EUROPE 2020
The EU strategy for Jobs and Growth

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Course on Structural Reforms
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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

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

**MOBILISING FINANCE FOR INVESTMENT**
- Strong boost to strategic investments
- Better access to investment finance for SMEs and mid-cap companies
- Strategic use of EU budget
- Flexibility in the Stability and Growth Pact for Member States contributing to the new European Fund for Strategic Investments
- Better use of the European Structural and Investment Funds

**MAKING FINANCE REACH THE REAL ECONOMY**
- Project pipeline preparation and selection
- Technical assistance at all levels
- Strong cooperation between National Promotional Banks and the EIB
- Follow-up at global, EU, national and regional level, including outreach activities

**IMPROVED INVESTMENT ENVIRONMENT**
- Predictability and quality of regulation
- Quality of national expenditure, tax systems and public administration
- New sources of long-term financing for the economy
- Removing non-financial, regulatory barriers in key sectors within our single market

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Description</th>
<th>Achieved?</th>
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<tbody>
<tr>
<td><strong>EMPLOYMENT</strong></td>
<td>75% of the population aged 20-64 should be employed</td>
<td>✗</td>
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<tr>
<td><strong>INNOVATION</strong></td>
<td>3% of the EU's GDP should be invested in R&amp;D</td>
<td>✗</td>
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<tr>
<td><strong>CLIMATE / ENERGY</strong></td>
<td>A reduction of CO2 emissions by 20%</td>
<td>✗</td>
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<tr>
<td></td>
<td>Share of renewable energies up to 20%</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>An increase in energy efficiency by 20%</td>
<td>✗</td>
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<tr>
<td><strong>EDUCATION</strong></td>
<td>The share of early school leavers should be under 10%</td>
<td>✗</td>
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<td></td>
<td>At least 40% of the younger generation should have a degree or diploma</td>
<td>✗</td>
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<tr>
<td><strong>POVERTY</strong></td>
<td>20 million fewer people should be at risk of poverty</td>
<td>✗</td>
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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*
Thank you very much for your attention
Unfinished business

Banking Union
Fiscal Union
Economic Union
Political Union