



Council of the
European Union

**Brussels, 29 September 2023
(OR. en)**

13306/23

**SOC 634
EMPL 453
ECOFIN 915
EDUC 364**

NOTE

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| From: | The Social Protection Committee |
| To: | Permanent Representatives Committee/Council |
| Subject: | Key Social Challenges: Key messages from the SPC based on the Annual Review of the Social Protection Performance Monitor - Endorsement |

Delegations will find the key messages based on the Annual Review of the Social Protection Performance Monitor and developments in social protection policies, as finalised by the Social Protection Committee on 26 September 2023, with a view to their endorsement by the Council (EPSCO) on 9 October 2023.

The full Report can be found in doc. 13306/23 ADD 1.

The Social Protection Performance Monitor (SPPM) Country Profiles annexed to this report are contained in docs 13306/23 ADD 2-4.

Key messages

1. **Delivering on its mandate as set out in Article 160 of the TFEU, the Social Protection Committee (SPC) has produced for the Council its annual review of the social situation in the EU and the policy developments in the Member States**, based on the most recent data and information available. On this basis, the SPC highlights the following findings and common priorities, which should guide the preparatory work for the 2024 Annual Sustainable Growth Survey.
2. In 2022, **Russia's war of aggression against Ukraine** came at a time when Europe was showing strong signs of recovery from the unprecedented economic shock due to the COVID-19 pandemic. It led to a subsequent sharp downturn. **Economic growth** in the EU slowed down over 2022, but despite fears of recession, positive growth in the first half of 2023 has demonstrated the resilience of the European economy in a challenging global context. Total employment continued to expand in 2022, though at a slower pace over the course of the year, and with the **employment** rate of people aged 20-64 reaching 75.3% in the first quarter of 2023. The unemployment rate remained very stable at 6.2% over 2022 (which is well below the rate of 6.5% in March 2020, just before the COVID-19 crisis began), and hit a new record low of 5.9% in April 2023, with high participation and employment rates.
3. **Prices** rose markedly from February 2022 when Russia launched its war of aggression. Whereas these price increases were initially driven by energy price rises, pressures broadened as higher energy costs passed through to food, services and other goods. This had an impact on consumer prices and consequently households' purchasing power, especially for lower income families who spend a higher fraction of their income on energy and food. However, after peaking in 2022, headline inflation continued to decline in the first quarter of 2023 amid a sharp deceleration of energy prices.

4. Year-on-year growth in **real aggregate household income** in the EU declined over 2022, turning negative in the third and fourth quarters. This mainly reflected the impact of rising inflation and falls in the real compensation of employees and of the self-employed, as well as a negative year-on-year real contribution from (net) social benefits. In the first quarter of 2023, household incomes have remained broadly stable over one year in real terms (+0,3%), reflecting that the decline in real wages (contribution of -0.9%) was mostly balanced by taxes, benefits and other transfers (contribution of +0.9%).
5. **As regards progress towards the 2030 poverty reduction target, there has been an overall stability in the EU in 2022 compared to the previous year** (with a 0.1 percentage point decrease in the at-risk-of-poverty-or-social-exclusion rate) **and over the last 3 years**. This stability reflects decreases in the number of people at risk of poverty¹ and in those living in (quasi-) jobless households, but a rise in the severe material and social deprivation component. At Member State level, around a quarter of countries recorded significant falls in their at-risk-of-poverty-or-social-exclusion rates in 2022. Most of the Member States recorded no significant change in their rates. In contrast, in a few Member States, with lower-than-average rates, an increase took place, while most of those with higher than the average rates actually saw the rates decline, indicating some degree of convergence in Member States' performances. **Eurostat's flash estimates referring to 2022 incomes** also suggest that poverty remained broadly constant on average in 2022.

¹ This refers to income in 2021.

