European Federation
for Services to Individuals

2023 European Semester cycle and EU economic governance review impact on PHS

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About EFSI

The European Federation for Services to Individuals (EFSI) represents the Personal and Household Services' (PHS) sector at the European level. Actively operating through its members across 21 EU Member States, it brings together PHS national associations, employers' organisations, providers, and companies involved in the enhancement of personal and household services. Moreover, EFSI is recognised by its trade unions counterparts as PHS employers' organisations representative.

Established in 2006, the EFSI's mission is to foster a favourable environment for the PHS sector in Europe, especially by improving the image and perception of the sector and promoting adequate policies in support of its development. Furthermore, EFSI's Members vision is to ensure that the specificities of the sector are acknowledged and guarantee that the provision, access to high quality and affordable PHS services are granted resulting from adequate economic, social, and legal conditions.

The paper is structured in an analytical background on which is based an in-depth examination of the major 2023 recommendations and the next steps for 2024 regarding the PHS sector.

The document intends to unfold the main elements relating to the European Semester. Furthermore, the paper emphasizes the potential that PHS operators can access through the advocacy role managed by EFSI. This paper is intended for internal circulation among the EFSI membership and for dissemination to external audiences interested in understanding the major demands of EFSI in the context of the European Semester.

Background: the European Semester and its major aims

Launched in 2010 as a response to the need for a stronger economic governance of the Union in the aftermath of the 2008 economic crisis, the European Semester is a recurring yearly dialogue between the European Commission and Member States, offering a framework for aligning macroeconomic strategies throughout the European Union (EU). The legal bases for the process are firstly articles 121 and 148 of the Treaty on the Functioning of the European Union and secondly the so-called ‘six-pack’ – six legislative acts that reformed the stability and growth pact.

The primary objective of the Semester is to **guarantee macroeconomic stability, foster economic expansion, and promote social inclusion.** Following the proclamation of the **European Pillar of Social Rights** in 2017, the European Semester also provides the Commission with a tool for coordinating and monitoring the 20 key principles of the Pillar. In this sense, the European Semester can provide the Member States with essential guidance for key State-base actions for the PHS sector, **starting from the effective implementation of the EPSR for long-term care**.

Working as a coordination tool, the Semester influences a wide range of policies, establishes investment priorities within the constraints of limited public resources, and facilitates convergence among EU Member States. This framework is instrumental in monitoring and comparing diverse economic, fiscal, and social conditions, as well as assessing the reforms implemented by EU governments to foster economic and social development.

How does the yearly process of the European Semester work?

Every April, Member States are required to submit their **National Reform Programs** to the European Commission. Within these programs, governments detail the specific policies they are currently implementing or plan to adopt. These policies aim to stimulate employment, foster economic growth, rectify or prevent macroeconomic and fiscal imbalances, and address key socio-economic issues.

Starting from the assessment of these National Reform Programs and together with a strong research-based monitoring provided by its services, every year in October-November the Commission issues the **Autumn Package**, officially launching the year’s exercise. The Autumn Package is composed by:

- The **Annual Sustainable Growth Survey (ASGS)**;
- The **Recommendation of the economic policy of the Euro Area**;
- The draft **Budgetary Plans**;
- The **Alert Mechanism Report**;
- The proposal for a **Joint Employment Report (JER).**

The main documents addressed by remarks and recommendations coming from the involvement of business organisations, European and national social partners, and social stakeholders in general are the ASGS and the JER. In particular, the ASGS is drafted after a consulting path involving the European cross-sectoral social partners having a Treaty-based recognition: ETUC for workers, Business Europe, SGI Europe, and SME United for employers.

In May, after an intense exchange of views among its services, the national Ministries in charge of different topics, and social stakeholders or social partners, the Commission releases a **Spring Package**, composed by **Country-specific Recommendations (CSRs) and Country Reports** for each Member State. The reports provide an analysis of economic and social developments, highlighting challenges and the measures adopted to tackle them. Instead, the CSRs are adopted by the Commission and submitted to the Council. Only following approval by the Council (i.e., relevant EU ministers), that can integrate governmental aims concerning the next year, the CSRs are officially in force.

