

The impact of structural reforms on the euro area: insights from a survey of large euro area firms (CTS Special Survey 2017)

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The views expressed are those of the authors and do not necessarily represent those of the ECB.

Structural and cyclical policies ... are heavily interdependent. Structural reforms increase both potential output and the resilience of the economy to shocks. This makes structural reforms relevant for any central bank, but especially in a monetary union.”

Introductory speech by Mario Draghi,
ECB Forum on Central Banking, Sintra, 22 May 2015

Structural reforms are reforms that contribute to:

- removing barriers to the smooth and efficient functioning of product, capital and labour markets
- improving the business environment, and to ensuring the economic sustainability of growth

Aims of 2017 Survey:

- gain **information on the impact** of recently implemented reforms in the euro area from a business perspective;
- understand the **major perceived obstacles** related to reforms' implementation;
- gain **insights into reform priorities**

2017 Special Survey

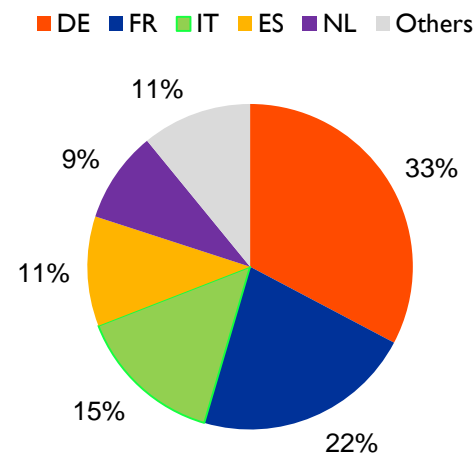
- **55 leading euro area firms**, surveyed Spring 2017
 - 30 industry/manufacturing; 25 services
 - 37 business-to-business (B2B); 18 business-to-consumer (B2C)

Summary statistics and representativeness of respondents to 2017 Survey on Structural reforms

	respondents	as % EA total economy
turnover (mEUR)	297,894	5.0%
employment (thousands)	1,515	1.0%
Sectoral decomposition	respondents (number)	
industry (incl. construction)	30	
services	25	
business-to-business	37	
business-to-consumers	18	

Country breakdown of responses

(% share of main markets among responses)



Source: ECB Structural Reform Survey and ECB staff calculations.

Note: Turnover of respondents expressed as a ratio of total value added of the non-financial business sector.

Mix of “menu” and “open” questions

- **9 multi-part questions** (“menu” and “open”) – compiled on basis of literature, insights from regular rounds, other teams, “road testing”
- multi-format approach enables **broad tabulation and cross-check of results/answers...**
- ... and **direct insights** as to why these elements matter (“**essence**” of concerns)
- We don’t simply get our ranking back!

Q 2.2 How do you assess structural reform needs relating to the business environment at country level in the euro area in your sector?

	not important	important	very important
reduce barriers to entry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
reduce administrative burdens	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
reduce time to enforce a contract	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
improve bankruptcy procedures / insolvency frameworks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
increase efficiency of public procurement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
strengthen competition regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
open up network sectors (energy /transport/telecom) to competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
increase government funding/support for innovation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
tackle informal economy and corruption	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
reduction in zoning laws as a barrier to competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
improve transport infrastructure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Which of the above business environment reforms are likely to have the largest impact in your sector?

Please provide brief examples of the ways in which these reforms would be likely to improve business operations and/performance (e.g., impact on employment levels, investment, productivity, innovation, etc.), and indicate in which countries you consider reform needs are most pressing.

...

