



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Can structural reforms help Europe?

**Gilles Noblet**

Deputy Director General  
DG International & European  
Relations

**(Panel discussion)**

**ECB/Bank of Canada  
conference 8-9 June 2015**

# Overview

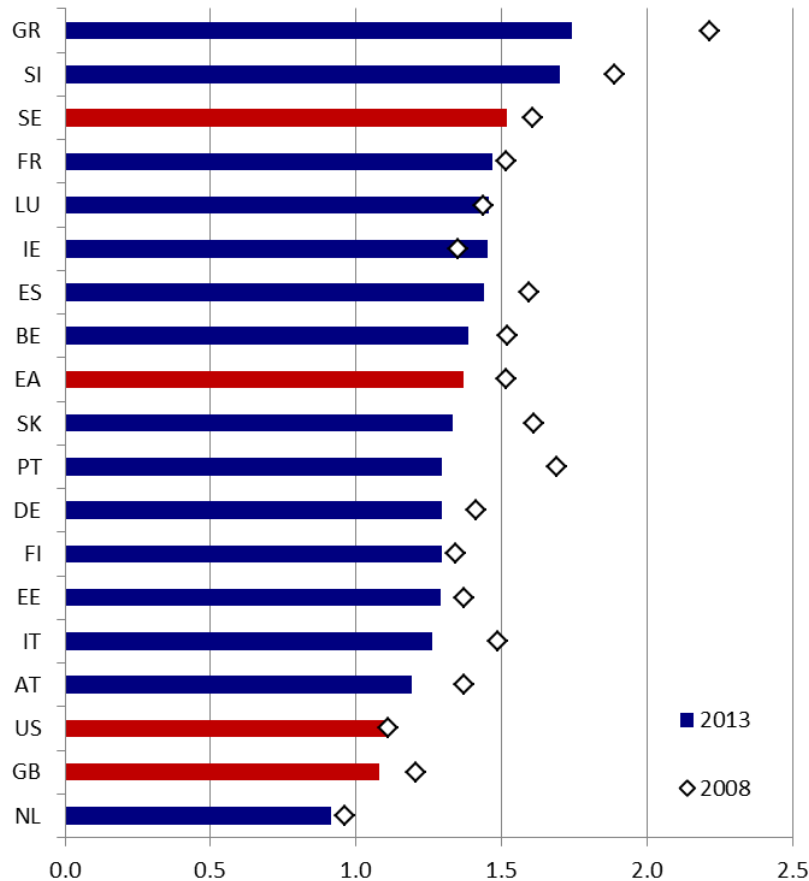
- 1 Structural rigidities in Europe and merit of addressing them
- 2 Reforms in challenging times
- 3 Reforms in practice, the need for well-crafted strategies and evidence of success stories
- 4 Concluding remarks

# Part I - Structural rigidities in Europe & merit of addressing them

## Rigidities in product and labour market...

...euro area countries still lagging behind

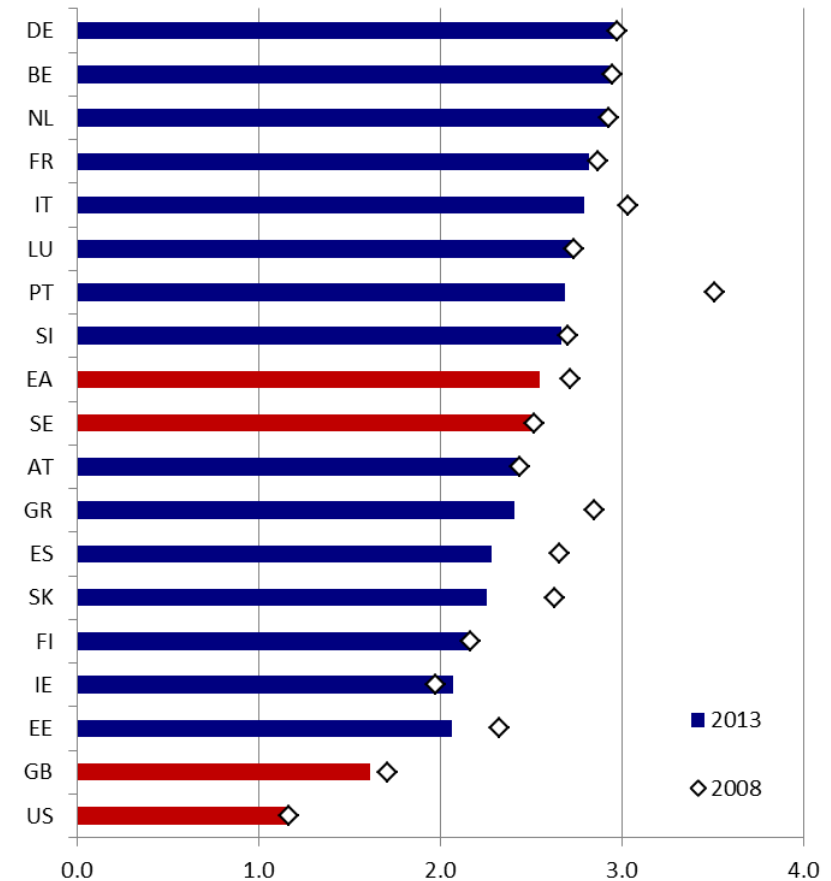
### Product market regulation (index)



