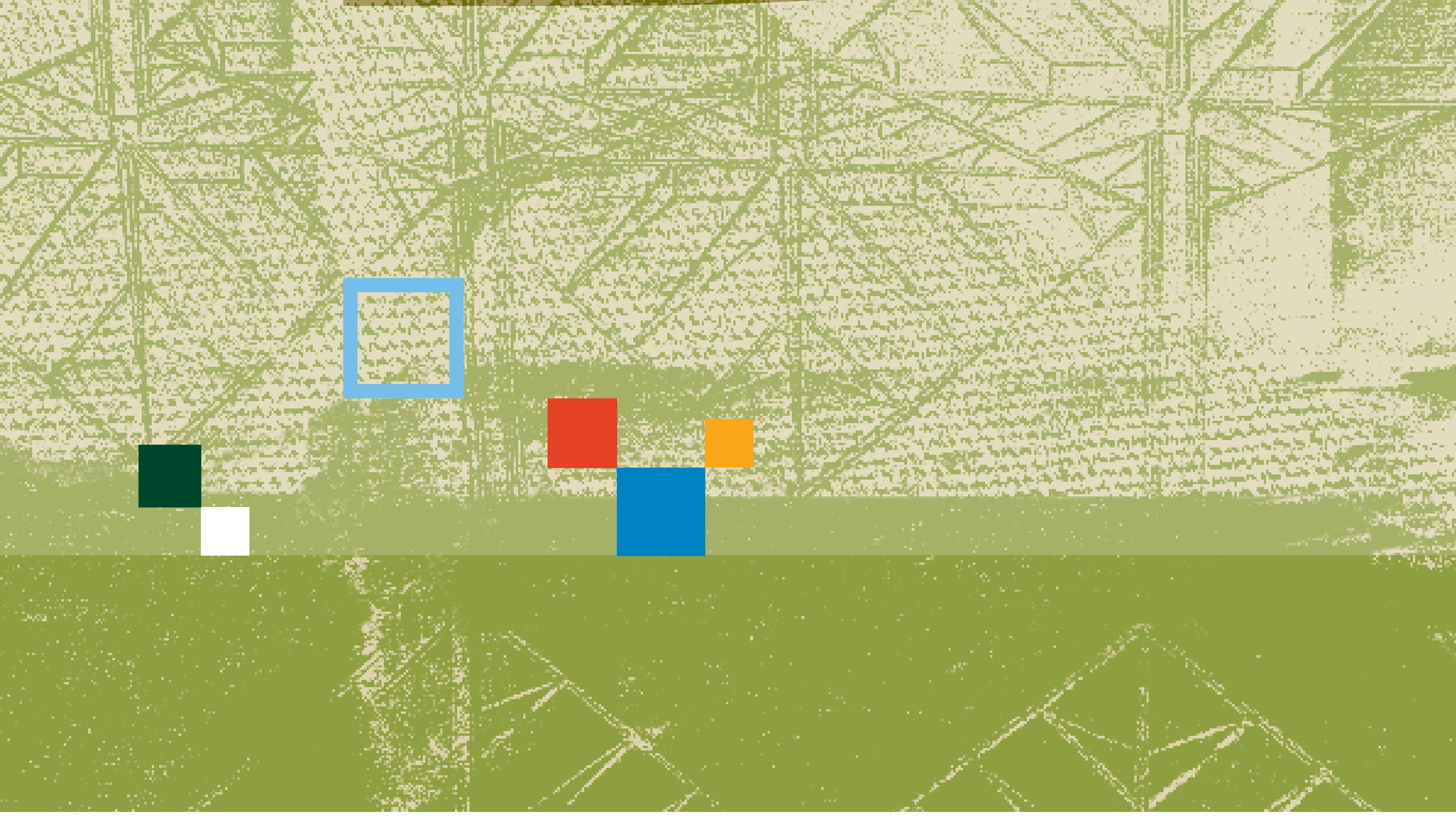
BUSINESSEUROPE

EUROPEAN REFORM BAROMETER

Autumn 2007

National Reform Progress in 2007

More needed to sustain confidence in EU outlook



WHO ARE WE?

