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Delegations will find in the Annex a joint assessment by the SPC and the European Commission of the social impact of the economic crisis and of policy responses.



The Social Protection Committee

ANNEX I

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

Executive summary

Following the December EPSCO Council, the SPC and the Commission engaged in joint effort to monitor the social impacts of the crisis and related national policy measures. The following comprehensive overview of Member States' challenges and policy responses is meant to support a timely and substantiated mutual learning exercise.

The impact of the economic crisis on previously healthy labour markets is now visible. The EU unemployment rate reached 7.6% in DecJan-09 (17% for the young) from a recent low at 6.8% in Apr-08. The young and the elderly, migrants and ethnic minorities, the low skilled and those with short term contracts are likely to be most affected by the economic downturn.

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

The crisis has prompted quick national policy responses to tackle the direct social impact of the crisis, building upon the long term objectives of the OMC. Most Member States are also planning to enhance their capacity to monitor closely the social impacts of the crisis. **Complementary to employment initiatives**, main areas for intervention are the following:

A strong emphasis is put on **supporting people's income**, including of the most vulnerable. Measures include increasing the level of minimum income or minimum wage, extending the coverage or duration of unemployment benefits, reinforcing other social benefits, introducing tax rebates or exemptions for specific groups. They build on the active inclusion strategies that some Member States have started implementing.

Member States are also **addressing the consequences of the financial crisis on households** through measures to protect mortgage holders against repossessions, to address over-indebtedness, or to support access to credit to individuals, including people on low income.

Investments in social, educational and health services infrastructures (including health care, social housing, schools, child care, long-term care) are intended to boost the construction sector and generate labour demand, while improving access to various social services.

The long-term impacts of the crisis on social security schemes are currently hard to predict. Two particular issues deserve attention. Some plans clearly specify that increased spending in some areas will be counter-balanced by cuts in others or that overall social spending will be cut across the board. In some countries, this could substantially impact the health care system.

Most existing funded pension schemes were strongly affected by the financial crisis through falls in assets values. While most countries believe that the negative effects will be limited in the long run, some recognize possible difficulties in securing accrued rights in the short term. Responses focus on the flexibility in supervision to prepare credible recovery plans.



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

The financial crisis intensified at the end of 2008, bringing the global economy to a recession. 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.

A first exchange of information conducted by the SPC in December highlighted the potential usefulness of mutual social vigilance. The results of this exercise were transmitted by the Chair to the December's EPSCO Council. On this occasion, the SPC confirmed that it would conduct, in close cooperation with the Commission, a monitoring of the social impacts of the crisis and of policy measures (planned or already taken) to address these impacts.

The present note outlines main findings which emerged from the first assessment of this social monitoring and presents a comprehensive overview of Member States' challenges and policy responses. It is therefore suited to support a timely and substantiated mutual learning exercise. It builds on the responses of SPC members to the Commission questionnaire of last November on the global financial and economic crisis. These responses have been updated, where appropriate, until early February 2009. It also integrates the results of a collection of national evidence of the social impact of the economic crisis, conducted by the Indicators Sub-Group between mid-December 2008 and early February 2009. The analysis provides moreover an overview of tools currently used or under consideration in Member States for the social monitoring of the crisis.

The analysis of Member States' responses to the SPC and ISG questionnaires presents a first diagnosis of the extent of the crisis and of its social impact on Member States. National policy responses to tackle the direct impact of the crisis are described along four main areas: *i)* labour market¹; *ii)* income support; *iii)* measures to mitigate the direct impact of the financial crisis on households; *iv)* investments in social and health infrastructure. Finally, it reviews the **long-term impacts that Member States expect on the major social security schemes.**

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

Main findings

The diagnosis reflects the currently available forecasts and latest EU labour market trends as well as the collection of national data on the social impact of the crisis conducted by the ISG. It shows that while in some countries the social effects of the downturn are already sizeable, in others they are barely visible. It also highlights the role that in-built capacities of social protection systems, as well as of social inclusion policies which prevail nationally, can play as automatic stabilisers and in effectively cushioning the impact of the economic downturn.

¹ A more detailed account of the latest labour market trends and policy responses are to be found in the reports by the Employment Committee.

