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from: Council Secretariat
to: Delegations
Subject: **Second joint assessment by the Social Protection Committee and the European Commission of the social impact of the economic crisis and of policy responses**
- **Full Report**

Delegations will find attached, for information, the full report concerning the second joint assessment by the SPC and the Commission, of the social impact of the economic crisis and of policy responses from which the main findings contained in doc. 16169/09 are drawn.



The Social Protection Committee

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

In light of the mandate received by the Council, the SPC presented at the June EPSCO Council the first SPC-Commission joint assessment of the social impact of the economic crisis and of policy responses. The exchange of information conducted by the SPC as from December 2008 highlighted the potential usefulness of mutual social vigilance. It also illustrates that coordinated policy responses can help to address the direct social impact of the crisis, particularly on the most vulnerable groups, and to restore public confidence.

One year into the crisis, as very first signs of economic recovery become apparent, the full impact of the crisis on labour markets and public finances is still to be faced. Many governments have started looking back at their action over the past year, in order to evaluate the first impacts and prepare for 2010. In this context, the second joint assessment of the Social Protection Committee and the Commission on the social impact of the crisis provides an input to the reflection of Member States.

The present note provides an updated outline of the main findings emerging from this second assessment and presents a comprehensive overview of Member States' challenges and policy responses. It builds on the responses of SPC/ISG members to the second Commission questionnaire on the crisis received until 16 October 2009.

The main findings of this updated joint assessment will be transmitted to the upcoming EPSCO Council.

Main findings

Strong policy intervention focused on recovery and social protection systems acting as automatic stabilisers played a major role in mitigating the social consequences of the crisis. However, its human costs are still difficult to fully evaluate, both now and in the long-term. First signs of economic recovery are now apparent, but the full impact of the crisis on labour markets and public finances is still to be faced. The European Commission forecasts that unemployment is likely to reach 10.3% by the end of 2010 and that social expenditure may rise from 27.5% to 30.8% of GDP between 2007 and 2010.

The social consequences of the downturn have now unfolded. There are 5 million more unemployed than at the beginning of the crisis. Many households have seen their income drop, and considerable numbers are more exposed to poverty and over indebtedness. Some have lost their homes. Workers on short term contracts were among the first to be hit by the downturn. Migrants and young and older workers, who are more likely to be in precarious positions were especially affected, but categories of workers who were so far relatively well protected also became unemployed. Unemployment rates may remain high for a while with the inherent risks of long-term unemployment and social exclusion.

The scope, magnitude and effects of the crisis vary greatly among the EU Member-States. Although drops in GDP are always associated with rises in unemployment, this association varies across countries. In one year, unemployment rose from 2.7% to 3.5% in one country and from 6.1% to 19.7% in another. In addition, the social situations of Member States varied greatly before the crisis, both in terms of unemployment and poverty levels.

The second reporting on the social impact of the crisis confirms the first trends in benefit take-up that were observed in April 09. The direct impact of the recession is still apparent in the increase of unemployment benefit recipients during 2008 and into the third quarter of 2009. The impact on the number of claimants of social assistance is now clear. Numbers of claimants continued to increase in the countries that were first or most hit by the crisis, and pressure on last resort schemes has also started to increase in most other countries. Some countries continue to report rising numbers of families defaulting on their mortgage payments or facing repossession or increased rates of over-indebtedness. Funded pension schemes have faced a sharp decline in the value of investments backing pension liabilities.

Members States policy responses vary in size and emphasis. A Commission estimate shows that spending on overall recovery measures varies from less than 1% of GDP to more than 3.5%. According to the Autumn Commission economic forecast, as a result of automatic stabilisers and of discretionary measures to reinforce social benefits, social expenditure in the EU are expected to increase by 3.2 percentage points of GDP between 2007 and 2010. This forecasted increase varies from less than 1 pp in three countries to 6 pp or more in four countries.

Member States have also made use of the **European Social Funds** to enhance support to the unemployed, to maintain workers in employment and to respond to the needs of the most vulnerable groups facing structural barriers to integrate the labour market. They used the flexibility offered by the ESF by adjusting their operational programmes, modifying them where necessary in these areas. Member States also used the simplification tools put forward by the Commission to improve the effectiveness of the fund.

Most Member States continue to strengthen their **policy responses** to the economic slowdown, in line with national Reform Programmes and the National Strategy Reports. As labour market conditions have continued to worsen in the second and third quarters of 2009, many Member States have strengthened and consolidated the set of **labour market measures** they had adopted at an early stage. These measures aim at preserving employment, supporting activation and promoting re-integration in the labour market, and anticipating and managing the adverse impact of restructuring. The majority of the new or reinforced measures focus on **flexible working time arrangements**, which are seen as effective means to maintain people in employment.

Member States have also further enhanced their **measures to support people's income**. Two countries have adopted comprehensive packages to reinforce their safety nets. New measures have especially been taken to strengthen **unemployment benefits** while paying attention to avoiding disincentives to get back to work. Member States have also reinforced **minimum income schemes** especially in countries where they appeared weak under the increased pressure created by the crisis.

Member States also report on the specific support provided to groups at risk, and notably the **youth**, families with **children** and the disabled. Some Member States also report on measures aimed at ensuring equal opportunities between **women** and men.

A few Member States have taken further measures to avoid and stem the direct consequences of the financial crisis on individuals and families. These include measures to **protect mortgage holders** against repossession (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. Overall the measures taken since the beginning of the crisis seem to have mitigated the worst impact that could be expected from the financial crisis on individuals since the repossession and over-indebtedness figures in Europe are still far below the trends observed in the US where more than 1.5 million households have lost their homes in the first 6 months of 2009.

The current economic and financial crisis may have a severe impact on the **health care sector** in several EU Member-States on both the supply and the demand sides. On the supply side, the economic and financial crisis may lead to a reduction in the level of funding for health and long-term care services as a result of budget cuts and lower tax revenues, while the demand for health and long-term care services may increase as a result of a combination of factors that contribute to the deterioration of the health status among the general population.

Several Member-States have included measures to mitigate the impact of the economic crisis on the health care sector within their recovery packages, in the following areas **i) investing in health infrastructure, ii) providing additional funding to the health care sector, iii) restructuring and reorganising the health care system.**

Regarding the longer-term impact from the crisis on the **pension schemes** and social security schemes in general, many countries observe that the effects of the current crisis are still currently hard to predict. Presently the bulk of pensions in payment are delivered by public PAYG schemes on which the crisis in financial markets has no direct effect. By contrast the book value of the assets of pensions funds have been significantly reduced and real issues of solvency could emerge if markets take long to recover. But apart from a few Member States this would primarily affect the incomes of future pensioners in the medium to long term. Therefore most Member States perceive their pensions systems as quite resilient. However, if the crisis deepens and continues for several years, even PAYG systems will be affected as unemployment and lower growth will reduce revenues from taxes and social contributions and weaken public finances.

In their replies to the October 2009 questionnaire, Member States also provided more detailed information on the **size of their interventions**, as well as on **first evaluations of the impact of the measures** taken so far. The large majority of countries indicate that it is still too early to fully evaluate the social impact of the measures. However, some countries report on stock taking exercises performed by the government, on the take-up of specific measures (e.g. number of benefit recipients, number of workers having participated in activation measures) or on the impact of measures on preserving or creating jobs. A few countries have commissioned independent ex-post or ex-ante evaluation of their overall recovery packages.

The preparation of the 2010 budget law is the occasion for Member States to review the measures originally taken in the light of constraints on public finances. This review also highlights the need to balance the burden of the policy responses across different levels of governments.

One year into the crisis, more Member States report a stronger emphasis on provisions aimed at ensuring **budgetary discipline**. This is done in the light of very high constraints on public finances, and/or to preserve the long-term sustainability of public finances in general and of social protection in particular. In addition to 2 countries who had already reported on this aspect in the spring 09, “**austerity**” **packages** of different sorts are planned or have been recently adopted in a number of countries. These packages include reforms of the public sector (e.g. redundancies and reduced wages for State employees), tax increases (especially VAT), etc.

As welfare systems continue to 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, and not all Member States have the financial room for manoeuvre to let automatic stabiliser play fully. The review of public finances and the preparation of the 2010 budgets have conducted some Member States to adopt fiscal consolidation packages that may weaken the effects of previous recovery measures aimed at preserving employment and/or sustaining demand. On the long run however, their aim is to ensure sound public finances and thereby support macroeconomic stability and future growth.

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1. The economic downturn and its impact on social cohesion

1.1. Forecast 2009-2010

The latest economic forecast published by the Commission on 3 November 2009 points to the first signs of economic recovery. The dramatic fall in EU's GDP has come to an end. GDP in the European Union is projected to fall by 4.1% in 2009 and to grow again by 0.7% in 2010, and 1.6% in 2011. However, the full impact of the crisis on labour markets and public finances is still to be faced. Looking ahead, employment is expected to contract by about 2.3% in 2009 and by a further 1.2% in 2010 resulting in nearly 8 million job losses for the two years, in contrast to the net job creation of 9½ million during 2006-08. Unemployment is likely to reach 10.3% in 2010 and social expenditure may rise from 27.5% to 30.8% of GDP between 2007 and 2010.

Public finances have also been hit hard. The government deficit is projected to triple this year in the EU (from 2.3% of GDP in 2008 to 6.9% in 2009) and to rise further in 2010 to 7.5%. This deterioration follows in part from the working of automatic stabilisers and from the discretionary measures taken to support the economy, but it also reflects a stronger than usual fall in revenue in response to the downturn.

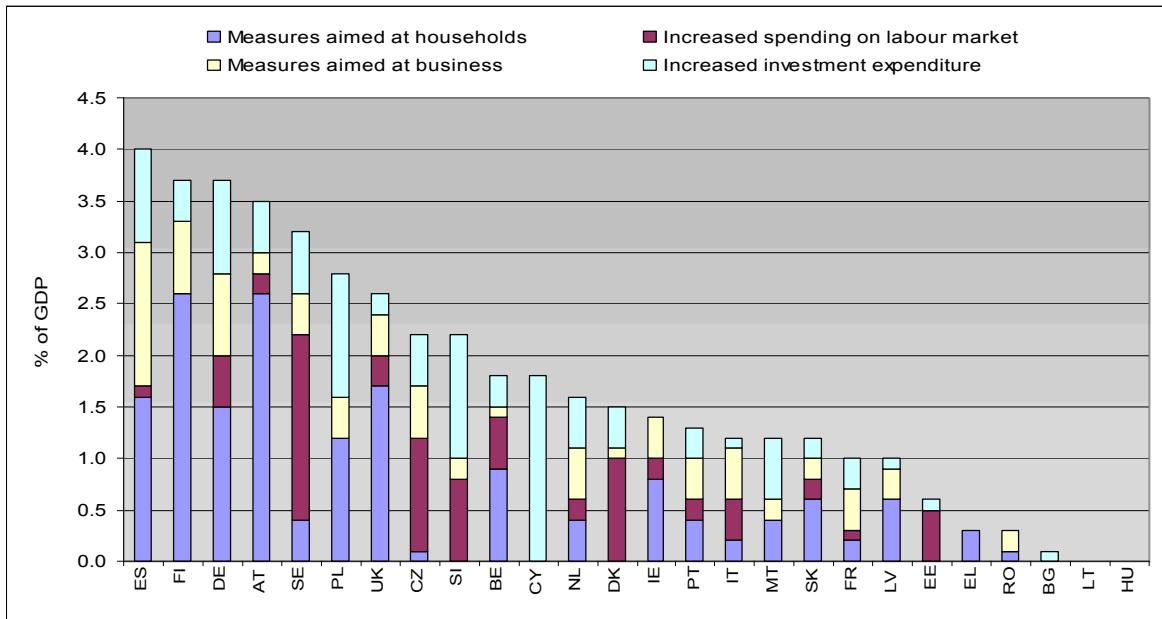
The scope, magnitude and effects of the crisis vary greatly among the EU Member-States. According to the EC forecast, all Member States but Poland (+1.2% in 2009) will experience a fall in GDP in 2009 with estimates ranging from -18% in Latvia and Lithuania to -0.7% in Cyprus. Gradual recovery is expected for 2010, as GDP growth is expected to turn positive again in two third of the EU countries. Among the five largest EU economies, real GDP is expected to contract this year by about 5% in Germany, -4.7% in Italy, -4.6% in the United Kingdom, -3.7% in Spain, and -2.2% in France. Among these Germany, France, Italy and the UK are expected to return to positive growth in 2010.

1.2. First evaluation of the extent of policy responses

Members States policy responses vary in size and emphasis. A Commission estimate (figure 1) shows that spending on overall recovery measures varies from less than 1% of GDP in Hungary, Lithuania, Bulgaria and Greece to more than 3.5% in Spain, Finland and Germany. Figure 1 also illustrates the different emphasis Member States have put on the various types of measures: some countries predominantly invested in the support to households, other in labour market measures, and others also dedicated large shares of their spending on investments expenditure.

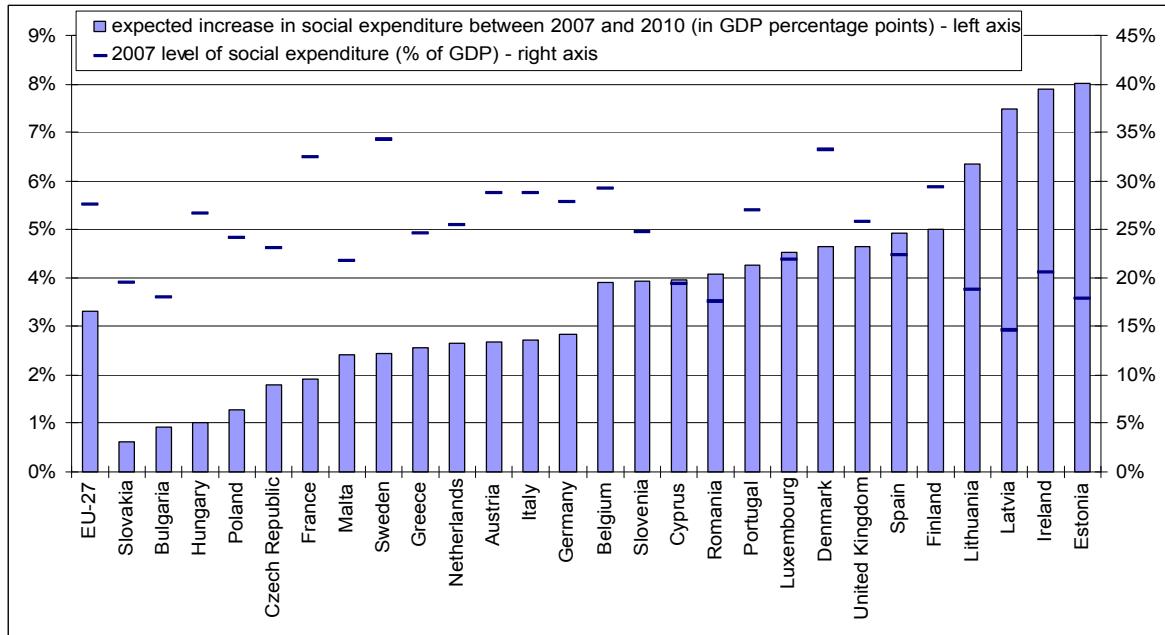
According to the Autumn Commission economic forecast, as a result of automatic stabilisers and of discretionary measures to reinforce social benefits, social expenditure in the EU are expected to increase by 3.2 percentage points of GDP between 2007 and 2010 (figure 2). This forecasted increase varies from less than 1 pp in Bulgaria, Hungary and Slovakia to 6 pp or more in Estonia, Ireland, Latvia and Lithuania.

Figure 1: Overview of the composition of recovery measures in EU Member States' recovery plans – Discretionary stimulus (aggregate over 2009-10)



Source: Commission services – European Economy Occasional papers N°51 July 09 "The EU's response to support the real economy during the economic crisis: an overview of Member States' recovery measure". – Table 2 on page 16.

Figure 2: Expected increase in social expenditure between 2007 and 2010, pp of GDP



Source: EC Economic Forecast Autumn 2009 (AMECO database)

1.3. First evaluation of the impact of automatic stabilisers

The last year has illustrated the key role played in Europe by automatic stabilizers in cushioning the impact of the crisis. As highlighted in the SPC report on "growth, jobs and social progress" a number of estimates based on past experiences shows that the capacity of stabilization of public finances in (large) European countries varies across countries. According to these macro estimates 15% to 35% of economic fluctuations are smoothed

through automatic stabilizers, depending on Member States¹. In general, most components of social protection expenditures increase more quickly than GDP in periods of economic downturn, and more slowly than GDP in economic recovery. But, while unemployment expenditures are clearly among the most sensitive to changes in the economic conditions, the variability of social protection expenditures also reflects changes in other types of expenditures (with significant variations between Member States covered).

A recent working paper by the Institute of Labour (IZA)² provides another illustration of the variable impact of automatic stabilizers across EU countries³. The model estimates the relative contribution of taxes and benefits to disposable income stabilization and demand stabilization. It notably points to the limited role of unemployment benefits stabilization in some EU Member States (see Table 1).

Table 1 - income and demand stabilization in case of unemployment shock*

	income stabilization (% of shock absorption)			
	FEDTax	SIC	Benefits	Tax and benefits
SE	19.7	2.9	45.8	68.5
DK	24.3	8.3	38.2	70.7
FR	7.6	19	31.7	58.2
PT	22.5	9.4	30.6	62.5
AT	20	16.7	30.3	67
LU	14.7	9	29.6	53.3
BE	25.7	12.4	27.6	65.7
DE	23.1	14.5	26.8	64.5
FI	22.4	5	26.7	54.1
NL	10.3	13.1	23.9	47.2
EURO	16.6	12.9	21	50.4
EU	17.2	12.1	18.9	48.2
UK	19.4	6.1	18.6	44.1
IE	20.7	3.6	18.2	42.5
EL	12.6	13.7	11.9	38.3
ES	12.7	6.4	9.1	28.3
IT	18.3	10.1	7.6	35.9
US	21.5	5.1	7.1	33.7
SI	17.5	21.6	5.4	42.5
HU	22.7	19	4.7	46.4
PL	15.1	17	-2.7	29.5
EE	17.8	2.2	-3.2	16.8

* Unemployment shock refers to an increase in the unemployment rate by five percentage points.

** FEDTax: taxes, SIC: Social Insurance Contributions.

Source: Dolls et al (2009), based on the micro-simulation model EUROMOD

The results suggest that in the case of a large unemployment shock (e.g. a 5 percentage point increase in unemployment rate), automatic stabilizers in the EU would absorb 48% of the

¹ Sources: Creel J. and Saraceno F. Automatic Stabilisation, Discretionary Policy and the Stability Pact, OFCE, working paper n° 2008-15; Van den Noord P. (2000), The Size and Role of Automatic Fiscal Stabilizers in the 1990s and Beyond., OECD Economics Department Working Paper, n° 230.

² Dolls et al (2009), Automatic Stabilizers and Economic Crisis: US vs. Europe, IZA Discussion Papers 4310, Institute for the Study of Labor (IZA).

³ One should note that these estimates are based on microsimulation models (often for different years) while the former are based on macroeconomic economic regressions (for the same years). While microsimulation estimates are theoretical (and notably rely on assumptions on take up of benefits and employment behaviours of households, which might involve some biases on the results), macroeconomic regression rely on actual figures reflecting past experience.

shock (but only 34% in the US), with benefits having an important income stabilization contribution (19% in the EU and only 7% in the US). However, there is considerable heterogeneity within the EU as illustrated in Table 1.

These results suggest that social transfers (including the systems of unemployment insurance), play a key role for the stabilization of disposable incomes and household demand. According to the OECD Economic Outlook (2009), when put in relation to the impact of discretionary fiscal measures implemented during crisis, the scale of the operation of the automatic stabilizers is such that for the OECD countries as a whole, the net fiscal stimulus they provide in 2009 is estimated to exceed discretionary fiscal action currently planned by governments by a factor of 2½.

1.4. Making use of the European Social Fund and of the European Globalisation Fund

In the crisis, Member States have made use of the **European Social Funds** to enhance support to the unemployed, to combat rising unemployment and promote social inclusion of vulnerable groups. The ESF accounts for almost 10% of the €120 billion annual Community budget and will spend over €75 billion in total between 2007 and 2013 for creating jobs, promoting social inclusion, fighting discrimination and strengthening institutional capacity.

The unemployed were the group requiring most urgent action. Many Member States focus their ESF interventions on maintaining the employability of the unemployed and helping them finding a new job as quickly as possible (IE, EL, PL, PT, SI, UK). Many measures supported by the ESF also seek to keep people in employment, albeit often with shorter working hours, and preparing for the upcoming recovery by investing in their skills and qualifications (CZ, DE, ES, FR, IT, NL, AT, PT, SI, FI, UK). Many Member states maintaining their efforts to help the most vulnerable who face structural barriers in accessing the labour market (EL, CY, PT, RO, UK). Finally, a few MS simplified ESF implementation arrangements to better respond to the crisis (LV, PL, PT and the UK).

The **European Globalisation Adjustment Fund** (EGF), with up to €500 million per year, provides one-off, time-limited individual support geared to helping workers who have suffered redundancies as a result of globalisation. The EGF was modified in 2009 to respond more flexibly to the requirements of redundant workers. Modifications included i) the addition of the crisis itself as a qualifying condition; ii) for applications introduced before the end of 2011 the intervention rate has been increased to 65%, rather than the normal 50%.

1.5. Labour Market trends

At EU level, employment growth has come to a standstill and the employment rate contracted in the second quarter of 2009 to reach 64.8% in the EU-27 against 66% one year before. Unemployment rates increased from 6.7% in March 2008 to reach 9.2% in September 2009 and could go up to 10.3% in 2010 if policies and labour market behaviour remain unchanged.

At national level, the impact of the crisis varies greatly. Between the second quarter of 2009 and the second quarter of 2008, employment contracted in most EU countries. It fell considerably – by 4pp or more – in Ireland, Spain and the 3 Baltic States, but remained stable in Germany, Luxembourg, the Netherlands and Poland.

In some Member States, the rise in unemployment has been especially stark (see annex 1). In Spain it reached 19.3% in September 2009, against 9.5% in March 08. During the same

period, it also more than doubled in Ireland (13.0% against 5.2%), in Estonia (13.3% against 4%), Lithuania (13.8% against 4.3%) and Latvia (19.7% against 6.1%).

Some categories of workers have been particularly hit by the crisis, including the young, the low skilled, employees holding temporary contracts, EU mobile workers, migrants and the elderly. Youth unemployment rate reached 20.2% in the EU27 in September 2009 against 14.7% at the end of 2007. In the second quarter of 2009, the unemployment rate of non-EU workers grew faster than for other workers and reached 19.1% against 14.1% one year before.

Data available from a few Member States show that the number of workers having benefited from **flexible working time arrangements** vary greatly across countries. In Belgium, 185 000 workers were on reduced time in August 09 against 120 000 one year before. In Ireland the number of workers on reduced working time rose from 20 880 in Q3 2007 to 89 250 in Q3 2009. In Austria, similar schemes reached 62 000 workers in June 09 up from 8 800 in December 08 (edging down to below 36 000 workers in November 2009). In Bulgaria, 20 000 workers benefited from the scheme, since its launch in January 2009. In **Germany**, the scheme was dramatically expanded to reach more than **1.4 Million in June 09**, against 50 000 one year before. Such differences in the scope and magnitude of the measure can be put in relation to the differences of impact of large GDP drops on unemployment. In particular, in Germany the significant drop in GDP only led to a moderate increase in unemployment rate observed in Germany (from 7.2% in August 2008 to 7.7% in August 2009).

1.6. Take up of benefits

The second reporting on the social impact of the crisis confirms the first trends in benefit take-up that were observed in April 09. The direct impact of the recession is still apparent in the increase of unemployment benefit recipients during 2008 and into the third quarter of 2009. The crisis had no clear impact on the percentage of older workers claiming early retirement benefits, apart from the upward trends already reported in the Spring in LT, PL and EL.

The impact on the number of claimants of social assistance is now clear. The pressure on last resort scheme depends both on how early the crisis hit the different countries, and on the varying coverage and duration of unemployment schemes. Numbers of claimants continued to increase in the countries that were first or most hit by the crisis IE: +47.5 between Q2-08 and Q2-09, LT: +117% between August 08 and August 09, AT: +10.6% between Q3-08 and Q3-09, PT: + 11% between January 09 and August 09. Pressure on last resort schemes has also started increase significantly (by more than 10%) in DK: +16.5% between June 08 and June 09, CZ (+11% between February 08 and February 09), CY (+15% between 2008 and 2009), LV (+45.9% between January 09 and September 09 claimants in guaranteed minimum income benefit), and SK (+12.4% between September 08 and September 09). In Hungary, Poland, and the UK the percentage dropped slightly.

1.7. Housing

The impact of the crisis on the housing markets and the housing situation of people varied greatly across the EU. **Housing prices have continued to fall** in Ireland (-18% between Q1-08 and Q1-09), in Denmark (-15% between Q1-08 and Q1-09), Spain (-8.34 between Q2-08 and Q2-09), and LV (-10% between Q1-08 and Q1-09), NL (-5.6% between August 08 and August 09) and FI (-1.5% between Q2-08 and Q2-09). In the United Kingdom, prices have

started recovering after the fall in 2008 (+7% between January and September 09). **Rents** have increased more than general inflation in BG (+66% between Q2-08 and Q2-09), LV (+23%), and the Netherlands (+2.9%).

Increases in the number of **non performing housing loans** were recorded in Belgium and Latvia. The number of **housing repossession**s has increased in Denmark (+46.3% in 2009), Spain (+126% in 2008), Greece (+17% in 2008), Ireland (+30% between June 08 and June 09), the Netherlands (+14.5% between June 08 and June 09) and the United Kingdom (from 10000 in Q2-08 to 11400 in Q2-09). This indicates the potential severity of the crisis, even though repossession still concern limited numbers of mortgage holders (e.g. 1594 mortgage holders in Denmark, 2270 in EE, 58686 in ES, 0.38% of mortgage holders in the UK). In addition, the consequences of repossession on families vary greatly across Member States, depending on the support mechanisms in place when people lose their homes. The number of beneficiaries of specific support schemes to renters has increased in IE (+41% between Q2-08 and Q2-09) and PT (+40% between June 08 and June 09) even though it concerns a limited number of families: 21381) as well as the number of beneficiaries of schemes to support mortgage holders in IE: (+144% between Q2-08 and Q2-09). Finally, the **requests and waiting time for social housing have increased** in Ireland, Luxembourg and the UK. This analysis is based on the replies to the ISG questionnaire on the social impact of the crisis (see summary in annex 2).

1.8. *Over-indebtedness*

Over-indebtedness can be monitored through administrative data registering applications for loan arrangements or through the number of "non-performing" loans. A deterioration of the over-indebtedness situation of households was originally reported in Greece, Latvia, Lithuania, Austria and Portugal. New evidence shows that applications for loan arrangements and over-indebtedness have increased in Belgium, Bulgaria, France, Luxembourg, and a slight increase in Portugal. These increases also partly reflect long term evolutions in the consumption pattern of households.

According to the spring report, in Lithuania and Latvia, **debts linked to utility bills** have also increased. In Latvia, for example, metropolitan population indebtedness for heating energy at the end of the heating season amounts to 15.8 million *lats*, which is about 66.3% higher compared to last heating season, when the metropolitan population indebtedness amounted to 9.5 million *lats*. At the beginning of the 2009 heating season, the total indebtedness level of the Latvian metropolitan population was 1.063 million *lats*, which is about 54% higher than in 2008. Indebtedness levels among the over-indebted have increased in FR and HU, and difficulties in accessing credit are reported in LT and PL. This analysis is based on the replies to the ISG questionnaire on the social impact of the crisis (see summary in annex 2).

2. Policy measures to maintain social cohesion, and shield vulnerable groups

2.1. *First evaluations conducted by Member States one year after*

One year into the crisis, more Member States report a stronger emphasis on provisions aimed at ensuring **budgetary discipline**. This is done in the light of very high constraints on public finances, and/or to preserve the long-term sustainability of public finances in general and of social protection in particular. In addition to HU and NL who had already reported on this aspect in the spring 09, "**fiscal consolidation packages**" of different sorts are planned or have

been recently adopted in a number of countries (CZ, IE, ES, LV, LT, UK). These packages include reforms of the public sector (e.g. redundancies and reduced wages for State employees), tax increases (especially VAT), etc.

In their replies to the October 2009 questionnaire, Member States provided more detailed information on the size of their interventions (DE, NL, AT, SK, UK), as well as on first evaluations of the impact of the measures taken so far. The large majority of countries indicate that it is still too early to fully evaluate the social impact of the measures. However, some countries report on stock taking exercises performed by the government on specific occasions such as a meeting with social partners (BE, FR). Many member States report on the take-up of specific measures such as the number of benefit recipients (CZ, ES, FR, IT, LV, HU, or the number of workers having participated in activation measures (BG, UK). Others report on the impact of measures on preserving or creating jobs (BE, BG, DE, ES, LU, PT, SI, SK, UK).

Many countries report on the first results collected in the context of the regular monitoring systems set-up in relation to the crisis (see section x on monitoring). They report both on social trends and the implementation of the measures. In some countries, the monitoring is managed by a specific body also having a supervisory role (MT). Few countries report on actual **evaluation** exercises. Evaluations of the impact of the measures on the economy and the labour markets are mainly conducted by the government services, with the exception of Lithuania (research of the impact of job losses on the income situation of households) and Austria where two independent research institutes have provided the government with ex-ante economic evaluations of the whole set of economic stimulus measures taken by the federal government and provinces (the evaluation also include the impact of the main trading partners recovery packages – e.g. Germany).

October reporting – focus on evaluation

- Belgium: An assessment of LM measures was presented to social partners in August 2009. Monitoring the increase in workers benefiting from flexible working time arrangements.
- Bulgaria: Monthly monitoring of the beneficiaries and expenditures. Without active labour market policies the unemployment rate would have been 1.4pp higher. Since Jan 2009, 90 000 participants in active LM measures. 22 000 beneficiaries of measures encouraging employers to hire unemployed persons. 100000 new jobs advertised - 79000 unemployed hired
- Czech Republic: Due to a budgetary deterioration the "austerity" package for the 2010 government budget proposal was proposed that should cancel the reduction in social security contributions, increase the value added tax (the basic rate by 1% to 20%), decrease the public sector salaries, etc. The material need aid system is being closely monitored through the number of beneficiaries and expenditure. In addition, in Sept-09, 120 municipalities had expressed interest in the new "public service institute" created on 1.1.09 and providing social services targeted at long-term unemployed.
- Germany: The German government estimates the total volume of discretionary measures to about 2 per cent of GDP in the years 2009 and 2010. The full potential of the automatic stabilisers is estimated to 3.75 per cent of GDP in the years 2009 and 2010. Estimates by the Federal Employment Agency, the number of workers who receive short-time work allowance for economic reasons, was about 1.4 million in June this year.
- Spain: The Spanish government has set up a web site dedicated to the Plan-E where information on existing and new measures are currently updated together with a quantitative assessment of their outcomes. The temporary Local Investment Fund, (endowed with € 8,000 Mio and aiming at financing newly planned public works which will start to be implemented in 2009), has already a strong impact on job creation: the last data available show that the Fund has generated approximately 419,000 jobs, 51% more than the initial forecast -278,000 jobs-. The Fund will continue its implementation in 2010 with an additional budget of € 5.000 Mio, intended specifically for projects linked to the areas of new technologies, the environment and the sustainable economy.

- France: On 1.7.09 the French president met the social partners and presented a preliminary assessment of the impact of the overall set of measures. A report by the court of Auditors estimates the negative impact of the contraction in the total number of employees on the financing of Social Security for 2009-10. The new active inclusion scheme "Revenu de Solidarité active" (RSA) introduced in June 09 foresees an evaluation framework. In August 09 nearly 1.5 million households benefited from the RSA. A scoreboard for the monitoring of the poverty reduction target also exists.
- Italy: As of June 2009 around 600,000 social cards (new scheme set up in December 08) have been activated, and the number of recipients is expected to rise to 1 million. €20 Mio have been allocated to support families in paying their rent and a facility is being set up to support mortgage holders. In one year, 190 000 renegotiations of mortgages were conducted.
- Cyprus: In August 2009, the Ministry of Labour and Social Insurance performed a close examination of the situation in the labour market, an analysis of the prospects for the following months and an examination of all the measures taken in response to the crisis. The analysis concluded to the need to continue the implementation of the existing measures and for the development of additional targeted measures.
- Latvia: In the context of the public sector reform launched in 2008, the 2009 State budget amendment provided an additional 500 million lats of net savings. The government estimates that a decrease in the State budget expenditure by 250 million lats may lead to a 1.8% reduction in employment of and to a 1.5 percentage points increase in unemployment level.
In 2009 central government expenditure increased by 0.7% (compared to 2008), while revenues decreased by 14.4%.
In 2009, a new monthly monitoring of social assistance benefit take-up (in addition to the annual one) was set-up. It rests on the declaration of municipalities. It is forecasted that the number of persons "in need" will reach 144 000 persons in 2009, and 200 000 in 2010.
- Lithuania: Due to the country's public debt situation, the majority of social and economic policy measures implemented during the crisis were aimed at balancing the state budget rather than at the protection of vulnerable groups. Special Research conducted by the Institute of Labour and Social Research between May and September 2009 evaluates changes in the situation on labour markets, and with regards to social assistance and over-indebtedness. Specific monitoring of new measures in favour on youth employment show that between January and August 2009, almost 14,000 young unemployed people found jobs (11,500 in permanent jobs, 2,500 on fixed-term contracts). 1,300 unemployed youth started their business by obtaining business licences for a period of up to 6 months. Temporary employment was offered to 7,500 young unemployed people of whom 61.2% participated in training.
- Luxembourg: Figures show that part time work arrangements succeeded to lessen unemployment rates growth observed in the last quarter of 2008 and to limit the number of unemployed.
- Hungary: A Consultative Body was established to ensure professional and social supervision of the newly established one-off social assistance system. Approximately 22000 received assistance so far.
- Malta: A Task Force will oversee the granting of temporary assistance to sustainable enterprises that risk suffering a decline in medium-term productive capabilities due to the current demand conditions.
- The Netherlands: Government provided extra resources for debt relief instruments amounting to 30€ million in 2009 50€ million 2010 and 50€ million 2011. This will be used to finance additional appeals for debt assistance, improve its effectiveness and prevention by information by PES.
- Austria has set-up a semi-annual reporting tool in response to the EU crisis monitoring exercise. In addition, the 2 most important Austrian independent economic research institutes, WIFO and IHS, assessed ex-ante the effects of the implemented economic stimulus measures taken by the Federal Government.
The IHS expects a GDP-effect of all the measures (both Federal and Länder level) to amount to 1.18% of GDP. Employment would be increased by 15,690 employees (only Federal measures) respectively by 21,300 employees (Federal and provinces level).
The WIFO assumes the GDP-effects of all the measures (both Federal and Länder level) to be amount to 1.4%. Employment would be increased by +19,700 on Federal level and by a 26,600 employees when including province level. The WIFO also assessed the effects on Austrian GDP and employment coming from economic stimulus packages implemented by Austrian's main trading partners, mainly Germany. These effects account for additional growth effects of 0.8% of GDP and of 16,400 employees. Allocation to active labour market policies in 2009 have been raised by € 400 million (+ 44%) compared to 2008. Total LM policy spending in 2009: € 1,312 billion.

- Poland: Measures of the anti-crisis package "Human Capital Operational Programme" are currently submitted to monitoring and evaluation. First data will be available by the end of October 2009. Two acts adopted of last June ("State aid for repayment of certain mortgage loans to persons who lost their jobs") and July ("Mitigating the effects of the economic crisis for employees and entrepreneurs") will be assessed at a later stage.
- Portugal: Overall assessment of key measures under the Recovery Plan is being conducted in the context of the Lisbon Strategy process and will be presented in the context of the NRP. Interventions are in line with structural reforms and long-term social objectives. Ministry of Finance is responsible for monitoring of IEI. It included a national budgetary stimulus that have broadly contributed to support investment and employment, support the most vulnerable households and to strengthen financial stability.
- Slovenia: Partially subsidised working-time and measure of temporary unemployment ('Partial Subsidy of Full Working Time Act') have contributed since January 2009 to halt successfully fall in employment and redundancies: contracts have been concluded with more than 700 companies employing more than 60,000 persons.
- Slovakia: Measures helped to support employment and the creation and preservation of 33653 jobs during the period March-August 2009. An amount of € 24.9 million was devoted to fund these policy measures. Implementation of social enterprises helped creating 208 new jobs during the evaluated period.
- United Kingdom: To support unemployed to get back to work, UK invested GBP 5 million since November 2008. An initial assessment of the general fiscal stimulus package by the UK has suggested that it may have protected up to $\frac{1}{2}$ million jobs. The Local Employment Partnerships have already helped over 230000 newly unemployed to find jobs. The Future Jobs Fund opened for bids in May 2009 and to date 55000 jobs have already been approved and the first jobs have already started.

2.2. Governance

As highlighted in the previous report, Member States have addressed the crisis from a variety of angles and starting points. Some have implemented **integrated plans** while others relied on specific policy measures within pre-existing configurations. Prominent examples of integrated plans are found in BE, BG, DE, ES, FR, HU, LU, NL, AT, PL, PT, SI, SK and the UK. The main areas of intervention remain the support in the field of employment - targeting both enterprises (and often more particularly SMEs) and workers -, income support, protection of mortgage and other loan holders, and investments in the economy and in public works in particular. Many Member States also highlight the role played by the **European Social Fund** in co-funding labour market measures (cf. Country annexes).

Spring reporting – focus on governance aspects

- In Belgium, the plan adopted in December concentrates on supporting enterprises and employees, on strengthening the purchasing power of households and on investing in growth and sustainability.
- In Bulgaria, a wide range of measures include investment in public social infrastructure, measures to support employment, to strengthen social protection and better support people's income.
- In Germany, the package of measures focuses on safeguarding both jobs and businesses' capacity to invest. The measures will markedly increase public investments in future oriented sectors with educational infrastructure at the forefront, but also in the social and health services and hospital infrastructure. The package will ensure the supply of credit to healthy, competitive companies, support the qualifications of the workforce and financial relief of households including an adequate income support for the most vulnerable.
- In Spain, all measures planned or taken in response to the crisis have been integrated in "Plan E", providing financial and budgetary support to the business sector and families alike, support to employment and modernising the economy. Recently adopted measures aimed at reducing current public expenditure by €2500Mio in 2009 will not affect social benefits spending. The global impact of the "Plan E" measures means 4.9% of GDP in 2009.

- In France, the “*Plan de relance*” adopted in December 2008 focussed on financial support to businesses and on public investment. It also includes a one-off payment (“*prime de solidarité active*”) to low-income households. Additional measures adopted on 18 February concerned the improvement of unemployment insurance for the young unemployed and in case of temporary adjustment of working hours. They also included income support for the lower middle class (tax rebates, support to low-income families with children, and personal services vouchers for dependant elderly and for households with children. Following a request made by the Social Partners a “*Fonds d’investissement social*” (FISO) has been set up in order to finance training and retraining during the crisis.
- In Hungary, the new Government inaugurated in April 2009 aims at decreasing the budgetary deficit and containing public expenditure, revitalising the economy and facilitating labour market reintegration. The package of measures has been recently adopted and should be partly enforced as from July 2009 and January 2010.
- In Luxembourg, the package of new measures covering income support measures to individuals and families, and measures to support employment especially in the vulnerable sectors of the economy, has been completed by administrative, fiscal and public investments measures aimed to provide a direct support to economic activities. Moreover, the social dimension is an integral part of the steel plan ‘Lux 2010’, finalised in December 2008.
- In Netherlands, following a first set of urgent responses to the crisis, the government adopted a coherent package of measures aimed mainly to prevent unemployment or to minimise the duration of unemployment. The policy framework of the stimulus package is completed by budgetary discipline provisions and by a specific attention to long-term issues, including sustainable energy, innovation, efficiency of healthcare systems, etc.
- In Austria, two recovery programmes were adopted subsequently in October and December 2008. They include substantial support for SME finance (loans, guarantees, temporary possibility of accelerated depreciation) public investments in infrastructure, increased funding for regional employment programs, support to energy saving investment by private households, additional, investments in R&D and an extended provision of free child care services.
- Poland adopted a comprehensive plan for 2009-2010 covering financial stability, economic development, and protection of vulnerable groups. It also set up a “Social Solidarity Fund”. Moreover, following the social partners agreement, which took place in March, the Polish government prepared the draft Act on “Mitigating the effects of the economic crisis for employees and entrepreneurs”. The Act was adopted on 1st July 2009.
- In Portugal, the Government supplemented measures already taken in 2008 with a new package of anti-cyclical fiscal measures to support investment and employment, support the most vulnerable households and strengthen financial stability. In line with the European Economic Recovery Plan (EERP), the “Investment and Employment Initiative (IEI)” adopted in December 2008 foresees investments in infrastructures in the fields of education, energy efficiency, modern information and communication technology; special support to economic activity, exports and SMEs, and measures to protect employment, support the most vulnerable households and strengthen social protection. Overall, this new package represents an impulse of 1¼% of GDP in 2009 (of which 0.8% of GDP is to be financed out of the national budget and the rest through EU funds).
- In Slovenia, in November 2008 the Government established a crisis group of key ministers that has already prepared two packages of measures for reducing the impact of the financial and economic crisis, whilst a third package is under preparation. The first set of measures, adopted in December 2008, addressed primarily the issue of improving liquidity in the banking sector, additional incentives to business, reduction of public spending, and job preservation. Adopted in February 2009, the second package is mostly development-oriented. It consists of further measures concerning the financial sector and liquidity of companies, measures in the area of labour market, life-long learning and social security, support to sustainable development, and measures aimed at improving the use of cohesion funds.
- In Slovakia, in November 2008 the Government adopted first measures to overcome the impact of the financial and economic crisis. The latest comprehensive report on the state of economy of the SR is the material entitled “Report on the Implementation of Slovak Government Measures to Overcome the Impacts of the Financial and Economic Crisis for the 1st half of 2009”, which was approved by the Government of the SR by Slovak Government Decree No. 565 of 19 August 2009. Since the opportunity to influence economic growth through the implementation of anti-crisis measures is limited, the main task of the Slovak government is directed towards the implementation of measures in the area

of employment and active labour market policy. Such area was therefore supported by the greater part of the resources earmarked for anti-crisis measures. Among the new instruments, employers are mostly interested in the contribution to support the preservation of jobs. High interest from employers is also shown in the contribution to support the creation of new jobs, mainly because of the length of the maintenance of jobs and the length of the provision of such contribution.

