Economic Outlook

October 2000

UNICE ECONOMIC OUTLOOK

The UNICE economic outlook provides a business insight into recent economic developments based on a survey of national member federations covering EU-15 countries. Qualitative data were collected and forecasts made at the end of September. All aggregate values are GDP weighted.

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Table 1: UNICE forecasts

EU 11	**1999**	**2000**	**2001**
GDP(%yoy)	2.4	3.5	3.2
Inflation (%yoy)	1.1	2.2	2.0
Unemployment (%)	10.1	9.2	8.7
Compensation of employees (%yoy)	2.7	3.3	2.9
EU 15	**1999**	**2000**	**2001**
GDP(%yoy)	2.4	3.4	3.1
Inflation (%yoy)	1.3	2.2	2.1
Unemployment (%)	9.2	8.4	7.9
Compensation of employees (%yoy)	3.1	3.6	3.4

SUMMARY

- **Overall positive picture of EU economy**
- **Signs of trend break in business confidence**
- **Weakening expectations of profitability growth**
- **Monetary policy appropriate, but weakness of euro remains a concern**
- **Inflationary risks from high oil and import prices**
- **Fiscal reforms welcome**
- **Increase in regulatory burden is a move in the wrong direction**
- **Employment situation continues to improve but signs of tightening and skills shortage in certain labour markets**
- **Potential benefits from "new economy" dependent on framework policy conditions**
- **Structural reforms still to complete**
- **Question mark over future developments in the US economy**

Introduction

The EU economy as a whole is still doing well, with continuing good growth prospects and confidence in the economy, against a background of soaring oil prices and a falling euro.

UNICE's Autumn 2000 economic outlook confirms the contrast between strong domestic economic performance and concerns over the weak external performance of the single currency. Unemployment continues to fall steadily, with jobs being created particularly in the services sector. Investment is on an upwards trend, and the US economy continues to sustain global demand. Exports from the euro-zone countries are still enjoying the immediate benefits of a weak currency. Nevertheless, there is no room for complacency. The plight of the euro in world markets overshadows the good news about Europe's strong economic performance.

There is evidence of inflationary pressures on the periphery of the euro-zone, evidence in some Member States of asymmetries attributable to the relative weight of trade with countries outside the euro-zone. This feeds into higher asset prices and wage demands, and the current 2.3% rate of inflation is also symptomatic of high import prices and the increase in the price of oil. Higher fuel prices will have a direct impact on European companies, particularly energy intensive sectors and those such as chemicals and man-made fibres, which rely on petroleum as a raw material. The ECB acted first on 31 August and then on 5 October to guard against these prices spilling over into long-term inflation expectations.

The demonstrative reaction of EU citizens to the hike in oil prices is just one of the issues exercising Europe's political leaders. The weakness of the euro against the US dollar is a fact which can be explained both by the dynamism of the US economy and the slow pace of structural reforms in the EU. Further intervention by the ECB in support of the euro is under consideration. The clear results of Denmark's referendum on EMU on 28 September make it unlikely that any of the last remaining "outs", after Greece irrevocably locks its currency to the euro on 1 January 2001, will join the single currency in the near future. This is unlikely to have much impact on the euro itself.

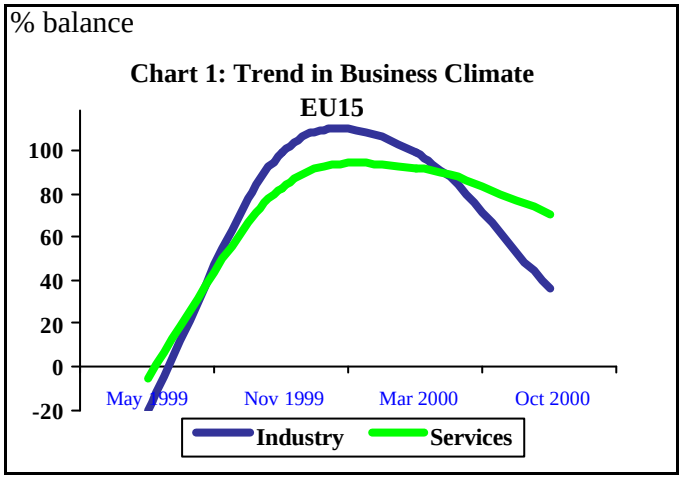
* * *

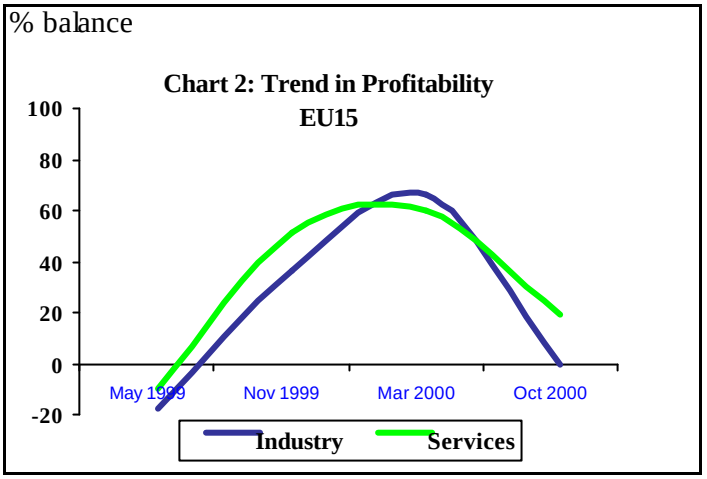
List of UNICE member federations surveyed in the economic outlook:

BDI	Germany
MEDEF	France
CONFINDUSTRIA	Italy
CEOE	Spain
VNO-NCW	Netherlands
IBEC	Ireland
CIP/AIP	Portugal
VOI	Austria
FEDIL	Luxembourg
TT/PT	Finland
VBO-FEB	Belgium
CBI	UK
DI	Denmark
SEV	Greece
SI/SAF	Sweden

➢ Business Climate

Business climate continues to be good overall, although less optimistic than 6 months ago.





