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From: Employment Committee and Social Protection Committee  
To: Permanent Representatives Committee (Part I) / Council

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Subject: Assessment of the 2016 Country-specific Recommendations (CSRs) and  
the implementation of the 2015 CSRs

= Endorsement of the opinions of the Employment Committee (EMCO) and  
the Social Protection Committee (SPC)

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Delegations will find attached the above-mentioned opinions (EMCO Annex I and SPC Annex II) with a view to the Council (EPSCO) meeting on 16 June 2016.

**THE EMPLOYMENT COMMITTEE**

**HORIZONTAL OPINION ON THE 2016 COUNTRY SPECIFIC RECOMMENDATIONS  
INCLUDING THE RESULTS OF THE MULTILATERAL SURVEILLANCE  
ON THE 2015 CSRS**

As mandated by the Council, the Employment Committee (EMCO) has carried out a wide-ranging analysis of the implementation of all 2015 labour market country-specific recommendations (CSRs) issued by the Council to Member States. This examination, seen in conjunction with the country-specific opinions going to Council, forms the core of EMCO's Treaty obligation and is a culmination of work to ensure a multilateral view within the committee.

EMCO also coordinated the responses of Member States to the Commission's Country Reports, which were published in February 2016. Moreover, the Employment Committee adopted the draft Employment Performance Monitor (EPM) which identifies Key Employment Challenges (KECs) for the Member States.

On the basis of these different strands of work, the Employment Committee, in cooperation with the Social Protection Committee and the committees of the ECOFIN Council, over the last weeks discussed and upheld or amended the Commission proposals for country-specific recommendations.

The first section of this Opinion provides a horizontal assessment of the proposals for 2016 recommendations. It takes into consideration the discussion on the proposals which EMCO held with European Social Partners. The second section contains the main thematic messages arising from our multilateral surveillance reviews<sup>1</sup>. A final section contains some preliminary considerations on the process.

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<sup>1</sup> With the exception of the Youth Guarantee reviews, which were already summarised in the document transmitted to EPSCO by EMCO in March 2016 (Council Document 6154/16 ADD 2).

## **Section 1: The 2016 Recommendation proposals**

### **EMCO analysis of the employment and social aspects of the 2016 CSR proposals**

Overall, EMCO welcomes the package of CSR proposals. The importance given to employment policies shows that the European Employment Strategy, including the Employment Guidelines<sup>2</sup> continues to play an important role in the EU economic governance process in general and the European Semester in particular. The overall set of proposals is broadly balanced and identifies the correct priorities.

In 2016, 42 out of a total of 89 CSRs (47%) have an employment or social component, compared to 53 out of 102 in 2015 (52%). However, this does not give the complete picture as one CSR can, in effect, contain a number of recommendations. The total number of discrete employment and social recommendations contained in the CSRs is 114, compared to 118 last year. Given that there are 13 fewer CSRs in total this year than last, it is clear that employment and social considerations continue to play a prominent role in the Semester as well as the Europe 2020 strategy.

The area most frequently covered by a recommendation is that of skills, education and training. Sixteen Member States receive a CSR covering this area, up from fourteen Member States in 2015. This emphasis is similar to that found in EMCO's 2016 Employment Performance Monitor, where 27 Member States have a Key Employment Challenge in the area of skills and lifelong learning or education.

Compared to 2015, stronger emphasis has this year been put on active labour market policies and employment services. Fourteen Member States receive a CSR in this area, almost doubling last year's number. Again, this echoes the results of the 2016 Employment Performance Monitor, in which Key Employment Challenges in the area of ALMPs are identified for 21 Member States.

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<sup>2</sup> Council Decision (EU) 2015/1848 of 5 October 2015 on guidelines for the employment policies of the Member States for 2015

Nine Member States received a CSR in the area of pensions and extending working lives, compared to fourteen in 2015 – a decrease which reflects the progress made by many Member States in this domain. Other policy areas which have led to less recommendations are taxes and undeclared work (down from eleven to seven Member States), youth employment (down from five to two Member States) and wages and competitiveness (down from eleven to seven Member States).

