UNICE ECONOMIC OUTLOOK
SPRING 2006

3% 70

growth

& jobs

UNICE
THE VOICE OF BUSINESS IN EUROPE

UNICE
WHO ARE WE?

UNICE is the voice of more than 20 million small, medium, and large companies. UNICE's members are 39 central industrial and employers' federations from 33 countries, working together to achieve growth and competitiveness in Europe.

WHAT IS THE ECONOMIC OUTLOOK?

The Economic Outlook provides twice a year a business insight into recent and projected economic developments in Europe, based on a survey of UNICE member federations. The report also presents in its Spring edition an analysis of the more fundamental factors restraining growth in Europe. UNICE's survey on the state of competitiveness in Europe helps identify the key policy priorities to overcome these obstacles and provides an assessment of the pace of reforms across European countries.

FOR FURTHER INFORMATION, PLEASE CONTACT:

Marc Stocker

Economic and Financial Affairs Department

Tel: +32 (2) 237 65 15
Mail: m.stocker@unice.be

UNICE
THE VOICE OF BUSINESS IN EUROPE

ECONOMIC OUTLOOK
SPRING 2006

UNICE FORECASTS

Spring 2006 forecasts	2005 EU12	2005 EU25	2006 EU12	2006 EU25	2007 EU12	2007 EU25
Real GDP growth	1.4	1.7	2.0	2.3	1.7	2.1
Inflation	2.2	2.2	2.1	2.1	2.0	2.0
Unemployment rate (1)	8.9	8.9	8.5	8.5	8.4	8.2
Revisions from Autumn 2005						
Real GDP growth	+0.1	+0.1	+0.2	+0.2		
Inflation	0.0	+0.1	-0.1	0.0		
Unemployment rate (1)	-0.2	0.0	-0.3	-0.2		

(1) not fully in line with Eurostat's harmonised definition due to use of national concepts and to aggregation procedures

EXECUTIVE SUMMARY

→ AN UPSWING IN EUROPE CONFIRMED THIS YEAR, BUT GROWTH EXPECTED TO SLOW DOWN IN 2007...

→ RECOVERY WILL NEED MORE ALTITUDE IF IT WANTS TO FLY A LONG WAY...

→ CURRENT MACROECONOMIC POLICY MIX NOT OPTIMAL FOR SUSTAINED GROWTH...

→ EUROPE NEEDS AN ENVIRONMENT MORE CONDUCIVE TO GROWTH AND JOBS...

→ NATIONAL REFORM PROGRAMMES SET APPROPRIATE PRIORITIES BUT ACTUAL IMPLEMENTATION WILL BE THE REAL TEST ...

→ THE SPRING EU COUNCIL NEEDS TO TAKE CONCRETE DECISIONS TO TURN WORDS INTO ACTION...

UNICE
THE VOICE OF BUSINESS IN EUROPE

AN UPSWING IN EUROPE CONFIRMED THIS YEAR, BUT GROWTH EXPECTED TO SLOW DOWN IN 2007...

Despite mixed signals in Germany and France at the end of 2005, available data indicate that the recovery is under way in Europe. The business climate has improved in recent months and real GDP growth forecasts for 2006 have been revised slightly upwards from our last Autumn assessment, to 2.0% in the euro area and 2.3% for the EU as a whole.

The most immediate effects of last year's oil price hike have started to dissipate, giving room for more favourable economic conditions in Europe and elsewhere. In particular, the renewed strength of global activity should help lift European exports this year, despite continued loss of market shares.

On the domestic side, expectations of a gradual firming of the recovery combined with sound corporate balance sheets and relatively low financing costs will boost investment and hiring plans. This is expected to lead to a longed-for broadening of the upturn to domestic demand. However, private consumption remains an important source of uncertainty. At the current juncture, the business community doubts that a significant acceleration could take place in a context marked by high structural unemployment, low productivity growth constraining income developments and unsustainable public finances.

Against the background of an only modest strengthening of domestic demand, growth in Europe is expected to fall back in 2007 in line with a softening of the global expansion. UNICE predicts that real GDP growth will reach 1.7% and 2.1% in the euro area and in the EU respectively in 2007.

RECOVERY WILL NEED MORE ALTITUDE IF IT WANTS TO FLY A LONG WAY...

With growth barely reaching potential this year and expected to slow down next year, recovery will remain largely exposed to further adverse shocks.

At this point in time, the external environment remains the main source of downside risks to growth. More specifically, businesses continue to see unpredictable oil price developments and pressures from widening global current account imbalances as the most significant threat to the economic outlook in Europe.

At the same time, a stronger-than-expected upturn in domestic demand cannot be excluded. In particular, improved labour market conditions and their potential impact on households' confidence might spark a more vigorous strengthening of private consumption, thereby leading to stronger and more broadly based growth in Europe.

CURRENT MACROECONOMIC POLICY MIX NOT OPTIMAL FOR SUSTAINED GROWTH...

The business community is deeply concerned about the evolution of public finances in most parts of Europe. With demographic pressures expected to intensify in the coming years, credible commitments to bring fiscal budgets close to balance are becoming ever more imperative to rebuild trust in Europe's long-term prospects. This would encourage private investment and reduce the need for high precautionary savings. Governments should not further delay the necessary adjustments, and take advantage of the ongoing recovery to consolidate public expenditures and strengthen long-term fiscal positions.

Turning to monetary policy, businesses consider that the current stance of the ECB and of other major central banks in Europe is broadly appropriate, but urge for caution in future policy decisions. In particular, the economic upturn in the euro area is expected to be modest and the dampening impact of higher interest rates might be amplified by risks of renewed appreciation of the euro. With inflation expected to remain broadly constant at about 2%, future interest rate hikes should go hand in hand with more convincing signs of an acceleration in domestic demand.

EUROPE NEEDS AN ENVIRONMENT MORE CONDUCIVE TO GROWTH AND JOBS...

A hesitant upswing and persistent underperformance vis-à-vis other major economic areas illustrate that fundamental obstacles to growth are at play in Europe.

The most prominent of these obstacles lies in the slow pace of productivity growth since the mid-1990s. For consumers, this has meant low income expectations leading to subdued spending, while for investors it echoes Europe's lack of competitiveness and discouraging business environment. Efforts towards innovation, better regulation, lower barriers to entrepreneurship and to services activity will need to be stepped up to reverse the trend.

The inadequate functioning of labour markets is another important handicap for Europe. Fundamental institutional factors continue to inhibit job creation and reduce Europe's ability to reap the benefits of rapid technological changes and globalisation. Progress towards reducing structural impediments on the labour market would lead to lower unemployment and would help restore long-term growth and confidence.

NATIONAL REFORM PROGRAMMES SET APPROPRIATE PRIORITIES BUT ACTUAL IMPLEMENTATION WILL BE THE REAL TEST...

The need for economic reforms is widely acknowledged and has been a dominant issue on the EU agenda over the last year. A number of initiatives have been set up at both Community and member-state level, including the most recent national reform programmes to be reviewed and assessed at this year's Spring European Council.

UNICE considers that these programmes generally identify the right priorities, particularly in countries with more pressing needs such as Germany, France and Italy. However, they suffer from a general lack of new initiatives and their objectives often remain too vague. At any rate, success will only be measured in the light of actual implementation. The business community remains particularly cautious in this respect, noting that reform progress has been mostly disappointing since the relaunch of the Lisbon strategy in March last year.

Regarding specific policy priorities, UNICE observes that the regulatory burden for businesses is decreasing in some countries but will, together with high taxation, continue to hinder growth and competitiveness in most parts of Europe. On a more positive note, national and Community initiatives towards research and innovation are assessed positively and are expected to deliver more visible results in the future.

Although UNICE predicts gradual improvements in the functioning of European labour markets, these will be insufficient to tackle high structural unemployment. More ambitious labour market reforms should seek to significantly reduce cost and regulatory barriers to job creation and to promote a better match between firms' employment needs and the supply of skills available on the market. This implies lowering marginal tax rates on labour, raising flexibility and mobility, and providing workers with up-to-date qualifications and better job-search assistance.

THE SPRING EU COUNCIL NEEDS TO TAKE CONCRETE DECISIONS TO TURN WORDS INTO ACTION...

It will not necessarily be new targets, but implementation of existing programmes that will count in the short term. In that spirit, heads of state and government must make ambitious but credible commitments, in particular concerning the promotion of innovation and entrepreneurship, sound fiscal objectives, support to SME growth, and modernisation of social systems.

Regarding governance, the European Commission and Council must come up with improved surveillance mechanisms to measure reform progress. This means that the Commission must further develop benchmarking tools and promote best practices more vigorously. On its side, the Council should inject more peer pressure into its assessment of reform implementation. Governments should also seek to clarify their reform targets and provide details on timing, responsibilities and, where appropriate, financing of the measures.

At Community level, UNICE also expects a firm recommitment to the European project and the Internal Market. The compromise reached in February by the European Parliament on the proposed services directive is disappointing and will not serve to facilitate cross-border activities. It is in the services sector that the most significant growth and jobs opportunities will emerge in the future, but this will not happen in an over-regulated and segmented market. UNICE urges the Commission and the Council to carefully consider both the legal and economic impact of the European Parliament's amendments and rebalance the proposed directive to ensure that it genuinely does have concrete effects for growth and jobs across Europe.

MEDIUM-TERM PROSPECTS AND MACRO POLICIES

This first chapter presents UNICE's updated assessment of economic developments projected in Europe over the next two years. It is based on quantitative forecasts for the main macroeconomic aggregates and more qualitative indicators including an assessment of the current stance on macroeconomic policies. Detailed results at both EU and country level are presented in the Annex on page 24-27.

→ OUTPUT AND DEMAND

→ LABOUR MARKETS

→ PRICES AND LABOUR COSTS

→ MAIN RISKS TO THE OUTLOOK

→ MACROECONOMIC POLICY MIX

→ Box A: Is monetary union delivering the promised stability?