Some areas are more frequently pointed out as deserving special attention when adopting recovery packages or specific measures in the current context, particularly the questions linked to unemployment, the adequacy of safety nets and funded pension schemes, and access to housing.

In general, most Member States re-affirm the commitments recently made in their National Strategy Reports, while not excluding the need for special additional measures. Member States recognise that an all encompassing approach is needed, and that actions targeting one area independently of others should be avoided. They share the need that short-term measures addressing the negative impact of the economic crisis on employment and social cohesion be consistent with long-term objectives and structural reforms.

A co-ordination of national measures taken in various fields is reinforcing long-term commitments, ensuring the integration of economic, employment and social strategies and mobilising further all common available instruments.

1. The economic downturn and its impact on social cohesion

1.1. Forecast 2009

The economic forecast published by the Commission in January 2009 confirmed that the economic situation in the EU deteriorated in the second half of 2008 reflecting the impact of the financial crisis and the downturn in the global economy. Compared to the previous forecast, real economic growth was revised downwards by 2 p.p. implying that the EU economy is expected to grow by 1.0% in 2008 and fall by 1.8% in 2009. Only in 2010 the economy would return to a growth path in line with the rest of the world at a moderate rate of 0.5%.

This gloomy situation is expected to have a deep impact on the labour market and on public finances. The number of employed people will decline by 1.6% in 2009 and by 0.5% in 2010 or by more than 3 million jobs, while the unemployment rate is projected to increase to 9.5% in 2010 up from 7.0% in 2008 in the EU and from 7.5% in 2008 to 10.2% in 2010 in the Euro area.

At the same time, fiscal balances would worsen more than expected in the previous forecast. A fiscal stimulus through government consumption and public investment may provide relief in difficult times and the deficit of general government will reach 4.8% of GDP in the EU and 4.4% of GDP in the Euro area in 2010. Comparable figures for 2008 were -2.0% of GDP and -1.7% of GDP, respectively. The effect of fiscal policy on the economy shows in the fact that GDP would have been about $\frac{3}{4}$ p.p. lower this year and around $\frac{1}{3}$ to $\frac{1}{2}$ p.p. lower in 2010 without the discretionary measures announced so far.

According to the EC forecast, all Member States will experience negative economic growth or grow at a slower pace. Only EL, CY, MT, SI, SK, BG, CZ, PL and RO will still see positive developments in their economies in 2009, although not as encouraging as in previous years.

1.2. Labour Market trends

The impact of the economic crisis on the labour market is now visible. Employment growth has come to a standstill. Unemployment rates have started to rise from a recent low at 6.8% in

April 2008 to reach 7.6% in January 2009 and could go up to 10% in 2010 if policies and labour market behaviour remain unchanged. At the same time, demand for new workers has clearly started to fall in reaction to the slowdown in economic activity, and announced job losses now far outweigh those relating to job creation.

At national level, employment remained unchanged in the third quarter of 2008 in France and Italy, fell in the UK (after remaining unchanged in the previous quarter), and contracted considerably in Spain (down 0.8% on the previous quarter), but continued to expand in Germany, Estonia and Poland.

In some Member States, the recent rise in unemployment has been especially stark (see annex 1). In Spain it reached 14.4% in December 2008, against 8.7% the year before. During the same period, it also nearly doubled in Ireland (8.2% against 4.7%), in Estonia (9.1% against 4.1%), Lithuania (8.0% against 4.3%) and Latvia (10.4% against 5.7%).

Some categories of workers are on the front line of the crisis, including the young, the low skilled, employees holding temporary contracts, EU mobile workers, migrants and the elderly. Youth unemployment rate reached 17% in the EU27 in January 2009 against 14.7% at the end of 2007. In the third quarter of 2008, the unemployment rate of EU mobile workers grew faster than for other workers and reached 8.6% against 7.7% one year before.

As unemployment is expected to increase significantly, the duration of unemployment spells needs to be closely monitored. The long-term unemployment share (percentage of unemployed people who have been unemployed for more than 12 months) is especially high, at 55% for older workers, and has stopped decreasing in 2008. The long term unemployment share for older workers started rising significantly last year in Belgium (from 72% in Q3 07 to 75% in Q3 08), Italy (from 50% to 57%), Hungary (from 54% to 62%), Portugal (from 54% to 62%) and Slovenia (from 54% to 60%).

