



# Abenomics – stock-taking and lessons for the EU

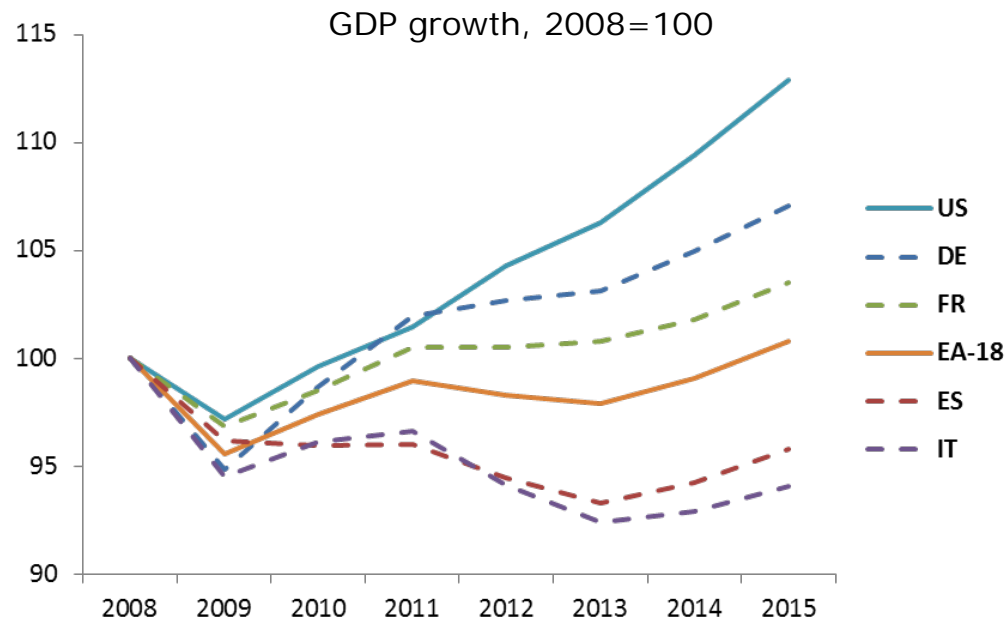
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**Brussels, October 8, 2014**

## Seven years later ...

- Euro-area specific factors largely contribute to the feeble growth amid very low inflation.
- Pronounced differences across Member States.
- Fundamentals for growth of domestic demand are in place, but the brakes from the crisis will only slowly loosen.



# About growth, competitiveness and reforms: reflections and facts

## *Growth and Convergence:*

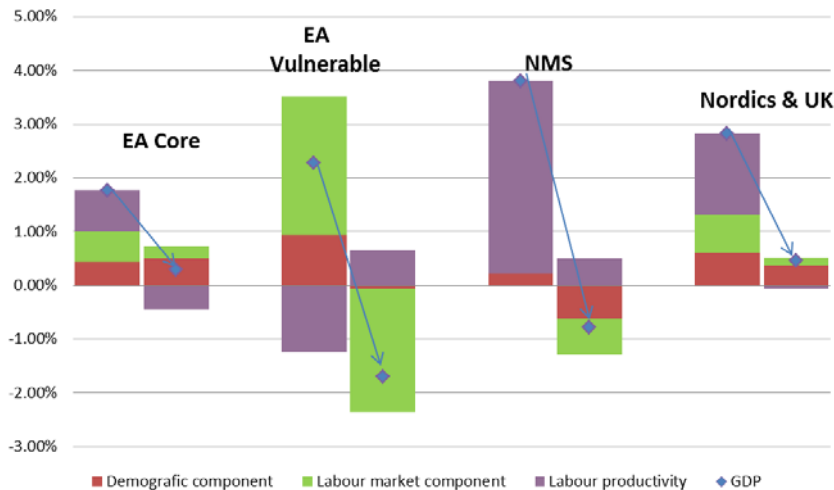
- *How crisis affected the drivers of growth?*
- *How was competitiveness affected?*

## Reform Efforts and Gaps:

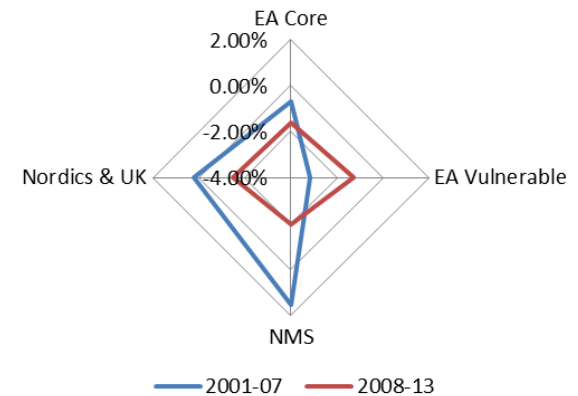
- *How can we gauge reform effort so far?*
- *Has the reform effort been enough?*

