Mainstreaming Employment and Social Indicators into Macroeconomic Surveillance

Annex 7

Study for the EMPL Committee
Mainstreaming Employment and Social Indicators into Macroeconomic Surveillance

Annex 7
Country Case Studies

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1.1 Executive summary

In Finland the population is ageing rapidly. The number of people leaving the labour force each year exceeds the number of people entering it. The global post-2008 crisis together with the weak export performance in a context of industrial structural change has led to economic downturn over the last few years. As a consequence, Finland is considered to be in a situation of macroeconomic imbalance requiring policy action and monitoring in the Commission in-Depth Reviews (IDRs) 2015.

Economic downturn and fiscal consolidation have increased the challenges for social security and resulted in diminishing opportunities in the labour market. Unemployment has increased and the number of long-term unemployed has risen substantially. The number of under-employed households has increased but otherwise the changes in the main social and employment indicators were moderate during 2008-2014. However, taking into account the recent developments, it will be difficult to reach the Europe 2020 targets.

In Finland there is little political and public debate on the challenge of reaching the Europe 2020 targets. Likewise, European Semester and country specific recommendations appear to receive little attention at the national level. Representatives of the civil society organisations are calling for increasing emphasis on and awareness of the Semester process at the national and local level, which could be achieved through public consultations and media.

An important aspect of governance in general, where there is room for improvement, is the process of preparing and drafting Commission initiatives. The ministries criticized the extremely tight timetables for development of the national processes and preparing Member States’ positions on the CSRs, with the result that meaningful consultation of the national stakeholders as well as multilateral discussion or surveillance at the European level is challenging. Some changes have already taken place as the Commission has renewed its calendar in 2015 with the aim of increasing political ownership of and accountability for European and national decision-making.

The interviews revealed lack of involvement in the European Semester at the national level, especially from the point of view experts representing civil society organisations, with lack of public debate, while the organisations have insufficient opportunities and ways to influence the process. For the civil society organisations, the Semester appears to be remote and the process together with the NRPs were perceived as controlled solely by the Ministry of Finance. However, bilateral consultations with the Commission in 2015 were proved a good practice and can be seen as one way to increase the ownership of the stakeholders.

The social partners seem to be better informed about and involved in the European Semester but also expressed the need to be engaged in timely and effective ways in the preparation of the National Reform Programmes as well as the overall Semester process.

According to all the stakeholders interviewed, the European Semester exercises in 2014 and 2015 have brought renewed attention to the social and employment issues but on the whole economic issues were judged to be predominant and little has been achieved in balancing economic policy with social objectives. Even though social
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indicators are given little priority they serve their place as auxiliary indicators in the scoreboard for monitoring the Europe 2020 poverty target. Adding more indicators to the scoreboard was not seen as a value in itself, while comprehensive social impact analysis was called for. Discussion of the further development of social indicators as well as strengthening the social dimension of the EU raise the question as to whether they will also lead to further enlargement of EU competence. According to the stakeholders, national competences must be fully respected.

1.2 Background

1.2.1 Economic conditions

The Finnish economy is facing severe difficulties and GDP growth has long been weak. In 2009 the GDP declined by 8%, and the recovery years 2010-11 were followed by a three-year downturn which is expected to come to an end in 2015 (projected increase 0.5%) and the GDP is expected to start growing again gradually. The debt-to-GDP ratio had increased rapidly from 33% in 2008 to nearly 60% by 2014 and is projected to exceed this threshold level in 2015. The debt ratio is still, however, around 35 percentage points smaller than that of the euro countries on average. Public finances lapsed into deficit in 2009 and the budget deficit is forecast to remain above 3% of the GDP in 2015-16. However, according to recent assessment by the Commission (10 June 2015), the general government deficit would fall well below the 3% reference value with the measures outlined by the new government. Together with a rapidly deteriorating dependency ratio caused by population ageing, which in Finland is sharper and more abrupt than in many other EU states, this constitutes a challenge for the sustainability of social protection. The working age population is shrinking and the number of people leaving the labour force each year exceeds the number of people entering it.

1.2.2 Labour market conditions

Due to weak economic development, employment growth has been negative for two years in a row and unemployment has been increasing, from 6.4% in 2008 to 8.7% in 2014. Despite the increase, unemployment was still below the EU average (10.2%), but the unemployment rate increased by 0.5 percentage points in 2014 compared with 2013, whereas in the majority of the EU-countries the unemployment rate has decreased (EU average declined from 10.9% to 10.2%). The growth in unemployment was particularly marked among the young and the older workers. Long-term unemployment, with the level of 1.9%, is not as severe an issue as in the EU on average (5.1%), but it is on an increasing trend. The number of long-term unemployed has doubled since 2008. The long-term unemployment rate for men is higher than for women, with respectively 2.3% and 1.6%. Long-term unemployment affects men, young people and low-skilled workers more than other groups on the labour market. The employment rate of 20- to 64-year-olds (73.1% in 2014) is well above the EU average (69.2%), especially for women (72.1 % vs.

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1 See e.g. European Commission, SWD (2015) 45 final; Ministry of Finance 2015a, b.
2 European Commission. Assessment of the 2015 Stability Programme for Finland.
3 European Commission. Addendum to the assessment of the 2015 Stability Programme for FINLAND.
4 Prime Minister's Office. Programme of Prime Minister Sipilä’s Government.
5 Ministry of Employment and the Economy, Employment Service Statistics. 
http://www.findikaattori.fi/en/37
63.5%) whereas men are lagging somewhat behind (74% vs. 75%). The overall development of the employment rate has, in recent years, been affected by the ageing of the population as the post-war baby boom generations have moved up to the 65-74 age group, and the population in the 15-64 age group has diminished. Finland is performing better than the EU average in tackling dropping out from school (with a rate of 10.2 % of dropouts compared with an EU-average of 12.4 % in 2014), but whereas the rate has remained fairly stable over the last decade, the EU-average has improved.

1.2.3 Social conditions

Moderate wage growth and persistent unemployment are affecting disposable income, limiting the growth of private consumption. The annual growth rate of real household disposable income increased up to 2011, after which it showed signs of stabilisation, with a downward trend as from 2013. However, poverty risk and income differentials in Finland are lower than the EU average. Every fourth EU citizen is at risk of poverty or social exclusion (AROPE), whereas in Finland this rate remained fairly stable (16-17%) over 2008-2014. A notable issue in this field is that the at-risk of poverty rate (AROP) for women aged 65+ is above the EU average and almost twice than for men.

The number of people suffering from material deprivation has fallen slightly, but the number of those in underemployed households has grown in comparison to year 2008. The income differentials are among the lowest in the EU. The Gini coefficient went up by 0.4 p.p. to 27.6 from 2012 to 2013 but was more or less at the same level as ten years ago. However, there are marked socioeconomic inequalities when it comes to disability, health and life expectancy that also affect labour market participation.

Healthy life expectancy is 11 years more for highly educated men than for those with only basic levels of education, while for women the gap is 8 years.

1.3 The European Semester exercises in 2014 and 2015 in the country and the main changes relative to previous years according to the perceptions of the main stakeholders

1.3.1 The main issues at stake and the CSR process

The main social and employment issues at stake in Finland can be synthesised as follows:

- **Weak GDP growth.**
- **Population ageing with a rapid deteriorating dependency ratio:**
  - in Finland it is sharper than in many other EU states: this constitutes a challenge for the sustainability of social protection;

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7 Statistics Finland (2015d).
the working age population is shrinking and the number of people leaving the labour force each year exceeds the number of people entering it.

- **Negative employment growth and increasing unemployment:**
  - particularly marked among the young and the older workers;
  - the number of long-term unemployed has doubled: it is higher for men then for women; it affects young people and low-skilled workers.

- **Poverty is a an issue for elderly women:**
  - the at-risk of poverty rate (AROP) for women aged 65+ is above the EU average and almost twice than for men;
  - the number of underemployed households is growing.

- **Marked socioeconomic inequalities:**
  - they concern in particular disability, health and life expectancy that also affect labour market participation: differences are particularly high for those with only basic levels of education and for women.

In addition MIP and auxiliary indicators point out additional issues, relevant for the country even though in all the cases remaining much below EU average:

- an increasing trend in Long Term Unemployment;
- an increasing trend (after 2012) of Youth Unemployment Rate and of Young People NEET;
- a very recent increase (2014) in the % of people at Risk of Poverty or Social Exclusion and in the at risk of poverty rate, as well as in the Persons Living in Households with Very Low Work Intensity rate.

### Table 1: Employment and Social Indicators

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<tbody>
<tr>
<td>Unemployment rate (moving average)</td>
<td>8.7</td>
<td>7.7</td>
<td>8</td>
<td>7.9</td>
<td>8.2</td>
<td>9.1</td>
<td>8.5</td>
<td>9.9</td>
<td>10.3</td>
<td>10.5</td>
<td></td>
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<tr>
<td>% Change in Employment</td>
<td>1.6</td>
<td>-0.7</td>
<td>0.9</td>
<td>-1.5</td>
<td>-0.3</td>
<td>1.0*</td>
<td>0.7*</td>
<td>0.4*</td>
<td>0.3*</td>
<td>1.0</td>
<td></td>
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<tr>
<td>Activity rate</td>
<td>74.7</td>
<td>74.5</td>
<td>75.2</td>
<td>75.2</td>
<td>75.4</td>
<td>69.7</td>
<td>71</td>
<td>71.7</td>
<td>72</td>
<td>72.3</td>
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9 Indicators’ specification: 1) 3-year backward moving average of unemployment in % of labour force; 2) %y-o-y change in employment; 3) percentage of economically active population (15-64 years) on the total population of the same age; 4) unemployment in % of active population in the same age group; 5) youth (15-24 years old) unemployment in % of active population in the same age group; 6) young people (15-24 years old) not in education, employment or training in % of total population; 7) people at risk of poverty or social exclusion as % of total population; 8) people at risk of poverty after social transfers rate as % of total population; 9) severely materially deprived people as % of total population; 10) people living in households with very low work intensity (the adults worked less than 20% of their total work potential during the past year) as % of total population. The second part of the table summarizes data for the EU27 (2005-2013) and the EU28 (2014). Data Source: from 2005 to 2013 Statistical Annex of AMR 2015 http://ec.europa.eu/economy_finance/economic_governance/documents/alert_mechanism_report_2015_statistical_annex_en.pdf; For 2014 http://ec.europa.eu/eurostat/web/macroeconomic-imbalances-procedure/indicators (the data published on this page are regularly updated and may differ from those used for the Alert Mechanism Reports).
In general, stakeholders found that over the last few years both social and employment issues have gained renewed attention within the European Semester, due largely to economic crisis together with rising social and political discontent among European citizens. Employment is stressed more than social issues but the Commission has also issued several recommendations concerning the social sector. However, macroeconomic perspective is clearly seen to dominate the process and thus no radical changes can be seen to have taken place since the European Semester exercises in 2014 and 2015, nor in comparison to earlier years.

According to representatives of the Ministry of Social Affairs and Health (MSAH) for Finland social issues have gained increased attention in CSRs but a closer look reveals that the recommendations are mostly about the efficiency or cost-effectiveness of health service provision as well as the sustainability of the social security systems rather than the availability of services or adequacy of benefits (pensions) in combating poverty and social exclusion. Financing and economic sustainability remain the dominant themes and social objectives ultimately are not very highly considered in the Semester governance architecture.

2012

CSR n.3: Youth, long-term unemployment, retirement
Implement the ongoing measures to improve the labour market position of young people and the long-term unemployed, with a particular focus on skills development. Take further steps to improve the employment rate of older workers, including by reducing early exit pathways. Take measures to increase the effective retirement age taking into account the improved life expectancy.

2013

CSR n.2: Administrative reforms
Ensure effective implementation of the on-going administrative reforms concerning the municipal structure, in order to deliver productivity gains and cost savings in the provision of public services, including social and healthcare services.

CSR n.3: Retirement and youth/long-term unemployment
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Take further steps to increase the employment rate of older workers, including by improving their employability and reducing early exit pathways, increasing the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy. Implement and monitor closely the impact of ongoing measures to improve the labour-market position of young people and the long-term unemployed, with a particular focus on the development of job-relevant skills.

2014

**CSR n.2: Health and social services**
Ensure effective implementation of the ongoing administrative reforms concerning municipal structure and social and healthcare services, in order to increase the cost-effectiveness in the provision of public services.

**CSR n.3: Unemployment and Retirement**
Improve the use of the full labour force potential in the labour market, including by improving the employment rate and the employability of older workers, and increasing the effective retirement age, by reducing early exit pathways and aligning the retirement age or pension benefits to changes in life expectancy. Improve the labour-market prospects of young people and the long-term unemployed, with a particular focus on vocational education and targeted activation measures.

2015

**CSR n.2: Retirement**
Adopt the agreed pension reform and gradually eliminate early exit pathways. Ensure effective design and implementation of the administrative reforms concerning municipal structure and social and healthcare services, with a view to increasing productivity and cost-effectiveness in the provision of public services, while ensuring their quality.

**CSR n.3: Unemployment**
Pursue efforts to improve the employability of young people, older workers and the long-term unemployed, focusing particularly on developing job-relevant skills. Ensure, in consultation with the social partners and in accordance with national practices, that wages evolve in line with productivity.

According to the stakeholders for example, health should not be examined from the point of view of costs alone; it is also important to recognise the significance of health as an important element of sustainability in the public economy and economic growth. Reducing inequalities in health also has a positive effect on the national economy. "Currently the analysis focuses on economics only and the policy effects on EMU but what we actually are missing is the reciprocal or two-way analysis i.e. economics and social issues should be seen from mutually reinforcing perspective."

The National European Anti-Poverty Network (EAPN-Fin) is calling for rebalancing of the Semester and CSR on poverty. The macroeconomic CSRs 2014 (1 and 2) clearly dominate, with little evidence of a more balanced social and economic approach. For example, the main CSR 1 on reducing Finland’s excessive deficit, with focus on pension reform and raising retirement ages, makes no mention of adequacy of pensions. In addition, the focus 2014 in CSR 2 concerning social and healthcare services is on cost-effectiveness. Nevertheless, for Finland quality of service is also mentioned, which distinguishes it from the corresponding CSRs of the other Member States. In 2015 this issue hasn’t been mentioned.

In general, over recent years the CSRs on pursuing efforts to improve the employability of young people, older workers and the long-term unemployed as well as ensuring wage development in line with productivity have been found appropriate, focusing on major imbalances without going too far into details.
On the other hand, the CSRs 2014 on aligning statutory retirement age to changes in life expectancy proved excessively prescriptive and narrowly defined with regard to increasing the effective retirement age. As one interviewee puts it, "Lifting up one system-specific element or measure is too narrow in scope. Social security systems as well as labour market rules and regulations all interact and must be taken into account as measures for reaching a recommended target". Commission recommendations to Finland with regard to raising the retirement age led to amendments in the CSRs in 2012-2014-2015. According to representative of the Ministry of Employment and the Economy (MEE) recommendation on retirement age hardly appears very country-specific because at one stage an identical recommendation was made to several Member States without taking into account their national circumstances and institutional structures.

The Ministry of Finance (MoF) deems it important for the European Semester to have a strong focus on supervising the macroeconomic performance of the Member States. According to the MoF, social issues are of importance and currently wide-ranging discussions are underway to find ways to integrate them into the Semester process.

However, the European Semester is not made more socially balanced merely by adding social and employment indicators to the already existing MIP scoreboard of indicators. This is not the most appropriate way to proceed. An important issue in this respect is the sovereignty of the Member States in the arena of social welfare. The MIP process entails fines if Member States repeatedly fail to meet their obligations. On the other hand, employment and social policies fall under the national competence of the Member States where the EU’s current competences are limited or lack legal basis.

The issue of the extension of EU jurisdiction is also recognised by other stakeholders and is currently of major importance in developing social Europe. The stakeholders do not see it as a problem that the social and employment indicators are not directly part of the macroeconomic scoreboard. On the contrary, Finland is very precautious about initiatives adding these indicators to the MIP scoreboard.

In any case, according to the MoF, an early warning system comparable to the economic and fiscal indicators in the MIP could be of use. However, these processes should be kept separate and such a surveillance system could best be established by building up own scoreboard, Social MIP, which could be managed in connection with in-depth-reviews or as a separate process. However, the possibility of sanctions for violating social thresholds if Member States repeatedly fail to take action on imbalances is not seen desirable.

The Confederation of Finnish Industries (EK) appears largely to concur with the considerations presented by the MoF. According to the EK European, the Semester must retain a strong focus on supervising macroeconomic performance, encourage Member States to stabilise public finances and carry out structural reforms. Growth and job creation should be the most essential objectives. Further, the EU’s global competitiveness needs to be placed at the centre of the Europe 2020 strategy, and the competitiveness component of the NRP and CSRs needs boosting. Improving companies’ competitiveness is the key to creating employment and well-being. The European Semester is the appropriate framework for the follow-up and monitoring of the structural reforms in the Member States. “Recommendations and policy which result from the Semester should focus on growth-friendly structural reforms improving
EU’s global competitiveness by ensuring a competitive, predictable and well-functioning business environment which create jobs, which is a pre-requisite for growth and well-being in the EU”.

The Central Organisation of Finnish Trade Unions (SAK) is supporting enhancement of the social dimension within the European Semester and finds that there is a need to strengthen a minimum level of regulation. "ETUC is willing to strengthen the role and number of social indicators, however, SAK together with organisations in other Nordic countries have been more precautious, taking into account the possible consequences to national competences.”

Some improvements appear to have taken place in the consultation process in the phase before the publication of the recommendations. According to interviewees, the Commission’s fact-finding missions were more comprehensive in 2015 than in the previous rounds. This emerged especially from an interview with the representatives of the social and health organisations as they mentioned that they had been contacted for a consultative meeting with the Commission representatives. Similarly, this consultation round was mentioned as a good practice by the Finnish Centre for Pensions and social partners. Whether or not a direct consequence of several stakeholders’ involvement, however, quality in reporting was said to have increased. As one interviewee puts it, “Quality of 2015 Country Report\(^\text{10}\) has stepped up to a new level if we compare it to previous rounds”.

Further, “Actually Country Reports should be given even more visibility and they should serve more as a basis for a national debate. After all, the recommendations are built on these reports”.

However, there is still room for improvement in the involvement of national stakeholders. Representatives of civil society organisations pointed out that they are largely left out of the Semester exercises, with no genuine interactive participation in the process. For example, the Finnish Federation for Social Affairs and Health (SOSTE) is formally involved through participation in the ministerial subcommittees. The competent ministry consults the stakeholders but the practical impact on the process from the organisations’ point of view is minimal. This national process should be further enhanced. This is also underlined by the EAPN-Fin, which lacks national channels but can impact on the Semester process through the European umbrella organisation EAPN, which has consultative status with the Council of Europe.

1.3.2 The way these recommendations have been treated at the national level in NRP (potential effects on economic vs labour market/social reforms) and negotiations

The Semester process has a very low profile in Finland. The recommendations are not widely discussed in the media, nor are they widely known to the general public.

Representatives of the civil society organisations, in particular, complained that NRP is confined under the control of the MoF. Another interviewee puts it, “NRP is exclusively drafted by MoF but you can find examples from other countries where the process is more open. In France, for example, Age Platform has contributed

A major challenge for organisations remains to understand the Semester process and the influence that it has. Participation in the NRPs and Semester process in general has generally been very low.

The civil society organisations called for a forum with the possibility to broaden discussion and participation in the European Semester as well as the drafting of NRPs.

Ministerial subcommittees also offer a channel for debate to umbrella organisations like SOSTE, but taking into account the tight timeframes the chances for real debate have been limited. It was also mentioned that only fractions of the NRPs are available for comments in subcommittees, i.e. for the part that comes under the governance of the competent ministry. As the chances for real participation in the whole process are limited, the European Semester is felt to be quite remote.

Another point of criticism is that the NRPs follow the government programme very closely, lacking any new initiatives or new policy measures. According to the organisations, there is a lack of debate, e.g. on how social investments contribute to the economy. It would be valuable to debate these issues in a wider consultation group during preparation of the NRPs and the views of the stakeholders could, for example, be annexed to the NRPs and if no common position emerges, both opinions should be included. According to the organisations, the NRPs are also drifting away from their original aim of implementing the Europe 2020 Agenda.

Turning, now, to policy responses introduced to improve the employment and social situation in Finland, they appear to be congruent with the CSRs presented in the 2014 and 2015 European Semester exercises. Reforms are being carried out in line with the recommendations, even though the reform process may have taken some time. For example, Finland is to adopt a pension reform in 2017 very much in line with the pension CSRs issued over several years, right from the beginning of the process. As a representative of the MoF puts it, “The idea of linking the retirement age to life-expectancy and taking it into a national evaluation and as a subject of further analysis has its origin in the CSR.”

The recommendation on linking retirement age to life expectancy was an exceptional new policy measure. Otherwise, the CSRs have actually cited much of the government’s already initiated reforms instead of proposing new measures or initiatives. Thus, the recommendations can be seen as continuation of the ongoing policy rather than influencing new policy measures and reform negotiations.

1.3.3 Appropriateness of the indicators adopted in the European Semester Exercise and their role in informing the CSR and the NRP

Generally speaking, the current auxiliary social indicators were found relevant and hold their place in the scoreboard serving for the social objective assigned with the Europe 2020 poverty target. In addition, the auxiliary employment and social indicators were judged appropriate to provide additional information on aspects linked to the general macroeconomic situation. However, they are not able to provide sufficiently clear contextualization of the socio-economic specificity of each country and are insufficient for production of evidence-based CSRs. Additional policy analysis is required to be able to suggest sound strategies through the CSRs and NRPs.

All the stakeholders emphasised the need for comprehensive policy analysis. According to MSAH, instead of discussing single indicators and whether or not there is
a need to supplement the scoreboard with one or more additional indicators, the focus should be on comprehensive analysis of the social situation, especially if the objective is to measure the social consequences of economic development, which are usually measurable only in the longer term (e.g. access to decent housing and health care).

The specific feature of these social indicators is that they will show adverse trends only at a late stage, for events usually follow an order such that, for example, when witnessing growing poverty, a country has usually been in economic decline for quite some time with increasing unemployment.

Another choice is to use leading indicators (e.g. households’ financial distress; unemployment; household disposable income) for describing a situation where the social conditions threaten to weaken. These indicators work as an early-warning system. Leading indicators enable to start giving policy recommendations at a preventative stage and provide greater scope for preventative policy measures, rather than trying to implement corrective ones once the damage has happened.

Thus, when it comes to the **choice of indicators** the question arises: **what should they measure?** A single indicator generally describes only one aspect of the social conditions and is thus insufficient for any wider interpretations. For example, an indicator may show an average situation for Finland better than that of other Member States. However, it cannot reveal, for example, the ongoing polarization between social groups. Therefore, it would be more valuable for the evidence-based analysis to make better use of already existing analytical tools which describe the overall social situation and have been developed in EMCO’s and SPC’s indicator sub-groups i.e. Employment Performance Monitor (EPM), Social Protection Performance Monitor (SPPM) and Joint Assessment Framework (JAF), in addition to the scoreboard of the key employment and social indicators.

For CSRs to be evidence-based, institutional welfare structures need to be taken into account. The Member States’ institutional structures in providing social services and benefits differ largely from one state to another. The current package of surveillance indicators is based only on cash benefits instead of taking services into account as well, thereby lacking a larger perspective. Thus, there is a need for more diverse metrics i.e. deeper country-specific policy analysis.

### 1.4 Current and future challenges according to national stakeholders

A major challenge of governance mentioned in general lies in the **timing of preparing and drafting Commission initiatives**. The Semester deals with important political reforms which take time at the national level not only for implementation but also for negotiations with the national stakeholders. The time allocated both to the Council preparatory bodies to prepare the Council position and to the Member States to comment upon and discuss the proposal in a genuinely multilateral way is disproportionately short compared to the time available to the Commission to prepare the package.

According to ministerial representatives, the **process time-frames were identified as a critical point**, endangering the success of the whole Semester. Semester exercises should result in concrete, focused and coherent policy advice with multilateral process where peer pressure plays a great role leading to better implementation. For peer pressure to work, it is fundamental to promote convergence
of views on the underlying real challenges, analytical frameworks and appropriate policy responses.

Recommendations should concentrate only on major imbalances, which would in itself lead the focus to genuine multilateral discussion. Currently this core of the whole process has not worked as originally planned.

Thus, the Commission’s changes for 2015 in modulating the timing of the European Semester by advancing the date of Country Reports publication by three months works in the right direction, allowing more time for discussions with stakeholders and possibilities for increasing ownership at the national level. According to representatives from the social partners: "Spring schedule has been tight with some variation in it every year. In practice, proper consultation of social partners has not always been possible and in some cases we have been informed ex-post on the views of the Government on the Commission Proposal for the CSRs."

Closely related to the issue of timing is the level and amount of CSRs given to Member States. In 2015 the number of recommendations has been significantly reduced, and they are at more general level than before. This has been seen as a positive step forward. So far, a key challenge with the CSRs has been that the level and significance of the recommendations has varied greatly from one country to another. “The CSRs should be prioritized and focus on major imbalances i.e. issues in which there are great need of action. A reduced amount of recommendations focusing on important challenges would attract more attention to the political discussions within the Member States. So far, there has been limited success to organize real debate of the substance issues or a horizontal discussion about the topics of the European Semester on political level”, as described by ministerial representatives.

According to SOSTE the main challenge in Finland is that the process is not visible and there are real challenges to get member organisations more interested in the process. Some kind of national-level toolkit on engaging with European Semester is needed.

Civil society organisations highlighted that they still do not know who they should be talking to and when to try to influence the drafting of NRPs. The European Semester was found to be a complex ensemble which requires a considerable amount of learning as well as proactivity to follow the process and, even more, to attempt to affect the process. The resources are scarce, however, and largely allocated for hands-on work, making involvement in the process even more challenging.

The organisations were also worried about what is going to happen to social Europe taking into account the current economic situation and the probability that the Europe 2020 targets will not be reached, and in particular the main social target for poverty reduction. Thus, it would be important to strengthen the European Semester’s social dimension. Otherwise, there is a risk that social Europe will be totally overridden by economic objectives. On the other hand, all the stakeholders expressed worries as to whether this will lead to enlargement of EU competence.

1.5 Suggestions to improve attention to employment and social issues in the European Semester

Finland has a strong tradition of tripartite bargaining and co-operation between social partners and government. Social partners play an important role at the national level
and have strong influence in employment and social issues through tripartite consultations. Thus, they have their place in the decision-making structures, and this seems also to reflect involvement in the Semester process, as the general reaction of the representatives of the social partners interviewed was that they were, in fact, well involved. Officially, social partners are represented in subcommittees where e.g. the NRP is submitted for consultation as part of an informational hearing process.

However, there is still room for improvement. Due to scheduling difficulties, the social partners have in some cases been informed ex post, thus lacking the chance of real involvement. EK and SAK support the principles included in the EU level BusinessEurope and social partners’ joint declaration concerning European social partner involvement in the economic governance (e.g. in the preparation of the AGS, the NRPs and during the CSR adoption process)\(^\text{11}\).

According to the MSAH, there is further room for improvement of the joint work between separate Committees i.e. EMCO and SPC, as well as between SPC and EPC.

“Taking an example of pensions, EPC publishes sustainability report i.e. Ageing Report and SPC Adequacy Report which actually are two sides of the same coin but the actual link between these separate analyses is weak and could be strengthened and integrated to work better together”. Likewise, the European Semester could be made more socially balanced by introducing more coordinated governance of the process between ECOFIN and EPSCO. According to an interviewee, “EPSCO and its Committees (EMCO, SPC) with competent ministries should be integrated in the process because they have the analytical expertise needed for a comprehensive analysis in the field of social and employment issues”.

From the point of view the civil society organisations, the European Semester is a closed discussion between national governments and the European Commission.

According to representatives of the EAPN-fin, “The minimum requirement would be a chance to comment NRPs within a week or two week time-frame. Even better would be creating forums for meeting with Commission, ministries and interest organisations e.g. twice a year for increasing the awareness of the Semester and interaction between different stakeholders. This should be created as a permanent operating model. In some countries these kinds of structures are in place for enabling participation in the decision-making. Currently we are largely off the map”.

The Commission’s discussions with national stakeholders could foster domestic political debate on the recommendations and facilitate their implementation. In return, the stakeholders would be given the opportunity to draw attention to special national circumstances. As previously mentioned, the Commission’s country visit was seen as a good practice. According to SOSTE these kind of models should be developed further, “e.g. public consultation organized by MoF or Commission from the draft NRP would work as means for opening the process”.

One expert also brought up the point that the role of the European Social Fund in the European Semester should be emphasised more than is currently the case, as it is a significant financial resource in the implementation of employment and social policy reforms by Member States, in line with the Europe 2020 Strategy. This could, for its part, also work towards increasing national ownership of policies, “There seems to be

\(^{11}\) Declaration by the European Social Partners 2013.
a lack of coordination when it comes to the three parallel processes, i.e. Europe 2020, European Semester and European Social Fund. At a national level they don’t seem to dialogue with each other much. If you look from afar all the three processes work towards a more social Europe. Their interconnectedness should be emphasized more.”

Instead of adding single indicators to the surveillance scoreboard the discussions concentrated more on the need for comprehensive analysis referring to work that already takes place, for example in SPC and EMCO indicator sub-groups (ISGs). These should be utilised and integrated more than is currently the case.

There appeared to be little transparency about how much the Commission takes advantage of the ISGs’ output while drafting CSRs. For example, the purpose of the Joint Assessment Framework (JAF) is to increase comparability between the countries and create common tools for analysis.

However, some additional indicators to be integrated were mentioned. The Central Organisation of Finnish Trade Unions (SAK) deems that the Semester should promote decent work for all and progress of development could be monitored by a ‘decent work index’, as, for example, developed by the ILO. In addition, the NEET-indicator should be modified to include not only those under 25 but also recent graduates under 30.

Indicators measuring social investments and health were also mentioned as areas which should be covered and would constitute added value in measuring the social situation. However, it is impossible to propose an exhaustive list of single indicators providing sufficient contextualisation, or an exclusive source of information on the socioeconomic specificity in each country. Qualitative policy analysis should always make good use of quantitative indicators. This procedure should be given more emphasis by the country desks, “Quality of this policy analysis could further be developed and streamlined within the Commission. There seems to be some variation between the Member States how carefully country desks have executed this analysis”.

Introducing early warning thresholds or benchmarks was seen as one way to improve attention to employment and social issues. However, the ministries and social partners are precautious and worried that this could lead to a narrowing of the sphere of national competences, “As such these are technical aspects. But the main issue is the consequences of introducing such thresholds. These should not lead to extension of EU jurisdiction or to sanctioning process as currently is the case with macroeconomic indicators”.

According to representatives of the civil society organisations, these would increase media interest and give the needed visibility to the European Semester by concretising social issues. Thus, in a way “these could also serve as wake-up call for the public”. MSAH is more in favour of benchmarking for learning new practices as well as revealing the strengths and weaknesses of the policies conducted in benchmarked countries.

The civil society organisations suggested that attention to social issues could also be heightened by giving social indicators more visibility in the NRPs. This could raise awareness of the whole process and show that it is not all about macroeconomics. Currently it feels that the social indicators are included only to soften the EMU without any other real significance.

Similarly, increased attention to the social dimension of the EU could be created by promoting the visibility of SPC publications e.g. developing the annual report
which monitors the social situation in the Member States and provides a summary of the recent developments.
1.6 Annexes

Lists of documents:

Mainstreaming Employment and Social Indicators into Macroeconomic Surveillance


**Stakeholders contacted**

European Anti-Poverty Network Finland (EAPN-Fin)
Member of Board in EAPN-fin Marjatta Kaurala
Vice Chairman EAPN-fin Jiri Sironen

Finnish Centre for Pensions
Senior Advisor Niko Väänänen

Ministry of Finance
Director Tuulia Hakola-Uusitalo

Ministry of Social Affairs and Health (MSAH)
Director Pasi Korhonen
Ministerial Adviser Sari Kauppinen

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Development Manager Aleksi Kuusisto

SOSTE Finnish Federation for Social Affairs and Health
Development Manager Aki Siltaniemi
Senior Advisor Kirsi Väätämöinen
Senior Advisor Anna Järvinen
Chief Economist Jussi Ahokas
## Scoreboard and Auxiliary indicators for Finland

### Table 2: Macro and Fiscal Scoreboard Indicators

<table>
<thead>
<tr>
<th>Headline Indicators</th>
<th>Thresholds</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tr>
<td><strong>External Imbalances and Competitiveness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Account Balance as % of GDP(^1)</td>
<td>3 year average</td>
<td>-4%/+6%</td>
<td>4.5</td>
<td>1.8</td>
<td>-0.8</td>
<td>-1.7</td>
</tr>
<tr>
<td></td>
<td>level year</td>
<td></td>
<td>3.0</td>
<td>1.2</td>
<td>-1.9</td>
<td>-1.4</td>
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<td>Net International Investment Position as % of GDP(^2)</td>
<td></td>
<td>-35%</td>
<td>-14.0</td>
<td>19.7</td>
<td>14.7</td>
<td>8.8</td>
</tr>
<tr>
<td>Real Effective Exchange Rate(^3)</td>
<td>% change (3 years)</td>
<td>+/-5% for EA</td>
<td>1.6</td>
<td>-1.2</td>
<td>-8.2</td>
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<tr>
<td></td>
<td>% y-o-y change</td>
<td>+/-11% non-EA</td>
<td>-3.1</td>
<td>-5.7</td>
<td>-2.6</td>
<td>2.9</td>
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<tr>
<td>Export Market Shares(^4)</td>
<td>% change (5 years)</td>
<td>-6%</td>
<td>-6.3</td>
<td>-20.3</td>
<td>-30.4</td>
<td>-32.2</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td></td>
<td>-4.9</td>
<td>-12.3</td>
<td>-5.7</td>
<td>-2.8</td>
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<tr>
<td>Nominal ULC(^5)</td>
<td>% change (3 years)</td>
<td>+9% EA</td>
<td>2.8</td>
<td>13.2</td>
<td>6.1</td>
<td>9.5</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>+12% non-EA</td>
<td>2.3</td>
<td>-1.4</td>
<td>5.2</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Internal Imbalances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>% Change in Deflated House Price Index(^6)</td>
<td></td>
<td>+6%</td>
<td>7.1</td>
<td>4.8</td>
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<td>-1.3</td>
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<tr>
<td>% Private Sector Credit Flow(^7)</td>
<td></td>
<td>+14%</td>
<td>12.7</td>
<td>7.4</td>
<td>7.3</td>
<td>0.7</td>
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<tr>
<td>% Private Sector Debt(^8)</td>
<td></td>
<td>+133%</td>
<td>114.7</td>
<td>145.8</td>
<td>147.1</td>
<td>146.6</td>
</tr>
<tr>
<td>% General Government Sector Debt(^9)</td>
<td></td>
<td>60%</td>
<td>40.0</td>
<td>47.1</td>
<td>53.0</td>
<td>56.0</td>
</tr>
<tr>
<td>% Change in Total Financial Sector Liabilities(^10)</td>
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<td>+16.5%</td>
<td>40.0</td>
<td>47.1</td>
<td>53.0</td>
<td>56.0</td>
</tr>
</tbody>
</table>

Indicators’ specification: 1) 3 year backward moving average of the current account balance as percent of GDP with thresholds of +6% and -4% (and current account balance as percent of GDP); 2) net international investment position as percent of GDP, with a threshold of -35% (change over 3 years and year-over-year change); 3) 3 years percentage change of the real effective exchange rates based on HICP/CPI deflators, relative to 41 other industrial countries, with thresholds of -/+/5% for euro area countries and -/+11% for non-euro area countries (and year-over-year change); 4) 5 years percentage change of export market shares measured in values, with a threshold of -6% (and year-over-year change); 5) 3 years percentage change in nominal unit labour cost, with thresholds of +9% for euro area countries and +12% for non-euro area countries (and year-over-year change); 6) year-on-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6%; 7) private sector credit flow in % of GDP with a threshold of 14%; 8) private sector debt (consolidated) in % of GDP with a threshold of 133%; 9) general government sector debt in % of GDP with a threshold of 60%; 10) year-on-year changes in total financial sector liabilities, with a threshold of 16.5%.


n.a. = not available
### Table 3: Macro and Fiscal Auxiliary Indicators

<table>
<thead>
<tr>
<th>Auxiliary Indicators</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tr>
<td>% y-o-y change in Real GDP</td>
<td>2.8</td>
<td>3.0</td>
<td>-1.5</td>
<td>-1.2</td>
<td>-0.4</td>
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<tr>
<td>Gross Fixed Capital Formation as % of GDP</td>
<td>23.0</td>
<td>21.9</td>
<td>22.3</td>
<td>21.2</td>
<td>20.3</td>
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<tr>
<td>Gross Domestic Expenditure on R and D as % of GDP</td>
<td>3.3</td>
<td>3.7</td>
<td>3.4</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net Lending / Borrowing as % of GDP</td>
<td>3.2</td>
<td>1.3</td>
<td>-1.8</td>
<td>-1.3</td>
<td>-1.7</td>
</tr>
<tr>
<td>Net External Debt as % of GDP</td>
<td>-4.5</td>
<td>21.9</td>
<td>37.3</td>
<td>35.1</td>
<td>n.a.</td>
</tr>
<tr>
<td>Inward FDI flows as % of GDP</td>
<td>5.3</td>
<td>4.9</td>
<td>2.0</td>
<td>-4.5</td>
<td>6.9</td>
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<tr>
<td>Inward FDI stocks as % of GDP</td>
<td>40.8</td>
<td>54.7</td>
<td>52.2</td>
<td>46.8</td>
<td>53.7</td>
</tr>
<tr>
<td>Net Trade Balance of Energy Products as % of GDP</td>
<td>-2.2</td>
<td>-2.8</td>
<td>-2.6</td>
<td>-2.6</td>
<td>-2.4</td>
</tr>
<tr>
<td>% Change (3 years) in REER vs. EA</td>
<td>-3.9</td>
<td>2.1</td>
<td>1.6</td>
<td>1.9</td>
<td>2.0</td>
</tr>
<tr>
<td>% Change (5 years) in Export Performance vs. Advanced Economies</td>
<td>-12.9</td>
<td>-23.1</td>
<td>-27.3</td>
<td>-20.96</td>
<td></td>
</tr>
<tr>
<td>% Change (5 years) in Terms of Trade</td>
<td>-5.1</td>
<td>-5.8</td>
<td>-5.5</td>
<td>-3.4</td>
<td>-3.4</td>
</tr>
<tr>
<td>% y-o-y Change in Export Market Share, in volume</td>
<td>-0.7</td>
<td>-6.5</td>
<td>-1.8</td>
<td>-4.9</td>
<td>n.a.</td>
</tr>
<tr>
<td>% y-o-y Change in Labour Productivity</td>
<td>1.2</td>
<td>3.7</td>
<td>-2.3</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>% Change (10 years) in Nominal ULC</td>
<td>9.1</td>
<td>22.4</td>
<td>27.1</td>
<td>28.9</td>
<td>29.9</td>
</tr>
<tr>
<td>% Change (10 years) in ULC performance relative to EA</td>
<td>-4.8</td>
<td>2.6</td>
<td>7.8</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>% Change (3 years) in Nominal House Prices</td>
<td>24.2</td>
<td>8.7</td>
<td>12.2</td>
<td>6.8</td>
<td>3.20</td>
</tr>
<tr>
<td>Residential Construction as % of GDP</td>
<td>6.4</td>
<td>6.1</td>
<td>6.3</td>
<td>6.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Private Sector Debt as % of GDP, non-consolidated</td>
<td>133.3</td>
<td>169.1</td>
<td>170.8</td>
<td>169.8</td>
<td>172.9</td>
</tr>
<tr>
<td>Financial Sector Leverage (debt-to-equity)</td>
<td>264.7</td>
<td>408.0</td>
<td>524.4</td>
<td>371.2</td>
<td>368.4</td>
</tr>
</tbody>
</table>

Indicators’ specification: 1) Real GDP % change (1 year); 2) Gross Fixed Capital Formation % of GDP; 3) Gross Domestic Expenditure on R&D % of GDP; 4) Net Lending/Borrowing % of GDP; 5) Net External Debt % of GDP; 6) Inward FDI Flows % of GDP; 7) Inward FDI Stocks % of GDP; 8) Net Trade Balance of Energy Products % of GDP; 9) Real Effective Exchange Rates - EA trading Partners % change (3years); 10) Share of OECD exports % change (5years); 11) Terms of Trade % change (5years); 12) Export Market Shares - in volume % change (1 year); 13) Labour Productivity % change (1 year); 14) Nominal unit labour cost % change (10 years); 15) Unit labour cost performance related to EA % change (10 years); 16) Nominal house price index % change (3 years); 17) Residential Construction % of GDP Eurostat NA; 18) Private Debt, non-consolidated % of GDP; 19) Financial Sector Leverage (debt to equity) %.


n.a. = not available
2 FRANCE

2.1 Executive summary

After a fall in GDP growth rate registered in 2009, the following 5 years saw France on the road to recovery, but three years of slack activity and stagnation then followed. The rise in unemployment particularly hit young people, older and the low-qualified workers and is expected to remain high in the next two years. Older jobseekers account for a rising proportion of the unemployed. The ‘unemployment trap’ remains relatively high in France although the gap between the French and EU average has narrowed in the last few years.

According to poverty and social exclusion indicators, the social situation in France is better than the EU average but remains worrisome for the most vulnerable categories, including children, young people and single-parent families, despite a slight decrease since 2012. Employment and social outcomes remain marked by significant inequalities, particularly affecting women and migrants.

On April 2009 the Council decided that that France had an excessive deficit. The French authorities were asked to bring the general government deficit below 3% of GDP. In February 2012 the European Commission presented its first Alert Mechanism Report. Analysis of the indicators shows that the main challenges lie in the external sector and the rise in production costs, but also non-price competitiveness. Budgetary consolidation remains one of the main policy challenges in France, but the social-economic figures show the major issues to be tackled from a social and labour market perspective to be:

a) Labour market segmentation, characterised by gender inequalities in the labour market (the wide differences in employment/unemployment rates between national and foreign inhabitants; unemployment of young people together with older and the low-qualified workers; the situation of the working poor. The dramatic decrease in transition from fixed-term to permanent contracts since 1995);

b) An ageing society implying major issues in terms of sustainability and adequacy of the pension system and the high unemployment figures for elderly workers;

c) Youth vulnerability, as emerges in data on NEET, education and youth unemployment;

d) the social situation for the most vulnerable categories, including children, young people migrants and single-parent families.

From analysis of the CSRs issued since 2012 it emerges that the major issues are tackled only partially by the CSRs: the most evident lack regards poverty of specific vulnerable targets of population. In particular, none of the priority actions in the social area evidenced in the Country Report France 2015\textsuperscript{12} appear among the recommendations. Within the National Reform Programme 2015 the Government considers fighting inequality as vital, especially as the financial crisis has contributed to increasing precariousness, which in turn affects economic activity.

Mainstreaming Employment and Social Indicators into Macroeconomic Surveillance

It emerges from the interviews that the indicators are not adequate to describe the social issues and challenges France is facing. Social indicators seem to be inadequately developed by the European Commission, and are addressed mainly to tackle the economic situation of each country. EMCO and SPC are expected to work more on operationalisation of the existing social indicators and develop new indicators based on in-depth analysis on their potential use and added value in the CRSs. Social indicators should be able to measure advances in meeting the social and labour market challenge. The experts also evidence the inappropriateness of the indicators used in terms of their ability to disentangle gender issues, in consideration of the fact that female poverty, vulnerability and more difficult access to the labour market still represent a challenge for the country. The same can be said in the case of immigrants: “the CRSs seem to aggravate inequalities rather than reduce them”.

2.2 Background

2.2.1 Economic conditions

After a fall in GDP growth rate (Percentage change on previous year) registered in 2009 (-2.9%), even though below the EU28 average (-4.4%), in the following 5 years France showed initial recovery (+2 and 2.1 in 2010 and 2011 in its Real GDP) followed by three years of slow activity and stagnation. In 2014 GDP grew by 0.2 % supported by public consumption and inventories.

As described in the France Country report 2015, modest recovery is expected in 2015 which will gain traction in 2016 thanks to stronger private consumption. The general government deficit is expected to reach 4.3 % of GDP in 2014, and 4.1 % in 2015 and 2016. These figures are close to the government target for 2014 and 2015 (4.4 % and 4.1 % of GDP respectively). According to the programming law on public finances adopted in December 2014, the general government deficit would only come below the 3% of GDP benchmark by 2017. As a consequence, the general government debt has increased almost continuously since 1990, a trend which has accelerated since the crisis, with an expected debt-to-GDP ratio of 95.3 % in 2014.

2.2.2 Labour market conditions

The unemployment rate, at 10.1 % in 2014, has increased since 2010 by 1.5 p.p. and is not expected to decline significantly in the coming years. It remains in any case much below EU average (21.3% in 2010 to 22.2% in 2014). Employment, too, rose in the same period while the activity rate rose from 70.5% of 2010 to 71.3% of 2014, a similar trend occurring across Europe. In France the main reason can be found in the increased number of older workers remaining in employment: the employment rate of workers aged 55 to 64 rose from 41.5 % in 2011 to 47.1 % in the third quarter of 2014, which shows the positive effects of the 2010 pension reform.

The increase in unemployment has particularly hit young people, and older and low-qualified workers: while young people and the low-qualified have been the hardest hit in the recent period, the low employment rate of older workers remains a structural problem. The measures adopted by the government in 2013 to introduce

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some flexibility in the labour market have had a modest impact. The labour market remains segmented with increasing difficulties to move from temporary to permanent contracts and a constant reduction in the length of temporary contracts. As described in the France Country report 2015, unemployment is expected to remain high in the next two years: “The slow recovery and the measures to reduce labour costs are likely to have only a limited positive impact in the short term. The employment gains will not be large enough to absorb the growth of the labour force, and unemployment is therefore expected to remain high”. A number of rigidities reduce firms’ adaptability to crisis. France is one of the euro area countries where the hourly cost of labour is highest: some reforms have been implemented to reduce it, and are expected to have a positive impact on employment.

The youth unemployment rate in particular rose from 19% in 2008 to 24.3% in 2014 (above the 22.1% EU average); young people with low levels of qualifications are particularly at risk. Implementation of the Youth Guarantee represents an important challenge in France: the beneficiaries involved number 738,000. The percentage of NEET decreased for the first time in 2014 after a negative trend.

Older jobseekers account for an increasing proportion of the unemployed: as several reforms have kept them in the labour market longer, they are facing an increasing risk of falling into long-term unemployment. The long-lasting deterioration in the labour market has affected the unemployment benefit system, calling into question the sustainability of the model. The ‘unemployment trap’ remains relatively high in France although the gap between the French and EU average has narrowed in the last few years.

### 2.2.3 Social conditions

The social situation in France remains better than the EU average, with 18.1% of the population at risk of poverty or social exclusion in 2013 (-0.4 pp. compared to 2008 and -0.9 compared to 2010) against 24.5% for the EU. The same trend was observed for severe material deprivation rate (5.1% in 2013 against 5.8 in 2010) remaining far below the EU average (9.6% in 2013) and the percentage of persons living in households with very low work intensity (reduced by 2 p.p. from 9.9% in 2010 to 7.9% in 2013, against 10.9% for the EU). In France the impact of social transfers on poverty reduction remains high, at 43%, compared with an EU average of 35%. Between such poverty reduction and increase in the proportion of part-time workers, particularly those earning close to the statutory minimum wage, in-work poverty has remained stable (8% in 2012 and 7.9% in 2013 compared to 6.5% in 2010). “Also, the situation for the most vulnerable categories, including children, young people and single-parent families, despite a slight decrease compared with 2012, remains worrisome, with poverty rates of 18%, 22.7% and 34.9% respectively in 2013, similar to the EU average for young people and even higher for single-parent families (by 3.1 percentage points)”.

