



# Economic convergence in the EU

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# Economic convergence in the EU – 3 takeaways

1. Progress in upward convergence, yet likely disrupted by the crisis
2. Structural reforms can make economies more resilient and stimulate convergence
3. There are ways to build political support for reforms



# Economic convergence in the EU - Outline

1. The importance of convergence in the EU
2. How has convergence performed in the EU?
3. What are the tools to support convergence?
4. The role of economic policies in boosting convergence



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# Focus on convergence of outcomes

- A prerequisite for smooth functioning of the EMU is *nominal convergence*.
- Better functioning of the common monetary policy requires *alignment of economic cycles* (direction, amplitude, duration).
- Benefits of economic integration to help countries catch up in terms of GDP per capita, productivity – *real convergence*.
- Crisis brought attention to imbalances and painful economic adjustment – structural reforms to bring in *convergence to adjustable and resilient economic structures*.
- *Convergence towards favourable social outcomes* is a prerequisite for social cohesion. Ultimate litmus test for the success of European integration.



# Importance of economic convergence in the EU

- Converging economic performance is the one that ensures:
  - ✓ Sustainable growth
  - ✓ Inclusive growth
  - ✓ Cohesion at national and regional level
  - ✓ Resilience
  - ✓ Better functioning of common policies
- The importance of convergence for meeting the economic integration goals

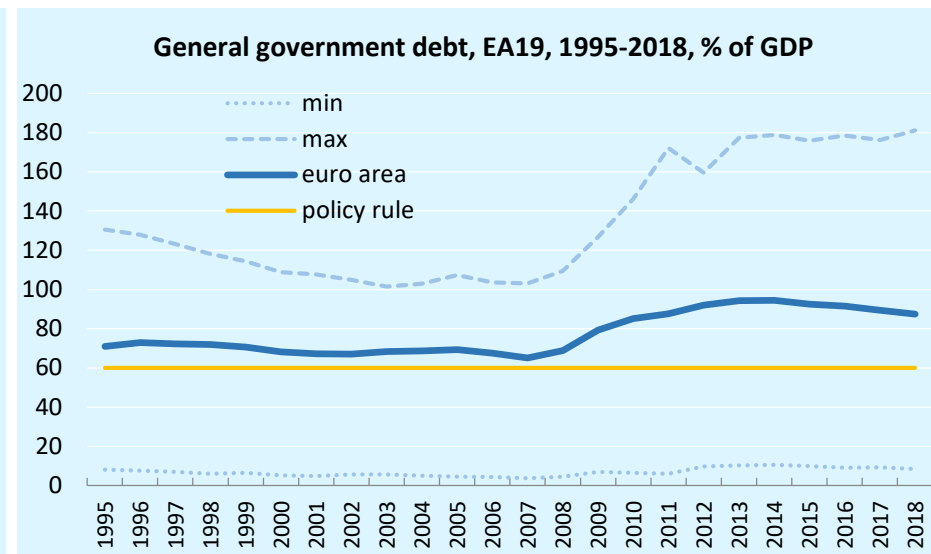
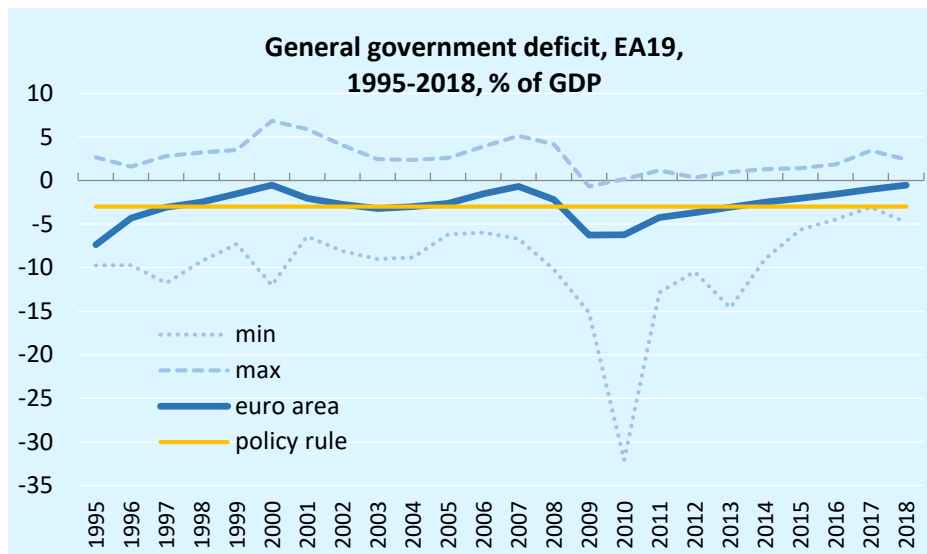
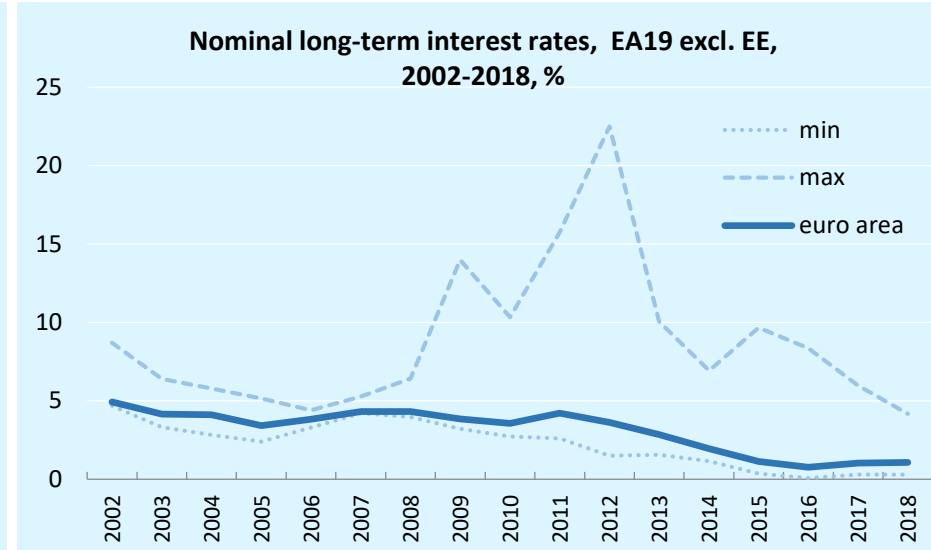
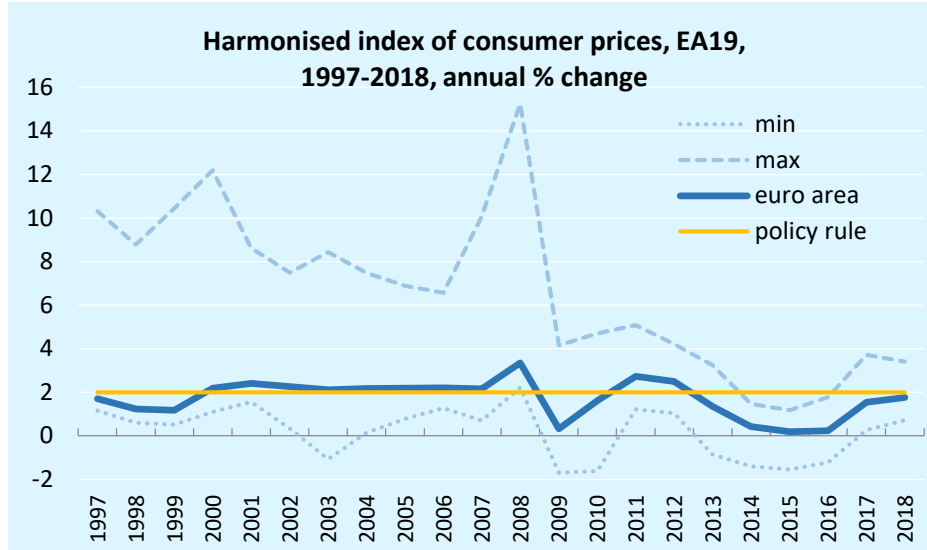


