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From: The Employment Committee
To: Permanent Representatives Committee/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 (EPSCO) on 9 October 2023.

The full AEPR can be found in doc. 13307/23 ADD 1.

The EPM can be found in doc. 13307/23 ADD 2.

Key Messages from the Employment Committee (EMCO) based on the 2023 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 builds on the 2023 Employment Performance Monitor (EPM¹), which monitors progress towards the 2030 targets and identifies at a glance key employment challenges and good labour market outcomes across the EU and in each Member State.
2. The main findings of this year's EPM, which was agreed in the EMCO Indicators Group in late May, are summarised in the 2023 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.
3. Both the EPM and the Annual Employment Performance Report (AEPR) incorporate for a second consecutive year 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 and presented at the June 2022 EPSCO Council.

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

4. Moreover, the analysis presented in this year's AEPR integrates a forward-looking aspect with the minimum annual employment growth required at EU and at national levels to reach the respective employment rate targets by 2030 and also showcases the potential of specific population groups to contribute to the progress towards the employment rate target.
5. Despite facing serious challenges, such as Russia's war of aggression against Ukraine, the energy crisis and inflationary pressures, the EU economy performed relatively well in 2022 and the labour market remained resilient, with employment and unemployment rates reaching new record levels.
6. More precisely, the EU-27 employment rate for people aged 20-64 improved further in 2022 to 74.6% (a 1.5 pps increase compared to 2021), which is the highest rate since the start of the time series in 2009. Employment rate increases were registered for all main age groups in 2022 (young, prime-age and older workers) at EU level. Furthermore, in all Member States the employment rate for people aged 20-64 registered an improvement in 2022 compared to 2021 and in almost all EU Member States the employment rate (20-64) in 2022 exceeded its pre-pandemic (2019) level. The EU activity rate (for people aged 20-64) kept improving in 2022. It reached 79.4%, up 1 pp compared to 2021, with women contributing more to this development.
7. The unemployment rate for people aged above 15 years declined on average in the EU by 0.9 pp to 6.2% in 2022 compared to 2021, with a decline being recorded in almost all Member States in 2022. Moreover the EU-27 long-term unemployment rate also registered a decline in 2022.

8. EU youth unemployment rate (ages 15-24) dropped in 2022 compared to a year ago, however it is more than two times higher than the overall unemployment rate, pointing at a key challenge in this respect and the continued need for implementing the reinforced Youth Guarantee. Furthermore, in the EU, the rate of people aged 15-29 who are neither in employment nor in education and training (NEET) decreased by 1.4 pp in 2022 to 11.7%. In addition, the EU-27 gender employment gap, i.e. the difference between the employment rate of men and women aged 20-64, although it declined slightly in 2022, to 10.7 pp from 10.9 pp in 2021, remains at high levels. Therefore, significant progress is needed in these two areas. According to the European Pillar of Social Rights Action Plan, in order to achieve the 78% employment rate headline target by 2030, Europe must strive to at least halve the gender employment gap compared to 2019 and decrease the NEET rate of young people aged 15-29 from 12.6% (2019) to 9.0% by 2030 (amounting to a 3.6 pp decline), namely by improving their employment prospects.
9. Looking forward, one of the main conclusions of the Commission's 2023 Spring Economic Forecast is that continued labour market tightness, labour hoarding due to skill shortages as well as strong demand, especially for services, are expected to cushion the impact of the economic slowdown on the labour market. In this framework, employment growth is forecast at 0.5% in the EU this year. In 2024, employment is set to keep growing moderately (0.4%), implying a less job-rich growth than in 2022. The unemployment rate is expected to remain close to its historical low, at 6.2%, in the EU in 2023, before edging down to 6.1% in 2024.

