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Subject:	Draft Joint Employment Report - <i>Adoption</i>

Delegations will find attached the text of the draft Joint Employment Report, as finalised by the Employment Committee on 31 January 2012.

The Maltese and UK delegations maintain parliamentary scrutiny reservations on the Report.

The Committee is invited to forward the draft Joint Employment Report to the EPSCO Council for adoption.

Draft Joint Employment Report

This year's Joint Employment Report, mandated by Article 148 TFEU, is part of the Commission package to launch the 2012 European Semester. As key input to strengthened economic guidance, the JER underpins and expands on key employment messages contained in the Annual Growth Survey. The analysis and messages it contains are based on the employment and social situation in Europe, the implementation of the Employment Guidelines¹ as well as on the results of country examination of the National Reform Programmes that led to the country-specific recommendations adopted by the Council in July 2011 and of their implementation so far.

STRUCTURAL LABOUR MARKET REFORMS TO SUPPORT GROWTH: KEY PRIORITIES

The analysis contained in this report suggests that, while the 2011 priorities and measures remain broadly valid, and further implementation of reform is essential, it is necessary to deploy additional efforts, in conjunction with national social partners, under certain priority areas.

Job creation capacity has to be stepped up to ensure a job-intense recovery that underpins economic growth and the reduction of unemployment. Although in a long-term perspective new jobs opportunities are first and foremost a consequence of strong economic growth and suitable macro-economic policies, job-friendly business and supportive labour market policies following the principles of flexicurity can also contribute to stimulate growth in the short term. Improving the quality of business and financial support systems, including to social entrepreneurship, is essential. Measures to move from informal or undeclared work to regular employment should be reinforced. Supporting geographical and occupational mobility and increased cooperation between employers and employment services can avoid that job openings remain unfilled due to labour shortages and skills mismatches, as can policies to facilitate employment prospects for women and encourage second earners into the labour market. Properly designed social protection systems, including adequate coverage for all employment contracts and self-employment can minimise precariousness and make activity more attractive.

¹ Official Journal L308/46, 24.11.2010, "Council Decision of 21 October 2010 on guidelines for the employment policies of the Member States (2010/707/EU)"

The difficult situation of young people risks creating unrecoverable damage to the labour market in most Member States and calls for implementation of comprehensive policy frameworks through an integrated approach similar to the 'youth guarantee', to secure the transitions from education to work, encompassing skills building, apprenticeships and internships, and targeted job-search assistance and career-guidance (in line with the Council conclusions of EPSCO on 17 June 2011 on promoting Youth employment to achieve the Europe 2020 objectives). The youth unemployment rate has risen sharply between 2008 and 2010, at a time when also the share of the young neither in education, employment or training have soared. There is a real risk that EU might lose the competencies of a whole generation of young people with the consequent negative impact on employability. In this current juncture the greatest attention should therefore be given to establishing partnerships between education and labour market institutions, social partners and businesses in particular at the regional and local level, where relevant supported by EU funds.

High unemployment rates and poor employment prospects call for effective active labour market policies mutually supported by adequate benefit systems to maintain employability and help people get back to work. The large number of people in long-term unemployment deserves the highest attention since long periods of non-work may lead to discouragement and a depreciation and obsolescence of the skills, with negative implications for individual earnings prospects and potential growth. Retraining and work experiences targeted to long-term unemployed can help sustain their employability. Efficient and effective Employment Services, supported by local partnerships, should be encouraged to provide more personalised activation measures and job search support, effective job matching and ensure coordination with social assistance support.

The social situation has deteriorated throughout recent months calling for additional measures. There is a need to ensure that the most vulnerable groups and those most hardly hit by the crisis are protected against the redistributive effects of the economic crisis and the fiscal consolidation plans. The spiral of unemployment and degradation of social conditions should be prevented by all means. The strength and efficiency of social protection systems should be enhanced to guarantee that they continue acting as buffers against poverty and social exclusion. Active inclusion strategies encompassing labour market activation measures, adequate social services and income support are essential to prevent marginalisation of low income and vulnerable groups. Smart consolidation should give priority to maintain minimum pension levels and income provisions, and guarantee health care access for the most vulnerable groups.

Increasing skills mismatches and shortages hinder economic activity in the short run while investing in education and training will raise productivity and income levels in the long run.

Skills and competences are a prerequisite for growth through innovation, productivity and high employment. In particular, it is essential to increase the number and quality of science, technology, engineering and maths graduates, as well as to promote additional skills and competences e.g. entrepreneurial, creative and innovation skills. The current budgetary context calls for prioritising investments in education and skills that modernise education and training systems to reinforce their efficiency and effectiveness. Preventive and early-intervention policies, targeted at those at risk of dropping-out of school, and increased labour market relevance of education help reduce unemployment and social exclusion and improve labour market outcomes. Sectoral skills councils at national and EU levels can strengthen cooperation between educational institutions, businesses and employment services to better anticipate skills change and provision.

1. LABOUR MARKET AND SOCIAL TRENDS

Slowing growth hampers the already weak employment recovery and prevents an improvement of the employment rate

Overall employment recovery has been slow and hesitant with employment growth remaining negative over most of 2010 for the EU-27 (-0.5%), and only turning slightly positive towards the end of the year. In 2011, employment grew by an estimated 0.4%, but employment gains of 1.5 million recorded by mid-2011 have done little to offset massive job losses during the crisis, when 6 million jobs were shed. The weak and lagging response of employment to GDP growth was partly due to labour hoarding and the related slowdown of productivity used as adjustment mechanisms. With GDP growth decelerating during 2011 and expected to slow down even further in 2012, the prospects for employment are uncertain.

