

Market Reforms at Work

in Italy, Spain, Portugal and Greece

Countries hard-hit by the economic and financial crisis such as Italy, Spain, Portugal and Greece, are going through an extensive and sometimes painful reform process. Reforms include measures to strengthen the economies' fundamentals by improving competition and productivity, which eventually brings sustainable gains in the standards of living.

Policymakers need to know which actions generate the desired effects, and which won't. Thus evidence-based policy-making requires a profound understanding of how policies feed through the economy, and which factors potentially limit their effectiveness.

This report on the assessment of product market reforms in two programme countries (Greece and Portugal) and two so-called vulnerable countries (Italy and Spain) reflects on the need to go deep into the economic mechanisms at play: product market reforms help to revitalise the process of business dynamics, that is, the entry, growth and exit of firms in markets, necessary to achieve an efficient allocation of productive resources in the economy. That means looking at the microeconomic foundations of reforms in order to better understand their macro-economic linkages.

The report estimates the potential impact of a number of selected, significant product market reforms designed to bring growth in the medium run. The reform areas covered include services liberalisation; the digital economy; measures improving the business environment such as reducing red tape entry costs; improving the efficiency of civil justice; and decreasing late payments. Significant potential effects of the reforms undertaken in the areas under analysis are found, with gains varying across the four countries depending upon their reform efforts. Sometimes, data availability imposes however a serious constraint on the analysis, particularly in the case of Greece.

Market reforms are typically of a structural nature whose potential effects only materialize in the medium to long run. But, can we say already something about whether these potential effects are already becoming visible? Indeed this seems to be the case and the report also provides empirical evidence in the form of early signs suggesting that the efforts are starting to pay off. The early signs are clearer for Spain, followed by Portugal while both Italy and Greece seem to lag behind, although in the case of Greece the assessment is hindered by data availability concerns.