BUSINESSEUROPE's members are 39 central industrial and employers' federations from 33 countries, working together to achieve growth and competitiveness in Europe.

BUSINESSEUROPE, the Confederation of European Business, represents more than 20 million small, medium and large companies.

WHAT IS THE EUROPEAN REFORM BAROMETER?

The European Reform Barometer provides a comprehensive review of structural reform across the 27 EU member states based on a survey of BUSINESSEUROPE's national member federations. This report presents recommendations to member states and European institutions in the context of the EU Lisbon strategy for growth and jobs.

Detailed survey results and member states' reform assessments are published on our website www.businesseurope.eu

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Table 1 Assessment of reform progress in 2007[1]
Source: BUSINESSEUROPE Autumn 2007 Reform Barometer

unsatisfactory | neither satisfactory nor unsatisfactory | satisfactory
0.25 | 0.5 | 0.75

	Overall national reform progress	Labour market	Public finances	Innovation and research	Business environment
BE	0.51	0.56	0.38	0.58	0.40
BG	0.43	0.28	0.75	0.33	0.48
CZ	0.46	0.50	0.50	0.25	0.59
DK	0.54	0.36	0.57	0.67	0.70
DE	0.42	0.34	0.50	0.43	0.45
EE	0.43	0.38	0.25	0.60	0.55
IE	0.73	0.69	0.93*	0.75	0.65
GR	0.57	0.56	0.63	0.56	0.53
ES	0.44	0.47	0.38	0.50	0.46
FR	0.60	0.59	0.50	0.67	0.64
IT	0.32	0.29	0.40	0.32	0.32
CY	0.63	0.70	0.61	0.49	0.67
LV	0.56	0.55	0.50	0.72	0.68
LT	0.48	0.43	0.64	0.51	0.46
LU	0.58	0.51	0.61	0.75	0.58
HU	0.52	0.39	0.65	0.65	0.54
MT	0.72	0.75	0.89*	0.76	0.56
NL	0.63	0.49	0.75	0.75	0.67
AT	0.57	0.59	0.50	0.71	0.52
PL	0.46	0.45	0.25	0.68	0.46
PT	0.54	0.41	0.75	0.63	0.51
SI	0.59	0.61	0.49	0.39	0.75
SK	0.41	0.34	0.39	0.58	0.37
FI	0.50	0.41	0.40	0.75	0.67
SE	0.60	0.46	0.84*	0.75	0.65
UK	0.52	0.60	0.25	0.55	0.52
euro area	0.48	0.45	0.49	0.55	0.51
EU-27	0.49	0.47	0.46	0.56	0.52
NO	0.44	0.44	0.60	0.40	0.33

1 Scores in the table are based on the assessment of BUSINESSEUROPE's federations in seventeen individual policy areas, weighted by the level of priority given to each area

* Progress in public finance reforms is close to "excellent" in Ireland, Malta and Sweden

BACKGROUND

Companies are creating more jobs than ever in the past...

The pace of economic transformation in Europe has been remarkable over recent years, pushed forward by faster globalisation, new technological frontiers and an increasingly interconnected EU economy following recent enlargements and the dynamics created by monetary union.

European companies have adapted well to these profound changes and have been able to drive a remarkable turnaround in EU labour markets. By the end of 2008, it is expected that around 17 million jobs will have been created since 2000 (see chart 1) pushing the employment rate up from 62% to 66% over the same period.

A large part of this employment revival has occurred during the recent economic upturn, which coincided fortuitously with the re-launch of the Lisbon strategy for growth and jobs in 2005. Assuming a direct link between recent more positive employment trends and the renewed Lisbon strategy would overstate reality, but improvements in the EU agenda for economic reforms over the last three years cannot be denied.