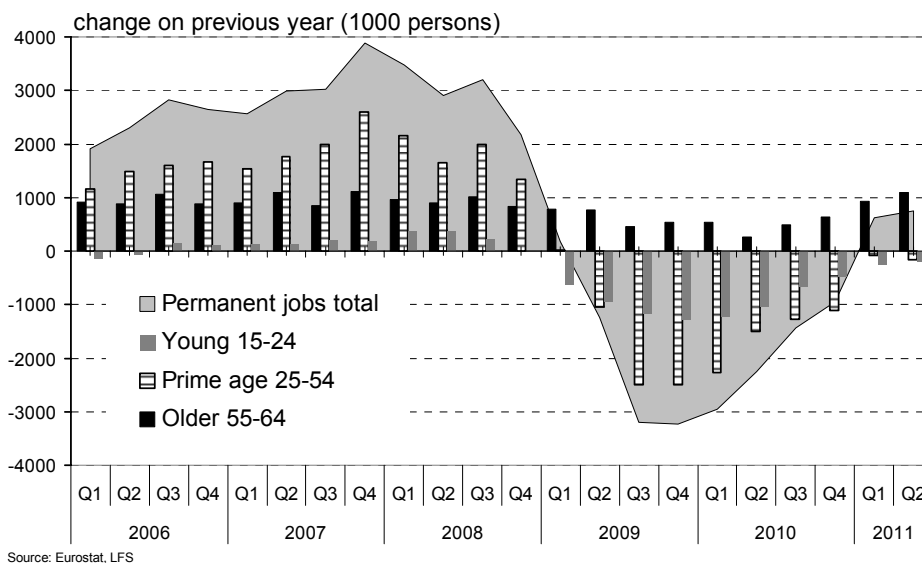
The EU employment rate declined by 1.8 pp during the 2008-2010 period with a few notable exceptions (PL, DE, LU and MT) and is expected to increase only marginally in 2011 and 2012. Underlying changes in employment rates were uneven between the various segments of the labour market. The most affected employment rates up to 2010 have been those of males in manufacturing and construction, low-skilled and notably young people where the negative trend has continued into 2011. The rate for women has been more gradually affected by the crisis. On the contrary, the employment rate of older people improved.

The increase in employment has mainly been within temporary contracts and part time jobs...

The recent increases in employment levels have been mainly driven by increases in temporary contracts, in contrast to the situation pre-crisis. Furthermore, employment increases in 2011 are largely due to an increase in part-time jobs, whereas prior to the crisis employment created was mainly in full-time jobs. This reflects companies' need to adapt to weak and uncertain economic conditions and outlooks.

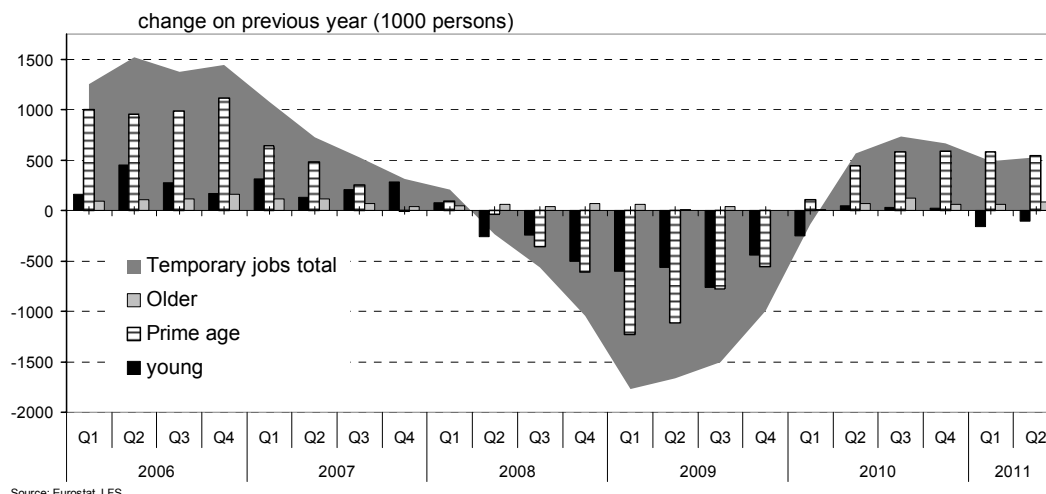
The number of older workers on permanent contracts has continued to rise and increased by 4.7% in 2010 compared with the year before and by 7.9% (1.4 million more workers) compared with two years earlier. At the same time, the decrease in prime age workers on permanent contracts came to a halt in the first half of 2011 while the number of young people on permanent contracts continues to decrease, though less so over the first semester 2011.

Figure 1: Change in permanent jobs by age groups



The rebound of temporary and part time jobs is benefiting mainly prime-age and, to some extent, older workers. Young people in particular have not benefited from the increase of part-time jobs. Women are slightly over-represented compared to men in temporary work while the share of part-time workers is by far higher for women than for men.

