



European
Commission

EUROPE 2020

The EU strategy for Jobs and Growth

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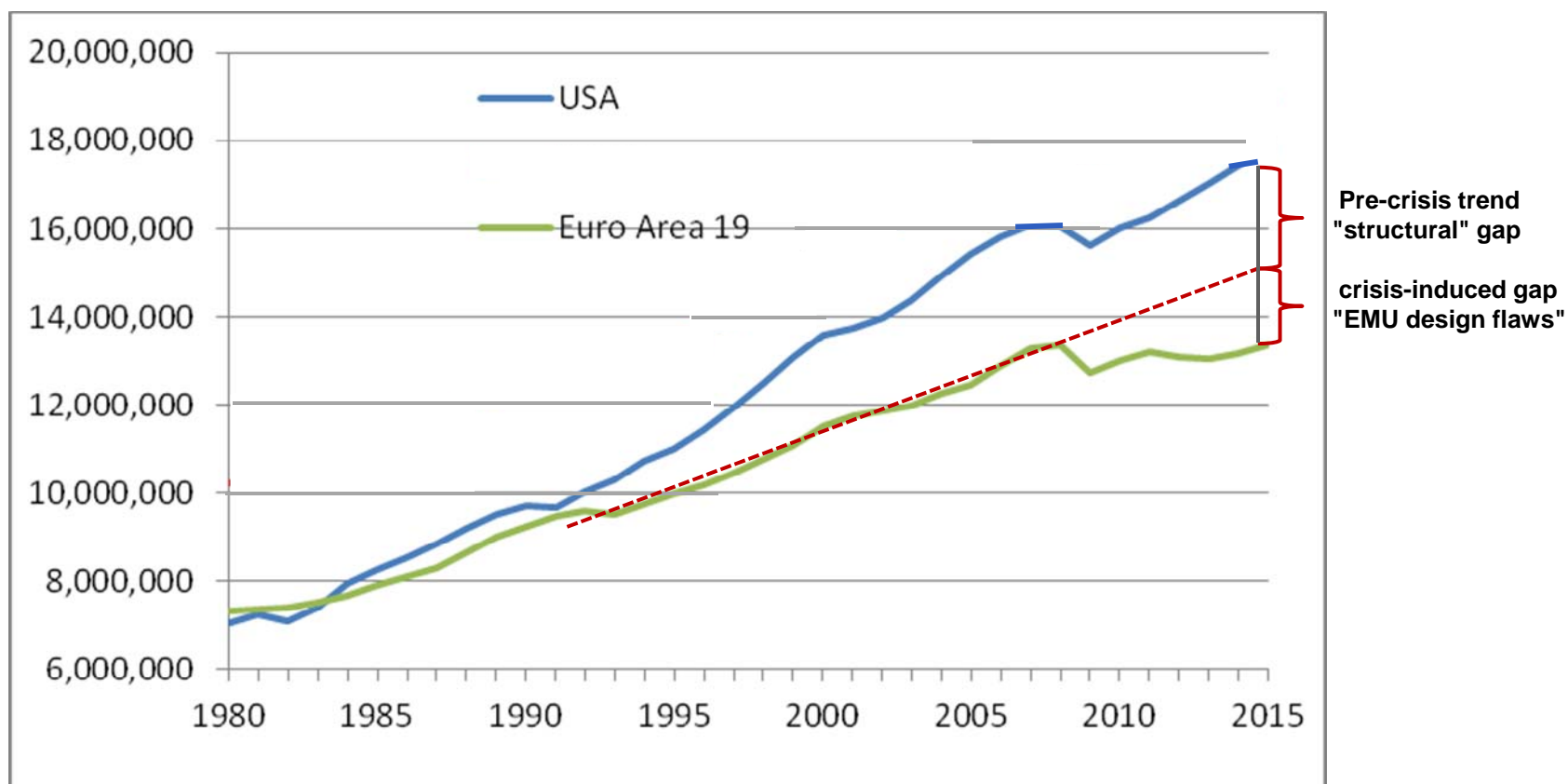
Course on Structural Reforms
Vienna, 11 September 2015