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Employment and social outcomes remain marked by significant inequalities, particularly affecting women and migrants. The employment rate for women remains well below that of men (65.6 % compared with 73.7 % in 2013). Moreover, women are 4.3 times more likely to work part-time, while the gender pay gap remains large although below the EU average (15.4 % compared with 16.5 %), leading to a wide gender gap in pensions (39%), close to the EU average.

France is one of six Member States where activity rates differ most between non-EU citizens and nationals (aged 20-64 years), at 64.8% for non-EU citizens, compared with the EU’s 71.4% in 2013, and 77.5% for French citizens. The gap is even wider for the non-EU female population, whose employment rate in France comes lowest, except for Belgium, at more than 10 percentage points below the EU average.

Implementation of the multiannual antipoverty plan adopted in January 2013 is underway.

2.3 The European Semester exercises in 2014 and 2015 in the country and the main changes relative to previous years according to the perceptions of the main stakeholders

On 27 April 2009, the Council decided that the French deficit was excessive. The French authorities were asked to bring the general government deficit below 3% of GDP in a credible and sustainable manner by taking action in a medium-term framework. In 2011, the general government deficit reached 5.2% of GDP, down from 7.1% in 2010.

On 14 February 2012, the European Commission presented its first Alert Mechanism Report (AMR), prepared in accordance with Regulation No. 1176/2011 on the prevention and correction of macroeconomic imbalances, to serve as an initial screening device to determine whether imbalances exist or risk emerging. Viewing the indicators in economic terms, it emerges that the main challenges relate to the external sector and the rise in production costs, but also non-price competitiveness.

The relatively rapid increase in nominal wages in France over the last decade has resulted in lower cost competitiveness.

2.3.1 The main issues at stake and the CSR process

Budgetary consolidation remains one of the main policy challenges in France: the above social-economic figures evidence that among the major issues to be tackled from the social and labour market viewpoint include:

- Labour market segmentation characterised by:
  - gender inequalities in the labour market;
  - the wide differences in employment/unemployment rates between national and foreign inhabitants;
  - unemployment of young people together with older and low-qualified workers;
  - the situation of the working poor;
• the dramatic decrease in transition from fixed-term to permanent contracts since 1995.

• An **ageing society** implying serious issues in terms of sustainability and adequacy of the pension system and the unemployment figures for elderly workers;

• **Youth vulnerability**, as emerges in data on NEET, education and youth unemployment;

• The social situation for the **most vulnerable categories**, including children, young people migrants and single-parent families.

In addition MIP and auxiliary indicators point out additional issues, relevant for the country:

• an increasing trend in the unemployment and Long Term Unemployment rates;

• an increasing trend (until 2013) of Youth Unemployment Rate.

### Table 4: Employment and Social Indicators

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<tr>
<td><strong>MIP Scoreboard</strong></td>
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<tr>
<td>Unemployment rate (moving average)</td>
<td>8.8</td>
<td>8.6</td>
<td>9.4</td>
<td>9.8</td>
<td>10.1</td>
<td>9.1</td>
<td>8.5</td>
<td>9.9</td>
<td>10.3</td>
<td>10.5</td>
</tr>
<tr>
<td>% Change in Employment</td>
<td>0.7</td>
<td>0.1</td>
<td>0.1</td>
<td>-0.2</td>
<td>0.3</td>
<td>1.0*</td>
<td>0.7*</td>
<td>0.4*</td>
<td>0.3*</td>
<td>1.0</td>
</tr>
<tr>
<td>Activity rate</td>
<td>69.9</td>
<td>70.5</td>
<td>70.9</td>
<td>71.2</td>
<td>71.3</td>
<td>69.7</td>
<td>71</td>
<td>71.7</td>
<td>72</td>
<td>72.3</td>
</tr>
<tr>
<td>Long-term Unemployment Rate</td>
<td>3.7</td>
<td>3.7</td>
<td>4</td>
<td>4.1</td>
<td>4.4</td>
<td>4.1</td>
<td>3.8</td>
<td>4.6</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td><strong>Auxiliary Indicators</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Youth Unemployment Rate</td>
<td>21</td>
<td>23.3</td>
<td>24.4</td>
<td>24.8</td>
<td>24</td>
<td>18.9</td>
<td>21.3</td>
<td>23.1</td>
<td>23.6</td>
<td>22.2</td>
</tr>
<tr>
<td>% Young People NEET</td>
<td>10.9</td>
<td>12.3</td>
<td>12.1</td>
<td>11.2</td>
<td>10.7</td>
<td>n.a.</td>
<td>12.7</td>
<td>13.1</td>
<td>12.9</td>
<td>12.4</td>
</tr>
<tr>
<td>% People at Risk of Poverty or Social Exclusion</td>
<td>18.9</td>
<td>19.2</td>
<td>19.1</td>
<td>18.1</td>
<td>n.a.</td>
<td>25.7</td>
<td>23.6</td>
<td>24.7</td>
<td>24.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>At-risk Poverty Rate</td>
<td>13</td>
<td>13.3</td>
<td>14.1</td>
<td>13.7</td>
<td>n.a.</td>
<td>16.4</td>
<td>16.4</td>
<td>16.8</td>
<td>16.6</td>
<td>n.a.</td>
</tr>
<tr>
<td>Severe Material Deprivation Rate</td>
<td>5.3</td>
<td>5.8</td>
<td>5.3</td>
<td>5.1</td>
<td>n.a.</td>
<td>10.8</td>
<td>8.4</td>
<td>9.9</td>
<td>9.6</td>
<td>n.a.</td>
</tr>
<tr>
<td>% Persons Living in Households with Very Low Work Intensity</td>
<td>8.7</td>
<td>9.9</td>
<td>8.4</td>
<td>7.9</td>
<td>n.a.</td>
<td>10.4</td>
<td>10.1</td>
<td>10.4</td>
<td>10.8</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

From analysis of the CSRs issued since 2012 it is evident that the major issues emerging have been tackled only partially by the CSRs. The most evident shortcoming is to be seen in the poverty of specific vulnerable targets of population: serious as the issue is, it has not been tackled by the CSRs. There has

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16  See note 9
been no targeted reduction in the cost of labour for specific groups of workers (e.g. youth, long-term unemployed, older unemployed workers), while limited progress has been made in addressing labour-market rigidity. Some progress has been made in active labour-market policies to strengthen support for jobseekers furthest away from the labour market, including the long-term unemployed and low-qualified.

Limited progress has been made in the case of the older workers (but the government has announced a ‘Plan senior’ to address unemployment in this category). Some progress has been made in modernising vocational education and training and reform of compulsory education, introducing measures targeting educational inequalities and early school leaving.

In 2012 the analysis accompanying the CSRs tackled Labour market segmentation, but without considering some of the main issues, such as gender inequality and the unequal access for foreigners. Nothing is said concerning the social situation of the most vulnerable categories. The issues tackled are:

- Labour market segmentation, which must be addressed to improve the functioning of the French labour market: several measures have been taken or are under discussion to provide flexible work arrangements for companies facing temporary difficulties but they do not specifically address labour market segmentation;
- The development of the minimum wage should be supportive of employment, especially for younger workers and the low-skilled;
- The pension reform introduced measures to encourage the employment of older workers, marking steps in the right direction, but the related action plans lack ambition and do not include measures specifically geared to older workers;
- Some aspects of the unemployment benefit system for older workers may provide limited incentives to work;
- A more ambitious strategy is needed in the field of adult learning so as to raise the employability of the adult workforce;
- Policies tackling youth unemployment would benefit from greater consistency between the skills taught in the education system and the needs of the labour market.

In the light of the above, the CSRs referring specifically to labour market and social imbalances are to:

<table>
<thead>
<tr>
<th>CSR n.2: Labour market segmentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>introduce further reforms to combat labour market segmentation by reviewing selected aspects of employment protection legislation, in consultation with the social partners in accordance with national practices, in particular related to dismissals; continue to ensure that any development in the minimum wage is supportive of job creation and competitiveness; take actions to increase adult participation in lifelong learning.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSR n.3: Youth employment and employment of older workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>adopt labour market measures to ensure that older workers stay in employment longer; improve youth employability especially for those most at risk of unemployment, by providing, for example, more and better apprenticeship schemes which effectively address their needs; step up active labour market policies and ensure that public employment services are more effective in delivering individualised support.</td>
</tr>
</tbody>
</table>
The analysis accompanying CSR 2013 describes the following issues to be tackled:

- **the increase in public health care expenditure**, which requires greater scrutiny and efficiency, in particular in pharmaceutical spending.

- Persistent pension system deficits by 2018, contrary to the 2010 reform objective of achieving a balanced system by that time: the pension system will still be burdened with heavy deficits by 2020 and new policy measures are urgently needed to remedy this situation while preserving the adequacy of the system.

- Given its negative impact on the cost of labour, any increase in the level of social security contributions should be avoided.

- Alternative instruments such as income support schemes (the ‘Prime pour l’emploi’ and the ‘Revenu de solidarité active’) are more efficient instruments than the minimum wage **to address in-work poverty**.

- The Commission forecasts that the unemployment rate will increase in 2013 and 2014 due to persistently weak economic growth. Against this background, **the segmentation of the French labour market** continues to be a source of concern, in particular in terms of the difficulties in moving on from temporary to permanent employment. As a result, **low-skilled workers in precarious forms** of employment tend to bear the brunt of any adjustment process in the labour market.

- **A sixth of the young people in France leave education and training without qualifications.** This is particularly worrying due to the high level of the **unemployment rate of young people**. Schemes to promote apprenticeships should target in particular the least qualified young people.

- The employment rate for older workers - 64 is among the lowest in the EU and unemployment is rising among older people.

In the light of these points, the CSRs referring specifically to the labour market and social imbalances are to:

**CSR n.2: Tax system and wages**

Ensure that the reduction in the labour cost resulting from the ‘credit d’impôt pour la compétitivité et l’emploi’ yields the planned amount and that no other measure will offset its effect. Take further action to lower the cost of labour, in particular through further measures to reduce employers’ social-security contributions, in association with social partners. Ensure that developments in the minimum wage are supportive of competitiveness and job creation, taking into account the existence of wage support schemes and social contribution exemptions.

**CSR n.3: Tax system**

Take further measures **shifting the tax burden from labour to environmental taxation or consumption.**

**CSR n.6: Labour market segmentation**

Take further action to **combat labour-market segmentation**, in particular to address the...
Mainstreaming Employment and Social Indicators into Macroeconomic Surveillance

situation of interim agency workers. Launch urgently a reform of the unemployment benefit system in association with the social partners and in accordance with national practices to ensure sustainability of the system while ensuring that it provides adequate incentives to return to work. Enhance the employment rate of older workers and stimulate their participation in the labour market. Take specific action to improve the employment perspective of older unemployed people in particular through specific counselling and training. Increase adult participation in lifelong learning, especially of the least qualified and of the unemployed. Ensure that public employment services effectively deliver individualised support to the unemployed and that active labour market policies effectively target the most disadvantaged. Take further measures to improve the transition from school to work through, for example, a Youth Guarantee and promotion of apprenticeships.

From the analysis accompanying CSR 2014 emerge the following issues to be tackled:

- the excessively high cost of labour due in particular to the high tax burden on labour even though a number of initiatives to reduce it were introduced in 2012 and in 2014 in particular for low wages).
- The minimum wage should continue to evolve to be supportive of competitiveness and job creation: additional efforts could be made to reduce the cost of labour for vulnerable groups.
- France’s labour market remains segmented with very low levels of transition from temporary to permanent contracts.
- pension reforms have helped raise the employment rate of older workers, but it remains well below the EU average. As a result, the unemployment rate for this group has increased sharply over the last few years; hence the need to strengthen measures to improve the employability of older workers while reviewing incentives for them to stay in or return to work.
- Early school leaving and the youth unemployment rate are particularly worrying. Some progress in addressing this issue was made through reform of compulsory education and vocational education in 2013 and in 2013. A new plan targeting lower-secondary education schools in disadvantaged areas announced in January 2014, still needs to be implemented.

In the light of these points, the recommendations in the CSRs referring specifically to labour market and social imbalances are to:

<table>
<thead>
<tr>
<th>CSR2: Social security contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure that the labour cost reduction resulting from the ‘crédit d’impôt compétitivité emploi’ is sustained. Take action to lower yet further the employers’ social security contributions in line with commitments under the responsibility and solidarity pact, making sure that no other measures offset its effect and that the targeting currently envisaged is maintained. Further evaluate the economic impact of social security contribution exemptions, putting the emphasis on employment, wage developments and competitiveness and take appropriate measures if necessary. Further reduce the cost of labour in a budget-neutral way, namely at the lower end of the wage scale, in particular through targeted reductions in employers’ social security contributions, taking into account the various wage support scheme</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSR n.6: Labour market rigidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take further action to combat labour-market rigidity, in particular take measures to reform the conditions of the ‘accords de maintien de l’emploi’ to increase their take up by companies facing difficulties. Take additional measures to reform the unemployment benefit system in association with social partners, in order to guarantee its sustainability while ensuring</td>
</tr>
</tbody>
</table>
that it provides adequate incentives to return to work. Ensure that older workers benefit from adequate counselling and training and re-assess the relevant specific unemployment benefit arrangements with respect to their situation on the labour market.

**CSR n.7: Education and training**

Pursue the modernisation of vocational education and training, implement the reform of compulsory education, and take further actions to reduce educational inequalities in particular by strengthening measures on early school leaving. Ensure that active labour market policies effectively support the most vulnerable groups. Improve the transition from school to work, in particular by stepping up measures to further develop apprenticeship with a specific emphasis on the low-skilled.

In March 2014, the Commission concluded that France was experiencing macroeconomic imbalances requiring decisive policy action, in particular regarding the deterioration in the balance of trade and competitiveness, as well as the implications of the high level of public sector indebtedness.

France has been criticised for having made limited progress in addressing the 2014 country-specific recommendations in particular in the area of the improvement of the sustainability of the pension system, the effectiveness of the expenditure reviews; limited effort has been made to curb the long-term increase in healthcare expenditures and there is little progress in combating labour market rigidity, reforming the unemployment benefit system or improving the employment opportunities for older workers. In a letter sent to the Commission in November 2014, the French authorities committed to a number of structural reforms implementing the 2014 country-specific recommendations issued by the Council in July 2014. These structural reforms were further specified in a communication on the National Reform Programme on 18 February 2015.

In 2015 France is experiencing excessive macroeconomic imbalances which require decisive policy action and specific monitoring. The country is experiencing low growth and low inflation while public debt has increased significantly. The need for action to reduce the risk of adverse effects is particularly great. Priority areas to be tackled are:

- **Reduction of the increase in social security and healthcare expenditure.**
- **Reform of the pension system which may face increasing deficits in the coming years: the macroeconomic situation has great impact on the sustainability of the pension system.**
- **Revision of the cost of labour at the minimum wage, which remains high compared with other Member States and is not conducive to competitiveness and job creation.**
- **Labour market segmentation: targeted efforts to reduce the level of segmentation, in particular through higher social contributions for very short-term contracts, have failed to curb this trend.**
- **The long-lasting deterioration in the labour market has affected the unemployment benefit system, calling into question the sustainability of the model.**

**CSR n.3: Active labour market policies**

Recommendations to ensure that the labour cost reductions stemming from the tax credit for
competitiveness and employment and from the responsibility and solidarity pact are sustained, in particular by implementing them as planned for 2016. Evaluate the effectiveness of these schemes in the light of labour and product market rigidities. Reform, in consultation with the social partners and in accordance with national practices, the wage-setting system to ensure that wages evolve in line with productivity. Ensure that minimum wage developments are consistent with the objectives of promoting employment and competitiveness.

<table>
<thead>
<tr>
<th>CSR n.6: Unemployment</th>
</tr>
</thead>
</table>

Recommendations to reform the labour law to provide more incentives for employers to hire on open-ended contracts. Facilitate take up of derogations at company and branch level from general legal provisions, in particular as regards working time arrangements. Reform the law creating the accords de maintien de l'emploi by the end of 2015 in order to increase their take-up by companies. Take action to reform the unemployment benefit system in order to bring the system back to budgetary sustainability and provide more incentives to return to work.

None of the priority actions in the social area evidenced in the Country Report France 2015 appear among the recommendations: this is particularly true for the area of poverty, where revision of the actual schemes is called for: "increase the supply of affordable social housing for the very low-income households and to better target single-parent families through childcare facilities and pathways towards employment... current wage support schemes, i.e. the 'revenu de solidarité active' and the 'prime pour l'emploi',(....) can both be complicated to use, suffer from delays, or be difficult to access. the take-up rate for the 'revenu de solidarité active’ among the working poor is disappointing."

2.3.2 The way these recommendations have been treated at the national level in NRP

The National Reform Programme 2015 (Programme National de Réforme 2015) in terms of social and labour market challenges focuses on the following areas:

- **Improving the functioning of the labour market** - Government action is structured around several complementary areas with the overall aim of facilitating professional development and increasing effective security for employees:
  - *enhancing and decentralizing social dialogue*: though dialogue with the social partners the French form of flexi-security has implemented new rights for employees and support to increase companies’ capacity for adaptation through an ambitious simplification of part-time activity, reform of collective redundancy procedures and the possibility of adapting salaries and work hours by agreement in the event of economic difficulties;
  - *increasing career flexibility and security through individualized rights*: Recent advances have simplified the legal framework;
  - *promoting the development of vocational skills*: The vocational training reform was adopted on March 2014; apprenticeship financing channels have been simplified;
  - *improving incentives for returning to work and maintaining employment*: many measures have been adopted to increase the employment rate and limit hysteresis effects;
• **Combating inequality and preparing for the future:** the Government intends to prevent increase in inequalities, which could undermine national cohesion, and to address the environmental and demographic challenges. The reforms implemented by the government are thus wholly compatible with the targets set in the Europe 2020 strategy:
  
  o *combating inequality:* The government will continue to adopt measures to support the most disadvantaged - Minimum income benefits will continue to enjoy a 2% increase in purchasing power each year; in the field of healthcare, excess fees have been capped and third-party payment will become widespread from 2017; Access to education from the age of two will be expanded and early secondary education will be reformed; a large number of measures will be implemented to support dropouts;
  
  o *financing the pension system and addressing population ageing:* reforms implemented in combination with favourable demographic trends will enable a medium-term rebalancing of pension schemes;

The Government considers fighting inequality as vital, especially as the financial crisis has contributed to increasing precariousness, which in turn affects economic activity.

The main message is that the strength of the economy will increasingly reside in its ability to prepare, in particular, for ecological and demographic challenges. In that respect, the Government states that the French agenda is fully consistent with the European one, but these main messages do not appear so clear in the European Semester exercises.

2.3.3  **Appropriateness of the indicators adopted in the European Semester Exercise and the their role in informing the CSR and the NRP**

Analysing the Employment and Social Indicators included in the MIP scoreboard and Auxiliary Indicators, it emerges that most of the major challenges the country has been facing (see § 1.3.1) in the last few years are not adequately met with the existing system of indicators:

• **Labour market segmentation:** Several MIPs and auxiliary indicators describe labour market conditions: The Unemployment rate (moving average) and percentage Change in Employment show the national situation to be better than the EU average, even though progressively slightly deteriorating. The Activity rate shows a situation only slightly worse than the EU average. The Long-term Unemployment Rate, on the other hand, shows a better picture than the EU average. General MIP and Auxiliary indicators do not appear able to capture the specific challenges France is facing.

• **Gender inequalities in the labour market:** Indicators are not articulated by gender, and so cannot capture gender inequalities in the labour market and the trend over the last few years.

• **The wide differences in employment/unemployment rates between national and foreign inhabitants:** The same can be said concerning nationality.

• **Unemployment of young people together with older and low qualified workers:** An auxiliary indicator (youth unemployment rate) describes the specific situation of young workers: it describes a critical situation progressively
deteriorating, but with signs of recovery in 2014. There aren’t any indicators able to describe the situation of older and the low qualified workers.

- **The situation of the Working poor**: There aren’t any indicators able to describe the situation of the working poor.

- **The likelihood of moving from a fixed-term to a permanent contract decreased dramatically since 1995**: There are no indicators able to describe this challenge.

- **An ageing society** implying relevant issues in terms of the sustainability and adequacy of the pension system and the high unemployment of elderly workers: There are no indicators able to describe this challenge: none on the pension systems and, as already said, none concerning the situation of elderly workers.

- **Youth vulnerability** (as emerges in data on NEET, on education and on youth unemployment): The indicator Percentage of Young People NEET describes a national situation better than the EU average and in continuous improvement.

- **The social situation of the most vulnerable categories**, including children, young people migrants and single-parent families: Several indicators describe the vulnerability of the population but none of them is articulated to evidence the specific risks faced by particular target groups. In any case for France all these indicators describe a good social situation in comparison with the EU average: percentage of People at Risk of Poverty or Social Exclusion; At-risk Poverty Rate; Severe Material Deprivation Rate; percentage of Persons Living in Households with Very Low Work Intensity.

The Country Report France 2015 assessed Europe 2020 indicators in terms of national targets and progress achieved on:

- **labour market conditions** indicator and target: Employment rate 20-64 target: 75%. “In view of the relatively stable trend and challenges on the French Labour Market, the Europe 2020 employment rate target of 75% appears ambitious without additional signs of economic recovery being translated into jobs”.

This indicator differs from the one present in the Scoreboard of key and auxiliary indicators for the age group considered

- indicator and target on **Early school leaving**: target: 9.5% “The French early school-leaving rate declined significantly in 2013 and is now below the EU average (9.7 % compared with 12 % in 2013). However, 2013 data is not comparable with data for previous years due to a methodological change specific to France. The overall rate hides large disparities linked to socioeconomic and cultural factors and between regions. At the same time, the proportion of young people leaving school with at most low secondary level qualification (diplôme national du brevet) stayed close to 17 %”.

This indicator is not present in the Scoreboard.

- **Tertiary education** indicator and target: target 50% higher education attainment for 17- 33-year-olds, “the age group is defined differently from the one of the EU target. France’s tertiary education attainment rate remains well above the EU average (44.1 % in 2013 for 30-34-year-olds, compared with
36.9 %, with females clearly outperforming males), although it increased by only 0.6 pp. over the 2010-13 period. The French target is expected to be reached in 2015.”

This indicator is not present in the Scoreboard.

- **Poverty indicator and target:** Target for reducing the number of people at risk of poverty or social exclusion: - 1 900 000. “The number of people at risk of poverty or social exclusion was: 11,840,000 in 2011; 11,760,000 in 2012 and 11,229,000 in 2013. These figures represent 483,000 fewer people at risk of poverty and social exclusion between 2010 and 2013, mostly due to a significant fall between 2012 and 2013, following the fluctuating trend seen between 2010 and 2012. However, reaching the target of reducing by 1 900 000 (one third) the number of people at risk of poverty or social exclusion appears difficult at a time of hesitant economic recovery for France as for other EU Member States.”

This indicator is present in the Scoreboard only in percentage terms.

It emerges from the interviews carried out that **the indicators are not adequate to describe the social issues and challenges France is facing**. The social indicators seem as not adequately developed: they are mainly designed to tackle the economic situation of each country. EMCO and SPC are expected to work more on the operationalisation of existing social indicators and to develop new indicators based on in-depth analysis on their potential use and added value in the CRSs. Social indicators should be able to measure advances in meeting social and labour market challenges: the European institutions are asked to develop them and then to use them in the Semester exercises.

The experts also evidence the **inappropriateness of indicators used in terms of their ability to disentangle gender issues**, in consideration of the fact that female poverty, vulnerability and more difficult access in the labour market still represent a challenge for the country. The same can be said with regard to immigrants: the “CRS seem to enhance inequalities rather then reduce them”.

### 2.4 Current and future challenges according to national stakeholders

According to an expert **the macro-economic surveillance fails to tackle the real issues and challenges France is facing, tending to respond only to economic needs.** Social Europe seems ‘subordinate’ to Economic Europe: the economic reforms required by Europe in fact tend to “further extend precarious work”. Some of the most serious challenges for the country are considered neither by the Semester exercises nor by the CSRs: this is in particular the case of the weaker role of women and of migrants in the labour market. **This perspective clashes against the initial value of the ‘Social Europe’:** a broad consensus seems to exist in Europe to estimate that there is a European Social Model (ESM), which must be defended and developed. The ESM is embodied differently in each EU Member State: the social policies are still a national responsibility. Nevertheless, the EU has developed a set of instruments in the social field to be seen as a safeguard against the potential negative impact of economic challenges: Article 9 of the TFEU calls for the definition and implementation of policies promoting a high level of employment, guaranteeing adequate social protection, fighting social exclusion, and securing a high level of education, training and protection of human health. This should be the cement of the European project,
making it attractive enough to amount to more than a group of countries united by economic interests. (Fernandes S., Gyger E. (2013))

The challenges Social Europe faces are manifold today: the EU must primarily help cope with the social consequences of the crisis. Economic integration should be accompanied by strengthening the protection of social rights: the reinforcement of monetary and economic integration should be accompanied by definition of a stronger social dimension, and European social governance should be enhanced. Coordination of economic policies is marked by a strong focus on the current accounts of Member States, and consequently social policies are marginalised (Fernandes S., Gyger E. (2013)).

2.5 Suggestions to improve attention to employment and social issues in the European Semester

The experts interviewed and position papers consulted concur in seeing the following as the main future social and labour market challenges for France given the need to place more emphasis on the role of social issues within the European Semester exercises.

- **Introduce new indicators to accompany GDP** (Gross Domestic Product): the GDP is an indispensable tool Economic Analysis. However, for several years, in a context of prolonged economic crisis and rising environmental concerns, GDP has been subject, among experts academic, social actors and international institutions to criticism on its ability to describe the condition of a society from an economic, social and environmental point of view as well as its trajectory in terms of ecological transition. In this context, the French Parliament asked for a proposal of a dashboard of indicators of durable development to be developed through a joint consultation process. This process underpinned the adoption of the "Sas" law on April 2, 2015. The dashboard project submitted for approval by the EESC covers 10 topics, among the 20 that make up the framework of European Statisticians, each illustrated by a headline indicator and, in total, by thirty additional indicators that document and deepen each topic. On this basis, the CASE (EESC) recommends retaining the 10 headline indicators: **Income inequality; Education; Health; Work- Employment; Subjective well-being**; Climate-Energy; Biodiversity; Resource management; Investments; Financial sustainability.

### 10 Headline indicators and auxiliary indicators complementary to GDP (Tableau de bord d’indicateurs complémentaires du PIB)

<table>
<thead>
<tr>
<th>Topics</th>
<th>Key Indicators</th>
<th>Auxiliary Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income inequality</td>
<td>Ratio of the mass of income held by the 10% richest and the 10% poorest</td>
<td>Median standard of living, poverty rate after transfers, poverty rates in living conditions, wealth inequalities</td>
</tr>
<tr>
<td>Education</td>
<td>rate of higher education graduates among 25-34 year olds</td>
<td>Unemployment rate 1 to 4 years after leaving initial education, early exit indicator of school, young 15/29 years either in employment or training (NEET at European level), an learning indicator, a vocational training indicator</td>
</tr>
</tbody>
</table>

### Table: Indicators of Well-Being

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>Healthy life at birth, Life expectancy at birth and at age 60, life expectancy in good health at age 65</td>
</tr>
<tr>
<td>Work- Employment</td>
<td>Employment rate of labour force, Unemployment rate of the population aged 15-24 and over 50 years, rate of underemployment of the workforce</td>
</tr>
<tr>
<td>Subjective well-being</td>
<td>Index of life satisfaction, Female participation rates in governance bodies, housing surcharge rate (fragile), burglary rates, thefts and assaults, birth rate, index of segregation in schools</td>
</tr>
</tbody>
</table>

Such a perspective could be fruitfully be introduced also in the European Semester exercises accompanied with a revision of the role of social indicators:

- According to Vandenbroucke, in the seminar organised for *Notre Europe – Institut Jacques Delors* **social divergences within the euro zone must be treated as "excessive differences" because they are as dangerous as excessive budget or excessive macroeconomic imbalances.** Thus, excessive social imbalances should best be considered and integrated in the European Semester and the recommendations made by the Commission for each Member State (Fernandes S., Gyger E. (2013)).

#### 2.6 Annexes

**Lists of documents:**

- Conseil économique, social et environnemental *Perspectives pour la révision de la stratégie Europe 2020*
- Premier Ministre République Française (2015), *Programme National de Réforme 2015*

**Stakeholders considered**

Anne Eydoux: researcher Centre d’études de l’emploi et Université Rennes 2
Thomas FILLEUR, member of the SPC, Chef du bureau des affaires européennes et internationales Direction générale de la cohésion sociale Ministère des Affaires Sociale

Philippe Le Clézio of the Conseil économique social et environnemental (Résolution sur un tableau de bord d’indicateurs complémentaires au Produit intérieur brut (PIB) élaboré en partenariat avec France Stratégie, June 2015)
### Scoreboard and Auxiliary indicators for France

**Table 5: Macro and Fiscal Scoreboard Indicators**

<table>
<thead>
<tr>
<th>Headline Indicators</th>
<th>Thresholds</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tr>
<td><strong>External Imbalances and Competitiveness</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Current Account Balance as % of GDP&lt;sup&gt;1&lt;/sup&gt;</td>
<td>3 year average</td>
<td>-4%/-6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net International Investment Position as % of GDP&lt;sup&gt;2&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Effective Exchange Rate&lt;sup&gt;3&lt;/sup&gt;</td>
<td>% change (3 years)</td>
<td>+/-5% for EA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% y-o-y change</td>
<td>+/-11% non-EA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export Market Shares&lt;sup&gt;4&lt;/sup&gt;</td>
<td>% change (5 years)</td>
<td>-6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% y-o-y change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal ULC&lt;sup&gt;5&lt;/sup&gt;</td>
<td>% change (3 years)</td>
<td>+9% EA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% y-o-y change</td>
<td>+12% non-EA</td>
<td></td>
<td></td>
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<tr>
<td><strong>Internal Imbalances</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>% Change in Deflated House Price Index&lt;sup&gt;6&lt;/sup&gt;</td>
<td>+6%</td>
<td>13.2</td>
<td>3.6</td>
<td>-1.9</td>
<td>-2.6</td>
<td>1.60</td>
</tr>
<tr>
<td>% Private Sector Credit Flow&lt;sup&gt;7&lt;/sup&gt;</td>
<td>14%</td>
<td>8.2</td>
<td>4.6</td>
<td>4.4</td>
<td>1.8</td>
<td>n.a.</td>
</tr>
<tr>
<td>% Private Sector Debt&lt;sup&gt;8&lt;/sup&gt;</td>
<td>133%</td>
<td>109.2</td>
<td>131.8</td>
<td>138.2</td>
<td>137.3</td>
<td>n.a.</td>
</tr>
<tr>
<td>% General Government Sector Debt&lt;sup&gt;9&lt;/sup&gt;</td>
<td>60%</td>
<td>67</td>
<td>81.5</td>
<td>89.2</td>
<td>92.2</td>
<td>95.1</td>
</tr>
<tr>
<td>% Change in Total Financial Sector Liabilities&lt;sup&gt;10&lt;/sup&gt;</td>
<td>+16.5%</td>
<td>15.1</td>
<td>3.3</td>
<td>1.2</td>
<td>-0.6</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Indicators' specification: 1) 3 year backward moving average of the current account balance as percent of GDP with thresholds of +6% and -4% (and current account balance as percent of GDP); 2) net international investment position as percent of GDP, with a threshold of -35% (change over 3 years and year-over-year change); 3) 3 years percentage change of the real effective exchange rates based on HICP/CPI deflators, relative to 41 other industrial countries, with thresholds of +/-5% for euro area countries and +/-11% for non-euro area countries (and year-over-year change); 4) 5 years percentage change of export market shares measured in values, with a threshold of -6% (and year-over-year change); 5) 3 years percentage change in nominal unit labour cost, with thresholds of +9% for euro area countries and +12% for non-euro area countries (and year-over-year change); 6) year-on-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6%; 7) private sector credit flow in % of GDP with a threshold of 14%; 8) private sector debt (consolidated) in % of GDP with a threshold of 133%; 9) general government sector debt in % of GDP with a threshold of 60%; 10) year-on-year changes in total financial sector liabilities, with a threshold of 16.5%.


n.a. = not available
Table 6: Macro and Financial Auxiliary Indicators

<table>
<thead>
<tr>
<th>Auxiliary Indicators</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>% y-o-y change in Real GDP(^1)</td>
<td>1.6</td>
<td>2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation as % of GDP(^2)</td>
<td>21.7</td>
<td>22.1</td>
<td>22.5</td>
<td>22.1</td>
<td>21.7</td>
</tr>
<tr>
<td>Gross Domestic Expenditure on R&amp;D as % of GDP(^3)</td>
<td>2</td>
<td>2.2</td>
<td>2.2</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net Lending / Borrowing as % of GDP(^4)</td>
<td>0</td>
<td>-0.8</td>
<td>-1.5</td>
<td>-1.3</td>
<td>-0.9</td>
</tr>
<tr>
<td>Net External Debt as % of GDP(^5)</td>
<td>6.5</td>
<td>27.3</td>
<td>32.3</td>
<td>32.4</td>
<td>35.2</td>
</tr>
<tr>
<td>Inward FDI Flows as % of GDP(^6)</td>
<td>3.9</td>
<td>1.4</td>
<td>1.1</td>
<td>0.2</td>
<td>-0.3</td>
</tr>
<tr>
<td>Gross Domestic Expenditure on R&amp;D as % of GDP</td>
<td>43.9</td>
<td>38</td>
<td>40.4</td>
<td>40.8</td>
<td>40.4</td>
</tr>
<tr>
<td>% Change (3 years) in REER vs. EA(^9)</td>
<td>-2.1</td>
<td>-2.4</td>
<td>-3.3</td>
<td>-3.1</td>
<td>-2.5</td>
</tr>
<tr>
<td>% Change (5 years) in Export Performance vs. Advanced Economies(^11)</td>
<td>0.1</td>
<td>-0.1</td>
<td>-0.5</td>
<td>-1.3</td>
<td>-0.7</td>
</tr>
<tr>
<td>% Change (5 years) in Terms of Trade(^11)</td>
<td>-0.3</td>
<td>0.2</td>
<td>-2.1</td>
<td>-0.3</td>
<td>-1.6</td>
</tr>
<tr>
<td>% y-o-y Change in Export Market Share, in volume(^12)</td>
<td>-4</td>
<td>-3.6</td>
<td>-1.9</td>
<td>-0.8</td>
<td>n.a.</td>
</tr>
<tr>
<td>% y-o-y Change in Labour Productivity(^13)</td>
<td>0.9</td>
<td>1.9</td>
<td>0.2</td>
<td>0.5</td>
<td>-0.1</td>
</tr>
<tr>
<td>% Change (10 years) in Nominal ULC(^14)</td>
<td>13.6</td>
<td>22.9</td>
<td>20.1</td>
<td>18.9</td>
<td>20.3</td>
</tr>
<tr>
<td>% Change (10 years) in ULC performance relative to EA(^15)</td>
<td>1.8</td>
<td>2.4</td>
<td>1.8</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>% Change (3 years) in Nominal House Prices(^16)</td>
<td>48.6</td>
<td>-0.8</td>
<td>10.3</td>
<td>3.2</td>
<td>-4.00</td>
</tr>
<tr>
<td>Residential Construction as % of GDP(^17)</td>
<td>6.1</td>
<td>6.3</td>
<td>6.3</td>
<td>6.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Private Sector Debt as % of GDP, non-consolidated(^18)</td>
<td>142.8</td>
<td>165.4</td>
<td>175.2</td>
<td>175.2</td>
<td>n.a.</td>
</tr>
<tr>
<td>Financial Sector Leverage (debt-to-equity)(^19)</td>
<td>241.6</td>
<td>348.8</td>
<td>405.9</td>
<td>373.4</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Indicators’ specification: 1) Real GDP % change (1 year); 2) Gross Fixed Capital Formation % of GDP; 3) Gross Domestic Expenditure on R&D % of GDP; 4) Net Lending/Borrowing % of GDP; 5) Net External Debt % of GDP; 6) Inward FDI Flows % of GDP; 7) Inward FDI Stocks % of GDP; 8) Net Trade Balance of Energy Products % of GDP; 9) Real Effective Exchange Rates - EA trading Partners % change (3 years); 10) Share of OECD exports % change (5 years); 11) Terms of Trade % change (5 years); 12) Export Market Shares - in volume % change (1 year); 13) Labour Productivity % change (1 year); 14) Nominal unit labour cost % change (10 years); 15) Unit labour cost performance related to EA % change (10 years); 16) Nominal house price index % change (3 years); 17) Residential Construction % of GDP Eurostat NA; 18) Private Debt, non-consolidated % of GDP; 19) Financial Sector Leverage (debt to equity) %.

Data Source: from 2005 to 2013 Statistical Annex of AMR 2015

\(^{(p)}\)=provisional, n.a. = not available
3 GERMANY

3.1 Executive summary

Within the general context of the European economic crises, Germany shows a relatively positive situation overall, with an increase in GDP of 1.6% in the last year. At the same time, the country's labour market is robust, with constant increase in employment rates while the unemployment rate fell to a record low of around 5%.

However, despite these positive characteristics, social and employment issues still show marked imbalances.

Long-term unemployment is an increasing concern and remains high. There are gender gaps in terms of full-time labour market participation, pay and pension entitlements, and the labour market potential of women is not used to the full. The labour market potential of people with migrant backgrounds is also underutilised, with gaps between employment rates of nationals and non-EU nationals.

At the social level, a wide gender pension gap and a sharp rise in non-standard forms of employment increasing old-age poverty risks are persistent. Old-age poverty has already increased in recent years and is expected to rise further.

All these aspects have been considered since 2012 by the MIP process with CSRs specifically devoted to addressing the above imbalances. However, the number of recommendations has been somewhat low since the 2012 first round of procedure implementation.

As regards the CSRs content, they show no great changes between the 2012-2013 and 2014-2015 periods, and the issues involved remained constant over time. In both periods attention focused mainly on reducing the high tax wedge, in particular for low-wage earners, and maintaining appropriate activation and integration measures, in particular for the long-term unemployed.

Despite the strong formal commitment to EU targets as well as increased coordination of countries stated in the NRPs, both the experts and the Commission Offices believe that the German responses to the CSRs is not completely in line with the recommendations and that, with regard to social and employment issues, Germany has made limited progress in addressing the country-specific recommendations not taking, for example, adequate measures to improve the efficiency of the tax system or to reduce high taxes and social contributions and fiscal disincentives to work, or make full use of under-utilised labour force (mainly women and people with migrant backgrounds).

Tackling these aspects constitutes, then, the main challenge that Germany will have to face in both mid and long term, especially when considering the marked, rapid consequences of demographic changes (in primis, population ageing with severe shrinking of the labour force).

The NRP 2015 underlines the participative process that had contributed to its drafting. However, greater active involvement of social partners and other key stakeholders involved in employment and social issues, also at grassroots level, would benefit the process.
3.2 Background

3.2.1 Economic conditions

After two years of small increases (0.4 % in 2012 and 0.1 % in 2013), real GDP rose by 1.6% in 2014. This was mostly driven by domestic demand and, in particular, by consumption, which was the major driver of growth in domestic demand. Net exports only contributed to growth with 0.4 pp., moderate export growth exceeding import growth. This phenomenon is expected to remain stable in the coming years while domestic demand is expected to remain the primary growth driver.

3.2.2 Labour market conditions

Germany’s labour market shows robust features. In 2014, employment rose by 0.9 pp. and the unemployment rate fell to a record-low of around 5%. Employment growth is expected to slow down to 0.5 % in 2015, while the unemployment rate is projected to fall slightly. Youth unemployment continues to touch record lows. Unlike the general picture in the euro area, the unemployment gap – the difference between actual and structural unemployment – is close to zero in Germany, which suggests that the remaining unemployment in Germany is of a broadly structural nature.

However, despite the overall good performance of the labour market, there are still some concerns. Long-term unemployment is an increasing concern, remaining high. The number of registered long-term unemployed is still high, despite the favourable situation on the labour market. Both the proportion of total unemployment accounted for by long-term unemployment (44.7 % in 2013) and the share of long-term unemployed among the labour force remain higher than in other Member States with low unemployment rates, such as Sweden, Finland, Austria or Denmark.

There are gender gaps in terms of full-time labour market participation, pay and pension entitlements, and the labour market potential of women is not used to the full. In 2013, the employment rate for women was 72.3% (55.8% in full-time equivalents) and thus considerably lower than for men (81.9%). In addition, the gap in the share of part-time work between women (46.1% in 2013) and men (11% in 2013) is among the highest in the EU, while the part-time work rate of mothers (close to 70%) is much higher in the western federal states. Germany also has the third widest gender pension gap in the EU.

Despite low youth unemployment and rates of young people not in education, employment or training, geographical and socio-economic disparities remain and disproportionally affect East German residents and young migrants across Germany (see also Education and skills, below). Furthermore, more than half of the young people not in education, employment or training are inactive. The labour market potential of people with a migrant background is underutilised, with gaps between employment rates of nationals and non-EU nationals of more of 18 pps. below that of German nationals). Women are particularly affected, with an employment rate gap of 26.9 pps. Lower employment is reflected in both higher unemployment rates and, notably, higher inactivity rates.

3.2.3 Social conditions

Decreasing benefit levels in the statutory pension insurance, the relatively low work volume of women leading to a wide gender pension gap, and a rise in non-standard
forms of employment increases old-age-poverty risks. Old-age poverty has already increased in recent years and is expected to rise further.

### 3.3 The European Semester exercises in 2014 and 2015 in the country and the main changes relative to previous years according to the perceptions of the main stakeholders

#### 3.3.1 The main issues at stake and the CSR process

The main social and employment issues at stake in the actual German socioeconomic context can be summarised as follows:

- gender gaps in terms of full-time labour market participation, pay and pension entitlements, and the labour market potential of women is not used to the full;
- Germany also has the third widest gender pension gap in the EU;
- geographical and socio-economic disparities remain and for example NEET disproportionally affect East German residents and young migrants across Germany;
- the labour market potential of people with a migrant background is underutilised, with gaps between employment rates of nationals and non-EU nationals. Women are particularly affected;
- old-age-poverty has increased in recent years and is expected to rise further.

In addition MIP and auxiliary indicators point out issues relevant for the country:

- an increase in the % of people at Risk of Poverty or Social Exclusion and a serious increase in the at risk of poverty rate as well as in the Severe Material Deprivation Rate:

#### Table 7: Employment and Social Indicators

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Unemployment rate (moving average)</td>
<td>10.5</td>
<td>7.5</td>
<td>6.2</td>
<td>5.6</td>
<td>5.2</td>
<td>9.1</td>
<td>8.5</td>
<td>9.9</td>
<td>10.3</td>
<td>10.5</td>
</tr>
<tr>
<td>% Change in Employment</td>
<td>0</td>
<td>0.3</td>
<td>1.1</td>
<td>0.6</td>
<td>0.8</td>
<td>1.0</td>
<td>-0.7</td>
<td>-0.4</td>
<td>-0.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Activity rate</td>
<td>73.8</td>
<td>76.6</td>
<td>77.1</td>
<td>77.5</td>
<td>77.7</td>
<td>69.7</td>
<td>71.7</td>
<td>72</td>
<td>72</td>
<td>72.3</td>
</tr>
<tr>
<td>Long-term Unemployment Rate</td>
<td>6</td>
<td>3.4</td>
<td>2.5</td>
<td>2.4</td>
<td>2.2</td>
<td>4.1</td>
<td>3.8</td>
<td>4.6</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Youth Unemployment Rate</td>
<td>15.6</td>
<td>9.9</td>
<td>8.1</td>
<td>7.9</td>
<td>7.7</td>
<td>18.9</td>
<td>21.3</td>
<td>23.1</td>
<td>23.6</td>
<td>22.2</td>
</tr>
<tr>
<td>% Young People NEET</td>
<td>10.9</td>
<td>8.3</td>
<td>7.1</td>
<td>6.3</td>
<td>6.4</td>
<td>n.a.</td>
<td>12.7</td>
<td>13.1</td>
<td>12.9</td>
<td>12.4</td>
</tr>
<tr>
<td>% People at Risk of Poverty or Social Exclusion</td>
<td>18.4</td>
<td>19.7</td>
<td>19.6</td>
<td>20.3</td>
<td>n.a.</td>
<td>25.7</td>
<td>23.6</td>
<td>24.7</td>
<td>24.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>At-risk Poverty Rate</td>
<td>12.2</td>
<td>15.6</td>
<td>16.1</td>
<td>16.1</td>
<td>n.a.</td>
<td>16.4</td>
<td>16.4</td>
<td>16.8</td>
<td>16.6</td>
<td>n.a.</td>
</tr>
<tr>
<td>Severe Material Deprivation Rate</td>
<td>4.6</td>
<td>4.5</td>
<td>4.9</td>
<td>5.4</td>
<td>n.a.</td>
<td>10.8</td>
<td>8.4</td>
<td>9.9</td>
<td>9.6</td>
<td>n.a.</td>
</tr>
<tr>
<td>% Persons Living in Households with Very Low Work Intensity</td>
<td>12</td>
<td>11.2</td>
<td>9.9</td>
<td>9.9</td>
<td>n.a.</td>
<td>10.4</td>
<td>10.1</td>
<td>10.4</td>
<td>10.8</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

18 See note 9
Within the Macroeconomic Imbalance Procedure (MIP), the European Commission identified some imbalances for Germany and tabled specific recommendations to address them through specific policy actions.

However, the number of recommendations has been quite low since the 2012 first round of the of the procedure implementation. In detail, Germany received 4 recommendations in 2012, 2013 and 2014 and 3 in 2015. Two of the four recommendations received in 2012 can be considered to have social/employment content, but only one in 2013, one in 2014 and one in 2015.

**As regards the content, i.e. the major issues, they show no great changes between the 2012-2013 and 2014-2015 periods.**

In both periods, in fact, attention focused mainly on reducing the high tax wedge in a budget-neutral way, in particular for low-wage earners, and maintaining appropriate activation and integration measures, in particular for the long-term unemployed. At the same time, it was considered necessary to create conditions for wages to grow in line with productivity.

While in the period 2012-2013, this attention was strictly focused on the role of education as a means to enhance the qualifications of disadvantaged groups, in particular by ensuring equal opportunities in the education and training system and more efficient growth-enhancing spending on education and research at all levels of government, during the period 2014-2015 attention turned more to the labour market and pension system.

However, the issues at stake remained constant over time in terms of:

- enhancing the efficiency of public spending on healthcare and long-term care (CSR 2012);
- reducing high labour taxes and social security contributions, especially for low-wage earners (CSRs 2012, 2013, 2014 and 2015) while addressing the impact of fiscal drag (CSR 2015);
- maintaining appropriate activation and integration measures, in particular for the long-term unemployed (CSRs 2012, 2013, 2014, 2015) and implementing the general minimum wage, monitoring its impact on employment (CSR 2014);
- raising the educational achievement of disadvantaged people (CSRs 2012, 2013, 2014);
- removing the fiscal disincentives for second earners (CSRs 2012, 2013, 2014, 2015);
- increasing the availability of fulltime childcare facilities and all-day schools (CSRs 2012, 2013, 2014) while addressing regional shortages in the availability of fulltime childcare facilities and all day schools and improving their overall educational quality (CSR 2014);
- facilitating transition from mini-jobs to forms of employment subject to full mandatory social security contributions (CSRs 2013, 2014,2015).
- increasing incentives for later retirement (CSR 2015).
2012

**CSR n.1: Education**
Continue the growth-friendly consolidation course through additional efforts to enhance the efficiency of public spending on healthcare and long-term care, and by using untapped potential to improve the efficiency of the tax system; use available scope for increased and more efficient growth-enhancing spending on education and research at all levels of government.

