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NOTE

From: General Secretariat of the Council
To: Delegations
Subject: European Semester - Synthesis report 2021

Delegations will find attached the synthesis report prepared by the Presidency on conclusions adopted by the Council on the Annual Sustainable Growth Strategy 2021 and the Alert Mechanism Report, as well as on the discussions held in different informal ministerial videoconferences regarding the 2021 European Semester and Recovery and Resilience Facility, during the first phase of the European Semester.

Background

The Commission launched the 2021 European Semester cycle on 17 September 2020, with the publication of the Annual Sustainable Growth Strategy (AGSG) 2021¹, which sets out strategic guidance for the implementation of the Recovery and Resilience Facility. On 18 November, the Commission adopted the remaining documents for the European Semester Autumn Package 2021 - 'Supporting a sustainable and inclusive recovery amid high uncertainty':

- the Alert Mechanism Report 2021², which identifies 12 Member States to be subject to an in-depth review in 2021;
- the proposal for a Joint Employment Report³, which analyses the impact of the COVID-19 pandemic on the employment and social situation in Europe;
- the draft recommendation for a Council Recommendation on the economic policy of the euro area⁴ (euro area recommendation), which calls on euro area Member States to take measures to achieve inclusive and sustainable growth, as well as to boost competitiveness; it also provides policy guidance on the priorities that euro area Member States should pursue in their Recovery and Resilience Plans.

The package also includes Opinions on the Draft Budgetary Plans of euro area Member States, a Communication on the fiscal situation in Romania, an enhanced surveillance report for Greece and post-programme surveillance reports for Cyprus, Ireland, Portugal, and Spain.

The Annual Sustainable Growth Strategy presents an economic outlook based on the Summer 2020 Economic Forecast, which projects that the economies of the EU and the euro area economy will rebound in 2021 after a contraction in 2020. This was then confirmed in the most recent European Commission economic forecast, the Winter 2021 forecast from last February. It acknowledges that the economic outlook crucially depends on the evolution of the pandemic and of the restrictions to economic activity to contain it and that policy support at national and EU level will be crucial for the recovery.

¹ 10887/20

² 13059/20

³ 13251/20

⁴ 13060/20

The ASGS sets out strategic guidance for the implementation of the Recovery and Resilience Facility. The national recovery and resilience plans become the main reference document on the Member States' forward-looking policy initiatives. The plans have to encompass the national agenda of reforms and investments, be consistent with the relevant country-specific challenges and priorities identified in the context of the European Semester, be in line with the EU policy objectives and focus on the green and digital transitions. The four dimensions of environmental sustainability, productivity, fairness and macroeconomic stability remain the guiding principles underpinning Member States' recovery and resilience plans.

As in previous years, the Council adopted Conclusions on the Annual Sustainable Growth Strategy⁵ (on 6 November 2020). The Council agreed that at the sudden and deep recession caused by the COVID-19 pandemic, it was critical to protect citizens, their health and their jobs. It underlined that the smooth functioning of the Single Market was key for ensuring a swift recovery, fair competition and preventing disruptions to crossborder value chains and free movement of workers and goods as well as improving socioeconomic conditions, and stressed that the recovery and resilience plans would need to be aligned with the agreed priorities. Therefore, it invited Member States to set up appropriate governance arrangements for the efficient and sound implementation of the recovery and resilience plans.

The Council strongly encouraged Member States to pursue coherent sets of essential reforms and investments, addressing national structural challenges, including those reflected in the country-specific recommendations addressed to the Member States in the 2019 and 2020 Semester cycles, and supporting long-term sustainable inclusive growth and resilience.

Taking note of the Commission intention to replace the European Semester country reports in 2021 with analytical documents assessing the substance of the recovery and resilience plans, the Council underlined the importance of maintaining horizontal discussions within relevant committees involved in the European Semester.

Ministers also underlined the importance of safeguarding multilateral surveillance within the European Semester despite the changes in the 2021 cycle and called for returning to a fully-fledged European Semester process as soon as possible, including its governance.

⁵ 12631/20

In its Conclusions on the Alert Mechanism Report 2021⁶ (of 25 January 2021), the Council recognised that a number of existing macroeconomic imbalances were being aggravated by the COVID-19 crisis, and new risks may arise, resulting from the pandemic effects, notably related to increasing private and public debt. It also noted that unemployment is set to increase, although supportive policies have cushioned the impact of the fall in activity, and that declining labour productivity is estimated to have led to an increase in unit labour costs in 2020. Finally, it called for ensuring appropriate policy responses to address imbalances and to raise productivity and growth potential and stressed the need for a swift implementation of the Recovery and Resilience Facility, including the recovery and resilience plans.

