European Employment Observatory

Quarterly Reports

January 2012

Executive Summary

Contents

1 Introduction

This report presents an executive summary of the national quarterly reports submitted by the SYSDEM correspondents of the European Employment Observatory from 32 European countries (EU-27, Croatia, former Yugoslav Republic of Macedonia, Turkey, Serbia and Iceland) to the European Commission in January 2012.

The purpose of the executive summary is to provide an overview of labour market policies taken in the last quarter in the countries for which quarterly reports are provided. Measures taken and progress made are presented according to whether they correspond to the six priorities identified at the Spring 2011 European Council[1]:

1. Make work more attractive,
2. Help the unemployed get back to work,
3. Combat poverty and promote social inclusion,
4. Invest in education and training,
5. Balance security and flexibility,
6. Reform pension systems.

Within each of these thematic sections, the measures are identified according to the following categories:

- Measures which are in line with the relevant Country-Specific Recommendations (CSRs) and Euro-Plus Pact Commitments[2];
- Measures contributing towards the achievement of the employment rate target or as part of the implementation of the country's National Reform Programme (NRP).

For those countries with Memoranda of Understanding (MoU) in place with the European Union and International Monetary Fund (IMF), progress towards meeting the commitments set out in their MoUs is described.

Section 8 summarises the discussion and analysis presented in the national quarterly reports regarding the relevance of the 2012 Annual Growth Survey (AGS) priorities for the country in question. Information in this section is presented according to the following themes from the AGS:

- Tackling unemployment and the social consequences of the crisis;
- Prioritising growth-friendly expenditure and ensuring the efficiency of such spending;
- Pursuing the reform and modernisation of pension systems;
- Shifting taxation away from labour; and
- Measures to encourage moves from informal or undeclared work to regular employment.

Finally, a short conclusion presents a summary of the measures which have taken place across the 32 countries between November 2011 and mid-January 2012, paying particular attention to the extent to which the policies of the non-EU countries converge with those of the Member States.

It is worth noting here the difficulties associated with separating out national policy actions into the implementation of commitments or priorities under different European-level policy documents. Often there is overlap between the actions and priorities identified in these documents. Accordingly, where necessary the measures have been allocated by the SYSDEM experts to the different commitments and priorities, in line with their own judgements.

[1] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

[2] The Euro Plus Pact has been agreed by the euro area Heads of State or government and joined by Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania

2 Make work more attractive

This section presents those developments in national labour market policies, which have been described in the January quarterly reports and which have been identified as aiming to make work more attractive.

According to the European Commission's Annual Growth Survey (AGS) for 2011[3], actions in this area should include: moves to shift taxes away from labour, in order to stimulate demand for labour and create growth; facilitating the participation of second earners in the workforce through tax benefit systems, flexible work arrangements and childcare facilities; and stepping up efforts to reduce undeclared work, both by strengthening the enforcement of existing rules and reviewing tax benefit systems. Some of the developments in individual countries in relation to this heading are described in more detail below.

2.1 Measures in line with the country-specific recommendations (CSRs) and Euro Plus Pact Commitments

2.1.1 EU-27 countries

In the **Czech Republic**, where one of the 2011 CSRs is to shift taxes away from labour and implement fiscal consolidation in 2011, the low VAT rate is to increase from 10 % to 14 % in January 2012, with no change in the top VAT rate of 20 % in 2012. In January 2013, both rates are to be harmonized at 17.5 %. However it is possible that another economic slowdown (and its adverse impact on state budget revenues) could lead the government to reconsider this plan. In **Slovakia**, changes have been agreed to the taxation of work undertaken by artists.

In **Germany**, the tax wedge has been widened by increasing health insurance premiums. This is only partially compensated by the reduction in pension insurance premiums. The core problem of the tax wedge is health insurance, where costs appear to be continually increasing. However, most recent data show that at least parts of the German social insurance system can be expected to achieve considerable surplus budgets in 2012 and the following years: unemployment insurance may have a surplus of EUR 1.3 billion according to calculations of the Kiel Institute for the World Economy (Institut für Weltwirtschaft). A surplus is also visible in health insurance. Thus the positive labour market performance affects all parts of social insurance and opens scope for the reduction of non-wage labour costs in the future.

Regarding the taxation of second earners and women in general, a system was introduced in **Germany** in 2009 which distributes tax burdens according to the income share among the married partners, the so-called 'Faktorverfahren'. In the CSR, the German authorities have committed to evaluating whether the 'Faktorverfahren' has abolished disincentives for second earners to take up work (or not) and this evaluation is currently awaited. In Malta, Hungary and Austria, the focus of measures encouraging second earners to participate in the labour market is on childcare provision. In **Malta**, the 2012 Budget foresees an investment of EUR 1.3 million in three new childcare centres in 2012, bringing the total to 10. This measure, though beneficial, is only expected to bring limited results, as many more such centres are needed, together with facilities that cater for children between the time when school finishes and parents return home from work.

One of **Hungary**'s CSRs is to strengthen measures to encourage women's participation in the labour market by expanding childcare and preschool facilities. Developments in this area include the passing of the law on public education, which lowers the mandatory age for kindergarten participation to 3 from 4 years (the change is due to take effect in 1 September 2014). A law on families was also passed, which declares that working parents should receive support to balance work and family life (although there are yet no concrete measures to report).

[3] http://ec.europa.eu/europe2020/tools/monitoring/annual_growth_survey_2011/index_en.htm

Equal treatment of women and men on the labour market has been formulated as a CSR for **Austria**. In this context, the income-related childcare allowance has undergone a small reform with the purpose of simplifying the calculation of additional income while receiving childcare allowance. The reform will take effect from 1January 2012.

In contrast, in the **Netherlands**, as of January 2012 the childcare benefit system has changed, meaning that most parents will receive a smaller part of their childcare costs back from the tax agency (kinderopvangtoeslag). The amount that parents can get back is now related to the working hours per week of the parent with the lowest-paid job. The rationale of the government for the introduction of this alteration to the arrangement is on the one hand preventing fraud and on the other hand decreasing the costs of childcare.

Increasing female employment remains one of the most important policy priorities for the **Italian** labour market. Law decree No. 201 (22 December 2011) envisages a set of provisions aimed at reducing the tax wedge on labour (social welfare costs), through tax deductions from the IRAP Tax (a regional tax on productive activities based on firms' costs and hence penalising employment), notably in the case of hiring women and younger workers. More specifically, companies with more than nine employees will benefit from a 100 % social welfare cost cut for three years if they hire women and young people under 35 on a permanent basis, in the period between January 2012 and December 2016. This measure represents the first significant policy initiative to address a structural problem of the labour market and consequently one of the main obstacles to economic growth. Nevertheless, boosting female employment will require more efforts to promote the reconciliation of work and family life, and to significantly improve the availability of childcare facilities.

In **Turkey**, the government has developed policies to encourage employers to hire young and unemployed women as a crisis response. So far however, businesses have not responded well to these policies.

Efforts to reduce undeclared work have been introduced in Germany, Spain, Latvia and Romania, while in Lithuania a debate on a draft law in relation to this issue continued:

- In **Germany**, a regulation has been introduced – with effect from 1 January 2012 - which assumes that illegal workers have been employed for three months. This results in the claim of illegal workers to receive a regular wage and the claim of social insurance on regular contributions. This regulation therefore increases the financial risk of employers with illegal workers. Construction industries and hotel and catering services are particularly affected.
- The new **Spanish** government has recently announced a new plan against fiscal fraud, which includes new measures to tackle undeclared work, such as checking data from electricity consumption and credit card expenses, and enhancing workplace inspections.
- In **Latvia**, measures were announced in December 2011 to toughen sanctions imposed on companies found to be employing workers illegally. It was also announced that by July 2012 discussions would be organised aimed at linking the right to receive medical care to tax payments, with the aim of reducing the incentives for individuals to accept 'envelope wages'.
- The debate on the draft Law on Illegal Work Prohibition was further continued in the fourth quarter of 2011 in **Lithuania**, but social partners failed to agree about the imposition of penalties on illegal workers.
- Following the establishment of an 'Integrated Mechanism for the Prevention and Combat of Undeclared Work' in **Romania**, a 'National Strategy for the Prevention and Combat of Undeclared Work' has been formalised via a Government Decision. Deriving from the Strategy, a specific Action Plan has been elaborated for the period 2012-14, with specific actions for each year and tasks for each of the participating government agencies.

In Ireland, Latvia, Luxembourg and Malta, measures have been introduced to promote entrepreneurship and self-employment. As stipulated in the Euro Plus Pact commitments regarding efforts to increase productivity, substantial progress has been made in **Luxembourg** in the form of a regulation aiming to reduce the administrative burden for companies. The reform of the right of establishment introduces both functional and substantial changes that are intended to stimulate, facilitate and encourage entrepreneurship. Several initiatives to facilitate entrepreneurship have also been taken in **Malta**, including the Small Business Act, the Business First service and a number of initiatives on micro credit for businesses. In August 2011, the **Latvian** government approved the 'Plan to reduce administrative burden' which includes 25 measures aimed at reducing the administrative burden on businesses and residents, as well as the optimisation of the controlling authority functions. The plan is in line with Latvia's Euro Plus Pact's commitment to improve the business environment. Finally in **Ireland**, the Action Plan for Jobs to address the Employment Crisis includes Pro-Jobs Measures which involve financial and tax related incentives which are to be targeted at areas/sectors with high jobs potential. This is considered by the Government as an important component of the overall strategy to promote enterprise and innovative companies. In addition, a number of measures included in the Budget 2012 aim to make it less costly and easier to engage in crucial R&D activities, to export to key growth markets, and to run a start-up company.

2.1.2 Candidate and potential candidate countries

On 12 October the European Commission published its annual overview of enlargement policy and the progress made towards EU accession in the Western Balkans, Turkey and Iceland. With regard to social policy and employment it was noted that there is a very low level of understanding among the general population in **Croatia** of the Anti-discrimination Act. Furthermore, and linked to this area, too little effort was seen to have been made in implementing the principle of gender equality; women still have higher barriers to participation on the labour market than men in Croatia.

Within **the former Yugoslav Republic of Macedonia's** Pre-Accession Economic Programme (PEP) 2012-2014, there are several measures aiming to ensure better conditions for SMEs. Moreover, the 2012 Programme for support of entrepreneurship, competitiveness and innovation of SMEs envisages support for business incubators, implementation of quality standards, the promotion of female entrepreneurship, the promotion of craftwork and authentic national craft. The government also proposes to implement several specific projects aimed at supporting (financially and/or through consultancy) export and entrepreneurship. Firms would also have better access to finance through the European Investment Bank (EIB) loan of EUR 50 million, through the agreement signed between the EIB and Macedonian Bank for Development Promotion.

2.2 Measures to meet the employment rate target, or adopted as part of the 2011 National Reform Programmes (NRPs)

2.2.1 EU-27 countries

Several quarterly reports referred to gender equality and measures to enable second earners to participate in the workforce as part of their countries' NRPs, or measures to meet the employment rate target. The 2011 NRP for **Luxembourg**, for example, highlighted gender equality as a vital policy area to increase the country's employment rate. No progress has been made regarding equal pay for women, although it has been hailed as a priority to get more women into work and further increase the general employment rate in the context of the Europe 2020 strategy. The Ministry of Equal Opportunities launched a new awareness campaign called MEGAFAMILY in October 2011, to help men and women define their role in a changing society.

In **Malta**, despite progress made in recent years, female employment is still very low compared to the EU average. Nevertheless, there have been positive improvements in the annual figures of women returning to work in recent years, which have encouraged the government to extend the income tax holiday for women returning to work in 2012. In a related measure, the 2012 Budget introduces a tax incentive for families in which both parents work by reducing their annual income tax by up to EUR 420 each.

In Malta, Poland and Slovakia, adjustments have been made to maternity leave and benefits. In **Poland**, the government plan for 2012 foresees increasing the child tax relief by 50 % for the third and subsequent children. From 1 January 2012, additional maternity leave and additional leave under the terms of maternity leave have been increased (up to four weeks for the birth of a single child), as well as paternity leave (up to two weeks). In **Slovakia**, the parliament approved an increase of the maternity benefit sum from 60 to 65 % of the assessment base. In **Malta**, even though in 2011 the government had rejected the European Commission's proposal to increase maternity leave to up to 20 weeks, in the 2012 Budget it unexpectedly announced that it would increase maternity leave by two weeks in 2012 and by another two weeks in 2013, with the costs to be covered by the government.

In the Czech Republic and Poland, steps have been taken to address undeclared work. The **Czech** Ministry of Labour launched in November 2011 a pilot project (funded from the ESF) to limit undeclared work among the registered unemployed. Selected unemployed are asked to appear in person and register their presence at specified times at special post offices, which have an electronic connection to the central administrative registers (CzechPoint). The **Polish** government approved a draft Law in December 2012, according to which, the employment of third country nationals illegally resident in Poland will be prohibited and sanctions will be imposed on employers who fail to comply with applicable regulations.

2.3 Summary

In sum, it seems that, as was the case in the October 2011 quarterly reports, in recent months common measures to 'make work attractive' have been steps to enable second earners to participate in the workforce and initiatives to tackle undeclared work. Examples of measures to promote gender equality and enable second earners (women) to return to work were found in nine countries, while measures to tackle undeclared work were found in six countries. Moves to shift taxes away from labour were found in the Czech Republic and Slovakia, while there is the potential for this to happen in the future in Germany. Initiatives to promote self-employment and entrepreneurship were identified in Luxembourg, Malta and the former Yugoslav Republic of Macedonia.

3 Help the unemployed get back to work

This section presents those developments in national labour market policies, which have been described in the January quarterly reports and which have been identified as aiming to help the unemployed get back to work.

The 2011 AGS recommends that Member States should take three key actions in order to help the unemployed back to work. These are:

- Designing benefits to reward return to work or incentives to go into self-employment for the unemployed through time-limited support, and conditionality linking training and job search more closely to benefits;
- Ensuring that work pays through greater coherence between the level of income taxes (especially for low incomes) and unemployment benefits;
- Adapting unemployment insurance systems to the economic cycle, so that protection is reinforced in times of economic downturn.

3.1 Measures in line with the country-specific recommendations (CSRs) and Euro Plus Pact Commitments

3.1.1 EU-27 countries

Changes to benefit systems were identified in Belgium, Lithuania and the UK. In **Lithuania**, the 'Law on cash social assistance', adopted on 1 December 2011, will create supplementary social benefits in case of employment to ensure that the working age population is actively looking for a job. This measure is relevant in relation to the 2011 CSR 'amend the relevant legislation to ensure that the social assistance system does not contain disincentives to work'. In addition, the law also foresees a gradual reduction of social benefits to persons who receive such benefits for 36 months or more and stricter conditions in granting cash social assistance to persons failing to comply with their legal duties.

In **Belgium**, the government has decided to completely reform the out-of-work benefits and to create a higher degression of unemployment benefits, by giving the unemployed a higher initial benefit, then limiting the duration of the second payment period and reducing the unemployment benefits every three months, followed by a fixed minimum rate for all unemployed people during the third payment period. This degression will not apply to unemployed people who have worked for a minimum of 20 years, over 55s who are the main earner in a family or living alone, and people who are part-time unemployed. The measures will be applied as standard in the course of 2012 to new benefit recipients but, to avoid additional costs, the increase applicable to the first period of unemployment will only be applied as of 2013. As of 1 July 2012, the new benefit system will be applicable to existing unemployed as well. The temporarily unemployed are not affected by these new measures but the agreement stipulates that employers should become more responsible, with the aim of combating excessive recourse to temporary unemployment. In addition, the notion of 'suitable employment' will be interpreted more strictly as of 2012. The reform is expected to save EUR 225 million, although the impact on employment and the employment rate is less evident.

In addition, the **Belgian '**tideover allowance' scheme (i.e. the special unemployment allowance for young people who having not contributed enough to the social security system to obtain regular unemployment benefits) will be reformed as of 1 January 2012. The existing 'waiting allowance' (allocation d'attente/wachtuitkering) will be transformed into a labour market integration allowance (inschakelingsuitkering/allocation d'insertion). Greater emphasis will be placed on finding employment through an 'individual employment plan' and the length of the benefit will be limited to three years for so-called 'non-priority' people who live with a partner and for the over 30s who have not made sufficient social security contributions.

The whole idea of transforming a 'waiting allowance' into a 'labour market integration' allowance is definitely positive. However, this measure has been adopted at a time when the fall in demand for jobs, following an estimated yearly growth of 0.5 % for 2012, will inevitably lead to a sharp increase in youth unemployment and a very sharp fall in employment opportunities for young people who have just finished their education.

As part of the **UK** government's approach to tackling worklessness, changes are being made to the benefits system. A Universal Credit is being introduced, under the overall banner of 'making work pay'. The Universal Credit replaces six separate housing and work benefits and within this the proposed cap on the total benefits that can be paid to a single household (set at GBP 26 000, EUR 31 552) is a clear attempt at tackling workless households – though most effect from this will be in those parts of the country (such as London and the South East) where housing costs are greatest. Nevertheless, the cap could also affect those households in any part of the country with large families and this has generated a lot of criticism from a variety of groups about the arbitrariness of the approach.

