

# **Liberating the power of services**

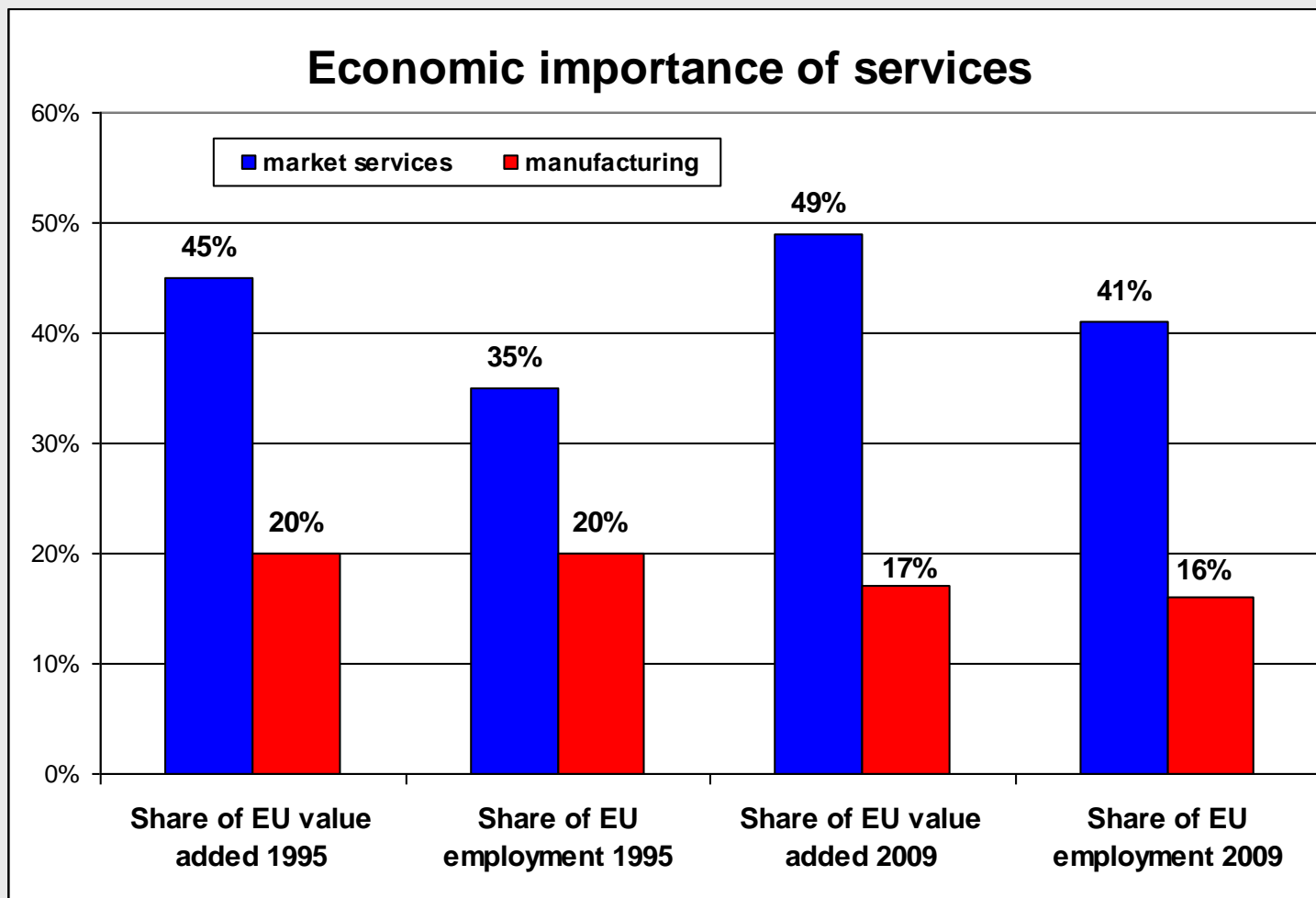
## **Second Bruges European Business conference**

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# **Services are important**

- **Source of growth and job creation**
- **Key elements in an economy adjustment capacity**
- **Showing high resilience to shocks**
- **Highly embedded in the economy: playing a significant role in competitiveness**

# Source of growth and job creation



# Contribution to growth and economic performance of services

	Average annual growth rate of market services	Average annual growth rate of GDP	of which contribution of market services
1995-2009	2.69	1.86	1.22
1995-2007	3.33	2.49	1.51
2008-2009	-0.49	-1.82	-0.22

