

Mr Paulo Rangel
Member of the European Parliament
European Parliament
60 Rue Wiertz
B-1047 Brussels

Frankfurt, 21 May 2010

L/JCT/10/0643

Questions related to structural reforms

Dear Mr Rangel,

Thank you for your letter which was sent to me by Ms Bowles, Chairperson of ECON, on 3 May 2010.

The ECB is indeed calling upon the governments of the euro area to do their best to bring their countries back on a sustainable growth path, aim at sound public finances and address imbalances and competitiveness losses incurred in the past. In our view, this requires comprehensive fiscal and structural reforms to strengthen the growth potential of our economies.

In this respect, and focusing on structural indicators, the ECB closely monitors all important labour and product market developments which are able to signal the lack of flexibility in the adjustment of prices and labour costs as well as those preventing stronger sustainable growth. This implies that, on the labour market side, we focus on the wage setting mechanisms including minimum wage policies, public wage dynamics, tax and benefit systems that set effective incentives to work, flexibility in labour contracts and training schemes, which have an impact on the evolution of labour costs and employment. Such indicators are complemented with the analysis of policies enhancing total factor productivity, i.e related to education and expenditures in research and development, which are also relevant for medium-term increases in productivity and competitiveness. On the product market side, we give particular attention to the steps undertaken by national authorities for the completion of the Single Market, particularly in services and network industries. A deeper integration of markets is crucial to stimulate price flexibility by fostering competition and opening product and labour markets.

Our analysis of the above mentioned indicators is based on all the expert knowledge available in the ESCB about reform measures and their impact. The Structural Issues Report, regularly delivered to the European Parliament, is one reflection of our efforts to assess structural characteristics in euro area countries and the scope for policy reform. As an example, the report presented to the European Parliament in 2008 provides an overview of the progress achieved by different euro area countries in reforming their labour markets, and what can be learned from these experiences.

As regards Portugal, the challenges for this country are related to the very urgent need of implementing effective and convincing fiscal consolidation, improving competitiveness and boosting productivity growth.

Let me conclude by saying that the current developments demonstrate the need for countries to reverse past imbalances and competitiveness losses and attain fiscal sustainability as a matter of urgency.

With best regards,

[signed]

Jean-Claude Trichet