



Structural Reforms for Adjustment and Growth

Servaas DEROOSE

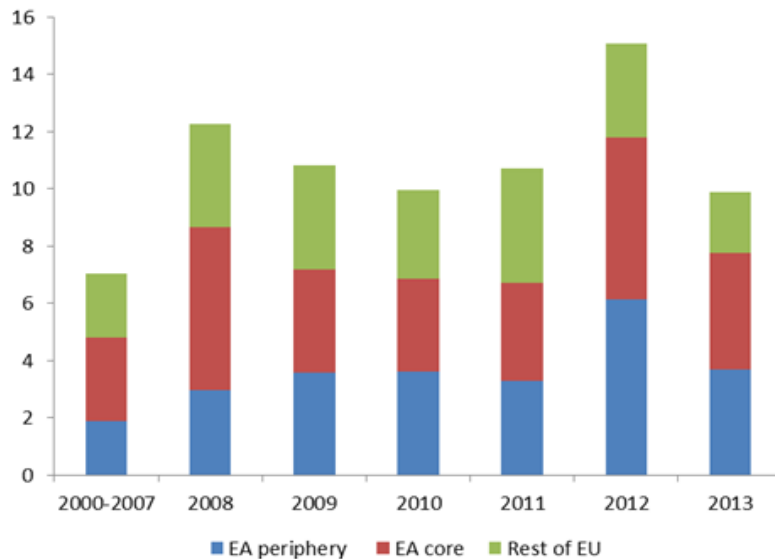
**Deputy Director-General
European Commission, DG Economic and Financial Affairs**

Brussels Economic Forum, 10 June 2014

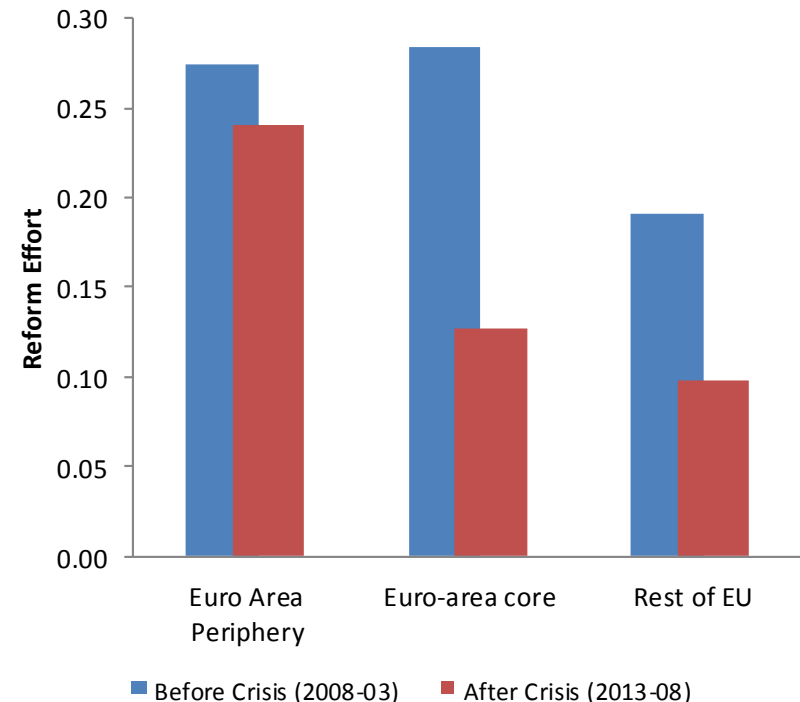


Crisis has accelerated labour market reforms but product market reforms lag behind

Labour market reforms (average number of adopted reforms per year)



Product market reforms (changes in the level of regulation)



Periphery: EL, IT, IE, PT, ES; Core: AT, BE, FI, FR, DE, NL, SK; Rest of EU: CZ, DK, UK, SE, HU

