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NOTE

From: Employment and Social Protection Committees
To: Permanent Representatives Committee/Council

Subject: European Semester: Horizontal note on employment and social policy
aspects of Country Specific Recommendations
Policy debate

Delegations will find attached the background horizontal note for the policy debate drafted by the
Employment and the Social Protection Committees.

The 2019 CSR package, key messages from the 2018-2019 Multilateral Surveillance and taking stock of 10 years of Europe 2020

Chapter 1: The 2019 CSR proposals from the Commission

Europe's economy is expected to continue growing this and next year, albeit at a slower pace. Private investment has returned to its pre-crisis level and is set to continue expanding, but at a slower pace, whereas public investment remains below its pre-crisis level. Employment has reached its highest ever-recorded level, though with considerable divergences between countries. While remaining markedly above its pre-crisis level, overall public debt has declined.

The Commission indicates that the correction of macroeconomic imbalances is taking place but further policy action is required. While large external deficits have been corrected, large current account surpluses, despite some modest signs of adjustment, persist in several countries.

The Commission's assessment is that Member States with current account deficits or high external debt need to sustain improvements in competitiveness, while Member States with large current account surpluses should strengthen the conditions for wage growth and investment.

After 8 years of the Semester, reform implementation remains uneven. The Commission indicates that more than two thirds of the CSRs issued until 2018 have seen at least "some progress" in implementation. Annual progress with the implementation of the 2018 CSRs is lower than in previous years. In view of the remaining economic and social challenges and downside risks to the economic outlook, stronger reform prioritisation and implementation of reforms are crucial to strengthen the resilience of EU economies, to strengthen sustainable and balanced growth, tackle macroeconomic imbalances, and deliver sustained economic and social convergence.

The Commission's 2019 CSR proposals encourage Member States to increase growth potential by modernising economies and further strengthening resilience. The proposals again promote the "virtuous triangle" of (i) boosting investment, (ii) pursuing effective reforms that foster sustainable and inclusive growth, and (iii) sound fiscal policies. The Commission underscores the need for both a stronger reform momentum and the prioritisation of reforms aimed at sustainable and inclusive growth. This includes increasing the impact and scale of innovation and ensuring the quality and labour market relevance of skills. Fostering social inclusion, protecting and promoting investment, and raising the quality of public finances are key to smoothen the impact of slower growth on employment and inequality. The proposed CSRs place particular focus this year on facilitating investment. All the Member States received a draft investment related recommendation. The Council has already recognised that investment is crucial for delivering the EU's objective of a low-carbon, circular economy¹ and has reiterated that further structural reforms should be prioritised to remove bottlenecks to investment, increase growth potential, further improve the institutional and business environment, and strengthen both administrative efficiency and regulatory quality².

Public finances and taxation: the proposed recommendations call for the rebuilding of fiscal buffers in Member States with high levels of public debt and increasing the public investment in those Member States where fiscal space is available and where investment levels are deemed to be low. The impact of an ageing population poses sustainability and adequacy challenges which calls for reforms of the pension and healthcare systems as proposed in the CSRs for a number of Member States.

¹ European Semester 2019 - Annual Growth Survey: Macroeconomic and Fiscal Guidance to Member States – ECOFIN Council conclusions

² ECOFIN Council conclusions on In-depth reviews and implementation of the 2018 Country Specific Recommendations

Labour market, education and social policies: While labour market conditions keep improving, there are still considerable divergences between countries, regions and population groups, with some Member States experiencing labour shortages, whereas others are still affected by high unemployment rates. Wage growth is picking up at differentiated speeds, whilst real wage developments for the euro area as a whole remain moderate. The proposed CSRs promote targeted investment to strengthen the effectiveness of active labour market policies. Alongside this, some Member States are recommended to tackle the high share of workers on temporary contracts or atypical working arrangements, including by promoting transitions towards open-ended jobs. Gender inequalities persist, often due to a lack of affordable childcare and long-term care, as highlighted in a number of recommendations.

Investing in human capital is key to boosting productivity and growth. The proposed CSRs promote the strengthening of education and training systems in many Member States, including by improving their labour market relevance, by promoting adult learning and by increasing the capacity of vocational education and training. Additional efforts are needed to improve quality and inclusiveness of education and training systems.

