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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 2022

1. Introduction

Europe's achievements in rolling out the COVID-19 vaccination campaign and mitigating the socio-economic impact of the pandemic, have laid the ground for a sustained recovery. Close to three quarters of adult Europeans are now fully vaccinated, placing the EU among the world's leaders in this respect. Moreover, Europe delivered over 1 billion doses to the rest of the world – more than the number delivered at home. Fostering vaccination, also in light of strong differences in vaccination rates across Member States, and all over the world continues to be a top policy priority. In parallel, the unprecedented coordinated policy response to the pandemic at EU and national level has been successful in cushioning the socio-economic fallout from the crisis[1].

Our efforts in dealing with the immediate effects of the COVID-19 shock are bearing fruit. For 2021, GDP in the euro area and in the EU is expected to grow by 5.0%. As the EU economy moves from recovery to expansion, supported by an improving labour market, favourable financing conditions and the forceful deployment of the Recovery and Resilience Facility, real GDP growth in the EU is projected at 4.3% in 2022 and 2.5% in 2023. The unemployment rate continues to decline, though it remains marginally above its pre-crisis level. Going forward, we expect employment creation to continue in tandem with the recovery and the unemployment rate to decline to 6.7% in 2022 and to fall further to 6.5% in 2023, down to its pre-crisis level. Inflationary pressures have increased due to rising energy prices and supply disruptions. After peaking at 4% at the end of 2021, inflation is expected to moderate to 1.4% in 2023. Going forward, uncertainty and risks remains high, including the evolution of the pandemic, both within and outside the EU.

Economic policy coordination has gradually shifted to laying the foundations for a transformational and inclusive recovery and stronger resilience. Economic activity needs to be increasingly aligned with the four dimensions of competitive sustainability, i.e. environmental sustainability, productivity, fairness, and macroeconomic stability[2]. These four dimensions should not be seen in isolation, as they reinforce each other with a common goal: shifting towards a sustainable, resilient and inclusive economic model, enabled by a broader diffusion and uptake of digital and green technologies, which will help to make Europe a transformational leader. 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 Union has put forward an ambitious policy agenda to steer a sustainable, fair and inclusive recovery and to make the EU's economy more resilient to future shocks, while transforming our economies and societies in line with the ambition of the twin transitions. Since last year's Annual Sustainable Growth Strategy, the Union's green, digital

[1] European Commission, "The EU economy after COVID-19: implications for economic governance", COM(2021) 662 final, 19 October 2021.
[2] European Commission, "Annual Sustainable Growth Strategy 2020", COM(2019) 650 final, 17 December 2019.

and social ambitions have increased to deal with the mounting challenges we are facing. In July 2021, the Commission tabled a first set of *Fit for 55* proposals[3] to make climate, energy, land use, transport and taxation policies fit for reducing net greenhouse gas emissions by at least 55% by 2030, an objective enshrined in the European Climate Law. The Commission has adopted a zero pollution action plan and will continue to roll out its European Green Deal agenda to protect, conserve and enhance natural capital and decouple GDP growth from the use of natural resources. Moreover, in September 2021 the Commission proposed a new governance framework to help ensure that the EU achieves its objective of a digital transformation of European society and economy[4]. The proposal envisages the preparation of national strategic roadmaps to attain the projected trajectories for each Digital Decade target, as well as tools to accelerate and facilitate digital multi-country projects. To address the adverse effects of the pandemic, to contribute to achieving upward social and economic convergence but also to strengthen the Union's drive towards a digital, green and fair transition, the Porto Social Summit of May 2021 reaffirmed the joint commitment to further implement the European Pillar of Social Rights and welcomed the new EU headline targets on jobs, skills and poverty reduction[5]. A stable economy allowing for policies focused on the long term and a just transition for those most affected by the transformations are prerequisites for achieving those high ambitions.

The Recovery and Resilience Facility, as part of the direct EU response aiming to emerge stronger from the pandemic, will play a central role in delivering a resilient EU economy fit for the twin transitions. The Facility, embedded in the European Semester of economic and employment policy coordination, will be the key tool to implement the policy agenda in the months and years ahead. Implementation of the broad sets of ambitious and mutually reinforcing measures in the recovery and resilience plans will be instrumental in stimulating economic activity and employment and delivering fair and inclusive green and digital transitions. One of the Facility's main innovative features is its performance-based nature. The funds will be disbursed as Member States implement the coherent investments and reforms agreed in their plans. This will ensure that both types of measures are rolled out in parallel, addressing existing policy gaps and challenges and removing bottlenecks to investment and more sustainable and inclusive GDP growth.

With the approval of the recovery and resilience plans and the first funds disbursed to Member States, the focus now crucially turns to the implementation phase. At the time this Communication was adopted, 22 recovery and resilience plans had been endorsed by the Commission and approved by the Council. This has unlocked pre-financing disbursements of EUR 52.3 billion for 17 Member States since August 2021. Overall, the plans approved by the Council so far represent EUR 291 billion in non-repayable financing and EUR 154 billion in loans. All attention should now focus on the implementation of reforms and investments by the Member States in line with the agreed milestones and targets, to spur the recovery and job

[3] European Commission, "'Fit for 55': delivering the EU's 2030 Climate Target on the way to climate neutrality", COM(2021) 550 final, 14 July 2021.

[4] European Commission, "Proposal for a decision of the European Parliament and of the Council establishing the 2030 Policy Programme 'Path to the Digital Decade'", COM(2021) 574 final, 15 September 2021.

[5] These ambitious EU targets are: at least 78% of the population aged 20 to 64 in employment; at least 60% of all adults participating in training every year; and a reduction of at least 15 million in the number of people at risk of poverty or social exclusion.

creation, strengthen European resilience and ensure a lasting impact on the EU’s society, economy and environment. The Commission’s Technical Support Instrument is helping the implementation of the recovery and resilience plans. During this phase, the Commission will stay in close dialogue with Member States and ensure the proper involvement of the European Parliament and the Council, regional and local authorities, social partners, civil society and other key stakeholders.

It is important to ensure the complementarity and consistency of the reforms and investments included in the recovery and resilience plans with investments to be funded under cohesion policy and other EU instruments in the years to come, as well as measures funded at national level. To unlock the overall EUR 500 billion in funding under cohesion policy, the swift completion of discussions on the Partnership Agreements and Programmes under the new programming period, including under the Just Transition Fund, is a priority in the coming year. Reaching the ambitious objectives of the EU policy agenda for the twin transitions will require a coordinated effort by all Member States, mobilising available public and private funding towards reaching these objectives.

