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Pulse of SGIs

Services of General Interest
in the Green and Digital Transitions

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SGI EUROPE GENERAL SECRETARIAT Rue des Deux Eglises, 26 bt 5, BE – 1000 Brussels
T: + 32 (0) 2 219 27 98 | F: + 32 (0) 2 218 12 13 | E: SGIeurope@SGIeurope.org | **www.SGIeurope.org**

Registered stakeholder
ID Nr 59513031434-92

EXECUTIVE SUMMARY

- One year after Russia's war of aggression against Ukraine began, **the EU economy is on a better footing than projected**. Supported by the disbursement of funds from the Recovery and Resilience Facility and a swift and coordinated shift away from Russian gases and fuels, the **EU successfully doubled down on the implementation of the EU Green Deal.**

- **However, headwinds remain strong**: consumers and enterprises continue to face high energy costs, and core inflation (headline inflation excluding energy and unprocessed food) was still rising early in 2023, further eroding households' purchasing power. In this context, monetary tightening is set to continue, weighing on business activity and exerting a drag on investment, **especially for providers of services of general interest in the middle of the green and digital transition**.

- Surveyed in the first two months of 2023, SGI enterprises highlighted the following key concerns regarding the present and the future:
    - **Economic uncertainty**: the energy prices crisis, and the consequent high inflation faced since the onset of the Russian war in Ukraine, has put a renewed financial pressure on SGIs, while reigniting social tensions and protests' movements.
    - **Continued provision of services**: faced with increasing budget constraints, enterprises of services of general interest need to balance the need to invest in the twin transition, while continuing to provide high-quality, affordable and accessible services to all citizens and companies.
    - **Skills and labour shortages**: as the green and digital transition is transforming the world of work, SGIs in many sectors currently face significant issues to address labour shortages and fill vacancies with staff equipped with the appropriate skillsets.
    - **Regulatory framework**: the twin transition, and its acceleration stemming from the EU answer to the Russian invasion of Ukraine, is dramatically transforming the regulatory framework. The upcoming deactivation of the General Escape Clause of the Stability and Growth Pact, the State aid Temporary Crisis and Transition Framework as well as the Green Deal Industrial Plan will transform the EU economy and society. SGIs will be at the heart of this transformation, and regulatory certainty and alignment will have to be safeguarded.
    - **Lack of involvement of SGIs in shaping and implementing the National Recovery and Resilience Plans (NRRPs)**: considering the transformational potential of the Recovery and Resilience Facility (RRF) and the NRRPs prepared by national governments, local and regional actors, including SGI providers, have reported a lack of involvement in shaping and implementing the NRRPs, putting at risk the actual delivery on the objectives set by the RRF

ECONOMIC SITUATION

Overall assessment

The multiple social and economic shocks faced by the EU in the past three years – the COVID-19 pandemic, followed by the Russian invasion of Ukraine and its consequences – **have dramatically changed the economic outlook**. The pandemic contributed to a significant economic downturn, countered by the swift adoption of an ambitious NextGenerationEU package, including the Multiannual Financial Framework 2021-2027 and the Recovery and Resilience Facility (later complemented by the REPowerEU). This ambitious approach helped **Europe weather the crisis and finance the costs of the green and digital transitions.**

One year after Russia's war of aggression against Ukraine began, **the EU economy is on a better footing than projected throughout 2022.** Supported by a swift and coordinated shift away from Russian gases and fuels, the EU cut its strategic dependency and diversified its energy supply sources whilst reducing energy consumption. Consequently, the **fears linked with the risks of energy shortages did not materialise, leading to renewed optimism about the success of the transition across the EU.**

Published last month, the Winter Interim Forecast of the European Commission[1] lifted the growth outlook for this year to 0.8% in the EU and 0.9% in the euro area. As a result, the recession anticipated in 2022 is now unlikely to happen.

The core concern: Persistent high Inflation

Because of high energy prices, inflation eroded households' purchasing power and enterprises' ability to invest, contributing to a tense social and economic situation and limited growth prospects. The historically high inflation rates of 2022 and the associated price pressures are expected to decline in 2023. Still, they remain high at 7.0% in the EU and 6.1% in the euro area before moderating in 2024 to 3.0% and 2.6%, respectively.