Chart 1
EU employment and GDP levels 2000 - 2008
Source: BUSINESSEUROPE based on Eurostat

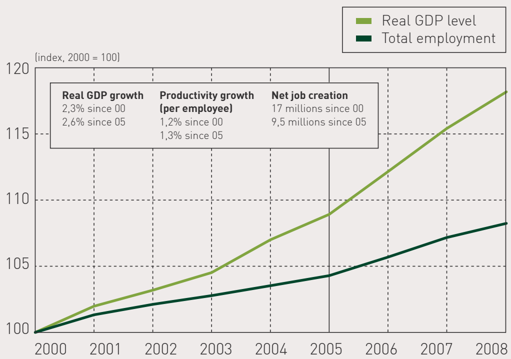
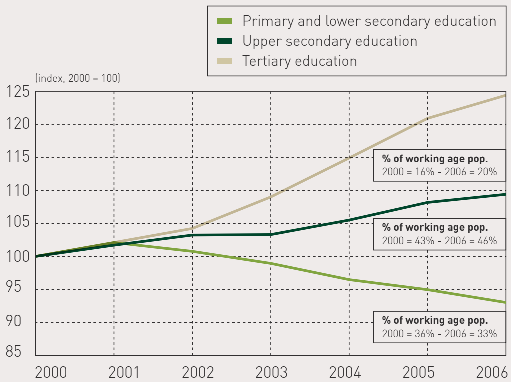


Chart 2
Employment demand by educational attainment levels
Source: BUSINESSEUROPE based on Eurostat



The revamped Lisbon strategy has delivered results...

At Community level, EU policies have tended to focus more on the overarching objectives of growth and jobs since 2005. For instance, regional policy, the second largest expenditure item in the EU budget, is now earmarked to a significant extent towards competitiveness-enhancing measures. Increasing attention paid to innovation, education, better regulation and the need to modernise the internal market are other signs of a collective understanding of the challenges faced by the EU in the 21st century.

Regarding EU-wide coordination of national reforms, new instruments decided in 2005 such as the obligation for each country to draw up a National Reform Programme and implement a set of Country-Specific Recommendations collectively endorsed by the European Council have been significant steps in the right direction. These instruments provide much better benchmarks to assess actual reform progress across EU member states.

However, major drawbacks such as a lack of ownership and appropriate peer pressure still prevent the Lisbon strategy from delivering more significant results at the national level and from fostering deeper reforms in areas where progress is most needed.

Necessary reforms cannot remain unchecked in a more uncertain environment...

Policy challenges in the EU remain daunting. At the peak of the present business cycle, EU labour productivity growth barely reached 1.5%, which is only slightly above the weak average record since 2000 (see chart 1). Moreover, rapidly changing employment needs (see chart 2) are not suitably matched by the adaptation of available skills, and growing competitiveness divergences across member states are becoming an important source of concern, in particular among countries sharing the euro[2].

The urgent need to remove these obstacles cannot be overstated. The global economic environment has become significantly more challenging for European companies since mid-2007, particularly in view of disorderly exchange rate movements, financial market turmoil, record high oil prices and prospects of a slowing global economy. The resilience of European growth over the medium term will only be guaranteed by a continuous process of adaptation.

KEY RESULTS OF BUSINESSEUROPE'S AUTUMN 2007 SURVEY

Robust growth not sufficiently exploited to advance the reform agenda in 2007...

Reform initiatives are reported to have been taken in virtually all member states in 2007, but with varying levels of commitment and implementation records. Overall, the business community considers that the opportunities offered by still robust economic growth in 2007 were left largely untapped (see chart 3).

In this regard, we note that a number of fast-growing economies, such as Bulgaria, Estonia and Slovakia, and to a lesser extent Spain, Poland, Czech Republic, Lithuania and Norway, have registered overall reform progress somewhat below the EU average.

In Germany, despite an ongoing economic revival, reforms in 2007 were significantly below expectations and increasing political pressure to dilute essential parts of the "Agenda 2010" for reform are a rising source of discomfort, especially with regard to the pension system and unemployment benefit systems.

All considered, Italy scores the worst mark in our autumn survey, notably due to the worrisome state of public finances and lack of progress in improving work incentives, establishing a closer link between the education system and business needs and improving framework conditions for innovation. Its continued weak growth performance in 2007 is adding to concerns over medium-term prospects.