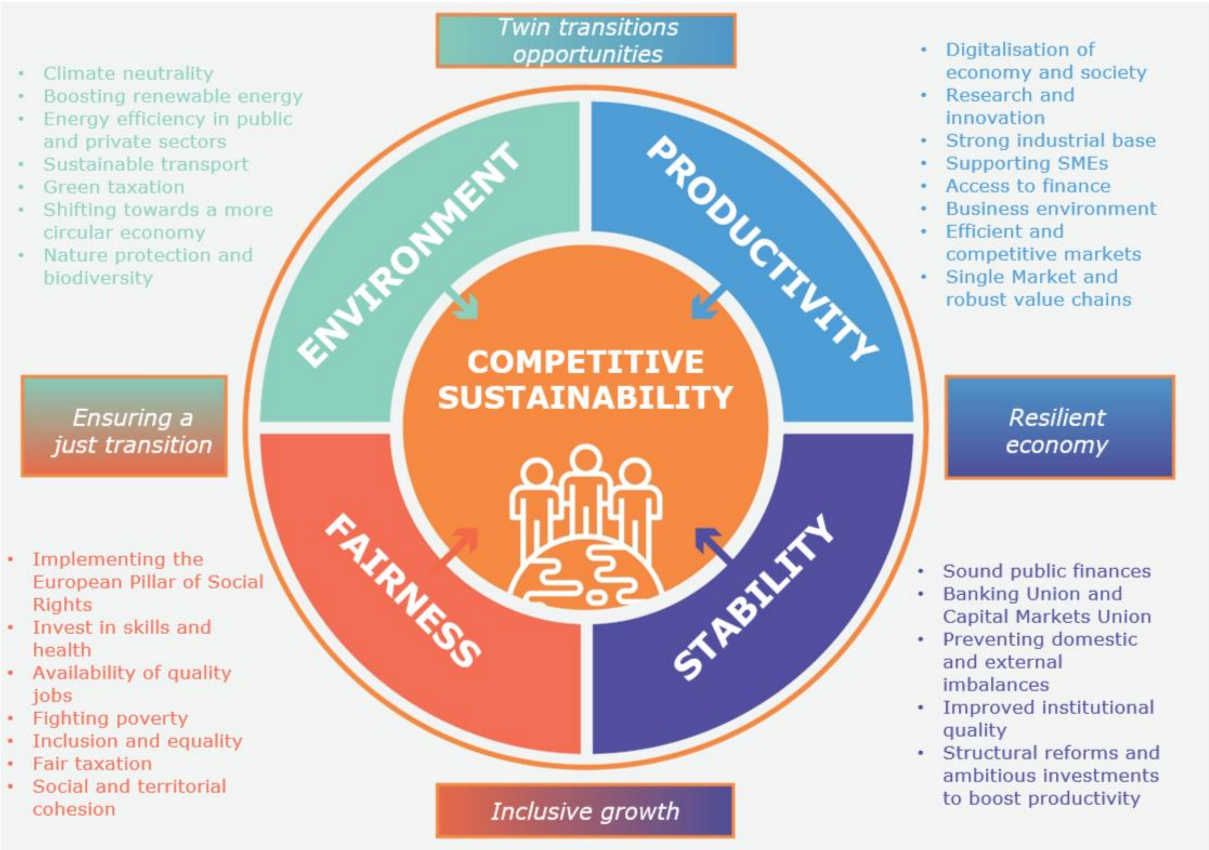
This year’s Annual Sustainable Growth Survey outlines the policy priorities in the coming year and provides guiding principles for implementing them in the 2022 European Semester cycle. The European Semester provides a well-established framework for coordinating the economic and employment policies of the Member States and will continue to play this role in the recovery phase and in advancing on the twin transitions. Like in previous years, the policy priorities will be structured around the four dimensions of competitive sustainability and in line with the Sustainable Development Goals. The Communication also sketches out the main characteristics of the 2022 European Semester cycle and explains the main changes compared to previous cycles, taking into account the need to adapt to the processes under the Recovery and Resilience Facility.

2. The four dimensions of competitive sustainability as guiding principles for the EU's recovery

Launched at the start of the current Commission's term of office, the four complementary dimensions of the EU's competitive sustainability's agenda, i.e. environmental sustainability, productivity, fairness and macroeconomic stability, are more relevant than ever. These dimensions, which are closely interrelated and should be mutually reinforcing, have guided the Member States' reform and investment agendas over the past years and feature prominently among the objectives of the Recovery and Resilience Facility.

Europe has chosen to be a transformational frontrunner to embrace the opportunities found in environmental protection and the fight against climate change as well as in the field of digital technologies. Ensuring that the four dimensions of competitive sustainability are mutually reinforcing is a key transformational challenge of economic and social policies. A sustainable economy allowing for policies focused on the long term and an inclusive and fair transition for all EU citizens and regions will remain at the heart of the EU's recovery agenda. Important to remember in that context is that competitive sustainability and resilience are two sides of the same coin. Indeed, as stated in the 2020 Strategic Foresight Report[6], resilience is the ability not only to withstand and cope with challenges but also to undergo transitions in a sustainable, fair and democratic manner.

Figure 1: The four dimensions of competitive sustainability and their links



6 European Commission, "2020 Strategic Foresight Report: charting the course towards a more resilient Europe", COM(2020) 493 final.

2.1 Environmental sustainability

Climate change and environmental degradation call for immediate action. In the course of 2021, Europe faced severe heatwaves, forest fires and floods that showed clearly and painfully the impact that climate change can have on our lives and livelihoods. In addition, the overall economic impact linked to climate change is increasing and deserves close attention. The costs of non-action are significantly higher than the costs of fulfilling our climate ambitions. As a result, it is essential to ensure that the economic recovery goes hand in hand with the fast-forwarding of the green transition and to put the economy on track to deliver on the EU's commitment to become the first climate neutral continent by 2050.

