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From:	The Employment Committee
To:	Permanent Representatives Committee (Part 1)/Council
Subject:	Key messages from the Employment Committee based on the Annual Employment Performance Report and Employment Performance Monitor – Endorsement

Delegations will find attached the key messages from the Employment Committee (EMCO) based on the Annual Employment Performance Report (AEPR) and Employment Performance Monitor (EPM), with a view to their endorsement by the Council on 17 October 2022.

The full AEPR can be found in doc.: 12990/22 ADD 1.

The EPM can be found in doc.: 12990/22 ADD 2.

Key Employment Challenges: Key messages from the Employment Committee (EMCO) based on the 2022 Annual Employment Performance Report and the Employment Performance Monitor

1. In line with its mandate as per Article 150 TFEU, the Employment Committee has produced an annual review of the employment situation in the EU for the Council. This review is based on the 2022 Employment Performance Monitor (EPM¹), which was developed to monitor progress towards the targets and to identify key employment challenges and good labour market outcomes across the EU and in each Member State.
2. The 2022 EPM incorporates for the first time the 2030 EU headline targets on employment and adult learning proposed by the European Commission in the European Pillar of Social Rights Action Plan and welcomed by the EU Leaders at the Porto Social Summit in May 2021 and by the June 2021 European Council, as well as the related national targets set by the Member States, following discussions with the Commission services, and presented at the June 2022 EPSCO Council. The inclusion of the 2030 targets and the revised set of Social Scoreboard headline indicators, endorsed by EPSCO in June 2021, necessitated a number of adjustments to the 2022 edition of the EPM².
3. EMCO and the EMCO Indicators Group will continue reflecting on their monitoring tools, in line with the EPSCO Council's call in March 2022³ to the Employment Committee and the Social Protection Committee (SPC) to continue their work on developing monitoring and benchmarking frameworks, and on further aligning existing monitoring tools.

¹ The EPM builds on the findings of the Joint Assessment Framework (JAF). The JAF is an indicator-based assessment system prepared jointly by the Employment Committee, the Social Protection Committee (SPC) and the Commission, covering general and specific policy areas under the Employment Guidelines, and aiming to identify at a glance key challenges and good labour market outcomes in these areas and support Member States in establishing their priorities.

² Besides the change from 2020 to 2030 headline and national targets, the main change to this year's EPM is the addition of the NEET rate of the 15-29 age group, in line with the Social Scoreboard headline indicators and the Reinforced Youth Guarantee.

³ See Council Doc. 6933/22.

4. The main findings of the 2022 EPM are summarised in the 2022 Annual Employment Performance Report (AEPR). These complement the conclusions of the Employment Committee's multilateral surveillance of the implementation of the Council's Country Specific Recommendations (CSRs) and other Council Recommendations within the framework of the European Semester.
5. Labour markets, in particular in some Member States, took a hit in 2020 due to the coronavirus pandemic and the measures needed to contain it. Nonetheless, the impact of the COVID-19 crisis on the labour market has been cushioned by swift and decisive policy action at Member State and the EU level. The 2022 EPM findings indicate that the economic recovery from the COVID-19 crisis was strongly felt in the labour market in 2021. Both the EU headcount employment and total hours worked rebounded significantly during the year.
6. The EU employment rate for people aged 20-64 resumed its upward trend in 2021 and settled above the pre-COVID level at 73.1%, from 71.7% in 2020 and 72.7% in 2019. In almost all Member States the employment rate (20-64) registered an improvement in 2021 compared to 2020. Moreover, in 2021, in 16 out of the 27 EU Member States, the employment rate (20-64) reached or exceeded the pre-pandemic level recorded in 2019.
7. After a 0.9 pp (year-on-year) decline in 2020, the EU-27 activity rate for the 15-64 age group showed an increase in 2021 to 73.6%, compared with 72.3% in 2020, mainly driven by the labour market participation of women and of the 55-64 age group. Nevertheless, the activity rate of women (aged 15-64) remained almost 10 pps lower than that of men in the same age group.
8. The unemployment rate (for people 15-74 years old) declined by 0.2 pp in the EU in 2021 to 7%. Moreover, the EU unemployment rate for the 15-24 age group declined by 1 pp in 2021 to 16.6% (however it remains above the 2019 level by 1 pp). The COVID-19 crisis has impacted young people comparatively more strongly, also because they are overrepresented in temporary employment which has been particularly affected. The rate of people aged 15-29 who are neither in employment nor in education and training (NEET) registered a 0.9 pp decline in the EU in 2021 to 13.1% from 14% in 2020 and 12.9% in 2019.