- In the UK, a National Economic Council was set up in October 2008 to give coherence and add momentum to the work of all Government departments in support of individuals, families and businesses. New measures include: 1) Increased support for working age mortgage holders, 2) a “Find Your Way Back To Work” initiative, 3) A “Future Jobs Fund” aiming to create 150.000 new jobs for long-term unemployed, 4) a “Real Help” campaign, detailing the help available across Government in response to the downturn.

2.3. Labour market measures

In the second half of 2009, most Member States have taken **further** measures to preserve employment, support activation and promote re-integration in the labour market, and anticipate and manage the adverse impact of restructuring. Most of these measures build on existing labour market policies that have developed along the principles of flexicurity and active inclusion. However, many of these measures which were of temporary nature have been prolonged. Some Member States focussed their response to the crisis on the support to the smooth functioning of labour markets in order to limit job losses, thereby cushioning the social impacts. This was especially the case in countries that consider that they can rely on strong social protection systems.

The **new or reinforced measures** have been mainly taken in the area of **flexible working time arrangements**, which are seen as effective means to maintain people in employment (BE, BG, DE, FR, LU, HU, AT, NL, PL, SI). Other new measures have been taken to strengthen **Public Employment Services** (ES, FR, MT, NL, PL, PT, SE, UK), to facilitate the **territorial and job mobility** (BG, LT, NL and SI) and to promote the creation of jobs in the **social economy** (ES, LV, PT).

Specific measures have been taken to support **job creation** through support to the self-employed and the small businesses (LT, SI, PL, PT), subsidies to the non-profit sector (AT, SI), or to specific sectors of the economy (tourism in MT).

Finally, several Member States (DK, FR, LT, NL, AT, PT, SE, UK) have adopted **youth packages** that have a strong labour market dimension.

Overall labour market measures

- In Belgium, the economic recovery plan foresees measures in the field of tax and finances, social affairs, employment and energy. In parallel, the inter-professional agreement 2009-2010 was agreed between the social partners. It foresees measures aiming at supporting the purchasing power of people in paid employment, and that of benefit recipients, lowering the occupational costs of companies, supporting time-credit.
NEW: Specific measures had been adopted at the end of May 2009 in order to avoid structural redundancies in the sectors that are particularly hit by the crisis. The purpose is to facilitate the modification of working time and the suspension of contracts or services.
- NEW: In Bulgaria, recently adopted measures aimed at compensation for workers and employees under flexible working time arrangements. Moreover, services and financial support (vouchers for training), travel card for free (supporting mobility) were set up to activate and promote the return to the labour market. Overall, 100000 new jobs were advertised and 79000 unemployed hired in the framework of the Public Employment Service.

- The Czech Republic has adopted a comprehensive set of labour market measures, with a strong emphasis on the reduction of labour costs, through lower social security contributions for enterprises and the self-employed (temporary). Measures also include funding for employers for the training of their employees (in companies affected by the crisis) and the planning of a "family reconciliation" package.
- In Denmark, adjustments in labour market policies aimed at: better monitoring of the labour market (e.g. number of "announced redundancies" and vacant jobs, also on a regional level); improved and earlier actions/programmes for persons (firms) with announced redundancies; more flexibility in the existing schemes that allow for "job sharing" in firms that are facing a "temporary" slow down.
NEW: In September 2009, a youth package was introduced, aimed at combating the increase in youth unemployment and facilitating further education.
- The German plan provides a good example of such combination of measures: the public training programme (*WeGebAU*), originally aimed at low-skilled and older employees, has now been extended to cover all workers in current need of training; job placement agencies will receive an additional 6,000 headcount for intensive coaching of those made redundant; the period of receipt of short-work allowance has been extended to 18 months until 31st December 2009; in case of short-time work in 2009 and 2010, 50 % (or 100 % if the period is used for qualification) of social security contributions paid by employers will be returned to them. Reduced contribution to the unemployment insurance (2.8% instead of 3% in 2009 and 2010), and to the health insurance (by 0.6 pp) will lift the burden on labour costs and stimulate both labour demand and supply. In addition, the budget available for education and training will be increased.
- Spain has established two specific State Funds (€11.000Mio) to foster local investment and stimulate economy and employment, as well as measures for specific sectors, including automotive industry, which, until now, has created 240,289 new jobs. Non labour costs have also been reduced, through public subsidies to social security contributions, for the recruitment of unemployed workers with family responsibilities (non fixed-term contracts); improvements of the Public Employment Service, and the active involvement of private employment agencies are also under consideration in the social dialogue process. Moreover, the Spanish Special Plan of Measures for Guidance, Vocational Training and Job Placement aims at reinforcing support provided to the unemployed in the search for a new employment, through new additional 2400 orientation workers, and facilitating support in promotion of geographical mobility. An additional €134 Mio for enhancing life-long training and financial support for self employed workers and SMEs is put in place to help them recuperate the debt by town councils. As a result of these efforts, as from January 2009 the decrease in the number of contributors to pension scheme has been slower than in previous months.
NEW: A new state Fund for Employment and Local Sustainability recently approved on 26th October (5000 Mio€) will give continuity to the Local Investment Fund in 2010, which will finance projects related to education, services for the attention to dependent people and those derived from social services, promotion and social integration. It is expected to create 200000 stable and quality jobs, and the *2009 Employment Plan for Socially Useful Jobs* aims at improving the chances of 100,000 unemployed persons to get a job by allowing them to work or provide services to the community while taking part in training programmes. Other initiatives are currently being studied (i.e. *Statute of the self-employed and support to the entrepreneur*, and the *Law of Sustainable Economy*)
- In France, measures have been taken in order to help firms implement part time work to prevent redundancies. Emphasis is also put on vocational training, enhanced support for job search and retraining. Small business are also benefiting from exemptions regarding contributions. A set of measures is being targeted towards young people under the plan "*Emploi des jeunes*". It will be funded via the "*Fonds d'investissement social*" (for instance zero contributions for hiring an apprentice, bonus for companies hiring a person under 26 years of age in the framework of a "*contrat de professionnalisation*", etc.).
- In Italy, the government financed a series of measures concerning the labour market to deal with the economic crisis: *i)* new fund supporting Youth Employment; *ii)* extension of a favourable fiscal treatment of overtime and performance-related pay adopted on an experimental basis; *iii)* new 2009 budget allocation extending extraordinary wage supplements (CIG, 'wage guarantee fund') to workers of companies not covered by the CIG; *iv)* specific support for apprentice and fixed and atypical workers.
- NEW: In Latvia, temporary measures aimed at addressing the direct impact of the crisis on the labour markets are put in place in autumn 2009. An emergency public works programme at community level is

expected to provide effective support to the unemployed, especially when the entitlement to unemployment benefits has expired.

- In Lithuania, the economic recovery plan foresees measures in the field of finances, others aimed to improve business environment and to promote employment. Social and employment policy follows three main directions: preventive actions; more flexible labour markets; proper use of the EU structural funds.
NEW: As of 1 August 2009, amendments to the Law on Support for Employment aim at enabling the preservation of jobs and the participation of a larger number of people in active labour market measures, and also at encouraging the unemployed to take a more active part in them. The Law also establishes a new measure supporting the territorial mobility of the unemployed. It provides for the compensation for travel expenses when a former unemployed person has to reach the workplace situated at a long distance from home.
- NEW: In Luxembourg, sustained promotion of part-time work arrangements aimed to lessen the growth in unemployed rates observed at the end of 2008.
- NEW: In Hungary, a government scheme supported a reduced working time combined with training. From July 2009, a restructuring of labour related taxes and contributions is conducted in two stages with a view to increase the income of employees especially in low wage groups. Measures include decreased rates of personal income tax and decreased contributions to be paid by employers' by 2010.
- NEW: In Malta, a proactive role is played by the Public Employment Service, particularly in situation of collective redundancies. In liaison with the Department of Social Security, redundant jobseekers are provided with a Fast Track Registration Service and a number of services aimed at improving their potential of re-enter in the labour market. From 1 January 2009, all registered unemployed at PES were introduced to the "*Personal Action Plan*" system, whereby employment advisors assist clients in reaching their targets faster and more effectively. In terms of training, the implementation of Malta's National Reform Programme 2008-2010 is giving priority to the human resource development by supporting training and re-training actions, particularly for redundant jobseekers, women, young and vulnerable groups.
- NEW: In the Netherlands, following the initial scheme up to June 2009 (budget of €375 million), the new adapted part-time unemployment benefit scheme established in July 2009 (€950 million) contains tighter conditions to better target companies in need of support and avoid abuse. The objective is to preserve the workforce for companies and sectors experiencing serious difficulties due to the financial crisis and to upgrade their skills. Precondition is a sufficiently healthy performance and perspectives of supported companies and sectors despite the crisis. Moreover, since March 2009 a National Network of 33 mobility centres, based on public-private partnership at a regional scale, offer early intervention, targeted and integrated services and a pro-active approach to employers, specifically designed to avoid unemployment. They started 800 projects to guide people to new jobs, contributed to 8000 transitions from work to work and to 60000 re-entries in the labour market (*report of August 2009*).
- NEW: In Austria, the federal government adopted already two labour market policy packages. They aimed particularly to flexible working time arrangements, through the extension of eligibility criteria, maximum duration, financial support and combination with qualification measures, reformed part-time allowances for older workers (on 1st October 2009 there were 38,937 persons covered to avoid dismissal and 67 short-term work projects with qualifications). According to a modified solidarity bonus scheme, as from 1 August 2009, the Public Employment Service supports employers and employees, if working hours are reduced, to offer a chance for employment to unemployed persons or apprenticeship programme. Moreover, a qualification bonus up to € 200 per month is assigned to participants in qualification measures of the Austrian PES.
- The Polish government proposed several amendments to provisions in force on the basis of an agreement between the Social Partners. Among others, the main elements of the package are the flexible time and paid work arrangements, as well as subsidised employment for those threatened by collective redundancies.
NEW: the July 2009 "*Act on mitigating the effects of the economic crisis for employees and entrepreneurs*" aimed at allowing for reduced working hours, subsidised salary in case of part-time arrangements, support from the Labour Fund to costs of training undertaken by employees in part-time arrangements. Possibility of work time settlement and use of fixed term contracts are limited to respectively 12 and 24 months. Direct financial aid is envisaged for approximately 250000 workers employed by entrepreneurs in temporary financial difficulties. As for a February 2009 act, concrete initiatives were also taken to support employment promotion, including increase participation of

employees in training courses or post-graduate studies and reduced labour costs for people over 50 years old.

- The Portuguese IEI plan already referred to above encompasses measures in support of SMEs, e.g. mechanism to permit the advance payment of EU funds granted to businesses, creation of SME Investe credit lines fostering corporate investment, reduced corporate income tax brackets, benefits to reduce job destruction (SMEs have a 3 p.p. decrease in the employer's mandatory contributions to SS for workers aged over 45 years or 50% in case of fixe term contracts made with unemployed people aged over 55 years) and a new fund of 250 M€ to support the development of SME's business activities in international markets. It also includes measures to help with maintaining jobs (reduction of social security contributions and Qualification Employment Programme), supporting labour market re-entry employment take up by the long term unemployed (payment of 2,000€ of recruitment support increased by two years of exemption of social security contributions, tax benefits to support the creation of one's own job, Qualification Employment Training Programme), supporting the labour market participation of young workers (vocational training placements, payment of 2,000€ of recruitment support increased by two years of exemption of social security contributions), and supporting the integration of unemployed and young people in non profit organisations.
- In Slovenia, the Parliament is discussing a number of Government proposals to stimulate the economy and promote employment. Short term labour market measures of the Second Package (proposed by the Government in February 2009) include: 1) promotion of social entrepreneurship by ensuring the development of a support system (regulations, strategy, training, support environment), 2) new scheme for training employees – vouchers (additional funds for training of employees with a view of acquiring new knowledge and competences), 3) co-financing of employees training in micro and small enterprises, as well as enterprises which have reduced their full-time working week to 36 hours; 4) preparation of graduation candidates for the employment (Slovene Student Union Project financed by the Ministry of Labour, Family and Social Affairs).
NEW: the reduced working hours scheme to companies hit by the crisis has been extended up until 31.03.2010. The Active Labour Market Programme comprised various measures for unemployment people and those threatened to lose job supported by a budget of € 110 million. Additional funding to promote education and training of employment and unemployed has been provided and are planned to be implemented by 2011 (partly secured by the ESF).
- In Slovakia, the negative impact of economic crisis on SMEs has been cushioned by temporary reduction (from 1 April 2009 to 31 December 2010) of social security contribution rates for self-employed people (decreased by 2.75 %). Other measures aimed to support employment relate to the Active Labour Market Policy.
NEW: In Slovakia, the Active Labour Market Policy measures agreed until 31.12.2010 include contribution to support the preservation of jobs, the creation of jobs, to employee's wage, to support self-employment, and to support self-employment in the area of processing and trading agriculture products. Moreover, temporary reduction on social security contributions rates for self-employed persons (decreased by 2.75%) aimed at addressing the negative impact of the crisis on SMEs. This measure is applicable in the period April 2009-December 2010. In the second quarter of 2009 it affected the income of approximately 250000 self-employed persons.
- In Finland, a Government stimulus package is designed to promote employment, by investing in public works, lowering social insurance contribution, increasing opportunities for vocational training, and investing in R&D.
- NEW: Sweden aimed to improve matching, by reforming the PES and introducing personal coaches, a job and development guarantee and job guarantee for youth. In-come tax reductions are implemented to help increase household disposable income and recover private consumption. Government estimation indicates that the in-work tax credit, including for people who are 65 years of age or more, will get almost 80000 more people working in the long run. Changes in sickness insurance are also aimed at maintaining more people in work. Other measures include lower social contributions, tax credit for household services, targeted subsidised employment schemes, new start jobs, increased possibility for temporary work and facilitate the access in the labour market for newly arrived immigrants. The 2010 Budget Bill in SE proposes to increase the volume of support for the short-term unemployed through an expansion of active labour market programmes. Measures to strengthen incentives and support to business include reduced social security contributions for self-employed people. Moreover, SE increased the resources available for wage subsidies to get more people with reduced work capacity in the LM.

- In the UK, an extra £1.3 billion is being invested in Job Centre Plus and other services over the next two years as a response to the increase in the number of people claiming benefits, so as to not only maintain, but increase, the support offered. £158m will come from ESF to help people who lose their jobs. The extra cash will help unemployed people and those facing redundancy retrain and develop their skills so they can quickly move back into sustainable employment. The extra funding will help the Learning and Skill Council, with local colleges and training providers, to work closely with Job Centre Plus.

NEW: UK expanded the access to Local Employment Partnerships backed up by the National Employment Partnership -chaired by the PM- bringing together major employers and Government. On 1st October, UK introduced the Flexible New Deal aimed to ensure that after 12 month of unemployment jobseekers are given tailored support to return to work. Substantially increased funding to Jobcentre Plus to enable it to expand its services to the increasing number of jobseekers. UK increased the funding for the Rapid Response Service, from GBP 3 million to GBP 12 million to help people move quickly from redundancy into employment and training. It was announced a substantial package of new measures to provide people extra support prior to redundancy, when they are newly unemployed, and at the 6 and 12 month points of their claim.

Specific Job-creation measures

- In Lithuania, a law came into force on 1.08.09 providing for the extension of the range of persons entitled to the subsidy for job creation when they start their own business to include persons affected by the consequences of the economic downturn.
- In Austria, the initiative "Aktion 4000" (as from September 2009): job opportunities for long-term unemployed in communities or charitable organisations (2/3 of costs supported by PES for a planned coverage of 4,800 persons by end 2010). Socio-economic enterprises and job schemes in the non-profit sector were expanded by more than a quarter in 2008 and currently offer 7,600 subsidised jobs.
- In Malta, increased public investment aimed in particular to: support economic activities, infrastructure development and environmental protection; sectoral support (particularly on tourism and SMEs); incentives for energy efficiency improvements; targeted, limited and focused assistance to sustainable enterprises that risk suffering a decline in medium-term productive capabilities due to the current demand conditions. In the tourism sector, Government reached an agreement with local banks to temporarily suspend repayments of capital on loans on a case-by-case basis for hotel owners and for operations directed towards the tourism industry.
- In Poland, the recent amendment to the act on employment promotion and labour market institutions envisages a one-off grant for the unemployed person for undertaking business activity (up to 600% of the average remuneration). Moreover, the maximum amount for funding and joining a social cooperative has been increased (to 400% and to 300% of the average wage, respectively).
- In Slovenia, a temporary programme for stimulating job creation in the framework of self-employment is funded by a € 14 million budget. In 2009 a new measure promoted the development of social economy, supported by the ESF, through the promotion of pilot projects. A fund of € 2 million is available for three years. State aids to companies affected by the crisis have been granted after 1.07.2008 up to a level of € 500,000 for financing development projects, re-employment of workers from companies hit by the crisis in new companies with a healthy core business.
- In the United Kingdom, the Future Job Funds (GBP 1 billion) was launched with a view to create at least 150000 new jobs for long-term unemployed people (100000 of which specifically addressed to people aged 18-24) targeting areas of high unemployment. Additional support to enable people to move closer to the labour market will be introduced in the upcoming White Paper on getting Britain back to work.
- In Portugal, the government introduced a payment of 2,000€ of recruitment support increased by 2 years of exemption of social security contributions payment in case of long term unemployed and young people recruitment; 50% reduction of social security contributions in case of term contracts made with unemployed aged over 55 years; tax benefits to support the creation of one's own job; Training Employment Programme to support viable firms experiencing a temporary drop which want to update the skills of their workers in unused production hours; Training Employment Placements for unemployed aged over 35 that concluded an education degree or training course in the last 3 years; Vocational Training Placements for unemployed youths aged under 36, especially undergraduates or

graduates in areas with low employability; Employment Insertion Contracts and InovSocial to support integration of unemployed and young people in non profit organisations.

Youth related measures

- In Belgium, a series of measures aim at encouraging the hiring of young workers. Notably, social security contributions have been significantly reduced (to a symbolic 1€) for workers below 19 years old that are low skilled, migrants or disabled.
- In Denmark in September 2009, a youth package was introduced, aimed at combating the increase in youth unemployment and facilitating further education.
- France has launched in the summer 2009 a "youth plan" which covers the multiple dimensions of youth policy: education and training, income, citizenship, employment, health and housing. The strategy aims at supporting young people's autonomy through education, access to employment, and addressing the multiple obstacles. In this context the new "active income support scheme (RSA) will be extended to cover part of the population below 25, under some conditions.
- In Lithuania, special employment measures apply to unemployed youth. The aim is to offer young unemployed people (under 25 years of age), within 4 months of unemployment, measures of "a new beginning" (job, production practice, work skills, training or another employment measure) by increasing their abilities in the labour market. This measure is highly important to enable young people to establish themselves in the labour market, since more than 53 percent of unemployed youth have not received vocational training before. Nearly 4,000 young unemployed people participated in the measures of supported employment: 1,800 of these unemployed youth with no work practice took part in the measure for supporting the acquisition of skills and 1,450 participated in the community service programme.
- In Luxembourg a new measure intends to prevent young graduates from unemployment.
- In the Netherlands, a specific attention is given to youth due to risk of sharply rising youth unemployment. Inter-ministerial Action Plan made €250 million available from 2009 to 2011 covering five main areas: keeping youth longer in school, agreements with 30 regions, matching rush, extra-jobs-internships, learn-work-charity work; chances for vulnerable youth.
- In Austria, active labour market policies targeted young people aged 19-24 through combination of tailored assistance and training. "Supra-company apprenticeship training programmes" target socially disadvantaged youth, education drop-outs and "older" youths. Training capacities expected to reach 12,300 places in 2009/10 training year. Modification of educational leave included reduced pre-conditions in terms of entitlement and duration. Subsidies are made available for single-person businesses when they hire an employee for the first time (aged 19-30): 25% of gross salary for 1 year.
- In Portugal, government decided to provide scholarships to the upper secondary students, beneficiaries in the 1st and 2nd lower brackets of income, with the dual objective of supporting the most vulnerable households and combating early school leaving (scholarships consist of means-tested monthly allowance, equivalent to two times the amount of the Family Allowance). On the other hand, basic and secondary education students, beneficiaries of the family allowance, having one of the parents unemployed for at least three months, are entitled to free school meals, and a higher income support to school manuals for the next school year. The measures targeting access to jobs focus on helping young people by support for either their professional insertion through work/training placements or hiring benefits.
- In Slovenia, in September 2009, MOLFSA (office in charge of ALMP) published a public tender for the training and employment of final year university students.
- In Sweden, the government has developed a special strategy for dealing with the high and persistent youth unemployment. This includes a reform of the education system where changes are being made to vocational education and training in the upper secondary school, with the aim to reduce the number of dropouts. As a response to the crisis, the number of places in vocational and general higher education has also been increased (for the period 2009-2011). In addition to these measures, the Government has reduced the employer's contribution in order to increase labour demand for young people (under 26-year-olds) and made it simpler for employers to hire using fixed-term contracts.
- In the United Kingdom, the government introduced a "Young Person's Guarantee" (mandatory from early 2010) for all young people aged 18-24 approaching 12 months unemployment. The guarantee

consists in taking up one of the following: job funded from the newly created Future Jobs Fund (starting in Autumn 2009); work-focussed training; Help with moving young people into key employment sectors); Community Task Force programme delivering real help within their local community. Jobcentre Plus are working with key employment sectors to introduce up to 100000 long-term unemployed young people into work over two years (e.g. the Budget announced Care First Careers offering 50000 traineeships in the care sector for young people). Also the Government's Backing Young Britain campaign, launched in July 2009, aims to unite business and government to create opportunities for young people. So far 200 top British employers have already committed to this campaign.

2.4. Supporting people's income

At an early stage of the crisis, Member States took action to reinforce the support to people's income through measures that include increasing the level of minimum income or minimum wage, extending the coverage or duration of unemployment benefits, reinforcing other social benefit, introducing tax rebates or exemptions for specific groups. They have done so by advancing measures that were already planned or by adopting new measures, either on a temporary or permanent basis. These measures built on the active inclusion strategies that many Member States had started implementing before the crisis. In the second half of 2009, Bulgaria and Latvia have adopted comprehensive packages to reinforce their safety nets.

- In Bulgaria, a new package of policy measures was approved by Government on 1 October 2009 and covers the period of 27 July 2009 - 27 April 2010. It includes LM measures as well as measures to reinforce safety nets, including unemployment benefit in relation to training obligations, increasing the targeting of benefits to those in need, the introduction of an old age supplement to pension, increasing the widowhood supplement, strengthening the compensation in case of reduced working hours.
- In Latvia, on 08.09.09 the government has adopted a Social Safety Net Strategy developed in cooperation with the World Bank. It foresees a handful of activities designed to alleviate problems of, in most cases, the poor people in this and the coming two years. It supports 10 measures of social welfare, employment, education, health and transportation sectors and focuses on the services and benefits delivered by national agencies, and locally by municipal governments. Financing of the Strategy will be available from the state budget from IV Quarter 2009 till the end of 2011 (17.9 Mio lats in QIV-09, 73.2 Mio in 2010 and 67.5 Mio in 2011). This financing is foreseen from both the state and municipal budget. State budget financing is as follows: LVL 13.9 M in 2009; LVL 56.6 M in 2010; LVL 51.5 M in 2011.

In a first phase, some countries had **increased minimum wages** (BG, ES, LU, LV, PL, PT), whereas Hungary froze minimum wages in an attempt to preserve employment and to contain social expenditure. In October 2009, no further measures were reported by Member States in this area.

Early on, a number of countries had taken measures to adapt the design of **unemployment benefits** in order to increase their level or extend their duration (EE, ES, PT, LT, PL, RO) or coverage (EE, FR, PT, FI). In doing so, Member States also pay attention not to create disincentives to get back to work (BG, PL). Further measures of this sort have been taken by BG, LV, LT, and AT. HU has increased the conditionality of its scheme.

- Belgium increased the level of unemployment benefits, and more recently it was also decided to raise the unemployment benefits for young and old workers.
- Bulgaria increased the level of unemployment benefits by 20% and shifted from a flat monthly rate to a two-step declining rate to maintain incentives to get back to work. In the October 2009 package, it is foreseen to increase unemployment benefit duration in relation to participation in training.

- NEW: From August 2009, Spain has extended for 6 months the unemployment benefit of €-420 per month for people who have passed the period for normal payments. It is expected that 600 000 people will benefit from this extension.
- France strengthened unemployment benefits for young people with limited working experience and provided a one-off payment of €500 for young people who are not entitled yet to unemployment benefits.
- In Italy, unemployment benefits coverage with regular and reduced requirements has been extended to apprentices and to "pending workers" for enterprise's crisis. The maximum duration of benefits in this case is 90 days per year. In the period 2009-2011, provisional unemployment benefits are provided for some temporary and atypical workers. The CIG ('wage guarantee fund') has been extended also to sectors not covered by this benefit.
- NEW: In Latvia, as of July 1, 2009 the total length of unemployment benefit has been extended to 9 months irrespective of person's insurance length and the amount of unemployment benefit for extended period will be 45 LVL per month (It relates to persons who are eligible to or receiving unemployment benefits).
- NEW: In June 09, Lithuania adopted amendments to the Law on Unemployment Social Insurance, delaying the payment of unemployment insurance benefit for a duration corresponding to the number of month paid in severance pay or compensation. The Law also establishes the payment of the unemployment social insurance benefit shall be suspended if the unemployed receives an education grant. Finally, the duration of benefits have been extended by 2 months in areas where the unemployment rate is 1.5 timed higher than the country's average.
- NEW: Hungary: from January a change of the social assistance system for long-term unemployed directed to those capable to work, who receive a different "availability benefit" and are obliged to fulfil public work.
- NEW: Austria conducted revalorization of the assessment base of UB to compensate for inflation.
- NEW: In Poland, from the 1sr of January 2010, the level of monthly unemployment benefit will be increased by 20% (from 575 to 717 PLN) and will be regressive – after three months the amount of the benefit will fall by around 21% (to 563 PLN). This measure aims to encourage the unemployed to seek a job immediately after their registration;
- In Portugal, the duration for the receipt of the social unemployment benefit was temporarily extended from 12 months to 18 months, at an amount equivalent to 60% of the Social Support Index (plus 10% of the Social Support Index per child in the household, up to a maximum of 1x Social Support Index). The measure is expected to cover 50.000 beneficiaries. The means-tested threshold to be eligible to the Social Unemployment Benefit was temporarily raised up to €330 to € 450.
NEW: A new temporary rule regarding the qualifying period for unemployment insurance benefit will came into effect in 2010. There will be a decrease from 450 to 365 days of salaried work and contribution payment (within the 24 months preceding the commencement of unemployment) to be eligible to the unemployment insurance benefit. This measure is expected to benefit 11.500 unemployed in 2010.

In the first months of the crisis, a number of countries had increased **minimum income and other benefits levels** to directly support people's income, especially for the most vulnerable. Hungary is freezing the levels of social benefits or cutting back on periods of eligibility as part of a general plan to contain social expenditure. **Since the spring**, some countries reinforced their schemes in various ways (CZ, FR, LV, LU, HU, PL, PT, SI).

- Belgium increased a range of social assistance benefits (e.g. +2% in minimum income, +2% in disability benefits, +3% in minimum pensions, etc).
- Bulgaria raised the amount of the guaranteed minimum income (on which all other social assistance benefits are indexed) and family benefits. They also implemented a two-step increase of pensions in April and July 2009.
- In Cyprus, the Government has decided to enhance the level of household income for pensioners with low income.

- NEW: In the Czech Republic, a temporary measure was introduced to slightly extend the coverage of family benefits and increase the level of child benefits.
 - In Germany, the benefits for children aged from 6 to 13 years will be temporarily raised by €35 a month over a period of 2.5 years.
 - Spain continues its policy of increasing minimum pensions. In 2009, minimum pensions has been increased by 6.4%, for pensioners living alone and with low incomes, while pensions have been increased by 2% for 2009 based on foreseen increase of general inflation.
 - In France, disability and old age minimum benefits will be progressively increased by 25% (this objective will be fully achieved by 2012).
- NEW: In May 09, a new in-work benefit scheme has been introduced in overseas territories.
- Italy launched in December 2008 a "social card" of €40 per month for the purchase of primary goods, for elderly and households with children with an annual income below €6.000 and €8.000 respectively. More than 500.000 social cards were activated as from January 2009.
 - In Latvia, the minimum income benefit was increased to maintain the purchasing power of the recipients Housing benefits has become the second compulsory municipal social assistance benefit. NEW: Since October 1, 2009 the GMI level has been increased and differentiated for adults in amount of 40 LVL and for children 45 LVL per month (against 37 LVL per month) thereby increasing the scope of households with minimum resources that are entitled to receive the GMI benefit. In addition, there is no more limit to the duration of the GMI benefit.
 - In Luxembourg, direct cash transfers to vulnerable groups aim to maintain households' purchasing power and sustain consumption. Luxembourg raised the guaranteed minimum income (+2%) as well as annuities/pensions (+2%), introduced a "service voucher" for children aged 0-12 years and provides for a life allowance for people whose monthly income is below a certain threshold.
 - In Hungary, the amount of the minimum pension which is the benchmark for most social cash benefits including the regular social assistance will not increase in 2009, in order to keep back public expenditure. The amount of universal family allowance will not be increased neither in 2009 nor in 2010. According to the plans, the age limit of the family allowance will be lowered with three years (from 23 years to 20 years), the child care allowance will be paid only until the 2nd birthday of the child, and not the 3rd birthday. There are some plans also in the field of the insurance-based income substituting family benefits (child care fee), which aim to tighten up eligibility criteria.
 - In Austria, family allowances and long-term care allowances have been increased, the situation of care-giving family members in the pension insurance has been improved, and in line with the long term commitment to fight child poverty, the last year of kindergarten before entering elementary school will become compulsory and free of charge.
 - NEW: In Poland, family allowance for children of all age groups is expected to increase by over 40% starting 1 November 2009. An increased allowance would also apply to attendance of parents of disabled children. The amounts of family allowances are a result of regulation signed in the Act of family benefits, for example the minimum amount of family allowance in 2009. These solutions will be implemented regardless of the crisis. A new regulation, planned before the crisis, aims at creating favourable conditions for development of diverse forms of care of small children (e.g. nursery, children's club, child-minder) as well as improvements of standards in small children care centres.
 - NEW: In Poland, the amount of 2009 state budget reserved to the implementation of a long-term "*Government Food Aid Programme*" was increased from PLN 500 million to 550 PLN million. Its implementation is planned to be extended to the period 2010-2013.
 - In Portugal, child allowances for low income families, lone parents and large families were also increased.
NEW: Portugal is ensuring prompt responses to the Social Integration Income (minimum income) applications and enhanced Solidarity Supplement for the Elderly. Since pensions are annually indexed to inflation, and considering that there will be a fall on price levels in 2009, the Government has decided, in order to protect the pensioners purchasing power to establish a one-off procedure for the indexation of pensions in 2010. So, an increase of 1.25% will be granted to pensions up to 630 € and 1% the pensions up to 1500€.
 - In Finland, the SATA committee introduced a number of reforms, such as providing a pension guarantee to secure a reasonable level for the lowest pensions, indexing as of 1st March 2011 basic

- security benefits currently not covered by indexation (such as minimum allowance, child benefits, home care subsidy, private day care subsidy).
- In Romania, allowances for families – including lone parents - and children, were increased, sometimes up to 30% or more.
- NEW: In Slovenia, two new legislative instruments are planned. The *Exercise of Rights to Public Funds Act* is designed to promote fair and sustainable welfare systems in the long run, based on a more transparent and simplified system of social transfer and on the prevention of abuses. The *Act on Financial Social Assistance* will establish a cap on the minimum income and new methodologies. For example, a lower sum of social assistance in cash is granted to individuals who are expected to require financial aid for a limited transitional period before providing for themselves. Moreover, a special addition to the aid is envisaged to encourage and reward persons at social risk for their active approach to improving their financial situation and earning their own living.
- NEW: Sweden increased house allowances for those in sickness or under activity benefits.-

Some Member States have implemented **tax rebates or increased the tax thresholds for tax exemption on low incomes or for different groups at risk**. New measures in this field were taken by LV, LU, MT, FI and SE.

- In Belgium, tax rebates are foreseen for people on reduced working hours.
- In Denmark, a tax reform has been adopted and includes fairly large temporary tax reductions. It will be effective as from 2010.
- In Spain, a €400 tax credit is expected to benefit approximately 16 million tax payers (workers, pensioners and self-employed) in 2009.
- In Latvia, the tax-free income threshold was increased to €128 and the general income tax rate was reduced from 25% to 23%. Tax allowance for each dependant was increased to €90. Tax allowance for persons with disability was increased to €154 (for I and II group of disability, politically repressed persons and the members of national resistance movement) and to €120 (for III group of disability). NEW: Further tax measures are planned for 2010 in order to address the difficult fiscal position of Latvia. It is planned to increase the self-employment tax from 15% to 23%, broaden the personal income tax base to all capital income and to expand the real estate tax to residential real estate. Tax compensatory abatements for employees, retirees and single-parents are abolished and replaced by restorable tax credits available to the whole population.
- Luxembourg introduced a €300 tax credit for employees and pensioners, a €750 tax credit for single parents and a 9% adjustment to income tax scales.
- NEW: In Hungary the system of labour related taxes and contributions is going to be restructured from July 2009 in two stages: the rates of personal income tax are decreasing, the lower tax band will increase and from 2010 the contributions to be paid by employers will decrease, too. These measures increase the income of employees especially in lower wage groups.
- In Malta, the income tax bands were revised, including specific fiscal measures aimed to encourage higher female participation.
NEW: Fiscal measures aim at increasing disposable income and sustaining purchasing power, whilst improving incentives to work. These measures were implemented within the overall fiscal consolidation framework, as fiscal prudence remains a priority for the Government.
- NEW: In Finland, the Government Programme envisages to reduce taxation of low income. Taxation of pensioners will be alleviated by ensuring that tax rates on pension income do not exceed those on earned income. These measures will be balanced by increased duties on tobacco products, sweets and soft drinks. Tax losses caused by reduction of local government taxation will be compensated by direct transfers from the central government to the regions. In particular, € 30 million in central government transfers will be allocated to very sparsely populated municipalities, the archipelago and the Sami communities.
- NEW: In Sweden measures aimed at income tax reduction, tax credits for households' services and in-work tax credit have been planned.

Tax rebates can also be targeted at specific expenditure, such as in Cyprus where the consumption tax on oil used for heating purposes was reduced. In Greece, the National Fund for Social Cohesion was activated, to support low-income pensioners, and the unemployed granting them the "social cohesion benefit". Italy increased the discount rates on utilities for low-income families, ES froze the level of the electricity bills for specific categories of consumers (minimum pension recipients, jobless households, etc). The UK has created a Winter Fuel Payment, worth 100 GBP for households with someone aged over 80 and 50 GBP for households with someone aged over 60.

One-off payments are also used by Member States to temporarily alleviate the situation of the most vulnerable households. In this field, two countries took extra measures since the spring 09 (LU, HU).

- In Denmark, private households are given the opportunity to withdraw savings from the Special Pension savings scheme during 2009. This measure aims to help alleviate the reduction in income for families becoming temporarily unemployed and, in general, to increase the demand for private consumption.
 - In Germany, all families entitled to child benefits will receive a one-off payment of €100 per child.
 - In Greece, a one-off social cohesion subsidy of €100 to €200 depending on the place of residence will be distributed to approximately 1.5 Million people in one of the three following categories: registered unemployed, recipients of farmers' minimum pensions, recipients of the Pensioners' Social Solidarity Allowance (EKAS). The Christmas bonus (€430 in average) received by unemployment benefits recipients was doubled. Also, through legal act, a flexible procedure for providing extra financial support by OAED has been established.
 - In France, an increased Christmas bonus of €220 was distributed to minimum income beneficiaries (1.2 million people) and a one-off payment of €200 will be paid in anticipation to 3.8 million households that are the future beneficiaries of the new income support scheme "revenu de solidarité active" that came into force in June 2009.
 - In Italy, a lump-sum bonus was introduced for low-income families, varying from €200 to €1.000 depending on family size. A €20Mio fund is planned to help families paying their rent.
 - NEW: In Luxembourg a cost of leaving allowance replaces and doubles the rates of a former '*heating allowance*'.
 - NEW: Hungary introduced in August 2009 a new social benefit for families with a per capita income that does not exceed the minimum wage and with the claimant in a crisis situation. This scheme is funded by the Crisis Fund (€15.6 million). The distribution of the benefit is supervised by a newly established Consultative Body.
- In addition, the Central Administration Pension Insurance Fund increased by € 300 million and ensured one-off payments for old age people. As a result, 40000 elderly people can receive a one-off payment.
- In the UK, Government ordered a special one-off payment of £60 to 15 million vulnerable people to help them through the winter and ease worries they have with their bills. The Christmas bonus was increased (for a year) from £10 to £70, resulting in additional support of approximately £900 million. This payment will be received by 12.5 million pensioners, 2 million disabled people, 350,000 carers and 150,000 people on bereavement benefits. In addition to this one-off measure, cold weather payments (support for the elderly to help cover fuel payments during extreme weather conditions) have been increased for this winter. Government will be spending £575 million on increased Winter Fuel Payments this year

2.5. *Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness and pensions*

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.

Some Member States have taken measures to **protect mortgage holders** from defaulting on their mortgage payments and risk losing their homes. Slovakia has adopted a **new measure** in October 09.

- In Greece, a one off housing loan subsidy of €500 will be awarded to those servicing housing loans, provided that they are entitled to social solidarity allowance or are unemployed currently receiving unemployment benefits. A bill was presented to Parliament aiming at protecting further mortgage holders, by raising the ceiling under which property could be sold at auction because of overdue loans, from €10,000 to 20,000.
- Spain has introduced the possibility for mortgage holders in vulnerable situations (unemployed, low income) to postpone 50% of mortgage payments for 2 years without costs. 500.000 families are concerned. Mortgage holders also have the possibility to extend their mortgage loan period without costs and exempt from fees. Additional facilities have been applied to Housing Saving Accounts (*Cuentas ahorro vivienda*) extending the period for its realisation. A lower interest rate will be applied to social housing and, from July until the end of 2010, a new State guarantee of 50% of the new mortgage for social housing will be carried out, with a total amount of €6.000 Mio.
- Italy has established a fund to help holders of variable interest-rate mortgages facing the increase in their monthly payments, and gave mortgage owners the possibility to extend their mortgage loan period without any costs or penalties. Further measures are currently being considered, including a cap on interest rate on already activated variable-rate mortgages.
- Luxembourg has adopted general tax measures to support real buyers and owners, including specific measures targeted at the low income households.
- In Lithuania, mortgage holders who have special mortgage insurance and who face financial difficulties will be allowed not to pay mortgage repayments for one year.
- In the Netherlands, extra resources are main available for debt relief (€30Mio in 2009, €50Mio in 2010, and €50Mio in 2011).
- In Poland the government has introduced a scheme to support the unemployed mortgage holders. People who lost their jobs in the wake of the economic crisis will have their mortgage loan payments covered (up to PLN 1200 per month). Governmental loans will have to be repaid within 8 years in their nominal value (equal monthly instalments paid after the two years of the support expiry). The scheme will be financed from the Labour Fund and the privatization income.
- In Portugal, a new mechanism allows home owners to alienate their property to a real estate fund, which will replace the mortgage burden with a lower rent, while allowing them to keep a buying option on the house they are renting. For families with owner-occupied housing expenditures, where one of the spouses is unemployed for more than three months, there is a benefit of a moratorium in the housing mortgage. This moratorium can be extended for up to two years, corresponding to a reduction of 50% in the monthly mortgage payments. The interest rebate for unemployed with housing loans is also strengthened.
- NEW: In Slovakia, the government approved a system of public support, implemented as from October 2009, to protect mortgage holders, unable to pay monthly instalments, for a limited duration of time. The system consists of the restructuring of overdue loan by banks (6 months minimum) and the subsequent provision of reimbursable subsidy in the amount of 70% of the monthly instalment by the State (6 + 6 months maximum).
- In the UK the government has introduced the Mortgage Rescue Scheme for those in imminent danger of losing their homes (eligibility criteria were broaden recently), and the Homeowner Mortgage Support Scheme which has been recently improved, for those having temporary difficulties with repayments, and there is an Equity Sharing scheme to help first time buyers.

Member States also provide **direct support to mortgage** holders through tax rebates and extension of the tax exemption period. Slovakia has adopted a **new measure** in the summer 09.

- NEW: In Hungary, a recent law adopted provides cash guarantees on housing loans temporarily for those who have lost their job after 30.09.2008.
- In Portugal, the government supports low income home owners by increasing the amounts of housing expenditure that can be deducted from their tax returns.
- In Greece, a bill was presented to Parliament aiming at protecting further mortgage holders, by raising the ceiling under which property could be sold at auction because of overdue loans, from €10,000 to €20,000.

In countries with larger pre-funded schemes in their pension systems authorities are seeking ways to **help pension funds recover** from the sharp deterioration in their ability to meet their long term liabilities resulting from the radical fall in the book value of their assets. Securing the safety of pensions in payments and avoiding cuts in nominal benefit levels are obvious priorities.

- In Ireland where the financial crisis has had a significant impact on funded pension provisions a number of short-term measures have been put in place to help ease these difficulties, including a more flexible approach to the application of the requirements of the funding standard, the availability of state-funded annuities on pension schemes and, most recently, the proposal by Government to introduce a Pension Insolvency Minimum Guarantee Scheme to protect members in the situation of both an under-funded pension fund which is being wound up in the case of insolvency. A new Pensions Insolvency Payment Scheme has been introduced. This will enable qualifying DB schemes in deficit with an insolvent employer to pay the Exchequer to take over the provisions of its retired members (as an alternative to purchasing annuities), thus freeing up other scheme resources to go towards the benefits of those yet to retire.
- In Lithuania, social insurance contributions to the funded pension schemes are reduced temporarily from 5.5% to 2% by 2012. They will be increased again to 6% after 2012 for minimum 3 years.
- In the Netherlands the government and the social partners have agreed that pension funds will have until 2012 to restore their solvency to minimum standards by other means before they will have to look also at the lowering of benefit levels. Yet, already this year most funds will have to refrain from the indexation of pensions in payment and pension entitlements accruing.
- The Finnish employment pension scheme of the private sector is a partly pre-funded scheme financed by employer and employee contributions. In 2008 the solvency requirements of the pension institutions were at risk. In order to secure investment portfolios in the short term, and prevent a forced sale of equities, temporary legislation was given by the Parliament in 2008 changing temporarily the solvency calculation principles up till 31.12.2010. This temporary legislation is now proposed to stay in force until the end of 2012.
- The UK is relying on pre-existing measures that ensure schemes are appropriately funded by scheme sponsors and under the same frame work, eligible defined-benefit occupational pension schemes are required to pay a pension protection levy, a statutory fund which provides compensation to people when an employer experiences a qualifying insolvency event and their eligible pension scheme is unable to pay benefits. Both offer protection for pension fund members.