# Future challenges: restoring output convergence and TFP growth

**Growth Decomposition by Group of Countries and by Periods: 2001-07 and 2008-13**



**Contribution of TFP to Growth**

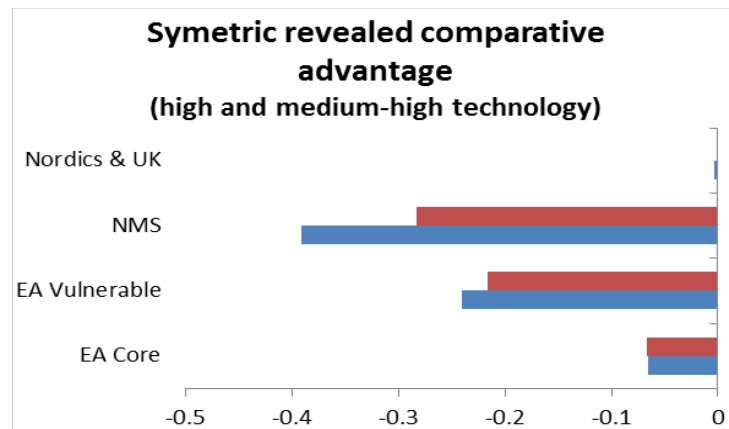


**Note:** (1) **EA-Core:** AT, BE, DE, FI, FR, LU, NL; **EA-Vulnerable:** CY, EL, ES, IE, IT, PT, SI; **NMS:** BG, CZ, EE, HR, HU, LT, LV, MT, PL, RO, SK; **Nordics & UK:** DK, SE, UK; (2) **Demographic component** refers to net migration, native population and share of working population; **Labour market component** refers to participation rates, employment rate and number of hours worked; **Labour productivity** refers to TFP, capital deepening and quality of labour.

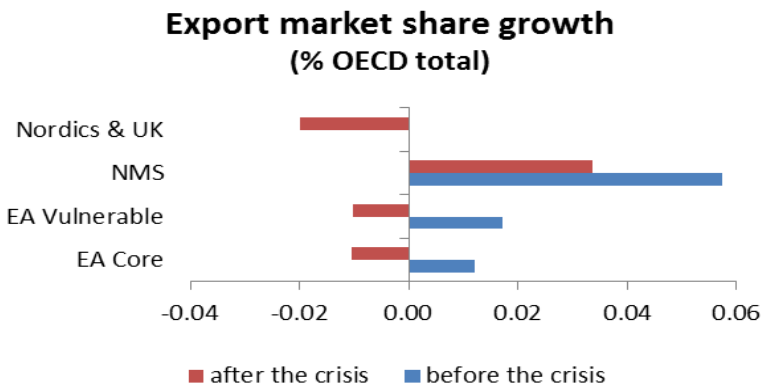
Source: Commission Services



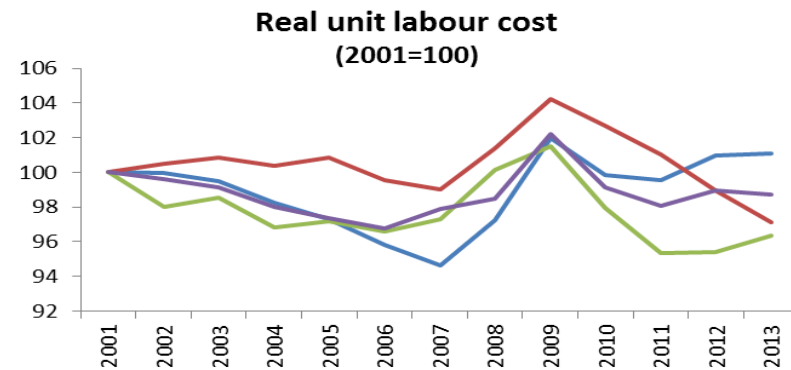
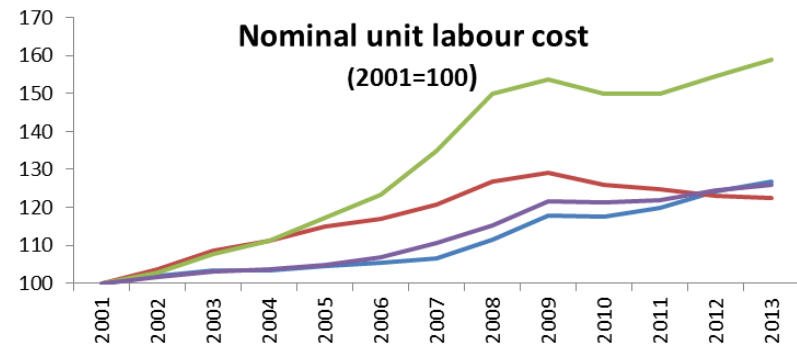
## Improvements in competitiveness in catching up economies



