



Council of the
European Union

Brussels, 16 March 2020
(OR. en)

6555/20

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NOTE

From: General Secretariat of the Council
To: Delegations
Subject: European Semester - Synthesis report 2020

Delegations will find attached the synthesis report prepared by the Presidency on conclusions adopted by the Council and discussions held in different Council configurations regarding the 2020 European Semester, during the first phase.

It should be underlined that this Synthesis Report 2020 was prepared on the basis of the European Semester documents, such as the Annual Sustainable Growth Survey, the Alert Mechanism Report, the proposal for a Joint Employment Report, the euro area recommendation and the related Council conclusions, resolutions and exchange of views and that all of these documents were issued and handled before the effects of the COVID-19 became known. It is obvious that the picture has changed quite considerably as we are now discovering the full impact of the Coronavirus pandemic.

Background

The Commission adopted on 17 December 2019, the ‘Autumn Package’ for the 2020 European Semester, which included:

- the Annual Sustainable Growth Strategy 2020¹, which sets out the economic and employment policy strategy for the EU, placing sustainability and social inclusion at the heart of the EU's economic policymaking, in line with the priorities enshrined in the European Green Deal;
- the Alert Mechanism Report 2020², which recommends that 13 Member States should undergo an in-depth review in 2020 to identify and assess the severity of possible macroeconomic imbalances;
- the proposal for a Joint Employment Report³, which analyses the employment and social situation in Europe and highlights the areas in which progress has been made, and where more needs to be done;
- the draft recommendation for a Council Recommendation on the economic policy of the euro area (euro area recommendation)⁴, which calls on euro area Member States to take measures to achieve inclusive and sustainable growth, as well as to boost competitiveness.

The Annual Sustainable Growth Strategy is accompanied by the Single Market Performance Report 2019⁵, which was integrated into the European Semester for the first time to highlight the importance of implementing reforms that facilitate the smooth functioning of the Single Market.

The Annual Sustainable Growth Strategy underlines that the European economy is expected to continue expanding in 2020 and 2021, even though growth prospects have weakened. Labour markets remain strong and unemployment continues to fall, though at a slower pace. Public finances continue to improve, the banking system is more robust and the foundations of the Economic and Monetary Union are stronger. Investment and potential growth, however, still remain below pre-crisis levels. Government budgetary balances are expected to deteriorate slightly between 2019 and 2021.

¹ 15321/19

² 15283/19

³ 5035/20

⁴ 15267/19

⁵ 15321/19 ADD1

The medium-term economic prospects are hampered by an ageing population, sluggish productivity growth and the rising impact of environmental degradation. Moreover, the near-term economic outlook is overshadowed by a much less supportive economic and geopolitical environment and high uncertainty.

The strategy points out that a new paradigm is needed to address interrelated key challenges. Moving towards a sustainable economic model, enabled by digital and clean technologies, can make Europe a transformational frontrunner. Environmental sustainability, productivity gains, fairness and macro-economic stability will be the four dimensions of the economic policy in the years to come. These dimensions, which are closely interrelated and mutually reinforcing, should guide structural reforms, investments and responsible fiscal policies across all Member States. Integrating the objectives of the Sustainable Development Goals in the European Semester, with a specific focus on the economic and employment aspects, provides a unique opportunity to put people, their health and the planet at the centre stage of economic policy.

At the initiative of the Presidency, ministers held thematic debates on various topics related to the European Semester in different Council configurations (Competitiveness, Environment). Due to the delayed publication of the Autumn package, the December Employment and Social Affairs Council did not hold the usual exchange of views on the Annual Sustainable Growth Strategy.

Acknowledging the Parliamentary dimension of the European Semester, the Presidency and the European Parliament co-organised the European Semester Parliamentary Week 2020 (18-19 February 2020), in the context of the economic and budgetary policies scrutiny. The conference brought together 111 Parliamentarians from 25 Member States, 2 candidate countries and Norway and provided an opportunity to exchange information on best practices in implementing the European Semester and to strengthen cooperation regarding actions at national and European levels.

The contribution on the social and the employment aspects of the draft euro area recommendation was first approved by the Council on 17 February 2020. On 18 February 2020, the draft recommendation on economic policy of the euro area was approved by the Economic and Financial Affairs Council and transmitted to the European Council on 26 and 27 March for endorsement, ahead of the adoption by the Council in April.