2.6. *Specific measures targeted at the most vulnerable*

In addition to the measures targeted at youth, Member States have taken specific measures to protect the most vulnerable in the crisis, including measures targeted at families with children (LU, HU, MT, AT, PT), migrants and ethnic minorities (BG, HU, SE, UK), the disabled (SI, SE), or other vulnerable groups, such as youth, jobless households, the low skilled and older workers (PT).

- In Bulgaria, specific measures aim to improve the educational and labour market integration of children with specific needs and children from ethnic minorities. A new "social services for social inclusion" scheme, expected to be launched in the coming months, would cover social services targeted to children

and the elderly and the development of innovative social services. Moreover, social canteens will be established by municipalities and social services providers in order to support vulnerable persons and families on monthly social assistance, persons with no incomes, on minimum pensions living alone and homeless persons.

- In the Czech Republic, a temporary measure was introduced to slightly extend the coverage of family benefits and increase the level of child benefits.
- In Germany, the act to Promote Families and Household Related Services (*Gesetz zur Förderung von Familien und haushaltsnahen Dienstleistungen*) provided incentives (at federal level) for employment and helps individuals combine work and family life. The Federal "Future Investment Act" provides 6.5 billion Euros as financial support for more investments in education infrastructure. This includes investments into early childhood infrastructure. Moreover, financial subsidies (€ 2.15 billion) are supplementing Federal Government investments in new day-care places for children (under three years of age) to be established by 2013. These subsidies aim to boost investments for the entire early childhood infrastructure for children up to the age when they start school.
- In Spain, the Plan E includes a further investment of € 400 million for the implementation of the Law for the *Promotion of Personal Autonomy and attention to dependent people* (adopted in December 2006) to be added to the € 1159 million to be received by the Autonomous Regions in 2009.
- Latvia has introduced various initiatives to provide support to the most vulnerable persons (e.g. increase in the GMI benefit), needy persons (exempted from health care contributions; full coverage of expenditure for reimbursable pharmaceuticals and medical services; exempted from payment for stay in "hospital hotels"); unemployed people and people at risk of unemployment (provided work practices in local municipalities ensuring stipend, extended length of unemployment benefit, etc.)
- In Lithuania, continuous attention is given to the activation and social integration of the disabled as well as their integration in the labour market. Two ongoing ESF projects are supporting social enterprises (1402 persons were involved in the first six months of 2009) and the provision of vocational rehabilitation services for disabled (217 disabled people participated in the programme). Other ESF projects, which are funded with a total budget of LTL 76 million, aim at the integration of people facing social risk and social exclusion into the labour market.
- In Luxembourg, low revenues households can claim up to 25 hours of free child care support per week. In addition, the former heating allowance is replaced by a cost of living allowance and the rates of new allowances are doubled.
- In Hungary, despite budgetary constraints and taking into account necessary restructuring of benefits, government initiatives focus on the most disadvantaged, those losing their job or fighting over-indebtedness, a number of specific measures was taken. For example, a significant improvement of child-care services includes availability of child-care institutions. Moreover, priority measures aim at improving the situation of the Roma. Comprehensive programmes covering the social and labour integration of Roma community will be launched in early 2010. Methodological guidelines were elaborated to ensure access to development resources for the Roma in various areas (education, urban rehabilitation, etc.).
- In Malta the Government increased child care benefits and the support to foster families for additional expenses to foster a child. The NRP 2008-2010 includes a specific measure (Employment Aid Programme), supported by the ESF. The aim of the Employment Aid Programme is to contribute towards the integration of disadvantaged persons and persons with disability in the labour market by facilitating access into employment through financial assistance and upgrading of skills of those furthest away from the labour market through work experience.
- In Austria, child-care measures were reinforced in 2009, including compulsory child-day-care for all children at the age of 5 supported by the government (€ 70 million); changes in the child-care allowances regime; special provision for lone parents (prolonged childcare allowance); modified modalities for supplementary childcare benefits.
- In Poland, in October 2008 the Council of Ministers adopted the programme entitled "Solidarity across generations. Measures for those aged 50+". The programme provides for measures that increase incentives for enterprises to employ people aged 50+, as well as for measures that encourage the improvement of qualifications, skills and efficiency of this age group.
- Portugal introduced tax rebates or exemptions and extended the social support for specific vulnerable groups. Additionally, the Government decided to increase child benefits paid to beneficiaries in the first

and second lower brackets of income and for other vulnerable families such as sole parent and larger families, and the enhancement of school welfare and family allowance. There has also been a reinforcement of existing measures, such as a more prompt response to the Social Integration Income (minimum income) applications, the enhancement of the Solidarity Supplement for the Elderly and the increase of the Minimum Wage, which is expected to lessen the impact of the crisis on more vulnerable households.

- In Sweden, targeted measures were adopted for people with reduced work capacity, long-term unemployed, measures to promote working longer, newly arrived immigrants (government measures to be adopted in the final quarter of 2009), youth (development and targeting of a long-standing strategy for dealing with unemployment of young people).
- In Slovenia, the "Special allowance for Socially Disadvantaged Persons Act", adopted in 2009, aimed at the inclusion of vulnerable groups. A *Scholarship Act* is currently in preparation and will aim at ensuring equal access of children and youth of different social and economic background to education. A *School Nutrition Act* is under preparation currently by the Ministry of Education and Sport. In Slovenia, the State has provided additional financial means to targeted NGOs (Red Cross, Karitas) to coordinate various measures in support of the most vulnerable.
- The United Kingdom in general is expected to maintain the previous set of measures and to avoid the experiences of past recessions, when people were moved on to inactive benefits creating traps for individuals. A central notion is the "Progression to Work" group aimed to those on income support (such as lone parents). Jobcentre Plus also fast-tracks certain disadvantaged groups. On a voluntary basis and subject to capacity, more intensive support in finding a work is available, notably for ex-offenders, refugees and other foreign nationals granted leave to stay; homeless people, etc.

2.7. *Specific measures aimed at ensuring equal opportunities for men and women*

Member States have adopted specific measures aimed at ensuring equal opportunities between men and women, including measures to reconcile work and family life (LU, MT, AT, PL, DE), including improved overall access to child care facilities (LU, AT, DE) or flexible working hours (PL), specific training opportunities for women (MT, PT).

- In Germany, according to the Children's Advancement Act of 2008, day care for children until age three should be extended by 2013 in such a manner as to meet the actual needs of parents and their children. By 2013, every third child under the age of three should be provided with day care facilities. At the same time, a legal claim to day care for children from one year old will be introduced. In addition to quantitative expansion, the quality of support in day-care centres as well as in family day care should be ensured and further developed through pedagogical concepts and evaluation measures. Especially in times of economic crisis, a sustainable family policy is of particular importance. Family policies which have in the last years created real choices for families to reconcile job and family, prove meaningful especially in times characterised by economic difficulties. Families need a combination of three factors: time, money and infrastructure
- In Luxembourg, a reform of social assistance scheme aimed at improving access to child care facilities independently of the income situation of the parents: 3-hour free child-care per week and 21 hours available at reduced price.
- In Lithuania, measures adopted in July 2009 aimed to strengthen the protection of women from discrimination in the labour market during the period of pregnancy and maternity as well as the competences of the Equal Opportunities Ombudsman to conduct independent research, reports and provide consultations on issues gender discrimination. A financial instrument, supported by the ESF, aims to create favourable conditions for economically active people in working age to combine family and work obligations and to promote the creation of family-friendly jobs. Finally, the ongoing implementation of the National Anti-discrimination Programme 2009-2011 will include the examination of manifestation and causes of discrimination in all areas of public life.
- The Maltese Public Employment Service engaged in a number of efforts taking into account the gender impact of the crisis. The "Employability Programme" is organised in such a way to give the opportunity to those who have family responsibilities to participate and improve their skills (e.g. through evening classes). Local Council offer the Employment for Women courses. These actions are framed in the

overall gender equality action plan in Malta. In developing measures on reconciliation of work and family life, a Working Group of senior officials from relevant public sector entities and representatives of the social partners was set up in 2008 to analyse the Maltese labour market from a flexicurity perspective.

- In Austria, active labour market policies will continue to contribute to decrease gender-related inequalities. An element of the Economic Stimulus Package is the state annual contribution in 2009 and 2010 for a compulsory and free of charge nursery year (€ 70 million) from age of 5.
- In Poland, according to the new legislation adopted last July, all employees with a dependent child of 14 may require establishing an individual work schedule with varied starting and ending times. The Human Capital Operational Programme, co-financed by ESF, introduced various gender-related elements, including gender impact assessment of projects submitted to the programme.
- In Portugal, specific measures and programs aim to protect the vulnerable groups in the labour markets, particularly women. The New Opportunities Initiative (training, enabling them to recover, complete and progress their qualifications) aims at achieving a high level of women participation.

2.8. Investing in social, educational and health services infrastructure

In many countries, investments in social services infrastructures (incl. health care, social housing, child care, long-term care) are intended to boost the construction sector and generate labour demand, while improving access to various social services:

- Bulgaria has foreseen a 20% increase in social security expenditure for 2009. Bulgaria maintains its plans to reinforce social protection, including extra funding for the health and education sectors.
- Denmark is shifting forward money reserved for future public investments rather than increasing public consumption. Municipalities have launched plans for major renovations of schools and kindergartens and regional governments are moving forward investments in health infrastructure. Moreover, 0.1% of GDP will be made available in subsidies for inducing building improvements and repairs in private homes, including energy-saving projects. Citizens can apply for grants/subsidies covering a part of the expenses.
- Germany adopted additional investments at the federal, Land and local-government levels in educational infrastructure (nurseries, schools, universities; to make up two thirds of overall planned expenditure) and other infrastructure (particularly transport, hospitals, urban development). These will be financed at the federal level, for an amount of around €14 billion, and by the Lander (with approximately €4 billion).
- Spain has recently allocated €110Mio to be distributed among the autonomous communities for the promotion of process of housing restoration and generate jobs. This fund adds to the budget foreseen under the recent State Housing and Rehabilitation Plan (2009-2012).
- In France, measures are taken to increase the capacity of emergency temporary housing (sheltered housing, etc.), and improve support given to homeless people and people in sheltered housing in accessing longer-term housing, and housing intermediation.
- In Cyprus, a €4 million scheme was put in place to support local authorities' investments in social care infrastructure.
- Latvia has adopted €536.4 million European Regional Development Fund (ERDF) investments in order to facilitate social, educational and health services infrastructure in Latvia during the period 2007 – 2013. In 2009, the government initiated the state support programme for multi-family apartment owners as a co-owner community for the purposes of performing energy audits and elaborating technical solution projects for renovation of the co-owned building. In the ERDF framework, Latvia is currently implementing: (1) activity “improvement of energy efficiency in multi-family housing” financed through ERDF financing (14 139 Mio LVL) and by beneficiaries (2 495 Mio LVL); (2) activity “energy efficiency in the social housing sector” financed through ERDF financing (6 922 Mio LVL) and by the State and municipalities (2 307 Mio LVL).
- Luxembourg plans to intensify the provision of social and moderate cost housing.

- In Malta, as part of the Government's social housing programme, several housing units have been offered for sale at subsidised prices in various localities in Malta and Gozo, and the Housing Authority has launched a means tested scheme, whereby it will pay up to a maximum of 30% of the monthly loan repayment for a period of ten years to first buyers.
- In Austria, the Government agreed on a budget of €355 million for public (federal) housing improvements aiming at saving energy, prescheduled maintenance works, new buildings, general restructuring of schools, universities and court houses.
- Portugal has created an €8 billion Local Investment State Fund for new public works at town level; another €705 million for works in public buildings, housing and transport infrastructure (as part of the Special Fund to stimulate the economy).
- Within the budget framework Slovenia is encouraging investments in health and social assistance infrastructure. Rationalisations of the operation of health care providers and negotiations leading to lower prices on medical services, drugs and medical products has improved the reach of the health budget.
- In the UK, £100 million have been allocated to expand the premises of around 600 GP practices (as part of bringing forward capital spending). A range of measures, including 375 million GBP will support energy and resource efficiency in business, public buildings and households over the next two years. Another £600 million funding package of measures was created to build more homes including £400 million to unlock currently stalled housing developments

3. The impact of the crisis on health and health care

The current economic and financial crisis may have a severe impact on the health care sector in several EU Member-States on both the supply and the demand sides. On the supply side, the economic and financial crisis may lead to a reduction in the level of funding for health and long-term care services as a result of budget cuts and lower tax revenues, while the demand for health and long-term care services may increase as a result of a combination of factors that contribute to the deterioration of the health status among the general population.

Several Member-States have included measures to mitigate the impact of the economic crisis on the health care sector within their recovery packages

3.1. by investing in the health infrastructure:

- In order to ensure the funding of health care, the Belgian authorities require that a considerable amount is reserved every year in the Fonds pour l'Avenir des Soins de Santé. Moreover, in its budget layout for 2010, the Flemish Government referred to the innovative potential of the high performing healthcare sector, which will be further developed through translational research and the introduction of ICT in the healthcare.
- The Bulgarian government plans to optimize public health care expenditure by restructuring public health facilities based on a health map of medic services.
- In Denmark, planned DKK 40 billion (EUR 5.3 billion) investments in new hospitals can be regarded as a remarkable increase in public health care infrastructure, although they were not initially considered as part of a recovery plan. In the coming 10 years 5 new major acute-hospitals will be built and at least 11 hospitals will undergo major renovations.
- In Cyprus, the reform of the health care system mainly involves the restructuring of the public hospitals into autonomous establishments under the wider public sector and the implementation of the National Health Insurance System (NHIS). The main goal of the reform is to improve effectiveness via regulated competition and to contain costs.
- In The Netherlands, the government provides an investment impetus of 350 million Euro (until 2011) in the form of loans with favourable conditions. This can also be used for health care and long-term care institutions (like hospitals or nursing homes) to finance construction projects.

- In Poland, spending for the health protection in 2010 will be comparable to spending in 2009, according to the draft budget. However, a 39 % increase is provided for Health Ministry's expenditure, i.e. health programmes and highly-specialized health provision financed from the state budget.
- In Portugal, the recovery package includes additional investment in health care infrastructures notably in the primary care sector, in mobile health care units and in the long-term care network.
- The Finnish government allocated an additional aid of EUR 10 million to local authorities for repairing health centres, day-centres and homes for the elderly.
- In the United Kingdom, public investment through the NHS includes additional GBP 100 million allocated to new primary care facilities. Additional funding is also being used to encourage innovation in the health sector (infrastructure, medicines and other technology).

3.2. by providing additional funding to the health care sector:

- The Czech Government proposed in February 2009 several measures to reduce the impacts of the economic crisis in the area of health care, aiming at securing sufficient funds for the healthcare sector during the crisis, at better utilization of the existing resources within the healthcare sector, at protection of the patients' rights and claims, as well as at increasing employment and GDP. The combination of these measures could generate additional funds for the healthcare sector in the amount of CZK 4.1 billion in 2009 and CZK 7.3 billion in 2010. At the same time, it is possible to make better use of the existing resources allocated to the budgets of individual health insurance company – at least in the amount of CZK 4.5 billion. The proposed temporary measures to achieve short-term reduction of prices and coverage of pharmaceuticals, may lead to savings of about CZK 2.5 billion.
- The 2010 financial agreement between government of Denmark and the regional authorities includes a substantive boost for the health care sector of DKK 830 billion (approx. EUR 110 billion) for improved treatment at the hospitals. Together with an expected productivity increase of 2%, this boost will result in an expected activity increase of approximately 3.5%.
- In Germany, the total available financial amount will remain as budgeted for 2009. Thus no reductions in the around 4.4 million-strong health sector workforce are expected. On the contrary, decisions taken in 2008 have enabled increases in employment in the health sector, with up to 17.000 more staff in the hospital sector and up to 20.000 more jobs in long-term care homes.
From 1 July 2009, the wage-based contributions to the statutory social health insurances were reduced by 0,6pp of the wage base. This was compensated by increasing the financial support from the federal government to the social health insurance system, to make it become a total support of 11,8 Bn € in 2010. The financial support from the federal government is foreseen to expand to 14 bn € in 2012 to make the social health insurance more independent from labour market developments. The new Gesundheitsfond (central health fund), introduced in 2009, has helped delay potential increases of the wage-based contributions to the statutory social health insurances. The Gesundheitsfond carries the full risk for reduced total revenues from wage-based contributions in 2009, by using a liquidity loan facility from the Bund (federal government). Thus, the wage-based social insurance contributions need not to be raised in 2009, as would perhaps otherwise be the case. The repayment time for this liquidity loan has also been further extended, so it is now only due in 2011 instead of 2010.
- In Finland, the recovery package includes an additional government aid of EUR 28.6 billion, which the local authorities, confronted with lower local tax revenues and thus stricter financial constraints, could use in order to develop health care and social care services. Interestingly, the government is using the current economic crisis as an opportunity to strengthen health promotion through various measures including by raising VAT on strong alcohol, tobacco, soft drinks and sweets while reducing VAT on foodstuffs, as well as by improving health promotion in schools and workplaces.
- In Sweden, the local municipalities and the county councils are responsible for social and health care services. To cushion the effects of the economic crisis the Government proposes a temporary support for 10 billion SEK during 2010, on top of the 7 billion SEK that were proposed in the budget for 2009. (70% of the new temporary support for 2010 should go to local communities, the remainder to the county councils.) The municipalities should use the increased resources to maintain employment and meet their commitments for schools, social services and elderly care. The Swedish government's

financial support to the county councils in 2010 should help them avoid cuts in personnel within the health care sector.

- The United Kingdom government is also allocating additional funding to the sector, such as a 5.5% budget increase in each of the two coming years for primary care. However, it recognises that in the years beyond 2011 there will be a need to control expenditure growth and improve savings and efficiency of about GBP 15-20 billion from 2011-2014 notably through best and innovative practices.

3.3. by restructuring and reorganising the health care system:

- The Bulgarian government plans to improve the mechanism for collecting health insurance contributions and ensuring financial discipline in the health care system. Moreover, the government is determined to elaborate the health care model in the country with the introduction of market regulated relations between private health insurance funds on one side and the state National Health Insurance Fund.
- The measures taken by the Cypriot Government in the field of health as part of the efforts to restore economic growth aim at the use of resources in the most productive and efficient way, the re-definition of priorities (so as to reallocate funds and distribute any surpluses to other fields which appear to have higher deficits) and the reorientation and reorganisation of healthcare services, in an attempt to respond effectively to the increased demand for healthcare services in view of the unemployment. As a result of the crisis, there is an increase in demand for healthcare services in the public sector, especially from citizens who did not rely on the public sector in the past.
- In the second half of 2009, the Latvian health care budget has been reduced for about 16% in comparison with first half of 2009. To maintain access to health care services within limits, the Latvian Ministry of Health has set the following priorities: development of outpatient health care; guaranteeing of emergency care; health care of pregnant women and children as well as actions pointed at preventive measures.
- The Lithuanian authorities are taking the economic crisis as an opportunity to revise budget allocation in the health sector giving high priority to primary health care and health promotion and disease prevention activities, first and foremost as well as preparing some restructuring of hospital care by encouraging greater use of outpatient care and daycare surgery vis-à-vis inpatient care.
- For Luxembourg a Quadripartite Committee – which includes representatives of the ministerial departments in charge of health, social security and finances, of workers' and employers' organisations and of care providers – monitors how current measures are being implemented and examines their effectiveness with a view to improving the quality of care, ensuring that the insurance scheme remains financially balanced and maintaining the performance of the health care system.
- In Hungary, health contributions have been decreased to reduce the costs of labour in an attempt to maintaining labour market participation and decreasing further lay-offs by mitigating financial burdens on employers although this has contributed to losses in Health Insurance Fund revenues amounting to HUF 40 billion. The Hungarian authorities wish to maintain employment notably through providing a more favourable environment to certain sectors such as the pharmaceutical industry. Health policy priorities focus on emphasizing primary care, outpatient care, one-day surgery and ambulatory care which are measures deemed to improve effectiveness and efficiency and can be important especially in the context of the current economic crisis.
- In Poland, analyses of the impact of the financial crisis on the health care system show that it may primarily affect the health insurance system, as well as the amount of general budget funds earmarked for health services. The economic crisis also affected negatively the implementation of health programmes financed from the state budget, as the amounts earmarked for such programmes in 2009 decreased compared to 2008. Also, at the end of 2008 financial resources were blocked, which resulted in inability to pay all medical entities that implement the health care programmes and provide highly specialist services. Those liabilities had to be paid for from financial resources provided for 2009.
- In Portugal, measures in the health sector include: a 100% of co-participation of generics to the elderly with a pension income below minimum wage (approximately one million elderly), streamlined access to technical aid for people with temporary or permanent disabilities, legislative measures to lower the prices of medicines notably to those on low income, free oral care to children, pregnant women and

- elderly and access to the National Health Services by all migrants regardless of their legal status. The recovery package includes additional investment in health care infrastructures notably in the primary care sector, in mobile health care units and in the long-term care network.
- In Slovenia, several measures have been directed at lowering some of the costs of the health care budget and at optimising processes in healthcare at the organisational level: cost reduction for payment of goods and services such as healthcare services by 2.5 % and tertiary services by 5%, as well as a 5% reduction in the medical staff salaries.

However, other Member-States such as **Belgium, France, The Netherlands, or Austria**, did not introduce specific health-related measures in order to cope with the economic crisis, either because their health systems have not yet been directly affected by the crisis or because they want to postpone measures to reduce deficits or because health care is not regarded as a key element in the re-launch of economic growth.

4. Monitoring the social impact of the crisis: using existing instruments and setting-up new ones

As part of their short term measures to react to the crisis, most Member States have reviewed their capacity to monitor closely the social impacts of the crisis. Some have social monitoring tools already in place, either monthly or quarterly. In many cases, this monitoring is not centralized but scattered in the departments in charge of the different policies concerned. They mainly draw on administrative sources and on monthly or quarterly surveys. These tools cover labour market trends (unemployment, employment, job vacancies), administrative data on social benefit recipients, and the housing market.

Among the countries who replied to the questionnaire, such centralized **monitoring exists** in BE, CZ, DK, DE, ES, LT, PT, FI and SE. In CZ, DK and SE the system is so far considered sufficient to monitor the social impact of the crisis.

- Lithuania has called on academics to support the government in its appreciation of the impact of the crisis.
- Portugal is planning to set up a new alert system.
- Finland is supplementing its system with specific reporting on layoffs.
- Luxembourg has set up a specific inter-ministerial group to monitor the social impacts of the crisis.

In FR, EE, AT, SK and the UK, the governments are **setting up specific monitoring tools** to measure the social impact of the crisis, either drawing on the existing scattered evidence or through new survey tools.

- France is setting-up a new "alert system" which combines three elements. The first element is a list of indicators that will be drawn from a review of existing relevant data sources. The second is a "social vigilance survey" for which the Ministry of Social Affairs has launched a feasibility study. Such a survey aims at providing early warnings on new aspects of poverty and social exclusion that are not captured by traditional tools and should cover a sample of 1000 actors directly in contact with people in need. The Ministry of Social Affairs has also launched another study in order to test the feasibility of qualitative surveys on people experiencing poverty and exclusion (through different methods of group interview on different groups of people facing different kind of exclusion).
- Austria has set up a quarterly reporting on the social impacts of the crisis and provides up-to-date statistical data to the government and on its website. On a bi-annual basis the monitoring covers additionally detailed analysis on social impacts - its causal relationship and possible delayed impacts.

- The Ministry of employment and social affairs in Slovakia has set up an action committee for monitoring the impact of the crisis. The committee will monitor labour market trends and the situation of people receiving or in need of income support.
- The UK government has set up a National Economic Council who continuously monitors a range of social and economic indicators at national and sub-national levels.
- In Poland the government is preparing the special tool called “crisis map”, which will help to identify districts affected by the crisis development.

In BG, IE, LV, LT and HU existing weekly, monthly and quarterly evidence is **analysed but no specific monitoring system** has been put in place or planned yet.

With regard to indicators, it is generally recognised that the usual common indicators are not sufficiently reactive in a context of rapid change, and Member States recommend the use of a varied range of data. These include: employment and unemployment rates, participation rate of older workers in the labour market, GDP growth, inflation rate, growth in wages, pensions, social benefits, number and rate of recipients of social assistance, number and rate of households in situation of over-indebtedness, consumer confidence indicator.

Belgium envisages that the monitoring of the development of funded pension systems and their impact on financial and social risks can be improved including through a common framework at EU level. Italy has set up a monthly report that includes economic and labour market indicators, published on the Ministry of Labour, Health and Social Affairs website.

5. Longer-term impacts expected on the major social security schemes

5.1. Long-term impacts of the crisis on major social security schemes

Presently most countries are still committed to the strategy they presented in the National Strategy Reports. Many have adopted special additional measures in response to the crisis. In general, Member States are not planning to reduce social spending for vulnerable people and in some cases (AT, EL, SI) they will even increase it to cushion people from the crisis. However, some plans clearly specify that increased spending in some areas will be counter-balanced by cuts in others (e.g. IE) or that overall social spending will be cut across the board. Finland expects a reduction in social services spending as they are in charge of municipalities and these may face financial constraints due to tax revenue falls. In Hungary, there will be substantial cuts in the 2009 public sector budget, including for the health sector and pensions. In Latvia, resources foreseen for the health care system and the long-term social care programmes have decreased in the 2009 budget adopted by the Government. This will impact substantially on the health care system. Without regard to the reduced funding for health care, the Ministry of Health has exempted several categories of vulnerable people from the patient fee payment both in primary and secondary health care: the patient concerned are children, pregnant women, poor people, politically repressed persons⁴, 1st group disabled, persons with particular diseases such as tuberculosis, mental illnesses, or persons receiving home care.

Regarding the longer-term impact from the crisis on the pension schemes and social security schemes in general, many countries observe that the effects of the current crisis are still currently hard to predict. Presently the bulk of pensions in payment are delivered by public PAYG schemes on which the crisis in financial markets has no direct effect. By contrast the

⁴ In Latvia, "politically repressed persons" are victims of communist and Nazi regimes.

book value of the assets of pensions funds have been significantly reduced and real issues of solvency could emerge if markets take long to recover. But apart from a few Member States this would primarily affect the incomes of future pensioners in the medium to long term. Therefore most Member States perceive their pensions systems as quite resilient. However, if the crisis deepens and continues for several years, even PAYG systems will be affected as unemployment and lower growth will reduce revenues from taxes and social contributions and weaken public finances.

- In Cyprus, the Social Insurance legislation has been amended as of 1 April, 2009 in order to increase the revenue and contain the expenditure of the Social Insurance Fund. This includes a Gradual increase of the contribution rate by 1,3% every 5 years until 2039.

Some countries (AT, BE, DE, HU, LT, LV, SI and the UK) are anticipating a rise in unemployment and a subsequent fall in contributions and tax revenues. Some of these countries consider that a moderate fall in the level of pension benefits could happen. To offset the effect on the labour market some countries as BE or ES will insist on active employment policies. In others cuts to expenditure have been proposed (e.g. LV, EE). In just a few Member States, automatic adjustment mechanisms that would have decreased the level of pensions in line with economic developments are being overridden (e.g. SE, FI). In NL the government plans an increase of the retirement age to improve the sustainability of schemes and public finances.

- In Latvia, according to government plans, expenditure cuts are also to be applied in the area of welfare. Present pensioners are affected through reduced benefits in payment, as pensions have seen an overall 10% reduction (70% for working pensioners). The amount of early retirement benefit is also lowered. There will be no indexation of pensions in 2009 and 2010. From 2011 price indexation will be applied.
- In Lithuania, the State Social Insurance Fund to cover the large deficit will reduce state social insurance pensions by 0.4-12.4 percent depending on an individual's pension insurance record.
- In Estonia budget cuts will reduce the planned rise in pension benefits from 14% to 5%. But in most cases, this negative scenario depends on the duration of the crisis.
- In Bulgaria and Slovenia social contribution falls will be compensated with general tax revenues and in Bulgaria pension benefits will even increase.
- In Finland, the Government has decided to freeze the index values of the National Pension Scheme. The National Pension and several basic protection benefits are normally adjusted annually in line with the cost-of -living index. The index change from 2009 to 2010 would however be negative. In order to avoid a decrease in benefit levels the index values for 2010 will be the same as for 2009. In practice this means an increase in the real value of these benefits.
- In Sweden, the formula of the automatic balancing mechanism has been adjusted in such a way that the effect on the budget balance of the pension systems of negative returns for the reserve funds is smoothed out over a three year moving average.
- In the Netherlands, The government plans to take structural measures starting in 2011, which should eventually improve the sustainability of public finances by an additional 1¼% of GDP. The most important of these measures is an increase in the pensionable age by 2 years to 67 years. The new policy will be introduced in two steps, with the pensionable age rising to 66 years in 2020 and to 67 years in 2025. There would be special provisions for people with disabilities, people who began their careers very young and those who worked in physically or mentally demanding jobs.
- In Portugal, pensions are annually indexed to inflation, however considering that there will be a fall on price levels in 2009, the Government has decided, in order to protect the pensioners purchasing power to establish a one-off procedure for the indexation of pensions in 2010. Accordingly, an increase of 1.25% will be granted to pensions up to 630 € and 1% the pensions up to 1500€.
- Hungary is in a particularly delicate situation and will need to reduce public finance deficits. Thus Hungary is reducing subsidies and public sector wages and cancelling or postponing planned pension payments (e.g. the 13th month's pension, and the next phase of the pension correction program) and

social expenditure growth. The indexation of pension will be changed to contain pension expenses and the ongoing increase in the pensionable age will be accelerated.

5.2. Long-term impacts of financial turbulences on funded pension schemes

The share of the population which contributes to funded pension schemes varies significantly from one Member State to another. With losses ranging from 14-35% funded schemes have been strongly affected by the financial crisis through falls in asset values. However, most countries share the opinion that the negative effects for future pensioners may be far more limited given the long-term nature of pension funds and the likelihood that financial markets will recover. Responses have centred on easing the timeframes for pension funds to prepare credible plans for restoring their solvency.

While it may be too early to predict the consequences for future benefits from funded schemes the effect on present pensioners' income even in those few Member States where funded schemes are most developed has so far been very limited., Where funded schemes are significant for present pensioners and those retiring today they tend to be of the Defined Benefit kind where the investment risk is borne by the scheme. So the individuals still receive roughly the expected pension. What could be affected is the indexing of pensions in payment. By contrast in countries (e.g. BG, EE, LT, HU, LV, PL, SE and SI) that recently introduced mandatory Defined Contribution type schemes where the investment risk is born by pension savers dropping market values of assets may have consequences for future pension benefits. The crisis may also make it difficult for these countries to maintain the planned tempo in the build-up of funded pension entitlements (e.g. PL, SV).

- In Estonia all compulsory contributions to funded pillar II schemes will be cancelled from 1st June 2009 until 31st December 2010, however from 2010 the members can voluntarily restart their contributions. From 2011, compulsory contributions will be restarted at 2% (state) and 1% (member) of half of the usual level. Contributions at normal levels of 4% and 2% would be reintroduced from 2012.
- In Latvia a part of contributions to the mandatory funded DC scheme has been diverted to feed the PAYG NDC scheme. Contribution rates to funded pillar are reduced: in 2009 – from 8% to 2%; in 2010 – from 9% to 2%; in 2011 – from 10% to 4%; in 2012 and all the next years – from 10% to 6%.
- In Hungary, private pension funds saw a considerable loss of their assets in 2008, while the value of savings has increased in the first three quarters of 2009 due to the favourable capital market processes partly counterbalancing former losses. In spring 2009, the Parliament adopted a guarantee system ensuring at least 0% real yield for the accumulation phase.
- In Poland, the returns on pension fund assets dropped by about 14% but have recovered somewhat in 2009.. In response the pension funds have reduced their risk exposure. Additionally, the ceiling for administrative charges on contributions will be lowered from 7 to 3.5% (expressed in nominal terms) in 2010 and a maximum monthly fee for management of an open fund will be introduced.
- In Slovakia, from 1 July 2009, the administration fees for the pension fund managing companies (privately managed funded scheme on the basis of defined contributions) have been lowered from 0.065% to 0.025%. Simultaneously a new component of the administration fee was introduced – a variable part – which is calculated on the basis of the investment return on assets during a given period.

Some countries are relying on the strengthened control and regulatory supervision, which they put in place before the crisis others are introducing new controls and protections.

- In Germany, where there is no pure DC provision and the majority of contracts are DB of nature, funds are protected against asset value loss by means of an extensive safety net. Regarding the private Riester pensions, finance institutions are obliged to guarantee nominal value maintenance.

- Ireland is reviewing its system of supervision and protections and has announced a number of initiatives to protect the pensions sector. The role of the Regulator has been strengthened when an employer fails to remit pension schemes contributions.
- In the UK, the regulatory framework has already been reinforced by the establishment of the Pension Regulator and the Pension Protection Fund before the crisis.
- In the Netherlands where pension funds with a funding shortfall, covering less than 105% of the existing liabilities, must submit a short-term recovery plan, containing measures enabling them to achieve a minimum coverage of 105% the government has prolonged the period for short-term recovery plans from three to five years. Also with the social partners it has agreed that pension funds may postpone until 2012 any cuts in benefits levels that otherwise would be necessary to restore the coverage ratio.
- In Austria, a working group for reviewing the Austrian pension fund regulation was established in February 2009, with a view to strengthening the system and increasing the stability of pension funds.
- In Bulgaria, measures to improve control and collection of contributions for the PAYG schemes have been tightened. In April 2009, the Social Insurance code was amended to improve the investment regulations of the pension funds.

Finally, DK and FI say that it is still too early to make an assessment of the effects of the crisis for the solvency of funded pension schemes while in other the reduction of pension indexation is being put in motion (e.g. NL) or extra funding seen as necessary (AT).

- In Denmark, a financial stability package for pensions has been implemented to ensure market stability and prevent forced sale of mortgage bonds owned by pension funds and substantial losses for pension savers. Regulators and the insurance and pension industry have agreed to temporary changes in the standards by which the solvency of funds is calculated to avoid that funds lock in their losses by being forced to sell assets in the presently depressed markets. The double aim is to escape destabilisation of the mortgage bond market and substantial losses for pension savers.
- In Ireland it is estimated that 90% of the funds are in deficit. The Government has introduced a number of short-term responses to allow extra time and flexibility to develop and agree funding proposals. In addition, recent legislation builds on these measures by the introduction of a pension insolvency payments scheme, allowing for the restructuring of underfunded DB schemes and changing the order in which liabilities are disbursed on the wind-up of schemes to achieve a more equitable distribution of assets. The Government is considering a further range of possible responses to address the situation in the long term. This response will be announced in the context of the national pensions framework which is forthcoming.
- In the Netherlands, funds are also in deficit and have presented short term recovery plans, which the central bank presently is analysing. For some funds, financial effects on the income of pensioners are expected in reduced indexation already from this year. The issue will be discussed with the social partners. For the longer term recovery plans it has been agreed that the necessity of cuts in nominal pension benefits will only need to be reviewed from 2012.
- In Sweden, to support the income for pensioners the government proposes an increase in the basic tax deduction for pensioners and a change in the method for indexation of pension income in order to smooth out the effect of volatile asset prices in the pension funds.
- In Austria, due to negative returns in the Austrian Pension funds, the pensions of beneficiaries in defined contribution systems had to be reduced in 2009, and employers had to pay additional contributions into defined benefit systems.

6. Annexes

6.1. Annex 1: Latest trends in the labour market: focus on vulnerable groups

	Employment rates											
	total			male			female			Older workers aged 50+		
	2008q02	2009q01	2009q02	2008q02	2009q01	2009q02	2008q02	2009q01	2009q02	2008q02	2009q01	2009q02
eu27	66	64,6	64,8	73	70,8	70,9	59,1	58,4	58,8	56,6	56,1	56,8
be	62	61,7	61,5	68,3	67,5	66,8	55,7	55,9	56	47,2	48,7	48,5
bg	63,9	62,6	63,3	68,4	67,1	67,7	59,5	58,3	59	55,4	55,1	56,1
cz	66,6	65,6	65,4	75,3	74,2	73,9	57,8	56,8	56,7	60,6	60,3	59,9
dk	78,4	76,2	76,2	82,4	78,9	78,5	74,4	73,5	73,8	67	64,6	67,4
de	70,3	70,4	70,8	75,6	75,2	75,2	65	65,5	66,2	63,5	63,8	65,4
ee	69,8	65,3	63,8	73,8	66,2	64,4	66,1	64,5	63,3	69,4	68,7	65
ie	68,1	62,8	62,2	75,6	67,8	66,8	60,5	57,7	57,6	61	58,4	58,1
gr	62,2	61	61,6	75,4	73,4	73,9	49	48,6	49,2	52,1	51,5	51,6
es	65	60,4	59,9	74,4	67,7	66,9	55,2	52,9	52,8	54,4	52,6	52,5
fr	65,1	64,1	64,7	69,7	68,5	68,9	60,6	59,9	60,6	53,3	53,2	54,1
it	59,2	57,4	57,9	70,8	68,5	69	47,5	46,3	46,9	47,6	47,1	48,3
cy	71,1	69,5	70,2	79,3	77,1	78,1	63,3	62,1	62,7	64	61,9	64,6
lv	69,5	64,3	61,4	72,9	64,2	61,6	66,2	64,3	61,2	67,6	66,2	64,5
lt	64,6	61	60,3	68	61	60,3	61,3	60,9	60,4	63,3	60,4	60,1
lu	64,4	64,5	65,7	72,8	71,5	74,6	55,8	57,2	56,6	52,9	51,8	55
hu	56,5	55,1	55,6	63,1	60,8	61,5	50,1	49,6	49,9	46,2	45,8	46,4
mt	55,2	54,9	54,9	71,6	72	71,5	38,5	37	37,6	38,2	39,4	37,8
nl	77,2	77,4	77	83,3	82,7	82,7	70,9	71,9	71,4	62,9	64,6	64,3
at	72,3	70,8	71,7	79	75,4	76,9	65,7	66,3	66,6	55,8	54,5	55,4
pl	58,9	58,9	59,3	66	65,7	66	52,1	52,3	52,7	45,7	45	45,7
pt	68,6	67	66,7	74,3	72,1	71,6	63,1	62,1	61,9	59,7	59,3	58,3
ro	59,7	57,4	59,2	66,4	64,1	65,6	53,1	50,7	52,9	52,7	50,1	52,9
si	68,3	66,7	67,6	72,6	69,6	71,4	63,7	63,6	63,7	49,7	50,1	51,9
sk	61,7	61	60,4	69,2	68,7	68	54,2	53,3	52,8	54,2	54,5	54,2
fi	72,3	68,5	69,8	74,7	69,2	70,5	70	67,8	69	65,9	64,6	64,3
se	74,8	71,9	72,7	77,2	73,8	74,5	72,3	70	70,9	75,3	74,5	74,4
uk	71,6	70,4	69,6	77,4	75,7	74,6	65,9	65,2	64,7	65,7	65,3	65,1

Source: Eurostat - Labour Force Survey

	Unemployment rates ⁵																
	total				Youth below 25				Older workers 50+			Foreigners from EU27			Foreigners non-EU27		
	Sep-08	Jul-09	Aug-09	Sep-09	Sep-08	Jul-09	Aug-09	Sep-09	2008q2	2009q1	2009q2	2008q2	2009q1	2009q2	2008q2	2009q1	2009q2
eu27	7.1	9	9.1	9.2	15.8	19.9	20.1	20.2	4,9	6	5,9	8,4	11,2	11,1	14,1	19,3	19,1
be	7.3	7.8	7.9	7.9	19.9	21.4	21.2	20.9	4,1	5,5	5	9,3	10,9	11,5	23,5	28,6	25,2
bg	5.2	6.8	7.2	7.6	11.2	15.7	16.2	16.8	5,8	5,7	6	:	:	:	:	:	:
cz	4.3	6.7	6.9	7	10.3	15.5	15.9	16.5	3,9	4,6	5,2	:	6,1	5,6	5,6	4,9	6,7
dk	3.4	6	6	6.4	8.3	11.3	11.2	11.4	2,1	3,9	4,2	:	:	8,9	11,2	13,1	14,3
de	7.1	7.6	7.6	7.6	9.5	10.8	10.7	10.4	7,8	7,8	7	8,7	9,6	9,3	18	19,3	18,4
ee	6.5	:	:	:	14.3	:	:	:	2,9	6,9	10,9	:	:	:	7,5	17	21,3
ie	6.7	12.3	12.5	13	14.2	26.3	26.3	27.6	2,9	5,6	6	:	:	:	:	:	:
el	7.5	:	:	:	22	:	:	:	3,4	4,7	5	6,4	13,5	9,8	6,3	10,1	9,8
es	12.4	18.5	18.8	19.3	26.2	39.9	40.9	41.7	7	11,2	12,1	15,3	24,2	23,8	16,9	30,1	29,7
fr	8	9.7	9.8	10	19.8	24	24.3	24.5	5,1	5,9	6,1	5,8	9,4	8,6	18,6	24,2	22,4
it	6.8	:	:	:	21.3	:	:	:	3,1	3,7	3,4	7,5	10,5	10,4	9,3	10,5	11,2
cy	3.5	5.4	5.6	5.9	8.7	14.1	14.1	14.1	2,4	3,7	4,4	5,6	9,1	8,1	2,1	5,3	6
lv	8.1	17.8	18.6	19.7	12.9	33.6	33.6	33.6	4,5	9,8	11,9	:	:	:	:	17,5	26,4
lt	6.3	:	:	:	14.9	:	:	:	3,2	9,8	10,7	:	:	:	:	:	:
lu	5.1	6.5	6.5	6.6	18.3	22	21.8	21.6	2,9	3,6	2,9	5,4	6,9	5,5	25,7	16,6	22,1
hu	7.8	9.5	9.6	9.7	20	24.9	25.1	25.2	5,8	6,7	6,6	:	10,8	10,6	:	:	:
mt	5.8	7.3	7.2	7.2	11.2	15.3	14.9	14.8	:	4,5	5	:	:	:	:	:	:
nl	2.7	3.4	3.5	3.6	5.2	6.3	6.6	6.8	2,7	2,8	2,6	4,2	3	4,9	7,8	8,7	10,2
at	3.9	4.7	4.7	4.8	7.9	10	9.9	9.9	2,2	2,7	2,8	5,6	6,5	6,8	8	13,5	11,3
pl	6.8	8	8.1	8.2	16.6	19.9	20	20.5	5,3	6,6	6,1	:	:	:	:	:	:
pt	7.8	9.2	9.1	9.2	17.3	19	18.6	18.6	5,4	5,7	6,3	:	:	:	10,6	17,8	18,7
ro	5.8	:	:	:	18.6	:	:	:	2,9	3,6	3,3	:	:	:	:	:	:
si	4.1	5.9	5.9	5.9	10.2	11.7	11.7	11.7	3,5	4	4	:	:	:	10,3	16,6	14,9
sk	8.9	11.5	11.7	12	19.2	25.7	26.3	27	8,1	7,7	8,3	:	:	:	:	:	:
fi	6.5	8.5	8.5	8.6	17	22.3	22.6	22.8	4,7	5,7	5,6	:	12,2	15,1	24,3	18,7	24,4
se	6.4	8.4	8.6	8.7	20.5	25.4	26	26.2	3,1	4,8	4,6	10,2	8,4	10,2	24,1	23	27,3
uk	6	7.8	:	:	15.8	19.5	:	:	2,8	4,2	4,4	5	5,4	6,5	8,7	9,8	11,6

Source: Eurostat: LFS.