Joint Vienna Institute



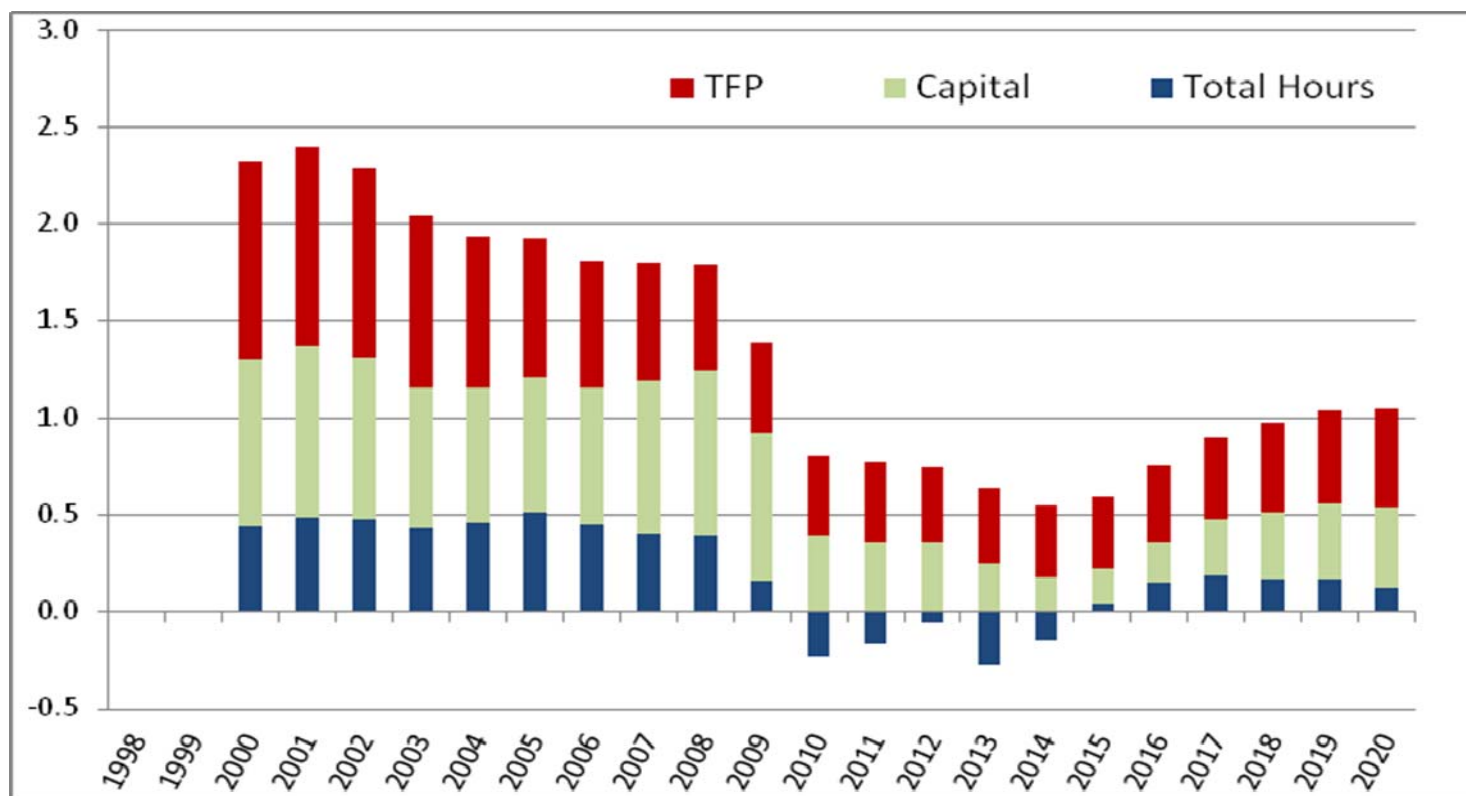
Falling behind and drifting apart

Level of GDP, PPP converted, rebased to 2014 \$



A sobering medium-term outlook, yet still optimistic?

Potential output growth decomposition, Euro area



Source: European Commission, 2015.





