

A RHOMOLO ASSESSMENT OF THE IMPACT OF REGULATION IN THE EU SERVICES SECTOR

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- Services account for about 70% of the GDP of the European Union (EU), and a similar share of employment.
- The 2006 Services Directive aims at promoting trade and investment in services by removing unjustified regulatory and administrative barriers. Nevertheless, the Single Market for services remains fragmented.
- The analysis reported here shows that the realised removal of barriers between 2006 and 2017 results in discounted cumulative gains of 2.1% of GDP by the year 2027.
- Additional ambitious reforms could generate an additional growth potential of up to 2.5% of GDP by 2027, resulting in a total cumulative gain in GDP of up to 4.65% by 2027.

1. Introduction

Services are of primary importance for the EU economy, accounting for about 70% of the EU GDP and a similar share of the EU employment. Well-functioning and competitive services markets are key for achieving economic growth and job creation in Europe.

The Services Directive was adopted in 2006. Its aim was to promote trade and investment in services in the EU by setting a framework for national services regulation removing unjustified regulatory and administrative barriers.

The implementation of the Services Directive, and the subsequent reforms encouraged by the European Semester, led to the removal of a number of barriers. Nevertheless, the Single Market for services remains fragmented and service providers still face many obstacles when providing their services across borders within the EU.

The study by the European Commission (2021) on [‘Mapping and assessment of legal and administrative barriers in the services sector’](#) concluded that the removal of barriers in the services sector over the recent years was slow and only led to a small decrease in the absolute level of barriers.

Reducing regulatory restrictiveness in services would boost productivity and competitiveness of the EU services sector as well as manufacturing industries, which source many services and increasingly offer their products in combination with services. In this

context, it is important to quantify the impact of reducing the restrictions.

This Policy Insight presents the results of an analysis quantifying the macroeconomic impact of reforms that have already taken place between 2006 and 2017, as well as estimating the impact of hypothetical additional reforms aimed at further reducing regulatory restrictions to provision of services in the Single Market from 2017 onwards.

The analysis is based on econometric techniques combined with economic modelling. The latter part of the exercise was carried out with the spatial dynamic general equilibrium model called RHOMOLO, which is calibrated with data for all the NUTS 2 regions of the EU and is routinely used for impact assessment analysis of EU policies.

2. Results of the analysis

The econometric part of the analysis (see Barbero et al., 2022) serves to provide an estimate of efficiency gains that are used as inputs for the general equilibrium modelling part. The latter is based on three scenarios. The *Historical* one is based on data measuring the decrease in regulatory restrictiveness between 2006 and 2017, and assumes no further removal of barriers afterwards. The *Ambitious* scenario combines the impact of the historical reforms with an ambitious set of reforms undertaken as of 2017. The aim of the additional reforms is for all EU Member States to reach at least the average of the top five performers in the Union. Finally, the *Conservative* scenario assumes a less ambitious set of reforms from 2017 onwards, with all Member States reaching at

The policy impact of this research

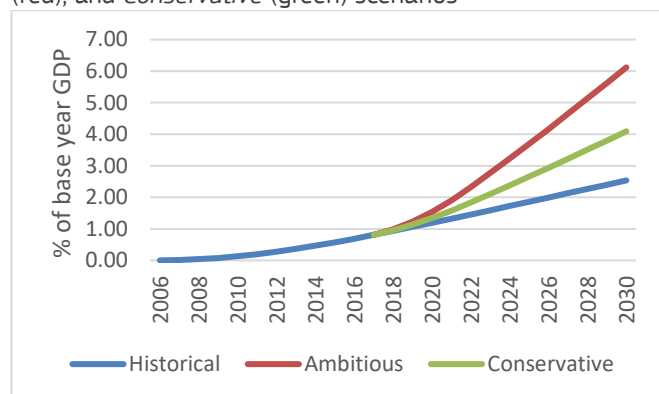
The main results of the analysis reported in this Policy Insight are included in the Annual Single Market Report (European Commission, 2022) published by DG GROW.

The results suggest that there is a significant economic gain associated with the regulation changes in the services sector in the EU, which can be quantified by using appropriate analytical tools like econometric methods and the RHOMOLO model.

least the EU average in terms of regulatory restrictiveness. Full details of the analysis can be found in Barbero et al. (2022).

The results of Figure 1 indicate that, in the absence of further actions post 2017, the already implemented reforms lead to a discounted cumulative GDP gain of 2.13% by 2027.

Figure 1: Cumulative discounted GDP gains from the removal of barriers in services: *Historical* (blue), *Ambitious* (red), and *Conservative* (green) scenarios



Source: Barbero et al. (2022).

The combined result of the already implemented reforms and new hypothetical ones from 2017

onwards would lead to GDP gains between 3.22% (*Conservative*) and 4.65% (*Ambitious*) by 2027.

3. Conclusions

The results reported in this Policy Insight suggest that further regulatory reforms in the services sector could represent a significant boost for the resilience of the Single Market and a vital contribution to EU GDP.

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Barbero et al. (2022). A general equilibrium analysis of the economic impact of the post-2007 EU regulation in the services sector. JRC Working Papers on Territorial Modelling and Analysis No. 02/2022, European Commission, Seville, JRC128322.

European Commission (2021). Mapping and assessment of removal of legal and administrative barriers in the services sector. Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs. <https://data.europa.eu/doi/10.2873/690757>

European Commission (2022). Annual Single Market Report. Forthcoming.

RHOMOLO

Dynamic Spatial CGE Model for EU regions

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