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Annual Sustainable Growth Survey 2024

Investing in the EU's competitive future:
Annual Sustainable Growth Survey 2024

1. Introduction

After a strong recovery in 2022, economic activity in the EU has slowed down in the face of high inflation and tighter financing conditions. A swift, decisive and coordinated policy response allowed the economy to rebound and tackle the socio-economic consequences of the COVID-19 pandemic and Russia's war of aggression against Ukraine. The EU has managed to navigate the resulting energy crisis, reducing its dependence on Russian fossil fuels without the need for gas rationing and avoiding a recession. Although the economy has slowed down in 2023 and risks and uncertainties are high, including as a result of the situation in the Middle East, there have never been more people at work in the EU, and unemployment has hit a historic low, though with variation across Member States and regions. While structural challenges remain, the recent achievements show that Europe works best when it works together.

As underlined in the Granada declaration, the EU is committed to strengthening its long-term competitiveness and building a resilient economic base by addressing its structural challenges. Disruptive geopolitical events have demonstrated the need for the EU to further strengthen its open strategic autonomy and remain competitive in a global market, while ensuring that no one is left behind. The EU will continue to pursue its open and fair trade policy, invest in partnerships and defend itself against unfair practices, for example from China. The EU needs resilient, diversified supply chains to reinforce economic security, particularly in critical raw materials, technological components, and equipment. To further enhance the EU's competitive edge, it is crucial to ensure the development of the necessary competences and skills for the green and digital transition, manage the demographic change, while increasing investments and fostering innovation. The Commission's demography toolbox supports Member States in mobilising policies addressing the challenges in an ageing society. Making the most of the single market, especially for small and medium-sized enterprises (SMEs) and further developing the Capital Markets Union to support private investments, are equally crucial.

The EU is moving away from fossil fuels. Based on the commitments under the European Green Deal, Europe is pushing to decarbonise industries, energy, buildings and transport and has significantly accelerated the clean energy transition. Creating a strong clean tech industry and enabling its deployment, including by implementing the Commission's proposal on a Green Deal Industrial Plan (GDIP)[1], will support competitiveness. Faster permitting procedures as introduced in the revised Renewable Energy Directive and an emergency regulation on permitting will make renewable energy more abundant. Further, the Commission has tabled a proposal to improve the EU's electricity market design and its protection against market manipulation, as well as boost new energy investment.

EU funding instruments are boosting the green and digital transition, skills and employment to strengthen the EU's competitiveness at national and regional level. The ongoing implementation of the Recovery and Resilience Facility (RRF), including the introduction of dedicated REPowerEU

[1] COM (2023) 62 final.

chapters in Member States' national recovery and resilience plans (RRPs), the Technical Support Instrument (TSI), and the use of cohesion policy funds, continue to play a pivotal role in shaping reform and investment agendas in all Member States. The proposed Strategic Technologies for Europe Platform (STEP) will ensure further synergies among existing EU instruments, including the InvestEU programme, for a quick deployment of critical technologies. So far, the RRF has made over EUR 175 billion in payments, over EUR 210 billion has been disbursed under the cohesion policy funds since the beginning of the COVID-19 pandemic, and EUR 13.44 billion in EU guarantees and 119 operations have been approved under InvestEU. Horizon Europe has mobilised over EUR 24 billion in science and innovation. In parallel, the Commission has positively assessed investment and reform agendas under REPowerEU amounting to EUR 54 billion. To continue securing funding and optimising resources for the EU's political priorities, the targeted revision of the EU's multiannual financial framework needs to be swiftly adopted.

The 2024 cycle of the European Semester will take stock of the ongoing implementation of RRPs and the cohesion policy programmes, exploring how they complement each other in terms of funding and policy outcomes. The focus will be in particular on the complementarities between the RRF and cohesion policy funds, showing how reforms are acting as key enablers for investments at different levels. It will also provide orientations in view of the forthcoming mid-term review of cohesion policy programmes. This will be an opportunity to assess the programmes and address emerging needs and challenges in EU Member States and their regions.

The Economic Governance Review should be concluded swiftly. The European Parliament and the Council are working on the Commission's proposals to reform the EU fiscal rules, presented on 26 April 2023. The reformed framework will create clarity and predictability for future fiscal policy, promoting debt sustainability and economic growth at the same time. Once the reformed fiscal framework has been adopted, Member States will start preparing their first medium-term fiscal-structural plans, outlining fiscal, structural and investment policies for the next 4 to 5 years. The Commission calls on the co-legislators to rapidly agree on a reformed framework.

