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From: The Employment Committee
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Subject: Key Employment Challenges: Key messages from the EMCO 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 15 October 2021.

The full AEPR can be found in doc.: 11899/21 ADD 1.

The EPM can be found in doc.: 11899/21 ADD 2.

Key Employment Challenges: Key messages from the EMCO based on the 2021 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 contained in the 2021 Employment Performance Monitor (EPM), which monitors progress towards the Europe 2020 Strategy targets and identifies key employment challenges and good labour market outcomes across the EU and in each Member State. The EPM builds on the findings of the Europe 2021 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. The main findings of the 2021 EPM are summarised in the 2021 Annual Employment Performance Report (AEPR). These complement the conclusions of the **Employment Committee's** multilateral surveillance of the implementation of the Council's Recommendations within the framework of the European Semester. The 2021 EPM findings reflect the profound impact of the COVID-19 pandemic on the labour market.

3. The crisis has put Member States' health systems under unprecedented stress while the related social distancing measures severely affected production, consumption and investment. For 2020 as a whole, GDP in the EU was down by 6% compared to the previous year. The Summer 2021 interim Economic Forecast projects that the EU economy should expand by 4.8% in 2021 and 4.4% in 2022. After rising from 6.7% in 2019 to 7.1% in 2020, the unemployment rate is projected to further increase to 7.6% in 2021 (before receding to 7% in 2022)¹. The way Member States will emerge from the crisis is set to be uneven and could thus undermine past efforts at upward convergence. Tackling the challenges generated will be crucial for a sustainable and inclusive recovery.

4. In the previous decade, the EU saw robust employment growth. Since the adoption of the EU 2020 strategy in 2010, the EU27 employment rate (20-64) grew by a maximum of 5.3 percentage points (from 67.9% in 2010 to 73.2% in 2019), with the most persistent growth taking place after 2015. In 2019, EU employment had reached new all-time highs. The pandemic brought this improvement to a halt. In 2020, the employment rate receded to 72.5% (78% for men and 66.9% for women). A decrease in the employment rate was observed in all but three of the EU Member States. In 2020 fifteen EU Member States had reached or surpassed their Europe 2020 national targets, while twelve were still below them. As regards the future, the European Pillar of Social Rights Action Plan sets the EU employment rate target for 2030 to at least 78 %. This target was welcomed by the European Council on 25 June 2021, in line with the Porto Declaration².

¹ According to the Spring 2021 Economic Forecast (note that the Summer interim Economic Forecast does not contain information about unemployment).

² <https://www.consilium.europa.eu/media/50763/2425-06-21-euco-conclusions-en.pdf>

5. Policy action in dealing with the fallout of the pandemic has been swift, with measures such as short-time work schemes for employees, income subsidies for the self-employed as well as liquidity measures for firms, taken to limit employment losses during the confinement periods. As a result, the EU employment rate did not exhibit a dramatic slump, while the unemployment rate registered only a modest increase. Yet, the impact of the pandemic in 2020 is reflected in the deterioration (and volatility) of other indicators like total hours worked, absences from work and measures of labour market slack.
6. The monitoring highlights a number of negative trends (2019-2020): an increase in the nominal unit labour cost (twenty-four Member States); a deterioration in the share of the newly employed (21 Member States); a decrease in total employment (20 Member States) and a deterioration in the share of the adult population participating in education and training (19 Member States). Additionally, key employment challenges are identified in the areas of skills and lifelong learning, labour market participation, social security systems, education and training systems and gender equality.
7. However, the EPM also identifies some positive trends for the period 2019-2020. In particular, fifteen Member States saw a significant increase in the share of adults with medium or high education. Additionally, the rate of involuntary temporary employment decreased in 10 Member States and nine Member States saw a decrease in the gender pay gap.
8. In its horizontal opinion on the European Semester for the June 2021 EPSCO Council, EMCO observed that the COVID-19 crisis called for extraordinary measures, resulting in the establishment of the Recovery and Resilience Facility (RRF) – an unprecedented funding instrument for investment and reforms aimed to mitigate the economic and social impact of the crisis and to support an inclusive and sustainable economic recovery as well as just green and digital transitions.