In France, the new government has received a cautious vote of confidence for some of its policy efforts in recent months, particularly its measures to improve vocational training and tax incentives for research and investment in SMEs. However, 2008 budget plans are disappointing and the government has yet to put in place important elements of its campaign programme to unlock business development and foster a supply-side economic recovery in France.

2 For an analysis of specific reform challenges for euro-area countries see the recent BUSINESSEUROPE publication *Fit with the Euro*, May 2007

Chart 3 Overall reform progress in 2007 and GDP growth estimates
Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey and Autumn Economic Outlook

		2007 annual GDP growth		
		Below EU average	Close to EU average	Above EU average
Reform progress in 2007	Above EU average	France, Denmark Hungary	Malta, Netherlands Sweden, Austria	Ireland, Cyprus, Slovenia Luxembourg, Greece, Latvia
	Close to EU average	Portugal	United Kingdom Belgium	Finland, Lithuania Czech Republic Poland, Norway
	Below EU average	Italy	Germany	Spain, Bulgaria Estonia, Slovakia

Countries like Hungary and Denmark have also made above-average reform progress despite a relatively weak economic performance in 2007. In a more favourable growth environment, Sweden, the Netherlands and Ireland have managed to bring about more significant progress than their European partners. This is also the case for the UK, although to a lesser extent. As part of their efforts linked to euro-area membership, Slovenia, Cyprus and Malta continue to make relatively good reform progress.

Finally, taking the thirteen euro-area countries together, BUSINESSEUROPE sees that only limited improvements have been achieved in 2007 to adjust national policies to the requirement of euro-area membership. Common priorities for those countries are notably to foster higher labour-market flexibility and to ensure faster fiscal consolidation in good times.

Ownership and implementation are the main challenges for the Lisbon strategy...

The limited reform progress achieved in 2007, in an otherwise favourable economic environment, does not reflect a misunderstanding of priorities and challenges - which are well identified - but insufficient delivery on agreed commitments.

In fact, most of our national business federations consider that the Country-Specific Recommendations issued by the European Council in spring 2007 covered the main areas of reform for their countries and should be left broadly untouched in 2008 (see chart 4). However, when asked how these recommendations have been followed up and implemented in 2007, nearly all federations report that progress was slower than expected (see chart 5).

It obviously flows on from these results that:

1. A thorough re-discussion of Lisbon objectives and framework instruments such as the integrated guidelines for growth and jobs would not make a significant contribution but would rather divert attention from real progress on the ground.

2. The top priority for the Lisbon strategy looking forward is to address the implementation gap at national level, keeping countries focused on a small set of objectives and exerting adequate pressure when progress fails to match commitments.

Chart 4 Is an update of the Council's Country-Specific Recommendations needed in 2008?
Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey

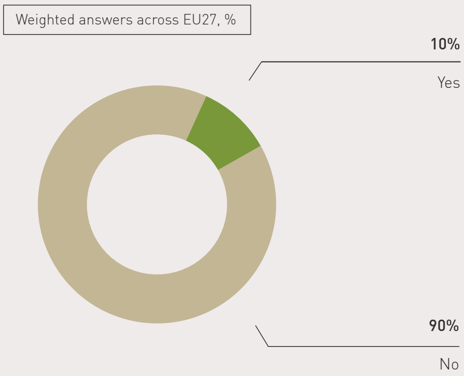
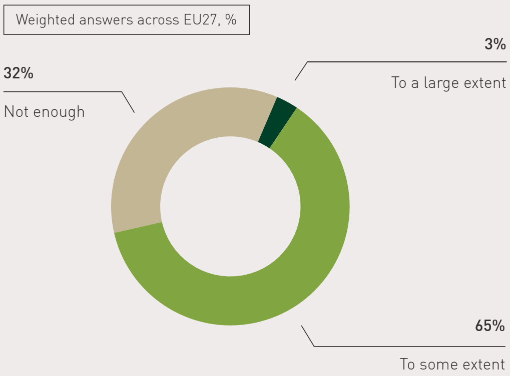


Chart 5 Were Country-Specific Recommendations implemented in 2007?
Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey



Labour-market reforms and sustainable public finances remain the highest priorities…

In the survey, business federations across Europe were asked to rank reform priorities from a list of seventeen policy areas and to assess progress made in the course of 2007 by their governments in these various fields.