Balance charts: the trend is shown by subtracting the weighted percentage of federations answering negatively from those answering positively. A positive / negative balance indicates a rising / falling trend.

The Autumn 2000 outlook shows the positive trend in business confidence continuing, but at a lower rate (*chart 1)*, both in industry and services, with services performing slightly better. Lower unemployment is contributing to strong domestic demand, and the weak euro is boosting exports from the euro-zone. German exports in particular are growing more rapidly than world markets. Growth in Spain is levelling off from previous higher rates. In the UK, services are more buoyant than industry as they are less affected by the strength of sterling, although industry on the whole is facing a modest upturn thanks to recovering exports and growing domestic demand. Lower value-added sectors, however, are still suffering from sterling's strength.

The current climate in France is positive although in the medium term supply-side constraints may hamper growth. Domestic demand in Italy is gaining strength, with higher domestic orders for machine tools, and a 16.8% increase in car registrations between August 1999 and August 2000. Improvements in public finances in Greece are expected to have an overall positive result, and joining the single currency may give an additional confidence effect.

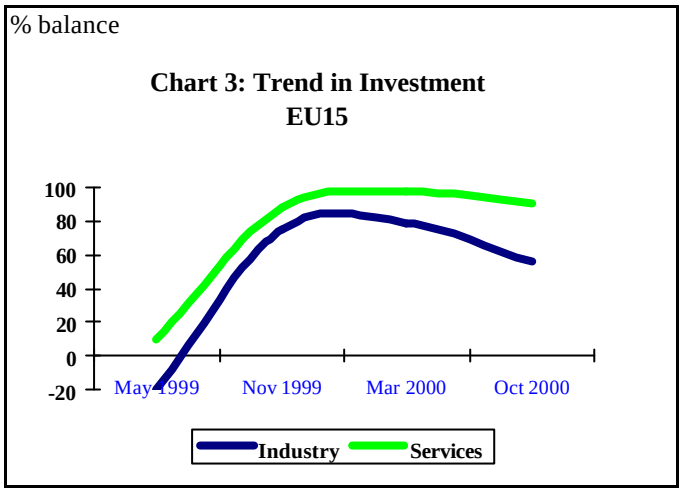
Profitability expectations (*chart 2*) are more varied, with a balance towards increased profitability over the next 6 months in services only. In industry, expectations of profitability are more negative than positive. Growth expectations are weakening and higher import prices are having a negative effect on energy and commodity-intensive sectors.

The recent increase in the price of oil products on world markets has pushed up significantly the energy bills of European companies, which have always been higher than those of American companies. In Germany, for example, the tripling of fuel prices during the past 2 years has led to an estimated transfer of €15bn of purchasing power. In addition, the risk of increased wage demands would also feed through into a softening of profitability expectations. Higher interest rates are beginning to impact on the Portuguese construction sector.

Another factor is an increase in the regulatory burden, expected in two thirds of Member States, which will hinder business competitiveness. In France companies are still adapting to the 35-hour week, which has reduced profitability.

In the UK, the strength of sterling is squeezing profitability against a background of higher commodity prices. Germany will benefit from a combination of moderate wage trends and income tax reduction, although this could be offset by higher import prices. Spain and Greece expect an overall increase in profitability, and Belgium, Austria and Luxembourg expect an increase in the profitability of services only.

The trend in investment over the next 6 months (*chart 3*) is overwhelmingly positive, some countries are expecting a slightly lower growth in investment. Moderate wage developments and a high degree of capacity utilisation throughout the EU should sustain the conditions for strong investment growth, though a tightening of monetary policy may hold back investment in certain sectors. There is the possibility that future investment could be affected by declining profitability expectations linked to the slowdown in growth prospects.



In Germany, demand for exports has boosted investment in machinery and equipment. Capacity utilisation has grown to 87.7%, and the need for expansion and drive for modernisation point to a continuation of investment. In France, industrial capacity utilisation reached 87.5% in July, just short of its 1990 peak, despite a rate of increase in private sector investment of 7.3% per annum since the second quarter in 1997. Concerns that supply is unable to keep up are reinforced by difficulties in recruitment in industrial and construction sectors. Signs that France is hitting supply constraints argue for speedy structural reforms.

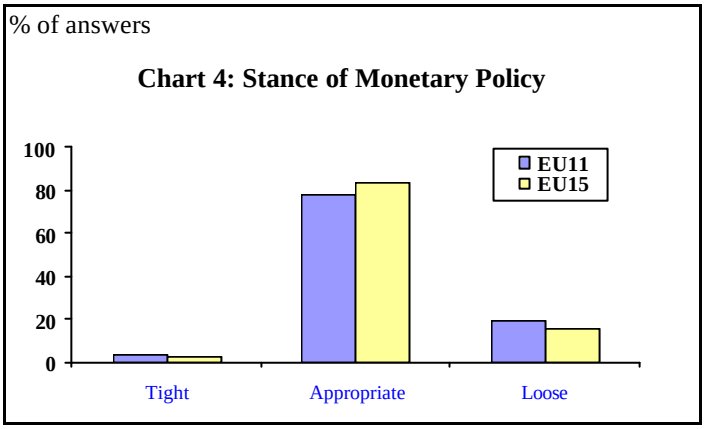
Forecasts of 3.4% growth for EU15 in 2000 confirm the improvement in the overall business climate, although expectations for 2001 are slightly lower. Confidence is underpinning strong investment growth, yet there are signs that business confidence may have reached a peak. This underlines the need for governments to implement structural measures necessary to enable the EU to catch up with the USA. At the March 2000 Lisbon summit, governments undertook to provide the framework conditions for the new economy. To prepare the conditions for sustained growth, Governments must reduce the burden of public debt and restructure social security systems. Employment is increasing, but tight labour markets in some areas could detract from the positive outlook for investment and output growth. The recent oil price increase has led to calls to cut the relatively high energy taxes on European business. There is a risk of rising wage demands in the future, fuelled by the desire to maintain purchasing power, which is being eroded by high oil prices.