Source: COMTRADE



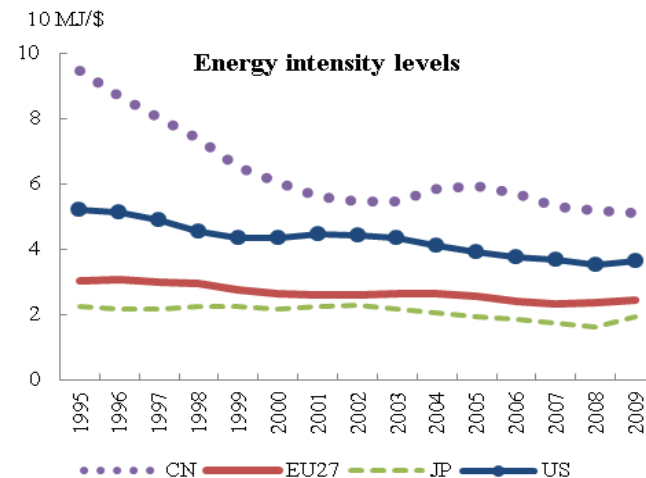
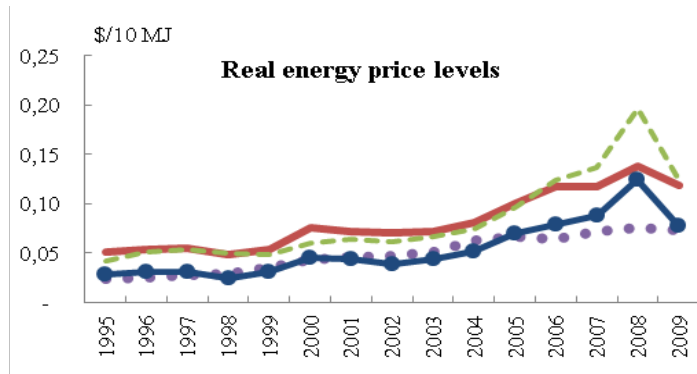
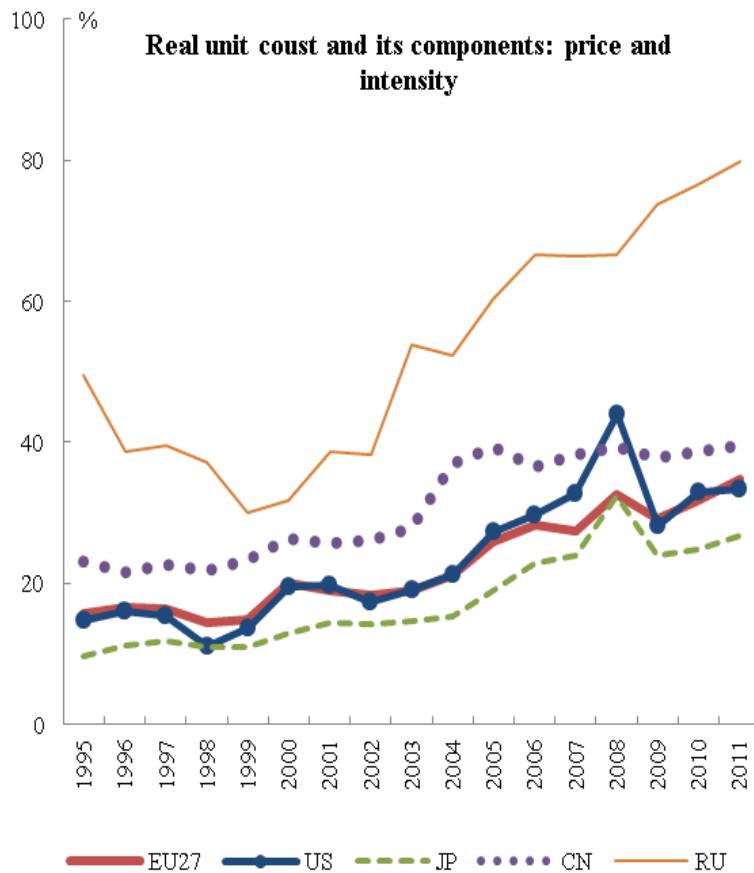
Source: Commission Services