6. **This stability is also the result of income support measures** in place to mitigate the impact of high inflation, which sustained disposable income in nominal terms. This confirms the positive impact of the exceptional measures adopted both at EU and Member States level in the last three years. They have effectively been cushioning the negative impacts of pandemic, energy and inflation crises on incomes, unlike what was experienced in the wake of the 2008 financial crisis. The increase in the cost of living, however, affects real incomes, as partially captured by the estimation of the AROP rate anchored in 2021², that shows an increase for approximately half the Member States and points to a possible deterioration of living standards in several countries. Indeed, while the EU median disposable household income is estimated to have increased by about 7% in nominal terms, it decreased by about 2% in real terms.
7. Concerning the complementary target, **child poverty also remained broadly stable in 2022**, with the number of children at risk of poverty or social exclusion showing only a marginal rise (up 0.3 million) compared to 2021. This is due to a small decline in the child population at risk of poverty, a more substantial drop in the number of children living in (quasi-)jobless households, and a rise in those experiencing severe material and social deprivation. Still, in 2022 the number of children at risk of poverty or social exclusion was higher than in the reference year 2019 by 0.9 million.

² People at-risk-of poverty anchored at 2021 are those with an equivalised disposable income below the at-risk-of-poverty threshold calculated in 2021 adjusted with the evolution of HICP between 2021 and 2022. The AROP anchored indicator is defined as the percentage of persons in the total population who are under this inflation-adjusted poverty threshold. The indicator partially captures the price evolutions and their impact on incomes.

8. Certain **positive developments in the social situation** could be observed, despite remaining challenges, with more Member States registering positive changes than those recording negative ones in the following areas:
- reductions in the share of the population living in **(quasi-)jobless households** in almost half of the Member States in **long-term unemployment** in almost one third, and continued rises in the **employment rate** of older workers in almost all Member States, reflecting improvements in the labour market;
 - the situation for **youth** also improved, with declines in the number of those not in employment education or training (NEETs) rate and the overall EU rate also declined;
 - there were also significant declines in the **depth of poverty** (i.e., the relative median poverty risk gap) for the general population in more than a third of Member States as well as for the child population.
9. Nevertheless, there were some **areas to watch** concerning the latest developments, namely:
- increases in the **severe material and social deprivation** rate and in the standard material and social deprivation rate for the general population and for children in around a third of Member States, reflecting that real disposable income of households worsened in 2022, as the affordability of many items declined due to the rise in inflation. This was also reflected in significant rises in the **housing cost overburden** rate in a number of countries;

- a **deterioration in the poverty and relative income situation of older people** (aged 65 or older), with rises in their at-risk-of-poverty-or-social-exclusion rate in more than half of MS. Relative incomes from pensions as reflected by the aggregate replacement ratio worsened in a similar number of Member States.
 - mixed developments with regard to **income inequalities**, with deterioration in almost half Member States but improvements in a similar number of Member States.
10. The **European Pillar of Social Rights** sets forth the necessary framework for actions at EU and Member State levels. Together with the three **EU headline targets** in the areas of employment, skills, and poverty reduction, the Pillar will contribute to achieving upward social convergence among Member States. Since the targets are interdependent and mutually reinforcing, **coherent policy actions** should be taken across the policy areas.
 11. Member States should continue to take **targeted actions to mitigate the impact of price increases and volatility**. Households' purchasing power should be protected, especially for lower income families who spend a higher fraction of their income on energy and food (and other essential services) and which are consequently increasingly affected by material and social deprivation. In this context **distributional impact assessment of policies and reforms** can help prevent adverse social effects of measures on poverty and inequalities and should be used more systematically when designing reform measures and during budgeting.
 12. In the current uncertain international and economic environment, the **positive employment dynamics of the post COVID-19 recovery** should be accompanied by **social protection and inclusion policies supported by social investment** to ensure fair growth, further improve the resilience of the economies and societies and reduce the risks for vulnerable households and individuals, including those related to the green and digital transitions.