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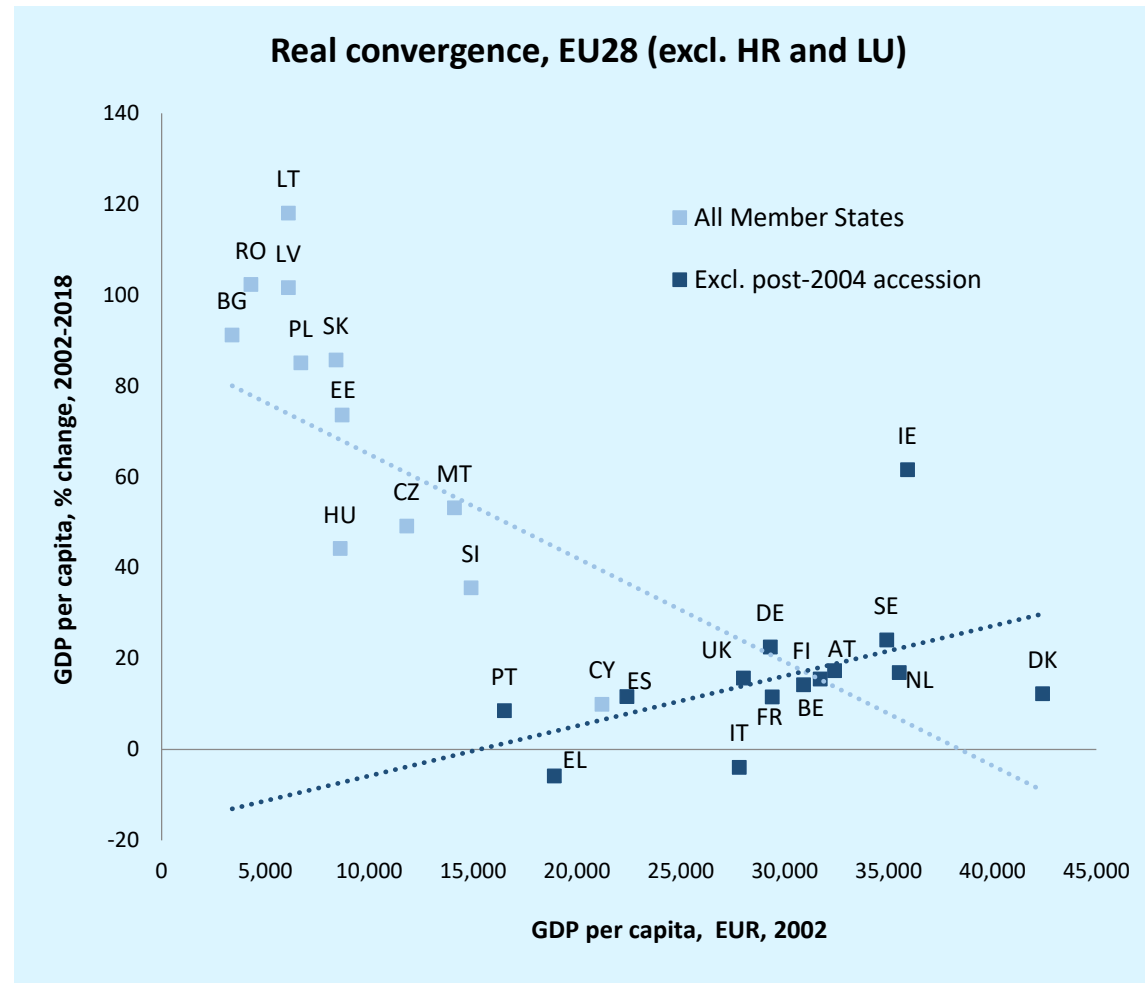


# Nominal convergence – in place, but crisis-affected

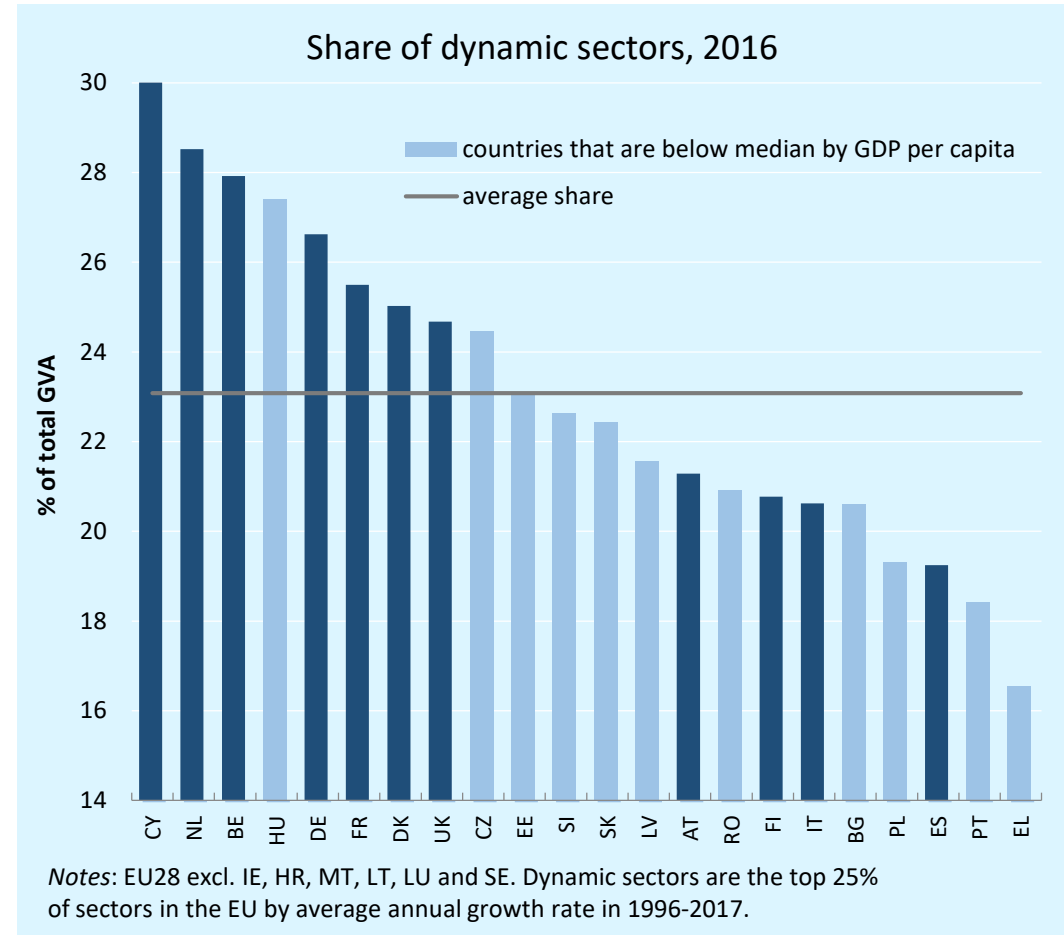
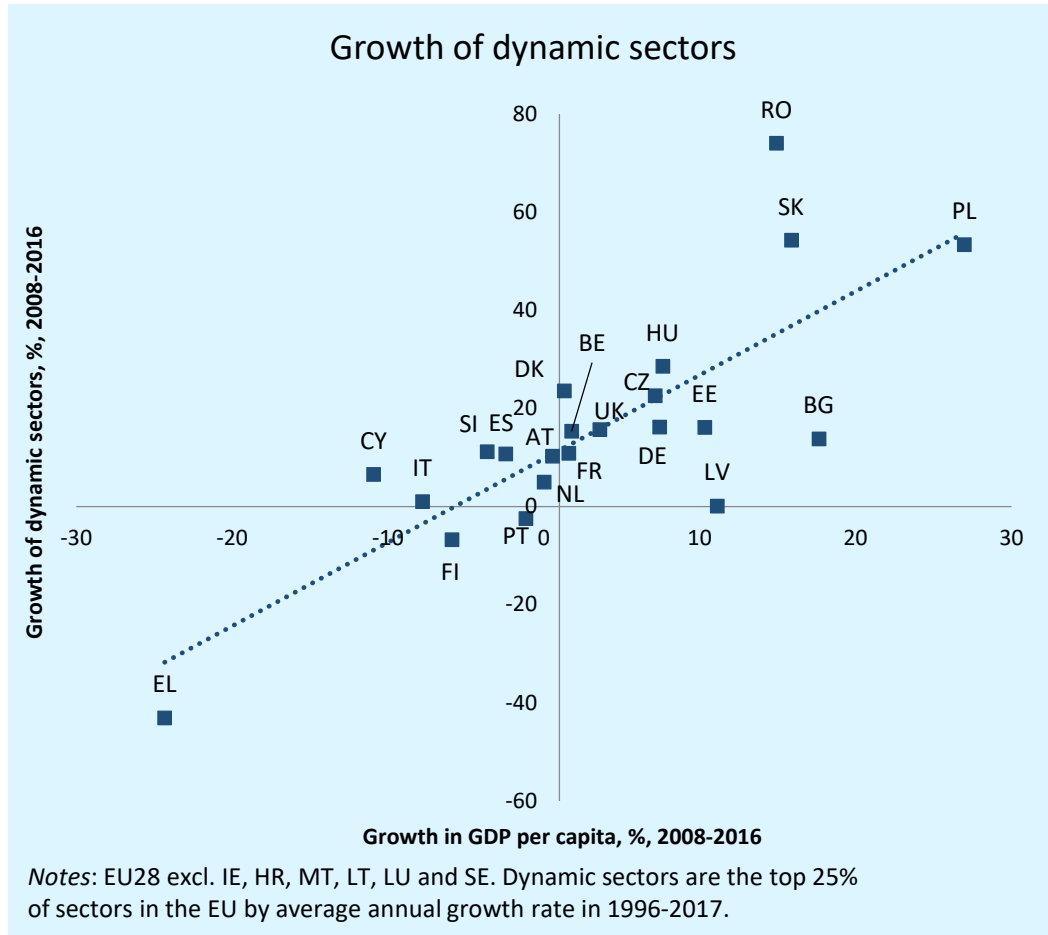