Job vacancies started dropping dramatically in most countries during 2008 as illustrated in the annex 1 comparing the 3rd quarter of 2008 to the 3rd quarter of 2007. Apart from the manufacturing industry and construction that are most hit by enterprise bankruptcies and restructuring, other sectors appear vulnerable in some countries: agriculture in Lithuania, distributive trades in Ireland, business and financial services in the United Kingdom.

1.3. Take up of benefits

The ISG questionnaire on the social impact of the crisis provided some indications of recent trends in benefit take-up at national level (see summary in annex 2). The direct impact of the recession is most apparent in the increase of unemployment benefit recipients during 2008, and especially during the second part of the year. The impact of the crisis has also had a slight impact on the percentage of older workers claiming early retirement schemes in Latvia, Lithuania, Poland and Slovakia, but in the case of Poland, the increase is also due to the ongoing reforms. The impact on the number of claimants of social assistance is not clear yet and is likely to be lagged in time. However, most Member States expect increased pressure on those last resort schemes as people currently covered by unemployment insurance are likely to lose their entitlements before having found a new job. In a number of countries, on-going reforms (extension of coverage, measures to improve take-up rates, etc.) partly explain the strong increases recorded, as summarized in Annex 2.

1.4. Housing

The impact of the crisis on the housing situation of people, and especially on the most vulnerable is can be monitored through several elements of information. In some countries, the housing market crisis started early in 2008 and **prices have fallen** by -3% in IE, -4% in DK and even by -20% in the United Kingdom. Opposite trends in the rented housing sector can be observed where rents have increased more than general inflation in the Czech Republic, France (+3%), Finland (+3.7%) in Latvia (+24%) where heating costs have also hiked (+32%). They however dropped by 20% or more in Lithuania. Significant increases in the number of **non performing housing loans** were recorded in Belgium, Estonia, Greece, Ireland, Malta and to a lesser extent Portugal. The number of **repossessions has also increased** in Denmark (+100% in 2008), Estonia (+ 300% in 2008), Greece (+17% in 2008), Ireland, and the United Kingdom (+70% in 2008). This indicates the potential severity of the crisis, even though repossessions still concern limited numbers of mortgage holders (e.g. ~4000 mortgage holders in Denmark, 45000 or 0.1% of mortgage holders in the UK). In addition, the consequences of repossessions on families vary greatly across Member States, depending on the support mechanisms in place when people lose their homes. Finally, the **requests and waiting time for social housing have increased** in Ireland, Latvia 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).

1.5. 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 is to be noted in Greece, Latvia, Lithuania and Portugal. In Finland and France, no impact is visible yet. In Lithuania and Latvia, **debts linked to utility bills** have also increased, especially for the heating (+86% in Latvia). In Spain and Portugal, the number of over-indebtedness spells linked to daily consumption expenses is rising, highlighting severe forms of vulnerability. 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. Governance

Member States are addressing the crisis from a variety of angles and starting points, some have already taken up and started implementing comprehensive and integrated plans, others are announcing such plans, and/or are devising specific policy measures within pre-existing configurations. Integrated plans acknowledge the multidimensionality of the crisis and the close interaction between social and economic matters. Prominent examples of such integrated plans are found in BE, BG, DE, ES, FR, LU, AT, PL, PT and the UK.

The main levers on which these integrated plans play are: support in the field of employment - targeting both enterprises (and often more particularly SMEs) and workers -, income support, in cushioning the impact of the financial crisis on the individuals (in addition to action taken directly in support of the banking and finance industry), in investing in the economy and engaging in public works.

- § 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 €1500Mio in 2009 will not affect social benefits spending.
- § 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 ("*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).
- § In Luxembourg, a package of new measures covers income support measures to individuals and families, and measures to support employment especially in the vulnerable sectors of the economy. Moreover, the social dimension is an integral part of the steel plan 'Lux 2010', finalised in December 2008.
- § In Austria, the first recovery plan of October 08 focused on supporting SMEs. The second recovery plan adopted in December 08 foresees public investments in infrastructures, support to energy saving renovations by private households, regional programs for employment, investments in R&D and 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".
- § In Portugal, the Government supplemented measures already taken in 2008 with a new package: the "Investment and Employment Initiative (IEI)" which 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 and strengthen social protection.
- § 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 "Real Help" campaign, detailing the help available across Government in response to the downturn.

