European Semester for economic policy coordination 2023

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The Committee on Economic and Monetary Affairs adopted the own-initiative report by Irene TINAGLI (S&D, IT) on the European Semester for economic policy coordination 2023.

Context

The European Semester plays an important role in coordinating economic and budgetary policies in the Member States, thereby safeguarding the macroeconomic stability of the Economic and Monetary Union. According to the Commission's winter economic forecast, the gross domestic product (GDP) growth rate for 2022 is expected to be 3.5% for both the EU-27 and the euro area but is expected to fall in 2023 to 0.9% and 0.8% for the euro area and the EU-27 respectively. Some Member States will not be able to achieve pre-pandemic GDP until 2024, while the euro area as a whole is already two percentage points above it.

Moreover, according to the estimates in the European Central Bank (ECB) projections, inflation, excluding energy and food, is expected to rise from 3.9% in 2022 to 4.2% in 2023. Wage growth is expected at the moment to only partially mitigate losses in real incomes, without triggering a persistent feedback loop between wages and inflation.

Differences regarding the national forecasts for GDP growth, inflation, unemployment, the general government balance, gross public debt and the current account balance demonstrate the need for flexible and tailor-made approaches. A clear and unambiguous framework is needed for the successful implementation of the new economic governance by Member States.

Economic prospects for the EU

Members are concerned that the EU is one of the most exposed advanced economies to downward risks, given its geographical proximity to Ukraine and heavy reliance on energy imports, particularly on gas from Russia. The impact of high energy prices and inflation leads to the erosion of household purchasing power and industry competitiveness, in particular of small and medium-sized enterprises (SMEs). A reduction in aggregate demand, combined with less favourable financing conditions, could lead to a sharp decline in investment and therefore in economic growth. Members are worried that investment in renewables and energy efficiency could also suffer, although these are precisely the investments required to reduce reliance on imported fossil fuels and limit inflation driven by energy prices.

The report stressed the need for **adequate and predictable public revenue** to ensure the sustainability of public finances in times of pressing investment needs and frequent economic shocks. It underlined that in the current circumstances, Member States may also consider **raising revenues on windfall profits**, in particular of the energy companies that have benefited excessively from the energy crisis. **Robust economic growth, sound fiscal policies** and a healthy balance between government revenues and expenditure are necessary to reduce legacy debt, make debt sustainable in the long term and to create the required fiscal space to address future challenges.

Members are also concerned that rising mortgage rates and the deterioration in debt servicing capacity resulting from the decline in real household income may cause further distress for families and for financial markets. They stressed the importance of adequate and coordinated fiscal, structural and

regulatory policies and reforms that complement the European Central Bank's monetary policy actions to bring down inflation to its target level.

The European Semester and the Recovery and Resilience Facility (RRF)

The report observed the sizeable impact of the NextGenerationEU (NGEU) instrument as estimated by the Commission, the ECB and the International Monetary Fund, in particular an increase in GDP growth of up to 1.5% higher than without NGEU investment if the instrument is implemented effectively. Members stressed that the majority of the reforms and investments, which are key to increasing the long-term potential output levels of the Member States, are yet to be completed. They agree with the Commission that strengthening the EU's competitiveness and its long-term potential for sustainable growth remain key to contributing to economic prosperity and social welfare.

The report also noted that many Member States are suffering from **structural challenges and a lack of investment**, hindering their growth potential. It stated that future reforms of the European Semester should aim for a more transparent and democratic process relating to the definition of policy objectives and the conduct of policy coordination, as well as the involvement of Parliament in monitoring and scrutiny.

EU economic governance framework reforms

While welcoming the publication of the Commission's communication on orientations for a reform of the EU economic governance framework, they expressed concern about its **delay** and stressed the need to adopt and implement legislative proposals before time runs out and the current legislature comes to an end.

The report also stressed that the revised regulatory framework should allow Member States to have **sufficient leeway** to deliver decisive crisis resolution measures when they are needed. Members stressed that the continued suspension of the Stability and Growth Pact is creating a harmful vacuum and calls for an **urgent review** of the EU fiscal framework.

The Commission suggests allowing Member States to have **different debt reduction paths**, provided that these enhance growth and avoid procyclicality, improve debt sustainability and are in line with the EU's objectives, in particular those of the green and digital transition, social resilience and strategic autonomy. Members highlighted the need for common criteria to ensure that, in spite of more country-specific flexibility in debt reduction, all Member States are assessed according to the same standards, are treated equally, and that flexibility must by no means lead to the unequal enforcement of the overall framework.

Enhanced fiscal policy

The report noted that while monetary policy is conceived and designed as a single instrument, the overall fiscal policy is the result of aggregating national fiscal policies. Members underlined that coordination of actions has thus far been limited and the situation and challenges of the euro area have not been easy to factor in. The Commission is called on to do more to encourage better fiscal coordination.

Democratic accountability

Lastly, the report recalled that the better law-making agreement reiterates that the European Parliament and the Council are to exercise their powers as co-legislators on an equal footing and that the Commission therefore needs to treat them equally, fully respecting the competences defined by the Treaties. It recalled the importance for the economic governance framework to be subject to democratic accountability. In this regard, Parliament should therefore be fully involved in the reform of the economic governance framework, as well as in the future conduct of economic governance in the EU. Members stressed the role and responsibility of national parliaments in scrutinising the collective actions of national governments.