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COMPET 132
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NOTE

From: General Secretariat of the Council
To: Delegations
Subject: European Semester - Synthesis report 2022

Delegations will find attached the Synthesis Report prepared by the Presidency on conclusions adopted by the Council on the Annual Sustainable Growth Survey 2022, the Alert Mechanism Report, the proposal for a Joint Employment Report and the euro area recommendation. Related Council conclusions and discussions held in different Council configurations regarding the 2022 European Semester, during the first phase, are also reflected in the document.

It should be underlined that this Synthesis Report 2022 was prepared on the basis of discussions held in different Council configurations and on the European Semester documents that were prepared and issued before the effects of the situation resulting from the Russian Federation's military aggression against Ukraine could be assessed and taken into account.

Background

The Commission adopted on 24 November 2021, the "Autumn Package" for the 2022 European Semester, which included:

- the Annual Sustainable Growth Survey 2022 (ASGS)¹, which set out the economic and employment policy strategy for the EU, in order to rebound stronger from the COVID-19 crisis and making Europe greener and more digital, in line with the four dimensions of competitive sustainability;
- the Alert Mechanism Report 2022², which recommended that twelve Member States should undergo an in-depth review in 2022 to identify and assess the gravity of possible macroeconomic imbalances;
- the proposal for a Joint Employment Report³, which analysed the employment and social situation in Europe and highlighted the areas in which progress was made, and where more needed to be done;
- the recommendation for a Council Recommendation on the economic policy of the euro area (euro area recommendation)⁴, which recommended for the period 2022 –2023 euro area Member States to take action, individually, through the implementation of their Recovery and Resilience Plans, and collectively within the Eurogroup.

The economic perspective presented in the 2022 Annual Sustainable Growth Survey (ASGS) is based on the Commission's Autumn economic forecast of November 2021. The ASGS provided evidence that efforts in dealing with the immediate effects of the COVID-19 shock were bearing fruit. For 2021, GDP in the euro area and in the EU were both expected to grow by 5.0%. As the EU economy moved from recovery to expansion, supported by an improving labour market, favourable financing conditions and the swift deployment of the Recovery and Resilience Facility, real GDP growth in the EU was projected at 4.3% in 2022 and 2.5% in 2023. The unemployment rate continued to decline, though it remained marginally above its pre-crisis level. Inflationary pressures have increased due to rising energy prices and supply chain disruptions. Uncertainty and risks remained high, including the evolution of the pandemic, both within and outside the EU.

¹ 14145/21

² 14143/21

³ 14267/21

⁴ 14146/21

The ASGS recommended economic activity to be increasingly aligned with the four dimensions of competitive sustainability: environmental sustainability, productivity, fairness, and macroeconomic stability, and that the four dimensions should not be seen in isolation, as they reinforce each other. Europe's economic, social and environmental policy agenda should thus ensure that governments at all levels, businesses, social partners and households contribute consistently towards reaching our targets for the green and digital transitions, as well as the employment, skills and poverty reduction targets set with the European Pillar of Social Rights Action Plan, while ensuring the stability of our economy, the smooth functioning of the Single Market and leaving no one behind.

The Annual Sustainable Growth Survey recalled that the European Semester provides a well-established framework for coordinating the economic and employment policies of the Member States and will continue to play this role in the recovery phase and in advancing on the twin transitions. The Communication also sketched out the main characteristics of the 2022 European Semester cycle and explained the main changes compared to previous cycles, taking into account the need to adapt to the processes under the Recovery and Resilience Facility.

Due to the publication date of the Autumn package, the December Employment and Social Affairs Council did not hold the usual exchange of views on the Annual Sustainable Growth Survey.

As in previous years, the Economic and Financial Affairs Council (on 18 January 2022) adopted conclusions on the Annual Sustainable Growth Survey⁵. The Council welcomed the economic priorities put forward in the Annual Sustainable Growth Survey 2022, as the continued focus on competitive sustainability in line with the European Green Deal. It agreed that the four mutually reinforcing dimensions (environmental sustainability, productivity, fairness and macroeconomic stability) remain valid for achieving the EU goal of shifting towards a sustainable, resilient and inclusive economic model.

