Remarks by Executive Vice-President Dombrovskis, Commissioner Gentiloni and Commissioner Schmit at the press conference of the 2023 European Semester: Autumn Package

Brussels, 22 November 2022

Executive Vice-President Dombrovskis

This has been a complicated year for the EU economy.

EU economies recovered at record speed from the COVID-19 crisis. As a result, the EU labour market has performed very strongly. Employment is at its highest in decades.

But since Russia's invasion of Ukraine, we face a series of new economic, social and geopolitical challenges.

People across Europe are struggling with rising living costs.

Energy prices are high, and interest rates have risen to tackle inflation. Our companies are losing global competitiveness.

This is a critical time when it is vital for the EU to coordinate its policies effectively.

Our compass for doing so is the European Semester.

Our immediate priorities are to:

- secure our energy supplies as fast as possible

- ensure a fair distribution of costs of the crisis

- align fiscal and monetary policies to tackle inflation

First, on energy: we have already taken a series of immediate measures. But more action is warranted.

This is why we proposed the REPowerEU plan.

We hope to finalise the trilogue negotiations by the end of this year. We also need to support vulnerable people and companies, particularly small businesses.

This brings me to the second priority: fairness in shouldering the burden of costs caused by this crisis.

Here, the quality of fiscal support measures provided by Member States varies widely.

We have analysed these in detail in the draft budgetary opinions which we published today.

In 2022, less than 30% of support measures have been well targeted, meaning that 70% of the measures are not targeted.

So most measures are not helping those who really need it, or not focusing on this - and are not reducing energy demand, keeping prices high.

For this reason, we invite governments to urgently improve the quality of their support measures.

Today's euro area recommendations suggest creating a two-tier model for energy pricing as a fairer system to use in the current crisis.

Consumers would pay subsidised energy price up to a certain level of consumption, after which the normal market rate would apply.

On the last priority - ensuring consistency between fiscal and monetary policy: as we have said before, this is <u>not</u> the time to provide further fiscal support.

That would fuel inflation and create more risks in high-debt countries. Instead, the fiscal stance should be broadly neutral.

We analyse this in the Opinions on the Draft Budgetary Plans of euro area Member States.

Overall, we see that investment is keeping up and that, in many cases, budgets are prudent – which is good news.

However, there are a few countries where current expenditure is growing too fast.

Among countries with high debt, this is clearly the case for Belgium. And we see also some risk for Portugal.

We did not adopt an opinion on Italy's plan since it was submitted by the outgoing government on a 'no policy change' basis.

We expect to receive the full plan by the new government shortly and will provide our opinion in the coming weeks.

For the countries with medium or low debt, current expenditure is growing too fast in Austria, Lithuania, Germany, Estonia, Luxembourg, the Netherlands, Slovenia and Slovakia.

For all these countries, additional measures are needed.

Latvia's plan was submitted on a 'no policy change' basis.

So we will come back to this once a new government submits its full plan.

On macroeconomic imbalances, Paolo will explain in more detail.

To conclude: as we tackle these imminent priorities, we will not forget our long-term objectives. What we do now should be consistent with our goal of competitive sustainability.

This is exactly what the European Semester ensures.

Thank you.

Commissioner Gentiloni

I am confident that we can address the multiple crises that have hit our economy. We know from our forecast that we are entering a short contraction, but I think we can avoid a long-lasting recession. The challenge is to deliver a comprehensive and coordinated response based on four interlocking dimensions: fairness, productivity, environmental sustainability and macroeconomic stability.

Our proposed euro area recommendation tries to navigate an ocean of uncertainty by translating this common agenda into five tailored recommendations for the euro area.

i. First, euro are countries should refrain from broad-based fiscal expansion while delivering targeted support for the most vulnerable.
ii. Second, the euro area should sustain public investment and pursue reforms and EU-funded investments in the framework of the RRF, including REPowerEU, and cohesion policy.
iii. Third, wage developments should protect purchasing power, in particular for low wage earners, while reflecting medium-term productivity developments and limiting second-round effects on inflation.
iv. Fourth, concerning the business environment, we reiterate that energy crisis support to viable firms should be temporary and targeted – maybe you have heard these two words – and the need to develop further insolvency frameworks and the Capital Markets Union.
v. And fifth, the euro area should support financial integration, strengthen risk monitoring and maintain the flow of credit to the economy.