In **Ireland**, in a statement issued on 24 November 2011 the Government committed itself to delivering a multi-annual Action Plan for Jobs, with a monitoring group to oversee implementation. The first annual Action Plan will be launched in January 2012, which will contain a series of measures to be implemented during 2012, with quarterly targets to be met.

The **Spanish** Strategy for Employment (2012-2014) was approved in October 2011, aiming to guide the development of ALMPs and create coordination mechanisms between the national and regional public employment services (PES). It will develop coordination between regional PES, enabling workers to continue their individual action plan for employment when moving from one region to another. Moreover the strategy changes the employment law of 2003 and states a catalogue of employment services for citizens, considering these services as a citizen's right.

New types of active labour market policies, or changes to existing policies, were mentioned in the quarterly reports for France, Latvia, Lithuania and Sweden. One of the CSRs for **France** urges the Government to 'step up active labour market policies and introduce measures to improve the organisation, decision-making and procedures of the public employment service (PES) to strengthen services and individualised support provided to those at risk of long-term unemployment'. In this regard, it is worth mentioning that the implementation of the new **'**contract for professional security' (CSP) which provides individual support to persons so they can train and find a job has started.

Training measures were highlighted in Latvia and Lithuania. In **Latvia**, the measure 'Training for unemployed persons in cooperation with employers' organisations and industry associations' aims to address structural unemployment by training the unemployed in accordance with the needs of companies in export-oriented sectors. In order to address long-term unemployment and the needs of social assistance clients, a 'Paid Temporary Public Works Programme' will be introduced in 2012. In **Lithuania**, the planning of vocational training for the unemployed has been reformed with effect from 1 January 2012. This will serve as a basis for implementing a so-called 'voucher system' within the PES to encourage people to seek training with a specific goal of obtaining employment and for employers to have a better supply of people trained in accordance with their needs.

Improving labour market opportunities for vulnerable groups has been highlighted as a priority for **Sweden**. In temporary ALMP measures adopted by the Parliament (*Riksdag*) in December 2011, a strong emphasis has been placed on matching measures aiming at improving the functioning of the labour market, on measures preventing a further increase of long-term unemployment and also on measures for persons with a weak foothold on the labour market (young drop-outs, immigrants and the disabled). The number of places in labour market programmes has also been increased.

In the Czech Republic, France, Luxembourg and the UK, changes are being made to PES and other support for the unemployed.

- In the **Czech Republic**, the organisational overhaul of the network of PES (District Labour Offices, DLOs) is still in progress and will continue during 2012. An amendment of the Employment Act allows for the outsourcing of job-search counselling services from the DLOs to private employment agencies. The reward per unemployed person placed is CZK 5 000 (EUR 79), with an additional bonus of CZK 1 250 (EUR 50) for his/her placement in a permanent-contract job and an additional CZK 500 (EUR 20) for employment of more than six months. In addition, an unemployed person will be free to propose an accredited provider of retraining and, upon PES approval, the training provider may receive up to CZK 50 000 (EUR 1 966) over three years.
- Incentives for private sector companies are also part of the **UK** government's 'Work Programme', which is oriented towards tackling those in workless households, principally by incentivising the private sector companies contracted to deliver the activities under the programme.
- In **France**, the new roadmap for 2012-2014 of the PES (Pôle Emploi) is of relevance to the country's CSRs. The roadmap sets out three priorities: personalised services, proximity to local areas and the optimisation of financial and human resources. As part of this objective, 2 000 members of staff will be re-allocated from working on relations with companies, to providing support to the unemployed as advisors. Changes will also be made to the intensity and frequency of interviews at the PES for the unemployed; employers with urgent needs will receive more support and more flexibility will be given to local agencies in terms of decisions. It should be noted however, that these measures will have to be implemented with the same level of budget.
- The reform of **Luxembourg's** National Employment Agency (ADEM), legislated for in December 2011, is in line with the country's Euro Plus Pact commitments.

The impact of budget constraints on the provision of support to the unemployed was mentioned in the quarterly reports for Hungary and Slovakia. While the CSRs for **Slovakia** urge the country to improve the administrative capacity and overall efficiency of its public employment services, especially for youth and the long-term unemployed, the main objective of the currently negotiated amendment to the Employment Services Act is cost reduction. Cutting the budget for ALMPs without a comprehensive efficiency assessment may reduce access to activation programmes for groups at highest risk. However, in the meantime the amendment has been withdrawn from the legislative process due to disagreement in the coalition on the proposed changes.

One of the 2011 CSRs for **Hungary** is to take steps to strengthen the capacity of the Public Employment Service and other providers to increase the quality and effectiveness of training, job-search assistance and individualised services and to reinforce active labour market measures delivering positive evidence-based results. Some recent developments of relevance to this CSR include the revision of the Social Renewal Operational Programme (SROP), which has increased the budget allocated to complex programmes, foreign language teaching and training programmes, while the budgets for others were made tighter to maintain budget neutrality. In addition, from 1 January 2012 onwards, the Hungarian PES has been reorganised as a part of the new National Employment Office, which also merges the Office for Labour Supervision and the National Institute for Vocational Education. The government decree commanding this change argues that it is necessary to simplify the institutional structure and make it more effective and requires a definite downsizing. However, the budget to reform the PES was cut to HUF 3 billion (EUR 9.9 million) from HUF 7 billion (EUR 23 million) in the SROP.

The austerity measures which are being taken forward in **Portugal** are also likely to have a negative impact on employment. The government's effort to implement the country's MoU has, as top priorities, the Euro Plus Pact's third and fourth aim ('Contribute further to the sustainability of public finances' and 'Reinforce financial stability'). These efforts imply severe austerity measures with a potentially strong negative impact on employment, thus contradicting in the short-term the Pact's second broad aim to 'Foster employment'. The budget for 2012 voted on 30 November 2011 foresees expenditure cuts underpinned by a continued reduction in the number of public employees, higher user fees in the health sector, restructuring of State-owned enterprises, including hospitals, and promotion of efficiency gains in education. Some savings in social benefits are to be achieved through reinforcement of the means testing condition and other eligibility rules.

3.1.2 Candidate and potential candidate countries

No new measures were introduced in **Croatia** to uphold the Programme for Economic Recovery during the fourth quarter of 2011. However, existing active labour market measures were intensified. Due to the low number of job vacancies during this period, wage subsidies provided little support for employment and only 2 707 persons were able to find subsidised jobs. Job creation through public works was intensified, with 10 800 persons participating in this programme in 2011. However, the most frequently used measure was training for the unemployed.

In **Iceland,** in December 2011 the government, together with local communities and labour market stakeholders, introduced a special effort intended to provide up to 1 500 new jobs and to lower the unemployment rate by 0.7 percentage points. The main aims of the project, which is called 'To work' (Til vinnu) are to create greater incentives to recruit and to increase the number of jobs.

The 'National Action Plan for Employment' (NAPE) 2011-2013 (adopted in August 2011) for **the former Yugoslav Republic of Macedonia**, was developed based on the Europe 2020 Strategy and the Integrated guidelines for economic and employment policies. It provides a set of goals to be achieved, including better conditions for starting a business, support for entrepreneurship, easier access to finance, upgrading of skills and human capital, improvement of competitiveness and innovation, tackling the informal economy, etc. A special focus is placed on ensuring better (and less) regulation, lower taxation and easier access to finance for Small and Medium Sized Enterprises (SMEs).

In addition, the 'Pre-Accession Economic Programme' (PEP) 2012-2014 was prepared in **the former Yugoslav Republic of Macedonia**. The PEP identifies two main challenges for the medium term: the reduction of unemployment, and intensified economic growth through higher value-added production and diversification and expansion of exports. The strategic long-term priority is increased living standards and quality of life. These goals are to be accomplished through structural reforms that will contribute to a competitive and integrated economy, with equal opportunities. The main reform areas in the forthcoming three-year period are: improvement of the business environment; support for entrepreneurship and SMEs; human capital promotion; better match between labour supply and demand; stronger rule of law; increased export promotion and support; improving the efficacy and professionalism of public administration; strengthening the supervisory capacity of regulatory bodies; greater productivity of agriculture. The document itself, as well as described measures and activities, quite frequently refers to and draws on the Europe 2020 strategy and has a strong focus on promoting employment in the country.

3.2 Measures to meet the employment rate target, or adopted as part of the 2011 National Reform Programmes (NRPs)

3.2.1 EU-27 countries

In **Denmark,** the overall aim stated by the Government is to improve conditions for the unemployed, among other things through better opportunities for education and skills upgrading and improved activation, which brings the unemployed into jobs. While not representing a drastic break from previous policies, the large number of minor reforms agreed in the 2012 budget, can be interpreted as pointing towards a more flexible approach to active labour market policy and also imply the allocation of more resources to interventions.

In relation to benefits, in **Slovenia**, the Ministry of Labour, Family and Social Affairs will implement new social legislation from 1 January 2012 by introducing a 'single entry point' at Centres for Social Work, significantly reducing opportunities for one person to access multiple benefits. The new criteria for eligibility include not only the level of income of an individual or his family members but also personal property.

Changes to active labour market policies were mentioned in Germany, Latvia, Slovakia and Sweden (see above). In **Germany**, the February 2011Law for the improvement of labour market integration includes a broad range of measures coming into force in 2012. These include for example the introduction of a voucher system for vocational training measures for the unemployed (from 1 April 2012), support from the employment agencies for the continuing training of persons under the age of 45 if the employer covers at least 50 % of the training costs, and a reform of German job centres, including 41 additional job centres to be managed exclusively by municipalities.

In **Latvia**, the large scale 'Workplaces with Stipend Emergency Public Works Programme', which commenced in 2009 and provided community jobs for nearly 123 000 unemployed, finished in December 2011. The resumption of the 'Paid Temporary Public Works Programme' was highlighted in the Latvian NRP and is expected to increase labour market participation. In contrast to the 'Workplaces with Stipend Emergency Public Works Programme' the new programme contains some element of skills upgrading since participants will be expected also to participate in State Employment Agency short courses. There will also be positive incentives for finding a job, with two days a month allowed for job search and job interviews. Nevertheless most of the jobs will be low skilled and the training will be basic.

At the end of November 2011, the **Latvian** government allocated LVL 4 million (EUR 5.7 million) to a new active labour market policy measure 'Training for unemployed persons in cooperation with employers' organisations and industry associations'. Under this programme, employers will decide on the training undertaken by the unemployed person. During the course, trainees will receive a stipend of LVL 70 (EUR 100) and afterwards the employer will be required to hire the trainee for at least 3 to 6 months. Over 7 000 training places will be available in key sectors of Latvia's economy. According to the Ministry of Welfare the programme has been developed to respond to labour market needs. This measure is in line with Latvia's NRP since it deals directly with the issue of better matching on the labour market and it also corresponds to the NRP aim of a gradual transition from crisis-related measures to more traditional active labour market policy measures. However, the programme is likely to be limited to rather low-skilled workers and accordingly will not resolve the issue of the lack of highly qualified workers in Latvia.

In **Slovakia**, the long awaited major ALMP reform (the Act on employment services) is now a more restricted amendment, offsetting out austerity measures to reduce and streamline spending on active policies. They include a tightened provision of the contribution for self-employment, the revision of activation programmes for disabled persons, including cancellation of infrequently used measures, adjustment of benefit sums, extension of required preservation of supported jobs in protected workplaces from 3 to 5 years and simplified administration of the insertion of applicants in the register of job seekers. Part of the proposal is also a draft amendment to the Minimum Wage Act, which puts forward a decreased 85 % minimum wage for persons, who prior to taking up a job had been registered with the labour office as persons below the age of 25 without a first job, underage employees who completed compulsory school attendance, or long-term unemployed (12+ months of unemployment in the last 16 months). The reduced sum would be provided up to 24 months for young workers or 12 months for previously long-term unemployed persons. However, the amendment has in the meantime been withdrawn from the legislative process due to disagreement in the coalition on the proposed changes.

Broad strategies and measures to tackle unemployment were announced and taken forward in Finland and the UK, respectively. In **Finland** the Minister of Labour launched a new strategic programme entitled 'Restructuring and functionality of the Labour Markets' in December 2011. This will be one of the government's key programmes. It aims to enhance the entire labour market service system and to develop a model of a proactive service system concerning the synergies of work, employment and economic policies. The key outlines of the Programme will be published in spring 2012.

The **UK** government has pledged to 'Get Britain Working' through several measures including the reform of the benefit system; modernisation of the way Jobcentre Plus (JCP) delivers its services; the introduction of 'Work Programme'; a greater focus on partnership-working and a greater focus on results; specific measures relating to the disabled and older people; and encouragement of enterprise and sustained economic growth to help create sustained jobs and businesses. Taken together, these activities suggest that the government is taking a 'joined-up' approach to tackling job creation and labour market disadvantage. Initiatives such as the Universal Credit and Work Programme offer the opportunity to consolidate what has become a fragmented and confusing array of support measures and this should improve their targeting and efficacy. However, they come at a time when their success may be muted by the difficult economic and labour market conditions that are likely to persist for some time.

Efforts to reform and improve services provided to the unemployed were noted in Lithuania and Slovakia. In **Lithuania**, the efficiency and effectiveness of the services provided by the Lithuanian Labour Exchange are to be improved in 2012. A new model of tracking the unemployed will be implemented and in 2012 the PES plans to implement ESF-funded projects aimed at facilitating labour market integration, integration of the disabled, acquisition of professional qualifications by unemployed individuals and those notified of dismissal, etc. In **Slovakia**, a change in the Act on employment services removed the six-month limit on the support for employment to mitigate the impacts of emergency situations (the flood control contribution), with the exception of municipalities where the unemployment rate is higher than 25%. The rationale underlying this exception is to get as many unemployed people as possible in these areas to participate in the activities.

Job creation measures, through for example subsidies and incentives and public work programmes, were mentioned in Hungary and Slovakia. In **Hungary**, measures have been taken to help mothers and people who have been unemployed for more than three months to get back to work. The new START bonus card available from 1 January 2012 (in replacement of the START Plusz card) provides the holder's employer with a 27% social security contribution tax credit for one year without any further obligation. In **Slovakia** nine investment projects (worth EUR 45.8 million) were approved in November 2011 to support the creation of 1 500 new jobs in regions with high unemployment.

3.2.2 Candidate and potential candidate countries

There are were no additional developments in **Croatia** with regard to the JAP, aside from those mentioned above in relation to the National Employment promotion plan. The recession and stagnation which still grip the economy, as well as the limited funds available, made it difficult to reach the JAP targets. Given these constraints, the active labour market measures which were implemented and the EU projects which have strengthened the institutional capacity of stakeholder institutions have kept the rise of unemployment in check, although the fall in employment could not have been reduced at this stage of the recessionary cycle.

In **the former Yugoslav Republic of Macedonia**, in December 2011 the Government adopted the 'Operational Plan for Active Labour Market Policies (OP) 2012'. The Plan envisages the involvement of around 5 800 individuals in active policies in 2012, however this number represents only 2 % of registered unemployment. In **Serbia** too, although the funds for ALMPs carried out by the National Employment Service and the number of participants almost doubled in 2011 compared with 2010, the Government has decided to significantly cut the funds for ALMPs in 2012, hence affecting the quantitative targets of the National Employment Action Plan for 2012.

3.3 Summary

The focus of the 2011 AGS recommendations in relation to helping the unemployed to return to work is on ensuring that 'work pays' and is more rewarding than benefits. The AGS also recommends that Member States ensure adequate protection through unemployment benefits in times of economic downturn. Changes to benefits systems were found in four of the January quarterly reports (Belgium, Lithuania, Slovenia and the UK). Measures which were more common include the introduction of new (or changes to existing) ALMPs, including training provision for the unemployed (e.g. Germany, France, Latvia, Lithuania, Slovakia, Sweden, Croatia and the former Yugoslav Republic of Macedonia). Changes to the PES or other support for the unemployed were also mentioned in a number of countries (e.g. Czech Republic, Germany, France, Lithuania, Luxembourg, Finland and the UK). Job creation measures, such as subsidies or incentives and public works programmes were mentioned in the quarterly reports for Hungary, Slovakia, Iceland and Croatia. Broad strategies or policies relating to the promotion or creation of jobs, or support for the unemployed, were introduced or specified in more detail in Germany (the Law for the improvement of labour market integration), Ireland (the Action Plan for Jobs), Spain ('Strategy for Employment'), Finland ('Restructuring and functionality of the Labour Markets'), the UK (Get Britain Working) and the former Yugoslav Republic of Macedonia (the National Action Plan for Employment). However, several of the quarterly reports noted that austerity measures (Portugal), budgetary constraints (Hungary and Slovakia) and / or the economic and labour market context will hinder the success of the measures and strategies (e.g. Belgium, Slovakia, UK, Croatia).

