ANNUAL SUSTAINABLE GROWTH STRATEGY 2023

SOCIAL PARTNERS' CONSULTATIONS

EMPLOYERS' VIEWS

13 October 2022

1. Economic and social context

The European Union (EU) economy is facing a very difficult period. Between 2020 and 2021, the EU economy has undergone the deepest fall in economic output since the Great Depression due to the Covid-19 pandemic. Russia's war of aggression against Ukraine continues to negatively influence the European economy. Many industrial sectors have seen either output hit by gradually easing but continuing global supply chain issues, exacerbated by shutdowns in China, or are suffering due to rising input prices. Meanwhile extraordinarily high energy prices also create additional pressures and weigh heavily on businesses, particularly in energy intensive sectors. European employers expect that some individual Member States may experience at least "technical recessions" during 2022 and in early 2023. According to the European Commission Summer 2022 (interim) Economic Forecast the EU economy will grow by 2.7% in 2022 and 1.5% in 2023. Moreover, the most recent ECB staff projections (September 2022) now forecast a much smaller GDP growth of 0.9% for the euro area in 2023 (a downwards revision of more than one percentage point since the last projections). Likewise, the OECD now estimates that the euro area economy will only grow by 0.3% in 2023.

The euro area and EU annual inflation rate continues to be very high: it reached 10% (September 2022) and 10.1% respectively (August 2022), respectively. There are important differences among EU Member States: the lowest annual rates were registered in France (6.6%), Malta (7.0%), and Finland (7.9%). The highest annual rates were recorded in Estonia (25.2%), Latvia (21.4%), and Lithuania (21.1%). The highest contribution to the annual euro area inflation rate came from energy (an increase by close to 4 percentage points). Further up the supply chain, domestic producer prices in the EU have increased by 43% y-o-y in August. Import prices increased by 30% y-o-y in June. The European Commission Summer Economic Forecast predicts that annual average inflation is projected to peak at historical highs in 2022, at 7.6% in the euro area and 8.3% in the EU, before easing in 2023 to 4.0% and 4.6%, respectively. BusinessEurope's Summer Economic Outlook 2022 forecasted average annual inflation levels of 6.5% for the euro area in 2022. However, this forecast was dependent on a fall in energy prices and moderate wage increases amidst a very tight labour market.

At the same time, companies and governments issued considerable new amounts of debt during the pandemic. Borrowing costs are rising for both businesses and governments, and surveys indicate that credit standards have tightened – and will continue to do so – in recent months.

The unemployment rate both in the eurozone and in the European Union remains steady at a record-low level. The EU-27 unemployment rate stood at 6% in the EU (July 2022); down by 0.9 percentage points compared to the same month last year, and 6.6% in the eurozone. Labour shortages become most acute across all sectors of the EU economy: both job vacancies and the number of companies reporting that a shortage of labour is a constraint on production are at unusually high levels. However, the unemployment statistics do not give an accurate picture of the labour market reality. With an average of 25.9% of inactivity rate at the level of the EU (Eurostat, Q1 2022). The concern is particularly serious in the several countries where inactivity levels are higher than 30% (Croatia, Greece, Italy and Romania). At the same time, the fact that other countries have inactivity levels below 20% (Estonia, the Netherlands, Sweden) is encouraging: this shows that there are ways to reduce inactivity levels. Increasing employment participation of the inactive working age population is one of the key challenges ahead to improve the matching between jobs and skills as well as to address serious labour shortages.

2. Key messages

We are in a rapidly changing socio-economic context. The energy crisis is in the centre of attention as it influences all segments of the economy as well as impacts all households. It is not fully clear yet the scale of the impact that is coming on the labour markets. But clearly, very high inflation is a key concern. Many companies, particularly SMEs and those in the energy-intensive sectors, are in survival mode. In particular:

- ✓ **The high inflation** is likely to have a negative impact on the economic growth perspective as well as on job creation – enterprises operate in a very uncertain environment and freeze their development plans, including job creation.
- ✓ Another big challenge for entreprises are **high energy prices** that seriously impact their competitiveness and capacity to invest; this observation is especially true for micro- and SMEs. It is worth noting that the impact of high energy prices will differ depending on the sector. It will impact more enterprises in energy-intensive sectors, which may be forced to reduce their capacity and employment.

