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**Opinion of the European Economic and Social Committee on Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank — Annual Sustainable Growth Survey 2024**

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(C/2024/2484)

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Section responsible	Economic and Monetary Union and Economic and Social Cohesion
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Outcome of vote (for/against/abstentions)	203/0/4

## 1. Conclusions and recommendations

1.1. The European Economic and Social Committee (EESC) recommends that the European Central Bank (ECB) closely monitor economic risks and carry out careful contingency planning to ensure credible inflation outlooks. It advises the ECB to be prepared to adjust policies if the projected decline in inflation slows or reverses, or alternatively drifts too far below 2 %, thus advocating for clearer contingency planning to uphold the credibility of the inflation outlook.

1.2. The EESC calls for concrete engagement with national parliaments, regional and local authorities, civil society and social partners on reforms of the EU's macroeconomic governance framework. It stresses the importance of taking ownership of these reforms at national level through effective dialogue.

1.3. The EESC emphasises the critical importance of integrating democratic values and rule of law principles in the EU's economic governance. It advocates for policies and practices that uphold these core values, ensuring that economic development is aligned with democratic standards and legal frameworks.

1.4. Acknowledging the diverse economic conditions and growth challenges of Member States, the EESC advocates for fiscal consolidation that takes into account each Member State's unique situation. This approach seeks to balance fiscal prudence with the ongoing need to support groups vulnerable to high inflation and decreased purchasing power.

1.5. The EESC urges a balanced approach to phasing out crisis support, which continues to assist vulnerable groups impacted by high energy costs and inflation. It calls for a permanent framework of means-tested support in some countries, and emphasises the need for a detailed discussion on social impacts.

1.6. The EESC insists on addressing the slow pace of project implementation under the Recovery and Resilience Facility (RRF), especially in specific sectors. It calls on the European Commission and on national governments to provide the necessary support to enhance administrative capacity and streamline processes, and to involve civil society in the implementation of the national recovery and resilience plans (NRRPs).

1.7. The EESC emphasises the need to increase labour market participation through upskilling, ensuring equal opportunities and targeting regional disparities. It advocates policies addressing pandemic-induced learning losses, focusing on the needs of disadvantaged students and schools.

1.8. While supporting measures to boost productivity, the EESC urges more courageous actions to dismantle administrative obstacles hampering EU businesses as well as other stakeholders. It argues that initiatives to reduce reporting obligations must be coupled with stronger incentives for investments in sustainability, including cross-border ones.

1.9. The EESC advocates for a balanced fiscal approach integrating stakeholder input and considering economic realities across Member States. It underscores that the implementation of recovery plans should align with this nuanced approach in order to prevent undermining environmental and social objectives.

1.10. The EESC is disappointed by the delayed establishment of the EU Sovereignty Fund, while the limited budget for the Strategic Technologies for Europe Platform (STEP) raises serious doubts about the EU's dedication and ability to achieve its green transition objectives, as well as concerns about investment in the EU's competitiveness. Additionally, it is important to note that long-term economic success and competitiveness cannot solely be built on subsidies.

## 2. Background to the opinion

2.1. After a strong recovery in 2022, the European economy has slowed due to high inflation and tighter financial conditions. Despite these challenges, it avoided a recession and continues to demonstrate resilience. The EU now enjoys historically low unemployment, although geopolitical uncertainties have led to adjusted growth projections for 2023 and beyond, with modest growth expected in the coming years. Moreover, the latest economic projections show that the prospect of negative growth in the eurozone is still lingering.

2.2. The expiration of the Stability and Growth Pact's general escape clause at the end of 2023 marks a significant post-pandemic economic shift. This clause aimed to support monetary policy, curb inflation and ensure fiscal sustainability, while allowing for vital investments and growth. The European Commission's fiscal policy for 2024 proposes initiating deficit-based excessive deficit procedures in spring 2024, reflecting a balance between economic stability, growth, and fiscal discipline.