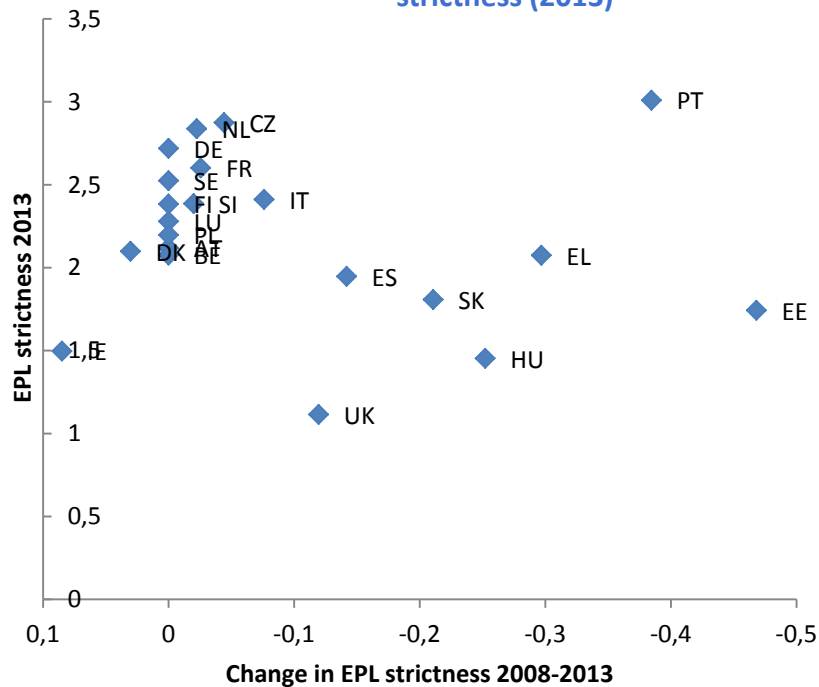
Source: European Commission.



Large reform efforts have been made in a number of countries but more is needed

Labour market reforms

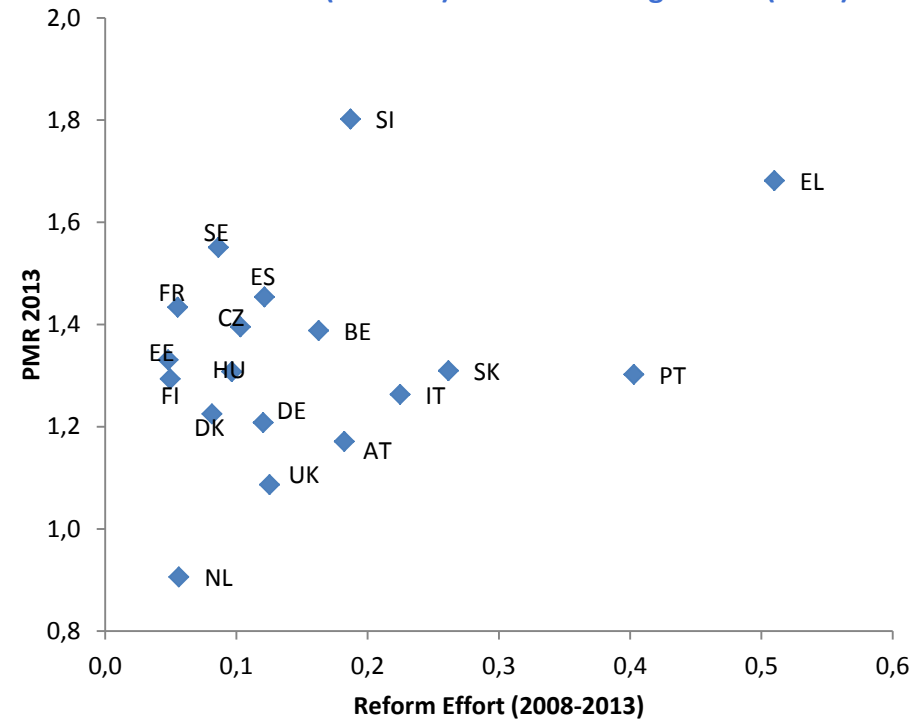
Reform effort (2008-13) and employment protection strictness (2013)