4 Combat poverty and social exclusion

This section presents those developments in national labour market policies, which have been described in the January quarterly reports and which have been identified as helping to combat poverty and social exclusion.

In relation to this issue, the European Commission's draft Joint Employment Report (JER) for 2011[4] reiterates the policy priorities set out in Employment Guideline 10[5]: preventing and fighting poverty through inclusive labour markets; preventing poverty through adequate and sustainable social protection systems and access to high quality services; investing in active inclusion strategies; and improving labour market prospects for parents to help break the inter-generational transmission of poverty.

4.1 Measures in line with the country-specific recommendations (CSRs) and Euro Plus Pact Commitments

4.1.1 EU-27 countries

In relation to combating poverty, in Bulgaria and Luxembourg, the minimum wage has increased, while in Slovenia a temporary measure, allowing employers to pay their workers a lower minimum wage than the legally established amount, came to an end.

[4] http://ec.europa.eu/europe2020/pdf/3_en_annexe_part1.pdf

[5] http://europa.eu/legislation_summaries/employment_and_social_policy/community_employment_policies/em0040_en.htm

In **Bulgaria,** the increase in the minimum wage has been well received by employers because it imposes changes in the structure of wages and their differentiation, without relation to productivity. In **Luxembourg**, contrary to demands by employers' associations, the social minimum salary will not be frozen but will continue to rise. The government has agreed to pay the proportion of the salary exceeding the social minimum wage when an ADEM-registered jobseeker is hired by a company, on the condition that this company guarantees the permanency of the job. In **Slovenia**, the transitional period during which employers could, by agreement with employees, pay a lower minimum wage than the legally established, ended in December 2011. The transitional minimum wage (which was used when payment of the full minimum wage would otherwise cause major layoffs or failure of companies) was EUR 698.27 gross and was used by 1 611 employers, covering between 7 000 and 8 000 employees in 2011. From 1 January 2012 employers will be required to pay the full minimum wage of EUR 748.10 gross.

Changes to benefits systems were noted in Lithuania and the Czech Republic. In Lithuania, the conditions for receipt of cash social assistance have been simplified, while in the Czech Republic administrative procedures for the payment of benefits have been simplified.

- In **Lithuania**, the aforementioned Law on Cash Social Assistance has simplified the conditions for receiving cash benefits when they are needed most (for example, in case of loss of work income).
- In the **Czech Republic**, efforts to unify the activities of PES local offices and municipal welfare offices in terms of payments of benefits to the registered unemployed are also still ongoing. Under the Social Reform Package part II, the number of distinct social benefits is to decline from 18 to 8 by about 2013. For now, benefits are to be processed and paid out by DLOs as of January 2012, in order to simplify administrative procedures.

Several specific groups have been identified for additional support or targeted measures, including young people (e.g. Bulgaria, Estonia, France, Spain, Finland and the UK), older workers (e.g. Estonia, Spain) and the long-term unemployed (e.g. Estonia and Finland).

In **Estonia**, in order to improve the effectiveness of active labour market policies, in December 2011 the government approved the new Employment Programme 2012-2013, which took effect on 1 January 2012. The programme regulates the provision of labour market services and benefits and sets out target groups for these services (e.g. persons who are still employed but have received notice of redundancy, persons who are not registered as unemployed etc.). In addition, ESF continues to support public sector labour market measures in **Estonia** and in December 2011 EUR 6.65 million was made available for projects supporting the return to the labour market of older workers (aged 50-74) and young people (16-24).

The Unemployment Insurance Fund of **Estonia** is working with local governments to tackle long-term unemployment. Allocating tasks to local government to tackle long-term unemployment enables the Unemployment Insurance Fund to concentrate on providing labour market services and combine these with the social services that are the responsibility of local government.

The main tools and services promoted by the aforementioned **Spanish** Strategy for Employment are: the development of tailored actions of professional assessment, information and motivation; training; apprenticeships; and subsidies. The subsidies vary from social security rebates to direct payments, and may be received by employers, the self-employed or entrepreneurs, and usually differ depending on the profile of the worker. The strategy includes additional measures for the employment of persons with special difficulties, such as the young, older workers (especially over 55 years old), women, disabled and persons at-risk-of social exclusion. Entrepreneurship is included as a complement to most employment measures. The strategy also aims to bring the PES closer to companies by regularly asking them for information on vacancies and skills demands. Finally, the strategy points to a reduction of the weight of social security rebates to companies within ALMP expenditure.

Subsidised contracts are being used to support youth employment in France, Luxembourg and Bulgaria. In **Luxembourg** the existing employment initiation contracts (CIE) and employment support contracts (CAE) for young people will be continued into 2012, in the light of increasing youth unemployment. In **France**, the government decided to give additional support to subsidised contracts (CUI-CAE and CUI-CIE) in particular in the first semester of 2012. In addition a new type of subsidised contract will be implemented from January 2012: a contract of seven hours per week for RSA (social benefit) beneficiaries for work carried out in non profit organisations or public authorities. These new contracts will be tested in 12 local authorities and can be remunerated at the minimum legal level (i.e. EUR 214 per month).

In **Finland**, one of the CSRs is to target active labour market measures better to the long-term unemployed and young people. Two measures are involved: the Youth Guarantee (a Guarantee of support within a certain timeframe for young persons under 25 years and those under 30 who are newly graduated from education, which will take full effect in 2012); and an experiment to give responsibility for the long-term unemployed to the municipalities.

Youth unemployment and inactivity continue to present a policy challenge for the **UK** government. In November 2011 the government announced a new package of measures to tackle youth unemployment with an associated cost of around GBP 1 billion (EUR 1.2 billion) over the next three years. It is being labelling as a 'Youth Contract' and is expected to provide almost 500 000 new opportunities for young people. The government also announced special help for 'the most vulnerable' 16-17 year olds not in employment, education or training (NEET) to get them back into education, an apprenticeship or a job with training (at a total cost of GBP 150 million, EUR 182 million). The **UK** government claims that these are different to previous measures over the past decade, in that they are focused on 'equipping young people with the skills and opportunities to gain long-term sustainable employment in the private sector'. While the new approach is to be welcomed, it is difficult to see how it can achieve its overall aim of placing young people in sustainable private sector jobs in the current labour market conditions.

In the **Netherlands**, in order to stimulate labour market participation, the Dutch government has developed a new Act on Work and Welfare (Wet werken naar vermogen, WWNV) which will be introduced from January 2013 and replaces three current laws. Its principles are that: everyone who is able to work is expected to support themselves as much as possible; people can go to their municipalities for assistance or guidance to find employment; and employers will receive assistance in order to simplify the hiring of disabled workers.

As a consequence of this new law, the municipalities are expected to spend less money on sheltered workplaces (sociale werkplaatsen) since the government wants disabled people to move to regular employment. Cedris, the union of sheltered workplaces, on the other hand, states that more money should go to these workplaces, since that would lead to an additional 125 000 entering work. As a step towards the new Act, the government has made some restrictions on obtaining welfare for all new claimants as of January 2012. From now on, the income of the total household will be taken into account (including the income of children over 16 living at home). Although the government reasons that the new Act improves labour market participation, there are no studies on this. The measure should perhaps rather be seen as an attempt to cut budgets, and to decentralise responsibilities to local government .

4.1.2 Candidate and potential candidate countries

In the European Commission's annual overview of enlargement policy and the progress made towards EU accession, the chapter on freedom of movement of workers indicated good results in **Croatia** in strengthening the capacity of the employment service to join EURES. Better cross-institutional cooperation seems to have been developed between the employment service and the social welfare centres. However further links need to be supported in the future in order to achieve better results in terms of social cohesion and employability of welfare recipients.

4.2 Measures to meet the employment rate target, or adopted as part of the 2011 National Reform Programmes (NRPs)

4.2.1 EU-27 countries

Measures to ensure a certain income for people at-risk – through minimum wages (Germany) and benefits (Germany and Sweden) – were also mentioned in the quarterly reports for Germany and Sweden.

In **Germany**, minimum wages for all companies will be introduced in certain sectors, taking to 11, the number of sectors regulated by mandatory minimum wages. In addition, the Government coalition of Christian Democrats (CDU/CSU) and the Liberal Party (FDP) – which objected to the introduction of a general minimum wage for a long time – is now preparing new legislation for a national minimum wage. Social partners will have to decide on the level of the minimum wage and the Government will declare it mandatory for all labour contracts.

In addition, as part of the reform of the social benefits system, basic income benefits have been raised in **Germany** to take account of rising living costs. They follow the repeatedly expressed wishes of charity organisations and trade unions to provide a sufficient level for subsistence incomes. Similarly in **Sweden**, some measures aim at sustaining or increasing disposable income for households with low or average income, for example the increase of housing allowances for young people, families with children and pensioners.

In **Finland**, a new Collective Framework Agreement was agreed at the end of November between the labour market parties. The coverage of the agreement is 94 % of the labour market, comprising 2 million wage earners. It will be in effect for two years and the increase in wages is about 2.1 % per year. The national government has promised certain measures 'in return', including a EUR 400 million 'support package' of tax relief for employers, and has promised not to raise taxes for wage-earners, as well as withdrawing some proposed increases, such as the anticipated rise in unemployment insurance fees. In combination with the wage-agreement, some changes concerning working-time, extending paternity leave and on the Law of Cooperation (Yhteistoimintalaki) were also agreed in **Finland** this quarter.

Measures to support vulnerable groups at a distance from the labour market were found in several countries. Specific groups identified as needing additional support included the disabled (Bulgaria and Hungary) and young people and immigrants (Sweden). Measures ranged from training to public works and the promotion of the social economy.

The **Bulgarian** 'Plan for Employment in 2012' was adopted at the end of December 2011. The indicators planned for 2012 aim at stabilising employment and controlling unemployment rather than making serious changes. Within the Plan, the most popular programmes for vocational training and employment are scheduled to continue, albeit with some changes. A national initiative 'Jobs for Young People in Bulgaria' 2012 – 2013 will be launched, which will include specialised mediation and vocational training according to the needs of young people. The successful implementation of schemes for training the employed and unemployed through vouchers, such as the 'Development', 'I Can' and 'I Can More' programmes will also continue in 2012. New initiatives will be launched to promote the social inclusion of people with disabilities, by providing services in the home environment. In addition, it is expected that the employment of unemployed as personal assistants for people with disabilities will increase further. In addition, in 2012 the Bulgarian social economy will be stimulated by the implementation of two ESF schemes which will focus on the social inclusion of people with disabilities and the creation of social capital through support for municipalities to promote local employment of persons at risk.

In **Sweden**, the Government announced its intention to increase the overall employment target to well over 80 % for men and women aged 20-64 years. The target appears to be achievable and could be attained within the timeframe, obviously conditional upon the overall economic situation. The increase in employment rates should therefore primarily be achieved in groups with a weak foothold in the labour market, such as immigrants.

In order to ease the transition from school to work the **Swedish** Government has introduced two new forms of employment contract for young people – apprenticeships and trial apprenticeships. In addition, the reduction of VAT on restaurant and catering services, from currently 25 % to 10 % with effect from January 2012, is primarily expected to increase labour demand for young people. In addition, the Government has taken several other measures aimed at improving labour market integration of newly arrived immigrants (following similar measures in 2010).

Among the measures for increasing social inclusion in **Slovenia**, the most important one at the end of 2011 was public works. The Employment Service (ESS) issued a new tender for public works for the activation of unemployed people in 2012, with a budget of EUR 19 million.

4.2.2 Candidate and potential candidate countries

In the **former Yugoslav Republic of Macedonia**, there were three proposals for amendments to labour legislation in the last quarter of 2011:

- Changes proposed to the 'Law for employment and insurance in case of unemployment' would bring an end to the extension of unemployment benefit duration beyond the 'regular' maximum of 12 months.
- The social partners (the Economic and Social Council) agreed to set a legislative national level minimum wage.
- Proposed amendments to the Law on mandatory social security contributions increase the maximum monthly floor for payment of social contributions and also propose changes in the rates of social insurance contributions (the Pension and Disability Insurance).

Finally, the Ministry of Labour and Social Policy in **the former Yugoslav Republic of Macedonia** is currently considering additional changes to the Law for employment and insurance in case of unemployment, in order to clearly separate active jobseekers (i.e. unemployed) from persons that register with the public employment service (ESA) but are not actively searching for a job (usually inactive or informally employed persons). This would enable ESA to provide better services to those in need and to more effectively use the limited public resources.

4.3 Summary

In relation to combating poverty, four countries have focused on minimum wages as a way of addressing low pay amongst those in work (Bulgaria, Germany, Luxembourg and the former Yugoslav Republic of Macedonia). Others have focused on benefits as a means of ensuring a reasonable income for at-risk groups (Germany, Sweden, Lithuania and the Czech Republic).

With regard to active inclusion, some countries have set out plans to support at-risk groups through ALMPs and other labour market measures, e.g. Estonia's Employment Programme 2012-203. Targeted efforts for specific groups were mentioned in relation to young people (Bulgaria, Estonia, France, Spain, Luxembourg, Finland and the UK), the disabled (Bulgaria, Hungary, Spain), older workers (Estonia, Spain) and the long-term unemployed (Estonia, Finland).

5 Invest in education and training

This section presents those developments in national labour market policies which are related to education and training, as described in the January quarterly reports.

The JER explains that a strong human capital base is the key to sustainable growth, employment and international competitiveness and stresses that Member States should continue, in line with Integrated Guidelines 8 and 9[6] and with the Strategic Framework for European cooperation in education and training (ET2020)[7], in reforming their education and training systems and equipping people with higher and more relevant skills and key

[6] http://ec.europa.eu/eu2020/pdf/Brochure%20Integrated%20Guidelines.pdf

[7] http://europa.eu/legislation_summaries/education_training_youth/general_framework/ef0016_en.htm

competences. This includes for example taking steps to: ensure that people have the right mix of skills and competences, including by improving the responsiveness of training systems; develop measures and tools to anticipate and prepare projections of future skills gaps and needs; promote access to lifelong learning; tackle early school leaving; and ensure that more people can acquire the highest qualification levels.

5.1 Measures in line with the country-specific recommendations (CSRs) and Euro Plus Pact Commitments

5.1.1 EU-27 countries

In Denmark and Estonia, the governments have set out goals relating to educational participation and achievement. In its programme for 2011-2015, the **Estonian** government has set a goal for at least 95 % of all children to attend pre-school education. To improve attendance rates, the government is investing, together with EU co-funding, in the creation of pre-school places for children and implementing access to childcare. In **Denmark**, the new government programme includes the ambitious goal that by 2015, 95 % of a youth cohort must complete upper secondary education, while 60 % must complete higher education. At the same time 25 % of a youth cohort must complete long-cycle higher education. As a step towards fulfilling this goal, the public budget for 2012 allows for the creation of 10 400 extra apprenticeships and 1 500 new traineeships in vocational schools,. Moreover, DKK 70 million (EUR 10 million) will be set aside to improve the quality of vocational education.

Apprenticeships and / or dual training are also the focus of policies in Belgium and France. The **French** government has proposed to develop further 'alternance' training (professionalisation and apprenticeship contracts) in order to reduce youth unemployment. In **Belgium**, while industrial apprenticeship and vocational training remain community matters, the powers relating to placement and apprenticeship systems for jobseekers will be transferred to the regions, so that each region may carry out its own policy for placing people in employment, which will be all the more suitable for its specific socio-economic situation. In addition, in order to encourage sandwich courses which include internships, the **Belgian** government will align the status of people following different types of apprenticeship as part of an educational course, in accordance with advice from the National Works Council, in collaboration with the Communities and Regions.

Other countries have set out plans for budgets and financial allocations to the education and training sector. In **Austria**, one of the commitments is to address the financial situation of universities and universities of applied sciences. In **Belgium**, the focus is on reaching the goal that 3 % of GDP should be spent on R&D (2 % for the private sector and 1 % for the public sector). In order to reach this goal, the coalition agreement plans to set up an inter-federal research and innovation Plan. In the **Netherlands**, the government is currently debating whether to stop converting study allowances into gifts and also whether to end students' free access to public transportation, in order to cut costs.

New legislation relating to education and training and proposed reforms have been put forward in Bulgaria, the Czech Republic, Austria and Sweden.

- New legislation on education, science and youth is in development in **Bulgaria**.
- The **Czech** Strategy for International Competitiveness for 2012-2020 proposes specific policies for improving competitiveness through policy changes at all main education levels, but the implementation details are not yet clear.
- In **Austria**, where one of the CSRs focused on improving educational outcomes and preventing school drop-out, the Parliament approved the reform of the Vocational Education Act in December. Its main objectives are the reduction of the drop-out rate of apprentices and the stimulation of companies to offer apprenticeships.
- In **Sweden**, the already implemented and planned reforms of the educational system with stronger emphasis on vocational training and apprenticeship may also have positive effects on the integration of young people into the labour market, which should be a priority according to the Swedish CSRs.

Anticipating and preparing for skills gaps is an area of development in **Bulgaria**, where in December 2011 an ESF-funded project to design a system for forecasting labour demand was finalised. The results will be used to help better plan the vocational training courses organised by the labour administration.

