

## EUROPEAN UNION

*There is a substantial income gap relative to the upper half of the OECD as productivity and labour utilisation levels remain below the top performers. Progress has been made in financial sector reform, notably in the area of macro prudential regulation. Structural reforms in the following areas are needed to limit the medium and long-term effects of the crisis on potential output.*

### Priorities supported by indicators

#### **Increase competition in the services sector**

Low competitive pressures in the services sector hold back productivity.

**Actions taken:** The 2006 Services Directive should bring a marked improvement in competition. Transposition of the Directive is well advanced but remains incomplete across EU countries. A Single European Payments Area is being created.

**Recommendations:** Ensure complete and effective implementation of the Services Directive and proper enforcement of its legal and practical provisions. Ensure that the payments area is completed swiftly.

#### **Raise competition in network industries**

Competition in network industries is hindered by the incompleteness of the single market and regulatory barriers.

**Actions taken:** Postal services will be fully liberalised in 2012.

**Recommendations:** Strengthen the evidence base for single market initiatives by identifying specific barriers to competition and efficiency. Ensure EU-level measures are fully implemented in national markets, including functional separation of supply and production activities in energy markets. Push ahead with initiatives to reform and integrate the transport, postal, telecommunications, port services and energy markets.

#### **Reduce producer support to agriculture**

Agricultural support under the Common Agricultural Policy (CAP) is distorting and thereby harmful for overall productivity. It also disproportionately benefits large and efficient farms.

**Actions taken:** CAP reforms have significantly reduced linkages between payments and production. Milk quotas are to be phased out by 2015. The use of price support has been scaled back for many agricultural commodities. However, the re-introduction of agricultural export subsidies for dairy produce in 2009 was a step back.

**Recommendations:** Full decoupling of payment should be extended to livestock meat production. Payments across agricultural producers should be further decoupled from production. Barriers to market access for non-EU countries should be reduced. Support prices should be lowered and biofuels subsidies reduced.

### Other key priorities

#### **Reform financial regulation and deepen market integration**

Financial market regulation needs to be more effective to promote stability and efficiency.

**Actions taken:** A wide range of reforms is underway including measures to strengthen capital requirements, liquidity management, deposit guarantee schemes, and oversight of credit rating agencies and alternative investment funds. A new framework for cross-border supervision and crisis management is being put in place.

**Recommendations:** New regulation should be designed to promote a robust and less cyclical financial system. Newly-created European supervisory bodies should be given sufficient powers and resources to ensure effective cross-country supervision and management of systematic risk. More should be done to integrate retail markets.

#### **Improve the functioning of the labour market**

Structural unemployment is high, while hours worked and labour force participation are relatively low.

**Actions taken:** The European Economic Recovery Plan targeted European Social Fund Support spending on labour market programmes. The Europe 2020 Agenda sets the objective of an employment rate of 75% for those aged 20-64.

**Recommendations:** EU labour market objectives can primarily be achieved using national policy instruments, but reforms can also be facilitated by EU-level surveillance and peer pressure. Measures at the EU level can contribute to facilitating labour mobility by increasing the portability of occupational pension and social welfare benefit rights.