**CSR n.3:**
**Taxation system:** Reduce the high tax wedge in a budgetary neutral way, in particular for low-wage earners, and maintain appropriate activation and integration measures, in particular for the long-term unemployed. Create the conditions for wages to grow in line with productivity. Take measures to raise the educational achievement of disadvantaged groups, in particular through ensuring equal opportunities in the education and training system. Phase out the fiscal disincentives for second earners, and increase the availability of fulltime childcare facilities and all-day schools.

2013

**CSR n.2: Tax system and wages**
Sustain conditions that enable wage growth to support domestic demand. To this end, reduce high taxes and social security contributions, especially for low-wage earners and raise the educational achievement of disadvantaged people. Maintain appropriate activation and integration measures, especially for the long-term unemployed. Facilitate the transition from non-standard employment such as mini-jobs into more sustainable forms of employment. Take measures to improve incentives to work and the employability of workers, in particular for second earners and low-skilled workers, also with a view to improving their income. To this end, remove disincentives for second earners and further increase the availability of full time childcare facilities and all-day schools.

2014

**CSR n.2: Labour market system**
Improve conditions that further support domestic demand, inter alia by reducing high taxes and social security contributions, especially for low-wage earners. When implementing the general minimum wage, monitor its impact on employment. Improve the employability of workers by further raising the educational achievement of disadvantaged people and by implementing more ambitious activation and integration measures in the labour market, especially for the long-term unemployed. Take measures to reduce fiscal disincentives to work, in particular for second earners, and facilitate the transition from mini-jobs to forms of employment subject to full mandatory social security contributions. Address regional shortages in the availability of fulltime childcare facilities and all-day schools while improving their overall educational quality.

2015

**CSR n.2: Retirement**
Increase incentives for later retirement. Take measures to reduce high labour taxes and social security contributions, especially for low-wage earners, and address the impact of fiscal drag. Revise the fiscal treatment of mini-jobs to facilitate the transition to other forms of employment.

3.3.2 The way these recommendations have been treated at the national level in NRP

In its NRPs Germany seems decidedly committed to the EU targets as well as increased coordination among the countries. Yet, as Bekker (2015, forthcoming) states, “the German responses to the CSRs show at certain points deviations from the line the Council and the Commission have set”.

A similar and even stronger consideration can be found in the In-Depth Review on the prevention and correction of macroeconomic imbalances\(^\text{19}\) carried out by the

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Commission itself. The report stresses the fact that in many dossiers Germany has made limited progress in addressing the 2014 country-specific recommendations. With specific regard to social and employment recommendations, for example, the report points out that no measures were taken to improve the efficiency of the tax system or reduce high taxes and social contributions, and that fiscal disincentives to work have not been tackled.

In detail, the following are the aspects that should require to put in place dedicated specific policy actions to be put in place.

- **High labour taxes and social security contributions**

The burden of high labour taxes and, in particular, of social contributions in Germany is still formidable and this is particularly true of the specific target group the recommendations focused on in particular, i.e. low wage earners. The tax wedge for low wage earners still remains among the highest in the EU.

The 2015 NRP reports that the federal government on 28 January 2015, adopted the report on the level of the tax-exempt subsistence minimum for adults and children for 2016 thus increasing the minimum income tax allowance to align it with the subsistence level, as is legally required every two years. According to the German Federal Government, the increases in the basic allowance will bring important benefits to low-wage earners providing an important contribution to implementation of the country specific recommendations. At the same time, in the 2015 NRP the Federal Government also announced plans to reduce the impact of fiscal drag in the current legislative period.

- **Labour market participation of second earners**

According to the Commission’s in-depth review, no significant measures have been adopted by Germany to address the serious disincentives to labour participation for second earners.

This strong assessment is based on negative assessment of the fiscal system of joint taxation of income for married couples (Ehegattensplitting) and free health insurance coverage for spouses who are not working. Both instruments are considered to be fiscal disincentives for second earners, discouraging them from increasing the number of hours worked or even participating in the labour market. Indeed, the labour market statistics show that in Germany only a small proportion of women are working full-time and that Germany also has the lowest numbers of hours worked on average by women in the EU. In addition to this, the exemption of mini-jobs from personal income tax and in many cases from all employee social contributions also discourages workers from moving into jobs with earnings above the mini-job threshold of EUR 450 per month.

Against this negative assessment, in 2015 NRP, the Federal Government stresses the fact that Germany has been providing specific work incentives for second earners and in particular for mothers and fathers since 2014. The Elterngeld Plusparental allowance\(^\text{20}\) is mentioned as an instrument that is helping young parents to hold down part-time jobs and so return to work earlier.

\(^{20}\) Elterngeld is funded by the federal tax system and replaced, on January 01, 2007, the pre-existing Erziehungs geld or Parenting Allowance. This is not a permanent subsidy while it is limited to the first 12
• Transition from mini-jobs to other contractual forms of employment

As also stressed in the above point, the widespread use of mini jobs is seen to cause marked imbalances, creating a group of workers (women account for two thirds of this group) with low wages and low social contributions and security.

Also in this respect, the view of the Commission is rather negative as the In-depth Country Report again states that Germany has not adopted any measures to facilitate transition from non-standard employment such as mini-jobs to more sustainable forms of employment. Indeed, mini-jobs are widespread in Germany with around 7.5 million people working under this form of contract, constituting, for almost 5 million people, their only employment. Moreover, their transition rate into employment subject to full mandatory social security contributions is low.

The 2015 NRP does not mention specific policy action to tackle this issue, only mentioning the fact that the introduction of the statutory minimum wage is supposed to affect the number of ‘mini-jobbers’, most probably by increasing the number of part-time workers subject to social security contributions. However, the possible effects are not estimated and additional and more dedicated measures are not put in place.

In addition to the above issues, there are also some other aspects that would require additional efforts.

• Availability of childcare facilities

The availability of childcare facilities is considered one of the issues in which the country has made progress, but which would require additional efforts.

The Germany in-depth Review underlines that availability has been increasing over time, but that concerns still remain with regard to both regional bottlenecks and the quality of the facilities themselves. Indeed, Germany is close to the Barcelona target (33%), but regional differences prevent it from reaching its national target (39%).

There is the recognition that additional funds are being dedicated to the expansion of childcare and the overall quantity of childcare facilities has grown rapidly in recent years. However, the western and eastern Länder are going at different speeds and service and facility quality standards are not the same in the country.

In this respect, it is worth noting that the federal government, federal state governments and municipalities have recently agreed on a roadmap for setting common quality standards for childcare facilities. The 2015 NRP makes explicit reference to setting up a working group consisting of representatives of the federal government and the federal state governments and municipalities, which should submit a report by 2016.

• Educational achievement of disadvantaged people

In this field, progress has been considered somewhat limited. This view is reinforced by the fact that both the German Education Report 2014 and the PISA (Programme for International Student Assessment) 2012 Results confirm that, despite progress,
Germany remains one of the countries where educational attainment is strongly influenced by the fact of individuals belonging to a specific socioeconomic background.

Indeed, while the early school-leaving rate in Germany reached the Europe 2020 national target in 2013, the same rate for young people with migrant backgrounds appears to be double.

However, the 2015 NRP stresses that these negatives rates have been decreasing since 2005-2006 and that important steps have been taken in this field.

Many measures – ranging from scholarship programmes for migrants, enhancement of languages skills, coaching, etc. - have been put in place in the Länder to raise the educational achievement of disadvantaged persons (the NRP mentions specific programmes carried out in Berlin, Hesse, Mecklenburg Western Pomerania, Rhineland-Palatinate, Saxony-Anhalt) in which the role of ESF funding is a major asset in facilitating successful integration into training and working life for disadvantaged young people with specific regard to improvement of the overall educational opportunities and integration of young people from migrant backgrounds.

3.3.3 Appropriateness of the indicators adopted in the European Semester Exercise and the their role in informing the CSR and the NRP

Generally speaking, the indicators adopted in the European Semester Exercise are not exhaustive in providing a detailed picture of the situation of the country and promptly detecting potential imbalances in employment and social issues.

Their supportive role to both the drafting process of the CSRs and of the NRP is limited to broad phenomena that are not always useful to capture the effective dynamics occurring in the labour market.

For example, mini jobs have greatly contributed to reducing the unemployment rate (which is monitored through MIP indicators), but, at the same time, are also influencing the quality of jobs and the future prospects for workers in terms of their future pension entitlements or the possibility of using other social security rights.

In this regard, the survey respondents stressed the fact that these indicators do provide full and clear contextualization of the socioeconomic specificity of Germany for which the CSRs are issued, while have a somewhat minor role in indicating the degree to which CSRs have been accepted or not.

To this end, it is strongly advised to make use of qualitative information so as to inform the CRSSs and the NRP properly. Quantitative indicators should also be more complete, with specific disaggregation crucial to detecting imbalances at the country level, but also with specific regard to different Länder. Indicators should thus be disaggregated by sex, age, educational attainment, nationality, and migration background which is basic to analyse any employment or social reality. With specific regard to the case of Germany, indicators disaggregation will contribute to better understanding the labour market and social dynamics that in a broad picture can be viewed as positive, but still show some inequalities.

Specific shortcomings are identified in particular for those indicators related to the labour market, such as:
the unemployment rate, which as such offers no indications about the (possible) uneven distribution of unemployment and does not help to identify weaker target groups;

- the percentage change in the employment rate which does not specify to which kind of employment we are referring to (Full time, part-time, temporary, etc.), although it is crucial in many countries including Germany;

- the long term unemployment rate and the youth unemployment rate simply offer a broad outline of the situation, not helping to identify for which weaker segment of population it occurs, nor helping disentangles its structural or cyclical reasons.

Additional indicators are suggested to correct and complement the list of existing ones:

- indicators showing investment demand concerning labour market issues;
- replacement rates in times of unemployment, by age;
- risk of poverty rate for older/younger people;
- median relative income rate;
- composition of income by sources;
- indicators of different contractual forms of jobs by educational level;
- indicators concerning social inclusion issues;
- change in the social expenditure rate with reference to GDP change, broken down to single sections, e.g. pensions, health, the labour market;
- in-work-poverty wages.

3.4 Current and future challenges

As is the case of most of the European countries, also for Germany demographic change is an overarching key challenge. Indeed, Germany’s population is ageing rapidly and in the coming years the impact on both the labour market and the availability of public finances for pension and health sector will be severe.

With specific regard to the labour market, population ageing will cause a shrinking of the working-age population (between 20 and 64 years of age), which will result in two main needs: (i) the need to increase labour supply; and (ii) the need to increase productivity.

To tackle them, the main challenges lie in “better use” of specific target groups of potential workers who have so far been much under-utilised, such as women, people with migrant backgrounds (both young people and adults), long-term unemployed and older workers.

Indeed, despite the fact that employment continues to rise and unemployment is at a record low in Germany, skill shortages are emerging, unemployment in some regions remains relatively high and the workforce is projected to decline in the medium-to-long term due to demographic change. In this context, insufficient incentives to work and the employability of workers remain an issue, also with a view to improving the
income of low wage earners. Long-term unemployment is also an increasing concern and is still at a high level.

The implementation of policy actions to tackle the relatively wide gender gaps in terms of full-time labour market participation will thus represent an important challenge in the mid-term which will also help tackle the feminisation of poverty phenomena for older women in future years. The present gaps between employment rates of nationals and non-EU nationals also imply the need to activate stronger policies for full integration of people with migrant backgrounds living in Germany.

In addition, Germany, in line with its skilled labour concept (*Fachkräftekonzept*), is also trying to attract and better integrate skilled workers from abroad. The government has already improved the recognition of foreign occupational qualifications and has reduced barriers to immigration from third countries. The way in which future migration will be tackled could bring in an increase in the labour force potential (compensating partly for demographic effects in the short-term) and in the introduction of potential skilled workers.

Generally speaking, reducing disincentives to take up a job or to increase working time and facilitating better education outcomes would also help Germany to increase its growth potential. To this end, as strongly suggested by CSRs along the years, addressing the impact of fiscal drag and dealing with the (potential) employment effects of the minimum wage are key medium-term policy challenges in order to maintain the right conditions for increasing domestic demand.

Another challenge lies in **tackling regional bottlenecks** (for example in the availability of childcare facilities and/or in other social areas) that still influence the performance of the eastern federal states negatively compared with the western federal states.

### 3.5 Suggestions to improve attention to employment and social issues in the European Semester

Since the 2012 NRP, Germany has shown ample attention to furthering social inclusion and labour market integration, also by identifying and setting quantitative headline targets with specific reference to Europe 2020 targets. As stated in the 2015 NRP, all the national employment goals of the Europe 2020 strategy have already been reached.

During the last few years social and employment issues have gained renewed attention within the European Semester, largely due to economic crisis together with rising social and political discontent among European citizens. This has led to greater stress on employment issues rather than social ones.

However – as was noted in previous sections – in the case of Germany, the employment issues included in the CSRs are strictly connected to broader social themes such as the integration of migrants and/or the role of women within the economy and the exploitation of their full potentialities to boost the labour market.

Most of the CSRs over the years have acknowledged, for example, the wider use of non-standard contracts, which has made the German labour market more flexible, but, at the same time, has also increased inequality among workers, and especially low-wage earners. An example is the reference to mini-jobs causing low acquired pension rights.
NRP 2015 underlines the participative process that had contributed to its drafting. While the process leadership was held by the Federal Government through the Federal Ministry for Economic Affairs and Energy, involvement of the other level of government, i.e. the Bundesländer, was guaranteed by the Länder Conferences of Specialised Ministers which sent in contributions that have been incorporated into the document. At the same time, many other national key stakeholders such as industry and social associations, trade unions, employers and other civil society groups have also been consulted.

However, **major active involvement of social partners and other key stakeholders concerned with employment and social issues also at grassroots level would benefit the process and the tailored answers to the CSRs.** In the view of one stakeholder, this could be achieved through public debates on these aspects which could stimulate, in turn more parliamentary debates.

At the European level a system of benchmarks and sanctions will also improve the way countries respond and apply social and employment aspects entailed by the CSRs.

Key employment and social stakeholders should also be included in the design and implementation of new tools within the European Semester monitoring exercises, and in particular the following stakeholders should have a stronger role from the beginning of the MIP process: Trade Unions, NGOs, Welfare Agencies.

The **involvement of the European Parliament could also enhance the possibilities to democratically legitimise the process of the European Semester** and, at the same time, include a wide range of different issues to be tackled as well as stakeholders to be involved. In the view of one stakeholder, the EESC should also be involved, to bring social partners back in the process. One possibility could be a Euro Council of Employment ministers and regular meetings of national deputies in social & employment committees of the national parliaments with their EP homologues.

### 3.6 Annexes

#### Lists of documents:
- Sonja Bekker, European socioeconomic governance in action: coordinating social policies in the third European Semester, ReflecT, Tilburg University - The Netherlands, January 2015
- Sonja Bekker (2015, forthcoming), Finding optimal socio-economic governance modes: Member State response to EU-level targets, SIEPS paper
- European Anti-Poverty Network, EAPN Assessment of the 2015 Country-Specific Recommendations, Germany Country Analysis, June 2015
Mainstreaming Employment and Social Indicators into Macroeconomic Surveillance

- The Federal Ministry for Economic Affairs and Energy (BMWi), Germany National Reform Program 2015, May 2015

**Stakeholders contacted**

Prof. Dr. Björn Hacker, University of Applied Sciences HTW Berlin

Dr. Michael Sunnus, Permanent Respresentation of Germany to the EU

**Scoreboard and Auxiliary Indicators for Germany**

**Table 8: Macro and Fiscal Scoreboard Indicators**

<table>
<thead>
<tr>
<th>External Imbalances and Competitiveness</th>
<th>Headline Indicators</th>
<th>Thresholds</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Account Balance as % of GDP</td>
<td>3 year average</td>
<td>-4%/-+6%</td>
<td>3.5</td>
<td>5.8</td>
<td>6.3</td>
<td>6.7</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>level year</td>
<td></td>
<td>4.7</td>
<td>5.7</td>
<td>7.1</td>
<td>6.8</td>
<td>7.6</td>
</tr>
<tr>
<td>Net International Investment Position as % of GDP</td>
<td></td>
<td>-35%</td>
<td>21</td>
<td>35.4</td>
<td>34.7</td>
<td>42.9</td>
<td>36.4</td>
</tr>
<tr>
<td>Real Effective Exchange Rate</td>
<td>% change (3 years)</td>
<td>+/-5% for EA</td>
<td>4.6</td>
<td>-3.7</td>
<td>-9</td>
<td>-1.9</td>
<td>-0.3</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>+/11% non-EA</td>
<td>-1.8</td>
<td>-5.2</td>
<td>-3.3</td>
<td>2.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Export Market Shares</td>
<td>% change (5 years)</td>
<td>-6%</td>
<td>9.5</td>
<td>-8.8</td>
<td>-15.8</td>
<td>-10.7</td>
<td>-8.46</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td></td>
<td>-5.2</td>
<td>-6.5</td>
<td>-4.6</td>
<td>2.4</td>
<td>2.23</td>
</tr>
<tr>
<td>Nominal ULC</td>
<td>% change (3 years)</td>
<td>+9% EA</td>
<td>0</td>
<td>7.5</td>
<td>2.7</td>
<td>6.4</td>
<td>7.7</td>
</tr>
<tr>
<td></td>
<td>+12% non-EA</td>
<td></td>
<td>-0.5</td>
<td>-1.2</td>
<td>3.3</td>
<td>2.4</td>
<td>1.9</td>
</tr>
<tr>
<td>% Change in Deflated House Price Index</td>
<td>+6%</td>
<td>-0.3</td>
<td>-1</td>
<td>2</td>
<td>1.8</td>
<td>1.5(p)</td>
<td></td>
</tr>
<tr>
<td>% Private Sector Credit Flow</td>
<td>+14%</td>
<td>0.3</td>
<td>0.2</td>
<td>1.3</td>
<td>1.2</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>% Private Sector Debt</td>
<td>+133%</td>
<td>117.1</td>
<td>107.7</td>
<td>103.7</td>
<td>103.5</td>
<td>100.4</td>
<td></td>
</tr>
<tr>
<td>% General Government Sector Debt</td>
<td>60%</td>
<td>66.8</td>
<td>80.3</td>
<td>79</td>
<td>76.9</td>
<td>74.7</td>
<td></td>
</tr>
<tr>
<td>% Change in Total Financial Sector Liabilities</td>
<td>+16.5%</td>
<td>6.3</td>
<td>-0.9</td>
<td>3.2</td>
<td>-6.3</td>
<td>4.2</td>
<td></td>
</tr>
</tbody>
</table>

Indicators’ specification: 1) 3 year backward moving average of the current account balance as percent of GDP with thresholds of +6% and -4% (and current account balance as percent of GDP); 2) net international investment position as percent of GDP, with a threshold of -35% (change over 3 years and year-over-year change); 3) 3 years percentage change of the real effective exchange rates based on HICP/CPI deflators, relative to 41 other industrial countries, with thresholds of +/-11% for euro area countries and +/-11% for non-euro area countries (and year-over-year change); 4) 5 years percentage change of export market shares measured in values, with a threshold of -6% (and year-over-year change); 5) 3 years percentage change in nominal unit labour cost, with thresholds of +9% for euro area countries and +12% for non-euro area countries (and year-over-year change); 6) year-on-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6%; 7) private sector credit flow in % of GDP with a threshold of 14%; 8) private sector debt (consolidated) in % of GDP with a threshold of 133%; 9) general government sector debt in % of GDP with a threshold of 60%; 10) year-on-year changes in total financial sector liabilities, with a threshold of 16.5%.

Data Source: from 2005 to 2013 Statistical Annex of AMR 2015

p. = provisional
### Table 9: Macro and Fiscal Auxiliary Indicators

<table>
<thead>
<tr>
<th>Auxiliary Indicators</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>% y-o-y change in Real GDP</td>
<td>0.7</td>
<td>4.1</td>
<td>0.4</td>
<td>0.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation as % of GDP</td>
<td>19.1</td>
<td>19.3</td>
<td>20.0</td>
<td>19.7</td>
<td>20.0</td>
</tr>
<tr>
<td>Gross Domestic Expenditure on R and D as % of GDP</td>
<td>2.4</td>
<td>2.7</td>
<td>2.9</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net Lending / Borrowing as % of GDP</td>
<td>4.6</td>
<td>5.7</td>
<td>7.2</td>
<td>6.9</td>
<td>7.7</td>
</tr>
<tr>
<td>Net External Debt as % of GDP</td>
<td>9.8</td>
<td>-5.9</td>
<td>-3.5</td>
<td>-12.2</td>
<td>-1.4</td>
</tr>
<tr>
<td>Inward FDI flows as % of GDP</td>
<td>2.1</td>
<td>2.5</td>
<td>1.4</td>
<td>1.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Inward FDI stocks as % of GDP</td>
<td>24.7</td>
<td>28.9</td>
<td>39.5</td>
<td>40.2</td>
<td>40.2</td>
</tr>
<tr>
<td>Net Trade Balance of Energy Products as % of GDP</td>
<td>-2.4</td>
<td>-2.9</td>
<td>-3.7</td>
<td>-3.5</td>
<td>-2.9</td>
</tr>
<tr>
<td>% Change (3 years) in REER vs. EA</td>
<td>-2</td>
<td>-1.4</td>
<td>-1.2</td>
<td>-0.7</td>
<td>-0.1</td>
</tr>
<tr>
<td>% Change (5 years) in Export Performance vs. Advanced Economies</td>
<td>19.3</td>
<td>-0.4</td>
<td>-6.9</td>
<td>-4.3</td>
<td>-2.1</td>
</tr>
<tr>
<td>% Change (5 years) in Terms of Trade</td>
<td>1.8</td>
<td>-1</td>
<td>-2.5</td>
<td>0.6</td>
<td>-2.6</td>
</tr>
<tr>
<td>% y-o-y Change in Export Market Share, in volume</td>
<td>0.1</td>
<td>2.5</td>
<td>0.3</td>
<td>-2.2</td>
<td>n.a.</td>
</tr>
<tr>
<td>% y-o-y Change in Labour Productivity</td>
<td>0.7</td>
<td>3.8</td>
<td>-0.7</td>
<td>-0.5</td>
<td>0.8</td>
</tr>
<tr>
<td>% Change (10 years) in Nominal ULC</td>
<td>1.4</td>
<td>5.7</td>
<td>9.1</td>
<td>10.4</td>
<td>13.2</td>
</tr>
<tr>
<td>% Change (10 years) in ULC performance relative to EA</td>
<td>-15.6</td>
<td>-16.2</td>
<td>-10.7</td>
<td>-8.4</td>
<td>-5.8</td>
</tr>
<tr>
<td>% Change (3 years) in Nominal House Prices</td>
<td>0.1</td>
<td>3.2</td>
<td>8.2</td>
<td>10.4</td>
<td>9.3(p)</td>
</tr>
<tr>
<td>Residential Construction as % of GDP</td>
<td>5</td>
<td>5.2</td>
<td>5.8</td>
<td>5.9</td>
<td>6.0</td>
</tr>
<tr>
<td>Private Sector Debt as % of GDP, non-consolidated</td>
<td>124.1</td>
<td>115.1</td>
<td>110.9</td>
<td>110</td>
<td>108.9</td>
</tr>
<tr>
<td>Financial Sector Leverage (debt-to-equity)</td>
<td>525.6</td>
<td>561.9</td>
<td>521.1</td>
<td>422.3</td>
<td>395.5</td>
</tr>
</tbody>
</table>

Indicators' specification: 1) Real GDP % change (1 year); 2) Gross Fixed Capital Formation % of GDP; 3) Gross Domestic Expenditure on R&D % of GDP; 4) Net Lending/Borrowing % of GDP; 5) Net External Debt % of GDP; 6) Inward FDI Flows % of GDP; 7) Inward FDI Stocks % of GDP; 8) Net Trade Balance of Energy Products % of GDP; 9) Real Effective Exchange Rates - EA trading Partners % change (3years); 10) Share of OECD exports % change (5years); 11) Terms of Trade % change (5years); 12) Export Market Shares - in volume % change (1 year); 13) Labour Productivity % change (1 year); 14) Nominal unit labour cost % change (10 years); 15) Unit labour cost performance related to EA % change (10 years); 16) Nominal house price index % change (3 years); 17) Residential Construction % of GDP Eurostat NA; 18 ) Private Debt, non-consolidated % of GDP; 19) Financial Sector Leverage (debt to equity) %.

Data Source: from 2005 to 2013 Statistical Annex of AMR 2015


(p)=provisional n.a. = not available
4 SPAIN

4.1 Executive summary

After five years of recession and severe adjustment efforts, the Spanish economy grew again by 1.4% in 2014 and is expected to grow by around 3% in 2015 and with rapid employment creation. However, the high unemployment rate (25.1% in 2014), the weight of long-term and youth unemployment (12.9% and 53.2% respectively), and the impact of the crisis on poverty and social exclusion make it compulsory to boost employment/social efforts.

The Spanish government has largely held a common position with EU institutions as regards CSRs in these years. All the CSRs have been accepted and the analysis has been shared with the EU, so that, according to one official interviewee, there can be no talk of bottom-down “impositions”, but rather of dialogue. The apparent conflict between economic and employment/social goals would, according to the interviewee, have no basis in reality. However, one interviewee pointed out, whereas the economic CSRs have been responded to as required by the EU institutions, subject to strict control, the social/employment CSRs have met with “formal” response by the government, with the approval of “formal” strategies and plans that had afterwards to be implemented by the autonomous communities, which lacked the financial resources to do so. The very repetition in 2012-14 of the employment/social CSR would be a sign that no large progress was being seen. Nonetheless, the social CSR would be a useful tool to draw attention to the priorities set by the European Commission and support negotiations with other national agents. Interestingly, the CSR 2015 no longer appears so relevant, account being taken of the improvement in the economic situation.

As regards the set of employment and social indicators, the idea of including it in a procedure similar to the MIP including even corrective mechanisms is firmly rejected by officials of the ministries consulted, but given a warmer reception by representatives of NGOs and trade unions. Other comments concern, in the first place, the insufficiency of any set of indicators to get a clear picture of what is happening in a country and to the need to make use of qualitative information so as to inform the CRSs and the NRPs properly; secondly, the incompleteness of the set of indicators; finally, the fact that the indicators are not disaggregated by sex, age or educational attainment, which is basic to analyse any employment and/or social reality.

Six challenges have been identified for Spain in consideration of the poor attention to social/employment issues: 1) stepping up financial resources devoted to employment and social policies, which have gone through severe adjustment; 2) design of an integrated approach to economic and social policies in Spain, aligned with an EU strategy that goes beyond the current piecemeal, incoherent approach; 3) promotion of internal debate on European policies; 4) tackling the increasing inequalities occurring during the crisis; 5) addressing persistent long-term unemployment, which will require more and smarter resources; 6) addressing the poor quality of existing and future jobs, many of them not able to lift workers out of poverty.

In Spain, the European Semester should be made more visible and transparent. Sound procedures should be established to ensure informed public debate in the national parliament, with regular, detailed information and monitoring. The Autonomous
Communities, Social Partners and the Third Sector should also be systematically involved. The pressure that can be exerted by national and European social agents and social NGOs may help increase the visibility and weight of social policies at the national/regional levels. A “stronger soft” coordination is found useful, as opposed to strict surveillance subject to correction (hard), but reinforced and taking into account the traditional elements of the OMC: more concrete common objectives, indicators and mutual learning.

More generally, the European Union should clearly state that preservation of a European social model is priority and that increasing the living standards of its citizens the ultimate objective of each and every policy promoted. All economic, employment, social and other policies would then be aligned with this objective.

4.2 Background

4.2.1 Economic conditions

After many years’ uninterrupted growth rates around 4% since the mid-nineties, Spain’s GDP grew by a low 1.1 per cent in 2008 before falling by -3.7 per cent during 2009. Only in 2014, after five years recession and severe economic adjustment efforts, did the economy grow again, by 1.4%. Spain is now expected to be one of the fastest growing countries of the EU in 2015, with a forecast of around 3%, and rapid employment creation. The equally astonishing employment growth and declining unemployment prior to the crisis have been offset during 23 consecutive quarters of negative employment growth (annual terms), so that the lowest employment level, reached at the beginning of 2014, was similar to that of 2002 and unemployment had reached 25.1% of the active population by 2014, 2.5 times the EU average. As a result, public finances deteriorated rapidly, the fiscal deficit reached 11.0 per cent of GDP in 2009, and the public debt started its own unstoppable upward trend, whereas private debt represented over 220 per cent of the GDP in 2008. The need for fiscal consolidation began in 2010, was aggravated in 2012 and eased off to some extent in 2014.

4.2.2 Labour market conditions

The destruction of jobs affected more men than women initially, but extended rapidly to the service sector and began hitting women harder. Interestingly, whereas men have reacted to their massive job losses in part by retiring from the labour market (more than 800,000 men, 6.2%, became inactive in 2008-14) almost 700,000 women (6.9%) have in contrast entered the labour market to counteract family income losses caused by higher male unemployment. Employment of young women and men has been the most severely hit, over half of them being unemployed (unemployment rate of 53.2% in 2014, 2.4 times the EU average). While the share of school dropouts, also doubling EU records, has decreased notably during the crisis, with many young boys and girls going back to school, the share of NEET has increased during the crisis (13% in 2005 but around 17-18% in 2010-2014), mainly because of a high proportion of young qualified unemployed.

The length of the crisis has tested the economic and social institutions and policies, designed to cope with shorter crisis. Indeed, long-term unemployment has increased (12.9% in 2014, again 2.5 times the EU rate) and conditions for the long-
term unemployed have severely deteriorated along with exhaustion of their unemployment benefits.

The labour market has become more precarious and unequal in Spain, with a trend towards temporary jobs, involuntary part-time and low wages, which very often go together. Part-time employment has increased sharply (16.5% per cent) during the crisis, along with measures to promote it, although it still constitutes a minor share of men’s jobs (9% in 2015), and women still account for the vast majority of total part-timers (73%). Part-time can hardly be considered a refuge for employment since 68% of the men and 59% of the women (2015) working part-time do so because they cannot find a full-time job. Children, other dependants to take care of and other family responsibilities are the reason given by 18% of the women and 2.8% of the men to work part-time. In terms of salaries, the response to the crisis has led to “internal devaluation”, as it is termed, i.e. lower real salaries, but not equally for everyone. The S80/S20 income quintile ratio increased from 5.7 in 2008 to 6.3 in 2013, which places Spain in the sixth worst position among the EU28 countries and indicates the worst trend in these years. Similar conclusions can be drawn from the Gini coefficient, which increased from 31.9 in 2008 to 33.7 in 2013, so that Spain occupies the 7th position and shows one of the worst performances during the crisis.

4.2.3 Social conditions

As a result, the at-risk-of-poverty rate has increased by 2.5 percentage points, although it is recognised that this increase does not reflect the real severity of the situation. Severe material deprivation also increased, by 2.2 p.p. in 2010-2014. The trend in child poverty is particularly worrying in Spain, with the second largest rate in the EU.

4.3 The European Semester exercises in 2014 and 2015 in the country and the main changes relative to previous years according to the perceptions of the main stakeholders

4.3.1 The main issues at stake and the CSR process

The main social and employment concerns for Spain can be summarised as follow:

- Concerning young people:
  - the reduction of employment rates of young women and men during the crisis and the high level of unemployment;
  - the share of school dropouts double than EU records;
  - the share of NEET increased during the crisis;
  - more in general the precarious and unequal labour market with an increase in unemployment and long-term unemployment for women and men and in working conditions;
- More in general the labour market situation with high level of inactivity rate, of unemployment and in particular of long-term unemployment;

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21 Source: Eurostat, S80/S20 and Gini coefficient of equivalised disposable income.
22 The worst year of the crisis in terms of unemployment was 2013, when the at-risk-of-poverty rate diminished by 0.9 p.p. The relative nature of the indicator, as well as the Arope rate, allows for deteriorating levels of wealth compatible with diminishing ratios.
• The increase of **poverty rates**:
  o the at-risk-of-poverty rate has increased by 2.5 percentage points;
  o the increase of child poverty is particularly worrying in Spain, with the second largest rate in the EU.

As it is possible to see almost all Employment and Social Indicators have deteriorated since 2005 with first signs of recovery in some cases detectable in 2014: some of these indicators are almost double than EU average.

**Table 10 : Employment and Social Indicators**

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Country</th>
<th>EU area</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MIP Scoreboard</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate (moving average)¹</td>
<td>10.6 16.4 22 24.1 25.1</td>
<td>9.1 8.5 9.9 10.3 10.5</td>
</tr>
<tr>
<td>% Change in Employment²</td>
<td>4.3 -1.7 -3.7 -2.6 1.3⁽⁷⁾</td>
<td>1.0⁺ 0.7⁺ 0.4⁺ 0.3⁺ 1.0</td>
</tr>
<tr>
<td>Activity rate³</td>
<td>70 73.5 74.3 74.3 74.2</td>
<td>69.7 71 71.7 72 72.3</td>
</tr>
<tr>
<td>Long-term Unemployment Rate⁴</td>
<td>2.2 7.3 11 13 12.9</td>
<td>4.1 3.8 4.6 5.1 5.1</td>
</tr>
<tr>
<td>Youth Unemployment Rate⁵</td>
<td>19.6 41.5 52.9 55.5 53.2</td>
<td>18.9 21.3 23.1 23.6 22.2</td>
</tr>
<tr>
<td>% Young People NEET ⁶</td>
<td>13 17.8 18.6 18.6 17.1</td>
<td>n.a. 12.7 13.1 12.9 12.4</td>
</tr>
<tr>
<td>% People at Risk of Poverty or Social Exclusion ⁷</td>
<td>24.3 26.7 28.2 27.3 29.2</td>
<td>25.7 23.6 24.7 24.5 n.a.</td>
</tr>
<tr>
<td>At-risk Poverty Rate⁸</td>
<td>20.1 21.4 22.2 20.4 22.2</td>
<td>16.4 16.4 16.8 16.6 n.a.</td>
</tr>
<tr>
<td>Severe Material Deprivation Rate⁹</td>
<td>4.1 4.9 5.8 6.2 7.1</td>
<td>10.8 8.4 9.9 9.6 n.a.</td>
</tr>
<tr>
<td>% Persons Living in Households with Very Low Work Intensity¹⁰</td>
<td>6.9 10.8 14.3 15.7 17.1</td>
<td>10.4 10.1 10.4 10.8 n.a.</td>
</tr>
</tbody>
</table>

Due to the evolving context the balance between economic and social/employment CSRs has changed over time, although not so much in the 2014 and 2015 exercises, but rather between 2011 and 2012.

In 2011, out of seven CSRs, three (43%) can be considered to have social/employment content; in 2012, 4 out of a total of 8 (50%) had such content. However, the difference between the two years is more qualitative, the specific issues addressed in the 2011 CSR being more economic in nature: pension reform, with the aim of guaranteeing sustainability, not adequacy to diminish poverty (CSR2); reform of the collective bargaining system to align wage developments with productivity and adjust labour conditions to the changes in the economic environment (CSR5); assessment of the 2011 labour market reform and improvement in employment opportunities for young people. In turn, the 4 social/employment

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²³ See note 9
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2012 CSRs seem more sensitive to the interlinks between the economy and social/employment issues, in a context of extreme pressure caused by the public debt crisis: the CSR 2 on pensions recognises that, once the reform had been approved, the poor performance of the economy might imply the need to speed up its implementation (however, this recommendation would disappear in 2013); the CSR5 on labour market reform is more detailed and oriented to improving ALMP effectiveness; the CSR4 advises reviewing spending priorities and reallocating funds to support access to finance for SMEs, research, innovation and young people (implementing the Youth Action Plan); for the first time, a recommendation on poverty is issued to Spain, focused on child support and improving employability for vulnerable groups (CSR7).

2012

**CSR n.2: Retirement**
Ensure that the retirement age is rising in line with life expectancy when regulating the sustainability factor foreseen in the recent pension reform and underpin the Global Employment Strategy for Older Workers with concrete measures to develop lifelong learning further, improve working conditions and foster the reincorporation of this group in the job market.

**CSR n.3: Taxation**
Introduce a taxation system consistent with the fiscal consolidation efforts and more supportive of growth, including a shift away from labour towards consumption and environmental taxation. In particular, address the low VAT revenue ratio by broadening the tax base for VAT. Ensure less tax-induced bias towards indebtedness and homeownership (as opposed to renting).

**CSR n.5: Active labour market policies**
Implement the labour market reforms and take additional measures to increase the effectiveness of active labour market policies by improving their targeting, by increasing the use of training, advisory and job matching services, by strengthening their links with passive policies, and by strengthening coordination between the national and regional public employment services, including sharing information about job vacancies.

**CSR n.6: Entrepreneurship and youth unemployment**
Review spending priorities and reallocate funds to support access to finance for small and medium-sized enterprises (SMEs), research, innovation and young people. Implement the Youth Action Plan, in particular as regards the quality and labour market relevance of vocational training and education, and reinforce efforts to reduce early school-leaving and increase participation in vocational education and training through prevention, intervention and compensation measures.

**CSR n.7: Unemployment of vulnerable groups**
Improve the employability of vulnerable groups, combined with effective child and family support services in order to improve the situation of people at risk of poverty and/or social exclusion, and consequently to achieve the well-being of children.

Several factors may lie behind this attitudinal change shown by the EU institutions: a change of government occurred in November 2011, and the new government, with its absolute majority, was keen to undertake the reforms that had been proposed to the former government but had not met with a very favourable reception; additionally, after a timid recovery in 2010, GDP fell again in 2011 by 1.6%, and the external pressure of creditors on the public debt jeopardised the stability of the Spanish economy and, given the latter’s proportions, of the Euro countries’ economies, too. Notwithstanding, the 2012 CSR1 still calls for an annual average structural fiscal effort of over 1.5% of the GDP over the period 2010-13, as required by the EDP recommendation.

**The 2013 Country report largely approves the country’s response to the social/employment CSR, but also makes the criticism** that “the 2012 labour
market reform presented a set of general measures tending to promote employability, but failed to take a specific approach to support the active inclusion in the labour market of those furthest away”, thus highlighting the limits of the lauded labour market reform. It also assesses the progress in tackling child poverty and improving the efficiency of family support services as limited.

Later on, 3 of the 9 recommendations to Spain in 2013 included social/employment content, which, with the exception of the one referring to the pensions reform (it disappears, with the understanding that it has been fully addressed), follow-through from the 2012 recommendations: CSR 4 insists on monitoring the labour market reform and improving the functioning of ALMP and PES, with particular reference to older and low-skilled workers; CSR5 focuses exclusively on youth employment and the various strategies Spain is implementing; CSR6 urges adoption of the necessary measures to reduce the number of people at risk of poverty and/or social exclusion. A year later, the Country Report 2014 judged Spain’s response in terms of progress in the three recommendations to be “medium” (“some progress” in the three, though with some specific issues in CSR4 and CSR6, regarding the limited progress made in measures to tackle child poverty and improve family support services (CSR6), found to be showing “limited progress”.

<table>
<thead>
<tr>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CSR n.4: Labour market reform</strong></td>
</tr>
<tr>
<td><strong>CSR n.5: Youth unemployment</strong></td>
</tr>
<tr>
<td><strong>CSR n.6: Poverty and social exclusion</strong></td>
</tr>
</tbody>
</table>

As a result, in 2014 the social/employment CSRs basically reiterated those of 2013, going into greater detail in the recommendations, showing a thorough knowledge of the evolution, and of the strong and weaker points of the reforms adopted since 2012. In general terms, they insist on accelerating implementation of the reforms and strategies adopted (ALM reform, the 2013-2016 Youth Entrepreneurship and Employment Strategy, the new education law, the 2013-2016 National Action Plan on Social Inclusion).
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2014

**CSR n.3: Labour market segmentation/ active labour market policies**

Pursue new measures to reduce labour market segmentation to favour sustainable, quality jobs, for instance through reducing the number of contract types and ensuring a balanced access to severance rights. Continue regular monitoring of the labour market reforms. Promote real wage developments consistent with the objective of creating jobs. Strengthen the job-search requirement in unemployment benefits. Enhance the effectiveness and targeting of active labour market policies, including hiring subsidies, particularly for those facing more difficulties in accessing employment. Reinforce the coordination between labour market and education and training policies. Accelerate the modernisation of public employment services to ensure effective personalised counselling, adequate training and job-matching, with special focus on the long-term unemployed. Ensure the effective application of public-private cooperation in placement services before the end of 2014, and monitor the quality of services provided. Ensure the effective functioning of the Single Job Portal and combine it with further measures to support labour mobility.

**CSR n.4: Youth Unemployment**

Implement the 2013-2016 Youth Entrepreneurship and Employment Strategy and evaluate its effectiveness. Provide good quality offers of employment, apprenticeships and traineeships for young people and improve the outreach to non-registered unemployed young people, in line with the objectives of a youth guarantee. Effectively implement the new educational schemes to increase the quality of primary and secondary education. Enhance guidance and support for groups at risk of early school leaving. Increase the labour-market relevance of vocational education and training and of higher education, in particular by enhancing the cooperation with employers and supporting the training of trainers and tutors.

**CSR n.5: Poverty and social exclusion**

Implement the 2013-2016 National Action Plan on Social Inclusion and assess its effectiveness covering the full range of its objectives. Strengthen administrative capacity and coordination between employment and social services in order to provide integrated pathways to support those at risk, and boost, among the Public Administrations responsible for the minimum income schemes, streamlined procedures to support transitions between minimum income schemes and the labour market. Improve the targeting of family support schemes and quality services favouring low-income households with children, to ensure the progressivity and effectiveness of social transfers.

The (Country Report 2015) assessment attributes “some progress”, although with limitations, to CSR3 (employment/labour market) and CSR4 (youth employment), but “limited progress” to CSR 5. Some examples of “limited progress” follow: as for CSR3, Spain has made limited progress in pursuing new measures to reduce labour market segmentation; in reinforcing the coordination between labour market and education and training policies; in accelerating modernization of the PES. Regarding CSR4, Spain has made limited progress in providing good quality employment, apprenticeship and traineeship opportunities for young people; in enhancing guidance and support for groups at risk of dropping out from school; in increasing the labour-market relevance of vocational education and training and of higher education. CSR 5 progress is limited in implementing the National Action Plan for Social Inclusion, enhancing the administrative capacity and coordination between employment and social services, and in improving the targeting of family support schemes and the effectiveness of social transfers.

Against this background, the one (out of four) employment/social CSR3 issued in 2015 for Spain is surprisingly concise and interrupts the trend of the
previous three years since it leaves out many social/employment important recommendations Spain should further work on, such as labour market segmentation, special focus on long-term unemployed, improvement of outreach to non-registered young unemployed and make good quality offers within the Youth Guarantee, or ensuring progressivity and effectiveness of social transfers, as in the previous CSR in 2014. It recommends promotion of alignment of wages and productivity; improvement in the quality and effectiveness of job search assistance and counselling, including youth; streamlining of minimum income and family support schemes; and regional mobility.

CSR n.3: Wage system and active labour market policies

Promote the alignment of wages and productivity, in consultation with the social partners and in accordance with national practices, taking into account differences in skills and local labour market conditions as well as divergences in economic performance across regions, sectors and companies. Take steps to increase the quality and effectiveness of job search assistance and counselling, including as part of tackling youth unemployment. Streamline minimum income and family support schemes and foster regional mobility.

It is interesting, finally, to analyse briefly the social/employment content of the rest of the CSRs and Country reports. Two relevant examples follow, but many more could be found:

- CSR1 deals invariably with the need to reduce public spending, according to the EDP recommendation to ensure correction of the excessive deficit by 2016 (wording of CSR1 in 2013). The 2014 Country Report states that “measures to rationalize spending on health, employment and public administration provide information on some key expenditure items. Measures to contain expenditure in the healthcare sector have been implemented, including measures to guarantee access to healthcare of vulnerable groups”. The reference to access to healthcare of vulnerable groups appears in the 2014 CSR1, but not in the 2015 Country Report or the 2015 CSR. No reference to the effects of cutting spending on employment or other social spending appears in any of the documents.

- CSR8 in 2013 (CSR7 in 2014) recommends structural reform of the electricity sector, but the documents make no reference to the potential impact that such a suggested/promoted reform may have on “energy poverty”.

From analysis of the CSRs and CRs for Spain since 2012, a change emerges in terms sensitivity to employment/social issues which has since persisted. The following three years can be characterised as showing continuity and deepening in both the CSRs and the CRs, including the 2015 CR. A break seems to have come about in the 2015 CSR.

4.3.2 The way these recommendations have been treated at the national level in the NRP

As one of the interviewees stated24, there has to a very large extent been a common position between the government and the recommendations made by the EU institutions in these years. In the view of this representative of the Ministry for Employment and Social Security, the approach led by the EC has been

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24 Subdirector for Strategic Studies in the Ministry for Employment and Social Security, member of the EMCO and former responsible for XXX in the Ministry for Economy (Miguel Fernández)
very constructive and flexible, with the objective of improving coordination. As Bekker (2015, forthcoming) states, of the four countries she analyses (France, Germany, Poland and Spain), Spain seems to have the views least in conflict with the Commission’s analyses. A newly elected government (with absolute majority) presented the 2012 NRP, with fiscal consolidation as the major priority and the commitment to maximum correction of budgetary imbalances in the shortest possible period of time. From this moment on, the content of the subsequent NRPs is structured around the detailed response of the country to the CSR of the previous year. According to the official interviewees (from the Ministry for Employment and the Ministry for Health, Social Services and Equality) all the CSRs have been accepted and the analysis is shared with the EU. In their opinion, there is no conflict between economic and employment/social goals; the labour market reform, the most important measure adopted this term, had been analysed by the employment and economy authorities and there was total agreement on the need for such reform.

Acknowledging that fiscal consolidation might have been exaggerated and that the turbulences following the public debt crisis in 2012 should have been avoided, the best way to lift people out of poverty will be, according to the government, to set the framework for job creation. This is completely in line with EC views, so there can be no talk of bottom-down “impositions”, but rather of dialogue. However, in the view of the representative of the Ministry for Health and Social Services (and the member of the EPSCO), the contradiction exists, even within the European Institutions, so that the social/employment CSRs are not relevant in ECOFIN, whereas economic CSR do have great relevance in EPSCO. The EC seems rather more sensitive to the employment/social impact of the reforms than the countries. This person acknowledges and welcomes the fact that for the first time joint meetings are being held by the three Committees (ECOFIN, EMCO, EPSCO).

According to the interviewees, whereas the CSRs had an important part to play in 2012-2014, due to the intense monitoring of Spain, the CSRs 2015 are no longer so relevant considering the improvement in the economic situation. The representative of a relevant NGO endorses this analysis of the importance of the 2015 CSR, but suggests that it is due, rather, to the negative picture that the CSRs give of Spain; moreover, the new “social 2015 CSR” is too brief, confusing, and even contradictory. In the view of the social policies representative (and member of the EPSCO), the social CSRs are a very useful tool to draw attention to the priorities set by the European Commission and to support the negotiations with other national agents, although with varying results depending on the social sensitiveness of the counterpart (this is not so much the case with the economic agents). For the Third Sector representative, the CSRs are also a valuable tool to increase visibility and exert pressure at the European and national levels.