⁵ 5365/22

Taking into account the strength of the recovery and the degree of uncertainty, the Council considered that Member States should stay agile in their fiscal policy response in order to be able to react to the evolution of the pandemic. It invited Member States, that are moving from broad fiscal support to more targeted policy measures, to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances, while safeguarding fiscal sustainability in the medium term.

The potential of the Recovery and Resilience Facility to contribute to the economic recovery and enhancing strong and sustainable EU growth is acknowledged by the Council, as is its role in delivering a resilient, green and digital EU economy. Thus it called for timely, full and effective implementation of recovery and resilience plans, which address a broad range of economic challenges identified over the past years but continuing EU economic policy surveillance, including close monitoring of emerging risks.

Multilateral surveillance and close policy coordination are of great relevance to the Council, as is a transparent dialogue between the Commission and Member States in all stages of the European Semester and the Recovery and Resilience Facility.

In its conclusions on the Alert Mechanism Report⁶ of 18 January 2022, the Council welcomed the Alert Mechanism Report 2022, which initiates its eleventh annual round, and broadly agreed with the Commission's horizontal analysis of the evolution of macroeconomic imbalances in the EU and within the euro area and emerging risks. It recognises that the pandemic has temporarily affected external accounts but has not fundamentally changed pre-pandemic longstanding current account patterns.

⁶ 5339/22

The report continued to include a forward-looking assessment of the potential implications of the crisis for macroeconomic stability and the evolution of existing macroeconomic imbalances. This was welcomed by the Council as it is particularly relevant given the significant uncertainty around the full impact of the COVID-19 crisis, thus the need for prudence in drawing conclusions on imbalances based on forecast data.

As the Recovery and Resilience Facility provides an opportunity for the EU to support recovery and to emerge strong and resilient from the crisis, the Council called for ensuring appropriate policy responses to address imbalances and to raise productivity and growth potential as well as competitiveness of the EU economy.

On 21 February 2022, the Council approved conclusions on the employment aspects of the Recommendation on the economic policy of the euro area⁷. The Council recommended that euro area Member States take action, individually, including through the implementation of their Recovery and Resilience Plans, and collectively within the Eurogroup, to continue to use and coordinate national fiscal policies across Member States to effectively underpin a sustainable and inclusive recovery. Euro area Member States should keep fiscal policy agile in order to be able to react if pandemic risks re-emerge. As soon as economic conditions allow, Member States were recommended to pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

On 14 March 2022, the Council approved conclusions on the 2022 Annual Sustainable Growth Survey and Joint Employment Report⁸. Ministers welcomed the Union's economic response, including through temporary support to mitigate Unemployment Risks in an Emergency (SURE) and the recovery instrument Next Generation EU, and the fact that the recovery and resilience plans adopted until then included substantial reforms and investments in the areas of employment, skills and social policies.

⁷ 5461/22

⁸ 6473/22

The Council welcomed the Commission's proposal for a Joint Employment Report 2022 and its enhanced focus on the European Pillar of Social Rights principles, as well as the integration of the headline targets and revised headline indicators of the Social Scoreboard in the proposal as part of the European Semester, in line with the Porto declaration⁹.

Ministers called on Member States to reflect the priorities of the Annual Sustainable Growth Survey and the findings of the Joint Employment Report in their National Reform Programmes, and to step up their efforts to implement the principles of the European Pillar of Social Rights. Finally, the Council encouraged the Commission to monitor the employment and social impacts of the green and digital transitions under the European Semester framework.

At the initiative of the Presidency, ministers responsible for employment and social affairs, environment and research held thematic discussions on topics related to the European Semester.

On 14 March 2022, during the employment and social affairs Council, ministers held a debate.

The Environment Council, on 17 March 2022 held a thematic debate on the European Semester.

Acknowledging the Parliamentary dimension of the European Semester, the Presidency and the European Parliament co-organised the European Semester Parliamentary Week 2022 (15-16 March 2022), in the context of EU economic governance from a parliamentary perspective.

⁹ <https://www.consilium.europa.eu/en/press/press-releases/2021/05/08/the-porto-declaration/>