5 Monthly unemployment rates are estimates based on quarterly results of the LFS interpolated/extrapolated to monthly data using national sources. The most recent figures are therefore provisional. These series are then seasonally adjusted.



The Social Protection Committee

6.2. Annex 2: Summary of replies to the ISG questionnaire on the social impact of the crisis.

People on flexible working time arrangements

In October 2009, some delegations reported on the number of workers who had benefited from flexible working time arrangements.

Type of benefit	April 2009 reporting	October 2009 reporting	Comment
Short-time work	N/A	AT: from 8 800 in 12-08 to 62 000 in 06-09 BE: from 120 000 in 08-08 to 185 000 in 08-09 BG: 20 000 workers since launch in January 2009 DE: from 50 000 in 06-08 to 1.5 million in 06-09 IE: from 20 880 in Q3 2007 to 89 250 in Q3 2009 LU: =2.79% of total employment in 08-09	BE: existing scheme BG: new measure DE: expanded scheme LU: 0% in 06-08

Take up of benefits

Type of benefit	April 2009 reporting	October 2009 reporting	Comment
Unemployment benefits (increase in number of beneficiaries)	AT: +14.1% between 12-07 and 12-08 BE: +2,4% between 03-08 and 03-09 BG: +20% between 01-08 and 01-09 DK: -7,9% between Q4-07 and Q4-08 DE: - 6% between 12-07 and 12-08 EE: +164% between 03-08 and 03-09 EL: +39,5% between 12-07 and 12-08 ES: +61,4% between 03-08 and 03-09 IE: +70% between 12-07 and 12-08 FR: +8,7% between 02-08 and 02-09 ⁶ HU: +9,1% between 04-08 and 04-09 LV: +23,4% between 12-07 and 12-08 LT: +200% between 04-08 and 04-09 LU: + 4.9% between 2008 and 2007	AT: +46.2% between 05-08 and 05-09 BE: +7.6% between 08-08 and 08-09 BG: +27.8% between 07-08 and 07-09 CZ: +80% between 08-08 and 08-09 DK: +85% between Q4-08 and Q2-09 DE: +6% between 09-08 and 09-09 EE: +188% between 08-08 and 08-09 EL: ES: +46% between 08-08 and 08-09 IE: +80% between 09-08 and 09-09 FR: +18% between 07-08 and 07-09 HU: LV: + 98.7% between 12-08 and 09-09 LT: +216% between 09-08 and 09-09 LU: +37% between 08-08 and 08-09	DE: ~6 Mio beneficiaries (incl. family members) IE: includes part-time workers

⁶ Rise in unemployment rate and increase in the number of people who have acquired UI rights as a result of the positive trend in the last 3 years.



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Type of benefit	April 2009 reporting	October 2009 reporting	Comment
	CY: +11% between 12-07 and 12-08 MT: +11.4% between 12-07 and 12-08 NL: -0,5% between 02-08 and 02-09 PL: +8.2% between 12-07 and 12-08 PT: +21,8% between 03-08 and 03-09 SK: +65,5% between 03-08 and 03-09 FI: +23,7% between 02-08 and 02-09 SE: UK: +30% between 01-08 and 11-08	CY: MT: -25% between 09-08 and 09-09 NL: +30.1% between 06-08 and 06-09 PL: PT: +21.2% between 01-09 and 08-09 SK: +162,6 % between 09-08 and 09-09 FI: +61% % between 08-08 and 08-09 SE: +38.6% % between 09-08 and 09-09 UK: +76% between 08-08 and 08-09	Slowdown since may
Social assistance /minimum income (increase in number of beneficiaries – unless otherwise specified)	AT: +4.9% between 02-08 and 02-09 BE: -12% between 01-08 and 10-08 DK: +4% between 12-07 and 12-08 EE: -12% in 2008 IE: +29,8 between Q4-07 and Q4-08 EL: Strong increase in 2008 ES: +19.3% between 12-07 and 12-08* ES: +10,8% between 12-07 and 12-08 ** FR: -3% between Q4-07 and Q4-08 IT CY: increase LV: strong increase expected ⁷ LT: +39% between Q1-08 and Q1-09 LU: stable MT HU: +9% between 04-08 and 04-09 NL: -5,1% between 01-08 and 01-09	AT: +10.6% between Q3-08-08 and Q3-09 BE: +6.5% between 06-08 and 06-09 BG: +6.4% between 09-08 and 09-09 CZ: +11% between 02-08 and 02-09 DK: +16.5% between 06-08 and 06-09 EE: IE: +47.5% between Q2-08 and Q2-09 EL: ES: ES: +1.35% in first half of 2009** FR: +1.1% during Q1-09 IT: +6.8% between 2008 and 2009 CY: +15% between 2008 and 2009 (til sept) LV: +58.8% between 01-09 and 09-09 LT: +117% between 08-08 and 08-09 LU: +6% between 09-08 and 09-09 MT: -8% between 09-08 and 09-09 HU: -1.7% between 09-08 and 09-09 NL: +1.3% between 06-08 and 06-09	DK: All cash assistance (excl. ALMP participants) EE: rising incomes in 2008 EL: refers only to the social assistance benefit * ES: Active Income for Insertion (RAI) ⁸ ** ES: Minimum Income for Insertion (RMI) ⁹ FR: New RSA scheme covers 1.5 mio households ¹⁰ IT: New Social card ¹¹ 595173 recipients in 06-09 LV: +36.5% in persons declared in need ¹² between 01-09 and 09-09 HU: first phase increase due to reforms

⁷ In Latvia, pressure is expected on budgets at the local level, because they run the last resort assistance, which is at the end of a chain of other benefits.

⁸ ES: the RAI is financed by the unemployment benefit scheme - State Public Employment Service.

⁹ ES: the RMI is financed by the Autonomous Communities.

¹⁰ FR: the new RSA scheme introduced on 1st June 2009 replaces the RMI (minimum income) and API (lone parent) but is extended to working poor.

¹¹ IT : the social card was introduced in December 08.

¹² LV: special monitoring put in place on 1 January 2009 through municipalities. In 08-09 there were 54211 persons declared in need and 17414 recipients of the GMI.



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Type of benefit	April 2009 reporting	October 2009 reporting	Comment
	PL PT: + 14,8% between 03-08 and 03-09 FI: -1% in 2008 SK: -14% between 03-08 and 03-09	PL: -2% between I-III 2008 and I-III 2009 PT: +11% between 01-09 and 08-09 FI: no new data SK: +12.4% between 09-08 and 09-09 UK: -2.9% between 02-08 and 02-09	
Lone parent	IE: +3,2% between Q4-07 and Q4-08 UK: stable until 05-08	MT: -26.5% between 09-08 and 09-09	



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Type of benefit	April 2009 reporting	October 2009 reporting	Comment
Disability	EE: -42% between Q1-08 and Q1-09 IE LV: 0.5% between 12-07 and 12-08 NL: -1,1% between PL: decrease PT: -2.6% between 03-08 and 03-09 SK: +1,8% between 03-08 and 03-09 UK: stable until 05-08	AT: +3.8%/1.8% between 1 st half 08 and 09 DK: +0.85% between Q2-08 and Q2-09 EE: +5% between Q2-08 and Q2-09 IE: +6.3% between Q2-08 and Q2-09 ES: +1.6% between jan-aug 2008 and 2009 LV: + 1.5% between 09-08 and 09-09 MT: -60% between 09-08 and 09-09 NL PL PT: -0.7% between 08-08 and 08-09 SK: +2,0% between 09-08 and 09-09 FI: -1% between 08-08 and 08-09 SE: -6% between 09-08 and 09-09 UK: -7.2% between 02-08 and 02-09	AT: applications by women/men EE: newly registered persons with incapacity to work PL: impact of reforms PT: shift to old age pension
Early retirement	ES: -2.2pp between Q1-08 and Q1-09 LV: + 0.7pp in early retirement share ¹³ between 2007 and 2008 LT: + 20% between Q2-07 and Q2-08 PL: increase at the end of 2008 SK: -1% between 03-08 and 03-09	DK: -4.7% between Q2-08 and Q2-09 EE: +15% between Q2-08 and Q2-09 ES: -0.5 pp between Q2-08 and Q2-09 LV: + 34.8% between 09-08 and 09-09 LT: PT: +3.3% between 01-09 and 08-09 PL: SI: -0.4% between 09-08 and 09-09 SK:+0,6 between 09-08 and 09-09	ES: % of new retirements that are early retirements: 41.6% in Q2-09 PT: this data only refers to early retirement due to unemployment PL: impact of reforms

Source: ISG questionnaire based on national administrative sources and statistics

¹³ Early retirement share : share of total retirements that are under an early retirement scheme. In 2008, this share reached 22.3% in Latvia.



The Social Protection Committee

Housing trends

	April 2009 reporting	October 2009 reporting	Comment
Housing prices (sales)	DK: -1,3% between Q1-08 and Q1-09 ES: -6.8% between Q1-08 and Q1-09 IE: -3.1% between Q1 07 and Q1 08 PL: declining FI: -3.3% between Q4-07 and Q4-08 UK: -20% between 08-07 and 11-08	DK: -15,4% between Q1-2008 and Q1-2009 ES -8.34% between Q2-08 and Q2-09 IE: -18% between Q1-08 and Q1-09 CY: +8% in 2008 against +15% in 2007 LV: -10% between Q1-08 and Q1-09 LU: -1.2% between Q1-08 and Q2-09 LU: -2.8% between Q1-08 and Q2-09 NL: -5.6% between 08-08 and 08-09 PL: declining FI: -1.5% between Q2-08 and Q2-09 SE: stable UK: +7% between 01-09 and 09-09	LU: houses LU: apartments FI: capital region
Housing prices (rents)	CZ: rather strong increase FR: + 2.24% between Q1-08 and Q1-09 EL: stable LV: + 5.5% between Q1-08 and Q1-09 LT: -10-30% FI: +4.6% between Q4-07 and Q4-08	AT: +4.3 between Q2-08 and Q2-09 BG: +66% between Q2-08 and Q2-09 FR: + 1.31% between Q2-08 and Q2-09 LV: - 22.3% between Q3-08 and Q3-09 LU: +1.2% between Q1-08 and Q2-09 LU: -0.8% between Q1-08 and Q2-09 NL: +2.9% between 08-08 and 08-09 PL: declining FI: -1.75% between Q2-08 and Q2-09	AT: main residences – primary tenancies CZ: ongoing price de-regulation process FR: general inflation = 1.6% LU: houses LU: apartments FI: capital region
Forced sales repossession	DK: Doubled in 2008 IE: strong increase in repossession EE: +300% between 12-07 and 12-08 + and from 1512 in 12-08 to 2260 in 03-09 EL: +17% between 2007 and 2008 ES: +126% from 25943 in 07 to 58686 in 08 UK: +70% in 2008; +66% in 2009	DK: +46.3% between jan-sept 08 and 09 IE: + 30% between I-II 08 and I-II 09 EE: +219% between 08-08 and 08-09 + and from 2260 in 03-09 to 3722 in 08-09 ES: idem NL: +14.5% between 06-08 and 06-09 UK: 10000 in Q2-08 vs. 11400 in Q2-09	DK 1594 forced sales in 2009 EE: “hopeless contracts” EL: real estate auctions UK in 2008 0.38% of mortgages led to forced sale
Non performing housing loans	BE: +1.5% in 2008 to reach 4% of 18+ pop	BE: +2.4% between 08-08 and 09-09	LV: % of mortgages with a delay >90 days



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	April 2009 reporting	October 2009 reporting	Comment
	EE: +2.3% to reach 7.8% of mortgage holders EL: from 3.6% in 2007 to 4.3% in 2008 IE: strong increase in claims for help (M) MT: from 2.4% in 12-07 to 2.9% in 06-08 PT: from 1.3% in 2007 to 1.6% in 02-09	EE: +48% between 08-08 and 08-09 to reach 9% of mortgage holders LV: from 3.7% in 09-08 to 14.0% in 09-09 NL: 1800 in 2008 PT: from 1.6% in 01-09 to 1.7% in 09-09	MT: Non-performing loan ratio NL number of mortgage in arrears > 4 months PT: Value of non-performing housing loans
Requests for social housing	IE: strong increase LV: waiting time: 5 years (request for social housing -11.3% in 2008) LT: -30% in <u>provision</u> of social housing UK: strong increase	LU: +42% between 07-08 and 07-09	LU: waiting list LV: waiting time: 5 years LT: -20% in financing
Support to renters and mortgage holders	IE (rent): +23% between Q1-08 and Q3-08 IE: (mortg.): +50% between Q1-08 and Q3-08 HU: +5% between 04-08 and 04-09	IE (rent): +41% between Q2-08 and Q2-09 IE: (mortg.): +144% between Q2-08 and Q2-09 PT(rent): +40% between 06-08 and 06-09	IE: in number of rent supplements IE: in mortgage holders support HU: in housing debt assistance PT: Data refers to families benefiting from a specific program ¹⁴ ,
Energy prices	LV: + 31.6% for heat energy prices in 2008		LV: +6.8% between Q4-08 & Q1-09

Source: ISG questionnaire based on national administrative sources and statistics

¹⁴ the Social Integration Income – a last resort scheme from Social Assistance, being the housing support destined to both renters and owners, depending on the family problem in the housing issue (e.g. support for housing improvement or repairs, financial or juridical support for housing regularization, housing relocation, etc) We also stress that, despite the high percentage presented, this concerns a limited number of families (21381)



The Social Protection Committee

Over-indebtedness and access to financial services

	April 2009 reporting	October 2009 reporting	Comment
Applications for loan arrangements	AT: +13% between 01-09 and 03-09 AT: 440 000 non performing loans in March 09 FR: +0.5% between 01-08 and 12-08 EL: non performing consumer loans up from 6% in 2007 to 8.2% in 2008 LV: share of risky credits increased from 0.8% to 5.9% during 2008. LT+.24pp in impaired loans PT: increase from 4.1% to 5.6% between 02-08 and 02-09 FI: -6.3% between 2007 and 2008	AT: +9.8% between 01-09 and 09-09 AT: +14.5% between 01-09 and 09-09 BE: +4% between 08-08 and 08-09 BG: from 4.25% in 08-08 to 9% in 08-09 EE: +95.8% between 08-08 and 08-09 EE: +10.5% between 08-08 and 08-09 to FR: +3.7% between 06-08 and 06-09 CY: stable (4.4% of all loans) LU: +9% between 07-08 and 07-09 PT: increase from 5.1% to 6.9% between 01-09 and 08-09 FI: moderate increase foreseen for 2009	AT: persons with major payment irregularities BE: 470389 defaulting loans in 09-09 BG: % of non-performing loans EE: hopeless contracts 14798 in 08-09 EE: non-performing loans to reach 14.5% of consumer loan contracts FR: number of new applications LV: Payments made on time down from 93% to 88% PT: value of non-performing consumer loans (% of total c. loans) Central bank
Indebtedness levels	FR: +18% in debt level of over-indebted HU: general increase (housing, utility bills, consumer credits) PT: general increase in aggregate hh debt ratio	FR: +15.3% in debt level	PT: source: central bank
Utility bills debt	LT: stable in 2008; increase forecasted for 2009 LV: +66.3% (capital city of Latvia)		
Access to credit: Number of loans	PL: limited access to mortgages PT total value of loans keep increasing but slowdown		

Source: ISG questionnaire based on national administrative sources and statistics.



The Social Protection Committee

BELGIUM

1. The economic downturn and its impact on social cohesion.

In Belgium, according to the Commission's forecasts of November 2009, the GDP is expected to contract by 2.9% in 2009, which is less than the EU average. It should grow by 0.7% in 2010 and by 1.6% in 2011. The employment rate should contract by 0.8% in 2009 and 1.4% in 2010. The unemployment rate was at 8% in July 2009 (+0.7 percentage point when comparing with July 2008); it should reach 8.5% at the end of the year and 10.3% in 2010. It particularly grew up in Flanders (+ 20.9% between August 2008 and August 2009), whereas it only slightly increased in Wallonia and in Brussels during the same period (respectively + 7.3% and + 6%). While it is not significant for older workers, this evolution particularly affects the young men's unemployment rate. Temporary unemployment continues to grow in much wider proportions (from less than 12% in December 2008 to 23% in March 2009); at the same time, the number of career breaks and "time-credits" also largely increased, which probably shows that these mechanisms are used as alternatives to temporary unemployment for employees (for whom the temporary unemployment system does not exist).

The unemployment rate of foreigners (EU and non-EU nationals) did not increase in 2008. However, between March 2008 and March 2009, the group of non EU citizens was more hit by the increase of unemployment than the other groups (+10.8% against +4.6%).

The public budget balance is forecast to widen from —6.9% of GDP in 2009 to -7.5% in 2010 and -6.9% in 2011; an excessive deficit procedure has been launched by the Commission against Belgium in October 2009. The public debt increased from around 84% to nearly 90% of GDP in 2008 and should climb further to over 100% in 2010.

There was an increase of unemployment benefits between March 2008 and March 2009 of 2.4% and a slight increase of the guaranteed revenue benefit granted to certain categories of part-time workers. The decision of raising the unemployment benefits for young and older job seekers has been announced in October 2009.

The share of non performing housing loans increased of 1.5% in 2008 to reach 4% of the population aged of 18 years and more.

2. National policy responses

2.1. Overall recovery package.

A national recovery plan was announced on December 11, 2008. It contained a set of measures that are meant to restore confidence in the short term and security in the long term. These measures are in the wake of the recovery plan of the Commission of 26/11/2008. Two weeks later (22/12/2008), an inter-professional agreement was signed between the social partners. The main points of the recovery plan and the inter-professional agreement were translated into legal measures, adopted on January 16, 2009.



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The main measures were: to rationalise the mechanism of social contributions' reductions targeting different vulnerable groups, which has led to abolish several social tax breaks to increase some others (e.g. for workers working in night shifts) and more generally to favour a "structural", not targeted, approach; to preserve the purchasing power at the level of wages and of social security benefits; to simplify the hiring plans for risk groups; to increase the benefits granted to workers becoming temporary unemployed for economic reasons; to raise the amount of unemployment benefits; to improve the measures towards the job seekers; and to adapt the protecting measures towards the workers in case of restructuring.

Supplementary measures were adopted at the end of May 2009 in order to avoid structural redundancies in sectors particularly hit by the crisis. The measures adopted aim at facilitating the modification of working time and the temporary suspension - individually or collectively - of contracts (temporary unemployment for employees). These measures will enter into force during the second half of 2009.

Finally, on October 13, 2009, the federal Government has announced a list of new measures, devoted to raise the unemployment benefits for young and older job seekers, to reduce the social taxes for young and low skilled workers as well as for low wages, to develop the non-market sector and to support the self-employed.

2.2. *Labour market measures.*

The inter-professional agreement of December 2008 has decided to rationalise the mechanism of social or tax contributions' rebates and to simplify the hiring plans for risk groups. This has led to further reduce the level of taxes and social security contributions for some categories of work (nightwork, shiftwork, overtime work, researchers). Moreover, it entailed an important limitation of reductions for different target groups (long-term unemployed, young workers, older workers), by concentrating the efforts on low wage workers. However, the reductions for older workers were eventually maintained in Flanders, which is exposed to an important population of this category. Still regarding the older workers, a federal premium for facilitating the resumption of work was adopted at the end of May 2009. New measures announced in October 2009 aim at reducing the social taxes for young and low skilled workers as well as for low wages.

Moreover, 41 million Euros have been devoted to an improvement of the measures towards the job seekers, especially in the framework of the ALMP.

The measures to protect the workers (accompanying measures and services: outplacement, training, "employment cells") and to assist the enterprises in case of restructuring have been reinforced. At the same time, new information tools (portal, single information shop) have been developed.

Specific measures had been adopted at the end of May 2009 in order to avoid structural redundancies in the sectors that are particularly hit by the crisis. The purpose is to facilitate the modification of working time and the suspension of contracts or services.

Similar provisions were also adopted at the level of the Regions. Flanders supports working time reduction schemes (with transition premiums) as well as restructuring processes; it is also developing a "Front office" (portal and one-stop-shop). The Walloon Region has



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strengthened its existing scheme devoted to promote employment in the SME's. The German-speaking Community has increased its system supporting the hiring of long-term unemployed persons in particular sectors.

2.3. Supporting people income.

Several measures aim at preserving the purchasing power at the level of the wages and the social security benefits. Regarding the wages, the measures are very limited, as wages increases must remain in the limits of a "wage norm" defined by the social partners.

When it comes to the social security benefits, unemployment benefits granted to workers who fall in temporary "economic unemployment" (unemployment resulting from a temporary drop of a company's activities) have been increased by more than 20% on average. The general unemployment benefits, as well as a range of other social assistance benefits (e.g. +2% in minimum income, +2% in disability benefits, +3% in minimum pensions, etc) have also been raised. More recently, it was also decided to raise the unemployment benefits for young and older job seekers.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness.

Belgium doesn't report any measure in this field, except a one-shot reduction of the electricity bills and additional subsidies for heating oil.

2.5. Investing in social, educational and health services infrastructure.

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2.6. Use of European Social Fund (ESF).

Some authorities managing programmes funded by the ESF in Belgium envisage to set up, if necessary, "retraining cells" in order to offer occupational redeployment to workers who have been made redundant.

2.7. Long-term impacts of the crisis on major social security schemes.

By preserving the level of the employment rate, the Belgian authorities also guarantee the sustainability of the first pillar of the pension scheme. On the other hand, the negative budget balance will prevent the increase of the reserve fund for population ageing, devoted to partly finance the pension expenses in the near future.

2.8. Health care and long-term care

No much changes in health policies in 2009 caused by the economic crisis.

The Flemish Government recently presented in its budget layout its intention to promote an innovation-driven economy. From this policy a growth in employment rates is expected in the sector of healthcare and well-being. For example, the introduction of ICT in the healthcare sector will be accelerated.



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Studies in Belgium have widely documented the negative impact of economic hardship and deprivation on health. It is important, however, to nuance the impact of the crisis on population health in Belgium: on the one hand, measures are taken to counteract the effect of the crisis (e.g. increase in minimum income and minimum pensions) and on the other, certain people (e.g. those who stay employed) seem to cut back on risk taking.

The health sector, as all other sectors, will have to contribute to close the gap linked to the 'budget constraints' but savings in the social sector will stay limited.



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BULGARIA

1. The economic downturn and its impact on social cohesion

In its latest Economic forecast Autumn 2009, the Commission observes that even though the country had a 6 % growth of GDP in 2008, the economic indicators point to sharp slowdown in the couple of years to come. The Bulgarian economy was hit hard by the global crisis and economic growth figures moved into the negative territory in the first half of 2009, when real GDP fell by 4,25 %. Reflecting the fall in investment and private consumption, domestic demand is expected to decline even further by the end of 2009. Thus the annual percentage change of GDP for 2009¹ is estimated to be – 5,9 % , followed by another – 1,1 % in 2010. The general government surplus reached 1,5 % of GDP in 2008 (well below its 3 % target). Due to the economic slowdown the general government budget balance is projected to deteriorate to a deficit of 0,8 % of GDP in 2009. Assuming that there will be no change in policies, the budget balance of 2010 is estimated to come to a deficit of 1,2 % of GDP. Projections for economic growth and unemployment point to serious deterioration of the situation. Employment growth is expected to turn negative in 2009-2010, from a 3.3% growth in 2008 to 2. 0 % decrease in 2009 and 1.3% decrease in 2010.

Following the best ever for the last decade rate of 5,6 % in 2008, the unemployment rate has increased in 2009, even though at a slower pace than in other member states. The unemployment rate in August 2009 was 7,1 % (EUROSTAT data) and continues to grow. National forecast expects 9,5% of unemployment for 2009 and 11.4% for 2010. Youth unemployment decreased in 2008 to 12, 7% thus falling below the EU average of 15,4 % for the same year but in 2009 has been again on the increase – 14,6 % for February 2009. Long-term unemployed in Q4-2008 comprised 53 % of the unemployed while those over 50 were 59 % of the long-term unemployed.

2. National Policy Responses

2.1. Overall recovery package

The overall recovery efforts of the government build on measures which in the employment and inclusion fields are a mixture of active (i.e. qualification and guidance services) and passive ones (i.e. subsidized tops-up on salaries); new scale of unemployment benefits for 2009, additional housing benefits for the poorer groups. Business starts-up and SMEs are also supported by reducing start-up capital requirements as well as maintaining low rates of social security contributions for the business. Continuous incentives to encourage flexible working-time, investing in re-training and reinforcing activation along with enhancing education and life-long learning should help preventing the negative effects of the crises and mitigate its impact on individuals. The Ministry of Labour and Social Policy is the authority collecting data on the indicators on a monthly basis in order to monitor the crisis and its effects on households and the business. On that basis specific activities and policies in response to the crisis are designed.



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2.2. Labour market measures

New legislative provisions adopted in 2009 enable employers to introduce reduced working time for a period of 6 months (including salary compensation for workers for 3 months). This measure aims at preserving jobs for about 18 000 workers. A new state-financed programme for laid off workers as a result of the crisis ("**New Chance for Employment**") – for subsidised work, retraining, consultation, motivation and guidance has been launched– budget: EUR 4 Mio. Business start-ups were facilitated by significantly reducing start-up capital required. The net reduction of the overall social security contribution rate for 2009 (additional decrease planned for 2010) aims to further decrease the employers' social insurance burden and stimulate labour demand. This measure was announced specifically in the context of maintaining employment and preventing lay-offs. Under the the ESF co-funded HRD OP a specific measure for the persons 50 + has been launched aiming at prolonging active working life and improving skills of older and less qualified workers. Youth unemployment will be targeted through a national programme "**Career start**" and special actions are envisaged for unemployed as a result of restructuring of enterprises. These national programmes are also envisaged to continue for the next couple of years. In order to stimulate job-seeking and employment, the authorities have introduced a new scheme of differentiated unemployment benefits that encourages workers to try and find job within the first four months after entering into unemployment. Vouchers for (re)trainings will be introduced as well as free travel cards in order to enhance workers' mobility.

2.3. Supporting people income

Unemployment benefits increased for 2009, the minimum income benefit increasing by 20 %. Increase in family allowances for children were introduced as from 01.01.2009, the social allowance for children with disabilities was doubled. For each child with disability his/her family is entitled to additional payments equal to 70 % of the minimum wage. The minimum guaranteed income, which is the basis for determining the different types of social benefits, was increased by 18 % as from January, 1st. The aim was to broaden the scope of the assisted persons and to increase the amount of the benefits. The minimum wage was also increased by 10 % in 2009. Pensions were increased twice from April 1 st 2009 by 10 % and by another 9 % as from July, 1 st 2009. Additional payments for support of people having twins, mothers at university or lonely parents were also introduced in the first quarter of the year. The increases in social benefits took place against an inflation rate of 12% for 2008.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

In order to mitigate the impact of the crisis on households energy cost compensations for low income households were raised to compensate for higher energy prices. The payment amounts to 50 euro. The total amount of the provided funds is 18 million euro. The one-time benefit was paid to all persons and families who have the right for targeted benefits for heating for the season 2008-2009. 254 255 persons and families with very low incomes have received one-time benefit.



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For the most vulnerable individuals and families social canteens will operate for the winter period – December 2009-march 2010. The service is targeted to persons and families with low monthly income, homeless people, those living on minimum pensions, etc.

Over-indebtedness seems not be considered as a serious problem for the moment. National sources report that the people for whom it is difficult to pay back their credits are about 4,5 % of all credit holders, as compared to 2,5 % before the start of the crises. This is, however, a doubling of the rate of default.

2.5. Investing in social, educational and health services infrastructure

Bulgaria has foreseen a 20 % increase in social security expenditure for 2009. Bulgaria maintains its plans to reinforce social protection, including extra funding for the health and education sectors. The new government has announced increasing funds for health and education in Budget 2010. The “**social infrastructure investment component**” of the Regional development Operational programme will distribute more than 127 million euro for construction and reconstruction of social, educational and cultural infrastructure (kindergartens, schools, medical, health and social institutions, etc.). The measure is expected to have a direct impact on the construction sector and will result in creation of new jobs and preservation of existing ones. The expected outcomes of the social infrastructure investment programme are that more than 18 000 jobs will be ensured. More than half of the people who will take part of the construction and reconstruction activities will be selected from the employment offices.

2.6. Use of ESF

Apart from national funds earmarked for achieving certain targets in trying to overcome the negative effects of the financial and economic crisis, Bulgaria has planned a lot of activities in that respect under the Human Resources Development Operational Programme. The authorities estimate that the OP "supports a broad range of activities that would offer an adequate reply to the changes faced by the Bulgarian citizens and enterprises". It is therefore, that they do not envisage re-programming. Specific anti crisis measures to the amount of about 250mil EURO have been announced as response to the financial and economic crisis, the changes at the labour market and the social inclusion and social protection demands in relation to the changed conditions. Apart from the ESF, the government envisages also the possible use of EGF to mitigate the negative effect of the crisis on redundant workers from the metallurgical industry.

2.7. Long-term impacts of the crisis on major social security schemes

Social security systems are not stable because of the effects of the crisis, i.e. decrease of the number of insured persons, decrease of insurance incomes, higher number of social security benefit recipients and increased expenditures. The pension system is at a moderate risk.

There is a firm tendency of decreasing the revenue from insurance contributions to the first pillar fund since the beginning of 2009, despite the raise of the minimum insurance thresholds, the increase of the average insurance income and the improved collection of pension contributions. For the first four months of 2009 the revenue from contributions to the state social security funds declined by 5% compared to budget forecasts. According to ASISP



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experts the authorised deficit for 2009 should not exceed BGN 200 million. Within the first six months of 2009 the number of insured persons decreased by 92 000 on an annual basis.

Ensuring the stability and sustainability of the solidarity pillar of the pension system has to be considered as a factor for national social security of the country under the conditions of financial and economic crisis.

The results from the activities of the pension insurance companies involved in the mandatory and voluntary funded schemes in 2008 are negative as a consequence of the investment markets crisis.

Currently the new government convened an Advisory Board on Pension Reform to discuss the short- and long-term measures in the field of pension insurance. The Board comprises representatives of employers, trade unions, the government, as well as independent experts.

2.8. *Health and the health sector*

One of the priorities set by the new government is raising the average level of healthcare, decreasing the inequality regarding the health condition among different social groups. These objectives will be achieved through strengthening the revenues in the system as well as optimization of public spending for healthcare. The latter includes restructuring of public health facilities based on a health map of medical services. Moreover, the government is determined to elaborate the healthcare model in the country with the introduction of market regulated relations between private health insurance funds on one side and the state National Health Insurance Fund.

Given the existing problems in the country because of the economic crisis, one of the main policy objectives of the competent health institutions will be better care for mentally ill patients in care centres as well as organization of outpatient treatment for them. In addition the competent health institutions are implementing a Policy for mental health. The main priorities are the provision of equal and adequate access to mental health care for all people with mental health problems and the creation of a system of services for people with serious mental illness in order to ensure continuity of care and their social inclusion and to ensure their own safety and the safety of the society.

The main costs for health care payments are covered through the Law on the budget of the National Health Insurance Fund. The competent institutions consider actions for restructuring of hospital care, optimising the mechanism for collecting health insurance contributions and ensuring financial discipline in the healthcare system. Under consideration is also the de-monopolisation of the National Health Insurance Fund. Healthcare sector is a priority in the 2010 draft budget.



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CZECH REPUBLIC

1. The economic downturn and its impact on social cohesion

The highly open and export-orientated Czech economy has been negatively affected by the global crisis and the collapse of external demand, which has had a negative impact on all the sectors of the national economy and on employment. According to the latest economic forecast of the Commission from November 2009, GDP is expected to contract by 4.8% in 2009 against 4.1% in the EU. A reverse trend could begin in 2010 (of 0.8%). Employment has stopped growing and unemployment started to rise in the last quarter of 2008 and is expected to increase from 4.4% in 2008 to 7.4% in 2010.

The general government deficit is likely to deteriorate from 2.1% of GDP in 2008 to 6.6% of GDP in 2009. This is due to the economic downturn and consequent two stimulus packages of about 2% of GDP and the operation of automatic stabilisers. Social expenditure in % of GDP is estimated to increase from 23.1% in 2008 to 25% (EU 30.6%) in 2009. Furthermore, the government debt level is projected to deteriorate from 30% in 2008 to around 44% in 2011. The long-term sustainability of public finances is still at stake because of rapidly ageing population, quite high mandatory expenditure and, thus, the Council has repeatedly recommended health care and pension reforms. The financial sector has remained relatively stable.

In August 2009, unemployment increased to 6.9% (4.3% in August 2008) but was significantly lower than in the EU (9.1%). However, there is a risk of extended period of higher unemployment in some regions because of the large drop in economic activity in some export-oriented areas like the automotive sector. Youth unemployment remained at 16% in August 2009 lower than the EU (19.8%) but increased significantly (9.9% in August 2008). The unemployment rate of non-EU foreigners was almost the lowest in the EU (countries where data are available) at 6.7% in Q2-2009 that was an increase from 5.6% in Q2-2008. Long-term unemployment remains a problem, it decreased only because of the overall unemployment increase and reached 28.6% of the unemployed in Q2-2009 (51.1% in Q2-2008) and 36.6% for the unemployed aged 50+. So far the effect on gender differences in un/employment rates has not been significant; nevertheless, the already very negative impact of parenthood on employment (especially due to long parental leave and insufficient availability of child care facilities) could increase further.

The Czech Republic is a country with a comprehensive social protection system and strong safety nets. Social transfers decrease poverty significantly. So far the crisis has not significantly deteriorated the social situation of large groups of citizens. However, because the unemployed are among the groups most at risk of poverty, the current trend of increasing unemployment is expected to have a negative effect on the broader spectrum of the population and a higher number of people will fall into the material need system during 2009. The number of granted benefits already increased by approximately 11% as of February 2009 compared to February 2008. The property market has begun to slow down after a period of strong price rises in private and commercial property but the Czech Republic has not reported significant problems regarding payment of mortgages or over-indebtedness.



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2. National policy responses

2.1. Overall recovery package

The Czech Republic has so far adopted two stimulus packages with a cumulative fiscal impact of about 2% of GDP. The Czech recovery measures should stimulate domestic demand, partially compensate for the decline in export growth, and provide some bridging support for businesses during the downturn. Most of the stimulus measures are of a temporary nature. They appear appropriate while further instruments may be necessary if the economy deteriorates further. Given the strong export orientation of the Czech economy, the key impulse for recovery will have to come from stronger external demand, rather than from domestic demand. Therefore, there is a risk of a deeper and more prolonged recession in case of a protracted fall in international trade.

Fiscal stimulus packages primarily aim to assist businesses by reducing labour taxes and easing credit conditions for small and medium sized enterprises. The measures focus on support for infrastructure including transport, projects of technology centres, re-construction of a university campus, renovation of old apartment blocks, improving the environment, energy efficiency of buildings and research and development. Cuts in social security contributions paid by employers were proposed for 2009 and further, the packages increase the write down on capital goods in order to support company profits. On the other hand the reduction in social security contributions reduces tax revenue by approximately ½% of GDP. Due to a budgetary deterioration a sizeable fiscal consolidation package (estimated at approximately 1½% of GDP) was adopted in the context of the 2010 budget. It should cancel the reduction in social security contributions and higher unemployment benefits, increase the value added tax (the basic rate by 1% to 20%), decrease the public sector salaries, etc.

2.2. Labour market measures

The Czech anti-crisis packages contain only a limited set of measures specifically targeted at the labour market, such as wages and training costs subsidies co-financed from the European Social Fund as mentioned in 2.6. Moreover, transport services in regions will receive additional financial support in order to facilitate labour mobility. An amendment of the Labour Code was proposed with the aim of improving the flexibility of the labour market (e.g. tighter conditions for severance pay) and, on the basis of the amended Employment Act, conditions for unemployment benefits were tightened. Moreover, in January 2009 the public service institute was introduced to the material need system; the public service (minor activities carried out for municipalities) should enable the long-term unemployed to maintain or develop working capabilities and social habits and receive higher social benefits. Still more effort is needed to implement well-targeted active labour market policies, especially re-training and skills upgrading to tackle persistently high long-term unemployment.

2.3. Supporting people's income

The anti-crisis packages are not targeted at providing direct income support although cuts in social security contributions paid by employees and an additional increase in public sector wages in 2009 will provide partial support. Pensions were valorized twice (August 2008, January 2009) meaning a year to year increase of the average old-age pension by 6.9%. However, the stimulating effect of these measures on private consumption is likely to be



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limited, due to higher precautionary savings and lower propensity to consume during the crisis. Moreover, for 2010 a decrease in public sector wages by 4% was proposed together with the cancelation of social security cuts.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

The Czech Republic did not adopt any new measures as existing measures cover these areas (housing benefits, programmes focused on financial literacy etc.).

2.5. Investing in social, educational and health services infrastructure

The Czech Republic chose to invest in the construction sector, transport, research and development infrastructure, energy efficiency and environment. No specific commitments were made for social and health infrastructures but such investments are planned from the structural funds on the basis of the Integrated OP and the Regional OPs.

2.6. Use of ESF

The government proposed a subsidy scheme covering wages and training costs of employees whose companies are forced to reduce their working hours. These are two 'kurzarbeit'-schemes "Train yourself!" and "Training is a chance" which allow companies receive reimbursement of training costs as well as of the salary for the employees for the time they spend on the training. Their implementation is managed by the Labour Offices or directly by the Ministry of Labour. The budget allocation is app. € 125 million. This scheme is co-financed from the European Social Fund.

2.7. Long-term impacts of the crisis on major social security schemes

Due to the challenge of population ageing, the Czech Republic acknowledged the need to modernise social protection system and health care to improve the long-term sustainability of public finances. There has been only limited progress. Regarding pensions, the government implemented some parametric changes to the pay-as-you-go (PAYG) system, such as increasing the retirement age to 65 by 2031 and extending the minimum contribution period from 25 to 35 years. Concerning health care system, health charges have been introduced for basic health services but were met with opposition and further discussions are ongoing.



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DENMARK

1. The economic downturn and its impact on social cohesion

According to the Commission's autumn forecast (November 2009), Denmark's GDP is expected to contract by 4.5% in 2009, with a possible moderate recovery in 2010 to growth of 1.5%. Employment is expected to shrink by 2.6% in 2009 and 2.1% in 2010. Unemployment is expected to double from its record low of 3.3% of the labour force in 2008 to nearly 6% in 2010. The massive budget surpluses built up in the past are set to disappear rapidly and Denmark is likely to register a deficit of 2.0% in 2009, which might rise to 4.8% in 2010. Close to half of this increase is due to the downturn, activating the very strong automatic stabilisers.

Youth unemployment, although far below the EU average, has started to increase, while the unemployment of people of foreign background and long term unemployment appears to be stable for the moment. Unemployment for men has risen faster than for women. Increases in the number of recipients of unemployment benefits and in the number of claimants for social assistance have so far been moderate. The housing market crisis started early in 2008 and prices have fallen by 4% in Denmark. The number of repossessions has doubled in 2008, nevertheless they still concern limited numbers of mortgage holders.

2. National policy responses

2.1. Overall recovery package

In response to the crisis, Denmark has adopted measures to stabilise the financial sector and the banking sector, which should also improve access to finance and support the wider economy. Overall fiscal policy is expansionary by around 1% of GDP, including tax cuts and expenditure increases from 2009, which will help to cushion the effects of the downturn. Agreements on green transport and municipal investment will advance and boost public spending on infrastructure in 2009-2010. For 2010, the so-called spring package will reduce taxes further and raise investment. The Danish export insurance has announced measures to help export businesses to emerging markets.

Additionally, private households are given the opportunity to withdraw savings from the Special Pension savings scheme during 2009, which could increase private consumption in general and help alleviate income reduction for unemployed. In mid-April 2009, a renovation scheme representing 0.1% of GDP started, allowing citizens to apply for grants for building improvements and repair in private homes, including energy-saving projects.

2.2. Labour market measures

The rapidly rising unemployment has triggered several labour market initiatives to support those threatened by unemployment. More flexible rules were agreed for the work sharing scheme which allows companies to dismiss temporarily (for up to 26 weeks) employed persons with unemployment benefits. More resources and wider access (SMEs with minimum



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20 employees instead of minimum 100 previously) to the fund for notice periods ("Varslingspuljen" which funds counselling, job search support and training programmes) have been announced. Faster assistance from the employment services when enterprises announce lay-offs and increased monitoring of the developments in the labour market are other initiatives. The Public Employment Service is re-organised under a single local management catering for both insured and uninsured unemployed and benefit receivers. Other changes include a tightening of the rules for sickness leave (while giving sickness benefit receivers access to activation measures), changes in the availability criteria for receiving benefits (notably for married couples) and widening the scope for activation measures. In September 2009, a youth package was introduced, aimed at combating the increase in youth unemployment and facilitating further education.

2.3. Supporting people income

Denmark is implementing significant tax cuts on labour income. For more than 10% of the labour force, marginal tax rate is reduced by 21 percentage points (from 63 to 42%). The government introduced a "green cheque" to compensate households for higher green taxes and health-related excise duties and increased pensioners' allowance. The possibility of withdrawing savings from the Special Pension scheme will also support people income. Benefit rates are adjusted yearly based on the growth in wages and salaries. Unemployed can receive benefits for up to 4 years.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

There are no specific measures in this area. See 2.3.

2.5. Investing in social, educational and health services infrastructure

Denmark is shifting forward money reserved for future public investments. Municipalities have launched plans for major renovations of schools and kindergartens and regional authorities are moving forward investments in health infrastructure.

Planned DKK 40 billion (EUR 5.3 billion) investments in new hospitals can be regarded as a remarkable boost for the public health care infrastructure, although they were not initially considered as part of a recovery plan. In the coming 10 years 5 new major acute-hospitals will be built and at least 11 hospitals will undergo major renovations.

2.6. Use of ESF

The ESF programme 2007-2013, "More and better jobs", amounts to just below 255 million euro (EU funding) and aims to improve the qualifications of the Danish workforce and to bring more people into work, priorities that so far have been deemed as appropriate also in the crisis situation.

2.7. Long-term impacts of the crisis on major social security schemes

In Denmark, a financial stability package for pensions has been implemented to ensure market stability and prevent forced sale of mortgage bonds owned by pension funds and substantial



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losses for pension savers. It is too early to make an assessment of the effects of the crisis on funded pension schemes.