9. The horizontal opinion further notes that the European Semester remains an effective coordination tool for fostering sustainable and inclusive economic growth, competitiveness, employment and adequate social protection and social inclusion, especially at the time of the current crisis. With regard to the procedural adjustments related to the 2021 Semester cycle, Members of the Committee are of the view that changes triggered by the RRF were justified as the focus was on urgent anti-crisis policy responses and reforms. EMCO is of the opinion that these adjustments should remain temporary. There is strong support among Members of the Committee for a timely return to a comprehensive Semester process, already in the next cycle. Efforts to streamline and optimize the future Semester cycles should include dialogue with Member States and proper discussion in the relevant Council formations and their advisory bodies.
10. EMCO welcomes the EU headline targets for 2030 of the European Pillar of Social Rights Action Plan (EPSR AP) and the emphasis on the European Semester as a key monitoring tool. The new EU headline targets for 2030 in the employment, skills and social policy areas, put forward in the Plan and welcomed by the European Council, respond to the call of EMCO and SPC and the EPSCO Ministers for a follow-up on the Europe 2020 Strategy³. The targets should be fully integrated in the European Semester, based on the experience with the Europe 2020 Strategy. EMCO equally supports the objective of improving the monitoring and assessment of the employment and the social situation across the Union underpinning the revised Social Scoreboard. To this effect, EMCO agreed to the inclusion of selected new headline indicators, proposed by the Commission, in the Social Scoreboard⁴.

³ Member States are also called to set ambitious national targets which constitute an adequate contribution to the achievement of the EU headline targets, taking due account of the starting position of each country

⁴ These should be used in the Joint Employment Report, while taking into account the required clarifications on their definitions and use as detailed in the annex of the *Opinion of EMCO and SPC on the Commission Proposal for a Revised Social Scoreboard*, which has been endorsed by EPSCO on 14 June.

11. Despite the adaptations to the 2021 European Semester, EMCO continued to monitor Member States' efforts to address the relevant 2019 and 2020 Country-Specific Recommendations. The reviews conducted by EMCO show that the outbreak of the pandemic urged Member States to focus their efforts on mitigating the impact of the crisis on workers, households and businesses. Short-time work schemes and wage subsidies were largely used to support job retention, in some cases based on existing – yet extended and/or adapted – instruments, in others by introducing new measures. Diverse forms of financial assistance were provided in particular to the self-employed or those on atypical contracts, including seasonal workers, and other vulnerable groups (with young people and women typically over-represented among those on fixed-term contracts). The timely support played a crucial role in mitigating the overall impact of the crisis on employment levels, ensuring job retention and laying the foundations for managing job transitions.
12. Member States strengthened active labour market policies (ALMPs), notably with regard to training and counselling for jobseekers and workers at high risk of losing their jobs. Distance learning, upskilling and reskilling pathways and digital training were implemented with a view to supporting both workers and jobseekers. Moreover, efforts were made to increase staffing and improve the technological equipment of public employment services (PES), including by investing in the digitalisation of services in order to increase their capacity and ensure continuity during the pandemic and afterwards. Member States also often applied flexible work arrangements including telework.
13. Concurrently, Member States aim to facilitate the reallocation of workers in the labour market, with particular attention to the employment prospects of those groups that were most hit by the crisis, in particular young people, women, persons with disabilities as well as people with a migrant background. The Commission's Recommendation on an Effective Active Support to Employment following the COVID-19 crisis (EASE) supports these efforts by outlining a strategic approach to promoting job creation and job-to-job transitions, including towards the digital and green sectors.

