BUSINESSEUROPE

GO FOR GROWTH

AN AGENDA FOR THE EU IN 2010-2014

European Reform Barometer

Spring 2010

Benchmarking our way out of the crisis

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WHO
ARE WE?

BUSINESSEUROPE is the Confederation of European Business, representing small, medium and large companies. Our members are 40 leading business federations from 34 countries working together to achieve growth and competitiveness in Europe.

WHAT IS THE EUROPEAN REFORM BAROMETER?

BUSINESSEUROPE's Reform Barometer looks at the global performance of the EU, its 27 Member States, Norway and Switzerland on the basis of key indicators covering labour utilisation, productivity, investment, competitiveness and public finances. It identifies frontrunners and laggards and singles out growth bottlenecks in each country. Based on a survey of BUSINESSEUROPE's member federations, the report identifies priorities for reform in a post-crisis world. It also proposes ways of improving governance instruments for the new EU growth strategy.

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FOREWORD

This report confirms the strong commitment of the European business community to cultivate a true benchmarking culture within the European Union and at the global level.

The EU's pledge to exit from the crisis and support greater prosperity, job creation and economic stability on our continent will only be credible if it is ready to tackle structural impediments to growth at both EU and national level. This is where Europe's untapped potential lies and is a necessary condition to restore fiscal sustainability and uphold Europe's social model. It will require strong resolve for policy-makers to implement the necessary reforms and promote their benefits to society.

Benchmarking is a powerful device to pin down structural weaknesses at the national level, identify priority areas for reform and foster policy learning across countries. It must be used both to communicate the gains of reforms and to exert pressure on governments tempted to shift the burden of adjustments into the future.

Previous attempts to coordinate structural reforms in the European context have failed mainly due to weak political ownership and accountability. This was the core reason for the disappointing results of the Lisbon Strategy launched in 2000 and expiring in 2010. This failure has dealt a blow to the credibility of the EU and its capacity to successfully coordinate national policies.

A new EU growth strategy is being put in place to get Europe back on track to prosperity and job creation. Europe cannot afford to fall short of expectations once again.

EU leaders have, with this new EU growth strategy, the chance to plant the seeds for a more effective system of governance to tackle the immense challenges ahead. Benchmarking and greater tenacity of EU institutions to name good performers and shame countries falling short of their commitments will need to be a key pillar of such a governance structure.

The report presents an evaluation of EU's performance and individual country positions on key structural indicators in 2009, and their relative evolution since 2008. It then presents reform priorities as indentified by BUSINESSEUROPE members to exit the crisis and address the main growth bottlenecks at the Member State level. The report concludes with recommendations regarding ways of improving governance instruments for the new EU growth strategy.

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- **The EU in the world**
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REINFORCING GOVERNANCE OF REFORMS AT EU LEVEL

CLOSING THE GAP

1 The EU in the world

During the last decade, an important **shift in the centre of economic gravity** has taken place in the global economy (see table 1).

The **crisis has further accelerated this transformation** and Europe is set to become a shrinking part of a growing world unless the necessary reforms are made urgently.

Table 1
The EU economy in a world context
Source: BUSINESSEUROPE, IMF, WTO, Eurostat

Country / Group	Share of world GDP (Purchasing Power Parity)		Share of world population		Share of world exports (excluding intra-EU trade) [1] [2]		Share of world exports (including intra-EU trade) [1] [2]		Current account balance (as % of GDP)	
	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
Developed Countries	63%	54%	16%	15%	68%	57%	68%	67%	-1%	-1%
European Union	25%	22%	8%	7%	17%	19%	38%	41%	-1%	-1%
Germany	5,2%	4,1%	1,2%	1,2%	4,2%	5,0%	8,5%	9,9%	6%	3%
France	3,7%	3,0%	0,9%	0,9%	2,5%	2,3%	5,0%	4,3%	-2%	-1%
United Kingdom	3,6%	3,1%	0,9%	0,9%	2,5%	1,9%	4,4%	3,1%	-2%	-2%
Italy	3,3%	2,6%	0,9%	0,9%	2,0%	2,1%	3,7%	3,6%	-3%	-3%
United States	23%	20%	5%	5%	16%	13%	12%	9%	-4%	-3%
Japan	8%	6%	2%	2%	10%	7%	7%	5%	3%	2%
China (ex Hong Kong)	7%	12%	21%	20%	5%	14%	4%	11%	2%	8%
BRIC	16%	23%	44%	43%	9%	22%	7%	16%	3%	4%

(1) 2009 data corresponds to the year from November 2008 to November 2009
(2) Share of world exports are given as % of total value of goods export (current prices)

- The **EU continues to be the world largest trading bloc, although a big share is accounted for by intra-community exchanges** of goods and services. Excluding intra-EU trade, EU's export expressed in nominal terms is estimated for 2009 to account for 19% of world trade, above the United States (13%) and China (14%), but below the BRIC countries combined (22%). EU's nominal export market share has increased since 2000, mainly reflecting positive terms of trade effects. Among EU's largest trading countries, the improvement was particularly visible in Germany, with Italy stabilising its global market share while France and especially the United Kingdom lost some ground. Exchange rate developments must be factored in when assessing these relative developments.

- **Current account imbalances persist in the world economy,** with some countries such as China still exhibiting large surpluses compensated by deficits in other parts of the world, including in the US. These were an important underlying factor in the crisis and have not yet shown signs of fundamental re-adjustments since then. Europe as a whole is maintaining a minor current account deficit vis-à-vis the rest of the world.

- The **EU is accounting for a decreasing share of the world population, estimated at 7% in 2009, and is facing a severe demographic challenge.** This will result in the decline of the working-age population by 3 million this decade and 50 million by 2050. By that time, about 35% of the EU's population will be older than 65, against 44% in Japan, 31% in China, and 27% in the US.

Europe must be outward-looking and put greater emphasis on its global competitiveness as a factor of internal growth and stability.