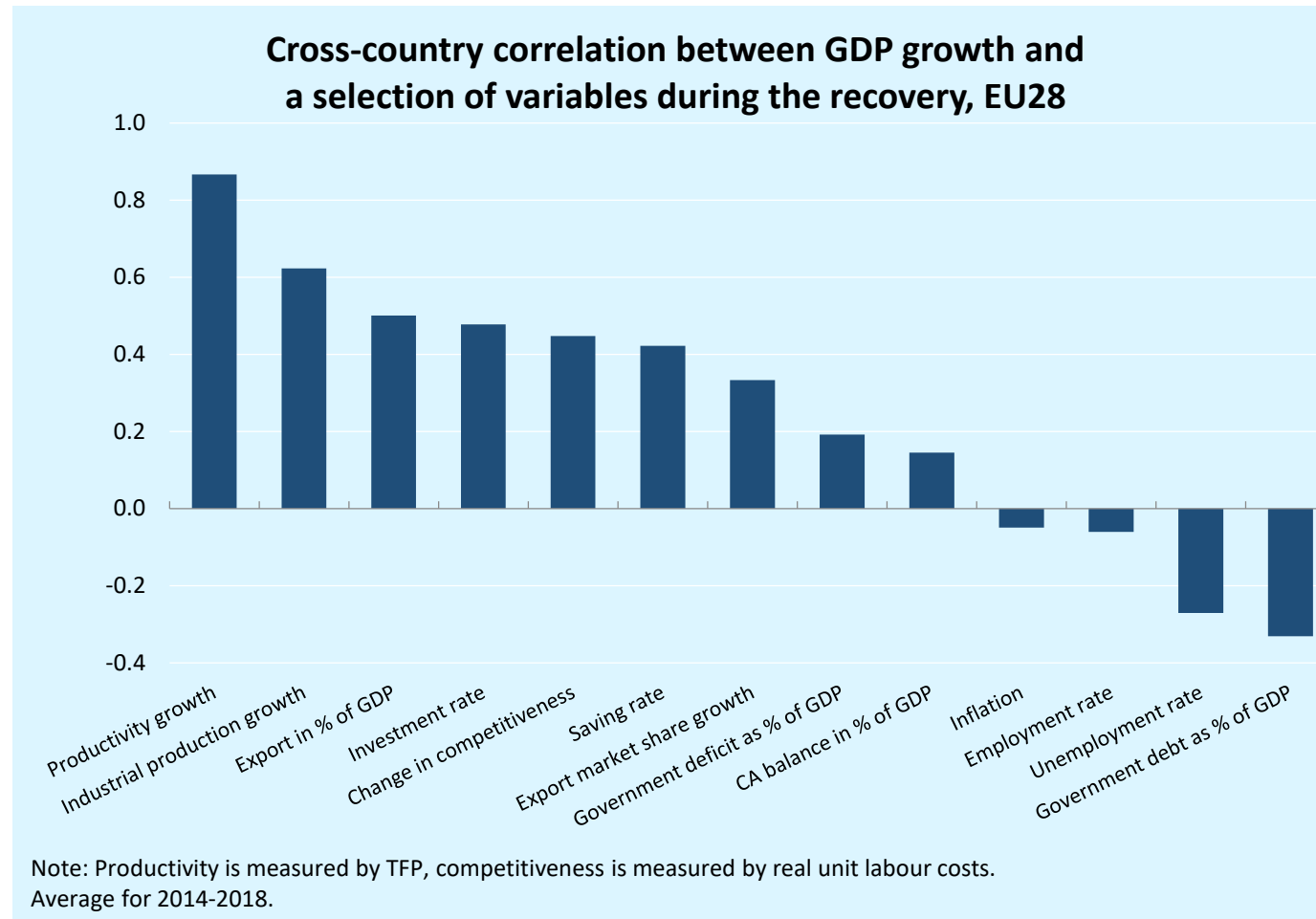
# Convergence in GDP per capita – existence of middle-income trap