2.2. *Labour market measures*

Most Member States have taken measures to preserve employment, support activation and promote re-integration in the labour market, and anticipate and manage the 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 are of temporary nature and are meant to address the direct impact of the crisis on the labour markets. Some Member States are focussing 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 is especially the case in countries that consider that they can rely on strong social protection systems.

Measures to maintain workers in employment include measures to support flexible working-time arrangements (BE, DE, IT, HU, NL, SI); measures to raise the employability of workers, including the most vulnerable through enhanced training programs (DE, HU, IE, IT, NL, AT, PT)) and measures to support transitions between jobs (in NL through mobility centres aimed at local cooperation between employers, unions; educational institutions, jobcentres, chamber of commerce and other local partners); or public support to SMEs (BE, BG, EL, ES, HU, AT, PT, FI, SE, UK). Other examples of measures to preserve jobs entail cuts in non-wage labour costs (BE, BG, DE, ES, HU, PT, SI, FI, SE) and corporate income taxes (PT, SI). Specific measures are also targeted at older workers and aim at avoiding the use of early retirement schemes (PL, PT).

Measures to support activation and promote re-integration in the labour market, especially of the most vulnerable build on existing active labour market measures and active inclusion strategies to reinforce them. Example of specific measures taken by Member States include the strengthening of public employment services allowing in particular for more individualised support (BG, DK, DE, EL, ES, FR, PT, SI, UK); greater access to training (BG, DE, FR, FI, PT, UK) including training schemes targeted at specific groups of workers (PT: the young), subsidised employment for those furthest away from the labour market (FR, HU), and to child care (AT) and other enabling services.

Measures to anticipate and manage the impact of restructuring are targeted at specific sectors of the economy such as the automotive industry and aim at supporting the employability of workers (IE, FR) by upgrading their skills and facilitating their mobility (mobility centres in the NL).

Examples of comprehensive sets of labour market measures are found in BE, DE, ES, PT, SI, FI and the UK.

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| <ul style="list-style-type: none"> § 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. § The German plan provides a good example of such combination of measures: the public training programme (<i>WeGebAU</i>), 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 to foster local investment and stimulate economy and employment, as well as measures for specific sectors, including automotive industry (€ 11.000Mio). Non labour costs have also been reduced, by lowering employers' contribution 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 1500 orientation workers, and facilitating support in promotion of geographical mobility. |
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- § 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 PME Investe credit lines fostering corporate investment, reduced corporate income tax brackets. It also includes measures targeting employment such as a **qualification programme**, supporting young people in **accessing employment**, supporting **labour market re-entry**.
- § In Slovenia, the Parliament is discussing a number of Government proposals to stimulate the economy such as decreasing the corporate income tax, and increasing tax rebate for independent entrepreneurs. The Government also approved supporting short-time work, and intends to promote social entrepreneurship, and self-employment for workers made redundant.
- § 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.
- § 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 JobCentre Plus.

2.3. *Supporting people's income*

Member States have taken 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 build on the active inclusion strategies that many Member States have started implementing, and attention is paid to avoiding that the new measures compromise efforts to build integrated approaches that combine income support, access to services and re-integration incentives.

- § In Poland, the government created the "Social Solidarity Reserve" of €265 million as part of a €24 billion "Stability and Development Plan" for 2009-2010. It will be financed from the rise of excise rates on alcohol and larger-engine automobiles to cover any eventual social spending needs resulting from the economic crisis. The funds will be used to finance initiatives such as supporting incomes of families living under the poverty threshold, support for elderly and children, and school food programmes.

Some countries **increased minimum wages** such as Bulgaria (+10%), Spain (+4% to reach €624), Luxembourg (+2%) , Latvia, Poland (+ 13% compared to 2008) or Portugal (+24% between 2007 and 2011, to reach €500 in 2011). Hungary on the contrary froze minimum wages in an attempt to preserve employment.

A number of countries adapted the design of **unemployment benefits** to increase their level or extend their duration (EE, PT, LT, RO) or coverage (EE, FR, PT, FI) while not creating disincentives to get back to work. Belgium increased the level of unemployment benefits. 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. 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 Portugal, the duration for the receipt of the unemployment social

benefit was temporarily extended from 12 months to 18 months, the measure is expected to cover 50.000 beneficiaries.