13. Member States should continue to **modernise their social protection and social inclusion systems**, paying attention to the adequacy, coverage and take up of benefits, effectively combined with active inclusion measures, also building on the lessons learned during the COVID-19 crisis while designing more permanent measures. They should provide, and where necessary strengthen, robust social safety nets, by integrating adequate income support (through minimum income benefits and other accompanying monetary benefits), in-kind benefits, and access to enabling and essential services, in line with the Council Recommendation on adequate minimum income ensuring active inclusion. Simplification and streamlining of benefits are required also to ensure take-up, while their adequate indexation is key in the context of the current high inflation rates.
14. **Social protection for all workers and the self-employed** should be fostered, in line with the 2019 Council Recommendation on access to social protection for workers and the self-employed. The report on the implementation of the Recommendation shows that there is considerable variation in the level of ambition of Member States in ensuring formal and effective coverage by adequate and transparent social protection schemes. Around half of the Member States have planned important reforms to improve participation to social protection schemes for specific categories of people on the labour market; however they are not yet all implemented. In many Member States, less focus has been devoted in the national implementation plans to ensuring effective coverage notably by adapting the rules governing entitlements and improving transparency. Therefore, further implementation efforts are needed to close existing gaps.

15. Against a worsening of **child poverty**, measures to break the inter-generational transmission of poverty are necessary, including through implementation of the Council Recommendation establishing a European Child Guarantee. In particular, the availability, quality and affordability of early childhood education and care is key to support the development of children's skills and competences, and support parents' labour market participation.
16. The energy crisis underlined the need to ensure access to **essential services**, especially to mitigate the negative social impacts of rising prices. The recent Commission report on access to essential services confirmed that, while the majority of the population in the EU has access to essential services (including energy, water, sanitation, transports and digital services), people at risk of poverty or social exclusion and the most marginalised face the greatest barriers in accessing such services. The report highlighted that affordability can constitute an important barrier to equal access especially for energy, followed by digital communications, transport, and water and sanitation. Addressing **energy poverty** is therefore key to ensuring fairness in the green transition, in line with the Council Recommendation on ensuring a fair transition towards climate neutrality. Availability and accessibility also pose challenges to access, sometimes linked to other barriers, such as lack of skills or geographical factors (the urban-rural divide, remote and insular regions). EU funding, including the RePower EU Plan, can support Member States efforts both in tackling the current uncertain scenarios and the structural challenges in access to essential services.

17. The 2023 Thematic Social Reporting has taken stock of the existing and exceptional measures of the Member States in **facing the energy and cost of living crisis**. In a forward-looking perspective, continued focus on policies to tackle energy poverty are needed. Long-term national strategies require to combine adaptations of social protection and social inclusion systems along with social services. Permanent measures, such as especially indexation mechanisms on wages and social benefits, contribute to mitigate the effects of high inflation on real incomes and living standards. In this respect, it can be noted that so far these measures have not translated into ‘further surges in inflation’. Support measures to specifically combat energy poverty by improving energy affordability are mostly temporary (82%) and tend to be universal. Most of these temporary measures will be over by the end of 2023, which points to a potential need for continued focus on policies tackling energy poverty more structurally. Targeted approaches are also needed to mitigate more effectively the negative impacts of the crisis for those who are more vulnerable and more affected. Dedicated structures to assess, monitor and address energy poverty should be implemented, also with a view of better targeting emergency policy measures.
18. Further efforts should be made to provide **affordable housing**, including social housing and/or affordable rental housing, through plans, reforms and investments. Member States should also pay attention to specific housing needs, such as housing for people in vulnerable situations and persons with disabilities. Prevention of evictions and Housing First policies for the **homeless**, should be implemented as well as desegregation policies. Stronger monitoring frameworks and coordination of housing policies (including rent controls and taxation) with other social policies (e.g. income support and housing benefits) and services (e.g. transportation) are needed. Member States are working within the framework of the European Platform for Combating Homelessness towards ending homelessness by 2030.