After reaching an all-time high of 10.6% in October, inflation has decreased. The decline was driven mainly by falling energy inflation, while core inflation has yet to peak. According to the latest European Commission's economic forecast, the inflation projections have been revised downwards compared to autumn, mainly reflecting developments in the energy market. Headline inflation is forecast to fall from 9.2% in 2022 to 6.4% in 2023 and to 2.8% in 2024 in the EU. In the euro area, it is projected to decelerate from 8.4% in 2022 to 5.6% in 2023 and to 2.5% in 2024.

EU action supporting the Resilience of the EU Economy

Two years after the start of the **Recovery and Resilience Facility (RRF), the instrument has proved to be a cornerstone of the EU's economic resilience to face the challenging social and economic environment.**

In 2 years, **more than EUR 140 billion have already been disbursed through the RRF**, supporting projects such as the energy renovation and rehabilitation of social housing in France, the uptake of digital tools of hospitals' technological equipment in Italy, programmes to equip public and publicly subsidised schools with digital tools in Spain, promoting investments in offshore renewables in Greece or start the construction of new sections of line 3 of Sofia Metro in Bulgaria[2]. Through the architecture of the RRF, the **disbursements, which are part of the National Recovery and Resilience Plans prepared by the**

[1] https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/winter-2023-economic-forecast-eu-economy-set-avoid-recession-headwinds-persist_en
[2] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/

national governments and approved by the European Commission, were conditional to achieving transformational reforms to modernise the economy and the investment environment in the Member States.

The RRF is supporting the EU in achieving its green and digital transitions:

- around EUR 203 billion of the total allocation contribute to measures aimed at reducing greenhouse gas emissions;
- around EUR 131 billion contribute to measures to digitally transform Europe's economies and societies;
- around EUR 138 billion has been dedicated to social spending and policies for the next generation.

According to estimates by the European Commission, investments funded by the RRF could boost the EU's GDP by around 1.5% in 2024 and further stimulate job creation.

Following the agreement on the REPowerEU, Member States are now expected to complement their National Recovery and Resilience Plans with dedicated REPowerEU chapters. The reforms and investments included in those chapters, accompanied by a boost of EUR 270 billion to the RRF, will enable Member States to accelerate the clean energy transition.

CHALLENGES FOR SGIs IN THE TRANSITION

In January and February 2023, SGI Europe ran a survey amongst its national sections. Through its network of National Semester Contact Points and lead economists, **SGI Europe gathered the views of its members on the overall economic situation, the current challenges faced by providers of services of general interest, and their involvement in shaping and implementing the National Recovery and Resilience Plans.**

The impact of inflation and high energy prices

The first – and most significant – issue raised by SGI Europe members concerns the **uncertainty regarding the general economic situation**. Despite the return to positive outlooks, headwinds remain strong, while the impacts from the pandemic and the energy prices crisis remain significant for SGI providers.

The pandemic and the management of the impacts of the Russian war in Ukraine contributed to a substantial increase in budgetary deficit across the EU while inflation rose to a historical level. Those combined factors have prevented Member States from getting back on their feet. The high energy prices and inflation contributed to reduced investments, with the fear of a recession – with its negative impacts on the level of economic and financial risks, limited public finance capabilities and struggling labour market – being an additional significant concern. As some Member States benefitted from the Recovery and Resilience Facility or were supported by tailor-made investment plans to cushion the impacts of the economic downturns and stimulate the economy, **others are now facing significant under-investments in essential services, little room for manoeuvre to respond to the developing social crisis resulting from the high inflation.**

According to some experts surveyed, fears about a continuous high inflation rate exist, highlighting that the ECB expectations[3] could be over-optimistic. Continued high inflation would lead to decreased productivity: high inflation across the EU leads to slow growth, and the EU would face increased competition from other countries implementing massive aid packages in a context of lower inflation.

