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NOTE

from: The Presidency
to: Permanent Representatives Committee (Part I) / Council (EPSCO)

Subject: European Semester 2016:
- Presentation by the Commission
- Exchange of views

Delegations will find attached the Presidency note for the exchange of views on the 2016 European Semester package at the EPSCO Council on 7 December 2015.

This exchange of views is covering the points a) Annual Growth Survey 2016, draft joint employment report and report on the Alert Mechanism, and b) Recommendation for a Council Recommendation on the economic policy of the euro area.

The launch of the 2016 European Semester

Presidency note

Economic prospects in the EU have only moderately improved, despite an economic context where the positive effects of low oil prices, a weakened euro and monetary stimulus have concurred. Whilst the EU economy has remained relatively resilient and has been able to overcome serious challenges over the past year, risk factors persist, such as continuing deflationary pressures at the regional level and waning growth in emerging markets at the global scale.

Although there has been progress, a continuous improvement of the employment and social situation is not yet in sight. Unemployment and social disparities remain historically high. With growth forecasted to continue to pick up over the coming months, the risk of remaining in a low growth and low inflation scenario is still latent. Bold policies are needed to finally overcome the legacy of the global economic crisis and live up to new challenges, such as those posed by the current refugee crisis. Lack of positive results in the mid-term will, more widely, cast doubts on the citizens' perception of the EU project. The European Semester process has set out to address these challenges.

Against this background, the 2016 economic Package presented by the Commission gives guidance to Member States to carry out policies aimed at consolidating the recovery and converging towards best performers. The Commission's 2016 **Annual Growth Survey (AGS)** recommends to update last year's priorities on the basis of the current economic environment, thus proposing three main priorities for the EU's economic and social policy: **relaunching investment, pursuing structural reforms to modernise the economy, and responsible public finances.**

Low levels of investment have been a key concern. The Investment Plan for Europe is already in full motion and the current context of low interest rates gives ample space for investment efforts to increase. The AGS highlights that these investments should include investments in human capital and social infrastructure. At the same time, structural reforms which strive towards job-rich growth and upward social convergence are to be pursued and well implemented, thus allowing workers to achieve both flexibility and security, and particularly tackling long-term and youth unemployment.

This year's AGS underlines that better coordination of and support to these reforms may be achieved via progressively developing benchmarks and best practices, as well as through securing EU funding through the relevant programmes. All this needs to be achieved in a context of responsible fiscal policies providing for efficient and adequate social protection.

The draft **Joint Employment Report** (JER) underlines that the employment and social situation has slowly improved but that signs of divergence among and within Member States persist. Youth unemployment and long-term unemployment levels are particularly high. The scoreboard of key employment and social indicators, integrated into the draft JER, shows that whilst the labour markets do seem to show encouraging signs in a number of Member States, social indicators highlight poor performance in some Member States.

The **Alert Mechanism Report** (AMR), which initiates the Macroeconomic Imbalances Procedure (MIP), highlights that progress is underway towards the correction of imbalances. Labour market conditions are gradually converging after years of divergence, but the social situation remains very worrying. In line with what the Commission had previously announced, three employment indicators are added this year to the main scoreboard: the **activity rate** and the **long-term** and **youth unemployment rates**.

On this basis, Ministers are invited to address the following issues:

- (1) The priorities set by the AGS should guide policy action over the coming year.
 - *Do Member States consider that these overall economic priorities adequately cover the necessary employment and social concerns, also in view of achieving the Europe 2020 objectives?*

- (2) As regards social governance, the AGS package comes up with the introduction of specific employment indicators into the MIP.
 - *How do Member States see the relationship between the MIP scoreboard and the social and employment scoreboard and how should the latter scoreboard be taken together with the analysis of the macroeconomic situation done in the context of the MIP procedure?*

 - *With regard to issuing Country-Specific Recommendations under the MIP, notably those related to social and employment aspects, how could the transparency and the predictability of this process be further improved?*

- (3) Over the past months several publications and discussions have referred to the idea of focussing on benchmarks and best practices across policy areas related to economic and social performance.
 - *How could a regular Council discussion be ensured on common social and employment challenges and trends to watch, based on the existing analytical instruments (the scoreboard of key employment and social indicators, the Social Protection Performance Monitor (SPPM), the Employment Performance Monitor (EPM) and the Joint Assessment Framework (JAF))?*