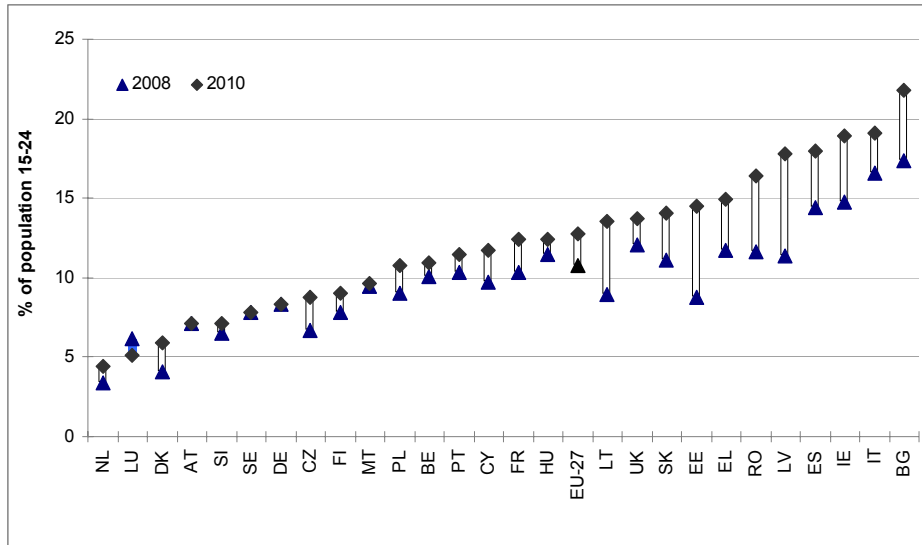
Figure 2: Change in temporary jobs by age groups



...while the situation of young people has worsened

The youth unemployment rate rose from 15.5% to 20.9% between 2008 and 2010 (although it did decline in some Member States between 2009 and 2010 - DE, FR, LU, MT, AT, FI). During the course of 2011 it has edged up even further to a new high of 22.3% in November 2011. The inactivity rate rose from 55.6% to 56.9% over the 2008 to 2010 period. Any increase in the inactivity rate of young people can be partly due to more young people returning to education or training in response to diminished work prospects. This would not be negative *per se*, in particular as long as education and training could improve their future labour market opportunities. However, the share of 15 to 24 year olds neither in education, employment or training (so-called “NEETs”) rose by 2 percentage points over the period 2008–2010. High youth unemployment and inactivity combined with ever more difficult school-to-work transitions in a period of persisting uncertainty for the young inevitably creates long-term risks of detachment from the labour market and of losses in human capital in the longer-term.

Figure 3: Change in the NEET as a % of population aged 15-24



Source: Eurostat, EU Labour Force Survey

Long-term and low-skilled unemployment are increasing across the Union...

After a small drop during the first half of 2011, the EU unemployment rate has again risen to 9.8% by November 2011. During the entirety of this period female unemployment rates exceed those of men with a rate of 10.0% in November 2011 (compared to the male rate of 9.7%). The situation is very diverse across the EU, with some Member States actually recording unemployment levels lower than before the crisis, whilst many others have rates in excess of 12%. Over the period 2007-2010 unemployment in the EU increased by more than 6 million to 23.2 Million. Almost three quarters of the increase in the numbers of unemployed can be attributed to four Member States: ES, UK, IT, and FR. Alongside these four, other Member States also saw dramatic increases in unemployment, including the Baltic countries, IE, EL, PT, SK and BG. Conversely, during the same period unemployment remained low in AT, NL and LU, and in DE the unemployment rate has decreased.

After having temporarily fallen during the early stages of the recession, long-term unemployment (persons in unemployment spells of 12 months or longer) is on the increase in most Member States, reaching 43% of total unemployment in the third quarter of 2011. This indicates that the outflow from unemployment is getting slower.

The unemployment rate amongst the low-skilled increased from 11.6% in 2008 to an average of 16.6% in the first half of 2011, primarily as a result of economic conditions, with particularly intense effects on some sectors. However, it does also illustrate that the low-skilled are facing constantly decreasing labour demand. This is on the one hand due to sectoral change towards higher technology and knowledge-intensive activities, the pace of which has intensified during the crisis, with important implications for the flow into long-term unemployment. It is also coupled with the impact of the crisis, and the fact that with a lower rate of job creation, the competition is more intense and lower skilled individuals are being substituted by higher skilled individuals.

These developments add substantially to the structural problems in the EU labour market and intensify social risks, notably by making vulnerable groups particularly prone to poverty and social exclusion as they face increasing marginalisation or difficulties to have a proper start in adult and working life.

...putting social safety nets under stress...

Large unemployment shocks have led to a significant increase in the number of people having to rely either on unemployment benefits or social assistance. Between June 2010 and June 2011 the pressure on social assistance schemes increased in many countries as workers dismissed at the height of the crisis exhausted their unemployment benefit entitlements. The persistence of high rates of long-term unemployment is likely to aggravate this trend further. In most European Countries, automatic stabilisers and the stimulus packages adopted at the beginning of the crisis have contributed to sustain households' disposable incomes. However, the disposable income of middle class households began to fall significantly in half of the countries for which data is available for 2009, with the consequent risk of affecting aggregate demand. This is to some extent the result of the increase in polarisation in the labour market that began before the crisis and intensified during 2008-2009, when jobs losses particularly affected middle income wages in manufacturing and construction. Restructuring has also meant a more demanding skills structure of new jobs, compromising the chances of reemployment and access to a well paid job for the low-skilled.

The revenues for pension schemes have dropped considerably in many countries as a consequence of increases in unemployment and part-time work and the stagnation of wages contribution. Moreover, the persistence of gender inequalities in the labour market represents one obstacle hindering women from contributing to their pension. This has led, in a number of countries, to a greater need for cross subsidy from general revenue and pointing to the danger of longer lasting deficits in contributory social security pension schemes. Efforts are therefore being made to adjust the timeframe for and the scale of the contribution from funded pensions to future pension adequacy or by reviewing the cost of tax concession to stimulate 2nd and 3rd pillar supplementary pensions as part of fiscal consolidation measures. In both cases this is likely to lower and delay the extent to which supplementary pensions in the future will be able to alleviate the pressures on public pensions.

