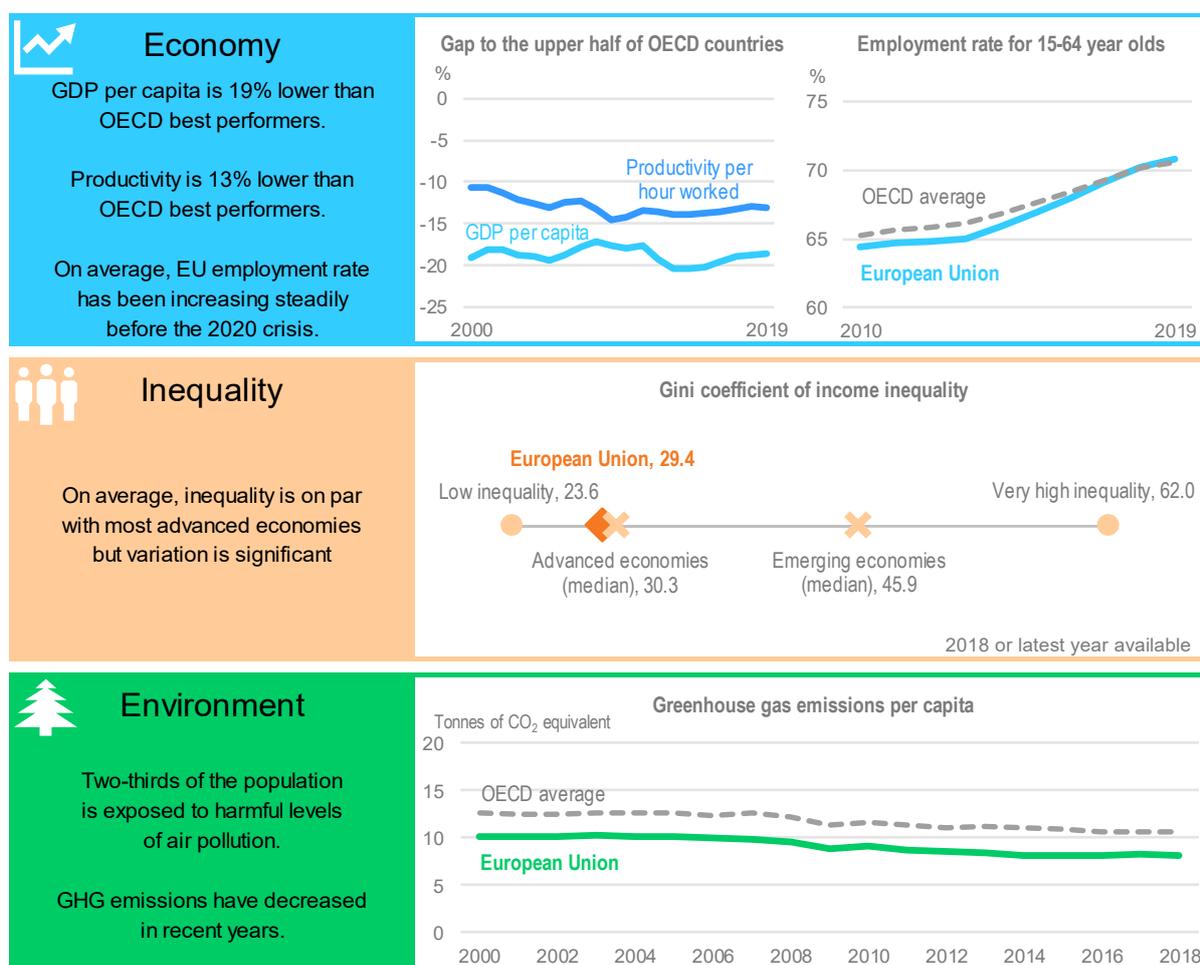


European Union

In light of the COVID-19 crisis, the top immediate policy priority is to ensure efficient use of Next Generation EU, a recovery plan combining loans and grants of about 5.5% of EU27 2019 GDP to support member states' recovery policies. Successful roll-out and implementation of this support will be crucial to reinvigorate economic growth across the European Union, boost digitalisation and innovation, bolster resilience to future shocks and achieve climate and inclusiveness objectives.

Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs). European Union refers to EU OECD countries.

