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European Union

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NOTE

From: General Secretariat of the Council
To: Council

Subject: European semester 2016
- Synthesis report on Council contributions

Delegations will find attached the synthesis report prepared by the Presidency on the discussions and the main political messages of the different Council configurations in relation to 2016 European Semester.

Introduction

After years of crisis, Europe is gradually finding its way to economic recovery and rising employment. However, to sustain recovery amid an uncertain global outlook pressing ahead with an ambitious jobs and growth agenda remains crucial. Building on the strategy set out in the 2015 European Semester cycle, the Annual Growth Survey 2016 puts forward the priorities for the year ahead. The 2016 European Semester includes a number of innovations. Some reflect proposals in the Five Presidents Report on completing the Economic and Monetary Union, in order to strengthen the euro area dimension of the European Semester and focus more on employment and social performance. Others, such as thematic discussions in the Council, were put forward by the Presidency to give impetus to the implementation of country-specific recommendations (CSRs). This report summarises the results of discussions held in the Council and conclusions adopted on the Annual Growth Survey package.

The 2016 European Semester Package

The Commission adopted on 26 November 2015 a package for the 2016 European Semester, which included:

- the Annual Growth Survey 2016 ([14270/15](#)), accompanied for the first time by "investment fiches" analysing Member States' key investment challenges;
- the Alert Mechanism Report 2016 ([14272/15](#));
- the "euro area recommendation" (*Recommendation for a Council Recommendation on the economic policy of the euro area*) accompanied by a Report on the Euro Area ([14860/15](#) + ADD1);
- the draft Joint Employment Report from the Commission and the Council, analysing the employment and social situation in Europe and the policy responses by Member States ([14694/15](#)).

The ECOFIN Council (on 15 January 2016) adopted conclusions on the Annual Growth Survey¹ and on the Alert Mechanism Report². The EPSCO Council (on 7 March 2016) adopted conclusions on the Annual Growth Survey and the Joint Employment Report³, and adopted the Joint Employment Report⁴. The Council welcomed the Annual Growth Survey 2016 and agreed on the broad policy priority areas put forward by the Commission which remain: re-launching investment, pursuing structural reforms to modernise our economies, and responsible public finances. They constitute three mutually reinforcing pillars, which need to be seen in an integrated way. Structural reforms are essential for the sustainability of public finances and to provide a favourable growth-friendly investment environment. In turn sound public finances provide the solid ground we need to sustain the recovery and to reduce uncertainty that impedes investment.

When it comes to the analysis of the economic situation and policy challenges in the EU, the Council broadly shared the Commission's view and stressed that policy should be directed towards consolidating the recovery and tackling macroeconomic imbalances. The greater focus on employment and social issues throughout the package was positively recognized as this strengthens its inclusive growth dimension. The emphasis on flexicurity, social investment, human capital development and social protection systems, which are financially sustainable in view of demographic challenges and efficiently respond to risks throughout the lifecycle, were particularly welcome. However, in its conclusions on the Alert Mechanism Report, the Council expressed concerns about the inclusion by the Commission of three additional employment indicators to the main scoreboard used in the Alert Mechanism Report, stressing the need to preserve the effectiveness of the scoreboard as an early warning device and the nature of the Macroeconomic Imbalance Procedure as a procedure established to focus on the identification, prevention and correction of macroeconomic imbalances.

¹ [5319/16](#) Council conclusions on the Annual Growth Survey 2016 (ECOFIN)

² [5318/16](#) Council conclusions on the Alert Mechanism Report 2016

³ [6643/16](#) Council conclusions (EPSCO)

⁴ [6149/16](#) Joint Employment Report

As regards innovations on process, the Council welcomed the Commission's proposals to revamp the European Semester, set out in its Economic Governance package of October 2015⁵. These included the early adoption of the euro area recommendation⁶, which was presented for the first time at the beginning of the cycle in November, rather than as part of the package of CSRs in May. This was not just a process change: discussing euro area challenges at an early stage should help strengthen the euro area dimension of the European Semester. Indeed Member States will now be able to better take into account where relevant euro area wide considerations in the design of their national policies presented in Stability Programmes and National Reform Programmes. Following discussions in the Council, the euro area recommendation was endorsed by the European Council of February 2016 and adopted by the Council on 8 March 2016.