Source: European Commission

Product market reforms

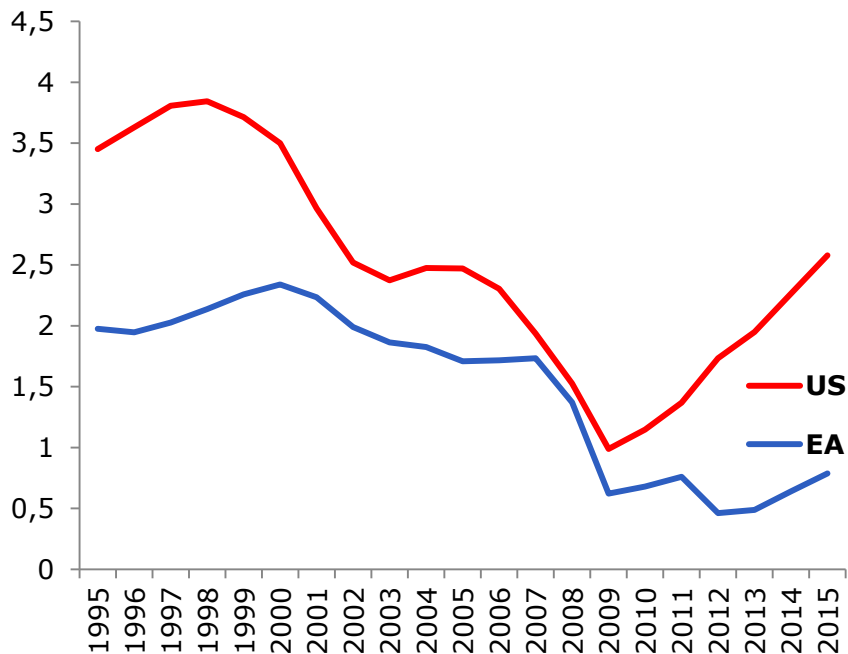
Reform effort (2008-13) and level of regulation (2013)



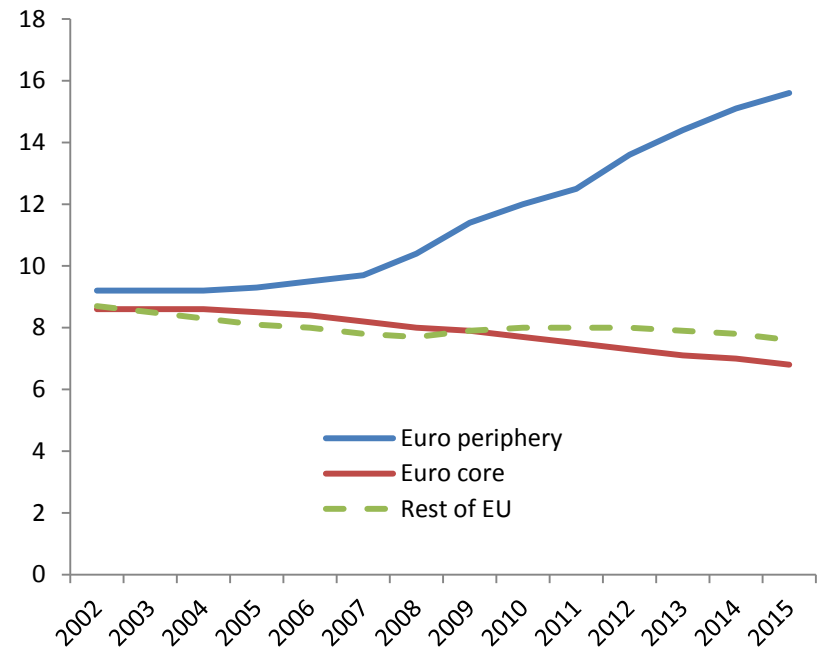
Source: OECD (PMR)

Low potential growth and high structural unemployment point to sizeable reform needs

Potential GDP growth in the US and EA
(% p.a.; 1995-2015)