A number of countries increased **minimum income and other benefits levels** to directly support people's income, especially for the most vulnerable.

- § 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 plan a two-step increase of pensions in April and July 2009.
- § 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).
- § 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, minimum income and other social benefits (including for pensioners and for the disabled) as well as family allowances were increased to maintain the purchasing power of the recipients Housing benefits has become the second compulsory municipal social assistance benefit..
- § 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 Austria, family allowances and long-term care allowances have been increased, and in line with the long term commitment to fight child poverty, the last year of kindergarten before entering elementary school should become compulsory and free of charge.
- § In Portugal, child allowances for low income families, lone parents and large families were also increased.
- § Poland introduced specific support to large low income families through increased child allowances.
- § 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).

Some Member States have implemented **tax rebates or increased the tax thresholds for tax exemption on low incomes or for different groups at risk.**

- § In Belgium, tax rebates are foreseen for people on reduced working hours.
- § In Spain, a €400 tax credit is expected to benefit to approximately 16 million tax payers (workers, pensioners and self-employed) in 2009.
- § In Latvia: the tax-free income threshold was increased to 90LVL and the general income tax rate was reduced from 25% to 23%.
- § 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.
- § In Malta, the income tax bands were revised, including specific fiscal measures aimed to encourage higher female participation.

Tax rebates can also be targeted at specific expenditure, such as in Cyprus where VAT 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 with their heating bills. Italy increased the discount rates on utilities for low-income families.

One-off payments are also used by Member States to temporarily alleviate the situation of the most vulnerable households.

- § 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 as it will be the case for the Easter bonus. 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 will come 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.
- § 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

2.4. 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.

- § 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.
- § 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.

- § 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.
- § In the UK the government has introduced the Mortgage Rescue Scheme for those in imminent danger of losing their homes, and the Homeowner Mortgage Support Scheme 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.

- § 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 investments. In Denmark, 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. Thereby they have avoided both destabilisation of the mortgage market and substantial losses for pension savers.

- § In the UK, employers legal obligation to support schemes and mandatory co-insurance of fund liabilities offer protection for pension fund members.
- § In the Netherlands, regulators are allowing schemes longer periods to adapt.

2.5. *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.
- § 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 Malta, as part of the Government's social housing programme, several housing units will be offered for sale at subsidised prices in various localities in Malta and Gozo, and 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 buyers.

- § In Austria, the Government agreed on a budget of €355 million for 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).
- § In the UK, £100 million have been allocated to expand the premises of around 600 GP practices (as part of bringing forward capital spending).

3. 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 and 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, the housing market.

Among the countries who replied to the questionnaire, such **monitoring exists and is centralised** in CZ, DK, DE, 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, EL, 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”: a list of indicators will be drawn from a review of existing relevant data sources and the Ministry of Social Affairs has launched a feasibility study for a “social vigilance” survey aiming at providing early warnings on new aspects of poverty and social exclusion that are not captured by traditional tools. This survey should interview a sample of 1000 actors in direct contact with people in need. The possibility of another survey on people experiencing poverty is being considered.
- § Greece is setting up a “Research, Analysis and Documentation Unit, whose task will be to advise the Ministry on targeted income support programs.
- § 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 BG, IE, LV and HU existing 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 proposes to improve the monitoring of the development of the funded pension systems and their impact on financial and social risks. Common framework measures at EU level could be envisaged in general.

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

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

All in all, most countries are committed to the strategy they presented in the National Strategy Reports and have adopted special additional measures in response to the crisis. In general, Member States will not reduce social spending for vulnerable people and in some cases (AT, EL, SI) will even increase it in order to face 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. 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 substantially impact the health care system. In addition, ceasing to provide health care services free of charge is being discussed.

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. However, if the crisis deepens and continues for several years, systems will be affected as a weakened labour market will imply lower tax and social contribution revenues and as government debt will increase as a result of lower growth and bank bailouts. Regarding pension schemes, most countries have PAYG schemes which will not be directly affected by the financial crisis, though their long-term sustainability may be impacted. Therefore many Member States feel that their pension systems are well prepared to face the economic and financial crisis.

