

EUROPEAN UNION

- Since the onset of the global financial crisis, GDP per capita relative to the most advanced OECD countries has declined to its lowest level in two decades. This has mainly been due to higher structural unemployment. Though sluggish, labour productivity has recently evolved broadly in line with that of the OECD best performers, leaving the gap relative to them essentially unchanged.
- As for income distribution, the European Union remains less unequal than the OECD average, but by a smaller margin as inequality increased over the period 2008-2014.
- Progress towards completion of the Single Market has been generally modest. New initiatives have been launched in horizontal policies needed to unleash innovation and ease its diffusion, such as better regulation and capital markets integration, including some steps to improve insolvency regimes. Regulatory heterogeneity remains nonetheless considerable. In key sectoral areas, such as services and network industries, incremental progress in some domains has not been enough to deliver a significant increase in cross-country competition. Barriers in services, such as those concerning the recognition of qualifications, also hamper labour mobility. No action has been taken to reduce producer support to agriculture and make the EU budget more growth-friendly, though progress in these areas is admittedly difficult once a multiannual financial framework has been set.
- Deepening the Single Market is essential to medium-term improvements to productivity and output growth. To this end, competition-enhancing product market reforms, especially in services and network industries, remain a priority, also because these reforms are in general well-suited to a context of still weak economic recovery. Reducing producer support to agriculture would make the EU budget more growth-friendly. Decreasing regulatory burdens and regulatory heterogeneity would foster market integration and help spur innovation and its diffusion, hence making productivity grow faster. Enhanced labour mobility within the EU would support both cyclical stabilisation and medium-term growth. By reducing unemployment, it would also contribute to lower inequality.
- More integrated energy markets can help pursue decarbonisation in a more efficient way. Reformed agricultural support could help meet environmental objectives. While cross-cutting in nature, support to innovation will also benefit green growth.

Going for Growth 2017 priorities

Enhance support for innovation. Innovation and its widespread diffusion are essential for stronger productivity growth.

Actions taken: The European Commission presented and started to implement in 2015 new proposals to decrease administrative burdens through better law-making (Better Regulation package). Also in 2015, a revised Regulation set an improved framework to deal with cross-border insolvency.

Recommendations: Continue to implement the EU Horizon 2020 programme for research and innovation. Take steps to harmonise insolvency procedures across the EU and make them converge towards best practice (e.g. regimes that avoid long delays and do not over-penalise failure). Improve the quality of impact assessment of draft legislation, especially as regards amendments to Commission's proposals.

Increase competition in the services sector. Restrictive regulations hinder cross-border competition and thus investment and productivity growth.

Actions taken: The European Professional Card, an electronic procedure for the recognition of qualifications, was introduced in 2016 for five professions.

EUROPEAN UNION

Growth performance and inequality indicators

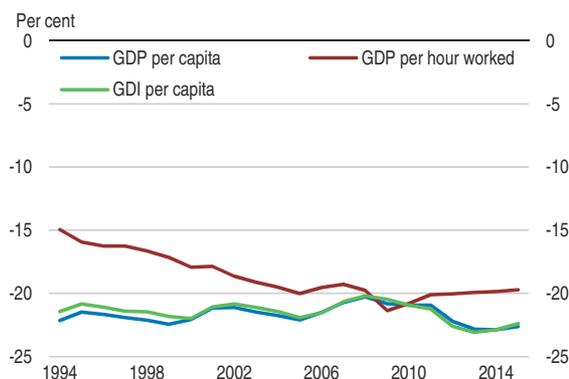
A. Growth

Average annual growth rates (%)	2003-09	2009-15
GDP per capita	0.8	0.9
Labour utilisation	0.3	0.1
of which: Labour force participation rate	0.4	0.2
Employment rate ¹	-0.1	-0.1
Employment coefficient ²	-0.1	0.0
Labour productivity	0.5	1.0
of which: Capital deepening	0.7	0.2
Total factor productivity	-0.1	0.9
Dependency ratio	0.0	-0.2

B. Inequality

	Level	Annual variation (percentage points)
	2013	2008-14
Gini coefficient ³	30 (31.7)*	0.1 (0)*
Share of national disposable income held by the poorest 20%	8.1 (7.7)*	0 (0)*