Impact assessments largely positive ...

majority of companies indicated that the recent structural reforms had positive impact on business operations

Positive assessments were mainly related to the effect of **labour market reforms** – in particular, 2012 reforms in Spain – and in **several dimensions**:

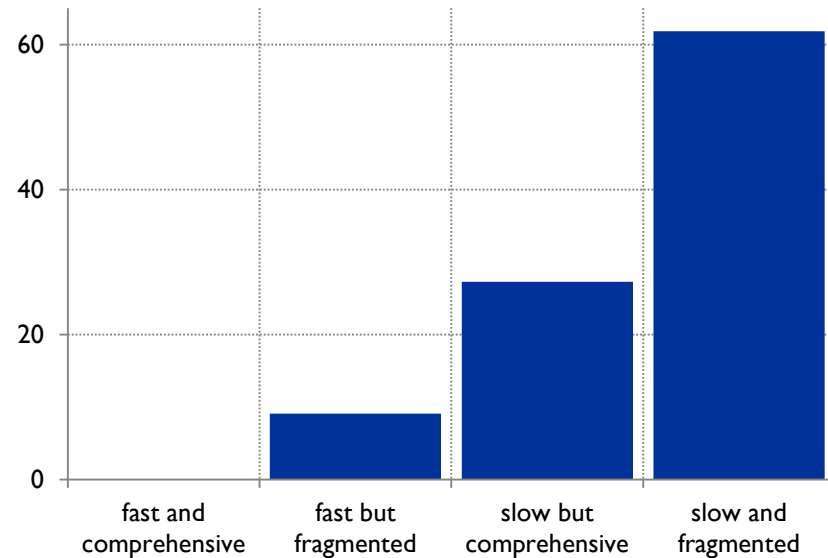
- just over 30% respondents assessed reforms enacted in Spain since 2008 to have had a positive impact on **investment** (enabling increase in share of total investment allocated to R&D, thus enhancing support for innovation)
- 40% considered reforms supportive to **productivity** growth
- nearly 40% felt that reforms had contributed to **stronger employment growth** by reducing risks/costs of hiring and via **increased wage flexibility**.

... however, pace of reform slow (Spring 2017)

- ... though **pace of reform slow and fragmented**, according to 60% of respondents
- further quarter found reforms to be “slow but comprehensive”
- **some exception for firms heavily exposed to Spain**, where reform pace assessed as “fast”, though still room for more

Pace of reform momentum 2013-16

(% respondents)



Source: CTS Structural Reform Survey and ECB staff calculations.

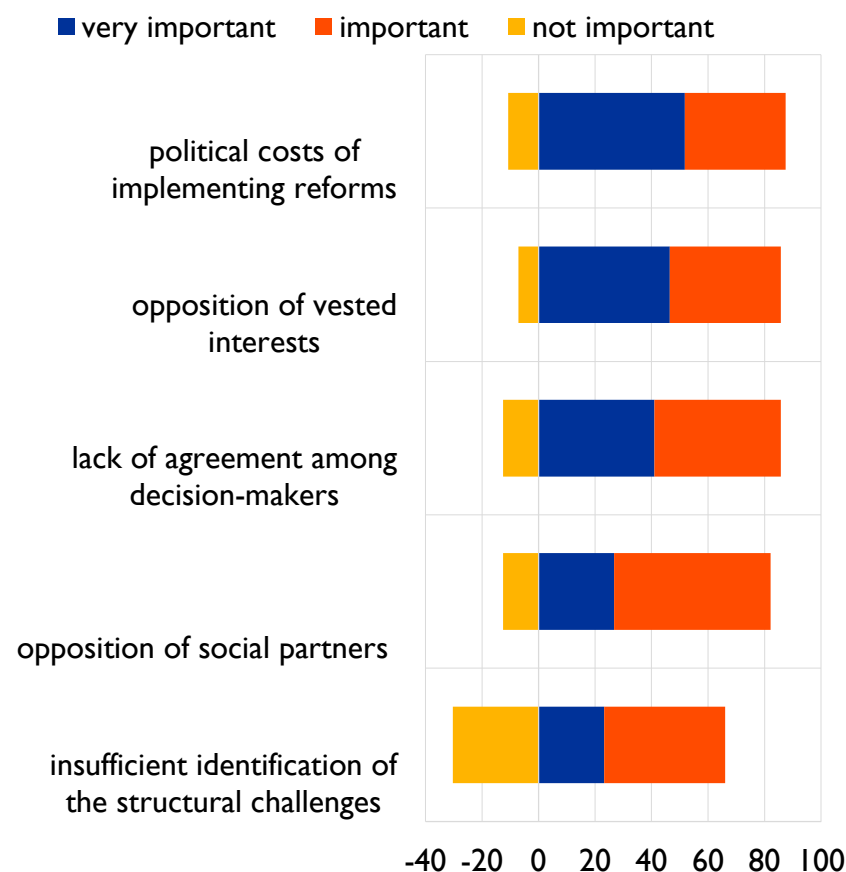
Notes: Responses to the question, “How would you assess the pace of structural reform implementation in euro area countries the last three years?”