In order of importance, the major areas for reform remain those aimed at fostering (i) more incentives to work, (ii) sounder budgetary policies, (iii) more effective activation strategies for unemployment, (iv) better education and training systems and (v) sustainable social systems.

In those priority fields, our survey indicates that progress in 2007 was, if anything, slower than average (see chart 6). This illustrates that governments' tendency to shy away from the more difficult reforms has not yet been overcome and the Lisbon strategy must clearly be reinforced in this domain.

Unlocking European labour markets in the framework of flexicurity…

Implementing the so-called flexicurity approach might help remove stumbling blocks to labour market reforms, promoting a growth-enhancing balance between competitiveness and flexibility on the one hand, and social protection and security on the other.

Flexicurity emphasises the importance of synergies between flexible labour regulations, lifelong learning policies, modern social protection and activation strategies. This approach seems conducive both from a conceptual and practical point of view, and should make transitions on the labour market more rewarding and hence more acceptable.

The agreement reached by Social Partners in October 2007[3] on a common definition of flexicurity and on recommendations to EU institutions and member states will help to promote the concept and should be considered an opportunity to reinforce the consistency and ownership for an EU-wide agenda for labour-market reforms.

3 BUSINESSEUROPE, CEEP, ETUC/CES, UEAPME, *Key Challenges Facing European Labour Markets: A Joint Analysis of European Social Partners*, October 2007. Available on www.businesseurope.be

Chart 6 Assessment of reform progress in top five priority areas – EU27

Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey

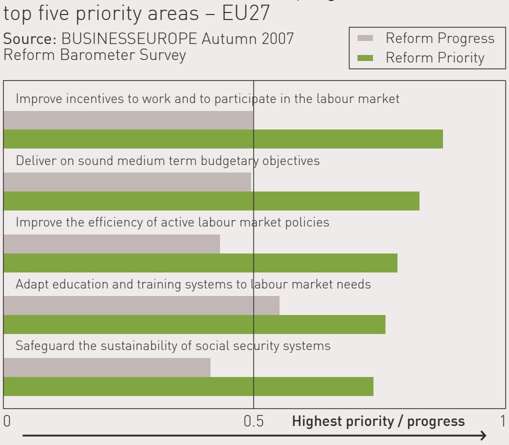
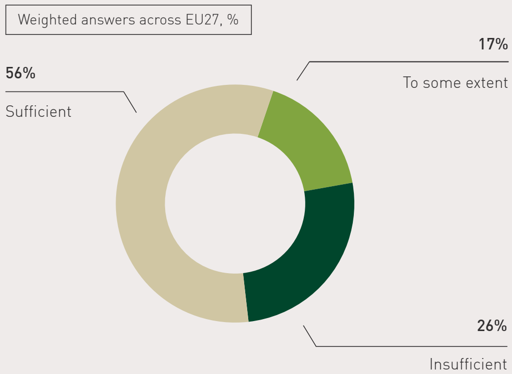


Chart 7 Involvement of business federations in national debate on reform implementation

Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey



The business community can help and should be appropriately involved...

BUSINESSEUROPE is fully committed to the Lisbon strategy for growth and jobs and its member federations are active in stimulating national debates to ensure actual reform implementation. However, the institutional set-up in which these debates occur varies greatly across countries.

Our survey shows that some business federations consider their involvement in discussions around national reform programmes to be sufficient in a number of cases, but inadequate in countries like Germany, Slovenia, Czech Republic or Poland (see chart 7).

More effective implementation of reform commitments under the Lisbon strategy requires a higher level of ownership at the national level, which will only be achieved if there is a broad debate with policy stakeholders.

KEY RECOMMENDATIONS
TO EU INSTITUTIONS AND MEMBER STATES

➜ Member states: discuss reforms and implement them

Ambitious National Reform Programmes must be submitted to EU institutions with clear targets and defined time schedules. Effective progress in the priority areas identified within the agreed Country-Specific Recommendations must be delivered. In this process, governments should foster a broad debate involving social partners and national parliaments, both when preparing reform programmes and when assessing their actual implementation. The role and influence of the national Lisbon coordination needs to be strengthened in a number of member states.