## Labour productivity (per person) growth, t/t-5

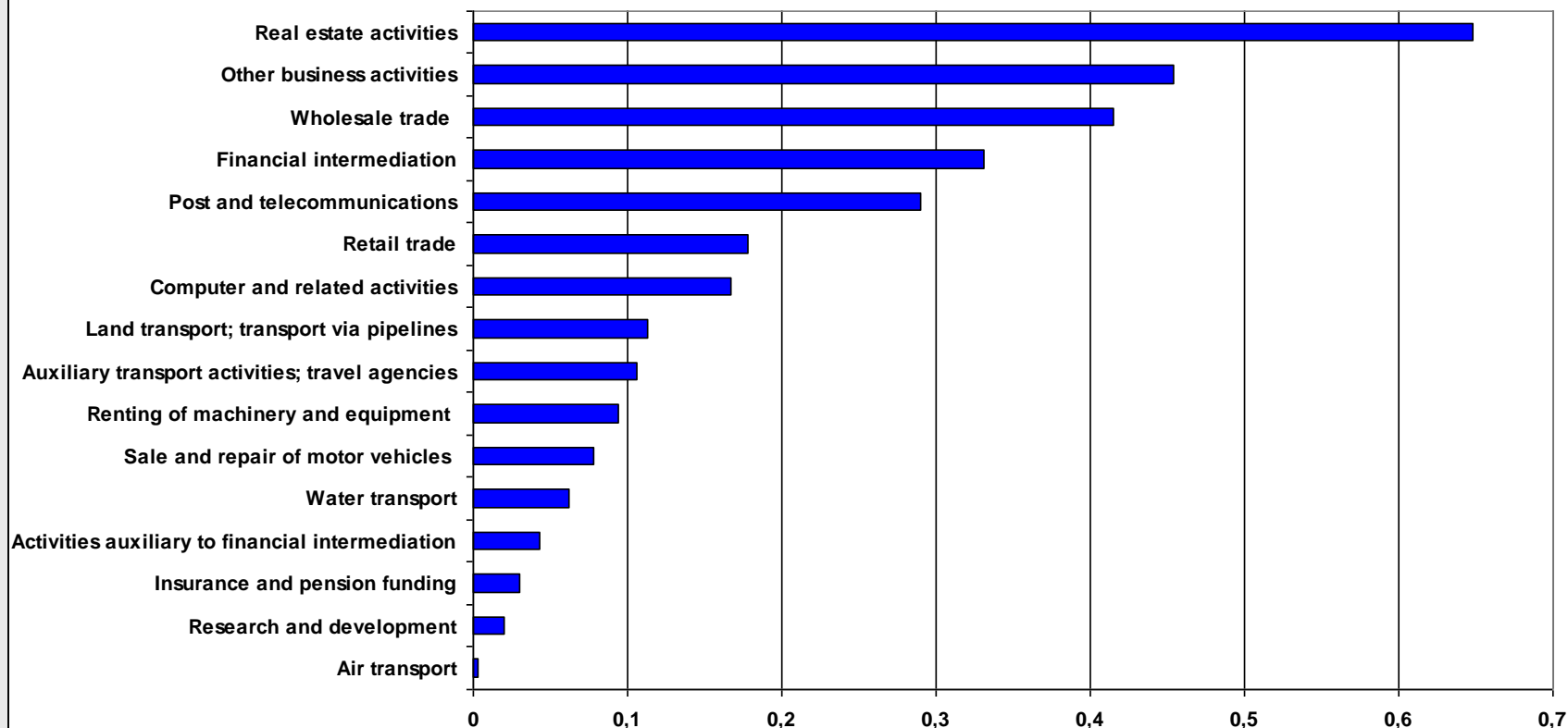
**2008**

Services	Wholesale & retail trade	0.8
	Hotels & restaurants	-0.2
	Transport & communication	2.4
	Financial intermediation	3.6
	Real estate & business activities	-0.7
Manufacturing		2.5

