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MEETING DOCUMENT

From:	ERAC Secretariat
To:	ERAC (European Research Area and Innovation Committee)
Subject:	ERAC Plenary in Brussels on 6 December 2018 - Item 6 - "Standing Information Point - Update on the 2019 European Semester" given by the Commission

Delegations will find attached the "Standing Information Point - Update on the 2019 European Semester" given by the Commission in view of item 6 of the agenda of the ERAC plenary in Brussels on 6 December.

ERAC - Standing Information Point
Update on the 2019 European Semester

Brussels, 6 December 2018

The European Semester is the EU annual cycle of economic policy co-ordination in which the Commission proposes integrated fiscal, economic, employment and social policy guidance to be endorsed by the Council and thereafter addressed to the Member States for policy decisions at national level.

I. Annual Growth Survey 2019

The Annual Growth Survey kick-starts the European Semester and sets the Commission's economic and social priorities for the year to come. It is published in November.

On 21 November 2018, the Commission adopted the European Semester Autumn Package: Bolstering inclusive and sustainable growth, which is made up of the following documents:

- Annual Growth Survey 2019
- Alert Mechanism Report 2019
- Euro area recommendation 2019
- Draft Joint Employment Report 2019
- Communication on the 2019 Draft Budgetary Plans of the euro area
- 2019 Draft Budgetary Plans
- Article 126(3) report on Italy
- Enhanced Surveillance Report for Greece
- Autumn 2019 Economic Forecast

Through the Annual Growth Survey (AGS) the EU and its Member States are called to take policy action to deliver inclusive and sustainable growth. In particular, the AGS 2019 stresses that policy efforts at national level should focus on delivering high-quality investment and reforms which increase productivity growth, inclusiveness and institutional capacity, while continuing to ensure macro-financial stability and sound public finances. Its narrative is tuned with that of the 2018 Commission Communication *A renewed Agenda for Research and Innovation- Europe's chance to shape its future.* It includes R&I issues prominently in the 'Setting the Right Priorities for a Prosperous Future', as well as in the 'Key challenges looking ahead'.

The following key messages from the AGS on the broader economic context are worth being mentioned:

- Despite Europe's economy now entering its sixth year of uninterrupted growth, economic growth is projected to moderate. Hence, investment and structural reforms need to focus even more on boosting potential growth;

- Productivity growth remains subdued and there remain significant disparities between citizens, regions and firms. Also, the diffusion of technologies and innovation is slow;
- National governments should adopt reforms for boosting higher productivity growth, notably by supporting broader and faster uptake of productivity-enhancing technologies;
- There are significant investment gaps in research and innovation and these public investments need to be better prioritised.

Below are some extracts from the AGS 2019 of salient issues referring to research and innovation:

1. Introduction

   - (p.1 on economic and social disparities and medium/long-term challenges) *Productivity growth is subdued and diffusion of digital technologies is slow.*

2. Key challenges looking ahead

   - (p.4 on low productivity growth) *Population ageing, digitisation and climate change put mounting pressure on our workforce, social welfare systems and industry, compelling us to innovate and reform to sustain high living standards.*

   - (page 6 on productivity differences) *There are considerable differences in productivity performance across EU firms, regions and sectors (…). In most Member States, the most productive firms have increased their productivity, whereas the least productive firms are stagnating. This suggests that technological diffusion from the most innovative firms to the rest of the economy has slowed down. Improving allocative efficiency would help shift capital and labour from less to more productive firms, reducing the dispersion and increasing productivity overall.*

3. Setting the Right Priorities for a Prosperous Future

   - (p. 8, key reference, 'Delivering high-quality investment') *There are significant investment gaps in research and innovation, including in digital infrastructure and intangible assets. The rise of digital technologies is profoundly changing the dynamics of innovation. Network effects and the complexity of the innovation process are increasing. Innovation benefits are concentrated in a handful of leading companies that have achieved strong productivity growth rates. To ensure broader innovation-driven productivity gains, wider diffusion and uptake of innovation is needed across the EU. Investment should support stronger science-business linkages, with a greater focus on spreading innovation and creating new markets, expanding digital infrastructure (e.g. broadband and digitalisation of small and medium-sized enterprises) and developing the right set of skills.*

   - (p.8 on investment in education): *Member States should pay particular attention to adaptability of the workforce, especially the low-skilled, to ensure the optimal uptake of technological progress*

- (p.10 on reforms efforts on productivity growth, inclusiveness and institutional quality) *Broader and faster uptake of productivity-enhancing technologies requires targeted measures to promote relevant investment (e.g. tax incentives), skills development and stronger links between education and training systems and businesses. Advanced digital technologies such as high-performance computing, cybersecurity and artificial intelligence are now sufficiently mature to be deployed and scaled up.*