Recent Developments: the impact of COVID-19 and the link with the Resilience and Recovery Facilities

Originally conceived to ensure that EU Member States adhere to prudent public finances and coordinate fiscal policies in accordance with the rules outlined in the Stability and Growth Pact (SGP), the European Semester has evolved over time. **Its scope has expanded to make it a central process for monitoring and implementing not only fiscal policies but also employment, social, health, and environmental policies at both the EU and national levels**. Additionally, the Semester plays a role in guiding the allocation of EU funds, particularly since the establishment of the EPSR in 2017 and the corresponding Action Plan in 2021.

The occurrence of the European Semester in 2020 coincided with an unparalleled economic shock caused by the **COVID-19 pandemic**. In 2021, the EU, aiming to counter the economic and social fallout of the pandemic and aspiring to enhance the sustainability and resilience of European economies amid green and digital transitions, allocated an unprecedented amount of funding to Member States. This substantial EUR 723.8 billion *'Recovery and Resilience Facility'* (RRF) was designated to support reforms and investments outlined in national recovery and resilience plans spanning from 2021 to 2026.

Simultaneously, the most restrictive fiscal rules were temporarily suspended, and Member States were urged to pursue an expansionary fiscal policy. In light of these unique circumstances, **the European Semester was briefly paused in 2021** to concentrate on developing the Recovery and Resilience Facility. **The process started again for the 2022 cycle and now operates alongside the Facility**, focusing on issues not fully addressed by national RRF plans. With this renewed approach, the European Semester embeds and complements with holistic guidance the implementation of the funding processes concerned by the RRF.

Concerns have been voiced by civil society organizations regarding the assimilation of the Recovery and Resilience funding instrument into the Semester cycle. This integration, predominantly overseen by economic and finance Ministries or Prime Ministers' offices, has amplified the influence of macroeconomic and financial actors, exacerbating an **existing imbalance between economic and social objectives**. Moreover, this strong direct interaction between the top figures of national governments and the Commission raised serious concerns about the **lack of or totally missing effective involvement of social stakeholders, social partners, and civil society organisations.**

In its 2023 cycle, the European Semester has resumed its comprehensive coordination of economic and employment policies, adapting further to align with the implementation requirements of the Recovery and Resilience Facility[1]. **The RRF will continue to provide a stream of investment in European businesses, infrastructure, and skills until 2026 and is embedded within the European Semester**,

[1] The link between the European Semester, the European Pillar of Social Rights and the Recovery and Resilience Facility is clearly visible in the RRF Regulation. This Regulation stipulates in its preamble (recital 4) that, at EU level, “the European Semester for economic policy coordination, including the principles of the European Pillar of Social Rights, is the framework to identify national reform priorities and monitor their implementation”.

which now incorporates new policy priorities and ensures the efficient implementation of the recovery and resilience plans (RRPs). In any case, the country reports aim to identify challenges that are only partially or not addressed by the RRF Plans, zooming in on progress made in the implementation, and examining additional, newly emerging challenges – especially with regard to the **cost of living** and the **energy crisis following the outbreak of the Russian invasion of Ukraine in 2022**.

Analysis: the main points for the PHS sector from the 2023 cycle of European Semester

On 24 May 2023, the Commission released the annual European Semester Spring Package which includes a Communication, country reports and country-specific recommendations for all 27 Member States and in-depth reviews for 17 Member States. Furthermore, the Commission proposed guidelines for Member States on employment policies.

The 2023 country reports took stock of the implementation of the recovery and resilience plans and provide a forward-looking analysis of Member States's resilience. Instead, the CSRs were more focused on providing guidance to Member States on how to tackle key economic and social challenges that are only partially or not addressed at all in their RRF plans. Moreover, the Commission used CSRs for identifying key priorities already outlined the 2023 Annual Sustainable Growth Strategy.