EMCO notes that the number of CSR proposals relating to youth employment have been reduced even though levels of youth unemployment remain high and the implementation of the Youth Guarantee continues to be a priority.

### **Views of social partners**

EMCO discussed the CSR proposals with social partners at its meeting on the 31 May as a prelude to the main discussions.

Trade unions (ETUC) welcomed the inclusion of a number of important themes such as the need for social services, the gender pay gap, and affordable childcare. They also welcomed the recommendations on transparency of minimum wage mechanisms (where they emphasised the role of social partners) and the problems associated with temporary contracts and public works schemes. However they found the recommendations on wages and collective bargaining – particularly calls for decentralisation of collective bargaining – rather worrying and rejected what they saw as an overarching Commission view that employment protection legislation was too strong: they felt that CSRs in this area could have a harmful impact on employees. They noted that only one CSR was directed towards the need to improve public investment, which was currently sorely lacking. They also emphasised the need for increased wages in the EU to boost growth, and argued that reforms to the tax wedge on labour have not so far resulted in increased employment or improved wages. They felt that there could be more on active labour market participation of women, involuntary part-time work, and the adequacy of pensions. They noted that most of the National Reform Programmes do not report on the involvement of social partners.

Representatives of employers (BusinessEurope, UEAPME, and CEEP) welcomed the more targeted CSR proposals. They stressed the importance of keeping focus on the issues of aligning wages with productivity and the reduction of the tax wedge on labour. They also underlined the major problems of long-term unemployment, skills mismatch, and the lack of job creation. They therefore welcomed the stress on both active labour market policies, and linking education and training to workplace needs (whilst noting that the concept of work-based learning needed to be adapted to SMEs). They noted that what they consider to be an implementation gap on CSRs was a crucial issue which should be addressed further.

## **Section 2: Horizontal messages from 2015 – 2016 multilateral surveillance cycle**

EMCO's analysis is carried out via a series of peer reviews and is known as multilateral surveillance. It is not limited only to follow-up of the CSRs. EMCO has also carried out multilateral surveillance of Key Employment Challenges (KECs) identified in the 2015 Employment Performance Monitor, and of Member States' implementation of the Youth Guarantee Recommendation. Continuing EMCO's efforts to co-operate with other Committees, members of the Education Committee were invited to join EMCO for reviews related to skills and education. A joint review was carried out with the Economic Policy Committee on taxes on labour.

In total, in the period December 2015 to May 2016 EMCO carried out 28 Youth Guarantee Reviews (which encompassed 2 KECs and 5 CSRs relating to youth employment), and reviewed a further 55 CSRs and 31 KECs. The conclusions from these reviews are annexed to this Opinion.

On the subject of long-term unemployment (LTU) EMCO observed that some Member States are facing cyclical LTU whereas others are dealing with a core of structural unemployment. Several Member States struggle with insufficient capacity in their Public Employment Services (PES) whilst others are trying to improve co-ordination between different levels of governance, or between PES and social services. EMCO will watch with interest the results of different efforts to find a balance between service provision, individual action plans, and active labour market policies (particularly within the context of EMCO's future monitoring of the implementation of the Recommendation on Long-Term Unemployment). Early individual profiling seems to be a particularly promising approach to tackling LTU. Where subsidised or temporary community jobs programmes are used the importance of the link to the open labour market cannot be overstated. Wage subsidies can be a valuable instrument if well designed to support sustainable labour market integration however the absorption capacity of the labour market for such measures as well as possible distortive effects have to be taken into account.