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Europe 2020 - 3 integrated priorities

Smart growth

Developing an economy based on knowledge and innovation

Sustainable growth

Promoting a more efficient, greener and more competitive economy

Inclusive growth

Fostering a high-employment economy delivering social and territorial cohesion





A three-pronged policy strategy, acting on both the demand and the supply-side

- ❖ With interest rates at the zero lower bound, monetary policy needs to marshal unconventional tools
- ❖ Growth-friendly fiscal policies ensuring debt sustainability, differentiated across countries according to fiscal space
- ❖ Pro-growth structural policies with a focus on investment and rebalancing



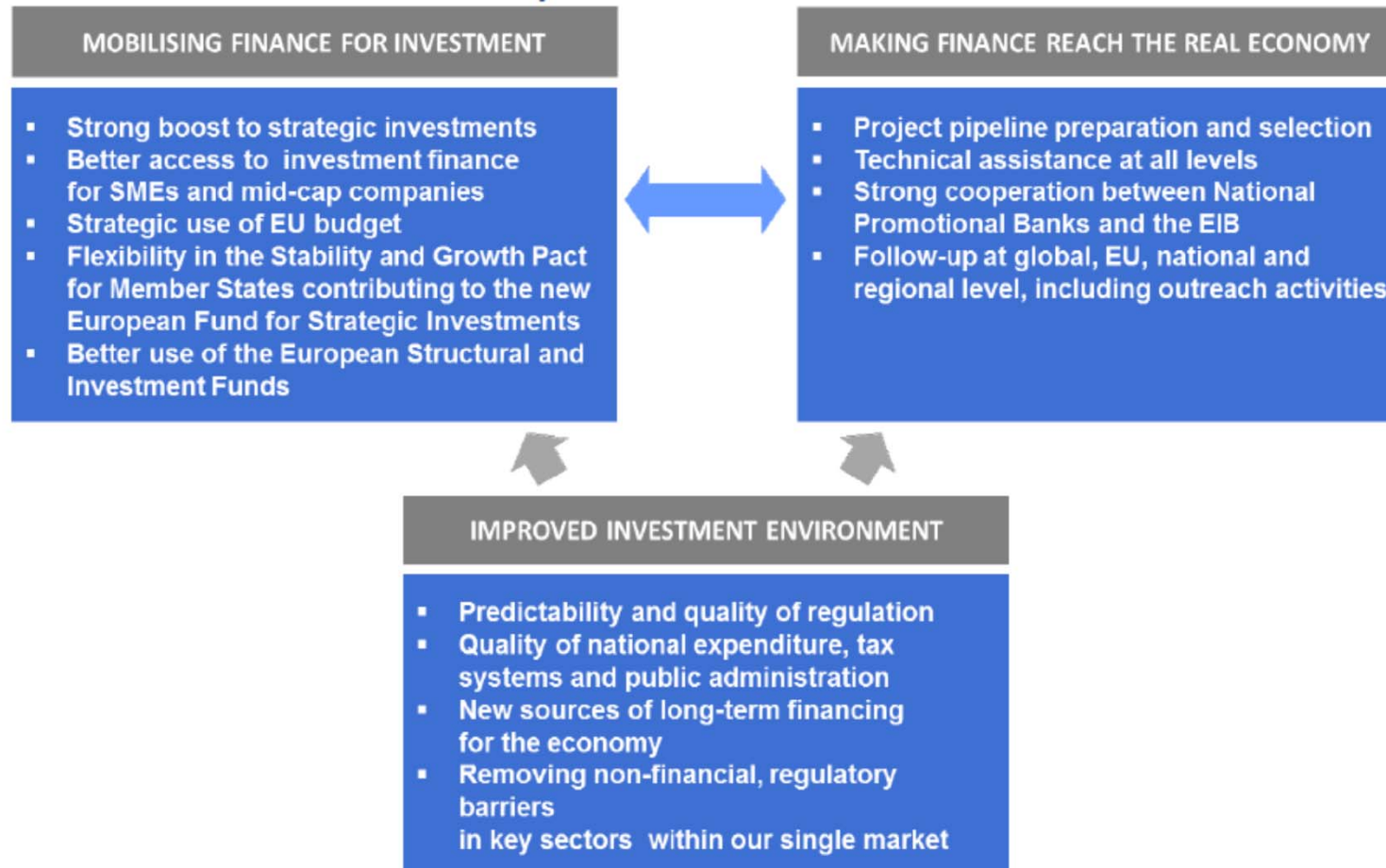


Pro-growth structural policies with a focus on investment and rebalancing

- ❖ With still high deleveraging needs of public and private actors, *investment* is the crucial variable where long-term competitiveness meets short-term demand considerations
- ❖ Steady-state capital stock grows with the sum of the growth rates of productivity and labour inputs:
 - Stimulate innovation and efficiency
 - Investing in intangibles, including human capital
 - Boosting employment
- ❖ Structural reforms to support rebalancing
 - Reallocation from/to non-tradeables/tradeables sectors