Source: OECD

Notes: euro area is the non-weighted average of the available countries.

### Employment protection legislation (index)



Source: OECD

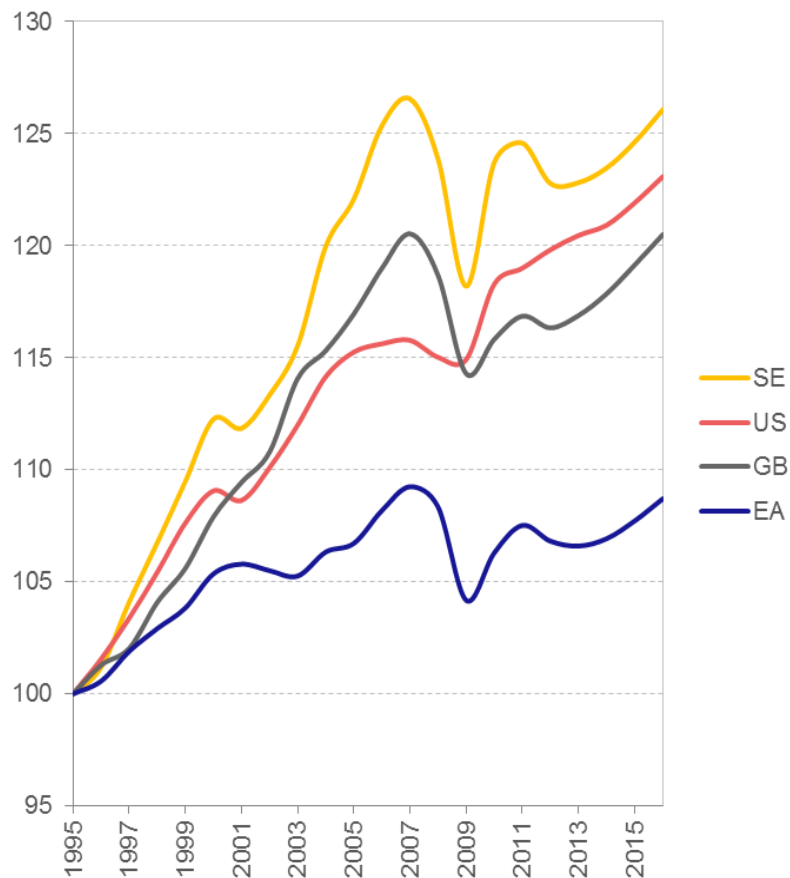
Notes: euro area is the non-weighted average of the available countries.

# Part I - Structural rigidities in Europe & merit of addressing them

These rigidities yield large gaps...