UNICE
The Voice of Business in Europe

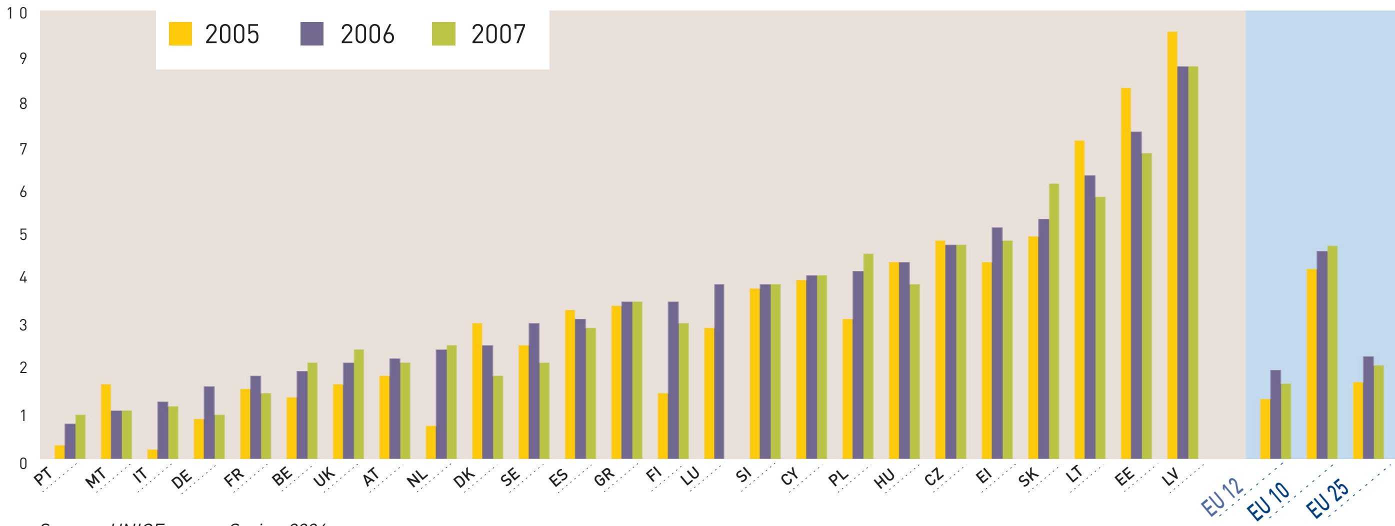
OUTPUT AND DEMAND

The business climate has improved since last Autumn, confirming that Europe is on track for a modest economic recovery, following a weak performance in 2005. Our spring survey among national business federations indicates more positive short-term expectations in both industry and services, which are also reflected at the country level by better sentiment in Germany but also in France and Italy. In the UK, the situation is broadly unchanged and confirms the maintenance of modest and services-oriented growth momentum.

This is broadly in line with our assessment presented last November, which considered that the conditions for a moderate upturn were in place, past the immediate negative effects of last year's oil price hike.

These favourable conditions are still present today. On the external side, there are more indications of dynamic global growth providing a significant stimulus in Europe, while sound corporate profitability, relatively favourable financing conditions and improved labour markets should set the path to a gradual strengthening of domestic demand.

Chart 1 **Growth forecasts for 2005, 2006 and 2007**



Source: *UNICE survey Spring 2006*

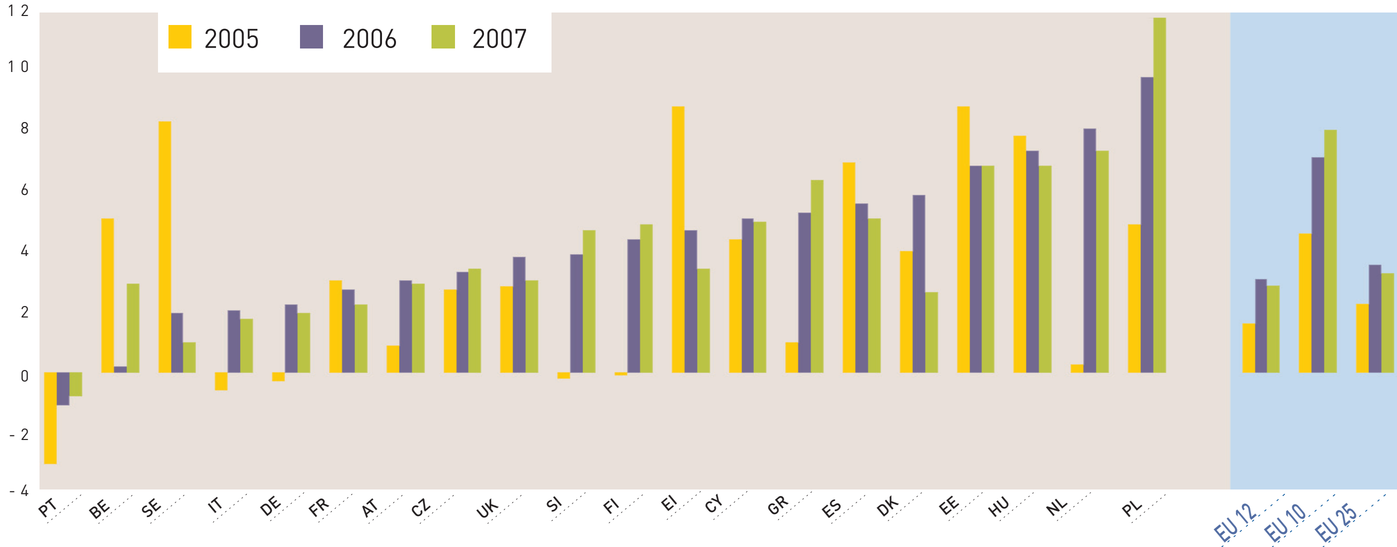
In this context, UNICE expects real GDP growth this year to reach 2.0% and 2.3% respectively in the euro area and the EU, slightly better than foreseen last November. This upward revision is mainly the result of more positive expectations for Germany, France and Italy. However, in these three countries, growth seems likely to remain below 2%, especially in Italy where it is predicted to reach a meagre 1.3%. The UK is projected to see a slight increase in real GDP growth, to 2.2%. Again, the central and eastern European countries and Spain should register significantly stronger growth than in the rest of Europe.

Regarding the composition of demand, dynamic world trade and relatively stable exchange rate developments will continue to support a sound EU export performance this year. This should lead to an overall positive, albeit small, net trade contribution to growth. However, Europe continues to lose market shares and its export performance is unequally distributed across countries.

More specifically, a strong competitiveness position will continue to channel important gains for the German economy, while Italy and Spain are foreseen to lose further ground both inside and outside Europe. Export growth in new member states are generally expected to remain significantly more dynamic, especially in Poland or the Czech Republic.

On the domestic side, investment will become more vigorous this year. This improvement is largely driven by expectations of a gradual firming of the recovery combined with sound corporate balance sheets and relatively low financing costs. At the country level, an investment pick-up is noted in particular in Germany, Italy, Austria, the Netherlands, Finland and Poland.

Chart 2 **Investment growth in 2005, 2006 and 2007**



Source: *UNICE survey Spring 2006*

Our survey reveals that profitability trends remain supportive and are expected to improve further in coming months, especially in services. A growing proportion of national business federations also report capacity extension and innovation as important factors supporting investment plans. On average, the cost of financing for SMEs is expected to remain unchanged in the future, though several countries such as Germany, Spain, Austria, Ireland, Finland, Denmark and Sweden present expectations of higher costs.

The outlook for private consumption remains an important source of uncertainty for the outlook in Europe. On the positive side, a gradual improvement in labour market conditions will contribute to restoring consumer confidence and support income growth. However, high structural unemployment, low productivity growth constraining income and uncertainties surrounding the future of pension and health care systems may continue to influence consumer spending decisions and to impede the recovery.

On balance, only modest growth in consumer spending is expected this year, averaging 1.6% in the euro area and 1.9% in the EU. At the country level, there is some expected cooling off in consumer spending in Spain, more moderate growth in France, while in Germany, UNICE is sceptical of a significant acceleration in consumer spending this year, in anticipation of the hike in indirect taxation in 2007.

Overall, a modest pick-up in domestic demand currently predicted in Europe is unlikely to be sufficient to compensate for the foreseen slowdown in global trade and activity later this year and in 2007.

In this context, UNICE forecasts that real GDP growth next year will fall back to 1.7% in the euro area and 2.1% at EU-wide level. In more detail, the contribution of net trade to growth is expected to turn negative, resulting mainly from lower albeit still reasonably dynamic export growth. The contribution of domestic demand is forecast to remain modest and broadly unchanged from 2006.

LABOUR MARKETS

Labour market conditions are currently improving and are expected to continue to do so in the course of the year. Short-term employment expectations remain positive and are consistent with net job creation in both industry and services.