Another development in **Bulgaria** is the development of an advanced rating system for colleges and universities. In February 2012 the final version of this system will be published but for now the draft of these criteria has been elaborated and released for public discussion.

5.1.2 Candidate and potential candidate countries

In **the former Yugoslav Republic of Macedonia**’s PEP, there are measures and reforms at all levels of education, from primary to tertiary, as well as in the areas of research and innovation, adult education, lifelong learning and non-formal education. Based on the Europe 2020 targets, national priorities in the area of education include a reduction in the rate of early school leaving and an increase in the share of persons with tertiary educational attainment. However, the target for early school leaving is 14 % (compared to 10 % in the Europe 2020 Strategy) and 19 %for the share of persons aged 30-34 with completed higher education - much lower than the EU 2020 target of 40 %. In general, the measures in the area of education focus more on increasing the educational attainment of the population than on improving the quality of education. In particular, at all levels of education, the focus is on quantity and inputs, instead of outputs and learning achieved. However, if policies fail to provide the quality, a higher quantity of education might not bring higher human capital and future growth.

5.2 Measures to meet the employment rate target, or adopted as part of the 2011 National Reform Programmes (NRPs)

5.2.1 EU-27 countries

Several quarterly reports mentioned new laws, changes to existing legislation, reforms or broad plans for the education and training systems in their countries, including Cyprus, Latvia, Luxembourg, Hungary, Romania and Sweden.

In **Cyprus**, a training programme aims to strengthen the capacity of educators and trainers to deliver lifelong learning. A number of programmes co-funded by the ESF support schools (kindergarten, elementary and gymnasium) in Zones of Educational Priority, where extra support services are offered to groups such as immigrants, asylum seekers and refugees.

In July 2011 the **Latvian** Parliament passed amendments to the University Law, which implement a new accreditation system designed to reduce fragmentation and costs and to cut out red tape. The amendments also include more stringent requirements for curriculum development and licensing and the selection of academic staff. The measure is expected to promote better quality higher education, but it seems to only marginally address the major systemic quality problems of higher education in Latvia.

In **Luxembourg**, the Ministry of Education and Vocational Training presented in December 2011 long-awaited secondary school reforms, which have been met by a wave of strong protest voiced by unions, teachers and students.

In **Hungary**, the law on vocational education restructures secondary vocational education with effect from 2012, to provide for three-year education, including substantial work and practice placements. In addition, the system of vocational education contributions is reformed, directing all payments (1.5 % of gross wages) to a central fund, prohibiting the direct financing of training programmes by the employer. This measure can fight fraud, but may result in a more inefficient allocation of funding.

Also in **Hungary**, the Act on public education (to be implemented gradually from 2013-2014), re-regulates the ownership, structure and control of the curriculum in kindergarten, primary and vocational education. The Act on higher education (implemented gradually from 2013) introduces tuition fees to a much larger share of new students than before along with a new credit scheme. Non-paying students will receive a national scholarship, part of which they have to repay upon leaving the country. It re-introduces pre-Bologna five-year degrees and aims to direct more students towards science majors. However, there are some flaws; the first Act is unlikely to address the skills deficit among the disadvantaged but instead is likely to produce an increasing number of low-educated youth. The second Act is likely to decrease the number of higher education graduates, going against international and previous national trends.

The **Romanian** law on apprenticeships, while very comprehensive, was also rigid and presented conditions and restrictions that were difficult for employers to adhere to. These included a legal requirement for the employer to provide a meal and accommodation for the apprentice, and for the designated supervisor to obtain a nationally recognised diploma as a 'certified adult trainer'. These conditions have now been removed, although certification of apprenticeship completion is mandatory and has to be done through a certified assessment centre. There has also been a reduction in the subsidy employers receive during the apprenticeship.

The above has to be viewed in the context of the attempt made by the **Romanian** Government to create a minimum of incentives for employers so as to encourage them, if not to create new jobs, at least to maintain current jobs and invest in human resources, in particular young people. However, while some of the burdens that were placed on employers have been reduced, by linking the subsidy paid to the employer to the value of social protection benefits, including unemployment benefit, it induces a dangerous confusion between the source of funding (the apprenticeship subsidy is financed from the unemployment insurance fund) and the purpose served by the funding, i.e. which is here not social protection, but the support given to an enterprise for job generation and specific *investment* in human resources. Furthermore, the subsidy should be sufficient enough to cover a significant part of the costs incurred when assuming such contracts, yet at the current level this is unlikely.

In **Sweden**, the Government had already pre-announced that 2011 and 2012 would be the two most intensive years of reforms in the history of the educational system. Educational measures targeting adults were adopted in December 2012. A programme to bring more people into regular education in the form of a temporary increase in the number of places in vocationally oriented upper secondary adult education and vocational higher education has also been adopted. Furthermore the Government has announced a two-year extension of the programme to provide additional places in folk high schools and a one-year extension of the higher study grant for young people participating in the job guarantee schemes and returning to compulsory or upper secondary level education. In order to strengthen teachers' competences, professional certification for teachers and pre-school teachers took effect in July 2011 and will be completely implemented in January 2012. In order to raise the status and the wages of teachers, the Government has adopted a reform of the career structure in the teaching profession. A title of 'senior subject teacher' (lektor) for teachers with a licentiate or doctoral degree who have demonstrated educational skill over a period of several years will lead to more in-depth subject knowledge in schools.

In **Luxembourg**, a general guidance and orientation service (Maison de l'Orientation) – as announced in the 2011 NRP – will be operational in 2012. Its creation is linked to both educational reforms and changes in the management of youth unemployment.

Also in Luxembourg, in November 2011, the National Agency for the European Education and Lifelong learning programme (ANEPHORE) launched the project S3L to investigate how lifelong learning is perceived in Luxembourg. The results will inform a White Paper on lifelong learning strategies.

In **Finland**, a long-term forecast on the demand for labour until 2020 was made with a new forecast model in 2009 (published in 2010) by the Government Institute of Economic research (VATT). In response to this forecast, adjustments to educational intake and emphasis have been made and the Ministry of Education and Culture suggested increases in social and health education and reductions in cultural, technical, natural sciences, as well as some others. This work has continued in the last quarter of 2011.

5.3 Summary

The most common developments cited in the quarterly reports relating to education and training were new laws, changes to existing legislation, reforms or broad plans for the national education and training systems, which were noted in around a third of the countries covered by the quarterly reports (Bulgaria, Czech Republic, Denmark, Estonia, Cyprus, Latvia, Luxembourg, Hungary, Austria, Romania, Sweden and the former Yugoslav Republic of Macedonia). In other countries plans were set out in the last quarter of 2011 for financial allocations to the education and training sector. Apprenticeships and work-based learning have been prioritised in Belgium, Denmark, France and Romania, while research and skills forecasting projects have been taking place in Bulgaria, Luxembourg and Finland.

6 Balance security and flexibility

This section presents those developments in national labour market policies, which aim to balance security and flexibility and which are described in the January quarterly reports.

The 2011 AGS identifies two actions that Member States could take in this area. These are to introduce more open-ended contracts to replace existing temporary or precarious contracts, in order to improve employment perspectives for new recruits, and to simplify regimes for the recognition of professional qualifications to facilitate the free circulation of citizens, workers and researchers.

6.1 Measures in line with the country-specific recommendations (CSRs) and Euro Plus Pact Commitments

6.1.1 EU-27 countries

In Estonia, Lithuania, Hungary, Portugal and Romania, steps have been taken towards increasing labour market flexibility. In **Hungary** for example, the New Labour Code (with effect from 1 July 2012) aims to make contracts more flexible.

In **Estonia**, the underlying principle of the labour law reform in 2009 was the implementation of flexicurity principles. At the same time, most of the changes that were supposed to increase social security in the labour market were deferred to 2013 in order to keep labour market costs under control during the economic crisis. Thus, while labour market flexibility has increased considerably, the social protection system did not change. It will be important to even out these developments so that the flexicurity approach can be balanced in the labour market.

The **Lithuanian** Ministry of Economy has recently issued a proposal to apply more flexible employment conditions for employees earning more than LTL 6 500 (EUR 1 884) per month. According to the proposal the Labour Code's provisions concerning the grounds for dismissal from work, periods of notices of dismissal, the amount of severance pay, working hours, time of rest and leave would not be applied to this category of employees and instead they should negotiate a separate arrangement with their employer. So far, no agreement has been reached on the issue.

In **Portugal**, the government started tripartite negotiations at the Standing Commission for Social Concertation in the third quarter of 2011 under the general title of 'Compromise for Growth, Competitiveness and Employment'. These negotiations focused on changes in employment and labour legislation in order to implement the stipulations of the Portuguese MoU of 17 May 2011. Some proposals have already been approved by the Parliament, namely the legislation on severance pay in case of dismissal (8 September 2011) and the law that allows extraordinary renewals and extensions of fixed term contracts (9 December 2011) but none were backed by an agreement from the social partners.

In **Romania**, the amended Labour Code has introduced new provisions that extend the scope for the use of fixed-term contracts. This largely removes any barriers that still existed while in the meantime providing all employees, regardless of the duration of their contract, with the same rights, thus avoiding any kind of unwanted and damaging labour market segmentation. At the end of 2011 the Government also eased regulation regarding the authorisation of temporary work agencies. The new norms will allow not only companies but also NGOs to apply for authorisation as temporary work agents.

The **Romanian** Government has also taken steps to increase security on the labour market for certain types of workers. The legal framework has now been completed for daily labourers (and applying widely in agriculture and in construction) so that they can be legally employed without resorting to the relatively strict provisions of the Labour Code. Tax (a flat rate of 16 %) is levied on daily incomes via the purchase and subsequent daily application by the employer of a fiscal stamp into the individual 'booklet' (carnet de zilier) of each daily worker. Incomes of daily labourers are therefore paid daily and a special register, subject to verification by the Labour Inspectors, is to be kept by all employers resorting to this type of labour. Daily labourers cannot be employed continuously for more than 60 days and their incomes are not subject to social security contributions of any kind. However, daily labourers are free to make a voluntary contribution to any of the mandatory social protection schemes (i.e. health, unemployment, pensions). This law can therefore be considered as an example of simplicity and flexibility, which may also have some impact on the incidence of undeclared work.

In **Germany**, the labour market has been the major concern of economic advisors in recent years and recommendations were made to reduce employment protection, introduce flexible wages and improve external flexicurity. However, well protected jobs, cautious changes of wages and internal flexicurity were the main instruments by which Germany passed through the crisis with great success. Stable jobs were the precondition for a rapid recovery, and fair remuneration was the precondition for high productivity.

Nevertheless, there are areas where flexibility is strongly needed in **Germany** and the following labour market related issues need to be addressed:

- Entries to skilled jobs depend largely on formal vocational training. This appears to be an important barrier, particularly for less skilled adult workers. A transparent validation scheme for all professions – including university grades – is needed, which evaluates job experience and informal learning in a fair way.
- The reform of general education at upper secondary level still is very slow. The Federal Government needs to set targets according to the PISA standards and supervise efforts at the Länder level in an open process of coordination.
- Little progress can be discerned in the area of equal access to education and training. In contrast, due to the shortening of high-school education to eight years, the number of potential university students increased considerably in 2011. The reported overcrowding of universities can be expected to generate a crowding-out effect, which will lower the total volume of university graduates and favour students from high-income families.

Developments in relation to wage setting arrangements and collective bargaining were identified in the quarterly reports for Ireland, Luxembourg, Portugal, Romania and Slovenia.

Wage setting systems are one of the aspects covered in **Ireland**'s MoU. In December, the government set out, in a Bill, the revised legal provisions which will apply to 'Registered Employment Agreements' (REAs) and 'Employment Regulation Orders' (EROs). These measures apply mainly in certain sectors with sizeable numbers of low paid workers and provide a legal framework within which employers and workers can agree statutory arrangements concerning pay and conditions of employment. This is done mainly through what are termed 'Joint Labour Committees' (JLCs) whose number will be reduced from 13 to 6. JLCs will be more restricted in the extent to which they can award changes in rates of pay and companies will be able to derogate from EROs in cases of financial difficulty. In addition, the Bill puts the ERO/REA system on a more secure constitutional basis by providing for Ministerial and Parliamentary oversight and clarifying the definition of 'participating parties' (i.e. employers and trade unions, or groups thereof).

In **Luxembourg**, substantial progress has recently been made regarding arrangements for wage setting and collective bargaining. The latest Competitiveness Report underlines that the Euro Pact has to some extent brought the issue of competitiveness back into the limelight. In July 2011, a wage agreement had already been concluded in the public sector for 2011-2012 and a bi-partite agreement already discerned a wage setting agreement for 2011 in the private sector. However, broadly speaking, collective bargaining between the government and the social partners came again to a halt in December 2011 with the end of tripartite negotiations. The government decided to take action on its own through new legislation that - similar to the consensus-based tripartite agreement of 2006 - stipulated a temporary modulation of wage indexation for 2012-2015. The underlying draft legislation, introduced in Parliament on 22 December 2011, stressed that competitiveness has to remain a permanent issue of concern but that elements which do not figure within the price/cost dimension of the concept also form an integral part of competitiveness. In terms of achieving a balance in the public deficit, the current wage setting proposals only make a modest contribution, as a suppression of wage indexation forecasted for March 2012 saves up to EUR 50 million.

On 7 December 2011, the **Portuguese** government approved a bill for a temporary and exceptional increase of normal working time. This law would allow employers during the period covered by the MoU to oblige workers to do extra work of 30 minutes per day or 2.5 hours per week, unpaid. This is strongly opposed by the trade unions.

One of the four commitments of the MoU in **Romania** is to implement reforms allowing the wage-setting system to align itself with productivity developments. Progress has already been made against this commitment, as the amended Labour Code severs the link between salary evolutions in the public and private sector, especially in terms of the minimum salary, where the impact was considerable. In addition, according to the new Social Dialogue Code adopted in May 2011, national collective bargaining is no longer compulsory. The Code also strengthens the principle of representativeness of the social partners, as eventual agreements concluded at sector level will only be applicable at enterprise level if unions in a given enterprise are affiliated to a sector-representative federation. The Tripartite Council, a newly established,, will have the role of ensuring that these basic provisions, especially those relating to representation and representativeness, are observed.

Ireland, Lithuania and Malta introduced legislation related to temporary work (agencies) during this quarter. In **Ireland**, from 5 December 2011 all temporary agency workers assigned to a hirer are entitled to equal treatment in terms of basic working and employment conditions as if they had been directly recruited by the hirer in the same job. In **Lithuania**, new amendments in December 2011 will categorise contracts made between temporary work agencies and temporary workers as temporary work agreements. In **Malta**, legislation regulating temporary work agencies came into force in January 2012. It has been called for especially by employers and women’s organisations, and gives more flexibility to enterprises, offering a means for people who cannot (or do not want to) work full time, to join the labour market on a temporary basis.

6.1.2 Candidate and potential candidate countries

In **Serbia**, in the context of the implementation of the Stand-by Arrangement with the IMF, increasing labour market flexibility is one of the priorities for reform. However, the labour law amendments submitted to the Social and Economic Council for consideration (extension of the maximum length of fixed contracts from 12 months to three years and the recalculation of severance benefits for redundant employees based on employment history with the last employer, instead of the entire employment period of a given employee) were rejected in October 2011. After this failed attempt, the Labour Minister proclaimed that no further attempts to change the labour law would be made before the next elections (May 2012).

6.2 Measures to meet the employment rate target, or adopted as part of the 2011 National Reform Programmes (NRPs)

6.2.1 EU-27 countries

In **France**, social partners have been working on solutions to facilitate the use of short time working arrangements (STWA) and have agreed to simplify the complex scheme currently in place. Although some progress was expected during the social summit of 18 January 2012, no agreement had been reached at the beginning of January.

In **Poland**, from the end of 2011 the temporary provisions of the Act of 1 July 2009 to mitigate the effects of economic crisis for workers and entrepreneurs (individual schedule of work, reduced working time, etc.) ceased to apply. At the meeting of the Tripartite Committee on Socio-Economic Affairs on 19 December 2011 the government submitted proposals for further legislative work: starting work on a new temporary anti-crisis act, introducing on a permanent basis in the Labour Code the possibility of extending the settlement period of working time up to 12 months and the application of individual working time schedules or continuing work on the complex regulation of working time included in a new section 6 of the Labour Code.

6.3 Summary

While Hungary, Romania and Poland have introduced increased flexibility in their labour markets, there have been calls to do so in Germany and Lithuania. In Estonia, it is noted while labour market flexibility has increased considerably since 2009, changes in the social protection system have been deferred to 2013, so further effort is required to balance flexibility and security in the country’s labour market.

Developments in wage setting and collective bargaining took place in Ireland, Luxembourg, Portugal, Romania and Slovenia during the last quarter, while Ireland, Lithuania and Malta have taken steps to regulate temporary work agencies.