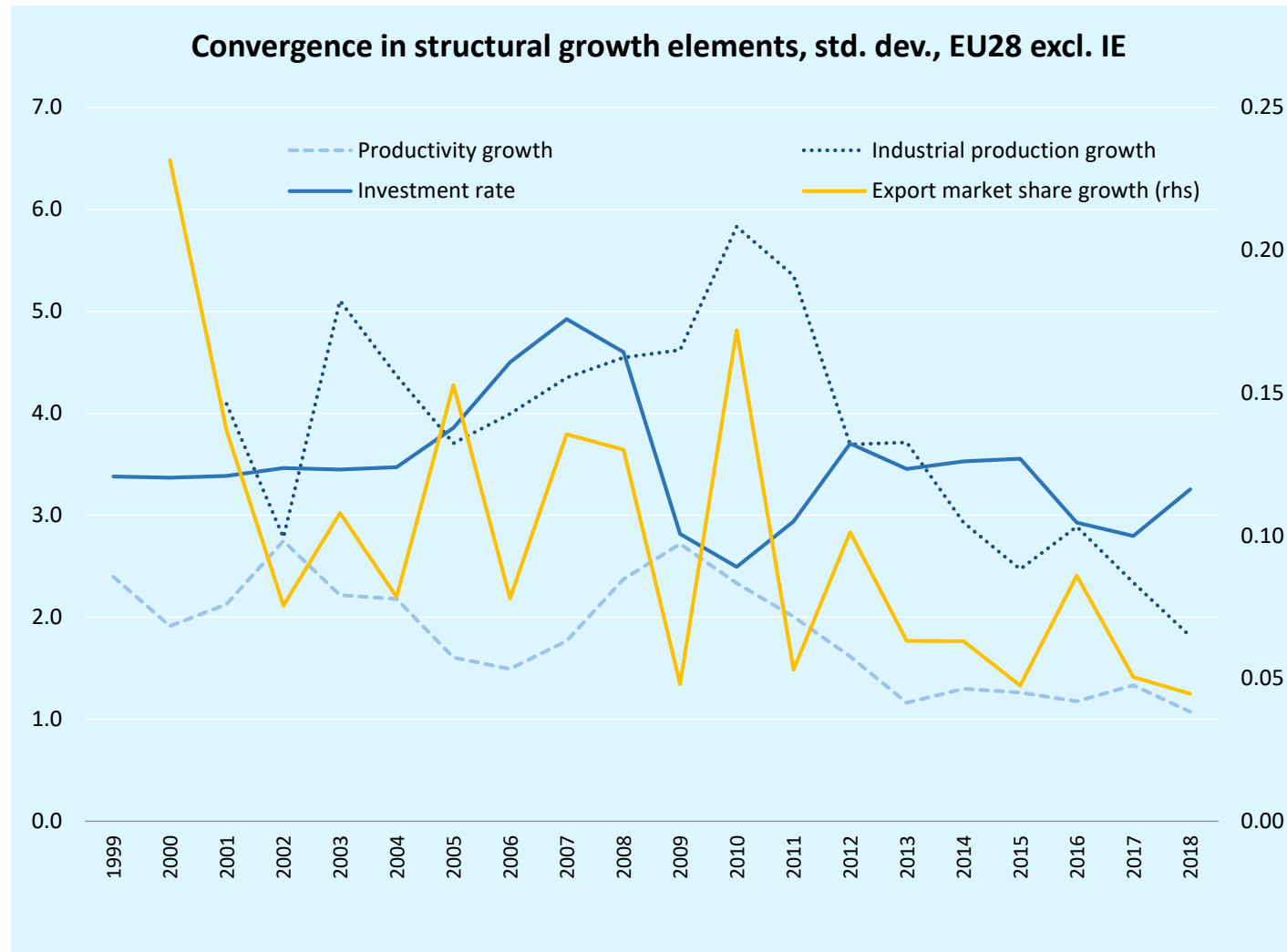
# Dynamic industries drive convergence



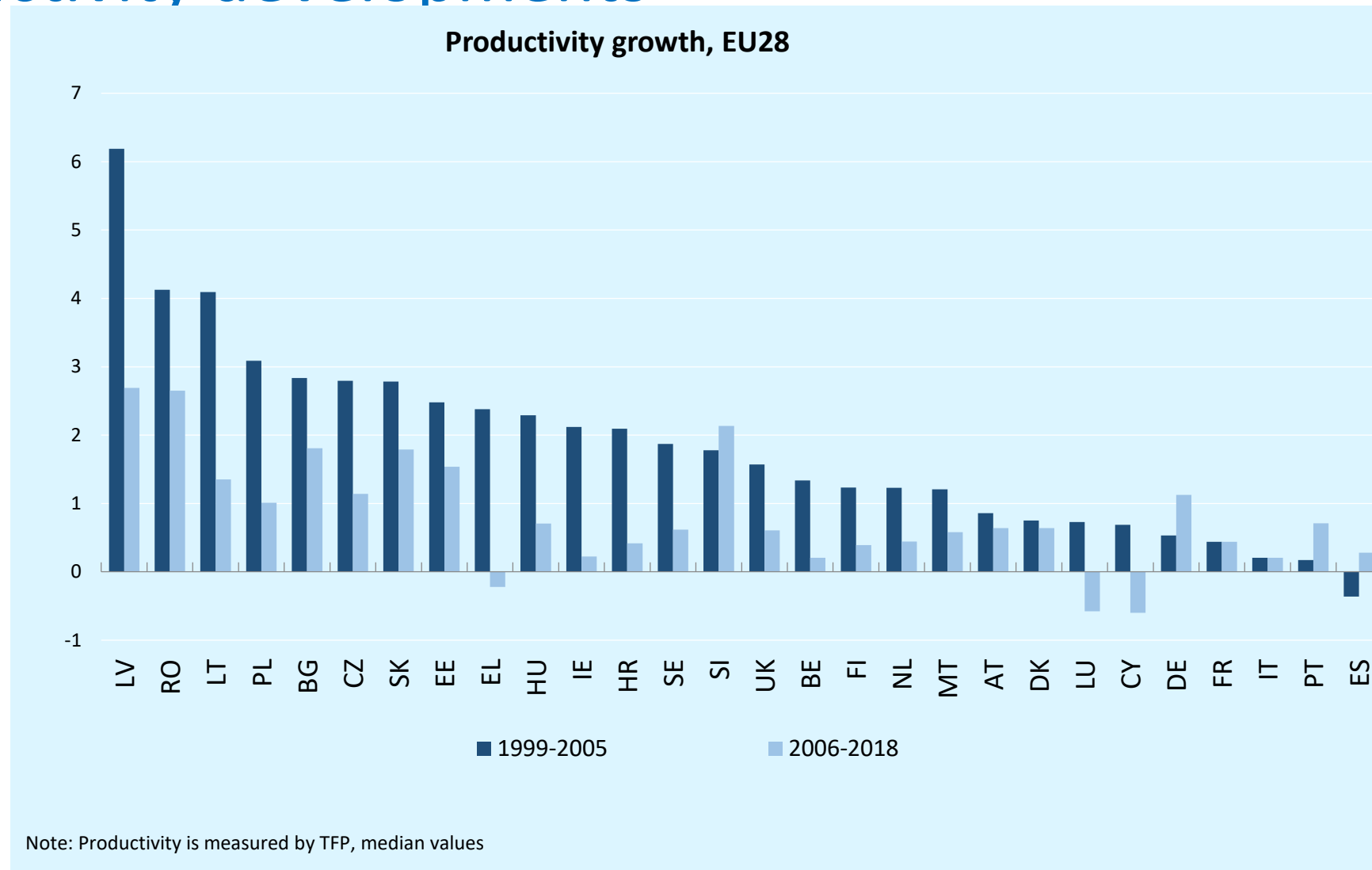
# Growth performance markers



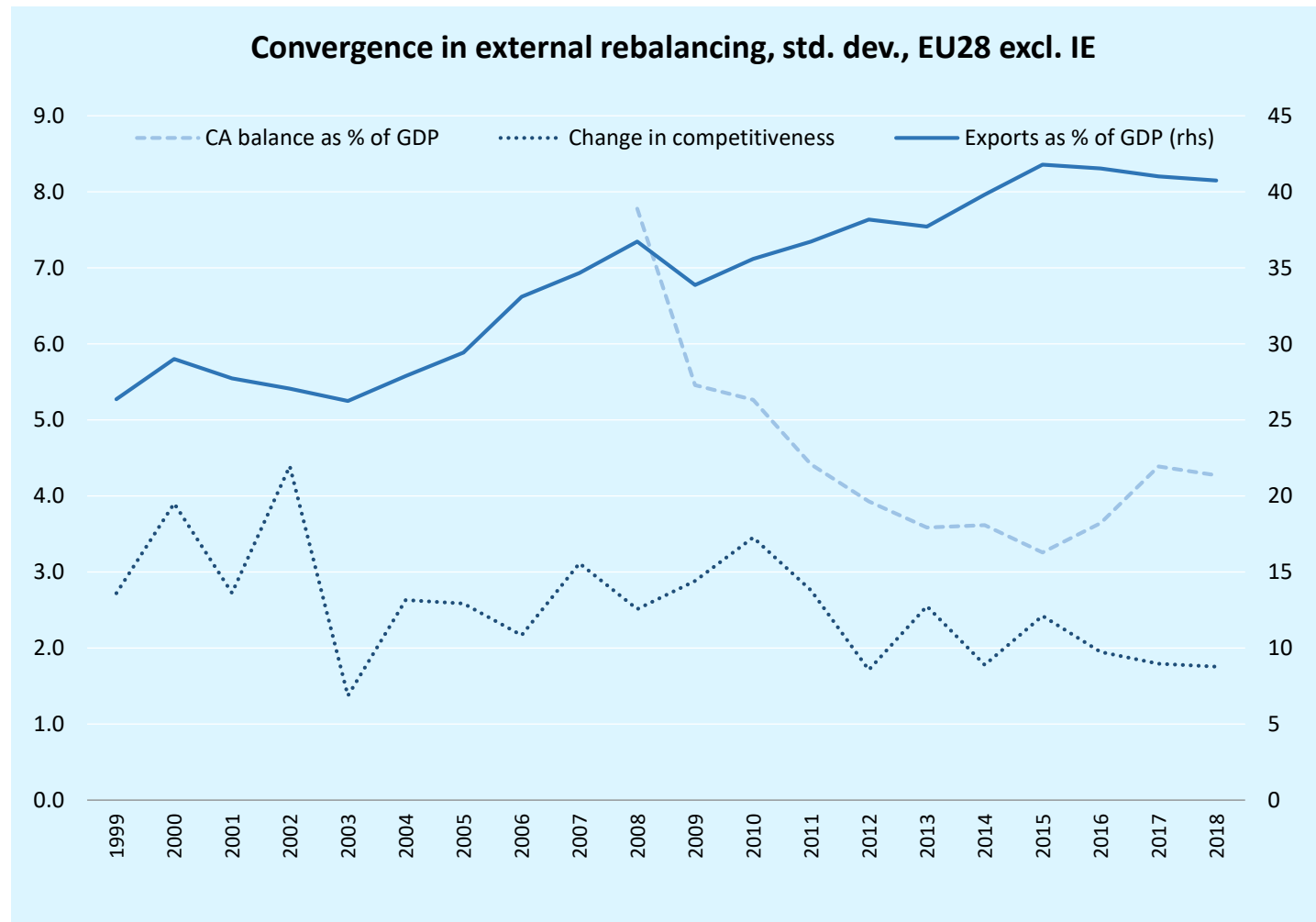