Poverty is declining, but it remains high in some Member States, including in-work poverty. Moreover, some vulnerable groups, such as children, people with disabilities and people with a migrant background, face persistent challenges. Many CSRs are proposed to improve the coverage, adequacy or effectiveness of the social protection systems, including minimum income schemes, and to foster access to quality social services. Recommendations to enhance the adequacy and sustainability of the pensions systems, as well as to ensure the accessibility, affordability, and quality of sustainable healthcare for all, feature prominently in the 2019 Country Specific Recommendations.

Investment, competitiveness policies, and (an) improved business environment to deliver higher productivity: The proposed CSRs place additional focus on investment, with the intention to single out investment priorities with high macroeconomic return, and take into consideration regional and territorial disparities. They also point to regulatory and structural bottlenecks that hinder both public and private investment and long-term and inclusive growth potential. The Commission also promotes the opportunity of utilising EU funds to help address the investment needs identified in the proposed CSRs. With a stronger proposed policy link between the European Semester and EU funding for 2021-2027, the exercise of programming the next cohesion funds is crucial. The dialogue with national authorities has just begun and the Commission stresses that the proposed CSRs provide an analytical framework to inform the programming of EU funds.

Further structural reform priorities outlined by the Commission include strengthening financial stability and reducing non-performing loans, addressing bottlenecks in housing supply, addressing sector-specific regulation and lowering the administrative burden.

The Council has called on Member States to take advantage of the relatively favourable economic climate to push forward with structural reforms to strengthen sustainable and balanced growth, tackle macroeconomic imbalances, and deliver sustained economic and social convergence.

Chapter 2: Key messages on employment and social policies – lessons from the Multilateral Surveillance of Member States’ policy reforms

As employment is at a historic high and presently continues to grow even if at a slower rate, it becomes increasingly important that jobs are of good quality, fairly paid and based on secure and adaptable contracts. This is essential for ensuring that the benefits of economic growth are more broadly shared: nobody should be left behind. Reaching out for the groups with lower than average performance and those most in need and focusing on continuous investment in education and skills would allow further progress towards increased participation of people in the labour market and society and provide an opportunity to adapt to a changing world of work, while supporting the competitiveness of our economies.

Whilst poverty and social exclusion is on a clear downward trend overall, it remains persistent in many Member States, regions and groups, and tends to be transmitted down generations. Labour markets and societies are evolving quickly, with new opportunities and new challenges arising from globalisation, the digital revolution, changing work patterns and environmental, societal and demographic developments. Challenges, such as inequality, long-term and youth unemployment as well as ensuring intergenerational fairness, are often similar across Member States although in varying degrees.

In that context, social protection, social inclusion, as well as sustainability should remain guiding principles in the design of policies across all relevant domains. Access to social protection and social services should be a right available to all while preserving incentives to work for those in a position to do so. Adequate and sustainable pensions systems, inclusive quality education, as well as investment in childcare, health and long-term care systems that guarantee access to timely, high quality and affordable care are required to ensure the well-being of all Europeans and to cope with the demographic pressure.

Multilateral surveillance, which consists of peer reviewing in the EPSCO Advisory Committees the state of play of reform implementation in Member States, is one of the core tasks of the **Employment Committee and Social Protection Committee** in the context of the European Semester process. Multilateral surveillance plays an essential role within the European Semester framework, ensuring that the knowledge base and policy consensus achieved in Council on interrelated challenges is used in assessment and support of Member State reforms.

In the framework of the 2018-2019 cycle of multilateral surveillance, the Committees concluded that Member States continue making reform efforts, but progress concerning the implementation of the 2018 Country Specific Recommendations varies across Member States and policy areas. With a view to the current economic outlook, the Committees underline that there is an urgent need for the Member States to renew and accelerate their reform efforts with the aim of upward social convergence and increasing economic resilience. Mutual learning, which fosters the exchange of best practice between Member States, should be encouraged to the fullest extent.

The European Pillar of Social Rights should function in this framework as a compass for the wider efforts in the European Semester to build a more inclusive and sustainable growth model by improving Europe's competitiveness and making it a better place to invest, create jobs and foster social cohesion, while respecting national competences. Economic and social progress are intertwined. The holistic approach followed in the European Semester should therefore continue to guide efforts to assess and support Member States' reforms and the composition and quality of their broader policy mix.

