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NOTE

From: General Secretariat of the Council
To: Delegations
Subject: European Semester - Synthesis report 2019

Delegations will find attached the synthesis report prepared by the Presidency on the discussions held in different Council configurations regarding the 2019 European Semester, during the first phase.

Background

The Commission adopted on 21 November 2018, the 'Autumn Package' for the 2019 European Semester, which included:

- the Annual Growth Survey (AGS) 2019 (14443/18), which sets the general economic and social priorities for the upcoming year;
- the Alert Mechanism Report 2019 (14444/18), which identifies 13 Member States to be subject to an in-depth review in 2019;
- the draft Joint Employment Report (JER) 2019 from the Commission and the Council, which analyses the employment and social situation in Europe and the policy responses by Member States (14442/18);
- the draft 'Euro Area Recommendation' (*Recommendation for a Council Recommendation on the economic policy of the euro area*) (14445/18) in which the Commission recommends improving the quality and composition of public finances and the rebuilding of fiscal buffers.

The package also include Opinions on whether the 2019 Draft Budgetary Plans (DBPs) of euro area Member States comply with the Stability and Growth Pact, as well as a first report on Greece under the enhanced surveillance framework.

The Annual Growth Survey 2019 underlines that the European economy is entering its sixth year of uninterrupted growth. Real convergence has resumed, with higher growth rates recorded in Member States with lower levels of GDP per capita. Robust growth and low interest rates supported a continued decline in national government deficits, which in most cases have returned to pre-crisis levels. Employment has risen to a record level of 239 million people and unemployment has fallen back to pre-crisis level.

However, the growth of the economy is still not benefitting all citizens and countries in the same manner and growth remains vulnerable to global instability and medium to long-term challenges. Investment and structural reforms need to focus even more on boosting productivity and growth potential.

Some Member States still experience high unemployment with household income below pre-crisis levels whilst others suffer from underemployment or skill shortages. In particular, the youth unemployment rate remains very high in some areas, well above 30 %, while more than 22 % of the total EU population are still at risk of poverty or social exclusion.

At the initiative of the Presidency, ministers held thematic debates on various topics related to the European Semester in different Council configurations (ECOFIN, EPSCO, Environment, Competitiveness).

The Presidency also participated in the European Parliament's Joint Debate on the European Semester (13 March 2019) and organised with the European Parliament, a European Semester Conference and an Interparliamentary Conference on Stability, Economic Coordination and Governance in the European Union, during the European Parliamentary Week (18-19 February 2019).

As in previous years, the Economic and Financial Affairs (ECOFIN) Council (on 22 January 2019) adopted conclusions on the Annual Growth Survey (AGS): macroeconomic and fiscal guidance to Member States ([5601/19](#)) and on the Alert Mechanism Report (AMR) ([5603/19](#)). It approved the euro area Recommendation on economic policy, to be transmitted to the European Council on 21-22 March for endorsement, ahead of the formal adoption by the Council on 9 April.

Ministers welcomed the Commission's AGS 2019 setting out the policy priorities for growth and jobs in the EU and its Member States. They broadly shared the Commission's analysis of the policy priorities on which national and EU level efforts should continue to concentrate in 2019: delivering high-quality investment, focusing reform efforts on productivity growth, inclusiveness and institutional quality, and ensuring macroeconomic stability and sound public finances.

The Council highlighted the importance of monitoring performance and policy implementation, including the implementation of the country-specific recommendations throughout the year.

Fiscal and macroeconomic policy orientations

The Council recognised that investment can help deliver on the EU's objective of moving towards a low-carbon, circular economy. It agreed that current economic growth should be used to frontload investment in the modernisation and decarbonisation of Europe's industry, transport and energy systems and at the same time lowering its environmental impact, and investing in education, training and skills.

Focusing reform efforts on productivity growth, inclusiveness and institutional quality

The Council stressed the crucial role of better productivity growth for Europe's sustained economic growth, but emphasised that there remained considerable differences in productivity performance across EU firms, regions and sectors, particularly service sectors, where productivity growth is failing to keep pace with international competition. Ministers reaffirmed that the European single market for goods and services remained the most powerful engine for growth and jobs, and further work on the Single Market, including the Digital Single Market, Banking Union, Capital Markets Union and Energy Union should be the common EU priority.

Ministers welcomed the fact that the 2019 AGS highlighted the importance of inclusive growth and stressed that Europe's ageing population is a challenge for pension, healthcare and long-term care systems.

Ensuring macroeconomic stability and sound public finances

Ministers agreed that the strengthening of fiscal sustainability of the Member States required differentiated national policies in full respect of the Stability and Growth Pact, taking into account fiscal space and spillovers across countries. They also agreed that improving the quality and composition of public finances was important for ensuring macroeconomic stability and was a crucial element of Member States' fiscal policy. It was also underlined that high debt levels remained a vulnerability that could lead to increased financing costs across the economy and which may constrain their ability to invest.

The ECOFIN Council (on 12 March 2019) had an exchange of views on the implementation of investment-related country-specific recommendations. Some Member States presented their experiences in this area. Concerns were expressed regarding the delayed release of the country-specific recommendations by the Commission. Similar concerns were reiterated by some ministers at the EPSCO Council on 15 March 2019.

Reducing poverty and social exclusion, improving the functioning of the labour market and social protection systems

Social aspects play an increasingly important role in the European Semester, as considerations of inclusiveness and fairness are key for creating jobs and growth, benefitting all citizens, strengthening trust in the EU and bolstering common European values.