Concerning the macroeconomic imbalances, this year's Alert Mechanism Report that we present concludes that seventeen Member States should undergo an in-depth review.

This is a marked increase compared to last year, and is partly a reflection of emerging risks of imbalances related to the energy crisis.

But it is also in line with our orientations on the economic governance review, which called for the Macro-Economic Imbalance procedure to become more forward-looking and dynamic, focusing more on emerging risks than at legacy issues.

Lastly, our Opinions of the Draft Budgetary Plans. The fiscal stance for 2023 is projected to be broadly neutral, in line with the Council recommendations and the Eurogroup's call to avoid adding to inflationary pressures.

The cost of energy measures is estimated at 1.3% of GDP this year and 0.9% in 2023.

But if all existing measures were extended throughout 2023, the total cost could reach around 2% of GDP, much higher than in 2022. So there is a clear risk that the fiscal stance may turn out more expansionary than currently projected.

On the plus side, let me conclude with this, all Member States plan to finance public investment for the green and digital transitions and for energy security, including by making use of the RRF and other EU funds. In 2023 all euro area Member States are expected to preserve or increase nationally financed investments. This is a big achievement and a positive difference from the experience of the previous crisis.

Commissioner Schmit

The Joint Employment Report analyses the social and employment situation across the EU.

For the first time, it also covers the national targets on jobs, skills and poverty reduction as asked by the Porto Summit conclusions, and put forward by Member States in June this year.

Monitoring of progress in implementing the Pillar of Social Rights has been reinforced, and a Working Group is currently discussing a possible enhanced social convergence assessment framework.

I will focus on two aspects: employment and labour market, and wages.

The labour market has successfully recovered from the shock of COVID-19.

In the second quarter of this year we saw a record-high employment rate and record low unemployment rate.

However, we need to stay vigilant in the wake of the energy crisis and Russia's war of aggression against Ukraine which are having a strong impact on our economies.

The economic slowdown, increase in energy prices and the bottlenecks in the supply chain, all bring serious risks of knock-on effects on the labour market.

Long-standing gender inequalities continue to create challenges for women's participation in the labour market.

Unpaid work, including care obligations, prevented eight times more women than men from seeking paid employment and we still face mismatches on our labour market.

The share of 15 to 29 year olds neither in employment nor in education or training (NEETs) decreased from 13.2% in 2021 to 11.6% in 2022, as overall youth unemployment decreased, but we still have a relatively high level.

We are really challenged to find the right ways to bring these young people back either to the education system or labour market. We should work on adequate measures.

Both labour and skills shortages remain a major concern in the EU. Vacancy rates have doubled in key sectors since the start of this year.

In 2021, the sectors reporting the most shortages were in healthcare, long-term care, software, construction, and engineering.

As we accelerate our efforts towards clean energy production, we also need to accelerate the training of workers in new, green skills.

Under the Pillar Action Plan, Member States are working towards a collective target of 60% of adults taking part in training each year.

The uptake of digital skills remains too low. Only 54% of adults have basic digital skills while 90% of jobs require digital skills.

The announcement of 2023 as the European Year of Skills is really topical. I hope we can work on very concrete measures to mitigate these skills mismatches on our labour market.

Nominal wage growth picked up by 4.1% in 2021, because there was a rebound in hours worked and strong economic recovery.However the report shows that developments in negotiated wages remained limited in 2021 and wages continued to increase at a much slower pace than prices in the euro area. Real wages declined by 3.3% in Q2 2022 compared to Q2 2021.

Inflation has eroded recent increases in minimum wages. 16 out of 21 Member States' real income wages declined up to August 2022.

This shows the importance of protecting low wage earners. Right now it is particularly important to protect the incomes of the most vulnerable.

Minimum wages and collective bargaining have an important role to play in this respect, together with targeted support social policies adopted by Member States.

STATEMENT/22/7089

Press contacts:

Veerle NUYTS (+32 2 299 63 02)
Laura BERARD (+32 2 295 57 21)

General public inquiries: Europe Direct by phone 00 800 67 89 10 11 or by email