The Commission has put forward an ambitious green reform agenda, which now needs to be implemented swiftly. We should use the period ahead to enable the necessary reforms and investments to decarbonise the EU economy and to ensure a socially fair green transition. The European Green Deal, and in particular the *Fit for 55* package, is laying the building blocks for the EU economy of tomorrow. Landmark strategies on climate and energy, hydrogen, offshore renewable energy, tackling methane emissions, biodiversity, circular economy, zero pollution, sustainable and smart mobility, renovation wave, sustainable food and many others are guiding reforms and investments. The proposed initiatives include green taxation measures, such as the updated Energy Taxation Directive, to align EU tax and climate policies and incentivise green business models, while mitigating the social impact. In addition, the proposed Carbon Border Adjustment Mechanism will put a carbon price on certain imports and thus encourage firms and governments in the rest of the world to take steps in the same direction. At national level, the implementation of the recovery and resilience plans will enable green reforms helping to bridge part of the greenhouse gas emissions gap. Several Member States have put forward in their recovery and resilience plans energy efficiency reforms, facilitation of permitting procedures for renewables, support for green research and innovation[7], or tax incentives to promote sustainable mobility models.

Meeting the EU's ambitious Green Deal agenda will require significant investment. For the next decade, the additional private and public investment needs to cater for the green transition are estimated at nearly EUR 520 billion per year[8]. The 22 recovery and resilience plans approved to date are expected to provide a boost to green investments of at least EUR 192 billion[9] cumulatively over the next six years, covering areas such as energy generation, building renovation, sustainable transport and climate adaptation. Cohesion policy will deliver about EUR 150 billion in green investments during this decade. Further significant investments will be needed to accompany the necessary labour market transitions and support reskilling and upskilling, both pre-conditions for a just and effective transition. But public funding will neither be sufficient to meet the massive investment needed to successfully accomplish the green transition, nor should it crowd out private investment. Helping to channel private funding towards climate resilience, including by creating an enabling framework, fostering further development of capital markets in the area of sustainable finance, improving the coordination of public and private R&D investment and

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[7] European Commission, "Communication on European Missions", COM(2021) 609 final, 29 September 2021.
[8] See box 2 in European Commission, "The EU economy after COVID-19: implications for economic governance", COM(2021) 662 final.
[9] Preliminary Commission staff estimates.

providing targeted support, will be a key role for the public sector. It will therefore be important to use the public investment and reforms included in the recovery and resilience plans to help mobilise private investment.

The social dimension is at the heart of the EU's ambitious green agenda. The green transition will create massive opportunities, bringing with it job creation, innovation, and increased resilience to shocks. At the same time, it will mean profound change, especially for the most disadvantaged, as well as for some regions and sectors such as coal mining regions and sectors affected by the industrial transition and related restructuring processes, often implying jobs and revenue losses. This is why the European Green Deal aims to ensure a fair distribution of the efforts required, with all sectors of the economy and society contributing and with specific measures for those in need[10]. The Commission has proposed a new Social Climate Fund to support vulnerable low and middle-income households, transport users and micro-enterprises who would be most affected by the introduction of carbon pricing in road transport and buildings. Under the European Semester framework, we will monitor social impacts closely and, where relevant, propose targeted recommendations to ensure that no one is left behind. Complementarity with the measures supported under the Recovery and Resilience Facility will be a priority. To guide Member States in taking advantage of the opportunities and minimising the socio-economic risks of the green transition, the Commission will propose a Council Recommendation on addressing the employment and social aspects of the climate transition before the end of the year.

The clean energy transition is our best insurance against energy price shocks. The sharp spike in energy prices that the EU is currently facing, principally driven by increased global demand for energy and gas in particular, is of high concern for all EU citizens, businesses and the economy at large. The increase in energy prices affects low- and lower middle-income households to a comparatively higher extent and risks aggravating energy poverty. The Commission has presented a toolbox[11] of measures for addressing the challenges and mitigating the impact of temporary energy price increases in a coordinated way. In the short term, time-limited emergency income support to vulnerable households, measures to protect business, and targeted tax reductions can help cushion the impact. More structurally, improvements in energy efficiency, the electrification of energy demand and continued investment in renewable and low-carbon energy together with facilitation of its deployment are key to ensure affordable energy prices in the future. The green transition fosters the use of local, renewable energy, decreasing our dependency on foreign energy sources while at the same time increasing energy efficiency, thus lowering our energy needs. Addressing the negative effects of sudden price hikes and ensuring affordability without fragmenting the European single energy market is essential to avoid jeopardising investments in the green transition of the energy and industrial sectors.

The green transition is designed to safeguard our prosperity and well-being while creating opportunities. Investments and reforms to reduce air, water and soil pollution at

[10] The Just Transition Mechanism, including the Just Transition Fund, will provide targeted support for economic diversification and job creation in the territories facing most serious socio-economic challenges arising from the transition towards climate neutrality.

[11] European Commission, "Tackling rising energy prices : a toolbox for action and support", COM(2021) 660 final, 13 October 2021.

source will save the economy important costs, such as for healthcare, lost workdays, damages to buildings and crop losses. Improving environmental infrastructure (for example, in the areas of water and waste), protecting and restoring biodiversity and natural ecosystems as well as ensuring sustainable food systems will strengthen our resilience, create new business opportunities and improve public health. Phasing out environmentally harmful subsidies and using economic instruments to implement the polluter pays principle will provide further incentives and financing for the green transition.

Digitalisation can greatly contribute to the green transition. The green and digital transitions are intrinsically linked and neither can succeed without the other. Digitalisation of society will contribute to reducing its carbon footprint, for example through a more efficient use of energy and resources. At the same time, digital technologies need to become cleaner and more energy efficient. The recovery and resilience plans contain several measures to ensure a smart and sustainable use of resources, including the greening of digital technologies which requires among other the building of adequate skills. The EU is also exploring voluntary and binding measures to help the private sector become climate neutral and to use more renewable resources, such as the European Green Digital Coalition.

2.2 Productivity

Ensuring future prosperity for citizens will depend crucially on Europe's ability to increase productivity and innovation. This will require a well-aligned mix of reforms and private and public investments that underpin competitiveness and job creation. Productivity growth is a critical driver of economic prosperity, well-being and convergence over the long run. However, productivity growth in the EU has been slowing down over the past decades, and the trend continues. The ability of EU businesses to adopt new technologies, in particular digital technologies, scale up their activities and update their modes of production will play a crucial role in boosting their productivity and competitiveness both in the Single Market and globally. This hinges upon upskilling and reskilling the labour force to master tomorrow's production models. It also depends on enabling reforms that create a framework conducive to such technological adaptation and innovation, such as better coordination of research and innovation policies, strengthening the transfer and valorisation of knowledge and supporting development and adoption of technologies by companies, in particular SMEs and startups. Unlocking private investment spending through targeted public support measures is essential in this respect.