This year's Annual Sustainable Growth Survey highlights the EU's socio-economic policy agenda, taking into consideration the evolving macroeconomic, social and geopolitical landscape. The guidance follows a structured approach based on the four dimensions of competitive sustainability, aligned with the EU's work to make continuous progress towards the UN Sustainable Development Goals. The Communication also outlines the key aspects of the 2024 European Semester cycle.

2. The four dimensions of competitive sustainability

2.1 Macroeconomic stability

The EU economy remains resilient despite a slowdown. In 2022, economic activity was still recovering, and GDP increased by 3.4% in the face of soaring inflation. Over the course of 2023, inflation, which is still high but gradually declining, and the tightening of monetary policy have resulted in weaker growth. On the other hand, developments on the labour market continue to be encouraging, with unemployment remaining close to historical lows. The autumn forecast expects the EU economy to grow by a modest 0.6% in 2023, then rebound by 1.3% in 2024 and by 1.7% in 2025. Inflation is set to continue declining, reaching 2.4% in 2025 in the EU. This, together with higher wages and a still strong labour market, will contribute to a gradual recovery of households' purchasing power.

Risks related to high debt and price divergences remain relevant. While the inflationary environment facilitated faster deleveraging from high debts, the tighter financing conditions could result in increased tensions linked to high debt, both in the private and public sector. This would affect in particular Member States where debt servicing requires large rollovers of debt, or where the private sector faces steep increases in interest payments. In addition, continued differences in price and cost increases across countries raise the prospect of competitiveness losses in Member States with the strongest price increases. This is a particular risk among euro area countries as the re-alignment of domestic costs and prices via changes in the nominal exchange rate is not an option[2]. The Alert Mechanism Report contains the Commission's analysis of the evolution of imbalances and emerging risks[3]. Next spring, in-depth reviews will be prepared for 12 Member States. For Cyprus, France, Germany, Greece, Spain, Hungary, Italy, the Netherlands, Portugal, Romania and Sweden to the in-depth reviews will follow up on imbalances or excessive imbalances identified this spring, while for Slovakia the in-depth review will assess the risk of newly emerging imbalances.

With the general escape clause under the Stability and Growth Pact expiring at the end of 2023, fiscal policy needs to support monetary policy in reducing inflation and safeguard fiscal sustainability, while providing sufficient space for additional investments and supporting long-term growth[4]. Fiscal policy coordination is key to helping monetary policy bring inflation back to its medium-term target in a timely manner. Governments should adopt coordinated and prudent fiscal policies to keep debt at prudent levels or put debt ratios on a plausibly downward path. They should wind down crisis-related energy support measures as soon as possible and use the resulting savings to reduce deficits. While remaining agile in view of the high uncertainty, achieving a contractionary fiscal stance, as expected in 2023 and 2024, will contribute to restoring fiscal buffers over time and thus to improving the sustainability of public debt in some Member States. Besides the need to maintain a prudent fiscal strategy, public investment needs to be maintained and, where needed increased, to support long-term growth and the green transition. To that end, governments should sustain a high level of public investment to support the green and digital transition, strengthen productivity and resilience. This will require improvements in the quality and composition of public finances on both the revenue and expenditure side, for instance by optimising the tax mix. It will also be crucial to accelerate the implementation of the Recovery and Resilience Plans, including their REPowerEU chapters, and make full use of cohesion policy programmes.

Fiscal emergency measures taken to respond to the energy price shock should be wound down as soon as possible. Protracted non-targeted fiscal support to households and firms is not the right tool in the current situation, as it increases inflationary pressures and contributes to prolonged tight monetary policy. It also limits fiscal space for productive spending, for example on green and digital investments. Support to vulnerable households should be provided in a targeted manner through established social protection systems and social safety nets. Should support measures be necessary,

[2] COM (2023) 903 and SWD (2023) 903
[3] COM (2023) 902 and SWD (2023) 902
[4] COM (2023) 900.

these should be focused on protecting vulnerable households and firms, be fiscally affordable and preserve incentives to increase energy efficiency.