- The Commission correctly observes that a key short-term objective should be to avoid labour shedding that would be used to cushion the effect of high costs of energy. It is likely that Member States will again turn to short-term working schemes (STWSs) to maintain employment in companies facing difficulties. However, it must be remembered that the energy crisis affects sectors and countries differently therefore STWSs should be adapted to each Member State situation. **We advocate for using the STWSs as a temporary support measure** that should not prevent from implementing necessary reforms, i.e. changing operation model in high-energy consuming enterprises. Additionally, STWSs should not hamper labour mobility by retaining workers in unviable sectors that are facing decreasing demand and preventing these workers from moving to high-demand sectors that currently face severe labour shortages. The STWSs should be conditional and combined with upskilling/reskilling programmes that would strengthen workers employability and prepare them for new jobs/tasks.
- We agree with the Commission's assessment that the impact on employment will be different in different sectors. In the manufacturing sector the rise in energy prices has led to employment reduction. This has taken effect in the form of manufacturers having to reduce their operations or in some instances cease production. To try to compensate for this, mitigating actions are being taken by employers, such as short time work schemes. However, more must be done by governments to address this situation, in close cooperation with relevant social partners. The situation for service sectors is mixed. In some services sectors the rise in energy prices leads to decline in the hours worked per workers rather than employment reduction, whereas in the construction, retail and wholesale sectors the increase in energy prices is likely to lead to job losses. It is important to maintain a regular dialogue with sectoral social partners at the national level to understand the nature and magnitude of changes and accompany employers and workers facing the consequences of the current economic slowdown.
- The impact of high energy prices can also **be a significant challenge for workers and households in vulnerable situations**. To assist these groups through the current economic context it would be very important to step up measures helping them to remain in employment, namely through

appropriate reskilling and upskilling initiatives as well as temporary income-support measures, for example well-designed in-work benefits. The most effective way out of poverty is work.

- **A key concern for European employers is that several factors have been at play for several years which have been pushing up wages**.
  - ✓ Political factors with intrusive EU institutions and national governments pushing up minimum wages are likely to fuel further inflationary effects, whereas we need to do everything to avoid a wage price spiral in this economic context. It is very important that social partners act responsibly and ensure that their wage deals do not fuel inflation.
  - ✓ **Labour and skills shortages remain a crucial issue**. They hinder many companies' growth and productivity potential in the context of the recovery from Covid crisis. They put additional pressure on labour markets as a growing number of companies depends on a shrinking number of workers, which results in a fierce competition for talent contributing to higher labour costs. Currently the vacancies are well above the pre-pandemic levels. In many Member States the number of unfilled positions exceeds the vacancy levels observed over the last decade.
  - ✓ The recognition of the importance of the challenge of labour and skills shortages by President Von der Leyen in her state of the union speech on 14 September was encouraging. But addressing labour and skills shortages requires a comprehensive EU policy initiative to that end. That is why **we have asked the European Commission to include in its 2023 work programme the preparation of EU strategy drawing on EU employment, skills, single market and migration policies.** This includes launching the full version of the EU Talent Pool by the middle of next year, as per the Skills and Talent Package. The Talent Pool needs to be designed in a way that helps to address employers' labour and skills needs in an efficient and effective way. A relevant starting point for the launch of the full version of the Pool would be to base a targeted approach to matching on up-to-date shortage occupation lists.
- In relation to wage developments, **we strongly advocate for a moderate and economically viable approach to avoid a dangerous wage-price spiral**. In Q1 2022 the nominal wage growth rate accelerated slightly, reflecting elevated inflation and high labour costs. The Commission observes that such increases are expected to remain below inflation and suggests that salary increases for low-wage earners may help maintain purchasing power, with limited risks of feeding inflationary pressures. We would argue that any wage increase should be agreed with social partners at the appropriate level. Social partners need to engage responsibly in collective bargaining on wages and help ensure that temporary rises do not give rise to a damaging wage-price spiral. Governments should not interfere with collective bargaining and overstep the competences of national social partners in this regard. Additionally, we would warn against increasing wages only for specific groups of workers as this creates distortion in the pay structure at the company level. We strongly believe that in-work benefits are a good solution to top up wages of the low earners and strengthen these categories of workers' link with the labour market.
- **Another important issue in the short term is to be particularly attentive to non-wage labour costs. It is important to make good use of the extra resources that governments receive through taxes on commodities and other products in the context of high inflation.** This means partly to find appropriate ways to target exceptional resources to support people facing higher energy and food prices due to high inflation. But this also means making use of these resources to face a changing context whereby higher interest rates will significantly increase the pressure on governments to reduce sovereign debt levels.
- The urgent need to end the EU's dependence on Russian fossil fuel and reaching climate neutrality speeds up additionally <u>the green transition</u>. Both require skills and social policy actions, such as for example measures aiming at upskilling and reskilling people in different industrial ecosystems to be able to perform new jobs/ tasks as well as the ultimate goal of job creation. These systems vary significantly by sector and/or by region. Coming up with appropriate training provisions requires involvement of the social partners at the lowest possible levels to ensure that the specificities of the