...and accompanied by new risks of long-term exclusion

The crisis has led to increased risks of long-term exclusion from the labour market and society. Between 2009 and 2010 the share of children and adults living in jobless households (households with zero or very low work intensity) increased from 9% to 9.9% in the EU overall. The situation has significantly worsened with an increase of 1 pp or more in about half of the Member States . In 2010 the share of people living in jobless households exceeded 10% in seven Member States. Among such jobless households lone parents, mainly women, and their children are particularly at risk of long-term exclusion.

In most countries, social transfers have until recently allowed the protection of people at the lower end of the income distribution from the fall in incomes. However, available data for 2009-2010 show signs of rising poverty and deprivation in several countries. In 2010, the overall risk of poverty or exclusion, based on the three underpinning indicators of relative poverty, material deprivation and jobless households has started to increase again after several years of decline. In 2010, the at-risk-of poverty rate has increased by more than 0.5 percentage point in three Member States. Between 2008 and 2010, severe material deprivation has increased by 3 percentage points or more in four Member States and by 1 percentage point or more in two Member States.

Some groups among those most affected by the crisis face increased marginalisation (migrants, the homeless, Roma). These groups will continue to be most vulnerable in the coming years. With the continuation of the crisis and the risks of increasing long-term unemployment with the predictable impacts on material deprivation and poverty, there will be continued demand for the use of social automatic stabilisers. However these systems are under increasing stress themselves in the context of fiscal consolidation programmes.

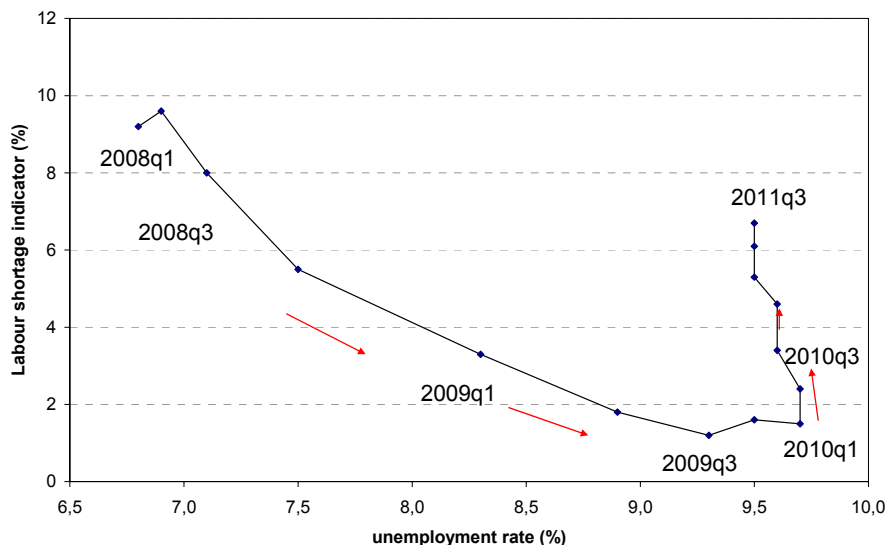
Participation rates remained largely unaffected...

The sluggish labour market has not in general led to a drop in participation rates and most of those becoming unemployed maintain links to the labour market. Nevertheless, the overall stability in participation rates hides diverging developments for women and men and across different age groups. Women have been increasing their participation, mostly due to the "added worker" effect (women stepping in to the labour market as a consequence that their partners lost their jobs) whilst the participation rate for men has been decreasing. The participation of older workers (both men and women) increased, reflecting the effects of increases in retirement age and the phasing-out of early retirement schemes, while the activity rates of young people have been constantly decreasing.

....but weak labour market functioning may further delay job creation...

The so-called Beveridge curve (which relates unemployment rates to job vacancies as indicated through labour shortage indicator in figure 4) shows that the increase in vacancies during 2010 and 2011 has not effected unemployment and thus indicates that increasing labour and skills mismatches may have been taking place, something intensified by a sectoral bias of restructuring during the crisis making it more difficult to match skill demand and supply. It also indirectly points to the possible existence of inadequate ALMPs, skills profiles and mobility incentives possibly leading to increasing structural unemployment. The reduced capacities to match jobseekers to vacancies and to create jobs, shows the limits to the efficiency of European labour markets especially in a situation of increased need for smooth resource reallocation and rapid adjustment in response to major external shocks as those engendered by the economic and financial crisis.

Figure 4: Beveridge curve for the EU showing the relation between job vacancies and unemployment



....and educational outcomes are inadequate to meet labour market needs

Education policies are essential to equip people with the right skills for the labour market. In 2000, 22% of employed people had high qualifications in the EU while 29% had low qualifications. In 2010, it was the reverse. By 2020, 35% of jobs will require high qualifications and only 15% will require low qualifications. However, educational outcomes fall short of this growing skill-intensity of available jobs. In 2010 one out of seven (14.1%) young persons aged 18 to 24 in the EU left the education system with no more than lower secondary education and participates in no further education and training (early school leavers) and many have qualifications that do not match with labour market requirements. Their unemployment rate in 2010 was at 53%; twice as high as the average unemployment rate of young people. Moreover, more than one fifth of all children do not fulfil basic standards of literacy and numeracy (measured at age 15).

Nominal unit labour costs broadly restrained.....

After having grown modestly in 2009, **nominal labour cost** growth² remained slightly positive in most Member States also in 2010. Notable exceptions to this trend were the Baltic States, IE and HU which recorded negative growth rates in both 2009 and 2010, and a few new Member States where wages grew strongly as the economy is still catching-up. By mid-2011 nominal labour costs started to display increasing growth rates in some other Member States, especially in DE, while they continued to grow at a low pace in many others. If sustained, such asymmetric developments in unit labour costs may point towards reduced macroeconomic imbalances at EU level.