Obstacles to reform not due to lack of insights

- lack of reform momentum **NOT because of lack of understanding** of reform challenges
- principally hampered by **political considerations** ...
 - 85% of firms
 - over half of firms saw this as “very important” constraint
- ... as well as **opposition from vested interests** and **lack of agreement among decision-makers**

Obstacles to reform momentum

(% of responses)



Source: ECB Structural Reform Survey and ECB staff calculations

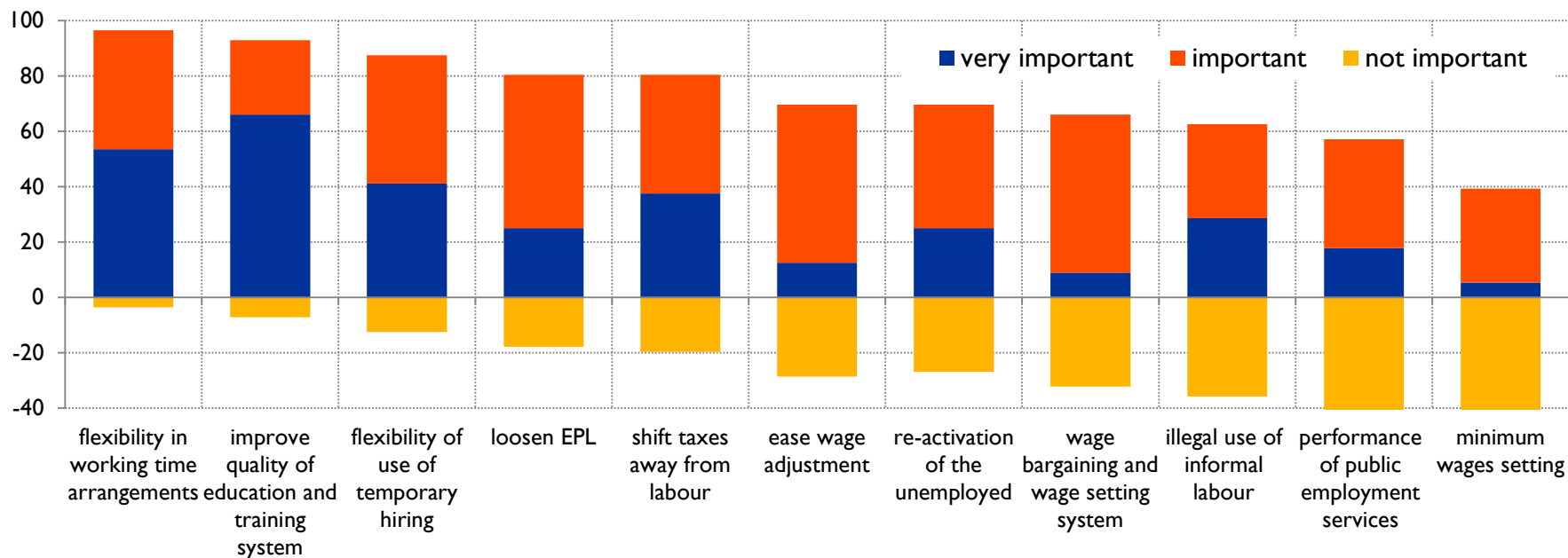
Notes: Responses to the question, “In your opinion, what are the most important barriers to the implementation of structural reforms across the euro area?”

Reform needs focussed (again) on labour

- aimed at **increasing labour market flexibility** (working time, temporary work, looser employment protection)
- seen as reforms likely to have “single greatest impact”
- necessary to help respond to growing demand volatility and changing consumer patterns

Labour market reform needs in the euro area

(% of respondents, ranked by overall balance rating)



Source: ECB Structural Reform Survey and ECB staff calculations.