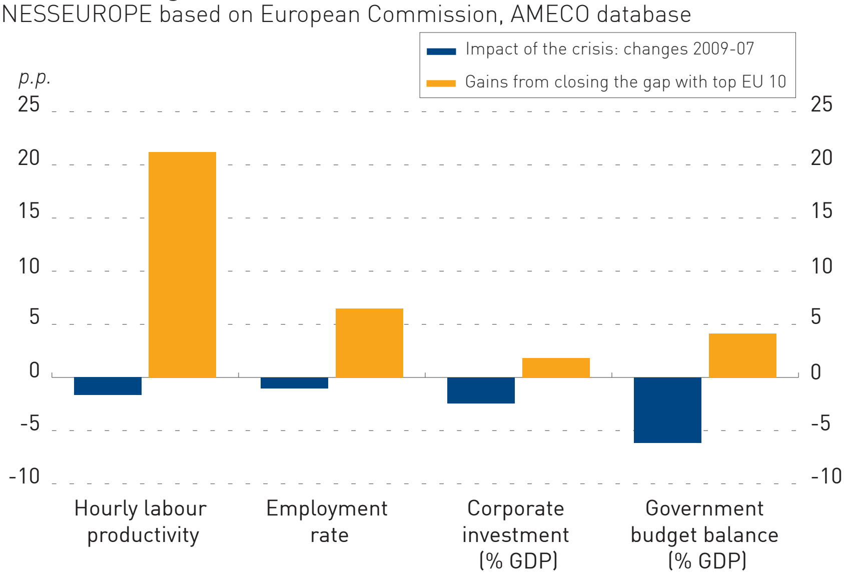
This must be done at EU level by opening up market opportunities through external trade policies, developing a true integrated industrial policy, fostering a more innovation-based economy and revitalising EU's internal market. These priorities have been spelled out in "Go for Growth": BUSINESSEUROPE's agenda for European institutions in the period 2010-14.

But **major structural impediments to growth lie at the national level and must be addressed with national reforms.** Creating a new momentum to address these stumbling blocks is vital for EU's overall success.

2 Releasing untapped potential

There is a great potential for individual Member States to target their efforts at **closing the gap with best EU performers** in individual policy areas. The benefits in terms of income per capita and employment levels represent many times over the effect of the crisis (see chart 1) and could help to bolster the EU's position at the global stage.

Chart 1
Impact of the crisis vs. gains of reforms in the EU
Source: BUSINESSEUROPE based on European Commission, AMECO database



- **Closing the productivity gap** of the EU as whole with the top ten performers in Europe **would boost the average level of GDP per capita by 21%**, amounting to an increase in average income per person of more than 6.800 euro, compared with a crisis-induced loss of 540 euro per year from 2007 to 2009.

  This would require very substantial efforts in each and every Member State to lift bottlenecks to business development and innovation, access to finance, markets and technologies.

- **Reaching the employment rate of the current top ten** performers in the EU – i.e. 70% of the active-age population measured at the bottom of the cycle – **would create almost 15 million jobs** across Europe: more than the combined impact of the crisis and demographic ageing during this decade.

  An employment rate target of 70% for the EU as a whole should be considered an intermediate goal to be reached by 2014 at the latest, then focusing on the 75% objective by 2020. Each country should define ambitious national targets in this area, including frontrunners which often face acute demographic challenges.

  This will require the modernisation of European labour markets along the lines of flexicurity principles, increase labour participation, social security reforms and a better matching of available skills with the needs of companies.

- **Public finance is one key policy area where targeting EU best performers will not be sufficient** to collectively address the impact of the crisis. Very substantial consolidation efforts will be needed to put public debt on a sustainable path while preserving public investment where it matters most for future growth and job creation.

  BUSINESSEUROPE published in March 2010 its report "Combining Fiscal Consolidation and Growth: a European Action Plan" where it presented detailed recommendations to tackle the challenge ahead with both exit and entry strategies for European governments.

COUNTRY RESULTS

1 Summary: No Member State is performing well in all areas

BUSINESSEUROPE's Reform Barometer looks at the global performance of the EU, its 27 Member States, Norway and Switzerland on the basis of key indicators covering labour utilisation, productivity, investment, competitiveness and public finances. **It identifies frontrunners and laggards and singles out growth bottlenecks in each country.**

Looking at the overall situation of the EU:

- GDP per capita (measured in purchasing power parity) in the EU has been significantly hit, declining by 5.8% in 2009, compared with a fall of 4.6% in the US and 7.1% in Japan.
- The gap in hourly productivity levels between the US and the EU (measured in purchasing power parity) widened further in 2009 to 38%, from 36% in 2008. The most recent divergence stems from significant labour hoarding in Europe and faster corporate restructuring in the US.
- Despite greater resilience of European labour markets, the overall level of labour utilisation in 2009 was still significantly lower than in the US and in Japan, respectively by 13% and 17%.
- The deterioration of public finances has been very severe in all developed economies, with public deficit and debt levels reaching unsustainably high levels in Europe, US and Japan.

At the individual Member State level, the **consequences of the crisis have been felt unevenly** in terms of output, employment, investment, trade and public finances, revealing the different vulnerabilities of each country.

Table 2
Overall assessment based on selected indicators
Source: BUSINESSEUROPE based on European Commission

Above average	Austria - Cyprus - Czech Republic - Denmark - Finland - Germany - Luxembourg - Netherlands - Norway - Poland - Slovakia - Sweden - Switzerland **But Losing Ground: Ireland, Slovenia**
Below average	**But Showing Greater Resilience: Bulgaria, Hungary, France** Belgium - Estonia - Greece - Italy - Latvia - Lithuania - Malta - Portugal - Romania - Spain - United Kingdom

[1] Detailed country evaluations and recommendations are available on our website: www.businesseurope.eu

The conclusion drawn from this benchmarking exercise is that **no Member State is performing well in every area and that room for policy improvement and learning is present everywhere.**

Looking at the largest ten European economies:

- **Sweden, Austria, Germany and the Netherlands** are combining above average scores on a number of fronts with a certain degree of resilience to the crisis. Yet, these countries also suffer from important weaknesses compared with other countries, notably related to a low level of hours worked per person, a relative high dependency ratio and a higher overall tax burden (apart from the Netherlands).

- **Poland** is seeing a good overall performance looking at the cross-section of indicators and has been remarkably resilient in 2009, gaining relative positions in most of the indicators covered in this report.

- **France** has important room for improvement when compared with best EU performers in terms of the overall degree of labour utilisation in the economy, public finances and external competitiveness. But it still performs well on productivity-related indicators and has seen corporate investment and employment levels resisting better than in many other countries during the crisis.

- Broadly comparable conclusions can be drawn for **Belgium**, although resilience to the crisis was somewhat less pronounced.

- The **United Kingdom** has lost significant ground during last year's recession, mainly stemming from the rapid rise in public deficits combined with weakness in external competitiveness and corporate investment.

- **Spain and Italy** are revealing below average scores on a number of indicators, but Italy has shown greater tenacity in 2009 while Spain went through more significant adjustments in terms of employment and public finances.

The next three sections of the report look at individual rankings in key policy areas covering:

➤ **Productivity investment and competitiveness**

➤ **Employment, labour participation and hours worked**

➤ **Public finances and fiscal sustainability**

2 Productivity, investment and competitiveness

Productivity, investment and external competitiveness are the basis on which future growth and prosperity lie. Looking at the most recent developments, the EU as whole is at risk of being further distanced by the US in productivity levels, and now increasingly in cost competitiveness and export performance (see table 3).

Only the best European countries on this set of indicators, namely Luxembourg, Germany, Belgium, Sweden, Austria, France and the Netherlands are scoring nearly as well as the US.