 - Remove structural barriers to domestic demand
 - The third pillar of the Investment Plan



An Investment Plan for Europe: Three Strands





Priority areas for action at EU level

Strengthened EU economic governance

Macro-economic & fiscal surveillance

Regulation of financial services

Targets and guidance for structural reforms

Europe 2020 flagships for smart, sustainable and inclusive growth

Digital Agenda

Youth on the Move

Innovation Union

New Industrial Policy

New Skills and new Jobs

Platform against Poverty

Resource Efficiency

Modernised EU levers for growth and jobs

Single Market Act

Trade and external policies

Structural Funds



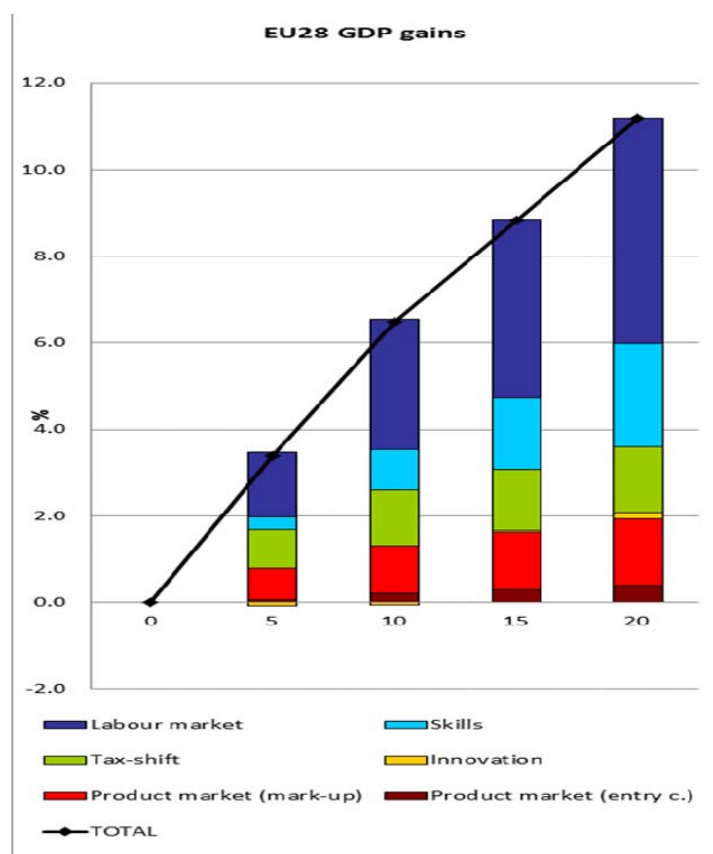


Examples of reforms

- ❖ **Taxation:** shifting taxation away from labour to less distorting taxes;
- ❖ **Pension:** increase retirement age in line with life expectancy
- ❖ **Labour market:** align wage growth and productivity gains (rebalancing) and youth guarantee scheme
- ❖ **Product market:** opening of services and network industries (energy, transport, telecom)
- ❖ **Business environment:** reform of bankruptcy and insolvency legislation
- ❖ **Modernisation of public administrations:** reform of civil justice



GDP effects of closing half the gap with best practice



Potentially large GDP effects if each MS closes half the gap vis-à-vis best performers:

