# Macroeconomic Dialogue at Political level – 23/05/2022

## Luca Visentini's speaking notes

### General Outlook

- Before the Russian invasion of Ukraine, the economic expansion was set to regain pace in the second quarter of last year and remain robust in the year to come. – (4.0% in 2022 – 2.8% in 2023 – 2.7% in the euro area).
- The recent Spring economic forecast is deeply revising downward the expected figures. – (2,7% in 2022).
- Inflation was increasing already prior to the war due to speculation on energy prices and supply chain issues and bottlenecks, but rise in energy prices is now hugely higher, will remain so for long and will trigger increases in other commodity prices.
- On top of this, massive disruption in supplies of goods, including food supply, is to be expected.
- These elements put the EU economy at huge risk in many sectors, with very negative consequences in terms of unemployment, dramatic reduction of purchasing power of households and workers, drop into poverty of vast areas of our societies.

### Employment

- When it comes to employment, the national and EU COVID-related measures such as the SURE instrument helped to protect tens of millions of jobs. However, unemployment is projected to increase again in the coming months.
- Additionally, while total hours worked increased by 1.7% in the EU in the third quarter of 2021, total hours worked did not recover and remained 1% lower than in the last quarter of 2019.
- In view of the European Green Deal and the current geopolitical environment, massive job disruption is to be expected, unless well-coordinated measures of just transition are put in place, including investment for quality job creation in the very same communities affected by the transition, effective and accessible social protection, and more support for reskilling and upskilling.
- This implies higher public and social investment than planned so far, a reinforcement and redesign of the European industrial basis, and a transition from a mainly export-led model of development towards domestic growth drivers.

### Wages and inflation

- The better employment figures which followed the pandemic did not lead to large wage increases. The indicator of negotiated wages in the euro area increased by 1.6% in the last quarter of 2021, compared to the same quarter of 2020, one of the slowest growth rates since the pandemic broke out.

- Indeed, negotiated wages growth has always been below 2% since 2020 and is on a decreasing trend, despite the recovery in 2021.
- Wages are not the drivers of the former and current inflation figures, and real wages are currently falling following a series of exceptional energy price shocks.
- Lower-income households spend the highest share of their incomes on energy and food and are therefore more affected than richer households. Governments have already introduced a range of measures to offset the effects of the large energy price increases, which are welcome and must be maintained.
- According to these figures, we do not see a risk for a wage spiral. On the contrary, the ECB forward looking wage tracker reveals that wage dynamics are expected to remain well below productivity and inflation developments.
- The wage share is currently below its pre-pandemic level and is expected to remain below in 2022 and 2023, contrary to the profit share.
- Recently, a Member of the Executive Board of the ECB (I. Schabel) noted that "*on average, profits have recently been a key contributor to total domestic inflation, above their historical contribution*" and that "*many euro area firms have gained from the recent surge in inflation*".

**ETUC proposals**

- Considering such analysis, we are convinced there is an urgent need for wage increases, in order to sustain internal demand and inclusive growth, and to reduce the impact of the double crisis on workers and households.
- For this to happen, wage increases shall be in line with productivity and net inflation developments, over a period of at least three years.
- This can be achieved through a combination of statutory minimum wage increases (where they exist) and relaunch of collective bargaining rounds, particularly at sectoral level.
- Such strategy calls for the responsibility of social partners to be delivered. At the same time, in countries (particularly in the East but not only) where wage developments have been particularly weak, and collective bargaining institutions are not well developed or even inexistent, additional efforts are required from Governments to help social partners in delivering wage increases through tripartite capacity building frameworks, so anticipating the expected positive impact of the oncoming Directive on Adequate Minimum Wages.
- However, we are fully aware that negotiated wage increases cannot compensate the effects of the current explosion of inflation.

- We highly appreciate the measures put in place by the EU and MS to address the disruption coming from the war and to help integrate refugees and alleviate the impact of energy prices on businesses and households.
- At the same time, there is a need for urgent action from the EU in three areas:
    1. Preventing unemployment and underemployment coming from the effects of the war, by refinancing and prolonging the instrument of SURE to support MS putting in place employment support measures.
    2. Supporting measures put in place by MS for income protection and fight against poverty, so alleviating the impact of high levels of inflation on the poorer workers and households over the next couple of years.
    3. Accompanying environmental and digital transition processes with extraordinary employment creation and social measures.
- The responsibility of developing such urgent measures lies on MS, but the EU should support them, in order to avoid unwanted effects on fiscal sustainability of national budgets and debt.
- In terms of instruments, as said employment protection should be achieved by refinancing and prolonging SURE, there is no need to invent new tools.
- When it comes to EU instruments to support measures for income protection, fight against poverty and just transition, they can be developed either by expanding the scope of SURE, or by creating a new EU fund for social emergencies (a ‘social rescue facility’), and by finally adopting the Social Climate Fund – all these measures have been suggested by the EP in the recently approved resolution on the social and economic consequences of the war.
- In that resolution, the EP also proposes a series of measures in support of the economy and businesses, which we fully support.

**Conclusions**

- In order to properly work, all these measures must be accompanied by the review of the EU Economic Governance which is under discussion, and by specific action for integration of refugees in the labour market and the society.
- I leave these topics to my colleagues Liina Carr and Jan Willem Goudriaan.
- Let me just say, to conclude, that we appreciate the activation of the Temporary Protection Directive and all efforts put in place by the EU and MS to welcome and help Ukrainian refugees fleeing from war.
- At the same time, we can’t accept still existing forms of discrimination against other refugees and migrants, against Ukrainian women and their children, and forms of exploitation and unequal treatment in terms of wages and working conditions affecting refugees in too many European countries.

Thank you very much for your attention.