company/sector is taken into account. A good occasion to strengthen timely and meaningful involvement of social partners will be the update of the National Energy and Climate Plans (NECP) planned for 2023-2024. This update should include the reflection about employment, skills and social aspects in climate and energy policies.

- We agree with the Commission that accelerating the green transition will require necessary investments and reform efforts, including in the employment, skills and social policy areas. The implementation of the Council Recommendation on ensuring a fair transition towards climate neutrality of June 2022 requires that Member States cooperate closely with social partners to adopt and implement policy packages on the employment, skills and social aspects of the transition. It is also expected that Member States will promote a full involvement of social partners in the design and implementation of transition pathways for industrial ecosystems under the Updated New Industrial Strategy.
- The digital transformation has been accelerated by the Covid-crisis as more people have started to telework/work remotely. We agree with the Commission's assessment that it results in a greater demand for digital skills at all levels, which have become basic and transversal competence. Effective training provision to equip workers with digital skills shall be designed and implemented in cooperation with social partners; training funds should be used whenever appropriate. Digital skills training shall be treated as priority as gaps in digital skills at all levels potentially slow down the digitalisation of economy, reduce employability of individuals as well as hinder their participation in education and training. We welcome the attention the Commission attaches to closing the gender digital divide perceived as crucial to ensure convergence between men and women and agree that involvement of social partners is necessary to come up with appropriate solutions.

3. The European Semester 2022 and implementation of the Recovery and Resilience Plans

We have welcomed that during its 2022 cycle, the European Semester has resumed its broad economic and employment policy coordination, while aligning with the implementation requirements of the Recovery and Resilience Facility (RRF). We appreciated that the Country Reports and Country Specific Recommendations (CSRs) have been streamlined.

The members of the EU cross-sectoral employers organisations have appreciated the streamlined CSRs and assessed that they capture well national challenges in general. European employers also welcome recommendations relevant for employment and social domains. **More efforts and mutual learning exchanges between the Member States are needed to lower the tax wedge on labour and promoting a shift to less distortive tax bases**. We appreciate the Commission's recommendation that national social protection systems should be adapted to post-Covid challenges, however it is important to also focus on reforming of the social protection systems, to secure their financial sustainability in the short-term as well as in the long-term, and so that they support employment and correspond to the changing labour market needs.

The Commission observes a gradual shift of economic policy coordination from dealing with the Covid crisis to laying the foundations for a transformational and inclusive recovery and stronger resilience, in line with the EU's strategy of competitive sustainability (based on four pillars: environmental sustainability, productivity, fairness and macroeconomic stability). While considering the context of the Russia's aggression on Ukraine, the Commission stresses the importance of pursuing the reform and investment agenda. European employers welcome this approach. **Well-designed structural labour market reforms should remain in focus**.

The implementation of the Recovery and Resilience Plans (RRPs) supports reforms at the national level. The 27 national RRPs have been submitted to the Commission (September 2022), out of which 25 have been approved. The implementation has started on the ground: 16 operational arrangements have been signed, 13 payment requests have been submitted to the EC and eight payments have been disbursed.