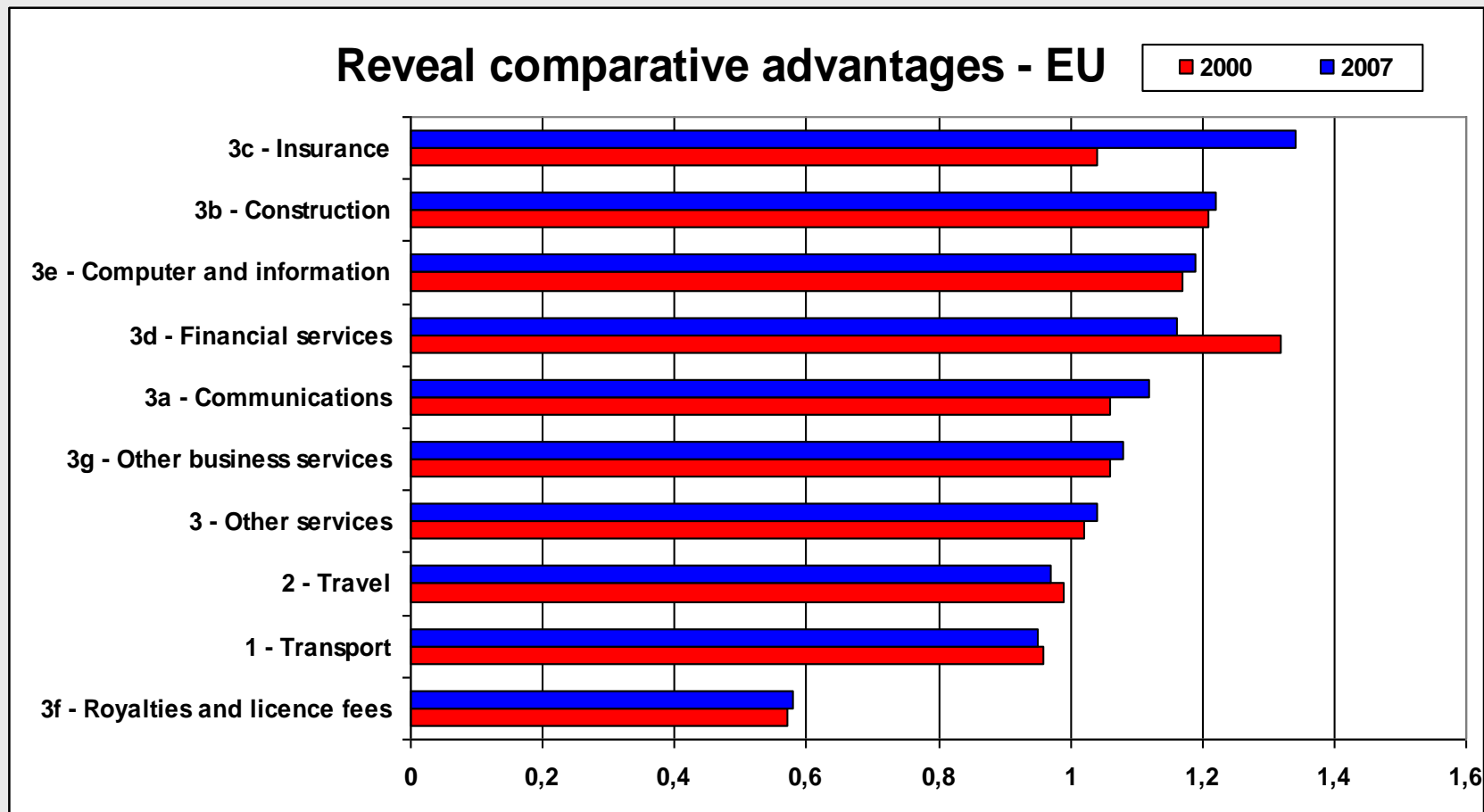


# Main contributions to market services growth in the EU

**Contributions of sectors to market services output growth  
1995-2008, EU27 (percentage points)**



# Export specialisation in services



# **Services are a key element in the adjustment mechanism**

Addressing current account imbalances needs flexible goods, labour and services markets. Particularly important for euro-area

However, the relatively low frequency of price changes in services can be seen as indicative of price rigidities which may hinder the necessary adjustment

....and inflation and price dispersion are higher than in manufacturing

# Services show higher resilience to common shocks

Services sectors show a lower number of downturns and upturns (business cycles) compared to industry sectors

Services display higher resilience to euro area shocks than total industry: more than twice in wholesale and retail trade and financial intermediation compared to total industry