➢ Monetary and Financial Outlook

The weakness of the euro remains a concern, yet there is general satisfaction with the stance of monetary policy. Intervention in support of the euro needs to be complemented by policy actions.

Businesses in most of the EU11 find the current stance of monetary policy to be appropriate (chart 4), although the countries on the periphery would still prefer a slightly tighter stance. Spain, Ireland, the Netherlands and Finland are experiencing higher growth and some signs of overheating. Labour markets are tight in both Ireland and the Netherlands, with associated inflationary pressures. Austria on the other hand, considers monetary policy to be tight, as core inflation is low.

In the UK, the monetary policy stance is felt to be appropriate, although the Bank of England should avoid unnecessary interest rate rises. The strength of sterling against the euro will remain a significant downward influence on growth and inflation.



The Danish "no" vote in the referendum on EMU membership on 28 September is disappointing for supporters of Denmark's entry into EMU. Although in economic terms the result of the referendum will probably not have a significant effect on the euro-zone, it may have a psychological impact on public opinion in neighbouring countries.

The European Central Bank's decision to raise interest rates on 5 October by 25 basis points, bringing the minimum bid rate to 4.75%, was not fully anticipated by the markets, unlike its 31 August decision. Both decisions were in response to upside risks to price stability due to the increase in nominal and real GDP.

Inflation in the euro zone, measured by increases in the Harmonised Index of Consumer Prices (HICP) stood at 2.4% in July 2000, above the threshold for price stability,

and was slightly lower at 2.3% in August. Inflation is expected to remain above 2% for the immediate future, although the ECB is concerned that higher oil and import prices do not spill over into long-term inflation expectations. Wage developments will be a crucial factor in determining future inflation rates.

The UNICE survey shows that all of EU11 members believe that the euro is low against sterling, and nearly all consider that the euro is low against the US dollar (*table 2*). This compares to 76% and 73% respectively when questioned 6 months before, and reflects the decline of the single currency over the period. The UK finds sterling to be high against the euro and appropriate against the US dollar.

The performance of the euro on foreign exchange markets is causing concern. There is a consensus of opinion that its value does not reflect the strong fundamentals of the EU economy. There are economic explanations for the weak euro, one of which is the relative strength of the US economy, and higher returns on investment in the US as a result. Within the EU, the slow pace of structural and fiscal reforms contributes to the perception of an under-performing economy.

Another problem is the perceived lack of credibility of the ECB among certain market players, which may not be helped by political interference. The ECB has been subject to much criticism, although it is managing to achieve its published objective of creating and sustaining a stable monetary climate, and developing a strategy for monetary policy that the markets can follow.

Table 2: Level of exchange rate (EUR, GBP) with the following currencies

EU 11 countries	High	Appropriate	Low
USD	0	3	97
GBP	0	0	100
JPY	0	8	92
EU 15 countries	**High**	**Appropriate**	**Low**
USD	0	20	80
GBP	0	2	83
JPY	0	24	75
euro	15	8	3

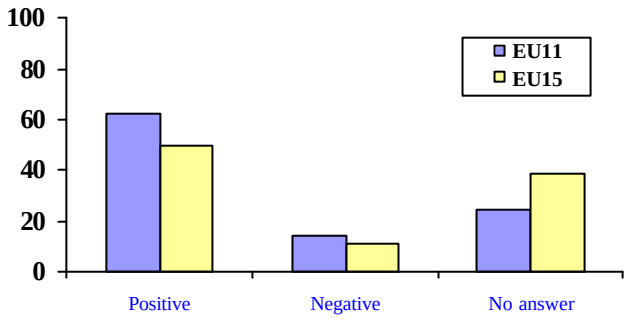
% of answers

Intervention by the ECB in support of the euro as part of a concerted action may serve to put a floor on the euro, as a warning shot to the markets that the currency's downward slide will not be permanent. However, to be effective, intervention by central banks alone is not enough. Policy action must support this, in particular by stepping up the pace of structural reforms. Finally, for the euro's value to recover, there will have to be the beginning of an autonomous slowdown in the US economy. Signs of profit warnings and an easing off in components demand hint to a possible slowdown in the USA.

Despite being broadly supportive of the ECB (*chart 5*), and in recognition of the fact that it is still trying to establish its reputation, UNICE members have identified areas where there is room for improvement. It is obviously difficult to bring 11 different approaches into line, but the presentation of the ECB position in public is not always unambiguous. Good communication backing up interest rate decisions is vital. There are inconsistencies in the messages communicated by finance ministers, political authorities and national central banks, and these detract from the clarity of the ECB's statements. Transparency in the ECB decision-making process will no doubt be aided by future publication of its underlying model and forecasts.

% of answers

Chart 5: Opinion of the ECB



The increase in interest rates over the past few months is considered by around 50% of UNICE federations to have raised the cost of capital for SMEs. This is an unwelcome side effect of the current monetary policy stance, as SMEs have an important role to play in the successful launching of the new economy.