In 2023, Member States received recommendations on social and employment policies for the first time since the onset of the COVID-19 pandemic. **Despite the European Semester's commitment to implementing the EPSR, the actual outcomes fall short of expectations**. Vulnerable families and children still deal with the long-term impact of the COVID-19 pandemic. Furthermore, **the outbreak of the war in Ukraine has triggered an energy crisis in Europe, placing individuals and households at the risk of energy poverty, and putting additional costs on business development**. The impact of **high inflation**, contributing to a living costs crisis, disproportionately affects vulnerable families already struggling to meet their basic needs.

The European Semester, serving as the primary fiscal-based guidance from the Commission, directs the implementation of leading EU policies and the management of EU funding, including policy initiatives such as **the European Care Strategy**. While the European Semester acknowledges the need for improvement in long-term care systems, the recommendations in this sector are notably vague and lacking in specificity. **This is why, towards its continuous advocacy action, EFSI calls for a more ambitious approach**.

Regarding the implementation of effective policies affecting the key needs of the PHS sector, the analysis of the 2023 country reports and CSRs unveiled the need for Member States to:

- ***Ensure affordable, high-quality, accessible care,***
- ***Strengthen social protection systems,***
- ***Face labour shortages, by raising attractiveness to the sector.***

For instance, the **Austrian** country report showed insufficient provision of affordable and high-quality childcare, in particular in rural areas, makes it challenging for mothers to participate more actively. Austria has one of the lowest rates of formal childcare for children under three years of age in the EU, with only 28% of children in formal childcare. To address these issues, it is crucial to increase the supply of quality childcare by improving quality standards, extending availability and boosting labour market participation of women, e.g. through tax incentives. The long-term care and healthcare sectors are facing labour shortages, which are in part linked to the attractiveness of working in these sectors. That entails the need to ensure the adequacy and fiscal sustainability of the long-term care system and the fiscal sustainability of the health care system.

The **Belgian** country report included the need to strengthen efforts to improve the efficiency of long-term care.

In **Czechia**, the country report pinpointed the importance of addressing social challenges by investing in healthcare and long-term care infrastructure.

Estonia has been identified as the country where the need for home care services is one of the highest in the EU. The challenges lie in ensuring sustainable funding of healthcare and long-term care as well as strengthening social protection and extending the coverage of unemployment benefits in non-standard forms of work.

In **Hungary**, a recent amendment of social protection legislation reduced the State's responsibility to provide social care. Households without a stable income face a weakening social safety net. The Commission suggested to improve the adequacy of the social assistance system, including unemployment benefits, as well as the access to effective active labour market measures, in particular upskilling opportunities for the most disadvantaged groups, and ensure effective social dialogue.

In **Latvia**, the country report highlights that long-term care system is fragmented, with limited progress in the transition from institutional care to home care and community-based services.

As demonstrated by these practical examples coming from relevant policy actions related to the PHS sector, while the original scope of the European Semester was limited to evaluating the aspect of financial sustainability of long-term care, it is now broader, as **the assessment has been expanded to include quality, accessibility, and affordability.** On a positive note, **long-term care is mentioned in several country reports**, unlike childcare, whose mention is more sporadic. This shows **a lack of an integrated comprehensive approach to care**, which is the one the European Care Strategy is calling for.

Overall, **a lack of prioritisation of PHS agenda is of concern**, given that the reference to "home care" was included only in the country reports related to **Latvia** and **Estonia**. Therefore, a specific focus on PHS is urged, given the multiplier role played by sector, as regarding gender equality, work-life balance, access to social protection and fight to undeclared work.

Next steps: the link with the revision of EU economic governance and the EFSI key demands for the PHS sector

The 2023 cycle takes into account the ongoing discussions on a **revised economic governance framework**, based on the legislative proposals presented by the Commission on 26 April 2023. Since a new legal framework, based on the outcome of the ongoing economic governance review, is not yet in place, **the current legal framework continues to apply**. At the same time, in order to allow for an effective bridge to the future fiscal rules in the context of the Economic Governance Framework, and to take into account current challenges, **some elements of the Commission's reform proposal that are consistent with the current legislation are already incorporated into this year's cycle**.