As announced in the fiscal policy guidance for 2024[5], the Commission will propose to the Council to open deficit-based Excessive Deficit Procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

2.2 Environmental sustainability

Actions taken by the EU and its Member States helped bring energy prices closer to pre-crisis levels, while investments in clean energy sources help stabilise the future supply. Natural gas prices have fallen by about 84% compared to the record-high levels last year but are still 78% above pre-crisis levels and wholesale electricity prices also fell (by -78% compared with the same period last year). Nevertheless, energy prices in the EU remain high on average compared to pre-crisis levels and the rest of the world. While the EU has increased its energy system's resilience, market conditions are still subject to uncertainty, including due to the Middle East crisis. Since February 2022, the EU has ended all imports of Russian coal, reduced imports of Russian oil by about 90% and total Russian gas imports by about two-thirds and will continue these efforts in the future. Natural gas storage levels are at record highs ahead of time, at 100% in November 2023. The successful implementation of the EU framework on demand reduction by Member States has strengthened the EU's preparedness for this winter, and the demand aggregation tool AggregateEU is delivering concrete results. Given the improved conditions in the energy markets as well as the need to adopt prudent fiscal policies, Member States should quickly phase out fossil-fuel subsidies. They should only resort to targeted energy support measures if there are further energy price increases and facilitate a rapid deployment and phase-in of affordable clean energy alternatives for households and businesses through appropriate reforms and investments.

Member States are focusing their efforts on implementing the REPowerEU chapters of the RRPs, complemented by cohesion policy funds. So far, 23 Member States have submitted their REPowerEU chapters, amounting to an envelope of EUR 54 billion. REPowerEU measures include streamlining permitting procedures to accelerate the roll-out of renewables and storage facilities, scaling up energy efficiency measures to reduce energy poverty and supporting the development of value chains in critical raw materials and technologies necessary for the green transition. The cohesion policy funds' support for investments in energy efficiency, renewable energy and smart energy systems under the Greener Europe policy objective also plays an important role in implementing several key actions under the REPowerEU initiative. The EU financing to these actions from all policy objectives and the Just Transition Fund (JTF)amounts to EUR 47 billion. The availability of these different funding instruments means that common objectives can be met more effectively, for example through the combination of RRF/REPowerEU reforms on permitting and the connection of more renewables to the grid through investments at national and regional level.

The updated national energy and climate plans (NECPs) need to be fully developed and swiftly implemented. Member States' updated NECPs should put forward more ambitious climate and energy policies in line with the EU's 2030 climate and energy targets. They are expected to take full account of the latest country-specific recommendations (CSRs), published in the context of the

[5] COM(2023) 141 final.

European Semester, reflect energy and climate measures in their RRPs, and explore synergies with other planning instruments under EU cohesion policy. The Commission will issue Member State-specific recommendations for their draft NECPs in December 2023 and expects these to be fully taken into account in the final NECPs, due by June 2024. NECPs will help consolidate strategic planning, mobilise public and private investment[6] as well as strengthen investor certainty to deliver on the 2030 climate and energy targets of reducing EU greenhouse gas emissions by at least 55% below 1990 levels. This should be combined with efforts to reverse the loss of natural resources, develop sustainable agricultural practices, preserve ecosystem services and adapt better and faster to a more adverse climate, in particular in the area of water resilience. To preserve budgetary stability and prevent financial shocks in the future, there is an increasing need for Member States to consider and prepare for the fiscal impact of excessive weather events and other climate hazards in their medium-term budgetary planning.

Strengthening the EU net zero industry is essential for providing the technologies and components needed to deliver on the European Green Deal and for Europe's industry to remain competitive. The future competitiveness of the EU net zero industry will be determined by a stable supply of affordable and increasingly clean energy, the availability of a highly skilled workforce and adequate private and public funding. The availability of affordable raw materials, continued trade openness, and a supportive business environment are also key. Building on the strengths of the single market, the GDIP and the Net Zero Industry Act aim to provide a more supportive environment for scaling up the EU's manufacturing capacity for net zero technologies. The STEP proposal will boost the EU's investment capacity to support this scale-up, accompanied by appropriate skills development, while helping to safeguard cohesion and the Single Market. The total investment needs in EU supply chains for five net zero technologies (wind, solar, batteries, heat pumps and electrolysers) amount to EUR 92 billion until 2030. In this regard, the European Wind Power package will support companies in the wind sector and improve their competitiveness. More generally, engagement with industrial stakeholders, including clean transition dialogues, will help EU industry to build its business model for the green transformation. R&I will play a crucial role in this transformation and will require an innovation-friendly policy framework. To deliver on the European Green Deal, EU industry also needs to bolster its circular economy transition, in particular in the recovery and substitution of critical raw materials and the uptake of secondary raw materials to maximise value retention. Furthermore, Member States should focus on removing environmentally harmful subsidies, where potential budgetary gains are estimated at up to EUR 300 billion per year[7]. Furthermore, the EU industry's climate transition will be aided by the carbon border adjustment mechanism, which will help maintain a level playing field with non-EU producers and avoid carbon leakage.

