Social partners meeting on RRF implementation and economic governance review

10 February 2022

Participants: Executive Vice-President Valdis Dombrovskis, [redacted] (ETUC), [redacted] (BusinessEurope), [redacted] (SGI Europe), [redacted] (SME United).

The Commission (EVP Dombrovskis) explained that the purpose of meeting was to get the European social partners' feedback on the state of play of the RRF implementation and their involvement therein and to have an exchange of ideas on the on-going review of the European economic governance framework.

1. RRF Implementation

The Commission provided a **summary overview of the state of play**. By now, 22 out of 27 RRPs have been adopted and are being implemented. The Commission has released EUR 65.5 billion in pre-financing to 21 Member States. The first regular payment requests have been sent to the Commission by ES, FR, IT, EL and PT. Last December, EUR 10 billion has been paid out to ES, following the completion of 52 milestones and targets. The preliminary assessment of the payment request by FR is also positive. The online scoreboard is up and running and allows for detailed implementation monitoring. The Commission continues to press the Member States to ensure proper involvement of the social partner organisations. EVP Dombrovskis referred to the labour market reforms in ES as a good practice example of tripartite cooperation, expressing the hope that we would see similar examples across the EU.

All social partners underlined the positive trend in the **involvement of their national member organisations in the RRF Implementation.** At the time of the negotiations on the national RRPs, the involvement was unequal across Member States. Currently, however national governments now more actively involve business federations and trade unions in the implementation phase, according to the survey of their members. ETUC indicated that some exceptions remain and will provide a more detailed assessment in writing. SGI Europe invited the Commission to continue requesting the more reluctant Member States to involve social partners. A Council Recommendation on this would be welcomed. BusinessEurope stressed that the RRPs will only provide positive results if the reforms are implemented, including with due involvement of all social partner organisations.

ETUC inquired about ex post **impact assessment of the RRF.** It stressed that such an assessment should also look at the impact on elements such as quality job creation, investment in human capital and environmental impact. BusinessEurope agreed on the importance to assess the impact of the RRF on the ground arguing that one should also look at how the RRF has contributed to improving competitiveness. SMEUnited agreed on the importance of a proper impact assessment but indicated that it is still too soon.

ETUC questioned whether the **RRPs** were **sufficiently strategic in their approach** to investment and reforms and whether they were sufficiently aligned with the European policy priorities including the European Green Deal, European digital agenda, the European Pillar of Social Rights and the associated Action Plan, as well as industrial (open strategic) autonomy.

SGI Europe expressed some concerns about the extent to which the RRF provides incentives for reforms and investments to those **Member States with a small financial envelope.**

SMEUnited highlighted feedback of its members regarding **delays in the implementation of SME measures** (notably in ES and RO), and that some programmes in the area of energy efficiency and renewables were already oversubscribed and in need of additional resources.

All social partner organisations welcomed the online **RRF Scoreboard.**

EVP Dombrovskis welcomed the improvement on the involvement of social partners in the various Member States. With respect to the requests to assess the impact of the Facility, he underlined that Regulation foresees the adoption of annual reports as well as a mid-term assessment and referred also to the output indicators in the monitoring scoreboard. In relation to the remarks about alignment with the European priorities, the EVP referred to the provisions in the Regulation requiring the RRPs to address the 6 European policy pillars and the relevant country-specific recommendations. The comments about oversubscription point towards the success of the Facility. Additional funding can be provided, where needed, from other EU funding programmes such as the Just Transition Fund and the Cohesion funds.

2. Economic governance

The **EVP summarised the history of the on-going review** and provided more details on the current state of play. He stressed that the current fiscal framework has worked reasonably well, that the 3% deficit threshold has become somewhat of a benchmark and that the flexibility embedded in the Stability and Growth Pact (SGP) has proven its worth during the crisis. Nevertheless, he argued that some weaknesses needed to be addressed such as high and persisting public debt levels, and reducing debt should go hand-in-hand with investment, for which improved composition and the quality of public finances are of particular importance. High debt levels will need to be brought down in a sustainable and gradual way.. He also underlined the need for simplification and the difficulties resulting from the use of indicators that are not directly observable.

