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Subject:	DRAFT JOINT EMPLOYMENT REPORT FROM THE COMMISSION AND THE COUNCIL accompanying the Communication from the Commission on the Annual Growth Survey 2017 - Adoption

Delegations will find attached the draft Joint Employment Report, as finalised by the Employment Committee.

The Permanent Representatives Committee is invited to forward the draft Joint Employment Report to the EPSCO Council for adoption.

**JOINT EMPLOYMENT REPORT**  
**FROM THE COMMISSION AND THE COUNCIL**  
**accompanying the Communication from the Commission**  
**on the Annual Growth Survey 2017**

**Key Messages**

The Joint Employment Report (JER), mandated by Article 148 TFEU, is part of the Annual Growth Survey (AGS) package launching the European Semester. As a key input to EU economic governance, the JER provides an annual overview of key employment and social developments in Europe as well as Member States' reform actions in line with the Guidelines for the Employment Policies of the Member States and AGS priorities.

In this context, the Joint Employment Report 2017 indicates the following:

1. ***The employment and social situation is improving in a context of moderate economic recovery.** As a result the 75% employment rate target of the Europe 2020 strategy may be reached by 2020 provided the current trend continues. The employment rate in the age group 20-64 is for the first time above that observed in 2008, at 71.1% (second quarter of 2016). However, poverty remains high and employment and social outcomes vary significantly across countries.*
2. *Most labour market indicators saw an improvement in 2015 and 2016. The unemployment rate kept falling and stood at 8.5% (10% in the euro area) in the third quarter of 2016. Youth unemployment and long-term unemployment also continued to decline, but remain high in several Member States. Activity rates are increasing, and the EU created more than four million jobs throughout 2015 and the first half of 2016. The employment rate of women in the EU in 2015 was still significantly below that of men, but the gap has been closing since 2008. Convergence in labour market conditions gradually continues although wide differences between Member States persist.*

3. *Household incomes in the EU rose in 2015, mostly through increases in labour income and a decrease in taxes and contributions. However, gross household income in the euro area has not yet fully recovered and remains slightly below levels reached in 2009. The number and proportion of people at risk of poverty or social exclusion has started to decrease but is still high. The at-risk-of-poverty-or-social-exclusion rate in the EU has now returned to its 2008 level of 23.7%. While the at-risk-of-poverty rate has increased, the total number of people at risk of poverty or social exclusion in the EU has started to decrease, approaching its 2008 level, but still remains at a very high level -- 118 million people or 23.7% of the total population in 2015, far off-track in reaching the Europe 2020 Strategy poverty and social exclusion target. Overall, income inequality stabilised on a high level in historic terms, with important divergences across the EU, as shown by the scoreboard of key employment and social indicators.*
4. ***High inequality levels can reduce the output of the economy and the potential for sustainable growth.*** *Large and persistent inequalities do not only raise concerns in terms of fairness, as they usually reflect a high risk of poverty and social exclusion, but also in economic terms, as they lead to an under-utilisation of human capital. Inter-generational transmission of poverty compounds these negative impacts. Labour market, social security, and education institutions in some Member States do not sufficiently promote inclusion and investment in human capital to remedy unequal opportunities and tackle persistent and high income inequalities. To tackle inequalities, Member States can take action in different areas, including tax and benefits systems, wage setting (including the minimum wage), education and skills, gender equality, and healthcare systems.*

5. **Reforms promoting resilient and inclusive labour markets must continue, stimulating job creation and labour market participation while properly combining flexibility and adequate security.** Member States which linked flexibility in working arrangements with effective active labour market policies and adequate social protection weathered the crisis relatively more successfully. Many Member States have implemented important reform agendas in recent years, with positive effects on job creation. Still, more efforts are needed to promote the creation of quality jobs and increase the inclusiveness of labour markets, including by removing barriers to labour market participation, tackling labour market segmentation and undeclared work, ensuring that social protection systems provide adequate income support, and enabling services to all while encouraging transitions into employment and making work pay. This would also help address high levels of in-work poverty in some Member States.
6. **Tax systems should better support job creation and address inequalities.** A number of Member States took steps to reduce the tax wedge, mostly targeting low income workers. They aimed at promoting both labour demand – by supporting companies (re)hire – and labour supply – by reducing disincentives to take up jobs and increase take-home pay, especially for disadvantaged groups. Even so, the overall tax wedge on labour remains high in a considerable number of Member States. In addition, in some Member States tax systems continue to provide strong disincentives for second earners to work or to work more hours. Lower and well-designed taxation on labour could help stimulate employment growth and in turn mitigate inequalities.

7. ***Nominal wages have increased only moderately in a low inflation environment, while several Member States have reformed their wage setting frameworks in cooperation with social partners.*** Wage developments have, in most Member States, been aligned with labour productivity, including wage increases where the economic context provided space. Such alignment is necessary, over the medium run, to stimulate productivity gains and support of aggregate demand and growth. A small number of Member States have reformed their wage setting frameworks to reinforce the role of social partners at different levels of bargaining. Action was also taken to make minimum wage setting frameworks more transparent and/or predictable. Wage-setting systems should further pursue coordination among different levels of collective bargaining, while allowing a certain degree of flexibility geographically and across and within sectors.
8. ***The involvement of social partners in the design and implementation of reforms is uneven across the EU.*** Though all Member States have bipartite or tripartite bodies to allow for the interaction of social partners and for their consultation in the design and implementation of policies, their actual involvement varies significantly. Yet effective social dialogue, in line with national practices and conditions, is crucial to increase the ownership of reforms, carefully assess their impact on different groups of the population, and ensure their effective implementation. A few Member States took action in 2015 and 2016 to strengthen social dialogue and improve the involvement of social partners in employment and social policies.
9. ***Member States have continued to modernise their education and training systems to improve the skills needed to adapt to labour market needs, and to contribute to social inclusion and to the development of engaged and active citizens.*** However, inequalities in educational uptake and outcomes are remaining. Reforms aimed inter alia at promoting the acquisition of basic skills, at fostering adult learning and improving the labour market relevance of tertiary education. In line with the New Skills Agenda for Europe, reform should focus on sustained investment in skills acquisition among youth and adults, better alignment of skills with labour market needs, including closer business-education partnerships, and by tapping into the potential of apprenticeships.

10. **Youth unemployment and the numbers of those not in employment, education or training (NEET) continue to decline, though they remain very high in some Member States.** *The Youth Guarantee has been a key driver of improvement, promoting effective action by Member States, improving coordination among different actors and facilitating structural reform and innovation in policy design. In 2015 alone, 5.5 million young people entered Youth Guarantee schemes and 3.5 million took up an offer of employment, apprenticeship, traineeship or continued education. In several Member States, the Youth Employment Initiative (YEI), targeting the EU regions that faced youth unemployment rates of 25% or more in 2012, played a key role. Despite this welcome progress, continuing structural reforms and upscaling measures will be necessary to ensure that all young people – and especially low-skilled young people and those facing multiple barriers to entering the labour market – benefit from the Youth Guarantee.*
11. **Tackling long-term unemployment remains a priority.** *Though decreasing in 2015 as a percentage of the active population, long-term unemployment still accounts for almost 50% of total unemployment, and remains very high in some Member States. Increasing duration of unemployment implies depreciation of skills, lower attachment to the labour market and ultimately higher risk of social exclusion. Moreover, it risks turning cyclical unemployment into structural, with negative consequence on potential growth. Several Member States are reinforcing support for the long-term unemployed through individualised support and improved coordination between employment services and other actors, in line with the Council Recommendation of February 2016. Still, the take-up of these measures is uneven across Member States.*

12. ***Women continue to be underrepresented in the labour market and face an important pay differential.*** They outperform men in terms of educational attainment. However, the employment gap between women and men remains wide, in particular for mothers and women with caring responsibilities. This is compounded by financial disincentives faced by women when entering the labour market or wanting to work more. A significant pay gap is observed in several Member States. Combined with shorter careers, this often translates into lower pensions for women. This indicates that a comprehensive integration of work-life balance considerations into policy making is needed. Access to affordable and quality childcare and other care services, leave and flexible working time arrangements, and tax and benefit systems free of disincentives for second earners to work or to work more is of key importance in order to move towards a full equal treatment of women and support upward social mobility.
13. ***Efforts have continued to modernise social protection systems to improve coverage and adequacy of benefits, access, quality and responsiveness of services and actively encourage labour market participation.*** A number of Member States have put in place policy reforms aimed at improving the coverage and adequacy of social benefits while promoting activation. Measures are directed at a variety of groups, including low income earners, the unemployed, people with disabilities, homeless and people with care responsibilities. Despite reform progress, high levels of (child) poverty in some Member States remain points of concern. Effective social insurance systems are needed, combined with adequate safety nets for those who lack sufficient resources for a decent standard of living, including enabling services and support for labour market (re)integration of those in working age in line with the active inclusion approach.

14. ***After a wave of reforms focusing on higher retirement ages, recent pension reforms also include measures to safeguard pension adequacy through minimum guarantees and indexation.*** While Member States continue to improve the sustainability of their pension systems, for instance by increasing retirement age and limiting access to early retirement, there is an increased focus on the protection of low-income pensioners, either by rising minimum pensions or through targeted additional benefits. Pension systems should ensure adequate standards of living, while preserving sustainability. To this aim, men and women should be encouraged to remain longer in employment, also through the availability of appropriate work-life balance policies and the support to age management, including the modernisation of working environments. Supplementary pensions and other retirement savings could also play a positive role in some Member States
15. ***Health systems contribute to individual and collective welfare and economic prosperity.*** In a number of Member States healthcare reforms have been implemented to encourage the provision of and access to effective primary health care services, to streamline and increase the sustainability of specialist and hospital care, and to improve the access to affordable medicines used in a cost-effective way, in line with Member States' competence. Some Member States are also taking steps to improve the efficiency and quality of long-term care services. This would promote social inclusion and reduce obstacles to labour market participation for family carers, especially women.
16. ***In recent years, the EU has experienced an unprecedented inflow of refugees,*** with almost 1.8 million asylum applications filed in 2015 and the first half of 2016. This underlines the importance of comprehensive integration strategies in order to ensure that refugees can be effectively integrated into the labour market and society more generally. Many Member States have introduced integration packages in order to ensure early intervention to those newly-arrived, including access to the labour market, skills assessment and training. In line with the Action Plan on the integration of third-country nationals<sup>1</sup> that the Commission presented in June 2016, it is important that integration policies do not only focus on immediate needs but also aim at securing successful integration in the medium to long run, as an integral part of Member States' social inclusion strategies.

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<sup>1</sup> COM(2016) 377 final.



## 1. OVERVIEW OF LABOUR MARKET AND SOCIAL TRENDS AND CHALLENGES IN THE EUROPEAN UNION

This section presents an overview of labour market and social trends and challenges in the European Union. It starts with a detailed analytical account of major employment and social areas, which is followed by the general findings deriving from the scoreboard of key employment and social indicators.

### 1.1 *Labour market trends*

**The recovery in the labour market strengthened over 2015 and 2016, with a significant improvement in most indicators.** The employment rate (20-64 years old) increased in the EU by 0.9 percentage points (pps) in 2015 and kept rising up to 71% in the second quarter of 2016. This level is not only 1.1 pps higher than in Q2-2015 but also exceeds the pre-crisis level of 70.3% in Q2-2008. A comparable increase was recorded in the employment rate of the euro area, which attained nearly 70% in Q2-2016 (close to 70.3% registered on average in 2008). In absolute values, almost 4.1 million more people were in employment in Q2-2016 compared to the last quarter of 2014, including 2.8 million more in the euro area<sup>2</sup>. At the same time, the activity rate (15-64) rose moderately, up to 72.9%, in the EU while the unemployment rate (15-74) dropped to 8.6%, the lowest rate recorded since Q1-2009 (in the euro area, the activity and unemployment rates stood respectively at 72.8% and 10.1%<sup>3</sup>). Stronger labour demand, with a job vacancy rate increasing from 1.3% in Q2-2013 to 1.8% in the first two quarters of 2016, played an important role. Against this backdrop, average wage growth accelerated slightly in the EU in 2015, while it remained moderate in the euro area (see Section 2.1).

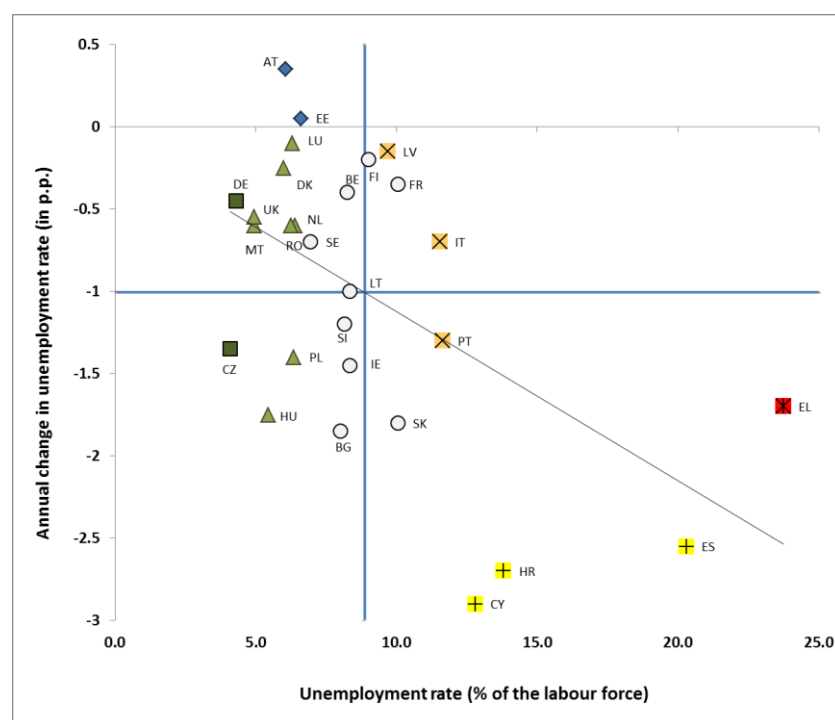
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<sup>2</sup> Seasonally adjusted LFS quarterly figures [lfsi\_emp\_q] are used throughout this section.

<sup>3</sup> In Q3-2016, the quarterly unemployment rate stood at 8.5% in the EU and 10% in the euro area.

**Labour market disparities across Member States and the euro area continued to fall from very high levels, with unemployment rates moving closer to pre-crisis levels.** Continuing convergence in unemployment rates reflects stronger-than-average decreases in a number of Member States characterised by high unemployment rates (in particular Cyprus, Croatia and Spain). By contrast, a slight increase in the unemployment rate was recorded in Austria, though starting from a relatively low level. In 2015, net inflows of population were the strongest in countries with the lowest unemployment rates (notably Austria, Germany and Luxembourg); some of the highest net outflows happened in countries with the highest unemployment rates. However, despite the observed convergence, significant differences persist in terms of unemployment rates (Figure 1), with values ranging from 5% or less in Czech Republic, Germany, Malta and the United Kingdom to more than 20% in Spain and Greece in the first half of 2016<sup>4</sup>.

**Figure 1: Unemployment rate and yearly change, as reported in the scoreboard of key employment and social indicators**

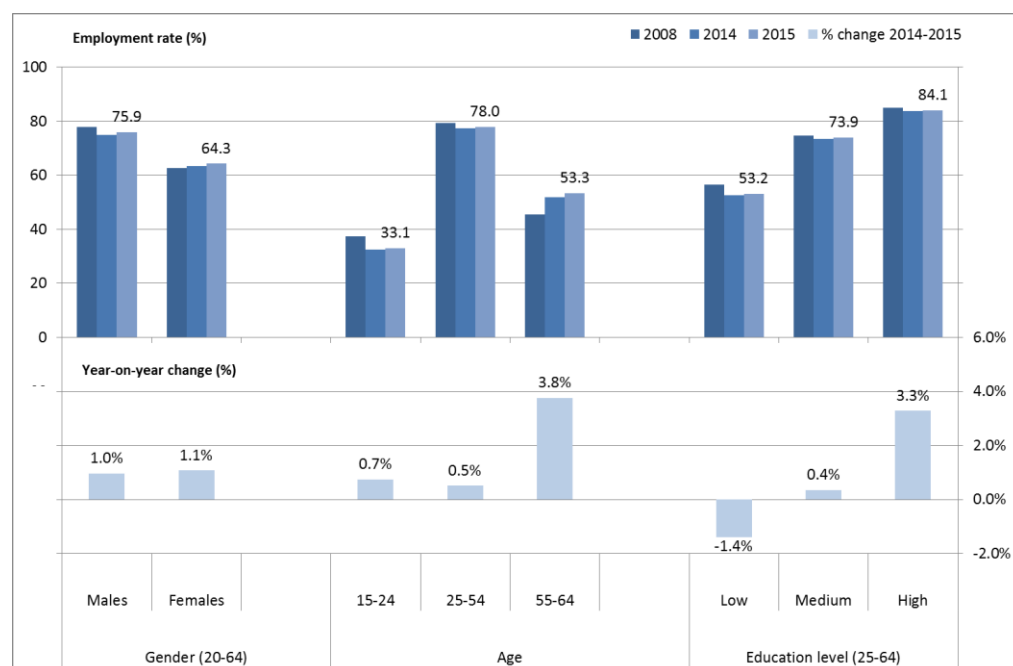


Source: Eurostat, LFS (DG EMPL calculations). Period: 1st half 2016 levels and yearly changes with respect to 1st half 2015. Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. A break in the LFS series occurred in Denmark in 2016.

<sup>4</sup> For indicators included in the scoreboard of key employment and social indicators, values for the first half of the year are computed as an average of the first two quarters, using seasonally adjusted quarterly figures.

**Employment growth dynamics have been different across age groups and education levels.** As shown in Figure 2, the largest increase in employment figures, by 3.8% in 2015, was recorded among elderly workers (aged 55-64), whose activity rate increased by 1.4 pps to reach 57.3% in 2015. This translated into a further increase in the employment rate for this group, to 53.3% in 2015, adding to the steady growth experienced in the last decade. Conversely, employment growth was moderate among young (15-24) and prime age (25-54) workers. The activity rate of the latter has been almost stable for the fourth year in a row, at 85.4%, and seems therefore to have reached a ceiling. However, evolutions differed substantially depending on skills levels: employment growth was robust for high-skilled workers (with tertiary education), with an increase by 3.3% year-on-year, whereas low-skilled workers (with lower secondary education or below) experienced a decrease of 1.4% since 2014. This confirms a trend of shrinking employment opportunities for the low-skilled, for whom the employment rate is still lower than in 2008. Employment growth was comparable across genders; both male and female employment rates slightly increased over 2015. The large gap between female (64.3%) and male (75.9%) employment rates, which had decreased between 2008 and 2013, thus has remained almost unaffected. Similarly, data (Figure 3) do not show any significant discrepancy in terms of full-time versus part-time employment growth.

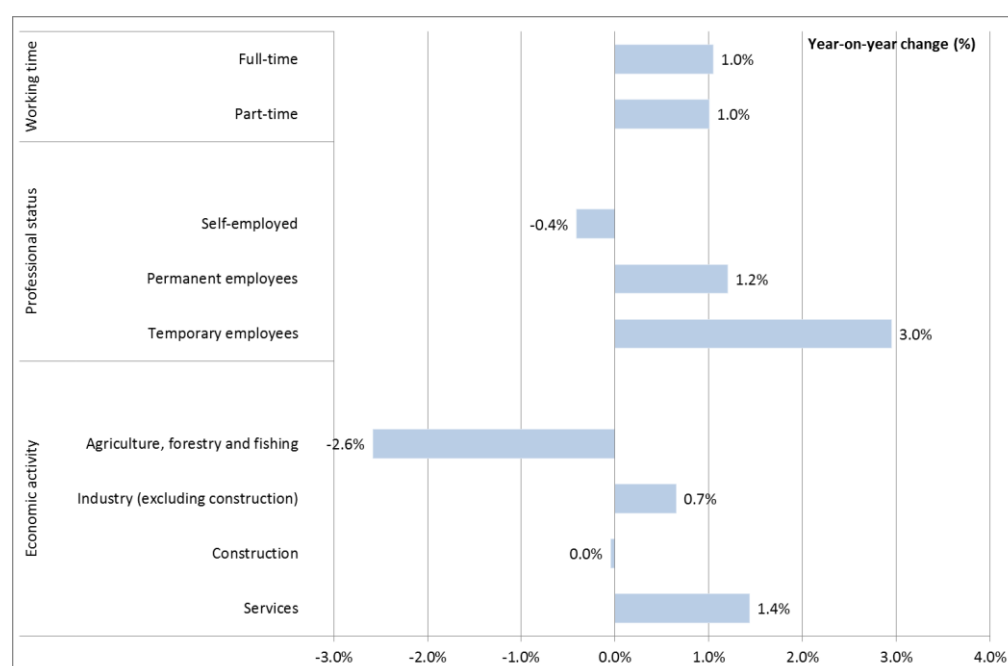
**Figure 2: Employment rates and employment growth across different groups in the EU**



Source: Eurostat, LFS.

**The employment recovery reflects an increase in the number of employees, and the share of temporary employees remains stable.** The number of self-employed workers declined marginally (by 0.4%), though this figure hides significant differences across Member States (see Section 2.1). The number of temporary employees increased by 3%, while permanent employees increased by 1.2%. This translated into a marginal increase in the share of temporary employees over total employees (to 14.2% in 2015), again with wide differences across Member States (see Section 2.3). Most job creation occurred in services (+1.4%), followed by industry (+0.7%), while jobs in agriculture continued to fall (-2.6%), also explaining part of the decline of self-employment. The decline of employment in construction came to a halt in 2015, for the first time since 2008.

**Figure 3: Employment growth (2014-15) across different groups in the EU**



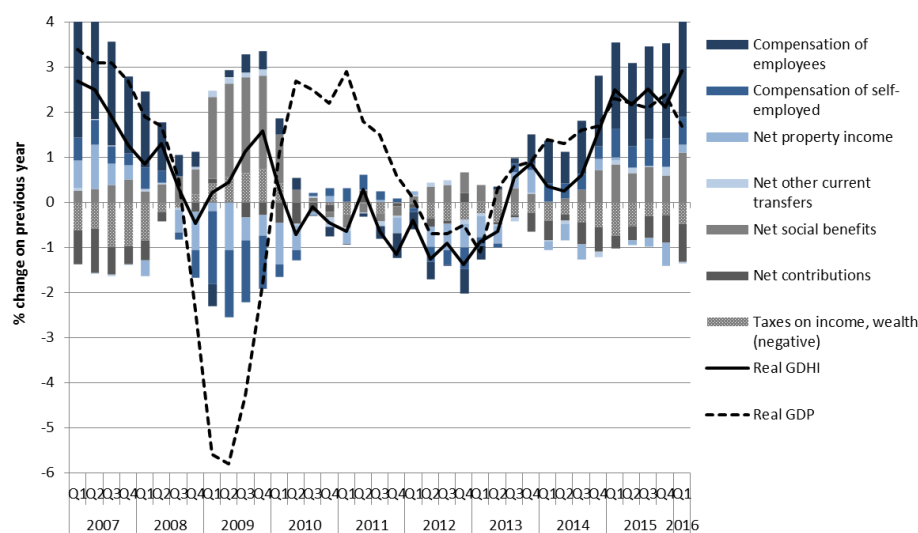
Source: Eurostat, LFS

**Youth and long-term unemployment continued to decrease in 2015, following the reduction in the overall unemployment rate.** The youth unemployment rate (15-24), which peaked at 23.7% in the EU in 2013, dropped to 20.3% in 2015. This trend persisted in 2016 as the rate further declined to 18.9% in the first half of the year<sup>5</sup>. However, it is higher in the EA-19 (21.4% in the first half of 2016) and there remain significant disparities across Member States. The long-term unemployment rate (as a share of the active population) also declined to 4.5% in 2015 from 5% in 2014 (and further decreased in the first half of 2016), but the slow reabsorption of long-term unemployment in some Member States, namely those most affected by the crisis, points to the risk that high unemployment turns structural.

## 1.2 Social trends

**The financial situation of EU households continued to improve in 2015.** Real Gross Disposable Household Income (GDHI) in the EU rose by around 2% in 2015, continuing to recover from the income losses recorded during 2010-2013. This improvement mainly resulted from increases in labour income and a decrease in taxes and contributions (see Figure 4).

**Figure 4: GDP and GDHI growth and change in GDHI components in the EU**



Source: Eurostat, LFS

<sup>5</sup> See footnote 3.

**Still, looking at the most recent EU data, this upward trend is not reflected in poverty**

**figures.**<sup>6</sup> The share of the EU population at risk of poverty (AROP) stabilised in 2015, increasing by 0.1 pps to 17.3% (in both EU and the euro area). This development follows an increase by 0.5 pps in 2014 (0.4 pps in the euro area) which was partly a consequence of the upward shift in the poverty thresholds, as household incomes started to recover in mid-2013. Similarly, the overall share of working poor increased by 0.5 pps in 2014, along with a growing share of temporary workers (whose income is usually lower than permanent employees), and remained stable in 2015.

**The percentage of people at risk of poverty or social exclusion in the EU decreased further in**

**2015 but remains very high.** The at-risk-of-poverty-or-social-exclusion rate (AROPE) in the EU continued to decrease in 2015 to 23.7% (down from 24.4% in 2014 and 24.6% in 2013), but remains close to its historical peak of 2012. It also decreased in the euro area, from 23.5% in 2014 to 23.1% in 2015 (back to 2013 levels). In 2015, around 119 million people were at risk of poverty or social exclusion, around 3.5 million people less than 2014. Even if the EU is still far from achieving its Europe 2020 target of lifting at least 20 million people from poverty or social exclusion by 2020, the number of people at risk of poverty or social exclusion is now again approaching the level of 2008, the reference year for which the Europe 2020 target was set: in 2015, there were around 1.2 million more people living at risk of poverty or social exclusion compared to 2008<sup>7</sup>, 4.8 million fewer than in 2012 at the peak.

**The decrease of severe material deprivation points to improving living standards.** Severe

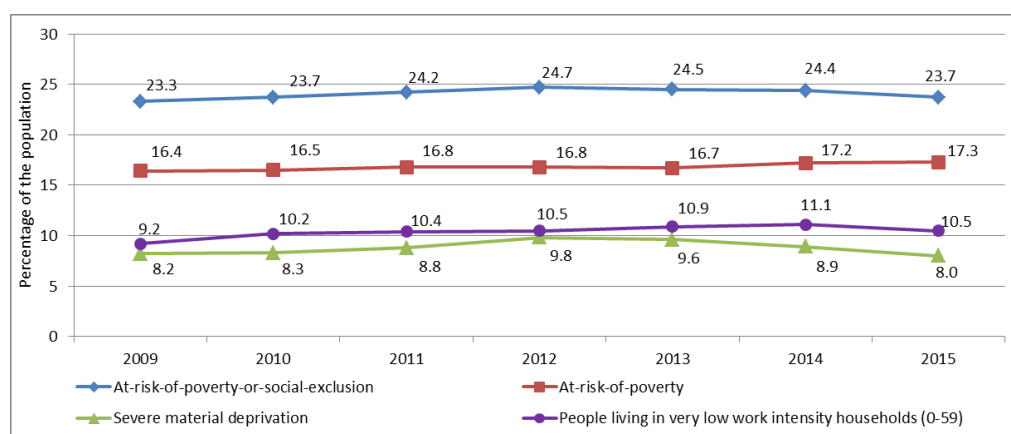
material deprivation decreased by 0.8 pps in 2015 to reach 8.1%, or 9.1 million people less than at the peak in 2012. This trend, observed since 2013, is related to the above-mentioned improvement in the financial situation of households linked to the economic recovery. The share of people living in (quasi) jobless households (i.e. the population aged 0-59 living in households with very low work intensity) decreased slightly in 2015 to 10.5%, driven by improving labour market conditions, after a slight increase in 2014.