The almost general negative **productivity** growth of 2009, which largely reflected the economic slowdown and labour hoarding through short-time working arrangements (that resulted in a larger drop in GDP than in employment), came to a halt in 2010. In 2010 annual labour productivity per person employed recorded a growth in all Member States, except EL (-1.7%). Notable was the outcome in DE, where in 2010 year-on-year labour productivity growth increased from -5.2% in 2009 to +3.2%, and in PT +2.9% after +0.1% in 2009. Although productivity growth remained robust for all Member States (with the exception of EL, where productivity still decreased) in the first quarter of 2011, it started to slow down in most Member States in the second quarter of 2011 and is estimated to be around 1.2% for all of 2011, reflecting a weakening economy.

As a result of these developments, in 2010 **nominal unit labour costs** in the EU-27 increased at a significantly lower rate than in previous years (+0.6%), with the euro area as a whole recording a decline in nominal unit labour costs for the first time since 2001 (-0.7%). The most noticeable fall was recorded in DE, down from a 5.5% growth in 2009 to 1.2% decline in 2010. This primarily reflected a sharp increase in its labour productivity (a similar pattern is to be found in DK and NL amongst others). While in EL the decrease in 2010 reflects a sharper drop in compensation than changes in labour productivity. Other notable decreases are to be found in IE, LV and LT, reinforcing the downward trend that they commenced in 2009. Nevertheless, due to the slowing productivity growth in the second quarter of 2011, second quarter nominal unit labour cost growth (+1,2%) exceeded the first quarter (+0,2%) in the euro area.

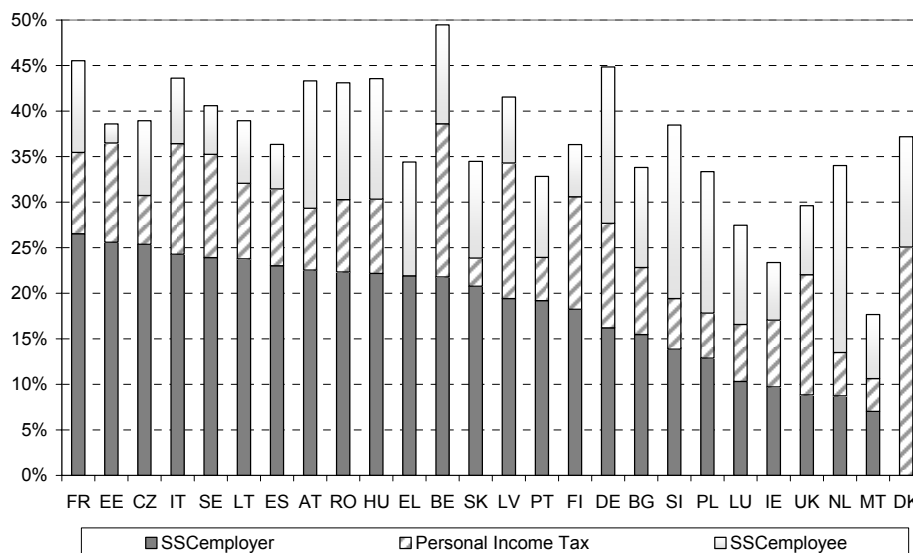
² Measured as changes in compensation per employee.

In 2010 growth of **real unit labour costs**, which measures the real wage relative to labour productivity, regained its negative momentum (implying a decrease in the labour share of income), which had been briefly interrupted during the economic downturn when productivity fell sharply. In the first half of 2011 this downward trend in the wage share was maintained in most Member States. Notable exceptions to these developments are to be found in CZ and PL where real wage growth outstripped productivity growth.

...while non-wage labour costs remain job-hampering

High non-wage labour costs hampers job creation, particularly in the low wage segments of the labour market in some Member States, although they vary considerably across the EU. These costs represent high barriers and obstacles for economic activity as they are seen as vital elements in the job creation with negative effects on especially low-skilled workers employment prospects. Moreover, the high tax-wedge and its interaction with the benefit system contribute to deterioration in the willingness to work among these groups.

Figure 5 Components of tax wedge at 67% of average wage in 2010



Source: OECD data for BG, EE, LT, LV, MT, RO, are for 2009. No recent data currently available for CY.

...and undeclared work continues to be present

Despite the difficulties in the formal economy, undeclared work continues to persist (and may even be more prevalent) and is estimated to represent more than 20% of the economy in certain Member States. The attendant loss of tax revenues is of course especially unwelcome in time of serious public deficits, but undeclared work is also implicated in general labour market segmentation, loss of workers' rights and the possibility of social exclusion.

2. IMPLEMENTING STRUCTURAL LABOUR MARKET POLICIES

The European Council of 24-25 March 2011 set out the policy guidance for Member States to submit their national reform programmes containing their plans for labour market reforms to achieve the EU headline targets set in the employment guidelines.

Based on proposals of the Commission, the Council adopted country-specific recommendations underlining areas in which Member States should undertake policy reforms in a number of areas within the overall framework of the guidelines for Employment Policies. These include: making work more attractive, helping get unemployed back to work, combating poverty and promote social inclusion, investing efficiently in education and training, enhancing the balance between flexibility and security, reforming pension systems, and improving educational outcomes and active inclusion of vulnerable groups.