- (p.11 on reforms efforts on productivity growth, inclusiveness and institutional quality) *Together with innovation and diffusion of technology, well-functioning product and services markets are a key driver of productivity growth, as they enable a more efficient allocation of resources*

- (p.13 on ensuring macroeconomic stability and sound public finances) *Efforts are also needed on the expenditure side, through spending reviews and by prioritising expenditure that fosters long-term growth and equity.*

II. 2019 European Semester: main novelty and calendar

The main novelty of the 2019 European Semester is the strengthening of the links between the Semester and EU funding so as to better ensure synergies and complementarity. The 2019 European Semester documents (notably the 2019 Country Reports) will have a stronger focus on identifying and prioritising investment needs at national level. In particular, the 2019 Country Reports will contain an **Annex D** which will lay out the investment priorities for each country in view of helping to guide programming decisions concerning the European Regional and Development Fund, the European Social Fund plus and the Cohesion Fund for the 2021-2027 period.

2019 European Semester calendar

The European Semester is planned on the basis of a detailed calendar, prepared by the Secretariat-General of the European Commission, which covers the period from November 2018 to July 2019 and which contains the planning of Council committees and sectoral formations, the European Parliament's plenaries and deadlines for the key deliverables.

December 2018	Bilateral meetings with Member States
27 February 2019	Publication of the Country Reports (incl. In-Depth Reviews under the Macroeconomic Imbalances Procedure)
March-May 2019	Council discussions
March 2019	Spring European Council Bilateral meetings with Member States
Mid-April 2019	Member States present National Reform Programmes and Stability or Convergence Programmes
29 May 2019	Commission adopts Draft Country-Specific Recommendations
June 2019	Council Discussions
June 2019	European Council endorses Country-Specific Recommendations

July 2019	Council adopts Country-Specific Recommendations

III. Research and Innovation in the 2019 European Semester

While maintaining continuity with the previous cycle, the Commission's analytical framework for assessing R&I performance and policies will be further strengthened for the 2019 exercise with elements stemming from the 2018 Science, Research and Innovation Performance of the EU report issued by the Directorate-General for Research & Innovation, notably in relation to the productivity gap issue.

The R&I policy analyses in the Semester Country Reports are based on a two-step approach:

- the identification for each Member State of the main R&I policy challenges, i.e. the key bottlenecks impeding the full contribution of R&I to economic and productivity growth;
- the assessment of the adequacy of the policy response to the identified challenges.

In this respect, the Commission's analysis focuses on three types of R&I policy challenges:

1. Quality and performance of the public R&I system;
2. Knowledge flows and science-business linkages;
3. Bottlenecks for investment in innovation.

In terms of identifying main national R&I **policy challenges**, the Commission's assessment draws on the analysis of an extensive set of indicators (around 50) which monitor the performance of national R&I systems. The key indicators can be found in the report Science, Research and Innovation Performance of the EU. They range from measures of public and private investment in R&I, human resources for R&I (e.g. tertiary students, new PhD graduates, graduates in STEMs), output and quality of public research (e.g. publications, top citations), innovation outputs (e.g. patenting, knowledge-intensive exports, innovative enterprises), knowledge flows (e.g. linkages between the R&I activity of public and private sectors), framework conditions (e.g. regulation and market efficiency, finance for innovation), up to indicators of structural change (e.g. value added of high-tech sectors in the economy) and R&I impact (e.g. employment in high-growth firms).

Most of these indicators are regularly updated in close cooperation with Eurostat to ensure quality and availability. At the same time, in order to make its analysis comprehensive and country-specific, the Commission exploits a wide-ranging evidence base which monitors national R&I performance and policy developments through dedicated studies (e.g. on R&D tax incentives, high-growth innovative firms, bibliometrics and patenting at the national level).

The identification of bottlenecks in the national R&I systems also involves benchmarking against the performance of other Member States. For that purpose, the analyses make notably use of various tools including correlation graphs, in which two indicators, one representing a particular aspect of performance and the other one a driving factor of this performance, are shown on the same graph.

The Commission's monitoring of **policy evolutions** in the Member States is performed drawing on a number of complementary data sources. This includes first of all day-to-day monitoring by the European Semester Country Desks in the Directorate-General for Research & Innovation of national policy developments using information available through national sources. This is complemented by the most recent information obtained during the European Semester country missions. The joint EC-OECD STIP Compass database provides data on R&I policy developments across Member States. The RIO Country Reports also provide useful input.

Finally, the outcomes of the Horizon 2020 Policy Support Facility ("PSF") exercise (Peer Reviews of national R&I systems, Specific Support for R&I reforms and sustained exchanges of good practice through Mutual Learning Exercises) are duly taken into consideration in the analyses of Member States' R&I systems.