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<sup>6</sup> At the moment of writing (October 2016) estimated average figures for 2015 are available from Eurostat. An update will be provided in the revised version of the document, following discussion with Member States in the Employment Committee.

<sup>7</sup> The average number of people at risk of poverty or social exclusion in the EU in 2008 is based on an estimation by Eurostat, as figures for Croatia are only available from 2010 on.

**Figure 5: At-risk-of-poverty-and-social-exclusion rate and its components in the EU27**



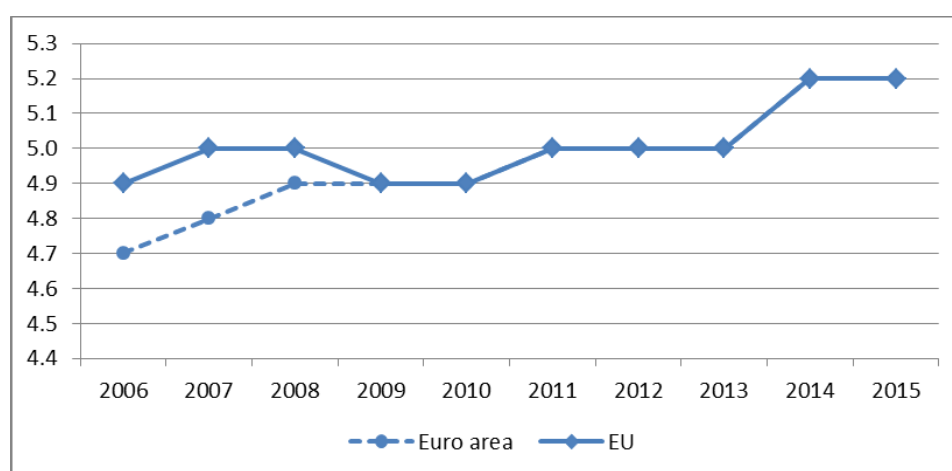
Source: Eurostat, EU-SILC (ilc\_peps01, ilc\_li02, ilc\_mddd11, ilc\_lvhl11). HR is excluded as data are not available for 2009. Note: AROPE combines AROP, SMD and households with zero or low work intensity (JLH). For the at-risk-of-poverty rate, the income reference year is the calendar year prior to the survey year except for the United Kingdom (survey year) and Ireland (12 months preceding the survey). Similarly, the (quasi-) jobless households (i.e. very low work intensity) rate refers to the previous calendar year while for the severe material deprivation rate the reference is the current survey year.

**Young people, children, the unemployed and third-country nationals are among those most affected.** Almost one third (31.2%) of young people (aged 18-24) were at risk of poverty or social exclusion in 2015. This is mainly due to unemployment, precarious work situations or the difficult socio-economic situation of the families of young people. Being in a single earner household is associated with higher poverty risk<sup>8</sup>. The AROPE for children (aged 0-17) decreased to 26.9% (from 27.8%) but remains high, owing to the labour market status of their parents, particularly when coupled with limited access to social services and low income support. Elderly people (65+) have been relatively less affected and their risk of poverty or social exclusion has declined from 18.3% in 2013 to 17.4% in 2015, with women poorer than men (19.6% for women vs. 14.6% for men). Other groups affected by poverty and social exclusion are the unemployed (66.6%) third-country nationals (48.2%) and persons with disabilities (30.1% in 2014).

<sup>8</sup> See upcoming 2016 *Employment and Social Developments in Europe Review*, Chapter 2.

**Income inequality as measured by the income quintile share ratio has stabilised in 2015 at a high level.** The income quintile share ratio (or S80/S20 indicator, i.e. the ratio between the incomes of the 20% of the population with the highest incomes and the incomes of the 20% with lowest incomes) remained stable at 5.2 in 2015, following the upward trend of recent years, especially in the euro area (Figure 6). The Gini coefficient also remained stable<sup>9</sup>, at 0.31 in 2015. Still, significant differences in levels and trends remain across Member States (see Section 2.4). Rising income inequalities, a common trend across developed economies<sup>10</sup>, do not only represent a concern in terms of fair distributional outcomes for the population but also a risk for long-term growth.

**Figure 6: S80/S20 income quintile share ratio**



Source: Eurostat. Data for HR not available before 2010.

<sup>9</sup> The Gini coefficient is an indicator with value between 0 and 1. Lower values indicate higher equality. In other words a value equal to 0 indicates everybody has the same income, a value equal to 1 indicates that one person has all the income. Note: To take into account the impact of differences in household size and composition, the total disposable household income is "equivalised".

<sup>10</sup> See OECD (2015). *In it together – Why less inequality benefits all*. Paris: OECD.



### 1.3 *General findings from the scoreboard of key employment and social indicators*

**The scoreboard of key employment and social indicators, now in its fourth edition, allows for early detection of key employment and social problems and possible divergences across**

Member States that may warrant further analysis. The scoreboard (see annex 1 to 3) consists of six key indicators of employment and social trends:

- Unemployment rate (15-74);
- Youth unemployment rate (15-24);
- Young people neither in employment nor in education and training (NEET) as a share of the population aged 15-24;
- Gross disposable household income (GDHI, yearly change);
- At-risk-of-poverty rate in working age (18-64);
- Income inequalities (the S80/S20 ratio).

It also supports the identification of areas where policy response is most needed. As such it represents an important tool to monitor the impact of reforms under the European Semester. It helps underpin the challenges identified in the Country Reports and supports the drafting of Country Specific Recommendations. The results of the scoreboard should be read in conjunction with the analytical findings of other instruments such as the Employment Performance Monitor (EPM), the Social Protection Performance Monitor (SPPM)<sup>11</sup> and the scoreboard of the Macroeconomic Imbalances Procedure (MIP), with its recently added employment headline indicators<sup>12</sup>. On a similar note, the Five Presidents' Report on Completing Europe's Economic and Monetary Union and the Communication on Steps towards Completing Economic and Monetary Union<sup>13</sup> promote the use of benchmarking and cross-examination of Member States performances in order to identify underperformance and support upward convergence. The process should also contribute to the sharing of best practices. Box 1 describes the rationale and the state of play of developing benchmarking indicators in the labour market domain.

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<sup>11</sup> The Employment Performance Monitor (EPM) and the Social Protection Performance Monitor (SPPM) are drafted jointly by the Commission and, respectively, the EMCO and SPC Committees and their indicators groups (EMCO Indicators Group and SPC Indicators Sub-group). They are adopted by the EPSCO Council.

<sup>12</sup> Cf. 2017 Alert Mechanism Report (AMR)

<sup>13</sup> COM(2015) 600 final.

Recent trends of key indicators are recorded in the scoreboard according to three dimensions (see detailed tables in Annex):

- For each Member State, the change in the indicator in a certain year as compared with earlier periods in time (historical trend);
- For each Member State, the difference from the EU and the euro area average rates in the same year (providing a snapshot of existing employment and social disparities);
- The change in the indicator between two consecutive years in each Member State relative to the change at the EU and euro area levels (indicative of the dynamics of socio-economic convergence/divergence).

**Since 2016, the situation of Member States across key employment and social indicators is assessed through a commonly agreed methodology** which looks jointly at levels and changes of each indicator (as explained in Annex 4). Based on this methodology, Table 1 provides a summary of the readings of the scoreboard. As resulting from the analyses in this section and in Section 2 (see Figures 1, 14, 15, 26, 27 and 28), five Member States (Greece, Cyprus, Portugal, Spain and Italy) face a number of substantial employment and social challenges, though their situation is mixed in terms of recent developments. Five other Member States (Bulgaria, Croatia, Latvia, Lithuania and Romania) are flagged more than once in the summary table, with varying degrees of severity, as concerns either employment or social indicators. The remainder of the section provides a detailed reading of the scoreboard.

Greece still presents a challenging situation across all employment and social indicators, especially as concerns the overall unemployment rate, despite the recent slight decrease, and income inequality. Some improvements were recorded for the NEET rate and the at-risk-of-poverty rate (AROP)<sup>14</sup>. Italy maintains critical levels on indicators related to the situation of young people on the labour market, while the overall unemployment rate is only slowly decreasing compared to the EU average. At the same time, the situation on social indicators, in particular the AROP rate, remains challenging. In Portugal overall and youth unemployment rates remain high in spite of moderate decreases. Both the at-risk-of-poverty and income inequality indicators also show high levels compared to the EU average, though slightly decreasing. In Spain, unemployment and NEET rates kept improving (though levels remain problematic) and the situation regarding youth unemployment, poverty and inequalities remains challenging. Cyprus has recorded favourable developments in the overall and youth unemployment rates, as well as in the NEET rate, all decreasing from very high levels. However, gross disposable household income growth is still negative in 2015, and the at-risk-of-poverty rate shows the largest increase. Romania still presents critical challenges regarding NEETs rate, AROP and inequalities, with the latter showing a considerable increase. Similarly, Lithuania registered a sharp rise in both AROP and income inequalities. Latvia showed the largest increase in youth unemployment, while the situation in the country remains stable as concerns at-risk-of-poverty rate and inequalities. In Croatia the general and youth unemployment rates are high, though decreasing fast. In Bulgaria, high NEET rate and income inequality remain critical challenges.

As concerns NEETs, the situation is considered one "to watch" (due to either sudden increases or higher than average levels) in Finland, France, Ireland and Slovakia. Similarly, in addition to Italy, also Belgium, Finland and Austria show a lower growth in GDHI compared to the EU average. Finally, a couple of other countries should also be closely monitored as concerns AROP (Poland) and income inequality (Estonia).

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<sup>14</sup> The latter, though, might be affected by a fall in the poverty threshold.

In three Member States some indicators show a slight deterioration albeit from good levels. In Austria and Estonia the unemployment rate (both overall and for youth) has increased faster than the EU average, though the level remains very low. Data suggest a similar situation for Denmark as concerns youth unemployment<sup>15</sup> and the NEET rate.

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<sup>15</sup> A break in the LFS series occurred in Denmark in 2016.

**Table 1: Summary of the scoreboard of key employment and social indicators**

	Unemployment rate	Youth unemployment rate	NEET rate	Gross Disposable Household Income	At-risk-of-poverty rate	Inequality S80/S20
<b>Best performers</b>	Czech Republic Germany	Germany	Germany Luxembourg Netherlands Sweden	Ireland Latvia Romania	Czech Republic Slovakia	Czech Republic Finland Slovenia Slovakia
<b>Better than average</b>	Denmark Hungary Luxembourg Malta Netherlands Poland Romania United Kingdom	Bulgaria Czech Republic Hungary Lithuania Malta Netherlands United Kingdom	Austria Czech Republic Hungary Lithuania Latvia Slovenia	Estonia Poland Slovakia United Kingdom	Austria Belgium Denmark Estonia Finland France Luxembourg Malta Netherlands Slovenia Sweden	Austria Belgium Denmark France Hungary Luxembourg Malta Netherlands Sweden
<b>Good but to monitor</b>	Austria Estonia	Austria Denmark Estonia	Denmark			
<b>On average</b>	Belgium Bulgaria Finland France Ireland Ireland Lithuania Sweden Slovenia Slovakia	Belgium Finland France Ireland Luxembourg Poland Sweden Slovenia Slovakia	Belgium Estonia Malta Poland Portugal United Kingdom	Czech Republic France Germany Spain Hungary Lithuania Netherlands Portugal Sweden Slovenia United Kingdom	Croatia Germany Hungary United Kingdom	Croatia Cyprus Germany Poland United Kingdom
<b>Weak but improving</b>	Cyprus Spain Croatia	Cyprus Croatia	Greece Cyprus Spain		Bulgaria Greece	
<b>To watch</b>	Italy Latvia Portugal	Latvia Portugal	Finland France Ireland Slovakia	Austria Belgium Finland Italy	Cyprus Latvia Lithuania Poland Portugal	Estonia Italy Portugal
<b>Critical situations</b>	Greece	Greece Italy Spain	Bulgaria Croatia Italy Romania	Cyprus Greece	Italy Romania Spain	Bulgaria Greece Latvia Lithuania Romania Spain

### **Box 1. Benchmarking and pursuing best practices in the labour market**

The Five Presidents' Report underlined that a stronger focus should be put on employment and social performance, stressing that the challenges are often similar across Member States, though there is no one-size-fits-all approach to follow.

The Commission communication of October 2015 "On steps towards completing EMU"<sup>16</sup> foresees policy or thematic areas to be progressively addressed by benchmarking and by cross-examining performance. According to the Communication, "(...) Cross-examination aims to identify underperformance and support convergence towards best performers in areas of labour markets, competitiveness, business environment and public administrations, as well as certain aspects of tax policy. (...) Benchmark indicators need to meet two requirements. First, they need to closely relate to the policy levers, such that they can lead to actual and meaningful policy implications. Second, there needs to be robust evidence and enough consensus that they contribute significantly to higher level objectives such as jobs, growth, competitiveness, social inclusion and fairness or financial stability".

Benchmarking, when complemented by a broader economic analysis, can inform and reinforce reforms by supporting the process of mutual learning and convergence towards best practices implemented successfully in Member States.

Since March 2016, a pilot exercise has been held on benchmarking unemployment benefits and active labour market policies. A three step approach has been developed jointly with Member States, taking into account the existing frameworks. In a first step, key challenges of the policy area considered are discussed and a set of related high level outcome indicators is identified. In the second step, a set of a few key performance indicators allows for the identification of good and weak performers. In a third step, key policy levers to deliver upward convergence are identified.

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<sup>16</sup> COM(2015) 600 final.

On this basis, in the area of unemployment benefits and active labour market policies, indicators have been identified for the first two steps and under the third step four policy levers have been identified to enable benchmarking: the duration, the level and the eligibility criteria for unemployment benefits and a policy principle of access to early support adapted to the labour market situation of individuals. Moreover, a benchmarking exercise on skills has been underway since September 2016.

## **2. EMPLOYMENT AND SOCIAL REFORMS – MEMBER STATES PERFORMANCE AND ACTION**

This section presents an overview of recent key employment and social indicators and measures taken by the Member States in priority areas identified by the EU employment guidelines, as adopted by the Council in 2015<sup>17</sup> and adopted again, unchanged, in 2016.<sup>18</sup> For each guideline, recent developments on a selection of key indicators are presented, as well as policy measures taken by Member States. The section draws on Member States' National Reform Programmes 2016 and European Commission sources. If not specified otherwise, only policy measures implemented after June 2015 are presented in the report. In-depth analysis of recent labour market developments can be found in the Labour Market and Wage Developments 2016 report<sup>19</sup> and the Employment and Social Developments in Europe Review 2016.<sup>20</sup>

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<sup>17</sup> The guidelines have been fully reflected for the first time in the 2016 National Reform Programmes.

<sup>18</sup> Council Decision on guidelines for the employment policies of the Member States, 13 October 2016.

<sup>19</sup> European Commission (2016). *Labour Market and Wage Developments in Europe. Annual review 2016* Luxembourg: Publications Office of the European Union, October 2016

<sup>20</sup> Forthcoming.

## 2.1 Guideline 5: Boosting demand for labour

This section looks at the implementation of the employment guideline no. 5, which recommends Member States to create conditions promoting labour demand and job creation. It first presents indicators about entrepreneurship, which is a key pre-condition for job creation, as well as a source of employment growth per se (including through self-employment). It then looks at key macroeconomic determinants of hiring decisions, namely wage and tax wedge developments. Section 2.1.2 reports on policy measures implemented by Member States in these areas, including untargeted hiring subsidies (subsidies targeted at specific disadvantaged groups are presented in Section 2.2.2).

### 2.1.1 Key indicators

**New enterprises represent a significant source of job creation in the European Union.** In 2014<sup>21</sup>, newly created enterprises accounted for more than 4% of total employment<sup>22</sup> in the business sector in countries such as Poland, Latvia, Portugal, Lithuania and Slovakia. Small and medium enterprises (SMEs) accounted for almost 71% of overall employment growth<sup>23</sup>. These figures provide an idea of the potential for job creation that could be unleashed by tackling barriers to entrepreneurship and firm growth<sup>24</sup>. In 2014, more than two thirds of Member States recorded an increase in the number of new firms created. Yet, there are significant differences as concerns firms' birth rate and their average size (Figure 7).

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<sup>21</sup> Latest year for which data are available.

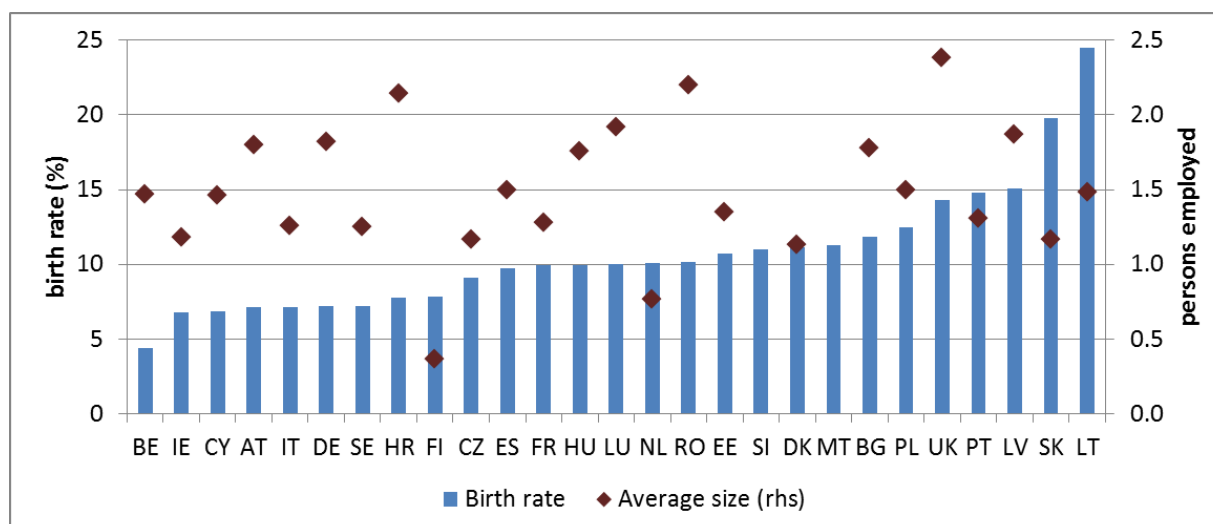
<sup>22</sup> This is the number of persons employed among enterprises newly born in 2014 divided by the total number of persons employed among the stock of enterprises active in the same year.

<sup>23</sup> European Commission (2015), *Annual Report on European SMEs 2014/2015*, November 2015.

<sup>24</sup> Small Business Act (SBA) Factsheets provide detailed country level analysis of SME statistics and policies, and can be consulted at: [http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review\\_en](http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en)



**Figure 7: Firms' birth rate and average size at birth, business economy, 2014**



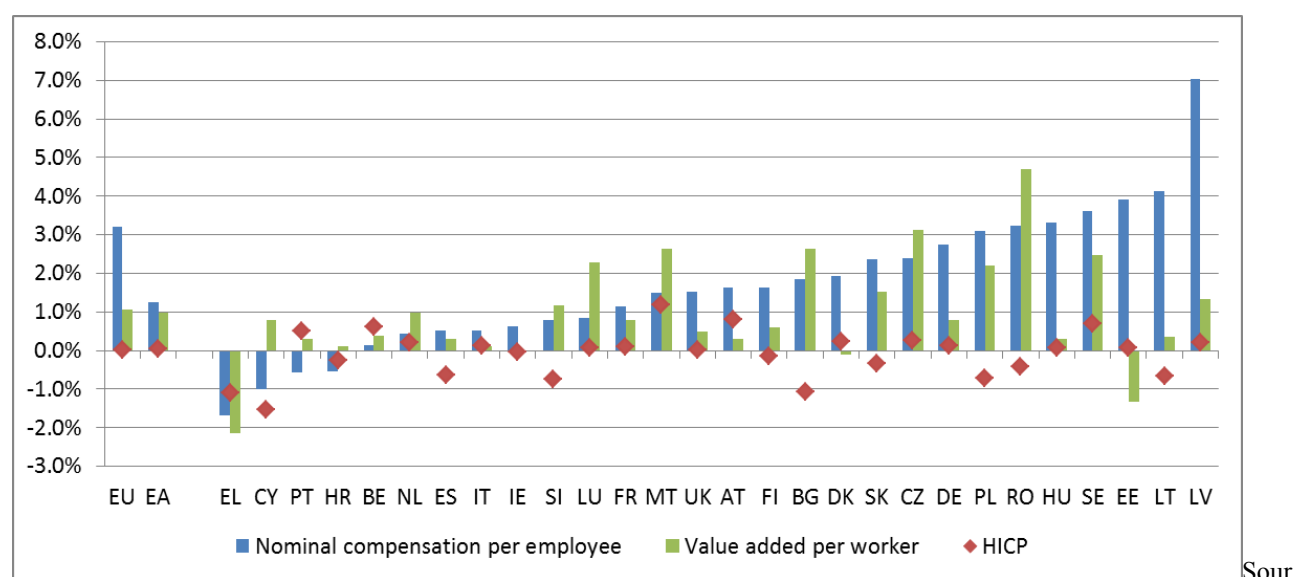
Source: Eurostat, business demography. Note: no data available for EL and MT (average size).

**Self-employment is overall declining, mostly due to sectoral dynamics, though very different patterns are observed across countries.** The average self-employment rate decreased in 2015 from 14.4% to 14.1%, the lowest rate since 2008, as self-employment fell by 0.4% while total employment grew 1% (see Section 1). Excluding the primary sector (agriculture, forestry and fishing), which is affected by a structural decline, the number of self-employed fell only by 0.1% (instead of 0.4%) and remained above the 2008 level. Nonetheless, self-employment rose in 2015 in almost half of the Member States, with the largest increases in absolute terms recorded in Poland, Spain and Netherlands. The female share in self-employment continued its slow catch-up, from 31.8% of the total in 2014 to 32.2% in 2015 (it was 30.4% in 2008). Women represent 34.4% of the self-employed without employees (own-account workers) and 43.9% of own-account workers with tertiary education. However they are only around 26% of all self-employed with employees.

**Self-employment by people born outside the country is on the rise.** Though 89% of all self-employed were born in the Member State in which they are active, dynamics are very diverse. In 2015 a 1% decline in self-employment was recorded for this group, against rises of 2.7% and 4.7% for people born in, respectively, other Member States and outside the EU. Particularly big increases for the latter group (over 5%) were recorded in Luxembourg, Ireland, Cyprus, Belgium, Austria, the United Kingdom and Sweden.

**In 2015, average wage growth accelerated slightly in the EU, while it remained moderate in the euro area.** Nominal compensation per employee increased by 3.2% in the EU (compared to 1.6% in 2014), while it remained slightly above 1% in the euro area (Figure 8). In conjunction with nearly zero inflation, those nominal wage increases translated almost entirely into real ones. This trend is consistent with falling unemployment across the board, though very different patterns emerge when looking at specific countries. Wage increases were fastest in the Baltics (especially Latvia) where they outpaced labour productivity growth. Sweden, Romania, Poland and Hungary also recorded relatively high growth of (real) compensation per employee, though (except for Hungary) more closely aligned with productivity. On the opposite side, Greece, Cyprus, Portugal and Croatia displayed falls in nominal terms, though more limited than in previous years. Pay increases in euro area countries tended to be lower than in non-euro economies.

**Figure 8: Wages, productivity and inflation - changes 2014/15**



Source: Eurostat. Note: the growth of value added per worker is not reported for IE (23.1%).

**The tax burden on labour remains broadly stable in Europe, with significant differences across Member States.** When considering single workers earning the average wage (Figure 9), the tax wedge<sup>25</sup> ranges between less than 30% in Ireland and Malta, and almost 50% in Belgium, Hungary, Germany, Austria, France and Italy. A similar dispersion can be observed for lower income workers (defined as those earning 67% of the average wage), though different country patterns emerge as concerns the progressivity of tax rates. Between 2014 and 2015 the average tax wedge remained broadly stable, though a number of Member States reduced its incidence on labour costs (Spain, Greece and Estonia, as well as France as concerns low income workers, by around 1 pp). A significant increase took place instead in Portugal (this country registered the highest increase of the tax wedge on average incomes in recent years).

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<sup>25</sup> The tax wedge on labour is composed of personal income taxes plus employers' and employees' social security contributions. Contributions to occupational and private pension schemes, as well as targeted tax reliefs, including tax credits to companies, are not included in the calculation. For instance, in the case of France the impact of the CICE (*Crédit d'impôt pour la compétitivité et l'emploi*) is not accounted by the indicator.

Figure 9: tax wedge on labour, level in 2015 and change 2014/15



Source: Tax and benefits database, OECD/EC. Note: data are for single earner households (no children). No 2015 data available for countries marked by \*.

**Several Member States resorted to employment subsidies in order to support employment and job creation.** Most measures in this area are targeted to specific groups facing labour market integration problems (e.g. youth, older people, long-term unemployed, refugees, etc.). They often involve providing financial incentives (or tax/social security contribution rebates) to employers for hiring workers falling in the targeted categories. Over the reference period (from the second half of 2015 on; see introductory statement of Section 2), targeted hiring subsidies were introduced or expanded by Denmark, Ireland, France, Cyprus, Hungary, Malta, Netherlands, Austria, Slovenia and Slovakia (more details to be found in the section 2.2 of the report dealing with the specific target groups). However, some countries also introduced (or plan to introduce) untargeted hiring subsidies, i.e. without specific eligibility conditions, usually with the aim of promoting open-ended employment. For instance, France introduced a EUR 4 000 premium granted over 2 years for the hire by a SME (up to 249 employees) of an employee paid up to 1.3 times the minimum wage, on an open-ended or at least 6-month contract. In Italy the incentives for open-ended hiring introduced in 2015 with the Jobs Act were maintained in 2016, but with reduced amounts and for two years only (rather than three). Portugal is discussing with social partners potential measures to create incentives for firms to hire on permanent contracts, such as changes to social security contributions to discourage the abuse of temporary contracts and/or financial incentives to companies who transform temporary contracts into permanent ones. Finland is planning to introduce the possibility of using the unemployment benefit as a wage subsidy, to make it more appealing for employers to hire an unemployed person.

**Some Member States are taking action to promote entrepreneurship and start-ups, especially among young people.** Some countries have implemented measures supporting the creation of social enterprises. In particular, Hungary introduced training and financial support to young entrepreneurs, as part of the Youth Guarantee, and to social enterprises (including through employment-related temporary wage subsidies for disadvantaged workers). Latvia is developing a new regulatory framework for social entrepreneurship and has introduced support for social businesses, aimed at increasing employment opportunities for disadvantaged groups. Ireland introduced tax incentives for the self-employed. Within a proposal aimed at using unemployment benefits for jobseekers' activation purposes, Finland plans to provide start-ups with grants (also for young people working as part-time entrepreneurs) and wage subsidies, especially in view of hiring their first employee. In Greece, a new law on Social and Solidarity Economy was passed by the Parliament in October 2016, aiming at expanding social and solidarity economy and supporting productive self-managing ventures and collective social entrepreneurship. Greece is also implementing programmes to support youth entrepreneurship, among other programmes to facilitate labour market integration.

**The continued employment recovery in 2015 and 2016 was supported in several Member States by measures reducing the tax wedge on labour, often targeting the lowest incomes.** Tax reforms focused on personal taxation of labour incomes, with the aim of increasing the purchasing power of low income workers, in order to reinforce incentives to work while tackling in-work poverty. Measures to reduce the personal income tax, either through tax rate reductions or changes in tax credits and/or brackets, have been implemented by Belgium, Germany, Estonia, France, Hungary, Ireland, Spain, Netherlands, Austria, Slovakia, Slovenia, Sweden and United Kingdom. In Belgium, a tax rate reduction was combined with an increase of the ceiling for tax-deductible expenses. Estonia adopted a system of tax refunds aiming to address in-work poverty, as well as an increase in the tax-free allowance. In Ireland, the 2016 Budget introduced an extension of income tax credits, and a reduction in Universal Social Charge (further cuts are announced for 2017). In the Netherlands, a tax reduction plan worth EUR 5 billion aims at increasing the take home pay of workers, through a reduction of tax brackets and an increase in tax credits. Denmark and Lithuania are planning reforms aimed at reducing and/or amending personal income taxation.

