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From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	European Semester 2023 - Policy debate

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Delegations will find attached the Presidency steering note on the above subject, with a view to the policy debate at the Council (EPSCO) on 8 December 2022.

**The 2023 European Semester**

*Policy debate*

**The 2023 European Semester Autumn Package: key elements**

The Autumn Package adopted by the European Commission on 22 November outlines the priorities for the 2023 European Semester cycle. It includes the Annual Sustainable Growth Survey, the Commission proposal for a 2023 Joint Employment Report (JER), the Commission proposal for a Council Recommendation on the economic policy of the euro area, the Alert Mechanism Report, and the Commission's opinions on the Draft Budgetary Plans of the 19 euro area Member States and of Croatia.

**Employment, skills and social challenges: policy priority areas for the 2023 Semester cycle**

The autumn package is published against the backdrop of new and complex challenges of economic, social and geopolitical nature. Russia's war of aggression on Ukraine is not only causing destruction and human suffering in Ukraine but has also entailed a significant socio-economic impact in the EU, leading to historically high energy prices, supply shortages, as well as inflation rates not seen in decades. Negative impacts on the purchasing power of households and on the activity of European companies are already visible, increasing the risk of poverty, in particular energy poverty. Labour markets have proven to be resilient in the wake of the post-pandemic recovery, with record high employment rates and low unemployment rates and increasing labour shortages reported in a number of sectors and countries. However, the economy is expected to slow down, and the labour market is expected to follow suit, with large uncertainty looming ahead and risks of job losses. Long-standing challenges remain in a number of Member States in relation to the employment of young people, women and disadvantaged groups, such as persons with disabilities, Roma and people with a migrant background.

In this context, the main challenges of the 2023 Semester cycle are therefore twofold. In the short term, the economic and social impact of high energy prices should be mitigated by providing targeted support to households and businesses effectively and in a coordinated way, also to avoid a disruption of the single market. In this regard, the Commission has proposed, and the Council adopted, several exceptional policy initiatives aimed at addressing the immediate consequences of the energy crisis on households and businesses, while delivering sufficient clean, secure and affordable energy. Looking beyond the immediate future, structural efforts need to continue to drive the green and digital transitions in a fair way, to deliver on our climate objectives, boost quality employment and growth, and ensure social and territorial cohesion. The Annual Sustainable Growth Survey confirms that the four dimensions of competitive sustainability (environmental sustainability, fairness, productivity and macroeconomic stability) are stable anchors for the coordination framework of EU economic and employment policies in the face of the aforementioned challenges and structural changes.

## **Key policy indications from the Semester Autumn Package**

The Autumn Package provides guidance on the policy priorities, including in the employment and social domains. In particular, to address the impact of high inflation on the purchasing power of households and prevent poverty and social exclusion risks stemming from rising costs of living, Member States are advised to put in place temporary support measures, targeted to vulnerable households and companies, while retaining incentives to reduce energy consumption and promote energy efficiency. Nominal wage growth accelerated in 2022, but increases have been eroded by high inflation, resulting in a decline in real wages. Against this background, Member States are invited to promote wage setting practices that mitigate purchasing power losses, in particular for low earners, while limiting the risk of second-round effects on inflation and preserving employment and competitiveness. In this regard, effective collective bargaining, in line with national practices and respecting the autonomy of the social partners, plays a substantial role, as do adequate minimum wages (for countries that have them in place) with the aim to protect the purchasing power of low-wage earners. The implementation of the Directive on adequate minimum wages in the European Union can support Member States' efforts to mitigate the loss in purchasing power of low-wage earners and reduce the risks of increasing poverty. As the temporary surge in production costs increases risks of job losses, short-time work schemes, designed in a way that supports restructuring processes, can also help preserve employment and firm-specific human capital. At the same time, effective labour market policies remain key to supporting workers and promoting job transitions. The Autumn Package stresses the role of skills for the current and future competitiveness of the EU and its inclusive and sustainable growth model. In view of the proposed European Year of Skills in 2023, reskilling and upskilling strategies will be at the core of the policy attention in order to address skill shortages and address the needs of fair green and digital transitions.

The implementation of the European Pillar of Social Rights will continue guiding policy action by the Member States and at the EU level. The 2023 proposal for a Joint Employment Report monitors the implementation of the Employment Guidelines, and maintains a strong focus on the Pillar, in line with the Action Plan of March 2021. The headline indicators of the Social Scoreboard, in its revised version endorsed by EPSCO in June 2021, underpin the analysis in the report. For the first time, the proposal for a Joint Employment Report also presents the 2030 national targets on employment, skills and poverty reduction put forward by the Member States. Member States should implement efficient measures to make progress towards those national targets, thus contributing to the 2030 EU headline targets. Monitoring will start as of the 2023 European Semester cycle.

## **Orientations for a reformed EU economic governance framework**

On 9 November 2022, the Commission adopted a Communication setting out orientations for a reformed EU economic governance framework. These orientations seek to improve the effectiveness of economic surveillance and policy coordination by defining a simpler and integrated architecture for macro-fiscal surveillance, to promote sustainable and inclusive growth. The proposed reform envisages that Member States would submit national fiscal-structural plans outlining their medium-term fiscal adjustment path in terms of net primary expenditure, covering a period of at least four years, based on a common methodology.

set of reforms and investments that could underpin a longer adjustment period (up to 7 years). These commitments would need to respect certain criteria, such as responding to common EU priorities and targets, including the implementation of the European Pillar of Social Rights, and relevant country-specific recommendations, including in the field of employment and social policies. Member States plans will be guided by a strong, transparent common EU framework that will ensure equal treatment. Taking inspiration from the experience with the implementation of the Recovery and Resilience Facility, the Commission would engage in a technical dialogue with Member States for the preparation of their medium-term plans, and, once

In the plans, Member States would be able to commit to a set of reforms and investments that could underpin a longer adjustment period (up to 7 years) supporting debt sustainability. These commitments would need to respect certain criteria, such as responding to common EU priorities and targets, including the implementation of the European Pillar of Social Rights, and relevant country-specific recommendations, including in the field of employment and social policies. Member States plans will be guided by a strong, transparent common EU framework that will ensure equal treatment. Taking inspiration from the experience with the implementation of the Recovery and Resilience Facility, the Commission would engage in a technical dialogue with Member States for the preparation of their medium-term plans, and, once formally submitted, assess them before they are endorsed by the Council. To facilitate the effective monitoring of the implementation of the plans, Member States would submit annual progress reports in the framework of the European Semester. The Commission will consider tabling legislative proposals on the basis of its Communication and the ensuing discussions. Work is ongoing in the EPSCO advisory committees on a possible enhanced social convergence framework in the European Semester context, following the initiative by Belgium and Spain.

Ministers are invited to present their views on the following questions:

- *What is your view on the employment, skills and social policy challenges and priority areas for policy action identified in the 2023 Semester Autumn Package? What are in your view the implications of the reform orientations for a new economic governance framework on the employment and social dimension of the European Semester in the light of the European Pillar of Social Rights? Which role do you see for the involvement of the EPSCO (and its advisory committees) in the monitoring of employment and social policies?*
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