2.1. Make work more attractive (Guideline 7)

Several Member States addressed challenges in their tax and benefit systems in order to make these systems more employment enhancing, albeit the limited fiscal room for manoeuvre may have put some limitations on the reform efforts. For benefits, the measures taken generally addressed the rationalization of systems; with taxation the burden on labour was reduced in some Member States.

Nine Member States (AT, BE, DE, EE, ES, EL, FR, HU, SK) received a country specific recommendation or have taken a commitment under a Memorandum of Understanding on **reducing the tax wedge** on low/medium wage earners **or shifting taxation away from labour** in order to boost employment. The few measures taken concern the removal of fiscal disincentives for the employment of particular groups in a targeted manner (BE) as well as initiatives to prolong the compensation for the gradual reduction of the tax credit for employees with low salaries in 2012 (HU). A small group of Member States have already adopted or made commitments towards shifting taxes away from labour in a general manner (DK, EE). Further efforts should be made to shift the tax burden away from labour, especially for vulnerable groups, low-skilled workers and/or second earners, towards less detrimental types of taxes or by re-profiling labour taxation.

Seven Member States (BE, BG, CY, ES, IT, LU, MT) received a country specific recommendation linked to **wages**. Commitments on wage issues ranging from public sector wage determination, the review of wage setting institutions, and wider collective bargaining reforms also featured in the Memorandum of Understanding agreed with five Programme countries (EL, IE, LV, PT and RO). The majority of these concerned reforms of wage bargaining in order to ensure that wages evolve in line with productivity developments. Some concerned the more specific issue of wage indexation systems. Policy measures taken include commitments to decentralise wage bargaining (IT, ES) while other measures include commitments to review the wage indexation mechanism (MT, CY) coupled with a temporary and partial suspension of the mechanism (CY).

Recommendations or commitments under a Memorandum of Understanding to fight **undeclared work** have triggered new policy responses in a number of Member States. These include the form of legal acts to combat illegal work contracts (IT, LV), enforcement measures by increasing the focus on inspections (PL, CZ, BG, EL, LV, PT, SI) while one Member State has used ESF resources to fight illegal employment. Other Member States have taken own initiatives (EL, RO) and focused on the regularisation of undeclared through measures which include higher penalties and greater control by the Labour Inspection System (ES, RO). More efforts are needed to support a move from informal or undeclared work to regular employment, including initiatives to reinforce the detection of undeclared work and initiatives to reduce the financial incentives to informal work.

Fiscal pressures and the need to increase labour market attachment and prevent people from falling into benefit dependency resulted in increased rationalization of benefits in several Member States. Measures include governments' intentions to make **benefits conditional** on recipients' agreeing to participate in public works, in particular those long-term unemployed and farthest from the labour market (CZ, HU). Other measures include plans for better targeting and transparency of social benefits (CY, SI). Yet other welfare reforms are aiming at incentivising work and ensuring that work pays (UK, NL) by a lower withdrawal rate of social benefits and higher earning disregards (UK).

Some Member States have taken steps to cut **unemployment benefits** (HU, LT). There is still a need to reinforce the structure, efficiency and consistency of unemployment and social assistance benefit systems through better targeting and linkages to activation measures.

Eight Member States (AT, CZ, DE, HU, IT, NL, PL, UK) received a country specific recommendation on promoting **gender equality** or fostering better work life balance. The majority of these concerned the provision of adequate and affordable care services while a second group concerned improving fiscal treatment of second earners.

The policy response include announcements to improve or reform the provision of childcare (UK, PL, AT, CZ, NL, HU) and all-day school places (AT) aiming at encouraging inactive and lone parents to work or at providing part-time working parents with the possibility of working longer hours. Other measures include initiatives to raise awareness regarding the equal treatment of women and men, for example by introducing an income calculator or a gender index (AT).

Member States have taken measures towards improving fiscal treatment of **second earners** for example by linking government's contribution towards childcare to the working hours of the less working partner (SK) or by introducing a state contribution to the cost of childcare to help decreasing the fiscal disincentives for second earners. Further efforts should be made to tackle the financial disincentives and the combined effect of tax and benefit systems, insufficient or non-affordable care facilities, and in relevant cases, long parental leave.

2.2. Help the unemployed get back to work (guideline 7)

The targeting of active labour market measures needs to be stepped up to avoid unemployment to become structural and social exclusion to increase. Twelve Member States received a country specific recommendation on the implementation and scope of **active labour market policies** (ALMPs). Commitments on ALMPs also appeared in the Memorandum of Understanding agreed with five Programme countries (EL, IE, LV, PT, RO). The main part of these recommendations or commitments concerned reforms that would increase the effectiveness of the ALMPs including the targeting of particular groups. A smaller group concerned the improvement of the capacity of Public Employment Services in order to provide a better and more coherent service.

In line with the above some Member States are planning or have implemented reforms to ALMP-s as set out in the government's work programme (FI, FR, IE, PT, DE, LV). Others have taken measures towards targeting actions on young people by proposing a so-called social guarantee for young people offering work, traineeship or training (FI) or through large-scale youth internship programmes (BG), by reforming the contractual arrangements for the training of young workers (EL, ES, RO), through work experience (EL), by introducing new financial incentives for employers in order to increase the number of apprenticeships (EL, FR, LU, RO), or increase the employability of university graduates and older workers (SI).

Others have taken steps to address the situation of **long-term unemployed** (FR, SK, EE, ES) by exploring the better use of ESF financed projects (EE, EL, PL) or resources from abolished exemptions of unemployment insurance contributions of older workers (AT). In some Member States long term unemployment is planned to be addressed through the creation of intermediate labour markets (EL, SK).