**In a limited number of Member States, tax wedge cuts were achieved through overall or targeted reductions in social security contributions.** Such measures have been adopted for instance by Belgium, Estonia, France, Hungary and the United Kingdom. In Belgium, employers' social security contributions will gradually decrease between 2016 and 2019, partly phasing out existing wage subsidies. Specific reductions for SMEs and self-employed people will be broadened. In France a reduction of 1.8 pps is applied since April 2016 on employers' social contributions (family) on wages comprised between 1.6 and 3.5 minimum wages. France has also decided to increase the tax credit for competitiveness and employment (CICE) from currently 6% to 7 % of a company payroll limited to wages until 2.5 minimum wages. In Finland, the competitiveness agreement signed by social partners in March 2016 aims at a 5% one-off reduction of labour costs (recent estimates assess this reduction at roughly 3%), to be achieved through a shift in social contributions from employers to employees, plus some additional measures (including an increase in working hours, see section 2.3).

**In line with the trends of recent years, several Member States are modernising their wage setting systems, with the aim of making wages more responsive to productivity developments.** Finland has increased the possibilities for company-level collective bargaining, as sectoral collective agreements may contain a “crisis clause”, which will determine when it is possible to deviate from the collective agreements on issues such as wages and working times. See also section 2.3 of the report on social dialogue concerning the French measures to extend scope given to company level. Ireland has re-established its sectoral wage setting framework, of which important aspects were judged unconstitutional by the Supreme Court in 2013, by envisaging new rules for the extension of collective agreements to all workers in a sector. In addition, it legislated a more precise definition of the term collective bargaining, in order to clarify the conditions under which the Labour Court has powers to settle collective labour disputes in cases where collective bargaining arrangements are not in place in a company. In Belgium, the Federal Minister of Economy and Labour tabled a legislative proposal to reform the 1996 Competitiveness Law, to be discussed with social partners, aiming at having a new collective bargaining framework in place by 2017.

**Some Member States took steps to reform their minimum wage frameworks, with the aim of improving the transparency and/or predictability of its adjustments.** For instance Ireland created in 2015 a Low Pay Commission, representing employees, employers and independent experts, aimed at making annual recommendations to the government on the national minimum wage rate and related matters; following the recommendation of this newly set-up Commission, the statutory minimum wage was increased from January 2016. In Bulgaria, the government plans to establish towards the end of 2016 the criteria for the minimum wage setting mechanism, factoring in productivity developments (and sometimes also poverty developments). Some other countries extended the coverage or adequacy of the minimum wage. In particular, in July 2016 Poland introduced a minimum wage for civil law mandate contract and self-employed, which will be in place in 2017. In the United Kingdom, a new ‘National Living Wage’ (NLW), resulting in a substantial increase in the National Minimum Wage (NMW) for workers aged 25 and over, was introduced in April 2016. The UK Government expects the NLW to reach 60% of median earnings by 2020. In Slovenia, in November 2015 the Parliament passed a bill redefining the minimum wage by excluding allowances for night work, Sunday work and work on public holidays (whose amount is to be determined in collective agreements).

## **2.2 Guideline 6: Enhancing labour supply, skills and competences**

This section looks at the implementation of the employment guideline no. 6, which recommends Member States to create conditions promoting labour supply, skills and competences. It first presents indicators about the impact of the education and training system on the employability of the workforce (basic skills proficiency, participation in lifelong learning, and school-to-work transitions for different types of curricula) before going through labour market outcomes for various groups disadvantaged in relation to labour market outcomes (e.g. young people, older workers, people with a migrant background, women and the long-term unemployed). Section 2.2.2 reports on policy measures from Member States in these areas, including (targeted) hiring subsidies and measures targeted at those disadvantaged groups including also people with disabilities.



### 2.2.1 Key indicators

**Educational attainment indicators kept increasing in 2015.** Following the trend of the past decade, the early school leaving rate has declined in most Member States, decreasing on average by 0.2 pps in 2015 to 11.0%. However, levels close to 20% are still recorded by Spain, Malta and Romania, and six other Member States are above the 10% Europe 2020 headline target. Early school leaving rates are higher for Roma pupils and those with a migrant background, particularly foreign-born pupils. Tertiary education attainment among those aged 30-34 has also been consistently and significantly increasing. The rate currently stands at 38.7%, up by 0.8 pps in 2015 alone, with 17 Member States above the Europe 2020 headline target of 40%.

Tertiary education attainment rates are significantly higher amongst women and lower for students with a migrant background. However, gender imbalances in certain fields of study are persistent, as men are the minority of graduates in health and education, while women are underrepresented in sciences and engineering studies. Parental background still affects participation in higher education<sup>26</sup>. The recent inflows of large number of young asylum seekers will require action to offer them a good start in education and training in order to foster their integration in European societies and labour markets<sup>27</sup>.

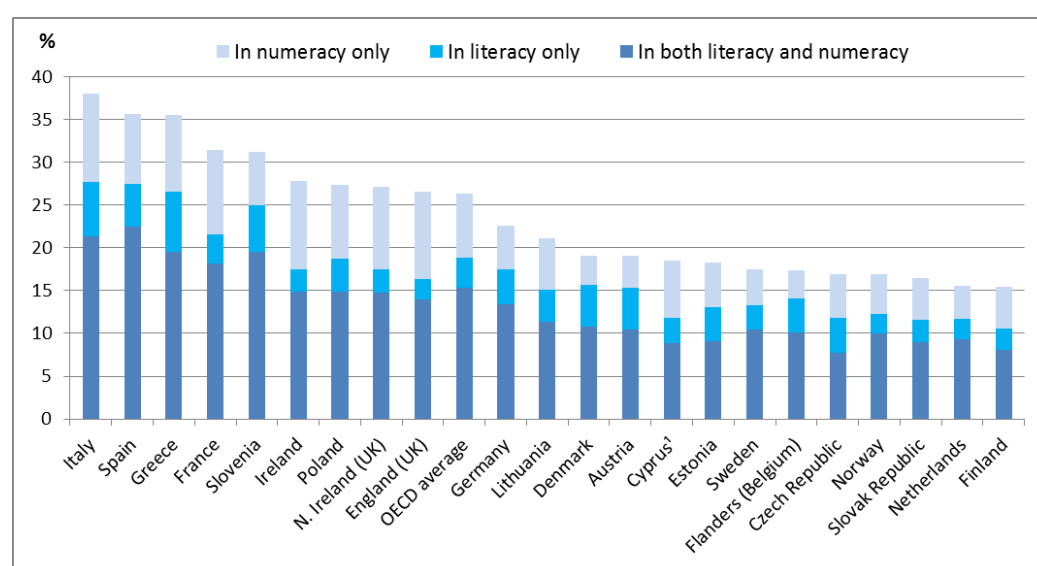
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<sup>26</sup> European Commission, *Education and Training Monitor 2016*

<sup>27</sup> For detailed analysis see upcoming 2016 *Employment and Social Developments in Europe Review* chapter on Refugee Integration and EC-OECD Working Paper on "How are refugees faring on the labour market in Europe?", Sept 2016.

**In spite of this increase, there are large disparities within and between Member States as concerns the acquisition of basic skills, such as literacy, numeracy and science.** According to the OECD's 2015 Programme for International Student Assessment (PISA) survey of basic competences, 22.2% of 15-year-old European students were low performers in maths, 19.7% in reading, and 20.6% in science. Socio-economic disadvantage, special educational needs and a migrant background<sup>28</sup> are the most significant factors associated with low achievement in basic skills. Schools with more socio-economically disadvantaged students tend to have relatively lower-quality resources. However, evidence from PISA suggests that resource allocation also influences the performance of the education system as a whole, and equity in education in particular: mathematics performance across countries is higher where resources are allocated more equitably across schools<sup>29</sup>, with high-performing economies tending to allocate resources more equitably across all schools, regardless of their socio-economic profile.

**Figure 10: Proportion of adults who are low performers in basic skills**



Source: *Skills Matter*, OECD Publishing, 2016

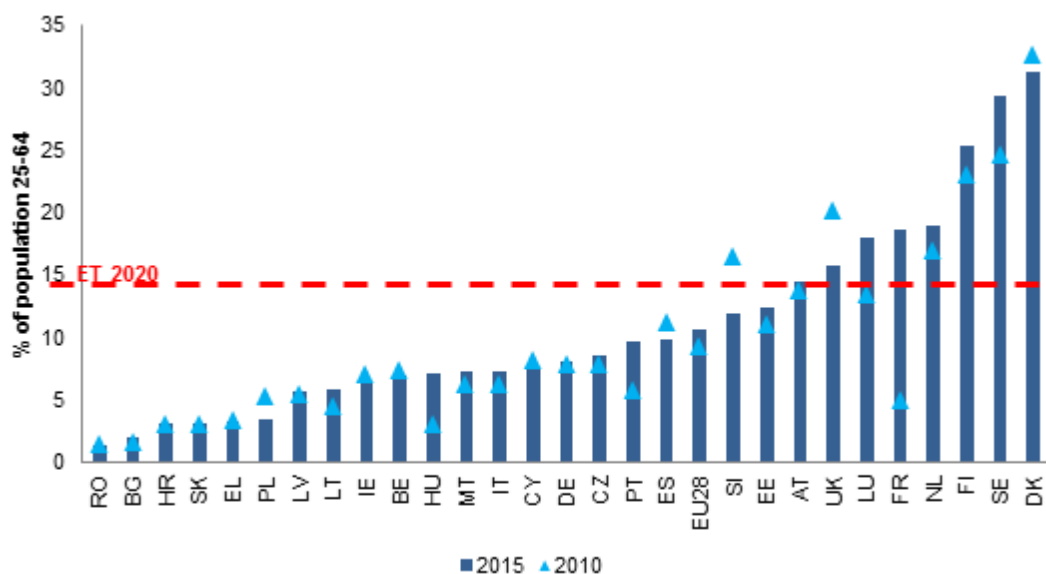
<sup>28</sup> Evidence shows that in most Member States people with a migrant background remain considerably disadvantaged even after adjusting for the socio-economic background, and that among foreign-born pupils those who arrive as young children have better outcomes than those arrived later. See OECD-EU (2015), *Settling In – Indicators of Immigrant Integration 2015*, and OECD (2014), *International Migration Outlook 2014*, OECD Publishing.

<sup>29</sup> OECD (2014), PISA in Focus, 2014/10 (October)  
[http://www.oecd.org/pisa/pisaproducts/pisainfocus/pisa-in-focus-n44-\(eng\)-final.pdf](http://www.oecd.org/pisa/pisaproducts/pisainfocus/pisa-in-focus-n44-(eng)-final.pdf).

**Europe also has a very large number of adults without the minimum level of skills necessary to participate successfully in social and economic life.** This is in part a result of early school leaving and underachievement in young age, as well as of the obsolescence of skills later in life and low participation in learning during adulthood. The OECD's 2012 Survey of Adult Skills (PIAAC) found that in Italy, Spain and Greece a third or more of working-age adults display low levels of proficiency in literacy and/or numeracy skills. Educational attainment is the strongest predictor of skills: 51% of adults who have very poor literacy and numeracy skills have not attained an upper-secondary qualification. Adults who lack minimum level of skills in turn face employment challenges: in every single EU Member State, employment rates of low-qualified adults are significantly lower (and unemployment rates higher) as compared to medium-qualified or highly-qualified adults.

**The EU average rate of adult participation in learning stood at 10.7% in 2014 and did not increase in 2015, in spite of a large and fast-evolving variety of needs.** In particular, those who have left initial education or training without an adequate level of the basic skills need the opportunities to obtain them later in life. Upskilling and reskilling ensure that the skills remain relevant and up to date. In comparison to 2010, adult learning participation rates actually fell in 12 Member States and remained stable in others, except Luxembourg, France and Hungary (Figure 11), with significant increases in the two last cases. In addition, low-qualified adults are only half as likely to participate in any learning as general population, and the gap further increased between 2012 and 2015.

**Figure 11: Participation in lifelong learning in EU 28**

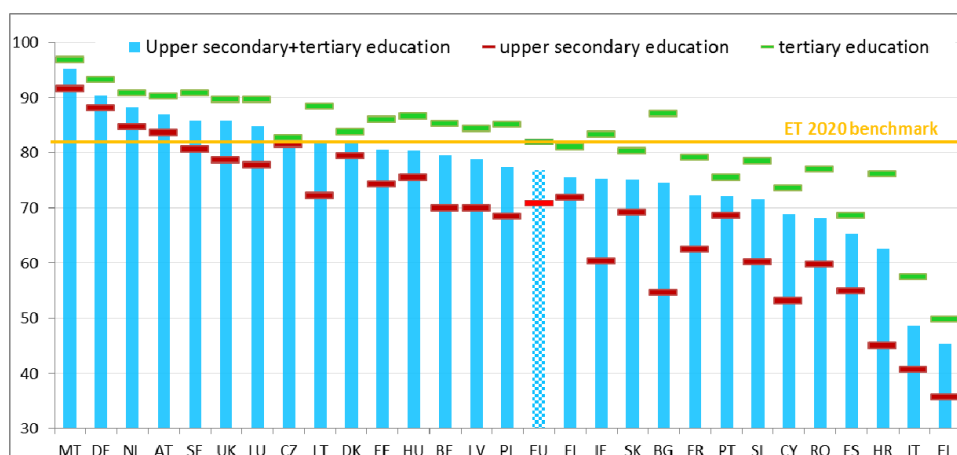


Source: Eurostat (LFS). Online data code: *tesem250*. Note: The indicator captures the participation rate in formal and non-formal education and training (last four weeks) of 25 to 64 year-olds.

**Labour-market relevance of education is crucial to foster young people's ability to find a job and contribute effectively to economic growth.** On average in the EU, the employment rate of recent graduates from higher education is 81.9% whereas for those with upper secondary education attainment the rate is 70.8%. The gap is greater in Member States with lower overall youth employment rates (Figure 12).

**Effective vocational education and training (VET) also contributes to transitions to the labour market by fostering job-specific and transversal skills.** Recent graduates with VET qualifications at upper secondary and post-secondary non-tertiary level generally have a smoother transition from education to the labour market and higher employment rates than graduates from general education pathways with comparable attainment levels (Figure 13).

**Figure 12. Employment rate of recent secondary and tertiary education graduates (2015)**

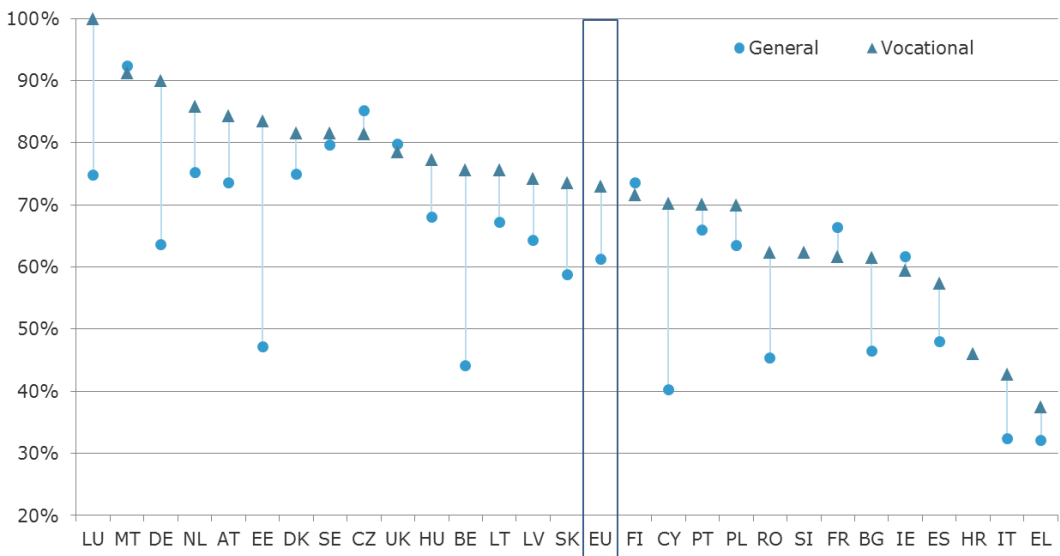


Source: Eurostat (LFS). Note: employment rate of higher education (ISCED 5-8) and upper secondary education (ISCED 3-4) graduates aged 20-34 who graduated 1 to 3 years before the reference year and who are not currently enrolled in any further formal or non-formal education or training.

**However, despite its positive effects, initial VET is still not as attractive as general education pathways, with average enrolment stable over the last 10 years.** At EU level, the share of I-VET students in the total upper secondary student population is 48% and the share of all students in a vocational programme at upper secondary, post-secondary non-tertiary and short-cycle tertiary education (ISCED 3-5) amounts to 39%. Formal VET programmes also attract mature students: 36.6% of VET students in the EU were 20 or older, i.e. beyond the typical age for secondary education, many of them likely returning to VET after making a break in their education pathway. This group accounts for well over half of all VET students in Denmark, Ireland, Spain and Finland.

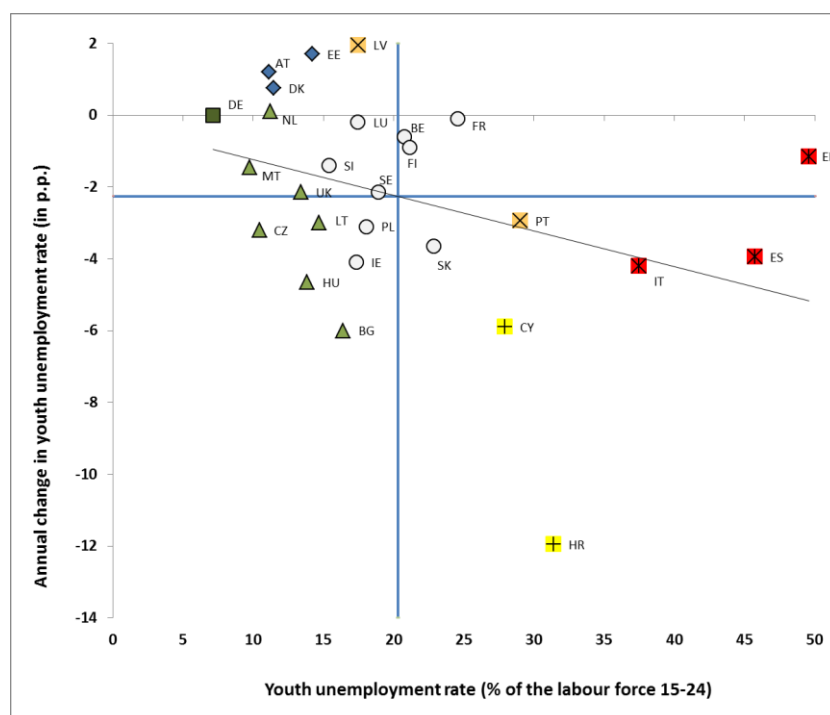
**Overall, the youth unemployment rate decreased from a peak of almost 24% in 2013 to 20.3% in 2015,** but it is still nearly 4.4 pps higher than it was in 2008. In the first half of 2016, some Member States still recorded levels close or above 40% (Italy, Spain, Greece) without significant decreases, though other highly impacted Member States registered significant improvements (in particular Cyprus and Croatia). The dispersion of youth unemployment across Member States remains high, though decreasing over time (see Figure 14, where the diagonal line shows a negative correlation between variations and levels of youth unemployment).

**Figure 13: Employment rates for different (post)secondary curricula (2015).**



Source: Eurostat (LFS, 2015). The indicator measures the employment rates of persons aged 20 to 34 having completed education 1-3 years before the survey with a diploma from upper secondary education (ISCED 3) or post-secondary non tertiary education (ISCED 4), out of the people in the same age group who are currently not enrolled in any further formal or non-formal education or training. Break in time series for LU and HU, data unreliable for general education graduates in CZ, EE, HR, AT and SI; and for VET graduates in LU.

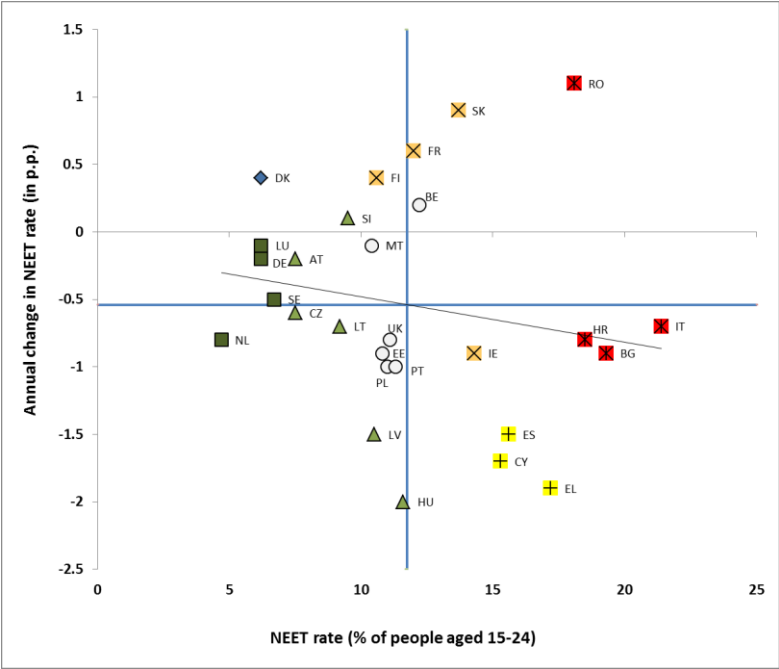
**Figure 14: youth unemployment rate (15-24) and yearly change, as reported in the scoreboard of key employment and social indicators**



Source: Eurostat, LFS (DG EMPL calculations). Period: 1st half 2016 levels and yearly changes with respect to 1st half 2015. Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. A break in the LFS series occurred in Denmark in 2016.

**In addition to the unemployed, a stable share of young people aged 15-24 are inactive and not in education or training.** In total in the EU, in 2015, 6.6 million people aged 15-24 were neither in employment, education or training (NEET). This amounts to 12.0% of the population in that age class, up from 10.9% in 2008 but down from a peak of 13.2% in 2012. As observable in Figure 15, high NEET rates close or above 20% are still recorded in a number of countries (Croatia, Bulgaria, Italy and Romania, the latter even showing a substantial increase in 2015). There are also indications that the NEET rate is going in the wrong direction in Denmark, Finland, France and Slovakia. Half of NEETs were inactive, with substantial variations among Member States but a stable share at the EU level (Figure 16). Among female NEETs, inactivity is more frequent than unemployment, while the opposite occurs among men.

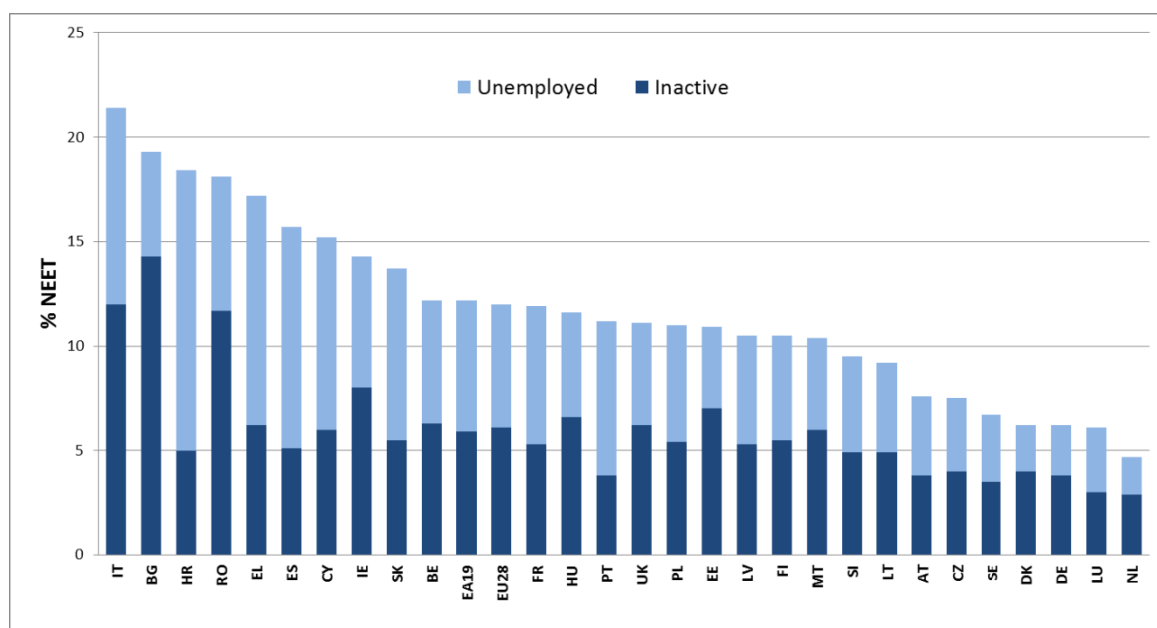
**Figure 15: NEET rate (15-24) and yearly change, as reported in the scoreboard of key employment and social indicators**



Source: Eurostat, LFS (DG EMPL calculations). Break in series in FR and ES. Period: 2015 levels and yearly changes with respect to 2014. Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex.



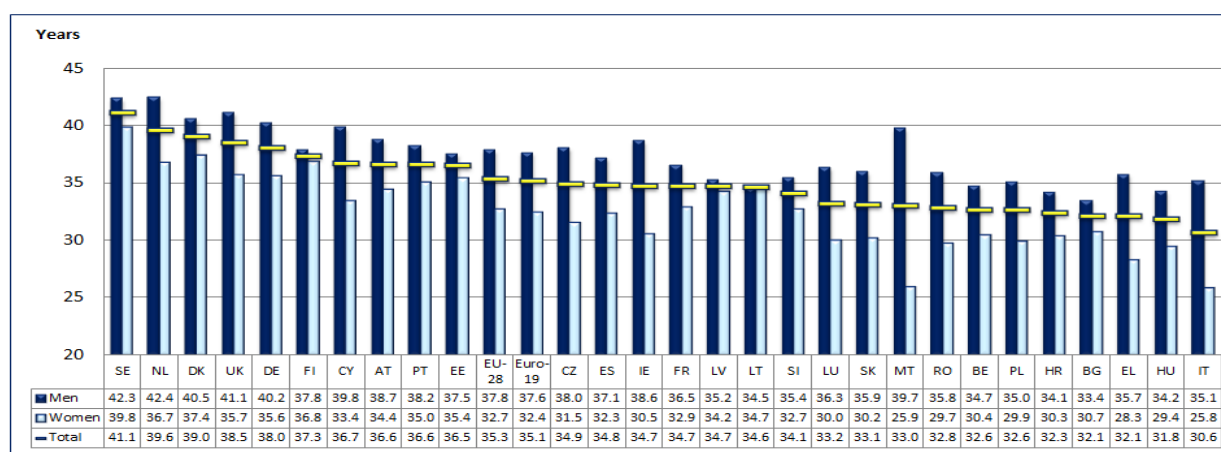
**Figure 16: Profile of NEETs (15-24 years old), 2015 (%)**



Source: Eurostat [edat\_lfse\_20]

**There is still also a major potential for increasing the employment rate of older workers, despite substantial growth in their employment rates over the last decade** in many countries and the fact that older workers have weathered the crisis relatively better than other age groups. Demographic developments make active ageing even more necessary. In 2015, the employment rate for older workers (55-64) ranged from 34.3% in Greece to 74.5% in Sweden, with the EU average at 53.3% and levels below 40% in four countries. The employment rate of women aged 55-64 is slowly catching up, but remains lower at 46.9% in 2015. The gender gap in the duration of working lives is also significant, with women participating on average 5.1 years less in the labour market than men (32.7 vs. 37.8 years in 2014) (Figure 17). This average gap masks a substantial variation across Member States and relates to multiple drivers, including barriers such as insufficient access to care services and lower pensionable ages for women than men in some Member States (see below for a detailed analysis).