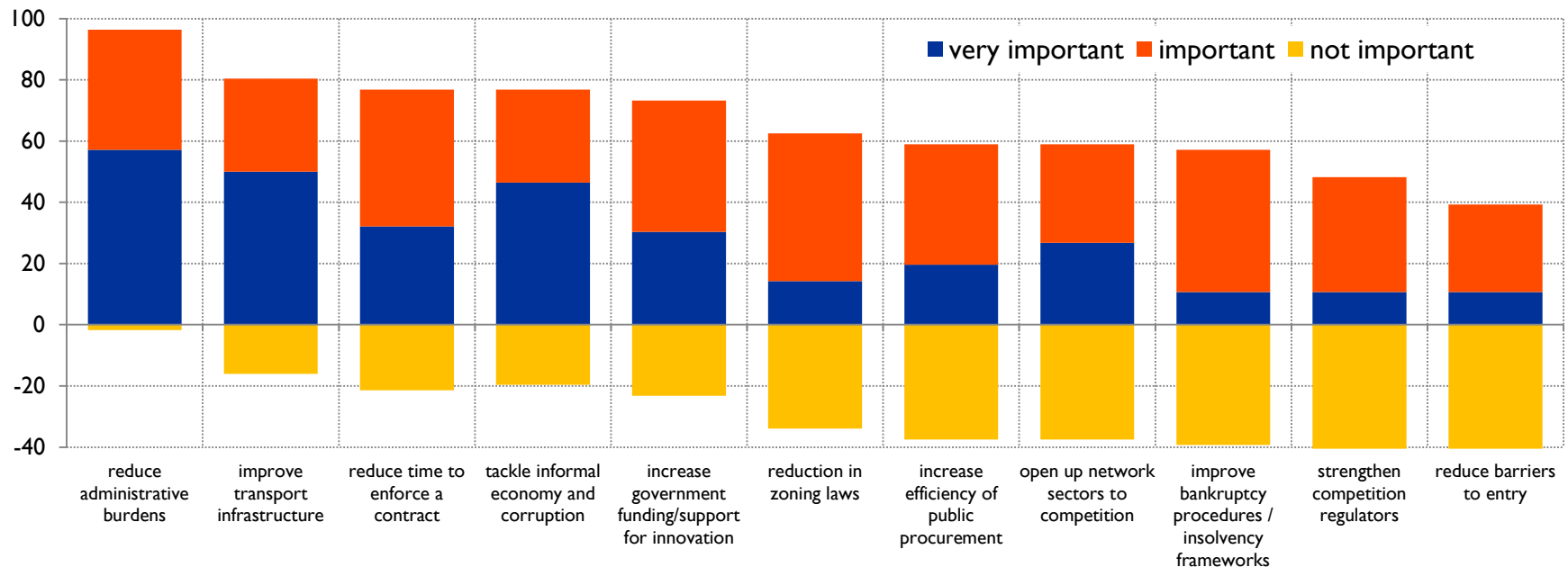
Notes: “Not important” category for minimum wage setting truncated; actual value 60%.

Reform needs for wider business environment

- need to **reduce administrative burdens** (90% of firms)
- some claiming that administrative burdens have increased since 2008
- complaints about “unnecessary, disproportionate or obsolete requirements may effectively hinder regulatory compliance”

Business environment reform needs in the euro area

(% of respondents, ranked by overall balance rating)