A rather different opinion comes from a trade union representative. In his opinion, there has been an evident conflict between economic and employment/social requirements and targets, which has been settled in favour of fiscal consolidation and against the employment and social objectives, since the only room for manoeuvre lay in cutting public expenditure. The consequences can be seen in the current unemployment and at-risk-of-poverty rates. Whereas the economic CSRs have been

25 In fact, sometimes the recommendations seem to advance measures in the pipeline of the government.
26 Of Spanish EAPN, Graciela Malgesini.
27 Héctor Maravall, member of Spanish Economic and Social Council.
responded to as required by the EU institutions and mechanisms, subject to strict control, the social/employment CSR have met only with “formal” response from the government, with the approval of “formal” strategies and plans that had afterwards to be implemented by the autonomous communities, which lack the financial resources to do so. Repetition in 2012-14 of the employment/social CSR is in itself interpreted as a sign that no great progress was being seen. Interestingly, in this line of argumentation, the interviewee points out that the CSRs are invisible, neither debated nor monitored in Parliament, nor with the Autonomous Communities28 or the social agents (trade unions, employers) and Third Sector entities. There is no debate around the CSRs, so “formal” response comes relatively easily.

None of the respondents has identified a major change in the European Semester process in 2014 and 2015 as regards its sensitivity towards social/employment issues. Along with economic recovery, there has been an easing of the pressure exerted by the EDP and MIP procedures, and indeed of the pressure of the financial markets on the Spanish public debt. The poor performance of the government in the latest European elections and cooling on the European Union institutions have also been mentioned as accounting for the easing off in the fiscal consolidation goal.

4.3.3 Appropriate of the indicators adopted in the European Semester exercise and their role in informing the CRS and the NRP

The representatives of the Ministries for Employment and Health, social services and equality began by commenting on the use of these indicators. Acknowledging the importance of gaining a broad understanding of the situation of a country and the need to detect timely potential imbalances in employment and social issues, they firmly rejected the idea of including such indicators in a procedure similar to the MIP, including even corrective mechanisms. Instead, soft coordination should be reinforced as regards progress in employment and social objectives: thus, common objectives, common indicators, ex-ante evaluations, mutual learning, etc. as in the Open Method of Coordination. A set of (improved) auxiliary employment and social indicators is fine, but not as main indicators.

Three other general comments on the indicators by the other interviewees concern, in the first place, the insufficiency of any set of indicators to obtain a clear picture of what is happening in a country and the need to make use of qualitative information so as to duly inform the CRS and the NRP; secondly, all interviewees agree on the incompleteness of the set of indicators, and some propose additional ones; finally, the indicators are not disaggregated by sex, age or educational attainment, which is basic to analyse any employment and social realities.

As specifically regards the indicators, the sharpest criticism is devoted to the at-risk-of-poverty and the Arope rate as “early alert” indicators, taking into account that it displays a two-year delay. Moreover, both rates are relative, which means that cross-country comparisons are inadequate (there is particular concern in Spain about the child poverty rate, the second highest in the EU, which however would not correspond to the real situation in the EU of Spanish childhood).

Additional indicators are suggested to correct and complement the list:

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28 Coordination between central and regional authorities is institutionalised in the so called Sectoral Conferences (Conferencias Sectoriales), with different thematic focus: sectoral conference for economic, employment, social issues, etc.
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- Indicators regarding in-kind expenditure/services made through public policies: the idea behind this is that poverty measured only through family income is incomplete if free, or partly subsidized, public services such as education, health, housing are not taken into account. The situations behind similar income figures can vary greatly if, for example, quality public education and health services are free;
- good quality indicators on inequality;
- indicators that show territorial differences, at both the EU and national levels;
- indicators measuring quality/precariousness of employment and its ability to lift people out of poverty;
- child poverty and in-work poverty.

4.4 Current and future challenges according to the national stakeholders

The first challenge concerns the financial resources devoted to employment and social policies, which have seen severe adjustment, along with fiscal consolidation. In the opinion of some interviewees, economic recovery may well allow for a certain degree of recuperation of the levels existing before the crisis, but scepticism has set in. It will take time, if ever, to re-balance the preponderance that economic issues (namely, fiscal consolidation) have over employment/social policies.

The second challenge, very much related to the first one, concerns the need to an integrated approach to economic and social policies design in Spain. The EU and Spanish social agenda consist of piecemeal and incoherent approaches rather than sound, integrated strategies. Within a more integrated approach, ex-ante evaluations on the impact of economic policies on employment and social issues should be carried out systematically and taken into account in the decision-making processes; a wider range of actors would be involved in the decision making processes, including social partners and third sector entities; all actors would be trained in policies other than their own specialisation (a representative of the ministry for economic affairs should count on training in social work and employment; at the same time, a social/employment worker should have a better understanding of economic problems and choices).

More generally, Spain lacks internal debate on European policies. As mentioned above, the CSR or NRP are not discussed or monitored in Parliament; the Autonomous Communities – the only bodies responsible for employment and social policies in their territories – are absent from the debate, as if the European Semester did not affect them. Their participation, as well as the participation of social partners and the third sector, is limited to presenting proposals for the NRP (3 days before its delivery to the EC, according to one interviewee), which are presented in a final chapter of the document. The need is for procedures ensuring informed debate and regular monitoring with all the political parties and stakeholders.

Inequality is the third challenge identified by the interviewees. Inequalities had already set in before the crisis, increasing sharply over the last few years. The worst part of the crisis has been born by the weakest part of the population, aggravating inequalities. More effective redistributive policies are needed, but the fiscal room for manoeuvre of Spain is (thought to be) too limited to undertake such redistributive efforts. The European Union should also have equality as a strategic objective, but the differences between the countries are expected to hamper any such agreement.
Although there is talk of economic recovery in Spain and jobs are being created at present, it will take a long time before an acceptable unemployment level is reached, so long-term unemployment is a very important challenge which Spain will have to cope with. Long-term unemployment (45% of the current unemployed have been so for more than two years) is to a large extent structural, often close to social exclusion, calling for intensive, intelligent action to achieve social and labour inclusion. The risk is that economic recovery will benefit the unemployed with better employability levels and that the efforts of ALMP concentrate on these, which offer better and shorter-term results.

Finally, the quality of jobs, following the thoroughgoing labour market and collective bargaining reforms, is at present very low. Due attention should be paid to the future evolution of fixed-term, part-time, lower-skilled, low-paid employment. In-work poverty is increasing and the pressure exerted on labour conditions by a still large mass of unemployed is high.

4.5 Suggestions to improve attention to employment and social issues in the European Semester

European and national stakeholders

At the national level, European policies, their requirements and contributions, should be made more visible and transparent. Sound procedures should be designed to ensure high level public debate on European issues in the national parliament, with regular information and close monitoring. The Autonomous Communities should also be systematically involved in the European debate, since they are responsible for the implementation of many economic and social/employment decisions adopted at the EU level; methods should be examined to determine how to enhance their participation in the European Semester effectively, so that they can acquire knowledge and understanding of it and have their opinions taken into account. The social partners – the trade unions and employers’ associations – also have little part in the debate, their participation being limited to occasional consultation for the NRP, the National Plan for Social Inclusion, the Family Plan, etc.

In the opinion of the representative of an NGO, however, governance has improved substantially in the process of the NRP: the government shares with the third sector the Country Report elaborated by the EC and, on its basis, asks the third sector for proposals to be included in the NRP; these are reflected in the last chapter, which echoes the measures that have effectively been considered. A good example of this reinforced role of the third sector occurred in 2014 in the region of Galicia, where the regional EAPN and the regional government worked together on the design of a specific project. The pressure that can be exerted by social agents and social NGOs is, in the opinion of one official interviewed, a support to increase the visibility and weight of social policies at the national/regional level. This consideration can be extended to the European level: the greater the pressure exerted by social NGOs, trade unions and employers, the greater the support to counterbalance the excessive weight of economic policies and decision-makers.

Process and procedures to be enhanced

Being an incomplete and imperfect union, the European Union lacks a sound comprehensive and integrated socio-economic policy involving all the agents responsible. One of the officials interviewed expressed satisfaction that for the first
time joint meetings were being held with the three Committees (ECFIN, EMC, EPSCO) within the European Semester and advocated continuation and intensification of such practices. In this line of argumentation, “stronger soft” coordination has been mentioned, as opposed to strict surveillance subject to correction (hard), but reinforced and taking into account the traditional elements of the OMC: namely more concrete common objectives, indicators and mutual learning. Mutual learning between countries, as is currently the practice, should continue, but also between disciplines, so that specialists in economics gain understanding of social problems and the impact of (economic and social) policies; specialists in employment policies and social work should also acquire insight into economic functioning, problems and choices.

In the opinion of another interviewee, certain Directives should be brought in setting minimum social standards for income at the European level, with provision for minimum wages and family/child policies. This could be a starting point that all stakeholders would apprehend and internalize.

More generally, the European Union should clearly state that preservation of a European social model is priority and that enhancing the living standards of its citizens the ultimate objective of each and every one of the policies promoted. All economic, employment, social and other policies would then be aligned with this objective.

**Indicators to be integrated**

In addition to the comments made above on the incompleteness and inadequacy of the set of indicators (or some of them) and to the indicators proposed, two interesting comments have arisen in this context. They can be understood as a natural consequence of the need to monitor policies, not only results; and a consequence of the need to promote more integrated policies:

- Firstly, the current set of employment and social indicators does not monitor policies, i.e. they do not reveal if an increasing unemployment rate is, for example, the result of an insufficient or inadequate employment policy. The Spanish case is paradigmatic in halving the budget for ALMP when unemployment was increasing sharply. A similar argument can be made with the increasing poverty but diminishing social budget.

- Secondly, the current set of indicators monitors neither the impact of some policies on «other issues», e.g. the impact of a tax reform on equality and poverty, nor the impact of poverty and inequality on competitiveness and economic performance.

Acknowledging the difficulty to measure such impacts and to identify such indicators, advances in this direction are considered a major priority. A preliminary step could address the budgetary allocation in terms of GDP for employment and social policies, similar to the approach made in the EU2020 with expenditure in R+D. Just as a ratio under 3% of GDP in R+D is considered insufficient, so a social investment of less (or more) than a certain percentage could also be set as an indicator of lack of appropriateness of a certain policy.
4.6 Annexes

Lists of documents:
- Spanish CSR, NRP and CR in 2012-2015; Bekker (2015, forthcoming)

Stakeholder contacted
Miguel Fernández, Subdirector for Strategic Studies in the Ministry for Employment and Social Security, member of the EMCO and former responsible for XXX in the Ministry for Economy.

Graciela Malgesini, Spanish EAPN

Héctor Maravall, member of Spanish Economic and Social Council and of CCOO (large trade union)

Dolores Ruiz, Subdirector for Social Inclusion Policies in the Ministry for Health, Social Services and Equality and member of EPSCO.

Scoreboard and Auxiliary indicators for Spain

Table 11: Macro and Fiscal Scoreboard Indicators

<table>
<thead>
<tr>
<th>Headline Indicators</th>
<th>Thresholds</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
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<tbody>
<tr>
<td>External Imbalances and Competitiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Account Balance as % of GDP</td>
<td>3 year average</td>
<td>-5.4</td>
<td>-6.3</td>
<td>-2.5</td>
<td>-0.7</td>
<td>0.7</td>
</tr>
<tr>
<td></td>
<td>-4%/+6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>level year</td>
<td>-7.4</td>
<td>-3.9</td>
<td>-0.3</td>
<td>1.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Net International Investment Position as % of GDP</td>
<td>-35%</td>
<td>-55.6</td>
<td>-89.1</td>
<td>-90.0</td>
<td>-92.6</td>
<td>-93.5</td>
</tr>
<tr>
<td>Real Effective Exchange Rate</td>
<td>% change (3 years)</td>
<td>+/-5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>+/-11% non-EA</td>
<td>0.1</td>
<td>-3.1</td>
<td>-2.4</td>
<td>1.9</td>
<td>-0.4</td>
</tr>
<tr>
<td>Export Market Shares</td>
<td>% change (5 years)</td>
<td>-6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>5.5</td>
<td>-10.5</td>
<td>-15.2</td>
<td>-7.1</td>
<td>11.45</td>
</tr>
<tr>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Nominal LCU</td>
<td>% change (3 years)</td>
<td>+9% EA</td>
<td>+12%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>9.6</td>
<td>5.7</td>
<td>-5.6</td>
<td>-4.6</td>
<td>3.9</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Change in Deflated House Price Index</td>
<td>+6%</td>
<td>8.0</td>
<td>-3.6</td>
<td>-16.8</td>
<td>-9.9</td>
<td>0.40</td>
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<tr>
<td>% Private Sector Credit Flow</td>
<td>+14%</td>
<td>26.9</td>
<td>0.9</td>
<td>-9.9</td>
<td>-10.7</td>
<td>-7.0</td>
</tr>
<tr>
<td>% Private Sector Debt</td>
<td>+133%</td>
<td>154.9</td>
<td>201.5</td>
<td>184.8</td>
<td>172.2</td>
<td>163.1</td>
</tr>
<tr>
<td>% General Government Sector Debt</td>
<td>60%</td>
<td>42.3</td>
<td>60.1</td>
<td>84.4</td>
<td>92.1</td>
<td>97.7</td>
</tr>
<tr>
<td>% Change in Total Financial Sector Liabilities</td>
<td>+16.5%</td>
<td>25.3</td>
<td>-2.3</td>
<td>2.8</td>
<td>-10.2</td>
<td>-1.9</td>
</tr>
</tbody>
</table>

Indicators' specification: 1) 3 year backward moving average of the current account balance as percent of GDP with thresholds of +6% and -4% (and current account balance as percent of GDP); 2) net international investment position as percent of GDP, with a threshold of -35% (and current account balance as percent of GDP); 3) net international investment position as percent of GDP, with a threshold of -35% (and current account balance as percent of GDP); 4) 3 years percentage change of the real effective exchange rates based on HICP/CPI deflators, relative to 41 other industrial countries, with thresholds of +/-11% for euro area countries and +/-11% for non-euro area countries (and year-over-year change); 4) 5 years percentage change of export market shares measured in values, with a threshold of -6% (and year-over-year change); 5) 3 years percentage change in nominal unit labour cost, with thresholds of +/-9% for euro area countries and +/-12% for non-euro area countries (and year-over-year change); 6) year-on-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6% (and year-over-year change); 7) private sector credit flow in % of GDP with a threshold of 14%; 8) private sector debt (consolidated) in % of GDP with a threshold of 133%; 9) general government sector debt in % of GDP with a threshold of 60%; 10) year-on-year changes in total financial sector liabilities, with a threshold of 16.5%.
Table 12: Macro and Fiscal Auxiliary Indicators

<table>
<thead>
<tr>
<th>Auxiliary Indicators</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>% y-o-y change in Real GDP</td>
<td>3.7</td>
<td>0.0</td>
<td>-2.1</td>
<td>-1.2</td>
<td>1.4(p)</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation as % of GDP</td>
<td>29.9</td>
<td>23.0</td>
<td>19.7</td>
<td>18.5</td>
<td>18.9(p)</td>
</tr>
<tr>
<td>Gross Domestic Expenditure on R and D as % of GDP</td>
<td>1.1</td>
<td>1.3</td>
<td>1.3</td>
<td>n.a</td>
<td>n.a</td>
</tr>
<tr>
<td>Net Lending / Borrowing as % of GDP</td>
<td>-6.5</td>
<td>-3.5</td>
<td>0.2</td>
<td>2.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Net External Debt as % of GDP</td>
<td>44.5</td>
<td>92.0</td>
<td>91.6</td>
<td>91.2</td>
<td>94.4</td>
</tr>
<tr>
<td>Inward FDI flows as % of GDP</td>
<td>2.2</td>
<td>2.8</td>
<td>1.8</td>
<td>3.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Inward FDI stocks as % of GDP</td>
<td>35.8</td>
<td>45.0</td>
<td>51.5</td>
<td>54.8</td>
<td>56.2</td>
</tr>
<tr>
<td>Net Trade Balance of Energy Products as % of GDP</td>
<td>-2.7</td>
<td>-2.9</td>
<td>-3.7</td>
<td>-3.3</td>
<td>2.9(p)</td>
</tr>
<tr>
<td>% Change (3 years) in REER vs. EA</td>
<td>3.3</td>
<td>1.0</td>
<td>0.8</td>
<td>0.4</td>
<td>-0.6</td>
</tr>
<tr>
<td>% Change (5 years) in Export Performance vs. Advanced Economies</td>
<td>15.0</td>
<td>-2.2</td>
<td>-6.3</td>
<td>-0.4</td>
<td>-5.16</td>
</tr>
<tr>
<td>% Change (5 years) in Terms of Trade</td>
<td>6.6</td>
<td>1.0</td>
<td>-5.0</td>
<td>-1.2</td>
<td>-6.5(p)</td>
</tr>
<tr>
<td>% y-o-y Change in Export Market Share, in volume</td>
<td>-5.0</td>
<td>-0.9</td>
<td>-0.8</td>
<td>1.7</td>
<td>n.a</td>
</tr>
<tr>
<td>% y-o-y Change in Labour Productivity</td>
<td>-0.5</td>
<td>1.8</td>
<td>1.7</td>
<td>1.4</td>
<td>0.1(p)</td>
</tr>
<tr>
<td>% Change (10 years) in Nominal ULC</td>
<td>32.7</td>
<td>19.6</td>
<td>15.4</td>
<td>11.7</td>
<td>15.9</td>
</tr>
<tr>
<td>% Change (10 years) in ULC performance relative to EA</td>
<td>13.4</td>
<td>11.4</td>
<td>2.3</td>
<td>-0.5</td>
<td>-4.1</td>
</tr>
<tr>
<td>% Change (3 years) in Nominal House Prices</td>
<td>53.2</td>
<td>-9.6</td>
<td>-22.7</td>
<td>-28.5</td>
<td>22.30</td>
</tr>
<tr>
<td>Residential Construction as % of GDP</td>
<td>11.9</td>
<td>7.3</td>
<td>5.2</td>
<td>4.4</td>
<td>4.1(p)</td>
</tr>
<tr>
<td>Private Sector Debt as % of GDP, non-consolidated</td>
<td>170.2</td>
<td>216.9</td>
<td>203.4</td>
<td>187.2</td>
<td>182.4</td>
</tr>
<tr>
<td>Financial Sector Leverage (debt-to-equity)</td>
<td>331.5</td>
<td>660.2</td>
<td>764.3</td>
<td>544.9</td>
<td>444.9</td>
</tr>
</tbody>
</table>

Indicators’ specification: 1) Real GDP % change (1 year); 2) Gross Fixed Capital Formation % of GDP; 3) Gross Domestic Expenditure on R&D % of GDP; 4) Net Lending/Borrowing % of GDP; 5) Net External Debt % of GDP; 6) Inward FDI Flows % of GDP; 7) Inward FDI Stocks % of GDP; 8) Net Trade Balance of Energy Products % of GDP; 9) Real Effective Exchange Rates - EA trading Partners % change (3 years); 10) Share of OECD exports % change (5years); 11) Terms of Trade % change (5years); 12) Export Market Shares - in volume % change (1 year); 13) Labour Productivity % change (1 year); 14) Nominal unit labour cost % change (10 years); 15) Unit labour cost performance related to EA % change (10 years); 16) Nominal house price index % change (3 years); 17) Residential Construction % of GDP Eurostat NA; 18) Private Debt, non-consolidated % of GDP; 19) Financial Sector Leverage (debt to equity) %.

Data Source: from 2005 to 2013 Statistical Annex of AMR 2015
For 2014 http://ec.europa.eu/eurostat/web/macroeconomic-imbalances-procedure/indicators (the data published on this page are regularly updated and may differ from those used for the Alert Mechanism Reports).
(p)=provisional n.a. = not available
5 UNITED KINGDOM

5.1 Executive summary

The United Kingdom is an interesting case both politically and economically. As a liberal, universalistic welfare regime, providing a unique typology for this research to consider. The fact it is outside of the Eurozone also makes it a rare case for analysis, giving it a different relationship to the EU to most other Member States. This has an effect on the macroeconomic indicators, and the UK’s rather centralised, national level policy making process also provides insight into different responses to the CSRs to other countries.

The UK’s growth since the Great Recession has been amongst the strongest in the EU, and the labour market is performing well overall. Additionally, the UK has one of the lowest unemployment rates in the EU. The job market is flexible and insecure, with a prevalence of part time work – particularly amongst women – and zero hours contracts. Employment Protection Legislation is very low, and in general the youth labour market is less buoyant and secure than the labour market has a whole. Tying into this, the UK has a high number of early school leavers and NEETs. Risk of poverty is broadly in line with the EU average, although is noticeably higher amongst children aged under 18. Indicators for disposable income and material deprivation are both more positive than the EU average.

The CSRs tend to focus on active labour market policies, catalysed by the UK’s slow uptake of the youth guarantee. Particularly surrounding youth unemployment, government responses have been rather mixed, and the influence of the CSRs at a national level is questionable. Another recommendation is that of improving the UK’s basic skill levels, which has not been a focus of policy debate at the national level, and the Youth Contract which was intended to support it was terminated a year early. The UK’s CSR and NRP only have one major area of overlap, which is a commitment to improve apprenticeships. The aforementioned concerns over child poverty had policy measures to address it, although these have been repealed following the 2015 general election. Other policies focussed on poverty reduction more generally have been more successful. Social indicators here – such as qualifications and childcare provision – could be pertinent to the UK case.

Several challenges were discussed by stakeholders. Many suggested that the impact of the CSRs on UK policy making was fairly low, perhaps due to growing Euroscepticism, and that the UK was more likely to learn from the OECD or other Anglo-Saxon regimes. There is a feeling that this is perhaps not fully acknowledged by the Commission. Additionally, there is a feeling that there are too many indicators in the CSRs, and the semester exercise becomes too complex as a result. Generally, views about incorporating employment indicators were more positive than those about social indicators, with stakeholders suggesting that perhaps social indicators would be best addressed elsewhere.

Having said this, context about social factors that would affect employment are seen as being beneficial; this could be achieved by making the employment indicators more nuanced and more encompassing of different groups in society. The recommendations themselves tend to be seen as agreeable to UK policy, although stakeholders seemed to state that these issues would have been addressed regardless of the commission.
recommendations. Future suggestions focus on stronger communication between the EU and the UK, and a reconsidering of indicators to make them more responsive and indicative of social issues.

5.2 Background

5.2.1 Economic conditions

The UK’s economic recovery since the crisis has been reasonably strong, growing faster than both the EU and Eurozone averages although these are expected to converge in 2016. According to the IMF, the UK’s GDP is the 2nd largest in the EU, but ranked 12th when this is considered per capita. The CIA places the UK’s 2014 GDP growth as the second highest in the EU-28 behind Ireland.

5.2.2 Labour market conditions

The UK’s labour market has been performing well overall. According to the latest comparable Eurostat data (Q3 2014), the UK has the 6th highest employment rate in the EU and is above the EU-28 average (HM Government, 2015). Employment (16-64 year olds) continued to increase and, in early January 2015 stood at 73.3% (HM Government, 2015). This represents an increase of in employment of up to 617,000 between January 2014 and 2015. Similarly, the UK is characterised by high and rising activity rates (15-64 year olds) which were 76.3% and 76.4% in 2012 and 2013 respectively (European Commission, 2015).

The UK has also performed better than other EU countries in relation to unemployment. Between 2013 and 2014, the UK was among the six EU countries which recorded the highest fall in the unemployment rate (-1.5 ppt) (Eurostat, 2015d). In general, between 2012 and 2015, the UK’s unemployment rate was among the lowest in the EU and on a downward trend. Specifically, it fell from 7.9% in 2012, to 7.5% in 2013 to 6.3% in 2014 and is projected to be 5.3% in 2015 (European Commission, 2012, 2013, 2014, 2015). However, there is a persistent and growing issue of long-term unemployment. The rate of long-term unemployment as a percentage of the active population has risen since 2008 from 1.4% to 2.8% in 2012 to 2.7% in 2013 and to 2.3% in 2014 (European Commission, 2015).

The UK is characterised by a relatively large number of part-time workers. In the period April to June 2015, there are 8.27 million people working part-time, almost the same as a year earlier (ONS, 2015a). There is a pronounced gender dynamic in the take-up of part-time employment, with a much larger proportion of women working part-time, partly due to the lack of adequate and affordable childcare provision. Indeed, The gap in the share of part-time work between women (42.6% in 2013) and men (13.2% in 2013) is one of the highest in the EU (European Commission, 2015). At the same time, the percentage of women that are inactive or work part-time due to personal and family responsibilities (12.5%) was almost twice as high as the EU average (6.3%) in 2013. (European Commission, 2015). In 2013, 20.3% of part-time employment in the UK was involuntary (38.4% for males and 14.8% for females) (European Commission, 2015).

Temporary employment is comparatively less common in the UK, in numerical terms, than in the EU28 as a whole. Indeed, whilst in the second quarter of 2014 temporary
employment accounted for 43% of total employment for the age group 15 to 24 in the EU-28 as a whole, the corresponding share in the UK was only 14%.29 This is probably due to the fact that, given the low levels of employment protection legislation (EPL) for standard open-ended employment contracts, there are relatively little incentives for employers to make use of fixed-term contracts to the same extent as in other EU countries.

However, a form of non-standard employment which is increasingly widespread in the UK are the so-called ‘zero-hours contracts’, which amount to a form of casual, ‘on call’ employment, in which the number of hours worked by employees is variable and set by the employer purely on the basis of demand. The Office for National Statistics (ONS) estimated that the number of zero hours contracts has doubled between 2012 and 2013. According to ONS, in the first quarter of 2014 there were 1.4 million jobs offered on zero-hours contracts and more than a half million people employed on them. The ONS also estimated that in November 2014 that some 622,000 people self-identified as being on a zero hour contract (European Commission, 2015). One of the main issues with zero-hours contracts was the existence of exclusivity clauses that effectively tied a worker to one employer even when no work is available. Following a consultation in 2013, the government has responded by including a provision in the Small Business, Enterprise and Employment Bill that will render these clauses unenforceable, and this has been widely accepted as a necessary modification.

Women’s participation in the labour market is quite high and continues to increase. On the latest Eurostat figures the UK employment rate for women is 67.2%, significantly higher that the EU average of 60%. More recent national statistics (Oct-Dec 2014) show that 14.47 million women are now in work, an increase of 65,000 on quarter and 320,000 on the year. They also show falls in both unemployment and inactivity levels for women (unemployment level down 50,000 on quarter, 205,000 on year, inactivity down 25,000 on quarter, 74,000 on year) (HM Government, 2015). That said, the issue of lack of adequate and affordable childcare provision remains a major challenge and has, indeed, be stressed in successive country-specific recommendations. Moreover, as has been noted, to the extent that the cost and availability of childcare results in women taking involuntary part-time employment, there is a risk that the declining trend in the gender pay gap is reversed and the gender gap in pensions widens (European Commission, 2014).

With regards to demographic indicators, the UK demonstrated certain employment and pay gaps. In 2012, the UK’s gender employment gap was 8.8% and the equivalent pay gap was 19.1%, higher than the EU average of 16.4% (European Commission, 2014). Research into the ethnic minority pay gap has been less developed, but Longhi and Platt (2008) found that non-white workers in Britain earned on average 10.5% less than the average white worker. Disability also negatively impacts socio-economic status; Longhi and Platt (2008) found that a male defined as having a “work-limiting” disability earns 10% less than a male without one30, and using the same definition of disability Rigg (2005) finds a substantial percentage point difference in employment rates between disabled and able-bodied people (41 for men, 38 for women).

29 EU-LFS, 2014, Eurostat data
30 No direct comparison was made for women, but a female with a work-limiting disability earns on average 22% less than an able-bodied male.
The labour market differences by age have been discussed in the national debate, with the youth unemployment rate currently thrice that of the overall rate (Boffey, 2015). **Young people are also disproportionately affected by precarious, casualised work and zero-hour contracts.** Recent initiatives, such as the overhaul of apprenticeships and traineeships and implementation of the youth contract, but the age gap in employment still exists. A country specific recommendation is to commit to the Youth Contract, furthering skills provision and addressing skills mismatch (European Commission, 2015).

The gender dynamics of youth unemployment in the UK are both pronounced and complex. In general, **young men are worse affected by unemployment.** Nearly 22% of men under the age of 25 are unemployed, compared to 16% of women. This dynamic is also seen in data on NEETs (see below). Young men are also more likely to find themselves in long-term unemployment (over 12 months) and seem to suffer particularly badly from the combined effects of under-achievement at school, the socio-economic effects of de-industrialisation, and social and health problems. This has prompted policy debate about why young men tend to leave school with fewer qualifications.

**The persistently high number of early school leavers and NEETs is another key characteristic of the UK’s youth labour market,** reflecting a critical structural problem. For example, the proportion of NEETs started growing from 2004, at a time of economic growth and several years in advance of the Great Recession of the late 2000s (HM Government, 2011). In 2012, the NEET rate stood at 14% and this fell slightly to 13.3% in 2013 (European Commission, 2013 and 2014). In the period January to March 2015 there were 943,000 young people (aged from 16 to 24) NEETs, a decrease of 20,000 from October to December 2014 and down 45,000 from a year earlier (ONS, 2015b). This corresponds to a NEET rate of 13%, down 0.3 percentage points from October to December 2014 and down 0.5 percentage points from a year earlier (ONS, 2015b).

5.2.3 Social conditions

The proportion of the UK at risk of poverty or social exclusion (AROPE) is broadly in line with the EU-28 average; 24.8% compared to 24.5% (Eurostat, 2015a). **This risk is higher amongst children aged under 18; 32.6% compared to an EU average of 27.6%.** As a result, a reduction in child poverty is one of the Commission’s country specific recommendations for the UK, which also underlines the “limited progress” made in this area (European Commission, 2015:49). Crucially, in the UK, the **pronounced and persistent inter-generational cycle of disadvantage,** low skills and unemployment have a disproportionate detrimental effect on young people from families that are workless or have lower incomes.

Other indicators for the UK are more positive. **Severe material deprivation is 1.3% points below the EU average of 9.6%** (Eurostat, 2015b). **Real gross disposable income is also higher than the EU average at €21,782** as opposed to €20,311. A Gini coefficient of 30.2 puts the UK broadly in line with the EU average (30.5) when it comes to inequality (di Falco, 2014).
5.3 The European Semester exercises in 2014 and 2015 in the country and the main changes relative to previous years according to the perceptions of the main stakeholders

The main social and employment issues at stake in UK can be summarised as follows:

- **Concerning young people:**
  - young people are disproportionately affected by precarious, casualised work and zero-hour contracts;
  - young men are worse affected by unemployment than young women;
  - the high number of early school leavers and NEETs is a key characteristic of the UK’s youth labour market.

- **Concerning employment and pay gaps:**
  - the gap in the share of part-time work between women and men is one of the highest in the EU;
  - the percentage of women that are inactive or work part-time due to personal and family responsibilities is almost twice as high as the EU average;
  - the gender employment and pay gap is relevant as well as the ethnic minority pay gap;
  - disability also negatively impacts socio-economic status.

- The poverty risk is higher compared to an EU average amongst children aged under 18.

- The issue of lack of adequate and affordable childcare provision remains a major challenge.

As it is possible to see some of the Employment and Social Indicators have deteriorated since 2005 with first signs of recovery in some cases detectable in 2013.
Table 13: Employment and Social Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Country</th>
<th>EU Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIP Scoreboard</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate (moving average)</td>
<td>4.8</td>
<td>7</td>
</tr>
<tr>
<td>% Change in Employment</td>
<td>1</td>
<td>0.2</td>
</tr>
<tr>
<td>Activity rate</td>
<td>75.4</td>
<td>75.5</td>
</tr>
<tr>
<td>Long-term Unemployment Rate</td>
<td>1</td>
<td>2.5</td>
</tr>
<tr>
<td>Youth Unemployment Rate</td>
<td>12.8</td>
<td>19.8</td>
</tr>
<tr>
<td>% Young People NEET</td>
<td>8.4</td>
<td>13.7</td>
</tr>
<tr>
<td>% People at Risk of Poverty or Social Exclusion</td>
<td>24.8</td>
<td>23.2</td>
</tr>
<tr>
<td>At-risk Poverty Rate</td>
<td>19</td>
<td>17.1</td>
</tr>
<tr>
<td>Severe Material Deprivation Rate</td>
<td>5.3</td>
<td>4.8</td>
</tr>
<tr>
<td>% Persons Living in Households with Very Low Work Intensity</td>
<td>12.9</td>
<td>13.2</td>
</tr>
</tbody>
</table>

In the section below we present a discussion about the European Semester exercises as these applied to the UK, especially in relation to main changes in the way economic and social/employment issues are treated in the country-specific recommendations (CSRs) and negotiations.

2012

**CSR n.3: Youth Unemployment**
Continue to improve the employability of young people, in particular those not in education, employment or training, including by using the Youth Contract. Ensure that apprenticeship schemes are taken up by more young people, have a sufficient focus on advanced and higher-level skills, and involve more small and medium-sized businesses. Take measures to reduce the high proportion of young people aged 18-24 with very poor basic skills.

**CSR n.4: Unemployment and child poverty**
Step up measures to facilitate the labour market integration of people from jobless households. Ensure that planned welfare reforms do not translate into increased child poverty. Fully implement measures aiming to facilitate access to childcare services.

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31 See note 9
2013

CSR n.3: Youth Unemployment
Building on the Youth Contract, step up measures to address youth unemployment, for example through a Youth Guarantee. Increase the quality and duration of apprenticeships, simplify the system of qualifications and strengthen the engagement of employers, particularly in the provision of advanced and intermediate technical skills. Reduce the number of young people aged 18-24 who have very poor basic skills, including through effectively implementing the Traineeships programme.

CSR n.4: Welfare reforms
Enhance efforts to support low-income households and reduce child poverty by ensuring that the Universal Credit and other welfare reforms deliver a fair tax-benefit system with clearer work incentives and support services. Accelerate the implementation of planned measures to reduce the costs of childcare and improve its quality and availability.

2014

CSR n.3: Youth unemployment
 Maintain commitment to the Youth Contract, especially by improving skills that meet employer needs. Ensure employer engagement by placing emphasis on addressing skills mismatches through more advanced and higher level skills provision and furthering apprenticeship offers. Reduce the number of young people with low basic skills.

CSR n.4: Poverty and social exclusion
Continue efforts to reduce child poverty in low-income households, by ensuring that the Universal Credit and other welfare reforms deliver adequate benefits with clear work incentives and support services. Improve the availability of affordable quality childcare.

2015

CSR n.3: Active labour market policies
Address skills mismatches by increasing employers’ engagement in the delivery of apprenticeships. Take action to further reduce the number of young people with low basic skills. Further improve the availability of affordable, high-quality, full-time childcare.

The focus in the UK’s CSRs have shifted slightly in recent years, with youth unemployment and poverty being superseded by a focus on active labour market policies (ALMPs) in the most recent CSR exercise which is reflected in the latest (2015) recommendations. The issues surrounding youth unemployment and the recommendations therein have been addressed through policy responses at the national level. As one stakeholder noted, uptake of the Youth Guarantee has been rather slow and non-committal (i.e. the UK has not formally adopted the Youth Guarantee). According to the UK Minister for Employment (Mr Mark Hoban at the time) in his testimony to the House of Lords, ‘[since] over 80% of young people flowing off JSA within 6 months, the Government did not believe that a rigid guarantee at four months would be cost effective.’ For this reason, and with wider unease about what is in the UK government’s eyes, a generally inflexible approach (i.e. intervening for all young people rigidly at four months), the UK abstained from the Council adoption of the Recommendation in February 2013.

The position is different for Scotland, where the Scottish Government believes that four months is more suitable. While eligibility criteria for the Youth Contract is reserved to the UK Government, apprenticeships, traineeships, education and skills — key aspects of a youth guarantee — are devolved. Due to devolution, other countries in the UK such as Wales are introducing a youth guarantee.
Specifically, as part of its Youth Engagement and Progression Framework Implementation Plan, the Welsh Government is currently and until October 2014 piloting its youth guarantee in the North and West regions of Wales. From November 2014 to October 2015, it plans to roll out the youth guarantee across Wales which, in turn, means that the first young people will take up their offers under the Guarantee in September and October 2015. However, in the UK as a whole in general and in England in particular, no Youth Guarantee schemes have been established. Crucially, the same stakeholder indicated that for as long as they could remember, all policy responses had been taken up on a national level, with little credence or importance given to the NRPs or CSRs.

The repeated recommendations in relation to youth unemployment are a key theme that has been addressed by the government, with mixed results. The Youth Contract, for example, aimed at engaging the hardest to reach NEETs, was wound up a year earlier than expected due to poor take up, helping just shy of 5,000 people in its first year rather than the expected 160,000 people it was meant to assist (Pickard, 2014). This, along with the lack of implementation of a Youth Guarantee, demonstrates a tendency in the UK to rather ignore the CSRs, broadly failing to take them into account. A more successful adoption of the CSRs to remedy the problems put forward is that of increased provision and prestige of apprenticeships, which seems to have been largely successful. Stemming from the Richard Review (2012), the overhaul of apprenticeships has been far reaching, with a stronger focus on outcome and accreditation alongside increased employer ownership, and has resulted in strong take-up, with the number of apprenticeship starts doubling between 2008 and 2013, indicating a level of success within these.

The final recommendation is that of improving the basic skill level of the UK population. Comparatively, the UK performs reasonably well, with fewer low achievers than the EU average in reading, maths, and science (European Commission, 2014b). However, all three are still above the target figure of 15%, and comparative assessments against the OECD rank the UK relatively low, and find that the proportion of people lacking basic skills has not changed in two generations (Ramesh, 2013). This has not been a large focus of debate, although the recent raising of the participation age from 16 to 18 may remedy this going forward. From this evidence, it is fair to say that there has been a greater consideration of social factors in these policies, taking into account vulnerability and diversifying pathways for young people. However, the early termination of the Youth Contract demonstrates there is some way to go towards implementing an effective programme that would meet the CSRs.

5.3.1 The way these recommendations have been treated at the national level in NRP

The UK’s national reform programme (submitted under the previous Conservative-Liberal Democrat Coalition Government) highlights a broad focus on “fairness”, with a progressive tax system and an increased threshold before tax is paid. There is, however, still some disconnect between the economic and social features of the NRP, with focus given to the economic elements, although some of the recommendations laid out in the CSRs have been addressed. The national reform programme lays out five points going forwards that the UK needs to address, which are as follows;

- **Reducing the deficit** to deal with the UK’s debt, safeguard the UK economy for the long term and keep mortgage rates low;
- cutting income taxes and freezing fuel duty to help hardworking people be more financially secure;
- creating more jobs by backing small business and enterprise with better infrastructure, lower job taxes and a long-term industrial strategy;
- capping welfare and controlling immigration so the economy delivers for people who want to work hard and play by the rules; and
- delivering the best schools, skills and apprenticeships for young people so the next generation can succeed in the global race.

These points, as perhaps expected, are rather broad and generalised as well as rhetorically popular. However, the focus on apprenticeships in the last point is related to a key CSR as is highlighted in the table above. One stakeholder suggested that the CSRs were often overlooked at the national level, so these points may have been developed without great consideration, but it does show that the UK government’s goals are somewhat in line with those of the Commission.

Building on the aforementioned Richard Review, the government plans to implement more in the way of funding for apprenticeships, bringing in an ‘Apprenticeship Voucher’ from 2017. Details on this are rather sparse, but so far it has been outlined that it will increase both employer ‘purchasing power’ and employer ownership of the scheme. It will also provide cash contributions from both employers and the government to encourage training of apprentices in the future. There does appear to be more of a focus on quantity than quality, with the latest budget statement outlining plans to create 3 million more apprenticeships to boost productivity, so the interplay between the numbers of uptake and the quality of the programmes themselves will be an important balance to strike.

It is fair to say that the new apprenticeships will be targeted at young people and alleviating youth unemployment. At the same time, the increasing employer engagement has been brought in as a crucial factor enriching ALMPs.

However, it is worth mentioning that the growth in apprenticeship starts over the last five years has been largely driven by those aged 25 and above (Mirza-Davies, 2015). Whether the apprenticeship scheme will accomplish its intended aim, then, of reducing youth unemployment and improving school-to-work (STW) transitions remains to be seen.

Another CSR that policy measures have been implemented to address is that of poverty, particularly child poverty and support for low-income families. In particular, debate has focussed around In-Work Poverty and working tax credits; those on the minimum wage in the UK have amongst the lowest amount of net disposable income in relation to a median earner in the EU (Marx and Nolan, 2012). As a result, reforms have been focussed around work and employment, with changes to the benefits and tax system.

Child poverty measures are currently undergoing an overhaul. Whilst the NRP stated that the government is ‘committed to its goal of ending child poverty by 2020’, this official target, laid out in the 2010 Child Poverty Act, was repealed after the 2015 general election (Centre for Social Justice, 2015). The measure of Child Poverty is also changing, from purely financial in outlook to incorporating social indicators such as drug addiction and family breakdown. This seems to support the continued integration of social indicators, although the subjectivity has come
under criticism from some quarters for not putting enough focus on the financial elements and stigmatising single parents (Gentleman, 2015). It is too early to say whether this will be effectively addressed in the near future due to these changes, but previous policies have had some results in relatively reducing child poverty.

The number of children under 16 in workless households has been reduced by 387,000 over the last five years, and is now at its lowest proportion since records began (NRP). The remit for child poverty strategy has been merged into that of the Social Mobility Commission, giving a more holistic view of child poverty and rooting it in the broader context of social mobility in general. A 2014 CSR included a provision for Universal Credit to have ‘clear work incentives’, and for the most part this has been achieved, although there are debates as to the fairness and efficacy of the rather strict conditionality of the benefit itself. Other policies complement the benefits system, however, such as a minimum wage that will rise quickly over the course of this parliament and should boost the income of around 1.4 million people who earn the minimum wage (Low Pay Commission, 2015).

Additionally, it is expected that free childcare will be expanded from 15 to 30 hours per week over the coming parliament. It is worth adding here that although successive CSRs have urged the UK to make much more substantial progress in ensuring adequate and affordable childcare provision, this recently announced policy has little to do with the CSRs. It rather a national policy emanating from the 2015 Conservative party manifesto. Moreover, one policy that may not be conducive to a reduction in child poverty is a cut to child tax credit, which in future will be limited to two children. Again, due to a recent change in government and parliamentary recess these policies are in their infancy, so their effects will only be evident in future.

There have also been policies geared towards poverty reduction more generally that demonstrate commitment to the broad aims of the CSR and also intertwine social and monetary elements of the causes and symptoms of poverty. For example, there have been reductions in energy costs, a modest push to build more social housing, and plans to expand credit unions and clamp down on high-interest ‘payday loans’ which are mainly taken out those on a low income and/or at risk of poverty. Family support also includes an extension by age of the pupil premium - a cash payment to schools wherein children come from a disadvantaged background and an increase in free school meals to all children up to age seven. The devolved administrations in Scotland, Wales, and Northern Ireland all have their own poverty reduction schemes. There have, then, been some efforts to remedy the issues outlined in the CSRs, but it is difficult to say whether this is due to the CSRs themselves or part of a broader national level plan and the policies going forwards under the new government will need time before they can be evaluated.

5.3.2 Appropriateness of the indicators adopted in the European Semester Exercise and the their role in informing the CSR and the NRP

With regards to indicators used, some of them appear to perhaps be more relevant to the UK context than others. Indeed, some of the indicators could be perhaps be altered or updated going forwards to better reflect the situation in the UK, and planned policies from the recently elected Conservative government may also result in rather drastic changes to some of the indicators going forwards.
One of the indicators that could be looked at anew is that of the youth unemployment rate; it is perhaps more pertinent to use the youth unemployment ratio alongside it for comparison. Whereas the rate uses as a denominator the employed and unemployed population combined, the ratio looks at the entire population (including those inactive), and the UK’s comparative performance is rather different looking at both of these measures. For example, in 2012 the UK’s youth unemployment rate was 21%, lower than the EU-28 average of 23%, but using the ratio shows that the UK is performing below the EU average; 12.4% as opposed to 9.7% (Eurostat, 2015e). This demonstrates that different measures can give rather different results, and it would be worth factoring this in assessing the reasons for the disparity in performance.

Several employment indicators are highly important and should be given credence. For example, the 2015 CSR shows that whilst part-time employment amongst men stands at 13.1%, the figure for women is 42.6%; given that there are new shared parental leave regulations and an upcoming policy about gender pay gap reporting is likely to be implemented, this could be very relevant in the coming years. Some employment indicators which require a fresh and different look are those that appear to have remained stable since 2008, such as hours worked per person employed, productivity per hour worked, and compensation per employee, although reasons for the stagnation behind them could be something to be assessed in future semester exercises. For example, productivity in particular, does not feature prominently in the CSRs; yet the UK suffers from a chronic low productivity problem.

Socially, some other indicators will be more relevant to keep an eye on going forwards than others as they will reflect on new policies and their outcomes. For example, the indicators about childcare provision will be affected by the aforementioned changes in regulations regarding free childcare expansion. The raising of the participation age and changes to the university system – who now have no caps on the number of students they can admit - will also be relevant, influencing early leavers from education and training and tertiary education attainment respectively. Finally, there are several social and economic indicators that will most accurately reflect whether or not the issues mentioned in previous CSRs have been addressed. These are the in-work at risk of poverty rate, gross disposable income, and the children at risk of poverty/social exclusion rate, alongside the aforementioned youth unemployment indicators.

5.4 Current and future challenges according to national stakeholders

According to stakeholders both the UK and the European Commission face significant challenges, especially in relation to their inter-relationship and the UK’s relationship with the EU and its institutions more generally. Specifically, a key challenge in that the impact, if any, of the CSRs in the UK is in the main marginal. Stakeholders noted numerous challenges on this point, ranging from the European Commission “not understanding how little influence it has”, particularly in the last 15 years, through to the CSRs being acted on but not because of the Commission. Instead, changes/reforms proposed by the CSRs were going to take place in any case on the UK’s Government initiative, and the CSRs just happen to align with the national plan. Stakeholders from government noted that there was engagement with
the CSRs which was welcomed, but again this would likely have happened regardless of European Commission influence.

Moreover, it is fair to say that in the face of the growing anti-European attitudes among the British and the attendant rise of UKIP, there seems to be a (real or perceived) ‘aversion’ among the political and media elites to be seen to borrow heavily policy ideas from the EU (the examples of the UK not implementing the European Youth Guarantee as well as not participating in the European Alliance for Apprenticeships and not adoption the European Quality Framework for Traineeships just underline the current attitude). In the current climate which is hostile to the EU, especially its institutions which are seen as meddling in national policies (such as employment and training as well as social policies), policy transfer from the EU is not seen, especially by the media, opinion formers and the British public as particularly helpful.

In contrast, stakeholders, including the government seem to be more open and welcoming recommendations from other international organisations, notably the OECD and the Anglo-Saxon world. For example, the OECD’s recommendation that well designed activation policies encourage the jobless, including unemployed youth, to find jobs has been fully adopted by the UK in all its active labour market policies (ALMPs). Likewise, the new national careers services model in England which has clear implications for the STW transition of young people is has drawn from international best practice as highlighted by the OECD Career Guidance Policy Review.

