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From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	European Semester 2016: Contribution to the European Council (Brussels, 28-29 June 2016) - Policy debate

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Delegations will find attached a note from the Presidency outlining the context for the policy debate and providing guidance with a set of questions for discussion by Ministers at the EPSCO Council on 16 June 2016.

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**European Semester 2016**  
**Policy debate - Presidency steering note**  
**EPSCO 16 June 2016**

Several years after the global economic crisis hit most of the EU Member States, the economic outlook for the EU remains modest. Overall growth is set to remain relatively low, with EU GDP expected to increase by 1,8% in 2016, rising slightly to 1,9% in 2017 (compared to an increase in euro area GDP estimated at 1,6% for 2016 and 1,8% for 2017). This growth is however still very uneven throughout the Union, and the current economic context remains fragile.

Focussing more closely on the employment and social aspects, the critical issue at this moment is whether the negative employment and social effects of the crisis can be overcome with the current, modest growth path and, if not, which necessary policy adjustments should be carried out.

The labour market situation has improved and is expected to improve further. The rate of employment growth in 2015 was around 1,1% both in the euro area and in the EU, the highest rate since the crisis struck. Unemployment is expected to fall in the euro area to 10,3% in 2016 and further to 9,9% in 2017, whilst in the EU as a whole, estimates point to 8,9% in 2016 and 8,5% in 2017.

The European Semester process shows that reforms are paying off. However, many challenges remain. The decrease in the unemployment rate is continuous but very gradual, and it still remains above pre-crisis levels. Youth unemployment is falling at a faster rate than overall unemployment, but it remains high (21,6% in the euro area, 19,4% in the EU), and it is unevenly distributed across Member States. The risk of a further deterioration of the social conditions is compounded by the high level of long-term unemployment, with approximately one in two unemployed being out of work for 12 months or more. Around one fourth of the EU population is considered to be at risk of poverty or social exclusion.

Employment and social matters should therefore remain at the forefront of Member States' policy efforts and a key pillar of a strengthened EMU. Labour markets should become more inclusive, striking the right balance between flexibility and security. Social security systems, which have been put to the test, need to build up their resilience. Social partners' involvement in the reform design and implementation process will contribute to their success.

Over the past years, the European Semester, the EU's tool for economic governance coordination, has been gradually developed and improved. Member States have recognised the positive impact of this tool in order to stimulate and support the discussion on domestic policy changes, to share best practices and to exert peer pressure on each other for achieving more effective policies via a more integrated governance. They have made progress in addressing the issues identified in the country-specific recommendations (CSRs), the degree of CSR implementation varying across policy areas.

Building upon the modifications introduced in 2015, the 2016 European Semester puts renewed emphasis on the three-pillar response to the crisis - relaunching investment, pursuing structural reforms and pursuing responsible fiscal policies. It further integrates the euro area dimension with the earlier publication and adoption of the euro area recommendation, and continues with the streamlining of the CSRs.

In the employment and social protection fields, the 2016 CSRs cover many areas: employment protection legislation and the framework for labour contracts; the tax burden on labour; unemployment benefits; active labour market policies; incentives to work, job creation, labour market participation; wages and wage-setting; childcare; health and long-term care; poverty reduction and social inclusion; education; skills and life-long learning.

This year, nearly half of the CSRs have an employment or social component, containing a total of 114 concrete recommendations touching upon the employment and social field. Compared to 2015, more emphasis was put on the areas of skills, education and training, and active labour market policies. Pensions, extending working lives and employability of older workers went down, reflecting progress made by Member States. Youth employment received less attention, although this does not match levels of youth unemployment, which remain high. Given the worsened economic situation, consequence of the crisis, a strong focus on poverty reduction remains essential, both within and outside the Semester process.

In terms of the process, the second year of the streamlined Semester has further enhanced the governance, the interaction in the committees and between the various actors. The draft CSRs are less lengthy and more focused, the result of extensive consultations throughout the year. The results of the multilateral surveillance and related instruments of SPC and EMCO have been taken better account of by the Commission in its draft CSRs, contributing to a greater and more common understanding of the challenges ahead.

All in all, in the current economic context it remains to be seen if the measures taken are sufficient to put the EU on a sustainable and job-rich growth path. Whilst there has overall been an increased implementation of the CSRs, as regards employment and social issues, the results achieved leave room for improvement. Failure to do so could mean that large parts of society remain left behind and finally out. If citizens do not perceive that belonging to the Union is accompanied by a better quality of life and greater fairness and solidarity, this could further undermine the credibility and acceptance of the Union.

Against this background, Ministers are invited to consider the following issues:

1. Do you believe that the focus of the CSRs, as regards the thematic they cover, is well balanced? Does the current economic, employment and social situation justify that skills, education and training is the area that deserves most attention?
  2. In conjunction with other initiatives, such as the recommendation on long-term unemployment, do ministers see scope to strengthen the Semester's response to the poverty challenge?
  3. Notwithstanding the increased relevance of the Semester as a tool for coordinating the economic governance cycle, particularly notable is the relative absence of public recognition of the social component of the Semester. How can the social and employment component of the Semester process be better transmitted to the wider public?
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