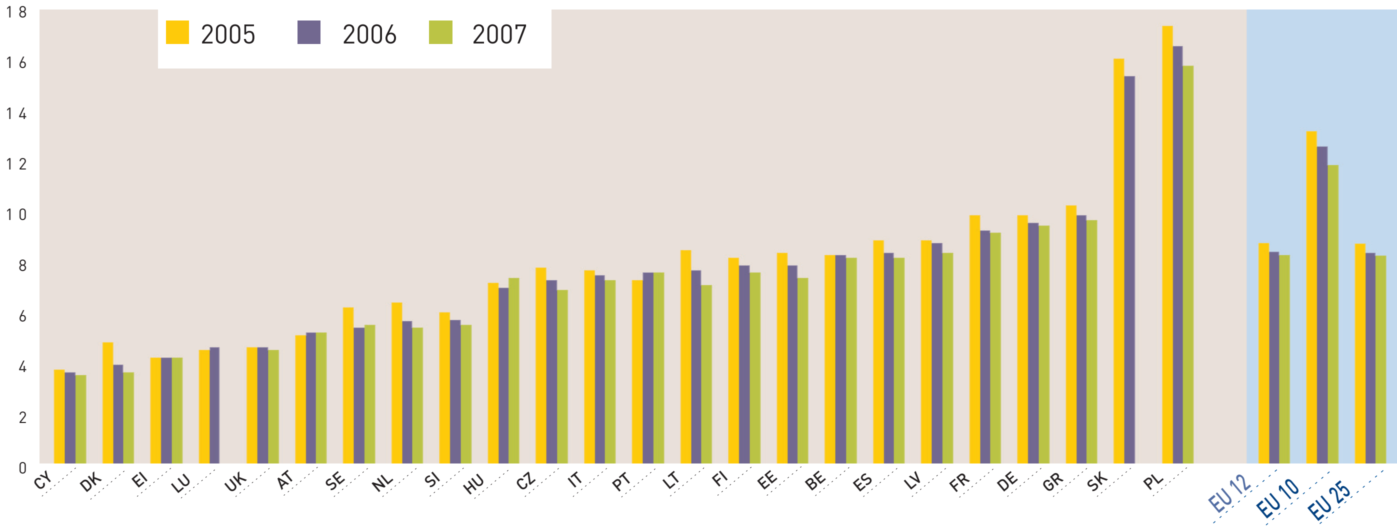
Against this background, UNICE expects that employment growth in 2006 will rise to around 1% in both euro area and EU. The improvement from 2005 will be supported by better employment conditions in Germany, Italy or to a lesser extent in France. At the same time, employment growth in a number of other countries, including Spain and UK, should be somewhat more restrained this year.

Rising net job creations will lead to a gradual decline in the unemployment rate, which seems set to stand on average this year at 8.5% in both the euro area and the EU as whole. However, this remains untenably high for Europe as a whole and particularly alarming in some countries such as Poland and Slovakia. Germany, Greece and France will also continue to experience above-average unemployment rates.

Resulting from the expected softening of the growth momentum in 2007, labour market conditions are not expected to make further progress next year. Employment growth will continue at a moderate pace, which should only allow a timid further decline in the unemployment rate.

Over the next two years, labour productivity growth is expected to average less than 1% in both euro area and in EU. This subdued performance during a cyclical recovery confirms the expectation that Europe's decade-long productivity slowdown will continue and could further restrain domestic demand and competitiveness in the near future. This adds even greater urgency to ensuring more rapid progress on the Lisbon agenda.

Chart 3 **Unemployment rate in 2005, 2006 and 2007**



Source: *UNICE survey Spring 2006*

PRICES AND LABOUR COSTS

Developments in headline inflation continue to be marked by high and volatile energy prices. At the same time, core inflation remains significantly below 2% and is so far showing little sign of edging upwards.

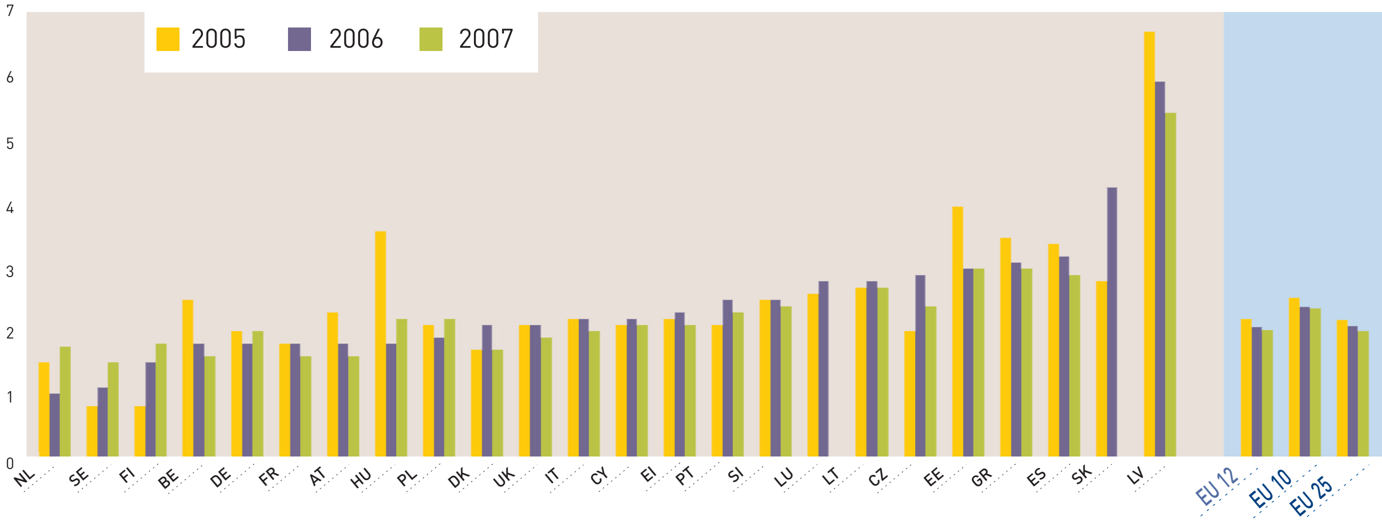
Some reflection of energy prices in core inflation is foreseen in coming months, but this should be mitigated by cautious wage-setting in the context of a restrained pick-up in domestic demand. Overall, inflation in 2006 should average 2.1% in both euro area and EU. This is broadly unchanged from our November assessment.

Some heterogeneity in price developments will persist at country level. Within the euro area, Spain, Greece and to a lesser extent Italy and Portugal should experience above-average inflation rates. Long-lasting divergences across countries sharing a single currency are undesirable and can lead to imbalances that are difficult and painful to correct. Most often, the source of inflation differentials across countries is found in the services sector. Progress in setting up a more integrated and competitive internal market for services in Europe would help reduce these divergences and would also result in lower inflation persistence. This would contribute to a more coherent and better functioning euro area economy.

Regarding wage pressures, they are predicted to remain contained this year, with nominal compensation per employee increasing by around 2.8% at EU aggregate level. Moderate wage growth reflects persistent low productivity gains, external competitive pressures and the impact of high unemployment on wage-setting.

In 2007, inflation is predicted to edge slightly lower to 2.0% in both euro area and EU, in spite of the effects of the planned VAT hike in Germany.

Chart 4 **Consumer price inflation in 2005, 2006 and 2007**



Source: *UNICE survey Spring 2006*

MAIN RISKS TO THE OUTLOOK

The balance of risks to the outlook for growth remains tilted to the downside, but positive surprises may also arise. In particular, a rapid pick-up in consumer spending in Germany would improve the prospects for a self-sustained and more balanced recovery in Europe. Such a development could be triggered for instance by more dynamic job creation in regular and full-time contracts, supporting higher income growth and confidence. A similar encouragement could be brought about in France by a positive outcome of recent labour market measures.

Regarding new member states, the impact of EU structural and cohesion funds is as yet unclear but could have positive effects on competitiveness and business activity in those countries.

Yet, downside risks continue to dominate the outlook for growth in Europe. They relate mainly to high oil prices and the potential consequences of widening global imbalances.

Since the Autumn 2005 Economic Outlook, oil prices have increased further to around $ 60-65 a barrel. Most recent tensions have been caused by political instability in some producing countries and by cold weather conditions in key consuming areas. In this environment, businesses continue to see unpredictable oil price developments as a major risk to growth.

The world economy continues to steam ahead, driven by a robust expansion in the US and Asia. However, current account imbalances between these two areas remain a significant threat for the global economy and for Europe in particular. More specifically, these imbalances could end up in a significant slowdown in US activity and/or a collapse in the US dollar. In the latter case, the absence of flexible exchange rate regimes in Asia would mean that the weight of the adjustment would fall disproportionately on the euro. This would significantly hurt European competitiveness and would come at the particularly high price in the context of subdued domestic demand growth.

In addition to these external risks, the housing market situation in some parts of Europe is a cause for concern. A downward correction could significantly damage growth prospects in Europe in the context of relatively high household indebtedness. Moreover, an outbreak of avian flu in Europe could hurt confidence and private consumption, and affect certain activities, including tourism.

MACROECONOMIC POLICY MIX

The macroeconomic policy mix in Europe is considered to be largely inadequate, mainly due to an unsatisfactory pace of fiscal consolidation.

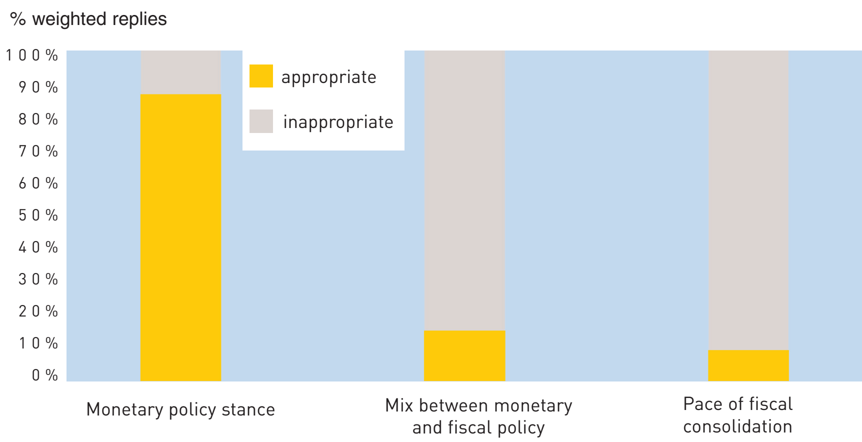
In 2005, fiscal deficits at both euro area and EU wide levels have come close to 3% of GDP, and only modest improvements are expected this year in spite of a cyclical upturn in economic activity. Consolidation efforts are assessed to be either slower than needed or non-existent in countries representing around 90% of the euro area and more than 80% of the EU as a whole. With demographic pressures expected to intensify in coming years, credible commitments to bring fiscal budgets close to balance are becoming ever more imperative. This is a prerequisite to restore business confidence in Europe's longer-term prospects.