* OECD average

C. Gaps in GDP per capita and productivity persist
Gap to the upper half of OECD countries⁴

- The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
- This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
- The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
- Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

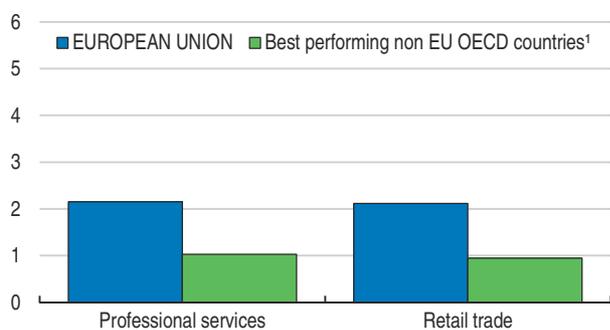
Source: Panel A: OECD, Economic Outlook No. 100 Database; Panel B: OECD, Income Distribution Database; Panel C: OECD, National Accounts and Productivity Databases.

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Policy indicators

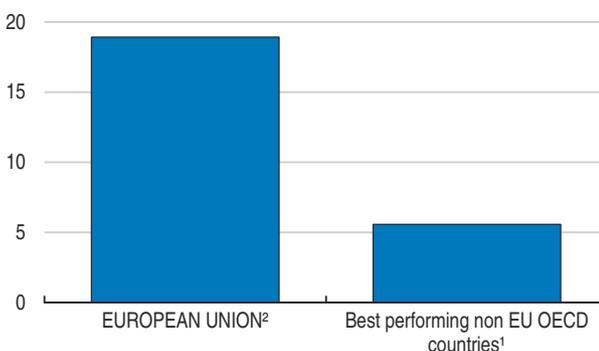
A. Regulatory barriers to competition in professional services and retail trade are relatively high

Index scale of 0-6 from least to most restrictive, 2013



B. Producer support to agriculture is relatively high

Percentage of farm receipts, 2015



- The six non-EU OECD countries with the lowest barriers to entry in professional services and retail trade in Panel A and with the lowest producer support to agriculture in Panel B.
- For this measure, EU refers to all 28 members of the European Union.

Source: Panel A: OECD, Product Market Regulation Database; Panel B: OECD, Producer and Consumer Support Estimates Database.

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EUROPEAN UNION

Recommendations: Improve the implementation of the Services Directive by eliminating unjustified and disproportionate national restrictions to cross-border service provision and firms' establishment. Use the electronic services passport and harmonised forms to curb multiple information requests and other administrative burdens. Move towards mutual recognition of sector-specific requirements.

Reduce producer support to agriculture. Price support distorts markets for some agricultural products and reduces EU budget resources to support investment and growth.

Actions taken: No action taken.

Recommendations: Reduce agricultural subsidies and move further away from unconditional income support and market measures. Create a stronger link with environmental and productivity objectives. Reduce bio-fuel subsidies. Reduce barriers to market access for non-EU countries.

Increase competition in network industries. Network sectors remain fragmented along national lines, hampering competition, investment and productivity growth.

Actions taken: A calendar to end roaming charges was set in 2015. An agreement on the technical pillar of the Fourth Railway Package, reached in 2015, will enable progress in harmonising technical specifications. In electricity and gas, regional initiatives have improved market integration.

Recommendations: To improve interconnections, prioritise the Trans-European transport and energy network projects. Harmonise national technical specifications, with the target of transferring decision powers in technical matters to a single EU regulator. Open up domestic road freight transportation to foreign operators and complete the Single European railway area. Co-ordinate spectrum auctioning at the EU level.