DK and FI do not see any effect on basic pensions and cannot forecast what will happen with the private funded schemes. CZ, EL and PT expect a stable development and are quite optimistic. PT relies confidently on its PAYG system backed by a Social Security Reserve Fund. In EL contributions may fall as enterprises can defer payments as a way of reducing costs. Finally, some countries (AT, BE, DE, HU, LV, SI and the UK) are anticipating a possible worsening of the labour market and a subsequent fall in contributions or tax revenues. Some of these countries consider that a moderate fall in the level of pension benefits could happen. But in most cases, this negative scenario depends on the duration of the crisis. To offset the effect on the labour market some countries as BE or ES will insist on active employment policies. In some countries as BG and SI social contribution falls will be

compensated with general tax revenues and in BG pension benefits will even increase. In the case of IE, the Social Insurance Fund will be in deficit sooner than had been predicted previously. LU will not be affected by the crisis at all and ES that shows strong confidence in the solid position of its Social Security backed by substantial accumulated reserves. HU is going through a more delicate situation than other Member States and will need to reduce the deficit in public finances in order to achieve sustainability. They will reduce subsidies and public sector wages and hold back pension and social expenditure growth. The adjustment mechanisms for pension payments will be changed to moderate pension expenses.

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

Regarding the impact of financial turbulences on funded pension schemes, the share of the population which contributes to occupational or individual provisions of private pensions schemes varies somewhat from one Member State to another. Most of the existing funded pension schemes have been strongly affected by the financial crisis through falls in assets values. However, most countries share the opinion that the negative effects are still fairly limited given the long-term nature of pension funds. Responses have centred on using the flexibility in supervision to prepare credible recovery plans.

Until now, the effect on pensioners' income has been very limited, due mainly to two factors. First, in most countries (e.g. AT, BE, BG, CZ, EL, LU, ES), for those retiring today, the weight of the funded schemes is very small in the total pension system; second, where funded schemes are significant for those retiring today they are DB schemes so the individuals still receive roughly the expected pension. In the future, some countries (HU, LV, PL, SI) that have recently introduced these types of schemes may experience a great fall in pension incomes.

- § In Hungary, the private pension funds lost in average 15-20% of their value, but the loss of the less risky funds – where members are oldest – was smaller.
- § In Poland, pension funds lost a third of its value and they reduced their risk exposure.
- § In Slovenia, the crisis has had an adverse effect on the performance of the fund but due to past positive performance and accumulated reserves the situation is considered as good.

Besides, some countries (DE, RO, UK) have strengthened control and regulatory supervision.

- § 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.
- § In the UK, it has already been reinforced by the establishment of the Pension Regulator and the Pension Protection Fund.

Finally, DK, EE and FI say that it is still very early to make an assessment of the effects of the crisis on funded pension schemes.

- § In Denmark the method of calculating solvency requirements has changed as they had tightened unnecessarily because of the spread in market rates between Danish bonds and bonds denominated in Euros. This will permit pension funds to maintain their holdings of real state bonds until the situation becomes better.
- § In Estonia, people are starting to lose confidence in funded pension schemes as a safe way of saving for retirement, so the main policy measure is to improve financial education.

- § In Ireland funded pension assets have fallen significantly and 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. The Government is also considering a range of possible responses to address the situation in the long term. This response will be announced in the context of the national pension's framework which the Government has indicated it will launch shortly.
- § In the Netherlands, funds are also in deficit and will present long and short term recovery plans in the next months. Financial effects on the income of pensioners are expected in reduced indexation. The issue will be discussed with the social partners
- § In Sweden, the government is discussing whether pensioners should be compensated because of the risk of falling benefits both due to deflation and to reduced assets in the pension fund.