2.8. Health care and long-term care

The Danish Health Care Act secures patients' easy and equal access to the health care system. In Denmark health care coverage is universal and the system is financed by income taxes. It is free of charge for all patients to go to the GP, specialists and to the hospital – both physical and mental hospitals. These system features are not affected by the economic crisis, and therefore all patients will experience the same possibilities for treatment as before the crisis. The 2010 financial agreement between the regions and the Government includes a real boost for the health care sector of DKK 830bn (approx. € 110bn) for improved treatment at the hospitals. Together with an expected productivity increase of 2 pct, this boost will result in an expected activity increase of approximately 3.5 pct.



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GERMANY

1. The economic downturn and its impact on social cohesion

According to the latest economic forecast published by the Commission in November 2009 Germany's real GDP is expected to contract by about 5% in 2009 against 4.1% in the EU. A moderate recovery is expected in 2010. Employment is expected to contract by about ½% in 2009, against 2¼% in the EU. Unemployment is expected to increase sharply to more than 9% in 2010. As automatic stabilisers will work fully and in combination with a decreasing GDP, social protection expenditure, as a share of GDP, is projected to rise from 27.6% in 2008 to 30.8% to by the end of 2010. A significant decrease in tax revenue is estimated at around 3% of GDP in 2009. For 2009, the deficit is likely to reach 3.4% of GDP. It is projected to worsen further to 5% of GDP in 2010.

Until now, the unemployment rate does not (yet) reflect the drop in growth: in September 09, the seasonally adjusted unemployment rate in Germany stood at 7.6% (against 7.1% in September 08) which was 1.6 percentage points lower than the EU27 average. This is partly due to the quickly increasing use of the "short-time work allowance" (*Kurzarbeitergeld*) whose recipients are not counted in the unemployment statistics (in June about 1.4 mio received this allowance). This would correspond, in full time work equivalents to about 450 000 persons). It is worthwhile to be noted that in some regions (Eastern Germany) *employment is still rising and unemployment shrinking*. Youth unemployment remained much lower than the EU27 average (19.6%) at 11.5% in Q2-2009. Even if the unemployment rate of non-EU foreigners decreased in 2008, it remains one of the highest in the EU at 18.4%. Nearly half of the unemployed in Germany and 2/3 of the unemployed over 50 have been unemployed for more than a year. Long-term unemployment needs to be closely monitored because of its long lasting negative effects on the employability and well-being of citizens.

According to national data the number of recipients of unemployment benefits (Arbeitslosengeld) has increased by 38% in October 2009 as compared to October 2008 whereas the number of recipients of basic income support (Arbeitslosengeld II) was only 2% higher than in the year before. Germany is among the countries with strong safety nets and recent reforms may help addressing concerns about the impact of the crisis on public finances. Germany does not report any significant increase in the number of families defaulting on their mortgage payments, nor in rates of over-indebtedness or difficult access to credit for individuals.

2. National policy responses

2.1. Overall recovery package

Germany has adopted a wide-ranging response to the crisis covering financial market, fiscal stimulus and structural measures. A sizeable fiscal stimulus (around 1¾% of GDP on average per year) consists of two packages: *Konjunkturpaket I* (Autumn 2008) and *Konjunkturpaket II* (January 2009). The measures focus on income support, public and private investment, ensuring access to finance, reducing lay-offs, improving access to training and employment



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services, and include instruments that support the automotive industry. The fiscal measures are accompanied by a repayment plan for public debt.

In Germany, the package of employment and social measures focuses on safeguarding both jobs and businesses' capacity to invest. The measures will markedly increase public investments in future oriented sectors with educational infrastructure at the forefront, but also in the social and health services and hospital infrastructure. The package will ensure the supply of credit to healthy, competitive companies, support the qualifications of the workforce and financial relief of households including an adequate income support for the most vulnerable.

2.2. Labour market measures

Most importantly, the maximal duration for receiving short-time work allowance was extended to 24 months; the Public Employment Service covers the cost for social security contributions¹⁵. Reduced contribution to the unemployment insurance (2.8% in 2009 and 2010 instead of 3.3% in 2008, from 2011 3%), and to the health insurance (by 0.6 percentage points) will lift the burden on labour costs and stimulate both labour demand and supply. In addition, the budget available for education and training will be increased.

Furthermore, the German plan provides a good example of combined measures: the public training programme (WeGebAU), originally aimed at low-skilled and older employees, has now been extended to cover all workers in current need of training; in addition, job placement agencies will receive an additional 6,000 headcount for intensive coaching of those made redundant.

2.3. Supporting people's income

In Germany, a number of measures have been taken that will have a positive effect on people's income; these include lower contribution rates to unemployment insurance (as of 1 January 2009) and health-care insurance (as of 1 July 2009) as well as higher child benefits. The re-introduction of the commuter allowance will provide additional relief, as will pension increases. In the basic allowance for job seeker-scheme benefits for children aged from 6 to 13 years will be raised by €35 a month. All families entitled to child benefits will receive a one-off payment of €100 per child. Especially for lower incomes tax is decreased by a higher tax exempt amount.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

The housing allowance (*Wohngeld*) has been increased (1 January 2009). It is expected that, on average, the allowance (that amounts now to about €90) will amount to €140 per month. About 800,000 households are expected to benefit from this allowance. The overall costs are estimated to amount to €520 mio.

¹⁵ In principle, the PES covers 50% of the social security contributions 100%, if the period of short-time work is used to carry out training measures or, even in the absence of training measures, if the short-time work lasts longer than 6 months.



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2.5. Investing in social, educational and health services infrastructure

As part of its recovery package, Germany has made new investments at the federal, Land and local-government levels in educational infrastructure (nurseries, schools, universities; to make up two thirds of overall planned expenditure) and other infrastructure (particularly transport, hospitals, urban development). These will be financed at the federal level, for an amount of around €14 billion, and by the Lander (approx. €3 billion).

2.6. Use of ESF

The ESF OP for the federal level supports qualification and training measures that are carried out during short-time work as well as under the WeGebAU programme (described above).

2.7. Long-term impacts of the crisis on major social security schemes

Germany is committed to its long term strategy to modernise its social protection system. Recent reforms in the areas of pensions, disability and unemployment have contributed to lower the level of public social expenditure from historically high levels. This is likely to help reducing expenditure when recovery comes.

The bulk of the pensions are delivered through the mandatory first pillar. However, measures have been taken to ensure that the nominal amount of pensions may not decrease, even if the pension adjustment formula – that takes into account among other things the development of net wages – would indicate such a decrease. Concerning occupational pensions systems, there is no pure DC provision and the majority of contracts are DB in nature, funds are protected against asset value loss by means of an extensive safety net. Regarding the private "Riester-pensions", finance institutions are obliged to guarantee nominal value maintenance.

2.8. Health care and long-term care

Germany has taken some decisions in 2008 and 2009 concerning its health care insurance system to help ease and overcome effects from the financial crisis, among others by speeding up the availability of agreed federal financing, or liquidity loans, to compensate for the expected fall in the insurance contributions due to increasing unemployment. The liquidity loans to the central health fund have to be paid back by 2011. However, the increasing federal co-financing for the health care insurance has to be financed through increased support from the German federal budget. It has to be discussed, which share of the federal budget support is adequate and sustainable in the longer term. This will likely be a major theme during the next years under the new federal government.



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ESTONIA

1. The economic downturn and its impact on social cohesion

According to the Commission's 2009 Autumn Forecast Estonia's real GDP is expected to contract by 13.7% in 2009 and 0.1% in 2010. Employment is set to contract by 9% in 2009 and 2.5% in 2010 with the unemployment rate is expected to reaching a peak of 15.2% in 2010. Although there are some indications that the economy may have bottomed out in summer, there are no immediate prospects for quick recovery.

The rise in unemployment was particularly pronounced for the young. The youth unemployment rate climbed from 8.9% in the second quarter 2008 to 24.1% in the second quarter of 2009, the fastest relative rise in the EU.

The direct impact of the recession is apparent in the increase of unemployment benefit recipients (164% between Q1-2008 and Q1-2009). From January to July 2009 the number of new unemployment insurance benefit receivers was 4.6 times higher (31.500) than in the previous year. The number of subsistence benefit receivers (13.474) is 1.6 times higher in the first half-year in 2009 than it was the same period of 2008. This can mainly be explained by the rising unemployment: over 76% of subsistence benefit receivers were families with an unemployed person.

The potential severity of the crisis is indicated by the increase in the number of repossessions (300% in 2008 and a further 50% increase in the first quarter of 2009), even though repossessions still concern a limited number of mortgage holders (~2260).

2. National policy responses

2.1 *Overall recovery package*

A steady deterioration in the economic outlook and a deflationary environment have caused tax revenues to contract. Limiting the budget deficit to less than 3% of GDP while preserving economic dynamism has become the main economic challenge in 2009 and 2010. The Estonian response to the crisis mainly consists of budget cuts and other fiscal consolidation measures to keep the deficit within acceptable limits and of targeted support to certain sectors and groups to stimulate the economy. The flexibility of the labour market in Estonia was increased by speeding up the implementation of the Labour law package (from 2010 to July 2009). However, the full "flexicurity" approach was not implemented due to budgetary reasons. The initial package foresaw an increase in the level of unemployment insurance benefits and an extension of access to it as some of the elements to counterbalance the enhanced labour market flexibility. The Action Plan for Increasing Employment in 2009-2010 was designed in cooperation with social partners and adopted in September 2009.

Estonia aims at speeding up Structural Funds investments in priority fields and extensive use and frontloading of the ESF in 2010. An evaluation has been conducted on the efficient use of



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Structural Funds and OP modification proposals that take the results of the evaluation as well as the current situation into account can be expected.

2.2 *Labour market measures*

The adopted Labour law package is expected to enhance labour market flexibility through relaxed conditions for layoffs, reduced financial burden for employers in case of dismissals and promotion of flexible forms of work. The aims of reinforcing active labour market measures and improving workers' access to education and training are being carried out on the basis of the Employment Action Plan for 2009-2010 and a Development Plan for Adult Education 2009-2013 that have both been adopted in autumn of 2009. The measures in these plans will help to raise the skills levels of people and prepare them for the changes in the economy.

Estonia also strives for alleviating the consequences of the crisis with the activities already described in the Estonian National Strategy for Social Protection and Social Inclusion 2008-2010: e.g. by widening the target group of active employment measures to the inactive population, developing an integrated career service system, promoting participation of parents of small children and disabled people in the labour market, and supporting employment opportunities for the elderly. In addition, a service has been introduced for helping people in the restructured firms back to employment. It provides career counselling, information on the rights of dismissed people and possibilities for training.

2.3 *Income support*

Operational expenditure of the central government has been cut, local governments' expenditures have been limited, annual pension increase was lowered from 14% to 5%; the health insurance regime has been made less generous, social security budget has been changed. From the revenue side the unemployment insurance contribution rates have been increased, and VAT-rate and excise duties have been raised.

2.4 *Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness*

According to the Bank of Estonia, at the end of August 2009 almost 9% of holders of housing loan contracts had got into trouble with payments or the loan was under special observation, representing a 1.7 pp increase from January 2009. At the end of August 2009 almost 14.5% of consumer loan contracts were under special observation, i.e. increasing by 0.9pp from January 2009. Estonia did not report on any measures to mitigate problems as regards housing or over-indebtedness.

2.5 *Investing in social, educational and health services infrastructure*

The ERDF contribution allocated for social, educational and health services infrastructure in Estonia amounts to €518m in the 2007-2013 period. This is divided as follows: education infrastructure €265m, health infrastructure €146m, childcare infrastructure €24m, housing infrastructure €8m, and other social infrastructure €75m.



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2.6 *Use of ESF*

Over the 2007-2013 funding period the ESF will provide €391m to Estonia. The ESF plays an important role in financing recovery measures. The recently approved Development Plan for Adult Education 2009-2013 will be co-financed from the ESF. The Employment Action Plan, adopted in response to the crisis, will mainly be financed from the ESF. ESF financing will help to considerably increase the financing of ALMPs that form the main part of the Plan. The share of ALMP expenditure in 2006 was limited to only 0.02%, by better utilisation and frontloading of ESF it is increased in 2009 and is planned to be raised up to 0.42% of GDP in 2010.

2.7 *Long-term impacts of the crisis on major social security schemes*

The Estonian authorities hold that the state pension system (PAYG) is not going to be remarkably affected in the longer term. Although the revenues of the system are decreasing (increasing unemployment and decreasing wage growth) in the short term, the expenditure will follow the revenues (pension index depends on social tax revenues). By law there is also possible to change in the first pillar pension index after every five years, if sustainability of the pension scheme comes under question. Pension levels will not be as high as projected earlier, especially in short term.

In Estonia all compulsory contributions and the Government's contribution to the second pillar schemes have been cancelled from 1st June 2009 until 31st December 2010. However, from 2010 the members can voluntarily restart their contributions. From 2011 the compulsory contributions will be restarted at 2% (state) and 1% (member), i.e. half of the usual level. Contributions at normal levels of 4% and 2% will be reintroduced from 2012.



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IRELAND

1. The economic downturn and its impact on social cohesion

According to EU Commission's autumn economic forecast, a 3% contraction in the Irish economy in 2008 will be followed by further contractions of -7.5% in 2009 and -1.4% in 2010. These economic developments are having a knock-on effect on the labour market, with the employment rate declining by 1.5 percentage points to 67.6 in 2008, with a drop in the number of people in employment of 7.8% expected in 2009. Unemployment, which rose to 6.3% in 2008, is expected to average 11.7% in 2009 and 14% in 2010. The rise in unemployment will contribute to an increase in social protection expenditure to over 28% of GDP by 2010. Declining tax revenues mean the general government balance is forecast by the Commission to reach -12.5% in 2009 and -14.7% in 2010.

Latest trends in unemployment indicate an increase to 11.9% in Q2 2009, compared to 8.8% in the EU. The 15 – 24 year old cohort has been the most affected, rising from 11.3% to 24.5% in the 12 months to Q4 2008, above the EU average of 19.5%. Men have also been more severely affected by the crisis with an unemployment rate of 14.8% in Q2 2009, compared to 8.2% for women. Long-term unemployment has also risen to 2.5% in Q1 2009 from 1.3% a year previously.

According to national statistics, the number of unemployment benefit claims rose by 80% to 432,639 in the 12 months to Q3 2009. Non-Irish nationals accounted for around 18% of this total, compared to an estimated 15.8% in the labour force in Q2 2009. There was a 34% increase in the number of social assistance payments made in the 12 months to Q2 2009 while the number of children residing in jobless households rose from 12.7% to 16% in the 12 months to quarter 2 2009. Latest surveys point to a 12.5% drop in second-hand house prices in the 12 months to July 2009 and an 18% decrease since February 2007. Due to a 12 month moratorium by the main banks, house repossession have remained relatively static but this may change as the moratorium expires. There has been a 34% increase in claims for rental assistance while for assistance with mortgage interest payments more than doubled in the 12 months to quarter 3 2009.

2. National policy responses

2.1. Overall recovery package

Given the deterioration in the public finances, the Irish Government has been unable to implement the type of stimulus measures implemented elsewhere and has, instead, focused on cuts in public expenditure and revenue raising measures. Over the past 6 months, this has led to the implementation of cumulative cuts of €3.3 billion for the remainder of 2009 and a further €2.7 billion in 2010¹⁶. Savings Measures included the non-payment of public pay increases in 2009 and 2010, the introduction of a “pension levy” (of about 5 per cent depending on pay levels) on all public sector workers, the abolition of the Early Childcare

¹⁶ According to speech of Minister for Finance at supplementary Budget, April 2009.



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supplement and cuts in Overseas Development Aid. Capital spending has also been reduced but will be about €7.3 billion in 2009, or about 5% of GNP.

Despite the difficult budgetary situation, expenditure will increase modestly in priority areas such as science, technology and innovation programmes. In the employment and socials areas, efforts have been made to protect the most vulnerable through social welfare increases of around 3% for 2008 (when inflation has been negative) while the Government has aimed to increase the supports available to those made unemployed.

2.2. Labour market measures

In the area of employment, measures have been taken to support individual enterprise and increased up-skilling through extra support for Back to Work Enterprise Allowance and the Back to Education Allowance. A work experience scheme is being introduced for 2,000 people while a wage subsidy scheme (involving weekly subsidies of €200 for 6 months reducing incrementally over the following 9 months) for 'viable' sectors has also been proposed. The capacity of the PES to deal with unemployment benefit recipients has been increased from 6,500 per month to 12,200 per month while 51,000 new training places have been provided through the FAS Training Initiatives Strategy, mainly of short 10 and 20 week duration. Redundant apprentices will be supported through additional training in the education sector and measures to ensure they can complete their apprenticeship. Participation in further and higher education for over 6,000 people will be facilitated while a pilot training scheme for workers on a three-day week will be implemented.

2.3. Supporting people's income

The Irish Government has sought to isolate the most vulnerable from the expenditure cuts that have been applied across the rest of the public service. Despite negative inflation, Budget 2009 allowed for a €515 million increase in social welfare payments which resulted in just above a 3% increase in payments for people of working age and slightly more for old age pensioners. Some cuts have been made, such as the abolition of the early childcare supplement, but this has been partly replaced by the provision of 1 year free pre-school education to all children in the state.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

Anecdotal evidence suggests mortgage repossession are on the increase in Ireland, although this would mainly seem to be in relation to investment properties. Nevertheless, the two main banks which have been recapitalised by the government have agreed on a 12 month moratorium on seeking repossession after a mortgage goes into arrears while all other banks have agreed a 6 month moratorium. Also, the Irish banking federation has agreed a protocol with the Money Advice and Budgeting Service on mutual steps that will be taken in cases of personal debt.

2.5. Investing in social, educational and health services infrastructure

Despite expenditure cuts, the IE Government has nevertheless allocated over €7billion (5% of GNP) in capital expenditure (infrastructure) for 2009 under the National Development Plan.



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Approximately €850million of this will be spent on capital projects in the education sector (including new and refurbished school buildings), €350 million on capital health related projects and €60million on childcare facilities¹⁷. Other capital expenditure has been prioritised on employment-intensive projects.

2.6. Use of ESF

Under the HCI-OP, the ESF finances several actions that support the unemployed, mainly through skills training. The ESF Managing Authority is currently investigating the possibility of using the ESF to finance some of the new ALMPs mentioned above.

2.7. Long-term impacts of the crisis on major social security schemes

Increased social welfare spending in 2009 of 20% will place a severe strain on Irish public finances with unemployment payments expected to rise by 120% in 2009 alone¹⁸. This is one contributory factor towards a significant deterioration in the state of the Social Insurance Fund, which is expected to now post a deficit by 2010 rather than the earlier expected date of 2016. The Government has signalled that further increases in social welfare benefits will not be possible in 2010 and has instead signalled that cuts to social welfare spending will be necessary if the overall financial spending plans are to be adhered to. Such a move could affect the Government's medium-term commitment to increase the state pension to the level of €300 by 2012.

The sustainability of the pensions system due to an ageing population also remains a serious issue but is relatively unaffected by the recent economic crisis, in that it still requires the formulation of a framework for future policy, which is expected to be launched shortly. This framework will obviously have to take account of the impact of the crisis, particularly in relation to funded pensions. In its annual report for 2008, the Pensions Board (regulator) estimated that approximately 90% of all DB schemes were underfunded, compared to 81% being adequately funded in 2007. A number of temporary short-term measures have been put in place to provide for a more flexible approach to the application of the requirements of the funding standard. Recent legislation built on these measures through the introduction of a pensions insolvency payments scheme, allowing for the restructuring of underfunded DB schemes and changing the order in which liabilities are disbursed on the wind-up of schemes in order to achieve a more equitable distribution of assets. The crisis has also had an impact on the National Pensions Reserve Fund, set up to help pre-fund the increased cost of publicly funded pensions from 2025, with €7 billion from the fund used to finance the bank recapitalisation programme.

2.8. Health

No measures in the field of health care were provided by Ireland.

¹⁷ Figures taken from 2009 Revised Estimates of Expenditure

¹⁸ Figures taken from 2009 Revised Estimates of Expenditure



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GREECE

1. The economic downturn and its impact on social

According to the latest economic forecast published by the Commission in November 2009, the GDP growth in Greece has slowed down from 2008, presenting an annual rate of 2% compared to 4.5% in 2007, but still clearly above the euro-area average. Real GDP for 2009 is expected to turn negative (-1.1%) for the first time since 1993, while a very moderate recovery is expected in 2010. In spite of a strong economic performance for the past years, Greek fiscal imbalances have been high and persistent, implying the existence of structural inefficiencies behind the recorded deficits. The general government deficit as notified by the Greek authorities in October 2009 stands at 7.34% of GDP for 2008, while for 2009, the official public deficit estimate stands at 12.5% of GDP, compared with the budgetary target of 3.7% of GDP included in the January 2009 update of the stability programme.

Employment is expected to decline in 2009 (- 0.9 %), compared to a decline of 2.4% in the EU. The downward trend observed in the unemployment rate over recent years has now come to an end and has begun to follow an upward trend, expected to reach 9% in 2009 and 10.2% in 2010. The latest LFS data reveal that unemployment has gone up to 8.9% for the second quarter of 2009 in relation to 7.2% for the second quarter of 2008. According to these data the number of unemployed in Greece (442.600 unemployed in Q2 2009) has increased by almost 85.500 people during the second quarter of 2009 (Q2 in 2008 357.100). Most jobs have been lost in sectors such as construction, distributive-retail trade, industry, transportation services and the tourist sector. Women's unemployment rate continues to be almost double the respective rate of men (12.5% in Q2 2009 compared to 6.3% in Q2 2009). Young and especially young women present the highest unemployment rate among all age groups (32.8% in Q1 OR 32.9% in Q2). Long-term unemployment remains high representing 43% in Q2 2009 of total unemployment.

The social impact of the crisis in Greece manifests itself also in the increasing number of claimants of unemployment and social assistance benefits. In addition, significant increases are observed in the non-performing housing loans, as well as in the number of foreclosures, while deterioration in the over-indebtedness of households is noted.

2. National policy responses

2.1. Overall recovery package

The Greek government did not adopt a short-term stimulus package in response to the economic slowdown, in line with the EERP. Instead a number of measures have been launched over the past 8 months in various areas of concern. Among the first measures taken was the adoption of a package of measures ensuring the stability of the financial sector, including the guarantees of deposits up to € 100,000. In addition, in order to ease access to financing, the Greek authorities have launched a new corporate financing



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programme, through the "Credit Guarantee Fund" for small and micro enterprises, which provides 3-year guarantees and/or subsidizes interest payments for loans up to €350,000 per enterprise.

Moreover, the Greek authorities have put forward a number of temporary measures, aimed at safeguarding social cohesion, including one-off financial benefits to low-income households and active labour market measures especially for the sectors mostly hit by the economic crisis, such as the tourist sector, the distributive-retail trade and the construction industry. In April 2009, the Ministry of Labour and Social Security (formerly called Ministry of Employment and Social Protection) announced a set of measures ("Action Plan"), to limit the effects of the crisis on employment.. Some of these measures have already been launched, while the newly elected government (October 2009) is currently reconsidering the previously announced measures.

2.2. Labour market measures

Within the above context, referred in point 2.1, the Greek authorities have announced a set of measures mostly consisting of Active Labour Market Policies for certain categories (women, youth, and older workers), as well as sectors and professions most hit by the crisis (construction, tourism, and technical professions). Recent initiatives related to the labour market aim at facilitating greater access to training programmes for unemployed persons combined with compulsory employment (up to 3 months) of 30% of the trainees. These programmes concern in particular the tourist and the construction/ technical sectors, as well as "green jobs" and ITC skills. Furthermore, the new government has announced a new set of measures, including: a programme for subsidising employers' social security contributions for four years when hiring young employees, the establishment of specific clauses to safeguard that State guarantee loans are granted to enterprises maintaining existing or creating new jobs, the reallocation of resources in favour of social economy programmes, the creation of new jobs by supporting green initiatives of enterprises.

2.3. Supporting people income

As regards the measures announced by the Greek government to protect the position of the most vulnerable population groups, these are monetary measures taking the form of lump-sum extra income support benefits. The Greek authorities distributed at the beginning of 2009 a "social coherence allowance" to the poor households. The Christmas bonus received by unemployment benefits recipients was doubled. In addition, and in spite of the overall freezing of the public sector's wages, the authorities provided a one-off supplementary allowance to the low-wage public servants and pensioners.

In the same vein, further actions to support people income have been announced by the new government. A bill granting an extraordinary "social solidarity allowance" to specific population groups, after satisfying certain income and/ or social criteria, is under way. Additionally, the unemployment benefit will gradually increase up to 70% of the minimum wage, following the increase of the previous five years. Furthermore, farmers' income will be supported by two newly announced measures, i.e. the raising of farmers' basic pensions by 50€ (in two installments by the first semester of 2010), as well as the raising of VAT refunding to farmers from 7% to 11%.



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2.4 Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

A one-off housing loan subsidy of €500 was awarded to those servicing housing loans, provided that they are entitled to pensioners' social solidarity allowance ("EKAS") or are unemployed currently receiving unemployment benefits. In addition, the new government has launched a public consultation process (in the end of October) in order to improve the existing legal framework aiming at protecting borrowers.

2.5 Investing in social, educational and health services infrastructure

Until September, there was no evidence for any investment plans in social, educational and health infrastructure, in the framework of a stimulus package, in order to boost the construction sector and to generate labour demand and thus improve access to quality services in these areas.

2.6. Use of ESF

The Greek Operational programmes cofinanced by the ESF comprises around €4,3 billion for the 2007-13 period for a series of interventions taken or planned to be taken by the Greek Authorities so as to respond to the economic crisis. Around half of the total ESF contribution is directed at the promotion of measures contributing the development of human resources and €1, 4 billion is directed at the promotion of education and lifelong learning. For the time being, no changes of the Ops have been proposed as a response to the crisis.

2.7. Long-term impacts of the crisis on major social security schemes

Given the fact that the largest part of the Greek social security system is a pay-as-you-go pension system, there is not as yet any evidence as to the future impact of the present economic crisis.

2.8. Health

The Greek health care system is based on the co-existence of the National Health Service, a compulsory social health insurance and voluntary private health insurance schemes. Universal coverage of the population is provided. Extra measures were taken in 2008 and 2009 concerning the health care insurance system in order to protect socially vulnerable groups, including: financial help for migrants, people living at risk of poverty and threaten by seasonal fires, the functioning of 32 Socio-Medical Centres for Roma and of 13 shelters for asylum seekers. The impact of the economic and financial crisis in the health system is becoming increasingly evident. Therefore, the newly appointed government announced the adoption of measures for recruiting doctors and other medical staff, the promotion of e-government in all general hospitals and committed itself in the adjustment of the total health expenditure.



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SPAIN

1. The economic downturn and its impact on social cohesion

According to the Commission's Autumn forecast (November 2009), Spain's real GDP is expected to contract by about 3.7% in 2009 and 0.8% in 2010. A government deficit rate of 4.1% of GDP was recorded in 2008, projected to increase to 11.2% in 2009 and 10.1% in 2010, due to the negative growth scenario and to the financing of the measures being already implemented in response to effects of the economic downturn.

The labour market situation has shown signs of continuous weakening during 2008 and 2009. Employment is expected to fall by -6.6 in 2009 and -2.3% in 2010. The projections show an increase of unemployment, from a recorded 17.9% (18.2% for women) in Q3- 2009 (11.3% in Q3- 2008) to around 20% in 2010. The unemployment rate for the under-25s has increased considerably, reaching 38.1% in Q2-2009 (23.9% in Q2-2008). This increase shows that employment adjustment is likely to affect to a greater degree to those groups of workers with less protected jobs, like the young. Long-term unemployment, although slightly increasing (17.6% in Q2-2008, 21.5% in Q2-2009), remains lower than the EU27 average.

As a result of the strong deterioration of the labour market, the number of households in which none of its members works has increased to 11.3% in Q2-2009 (7% in Q2-2007). The number of recipients of unemployment benefits has increased considerably (1.8 Mio in August 2008 vs. 2.7 Mio in August 2009), as the number of claimants of social assistance did, although to a smaller extension.

The housing market crisis has shown its effects on the prices (interannual variation rate of -8.34%). The number of forced sales repossessions has increased by 126% during 2008, although repossessions still concern limited numbers of mortgage holders.

2. National policy responses

2.1. Overall recovery package

Spain has adopted a comprehensive response to the crisis, with the aim of stabilising and stimulating the economy and the employment. The so-called "*Plan E*" (Spanish Economy and Employment Stimulation Plan includes economic policy and structural measures in order to cushion the effects of the crisis on families and companies, as well as to resume economic growth and employment creation.

The *Plan E*, whose global impact accounts for 4.9% of GDP (2009), includes four types of actions: (i) supporting families and enterprises; (ii) supporting employment; (iii) financial and budget measures; and (iv) economic modernisation. The Plan is subject to a permanent analysis and assessment, through a web information system that facilitates an ongoing update (new measures) and the quantification of the results of the measures already implemented.



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2.2. Labour market measures

Spain has adopted a wide range of measures aiming to improve the functioning of the labour market. The *Plan E* introduces direct measures to promote employment creation, including the *Local Investment Fund* and the *Special Fund for Boosting the Economy and the Employment*. The latter, endowed with €3,000 Mio, contemplates actions in strategic sectors (construction and improvement works complementary to those contemplated in the municipal plan, RDT, social tourism, environment and climate change related areas, and the automobile sector).

Other measures introduced are in relation to flexible working-time arrangements, and incentives for firms hiring unemployed workers with family responsibilities via non-fixed term and full-time contracts (tax allowances on Social Security fees). Self employment is strongly supported, by measures benefiting, i.e., the unemployed (which have the possibility to draw 60% of their unemployment benefit rights all at once) young people, and people with disabilities who decide to become self-employed. Rebates on social security contributions to boost labour demand are specifically directed towards R&D and renewable energies.

Investment in training is reinforced by measures such as the *Extraordinary Plan for Guidance, Vocational Training and Labour Market Insertion*, which targets unemployed and laid-off workers, particularly in those sectors undergoing an adjustment process. The plan contemplates the hiring of 1,500 employment advisors¹⁹ and includes complementary subsidies for the job seeking process and to enhance geographical mobility.

Worth to mention is the *2009 Employment Plan for Socially Useful Jobs*, which aims at improving the chances of 100,000 unemployed persons to get a job by allowing them to work or provide services to the community while taking part in training programmes. Furthermore, some other future initiatives are currently being studied (i.e. *Statute of the self-employed and support to the entrepreneur*, promotion of vocational training, and the adoption of the *Law of Sustainable Economy* -which will include measures intended to consolidate a new model based on the knowledge and innovation and social and environmental sustainability).

2.3. Supporting people income

Spain took action to provide additional support to people's income, including measures to increase the minimum wage by 4%, up to €624 / month.

One of the most recent measures adopted is the *Temporary Unemployed Protection and Insertion Programme*, intended to support the unemployed that have exhausted the unemployment benefits to which they were entitled, and don't have any other relevant income (> 75% of the minimum wage). The Programme will last for 6 months, and it is forecasted to support 600,000 unemployed approximately, with € 420/ month.

The minimum retirement pensions have been also considerably increased, by 6% in average in 2009 in order to support the fight against poverty in the context of the crisis. In 2009 additional increases have been applied for people with spouse in charge, for widows and for a new category of minimum pension beneficiaries living alones. These additional increases will continue in 2010. It is also necessary to highlight the increased in the number of beneficiaries

¹⁹ It is estimated that more than 400,000 unemployed will benefit from the orientation support



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(and the corresponding budget) of the so-called Minimum Insertion Income, whose creation, regulation and financing are the exclusive competence of the Autonomous Regions.

The annual budget for scholarships in 2009 will increase by 6% (representing approximately € 1,280 Mio).

The Plan E foresees an additional investment of € 400 Mio for the implementation of the *Law for the Promotion of Personal Autonomy and Attention to Dependent People* (adopted in December 2006) to be added to the € 1,159 Mio to be received by the Autonomous Regions in 2009.

A new personal income tax credit for earned income, representing a €400 annual reduction in the income tax per tax payer (workers, self-employees and pensioners), will benefit approximately 16 Mio in 2009. It is expected that this tax credit will be maintained in 2010 for people with low revenues. Furthermore, the elimination of the Property Increment Tax will help tax payers save nearly € 1,800 Mio / year from 2009 onwards.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

Spain has adopted several ad-hoc measures aiming to protect mortgage holders against repossession and to address over-indebtedness. The provisional partial moratorium on mortgage instalments, expected to benefit around 500.000 families, allows mortgage holders to postpone 50% of the due payments for 2 years without additional costs. Mortgage holders also have the possibility to extend the lifetime of a mortgage credit with no financial costs, no fiscal expenditures and no registry and notary expenditures.

Furthermore, the extension of two years of the time limit to invest personal savings on housing (Cuenta Ahorro Vivienda, a bank account with fiscal advantages under the condition to be used to buy first residence or to refurbish the habitual residence) has been adopted. Regarding social housing, a lower interest rate will be applied, and a new State guarantee (50% of the new mortgage for social housing) will be implemented from July 2009 until the end of 2010.

2.5. Investing in social, educational and health services infrastructure

Spain has recently adopted a shift of €110 Mio for housing renovation and generation of jobs, to be added to the budget foreseen under the *2009-2012 Housing and Rehabilitation Plan*. This Plan contemplates 996,000 actions over the next four years in order to support access to property or rental, to promote subsidized housing construction and to expand on the housing market.

The *Plan E* includes also the setting up of a temporary *Local Investment Fund*, endowed with € 8,000 Mio and aiming at financing newly planned public works which will start to be implemented in 2009. The Fund will have a strong impact on job creation (the last data available show that the Fund has generated approximately 419,000 jobs, vs. the initial forecast of 278,000 jobs). The recently established *State Fund for Employment and Local*



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*Sustainability*²⁰ will give continuity to the Local Investment Fund in 2010. This new Fund, endowed with an additional budget of € 5.000 Mio, is intended specifically to support employment generating local projects related to the environment, technological innovation, education and social initiatives. The Fund is expected to create 200.000 stable and quality jobs, benefiting mainly the long-term unemployed.

2.6. Use of ESF

The ESF is contributing to the efforts made by the MS in this period of crisis through a number of actions. These actions focus both on the short term (reaction to lay-offs) and on the long term, (supporting sustainable economic growth). A significant attention is paid to the situation of the unemployed. Priority axis 2 *Support to employability, social inclusion and equal opportunities between women and men has a financial* allocation of € 4 474 859 732 (56% of the total ESF allocation for Spain) and, more specifically, € 3 088 197 582 (38% of the total ESF) have been allocated to the expenditure category 66 *Implementing active and preventive measures on the labour market*. Furthermore, € 114 429 804 have been allocated to the expenditure category dealing with the development of specific services for employment, training and support in connection with restructuring of sectors and firms, and development of systems for anticipating economic changes and future requirements in terms of jobs and skills.

2.7. Long-term impacts of the crisis on major social security schemes

The forecasts for 2009 and the budget of 2010 indicate that, in spite of the fall in affiliation numbers, a superavit of approximately 0.7% will be obtained in 2009. The average retirement age is currently 63.8 years, due to the decrease in the percentage of early retirements and the prolongation of active life beyond the 65 years. Regarding pensions schemes, Law 40/2007 establishes longer minimum periods of contributions taking into account only the actual days of contribution, toughens the requirements for early retirement, applies effective controls to avoid fraud in incapacity protection, changes death and survival benefits and introduces new incentives to extend working lives. Until now, the effect of the crisis are still hard to predict, however, the need to continue the reform process is recognised and the Spanish Government and the social partners have already started a new negotiation process within the Toledo Pact to tackle the pending challenges.

2.8. Health and the health care sector

In Spain the national public health system has a universal coverage, it is financed by income taxes and free of charge for any patient. With the crisis these features have not changed. Nevertheless for the moment there is not empirical evidence about the global effect of the crisis on health.

²⁰ Royal Decree Law adopted on 26th October 2009



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FRANCE

1. The economic downturn and its impact on social cohesion

Selon les prévisions économiques de la Commission d'automne 2009, le PIB français devrait diminuer de 2,2% en 2009 (4,1% pour l'UE) et croître de 1,2% en 2010 (0,7% pour l'UE). La récession est donc moins brutale en France malgré la progression du chômage. Le nombre de chômeurs (9,9% en août 2009, soit + 2 points en un an) devrait atteindre 9,5% de la population active fin 2009 et 10,2% en 2010 (respectivement 9,1% et 10,3% pour l'UE). Si le secteur de l'intérim a servi de variable d'ajustement au début de la crise, la dégradation a rapidement touché les autres emplois marchands, suscitant un recours important au chômage partiel. Selon l'INSEE²¹, le repli de l'emploi représenterait près de 420 000 postes au total en 2009, dont 140 000 au second trimestre. Les secteurs marchands non agricoles perdraient environ 500 000 postes en 2009. Au dernier trimestre 2008, 13,7% de la population active occupent un emploi temporaire (49,4% chez les 15-24 ans). Le chômage des jeunes atteint 22% au deuxième trimestre 2009 et poursuit sa hausse. Structurellement élevé en France, il augmente plus vite que le chômage global depuis le retournement de la conjoncture avec 5 points de hausse en un an. Le taux de chômage des non ressortissants de l'UE est de 22,4% à la même période.

Les stabilisateurs automatiques, avec la forte protection sociale existante, et les mesures de relance contribuent à amortir l'impact de la crise en soutenant la demande intérieure. On relève en outre la faiblesse relative de la "bulle" immobilière.

2. National policy responses

2.1 Overall recovery package

Le plan de relance présenté en décembre 2008 se compose de mesures centrées sur le soutien aux entreprises et les investissements publics pour un total de 26 milliards d'euros (1,3% du PIB). Il privilégie l'appareil productif, avec des mesures consacrées à l'investissement et à la trésorerie des entreprises afin de faciliter leur accès au financement. Il concentre en 2009 des dépenses publiques qui devaient être échelonnées sur plusieurs années (développement d'infrastructures ou remboursement de sommes dues par l'Etat aux entreprises). Ce plan a été complété par un volet social en février 2009 avec un montant de 2,6 milliards d'euros. Dans son discours devant le Parlement le 22 juin 2009, le Président a annoncé des "investissements d'avenir" financés par un grand emprunt public, dont le coût et les modalités font l'objet d'une réflexion au sein d'une commission ad hoc.

2.2 Labour market measures

Les principales mesures en faveur de l'emploi concernent un soutien direct via une aide à l'embauche dans les entreprises de 10 salariés et moins (suppression des cotisations sociales employeurs pour les salariés engagés en 2009 et payés au SMIC) et des crédits en faveur des

²¹ Institut national de la statistique et des études économiques



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politiques actives de l'emploi : accélération de la mise en place de l'opérateur Pôle Emploi, plus de souplesse concernant le chômage partiel (augmentation du contingent d'heures) et formation professionnelle des chômeurs partiels, extension du contrat de transition professionnelle (qui permet aux licenciés économiques de conserver 80% de leur salaire brut pendant un an avec un accompagnement renforcé, notamment une formation), 100 000 contrats aidés supplémentaires. Un fonds d'investissement social a été créé pour deux ans afin de coordonner les efforts en faveur de l'emploi et de la formation professionnelle pendant la crise avec un engagement financier de l'Etat d'1,5 milliard d'euros et un pilotage associant les partenaires sociaux.

Les dispositifs de reclassement et de formation professionnelle liés à la rupture du contrat de travail sont ouverts essentiellement aux victimes d'un licenciement économique (conventions de reclassements personnalisé, congé de reclassement professionnel) ou ayant une certaine ancienneté (droit individuel à la formation, congé individuel de formation) et laissent sans accompagnement particulier la plupart des salariés en fin de CDD ou d'intérim, deux fois plus nombreux que les salariés licenciés parmi les nouveaux inscrits au chômage.

2.3 *Supporting people income*

Les mesures de soutien au pouvoir d'achat incluent la suppression des deux derniers tiers provisionnels 2009 de l'impôt sur le revenu pour 4 millions de ménages modestes (et un allègement d'impôt dégressif pour 2 millions de contribuables au-dessus du seuil), une prime de 200 € en avril aux bénéficiaires potentiels du futur revenu de solidarité active (RSA) mis en place au 1^{er} juin, une prime de 150 euros en juin aux 3 millions de familles ayant au moins un enfant et éligibles à l'allocation de rentrée scolaire, des bons d'achat de services à la personne à hauteur de 200 € par foyer pour des ménages ciblés. On notera également la création d'un dispositif spécifique de soutien au pouvoir d'achat des travailleurs à bas salaire des départements d'outre-mer (et de certaines collectivités d'outre-mer), le RSTA, revenu supplémentaire temporaire d'activité, l'augmentation du minimum vieillesse et la revalorisation de l'allocation aux adultes handicapés. Dans le cadre du plan d'ensemble en faveur des jeunes présenté en septembre 2009, il est prévu d'étendre le RSA aux jeunes actifs de moins de 25 ans, ce qui tranche avec la condition d'âge précédemment attachée au revenu minimum d'insertion, dès lors qu'ils remplissent certaines conditions d'activité antérieure (2 ans sur les 3 dernières années).

En matière d'indemnisation du chômage, les réformes d'avril 2009 ciblent les salariés précaires et les jeunes : la durée de cotisation ouvrant droit à indemnisation est réduite (et la période de référence élargie) et une prime forfaitaire de 500 € est versée aux nouveaux demandeurs d'emploi ne pouvant être indemnisés par l'assurance chômage et ayant travaillé entre 2 et 4 mois. L'indemnisation du chômage partiel est portée à 75% du salaire brut - contre 60% précédemment.

2.4 *Measures to mitigate the direct impact of the financial crisis on households and individuals : housing, over-indebtedness*

Les mesures de soutien à la construction visent à favoriser l'accès à la propriété dans le neuf (doublement du prêt à taux zéro...) et à relancer la construction (logements sociaux et intermédiaires, rénovation urbaine). Le gouvernement a demandé aux banques d'accorder aux



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salariés au chômage partiel une modulation des échéances pour le remboursement de leur emprunt immobilier.

2.5 *Investing in social, educational and health services infrastructure*

Le programme d'investissement public vise pour partie les différents types de chantiers liés à la rénovation urbaine, la rénovation d'établissements d'enseignement supérieur et de logements étudiants, des investissements dans le secteur sanitaire et social (création d'établissements pour personnes âgées dépendantes) ou encore l'amélioration de l'accessibilité des services publics.

2.6 *Use of the ESF*

Pour faire face à la crise, le FSE en France se veut un instrument de gestion réactif en renforçant l'accompagnement des mesures d'adaptation des travailleurs et des entreprises, avec un soutien accru au reclassement des salariés licenciés via le contrat de transition professionnelle (CTP), l'accompagnement des mesures visant à améliorer les efforts en faveur de l'emploi et les compétences des chômeurs avec la contribution au fonds d'investissement social (FISO) 2009-2010 couvrant le chômage partiel et son articulation avec les programmes de formation professionnelle, ainsi que l'accompagnement des mesures vers la reprise d'emploi des bénéficiaires de minima sociaux avec le revenu de solidarité active (RSA).