A well-functioning Single Market, where fair and effective competition[12] is ensured, is in itself a major source of productivity for the EU economy. Technological advances spread faster in a unified market and well-functioning and competitive product and services markets are a key driver of productivity growth, as they enable a more efficient allocation of resources. The COVID-19 crisis has highlighted the need to uphold the free movement of persons, goods, services and capital in the Single Market. The concrete measures announced

[12] The Commission is conducting a comprehensive review of competition policy; European Commission, "A competition policy fit for new challenges", COM(2021) 713 final, 18 November 2021.

in the Annual Single Market Report[13], such as a structural solution to ensure the four freedoms in case of future crises (the Single Market Emergency Instrument) and the analysis of potential solutions to address the identified supply shortages will be key to strengthen the resilience of the Single Market. Respect for the rule of law, in particular independent, quality and efficient justice systems, effective anti-corruption structures, anti-money laundering and anti-fraud frameworks, are important factors of the business environment and of the functioning of the Single Market. In addition to the European Semester, the Commission's Rule of Law Report also covers in one of its pillars the functioning of justice systems.

Member States' recovery and resilience plans envisage a wide set of reforms aimed at improving the business environment and favouring adoption of digital and green technologies. These reforms will be complemented by important efforts to digitalise strategic sectors of the public administration and the judiciary. This effort directly responds to country-specific recommendations addressed to Member States in previous years in areas such as implementing competition enhancing reforms, making public procurement more dynamic and transparent, strengthening the judicial system, increasing the efficiency of public administration including tax administration, promoting legislative simplification, further developing e-government and e-justice services and promoting well-functioning insolvency frameworks. Full implementation of those reforms is expected to improve the business environment across the EU while fostering further digital innovation, with a positive impact on productivity. This will have wider positive impacts, e.g. by creating quality jobs and enhancing fiscal sustainability.

Investment in the adoption of advanced digital technologies and research and innovation is critical to deliver on the digital transition. A significant digital investment gap exists in the European private sector with respect to other jurisdictions[14]. The adopted recovery and resilience plans aim to contribute EUR 117 billion to the digital transformation. Support is, for example, directed to digital innovation, R&I and advanced digital technologies EUR 17 billion, including the development of artificial intelligence or supercomputing. In addition, significant funds are dedicated to the support of the digital transformation of public services (EUR 43 billion) or companies (EUR 24 billion) most of them benefiting small and medium-sized enterprises (SMEs). Also connectivity measures, e.g. the roll-out of 5G networks, are covered in several plans (EUR 13 billion). Programmes under EU cohesion policy funds, as well as other programmes within the EU budget, are expected to also increase substantially the investment in digital research and innovation activities compared to the previous programmes.

These investments in technology need to be complemented by investing in people and skills, in particular reinforced digital skills, through reforms of education and training systems and via upskilling and reskilling programmes. The acceleration of the digital transition is greatly increasing the demand for digital skills. Science, technology, engineering and mathematics (STEM) skills are essential to enable the development and adoption of

[13] European Commission, "Annual Single Market Report 2021 Accompanying the Communication 'Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery'", SWD(2021) 351 final, 5 May 2021.

[14] For an illustration of the investment gap with the EU's main competitors, see Table 2 in European Commission, "Identifying Europe's recovery needs accompanying the Communication 'Europe's moment: Repair and Prepare for the Next Generation'", SWD(2020) 98 final, 27 May 2020.

advanced digital technologies across our economies. To ensure a sufficient number of highly skilled more efforts are needed to support young people, especially women and girls. This should come together with increasing the prevalence of at least basic levels of digital and software skills in the whole population. People of working age need easy access to affordable and relevant training which meets their skills needs. This is important across economic sectors and firms, especially SMEs. Digital skills are also an important enabler of the green transition. The Recovery and Resilience Facility will contribute significant amounts to the development of skills (the adopted plans contribute EUR 47 billion to measures supporting education, training and skills in all age groups), with a particular focus on digital skills (EUR 20 billion)[15].

Furthermore, responsible access to resources, resource efficiency and productivity are not only important for environmental welfare but also for economic welfare. The EU needs to accelerate the transition towards an economic system that uses resources in a smarter and more sustainable manner, with a view to reducing the consumption footprint. Building on the Single Market and the potential of digital technologies, the circular economy can strengthen the EU's industrial base and foster business creation and entrepreneurship among SMEs, while strengthening the EU's resilience and open strategic autonomy. For the public, the circular economy will provide high-quality, functional and safe products, which are efficient and affordable, last longer and are designed for reuse, repair, and high-quality recycling. A whole new range of sustainable services, product-as-service models and digital solutions will bring about a better quality of life, innovative jobs and upgraded knowledge and skills.

The resilience of the EU economy depends on robust supply chains. Swift implementation of the Industrial Strategy and its 2021 update[16] is key to curb strategic dependencies and mitigate temporary or persistent bottlenecks in the international supply chains of essential inputs for Europe's industrial ecosystems. The EU is a major global importer and exporter and enjoys a high degree of openness to trade and investment. Global logistics crunches, such as the ones that the EU is experiencing in computer chips and certain raw materials, influence a variety of industrial ecosystems, including pro-cyclical industries like the automotive and construction industries. Supply chain bottlenecks have a negative impact on firms' productivity levels, employment, turnover and entry-exit rates and they may impact the EU's capacity to respond to a health crisis The EU's increased ambitions on the green and digital transitions require a policy shift to address current or future strategic dependencies on those products and technologies that will be driving Europe's industrial transformation, thereby also addressing underlying security of supply concerns. The Commission will present a European Chips Act to better coordinate EU efforts in research and the design of semi-conductors and facilitate their manufacturing in Europe.

[15] Measures supporting education, training and skills are accounted for as part of social expenditure, while digital skills are included in the digital contribution.

[16] European Commission, "Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery", COM(2021) 350 final, 5 May 2021.

2.3 Fairness

Fairness needs to be at the heart of the recovery from the COVID-19 pandemic-induced downturn. The crisis has unevenly impacted different population groups, sectors and regions. In particular, the youth and low-skilled workers and those with a migrant background were disproportionately hit. Women and men have been differently impacted[17]. The temporary Support to mitigate Unemployment Risks in an Emergency (SURE) has successfully contributed to addressing the negative economic and social consequences of the pandemic. As the economy recovers, we are likely to observe further changes in the distribution of jobs. The pandemic has brought about or accelerated trends of changes in demand, consumption patterns and business models. Across the economy, new jobs are being created, while other job functions are becoming less sought after. This implies a large amount of job transitions and the re-emergence of labour shortages in some Member States and sectors. In this context, increasing attention should be given to improving the capacity of labour markets to anticipate and adapt to changes, while leaving no one behind. Tax benefit reforms can help reduce inequalities and encourage labour market participation.