Another challenge stated by one stakeholder surrounded bringing indicators together comparatively and agreeing on the best data and definitions to use.

The stakeholder suggested, for example, the idea of “full employment”, which has numerous definitions and would involve combining several indicators that would vary depending on the definition adopted. This could provide challenges, then, if more employment indicators were considered in future exercises. Another challenge related to the indicators is that there are already a plethora of them, and bringing more in would perhaps serve just to make the exercise too complex and complicated; descriptions of the number of indicators ranged from “comprehensive” to “too many”. Having said this, one stakeholder acknowledged that there might be scope to incorporate a measure or criterion to acknowledge living standards, which could inform future Semester exercises.

Alternatively, as noted above, it was felt that the European Commission (and the Brussels establishment more generally) fail to understand how little power they exercise over the UK, especially in the relation to employment and social issues. The UK’s outright refusal to implement the Youth Guarantee was presented as a case in point. The UK’s alternative, i.e. the Youth Contract, was seen by the stakeholder as a poor substitute. Indeed, it was pointed out that in relation to youth unemployment the former Coalition government abolished the highly successful Future Jobs Fund which was positively evaluated both in terms of employment outcomes and value for money.

Instead, it introduced a controversial Work Experience programme which has attracted negative publicity, not least because of the unpaid work element and sanctions involved (it was compared to ‘unpaid forced labour’).32

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32 As a result, in February 2012, in reaction to negative media coverage, trade union and youth organisations-driven campaigns and, crucially, employers’ concerns (who did not want to be associated
Another challenge identified by the stakeholder was the marked increase in the casualization and precariousness of employment in the UK as, for example, is exemplified, by the explosion of zero hour contracts in recent years (see Background section). Developing a proper definition of what constitutes full employment was also identified as a key challenge, probably requiring the combination of indicators.

5.5 Suggestions to improve attention to employment and social issues in the European Semester

One stakeholder, pessimistic about the influence of the CSRs on UK Political discourse, suggested borrowing an idea from Finland. In the Finnish legislature, there is an obligation to have a day’s debate in the national parliament about the CSRs, bringing them into serious consideration. The UK could benefit from this, although the stakeholder was worried that it would result in Members of Parliament merely returning to their constituencies for a day due to the non-binding nature of parliamentary attendance. The stakeholder also suggested this obligation should be binding across the EU to help standardisation.

Attitudes as to how to better incorporate employment and social issues vary from stakeholder to stakeholder. In general, there was scepticism about the incorporation of social policies into European Semester exercises, with more positive views towards the employment indicators. Stakeholders suggested a stronger focus on indicators around jobs and growth could be beneficial, such as disaggregating job statistics by age, but social issues were seen as somewhat secondary to these and the economic indicators. With regards to current indicators, there were numerous comments as to their efficacy and utility. One stakeholder was very positive, as the CSR findings help challenge the UK’s social and economic model which promotes dialogue. On the other hand, another informant stated that there were too many recommendations (and indicators), and cutting out many non-macroeconomic indicators could help the procedure. For those that welcomed more social and employment related data, having it more nuanced was a recommendation (disaggregated by age, ethnicity, etc.). At the same time, it was also underlined that more should be made on the delivery of the CSRs and clarity/assurances on where the data is generated from than increasing the number of indicators.

Stakeholders suggested aspects that could be incorporated into making the indicators more socially balanced, as well as providing a critique on the balancing process itself. General consensus appeared to be that there were already too many indicators, and generating new ones would not be overly helpful. One stakeholder thought that social indicators would be inappropriate to bring into this exercise, and they should be someone else’s remit. Suggestions again focussed around making the indicators currently in use more nuanced, by incorporating features such as job security, age, qualifications, and progression of the low paid. One stakeholder noted that, if this occurred, it might be more difficult to do country comparisons; casualisation and insecure work in the UK, for example, is very different from similar issues abroad.

with such a controversial scheme, the government withdrew the threat of benefit sanctions which formed part of this Programme.
Going forward, there were numerous suggestions made for any further social and employment indicators to be integrated in the future. Generally, **stakeholders were quite happy with current levels of stakeholder engagement, and suggested that social indicators could be used more contextually in their future work.** Indicators could also be weighted differently, although naturally this could be contentious. One stakeholder noted that some EU statistics – specifically those around earnings – were of interest but also had a tendency to be “patchy”. **There is also a concern that current indicators are highly focussed on those below the poverty line, with consideration of unemployment and poverty; the not inconsiderable numbers of British workers who live above the poverty line but below median living standards could also be considered.**

There seems to be **a consensus that all pillars of the EU should be equal, but in practice this is not the case, which could cause oversight towards some of the social indicators.** However, as suggested by one stakeholder, some of these should be vital in ensuring growth and prosperity in the EU, with emphasis on poverty and inequality. The recommendations themselves tended to be seen as fair (as mentioned earlier, it is likely that they would have been addressed as UK priorities without EU influence), with one stakeholder praising their relatively narrow focus as a strength in that they can be tackled. The UK’s mechanisms for addressing them were also discussed, with government departments acknowledging their own remits, but being aware of overlap.

**Other improvements that could be made to the exercise include that of communication.** One stakeholder cited the lack of communication between the UK and the EU as a potential barrier to future negotiations, although noted that this is not a problem restricted to this exercise. This was a sentiment echoed by other stakeholders, who suggested that **Ministers were not particularly receptive to the CSRs and, sometimes, saw them as a bit superfluous.** Whilst the CSRs are not overlooked, they are not particularly high profile in the UK’s policy making.
5.6 Annexes

List of documents:

- Boffey, D. (2015). Youth unemployment rate is worst for 20 years, compared with overall figure. The Observer. 22/02/2015
- Di Falco, E. (2014). Income inequality: nearly 40 per cent of total income goes to people belonging to highest (fifth) quintile. Statistics in Focus 12/2014
- Gentleman, A. (2015). Tories have redefined child poverty as not just about having no money. The Guardian. 1/7/2015
• Marx, I., & Nolan, B. (2012). In-work poverty. For Better For Worse, For Richer For Poorer: Labour Market Participation, Social Redistribution and Income Poverty in the EU.
• Ramesh, R. (2013). England’s young people near bottom of global league table for basic skills. The Guardian. 8/10/2015

Stakeholder contacted
Chartered Institute for Personnel and Development (CIPD) (represents all the human resource managers and is used as a proxy for employer views)
Trade Union Congress (TUC)
Department for Work and Pensions (DWP)
Department for Business, Innovation and Skills (BIS)
The Treasury
### Scoreboard and Auxiliary indicators for UK

#### Table 14: Macro and Fiscal Scoreboard Indicators

<table>
<thead>
<tr>
<th>Headline Indicators</th>
<th>Thresholds</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Account Balance as % of GDP&lt;sup&gt;1&lt;/sup&gt;</td>
<td>3 year average</td>
<td>-4%/+6%</td>
<td>-1.6</td>
<td>-3.0</td>
<td>-2.7</td>
<td>-3.2</td>
</tr>
<tr>
<td></td>
<td>level year</td>
<td>-1.3</td>
<td>-2.6</td>
<td>-3.7</td>
<td>-4.2</td>
<td>-5.5</td>
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<tr>
<td>Net International Investment Position as % of GDP&lt;sup&gt;1&lt;/sup&gt;</td>
<td>-35%</td>
<td>-7.9</td>
<td>-6.0</td>
<td>-14.9</td>
<td>15.6</td>
<td>-19.6</td>
</tr>
<tr>
<td>Real Effective Exchange Rate&lt;sup&gt;3&lt;/sup&gt;</td>
<td>% change (3 years)</td>
<td>+/-5% for EA</td>
<td>-2.9</td>
<td>20.4</td>
<td>5.8</td>
<td>3.4</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>-2.1</td>
<td>0.9</td>
<td>4.3</td>
<td>-1.5</td>
<td>7.2</td>
</tr>
<tr>
<td>Export Market Shares&lt;sup&gt;4&lt;/sup&gt;</td>
<td>% change (5 years)</td>
<td>-6%</td>
<td>-7.0</td>
<td>24.0</td>
<td>-19.8</td>
<td>-11.7</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>-2.5</td>
<td>-7.4</td>
<td>-1.8</td>
<td>-1.7</td>
<td>2.05</td>
</tr>
<tr>
<td>Nominal ULC&lt;sup&gt;5&lt;/sup&gt;</td>
<td>% change (3 years)</td>
<td>+9% EA</td>
<td>6.6</td>
<td>9.0</td>
<td>4.1</td>
<td>3.8</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>2.0</td>
<td>1.8</td>
<td>2.4</td>
<td>1.5</td>
<td>0.7</td>
</tr>
<tr>
<td>% Change in Deflated House Price Index&lt;sup&gt;6&lt;/sup&gt;</td>
<td>+6%</td>
<td>3.0</td>
<td>2.7</td>
<td>-0.4</td>
<td>1.6</td>
<td>8.40</td>
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<tr>
<td>% Private Sector Credit Flow&lt;sup&gt;7&lt;/sup&gt;</td>
<td>14%</td>
<td>10.5</td>
<td>-0.3</td>
<td>3.6</td>
<td>3.4</td>
<td>4.9</td>
</tr>
<tr>
<td>% Private Sector Debt&lt;sup&gt;8&lt;/sup&gt;</td>
<td>133%</td>
<td>168.4</td>
<td>177.0</td>
<td>175.8</td>
<td>164.5</td>
<td>160.2</td>
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<td>% General Government Sector Debt&lt;sup&gt;9&lt;/sup&gt;</td>
<td>60%</td>
<td>41.5</td>
<td>76.4</td>
<td>85.8</td>
<td>87.2</td>
<td>89.4</td>
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<tr>
<td>% Change in Total Financial Sector Liabilities&lt;sup&gt;10&lt;/sup&gt;</td>
<td>+16.5%</td>
<td>16.7</td>
<td>8.4</td>
<td>-4.0</td>
<td>-7.4</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Indicators’ specification: 1) 3 year backward moving average of the current account balance as percent of GDP with thresholds of +6% and -4% (and current account balance as percent of GDP); 2) net international investment position as percent of GDP, with a threshold of -35% (change over 3 years and year-over-year change); 3) 3 years percentage change of the real effective exchange rates based on HICP/CPI deflators, relative to 41 other industrial countries, with thresholds of +/-5% for euro area countries and +/-11% for non-euro area countries (and year-over-year change); 4) 5 years percentage change of export market shares measured in values, with a threshold of -6% (and year-over-year change); 5) 3 years percentage change in nominal unit labour cost, with thresholds of +9% for euro area countries and +12% for non-euro area countries (and year-over-year change); 6) year-on-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6%; 7) private sector credit flow in % of GDP with a threshold of 14%; 8) private sector debt (consolidated) in % of GDP with a threshold of 133%; 9) general government sector debt in % of GDP with a threshold of 60%; 10) year-on-year changes in total financial sector liabilities, with a threshold of 16.5%.

**Table 15: Macro and Fiscal Auxiliary Indicators**

<table>
<thead>
<tr>
<th>Auxiliary Indicators</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>% y-o-y change in Real GDP</td>
<td>2.8</td>
<td>1.9</td>
<td>0.7</td>
<td>1.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation as % of GDP</td>
<td>18.0</td>
<td>16.1</td>
<td>16.2</td>
<td>16.4</td>
<td>17.2</td>
</tr>
<tr>
<td>Gross Domestic Expenditure on R and D as % of GDP</td>
<td>1.6</td>
<td>1.7</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net Lending / Borrowing as % of GDP</td>
<td>-1.3</td>
<td>-2.5</td>
<td>-3.7</td>
<td>-4.2</td>
<td>-5.5</td>
</tr>
<tr>
<td>Net External Debt as % of GDP</td>
<td>44.8</td>
<td>45.6</td>
<td>36.4</td>
<td>26.0</td>
<td>n.a.</td>
</tr>
<tr>
<td>Inward FDI flows as % of GDP</td>
<td>10.6</td>
<td>2.7</td>
<td>3.1</td>
<td>1.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Inward FDI stocks as % of GDP</td>
<td>53.0</td>
<td>61.9</td>
<td>72.8</td>
<td>73.6</td>
<td>72.7</td>
</tr>
<tr>
<td>Net Trade Balance of Energy Products as % of GDP</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-1.1</td>
<td>-0.9</td>
<td>-0.7</td>
</tr>
<tr>
<td>% Change (3 years) in Export Performance vs. Advanced Economies</td>
<td>-9.4</td>
<td>-16.8</td>
<td>14.4</td>
<td>4.3</td>
<td>10.2</td>
</tr>
<tr>
<td>% Change (5 years) in Terms of Trade</td>
<td>1.4</td>
<td>-17.1</td>
<td>-11.4</td>
<td>-5.4</td>
<td>-4.37</td>
</tr>
<tr>
<td>% y-o-y Change in Export Market Share, in volume</td>
<td>1.5</td>
<td>-6.0</td>
<td>-1.2</td>
<td>-2.6</td>
<td>n.a.</td>
</tr>
<tr>
<td>% y-o-y Change in Labour Productivity</td>
<td>1.8</td>
<td>1.7</td>
<td>-0.6</td>
<td>0.4</td>
<td>0.7</td>
</tr>
<tr>
<td>% Change (10 years) in Nominal ULC</td>
<td>24.5</td>
<td>31.0</td>
<td>27.7</td>
<td>27.7</td>
<td>24.6</td>
</tr>
<tr>
<td>% Change (10 years) in ULC performance relative to EA</td>
<td>10.8</td>
<td>9.3</td>
<td>8.0</td>
<td>8.7</td>
<td>6.5</td>
</tr>
<tr>
<td>% Change (3 years) in Nominal House Prices</td>
<td>36.6</td>
<td>-2.1</td>
<td>8.0</td>
<td>4.3</td>
<td>15.80</td>
</tr>
<tr>
<td>Residential Construction as % of GDP</td>
<td>3.9</td>
<td>3.2</td>
<td>3.2</td>
<td>3.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Private Sector Debt as % of GDP, non-consolidated</td>
<td>174.2</td>
<td>184.7</td>
<td>181.0</td>
<td>169.4</td>
<td>165.4</td>
</tr>
<tr>
<td>Financial Sector Leverage (debt-to-equity)</td>
<td>748.2</td>
<td>946.4</td>
<td>953.4</td>
<td>790.5</td>
<td>767.4</td>
</tr>
</tbody>
</table>

Indicators’ specification: 1) Real GDP % change (1 year); 2) Gross Fixed Capital Formation % of GDP; 3) Gross Domestic Expenditure on R&D % of GDP; 4) Net Lending/Borrowing % of GDP; 5) Net External Debt % of GDP; 6) Inward FDI Flows % of GDP; 7) Inward FDI Stocks % of GDP; 8) Net Trade Balance of Energy Products % of GDP; 9) Real Effective Exchange Rates - EA trading Partners % change (3 years); 10) Share of OECD exports % change (5 years); 11) Terms of Trade % change (5 years); 12) Export Market Shares - in volume % change (1 year); 13) Labour Productivity % change (1 year); 14) Nominal unit labour cost % change (10 years); 15) Unit labour cost performance related to EA % change (10 years); 16) Nominal house price index % change (3 years); 17) Residential Construction % of GDP Eurostat NA; 18) Private Debt, non-consolidated % of GDP; 19) Financial Sector Leverage (debt to equity) %.

Data Source: from 2005 to 2013 Statistical Annex of AMR 2015


n.a. = not available
6 ROMANIA

6.1 Executive summary

In the period 2010-2015 Romania reduced macroeconomic imbalances, re-established market access for the sovereign and ensured financial stability, following the participation in a joint IMF, EC and the World Bank programme for financial assistance in 2009, renewed in 2011 and in 2013. The macroeconomic stability was driven by the export, the increase in GDP and by the reduction of the public expenditure through cuts in public wages and social expenditure, freeze of pensions, etc.

Despite the substantial progress in the macroeconomic field, the social and labour market conditions registered only limited progress and in some cases (e.g. in-work poverty, etc) indicators show a worsening of the situation.

The main problems characterising the labour market in Romania are: low number and quality of jobs created; employment rates below the national 2020 average and EU ones; low employment rates for women and old people; increase in unemployment rates, in particular for youth; high levels of NEET; low investment in active labour market policies and focus on passive measures; low quality of public services in the labour market field and in particular of the National Employment Agency.

In the social field, Romania faces the following problems: severe material deprivation of a large part of the population; in-work poverty; lack of a minimum insertion rate; low minimum wage rates; limited effectiveness of the social benefits, also due to a limited coordination between the central labour market policies and the local social services; poor quality and difficult access to healthcare services.

In addition, the quality of education and, in particular, of vocational training remains low as well as the quota of population involved in lifelong training programmes.

Most of these aspects have been considered by both the EC and IMF BoP programme and the CSR process.

In 2015 the Commission considers Romania in a situation of imbalance requiring policy action and monitoring. This is mainly due to repeated announcements of the Romanian politicians that Romania will not renew the BoP programme at the end of September and the adoption of social popular measures in the context of the near elections. Furthermore, the Commission is also preoccupied by the adoption of some social measures without proof on the financial resources necessary to cover them in a budget neutral manner. In fact, despite numerous warnings of the EC and IMF with regards to their potential negative impacts on the current balance of accounts, the Romanian authorities have adopted different tax cuts within the new Tax Code (e.g. VAT, etc), the increase in the minimum wage and announced wage increases in the public sector.

In the period 2013-2015, the number of CSRs addressing the labour market and the social field decreased from 4 to 1 in 2015. Nevertheless, the contents of the CSRs formulated by the EC registered only minor changes in the same period. In detail CSRs refer to improvement in the labour market conditions, in the quality of and access to education, vocational training and childhood education and care and in the healthcare affordability and equity as well as to alleviation of poverty and better social transfers.
As to progress registered by Romania, the 2015 Romania Country report unveils limited progress in all fields despite the measures adopted by Romanian authorities.

One of the major challenges for Romania resides in the effective implementation of the measures adopted, which nowadays is extremely weak. Lack of political ownership has been identified by stakeholders as one of the major reasons for slow progress in the implementation phase.

Some suggestions for the better mainstreaming of the labour market and social issues in the European Semester process consists in: higher involvement of the civil society and of the Economic and Social Committee, increase in the role of the Ministry for Social Affairs, labour Market and Family in the CSR process in Romania; revision and integration of some of the indicators more fit to the Romanian context.

**6.2 Background**

**6.2.1 Economic conditions**

In the period 2010-2015 Romania has made relevant progress in reducing macroeconomic imbalances, re-establishing market access for the sovereign and in ensuring financial sector stability, following the participation since 2009 in a coordinated financing package with the IMF to underpin the sustainability of Romania’s balance of payments and the adoption of several structural reforms, as it will be further on detailed in the next chapter:

- The current account balance as % of GDP was corrected from -6.9% in 2010 to -1.9% in 2014, mainly due to strong exports and only temporarily reduced imports. In the last two years, it records a continuous adjustment of the deficit from 0.8% of GDP in 2013 to 0.5% in 2014.

- After a sharp decrease in GDP in the period 2005-2010 (-3.4 pp), GDP has been growing since 2012, reaching 3.5% in 2013. However, it is still below the pre-crisis level (4.2% in 2005) and, moreover, in the last year there has been slight reduction (-0.7 pp). Nevertheless, the Commission estimates that growth will remain robust in 2015 and 2016. Increase in GDP has been triggered mostly by domestic demand.

- Growth in GDP and the correction of the current-account deficit resulted into the improvement in the net international position of Romania, which, in 2014, registered the lowest level (-58.3%) since the crisis.

- Private debt decreased by 11.4 pp in the period 2010-2013, mainly due to decreasing trend of nonperforming loans.

- Financial sector stability has been continuously improved in the last years, even though the Commission underlines that banks remain vulnerable to adverse development in the Euro area and to home-grown initiatives.33

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6.2.2 Labour market

Progress in the macroeconomic stability has not been followed by substantial improvement in the social and labour market conditions of Romania in the analyzed period.

As emphasized by the 2015 EC Country report and by interviews with stakeholders, labour market shows only limited signs of improvement, being still characterized by persistent problems:

- Despite a slight increase in jobs vacancies in 2014, jobs creation remains low and in particular that regarding qualitative jobs. This is coupled with high inactivity rates, shrinking population mainly due to ageing and outward migration and under-employment in agriculture.

- Employment rates (65.8%) below the national 2020 target (70%) and the EU average. However, in the period 2010-2014 a 2.5 pp increase has been registered.

- Low employment rates for women (57.5% in 2014), despite the slight increase (+1.6 pp) in the 2010-2014 period.

- Low employment rates for adults aged 55-64 years old (43%, +1.9 pp in the period 2010-2014), due also to early retirement.

- Continuous increase in youth’s unemployment rates (23.6% in 2014, +1.6 pp in the period 2010-2014) coupled with high levels of NEET (17% of the population aged 15-24 years old in 2014; +0.08 pp in the period 2010-2015). According to the EC 2015 country report, more than 60% of Romanian youth are economically inactive, the highest proportion in the EU. Among them, mostly are young Roma.

- High long-term unemployment rates (2.8% in 2014; +0.04 pp in the period 2010-2014).

- Low quality of public services offering active labour market measures, and in particular of the National Employment Agency.

- Low investment in active labour market polices and focus on passive measures (unemployment benefit). The 2012 data (last available) show a decrease in the expenditure (% of GDP) on passive measures triggered by increase in the long term unemployment and low coverage of unemployment benefits.34

6.2.3 Social conditions

From a social point of view, a large part of the Romanian population still continues to experience severe material deprivation, increased risks of social exclusion and poor access to primary public services, such as healthcare:

- Romanian population facing material deprivation (28.5% of the population) is three times higher than the European one, despite a slight decrease (~2.5 pp) in the 2010-2013 period.

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• **40% of the total population is at risk of social exclusion** in 2014; despite a slight decrease (-1 pp) in the period 2010-2014, it is almost double the European average in 2014 (24.4%). Single parents, families with three or more dependent children, disabled and Roma people are those mostly exposed to the risk of social exclusion.

• **In-work poverty is the highest in Europe** and in continuous increase in the 2010-2014 period, mainly due to the low quality of jobs and consequently high-large number of low wage-earners, a large part of the population in subsistence agriculture and unpaid family workers: 18% of the total population, +1.2 pp in the 2010-2014 period.

• The **minimum wage remains among the lowest in Europe**, even though several increases have been adopted in the 2010-2015 period.

• **Limited impact of social benefits in reducing poverty**. According to the 2015 EC country report, it is the second lowest in the EU, affecting in particular children (less than half the EU average). Social protection benefits show a continuous decrease in the 2010-2012 period (-2 pp), also due to cuts in social benefits undertaken by the Romanian authorities in the framework of the agreement with the FMI. Most of the social protection benefits (81% in 2012) are allocated to pensions and healthcare insurance. Furthermore, social transfers are not adequately linked to active measures.

• **Poor quality and difficult access to healthcare services**, especially in the rural areas. According to the EC 2015 Country report, investments in the healthcare sector in 2012 were the third lowest in the EU. One of the major issues in the healthcare sector regards the lack of healthcare insurance for people in the rural area occupied in subsistence agriculture. Moreover, increased corruption in the system weaknesses access of people with low income to healthcare services.35

In addition, the **quality of education** and, in particular, of vocational training remains low as well as the quota of population involved in lifelong training programmes.

6.3 **The European Semester exercises in 2014 and 2015 in the country and the main changes relative to previous years according to the perceptions of the main stakeholders**

6.3.1 **The main issues at stake and the CSR process**

The main social and employment issues at stake in Romania can be summarised as follows:

- Concerning **young people**:
  - continuous increase in youth’s unemployment rates coupled with high levels of NEET.

- Concerning **employment and unemployment** issues:

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o jobs creation remains low, with high inactivity rates;
 o low employment rates, in particular for women and for elderly workers;
 o high long-term unemployment rates;
 o low investment in active labour market polices and focus on passive measures; low quality of public services offering active labour market.

• Concerning demographic issues:
 o shrinking population mainly due to ageing and outward migration.

• Concerning poverty and social exclusion:
 o a large part of the Romanian population still continues to experience severe material deprivation, increased risks of social exclusion;
 o in-work poverty is the highest in Europe;
 o the minimum wage remains among the lowest in Europe;
 o limited impact of social benefits in reducing poverty;
 o poor quality and difficult access to healthcare services;
 o poor quality of education and of vocational training.

Employment and Social Indicators present a worsening situation mainly concerning young people.

Table 16: Employment and Social Indicators

<table>
<thead>
<tr>
<th>Indicators¹⁰</th>
<th>Country</th>
<th>EU Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment rate (moving average)¹</td>
<td>7.6</td>
<td>6.4</td>
</tr>
<tr>
<td>% Change in Employment²</td>
<td>-1.5</td>
<td>-0.3</td>
</tr>
<tr>
<td>Activity rate³</td>
<td>62.3</td>
<td>63.6</td>
</tr>
<tr>
<td>Long-term Unemployment Rate⁴</td>
<td>4</td>
<td>2.4</td>
</tr>
<tr>
<td>Youth Unemployment Rate⁵</td>
<td>19.1</td>
<td>22.1</td>
</tr>
<tr>
<td>% Young People NEET ⁶</td>
<td>16.8</td>
<td>16.4</td>
</tr>
<tr>
<td>% People at Risk of Poverty or Social Exclusion ⁷</td>
<td>n.a.</td>
<td>41.4</td>
</tr>
<tr>
<td>At-risk Poverty Rate⁸</td>
<td>n.a.</td>
<td>21.1</td>
</tr>
<tr>
<td>Severe Material Deprivation Rate⁹</td>
<td>n.a.</td>
<td>31</td>
</tr>
<tr>
<td>% Persons Living in Households with Very Low Work Intensity¹⁰</td>
<td>n.a.</td>
<td>6.9</td>
</tr>
</tbody>
</table>

See note 9
In 2015 the European Commission considers Romania in a situation of imbalance requiring policy action and monitoring. According to stakeholders interviews, this is not related to the current macroeconomic and financial situation of Romania, but to the intention of the Romanian government of not renewing the agreement with the EC and the IMF. Furthermore, international institutions expect that the Romanian government adopts several social popular measures, such as the recent increase in ex military pensioners’ social benefits, in the context of the forthcoming elections that could negatively impact on the achieved macroeconomic stability.

In addition, Romanian authorities have recently adopted several social and labour market measures, which both the EC and the IMF consider will have a negative impact on the current account balance: increase in the minimum wage and VAT reduction. While both measures might bring about social benefits, in particular for people at risk of social exclusion, they also present some shadows as underlined by both the EC and the IMF. For instance, a higher minimum wage might determine an increase in the black labour market especially in the context of the instability of the international economy and recent recovery of the Romanian one. At the same time, even though VAT reduction might result in a decrease in the prices of primary goods, benefitting in particular people at risk of social exclusion, it will also result into minor resources in the public accounts to be devolved to structural reforms specifically targeting vulnerable groups. Moreover, the new Tax Code adopted in June 2015 includes significant tax cuts that, according to the IMF and the EC, could have a negative impact on the sustainability of Romania’s fiscal situation without corresponding compensatory measure. In light of this, the foreseen mission of IMF and EC could not be successfully concluded in June.

The 2009-2015 Balance of payments programmes for Romania

On 6 March 2009, due to the reduced capital inflows, pressure on the exchange rate and limited access to the bond market for public barrowing, the Romanian authorities requested the financial assistance of the EU and asked the IMF and the World Bank for complementary social assistance.

On 9 March 2009, the Commission announced that together with the IMF and the World Bank would implement a coordinated financial assistance package in Romanian in order to support the sustainability of its balance of payments. However, the agreement foresaw that financial assistance would be offered upon the implementation of a supportive programme including structural reforms to be undertaken by Romanian authorities.

The programme focused on reducing the effects of the decrease in private capital inflows while ensuring the implementation of policy measures to address the external and fiscal imbalances and strengthening the financial sector. On 6 May 2009, in conjunction with an IMF Stand-by Agreement (SBA) in the amount of SDR 11.4 billion and additional support from the World Bank, EIB and EBRD of up to EUR 2 billion, the Council of the European Union decided to grant mutual assistance for Romania and to provide EU medium-term financial assistance of up to EUR 5 billion for Romania. On 23 June 2009, a Memorandum of Understanding (MoU) between the European Union and Romania was concluded, specifying the concrete policy measures to be implemented for obtaining the financial resources:
a) Fiscal consolidation: gradual **reduction of the fiscal deficit** from 5.1% in 2009 to below 3% in 2011 mainly by **reducing the public sector wage bill**, **cutting expenditure on goods and services**, lowering subsidies to public entities, reduction of capital spending on items like vehicles and office equipment and improvement in the quality of public spending; **putting effective limits on the budgets, which raise the overall size of expenditure**; overall ceiling on borrowing for local bodies between 2010 and 2012; use of all non-grant revenues to cover deficit.

b) Fiscal governance: adoption of the fiscal responsibility law, reform of the public wage and bonuses reform; accordingly, the share of the **base salary as a percentage of the public compensation should be at least 70% and this should be done through the elimination of all bonuses or their rolling into the base salary**; non monetary benefits are prohibited and all bonuses are taxable and legally capped; linking payment to the responsibilities and qualifications across the entire public sector.

c) Pension reform: indexing public pensions to consumer prices; increasing the retirement age, in particular for women, beyond the current plans and linking the retirement age to life expectancy rates; limiting discretionary increases in the pension reform; **phase-in contributions by public employees excluded from the contribution system; protection of vulnerable categories of pensioners;** attain the objective of 45% replacement ratio for retirees on average.

d) Monetary and financial sector policy.

e) Structural reforms: reform of the public administration to improve its effectiveness and efficiency; reforms aimed at the improvement in the business environment; measures to improve the absorption of EU funds; **legislative measures to tackle undeclared work**; adoption of a new labour code; increase in the quality of public spending; reduction in the number of taxes and tax payments in the parafiscal area; increase investment in R&D; restructuring of the Ministry of Transport and implementing agencies; liberalization of the energy and gas market; restructuring of state owned companies.

In the context of the present agreement, a series of **measures with relevant social impacts** have been adopted by Romanian authorities:

- Freeze in wages and employment cuts in the public sector.
- Pension freeze.
- Introduction of a new social assistance code which streamlines the number of social assistance programmes and targets them towards the most vulnerable.
- Proposal for a new health-sector framework law based on: a reduction in the scope of the public benefits package through greater reliance on cost-sharing and private supplementary insurance; greater private sector involvement in health care provision and financing to enhance efficiency and quality of services and raise additional resources; revision of the basic benefits package to exclude the coverage of nonessential health services; reduction in the number of exemptions on co-payments for medical services; revision of settlement prices and the list of compensated and free drugs; addressing
shortcomings in the current version of the clawback tax by the end of the year and monitoring hospital budgets to ensure they are consistent with programmed expenditure.

- Adoption of the Labour Code in 2011.37

While some measures (e.g. increase in the pension age, the equalization of women’s and men’s retirement age) might have long term social positive effects, others resulted into worsening the social conditions of some categories (e.g. public functionaries, pensioners, etc). However, they have contributed to achieving macroeconomic stability as shown in the previous chapter.

The Programme ended in spring 2011. On 17 February 2011, Romania authorities requested a precautionary EU medium term financial assistance of up to 1.4 billion euro to support the economic growth and the implementation of the economic reform programme started by the government. As in the case of the previous programme assistance was provided in conjunction with an IMF SBA in the amount of SDR 3.09 billion, and the World Bank provided 400 million euro to Romania under its development loan programme and of 750 million euro of results-based financing for social assistance and health reforms.

The 2011-2013 BoP Programme includes the following measures regarding the labour market and social policy field:

- Labour market reform: reducing rigidity of the labour market through a more adequate employment protection legislation; increased flexicurity; rationalizing wage bargaining in the private sector; increase in the labour supply incentives and reduction of undeclared work; better link between wages and productivity; extend the period over which overtime can be compensated with paid hours of three months.

- Pensions: sustainability of the pension system.

- Healthcare reform: introduce a means tested co-payment system for the medical services developed in cooperation with the World Bank.

- Phase out regulated prices in electricity and gas leading to their complete removal accompanied by the definition of the vulnerable consumers and their protection.38

The programme was renewed in autumn 2013. The 2013-2015 BoP programme runs in parallel with an IMF Stand-By Arrangement (SBA) and will expire in September 2015. The programme foresees that in the field of labour market and social reforms it covers part of the EC CSR:

- Labour market: monitor the implementation of the Labour Code and Social Dialogue Code adopted previously; reduce labour taxation in a budget neutral manner for low and middle income learners.

- Pension reform: equalization of women’s and men’s pension age by increasing women’s age to 65 years old by 2035.

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Healthcare reform: clearing areas; budget control mechanisms; implementing e-health solutions; definition of the public benefits basket to be financed within available budget limitations; establish the framework for a private supplementary insurance market, aiming at increasing the share of private expenditure in the healthcare sector; revision of the basic basket benefits based on cost-effectiveness analysis; shifting resources from hospital based care toward primary care and ambulatory care and reduction in bed capacity in patient acute care hospitals; reorganisation and rationalization of the hospital network; shift the delivery of health services to outpatient services, building functional and physical integrated referrals networks, including regional hospitals.39

No review has been completed since its start in 2013, since some of the overall proposed measures have not yet been adopted.

Over the period 2013-2015, the number of CSR regarding labour market and social protection decreased from 4 in 2013 to 1 in 2015. Their content has undergone the following changes:

- The elimination in 2014 of the CSR regarding the equalization of women’s and men’s age, following a 2013 law proposal to equalize pension age for women and men, as anticipated by the 2010 law. In 2014, it passed the Senate.
- The introduction only in 2014 of a specific CSR on the reduction of the poverty level and of people at risk of social exclusion. In the 2013, such measures were included in the labour market participation CSR, while in 2015 some of them are encompassed in the general CSR.
- The elimination in 2014 of the specification regarding the speeding of transition from institutional to alternative care for children deprived of parental care, following the adoption of a series of measure to speed-up the process;
- The introduction of a specific provision in 2015 regarding the adoption of the minimum insertion income.

Table 17: Evolution of CSRs between 2013 and 2015

<table>
<thead>
<tr>
<th>CSR 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CSR n.2: Retirement</strong></td>
</tr>
<tr>
<td>Continue the pension reform started in 2010 by equalising the pensionable age for men and women and by promoting the employability of older workers.</td>
</tr>
<tr>
<td><strong>CSR n.3: Health care</strong></td>
</tr>
<tr>
<td>Pursue health sector reforms to increase its efficiency, quality and accessibility, in particular for disadvantaged people and remote and isolated communities. Reduce the excessive use of hospital care, including by strengthening outpatient care.</td>
</tr>
<tr>
<td><strong>CSR n.4: Labour market participation</strong></td>
</tr>
<tr>
<td>Improve labour-market participation, as well as employability and productivity of the labour force, by reviewing and strengthening active labour-market policies, providing training and individualised services, and promoting lifelong learning. Enhance the capacity of the National Employment Agency to increase the quality and coverage of its services. In order to fight youth unemployment, implement rapidly the National Plan for Youth Employment, including for example through a Youth Guarantee. To alleviate poverty, improve the effectiveness and efficiency of social transfers with a particular focus on children. Complete the social assistance</td>
</tr>
</tbody>
</table>

reform by adopting the relevant legislation and strengthening its link with activation measures. Ensure concrete delivery of the National Roma Integration Strategy.

<table>
<thead>
<tr>
<th>CSR n.5: Education and childcare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed up the education reform including the building up of administrative capacity at both central and local levels and evaluate the impact of the reforms. Step up reforms in vocational education and training. Further align tertiary education with the needs of the labour market and improve access for disadvantaged people. Implement a national strategy on early school leaving focusing on better access to quality early childhood education, including for Roma children. Speed up the transition from institutional to alternative care for children deprived of parental care.</td>
</tr>
</tbody>
</table>

**CSR 2014**

<table>
<thead>
<tr>
<th>CSR n.3: Health care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step up reforms in the health sector to increase its efficiency, quality and accessibility, including for disadvantaged people and remote and isolated communities. Increase efforts to curb informal payments, including through proper management and control systems.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSR n.4: Active labour market policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen active labour-market measures and the capacity of the National Employment Agency. Pay particular attention to the activation of unregistered young people. Strengthen measures to promote the employability of older workers. Establish, in consultation with social partners, clear guidelines for transparent minimum wage setting, taking into account economic and labour market conditions.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSR n.5: Education and training</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase the quality and access to vocational education and training, apprenticeships, tertiary education and of lifelong learning and adapt them to labour market needs. Ensure better access to early childhood education and care.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSR n.6: Poverty and social exclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase the efficiency and effectiveness of social transfers, particularly for children, and continue reform of social assistance, strengthening its links with activation measures. Step up efforts to implement the envisaged measures to favour the integration of Roma in the labour market, increase school attendance and reduce early school leaving, through a partnership approach and a robust monitoring mechanism.</td>
</tr>
</tbody>
</table>

**CSR 2015**

<table>
<thead>
<tr>
<th>CSR n.3: Active labour market policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen the provision of labour market measures, in particular for unregistered young people and the long-term unemployed. Ensure that the national employment agency is adequately staffed. Establish, in consultation with the social partners and in accordance with national practices, clear guidelines for setting the minimum wage transparently. Introduce the minimum insertion income. Increase the provision and quality of early childhood education and care, in particular for Roma. Adopt the national strategy to reduce early school leaving. Pursue the national health strategy 2014-2020 to remedy issues of poor accessibility, low funding and inefficient resources.</td>
</tr>
</tbody>
</table>

6.3.2 The way these recommendations have been treated at the national level in NRP

As noted in the table above, the **key issues at stake in the CSRs over the analysed period are:**

a) **Improvement in the labour market conditions:**
   - Active labour market policies in particular for the unregistered people and long term unemployed persons.
   - Guidelines to set the minimum wage transparently.
• Introduction of the minimum insertion income.
• Improvement in the capacity of the National Employment Agency.
• Improvement in the access to early childhood education and care, in particular for Roma people.
• Reduction of early school leaving coupled with increase in the quality of education and vocational training at all levels and increased participation in lifelong learning.

b) Better quality and access to education:
• Increase in the quality and access to vocational training, education and apprenticeship.
• Reducing dropouts.

c) Healthcare:
• Implementation of the healthcare reform.
• Tackling issues related to poor accessibility, low funding and inefficient resources.

d) Fight poverty and social exclusion.

When it comes to the adequacy of CSRs to the Romanian situation, as underlined above these are generally in line with the main social and labour market critical characteristics of the Romanian labour market and social policy, as detailed in the previous chapter, and urge to underpin Romanian authorities to continue implementation of the law proposals/adopted reforms agreed with the EC and IMF bodies.

Nevertheless, there are some crucial issues for the Romanian labour market and social condition of people that CSRs over the analysed period fail to consider the aspects presented in the box below.

<table>
<thead>
<tr>
<th>Crucial aspects of the Romanian social and labour market conditions not tackled by the 2013-2015 CSRs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Better social inclusion and increased healthcare coverage of people occupied in the subsistence field;</td>
</tr>
<tr>
<td>• Increased insertion on the labour market of women, and in particular young women;</td>
</tr>
<tr>
<td>• Improvement in the productivity level;</td>
</tr>
<tr>
<td>• Reduction in the in-work poverty;</td>
</tr>
<tr>
<td>• Decentralization of labour market services also to improve the current deficiencies in the coordination between the central labour market services and the local social services;</td>
</tr>
<tr>
<td>• Higher involvement of civil society organisations and/or social partners in the CSR process</td>
</tr>
<tr>
<td>• Development of the social economy.</td>
</tr>
</tbody>
</table>

All the CSRs have been considered in the National Reform Programmes over the analysed period. In many cases the CSRs are guiding the processes for the adoption of reform strategies (e.g. the National Strategy for old workers and active ageing, the Lifelong Strategy, the Strategy for Roma Inclusion, etc), as detailed in the paragraphs below. However, as underlined by stakeholders interviewed and by the
Commission reports a major challenge regards the concrete implementation of the reforms and strategies adopted. Stakeholders note that often adopted strategies are more formal (“on the paper”) and their real actuation is rather limited and slow, while laws often undergo several changes also contradictory. This is for instance the case of the recently passed pension reform revising the 2010 one, which reduces pension ages for certain categories, while the 2010 one adopted under the EC and IMF agreement foresees an increase in the pension age and its indexation with the life expectancy. Another example regards the 2011 education law, whose radical revision is currently being discussed. It’s worth mentioning that between 1989 and 2015 the education law was changed 61 times. Continuous change in laws in the social and labour market field create relevant legal instability.

- Labour market conditions.

In the 2015 Romania Country Report, the Commission assesses that Romania has made some limited progress in addressing the Commission’s recommendations regarding the labour market.

In particular, to address the employment of old age workers, the Romanian authorities have undertaken the following measures in the last years.

<table>
<thead>
<tr>
<th>Measures to sustain employment of old age workers presented in the last NRP</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Law number 134/2014 allowing to public employees to continue working after the pension age and to cumulate wage and pensions. The measure is limited to the public sector employees;</td>
<td></td>
</tr>
<tr>
<td>The 2015-2020 Strategy for Lifelong learning strategy which aims, among others, to increase the insertion on the labour market of old people;</td>
<td></td>
</tr>
<tr>
<td>Law 250/2013 and Governance Decision 119/2014 introducing subventions for employees that that hire unemployed which in 5 years from the employment date met the conditions for requiring an anticipated pension. The law also foresees the introduction of free services for the evaluation and certification of informal competences and allowing mobility rewards.</td>
<td></td>
</tr>
</tbody>
</table>

The Commission assesses these measures as limited progress in this field.

When it comes to active labour market measures, the Commission considers that Romanian authorities have made limited progress. The main measures adopted by the National authorities and included in the NRP over the analysed period are presented below.

<table>
<thead>
<tr>
<th>Active labour market measures included in the last NRP</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Adoption of the 2014-2020 National Employment strategy</td>
<td></td>
</tr>
<tr>
<td>Benchmark learning exercise of the PES network piloted in Romania;</td>
<td></td>
</tr>
<tr>
<td>The rolling out of the Professional Card programme;</td>
<td></td>
</tr>
<tr>
<td>Monitoring actions for jobseekers and the updating of the PES website to provide e-services;</td>
<td></td>
</tr>
<tr>
<td>Several ESF projects focused on improving the capacity of the National Employment Agency.</td>
<td></td>
</tr>
</tbody>
</table>

The Commission considers that some progress has been made in tackling unemployment of youth, and in particular of unregistered young people. The main measures undertaken by national authorities in this field are presented below.
Measures addressing youth unemployment included in the last NRPs

- Adoption of the Youth Guarantee Implementation Plan 2014-2015 in 2014;
- De minimis aid Scheme – Subsidized Jobs launched in 2014 to facilitate the labour market insertion of the secondary and tertiary young graduates;
- 2014-2015 Employment Programme financed by the Unemployment Insurance Budget
- The 2013 National Plan for increasing youth’s participation in the labour market;
- Development of an integrated database on young NEET. However, according to the 2015 Romania country report, its impact is rather limited as take-up, coverage and effective implementation of adopted measures need to be enhanced and sustained in the long run;
- Numerous ESF projects enhancing the employment of long term unemployed and job seekers.

The Commission underlines that no action has been take to draft guidelines on the transparent setting of the minimum wage level. On the contrary in 2015, Romanian authorities have adopted an increase in the minimum wage, as detailed previously.

The 2014 and 2015 NRPs underline that additional measures not requested by the EC CSRs regard the financing of numerous ESF projects aimed at training farmers to increase the competitiveness of the agricultural sector, diversify rural economy and ensure the long term sustainability of rural areas. In addition, EARDF funds have been used to sustain the setting up of young farmers.

- Increase the quality and access to education at all levels, vocational training and childhood education and care

According to the 2015 Romania Country report, Romania has made limited progress in this area.

With regards to ensuring access to childhood education and care, some measures have been taken in the last years, as explained in the 2015 Romanian NRP. The Commission assesses them as limited progress.

Childhood education and care measures

- Reorganization of early education services as integrated services
- 2014 draft law which contains changes related to educational content for this level of education submitted for endorsement
- Draft National program on early childhood stimulation

The 2015 NRP includes several actions undertaken to address the Commission’s recommendation on improving the quality and access to education at all levels and vocational training. The Commission considers, in fact, that these measures have brought about some progress in this area.
Mainstreaming Employment and Social Indicators into Macroeconomic Surveillance

- INSERT project (Management of the education correlated to the labour market) – creation of an integrated database to monitor the insertion of graduates in the labour market and its loading in the management systems of all 50 universities involved in the project
- GD 607/2014 on the approval of the content and format of study documents to be issued to BA cycle graduates
- Draft Methodology on the organization and operation of lifelong learning community centres. The methodology is currently under inter-ministerial approval
- GD 117/2013 revising the 2011 education law and introducing the following changes: change in the duration of high school studies; introduction of multidisciplinary similar to the PISA ones to the National Evaluation; admission contest for high schools, etc.

- Healthcare

The Commission appreciates that limited progress has been made in ensuring efficiency, quality and accessibility of healthcare also for disadvantaged.

The following measures have been adopted by Romanian authorities in this field:

<table>
<thead>
<tr>
<th>Healthcare reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare national strategy 2014-2020</td>
</tr>
<tr>
<td>Plan for reduction of the number of hospital beds during the 2014-2016 period</td>
</tr>
<tr>
<td>Order No 861/2014 on inclusion, expanding indications, non-inclusion or exclusion of medicines into/from the list containing the common international names of medicinal products for insured persons</td>
</tr>
<tr>
<td>The Law on State Budget 2014 providing an increase by 34.7% of the funds allocated to home care, by 98.2% of the funds allocated for paraclinical ambulatory services, by 11.9% of the funds allocated primary care services, by 10.7% of the funds allocated to specialized ambulatory care services and an increase by 501.5% of the funds allocated for ambulatory dental care services;</td>
</tr>
<tr>
<td>The Law No 186/2014 on State Budget for 2015 providing an increase by 6.23% of funds allocated to primary health care services and by 5.1% of the funds allocated to specialized ambulatory care services have been provided;</td>
</tr>
<tr>
<td>Proposal for the creation of an Ethics Council and Integrity Department in public hospitals</td>
</tr>
<tr>
<td>18 prophylactic and curative health programs are implemented for women and children</td>
</tr>
<tr>
<td>2015 forecasted increase in the wages of medical staff</td>
</tr>
<tr>
<td>ESF financing agreement for Good Governance through Integrity and Responsibility in the Health System</td>
</tr>
<tr>
<td>Several projects for improving hospital infrastructure in rural areas.</td>
</tr>
</tbody>
</table>

Even though the reform includes measures that should result into improved quality of healthcare services and reduction of inefficiencies in healthcare expenditure, the accessibility and equity of healthcare remain an issue not adequately tackled by the reform. The reform pushes towards outpatient care, but services in this sector are mainly private ones. Coupled with the low income levels of Romanian population, this might result into worsening the healthcare situation of people at risk of social exclusion.

- Fight poverty and social exclusion
Overall the Commission assesses that **limited progress has been made in this area**. The box below includes the main measures undertaken by the Romanian authorities in this field.