Chapter 3: Progress towards the Europe 2020 targets

Launched almost 10 years ago the Europe 2020 strategy emphasises smart, sustainable and inclusive growth as a way to strengthen the EU economy, foster job creation and promote social cohesion, and prepare for the challenges of the decade ahead. The headline targets cover five areas: employment, research and development, climate change and energy, education and poverty and social exclusion. Amidst the changing economic conditions encountered during this decade, the success of the Europe 2020 strategy in achieving these targets has been mixed.

Since 2008, substantial progress has been made in the area of *climate change and energy* yet much more needs to be done: the greenhouse gas emissions target of a 20% reduction relative to the 1990 level has been met, with a more ambitious target on the horizon. The gap to the 20% share of renewable energy is steadily narrowing and, if the current trend continues, will be closed by 2020. The share of renewable energy in gross final energy consumption was 17.0% in 2017³ having increased on average 5.5% per year since 2008. Similar progress is being made on the target for a 20% increase in energy efficiency, which should be reached by 2020 if current trends continue.

³ 2017 being the latest available Eurostat figures.

Positive developments are also visible in the area of *education*. According to the most recent data, the 40% target of population aged 30-34 with tertiary education was surpassed⁴ in 2018, though a number of Member States are still below their national targets. The share of early leavers from education and training, aged 18-24 has declined steadily since 2010 and is only around half a percentage point above the 10 % target⁵. Nevertheless, the positive trend seems to have flattened during the past couple of years and some further policy effort will be necessary to reach the target.

Due to the increasing labour market participation and the job-rich nature of the recovery in recent years, the *employment rate* target of 75% may be within reach if the positive trend visible since the second half of 2013 continues⁶. Indeed, a number of Member States have already surpassed the target. Older workers and women continue to drive the increase in labour market participation. Yet, these positive developments hide still low employment rates in some Member States and among some population groups, highlighting the opportunity for stepping up reforms aimed at a better functioning of labour markets.

Against a background of improving economic performance and employment growth, there has been clear progress in the social situation. However, challenges remain with regards to the target of lifting 20 million people out of the risk of **poverty and social exclusion**. The number of people at risk increased in the early years of the strategy, particularly in the crisis period, turning to a slow decline after 2012. Since 2016 more substantial progress started to show, with more than 5 million people being lifted from poverty in one single year. Nevertheless, by the end of 2017 the number of people at the risk of poverty was only 4.2 million less than in 2008. As with the achievement of the employment target, the final outcome in this area is sensitive to the overall economic outlook.

Finally, in the domain of research and development, Europe continues to invest too little. Progress towards the *R & D investment* target has been on average positive but much slower than could have been hoped for. With the latest figures indicating a rate of R&D investment of slightly above 2% of GDP, the gap to the 3% target remains considerable and will not be closed by 2020.

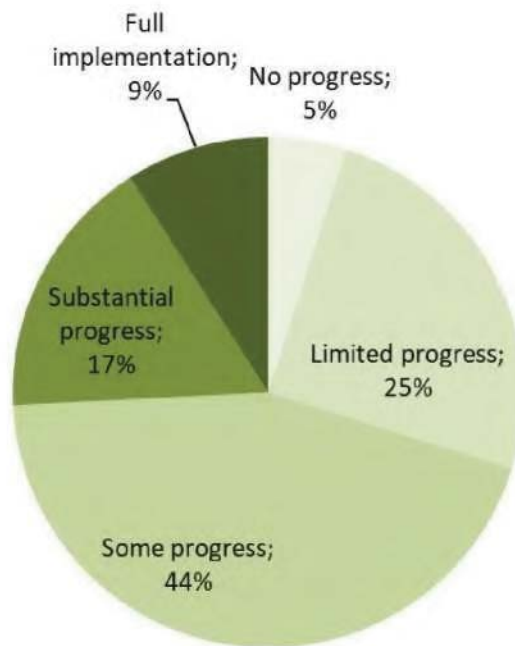
⁴ In 2018, the target population aged 30-34 with tertiary education reached 40.7%

⁵ The share of early school leavers from education and training aged 18-24 stood at 10.6% in 2018

⁶ The employment rate (20-64) reached 73.2% in 2018. Employment growth is expected to continue with a slower pace amid the weakening economic outlook

Annex: Graphs on CSR implementation⁷ and Europe 2020 performance⁸

Figure 1: European Commission assessment of the level of implementation of the 2011-2018 CSRs



⁷ Source: European Commission COM(2019) 500 final 2019. Chapeau Communication – 2019 European Semester country Specific Recommendations.