Some Member States have opened up employment intermediation services to private employment services (ES, CZ, SI), as well as upgrading the lifelong career guidance service (SI), or introducing training "vouchers" that would allow job seekers to choose training providers (LT). Other Member States are set for a tripartite renegotiation on the functioning and services of PES.

A number of Member States have further developed traineeships for young people in order to combating youth unemployment and improving young people's access to the labour market.

2.3 Combat poverty and promote social inclusion (guideline 10)

Member States have put in place monitoring tools to assess the social impact of the crisis and many have introduced specific measures to contain the negative effect thereof for example by a simplification of social welfare and assistance systems and the adaptation or extension of benefit and/or eligibility conditions of social assistance. Also specific reform measures to prevent the negative impact of fiscal consolidation measures in different countries often based on ex-ante social impact assessments of these measures have been very valuable. Some Member States also looked at how other policy areas (energy, housing, transport etc) could be mobilised to alleviate the impact of the crisis. This could be extended, in a number of Member States, to a wider range of areas including health care services, in order to guarantee affordable access for low income and vulnerable groups, and creditting practices, in particular for vulnerable groups.

Measures to increase the labour market participation of specific vulnerable target groups including youth, immigrants and ethnic minorities were put in place in several Member States so as to prevent their long term exclusion from the labour market. Nine Member States received a country specific recommendation on combating poverty and promoting social inclusion. The majority of these concerned the question of integrating special groups better on the labour market while a smaller group directly addressed the magnitude of poverty or risk-of poverty. In this context specific attention to improving the situation of the working poor in Europe (8.4% of the EU population) has to be given in particular through active inclusion policies that facilitate adaptation to change and safeguard worker skills and productivity.

Policy responses include proposals to increase the employer subsidies in SI. Some Member States have launched integrated operations (ESF and ERDF) for a transition from institutional to community-based care for children and for developing new social housing options for Roma (BG).

Other Member States have taken steps to address the situation of immigrants through improvements to the reformed introduction system to the labour market for newly arrived immigrants notably as regards language training, civic orientation and employment preparation activities (SE). Others have taken actions aimed at facilitating the recognition of degrees, offering second-chance schooling for young adults and setting up mentoring and training programmes for women (AT).

2.4 Invest in education and training (guidelines 8 and 9)

General measures to reform education and training have been taken in a number of Member States targeted notably at young people, the unemployed and immigrants. Other reforms seek to anticipate skills needs or to increase the quality and access to vocational training. In view of the current challenge represented by youth unemployment, it is imperative to modernise education and training systems to ensure that they effectively equip young people with relevant skills and competences. A number of countries need to ensure that their secondary education and training systems effectively create the conditions for students to access successfully tertiary education or provide the specialised skills and job matching that permit a direct access to the job market. University governance should reward incentives for the students and the teaching and research staff, ensure a good adaptation of curricula to changing labour market needs and provide the basis for a stronger link between research and the business environment.

This requires also better anticipating future skills needs and strengthening cooperation between educational institutions, businesses and employment services, drawing on the work of sectoral skills councils at national and EU levels. As part of smart fiscal consolidation, investments in education and skills should be given priority, while reinforcing the efficiency and effectiveness of education and training systems and ensuring that reforms increase the labour market relevance of education.

To fight **early-school-leaving**, some Member States have stepped up *preventive* measures, by introducing a compulsory pre-school year (AT, BG, CY, DK, EL, HU, PL, RO) while a large majority took *intervention* measures aiming at supporting individuals for example through mentoring or tutoring. In line with the 2011 Council Recommendations on policies to reduce early school leaving, such measures have to complement *compensation measures* such as second chance education for those who left education and training early.

Many Member States seek to increase **tertiary or equivalent educational attainment** through a broad range of measures often focusing on improving the labour market prospects and widening access to currently under-represented groups. Measures include direct financial support, guidance and counselling or preparatory courses with many countries offering targeted support to low-income groups (BE, DE, FR, PL, CY, RO) or students with a migrant background (BG, BE, NL, DK, EE, EL, FI, SI). Some Member States have taken specific measures to increase completion rates, e.g. by helping students at risk of dropping out by guidance and counselling (FR, LU, NL, SE, SI). Reforms have to address the two-fold challenge of increasing the number of successful graduates, while maintaining and enhancing the quality of education and research.

A few countries have launched reforms in the area of **Vocational Educational and Training** (PL, SK, CY, EE) by making their education and training systems more responsive to existing and forecasted **skills needs** (BE, FR, EL, ES, FR, HU, IE, IT, NL, RO, SK, SI, UK). A stronger labour market orientation in the vocational streams is needed together with the creation of sufficient vocational training pathways especially apprenticeships, in cooperation with social partners. ES has approved, in the framework of social dialogue, a learning and training contract combining remunerated work (75% of the working day) with training (25%) and has regularized the grants system to qualified people.

A number of policy initiatives have been taken to respond to the country- specific recommendations given to 16 Member States concerning investment and reforms in education and training.

Among the Member States for which early school leaving was highlighted the initiatives taken include to prevent school drop-outs by for example initiating Youth Coaching projects (AT, DE), further expanding the New Middle School (AT) or by supporting people who left school early to catch up and obtain necessary certificates (AT, BG, DE, SI). Measures were also proposed to channel students at risk of early school leaving towards interesting career paths through vocational education and training and the diversification of the offer of schools and programmes (MT). Others have proposed social clauses for public procurement contracts in order to guarantee apprenticeships for youth in the vocational education system (DK).

However, there is scope to stepping up preventive and early-intervention policies, targeted at those at risk of dropping-out of school, including by boosting the capacity and quality of early childhood education and care facilities, providing more individualised learning approaches, better targeted support for pupils at risk of dropping out, early warning systems and extra curricular activities to broaden opportunities for learning and personal development. Also, enhanced attention is required to the labour market relevance of the educational outcomes of disadvantaged students including migrant children or students with special educational needs.