2.3 Productivity

While productivity is the main driver of competitiveness, average productivity growth in the EU has stagnated over the last decade. Labour productivity per hour worked has increased by only 6% since 2015. The new Single Market and Competitiveness Report that will be published by the

[6] Overall, additional investments of over EUR 620 billion annually will be needed to meet the objectives of the Green Deal and REPowerEU as well investments of EUR 92 billion until 2030 to meet the objectives of the net-zero industry act.

[7] European Commission, 2022, A toolbox for reforming environmentally harmful subsidies in Europe.

Commission in January 2024 will serve as the basis for an annual governance cycle and for discussion on the single market and long-term competitiveness and productivity, as requested by the European Council. An uneven and slow digital transformation in general and skills shortages in various sectors represent major barriers to productivity growth. There is a need for decisive policy action to support private R&I funding through rightly designed tax incentives, public-private partnerships and better conditions for start-up and scale up companies such as through the European Innovation Council, established under the Horizon Europe Programme. Increased research and innovation in businesses and in the public sector is particularly important to strengthen productivity in regions that have experienced slow growth in recent years. While more young people in the EU finish tertiary education, increasing the number of STEM graduates, addressing gender disparities and improving labour market relevance can further strengthen productivity.

Boosting productivity hinges on improving the framework conditions, deepening the single market and on respect for the rule of law. EU businesses are burdened today by administrative obstacles that hinder their ability to invest across borders and effectively complete the green and digital transition. Joint efforts are required to enforce existing rules, remove barriers, and explore areas for further integration[8]. The Commission has put forward the first legislative proposals to reduce reporting obligations at European level by 25%, without undermining the policy objectives of the initiatives concerned. Member States, including regional and local authorities, must also step up their efforts in this area to match this level of ambition. Raising productivity requires strong incentives through the tax and benefit system and effective education and training to increase the labour supply and the availability of a flexible and skilled workforce. Deep and integrated EU capital markets are key for EU global competitiveness, as means to source private investment in the EU economy, including for the green and digital transition. Further efforts are also needed to facilitate innovation uptake and reduce bottlenecks and barriers in product and services markets. Respect for the rule of law, in particular independent, quality and efficient justice systems, legal certainty and equality before the law are also key determinants of a business environment that fosters investment and innovation.

Fostering a fair and SME-friendly business environment are key to strengthening the single market. The SME Relief Package includes a proposal to combat late payments. It aims to bring fairness to commercial transactions, improve the liquidity and resilience of SMEs and boost the competitiveness of EU businesses. The package also includes proposals to appoint a dedicated SME envoy and a proposal to introduce Head Office Taxation (HOT) to simplify the taxation framework for SMEs that operate across borders. The Business in Europe: Framework for Income Taxation proposal will make life easier for both businesses and tax authorities by introducing a single set of rules to determine the tax base of groups of companies that operate in more than one country. The SME window of the InvestEU programme also helps SMEs adapt to sustainable business practices and funds start-ups developing new sustainability technologies. Support for SMEs is expected to reach more than EUR 200 billion until 2027 under EU funding programmes[9].