As in previous years, the Economic and Financial Affairs Council (on 18 February 2019) adopted Conclusions on the Annual Sustainable Growth Strategy⁶.

The Council broadly shared the Commission's analysis of the priorities on which national and EU level policy efforts should concentrate: environmental sustainability, productivity gains, fairness and macro-economic stability and stressed the need to promote high-quality investment, implement ambitious structural reforms, and ensuring sound public finances across all Member States.

The Council considered that pursuing policies in a manner that fully respects the Stability and Growth Pact and supporting public and private investment and improving the quality and composition of public finances are important. It also agreed that sound and sustainable public finances remain preconditions for ensuring resilience against future shocks and facilitating the economic transformation towards climate neutrality.

The Council equally stressed that the transition to climate neutrality requires a profound transformation of the whole economy. These changes will represent economic and other costs, but will also offer a significant opportunity to modernise the capital stock of the EU economy, to relaunch competitiveness in a sustainable way, to invest in people and their skills, and to increase convergence. Significant public and private investment will be needed to help deliver on the European Union's objective of moving towards a climate neutral economy. It also stressed that this transition needs to remain inclusive and socially responsible and grant citizens attractive job perspectives and reskilling possibilities.

The Council welcomed the continued focus on productivity enhancing reforms in the Annual Sustainable Growth Strategy. Growth and productivity need to be supported by competitive and efficient markets and structural reforms that enable crossborder cooperation, business growth and remove bottlenecks in the business environment. In this context, it highlighted again that strengthening the Union's Single Market offers an important vehicle for productivity growth and would generate multiple opportunities to expand trade, create jobs and boost growth. However, progress on the Single Market is uneven and further work on the free flow of services, the digital single market, Banking Union, Capital Markets Union and Energy Union is needed.

⁶ 5819/20

While sharing the assessment that research and innovation and investment in digital technologies and in education and skills development are crucial for a more productive and green economy, the Council stressed the importance of a strong, efficient labour market with fair working conditions for all. The Council also recognised that national tax and benefit systems need to provide incentives for labour market participation, to guarantee fairness and transparency and to ensure the financial sustainability and adequacy of welfare systems.

In its Conclusions on the Alert Mechanism Report⁷, the Council also welcomed the Commission's ninth Alert Mechanism Report, broadly agreed with the Commission's horizontal analysis of the adjustment of macroeconomic imbalances in the EU and within the euro area and welcomed that the gradual correction of existing imbalances has continued amid favourable economic conditions. It agreed that to ensure stability, potential sources of domestic and external imbalances need to be addressed through structural reforms and therefore called for structural reforms and investment to raise productivity and the growth potential, and for policies to bring forward the correction of existing imbalances.

Ministers noted that the resilience of the banking sector has been improving, while in a few Member States capitalisation and profitability rates of banks remain relatively low, and a large stock of non-performing loans persists.

Finally, the Council underlined the need to focus the in-depth reviews on Member States' key challenges and risks, and report the gravity of the identified challenges, evolution of risks, the policy response taken, and any policy gaps in order to highlight clear priorities and ensure swift action.

⁷ 5821/20

The Council is expected to adopt shortly the Joint Employment Report⁸ and the Conclusions on the 2020 Annual Sustainable Growth Strategy and Joint Employment Report⁹.

In these conclusions, the Council is expected to point out that well-balanced policy action should be taken on four dimensions: environment, productivity, fairness, and macroeconomic stability, in order to promote a transition towards a climate neutral, fair, inclusive and competitive economy and to jointly pursue the implementation of the principles of the European Pillar of Social Rights and the Sustainable Development Goals.

The Council intends to stress that, although continued economic growth has resulted in an improved labour market situation, wage growth remains moderate. In-work poverty is still high in the EU, despite the fact that in 2019, minimum wage levels were increased in most Member States where a statutory minimum wage exists. Involuntary part-time work remains high in several Member States, and the spread of atypical forms of work contributes to labour market segmentation.

It may also highlight that, to make ambitious climate and environmental policies a success, nobody should be left behind. To this end, adequate support for the people and regions which may be negatively affected by the transition towards climate neutrality should be ensured. Similarly, investment in innovative digital and sustainable technologies and skills will be key to harness emerging opportunities.