⁸ Source: Eurostat indicators to support the Europe 2020 strategy (2019)

Figure 2: European Commission assessment Implementation of country-specific recommendations: annual assessment in each consecutive year since 2011 versus implementation to date

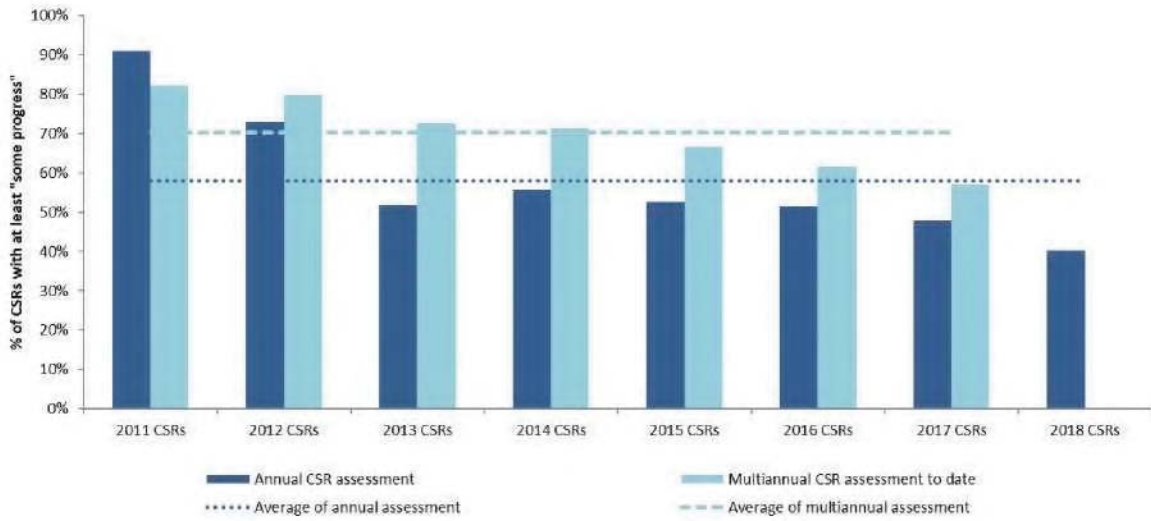