Another area for policy responses is reform in higher education to align provision better with labour market needs. Measures include for example a higher education reform programme "Partnership for knowledge" (PL) or the introduction of a "university technical colleges (UTCs)" in collaboration with employers and universities (UK). Other Member States have adopted measures in order to facilitate access to vocational education (ES).

New strategies on lifelong learning were presented in some states (AT, PL, SK) and renewed in others (EE), while others have started a national dialogue and prepared a white book (LU). It is important to continue promoting up-skilling and lifelong learning, with particular emphasis on unemployed young people and adults with low or obsolete skills, and to involve enterprises and local authorities in partnerships to ensure that up-skilling addresses local labour market specifics, as happens in some member states (EL).

The contribution of the ESF to the Europe 2020 Strategy priorities

The ESF is one of the key financial tools for supporting the Europe 2020 Strategy. Many of the Europe 2020 strategy priorities are currently being addressed by current Operational Programmes financed by the ESF in the present programming period. Over the last years, programmes have proven to be flexible enough to target the changing socio-economic effects of the crisis; where appropriate necessary amendments have been introduced. For the 2014-2020 period the ESF will be fully aligned with, and concentrated on, the Europe 2020 Strategy and its headline targets. It will concentrate support on Member State policies closely linked with the Integrated Guidelines, Country Specific Recommendations and the commitments set out within the National Reform Programmes.

In terms of scope, the draft ESF Regulation for the 2014-2020 programming period establishes four thematic objectives:

- promoting employment and labour mobility,
- investing in education, skills and lifelong learning,
- promoting social inclusion and combating poverty,
- enhancing institutional capacity and efficient public administration.

The European Social Fund has a particular role to play in supporting several of the Strategy's flagship initiatives, such as *An agenda for new skills and jobs*, *European platform against poverty* and the *Youth on the move*. The ESF will also contribute to other important priorities such as strengthening investments in research and innovation, enhancing accessibility to and use of information and communication technologies, increasing the competitiveness of small and medium-sized enterprises, supporting the shift towards a low-carbon economy and promoting the sustainable use of resources.

2.5 Balance security and flexibility (guideline 7)

General measures to address the balance between security and flexibility were taken in a number of Member States notably as to review unemployment and social benefits, combat labour market segmentation and reform existing legislation on minimum wages or strengthen compliance with minimum wage provisions and undeclared work. Improving the implementation of flexicurity in a comprehensive way remains a priority for most Member States' labour markets.

Six Member States received a country specific recommendation or a commitment under a Memorandum of Understanding on the functioning of the labour market and on combating segmentation. The focus of the recommendations varied considerably with reform of the EPL to reduce segmentation between people on temporary contracts and open ended contracts being the main thrust.

Five Member States have provided a policy response including legislative reforms aimed at reducing labour market duality, strengthening internal flexibility and improving employment opportunities for the unemployed (EL, ES, HU, PT) or a law on "Employment Support Measures" to strengthen the second level of bargaining (IT).

Other countries have adopted or re-shaped the legal basis regulating the functioning of Temporary Employment Agencies (BG, LT, SI, RO) or increased flexibility of their labour market through reforming their Labour Code (BG, SK, RO, CZ). ES has put in place important measures allowing firms to reduce working time as an alternative to layoffs.

It is necessary to ensure that people on temporary and part-time employment contracts have adequate social protection coverage, notably by allowing them to acquire decent pension entitlements and that the framework conditions are set to enable them to progress in the labour market, including through the possibility to revert to full-time work, to make a career and to have access to training.

2.6 Reform pension systems (guideline 10)

General pension reforms have taken place or are under preparation in a number of Member States (CZ, DK, EL, CY, LT, MT, NL, SK) while reforms related to cross-border pensions have taken place in PL. A number of Member States have taken steps to limit or discourage early retirement (CZ, ES, LT, PT, SK, HU).

19 Member States received at least one recommendation related to pension systems. Commitments on Pensions also appeared prominently in the Memorandum of Understanding agreed with five Programme countries (EL, IE, LV, PT, RO). In most cases the recommendations or commitments were about either increasing the effective retirement age or about increasing the statutory retirement age and linking it with life expectancy. About half of these have so far provided a policy response or a commitment to address these.

Some countries have proposed, decided or implemented reforms that will limit access to early retirement (AT, ES, HU). Others have taken steps to improve the fiscal sustainability by increasing the statutory retirement age (LT, CZ), by raising the incentives for labour market participation (ES), or through automatic input into the fully-funded pillar by labour market entrants, with an option to exit the scheme within a limited period of time (SK).

One Member State has taken important steps to reform the early retirement scheme (DK). Member States have taken steps towards implementation of planned pension reforms including restructuring public pensions and measures to increase contributions by public sector employees (CY). Others have proposed a partial transfer of contributions to private funds (CZ), initiatives to increase gradually the pension eligibility requirement related to years spent working and the statutory retirement age (BG) or to link the retirement age to life expectancy and to raise the state pension age (NL – to 66 in 2020, and an expected further increase to 67 by 2025), or to enhance the solidarity element and put in place an automatic stabilisation mechanism to reflect demographic changes in the pay-as-you-go pillar (SK). Further actions are needed to develop frameworks of incentives and opportunities for longer working lives for women and men to accompany increases in the retirement age. Besides this, ensuring adequate minimum income provisions need to be ensured in order to avoid and mitigate the risk of poverty and material deprivation to vulnerable older people.