The Council is expected to agree that, while economic growth facilitated job creation, reform efforts must persist and more should be done on supporting labour market transitions, tackling youth and long-term unemployment, reducing labour segmentation and addressing poverty and social exclusion. Higher productivity and jobs cannot be achieved without far-reaching investment in education, training and skills, which substantially influence people's job prospects.

Both the overall at-risk-of-poverty rate and in-work poverty remained broadly stable and in some countries the household disposable income is not back to pre-crisis levels. Moreover, the impact of social transfers (excluding pensions) on poverty reduction has declined in 2018, and the risk and depth of poverty for persons living in (quasi) jobless households have continued to increase.

⁸ 6810/20

⁹ 6809/20

Also, the Council is expected to point out that achieving gender equality remains a challenge. Wider access to affordable and quality early childhood education and care and long-term care services, as well as adequate work-life balance policies can support in particular women to enter or stay in employment, with positive outcomes, including for alleviating child poverty. The labour market situation of young people aged 15-24 continues to improve, yet a considerable part of them remains unemployed or economically inactive. Furthermore, labour market integration of under-represented groups, including people with a migrant background, Roma, and people with disabilities, should be strengthened.

The Council may highlight that it is crucial to take appropriate measures which will contribute to the sustainability and adequacy of pension systems and to continue to modernise healthcare and long-term care systems, while fully respecting national competences in this field.

Well-functioning social dialogue continues to be an essential element of the European social market economy, although, the degree of engagement varies significantly among Member States. The Council may highlight that consideration should be given to ensuring that social partners have sufficient capacity to participate in the policy debate. Involving civil society organisations also plays an important role in ensuring that reforms are designed and implemented effectively.

The Education, Youth, Culture and Sports Council (on 20 February 2020) adopted a Resolution on education and training in the European Semester: ensuring informed debates on reforms and investments¹⁰. The Council considered that investment in education and training is the most powerful investment that can be made in people and the future, and that the social and economic returns of effective and efficient investments in education and training for individuals, employers and society at large, are undeniable.

The Council expressed commitment to continue the efforts to improve the quality, equity, inclusiveness and labour market relevance of education and training, including by developing comprehensive skills and lifelong learning strategies, where appropriate and in line with national circumstances.

¹⁰ 5537/20

The Competitiveness Council (on 27 February 2020) held an exchange of views on the Single Market Performance Report.

Ministers appreciated this first time exercise as a success, to be continued, but also improved, for the next years. They highlighted the need to strengthen cooperation and coordination of Single Market policies at EU and national level and that the European Semester offers a useful framework for this. Emphasis was put on reducing barriers to the free movement of (non-financial) services, as they also affect the free movement of goods, on ensuring effective competition on the Single Market (reviewing shouldn't mean degrading competition on the Single Market) or on paying particular attention to various sectors.

The Council also discussed the European Semester from an environmental perspective. The Environment Council (on 5 March 2020) held an exchange of views on greening the European Semester, based on a Presidency background note containing three questions¹¹. Ministers reaffirmed that the European Semester is a unique opportunity to integrate environmental concerns into broader economic and investment policies and, in this regard, welcomed the Annual Sustainable Growth Strategy.

In particular, ministers agreed that the call for greening the European Semester is now gaining momentum. The new Annual Sustainable Growth Strategy can be seen as a paradigm shift in the EU economic policy. This change highlights the fact that economic growth is not an end in itself and that the economy must work for the people and the planet.

Ministers underlined the need to maintain the European Semester as a tool for coordinating economic and social policies, but acknowledged that the economic agenda must transform the Union into a sustainable, climate-neutral, circular economy. Macro-economic stability cannot be pursued in isolation and it needs to be seen through a wider context as cooperation between different sectoral policies is essential for its achievement.

¹¹ 5993/20

In his regard, ministers largely welcomed the Commission's proposals for the European Semester to play an increased role in helping the European Union and its Member States to achieve the United Nations Sustainable Development Goals to which they committed. In particular, ministers highlighted the importance of integrating all Sustainable Development Goals, not only those of macroeconomic importance, into the European Semester but without weakening its effectiveness.