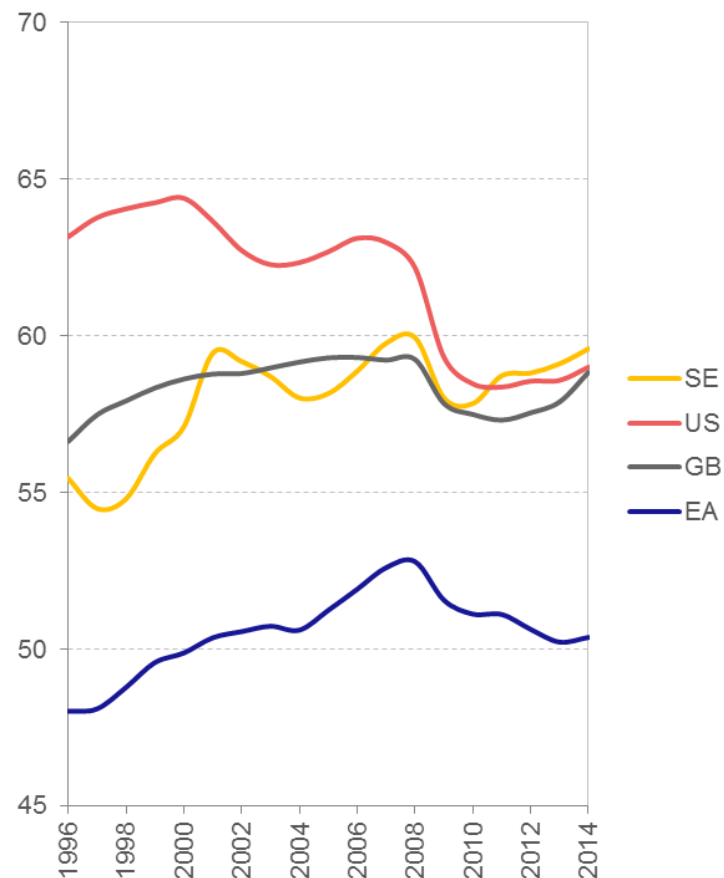
...in terms of productivity and employment rate

**Total factor productivity**  
(index, 1995=100)



Source: AMECO

**Employment rate**  
(percentage)



Source: Eurostat and HAVER.

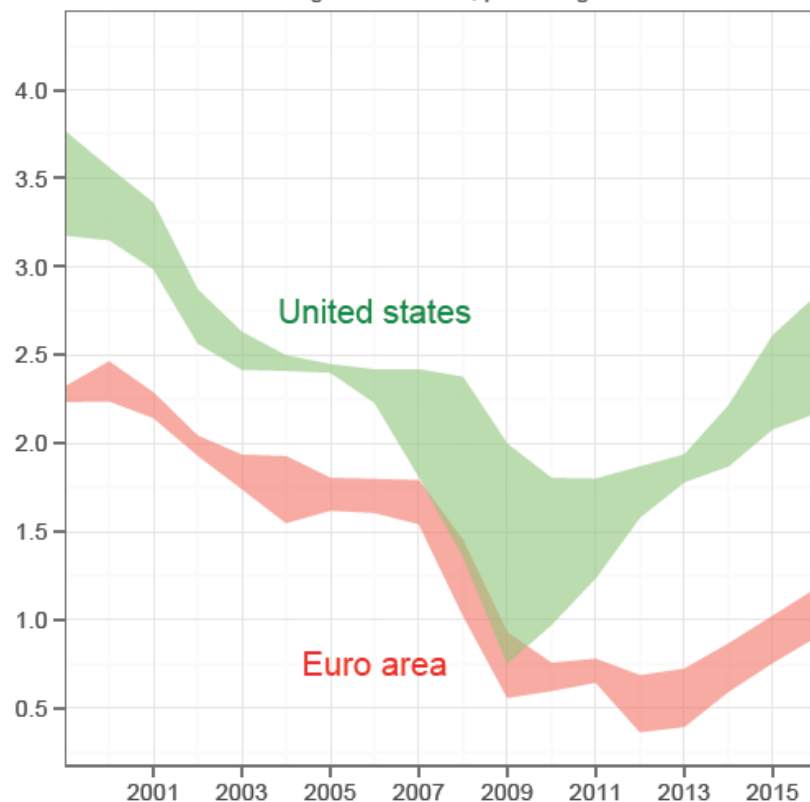
Note: EA until 2000 reflects only the first 12 member states, i.e. the ones that joined in 1999 and GR.

# Part I - Structural rigidities in Europe & merit of addressing them

- 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).