Country-wide product market regulation seems to affect sectoral resilience: the lower resilience in industry is associated with stricter regulation





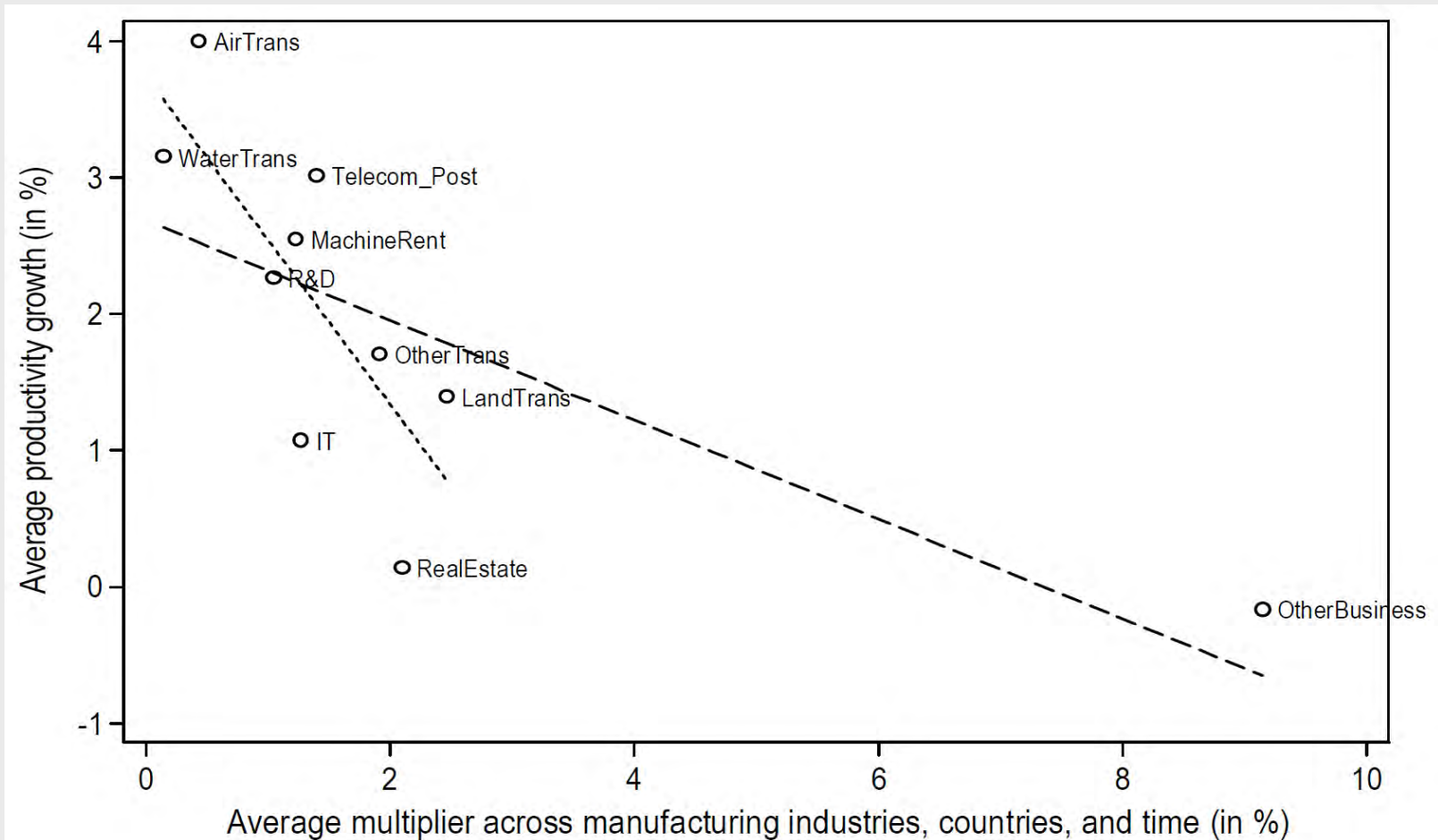
# Services show strong interlinkages with the rest of the economy

Services are vital intermediate inputs. But the interconnection of sectors and activities has become more complex over time

The increased division of production processes into tasks that can be outsourced, has translated into more complex systems of production chains, making more important the role of logistic, including transportation services, management and other business services