With respect to the **next steps**, the EVP indicated that the Commission is currently examining the responses to the public consultation and conducting a targeted exchanges with relevant stakeholders and Council committees. He recalled that the General Escape Clause would cease to be applicable as of 2023 and that, in this context, the Commission will come forward early March with fiscal guidance to allow Member States to develop their Stability and Convergence Programmes for the period 2023-2025. In 2022, fiscal policy should remain moderately supportive but the fiscal support needs to be temporary and targeted and place no permanent burden on public finances. The Commission intends to table proposals for the review of the economic governance framework well in time to reach a consensus by 2023. Depending on the progress made in the discussions with Member States, this could happen somewhere between May and end of July.

Both BusinessEurope and SMEUnited underlined the **challenging economic environment** in which the discussions on the economic governance review take place, marked by **high inflation, disruptive energy prices and growth-hampering staff shortages**.

All social partners agreed on the **need to reform the economic governance framework** as economic circumstances have changed. They also concurred on the **need for simplification** and on the need for a **framework that is conducive to investment**, allowing the Member States to meet the sizeable investment needs related to the twin transition.

BusinessEurope considered it necessary to avoid a premature unwinding of fiscal support. In the medium-term, however, there is a need to return to fiscally sustainable positions to react to future shocks and strengthen investors' confidence. The outcome of the review should be a strengthened, more credible SGP that relies on simplified rules and coordinates fiscal policy in an anti-cyclical manner, providing incentives for productive investment.

SGI Europe recalled the 2015 Communication on the best use of the flexibility within the SGP. In their view, the economic governance review should codify some of the flexibility set out in that Communication and make it an integral part of the legal framework. SGI Europe also insisted on the need for a country-specific approach (no one-size-fits all) to fiscal policy, referring to the "RRF model" as an example to follow to build more ownership on behalf of the Member States. Finally, SGI Europe pleaded for an integrated approach to economic policy coordination, encompassing both fiscal policy and structural reforms.

ETUC stressed that a mere codification of the flexibility set out in the 2015 Communication would not be sufficient. The experience fighting the pandemic has demonstrated the need to combine a policy framework focused on fiscal sustainability with an ambitious investment policy framework. For the latter, the ETUC considers that the EU should explore options to boost investment, including by making part of NextGenerationEU permanent and by issuing European bonds to make national public debts more sustainable. ETUC also underlined the need for a strategic approach to investment, linking it to the European priorities as discussed earlier. In this respect, it would be useful to embed the criteria set out in the Taxonomy in the fiscal policy coordination framework. In terms of the wider economic governance under the European Semester, ETUC argued in favour of a more balanced framework including a social and potentially environmental imbalances procedure alongside the existing macro-economic imbalances procedure. The BE/ES proposal provides a good basis to work on, in its opinion.

Reacting to ETUC's considerations, **BusinessEurope** argued against making the instruments developed during the crisis permanent. It concurred with the need for a strategic approach to investment but underlined that the overall competitiveness of the Single Market is also a core strategic objective of the EU. BusinessEurope expressed clear reservations against the idea of a social imbalances procedure. In its view, there is scope to improve the benchmarking frameworks in the area of employment and social policy but the BE/ES proposal does not provide a good basis for such an exercise. BusinessEurope also voiced some scepticism with respect to the idea for embedding the taxonomy in the fiscal rules. More broadly, the Taxonomy may exacerbate the differences in the access to finance of SMEs and large corporations, since the latter can finance themselves more easily outside of the EU.

In his **concluding remarks**, the EVP stressed that the review of the fiscal policy framework and the discussion about the available instruments to boost investment at the EU level should be dealt with separately. The crisis instruments in NextGenerationEU were conceived as one-off instruments and the Commission has no intention, at the current juncture, to enter into discussions on whether and how to make them more permanent. With respect to the idea for a social imbalances procedure, the EVP signalled the willingness of the Commission to explore how the analysis of employment and social challenges and policies can be further improved in the context of the Semester. He indicated, however, that the Commission has reservations to introducing new procedures in an already complex policy coordination framework.