RRF supports implementation of reforms through six main pillars: 1/green transition; 2/digital transition; 3/smart, sustainable and inclusive growth; 4/social and territorial cohesion; 5/health, and economic, social and institutional resilience as well as 6/ policies for the next generation.

The RRF Review Report has been published. It offers an update on the state of play with the implementation of the Facility, including overview of key reforms and investments with fulfilled milestones and targets. It also reports on progress made under RRF through the implemented measures under the six pillars as well as indicates the RRF contribution to climate and digital targets, social expenditure and equality between women and men. The RRF Report also includes information on necessary modification of RRPs and financial arrangements. We welcome the report as a tool to ensure that national RRPs are aligned with the reform agenda and adapted to current economic and social situation. We strongly encourage to further strengthen the focus on reform implementation of the national plans.

European employers also point out that as far as the RRPs and policy programming documents are concerned, there are delays in submitting the required documents and preparing for their implementation. We welcome multiple references in the issues paper to strengthen involvement of social partners in policy making and collective bargaining. There is still some room to ensure timely and meaningful involvement of social partners as, for example, members have indicated that time given to contribute to national report was very limited. Since the involvement of social partners was different throughout the whole process, it is now crucial to focus on implementation phase and monitoring.

<u>We agree that continuity and commitment to the required reforms continue to be the underlying principle for the European Semester process</u>.

4. Role of social partners in implementing the reforms' agenda

<u>Meaningful and timely consultations with social partners are crucial for accuracy of reforms' design as well as their effective implementation</u>. Regular dialogue with social partners is even more important in the situation when tailored approaches are necessary as there are significant differences between regions, sectors and even enterprises from the same sector. The involvement of social partners is also crucial in designing and implementing appropriate solutions to assist the most vulnerable ones, help them to face increasing prices, including the energy price, and keep up their employability. Multi-stakeholder partnerships continue to be crucial for delivery of the integrated services.

In current changing socio-economic context, European employers suggest a focus on the following three priorities as regards the employment and social dimensions of the European semester:

1. **Design employment strategies, involving public and private employment services and social partners, to boost the job creation potential brought by greening of the economy.** For this to happen, improved intelligence on changing jobs and tasks will be crucial. The changing reality and skills needs should be reflected in updated education and training curricula for improved workers' skills. It is also important to support enterprises and workers in sectors and jobs that are impacted negatively by the green transition, and design effective support mechanisms for their transformation and/or retraining of workers.
2. **We need to develop skills required to support the green transition:** The digital and green transitions are interlinked and mutually reinforcing: digitalisation contributes to more environmentally friendly production processes, service provision and lifestyles, while greening of the economy requires more advanced technologies and digital solutions to accompany structural changes. Succeeding in the green transition requires a focus on improving skills for innovation, which will be particularly essential for the industrial sectors. We need to train a

sufficient number of people with integrated engineering and advanced IT skills, where the shortages are the highest. The sectoral dimension will also be particularly relevant with respect to the ongoing adaptation of skills to greener production.

3. **We need to have enough people in employment to secure the sustainability of social protection systems:** Making-work-pay policies are the main tool to attract more people to the labour market. In-work benefits[1] are one of the most effective policy options to enlarge the pool of available candidates. Well-designed minimum income schemes - conditional, means-tested and including activation component - are crucial to support those in need, while facilitating transition to employment.

4. Background information: labour and skills shortages, social protection financing, and telework and right to disconnect

➢ *Labour and skills shortages*[2]

Labour force and skills shortages have been a challenge for business long before the Covid-19 pandemic. The urgency of shortages has somehow subdued when the Covid crisis triggered growing labour market slack across Europe notably as the result of lockdowns and several covid waves throughout 2020-2021. But the challenge is back in the post-pandemic recovery. According to WEC-Europe, in 2021 almost 70% of employers reported problems in hiring and perceived it as a major issue[3]. These short-term recent trends may be impacted by the war in Ukraine and its consequences for Europe's economies and labour markets.

To effectively tackle labour force shortages, it is important to have access to relevant data. Policymakers need to map in which sectors labour shortages occur, what are their reasons as well as whether this is temporary or longer-term phenomenon. There are two main strategies to tackle labour force shortages: (**re-) engaging people on the side-lines of the labour market** and **increasing labour force through migration**.