**Figure 17: Average duration of working life, 2014**



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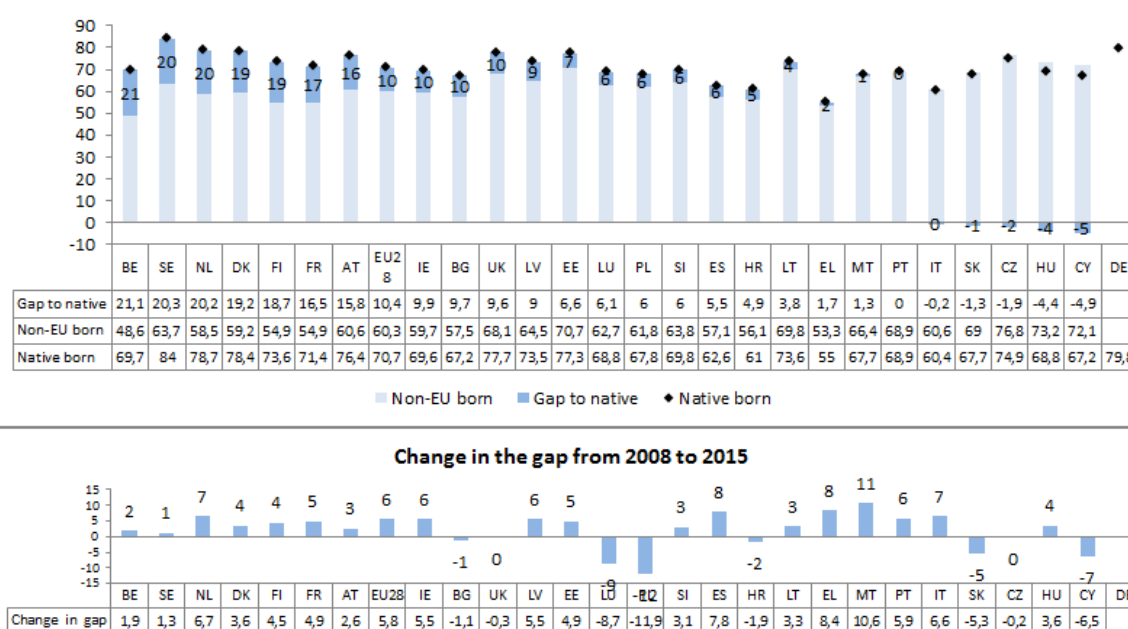
Source: Eurostat, LFS

**Data (EU-SILC 2014) also show high activity and employment gaps for people with disabilities<sup>30</sup>.** Moreover their number, driven by ageing, is expected to increase from 80 million to 120 million by 2020 in the EU. In 2014, the activity gap (20-64 age group) between people with and without disabilities in the EU amounted to 21.1 pps (60.6% versus 81.7%), and the employment gap to 23.8 pps (48.7% versus 72.5%). In particular, in Lithuania, Ireland and Malta the employment gap was close to 40 pps and in 12 countries higher than 30 pps. The employment rate of persons with disabilities based on the EU-SILC 2014 data is below 30% in Greece, Ireland, Malta and Croatia. Persons with disabilities usually exit the labour market earlier, having a very low employment rate at the age 55-64 at 34.5%.

<sup>30</sup> The UN Convention on the Rights of Persons with Disabilities defines disability as "an evolving concept" resulting from "the interaction between persons with impairments and attitudinal and environmental barriers that hinder their full and effective participation in society on an equal basis with others", These impairments can be mild to severe, physical, mental, intellectual or sensory – present from birth or acquired in the course of life (including in employment) and particularly related to the ageing of the population.

**The non EU-born population also posts lower-than-average activity and employment rates,** with an activity gap of 4.2 pps on average compared to the native population (age class 20-64), but reaching more than 10 pps in seven Member States (Figure 18). This inactivity gap is even higher for women. Also, the employment rate of the non-EU born is on average 10.4 pps lower than that of the native born, but this gap reaches about 20 pps in three Member States, and above 15 pps in four others, with again an even stronger gap as far as women are concerned. On average non-EU born women have an employment rate 13.5 pps lower than native-born women. Challenges often persist with the second generation: people (aged 25-54) born in the EU from non-EU born parents have a 5.7 pps lower employment rate and a 3.7 pps lower activity rate than those born to at least one native-born parent.

**Figure 18: Employment rate by country of birth, ages 20-64, 2015 and change since 2008**



Source:

Eurostat; For DE there is no breakdown for non-EU born, but if one looks at the gap between native citizens and third country nationals, it reaches 22.6 pps.

**Labour market outcomes of immigrants are influenced by many causes.** Beyond traditional explanatory factors such as age, gender, education level, or professional experience, these outcomes are also determined by the specific factors of proficiency in the host-country language and transferability of skills and education acquired abroad. Whether immigration resulted from family reunification, economic or humanitarian migration also plays a role, partly because it impacts on the previous characteristics but also because it implies different abilities for and needs of integration measures. Nevertheless, even when accounting for such differences, there remains a gap in the probability of being employed<sup>31</sup>. Part of this can be related to discrimination practices or lack of recognition of qualifications but also other unobserved characteristics such as the region of origin, which can for instance impact on gender roles and therefore on female labour market participation. Such challenges might become more pronounced in view of the inflow of asylum seekers, with almost 1.8 million asylum applications filed in 2015 and first half of 2016 alone<sup>32</sup>.

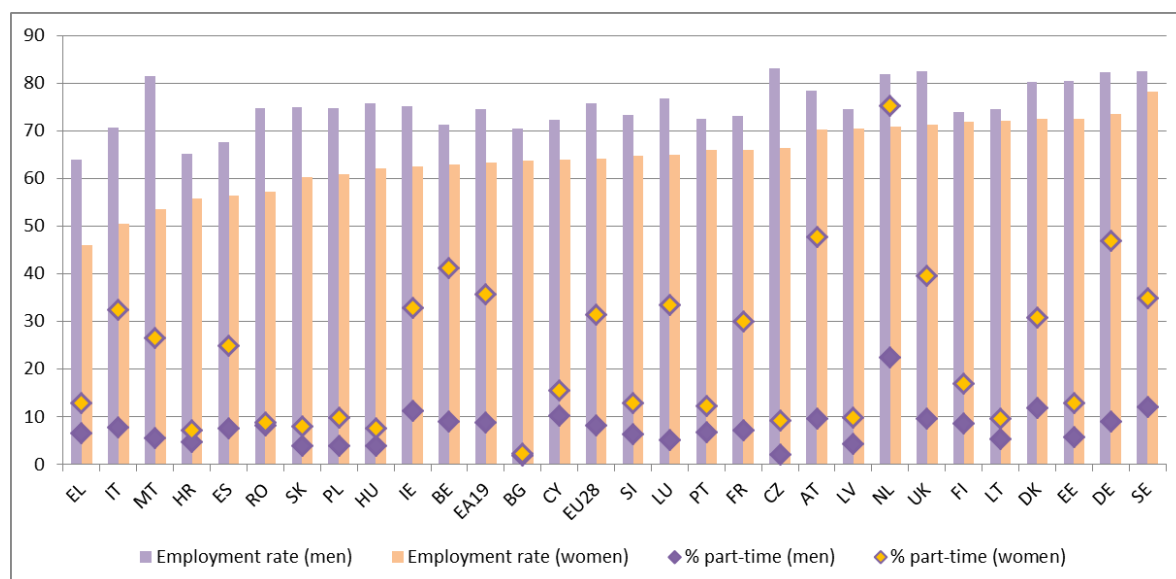
**In all Member States, employment rates of women are lower than those for men, with large variations across the EU.** In 2015, the EU employment rate for men (aged 20-64) was 75.9% while it reached only 64.3% for women (Figure 19), despite the fact that women are increasingly qualified and even out-perform men in terms of educational attainment. In 2015, 43.4% of women (aged 30-34) had tertiary education compared to 34% of men. A female employment rate of 60 % or below, together with a high employment gender gap is found in eight Member States, most of which are facing severe demographic ageing<sup>33</sup>. This employment gap between men and women (15-64) is particularly accentuated among refugees (17 pps) and migrants (19 pps).

<sup>31</sup> See European Commission (2016), "Mobility and Migration in the EU: Opportunities and Challenges" in *2015 Employment and Social Developments in Europe Review*

<sup>32</sup> For detailed analysis see upcoming 2016 *Employment and Social Developments in Europe Review* chapter on Refugee Integration and EC-OECD Working Paper on "How are refugees faring on the labour market in Europe?", Sept 2016.

<sup>33</sup> According to the population projection, the population of working-age would shrink in a majority of Member States, and especially so in Lithuania, Latvia, Bulgaria, Slovakia, Greece, Portugal, Poland, Estonia, Romania, Germany, Croatia and Hungary, see European Commission (2015), *Ageing report*, [http://ec.europa.eu/economy\\_finance/publications/european\\_economy/2015/pdf/ee3\\_en.pdf](http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee3_en.pdf)

**Figure 19: Employment rate of the population aged 20-64 and percentage of part-time workers by gender in 2015**



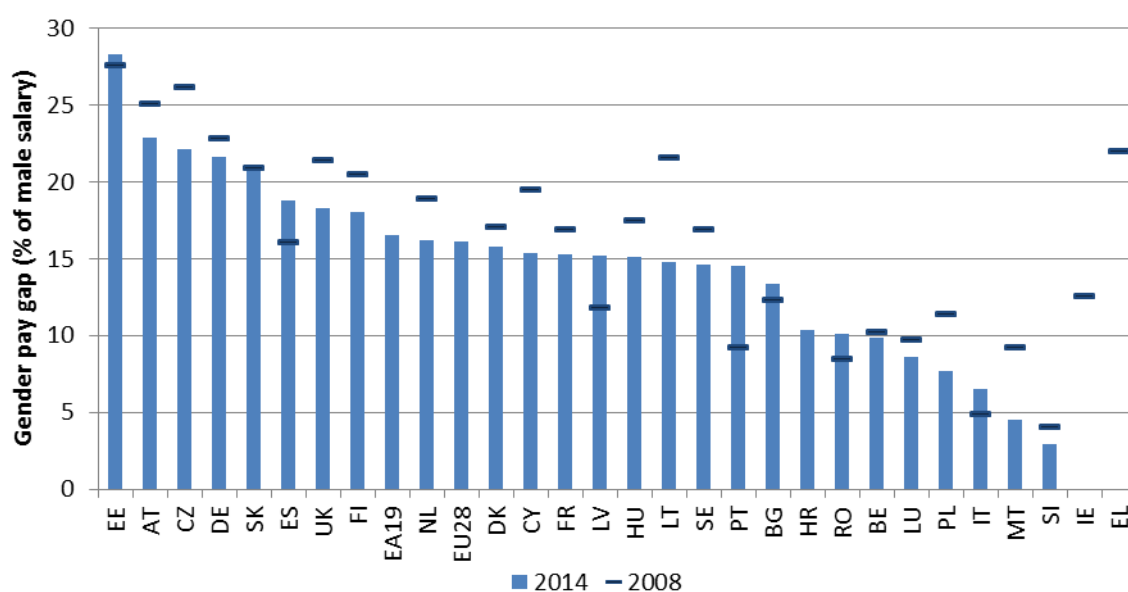
Source: Eurostat, LFS. Note: Share of part-time workers over the total working population in each gender group. Countries ordered by increasing values of female employment rate.

**Gender gaps in employment are particularly acute for parents, with women still more likely than men to assume childcare responsibilities.** On average, the employment rate of women with a young child is 8 pps lower than the employment rate of women without a young child, and in some countries this difference is over 30 pps (Czech Republic, Slovakia, Hungary). In all EU Member States, on the contrary, fathers are more likely to be employed than men without children. The mothers' employment rates tend to be higher than that of women who do not have children in countries where well-designed and equitably-shared work-life balance measures are in place (notably Sweden and Denmark). The employment rate gap is particularly strong for low-skilled mothers as well as single parents<sup>34</sup>.

<sup>34</sup> See European Commission (2016) The efficiency and effectiveness of social protection systems over the life course, chapter 3.2. in *Employment and Social Developments in Europe 2015*.

**Women also tend to assume more long-term care responsibilities, and face strong financial disincentives when entering the labour market or wanting to work more.** They are thus more likely to reduce working hours or exit employment altogether. More than 25% of the inactive female population (20-64) in 2015 was inactive because of family responsibilities (including care for children and incapacitated adults) in Hungary, Ireland, Slovakia, Estonia, Czech Republic and the United Kingdom. Moreover, in some tax-benefit systems, cash transfers and tax-related support weaken financial incentives to work for second earners, thus hampering female labour market participation. High childcare costs can be a further disincentive to start or return to work for a second earner in a dual earning couple. This is particularly the case in the United Kingdom and Ireland where childcare-related costs represent on average more than 23% of net family income (based on OECD Tax and Benefit data). For the EU as a whole, only 28% of children aged 0-3 years old were cared for in formal care services in 2014 and 83% of children between 3 years to compulsory school age. Consequently, lower employment rates for women combine with a high share of part-time employment: 31.9 % of women in employment compared to only 8.3% of men. This holds even more for parents, with 40.5% of mothers working part-time against 5.7% of fathers.

**Figure 20: Unadjusted gender pay gap in 2008 and 2014**



Source: Eurostat. Note: the figures show the difference between men's and women's average gross hourly earnings as percentage of men's average gross hourly earnings - for paid employees, unadjusted for personal or job characteristics.

Source: Eurostat; Industry, construction and services (except public administration, defence, compulsory social security). No data available for Greece and Ireland in 2014.

**In addition to low full-time equivalent employment rates, women also suffer from a significant pay gap.** This amounted to 16.6% in 2014 in the EU, with large variations across Member States (see Figure 20)<sup>35</sup>. There are various potential reasons behind the gender pay gap, such as differences in work experience, working time, type of job or sector of employment. For the EU as a whole labour market segregation<sup>36</sup> is relatively high, reaching 25.3% for occupational segregation and 18.3% for sectoral segregation<sup>37</sup>. Women tend to work in sectors that are relatively less well paid<sup>38</sup>, are less represented in management positions, and are more represented than men in part-time work, which is less well remunerated than full time jobs per hour of work. Gender pay gaps in favour of men exist in almost all occupations.<sup>39</sup> Moreover, other factors that cannot be directly measured by Eurostat data, such as discrimination, can contribute to the gender pay gap. Women's lower pay, shorter working time and shorter career duration have a negative impact on their overall earnings and pension entitlements.<sup>40</sup>

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<sup>35</sup> This is the 'unadjusted gender pay gap', as it does not take into account all of the factors that impact the gender pay gap, such as differences in education, labour market experience, hours worked, type of job, etc

<sup>36</sup> Labour market segregation refers to the distribution of women in different jobs and sectors as compared to men.

<sup>37</sup> The two percentages reflect the proportion of the employed population that would need to change occupation/sector in order to bring about an even distribution of men and women across occupations or sectors. The index varies between 0 (no segregation) and 50 (complete segregation).

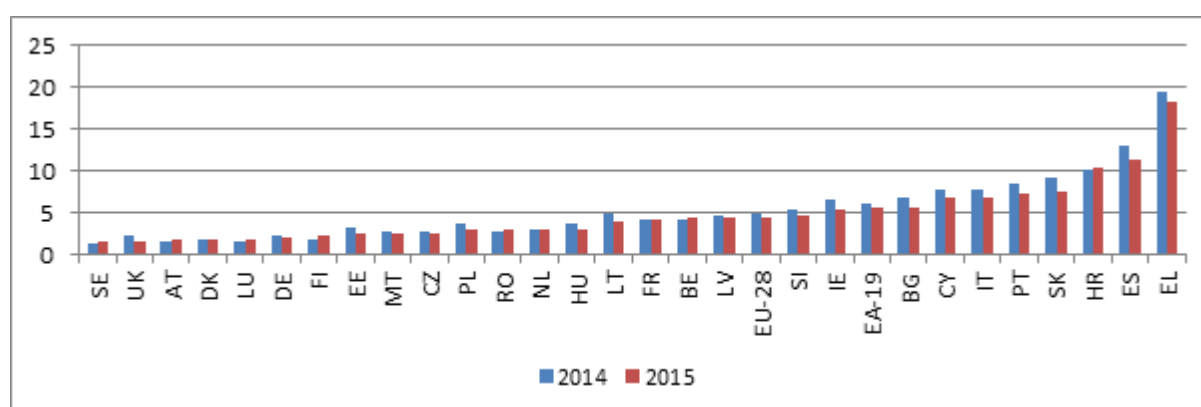
<sup>38</sup> [http://ec.europa.eu/justice/gender-equality/files/annual\\_reports/2016\\_annual\\_report\\_2015\\_web\\_en.pdf](http://ec.europa.eu/justice/gender-equality/files/annual_reports/2016_annual_report_2015_web_en.pdf)

<sup>39</sup> [http://ec.europa.eu/justice/gender-equality/files/documents/150119\\_segregation\\_report\\_web\\_en.pdf](http://ec.europa.eu/justice/gender-equality/files/documents/150119_segregation_report_web_en.pdf)

<sup>40</sup> In 2015, women received a pension that is on average 38% lower than men's pension and, in some countries, a third of elderly women have no pension at all. Including for this reason, women are at a much greater risk of poverty than men in old age; on average 16% of women 65+ are at risk of poverty as compared to 11.7 % of men. Bulgaria, Slovenia, Sweden, Romania, Czech Republic, Lithuania and Estonia have gender poverty gaps of 10 pps or more between single women and men in old age.

**Long-term unemployment decreased in most Member States between 2014 and 2015, but it remains a significant challenge**, with more than 10.3 million (Q1 2016) Europeans looking for a job for more than one year, including 6.5 million for more than two years. As a share of the active population, long-term unemployment increased in 2015 in Austria, Belgium, Croatia, Finland, Luxembourg, Netherlands, Romania, and Sweden, whereas it decreased, sometimes significantly, in most of the heavily impacted Member States (Figure 21). However, it is still above 10% in Greece, Spain and Croatia, and above 5% in Slovakia, Portugal, Italy, Cyprus, Bulgaria and Ireland. As unemployment duration increases, the connection to the labour market deteriorates, with a sharp drop in the likelihood of re-employment in stable jobs, and an increase in the inactivity risk, due to decreasing employability and the accumulation of barriers to participation.

**Figure 21: Long-term unemployment rates (% of the active population), 2014 and 2015**



Source: Eurostat, LFS

**There is large variation across Member States in the success of assisting the long-term unemployed to find a job.** The quality of service provision to the long-term unemployed remains crucial to ensure their effective integration into the labour market, in line with the Council Recommendation of 15 February 2016 on the integration of the long-term unemployed into the labour market.



**Policies to tackle low proficiency in basic skills have received special attention in Member States** such as Cyprus, Hungary, and Sweden and are addressed by the Council Recommendation on Upskilling Pathways: New Opportunities for Adults. Often Member states have addressed this challenge by improving their VET systems. In Sweden, though, a recent initiative aimed at early intervention, targeting the first years of schooling (i.e. pre-school class and 1-3 grade), with particular focus on basic skills. In Hungary and Slovakia, a specific objective has been the improvement of digital skills. In Cyprus the objective was to improve participation and to adapt VET to the labour market needs.

**Efforts to promote inclusive education have also been high on the agenda, with the primary objective of closing the educational gap of disadvantaged learners** (including learners with special educational needs, migrants and Roma). In the course of the last year initiatives to make education more inclusive were introduced in the Czech Republic, Greece, Poland, Portugal, and Slovakia. The measures aimed primarily at encouraging participation in mainstream education by broader groups of learners (especially from the disadvantaged groups) and from an earlier age. Hungary lowered the compulsory starting age of early childhood education and care from five to three years; the Czech Republic adopted legislation introducing compulsory pre-school education from five years from September 2017 on. Greece introduced Educational Priority Zones, i.e. reception classes, remedial teaching and reception structures for educating migrants in primary schools. Portugal increased the number of scholarships for students from economic vulnerable background and is also increasing the public provision for early childhood education and care. Slovakia came forward with an initiative related to preventing misplacement of children in special schools solely based on their disadvantaged socioeconomic background. In Belgium (Flemish Community) every child, including those with special needs, now has the right to enrol in a mainstream school, provided this is possible with reasonable adaptations.

**Several Member States emphasise support measures for teachers, trainers, school leaders and other educational staff.** This is the case in Belgium (where first measures have been taken in both Flemish and French communities), the Czech Republic, Croatia, Cyprus, Latvia, Romania, Slovakia, Finland and Sweden.

**Member states are making efforts to raise tertiary education attainment and the employability of higher education graduates.** Measures include better attracting disadvantaged and vulnerable groups, developing clear progression routes from vocational and other education types into higher education, as well as reducing drop-out rates. In Sweden, the Government will finance around 14 600 new study places in higher education by 2019 to further boost participation. The Czech Republic and Portugal have increased scholarships and support to people from economic vulnerable background. Improving the relevance of higher education is taking place through the increased use of skills projections and graduate employment data, the involvement of employers in curriculum design, developing a greater variety of study modes (part-time, distance, etc.) and further developing higher vocational education and professional higher education. Spain is further developing its graduate tracking system to measure employability of study programmes. Measures aimed at increasing employability are being pursued in Belgium, in particular by improving progression routes via short cycle programmes (Flemish Community) and dual or work-based education programmes at bachelor level (Federation Wallonia-Brussels).

**Policy reforms in adult learning have been carried out to ensure that education and training provision meets labour market needs.** Initiatives in this area have recently been put forward in Cyprus, Hungary, Lithuania, Romania and Sweden, usually focusing on basic skills or with the aim at keeping skills up-to-date and preventing early retirement. As an example, in Sweden the 'right to adult education' at upper secondary level was adopted as part of the 2016 budget. From 2017, all adults will have the right to complement their previous studies and obtain an upper secondary qualification that gives access to higher education and improves their chances in the labour market. Hungary is aiming at developing the digital competencies of 200,000 disadvantaged persons. Lithuania paid attention to conditions for improving the quality of non-formal adult education and continuous training. Through the New Skills Agenda for Europe, the Commission encourages sustained investment in skills acquisition and better alignment of skills with labour market needs to promote the creation of quality jobs.

**Measures promoting relevant and high-quality knowledge, skills and competences throughout lifelong learning**, focusing on learning outcomes for either employability, innovation, active citizenship and/or well-being have also been taken in Ireland, Spain, France, Croatia, Poland, and the United Kingdom

**Member States continued to improve the transparency of skills and qualifications.** Poland, Croatia and Finland improved their national qualification frameworks. Sweden has referenced its national qualifications framework to the European Qualifications Framework. Austria, Germany and Sweden have focused on the assessment and validation of skills and qualifications of recently arrived migrants.

**Concerning youth employment, the Youth Guarantee has been a catalyst for change.** Member States' national Youth Guarantee schemes comprise two types of actions: (1) fast-acting measures to provide tailored support to all young NEETs and (2) medium to long-term structural reforms to improve institutional capacity and ensure an integrated approach to service delivery. In terms of coverage, across the EU, 41.9% of all NEETs aged 15-24 were enrolled in the Youth Guarantee in 2015, up from 40.4% in 2014. Full-scale implementation is still recent in a number of Member States, as many measures have required substantial reforms and broad partnerships.

**Investing in outreach activities targeting young people who are not registered with the PES has been an important priority in many Member States. Two-thirds of PES are currently engaged in outreach work in the context of the YG implementation.** In Sweden, the strategy "Paths forwards – strategy for NEETs" focuses on motivating young people above 15 to start or return to education and complete upper secondary school, or to work (the latter when relevant and only for those aged 20-25). The national coordinator for NEETs aims at ensuring better collaboration between government agencies, municipalities, county councils and organisations at national, regional and local level. The coordinator works in close collaboration with the Youth Employment Delegation, whose task is to promote local agreements between municipalities and the PES, and their implementation, in order to reduce youth unemployment. In Croatia, the CISOK centres (lifelong career guidance centre) established across the country are increasingly providing job search assistance, career counselling and outreach to NEETs. In Latvia, the outreach project "Know and Do" aims at engaging the NEETs in education and develop their skills. In Greece a project was launched for implementing information sharing and outreach activities to young people about Youth Guarantee offers. In Spain, the procedure for registration has been amended so that all young NEETs registered in the regional PES are automatically eligible to receive offers in the framework of the Youth Guarantee system and the Youth Employment Initiative. This has automatically increased coverage.

**One-stop-shops have also been established to improve accessibility and outreach.** They bring together various youth-related services under one-roof, providing a broad range of services in a flexible and accessible way. In 2015, Finland launched one-stop guidance centres for youth. Located in 35 municipalities so far, they provide low-threshold support to all young people below the age of 30, including personal advice and guidance, support in life management, career planning, social skills, as well as education and employment support.

**In many Member States, the Youth Guarantee has more generally helped to break down silos across policy areas and build viable partnerships.** Coordination among the employment, education and youth policy sectors has been heightened. In Italy, the implementation of the Youth Guarantee has led to the creation of a common informatics system integrating the databases of the Ministries of Labour and of Education and the launch of dedicated initiatives to promote ALMPs and the Youth Guarantee in schools. In Lithuania, the project 'Discover Yourself' implemented in all municipalities for the period 2015-2018, involves a cross-sectoral partnership of local PES offices, the police, children rights protection services, social workers and local youth centres to support NEETs in gaining personal, social and professional skills.

**In addition, most Member States have used targeted wage and recruitment subsidies,** in many of them with support from EU funding, most notably the ESF and the Youth Employment Initiative (YEI). Since 2015, in Croatia, an amendment of the Law on Contributions enables employers who offer young people below the age of 30 a permanent employment contract to be exempted from payment of contributions for health insurance and employment contributions for a period of 5 years. Estonia launched 'My First Job' in 2015 which provides a one-year wage subsidy and coverage of training expenses during a two-year period. In Lithuania, employers hiring youth registered with the PES can receive a reimbursement of 50% of the gross wage for up to 6 months. Priority is given to categories such as the long-term unemployed youth, or young parents of 2 children. Sanctions are applied to employers who dismiss subsidised workers within six months after the subsidy period. In 2015, the measure involved 28% of all ALMP participants aged 16-29. In Cyprus, new schemes offer job placements to less than 25 years old unemployed graduates of lower secondary, upper secondary and post-secondary education of up to 2 years, who have limited work experience, with a training allowance of EUR 125 per week for maximum 6 months. Tertiary education graduates younger than 35 are also eligible. In France, young people aged less than 28 and having benefitted from a scholarship can apply, within 4 months after their graduation from tertiary or vocational secondary education, for a "subsidy for first job search" ranging from 200 to 300 euros a month.

The measure is expected to benefit 126 000 young people. Moreover, a EUR 4400 premium is granted during the first year to companies with less than 10 employees welcoming an apprentice between 16 and 18 years. Romanian authorities are also currently working on changes to the employment legislation to provide a mix of more generous activation measures tailor-made to groups furthest away from the labour market (including entrepreneurship and employment subsidies, incentives for apprenticeships and traineeships).

**Specific efforts to support apprenticeship reforms and the better regulation of traineeships have been stepped up.** These reforms have helped to better align young people's skills with labour market needs and strengthen business community engagement. Half of the EU Member States have undertaken – or report plans to undertake – legal changes to align their national framework with the Quality Framework for Traineeships of 2013. In the Member States that have already adapted their legislation (Bulgaria, France, Germany, Greece, Lithuania, Portugal, Spain) most of the reforms consist in limiting the duration of traineeships to six months (in Bulgaria to 12 months), clarifying conditions for longer traineeships and assigning mentors to provide guidance and supervise progress during the traineeship.