14. At the same time, in a number of Member States important challenges remain regarding the capacity and organisation of the PES; access of jobseekers' to ALMPs; effective and targeted support to jobseekers, NEETs and other vulnerable groups; and removing obstacles to labour market participation.
15. The crisis negatively affected the integration of the long-term unemployed into the labour market, as it had an impact on access to and availability of individualised counselling or profiling, as well as registration and integrated service provision. Due to health and safety considerations, many Member States made efforts to move to online services. However, this digital shift had mixed outcomes, in part because of the unequal access to such services among the long-term unemployed and inactive, in particular those with lower ICT skills.
16. In relation to women's situation in the labour market, a number of Member States share a series of common policy challenges, especially with regard to the persistent employment gap, the high share of female part-time employment, the gender pay and pension gaps and the strong gender dimension of the long-term care sector. Aiming to bolster women's labour market chances Member States have invested in early childhood education and care (ECEC), with a view to enhancing both the availability and the quality of services. In this context, coordination between different government levels can be relevant to ensure service availability. Additionally, some Member States have reformed parental leaves and benefits, as well as extended paternity benefits to enhance work-life balance.

17. Challenges related to labour market segmentation remain of structural relevance. The pandemic has highlighted pre-existing vulnerabilities, with job destruction mostly concentrated in sectors where less secure employment forms are prevalent (including self-employment), and with young people and vulnerable groups disproportionately affected. Before the COVID-19 crisis, a number of reforms were carried out to tackle labour market segmentation, with the pandemic in some cases slowing significantly their pace of implementation. In many Member States, the action of labour inspectorates, as well as measures to strengthen their capacity, are key elements to reduce labour market segmentation. To this end, policies offering incentives such as hiring subsidies as well as enforcement measures in the form of fines can be combined in an effective way. Reviewing employment protection legislation and regulatory gaps to address segmentation remains important. At the same time, the rise of new forms of work, in particular platform work, will require further consideration with regard to the working conditions of concerned workers.
18. Regarding labour taxation, progress has been made to reduce the tax burden on labour, especially for low and medium incomes, mainly through tax relief measures and cuts in social contributions. Other issues related to the tax system nonetheless remain, notably specific loopholes or inefficiencies, as well as disincentives to work for second earners in couples. Concerning undeclared work, the relevance of multi-dimensional strategies and the crucial role of labour inspectorates and collaboration among different authorities have been identified as key.

19. Investment in skills upgrading, adult education and lifelong learning continue to be policy priorities. In order to cope with the crisis, several Member States devoted additional budgets to strengthen investments in education and skills, especially in basic digital skills, infrastructure and online solutions such as digital platforms. Member States tend to combine this response to the COVID-19 pandemic with a longer-term perspective aiming to support effective labour market transitions, while addressing the challenges of the digital and green transitions. Significant investment and reform efforts have been undertaken at all education levels – including early childhood education and care (ECEC), general education, initial and continuous vocational education and training (VET), higher education and adult learning. Member States have also undertaken actions in order to make education and training systems more relevant to labour market needs, tackle issues related to education disparities and reduce the digital divide.
20. Nonetheless, progress towards the implementation of both 2019 and 2020 CSRs is uneven. Structural challenges remain a major concern in some Member States and require further action, especially in relation to: early school leaving; education outcomes in general education and VET (including in relation to underachievement rates and PISA results); low participation in adult learning; under-qualification of the workforce; social and territorial inequalities in access to education, training, digital skills and infrastructure. The COVID-19 crisis has exacerbated pre-existing challenges with continual lock-downs and social distancing measures, accentuating issues related to the digital divide and unequal access to education and training. The difficult situation of vulnerable and disadvantaged groups in this respect has been emphasised, as well as the challenges persons with disabilities face in the education sector and in accessing the labour market. In response, Member States are already extensively using or plan to use, in addition to national funding, available EU funds - notably the European Social Fund Plus and the Recovery and Resilience Facility - in order to carry out relevant reforms.

21. As stressed by the European Pillar of Social Rights, effective social dialogue and social partners' consultation on the design and implementation of policies, according to national practices, are crucial to achieve valid and sustainable policy outcomes. The assessment of progress towards the implementation of Country-Specific Recommendations on social dialogue showed that, in the Member States concerned, relevant frameworks are in place but further efforts are needed to establish a meaningful involvement of social partners. Significant concerns remain as regards practical aspects of social partners' consultation in terms of transparency, timeliness and meaningfulness, as well as with regard to real impact on policymaking. Some encouraging developments were reported, in particular on the intensified social partner involvement in the design of anti-crisis measures and in minimum wage setting. Capacity building of social partners with a longer-term outlook remains an important objective.