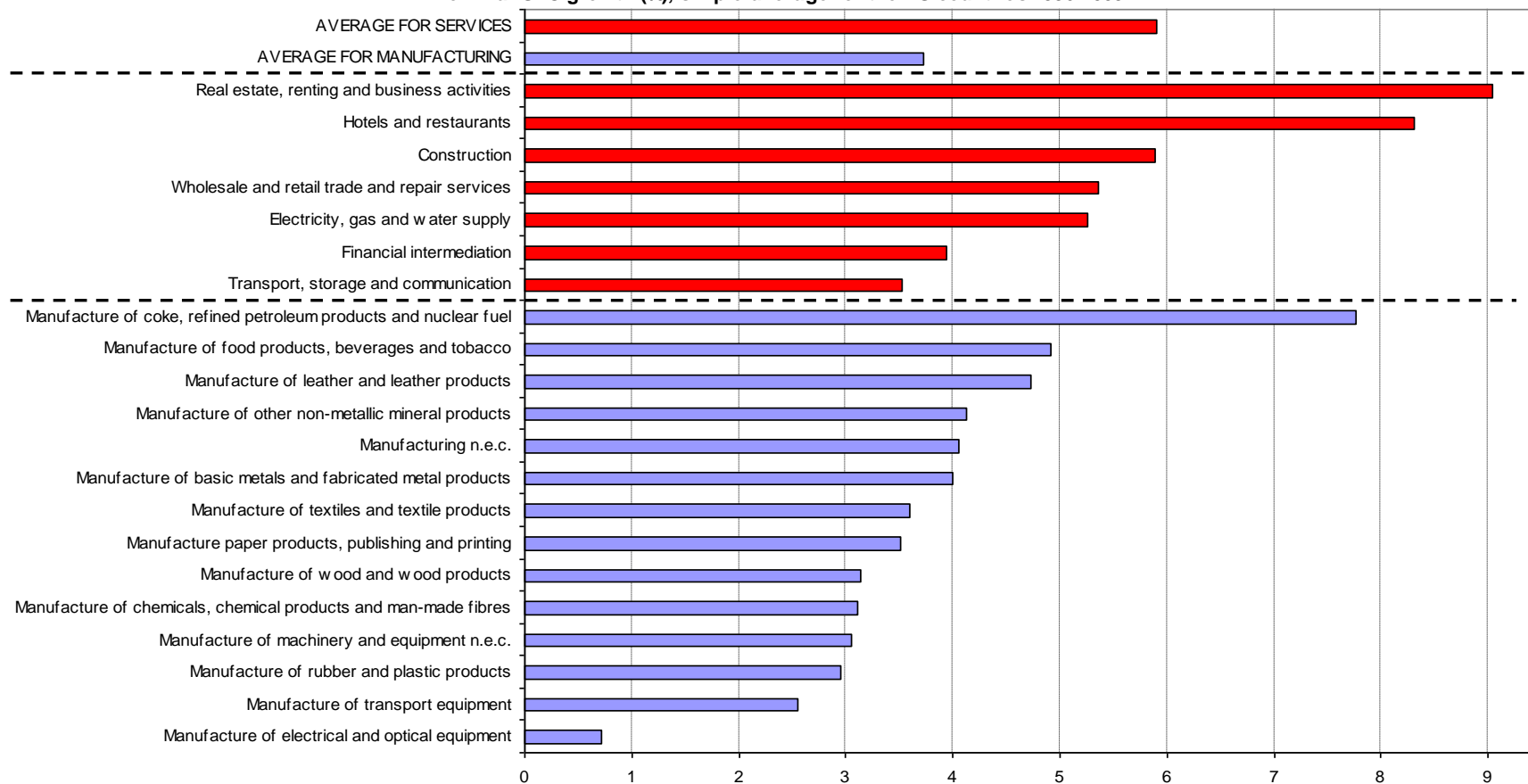
Increasingly, services are used as key inputs differentiating otherwise similar goods. Therefore goods can also compete on bundles of associated services (training, maintenance, after-sales support)