➜ European Commission: live up to high expectations

The Commission must make the best of existing Lisbon instruments, focusing particularly on the follow-up to National Reform Programmes and Country-Specific Recommendations. The Commission must keep a vigilant eye on reform progress, avoid complacency, and exert its right of alert when policies are inconsistent with commitments. It should also continue to develop and further improve quantitative instruments to measure reform progress and implementation in a transparent and consistent way. The Commission must set and pursue an ambitious and coherent Community Lisbon programme, fully exploiting synergies and complementarities between policy instruments.

➜ European Council: foster ownership of the Lisbon strategy

The European Council should stimulate in-depth discussions on ways to improve ownership of the Lisbon strategy at the national level and ensure strict enforcement of agreed rules and commitments. The Council should agree for the last coordination cycle of the Lisbon strategy to make minimal changes to framework instruments like the integrated guidelines and step up the pressure on member states to deliver on agreed Country-Specific Recommendations.

➜ Eurogroup: a higher level of responsibility for those sharing the euro

The specific nature of economic interactions among countries sharing the single currency should be better reflected in the Lisbon strategy, implying a higher degree of collective responsibility and commitment for those sharing the single currency. The eurogroup must help promote sustainable levels of competitiveness across euro-area countries by identifying appropriate reforms and raising awareness and through peer pressure. Moreover, a strong representation of the euro area at the global level is also warranted to ensure its influence is commensurate with its economic weight.

POLICY AREAS

- LABOUR MARKET
- PUBLIC FINANCE AND SOCIAL SYSTEMS
- INNOVATION AND RESEARCH
- BUSINESS ENVIRONMENT

LABOUR MARKET

Whereas this Reform Barometer demonstrates that labour-market reforms remain an absolute priority in the EU, progress in this area appears more difficult to achieve than in other fields.

However, the picture is changing across countries. Progress towards better functioning labour markets have stalled in 2007 in countries like Italy, Hungary, Bulgaria and Slovakia, where the employment rate remains significantly below the 70% Lisbon target (see chart 8). In Germany, Portugal, Estonia or Finland efforts are also considered to be below EU averages, although with somewhat higher employment rates. Sweden and Denmark have already reached the 70% employment target but are not viewed to be taking the necessary steps to face remaining labour market challenges.

Other countries have made more significant progress in 2007, including the UK, Austria, France or Belgium, although from different initial conditions. The best scores in labour-market reforms are reported in Malta, Cyprus, Ireland and Slovenia.

In terms of policy areas, our survey shows a guarded appraisal of recent improvements in the fields of active labour-market policies, labour regulation flexibility, and tax and benefit systems to enhance work incentives and ensure employment-friendly labour costs (see chart 9). Progress in making education and training systems more responsive to labour-market needs is assessed more positively, but remains a very important priority in view of the growing mismatch between supply of and demand for skills.

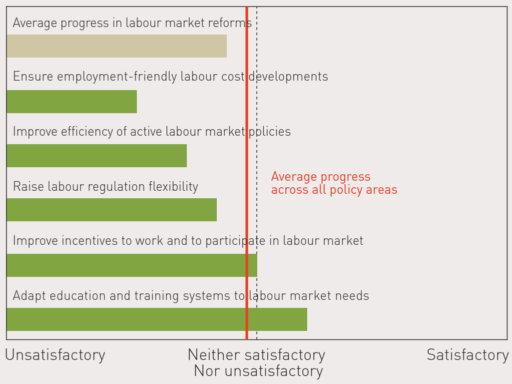
Chart 8 Overall progress in labour market reforms in 2007 and distance to employment rate targets

Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey and Eurostat for employment rates

Reform progress in 2007	Employment rates 2006 (% of total labour force): Below EU average	Close to EU average (> 65%, < 70%)	Above EU average
Above EU average	Malta France Greece Belgium	Cyprus Ireland Slovenia Latvia	United Kingdom Austria
Close to EU average	Luxembourg Spain Poland Lithuania	Czech Republic	Netherlands Sweden Norway
Below EU average	Hungary Slovakia Italy Bulgaria	Finland Portugal Estonia Germany	Denmark

Chart 9
Reform progress in individual labour market areas

Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey



PUBLIC FINANCE AND SOCIAL SYSTEMS

Strong GDP growth in 2007 has not translated into a significant and decisive improvement towards sustainable public finances in most EU countries. On average, progress has been unsatisfactory. The United Kingdom, Belgium, Poland and Estonia show particularly slow progress in 2007 (see chart 10).