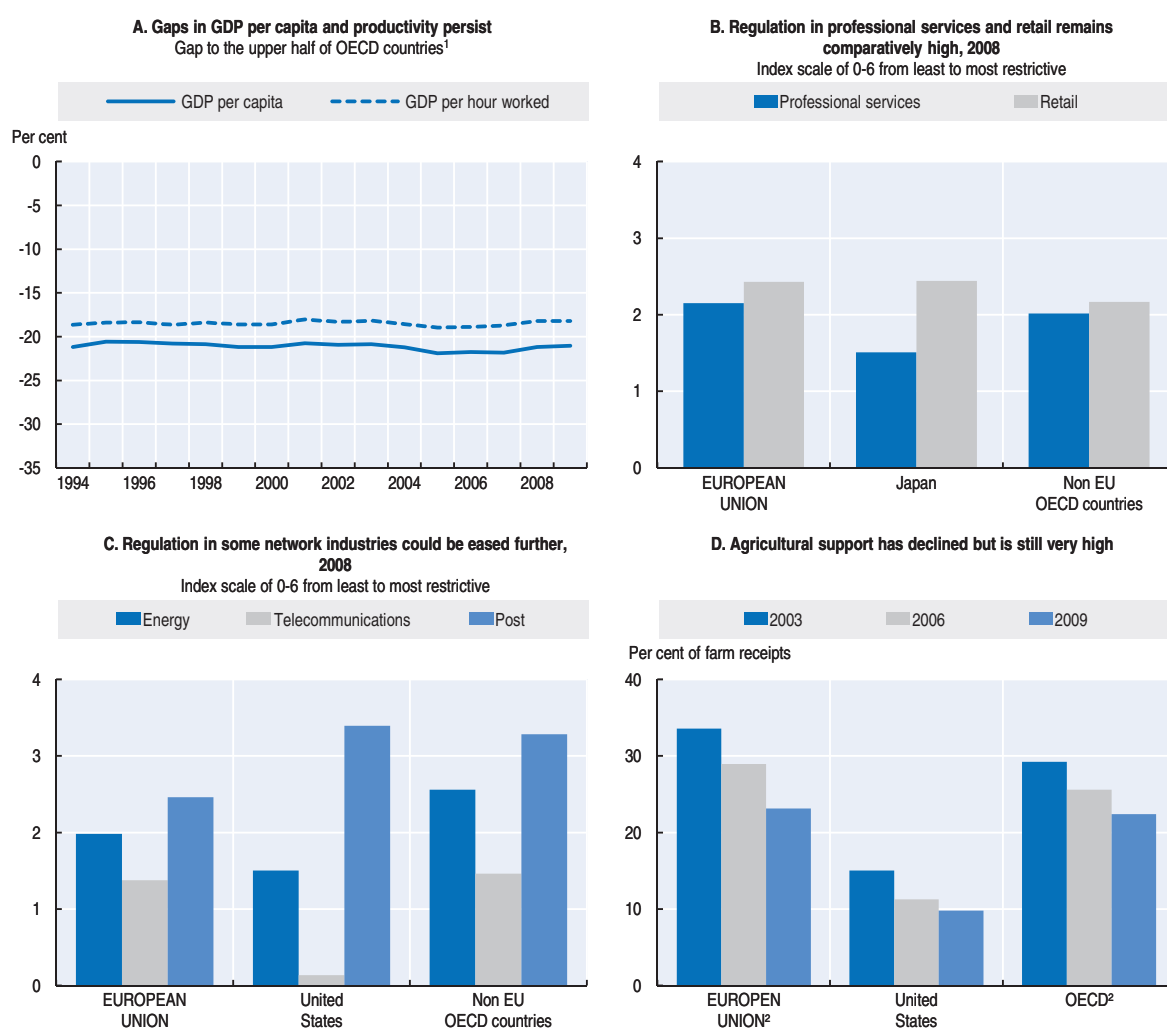
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## Structural indicators

Average annual trend growth rates, per cent

	1999-2009	1999-200	2004-09
GDP per capita	1.6	2.0	1.3
Labour utilisation	0.1	0.2	0.1
of which: Employment rate	0.5	0.6	0.3
Average hours	-0.3	-0.4	-0.2
Labour productivity	1.5	1.8	1.2
of which: Capital intensity	..	..	..
Multifactor productivity	..	..	..

Source: Estimates based on OECD (2010), OECD Economic Outlook No. 88: Statistics and Projections Database.



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).

2. Average of European countries in the OECD. EU and OECD averages exclude Chile, Estonia, Israel and Slovenia.

Source: Chart A: OECD, National Accounts and OECD Economic Outlook No. 88 Databases; Charts B and C: Product Market Regulation Database; Chart D: OECD, Producer and Consumer Support Estimates Database.

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