While inflation remains the main macroeconomic risk, SGI providers also express concerns regarding the evolution of budgetary deficits, especially in some countries such as Italy, Poland or Belgium. As the impact of climate change can now be felt across the EU, Member States must take additional measures to mitigate its consequences and adapt to it. The REPowerEU is, in that sense, a significant step forward to channel investments in that direction. As extreme weather events multiply across the EU[4], mitigating and adapting to climate change is a growing challenge across Europe. The economic costs associated with climate change will keep growing. According to the European Environmental Agency, climate-related extreme events caused economic losses totalling an estimated EUR 487 billion EU-27 and nearly 140,000 casualties. The World Economic Forum reported that the July 2021's floods across Germany, Belgium, Luxembourg and the Netherlands generated an estimated $43 billion in damages and killed 200 people[5]. Globally, in 2021, “natural disasters have cost $280 billion in 2021”, according to German reinsurance company Munich Re[6]. Those figures highlight the scale of the challenges ahead.

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[3] According to an ECB report from 3 February 2023, “HICP inflation expectations for 2023 and 2024 (…) stand at 5.9% and 2.7% respectively.” In its Winter Economic Forecast, the European Commission forecast the headline inflation to 6.4% in 2023 and to 2.8% in 2024 in the EU.
https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/html/ecb.spf2023q1~af876c4cfb.en.html

[4] Such as the 2021 floods in Germany, Belgium, the Netherlands and Luxembourg; record forest fires in Southern Europe and drought across the continent in 2022.

[5] https://www.weforum.org/agenda/2023/01/extreme-weather-economic-cost-wef23/

[6] https://www.munichre.com/en/company/media-relations/media-information-and-corporate-news/media-information/2022/natural-disaster-losses-2021.html

Similarly, military expenses have been on the rise for the last few years. As military concerns are growing following the Russian invasion of Ukraine, **additional investments are being made in several countries to develop defence capabilities**. In an economic context already crippled by uncertainty, those unexpected and unanticipated – yet necessary – military expenses further erode the ability of some Member States to invest in the green and digital transition. In times of high inflation, those additional pressures on public finances risk dampening the ability to invest in the green and digital transformation of SGIs.

The continued provision of quality, accessible and affordable essential services in times of crisis

The continuity of SGI providers' activities has become an even more significant challenge across Europe. **The general lack of a long-term vision for services of general interest, and the lack of consideration for the needs of the providers, are emerging significant issues.**

The pandemic, the Russian war in Ukraine, and the urgency to address the twin transition have considerably increased expenditures for municipalities. Consequently, the provision of essential services has been further strained, directly affecting citizens' and enterprises' quality and access to services. It has become **increasingly difficult to plan, organise and invest in their modernisation while preserving their affordability.** Non-targeted support to weather the energy prices crisis have increased pressure on public budgets, impacting the overall capacity to ensure the continued provision of quality SGIs.

While the Resilience and Recovery Facility and NRRPs could have been central for supporting investments in SGIs, essential services and critical infrastructures, SGI providers report a lack of actual impact due to their lack of involvement in shaping the NRRPs and ensuring the delivery of the projects funded by the instrument.

Skills and labour shortages

Next to the consolidation of public finances, SGI providers expressed concerns regarding the **skills mismatches and labour shortages, especially in some sectors that have proven resilient and crucial during the COVID-19 pandemic** (such as the healthcare and social services sectors). Those ramping trends and demographic ageing affect the opportunities to adapt and manage the continued provision of affordable, high-quality and accessible SGI services. In contrast, an ageing population increases the demand.

The issues related to skills mismatches are a concern for **both high- and low-qualified profiles, threatening the overall productivity of the EU economy**. According to SGI Europe members, the issue is, therefore, less about "providing the right skills" than finding workers, highlighting that legal migration could be a solution.