In Sweden, access to capital might become more difficult as venture capital becomes more selective. The opposite is true in Austria where recent developments in the venture capital market have been positive for SMEs.

Bond markets continue to indicate favourable growth prospects. Long-term bond yields have been broadly stable in the euro-zone, reflecting continued financial market expectations of robust economic growth in the future. UNICE survey results show that three quarters of federations expect no change in government bond yields over the next 6 months, although uncertainty in Ireland over both the budget and monetary developments is expected to be visible in a slight upward trend in bonds.

Bond yields in the UK have benefited from an improvement in inflation relative to the euro-zone and a larger than expected budget surplus.

Stock market developments are less clear, with approximately one third of respondents forecasting stock market prices to increase over the next six months, and the rest expect no change.

Sterling's continued overvaluation will remain an important downward influence on UK equity prices, despite continued growth in the domestic economy.

Inflationary risks are emerging, particularly in peripheral economies. The weakness of the euro is causing inflation to be imported through more expensive components, a trend compounded by the increase in oil prices. It is essential that internal price stability be maintained, which will mean controlling domestic inflationary threats. Tightening of certain labour markets may encourage higher wage demands, but it is vital to safeguard the conditions for sustained economic and employment growth.

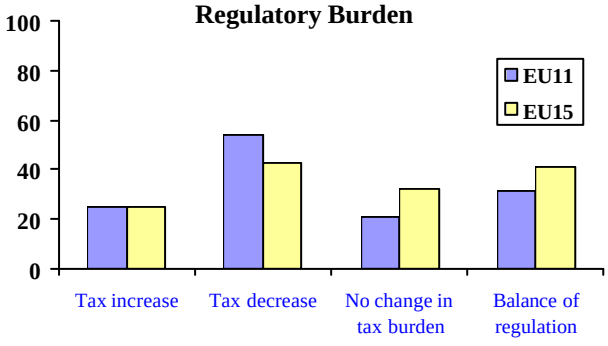
The ECB's monetary policy stance is felt to be appropriate by UNICE members, but political authorities are urged not to jeopardise monetary policy effectiveness through conflicting messages.

➢ Taxation, Regulation and Budgetary Issues

A welcome reduction of the fiscal burden on companies is being offset by an increase in the regulatory burden in many Member States.

% of answers for taxation
% of (yes-no) balance for new regulations which will hinder business competitiveness

Chart 6: Trend in Business Tax and Regulatory Burden



• Taxation

The total tax burden on business is expected to decrease by 54% of EU11 business federations (*chart 6*). The announcement of the German tax reform was a highly significant move, signalling awareness of the need to loosen the reins on industry, and was quickly followed by similar announcements in other euro-zone countries. The first stage of the German reform takes effect from 1 January 2001.

However, Austria, France, Sweden and Denmark expect an increase in the tax burden over the next 6 months. In Austria there will be reductions of tax exemptions for the purposes of budgetary consolidation. Tax reform is however envisaged for 2003. In Denmark corporate tax is likely to be reduced to 30% in the budget but depreciations will be lowered and some employment-related taxes will rise, leading to a net overall increase.

In Belgium the tax burden on business was reduced in April 2000, through a further decrease in social security contributions for employers. In Portugal there was a decrease in the corporate tax rate from 34% to 32%; and it is possible that there will be a reduction in the corporate tax for SMEs. In Finland, SME social security contributions decreased slightly, although there was an increase in corporate income tax at the beginning of 2000. In Ireland service sector corporation tax will fall from 24% to 20%, in line with the adjustment to 12.5% by 2003.

Although reductions in the business tax burden are positive, much remains to be done at European level to remove tax obstacles to cross-border activity, which continue to hinder the effective functioning of the Internal Market. Action is needed in particular to eliminate double taxation of cross-border investment and financial flows, to simplify the VAT system and to establish an appropriate mechanism for taxation of electronic commerce. Energy taxes in the EU are five times those of the US, and the recent increase in the price of oil products on world markets has significantly pushed up the energy bills of European companies. This development must make finance ministers realise how essential it is to cut energy taxes in Europe to more reasonable levels, in line with those paid by our competitors.

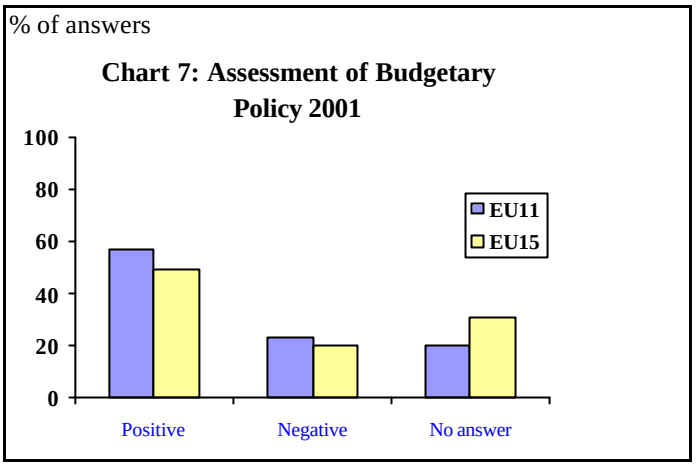
- **Regulation**

The regulatory environment is an important determinant of business competitiveness, and new measures at either national or European level can have a noticeable effect on overall competitiveness. A majority of UNICE federations expect an increase in the regulatory burden (*chart 6*). In Germany there are concerns over potential new regulations in the labour market, in particular regarding introduction of the right to part-time employment, restriction of temporary employment contracts, and increasing of workers' participation rights. The 35-hour week in France has led to an overall decrease in the number of hours worked, despite an increase in the total number of employees. In Belgium there have also been recent proposals for a reduction in working time. A new law on part-time work came into effect in the Netherlands in June 2000, and a law on paid leave for carers is planned for 2001. In the UK, the government has recognised business concerns in this area by setting up an independent Better Regulation Task Force, and a Small Business Service. However, future regulation includes the introduction of the Climate Change levy from 2001 and extension of the Working Time Directive to other sectors.

