Summary for non-specialists
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The potential growth impact of structural reforms in the EU

A benchmarking exercise

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This paper presents a quantitative model-based assessment of the potential impact of structural reforms in the EU Member States. We apply a benchmarking methodology to all European Union Member States. Reform shocks are based on a set of structural reform indicators covering a wide range of areas, including market competition and regulation, R&D expenditure, skill structure, tax structure, labour market participation, unemployment benefit 'generosity' and active labour market policies. We define the potential for reform as a closing by one-half of the gap in these indicators vis-à-vis the three best-performing countries in the EU. To allow for implementation lags, all reforms are phased-in gradually. Closing half the gap implies that for almost all Member States there is potential to introduce further reforms, without imposing 'unrealistic' changes for countries that fall far short of best performance.

The simulations show large potential gains in output and employment, raising EU GDP by 3 % after five years and 6% after ten years. Of the reforms simulated in this paper, labour market reforms, and in particular reforms that raise labour force participation, yield relatively the largest output effects in the short to medium run, followed by tax reforms and reforms raising competition in product markets. Reforms relating to product markets, stimulating competition in certain sectors, can lead to large output gains, but such effects are likely to emerge only gradually. Many of the reforms can also be expected to yield results only in the medium to long term (this applies in particular to incentives to raise participation among women and/or older people, and improve the skills structure), while involving sometimes significant frontloading of budgetary costs (education, training). In contrast, reforms that increase the participation rate of older workers can yield significant budgetary savings.

There are positive cross country spillovers of structural reforms, adding up to 10% to the gains in output in the long run. The sizeable growth effects and the positive budgetary effects provide a strong rationale for the impetus to reform given by the country-specific recommendations in the European Semester.