**Measures to alleviate poverty and increase effectiveness of social transfers**

- **GEO No 65/2014** on increasing the allowances supporting the poorest family by 42 Lei for each child. Starting from 1 November 2014, a monthly amount of 600 Lei has been allocated for each child in special protection (in family foster care). The Government decided a twofold increase of the daily food allowance of children in special protection and for mothers protected in maternity centres.
- Ongoing implementation of the social assistance reform: ongoing elaboration of the Law minimum social insertion that consolidates the three existing means-tested programmes (heating benefits, family allowance and minimum guaranteed income);
- The Law on social economy aiming at improving labour market participation of the vulnerable people. In February 2015, the law was subject to debates in several commissions of the Chamber of Deputies.
- **GD No 1091/2014** on establishing the minimum gross wage. Starting from 1 January 2015, the minimum gross wage is 975 Lei per month and it increases to 1,050 Lei per month beginning with 1 July 2015.
- Adoption of the National Strategy on Social Inclusion and Poverty Combating 2015
- **GD No18/2015** on the approval of the Governmental Strategy for inclusion of Romanian citizens belonging to Roma minority for the period 2015-2020
- Special vacancies for young Roma candidates in order to attend the university classes so that 592 places were approved in the academic year.

### 6.3.3 Appropriateness of the indicators adopted in the European Semester Exercise and the their role in informing the CSR and the NRP

Generally interviewed national authorities and stakeholders consider that social and labour market indicators provide adequate information for the NRP process and for monitoring situation in these two fields in Romania.

However, when looking at the social and labour market problems faced by Romania, some shortcomings in the indicators used by the MIP process may be revealed with regards to the labour market indicators:

- The overall unemployment rate does not provide information on how it is distributed among the population and urban/rural areas. This is a critical issue for Romania considering that a large part of the population live in rural areas;
- Lack of disaggregation of the youth unemployment by sex, age and ethnic identity. This is a relevant issue for Romania since youth unemployment is most often spread among women, Roma people, etc.
- Lack of indicators adequately measuring the phenomenon of underemployment in the subsistence agriculture;
- Lack of information on the quality level of jobs created. This is important for Romania considering that in-work poverty is a major issue related to persistent and numerous low quality of jobs
- % change of employment rate does not reflect the type of employment referred to (part-time, fixed term, etc).
Some additional indicators may be considered:

- Relative poverty rates;
- Level of expenditure in active labour market policies
- Unemployment rates by geographic area, population age and level of study
- Indicators on the quality of jobs created.

6.4 Current and future challenges according to national stakeholders

According to interviews with national and EU stakeholders, demographic change coupled with high outward migration ration is one of the most relevant challenges for Romania in the years to come. In the last few years, Romania has been characterised by decrease in the population number, large-scale migration to other EU countries, low fertility rates and population ageing. This will result in the need to increase supply on the labour market and work productivity.

Stakeholders underline that in order to increase supply on the labour market, Romanian authorities should take substantial action to improve the insertion on the labour market of people currently under-employed (e.g. women, Roma people, youth and elderly). For instance, case study interviews emphasise that in the next years it is expected that 1 out of 5 workers will be Roma, while their current level of social integration and inclusion on the labour market is extremely reduced as confirmed also by the 2015 EC Country report.

According to stakeholders’ interviews, reduction in the mismatch between education and vocational training offers and the labour market demand might result in an increased youth’s participation in the labour market. However, as underlined above, the continuous change in the education law and weak organization and coordination of vocational training services hamper reduction in the gap between the labour market demand and skills supplied.

Increase in the labour market participation of under-employed groups might also have positive impacts in terms of reducing the outward migration rates, especially of youth.

When it comes to migration, stakeholders emphasise that brain drain reduction also through measures of attracting back Romanian people, and in particular qualified youth, is one of the major challenges faced by Romanian authorities. According to stakeholders, brain reduction might bring relevant benefits for increasing the labour market supply.

Reduced labour market productivity is a major critical issue in Romania. According to interviews with stakeholders, low work productivity is mainly due to the presence of a high number of low qualified jobs and the low value added of the industrial and services sector. In addition, they also underline that the organization of the Romanian labour market is based on a large number of hours, which are not always necessary in the production process. The low productivity rate affects both the private and the public sector. In particular, according to stakeholders interviewed the public sector seems oversized with respect to the services delivered. In the framework of the agreement with the IMF, the Romanian authorities have been undertaking several measures for reducing the oversize of the public sector. Stakeholders underline that such measures should be accompanied by a higher investment in the delivery of electronic public services and by increase in research and
development and the digital economy which should result in the creation of high qualified jobs in both the industrial and services sectors with a high added value. Stakeholders note that creation of qualified jobs in high added value sectors should also result in a reduction in in-work poverty, a persistent problem of the Romanian labour market as underlined previously.

It’s worth underlining that the effectiveness of interventions targeting both work supply and productivity is strongly dependent on the improvement of public services in the labour market sector, and in particular of the National Employment Agency, as well as in the education and vocational training fields.

When it comes to social challenges, a major issue regards the reduction of poverty absolute rates and of people at risk of social exclusion. The implementation of the minimum insertion rate, the creation of a strong link between social benefits and active labour market policies, the decentralization of the labour market services and their increased coordination with social services, the development of the social economy and the increase in social benefits expenditure should constitute the framework for improvement in the fight against poverty.

Stakeholders note that improvement in the social dialogue and the effective functioning of the Social and Economic Council represent transversal challenges to both the labour market and social policy fields. As mentioned previously the involvement of the civil society in the planning and implementation of labour market and social services is still extremely limited and rather formal, while NGOs are a relevant supplier of social services.

6.5 Suggestions to improve attention to employment and social issues in the European Semester

The agreement with the IMF and the European Commission country specific recommendations have guided the labour market, healthcare and social reforms in Romania in the last years.

While the Romanian authorities have taken formally several actions to respond to the objectives set by international agreements (e.g. reform of the healthcare system, reform of the education and vocational training law, law proposal for the introduction of the minimum insertion income, etc), their implementation is extremely slow. It’s worth recalling for instance that the reform of the healthcare system has started in 2009 and is still ongoing; adoption of the minimum insertion rate has been on the work table of the Romanian Parliament since 2011, etc. This is also the case of strategies for employment, lifelong learning, old age workers and active age, which have been formally adapted, but whose implementation is rather slow. Furthermore, when agreed reforms are passed, they generally undergo continuous changes creating a legal instability. This is, for instance, the case of the education reform adopted in 2011, currently under a radical revision process.

Stakeholders note that one relevant reason for delays and continuous changes consists in the low political commitment towards reforms and strategies agreed with international organisations. Often they are considered to be “external obligations to be fulfilled” and political engagement is reduced during the implementation process. It has to be emphasised, in fact, that many of the Romanian national strategies for the labour market and social policies are drafted by World Bank consultants.
It is also worth recalling that the CSR process in Romania is coordinated by the Ministry of External Affairs, which interacts with other ministries (e.g. Ministry of Labour, Social Affairs and Family) within three inter-ministerial working groups. However, stakeholders’ interviews reveal that coordination is still rather weak and call for a stronger role of the Ministry for Social Affairs, Labour Market and Family in the CSR process. Moreover, these working groups do not include any stakeholder in the social and labour market field. Therefore, a stronger involvement of the civil society and trade unions should benefit both the planning and implementation processes, as they could exert a democratic control over commitments assumed by governmental authorities.

In addition, it’s worth mentioning that recently the Romanian Government has created the National Macroeconomic Surveillance Committee with the aim to prevent macroeconomic imbalances. It is made exclusively of representatives of banks and financial public bodies. While its creation represents a relevant step in preventing crises as the 2009 one, it should be accompanied by the consolidation of the Economic and Social Committee that should be in charge of monitoring social imbalances in the Romanian society and ensuring a good balance between the macroeconomic and social equilibrium. Furthermore, the Economic and Social Committee could play a decisive role in ensuring a constant monitoring of the social effects of reforms undertaken in the framework of the agreement with the IMF in order to ensure conflictive situations between macroeconomic balance and social balance. This is for instance the case of the healthcare reform which, while reducing public expenditure in the healthcare sector, might present relevant negative effects for vulnerable groups as explained previously.

6.6 Annexes

Lists of documents:
- Romanian Government (Ministry of European Affairs), 2013, Short progress report on the implementation of the National reform programme 2011-2013.
- UNICEF, 2010, the Impact of the national crisis in Romania in 2009 and 2010
Stakeholders:
Andra Dusu- Romanian Desk Officer within DG EMPL, European Commission
Catalin Ghinararu – National Scientific Research Institute for Labour and Social Protection
Radu Daniel Luca – Ministry of Foreign Affairs, CSR Romania
Ancuta Vamescu – Foundation for the Development of Civil Society

Scoreboard and Auxiliary indicators for Romania

Table 18: Macro and Fiscal Scoreboard Indicators

<table>
<thead>
<tr>
<th>Headline Indicators</th>
<th>Thresholds</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Account Balance as % of GDP&lt;sup&gt;1&lt;/sup&gt; level year</td>
<td>-4%/+6%</td>
<td>-7.6</td>
<td>-6.9</td>
<td>-4.6</td>
<td>-3.3</td>
<td>-1.9</td>
</tr>
<tr>
<td>Net International Investment Position as % of GDP&lt;sup&gt;2&lt;/sup&gt;</td>
<td>-35%</td>
<td>-29.5</td>
<td>-63.8</td>
<td>-67.3</td>
<td>-62.4</td>
<td>-57.1</td>
</tr>
<tr>
<td>Real Effective Exchange Rate&lt;sup&gt;3&lt;/sup&gt; % change (3 years)</td>
<td>+/-5% for EA</td>
<td>16.6</td>
<td>-10.8</td>
<td>-1.9</td>
<td>0.3</td>
<td>-1.1</td>
</tr>
<tr>
<td>Export Market Shares&lt;sup&gt;4&lt;/sup&gt; % y-o-y change</td>
<td>-6%</td>
<td>64.6</td>
<td>51.9</td>
<td>13.8</td>
<td>16.4</td>
<td>21.16</td>
</tr>
<tr>
<td>Nominal ULC&lt;sup&gt;5&lt;/sup&gt; % change (3 years)</td>
<td>+9% EA</td>
<td>52.0</td>
<td>29.5</td>
<td>-1.0</td>
<td>0.7</td>
<td>2.4&lt;sup&gt;(p)&lt;/sup&gt;</td>
</tr>
<tr>
<td>% Change in Deflated House Price Index&lt;sup&gt;6&lt;/sup&gt;</td>
<td>+6%</td>
<td>-14.0</td>
<td>-10.6</td>
<td>-4.6</td>
<td>3.60&lt;sup&gt;(p)&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>% Private Sector Credit Flow&lt;sup&gt;7&lt;/sup&gt; % change (5 years)</td>
<td>+14%</td>
<td>11.6</td>
<td>3.4</td>
<td>0.3</td>
<td>-1.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>% Private Sector Debt&lt;sup&gt;8&lt;/sup&gt; % change (3 years)</td>
<td>+133%</td>
<td>39.1</td>
<td>77.8</td>
<td>71.7</td>
<td>66.4</td>
<td>n.a.</td>
</tr>
<tr>
<td>% General Government Sector Debt&lt;sup&gt;9&lt;/sup&gt; % change</td>
<td>60%</td>
<td>15.7</td>
<td>29.9</td>
<td>37.3</td>
<td>37.9</td>
<td>39.8</td>
</tr>
<tr>
<td>% Change in Total Financial Sector Liabilities&lt;sup&gt;10&lt;/sup&gt;</td>
<td>+16.5%</td>
<td>46.8</td>
<td>4.6</td>
<td>4.9</td>
<td>3.1</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Indicators’ specification: 1) 3 year backward moving average of the current account balance as percent of GDP with thresholds of +6% and -4% (and current account balance as percent of GDP); 2) net international investment position as percent of GDP, with a threshold of -35% (change over 3 years and year-over-year change); 3) 3 years percentage change of the real effective exchange rates based on HICP/CPI deflators, relative to 41 other industrial countries, with thresholds of +/-5% for euro area countries and +/-11% for non-euro area countries (and year-over-year change); 4) 5 years percentage change of export market shares measured in values, with a threshold of -6% (and year-over-year change); 5) 3 years percentage change in nominal unit labour cost, with thresholds of +9% for euro area countries and +12% for non-euro area countries (and year-over-year change); 6) year-on-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6% (and year-over-year change); 7) private sector credit flow in % of GDP with a threshold of 14%; 8) private sector debt (consolidated) in % of GDP with a threshold of 133%; 9) general government sector debt in % of GDP with a threshold of 60%; 10) year-on-year changes in total financial sector liabilities, with a threshold of 16.5%.


n.a. = not available (b) = break in time series (p) = provisional
## Table 19: Macro and Fiscal Auxiliary Indicators

<table>
<thead>
<tr>
<th>Auxiliary Indicators</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>% y-o-y change in Real GDP</td>
<td>4.2</td>
<td>-0.8</td>
<td>0.6</td>
<td>3.5</td>
<td>2.8(^{(p)})</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation as % of GDP</td>
<td>24.3</td>
<td>25.9</td>
<td>27.5</td>
<td>24.7</td>
<td>22.0(^{(p)})</td>
</tr>
<tr>
<td>Gross Domestic Expenditure on R and D as % of GDP</td>
<td>0.4</td>
<td>0.5</td>
<td>0.5</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net Lending / Borrowing as % of GDP</td>
<td>-7.9</td>
<td>-4.4</td>
<td>-3.1</td>
<td>1.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Net External Debt as % of GDP</td>
<td>8.3</td>
<td>34.5</td>
<td>37.3</td>
<td>34.6</td>
<td>n.a.</td>
</tr>
<tr>
<td>Inward FDI flows as % of GDP</td>
<td>6.6</td>
<td>1.9</td>
<td>1.5</td>
<td>2.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Inward FDI stocks as % of GDP</td>
<td>27.8</td>
<td>41.8</td>
<td>43.3</td>
<td>42.8</td>
<td>42.4</td>
</tr>
<tr>
<td>Net Trade Balance of Energy Products as % of GDP</td>
<td>-2.7</td>
<td>-2.2</td>
<td>-3.0</td>
<td>-1.9</td>
<td>-1.4(^{(p)})</td>
</tr>
<tr>
<td>% Change (3 years) in REER vs. EA</td>
<td>13.7</td>
<td>-9.1</td>
<td>3.3</td>
<td>0.7</td>
<td>-1.3</td>
</tr>
<tr>
<td>% Change (5 years) in Export Performance vs. Advanced Economies</td>
<td>79.4</td>
<td>65.9</td>
<td>25.8</td>
<td>24.8</td>
<td>29.79</td>
</tr>
<tr>
<td>% Change (5 years) in Terms of Trade</td>
<td>11.4</td>
<td>23.2</td>
<td>6.8</td>
<td>2.2</td>
<td>14.6(^{(p)})</td>
</tr>
<tr>
<td>% y-o-y Change in Export Market Share, in volume</td>
<td>0.0</td>
<td>0.6</td>
<td>-4.4</td>
<td>10.4</td>
<td>n.a.</td>
</tr>
<tr>
<td>% y-o-y Change in Labour Productivity</td>
<td>5.8</td>
<td>-0.5</td>
<td>-1.8</td>
<td>4.8</td>
<td>1.9(^{(b)})</td>
</tr>
<tr>
<td>% Change (10 years) in Nominal ULC</td>
<td>2545.6</td>
<td>223.4</td>
<td>115.9</td>
<td>86.5</td>
<td>73.0(^{(b)})</td>
</tr>
<tr>
<td>% Change (10 years) in ULC performance relative to EA</td>
<td>2186.6</td>
<td>166.7</td>
<td>81.4</td>
<td>58.4</td>
<td>48.5</td>
</tr>
<tr>
<td>% Change (3 years) in Nominal House Prices</td>
<td>-26.0</td>
<td>-19.9</td>
<td>-8.90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential Construction as % of GDP</td>
<td>2.0</td>
<td>2.9</td>
<td>2.7</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Private Sector Debt as % of GDP, non-consolidated</td>
<td>41.8</td>
<td>78.8</td>
<td>72.5</td>
<td>67.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>Financial Sector Leverage (debt-to-equity)</td>
<td>479.6</td>
<td>662.3</td>
<td>508.3</td>
<td>470.7</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Indicators' specification: 1) Real GDP % change (1 year); 2) Gross Fixed Capital Formation % of GDP; 3) Gross Domestic Expenditure on R&D % of GDP; 4) Net Lending/Borrowing % of GDP; 5) Net External Debt % of GDP; 6) Inward FDI Flows % of GDP; 7) Inward FDI Stocks % of GDP; 8) Net Trade Balance of Energy Products % of GDP; 9) Real Effective Exchange Rates - EA trading Partners % change (3 years); 10) Share of OECD exports % change (5 years); 11) Terms of Trade % change (5 years); 12) Export Market Shares - in volume % change (1 year); 13) Labour Productivity % change (1 year); 14) Nominal unit labour cost % change (10 years); 15) Unit labour cost performance related to EA % change (10 years); 16) Nominal house price index % change (3 years); 17) Residential Construction % of GDP Eurostat NA; 18) Private Debt, non-consolidated % of GDP; 19) Financial Sector Leverage (debt to equity) %.


\(p\) = provisional \(n.a.\) = not available \((b)\) = break in time series
7 ITALY

7.1 Executive summary

Over the past years, the economic crisis has exposed and intensified the weaknesses of the Italian economy, which is still struggling to emerge from the recession. This raises a serious need for structural reforms to reduce the risk of adverse effects on the Italian economy and, consequently, of negative spillovers to the whole economic and monetary union. Indeed, all the Alert Mechanism Reports from 2012 to 2015 have identified the presence of macroeconomic imbalances and called for further in-depth analysis for Italy. In particular, the Commission emphasised the risk related to the very high public indebtedness and weak external competitiveness, both rooted in a very low productivity growth. In a famous letter sent to the Prime Minister Silvio Berlusconi in August 2011, also the European Central Bank called for "bold and immediate" action, given the severity of Italy's economic situation, to change labour laws and to cut the deficit.

The stagnating economy has left Italy behind in many dimensions of well-being, in particular education and skills, jobs and earnings. After the sovereign debt crisis of 2010, the implementation of stricter economic governance has also impacted on social policy domains. Fiscal constraints were now limiting the scope for measures financed by the public budget and austerity measures were recommended to stabilise public expenditure.

Political and public debate about European Semester and country specific recommendations is scarce and they appear to have low visibility at the national level. Especially representatives from the civil society organizations are calling for increasing visibility and awareness of the Semester process at the national and local level which could be reached through public consultations and media.

However, the need to tackle the social impact of the crisis has recently been emerging. Policy priorities shifted towards the need to support job creation and reduce market rigidities. In particular, the focus of the recommendations has shifted from youth unemployment and poverty to active labour market policies (ALMPs) and from the labour tax burden to wage-setting and wage-bargaining. While the quality of education provision has remained prominent, with particular concern of apprenticeship, traineeship and skills’ development.

A number of main drivers, both external and internal, were identified by experts and stakeholders and against these drivers a number of different scenarios were considered to shape the future challenges with respect to labour market, taxation, inequalities, regional imbalances, demographic trends and EU diverging trends.

A series of actions could be taken to raise policy-makers’ attention to employment and social issues in the European Semester. First, the subordination of the employment and social dimension to macroeconomic and fiscal objectives can produce negative effects on long-term growth potential. Second, without attention paid to social policies, the political debate at the national level risks focusing
excessively on fiscal discipline and budgetary austerity with welfare retrenchment and cuts in social inclusion policies, which may further reduce aggregate demand. Third, the effective implementation of labour market reforms constitutes an important step towards reducing labour market segmentation between fixed-term and open-ended contracts and promote job-rich growth. Fourth, the system of industrial relations and wage-setting mechanisms could be reformed to help restore competitiveness.

7.2 Background

7.2.1 Economic conditions

The GDP growth rate started to fall in 2008-2009 (-1% and -5.5% respectively) and, after a slight recovery registered in 2010-2011 (1.7% and 0.6%), is now again on a negative path (-2.8% in 2012, -1.7 in 2013, -0.4% in 2014). Italy’s trend is in contrast with the euro area GDP, which is recovering on average. As described in the Italy Country Report 2015, the persistently low growth is mainly a direct consequence of Italy’s decline in competitiveness, which has to do with its poor performance of total factor productivity, misalignment between wages and productivity, the high labour tax wedge, the unfavourable export product structure and the large share of small firms. The low growth rate also raises serious concern about the sustainability of the public debt. The general government debt (as percentage of GDP) increased between 2005 and 2014 - due also to the financial assistance to euro-area countries (to the extent of 3.6%, source IDR 2014) - and, after Greece, it is the highest among European countries. Due to the low GDP growth, the government debt-GDP-ratio is expected to peak in 2015 at 133% of GDP notwithstanding the significant fiscal adjustment efforts recently made by Italy - especially between 2011 and 2013 with the spending review and pension reform - to reduce the sustainability risks.

7.2.2 Labour market conditions

The economic crisis aggravated the segmentation across gender, age and geographical regions. In particular, in the labour market, women, young people and those living in Southern regions are the most vulnerable groups.

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The activity rate started to increase again in 2014, but it is still below the EU average (55.8% compared to 64%). In particular this increase involved women (from 43.4% in 2005 to 46.8% in 2014, Source: Eurostat), while the male activity rate has decreased over time. The activity rate decreased in particular among 15- to 35-year-olds (from 66.7% in 2005 to 57.5% in 2014, Source: Istat) largely due to discouragement.

At the same time, even if employment did not fall as much as in some other euro-area Member States and has broadly stabilised over the course of 2014 (Table 7 in Annex), Italy is still far from meeting the Europe 2020 national target of 67-69%, with the employment rate reaching 59.9% for 2014. The employment rate of workers aged 65-69 rose after 2010, while it declined among young people, which shows the trade-off between the positive and negative effects of the pension reforms.

Furthermore, there has been a reduction in working hours (from 38.6 in 2005 to 36.9 in 2014\(^{44}\)) while the unemployment rate almost doubled from 6.7% in 2008 to 12.2% in 2013, above the EU average (in Annex). The unemployment rate increased to the historically high level of 12.7% in 2014 (in contrast with the EU28 average, which has fallen to 10.2%), the increase being driven almost entirely by growth in the portion of population in the labour force, especially the elderly and women (Country Report 2015). The Commission forecasts the unemployment rate above 12% over 2015-16. In addition, the long-term unemployment rate, following the EU trend, is still rising\(^{45}\) (Table 7 in Annex). The incidence of long-term unemployment reached 61.4% in 2014, while in Europe it is on average at 49.5%. The unemployment figure shows an increasing risk for low-skilled individuals. In the period 2008-2014, the unemployment rate of low-skilled individuals increased from 8.4% to 16.6% (Eurostat). However, labour market entry is also difficult for the high-skilled.\(^{46}\)

It is worth stressing that unemployment is particularly severe among young people (Table 7 in Annex). The youth unemployment rate has steadily increased since 2005, reaching 42.7% in 2014, far above the EU average rate (22.2%) which is showing signs of improvement. Moreover, the share of young people (15-24) not in

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\(^{44}\) Average number of usual weekly hours of work in main job of employed persons (Eurostat).

\(^{45}\) Source European Commission Winter Forecast for 2015.

employment, education or training (NEET) has remained very high (22.1% compared to 12.4% for EU28), in connection with the increase in youth unemployment and the structural weaknesses in the education system. The Italian education system is characterised by high early school leaving rates: while in Europe 11.1% of the 18-24 population leaves education early, in Italy this percentage is around 15%.

Furthermore, as stressed by the European Commission (CSRs 2012, CSRs 2013, CSRs 2015), the underperformance of the education – and in particular the tertiary – system often translates in a mismatch between acquired skills and those needed in the labour market. The employment rate for “young” (15-39) tertiary graduates is far below the EU average (65.6% and 80.9% respectively, in 2014). In addition, Italy has large shares of under-skilled workers (22.4% Source: Survey of Adults Skills (PIAAC) 2012), above the OECD average.

As described in the Italy Country Report 2015 “persistently high rates of youth unemployment and of NEET young people point again to the risk of discouragement from entering the labour market. This may have potentially severe consequences on Italy’s human capital”. In this perspective, one of the priorities for Italy is full implementation of the Youth Guarantee, as recommended in the Country Specific Recommendations 2014\(^{47}\) (CSRs 2014).

Italy is among the Member States with the highest cost of labour. In particular, this is due to a high level of taxation on labour: the tax wedge\(^ {48}\) (42.4% in 2012) was above the EU average (34.9%), as well as the implicit tax rate on labour\(^ {49}\) (42.8% and 36.1% respectively in 2014). The fiscal structure is not growth-friendly, since a heavy tax burden is imposed on factors of production, especially on labour.

Finally, other distinctive features of the Italian labour market are the incidence of self-employment\(^ {50}\) (23.3% in 2014) above the EU average (15%) – with a predominance of men (28.2%) over women (16.5%) – and the presence of undeclared work, especially in Southern areas (in 2012 the rate of undeclared work\(^ {51}\) was at 12%, 9.6% in Northern regions, 11.5% in Central regions, 20% in Southern regions and Islands).

### 7.2.3 Social conditions

Inequality has increased with crisis in Italy – as in other European countries. There are now marked inequalities in the distribution of income as the top 20% earned 5.7 times as much as the bottom 20% in 2013, compared to a ratio\(^ {52}\) of 5 for Europe on

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\(^{47}\) See Section 0.

\(^{48}\) Defined as income tax on gross wage earnings plus the employee's and the employer's social security contributions, expressed as a percentage of the total labour costs of the earner. The tax wedge on labour costs structural indicator used is for single persons without children earning 67% of the AW (Eurostat).

\(^{49}\) Defined as the sum of all direct and indirect taxes and employees' and employers' social contributions levied on employed labour income divided by the total compensation of employees working in the economic territory increased by taxes on wage bill and payroll (Eurostat).

\(^{50}\) Number of self-employed (excluding excluding family workers) over total employment (Eurostat).

\(^{51}\) The rate of undeclared work is calculated for persons employed and full time equivalent units as the percentage ratio between the undeclared kind of employment and the corresponding total amount (Istat).

\(^{52}\) The ratio of total income received by 20 % of the population with the highest income (top quintile) to that received by 20 % of the population with the lowest income (lowest quintile). Income is to be understood as equivalised disposable income (Eurostat).
average. In 2014 the inequality ratio further increased to 5.9 (provisional data, Eurostat).

**Italy is also facing more serious challenges with respect to poverty and social exclusion relative to the EU average.** In 2013, 28.4% of the people living in Italy were at risk of poverty or social exclusion, 3.8 percentage points higher than the European average (24.5%). Since 2010 there has been an increase in the numbers of people at risk of poverty and social exclusion and the same trend had been observed for people living in households with low work intensity (11% in 2013 against 10.2% in 2010). On the other hand, the severe material deprivation rate, after a sharp increase in 2012 (14.5) has started to decline (12.4 in 2013), but is still above the EU average (12.4 and 9.6 respectively).

In particular, **children have been those characterised by the highest risk of poverty and the presence of children remained a discriminating factor** (Country Report 2015). In 2014 households at particularly high risk were constituted by single parents (43.2%), members of large families (40.8% of two adults with three or more dependent children compared to 20.3% of two adults one dependent child) and single persons (31.7%, especially women).

**Structural disparities between the South and the other regional areas in terms of poverty and social exclusion indicators** remained significant (Country Report 2015). The North-South disparities are also evident in terms of social conditions, partly due to the disparities existing in the labour market. In 2014, nearly 35% of the residents in the South were at risk of poverty and exclusion compared to 15% in the Centre while the North (10.8%) was almost in line with the EU average (Source: Istat).

As remarked by the European Commission (CSRs 2013), the **Italian social protection system is oriented toward the elderly population, in particular with pension expenditure.** In 2012, the expenditure on social protection benefits for “old age and survivors” represented 59.25% of total expenditure (provisional data, Eurostat) and around 18% of GDP (16.6% for pensions). In the period 2009-2011, this issue was addressed with various pension reforms, mostly aiming at reducing public pension expenditure. However, while in the short-medium term they may have reduced expenditure, they have also contributed to raising the working age, which may give rise to problems of elderly employability and also of youth unemployment.

In 2013, the estimated impact of social transfers (excluding pensions) on reducing poverty was 22.4%, an effect that was less significant than in Europe on average (35.3%).\(^5^3\) In this perspective, as poverty and social exclusion increase, social transfers become less and less sufficient to handle social needs of other groups.

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\(^5^3\) This impact is computed as the AROP reduction (in %) before and after social transfers (pension excluded). See the Annual report of the Social Protection Committee on the social situation in the European Union (2014) and Eurostat Living conditions in Europe 2014.
7.3 The European Semester exercises in 2014 and 2015 and the main changes relative to previous years according to the perceptions of the main stakeholders

7.3.1 The main issues at stake and the CSR process

The low economic growth, budgetary consolidation (with particular focus on public indebtedness) and weak external competitiveness are identified as the main policy challenges for Italy. Due to the persistence of these imbalances, the need for structural policy reforms has been constantly stressed as a priority by the European Commission, for the imbalances entail risks of instability for the economic and monetary union.

In addition to these macroeconomic and financial issues, Italy also faces major internal challenges. However, the relevant social and labour market issues have been addressed only partially by the CSRs and the macroeconomic perspective clearly dominates the process. In this perspective, no radical changes can be seen to have occurred in the European Semester exercises in 2014 and 2015. As shown in the following Table in the social and labour market perspective, the CSRs 2012-2015 identify the following as the major challenges to address:

- High costs of labour, due to heavy tax burden on employment;
- The wage setting and the wage bargaining system (wage/productivity);
- The magnitude of undeclared work;
- Labour market segmentation characterized by:
  - gender inequalities
  - regional inequalities (Northern-Central and Southern regions)
- The high unemployment and inactivity rate (NEET rate) of young people (with particular focus on the difficult transition from education to work);
- The outcomes of education (skill and qualification attainment, mismatch between education and work);
- The risk of poverty and social exclusion for some vulnerable groups (children, young people, large and single-parent families, people resident in Southern regions);
- Population ageing and the sustainability of pensions, which account for the major part of social protection expenditure.

MIP and auxiliary indicators put in evidence the worsening of most of the parameters since 2005.
Table 20: Employment and Social Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>EU area</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MIP Scoreboard</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate (moving average)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.0</td>
<td>7.6</td>
<td>9.2</td>
</tr>
<tr>
<td>% Change in Employment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.6</td>
<td>-0.6</td>
<td>-0.2</td>
</tr>
<tr>
<td>Activity rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>62.5</td>
<td>62.2</td>
<td>63.7</td>
</tr>
<tr>
<td>Long-term Unemployment Rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.9</td>
<td>4.1</td>
<td>5.7</td>
</tr>
<tr>
<td>Youth Unemployment Rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24.0</td>
<td>27.8</td>
<td>35.3</td>
</tr>
<tr>
<td>% Young People NEET</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17.0</td>
<td>19.1</td>
<td>21.1</td>
</tr>
<tr>
<td><strong>Auxiliary Indicators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% People at Risk of Poverty or Social Exclusion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25.0</td>
<td>24.5</td>
<td>29.9</td>
</tr>
<tr>
<td>At-risk Poverty Rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18.9</td>
<td>18.2</td>
<td>19.4</td>
</tr>
<tr>
<td>Severe Material Deprivation Rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.4</td>
<td>6.9</td>
<td>14.5</td>
</tr>
<tr>
<td>% Persons Living in Households with Very Low Work Intensity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.4</td>
<td>10.2</td>
<td>10.3</td>
</tr>
</tbody>
</table>

After the sovereign debt crisis of 2010, implementation of stricter economic governance has also affected social policy domains. The scope for measures financed by the public budget began to narrow, and austerity measures were recommended to stabilise public expenditure.

However, the need to tackle the social impact of the crisis has recently started to emerge. Policy priorities shifted towards the need to support job creation and to reduce market rigidities. In particular, the focus of the recommendations has shifted from youth unemployment and poverty to active labour market policies (ALMPs), and from the tax burden on labour to wage-setting and wage-bargaining. While the quality of education provision has remained a main issues, particular emphasis has been put on apprenticeship, traineeship and development of skills.

In 2014 three CSRs (CSRs 2,5 and 6) dealt specifically with labour/social issues while for the period 2015-2016, out of six CSRs, only one (CSR 6) addressed labour market and social issues. The general focus of these recommendations is on monitoring the state of implementation of reforms (pensions, labour market and education) and on the effectiveness of recent policy measures.

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54 See note 9
<table>
<thead>
<tr>
<th>Year</th>
<th>CSR n.3: Youth Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Improving the labour market relevance of education and facilitating transition to work, also through incentives for business start-ups and for hiring employees. Enforce nation-wide recognition of skills and qualifications to promote labour mobility. Take measures to reduce tertiary education dropout rates and fight early school leaving.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>CSR n.4: Labour market reform and unemployment benefit scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Adopt the labour market reform as a priority to tackle the segmentation of the labour market and establish an integrated unemployment benefit scheme. Take further action to incentivise labour market participation of women, in particular through the provision of childcare and elderly care. Monitor and if needed reinforce the implementation of the new wage setting framework in order to contribute to the alignment of wage growth and productivity at sector and company level.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>CSR n.4: Wages, labour market participation of women and youth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>Ensure the effective implementation of the labour-market and wage-setting reforms to allow better alignment of wages to productivity. Take further action to foster labour-market participation, especially of women and young people, for example through a Youth Guarantee. Strengthen vocational education and training, ensure more efficient public employment services and improve career and counselling services for tertiary students. Reduce financial disincentives for second earners to work and improve the provision of care, especially child- and long-term care, and out-of-school services. Step up efforts to prevent early school leaving. Improve school quality and outcomes, also by enhancing teachers’ professional development and diversifying career development. Ensure the effectiveness of social transfers, notably through better targeting of benefits, especially for low-income households with children.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>CSR n.5: Tax scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Shift the tax burden from labour and capital to consumption, property and the environment in a budgetary neutral manner. To this purpose, review the scope of VAT exemptions and reduced rates and of direct tax expenditures, and reform the cadastral system to align the tax base of recurrent immovable property to market values. Pursue the fight against tax evasion, improve tax compliance and take decisive steps against the shadow economy and undeclared work.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>CSR n.2: Tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Further shift the tax burden from productive factors to consumption, property and the environment, in compliance with the budgetary targets. To this end, evaluate the effectiveness of the recent reduction in the labour tax wedge and ensure its financing for 2015, review the scope of direct tax expenditures and broaden the tax base, notably on consumption. Consider the alignment of excise duties on diesel to those on petrol and their indexation on inflation, and remove environmentally harmful subsidies. Implement the enabling law for tax reform by March 2015, including by adopting the decrees leading to the reform of the cadastral system to ensure the effectiveness of the reform of immovable property taxation. Further improve tax compliance by enhancing the predictability of the tax system, simplifying procedures, improving tax debt recovery and modernising tax administration. Pursue the fight against tax evasion and take additional steps against the shadow economy and undeclared work.</td>
</tr>
</tbody>
</table>
Mainstreaming Employment and Social Indicators into Macroeconomic Surveillance

CSR n.5: Unemployment
Evaluate, by the end of 2014, the impact of the labour market and wage-setting reforms on job creation, dismissals' procedures, labour market duality and cost competitiveness, and assess the need for additional action. Work towards a more comprehensive social protection for the unemployed, while limiting the use of wage supplementation schemes to facilitate labour reallocation. Strengthen the link between active and passive labour market policies, starting with a detailed roadmap for action by December 2014, and reinforce the coordination and performance of public employment services across the country. Adopt effective action to promote female employment, by adopting measures to reduce fiscal disincentives for second earners by March 2015 and providing adequate care services. Provide adequate services across the country to non-registered young people and ensure stronger private sector commitment to offering quality apprenticeships and traineeships by the end of 2014, in line with the objectives of a youth guarantee. To address exposure to poverty and social exclusion, scale-up the new pilot social assistance scheme, in compliance with budgetary targets, guaranteeing appropriate targeting, strict conditionality and territorial uniformity, and strengthening the link with activation measures. Improve the effectiveness of family support schemes and quality services favouring low-income households with children.

CSR n.6: Youth unemployment
Implement the National System for Evaluation of Schools to improve school outcomes in turn and reduce rates of early school leaving. Increase the use of work-based learning in upper secondary vocational education and training and strengthen vocationally-oriented tertiary education. Create a national register of qualifications to ensure wide recognition of skills. Ensure that public funding better rewards the quality of higher education and research.

2015

CSR n.5: Active labour market policies
Adopt the legislative decrees on the use of wage supplementation schemes, the revision of contractual arrangements, work-life balance and the strengthening of active labour market policies. Establish, in consultation with the social partners and in accordance with national practices, an effective framework for second-level contractual bargaining. As part of efforts to tackle youth unemployment, adopt and implement the planned school reform and expand vocationally-oriented tertiary education.

Introduction of the European Semester entailed also an adjustment of the Italian legal structure to the new set of rules adopted by the European Union concerning the economic policy coordination, establishing a formal link between the National Reform Programme, the 2015 Stability Programme and the budget cycle.

The process is guided by the Ministry of Finance (MEF), which coordinates the discussion with the European Commission on the recommendations received, and the internal debate among Government, Parliament and social partners and on the national press.

There are bilateral meetings with the Commission both in Brussels and in Rome and the Commission may ask the Ministry to organise meetings with the concerned government departments. The MEF unit in charge of the CSRs and the NRP may ask contributions also from the social partners, but the ultimate responsibility is of the Government. However, according to the trade union representative, there has been no proper involvement of the social partners at national level since 2012. In some cases they have been informed ex-post on the views of the Government on the Commission Proposal for the CSRs. While at the European level a greater involvement of the social partners is acknowledged recent years, a major active involvement of social partners at decision level would benefit the process and the tailored answers to the CSRs as well as the NRP process.
Each year the NRP, after being presented by the Government to Parliament, is sent for the European Commission to summarise the responses of the national government in dealing with the previous recommendations and the plan of actions for the following period. This process is very long and complex, since it requires much coordination and agenda-fixing to deal with the numerous national and European meetings and discussions.

As stressed by the former chief economist and director general at the Treasury Department of the Italian Ministry of Economy, simplification of the entire process (for example reducing the number of meetings in Brussels) would be desirable and beneficial for the discussion and implementation as well as for the public debate.

The time-frame of the process was identified as a critical point also by European Secretariat Responsible for CGIL (trade union), which advocates a more flexible agenda with more time for discussion on specific thematic issues.

At the present time, the European Semester and country specific recommendations appear to have low visibility at the national level, with scant political and public debate and insufficient opportunities for the organisations to influence the process, which is perceived, together with the NRPs, as governed entirely by the Ministry of Finance.

7.3.2 The way these recommendations have been treated at the national level in NRP

The 2015 National Reform Programme and the 2015 Stability Programme (NRP 2015 and SP 2015) summarise the responses of the national government in dealing with these issues. In addition, the NRP 2015 also presents a planning section with estimates of the macroeconomic impact of structural reforms in the areas of: Public Administration and Simplification (PA), Competitiveness, Labour Market, Justice, reduction of the Tax Wedge and School System.55

As previously mentioned, the tax burden in Italy weighs more heavily on productive factors than the EU average. Italy was required to monitor the effectiveness of the recent reduction in the labour tax wedge (IRPEF cut for low taxable incomes and a 10% decrease in IRAP56) (CSR 2). According to the 2015 Stability Law, several measures have been introduced to reduce the labour tax burden (labour component excluded from the calculation of the regional business tax IRAP, 3-year exemptions in social security contributions for employers hiring on open-ended contracts, tax credit for low-income earners, and a favourable tax regime for self-employed with relatively low revenues). The overall effect of these measures has been evaluated positively by the Commission and is expected to reduce the tax wedge (Country Report 2015).

With regard to the labour market, Italy was also recommended (CSR5) to monitor the state of implementation of the 2012 labour market (“Fornero reform”)57 and the wage-setting reforms. These reforms aimed at overcoming the rigidities in the labour market and dualism in employment protection and support

56 The Government addressed the issue of the tax wedge reduction with the decree on the labour market, adopted in 2013, and with the 2014 Stability Law (Law 27/12/2013 n° 147).
57 Approved in June 2012 and enacted by Law 92/2012.
during unemployment, while enhancing flexibility in exit and regulating flexibility in entry.\textsuperscript{58} This reform was particularly prominent in the national debate. Both unions and employers were dissatisfied. The former were concerned with the reduction the protection of workers (change in the rules on individual dismissals), the latter with increased constraints on atypical work. In addition, a “block effect” on retirement was generated by the Fornero reform by raising the retirement age and abolishing seniority pensions. Although this had positive implications in terms of the financial sustainability of the pension system and reducing the burden on the public budget, it also influenced turnover in the labour market with possible negative effects, especially considering the high level of unemployment among young people and old-age worker’s obsolescence. In addition, important agreements were concluded by the social partners between 2009 and 2012\textsuperscript{59}, with the aim to strengthen the adjustment of wages to economic and competitive conditions and to promote decentralisation of collective bargaining. In accordance with CSR 5, in December 2014, parliament approved an enabling law, the “Jobs Act”\textsuperscript{60} with the main focus on strengthening ALMPs, unemployment insurance and benefits, rationalisation of contractual arrangements, simplification and digitalisation of administrative procedures and strengthening work-family conciliation (NRP 2015).

The CSRs mainly tackled labour market segmentation of young people, with little focus on gender inequality and regional differences. Particular emphasis was then placed on issues concerning youth unemployment (CSR5). However, the repeated recommendations have been addressed by the government with limited results and youth labour participation remains a worrying issue (Table 21 in Annex). Some specific measures have been introduced to encourage the employment of young people (hiring incentives, incentives for youth self-employment “Regime Agevolato dei Minimi” and entrepreneurship, especially in agricultural and green economy).\textsuperscript{61} Measures have also been activated in support of school/work alternation and provision of traineeships (NRP 2015, p.176-180). Implementation of the Youth Guarantee started in May 2014 but there are evident difficulties in increasing the private sector’s commitment and in the cooperation with education institutions. Very limited progress was made in the promotion of female occupation, for example through parental leave schemes (“Congedi Parentali”).

Given Italy’s low rate of education attainment (in particular tertiary) and skill mismatches in the labour market, the CSRs attach importance to fighting early school leaving and enhancing the supply of education (professional development for teachers, generalised school evaluation and allocation of public funding on the basis of merit). In particular, CSR6 tributes priority to improving school to work transition, and promoting work-based learning and VET (in upper secondary as well as in tertiary education) as well as ensuring wide recognition of skills. However, limited progress was made in vocational training. In particular, some progress was made in implementing the National System for Evaluation of schools and compulsory nationally-standardised annual tests (INVALSI) were introduced. A public consultation on reform of the education system (“La Buona Scuola” reform) was concluded in November 2014 and has recently been approved, coming in for severe criticism by the

\textsuperscript{58} In March 2014 the Government presented its new programme with the “Jobs Act” to revise the Fornero reform and the subsequent provisions.

\textsuperscript{59} Both agreements were not signed by the major trade union confederation Cgil.

\textsuperscript{60} Law 10 December 2014 n. 183.

\textsuperscript{61} NRP 2015, p.176-180.
education unions, opposition parties and a minority within the government party. The reform aims to reduce the incidence of temporary teaching positions and to provide major quality enhancement of the education system and enhancement of the training programmes (school-work turnover).

**Little attention has been paid to addressing the issue of poverty and social exclusion** for the most vulnerable groups. **CSR5** addressed issues concerning exposure to poverty and social exclusion, and called for improvement in the effectiveness and the quality of support schemes. According to the Social Protection Committee, limited progress was made as Italy has not yet reached the Europe 2020 national target on reduction of the population at risk of poverty (Country Report 2015). Social assistance schemes are undergoing an overhaul. In particular, the government extended the pilot project on active social inclusion (SIA “Sostegno all’Inclusione Attiva”) and adopted a Social Service Information System decree to improve programming and monitoring of policies.\(^{62}\) Some measures have been put in place to reduce child poverty, mainly by means of family support schemes ("baby bonus” scheme).

In particular, **nothing was said about the conditions of the immigrant population.** In 2013 Italy reported among the highest numbers of immigrants (307.5 thousand), after Germany, UK and France. 65.5% of them were born in a non-member country (Source: Eurostat). On 1 January 2014, 76% of the total number of non-nationals living in all of the EU Member States were found in Germany (7.0 million persons), UK (5.0 million), Italy (4.9 million), Spain (4.7 million) and France (4.2 million). In Italy the majority of these non-national residents were citizens of non-member countries (3.5 million) and represented 5.7% of the population (Source: Eurostat). However, the major worry is about the irregular immigrant population.

Although according to ISMU the irregular component is now at its lowest level (300 thousand), in recent years there have been a growing numbers of migrants and asylum seekers fleeing turmoil in Africa and the Middle East toward southern European countries. The massive influx of 2014 has posed serious questions about the capacity of southern countries to deal with it (especially in terms of migrant detention, treatment of asylum-seekers and refugees and prevention of casualties at sea) and what should be the role of Europe and border countries.

7.3.3 **Appropriateness of the indicators adopted in the European Semester Exercise**

Of the indicators used (Scoreboard and Auxiliary Indicators in AMR and SWDs), some appear to be relevant while some could be modified and others could be introduced to better analyse the situation in Italy. The Italian position in the discussion on the inclusion of additional social employment indicators in the MIP headline scoreboard indicators is more open than that of other MSs, given that the EU2020 strategy has included a poverty reduction target.

While the MIP Scoreboard of Key Indicators focuses mainly on macroeconomic and financial dimensions, some of the Auxiliary Indicators also encompass employment and social issues. **Particular relevance is given on employment and**

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unemployment figures, with a focus on labour market participation of young people (Youth Unemployment Rate, percentage of NEET Young People).

Several social and employment indicators are presented in the working staff documents accompanying the CSRs (SWD 2014 and 2015). In particular, the employment indicators consider employment growth and rate, incidence of part-time and temporary employment, labour costs and productivity (Table 22 in Annex). The last two indicators are very important for Italy, as the misalignment between wage and productivity has been constantly remarked by the CSRs as an important factor behind Italy’s low growth and macroeconomic imbalances.

Several relevant employment indicators have been considered. The majority of these indicators target two specific groups: the young and women. Indeed, the main employment indicators are clustered by sex and age, while other indicators are specifically targeted, like the NEET rate or the female non-participation rate (Table 23 in Annex).

Turning to the young population, the main indicators considered concern education (early school leaving, tertiary educational attainment, government expenditure on education) and participation in the labour market (employment/unemployment rate and percentage of NEETs). However, how the transition from education to work performs has not been considered. In this perspective, some of the indicators that could be introduced are the probability for young people to move from temporary to permanent employment, the transition rate from temporary work to unemployment, and the duration of the school-to-work transition.

As previously mentioned, women’s labour market participation is an important issue Italy has to tackle. One relevant indicator of female participation used alongside the employment rate is the female non-participation rate (SWD 2014 p.31). In addition, it could be useful to stress the quality and stability of female employment, looking at the incidence in low qualified jobs, the share of over-education among employed women, the probability of being employed in atypical jobs and the gender wage gap (full-time equivalent).

Children and elderly people are particularly exposed to the risk of poverty and social exclusion, and many social indicators target these vulnerable groups. The child poverty rate and the percentage of non self-sufficient and poverty rates among elderly people should be considered. Some other indicators also need keeping an eye on. For example, indicators of population ageing (share of elderly people in the total population, average life expectancy) are also relevant, since this influences the magnitude of the impact of poverty among elderly people.

Finally, some geographical specification of the main indicators is essential for Italy, given the wide difference in employment and social performance indicators between Northern and Southern Regions.