- **Budgetary policy**

The overall assessment of Member States' budgetary policy programmes is positive on the whole, although less so than in UNICE's Spring 2000 Economic Outlook. Only 57% (down from 77% in the last survey) of EU11 business federations have a positive assessment of their government's budgetary policy, although there are also fewer negative answers. Public debt levels in the EU are continuing a steady downwards progress, now at 70.5% in EU11 and 65.1% in EU15. Government deficits have been reduced to 0.9% in EU11 and to 0.4% in EU15. The Netherlands is currently enjoying a budget surplus, along with Luxembourg, Finland, Sweden and the UK. However in France there is dissatisfaction with the failure to reduce public deficits or cut spending, and with the increase in public sector employment while increasing the tax burden on business. Portugal is concerned with the high level of current public expenditure.

In the UK, there is praise for the positive measures for SMEs – capital funds, attracting funds and attracting staff. However, this is partly offset by concern over taxation of share options and changes to double taxation relief.



Higher tax receipts and the windfall from the UMTS 3rd generation telecoms auctions have sparked a debate in most Member States about "spending the tax dividend". However, some caution is needed.

Governments have a number of options. In countries with a high debt to GDP ratio, the tax dividend should be used to reduce public debt. In Member States where the tax burden is higher than average, the priority could be given to reducing the tax burden on companies and labour. Lower taxes on labour would boost employment creation. SMEs in particular will benefit from a reduction in the tax burden, which is of great importance given their role in creating jobs and wealth in the EU.

The windfall provides the EU with an important opportunity to reduce its relatively high burden, and should not be an invitation to spend. Lower corporate tax could encourage investment in the euro-zone, perhaps stemming the flow of capital from the euro-zone elsewhere. The decision depends on the national priorities of each Member State, but care should be taken to avoid pro-cyclical measures. Tax reform and reduction of the tax burden remain essential conditions to improve the EU's competitiveness.

Strong economic growth has brought increased tax revenues, facilitating deficit reduction, and governments need to take this opportunity to reduce primary expenditures, implement structural reforms and focus spending on strategic long-term priorities such as pension reform. The recent taxation reforms announced in several Member States are a welcome move in the right direction, but the advantage to companies could be offset by the increase in the regulatory burden.

It is also important that economic policies in the euro-zone support the ECB's monetary policy decisions, laying the foundations for sustainable long-term growth.

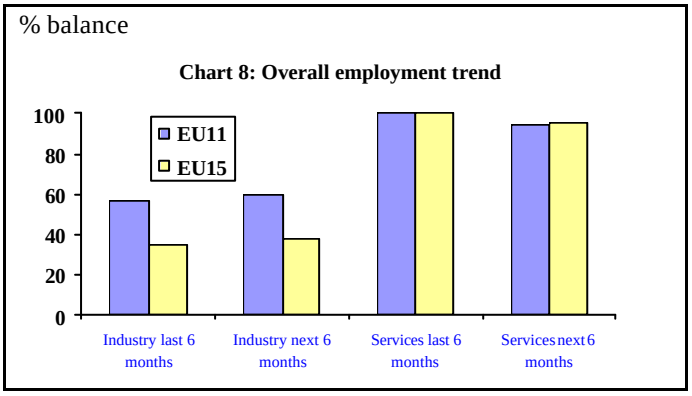
➢ Labour Market and Wage Indicators

The employment situation continues to improve. There are, however, risks of tightening in certain areas and sectors of the labour market, and a shortage of key skills necessary to take full advantage of new economic opportunities.

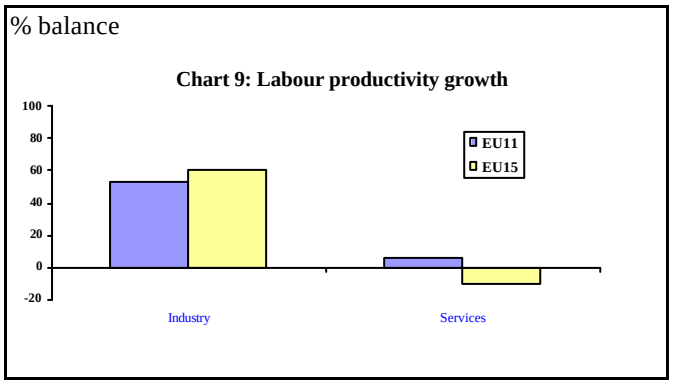
Employment in the EU continues to grow, particularly in the services sector (*chart 8*) This trend is stimulating household confidence and sustaining private consumption to the benefit of investment and overall demand.

If the upswing continues, the number of unemployed in Germany could fall to under the 3.5 million level in 2001. In Bavaria and Baden-Württemburg, unemployment is already lower than 5%.

Only in the UK and Austria are there concerns over falling employment in industry. In other areas, there is the opposite problem, with labour shortages in evidence in certain high technology sectors, for example. In Germany there is a lack of skilled labour in the IT and metal and engineering industries, a pattern repeated elsewhere. A majority of federations expect labour markets to tighten. The primary concern now is that wage demands are in line with inflation forecasts and productivity gains.