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

	<i>Unemployment rate (total)</i>		<i>Youth unemployment rate (15-24)</i>		<i>UR Foreigners (EU nationals)</i>		<i>UR Foreigners (non-EU nationals)</i>		<i>Long-term unemployment share (total)</i>		<i>Long-term unemployment share (50+)</i>		<i>Job vacancies</i>		
	Dec-07	Dec-08	Dec-07	Dec-08	Q3-2007	Q3-2008	Q3-2007	Q3-2008	Q3-2007	Q3-2008	Q3-2007	Q3-2008	Q3-2007	Q3-2008	Y to Y diff
<i>eu27</i>	6.8	7.4	14.7	16.6	7.7	8.6	13.4	13.6	42	36	62	55	:	:	:
be	7.1	7.1	18.1	18.1	9.2	9.7	26.8	28.6	47	45	72	75	:	:	:
bg	6.1	5.4	14.2	12	:	:	:	:	60	53	73	55	23921	22869	-4%
cz	4.7	4.7	9	11.4	3.8	3.5	8.4	4.1	51	49	58	59	128283	147834	15%
dk	3.1	4.5	5.9	11.1	:	:	12.1	7.9	13	10	39	25	:	:	:
de	7.9	7.2	10.6	9.9	9.0	9.4	19.4	16.9	58	53	76	70	1252618	997693	-20%
ee	4.1	9.2	7.5	21.9	:	:	7.3	10.7	48	30	:	:	21943	15983	-27%
ie	4.7	8.2	9.4	18.4	:	:	:	:	30	25	48	39	:	:	:
el	8	:	21.8	:	4.5	5.2	6.6	5.8	53	50	62	62	44585	32762	-27%
es	8.7	14.4	19.3	29.5	10.4	17.2	12.3	17.5	19	17	41	35	109921	78545	-29%
fr	7.7	8.1	17.8	21.2	8.0	7.0	21.4	17.8	40	37	63	56	:	:	:
it	6.4	:	21.7	:	5.7	6.1	6.8	7.3	46	46	50	57	:	:	:
cy	3.8	4.2	9.8	10.3	8.4	5.9	4.9	4.4	18	14	32	:	12932	14480	12%
lv	5.7	10.4	8.6	16.7	:	:	:	:	19	26	:	44	20802	9619	-54%
lt	4.3	8	7.4	18.1	:	:	:	:	29	22	43	37	29259	26104	-11%
lu	4.1	4.8	15.4	17.5	3.7	5.7	15.0	31.8	16	24	:	:	2325	2100	-10%
hu	7.8	8.5	19.8	22.5	:	:	:	:	46	48	54	62	:	:	:
mt	5.9	5.7	12	11.8	:	:	:	:	37	38	:	:	:	:	:
nl	2.8	2.7	5.3	5.3	3.7	3.4	8.0	5.4	38	35	68	62	238200	237500	0%
at	3.9	3.9	7.6	6.9	6.6	5.7	10.6	8.0	25	25	51	47	:	:	:
pl	8.2	6.5	18.3	17.4	:	:	:	:	50	33	67	45	:	:	:
pt	7.7	7.9	16.1	16.1	:	:	12.4	10.0	47	47	65	69	15304	:	:
ro	6.2	:	18.8	:	:	:	:	:	50	41	48	45	101693	98534	-3%
si	4.6	4.3	11.5	11.5	:	:	:	:	44	39	54	60	9531	8753	-8%
sk	10.3	9.4	19.3	21.3	:	:	:	:	72	66	83	75	22691	24936	10%
fi	6.5	6.5	16	17	12.0	10.8	17.6	18.5	25	20	40	39	48862	42065	-14%
se	5.9	6.9	19	22	7.0	5.5	19.8	20.2	14	14	33	27	52125	47646	-9%
uk	5.1	:	13.6	:	5.5	4.4	8.9	8.8	23	23	38	34	688000	623000	-9%

Source: Eurostat: LFS.