9. The Commission Summer 2022 Interim Economic Forecast, published in July, projects that real GDP in the EU will grow by 2.7% in 2022 and 1.5% in 2023. This is less than expected in the Spring 2022 Forecast published in May, with risks for economic activity and inflation depending on the evolution of the war in Ukraine and in particular its implications for gas supply to Europe. According to the Spring Forecast, employment in the EU is projected to grow by 1.2% this year and by 0.7% in 2023, while unemployment rates are forecast to decline further, to 6.7% this year and 6.5% in 2023 in the EU. Employment figures in the first quarter of 2022 are very positive but they do not (fully) reflect the impact of the war in Ukraine. Moreover, people fleeing the war to the EU are expected to enter the labour market only gradually, with tangible effects becoming visible only from next year.
10. On 4 March 2021, the European Commission published its Communication on the European Pillar of Social Rights Action Plan, outlining concrete actions to further implement the Pillar principles through a joint effort by the Member States and the EU in line with their respective competences. The Action Plan proposed, inter alia, three EU headline targets on employment, adult learning, and poverty reduction to be achieved by the end of 2030: at least 78% of the population aged 20 to 64 should be in employment; at least 60% of all adults (aged 25-64) should participate in learning and training every year; the number of people at risk of poverty or social exclusion should be reduced by at least 15 million (compared to 2019).
11. The European Commission also called on Member States to define their own national targets on employment, adult learning and poverty reduction to frame their policy strategies and contribute to the common endeavour. By June 2022, all Member States had identified and submitted national targets to the Commission, after bilateral discussions with the Commission services and two multilateral discussions in EMCO-SPC in the previous months. These national targets were presented and discussed by the EPSCO Ministers during the June 2022 meeting.

12. The national employment rate targets put forward by Member States tend to display overall a very good level of ambition. Most Member States have set targets at or above the EU headline target of 78% by 2030 and, based on the submitted targets, meeting the 2030 EU headline target on employment is within reach (the weighted average of the national targets amounts to 78.5%). On average Member States with low initial employment rates set more ambitious targets, considering their starting position, which is important to ensure upward convergence over the decade to come. The employment rate in 2021 was already higher than the EU headline target of 78% in 8 Member States.
13. Most Member States show high levels of ambition on their national targets to increase participation in adult learning, reflecting the challenges and opportunities ensuing from the green and digital transitions. This is notably the case for many countries that start from lower levels, thus supporting upward convergence in the Union. Importantly, the latest indicator values on adult participation in learning during the past 12 months are available for 2016, from a special Adult Education Survey extraction. After the transition to the EU Labour Force Survey as a new data source in 2022, new values will be available in 2023. For this reason, some Member States have chosen a cautious approach in setting their national targets. Aggregating the submitted national targets (using population weights) shows a relatively small shortfall of around 2.4 pps in relation to the EU-level ambition by 2030 (57.6% versus 60%).

14. In terms of thematic priorities for Member States, the reading of the 2022 EPM points to a number of key employment challenges (KECs). In the area of skills and lifelong learning, these are principally related to skills mismatches and low participation in training. With regard to the education and training systems, main issues are the dependence of educational outcomes on socio-economic background and low attainment of basic skills. Challenges are identified in the area of labour market participation, including for specific groups. Some countries show challenges related to the functioning of unemployment benefits and/or the impact of tax and benefit systems on labour market participation (e.g. low wage traps, unemployment traps). In the gender equality area a main concern is the persistence of gender employment gaps, while in the work-life balance domain the provision and uptake of care facilities and the impact of parenthood on labour market participation are key issues. Labour market segmentation also remains a concern for some Member States, while further challenges are identified in the area of Active Labour Market Policies (ALMPs) and the functioning of Public Employment Services (PES).
15. The analysis also identifies common EU "trends to watch" and "positive recent trends". In particular, the EPM highlights a number of positive developments for the period 2020-2021: an increase in total employment in 18 Member States; an increase in the employment rate of people aged 20-64 in 21 countries; an increase of the share of adults with medium or high education in 17 Member States; an increase in the completion of tertiary or equivalent education in 13; an increase in participation in life-long learning (percentage of adult population aged 25-64 participating in education and training over the past 4 weeks) in 22 countries. Some of these annual trends are confirmed by the analysis of longer-term developments over three years.
16. However, the EPM also identifies a number of negative trends for the 2020-2021 period: an increase in inactivity and part-time work due to personal and family responsibilities in 13 Member States; an increase in the at-risk-of-poverty rate of the unemployed in 11 and an increase in the NEET rate for young people aged 15-24 in 11 countries.