Implementation of Country-Specific Recommendations

The implementation of reforms is at the heart of the European Semester. Making sure that CSRs are fully implemented has thus been a recurring concern over the past years. Effective implementation of CSRs would make the European Semester a more powerful instrument in which implementation, outcomes and concrete contributions to the single market and Europe's wider economic and employment ambitions are made more central. The revamping exercise launched under the 2015 European Semester brought about changes to the process which are helpful in that regard. The revamping has resulted in clearer, shorter and more focused recommendations. In addition, the early publication by the Commission of Country Reports analysing Member States' economic policies now allows for greater interaction between the Commission and Member States on the economic and analytical underpinning of the Country Specific Recommendations. The Roadmap aimed to ensure that the new timing would also give more time to committees to engage in multilateral surveillance before the CSRs are adopted. But discussions in the Council also have an important role to play. Debates among ministers on the implementation of reforms are an opportunity to exchange best practices and to exert peer pressure at political level. For that reason, the Presidency decided to organise debates focusing specifically on the implementation of CSRs in several Council configurations and encourages that this monitoring exercise of national implementation of recommendations becomes a regular feature of the European Semester.

⁵ [13356/15](#) Commission Communication on steps towards Completing Economic and Monetary Union

⁶ [5540/16](#) Euro area recommendation.

The ECOFIN Council on 8 March discussed the implementation of recommendations on the basis of the Country Reports. A horizontal assessment of CSR implementation showed that almost half of the CSRs have at least some progress in implementation. The discussion in the Council focused in particular on the implementation of reforms related to removing barriers to investment and improving the investment climate, which is the aim of the third pillar of the Investment Plan for Europe. The 2016 country reports analyse in detail the investment challenges that the Commission identified last year⁷. The Council noted that the two policy areas which generate most of the investment bottlenecks, “Public Administration/Business Environment” and “Sector specific regulations” are also the areas with the lowest rate of policy response. Central to the discussion was the joint challenge to step-up the implementation of reforms that reduce barriers to investment and improve the investment climate. The ministers insisted on the importance of assessing the CSRs implementation annually, in order to draw conclusions, increase national awareness and implement reforms effectively at each country level. They have agreed to hold a discussion on the implementation of CSRs each year at Ecofin.

The EPSCO Council on 7 March discussed the implementation challenges of Country Specific Recommendations and national best practices, with a particular focus on those related to labour market segmentation and contractual arrangements. Ministers concurred there has been progress in CSR implementation, while the overall economic background remains somewhat unstable. Though concrete results in the employment and social domain are displaying with a time lag, first results are now beginning to show. Robust monitoring will ensure further fine-tuning. They highlighted that widespread support and consensus is crucial for any reform agenda. This means in particular that social partners need to play an important role in the implementation and be closely involved in the reforms. Public support, as well as support by political groups across the whole political spectrum, are necessary to achieve full ownership of the reform agenda. Extensive information, good communication and increased transparency are key to this end.

⁷ SWD(2015)400 final/2

Another important point stemming from the discussion is the diversity of situations faced. Therefore, CSRs need to be grounded on evidence and on the specificities of Member States and need to focus on outcomes rather than process, indicating objectives without being overly prescriptive. The fact that the effects of reforms, in particular in the field of labour market and social policy, can take time to appear was highlighted. The redistributive effects of reforms remain a central issue - structural reforms need to be inclusive, paying attention to specific groups such as the young and the long-term unemployed, e.g. via increased training opportunities, and all other groups affected by structural economic change.

