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From: Employment Committee (EMCO)
To: Permanent Representatives Committee/Council

Subject: Key Employment Challenges: Key messages from the EMCO based on the Annual Employment Performance Report and Employment Performance Monitor
- Endorsement of the key messages

Delegations will find attached the key messages from the Employment Committee (EMCO) based on the Annual Employment Performance Report (AEPR) and Employment Performance Monitor (EPM).

The full AEPR can be found in doc.: 12589/19 ADD 1.

The EPM can be found in doc: 12589/19 ADD 2.

Key Employment Challenges: Key messages from the EMCO based on the Annual Employment Performance Report and Employment Performance Monitor

1. In line with its mandate as per Article 150 TFEU, the Employment Committee has produced an annual review of the employment situation in the EU for the Council. This review is based on the 2019 Employment Performance Monitor (EPM), which monitors progress towards the Europe 2020 Strategy targets and identifies key employment challenges and good labour market outcomes across the EU and in each Member State. The EPM builds on the findings of the Europe 2020 Joint Assessment Framework (JAF). The JAF is an indicator-based assessment system prepared jointly by the Employment Committee, the Social Protection Committee (SPC) and the Commission, covering general and specific policy areas under the Employment Guidelines, and aiming to identify at a glance key challenges and good labour market outcomes in these areas and support Member States in establishing their priorities.
2. The findings in this Report complement the conclusions of the Employment Committee's multilateral surveillance of the implementation of the Council's Recommendations within the framework of the European Semester. The Semester is a valuable tool for coordinating and monitoring the Member States' reform efforts and for facilitating the implementation of the European Pillar of Social Rights, which is key to strengthening Europe's social dimension and promoting upward social convergence among Member States. The Employment Performance Monitor proved to be a valuable resource especially during the European Semester discussions.
3. The following messages reflect the main aspects from the full analysis presented in the 2019 Annual Employment Performance Report.
4. In 2018, the EU employment rate (20-64) increased by 1 percentage point compared to 2017 and stood at 73.2%, the highest level ever reached. Despite this increase, significant disparities still exist across the EU, with four Member States having employment rates notably below their corresponding pre-crisis levels and four others showing limited increases in the employment rates in the past ten years.

5. Over the past years, the EU was on track to meet its Europe 2020 target of a 75% employment rate for the population aged 20-64 years. However, slowing economic growth is expected to have an impact on the employment rate and therefore net job creation will continue at a more moderate pace. According to the latest Commission's Spring forecast, the number of employed persons in the EU is expected to increase by 0.8% in 2019 and 0.7% in 2020, whereas an increase of 1.8 percentage points is required to reach the target. Consequently, the forecast increases in the EU employment rate for the next two years (to 73.8% in 2019 and to 74.3% in 2020) indicate the EU is expected to come very close to, but not to reach the Europe 2020 target of 75%.
6. The majority of Member States have achieved the minimum employment growth that, if maintained, would allow them to hit their national targets in 2020, and thirteen Member States have already achieved their target in 2018. Moreover, in all the Member States that have not yet achieved their national targets, the gap towards the target has decreased in 2018 as compared to 2017.
7. Compared to the pre-crisis period, the majority of Member States will need lower annual employment growth to reach their national targets, due to population decline. Moreover, thirteen countries are expected to reach their 2020 target even if they experience negative employment growth, based on their projected decline in working-age population.
8. There are many positive trends identified in the report. Twenty-three Member States have recorded a significant increase in total employment and twenty-six a significant increase in the overall employment rate. Many Member States have experienced increases in the employment rate of older workers (twenty-four), the job vacancy rate (twenty-two) and the share of adults with medium or high education (fifteen). Sixteen Member States have seen a decrease in the long-term unemployment rate.

9. The report also identifies a number of negative trends, although these are less widespread: an increase in the nominal unit labour cost (seventeen Member States); an increase in the at-risk-of-poverty rate of the unemployed (nine Member States); an increase in the gender employment gap (seven Member States) and a deterioration in inactivity and part-time work due to personal or family responsibilities (six Member States).
10. These annual trends are confirmed by the analysis of longer-term developments over three years, where the same trends can be identified in these areas.
11. In this context, EMCO would nonetheless recall that its horizontal opinion for the June EPSCO Council noted a lower progress in implementing the Country-Specific Recommendations than in previous years. In view of the remaining economic and social challenges, stronger reform prioritisation and implementation are needed to strengthen the resilience of the EU economies, achieve sustainable and balanced growth, address macroeconomic imbalances, and deliver sustained economic and social convergence.
12. EMCO's recent multilateral surveillance work indicates that the labour market areas where Member States have carried out reforms but where challenges still remain (as indicated by a stable number of CSR over the last three years) are employment protection legislation, labour market participation, active labour market policies, labour taxation and wage setting. The 2019 EPM also identified key employment challenges in the areas of work-life balance, gender inequalities, skills supply, lifelong learning, education and vocational training systems.
13. The labour markets across the European Union offer a heterogeneous picture: economic and employment growth continue, but disparities remain between and even within Member States. For many Member States, providing adequate support and strong incentives for labour market participation as well as addressing structural rigidities is necessary to improve the resilience of labour markets, favour broader employment participation, and foster workers' mobility to more dynamic sectors and jobs.