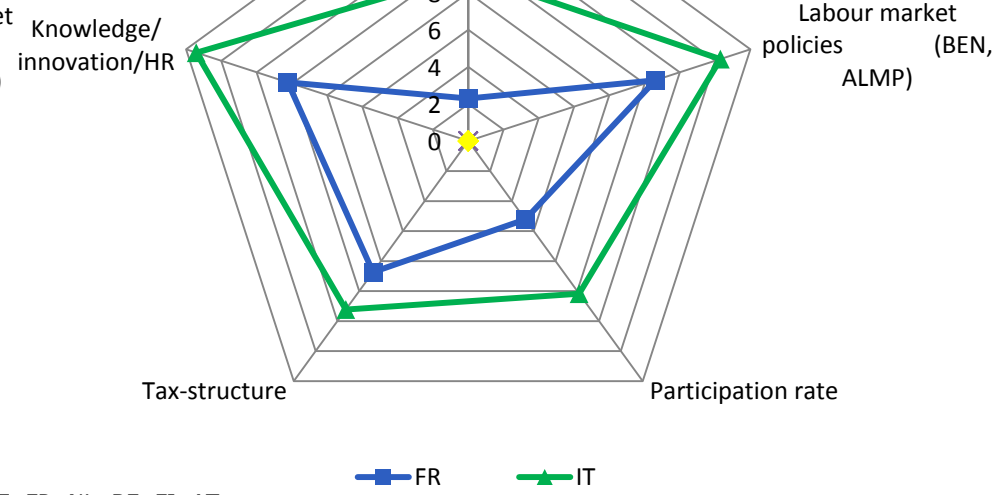
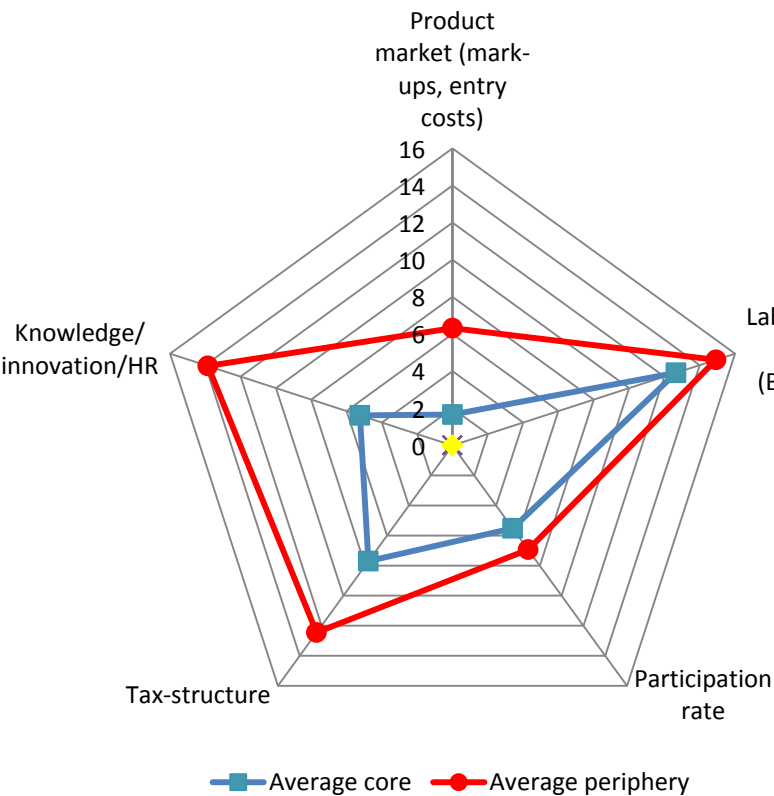


Structural unemployment
(%; 2002-2015)



The distance to the EU's best performers is still large

Relative distance across countries (best performers = 0)