Le FSE est également utilisé pour soutenir des actions renforcées de formation (formation des salariés les plus exposés à la perte de leur emploi dans les entreprises engagées dans un processus de mutation ou qui envisagent de recourir au chômage partiel, formation en cas de chômage partiel ou dans le cadre de la convention de reclassement personnalisé...).

2.7 *Long-term impacts of the crisis on major social security schemes*

Le ralentissement économique et le plan de relance vont affecter les comptes publics : la France a annoncé en juin un déficit probable supérieur aux prévisions de printemps de la Commission, compris entre 7% et 7,5% du PIB en 2009 (140 milliards d'euros) et 2010. La dette pourrait représenter 80% du PIB en 2009, après 68% en 2008, et 86% en 2010.

La crise affecte fortement le financement de la sécurité sociale dont le déficit pourrait atteindre 23,5 milliards d'euros en 2009 (contre 10,2 milliards en 2008) et plus de 30 milliards en 2010. Dans ce contexte, le gouvernement n'envisage pas de hausse massive des prélèvements sociaux ni de diminution forte des prestations sociales. L'accent est mis sur la maîtrise des dépenses d'assurance maladie, l'élargissement du financement de la protection sociale (pour moins peser sur le travail) et la lutte contre la fraude.

Les efforts pour repousser l'âge effectif de départ à la retraite et augmenter le taux d'emploi des seniors pourraient être contrecarrés par la possibilité de rupture conventionnelle par consentement mutuel du contrat à durée indéterminée introduite en 2008 et ouvrant droit à l'indemnisation par l'assurance-chômage et au régime social et fiscal associé. Les autorités françaises ont annoncé leur intention d'arriver en 2010 à un consensus avec les partenaires sociaux pour examiner l'extension de l'âge légal de la retraite.



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2.8 *Health*

Le plan de relance français ne comporte pas de mesures spécifiquement attachées au secteur de la santé. L'augmentation du déficit n'entraîne pas de modification significative de la couverture santé. Pour 2010, l'objectif est de continuer à contenir l'augmentation des dépenses tout en conservant les principes fondamentaux du système d'assurance maladie : un accès de tous à des soins de qualité, un remboursement d'autant plus élevé que les pathologies sont graves, lourdes et coûteuses et les thérapeutiques chères, prouvées et efficaces.

Dans le projet de loi de financement de la sécurité sociale pour 2010, le Gouvernement propose de fixer le taux d'évolution globale des dépenses de santé à 3 % (hors dépenses grippales) contre 3,3 % en 2009. Tous les acteurs du système de soins devront poursuivre les efforts engagés depuis 3 ans, les assurés étant sollicités pour une part minoritaire (300 millions d'€ sur 2,2 milliards d'économies: notamment augmentation du forfait hospitalier de 16 à 18 € par jour, mesure non applicable aux personnes relevant de la CMUC). L'objectif est de continuer à adapter la prise en charge des soins de santé en l'ajustant au plus près des progrès médicaux, des marges d'efficience et des évolutions sociales.



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ITALY

1. The economic downturn and its impact on social cohesion

According to Eurostat, GDP fell in Italy by 1% in 2008 and according to the November 2009 forecast is expected to fall by 4.7% in 2009. Return to moderate growth is expected in 2010 (+0.7%). Eurostat points out that the annual average inflation rate grew from 2.0% in 2007 to 3.5% in 2008 and according to the ISTAT national data released in October 2009, inflation went up by 0.1% in September 2009 on a yearly basis. The general government debt as a percentage of GDP declined from 106.5% in 2006 to 103.5% in 2007, but rose to 105.8% in 2008, to 114.6 in 2009, and is forecasted to reach 116.7% in 2010..

Regarding labour market; a slight improvement in employment was recorded from 58.4% (2006) to 58.7% (2007), in 2008 the index remains the same (58.7%) but decreases for men from 70.7% (2007) to 70.3% (2008) and increases for women from 46.6% (2007) to 47.2% (2008). Italian ISTAT data reports a positive labour supply trend occurred in the North (+0.7%, +90.000 units) and in the Centre (+0.8%, +39.000 units); the Southern labour supply recorded a negative figure (-1.5%, -112.000 units), involving both the male component (-1.4%, -68.000 units) and the female component (-1.7%, -44.000 units). The unemployment rate, which had progressively decreased over the last decade, is expected to reach 7.8% at the end of 2009 and 8.7% in 2010; respectively for men from 5.5% (2008), to 6.3(June 2009); and for women from 8.5% (2008) to 8.8 (June 2009) . The long-term unemployment rate rises for the first time in 2008, after a year-on-year decrease started in 1997; from 2.9% in 2007 to 3.1% in 2008. The youth unemployment rate passes from 20.3% in 2007 to 21.3% in 2008 and to 24.5% in June 2009. The unemployment rate by nationality shows an increasing from 7.5% (2008q02) to 10.5% to (2009q01) of the EU foreigners.

The employment growth will sign negative forecast trends in 2009 and 2010 (respectively -3.3% and -0.6%). Unemployment rate is expected to rise to 9.4% in 2010.

The activity rate, according to the ISTAT, went down by 0.4% the first quarter of 2009. The decline was particularly strong in the South (-0.8%).

2. National policy responses

2.1. Overall recovery package

The Italian government has developed an anti-crisis plan, excluding the initiatives in favor of the banking sector, worth 27.3 billion Euros²². The plan contains a series of interventions such as initiatives to safeguard the credit and savings system and to support liquidity for household and business, and measures to stimulate consumption. Actions have been taken for supporting the individuals and the household income. The measures should provide more help for poor families, including reduced energy bills and prepaid cards for vital goods and discount rates on utilities for low-income families. Companies would get more tax deductions and help in financing temporary lay-offs. The plan also calls for greater infrastructure investment.

²² Italian Ministry of Economy and Finance:"2010-2013 Economic and Financial planning document" p.16



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Measures have been adopted to maintain workers in employment and to support flexible working-time arrangements. Italy has also taken measures to raise the employability of workers, including the most vulnerable through enhanced training programs.

2.2. Labour market measures

The government financed a series of measures concerning the labour market to deal with the economic crisis: a new fund supporting youth employment; and an extension of a favourable fiscal treatment of overtime and performance-related pay adopted on an experimental basis; the increased use of the enlarged Redundancy Fund (*Cassa Integrazione*); the adoption of flexible hours within companies, a more adaptable use of labour contracts; the implementation of the so-called vouchers (*buoni lavoro*), which can be used as a payment to workers undertaking supplementary work.

A social fund for employment and training has been set up, merging all resources of the previous fund for employment plus the resources for financing unemployment benefits in derogation of existing regulations and the resources for training.

2.3. Supporting people income

A governmental decree, transformed in law in January 2009, extended the coverage of unemployment benefits "on derogation" (in deroga)²³ to categories of workers actually not covered by these arrangements, like fixed-term employees, temporary agency workers and apprentices. Further allocation of €45 million for the year 2009 extends this unemployment benefit. In the three-year period 2009-2011, provisional unemployment benefits are also provided for some temporary workers. Such measure is playing an important role in Italy, but the extent of the economic crisis is such that firms have strongly increased their use of such instrument, and resources have to be found. Urgent measures to deal with the economic crisis, extended the tax relief of performance-related pay for the whole of 2009 and raised the income threshold for having access to such tax relief from 30.000€ to 35.000€ and the amount of maximum performance-related pay from 3.000€ to 6.000€.

Furthermore, the government reached an agreement with regional authorities to increase the financing of labour market related measures, and again, the extension of benefits to workers groups that did not have access to them. A general goal is also to increase training and active policies to improve workers employability.

The so called "social card" started to be distributed in December 2008. This card is charged with €40 per month, which elderly or households with children with I.S.E.E (yearly income adjusted by asset equivalent scale) below the €6198 or €8264 ceilings can spend it on primary goods, pharmaceuticals and bills. As of June 2009 more than 600.000 cards have been activated, and one expects that the number of recipients could rise to 1 million. Furthermore, a lump-sum bonus for low income families has been introduced, which is worth from 200 to 1000 euro depending on family size.

To support the families, where new births occur, it has been considered to establish a Guarantee Fund finalized to the emission of direct guaranties, also fidejussions, to banks and other financial intermediaries. The intervention regards a loan for each birth, presumably of

²³ Mobility allowance to workers who, in principle, are not eligible (e.g., working in industries not covered by these typologies of benefits, like the artisan sector, or in firms not reaching specific size thresholds).



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approximately € 5000, so to support the families with expenses linked to the typical needs of the child in the first year's life, foreseeing debt remuneration at a particularly convenient interest rate. The expenditure will be assured by a yearly amount equal to € 25 millions to be covered by the resources of the Fund for the Family politics. Further allocation of €10 million for the year 2009 is provided to families where new births or adoptions are affected by rare diseases. Furthermore, to support the low income families with 0-3 month babies, 2 million euro are disposable to buy nappies and artificial milk. Finally, referring to low income families and families with 3 or more children the government introduced a measure aimed to reduce their electric and gas bill. The bonus is different by family size.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

Funding created to help those that could not face up with the rise of monthly payments and the right for home owners to increase the mortgage length (thus reducing monthly payments) at no fee and no penalties were introduced. In the last 12 months 190.000 renegotiation of mortgages were conducted.

A framework agreement for the protection of mortgage holders was signed between the Italian Government and the Italian Banks Association. The banks using covered bonds have to suspend for at least 12 months the rates for holders mortgages which are redundant or released. The measure would cover a three years time span.

A 20 million fund was created to help families pay housing rents, which add to other interventions undertaken by regional authorities.

Italy will contribute to interest expense for excess, if any, over interest computed at benchmark rate of 4%.

2.5. Investing in social, educational and health services infrastructure

No measures were activated by the IT Government.

2.6. Use of ESF

A framework agreement on income support and training activities was signed in February between the Italian State and the Regions and Autonomous Provinces. This agreement foresees a global mobilisation of €8.000 millions (5.350 millions from national resources and 2.650 from regional ESF OPS).²⁴ These contributions will be used as complement in favour of people who benefit of the so-called "ammortizzatori sociali" ("cassa integrazione guadagni in deroga"), a form of unemployment benefits. In particular, regional ESF resources will finance active policy measures and provide participation allowances.

At present none re-programming of the Operational Programmes is needed. If needed, the only modification would be directed at providing enough financial resources to the "*Occupability*" and "*Adaptability*" axis. The programme would cover a two-year time span.

²⁴ Agreement on 12 february 2009 between Central Government and local Authorities – Regions and Autonomus Provinces (page 1, point 1)



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According to the on going monitoring activity on the ESF Public Advertisement published by the Regional Managing Authorities, two main typologies of economic aid are currently promoted to support released and redundant workers:

1. Participation allowances in the case of workers who decide to attend specific training/retraining courses after they have been released by their employers;
2. Financial vouchers bound to the purchase of specific services devoted to the development of the worker's qualifications and competences, such as: careers guidance, graduate training schemes, vocational training, skills evaluation, etc. both for redundant and released workers.

2.7. Long-term impacts of the crisis on major social security schemes

While labor market schemes are already showing a surge of benefit recipients and expenditure, other social security schemes, in particular pensions, are only indirectly affected by the crisis, i.e. they are mostly affected by the fall in tax and social contributions revenues due to the lower economic activity level.

Indeed, there is a discussion in the country on whether the minimum retirement age should be increased, which, *ceteris paribus*, could lead to a substantial reduction in expenditure.

Although in recent years Italy has strongly encouraged participation in private pension funds, new pensioners still rely for the most part on the public, pay-as-you-go pension system, which implies that the recent fall in equity prices did not have a strong influence on their living standards.

After the introduction of the reform provided for under Legislative Decree No. 252 of 2005, pension funds membership has increased substantially, but 2008 saw a slowdown in enrolment in supplementary pensions. The financial crisis contributed to this trend and may have led potential subscribers to reconsider their intentions.

The consequent drop in economic activity has possibly encouraged suspension of pension fund contributions. The last year saw a step-up in the process of consolidation and streamlining of pension funds which had already been under way for some time. Supervisory activities were very important and as the crisis spread, steps were taken to carefully monitor the supplementary pension system.

2.8. Health and the health sector

No official data on the effects on health status of unemployment and precarious social conditions are at present available for Italy.



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CYPRUS

1. The economic downturn and its impact on social cohesion

According to the Autumn 2009 forecast of the Commission, the GDP growth in Cyprus is expected to decelerate from 3.7% in 2008 to -0.7% in 2009, as opposed to an average 4% GDP contraction in the EU. Employment is expected to contract by 0.4% as opposed to 2.5% in the EU while the unemployment rate is expected to increase to 5.6% in 2009 from 3.6% in 2008. Unemployment is expected to further increase to 6% in 2010. Social protection expenditure is also expected to rise, reaching 22% of the GDP in 2010.²⁵ Without taking into consideration any fiscal consolidation policy measures, a budget deficit equal to 5.7% of GDP is expected for 2010, while government revenues decline due to slowing economic activity mainly in the real estate and tourism sectors.

The risk of poverty faced by the elderly is one area where Cyprus faces a persisting problem. At-risk-of-poverty rate of people aged 65 and over stands at 52%, with the risk rate for persons living in one-person households reaching 70% within this age group. As such, the elderly emerge as an especially vulnerable group, making it necessary to monitor closely any changes taking place in the conditions concerning the elderly. Furthermore, slower economic activity in the construction and tourism sectors may have adverse effects on migrants, as these two sectors are the two largest sectors providing employment to non-nationals in Cyprus. With unemployment expected to increase in 2010, the impacts of the economic downturn on migrant workers also need to be monitored closely. Currently, 20% of the registered unemployed are EU nationals.

2. National policy responses

2.1. Overall recovery package

In February 2009, Cyprus adopted the *Government Strategic Action Plan* which involves both fiscal stimulus and structural measures, primarily directed towards the construction and tourism sectors, as well as increases in the assistance and benefits provided to vulnerable groups. Following the adoption of an extensive package, the overall stimulus budget has increased to approximately €300m (equal to around 1.8% of GDP). Moreover, additional measures were adopted with the aim of mitigating the effects on the labour market, such as the implementation of a *Prevention-Action Plan*, which primarily focuses on the provision of training programmes and job placements for the unemployed, recent graduates, and those with weak job security during the economic downturn, as well as the design of schemes for the provision of government grants for creating and maintaining employment.

2.2. Labour market measures

The Government Strategic Action Plan is expected to alleviate the slow-down in the construction sector mainly through increased infrastructure investment. Measures addressing

²⁵ vulnerability assessment carried out by DG EMPL, Directorate E (internal document)



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the tourism sector, such as VAT cuts for hotels, provision of holiday accommodation subsidies for domestic vacations to low income families and public assistance recipients, reduction of landing fees, and cancellation of overnight stay fees are aimed at keeping the tourism sector buoyant by encouraging domestic demand and lowering the costs for holidaymakers and hoteliers. A concurrent goal of all these measures is to prevent significant job losses by keeping economic activity in the two sectors stable and running. To address the effects of the projected increase in unemployment rates, the Prevention-Action Plan is expected to provide the unemployed with necessary training and job placements, hence somewhat mitigate the pressure on the labour market.

2.3. Supporting people's income

Devising income support measures has been an important item on the agenda for Cyprus in recent years, due to the high risk of poverty experienced by some parts of the society. Therefore, even before the onset of the economic downturn, several measures were already in the process of implementation. As of July 2008, public assistance benefits have been increased by 12%. The Council of Ministers also approved a household income support scheme for pensioners with incomes below the poverty threshold. The new scheme will come into effect as of 1 December 2009.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

A loan scheme is envisaged as part of the Government Strategic Action Plan to assist low-income families in the acquisition of a primary residence. Also, at the onset of the economic downturn, Cyprus had reduced the consumption tax on heating oil, in an attempt to help keep heating costs down, which still stays in practice. Over-indebtedness has not emerged as a striking problem yet, and as such the Government has not been faced with the need to take immediate measures in this area. However, increasing unemployment and staggering economic activity may eventually necessitate greater attention to this issue.

2.5. Investing in social, educational and health services infrastructure

Under the Action Plan of the Government, Cyprus is envisaging an array of infrastructure projects that involve construction and renovation of schools, improvement of refugee housing facilities, increased support for local government initiatives, and various other localised undertakings, some relating to the provision of social care services. Regarding the much debated reform of the health system, efforts are reported to be under way, however any major developments are yet to materialise.

2.6. Use of ESF

The Cypriot Operational Programme comprises around €150m for the 2007-2013 period for a series of interventions aimed at increasing the labour supply (especially of women and young people), and reinforcing the social inclusion of vulnerable groups, while also supporting the development of human resources and adaptability of workers and enterprises. More than half of the total ESF contribution to Cyprus in the 2007-2013 period is directed at the promotion of lifelong learning, in particular the modernisation of the vocational education and apprenticeship schemes, and the expansion of lifelong learning activities for adults. Many of



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the foreseen interventions in the field of employment (such as the promotion of new opportunities of employment for vulnerable persons, provision of skills upgrading, vocational training and work experience as well as subsidised job placements, upgrading and expanding the activities of the public employment services to better respond to the needs of the unemployed and the vulnerable) are expected to be supported by the ESF. As such, for the time being, no changes of the OP have been proposed as a response to the crisis.

2.7. Long-term impacts of the crisis on major social security schemes

The Cypriot General Social Insurance Scheme is not expected to suffer significant impacts due to the crisis. Reserves of the Scheme are primarily invested in secure assets such as government bonds. Besides, the Government has recently introduced a reform of the Scheme, which is expected to strengthen the long-term sustainability of the Social Insurance Fund. The majority of occupational pension schemes in Cyprus are funded schemes whose reserves are primarily invested in secure assets (bank deposits-around 60% of the total assets reserves) and the level of investment in real assets (e.g. equity) is relatively low (around 23% of the total assets reserves). As such, there is no major threat of loss due to possible impacts of the financial crisis.

2.8. Health care and long-term care

Cyprus has no universal health coverage system in practice, and majority of the healthcare spending tends to take place in the form of out-of-pocket payments to the private sector. However, it has been reported that there has been an increase in demand for public healthcare services following the crisis, especially from citizens who did not rely on the public sector in the past. As such, public expenditure on health may begin to come under greater pressure. Plans to reform the health sector and to install a General Health System with universal coverage have long been under way, however developments have yet been slow. In the meanwhile, budget consolidation measures are to be taken to contain costs and reorganise healthcare staff to improve efficiency. Priorities are also to be redefined in an attempt to reallocate funds and distribute any surpluses to other fields which appear to have higher deficits.

It has further been reported that increasing unemployment may have certain longer term impacts over the healthcare system. Increase in the number of persons unemployed and/or with lower income is not only expected to cause a fiscal impact due to increased reliance on public healthcare, but it is also expected that unemployment may have adverse effects over people's psychological health. This might result in higher costs especially for mental health services and in some cases long-term healthcare provision.

Developments in healthcare status are monitored through incidents consulted at the Accident and Emergency Departments of the Public Hospitals and the Out Patient Departments.



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LATVIA

1. The economic downturn and its impact on social cohesion

Currently Latvia is experiencing the sharpest downturn in the EU, with an expected GDP contraction of -18% in 2009 and -4% in 2010. An export-led recovery is expected only by end- 2010. Fiscal tightening has included reduction of old-age pensions, social security benefits and further staff and wage cuts in public sector. Pay is likely to continue falling also in the private sector. The forecasts for the labour market have become pessimistic. A drop in participation rates is expected as well as higher outward migration. Employment is expected to fall by -11.9% in 2009 and growth is not forecasted before 2012. The unemployment has dramatically increased to the highest rate in the EU. It reached 19.7% in September 2009 (from 8.1% in 2008) and this trend is expected to continue, reaching 19.9% in 2010. Youth unemployment was the second highest (30.5%) in Q2 2009. Share of unemployed people with tertiary education has also significantly increased. There are around 80 registered unemployed per vacancy.

Social expenditure as share of GDP was falling until 2008. It increased to 16.9% (14.6% in 2007) and was expected to increase further to 22.2% in 2009, before resuming a downward trend. Currently an increase in social benefit take-up is being experienced. The already significant pressure on local government budgets (which administer the minimum income assistance) is expected to increase in autumn 2009. Debts linked to utility bills have increased. Due to recent spending cuts, access to health care has worsened and pension benefits have seen an overall reduction.

2. National policy responses

2.1. Overall recovery package

Confronted with the collapse of the property market as well as a severe banking sector and external financing crises, Latvia had to seek international financial assistance (end-2008) of up to €7.5 billion⁽²⁶⁾. Latvia has embarked on a strategy of significant fiscal consolidation and increased competitiveness, based on the retention of the current exchange rate, meaning that competitiveness needs to be restored through structural reforms and internal devaluation. Cuts in nominal wages form a centrepiece of the adjustment strategy. Wide ranging structural reforms and wage reductions, led by the public sector, have been undertaken. Active labour market policies are seen as important and are largely implemented through (increased) ESF funding.

A reduction in the general government deficit to 3% of GDP is expected to be achieved by 2012. The scale and scope and uncertain impact of stabilization measures undertaken on the levels of activity and on social protection arrangements pose risks to the path taken. The overall strategy is reflected in the Memorandum of Understanding between the Latvian authorities and the Commission. The Memorandum takes a forward-looking approach, stipulating that enough budgetary resources should be committed for efficient and timely

²⁶ From EU/IMF, WB and several MS. An additional 750 million loan has been taken from EIB.



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implementation of EU Structural Funds. Due to the worsening conditions, the Government had to revise the 2009 budget and adopt a revised multi-annual perspective with further cumulative consolidation measures for 2010-12 (approved on June 16th, 2009).

Latvia has also adopted an "Economic Stabilization and Growth Revival Programme" in December 2008.

2.2. *Labour market measures*

Latvia's measures to preserve employment, support activation and promote re-integration build on existing labour market policies (flexicurity, active inclusion). Additional ESF support is channelled here. New temporary measures aimed at addressing the direct impact of the crisis on the labour markets have been put in place in autumn 2009. An emergency public works programme at community level is expected to provide support to the unemployed, especially when the entitlement to unemployment benefits has expired. Training vouchers and study grants have been introduced for people at risk of unemployment working short-time.

2.3. *Supporting people's income*

There is a limited scope for reinforcing support to people's income. However, the personal income tax rate has been decreased from 25% to 23% in 2009, but tax free minimums have been lowered. The duration of unemployment benefits has seen an extension- back to 9 months for all categories of beneficiaries, but the amount during the extended period is now a flat rate and low. The ability of local governments to provide full coverage for people entitled to mandatory means- tested social assistance benefits (GMI and housing benefit) has been reinforced. The GMI benefits have been actually increased.

Due to sharp spending cuts in health sector (which also undergoes a challenging reform), the already inadequate access to health care worsened and the already high payments for patients increased. Therefore some steps were recently taken under the Social safety net Strategy to improve the access for poor.

2.4. *Investing in social, educational and health services infrastructure*

Latvia has invested extensively in education and health infrastructure. In the social sector improvement in infrastructure for assessing capacity for work and providing social services are planned. By adapting, renovating and equipping the training environment opportunities will be provided for persons with disabilities and predictable disabilities to restore their working capacity. Implementation of this activity provides an opportunity to develop social rehabilitation and health rehabilitation services. Improvements of infrastructure for providing social rehabilitation services for persons with hearing and seeing disorders are envisaged by establishing and equipping centres of social rehabilitation for persons with hearing disorders; establishing and equipping specialized workshops providing services for persons with seeing disorders. To improve scope and accessibility of services for persons with mental disorders, support is given for establishing one long-term social care institution and reconstruction of two long-term social care institutions.

As current reforms foresee a considerable reduction in the numbers of schools and hospitals, the effect of such measures depends on the future of the institution.



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2.5. *Use of ESF*

The Structural Funds serve as a major public financial instrument able to sustain the economy and to cushion the effects of the crisis. During the 2007-13 programme period Latvia will receive €550 million from the ESF.

2.6. *Long-term impacts of the crisis on major social security schemes*

Latvia's plans specify that increased spending in some areas like unemployment insurance, will be counter-balanced by cuts in others and that overall spending will be reduced. The deficit of the Social Insurance budget in 2009 is covered by the accumulated surplus from the 2002-2008 period. It is still too early to discern the consequences for future pensioners of the recent drop in the book value of assets of funded pension systems. However, the situation is now improving, as the average return on state-funded pension scheme investment plans on 30 September, 2009 ranged between 15.94% and 0.02% (compared to -6.08% to -12.66% on 30 September, 2008). The frequent and now unfavourable changes in social security legislation are likely to have an impact. Present pensioners are affected through reduced benefits in payment, as pension benefits have seen an overall 10% reduction (70% for working pensioners). The amount of early retirement benefit is also lowered. There will be no indexation of pensions in 2009 and 2010. From 2011 price indexation will be applied (previous method also considered wages). A part of contributions to the mandatory funded DC scheme has been diverted to feed the PAYG NDC scheme. Now 2 pp from 20% pension contributions feed into the funded DC scheme (8pp in 2008). This share will be increased again, starting from 2011- to 4 pp, followed by a further increase to 6 pp in 2012. The number of newly granted early and disability pensions increased considerably in 2008 and especially 2009. Increase in retirement age to 65 is being discussed.

2.7. *Health and the health sector*

Because of the financial situation in the second half of 2009 health care budget has been reduced for about 16% in comparison with first half of 2009. To maintain access to health care services within these limitations, Ministry of Health has set the following priorities: development of outpatient health care; guaranteeing of emergency care; health care of pregnant women and children as well as action focused on preventive measures. In parallel with the reduction of administrative expenditure an essential decrease in funding also applies to the financing of hospitals. It is possible to allocate only 51% of resources in comparison with first half of 2009. Currently it is important to ensure access to acute care in required amount and quality by effective use of available resources.

The current economic crisis led to a reduction of health care services available in hospitals, however emergency medical assistance is provided. Due to decrease in patients' income, patients experience difficulty to cover the patient's contribution

The implementation of the Social Safety Net Strategy helps to avoid reduced access to health care and ensure that timely and adequate service is ensured, by introducing a compensation mechanism for low-income groups to cover their patient contributions. Persons, recognized as needy, are now exempted from patient contributions. The expenditure for low-income persons



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for reimbursable pharmaceuticals and medical devices will also be fully covered by state, if their contributions for reimbursable pharmaceuticals and medical devices exceed 50 LVL in the calendar year and 12.5 LVL during last quarter of 2009. Low-income groups are also exempted from payment for stay in a “hospital hotel”.

In addition to measures initiated under this strategy, the following action was taken to respond to the sharp rise in unemployment rate and reduction in income:

- The number of direct access specialists has increased: referral from the General Practitioner is not required for dentists, surgeons, paediatricians and oculists for children, and for oncologists, gynaecologists, psychiatrists, TB specialists, endocrinologists, dermatologists, narcologists, and sports medicine physicians. Also, the indications for home health care services are extended.

There are no substantial changes in the health care monitoring system. The data of emergency health care service delivery are being used to monitor and to prevent the possible risks of delayed emergency care due to structural reforms of health care providers. These reforms resulted in the decrease in the number of inpatient health care facilities where twenty-four hour emergency health care is provided , therefore in some cases the distance to this kind of health care facilities has increased. The number of inpatient health care facilities has been reduced from 59 to 42. In 22 of those hospitals twenty-four hour emergency health care is provided, 7 are nursing hospitals, but in 13 specialised care, such as psychiatry or narcology is provided.

During the first half of 2009 the number of suicides has increased by 10%, compared to the same period in 2008.



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SPC/2009/11/13 final

LITHUANIA

1. The economic downturn and its impact on social cohesion

According to the latest economic forecast published by the Commission in November 2009 Lithuania's real GDP is expected to contract by 18.1% in 2009. A further decline although to a more modest degree (-3.9%) is expected in 2010 and recovery is expected in 2011. Employment is projected to suffer a cumulative fall of some 11% in 2009 and 2010. Unemployment is projected to reach 17.6% by the end of 2010. The general government deficit is expected to widen to 9.8% in 2009.

In June 09, the unemployment rate in Lithuania stood at 13.7%. Youth unemployment had also increased substantially from 14.9% in August 08 to 31.2% in June 09, thus exceeding the EU average of 19.5%. The share of long-term unemployed increased from 16.9% in the second quarter of 2008 to 20.6% in the second quarter 2009.

Increases in the number of recipients of unemployment benefits (+200%) and in the number of claimants for social assistance (+43%) from April 2008 to April 2009 mirrored the deteriorated situation in the labour market. This situation has already had adverse effects on public finances on both expenditure and revenue side. Lithuania also reported 24% increase in impaired loans during 2008 and forecasted the increase of utility bills debt in 2009. Due to the stagnation in the real estate market the housing (sales and rent) prices decreased during 2008.

2. National policy responses

2.1. Overall recovery package

Lithuania has reacted to the crises in two ways. The main line of the government so far has been containing the increase of the budget deficit. The budgetary expenditure has been cut three times already, the last time in July 2009. At the same time the tax system was reformed mainly with a view of increasing public revenue. The result of those measures, amongst others, is the reduction of public sector wages and certain social benefits, a less generous health insurance regime, the reduction of payments to the second-pillar pension funds etc. On the other hand, the government has adopted the "Economic Stimulus Plan" worth 5% of GDP which is largely relying on the resources provided by the Structural Funds. The plan includes measures to revive the credit market, to increase energy efficiency in buildings (securing jobs in the construction sector), to accelerate the investment of the Structural Funds, to improve the business environment and to promote export and investment.

2.2. Labour market measures

The Government adopted a number of measures to address the labour market situation. However, there is no comprehensive package of measures in this respect. The adopted measures include the wider use of public works, the use of short time working arrangements, more favourable conditions for job subsidies, the promotion of territorial



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labour mobility and support for self-employment. Active labour market policy measures should receive the substantially increased ESF support in 2009. It has been planned that almost 2000 workers made redundant between October 2008 and July 2009 from construction, furniture manufacturing and textile companies will benefit from the European Globalisation Fund's support of €3.5 million.

2.3. Supporting people income

The income of the most groups of the society are deteriorating, however, there are only few measures to support people's income (due to budgetary austerity policy). The income tax was reduced (but the contribution rate to health-care insurance increased). Benefits for children under age of 3 were extended to cover all children of this age irrespective of family incomes. Commuting and housing costs will be covered for those working outside their region. The payment of unemployment insurance benefit can be extended for two additional months in the territories with the highest unemployment levels from 1 August 2009. However, the general trend is freezing the levels of social benefits or cutting their eligibility periods in order to contain public expenditure. Maternity leave benefits (currently very generous) will be reduced as off July 2010: a parent on a parental leave of a child under 1 year old will be compensated 90% and a parent of a child under 2 years will receive 75% of her/his salary. According to the draft budget for 2010 presented by the Government in October, the public sector wages, pensions and social benefits will be reduced. It has been also planned to increase the contribution rate to the State Social Insurance Fund by both employers and employees by 1 p.p.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

The private housing sector and the housing prices were rapidly expanding in the last years mainly due to the generous crediting. However, in the current economic downturn households and individuals are facing increasing difficulties to repay their loans. To address this situation, the Lithuanian Parliament is debating the draft law on the bankruptcy of natural personal and, as an alternative to the former, a draft law on the possibilities to suspend the repayment of debts of natural persons up to three years. Both proposals are facing fierce opposition by the banking sector.

The increase of utility bills debt is forecasted in 2009. These debts should increase with the start of the new heating season. On the other hand, the announced decrease of heating prices in the 2009/2010 heating season should alleviate the effects of people's decreasing income. In addition, the reduced VAT tariff of 9% will be applied for the communal heating till 31 August 2010 instead of the general 21% (applied from 1 September 2009). Furthermore, in the previous years compensations were provided for the households with the least income. Such system will continue in 2009. However, it is uncertain whether it will be sufficient to meet the increased need.

2.5. Investing in social, educational and health services infrastructure

As part of its "Economic Stimulus Plan", Lithuania will invest in the renovation of public (nurseries, schools, hospitals and other) buildings and private apartment houses. That should serve two main goals - increase energy efficiency in buildings and preserve



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employment in the construction sector. The amount allocated for this measure is over €600 million and will mostly come from the Structural Funds.

2.6. *Use of ESF*

Over 2007-2013 the ESF will provide €372 million to the active labour market policy measures and social inclusion measures. €98 million of it have been already allocated to the re-integration of unemployed to the labour market. The ESF supports vocational training and reskilling, territorial mobility of labour, public works in public and private sectors. A new measure is being planned on the micro-crediting facility to support self-employment through business start-ups and the development of social enterprises.

2.7. *Long-term impacts of the crisis on major social security schemes*

The social security schemes are facing big pressures from the decreasing income and the increasing number of recipients (unemployed, in particular). The State Social Insurance Fund (SODRA) budget deficit over the first half of 2009 reached around €300 million and can double by the end of the year according to the forecast of its council. This deficit will be covered by the loans from the government and other sources. SODRA intends to reduce the value of mandatory social insurance pensions by 0.4-12.4 percent (reduction should be progressive) provided that the government and the parliament approve the idea. In addition, the contributions to the second pillar pension funds were reduced from 5.5% to 2% of income as a temporary measure till end 2010 in order to ensure bigger revenue for SODRA. That may have an adverse effect on the level of pensions in future though losses of the private funds should be compensated by contributions increased to 6% in 2012-2014.

2.8. *Health and the health sector*

The Lithuanian authorities recognise that the current economic crisis through a large increase in unemployment and thus financial distress, lower social status and self-esteem can have important and longer rather than shorter terms effects on health especially in terms of mental ill health. Increased alcohol consumption, increased number of cases of TB and mental disorders are expected although at the moment there is no available evidence such consequences.

The economic crisis has had an important and negative impact on the budget allocated to health constraining it to the levels of 2008, when a 7% increase had been expected for 2009. This was due to a considerable reduction in health contributions as a result of increased unemployment and even if the state contribution to the budget has increased. The reduction in the planned budget has had negative repercussions across all service areas in the health sector.

Interestingly, the Lithuanian authorities are taking the economic crisis as an opportunity to revise budget allocation in the health sector giving high priority to primary health care and health promotion and disease prevention activities, first and foremost as well as preparing some restructuring of hospital care by encouraging greater use of outpatient care and daycare surgery vis-à-vis inpatient care.



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LUXEMBOURG

1. The economic downturn and its impact on social cohesion

According to the latest economic forecast published by the Commission in November 2009, Luxembourg's real GDP stagnated in 2008, with a large drop in the fourth quarter (-2.9% quarter-on-quarter) and in the first quarter of 2009 (-1.7%). The decline was much more limited in the second quarter (-0.3%), which suggests that the downturn is bottoming out.. Growth will be driven by private consumption and public expenditure, both of which are forecast to remain extremely dynamic, especially government investment as a result of the country's economic recovery package. In 2010, GDP growth is expected to resume timidly during the course of the year and to be close to zero for the year as a whole, due chiefly to resilient private consumption and dynamic public spending and, to a lesser extent, a less negative contribution from foreign trade.

Employment was extremely dynamic for most of 2008, increasing by 4.8%, the strongest annual growth since 2001. Unemployment rose slightly in the spring of 2008, reaching 4.5% in October, before accelerating following the onset of the crisis and surging to 5.9% in August 2009. Unemployment is projected to rise to about 6.2% in 2009, 7.3% in 2010 and 7.7% in 2011. Despite the fact that a large part of the unemployed will be cross-border workers, who are recorded in their country of residence and not in Luxembourg. Moreover, up to now, the surge in unemployment has been limited by a massive recourse to part-time unemployment, which rose from practically zero last autumn to more than 3% of the total labour force in recent weeks. This has been systematically encouraged by the authorities in order to prevent or at least to limit lay-offs.

The social dimension is an integral part of the steel plan 'LUX 2010' finalised in December 2008.

Despite the big drop in activity recorded in 2008, the general government surplus declined only moderately, from 3.7% of GDP in 2007 to 2.5% in 2008. However, as a result of automatic stabilisers and the stimulus measures taken by the authorities, the government surplus could turn into a deficit, which the Commission services Autumn 2009 forecast projects at 2% of GDP in 2009 and 4% in 2010. The public debt doubled in 2008, jumping from 6.9% of GDP in 2007 to 14.7% due to the financing of loans granted to two large financial institutions. According to the Commission Autumn forecast, it could reach about 18% of GDP in 2011 but could still be one of the lowest in the EU.

2. National policy responses

2.1. Overall recovery package

The Luxembourgish authorities have taken a wide range of measures in response to the downturn. Moreover, some other measures that had already been decided before the aggravation of the crisis can also serve that purpose. The package of new measures



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covers income support measures to individuals and families (cuts and associated reforms in personal income tax), specific actions to limit the rise in unemployment, measures to relieve enterprises and to stabilise the financial sector. The bulk of the recovery package is made of a large increase in government investment, bringing the total projected public investment to 0.7 percentage point of GDP in 2009 and 0.8 in 2010. The increase in government investment should have a significant impact on activity in the construction sector. The impact on activity of the cuts in income tax and other measures aiming at supporting households' income will be limited by the high openness of the Luxembourgish economy – imports of goods and services amounted to about 150% of GDP in 2008, of which more than 50% was for imports of goods.

2.2. Labour market measures

The Luxembourg recovery plan contains specific actions to maintain employment by reducing labour costs and reinforcing activation, and by short-time working arrangements. In order to limit lay-offs, the extension and encouragement of the partial unemployment regime is likely to have an important effect in limiting the rise in unemployment, at least in the short run, through the lengthening of coverage duration, the reimbursement of the employers' share of the benefit, and the increase in its level from 80% to 90% of the wage for workers following training (0.4% of GDP).

Figures show as a response of the impact of the crisis on the labour market the prompt and sustained promotion of part time work arrangements succeeded to lessen the growth in unemployment rates observed in the last quarter of 2008 and to limit the number of unemployed.

A new measure intends to prevent young graduates from unemployment. In this context it will be possible to refer to employment initiation measures and to conclude contracts of initiation to employment. The employer will be entitled to a premium in the event of recruiting the graduates by means of permanent working contracts after the end of the employment initiation measure. In addition, the participants to the new measure benefit from a preferential employment prospect in case of job vacancy.

Another initiative intends to facilitate labour market access of registered unemployed by making reference to interim work agencies. The agencies are free to choose the means of implementation, in so far as these choices are in line with the guidelines fixed by the Administration of employment.

Both measures are at the charge of the National employment fund.

2.3. Supporting people's income

Luxembourg has taken action to reinforce support for people's income by increasing of the guaranteed minimum income (+2%), introducing a 'service voucher' for children aged 0-12 years and by providing a life allowance for people whose monthly income is below a certain threshold. Luxembourg has also introduced a € 300 tax credit for employees and pensioners, a € 750 tax credit for single parents and a 9% adjustment to income tax scales.

Due to high living standards in Luxembourg, the rates of the minimum income benefit are quite high compared to other European countries. The minimum value is increased



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with housing benefit for tenants and with exonerated revenues up to 30% of the value of the RMG besides some exempted social allowances.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

Luxembourg has adopted general tax measures to support real estate buyers and owners as well as specific measures targeted at the low income households.

2.5. Investing in social, educational and health services infrastructure

Luxembourg plans to intensify the provision of social and moderate cost housing.

A recent education reform intends to boost the qualifications of young people. The reform not only intends to decrease the rate of the young people who leave the school without certification, but aims at increasing as much as possible the overall qualification level.

As far as the health care scheme is concerned, the implemented strategy "*better care through better spending*" aims at raising the quality of health care and at maintaining financial balance in the system. A Quadripartite Committee is monitoring the implementation of current measures and evaluates their effectiveness with a view to improving the quality.

2.6. Use of ESF

The Government actively supports the implementation program of the European Social Fund in the context of regional competitiveness and employment in order to improve access to employment, to promote durable inclusion in the labour market, to increase adaptability of workers and companies and to reinforce human capital.

2.7. Long-term impacts of the crisis on major social security schemes

Despite the economic and financial crisis, Luxembourg's social system is still in a favourable demographic and financial situation. The financial model of the public pensions system, organised as a pay-as-you-go system (PAYG) paid from current contributions with general financial participation from the government of one-third of the individual pension contribution, has built a very solid financial basis. Thanks to continuous economic growth over previous years, combined with the influx of cross-border workers in recent decades, the pension system could accumulate a large reserve of 3.5 times yearly expenditure, which currently equals 25% of GDP and which makes the system likely to withstand the economic crisis for at least another 1.5 decades.

Nevertheless, despite its currently wealthy financial situation, the public pension system will be challenged in the long-term by changes in demographic patterns and its generous pension benefits. It is likely that current, predominantly young (cross-border), professionals will, when they reach retirement age, have a strong impact on today's very advantageous dependency ratio, while many of them will tend to have acquired full pension rights. The structural slowdown in employment growth caused by the crisis will result in an additional shortage of financial resources. The public pension scheme will be



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affected only marginally by the crisis in the short-and middle-term but, from a longer perspective, the pension system needs reform in order to ensure its long-term sustainability. This new burden on the pension system will also affect the financing of health and nursing care, which all depend on additional public co-funding.

2.8. Health and the health sector

Contribution base is reduced in response to a constrained labour market evolution and as a consequence a major financial impact of the crisis is to be expected on the health care scheme for which no large extra financial resources out of a reserve fund are available.

The financial situation of the health care scheme has been made less secure as a result of lower contributions. Hence, with a view to keeping the health insurance scheme financially balanced short term actions have to be put into practice. The implemented strategy of ‘better care through better spending’ has the dual aim of raising the quality of health care and maintaining financial balance in the system. The objective is to restrain the growth in healthcare spending by means of equitable, burden-sharing measures coupled with a clampdown on abuses and fraud.

A Quadripartite Committee – which includes representatives of the ministerial departments in charge of health, social security and finances, of workers’ and employers’ organisations and of care providers – monitors how current measures are being implemented and examines their effectiveness with a view to improving the quality of care, ensuring that the insurance scheme remains financially balanced and maintaining the performance of the health care system.



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HUNGARY

1. The economic downturn and its impact on social cohesion

The economic and financial crisis hit Hungary particularly hard starting from October 2008. According to the Commission's Autumn 2009 forecast the GDP will fall more sharply than the EU average (4.1%) by 6.5% in 2009, and it is predicted to decrease moderately also in 2010 by 0.5%. The traditionally low level of employment is expected to contract by 3% in 2009 and by another 0.8% in 2010.

Based on recent data, labour market situation has also been affected, with the unemployment rate rising sharply to 9.5% in September 2009, from 8% in February 2008 and from an annual average of 7.8% in 2008. In the coming period, unemployment is expected to rise to double-digit levels. Youth unemployment rate well above the EU average already in Q4 2007 (19.3% against 14.8% in the EU) increased only moderately in 2008, but started to grow significantly in 2009 (24.9% in Q2). The share of long-term unemployed, after a peak in Q3 2008 (47.9% for the 15-64 age bracket and 62.1% for the 50+ population), dropped back in 2009.