The diversity of developments across EU countries also needs to be viewed against the background of varying levels of public expenditure as a percentage of GDP. For instance, while the state is already significantly leaner in Ireland, reform progress has continued in 2007. However, countries like Italy and France still witness government expenditures of more than 50% of GDP have hardly accelerated their reforms in 2007.

Public finances have also been identified as one of the most important reform areas in Germany and Spain. In Germany, the impressive reduction in the budget deficit over the last two years has relied excessively on fiscal revenues and the reform of the German pension system has been tackled only hesitantly.

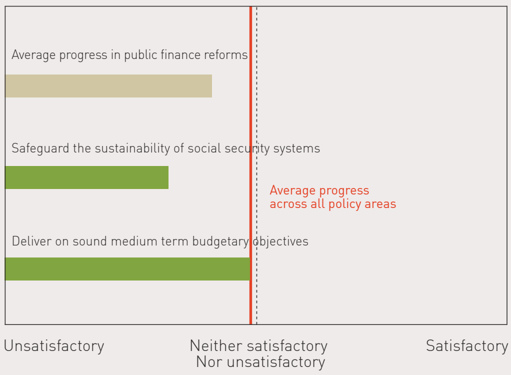
Some countries have been able to attain satisfactory results, though, with for instance Malta making active progress in 2007 and Sweden having a good overall situation.

Regarding policy areas, progress towards sound medium-term budgetary objectives is considered insufficient but measures to safeguard the sustainability of social security systems fare even worse, and are amongst the areas registering the least progress in 2007 (see chart 11).

Chart 10 Overall progress in public finance reforms in 2007 and level of government expenditure
Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey and Eurostat for public expenditure

Reform progress in 2007	2006 government expenditure (% of GDP): Above EU average	Close to EU average (> 45%, < 49%)	Below EU average
Above EU average	Sweden, Hungary, Denmark	Netherlands, Portugal	Ireland, Malta, Bulgaria, Lithuania, Greece, Luxembourg, Cyprus, Norway
Close to EU average	France, Italy	Germany, Austria, Slovenia, Finland	Czech Republic, Latvia, Slovakia, Spain
Below EU average		Belgium, United Kingdom	Estonia, Poland

Chart 11
Reform progress in individual public finance areas
Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey



INNOVATION AND RESEARCH

Above-average progress has been achieved in reforms to stimulate innovation during 2007. However, the overall assessment still emphasises the room for improvement. The distribution of progress across countries and policy areas is also diverse.

Countries that have the highest level of R&D expenditure as a percentage of GDP have tended to pursue reforms at a faster pace in 2007. France, Denmark, Austria, Finland and Sweden are good examples in this regard (see chart 12). However, there appears to be a catching-up dynamics also at play in this area, with six EU countries (four new member states) characterised by particularly low R&D expenditure levels, having experienced above average reform progress in 2007.

In terms of policy areas, whereas improvements in framework conditions for innovation and the research environment are more positive, the spread and effective use of ICT is given lower grades, on average (see chart 13). According to our member federations, policies aimed at maximising the positive spill-over effects of ICT use are lagging behind. The links between public research facilities and the private sector, the adequacy of education systems and the legislative environment, for instance in the area of bio-sciences, are often quoted as factors still hampering the capacity to bring forward innovation.