7 Reform of pension systems

This section presents developments in national labour market policies, which take forward reforms of pension systems, and which are described in the January quarterly reports.

The 2011 AGS states that fiscal consolidation in the EU should be supported by reforms of pension systems to make them sustainable. These reforms should include increasing the retirement age and linking it with life expectancy (where this has not already been done); reducing early retirement schemes and using targeted incentives to employ older workers and promote lifelong learning; supporting the development of complementary private savings to enhance retirement incomes; and avoiding the adoption of measures relating to pension systems which undermine the long term sustainability and adequacy of the public finances of the country in question.

7.1 Measures in line with the country-specific recommendations (CSRs) and Euro Plus Pact Commitments

7.1.1 EU-27 countries

In Belgium, the Czech Republic, Denmark, Greece, Hungary and Austria, steps have been taken to limit early retirement during the last quarter of 2011. In Belgium, measures to favour the employment of older workers will also be taken in 2012.

In **Belgium**, reforms linked to pensions emphasised the minimum age for early retirement. Today, a 60-year-old worker who has worked as a salaried employee for 35 years and/or has been self-employed can take early retirement, the legal age being fixed at 65. In 2016, the same worker will only be able to draw his pension from the age of 62 and must give evidence of having worked for 40 years. This increase in the effective retirement age will be applied progressively between 2012 and 2016 (rising by six months every year). In addition, special schemes which allow for retirement before 60 or 65 will be progressively limited (in the public sector) or abolished (private sector, civil aviation pension). Also, for civil servants who have not reached the age of 50 by 1 January 2012, the number of years taken into consideration for pension calculations will be raised. Finally, certain rules have been put into place which prevent the inclusion of certain non-working periods in the pension calculation, such as voluntary career breaks, etc.

In general, the cost of early retirement to employers will be increased in **Belgium,** by changing the social security contributions payable by employers according to the age at which early retirement is taken. In addition, part-time early retirement will no longer exist from 2012. The term ‘early retirement’ has been renamed ‘company-supplemented unemployment’. Aside from limiting early retirement, three other measures will also be applied from 2012 favouring the employment of older workers.

In the **Czech Republic**, further restrictions will be imposed on early retirement. In particular, the sanction (in terms of pension levels) imposed on those who retire before the statutory retirement age is to increase further. As with other pension eligibility rules, the new policies include dramatic (sub-optimal) discontinuities in the relationship between the contribution period and the pension level.

In **Denmark**, the reform of the voluntary early retirement pension (VERP) was agreed by a vast majority in Parliament on 19 December 2011. The new legislation gradually reduces the duration of the VERP to three years and has the following elements:

- the early retirement age is gradually increased from 60 to 64 years;
- the early retirement period is gradually shortened from five to three years;
- deductions from the VERP for private pension schemes are sharpened so that it will no longer be as beneficial for people with large private pensions to retire early.

The three-year retirement will be fully implemented by 2023. Since the early retirement rules will be changed significantly, all individuals aged less than 60 who have contributed to the VERP, will have the option to get their contributions back during 2012. For example, if someone has paid contributions to the VERP since 1999, they will receive a payment of about EUR 9 000. An expected side effect of this is a rise in private consumption. The overall effect of the reform, combined with the reform of the unemployment benefit system, is expected to increase labour supply by about 80 000 persons by 2020[8], even though the exact magnitude of the effect is uncertain.

One controversial issue in **Denmark** is related to access to disability pension, which will be opened for older workers in parallel with the reform of the VERP. Under the heading ‘senior disability pension’ the new scheme is intended to assist those older workers who can no longer benefit from the VERP. The new pension is open to older workers with an employment record of at least 20-25 years and with less than five years until they enter the old age pension scheme. In principle, the criteria for qualifying for ‘senior disability pension’ are the same as for the normal disability pension but the procedure is simplified and has thus been described as a ‘fast-track’ to disability pension, even though the number of older workers who will actually be able to substitute the VERP with a disability pension is difficult to estimate.

In **Hungary**, the Law on the comprehensive review of early retirement schemes (passed by the Parliament, in effect as of 1 January 2012) removes all forms of retirement prior to the legal age and transforms almost all existing payments into welfare transfers, regulated separately (although women with more than 40 of service years are still an exception).

In **Austria**, ensuring sustainability and adequacy of the pension system (one of the CSRs) has been high on the public agenda in the last months. One example of the government’s wish to change the practice of using early retirement schemes as a tool for staff reduction in state-owned companies or companies under state influence is the recent abolition of early retirement for Austrian Federal Railways (ÖBB) employees from 1 January 2012. The main impact of this measure is more symbolic than an actual reduction of public expenses. The current negotiations on the austerity package also include further aspects of the pension system. Most of them have been tackled by the Bad Ischl strategy paper of the social partners presented in October 2011. The main issues in the debate are the increase in women’s statutory retirement age, the abolition of the ceiling for deduction in pension payments in the case of early retirement and the introduction of a bonus-penalty system. Concerning invalidity pensions, a more restrictive access is under discussion.

In **Greece,** in the area of pension reform, before reforms introduced in late 2011, Greek barbers and hairstylists could retire early at 55, on an average pension of about EUR 800. Hairdressers have now been struck off the list of jobs deemed ‘arduous and hazardous’ under a reform aimed at curbing early retirement and supporting an endangered pension system. Now, Greek barbers cannot retire before 65, the statutory retirement age after the sweeping pension reform, unless they have worked for at least 40 years. In fact, fewer than 10 % of Greece's nearly 5 million workers will now be able to retire before 65. The latest pension reform has now put men and women (who could retire as early as 40), on an equal footing. This is a significant change in a country where all pensions are state-funded.

[8] See Økonomi- og Indenrigsministeriet: *Økonomisk redegørelse, December 2011 [Economic report, December 2011],* p. 19 (www.oim.dk)

Also in **Greece**, IKA, the largest social insurance and pension fund covering the vast majority of Greece's employees, recently announced that 32 000 of the pensioners on its payroll are still unaccounted for after a census that ended on 30 September 2011. IKA's management expects that the picture concerning who is eligible to receive a pension will be fully elucidated by the end of 2011 and has repeatedly stated that it will sue for the return of any funds wrongfully claimed.

Recent reforms in **Belgium's** pension system include stopping survivors' pensions and only paying the age supplement (increased benefit) for unemployed older people to people aged over 55 (instead of 50 today), starting from 1 July 2012. The principle of availability to work will be increased to 60 years old as of 2013 and to 65 in areas where there is a low rate of unemployment. Active follow-up of this availability will be intensified and extended to the unemployed over the age of 50 (up to 55 in 2013 and 58 in 2016) and to the (so-called) early retirees. Over time, this competence, which is currently held by the Federal State, will be regionalised.

A very notable development in **Cyprus** is the decision of 29 December 2011 by the banks and the banking-worker trade union (ETYK) to freeze pay increments and cost of living allowance (COLA) payments for 2012 and 2013. Also, the retirement bonus which departing workers had received until now (up to 78 monthly salaries based on the earnings of the previous 2.5 years) will be replaced by a payment into an employee provident fund scheme. ETYK believes that this deal shields employees from the possible taxation of the retirement bonus and gives them first call on these funds in the event of a bankruptcy. This deal, approved overwhelmingly by ETYK members, allows banks to reduce their payroll costs and to make their pension payments more predictable (defined contribution rather than defined benefit) but it has brought to the surface the generosity of their pension schemes, which derives from the oligopolistic position that banks have enjoyed in Cyprus for many years. AON Hewitt estimate that the 11 000 bank employees receive roughly double the payment made to the 40 000 employees covered by other private sector provident funds (their employer contribution is about 7.2 % of salaries).

Several countries, including Bulgaria, France (see below), Italy, Lithuania, Poland and Romania are making fast progress with reforming their pension systems, focusing on increasing the retirement age. In other countries, such as Luxembourg, the Netherlands and Slovakia, progress has been slower.

One of **Bulgaria's** CSRs relates to the current pension reform, under which the retirement age has been increased from 2012 by four months per year. The age at which people can retire depends on which 'category of labour' they fall into: for the third category (which encompasses the highest number of workers) the retirement age will increase to 63 years (currently 60 years) for women and to 65 (currently 63) for men, together with an increase in the required duration of contributions to social insurance. The retirement age for first category workers will increase to 48 for women and 53 for men and for second category workers to 53 for women and 58 for men, without changes in the required duration of social insurance contributions (first and second category workers are those working in more difficult conditions). Persons without the required social insurance contributions will be entitled to retirement after reaching 67, for both genders (previously 65). The reform also includes the indexation of pensions with inflation only and the abandonment of the so-called 'Swiss rule'. For workers in the first and second categories, the 'points system' has been preserved, so their age may offset the lack of insurance contributions. Entitlement to such compensation applies to employees in the army and the police only, for whom the required duration of social insurance contributions increases from 25 to 27 years, of which two thirds must have been served in the Army or the Police. According to employers' proposals, which have not yet been accepted, in the coming years it will be necessary to introduce a mandatory retirement age for these employees as well.

Thus changes will continue to the **Bulgarian** pension system in the near future. The aim is to bind pension size with social insurance contributions. In this respect, the envisaged abolition of the restriction on the maximum amount of newly granted pensions from 1 January 2014 is important, as it will encourage proper conduct of insured persons and declaration of the actual amount of insurance income and the increase of maximum insurance thresholds. The increase of the weight of accumulated insurance service of people who work after retirement age and do not receive pensions will also contribute to limiting the scope of the informal sector. This measure thus helps to promote a longer working lives and an increase of the effective retirement age.

In the **Czech Republic**, changes in the first funding pillar of the pension systems are coming into effect in 2012 to improve sustainability, while the second stage of the pension reform introducing second optional private pension saving pillar was also finally approved and will come into effect in 2013.

In **Italy**, the most important fiscal consolidation measure with an impact on the labour market is the pension reform approved in December 2011, introducing new computation rules. From 2012, new pensions will be computed through a mixed rule: a 'defined-benefits' quota based on years of contributions paid up to 2011 and a 'notional-defined contribution (NDC)' quota based on contributions paid from 2012 onwards. This measure is aimed at speeding up the transition to an NDC model, which in the previous system regarded only workers having accumulated less than 18 years of social contributions on 31 December 1995 (the year of the previous structural reform, the so-called *Dini reform*) or starting to work after that date. Defined-contribution pension benefits are actually considered crucial to ensure the sustainability of the pension system in the long run (also established by the Euro Plus Pact) and to foster equity.

The **Italian** reform entailed an increase in the retirement age, with the aim of immediate savings on social security expenditure. The old-age retirement age for women in the private sector goes up from 60 to 62 years, with a gradual increase up to 66 (as for men) in 2018. Furthermore, stricter limits to early retirement have been introduced (except for physically demanding jobs). Under the new rules, early retirement is possible after accumulating 41 years of social contributions (for women) or 42 (for men)[9]. Moreover, a two-year halt to pension indexation worth more than EUR 1 400 per month has been approved. According to the government, the pension reform will allow yearly savings ranging from EUR 2.8 billion in 2012 to a maximum of EUR 22 billion in 2020 (corresponding to 1.4 % of GDP).

In **Lithuania**, amendments to the Law on State Social Insurance Pensions and Law on Early Payment of State Social Insurance Old-Age Pensions became effective on 1 January 2012. The statutory retirement age (currently 62.5 for men and 60 for women) will be increased by annually adding four months for women and two months for men, to reach the retirement age of 65 for both sexes in 2026. On the other hand, the requirement to have 12 months' registration with the PES prior to applying for the early old-age pension has been cancelled.

In relation to the CSR recommendations for **Poland** on reducing the general government deficit, new measures have been taken in relation to the pension system. One of the changes announced is the extension and alignment of the retirement age for men and women to 67 years (currently 60 for women and 65 for men). As announced by the government, the retirement age will be extended from 2013 every four months by one month. The level of 67 for men is to be achieved in 2020 and for women in 2040. On the other hand, amendments to the act on social insurance system (from February 2012) provide for an increase of pension contributions by 2 percentage points on the side of employers (from 6 % to 8 %). In addition in January 2012 the Government adopted a draft amendment to the Act on pensions from the Social Insurance Fund (FUS) and some other laws, resulting in all social security benefits and pensions to be increased by an equal amount of PLN 71 (around EUR 15.8).

At the end of 2010 the **Romanian** Parliament adopted a new Unitary Pension Law (Law no.263/2010). Among the main provisions of the law are the increase of the statutory retirement age for women, a significant alteration of the indexation system for the pensions point which gives greater weight to price developments, weakening the link with wages and an increase in the statutory contribution period from 30 to 35 years, as well as increased penalties for early retirement (pensionare anticipata). As a part of the integration of military

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[9] Previous rules (already tightened by earlier interventions) allowed for early retirement of employees at 60 years of age, if reaching 'coefficient 96', where the sum of a person's age plus their years of contributions must amount to 96 (e.g. 60 years of age plus 36 years of contributions, or 61 years of age plus 35 years of contributions, and so on).

pensions in the public system, a recalculation has been undertaken in line with the contribution-based principle of the Unitary Pension Law (in line with the principles applied for all public pensions, according to which the calculation of pensions is based on the full length of contribution period and contribution bases, rather than the final salary). This has brought, on average, an increase of 12 % to the pensions of retired military personnel, with the main beneficiaries being non-commissioned officers, NCOs (subofiteri) while some top officials saw cuts in their pensions. Thus the new law and its provisions have not only strengthened the sustainability and robustness of the system but in some instances have also brought a welcome measure of social equity.

In accordance with the provisions of the new law, the **Romanian** Government had also envisaged an indexation of the pension point. Unfortunately, economic circumstances have precluded this and the Parliament has voted for a freeze of the value of the pension point for the whole of 2012.

In **Luxembourg** slow progress has been made so far on the country's pension reform, which is intended to link retirement age to life expectancy In **Malta**, progress in relation to pension reform has also been slow. A research group on pensions is evaluating public feedback on proposals. Due to the current economic situation, the social partners and the government agree that it is not the right time to introduce the second pension framework related to private pensions.

In the **Netherlands**, a new pension agreement – which would have stabilised pension contributions at last year's level - has not been implemented, causing problems for collective bargaining. However, in many sectors pension contributions will increase by 1 or 2 percentage points in 2012, which means that there is little room for negotiation since labour costs have gone up.

In **Slovakia**, although a CSR urges the country to increase the sustainability of the pension system, the planned reform of the PAYG pension pillar has been cancelled due to the early elections.

Initiatives taken to encourage the employment of older workers during the past quarter include Spain's Global Strategy for Older Workers 2012-2014, subsidising local authority development companies to hire older unemployed workers in Greece, and financial incentives for older workers to stay in employment in the Netherlands.

In **Spain**, the former government approved the Global Strategy for Older Workers 2012-2014[10]. The strategy, entitled 'Strategy over 55 and more', aims to reduce early retirement and to promote employment for older workers, while complementing the Spanish Strategy for Employment. The 'Strategy over 55 and more' focuses more accurately on the specific problems related to the employment of older workers and is based on training measures, customised assessment of workers by the PES and social security rebates; it also includes complements to wages, social awareness actions and the promotion of safety in the workplace.

In **Greece**, a programme aimed at benefiting older workers was launched by OAED on 19 December 2011 and entails subsidies for local authority development companies in order to hire 5 000 older unemployed workers (55-64), with a total budget of EUR 75 million. The subsidy amounts to EUR 25 per full-time working day and can be paid for 24 months (local authority development companies are obliged to continue employing the beneficiary for another three months, i.e. for 27 months in total). This programme appears to be carefully designed and to be addressing real needs of older workers who had a relatively advantageous position in the labour market before the crisis and who are amongst the hardest hit by the crisis. On the demand side, regional and local authorities currently benefit from the political tide toward decentralisation and they are close to the labour market and employment problems. However, the lack of resources and capacity for policy coordination and integration are two remaining obstacles for local-level action.

To keep **Dutch** older workers in the labour force for longer, the Minister of Social Affairs and Employment will introduce bonuses, from the year 2020, for older workers (over 61) who

[10] 'Estrategia 55 y más', approved by the Council of Ministers on 28 October 2011.

have low incomes. By 2020 the retirement age will be increased to 66 and in 2025 to 67. However, opposition parties and the trade unions have asked for some form of compensation for people with a long tenure and low income who want to retire at age 65. A low income is an income around the minimum wage level (full bonus) up to a wage level of around 150 % of minimum wages (the higher the wage, the lower the bonus).

7.1.2 Candidate and potential candidate countries

In **Serbia**, in the context of the implementation of the Stand-by Arrangement with the IMF, the outgoing government made a set of commitments including the reform of pensions (tightening Pay-As-You-Go rules).

7.2 Measures to meet the employment rate target, or adopted as part of the 2011 National Reform Programmes (NRPs)

7.2.1 EU-27 countries

In **Germany**, beginning with the birth cohort 1947, the pension age will be increased by one to two months for every cohort up until 2029 when the pension age of 67 will be achieved. The birth cohort of 1967 will then enter regular pensions. Persons with 45 years of insurance payments will be allowed to retire at the age of 65 without deductions. Early retirement at the age of 63 and with 35 years of insurance payments will be allowed with deductions of 7.5 % per month of early retirement.

