Council of the
European Union

Brussels, 5 March 2019
(OR. en)

6957/19

ECOFIN 254
UEM 87
SOC 172
EMPL 132
COMPET 216
ENV 233
EDUC 126
RECH 149
ENER 138
JAI 229

COVER NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee (Part 2) / Council
Subject:	EFC President letter - European Semester 2019: EFC and EPC discussions on the implementation of Country-Specific Recommendations focused on Investment

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 12 March 2019.

ECONOMIC AND FINANCIAL COMMITTEE

THE CHAIRMAN

Brussels, 5 March 2019
ecfin.cef.cpe(2019)1669953

European Semester 2019: EFC and EPC discussions on the implementation of Country-Specific Recommendations focused on Investment

Dear Minister Teodorovici,

In preparation for the March ECOFIN exchange of views on the Implementation of country-specific recommendations focussed on investment I would like to draw your attention to the main messages from the discussion in the preparatory committees.

We very much welcome the choice of the topic for the thematic discussion. Investment matters greatly for growth and employment but took a heavy hit in the economic downturn. The recovery of economic activity has contributed to a pickup in investment, particularly prviate investment which has been steadily increasing since 2013, but investment growth is projected to slow down again in 2019-2020. Although aspects like investment into intangibles and R&D expenditure are improving we continue to perform badly compared with our international competitors. Since the mid-1990s, EU Gross Fixed Capital Formation as a proportion of GDP has been lower than in the US and Japan, and indicators from the World Economic Forum suggest that the EU performs worse than the US, Japan or South Korea across a range of innovation and investment dimensions.

With this systemic under-performance and the changing economic climate in mind, and with all but two of the 27 Member States who received CSRs in 2018 having one related to tackling investment bottlenecks, this discussion is both pertinent and timely.

In some countries, much of the decline in investment during and since the crisis is explained by poor *public* investment performance. Both the German and Belgian case studies you will hear about are particularly enlightening on the scale of the policy challenge of addressing this decline in public investment. However, the changing economic context strengthens the case to focus on "must dos" rather than "nice to dos". It is not only the magnitude, but particularly the quality of investment that matters. The focus should be mainly on investments enhancing productivity and growth.

Member States are aware of the range of bottlenecks that impede private and public investment to flourish. These range from the availability of the right skills to business environment impediments such as sector specific regulations, ineffective insolvency frameworks and so forth. Tackling such bottlenecks has been a strong focus in the European Semester Country-Specific Recommendations for a number of years, and will no doubt be prominent again this year. However, the actual reform momentum is disappointing and has slowed over recent years.

Alongside such well-known bottlenecks there are also important institutional barriers to investment, a significant challenge across all Member States. The case studies of Germany and Belgium again provided vivid examples in this respect with their federal structure and additional coordination needs with the local authorities.

There is also an important EU-wide dimension: creating the right investment climate would be greatly facilitated by completion of EU-level initiatives, including the Single Market, Capital Markets Union, and progress on the services directive.

Finally, weak productivity performance highlights the need for strengthened competitiveness. The new and growing network of National Productivity Boards can play an important role in raising awareness of policy gaps and in shaping the policy. Your committees will continue to liaise closely with this network and promote their role.

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 couple of questions for debate:

1. *At the European level, what factors are most important for creating an investment climate capable of reversing the under-performance of the European Union compared with some of its competitors?*
2. *In the context of a more uncertain global economic environment, where should Member States focus investment priorities?*

Yours sincerely,

Hans Vijlbrief

Chairman of the EFC