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| From: | General Secretariat of the Council |
| To: | Permanent Representatives Committee/Council |
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| Subject: | Recommendation for a COUNCIL RECOMMENDATION on the establishment of National Productivity Boards - Transmission to the European Council |

Delegations will find here attached the post EFC version of the draft Council recommendation on the establishment of National Productivity Boards.

The ECOFIN Council of 17 June 2016 is invited to transmit the recommendation to the European Council in accordance with Article 121(2) of the Treaty on the Functioning of the European Union (TFEU). The Council will proceed to the formal adoption of the text in the annex after the European Council has discussed its conclusions on it, in accordance with Article 121(2) TFEU.

COUNCIL RECOMMENDATION

On the establishment of National Productivity Boards

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 292, in conjunction with Articles 121(2) and 136 thereof,

Having regard to the recommendation of the European Commission,

Whereas:

- (1) Potential growth in the Euro Area and in the European Union as a whole has slowed down considerably since 2000. The downward trend in potential output growth is notably due to a steady decline in the contribution of total factor productivity. Since 2008, economic growth has been further weakened by a fall in investment. Looking forward, economic growth will ultimately depend on increasing productivity. Raising productivity is a multi-faceted challenge which requires a set of well-balanced policies aimed notably at supporting innovation, increasing skills, reducing rigidities in the labour and product markets, as well as allowing a better allocation of resources. While there is a need to improve the productivity and competitiveness performance within the Union, the recent crisis made visible that Member States whose currency is the euro ('euro area Member States') can be particularly subject to the possible build-up and sudden unwinding of macroeconomic imbalances that may spill-over into other euro area Member States and other Member States. In the absence of flexible nominal exchange rates, they need adequate adjustment mechanisms to country-specific shocks. Productivity and competitiveness dynamics are of relevance both for the

accumulation and correction of macroeconomic imbalances (e.g., trade and current account deficits, stocks of domestic and external liabilities) and for the effective adjustment to asymmetric shocks. Research and analysis of policies having a bearing on productivity and competitiveness dynamics should provide a basis for developments compatible with the objective of a smooth functioning of the economic and monetary union.

- (2) While this recommendation is addressed to the euro area Member States, other Member States are encouraged to identify or set up similar bodies. Other Member States declaring their intention to follow up on this recommendation should be allowed to participate on equal terms in all aspects of the cooperation related to the productivity boards.
- (3) The European Semester, in particular the Macroeconomic Imbalance Procedure as established in Regulation (EU) No 1176/2011 and Regulation (EU) No 1174/2011, provides a framework for integrated economic policy coordination and surveillance. In view of fostering progress with structural reforms, these existing mechanisms should benefit from strong national ownership. For this purpose, ensuring independent analysis at the national level and reinforcing the policy dialogue in Member States appears warranted.
- (4) The setting up of national productivity boards that track developments and inform the national debate in the field of productivity and competitiveness should contribute to the enhancement of ownership of the necessary policies and reforms at national levels and to improving the knowledge basis for Union economic policy coordination. These boards should analyse productivity and competitiveness developments including relative to global competitors, taking into account national specificities and established practices.

- (5) The scope of diagnosis and analysis by productivity boards spans a comprehensive notion of productivity and competitiveness. They should take into account the long-term drivers and enablers of productivity and competitiveness, including innovation, and the capacity to attract investment, businesses and human capital and address cost and non-cost factors that can affect prices and quality content of goods and services, including relative to global competitors in the short term.
- (6) Moreover, independent high-quality economic analysis of policy challenges increases transparency in policy debates. Assessing policy challenges could raise awareness of all stakeholders. This can have a positive impact on public support and ownership for necessary reforms. Also, if and to the extent foreseen in their national mandate, the board could assess the effects of policy options by making trade-offs of policy explicit.
- (7) Productivity boards should be endowed with functional autonomy vis-à-vis any public authority in charge of the design and implementation of policies in the field of productivity and competitiveness in the Member State or at European level. In particular, they should be able to produce independent analysis within the scope of their area of work. The composition of productivity boards, while subject to national discretion, should be unbiased, in the sense that they should not convey only or mainly views of specific groups of stakeholders. Such independence and unbiasedness requirements are aimed at ensuring that the productivity boards are empowered to produce expert analyses formulated in the general interest.
- (8) The characteristics of the productivity boards should fully observe Article 152 of the Treaty and shall respect the national practice and institutions for wage formation. In accordance with Article 28 of the Charter of Fundamental Rights of the European Union, their functioning should not affect the right of workers and employers, or their respective organisations, to negotiate and conclude collective agreements at the appropriate levels or to take collective action in accordance with Union law and national laws and practices.

