BUSINESSEUROPE

EUROPEAN REFORM BAROMETER

SPRING 2008 UPDATE

THE LISBON STRATEGY AT THE DAWN OF A NEW CYCLE

Fulfilling the Lisbon Strategy goals: more than ever a priority

The world economy is facing an unprecedented level of uncertainty, with the US on the brink of recession, continued financial market turmoil, a weakening US dollar and rising inflation. Europe still has a good chance to keep growing at around 2% this year, but this will largely rest on an appropriate and proportionate policy response as well as confidence-building measures.

BUSINESSEUROPE warns that fiscal loosening and higher wage growth would be counterproductive and economically detrimental in current circumstances. A credible commitment towards fiscal sustainability and moderate wage settlements is vital to support private investment and job creation, and to provide the necessary room for central banks to react in a timely manner.

Hence, fast-track implementation of reforms seeking to reconcile employment and productivity, to support domestic demand and external competitiveness, is the most viable response in today's challenging environment. There has been a tendency recently to hold back on reform efforts or even back-track on past reforms. BUSINESSEUROPE deplores this tendency. Concrete actions must be decided to step up ownership and reinforce the incentives to deliver on agreed commitments.

What BUSINESSEUROPE wants to hear from the Spring Council is a simple message: ***"Implementation, implementation, implementation"!***

We ask:

Member States:

- *to present clear action plans, specifying targets and time schedules to deliver on Country-Specific Recommendations, and to spell out in coming months how flexicurity principles will be integrated in reform strategies.*
- *to raise the profile of the Lisbon Strategy in national policy debate, for instance by involving stakeholders more and at an earlier stage, by supporting a benchmarking culture and with better communication.*
- *to reaffirm their commitment to fiscal sustainability, in full coherence with the Stability and Growth Pact and with the pledge by euro-area Member States to balance their budgets by 2010.*

The European Council:

- *to increase peer pressure, avoid complacency – in particular towards larger EU Member States that too often lack decisive reform momentum – and to reinforce the role of the eurogroup in the governance of the Lisbon Strategy for euro-area countries.*

The Commission:

- *to improve benchmarking instruments and methods for evaluating reform priorities, and to keep a distance from national political considerations.*
- *to better link the implementation of EU policies at national level with the evaluation of Member States' reform progress, and in particular the appropriate use of EU cohesion funds and proper enforcement of internal market rules.*
- *to ensure that an ambitious Community Lisbon Programme, deepening the internal market, reducing red tape and empowering the knowledge-based economy, produces concrete results and reinforces the actions of Member States.*

National reforms – Business agrees with the Commission but warns against complacency