# Convergence in structural indicators



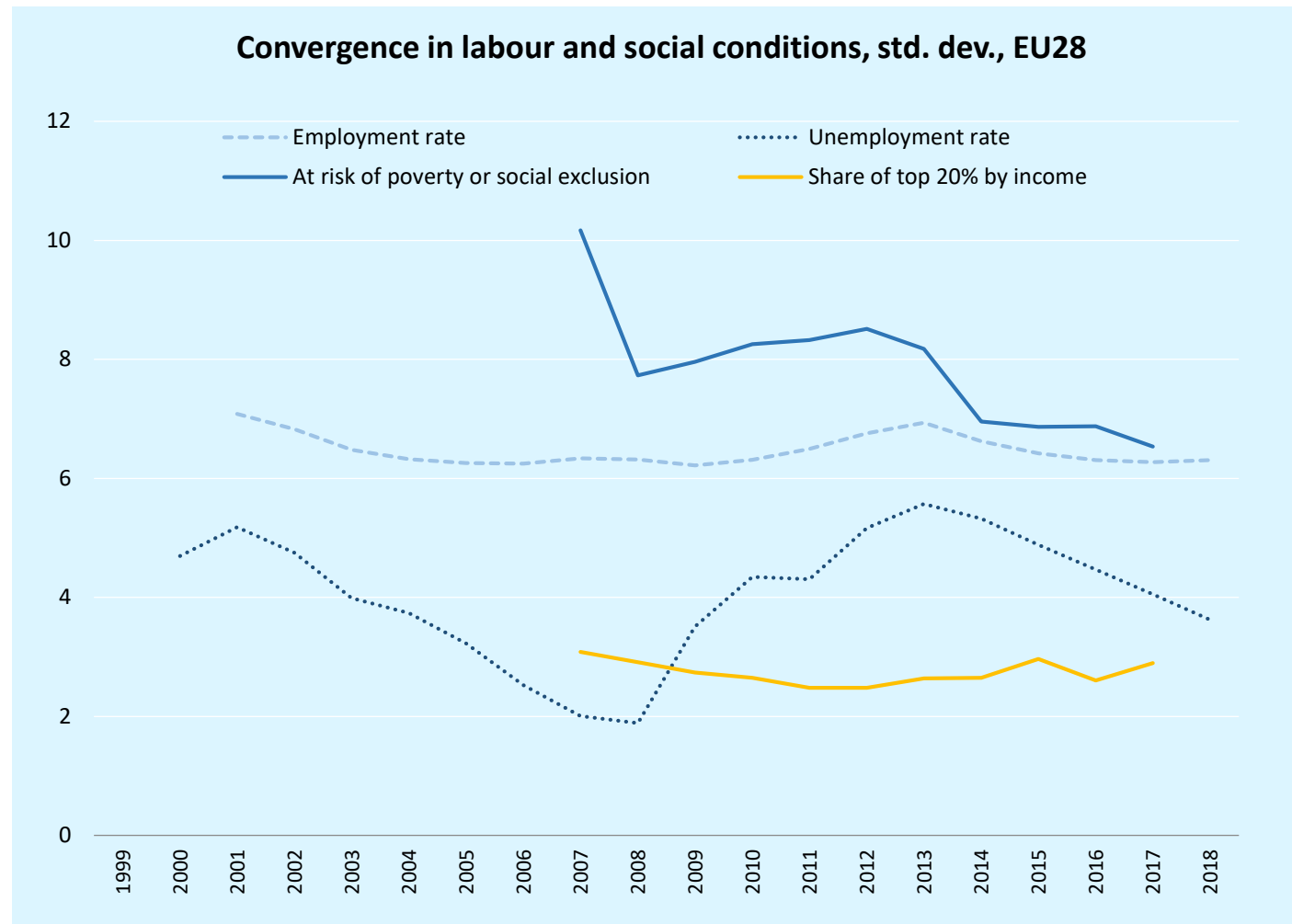
# Productivity developments



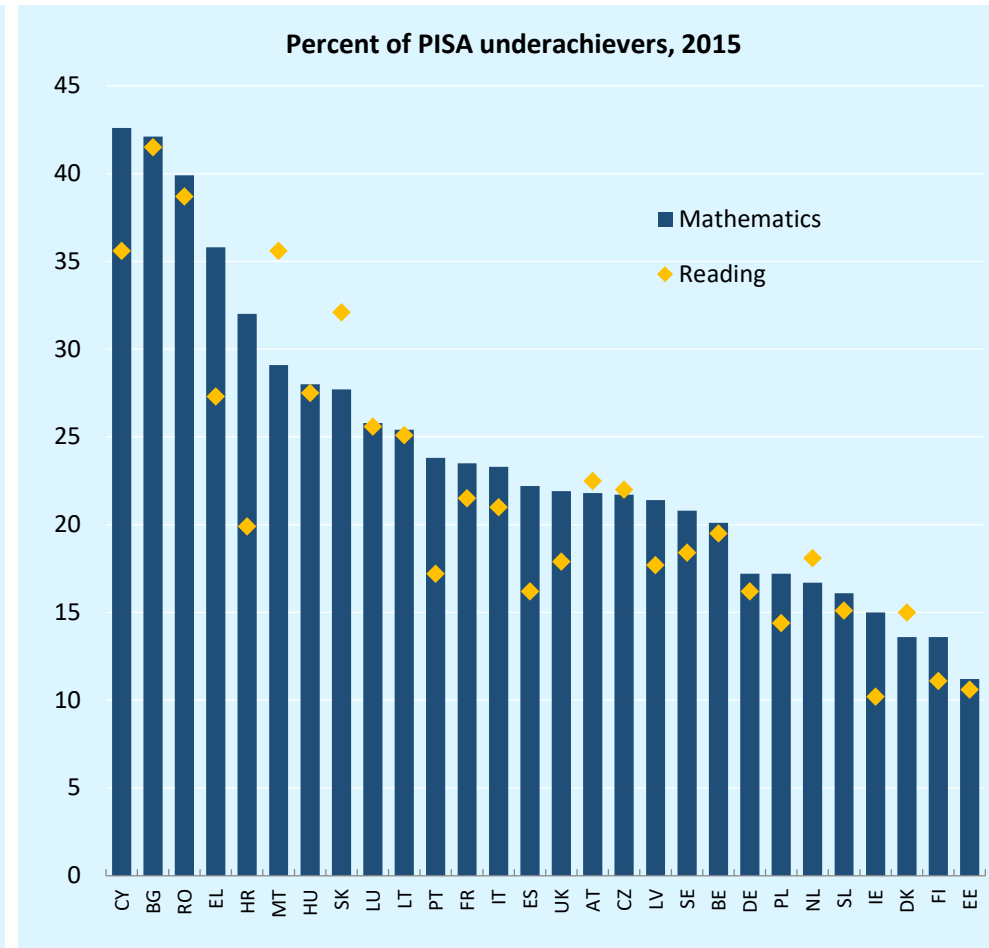
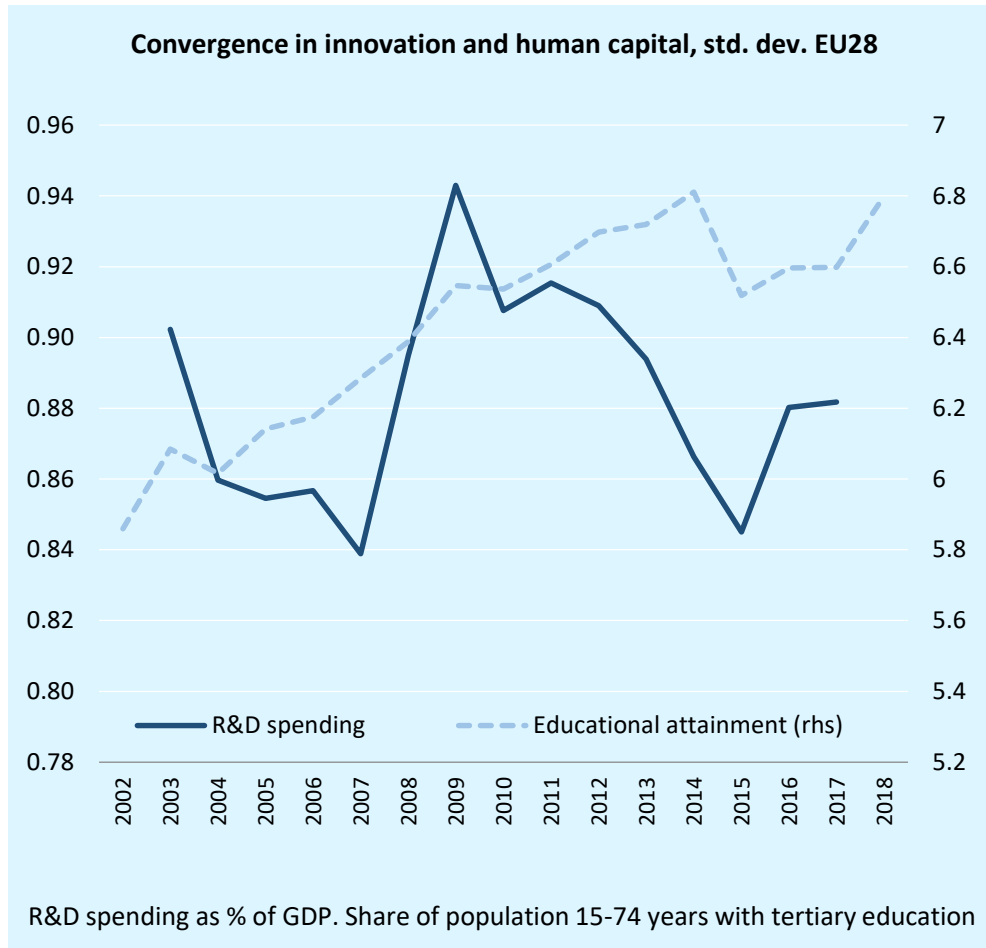
# External rebalancing still uneven



