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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	European Semester - Horizontal report on Country-Specific Recommendations

Delegations will find attached the Horizontal report on Country-Specific Recommendations (CSRs) 2019 prepared by the Presidency.

Horizontal report on Country-Specific Recommendations (CSRs)

I. Introduction

This report brings together main aspects of the Horizontal note on employment and social policy aspects of CSRs[1], which is a basis for the policy debate at the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) on 13 June 2019, and of the Horizontal note on economic and financial policy aspects of CSRs[2], which constitutes the groundwork for the policy debate at the Economic and Financial Affairs Council (ECOFIN) on 14 June 2019. The horizontal notes were prepared by the relevant committees (Economic Policy Committee, Economic and Financial Committee, Employment Committee and Social Protection Committee) and were agreed by delegations.

The report will be completed after EPSCO and ECOFIN debates with the summary of the key points highlighted by the ministers. The General Affairs Council (GAC) on 18 June 2019 will endorse the report and transmit it to the European Council. In July, the committees will continue their work on the CSRs. Finally, EPSCO will approve the CSRs on 8 July and ECOFIN will adopt them on 9 July.

This exceptional approach, which deviates from the established European Semester practice, was proposed by the Presidency in the context of the delayed publication of the CSRs (5 June 2019) and was agreed by GAC on 19 March 2019[3]. This practice cannot, in any circumstances, constitute a precedent.

[1] 9879/18
[2] 9956/19
[3] 12451/2/18

II. The 2019 CSRs proposals from the European 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 eight 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 CSRs 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 economy[4] 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 quality[5].

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.

[4] 5601/19
[5] 9021/19

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.

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 CSRs.

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. 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.

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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[6].

Delegations have already expressed support for the Commission's analysis of the socio-economic challenges facing Europe and broadly agree that concrete policy action would address these challenges. Delegations broadly welcome the policy guidance in the draft CSRs.

6 5601/19

III. Investment, financial markets and fiscal policy priorities across the EU Member States

Delegations broadly welcome the focus on investment and reform needs. There is a series of bottlenecks that impede investment, ranging from getting hold of the right skills, to business environment impediments like sector specific regulations, ineffective insolvency frameworks and so forth. The opportunity provided by the current period of economic growth should therefore be used to promote investment *inter alia* in the modernisation and transition to climate-neutrality of Europe’s industry, transport and energy systems and in education, training and skills. European Funding can play an important role for a number of Member States in addressing investment needs. The proposed CSRs provide guidance to inform the programming of EU funds for the 2021-2027 period, whilst stressing the need to maintain sufficient flexibility that allows Member States to tailor funding to country specificities.

<u>Financial markets</u>: While the robustness of the financial sector has increased since the crisis, vulnerabilities remain to be addressed. In particular, the enforcement and supervision of the anti-money laundering framework needs to be further strengthened.

<u>Strengthening fiscal sustainability</u>: Improving the quality and composition of public finances is also an important element of Member States’ fiscal policy. The Commission's proposed CSRs set a required fiscal adjustment effort consistent with the Stability and Growth Pact for Member States that have not yet reached their medium-term budgetary objective. For Member States that have adequate fiscal space and low levels of investments the Commission recommends increasing public investment to support growth and facilitate economic rebalancing.

IV. Employment and social policies - lessons from the Multilateral Surveillance of Member States' policy reforms

Delegations agree that 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. 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.

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.

In the framework of the 2018-2019 cycle of multilateral surveillance, it was underlined 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. 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.