Figure 3. Progress towards the EUROPE 2020 target – Greenhouse gas emissions

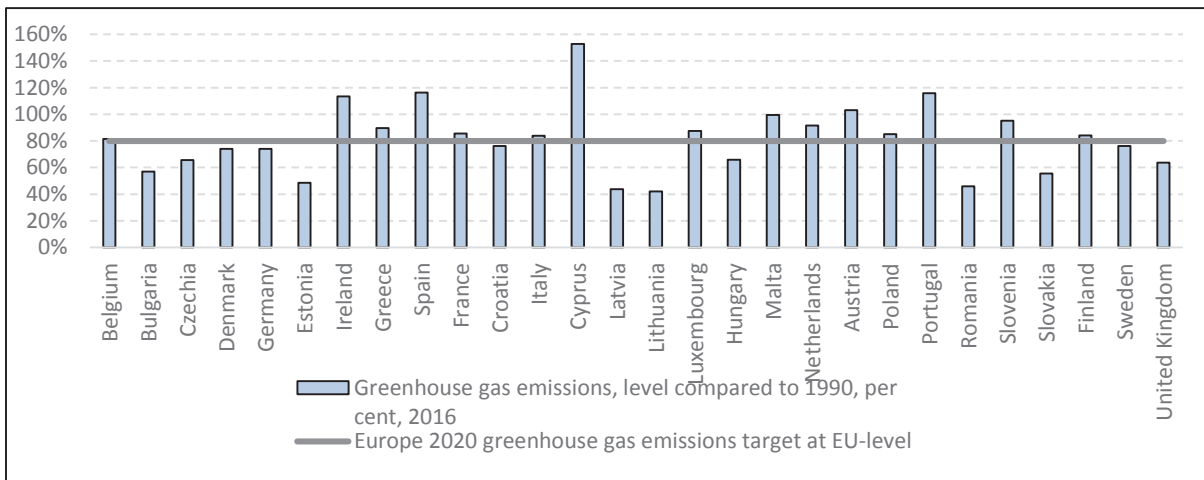


Figure 4. Progress towards the EUROPE 2020 target – Renewable energy

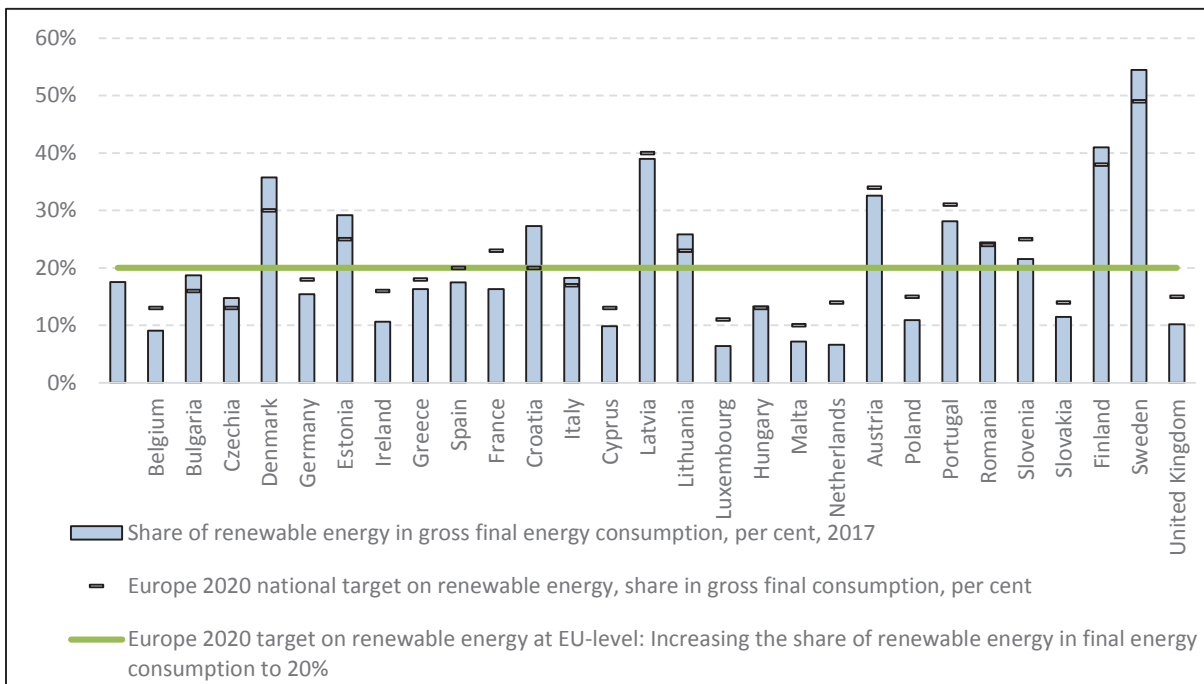


Figure 5. Progress towards the EUROPE 2020 target – Energy efficiency