The review of **labour market segmentation and contractual arrangements** noted significant progress in addressing CSRs from 2015 (and, in some cases, earlier than that): the question is now about successfully implementing (and monitoring) the measures which have been introduced. EMCO suggests that future CSRs in the area should focus on the overall balance of labour law rather than on specific detail. A number of specific policy orientations were drawn from the review: judicial enforcement of the labour code (and therefore the capacity of labour inspectorates and the sanctions regime) is crucial; increased certainty in labour disputes has positive impacts on employment; incentives for hiring on permanent contracts can work but need to be targeted and can be costly so may not be self-sustaining in the longer term; new forms of employment (including self-employment) require consideration whilst bogus self-employment is a real problem which should be tackled. The institutional capacity of labour inspectorates is crucial when tackling undeclared work.

The **wages and competitiveness** review concluded that labour costs and wage developments are generally in line with the criteria set in the Employment Guidelines in most Member States, although wage bargaining frameworks are still being adjusted in some. The impact of wage developments on the most vulnerable needs to be monitored, particularly their impact on labour market transitions. Transparency and predictability of minimum wage mechanisms are important, requiring a strong evidence base and the consideration of a number of different indicators. Minimum wages are no substitute for an adequate benefit system for alleviating poverty. Tax credits can be considered as a supplementary measure to enhance the impact of the minimum wage instrument. As with labour market segmentation, labour inspectorates and tax administrations have an important role to play in tackling underreporting of wages and require the appropriate resources to play this role.

The review looking at **active labour market policies** (ALMPs) and **reform of Public Employment Services** (PES) noted considerable activity in this area in a number of Member States. There are still some countries where ALMP coverage is weak or where certain measures, including public work schemes, need to be revised and improved. However, in general, the focus is on ALMP efficiency, increasing participation of vulnerable groups, and identifying the right balance of incentives. Efforts to improve PES capacity and efficiency are ongoing, with a number of initiatives to provide e-services or statistical profiling and the PES Network benchlearning exercise seems to be of use to a number of Member States in this. The impact of ESF funding on these initiatives was also acknowledged.

The review on **skills, vocational education and training, and lifelong learning** indicated progress in many Member States in the areas of early school leaving, participation in lifelong learning, and quality work-based learning / apprenticeships. Given the long-term horizon of complex education reforms, monitoring of the impact of reforms is crucial. It is notable that there is no consensus on the best models for education financing. EMCO also noted that the focus at the moment is very much on school reform: higher education reforms are planned for the future. Some of the reforms address governance issues, including autonomy of training centres and ways to engage employers. Reforms to improve the attractiveness of the teaching profession have been introduced in a number of cases and are likely to be important in stimulating quality. Specific interventions and systematic reforms are still needed for disadvantaged groups such as Roma: provision of early childhood education and care is also of importance for these groups and is being stepped up in a number of cases.

The review on **labour market participation** looked at the participation of women, migrants, and older workers. Many Member States have taken initiatives to improve childcare capacity but more needs to be done to meet demand (in terms of capacity, affordability and quality). Childcare is not the whole story: it would be good to see more attention given to ensuring that leave arrangements for both parents in the future are appropriate and well-designed. Some Member States have taken action to reduce the gender pay gap, although this is inherently a long-term challenge. For older workers, although there is a general positive trend, many countries still face labour market problems that are the combined result of many factors which will require attention to skills and lifelong learning (particularly for the low skilled), the engagement of employers (to create the right working environment for older workers), and the right active labour market policies. Older workers face a higher risk of long term unemployment if they become unemployed, requiring pension reforms to be accompanied by active ageing strategies. The ongoing issue of labour market participation of people from migrant backgrounds has been accentuated by the recent influx of asylum seekers: it will continue to be important to address the most urgent needs and facilitate the labour market integration of refugees without forgetting those who have been in the country for longer.

The review on **labour taxation** showed that a number of countries are taking action to reduce the tax wedge on labour, although to different degrees. There remains the potential in some countries to reduce the tax burden on labour, and in particular on low-income earners, still further by, for example reassessing existing tax incentives, introducing targeted measures, shifting tax burden to areas less detrimental to growth and employment, and broadening tax bases.