10. Regarding specifically the headline employment rate target by 2030, strong labour market conditions in 2022 contributed to an important extent towards achieving progress towards the 78% target by 2030. Reaching the target now requires an average 3.4 pp increase by 2030 at EU level, however, eight Member States aim to increase their employment rates by more than this amount to meet their national targets. Based on the latest available annual LFS data for the employment rate (people aged 20-64), five Member States have exceeded in 2022 their national targets and one has reached its own. Moreover, the employment rate in 2022 was already higher than the EU headline target of 78% in eleven Member States (from eight Member States a year ago).
11. Comparing recent (2022) annual employment growth in Member States with average annual employment growth over the (pre-COVID) period 2013-2019 and with the minimum (annual) employment growth required for each Member State to reach the national employment rate target, it can be concluded that in 2022 the majority of Member States achieved employment growth higher than the respective pre-COVID average rates and that, due to population decline, the majority of Member States would need lower minimum annual employment growth than in the pre-crisis period to reach their national targets.

12. In the framework of the analysis and monitoring of the progress towards the 2030 employment rate target, it is useful to also examine the performance of different population groups (for example youth, prime-age, and older workers) and identify those with lower than average performance. If the potential for each Member State and sub-group is taken as proxied by the difference between the specific employment rate and the respective EU average employment rate (or the average of the three highest employment rates in the EU for that population group), then hypothetical gains are to be expected from boosting employment rates among the specific groups. This applies in particular for the low skilled (women and men) for a significant number of EU Member States.
13. At a later stage the EMCO Indicators Group will also discuss the methodological approach concerning the monitoring of progress towards the 2030 adult learning headline and national targets, considering the shift of the data source from the Adult Education Survey (AES) to the Labour Force Survey (LFS) in 2022.
14. In terms of thematic priorities for Member States, the reading of the 2023 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. The European Year of Skills is expected to give a fresh impetus to lifelong learning, empowering people and companies to contribute to the green and digital transitions, supporting innovation and competitiveness. With regard to the education and training systems, main challenges are the dependence of educational outcomes on socio-economic background, low attainment of basic skills as well as tertiary education, the incidence of early school leaving, and low attractiveness of the teaching profession.

15. Challenges are identified also in the area of labour market participation, including for specific groups, such as older workers, young people, women, low skilled workers and non-EU nationals. 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 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).
16. The analysis also identifies common EU "positive recent trends" and "negative trends to watch". In particular, the EPM highlights a number of positive developments for the period 2021-2022: an increase in the employment rate of people aged 20-64 in all Member States; an increase in total employment in 25 Member States; an increase in the employment rate of older workers in 24 Member States; a decrease in the NEET rate for people aged 15-29 in 19 Member States; 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 15 countries. Some of these annual trends are confirmed by the analysis of longer-term developments over three years. However, the EPM also identifies a number of negative trends for the 2021-2022 period: a deterioration in nominal unit labour cost in 21 Member States and high incidence of inactivity and part-time work due to personal and family responsibilities in 13 Member States.
17. 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 2023 Country-Specific Recommendations.

18. Member States have introduced or are planning to introduce upskilling and reskilling policies with the objective of addressing the rising skill shortages in high-demand sectors (such as healthcare), tackling skills mismatches, and adapting the skills of the workforce to the changing world of work, including with the support of resources available from the ESF+ and the NextGenerationEU. In a context of tight labour markets and low unemployment, Member States are increasingly introducing training measures that primarily target the most vulnerable, whose potential remains untapped. Efforts are ongoing to improve Public Employment Services (PES) delivery of services and capacity, including through digital and improved labour market and skills forecasting tools. Moreover, Member States are stepping up their efforts to improve the skills of teachers, in particular their digital skills, and increase the attractiveness of the teaching profession.

19. Labour market segmentation across Member States continues to affect certain groups, in particular young people, women, migrants and the low-skilled. In some cases, involuntary part-time employment remains high, while transition rates from temporary to permanent contracts are low. Throughout 2022, many Member States continued their efforts to promote open-ended contracts as the typical working arrangement. Tackling abuses in the use of atypical forms of work and self-employment and addressing undeclared work remains a priority in the policy agenda of many Member States. Moreover, platform work has gained relevance, contributing to job creation, but also posing challenges to fair working conditions.