In general, **Germany and Austria** are well positioned in this category, combining high levels of hourly productivity, strong corporate investment and a robust export performance.

Table 3
The EU in the world - productivity, investment and competitiveness
Source: European Commission, AMECO database

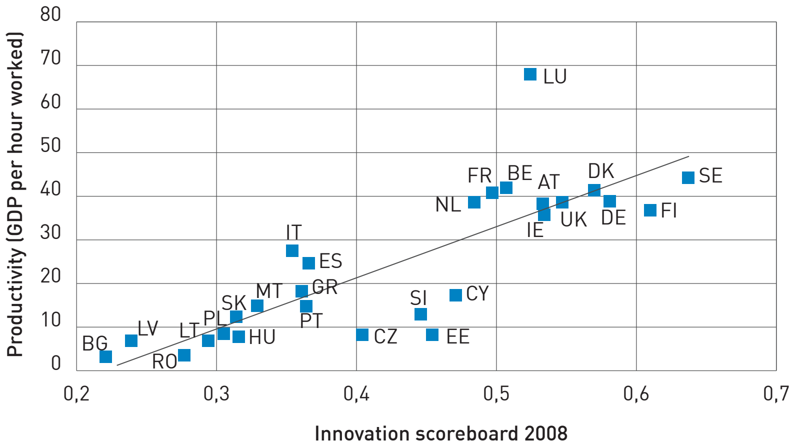
	Productivity (GDP per hour worked, Purchasing Power Parity)		Corporate investment * (as % of GDP)		Export performance (gain in export market share from 2000, in constant prices)		Relative labour costs (from 2000)		Current account balance (as % of GDP)	
	2009	Change from 2008	2009	Change from 2008	2009	Change from 2008	2009	Change from 2008	2009	Change from 2008
EU 27	32,4	-2%	10,2	-2,0	3	-0,3	-0,5	2,8	-0,8	0,3
Euro area	36,8	-2%	11,0	-2,0	1	-0,5	-5,3	1,6	-0,7	0,2
EU top 5	43,1	-3%	13,1	-1,2	55	0,7	-7,1	0,5	6,4	6,7
United States	44,9	0%	7,4	-1,7	4	4,8	-6,5	-5,1	-2,9	2,0
Japan	29,8	-4%	10,4	-1,8	0	-17,3	-27,9	0,4	1,8	-1,4

* Corporate investment refers to EU 15

Sweden remains well placed both on productivity levels and developments in relative unit labour costs and has a strong current account position.

In the case of **Belgium and France**, high hourly labour productivity stems partly from a strong capital base but also from the relatively low level of labour utilisation and average hours worked per person employed.

Chart 2
Productivity and innovation tightly connected
Source: European Commission, AMECO database and PRO-INNO Europe innovation scoreboard



Among central and eastern European countries, **Slovakia, Czech Republic, Hungary and Poland** have productivity levels below EU's average but continue to maintain a sound level of external competitiveness. These countries have generally seen productivity and corporate investment levels resisting better during the crisis.

Favourable conditions for business development and innovation, including cost competitiveness and market access, play a vital role in supporting productivity. Chart 2 shows a particularly tight correlation between productivity levels and the capacity to invest in, and derive output from, research and innovation.

Another important indicator of competitiveness is the evolution of export market shares in volume terms. **Italy**'s low score on export performance measured in constant prices should be clarified as itcontrasts significantly with that at current prices and seems not to fully reflect the improvement in product quality made by Italian firms in recent years. In current prices, Italy 's performance does not substantially differ from that of its best competitors among industrial countries.

Within the euro area, **Portugal** is performing significantly below average on the base on the selected indicators, combining low productivity and investment levels with weak external competiveness.

The **Baltic States, Romania and Bulgaria** have considerable room to catch up in productivity levels and current account deficit remains a source of vulnerability, mainly in Romania and Bulgaria.

Table 4
EU performance in productivity, investment and competitiveness
Source: European Commission, AMECO database

	Productivity (GDP per hour worked, Purchasing Power Parity)		**Corporate investment** (as % GDP)		**Export performance** (gain in export market share from 2000, in constant prices)		**Relative labour costs** (from 2000)		**Current account balance** (as % GDP)	
	Rank in 2009	Change from 2008	Rank in 2009	Change from 2008	Rank in 2009	Change from 2008	Rank in 2009	Change from 2008	Rank in 2009	Change from 2008
Austria	9	-1	5	+3	14	-1	3	=	10	-4
Belgium	3	=	2	+1	23	-1	8	+1	12	-2
Bulgaria	29	=	13	-6	7	+1	26	-1	29	=
Cyprus	18	=	20	-5	25	-1	10	+2	28	=
Czech Republic	22	=	18	+4	4	-1	18	+3	20	-7
Denmark	13	+1	6	-1	17	+3	21	-1	9	-1
Estonia	24	+1	24	-5	12	+2	27	=	7	+14
Finland	14	-2	17	+6	21	-9	11	-5	11	-4
France	5	=	11	+5	26	=	7	+1	17	-3
Germany	6	=	8	+2	11	-2	1	=	6	-3
Greece	16	+1	16	-2	22	+3	6	+1	26	+1
Hungary	23	=	14	+7	3	+1	25	+1	15	+4
Ireland	7	=	27	-2	9	+2	19	+3	21	-5
Italy	15	=	10	+2	29	=	16	-1	18	-6
Latvia	27	=	12	-1	10	=	28	=	5	+21
Lithuania	26	-2	29	=	2	=	20	-1	13	+12
Luxembourg	2	=	28	=	23	-1	8	+1	2	+2
Malta	17	-1	22	+2	28	-1	17	-1	22	-5
Netherlands	4	=	15	+3	15	+2	15	-4	8	-3
Norway	1	=	1	=	27	+1	23	+1	1	=
Poland	25	+1	25	+1	5	+1	2	=	16	-1
Portugal	21	=	19	-2	20	+1	14	-1	27	-4
Romania	28	=	4	+2	1	=	29	=	24	=
Slovakia	19	=	7	+2	6	-1	22	-4	25	-5
Slovenia	20	=	23	-10	8	-1	24	-1	14	+4
Spain	10	+3	9	-7	18	=	13	+4	23	-1
Sweden	8	+1	21	-1	16	=	4	=	3	-1
Switzerland	12	-1	3	+1	13	+2	5	=	4	+5
United Kingdom	11	-1	26	+1	19	=	12	+2	19	-8

3 Employment, labour participation and hours worked

Better utilising labour resources and human capital in an ageing society is absolutely paramount to EU's future prosperity and the sustainability of its social model.

In an international context, the low level of labour utilisation in the EU (and euro area in particular) remains striking, with the overall volume of hours worked per capita 13% lower than in the US and 17% lower than in Japan in 2009. Europe lags behind especially in terms of labour participation and annual hours worked per person employed.