As far as monetary policy is concerned, the ECB raised interest rates last December and again in March this year and is currently maintaining a tightening bias. A majority of employers' federations across euro area countries still consider that the current monetary policy stance is appropriate, but urges the ECB to act carefully. The recovery is expected to be restrained and it would not withstand a heavy-handed cycle of interest rate hikes. UNICE's survey suggests that a 50 basis point increase in interest rates could reduce euro area real GDP growth by around 0.2 percentage points after two years. Given the likely softening of growth in 2007, further tightening would put the recovery in danger, especially if it is accompanied by renewed appreciation of the euro. With inflation expected to remain at low levels, future interest rate hikes should go hand in hand with more convincing signs of an acceleration in domestic demand.

Moreover, as the Spring European summit this month tries to relaunch the agenda for economic reforms across Europe, the ECB should take part in the effort and signal that a credible and widespread commitment to reform has an impact on its assessment of the appropriate level of interest rates.

In other parts of the EU, businesses are generally supportive of the monetary policy stance. The Bank of England is in a wait-and-see position, currently expecting a very stable inflation performance over the next two years. In contrast, the Swedish Riksbank has also begun to raise interest rates from very low levels, reflecting signs of strengthening domestic demand.

Chart 5 **Assessment of fiscal and monetary policy in the euro area**



Source: *UNICE survey Spring 2006*

BOX A:
IS MONETARY UNION DELIVERING THE PROMISED STABILITY?

Economic stability is an essential condition for an economy to realise its full growth potential and to ensure high standards of living for its citizens. In particular, it allows firms and households to make better decisions for the future, and creates an environment conducive to investment in research, innovation and to the development of human capital.

The EMU macroeconomic policy framework is largely inspired by this primary objective, with two prominent examples being the ECB mandate to ensure price stability and the rules of budgetary discipline enshrined in the Stability and Growth Pact. However, the system of economic governance is also very complex, with one single monetary authority acting alongside twelve loosely coordinated national budget and other economic policies. So, how is EMU performing in delivering economic stability for its 350 million citizens and more than 10 million firms? Not badly, given the circumstances…

The table below compares the record of eight major industrialised economies in preventing excessive output and inflation volatility since 1998. The eight economies are ranked from most to least stable under the two criteria.

Table A1 **Macroeconomic stability across 8 major developed economies from 1998 to 2005**

	Output stability (1)	Inflation stability (2)
Australia	1	8
Canada	6	4
Euro area	5	2
Japan	7	3
New Zealand	4	5
Sweden	3	7
United Kingdom	2	1
United States	8	6

Source: *UNICE calculation using the IMF WEO database*
(1): ranking based on highest absolute output gap (percentage deviation of actual GDP from the level of potential output)
(2): ranking based annual standard deviation of consumer price inflation

Some interesting results emerge from this exercise. First of all, since the inception of monetary union, the euro area has had the second-best record, after the UK, in stabilising inflation. This can largely be credited to the ECB, which was able to establish its credibility promptly and consequently anchor inflation expectations at low levels.

The performance of the euro area in stabilising output close to a sustainable path has been somewhat less remarkable, but still satisfactory. On that front, the euro area falls behind countries like Australia, the UK, Sweden and New Zealand. However, it has done better than the US, which developed large imbalances following a significant cyclical overshoot in the late 1990s, or Japan, which was trapped in deflation.

Ultimately, when averaging the recent track record on output and inflation stabilisation, the euro area emerges with the second best record after the UK among the eight developed economies presented above. This bears witness that the EMU macroeconomic policy framework has been relatively successful in limiting unnecessary volatility, and from this perspective provided supportive conditions for longer-term growth. However, beyond stability, macroeconomic policies should also safeguard long-term sustainability, particularly in the face of an ageing population. In this regard, the situation is less than satisfactory and significant efforts will be needed in coming years, as explained later in this report.

UNLEASHING EUROPE'S GROWTH POTENTIAL

This second chapter offers a new dimension to the UNICE Economic Outlook, proposing an overview of the state of competitiveness in Europe. It provides an assessment of the pace of reforms in EU Member States and presents the view of the European business on the main policy priorities to raise growth in Europe. Detailed results of UNICE's survey on competitiveness are available in the Annex on page 26-27

UNICE
The Voice of Business in Europe

THE SUPPLY-SIDE CONSTRAINT

In March 2005, noting the persistence of high unemployment and weak growth in Europe, the European Council came to the conclusion that the EU's top priority was to develop a more ambitious and coherent strategy for growth and jobs. But what are the main policy priorities? Where are Europe's main weaknesses?

Looking at underlying growth developments over the last decade, two fundamental and largely offsetting forces are observed. On the one hand, labour markets have become more supportive, as visible in the gradual rise in the employment rate. This is a testimony to the benefits of past labour market policies and of responsible wage agreements favouring employment.

However, the improvement has been slow and is largely insufficient. High structural unemployment remains a major factor hindering growth, confidence and social cohesion. The level of participation in the labour market is also inadequately low, especially for older workers, and declining hours worked per person employed are curbing potential output growth by nearly half a percentage point. With demographic ageing looming ahead, good levels of social protection and high living standards will only be maintained if labour utilisation is significantly raised in the future.

The second major trend shaping economic developments over the last decade has been a sharp deceleration in labour productivity. This has entirely offset the benefits of better labour market conditions, and captures the tendency towards lower real GDP growth since the mid-1990s.

Table 1 **Real GDP growth breakdown in the EU15**

	1985 - 95	1995 - 04
real GDP growth:	2,4	2,1
hourly labour productivity	2,3	1,5
employment rate	0,1	0,7
hours worked per person	-0,4	-0,4
active age population	0,4	0,3

Source: *UNICE calculation using data from Eurostat and Groningen Growth and Development Centre*

Of course, the productivity slowdown has been partly related to higher employment and in particular the re-integration of low-skilled workers and long-term unemployed. However, Europe's productivity problem goes way beyond this potential short-term trade-off and reflects an inadequate division of labour and a worrying decline in the capacity to preserve competitiveness and to develop and attract higher value-added activities.

Here, knowledge, innovation, regulations and other barriers to entrepreneurship play a crucial role. Europe is lagging behind on this front and is bogged down by unnecessary obstacles to growth, especially in the larger services sector. Reversing this trend needs to be an overarching priority of the reform agenda and is a major challenge to for Europe to regain its competitiveness.

GENERAL ASSESSMENT OF REFORM PROGRESS

The refocused Lisbon Strategy on growth and jobs was an important step towards preparing Europe for today's immense economic challenges.

The necessity to reform was underpinned again in the informal summit in Hampton Court last October, which also touched upon the future of the European social model.

Against this background, a number of policy initiatives have been set up at both national and Community level, most of which will be reviewed during the Spring 2006 European summit.

UNICE's assessment of the new National Reform Programmes recently presented by the 25 EU member states is mixed but relatively positive on the whole. More precisely, the business community considers that the programmes for Germany, France, the Netherlands and most new member states are broadly satisfactory. Ambitious targets are reported even in Italy and Poland. However, business federations also observe that the programmes lack new initiatives and appear mostly to contain already implemented or ongoing measures.

At any rate, the success or failure of the renewed Lisbon Strategy will depend on actual implementation of the announced measures. On this front, substantial progress needs to be made to turn good intentions into actions.

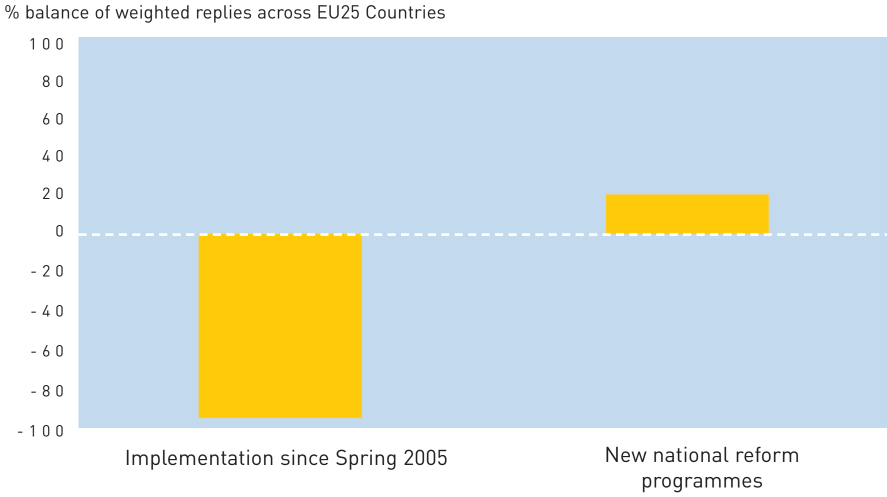
Indeed, the implementation record over the last year has been disappointing in virtually all EU countries.

With the business climate warming up and growth expected to continue at a moderate pace next year, this provides a better basis for tackling the substantial policy challenges that lie ahead.

The rest of the report presents the business view on the main policy priorities that will need to be addressed to restore high sustainable growth in Europe.

The analysis reviews in turn issues related to the appropriate macroeconomic environment for growth and jobs, the contribution of microeconomic policies supporting innovation and entrepreneurship and the need for better functioning labour markets.