14. The reviews conducted by EMCO in 2018-2019 show that in many Member States, active labour market policies (ALMPs) have been tailored towards individual needs, particularly through effective profiling. More attention has been given to improving the labour market participation of disadvantaged groups, such as the young unemployed, older workers, people with disabilities, migrant workers, and the long-term unemployed.
15. However, long-term unemployment remains a major concern in the EU, with more than 10.3 million Europeans looking for a job for more than one year in 2018. Tackling long-term unemployment through activation measures and supporting transitions to the labour market, improving job matching efficiency, and promoting the activation of jobseekers still represent challenges for many Member States.
16. The labour market situation of young people is affected by the structural characteristics of school-to-work transitions. The EMCO reviews identified a series of structural factors, such as the performance and outcomes of education and training systems, the segmentation of labour markets affecting young people in particular, as well as the low capacity of public employment services to provide tailored services to young people. Following the adoption of the Youth Guarantee in 2013, most Member States took substantive actions to step up early intervention and outreach processes, integrate services into a one-stop shop for young people, involve employers and establish partnerships with all key stakeholders, notably towards providing well performing vocational education and training, including the offer of quality apprenticeships. Nevertheless, outreach towards young people furthest away from the labour market, the non-registered NEETs (youth neither in employment, education nor training) and improving partnerships with key players remain important challenges, as recorded by the 2019 Employment Performance Monitor.

17. For older workers, a greater labour market participation can be achieved by encouraging longer working lives, ensuring access to labour-market relevant training and discouraging early retirement. Broad active ageing strategies and labour market initiatives for the older workers are necessary to support longer professional activity and later withdrawal from the labour market. A multidimensional approach which integrates social and employment services is needed when it comes to disadvantaged groups facing multiple barriers to labour market participation. This is all the more necessary in view of the challenges posed by demographic and technological change.
18. Another key challenge is represented by the persistence of gender inequalities, often due to a lack of accessible and affordable childcare and long-term care, as highlighted in a number of recommendations. Given persisting obstacles to the labour market participation of women, a significant number of Member States had key challenges in this area. These have translated into a number of recommendations related to female employment within the following main categories: increasing the provision/affordability of childcare and/or elderly care facilities or social services; abolishing the fiscal disincentives for second earners (mostly women); and reducing the gender pay gap. The actions taken by Member States to tackle these challenges differ in extent and design, with variable progress having been achieved. Efforts to increase the accessibility and affordability of childcare and long-term care services are a relatively common approach to enhance female labour market participation. Several countries introduced changes to maternity, paternity or parental leave. Member States are also working to improve fathers' uptake of parental leave. In some cases, the efforts were also geared at improving work-life-balance through the development of flexible working arrangements. Measures to address female labour market participation have a positive effect on their earnings, career progression and pension entitlements.

19. A key challenge to improving job quality is represented by labour market segmentation, notably by the duality between permanent and temporary employment work contracts together with low transition rates from temporary to permanent work. This reflects a number of drivers including differences in employment protection legislation or labour costs but also the sectoral composition of the economy. The reviews conducted by EMCO during the past year showed that reforms play an important role in reducing labour market segmentation, but also that more comprehensive strategies and a coherent set of measures are called for. Important in this respect are measures to support both external and internal flexibility, efficient unemployment benefit systems, well-designed taxation on labour and the fight against fraud and undeclared work.
20. Progress has been made in some Member States with some targeted tax reductions towards lower-wage earners or targeted to specific groups, and in others with more across-the-board tax wedge reductions. Reducing the tax wedge on labour has been achieved mainly through shifting taxation towards more growth-friendly consumption and environmental taxes.
21. However, these reforms in the field of labour taxation cannot be seen in isolation from policies to promote job creation, increase productivity and maintain international competitiveness. Over the medium term, real wages should be aligned with productivity developments. In recent years, real wage growth has stayed on average below productivity growth in the majority of Member States, while getting just above it in 2018. Policy efforts continue to be focused on the development and implementation of wage-setting mechanisms able to reconcile the provision of adequate incomes with the need to maintain competitiveness and to reflect productivity developments. It is important to respect the role and autonomy of social partners. Some Member States are considering measures that indirectly raise productivity and growth by stimulating research and development and by investing in human capital (education, skills and lifelong learning).

22. Mismatches between qualifications and job requirements continue to be a long-standing key employment challenge, in particular in those Member States where skills mismatches are increasing at the same time as labour shortages. Digitalisation leads to the emergence of new forms of work and new opportunities for employment and economic growth, which in turn will change the traditional employment structure, from one centred on full-time permanent work to one with more widespread non-standard work arrangements. While these non-standard working arrangements can represent an entry to the labour market and offer more flexibility, they will also have negative consequences for the labour market, such as increased job polarisation, rising wage inequalities, reduced upskilling and lifelong learning opportunities, as well as lower coverage of and access to social protection systems. With the current pace of digitalisation and technological change, some of today's occupations and tasks carry the risk of becoming obsolete, increasing the likelihood of job displacement, especially for low-skilled workers. Aware of these challenges, several Member States are making efforts to improve the labour market relevance of higher education qualifications, thereby trying to help address skill mismatches. Member States will need to continue their efforts with regard to challenges such as improving the links between education and the labour market, and enhancing inclusiveness by widening access to education and training to priority groups.
23. In a significant number of Member States, vocational education and training (VET) was at the centre of reforms, most aiming to create a closer link between educational outcomes and offers and labour market needs. Some measures also envisage linking education with the labour market in the framework of a dual system. In some cases, mechanisms to improve skill needs forecasting have been set up. Efforts have also been made to increase the quality and numbers of apprenticeships, or enhance take-up and the attractiveness of VET, with further initiatives aimed at improving the working conditions of apprentices. In some Member States, new training opportunities for the unemployed and priority groups such as young people have been introduced, whilst other measures attached a particular focus on training measures for people already in work, including low-skilled workers.

24. Policy efforts to reduce early school leaving have been pursued over the last year in several countries. However, decreasing the share of people with low educational achievement remains a key challenge: the main objective is to reduce the share of students showing very low performance in basic skills, as this is a serious limitation to their employability once they enter the labour market as well as an obstacle to a greater participation in society.
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