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NOTE

From:	General Secretariat of the Council
To:	The High Level Working Group on Competitiveness and Growth
Subject:	Microeconomic Dimension of European Semester - *Exchange of views*

Delegations will find in Annex a note on the microeconomic dimension of the European Semester for the exchange of views at the meeting of the High Level Working Group on Competitiveness and Growth on 11 February 2015.

MICROECONOMIC DIMENSION OF EUROPEAN SEMESTER

Having come through the worst financial and economic crisis, the EU has done a lot to create the foundations for more sound and sustainable growth in the future. But despite national and European efforts, recovery is weaker than expected one year ago. This is partly due to specific domestic factors and uneven pace of structural reforms in Member States which are preventing faster growth in the EU.

In the Annual Growth Survey 2015 the new Commission sets an integrated approach to revitalise growth across the EU and to generate a new momentum for change. The Annual Growth Survey recommends three main pillars for the EU economic and social policy in 2015: investment, structural reforms and fiscal responsibility. In this context, structural reforms in the policy areas of competence of the Competitiveness Council are considered as key for countries to stimulate growth and job creation and improve the investment climate in Europe. The Commission recommends Member States focusing attention on a number of key reforms, including improving product and services markets, improving framework conditions for business environment and improving efficiency in public administration. In this context, the following policy areas need a special attention.

Services

The ambitious implementation of the Services Directive is among the structural reform priorities set out in the Annual Growth Survey 2015. The Commission notes that Member States undertook numerous reforms following the entry into force of the Services Directive in 2006, but reform progress has been more uneven recently. While many reforms were carried out by Member States in the early years following the entry into force of the Directive, the pace and ambition of reforms has been uneven in more recent years, with some Member States pursuing a more ambitious reform agenda than others. Member States where most reforms have taken place recently are often in the process of implementing wider economic adjustment and reform programmes. Overall, reform progress is limited despite the fact that the full implementation of the Services Directive could lead to additional economic growth of up to 1.6% on top of the 0.8% GDP growth to be generated from the existing level of implementation.

According to analysis, problems continue to stem from a lack of clarity of rules applying to businesses providing services cross-border, obligations to obtain authorisations despite similar authorisations already granted in other Member States, restrictive legal form and shareholding requirements and unnecessarily complex administrative procedures. Member States' ambition and commitment in the context of the on-going evaluation of regulated professions is also less than optimal. In retail services, the regulatory environment remains restrictive and complex in many Member States.

The Annual Growth Survey therefore calls on Member States to focus national services reforms on removing the following barriers: (i) disproportionate and unjustified authorisation requirements in some Member States, notably legal form and shareholding requirements; (ii) lack of clarity of domestic legislation as to the rules applicable to businesses providing cross-border services; (iii) lack of mutual recognition; (iv) cumbersome administrative procedures, with scope for improving the performance of the Points of Single Contact; (iv) uneven progress on the ongoing mutual evaluation of professional regulations and reforms of regulated professions.

Public procurement

With public spending representing approximately 19% of EU GDP, public procurement is a critical lever to economic recovery. Improving public procurement systems can contribute to significant budgetary savings.

The difference in the public procurement approaches across the EU is striking. These differences impact on purchasing processes and procedures, the institutional and management set up, the level of professionalization of the buyers, the degree of demand aggregation and/or use of e-procurement and ultimately on performance. Member States should therefore address the systemic weakness in particular with the view to strengthening the administrative capacity of procuring authorities to plan and implement, enhancing the administrative simplification, professionalization and aggregation of demand as well as achieving improved efficiency of the procedures and greater transparency.

One of the key policy issues on Single Market integration is the level of publication of public tenders at EU level. Various publications report that savings of 4-5% are typically observed on public procurement contracts awarded and published following EU rules. However, although EU-wide publication of contracts above certain thresholds is a key obligation stemming from the EU rules, there are some Members States where the volume of procurement published compared to the GDP, is far below the EU average. Member States should therefore increase publication of notices to widen business opportunities for companies, especially for accessing procurement markets across national borders.