In line with the plans in the **Dutch** NRP, the government is gradually implementing a 'vitality arrangement'. As a first step both the life-course arrangement (Levensloopregeling) and the savings scheme (Spaarloonregeling) have been abolished in 1 January 2012. People in these schemes are offered a transitory arrangement until the vitality arrangement comes into force in January 2013. The savings in this vitality arrangement do not need to be used for a specific goal (in the life course arrangement people could only save for extra leave). It may for instance be used to pay for (child) care, to follow education, to become self-employed, to finance a demotion or to retire on a part-time basis. The new arrangement may be used by employees as well as entrepreneurs, including the self-employed. This latter feature is new as the previous arrangements were only accessible to employees. The savings are fiscally attractive for the users of the scheme. Participants may save a maximum of EUR 5 000 per year, up to a total of EUR 20 000.

The vitality arrangement also aims at simplifying legislation by abolishing four existing arrangements and introducing two new arrangements. The arrangements which will be abolished are:

- A tax reduction for employing older workers aged over 58 (2012);
- A bonus for older workers aged over 62 that remain employed (2013)
- The life course arrangement;
- The saving scheme for employees.

The two new schemes are:

- The vitality arrangement (*Vitaliteitspakket)* (2013);
- A bonus for employed people aged over 61 who remain employed (Werkbonus) (2013).

The plans and policies resemble plans of the previous government and have been promoted by academics. The suggestions for change partly stem from the low use of the current life-course arrangement. However it remains unknown how the vitality arrangement will improve labour participation. Depending on the way people use their savings, the arrangement may indeed support sustainable employment and encourage people to retire later, to combine work and care better and to invest in their skills.

In addition to the vitality arrangement, in the agreement between the **Dutch** government and the social partners on additional pension facilities and state pensions, the social partners have ample room to make further arrangements on health, schooling, mobility, productivity and labour costs. They can do so in their (sectoral) collective labour agreements.

In **France**, the new anti crisis plan (November 2011) has accelerated the implementation of the 2010 pension reform. The legal age for retirement will be set at 62 years from 2016/2017 (instead of 2018, as planned by the 2010 reform). This acceleration of the reform is expected to reduce public debt by EUR 4.4 billion in 2016 and EUR 7.1 billion in 2017. On the other hand, negotiations between social partners are ongoing on early retirement in case of strenuous work; a specific ‘transitory solidarity allocation’ for retirement was also reintroduced (previously known as AER). This monthly allocation of EUR 1 000 targets unemployed people under the age of 60 (not legally able to retire) but who have however accumulated enough contributions for retirement.

7.3 Summary

Pension reform has been on the agenda in response to both the CSRs and as part of the NRPs in several countries. Pension reforms that were in the making over past years have been precipitated by the economic crisis and the need for fiscal consolidation in countries such as France, Italy and Greece. Bulgaria, Lithuania, Poland and Romania are also progressing with reform of their pension systems while progress has been slower in Luxembourg, Malta and the Netherlands, during the last quarter of 2011.

Belgium, the Czech Republic, Denmark, Spain, Hungary and Austria are taking steps to limit access to early retirement together with measures favouring the employment of older workers. Last but not least, labour market reforms connected to the pension reforms, the exact details of which have not been announced yet, are anticipated during the first quarter of 2012 in both Italy and Spain.

Countries are also taking pension related measures to avoid undermining the long term sustainability of public finances, such as abolishing survivors’ pensions in Belgium and carrying out a census of pensioners in Greece.

No developments have been reported during the last quarter in supporting the development of complementary private savings.

8 The 2012 Annual Growth Survey (AGS) 2012 priorities

In the final section of the quarterly reports, the SYSDEM experts were asked to discuss and analyse the relevance of the AGS 2012 priorities for their country, referring to all AGS priorities with a direct link to the labour market. In some of the quarterly reports, the experts provided an overall commentary on the relevance of the 2012 AGS to their national context, in addition to or in place of commentary relating to each specific priority area. This section therefore provides both a general overview in relation to certain countries and a more specific commentary in relation to the AGS priorities with a direct link to the labour market, where provided.

Several quarterly reports confirmed that all, or almost all, of the priorities identified in the 2012 AGS were relevant to their national context. This was the case for Lithuania, Slovakia, Slovenia, Finland and Serbia. In other countries, it was suggested that recent policies and measures had not yet been set against the AGS 2012 framework (e.g. Luxembourg, the Netherlands, the UK), although some of the policies in these countries may be seen as meeting the AGS priorities.

8.1 Tackling unemployment and the social consequences of the crisis

8.1.1 Mobilising labour for growth

8.1.1.1 EU-27 countries

The quarterly reports for Denmark, Cyprus, Lithuania, Portugal and the UK referred to the first priority identified under this heading 'revising wage-setting mechanisms in conformity with national social dialogue practices'. This priority is said to be highly relevant for Lithuania. In Portugal discussions are taking place on how to take this issue forward while in Denmark it is noted that wage-setting is mainly dealt with by the social partners (see below). In the **UK** there are no plans for reform of wage-setting mechanisms and the level of social dialogue remains limited by EU standards – these are unlikely to change in the foreseeable future. In **Cyprus**, action needs to be taken in this area (see below).

In **Denmark**, the question of wage-setting is not a political issue, but dealt with by the social partners. The next round of negotiations over the collective agreements in the private sector will take place in the spring 2012. The expectations are that they will lead to only moderate wage increases but that the trade unions may ask for more access to education and training for their members and also perhaps negotiate for better employment protection.

In **Cyprus** real wage growth was, until recently, outstripping productivity growth but this situation was reversed during 2011, although real wage restraint has a long way to go. Such increases have led to a loss of competitiveness which ultimately translates into high unemployment. While much has been said about remuneration in the public sector, it is the cost structure of the private sector that affects the trade balance immediately. Employers have begun to register the need to restrain wages much more aggressively.

In **Bulgaria**, a survey carried out by the National Bank in 2009 showed that the link between wages and prices is relatively weak and that inflation is not the main driving factor of frequent changes in wages, as in the other EU Member States. Firms exposed to higher competition seemed to be more inclined to align their start-up wages with external market conditions (rather than with the most common practice of using the already existing wages in the firm) and to use alternative margins of labour cost adjustment apart from base wages in the face of adverse shocks.

Two countries mentioned developments relating to the adaptation of unemployment benefits: the UK and Hungary. There has been more activity in the **UK** in the area of benefit reform than wage-setting mechanisms (as detailed above), with the aim of finding an activity for all those able to do some work, which is backed up by the Work Programme, though the effectiveness of this approach has yet to be tested.

The **Hungarian** government has shortened the length of unemployment benefit to an unprecedented three months. Having completed that, the unemployed can either accept public works or a training programme or receive no financial support for job search. Even if incentives play an important part in motivation and the unemployed receives support for re-employment in the form of the START Bónusz card, described above, such an arrangement is likely to be counterproductive. Providing benefit for such a short time also defeats the purpose of UB as an automatic stabiliser.

The priority 'enhancing labour mobility by removing remaining legal obstacles' is said to be highly relevant for **Finland**, although it is suggested that currently insufficient attention is paid to this issue. A vocational mobility shift from paper and other heavy industries to services of various kinds needs to be promoted, especially towards health and social services, creative industries and others. However, real reforms and programmes to address this issue are currently insufficient to meet this considerable challenge, which will grow further in the future.

In the **UK**, the flexible labour market, combined with an established National Vocational Qualifications (NVQ) system would suggest that there is already a high degree of mobility. However, geographical mobility in particular is hampered by a sclerotic housing market and a lack of affordable new homes. Although the government is taking action to address this issue, it appears that not enough is being done.

In **Austria** one key issue in this context is the recognition of qualifications earned abroad to improve the labour market situation of people with a migration background. The Minister for Labour has announced a new project for 2012, which should raise awareness for simplified procedures for the formal recognition of such qualifications.

In **Slovakia**, the reform of employment protection legislation in favour of increased flexibility was identified as one of the top priorities in the NRP and the Euro Plus Pact commitments. The approved reform of the Labour Code relaxed some of the key rigidities and is perceived by most stakeholders as having a positive impact on employment.

In relation to 'restricting access to early retirement schemes and other early exit pathways', the **UK** has limited early retirement options and most of the established schemes are within the public sector – which is to some extent included in the review of pensions in this sector. The recent removal of a compulsory retirement age (previously 65) will help those older workers wishing to continue working and complements the existing legislation on age discrimination in employment. Less encouraging have been the cuts in funding for adult learning that have pushed up the cost of courses, leading to a fall in take up and a reduced lifelong learning opportunities. In **Latvia**, legislation has been adopted which is contrary to this AGS priority, in that it extends to 31 December 2013 the right to early retirement two years before the official retirement age for persons whose length of service is at least 30 years.

'Promoting business creation, self-employment and entrepreneurial skills' is said to be highly relevant in the Lithuanian context and also in Finland. Large industry has historically dominated in **Finland** and it is now considered to be highly relevant to encourage business creation in new areas, especially services (such as health), SMEs and self-employment. Many reforms, programmes and initiatives are being taken forward to address this priority, such as improving social security of self-employment, promoting creative industries, securing finances and know-how for start-ups etc.

In the **UK**, measures have been taken to encourage self-employment (such as the New Enterprise Allowance scheme) and there has been some growth in this form of working (though probably due more to the lack of regular jobs). The Autumn Statement in particular laid out a range of measures to help SMEs, though the overall spend on these is small and in keeping with the government's austerity stance. As such they are helpful, though probably insufficient on their own to have a significant impact on the economy – this would come from growth in the larger businesses on which the SMEs tend to depend. Here a few measures offer some help, such as 100 % capital allowances in certain enterprise zones and the prospect of a tax credit for larger companies to encourage investment in R&D in 2013.

In the context of the AGS priority 'developing initiatives that facilitate the development of sectors with the highest employment potential', the aforementioned 'Training for unemployed persons in cooperation with employers' organisations and industry associations' will provide training and employment in selected key sectors of the **Latvian** economy.

8.1.1.2 Candidate and potential candidate countries

Most of the areas/measures covered under this priority are highly relevant in the context of **the former Yugoslav Republic of Macedonia** and have already been embedded in major national strategies and programmes. These include: effective activation and appropriate training; effective social dialogue; recognition of professional qualifications; reducing early exit pathways and providing better access to lifelong learning; promotion of entrepreneurship and business creation; and the development of the digital economy. However, less importance is given at national level to the promotion and support of a low-carbon, resource-efficient economy and white jobs.

There is a need to revise wage-setting mechanisms in **Turkey.** Progress is ongoing in relation to the formal certification scheme and amendments to the retirement age and benefits have now been agreed, with a gradual scheme that will be completed in 2060 and raise the retirement age to 65. Lifelong learning however is currently not a reality in Turkey and developing employment opportunities for older workers is clearly not a policy priority. Entrepreneurial training for various target groups, especially women, has been popular for some years now, with mixed results.

8.1.2 Supporting employment especially of young people

8.1.2.1 EU-27 countries

This priority was identified as being highly relevant for Poland and France and as a high priority in Austria. In **Portugal**, recent measures linked to youth employment relate to the revision of the employment protection legislation (described above).

In **Austria**, several existing measures (e.g. the apprenticeship guarantee for young people and the ‘Future for Youth’ programme), as well as new measures (e.g. Youth Coaching) aim to support the employment situation of young people and guarantee a high quality of the jobs they are offered. Concerning the tertiary sector, discussions on necessary reforms are ongoing. In the secondary sector the introduction of the New Middle School has been agreed. If this will lead to an improved educational situation has to be observed critically in the future.

Several countries have plans to target <u>young people who are not in employment, education or training</u>, or to promote <u>apprenticeships, traineeships and entrepreneurship</u>.

In **Estonia**, in December 2011, funds were made available for projects supporting a return to the labour market for older workers (aged 50-74) and youth (16-24). The government goal is to reduce youth unemployment to 15 % by 2015 and to 10 % by 2020 and a total of EUR 6.65 million will be allocated to such projects.

The ‘Support for Voluntary Work’ programme for young people in **Latvia** involves unemployed persons between the ages of 18 and 24 in voluntary work in non-political foundations and associations, in return for a monthly stipend of LVL 40 (EUR 57). The programme aims to provide young people with work experience, thereby facilitating entry into the job market, which is in line with the AGS priorities for youth employment.

Spain’s new government has announced that it will carry out a new labour market reform in early 2012, which is likely to introduce more flexibility in the labour market and to ease the labour contracts for the young through apprenticeships and traineeship contracts.

The **UK** government has been particularly active in the area of youth employment (see above for details of the key policies, particularly the ‘Youth Contract’). Actions include addressing the NEETs issue through, for example, raising the participation age and working with voluntary and community bodies. Furthermore, the government has worked with the social partners (itself a departure from normal practice) on developing the apprenticeship system and creating more places, and the Work Programme has been expanded to include more work experience opportunities. The government is also looking at how to ease employment law for employers and this is being done through a consultation process, though the active involvement of the social partners is limited.

Insufficient links between the school system and the job market remain a major hindrance to youth employment in **Slovakia**. A number of initiatives have been launched in this area but progress is somewhat slow. The recent launch of the project National System of Occupations[11] is considered a first important step.

In relation to the employment of young people, in **Finland** one particularly relevant priority is to combine work experience and education. Reforms have been made over the years in ensuring that education is better geared to meet the needs of businesses, increasing entrepreneurial programmes and skills in education, and reforming adult education to use and certify work experience.

In relation to skills development, the **UK** continues to struggle to meet its targets in terms of international comparisons and the lack of intermediate skills is potentially a problem, though the current low levels of recruitment tend to mask it. However, the government has retained the UK Commission for Employment and Skills (UKCES) and the network of Sector Skills Councils and these offer the best prospect of monitoring skills supply and demand and taking a longer-term perspective so that employers can take full advantage of any improvement in the economy.

The **Latvian** Ministry of Education and Science has also proposed major changes in university funding. The plan, to introduce tuition fees and state-guaranteed student loans for all students in higher education, is in line with the AGS priority 'Reviewing the quality and funding of universities and considering measures such as the introduction of tuition fees for tertiary education'. The proposal would imply dismantling the mechanism of so called 'budget places'.

8.1.2.2 Candidate and potential candidate countries

In **Croatia**, the use of wage subsidies is proving redundant because of the few jobs that are available. What remains are job creation, self-employment measures and training which may have an effect in the longer term, once the economy starts to function. However, policies which have proved effective in the early stages of any recession, such as job retention measures linked to the reduction of working hours, training subsidies for employees and temporary lay-offs should become part of the country's pro-cyclical measures in preparation for future fluctuations in economic activity.

In **the former Yugoslav Republic of Macedonia**, national activities and measures within this priority are broadly in line with the AGS 2012. Among those are: promotion of apprenticeships and traineeships; improvement of the system of vocational education and vocational training in universities; improving the link between the labour market and education systems; increasing the supply of IT specialists; expansion and large subsidies to public tertiary education institutions.

In **Turkey**, progress towards the national employment services target of 1 million trainees from the ranks of the NEET has been a major political move but its progress is beginning to slow down. The Turkish apprenticeship system is also encountering difficulties. Although they pay attention to the issue, trade unions are not likely to play a leading role in apprenticeships, although employers are willing, and in some cases, they have taken initiatives in this area. There has also been work to ensure that education and training systems reflect labour market demand, for instance through the production of the first Occupational Outlook for the 27 2-digit occupations into 2020.

8.1.3 Protecting the vulnerable

8.1.3.1 EU-27 countries

This priority was identified as being highly relevant for **Poland** and a high priority in **Austria**, although no new developments have taken place in the last quarter.

In relation to social protection systems, the **Danish** Government has taken a number of high profile measures to improve the benefits paid to certain low-income groups. The initiatives aim at removing the so-called 'poverty benefits', which were targeted at newly arrived immigrants and couples living on cash benefits. It is estimated that the new legislation will

[11] http://www.sustavapovolani.sk/

affect around 16 000 full-time equivalent recipients of cash benefits, which corresponds to a total number of recipients of cash benefits of around 140 000 persons.

In **Greece**, the Government has instituted a plethora of measures in most policy areas including in social security, in taxation and in the labour market. However, there is no apparent policy response to the social impact of enacted reforms and measures. Prior to the crisis, Greece exhibited one of the highest poverty rates in the EU; this situation is exacerbated by the austerity measures taken during the last two years and there is abundant evidence that the social situation is deteriorating rapidly.

There is widespread concern for social justice in handling the crisis and there is an urgent need to:

- develop measures and programmes extending benefit coverage to those unemployed who do not qualify for regular support (such as the self-employed and the young without work record) and the long-term unemployed as well as offering assistance to groups of the population most in need;
- perform ex ante social impact assessment of all future measures with the objective of establishing the social cost of measures;
- reform the Greek welfare system with a view to protecting the less privileged groups of society during the implementation of austerity or other reform measures.