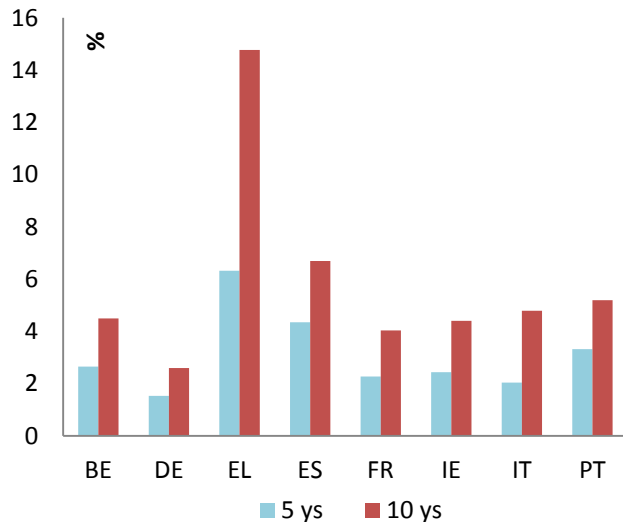


Core: DE, FR, NL, BE, FI, AT
Periphery: IT, ES, PT, EL

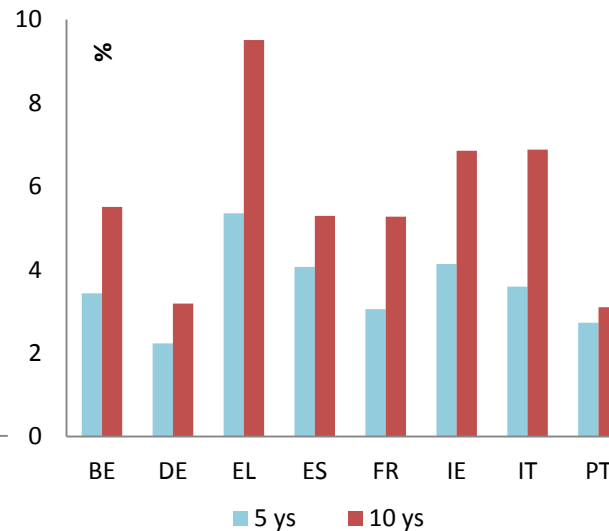
Structural reforms have the potential to raise GDP, employment and the budget balance

Model simulations of narrowing the gap with best performers by half

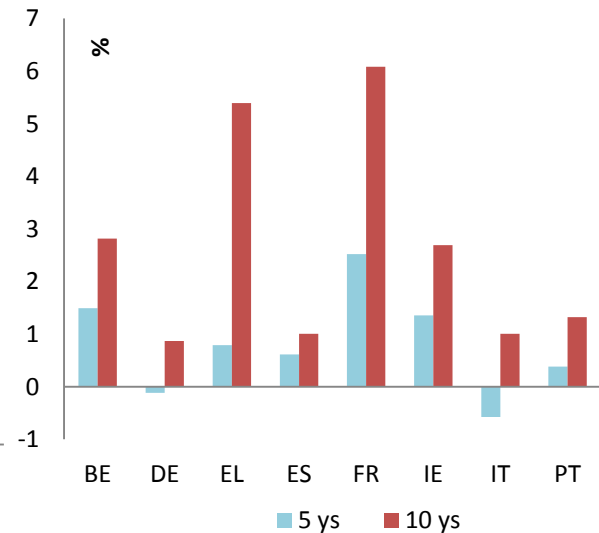
GDP (% difference)



Employment (% difference)



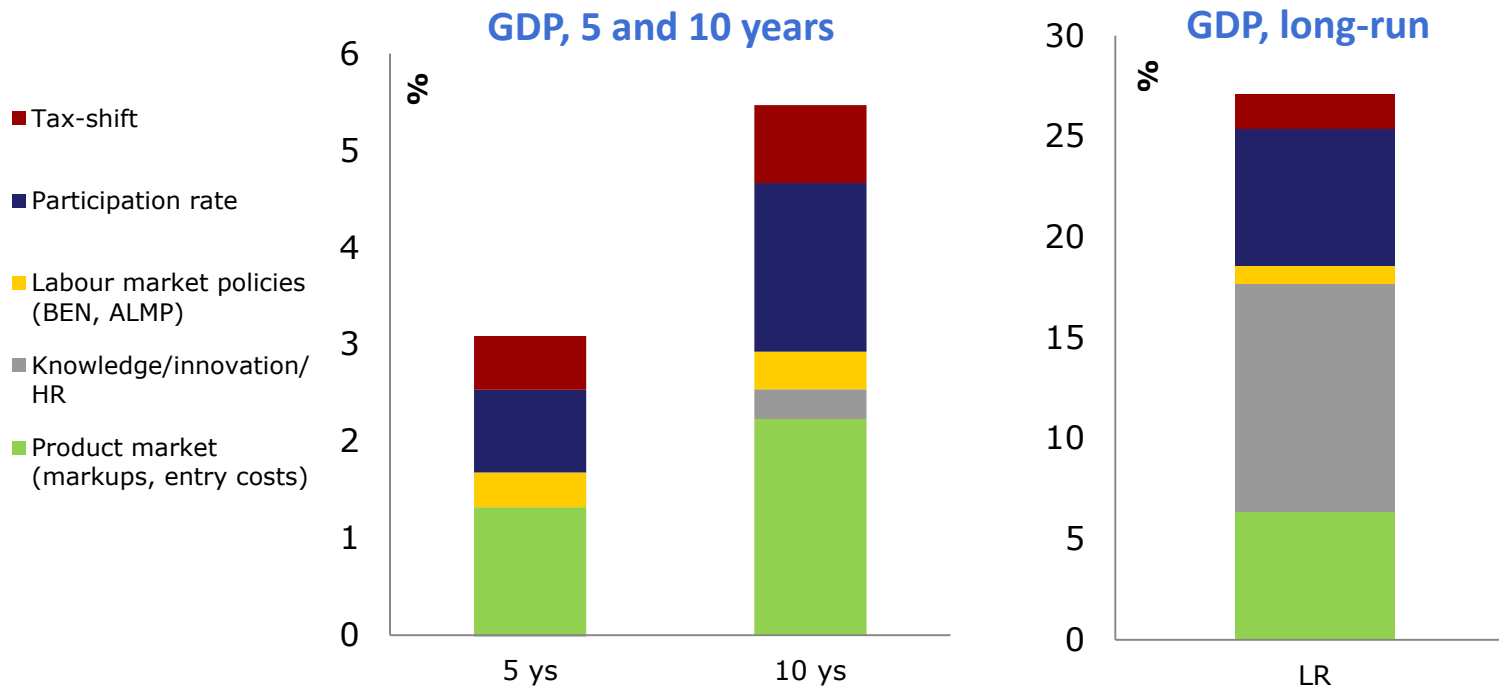
Government balance (% difference)