#### **Box 2. Making full use of the European Social Fund (ESF)**

With a budget of 86.4 billion EUR for 2014-2020, the European Social Fund (ESF) is one the key EU instrument to address the challenges identified in the country-specific recommendations (CSRs), with regulations providing for the possibility to re-programme to align with emerging challenges.

One of the key policy priorities for the ESF 2014-20 is **youth employment** tackled through both the fund itself, and the Youth Employment Initiative (YEI). Under the ESF, EUR 6.3 billion are directly dedicated to youth employment actions, while young people are also a major target group under education, lifelong learning and social inclusion measures.

In addition, the YEI budget amounts to EUR 6.4 billion in total (composed of EUR 3.2 billion of YEI resources with a ESF matching allocation of EUR 3.2 billion). The YEI, for which 20 Member States are currently eligible, specifically targets young people who are not in employment, education or training (NEET) focusing on the EU regions whose youth unemployment rate was 25% or more in 2012. To ensure a swift response to this important policy challenge, the YEI resources have been frontloaded in the EU budget for spending during the first half of the financial cycle. In addition, in 2015 the Commission released an increased pre-financing for the YEI worth around EUR 1 billion, to ensure faster mobilisation of youth employment and training measures on the ground. The increase had a positive impact for half of the Managing Authorities benefitting from the YEI, which could commit more funds and/or launch more projects.<sup>41</sup>

However, overall 2014 and 2015 have been marked, for both the ESF and the YEI, by a relatively slow start of implementation in the Member States, with low declaration of eligible certified expenditure indicating a low absorption rate. Nevertheless, this should not be interpreted as a sign of lack of actions and implementation on the ground. Member States have encountered delays in the designation of managing authorities and monitoring systems, which impacted on the volume of expenditure claims sent to the European Commission.

Already, data show that, since the launch of the operational programmes, over 2 million participants have benefitted from ESF support and 1.4 million young NEETs have benefitted from YEI-supported interventions - notably job placements, apprenticeships, traineeships, self-employment measures and continued education and training. In the majority of Member States the YEI is seen as a key mechanism or lever through which to operationalise the Youth Guarantee Council Recommendation (2013). Although the progress in implementation varies between Member States, some projects already have a significant impact on the ground.

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<sup>41</sup> Commission study, First results of the Youth Employment Initiative – A final report to DG Employment, Social Affairs and Inclusion of the European Commission (2016).

**Nearly all Member States have taken action to improve the quality, supply, or attractiveness of apprenticeships**, in the spirit of the European Alliance for Apprenticeships launched in July 2013. The Danish apprenticeship reform, passed in 2013 but implemented from mid-2015 onwards, aims at offering apprentices the opportunity to obtain a general upper-secondary qualification opening access to higher education. In France, the apprenticeship contracts now allow obtaining 85 professional qualifications approved by the Labour ministry (instead of the Education ministry), provided the person has an ISCED 3 qualification or was identified as an early school leaver. French scheme for the development of apprenticeship, introduced in May 2015, comprised of a “young VSEs apprentices scheme” of EUR 368 per month, that aimed at spurring small and very small enterprises to hire apprentices who did not complete a high-school degree. In Austria, the Reform of the Vocational Training Act in 2015 strengthened the quality management in the apprenticeship training system. New training offers, such as standardised curricula for low-threshold entry qualifications and partial qualifications, have been developed for disadvantaged young persons. Reforms in the field of apprenticeships are also planned in Ireland and Slovenia. In Ireland, the apprenticeship Council (launched end 2014) is tasked with mapping out the economic sectors where the expansion of apprenticeships can make a real difference to both employers and employees. Following a call for proposals closed on 31<sup>st</sup> march 2015, a number of new Apprenticeships, tailor-made to meet labour market needs, were selected for development and rollout. The first new apprenticeship, in Insurance Practice, was launched in mid-September 2016. In Slovenia, the Apprenticeship act under public consultation aims at defining an overall framework for apprenticeships (including eligibility, working and social conditions, mutual obligations). In Spain, from January 2016 training provided by employers as part of the training and apprenticeship labour contract has to be part of a certified training itinerary so ensuring quality of apprenticeships.



**Different policy initiatives were taken to promote labour market integration of older workers.**

Some Member States have focused on providing access to adult learning, such as Romania with the adoption of a National Strategy on Lifelong Learning, with the main focus on increasing participation in lifelong learning of people usually underrepresented and disadvantaged in the labour market. Other Member States introduced specific activation plans and individualised employment services, including career counselling. In 2016, Luxembourg started the implementation of the professionalization placement programme notably intended for job seekers at least 45 years old. In other cases Member States have favoured the adaptation of work places and promoted healthy ageing at work. This has been an objective of the Latvian Active Ageing Strategy for Longer and Better Working Life, which involves skills and health assessment, development of individual plan at the enterprise level (incl. workplace adjustment, flexible forms of work, health improvement measures etc.) and training. In Greece a subsidy programme was launched covering wage and non-wage cost for nine months for 15,000 disadvantaged unemployed aged over 50 years old, including long-term unemployed.

**Increasing incentives for the employment of older workers (e.g. bonuses) and removing disincentives in tax-benefit structures is under way in several member States.** Belgium, Germany and Austria have launched initiatives to increase incentives for employment of older workers. Germany will introduce more flexible conditions for people to continue to work up to and beyond the general retirement age by providing a better framework to combine earned income with pension earnings. In Belgium two regions (Wallonia and Brussels) adopted reforms to improve the transferred employment incentive schemes for older workers.

**Specific schemes and lifelong learning strategies aim at supporting people with disabilities or other disadvantaged people in obtaining and maintaining paid employment in the open market.** Recent concrete examples of such measures can be seen in Cyprus (subsidies for employers hiring people with disabilities), Luxembourg (temporary work placement with an opportunity for permanent position), Malta (employment quotas) and Netherlands (job creation targeting people with disabilities). The recent National Strategy on Lifelong Learning in Romania has set out an objective to increase participation of the disadvantaged groups, including people with disabilities.

**Member States have also put an increased focus on labour market integration of people with a migrant background, including in the context of a strong influx of asylum-seekers.** Ensuring early intervention to those newly-arrived, involving relevant stakeholders such as employers and public employment services, has been the objective of several initiatives. Sweden has designed early measures for the asylum application period, in particular language introduction and societal information. Once the newly-arrived are granted a residence permit, they have access to an introduction programme, with fast-tracks targeting professions at risk of shortages. Moreover, 200 agencies in the public sector have been tasked to offer traineeships to the newly arrived during 2016-2018. Companies also play a proactive role; those offering at least 100 jobs or traineeships to the newly-arrived have been grouped within the so-called "100 Club", with tailor-made packages of measures from the PES. The updated Finnish Government Integration Programme 2016-2019 also follows the objective of a smooth transition for immigrants into, for example, studies or working life, by means of an effective initial cooperation between authorities and stakeholders. In Germany the Integration Act has entered into force in August 2016. It shall contribute to the a better integration of refugees, for example through more integration courses as well as job and vocational training opportunities. In Austria, the federal government established in September 2015 an "integration pool" of EUR 75 million to fund labour market integration measures for refugees, with an additional EUR 40 million per year allocated for 2016 and 2017 in the Federal Budget. Against this backdrop, a pilot project is carried out by the PES, aiming at identifying individual needs and training requirements, with also provision of general information about job seeking and the education system, and about the rights and duties of employees and employers in Austria.

**Specific activation measures have also been designed through targeted revamps of social benefits and services.** In Denmark, the integration allowance introduced in September 2015 has replaced educational or social assistance in order to increase incentives to work for immigrants. Also, refugees are now deemed capable to work at arrival, the public sector integration programme is going to focus on job-related measures, education and training in the Danish language and will be more labour-market oriented, and the job centres will strengthen their services to companies. Moreover, a cash bonus scheme is introduced for private companies that employ refugees in ordinary non-subsidized employment.

**Beyond measures aimed mostly at integrating the newly-arrived, several Member States have made efforts to tackle discrimination**, through either new or amended existing pieces of legislation, or the development of specific projects. In Finland, the Non-Discrimination Act entered into force in 2015 expands the duty to promote equality and prevent discrimination. The duty applies to training and education providers as well as educational institutions and employers, affecting in particular working life in the private sector. In Belgium, a new commission of experts was established by the Royal Decree of 18th November 2015, gathering representatives of the judiciary, the legal professions, trade unions and employers' organisations with the aim of evaluating every five years the application and the effectiveness of anti-discrimination laws. Spain has developed innovative projects in the framework of the National Strategy against racism, discrimination, xenophobia and other forms of intolerance: a project called FRIDA has been developed throughout 2015 with the aim of training and raising awareness among the education community. Similar programmes are going to be launched in the field of Justice and Health.

**The provision of paid maternity/parental leave tends to boost female labour market participation, by helping women and men to reconcile work and family life.** A balanced distribution of paid leave between women and men has been shown to be particularly beneficial in boosting women's employment after having children. In the recent period a number of Member States (including Germany, Ireland, Luxembourg, Hungary, Malta and Portugal) have taken initiatives to improve their paid parental leave provisions. As an example, Germany has flexibilised the rules on parental leave by allowing a leave of 24 months when the child is aged between three and eight, and letting it to be split into three blocks. Moreover, a balanced use of leave entitlements between women and men after childbirth (including the use of leave arrangements by fathers) has been shown to have positive effects in terms of distribution of household and care responsibilities and improved female labour market outcomes, including faster return of women to the labour market. Moving in this direction, Ireland recently introduced two weeks' paid paternity leave and Portugal extended paternity leave to 25 working days (formerly 20 days), 15 of which are mandatory (formerly 10). Czech Republic also amended parental leave arrangements and benefits to encourage fathers' involvement in childcare and encourage mothers who want to return to work earlier.

**Member States also introduced measures in the areas of childcare and long-term care to remove obstacles to employment for family carers, especially women.** For example, Czech Republic has put forward initiatives to improve pre-school education and to strengthen the support of children with special needs. Czech Republic is also planning to adopt financial assistance and leave for informal carers of family dependants in 2017. Other Member States (including Bulgaria, Germany, Ireland, Slovakia, Luxembourg, and UK) have recently taken steps to improve affordability of childcare. Slovakia is planning to increase the allowance for carers with persons who have a severe disability by the end of 2016, and to increase the period of pension contributions credited to the carer. Some Member States also intend to address financial disincentives to work arising from their tax-benefit systems. For instance, Austria and the United Kingdom have launched initiatives to expand favourable tax treatment of child allowances and child care expenses.

**Flexible working arrangements, such as telework, flexitime and reduced working hours, have also been used to stimulate employment of women.** In Portugal employees with parental responsibilities have been entitled part-time work or flexible work arrangements, such as telework. Germany recently introduced the parental allowance ‘plus’, which allows parents to take their parental leave on a part-time basis and gives incentives for parents to both make use of the part-time leave. Czech Republic is also planning measures to allow employees with parental responsibilities to flexible forms of entitlements (in case of children aged 3 or younger). Telework is possible at the decision of the employer.

**The long-term unemployed face frequently a combination of the above-mentioned barriers; many Member States are reinforcing support for them, with sometimes, as a first step, measures to increase registration rates with the employment services,** which was on average at 71% in the EU in 2015. Romania for instance intends to introduce integrated teams bringing together social services, health and education mediators, targeting the outreach and registration of the inactive and long-term unemployed in rural areas and in disadvantaged communities.

**A number of countries are reinforcing the individualisation of support provided to the long-term unemployed, in line with the Council Recommendation focusing on job integration agreements** tailoring support to individual needs with clear rights and obligations for both the unemployed and the support bodies. In France, as part of the action plan against LTU initiated in February 2015, support provided by the public employment service has become more individualised with a reinforced competence assessment, as staff is reallocated towards intensified counselling, aiming to reach 460.000 clients at risk of long-term unemployment by 2017. In Spain, the Common Employment Services Portfolio from 2015 foresees the establishment of individualised employment itineraries and personal employment agreements, which are binding for those receiving unemployment benefits. Moreover, a Programme to support the long-term unemployed was introduced in 2016 to strengthen the capacity of the PES with a view to providing individualised support. The Danish job centres have in 2016 started a 'Contact Plan' that is based on intensified contact in the first six months of unemployment and after 16 months of unemployment. The long-term unemployed person is actively involved in planning the meetings and job counsellors are trained to use empowerment and motivational tools. Finland also plans a face-to-face interview with the unemployed every 3 months from 2017.

**A number of countries have outsourced employment services for the long-term unemployed.** Malta introduced a Work Programme Initiative outsourcing profiling, training and job placements for LTU clients aged 25-56. Latvia launched in August 2015 a national ESF programme (EUR 40 million) which involves NGOs as service providers for individual and group consultations, career consultations, health checks, guidance, motivational programmes, addiction treatment programmes.

**Training provision for the long-term unemployed has been also reinforced in a number of countries.** France launched in 2016 a EUR 1 billion plan (to be matched with a complementary financing from the social partners' fund for the securization of professional pathways) for financing 500 000 additional trainings for jobseekers, of which 300 000 prioritised to long-term and low-qualified jobseekers in sectors with positive regional labour and economic prospects. Sweden is strengthening the training component of its activation guarantee with increased possibilities for work training, vocation-specific courses within shortage professions at folk high schools for up to 24 months and possibility for the LTU to study while still receiving "activity support" benefits for one year.

**Tailoring support to individual needs frequently required better coordination of services across organisations, and Member States agreed in the Council Recommendation to establish a single point of contact** for the long-term unemployed. Data exchange and inter-operability platforms are crucial for effective delivery of services. Slovakia is reinforcing the capacity of integrated labour offices, integrating employment counselling and the provision of social benefits and creating specialised activation centres for the long-term unemployed. Ireland has integrated income support and employment services in the *Intreo* centres, focused on individual case management. To reduce caseloads and increase the scope for individualised support, the 'JobPath' programme has outsourced one-year-support for the long-term unemployed, providing private partners with financial incentives to achieve sustainable exits from the programme with payments made after 13, 26, 39, 52 weeks of employment of the jobseeker. While some countries are well-advanced in the delivery of a single point of contact, other countries are taking first steps to coordinate service provision across organisations. Bulgaria is piloting service integration by creating through an ESF financed project 65 one-stop-shop centres integrating counselling from both employment and social services.

**Successful integration also requires strong partnerships with employers.** In the UK and Netherlands, specialised employer teams provide a single point of contact for employers, regularly monitoring employment opportunities for the long-term unemployed and developing specific knowledge and relationships with companies. In Portugal, the *Reativar* programme measure introduces support for the long-term unemployed above age 31 taking six months traineeships at a private institution, through a monthly grant according to the qualification level. The promoting institution provides certification at the end of the traineeship. The PES (IEFP) pays between 65% and 80% of the grant, according to the type of promoting institution and the characteristics of the participant. In Cyprus, the government introduced new employment subsidies targeting the long-term unemployed, while Finland is implementing the Employment Programme for Growth Companies, the idea of which is to boost growth, competitiveness and employment by matching capable, highly educated, unemployed working force with the needs of growth companies. Slovakia uses the ESF to introduce tutoring work for the long-term unemployed combining an employer subsidy with a mentorship scheme provided by the employer.

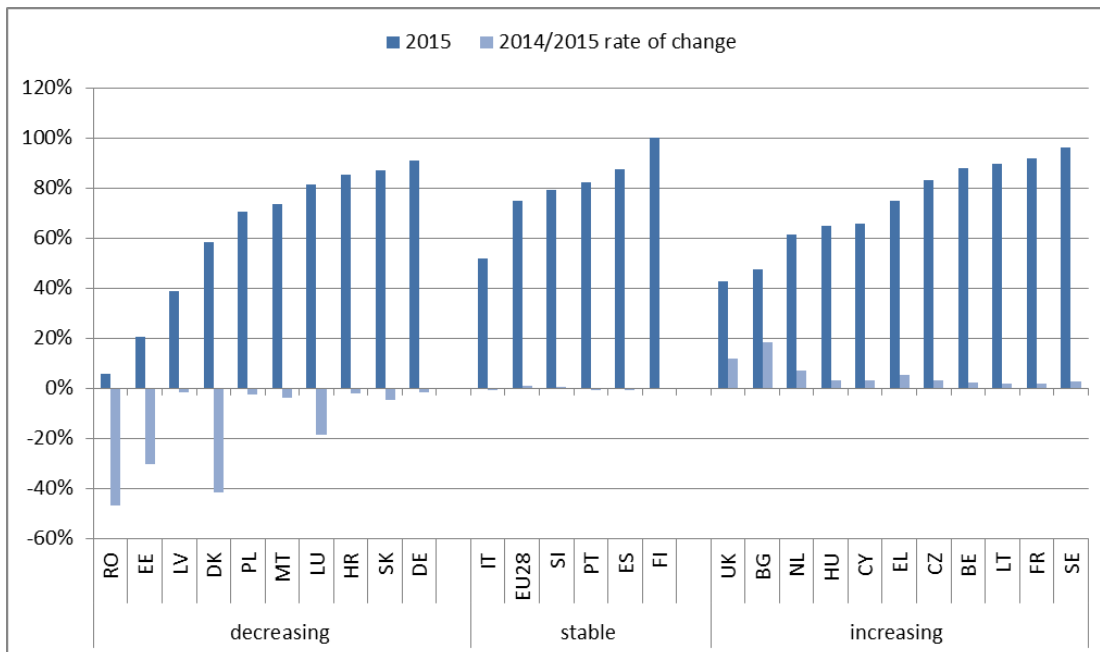
## 2.3 Guideline 7: Enhancing the functioning of labour markets

This section looks at the implementation of the employment guideline no. 7, which recommends Member States to enhance the functioning of the labour market. It first presents indicators about the coverage of public employment services and activation measures which are crucial to increase labour market matching. Then it quantifies labour market segmentation through labour market transitions, while stressing the various types of costs associated to strictness of protection. Section 2.3.2 reports on policy measures from Member States in these areas, including fostering labour mobility and the promotion of social dialogue, which is important for a sense of ownership of reforms and thereby their effective implementation.

### 2.3.1 Key indicators

**Public Employment Services (PES) are a crucial stakeholder to match supply and demand, provided jobseekers are registered**, in order to grant them access to active labour market measures and job search support. Variations in registration rates across countries (see Figure 22) are due to several factors, including the quality and attractiveness of PES services, the level, duration and eligibility of unemployment and social benefits, and the obligations and sanctioning mechanisms linked to these benefits.

**Figure 22. Share of long-term unemployed registered with employment services, 2015**

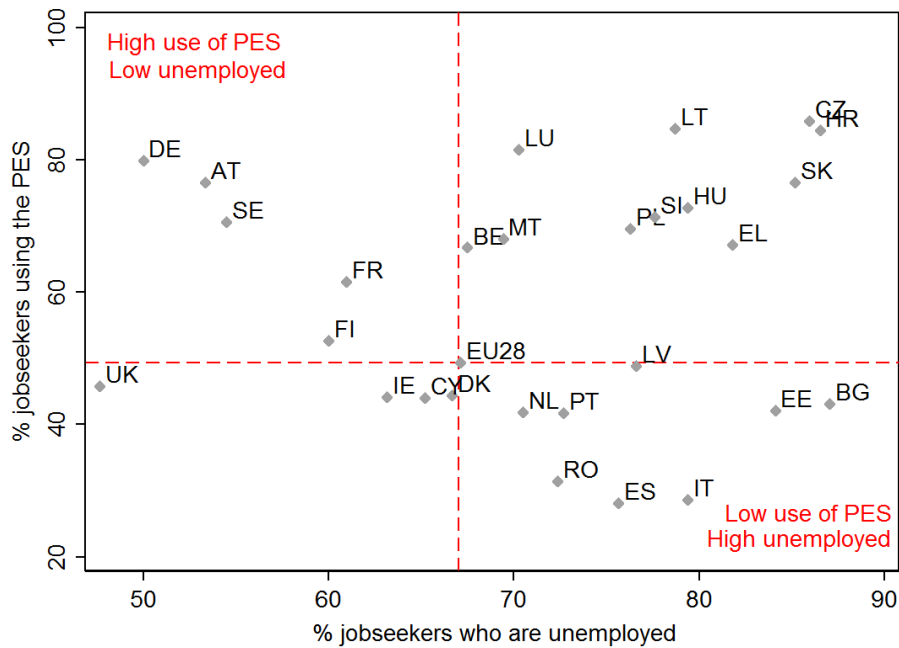


Source: Eurostat, Labour Force Survey 2015. Data for AT and IE not available

**All in all, the use of the PES in job search remains uneven across the EU (Figure 23),** with also a risk that in some Member States the most vulnerable jobseekers turn towards undeclared work. The efficiency of PES in gathering information from employers on job vacancies contributes to larger use of PES by jobseekers.



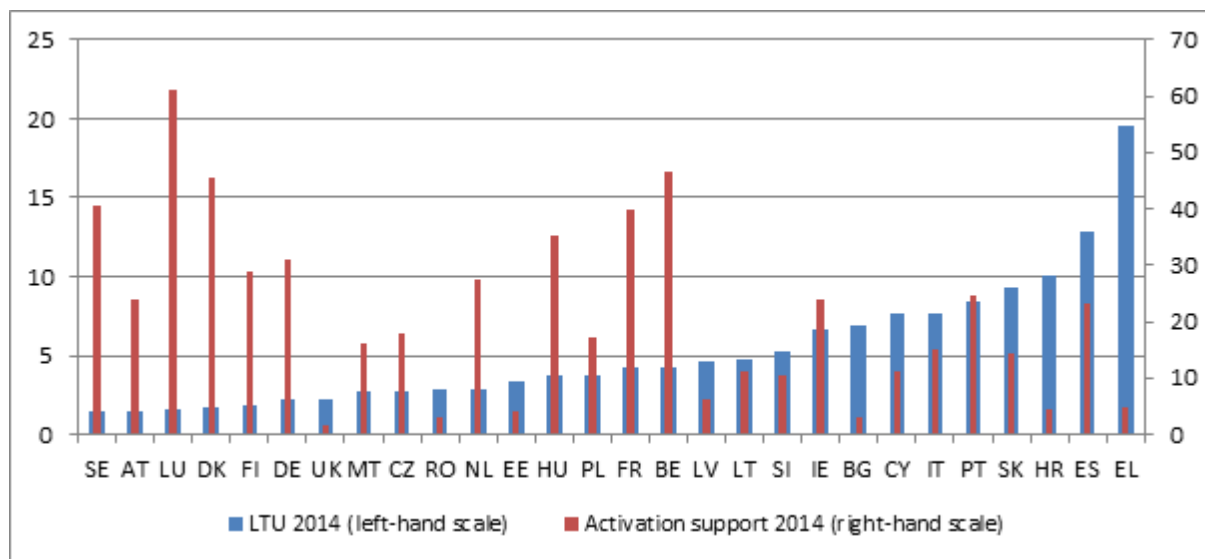
**Figure 23 - Use of PES in job search and share of unemployed jobseekers, 2014**



Source: Eurostat, Labour Force Survey 2014 (based on [lfsa\_ugmsw], [lfsa\_urgan] and [lfsa\_sup\_age] series).

**Countries with the lowest long-term unemployment rates are among those where the level of participation in ALMPs is the highest.** For several other Member States, activation support does not seem proportional to the unemployment challenge that they face.

**Figure 24: Activation support (LMP participants per 100 persons wanting to work) and long-term unemployment rates by Member State, 2014**

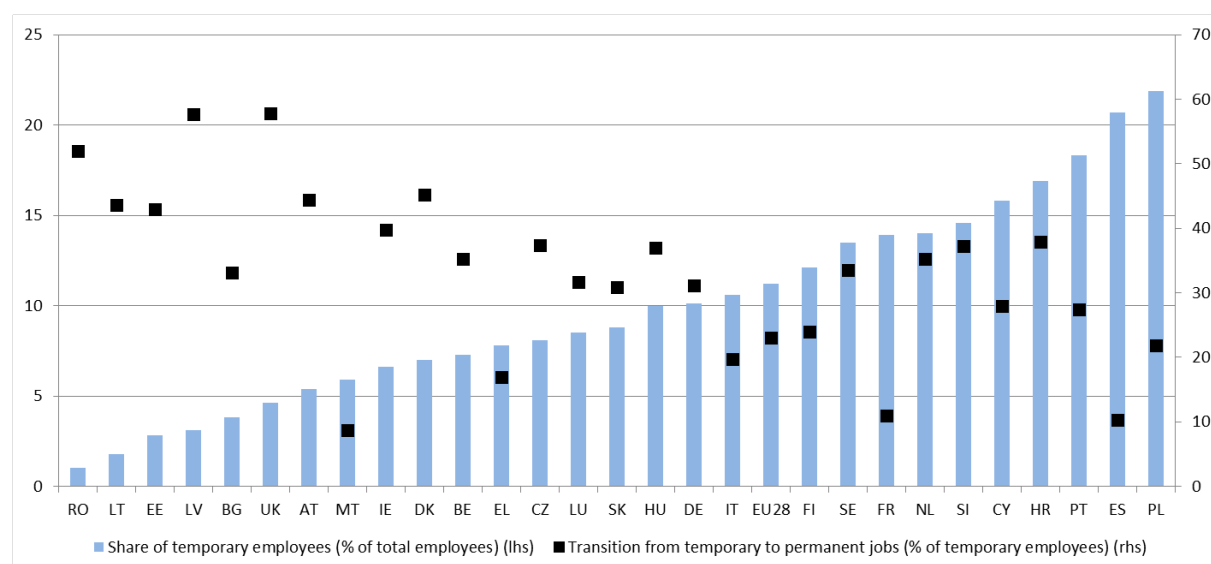


Source: Eurostat, LMP database (Note: for activation support 2009 data for the UK, 2012 data for Cyprus and 2013 data for Greece, Ireland and Spain).

**However, the design, coverage and targeting of active labour market policies (ALMPs) as well as the way they are implemented impacts on their effectiveness and efficiency.** Unemployment can have several causes, such as an overall lack of labour demand, skills mismatches, employment protection legislation or labour taxation, etc. (see the corresponding paragraphs of this document). Symmetrically, activation measures can focus on the supply side (like employment subsidies), while others target disadvantaged groups on the labour market or relate to the overall framing of the labour market (e.g. skills forecasting systems), or to the design of social benefits, which is why ALMP measures are reflected – albeit to different extents - under Sections 2.2, 2.3 and 2.4 of the policy response. Different ALMPs will be fit for different types of unemployed and different circumstances, which calls for effective profiling techniques and developing an evaluation culture. For instance, hiring incentives for firms can come with relatively large deadweight losses or crowding-out effects. Effectiveness of direct employment creation in the public sector also proves frequently questionable. In general, ALMPs which are part of individualised and targeted support schemes appear to be more successful. ALMPs which redistribute incentives to outsiders on the labour market tend to prove particularly effective during recoveries.

**In this regard, labour market segmentation is still significant in many Member States.** This implies that often different “segments” coexist in the labour force: on the one hand, workers characterised by stable employment relationships, protection against dismissal, and full access to social protection; on the other hand, non-standard employment contracts, with limited or no protection against dismissal, unstable employment relationships, and (often) limited access to social protection. In a segmented labour market, fixed-term workers are typically in this condition against their will, performing tasks that are not temporary by nature, and there are limited transitions to the more protected segment of the labour force; in practice, temporary contracts often represent “*dead ends*” rather than “*stepping stones*”. Countries such as Poland, Spain and France show a combination of high shares of fixed-term employees and low transition rates towards permanent employment (Figure 25).