The increase in the number of people receiving unemployment benefits and other social assistance remained moderate (around 9%) between April 2008 and April 2009. Support for renters or mortgage holders grew only by 5% in the same period. However, the significant depreciation of the exchange rate (30% by March 2009 compared to the pre-crisis level) has significantly increased the financing burden on foreign currency loans, which may play a role in the contraction of the households' consumption expenditure and may lead to over-indebtedness for a large number of loan and mortgage holders.

2. National policy responses

2.1. Overall recovery package

Hungary has to face double challenge since negative impacts of the crisis are aggravated by high current account deficit, which narrows significantly the government's room for manoeuvre. Since October 2008, restoring investor confidence and reinstating efficient functioning of the financial markets have been the most imminent tasks of economic policy. To this end, the government adopted a new economic programme in late October and appealed for a financial assistance package of EUR 20 billion to the EU, the International Monetary Fund and the World Bank.

The negative fiscal impact of the projected sizeable contraction in 2009 is foreseen to be counterbalanced by additional corrective measures of 1.75% of the GDP announced in two stages (February and April 2009). This new economic programme contains further fiscal adjustments, expenditure-based corrective measures, tighter deficit targets, as well as a budget-neutral shift from labour related to indirect taxes and a series of structural



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measures mainly in the pension and the social transfer systems in order to improve the long-term sustainability of Hungary's public finances and encourage employment.

As a result of the continued fiscal consolidation programme, the deficit significantly improved to 3.8% of the GDP in 2008 (down from 9.3% in 2006). According to the Commission services' Autumn forecast, the deficit is expected to slightly exceed the government's target both in 2009 and 2010 set to 3.9% and 3.8% of the GDP. At the current juncture, the country has no further fiscal space to mitigate the recession by stimulating the economy. Consequently, the government adopted recovery measures that did not have a negative impact on the budget, namely in the field of infrastructure investment, SMEs' financing and support to safeguarding jobs.

2.2. *Labour market measures*

In order to safeguard and create jobs, authorities introduced new programmes and accelerated already existing ones. The government launched the scheme of 'reduced working time combined with training' that provides temporary wage subsidy for enterprises for the employment of staff working reduced hours. During the non-working time, employees benefit from training financed by the ESF. Furthermore, enterprises may be entitled to reduce their labour costs if they hire certain groups of unemployed, particularly in disadvantaged regions. Vocational training courses can expect further support. The 'Pathway to work' programme was launched in order to improve employability of the low-skilled and long-term unemployed and to create incentives for their employment through public work schemes, training programmes for unskilled under the age of 35 and the enforcement of strong cooperation with the labour offices of the Public Employment Service. The government also grants financial support for large investments with a high labour force demand. A large proportion of the above programmes are co-financed, as appropriate, by the Structural Funds.

Health contributions have been decreased to reduce the costs of labour in an attempt to maintaining labour market participation and decreasing further lay-offs by mitigating financial burdens on employers although this has contributed to losses in Health Insurance Fund revenues. The Hungarian authorities wish to maintain employment notably through providing a more favourable environment in certain sectors such as the pharmaceutical industry.

2.3. *Supporting people income*

The government's margin of manoeuvre to reduce the financial burden of the crisis on the population is rather limited. No new types of social benefits are expected to be introduced; moreover, the amount of the minimum pension serving also as a basis for most of the social cash benefits will be frozen for 2009 in order to keep public expenditure under control. Similarly, the normative state subsidy for social care services (for 2009) and the universal family allowance (for 2009-2010) will not rise and eligibility criteria and duration of the child raising benefit and the family allowance will also be tightened. Government measures are limited to some budget-neutral reshuffling of taxes, namely introducing a lower VAT rate for basic food products, raising the lower limit of the personal income tax and a new sort of tax on high value properties. With the above measures (entered into force as of 1 July) the government intents to relieve the poor of the negative impacts of the austerity measures and the crisis.



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2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

There is a high risk of widespread over-indebtedness partly because of the high rate of foreign currency loans coupled with a notable deterioration of the exchange rate of the national currency. A series of measures were announced in summer 2009 to protect the most endangered victims of the crisis, particularly housing loan or mortgage holders. As a result of the amendment of the respective law, the state can act as bail instead of mortgage holders in need. In the case of those already losing their housing facilities, local governments have pre-emptive right for purchasing real estates to be sold at auction, thus former proprietors have the possibility to stay in it and rent it back from the local government. For those mortgage holders that lost their jobs as a result of the crisis temporary loans are available with a state warrant up to 80% of the amount. The government established the so-called Crisis Fund (€ 3.5 million from central budget and € 16 million from private donations) in order to provide a one-off immediate help of an average of € 150. About 22,000 people received assistance by September 2009. Additionally, as a result of the increase of the Pension Insurance Fund by € 1 million, 40,000 elderly people can receive a one-off payment.

2.5. Investing in social, educational and health services infrastructure

There are no indications at this point from the government to boost the construction sector in the field of social services. On the contrary, according to a government decision a reallocation of resources are foreseen between development areas of programmes co-financed by European resources at the expense of social infrastructure investments, namely the Social Infrastructure Operational Programme. Nevertheless, it should be noted that remarkable resources has originally been available in this field for investment programmes which are under implementation.

2.6. Use of the European Social Fund

Due to the difficult situation of public finances, the main resources for active schemes aiming at the mitigation of the negative impacts of the crisis are the Structural Funds, particularly the ESF. The modification of the Social Renewal Operational Programme (SROP) proved to be necessary but only with regard to the financial allocation between priority axes in favour of those helping unemployed people instead of supporting adaptability of workers. The ESF partly supports the training component of the 'reduced working time combined with training' scheme (SROP Measure 2.3.3, see above). SROP had already had the most vulnerable in its focus even before the escalation of the crisis, but the second phase of Measure 1.1.2, a decentralised programme providing active labour market policies for disadvantaged people has been launched earlier than planned and its target groups have been extended to those job-seekers who had lost their jobs as a consequence of the crisis. The adaptation of the vocational education and training systems to labour market requirements (career guidance and tracking) and the programme strengthening cooperation between the Public Employment Service and NGOs to assist disadvantaged people (SROP Priority Axis 2) will be accelerated. Additional programmes supporting long-term unemployed and inactive people to improve their employability by social services (SROP Measure 5.3.1) will also speed up.



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2.7. Long-term impacts of the crisis on major social security schemes

Hungary is committed to its long term strategies to modernise social protection systems and has adopted special measures in response to the crisis in addition to those that had already been indispensable for ensuring sustainability primarily for the pension system. As part of the general fiscal consolidation package (see above) the '13th month' pension payments has been terminated with immediate effect and present pension indexation rules has been revised in order that the increase of pensions are better linked to the performance of the economy. Furthermore, the pace of the raise of the pensionable age to 65 years has been accelerated. However, the next phase of pension correction programme was postponed to 2010.

Private pension funds saw a considerable loss of their assets in 2008, while the value of savings has increased in the first three quarter of 2009 due to the favourable capital market processes partly counterbalancing former losses. In spring 2009, the Parliament adopted a guarantee system ensuring at least 0% real yield for the total accumulation phase. Due to the possible prolongation of the economic downturn together with a further contracting of the employment, the government can expect a fall in contributions and tax revenues that may have a negative impact on the long-term sustainability of the public finances and may result in a persistent drop in the level of initial pensions. Other steps have also been taken in the field of social and disability benefits mainly linked to the labour market service system in order to encourage labour market participation.

2.8. Health care and long-term care

The authorities acknowledge that crisis situation can also involve a deterioration in health status. The priorities of health related interventions of the operational programmes financed by the Structural Funds, which represent the major source of developments in the sector, have remained valid in the context of the economic crisis. Health policy priorities have not changed and focus on emphasizing primary care, outpatient care, daycare surgery and ambulatory care which are measures deemed to improve effectiveness and efficiency and can be important especially in the context of the current economic crisis. There are also ongoing efforts to improve access to emergency care which again may represent an adequate response in times of economic distress.



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MALTA

1. The economic downturn and its impact on social cohesion

At this moment Malta is hit by the second round effects of the crisis. According to the latest economic forecast published by the Commission in November 2009 Malta's real GDP growth in 2008 reached 2.1% compared to an average 0.8% in the EU. Real GDP is expected to contract by 2.2% in 2009 and to return to slight growth in 2010 by 0.7% (equal to the growth average of 0.7% in EU-27). Employment is expected to keep substantially stable with a small decrease (around 0.6 %) in 2009, against an average decrease of 2.3% in the EU. As automatic stabilisers will work fully, social protection expenditures are projected to rise by x% by the end of 2010²⁷. Consequently, the general government balance is likely to reach a deficit of 4.5% of GDP in 2009, which is projected to decrease to 4.4% of GDP in 2010.

In 2009, the unemployment rate in Malta is expected to increase less than in the EU as a whole (9.1% in EU-27) and to reach 7.1% at the end of the year% (against 5.9% in 2008). Also data on youth unemployment remained much lower than the EU average 15.7% in Malta against EU average of 19.6% % in Q2 2009). Nevertheless long-term unemployment needs to be closely monitored because of its long lasting negative effects on the employability and well-being of citizens. In fact on the second quarter of 2009, the long term unemployment rate in Malta had increased more than in EU-27(32.3%) to 45.6%, against 39.6% at the same period of 2008.

Malta is among the countries with strong safety nets and recent reforms (Pensions and Health) may help addressing the impact of the crisis on public finances. Malta does not report any significant increase in the number of families defaulting on their mortgage payments; however there are some difficulties witnessed by negative developments in the rates of household non-performing loans and other credit non-performing loans.

2. National policy responses

2.1. Overall recovery package

The State budget is going to be used in 2009 to address the possible economic difficulties arousing from the crises.

Several measures have been established to support the industrial and the tourism sectors, in particular to support businesses. Amongst others, actions have been taken or are underway to reduce administrative burdens, such as setting up a one-stop-shop for the licensing/registration of commercial activities; adopting a Small Business Act, in order to simplify the regulatory framework for small enterprises; introducing General Accounting Principles for Small Enterprises; revising penalty rates related to income tax and VAT.

²⁷ Source: vulnerability assessment carried out by Directorate E (internal document)



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The introduction of liberalisation measures in some transport sectors (taxis, mini busses and coaches operating within the undeclared work) will render these sectors more efficient and competitive thus contributing towards increased demand and expansion.

As regards social inclusion, measures supporting the household purchasing power have been promoted, in particular the revision of income tax bands by broadening the tax free range of household income.

2.2. *Labour market measures*

Malta's employment and labour market strategy is focused on increasing access to employment through the introduction of more flexible forms of work and the provision of services aimed at reconciling family and work, as well as on supporting the education and learning system. Beside active measures, the Maltese government is examining ways of reviewing the interaction of taxes and benefits, to ensure a positive impact on the labour market.

From this point of view, Malta has continued the implementation of its National Reform Programme (NRP) also in line with the European Recovery Plan(EERP); and progress has been made in addressing competition and reforming the labour market. Positive initiatives in 2008 include important steps towards the privatisation of the shipyards, the establishment of an integrated *flexicurity* pathway and the setting of a target for the reduction of administrative burden.

Examples of measures adopted in Malta:

- the income tax bands were revised, including specific fiscal measures aimed to encourage higher female participation on the labour market;
- a register of persons seeking part-time employment was introduced;
- granting of social security contributions to parents who temporally opt out of the labour market to care for children;

2.3. *Supporting people income*

The measures proposed in the NRP are intended to consolidate and strengthen Malta's economic and social situation without putting at risk the sustainability of public finances.

The 2009 budget focuses on measures aimed at promoting economic growth and enhancing the quality of society in general. These include investment in infrastructural works including roads, factories, schools and other facilities; projects related to the environment and alternative energy; measures to enhance the skill-levels of the workforce and support enterprises, particularly small and medium-sized enterprises in different sectors. As part of its economic plan to deal with the current situation and possible future economic developments, the Government has also proposed actions, including assistance to local enterprises, and encouraged foreign investment, research and innovation, identification of new markets and further developed local industrial areas. At the same time, certain fiscal measures (revision in income tax bands) were implemented to increase disposable income (whilst improving the incentive to work).



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2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

A significant increase in the number of non performing housing loans has been recorded in Malta. Consequently the Maltese authorities, as part of the Government's social housing programme, have established that several housing units will be offered for sale at subsidised prices in various localities in Malta and Gozo. In addition, the Housing Authority will launch a means tested scheme, whereby it will pay up to a maximum of 30% of the monthly loan repayment for a period of ten years to first-time buyers

2.5. Investing in social, educational and health services infrastructure

As indicated above, as part of its recovery package, Malta has made and announced new investments in educational infrastructure (child-care, nurseries, schools, universities) and other infrastructure (particularly transport, hospitals, and urban development). MT has not postponed or restricted the measures it had envisaged in the NSR 2008-2011 for the health sector.

2.6. Use of ESF

The ESF is dedicated to support labour market reintegration and social inclusion of vulnerable groups, as well as promoting youth and female employment. ESF also supports reform and capacity building in the public sector. The 2007-2013 programme is coherent with the Lisbon's objectives and with the objectives and the contents of the NRP 2008-2010. The budget assigned to the sectors interested by the Lisbon strategy represents €92,500,800, *i.e.* 82.6% of the total contribution of the ESF to the programme.

2.7. Long-term impacts of the crisis on major social security schemes

In Malta, the social security system is a pay-as-you-go system payable out of the Consolidated Fund. Therefore, the Government does not envisage any particular problem to the pension scheme per se. However, there may be an indirect impact through a reduction in revenue from social security contributions as a result of the impact of the financial situation on private employers and/or the reduction in business of the self occupied. Rather than targeting the pension system directly, the policy measures envisaged aim at strengthening the overall financial situation of Malta through a three-year financial package with a view to achieve a positive balance in finances by 2011.

2.8. Health and the health sector

Although there is currently no evidence of the impact of the economic crisis on physical and mental health it is expected that in the longer run some negative consequences will be observed.

As said health spending will remain as planned and no constraints will be placed in the health sector as a result of the current economic crisis.



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THE NETHERLANDS

1. The economic downturn and its impact on social cohesion

According to the latest economic forecast published by the Commission in November 2009, the fall in annual GDP is projected to be 4.5% in 2009 which is the sharpest contraction ever registered. For 2010, annual growth is forecasted to come out at 0.3%. In 2009, the budget balance is expected to deteriorate sharply, turning the surplus position of the past years into a deficit of 4.7% of GDP. In 2010 it is forecasted to rise further, to 6.1 % of GDP. Social protection expenditure is expected to rise to almost 30% of GDP in 2009.

Employment growth is assumed to be negative in both 2009 and 2010, falling by around 1¼% and 2½% respectively. Unemployment is expected to rise to around 3.4% in 2009 and 5.4% in 2010. Youth unemployment remained well below the EU average in Q2-2009 (6.2% against 19.6%). Slightly less than one-third of the unemployed in the Netherlands have been unemployed for more than a year.

Thus far the Netherlands has lost 100.000 jobs compared to mid-2008 (national data). Especially the take up of unemployment benefits has risen sharply since last year. The rise of welfare benefits has been much less due to delaying effects of the unemployment benefits. The Netherlands doesn't report any significant increase in the number of families defaulting on their mortgage payments, nor in rates of over-indebtedness or difficult access to credit for individuals.

2. National policy responses

2.1. Overall recovery package

The Netherlands' first response to the crisis (Autumn 2008) has been extensive support of the financial sector as well as the introduction of a temporary reduced working hours arrangement. In Spring 2009, the government, in close consultation with the social partners, adopted a package of measures aimed at protecting employment, improving labour market transitions, tackling youth unemployment and improving access to training. The recovery packages, amounting to about 1% of GDP²⁸ in 2009, are planned to be continued in 2010. In addition, automatic stabilisers will work fully, implying a substantial increase in social expenditure and a significant decrease in tax revenue.

2.2. Labour market measures

Temporary stimulus measures, with an emphasis on preventing (long term) unemployment, are implemented in 2009 and 2010. One of the most important measures in this regard is the introduction (01.04.2009) of the part-time unemployment benefit scheme (Deeltijd WW), granting companies the possibility to maintain valuable

²⁸ European Economic Forecast, Autumn 2009.



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personnel by reducing working time up to 50% in combination with training. Representatives of the employees have to agree to the application (which can be made up to 31.12.2009). The scheme has replaced the reduced working hours scheme. Another important measure is the set-up of mobility centres joining public and private partners on the regional labour market (PES, employers, education institutes, temporary agencies), which should ease the transition in the labour market and reduce labour shedding.

From 2009 to 2011, extra resources are made available for improving the labour market situation of young people. An Action Plan on Youth Unemployment was presented at end of May 2009 which includes, *inter alia*, the creation of extra apprenticeships and traineeships as well as stimulating regional cooperation between all actors (municipalities, social partners, schools, PES) with the capacity to contribute to the creation of participation possibilities for youngsters up to 27.

2.3. Supporting people income

Part of the Dutch recovery package is targeted at providing relief to households and strengthening their purchasing power given the negative impact of the crisis. Income support is based on existing income support schemes. These help soften the impact of the economic recession on real disposable income and on private consumption.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

Addressing over-indebtedness is one of the four policy objectives in the Dutch 2008-2010 NSR. Since the economic crisis and the increasing rate of unemployment represent an increased risk of poverty and a greater reliance on debt counselling, additional resources are made available for debt relief in 2009, 2010 and 2011. The budgets are aimed at three specific areas: prevention (active information at the employment centres), financing additional appeals for debt assistance and improving the effectiveness of debt assistance.

2.5. Investing in social, educational and health services infrastructure

As part of its recovery package, the Dutch government has announced an investment package to preserve employment in construction, promote residential energy conservation and secure the continuation of house building. Additional resources will be made available to continue and accelerate new construction projects in inner cities and to further advance the restructuring and renovation of public spaces in neighbourhoods and communities. The planned construction projects would help save 15.000 jobs in construction.

Health care is not regarded as a key element in re-launching economic growth. However, there are some measures related to health care that protect the sector from economic shocks, e.g. the government makes resources available for institutions in the long-term and curative care sector as a way of boosting the construction industry.

2.6. Use of ESF

In August 2009, an amendment to the ESF Objective 2 Operational Programme (OP) aimed at contributing to combating the effects of the economic crisis was approved. The main modification aims at combating youth unemployment. The activities qualifying for



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support are the ones covered by the national Action Plan on Youth unemployment and include education, training, guidance, working/learning combinations, traineeships, apprenticeships, etc.

The other OP modifications aim at improving implementation and the take-up of the ESF budget by extending target groups, activities supported by the ESF and the group of applicants. Transnational activities are also expanded.

2.7. Long-term impacts of the crisis on major social security schemes

The government plans to take structural measures starting in 2011, which should eventually improve the sustainability of public finances by an additional 1¼% of GDP. The most important of these measures is the increase in pension age by 2 years to 67 years, implying an improvement in sustainability of public finances of ¾% of GDP. The new policy will be introduced in two phases, with the pension age first rising to 66 years in 2020 and to 67 years in 2025. There would be special provisions for people with disabilities, people who began their careers very young and those who worked in physically or mentally demanding jobs.

The financial position of second pillar pension funds has weakened considerably as a consequence of the crisis. Coverage of the pension liabilities of many pension funds has fallen below the minimum level required by law. Present pensioners are affected through reduced indexation of benefits in payment. There are also in some cases impacts for employers and employees through increased pension contributions. The government has decided to more fundamentally examine some characteristics of the pension system²⁹.

2.8. Health and the health care sector

Health care is not regarded as a key short-term element in the re-launch of economic growth and there are no significant sector specific measures. A significant short-term impact on health spending is to be expected as a consequence of the crisis. At the moment possible measures to meet this are still under consideration. There is no measurable impact on health outcomes and behaviour in the Netherlands yet. Potential long-term impacts depend on the continued increase of unemployment and the severity of the crisis.

²⁹ Of particular interest are the investment policy of pension funds and the sustainability of the occupational pension system. The government has commissioned two studies of which the results are to be expected at the end of 2009. A third study will be about the effectiveness of the financial supervision framework.



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AUSTRIA

1. The ecocomic downturn and its impact on social cohesion

According to the latest economic forecast published by the Commission in November 2009 Austria's real GDP is expected to shrink by about 3¾ in 2009. For 2010 and 2011, GDP growth is forecast to pick up gradually to 1% and 1½% respectively. The turning point of Austria's economic cycle will largely depend on external developments. Total employment is expected to fall by 1½% in 2009 and ¾% in 2010. Unemployment is expected to rise further in the next two years to 5½% in 2009 and 6% in 2010. As automatic stabilisers will work fully while tax revenues will significantly decrease, social protection expenditures are projected to rise substantially (by 28.5% by the end of 2010³⁰). In 2009, the government deficit is likely to reach 4¼% of GDP according to EC forecasts. It is projected to worsen further to 5 ½ % of GDP in 2010.

In August 2009, the unemployment rate in Austria had increased to 4.7% (against 3.8% in August 2008). This is still below EU average, however, the increase is expected not only to continue but to gain momentum. Youth unemployment had increased to 10% in August 2009 compared to 7.4% in August 2008 and remains of particular concern since the dual education system combining practical and theoretical training is under pressure as apprenticeships are being reduced drastically. Although the crisis hits all qualification levels, more blue-collar workers than employees and more men than women have been hit until now.

Austria has registered an increase in the number of recipients of unemployment benefits of 14% between December 2007 and December 2008. The number of social assistance recipients is also on the increase (+4.9% between February 2008 and February 2009). Over-indebtedness of private households is increasing. Payment irregularities regarding consumer credits have gone up by 22% between January and March 2009, and the number of cases of payment irregularities by 13% in the same period. Insolvency compensation granted from the Fund established under the Insolvency Pay Claims Act rose by 11% between February 2008 and February 2009.

2. National policy responses

2.1. Overall recovery package

For 2009 and 2010, the Austrian government has taken sizeable discretionary fiscal counteraction to the tune of 1½ to 1¾ of GDP, respectively. Some of these measures were already taken in 2008 to support private household's purchasing power, but will largely remain effective in 2009/2010. Additionally, a first economic recovery program was adopted in October 2008 and a second one passed in January 2009. Income tax cuts passed by the parliament in April are retroactive from 1st January onwards, and a labour market support package was introduced in February 2009. These measures focus on

³⁰ Source: vulnerability assessment carried out by Directorate E (internal document)



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income support, reducing lay-offs and improving access to training, as well as gross fixed investment, ensuring access to finance, and include instruments that support the automotive industry.

2.2. Labour market measures

Measures targeted to avoid lay-offs include the extension of the possibility and greater financial incentives (special training allowances) for companies to use short-time work. By the end of April 2009 almost 60.000 persons (around 2% of dependent employees) were registered for short-time work (coming down to below 36.000 workers in November 09). The costs of short-time work are projected by the authorities at € 220 million (0.1% of GDP). Furthermore, additional training and qualification programmes for women, young people and metal workers have been launched. The reformed education leave scheme, which combines training allowances for individuals with financial support for companies offering the training, is expected to attract 6.000 to 10.000 people in 2009. There is a remarkable increase in the number of labour foundation participants (Arbeitsstiftungen) since September 2008, when the crisis became more noticeable. The creation of a youth labour foundation for 2000 young people who have worked at a SME or at a temporary work agency and who have lost their jobs has been agreed and will give them the opportunity to participate in vocational orientation, vocational (re)training and outplacement. In 2009 and 2010 the annual contribution of the federal state to the introduction of a compulsory and free of charge nursery year (70 mio €) from the age of 5 is part of the measures to stimulate the economy. Furthermore, the child care allowance scheme has been extended by an additional option granting 80% of the previous income for one year.

2.3. Supporting people income

In Austria, the major part of the recovery measures provides income support for private households (1 to 1½% of GDP). The main measures include a reduction in income tax rates in the context of a major tax reform, cuts in social security contributions for low incomes, increases of family and long-term care allowances, a temporary increase of commuters' tax allowance and mileage allowance, as well as an extension of pension insurance coverage for care-giving family members. Furthermore, fees for the last kindergarten year and university tuition fees have been abolished. A cut in the VAT rate for pharmaceuticals from 20% to 10% has provided additional relief. These measures will help soften the impact of the economic recession on household income and private consumption.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

Austria has not taken any specific measures in this field.

2.5. Investing in social, educational and health services infrastructure

The major part of the investment in infrastructure foreseen by the Austrian recovery programmes does not concern social, educational and health services infrastructure. However, around 195 million euro will be spent on the refurbishment of university buildings and buildings of the judiciary in 2009-2010.



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2.6. Use of ESF

The ESF in Austria helps mitigating the effects of the crisis on people. It has a strong focus on keeping older people in employment and on supporting the most vulnerable groups on the labour market. Following a revision of the operational programmes, the ESF now also provides specific training measures for short-term workers and young people, who are particularly affected by the crisis in Austria.

2.7. Long-term impacts of the crisis on major social security schemes

Austria is committed to its long-term strategies to modernise social protection systems. Recent reforms of the pension system aim at reducing expenditure on the long-term. No major efforts have, however, yet been made to discourage early retirement, which is still a widely used option in Austria. With rising unemployment and increased use of short-time work, spending on unemployment benefits, short-time work allowance and social assistance has increased in the course of 2009 and further increases are expected for 2010, while at the same time revenues from social insurance contributions have been declining. Yet, cuts in other areas of social spending are so far not envisaged.

The impact of the crisis on the adequacy of pension benefits has been limited, due to the fact that pensions are largely based on a pay-as-you go system and funded schemes do not play a major role in Austria. Losses of GDP growth and contributions due to lower employment and rising unemployment and costs resulting from recent pension measures cause, however, an additional burden for the general budget. Due to negative returns in the Austrian Pension funds, the pensions of beneficiaries in defined contribution systems had to be reduced in 2009, and employers had to pay additional contributions into defined benefit systems.

2.8. Health care and long-term care

The health system has not yet directly been affected by the crisis, although important reductions in social insurance contributions due to falling employment will have to be dealt with.



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POLAND

1. The ecocomic downturn and its impact on social cohesion

According to the latest interim economic forecast published by the Commission in November 2009, real GDP in Poland is expected to grow by 1.2% in 2009 against 4.1% decrease in the EU, and also a slight GDP growth is foreseen for 2010. Employment is expected to contract by 0.7% (against 2.3% in the EU) and unemployment is expected to reach almost 8.4% by the end of 2009. Social protection expenditures are projected to rise very slightly reaching about 25% of GDP by the end of 2010³¹. It is expected that the budget deficit will rise to 6.4% of GDP in 2009 and will reach 7.5% in 2010.

The unemployment rate in Poland has remained stable since March and in September 2009 was below the EU average at 8.2%, while the youth unemployment rate reached 20.5% (almost 4 p. p. increase in comparison to the similar period of 2008 but remained relatively stable since June 2009). Despite a significant drop in recent years, the long-term unemployed still comprise around 1/3 of the total unemployed. In 2007 the at-risk-of-poverty rate among children was one of the highest in the EU (at 24%) and, given the link between unemployment and poverty in Poland, the effect of labour market changes on at-risk groups needs to be monitored.

In 2008 there was a noticeable increase in take-up of unemployment benefits and early retirement benefits (the latter a result of recent reforms narrowing the eligibility criteria for early retirement in the future) while the decrease of disability benefits was noticed. The number of social benefits (granted in result of individual's income situation) in the 1st half of 2009 increased marginally in comparison to the similar period of 2008. Households indebted in foreign currencies have been affected by a strong depreciation of national currency which has also resulted in more restrictive mortgage application conditions.

2. National policy responses

2.1. Overall recovery package

To address the economic crisis, the Polish government adopted in November 2008 the Stability and Development Plan which proposed financial market and structural reforms as well as a fiscal stimulus. The fiscal stimulus package includes higher public investment (by more than 1% of GDP) and personal income tax cuts. Other specific anti-crisis measures in the recovery plan include enhancing the system of bank guarantees to facilitate SMEs' access to loans, accelerating the investment process and facilitating faster absorption of structural funds, mostly through simplification of implementation provisions. These actions are matched by some structural measures, e.g., strengthening the position of the regulator of the energy market to stimulate competition and protect

³¹ Source: vulnerability assessment carried out by Directorate E (internal document)



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energy consumers. Finally, some revenue-increasing measures are planned, such as an increase in excise duties with a total expected revenue increase of about 0.15% of GDP, which will be transferred to a newly created Social Solidarity Reserve fund of PLN 1.14 billion (approx. € 0.3 billion) dedicated to helping people facing poverty and their dependants.

2.2. Labour market measures

Apart from calling for more intensive activation programmes for the long-term unemployed, the recovery plan does not specify concrete labour market measures. Nevertheless, on 1 July 2009 the Act on mitigating the effects of the economic crisis affecting employees and entrepreneurs was adopted providing some specific anti-crisis instruments aimed at maintaining employment. The Act, among other measures, provides for financial assistance to the enterprises in difficult situation, to uphold employment. The scope of measures being introduced include co-financing of the staff's training and co-financing of the remunerating the employees in the companies facing production shutdowns. It is estimated that around 250 thousands of their employees will benefit from the assistance. Furthermore, changes to the working time regulations (*inter alia* more flexible working time arrangements, extension of the calculation period for working time limits to a maximum of 12 months) may be adapted by all entrepreneurs regardless their economical situation. The flexible solutions concerning working time can be introduced by a collective agreement or an agreement with the enterprise's trade unions. Prior to that the employment policy legislation had also been amended to provide support better adjusted to the new circumstances (matching job vacancies with skills through increasing the thresholds for available reimbursement of costs of employee's training; empowering PES with new instruments such as action plans adjusted to the specific needs of individuals; providing incentives to create new jobs for 50+; facilitating access of non-public employment agencies to provide their services and widening the groups that can be targeted by ALMP measures financed from the public sources).

2.3. Supporting people's income

An increase to the minimum wage to the level of 50% of the national average wage (currently it stands at some 42%) and the removal of taxation on social vouchers have been discussed between the government and social partners. In result of the recent legal changes the value of family allowances (including care allowance) has increased as from beginning of November 2009.

2.4 Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

Poland introduced some measures to soften the impact of the financial crisis, e.g., the level of the guarantee of savings deposited with banks was increased. In addition, the financial supervision bodies blocked attempts by some banks to revise upwards the terms of earlier extended mortgage loans. At the beginning of August the Act on State aid for repayment of certain mortgage loans to persons who lost their jobs entered into force. It provides governmental loans to persons who are unemployed since 2008 and have problems with repaying mortgage loans.



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2.5 Investing in social, educational and health services infrastructure

Given the significant negative impact of the crisis on investment, around €4 billion of the stimulus package is earmarked for public investment expenditure increases spread over 2009 and 2010 (around 1.4% of GDP). The increase in public investment is intended to boost the construction sector and help stabilise domestic demand. Support from the structural funds in the form of advance payments should also contribute to an increase in public investment in social, educational and health-care infrastructure, as envisaged in ERDF Programmes.

2.6 Use of ESF

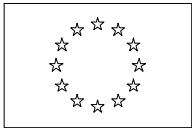
The wide scope of ESF 2007-2013 in Poland gives a solid base for implementing specific actions aimed at mitigating the negative effect of the crisis. Nevertheless, to better focus ESF spending on certain areas, an ESF anti-crisis package was prepared. It proposes specific instruments (equal to € 156.5 mln in 2009) to increase geographic mobility of employees, funds for retraining qualified redundant employees - for instance, from the service sector, including the financial branch - and financial support for business start-ups. Simplified implementation arrangements, especially for labour market and adaptability measures are also planned.

2.7 Long-term impacts of the crisis on major social security schemes

The impact of the crisis on pension system may be particularly observed in relation to the risk of reduced revenues collected from the social insurance contributions due to the difficulties observed on the labour market. The increasing number of pensioners (also those exiting LM within the early-retirement schemes) remains a challenge for the pension system. Discharge of the demographic reserve fund (worth PLN 7.5 bn, or €1.75bn) will partially cover the deficit of the pension insurance fund in 2010. Open Pension Funds (OPFs), which are private investment companies responsible for managing the mandatory defined contribution (DC) pension funds, have been particularly hit by the financial crisis since about 1/3 of their assets are invested on the stock exchange. The returns on pension fund assets dropped by about 14% but have recovered somewhat in 2009. This may particularly affect those due to retire soon and could result in a diminished perception of OPFs in society. In response the pension funds have reduced their risk exposure and the government plans to implement lifecycle approach to portfolio investment in the mandatory DC scheme and to reduce the fees deducted by the OPF. The ceiling for administrative charges on contributions will be lowered from 7 to 3.5% (expressed in nominal terms) in 2010 and a maximum monthly fee for management of an open fund will be introduced.

2.8 Health care and long-term care

An analyses of the impact of the financial crisis on the health care system show that it may primarily affect the health insurance system, as well as the amount of general budget funds earmarked for health services. Economic slowdown may translate into more unemployed and thus into lower revenues for the National Health Fund (NFZ) from



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wage-based health insurance contributions. This could further impact negatively the financial standing of the NFZ and the contracts it awards, and as a consequence also the financial standing of the contracted medical service providers.

The economic crisis also affected negatively the implementation of health programmes financed from the state budget, as the amounts earmarked for such programmes in 2009 decreased compared to 2008. Also, at the end of 2008 financial resources were blocked, which resulted in inability to pay all medical entities that implement the health care programmes and provide highly specialized services. Those liabilities had to be paid for from financial resources provided for 2009. However, the draft budget states that budget spending for health programmes will increase of 39% in 2010 as compared to 2009.



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PORUGAL

1. The economic downturn and its impact on social cohesion

The economic and financial crisis has hit the Portuguese economy mainly via its impact on external demand but the downturn also reached the domestic demand. Under the impact of the international crisis, Portugal's GDP began to fall already in late 2008, reversing the earlier mild upward trend. Annual GDP stagnated but in 2009 is projected to contract by nearly 3%. However, in the second quarter of 2009, the real variation of the GDP in relation to the previous quarter was already positive (+0.3%), also reflecting the impacts of the fiscal stimulus measures described below. The current outlook is one of stagnation of economic activity in 2010, to be followed by a moderate upswing in 2011 with GDP growing by 1%. Domestic demand is projected to essentially stagnate in 2010. The contraction in imports is expected to be smaller in 2010 and imports are expected to grow in 2011. With the crisis the current account deficit is set to fall from 12% of GDP to 10% of GDP in 2009. This year the government deficit is expected to be 8% of GDP and to remain largely stable in 2010 and to rise to 8 ¾% of GDP in 2011.

The labour market has been affected and in the 2nd quarter of 2009 the unemployment rate was 9.1%. In 2010 and 2011, the unemployment rate may reach some 9 ¼ %. However, employment is projected to shrink by nearly ½% in 2010, after a significant contraction of 2 ¼ % this year.

As far as social impacts are concerned, it is still difficult to measure these effects in terms of poverty and social exclusion.

2. National policy responses

2.1. Overall recovery package

In response to the economic downturn, Portugal has adopted a wide package of anti-cyclical fiscal measures to support investment and employment, support the most vulnerable households and strengthen financial stability. In line with the European Economic Recovery Plan (EERP), the "Investment and Employment Initiative" was adopted in December 2008 focused on public investment and on support to employment, social protection, investment and exports. Overall, this new package represents an impulse of 1¼% of GDP in 2009 (of which 0.8% of GDP is to be financed out of the national budget and the rest through EU funds). The package adds to a number of other separate measures that had already been announced earlier in 2008 to support households' income and firms' investment amounting to some ½% of GDP as well as some other measures taken already in 2009. The direct impact of the crisis on the banking sector has been contained and contributes to reinforce financial stability.



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2.2. Labour market measures

The Portuguese authorities undertook measures worth over 0.3% of GDP to help with maintaining jobs, incentivising employment take up by the long-term unemployed, supporting the labour market participation of young workers and extend social protection. In more detail the measures are as follows:

- 1. *Benefits to reduce job destruction* – SMEs have a 3 p.p. decrease in the employer's mandatory contributions to SS for workers aged over 45 years or 50% in case of fixe term contracts made with unemployed people aged over 55 years;
- 2. *Recruitment Support* – payment of 2,000€ of recruitment support increased by 2 years of exemption of social security contributions payment in case of young people and long-term unemployed people recruitment.
- 3. *Training-Employment Program* – this measure was created to support viable firms experiencing a temporary drop which want to update the skills of their workers in unused production hours;
- 4. *Training employment placements* – 9 months work placements for unemployed aged over 35 that concluded an education degree or training course in the last 3 years;
- 5. *Vocational Training placements for youths* – for unemployed aged under 36, especially undergraduates or graduates in areas with low employability.
- 6. *Qualification Employment Training Programme* is designed for unemployed people aged 35 years or over who have improved their qualifications;
- 7. *Employment Insertion Contracts and InovSocial* – Integration of unemployed and young people in non profit organisations;
- 8. *Adults Education-vocational Courses* - to extend the supply of double certification courses for unemployed people in specific regions more affected by unemployment;
- 9. *New Methodology Inser-Social 2009* to support unemployed people whose unemployment benefit or unemployed social benefit entitlement ceases within 4 months;
- 10. *Professional Integration Offices* to support unemployed people providing support in the job search process and information on job offers, training and possible labour market pathways and also entrepreneurs and social partners associations and non-profitable organisations;
- 11. *Maintenance of Social Unemployment Benefit in situations of return to work* to strengthen the protection guarantees in case of unemployment and Extension of Social Unemployment Benefit period by 6 more months.

Recently the Government has established a new fund of €250 million to support the development of SME's business activities in international markets.

2.3. Supporting people income

The Government will temporarily extend social support provided to long-term unemployed persons for those beneficiaries that exhaust the maximum duration of the social unemployment benefit in 2009. The duration of the social unemployment benefit will be extended by additional 6-months, at an amount equivalent to 60% of the Social Support Index (plus 10% of the Social Support Index per child in the household, up to a maximum of 1x Social Support Index). It is estimated that the measure may cover 50 000 beneficiaries. In August 2009 27.324 beneficiaries were covered. On the other hand, the means-tested threshold to be eligible to the Social Unemployment Benefit was temporarily raised up from €330 to €450.

Also a new temporary rule regarding the qualifying period for unemployment insurance benefit will came into effect in 2010. There will be a decrease from 450 to 365 days of salaried work and contribution payment (within the 24 months preceding the



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commencement of unemployment) to be eligible to the unemployment insurance benefit. This measure is expected to benefit 11.500 unemployed in 2010.

Moreover, to alleviate poverty of vulnerable groups the Government will support families by increasing child benefits paid to beneficiaries in the first and second income quintiles and increasing the child benefit for more vulnerable families such as sole parent, and larger families. On the other hand, basic and secondary education students, beneficiaries of the family allowance, having one of the parents unemployed for at least three months, are entitled to free school meals, and a higher income support to school manuals for the next school year

Also, in the scope of the decision to bring the general schooling up to the upper secondary education level (as compulsory schooling) but also to alleviate the negative consequences of the crisis, the Portuguese Government has decided to provide scholarships to the upper secondary students, beneficiaries in the first and second income quintiles. With a twofold aim of supporting the most vulnerable households and combating early school leaving, the scholarships consist of a means-tested monthly allowance, equivalent to two times the amount of the Family Allowance.

At the same time, a strong emphasis was put on a more prompt response to the Social Integration Income (minimum income) applications, enhancing the Solidarity Supplement for the Elderly and increasing the level of minimum wage.

Measures in the health sector include: a 100% of co-participation of generics to the elderly with a pension income below minimum wage, streamlined access to technical aid for people with temporary or permanent disabilities, legislative measures to lower the prices of medicines notably to those on low income, free oral care to children, pregnant women and elderly and access to the National Health Services by all migrants regardless of their legal status.

Finally, since pensions are annually indexed to inflation, and considering that there will be a fall on price levels in 2009, the Government has decided, in order to protect the pensioners purchasing power to establish a one-off procedure for the indexation of pensions in 2010. So, an increase of 1.25% will be granted to pensions up to 630 € and 1% the pensions up to 1500€.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

In the course of 2008, Portugal took a number of measures targeted at providing relief to households and strengthening their purchasing power. Again in 2009, some additional measures have been taken to that end. All these measures represent around 0.3% of GDP. Examples of the measures concern higher child benefits and school allowances (especially for families of low-income households and/or unemployed adults), a reduction in the real-estate wealth tax for low value properties, higher tax benefits and subsidies for mortgage owners, higher means-tested transfers to the elderly and an extended duration of social transfers in the year of 2009 for the long-term unemployed.



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In addition, the authorities have set up a financial scheme allowing unemployed mortgage borrowers to postpone mortgage repayments for up to two years and adopted legislation to incentivise housing rental and buy-back funds.

A Credit Mediator has also been created aimed at defending and encouraging the rights, guarantees and legitimate interests of any person or body with a loan, in particular, with a mortgage, and in accessing credits provided by the financial system.

2.5. Investing in social, educational and health services infrastructure

The authorities adopted measures to renew school premises and technologically upgrade them in 2009 with an impulse of 0.3% of GDP. This investment effort was already being planned for 2009 and the coming years but was frontloaded as a response to the crisis. In addition, improvements in some public buildings (e.g., hospitals, universities, courts, offices of public services) notably aimed at improving energy efficiency, will represent an investment effort of less than 0.1% of GDP. The recovery package includes additional investment in health care infrastructures notably in the primary care sector, in mobile health care units and in the long-term care network. Overall, these measures will support construction activity and generate labour demand in some areas of equipment goods, while improving access to various social services.

2.6. Use of ESF

There are two multi-objective and two regional 2007–2013 ESF Programmes: The OP Human Potential covering all the ESF interventions in the mainland (this OP covers 94% of the ESF €6,512 million allocated to Portugal), the Technical Assistance OP and the regional OP's for Madeira and Azores. In 2009 Portugal modified the Operational Program Human Potential in order to introduce two new employment measures, co-financed by the ESF and coordinated by the IEFP (see point 2.2, measures 2 and 6).

The Portuguese measures to address the crisis are partly supported by ESF funds, mainly in areas such as improving qualification levels, promoting jobs, fighting unemployment and facilitating access of young people to employment.

2.7. Long-term impacts of the crisis on major social security schemes

The reform of Social Security, undertaken in recent years, essential to the system's medium and long-term sustainability, was designed to ensure a stronger and more coherent social protection system, adapted to deal with new social risks.

The first pillar of the Portuguese Social Security System will not be facing market risks, thus the recent reform builds on the promotion of a sound, balanced pay-as-you-go scheme and not on the move towards a public funded scheme or even a mixed scheme, based on individual accounts, so financial risk is not a major concern.



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Nonetheless, economic downturns have an impact on the social security scheme in general, as unemployment increases and there is a subsequent fall in the growth of social contributions revenue.