On 23 November 2020, the Council adopted Conclusions on the employment and social aspects of the Annual Sustainable Growth Strategy⁷. Ministers welcomed the Union's economic response, including through the recovery instrument Next Generation EU, the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) and the increased flexibility in the use of cohesion policy funds under the Coronavirus Response Investment Initiative (CRII and CRII+).

The Council underlined that the European Semester remains an effective coordination tool to ensure coherence in the reform agendas of the Member States. Ministers considered that the European Pillar of Social Rights should continue to serve as a compass for upward convergence towards better working and living conditions in Europe, steering the coordination of employment and social policies at Union level. The principles of the European Pillar of Social Rights should be implemented with due regard for respective competences and that Member States should make use of the significant EU funding available for the relevant reforms and investment, thereby mitigating the socio-economic impact of the crisis, accelerating the recovery and enhancing resilience.

⁶ 5605/21

⁷ 13246/20

The Council strongly encouraged Member States, given the significant employment and social dimensions of the current crisis, to include in their recovery and resilience plans essential reforms and investment in the labour market, social policy, healthcare and the educational and training areas, highlighting that such reforms and investments should support the recovery, promote sustainable and inclusive growth and job creation, as well as address the relevant challenges identified in the 2019 and 2020 country-specific recommendations.

As for the Commission, the Council strongly encouraged it, in close cooperation with Member States, to revise or develop new employment and social policy targets to steer the implementation of the principles of the European Pillar of Social Rights at Union and Member State level.

At the initiative of the Presidency, ministers responsible for economic and financial affairs, employment and social affairs, internal market and industry, environment and research held thematic discussions on topics related to the European Semester in the context of the recovery and resilience plans.

At the informal videoconference of the ministers for the economy and finance of 19 January 2021, the main features and the next steps of the Recovery and Resilience Facility were discussed. Ministers shared their experiences on the preparation of the recovery and resilience plans. Most interventions focused on the multiplier effect on the economy, the need to frontload actions, the need to ensure the ownership of the process including through a strong dialogue with social partners, and, of course, the key objectives of the plans - green transition, digital transition, social and territorial cohesion, gender equality, education, strengthening of the health systems, social inclusion, a modern and digital public sector administration. The Presidency decided to make the exchange of views on the implementation of the Recovery and Resilience Facility a recurrent topic in the ministers' meetings.

At the informal videoconference ministers for the economy and finance of 16 February 2021, the Presidency provided an overview of the state of play regarding the Recovery and Resilience Facility and three Member States presented their drafts recovery and resilience plans and their preparation process. On 16 March 2021, during the informal videoconference of ministers for economy and finance, the Presidency noted that many Member States are already at an advanced stage of preparation of their plans and recalled that European-wide recovery will benefit from the swift implementation of the Recovery and Resilience Facility. The Commission welcomed progress made by many Member States on the recovery and resilience plans since the last meeting, while it underlined the remaining issues to tackle. Whereas only fully mature plans should be submitted, the Commission indicated that it welcomes early submissions, so that they could be taken into account into the Commission Spring forecast and allow for a disbursement of the pre-financing early in the second semester. Three Member States made presentations on the content and state of preparation of their recovery and resilience plans.

On 25 February 2021, the ministers responsible for internal market and industry held a policy debate by videoconference on the 'European Semester – National Recovery and Resilience Plans as an instrument for delivering on Industrial Policy goals: strengthening the Single Market, the Twin Transitions and the Strategic Autonomy in an Open EU'.

Overall, the ministers focused on the importance of the green and digital transitions and on the need to make the EU economy more resilient, with several ministers referring to the importance of cross-border projects, as well as the role of important projects of common European interest (IPCEIs) for enhancing Member States coordination.

A well-functioning Single Market and fair competition are the preconditions for Europe to come out stronger and more resilient from the COVID-19 crisis. Ministers underlined the importance of ensuring the free flow of goods and services in the Single Market.

The Recovery and Resilience Facility was seen as an unprecedented opportunity not only to ensure recovery and resilience, but also to boost innovation and respond to the economic, environmental and societal challenges. However, public funding would not be sufficient and private investment has to be mobilized, highlighting the attention that should be paid to SMEs.

Ministers suggested to look into vulnerabilities and EU dependencies on third countries regarding strategic goods, services, technologies and infrastructure, and to identify possibilities for strengthening strategic global value chains and diversifying external sources of supply, stressing the need for reducing critical dependencies and reinforcing the EU's strategic autonomy. On the other hand, many ministers underlined that the EU economy is built on the principle of open markets and relies on multilateral rules and a solid network of free trade agreements.

On 26 February 2021, the ministers responsible for research held a policy debate by videoconference on the recovery and resilience plans in the context of the European Research Area with a focus on investments and reforms.