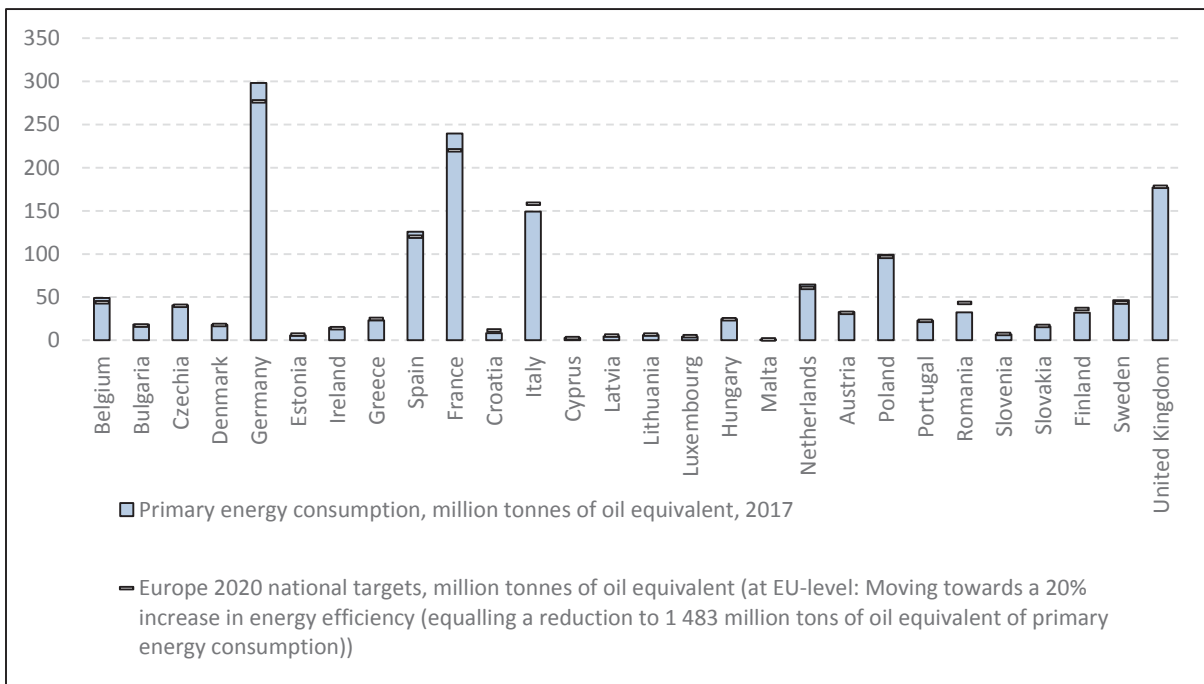


Figure 6. Progress towards the EUROPE 2020 target – Reducing early school leavers

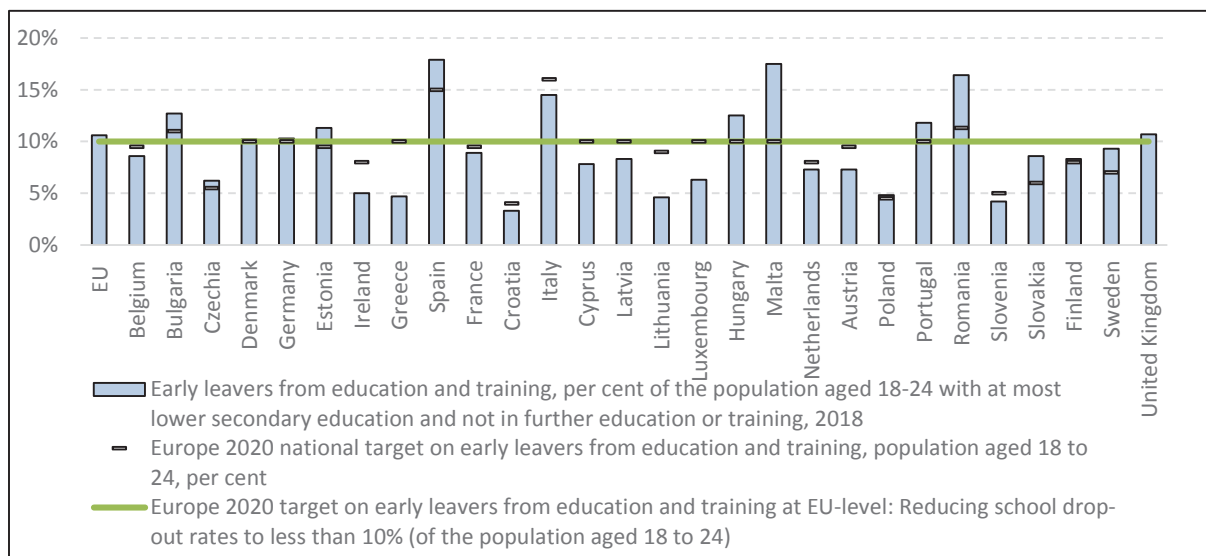


Figure 7. Progress towards the EUROPE 2020 target – Tertiary education attainment