**Figure 25: Share of temporary employment (2015) and transition rates from temporary to permanent contracts (2014-15)**



Source: Eurostat, LFS [lfsa\_etpga] and SILC [ilc\_lvgl32]. Data for transition rates from 2014 for DE, IE, LT, UK.

**The involvement of social partners in the design and implementation of relevant policies and reforms is uneven across the EU, which deserves attention.** While all Member States dispose of bipartite or tripartite bodies to allow for interactions between social partners, and in some cases public authorities, the degree and impact of the involvement of social partners in policies and reforms depends strongly on the general attitude of public authorities towards them, on the relationship between political decision-makers and representatives of social partner organisations, on the capacity of these organisations and the substance of their contributions. The involvement of social partners in the Semester often reflects their overall involvement in national decision-making processes.

### *2.3.2 Policy response*

**Key institutions to enhance the functioning of labour markets and help matching are Member States' Public Employment Services (PES), which have all participated in benchlearning visits** to identify strengths and areas for improvement, drawing on the European Public Employment Service Network (PES Network)<sup>42</sup>. Following a process of self-assessment and peer review, reports have been produced describing good practices and areas for improvement (AFIs). Each PES will decide how it follows up, and will report back on reforms undertaken to the PES Network Board 12 months later.

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<sup>42</sup> Decision 573/2014/EU of the European Parliament and of the Council on Enhanced co-operation between Public Employment Services (PES),  
[http://csdle.lex.unict.it/Archive/LW/EU%20social%20law/  
EU%20legislation%20in%20force/Decisions/20140529-115645\\_14\\_573\\_COPE\\_enpdf.pdf](http://csdle.lex.unict.it/Archive/LW/EU%20social%20law/EU%20legislation%20in%20force/Decisions/20140529-115645_14_573_COPE_enpdf.pdf)

**However, Member States' PES continue to operate in a climate of restricted resources and therefore efforts have been continued to optimise targeting of service delivery.** Several PES are developing efficiency programmes which are intended to maintain and, where possible, improve service provision whilst enabling an increased focus on the hardest to help. In Estonia the government adopted the new Employment programme for 2016-2017, which entered into force in January 2016. More than 20 different active labour market measures are available aiming at providing help according to the individual needs of the jobseekers. In Hungary, a new profiling system has been operating nation-wide since 2016 in order to provide customised efficient labour market services, subsidies and labour market programmes based on the individual characteristics of the client.

**The development of skills forecasting systems in several Member States helps public employment services fulfil their objectives.** In Malta, an IT tool for employers and job seekers has been designed. It creates a Virtual Labour Market, matching job search with current vacancies taking into account skills and aptitudes. This measure is meant to contribute to a more efficient public employment service and will also assist in policy development through skills needs information. In Latvia, a significant amount has been devoted to a project consisting in improving short-term labour market forecasts, including information provision about demand for specific skills and professions and creation of a user-friendly tool showing the outlook on labour market demand and supply. In Greece, a Mechanism for the diagnosis of labour market needs was set up with the involvement of regional authorities and social partners.

**Accordingly, PES are enhancing their efforts to strengthen their collaboration with employers so as to encourage recruitment from their caseloads of jobseekers.** The focus on meeting employer demand is an essential component of the PES intervention to assist in achieving a labour market balance. In Luxembourg an agreement between the Union des entreprises luxembourgeoises (UEL), the government and the PES (ADEM) was concluded under the programme "Entreprises, partenaires pour l'emploi", in order to recruit 5,000 job-seekers between 2015 and 2017. This programme aims for a close cooperation to carry out specific actions such as setting up exchange of information, developing partnerships between ADEM and private companies, developing targeted training for job-seekers meeting the companies' requirements. In March 2016, a job board within ADEM was set up to increase the opportunities to meet for job seekers and employers. In Romania, the Institutional Strategy of the National Employment Agency (NEA) aims at developing activities dedicated to employers in order to increase the occupancy rate of vacancies. In France, each PES team has now a specific counsellor who is dedicated to employers (4200 employers' counsellors in total).

**Member States are also developing one-stop shops, in line with the Council recommendation on the integration of the long-term unemployed.** In Portugal, services provided by Public Employment Services and Social Services are being brought together. In Romania, the case management approach is being introduced, also for social services, in the context of the PES reform, with the purpose of increasing activation and the link between the two types of services. Integrated teams will be set up for disadvantaged communities. Finland also rolled out a network of multi-sectoral joint employment and social services for the long-term unemployed, in operation since the beginning of 2016. This allows for an integrated and personalised approach to activation and support for the return to employment.

**With the same objective to develop holistic and coherent approaches, some Member States have also taken steps to improve the overall governance and consistency of ALMPs.** In Italy, the Jobs Act established a new national agency for an active labour market (ANPAL) to coordinate a wide network of institutions and agencies (e.g. National Social Security Institute, National Insurance Institute for Employment Injuries, employment services, chambers of commerce, schools) responsible for the management and monitoring of active labour market policies. The Ministry of Labour and Social Policies is in charge of directing, monitoring and evaluating the ANPAL. It is also foreseen that a further administrative decree, based on an agreement between the national Government and the Regions, will define triennial guidelines and objectives for ALMPs, and the standards for the delivery of services across the national territory. Cyprus is also currently implementing a monitoring and evaluation system for its ALMPs. The "User Requirements" and "Function Definitions" have been finalised and the system for the continuous monitoring and evaluation of ALMPs is expected to be operational by the end of 2016. In Finland, the government has proposed in April 2016 to loosen the notion of acceptable job offer in terms of type of job, location and wage offered. The proposal is currently being discussed in the Parliament. In Spain the Annual Plan on Employment Policy for 2016, serving as framework for the coordination and execution of active labour market policies, is based on a holistic set of indicators covering the whole service provision.

**For many Member States, promoting the efficiency of labour markets also means promoting geographical labour mobility within their own borders.** Portugal adopted a programme called *"Support to Geographical Mobility on the Labour Market"*, aiming at incentivising the unemployed to accept distant job offers. There are two categories of support based on the length of the work contract: support for commuting in case of temporary mobility (work contract of at least one month at a distance of at least 50km from the worker's residence), or support for move of residence in case of permanent mobility (work contract of at least 12 months at a distance of at least 100km), with a one-off move allowance topped by monthly allowances during a maximum period of six months. In Czech Republic also, support to regional mobility is now granted by the Labour Office to the job seekers registered for more than 5 months, covering commuting costs to a new job. In Bulgaria, the Employment Promotion Act was updated in order to provide a lump sum for nursery, kindergarten, rental expenses and internet subscription to all unemployed people referred by the Employment Agency to a job located more than 50 km away from their place of residence. The lump sum is provided up to 12 months. Romania also plans to co-finance a national scheme to increase internal mobility, via a comprehensive package. This includes support for the registered unemployed who start a job more than 15 km away from their place of residence, as well as a settling-in allowance for those who change their domicile more than 50 km away from their current place of residence. In Slovakia the legislative framework to support internal labour mobility was adjusted in January 2016, extending the eligibility for the mobility contribution to also include temporary residence in connection with obtaining employment for six months if the new place of residence or temporary residence of the employee is at a distance from the original place of residence of at least 70 km.



**Beyond providing quality support, services and information to promote employment, several Member States have taken further action to tackle undeclared work, in particular by strengthening labour inspections.** In Italy, a legislative decree adopted in September 2015 has rationalised the system of labour inspections through the creation of a national inspectorate incorporating three previously distinct institutions and changed the way inspections work. The convention between the Agency and the Ministry of Labour, defining objectives and activities of the agency, still has to be adopted. In Malta, the Employment and Training Services Act was amended in June 2016 following public consultations, with more stringent financial penalties imposed on irregular employment, and a reinforcement of the capacity of the labour inspectorate (Law Compliance Unit) within the Public Employment Service. In Cyprus, the Ministry of labour, Welfare and Social Insurance has identified the key components necessary to efficiently fight undeclared work. A review of the system of labour inspections will be promoted in order to improve their effectiveness and efficiency. Greece also intends to adopt an integrated action plan to fight undeclared and under-declared work.

**Although many Member States had already taken steps on employment protection legislation, some have recently amended their legislation on individual dismissals, or envisage to do so.** In France, the law of 9 August 2016<sup>43</sup> on labour, modernising social dialogue and securing professional pathways, aims at better specifying circumstances that can justify an individual dismissal for economic reasons. It complements the currently existing list of justifications (economic hardships or technological change), adding business interruption or reorganization of a company in order to safeguard its competitiveness. The law specifies the notion of economic hardship, that can be characterized by the evolution of at least one economic indicator like drops in orders for a certain number of months (with respect to same period in the previous year), losses in the operating margins, significant decrease in cash revenues or any other element justifying these difficulties. The law also sets, relatively to company size, the number of months or quarters on which significant decrease can be characterised.

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<sup>43</sup> Also known as "El Khomri law".

**Several Member States have devoted particular attention to the individual work litigation processes.** In France, a reform of individual work litigation has taken place, aiming at accelerating the timespan. It reinforces the role of the conciliation phase, enabling it to be judged in the absence of one of the confronting parties. Moreover, the process can be accelerated by orienting some cases in front of "reduced format" courts having to judge within 3 months maximum, while complex cases can now be directly brought in front of a court chaired by a professional judge in a decisive capacity (*départage*). In Ireland, the workplace Relations Act, adopted in May 2015 and enforced in October, has streamlined the bodies and procedures which deal with the adjudication of industrial disputes and the resolution of complaints about breaches of employment legislation. A new Workplace Relations Commission (WRC) will take over the functions of the National Employment Rights Authority, the Labour Relations Commission (LRC), some of the functions of the Employment Appeals Tribunal (EAT) and the functions of the Director of the Equality Tribunal. The appeal functions of the EAT will be transferred to the Labour Court. This means that there will be a single point of entry and a single route of appeal, namely an eight member board comprising a chairperson, representatives from employers and employees and experts. The LRC, established in 1990, and the EAT, established in 1967, will be dissolved.

**Action has also been taken against labour market segmentation, in particular by limiting the use of fixed term contracts, and limiting the types of labour contracts** provided for in the labour code. This is in particular the case in Poland, with the reform of the labour code adopted in August 2015, and enforced in February 2016. A broader reform of the labour code is also planned; Codification Committees for the preparation of the new Labour Codes were set up in September 2016. In Lithuania, the new labour code was adopted by Seimas (Parliament of the Republic of Lithuania) in September 2016, and will come to force on 1<sup>st</sup> July 2017. The goal is to modernise labour regulation and balance employment protection between flexibility and security, in order to encourage employers to create more (legal) jobs. A streamlining of the labour legislation is also planned in Greece, through codification into a Labour Law Code.

**However, in some cases the regulation of working time has been made more flexible to allow additional economic adjustment capacities** without translating into additional segmentation. In Czech Republic, a "partial unemployment contribution" has been introduced, based on the German model of "Kurzarbeit" (short-time working). Companies facing financial difficulty or affected by natural disasters have the power to reduce the salaries of employees who cannot be assigned sufficient work, by up to 30%. In addition, under the new law, they can apply for a contribution from the State, up to 20% of the employee's salary, but this contribution cannot exceed 12.5% of the average salary in the industry, and cannot be granted for more than six months (an opportunity to re-apply exists). Amendments to the Labour Code have also increased the flexibility of working arrangements, in particular as regards scheduling/entitlements to working hours and leaves, or 'teleworking'-related provisions, with also a strengthening of reconciliation tools such as 'homeworking'. In the same vein, in Belgium a reform of labour market laws is expected regarding working time (annualised hours), agency work of unlimited duration, occasional teleworking and other elements of organisation of working time including career-break accounts or donation of leave days. In France, the law of 6th August 2015<sup>44</sup> for growth, activity and equality of opportunities has extended from 2 to 5 years the maximum length of agreements to secure employment (*Accords de maintien de l'emploi*), which enable companies facing difficulties to temporarily adjust working time and work compensation. Individual refusals are a real and serious cause for economic dismissal, but the firm has to accompany personal transition notably through training. Moreover, companies can now reach agreements to preserve and develop employment (a new type of more forward-looking agreements, not only aiming at "securing") resulting in a reorganisation and reduction of working time (but without decreasing the monthly income of the employees).

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<sup>44</sup> Also known as "Macron law".

**Sometimes working time has also been used as a parameter to improve cost-competitiveness**, like in Finland, where the so-called "competitiveness agreement" includes an increase of annual working time by 24 hours, while it is up to each sector to decide in the relevant collective agreement whether this is reached by cutting holidays or increasing working hours. In France, after the new law on labour of 9th August 2016, modernising social dialogue and securing professional pathways, majority company-level agreements will now by default set rules applying to working time, working time organisation, daily rest, holidays and paid leave. As the scope of lock clauses at branch level has been substantially narrowed, agreement at company level can be more flexible than at branch level regarding many additional aspects of working time. The principle notably applies to the bonus pay rate for extra hours, which can be reduced down to a minimum of 10% in case of agreement (25% applicable without).

**By representing both supply and demand side of the labour markets, social partners contribute to enhance their functioning through adequate involvement in reforms**, and several Member States take steps to strengthen their role. Lithuania adopted in February 2016 an action plan for strengthening social dialogue, including capacity building measures, which will be implemented from the beginning of 2017. In Romania a public consultation was launched in November 2015 on a National Strategy on social dialogue to clarify the role of the social partners, review the legislation in the field, build capacity for the social partners and increase their involvement in employment policies.

**Several Member States have revised the role of social partners in wage-setting and working conditions, the most prominent areas for their autonomous action** (see also Section 2.1.2). In France, the law of 6<sup>th</sup> August 2015 on social dialogue and employment aimed at simplifying company level social dialogue. It has regrouped compulsory consultation and bargaining themes, with only 3 compulsory yearly consultations instead of 17, and 3 blocs of collective bargaining instead of 12: wage-working time, quality of working life, jobs and careers management. The law foresees that bargaining can take place every 3 years (maximum timeframe) instead of every year based on a majority agreement. It also introduced the capacity for companies between 50 and 300 employees to merge their different social dialogue compulsory entities and similarly for companies over 300 employees under the condition of majority agreement. In Finland a notable step towards changing the wage setting system was taken by a Competitiveness Agreement signed by the social partners in March 2016 which has been in the process of being implemented through collective agreements in the 3<sup>rd</sup> quarter of 2016. The possibilities for local collective bargaining will increase according to the terms set by the social partners at sector level and not through legislation as previously planned. The role of union representatives will be strengthened and the aim is to improve information flows in work places. As far as the public sector is concerned, Croatia aims at revising its salary system, including by establishing a stronger coordination process for collective negotiations by appointing a central authority for keeping records, coordination and monitoring of collective agreements and negotiations, and adopting guidelines for the conclusion of such agreements.

**Moreover, most Member States with statutory minimum wages involved social partners**, at least when it comes to major revisions (for macroeconomic aspects of minimum wage setting, see Section 2.1). In Estonia, the cross-industry social partners jointly decided on a minimum wage via a bipartite agreement that is implemented by government decree. In Portugal, the government decided on an increase of the minimum wage following negotiations with social partners during which the largest trade union confederation opposed to the proposed reduction of social security contributions by employers. Ultimately the government and social partners agreed on a quarterly monitoring of the implementation of the agreement. Conversely, in July 2016 Slovakian social partners failed to agree on the minimum wage adjustment for 2017.

**Social partners have also been involved in policy-making associated to new challenges.** In

Denmark, the government and social partners reached an agreement in March 2016 to ensure better integration in the labour market of refugees and persons reunified. The agreement provides new and better possibilities for companies to employ refugees without qualifications and having low productivity which does not corresponds to the minimum wages set by collective bargaining. This involves for instance that a cash bonus scheme is introduced for private companies that employ refugees in ordinary non-subsidized employment. In Slovenia, following discussions with social partners, measures were adopted to prevent illegal use of atypical forms of work.

## **2.4 Guideline 8: Fostering social inclusion, combatting poverty and promoting equal opportunities**

This section looks at the implementation of the employment guideline no. 8, which recommends Member States to modernise their social protection systems, in order to combat poverty and social exclusion. It first presents an overview of the social situation in Member States by key indicators, including disposable income, poverty and social inclusion, and access to healthcare. Section 2.4.2 reports on policy measures from Member States in the areas of social protection systems, including unemployment benefits, housing policies, childcare, long-term care, healthcare, pensions and inclusion of people with disabilities.

### *2.4.1 Key indicators*

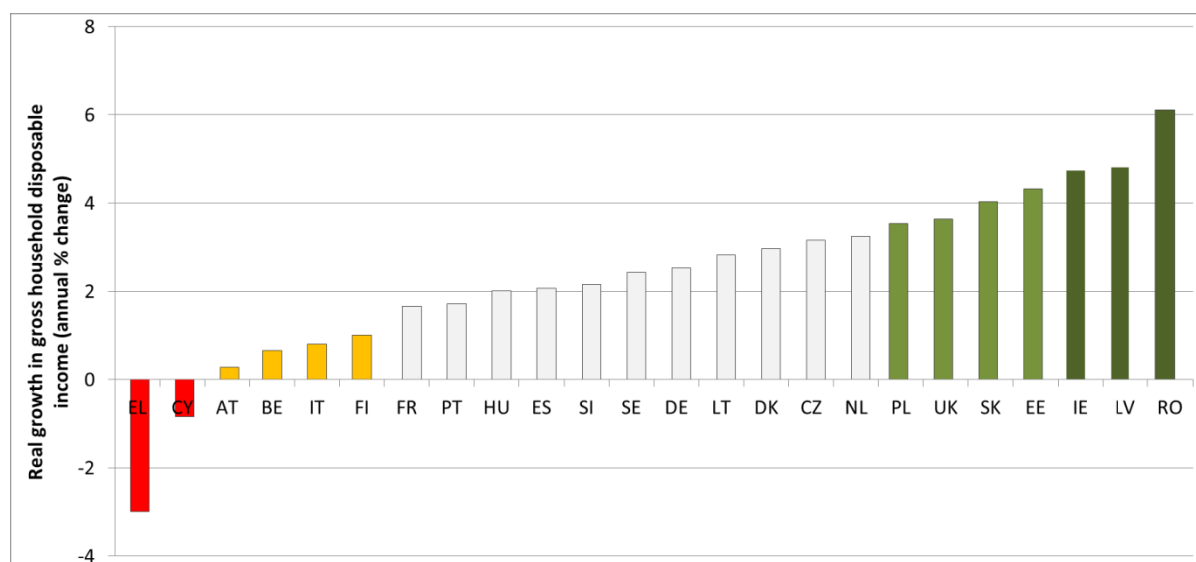
**Nearly all Member States benefitted from growth in household income.** In 2015, gross disposable household income (GDHI) increased in all Member States except Greece and Cyprus (a decrease of respectively 3% and 0.8%) (Figure 26). The highest increases were recorded in Romania (by 6.1%), Latvia (by 4.8%) and Ireland (by 4.7%)<sup>45</sup>.

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<sup>45</sup> At 16<sup>th</sup> January 2017 (cut-off date for the revision of the scoreboard of key employment and social indicators), GDHI data were missing for four Member States.

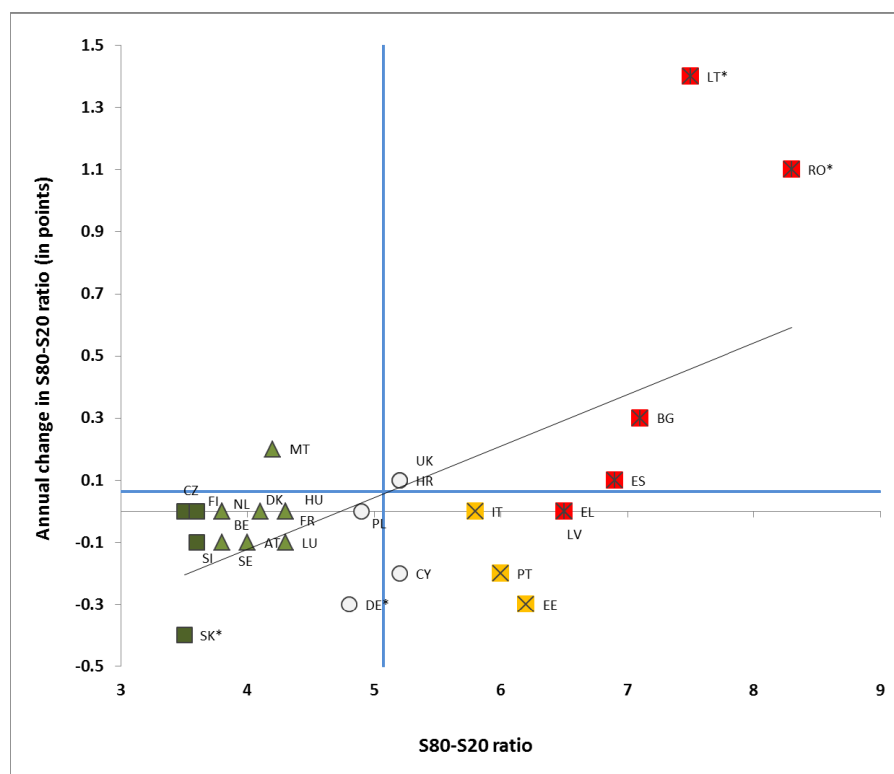
**There were growing differences in the level of income inequalities across the Member States, as measured by the S80/S20 indicator.** Between 2014 and 2015 inequality, as measured by the ratio between the incomes of the 20% of the population with the highest incomes and the incomes of the 20% with lowest incomes, intensified in Lithuania (by 1.4 pps) and Romania (by 1.1 pps). The largest declines were registered in Slovakia (by 0.4 pps) and Germany (by 0.3 pps), followed by Estonia, Cyprus and Portugal (though non statistically significant). Overall, the highest income inequalities are found in Romania, Lithuania, Bulgaria and Spain where the median equivalised income of the richest 20% of the population is around 7 times more that of the poorest 20%. As shown in Figure 27, a diverging trend in inequality figures was observed in 2015, as the Member States with highest inequality levels also experienced the largest increases.

**Figure 26: Change of GDHI in 2015, as reported in the scoreboard of key employment and social indicators**



Source: Eurostat, national accounts (DG EMPL calculations). Note: data for BG, HR, LU, MT not available at 16<sup>th</sup> January 2017.

**Figure 27: Income inequality (S80/S20 measure), as reported in the scoreboard of key employment and social indicators**



Source: Eurostat, EU-SILC (DG EMPL calculations). Period: 2015 level and change 2014-2015.

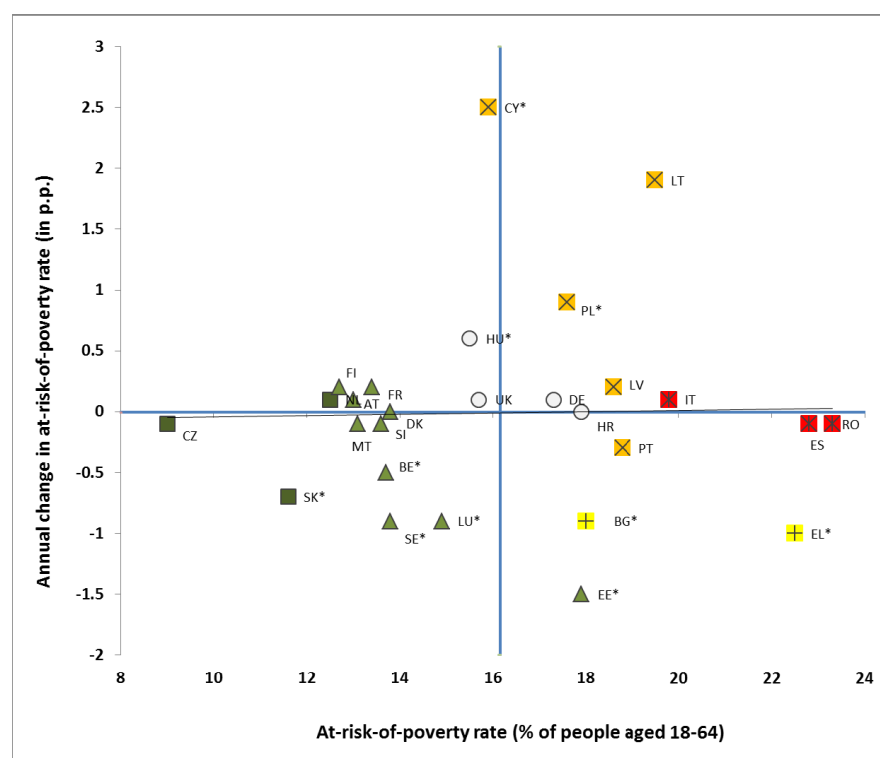
Note: no data available for Ireland (16<sup>th</sup> January 2017). Axes are centred on the unweighted EU average. The legend is presented in the Annex. Countries with a statistically significant change in S80/S20 are marked with a star (\*).

**The at-risk-of poverty and social exclusion (AROPE) rate decreased in 2015, with strong variations across the Member States.** In Romania and Bulgaria the AROPE rate was around 40%, whereas in Czech Republic, the Netherlands, Finland and Sweden the rate was below 17%. While some Member States such as Estonia, Hungary, Latvia, Malta and Romania made good progress in reducing the number of poor or socially excluded people in 2015 (reduction between 3.6 pps in Hungary and 1.4 pps in Malta), Bulgaria, Cyprus and Lithuania experienced substantial increases over the year (Lithuania by 2 pps, Bulgaria by 1.2 pps, and Cyprus by 1.5 pps). One reason for the disparity in poverty and social exclusion rates across the EU is the uneven impact of the economic crisis and the way labour market and social systems reacted to the economic downturn, as well as the fiscal consolidation packages implemented in the majority of the Member States.



**Monetary poverty has slightly increased for the working age population.** Twelve Member States experienced increasing at-risk-of-poverty rates in the age group 18-64 between 2014 and 2015. The AROP rate increased notably in Cyprus (by 2.5 pps) and Poland (by 0.9 pps). Lithuania also recorded a large increase (by 1.9 pps) though not statistically significant. Among the Member States that recorded a decrease, one can mention in particular Estonia (by 1.5 pps) and Greece (by 1 pp). However, in Greece the improvement of the poverty rate must be seen together with a notable decline in poverty thresholds reflecting the deterioration in overall economic performance. The highest poverty rates for the working age population (close to or higher than 20%) were registered in Romania, Spain, Greece and Italy. The flat regression line in Figure 28 suggests that the divergence in poverty rates across Member States came to a halt in 2015, but there is also no evidence of convergence.

**Figure 28: At-risk-of-poverty rates in working age (18-64), as reported in the scoreboard of key employment and social indicators**



Source: Eurostat, EU-SILC (DG EMPL calculations). Period: 2015 level and change 2014-2015.

Note: no data available for Ireland (26<sup>th</sup> October 2016). Axes are centred on the unweighted EU average. The legend is presented in the Annex. Countries with a statistically significant change in AROP are marked with a star (\*).

**The share of people living in jobless households has decreased.** Along with improving labour market conditions, seventeen Member States saw a reduction in 2015 compared to 2014, with the biggest reduction in Hungary (by 3.4 pps), Latvia (by 1.8 pps) and Spain (by 1.7 pps). The highest shares of people living in jobless households were in Greece (16.8%) and Spain (15.4%), while the lowest in Estonia (6.6%), Sweden (5.8%) and Luxembourg (5.7%). Over a longer time horizon, nine Member States recorded an increase in the share of people living in jobless households between 2015 and 2012, with the biggest increases observed in Cyprus (by 1.2 pps), Romania (by 1.5 pps), and Finland (by 0.8 pps).

