European Semester for economic policy coordination 2023

2022/2150(INI) - 15/03/2023 - Text adopted by Parliament, single reading

The European Parliament adopted by 451 votes to 133, with 48 abstentions, a resolution on the European Semester for economic policy coordination 2023.

Members recalled that 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.

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). They recalled that an inflation rate approaching the ECB target level will be a condition for long-term sustainable economic growth.

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 resolution 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 underlined the importance of **adequate and coordinated fiscal, structural and regulatory policies and reforms** that complement the ECB's monetary policy actions to bring down inflation to its target level, which are also capable of supporting household incomes and providing targeted and temporary support to companies and SMEs suffering from supply bottlenecks and high energy costs. They noted that further increases of the ECB's key policy rates or quantitative tightening put considerable pressure on highly indebted Member States and may further contract economic activity.

Members support the Commission's recommendation that budgetary policies should aim to achieve **prudent budgetary positions** in the medium term and ensure the sustainability of public finances through gradual consolidation and sustainable growth-enhancing investments and reforms.

Members agreed with the Commission's recommendation that fiscal policies should aim to achieve prudent medium-term fiscal positions and ensure fiscal sustainability through gradual consolidation and investment and reforms which enhance sustainable growth.

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

The resolution 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.

Parliament welcomed the close link between the European Semester and the implementation of the RRF, whereby the national recovery and resilience plans (NRRPs) must be consistent with the relevant country-specific challenges and priorities identified in the context of the European Semester. It also highlighted the key role being played by the NRRPs in driving the Member States' reform and investment agendas and called for effective monitoring of the implementation of the country-specific recommendations (CSRs).

Members 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.

Commission's communication on orientations for a reform of the EU economic governance framework

Parliament concurred with the analysis of the European Fiscal Board that the continued suspension of the Stability and Growth Pact is creating a harmful vacuum and called for an urgent review of the EU fiscal framework, preferably to be completed prior to the deactivation of the general escape clause. It revised regulatory framework should allow Member States to have sufficient leeway to deliver decisive crisis resolution measures when they are needed. The activation of escape clauses should remain a measure of last resort in the event of unforeseen circumstances.

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.

The resolution 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**.

Lastly, Members 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.