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from: Council Secretariat

to: Council (EPSCO)

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Subject: **Updated joint assessment by the Social Protection Committee and the European Commission of the social impact of the economic crisis and of policy responses**  
**- Main Findings**

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Delegations will find attached, as an additional background document for the policy debate to be held at the EPSCO Council on 8 June 2009, the main findings of the updated joint assessment of the social impact of the economic crisis and of policy responses, as resulting from the work of the Social Protection Committee and of the European Commission.



## The Social Protection Committee

### UPDATED JOINT ASSESSMENT BY THE SPC AND THE EUROPEAN COMMISSION OF THE SOCIAL IMPACT OF THE ECONOMIC CRISIS AND OF POLICY RESPONSES

Following the mandate received by the Council, a first report on the social monitoring of the crisis was finalised jointly by the SPC and the Commission last March. This note recalls the **main findings** of the May update. It illustrates the extent of the social impact of the crisis in the Member States and summarises the comprehensive overview of national policy responses presented in the report.

The report is based on SPC members' contributions received until 26 May 2009. The diagnosis reflects the latest EU economic forecasts and labour market trends as well as national evidence of the social impact of the crisis, collected by the Indicators Sub-Group of the SPC.

#### Diagnosis

Social protection systems and social inclusion policies have started to play their role as automatic economic stabilisers and as effective mechanisms for cushioning the social impact of the downturn.

The impact of the economic crisis on previously healthy labour markets is worsening. The EU unemployment rate reached 8.3% in March 2009 (18.3% for the young) against 6.8% in April 2008. The young and the elderly, migrants and ethnic minorities, the low skilled and those with short term contracts are most affected by the economic downturn, but effects vary across countries.

The number of recipients of unemployment benefits has increased further in the first quarter of 2009 in most EU countries, and the number of claimants for social assistance has started to increase in some. As welfare systems play their role of automatic stabilisers, social protection expenditures are projected to rise. However, their capacity to address the rising demand for social security varies greatly across Member states. In some countries, the number of families defaulting on their mortgage payments or facing repossession is rapidly rising. Increased rates of over-indebtedness and difficult access to credit for individuals are also reported. Funded pension schemes face a sharp decline in the value of investments backing pension liabilities.

### **Policy responses in the Member States**

Member States reacted promptly to the crisis by taking measures in four main areas: *i)* labour market; *ii)* income support; *iii)* measures to mitigate the direct impact of the financial crisis on households; *iv)* investments in social and health infrastructure. Member States are also considering ways to address the long-term impacts that the crisis is expected to have on the major social security schemes.

- i)* As regards labour market measures, greater attention is given to **maintaining workers in employment** through flexible working-time arrangements, reductions in non-wage labour costs, enhanced training programmes and measures to support transitions between jobs (strengthened public employment services). Actions to support **activation and promote re-integration in the labour market** include more individualised support and training schemes targeted at specific groups of workers such as the young, or at specific sectors (tourism, construction and "green jobs").

- ii)* Most Member States reinforce the support to people's income through various measures including **increasing the level of minimum income or minimum wage**, extending the coverage or duration of **unemployment benefits**, reinforcing **other social benefits**, introducing **tax rebates or tax exemptions for specific groups**. **One-off payments** are also used by Member States to temporarily alleviate the situation of the most vulnerable households.
  
- iii)* Member States are also seeking to avoid and stem the consequences of the financial crisis on individuals and families. They are taking measures to **protect mortgage holders** against repossessions (e.g. renegotiation of mortgages for the unemployed), to address over-indebtedness, or to create incentives for banks to **give access to credit** to individuals, including people on low income.
  
- iv)* An increasing number of Member States are promoting **investments in social and health infrastructures** (including hospitals, GP practices, nurseries, schools, universities, social care and long-term care infrastructures, social housing, etc) with a view to boosting the construction sector and generate labour demand, while improving access to social services.

It is still too early to discern the consequences for future pensioners of the drop in the book value of assets of funded pension systems. Present pensioners may be affected through reduced indexation of benefits in payment. The contraction of economies affecting earned incomes as well as tax revenues is beginning to make it difficult for some Member States to maintain the planned tempo in the build-up of funded pension entitlements. Pay as you go pension schemes and health care systems have so far only been affected in a few Member States with particular difficulties.

Most Member States have reviewed their capacity to monitor closely the social impact of the crisis. Some are building on centralized existing tools by introducing more timely indicators, while others have set-up specific monitoring tools, including new surveys.

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In general, most Member States re-affirm the commitments recently made in their National Strategy Reports for Social Protection and Social Inclusion. Member States recognise the need to ensure that short-term measures taken in response to the crisis be consistent with the long-term social cohesion objectives and the structural reforms they have engaged in.

Coordination of national measures at EU level, mobilising all available instruments, including the Community resources, can help strengthening these long-term commitments. It can also help ensuring the integration of economic, employment and social cohesion strategies in the context of the recovery plans.