**Severe material deprivation decreased further in 2015.** This was mainly due to the strong declines in Hungary (by 4.6 pps), Latvia (by 2.8), Romania (by 2.3 pps) as well as Poland (by 2.3 pps). However, severe material deprivation also increased in a number of countries, notably in Bulgaria (by 1.1 pps) and Greece (by 0.7 pps), but also in Denmark (by 0.5 pps) and Luxembourg (by 0.6 pps) although the increases in the latter two countries are from much lower starting points, still well below the EU-average. The overall levels of severe material deprivation differed widely across the Member States, notably due to the differences in living standards and the effectiveness of social policies, from 34.2% in Bulgaria to as low as 2% in Luxembourg and 0.7% in Sweden.

**Poverty or social exclusion among children and young people decreased slightly but remain high.** The AROPE rate for young people (18-24) in 2015 went down notably in Slovenia (by 3.4 pps), Hungary (by 3.8 pps), Denmark (by 2.6 pps) and Portugal (by 2.9 pps). Nonetheless, it increased in Bulgaria (by 4.4 pps), Spain (by 3.1 pps), Cyprus (by 2.2 pps), Netherlands (by 2.4 pps), and Finland (by 2.4 pps). The highest rates of poverty or social exclusion for youth were in Greece (over 50%), but also in Romania, Denmark<sup>46</sup> and Bulgaria (above 40%). The AROPE rate for children also decreased slightly overall (see Section 1.2) but it remains high in a number of countries, as a consequence of the deterioration of labour market conditions for the working-age population as well as a growing number of jobless households and of people living on low income. Eight Member States registered an increase in the AROPE rate for children, particularly Lithuania and Cyprus (by around 4 pps). Five Member States recorded substantial decreases, particularly Hungary (by 5.7 pps), Luxembourg (by 3.4 pps), Latvia (by 4 pps), Malta (by 3.1 pps) and Romania (by 3.7 pps). Alarming levels of AROPE among children are observed in Romania and Bulgaria (over 40%). In Greece, Hungary, Spain, Italy, the United Kingdom, Portugal, Latvia, and Lithuania the poverty and social exclusion rate for children stood above 30%.

**People with disabilities, third country nationals and the unemployed are particularly affected by poverty or social exclusion.** The AROPE rate of people with disabilities showed in 2014 peaks in Bulgaria (52.6%), Latvia (43.2%), Romania (42.3%) and Lithuania (40.9%). The gap between the AROPE rate of people with disabilities and the one of the whole population went up to 17.8 pps in Belgium, 18.3 pps in Latvia and 18.5 pps in Lithuania. When looking at the situation of third-country nationals, in 2015 the gap between their AROPE rate and the one of host-country nationals reached over 40 pps in Belgium and Sweden, over 35 pps in Spain and over 30 pps in Luxembourg, Greece, Denmark, Finland and France. The AROPE rate among the unemployed ranged between as much as 84.7% in Germany and over 70% in Romania, Bulgaria, Hungary, Lithuania, the United Kingdom, the Netherlands and Greece to around 50% in France and Sweden.

<sup>46</sup> The data for Denmark should be interpreted with caution; a large share of the young are students constituting independent households as they receive state student grants and/or have part-time jobs.

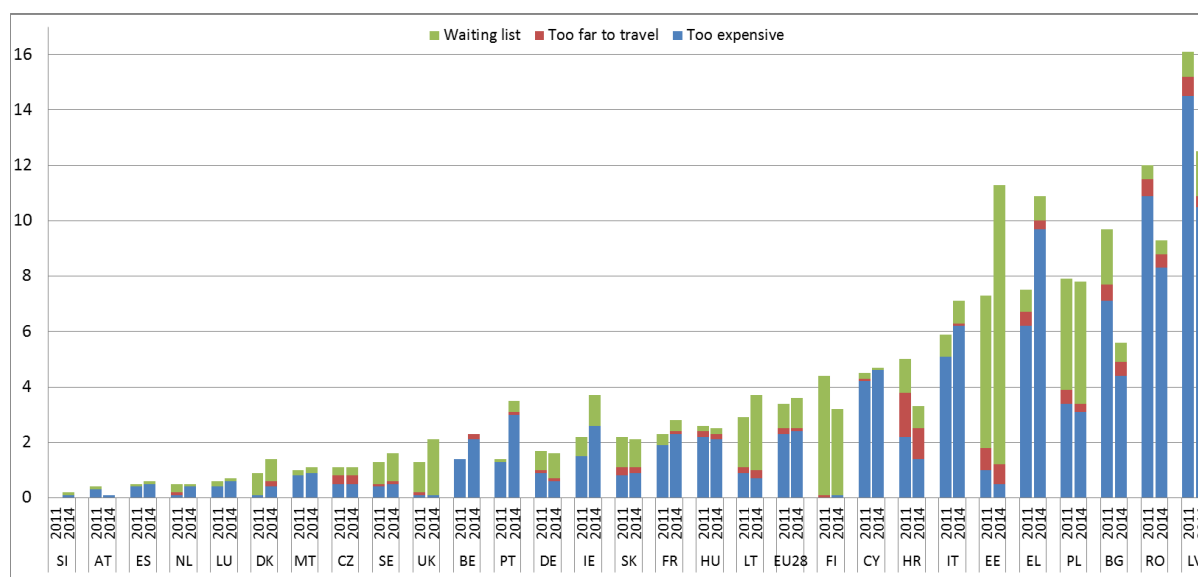
**In spite of an overall stabilisation in 2015, in-work poverty levels and developments were fairly mixed across the Member States, reflecting different labour market features.** The in-work at-risk-of-poverty rate varied greatly across the EU, from 3.5% in Finland and 4% in Czech Republic to 13.2% in Spain, 13.4% in Greece and 18.6% in Romania. It increased notably in Hungary (by 2.6 pps), Lithuania (by 1.8 pp), Cyprus (by 1.3 pps), and Latvia (by 1.1 pps). On the other hand, the strongest reduction was in Bulgaria and Estonia (by 1.5 pps), which had experienced previously an increase.

**In several Member States, access to healthcare remains difficult for a significant part of the population and in particular low-income households.** The proportion of the EU population facing unmet needs for medical examination due to either too high costs, too long waiting time or travelling distance, has slightly increased since 2011 according to the corresponding survey-based indicator, with marked increases in Greece, Estonia, Ireland and Portugal; however, for the latter two countries it remains close to the EU average. The share of the population impacted exceeded 6% in 2014 in Latvia, Estonia, Greece, Romania, Poland and Italy (mostly due to costs in Latvia, Greece, Romania and Italy, and to waiting times in Estonia and Poland). However, noticeable decreases were recorded in Latvia as well as in other Member States with relatively high unmet needs, such as Romania, Bulgaria and Croatia. Overall, although the recent increase of unmet needs results from the waiting time component (see Figure 29), costs remain the main barrier. On average in the EU, 6.4% of people living in low income households (bottom quintile) in 2014 reported an unmet need for healthcare, against 1.5% of those living in richer households (top quintile), and this income quintile gap has widened since 2011. This can be considered against the backdrop of substantial shares of "out-of-pocket spending"<sup>47</sup> within total health expenditures in a number of countries (Figure 30).

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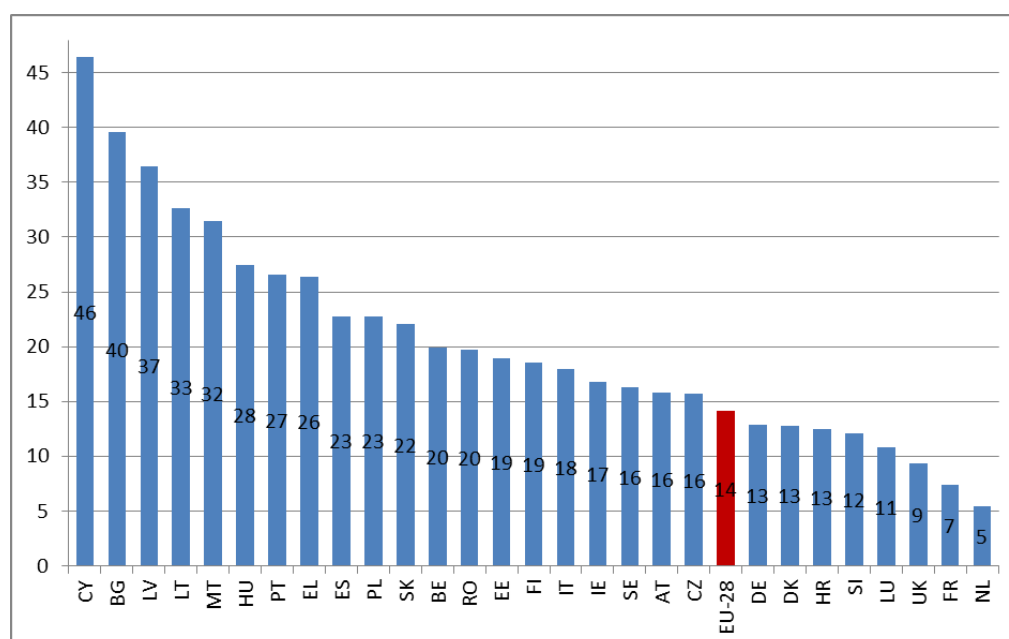
<sup>47</sup> Out-of-pocket expenditure are the sum of co-payment to the various insurance funds present in the health care system and of over-the-counter (and other direct) payments for goods and services purchased by private households as direct and ultimate payer.

**Figure 29: Self-reported unmet needs for medical examination, 2011 and 2014**



Source: Eurostat, EU-SILC.

**Figure 30: Out-of-pocket medical spending as a % of current health expenditure, 2013**



Source: Eurostat, OECD and WHO health data and Commission services calculations. See European Commission (2016), *Joint Report on Health Care and Long-Term Care Systems & Fiscal Sustainability*, October 2016.

**A number of Member States have put in place policy reforms aimed at addressing issues related to the coverage and adequacy of social benefits and their link to activation, in line with the Active Inclusion principles.** Estonia raised the unemployment allowance by 10%. Moreover, it introduced a new procedure to assess ability to work and a broader set of activation measures helping people re-enter the labour market. Italy extended the coverage and duration of the unemployment insurance and revised the activation and conditionality modalities. Unemployment benefits are now more inclusive, have a broader coverage and last longer. The originally temporary unemployment assistance scheme has now been made permanent. Moreover, the allocation of benefits is now conditional to signing up an "active inclusion" contract. Italy also extended to the national territory a measure against poverty called SIA (Support for Active inclusion) combining economic support and activation programmes as part of a National Plan against poverty and social exclusion. France raised the amount of the minimum income for non-working people by 2% in September 2015. It also merged two wage support schemes into a single bonus with the aim of reinforcing its activation component and increasing its take-up by the households at the bottom of the wage scale. The new scheme now also covers young people under 25, which was not the case of one of the pre-existing instruments, which belonged to the country's minimum income programmes. Croatia increased the amount of the guaranteed minimum benefit for single persons not capable to work, for children from single parent families, and for children from single parent households by 15% in 2015. Denmark increased incentives for the unemployed to take up work, even if only for short periods. Malta is introducing several measures including gradual tapering of benefits for those entering into employment, as well as in-work benefits. In Slovakia, lowering of health contributions in 2015 has helped to contain labour costs and strengthen incentives for low-wage earners to work. Lithuania has amended the Law on Cash Social Assistance for Poor Residents, extending the possibilities to temporarily receive a part of social benefit after finding employment.

**Other Member States aimed at ensuring the social inclusion of those who cannot work.** Greece adopted the National Strategy on Social Inclusion to tackle poverty, social exclusion and discrimination. Romania intends to develop integrated intervention teams for marginalised communities and implements a holistic package of anti-poverty measures.

**Several Member States took steps to facilitate access to quality social services.** Bulgaria is piloting the Centres for Employment and Social Assistance which is a new model of integrated social and employment services. Croatia is in the process of establishing one-stop-shops which are meant to serve as the single administrative point for the provision of social services.

**A number of Member States undertook reforms in the provision of housing, with a view to improve the housing outcomes of disadvantaged people and promote labour mobility.** Czech Republic adopted the concept of Social Housing, which serves as a basis for a new law for facilitating access to social housing by disadvantaged groups. Spain adopted a comprehensive homelessness strategy for 2015-2020, which includes concrete targets to prevent and reduce homelessness and tackle the social consequences of evictions. Housing policy goals also appeared as part of integrated poverty and social policy strategies. In its national anti-poverty package, Romania launched a set of measures to provide a safety net for the poorest, following a single and coordinated approach. These measures are envisaged to include grants to renovate housing in critical condition. The new integral family support plan of Spain aims at covering housing initiatives as well. To improve the affordability of housing, Ireland introduced in July 2016 the Housing Assistance Payment (HAP), which is a form of social housing support for people who have a long-term housing need. The Netherlands presented a package to control rent increases and to overall improve the transition from social housing to private rentals for people having a higher income than the threshold for social housing.

**Many Member States have also taken steps to upgrade the provision of affordable, accessible and quality childcare.** Portugal announced that it will put in place in 2019 a guarantee of early childhood education and care for children as of 3 years old. Similarly, Czech Republic introduced a compulsory year of preschool education. In September 2015 the participation in Early Childhood Education and Care was made compulsory in Hungary and, as of 2016, pre-primary education will be obligatory for all 6-year old children in Lithuania. The Childcare Act passed in March 2016 in the United Kingdom will provide for an additional 15 hours of free childcare to 3- and 4-year old children of working parents in England, on top of the existing universal provision of 15 hours of free childcare. Romania passed a law to improve the access of children from disadvantaged families to pre-school education through the provision of social vouchers for kindergarten.

**Important healthcare reforms to encourage the provision of and access to effective primary health care services, to streamline and increase the sustainability of specialist and hospital care, and to improve the access to affordable medicines used in a cost-effective way have been implemented in the EU Member States.** Addressing fragmentation in services and re-organisation of governance arrangements are other areas of important policy efforts to improve access to health services, next to ensuring an adequate workforce as a pre-condition for a well-performing health system. Czech Republic, Lithuania and Latvia made efforts to improve the transparency of procedures and the availability of information, as well as to enhance the patients' rights and choice of health care providers and to reduce the waiting time for health care services. Bulgaria, Germany, Romania and Slovakia are implementing reforms in hospital care, including linking hospital financing to outcomes, developing out-patient care and reviewing procurement arrangements so as to ensure better cost-effectiveness. Bulgaria, Czech Republic, Germany, Spain, and Portugal set up measures for reducing both the cost of drugs and of medical supplies through centralisation of their procurement system or increasing the use of generic drugs. To counteract health workforce shortages due to the ageing of the health workforce and the challenges to recruit or to retain workers, Estonia and Latvia adopted measures to offer wage increases and support professional development and better working conditions in order to increase the appeal of the health care sector.



**Driven by the ageing of their population, some Member States are taking steps to improve the efficiency, quality and access to long-term care services, while keeping public finances sustainable.** A focus is put on keeping people self-supported as long as possible, in particular through community-based services, home care and prevention. Member States are also addressing the fragmentation of services and funding. For example, Slovenia is reinforcing its *Long-term care Act* strengthening care integration and introducing a new method for the organisation and financing of long-term care. Germany passed a reform of the long-term care insurance which includes a fundamental change in the definition of “in need of care” and will be implemented as of 2017. Luxembourg has proposed a new reform of the long-term care insurance which should simplify procedures and guarantee more flexibility and a better focus on individual needs through a new list of dependency and support categories. Also measures aimed at enhancing support to informal carers, discussed above in section 2.2.2, represent an additional important element of long-term care systems reform efforts. During the period 2015-2016 Cyprus reformed its governance of social long-term care. Subsidisation for the provision of care services is now based on specialized evaluation tools for care needs, and the service delivery is closely monitored.

**The pension reforms adopted by Member States in 2015-2016 reflect a growing recognition of the need to accompany sustainability-enhancing reforms with flanking measures to safeguard pension adequacy.** The main thrust of reforms since the financial crisis has focused on containing the costs linked to population ageing through higher pensionable ages, tighter access conditions and revised benefit calculation. As a result, in 2015 expenditure projections predicted for the first time a long-term decrease of pension spending in most Member States (by 0.2 pps of GDP on average between 2013 and 2060). One can observe that adequacy is increasingly dependent on long and stable careers leading to a full pension, crediting non-contributory periods such as child-care and supplementary savings as well as minimum guarantees for those failing to qualify for a full pension.

**In this context, the latest reforms adopted by Member States present a more diverse picture,** ranging from additional pension age increases in those countries where sustainability is still a challenge, to adequacy-supporting measures such as minimum guarantees and more favourable indexation. Belgium adopted a comprehensive reform package, including an increase in the pension age, longer career requirements and tightened access to early retirement. In Finland a new pension system will come into force in 2017. The pension reform will link the pension age to life expectancy and aims to encourage longer working careers. More Member States (Croatia, Slovenia) have outlined reform packages that are still to be finalised and legislated. Flexible retirement rules aimed at facilitating longer working lives are becoming more widespread, having been adopted in the Netherlands, Austria and Slovenia. Several Member States have sought to improve the protection of low-income pensioners through introducing or raising minimum pensions (Czech Republic, Slovakia) and/or targeted additional benefits (Czech Republic, Estonia, Sweden). Latvia has adjusted pension accrual rules to protect entitlements during economic downturn and in 2016 has started the revision of old age, survivors and service pensions granted during 2009-2015 to mitigate the impact of the crisis. Lithuania and Latvia have revised indexation rules and Portugal has restarted indexing low and medium pensions. By contrast, Greece has put in place a freeze on pensions in payment and revised calculation rules to improve pension sustainability. As regards supplementary pensions, Belgium and France have taken measures to improve the sustainability of supplementary pension schemes, while some Member States (Denmark, Netherlands, Poland, Slovenia) have outlined plans to reform supplementary pension provision, though these are yet to be finalised and legislated. Czech Republic has completed the rollback of the statutory funded pension pillar.

**As far as people with disabilities are concerned, several Member States took measures to increase their participation in the labour market.** Estonia put in place on 1 July 2016 quotas for the employment in the public administration and an objective to employ 1000 disabled people in the public sector by 2020. Ireland adopted a Comprehensive Employment Strategy for People with Disabilities 2015 – 2024 which sets *i.a.* that the employment target of 3% for persons with disabilities in the public sector should progressively increase to 6% by 2024. In addition the government started funding a peer-led employer support service and an helpline on disability.

**Member States have also put in place targeted measures supporting the integration of migrants and refugees into the labour market and the society.** A detailed description of these measures can be found in Section 2.2.2.

Annex 1 Scoreboard of key employment and social indicators with EU averages as reference points

	Unemployment rate			Youth unemployment						Real growth in gross household disposable income		At-risk-of-poverty rate (18-64)			Inequalities - S80/S20		
				Youth UR			NEETs										
	Y-Y change (S1.2015-S1.2016)	Distance to EU average	Y-Y for MS to Y-Y for EU	Y-Y change (S1.2015-S1.2016)	Distance to EU average	Y-Y for MS to Y-Y for EU	Y-Y change (2014-2015)	Distance to EU average	Y-Y for MS to Y-Y for EU	Y-Y change (2014-2015)	Y-Y for MS to Y-Y for EU	Y-Y change (2014-2015)	Distance to EU average	Y-Y for MS to Y-Y for EU	Y-Y change (2014-2015)	Distance to EU average	Y-Y for MS to Y-Y for EU
EU28 (weighted)	-1.0	~	~	-1.8	~	~	-0.5	~	~	1.2	~	0.1	~	~	0.0	~	~
EA19 (weighted)	-0.9	~	~	-1.4	~	~	-0.4	~	~	1.0	~	0.0	~	~	0.0	~	~
EU28 (unweighted)	-1.0	~	~	-2.3	~	~	-0.5	~	~	1.3	~	0.0	~	~	0.1	~	~
EA19 (unweighted)	-0.9	1.1	0.1	-1.5	2.8	0.2	-0.5	-0.5	0.0	1.2	-0.5	0.0	-1.0	-0.1	0.0	-0.2	0.0
BE	-0.4	-0.4	0.6	-0.6	1.8	1.2	0.2	0.2	0.7	0.7	-1.6	-0.5*	-3.5	-0.6	0.0	-1.4	0.0
BG	-1.9	-0.7	-0.9	-6.0	-2.6	-4.3	-0.9	7.3	-0.4	:	:	-0.9*	0.8	-1.0	0.3	1.9	0.3
CZ	-1.4	-4.6	-0.4	-3.2	-8.6	-1.5	-0.6	-4.5	-0.1	3.2	0.9	-0.1	-8.2	-0.2	0.0	-1.7	0.0
DK	-0.3	-2.7	0.7	0.8	-7.6	2.5	0.4	-5.8	0.9	3.0	0.7	0.0	-3.4	-0.1	0.0	-1.1	0.0
DE	-0.5	-4.4	0.5	0.0	-11.9	1.8	-0.2	-5.8	0.3	2.5	0.3	0.1	0.1	0.0	-0.3*	-0.4	-0.3
EE	0.0	-2.1	1.0	1.7	-4.8	3.5	-0.9	-1.2	-0.4	4.3	2.1	-1.5*	0.7	-1.6	-0.3	1.0	-0.3
IE	-1.5	-0.3	-0.5	-4.1	-1.7	-2.4	-0.9	2.3	-0.4	4.7	2.5	:	:	:	:	:	:
EL	-1.7	15.1	-0.8	-1.2	30.6	0.6	-1.9	5.2	-1.4	-3.0	-5.2	-1.0*	5.3	-1.1	0.0	1.3	0.0
ES	-2.6	11.6	-1.6	-4.0	26.8	-2.2	-1.5	3.6	-1.0	2.1	-0.2	-0.1	5.6	-0.2	0.1	1.7	0.1
FR	-0.4	1.4	0.6	-0.1	5.6	1.7	0.6	0.0	1.1	1.7	-0.6	0.2	-3.8	0.1	0.0	-0.9	0.0
HR	-2.7	5.1	-1.8	-12.0	12.4	-10.2	-0.8	6.5	-0.3	:	:	0.0	0.7	-0.1	0.1	0.0	0.1
IT	-0.7	2.9	0.3	-4.2	18.5	-2.5	-0.7	9.4	-0.2	0.8	-1.4	0.1	2.6	0.0	0.0	0.6	0.0
CY	-2.9	4.1	-2.0	-5.9	9.0	-4.2	-1.7	3.3	-1.2	-0.8	-3.1	2.5*	-1.3	2.4	-0.2	0.0	-0.2
LV	-0.2	1.0	0.8	2.0	-1.5	3.7	-1.5	-1.5	-1.0	4.8	2.6	0.2	1.4	0.1	0.0	1.3	0.0
LT	-1.0	-0.4	0.0	-3.0	-4.3	-1.3	-0.7	-2.8	-0.2	2.8	0.6	1.9	2.3	1.8	1.4*	2.3	1.4
LU	-0.1	-2.4	0.9	-0.2	-1.6	1.6	-0.1	-5.8	0.4	:	:	-0.9*	-2.3	-1.0	-0.1	-0.9	-0.1
HU	-1.8	-3.3	-0.8	-4.7	-5.2	-2.9	-2.0	-0.4	-1.5	2.0	-0.2	0.6*	-1.7	0.5	0.0	-0.9	0.0
MT	-0.6	-3.8	0.3	-1.5	-9.3	0.3	-0.1	-1.6	0.4	:	:	-0.1	-4.1	-0.2	0.2	-1.0	0.2
NL	-0.6	-2.3	0.4	0.1	-7.8	1.9	-0.8	-7.3	-0.3	3.2	1.0	0.1	-4.6	0.0	0.0	-1.4	0.0
AT	0.4	-2.7	1.3	1.2	-7.9	3.0	-0.2	-4.5	0.3	0.3	-2.0	0.1	-4.2	0.0	-0.1	-1.2	-0.1
PL	-1.4	-2.4	-0.4	-3.1	-0.9	-1.4	-1.0	-1.0	-0.5	3.5	1.3	0.9*	0.4	0.8	0.0	-0.3	0.0
PT	-1.3	3.0	-0.3	-3.0	10.1	-1.2	-1.0	-0.7	-0.5	1.7	-0.5	-0.3	1.6	-0.4	-0.2	0.8	-0.2
RO	-0.6	-2.5	0.4	:	:	:	1.1	6.1	1.6	6.1	3.9	-0.1	6.2	-0.2	1.1*	3.1	1.1
SI	-1.2	-0.5	-0.2	-1.4	-3.6	0.4	0.1	-2.5	0.6	2.1	-0.1	-0.1	-3.6	-0.2	-0.1	-1.6	-0.1
SK	-1.8	1.4	-0.8	-3.7	3.9	-1.9	0.9	1.7	1.4	4.0	1.8	-0.7*	-5.6	-0.8	-0.4*	-1.7	-0.4
FI	-0.2	0.3	0.8	-0.9	2.2	0.8	0.4	-1.4	0.9	1.0	-1.3	0.2	-4.5	0.1	0.0	-1.6	0.0
SE	-0.7	-1.8	0.2	-2.2	-0.1	-0.4	-0.5	-5.3	0.0	2.4	0.2	-0.9*	-3.4	-1.0	-0.1	-1.4	-0.1
UK	-0.6	-3.8	0.4	-2.2	-5.6	-0.4	-0.8	-0.9	-0.3	3.6	1.4	0.1	-1.5	0.0	0.1	0.0	0.1

Source: Eurostat, EU LFS, National Accounts and EU-SILC (DG EMPL calculations).

For each indicator (except for real growth in GDHI as it is represented as a monetary value) the three columns refer to i) year on year change in absolute terms; ii) the difference from the EU (or Euro Area) average rates in the same year iii) the year on year change for the country relative to the year on year change at the EU or EA levels (indicating whether the country's situation is deteriorating/improving faster than the rest of the EU/EA reflecting the dynamics of socio-economic divergence/convergence). S1 stands for 1st semester and is based on quarterly seasonally adjusted data. Breaks in the NEET series for ES (2014), FR (2014), HU (2015) and LU (2015). Breaks in the UR and YUR series for DK (2016). Breaks in the AROP and S80S20 series for EE (2014) and UK (2015).

Statistically significant changes in AROP and S80/S20 are marked with a star (\*).