# Some convergence in labour and social conditions

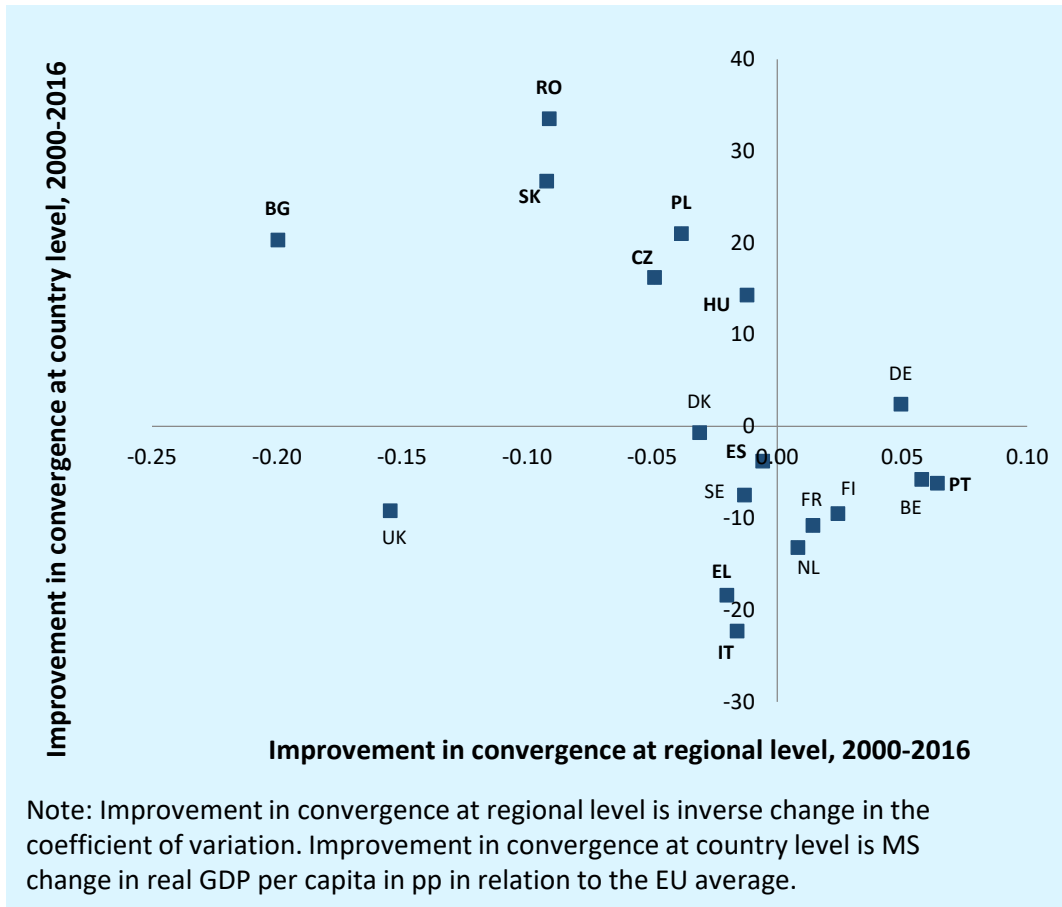
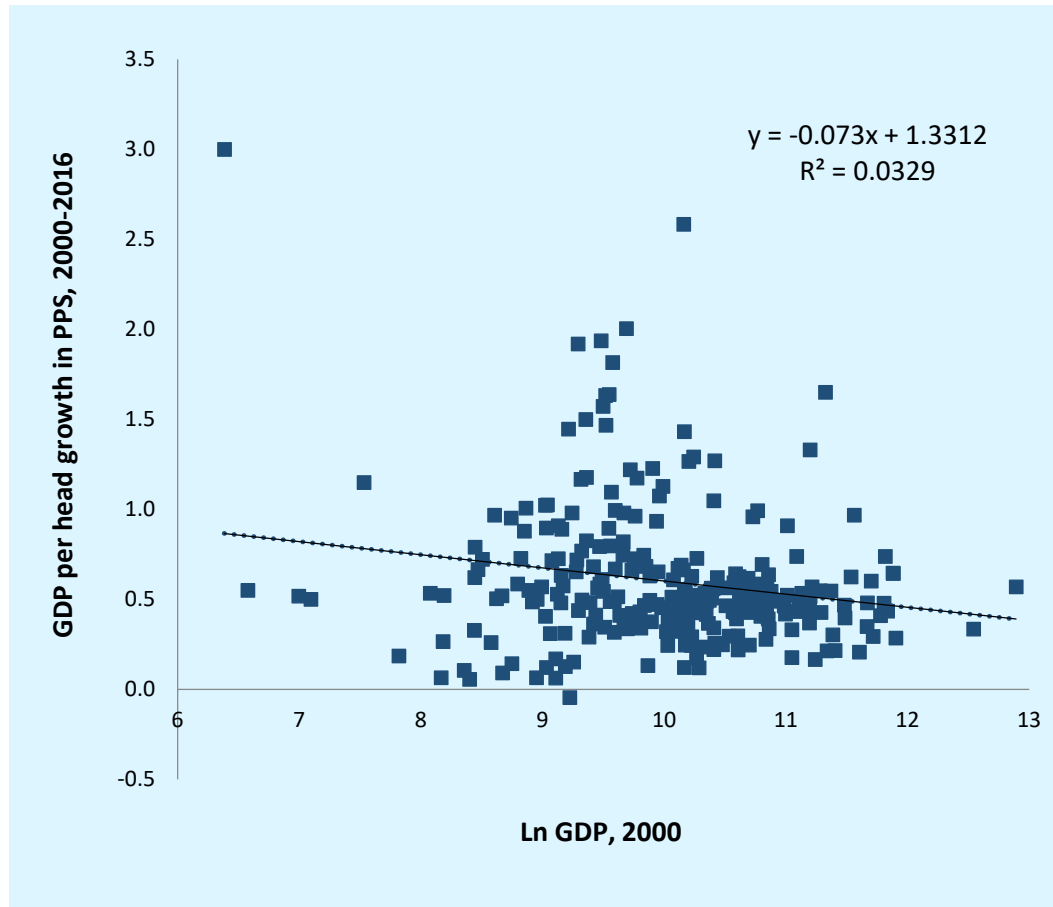