— EA Core — EA Vulnerable — NMS — Nordics & UK

Source: Commission Services

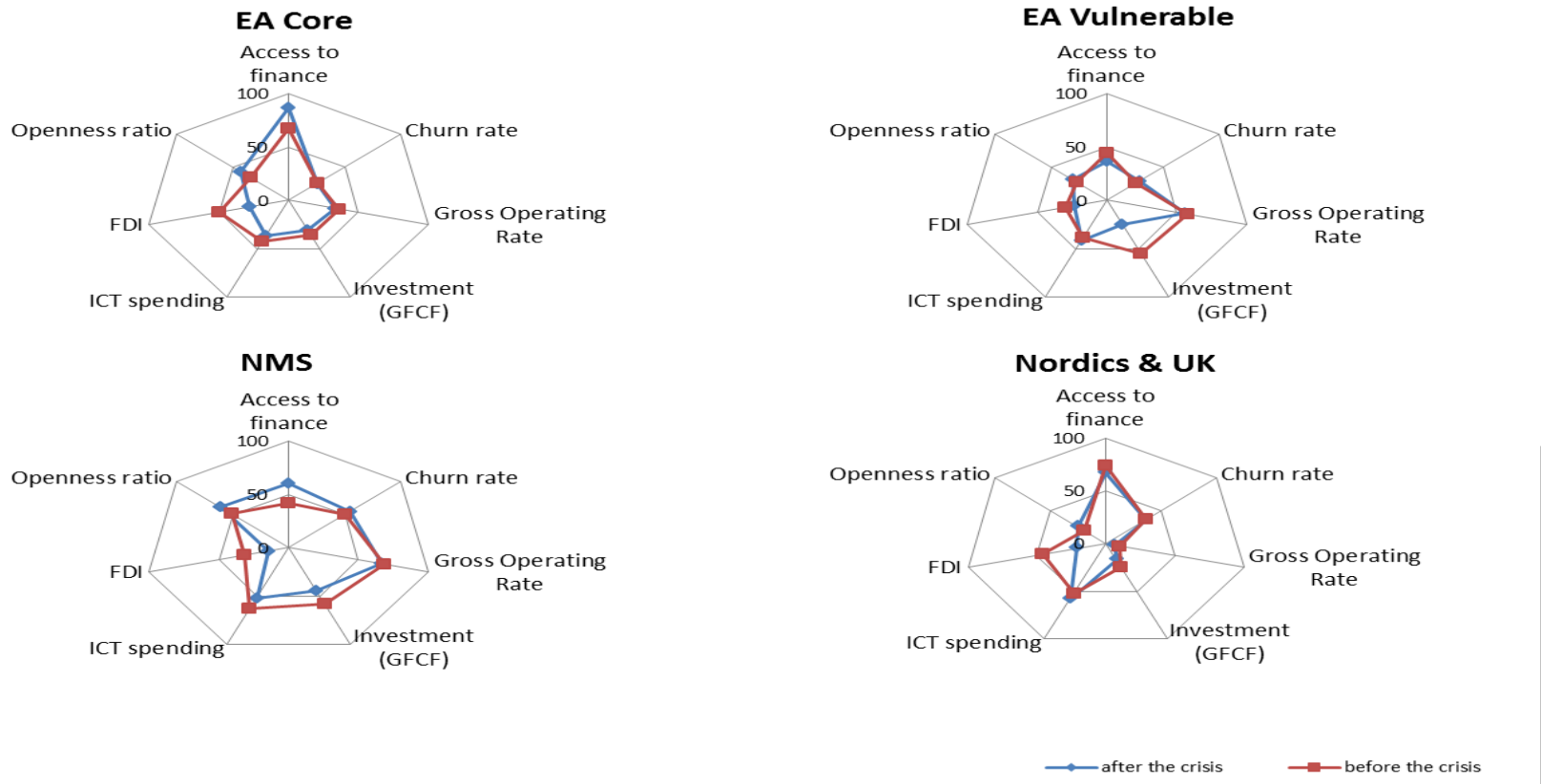
# Gains in energy efficiency helped mitigate competitiveness losses from higher energy prices