Product market reforms and higher participation rates boost medium-term GDP while innovation effects unfold over the longer term

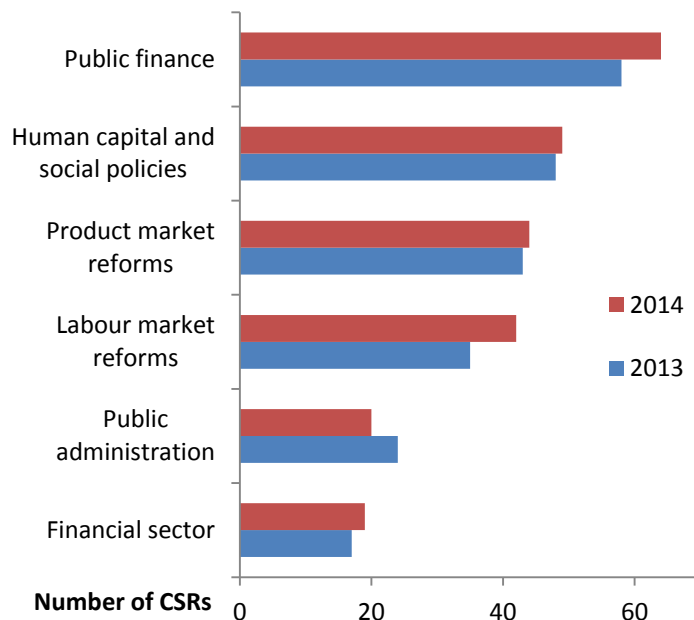
Simulated GDP effects, for each grouping of reform areas





Country-specific recommendations (CSRs) reflect major structural reform priorities