Table 5

The EU in the world - employment, labour participation and hours worked

Source: European Commission, AMECO database

	Labour utilisation (annual hours worked per capita)		Employment as % labour force (100-unemployment rate)		Annual hours worked per person employed		Labour participation (labour force as % of active population)		Dependency ratio (working age population as % total population)	
	2009	Change from 2008	2009	Change from 2008	2009	Change from 2008	2009	Change from 2008	2009	Change from 2008
EU 27	713	-4%	90,9	-2,1	1649	-1%	70,9	0,0	67,1	-0,1
Euro area	680	-6%	90,5	-2,0	1585	-2%	71,3	-0,1	66,5	-0,1
EU top 5	883	-2%	95,0	-1,4	2016	-1%	78,2	-0,2	71,1	0,2
*United States	815	-4%	90,8	-3,4	1760	N/A	75,8	-0,7	67,2	0,0
*Japan	864	-3%	94,1	-1,9	1774	N/A	80,2	-0,6	64,5	-0,1

* Hours worked refers to 2008

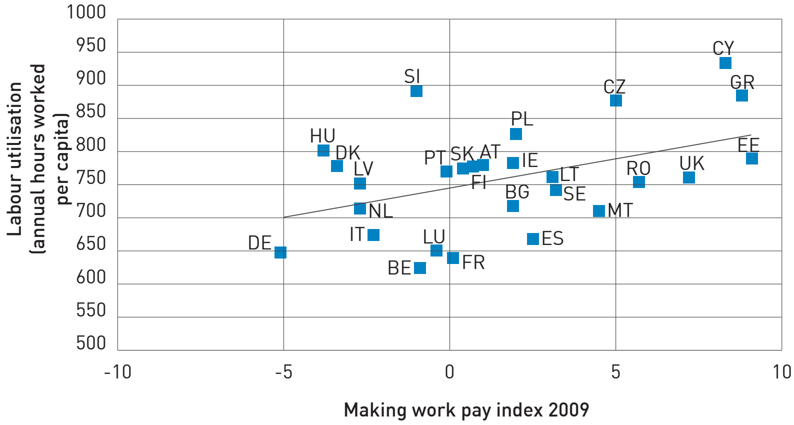
In all of the variables presented, a large gap between the EU as whole and the five best European performers is remarkable, reaching nearly 20% in terms of overall labour utilisation. This demonstrates the **considerable scope for improvement within the European Union.**

Countries with higher labour utilisation in Europe generally tend to be those where the benefit of work over inactivity is the greatest (see chart 3). This highlights the importance of reforming tax and benefit systems and improving the matching process between the availability of skills and the needs of companies in order to address current labour market challenges.

Chart 3

Tax and benefit systems greatly influence labour utilisation

Source: European Commission, AMECO and Lisbon Assessment Framework database



Cyprus, Czech Republic, Slovenia and Poland are doing comparatively well looking across the five labour market indicators presented in this report. But the level of participation still has important upward potential in those countries.

On the other hand, **Germany, Italy, Spain, Belgium and France** – which together account for more than half of the EU's population – perform poorly in most indicators covered and have therefore scope for significant improvement if the necessary reforms are implemented.

With respect to 2008, **Latvia, Estonia, Lithuania and Ireland**, have experienced the most dramatic deterioration in labour market conditions, due to rising unemployment, diminishing labour market participation, and decreasing number of hours worked per person employed.

Table 6
EU performance in employment, labour participation and hours worked
Source: European Commission, AMECO database

	Labour utilisation (annual hours worked per capita)		**Employment as % labour force** (100-unemployment rate)		**Annual hours worked per person employed**		**Labour participation** (labour force as % of active population)		**Dependency ratio** (working age population as % total population)	
	Rank in 2009	Change from 2008	Rank in 2009	Change from 2008	Rank in 20009	Change from 2008	Rank in 2009	Change from 2008	Rank in 2009	Change from 2008
Austria	10	+2	5	+1	21	-4	9	=	17	=
Belgium	29	=	15	+5	25	-1	23	-1	21	=
Bulgaria	20	+1	10	+1	17	+1	21	=	11	+1
Cyprus	1	+1	6	-1	6	+6	12	+1	3	+1
Czech Republic	5	=	9	-2	5	+1	17	+1	4	-1
Denmark	11	+2	2	+2	23	=	3	-1	26	=
Estonia	8	-7	26	-16	11	-7	10	+2	15	+1
Finland	12	+2	17	+1	16	=	8	-1	22	=
France	28	=	22	+4	24	+2	18	-1	29	=
Germany	27	=	12	+10	28	-1	6	=	25	=
Greece	4	+2	19	+5	1	=	24	-1	19	+1
Hungary	7	+4	23	+3	2	=	28	=	10	=
Ireland	9	-1	24	-8	10	=	16	-1	16	-2
Italy	24	+1	13	+6	13	=	27	-1	27	=
Latvia	18	-14	28	-5	12	-5	13	-3	8	=
Lithuania	15	-6	27	-14	9	-1	20	=	7	+2
Luxembourg	26	=	7	+2	26	-1	22	+2	14	+1
Malta	23	=	11	+4	8	+3	29	=	6	=
Netherlands	22	+2	1	+1	29	=	2	+3	18	=
Norway	21	-1	3	-2	27	+1	4	-1	23	+1
Poland	6	+4	16	+5	3	=	25	=	2	=
Portugal	14	+1	19	+5	15	=	11	=	20	-1
Romania	17	+2	19	-6	7	+2	26	+1	5	=
Slovakia	13	+3	25	+3	14	=	19	=	1	=
Slovenia	2	+1	8	-1	4	+1	15	+1	9	-2
Spain	25	-3	29	=	20	+1	14	=	12	-1
Sweden	19	-2	17	=	22	=	5	-1	28	=
Switzerland	3	+4	4	-1	18	+1	1	=	13	=
United Kingdom	16	+2	13	-2	19	+1	7	+1	24	-1

4 Public finances and fiscal sustainability

The situation of public finances within the EU is of great and immediate concern. Rising public indebtedness is already putting strain on capital markets and is crowding out the availability of finance for the private sector in the recovery. Little comfort can be taken from the equally or more severe challenge facing global partners such as the US or Japan.