GDP after 5 years: EU +3½%

< SE +1% ; EL +5% >

GDP after 10 years: EU +6½%

< SE +2% ; EL +10% >

Effects take time to materialise

- Effects of tax shift relatively fast
- Labour market reforms slower
- Innovation and education slowest

Source: Varga and in 't Veld (2014)



Europe 2020 - 5 EU headline targets

- ✓ **75%** employment rate (% of population aged 20-64 years)
- ✓ **3%** investment in **R&D** (% of EU's GDP)
- ✓ “**20/20/20**” climate/energy targets
- ✓ **School drop-out rates** lower than **10%** and at least **40%** of the population aged 30-34 having completed **tertiary education**;
- ✓ Reducing those at **risk of poverty** or exclusion by at least **20 million**





Meeting our targets for 2020

EMPLOYMENT	75% of the population aged 20-64 should be employed	✗
INNOVATION	3% of the EU's GDP should be invested in R&D	✗
CLIMATE / ENERGY	A reduction of CO2 emissions by 20%	✗
	Share of renewable energies up to 20%	✓
	An increase in energy efficiency by 20%	✗
EDUCATION	The share of early school leavers should be under 10%	✗
	At least 40% of the younger generation should have a degree or diploma	✗
POVERTY	20 million fewer people should be at risk of poverty	✗





Reinforcing European economic coordination

- ✓ Enhancing financial supervision, financial repair – Banking Union
- ✓ European Stability Mechanism (ESM)
- ✓ Broader and deeper surveillance of budgetary and economic policies
 - ❖ "Intelligent" Stability and Growth Pact, Fiscal Compact
 - ❖ Macroeconomic Imbalances Procedure
- ✓ European Semester





European Semester

New framework for economic and fiscal coordination, in place since 2010

Ensures **timeliness and coherence** of EU assessment for shaping national policies

Covers **fiscal, macroeconomic and structural policy** areas under Six Pack and Two Pack

Implements EU's medium-term growth strategy, **Europe 2020**





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***Thank you very
much for your
attention***



Unfinished business



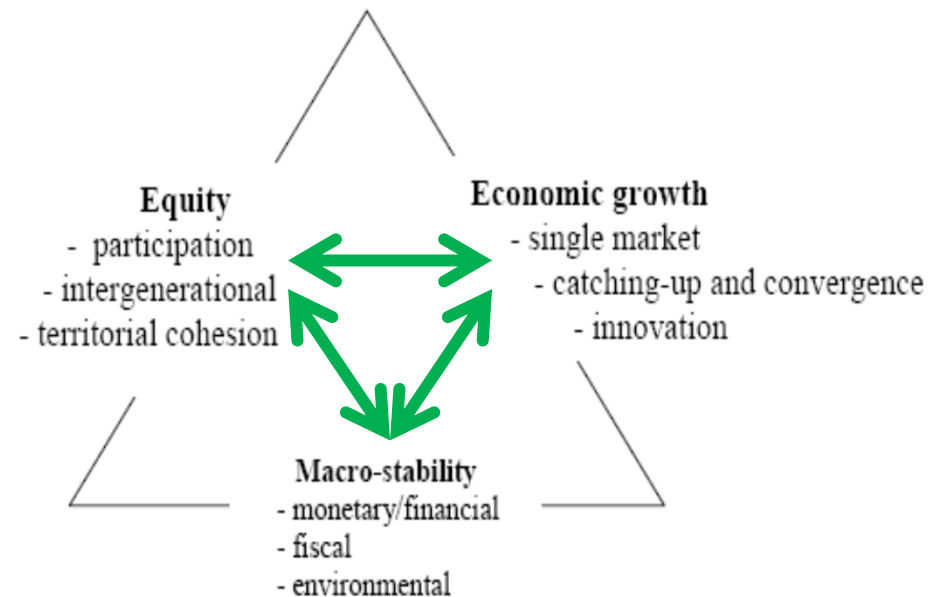
Banking Union

Fiscal Union

Economic Union

Political Union

Europe's prosperity triangle



TO BE COMPLETED