Source: WIOD and Commission's computation



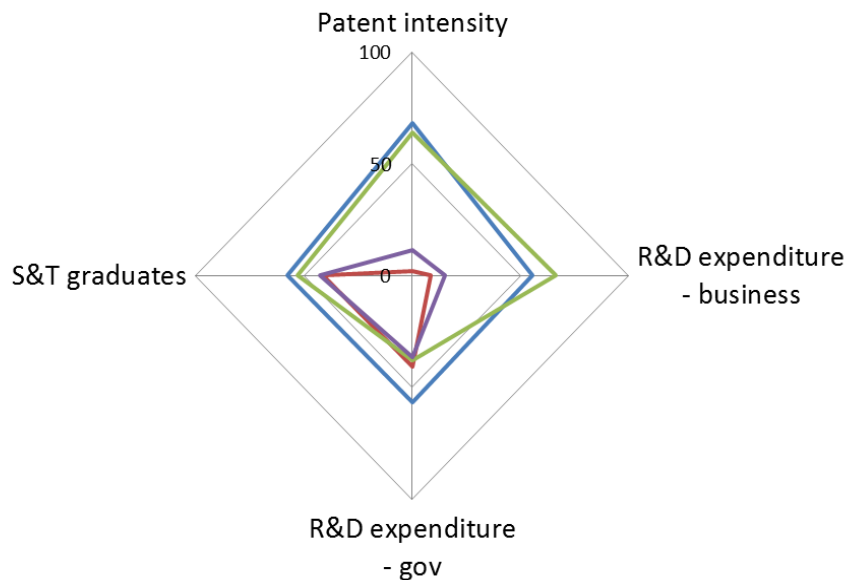
## Persistent gaps in business environment and investment performance in catching up economies



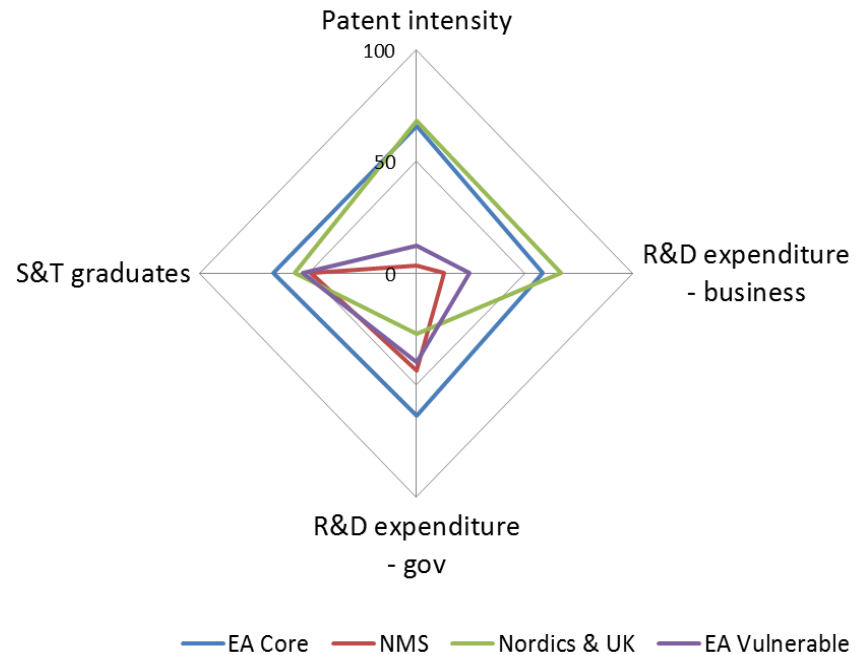
**Note:** For these charts, the data E is normalised, for country i and period t, as :  $Normalized (E_{it}) = \frac{E_{it} - E_{min}}{E_{max} - E_{min}} \times 100$   
 where: Emin and Emax refer to the minimum and the maximum value for variable E respectively.  
 Source: Commission Services

# Some progress but still large differences in R&D and Innovation

before the crisis



after the crisis



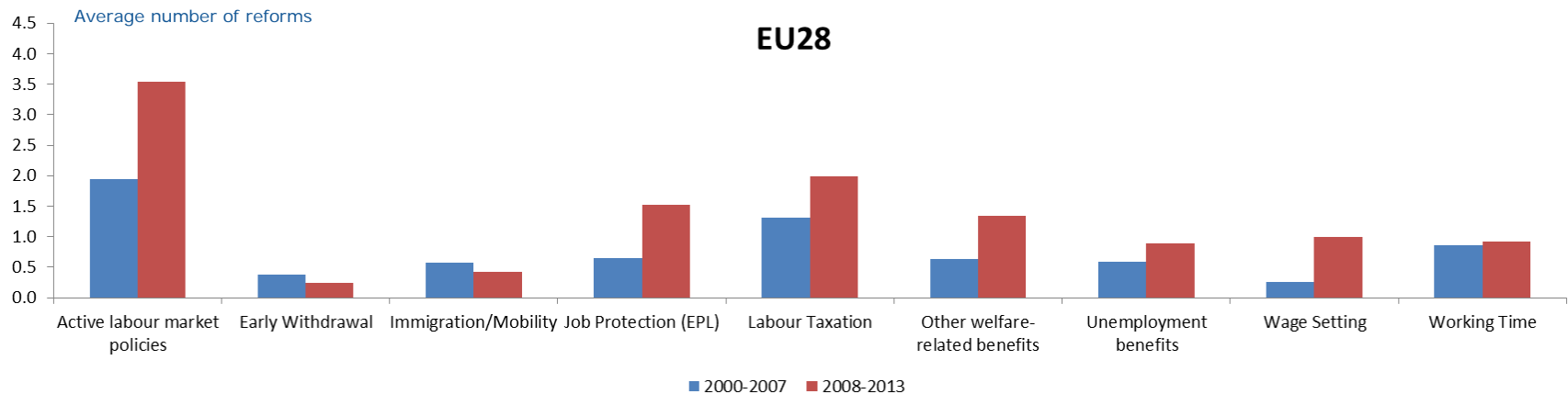
**Note:** For these charts, the data  $E$  is normalised, for country  $i$  and period  $t$ , as :  $Normalized (E_{it}) = \frac{E_{it} - E_{min}}{E_{max} - E_{min}} \times 100$