The EU's growth path relies heavily on the uptake of digitalisation. While digital technologies offer competitive advantages, improved services and expanded markets for large firms, SMEs' level of digitalisation remains uneven across Member States and sectors. Many traditional SMEs lack the

[8] Communication, The Single Market at 30, COM (2023) 162 final.
[9] SME Relief Package, page 12, footnote 61: SME Relief Package (europa.eu).

resources and skills to fully benefit from digitalisation, emphasising the need for progress in this area. The large-scale digital skills partnership aims to help reach the EU Digital Decade targets of equipping 80% of people with basic digital skills, achieving gender convergence, and having 20 million ICT specialists employed by 2030. The national Digital Decade strategic roadmaps will set out the concrete measures that each Member State intends to take to address gaps, in line with the findings of the first State of the Digital Decade report. Several regulatory developments, including the framework for AI, the Data Act, the Digital Services and the Digital Markets Act, will strengthen Europe's potential to compete at a global level. The EU's proposal for a legal framework on AI, , is the first comprehensive framework of its kind; while it aims to mitigate the risks in a proportionate manner, it provides the legal certainty that is needed to roll out trustworthy AI on a European scale.

Reducing productivity gaps in the EU requires a focus also on those regions where productivity has stagnated and that can benefit from complementarities between the RRF and cohesion policy funds at regional level. Disparities in access to education and training, healthcare, research, innovation, mobility and high-quality digital infrastructure are further accentuated in rural and outermost areas. This is also demonstrated in urban areas that have higher competitiveness and higher levels of human capital[10]. For instance, less than 25% of the population aged 25-64 in EU rural regions has received post-secondary education, against 44% in cities[11]. Synergies between the RRF and cohesion policy funding are essential for delivering support at regional level.

2.4 Fairness

The EU labour market continues to perform strongly overall despite slower economic growth, even though regional disparities persist, with some population groups benefiting less. The employment rate reached a record level of 75.4% in Q2-2023, while the unemployment rate fell to 6.0%, which is the lowest rate ever recorded for the EU. While some Member States have made significant progress, others recorded unemployment rates still above 11%[12]. At the same time, labour market outcomes show marked regional disparities within Member States.

The high levels of labour and skills shortages are a major bottleneck for sustainable growth, innovation and competitiveness and require targeted action. In this tight labour market, over two-thirds of employers cannot find the talent they need[13]. Shortages are common in healthcare, STEM (particularly ICT), green and certain service occupations. The talents of women, young and older people, the low-skilled, persons with disabilities and other disadvantaged and underrepresented groups are much needed on the labour market[14]. Over 20% of the working-age population is inactive, including 8 million young people who are not in employment, education or training. Equal opportunities should be ensured for all, including through implementation of the Union of Equality strategies[15].

[10] EU Regional Competitiveness Index 2.0 – 2022 edition; https://ec.europa.eu/regional_policy/sources/work/rci_2022/eu-rci2_0-2022_en.pdf
[11] Eurostat, EDAT_LFS_9913.
[12] ES and EL recorded unemployment rates of >11% in Q2-2023, and ES, EL, IT, RO and SE recorded youth unemployment rates of >20 % (with SK, HR, and PT just under the threshold). Source: Eurostat.
[13] European Commission (2023), Employment and Social Developments in Europe.
[14] For instance, the female employment rate was 70.3% in Q2-2023, 5.1 percentage points below the workforce average. Unpaid care responsibilities keep more than 7 million women in the EU from the labour market.
[15] The Union of Equality strategies promote equality and inclusion of women and disadvantaged groups, such as persons with disabilities and people with a migrant, minority racial or ethnic background, including Roma.

Policy actions at the appropriate levels should be geared towards increasing labour market participation to improve employment and social outcomes. This includes reinforced active labour market policies, access to quality and affordable early childhood education and care, as well as long-term care, tax and benefit systems that support working (including by shifting taxation from labour to environmental and climate objectives), adequate working conditions and possibilities for managed legal migration[16], while ensuring labour and social protection rights. The increased use of algorithmic management and AI in the workplace can help address shortages but requires vigilance. Strengthening quality and inclusive education and training remains a key priority, as well as stronger upskilling and reskilling efforts for the twin transition. A lack of basic skills as well as advanced STEM skills, learning gaps and teacher shortages pose increasing challenges to education and training systems, including for young people to enter the labour market. The momentum of initiatives launched under the European Year of Skills[17] should be continued.

Despite marked wage increases in the EU in 2022 and the beginning of 2023, these remained below the high inflation rates and resulted in reduced purchasing power, affecting lower incomes the most. Real wages in the EU decreased by 3.7% in 2022, increasing the risk of in-work poverty[18]. In future, wage developments will need to strike a balance between recouping the lost purchasing power of workers, avoiding second-round effects on inflation and safeguarding the EU's competitiveness. Strong social dialogue and effective collective bargaining are more important than ever for delivering balanced wage-setting outcomes.