To tackle the challenges of the twin transition, **addressing labour shortages must be placed on equal footing with the investment needs**. Starting in May 2023, the European Year of Skills will need to give a fresh impetus to lifelong learning and empower people and enterprises to contribute to the green and digital transitions, supporting innovation and competitiveness.
From 2020 to 2022, SGI Europe conducted a dedicated project, "Green Skills in VET", with the support of the European Commission. Focussing on the skills needs stemming from the greening of the economy, it brought together SGI employers, VET providers and decision-makers. It highlighted the emerging and transformative power of the green transition on the whole labour market. It also highlighted that **all job profiles are impacted by the green transition, with "green jobs" existing on a continuum. It also called for developing a genuine strategy of economic growth and social inclusion (as well as environmental sustainability policies) through training for skills development.**

A regulatory framework in constant evolution

To tackle the various crises (COVID-19 pandemic, climate change, energy prices crisis and subsequent economic crisis), EU leaders have been committed to taking all measures necessary to limit the direct impacts on citizens and enterprises. They also grasped the opportunity to **decisively support the green and digital transition while supporting the EU's autonomy and resilience by severing strategic dependences from extra-EU powers.**

Consequently, and in reaction to the emergence of isolationist policies by some other global powers, the EU proceeded to an upheaval of its legislative and regulatory frameworks. The NextGenerationEU, the state aid Temporary Crisis (and Transition) Framework, the activation of the general escape clause of the stability and growth pact, the REPowerEU, or the Green Deal Industry Plan: by highlighting the EU shortcomings, the consecutive crises called for answers, with updated requirements and new regulatory instruments to absorb.

However, ever-evolving regulatory frameworks lead to uncertainty and complicate the long-term planning for enterprises, including SGI providers. Temporary fixes – such as the suspension of the state aid rules or the introduction of the general escape clause to the SGP – provide instant regulatory relief and support the quick roll-out of financial support to enterprises facing liquidity problems. However, the prolonged suspension of the application of the rules, without a firm timeline regarding the return to normal, contributes to feeding the uncertainty. **As the Single Market remains the biggest asset of the EU economy, adapting its instruments, such as the state aid and public procurement frameworks, from "enforcement of fair competition" to "active policy tools", will lead to better channel productive investments for the benefit of competitiveness and sustainability.**

Additional uncertainties also exist in the implementation of policies: for instance, renewable energies might not be sufficient for facing the future energy demand, batteries still need to be functional to stock energy on electricity grids, or labour market shortages remain a core concern. Therefore, thorough impact assessments will be of prime importance, focusing on the social, economic, environmental, feasibility (including technological) and foresight dimensions guiding policy choices.

A lack of involvement in shaping and implementing the NRRPs

A high level of transparency and involvement of stakeholders in shaping and implementing the NRRPs will be at the heart of the success of implementing the Recovery and Resilience Facility. On top of the initially anticipated involvement of stakeholders in shaping the NRRPs, the REPowerEU regulation further increases transparency requirements from Member States: they are now obliged to publish information on the 100 largest final recipients for each national plan. The REPowerEU also strengthens the role of stakeholders – with a focus on local and regional authorities and social partners – in preparing the REPowerEU chapters.

Those renewed calls for involving stakeholders, specifically local and regional authorities and social partners, are welcomed. **SGI providers and employers have reported a need for more involvement and transparency from Member States in shaping the initial NRRPs and their implementation.** They play a key role in ensuring their success, especially in the chapters addressing the 'green transition', the 'smart, sustainable and inclusive growth' and the 'health, economic, social and institutional resilience'.

The extreme centralisation of the preparation and implementation of the National Recovery and Resilience Plans in the hands of national governments has left very little room for consultation with social partners, SGI providers and local and regional authorities, which are nevertheless responsible for nearly 53% of public investment. This structural lack of transparency and stakeholder involvement also hampered the visibility of the NRRPs, leading to many underestimating or misunderstanding the significance and the transformational potential of the RRF.

INSTITUTIONAL DEVELOPMENTS AND SOLUTIONS

The Green Deal Industrial Plan

In February 2023, the European Commission presented its **Green Deal Industrial Plan, aimed at enhancing the competitiveness of Europe's net-zero industry and supporting the transition to climate neutrality**. As presented by the European Commission, the "Plan aims to provide a more supportive environment for the scaling up of the EU's manufacturing capacity for the net-zero technologies and products required to meet Europe's ambitious climate targets."

