2016 European Semester: Research and Innovation outcomes

1. General overview

On 18 May 2016, the Commission issued its proposals for country-specific recommendations (CSRs) for 27 Member States in the context of the 2016 cycle of the European Semester process of economic policy coordination. These proposals cover all EU countries except Greece, currently under a stability support programme. The CSRs were issued along with an overarching Communication on how to strengthen and sustain the recovery.

The overall number of CSRs has been reduced compared to last year, in order to focus them on a limited number of key priority issues of macro-economic and social relevance that require actions by Member States within 12 to 18 months. The recommendations focus on "what" to achieve instead of prescribing "how" to achieve it, in order to guide Member States while leaving the necessary room for manoeuvre. This is part of the streamlining of the Semester process, aimed at fostering national ownership, accountability and implementation.

As reminded in the overarching Communication[1], the other key element of this streamlining was the publication of the Commission's country-specific analyses in the form of 'Country Reports' on 28 February 2016[2]. This allowed for a more intense outreach at political and technical level and for a deeper discussion with Member States and social partners on key issues underpinning the Commission's analysis in advance of the adoption of the CSRs.

The overarching Communication lays the ground for this year's CSRs, starting from an analysis of the present economic situation:

- The European economy is pursuing its moderate recovery, mainly driven by private consumption. This positive economic output has been benefitting from the support of low oil prices, favourable financing conditions and the euro's low exchange rate.

- However, as these supportive factors may soon have run their course, it is crucial to stimulate further domestic sources of growth, notably productive investment in line with the Investment Plan for Europe. Although investment is gaining traction and the trend is now clearly reversing, it is still low compared to pre-crisis levels, from both private and public sources.

- Moreover, it is important to foster job creation and reduce poverty and social exclusion. Social models need to be modernised to address the effects of an ageing population, to deal with the high influx of refugees and migrants and to ensure that the EU workforce has the necessary skills to keep pace with a fast-changing labour market.

- In this context, the 2016 CSRs focus on further encouraging structural reforms to boost recovery and raise the long-term growth potential of EU economies. Overall, the

[1] https://rio.jrc.ec.europa.eu/en/library/ec-communication-2016-european-semester-country-specific-recommendations.
[2] https://rio.jrc.ec.europa.eu/en/country-analysis.

Member States have made limited to some progress in addressing the issues identified in the 2015 CSRs. The pace of such progress needs to accelerate to make full use of the opportunity offered by this nascent economic recovery and deliver on structural reforms.

- The 2016 CSRs focus thus on four key objectives, as outlined in the Communication:

  1. *Removing barriers to financing and supporting public and private investment.* There is a need for Member States with high deficits or debt levels to make further efforts to achieve fiscal sustainability. However, Member States with fiscal space are asked to take measures to support public investments in areas conducive to growth, such as infrastructure, education and research. At the same time, Member States are encouraged to ensure an environment that is conducive to productive investment.

  2. *Improving the business environment and productivity.* There is a need to increase investment in areas such as technology, innovation and human capital and to strengthen cooperation between business and academia. Innovation is a driver for modernising the economy, increasing productivity, attracting investment and supporting economic growth. The creation of the right conditions for innovation by combining financial incentives, supportive regulatory frameworks and stronger links between business and academia is crucial.

  3. *Adapting public finances to make them more supportive to growth*. Member States are asked to focus on the sources of expenditure that will raise productivity capacity in the future and will have strong positive spill-overs on the wider economy, such as education, research and development, transport and communications.

  4. *Improving employment, human capital, social inclusion and protection.* Skills gaps and mismatches put a brake on Europe's innovation capacity and competitiveness, and investing in human capital is key to contribute to greater convergence.

On 18 May 2016, the Commission also issued 27 updated "thematic fiches" comparing Member States' performance in the main policy areas relevant to boost investment, accelerate structural reforms and pursue responsible growth friendly fiscal consolidation.

The "*Research and Innovation*" thematic fiche includes a horizontal analysis of the R&I parts of the Country Reports, identifying key challenges that remain to be addressed in order to boost R&I performance.

