Can structural reforms help Europe?

(Panel discussion)

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Overview

1. Structural rigidities in Europe and merit of addressing them
2. Reforms in challenging times
3. Reforms in practice, the need for well-crafted strategies and evidence of success stories
4. Concluding remarks
Part I - Structural rigidities in Europe & merit of addressing them

Rigidities in product and labour market…

…euro area countries still lagging behind

**Product market regulation (index)**

- GR
- SI
- SE
- FR
- LU
- IE
- ES
- BE
- EA
- SK
- PT
- DE
- FI
- EE
- IT
- AT
- US
- GB
- NL

**Employment protection legislation (index)**

- DE
- BE
- NL
- FR
- IT
- LU
- PT
- SI
- EA
- SE
- AT
- GR
- ES
- SK
- FI
- IE
- EE
- GB
- US

Source: OECD
Notes: euro area is the non-weighted average of the available countries.
Part I - Structural rigidities in Europe & merit of addressing them

These rigidities yield large gaps...

...in terms of productivity and employment rate

Total factor productivity
(index, 1995=100)

Employment rate
(percentage)

Source: AMECO

Source: Eurostat and HAVER.
Note: EA until 2000 reflects only the first 12 member states, i.e. the ones that joined in 1999 and GR.
In the medium to long run, structural reforms enhance potential growth. In normal times under appropriate conditions, even in the short run, gains exceed losses. Structural reforms also enhance resilience to shocks (avoid lengthier quantity-based adjustment process).

**Potential output growth**

Range of estimates; percentages

**Potential output reduction due to crisis**

Index, potential GDP in 1999 = 100

counterfactual potential GDP

potential GDP

actual GDP
Part II – Reforms in challenging times

Importantly, monetary policy is not muted at the ZLB...
The APP has compressed long-term yields and delivered a broad-based boost to asset prices via portfolio rebalancing and wealth effects

Changes in yields and financial prices
(exchange rates and Eurostoxx in percentage points; else in basis points)

Source: Bloomberg, ECB.
Last observation: 22 May 2015.
Financial sector reform also help...

- Significantly strengthened institutional set-up with Banking Union (SSM/SRM)

- Confidence-building effect of ECB Comprehensive Assessment

- Evidence of such benefits provided by the Irish & Spanish banking sector restructuring

- Enhanced regulatory framework also contribute to shock resilience

- Looking ahead Capital Market Union will also help
“The short-term impact of structural reforms does not just depend on when they are implemented but how…”

[Mario Draghi, Sintra, 22 May 2015]

- Credible & sustainable reforms (impacting agents’ expectations)
- The type of reforms (e.g. reduce entry barriers in sheltered services sectors; reduce households economic uncertainties by addressing pension/healthcare funding uncertainties)
- Interaction among policy measures (well-crafted package)
Labour market
Examples of reforms implemented in programme countries since 2011

<table>
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<tr>
<th>Employment-enhancing reforms</th>
<th>Competitiveness-enhancing reforms</th>
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<td>Simplification of dismissal procedures: <em>GR, PT, ES</em></td>
<td>Increase in wage decentralisation: <em>GR, ES, PT</em></td>
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<td>Rationalisation of unemployment benefit system: <em>PT, ES, GR</em></td>
<td>Easing of opting-out from sectoral agreements: <em>IE, GR, ES</em></td>
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<td>Increase working hours flexibility: <em>PT, ES, GR</em></td>
<td>Limits to automatic wage indexation: <em>ES, CY</em></td>
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<td>Strengthening active labour market policies (vocational training,</td>
<td>Cut in overtime pay, increase in working days, freeze or cut in the</td>
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<td>apprenticeships): <em>PT, IE, GR, CY</em></td>
<td>minimum wage: <em>PT, GR, CY</em></td>
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### Competition-enhancing reforms

- Increase power of competition authorities: **GR, PT, ES**
- Reduction of high rents in network industries (energy and transports): **PT, ES, GR**
- Reduction of entry barriers in retail trade and professional services: **PT, GR, CY**
- Reduction of market fragmentation across regions: **ES**

### Efficiency-enhancing reforms

- Reduction of licencing procedures: **GR, PT, ES**
- Increase efficiency of judicial system (out-of-court regimes, insolvency procedures, corporate restructuring tools): **PT, ES, GR**
- Improvement in tax-administration efficiency: **PT, ES**
- Restructuring of state-owned enterprises: **PT, GR**
Any evidence on the impact of reforms so far?

- **ALMPs effective in Portugal and Ireland**, with large proportion of fall in unemployment is explained by ALMP.

- **Wage reform effective in Spain** (priority of wage agreements to firm-level, and opting-out clauses). Between 2014 - 16 the estimated impact of the reform) is 2pp on employment growth and 0.5pp on GDP growth *(source: Banco de Espania, 2014).*

**Sources:** EUROSTAT. 2015 refers to Q1