The COVID-19 pandemic had an asymmetric impact on European regions, due to their different economic specialisations. Regions dependent on tourism have been particularly impacted, but other, contact-intensive services have also been strongly affected. Other sectors were less affected but still experienced a drop in activity, notably manufacturing and construction. The number of hours worked declined most significantly between 2019 and 2020 in Greece, Spain, Portugal and Italy, and especially in regions with large tourist economies. Lastly, more economically developed EU regions were less affected than less economically developed regions and regions in transition.

Going forward, well-designed and effective active labour market policies, coupled with appropriate support by public employment services and social protection systems, are key to accompany workers during the green and digital transitions. In this respect, the Commission Recommendation for Effective Active Support to Employment (EASE)[18] highlights the importance of developing and implementing coherent policy packages, including hiring and transition incentives, upskilling and reskilling, and enhanced support by public employment services. Due attention should be devoted to the youth that that has been particularly strongly hit by the COVID-19 pandemic. Long-standing challenges in relation to an ageing workforce and labour market participation of women and persons with disabilities should be addressed too.

The role of education, training and skills as key determinants of social inclusion and economic growth must be reinforced, taking into account the challenges and opportunities of the twin transitions. The COVID-19 crisis brought about disruptions, in part due to an uneven access to online learning, and a negative impact on pupils' mental health. This may have long-term consequences, including low levels of basic skills and suboptimal educational outcomes, and therefore exacerbate existing inequalities in education. Member States will need to intensify their efforts to improve learning outcomes across their

[17] European Institute for Gender Equality, "Gender Equality Index 2021 Report", November 2021.
[18] European Commission, "Recommendation (EU) 2021/402 of 4 March 2021 on an effective active support to employment following the COVID-19 crisis (EASE)", C/2021/1372, OJ L 80, 8.3.2021.

education and training systems. In parallel, lifelong learning should be fostered to address existing and emerging skills mismatches, in particular those related to the twin transitions, by significantly increasing adults' participation in upskilling and reskilling. Meeting the EU-level targets on education, training and skills development will facilitate the success of digital and green transitions and address the related challenges in terms of skills adaptation needs. In particular, reforms will be needed to reduce educational inequalities, address the urban-rural divide, including on digital connectivity, reduce the risk of early-school leaving and underachievement and ensure skills development opportunities for all adults, regardless of their level of qualification. A reinforced role of universities in enhancing quality and labour relevance of higher education and promoting inclusion, diversity and gender equality is equally important.

Implementing the European Pillar of Social Rights is crucial to achieving upward social and economic convergence. The Commission's Action Plan on the implementation of the Pillar proposed new EU targets on employment, skills and poverty reduction by 2030, as well as a revised Social Scoreboard, with a view to their integration in the European Semester. The proposal for the 2022 Joint Employment Report, as part of this Autumn package, has a reinforced focus on the Pillar's principles and integrates the 2030 EU headline targets and the headline indicators of the revised Social Scoreboard in its analysis. The report shows that the labour market recovery is clearly taking hold, but also warns about emerging labour shortages as well as persistently low employment rates of young people and women. The recovery as well as the green and digital transitions increase the likelihood that some jobs will not be reinstated, which makes it important to support job transitions, especially in terms of active labour market policies and upskilling and reskilling measures. The report also underlined the importance of strong social protection systems, which in most Member States helped to mitigate the drop in household incomes, and to keep the share of people at risk of poverty or social exclusion stable.

The recovery and resilience plans include a wide range of reforms and investments that will contribute to strengthening social cohesion and resilience. Measures linked to this thematic focus in the plans already approved by the Council amount to approximately EUR 135 billion, around 30% of the total financial allocations of these approved plans. Those measures include, for instance, reforms and investments to make active labour market policies more effective, increase the capacity of public employment services and support the labour market participation of women and disadvantaged groups. They also include measures to improve access to quality education and training at all levels, digital education including upskilling and reskilling for working-age adults to ensure that they can thrive in a fast-changing environment and fully benefit from the green and digital transitions. Finally, the recovery and resilience plans also aim to enhance social resilience by investing in healthcare and better access to services, including early childhood education and care, long-term care and social housing. In this way, together with cohesion policy funds, the Facility is concretely supporting a fair and inclusive recovery in the EU. Timely and ambitious implementation of these plans will translate into tangible effects for the European citizens, supporting the ongoing transformation of the national economies in view of the twin transitions. In addition, the Just Transition Mechanism, including the EUR 19 billion of the Just Transition Fund, is expected to mobilise some EUR 55 billion over the period 2021-2027 in the most affected regions, in order to alleviate the socio-economic impact of the transition towards climate neutrality, thus contributing to its fairness.

2.4 Macroeconomic stability

Further increasing the stability of its economy by addressing the remaining fragilities at national and EU level and closely coordinating relevant policies at EU level will ensure resilience against future shocks and help in facilitating the green and digital transitions. The strong and coordinated policy response to the COVID-19 crisis has significantly reduced its economic and social impact, while at the same time having a positive impact on macroeconomic stability. This experience highlights the relevance of continued strong coordination of economic, fiscal, employment and social policies, covering different policy and funding tools and linking the EU and national levels. It has also underscored the importance of building economic and social resilience against unexpected shocks, including by creating in normal times fiscal room that can be deployed in downturns.

Member States should continue to provide targeted and temporary fiscal support in 2022 while safeguarding fiscal sustainability in the medium term. The general escape clause of the Stability and Growth Pact allowed the Member States to support their economies in the midst of the COVID-19 crisis. It is expected to be deactivated as of 2023. When economic conditions allow, Member States should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, Member States should enhance investment to achieve the twin transitions, to stimulate the economic activity and the employment potential. The Commission opinions on the draft budgetary plans of the euro area Member States[19] and the Commission proposal for a recommendation on the economic policy of the euro area[20] are part of this Autumn package.