The need for adequate and sustainable social protection and inclusion policies remains high. In light of demographic changes and fast-evolving labour markets, sustainable social protection systems are essential, while ensuring access to social protection and adequate income support. This is also needed to mitigate the impact of high inflation and decreasing purchasing power and address energy poverty. It should be combined with support to labour market integration and access to essential services for people who lack resources[19]. Fair transitions are needed for all, for instance to make sure that green and digital innovations are affordable for lower income earners and that no region is left behind.

Cohesion policy funds, together with national RRPs, support Member States in progressing towards their 2030 national targets on employment, skills and poverty reduction. With Member States including significant reforms and investments in the labour market and social policies in their RRPs, EUR 140 billion (around 28%) of the estimated costs of the RRPs contributes to social policies, including around EUR 73 billion on education and skills[20] and around EUR 43 billion on healthcare. Under the cohesion policy funds, in particular the European Social Fund Plus (ESF+) and the European Regional Development Fund (ERDF), EUR 109 billion is also invested in the social policy area. Synergies between the RRF and cohesion policy funds are clearly visible. For instance, several Member States have introduced reforms in their RRPs that create legal entitlements for early childhood education and care (ECEC). At the same time, cohesion policy funds (especially ESF+ and

[16] Notably via the EU Talent Pool, launched on 15 November 2023 as part of the Skills and Talent Mobility package.
[17] European Year of Skills (europa.eu).
[18] Eurofound (2023), Minimum wages in 2023: Annual review.
[19] In line with Council Recommendation of 30 January 2023 on adequate minimum income ensuring active inclusion.
[20] Data as of 6 November 2023, based on the pillar tagging methodology for the RRF Scoreboard. Data on education and skills correspond to measures allocated to the policy area 'Early childhood education and care', 'General, vocational and higher education', 'Adult learning', 'Human capital in digitalisation' or 'Green skills and jobs' as primary or secondary policy area.

ERDF), in some cases aided by RRP investments, are used in particular to develop ECEC services and build kindergartens in response to increased demand. Cohesion policy funds often build on reforms initiated under the RRPs and already finance some of the needs. They can also target particular regional needs or specific population groups such as Roma (e.g. by investing at regional level in inclusive education or financing active labour market policies).

The continued implementation of the European Pillar of Social Rights remains a policy priority to promote upward social convergence in the EU. To provide a more systematic analysis of employment and social developments in the Member States, the Commission proposal for a Joint Employment Report 2024[21] includes a stronger country focus in the form of a country-by-country analysis, based on the principles of a Social Convergence Framework[22].

3. EU financing the green and digital transitions

EU funding has proven to be an essential tool for financing the actions necessary to foster competitive sustainability at national and regional level. The effective and flexible use of existing instruments under the EU budget, notably cohesion policy funds, and the introduction of new instruments, in particular the RRF and its REPowerEU chapters, allow the EU to tackle its main economic and social challenges head on, together with Member States and their regions. Through the InvestEU programme, the EU is providing guarantees to mobilise private investments for top policy priorities such as the green and digital transition, innovation and social investments and skills, as well as support for SMEs. And the JTF is assisting the regions most affected by the green transition in diversifying their economies and creating new jobs. Each instrument has helped to target funding gaps and investment bottlenecks through its own focus and strengths, while synergies are becoming readily apparent. Complementarity can be seen along a number of different lines, in particular related to the nature of the reforms, the geographic dimension of the investments and the timing, and can be fostered by support provided under the TSI.

The RRF complements cohesion policy funds with transformative reforms. Enabling reforms help remove investment bottlenecks and facilitate and accelerate investment roll-out of national and EU-level funds. This includes the transformative reforms supported in each recovery and resilience plan under the RRF, alongside enabling conditions required under Cohesion Policy funds. For example, RRF reforms that unlock permitting processes for the green transition also under the REPowerEU umbrella, improve the digitalisation of public administration and create an investment-friendly climate by addressing regulatory hurdles, such as reducing bureaucracy. Far-reaching labour market reforms in the RRF, along with the enabling conditions in cohesion policy programmes, address often long-standing structural challenges, where they complement investments for example in skills and social protection. Finally, all funds benefit from those reforms that ensure the protection of the EU's financial interests, such as those tackling corruption or addressing rule of law issues.