# Country differences in innovation spending and skills





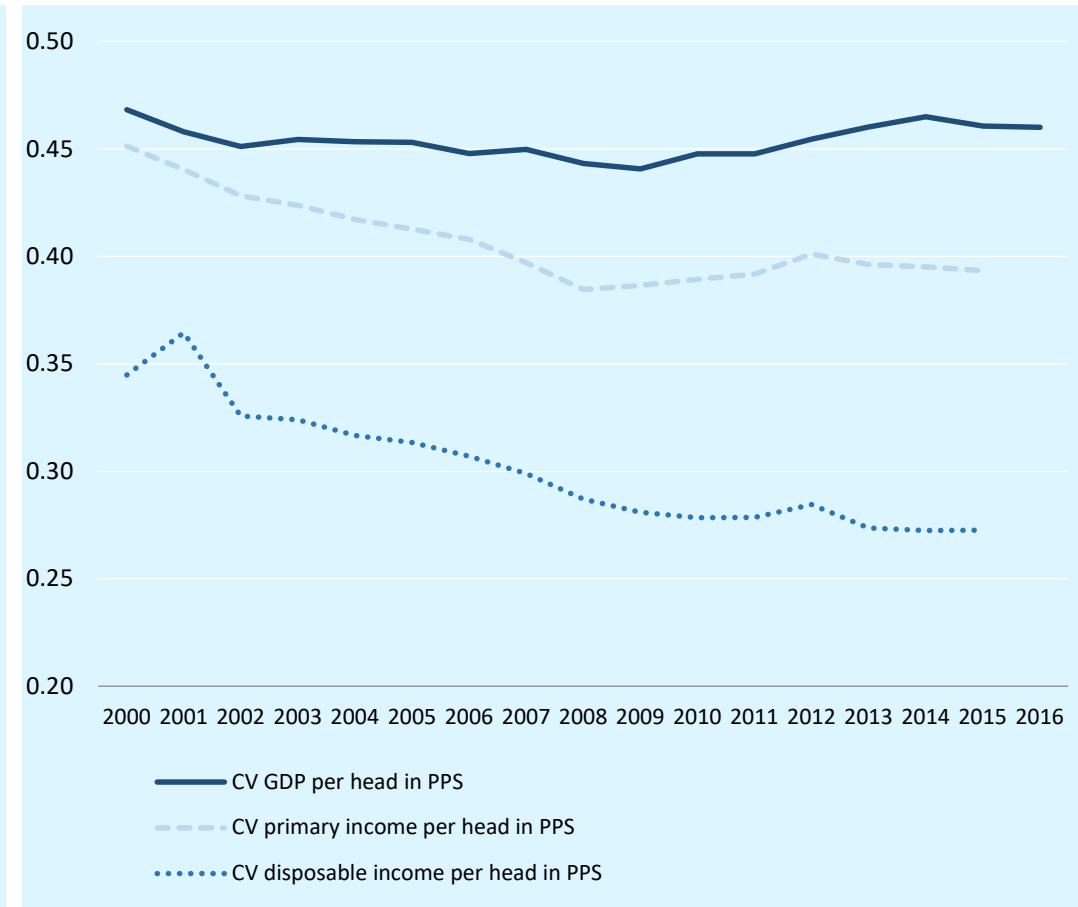
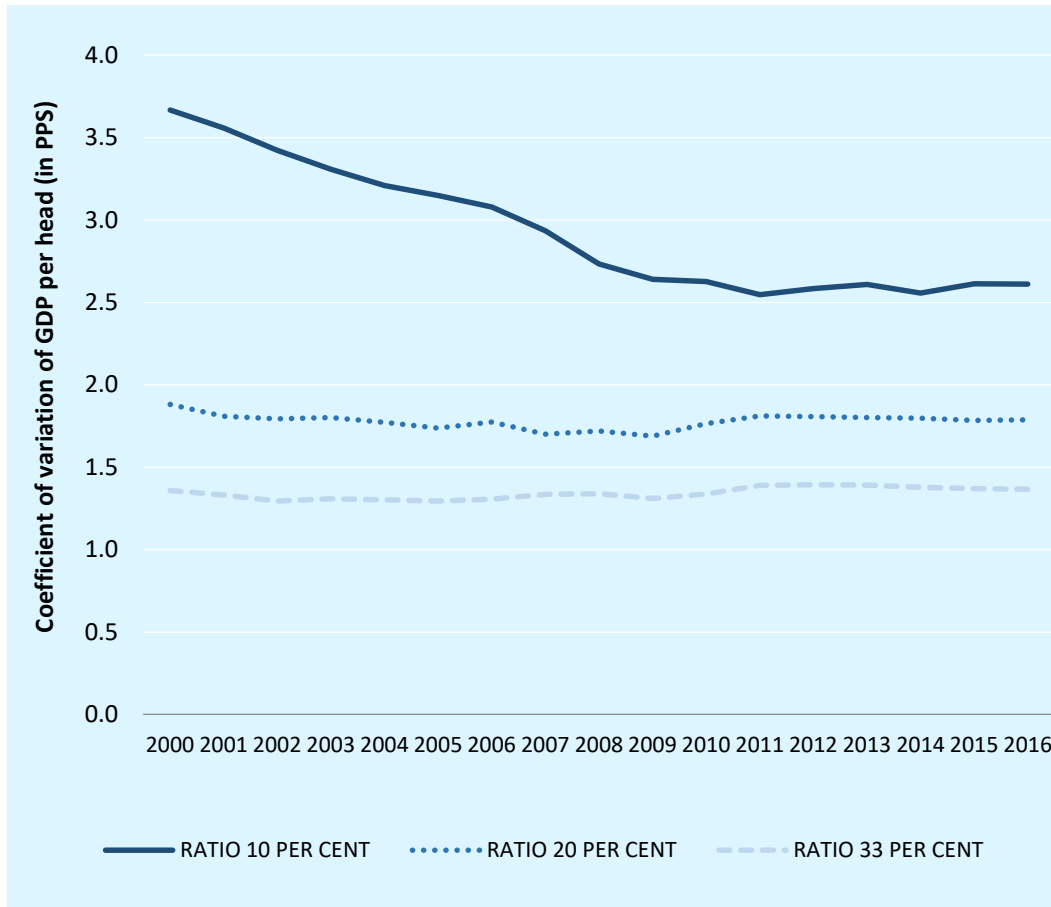
# Regional convergence



Note: Improvement in convergence at regional level is inverse change in the coefficient of variation. Improvement in convergence at country level is MS change in real GDP per capita in pp in relation to the EU average.



# Regional convergence



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# What tools and how to use them?

How to promote economic convergence?

**Strengthen economic resilience**

Address large and persistent cyclical differences

Short-/medium-term impact on the economic cycle

**Increase living standards**

Address large and persistent income differences

Long-term on the economic trend

EU regional policy

CSRs for structural reforms

InvestEU

**Reduce vulnerabilities/exposure to shocks**

Prevent the built-up of harmful economic imbalances

MIP, SGP

**Foster adjustment capacity to shocks**

Strengthen adjustment and shock absorption capacity

**Mitigate amplitude of shocks**

Short-term

**Reduce persistence of shocks**

Medium-term

CSRs for structural reforms

Note: The colours/line styles denote the following questions:

Key economic objective?

How to achieve it?

By when?

Through which procedures?

## Structural reforms at the Member State level:

- Education/human capital and skills/labour market
- Business environment and quality of public institutions
- Growth-enhancing investment and remove bottlenecks to investment

Examples of EU policy that sustain/relaunch convergence: Banking Union, Capital Market Union, Single Market (Energy Union, Transport Union, Digital Single Market, etc.), Budgetary support tools (BICC...), InvestEU



# How the EU helps?

- Policy advice under the European Semester
  - To stimulate discussion and generate ownership
- Benchmarking
  - To identify reform needs and monitor progress
- Budgetary Instrument for Convergence and Competitiveness
  - To encourage structural reforms
- National Productivity Boards
  - To create more national ownership of reforms, and to feed evidence-based policymaking
- Structural Reform Support Service
  - To help in preparation, design and implementation of reforms