### **Section 3 : The CSR process in the context of the European Semester<sup>3</sup>:**

#### **General**

EMCO welcomes the continuation of the trend towards a smaller number of more focused CSRs. The drafting of the CSRs has, in EMCO's opinion, continued to improve. The Commission proposals have been more successful in finding a balance between clearly identifying a priority and allowing Member States the room for manoeuvre in working out the most appropriate response at a national level.

EMCO also welcomes the fact that the Commission has based the CSRs on the results of the multilateral surveillance and the Employment Performance Monitor more than in previous years. This ensures that the starting point for any discussion is clear and understood in advance. Moreover, it may have avoided incorrectly worded or even insufficiently warranted CSR proposals. This also underlines the importance of following up the implementation of CSRs.

Certain drafting issues remain problematic in light of the need to ensure horizontal consistency. In particular this year saw a number of cases where the Commission had proposed asking a Member State to carry out reform X or Y, whereas in other cases a Member State was asked to "further reform A" or "continue reforming B". The rationale behind these distinctions was not always clear and EMCO would appreciate greater clarity and consistency in the proposals in future, given the different political perceptions that either formulation may lead to in the Member States.

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<sup>3</sup> These considerations constitute EMCO's initial reflections on the proposals and should be considered preliminary.

## **On the CSRs falling under MIP and SGP and their follow-up**

There have been some improvements in this area in comparison with recent years and EMCO welcomes the fact that the Commission proposals took a somewhat more nuanced approach to the classification of some recommendations within the macro-economic imbalances procedure ("MIP"). However - and despite the production of the "MIP Compendium" by the Commission during the year – the overall system of classification and its application in practice remains problematic. It remains the opinion of EMCO that high unemployment or other labour market problems may entail macro-economic consequences, but do not as such constitute a macro-economic imbalance in the sense of the MIP procedure, and may therefore be more conveniently dealt with by EPSCO multilateral surveillance and coordination mechanisms.

One effect of this has been that a considerable number of issues are dealt with at the joint meeting of the EPSCO and ECOFIN committees. In previous years this joint meeting has been under considerable pressure. However, a number of practical steps were taken this year to make this more manageable. More time was allocated to the meeting so that there was time to discuss proposed amendments and reach compromises. A listening room was also provided and this played a major role in keeping the number of people in the room to a manageable number. As a result, this year's joint meeting worked well.

## **On the role of the recitals**

In general the recitals were better drafted than in previous years. Given the tendency of the CSRs to be less specific the recitals are increasingly useful for understanding what underpins the CSRs. That said, the number of recitals could be reduced still further: as excessively detailed or elaborate formulations distract from the discussion on the main reform priorities. There remain a number of orphan recitals unconnected to any CSR which do not seem to serve any useful purpose, in particular as there are other instruments available (such as the Key Employment Challenges) to identify “secondary” concerns that need follow-up without warranting a CSR.

## **On the timeframe and the National Reform Programmes**

The revised timeframe, with the earlier publication of the Country Reports and the extended period to discuss the Commission draft CSRs, continues to allow for improved interaction with main stakeholders such as the social partners and for stronger ownership at national level.

EMCO reiterates its opinion that the role and current timeframe of the National Reform Programmes (NRPs) in the European Semester should be reflected upon, whilst recognising that the NRPs remain important policy documents.

## **On the Commission-Member States dialogue**

Dialogue between the Commission and the Member States has continued to improve from last year's Semester, which is welcome. Nevertheless an important element is still missing, in that there is no process for the Commission to respond formally to the comments made by Member States on the country reports. During the discussions on CSR proposals the Commission has, on occasion, defended its text by noting that a related section in a country report was unchallenged by the Member States but the absence of any formal engagement from the Commission with Member States on their comments does not provide much of an incentive for Member States to engage in such a dialogue. In other cases, Member States referred to their reactions to the Country Reports to which the Commission had not provided a reply. EMCO calls upon the Commission to provide written responses to Member State comments in future years.

EMCO recognises and welcomes the greater flexibility shown by the Commission in the CSR discussions. A greater negotiating mandate for Commission representatives attending meetings of the Committees would expedite proceedings (and also ensure parity with the Member States, who are expected to be able to take decisions immediately on the spot).