2.3. With inflation gradually declining, the focus is on fiscal policies supporting monetary efforts to reduce inflation and maintain fiscal health. Emphasis is also placed on public investment, especially in the green and digital transitions. The projected fiscal stance for 2023 and 2024 will help restore fiscal buffers and improve public debt sustainability in some Member States.

2.4. The EU has notably reduced reliance on Russian fossil fuels, leading to decreased natural gas prices, however they are still above pre-crisis levels. Efforts to enhance energy resilience include transitioning to clean energy and revamping the EU's electricity market. Implementing the REPowerEU chapters with cohesion policy funds accelerates renewable energy and energy efficiency, aligning with the EU's climate goals. These measures are vital for stabilising energy supply and normalising prices.

2.5. Over the past decade, the EU's productivity growth has stagnated, highlighting the need for policies geared towards businesses, supporting research, innovation funding, and addressing skills gaps. Improving productivity involves enhancing framework conditions, deepening the single market and upholding the rule of law, with ongoing efforts to assist small and medium-sized enterprises (SMEs) in adopting sustainable practices.

2.6. Despite a strong overall performance, the EU labour market faces challenges such as skills shortages, which impede sustainable growth and innovation. Policies aimed at increasing labour market participation, ensuring equal opportunities and tackling in-work poverty are crucial, especially given demographic shifts and evolving labour market dynamics.

2.7. The targeted revision of the Multiannual Financial Framework (MFF) 2021-2027 showed a continued commitment to contributing to the recovery, reconstruction, and modernisation of Ukraine. However, regrettably, the allocation of the STEP or additional resources to contribute to the competitiveness of the EU economy has remained low.

### 3. General comments

3.1. The EESC notes that the macroeconomic outlook presents significant risks that warrant careful monitoring. Despite avoiding a recession in 2023, and noting that the euro area GDP declined by 0,1 % in the third quarter of 2023, the projected growth rates of 0,6-1,7 % over 2023-2025 are modest. High inflation and tighter financing conditions, coupled with the erosion of purchasing power, could further dampen demand and growth prospects. The EESC is concerned that the continuation of a restrictive monetary policy in 2024 will be accompanied by the introduction of a restrictive fiscal policy, in line with the changes that the European co-legislators seek to introduce in the Commission's legislative package on the reform of the EU's macroeconomic governance framework.

3.2. The EESC observes a current projected decline in inflation. This is indicative of an optimistic trend, but may be overly hopeful, given ongoing geopolitical uncertainties impacting food and energy prices on the one hand, and the difficulty in predicting the medium-term effect of the cumulative increase in interest rates since July 2022 on the other. It recommends that the ECB be prepared to adjust policies if the disinflation path slows or reverses, or alternatively drifts too far below 2 %, thus advocating for clearer contingency planning to uphold the credibility of the inflation outlook.

3.3. The EESC welcomed the Commission's proposals on the reform of the EU macroeconomic governance framework, which allow for more flexible and differentiated country-specific budget paths for public debt reduction<sup>(1)</sup>. It stresses the importance of concrete engagement with national parliaments, regional and local authorities, civil society and social partners, and calls for clearer commitments and mechanisms to ensure that individual countries take ownership of these reforms. However, the changes introduced thus far in the Ecofin discussions on the Commission proposals could enshrine a pro-cyclical orientation of economic policy, which the Committee does not share.

3.4. The EESC supports coordinated, prudent fiscal consolidation to ensure debt sustainability. However, it emphasises that consolidation should be tailored to the economic conditions and growth risks of each Member State to prevent hampering recovery. The EESC stresses the need to thoroughly assess the implications of consolidation in order to avoid negative impacts on social support and public investment, as well as the need to consider that the purchasing power is still under pressure in many Member States.

3.5. The EESC believes that the phase-out of energy crisis supports for households and firms should be balanced with the need to continue assisting groups that are vulnerable to high energy costs and inflation. It calls for a permanent framework that includes the means-tested supports applied in some countries, and emphasises the need for a detailed discussion on the social impacts of this phase-out.

