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NOTE

From: Presidency

To: Permanent Representatives Committee/Council

Subject: European Semester 2023

- *Policy debate*
- *Presentation by the respective chairs of the Employment Committee and the Social Protection Committee of the key messages on the Social Convergence Framework*

Delegations will find attached a Presidency steering note on the above subject, with a view to the policy debate at the Council (EPSCO) on 12 June 2023.

EPSCO Council (Employment and Social Affairs)

European Semester 2023

1. The 2023 European Semester Spring Package

The 2023 Semester Spring Package highlights the key challenges for the Union and its Member States under the four dimensions of competitive sustainability – macroeconomic stability, fairness, environmental sustainability and productivity – in light of the socio-economic context. Economic growth in the Union is proving resilient and the labour market remains strong, recording historically high employment rates. At the same time, skills and labour shortages remain sizeable and hold back growth for an increasing number of companies, while employment gaps persist for some population groups, including women and young people. While tensions on energy prices have eased and headline inflation has declined somewhat, it will take time for price pressures to disappear, which will therefore continue to affect the purchasing power of households, especially for low and lower-middle income groups. Wages have increased at a pace well below inflation, without fuelling further inflation, but leading to a substantial erosion of workers' real incomes with effects on their purchasing power.

In the current high cost of living context, closing gaps in access to adequate and sustainable social protection and inclusion systems is key to minimize the impact of high inflation on vulnerable people, together with wage developments that mitigate the loss in purchasing power particularly for low earners, while preserving employment. In this regard, regular updates of minimum wages play an important role too. At the same time, social protection and inclusion systems need to preserve work incentives and actively promote labour market participation and integration. All these elements are crucial to prevent an increase in poverty risks and inequalities.

Beyond short-term priorities, the Spring Package calls to also address longer-term challenges, including strengthening the competitiveness and resilience of the EU economy and make swift progress on the green and digital transitions. The Recovery and Resilience Facility (RRF), together with other EU funding like cohesion policy funds, is essential to accelerate a fair twin transition, and contribute to the implementation of the European Pillar of Social Rights. The ongoing revision of the Recovery and Resilience Plans (RRPs) is an opportunity to address issues related to energy security and the industrial transition to a net-zero economy, as well as to support an accelerated requalification of the workforce towards skills relevant for the green transition, in line with the Council Recommendation on ensuring a fair transition towards climate neutrality and the EU Green Deal Industrial Plan.

The 2023 Country Reports identify policy actions needed at Member State level to overcome short-term as well as structural challenges. In doing so, they take a close look at RRP execution, highlighting implementation risks and delays to be addressed by the Member States. Country Reports include an assessment of progress on the implementation of the European Pillar of Social Rights and on achieving the 2030 EU headline and national targets on employment, skills and poverty reduction, as well as the Sustainable Development Goals (SDGs). Building on the Country Reports' analysis, the Commission proposals for the 2023 Country-Specific Recommendations (CSRs) provide guidance to Member States on tackling key challenges that are only partially addressed or not addressed by the RRP.

2. A Social Convergence Framework for possible integration in the European Semester

At the October 2021 EPSCO meeting, Belgium and Spain presented an initiative to further strengthen the social dimension of the European Semester. In January 2022, the French Presidency tasked the Employment Committee (EMCO) and the Social Protection Committee (SPC) to prepare a joint Opinion by mid-2022, with a view to study more closely the possible introduction and functioning of such initiative. The Opinion¹ reflected different views among Member States and a number of questions regarding the more precise form and functioning of the initiative. At the June 2022 EPSCO meeting, a policy debate on the topic took place, with several Ministers expressing support for launching a pilot project to examine the initiative in more detail. This led the Czech Presidency to invite the Committees, in September 2022, to establish an ad-hoc joint EMCO-SPC Working Group (WG) and initiate the pilot.

In February 2023, the Swedish Presidency invited EMCO and SPC to inform the Council about the Committees' view on the outcome of the pilot project, and to address the key issues identified in June EMCO-SPC opinion of 2022. This would include issues such as:

- the appropriate name of the instrument,
- definitions of the relevant terminology,
- how the instrument would operate,
- how it would be integrated into and affect the current running of the European Semester, including on the role of EPSCO,
- its added value in relation to existing instruments, and
- the potential consequences on administrative burden of Member States and the Committees.

¹ Doc. 9222/22

Due to the possible links to the discussions on the broader future of the European Semester, the Presidency encouraged EMCO and SPC to welcome input from the ECOFIN filière

In response to the Presidency invitation, the Committees presented their views in the *Key Messages from EMCO and SPC*², on the introduction of a Social Convergence Framework in the European Semester.

Following on the Swedish Presidency's invitation to seek input from the Ecofin filière, dialogue between EMCO, SPC and the Economic Policy Committee (EPC) took place on 16 May 2023. The views of EPC are summarized in a letter from EMCO-SPC to the Presidency on 25 May 2023, *inter alia* calling for a joint discussion at technical level on the suggested framework. The ECOFIN Ministers were also informed of the ongoing work on the Social Convergence Framework 16 May.

The Swedish Presidency intends to clarify the level of support for introducing a Social Convergence Framework into the European semester process by addressing this issue at the policy debate at the June EPSCO meeting.

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

- *In your view, does the Spring Package 2023 correctly identify all the relevant challenges and policy priorities within the competence of EPSCO that appear necessary in the current socio-economic context?*
- *In light of the examination conducted by the Employment Committee and the Social Protection Committee, would you support strengthening the monitoring of upward social convergence in the European Semester by integrating a Social Convergence Framework as described in the Key Messages?*
- *Would you support the idea of the EPSCO Council every year approving Council Conclusions on Social Convergence in the Union based on the findings and the multilateral discussions under the new framework?*

² Doc. 9481/23