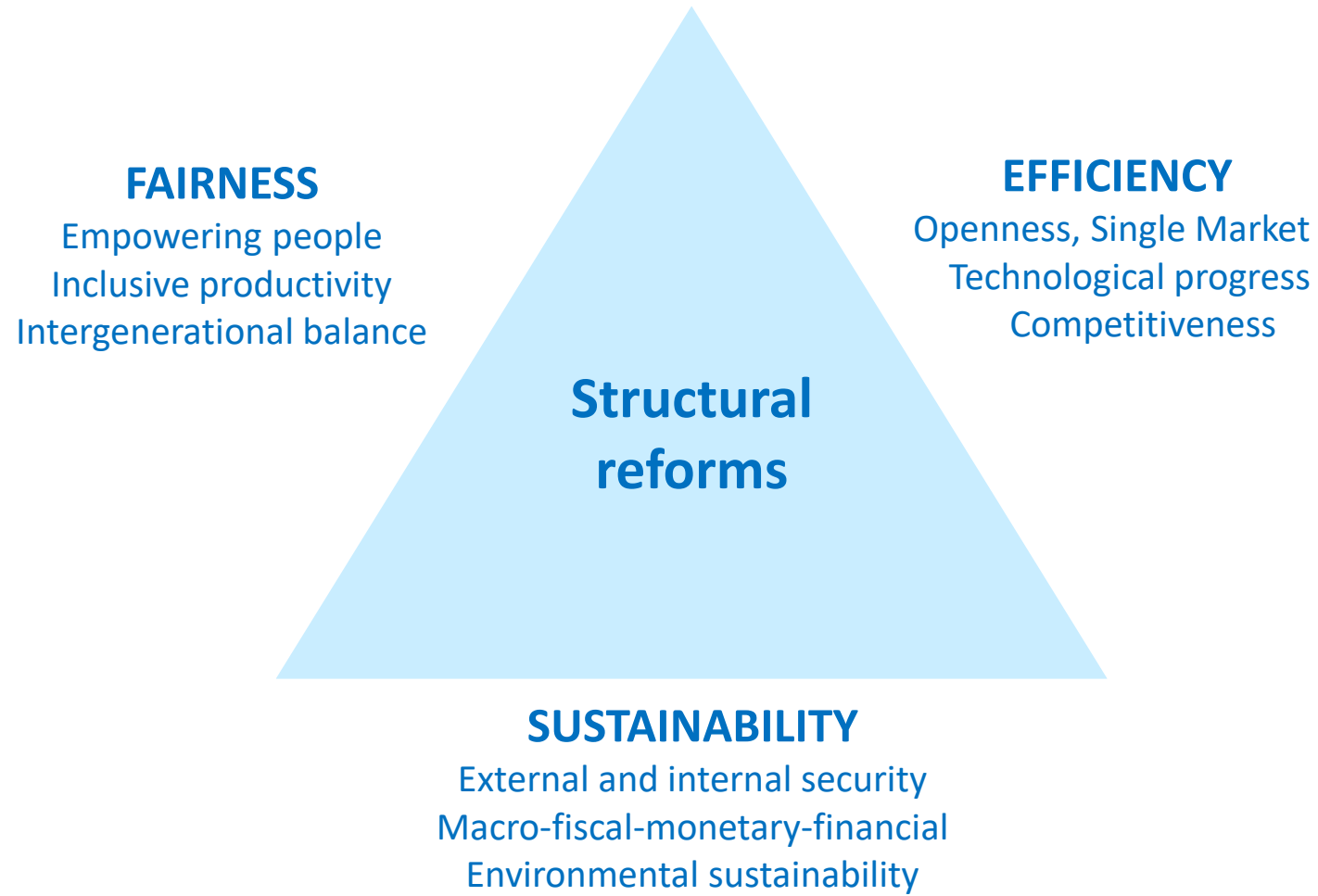


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# A comprehensive narrative on structural reforms



# Better business environment = better crisis recovery

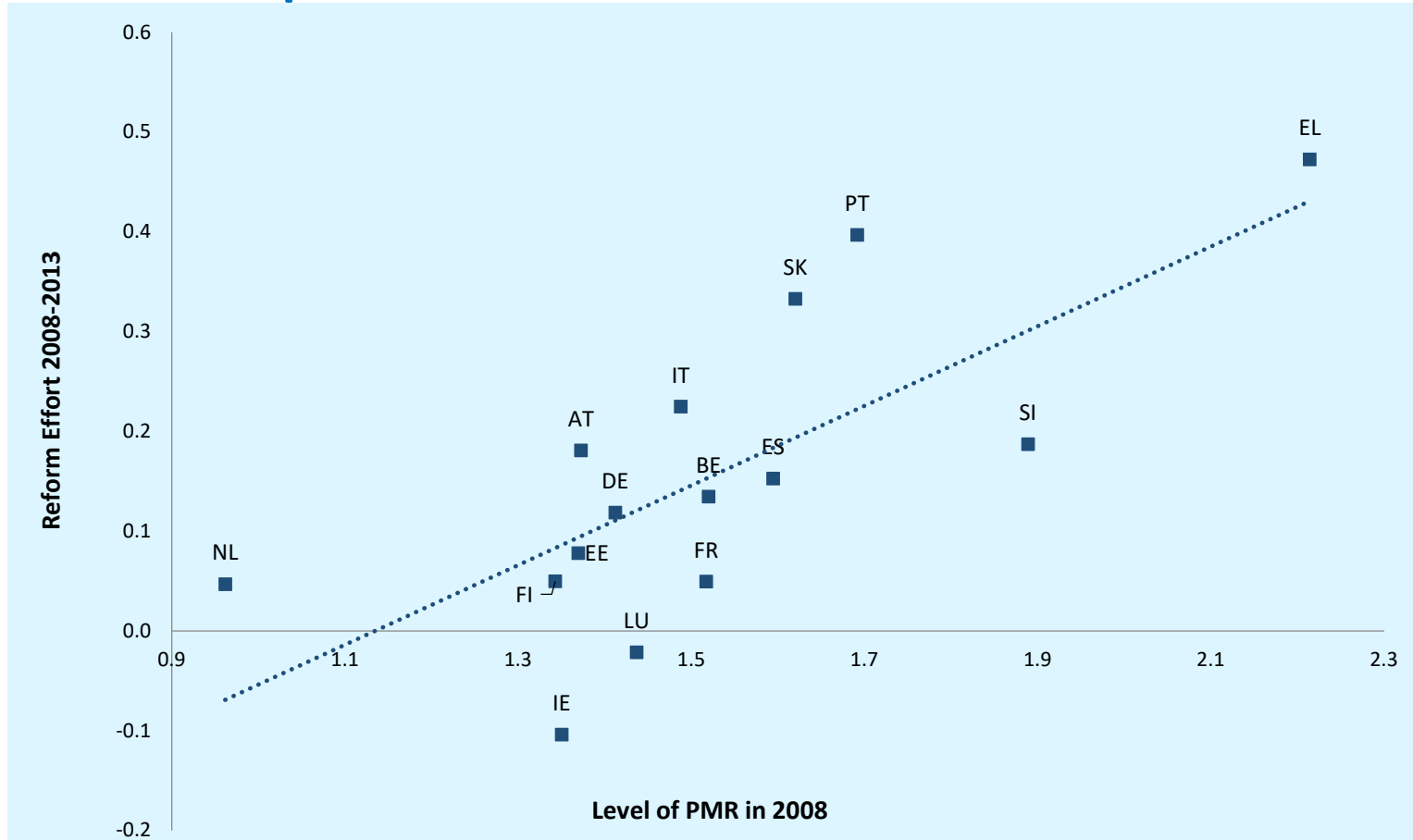


Recovery from the pre-crisis peak is the % difference in 2017 from the maximum value in 2007-2008 in real Gross National Income per capita. MT not included because ease of doing business is not available for 2010.

**Source:** European Commission, World Bank



# Convergence in product market reforms



A higher value of the Product Market Regulation indicator means more stringent product market regulation. The reform effort is calculated as the change in the PMR between 2008 and 2013 (most recent value), where a positive value means a less stringent regulation.

**Source:** OECD



# Ten challenges for structural reforms

1. Benefits are widely spread, while costs are concentrated
2. Negative short-term effects
3. Complexity
4. Missing quantitative evidence
5. Biased opposition to reforms
6. Lack of technical capacity to implement reforms
7. Incorrect sequencing of reforms
8. Procyclicality of reform impact
9. Reform complementarity is not used
10. Reforms ownership



# Ten challenges for structural reforms – best practices

1. Benefits are widely spread, while costs are concentrated - **ways to compensate losers**
2. Negative short-term effects – **social safety nets**
3. Complexity – **better communication**
4. Missing quantitative evidence – **invest in analysis of impacts**
5. Biased opposition to reforms – **provide well-founded arguments**
6. Lack of technical capacity to implement reforms – **technical assistance**
7. Incorrect sequencing of reforms – **implement the right sequencing**
8. Procyclicality of reform impact – **postpone some reforms until recovery, if possible**
9. Reform complementarity is not used – **use appropriate complementarities**
10. Reforms ownership – **build up political support, including with stakeholders**



# Challenges for the future

- ***Digitalisation*** could strengthen cross-border production and trade; however, different rates of transition to the digital economy among the euro area countries could prove a significant risk to convergence
- ***Globalisation***: regions are differently placed in terms of their ability to seize the opportunities and to adapt to increasing worldwide competition
- ***Ageing***: increasing ageing-related costs (pensions, health care and long-term care) in the long-term vary across member states and can exert different pressures on public finances



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# Questions?

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