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From: Presidency
To: Permanent Representatives Committee/Council

Subject: European Semester 2015: Contribution to the European Council (Brussels, 25-26 June)
- Policy debate

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 18 June 2015.

European Semester 2015
Policy debate (EPSCO 18 June 2015)
Presidency steering note

The outlook for **economic growth** in the EU has improved slightly and unemployment is slowly receding from its high levels in most Member States. Real GDP growth in the **Euro area** is now expected to pick up from 0.9 % last year to 1.5% in 2015 and 1.9% in 2016. In the **EU 28**, GDP growth is now forecast to rise from 1.4% in 2014 to 1.8% this year and 2.1% in 2016. Almost seven years after the outbreak of the global financial crisis, European GDP is still well below its pre-crisis level and around 10% below the level consistent with the trend growth prior to the crisis.

Nevertheless, Europe's crisis management over the past years has achieved some results: financial stability and a banking union, necessary fiscal discipline and a common understanding for the need to ensure well-functioning labour markets and sustainable as well as effective social protection systems.

Employment is expected to grow, in both Euro area and the EU 28, by 0.9 % (EU 19) and by 1% (EU 28) this year and 1.1% in the Euro area next year. The unemployment rate remains high and is decreasing at a very slow pace; it is projected to decline somewhat to 9.2% in the EU 28 and 10.5% in the Euro area in 2016, which remains well above the average levels observed between 2004 and 2008. Still, a profound divide exists between Member States experiencing unemployment rates around 25% and some far below the EU average, close to full employment.

Unemployment among young people is also declining; in March 2015 it stood at 20.9% in the EU – a decrease of approximately 520 000 over one year time- and 22.7% in the Euro area. There is still a long way to go - one young person out of five on the labour market is still without a job. In addition, nearly 12 million people in the EU 28 have been unemployed for one year or more. The high rates in long-term unemployment indicate the risk of further deteriorating social conditions.

Despite economic improvements, the **employment and social effects of the crisis** need to continue to be addressed by a coherent policy mix of economic, fiscal, employment and social policies that creates positive synergies between them.

For the **2015 European Semester**, the Commission's Annual Growth Survey proposes a three-pillar response to exit the crisis - boosting investment, accelerating structural reforms and pursuing responsible growth friendly fiscal consolidation. The emphasis of Member States' actions should be on better implementation of the country-specific recommendations. The streamlined process also aims at increasing ownership at national level, including the social partners and other stakeholders.

In the **employment and social protection** area, the 2015 CSRs aim at the promotion of job creation, labour market participation, activation and effective income support combined with employability. They also put a focus on skills development, advocating quality apprenticeships and lifelong learning. It is crucial to correct distortions such as high levels of labour market segmentation, long-term and youth unemployment.

The sustainability challenge and the current and projected adequacy of future **pensions** need to be addressed in a comprehensive way. Increasing the statutory as well as the effective retirement ages remain important issue in the 2015 Semester cycle as are sustainability of public finances and adequacy of pensions.

In the **area of healthcare**, the main focus is on ensuring cost-effectiveness and sustainability while ensuring universal access for all to adequate and quality health.

Over the recent years, important measures were implemented foremost to address urgent financial and fiscal challenges. Improvements in functioning of product markets are still needed and would facilitate better employment outcomes. However economic developments and labour market situations show diverging trends. Sustainable convergence is necessary to underpin a well-functioning monetary union.

The European Semester is a major instrument in the move towards a deeper **Economic and Monetary Union (EMU)** aimed at setting in motion a convergence process. Identifying and aligning of best practice in the areas of well-functioning labour markets and sustainable, effective social protection systems has been at the core of instruments used for coordination and cooperation in the employment and social policy fields. However the need for long term convergence towards one or a limited number of best practices (labour market structures, institutions or rules) in the EU or Euro area remains a challenge. Accountability and ownership are a pre-condition for democratically legitimate action. The acceptance of the EU and its policies depends on citizens' perception of the impact on their lives of the measures implemented and whether these are considered as fair and balanced.

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

- 1. Do the new CSRs address all the key challenges in a balanced way? Does the recommendation on broad guidelines for Member States of the euro area take the employment and social aspects sufficiently into account?*
- 2. Are there employment or social policy areas – and, if yes, which – that need improved coordination and cooperation or other new approaches for a better functioning EMU? Do the new Employment Guidelines and CSRs anchor convergence adequately? What has been the experience with the rules based and guidance type concepts so far as regards outcomes and results?*