Assessment of the economic impact of the Services Directive
– Update of the 2012 Study –

1. Context

The introduction of the Services Directive in 2006 led to considerable reforms across Member States, reducing barriers to the provision of services in the single market. A 2012 Commission assessment of the impact of the Services Directive concluded that the implementation of the Services Directive had led to the adoption of more than a thousand regulatory measures across Member States.¹

The Commission estimated these measures to generate approximately 0.8% of EU GDP growth over five to ten years. The economic potential of additional reforms stemming from a more ambitious implementation of the Services Directive was estimated at 0.8-1.8% EU GDP. On the basis of these estimates, the Commission in 2012 called for a more ambitious implementation of the Services Directive and announced a zero tolerance policy to legal infringements.²

To assess further reform progress post 2012, the Commission in its March 2014 work plan for reporting on national reforms in services markets³ announced its intention to analyse which additional barriers Member States had addressed through additional reforms in 2012-2014, and the economic impact of these reforms.

To this end, the Commission has carried out an update of its 2012 assessment of the impact of the Services Directive. The objective of this update is to identify the reforms undertaken by Member States in 2012 to 2014 and to estimate the additional economic gains achieved.

2. Regulatory Changes in 2012-2014

The assessment of reform progress over the period 2012-2014 showed that the pace of national reforms had slowed considerably compared to the period following the entry into force of the Services Directive. Reform efforts in 2012-2014 have been uneven across Member States, as shown in graph 1 below.

² European Commission: Communication on the implementation of the Services Directive; COM(2012)261final
As the graph shows, Member States where most reforms have taken place recently include those having implemented economic adjustment programmes or reform agenda under market pressures.\[^4\] Thus, the three Member States where most services barriers have been abolished or partially reduced are Greece, Italy and Portugal.

Beyond those countries, only few Member States have made important reform progress. Several Member States have not undertaken any reforms to abolish or reduce regulatory barriers in the services sectors covered by this assessment.\[^5\] This is despite the fact that some of them received Country-Specific Recommendations adopted by the EU Council under the European Semester.\[^6\] In some isolated cases, previously achieved reforms have even been reversed. This is notably the case in Hungary.

The limited reform progress in 2012-2014 can in some cases be explained by the fact that previous reforms already led to lighter regulatory regimes, leaving less scope for further reforms in some cases. This is for example the case in countries such as the UK, Sweden or the Netherlands. In other cases, however, there has been little reform progress despite the fact that important barriers continue to exist. This is notably the case for Member States to whom services reforms have been recommended by the EU Council under the European Semester.

The following graph 2 shows the total barrier changes by Member States in 2014 compared to the situation before the transposition of the Services Directive, organised by services sectors covered. It shows both the variance of regulatory intensity across services sectors and the differences in terms of where restrictions have been abolished or partially reduced.

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\[^4\] In 2012-2014 the following Member States have been subject to an economic adjustment programme that among others included services reform measures: Cyprus, Greece, Ireland, Portugal.

\[^5\] Retail services (small shops and large outlets); construction/building company; crafts in the construction sector; certification service in the construction area; real estate agents; travel agencies; tourist guides; legal services; tax advisors; accountants; engineers; architects.

\[^6\] Country-Specific Recommendations covering services reforms have been issued in 2012-2014 to: Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, Poland, Slovenia, and Spain.
Annex I features more detailed information on the barrier changes in 2012-2014.

3. Economic Effects of Regulatory Changes

With only limited additional national reform efforts in 2012-2014, the economic effects of these changes are bound to be limited. The expectation would be that not much of the 0.8-1.8% EU GDP growth potential that the Commission estimated in 2012 could stem from a more ambitious implementation of the Services Directive will have been realised.

The objective of this update of the 2012 study has been to estimate of much of this potential has been achieved since.

Graph 3 shows the estimated GDP impact of regulatory changes in 2012-2014 by Member State. The methodology used for these estimations can be found in annex 2.
The largest GDP impacts are expected in Greece, Estonia, Spain, Italy and Portugal, reflecting the additional reforms undertaken in these countries. Negative GDP impacts are estimated for Hungary and Ireland, given both Member States introduced new barriers.

For the majority of Member States no additional GDP impact has been identified given that there are no changes for these Member States to the barrier levels between end-2011 and 2014.

The weighted average EU-level GDP impact is estimated at 0.1% over five to ten years.
ANNEX I: Barrier Changes 2012 – mid-2014: Main Patterns

Chart 1. The number of restrictions in 2014 compared to 2011 by sectors

The black dots denote the total number of restrictions in 2011.

Chart 2. The relative change of the restrictions in 2012–2014 (2011 = 100) by sectors

The black dots = 100 – (abolished + decreased – increased). This represents a relative “net balance” of the changes.
Chart 3. The number of restrictions in 2014 compared to 2011 by detailed restriction types

The black dots denote the total number of restrictions in 2011.
**ANNEX 2: Methodology**

**Barrier data**

The update of the barrier assessment undertaken in the original 2012 study to take account of national reforms carried out in the period 2012 until mid-2014 allowed a third data point to be added to the two barrier assessments done in the original study (i.e., before the Services Directive and end-2011).

The original analysis did an assessment of changes to barriers identified as existing before the introduction of the Services Directive following national reforms until the end of 2011. Three levels of changes to barriers were considered: no reform, partially reduced and abolished.

The approach taken to update this barrier assessment is the following:

- no changes are made to the original assessment of barriers (i.e. before the Services Directive and at end-2011);
- all barriers identified in the original study have been re-assessed to consider their evolution from 2012 to mid-2014;
- if a barrier was already partially reduced at the end of 2011 and further reduced but not abolished in the period 2012 to mid-2014, no barrier change has been taken into account;
- negative changes (i.e. new barriers or barriers re-introduced) have been taken into account as well.

The updated barrier assessment is based on replies by Member States to a questionnaire on national reforms conducted in the framework of the Expert Group on the Implementation of the Services Directive, complemented with Commission analysis/monitoring of national reforms.

**Impact calculation**

The methodology to calculate economic impact of reforms replicates the methodology of the original 2012 study. Specifically, in order to maintain consistency with the previous (potential) impact estimates, no re-estimations of the elasticities have been undertaken. Thus, the new barrier change (for the period 2012 to mid-2014) is multiplied by the already estimated elasticities to calculate the additional expected impacts, on top of those estimated in 2012.

Consistently with the 2012 study, for every dependent variable (trade, FDI, labour productivity), the aggregation of the restriction-level (i.e. sub-industry-level) barrier data into country-level barrier indicator is done in three steps listed in the diagram:
The country-level weighted-average indicators of barrier levels are then used to calculate the relative changes of barriers (in percent) in each country and multiplied by the pre-estimated elasticities. The elasticities estimated in the 2012 study are not country specific.

In the 2012 study, the GDP impacts were simulated with a general equilibrium model (QUEST3) on the basis of the estimated labour productivity “shocks” (changes) resulting from the barrier changes in the period ‘before the Services Directive’ – end of 2011.

In the current update, we assume that the GDP impact for each country is linearly related to the productivity shock and we apply the productivity change / long-term GDP change ratios from the 2012 study to the current productivity changes.