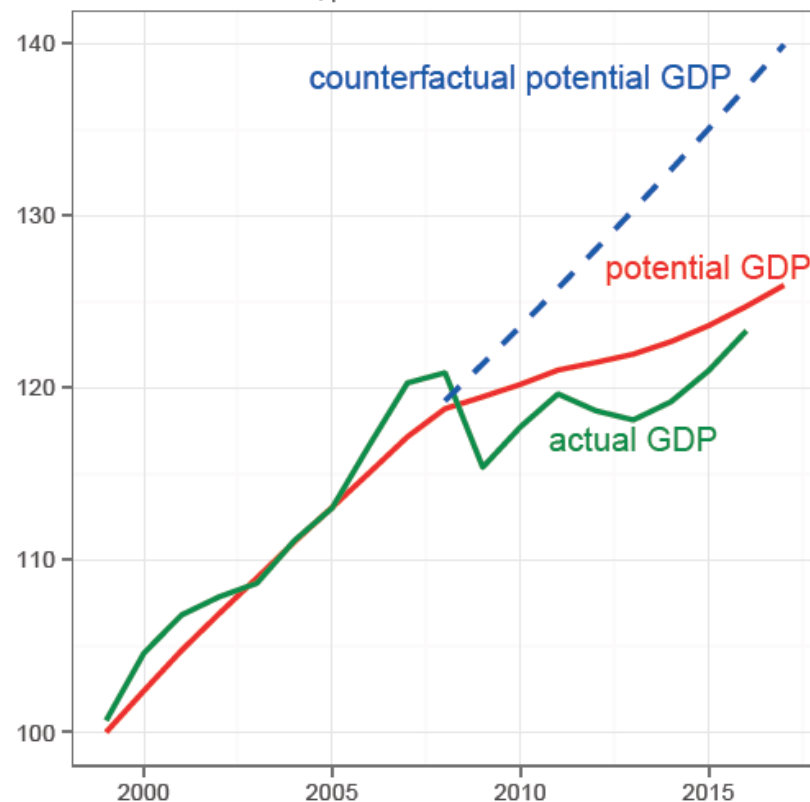
### Potential output growth

Range of estimates; percentages



### Potential output reduction due to crisis

Index, potential GDP in 1999 = 100



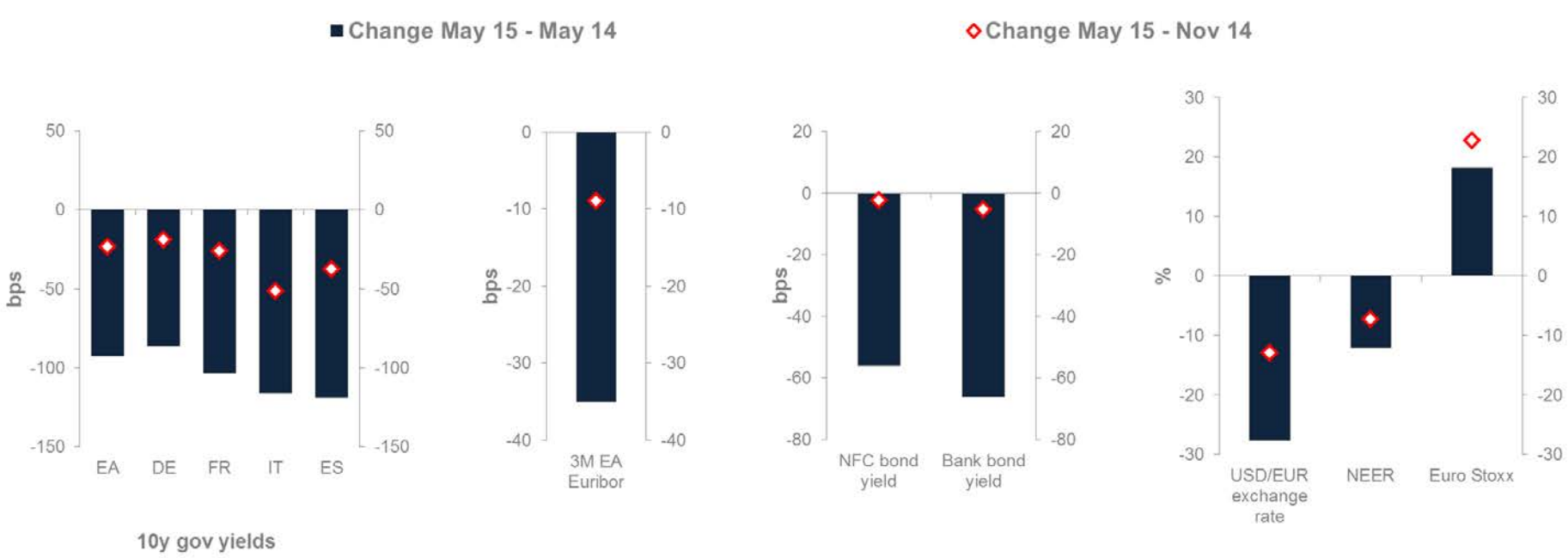


# Part II – Reforms in challenging times

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

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

## Product markets / framework conditions

Examples of reforms implemented in programme countries since 2011

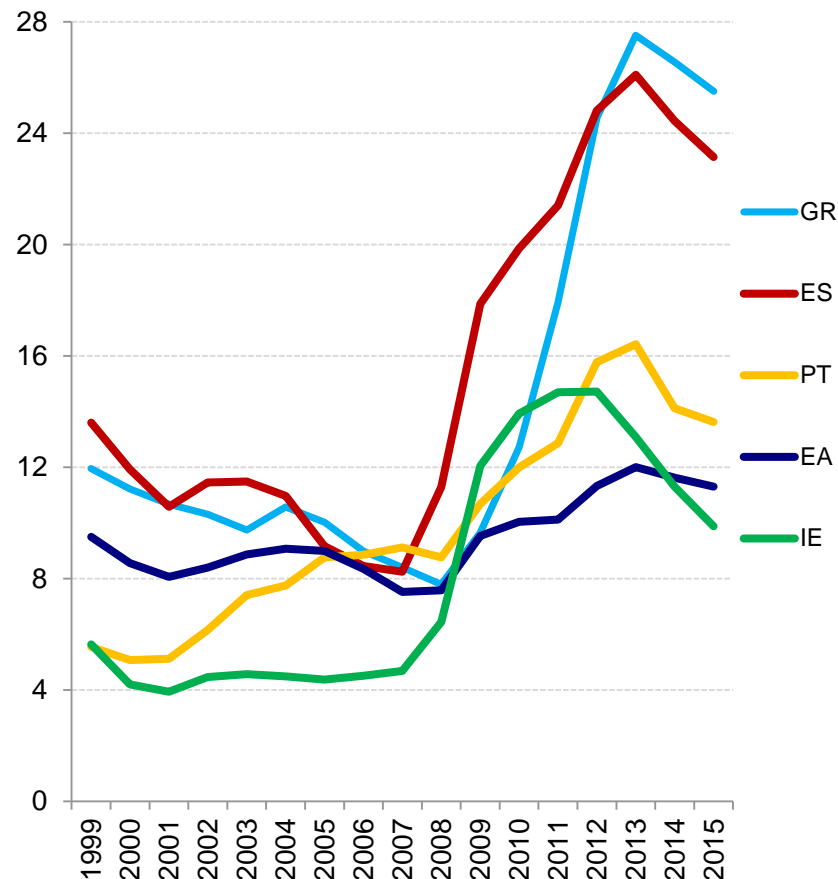
Competition-enhancing reforms	Efficiency-enhancing reforms
Increase power of competition authorities: <i>GR, PT, ES</i>	Reduction of licencing procedures: <i>GR, PT, ES</i>
Reduction of high rents in network industries (energy and transports): <i>PT, ES, GR</i>	Increase efficiency of judicial system (out-of-court regimes, insolvency procedures, corporate restructuring tools): <i>PT, ES, GR</i>
Reduction of entry barriers in retail trade and professional services: <i>PT, GR, CY</i>	Improvement in tax-administration efficiency: <i>PT, ES</i>
Reduction of market fragmentation across regions: <i>ES</i>	Restructuring of state-owned enterprises: <i>PT, GR</i>

# Part III – Reforms in practice: the need for credible well-crafted strategies and evidence of success stories

## 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*).

Unemployment rate  
(in % of the labour force)



Sources: EUROSTAT. 2015 refers to Q1