A growth-friendly composition of public finances and fair and efficient taxation will be instrumental to enhance investment and support a fair, sustainable and inclusive recovery. A coordinated and sustained effort over several years is necessary to ensure a persistent and sizeable increase in private and public investment proportionate to the needs of the twin transitions and economic, social and territorial cohesion. While the Recovery and Resilience Facility provides for substantial temporary support, national budgets also have to play their role in promoting investment. In this respect, the Member States need to improve the composition and quality of their public finances, on both the expenditure and revenue sides, while making progress with green budgeting. On the revenue side, at a time when national administrations are striving to deliver more with less and need to meet the costs of the pandemic fairly and without harming the recovery, increasing tax compliance and pursuing a shift to environmental taxation is essential. Tax collection can be boosted and tax fraud, avoidance and evasion reduced through the e-filing of taxes, tax simplification, and increasing administrative cooperation across Member States. It will also be important to curb harmful tax competition and aggressive tax planning.[21] The Commission is preparing several

[19] "Commission Communication on the 2022 Draft Budgetary Plans: an overall assessment" and Commission Opinions on the 2022 Draft Budgetary Plans submitted by euro area Member States.

[20] Report from the Commission to the European Parliament, the Council and the European Economic and Social Committee, Alert Mechanism Report 2022, COM(2021) 741 final.

[21] For example, the VAT gap report (CASE et al., 2020) estimate that the VAT gap in the EU was EUR 140 billion in 2018 and forecast it to increase to EUR 164 billion in 2020 notably due to the pandemic.

legislative proposals[22,23] to enhance tax transparency, address tax avoidance and step up the fight against tax evasion. These include a proposal to tackle the misuse of shell companies for tax purposes. Moreover, the OECD/G20 agreement on reforming global taxation should ensure that multinational enterprises pay a fair share of tax wherever they operate and pay a minimum 15% effective tax rate from 2023. The Commission is preparing a proposal to swiftly transpose the international agreement on minimum effective taxation into EU law.

Member States' recovery and resilience plans contain a number of measures in the area of budgetary and taxation policy. Member States have included in their recovery and resilience plans spending reviews aiming to increase the quality of public expenditure and modifications of taxation systems to favour more sustainable and fairer economic activity. Some plans also put forward reforms aimed at improving the long-term sustainability and adequacy of their pension systems. Proposed reforms increasing the efficiency of tax administration should improve tax collection and reduce compliance costs, for business, individuals, as well as tax administrations. Measures addressing aggressive tax planning have also been included by some Member States in their recovery and resilience plans.

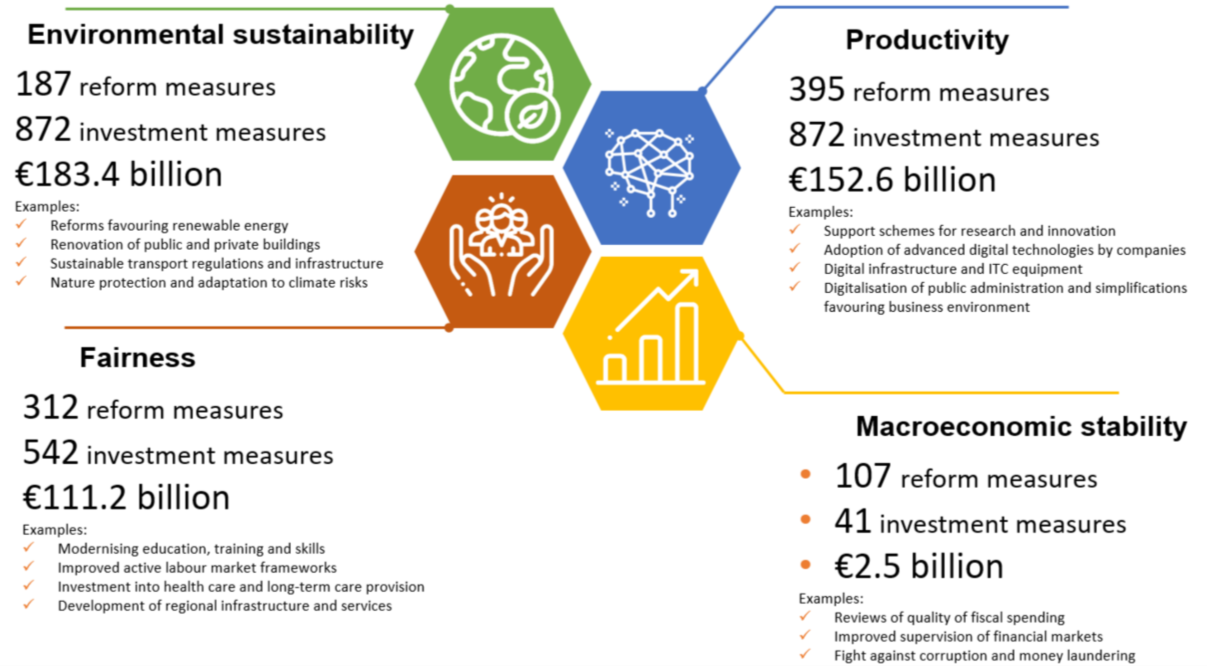
The Alert Mechanism Report provides the Commission's analysis of the evolution of imbalances and emerging risks[24]. For 12 Member States, an in-depth review will assess whether they are affected by imbalances in need of policy action. As the recovery settles in, ensuring the resilience of the EU economy also means addressing pre-crisis imbalances and emerging risks. Following a gradual correction of imbalances up until the onset of the pandemic, the subsequent economic shock increased pre-existing vulnerabilities. This applies especially to high public and private debts, which have increased as a result of the shock and the measures taken to counter it. Public debt levels are set to remain above pre-pandemic levels in about one third of Member States and in the EU as a whole over the next decade, including due to spending related to population ageing, along with spending to tackle climate change and its already tangible impact. The financial condition of companies has been weakened in some sectors by the necessary borrowing to cover sudden revenue losses and liquidity shortages, while temporary moratoria have sheltered firms and allowed them to weather the downturn. The increase in house prices in some Member States carry overvaluation risks. The economic recovery will help governments and the private sector to reduce their debt ratios and mitigate financial vulnerabilities.