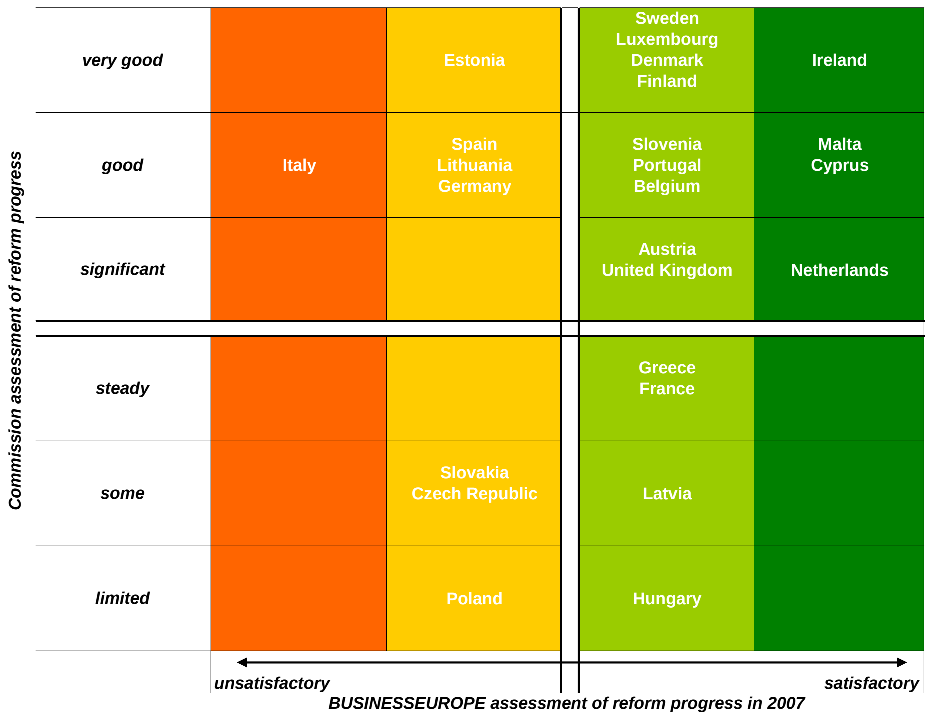
BUSINESSEUROPE published early December its Autumn European Reform Barometer which concluded on a list of recommendations for the forthcoming cycle 2008-2010 (http://www.businesseurope.eu). We are happy to see that a number of these recommendations were taken up during the preparation of the Spring Council, including the need to reconfirm Integrated Guidelines, ensure continuity in Country-Specific Recommendations, move forward with flexicurity and focus on reform implementation.

In recent weeks BUSINESSEUROPE has conducted a second survey among its member federations to assess the Commission proposals in more detail. Its results confirm the broad coherence between European businesses' and the Commission's assessment, although some discrepancies are also observed.

BUSINESSEUROPE agrees with the Commission on:

- the assessment of good "reformers" like Ireland, Malta, Cyprus or the Netherlands (see Figure 1).
- the assessment of larger central European Member States, where for instance Poland, Slovakia and the Czech Republic booked rather weak reform progress in 2007.
- the proposed Country-Specific Recommendations for 2008. A large majority of BUSINESSEUROPE's member federations considers these recommendations to correctly identify key policy priorities at the national level.

Figure 1: Comparison of reform progress assessments



Source: BUSINESSEUROPE Reform Barometer (Autumn 2007), European Commission (December 2007)

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<u>BUSINESSEUROPE differs from the Commission on</u>:

- Some Country-Specific Recommendations:

  For instance, our British federation CBI would have welcomed further emphasis on infrastructure needs, German federations BDI and BDA would have preferred clearer references to labour market reforms, and the Swedish federation SN would have called for decisive actions for reducing red tape, improving entrepreneurship and the business environment.

- Recent reform progress:
  - In a number of Member States.
    - Germany: business federations are deeply concerned that a somewhat improved economic environment and the electoral calendar in the run-up to the federal elections in 2009 are causing reform fatigue. Even back-tracking on past reforms, particularly in the area of labour market reforms, has become a realistic danger. Ongoing discussions on minimum wages in the absence of policies conducive to a more flexible labour market are counterproductive.
    - Italy: public finances remain under substantial strain, labour markets are still highly regulated and productivity levels remain low. Employers' high expectations regarding reform progress under the Prodi government have been disappointed.
    - but also in Spain, Estonia and Lithuania, where the Commission appears to have somewhat overstated reform efforts.
  - In Public finances:
    - The slow pace of public finance reforms is worrisome in many parts of the EU. Business regrets in particular that governments have relied to a large extent on substantial tax windfalls – a consequence of stronger than expected growth – rather than decisive cuts in expenditure.
    - In the context of an economic slowdown these tax gains will evaporate rapidly, leading to increasing deficits. The majority of Member States will therefore face severe difficulties to attain a balanced budget by 2010.
    - Business federations in countries accounting for more than 50% of EU GDP consider that the Commission assessment of budgetary reforms has been complacent (see Figure 2).

Figure 2: Commission assessment of public finance reforms has been too complacent in some cases