**THE SOCIAL PROTECTION COMMITTEE****SPC assessment of the 2016 CSRs package and the implementation of the 2015 Council CSRs in the area of social protection and social inclusion**

In accordance with the Committee's mandate based on Article 160 of the Treaty on the Functioning of the EU (TFEU), the requirements under Regulation (EU) No 1176/2011 and the new Council decision, establishing the Committee<sup>4</sup> which calls for the SPC to contribute to all aspects of the European Semester within its field of competence and report on them to the Council, the SPC examined the 2016 Commission proposals for CSRs in the areas of social protection and social inclusion (part I of this opinion). Furthermore, in line with the provisions of title X of the TFEU, the SPC carried out in April 2016 an analysis of the implementation of the 2015 Council country-specific recommendations (CSRs) and country-specific challenges outlined in the 2015 Commission Country Reports (released in February 2016) in the area of social protection and social inclusion (part II of this opinion).

**Part I: The 2016 CSRs package**

The 2016 package of CSRs contributes to the objective of the Commission to streamline the European Semester with a stronger sense of priority setting and give greater focus and clarity to the recommendations with a significant decrease in the total number of CSRs (from 102 recommendations in 2015 to 89 this year).

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<sup>4</sup> Council Decision (EU) 2015/773

SPC notes with concern the limited focus on **poverty reduction**, which is explicitly mentioned only in two CSRs even though there are no signs of a rapid improvement in reaching the poverty and social inclusion target of the Europe 2020 Strategy. The number of explicit poverty-reduction CSR is thus the same as in the 2015 package, while in 2013 and 2014 there were explicit recommendations on addressing poverty and social exclusion for 8 and 6 Member States respectively. Moreover, both recommendations are MIP-related, bringing again issues related to social inclusion in the context of the Macro-economic Imbalances Procedure (MIP).

This trend is not in line with the increases in the risk and depth of poverty observed in more than one third of Member States as pointed out by the most recent data from the Social Protection Performance Monitor<sup>5</sup>, which show a continued deterioration in the (relative) poverty situation, with rises in the poverty risk for the population as a whole in 11 Member States, increase in the share of working poor in 6 Member States and a widening poverty gap in 7 Member States.

Moreover, it should be noted that, since 2008 and the beginning of the Europe 2020 strategy, for most social areas the situation has worsened considerably as a result of the economic crisis, despite signs of recent improvement. The most substantial deterioration compared to 2008 is reflected in an increased risk of poverty or social exclusion (in 11 Member States), rises in the share of the population living in (quasi-) jobless households (in 18 Member States), increased income inequality (in 12 Member States) and a rise in the depth of poverty (in 16 Member States), as well as falls in living standards, as evidenced by rises in severe material deprivation (in 11 Member States), against a background of declines in real gross household disposable income (in 11 Member States).

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<sup>5</sup> <http://ec.europa.eu/social/main.jsp?catId=758>

This has to be viewed in a larger context however, as poverty reduction can also be achieved through policy recommendations on improving the **effectiveness of social protection systems**. In fact, the focus on effectiveness of social protection schemes, including the coverage of social assistance schemes and the adequacy of benefits, has remained important in the 2016 CSR package (14 CSRs, the same number as in 2015) but an important share of these CSRs has been put under the MIP procedure (6 CSRs in 2016 vs. 9 in 2015). This year's CSR package put more focus on improving the access to and the quality of social services, as well as to fostering their coordination, given that 6 Member States received recommendations related to social services.

Reforms in **pension systems** remain a major focus of CSRs in the area of social protection and social inclusion. In 2016, the Commission proposed CSRs on pensions to 9 Member States, compared to 14 last year. The focus continues to be on ensuring longer working lives in line with the growing life expectancy through linking pensionable age with life expectancy, closing the gap between statutory and effective retirement age, limiting early retirement pathways and increasing incentives for later retirement. Similarly to last year's recommendations, pension adequacy is mentioned explicitly as a policy objective only for one Member State, while sustainability is explicitly mentioned only for three Member States. Moreover, most of the pension CSRs have been put forward as MIP recommendations (6 out of 9 pension CSRs).