Completing the Capital Markets Union and the Banking Union would strengthen the funding channels to the economy and promote the private sector's contribution to the investment efforts and increase economic and social resilience. The EU banking sector has resisted well the economic shock induced by the pandemic and is playing a crucial role in the ongoing economic recovery. However, it continues to face structural challenges in a context of low profitability and fragmentation. A robust Banking Union would place banks in a better position to support the growth of EU economies in a more integrated Single Market, while protecting EU taxpayers, and would contribute positively to macro-financial stability of the euro area. In addition, well-functioning capital markets are necessary to provide companies,

[22] COM(2020) 312 final, An action plan for fair and simple taxation supporting the recovery strategy
[23] COM(2021) 251 final, Business Taxation for the 21st Century.
[24] Report from the Commission to the European Parliament, the Council and the European Economic and Social Committee, Alert Mechanism Report 2022, COM(2021) 741 final.

including SMEs and startups, with complementary funding sources to help them strengthen their capital and innovation potential in the post-pandemic environment and accompany them in adjusting to a greener and more digital economy.

Figure 2: Contribution of recovery and resilience plans to the four dimensions of competitive sustainability



Note: Preliminary analysis of the 22 recovery and resilience plans adopted by the Council (figures are subject to possible revisions). Reforms and investments at sub-measure level were assigned to the four dimensions of competitive sustainability. The mapping is illustrative and does not fully reflect the interrelated nature of many measures.

3. The European Semester evolves

The European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility. The implementation of the Facility makes it necessary to continue adapting the European Semester to take into account overlaps and ensure that joint efforts can focus on the delivery of high-quality and ambitious recovery and resilience plans. The implementation of the plans will drive Member States' reform and investment agendas for the years to come. The European Semester, with its broader scope and multilateral surveillance, will complement the implementation of the recovery and resilience plans. The two processes will be intrinsically linked and every effort will be made to avoid overlaps and make the best use of the existing synergies to avoid unnecessary administrative burden.

The Commission will publish streamlined country reports in spring 2022. The reports will take stock of Member States' implementation of the recovery and resilience plans, also building on the Recovery and Resilience scoreboard that will be established by December 2021 and the reporting on social expenditures in the plans, based on the methodology currently being agreed with the European Parliament and the Council. Moreover, they will provide an overview of the economic and social developments and challenges that Member States are facing, as well as a forward looking analysis of their resilience. Finally, the overview will include an assessment of progress on the implementation of the European Pillar of Social Rights notably via the revised Social Scoreboard, and on achieving the EU headline targets on employment, skills and poverty reduction. Based on this analysis, the country reports will identify gaps vis-à-vis those challenges that are only partially or not addressed by the recovery and resilience plans. Where applicable, the reports will also include a summary of the findings of the in-depth reviews under the Macroeconomic Imbalance Procedure, which will take into account the impact of the COVID-19 crisis.

The Commission also intends to propose to the Council to adopt country-specific recommendations (CSRs) in spring 2022. They will cover key issues identified in the country reports, and where relevant the in-depth reviews, for which policy action over several years may be required. In doing so, the CSRs will help to bring forward and reinforce Member States' efforts under the RRPs, while addressing emerging challenges, in order to fast-forward the twin transitions and build up resilience. The CSRs will also include recommendations on the budgetary situation of the Member States as envisaged under the Stability and Growth Pact. The country reports, the in-depth reviews and the proposals for CSRs will form part of the 2022 European Semester Spring package.

The Sustainable Development Goals (SDGs) will be further integrated into the European Semester. The 2020 European Semester cycle initiated the work on the integration of the SDGs, as called for by President von der Leyen in her 2019 Political Guidelines. The 2022 European Semester cycle will continue upon this path in order to provide a fully updated and consistent SDG reporting across the Member States. First, the yearly SDG monitoring report[25] will now be part of the European Semester documents and will be published as part of the Spring package. Second, each European Semester country report will include a dedicated section discussing the country's status, compared to the EU average, and progress in each SDG area[26]. Third, a combination of these two elements and additional indicators that monitor Member States' performance in view of key EU policy targets (e.g. European Green Deal, Digital Decade) will inform the country reports and underpin country-specific recommendations. The resilience dashboards[27] may also inform the analysis for the country reports.

The Commission will make every effort to ensure synergies and streamlined reporting obligations between the Recovery and Resilience Facility and the European Semester. The avoidance of unnecessary administrative burden will be the guiding principle in the relationship between the Commission services and Member States' administrations. The Commission will streamline Member States' reporting obligations under both processes. For example, the national reform programmes, to be submitted in April, will also be used for the bi-annual reporting under the Recovery and Resilience Facility. The reporting under the appropriate IT tools will serve for the monitoring of progress in the implementation of the

[25] Eurostat, "Sustainable development in the European Union, Monitoring report on progress towards the SDGs in an EU context", June 2021 edition.

[26] The SDG country overviews compiled by Eurostat track Member States' position and evolution towards the achievement of the SDGs compared to the EU average, see: https:// https://ec.europa.eu/eurostat/cache/infographs/sdg-country-overview/

[27] https://ec.europa.eu/info/resilience-dashboards.

recovery and resilience plans and the overall progress on achieving previous country-specific recommendations, so no additional paper reporting trail will be necessary.

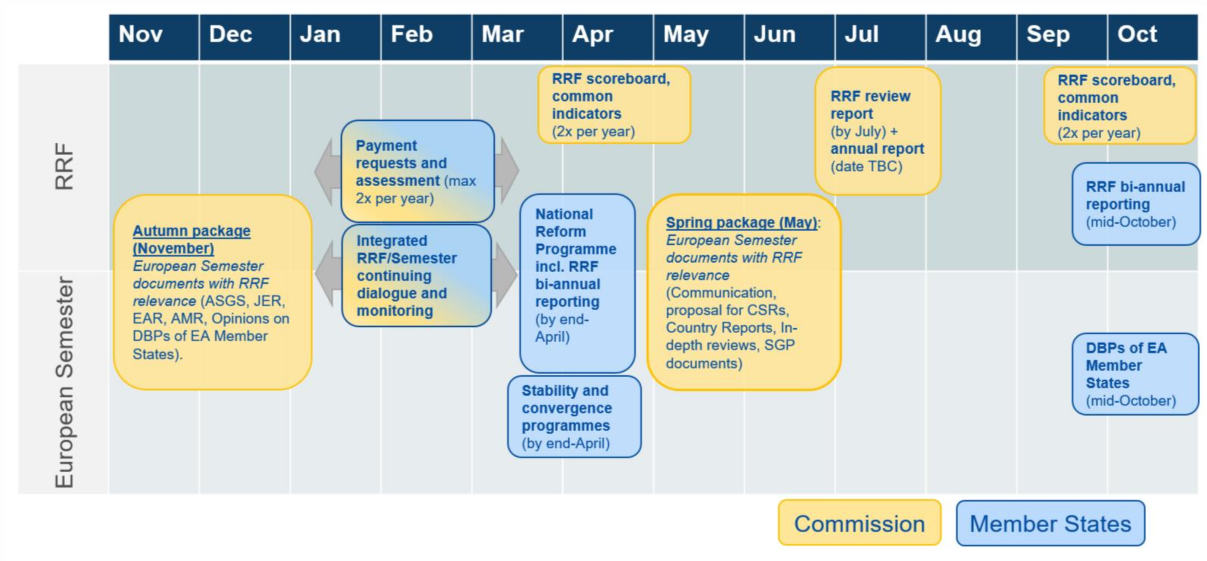
Constructive dialogue with Member States will be at the core of the relaunched European Semester, integrated with the dialogue on the implementation of the recovery and resilience plans. With the dialogue on the design of the recovery and resilience plans, the Commission and Member States strengthened and deepened their cooperation, which is set to continue during the plans' implementation phase. This dialogue will take place in the least burdensome manner for national public administrations, making also use of virtual or written exchanges. To ensure synergies, these bilateral exchanges will be combined with the broader European Semester dialogue, covering all relevant topics, including those not addressed by the plans. In addition, the Commission will support the exchange of views and analyses between Member States, which is a central element of effective multilateral surveillance.

