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From: Presidency  
To: Permanent Representatives Committee/Council  
Subject: European Semester 2014: Contribution to the European Council (26-27 June)  
- *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 19 June 2014

# European Semester 2014

## Presidency steering note

In recent months, there have been genuine signs that a gradual economic recovery is taking place in the EU and the euro area, including in most of the countries affected by the crisis. The outlook is for a modest rise in employment from this year onwards. However, amid downside risks, the recovery will still remain uneven, fragile and conditional on continued structural reforms on several fronts at national and EU levels.

The 2014 European Semester exercise has shown that Member States have pursued substantive, ambitious and even politically sensitive reforms to address institutional rigidities, regain international competitiveness and increase the adaptability of labour markets. Even so, important challenges still remain: growing divergences between Member States and increasing polarisation within societies, high unemployment, in particular of young people not in employment, education or training (NEET) and poverty rates leading to lack of progress on the Europe 2020 employment and social headline targets. In this context, the core objectives should remain tackling high unemployment, inequality and poverty, shifting to job-friendlier taxation, boosting private investment, making our economies more competitive and bringing down debt.

Many Member States have launched labour market reforms, for instance to tackle labour market segmentation and support job creation. But these measures take time to materialise in tangible results. This means that high unemployment levels and the difficult social situation will only improve slowly. The crisis has in some cases temporarily obscured the long-term beneficial effects of the reforms and their public acceptance. As employment and social challenges remain, we need to strengthen policy responses and reform implementation.

## **The European semester cycle**

The experience gained through the European Semester multilateral surveillance process and the increased use of the existing statistical tools in monitoring Member States' progress have helped to enhance mutual understanding between the Member States and with the Commission on what works and where challenges are and decisive action is needed. CSRs play a significant role in identifying the policy direction and guiding Member States' policies.

The preparation of CSRs needs to concentrate on desired outcomes, trying to reconcile short-term urgencies with longer-term needs and leaving discretionary scope for the governments and other relevant actors to formulate the details of the reforms. It is essential that focus remains on the effective implementation of reforms. CSRs should address the challenges in a comprehensive way, thus securing social acceptance. The CSRs process aims among others at contributing to a job-rich recovery, endeavouring to meet people's aspirations for a better life. Enhancing the sustainability of our social systems will contribute to the general well-being of our societies.

To this end, close and efficient interaction between the committees (EMCO, SPC, EPC, EFC) involved in the preparation of the CSRs package is desirable, while fully respecting the expertise of the different Committees and Council formations, as well as taking into consideration the social partners contribution in the context of the European Semester.

### **Specific issues**

The economic governance of the EU has considerably strengthened in the recent years. The review of the European Semester should be foreseen in conjunction with the mid-term review of the Europe 2020 Strategy. Due consideration should be given to the time needed for completing major reforms, notably in areas such as pensions, where the same recommendations apply for several years. Furthermore, including precise deadlines for implementing reforms outlined in the CSRs may prove counter-productive for achieving the goals set by these recommendations.

In this framework, the recently adopted Scoreboard of key Employment and Social Indicators is an important step forward in terms of identifying and monitoring major employment and social trends that may affect the good functioning of the EMU and better coordinating a timely policy response with the European Semester. The use of the Scoreboard alone should not lead to a mechanical or automatic triggering of country-specific recommendations (CSRs). As the Joint EMCO/SPC opinion highlights, it needs to be read in the light of the existing Employment Performance Monitor and Social Protection Performance Monitor tools and Member State policy response. However, by helping to visualise key employment and social challenges and imbalances, this new instrument can contribute to meeting Europe 2020 headline targets.

Regarding the pension issue, the annual discussions have shown that linking the statutory retirement age to life expectancy is only one of the possible options for improving the sustainability of the pension systems. Where necessary, it is important first to close the gap between the statutory and effective retirement age. Country specificities need to be taken into account. In all cases future adequacy of pensions and linking of retirement age or pension benefits to changes in life expectancy should be pursued.

On Youth employment, there is strong political commitment from Member States to implement the Youth Guarantee (YG), which started in 2014. The reviews conducted by the Employment Committee to assess progress, as requested by the Council decision establishing the YG, send some encouraging messages as regards, inter alia, the development of personalised approaches and partnerships. Yet, undoubtedly, a number of challenges have still to be addressed.

Looking ahead, Member States are faced with the challenge of pushing forward with the policy response agenda especially in domains where less progress has been made, effectively exploiting structural funds. Ensuring better functioning labour markets and social security systems remains a priority in the light of demographic changes and other long term structural challenges. Exploiting new approaches to job creation, making Active Labour Market Policies (ALMPs) better targeted and more effective, removing entry barriers, combating long term unemployment, promoting skills anticipation and matching policies as well as investing in education and training systems and addressing poverty, social exclusion and inequalities. To be successful, such policies require interaction with social partners and other relevant stakeholders.

More generally, it is important to ensure national ownership, leave sufficient time for consultations with social partners and relevant stakeholders and for assessing carefully the impact of the proposed measures. In general, the process as such should make sure that employment and social policies remain an integral part of the EU growth strategy. In the economic governance process the EPSCO Council, while enhancing its cooperation with other Council formations and their Committees, has to affirm its specific added value.

The Employment and Social Protection Committees (EMCO and SPC) have played a key role in preparing the package of CSRs and in working closely with the EPC, the EFC/EFCA and the Education Committee. In addition to the individual set of CSRs for each Member State, EMCO and the SPC have prepared valuable contributions for our debate.

On this basis, Ministers are invited to focus in their interventions on the questions prepared by the Presidency. Their own experience and assessment of how the CSRs are responding to the challenges ahead should be part of their consideration.

*Question 1: How can the reform agenda in the context of the European Semester best combine short- and long-term concerns? In which combination, sequence or priority can the reforms in various policy areas best contribute to a job rich recovery, delivering on people's expectations?*

*Question 2: How can economic governance better integrate social and employment policies in order to better anticipate major problems much earlier and to tackle those collectively? What further steps need to be taken so that the Scoreboard can play a real role in enhancing the coherence between economic and employment/ social policies?*

*Question 3: How can a successful roll-out of the Youth Guarantee Implementation Plans best be ensured ?*

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