## Annex 2 Scoreboard of key employment and social indicators with Eurozone averages as reference points

	Unemployment rate			Youth unemployment						Real growth in gross household disposable income		At-risk-of-poverty rate (18-64)			Inequalities - S80/S20		
				Youth UR			NEETs										
	Y-Y change (S1.2015-S1.2016)	Distance to EA average	Y-Y for MS to Y-Y for EA	Y-Y change (S1.2015-S1.2016)	Distance to EA average	Y-Y for MS to Y-Y for EA	Y-Y change (2014-2015)	Distance to EA average	Y-Y for MS to Y-Y for EA	Y-Y change (2014-2015)	Y-Y for MS to Y-Y for EA	Y-Y change (2014-2015)	Distance to EA average	Y-Y for MS to Y-Y for EA	Y-Y change (2014-2015)	Distance to EA average	Y-Y for MS to Y-Y for EA
EU28 (weighted)	-1.0	~	~	-1.8	~	~	-0.5	~	~	1.2	~	0.1	~	~	0.0	~	~
EA19 (weighted)	-0.9	~	~	-1.4	~	~	-0.4	~	~	1.0	~	0.0	~	~	0.0	~	~
EU28 (unweighted)	-1.0	-1.2	-0.1	-2.3	-0.9	-0.9	-0.5	-0.5	-0.1	1.3	0.5	0.0	-1.2	0.0	0.1	-0.1	0.1
EA19 (unweighted)	-0.9	~	~	-1.5	~	~	-0.5	~	~	1.2	~	0.0	~	~	0.0	~	~
BE	-0.4	-2.0	0.5	-0.6	-0.5	0.8	0.2	0.0	0.6	0.7	-1.1	-0.5*	-3.7	-0.5	0.0	-1.4	0.0
BG	-1.9	-2.2	-0.9	-6.0	-4.9	-4.7	-0.9	7.1	-0.5	:	:	-0.9*	0.6	-0.9	0.3	1.9	0.3
CZ	-1.4	-6.1	-0.4	-3.2	-10.8	-1.9	-0.6	-4.7	-0.2	3.2	3.2	-0.1	-8.4	-0.1	0.0	-1.7	0.0
DK	-0.3	-4.2	0.7	0.8	-9.8	2.1	0.4	-6.0	0.8	3.0	3.0	0.0	-3.6	0.0	0.0	-1.1	0.0
DE	-0.5	-5.9	0.5	0.0	-14.1	1.4	-0.2	-6.0	0.2	2.5	2.5	0.1	-0.1	0.1	-0.3*	-0.4	-0.3
EE	0.0	-3.6	1.0	1.7	-7.1	3.1	-0.9	-1.4	-0.5	4.3	4.3	-1.5*	0.5	-1.5	-0.3	1.0	-0.3
IE	-1.5	-1.9	-0.5	-4.1	-3.9	-2.8	-0.9	2.1	-0.5	4.7	4.7	:	:	:	:	:	:
EL	-1.7	13.6	-0.8	-1.2	28.4	0.2	-1.9	5.0	-1.5	-3.0	-3.0	-1.0*	5.1	-1.0	0.0	1.3	0.0
ES	-2.6	10.1	-1.7	-4.0	24.5	-2.6	-1.5	3.4	-1.1	2.1	2.1	-0.1	5.4	-0.1	0.1	1.7	0.1
FR	-0.4	-0.1	0.6	-0.1	3.3	1.3	0.6	-0.2	1.0	1.7	1.7	0.2	-4.0	0.2	0.0	-0.9	0.0
HR	-2.7	3.6	-1.8	-12.0	10.2	-10.6	-0.8	6.3	-0.4	:	:	0.0	0.5	0.0	0.1	0.0	0.1
IT	-0.7	1.4	0.2	-4.2	16.3	-2.9	-0.7	9.2	-0.3	0.8	0.8	0.1	2.4	0.1	0.0	0.6	0.0
CY	-2.9	2.6	-2.0	-5.9	6.7	-4.5	-1.7	3.1	-1.3	-0.8	-0.8	2.5*	-1.5	2.5	-0.2	0.0	-0.2
LV	-0.2	-0.5	0.8	2.0	-3.8	3.3	-1.5	-1.7	-1.1	4.8	4.8	0.2	1.2	0.2	0.0	1.3	0.0
LT	-1.0	-1.9	-0.1	-3.0	-6.6	-1.7	-0.7	-3.0	-0.3	2.8	2.8	1.9	2.1	1.9	1.4*	2.3	1.4
LU	-0.1	-3.9	0.8	-0.2	-3.8	1.2	-0.1	-6.0	0.3	:	:	-0.9*	-2.5	-0.9	-0.1	-0.9	-0.1
HU	-1.8	-4.8	-0.9	-4.7	-7.4	-3.3	-2.0	-0.6	-1.6	2.0	2.0	0.6*	-1.9	0.6	0.0	-0.9	0.0
MT	-0.6	-5.3	0.3	-1.5	-11.5	-0.1	-0.1	-1.8	0.3	:	:	-0.1	-4.3	-0.1	0.2	-1.0	0.2
NL	-0.6	-3.8	0.3	0.1	-10.1	1.5	-0.8	-7.5	-0.4	3.2	3.2	0.1	-4.9	0.1	0.0	-1.4	0.0
AT	0.4	-4.2	1.3	1.2	-10.2	2.6	-0.2	-4.7	0.2	0.3	0.3	0.1	-4.4	0.1	-0.1	-1.2	-0.1
PL	-1.4	-3.9	-0.5	-3.1	-3.2	-1.8	-1.0	-1.2	-0.6	3.5	3.5	0.9*	0.2	0.9	0.0	-0.3	0.0
PT	-1.3	1.5	-0.4	-3.0	7.8	-1.6	-1.0	-0.9	-0.6	1.7	1.7	-0.3	1.4	-0.3	-0.2	0.8	-0.2
RO	-0.6	-4.0	0.3	:	:	:	1.1	5.9	1.5	6.1	6.1	-0.1	5.9	-0.1	1.1*	3.1	1.1
SI	-1.2	-2.1	-0.3	-1.4	-5.9	0.0	0.1	-2.7	0.5	2.1	2.1	-0.1	-3.8	-0.1	-0.1	-1.6	-0.1
SK	-1.8	-0.1	-0.9	-3.7	1.6	-2.3	0.9	1.5	1.3	4.0	4.0	-0.7*	-5.8	-0.7	-0.4*	-1.7	-0.4
FI	-0.2	-1.2	0.7	-0.9	-0.1	0.4	0.4	-1.6	0.8	1.0	1.0	0.2	-4.7	0.2	0.0	-1.6	0.0
SE	-0.7	-3.3	0.2	-2.2	-2.4	-0.8	-0.5	-5.5	-0.1	2.4	2.4	-0.9*	-3.6	-0.9	-0.1	-1.4	-0.1
UK	-0.6	-5.3	0.4	-2.2	-7.9	-0.8	-0.8	-1.1	-0.4	3.6	3.6	0.1	-1.7	0.1	0.1	0.0	0.1

Source: Eurostat, EU LFS, National Accounts and EU-SILC (DG EMPL calculations). See Annex 1 for details.

Annex 3 Scoreboard of key employment and social indicators with absolute values in three consecutive years

	Unemployment rate			Youth unemployment						Real growth in gross household disposable income			At-risk-of-poverty rate (18-64)			Inequalities - S80/S20		
				Youth UR			NEETs											
	2014	2015	2016S1	2014	2015	2016S1	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
EU28 (weighted)	10.2	9.4	8.7	22.2	20.3	19.0	13.0	12.5	12.0	0.0	1.0	2.3	16.4	17.1	17.2	5.0	5.2	5.2
EA19 (weighted)	11.6	10.9	10.2	23.8	22.4	21.3	12.9	12.6	12.2	-0.5	0.7	1.8	16.8	17.4	17.4	5.0	5.2	5.2
EU28 (unweighted)	10.5	9.9	8.9	24.5	22.6	20.3	12.8	12.3	11.7	1.2	0.8	2.7	15.6	16.2	16.2	4.8	5.0	5.1
EA19 (unweighted)	11.3	10.7	9.8	25.2	23.3	21.8	12.4	12.0	11.5	-0.4	0.3	2.0	15.7	16.2	16.2	4.8	5.0	5.0
BE	8.5	8.5	8.3	23.2	22.1	20.8	12.7	12.0	12.2	-0.3	0.3	0.7	13.4	14.2	13.7	3.8	3.8	3.8
BG	11.4	9.2	8.0	23.8	21.6	16.4	21.6	20.2	19.3	5.2	-7.1	:	17.1	18.9	18.0	6.6	6.8	7.1
CZ	6.1	5.1	4.1	15.9	12.6	10.5	9.1	8.1	7.5	-0.7	2.9	3.2	8.6	9.1	9.0	3.4	3.5	3.5
DK	6.6	6.2	6.0	12.6	10.8	11.5	6.0	5.8	6.2	-0.9	1.5	3.0	13.4	13.8	13.8	4.0	4.1	4.1
DE	5.0	4.6	4.3	7.7	7.2	7.2	6.3	6.4	6.2	0.7	1.4	2.5	16.9	17.2	17.3	4.6	5.1	4.8
EE	7.4	6.2	6.6	15.0	13.1	14.2	11.3	11.7	10.8	6.1	2.4	4.3	17.3	19.4	17.9	5.5	6.5	6.2
IE	11.3	9.4	8.4	23.9	20.9	17.4	16.1	15.2	14.3	-2.1	1.1	4.7	14.0	16.1	:	4.5	4.8	:
EL	26.5	24.9	23.8	52.4	49.8	49.6	20.4	19.1	17.2	-6.4	-1.3	-3.0	24.1	23.5	22.5	6.6	6.5	6.5
ES	24.5	22.1	20.3	53.2	48.3	45.8	18.6	17.1	15.6	-1.9	0.7	2.1	20.4	22.9	22.8	6.3	6.8	6.9
FR	10.3	10.4	10.1	24.3	24.7	24.6	11.2	11.4	12.0	-0.3	0.7	1.7	13.7	13.2	13.4	4.5	4.3	4.3
HR	17.3	16.3	13.8	45.5	43.0	31.4	19.6	19.3	18.5	-3.7	1.1	:	17.8	17.9	17.9	5.3	5.1	5.2
IT	12.7	11.9	11.6	42.7	40.3	37.5	22.2	22.1	21.4	-0.8	0.3	0.8	19.1	19.7	19.8	5.8	5.8	5.8
CY	16.1	15.0	12.8	36.0	32.8	28.0	18.7	17.0	15.3	-5.4	-5.8	-0.8	14.4	13.4	15.9	4.9	5.4	5.2
LV	10.8	9.9	9.7	19.6	16.3	17.5	13.0	12.0	10.5	4.4	1.3	4.8	18.8	18.4	18.6	6.3	6.5	6.5
LT	10.7	9.1	8.4	19.3	16.3	14.7	11.1	9.9	9.2	4.4	1.6	2.8	19.0	17.6	19.5	6.1	6.1	7.5
LU	6.0	6.4	6.3	22.3	16.6	17.5	5.0	6.3	6.2	:	:	:	15.0	15.8	14.9	4.6	4.4	4.3
HU	7.7	6.8	5.5	20.4	17.3	13.9	15.5	13.6	11.6	1.8	3.8	2.0	15.2	14.9	15.5	4.3	4.3	4.3
MT	5.8	5.4	5.0	11.7	11.8	9.8	9.9	10.5	10.4	:	:	:	13.6	13.2	13.1	4.1	4.0	4.2
NL	7.4	6.9	6.4	12.7	11.3	11.2	5.6	5.5	4.7	-1.4	-0.6	3.2	10.9	12.4	12.5	3.6	3.8	3.8
AT	5.6	5.7	6.1	10.3	10.6	11.1	7.3	7.7	7.5	-1.7	0.0	0.3	12.9	12.9	13.0	4.1	4.1	4.0
PL	9.0	7.5	6.4	23.9	20.8	18.1	12.2	12.0	11.0	1.3	2.7	3.5	16.7	16.7	17.6	4.9	4.9	4.9
PT	14.1	12.6	11.7	34.7	32.0	29.1	14.1	12.3	11.3	-1.0	-0.5	1.7	18.4	19.1	18.8	6.0	6.2	6.0
RO	6.8	6.8	6.3	24.0	21.7		17.0	17.0	18.1	33.0	6.1	6.1	21.7	23.7	23.3	6.8	7.2	8.3
SI	9.7	9.0	8.2	20.2	16.3	15.4	9.2	9.4	9.5	-1.7	1.8	2.1	13.0	13.7	13.6	3.6	3.7	3.6
SK	13.2	11.5	10.1	29.7	26.5	22.9	13.7	12.8	13.7	0.1	2.6	4.0	12.1	12.3	11.6	3.6	3.9	3.5
FI	8.7	9.4	9.0	20.5	22.4	21.2	9.3	10.2	10.6	0.4	-0.8	1.0	11.3	12.5	12.7	3.6	3.6	3.6
SE	7.9	7.4	7.0	22.9	20.4	18.9	7.5	7.2	6.7	1.7	2.7	2.4	14.0	14.7	13.8	3.7	3.9	3.8
UK	6.1	5.3	5.0	17.0	14.6	13.4	13.2	11.9	11.1	-0.1	1.5	3.6	14.7	15.6	15.7	4.6	5.1	5.2

Source: Eurostat, EU LFS, National Accounts and EU-SILC (DG EMPL calculations). See Annex 1 for details.

**Annex 4 Methodological note on the identification of trends and levels in the scoreboard**

In mid-2015 the European Commission and Member States discussed ways of improving the analysis, reading and interpretation of the scoreboard of key employment and social indicators in view of the next version of the JER and in particular, the issue of developing a methodology for assessing MS performance on the basis of the scoreboard. It was agreed that the methodology to be applied should be able to provide, for each indicator, a measure of the relative standing of each MS, according to its indicator value (score), within the distribution of the indicator values (scores) of the EU. The methodology is to be applied to both year-levels (levels) as well as to one-year changes (changes) thus enabling a holistic assessment of MS performance.

To achieve this goal a commonly used and straightforward approach can be applied. This involves analysing, for each indicator, the distribution of levels and changes, respectively, and detecting the observations (Member States scores) that significantly deviate from the common trend - that is, in statistical terms, detecting the “outliers” of the distribution of the scores of the EU for that indicator.

In order for this approach to be applied, before proceeding with the analysis it is opportune to convert, for each indicator, the MS scores to standard scores (also known as z-scores), which have the advantage of providing a way to equate different metrics, thus allowing the same metric to be applied for all the indicators.



This is achieved by standardising raw values of both levels and changes, for each indicator, according to the formula:

$$z - score \text{ for } MS_x = \frac{[MS_x \text{ indicator} - average (MS \text{ indicator})]}{standard \ deviation (MS \text{ indicator})}$$

This approach enables expressing for each Member State its raw indicator value in terms of how many standard deviations it deviates from the average. Then the performance of each MS can be assessed and classified on the basis of the resulting z-scores against a set of pre-defined thresholds, which can be set as standard deviation multiples. It should be noted that a comparable methodology has been already agreed and used in the past in the context of the LIME Assessment Framework<sup>48</sup>.

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<sup>48</sup> European Commission (2008), “The LIME Assessment Framework (LAF): A methodological tool to compare, in the context of the Lisbon Strategy, the performance of EU Member States in terms of GDP and in terms of twenty policy areas affecting growth”, European Economy Occasional Papers n. 41/2008.

The most important issue within this approach is setting cut-off points. Given that no parametric assumption can be made about the distribution of the observed raw values for the employment indicators<sup>49</sup>, it is common to use a “rule of thumb” in selecting the thresholds. According to the analysis of the key indicators used in the scoreboard, and considering that the lower the unemployment, NEET and social exclusion indicators (with the exception of GDHI) the better the performance, it was agreed to consider<sup>50</sup>:

1. Any score below -1 as a very good performance
2. Any score between -1 and -0.5 as a good performance
3. Any score between -0.5 and 0.5 as a neutral performance
4. Any score between 0.5 and 1 as a bad performance
5. Any score higher than 1 as a very bad performance<sup>51</sup>

The present methodology suggested is to evaluate the performance for all indicators for each MS for both levels and changes. The outcome of this step will thus be, for each of the indicators, the evaluation of Member States scores for both levels and changes according to the five criteria, as shown in

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<sup>49</sup> Both normality and T-shaped distribution tests were carried out resulting in the rejection of any distributional hypothesis.

<sup>50</sup> Different cut-off points settings were discussed internally to the working group. This proposal reflects the outcomes of such process.

<sup>51</sup> In case of normality, chosen cut-off points roughly corresponds to 15 %, 30%, 50%, 70% and 85% of cumulative distribution.

Table 1:

**Table 1: Suggestion for z-scores threshold values**

Levels	z-scores threshold values				
	-1.0	- 0.5	0	0.5	1.0
	(lower than)	(lower than)	(between)	(Higher than)	(Higher than)
	Assessment				
	Very Low	Low	On average	High	Very High
Changes	Much lower than average	Lower than average	On average	Higher than average	Much higher than average

By combining the evaluation of levels and changes it is possible to classify the overall performance of a country according to each indicator within one of the following seven categories. The colour coding is reflected in Figures 1, 14, 15, 27 and 28.

<b>Best performers</b>	scoring less than -1.0 levels and less than 1.0 in changes	Member States with levels much better than the EU average and with the situation improving or not deteriorating much faster than the EU average
<b>Better than average</b>	scoring between -1.0 and -0.5 in levels and less than 1 in changes <u>or</u> scoring between -0.5 and 0.5 in levels and less than -1.0 in changes	Member States with levels better than the EU average and with the situation improving or not deteriorating much faster than the EU average
<b>Good but to monitor</b>	scoring less than -0.5 in levels and more than 1 in changes, <i>and</i> presenting a change higher than zero <sup>52</sup>	Member States with levels better or much better than the EU average but with the situation deteriorating much faster than the EU average
<b>On average / neutral</b>	scoring between -0.5 and 0.5 in levels and between -1.0 and 1.0 in changes	Member States with levels on average and with the situation not improving nor deteriorating much faster than the EU average
<b>Weak but improving</b>	scoring more than 0.5 in levels and less than -1.0 in changes	Member States with levels worse or much worse than the EU average but with the situation improving much faster than the EU average

<sup>52</sup> The latter condition prevents a Member State presenting "low" or "very low" level to be flagged as "deteriorating" when showing a change "much higher than average", but still decreasing.

<b>To watch</b>	scoring between 0.5 and 1.0 in levels and more than -1.0 in changes <u>or</u> scoring between -0.5 and 0.5 in levels and more than 1.0 in changes	This category groups two different cases: i) Member States with levels worse than the EU average and with the situation deteriorating or not improving sufficiently fast; ii) Member States with levels in line with the EU average but with the situation deteriorating much faster than the EU average
<b>Critical situations</b>	scoring more than 1.0 in levels and more than -1.0 in changes	Member States with levels much worse than the EU average and with the situation deteriorating or not improving sufficiently fast

As for the gross disposable household income (GDHI), which is only presented in changes, the following classification has been used (see Figure 26).

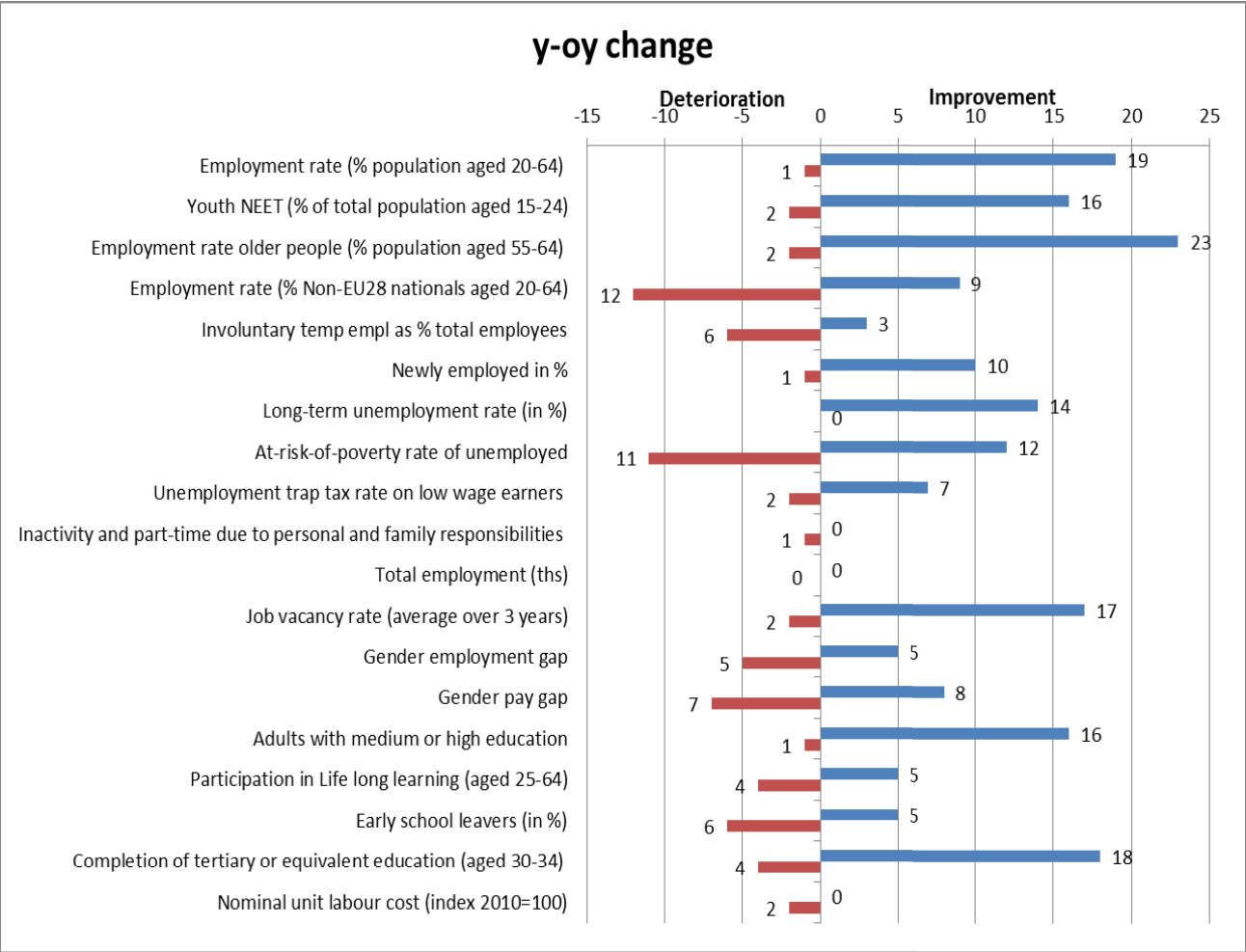
<b>Best performers</b>	scoring more than 1.0 in changes	Member States with changes much higher than the EU average
<b>Better than average</b>	scoring between 1.0 and 0.5 in changes	Member States with changes higher than the EU average
<b>On average / neutral</b>	scoring between -0.5 and 0.5 in changes	Member States with changes on average
<b>To watch</b>	scoring between -0.5 and -1.0 in changes	Member States with changes lower than the EU average
<b>Critical situations</b>	scoring less than -1.0 in changes, <i>and</i> presenting a negative change in GDHI <sup>53</sup>	Member States with changes much lower than the EU average

<sup>53</sup> The latter condition prevents a Member State presenting increasing GDHI to be flagged as a "critical situation".

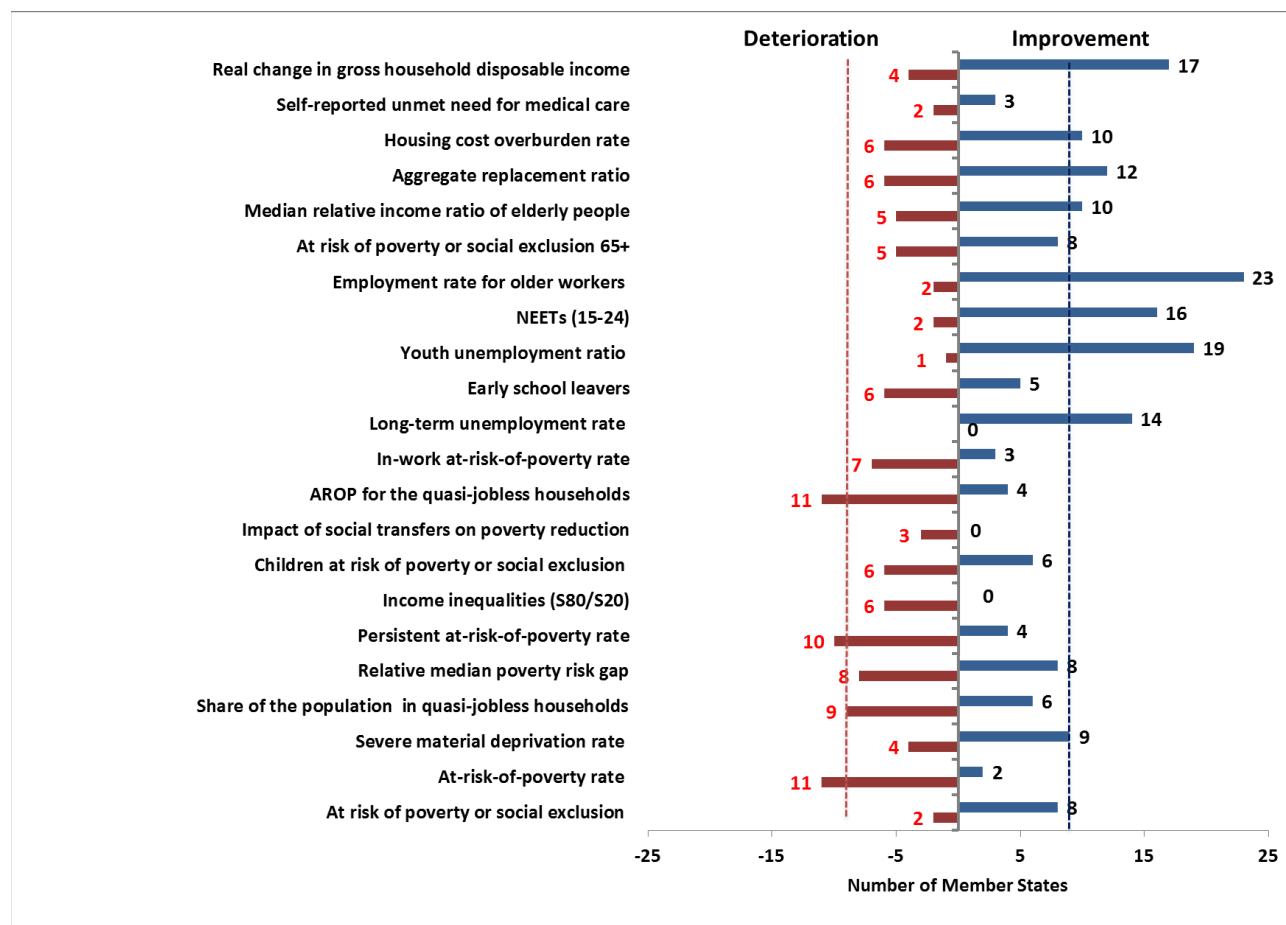
*Cut-off points summary table*

		Very low	Low	On average	High	Very high
<b>UR</b>	Levels	less than 4.4%	less than 6.6%	between 6.6% and 11.1%	more than 11.1%	more than 13.4%
	Changes	less than -1.9pp	less than -1.4pp	between -1.4pps and -0.6pps	more than -0.6pps	more than -0.2 pps
<b>YUR</b>	Levels	less than 9.7%	less than 15.0%	between 15.0% and 25.6%	more than 25.6%	more than 31.0%
	Changes	less than -5.2pps	less than -3.7pps	between -3.7pps and -0.8pps	more than -0.8pps	more than 0.7pps
<b>NEET</b>	Levels	less than 7.3%	less than 9.5%	between 9.5% and 13.9%	more than 13.9%	more than 16.1%
	Changes	less than -1.3pps	less than -0.9pps	between -0.9pps and -0.1pps	more than -0.1pps	more than 0.3pps
<b>GHDI</b>	Changes	less than 0.5%	less than 1.5%	between 1.5% and 3.4%	more than 3.4%	more than 4.4%
<b>AROP (18-64)</b>	Levels	less than 12.6%	less than 14.4%	between 14.4% and 18.0%	more than 18.0%	more than 19.8%
	Changes	less than -0.8pps	less than -0.4pps	between -0.4pps and 0.4pps	more than 0.4 pps	more than 0.8 pps
<b>S80-S20 ratio</b>	Levels	less than 3.7	less than 4.4	between 4.4% and 5.8	more than 5.8	more than 6.4
	Changes	less than -0.3	less than -0.1	between -0.1 and 0.3	more than 0.3	more than 0.4

**Annex 5: Summary overview of the ‘employment trends to watch’ and number of Member States with deterioration or improvement as identified by the Employment Performance Monitor 2016 (EPM); 2015-2014 change**



**Annex 6: Summary overview of the ‘social trends to watch’ and number of Member States with deterioration or improvement as identified by the Social Protection Performance Monitor 2016; 2014-2013 change**





Note: For EU-SILC based indicators the changes generally refer to 2012-2013 for income and household work intensity indicators, and to 2013-2014 for SMD and unmet need for medical care. Changes in gross household disposable income refer to 2013-2014. LFS-based indicators (LTU rate, early school leavers, youth unemployment ratio, NEETS (15-24), ER (55-64)) refer to the more recent period 2014-2015. An update with more recent data will become available in the final version of the Joint Employment Report.

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