Ministers shared the view that research and innovation must be at the core of the economic recovery from the crisis, not only to spur economic activity, but also in accelerating the green and digital transitions and in strengthening system-wide resilience. Structural reforms and smart investments in the context of the recovery and resilience plans and the European Research area can greatly reinforce the economic and social cohesion of EU countries and regions. Furthermore, they will help address the challenges identified in the country-specific recommendations.

National governments have to seize this opportunity to mobilise the Recovery and Resilience Facility for boosting investments in the most beneficial assets of the European Research Area, such as the improvement of framework conditions for researchers, open science policies, pan-European research infrastructures, as well as for maximising synergies between the Union programmes, and between Union and national programmes.

The recovery and resilience plans can include a large range of Research and Innovation investments and reforms that can be instrumental in progressing towards the Research and Development targets, and in addressing all the European Research Area strategic objectives agreed by the Council. These investments and reforms should contribute to making the national Research and Innovation systems more resilient and better equipped to face the challenges derived from the current crisis.

An exchange of views on the employment and social policies in the Semester in the context of the recovery and resilience plans was held at the informal videoconference of the ministers of employment and social policy of 15 March 2021, on the basis of a steering note by the Presidency. Ministers provided input to the following questions:

- 1) How can employment and skills policy reforms and investments as part of the national recovery and resilience plans foster quality job creation and transitions, notably towards the green and digital economy (in line with the Commission Recommendation on Effective Active Support to Employment and the Council Recommendation on the reinforced Youth Guarantee), with a view to bridging the transition from emergency measures to structural change?
- 2) How can it be ensured that social policy reforms and investments featuring in the national plans will support a fair, inclusive and sustainable recovery that leaves no one behind?

Many ministers acknowledged that social and employment related aspects should be at the core of national recovery and resilience plans and gave examples of policy reforms.

Ministers shared the view that Member States are entering a phase of transition from emergency and temporary measures to structural reforms of the labour market and social systems. Employment and social policies must be at the core of national recovery and resilience plans, in order to ensure an inclusive, fair and sustainable recovery which does not leave anyone behind. Many ministers stressed the need to provide workers and unemployed people with the relevant skills to allow them to face the new challenges of the labour market in light of the twin transitions. Young people, women and disadvantaged groups in particular need to have access to targeted training to improve their skills and to allow them to adapt to the evolution of the labour market or to support their transition towards other greener sectors.

In addition, several ministers recalled the need to make national social security systems more resilient: inclusive and sustainable social protection systems are crucial for ensuring adequate incomes and the provision of services especially for those who need them most. In this regard, Member States seek to guarantee adequate access to quality and affordable services, including education, healthcare, long-term care and housing for all.

Ministers acknowledged that the European Semester remains the main coordination instrument for the implementation and monitoring of employment and social policies. For this reason, they insisted on maintaining the fundamental role of EPSCO and its preparatory bodies in the future of the Semester process, without compromising the social dimension of the European Semester cycle. In particular, many ministers also raised the need to return to a fully-fledged Semester cycle very soon.

Another exchange of views on the European Semester was held at the informal videoconference of the ministers of environment on 18 March 2021, which focused on the Recovery and Resilience Plans' contribution to the Green Transition and on the future of the European Semester from an environment perspective.

Ministers drew attention to the exceptional character of the 2021 European Semester exercise, which aims to ensure coordination with the Recovery and Resilience Facility, and reiterated the unique opportunity that the European Semester presents to integrate environmental concerns into broader economic and investment policies. In this regard, ministers welcomed the 2021 Annual Sustainable Growth Strategy as it fully builds upon last year's growth strategy based on the European Green Deal and on the concept of competitive sustainability.

Great support was shown for the Recovery and Resilience Plans' 37% target in the benefit of climate and biodiversity objectives and for the "do no significant harm" (DNSH) principle. Some delegations, however, expressed concerns related to the implementation of the DNSH principle and raised questions on how the Commission would be assessing this and projects' contribution to the 37% climate target.

In view of the difficult choices and complex decisions that lay ahead, ministers agreed that the European Semester remains the best placed mechanism for coordinating economic and social policies, for identifying major structural policy challenges and for monitoring the implementation of reforms. But also to keep track of progress towards relevant Sustainable Development Goals and the overall targets of the Green Deal.

In this regard, ministers acknowledged that while short-term recovery is to be considered a priority, there should be no scope, however, to challenge long-term commitments towards a more sustainable economy. As Ministers have said, the EU needs to ensure that "demands on nature should not exceed its capacity of supply". It is important that future European Semester exercises preserve such environment and climate commitments and goals.

Acknowledging the parliamentary dimension of the European Semester, the Presidency participated in the European Parliament's Joint Debate on the European Semester (10 March 2021) and co-organised with the European Parliament, a European Semester Conference and an Interparliamentary Conference on Stability, Economic Coordination and Governance in the European Union, during the European Parliamentary Week (22 February 2021).