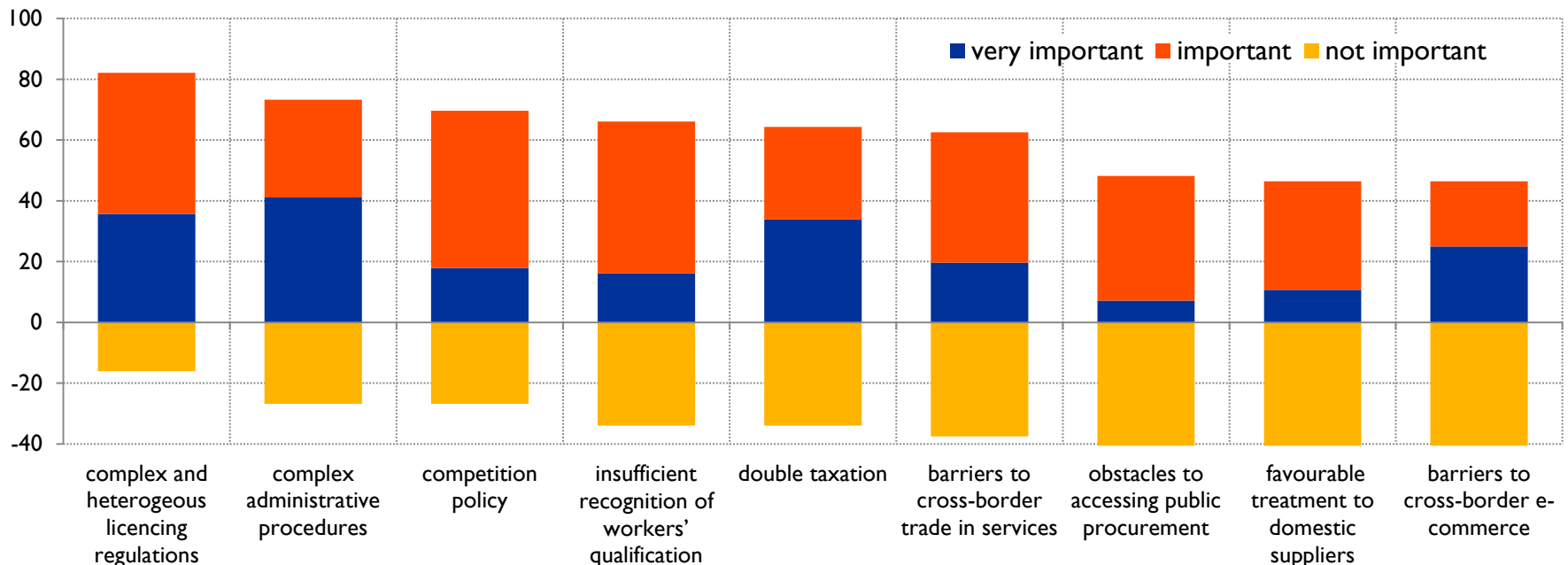
Source: ECB Structural Reform Survey and ECB staff calculations.

Reform needs for Single Market mentioned less

- except those related to complexity and heterogeneity of licencing regulations
- Lack of harmonisation of tax policies

Reform needs related to the completion of the Single Market

(% of respondents, ranked by overall balance rating)



Source: ECB Structural Reform Survey and ECB staff calculations.

For more information...

For further information, please see:

- Box “**Structural reform needs in the euro area: insights from a survey of large companies,**” **ECB Economic Bulletin, (September) 2017, Issue 6**
https://www.ecb.europa.eu/pub/pdf/other/ebbox201706_05.en.pdf

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Thank you for listening

CTS Overview

Methodology/mechanics for routine contacts

- **Conducted by DG-E economists**
- **Telephone conversations with CFOs/CEOs**
 - conducted every quarter (in line with schedule of Governing Council meetings; but avoiding projections)
 - **40-50 non-financial companies** in each round (rotating from a panel of ca. 150, organised into 10 non-financial sectors)
 - telephone calls of 15-30 minutes
 - brief “standard” questionnaire: 4-5 open questions
- **Individual write-ups (and scores) after each interview**
- **5-6 page “Summary”, sent to Governing Council**

CTS innovation is a continual process

CTS innovations since inception

- **Introduced question on financing conditions (early 2008)**
- **Scoring of responses by economists**
 - activity; financing conditions; prices, costs and wages; employment
 - -2 to +2 scale (1 is “normal growth”)
- **Dissemination of 1-pager to CTS respondents**
- **From 2015, also mailed-out “ad hoc” structural survey to CTS contacts across the euro area**
 - **2015 Investment Survey** emphasised poor growth prospects and structural rigidities as disincentives to invest
 - **2016 Trade Survey** highlighted emphasis on location decisions behind slowdown in trade growth