Increasing the employment rate by bringing the inactive to the labour market can be done with a help of well-designed **making work pay policies**, especially in-work benefits that top up the lowest salaries. **The retirement age policy** has also an important role to play in keeping older people in employment. Activating the inactive requires **targeted active labour market policies** (ALMPs) accompanied by supporting services and enabling measures. **Flexibility** is another driver of job retention. Well-functioning **partnerships between public and private employment services** are crucial in tackling labour force shortages. Their cooperation is especially important in the context of structural changes of the economy linked to the after-pandemic recovery as well as the twin transition.

In the situation when the available domestic EU workforce is not sufficient, the first solution to improve skills matching across Europe, is facilitating **worker mobility in the EU single market**. For example, the European Commission could explore ways to ease access requirements to STEM professions where they are regulated at a Member State level and further facilitate recognition of qualifications under the Professional Qualifications Directive (PQD) 2005/36/EC, e.g. by working towards establishing the Common Training Principles.

Beyond intra-EU mobility, the only other available solution to relatively quicky increase the numbers of working age people is **economic migration**. We welcome the Commission's plan to design **an EU talent pool** aiming at creating a pool of third country nationals that member states can use on a

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[1] OECD defines in-work benefits as "permanent work-contingent tax credits, tax allowances or equivalent work-contingent benefit schemes, designed with the dual purpose of alleviating in-work poverty and increasing work incentives for low-income workers".
[2] BusinessEurope (2022), *Labour force and skills shortages: how to tackle them?* Can be found here
[3] WEC-Europe (2021), *Global labour shortage statistical briefing (*internal materials).

voluntary basis to help address employers' skills needs, complementing the role played by member state nationals and intra-EU labour mobility.

It is worth noting that while any **initiatives aimed at integrating the Ukrainian refugees to the Member States labour markets**, even temporarily, shall be supported, policy makers need to be aware of the factors that may affect their employment level/effectiveness of the proposed labour market measures. The challenges are related to the uncertainty of the future and difficulty in predicting the duration of their stay, language barrier, responsibilities related to childcare and/or care for dependent family members, professional qualifications not corresponding to the needs of the labour market of the receiving country and, in some cases, severe trauma.

- *Financing of social protection*

The ongoing discussion related to financing social protection systems focuses on three main areas: **adequacy, sustainability and access to social protection** for all, independent of their employment status/contractual arrangements. The issue of potential savings/reallocation is less present in the discussion, albeit this is of key importance to ensure a realistic debate on the future of social protection and the welfare state in the EU.

The need to modernize national social protection systems has become urgent. It is even more important to design and implement concrete reforms in the current context of a serious pressure on public budgets and changing social protection needs. Proposed changes shall lead to a stronger performance-based approach of the national public financing of social protection. Available resources should be directed to those areas where not only they are the most needed, but also bring the best results. At the same time, areas of potential savings/reallocations should be defined across different branches/schemes of social protection. Developing **a yearly reporting tool at EU level combined with improved benchlearning between national social protection institutions and social partners** is the best way forward to track efficiency of social spending and improve cooperation and mutual learning at EU level. At the same time, social protection is, and should remain the national competence because most of the resources that finance social protection systems are domestic ones, and the decision on where to invest social protection resources is at the core of the functioning of national societies. Involvement of social partners at EU and national levels is very important to ensure that proposed reforms modernise social protection systems and make them fit for the future in a way that is well articulated with labour market realities.

- *Telework and right to disconnect*

As expected, the incidence of telework has remained at an increased level after the pandemics. Having said this, it is not clear yet how much of this will remain in a context where telework is again voluntary for both enterprises and workers. This form of work organisation now takes more often the form of hybrid work, combining office work with working from other locations than the employer's office. The increased use of telework is supported by digitalization, advanced communications and cloud technologies. Telework brings many opportunities for employers and workers alike, but also creates some challenges that require appropriate legal and organisational solutions.

The European social partners have started the cross-industry negotiations on telework and right to disconnect on 4 October 2022. The negotiations will aim at reviewing and updating the 2002 Autonomous Agreement on Telework to be put forward for adoption in the form of a legally binding agreement implemented via a Directive.

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