Despite its promise, the Economic Governance Reform proposal provides little incentives for reform and investment. The major change related to reform and investment is the extension period. The proposal suggests granting Member States an extension of the fiscal adjustment period (by a maximum of 3 years), provided the fiscal path is underpinned by a set of reforms and investments that supports growth and debt sustainability. However, the **extension period is negated and undone by 'debt safeguard'** that demands debt to-GDP below its starting level after four years. Besides, the extension period figures only as a temporary measure, which manages to award extra time, but does not alter the assessment of fiscal space. Incentive is unrelated to the size of economic return and Member States who are constrained by rules may choose fiscally suboptimal policies. Moreover, the methodology of GDP projection on which the fiscal framework relies does not leave room for economic returns. This is due to the net expenditure path which is set once up front and the proposal limits changes thereafter. **Legally,**

it seems possible to take economic returns into account when setting expenditure paths. However, in current practice there is little accounting for reforms and investment.

Moreover, the current fiscal rules, embedded in both EU regulations under the Stability and Growth Pact and the Treaties, require Member states to cap their public debt at 60 percent of gross domestic product (GDP) and limit their budget deficit to 3 percent of GDP. These rules were temporarily suspended in March 2020, recurring to the "general escape clause" within the Pact. Initially invoked to enable governments to provide support during the severe economic downturn caused by COVID-19, the suspension was later extended to shield them from the repercussions of rising energy prices due to the conflict in Ukraine.

In this regard, it is key to promote flexibility when applying these strict criteria, otherwise many Member States will be affected by 'fiscal consolidation' and forced to make huge cuts in public spending and erode social rights. **Without a deep reform of EU fiscal rules, cuts in healthcare, long-term care, childcare, education, public transport, pensions and employment benefits would exacerbate inequality**. According to EFSI and to the main European social partners, the European Economic governance should be a rule-based process reinforcing the European convergence process **with a stronger social dimension**. The insistence on the 3% deficit threshold could constrain current public spending. **The current framework is not sufficient to balance the need for sustainable public households with demand for public investments necessary to master the twin transition of our economy, to keep Europe competitive and to create welfare for citizens**. In fact, fiscal rules must ensure fiscal sustainability in a mid-term perspective.

In light of the above-mentioned, EFSI calls for:

- The European Semester to adopt an **integrated and comprehensive approach** when it comes to suggesting recommendations in the field of **care as suggested by the European Care Strategy, and not to overlook home-based care and PHS services,** poorly mentioned;
- Ensuring that both the European Semester and the revision of the EU fiscal rules enhance social inclusion and social progress, by effectively implementing the **EPSR**;
- Setting out and implementing a **long-term strategy** which involved adopting **resilient fiscal and social policies** able not only to face and mitigate but also prevent and avert potential future adverse impact and enhance coherence across sectors and governments level;
- The need to envisage a stronger social dimension in the EU Economic Governance Review, by **strengthening the monitoring of employment and social challenges** in the Member States as envisaged in the **Social Convergence Framework**, but also go a step further by **revising and loosening the EU fiscal rules** which normally constrain member-state budget policies in order to adjust them to the social needs;
- Adopting a **cross-cutting and transversal approach** when dealing with economy, given its interdependence with social, environmental and health issues. It is key to continue developing quality comparable indicators and data collection mechanisms to improve the assessment of the social and employment situation in the EU;
- Improving the adoption of measures **to improve the adequacy of care while preserving fiscal sustainability and being cost-effective**. These policies should include establishing a coordinated control mechanism with clear responsibilities assigned across various levels of government, which would help to raise the quality and comparability of public spending.
- acknowledge the **earn-back effects of socio-fiscal incentives in PHS** as they contribute to reducing the share of undeclared work, increasing service quality and improving working conditions (e.g., each euro spent on long-term care services is associated with a national value-added of 1.7 euros, in addition to 0.7 euros in taxes and social contributions). The investment in this area should be recognized as a social investment given the various earn-back effects rather than as a cost.

With this mindset and leveraging these key demands, EFSI will continue to monitor the path of the European Semester starting from the one that opened in November 2023 and which will lead to the Spring Package of 2024. This path will be particularly relevant as it will correspond to the conclusion of the mandate of this Commission and this Parliament with the European Elections.

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