Chart 6 **Assessment of reform progress**



Source: *UNICE survey Spring 2006*

Table 2
Individual assessment of the new National Reform Programmes

Ambitious	Satisfactory	Lacks new initiatives
Italy	Germany	Belgium
Estonia	France	Greece
Poland	Netherlands	Spain
Slovenia	Czech Republic	Ireland
	Cyprus	Luxembourg
	Latvia	Austria
	Lithuania	Portugal
	Slovakia	Finland
		Denmark
		Sweden
		United Kingdom
		Hungary
		Malta

Source: *UNICE survey Spring 2006*

BOX B:
ASSESSING THE COMMISSION REPORT TO THE SPRING EUROPEAN COUNCIL

The Commission's Progress Report on the European Growth and Jobs Strategy offers a good basis for moving forward on the Strategy for Growth and Jobs ahead of the Spring European Council 2006.

The report's analysis of the National Reform Programmes is mostly in line with the findings of this Economic Outlook. They provide good analyses of the challenges each country faces but are not ambitious as regards concrete information on when, how and by whom reforms will be carried out. European business therefore urges for an update of the Programmes as soon as possible with more details on announced reforms.

As for reforms at EU level, most of the Lisbon policy priorities put forward by the Commission are supported by European business. However, tangible results of recent EU activities are still thin on the ground, in particular the creation of an internal market for services, better regulation, or completion of the Doha Development Agenda. The Spring Council must find ways to drive the issues forward.

For the Spring European Council, the Commission has identified four areas in which the EU and Member States should move forward in partnership by end-2007. It is vital that heads of state and government focus them on the right priorities:

<u>Knowledge and innovation:</u> more knowledge will only result in more growth and jobs if the knowledge is brought to market. Better conditions for innovation must be created by facilitating public-private partnerships and by modernising state aid policy. At EU level, the programmes to support research and innovation (Competitiveness and Innovation Framework Programme and 7th Framework Programme) must be maintained in spite of lower funding than originally hoped for.

<u>Unlocking business potential:</u> fostering the creation and growth of innovative SMEs is the best recipe for jobs. Therefore the EU and Member States must build on their recent better regulation initiatives and foster an entrepreneurial mindset in Europe.

<u>Responding to globalisation and ageing:</u> social systems in Europe must be made financially sustainable and more employment-friendly.

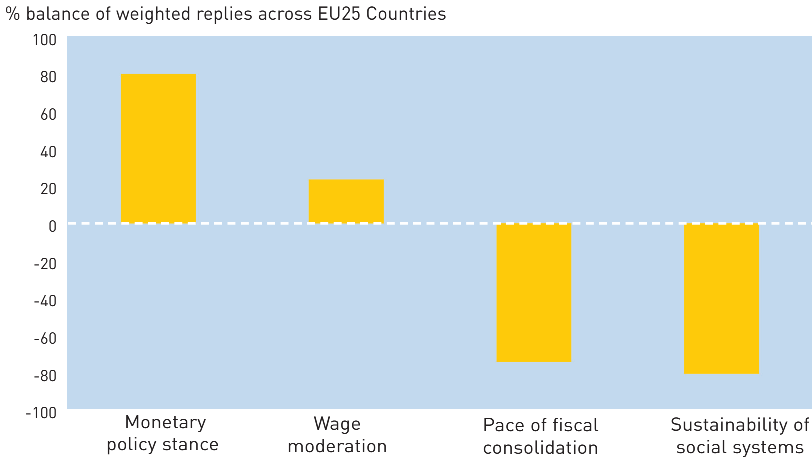
<u>Efficient energy market:</u> member states must liberalise national markets. The EU must define a new European energy model, reconciling the promotion of sustainable development with the preservation of European competitiveness. To secure its future energy supply, Europe must speak with one voice internationally.

ECONOMIC STABILITY AND LONG-TERM SUSTAINABILITY

A sound and predictable macroeconomic environment is a precondition for high growth and job creation. It is in such context that firms have most incentives to invest, innovate, hire and train their staff. It is also in this context that adequate level of savings are mobilised to finance a balanced economic expansion.

For that purpose, macroeconomic and wage policies have to be credibly committed to delivering stable and sustainable economic conditions. This entails sound fiscal objectives, allowing the full effect of automatic stabilisers, prudent wage-setting and a credible central bank inflation target.

Chart 7 **Macroeconomic conditions for long-term growth**



Source: *UNICE survey Spring 2006*

On these fronts, the business community acknowledges that Europe has been over the last decade a pole of economic stability. At European level, inflation was contained at relatively low levels while the amplitude of the most recent business cycle has been fairly limited, both during the upturn in the late 1990s and during the subsequent slowdown (see also Box A: "Is monetary union delivering the promised stability?"). On this basis, the assertion that inappropriate macroeconomic policies could be responsible for the current low growth regime in Europe appears largely unfounded.

However, UNICE is deeply concerned by the long-term sustainability of public finances and social systems. A rapidly ageing population is posing immense and imminent policy challenges, to which most EU countries appear inadequately prepared. At present, fiscal consolidation measures remain largely insufficient to consolidate public debt and social systems are unsustainable in their current form. Only Ireland, the Netherlands, Poland and Slovenia consider that the pace of reform of social systems is adequate.

This lack of preparedness is weighing on investment decisions and affecting households confidence and willingness to spend. A consistent and timely policy response to ageing, combining sound medium-term fiscal objectives and significant steps towards modernising social systems could be an important contribution to restore confidence in long-term prospects in Europe.

KNOWLEDGE, INNOVATION AND BUSINESS ENVIRONMENT

Coherent innovation polices combined with well functioning and competitive markets are probably the most important factors contributing to high sustainable growth. Unfortunately, Europe has suffered in the past from a large deficit on these fronts.

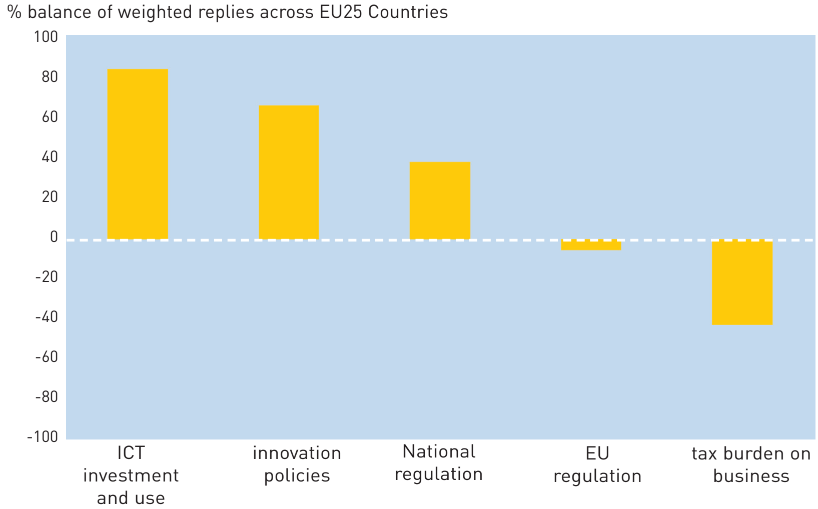
Regarding innovation, general framework conditions such as financial or regulatory incentives do not sufficiently support research efforts across Europe. Since the start of the Lisbon strategy in 2000, investment in R&D has stagnated, and still amounts to less than 2% of GDP for the EU as a whole. As a result, Europe lags significantly behind other developed economies such as the US or Japan, which bears on competitiveness and the capacity to absorb new technologies.

Moreover, the diffusion of Information and Communication Technologies (ICT) remains insufficient, in particular in the services sector. This relates to under-investment in ICT but also to regulatory constraints and barriers to entrepreneurship which prevents the efficient adoption of technologies.

This has proved to be a major handicap over the last decade and is a fundamental factor explaining the productivity growth gap between Europe and US over that period. Europe needs to become more competitive at innovation. This should be a key policy priority with promise of important growth and jobs dividends.

Our survey reveals that businesses are relatively hopeful that national and Community initiatives towards research and innovation are going in the right direction. In particular, the efficiency of innovation policies is generally expected to improve in the coming years, while the impact of ICT on productivity should also become more visible.

Chart 8 **Evolution of the business environment in coming years**



Source: *UNICE survey Spring 2006*

Another vital aspect of a comprehensive growth and jobs policy is to create a more conducive business environment and to encourage private initiatives and entrepreneurship. Firms are eager to grow, to develop their activities on new markets, and hire staff to build up their production capacities. This natural inclination has to be encouraged with better regulation and minimum disincentives from taxation.

In this regard, the regulatory burden for enterprises is expected to improve in some countries but will continue to hinder competitiveness, particularly in Germany, Spain, Portugal and UK. In the meantime, the tax burden on business continues to develop negatively and is reported as an important factor reducing the attractiveness of Europe as a business location.

Microeconomic policies that promote innovation and entrepreneurship will have to intensify in the environment of rapid technological changes and increased global competition for high value added activities. Restoring high productivity growth is an essential condition for the survival of Europe's social model in the face of demographic ageing.

BOX C:
RESEARCH AND INNOVATION: WHAT'S NEW IN THE AHO REPORT?

In December 2005, European heads of state again confirmed the need for a substantial enhancement of the EU's research effort led by the Seventh Framework Programme. The expert group set up at the request of the Hampton Court summit under Mr Aho has now provided a strategy to facilitate an innovative Europe which places innovation-friendly markets at its core.

The core recommendations of the Aho group are that a Pact for Research and Innovation is needed to drive the agenda for an Innovative Europe.

This pact advocates the need for Europe to provide an innovation-friendly market for business which combining large scale strategic action in areas such as e-health, pharmaceuticals, energy, environment, transport and logistics, security, and digital content. The Aho group also identifies increasing resources for excellent science, industrial R&D and the science-industry nexus and greater mobility in human resources in financial terms and in organisation and knowledge terms.