17. EMCO recalls that its horizontal opinion on the 2022 cycle of the European Semester for the June 2022 EPSCO Council noted that the release of the 2022 Spring package, adopted by the Commission on 23 May, presents a welcome return to a comprehensive European Semester, including Country Reports and non-fiscal Country-Specific Recommendations to Member States. However, the number of CSRs in the areas under EPSCO competence, for example those concerning employment challenges, is more limited than in past Semester cycles. EMCO acknowledges that this reflects the comprehensive nature of the Recovery and Resilience Plans (RRPs) prepared under the Recovery and Resilience Facility (RRF).
18. In the area of employment, the Spring Package contained 7 CSRs on education and skills, which are particularly important in view of tackling skills shortages and mismatches and ensuring inclusive and sustainable growth in the post-COVID context and in light of the need to ensure “fair” green and digital transitions. Attention was also given to fairness in taxation (5 CSRs), which can support a more inclusive and sustainable growth model and reduce disincentives to work, as well as to labour market integration and participation, including by enhancing gender equality (3 CSRs) and continuing the integration of the most vulnerable groups (3 CSRs), as well as addressing labour market segmentation (2 CSRs). Two CSRs were also proposed on improving effective social dialogue via a more active involvement of social partners in policymaking, while no specific recommendations were proposed on youth employment or wages and wage setting. Moreover, the Spring package included horizontal references to the necessity to address the immediate needs of people fleeing Ukraine by mentioning the Temporary Protection Directive triggered in March 2022. The EPSCO Council approved in June 2022 the employment and social policy aspects of the CSRs. The 2022 CSRs have been adopted by the Council in July 2022.
19. EMCO’s recent multilateral surveillance work indicates that Member States have carried out reforms in all policy fields identified by the EPM as priority areas, but challenges still remain, as is also underlined by the 2022 CSRs.

20. Member States have introduced or are planning to introduce measures to strengthen upskilling and reskilling policies, digital training, expand support to disadvantaged and vulnerable groups, and increase the number of staff working in PES. New Active Labour Market Policy (ALMP) delivery models should be properly developed, also in the view of ensuring an integrated support to those furthest away from the labour market. Similarly, outreach to some groups (including the low-skilled, women, youth and older workers) remains a challenge in many Member States, while in order to better inform policy-making, many Member States also need to strengthen their ALMPs monitoring and evaluation systems.
21. The crisis has not radically changed the main trends of labour market segmentation that often impact on disadvantaged groups. Temporary workers were the most exposed to job losses at the height of the crisis due to their lower protection to economic shocks. In many Member States the share of involuntary temporary workers remains high (despite decreases related to the impact of the crisis) and the conversion rates of temporary or non-standard contracts into permanent contracts remain very low, indicating the presence of structural barriers impeding smooth transitions in the labour market. The share of dependent self-employed workers remains at a high level in several countries and requires specific attention. Effective employment protection legislation remains a key element to prevent or reduce regulatory gaps between standard and atypical employment and tackle segmentation. This is also important as regards new forms of work such as platform work, for which proper regulation is important to ensure fair working conditions.
22. Regarding labour taxation, in the context of the crisis Member States have been adjusting labour taxes and incentives in order to increase the labour market participation of vulnerable groups. The tax burden on labour has been strongly alleviated in some Member States, in particular for low and middle incomes, sometimes through comprehensive reforms of the tax systems. Some Member States also reported on the progress made in reducing disincentives to work for second earners related to features of the tax-benefits systems.

