Danish Presidency
Council of the European Union

National structural reforms to strengthen productivity and competitiveness

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EU average productivity growth and competitiveness is lagging other economies, notably the United States. This trend is progressively putting a drag on real incomes and overall economic prosperity within the Union. At the same time, the international economic order is rapidly changing and is characterised by tensions related to security and trade, economic and financial imbalances, pressure on supply chains, and a technological race.

Strengthening European productivity growth is vital for securing long-term economic growth and fiscal sustainability, as well as preserving the global influence of the EU. It requires both national reform efforts and joint EU actions which can complement and amplify each other. There is significant work being done on the joint EU actions – e.g. on the Savings and Investment Union and deepening of the internal market. However, a decisive strengthening of productivity will require that member states implement ambitious national structural reforms.

Significant efforts are being made at the EU level to promote national reforms EU, including in the context of the European Semester, the Recovery and Resilience Facility and the fiscal framework's medium-term plans. Furthermore, in the context of the forthcoming Multiannual Financial Framework, the Commission proposal implies a stronger link between EU funding and the implementation of national reforms, including those identified under the Semester. However, although EU initiatives can support reforms, the responsibility for reform efforts ultimately rests with each Member State.

Importance of national structural reforms

Growth and wealth can fundamentally be increased by raising the contributions of labour and capital inputs in the economy or by improving the efficiency of their use — total factor productivity (TFP). While it – at least to some extent – is relatively straightforward to identify policy measures that increase the supply of labour (e.g. pension reforms), it is considerably more complex to design and implement reforms that demonstrably and sustainably improve productivity growth and levels. Rather a broad set of policy measures are likely needed.

National structural reforms can promote productivity by addressing institutional and regulatory inefficiencies that hinder the optimal allocation of resources and by improving conditions for businesses, innovation and development of human capital. Especially reforms that seek to enhance the flexibility and functioning of labour, product, and capital markets, have proven effectful in fostering a more competitive and dynamic economic environment that is more conducive to innovation.

Differences across EU countries in terms of the efficiency of resource allocation, productivity and economic growth indicates a significant potential to address structural weaknesses and close policy gaps vis-à-vis the frontier through national structural reforms. At the same time, it is evident that all member states have work to do. Structural reforms are a constant necessity for all countries, not a temporary challenge.

Pressing ahead with national structural reforms is thus crucial to strengthen productivity, resilience and potential growth. It is essential for a robust Economic and Monetary Union, and for strengthening the ability of member states and the EU as a whole to respond more effectively to economic and geopolitical shocks.

National structural reforms combined with sound economic policies are also prerequisites for creating fiscal room for necessary investments, including in defence and security, the green transition, and for handling rising expenditures linked to an aging European population.

As highlighted by IMF, several areas can be identified where national reforms could strengthen productivity and competitiveness in the EU Member States, thereby contributing to the resilience and prosperity of the Union as a whole.

Reform areas

- **Labour market and human capital reforms:** Greater labour market flexibility, when combined with active support policies, enhances efficiency by easing transitions of labour across firms and sectors. Investments in human capital that strengthen skills and mobility further improve the matching of labour to high-productivity activities. Expanding the participation of for instance women, the young and the older workers broadens the talent pool and underpins sustained innovation and growth.
- **Fiscal-structural reforms:** Fiscal-structural reforms can raise productivity by improving the efficiency of public spending, and by reducing distortions, for example through pension and tax reforms that create a more business-friendly tax environment and incentivises later labour market exit. Stronger fiscal frameworks also create space for growth-enhancing investment.
- **Business regulation reforms:** Streamlined business regulation can reduce entry barriers and enhance competition, allowing firms to scale and innovate more effectively. By simplifying regulation, reducing red tape, and improving governance frameworks, resources shift toward more productive businesses and industries.
- **Innovation and digitalisation reforms:** Policies that support digitalisation, research and development, intellectual property rights protection, technology diffusion, and collaboration between firms, universities, and public research help create the conditions for sustained innovation-driven productivity growth.
- **Credit and capital markets reforms:** Deepening credit and capital markets improves productivity by broadening firms' access to finance—especially for innovation and expansion—while promoting efficient capital allocation and risk sharing.

- **Governance reforms:** Good governance strengthens productivity by improving institutional quality, increasing policy certainty, reducing administrative burdens, and promoting regulatory transparency. Clear rules and accountability—such as transparent public-sector decision-making and streamlined administrative procedures—enable efficient public services, foster business confidence, and support investment.

Barriers to structural reform adoption and implementation

The implementation of structural reforms is often impeded by a range of political, institutional, and socio-economic barriers (e.g. political economy constraints, institutional rigidities, social opposition, distributional effects, miscommunication and macroeconomic conditions and external shocks). Such obstacles can undermine the design, adoption, and implementation of reform initiatives, particularly when the benefits are diffuse and long-term, while the costs are immediate and concentrated among specific interest groups. Addressing reform barriers requires careful policy design, broad stakeholder engagement, and mechanisms to ensure both short-term compensation and long-term credibility.

Issues for discussion

During this session, the **participants will be organized into six groups**.

All groups discuss the following general question:

- *What economic reforms are most important to strengthen productivity and competitiveness? Is one or a few specific reform areas important, or is a broad reform effort with reforms in many different areas needed to strengthen productivity? How do we overcome political obstacles to economic reforms?*

Each group will, in addition to the general question to all groups, **discuss one specific reform area** and its potential to strengthen productivity as well as how to overcome the barriers that may hinder reforms in that area.

Please refer to the note *Choreography for working session II* for details about the groups and group-specific questions.