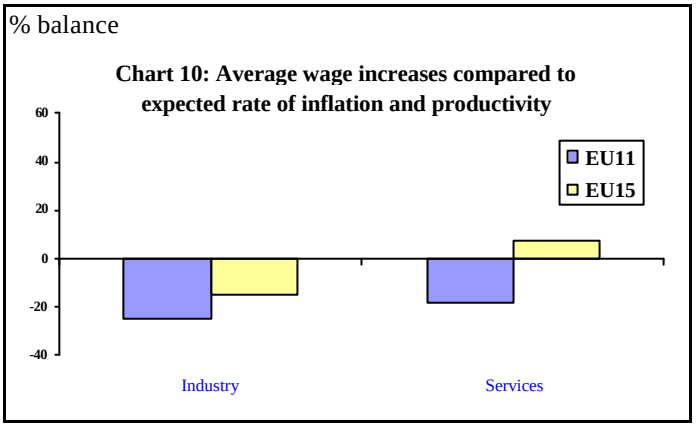


Labour productivity growth in industry is assessed as high in a majority of Member States (*chart 9*), but productivity growth in the service sector is low.



The previous downward trend in employment in large industrial firms in Italy, tapered off in May. Since the beginning of 2000 the ratio of overtime to total number of hours worked has remained stable, and at a higher level than in the same period in 1999, although lower than the peaks during previous economic cycles. The steady fall in unemployment is set to continue into 2001.

Forecasts of the evolution of real unit labour costs vary quite significantly between Member States (*chart 10*). A majority expect wage increases to be lower than the rate of inflation and productivity growth, although in the service sector there are expectations of higher average wage increases, in reaction to the lack of skilled labour in IT and related services. Government action in the area of tax reforms, and notably the reduction of taxes on labour, may be reducing pressure on wage costs, narrowing the tax wedge. If confirmed, the prospect of moderate wage claims is good news for the economy, as it will sustain the positive employment outlook which could be put at risk by excessive wage demands.



In Ireland, unemployment is now down to 4.3% so the labour market is very tight. Continued strong demand will be partly satisfied by the natural increase in labour, but immigration will be a key factor in easing the pressure.

In Portugal a combination of inflexible labour markets and a lack of adequate skills are not enough to inflate wages above a sustainable level, whereas in Spain, inflation will lead to higher nominal wage increases. Higher wage claims in France are likely, but will be limited because of the 35-hours.

In the UK, average wage increases in the service sector will outpace inflation, due to skills shortages in certain specialised areas. There will be an increase in the minimum wage in Luxembourg in 2001.

The employment outlook is good, although a lack of appropriate skills and tightness in some labour markets highlight the need for continuing structural reforms in labour markets, and for appropriate education and training. Moderate wage claims will be an important factor in maintaining this positive outlook.

➢ The "new economy"

Although evidence of the new economy as exemplified by the US is not yet apparent in Europe, the services driven growth and employment creation is a sign of the economy heading in a new direction. Growth this year is expected to come in at 3.5%, with forecasters confident that growth levels above 3% could continue into 2001. Growth potential in the EU would be boosted by structural reforms to make markets more flexible. Investment in technology and human resources is another key element.

The spread of B2B (business to business e-commerce) is already outpacing B2C (business to consumer), and is likely to have a strongly positive effect in boosting long term economic growth and competitiveness. The new economy relationship between growth and inflation is less clear, although there is an argument to support the high-growth / low-inflation scenario. Where central banks have an explicit or implicit inflation target, as they do in most industrialised countries, any sign of a deflationary shock from the spread of B2B would probably prompt lower interest rates to avoid missing the inflation target. This would support higher growth for as long as the deflationary shock was having an effect. The medium term impact of the new economy is uncertain, but it could be that inflation remains broadly unchanged even with higher economic output. There is not yet evidence of a US style "new economy" led boom, but the opportunity is there.

There is overwhelming support amongst Europe's politicians for the new economy, particularly in the wake of the March 2000 Lisbon special summit. Various legislative and policy targets to enable the adoption and exploitation of the new technologies were announced, and effective implementation of these measures will be very important. Governments themselves should be ready to provide on-line services to the public and to business.

Obstacles to the new economy include the regulatory framework, lack of labour market flexibility and infrastructure issues. In many areas and sectors there is a lack of awareness of the new opportunities, particularly among SMEs, and a slow penetration of Internet and ICT. UNICE's member federations highlight the lack of suitable skills, and the delay in modernising and restructuring educational systems to meet the challenges of the new economy, particularly with regard to the training of teachers.

The speed of change is a key element of the new economy, and policy makers will have to respond quickly to this dynamic situation. UNICE members have identified measures to facilitate an optimal development of the new economy (*table 3*).

Table 3: Policy conditions to facilitate the development of the "new economy"

- more flexible labour markets
- e-government: improvements in the functioning of public administrations
- lower cost telecommuncations
- improvements in data security
- promotion of entrepreneurship and innovation, especially in high technology sectors
- easier access to early stage venture capital
- coherent global framework of regulations
- clear decision on taxation of electronic deliveries

➢ Main risks over the next 6 months: no room for complacency

Although the EU economy is performing well, there are a number of underlying risks. Over the next few months the mains risks are linked to the weak euro, inflationary pressures, and the oil price shock. There is a risk of further inflationary pressures if oil prices increase beyond $30-35 a barrel. Increased wage demands in the light of rising oil prices could put pressure on costs.

Europe's policy makers will have to address the remaining rigidities in European labour markets, both in terms of flexibility and mobility. Governments need to be rigorous in implementing structural reforms, reducing debt, and reforming pensions systems in order to fund future pension liabilities.