where:  $E_{min}$  and  $E_{max}$  refer to the minimum and the maximum value for variable  $E$  respectively.

Source: Commission Services



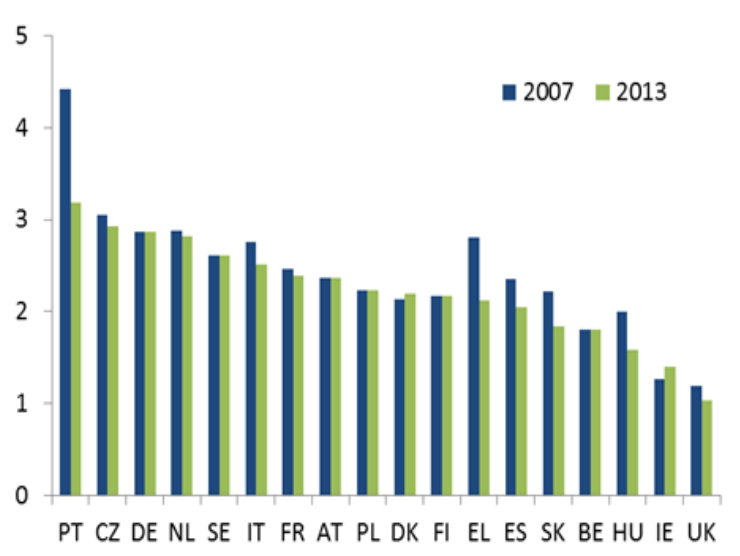
## Higher reform efforts on labour market with EPL and wage setting as policy priorities