23. In a context of recovery after the pandemic, and despite the negative economic outlook related to the impact of the war in Ukraine, European labour markets are confronted with increasing labour shortages and skill mismatches. In response to this, Member States have stepped up their efforts to promote skills development across different stages of the education and training systems, with a special focus on digital skills. Many Member States have adopted or are adopting broad reforms of vocational education and training (VET), including with a view to integrating VET into a more comprehensive adult learning system aligned with the labour market needs. In addition, measures have been adopted to increase the flexibility of VET, for instance by strengthening its modularity.
24. Low participation of adults in education and training will require renewed efforts in the light of the related 2030 EU target. Obstacles to participation in learning and training include lack of motivation, financial constraints, as well as difficulties to reconcile training time with work and private life. Reforms in this area are being undertaken across Member States, some with a very comprehensive and long-term vision. In most countries, the investment in digital infrastructures in recent years has made it possible to increase the provision of distance learning. In other cases, micro-credentials or modular training have been introduced. Other Member States make use of financial incentives, also in the form of individual training accounts, to encourage adults to take-up learning opportunities. Many Member States also strengthened training provision for people in employment and especially those at risk of displacement.
25. As for school education, in continuity with the measures already taken during the COVID-19 pandemic, investments are being made to strengthen digital infrastructure and digital tools. Priority is also given to enhance support to disadvantaged learners as well as to increase the quality and inclusiveness of education and training systems, although further efforts are still needed to fully implement structural reforms in education. A number of Member States still face important challenges in terms of educational outcomes manifested in low level of basic skills and inequalities.

26. In response to the disproportionate impact of the COVID-19 crisis on young people, Member States maintained a strong political commitment towards the implementation of the Reinforced Youth Guarantee (YG). At the same time, challenges remain. The scars left by the crisis on young people, especially the most vulnerable, point to the importance of reaching out to inactive and vulnerable NEETs. There is a shared understanding of the importance of a preventive approach in reducing early school leaving and inactivity. Particular attention should be devoted to inactive women as well as to NEETs living in remote or rural areas and those facing multiple socio-economic barriers. The quality of YG offers has improved in most countries, and good outcomes are registered in terms of their capacity to offer stable employment for young people. However, in some Member States the recycling⁴ rate in the Youth Guarantee remains a concern.
27. Increasing labour market participation of women, including in terms of increasing the number of working hours and closing the gender gap in employment, remains a challenge in many European countries. The sizeable impact of parenthood or care responsibilities on women's labour supply in the majority of EU countries indicates that the limited availability of early childhood and care (ECEC) and long-term care (LTC) facilities is one of the main obstacles in achieving a more gender-balanced labour market. In particular, while measures to improve the participation and quality of early childhood education and care (ECEC) have been widely enhanced across Europe, resulting in the EU reaching on average the Barcelona targets, the participation of children under the age of 3 in formal childcare still remains extremely low in a number of Member States. In the context of an ageing population, expanding LTC services is an emerging challenge that goes beyond the objective of increasing the labour market participation of women.

⁴ 'Recycling' in this context refers to the fact that young people re-enter the YG schemes multiple times.

28. The EMCO review on social dialogue and social partners' involvement highlighted how important it is to ensure a substantive role for social dialogue and go beyond a mere formalistic process in terms of consultation and involvement of social partners. In some countries, there is still a need to address the fragmentation of bodies in which consultations take place, and most importantly ensure adequate representation of all social partners, and civil society organisations.
29. EMCO is of the opinion that the European Semester remains an effective coordination tool for fostering sustainable and inclusive economic growth, competitiveness, employment, skills and adequate social protection and inclusion, particularly in view of the green and digital transitions and demographic change, as well as in the aftermath of the COVID-19 pandemic and under the current unprecedented geopolitical context caused by Russia's invasion of Ukraine.
30. The 2023 European Semester cycle should continue to address current and forthcoming labour market challenges, including in relation to the current geopolitical context and uncertain macroeconomic outlook, while supporting the green and digital transitions. As the EPM points out, to achieve the 2030 headline targets, structural challenges in the areas of labour market participation and active labour market policies, education, skills and lifelong learning, the functioning of tax/benefit systems, gender equality and the work-life balance as well as labour market segmentation need to be tackled.
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