7.4 Current and future challenges according to national stakeholders

The evidence discussed above was used to identify future challenges and to consult a number of country experts representing different national stakeholders. The experts
and stakeholders were asked to identify the most relevant socio-economic and political issues that are expected to influence the future performance of the Italian economy in the coming decades. A number of main drivers, both external and internal, were identified and against these drivers a number of different scenarios were considered to shape the future challenges:

1. **Macro trends**: weak external competitiveness and low productivity growth; weak innovation and low investment level.

2. **Labour market**: low employment rate and high unemployment rate (particularly for young workers); high inactivity (NEET rate) and inefficiencies in the transition from education to work; mismatch between skills and jobs; increasing incidence of atypical or flexible employment; high labour cost and wage rigidities in wage setting originating from the structure of collective bargaining (multilevel bargaining).

3. **Taxation**: heavy tax burden, especially on labour; weak fiscal stimuli due to debt consolidation measures.

4. **Inequalities**: income inequality, poverty and social exclusion; segmentation between fixed-term and open-end contracts; gender inequalities; vulnerability of certain socio-economic groups (children, large and single-parent families, households in Southern regions).

5. **Regional imbalances**: structural disparities in terms of economic growth, poverty and social exclusion indicators between Southern and Northern regions; widespread diffusion of undeclared work in certain areas.

6. **Demographic trends**: population ageing and low fertility, with implications for sustainability of pensions and healthcare systems; migration flows.

7. **EU diverging trends**: the socio-economic prospects also have implications for the future of Europe since without robust recovery and solid job-rich growth, Italy may diverge from the core of other EMU Member States.

### 7.5 Suggestions to improve attention to employment and social issues in the European Semester

A series of actions could be taken to raise policy-makers’ attention to employment and social issues in the European Semester, according to the experts interviewed.

Without attention to social policies, the political debate at the national level risks focusing excessively on **fiscal discipline and budgetary austerity with welfare retrenchment and cuts in social inclusion policies**, which may further reduce aggregate demand. Also, due to the reduced social opposition and scant lobbying/bargaining power of the poor and excluded groups, the composition of public expenditure and consolidation efforts (e.g. the Italian spending review) are risk focussing exclusively on welfare and social policies instead of **cutting unproductive expenditure, red-tape inefficiencies, costs of the political system**, etc. Hence, the inclusion of inequality and social indicators among the main objectives can help **better orientate Member States’ fiscal discipline and budgetary cuts to other domains (and constrain them)**, cutting rents rather than lowering welfare support to disadvantaged groups and those in need.
Labour market reforms and the effective implementation of the Italian ‘Jobs Act’ constitute an important step towards reducing labour market segmentation between fixed-term and open-ended contracts and promote job-rich growth. The 2011 pension reform with the increase of the retirement age and the shift to the contributive system in order to improve the financial sustainability of the pension system was instead a too drastic change that incurred in many difficulties in its implementation and is questioned in relation to its rigidity and capacity to ensure an adequate income in old age.

The system of industrial relations and wage-setting mechanisms could be reformed to help restore competitiveness. Nominal wage dynamics in the private sector has shown little sensitivity to labour market imbalances (unemployment), thus further reducing competitiveness. Some commentators have attributed this to the “quasi-automatic” indexation systems of linking wage growth to predicted inflation, disregarding other important indicators such as productivity or unemployment. A move away from national collective contracts towards more decentralised firm-level bargaining could allow for more vigorous wage growth where productivity is higher without effects on aggregate wages.

7.6 References


Mainstreaming Employment and Social Indicators into Macroeconomic Surveillance


7.7 Annexes

Table 21: Implementation of the 2014 CSRs

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Recommended measures</th>
<th>State of Implementation According to the E. C.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR n.2: Tax scheme</td>
<td>Shift the tax burden from productive factors. Evaluate the effectiveness of the recent reduction in the labour tax wedge and ensure financing for it, review the scope of direct tax expenditures and broaden the tax base, in particular on consumption. Ensure more effective environmental taxation and remove environmentally harmful subsidies. Implement enabling law for tax reform by March 2015, also by adopting decrees leading to reform of the cadastral system to ensure the effectiveness of the immovable property taxation reform. Improve tax compliance: predictability of the tax system, simplifying procedures, tax debt recovery and modernising tax administration. Pursue the fight against tax evasion, the shadow economy and undeclared work.</td>
<td>Some progress. Tax credit for low-income earners (April 2014) and labour component excluded from IRAP (Jan 2015). 3-years social security contributions for private sector employers if new open-ended contracts. Limited progress.</td>
</tr>
<tr>
<td>CSR n.5: Labour Market, Youth Guarantee, Social Protection</td>
<td>Evaluate, by the end of 2014, the impact of the labour market and wage-setting reforms on job creation, dismissal procedures, labour market duality and cost competitiveness, and assess the need for additional action. Work towards more comprehensive social protection for the unemployed, while limiting the use of wage supplementation schemes to facilitate labour re-allocation. Strengthen the link between active and passive labour market policies, and reinforce the coordination and performance of public employment services across the country.</td>
<td>Some progress in reducing segmentation, increasing exit flexibility, reforming passive and active labour market policies and fostering participation. Enabling law for reforming the labour market passed in December 2014, with two important decrees on employment protection and revision of unemployment benefits already adopted and two, respectively on labour contracts and work-life balance, subject to the non-binding opinion of Parliament.</td>
</tr>
</tbody>
</table>
Adopt effective action to promote female employment, by adopting measures to reduce fiscal disincentives for second earners by March 2015 and providing adequate care services.

Provide adequate services across the country to non-registered young people and ensure stronger private sector commitment to offering quality apprenticeships and traineeships by the end of 2014, in line with the objectives of a youth guarantee.

Address exposure to poverty and social exclusion, scale-up the new pilot social assistance scheme, in compliance with budgetary targets, guaranteeing appropriate targeting, strict conditionality and territorial uniformity, and strengthening the link with activation measures. Improve the effectiveness of family support schemes and quality services favouring low-income households with children.

Limited progress. Implementation of the Youth Guarantee started in May 2014 but the take-up is limited.

Limited progress. A pilot project on the social inclusion scheme (SIA) has been carried out in 12 metropolitan cities. Under the labour market reform, an unemployment assistance scheme (ASDI) is being established.

CSR n.6: Education

Implement the National System for Evaluation of Schools to improve school outcomes and in turn reduce early school leaving rates.

Increase the use of work-based learning in upper secondary vocational education and training and strengthen vocationally-oriented tertiary education. Create a national register of qualifications to ensure wide recognition of skills.

Ensure that public funding rewards quality in higher education and research better.

Some progress. National System for Evaluation of schools is being phased in, and the government has prioritised expenditure on school education. A public consultation on the reform of the education system was concluded in November 2014.

Limited progress in vocational training. The national register of qualifications should be ready by early 2015.

Some progress in increasing the share of performance-related public funding for universities (from 13.5% in 2013 to 18% in 2014). Standard costs will gradually be introduced over 2014-18 as criteria for allocating the remaining share of public funding.

Source: European Commission, SWD 2015.

Table 22: Social and Employment indicators in the 2014 exercise

<table>
<thead>
<tr>
<th>Subject</th>
<th>Document</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour Market</td>
<td>AMR2014 (MIP Scoreboard)</td>
<td>Unemployment rate (moving average)</td>
</tr>
<tr>
<td></td>
<td>AMR2014 (Auxiliary)</td>
<td>% Change in Employment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Activity rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Long-term Unemployment Rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Youth Unemployment Rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% Young People NEET</td>
</tr>
<tr>
<td></td>
<td>SWD2014</td>
<td>Employment growth (% change from previous year)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Part-time employment (% of total employment, 15 years and more), by sex group</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Employment rate (% of population aged 20-64), by sex group, by age class.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fixed-term employment (% of employees with a fixed term contract, 15 years and more)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transitions from temporary to permanent employment</td>
</tr>
</tbody>
</table>

Limited progress.
Labour productivity per person employed (annual % change)
Hours worked per person employed (annual % change)
Labour productivity per hour worked (annual % change; constant prices)
Compensation per employee (annual % change; constant prices)
Real unit labour cost growth (annual % change)
ALMP (% of GDP over unemployment share)
Benefit replacement rate

% People at Risk of Poverty or Social Exclusion
At-risk-of-poverty Rate
Severe Material Deprivation Rate
% Persons Living in Households with Very Low Work Intensity

Expenditure on social protection benefits (Sickness/Health care , Invalidity, Old age and survivors, Family/Children, Unemployment, Housing and Social exclusion n.e.c. ) (% of GDP)
At-risk-of-poverty or exclusion (% of total population)
At-risk-of-poverty or exclusion of children (% of people aged 0-17)
Risk-of-poverty or exclusion of elderly (% of people aged 65+)
At-risk-of-poverty rate (% of total population)
Severe material deprivation (% of total population)
Share of people living in low work intensity households (% of people aged 0-59 not student)
In-work at-risk-of poverty rate (% of persons employed)
Impact of social transfers (excluding pensions) on reducing poverty
Poverty thresholds, expressed in national currency at constant prices
Gross disposable income (households)
Relative median poverty risk gap (60% of median equivalised income, age: total)

Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)
Share of high-skilled
Share of low-skilled


**Table 23: Social and Employment indicators (2014) and suggestions by specific target group**

<table>
<thead>
<tr>
<th>Specific target group</th>
<th>Indicators adopted</th>
<th>New indicators proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Young</td>
<td>Employment rate (% of population aged 20-64) by age class % Young People NEET Youth unemployment Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training) Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education) Share of young workers aged 15-29 with an apprenticeship contract</td>
<td>Probability for young people to move from temporary to permanent employment Transition rate from temporary work to unemployment School-to-work transition duration</td>
</tr>
<tr>
<td>Women</td>
<td>Employment rate (% of population aged 20-64), by sex. Part-time employment (% of total employment, 15 years and more), by sex. Formal childcare (from 1 to 29 hours; % over the population less than 3 years) Formal childcare (30 hours or over; % over the population less than 3 year) Female non-participation rate (25-54) (low, medium and high-skilled)</td>
<td>Female incidence in low qualified jobs Share of over-education among employed women Probability for women to be employed in atypical jobs Wage differential (full-time equivalent).</td>
</tr>
</tbody>
</table>
### Elderly Indicators

<table>
<thead>
<tr>
<th>Indicators of population ageing</th>
<th>Share of elderly people in the total population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment rate (% of population aged 20-64), by sex group, by age class</td>
<td></td>
</tr>
<tr>
<td>Risk-of-poverty or exclusion of elderly (% of people aged 65)</td>
<td></td>
</tr>
<tr>
<td>Elderly non-participation rate (55-64yrs) (low, medium and high-skilled)</td>
<td></td>
</tr>
<tr>
<td>Expenditure on social protection benefits (Old age and survivors) (% of GDP)</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** European Commission, AMR 2014 and SWD 2014
**Scoreboard and Auxiliary Indicators for Italy**

**Table 24: Macro and Fiscal Scoreboard Indicators**

<table>
<thead>
<tr>
<th>External Imbalances and Competitiveness</th>
<th>Headline Indicators</th>
<th>Thresholds</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Account Balance as % of GDP&lt;sup&gt;1&lt;/sup&gt;</td>
<td>3 year average</td>
<td>-4%/+6%</td>
<td>-0.8</td>
<td>-2.7</td>
<td>-2.3</td>
<td>-0.9</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td>level year</td>
<td></td>
<td>-0.9</td>
<td>-3.5</td>
<td>-0.5</td>
<td>1.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Net International Investment Position as % of GDP&lt;sup&gt;2&lt;/sup&gt;</td>
<td></td>
<td>-35%</td>
<td>-17.7</td>
<td>-24.7</td>
<td>-28.6</td>
<td>-30.7</td>
<td>-27.7</td>
</tr>
<tr>
<td>Real Effective Exchange Rate&lt;sup&gt;3&lt;/sup&gt;</td>
<td>% change (3 years)</td>
<td>+/-5% for EA</td>
<td>6.8</td>
<td>-1.9</td>
<td>-6.2</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>+/11% non-EA</td>
<td>-1.6</td>
<td>-4.5</td>
<td>-1.9</td>
<td>1.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Export Market Shares&lt;sup&gt;4&lt;/sup&gt;</td>
<td>% change (5 years)</td>
<td>-6%</td>
<td>-5.0</td>
<td>-19.8</td>
<td>-24.8</td>
<td>-18.4</td>
<td>-14.58</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td></td>
<td>-7.4</td>
<td>-8.9</td>
<td>-4.9</td>
<td>1.3</td>
<td>0.85</td>
</tr>
<tr>
<td>Nominal ULC&lt;sup&gt;5&lt;/sup&gt;</td>
<td>% change (3 years)</td>
<td>+9% EA</td>
<td>9.2</td>
<td>8.9</td>
<td>2.7</td>
<td>4.1</td>
<td>3.2</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>+12% non-EA</td>
<td>2.2</td>
<td>-0.1</td>
<td>2.1</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>% Change in Deflated House Price Index&lt;sup&gt;6&lt;/sup&gt;</td>
<td></td>
<td>+6%</td>
<td>5.4</td>
<td>-2.2</td>
<td>-5.4</td>
<td>-6.9</td>
<td>4.50&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
<tr>
<td>% Private Sector Credit Flow&lt;sup&gt;7&lt;/sup&gt;</td>
<td></td>
<td>+14%</td>
<td>9.6</td>
<td>4.4</td>
<td>-0.9</td>
<td>-3.0</td>
<td>132.1</td>
</tr>
<tr>
<td>% Private Sector Debt&lt;sup&gt;8&lt;/sup&gt;</td>
<td></td>
<td>+133%</td>
<td>95.9</td>
<td>121.2</td>
<td>120.8</td>
<td>118.8</td>
<td>-0.9</td>
</tr>
<tr>
<td>% General Government Sector Debt&lt;sup&gt;9&lt;/sup&gt;</td>
<td></td>
<td>60%</td>
<td>101.9</td>
<td>115.3</td>
<td>122.2</td>
<td>127.9</td>
<td>132.1</td>
</tr>
<tr>
<td>% Change in Total Financial Sector Liabilities&lt;sup&gt;10&lt;/sup&gt;</td>
<td></td>
<td>+16.5%</td>
<td>12.1</td>
<td>3.3</td>
<td>7.4</td>
<td>-0.7</td>
<td>-0.7</td>
</tr>
</tbody>
</table>

Indicator specification: 1) 3 year backward moving average of the current account balance as percent of GDP with thresholds of +6% and -4% (and current account balance as percent of GDP); 2) net international investment position as percent of GDP, with a threshold of -35% (change over 3 years and year-over-year change); 3) 3-year percentage change of the real effective exchange rates based on HICP/CPI deflators, relative to 41 other industrial countries, with thresholds of +/-5% for euro area countries and +/-11% for non-euro area countries (and year-over-year change); 4) 5-year percentage change of export market shares measured in values, with a threshold of -6% (and year-over-year change); 5) 3-year percentage change in nominal unit labour cost, with thresholds of +9% for euro area countries and +12% for non-euro area countries (and year-over-year change); 6) year-over-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6% (and year-over-year change); 7) private sector credit flow in % of GDP with a threshold of 14%; 8) private sector debt (consolidated) in % of GDP with a threshold of 133%; 9) general government sector debt in % of GDP with a threshold of 60%; 10) year-over-year changes in total financial sector liabilities, with a threshold of 16.5%.

Data Source: from 2005 to 2013 Statistical Annex of AMR 2015

n.a. = not available

**Table 25: Macro and Fiscal Auxiliary Indicators**

<table>
<thead>
<tr>
<th>Auxiliary Indicators</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>% y-o-y change in Real GDP&lt;sup&gt;1&lt;/sup&gt;</td>
<td>0.9</td>
<td>1.7</td>
<td>-2.3</td>
<td>-1.9</td>
<td>-0.4</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation as % of GDP&lt;sup&gt;2&lt;/sup&gt;</td>
<td>21.1</td>
<td>19.9</td>
<td>18.6</td>
<td>17.8</td>
<td>16.8</td>
</tr>
<tr>
<td>Gross Domestic Expenditure on R and D as % of GDP&lt;sup&gt;3&lt;/sup&gt;</td>
<td>1.0</td>
<td>1.2</td>
<td>1.2</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net Lending / Borrowing as % of GDP&lt;sup&gt;5&lt;/sup&gt;</td>
<td>-0.9</td>
<td>-3.5</td>
<td>-0.3</td>
<td>1.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Net External Debt as % of GDP&lt;sup&gt;5&lt;/sup&gt;</td>
<td>32.4</td>
<td>50.5</td>
<td>55.5</td>
<td>59.2</td>
<td>62.2</td>
</tr>
<tr>
<td>Inward FDI flows as % of GDP&lt;sup&gt;6&lt;/sup&gt;</td>
<td>2.0</td>
<td>0.4</td>
<td>0.0</td>
<td>0.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Indicator</td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
<td>2009</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Inward FDI stocks as % of GDP⁷</td>
<td>14.0</td>
<td>19.6</td>
<td>23.0</td>
<td>23.8</td>
<td>25.0</td>
</tr>
<tr>
<td>Net Trade Balance of Energy Products as % of GDP⁸</td>
<td>-2.6</td>
<td>-3.2</td>
<td>-3.8</td>
<td>-3.3</td>
<td>-2.6</td>
</tr>
<tr>
<td>% Change (3 years) in REER vs. EA⁹</td>
<td>1.1</td>
<td>0.8</td>
<td>1.3</td>
<td>1.0</td>
<td>0.4</td>
</tr>
<tr>
<td>% Change (5 years) in Export Performance vs. Advanced Economies¹¹</td>
<td>3.6</td>
<td>-12.4</td>
<td>-16.9</td>
<td>-12.6</td>
<td>-8.49</td>
</tr>
<tr>
<td>% Change (5 years) in Terms of Trade¹¹</td>
<td>0.2</td>
<td>-2.2</td>
<td>-4.2</td>
<td>-0.3</td>
<td>-4.1</td>
</tr>
<tr>
<td>% y-o-y Change in Export Market Share, in volume¹²</td>
<td>-4.2</td>
<td>-1.3</td>
<td>-0.8</td>
<td>-3.0</td>
<td>n.a.</td>
</tr>
<tr>
<td>% y-o-y Change in Labour Productivity¹³</td>
<td>0.4</td>
<td>2.4</td>
<td>-2.1</td>
<td>0.0</td>
<td>-0.5</td>
</tr>
<tr>
<td>% Change (10 years) in Nominal ULC¹⁴</td>
<td>27.5</td>
<td>32.9</td>
<td>27.3</td>
<td>23.6</td>
<td>20.5</td>
</tr>
<tr>
<td>% Change (10 years) in ULC performance relative to EA¹⁵</td>
<td>12.5</td>
<td>13.7</td>
<td>10.8</td>
<td>7.6</td>
<td>5.8</td>
</tr>
<tr>
<td>% Change (3 years) in Nominal House Prices¹⁶</td>
<td>21.3</td>
<td>1.3</td>
<td>-2.8</td>
<td>-7.7</td>
<td>12.40¹⁹</td>
</tr>
<tr>
<td>Residential Construction as % of GDP¹⁷</td>
<td>5.5</td>
<td>5.6</td>
<td>5.1</td>
<td>4.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Private Sector Debt as % of GDP, non-consolidated¹⁸</td>
<td>98.8</td>
<td>123.9</td>
<td>122.7</td>
<td>120.8</td>
<td>121.2</td>
</tr>
<tr>
<td>Financial Sector Leverage (debt-to-equity)¹⁹</td>
<td>252.0</td>
<td>883.8</td>
<td>1186.8</td>
<td>951.7</td>
<td>754.3</td>
</tr>
</tbody>
</table>

Indicators’ specification: 1) Real GDP % change (1 year); 2) Gross Fixed Capital Formation % of GDP; 3) Gross Domestic Expenditure on R&D % of GDP; 4) Net Lending/Borrowing % of GDP; 5) Net External Debt % of GDP; 6) Inward FDI Flows % of GDP; 7) Inward FDI Stocks % of GDP; 8) Net Trade Balance of Energy Products % of GDP; 9) Real Effective Exchange Rates - EA trading Partners % change (3 years); 10) Share of OECD exports % change (5years); 11) Terms of Trade % change (5years); 12) Export Market Shares - in volume % change (1 year); 13) Labour Productivity % change (1 year); 14) Nominal unit labour cost % change (10 years); 15) Unit labour cost performance related to EA % change (10 years); 16) Nominal house price index % change (3 years); 17) Residential Construction % of GDP Eurostat NA; 18) Private Debt, non-consolidated % of GDP; 19) Financial Sector Leverage (debt to equity) %.

Data Source: from 2005 to 2013 Statistical Annex of AMR 2015

(p)=provisional, N/A = not announced, n.a. = not available

**Stakeholders contacted**

**Giuliana Coccia** – Research Director at ISTAT and Coordinator a partnership protocol between ISTAT and Ministry of Labour, SPC

**Lorenzo Codogno** - London School of Economics, LC Macro Advisors Ltd. Former chief economist and director general at the Treasury Department of the Italian Ministry of Economy and Finance (May 2006-February 2015), head of the Italian delegation at the Economic Policy Committee (EPC) of the European Union.

**Francesco Felici** – Director Office IV - Quantitative Analysis and Models and support to National Reform Programme at the Italian Ministry of Economy and Finance.

**Fausto Durante** - European Secretariat Responsible - CGIL Trade Union

**Claudio Lucifora** - Professor of Economics at the Università Cattolica in Milan and research fellow at IZA (Bonn)

**Luciano Forlani** – Ministry of Labour, Director and Senior researcher at INPS, EMCO Italian delegate.
8 POLAND

8.1 Executive summary

Differently from many European countries, Poland did not experience a recession during the period of the economic crisis, even if GDP growth slowed down. This allowed Poland to be withdrawn from the Excessive Deficit Procedure in 2015 (applied as from 2009).

In contrast the labour market is characterised by high segmentation across gender, and age, with women and young people the most vulnerable groups in the labour market. In addition the country presents worrying demographic trends. The working age population has already started decreasing and this negative trend has been confirmed for the future by projections. This is a consequence of extremely low fertility rates, observed since mid-1990s, together with very low immigration flows.

In general, the Country Reports drawn up by the European Commission and the Country Specific Recommendations appropriately identified the most important socioeconomic challenges in Poland. The focus of the CSR has been the reduction of youth unemployment and labour market segmentation. In addition, measures have been required to increase the labour market participation of women and raise enrolment rates of children in both early childcare and pre-school education.

However, as stressed by the national stakeholders, the problem of intergenerational transmission of poverty, including poverty of children, is neglected in analysis and is not satisfactorily addressed in the NRP.

Finally, the stakeholders interviewed argued that the social situation indicators adopted are insufficient to monitor the situation of the most vulnerable social groups. They proposed including new indicators that would cover the poverty and social exclusion risk of children and disabled persons, or at least provide some additional information in this field. The stakeholders argued that these two groups are especially at risk of severe poverty, and thus monitoring of their wellbeing is needed.

8.2 Background

**Economic conditions:** Poland was the only country in the EU not to go through recession triggered by the financial crisis. Before the crisis, in 2004-2008, the average growth rate was 5.4%; in 2009 it fell substantially to 1.6%. After picking up in 2010-2011, it slowed down again, to 1.7% in 2012-2013; this was associated with second recession in the Euro area. In 2014 the GDP grew by 3.4% and the same growth rate is projected for 2015-2016. In 2009-2010 the budget deficit rose to over 7.3% and 7.6% of GDP; in 2014 it stood at 3.2%. This allowed Poland to be withdrawn from the Excessive Deficit Procedure in 2015 (applied as from 2009). The financial crisis caused a relatively moderate growth of the government debt, from 46.6% of GDP in 2008 to 55.7% in 2013. It later decreased substantially due to changes in the pension system (falling to 50.1% in 2014).

**Demography:** The productive-age population has already started decreasing. Between 2011-2014, the population of people aged 15-64 shrank by over 500 thousand. According to the Eurostat demographic projections, the population in the productive age is likely to decrease further by 3.0 million by 2030 and by 7.8 million
by 2050. This is a consequence of extremely low fertility rates, (1.26 in 2013), that have been observed since mid-1990s. Migration to Poland is a minor phenomenon: in 2014 non-Polish citizens constituted only 0.3% of Poland’s population – the lowest figure among all the EU Member States.

**Labour market conditions:** The participation rates in Poland are below EU average: 61.1% for women and 74.6% for men. The financial crisis caused moderate increase in unemployment rates, from 7.1% in 2007 to 10.3% in 2013. However, the unemployment rate fell substantially, amounting to 7.7% in 2014 - which is below the average for EU28 (9%). The youth unemployment is similar to EU28 levels, 23.9% in Poland in 2014, compared to 22.2% in EU28. Thus, Poland stands out for its low employment rates: 61.7% (2014, 15-64). The employment gap arises mainly among people with primary and secondary education, since the employment rates of people with tertiary education are almost the same in Poland (83.9% ) as in the EU (82.0% in 2014). The female employment rate has improved, 50.6% in 2007 compared to 55.2% in 2014, but it is still far below the male employment rate, 68.2% in 2014.

Poland lags behind in the employment of older people, aged 50-64 (44.0% compared to 54.3% in EU 28). Another striking feature of the Polish labour market is the highest share of temporary employment of all the EU countries (28.3% of all paid employees held fixed-term contracts in 2014). The expansion of temporary contracts started in 2001, becoming particularly widespread in the age group of 15-29 (53.6%). Part-time employment is not popular in Poland, only 7.1% employees work part-time and this share has been stable over years. Moreover, a third of the part-time workers are involuntary. The incidence of NEETs is close to average in Poland: 12.0% compared to 12.4% in EU28. The positive feature of the Polish labour market is the very large share of people with tertiary education among new labour market entrants: 47% of workers aged 25-34 had tertiary education in 2014 (compared to 41% in EU28).

**Social conditions:** In 2014, 24.7% of the people in Poland were at risk of poverty or social exclusion, which means the risk has decreased over the last few years (27.8% in 2011), though is still well above the EU average. The in-work poverty risk in Poland is also high, (10.8 % in 2013) compared to EU28 (8.9%). On the positive side, Poland achieved substantial improvement in eradicating severe material deprivation, which decreased from 33.8% in 2005 to 14.2% in 2010 and 10.4% in 2014. The average real disposable household income per capita was 14,030 EUR in 2013, which is 69% of the EU28 average, compared to 50% in 2005. Income inequality in Poland reflects the average of the other EU countries: in Poland in 2013 the Gini coefficient was 30.7 and S80/S20 income quantile share ratio was 4.9, compared to 30.5 and 5.0 respectively in EU28. Income inequality did not increase during the financial crisis, nor subsequently.

**8.3 The European Semester exercises in 2014 and 2015 in the country and the main changes relative to previous years according to the perceptions of the main stakeholders**

**8.3.1 The main issues at stake and the CSR process**

The main social and employment concerns for Poland can be summarised as follow:

- The productive-age population is decreasing and is likely to decrease further by 3.0 million by 2030 as a consequence of extremely low fertility rates.
• The labour market participation rates in Poland are below EU average; the employment gap arises mainly among people with primary and secondary education.
• The female employment rate is far below the male employment rate.
• The employment of older people is much lower than EU average.
• Poland has the highest share of temporary employment of all the EU countries.
• In Poland the risk of poverty or social exclusion rate is well above the EU average;
• The in-work poverty risk in Poland is also high.

In addition MIP and auxiliary indicators point out additional issues, relevant for the country even though in all the cases remaining below or at the same level of EU average: from 2010 to 2013 the indicators have presented:

• an increasing trend in the unemployment and Long Term Unemployment rates;
• an increasing trend (until 2013) of Youth Unemployment Rate and of NEET.

Table 26: Employment and Social Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Country</th>
<th>EU Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIP Scoreboard</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate (moving average)</td>
<td>18.9</td>
<td>8.3</td>
</tr>
<tr>
<td>% Change in Employment</td>
<td>2.2</td>
<td>-2.7</td>
</tr>
<tr>
<td>Activity rate</td>
<td>64.4</td>
<td>65.3</td>
</tr>
<tr>
<td>Long-term Unemployment Rate</td>
<td>10.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Youth Unemployment Rate</td>
<td>36.9</td>
<td>23.7</td>
</tr>
<tr>
<td>% Young People NEET</td>
<td>13.9</td>
<td>10.8</td>
</tr>
<tr>
<td>% People at Risk of Poverty or Social Exclusion</td>
<td>45.3</td>
<td>27.8</td>
</tr>
<tr>
<td>At-risk Poverty Rate</td>
<td>20.5</td>
<td>17.6</td>
</tr>
<tr>
<td>Severe Material Deprivation Rate</td>
<td>33.8</td>
<td>14.2</td>
</tr>
<tr>
<td>% Persons Living in Households with Very Low Work Intensity</td>
<td>14.3</td>
<td>7.3</td>
</tr>
</tbody>
</table>

The country recommendations and proposed changes in NRP were discussed by stakeholders during public consultations and debated at the Committee on Europe 2020 Strategy. The following social partners expressed their opinions: Independent and Self-Governing Trade Union "Solidarnosc" (NSZZ Solidarnosc), All-Poland Alliance of Trade Unions (OPZZ), Polish Chamber of Commerce (employers’ association), EAPN
Poland (Poland’s branch of European Anti-Poverty Network), Trade Unions Forum (trade unions’ association) and the Polish Craft Association (employers’ association).

In general, the stakeholders judged that the country report drawn up by the European Commission and following country specific recommendations appropriately identified the most important socioeconomic challenges in Poland. However, the stakeholders were concerned that both in the EC documents and the proposed NRP, too little attention is paid to fighting social exclusion and poverty, especially given the limited progress made in this field. The Committee on Europe 2020 negatively assessed the fact that the European Commission did not include any recommendation on poverty reduction in recent CSRs.

Moreover, the stakeholders found that the problem of intergenerational transmission of poverty, including poverty of children, is neglected in analysis and is not satisfactorily addressed in the NRP.

In particular, the trade union NSZZ Solidarnosc criticised the European Commission for focusing too much on fiscal consolidation, which led to stagnation of wages in the public sector and decline in social protection. The union argued that in order to improve the situation of public finances at the national level, the European Commission should, rather, exert pressure on Member States that dump tax rates and thus become tax havens. The social partners also noted limited coverage of social issues in the Annual Growth Survey 2015.

### 2012

<table>
<thead>
<tr>
<th>CSR n.3: Youth unemployment and labour market segmentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>To reduce youth unemployment, increase the availability of apprenticeships and work based learning, improve the quality of vocational training and adopt the proposed lifelong learning strategy. Better match education outcomes with the needs of the labour market and improve the quality of teaching. To combat labour market segmentation and in-work poverty, limit excessive use of civil law contracts and extend the probationary period to permanent contracts</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSR n.4: Female labour market participation and Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinforce efforts to increase the labour market participation of women and raise enrolment rates of children in both early childcare and pre-school education, by ensuring stable funding and investment in public infrastructure, the provision of qualified staff, and affordable access. Tackle entrenched practices of early retirement to increase exit ages from the labour market. Phase out the special pension scheme for miners with a view to integrating them into the general scheme. Take more ambitious, permanent steps to reform the KRUS to better reflect individual incomes</td>
</tr>
</tbody>
</table>

### 2013

<table>
<thead>
<tr>
<th>CSR n.3: Youth unemployment and labour market segmentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen efforts to reduce youth unemployment, for example through a Youth Guarantee, increase the availability of apprenticeships and work-based learning, strengthen cooperation between schools and employers and improve the quality of teaching. Adopt the proposed lifelong learning strategy. Combat in-work poverty and labour market segmentation including through a better transition from fixed-term to permanent employment and by reducing the excessive use of civil law contracts.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSR n.4: Women’s labour market participation and retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue efforts to increase female labour market participation, in particular by investing in affordable quality childcare and pre-school education, and by ensuring stable funding and qualified staff. With a view to improving sectoral labour mobility, take permanent steps to reform the KRUS. Phase out the special pension system for miners with a view to integrating them into the general scheme. Underpin the general pension reform with measures promoting the employability of older workers to raise exit ages from the labour market.</td>
</tr>
</tbody>
</table>
2014

**CSR n.2: Youth unemployment**

Strengthen efforts to reduce youth unemployment, in particular by further improving the relevance of education to labour market needs, increasing the availability of apprenticeships and work-based learning places and by strengthening outreach to unregistered youth and the cooperation between schools and employers, in line with the objectives of a youth guarantee. Increase adult participation in lifelong learning in order to adjust skills supply to skills demand. Combat labour market segmentation by stepping up efforts to ensure a better transition from fixed-term to permanent employment and by reducing the excessive use of civil law contracts.

**CSR n.3: Active labour market policies**

Continue efforts to increase female labour market participation, in particular by taking further steps to increase the availability of affordable quality childcare and pre-school education and ensuring stable funding. Include farmers in the general pension system, starting by speeding up the creation of the system for the assessment and recording of farmers’ incomes. Phase out the special pension system for miners with a view to integrating them into the general scheme. Underpin the general pension reform by stepping up efforts to promote the employability of older workers to raise exit ages from the labour market.

2015

**CSR n.2: Retirement and pension system**

Start the process of aligning the pension arrangements for farmers and miners with those for other workers, and adopt a timetable for progressive full alignment; put in place a system for assessing and recording farmers’ incomes.

**CSR n.3: Active labour market policies**

Take measures to reduce the excessive use of temporary and civil law contracts in the labour market.

The stakeholders agreed with the EC that the widespread use of temporary and civil-law contracts, instead of open-ended employment contracts, is a crucial problem for the Polish labour market. In the context of amendments to the Labour Code, the social partners on both sides, employees and employers, agreed on the need for regulation of temporary contracts. However, the trade unions argued that the proposed actions are not sufficient to fight labour market segmentation.

NSZZ Solidarnosc advocated greater engagement of the stakeholders in the European Semester procedure. They stated that the social dialogue in Poland, as indeed in many EU countries, did not meet the desired standards. In their opinion, malfunctioning social dialogue impeded expression of stakeholders’ opinions.

With regard to the EC’s recommendations and Polish actions taken in the field of education (vocational and lifelong learning), some of the social partners (trade unions) expressed the view that the poor quality of education in the fields of mathematics and science is the main challenge posed by the educational system, thus disagreeing with the Commission’s perception of the key educational challenges in Poland.

Furthermore, the social partners perceived the progress in strengthening the cooperation between schools and employers to be insufficient. In their view, better cooperation between enterprises (especially SMEs) and VET schools means developing a targeted, complex set of policies encompassing financial incentives which would enable the establishment of an integrated platform of cooperation of vocational education with entrepreneurs and employers. The Polis EAPN also called for additional measures in the Polish EAPN in the field of education, such as measures limiting the school drop-out rates, in particular among young people from families at risk of poverty and with low work intensity.
8.3.2 The way these recommendations have been treated at the national level in NRP

The main issues tackled by CSRs have been rated by recent reforms and discussed in public debates.

In 2014 the **system of public employment services (PESs)** underwent substantial reform with the aim of increasing their efficiency.\(^{63}\) The reform introduced individualised approaches to helping the unemployed find jobs. The main novelty lay in categorising the unemployed under three profiles depending on their ‘distance from the labour market’. Those unemployed who were found ‘to be far from the labour market’, i.e. unemployed with the lowest chances of returning to the labour market, would be given more activation than those ‘closer to the labour market’. The profiles were intended to direct more money to the unemployed experiencing the greatest need. The amendment also included special provisions for activation of the young and older unemployed. An employer who employed workers aged 50+ or more could be given a refund of 840 PLN per month. The reform introduced provisions for outsourcing employment services to private institutions. The most effective PES workers would be financially rewarded, thereby motivating them to better performance. The reform also brought in a set of new labour market instruments: teleworking vouchers, apprenticeship vouchers, accommodation vouchers, etc. A National Training Fund was set up to refund costs of retraining the workers aged 45+.

The young unemployed were given guarantee to receive an offer of employment, apprenticeship or training in no more than four months after registration in PES.

Because of its large scope, the reform underwent extensive social consultations. The employees’ and employers’ associations were generally in favour of the proposed changes. However, the Trade Unions Forum warned that the outsourcing of employment services might constitute *de facto* privatization of PES. The other strand of critique, expressed *inter alia* by NSZZ Solidarnosc, concerned the lack of any change in respect of the health insurance for unemployed and inactive. Now, an adult person who does not work can obtain free health insurance only if he/she is formally registered as unemployed. This results in a significant number of economically inactive people registering in PESs, undermining the effectiveness of ALMPs. The expected solution would be to separate the decision on granting public health care insurance from formal PES registration.

In line with the EC recommendations, on Oct 23, 2014 the Polish Parliament **adopted new regulations regarding social contributions for contracts of mandate (umowa-zlecenie)**, which will enter into force on Jan 1, 2016. Under certain circumstances a contract of mandate is exempt from social contributions. The exemption applies, *inter alia*, to workers on two or more contracts of mandate for different employers, being neither employed with a job contract nor self-employed. In this situation, they can pay social contributions only from one chosen contract of mandate, presumably the one entailing the lowest contributions. As from Jan 1, 2016, this exemption will be limited, as social contributions will be due for all contracts for total pay lower than the minimum wage (1850 PLN in 2016). The new regulation is

\(^{63}\) Amendment to the Labour Promotion and Labour Market Institutions Act (*Ustawa o promocji zatrudnienia i instytucjach rynku pracy*) was passed on Mar 14, 2014.
expected to have minor impact on the popularity of contracts of mandate as exemption from the social contribution is not to be entirely abolished. It will still encourage employers to propose contracts of mandate for individuals already working for another employer. Moreover, the new regulation will not apply to the contract for product (umowa o dzieło), which is another popular type of civil law contract, as this kind of contract is always exempt from social contributions.

The two biggest nation-wide trade unions, OPZZ and NSZZ Solidarnosc, agreed that the rising popularity of civil-law contracts in place of employment contracts is an ‘aberrant’ feature of the Polish labour market. They pointed out that the reform increasing social contribution would have positive impact on future pensions. The great popularity of civil-law contracts contributes to the current deficit in the public pension system and clearly justified reform. NSZZ Solidarnosc stated that there should be full unification of social contribution rates across all types of contracts: employment, civil-law and self-employment. In their opinion, only this solution would counteract the popularity of civil-law contracts. The reform was supported by the Polish Confederation of Private Employers – Lewiatan, but they mentioned the need for much broader reform, comprising inclusion of the specific-profession pension schemes (farmers, miners, judges and solicitors, policemen) into the general one.

On June 25, 2015, Parliament passed the major amendment to the Labour Code concerning the regulations applied to fixed-term job contracts. New regulations will enter into force on Feb 22, 2016. According to the amendment, the employer can enter into no more than three fixed-term job contracts with the same employee. Any another job contract will be automatically considered open-ended. Moreover, the amendment establishes that the total duration of fixed-term contracts signed with one employee cannot exceed 33 months. Previous regulations, still in force, also required that after three fixed-term job contracts the fourth should be open-ended. However, the regulations were easily circumvented, since if more than one month passed between the termination of one contract and signing of a subsequent one, then counting started again from zero. Under the new regulation the length of the time gap between contracts is irrelevant. Moreover, the former regulations did not address the duration of fixed-term contracts: employer and employee could sign a fixed-term contract for any length of time they chose.

The amendment to the Labour Code of Jun 25, 2015 also introduced the same period of notice for temporary contracts as for open-ended ones. Previously, workers on temporary contracts were given two weeks’ notice, whilst the period of notice for open-ended rose with the length of employment: two weeks for employees who have worked less than 6 months, 1 month for those who have worked 6 months or more but less than 3 years, and 3 months for those who have worked 3 years or more.

However, the new regulations regarding contract termination have not been fully harmonised, as there is no need to justify dismissals in the case of temporary contracts, while it is obligatory for open-ended contracts: thus employees on these two types of contracts have different levels of employment protection.

The trade union OPZZ judged that the proposed changes to the Labour Code, intended to reduce the popularity of temporary and civil-law contracts, are definitely insufficient given the great social costs generated by those types of contracts, and advocated

64 Ustawa z dnia 25 czerwca 2015 r. o zmianie ustawy – Kodeks pracy oraz niektórych innych ustaw, Dz.U. 2015 poz. 1220.
bolder action. However, the employers warned that changes in the direction of reducing the popularity of temporary and civil-law contracts would entail costs for employers.

**Further improvement in childcare coverage is expected** since, as from Sep 1, 2015 every child aged 4 is guaranteed a place in a kindergarten (this is a result of amendment passed in 2013). Moreover, as from Sep 1, 2017 every child aged 3 will be guaranteed a place in a kindergarten. Access to kindergartens has greatly improved over the last decade, but the coverage is still low in rural areas. The share of children under three year old in kindergartens remains very low, below 5% (2014), though the rate of increase in available places (and diversity of supply) is high. In its comments to the Polish NRP, the Polish EAPN emphasised the need for more action to open up access to public nurseries and kindergartens for children from poor families.

**8.3.3 The appropriateness of the indicators adopted in the European Semester Exercise**

The stakeholders argued that the social situation indicators adopted are insufficient to monitor the situation of the most vulnerable social groups. They proposed including new indicators that would cover the poverty and social exclusion risk of children and disabled persons, or at least provide some additional information in this field. The stakeholders argued that these two groups are especially at risk of severe poverty, and thus monitoring of their wellbeing is needed.

EAPN Poland argued that more attention should be paid to monitoring income and non-income inequalities, which is crucial to fighting poverty and social exclusion effectively. EAPN Poland claimed that the country goal set for poverty reduction was unambitious and recommended increasing coverage by 3 million people. They suggested introducing an additional goal for reduction of severe poverty. It was also suggested that educational inequalities were not receiving sufficient attention.

**8.4 Current and future challenges according to national stakeholders**

- The stakeholders expressed their concern over the expected wide gender gaps in pensions under the new pension system. The pension system introduced in 1999 is a defined contribution plan. As women have shorter periods of employment, are paid less and retire earlier than men, they will be receiving lower pensions than males. No actions were taken in terms of aligning pension arrangements for farmers and miners. Although this action is also periodically recommended by employers’ associations and independent experts, the government hesitates for political reasons.

- The stakeholders stated that the EC and the Polish government should focus more on the problem of the specialisation pattern of the Polish economy, which is based on low labour costs. Low labour costs as a source of comparative advantage will limit prospects of economic growth in the future and thus of eradicating poverty and social exclusion.

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65 Some actions aiming at supporting reallocation of the workforce outside the mining sector were announced in the government Programmes Silesia 2.0, passed in June 2015. The programme includes, inter alia, restructuring of Kompania Węglowa, the largest coal mining company, fostering investment to invigorate job creation outside the mining sector, and establishment of counselling centres for redundant miners.
The trade unions expressed concern that the **sluggish wage growth**, which did not reflect productivity growth, might have negative impact on the macroeconomic situation and standards of living. According to the trade union OPZZ, the NRP lacks provisions to adjust taxation in the direction of reducing poverty and enhancing social cohesion. The OPZZ advocated greater differentiation of personal income tax rates (to be reduced for low earners and increased for high earners) and reduction of VAT tax rates. The Polish branch of the European Anti-Poverty Network also held that the Polish income taxation system is insufficiently redistributive, which impedes social cohesion. The social partners noted the need for greater coordination between the taxation and social protection systems.

The trade unions judged the **public efforts to increase employment of older people to be ineffective**. Among other measures to combat poverty and its various dimensions, the social partners also indicated the need to establish care centres for the elderly.

The trade unions pointed out that **the public institutions rarely applied the social clause in public procurements**. According to the social clause, the firm is required to meet certain employment requirements, such as a relatively large share of workers of disadvantaged labour market groups, or the requirement to employ workers on regular contracts rather than civil-law contracts. The latter provision was introduced in legislation in 2014. According to the trade unions, the social clause in public procurement would stimulate the creation of high quality jobs and would help to reduce labour market segmentation.
8.5 Suggestions to enhance attention to employment and social issues in the European Semester

The Country Specific Recommendations appear to have too little influence on debate in Poland, and limited impact on initiatives launched by the government and stakeholders. The Country Reports and Country Specific Recommendations do not loom large in public debate, being discussed almost exclusively by experts.

Information on CSRs is supplied in the media only on their presentation. Thus, there is a need to improve the dissemination of CSRs and prolong their visibility in the media. It should be noted that Excessive Deficit Procedure is more familiar to Polish public opinion than the European Semester or Europe 2020 Strategy.

The Country Specific Recommendations appear to be a secondary source of motivation behind actions taken by government, as was evident in the context of amendments to the Labour Code passed in June 2015. Although the amendments were in line with the CSRs, the government was forced to take this action for other reasons: the EC challenging the Polish Labour Code for non-compliance with EU law, and unfavourable judgement by the European Court of Justice.

The government is reluctant to introduce unpopular reforms recommended in the CRSs, especially with regard to reforming pension schemes for farmers and miners.