The SPC acknowledges the importance of long-term fiscal sustainability of pension systems. But it also stresses that pension reforms should not separate sustainability concerns from considerations of pension adequacy which requires that full attention be given to the economic, social and political risks associated with lower income replacement in old age and increases in poverty among older people as well as increases in gender gap in pensions.

The SPC maintains that, in addition to adjustments to the statutory pension age, and given the competence of Member States in the area of social protection in general and pensions in particular, other tools (such as restricting access to early retirement pathways, extending contributory periods, including a life expectancy factor in the benefit calculation formula, and/or stepping up efforts in workplaces and labour markets to enable women and men to work longer) also represent valid policy options for increasing the effective retirement age and for adapting pension systems to the changing demographic and economic conditions.

Therefore, as pointed out repeatedly by the SPC, the most appropriate mix of policy options in the area of pensions depends on the specificities of national pension systems, the sustainability challenge and the current and projected adequacy of future pensions, which should be reflected in the way in which CSRs in this area are formulated.

The number of **health-related CSRs** has slightly increased from 11 to 12 while two Member States received CSRs on **long-term care**, the same number as last year. The focus of health recommendations continues to be on cost-effectiveness (8 CSRs) while not all Member States with a CSR in this context have a fiscal sustainability challenge. At the same time, issues related to quality and/or access are explicitly mentioned in the recommendations for 6 Member States, which represents a significant increase, from only two Member States last year, considering that the broader concept of effectiveness could also encompass the dimensions of access to and quality of healthcare.

The SPC would like to underline that cost-effectiveness of health services is to be considered within the wider perspective of health systems and their objectives. Article 168 of the TFEU requires the EU to guarantee a high level of health protection in all policies and activities of the Union. It is important to ensure well-functioning health systems and high level of health protection which should be considered under a social investment perspective, not merely as costs, but as prerequisites for long-term productivity, wealth, competitiveness, sustainable growth, social inclusion and poverty reduction. Although cost-saving measures offer potential immediate efficiency gains, and therefore appear effective in the short-term as expenditure declines, cutting spending does not guarantee decreased future costs. The efficiency gains of such measures on health expenditure growth will be more tangible if structural reforms under the responsibility of the Member States are undertaken with a view to reviewing both the financing of the system and its effectiveness in improving health outcomes.

## **Part II: Main findings from the SPC multilateral surveillance reviews on the implementation of the 2015 CSRs**

In July 2015, the Council adopted 102 recommendations to 26 Member States. The number of recommendations based on art. 121 and 148 TFEU which address social protection and social inclusion policies and which were reviewed by the SPC totalled 42 (14 on pensions, 13 on health and long-term care and 15 on social inclusion), a clear sign of the importance of such policies in the structural reform agenda. The implementation of the recommendations in the area of social protection and social inclusion was reviewed by the SPC in three thematic sessions in April 2016.

### **Reforms of pension systems**

Reforming pension systems has consistently been an important element of the structural reforms agenda for a number of Member States since the start of the European Semester. Every year since 2011, more than half of the Member States have received CSRs on pensions. Most of those have dealt with the need to promote longer working lives in line with the growing life expectancy, while some have focused on such aspects as equalising the pension age for men and women or developing supplementary savings.

The 2016 multilateral review on pensions showed that the majority of Member States with Council recommendations in this area are making progress in addressing their challenges. Given the complexity of pension reforms and the involvement of social partners in the negotiation process, reforms are more often being implemented in the context of a multiannual cycle.

Increasing the retirement age is a priority for the majority of Member States. At present, 26 out of 28 Member States have adopted provisions for increasing the statutory retirement age, including 9 who have directly linked future increases to changes in life expectancy. Two Member States were recommended to bring forward or adopt harmonised pensionable ages for men and women. Moreover, 4 Member States were called to link pensionable age with changes in life expectancy and, in one case, to close the gap between statutory and effective retirement age.