Source: Commission Services

# Progress in labour market reform constrained by fiscal consolidation pressures

Employment Protection Legislation (regular contracts) in the EU, 2007 and 2013



Tax wedge in the EU, 2007 and 2013

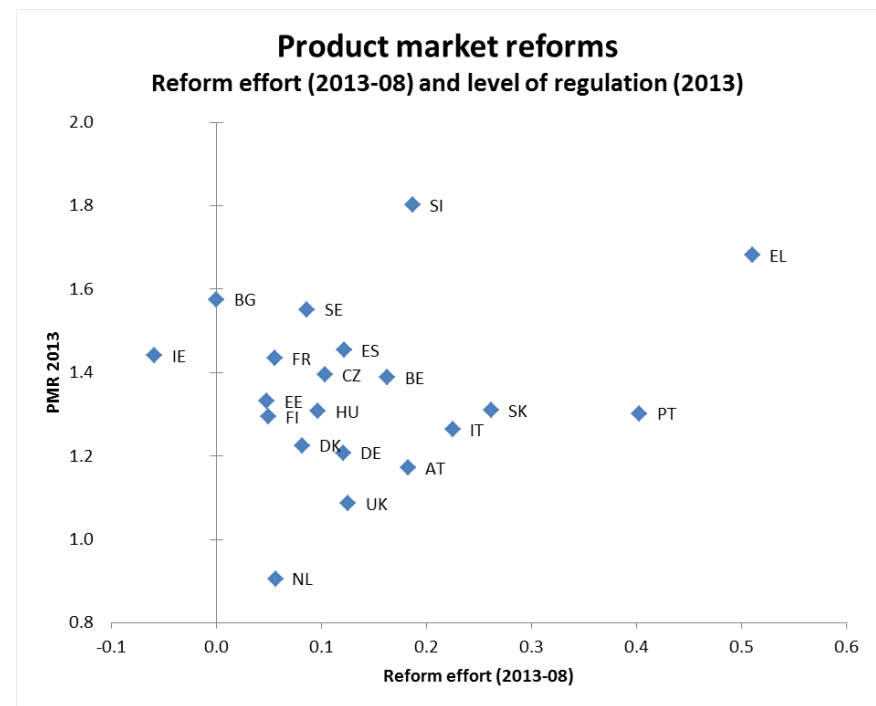
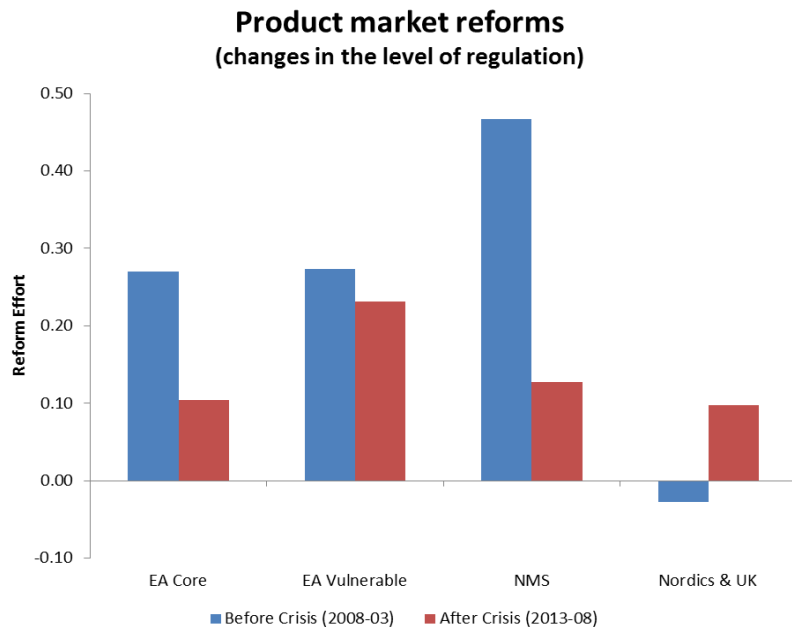


Source: OECD

Sources: OECD and Commission Services

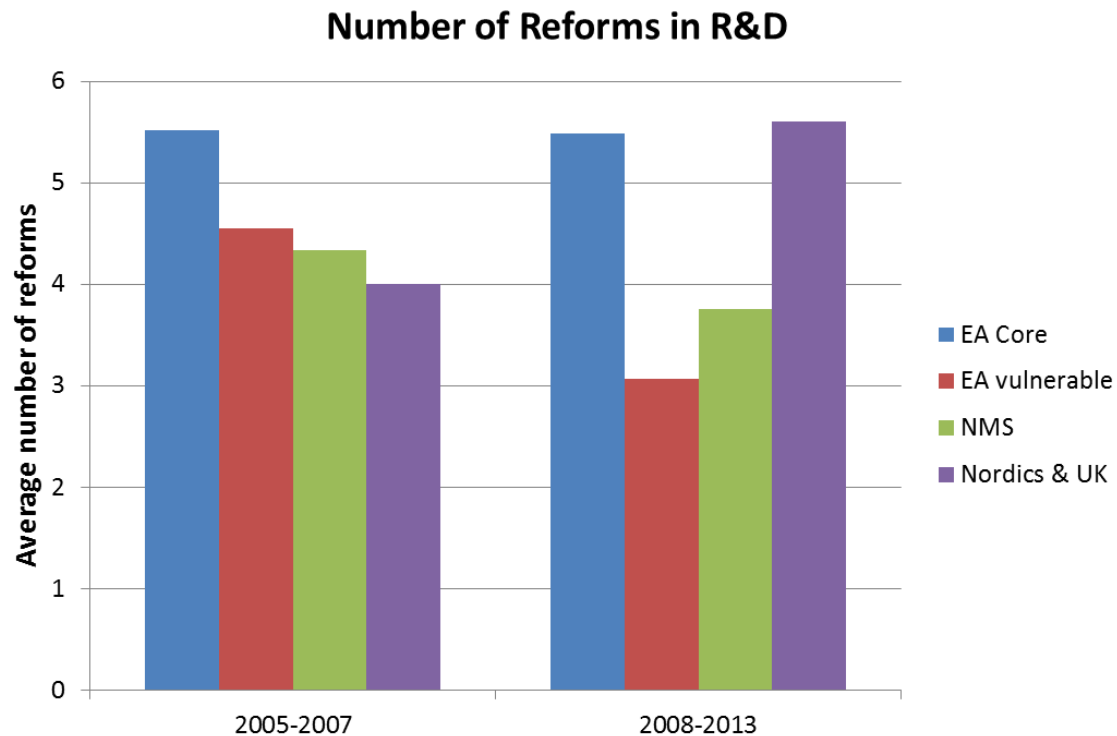
# Product market reforms slowed down after the crisis, but more sustained efforts in EA Vulnerable