Table 7
The EU in the world - public finances and fiscal sustainability
Source: European Commission, AMECO database and *Sustainability Report 2009*

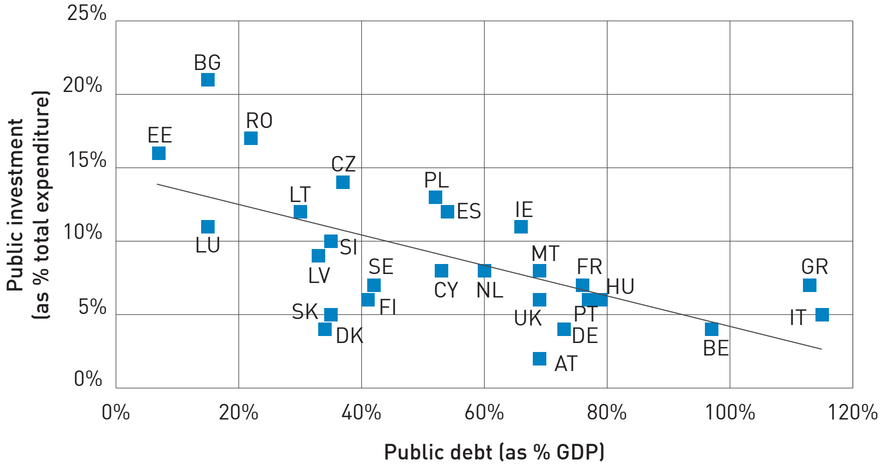
	Government gross debt (as % GDP)		Public deficit (as % GDP)		Public investment (as % total current expenditures)		Tax burden (as % GDP)		Required budgetary adjustment linked to ageing (as % GDP)	
	2009	Change from 2008	2009	Change from 2008	2009	Change from 2008	2009	Change from 2008	2009	Change from 2008
EU 27	73	11,5	-6,9	-4,6	6,4	0,2	38,4	-1,2	2,0	N/A
Euro area	78	8,9	-6,4	-4,4	6,1	0,2	39,0	-0,9	2,4	N/A
EU top 5	18	5,6	-2,0	-4,9	16,4	0,9	27,9	-1,4	0,4	N/A
*United States	83	12,3	-11,3	-4,9	10,7	3,0	26,3	N/A	N/A	N/A
Japan	190	16,7	-8,0	-4,2	10,2	1,6	27,0	-1,0	N/A	N/A

* Tax burden refers to 2008

Based on the selected indicators, **Greece** performs worst, combining the second highest level of public debt, the largest public deficit and the highest expected impact of demographic ageing on public finances in the EU. **Italy and Belgium** are beset by high public debt and tax burdens while the **United Kingdom** scores poorly due a particularly large government deficit, and low levels of public investment.

When compared with in 2008, **Ireland, Slovenia and Greece** have seen the sharpest deterioration in their public finances.

Chart 4
Public debt crowds out investment
Source: European Commission, AMECO database



Some **central and eastern European countries** tend to be flattered by the list of selected indicators combining lower public debt and taxation levels, a greater share of public investment and a lower dependency ratio. In general, countries having lower public indebtedness are found to devote greater public resources to public investments (see chart 4).

Poland has again demonstrated greater resilience in this area and is foreseen to have the lowest demographic overhang on its future fiscal position among the 27 EU countries.

However, excessive budget deficits combined with high external indebtedness in some of these countries are a cause for concern and have already led to severe budgetary adjustments in 2009, notably in **Hungary and Estonia.**

Norway represents a particular case given that its central government is a net creditor, controlling the second largest sovereign wealth fund in the world and exceeding 100 percent of GDP. Its central government's debt deterioration reflects a relatively small number of government bonds issued mainly to improve market liquidity, to ease market pricing and to meet the needs of pension funds. Norway remains a top country when it comes to credit rating.

Table 8
EU performance in public finances and fiscal sustainability

Source: European Commission, AMECO database and *Sustainability Report 2009*

	Government gross debt (as % GDP)		Public deficit (as % GDP)		Public investment (as % total current expenditures)		Tax burden (as % GDP)		Required budgetary adjustment linked to ageing (as % GDP)	
	Rank in 2009	Change from 2008	Rank in 2009	Change from 2008	Rank in 2009	Change from 2008	Rank in 2009	Change from 2008	Rank in 2009	Change from 2008
Austria	22	-1	12	-1	29	=	25	=	16	N/A
Belgium	27	=	16	-4	28	=	27	=	19	N/A
Bulgaria	3	+1	2	+4	1	+1	10	=	4	N/A
Cyprus	15	+2	10	-3	14	=	16	+1	24	N/A
Czech Republic	10	-1	20	-6	4	+3	12	+2	12	N/A
Denmark	7	+3	3	=	26	=	29	=	11	N/A
Estonia	1	=	8	+10	3	=	11	-4	2	N/A
Finland	11	=	6	-4	23	-1	23	+3	21	N/A
France	24	+1	23	-3	17	+1	22	+1	8	N/A
Germany	23	=	9	=	27	=	21	-1	15	N/A
Greece	28	=	29	=	18	-2	8	=	27	N/A
Hungary	26	=	11	+11	20	-1	20	+1	3	N/A
Ireland	19	-4	28	=	9	-4	4	=	21	N/A
Italy	29	=	15	+2	24	+1	26	-2	8	N/A
Latvia	6	=	24	=	11	-5	2	+1	6	N/A
Lithuania	5	=	25	-6	6	-2	6	=	13	N/A
Luxembourg	2	=	5	=	8	+2	17	-4	26	N/A
Malta	20	+2	13	+12	15	+6	14	-2	18	N/A
Netherlands	17	+3	14	-6	13	=	18	+1	21	N/A
Norway	18	=	1	=	12	=	24	-2	N/A	N/A
Poland	14	+2	19	+2	5	+3	9	+2	1	N/A
Portugal	25	-1	22	-6	22	+2	15	=	7	N/A
Romania	4	-1	21	+6	2	-1	3	-1	17	N/A
Slovakia	8	=	17	-2	25	-5	5	=	10	N/A
Slovenia	9	-2	18	-5	10	-1	19	-3	25	N/A
Spain	16	-3	26	-3	7	+4	7	+2	20	N/A
Sweden	13	-1	4	=	19	-2	28	=	5	N/A
Switzerland	12	+2	7	+3	16	-1	1	=	N/A	N/A
United Kingdom	21	-2	27	-1	21	+2	13	+5	13	N/A

REFORM PRIORITIES AND RECOMMENDATIONS

1 Major growth bottlenecks identified by BUSINESSEUROPE members

In view of the above results and the immense challenges ahead to restore sustainable growth, job creation and fiscal sustainability, **BUSINESSEUROPE member federations have selected the following key priorities for national reforms.** These priorities are aggregated at EU level by using the relative GDP weights of each country.

Country priorities and recommendations are available from our website: www.businesseurope.eu.