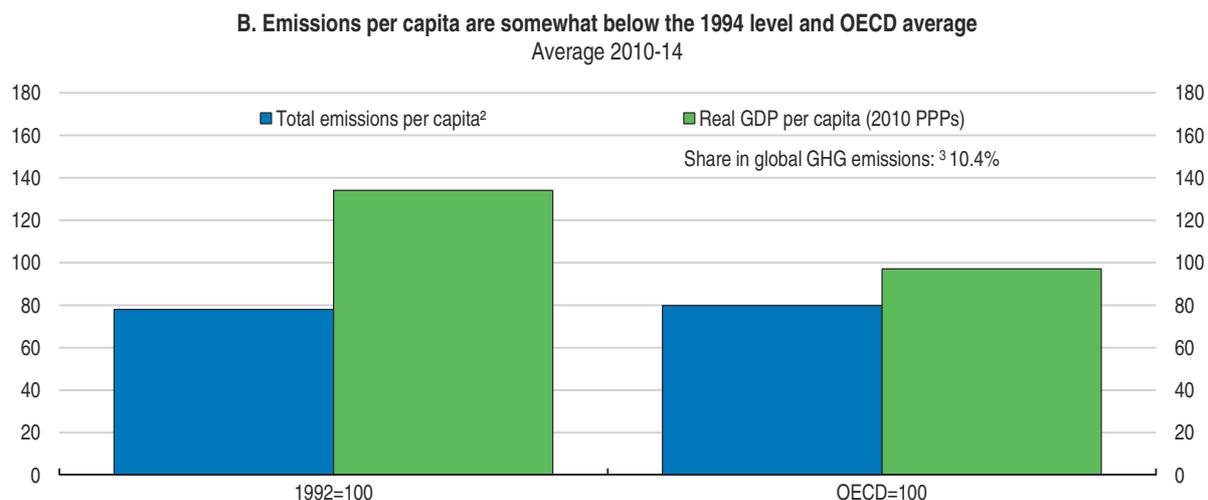
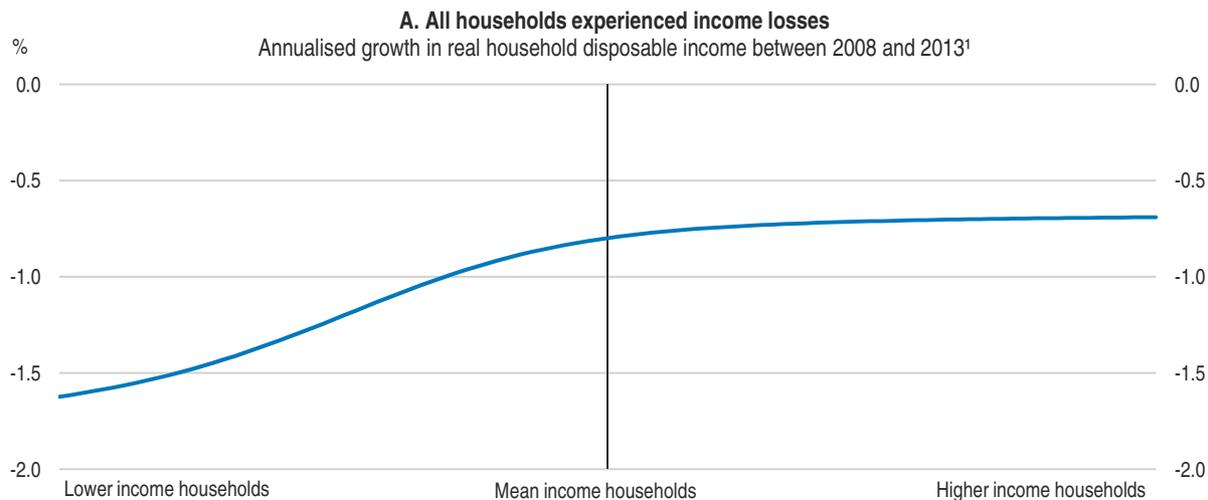
Remove barriers to labour mobility within the European Union. Labour mobility within the EU remains low, hampering the absorption of asymmetric shocks and efficient resource allocation.

Actions taken: Rules for the European employment services network (EURES) have been improved in 2016 by extending coverage to all job offers available with public employment services and other partner organisations.

Recommendations: Improve the portability of supplementary pension rights and of other social benefits. Develop common rules for an EU-wide treatment of double taxation issues related to pensions, incomes of cross-border commuters and posted workers. Provide publicly-funded language training tailored to mobile workers. Simplify the eligibility requirements and procedures of the Blue Card scheme to improve mobility of high-skilled non-EU citizens. Further open public sector employment to all EU citizens.

EUROPEAN UNION

Beyond GDP per capita: Other policy objectives



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

StatLink  <http://dx.doi.org/10.1787/888933455959>