- (9) Productivity boards should be engaged in contacts with productivity boards of other participating Member States with the aim of exchanging views and best practices, also taking into account the broader Euro area and Union dimension. The Commission could facilitate the exchange of views between the productivity boards of all participating Member States. There should also be a regular discussion between the productivity boards and the Economic Policy Committee on issues within the latter's area of competence, involving relevant experts in non-participating Member States.
- (10) Productivity boards should carry out their activities on a continuous basis. They should make their analyses publicly available and publish an annual report, which could be integrated into an already existing report. The independent expertise provided by those boards, including through the annual reports, could be used by Member States and the Commission in the context of the European Semester and the Macroeconomic Imbalance Procedure.
- (11) In order to ease exchange of views at supra-national level, there should be one identifiable productivity board in each Member State. It is important to build on existing structures in order to preserve what already works and to minimize administrative costs. Where appropriate the productivity board could be based on an already established and respected national structure including as regards the involvement and consultation of stakeholders. However, to carry out their activities properly, productivity boards could in turn rely on different separate and existing bodies, provided that their analysis is of the same high quality.
- (12) This recommendation does not alter the assigned responsibilities for the European Semester, including designing and monitoring of the Country Specific Recommendations, or the application of the Macroeconomic Imbalance Procedure as established in Regulation (EU) No 1176/2011.

HAS ADOPTED THIS RECOMMENDATION:

I. Objectives and scope

1. The objective of this Recommendation is the setting up or identification of national productivity boards to analyse developments and policies in the field of productivity and competitiveness, thereby contributing to foster ownership and implementation of the necessary reforms at the national level, and hence foster sustained economic growth and convergence.
2. This Recommendation is addressed to the euro area Member States. The other Member States are also encouraged to set up or identify similar bodies.
3. The application of this recommendation should fully observe Article 152 TFEU and shall respect national practices and institutions for wage formation. This recommendation takes into account Article 28 of the Charter of Fundamental Rights of the European Union, and accordingly does not affect the right to negotiate, conclude or enforce collective agreements or to take collective action in accordance with national law and practices.

II. The productivity boards

4. Each Member State should have in place a productivity board tasked with:
 - (a) Diagnosis and analysis of productivity and competitiveness developments in the Member State concerned. The analysis should take into account euro area and union aspects and address the long-term drivers and enablers of productivity and competitiveness, including innovation, and the capacity to attract investment, businesses and human capital and address cost and non-cost factors that can affect prices and quality content of goods and services including relative to global competitors in the short term. Analysis would be based on transparent and comparable indicators; and
 - (b) Independent analysis of policy challenges in the field of productivity and competitiveness, and, if and to the extent foreseen in their national mandate, assessment of the effects of policy options, making trade offs of policy explicit.
5. Each Member State should identify one productivity board, which could in turn rely on, or consist of different existing bodies.
6. Productivity boards should carry out their activities on a continuous basis. They should make their analyses publicly available and publish an annual report. They should be engaged in contacts with productivity boards of other Member States with the aim of exchanging views and best practices, and where appropriate produce joint analysis, also taking into account the broader Euro Area and EU dimension. The Commission will on a regular basis exchange views with all participating productivity boards, including during fact-finding missions to Member States, and could facilitate the exchange of views between the productivity boards.

III. Characteristics of the productivity boards

7. Productivity boards should be endowed with functional autonomy vis-à-vis any public authority in charge of the design and implementation of policies in the field of productivity and competitiveness in the Member State or at European level . To fulfill the tasks of this present recommendation they should be underpinned by national provisions ensuring a high degree of functional autonomy and accountability, including:

the capacity to communicate publicly in a timely manner;

procedures for nominating members on the basis of their experience and competence;

appropriate access to information to carry out their mandate.
8. Productivity boards should be objective, neutral and fully independent regarding analysis and content. They may consult relevant stakeholders, but should not convey only or mainly the opinions and the interests of a particular group of stakeholders.
9. Productivity boards should have the ability to carry out economic and statistical analyses with a high degree of quality, including as recognised by the academic community. The analysis could be produced by existing and separate bodies provided that it is of the same high quality.

IV. Articulation with the European Semester

10. The independent expertise provided by those boards, including through the annual reports, could be used by Member States and the Commission in the context of the European Semester and the Macroeconomic Imbalance Procedure. This recommendation does not alter the assigned responsibilities for the European Semester, including designing and monitoring of the Country Specific Recommendations, or the application of the Macroeconomic Imbalances Procedure as established in Regulation (EU) No 1176/2011.

V. Accountability and transparency

11. As a rule, the analyses produced by those boards should be made public.

VI. Final provisions

12. The Member States of the euro area are invited to implement the principles set out in this Recommendation by no later than date of adoption of this recommendation + 18 months.
13. By date of adoption of this recommendation + 30 months, the Commission is invited to prepare a progress report, on the basis of relevant information from all Member States on the implementation and the suitability of this Recommendation, including whether the adoption of further provisions appears necessary. If warranted, the report shall be accompanied by a proposal to adapt this Recommendation.

Done at Brussels,

For the Council
The President