Number of CSRs in 2013 and 2014, by policy areas



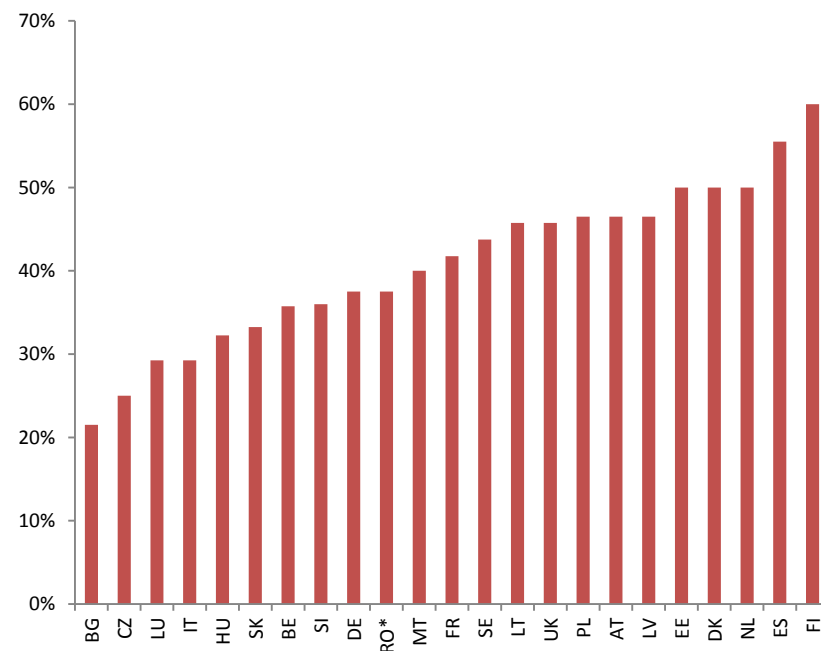
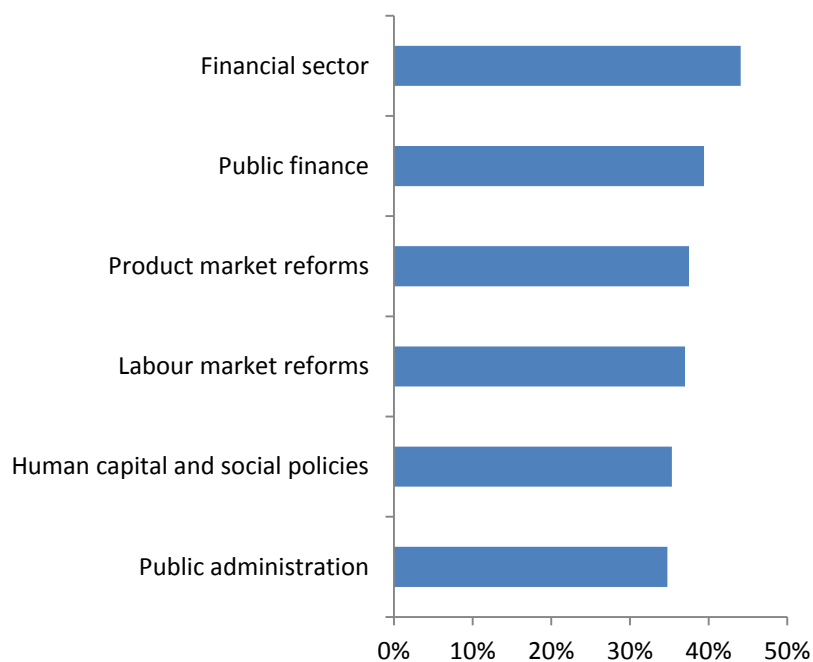
Source: Commission services

Germany	France
<ul style="list-style-type: none"> • Tax and SSC reduction for low-wage earners • Cost-effectiveness of renewable energy • Competition in services & railway markets • EU public procurement • Retail business restrictions 	<ul style="list-style-type: none"> • Labour cost reduction • Labour market rigidity, ALMP & vocational training • Efficiency of innovation • Professional services & business restrictions • Competition in network industries
Italy	Spain
<ul style="list-style-type: none"> • Efficiency of public administration • Labour market and wage setting reforms • Youth employment & vocational training • Regulatory business environment • Banking sector resilience & access to finance 	<ul style="list-style-type: none"> • Labour market segmentation & ALMP • Youth employment & vocational training • Market unity & professional services • Efficiency of public administration • Savings banks & access to finance



CSRs implementation remains mixed

Average implementation of 2013 CSRs by policy area and by country
(100% = full implementation score)





Incentives and cooperation pave the way for reform implementation

Clear policy objectives

- Growth and jobs
- Financial macro stability
- Sustainability of welfare state, tackling inequalities

Clear priorities at the EU level

- Single market
- Banking union

Clear priorities at the national level

- Customising CSRs according to challenges
- In many countries, product market and labour market remain priority areas

Commission's role

- Identification of priorities per country
- Effective use of existing surveillance instruments, with carrots and sticks
- Truth-teller in identifying vested interests
- Careful trade off between structural reform and fiscal policy