As in previous years, the Employment and Social Affairs (EPSCO) Council (on 6 December 2018) held an exchange of views on the AGS package. Ministers agreed that while economic growth facilitated job creation and employment reached record level, reform efforts must persist and more should be done on reducing poverty and social exclusion.

Following an exchange of views on the theme 'The European Pillar of Social Rights – an initiative for improving the functioning of the labour market and social protection systems across the EU', the EPSCO Council (on 15 March 2019) adopted the Joint Employment Report 2019 ([6167/19](#)) and Conclusions on the 2019 Annual Growth Survey and Joint Employment Report ([6635/19](#)).

Reskilling and upskilling to ensure an inclusive labour market

The Council stressed the point that, despite the favourable economic climate and improvements in the social situation, there are signs of gaps in the inclusiveness of growth, as household incomes are growing at a slower pace, compared to GDP. The depth of poverty, as measured by the poverty gap, is deteriorating in several Member States

Ministers highlighted that in-work poverty remains persistently high and labour market segmentation continues to be a challenge in a number of Member States. Reskilling and upskilling continue to be key policy priorities for ensuring an inclusive labour market, and for realising the potential of rapid technological changes. Policies should continue addressing the skills mismatch, particularly in sectors most likely to be affected by emerging trends.

Ensuring equal opportunities for all and for strengthening social cohesion

The Council stressed that the labour market potential of currently under-represented groups should be fully exploited. The integration of people with a migrant background, the low-skilled, the young, and people with disabilities should be strengthened. Active ageing strategies enabling older workers to stay longer in the labour market would help answering the demographic challenge. It is of utmost importance to foster women's labour market participation by ensuring a better work-life balance, by closing gender pay gap, and by offering efficient childcare services.

Ministers highlighted that childhood education and care is an effective social investment to address inequality and the challenges faced by disadvantaged children. In addition, increased effectiveness and access to preventive actions, as well as quality curative healthcare, are key premises for a healthy and active population. Other services such as education, training and housing, alongside adequate income support and support for labour market (re-) integration for those who can work are essential for ensuring equal opportunities for all and for strengthening social cohesion. Further actions in the areas of tax design and benefit adequacy can contribute to the inclusiveness of growth and alleviate poverty.

The Council also held a policy debate on the social dimension of Europe post 2020. Ministers stressed the need to reflect on a new comprehensive strategic framework to guide policy-making once the Europe2020 Strategy expires. Any such strategic framework should have a continued strong focus on the social and employment fields, linked to other relevant policy domains. It should also be coherent with the European Pillar of Social Rights, and the UN Sustainable Development Goals.

Removing obstacles to high-quality investments and on monitoring regional disparities

The Competitiveness Council (on 18 February 2019) held an exchange of views on the European Semester, concentrating in particular on possibilities for removing obstacles to high-quality investments and on monitoring regional disparities.

Ministers welcomed the European Semester as an efficient and useful instrument for policy coordination. They underlined the efforts made in increasing productivity and competitiveness, while reducing the vulnerability of Member States' economies, as acknowledged by the Commission. Ministers pleaded for a closer coordination of the macroeconomic analysis carried out by the ECOFIN Council (which several ministers identified as the principal aim of the European Semester) and the microeconomic aspects monitored by the Competitiveness Council that should also find a suitable role in the process. Ministers called for more feedback between the Commission and Member States on the implementation of targeted improvements.

Some ministers criticised the Commission for extensively widening the scope of the European Semester to cover social and economic cohesion issues that, from their point of view, did not belong to the objectives originally foreseen for the European Semester. Others, however, saw a close link between cohesion policy and the structural reform process steered by the European Semester.

Greening the European Semester

The Council also discussed the European Semester from an environmental perspective. The Environment Council (on 5 March 2019) held an exchange of views on greening the European Semester. Ministers reaffirmed that the European Semester was a unique opportunity to integrate environmental concerns into broader economic and investment policies and, in this regard, welcomed the AGS 2019. In particular, ministers welcomed the AGS 2019 recognition that well-targeted public and private investment should go hand in hand with a well-designed set of structural reforms so as to ultimately deliver on the EU's objective of transition towards a low-carbon, circular economy, in support of long-term sustainability.

Current economic growth should translate into investments that contribute to the modernisation and decarbonisation of Europe's industry, transport and energy policies, thereby, fulfilling the Union's commitment to the Sustainable Development Goals and the Paris Climate Agreement. In this context, ministers recalled that the next Multiannual Financial Framework should be mainstreaming spending of at least 25 % on environment and climate action across all EU programmes.

The scale of the investment challenge, however, is beyond the capacity of the public sector alone and the private sector also has a key role to play in reaching those goals. In this respect, ministers emphasised the progress achieved in the negotiations of the legislative proposals to implement the Union's action plan on sustainable finance, notably, on the development of a 'taxonomy' for what can be considered an environmentally sustainable economic activity and the creation of low-carbon and positive carbon benchmarks. Ministers also reiterated their call for quantifiable, measurable and trackable sustainability objectives to be integrated into the European Semester.

Finally, ministers discussed measures to further improve the environmental administrative capacity. Environmental authorities often lack capacity and resources which, in turn, affects the capacity for identifying, assessing and implementing sustainable investments and related projects. Measures identified included training for the administration and relevant stakeholders, digital and smart management and the setting up of practitioner platforms and networks for Member States to share knowledge.
