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COVER NOTE

from: The Presidency
to: Permanent Representatives Committee (Part I) - Council (EPSCO)
Subject: European Semester 2014: Contribution to the European Council, on 20 - 21
March 2014
- Policy debate

Delegations will find attached a Presidency steering note on " European Semester 2014:
Contribution to the European Council on 20 - 21 March 2014", with a view to the Council (EPSCO)
meeting on 10 March 2014.

European Semester 2014

Contribution to the European Council on 20-21 March

Policy debate

Presidency Steering Note

The 2014 Annual Growth Survey Package has marked the beginning of the fourth cycle of economic policy coordination in the EU. The European Semester this year takes place in an environment where, on the one hand, encouraging signs of economic recovery are underway, and on the other, substantial divergences between our Member States, high levels of unemployment as well as rising poverty and inequalities threaten to undermine the incipient turnaround. This situation requires developing policy coherence between the economic and social objectives of the Union.

The Spring European Council will look at the economic situation and outlook. In particular, on the basis of the Commission input and its conclusions of December 2013, the European Council will conclude the first phase of the European Semester. It will assess the overall implementation of the 2013 country-specific recommendations and provide guidance to the Member States for the preparation of their Stability or Convergence Programmes and National Reform programmes.

Given that economic growth and the normalisation of credit flows are preconditions for improved employment and social figures, the biggest challenge now facing Europe is to sustain and strengthen the recovery so as to ensure that it generates jobs. Therefore, persistent and adequate reform efforts continue to be crucial. As reflected in the **Joint Employment Report**, significant measures have been taken to reform labour markets and enhance their resilience, combat segmentation and promote labour market participation. The extent of progress varies across policy areas and between Member States. It is important to recognise that we still have great distance to cover to reach the headline targets of the Europe 2020 strategy.

The **Joint Employment Report**, as well the **Alert Mechanism Report**, reflect that the employment and social situation has deteriorated in some Member States during the past years, such that many Member States register high or very high unemployment rates. This is leading to large costs, in human and in economic terms. The Commission has added a number of social indicators to the auxiliary indicators for the economic reading of the **scoreboard of the Macroeconomic Imbalance Procedure (MIP)**, in order to better consider the social impact of the imbalances and the adjustments. Those aspects of the In-depth Reviews that relate to labour market (and social) developments have to be addressed by the competent committees preparing the contributions to the EPSCO Council.

Youth employment has been at the center of the EU and Member States' efforts. **Youth Guarantee schemes represent an ambitious EU-wide initiative** and will be monitored through the multilateral surveillance process in the **Employment Committee**. However, Youth Guarantees alone cannot solve the problem of youth employment. Comprehensive efforts in related policy areas are needed, at both EU and national level.

The 2014 European Semester is building on enhanced processes that mark a deeper and more substantial multilateral surveillance and a broader dialogue with political actors at national and European level. In this vein, the current Semester will strive for an increased ownership of the Country Specific Recommendations through **closer involvement of the Social Partners in the EU's evolving economic governance processes**.

On the way to a strengthened Economic and Monetary Union, a new instrument contained in the 2014 Joint Employment Report is **the Scoreboard of key employment and social indicators**, aiming at reinforcing the coordination and surveillance of employment and social policies within the EMU governance. Work in the EMCO and SPC committees is also focusing on making the scoreboard operational for future European Semesters and improving its cohesiveness with existing instruments such as the Employment Performance Monitor (EPM) and the Social Protection Performance Monitor (SPPM). The scoreboard is a first step towards a reinforced social dimension in the EMU governance. In the light of this strengthening of the social dimension of the EMU, the need to bring closer the different formations of the Council involved in the CSRs, namely ECOFIN and EPSCO, should be highlighted.

There **are still challenges ahead**. These refer particularly to the social situation in the EU. The adoption of the Europe 2020 strategy put social policy at the core of European Union economic strategy. Yet the financial and economic crisis has diminished the prospects of reaching the Europe 2020 headline targets in the social field.

The social situation in the European Union is as a whole deteriorating. In some Member States, the situation is already heavily damaging the social tissue and endangering the social and economic prospects of large parts of the population.

The increase of poverty and social exclusion and the persistent high levels of unemployment provide an indication that the Member States should strengthen their efforts to reduce poverty and boost social inclusion, if the EU is to return to the desired path towards the social headline targets. The **European Council**, in its conclusions of December 2013, has reiterated the importance of economic and social developments. The current policies have as of now unfortunately not provided for the situation to be reversed. It needs to be stressed that policies should focus on making sure that improving the social situation across the Union becomes a widely shared priority.

It is recognised that a well-functioning monetary union requires an appropriate approach to address the social situation. Continued support for the European project will also rely on the trust by citizens that the Union is able to provide also for their interests and concerns.

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

- 1. Based on the experience gained through the European Semester cycles, what are the most successful reforms in the fight against unemployment? How can the coherence between economic, employment and social policies be better assured?*

2. *The 2014 JER indicates that there is a considerable lag between skill supply and demand in Europe and that recovery is being undermined by structural weaknesses in its skills base. How can we overcome these challenges?*

 3. *The EU is slowly emerging from the recession, but this development has not yet translated into more jobs and an improved social situation. How could a reversal of the social trends and growing divergences be achieved?*
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