# Services with stronger links with manufacturing have usually lower productivity growth in the EU



# Cost pressures higher than in manufactures

Nominal ULC growth (%), simple average for the EU countries 1996-2009



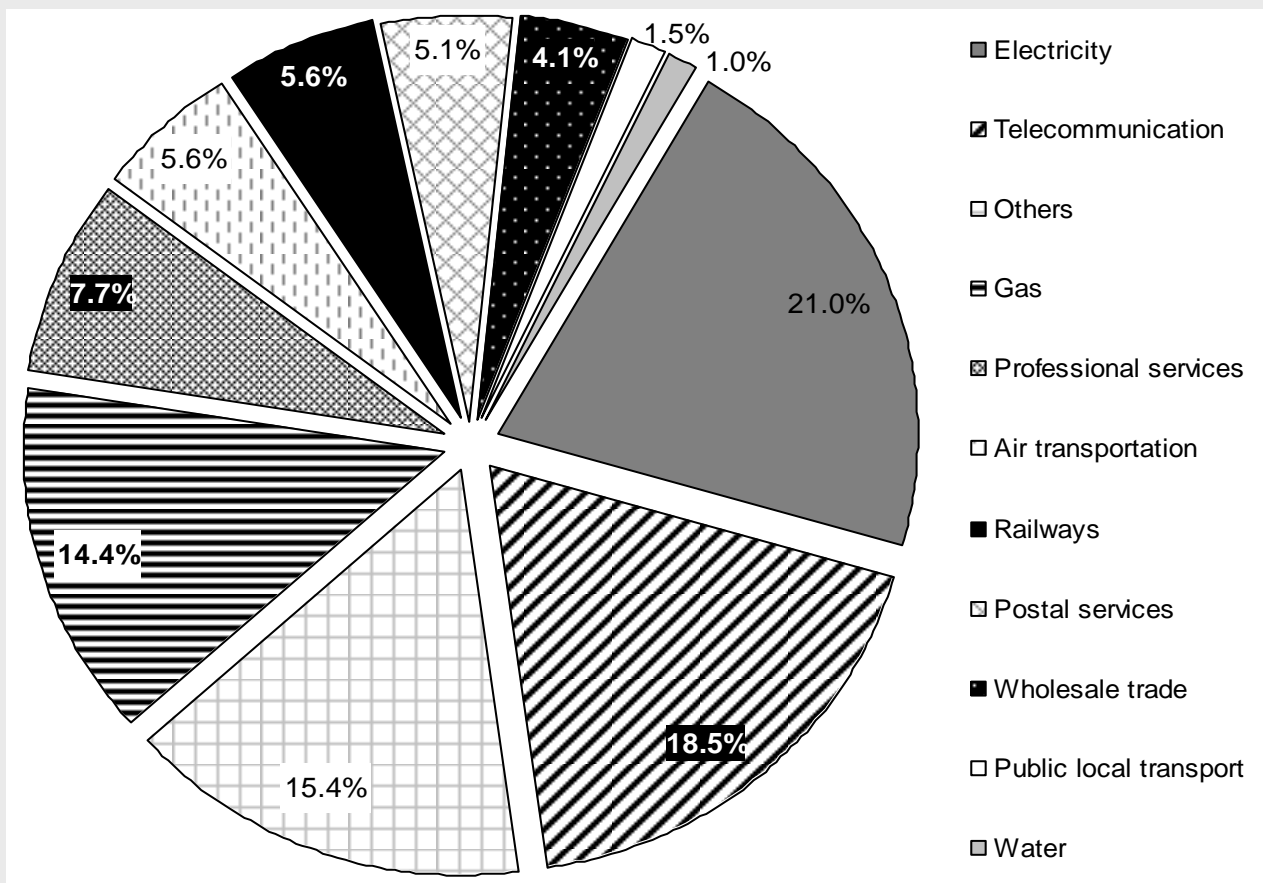
# Services and external competitiveness

Effects on price competitiveness: since services are an important input, ULC pressure in services could worsen the competitiveness of goods

**But also effects on “non-price competitiveness”:** high productivity in services with high interlinkages is an important factor explaining exports growth in manufacturing. The average effect is around  $\frac{1}{4}$  of price effect (REER)

- Exports growth particularly sensitive to productivity in telecom, post and land transport

# Reform measures in MICREF (2004 to 2008, euro-area) –sector specific measures



# **Concluding remarks**

**Important role of services: by themselves and indirectly via interlinkages**

**Traditionally not a high priority:**

- **In analysis due to data problems**
- **Policy makers: non-tradable, sheltered sectors**

**But services have now taken an important role in the policy arena:**

- **Services Directive**
- **Other measures to liberalise and integrate services sectors**

**Thank you for the attention**