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

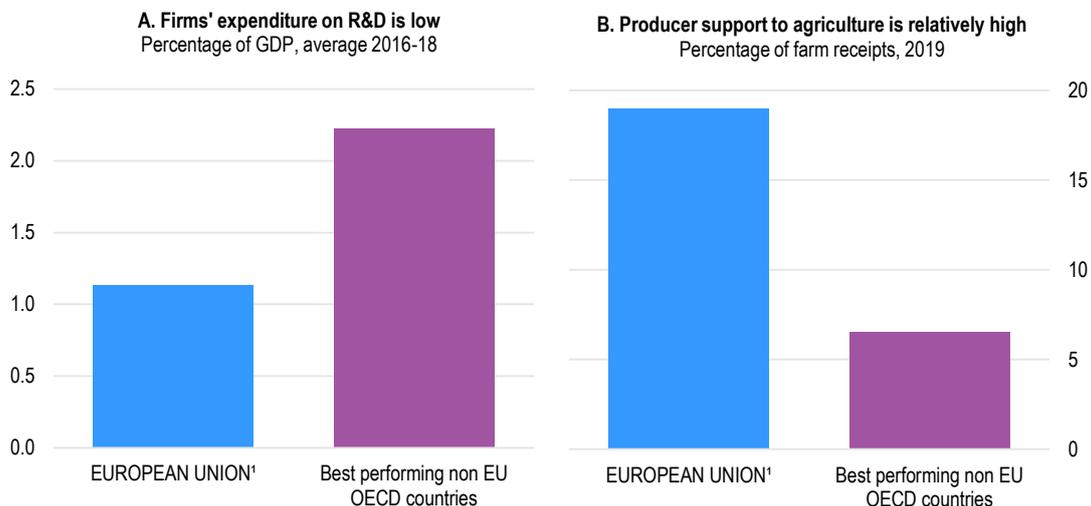
Supporting the recovery across the EU to prepare for future challenges

Productivity growth has been sluggish and falling behind the OECD best performers already prior to the pandemic. Europe needs to **boost innovation and stimulate its widespread diffusion**. Bringing together private and public funding in cross-country innovative projects, such as those under the Important Projects of Common European Interest framework, would help to achieve a critical mass while leveraging complementarities. In addition, it is important to increase EU subsidies to investment in R&D, including through cohesion policy funds in regions that have been lagging in this respect (Panel A). Emphasis on safeguarding competition in the EU, in particular in digital services, is key. At the same time, the pandemic is likely to increase the number of bankruptcies. Policies promoting a swift reallocation of resources to new, productive uses, should include more harmonised insolvency regimes that do not overly penalise failure.

To promote investment and productivity growth, **barriers to the EU Single Market in service sectors and network industries should be eliminated**. Reducing regulatory obstacles and information asymmetries would foster cross-border establishment and provision of services. Streamlining administrative approval procedures would reduce barriers to investment in energy and telecoms, a particular concern for the digital economy. In energy, investment in cross-border interconnections would make electricity markets more efficient and support the integration of growing renewable electricity production. Furthermore, grid digitalisation will make the energy system more flexible and efficient.

EU's **decarbonisation**, a powerful lever for innovation, investment and growth, **should accelerate**. There are large investment needs in the energy sector and residential retrofitting, a labour-intensive activity that can play an important role in the post-pandemic labour reallocation. Areas like batteries or clean hydrogen offer major potential for innovation. More than one-third of the Next Generation EU funds is earmarked to climate change mitigation, while the environmental policy signals that can drive a green transition should be strengthened, for example by including transport and buildings in the EU Emissions Trading System (ETS), increasing the minimum tax rates on fossil fuel use that still falls outside the ETS, and improving the consistency of targets and policies at the EU, national and local levels.

Vulnerabilities and areas for reform



1. Data for the European Union refer to EU OECD countries in Panel A and to the EU28 in Panel B.

Source: Panel A: OECD, Research & Development Statistics Database; Panel B: OECD, Producer Support Estimate Database.

StatLink  <https://stat.link/6me2dx>

To improve absorption of country-specific shocks and foster a more efficient allocation of workers across borders in the post-pandemic recovery, **barriers to labour mobility should be reduced**. This would

require stepping up the recognition of professional qualifications and better protection of migrant workers' rights, in areas like social security or labour conditions.

During 2021-27, the Common Agricultural Policy (CAP) still accounts for about 30% of the EU budget, a too-large share, though down from around 35% in 2014-20 (Panel B). **An ambitious reform of the CAP is key to attaining environmental objectives and reducing distortions in agricultural markets.**