Efforts to tackle the social consequences of the crisis have also been limited in **Spain**. As described above, a Strategy for Employment (2012-2014) and a Strategy for Older Workers (2012-2014) have been introduced. Other relevant measures include eentitling workers who were employed under training contracts over the past two years to take this employment into account in their pension contributions. The most important measure in relation to protecting the vulnerable has been the continuation of the extraordinary unemployment subsidy of EUR 400 per month for the unemployed who are no longer entitled to unemployment benefit. In addition, it is worth mentioning that competence for social inclusion polices in Spain belongs to the regional governments which have, on the whole, not adopted significant measures to tackle the social impacts of the crisis. Evidence from some autonomous communities indicates that the number of recipients of minimum income has doubled or tripled. Finally, with regard to the working poor, the new government has frozen the minimum wage for 2012 at EUR 641.40 per month, a figure below the poverty threshold even for a household of one person.

The 'Paid Temporary Public Works Programme' to be implemented in **Latvia** in 2012 is in line with 'the implementation of active inclusion strategies encompassing labour market activation measures'. The programme is specifically aimed at the long-term unemployed who have turned to social services for assistance.

Work is also being taken forward in **Finland** to reinforce the effectiveness of ALMPs and protect the most vulnerable, with the introduction of the new Labour Market Programme (see above).

The **UK** approach to protecting the vulnerable is variable. Changes to the benefits system have been described above. Less coverage has been given to the problems endured by the so-called 'squeezed middle' or those on average salaries, often with commitments such as children and mortgages, who are seeing their disposable incomes squeezed under pressure from high prices for basic commodities, no or low wage increases and reduced benefits such as child benefit. The government, while clearly recognising the problem, has done little to alleviate the strain on family budgets, apart from some minor concessions such as freezing planned duty increases on fuel. However, the reduced spending of this group in particular is having a dampening effect on the economy and is also limiting job search activity because of the costs of moving home or commuting to a new location.

8.1.3.2 Candidate and potential candidate countries

In **Croatia**, the EU principles of flexicurity need to be implemented to a greater extent, as currently the unemployed and welfare recipients do not have adequate income security and as a result have to resort to informal work or dependency on social benefits. Currently there are five different sources of benefit, each of which is administered by a different institution. Since most of the recipients of these different types of benefit are the same, it is clear that there is a lot of unnecessary administration and multiplication of small benefits from various sources.

In **Iceland**, several important provisional articles of the Unemployment Act expired at the end of 2011. Consequently, employees who had either held a part-time (50-70 %) job and received partial benefits or reduced their full-time job to a part-time position (50-70 %) and received partial benefits will be deregistered. The same will apply to self-employed individuals who had reduced their level of operation but were allowed to continue running their business at a reduced level for three months and obtain partial benefits at the same time. Individuals who have been receiving partial unemployment benefits on the basis of these provisional articles may still qualify for benefits, but they will have to re-register. Monthly earnings above ISK 59 047 (EUR 369) will be means tested with a 50 % reduction rate.

Some of the national priorities in **the former Yugoslav Republic of Macedonia** in this area include improvements in the social protection system (including better tracking and monitoring of vulnerable groups); implementation of labour market activation measures; subsidies for electricity bills for poor households and more affordable housing.

Recent developments in **Turkey** include the unification of many types of pension payments which have been adjusted to a uniform scale. Means tested social welfare programs are very weak, except the municipal hand-outs of coal and food before elections. Aside from measures targeting the Roma minority, few active inclusion strategies are taken forward

8.2 Pursuing differentiated growth-friendly fiscal consolidation

In **Belgium**, labour market priorities under ‘pursuing differentiated growth-friendly fiscal consolidation’ are followed relating to:

- Prioritising growth-friendly expenditure, such as education, research, innovation and energy (as presented above)
- Pursuing the reform and modernisation of pension systems (as presented above)
- Greater efforts to shift taxation away from labour towards taxation which is less detrimental to growth (as presented above)
- Measures to encourage moves from informal or undeclared work to regular employment should be reinforced (described below)

In **Germany**, the 2010 budgetary consolidation programme (Zukunftspaket) planned to reduce public deficits by EUR 81.8 billion between 2011 and 2014. Around a third (35 %) of the sum was planned to come from the cut in subsidies and additional levies for companies, 37 % should result from reduced social benefits and family transfers and 28 % should be achieved by lower public investment and administrative costs. The major contribution to the cuts of social benefits will come from unemployment insurance and will be achieved in three areas:

- the cut of active labour market policy programmes (e.g. the business foundation allowance). Many of these programmes will become optional and thus depend on the budgetary constraints.
- the cut of contributions to pension insurance for UB-II recipients.
- efficiency gains in placement services.

The programme intends to improve work incentives, and thus contribute to consolidation by increasing social contribution payments and taxes.

8.2.1 Prioritising growth-friendly expenditure and ensuring the efficiency of such spending

8.2.1.1 EU-27 countries

In the **Netherlands**, one change will be an improvement in tax arrangements to stimulate lifelong learning, thereby contributing to the priority of growth-friendly expenditure. The change enables further tax deductions for expenses on training and education. In 2013 the threshold above which education expenses are tax deductible will be lowered from EUR 500 to EUR 250. This will provide an extra incentive for people to invest in schooling and training.

However, as described above, the Dutch government has introduced budget cuts in the area of education (universities) in the short -term.

Under the Europe 2020 Strategy, the **Romanian** Government has adopted a target of 2 % of GDP to be allocated to Research, Development and Innovation (R&D&I) by 2020. This is to be achieved through a combination of private and public sources, by encouraging private investment in research and innovation as well as by reforming the entire national research and development system.

The **Portuguese** 'Strategic Programme for Entrepreneurship and Innovation' (+E+I) approved by the government on 7 December 2011 aims to promote a more enterprising society, broaden the base of innovative companies with a strong exportation component and promote Portugal's insertion into the international networks of knowledge, innovation and entrepreneurship.

In **Slovakia**, spending, in terms of GDP, on education and R&D and innovation is among the lowest in the EU. The recently adopted Minerva 2.0 strategy (with EUR 30 million in 2012) aims at tackling this by supporting measures such as innovation in curricula, grant schemes for basic and applied research, support to entrepreneurship training, reform of state R&D, etc..

All of the priorities outlined under this heading are relevant to **Finland** and they are addressed to varying degrees. R&D&I investment, and investment in the (rather good) education system and the further development of Finland's 'national innovation system' is a high priority and of utmost strategic relevance for the country's small, export-dependent economy, and there are several policies, initiatives and programmes to this effect. In relative terms, Finland is still 'catching up' on the green economy and sustainable energy production.

In **Belgium**, new economic competences will be transferred to the Regions under the recent coalition agreement, relating to company start-ups and self-employment, such as: permissions for commercial plants, the Participation Fund projects, residential and commercial leases, access to occupations, as well as the full regionalisation of agriculture (already partially regionalised). On a federal level, a fiscal policy to support the creation of business and jobs will be put in place, in particular for SMEs. In addition, businesses will see their administrative costs decrease by 30 % between now and the end of the legislature. In this way, the 25 % goal recommended by the European Small Business Act will be exceeded. Concrete measures will also be taken to better protect and support the self-employed, and to encourage entrepreneurship and start-ups.

In terms of maintaining and reinforcing the coverage and effectiveness of employment services and active labour market policies, a new labour market policy reform was launched in **Finland** in December, in combination with a reform of employment services. Innovations in training schemes for the unemployed are not however a subject of particular attention. One particular area needing more attention in this respect is persons with disabilities.

In some countries, including Spain, Cyprus and the UK, there is a focus on controlling public expenditure. In **Spain**, the budget for 2012 has not significantly prioritised growth-friendly fiscal consolidation, since it has introduced severe cuts in education, research, innovation and energy. According to the austerity measures taken by the new government at the end of 2011, public expenditure is reduced by EUR 8 900 million and will seriously affect growth-friendly areas such as R&D and infrastructure investment. Conversely, austerity measures are expected to diminish employment by about 350 000 - 400 000 jobs in 2012.

In the face of the fiscal crisis, the **Cypriot** government has not followed the advice of the European Economic Recovery Plan (EERP) not to minimise the focus on education, research and innovation. Considerable budget cuts have been implemented and are planned. While a portion of these cuts can be absorbed, they come at a time when efforts to deal with the structural adaptations occasioned by the discovery of natural gas should be intensified. Growth-friendly expenditure should be linked to the exploitation of natural gas found off the coast of Southern Cyprus.

Current **UK** policy is also focused on controlling public expenditure and reducing the budget deficit – though the timetable for this has been extended to 2017 due to the poor economic conditions. The government has resisted most calls for a stimulus package though the

Autumn Statement offered some mild measures to help SMEs in particular and to bring forward some infrastructure expenditure, though the hope is that most financing will come from pension funds. Attention to spending on education, innovation, etc., is limited and education spending has declined in real terms and capital investment in schools has fallen sharply. There has been more attention to the creation of apprenticeship places – which is a positive development for young people, though the government's lack of interest in developing vocational routes in secondary schools is a missed opportunity.

8.2.1.2 *Candidate and potential candidate countries*

More investment in training is needed in **Croatia**, especially in training of the adult population. It is also important to move away from general training towards occupation-specific training which would support the economic development at the level of the regions This significant need for training is evidenced in skills gaps in almost all sectors. Furthermore, people in employment in Croatia have much higher levels of educational attainment than both the unemployed and the inactive, so the activation and placement into work of the latter two groups requires heavy investment in training. Very often activation will need to precede training in order to raise confidence levels, particularly of older workers and the long term unemployed. However, training programmes have only recently been supported with more funding due to the poor results of wage subsidies in the context of the recession.

It also seems that the recession is a good time to set up sustainable systems of identifying skill needs and translating them into relevant training programmes. In all in **Croatian** counties there are now partnerships of local and national stakeholders which will identify problems and solutions. However, the capacity of these partnerships to act as the main designers of local employment policies is varied. Having said this, there are some best case scenarios in various counties in Croatia, where partnership working is becoming more common in relation to the labour market, in education and the social sphere.

Iceland launched a special employment effort entitled 'education is a winning way' (Nám er vinnandi vegur) in March 2011 and during autumn 2011, 960 education contracts were signed with individuals who had been registered unemployed, with another 82 individuals taking part without a formal contract. Those receiving unemployment benefits continued doing so until the end of 2011. Of these, around 800 intend to continue with their studies in 2012. Most of them will be eligible for student loans, but the Department of Labour will offer others scholarships which are of comparable value to full unemployment benefits.

In **the former Yugoslav Republic of Macedonia**, while significant attention is given at national level to the aforementioned issues under the heading 'tackling unemployment and the social consequences of the crisis', little attention is paid to the efficiency of spending and better targeting.

Turkey does allocate funds to ALMPs however follow-up studies to gauge their efficiency are uncommon. Research expenditure in Turkey, through government funds or in exporting durable consumer goods firms, have registered steady increases in recent years.

In **Serbia**, the 'New growth model' is a generic expression for several proposals developed since the start of the economic crisis in the autumn of 2008. They emphasise the need to make a decisive shift from a consumption oriented, demand and import driven development paradigm to a new, savings and investment oriented, supply and export driven growth and development model. However, the strategic thinking of current authorities is predominantly concerned with the level of public debt and with the balancing of fiscal and current account deficits.

8.2.2 Pursuing the reform and modernisation of pension systems

8.2.2.1 *EU-27 countries*

This priority was identified as being highly relevant for the Czech Republic and in Lithuania, restricting access to early retirement schemes is seen as a priority, as well as the need to make work more attractive for older people. Many countries have also already implemented or are planning reforms in this area, as outlined below.

Reform and modernisation of pension systems is seen as a relevant challenge for **Estonia.** While several measures have been implemented in order to support the sustainability of the pension schemes such as the increase in retirement age, it will still be important to further develop the pension system, e.g. by improving the efficiency of other social insurance schemes that have an impact on the costs and incomes of the pension insurance scheme (such as changes in the system of incapacity for work benefits, the creation of an occupational accidents and illness insurance scheme).

In **France**, the new anti crisis plan (November 2011) has accelerated the implementation of the 2010 pension reform. The legal age for retirement will be set at 62 years from 2016/2017 instead of 2018, as planned by the 2010 reform (see above for more detail).
The reform and modernisation of the pension system is a key issue in **Austria**; the current negotiations about the austerity package include several aspects of the pension system (see above for more detail).

The new **Polish** government has announced reforms in the area of pension systems. These include the extension and alignment of the retirement age for men and women to 67 years, the inclusion into the general pension system from 2012 of uniformed officers, prosecutors and judges, restricting mining pensions only to those who work directly in mining, the introduction of the clergy to the general pension system, the reduction of pensions of judges and prosecutors and changing the indexation increase of pensions from a percentage to a quota.

In **Slovakia**, stability and sustainability of public finances are top priorities for the country, especially with respect to the demographic trends and their impact on the social protection system. A recent reform of the funded pension pillar has addressed some of the existing bottlenecks (reintroduction of mandatory participation of new entrants as a default option, removal of restrictive regulation hindering higher returns). In the pipeline was also a reform of the PAYG pillar, intending to link retirement age with life expectancy and adapting the indexation mechanism from a mixed wage/inflation-based method to inflation only , but the amendment became a risky project for policy makers three months to early elections.

This issue is highly relevant for **Finland** but the country is lagging behind and in danger of being held back by political struggles. Extending working careers is a vital question for the country but progress in policies supporting this has been at a relative standstill for many years now.

In relation to the reform of health systems, again this is a highly relevant issue for **Finland**, although it is complex and needs more attention. The most relevant reform here is the on-going local government reform, which again is in danger of becoming embroiled in political struggles. Another issue of relevance here is a reform of Finland’s occupational health service provision, which also has been a subject of policy struggles and ambivalence for many years.

The **UK** government has been very proactive on pension reform. In the case of state pensions, steps have already been taken to equalise the pension age between men and women and the Autumn Statement made provision for the state pension age to rise to 67 between 2026 and 2028. At the same time, annual reviews of the state pension will in future years be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) which, on past performance, will reduce the annual increase. Reforms of public sector pensions are also being pushed through, despite much opposition from trade unions (including widely supported industrial action). Negotiations are continuing but the basis of the changes involves greater employee contributions and a change in the method of calculating the final pension (currently pension entitlement is based on an average of the final three years salary and the proposed change would see it calculated on an average of earnings over the whole working period).

In terms of changes to the health service, the planned reforms that would introduce more competition into the **UK** system have slowed under much opposition, resulting in substantial changes from the original plan.

8.2.2.2 *Candidate and potential candidate countries*

In **Croatia** it is clear that the pension system needs to be sustainable in the long-term, given the demographic trends and low employment rates found in the country (similar to other countries). The pensionable age has already been extended to 65 for men and 60 for women and the gender gap will also slowly close over time. Early retirement has been made financially unattractive while there are financial rewards for staying in work beyond the retirement age. Given the low level of demand for labour, the quality of jobs and the average educational attainment of the older population, particularly women, it will be very difficult to keep people in work in Croatia, regardless of the financial rewards.

Pension funds in the general labour market in **Iceland** may generally be categorised as defined contribution pension funds, while public pension funds may be defined as defined benefits pension funds. This, together with the higher contributions of employers in the public sector, has led to the state pension funds being able to ensure significantly better pension rights than funds in the private sector. This difference between pension schemes and rights has been one of the most debated labour market issues since the crisis of 2008. The wage agreements of May 2011 resulted in significant developments in equalising the rights of employees in the private and public sectors. Following the wage agreements of May 2011, an expert group was set up to assess how the government could alleviate the problems facing the private pension funds, although no decisions have yet been taken.

In **the former Yugoslav Republic of Macedonia**, there are ongoing reforms and measures to improve the cost-efficiency and sustainability of the health system but attention should also be paid to the quality of services. There are currently no national discussions or plans to extend the retirement age.

In **Turkey**, a major move was made a few years ago in gradually raising the retirement age to 65. The financial sustainability of the system is a concern but the government is reluctant to change contribution rates. The social security deficit is steadily rising and there needs to be another round of serious reform. However, currently, the government has not proposed any action in this area.

Serbia's public pension system puts a large burden on contributors and taxpayers. Moreover, long-term projections suggest that this burden would increase without a change of policy, as the rapid aging of the population will eventually reduce the ratio of contributors per pensioner to about one. As building up a funded second-pillar pension system seems an unlikely option, the authorities are faced with choosing some combination of reduced pension replacement rates and increases in effective retirement ages. Although the government officially insists only on the latter approach, some reduction in replacement rates is actually inevitable.

8.2.3 Shifting taxation away from labour

8.2.3.1 *EU-27 countries*

Shifting taxation away from labour is a relevant issue for **Finland**, which is currently quite well and consistently covered in the country. It is also a priority issue for **Lithuania.** Other countries are beginning to take action in this area, as outlined below.