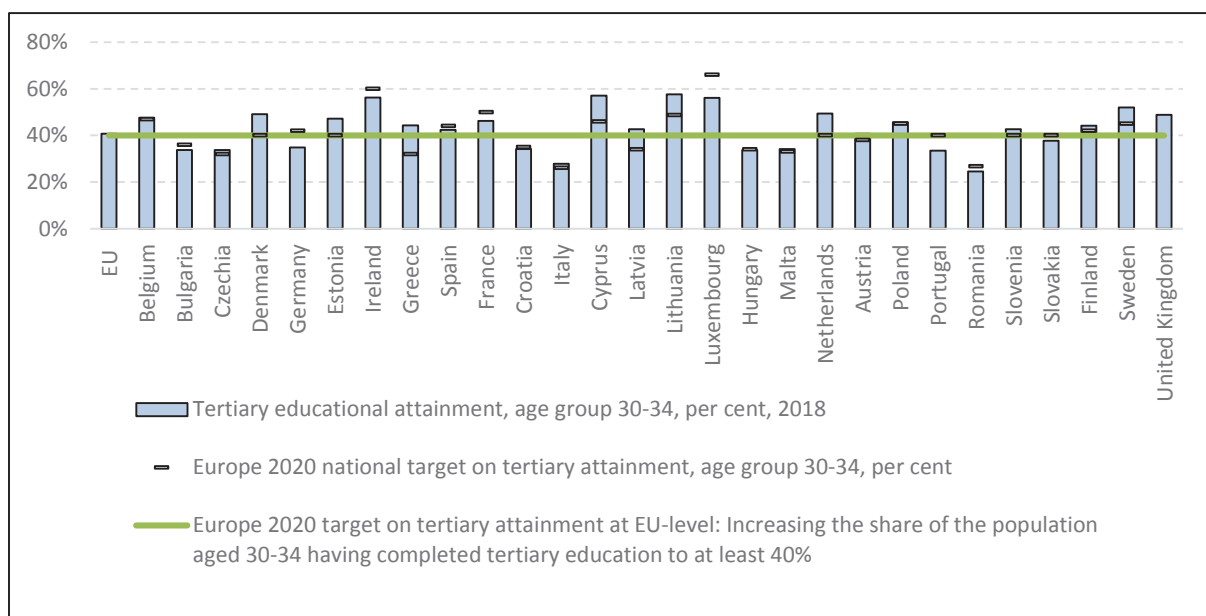


Figure 8. Progress towards the EUROPE 2020 target- Employment rate

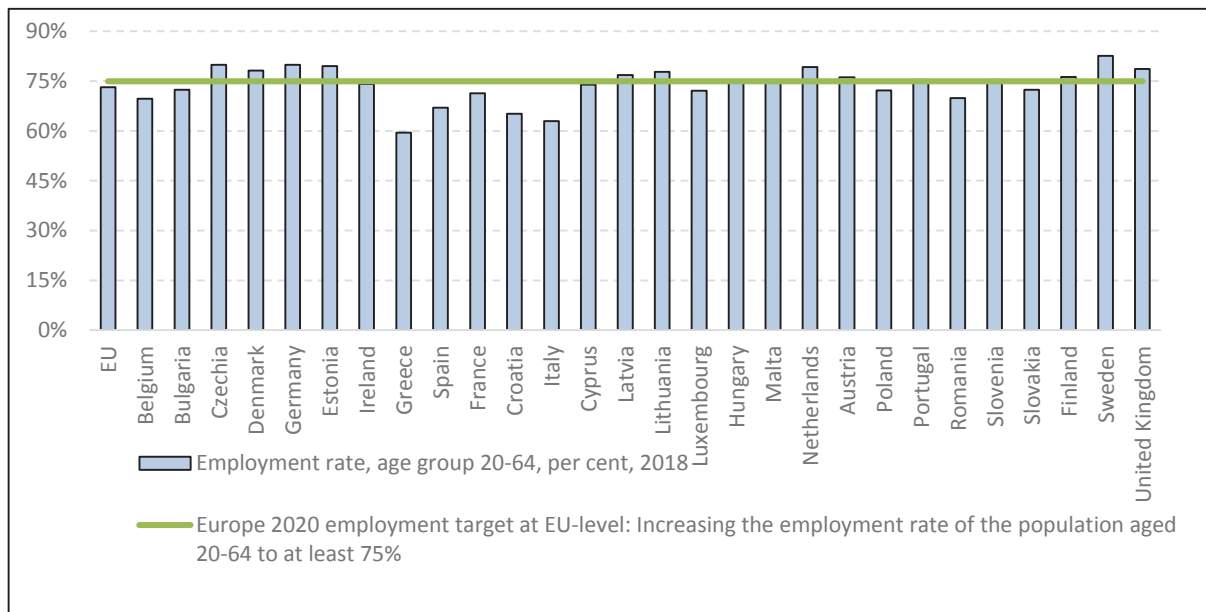


Figure 9. Progress towards the EUROPE 