Leading markets, straightforward regulation, and better use of public procurement and standards will encourage the flow of knowledge towards value creation. By offering greater attention to quality, excellence and mobility, Europe can persuade the best minds to come and remain here, confident that they will have the resources they need to make a difference which can in turn can only contribute to achieving the Lisbon goals.

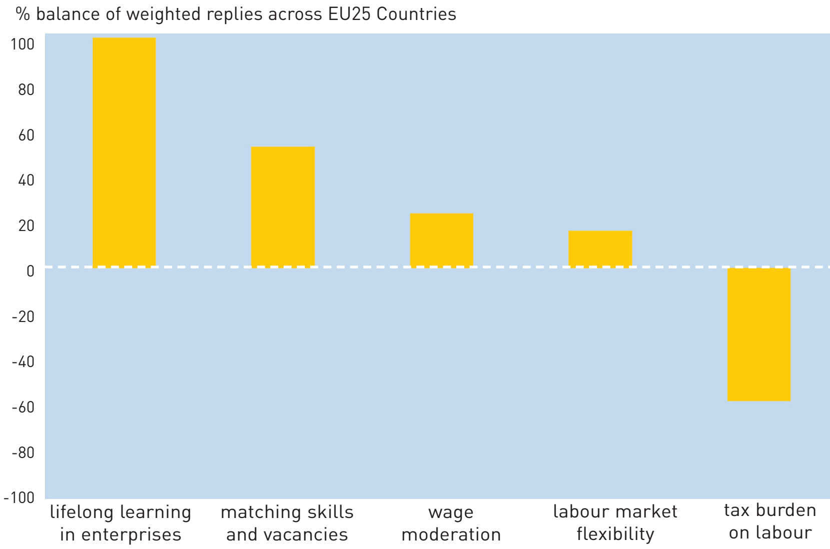
UNICE fully endorses the need for urgent and more coherent action at European level and by member states. Europe needs more R&D, the contributing conditions of which, as explained by Mr Aho, depend on creating a culture of innovation supported by a greater sense of purpose and strategic direction which is primarily the responsibility of member-state governments.

LABOUR MARKETS AND HUMAN CAPITAL

Unemployment is the leading preoccupation for many European citizens. In countries where it is particularly high, it magnifies concerns about the effects of globalisation, enlargement or demographic ageing and generates negative responses to change. Progress towards reducing unemployment would be a crucial signal that Europe is more able to tackle these challenges and this would activate significantly stronger domestic growth momentum.

European labour markets are slowly improving but continue to suffer from fundamental drawbacks, as is visible in the coexistence of skills shortages and high unemployment. Moreover, the pressure on labour market institutions is increasing over time, as technological progress and heightened international competition bring about important relocation of resources between sectors and areas.

Chart 9 **Evolution of labour markets in coming years**



Source: *UNICE survey Spring 2006*

Overall, our survey suggests that the matching of labour market needs should improve in coming years, though countries such as Spain, Austria, Finland or Greece consider that it will remain unchanged and inadequate. Further progress on this front is essential and will determine to a large extent Europe's ability to remain competitive in the face of rapid economic changes.

Reforms will need to concentrate on enhanced work incentives, better training and efficient job-finding assistance, more flexible labour regulations and contained labour costs, especially for low-skilled work.

Regarding incentives, social benefit systems need to be designed so that they provide adequate income support while not discouraging work. In this respect, unemployment benefits should be linked to job-search efforts and gradually phase out over time to prevent long-term unemployment traps. Important barriers to labour mobility will also need to be removed at both national and EU-wide level.

More flexible employment regulations would contribute to raise labour demand especially in small and medium-sized enterprises. Measures to enhance flexibility are reported in a number of countries but have mainly concentrated on short-term and part-time contracts. Addressing the need for more flexible regulations for regular employment contracts would be an important step in the right direction, and would prevent the development of two-tier labour markets. In response to increased flexibility, workers should be empowered with the right skills and professional competences. In this regard, UNICE notices a positive trend towards increased lifelong learning in enterprises, which contribute to raise human capital for firms and increase workers security through enhanced employability.

Finally, measures to contain labour costs and keep them in line with medium-term productivity developments are an important component of a comprehensive employment strategy. This policy has already paid off over the last decade, with a combination of moderate wage growth and targeted reductions in labour taxes for low-skilled workers contributing to a gradual rise in the employment rate.

On these aspects, the business community generally expect that responsible wage-setting will continue over the next two years. This is an essential condition to see further improvements in European labour markets. Beyond wage costs, excessive labour taxation is having a considerably negative effect on employment, reducing the incentive for firms to hire and for people to work. At the current juncture, most UNICE federations report that the tax burden on labour will continue to hamper employment and competitiveness in the future.

ANNEX
COUNTRY RESULTS

COUNTRIES

AT	Austria
BE	Belgium
CY	Cyprus
CZ	Czech Republic
DK	Denmark
EE	Estonia
FI	Finland
FR	France
DE	Germany
GR	Greece
HU	Hungary
IE	Ireland
IT	Italy
LV	Latvia
LT	Lithuania
LU	Luxembourg
MT	Malta
NL	Netherlands
NO	Norway
PL	Poland
PT	Portugal
SK	Slovak Republic
SI	Slovenia
ES	Spain
SE	Sweden
UK	United Kingdom

UNICE
THE VOICE OF BUSINESS IN EUROPE

UNICE ECONOMIC OUTLOOK SPRING 2006

MAIN FORECASTS	BE	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	EU-12
2005													
Real GDP (%)	1,4	0,9	3,5	3,4	1,6	4,5	0,2	3,0	0,8	1,9	0,3	1,5	1,4
Inflation (%)	2,5	2,0	3,5	3,4	1,8	2,2	2,2	2,6	1,5	2,3	2,1	0,8	2,2
Unemployment rate	8,4	10,0	10,4	9,0	10,0	4,3	7,8	4,6	6,5	5,2	7,4	8,3	8,9
Employment (%)	0,7	-0,1	1,2	3,1	0,1	4,7	0,5	2,9	-0,5	1,3	0,1	1,4	0,6
Nominal wage (%)													2,0
GDP 2005 components													
Private consumption (%)	1,2	0,0	3,2	4,4	2,1	5,5	1,1	na	0,3	1,5	1,8	2,9	1,5
Public consumption (%)	1,8	-0,4	2,5	4,8	1,5	3,2	0,8	na	na	1,3	1,1	1,5	1,3
Gross fixed capital formation (%)	5,2	-0,3	1,0	7,1	3,1	9,0	-0,6	na	0,3	0,9	-3,1	-0,1	1,6
Exports (%)	2,2	6,2	5,0	0,5	3,4	2,0	0,4	na	5,3	2,6	1,8	4,5	3,3
Imports (%)	2,8	5,0	0,7	7,2	5,9	3,0	2,5	na	4,3	1,5	2,4	5,5	4,6
2006													
Real GDP (%)	2,0	1,7	3,6	3,2	1,9	5,3	1,3	4,0	2,5	2,3	0,8	3,6	2,0
Inflation (%)	1,8	1,8	3,1	3,2	1,8	2,3	2,2	2,8	1,0	1,8	2,5	1,5	2,1
Unemployment rate	8,4	9,7	10,0	8,5	9,4	4,3	7,6	4,7	5,8	5,3	7,7	8,0	8,5
Employment (%)	0,6	0,7	1,3	2,7	0,5	3,0	0,9	2,7	1,3	0,8	0,6	0,8	1,0
Nominal wage (%)													2,2
GDP 2006 components													
Private consumption (%)	2,3	0,3	3,3	3,7	1,9	6,0	1,2	na	1,3	1,9	1,2	2,7	1,6
Public consumption (%)	2,1	0,3	1,2	5,0	1,9	3,7	0,8	na	na	1,0	0,7	2,1	1,6
Gross fixed capital formation (%)	0,2	2,3	5,4	5,7	2,8	4,8	2,1	na	8,3	3,1	-1,1	4,5	3,1
Exports (%)	4,2	7,0	6,8	2,4	5,7	5,0	3,2	na	7,0	4,9	4,0	7,0	5,2
Imports (%)	3,9	5,0	4,9	6,8	5,1	4,8	3,0	na	7,0	4,5	2,8	6,0	4,9
2007													
Real GDP (%)	2,2	1,0	3,6	3,0	1,5	5,0	1,2	na	2,6	2,2	1,0	3,1	1,7
Inflation (%)	1,6	2,0	3,0	2,9	1,6	2,1	2,0	na	1,8	1,6	2,3	1,8	2,0
Unemployment rate	8,3	9,6	9,8	8,3	9,3	4,3	7,4	na	5,5	5,3	7,7	7,7	8,4
Employment (%)	0,6	0,5	1,3	2,5	0,3	2,5	1,1	na	1,6	0,8	0,9	0,3	1,0
Nominal wage (%)													2,0
GDP 2007 components													
Private consumption (%)	2,3	-0,1	3,1	3,4	1,9	6,5	1,1	na	1,0	1,8	1,1	2,6	1,4
Public consumption (%)	2,0	0,5	1,1	4,2	1,5	4,0	0,5	na	na	0,5	0,4	2,1	1,4
Gross fixed capital formation (%)	3,0	2,0	6,5	5,2	2,3	3,5	1,8	na	7,5	3,0	-0,8	5,0	2,9
Exports (%)	4,7	6,0	7,3	2,6	4,2	4,7	2,7	na	7,0	4,7	5,2	4,9	4,5
Imports (%)	5,0	6,0	6,0	6,3	4,2	4,9	2,9	na	7,0	4,3	3,2	5,2	4,9