European Union: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
R&D and digitalisation: Increase investment in R&D and promote the diffusion of new technologies	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Funding for Horizon Europe, the main EU research and innovation programme in 2021-27, will increase, albeit modestly, relative to its predecessor in the 2014-20 period. <input checked="" type="checkbox"/> A new Directive (EU No. 2019/1023) entered into force in July 2019 with the objective of harmonising the laws and procedures of EU member states concerning preventive restructurings, insolvency and the discharge of debt. 	<ul style="list-style-type: none"> <input type="checkbox"/> Promote cross-country collaboration in R&D. <input type="checkbox"/> Further increase spending on research and development in the EU budget. <input type="checkbox"/> Ensure level playing field in the digital services market. <input type="checkbox"/> Progress in harmonising insolvency proceedings through minimum European standards, allowing simpler early restructuring, shortening the effective time to discharge, and more efficient liquidation proceedings.
Competition and regulation: Reduce fragmentation in service and network sectors	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Over 2019-20, the Commission has stepped up enforcement efforts to ensure that the Member States correctly transpose and apply the Professional Qualifications Directive. Furthermore, the Commission has systematically pursued infringement actions with regard to the implementation of the Services Directive and the Treaty provisions on freedom of establishment and freedom to provide services. Areas of concern include disproportionate and excessive document requirements and the lack of electronic channels for recognition procedures. The Single Digital Gateway, operational from end-2020, will help in both these areas. More broadly, a Single Market Enforcement Task Force was set up in April 2020 to improve implementation and enforcement of single market rules. <input checked="" type="checkbox"/> The Electricity Market Regulation (2019/943/EU) stipulates that, as from 1 January 2020, at least 70% of cross-border interconnection capacity should be made available to the market for trade. While a number of options allow for gradual implementation, this target should be fully achieved by end-2025 at the latest. 	<ul style="list-style-type: none"> <input type="checkbox"/> Address barriers in business services through simplified administrative formalities for the establishment and provision of cross-border services and guidance on implementing EU legislation. <input type="checkbox"/> Pursue the planned cross-border co-operation on power system operation and trade in electricity, including interconnection capacity calculations and reserve margins.

2019-2020 Reforms	Recommendations
Environmental policy: Accelerate decarbonisation and green innovation	
<p><input checked="" type="checkbox"/> In 2019 the European Commission launched the European Green Deal, with the target of zero net emissions of greenhouse gases in the EU by 2050. In 2020, it proposed to increase the emission reduction target for 2030 to at least 55% relative to 1990 levels. Legislation to enshrine both targets has been drafted (European Climate Law) and several sectoral strategies have been prepared.</p>	<p>Include transport and buildings in the EU Emissions Trading System (ETS), in tandem with strengthened regulatory standards for energy efficiency.</p> <p><input type="checkbox"/> Increase minimum tax rates on fossil fuel use that still falls outside the ETS, especially where tax rates are currently low or zero.</p> <p><input type="checkbox"/> Ensure that the supply of ETS emission allowances is gradually tightened in a way consistent with emission abatement targets.</p> <p><input type="checkbox"/> Improve consistency of targets and policies at the EU, national and local levels.</p>
Labour market: Ease the recognition of qualifications and protect migrants' rights	
<p><input checked="" type="checkbox"/> Funding for the Erasmus+ programme will increase by about 50% in 2021-27, with expanded learning and training mobility opportunities, including for low-skilled adults.</p> <p><input checked="" type="checkbox"/> The European Labour Authority (ELA) was established in 2019 and is expected to reach full operational capacity in 2024. It aims at facilitating access to information and its cross-border exchange, support cooperation between EU countries and capacity building in the enforcement of relevant Union law, and mediate disputes between national authorities.</p>	<p><input type="checkbox"/> Foster the harmonisation at the EU level of qualification and training requirements for regulated professions.</p> <p><input type="checkbox"/> Make the electronic European professional card available to all sectors.</p> <p><input type="checkbox"/> Step up efforts at the EU level to coordinate the design and organisation of joint labour, social security and tax control activities across national borders.</p>
Agriculture: Make producer support more environment-friendly and less distortive	
<p><input checked="" type="checkbox"/> In 2020, the Farm to Fork Strategy, part of the European Green Deal, set a comprehensive approach to tackle environmental degradation in the food system. Plans for the Common Agricultural Policy (CAP) in 2021-27 envisage a stronger link between direct support to farmers and improved environmental outcomes ("eco-schemes").</p>	<p><input type="checkbox"/> Phase out production-based payments in the Common Agricultural Policy.</p> <p><input type="checkbox"/> Reassess direct support and target it better to environmental and climate change mitigation objectives and to support farming methods that are more resilient to climate change.</p>

Recent progress on structural reforms

In 2019, a change in the political leadership of the European Commission took place. The European Green Deal, an ambitious strategy for decarbonisation, environmental sustainability and economic growth, has been launched. The ensuing legislative actions and implementation are scheduled mainly from 2021 onwards, and could lead to an acceleration in the pace of structural reform. In 2020, negotiations for the 2021-27 EU budget took place, which will shape multiple policy areas. The EU response to the pandemic crisis gave rise to strong progress in the creation of common fiscal tools, albeit of a one-off nature. The so-called Next Generation EU recovery plan envisages EU-level borrowing to finance loans and grants to member states.