Many Member States have also taken steps to limit early retirement pathways, increase incentives for later retirement and revise benefit calculation. In this context, a number of Member States are in the process of reviewing access to disability pensions and reforming work incapacity schemes in order to facilitate labour market participation and the accumulation of pension rights. Others focus on increases to minimum pension benefits as a way to strengthen the social protection to those most in need.

To ensure the success of these reforms, complementary measures are still necessary to maintain incomes after retirement, such as extending working lives and providing additional retirement incomes through complementary pension savings. Some Member States are combining measures to reform their pensions systems with initiatives in the labour market aimed at improving the employability of older workers, while others are developing broader active ageing strategies.

The reform strand where least progress has been made is the development of supplementary retirement savings. Only a few Member States have taken significant steps to improve the coverage and quality of supplementary pensions. Last year, two Member States took action to adjust their complementary pension schemes, while one Member State continued with efforts to align the special pension schemes for some professions with those for other workers.

Recent reforms have significantly contributed to bringing the cost of ageing under control. Nonetheless, the long-term sustainability of the pensions systems cannot stem only from reforms aimed at curbing future spending trends; it is also essential to balance sustainability with adequacy concerns and to ensure that women and men have adequate incomes in old age.

### **Reforms of health systems**

The main focus of CSRs in the area of health has been on reforms to ensure cost-effectiveness and sustainability of healthcare. Population ageing and other factors, such as the high costs of innovative technologies and medicines, are putting increased pressure on the financial sustainability of health systems and the ability to provide adequate healthcare for all. Ensuring universal access to high quality care while guaranteeing the financial sustainability of health systems require increased efforts to improve the effectiveness and efficiency of health systems.

In the 2015 European Semester, 11 Member States received CSRs in the area of healthcare, out of which 8 were recommended to improve the cost-effectiveness of the healthcare system or remedy the inefficient use of resources. The multilateral surveillance review showed that the majority of Member States with Council recommendations on health are taking measures to address cost effectiveness and sustainability challenges.

Most of the challenges for these Member States relate to long-term fiscal sustainability, inefficient use of resources, access and inequities in access to healthcare, availability of qualified health workforce, low public funding or poor health outcomes. Moreover, they point to deficiencies in the governance of the healthcare sector. The centralisation of the procurement system has been undertaken in several Member States as an effective measure for reducing both the cost of drugs and of medical supplies. Increasing the use of generic drugs has also been employed in some Member States as a way to reduce expenditure for pharmaceuticals.

Some Member States have embarked on ambitious health reforms defining long-term priorities in the field of healthcare. These are in many cases done in the context of multiannual, comprehensive National Health Strategies. Similarly, reforms in hospital care, including linking hospital financing to outcomes, developing out-patient care and reviewing procurement arrangements constitute a significant part of Member States' efforts in ensuring better efficiency in spending. For this purpose, a few Member States introduced mechanisms for the measurement of hospital efficiency, hospital benchmarking and ranking.

Several Member States have also made efforts to improve the transparency of procedures and the availability of information, as well as to enhance the patients' rights and choice of health care providers and to reduce the waiting time for health care services. Addressing fragmentation in services and re-organisation of governance arrangements are other areas of important policy efforts. Still, the reforms initiated in a number of Member States need to be deepened so as to ensure a sustainable financing basis for health systems as well as adequate access to health care services and health insurance, including for the most vulnerable.

### **Reforms of long-term care systems**

Last year, two Member States received CSRs on long-term care issues, with an overall focus on improving cost-effectiveness and concerns on provision and access to adequate long-term care services. The measures adopted by these Member States aim at addressing the challenges through structural reforms such as a shift from institutional to community-based care, strengthened support to informal carers and improved policies for prevention, rehabilitation and independent living. However, more efforts are necessary to ensure the long-term care sustainability and to facilitate the access to adequate, affordable and quality long-term care. In order to achieve this, Member States should adopt a proactive policy approach, promoting independent living and preventing the loss of autonomy, reducing thus the need of long-term care services.