In many of the euro-zone countries tax cuts have been announced, which will boost domestic consumption and reduce the burden on companies, allowing resources to be focussed elsewhere. In some cases tax reforms could lead to a risk of overheating, but in Germany and Italy this should provide a welcome boost to the private sector. In those countries currently experiencing inflationary pressures, however, governments should take care not to fuel demand further. Many of the current EU governments face elections in the next year, which could add to the pressure to woo the electorates with short-term

measures. The impact of the new economy and new technologies would be an upside risk.

Another risk is the question mark over continued US growth and eventual soft or hard landing with subsequent impact on the global economy. Export driven growth in the euro-zone is dependent on the euro's weak performance and does not reflect a growth in underlying competitiveness.

Some federations are also concerned about an insufficiently tight monetary policy, especially in peripheral economies, although others are concerned about further tightening of monetary policy.

Germany: A further fall in the euro boosting exports is a risk on the upside for the euro-zone. At national level the upside risk comes from positive economic effects stemming from the tax reform. On the downside, risks include decreasing export dynamics, soaring oil prices, and the impact of rising interest rates.

France: On the upside, growing world demand and domestic consumer confidence would provide an extra economic boost. Downside risks include a bottleneck in supply capacity, both in terms of recruitment and capital equipment. The 35-hour week continues to be a constraint, and business leaders have called for a deferment of the application of the law to firms with fewer than 20 employees.

Italy: Concern about a further oil price increase and weakening of the euro, as Italy's industrial system has relatively high exposure to increases in energy and other raw material prices.

United Kingdom: At national level the announcement of a sharp rise in government spending, and stronger growth in consumer spending / business investment could have an upside effect. Downside risks include higher than expected UK interest rates, continued strength of sterling against the euro. Risks to growth are broadly balanced. For the world economy, downside risks slightly outweigh the upside. But the possibility of weaker world trade triggering falls in asset prices in the UK are believed less of a risk than seemed likely earlier in the year.

Spain: Upside risks include world, and EU, trade expansion. A downside risk is inflation.

Belgium: Downside risks include a rise in energy prices. There are also difficult negotiations ahead for the 2001-2002 inter-professional agreement, and the fear that higher wage increases could damage competitiveness.

Netherlands: Strengthened growth in Germany would have an upside effect. On the downside are wage increases and over-valued asset prices.

Ireland: The recovery or the continuing weakness of the euro will be a predominant factor. Ireland's high inflation rate reflects its tight labour market: higher wage costs will be a risk on the downside. Improved infrastructure will be a factor on the upside.

Austria: Short-term negative impact of budgetary consolidation and insufficient public investment are downside risks.

Portugal: Economic growth of Portugal's main economic partners on the upside. Downside risks include political instability as a consequence of the eventual rejection of the state budget proposal by the parliament; social instability as a result of the wage negotiations for 2001; excessive consumer debt.

Finland: Successful wage negotiations, positive developments in Russia and lower indirect taxes on petrol would provide a boost, whereas on the downside, a failure in wage negotiations, higher import prices, labour shortages and higher localised property prices would be a risk.

Luxembourg: Upside risks include tax reform for individuals in 2001. Higher wage settlements will influence on the downside.

Greece: Concern about oil prices and their impact on markets. Intensified privatisations are a risk on the upside.

Sweden: Upward pressure comes from sustained employment growth. On the downside is a risk of a German downturn, as well as excessive wage increases, weaker world trade and weaker productivity growth.

Denmark: There is concern about a continued weakening of the euro, and on the downside, a national shortage of labour.

Annex 1: country results

October 2000 UNICE Economic Outlook

	B	D	E	F	IRL	I	L	NL	A	P	FIN	EU-11	DK	EL	S	UK	EU-15
Forecasts 1999																	
GDP (%yoy)	2,5	1,5	3,7	2,9	9,8	1,4	4,9	3,9	2,1	3	4	2,4	1,7	3,5	3,8	2,1	2,4
Inflation (%yoy)	1,1	0,6	2,3	0,6	1,6	1,7	1	2,2	0,6	2,3	1,2	1,1	2,5	2,6	0,3	2,3	1,3
Unemployment (%)	9	9	15,8	11,2	5,6	11,4	2,9	4	3,7	4,4	10,2	10,1	5,1	10,5	5,6	6	9,2
Nom. compensn of employees (%yoy)												2,7					3,1
Forecasts 2000																	
GDP (%yoy)	4,1	3	4	3,4	10	3	5,6	4,5	3,5	3,3	5,3	3,5	2,7	4	4,2	3,1	3,4
Inflation (%yoy)	2,2	1,7	3,3	1,7	5,5	2,5	2	2,5	2	2,7	2,9	2,2	3	2,8	1,6	2,2	2,2
Unemployment (%)	8,4	8,4	13,8	9,7	4,4	11	2,8	3,5	3,5	4,5	9,6	9,2	4,7	10,1	4,9	5,4	8,4
Nom. compensn of employees (%yoy)												3,3					3,6
Forecasts 2001																	
GDP (%yoy)	3,1	3	3,5	2,9	8	2,8	5,3	4	2,8	3,4	4,3	3,2	1,8	4,8	3,2	2,7	3,1
Inflation (%yoy)	2	1,6	2,6	1,8	3,9	2	1,8	3,5	1,7	2,7	2	2,0	2,5	2,6	2	2,4	2,1
Unemployment (%)	7,9	7,8	12,5	9,1	4	10,9	2,7	3	3,4	4,4	8,6	8,7	4,6	9,5	4,3	4,8	7,9
Nom. compensn of employees (%yoy)												2,9					3,4
	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser
Question 1	**Trend in business climate over the next 6 months**																
positively	/ X	/ X		X / X	X / X		X / X	X / X	X / X		X / X	35/70		X / X		X / X	43/71
negatively			X /									9/0					7/0
neither pos not neg	X /	X /	/ X			X / X				X / X		56/30	X / X		X / X		49/29
	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser
Question 2	**Trend in profitability over the next 6 months**																
positive	/ X	X / X					/ X		/ X		X /	34/38	X /	X / X	X / X		33/34
negative				X / X					X /	X /		27/22				X /	36/17
unchanged	X /		X / X		X / X	X / X	X /	X/X		/ X	/ X	40/40	/ X			/ X	31/48
	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser
Question 3	**Trend in investment over the next 6 months**																
positive	X / X	X / X		X / X	X / X	X / X	X / X	X / X	X / X	X / X	X / X	91/91	X /	X / X	X / X	/ X	78/91
negative			X /									9/0				X /	22/0
unchanged			/ X									0/9	/ X				0/7
Question 4	**Level of exchange rate with**											H/app/L					H/app/L
USD	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	APP	LOW	LOW	0/3/97	APP	LOW	LOW	APP	0/20/80
GBP	LOW	LOW	LOW	LOW	LOW	LOW	APP	LOW	LOW	LOW	LOW	0/0/100	APP	LOW	LOW	..	0/2/83
JPY	APP	LOW	LOW	LOW		LOW	APP	LOW	APP	APP	LOW	0/8/92	APP	LOW	LOW	APP	0/24/75
Euro													APP	LOW	APP	HIGH	15/8/3
others: SEK											LOW						
Question 5	**Stance of monetary policy**																
tight									X			3					2
appropriate	X	X		X		X	X			X		78	X	X	X	X	83
loose			X		X			X			X	19					15
Question 6	**21 months after its establishment, what is your opinion of the ECB (conduct of monetary policy favourable to business, transparency)**																
positive	X	X				X		X		X		62	X				50
negative			X		X				X			13					11
no answers				X			X				X	25		X	X	X	39