The Competitiveness Council on 29 February discussed best practices and the implementation of recommendations to tackle barriers to growth and investment in the services sector. Whereas the economic potential of additional reforms is promising and estimated to be as high as up to 1.8 percent of EU GDP, national implementation of service related recommendations remains limited. There was broad agreement that CSRs are an important tool to identify and address deficiencies and barriers to better functioning services sectors in a targeted and solution-oriented way. Further reforms and modernisation in the services sector, which comprises amongst others the retail sector, professional services, the construction sector and network industries, are required to strengthen economic growth and jobs. Such reforms will benefit Member States but also foster the internal market and result in positive spill-over effects in the EU. By discussing various challenges and sharing national experiences and best practices Ministers explored how the implementation rate of recommendations and reforms could be increased. Ministers also concluded that national ownership can act as an important catalyst for successful implementation as Ministers are in the end accountable for the implementation of reforms, the efforts they make and the consequences faced by citizens and businesses. The added value of regularly addressing the implementation of reforms was acknowledged and it was therefore deemed appropriate to make this a regular feature of the Competitiveness Council agenda.

Finally, following a discussion on the Annual Growth Survey 2016 on better governance, the General Affairs Council on 15 March will focus on the implementation of Country Specific Recommendations that are related to the good functioning of public administrations.

Contributing to the 2016 European Semester

The Council also discussed the environment and education and training dimension of the European Semester.

The Environment Council on 26 October 2015 held an exchange of views on the implementation of environmental policies and legislation and the phasing-out of environmentally harmful subsidies (EHS). There was a general consensus on the need for better implementation of environmental policies and legislation. It was noted that finding a solution to the existing implementation gaps is now a priority for the Commission and that gaps can be filled not only with enforcement measures, but also by using softer approaches like voluntary agreements, education, awareness, and capacity building. Regarding EHS (which often take the form of preferential prices, tax rebates and VAT exemptions) the proposed way forward included increased transparency, consultation and communication in order to win broad-based support for the decisions that are required. The Environment Council on 4 March focused on some recent objectives with regards to climate, circular economy and the sustainable development goals. In line with the Annual Growth Survey 2016 the Council determined that Member State action is needed to improve efficiency in the use of resources and bringing forward the transition towards a circular economy in order to boost EU competitiveness and generate new jobs. The Council recognised that action needs to be ensured beyond the 2020 horizon. To achieve this, introducing the environmental dimension, including the 2030 Agenda on sustainable development and the circular economy action plan, when defining macroeconomic policy, both at national and at EU level, is a good step. Also a dedicated governance system, to facilitate monitoring of the Sustainable Development Goals, the Paris Climate Agreement and the Circular Economy Package, and to ensure policy coherence, was mentioned by some ministers. The discussion addressed additionally to what degree the European Semester process could facilitate this in both its current and future form.

Finally the Education, Youth, Culture and Sports Council on 24 February provided a contribution in the field of education and training. In its *Resolution on promoting socio-economic development and inclusiveness in the EU through education* ([5685/1/16 REV 1](#)), the Council called for targeted reforms and prioritised investment in education and training systems. Since it is growth-friendly and supports both short-term recovery and long-term economic growth, investment in education and training should be prioritised both at regional, national and EU level. The Council also stressed that skills mismatches and skills gaps should be addressed as a matter of priority by both the education and the employment sectors. The Council noted that the importance of the development of skills and competences extends well beyond the labour market. Equally, it is about creating responsible citizens capable of playing an active part in society and democratic life. Correspondingly, the Council underlined that education systems should seek to increase their emancipatory effect, ensuring a level playing field for all regardless of socio-economic status, migrant background or gender. This resolution highlights the important role education has to play in meeting the many socio-economic challenges facing Europe today, as also acknowledged by the 2016 Annual Growth Survey. The resolution also responds to the findings of the latest edition of the Education and Training Monitor, which made it clear that the quality, relevance and inclusiveness of the EU's education and training systems needs to be significantly improved.