### **Reforms in the area of social protection and social inclusion**

Improving the functioning of social protection systems and reducing poverty has been a continuous focus of the Council recommendations to a number of Member States. The multilateral review on social protection and social inclusion showed that most of the 14 Member States that received recommendations in this field in 2015 are making efforts to address issues related to coverage and adequacy of social benefits and their link to activation. Some Member States increased the amount of income support or maintained it as a universal benefit, others have focused on unemployment benefits and social assistance and their better link to activation and on improved targeting and coverage for social transfers.

Member States are also making efforts to develop comprehensive databases on the recipients of social benefits and services as a way to improve monitoring and targeting. Conditionality has generally been increased and availability for work has been more tightly enforced in many of the Member States concerned.

Several Member States took action to facilitate access to quality social services in order to reduce the risk of poverty or social exclusion. Some of them adopted measures to provide support for those furthest from the labour market in their reintegration into working life as well as ensuring social participation for those who cannot work. Many Member States focused their reform efforts on addressing child poverty and family benefits, aiming in particular at facilitating support to parents' access to the labour market, and enhancing preventive approaches through early intervention and increased support to families.

Providing integrated services tailored to individual needs increases the efficiency and effectiveness of spending. While some Member States already provide integrated services and 'one-stop-shops', others lack policy coordination at the national level, leading to fragmentation and inconsistencies in service provision.

### **Part III: Governance aspects of the 2016 European Semester process**

The improvement observed last year in the governance aspects of the Semester process has continued also this year under the Dutch Presidency. The early release of the Commission 2016 Country Reports, following the approach established in 2015 has proven to be effective in ensuring a deeper multilateral surveillance by the Council and its Committees and stronger national ownership of CSRs, both of which are critical for the success of the Semester. The Country Reports showed a more thorough analysis of employment and social issues. The time available to discuss the findings of the Country Reports reinforced the multilateral nature of the surveillance exercise and had an important role in building a shared understanding of the challenges and policy efforts between the Member States and the Commission.

Moreover, in the preparation of the proposals for recommendations, the Commission has taken into account the conclusions of the SPC multilateral surveillance reviews to a greater extent than in previous years, highlighting the importance of following-up on the CSR implementation by the Member States. The SPC also welcomed the streamlining of the recommendations and the analytical underpinning of the recommendations in the recitals, resulting in an increased focus on specific policy areas and avoiding the bundling of unrelated policy concerns in the same CSR.

However, in some cases this led to offloading a number of additional policy issues and concerns to the recitals, often without a corresponding policy recommendation. This practice, which has already been noted in previous Semesters, should be avoided in the future, given that there are several analytical reports and instruments that can be used to identify social policy challenges, such as the SPPM and the SPC Annual Report.

It should be also highlighted that the timeframe between the publication of the Commission proposals for CSRs and the Committees' discussions has allowed for better national coordination, which led to a constructive and substance-based dialogue on the main directions of social protection reforms. The improved organisation of the joint work by the EPSCO and ECOFIN advisory Committees has ensured a coordinated and balanced preparation of the CSRs adoption by the Council (EPSCO and ECOFIN).

However, the number of CSRs in the areas of social protection and social inclusion that were issued as MIP recommendations (19 CSRs) remains high. As the SPC has reported to the Council during the previous Semesters, the current MIP legislation (the 'six pack') does not include policy areas and indicators related to pensions, health, long-term care and poverty reduction issues in the scope of the MIP. Similarly, a number of structural reforms related to pensions and health are recommended under the Stability and Growth Pact (SGP). The SPC reiterates that all issues within the competence of employment and social affairs ministers are to be decided in the EPSCO Council in order to support coherence, ownership and implementation. This means that all issues related to EPSCO competence in the field of social protection, including those raised under the SGP need to be discussed jointly by the EPSCO and ECOFIN advisory committees.