ECONOMIC SENTIMENT	BE	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	EU-12
Question 1	**Trend in business climate over the next 6 months**												**Ind Ser**
Positive		Ind Ser	Ind	Ind	Ser	Ser	Ind Ser	Ser	Ind Ser	Ind Ser	Ind Ser	Ind	73 80
Negative													0 0
Unchanged	Ind Ser		Ser	Ser	Ind	Ind		Ind				Ser	27 20
Question 2	**Trend in profitability over the next 6 months**												**Ind Ser**
Positive		Ind Ser				Ser	Ind Ser	Ser	Ind Ser	Ind Ser		Ind Ser	56 58
Negative	Ind												4 0
Unchanged	Ser		Ind Ser	Ind Ser	Ind Ser	Ind		Ind			Ind Ser		40 42
Question 3	**Trend in investment over the next 6 months (compared with last 12 months)**												**Ind Ser**
Increase (faster pace)	Ser	Ind Ser	Ind Ser			Ser	Ser		Ind Ser	Ind Ser			39 63
Increase (lower pace)	Ind			Ser			Ind	Ser				Ind Ser	24 14
Unchanged				Ind	Ind Ser	Ind		Ind			Ind Ser		37 24
Decrease (slower pace)													0 0
Decrease (faster pace)													0 0
Question 4	**Driving force behind investment decisions in the next six months**												**U / S / D**
Replacement	Down	Same	Up	na	Same	Same	Up	Same	Same	Up	Same	Up	30/66/4
Extension	Same	Up	na	na	na	Same	Same	Same	Up	Same	Same	Same	51/49/0
Rationalisation	Up	Same	na	na	Same	Up	Up	Up	Same	Same	Same	Same	28/72/0
Innovation	Up	Up	na	na	Same	Up	Up	Up	Up	Up	Up	Same	73/27/0
Question 5	**Trend in consumer confidence over the next six months**												
Positive	yes	yes			yes	yes	yes		yes	yes			81
Negative			yes										3
Unchanged				yes				yes			yes	yes	16
Question 6	**Employment trends in industry and services**												**U / S / D**
Ind: past 6 mnths	Same	Down	Same	Up	Down	Down	Up	Same	Down	Same	Same	Same	31/14/56
Ind: next 6 mnths	Same	Up	Same	Same	Down	Down	Same	Same	Same	Same	Same	Up	29/48/23
Ser. past 6 mnths	Same	Up	Same	Up	Up	Up	Same	Up	Up	Up	Same	Up	72/28/0
Ser. next 6 mnths	Up	Up	Up	Same	Up	Up	Up	Up	Up	Up	Same	Up	86/14/0
Question 7	**Compared to 6 months ago, SME's cost/access to capital for business development**												**C A**
Higher/more difficult		C		C		C				C		C	45 0
Same	C A	A	C A	A	C A	A	C	C A	C	A	C A	A	55 75
Lower/less difficult							A		A				0 25

MAIN RISKS	BE	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	EU-12
Question 8	**Above which level of dollar /euro will the European economy be significantly hurt?**												
Dollar per euro	1,30	1,30	1,20	1,40	1,10	1,40	1,30	na	1,30	1,35	na	1,35	
Question 9	**According to you where will the dollar / euro stand in October 2006 ?**												
Dollar per euro	1,15	1,30	1,20	1,30	na	1,27	1,22	na	1,20	1,25	1,20	1,25	
Question 10	**How many GDP points could your economy lose (after 2 years) as a result of a 50 basis point increase in short-term interest rates?**												
GDP	na	0,20	0,15	0,20	na	0,20	0,35	na	na	0,00	na	0,20	

	DK	SE	UK	EU-15	CZ	EE	CY	LV	LT	HU	MT	PL	SI	SK	EU	NO
	3,1	2,6	1,7	1,5	5,0	8,5	4,1	9,8	7,3	4,5	1,7	3,2	3,9	5,1	1,7	2,4
	1,7	0,8	2,1	2,1	2,0	4,0	2,1	6,8	2,7	3,6	2,5	2,1	2,5	2,8	2,2	1,6
	4,9	6,3	4,7	8,1	7,9	8,5	3,8	9,0	8,6	7,3	7,9	17,6	6,1	16,3	8,9	4,6
	0,8	0,7	0,7	0,7	0,9	1,3	1,0	2,6	1,4	na	na	1,0	0,7	na	0,7	0,6
				2,4											2,6	
	4,2	2,5	1,8	1,6	2,3	8,0	4,5	na	na	3,5	3,2	2,1	3,6	na	1,7	4,2
	1,2	0,1	1,8	1,3	-0,6	7,0	na	na	na	-1,5	-1,1	2,0	2,5	na	1,3	1,7
	4,1	8,5	2,9	2,1	2,8	9,0	4,5	na	na	8,0	8,3	5,0	-0,2	na	2,3	8,8
	10,0	5,5	3,5	3,3	9,5	16,5	5,2	na	na	11,0	-3,6	15,3	8,6	na	4,1	0,4
	11,0	6,4	4,0	4,4	3,9	13,0	na	na	na	8,0	3,5	11,0	6,0	na	4,7	7,0
	2,6	3,1	2,2	2,1	4,9	7,5	4,2	9,0	6,5	4,5	1,1	4,3	4,0	5,5	2,3	3,2
	2,1	1,1	2,1	2,1	2,9	3,0	2,2	6,0	2,8	1,8	na	1,9	2,5	4,3	2,1	2,0
	4,0	5,5	4,7	7,7	7,4	8,0	3,7	8,9	7,8	7,1	na	16,8	5,8	15,6	8,5	3,8
	0,8	0,9	0,4	0,9	0,4	0,7	1,0	2,0	1,5	na	na	1,0	0,5	na	0,9	1,5
				2,6											2,8	
	3,5	3,1	2,0	1,7	3,5	7,0	4,2	na	na	3,7	na	3,7	3,1	na	1,9	3,3
	0,5	1,9	2,9	1,8	-0,2	7,0	na	na	na	0,5	na	2,0	2,4	na	1,7	3,0
	6,0	2,0	3,9	3,3	3,4	7,0	5,2	na	na	7,5	na	10,0	4,0	na	3,6	4,0
	4,3	6,0	4,1	4,9	10,2	14,0	5,8	na	na	9,0	na	10,0	7,8	na	5,3	2,0
	5,9	6,0	4,7	4,8	8,8	12,0	na	na	na	10,0	na	10,0	6,5	na	5,2	5,5
	1,9	2,2	2,5	1,9	4,9	7,0	4,2	9,0	6,0	4,0	1,1	4,7	4,0	6,3	2,1	2,5
	1,7	1,5	1,9	2,0	2,4	3,0	2,1	5,5	2,7	2,2	na	2,2	2,4	na	2,0	2,3
	3,7	5,6	4,6	7,6	7,0	7,5	3,6	8,5	7,2	7,5	na	16,0	5,6	na	8,2	3,7
	0,4	0,2	0,9	0,9	0,8	0,5	1,0	2,0	1,5	na	na	3,0	0,5	na	1,1	0,8
				2,5											2,6	
	2,7	2,1	2,2	1,6	3,0	6,0	4,1	na	na	3,5	na	3,5	3,1	na	1,7	3,0
	0,5	1,6	2,8	1,6	0,0	6,0	na	na	na	-2,5	na	2,0	2,6	na	1,5	2,7
	2,7	1,0	3,1	2,9	3,5	7,0	5,1	na	na	7,0	na	12,0	4,8	na	3,3	-1,0
	4,2	5,0	4,2	4,4	9,8	12,0	5,6	na	na	12,0	na	8,0	8,1	na	4,8	2,5
	4,7	4,5	4,1	4,7	8,9	11,0	na	na	na	8,0	na	12,0	7,3	na	5,1	4,0

	DK	SE	UK	EU-15	CZ	EE	CY	LV	LT	HU	MT	PL	SI	SK	EU	NO
				Ind Ser											**Ind Ser**	
		Ind Ser	Ser	60 83	Ind Ser	Ser	Ind Ser	Ind Ser	Ser			Ind Ser	Ind Ser	Ind Ser	62 83	Ind Ser
			Ind	17 0											15 0	
	Ind Ser			23 17		Ind			Ind	Ind Ser	Ind				23 17	
				Ind Ser											**Ind Ser**	
		Ser	Ser	45 65	Ind Ser			Ind Ser		Ind Ser		Ind Ser	Ind Ser	Ind Ser	49 68	Ser
			Ind	20 0					Ind		Ind Ser				18 0	
	Ind Ser	Ind		36 35		Ind Ser	Ind Ser		Ser						33 32	Ind
				Ind Ser											**Ind Ser**	
	Ind Ser			32 51	Ind Ser		Ind Ser		Ser			Ind Ser	Ind	Ind Ser	36 53	
	Ind Ser	Ind Ser	Ser	23 32		Ind			Ind	Ind Ser					23 30	Ind Ser
				29 19		Ser		Ind Ser					Ser		27 18	
			Ind	17 0											15 0	
				0 0											0 0	
				U / S / D											**U / S / D**	
	na	Up	Up	45/52/3	Same	Same	Same	Up	Up	na	na	Up	Up	Up	47/50/3	Same
	na	Same	Down	37/39/24	Same	Up	Up	Same	Up	na	na	Up	Up	Up	41/38/22	Up
	na	Up	Up	44/56/0	Up	Up	Same	Same	Up	na	na	Same	Up	Up	44/56/0	Same
	na	Same	Same	57/43/0	Up	Same	Up	Up	Up	na	na	Same	Up	Same	55/45/0	Same
		yes		67	yes	yes		yes		yes		yes		yes	69	
			yes	19							yes		yes		18	
	yes			14			yes		yes						14	yes
				U / S / D											**U / S / D**	
	Down	Down	Down	24/11/65	Up	Down	Same	Up	Same	Down	Down	Down	Down	Up	25/10/65	Same
	Same	Down	Down	23/40/37	Up	Down	Same	Up	Up	Same	Same	Same	Down	Up	24/42/34	Up
	Up	Up	Up	78/22/0	Up	Up	Same	Up	Down	Same	Up	Down	Up	Up	75/21/4	Up
	Up	Up	Up	89/11/0	Up	Same	Same	Up	Up	Up	Same	Up	Up	Up	88/11/0	Up
				C A											**C A**	
	C	C		40 0		C		C A							37 0	C
	A	A	C A	60 80	C A	A	C		C	C				C	59 75	A
				0 20			A		A	A		C A	C A	A	4 24	

