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COVER NOTE

From:	General Secretariat of the Council
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Subject:	EFC President letter - European Semester 2018: EFC and EPC discussions on CSR implementation to revive productivity growth in post-crisis EU

Delegations will find attached a letter from the Chairman of the EFC to the President of the ECOFIN Council on the implementation of Country-specific recommendations (CSR) for the ECOFIN Council on 13 March 2018.

Economic and Financial Committee

THE CHAIRMAN

Brussels, 6 March 2018
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European Semester 2018: EFC and EPC discussions on CSR implementation to revive productivity growth in post-crisis EU

Dear Minister Goranov,

In preparation for the March ECOFIN exchange of views on the policy implementation challenges related to productivity growth I would like to draw your attention to the main messages from the discussion in the preparatory committees.

Europe has entered a phase of economic expansion. These good times provide the EU with a window of opportunity to tackle long-standing challenges with sustained weak productivity growth becoming one of the most prominent ones in the context of population ageing. Projections in the forthcoming 2018 Ageing Report suggest that the contribution of labour input to potential growth in the EU and the euro area will become negative after 2020 implying that potential growth will be entirely driven by labour productivity thereafter. It is noteworthy that productivity growth began to slow down well before the crisis and that the EU is lagging behind its key global competitors.

Reform priorities to enhance productivity are spelled out in the recommendations given in the European Semester. In 2017, a large majority of Member States received a Country-Specific Recommendation (CSR) in an area related to productivity covering such issues as public administration and the business environment, access to finance, public finances, taxation and labour market policies. Yet CSRs implementation remains uneven and in most cases insufficient, implying stronger reform implementation is needed. I offer some pertinent points from our discussions:

- The presentations by Ireland and the Netherlands illustrated the variety of channels for productivity growth within and between sectors, between firms, and how substantially these can vary. Therefore there is not *one* policy but *many* policies needed to enhance productivity.
- Macroeconomic, institutional and regulatory conditions, which are typically addressed in the CSRs, all have an important effect on productivity growth.
- The productivity challenge is often a SME challenge with small firms facing particular constraints in their ability to invest, notably with regard to access to finance, and entrepreneurial skills.
- Digitalisation has the potential to deliver sizable increases in productivity, but this again demands investment in education and skills.
- Complementary to action at Member State level, action at EU level could and should play a very important role in boosting productivity growth, through the Better Regulation Agenda, by completing the CMU, and in particular by completing the Single Market and the Digital Single Market.
- And finally, I single out the importance of efficient and effective insolvency regimes. There is evidence that shortcomings to the insolvency frameworks have a negative impact on labour productivity, both due to the survival of "zombie" firms that would typically exit or be restructured in a competitive model and through capital misallocation.

I trust this list of issues will be of benefit for our discussion in ECOFIN, and to facilitate that discussion further, I would like to offer a few questions for debate:

1. *Encouraging competition and opening up markets has proven to be one of the most effective ways to improve productivity in non-competitive sectors. Yet we still observe many entry regulations (e.g. in terms of licences and closed professions) especially in service sectors in many countries, while in others' there is still a high presence of SOEs. At the same time the exit of inefficient firms is also a key for productivity growth yet inefficient "zombie" firms often impede an efficient allocation of resources. What role could and should Finance Ministers play as "reform champions" to promote reforms?*
2. *The COM note suggests that digitalisation has potential to increase productivity, but it needs to be complemented with investment in education and skills. Does your government have "a digital strategy" and does the strategy also include the resources to invest in education and training?*

Yours sincerely,

Hans Vijlbrief

Chairman of the EFC

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