However, giving greater visibility to the CSRs in the media would bring additional pressure to bear on policy-makers and would help bring public opinion round to the inevitable reforms. More closely specified recommendations would enliven discussion as attention to excessively general recommendations is short-lived. Suggestions for specific actions to be taken are especially needed in areas of potentially unpopular reforms. In such areas, like farmers’ pensions system or the mining sector, the government is wary about initiating changes because of public opinion, but such reform might be more socially acceptable if it is strongly recommended by the European Commission.
### 8.6 Annexes

#### Scoreboard and Auxiliary indicators for Poland

**Table 27: Macro and Fiscal Scoreboard Indicators**

<table>
<thead>
<tr>
<th>Headline Indicators</th>
<th>Thresholds</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Imbalances and Competitiveness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Account Balance as % of GDP</td>
<td>3 year average</td>
<td>-4%/+6%</td>
<td>-3.4</td>
<td>-5.2</td>
<td>-4.6</td>
<td>-3.3</td>
</tr>
<tr>
<td>Net International Investment Position as % of GDP</td>
<td>-35%</td>
<td>-42.5</td>
<td>-65.2</td>
<td>-65.4</td>
<td>-68.0</td>
<td>-67.4</td>
</tr>
<tr>
<td>Real Effective Exchange Rate</td>
<td>% change (3 years)</td>
<td>+/-5% for EA</td>
<td>-2.0</td>
<td>-1.4</td>
<td>1.2</td>
<td>-4.3</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>+/11% non-EA</td>
<td>11.1</td>
<td>6.0</td>
<td>-2.4</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>% change (5 years)</td>
<td>-6%</td>
<td>48.2</td>
<td>20.1</td>
<td>1.1</td>
<td>-0.4</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>3.9</td>
<td>-2.5</td>
<td>-2.2</td>
<td>6.6</td>
<td>4.36</td>
</tr>
<tr>
<td>Export Market Shares</td>
<td>% change (3 years)</td>
<td>+9% EA</td>
<td>-4.7</td>
<td>12.0</td>
<td>5.1</td>
<td>3.9</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>+12% non-EA</td>
<td>0.6</td>
<td>2.1</td>
<td>1.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Nominal ULC</td>
<td>% change (3 years)</td>
<td>+6%</td>
<td>n.a.</td>
<td>-6.2</td>
<td>-5.5</td>
<td>-4.4</td>
</tr>
<tr>
<td></td>
<td>% Private Sector Credit Flow</td>
<td>+14%</td>
<td>3.4</td>
<td>5.8</td>
<td>3.6</td>
<td>2.9</td>
</tr>
<tr>
<td></td>
<td>% Private Sector Debt</td>
<td>+133%</td>
<td>42.2</td>
<td>70.1</td>
<td>74.0</td>
<td>74.9</td>
</tr>
<tr>
<td></td>
<td>% Change in Deflated House Price Index</td>
<td>60%</td>
<td>47.1</td>
<td>53.6</td>
<td>54.4</td>
<td>55.7</td>
</tr>
<tr>
<td></td>
<td>% General Government Sector Debt</td>
<td>+16.5%</td>
<td>19.9</td>
<td>13.3</td>
<td>10.4</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>Internal Imbalances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Change in Total Financial Sector Liabilities</td>
<td>+6%</td>
<td>n.a.</td>
<td>-6.2</td>
<td>-5.5</td>
<td>-4.4</td>
<td>1.20%</td>
</tr>
</tbody>
</table>

Indicator specification: 1) 3 year backward moving average of the current account balance as percent of GDP with thresholds of +6% and -4% (and current account balance as percent of GDP); 2) net international investment position as percent of GDP, with a threshold of -35% (change over 3 years and year-over-year change); 3) 3-year percentage change of the real effective exchange rates based on HICP/CPI deflators, relative to 41 other industrial countries, with thresholds of +/5% for euro area countries and +/-11% for non-euro area countries (and year-over-year change); 4) 5-year percentage change of export market shares measured in values, with a threshold of -6% (and year-over-year change); 5) 3-year percentage change in nominal unit labour cost, with thresholds of +9% for euro area countries and +12% for non-euro area countries (and year-over-year change); 6) year-over-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6%; 7) private sector credit flow in % of GDP with a threshold of 14%; 8) private sector debt (consolidated) in % of GDP with a threshold of 133%; 9) general government sector debt in % of GDP with a threshold of 60%; 10) year-over-year changes in total financial sector liabilities, with a threshold of 16.5%.


n.a. = not available, (e) = estimated
Table 28: Macro and Fiscal Auxiliary Indicators

<table>
<thead>
<tr>
<th>Auxiliary Indicators</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>% y-o-y change in Real GDP¹</td>
<td>3.5</td>
<td>3.7</td>
<td>1.8</td>
<td>1.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation as % of GDP²</td>
<td>18.6</td>
<td>19.8</td>
<td>19.4</td>
<td>18.8</td>
<td>19.5</td>
</tr>
<tr>
<td>Gross Domestic Expenditure on R and D as % of GDP³</td>
<td>0.6</td>
<td>0.7</td>
<td>0.9</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net Lending / Borrowing as % of GDP⁴</td>
<td>-2.1</td>
<td>-3.3</td>
<td>-1.3</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Net External Debt as % of GDP⁵</td>
<td>14.7</td>
<td>31.1</td>
<td>34.1</td>
<td>35.7</td>
<td>20.1</td>
</tr>
<tr>
<td>Inward FDI flows as % of GDP⁶</td>
<td>3.4</td>
<td>3.0</td>
<td>1.4</td>
<td>0.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Inward FDI stocks as % of GDP⁷</td>
<td>30.1</td>
<td>48.7</td>
<td>48.1</td>
<td>49.0</td>
<td>49.9</td>
</tr>
<tr>
<td>Net Trade Balance of Energy Products as % of GDP⁸</td>
<td>-2.3</td>
<td>-2.6</td>
<td>-3.4</td>
<td>-2.7</td>
<td>-2.6</td>
</tr>
<tr>
<td>% Change (3 years) in REER vs. EA⁹</td>
<td>-3.9</td>
<td>0.0</td>
<td>7.1</td>
<td>-3.3</td>
<td>-1.7</td>
</tr>
<tr>
<td>% Change (5 years) in Export Performance vs. Advanced Economies¹⁰</td>
<td>61.6</td>
<td>31.2</td>
<td>11.7</td>
<td>6.7</td>
<td>12.27</td>
</tr>
<tr>
<td>% Change (5 years) in Terms of Trade¹¹</td>
<td>3.3</td>
<td>1.9</td>
<td>-2.9</td>
<td>0.3</td>
<td>-0.4</td>
</tr>
<tr>
<td>% y-o-y Change in Export Market Share, in volume¹²</td>
<td>0.4</td>
<td>-0.6</td>
<td>0.9</td>
<td>1.4</td>
<td>n.a.</td>
</tr>
<tr>
<td>% y-o-y Change in Labour Productivity¹³</td>
<td>1.4</td>
<td>6.5</td>
<td>1.6</td>
<td>1.7</td>
<td>1.7⁽⁹⁾</td>
</tr>
<tr>
<td>% Change (10 years) in Nominal ULC¹⁴</td>
<td>n.a.</td>
<td>n.a.</td>
<td>11.9</td>
<td>16.4</td>
<td>n.a.</td>
</tr>
<tr>
<td>% Change (10 years) in ULC performance relative to EA¹⁵</td>
<td>47.4</td>
<td>-4.1</td>
<td>-5.1</td>
<td>-0.9</td>
<td>1.8</td>
</tr>
<tr>
<td>% Change (3 years) in Nominal House Prices¹⁶</td>
<td>n.a.</td>
<td>n.a.</td>
<td>-6.9</td>
<td>-6.7</td>
<td>-5.2⁽⁶⁾</td>
</tr>
<tr>
<td>Residential Construction as % of GDP¹⁷</td>
<td>2.7</td>
<td>2.6</td>
<td>2.7</td>
<td>2.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Private Sector Debt as % of GDP, non-consolidated¹⁸</td>
<td>43.5</td>
<td>73.0</td>
<td>77.2</td>
<td>78.1</td>
<td>81.0</td>
</tr>
<tr>
<td>Financial Sector Leverage (debt-to-equity)¹⁹</td>
<td>268.6</td>
<td>301.2</td>
<td>311.2</td>
<td>274.1</td>
<td>286.3</td>
</tr>
</tbody>
</table>

Indicators’ specification: 1) Real GDP % change (1 year); 2) Gross Fixed Capital Formation % of GDP; 3) Gross Domestic Expenditure on R&D % of GDP; 4) Net Lending/Borrowing % of GDP; 5) Net External Debt % of GDP; 6) Inward FDI Flows % of GDP; 7) Inward FDI Stocks % of GDP; 8) Net Trade Balance of Energy Products % of GDP; 9) Real Effective Exchange Rates - EA trading Partners % change (3 years); 10) Share of OECD exports % change (5 years); 11) Terms of Trade % change (5 years); 12) Export Market Shares - in volume % change (1 year); 13) Labour Productivity % change (1 year); 14) Nominal unit labour cost % change (10 years); 15) Unit labour cost performance related to EA % change (10 years); 16) Nominal house price index % change (3 years); 17) Residential Construction % of GDP Eurostat NA; 18) Private Debt, non-consolidated % of GDP; 19) Financial Sector Leverage (debt to equity) %.


⁽p⁾=provisional, n.a. = not available, (e) = estimated
9 GREECE

9.1 Executive summary

Among EU Member States Greece is the country hardest hit by the Great Recession, which highlighted not only cyclical but also structural barriers to successfully and sustainably overcoming the crisis.

The economic adjustment programmes undertaken by Greece since 2010 have resulted in the dramatic deterioration of employment and social conditions. By the end of 2013, the size of the economy had contracted by 23.5% in real terms relative to 2007. This resulted in an unprecedented rise in unemployment, particularly affecting women and the young generation. Along with unemployment, the social situation deteriorated markedly since the start of the crisis. The share of the population which is at-risk-of-poverty or social exclusion was 35.7% in 2013 (compared to 28.1% in 2008) and total household income in Greece dropped by 1/3 between 2007 and 2012. This is the biggest fall in the OECD and four times as big as the loss recorded in the average Eurozone country.

As successive Quarterly Reports underline, the crisis and ensuing prolonged economic recession highlighted a number of policy areas and issues which necessitated fiscal consolidation and structural reforms. Over time, there is progressively a definite increase in the importance awarded to employment and labour market related issues. The main thrust of the technical assistance offered, actions undertaken and measures/policies developed and implemented is on the need to improve the functioning of the labour market and generate employment. Given the dramatic high levels of youth unemployment, there has been a particular focus on the need to urgent take action in this field. The promotion of the social economy is another major policy area deemed critical for employment creation.

Public health and healthcare, including healthcare reform, also feature very prominently in all seven Quarterly Reports. In view of the high share of public expenditure spent on healthcare, healthcare reform is considered a crucial component of Greece's fiscal consolidation efforts and the current drive to increase the effectiveness and efficiency of its public spending.

The issues of poverty and/or social exclusion do not feature as prominently as employment and public health. To this end, the Task Force was expected to work with the Greek Government (Ministry of Labour) to arrange technical assistance for the development of a fully-fledged social welfare policy.

Limited reference is also made to pensions, especially in the earlier Quarterly Reports. That said, since the beginning of 2012, technical assistance has been activated to support the reorganisation of the two Insurance Guarantee Funds.

Inequality in terms of income level and/or distribution is not mentioned at all in any of the Quarterly Reports. Arguably, the only indirect reference concerns the particular emphasis that reports place on the sound functioning of the Greek tax administration system. As mentioned in both the 2013 and 2014 Quarterly Reports, this area is deemed crucial in terms of both enabling Greek authorities to increase tax revenues and delivering a fairer and more equitable distribution of the tax burden.
9.2 Background

Among EU Member States Greece is the country hardest hit by the recent Great Recession, which highlighted not only cyclical but also structural barriers to successfully and sustainably overcoming the crisis. Indeed, following a request from Greece in April 2010 and negotiations with the European Commission, the ECB and the IMF, the European Council on 2 May 2010 agreed an economic adjustment programme for Greece covering the period 2010-13. A second economic adjustment programme was agreed by the European Council on 13 March 2012 covering the period 2012–14 (European Commission, 2012). The combination of the crisis/recession, its aftermath and the drastic fiscal consolidation/excessive deficit reduction introduced by these economic adjustment programmes have resulted in the dramatic deterioration of employment and social indicators. Indeed, the economic crisis in Greece has affected most aspects of social life and changed living conditions dramatically (Sotiropoulos, 2014).

Compared to all other countries that were hit particularly hard by the crisis, e.g. ES, IE, IT, PT, Greece was hit the hardest and sustained the largest decline in GDP per capita (Sotiropoulos, 2014). For example, by the end of 2013 the size of the economy had contracted by 23.5% in real terms relative to 2007 (Matsaganis, 2013). This is far greater than the equivalent contraction in other southern European economies - Spain (-5.5%); Portugal (-7.4%); Italy (-7.8%) or Ireland (-5%) – over the same period. So deep and drawn out a recession has simply no precedent in the peacetime economic history of most advanced economies (Matsaganis, 2013). This has also been confirmed by a recent report by the European Parliament (2015), according to which the Greek crisis is exceptionally deep and long lasting, with a huge GDP drop of 25% between 2008 and 2014.

Not surprisingly, this rapid and deep deterioration of the economy (and related indicators) could not but be reflected in a bleak picture of the labour market and social conditions, with increasingly worsening employment and social indicators. Indeed, since the onset of the economic crisis there has been an unprecedented rise in unemployment, particularly affecting women and the young generation. According to the latest Eurostat data, in July 2015, Greece was characterised by the highest unemployment rates in the EU (25% for the population aged 15-74, compared to 7.8% in 2008) and 48.6% for youth aged 15-24 (compared to 22.1% in 2008) (Eurostat, 2015a).

Along with unemployment, the social situation deteriorated markedly since the start of the crisis. The share of the population which is at-risk-of-poverty or social exclusion was 35.7% in 2013 (compared to 28.1% in 2008) (Eurostat, 2015b). This was confirmed by a recent European Parliament report (2015), which found that, most non-monetary social exclusion indicators deteriorated sharply in Greece. Specifically, the at-risk-of-poverty rate anchored in 2008 increased by 30 percentage points, highlighting the severity of the crisis. This was also reflected in the rise of the at-risk-of-poverty rate and social exclusion (AROPE), from 28.3% in 2007 to 36% in 2014 (European Parliament, 2015). Crucially, according to this report, all four social exclusion indicators increased by about 10 percentage points between 2007 and 2010 (European Parliament, 2015). This, in turn, means that wide sections of the population who were previously far from poverty, began to feel threatened. Indeed, in terms of social exclusion and compared to other bailout countries, Greece stands out as being affected at an earlier stage and by a greater margin (European Parliament, 2015).
When social transfers are taken into account Greece also had the highest proportion of population who is at-risk-of-poverty (23.1% in 2013) (Eurostat, 2015c). Significantly, Greece is one of the EU countries where the relative impact of social benefits is lowest (Eurostat, 2015c; OECD, 2014). However, as the report states, as low incomes fell in line with the general level, relative poverty and inequality measures rose only modestly. Specifically, the at-risk-of-poverty rate, increased from 20.1% in 2010 to a maximum of 23.1% in 2013 while it fell back to 22.1% in 2014. Moreover, although the crisis has affected everyone, its impact has been greater on those with the middle and high incomes than the ones with the lowest.

Moreover, between 2012 and 2013 Greece saw the fastest expansion in the proportion of persons aged less than 60 living in households with very low work intensity (up 4 percentage points). In 2014, this percentage stood at 17.2% (compared to 7.5% in 2008) (Eurostat, 2015b). Likewise, the material deprivation rate almost doubled between 2008 (11.2%) and 2014 (21.5%) (Eurostat, 2015b).

The inequality of income distribution has also historically been among the highest in the EU with the Income quintile share ratio being 6.5 in 2014 (compared to 5.9 in 2008) (Eurostat, 2015c). As mentioned earlier, as a result of the crisis and its aftermath, the gross disposable income per capita has fallen drastically from €19,161 in 2008 to €14,797 in 2013 (Eurostat, 2015c). Indeed, total household income in Greece dropped by 1/3 between 2007 and 2012, with average losses of some €4,400 euros per person. This is the biggest fall in the OECD and four times as big as the loss recorded in the average Eurozone country. Income losses reflected the unprecedented deterioration of labour market conditions across large parts of the population, and particularly among youth (OECD, 2014 and 2015). This was also confirmed by a recent European Parliament report (2015) which showed that in relation to monetary poverty, incomes and hence hardship were greatly affected with a sharp decrease in the former and a rise in the latter. Specifically, between 2010 and 2014 the income of the middle individual, i.e. the median income, fell by 35.8% and between 2007 and 2014 by 25%. In absolute numbers, the at risk of poverty line (60% of median income) fell from €6,100 in 2007 to €4,600 in 2014 (European Parliament, 2015).

Against this backdrop, the seven Quarterly Reports prepared by the Commission’s Task Force for Greece (TFGR) have progressively reflected the rapidly deteriorating labour market/employment and social conditions with greater urgency.

9.3 Employment and Labour Markets

As successive Quarterly Reports underline, the crisis and ensuing prolonged economic recession highlighted a number of policy areas and issues which necessitated fiscal consolidation and structural reforms. Indeed, over time, there is progressively a definite increase in the importance awarded to employment and labour market related issues. This was, inter alia, reflected in the length and details of content of the section ‘Labour Market, Social Security, Innovation and Education’ which forms part of each Quarterly Report. In addition, the language used is quite stark, with most Quarterly Reports making explicit and recurring references to the very high levels of unemployment and youth unemployment, and to the very difficult state of the labour market, with the sixth Report describing the latter as dramatic (TFGR, 2012b, 2013b, 2014a, and 2014b).
As a result of the persistent recession, all Quarterly Reports admit that unemployment, and youth unemployment in particular has reached unprecedented heights (TFGR, 2012a, 2012b, 2013a). Indeed, acknowledging Greece's severe budgetary and financial constraints, they stress the need to redouble efforts so as to maximise the full potential of cohesion policy funds, by speeding up the take up of these funds through more efficient implementation, adapting cohesion policy instruments to the grave Greek situation as much as possible, removing related obstacles and focusing strongly on projects with higher economic and social impact (TFGR, 2012a). The main thrust of the technical assistance offered, actions undertaken and measures/policies developed and implemented is on the need to improve the functioning of the labour market and create employment (TFGR, 2012b).

According to the sixth Quarterly Report, this is also underpinned by Greece’s the Economic Adjustment Programme which seeks to bring about a permanent improvement in the functioning of the Greek labour market so as to combat unemployment through a mix of labour market reforms and of policies aimed at facilitating the transition across jobs (TFGR, 2014a).

For example, the second Quarterly Report refers to a list of 181 priority projects, published in November 2011 and accounting for 56% of available funding over the programming period, which could potentially have a significant impact on growth and employment. As a result, the report states that these 181 projects would be the focus of intensive monitoring and support by the Greek authorities and the European Commission (TFGR, 2012a). Likewise, it stresses the urgent need to use ESF funds help mitigate the high levels of youth unemployment (TFGR, 2012a).

Given the dramatically high levels of youth unemployment (as described by the fifth Quarterly Report, TFGR, 2013b), there has understandably been a great focus on the need to urgent take action. With the help of experts from several Member States (AT, FR, PT and the UK) who also participated in a workshop at the beginning of November 2012, the ‘Action Plan to strengthen Youth Employment and Entrepreneurship’ was launched in January 2013 by the Ministries of Labour, Education and Development (TFGR, 2012b, 2012c and 2013a). Supported by a budget of €608 million (mobilized through the reprogramming of ESF-funded operational programmes), its aim is to help 350,000 young job-seekers (TFGR, 2012c and 2013a).

In addition, in December 2013, the Greek Government submitted a Youth Guarantee Implementation Plan to the European Commission. This plan, developed jointly by the Ministries of Labour and Education as well as the Greek public employment service (OAED), was expected to be finalised and implemented with TFGR support. To this end, technical assistance offered by the TFGR was expected to consist of developing practical steps, infrastructure and systems needed to gradually implement an effective Youth Guarantee, including development of close co-operation between the numerous parties involved (TFGR, 2014a). The intention is to gradually introduce a Youth Guarantee for all 15-24 year olds of a job, apprenticeship, traineeship or continued education four months after leaving education or leaving employment. Funding from the Youth Employment Initiative (YEI) and the ESF of €350 million is earmarked to

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66 The Growth criterion refers to projects intended to contribute to growth, either directly or indirectly, by fostering business competitiveness; improving productivity; creating employment and/or improving the skills of the unemployed and the workforce; The Social Impact criterion refers to projects aimed at improving social conditions either through creating employment and/or by improving the infrastructure that supports communities.
support a target group of 240,000 young people not in education, employment or training (NEET) (TFGR, 2014a).

In the face of rapidly rising unemployment levels and in order to meet the relevant MoU requirement and finalise the ‘Action Plan to help the unemployed’ the Greek Government received TFGR technical assistance as well as help from experts from other Member States (AT, FR). For example, a workshop was held in April 2013 where labour market experts from Austria, the Czech Republic, France, Portugal, and Sweden provided input to the Labour Ministry and Greek labour market experts charged with developing the ‘Action Plan for the creation of new jobs and supporting the unemployed’ (TFGR, 2013a and 2013b). The focus of the workshop was on the delivery of concrete improvements to boost employment through (i) apprenticeships and vocational training; (ii) public works programmes; and (iii) social economy entrepreneurship (TFGR, 2013b). It also looked at how to implement such a plan in a crisis situation (TFGR, 2013a). On the basis of this input, the Employment Action Plan was subsequently refined and submitted to the European Commission at the beginning of September 2013, with its implementation scheduled to start before the end of 2013 (TFGR, 2013b).

In August 2013, the Greek Government also launched a public works programme to create 50,000 temporary jobs funded with €216 million from unused Structural Funds (TFGR, 2013b). According to this programme more than 50,000 unemployed people would be given the opportunity to work for five (5) months. This new programme sought to provide jobs to families with no income and create temporary jobs in municipalities, regions, hospitals, courts, and insurance funds (TFGR, 2013b).

The promotion of the social economy is another major policy area deemed critical for employment creation. As mentioned in the second Quarterly Report, the ESF funded project to establish a 'social economy' is regarded as especially significant in terms of helping to create new employment opportunities (TFGR, 2012a). The overall objective is to support the Greek Government in establishing conditions favouring the flourishing of a social economy, including an effective support ecosystem (TFGR, 2012b and 2013a). To this end, the ILO has proposed to provide support through a Co-operation Agreement in relation to the promotion of social economy enterprises (TFGR, 2013a and 2013b).

Moreover, experts from Sweden, Germany, France, Belgium and the UK have been helping the Greek Government in developing an effective social economy ecosystem.

For example, Swedish and German experts sit on a Technical Steering Committee that provides advice on the introduction and development of the social economy, and have helped to devise plans for creating support networks for fledgling social enterprises at national and local level. Experts from France, Belgium and the UK are also engaged in groups set up to develop criteria for the award of grants to new social co-operatives, and to devise means of providing micro credits (TFGR, 2012b).

Likewise, experts from Sweden, Germany, France, Belgium and the UK jointly with Greek experts presented to the Ministry of Labour an Outline Strategy and Priorities for Action in January 2013. The expert recommendations were then reflected in an Action Plan prepared by the Ministry about the social economy, while at the same time, discussions continued on how best to channel the offers of assistance from social enterprises and networks in many Member States (TFGR, 2012b and 2013a).
In view of the dramatically rising unemployment levels and reduced public spending, the modernisation of OAED in order to be able to effectively deal with the increased demand for its services is given high priority in a number of Quarterly Reports (TFGR, 2012b, and 2013a). To this end, a new road map was developed by the Greek authorities with the help of experts from PES from three other Member States (DE, SE and the UK) (TFGR, 2012b). To this end, a Co-operation Agreement, facilitated by the TFGR, was signed between OAED and the Public Employment Services (PES) of these Member States (TFGR, 2013a). By 2014, the action plan for implementing various strands of the OAED’s Re-engineering programme had moved to the implementation stage (TFGR, 2014a).

According to a recent European Parliament report (2015), the successive Memoranda introduced labour market reforms which, although extensive, have lacked a clear and coherent direction. These changes can be grouped in four categories: (i) urgent crisis measures to address the public finance emergency (public sector deficit) from 2010 onwards. These included cuts to public salaries and a much stricter 1 to 5 hiring rule as well as incentives for early retirement among civil servants; (ii) a set of urgent measures were designed to increase competitiveness such as the reduction of the national minimum wage by 22% (32% for those aged below 25) under-25s in February 2012 and its freeze for the duration of the programme as well as suspension of seniority payments; (iii) structural reforms such as the setting of the NMW by the government, encouraging firm-level agreements, and relaxing employment protection by, inter alia, reducing both the notice period for dismissals and severance pay; and (iv) changes in unemployment benefits such as increasing conditionality by introducing conditions linking eligibility with job search and increasing the maximum length of unemployment benefit to 12 months (European Parliament, 2015).

9.4 Poverty and Social Exclusion

The issues of poverty and/or social exclusion do not feature as prominently as employment and public health. However, there is a growing realisation that dramatic and persistent levels of high unemployment (and youth unemployment) are contributing to increased poverty and widened hardship (TFGR, 2012b, 2013a). For example, as the fourth Quarterly Report states, the continued rise in unemployment (and youth unemployment) is contributing to increased poverty, especially amongst families where no-one is employed. As a result, it underlines that the development of a welfare safety net has become increasingly important (TFGR, 2013a). To this end, the Task Force would work with the Greek Government (Ministry of Labour) to arrange technical assistance for the development of a fully-fledged social welfare policy (TFGR, 2013a).

As reported in the fifth Quarterly Report, first steps were taken towards the creation of a basic social safety net in Greece. Specifically, a pilot project was likely to be developed with the support of the World Bank and expected to be rolled out in 2014 (TFGR, 2013b). Indeed, the World Bank Group (WBG) made several high level missions to Greece between June and July 2013 with a view to proposing the establishment of a social safety net and more effective targeting of social benefits (housing, family, disability benefits etc.). Following this, the WBG produced a detailed paper on a Minimum Income Scheme and the steps needed to start a pilot running by early 2014 which was discussed at a high level meeting in August 2014 (TFGR,
As reported in the sixth Quarterly Report, a Cooperation Agreement between the Ministry of Labour and the WBG was signed at the end of October 2013 on developing and rolling out a pilot project on the establishment of a means tested income support programme, which is intended to provide the basic architecture for subsequent national roll-out (TFGR, 2014a and 2014b). Crucially, as underlined in the sixth Quarterly Report, this pilot project is of utmost importance in view of the social emergency that Greece is experiencing (TFGR, 2014a).

There is also some reference to struggling lower-income and/or workless households in meeting the cost of living. For example, the inefficient operation of the Greek product and service markets helps, inter alia, explain why, despite falling demand, and lower input costs, including wages, retail prices in Greece have not adjusted downwards, placing further pressure on households struggling with lower incomes and unemployment (TFGR, 2012b). Moreover, in the Fourth Quarterly Report there is one reference in social cohesion as being (together with growth) the government's priority quests in view of the very difficult economic conditions and rising unemployment (TFGR, 2013a).

Finally, the seventh Quarterly Report stresses the importance of the Partnership Agreement (PA), adopted by the European Commission on 23 May 2014, and associated EU funds (European Structural and Investment Funds 2014-2020 (ESIF) in, inter alia, boosting growth, tackling unemployment, creating good quality jobs, and combatting social exclusion (TFGR, 2014b). As is explained, the swift PA adoption was facilitated by very close co-operation between the Greek authorities, the ESIF-Directorates General of the European Commission and the TFGR. Technical assistance helped improve the quality of the document and clarify the articulation of the PA’s strategic vision for growth and employment; this included identifying which investments needed to be made at the very beginning of the programming period to help alleviate the social effects of the crisis by stimulating growth and employment, maintaining the social fabric and implementing the Youth Guarantee (TFGR, 2014b).

According to a recent European Parliament report (2015), the absence of a social safety net in Greece has led to widespread hardship for the population which is also reflected in the unprecedented (in peacetime) fall in living standards. However, as the report states, relative measures of poverty, though, point to a more modest and nuanced impact which, in turn, means that focusing on a rich/poor dichotomy can be misleading. Indeed, the crisis has affected people of similar income characteristics differently. For example, there was a major shift of poverty risk from the older population (whose relative poverty risk fell) to working age families with insufficient access to the labour market and for whom there were gaps in social protection (European Parliament, 2015).

9.5 Pensions and Social Security

Limited reference is to pensions is made, especially in the earlier Quarterly Reports. That said, since the beginning of 2012, TFGR has, at the request of the Bank of Greece, been organising technical assistance to support the reorganisation of the two Insurance Guarantee Funds (TFGR, 2012c). Indeed, the TFGR has been following developments in the insurance sector in close cooperation with the Bank of Greece which has been entrusted with developing proposals for rationalising the legislation related to the country’s occupational pension schemes (TFGR, 2014a).
Pension Reform is mentioned in the fourth Quarterly Report with the Ministry of Labour expressing interest in technical assistance for the organisational and operational elements of the newly established Unified Fund of Supplementary Insurance (ETEA) (TFGR, 2013a). In particular, there are on-going discussions between the TFGR and the Bank of Greece on the capacity of the insurance sector to assume social security/pension schemes in compliance with enhanced requirements under the EU legislative framework. Following this, a new project was under preparation with the support of TFGR consisting in providing technical assistance and expertise for the reshuffling of the legislation related to occupational pension schemes (TFGR, 2013a).

Moreover, the TFGR organised technical assistance consisting of a two-day workshop in December 2013 with the participation of experts from regulatory authorities of seven Member States (DE, FR, IE, NL, PT, SE, UK) and the European Insurance and Occupational Pensions Authority (EIOPA). The purpose of the workshop was to share experience from Member States with more mature occupational pensions markets and provide the Bank of Greece with an overview of the basic features of their systems, including supervisory and quantitative requirements (TFGR, 2014a).

As outlined in the sixth Quarterly Report, occupational pensions in Greece are currently provided by both institutions providing occupational pensions (IORPS) (called occupational funds) and life assurance undertakings, although the latter dominate by far. There are on-going discussions with the Bank of Greece on the capacity of the insurance sector to assume social security/pension schemes in compliance with enhanced requirements under the EU legislative framework (TFGR, 2014a). Moreover, at the end of May 2014, the Ministry of Labour assigned a study on the administrative reform and operational modernisation of the social insurance structure to KEPE, the centre for economic planning and research. KEPE requested technical assistance on identifying best practices from countries that have undergone transition from many small funds to a few larger ones (TFGR, 2014b).

In contrast, the Quarterly Reports emphasise the need for a revamped and effective social security system, not least because the Greek Government was explicit in asking for technical assistance in improving social security contribution collection and the operation of Social Security Funds (OPAD, IKA, TAIKEKO, OAED, etc.) (as part of the country's tax system modernisation and improvement) (TFGR, 2012a). As mentioned in the third Quarterly Report, technical assistance is provided by an IMF supervised expert in order to develop a fully articulated strategy for the collection of social security contributions (TFGR, 2012b and 2013a). Moreover, as stated in the sixth Quarterly Report, the technical assistance to the collection of social security contributions continued in support of objectives of the Economic Adjustment Programme, notably the establishment of a joint collection centre for Social Security Funds (KEAO) (TFGR, 2014a).

Likewise, emphasis is placed on the need to combat undeclared work which, as a number of Quarterly Reports stress, is a major issue affecting the Greek labour market, violating labour laws and endangering the viability of a sustainable social security system (TFGR, 2012b, 2013a and 2013b). Indeed, following an assessment carried out by the ILO at the end of October 2012 and an Action Plan produced at the end of February 2013, there has been a renewed focus on strengthening the Labour Inspectorate (SEPE) (TFGR, 2012b, 2013a and 2013b).
According to a recent European Parliament report (2015), with a view to securing their long-term sustainability, pensions were the first issue addressed in 2010. Special attention was paid, inter alia, to the issue of early retirement, historically quite widespread among certain sectors and occupations such as ‘arduous and unhygienic occupations’ which covered about 40% of private sector contributors and led to expenditure overruns (European Parliament, 2015). A series of laws such as the Pensions Reform Law 3863/10 have underpinned the extensive pension reform which has resulted in considerable cuts to existing pensions, which for some exceeded 40% (European Parliament, 2015). Even so, Greece is still the country with the largest pension spending as a percent of GDP (European Parliament, 2015).

9.6 Healthcare/Public Health

Public health and healthcare, including healthcare reform, feature very prominently in all seven Quarterly Reports. As both the second and third Quarterly Reports stress, in view of the high share of public expenditure spent on healthcare (some 6% of GDP and over 11% of all public expenditure in 2009), healthcare reform is considered a crucial component of Greece’s fiscal consolidation efforts and to increase the effectiveness and efficiency of its public spending (TFGR, 2012b and 2012c). The overall aim of Greece’s healthcare reform has been the need to improve public health budgeting while maintaining access to good health care services. To this end, Greece had requested technical assistance relating to efficient pricing of medicines, proper accounting and monitoring of expenditure (including e-Prescription), setting up of the integrated sickness fund, modern procurement, invoicing and administration and the concentration and specialisation of hospitals and departments in the national health system while, at the same time, ensuring mobility of staff (TFGR, 2012b and 2012c).

These requests were framed by a Memorandum of Understanding (MoU) between Greece, the Domain Leader Germany (as representative of all EU Member States) and the TFGR signed in February 2012 (TFGR, 2012b, 2012c, 2013a and 2013b). Within the framework of this MoU, the Greek government confirmed its commitment to healthcare reform by establishing in September 2012 a Health Reform Steering Committee and seven Sub-Committees67 (TFGR, 2012c). The former is responsible for developing, coordinating and monitoring the implementation of the commonly agreed Road Map on Health Reforms (‘Health in Action’) adopted in March 2013 (TFGR, 2013a and 2013b). In particular, it will supervise coordinate and monitor reform efforts in the management of the national organisation for healthcare (EOPYY), pharmaceutical policy, hospital management, primary health care and health tourism (TFGR, 2012b).

The Sub-Committees are responsible for the development, coordination and implementation of the individual pillars of this Road Map (TFGR, 2012c, 2013a and 2013b).

In July 2013, the Greek government signed a Contribution Agreement with the World Health Organisation (WHO). This agreement permitted the financing and implementation of technical assistance worth €10 million for the strategic priorities of

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67 These Sub-Committees are: 1) EOPYY; 2) Hospital management; 3) Diagnostic related groups; 4) e-Prescription; 5) Pricing and reimbursement of pharmaceuticals; 6) Primary healthcare; and 7) Health tourism.
its overarching health reform initiative ('Health in Action') (TFGR, 2013b). At the time of producing the seventh (and last) Quarterly Report the Greek government was negotiating a second Contribution Agreement with the WHO with a focus on primary health care and hospital management, including a reformed reimbursement system (Diagnosis Related Groups, DRGs) (TFGR, 2014b).

As mentioned in all Quarterly Reports, the TFGR worked with the Ministry of Health and the Ministry of Labour and Social Security to support the various strands of the healthcare reforms. In particular, these strands concerned

(i) the responsible consumption of healthcare services and products, e.g. through the introduction of e-Prescription;

(ii) competitive and cost-effective pricing of pharmaceuticals, e.g. through benchmarking pharmaceutical prices against those in the three least expensive Member States and promoting a bigger share for generic medicines; and

(iii) the improvement of the healthcare environment by assisting the setting up of the integrated sickness fund (EOPYY) (TFGR, 2012b).

According to the seventh Quarterly Report the aim of the technical assistance is to support reforms designed to curb health expenditure while building an effective primary healthcare system accessible to all and increasing the quality of care delivery (TFGR, 2014b). The TFGR has supported the healthcare reform process and its implementation against the background of the two priorities of

(i) building an effective network of primary healthcare; and

(ii) ensuring universal access to health care, including specialist care (TFGR, 2014b).

Although the Quarterly Reports regularly report key developments and progress in relation to public health and healthcare reform, this information is quite descriptive and does not discuss in any detail the impact of the crisis on the current state of the Greek healthcare system and the repercussions for the patients. It is worth noting that only in the Third Quarterly Report it is mentioned that, while Greece has made progress in its MoU commitments aimed at curbing healthcare expenditure, the healthcare system has greatly suffered from financial uncertainty (decrease of social security contributions, accumulation of arrears, uncertainty on overall budgets) (TFGR, 2012c).

According to a recent European Parliament report (2015), the focus of the extensive healthcare changes was mainly on cost containment and demand management in order to reverse the pre-crisis exceptionally rapid growth in public expenditure which was also accompanied by widespread user dissatisfaction. The first measures focused on rationalising demand, by consolidating the fragmented Health Insurance system and separating it from pensions. To this end, as mentioned earlier, in June 2011 all Health social insurance funds were merged in a single entity (EOPYY) to create a single purchaser (and economies for scale) (European Parliament 2015).

In order to contain the burgeoning healthcare costs, there has been a major effort to contain costs in hospitals through structural reforms (some hospital mergers of hospitals), changes to the hospital payment system (by launching the above mentioned DRGs), introducing a new procurement system aimed at reducing the cost of hospital supplies, and securing changes in pharmaceutical pricing (European
Parliament 2015). According to the report, to date there is only anecdotal evidence about the deterioration in health outcomes of the general population.

9.7 Income Inequality

Inequality in terms of income level and/or distribution is not mentioned at all in any of the Quarterly Reports. Arguably, the only indirect reference concerns the particular emphasis that reports place on the sound functioning of the Greek tax administration. As mentioned in both the 2013 and 2014 Quarterly Reports, this area is deemed crucial in terms of both enabling Greek authorities to increase tax revenues and delivering a fairer and more equitable distribution of the tax burden. To this end, the priority of the technical assistance will, *inter alia*, be on the tax audit of high wealth and high income individuals (TFGR, 2013b; 2014a and 2014b).

9.8 Annex

Lists of documents:


Scoreboard and Auxiliary indicators for Greece
Table 29:  Macro and Fiscal Scoreboard Indicators

<table>
<thead>
<tr>
<th>Headline Indicators</th>
<th>Thresholds</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Imbalances and Competitiveness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Account Balance as % of GDP(^1)</td>
<td>3 year average level year</td>
<td>-4%/+6%</td>
<td>-11.2</td>
<td>-1.5</td>
<td>-0.1</td>
<td>-1.2</td>
</tr>
<tr>
<td>Net International Investment Position as % of GDP(^2)</td>
<td>-35%</td>
<td>77.3</td>
<td>98.3</td>
<td>109.2</td>
<td>121.1</td>
<td>121.9</td>
</tr>
<tr>
<td>Real Effective Exchange Rate(^3)</td>
<td>% change (3 years) +/-5% for EA</td>
<td>6.4</td>
<td>2.9</td>
<td>-5.0</td>
<td>-4.4</td>
<td>-5.6</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change +/-11% non-EA</td>
<td>-1.1</td>
<td>-1.2</td>
<td>-4.4</td>
<td>-0.6</td>
<td>-0.6</td>
</tr>
<tr>
<td>Export Market Shares(^4)</td>
<td>% change (5 years) -6%</td>
<td>6.3</td>
<td>-20.0</td>
<td>-26.9</td>
<td>-27.3</td>
<td>-17.5</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>-7.5</td>
<td>-14.2</td>
<td>-6.8</td>
<td>2.9</td>
<td>6.85</td>
</tr>
<tr>
<td>Nominal ULC(^5)</td>
<td>% change (3 years) +9% EA +12% non-EA</td>
<td>12.1</td>
<td>13.1</td>
<td>3.2(^{(p)})</td>
<td>10.3(^{(p)})</td>
<td>11.6(^{(p)})</td>
</tr>
<tr>
<td></td>
<td>% y-o-y change</td>
<td>9.1</td>
<td>0.3</td>
<td>-3.3(^{(p)})</td>
<td>-7.0(^{(p)})</td>
<td>-1.6(^{(p)})</td>
</tr>
<tr>
<td><strong>Internal Imbalances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Change in Deflated House Price Index(^6)</td>
<td>+6%</td>
<td>7.8(^{(e)})</td>
<td>8.1(^{(e)})</td>
<td>-12.3(^{(e)})</td>
<td>-9.3(^{(e)})</td>
<td>-5.6(^{(e)})</td>
</tr>
<tr>
<td>% Private Sector Credit Flow(^7)</td>
<td>+14%</td>
<td>14.3</td>
<td>5.6(^{(p)})</td>
<td>-5.7(^{(p)})</td>
<td>-1.1(^{(p)})</td>
<td>-2.5</td>
</tr>
<tr>
<td>% Private Sector Debt(^8)</td>
<td>+133%</td>
<td>86.2</td>
<td>128.8</td>
<td>130.5(^{(p)})</td>
<td>135.6(^{(p)})</td>
<td>129.0</td>
</tr>
<tr>
<td>% General Government Sector Debt(^9)</td>
<td>60%</td>
<td>101.2</td>
<td>146.0</td>
<td>156.9</td>
<td>174.9</td>
<td>177.1</td>
</tr>
<tr>
<td>% Change in Total Financial Sector Liabilities(^10)</td>
<td>+16.5%</td>
<td>16.8</td>
<td>7.7</td>
<td>-3.3</td>
<td>-16.3</td>
<td>-7.7</td>
</tr>
</tbody>
</table>

Indicator specification: 1) 3 year backward moving average of the current account balance as percent of GDP with thresholds of +6% and -4% (and current account balance as percent of GDP); 2) net international investment position as percent of GDP, with a threshold of -35% (change over 3 years and year-over-year change); 3) 3-year percentage change of the real effective exchange rates based on HICP/CPI deflators, relative to 41 other industrial countries, with thresholds of +/-5% for euro area countries and +/-11% for non-euro area countries (and year-over-year change); 4) 5-year percentage change of export market shares measured in values, with a threshold of -6% (and year-over-year change); 5) 3-year percentage change in nominal unit labour cost, with thresholds of +9% for euro area countries and +12% for non-euro area countries (and year-over-year change); 6) year-over-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6% (and year-over-year change); 7) private sector credit flow in % of GDP with a threshold of 14%; 8) private sector debt (consolidated) in % of GDP with a threshold of 133%; 9) general government sector debt in % of GDP with a threshold of 60%; 10) year-over-year changes in total financial sector liabilities, with a threshold of 16.5%.


\(^{(p)}\) = provisional, \(^{(e)}\) = estimated
## Table 30: Macro and Fiscal Auxiliary Indicators

<table>
<thead>
<tr>
<th>Auxiliary Indicators</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>% y-o-y change in Real GDP</td>
<td>0.9</td>
<td>-5.4</td>
<td>-6.6</td>
<td>-3.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation as % of GDP</td>
<td>20.7</td>
<td>17.3</td>
<td>11.7</td>
<td>11.2</td>
<td>11.6</td>
</tr>
<tr>
<td>Gross Domestic Expenditure on R and D as % of GDP</td>
<td>0.6</td>
<td>n.a.</td>
<td>0.7</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Net Lending / Borrowing as % of GDP</td>
<td>-6.6</td>
<td>-9.0</td>
<td>-1.2</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Net External Debt as % of GDP</td>
<td>59.2</td>
<td>102.4</td>
<td>122.0</td>
<td>130.9</td>
<td>131.8</td>
</tr>
<tr>
<td>Inward FDI flows as % of GDP</td>
<td>0.3</td>
<td>0.2</td>
<td>0.7</td>
<td>1.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Inward FDI stocks as % of GDP</td>
<td>12.8</td>
<td>15.1</td>
<td>11.4</td>
<td>11.1</td>
<td>11.1</td>
</tr>
<tr>
<td>Net Trade Balance of Energy Products as % of GDP</td>
<td>-3.3</td>
<td>-3.0</td>
<td>-3.9</td>
<td>-3.4</td>
<td>-3.2</td>
</tr>
<tr>
<td>% Change (3 years) in Export vs. EA</td>
<td>3.7</td>
<td>5.1</td>
<td>2.0</td>
<td>-3.4</td>
<td>-5.6</td>
</tr>
<tr>
<td>% Change (5 years) in Export Performance vs. Advanced Economies</td>
<td>15.9</td>
<td>-12.6</td>
<td>-19.2</td>
<td>-22.1</td>
<td>-11.63</td>
</tr>
<tr>
<td>% Change (5 years) in Terms of Trade</td>
<td>1.7</td>
<td>-0.9</td>
<td>-3.5</td>
<td>-0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>% y-o-y Change in Export Market Share, in volume</td>
<td>-5.1</td>
<td>-7.5</td>
<td>-3.0</td>
<td>-0.6</td>
<td>n.a.</td>
</tr>
<tr>
<td>% y-o-y Change in Labour Productivity</td>
<td>0.0</td>
<td>-2.8</td>
<td>1.4</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>% Change (10 years) in Nominal ULC</td>
<td>61.5</td>
<td>44.1</td>
<td>24.0</td>
<td>14.1</td>
<td>10.4</td>
</tr>
<tr>
<td>% Change (10 years) in ULC performance relative to EA</td>
<td>41.1</td>
<td>20.1</td>
<td>4.9</td>
<td>-2.9</td>
<td>-6.0</td>
</tr>
<tr>
<td>% Change (3 years) in Nominal House Prices</td>
<td>19.5</td>
<td>-6.6</td>
<td>-20.4</td>
<td>-25.5</td>
<td>27.1</td>
</tr>
<tr>
<td>Residential Construction as % of GDP</td>
<td>9.0</td>
<td>5.0</td>
<td>3.0</td>
<td>2.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Private Sector Debt as % of GDP, non-consolidated</td>
<td>86.5</td>
<td>128.8</td>
<td>130.5</td>
<td>135.6</td>
<td>129.0</td>
</tr>
<tr>
<td>Financial Sector Leverage (debt-to-equity)</td>
<td>291.7</td>
<td>1680.7</td>
<td>1056.0</td>
<td>792.7</td>
<td>1038.0</td>
</tr>
</tbody>
</table>

Indicators’ specification: 1) Real GDP % change (1 year); 2) Gross Fixed Capital Formation % of GDP; 3) Gross Domestic Expenditure on R&D % of GDP; 4) Net Lending/Borrowing % of GDP; 5) Net External Debt % of GDP; 6) Inward FDI Flows % of GDP; 7) Inward FDI Stocks % of GDP; 8) Net Trade Balance of Energy Products % of GDP; 9) Real Effective Exchange Rates - EA trading Partners % change (3 years); 10) Share of OECD exports % change (5years); 11) Terms of Trade % change (5years); 12) Export Market Shares - in volume % change (1 year); 13) Labour Productivity % change (1 year); 14) Nominal unit labour cost % change (10 years); 15) Unit labour cost performance related to EA % change (10 years); 16) Nominal house price index % change (3 years); 17) Residential Construction % of GDP Eurostat NA; 18) Private Debt, non-consolidated % of GDP; 19) Financial Sector Leverage (debt to equity) %.

Data Source: from 2005 to 2013 Statistical Annex of AMR 2015

(p)=provisional, n.a. = not available, (e) = estimated
Table 31: Employment and Social Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>EU area</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td><strong>MIP Scoreboard</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate (moving average)¹</td>
<td></td>
<td>10.1 (i)</td>
<td>10.0</td>
<td>18.4</td>
<td>23.3</td>
<td>9.1</td>
</tr>
<tr>
<td>% Change in Employment²</td>
<td></td>
<td>0.9</td>
<td>2.7</td>
<td>7.8 (p)</td>
<td>3.8 (p)</td>
<td>0.7 (p)</td>
</tr>
<tr>
<td>Activity rate³</td>
<td></td>
<td>66.8</td>
<td>67.8</td>
<td>67.5</td>
<td>67.5</td>
<td>67.4</td>
</tr>
<tr>
<td>Long-term Unemployment Rate⁴</td>
<td></td>
<td>5.2</td>
<td>5.7</td>
<td>14.5</td>
<td>18.5</td>
<td>19.5</td>
</tr>
<tr>
<td>Youth Unemployment Rate⁵</td>
<td></td>
<td>25.8</td>
<td>33.0</td>
<td>55.3</td>
<td>58.3</td>
<td>52.4</td>
</tr>
<tr>
<td>% Young People NEET ⁶</td>
<td></td>
<td>16.1</td>
<td>14.8</td>
<td>20.2</td>
<td>20.4</td>
<td>19.1</td>
</tr>
<tr>
<td>% People at Risk of Poverty or Social Exclusion ⁷</td>
<td></td>
<td>29.4</td>
<td>27.7</td>
<td>34.6</td>
<td>35.7</td>
<td>36.0</td>
</tr>
<tr>
<td>At-risk Poverty Rate⁸</td>
<td></td>
<td>19.6</td>
<td>20.1</td>
<td>23.1</td>
<td>23.1</td>
<td>22.1</td>
</tr>
<tr>
<td>Severe Material Deprivation Rate⁹</td>
<td></td>
<td>12.8</td>
<td>11.6</td>
<td>19.5</td>
<td>20.3</td>
<td>21.5</td>
</tr>
<tr>
<td><strong>Auxiliary Indicators</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Persons Living in Households with Very Low Work Intensity¹⁰</td>
<td></td>
<td>7.6</td>
<td>7.6</td>
<td>14.2</td>
<td>18.2</td>
<td>17.2</td>
</tr>
</tbody>
</table>

Indicator specification: 1) 3-year backward moving average of unemployment in % of labour force; 2) %y-o-y change in employment; 3) percentage of economically active population (15-64 years) out of the total population of the same age; 4) unemployment in % of active population in the same age group; 5) youth (15-24 years old) unemployment in % of active population in the same age group; 6) young people (15-24 years old) not in education, employment or training in % of total population; 7) people at risk of poverty or social exclusion as % of total population; 8) people at risk of poverty after social transfers rate as % of total population; 9) severely materially deprived people as % of total population; 10) people living in households with very low work intensity (the adults worked less than 20% of their total work potential during the past year) as % of total population.

Data Source: from 2005 to 2013 Statistical Annex of AMR 2015

The second part of the table summarises data for the EU27 (2005-2013) and the EU28 (2014) (Source: Eurostat)

*data for EU27 are not available for 2005-2013. EU28 values are presented instead. (p) = provisional, n.a. = not available, (i) = Eurostat backcalculation to include Population Census 2011 results.
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