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

Take up of benefits

Type of benefit	During 2008	Comment
Unemployment benefits	BE: -7% between 01-08 and 12-08 DK: -9% between Q3-07 and Q3-08 DE: - 6% between 12-07 and 12-08 EE: +72% between 01-08 and 12-08 ES: +50.7% between 12-07 and 12-08 IE: +70% between 12-07 and 12-08 FR: +5.4% between 06-08 and 11-08 ² LV: +7.6% between 07-08 and 11-08 LU: + 4.9% between 2008 and 2007 CY: +11% between 12-07 and 12-08 MT: +14% between 12-07 and 12-08 PL: +8.2% between 12-07 and 12-08 PT: Stable over the year SK: +20% between 12-07 and 12-08 FI: +18.5% between 12-07 and 12-08 UK: +30% between 01-08 and 11-08	IE: includes part-time workers
Social assistance /minimum income	BE: -12% between 01-08 and 10-08 DK: -3% between 09-07 and 09-08 EE: -12% in 2008 EL: Strong increase in 2008 ES: +19.3% between 12-07 and 12-08 FR: -4% in 2008 LV: strong increase expected ³ LT: 130% between Q1-08 and Q3-08 LU: stable CY: increase HU: +40% between 2006 and 2008 PT: + 5.5% in 2008 SK: + 38% between 12-07 and 12-08	EE: rising incomes in 2008 EL: refers only to the social assistance benefit LV: to supplement low pensions LT increased coverage + crisis CY: reforms HU: reforms? PT: increases since to 2006 due to new schemes, better coverage and take up rates
Lone parent	UK: stable until 05-08	
Disability	EE: +24% between Q1 and Q3 2008 LV: decrease PL: decrease PT: -2.1% in 2008 SK: +4% between 12-07 and 12-08 UK: stable until 05-08	EE: newly registered persons with incapacity to work PL: impact of reforms PT: shift to old age pension
Early retirement	EL: Strong increase in 2008 ES: -2.5pp between 2007 and 2008 LV: + 2pp in early retirement share ⁴ between first 9 months of 2007 and 2008 LT: + 20% between Q2-2007 and Q2-2008 SK: +16.4% between 12-07 and 12-08	EL: impact of reforms

Source: ISG questionnaire based on national administrative sources and statistics

² 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.

³ 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.

⁴ Early retirement share : share of total retirements that are under an early retirement scheme. In 2008, this share reached 22.3% in Latvia.



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Housing trends

	During 2008	Comment
Housing prices (sales)	DK: -4% in 2008; -4.5% in 2009 IE: -3.1% between Q1 07 and Q1 08 PL: declining FI: +0.8% between Q3 07 and Q3 08 UK: -20% between 08-07 and 11-08	
Housing prices (rents)	CZ: rather strong increase FR: + 2.95% between Q3-07 and Q3-08 LV: + 23.4% LT: -10-30% FI: +3.7% between Q3 07 and Q3 08	CZ: regulated? FR: general inflation = 1.6%
Forced sales repossessions	DK: Doubled in 2008 EE: +300% between 12-07 and 12-08 EL: +17% between 2007 and 2008 IE: strong increase in repossessions UK: +70% in 2008; +66% in 2009	EE: “hopeless contracts” EL: real estate auctions
Non performing housing loans	BE: +1.5% in 2008 to reach 4% of 18+ pop EE: +2.3% to reach 7% of mortgage holders EL: from 3.6% in 2007 to 4.6% in 09-08 IE: strong increase in claims for help (M) MT: from 2.3% in 12-07 to 2.5% in 06-08 PT: from 1.3% in 2007 to 1.5% in 2008	Non-performing loan ratio
Requests for social housing	IE: strong increase LV: waiting time: 5 years LT: -30% in <u>provision</u> of social housing UK: strong increase	LT: -20% in financing
Energy prices	LV: + 31.6% for heat energy prices in 2008	

Source: ISG questionnaire based on national administrative sources and statistics

Over-indebtedness and access to financial services

	During 2008	Comment
Applications for loan arrangements	FR: -0.5% between 10-07 and 09-08 EL: non performing consumer loans up from 6% in 2007 to 6.9% in 09-08 LV: share of risky credits increased from 0.8% to 1.9% during first 3 quarters. LT+24pp in impaired loans PT: non-performing loans increased from 3.7% to 5% between 12-07 and 10-08 FI: -7% until 09-08	FR: number of new applications LV: Payments made on time down from 93% to 88%
Over-indebtedness linked to daily consumption expenses	ES: +32.3% between 2007 and 2008 PT: share increased from 12% in 2005 to 19% in 2008 ⁵	Source: INE unpaid bills of exchange statistics PT: % of over-indebted that do not have credit obligations
Indebtedness levels	HU: general increase (housing, utility bills, consumer credits) PT: general increase in aggregate hh debt ratio	PT: source: central bank
Utility bills debt	LT: stable in 2008; increase forecasted for 2009	
Access to credit: Number of loans	LT: -25% in consumer loans PT total value of loans keep increasing but slowdown	

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

⁵ This information will not be followed up in future monitoring.