PRIORITIES	
1	Orientation and sustainability of public finances
2	Financial markets and access to finance
3	Education and lifelong learning
4	Sector-specific regulation
5	R&D and innovation

Note: Bulgaria, Romania, Slovakia and Slovenia are missing

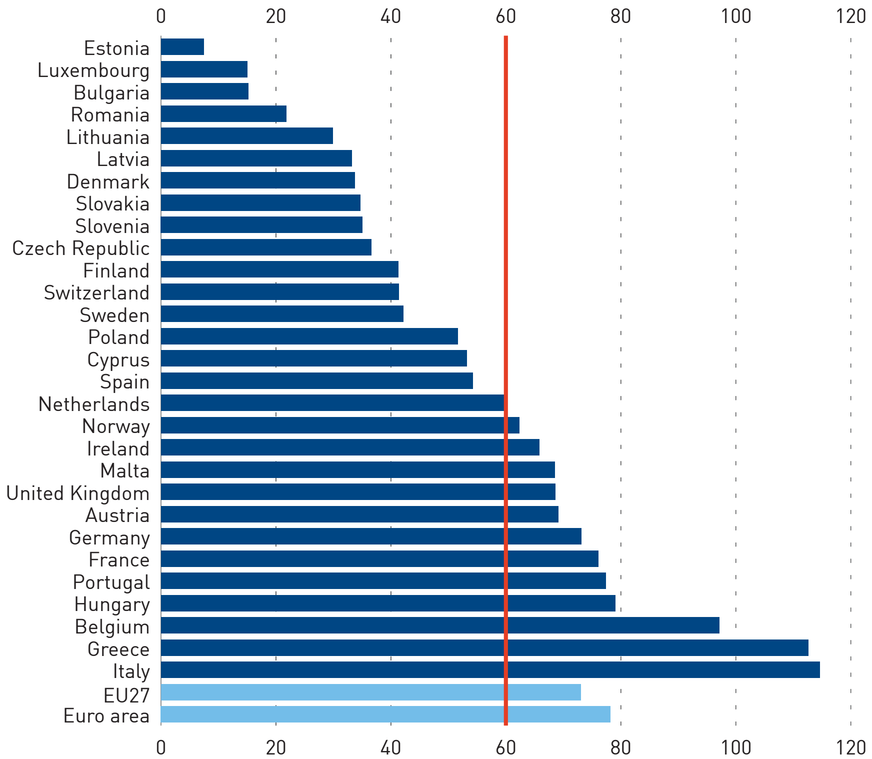
Priority 1
Orientation and sustainability of public finances

The need to consolidate public finances is by far the most important priority according to the business community. This is indeed not only an issue for governments but also for the millions of European companies whose access to finance and investment decisions are strongly influenced by conditions on sovereign debt markets, future tax burdens and the nature of consolidation measures.

Examples of country recommendations

- **Germany:** to fulfil the "debt-brake" criteria by consolidating expenditures, favouring investment spending and identifying opportunities for saving.
- **Poland:** completion of three-tier pension system reform and setting a realistic path and date to enter the eurozone.
- **Hungary:** streamlining the multi-level municipality system by reinforcing regional local governments and reducing municipal governments.

Chart 5
Public debt (in % GDP, 2009)
Source: European Commission, AMECO database



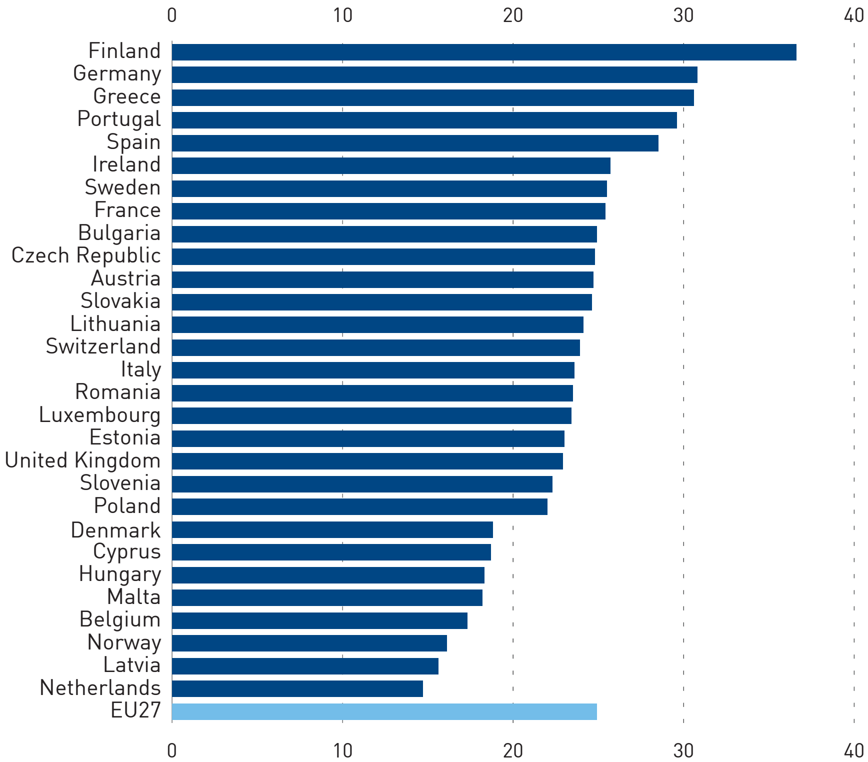
Priority 2
Financial markets and access to finance

The combination of a weakened banking sector, a heightened level of risk aversion and rising public indebtedness will represent a major constraint on the availability of finance for companies and hence on the pace of investment, growth and job creation in the years ahead.

Examples of country recommendations

- **Ireland:** introduce government loan guarantee schemes for SMEs and deliver rapid recapitalisation of banks.
- **Germany:** revive the securitisation market, bolster equity and regulate financial markets in moderation avoiding undesirable side-effects for the real economy.
- **Hungary:** introduce a "code of conduct" for banks for transparency in company financing.

Chart 6
Venture capital investments - expansion and replacement (as % GDP, 2008)
Source: Eurostat



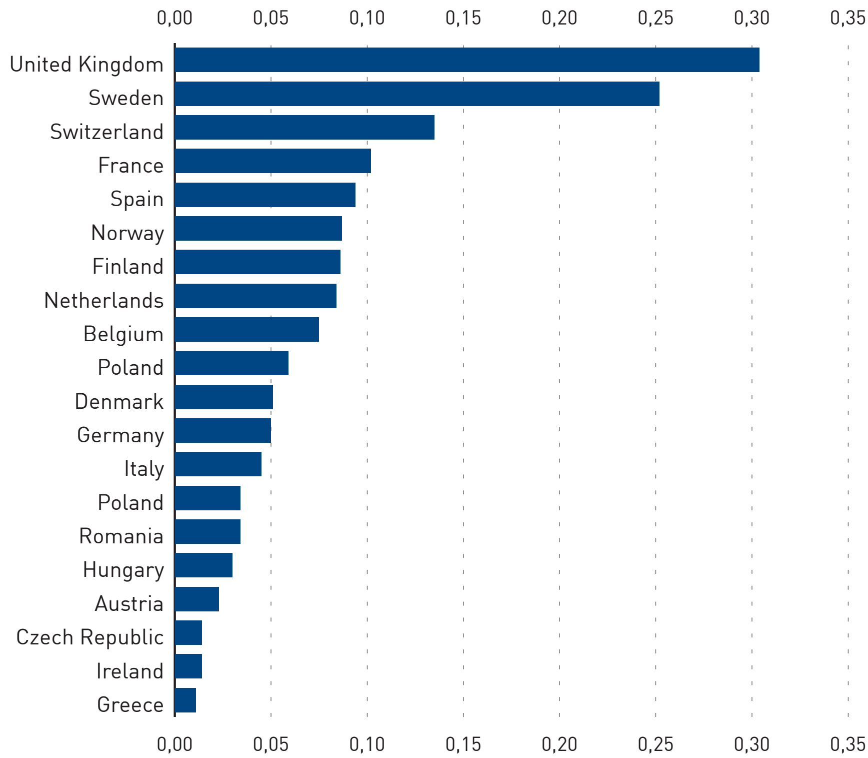
Priority 3
Education and lifelong learning