	B	D	E	F	IRL	I	L	NL	A	P	FIN	EU-11	DK	EL	S	UK	EU-15
Question 7	**Do you consider cost / access to capital for SME business development in your country to be**											cost/ac					cost/ac
higher / more difficult		X /			X /	X /	X /		X /	X /	X /	59/0	X /		/ X		49/3
same	X / X	/ X		X / X	/ X	/ X	/ X	/ X		/ X	/ X	26/88	/ X	/ X	X /	X / X	38/87
lower / less difficult			X / X					X /	/ X			15/13		X /			13/10
Question 8	**Trend in government bonds yields and stock market prices over the next 6 months**											up/s/down					up/s/down
Govt bond yields	UP	SAME	UP	SAME	UP	SAME		SAME	SAME	UP	UP	18/76/6	UP	SAME	SAME	SAME	16/79/4
Stock mkt prices	SAME	SAME	UP	SAME	SAME	UP		UP	SAME	SAME	SAME	35/65/0	UP	UP	UP	SAME	34/66/0
Question 9	**Trend of total tax burden on business in the past 6 months**																
increased				X								22					17
decreased	X										X	6					5
unchanged		X	X		X	X	X	X	X	X		72	X	X	X	X	78
Question 10	**Trend in total tax burden on business in the next 6 months**																
increase				X					X			25	X		X		25
decrease		X			X	X				X		54		X			43
no change	X		X				X	X			X	21				X	32
Question 11	**What is your assessment of the budgetary policy programme for 2001?**																
positive	X	X	X		X		X	X	X		X	57		X	X		49
negative				X						X		23	X				20
no answer						X						20				X	31
Question 12	**Implementation of the Stability & Growth Pact: what is your assessment of your country's multinannual stability programme?**																
positive	X	X	X		X		X	X	X	X	X	58		X	X		50
negative				X								22					17
no answer						X						20	X			X	33
Question 13	**Do you expect new regulatory measures which would hinder business competitiveness?**																
yes	YES	YES		YES				YES			YES	65		YES	YES	YES	70
no			NO			NO	NO		NO	NO		34	NO				29
Question 14	**Overall trend in employment**											up/s/down					
Ind: past 6 mnths	UP	UP	UP	UP	UP	DOWN	UP	UP	SAME	UP	UP	77/3/20	UP	SAME	UP	DOWN	66/4/31
Ind: next 6 mnths		UP	SAME	UP	UP	SAME	UP	UP	DOWN	SAME	UP	63/31/3	UP	SAME	UP	DOWN	55/25/17
Ser: past 6 mnths	UP	UP	UP	UP	UP	UP	UP	UP	UP	UP	UP	100/0/0	UP	UP	UP	UP	100/0/0
Ser: next 6 mnths		UP	UP	UP	UP	UP	UP	UP	UP	SAME	UP	95/1/0	UP	UP	UP	UP	96/1/0
Question 15	**Expectation of labour markets over the next 6 months**																
more tight	X	X		X	X			X	X		X	69	X		X		60
unchanged			X			X	X			X		31		X		X	40
less tight												0					0
	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser
Question 16	**Evaluation of labour productivity**																
high	X / X	X / X	X /		X /	X /		X /	X /		X /	76/35	X /		X / X	X /	80/30
average			/ X		/ X	/ X	X / X		/ X		/ X	0/36	/ X	X /			1/31
low				X / X				/ X		X / X		23/29		/ X		/ X	18/39
	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser	Ind / Ser
Question 17	**Compared with inflation and productivity growth, level of average wage increases:**																
higher			X / X		/ X		X / X		X / X			13/14	X / X	/ X	X / X	/ X	15/32
same	X / X			X / X	X /	X / X		/ X			X / X	49/54		X /		X /	55/42
lower		X / X						X /		X / X		38/32					30/25