Relying on the principles and strengths of the EU Single Market, it complements the EU Green Deal and REPowerEU and is based on four pillars: **predictable and simplified regulatory environment, faster access to finance, development of skills, and open trade for resilient supply chains**. The Green Deal Industrial Plan also paved the way for upcoming proposals, such as the Net-Zero Industry Act and the EU Sovereignty Fund, to be proposed in the context of the review of the Multiannual Financial Framework 2021-2027.

The Green Deal Industrial Plan must help materialise the ambition of the EU Green Deal through an enabling industrial strategy. The EU Green Deal must remain the core of the EU growth strategy for a genuine green transition across the EU. **The proposed focus on boosting investment and access to finance, developing the right skills and simplifying the regulatory environment must support SGI providers in contributing to the green transition.**

The EU Single Market

In 2023, the EU will celebrate the 30th anniversary of the Single Market. Established on 1 January 1993, the Single Market allows goods, services, people and capital to move around the EU freely. It has led to an unprecedented market integration between Member States' economies while accelerating the economic development of Member States that joined the EU in the last 30 years. Guaranteeing a fair level playing field across the 27, the EU Single Market has significantly impacted the EU economy, making it the largest trading bloc in the world. **By their essentiality to the daily lives of citizens and enterprises, providers of SGIs hold a special place in the Single Market and the EU social market economy.**

Critical policy choices are now needed as the twin transition reshapes our society and economy. With the **Green Deal Industrial Plan** (GDIP), the EU has a roadmap to **preserve its competitiveness** in the geopolitical environment, addressing short-term challenges without sacrificing long-term prospects. In order to enable the Green Deal, the GDIP must also be mobilised to improve the quality of services of general interest and public services through increased flexibility, predictability and simplification. **Guaranteeing a level playing field across the EU for all enterprises, regardless of their ownership structure, must remain a cornerstone of the Single Market and, ultimately, foster cohesion across the EU.**

The State Aid Temporary Crisis and Transition Framework

One of the cornerstones of the EU Single Market, the state aid framework has been dramatically transformed since the beginning of the COVID-19 pandemic. On 19 March 2020, the first iteration of the State aid Temporary Framework was adopted to enable Member States to use the full flexibility foreseen under State aid rules. Through regular prolongations and amendments, the State aid Temporary Framework was further adapted in 2022 to respond to the consequences of Russia's invasion of Ukraine. And in March 2023, the Temporary Crisis and Transition Framework (TCTF) was put forward to foster support measures in sectors which are key for the transition to a net-zero economy, in line with the Green Deal Industrial Plan.

The TCTF updates the Temporary Crisis Framework, adopted in March 2022, to, amongst others:

- Prolong the possibility to support further measures needed for the transition towards a net-zero industry, in particular, the rollout of renewable energy and energy storage and the decarbonisation of industrial production processes, which Member States may now set up until 31 December 2025;
- Introduce new measures, applicable until 31 December 2025, to further accelerate investments in key sectors to transition towards a net-zero economy.

Other provisions of the Temporary Crisis Framework, which are more directly linked to the immediate crisis, remain applicable until 31 December 2023.

Whilst a flexible and agile State aid framework able to react to changing circumstances is welcomed, it must also be a central element to prevent a lengthy subsidy race between Member States. Working with Temporary State aid frameworks should be well-targeted and time-limited, sticking with simple measures such as increasing thresholds for aid automatically deemed as compatible under the General Block Exemption Regulation.

Economic actors, as well as local, regional and national authorities, need transparency and predictability. However, by their prolonged temporary nature, the current approach to State aid is generating uncertainty over the medium- to long-term. In the context of the 30 years of the Single Market, reflecting on the needed adaptation of the State aid framework should be envisaged to adapt the rules and make them fit the current challenges.

The review of the EU economic governance

On 9 November 2022, the Commission released a communication on orientations for a reform of the European economic governance. The most crucial element of this new communication is the **proposal to introduce four-year medium-term fiscal structural plans outlining country-specific fiscal adjustment paths based on a single operational fiscal indicator**. The Commission would propose such adjustment paths based on a debt sustainability analysis, while member states could request an extension of the initial path against national reforms and investment.