The availability of a skilled labour force is considered paramount in supporting the EU's innovation capacity, its competitiveness and ability to confront demographic ageing. The focus on the availability of skills in the recovery explains companies' efforts in hoarding labour during the crisis and the success of flexible working time arrangements.

Examples of country recommendations

- **Germany:** boost STEM qualifications (science, technology, engineering and mathematics) to improve supply of skilled employees and enable autonomy of schools with regard to financial matters and selection of personnel.
- **Denmark:** develop an action plan for reducing the number of early school leavers and increase incentives for companies and individuals to invest in lifelong learning.
- **Italy:** reform education system to increase the percentage of graduates and highly skilled professionals. Develop training programmes aimed at re-introducing into the labour market people that have lost their job.

Chart 7
Students in tertiary education
(% of total students, 2008)
Source: Eurostat



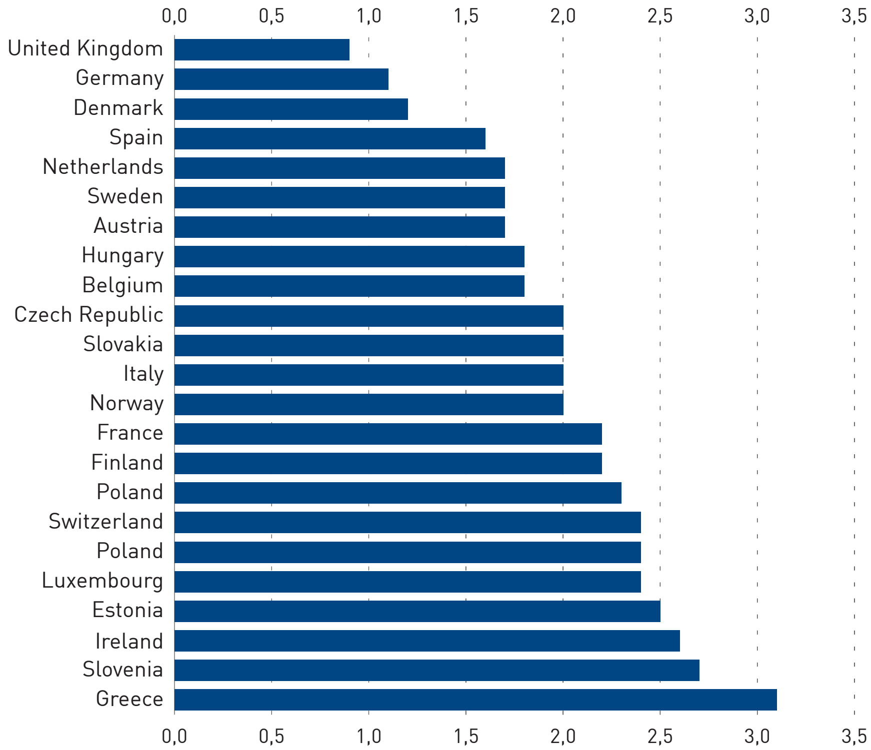
Priority 4
Sector-specific regulation

Liberalisation in key sectors such as energy, communication, transport and services, removing entry barriers and regulatory burdens would increase competition and encourage private investment, with the effect of driving up productivity and innovation in many other sectors.

Examples of country recommendations

- **Spain:** guarantee greater stability of legislative framework and remove "renewable subsidies" from regulated tariff.
- **Italy:** liberalise services sector by removing, in particular, all legal barriers to competition in many services and professions.
- **Greece:** remove regulation that is harmful to competition in transport, energy and professional services.

Chart 8
Indicator of regulation in energy, transport and communication (ETCR, 2007)
Source: OECD
Note: a low score represents more open conditions to competition



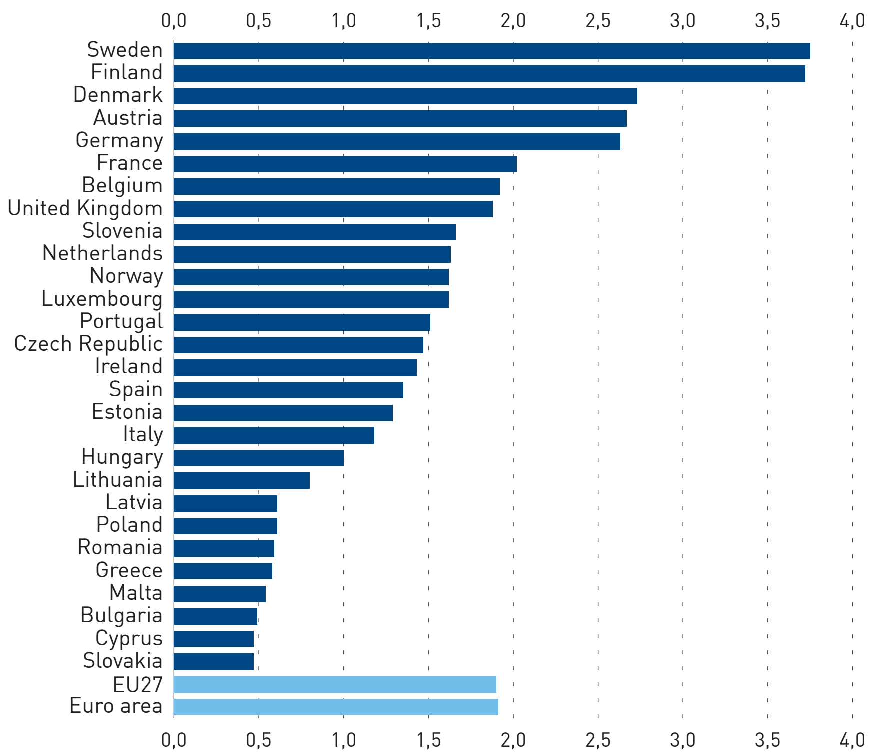
Priority 5
R&D and innovation

Product and process innovation is at the core of companies' competitiveness and their contribution to the welfare of society. But the crisis risks dealing an important blow to both private and public sector efforts in research and innovation. This should not be allowed to take place. Framework conditions should be improved to leverage both private and public investment in R&D and innovation.