E-Procurement and e-invoicing by public authorities are important enablers of simplification and modernisation of the public administration. Savings from switching to e-procurement are estimated between 5% and 20%. Member States should therefore define a clear strategic vision for managing successfully the transition to e-procurement, making e-procurement interoperable and rolling it out across the various levels of administration.

Access to foreign markets

The quality and innovative nature of many goods and services have enabled European firms to largely maintain their competitiveness in international terms. Most of recent growth has been based on exports, but there are limits to how much more can be achieved in this way. Still, over the next decade some 90% of new global demand will be generated outside Europe, which makes further internationalisation of European firms essential. To this end, the Member States need to continue to address the difficulties their SMEs have in accessing foreign markets, and we need to achieve greater synergy between national and EU-level support to this end. In particular, SMEs should become more adept in integrating to global value chains.

Energy

Investment in energy efficiency has brought good results, but it has not fully compensated the rising prices. Electricity prices vary considerably between Member States, and in some of them the high cost of energy poses a challenge to parts of industry. Here, promoting targeted adaptation strategies for such sectors could be useful. At EU level, creating a real single market in energy is essential for the long-term competitiveness of our firms.

High volatility in the prices of non-energy raw materials has increased the need to promote technologies that facilitate the use and reuse of EU's natural assets. A number of Member States have formulated national strategies to improve the governance of domestic exploration, extraction and processing of raw materials, and such strategies should become the norm in Europe.

Access to finance

This microeconomic dimension of the European Semester should be fully aligned with the priorities of the Investment package. To provide encouragement for private investment, the public authorities should propose frontloading investment, and speeding up project pipelines in transport, communications and energy infrastructures. At the same time, the regulatory environment should be reformed to be more investment-friendly, in particular encouraging SMEs to invest in innovation.

The economic environment continues to be challenging, as growth remains fragile and investment is low. Although not decisive, the recent low demand for the ECB's funding for banks at favourable conditions adds credibility to the argument that low investment is more a question of lacking demand than lack of credit.

However, some progress has been made in access to finance as many Member States and the ECB have facilitated credit flows to the real economy. Progress has been achieved through expanded programmes supporting bank lending, and through increased access to alternative financing sources.

Because firms in some Member States continue to have problems with access to finance, and suffer from high interest rates, it is still essential to make sure that the flow of credit to the real economy is not constrained by the banking system.

The findings indicate that additional private investment is needed across all sectors to ensure that European industry can continue to compete with other regions of the world. The bulk of the total additional investment to improve competitiveness needs to come from the private sector. The findings indicate that a lot can be done to reform the regulatory environment to attract investment and that in international comparison Europe is being left behind.

Public administration

Public administrations of many Member States should be more effective and efficient in implementing policies. Good governance, and strategic, budgetary, regulatory and implementation capacities are crucial to cope with future challenges. Besides leading strategic policy-making and achieving their policy objectives, governments need to be capable of promoting a growth-friendly mix of expenditure and revenue measures while respecting their fiscal commitments.

Increasing private investment, whether foreign or domestic, requires that the regulatory framework of the Member States is stable, transparent and predictable, and respects the specific needs of SMEs.

Many Member States need to reduce costs and uncertainty facing firms when dealing with administration. Business-friendly administration should have simpler procedures, especially for starting a company, applying for licences, paying taxes, exporting goods and services and settling legal disputes. The Commission should provide the Member States with a toolkit on how to improve the performance of their public administrations in this respect.

Europe's competitiveness requires taking it into account in other policy areas through the consistent and rigorous use of competitiveness proofing techniques for all rules affecting businesses. Further, regular checks on the fitness for purpose of existing legislation help to maintain and improve the quality of regulation at both European and national levels.

Questions:

Do you share the above analysis and the focus of structural reforms on the above policy areas?

What major micro-economic reforms have already contributed to growth, jobs and investment in your country or at EU level and which ones still deserve enhanced analysis and special attention?