Finally, also worth to highlight are measures that the Portuguese Government has put in practice to increase the efficiency of the system resulting in improved budgetary surpluses that contribute to offset the adverse impact that the sluggish economic growth will have on the system.

Finally, the Government has decided, in order to protect the pensioners purchasing power to establish a one-off procedure for the indexation of pensions in 2010. Accordingly, an increase of 1.25% will be granted to pensions up to 630 € and 1% the pensions up to 1500€.

2.8. Health care and long-term care

Although an informal structure has been designed to monitor the effects of the crisis on physical and mental health and health behaviour it is still difficult to understand what those effects are. Many of the measures emphasise as important to mitigate the effects of the crisis are in line with the National Strategy Plan on social protection and social inclusion. They aim to improve access to care (see measures above in 2.3 and 2.5) while at the same time improve savings and efficiency in the sector (encouraging greater use of generics, reform of hospital care with a concentration of resources).



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ROUMANIE

1. The ecocomic downturn and its impact on social cohesion

Malgré la forte croissance enregistrée entre 2004-2008 et une valeur du PIB réel de 6.2% en 2008, la Roumanie est confrontée à des sérieux problèmes de ralentissement économique liés à la crise financière internationale. Les dernières estimations du PIB sont de - 8% pour 2009 et 0.5% pour 2010. Le déficit budgétaire est estimé à 7.8% du PIB et la dette publique à 18.2% du PIB. Depuis l'année passée, la situation du marché du travail est en déclin continué. Les dernières données indiquent un taux du chômage total en augmentation de 5.8% (août 2008) à 6.4% (juin 2009); le taux de chômage parmi les jeunes est également en augmentation de 18.6% (août 2008) à 19.8% (juin 2009), pourtant la valeur de l'indicateur reste comparable à la moyenne européenne (19.5%); le taux de chômage parmi les femmes connaît également une augmentation de la valeur de 4.7% (août 2008) à 5.3% (juin 2009), mais cette valeur reste inférieure à la moyenne européenne (8.8%). Pour 2009 on attend une augmentation du taux de chômage à la valeur record de 9%, mais à partir de 2010 il y aura une diminution. Les prévisions les plus récentes indiquent une valeur du taux du chômage de 8.7% en 2010 et 8.5% pour 2011. National policy responses

2. National policy responses

2.1. Overall recovery package

Début de 2009, le gouvernement roumain a adopté un paquet de mesures destiné à combattre les effets de la crise et à relancer la croissance économique.

Ce paquet de mesures adopté début de l'année a reçu une enveloppe financière de €13 milliards Euro (environ 8.2% du PIB) comportant 23 mesures groupées en trois catégories: économique (pour stimuler la croissance économique, 7.2% du PIB), financière (pour recapitaliser l'économie, 0.8% du PIB) et sociale (pour fournir un soutien social aux plus touchés, 0.2% du PIB). L'enveloppe financière destinée aux mesures sociales est de 260 millions Euro et compte les mesures suivantes: 1) la mise en place d'un système de pension sociale; 2) des compensations pour certains médicaments (allant jusqu'à 90%); 3) l'exemption des taxes et des contributions sociales pour les personnes en chômage économique (arrêt temporaire des activités) pendant une période maximale de 3 mois; 4) la prolongation de 3 mois de la période dont un chômeur peut recevoir des indemnités de chômage; 5) des subventions jusqu'à 50% pour la formation professionnelle des travailleurs/chômeurs; 6) gel de salaires des hauts fonctionnaires du gouvernement, du parlement et d'autres institutions d'Etat; 7) consultations avec les partenaires sociaux afin de décider les mesures sociales nécessaires.

2.2. Labour market measures

L'une de ces mesures pour faire face à la crise concerne la stimulation de l'emploi par réduction des coûts de travail. A cet égard, une diminution des cotisations sociales au



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fonds de chômage payées par les employeurs a été réalisée: de 1% (pendant la période Janvier – Novembre 2008) à 0,5% (à partir de décembre 2008). Egalement, la formation professionnelle des travailleurs/chômeurs est encouragée également par l'octroi des subventions allant jusqu'à 50%.

2.3. Supporting people income

L'un des objectifs du gouvernement roumain est la réduction des dépenses avec les prestations sociales par un meilleur ciblage: dans ce sens à partir du 1er janvier la règle de calcul du montant accordé pour le congé parental mensuel a été changée, certaines bénéfices d'assistance sociale ont été augmentés (ex: minimum social garanti, allocation pour les enfants/ les familles monoparentales, aide au chauffage, etc.). La période dont les chômeurs peuvent bénéficier des indemnités de chômage a été prolongée de 3 mois. Egalement, en 2009 une pension sociale a été introduite. Le niveau de la pension sociale garantie est de 300 RON (70 Euro) à partir de 1 Avril 2009 et de 350 RON (81 Euro) à partir de 1 Octobre 2009. La pension sociale est déterminée comme étant la différence entre ce niveau et le montant de la pension due ou en paiement.

Pour les retraités dont la pension est inférieure à 600 RON (150 Euro), des remboursements allant jusqu'à 90% pour le prix de certains médicaments sont également prévus.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

Dans ce domaine, le Gouvernement roumain a lancé le programme national " Prima casa", programme destiné aux jeunes pour leur faciliter l'acquisition du premier logement. Les crédits pour acheter le premier logement seront garantis par l'Etat, dans la limite de 60.000 Euros. La garantie sera accordée aux personnes qui achètent pour la première fois un logement et qui n'ont pas bénéficié antérieurement d'un crédit hypothécaire.

2.5. Investing in social, educational and health services infrastructure

Le plan anticrise adopté début de l'année envisage, entre autre, d'utiliser 20% du budget pour des investissements en infrastructure de transport, éducation, santé, logement.

2.6. Use of ESF

Avec un budget assez important (environ 3.5 milliards Euro), le Programme Opérationnel FSE "Développement des Ressources Humaines" est suffisamment flexible pour permettre aux autorités roumaines de mieux cibler les personnes et les catégories sociales plus touchés par la crise. Le programme permet de financer tant les mesures à court terme destinés à faciliter la réinsertion au marché du travail des personnes licenciées et un support social adéquat aux groupes vulnérables, que les mesures à plus grande ampleur comme la modernisation de l'éducation et de la formation professionnelle initiale et continue.



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Début de l'année trois schémas d'aide d'état pour un montant total de 142 millions Euro ont été lancé conjointement par l'Autorité de Gestion et le Ministère du Travail: a) Aide à l'emploi; b) Aide à la formation; c) Aide à l'amélioration des conditions de sécurité et de santé au travail.

2.7. *Long-term impacts of the crisis on major social security schemes*

Une des mesures qui aura sans doute des conséquences à long terme est la décision du gouvernement de suspendre l'augmentation des contributions vers le deuxième pilier de pensions, qui auraient dû passer cette année de 2% vers 2,5%. Pour le moment on ne connaît pas si le taux augmentera l'année prochaine de 0,5%, comme prévoit la loi, ou de 1%, pour récupérer le gel de contributions en 2009. Selon certains sondages, la crise semble exercer un effet important sur la décision de beaucoup de personnes de rejoindre le pilier volontaire des pensions.

2.8. *Health*

Le gouvernement roumain n'a pas fourni des informations sur les mesures prises dans le secteur sanitaire.



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SLOVENIA

1. The economic downturn and its impact on social cohesion

According to the economic forecast published by the Commission in November 2009, Slovenia's real GDP is expected to decline by 7.4 % in 2009, one of the sharpest falls in the euro area. Mildly positive growth in Slovenia is expected in 2010. Employment is expected to contract by 2.6 % in 2009, compared to 2.3% in the EU.

Slovenia was among the countries with a relatively favourable position at the onset of the crisis with low unemployment level (Slovenia 4.9% and EU-27 7.1% in 2007). However, since September 2008 the unemployment has been on a downward trend. According to the 2009 Autumn forecast of the Commission, unemployment in Slovenia could reach 6.7% in 2009 and rise further to 8.3% in 2010. In July 2009, the unemployment rate in Slovenia increased less than in the EU-27 (9%), and stood at 6% (against 4.4% in July 2008). The female unemployment rate (6%) was slightly lower than the male (6.1%) in July 2009, while in July 2008, the female rate stood at 4.8% and the male at 4.0%.

Youth unemployment remained lower in Slovenia (16%) than the EU average (19.7%) in July 2009. The long term unemployment share (total) stayed at 34.6% in Q1-2009 (EU 27 31.4% Q1-2009). The long-term unemployment share for older workers rose from 54% in Q4-2007 to 62% Q4-2008. Long-term unemployment needs to be closely monitored.

For 2009, the deficit is projected to widen significantly to 5.5 % of GDP and is projected to grow further in 2010 to 6.5% of GDP on a no-policy change basis. Revenues are expected to drop due to the adverse business cycle and discretionary tax changes adopted last year to make work pay and to lower tax burden of business. On the positive side, overall public expenditure and debt levels in Slovenia are low and there could be some room for manoeuvre to finance the needed social support for the citizens.

2. National policy responses

2.1. Overall recovery package

At the end of 2008 the Government established a ministerial crisis working group that has already prepared two recovery packages. The first package, adopted in December 2008, addressed the issue of improving liquidity in the banking sector, additional incentives to businesses, reduction of public spending, and job preservation. Adopted in February 2009, the second package is more development-oriented. It includes labour market measures (first SWTA), life-long learning and social security, support to sustainable development, and measures aimed at improving the use of cohesion funds. Together, these measures are estimated to amount to around 1.1% of GDP in 2009 and 0.7% in 2010.



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Additional measures have been adopted since February, including measures aimed at stimulating the economy, preventing further lay-offs (second SWTA) and assist individuals who have been hit by the crisis the most. Within the framework of the increased *de minimis* state aid scheme, funds for investments in research and development, re-employment and self-employment will be available in 2009 and 2010.

2.2. Labour market measures

The Slovenian response to the crisis consists of a comprehensive set of labour market measures. Within the framework of Active Employment Policy (ALMP) funds for implementing ALMP this year were significantly increased - from 75 million to 110 million EUR. Measures to preserve jobs entail reductions in the non-wage labour costs represented by social security contributions and in corporate income taxes. A temporary programme for stimulating job creation in the framework of self-employment and a programme for encouraging social entrepreneurship have been adopted, while the already existing training programmes have been extended. A measure to strengthen the public employment services allowing in particular for more individualised support has also been adopted.

A major measure to stem the rise in unemployment is the subsidy per employee to companies that reduce their working time from 40 hours per week to 32 – 36 hours. The companies benefitting from the scheme must agree not to dismiss employees for business reasons during the concerned financial year and not to pay out bonuses to management. To date, contracts have been concluded with more than 700 companies, employing more than 60.000 persons. An amendment to the act was adopted due to the great interest of the employers, introducing the extension of the measure for 6 months until end of March 2010.

Due to the deepening of the crisis, the second short working time arrangements measure, which enables companies to assign workers to temporary waiting for work, has been adopted. Workers are entitled to 85 % of their gross salary and have to participate in training. The act was prepared in partnership with the social partners.

New ALMPs in 2009 focus on promotion of employment for difficult-to-employ persons such as the long-term unemployed, older persons and young persons with tertiary education.

2.3. Supporting people income

An increase in the tax allowance for investment for sole proprietors (from 20% to 30%), with an estimated impact on tax revenues of 0.2% of GDP in 2009 was introduced.

Additionally the Government adopted Special allowance for socially disadvantaged persons Act, which aims at helping the most vulnerable groups in Slovenia.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

Slovenian social security system approved to be efficient even in the time of crisis. Regarding the over-indebtedness Slovenia does not have the monitoring system.



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2.5. *Investing in social, educational and health services infrastructure*

Within the budgetary framework Slovenia is encouraging investments in health and social assistance infrastructure. Rationalisations of the operation of health care providers and negotiations leading to lower prices of medical services, pharmaceuticals and medical products have improved the reach of the health budget.

2.6. *Use of ESF*

The ESF supports several recovery measures, including training of workers temporarily waiting for work.

A set of pilot projects in the field of social entrepreneurship, which will be co-financed by the ESF, are being prepared. The projects aim at developing new services, creating new jobs and contributing to the employability of vulnerable groups, hence preventing social exclusion. A call for proposals for pilot projects supporting social partners aiming at improving health and safety at work has been prepared and it is expected that first projects will be launched in the beginning of 2010.

The "employment subsidies for vulnerable groups" measure aimed at providing employment subsidies to vulnerable groups (young, older, long-term unemployed) for 1 or 2 years will be allocated additional funds compared to previous years. An additional measure for subsidizing employment for young university graduates has also been adopted.

A significant amount of funds are allocated to the promotion of education and training of employees to increase their employability and competitiveness, as well as the competitiveness of companies.

The ESF actively supports the modernisation of the labour market institutions and a project for one stop shop for social transfers is being planned.

2.7. *Long-term impacts of the crisis on major social security schemes*

Slovenia can be considered to have a mature social protection system well placed to protect the most vulnerable in the current crisis. The coverage and level of social benefits is high for the unemployed. Total expenditure on social protection as percentage of GDP amounted to 22.8% in Slovenia in 2006 compared to 26.9% in EU-27. In the same year, the unemployment benefits amounted to 3.0% of total social protection expenditure (EU-27 average 5.4%), or 0.7% of the GDP (EU-27 average: 1.4%). In general, a slightly decreasing trend can be seen in total social protection expenditure which is void of cyclicalities. It remains to be seen whether Slovenia has the budgetary margin of manoeuvre to preserve its current social protection system as unemployment rates rise. An additional constrain on public expenditure is also the small fiscal deficit (0.9% of GDP in 2008) before the crisis.

Slovenia is anticipating a possible worsening of the labour market and a subsequent fall in contribution and tax revenues. Social contribution falls will be compensated with general tax revenues.

Concerning pension systems, the mandatory pension scheme has not yet seen an automatic reduction in paid contributions due to the implemented labour market recovery measures which have prevented further lay-offs. The supplementary pension insurance system is based on "defined contributions" type scheme; therefore dropping market values of pension fund assets may have consequences for future pension benefits.



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Nevertheless, the situation is still considered as good due to positive past performance and accumulated reserves.

Despite the crisis the proposal for social security system reform has been launched, with the aim of increasing transparency and efficiency of social transfers.

2.8. Health and the health care sector

The area of healthcare has been covered by the Government in the context of recovery measures by actions directed at lowering some of the health costs and/or at optimising processes in healthcare at the organisational level. These include cost reduction for payments of goods and services; reduction in the number of employees; optimisation of internal organisation; reduction in calculated salaries in the prices of healthcare services; reduction in expenditure for tertiary services; rationalisation in some investments already approved that have been reduced. These measures have managed to reduce the costs of healthcare programmes by 7 % on average, while preserving the achieved level of availability and the level of healthcare services.

Administration and management in hospitals has improved by establishing operational review of public health institutes and comparative analysis of hospital operations, with indicators of business efficiency and productivity.

As to the effects of the crisis on health status, although it is too early to recognize the possible impact, mental health of the population is indeed possibly affected in the socio-economic context of increased poverty, unemployment and deprivation. Thus, there is some evidence of a decrease in the state of mental health of the population when comparing 2006 and 2008 as measured by the Mental Health Index MHI-5 (2006: MHI = 67, Survey Mental Health in Slovenia, 2006 and 2008 MHI = 60, Second European Quality of Life Survey, 2008).



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SLOVAKIA

1. The ecocomic downturn and its impact on social cohesion

As a small and open economy with an important share of the car manufacturing sector, Slovakia has been negatively affected by a decreasing external demand, thus worsening the situation in the national economy and employment. According to the latest economic forecast published in November 2009 by the European Commission, the Slovakian GDP is expected to decrease by 5.8% in 2009, against 4% decrease in the EU. It is expected to slightly rebound in 2010, by 1.9%. Employment is projected to contract by 2% in 2009, against a 2.25% contraction in the EU. In 2010, it is expected to stay still at 0.0%. Unemployment rate is forecasted to reach 12.8% in 2010 (9.5% in 2008). The economic downturn did not have any impact on the long-term trend of the higher female unemployment – Eurostat data shows that in the past 5 years, the annual female unemployment was approx. by 2 percentage points (pp) higher than the male one. Slovakia has experienced high growth before the crisis and a slightly decreasing trend in social protection expenditure void of cyclicalities. It has not invested in expanding protection systems which resulted in a particularly vulnerable situation in the current economic backdrop. The general government deficit is projected to widen to 6.3% in 2009 and 6.0% in 2010. The social expenditure is projected to mildly increase from 18.9% of GDP in 2008 (EU: 28.0%) to 19.8% in 2011 (EU: 30.5%).

In August 2009, the unemployment rate has increased more than in the EU as a whole to 11.6%, compared to 9.0% in August 2008. Youth unemployment at 25.6% in August 2009 was by 5.8 pp higher than the EU average. The unemployment rate for older workers (50+) was 8.3% in Q2-2009, which is by 2.4 pp higher than the EU average. In Q2-2009, 52.2% of unemployed and 63.8% of unemployed over 50 years of age (against 72.8% and 83.6% in Q2-2008, respectively) were unemployed for more than a year, compared to the EU average of 32.3% and 45.9%, respectively. Greater progress in the implementation of projects targeting marginalised Roma communities is urgent, taking into account the estimations that the Roma population form a high share (possibly half) of the long-term unemployed.

During one year between September 2008 and 2009, the number of recipients of unemployment benefits increased dramatically by 162.6% to 61 720 persons while the number of claimants for social assistance increased by 12.4%. The number of jobseekers registered at the labour office at the end of August 2009 amounted to 355.041 persons, which compared to January 2009 (269,465 jobseekers) represented an increase of 31.75%. Slovakia does not report any relevant data on the housing trends neither over-indebtedness nor access to financial services.



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2. National policy responses

2.1. Overall recovery package

In response to the crisis, Slovakia has adopted three stimulus packages accompanied by measures for the banking sector and structural measures. The first set of measures was adopted in November 2008 and two additional packages followed in February 2009. The Government reallocated around EUR 330 million (0.5% of GDP) from the 2009 budget to finance the anti-crisis measures and a consolidation of public finances is planned for 2010. According to the Government, the measures represent a counter-cyclical macroeconomic response to the downturn with a view to avoid deepening the recession and a rapid fall in employment and to restore an economic growth.

Measures focus on support for national enterprises, extended monitoring and reporting regarding the impact of the crisis and support for innovation, research and business activity. Some of them are of general nature aimed at increasing the effectiveness of public administration, such as increasing the absorption of EU funds, speeding up the implementation of the public private partnership projects for motorway construction or increasing the effectiveness of active labour market policies. The February package aims at boosting internal demand, improving the business environment, supporting labour markets and improving energy efficiency.

The labour market measures and the tax relief measures are mostly temporary and are aimed principally at creating more favourable conditions for the most affected groups, i.e. the low-income households, self-employed, and low-skilled workers mainly in the manufacturing sector. Labour market measures are in many cases co-financed from ESF and their intention is to reinforce activation and contribute to keeping people in employment.

2.2. Labour market measures

Slovakia decided to target in particular employees threatened by unemployment and unemployed. The level of the financial support provided for individuals is usually not higher than ca. 180 EUR per month, compared to the average monthly salary of EUR 732.5 in 2Q 2009. More specifically, measures involve a higher employee bonus for low-income employees, a financial support to employees who find a job without employment services, an inter-regional mobility allowance, a subsidy for employers for maintenance of employed person or hiring an unemployed person, or a subsidy for unemployed who take up self-employment. In financial terms, the estimated total budget (national budget + EU budget) for 2009 and 2010 for the newly self-employed is EUR 11 million. Measures to retain existing and create new jobs are estimated at EUR 76 million for 2009-2010.

In addition, the requirements for establishment and functioning of social enterprises have been simplified, e.g. it will be no longer required to substantiate the use of 30% of the financial profits for the purpose of new job creation neither to employ at least 30% of the workforce from disadvantaged job seekers. The estimated total budget (national budget + EU) for 2009 and 2010 represents EUR 229 million. So far, the government reports the creation of 208 new jobs due to the social enterprises. Furthermore, the conditions for the provision of investment aid for the creation of new jobs in regions with lower rate of registered unemployment were relaxed.



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2.3. Supporting people income

The government increased the tax-free threshold from € 3,435 per year to €4,027 per year, providing additional tax relief for low-income households. A temporary decrease in social security contributions for self-employed from 4.75% to 2% as of April 2009 until December 2010 is intended to help sustain income of the self-employed. Estimated costs for this measure are EUR 13.3 Mio in 2009 and EUR 22.4 Mio in 2010. As a permanent measure, the old-age and early old-age pensions, disability and survivor pensions, and injury benefits were indexed by 6.95% as from 1 January 2009 instead of a standard date of 1 July 2009. For vulnerable groups (lone parents, families with four or more children, etc.), the indexation of social benefits and housing contributions, linked with the increase of household costs for the low-income families, took place as from 1 September 2009.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

Slovak Government approved the system of state support to start as from 1 October 2009 with the view to protect mortgage holders, unable to pay monthly instalments, for a limited duration of time. The system consists of the restructuring of overdue loan by banks (6 months min.) and the subsequent provision of reimbursable subsidy in the amount of 70% of the monthly instalment by state (6+6 months max.).

2.5. Investing in social, educational and health services infrastructure

No measures were reported by the SK Government.

2.6. Use of ESF

The majority of labour market measures described under point 2.2 are intended to be co-financed from ESF. In 2009 – 2010 the activities aimed at promoting the creation of new jobs, including support of new enterprises and self-employment or innovative approaches for disadvantaged jobseekers and members of marginalised groups, and the activities to promote the adaptability of enterprises, business associations, and regions have been launched. Joint Aid Scheme (de minimis) to support starting entrepreneurs was launched, too. Measures to promote increased quality, access, and effectiveness of care services have continued to be supported.

2.7. Long-term impacts of the crisis on major social security schemes

With the effect from 1 July 2009, the administration fees of the pension fund management companies (privately managed funded scheme on the basis of defined contributions) have been lowered from 0.065% to 0.025%. Simultaneously a new component of the administration fee was introduced – a variable part – which is calculated on the basis of the assets' investment return during a given period. The



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guaranty account was also introduced which should cumulate potential revenues to reach a sum established by the National Bank of Slovakia.

2.8. *Health*

No measures in the field of health care were reported by the Slovak government.



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FINLAND

1. The economic downturn and its impact on social cohesion

The momentum of the Finnish economy slowed continuously throughout 2008. However, GDP growth still reached 1% for the year as a whole. A particularly sharp decline in activity was recorded in the last quarter of the year when GDP contracted by nearly 2% yo-y. According to the DG ECFIN's Autumn forecast, GDP growth will be negative in 2009 at -6.9% and slightly positive at 0.9% in 2010. Foreign trade declined especially sharply, which was mirrored in plummeting industrial production. Domestic demand had also already lost strength during the course of 2008, especially due to weakening housing and equipment investments. While consumers' purchasing power increased robustly in 2008, plummeting consumer confidence led to a slight contraction in private consumption in the last quarter of the year. The private consumption is expected to decrease by 2.8% in 2009 and pick up positive growth of 1% in 2010.

The labour market appears to follow the economic cycle with a lag of several months. The second half of 2008 brought a gradual halt in job creation. Furthermore, companies affected by lack of demand typically used various schemes to temporarily reduce the working hours of staff. Should the slump in demand prove long-lasting, the excess of labour will inevitably be shed. The bulk of the labour market adjustment is expected to take place in 2010, when unemployment is forecast to jump to nearly 10.2% of the labour force. The estimated unemployment rate for 2009 is 8.5%. The unemployment rates of the vulnerable groups follow the general development. However, the share of long-term unemployment has fallen during 2008 also amongst the 50+ population. The unemployment rate of men has increased more rapidly than the rate for women, but both have been decreasing since last year. Youth unemployment, which was 16.5% in 2008, is also increasing. Young men, in particular, are in a worse position on the labour market than a year ago. The number of recipients of unemployment benefits has increased by 23.7% during 2008, while the number of claimants for social assistance remained almost the same. Finland reports a 6.3% decline in the number of applications for loan arrangements. No changes are reported concerning families defaulting neither on their mortgage payments, nor in rates of over-indebtedness or difficult access to credit for individuals.

According to the advance information, last year's social assistance expenditure was almost EUR 526 million, and approximately 216 700 households received cash benefits and benefits in kind. Gross expenditure had arisen by 10% with regard to 2007. Without rate of inflation the growth was approximately 6%. Thus, the decrease of the number of the clients, which had shown a continuous decline for several years, almost ceased. In 2008 the number of households receiving social assistance was approximately the same as one year before.

In March 2009 The Social Insurance Institution in Finland (KELA) paid basic unemployment allowance to 25 000 unemployed and in September 2009 to 27 000 unemployed. The number in September was 68% higher than a year before. However, the number of labour market subsidy recipients had remained almost the same as in previous



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year, being in April 106 000. The total amount of earnings-related unemployment allowance recipients had grown as well, being in September 148 000 which was 68% more than in September 2008.

2. National policy responses

2.1. Overall recovery package

The policy response concentrates on fiscal stimulus and improving financing conditions for Finnish companies and exporters. The governments' stimulus measures were announced in several waves. Those announced in 2008 amounted to 1.2% of GDP in 2009, concentrating mainly on permanent income tax cuts supporting consumers' purchasing power. On 30 January 2009 the government announced an additional stimulus package (amounting to about 0.4% of GDP in 2009) with a broad range of measures focusing more on stimulating infrastructure and housing investment with a particular objective of upholding employment.

The recovery measures are related to the medium-term reform agenda and the country-specific recommendations proposed by the Commission on 28 January 2009 under the Lisbon Strategy for Growth and Jobs. Various structural measures with a more medium to long term perspective are also planned in the domain of functioning of the labour- and product markets.

2.2. Labour market measures

The labour market appears to be strongly affected by the economic crisis. The most significant support to the labour market is given indirectly through the measures boosting domestic demand (tax cuts and public investments). The direct increase of government financing of active labour market measures is mostly spent on training and workers' relocation measures. However, the government is also planning various structural measures for the better functioning of the labour market with minor budgetary impact.

The government has also decided to use the buffer fund of the earnings-related unemployment insurance scheme to its full extent to support enterprises with the increasing unemployment costs. The fund is entitled to take up loans and the government will guarantee the loans up to 796 million euros. Thus the contribution rates will increase only by 0.5 percentage unit in 2010. In addition, the government will temporarily cover the expenses for the unemployment benefits paid to those temporarily laid-off. This measure reduces the employers' costs by 175 million euros.

The recovery package includes public funding for education and training, in order to create 2 150 new study places in basic and continuing vocational education and in education leading to a diploma at University of Applied Sciences (lower tertiary education). The target groups include both young people and adults without diploma, but also people with outdated qualifications. Apprenticeship training will be expanded to include also people with academic background.

More funding is allocated to labour market training, start-ups/self employment, and public employment services. The measures include expanding change security to cover also lay-offs and not only redundancies and temporary posts in employment offices, in



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order to reinforce the staff in the time of increased unemployment. The adequacy of funds for active labour market measures will be assessed later in 2009.

2.3. Supporting people's income

The government has decided to freeze the index values of the National Pension Scheme are for 2010. In order to avoid a decrease in benefit levels the index values for 2010 will be the same as for 2009. This means in practice an increase in the real value of these benefits.

A committee was set up in 2007 to reform the social security system. It has already proposed a number of reforms, such as providing a pension guarantee to secure a reasonable level for the lowest pensions, indexing as of 1st March 2011 basic security benefits currently not covered by indexation (such as minimum allowance, child benefits, home care subsidy, private day care subsidy). The committee will submit its final report by the end of 2009.

The Government will implement the proposals on pensions policy and unemployment security made by labour market organisations as of 1 October 2010. As these decisions enter into force, income security expenditure and labour market support expenditure are estimated to go up. At the same time, expenditure related to basic social protection would go slightly down. Appropriations outside the spending limits, such as those for financial investments, central government debt interest payments, funding of national pension payments, unemployment security and housing allowance will increase due to the weakened economic outlook.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

In Finland, no major impact in the over-indebtedness of households is visible yet. Households' indebtedness, particularly mortgages had been increasing prior to the crisis.

2.5. Investing in social, educational and health services infrastructure

The recovery package includes investments in infrastructure concerning e.g. municipal housing, schools, and health care sector. € 10 million will be allocated to repair health centres, day-centres and homes for the elderly. An additional government aid for local authorities for these to develop health care and social care services has been planned.

2.6. Use of ESF

The Mainland Finland's ESF Operational Programme includes a priority with a focus on promoting access to employment and sustainable inclusion in the labour market, and preventing social exclusion with total planned expenditure of € 203,9 million. However, measures for unemployed, laid-offs and immigrants can also be funded to some extent within the other three priorities of the programme.



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2.7. Long-term impacts of the crisis on major social security schemes

Finland is committed to the strategy presented in the National Strategy Report. However, the tax revenue falls experienced in municipalities might imply a need to cut expenditure on social services spending, e.g. in health care, day care, long-term care of the elderly. Long-term impacts on pensions are difficult to estimate for the moment. The government has temporarily eased the international financial reporting standards of pension funds in order to counter solvency problems due to their declined value. However, the long-term financial sustainability is weakened if investment returns remain low for a longer period.

2.8. Health and the health sector

The government emphasises the importance of health and social services in order to avoid the long-term impacts on psychological health that may have been caused by the budget cuts during the 1990's recession, and is increasing state allocations to local authorities. In longer term, the reform of local service structure continues and options are being considered for the provision of health and social services in a more concentrated and coordinated way. Interestingly, the government is using the current economic crisis as an opportunity to strengthen health promotion through various measures, e.g. through raising VAT tax on strong alcohol, tobacco, soft drinks and sweets while reducing VAT tax on foodstuffs; and improving health promotion in schools and workplaces.



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SWEDEN

1. The ecocomic downturn and its impact on social cohesion

According to the economic forecast published by the Commission in November 2009 Sweden's real GDP is expected to contract by about 4½% in 2009 (EU average -4.1%). A moderate recovery is expected in 2010. Employment is expected to contract by slightly more than 2% in 2009 (equivalent to EU average), and unemployment is foreseen to reach 10.2% in 2010. Due to cyclical effects and discretionary fiscal measures, the public surpluses of recent years are expected to turn into deficits of around 2% and 3¼% of GDP in 2009 and 2010 respectively.

The unemployment rate in Sweden reached 9.2% during the second quarter of 2009, an increase with 2.4 p.p. (3 p.p. for men, 1.6 p.p. for women) since Q2-2008. Young people are among the hardest hit by the slowdown, and youth unemployment has risen by 4 percentage points from Q2-2008 to Q2-2009 and is at 29% among the highest in the EU. The unemployment rate of non-EU foreigners increased considerably in 2008, and was well above EU average in 2008 at 24.1%. However, the share of long-term unemployed remains the lowest in the EU at 13% (27% for those over 50).

The deterioration on the labour market has had adverse effects on public finances, not only on the revenue side but also on expenditure side. A clear increase can be seen in the number of recipients of unemployment benefits, +36% from August 2008 to August 2009 (there is an immense gender difference in the increase, +81% for men whilst only +7.5% for women). The same applies to the number of recipients of social assistance (+16% from Q2-2008 to Q2-2009).

2. National policy responses

2.1. Overall recovery package

Sweden has reacted to the crisis by adopting a wide range of measures. Policy measures have been announced and implemented on an ongoing basis since the 2009 Budget Bill was presented in September 2008. These include structural measures, such as improving incentives to work through reduced income taxes, as well as temporary measures with a clear short-term stimulus objective, such as increased coaching and training and increased state transfers to the regional and local level of government, aiming at securing welfare services and reduce the impact on jobs. Discretionary fiscal measures of about 1½% of GDP were enacted in 2009 and further measures amounting to around 1% of GDP have been announced in the budget for 2010.

2.2. Labour market measures

The corner stones of crisis measures taken in the field of employment is a series of measures directed at assisting the unemployed in finding new employment through



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increased coaching, training and matching. The Government has also increased the number of places available in work placement schemes. Further resources to these measures are proposed in the 2010 Budget Bill. To stimulate more unemployed (over 25 year olds) to go to vocational training, more people will qualify for a higher grant and the number of places in vocational and general higher education as well as in adult vocational education programmes, have been increased (for the period 2009-2011). To prevent people from becoming unemployed in the first place, tax deductions have been introduced for household and maintenance services, to support the construction and private services sectors.

Structural measures directed at improving incentives to work have also gained increased importance in view of the crisis. A third stage of the "in-work" tax credit has been introduced and the threshold for paying state income tax has been raised. Aiming at lowering the cost of employing or retaining staff, a one-percentage point reduction of employers' and self-employed social security contributions was introduced (from 32.42% to 31.42%) in January 2009. Furthermore, the compensation given to employers who recruit long-term unemployed, people returning from long-term sick leave or people with a migrant background into jobs under the "New start jobs" scheme has been doubled.

2.3. Supporting people income

The substantial income tax cuts and reduced taxes for pensions will help to soften the impact of the economic recession on household income. Some changes have been introduced to the unemployment insurance system in order to facilitate membership in an unemployment insurance fund and thus eligibility for income-related benefit above the universal basic insurance. As a temporary measure in 2009, the required period of membership will be reduced from twelve to six months. Furthermore, since 1 July 2009, the previous requirement that an applicant must have performed gainful work for a given time and to a certain extent has been removed. These changes are likely to limit the growth in the number of recipients of social benefits among unemployed who are not covered or entitled to income-related unemployment benefit.

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

Sweden has not reported on any specific measures taken in this field. However, in the early stages of the financial crisis the Swedish Government established a "Medium-Term Credit Guarantee Scheme" (20 October 2008) in order to mitigate the financing constraints faced by banks and mortgage institutions based and operating in Sweden. This in turn should result in better prospects for credit provision to households.

2.5. Investing in social, educational and health services infrastructure

The recovery package does not include any direct investments in social, educational or health service infrastructure. However, as the finances of municipalities and county councils have deteriorated substantially as a result of the financial crisis, state transfers to the regional and local level of government have been temporarily increased. The reason for this is to secure the welfare services provided at these levels (health care at regional level, old age care, education and social security at local level). The 2010 Budget Bill



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proposes further temporary increases in state transfers to municipalities and county councils in order to dampen needs to reduce workforce.

2.6. *Use of ESF*

The Swedish ESF programme has proved sufficiently flexible to meet new needs in the context of the financial crisis. The priorities are to meet the needs for adaptability and employability through competence development and to increase labour supply through integration of disadvantaged groups into the labour market. Implementation of the programme is well on the way and calls for project proposals that respond to immediate needs of skills supply have been initiated in cooperation with partnerships at regional level. A stronger focus has been put on people given notice of dismissal.

2.7. *Long-term impacts of the crisis on major social security schemes*

The Swedish social security scheme is not expected to suffer significant long-term impacts due to the crisis. The present crisis has led to a large decline in the value of pension funds, both those of the social security system (the AP and PPM funds) and those of the occupational insurance schemes and the personal pension insurance. However, a deficit in the system causes the indexation of pensions and earned pension entitlements to be lowered by automatic adjustment, in order to restore the long-term viability of the pension system. The main discussion is thus how to avoid a large dip in the pension levels in 2010, when the automatic balance mechanism is bound to set in. This means that the indexation will be slower in 2010 than what it otherwise would have been.



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THE UNITED KINGDOM

1. The economic downturn and its impact on social cohesion

According to the latest economic forecast published by the Commission in November 2009, the UK's real GDP is expected to contract by about 4.6% in 2009 with a moderate recovery in 2010. Employment is expected to contract by about 2% in 2009 while unemployment is expected to average 7.8% in 2009 8.7% in 2010. For 2009, the budget deficit is likely to reach 12.1% of GDP and to worsen further to 12.9% in 2010. In addition, the full operation of automatic stabilisers implies a substantial increase in social expenditure and a significant decrease in tax revenue (estimated impact of around 1½% of GDP per year in 2009/10 and 2010/11³²). According to Eurostat, the unemployment rate was 7.6% in Q2 2009, up from 5.2% in the same quarter a year previously. Men have been slightly more affected by the increase in unemployment, with a rate of 8.7% in Q2 2009, compared to 6.4% for women. Youth unemployment was just below the EU average at 18.8% in Q2 2009, while the long term unemployment rate increased to 1.7% in the same period.

According to national statistics, there were 70% more people claiming job-seekers allowance in September 2009 than a year previously. The average price of a house fell by 15% over the 2008 calendar year, but has risen slowly since February 2009. The number of house repossession was almost doubled between 2006 and 2008 but have remained static in 2009.

2. National policy responses

2.1. Overall recovery package

The UK has adopted a wide-ranging response to the crisis covering financial markets, fiscal stimulus, labour market and structural reform measures. The sizeable fiscal stimulus (totalling around 1¾% of GDP for 2009 and 2010) consists of two packages adopted as part of the Pre-Budget Report in November 2008 and the Budget in April 2009. Whereas the *first package* was heavily weighted towards supporting household purchasing power, with the temporary reduction in the standard VAT rate accounting for half of the total stimulus, the *second package* put more emphasis on measures to support industrial sectors and businesses as well as reducing the negative impact on long-term unemployment. Specific measures to support the automotive industry were also announced. Both stimulus packages included structural measures aimed at strengthening growth and addressing long-term challenges such as climate change (focus on energy efficiency and low-carbon technologies). The stimulus measures have been accompanied by a fiscal consolidation plan for 2010/11 onwards.

³² Excluding the impact on government revenue of the contraction in financial sector activity and the drop in property and oil prices.



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2.2. Labour market measures

The UK labour market weakened progressively in early 2009 with unemployment at a post-1997 peak. The UK recovery plan provides additional support to enhance the functioning of the labour market, with measures targeted at increasing the capacity of public employment services, extending training opportunities and providing further job search advice for the unemployed (around ¼% of GDP). One important element was to increase the capacity of Job Centre Plus with the objective of sustaining employment and help ensure that short-term rises in unemployment do not become entrenched (Total costs £1.3 billion - 0.1% of GDP). As youth unemployment had already risen strongly before the beginning of the crisis, a new scheme guaranteeing 6 months of training or work for all 18 to 24-year-olds who have been unemployed for one year has been announced and will become effective from January 2010. A new National Employment Partnership between Government and major employers has also been launched to devise strategies to help people back into work. The UK is also using the National Health Service (NHS), via additional funding, to sustain employment and in addition provide training for young unemployed people.

2.3. Supporting people's income

For 2008-09 the basic personal allowance of £6,035 was permanently increased by £310 with a further £130 to £6,475 for financial years 2009/10 and 2010/11. The aim of the increase is to sustain aggregate demand by supporting household purchasing power and protecting incomes of disadvantaged groups. The total costs is £11 billion for 2009/10 to 2011/12 (0.2% of GDP in 2009/10 and 2011/12 and 0.3% of GDP in 2010/11). The government also increased the child element of the Child Tax Credit by £75 above indexation and brought forward a commitment to increase it by a further £25 from April 2010 to April 2009. This measure will provide extra help to 3.8 million low to medium income families

2.4. Measures to mitigate the direct impact of the financial crisis on households and individuals: housing, over-indebtedness

As part of the first stimulus package the standard VAT rate was reduced temporarily from 17.5% to 15% with effect from 1 December 2008 to 31 December 2009 with the aim of stimulating aggregate demand by supporting households and businesses. The total costs of the measure is £12.4 billion for 2008/09 and 2009/10 (-0.3% of GDP in 2008/09, -0.6% in 2009/10). The UK Government has also announced a package of help for homeowners, in receipt of specific benefits, which came into effect from 5 January 2009. This included shortening the waiting time for Support Mortgage Interest (SMI) from 39 to 13 weeks and increasing the capital limit to £200,000. These measures will cost £40 million in 2009/10 and £55 million in 2010/11 and will help around 10,000 homeowners a year. Budget 2009 also announced a package of measures to help homeowners, homebuyers and the housing market: a £ 600 million funding package of measures to build more homes through unlocking sites that are currently dormant, and an extension of the stamp duty holiday for all houses costing up to £ 175,000 until 31 December 2009.



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2.5. *Investing in social, educational and health services infrastructure*

The stimulus packages included the bringing forward of capital spending on public investment projects planned for 2010/11 to 2008/09 and 2009/10, as well as an increase in public investment in housing. These measures amount to almost £4 billion in total (around ¼% of GDP in 2009). They cover both new infrastructure, maintenance and upgrading of existing facilities, with a focus on road and rail transport, schools and higher education, science and research, as well as improving the supply of housing and increasing energy efficiency. The UK also recognises the role of the health sector as an important driver of investment in the current downturn. Public investment through the NHS includes an additional £100m allocated to upgrade up to 600 GP surgeries to training practices targeting funding to those areas that historically have had a lower provision of doctors.. Additional funding is also being used to encourage innovation in the health sector (infrastructure, medicines and other technology).

2.6. *Use of ESF*

Under the 6 OPs, the ESF finances several actions that support the unemployed and disadvantaged people. The main priorities are extending employment opportunities and developing a skilled and adaptable workforce.

2.7. *Long-term impacts of the crisis on major social security schemes*

The financial turbulence experienced over the last couple of years initially increased deficits in defined benefit (DB) pension schemes and reduced the value of defined contribution funds, particularly where there is a large exposure to equities in the fund. However, the authorities are not overly concerned at the long-term impact of this as DC fund values have recovered reasonably well and ‘lifestyling’, which moves DC funds away from riskier assets as retirement approaches, will have protected the majority of people close to retirement. In the case of DB schemes, the Pensions Regulator helps ensure that DB schemes are appropriately funded. There is flexibility in the funding regime, so that employers and scheme trustees can look to extend or back-end load recovery plans. The Pension Protection Fund is there to ensure that if a DB sponsor becomes insolvent, there will be compensation payable to scheme members. Several high-profile employers have closed their DB schemes as employers look to control costs and risks, but it is too early to say whether the long-term trend of DB closure is accelerating.

2.8. *Health and the health sector*

On the possible long-term impacts of the crisis on health, a national longitudinal study indicates that unemployment can increase mortality risk by 15% and that this risk increases the longer the unemployment spell. The biggest impact is likely to be on mental health, which is closely related to unemployment and financial strain (debt). Unemployment and increased stress can also lead to increased alcohol intake and smoking. Lower incomes may result in a switch away from more expensive healthy food such as fruit and vegetables. The effect can be different across population groups. The severity and duration of this crisis and the ability of social protection to cushion the negative effect of unemployment are therefore crucial to long-term health effects.



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To mitigate the long-term care impact of this crisis in the health and social sector, the government is allocating additional funding, such as a 5.5% budget increase in each of the two coming years for primary care. The government has been improving the access to primary care services through extended hours and access to psychosocial therapies for those unemployed and unable to find work due to the economic crisis. The UK government recognises, however, that in the years beyond 2011 there will be a need to control expenditure growth and improve savings and efficiency of between £15 and £20 billion from 2011-2014, notably through implementing best and innovative practices.