Examples of country recommendations

- **Spain:** increase R&D to 2.2% of GDP; establish tax credit system for tax deduction for R&D; and increase companies' participation on the 7th Framework Programme.
- **Greece:** develop a complete legal framework for research and implement the Digital Strategy.
- **Lithuania:** reorient science and education system from theory-driven to more applied and practice-driven objectives.

Chart 9
R&D expenditure (as % GDP, 2008)
Source: Eurostat



REINFORCING GOVERNANCE OF REFORMS AT EU LEVEL

Attention is now focused on the definition of a new European strategy for growth and jobs – the so-called EU 2020 Strategy. BUSINESSEUROPE already expressed its recommendations to place Europe on a sustainable growth path by revitalising the internal market; developing an integrated industrial policy, promoting flexicurity, enhancing access to finance, innovation, skills and entrepreneurship, and shaping the global policy agenda.

But for reforms to materialise, an effective system of governance is of ultimate importance. It is essential for EU's policy agenda to generate greater political interest at the national level and to develop the necessary incentives for governments and EU institutions to deliver on agreed commitments. Developing a real and strong benchmarking culture would provide a key contribution. But more can and should be done:

1 EU targets must be revised to clearly reflect Europe's main priorities. The EU should seek to double its growth potential to 2% and maintain its share in industrialised nations' combined GDP constant in the coming years. It should upgrade its target employment rate among those of working age from 70% to 75% to compensate for demographic pressures; reconfirm its commitment to increase spending on R&D to 3% of the EU's combined GDP and define a timeframe for bringing public debt back to the 60% of GDP limit. Differentiated targets across Member States could play a role to bolster political ownership, take greater account of initial positions and incentives to deliver on ambitious national objectives.

2 Aligning the cycle of the new EU growth strategy with the mandate of the Commission could better tie national reforms with the delivery of EU wide objectives and create greater sense of ownership and accountability. The Commission and the European Council should be held accountable on the delivery of agreed objectives before the renewal of EU institutions in 2014. The European Council will have to assume a new role and greater responsibility for the annual review of reform progress in the EU.

3 Reinforcing the euro-area dimension of the strategy. The eurogroup will also have to assume greater responsibility in improving economic governance in the euro area, and put greater emphasis on domestic and competitiveness imbalances, which have proved in most recent developments to be a major source of fiscal instability.

4 Developing tight links between the Stability and Growth Pact (SGP) and national reform programmes. The goal of fiscal consolidation is to regain scope for action and mobilise resources where it matters most for future wealth and job creation. Fiscal adjustments required under the Stability and Growth Pact should take account of structural reforms having a measurable effect on debt sustainability, following an agreed methodology such as one underlying the European Commission's sustainability report.

5 Making better use of EU financial leverage to provide incentives for Member States to achieve agreed goals. This should be done by mobilising EIB funds and the EU budget towards agreed objectives at both EU and national level. Access to finance, in particular for innovative companies and SMEs, should be a permanent concern for European policy makers, in particular when calibrating new rules and institutions governing financial markets.

6 Greater involvement in the national policy debate. An annual address of Commission and/or Council presidents in national parliaments, explaining the EU's objectives and policies, the importance of national contributions to the reform effort, and their European as well as global context, would do much to help increase the EU's visibility and make it far more difficult for national governments to blame Europe for unpopular reforms.

7 National Reform Programmes (NRP) can no longer be vague documents mirroring governments' legislative programmes, as it is often the case. NRPs must be tailored at addressing national structural weaknesses that hamper growth. Transparent analysis and evaluations must ensure that proposed reforms respond to the identified growth bottlenecks in each Member State. The Commission should ensure that Country-Specific Recommendations mirror the priorities for each Member State identified through a commonly agreed methodology, praising achievements and taking a strong stance towards Member States lagging behind their reform commitments and implementation thereof.

8 Streamlining integrated guidelines. Member States should agree on a shortlist of no more than five strategic areas to achieve the overall objectives of growth and jobs. These must integrate the objective of boosting the knowledge economy, supporting competitiveness, flexicurity principles, greater access to finance and macroeconomic stability.

METHODOLOGICAL NOTES

Data used in this report has been directly taken from the European Commission, DG ECFIN, AMECO database, unless otherwise mentioned.

Productivity, investment and competitiveness:

- Hourly labour productivity = YR/(E*H)
  - YR: GDP at 2000 prices and in Purchasing Power Parity
  - E: Employment, persons: all domestic industries
  - H: Average annual hours worked per person employed
- Corporate investment rate = (PGFCF – NRGFCF) / Y
  - PGFCF: Private gross fixed capital formation (at current prices)
  - NRGFCF: Gross fixed capital formation: non-residential construction and civil engineering (at current prices)
  - Nominal GDP levels
- Export performance: Market performance of exports of goods and services (in volumes) on export weighted imports of goods and services of 35 industrial markets (EU-27, TR CH NR US CA JP AU MX NZ); 2000=100
- Labour costs: Nominal unit labour cost, total economy, performance relative to 35 industrial countries: double export weights, 2000=100
- Current account balance: Balance on current transactions with rest of the world (as percentage GDP at market prices)

Employment, labour participation and hours worked:

- Employment as percentage of labour force: 100 – unemployment rate (ILO/Eurostat definition)
- Annual hours worked per person employed (OECD definition)
- Labour participation: labour force as percentage of active population (Labour Force Statistics)
- Dependency ratio: working age population as percentage of total population (Eurostat)
- Labour Utilisation: product of the variables above

Public finances and fiscal sustainability:

- Government gross debt: General government consolidated gross debt: excessive deficit procedure definition, as percentage of GDP
- Public deficit: net lending/net borrowing of general government: excessive deficit procedure definition
- Public investment: Gross fixed capital formation: general government as percentage of total current expenditure of the general government
- Tax burden: total tax burden excluding imputed social security contributions, total economy
- Required budgetary adjustment linked to ageing: required adjustment in the primary balance needed to compensate the rise of age-related costs. Source: European Commission, Sustainability Report 2009.

BUSINESSEUROPE

MEMBERS ARE 40 LEADING
NATIONAL BUSINESS FEDERATIONS
IN 34 EUROPEAN COUNTRIES

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Bulgaria
Croatia
Cyprus
Czech Republic

Denmark
Denmark
Estonia
Finland
France
Germany

Germany
Greece
Hungary
Iceland
Iceland
Ireland

Italy
Latvia
Lithuania
Luxembourg
Malta
Montenegro

Norway
Poland
Portugal
Portugal
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