The systematic involvement of social partners and other relevant stakeholders is key for the success of the economic and employment policy coordination and implementation. Their timely and meaningful involvement is key at all steps of the Semester cycle. During the pandemic, social partners have supported the design and implementation of emergency and recovery measures, and of the recovery and resilience plans in many Member States. However, their consultation and involvement differed significantly across Member States. For the implementation of the plans, it is important that Member States engage actively with social partners and other stakeholders through dedicated regular meetings. These exchanges will also be an opportunity to engage on the broader economic, employment and social policy coordination agenda and will help to commonly identify challenges, improve policy solutions and contribute to a successful implementation of the European Semester and the Recovery and Resilience Facility.

The strengthened inter-institutional dialogue at European level, with both the European Parliament and the Council, will continue. A continuous exchange on social and economic developments in the European Union is ensured by the biannual Macroeconomic Dialogue at political and technical level between the Council, the Commission and representatives of the European social partners. This format has already been used to discuss the European Semester as well as the Recovery and Resilience Facility. The implementation phase of the recovery and resilience plans and the resumption of country reports are a welcome opportunity to provide the Macroeconomic Dialogue at both technical and political level with a new impetus. The Commission will also continue its close dialogue with the European Parliament on key social and economic developments, including in the context of the European Semester and will engage with the European Parliament before each key stage of the European Semester cycle. Specifically for the Recovery and Resilience Facility, the Commission will continue to contribute to the Recovery and Resilience Dialogues with the Parliament and regular exchanges in a dedicated Parliament Working Group on the Facility. The Commission intends to continue this good practice and is committed to strengthening the democratic accountability of the Union's economic governance.

Medium-term reflections on the way forward for the European Semester will take place over the coming months in the context of the debate on the economic governance review. Several reflections and stakeholder consultations are ongoing and interlink with the objectives and role of the European Semester. Taking into account the changed circumstances for economic governance in the aftermath of the COVID-19 crisis, the Commission relaunched in October 2021 the public debate on the review of the EU economic governance framework[28]. The review seeks to improve the effectiveness of economic surveillance and policy coordination in the Union, and the public debate should help to achieve a broad-based consensus on the way forward. Moreover, the implementation of the recovery and resilience plans will bring additional experience and knowledge on the complementarities and interactions between the European Semester and the Recovery and Resilience Facility. The 2022 European Semester cycle will be an opportunity to discuss these outcomes with Member States and the relevant stakeholders to see if and how the future European Semester cycles and their deliverables could be improved.

Figure 3: Illustration of the 2022 European Semester and Recovery and Resilience Facility integrated processes



Legend: ASGS: Annual Sustainable Growth Survey, EAR: Euro Area Recommendation, JER: Joint Employment Report, AMR: Alert Mechanism Report, DBP: Draft Budgetary Plans, EA: euro area, RRF: Recovery and Resilience Facility, SGP: Stability and Growth Pact.

4. Conclusion

Bold and coordinated action at EU and national level in response to COVID-19 has made it possible to shift the gear from crisis management to recovery. The ambitious policy agenda and funding put forward at EU and national level will help ensure a lasting and inclusive recovery, making Europe achieve the twin transitions and become fairer and more resilient. The Recovery and Resilience Facility, embedded in the European Semester, is the key instrument for the years to come to deliver on this agenda and provide the necessary steer for its implementation across Member States. It will be a collective responsibility of all decision-makers to transform this steer into action and to make the recovery a success for all EU citizens and to strengthen the foundations for the prosperity of the future generations.

[28] European Commission, "The EU economy after COVID-19: implications for economic governance", COM(2021) 662 final, 19 October 2021.

As the structural change required by the twin transitions advances, the European Semester will remain the overall EU framework for the coordination of economic, employment and social policies, continuing to help identify the relevant policy challenges, set policy priorities, provide policy guidance and ensure policy surveillance and monitoring. The Recovery and Resilience Facility will be at the core of the process in the coming years, as it is fully rooted in the EU's aim of achieving competitive sustainability. Recovery and resilience plans will help Member States to deliver on a substantial set of existing country-specific recommendations in the coming years. At the same time, the European Semester will continue to provide the analytical underpinning for identifying relevant emerging economic, employment and social policy challenges including those stemming from the new or increased EU policy ambitions (e.g. Fit for 55, Digital Decade) not already being addressed in the plans and for putting forward country-specific recommendations in that regard. Both processes will thus remain intrinsically interlinked, while the synergies will be used to the fullest extent in order to avoid overlaps and duplication, including in relation to reporting requirements.

Implementing the ambitious reform and investment agendas included in the recovery and resilience plans will be imperative in the years to come. The Commission calls upon the Member States to ensure full and timely implementation of the reforms and investments included in their plans and to step up the programming and implementation of cohesion policy funds. The Commission also calls upon the Member States to take the priorities identified in this Annual Sustainable Growth Survey at heart when pursuing national reforms and investments. Member States have a wide set of EU policy and funding instruments at their disposal, and the Commission stands ready to support them where possible.