19. In the context of high inflation and spiking energy cost measures, **retired people** can be more fragile as they have less control and flexibility in adjusting their income in response to changing circumstances. Member States should protect the living standards of the retired population by adopting measures targeting vulnerable groups, such as low-income pensioners. In line with national specificities, besides indexation of pensions, additional targeted measures, such as means-tested payments, could be considered, depending on the design of the pension system. Efforts to safeguard the effectiveness of social protection in old age, adequacy of pensions and sustainability of the pension systems should be continued by Member States, in a context of structural reforms to face the challenges of an ageing population, shrinking number of working-age Europeans, and evolving labour markets. Fostering increased participation in the labour market in general or specifically supporting employment of older workers can help improve the level of pensions and the fiscal sustainability of the pension system.

20. Systemic weaknesses in the national care systems need to be addressed to ensure **access to high quality affordable long-term care services**, against the background of strong increase in the demand for health and long-term care services and less people of working age contributing to social protection schemes. The implementation measures of the 2022 Council Recommendation on access to affordable and high-quality long-term care can help address these challenges. Provision of long-term care is key also in the context of women's labour market participation and upholding basic human rights of persons in need of care. While expanding the offer of high-quality services, that are person-centred and respect the freedom of choice, investments in healthy ageing, prevention and rehabilitation can help reduce the demand for long-term care. Better integration of health and long-term care services can respond better to care needs and also ensure best use of limited financial and human resources. Stronger focus is needed on quality standards and quality assurance. Measures to improve working conditions and retain and attract staff need to be pursued. Digitalisation and other innovative solutions can help improve working conditions as well as empower longer independent living at home.

21. After the COVID-19 pandemic, Member States should continue to address the existing challenges of the European **health systems** and improve their resilience and preparedness for possible future crises. Reforms, should include upgrading health facilities, improving public health capacities, addressing workforce shortages, improving preventive care and introducing innovations. The Recovery and Resilience Facility provides significant support for the national reform efforts. Effective safety nets for providing healthcare access to the most vulnerable have to be ensured. Further efforts to improve integrated care, including co-ordination with social services, will be crucial to improve the efficiency of care. The roll-out of telemedicine and other digital solutions taking into consideration the digital divide should continue to improve the accessibility of care and promote better health outcomes for the population. Strengthening health promotion and disease prevention will be key to improve health outcomes. Mental health was particularly challenged by the COVID-19 pandemic having significant social impacts and negatively affecting the overall well-being and quality of life of the individuals, especially among young people. In line with the recent Commission initiative on the comprehensive approach to mental health, efforts are necessary to build an integrated, cross-sectorial approach to mental health, also by integrating mental health services into primary care and shifting to community-based care.
22. The **European Semester** remains an effective coordination tool for fostering sustainable and inclusive economic growth, competitiveness, employment and adequate social protection and social inclusion. Since many of the reform measures taken by the Member States are part of the national Recovery and Resilience plans, it remains essential that the EPSCO Council and its advisory bodies are kept closely involved in the ongoing monitoring of the implementation of these plans.

23. To strengthen Social Europe and support the implementation of the European Pillar of Social Rights at EU and Member State level, with due regard for respective competences, constructive **dialogue** should be maintained between EU institutions, Member States, social partners and civil society organizations.
24. In the joint horizontal opinion with the EMCO on the 2023 European Semester for the June 2023 EPSCO Council, EMCO and SPC called for establishing closer coordination between economic, fiscal, employment and social policies. In this context, the Committees acknowledge the need to modernise their monitoring tools, while avoiding risks of increased administrative burden. The social monitoring frameworks, including the analytical tools used in the SPC annual report, are currently being reviewed by the Committee, some jointly with EMCO as appropriate, to simplify and consolidate the existing tools.
25. The European Commission is invited to take into account the above policy guidance in the preparatory work of the 2024 Annual Sustainable Growth Survey.