## Still a long way to go for closing the gap between best and worst performers



Source: OECD (PMR)

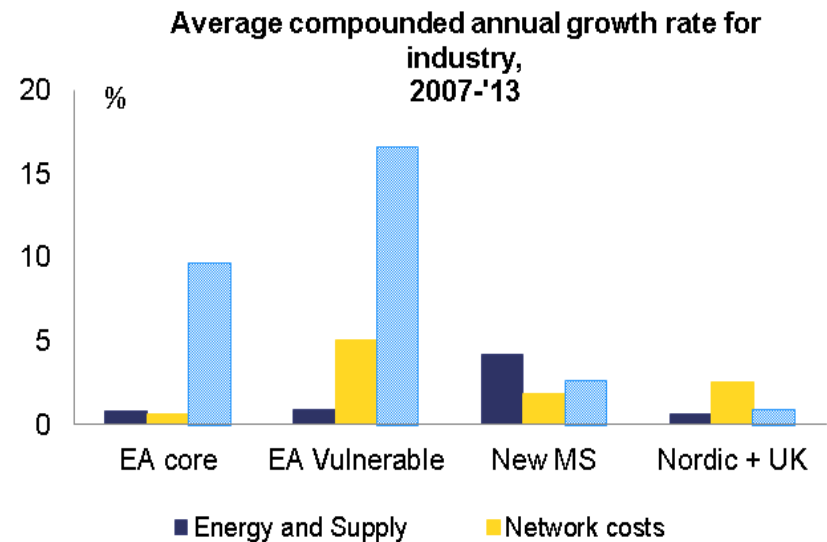
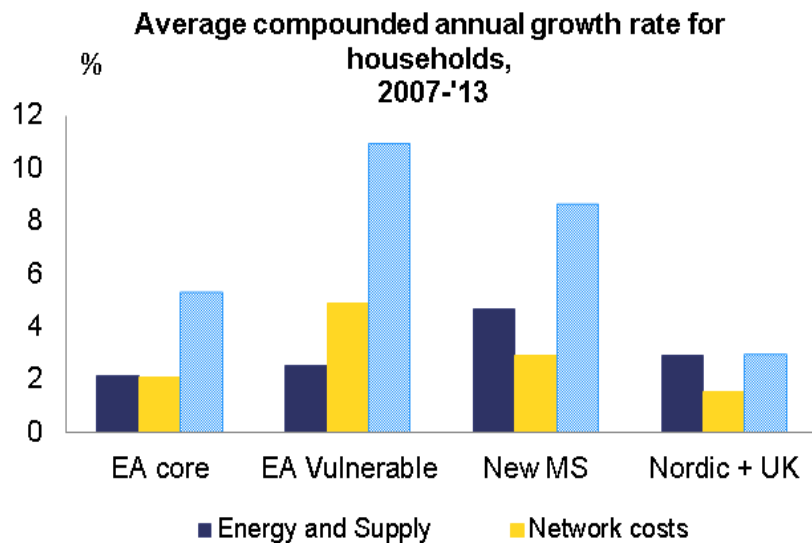
## Risk of further lagging behind if catching up economies do not focus on R&D and Innovation



Source: Commission Services

# Increase in taxes and levies as main drivers in energy prices

Average annual change in different components of the energy retail price, 2007-2013



**Note:** (1) The Consumption bands used were DC for Households (2500 kWh < Consumption < 5000 kWh); (2) The Consumption bands used were IC for Industry (500 MWh < Consumption < 2000 MWh).

Source: Commission Services



## Reverting to pre-crisis TFP growth will be a major challenge for the EU in the years to come

*Depressed demand, lingering investments and high labour costs (tax wedge) are hampering employment. The EU is facing an important challenge of increasing TFP growth but the needs and the conditions to meet this challenge differ according to the Member States:*

- *EA-C: reforms towards a more competitive business environment, improved competitiveness;*
- *EA-V and NMS: need to continue structural reforms*
  - Reforms to support **employment** and revert recent trend in tax wedge are especially needed in EA-V
- *Nordics & UK: despite good performance, the drop in TFP is a concern*
  - **product market reforms** are necessary to improve **business environment** and to stimulate **competition**
- *all MS: **R&D&I** are important for closing the gap and boosting potential, while **education** is a pre-requisite:*
  - **R&D&I policies** are growth-enhancing for countries close to the technological frontier;
  - **R&D policies to expand absorptive** capacity of new technology are most needed in catching-up economies.