3.6. The EESC underlines the importance of connecting economic governance processes with initiatives to strengthen democracy and the rule of law across Member States. It argues that protecting fundamental rights anchors economic reforms and policies in European values and boosts investor confidence.

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<sup>(1)</sup> OJ C, C/2023/880, 8.12.2023, ELI: <http://data.europa.eu/eli/C/2023/880/oj>.

3.7. Regarding RRF implementation, the EESC expresses concerns and calls for improvements in the implementation across countries. As noted in its *Mid-term evaluation of the Recovery and Resilience Facility* <sup>(2)</sup>, the EESC emphasises the need to involve organised civil society in the implementation phase and:

- insists on addressing the slow pace of project implementation, especially in specific sectors, and calls on the European Commission and national governments to provide the necessary support for the relevant public authorities to be able to appropriately enhance capacity, as well as to streamline processes, reduce bureaucracy and provide necessary support for timely and efficient project implementation;
- advocates for measures to simplify procedures and reduce administrative burdens to enable SMEs, civil society organisations and local and regional authorities to benefit more effectively from the RRF; and
- calls for greater flexibility in project selection, fund allocation and timing to adapt to changing circumstances and emerging needs. Additionally, it urges for improved coordination of the RRF with other European investment instruments, such as the Structural and Cohesion Funds and InvestEU, to enhance overall efficiency and impact.

Taken in the context of a recessionary period and slower lending from banks, we cannot afford to let the RRF fail or have a lower absorption of these much-needed funds.

3.8. The EU labour market continues to show a strong performance despite slower economic growth, with the employment rate reaching a record 75,4 % in Q2-2023 and an unemployment rate falling to 6 %, the lowest ever recorded for the EU. However, regional disparities persist, with some Member States still experiencing high unemployment rates. The EESC notes that the significant labour and skills shortages, particularly in healthcare, STEM and green occupations, are a major bottleneck for sustainable growth. Over 20 % of the working-age population is inactive, including 8 million young people not in employment, education, or training. The EESC emphasises the need for policies to increase labour market participation, enhance skills and ensure equal opportunities for all.

3.9. The EESC emphasises that actions to address labour shortages should adhere to the principles of decent work, decent wages and gender equality outlined in the European Pillar of Social Rights. It recommends that migration policy reforms include appropriate worker protection safeguards for migrants. Moreover, the EESC highlights the importance of implementing the recommendations set out in the *Employment and Social Developments in Europe Report: Addressing labour shortages and skills gaps in the EU* <sup>(3)</sup>. The EESC believes it imperative that workers not bear the sole responsibility for their continuous training, and believes in creating a favourable environment that would enable them to participate in this training. In this regard, it reiterates a call for a coordinated European approach to social investments and reforms, as proposed by the Spanish and Belgian presidencies and for strengthening the discussion on the importance of social convergence.

3.10. The EESC stresses the urgent need for education and skills policies to address pandemic-induced learning losses, focusing on the needs of low-income students and disadvantaged schools. As noted in the ASGS, less than 25 % of the population aged 25-64 in EU rural regions has received post-secondary education, against 44 % in cities. The combined support at regional level from RRF and cohesion policy funding can make the difference. The EESC advocates for targeted policies to address regional productivity disparities, encouraging policy coordination between RRF reforms and cohesion funding. It calls for greater involvement of regional authorities in policy co-design.

3.11. While the efforts to boost productivity through improved framework conditions and deepening the single market are commendable, the EESC emphasises the need for more effective measures to dismantle administrative obstacles hampering — among other things — EU businesses. The initiative to reduce reporting obligations by 25 % is a positive step, but it must be coupled with stronger incentives, including for cross-border investments, particularly in the green and digital sectors. The EESC also recognises the crucial role of deep and integrated EU capital markets in sourcing private

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<sup>(2)</sup> EESC evaluation report on *Mid-term evaluation of the Recovery and Resilience Facility*.

<sup>(3)</sup> <https://ec.europa.eu/social/BlobServlet?docId=26989>.

investment, yet it underscores the need for more concerted efforts to facilitate innovation and reduce market barriers. Moreover, the EESC highlights that respect for the rule of law, including independent and efficient justice systems, is not only a legal imperative but also a fundamental prerequisite for creating a business environment conducive to investment and innovation.