2020 target - Poverty and social exclusion

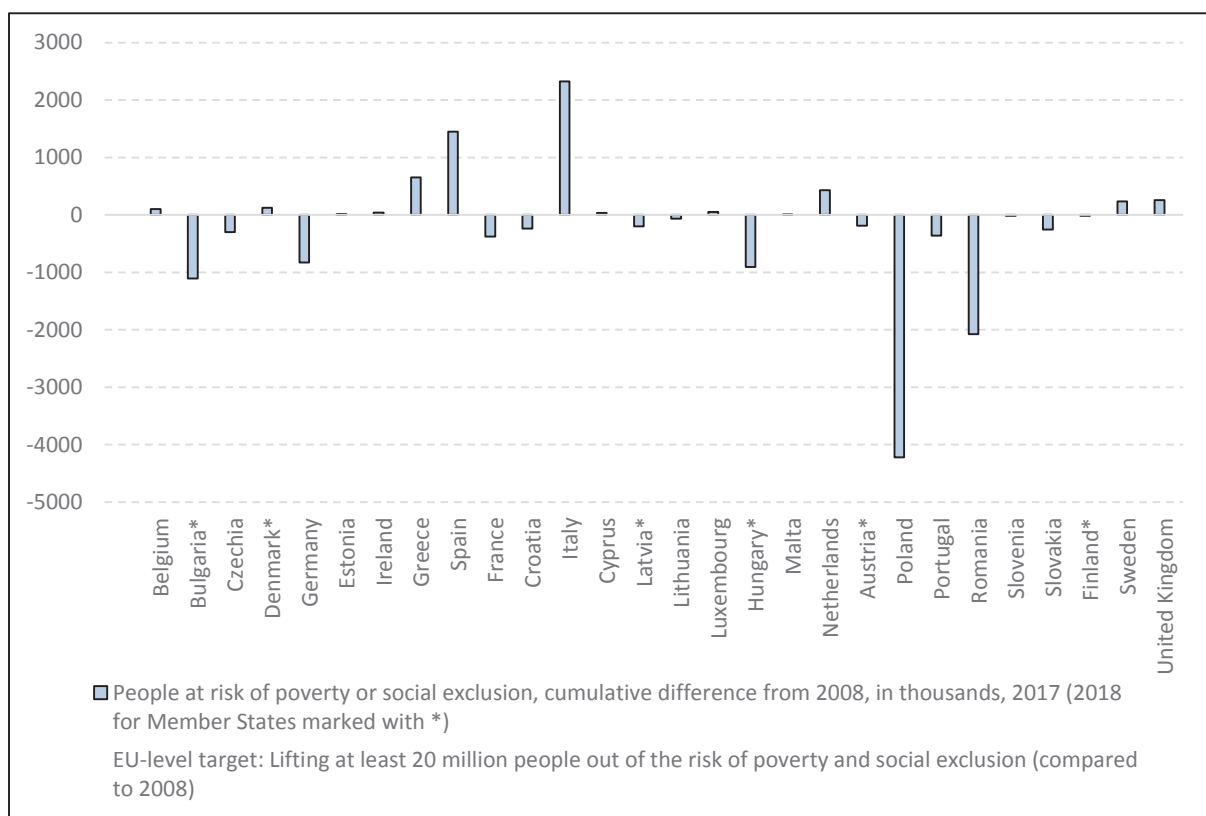


Figure 10: Progress towards the EUROPE 2020 target – Gross domestic expenditure on research and development