20. Regarding labour taxation, due to the rising energy and food prices, many Member States introduced in 2022 measures to mitigate the impact of inflation on households' and workers' incomes. Progress has also been registered across many Member States in greening the tax system and making it more supportive to sustainable growth. However, to support inclusive growth, significant room remains in many Member States for shifting taxation away from labour and improving their tax-and-benefit systems. Well-designed marginal tax rates can encourage the participation in the labour market, especially of second income earners, and increase working hours. In addition, the tax wedge on low-wage workers remains high in many Member States.
21. Care responsibilities, including for people in need of long-term care and for children, remain one of the main factors hindering female labour market participation and full-time employment in many Member States, keeping around 7.7 million women out of the labour market. Progress is nonetheless observed across the board in the provision of access to affordable and good quality early childhood education and care, notably by expanding the supply of available places and supporting low-income families in accessing services. In some cases, participation in Early Childhood Education and Care (ECEC) has been increased by lowering the age for compulsory education. Despite the efforts made, substantial challenges remain in enhancing access for children with poor socio-economic background and tailoring ECEC to the needs of children with disabilities or requiring special care.

22. The EMCO review on social dialogue highlighted that in all but few Member States the institutional framework for social dialogue is more than adequate. Yet, it remains of foremost importance to avoid a mere formalistic involvement of social partners and ensure a timely and meaningful consultation process throughout the entire policymaking process. The quality of consultations can also improve when underpinned by evidence-based findings and ex-ante impact assessments of the proposed legislation.
23. Regarding the 2023 Spring Package adopted by the Commission on 24 May, EMCO noted in the joint horizontal opinion with the SPC on the 2023 European Semester for the June 2023 EPSCO Council that the number of CSRs in the areas under EPSCO competence remained more limited than in the Semester cycles preceding the introduction of the Recovery and Resilience Facility (RRF). It also took note of the relatively higher number of “horizontal” CSRs proposed for all Member States, while stressing the need to preserve the country-specific nature of the CSRs.
24. In their opinion, EMCO and SPC called for establishing closer coordination between economic, fiscal, employment and social policies², given the broad range of current socioeconomic risks and policy challenges influenced by the Russian war of aggression against Ukraine and in view of ensuring fair green and digital transitions and sustainable and inclusive growth. In this context, strengthening the role of EPSCO and its Committees within the European Semester remains a key priority, while acknowledging the needs to continue efforts to modernise the Committees’ monitoring tools, keep the existing focus of the Semester in line with the Treaty, and avoid risks of administrative burden.

² In line with the respective Treaty-based competences and the principles of subsidiarity and proportionality.

25. Responding to this call, as well as to an earlier call by the EPSCO Council in March 2022³, the Indicators Group has started the reflection on the EMCO monitoring and reporting tools with the aim of making the tools better fit for purpose. The first stage of this exercise, currently ongoing, involves the review of the Joint Assessment Framework as the baseline for all other tools.
26. The European Semester remains an effective coordination tool for fostering sustainable and inclusive economic growth, competitiveness, employment and adequate social protection and social inclusion. The 2024 European Semester cycle should continue to address current and forthcoming labour market challenges amidst an uncertain global geopolitical and economic outlook, including in relation to Russia's war of aggression against Ukraine as well as climate disruption related events. The next Semester cycle should also continue to support the green and digital transitions and address the impact of the demographic change on the labour market. As the EPM points out, to achieve the 2030 EU headline and national targets, structural challenges in the areas of labour market participation and active labour market policies, education and training, skills and lifelong learning, the functioning of tax/benefit systems, gender equality and work-life balance as well as labour market segmentation are to be tackled.

³ See Council doc 6933/22.