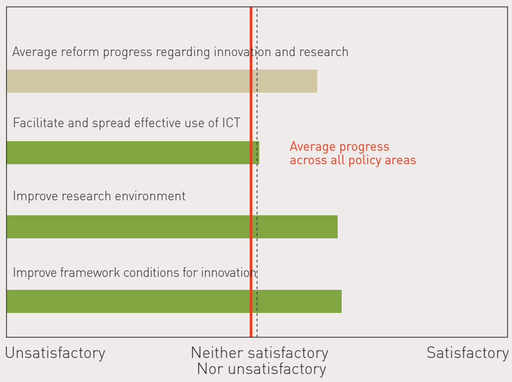
Chart 12 Overall progress in research and innovation reforms in 2007 and level of R&D spending

Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey and Eurostat for R&D expenditure

Reform progress in 2007	2006 R&D expenditure (% of GDP)		
	Below EU average	Close to EU average (> 1% and < 2%)	Above EU average
Above EU average	Malta Latvia Poland Portugal	Netherlands Luxembourg Ireland Hungary	Sweden Finland Austria Denmark France
Close to EU average	Slovakia Greece Lithuania Cyprus	Estonia Bulgaria United Kingdom Spain	
Below EU average	Bulgaria	Norway Slovenia Italy Czech Republic	Germany

Chart 13 Reform progress in individual innovation and research policy areas

Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey



BUSINESS ENVIRONMENT

Reform progress regarding the business environment has been noticeable in 2007, but again with important differences across countries.

Some EU Member States that are assessed by the World Bank's "Doing Business" indicator to have the most favourable business environment were seen to have made more significant reform progress in this area in 2007, such as in the case of Denmark, Ireland, Finland, Sweden or Estonia (chart 14). Notable exceptions were Germany, Belgium and Norway, where progress in 2007 was more limited. Among the countries with a lower ranking in the World Bank report, Italy, Bulgaria and Poland also receive a more negative assessment on the implementation of measures geared towards a business-friendly environment.

Business federations in a number of countries with lower World Bank indicator scores, such as Luxembourg, Hungary, Czech Republic, Greece or Slovenia, gave a more favourable assessment of reforms undertaken in their countries in 2007. Some countries in the mid-field of the World Bank ranking such as the Netherlands, Latvia, Austria and France also perform above the EU average but others such as Spain and Slovakia were below average progress.

As regards progress in individual policy fields, better regulation is a priority area where satisfactory progress has been achieved in 2007 (see chart 15). Almost all member states have undertaken steps to implement better regulation action plans and targets. Yet, no single Member State receives an excellent mark. Targeted policies are not yet sufficiently developed to improve the environment for SME growth. Progress in the enforcement and implementation of internal market legislation is mixed, but low grades are noted in progress to liberalise energy markets and on removing tax obstacles to cross-border activities.

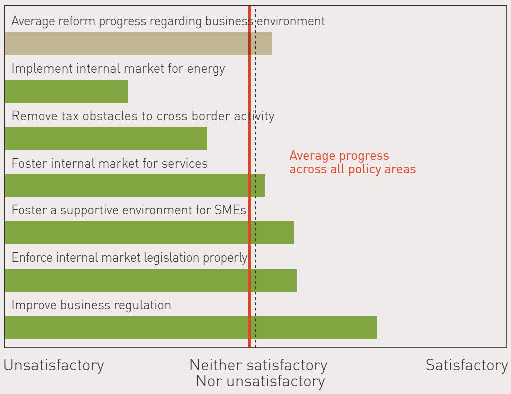
Chart 14 Overall progress in business environment reforms in 2007 and World Bank ranking

Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey and World Bank ("Doing Business 2008")

Reform progress in 2007	"Doing Business" indicator, World Bank Report: Below EU average	Close to EU average	Above EU average
Above EU average	Slovenia Czech Republic Luxembourg	Latvia Netherlands France	Denmark Finland Sweden Ireland Estonia
Close to EU average	Hungary Greece Bulgaria Poland	Austria Portugal Lithuania	United Kingdom
Below EU average	Italy	Spain Slovakia	Germany Belgium Norway

Chart 15 Reform progress in individual business environment areas

Source: BUSINESSEUROPE Autumn 2007 Reform Barometer Survey



BUSINESSEUROPE

MEMBERS ARE 39 LEADING
NATIONAL BUSINESS FEDERATIONS
IN 33 EUROPEAN COUNTRIES

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

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