2. The Country-Specific Recommendations (CSRs) addressing R&I

While in 2015, only four CSRs covered R&I-related aspects (for Germany, The Netherlands, Estonia and Latvia), this year 13 Member States received CSRs directly addressing research and innovation policy (i.e. Belgium, the Czech Republic, Germany, Denmark, Estonia, Spain, France, Ireland, Latvia, Luxembourg, Lithuania, the Netherlands and Portugal).

Those CSRs are all preceded by recitals on R&I, based on the R&I sections of the Country Reports[3]. This wide coverage of R&I-related issues confirms the increased interest in the role of research and innovation as long-term drivers of growth and economic development.

Three of those CSRs (for Germany, the Netherlands and Ireland) focus on **the need to increase public R&D investments**, in line with the orientation set in the overarching Communication accompanying the recommendations ("*Where available, Member States should use their fiscal space to increase public investment in areas conducive to growth, such as infrastructure, education and research*").

The importance of strengthening the links between academia and business represents the centre of attention of five CSRs (for the Czech Republic, Denmark, Estonia, Portugal, and Spain) while **improving the quality of the public R&I system** by strengthening issues such as the system's governance, the consolidation of research institutions and performance-based funding of public research organisations and universities is as the heart of three CSRs (for the Czech Republic, Latvia and Spain).

Finally, the focus of the remaining CSRs is on **leveraging business investment in research, development and innovation** (for Belgium, Estonia, Germany, Latvia, Lithuania, Luxembourg and Spain) **and/or boosting countries' innovation capacity** (in the case of Belgium, France, Lithuania and Luxembourg).

The Commission's proposals for CSRs are currently being discussed with the Member States in the various Council configurations on the way up to the European Council of 28-29 June 2016, which is expected to endorse the recommendations.

The CSRs will then be formally adopted on 12 July 2016 by the ECOFIN Council.

[3] A report presenting the R&I contents of the 2016 Semester Country Reports is available at the PSF-RIO page: https://rio.jrc.ec.europa.eu/en/library/research-innovation-2016-european-semester-country-reports.

Annex. 2016 European Semester Country Specific Recommendations for R&I

Belgium

"**Boost the capacity to innovate, notably by fostering investment in knowledge-based capital.**" (CSR 3)

Czech Republic

"Strengthen governance in the R&D system and facilitate the links between academia and enterprises." (CSR 3)

Denmark

"**Incentivise the cooperation between businesses and universities.**" (CSR 2)

Estonia

"Promote private investment in research, development and innovation, including by strengthening cooperation between academia and businesses." (CSR 2)

France

"**Take steps to simplify and improve the efficiency of innovation policy schemes**." (CSR 4)

Germany

"**Achieve a sustained upward trend in public investment, especially in** infrastructure, education, **research and innovation**, by using the available fiscal space and prioritising expenditure." (CSR 1)

"Reduce inefficiencies in the tax system, in particular by reviewing corporate taxation and the local trade tax, modernise the tax administration and **review the regulatory framework for venture capital**" (CSR 2)

Ireland

"**Enhance the quality of expenditure**, particularly by increasing cost-effectiveness of healthcare and **by prioritising government capital expenditure in R&D** and in public infrastructure, in particular transport, water services and housing." (CSR 1)

Latvia

"**Pursue the consolidation of research institutions and provide incentives for private investment in innovation.**" (CSR 3)

Lithuania

"Take measures to strengthen productivity and improve the adoption and absorption of new technology across the economy. Improve the coordination of innovation policies and encourage private investment, inter alia by developing alternative means of financing." (CSR 3)

Luxembourg

"Remove barriers to investment and innovation that limit economic development in the business services sector." (CSR 2)

The Netherlands

"**Prioritise public expenditure towards supporting more investment in research and development.**" (CSR 1)

Portugal

"**"Incentivise cooperation between universities and the business sector.**" (CSR 5)

Spain

"Take further measures to improve the labour market relevance of tertiary education, including by **providing incentives for cooperation between universities, firms and research. Increase performance-based funding of public research bodies and universities and foster R&I investment by the private sector**." (CSR 3)