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NOTE

From: Presidency
To: Permanent Representatives Committee/Council

Subject: *Preparation of the Competitiveness Council on 18-19 February 2019*
European Semester
- Exchange of views

1. On 21 November 2018, the Commission adopted the 2019 Annual Growth Survey.
2. On 22 January 2019, the ECOFIN Council adopted Council conclusions on the Annual Growth Survey 2019.
3. At its meeting on 8 February 2019, the Working Party on Competitiveness and Growth (Industry) discussed the competitiveness aspects of the European Semester in view of the preparation of the Ministers for Competitiveness exchange of views at the Competitiveness Council meeting on 18 February 2019.
4. With a view to the meeting of the Council (Competitiveness) on 18 February 2019, the Presidency has prepared a background paper and questions (in Annex) to help structure the ministerial debate.

Competitiveness Council, 18 February 2019**The European Semester: a valuable instrument of policy coordination and reform****Exchange of views**

The European Semester was established¹ in 2011 as an instrument for better governance providing coordination functions in the areas of fiscal policy, macroeconomic imbalances, and structural reforms related to long-term growth, employment and equity issues. Coordination tasks, which were fulfilled until 2011 by the Broad Economic Policy Guidelines and the Employment Guidelines among others, are now integrated in the Semester cycle.

The Semester also monitors and promotes progress in the achievement of the objectives of the Europe 2020 Strategy for Jobs and Growth (established in 2010).

Eight Years of European Semester

Over the years, the European Semester has evolved to meet and respond to the challenges of the EU economy and that of its Member States. Born in the aftermath of the hardest years of the crisis, the Semester had a distinct macroeconomic orientation in its early cycles. Macroeconomic imbalances, prudential measures to stabilise financial markets and fiscal policy issues were the top priorities in years requiring close economic surveillance and reinforced coordination of policies between the EU and its Member States. The results of these teething years were particularly positive and the recovery was well underway in 2013.

¹ Formally, the Semester was introduced by an amendment of the regulation on the preventive arm of the Stability and Growth Pact 1466/97 (Regulation 11/75/11 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies of 16 of November 2011).

As growth rates picked up momentum, the solution to macroeconomic imbalances got back on tracks and financial markets stabilised, the scope of issues included in the Semester expanded. Ensuring an employment rich recovery, restoring the flow of credit to enterprises, improving the business environment and reducing debt levels moved into centre stage and attracted increasing attention. In 2013, the European Commission also proposed to streamline and reinforce the European Semester by giving it a sharper focus and a more political role based on three pillars: investment, structural reforms and fiscal consolidation with increased accountability and an improved national ownership.

Instruments and procedures also evolved in synchrony with the expanding focus of the Semester. The development of indicators, such as the indicators for digitalisation and innovation helped to inform analysis and policy recommendations.

Procedures and methods have also been adapted to the new needs, social and political demands. While preserving the terms and attention paid to elements such as the Macroeconomic Imbalance Procedure, efforts were made to reach more stakeholders who could provide different and valuable insights to the analyses carried out in the Semester. The consultation of Member States on the analytical parts of the Country Reports has been a particularly important and useful innovation that has contributed to increasing the Member States' ownership in the process.

The introduction of the Social Pillar in the 2017-2018 cycle took the Semester beyond the narrower limits of economic policy adding a broader social dimension. The reforms which the Semester promotes underpin the social transformation required to sustain high levels of living standards in the transition to the new advanced economies of the XXI century characterised by technological changes and the transition towards low-carbon societies. These transformations can only be possible in an environment of equal opportunities and social cohesion in our Member States.

The consideration given to competitiveness and productivity issues in the European Semester has also been growing over the years. Since 2015-2016, microeconomic policy issues have been taking a more prominent profile in country reports and country specific recommendations. Long-term objectives of productivity growth, innovation and the removal of obstacles to the free movement of goods, and services and barriers to investment feature prominently now in the Semester. This focus on microeconomic issues has contributed to increasing the attention paid to key sectors having an impact on the quality of the business environment.

The 2018-2019 Cycle

The current cycle also incorporates significant changes with respect to the past. Produced in a context of rising protectionism, international trade tensions and instability in emerging economies, the Annual Growth Survey published last November puts special emphasis on investment and reforms aiming at improving productivity growth, inclusiveness and the quality of public administration and institutions.

The coincidence in time with the new Multiannual Financial Framework and the upcoming programming of structural and cohesion funds offer new opportunities for improvements in the policy coordination role of the Semester. Many of the reforms and investment developments that are at the core of the Semester depend on actions to be taken at regional level. On average, 60 % of the investment expenditure of Member States is carried out at subnational level.

Hence, this year, the analysis has a stronger focus than in the past on investment needs, including regional disparities within Member States, and important investment gaps or having a critical impact on the Member State's economy.

In the context of increasing global trade uncertainties, the Single Market takes a higher profile. With export markets faltering and new trade barriers rising, economic performance will increasingly depend on the EU's capacity to generate internal demand. The elimination of barriers to the free circulation of goods and services will therefore be crucial to increase our productivity and demand levels.

European Semester and Competitiveness Policy

The focus on investment, productivity and long-term reforms has given more prominence to competitiveness in the Semester. In addition, competitiveness and integration policies can benefit from the complementarities resulting from policy coordination. The European Semester provides a better economic governance framework to coordinate Single Market and competitiveness policies alongside macroeconomic, sustainable growth and labour market and social policies.

The Competitiveness Council has often discussed the importance of complementing actions undertaken at EU level with a good implementation of those measures and the adoption of complementary reforms at national and regional levels. The Semester offers the right scenario and instruments to improve the results of EU and national efforts in the enforcement of competitiveness and Internal Market policies.

In view of the March 2019 European Council and further strategic discussions on the future EU growth strategy beyond 2020, EU competitiveness ministers are invited to exchange view on the following questions:

- 1. To what extent was the European semester effective in delivering relevant and substantial competitiveness and growth-enhancing structural reforms on the ground in your Member State? In light of past experience, what role should the micro-economic dimension play in order to strengthen the overall foundations for future growth?*
- 2. How can Member States make better use of the Semester work and feed it into the COMPET workflow? What is the role that national competitiveness authorities play now in the Member States' contributions to the European Semester (e.g., national productivity boards)?*