The **Czech** Parliament approved in December a delay in the introduction of a major tax reform (not planned to come into effect until January 2014), which would abolish the concept of the super-gross wage, and which would address the issue of harmonising the tax burden of employees and self-employed.

In **Germany**, as mentioned above the tax wedge was widened in 2011. Recent data show that at least parts of the social insurance system can be expected to achieve considerable surplus budgets in 2012, due to the positive performance of the labour market. All efforts to reduce income tax rates in Germany had failed until now, in spite of the plans formulated in the coalition treaty. The ideas to simplify income tax and VAT regulations have also not been implemented. For the future, there are no substantial governmental plans to achieve progress in this field

The Parliament of **Estonia** has approved the abolition of the fringe benefits tax on work-related studies. From 1 January 2012 payments made by employers for work-related studies of their employees will no longer be subject to fringe benefit tax. This should encourage investments in raising employees' qualifications and contribute to higher labour productivity and overall competitiveness. Moreover, the Income Tax Act has been adopted, reducing the personal income tax rate from 21 % to 20 %, effective from 2015 onwards. Reducing income tax is an important contribution to reducing the tax burden.

In general, the Ministry of Finance of **Estonia** aims to reduce the tax burden from 32.4 % of GDP in 2011 to 31.7 % by 2015. It has been decided to reduce unemployment insurance premiums from 2013 onwards. The ceiling for social tax is planned to be implemented from 1 January 2014. According to the initial plan, salary above EUR 4 000 per month will be exempt from the pension insurance part of the social tax (the social tax is 33 %, divided between 20% for the pension insurance system and 13 % for the health insurance system).

In **France**, there is currently debate over the so-called ‘social VAT’, which is intended to reduce labour costs. The President has recently announced his intention to introduce such a measure (also called ‘anti-delocalisation’ VAT) and to increase a tax on wages and capital incomes (CSG). The social VAT and the issue of labour costs will be discussed at a social summit of 18 January 2012; the employers’ federation, the MEDEF, support the social VAT while most of trade unions are opposed.

As already mentioned earlier, the new Government in **Italy** envisages a set of provisions aimed at shifting taxes away from labour when hiring women and younger workers. This is complemented by a more general measure reducing taxes on labour, which at the moment are much higher than the EU average and may act as a disincentive to labour supply (according to Eurostat, the tax wedge on labour costs amounts to 43.6% in Italy against 39.8% in EU-15 in 2010). Thus, the December 2011 package of measures also introduced the total deduction of the IRAP tax paid on labour cost from the corporate income tax base, thus allowing for a reduction of corporate income tax worth EUR 1.5 billion in 2012 and around EUR 2 billion in 2013 and 2014 (according to government estimates).

In **Hungary**, income taxes have been radically reduced (16 % on gross income, one of the lowest in the EU), while VAT has been increased to the highest level in the EU (27 %). At the same time, the tax system favours the rich both through a linear tax-schedule (although in 2012 a second bracket is introduced) and also through an unprecedented degree of tax credit provided without a cap to families with children. On the other hand, tax credit for low earners was abolished.

Malta has the lowest tax on labour in the EU, where the total tax burden in 2010 was 33.2 %, decreasing from 34.2 % in 2009. Indeed, this AGS priority has been part of the Maltese government’s strategy for several years. The government reduced income tax four times during the past six budgets, resulting in workers retaining some EUR 640 million. However, due to the current economic circumstances, the government decided not to implement the electoral promise of continuing tax cuts by widening the 25 % tax band. In relation to this, the Malta Employers’ Association is asking the government to ‘conduct a tax elasticity exercise to determine the impact of a revision on income taxes to increase the disposable income of middle income earners’. As part of the shift in taxation strategy, in recent years, the government has embarked on an exercise to increase environmental taxes.

In **Slovakia**, the tax wedge composition points to a high load of social security contributions. The tax wedge is particularly high for low-wage earners. Consolidation measures taken in 2010-2011 involved an increase in indirect taxes and to a lesser extent also in labour taxation.

The **UK** government has pledged to examine labour regulation and has initiated a ‘call for evidence’. For example, it is considering the introduction of a ‘compensated no-fault dismissal’ for micro businesses (employing below ten) and on a larger scale, is looking at ideas on reducing the collective redundancy process. The thinking behind these measures is that employers need to be able to hire and fire more easily, yet the UK already has one of the most flexible labour markets in the EU. There is nothing in train to reduce the cost of labour – partly because the UK has a relatively low cost system already.

8.2.3.2 *Candidate and potential candidate countries*

The previous **Croatian** government[12] was careful to avoid unpopular taxes on wealth and higher value property, due to the fact that many citizens invested their saving in property. However, it is hugely important to raise competitiveness by reducing the cost of labour by reducing some of the taxes and/or contributions. Clearly, the effects of the tax reduction on the motivation of the less well educated to work would have a beneficial effect by reducing the dependent population, for whom work does not pay.

Following the economic crisis in **Iceland**, significant changes have been made to the tax system. In 2008, income tax on individuals, the capital gains tax and inheritance taxes have all risen and a new 1.25 % wealth tax was introduced in 2010, but has since been raised to 1.5-2.0 %. The income tax on firms has risen much less over the same period. Social security contributions amounted to 5.34 % in 2008 but were increased to 7 % in mid-2009 and to 8.65 % the following year, mostly to finance the rising cost of unemployment benefits and active labour market policies. Social security contributions have declined recently by 0.86 percentage points, in line with falling unemployment. In December 2011, a new 5.45 % payroll tax was levied on financial institutions and insurance firms. Firms with income in excess of ISK 1 billion (EUR 6 million) are also subject to an extra tax. Pension funds are exempt from this new taxation of the finance sector.

These changes in the income tax system have been favourable for very low income groups in **Iceland**, whereas the tax burden of mid- and high-income families and individuals has increased. Changes made to the transfer system have also benefitted the poor. The higher income tax on firms as well as increased social security contributions has probably decreased the demand for labour, but the decline of social security contributions in 2012 should encourage firms to hire workers.

The Government of **the former Yugoslav Republic of Macedonia** has already reduced labour taxation in the period 2006-2009 through lowering personal income tax and social contributions rates. A further reduction in social contributions is scheduled for 2014.

In **Serbia**, taxes on labour, and especially on low-wage labour, are comparatively high. The government plans to reduce social security contributions across the board and to compensate for the revenue loss by the increase in indirect taxes, despite the well know regressive consequences of VAT.

8.2.4 Measures to encourage moves from informal or undeclared work to regular employment

8.2.4.1 *EU-27 countries*

Tackling undeclared work is an issue which is highly relevant for the Czech Republic and Austria. It is also somewhat relevant in Finland, where it is currently addressed quite adequately with many initiatives. Other countries are implementing specific measures, as outlined below.

In Belgium initiatives to combat undeclared work have been announced. Recent studies have illustrated the macroeconomic importance of tax fraud and undeclared work. In collaboration with the social partners attention will be mainly concentrated on the following issues:

- combating false self-employment;
- taking specific measures for at-risk sectors (hotel and catering industry, construction, meat trading, cleaning, service vouchers);
- evaluating and potentially adapting legislation on workers’ availability;
- reinforcing the checks which ensure that employers respect their obligations as regards part-time work;
- preventing the start-up of fictitious businesses and illegitimate use of companies.

In **Bulgaria**, amendments were adopted in the Labour Code in November 2011 which assign responsibility for working without an employment contract (in the grey sector) jointly to the employer and the employee. Fines are set for workers as well as employers, set at three

[12] A new government came into power in the fourth quarter of 2011

times the amount of personal compulsory social and health insurance contributions, determined based on the minimum insurance income for the respective activity.

As mentioned above, a new regulation has been introduced in **Germany** which increases the financial risk of employers which engage illegal workers. Construction industries and hotel and catering services are particularly affected.

In **Spain**, as already mentioned, the former government had introduced a Plan Against Fraud in March 2010. This plan introduced a period for voluntary regularisation of undeclared workers between April and July 2011, followed by a hardening of the disciplinary measures. The plan had small but positive effects. With regard to other measures, a Royal-Decree regulating employment in households was adopted in November 2011. This new regulation states that the contractual agreement for these jobs must be written (while previously verbal contracts were allowed). The measure affects mainly women, who are a huge majority in this sector. Moreover, in the beginning of January 2012, the new government announced a new plan against fiscal fraud. This plan aims to increase tax revenue by EUR 8 171 million in 2012 by checking data from former tax haven countries, from electricity consumption and from credit card expenses. Moreover, workplace inspections will be enhanced, together with cooperation between the regional governments and the central treasury. In addition, the government will establish a legal limit for payments in cash, likely to be set between EUR 1 000 and EUR 2 000.

Tackling undeclared work remains a priority for the **French** government and although no additional measures have been taken, controls have been made more and more effective (in 2010, the department in charge of tackling undeclared work registered an increase in repayment of 42 % compared to 2009). These results can be explained by improved collaboration between different administrations (labour inspection, tax administration, police department, etc) and use of sanctions.

Cyprus struggles with undeclared work. The country's top marginal tax rate is 35 % (increased recently from 30 %) which is relatively low by international standards. A high VAT is often argued to encourage undeclared work. Yet here, too, Cyprus has a relatively low rate (currently 15 % increasing to 17 % in March 2012). Employment taxes are also relatively low (though scheduled to increase further). The ready availability of large numbers of foreign workers, many illegal, is clearly one of the issues related to undeclared work.

In **Malta**, the government has been criticised by the IMF and the European Commission for having a weak approach in relation to fiscal morality. For example, in the 2012 Budget, the government maintained an amnesty on income tax evaders and introduced another amnesty on VAT. It is claimed that such tax amnesties undermine fiscal morality and continue to discourage the payment of taxes. Recent EU estimates indicate Malta as having one of the largest shadow economies in the eurozone area, conservatively estimated at 26 % of the country's GDP in 2010. Another indication of the problem is the Malta Hotels and Restaurants Association's (MHRA) statement that only 70 % of tourists in Malta reside in licensed accommodations[13]. Reducing the shadow economy thus represents a substantial potential source of revenue for the government, without having to resort to higher taxation that would put more pressure on business competitiveness.

8.2.4.2 Candidate and potential candidate countries

Measures to encourage a move from undeclared or informal work are extremely important for **Croatia.** These measures are part of an integrated package which has so far been addressed through an act on reducing informal work, without too much success. With limited inspection capacity, it is unrealistic that the act will be adequately implemented and it seems that other mechanisms of monitoring and sanctions need to be introduced. One of the methods should be legitimising some of the informal work which was pushed outside the legal realm due to high taxes, a difficult regulatory environment, inefficient institutions and high transaction costs.

The government of **the former Yugoslav Republic of Macedonia** is intensifying its efforts to combat the informal economy, though it is still at a relatively high level. The State Labour

[13] Maltatoday website

Inspectorate increased the number of on-site controls and has found about 1 000 informally engaged workers in 2011 (out of 24 513 inspections). The authorities are implementing the Action Plan for Combating the Informal Economy.

8.3 Summary

In relation to *mobilising labour for growth*, the quarterly reports mentioned that action is being taken to address, or that the following priorities were relevant: wage-setting mechanisms (Denmark, Cyprus, Lithuania, Portugal, the UK and Turkey), adapting unemployment benefits (Hungary, UK), removing legal obstacles (Finland), reducing access to early retirement schemes (UK and Latvia), promoting business creation (Finland and UK) and developing sectors with the highest employment potential (Latvia). An existing commitment to promoting / maintaining flexibility on the labour market was also referred to in a number of the quarterly reports (Czech Republic, Austria, Slovakia and the UK). With regard to non-EU countries, most of the areas/measures covered under this priority are said to be highly relevant in the context of the former Yugoslav Republic of Macedonia and have already been embedded in major national strategies and programmes.

Supporting employment especially of young people is an issue which is said to be relevant for Poland and France, a high priority in Austria and action is also being taken in relation to youth employment in Portugal. Plans to target unemployed youth are mentioned in the quarterly reports for Estonia and Latvia. Apprenticeships, traineeships and entrepreneurship are the focus of measures in Spain and the UK, while in Finland one particularly relevant priority is to combine work experience and education. In Slovakia, there is more work to be done to address the insufficient links between the school system and the job market. Only the Latvian quarterly report referred to the priority 'reviewing the quality and funding of universities and considering measures such as the introduction of tuition fees for tertiary education'.

In terms of *protecting the vulnerable,* some quarterly reports suggested that not enough has been done to protect vulnerable groups from the impact of the crisis (e.g. Greece, Spain) while in Iceland, several provisional articles of the Unemployment Act implemented during the crisis expired at the end of 2011. However in Denmark the new Government and its left-wing supporting party have taken a number of high profile measures to improve the benefits paid to certain low-income groups. ALMPs are being taken forward in Latvia and Finland. The quarterly report for Croatia suggests that the EU principles of flexicurity need to be implemented to a greater extent.

Prioritising growth-friendly expenditure and ensuring the efficiency of such spending was said to be highly relevant for Poland and the Czech Republic. Education and lifelong learning are the focus of growth-friendly expenditure in the Netherlands and Austria, while R&D, innovation and entrepreneurship are being promoted in Romania, Portugal, Slovakia, Finland and Belgium. In some countries, including Spain, Cyprus and the UK, there is a focus on controlling public expenditure. In the non-EU countries Croatia, the former Yugoslav Republic of Macedonia and Serbia, it appears that there is more work to be done in relation to this priority.

Pursuing the reform and modernisation of pension systems is a relevant priority for a number of countries, in some cases linked to the need to ensure the sustainability of public finances. *Shifting taxation away from labour* is a relevant issue for Finland and a priority for Lithuania. Some countries are beginning to take action in this area, including the Czech Republic, Germany, Estonia, France, Italy, Hungary, Malta, Slovakia and the UK. In the non-EU countries, changes to the tax system were implemented in Iceland following the crisis, whereas this is an area for action for the new government in Croatia.

Finally, *tackling undeclared work* is an issue which is highly relevant for the Czech Republic and Austria. It is also somewhat relevant in Finland, where it is currently addressed quite adequately with many initiatives. Other countries are implementing specific measures to tackle undeclared work, including Belgium, Bulgaria, Spain, France, Cyprus, Malta, Croatia and the former Yugoslav Republic of Macedonia.

9 Conclusions

Countries seem to have taken a range of different approaches to *making work more attractive* in the last quarter of 2011. Many of these were proposals for measures to be implemented in the coming year, such as expanding the provision of childcare, reducing taxes on labour or introducing measures to tackle undeclared work, rather than the introduction of new legislation. A small number are following the recommendations outlined in the AGS to reduce taxation on labour, whereas more countries seemed to be focusing on gender equality and facilitating the participation of second earners in the labour market and on tackling undeclared work. Some countries, including the former Yugoslav Republic of Macedonia, are promoting entrepreneurship and self-employment or are trying to reduce the administrative burdens faced by (small) companies.

In relation to *getting the unemployed back to work,* several countries have introduced changes to their benefit systems which will take effect in 2012. Others have set out their strategies or action plans for boosting employment in the coming years. New types of active labour market policies and job creation measures, or changes to existing policies, were mentioned in certain countries while others are implementing changes to their PES or other supports for the unemployed. However, it appears that austerity measures and the need to cut public expenditure are having an impact on the level and intensity of support which can be provided to the unemployed in some countries, and it is also noted that for certain countries, the current (difficult) economic climate may have an impact on the success of the measures put in place.

Measures identified in the quarterly reports which relate to c*ombating poverty and social exclusion* included changes to existing systems for the payment of benefits or existing provisions for minimum wages. ALMPs and job creation measures are being introduced or continued (albeit with amendments in some countries) to promote employment, in particular amongst vulnerable groups. A range of specific groups have been identified for targeted support measures – either new or a continuation / extension of existing measures - across the countries, including young people, older workers, the disabled and the long-term unemployed.

In terms of *investing in education and training,* a number of countries set out in this quarter plans for new legislation, strategies and reforms, as well as changes to the financial allocations to the education and training sector. Apprenticeships and work-based learning opportunities seem to have come forward as a priority measure in several countries, linked to the need to support youth employment.

Several countries have introduced new laws and revisions to existing legislation to make the labour market more *flexible*. Some of these do not however take effect until later in 2012 or beyond, or remain proposals for the moment. Changes to wage setting arrangements and developments in collective bargaining were mentioned in a number of the quarterly reports. Increased employment *security* was mentioned mainly in relation to workers on temporary contracts.

A number of countries are taking steps to address the recommendations outlined in the 2011 AGS with regard to *the reform of pension systems,* including reducing early retirement, increasing the retirement age, promoting the employment of older workers, changes to pension arrangements for specific workers in certain sectors and measures to try to ensure the sustainability and viability of pension systems. Most of these reforms do not however take immediate effect and will be phased in over the coming years. In other countries, progress remains relatively slow and work and discussions on proposed reforms will continue into 2012.

Finally, with regard to the AGS 2012 priorities, the quarterly reports show that these have varying relevance depending on the country context. Countries are already taking action in a number of the priority areas, notably in relation to pension reform and tackling undeclared work.