In its fiscal policy guidance for 2024, published on 8 March 2023, the European Commission announced the **deactivation of the general escape clause in 2024**, which had been active since the start of the pandemic. The Commission also announced that it will launch “Excessive Deficit Procedures” (EDP) in the spring of 2024, based on member states’ deficits in 2023**.** While the Commission called for a contractionary fiscal policy, it also **urged member states to scale back expenditure, not public investments, to avoid damaging economic growth.**

The Communication from 16 March 2023 from the Commission on “Long-term competitiveness of the EU: looking beyond 2030” further emphasised that **country-specific fiscal trajectories and priority public investment and reform commitments together will guarantee sustainable and inclusive growth while ensuring sustained and gradual debt reduction.** The Commission added that continued and increasing public investment in providing large-scale decarbonised infrastructure is key, and that increased capacity and modernisation of the energy, transport and connectivity infrastructure throughout the EU are necessary to benefit fully from the opportunities of the Single Market.

The ECOFIN’s conclusions of 14 March were crucial: they highlighted the **consensus on the need to foster national ownership and the benefits of moving towards multi-annual fiscal planning**. The transformation of the EU economic governance must now lead to counter-cyclical productive public investment. The **review of the Stability and Growth Pact could have a determining role in granting Member States the means to respond to global challenges.** That is why we will keep advocating and supporting the Commission’s future legislative proposal on the matter if the **focus on productive public investment is maintained.**

The EU Year of Skills

The EU Year of Skills must guide our efforts in identifying and anticipating the emerging skills needs for the green transition. The Year of Skills represents an opportunity to empower individuals, enlarge their aspirations and improve their employability while addressing labour shortages, boosting the competitiveness of European enterprises and realising the potential of the digital and green transitions. SGI Europe welcomes that the Commission intends to take advantage of this year to mobilise all relevant stakeholders, including European institutions and agencies, national governments, social partners, public employment services, education and training providers and companies.

Actions should focus on three priorities:

- **Progress must be achieved on the quality of training, its alignment with labour-market needs and the recognition and validation of learning outcomes**. As some Member States perform better than others, the EU should promote the exchange of good practices and insights.
- **Awareness must be raised on the need to embrace a culture of lifelong learning** and on the importance of skills development for individuals, enterprises and society. We must ensure enterprises' and governments' willingness' to invest in adult learning and citizens' willingness to enrol in training.
- **Policy-makers and social partners must address the lack of investment in skills development**. This includes more EU funding but also to consider education as an investment and not as a cost in the context of the review of the European economic governance.

Upgrading the functioning of the electricity markets

In May 2022, in the aftermath of the Russian invasion of Ukraine, the European Commission tabled the **REPowerEU plan as a direct response to global energy market disruption stemming from the war**. The objective of the REPowerEU was dual: to end the EU's dependence on Russian fossil fuels and to tackle the climate crisis through energy savings, diversification of energy supplies, and accelerated roll-out of renewable energy to replace fossil fuels in homes, industry and power generation.

On 14 December 2022, the co-legislators – European Parliament and European Council – reached a **political agreement on integrating the REPowerEU under the Recovery and Resilience Facility** to further boost the deployment of renewables through the National Recovery and Resilience Plans and free the EU from its dependency to fossil fuels.

REPowerEU helped the EU to weather the storm in 2022. Short-term measures based on **demand reduction and voluntary joint procurement of EU gas purchases allowed EU Member States to manage gas storage levels** and prevent blackouts on the energy and electricity market. Combined with additional schemes and economic and financial support packages put in place by Member States, it allowed the EU to develop its diversity of supply and boost renewable capabilities.

In the long term, however, the **EU Green Deal remains the only way forward, emphasising flexibility and technology neutrality**. On the financial side, it is necessary to set schemes into motion to enable the massive investments we face to accelerate the EU race out of fossil fuels. Following the presentation of the proposal for the revision of the Electricity Market Design, **alignment will be needed between the different proposals to build a functional and stable electricity market**, guaranteeing investment safety for enterprises in the mid and long-term.

Focusing on the dual objective of becoming climate-neutral and relying on a broad diversity of supply, the future of the EU energy market must support the long-term planning of the economy through stable prices and the necessary investments in its transformation.