Together, cohesion policy funds and RRF investments ensure comprehensive national, regional and local coverage, including beyond 2026. Alongside cohesion policy, the implementation of RRPs is an opportunity to target different areas. Moreover, with their longer implementation timeline,

[21] Commission proposal for a Joint Employment Report 2024 - COM(2023) 904

[22] The Social Convergence Framework has been discussed and developed in cooperation with Member States. See https://data.consilium.europa.eu/doc/document/ST-9481-2023-INIT/en/pdf.

cohesion programmes will continue to maintain the momentum generated by the RRF, thereby securing a high level of public investment and leveraging private investment in the longer term. As part of the cohesion policy mid-term review, Member States have the opportunity to review cohesion programmes that allocate funds in order to tackle those areas where there are pressing needs and emerging challenges, while maximising synergies.

Box 1. Examples of complementarity between RRF and cohesion policy funds under the 2021-2027 programming period

- In **Spain**, the combined action of the RRP and cohesion policy funds are improving water management. The RRP introduces a reform that updates the Water Law, its regulations and other secondary legislation to ensure a legal framework that helps strengthen and increase investments in the water management sector, while cohesion policy funds that finance water management systems, that reduce the loss of resources and improving efficiency in distribution systems.
- In **Croatia**, the RRP supports the introduction of a single shift in all primary schools as the basis for the introduction of a whole-day school model. Cohesion policy funds significantly add to this by financing various aspects of the modernisation of institutions that provide primary education, including by financing infrastructure and equipment to enable implementation of a whole-day school model in schools that are already operating in a single shift.
- The **Slovenian** RRP includes a reform that will make the Slovenian public passenger transport more efficient by establishing a new coordination entity. This will facilitate the implementation of cohesion policy investments in this sector, such as upgrading railways and supporting sustainable modes of transport.

4. Features of the European Semester 2024

The implementation of RRPs and complementarity with other EU funding instruments will frame the European Semester in 2024. While the ongoing implementation of the RRPs will continue to deliver on reforms and investments, responding to CSRs, this cycle will also explore how actions under RRPs interact with other EU funding instruments in achieving common policy goals.

Country reports and in-depth reviews will identify structural and emerging challenges to unlock the competitiveness potential in each Member State. The 2024 country reports will include an evaluation of progress made towards the European Green Deal objectives, the European Pillar of Social Rights including the 2030 targets on employment, skills, education and poverty reduction, and in tackling a range of obstacles to industry that hinder the twin transitions. The European Semester will continue to be a main vehicle for monitoring and promoting progress towards the Sustainable Development Goals, also in a context of increased attention on sustainable and inclusive wellbeing beyond GDP.

The 2024 CSRs will focus on a limited selection of challenges and will detail key investment needs for the mid-term review of the 2021-2027 cohesion policy programmes. While the RRPs are being implemented and additional measures have been added through REPowerEU chapters, remaining or new policy challenges will be identified in the country reports and, where applicable, within the context of in-depth reviews. The country reports, along with the proposals for CSRs, will form the 2024 European Semester Spring package to be adopted in June 2024. The new cycle will also inform the upcoming cohesion policy mid-term review.

The involvement of the European Parliament, the Council, social partners and other key stakeholders will continue to be a key feature. Close cooperation is vital, achieved through regular meetings at key Semester and RRF stages. Member States are urged to actively engage with stakeholders, including social partners, local and regional authorities, as well as relevant civil society organisations. Inter-institutional dialogue with the European Parliament and the Council will continue, ensuring democratic accountability and collaboration on economic governance.

5. Conclusion

In response to a changing world, the EU is dedicated to enhancing its long-term competitiveness through a green and digital transition, while ensuring social fairness. Under the European Semester, the Commission will continue to monitor social and economic impacts closely and propose recommendations to unlock the competitiveness potential of each Member State, promoting open strategic autonomy and net zero growth and a fair green and digital transition, while reducing regional disparities. In this respect, the 2024 cycle of the European Semester will specifically focus on ensuring and expanding synergies and complementarities between the implementation of the RRPs and the cohesion policy programmes, while pinpointing areas with further investment and reform needs at national and regional level.