadline to present MTFSPs



Source: Bruegel

Criteria for reforms and investments

Improvement of growth and resilience potential

- MSs to provide assessment of the impact of the R/I underpinning the extension on potential output and resilience, based on economic literature and quantification via macro models if possible (assumption to be prudent and credible) and with IFIs approval or national productivity board
- COM qualitatively assess the plausibility of the assessment
- This assessment is separate from potential GDP estimates underlying fiscal path (which does not include R/I not yet implemented)

Improve fiscal sustainability

- MSs to provide assessment showing a meaningful and structural effect with opinion IFI
- Plausibility check by the COM is qualitative based on literature and Fiscal Sustainability Report Debt Sustainability Monitor Country Reports and CSRs, COM checks also risks related to R/I (contingent liabilities)
- COM assesses quantitative estimates by MS based on stylized evidence and own quanti estimates

Address common priorities (green digital EPSR defense)

- MSs to explain why those addressed are most relevant given MSs
- COM checks justifications provided

Address relevant CSRs (2019 2020 2022 2023 2024)

- Only focus on structural reforms and 'fully implemented or substantial progress labelled ones are excluded
- Not all but significant sub set and if MIP related also at least a subset of those
- COM will consider whether upon full implementation a set of CSRs is addressed

Ensure planned overall level of nationally financed public investment over lifetime MTFSP no lower than medium term level before the period

- Gov level of GFCF net of capital transfers from EU institutions as % GDP (other spending is current exp under reforms)

Social dimension of the EGR

Art. 11: Content and requirements of the national medium-term fiscal-structural plan

The national medium-term fiscal structural plans shall:

(c) explain how it will ensure the delivery of investment and reforms responding to the main challenges identified within the European Semester, in particular in the country-specific recommendations, and explain how it will address the following common priorities of the Union: (...) (ii) social and economic resilience, including the European Pillar of Social Rights;

Art. 13: Conditions for an extension of the adjustment period

(iii) address the common priorities of the Union referred to in Article 11, point (c);

(iv) address relevant country-specific recommendations addressed to the Member State concerned

Art. 3: The European Semester

The European Semester shall include:

(b) the formulation, and the surveillance of the implementation, of the employment guidelines that are to be taken into account by Member States in accordance with Article 148(2) TFEU, also considering including the European Pillar of Social Rights, and of the related country-specific recommendations. The surveillance by the Commission includes monitoring progress towards the implementation of the European Pillar of Social Rights, including via the Social Scoreboard and a framework to identify risks to social convergence.

Recital 7

As part of its integrated analysis of employment and social developments in the European Semester, the Commission assess risks to upward social convergence in Member States and monitors progress on the implementation of the principles of the European Pillar of Social Rights, on the bases of the Social Scoreboard and of the principles of the Social Convergence Framework.

Examples of social R/I

The set of reforms and investments should contribute to any of the priorities linked to the implementation of the principles of the European Pillar of Social Rights, also in relation to the 2030 national targets on employment, skills and poverty reduction, including:

- fostering inclusive economic growth, and economic and social cohesion and upward social convergence;
- reducing labour market and social vulnerabilities (via for example stronger and more effective active labour market policies and active inclusion policies that foster greater labour market participation and employment);
- addressing capacities and improving the resilience of economic and/or social structures and institutions (like for example public employment services, social services, or the integration delivery of the two, supporting better labour market (re-)integration) to adjust to and withstand shocks, including through Single Market-related reforms (e.g., barriers in services, late payments, public procurement, transposition of EU legislation);
- strengthening education, including early childhood education and care, skills, lifelong learning and up- and re-skilling;
- reducing social inequalities and/or territorial disparities in view of the situation in the Member State concerned

Council conclusions on social reforms and investments

Creation of a **knowledge hub on social investment**, The Hub would:

- **Provide independent, evidence-based knowledge and science**, supporting EU and Member States' policies to positively impact society in the domain of labour market skills and social policies and gather the knowledge developed by academic institutes and international organisations.
- **Promote monitoring and evaluation practices**, including innovative ones such as counterfactual impact evaluation and experimentation, of labour market, skills and social policies by developing an EU technical toolbox for the methods and techniques to measure their returns.
- **Promote demand-driven technical assistance** (scientific expertise and methodological support) for Member States to set up the necessary arrangements for carrying monitoring and evaluation systems of labour market, skills and social policies

Continue the work to **improve timeliness and availability of social indicators** at Union level, including with Flash Estimates, with the aim to reduce the time lag in assessing poverty and inequality trends

Supporting Member States enhancing access to **administrative data** for policy evaluation and impact assessment purposes while **ensuring the protection of personal data**.

Available here: <https://data.consilium.europa.eu/doc/document/ST-11066-2024-INIT/en/pdf>

Guiding principles on social reforms and investments

The guiding principles provide a toolkit for Member States for the implementation of reforms and investments in line with the European Pillar of Social Rights that can contribute to increase economic growth, in particular:

- They provide a typology of the main methodological approaches that Member States could deploy to assess such economic effects;
- They illustrate the available indicators and their possible further development for conducting sound ex-ante and ex-post evaluations;
- They indicate the appropriate statistical arrangements, including in relation to data access; and
- They provide an overview of the best practices on transparency and dissemination.

Member States are invited to use, when relevant, the Voluntary guiding principles when designing national policies undertaken to implement the principles of the European Pillar of Social Rights

SPC/EMCO will regularly update and review these Guiding principles, considering future methodological advancements and progress on the availability of data

Available here: <https://data.consilium.europa.eu/doc/document/ST-10779-2024-INIT/en/pdf>

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