	DK	SE	UK	EU-15	CZ	EE	CY	LV	LT	HU	MT	PL	SI	SK	EU	NO
	na	1,30	na		na	na	na	1,40	1,40	na	na	na	na	na		na
	1,21	1,15	na		na	na	1,23	1,20	1,20	na	na	na	na	na		na
	na	0,20	0,50		0,20	na	na	0,55	na	1,00	na	na	na	na		0,45

COMPETITIVENESS SURVEY	BE	DE	GR	ES	F	IE	IT	LU	NL	AT	PT	FI	EU-12	
Question 11	Over the last year, reforms aiming at raising growth potential and implementing national action plans have been:													
Faster than foreseen													0	
Adequate													0	
Slower than foreseen	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	100	
Non existent													0	
Question 12	How do you assess the new National Reform Programmes?													
Ambitious							yes						19	
Satisfactory		yes			yes				yes				54	
Lacks new initiatives	yes		yes	yes		yes		yes		yes	yes	yes	27	
Disappointing													0	
Question 13	Relative to labour productivity growth, how will real labour cost develop over the next two years?												Ind	Ser
Faster and gap widening						Ind Ser		Ind		Ind Ser			5	5
Faster but gap narrowing			Ind Ser								Ser		3	5
Same	Ind Ser				Ind Ser			Ser			Ind	Ser	27	27
Slower but gap narrowing		Ind Ser		Ser			Ind Ser		Ind Ser			Ind	54	64
Slower but gap widening				Ind									12	0
Question 14	As regards of their impact on competitiveness, taxes on business and labour are:												Lab	Bus
Improving	Lab							Lab	Bus	Lab Bus		Lab Bus	9	11
Expected to improve	Bus		Bus		Bus		Lab						19	27
Not changing					Lab	Lab Bus	Bus		Lab				29	20
Expected to deteriorate								Bus					0	0
Deteriorating		Lab Bus	Lab	Lab Bus							Lab Bus		44	41
Question 15	The matching between job vacancies and job-seekers is:													
Improving													0	
Expected to improve		yes			yes		yes				yes		69	
Not changing but adecuate													0	
Not changing and inadecuate	yes		yes	yes		yes		yes	yes	yes			29	
Expected to deteriorate												yes	2	
Deteriorating													0	
Question 16	The importance of lifelong learning in enterprises is:													
Increasing	yes		yes				yes					yes	28	
Expected to increase		yes		yes	yes	yes			yes		yes		72	
Not changing but adecuate								yes					0	
Not changing and inadecuate													0	
Expected to deteriorate													0	
Deteriorating													0	
Question 17	Labour market flexibility is:													
Improving							yes						19	
Expected to improve	yes		yes		yes				yes	yes			36	
Not changing but adecuate						yes							2	
Not changing and inadecuate		yes		yes				yes			yes	yes	43	
Expected to deteriorate													0	
Deteriorating													0	
Question 18	The pace of reforms to social security systems is:													
Faster than needed													0	
Adequate						yes			yes				7	
Slower than needed	yes	yes	yes	yes	yes		yes	yes		yes	yes	yes	93	
Non existent but not needed													0	
Non existent and needed													0	
Question 19	The efficiency of research and innovation policies is:													
Improving										yes			3	
Expected to improve	yes	yes		yes	yes	yes	yes	yes	yes		yes		93	
Not changing but adecuate												yes	2	
Not changing and inadecuate			yes										3	
Expected to deteriorate													0	
Deteriorating													0	
Question 20	The impact of ICT investment and use is:												Ind	Ser
Increasing		Ind Ser	Ind Ser			Ind Ser			Ind Ser		Ser	Ind Ser	58	62
Expected to increase							Ind Ser	Ind Ser			Ind		32	29
Not changing	Ind Ser									Ind Ser			10	10
Expected to decrease													0	0
Decreasing													0	0
Question 21	As regards of their impact on competitiveness, business regulations are:												Nat	EU
Improving	Nat						Nat EU		Nat				28	20
Expected to improve		Nat EU	Nat EU		Nat	Nat EU		Nat			Nat EU		55	35
Not changing				Nat EU	EU			EU	EU	EU		Nat EU	14	46
Expected to deteriorate										Nat			3	0
Deteriorating													0	0

POLICY MIX	BE	DE	GR	ES	F	IE	IT	LU	NL	AT	PT	FI	EU-12
Question 22	Fiscal policy: Pace of fiscal consolidation												
Faster than needed													0
Adequate						yes			yes			yes	9
Slower than needed	yes	yes	yes	yes	yes		yes	yes		yes	yes		91
Non existent but not needed													0
Non existent and needed													0
Question 23	Monetary policy (ECB policy for the euro area members)												
Tight but appropriate for eurozone													0
Tight													0
Appropriate	yes	yes	yes		yes		yes	yes	yes	yes	yes	yes	87
Loose													0
Loose but appropriate for eurozone				yes		yes							13
Question 24	Consistency between the fiscal and the monetary policies												
Adequate	yes							yes	yes	yes	yes		15
Unadequate		yes	yes	yes	yes	yes	yes					yes	85

	DK	SE	UK	EU-15	CZ	EE	CY	LV	LT	HU	MT	PL	SI	SK	EU	NO
				0											0	
				0	yes		yes							yes	3	
			yes	96				yes	yes	yes	yes	yes	yes		93	
	yes	yes		4		yes									4	
				15		yes						yes	yes		18	
				43	yes		yes	yes	yes					yes	42	
	yes	yes	yes	42						yes	yes				40	
				0											0	
r				Ind Ser											Ind Ser	
	Ser			4 5	Ind Ser	Ser									5 7	
	Ser		Ser	2 22				Ind Ser	Ind Ser			Ind Ser		Ind Ser	7 26	Ind
7	Ind	Ind Ser		26 24		Ind				Ser					23 23	Ser
4				42 50			Ind Ser								39 46	
			Ind	26 0						Ind					25 0	
us				Lab Bus											Lab Bus	
1				7 8	Bus			Bus						Bus	6 10	
7				15 22	Lab		Bus	Lab	Lab				Lab		16 20	
0	Lab Bus	Lab Bus		27 20		Lab	Lab			Bus	Lab Bus	Lab Bus		Lab	29 24	
			Lab Bus	17 17		Bus			Bus				Bus		15 16	Lab Bus
1			Lab Bus	52 49						Lab					48 45	
				0	yes							yes			6	
			yes	73				yes	yes		yes			yes	68	
				0											0	yes
		yes		26		yes	yes			yes			yes		25	
				1											1	
				0											0	
				22	yes							yes			26	
			yes	75		yes		yes	yes					yes	69	yes
		yes		3			yes			yes					4	
				0							yes		yes		0	
				0											0	
				0											0	
				18								yes			21	
				35	yes									yes	34	
	yes			3		yes	yes	yes		yes					5	
		yes		44					yes		yes		yes		40	yes
				0											0	
				0											0	
				0											0	
				6								yes	yes		10	
			yes	90	yes	yes	yes	yes	yes	yes	yes			yes	87	
				0											0	
	yes	yes		4											4	
				2	yes			yes							4	
				73		yes	yes		yes			yes	yes	yes	72	yes
		yes		4											4	
	yes		yes	21						yes	yes				20	
				0											0	
				0											0	
r				Ind Ser											Ind Ser	
2			Ind Ser	66 68	Ind Ser			Ind Ser	Ind Ser	Ind Ser	Ind Ser	Ind Ser			69 71	Ind Ser
9			Ind Ser	47 44		Ind Ser	Ser							Ind Ser	42 40	
0		Ind Ser		11 11			Ind								10 9	
				0 0											0 0	
				0 0											0 0	
J				Nat EU											Nat EU	
0				22 15						Nat		Nat			26 14	
5				44 27	Nat EU	Nat EU			EU	EU	Nat EU	EU	Nat EU		42 33	
6	Nat	Nat EU		15 38			Nat EU	Nat						Nat	14 35	
				2 0				EU	Nat					EU	2 1	Nat EU
	EU		Nat EU	17 19											15 17	
	DK	SE	UK	EU-15	CZ	EE	CY	LV	LT	HU	MT	PL	SI	SK	EU	NO
				0											0	
		yes		10	yes		yes	yes	yes		yes		yes	yes	13	
			yes	89											81	yes
	yes			2		yes									2	
				0						yes		yes			5	
				0											0	
				0											0	
	yes	yes	yes	89	yes		yes	yes	yes	yes	yes	yes	yes	yes	90	yes
				0											0	
				11		yes									10	
		yes	yes	31	yes	yes	yes	yes	yes		yes		yes	yes	32	
	yes			69						yes		yes			68	yes

UNICE

THE VOICE OF BUSINESS IN EUROPE

Austria	Belgium	Cyprus	Czech Republic	Denmark	Denmark
Estonia	Finland	France	Germany	Germany	Greece
Hungary	Iceland	Iceland	Ireland	Italy	Lithuania
Luxembourg	Malta	Norway	Poland	Portugal	Portugal
Spain	Sweden	Switzerland	Switzerland	The Netherlands	Turkey
Turkey	United Kingdom	Bulgaria	Croatia	Latvia	Rep.of San Marino
Romania	Slovak Republic	Slovenia			

168 AVENUE DE CORTENBERGH 1000 BRUSSELS BELGIUM

T +32 (0)2 237 65 11 F +32 (0)2 231 14 45 MAIN@UNICE.BE

WWW.UNICE.ORG