3.12. The EESC acknowledges the SME Relief Package as a vital move towards fostering a fair and SME-friendly business environment. The proposal to combat late payments and simplify the taxation framework for cross-border SME operations through head office taxation (HOT) <sup>(4)</sup> and the Business in Europe: Framework for Income Taxation (BEFIT) <sup>(5)</sup> is a step in the right direction. However, the EESC believes that these measures need to be part of a broader, more integrated strategy that addresses the diverse challenges faced by SMEs, including access to finance, regulatory compliance and capacity to adopt sustainable business practices. The InvestEU programme's SME window is a significant support mechanism, however, the EESC urges that its implementation be closely monitored to ensure that the anticipated funding of over EUR 200 billion until 2027 effectively reaches and benefits SMEs, particularly those innovating in sustainability technologies.

3.13. As reflected also in its previous opinion on the Annual Sustainable Growth Survey 2023 <sup>(6)</sup>, the EESC expresses its disappointment that the recent mid-term review of the MFF does not allocate funds for establishing an EU Sovereignty Fund. Such a fund is critical for fostering investments in the green transition across the EU, ensuring a level playing field and maintaining the single market's proper functioning. STEP could be viewed positively as a first step towards the Sovereignty Fund. However, the insignificant budget allocated to it — with a provisional figure of EUR 1,5 billion — gives rise to deep concern about the EU's commitment and capability to meet its ambitious goals for the green transition and about competitive equity within the Union. Moreover, in the long term, no economy can base its success or competitiveness solely on subsidies.

3.14. While EU funding, including the RRF and InvestEU, would have to be instrumental in order to advance the green and digital transitions, the EESC expresses concern over the actual pace and effectiveness of these transformations. Bureaucratic complexities and regulatory challenges in Member States are impeding the swift implementation of transformative reforms. The EESC emphasises the need for a more streamlined administrative approach and a shift in bureaucratic practices to facilitate rapid adaptation to green and digital imperatives, highlighting the gap between legislative changes and practical, on-the-ground execution, especially for SMEs.

3.15. As the EU transitions away from the general escape clause under the Stability and Growth Pact towards a post-pandemic economic landscape, the EESC stresses the importance of learning from the pandemic to avoid a pendulum swing between fiscal extremes. The EESC warns that opening excessive deficit procedures in spring 2024, possibly with the SGP rules in place, risks a hasty return to pre-pandemic fiscal stringency and a new recession. The lessons learned from policies in the wake of the 2007-2008 financial crisis and the pandemic underscore the need for a flexible and responsive fiscal policy that balances monetary policy support, inflation control and fiscal sustainability, without compromising essential investments and long-term growth.

3.16. In the context of the European Semester in 2024, the EESC highlights that the implementation of recovery and resilience plans (RRPs) and their integration with other EU funding instruments must be aligned with this nuanced approach to fiscal policy. The upcoming country reports and in-depth reviews offer an opportunity to evaluate and address structural challenges, ensuring that fiscal adjustments do not undermine the objectives of the European Green Deal, the European Pillar of Social Rights, and the Sustainable Development Goals. The EESC advocates for a balanced and forward-looking fiscal approach that considers the varied economic realities across Member States and integrates stakeholder input, ensuring that the lessons learned from the great recession of 2008 and the pandemic guide a more resilient and adaptable fiscal framework.

Brussels, 14 February 2024.

*The President*  
*of the European Economic and Social Committee*  
Oliver RÖPKE

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<sup>(4)</sup> COM(2023) 528 final.

<sup>(5)</sup> COM(2023) 529 final; COM(2023) 532 final; EESC opinion on Business in Europe: Framework for Income Taxation (BEFIT) (ongoing).

<sup>(6)</sup> OJ C, C/2024/871, 6.2.2024, ELI: <http://data.europa.eu/eli/C/2024/871/oj>.