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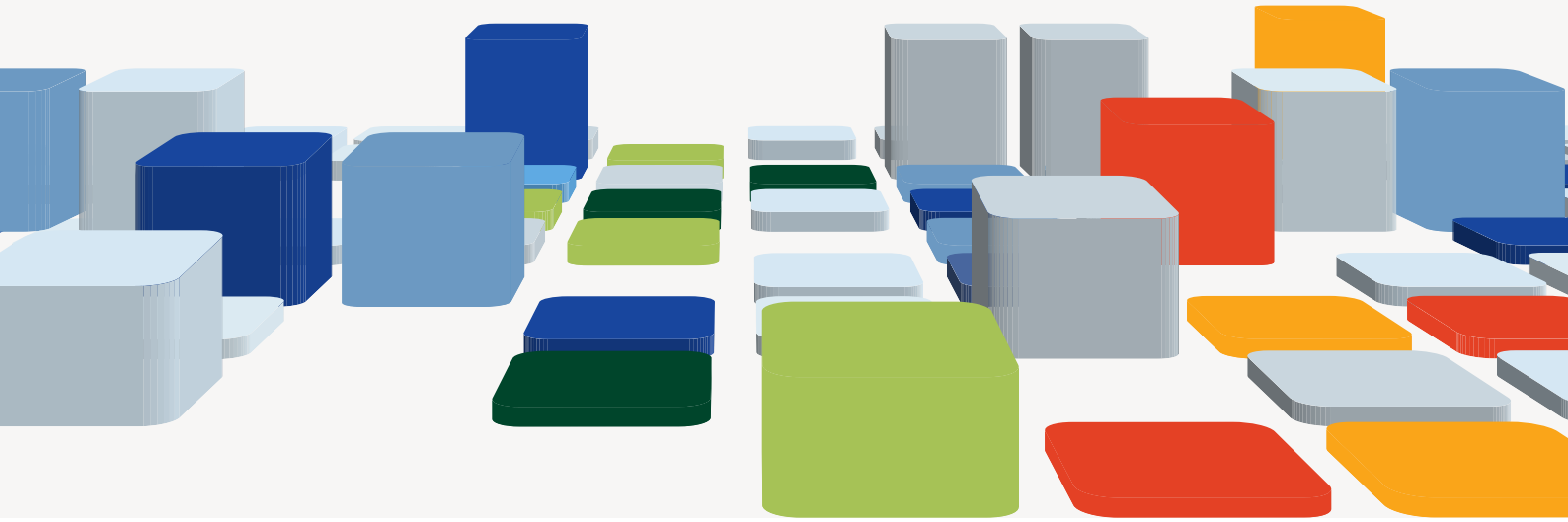
REFORM BAROMETER
SPRING 2015

STILL LACKING CONSISTENT REFORM ACROSS EUROPE



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Who are we?

BUSINESSEUROPE is the leading advocate for growth and competitiveness at European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for all-sized enterprises in 33 European countries whose national business federations are our direct members.

What is the Reform Barometer?

BUSINESSEUROPE's Reform Barometer looks at the global competitiveness performance of Europe on the basis of key indicators covering taxation and public finances, business environment, innovation and skills, access to finance and financial stability, and labour market. Based on a survey of BUSINESSEUROPE's Member Federations, the report evaluates the recommendations for structural reforms made under the European Semester, assesses progress in implementing them and identifies priorities for future reforms.

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Foreword

2014 was a year of political transition in the EU, with the election of a new European Parliament and appointment of a new European Commission. We are encouraged that the new Commission puts an increased focus on competitiveness, with its decision to focus as a first priority on increasing EU investment, a positive first step.

But returning EU investment to the levels needed to drive long-term growth will require fundamental improvements in the business environment. As we enter 2015, the economic recovery remains fragile, reflecting the fact that companies continue to lack the confidence to invest, and that access to finance remains constrained for many companies.

On the positive side, strong action by the ECB, lower oil prices and euro/dollar exchange rate and the European Commission's more flexible enforcement of the Stability and Growth Pact mean the EU, and the Euro-area in particular, now has a macroeconomic environment which is much more supportive of growth, at least in the short-term, than it has been in recent times.

But the more supportive macroeconomic policy environment will ultimately not help long-term growth if it becomes an excuse for leaders to avoid essential economic reforms either at EU or Member State level.

As part 1 of this document illustrates, in areas which are crucial for encouraging business investment and competitiveness, including the regulatory environment, taxation, innovation and energy prices, the EU and its Member States still have to address fundamental barriers. Delays in necessary reforms mean that we are losing ground with global competitors. In particular, the EU's failure to complete the digital single market is contributing to the EU losing the race to develop new, world-leading companies.

Part 2 draws on our Member Federations to provide a comprehensive assessment of implementation of the Council's Country-Specific Recommendations (CSRs). This year's survey reinforces our concerns that many Member States are failing to implement essential recommendations on labour market and product market reforms. Only 22% of recommendations have been followed by satisfactory implementation in the Member States according to our Member Federations.

As the experience of countries such as Ireland and Spain shows, where countries have undertaken reforms, the results can feed through to economic performance surprisingly quickly. In the long-term, making the right reforms delivers returns many times over through growth, prosperity and employment creation. **Let's make 2015 a year of implementation!**

Emma Marcegaglia
President

Markus J. Beyrer
Director General

Executive Summary

Overview: the EU is losing competitiveness in the global economy

While the EU is still occupied with the legacies of the crisis, and has made limited progress in improving its underlying competitiveness, other economies continue to press ahead:

- EU **output** remains 0.2% lower than its pre-crisis peak, whilst the US economy is already 8% higher than in 2008. During the same period, China has grown by 64% and the Indian economy by 48%.
- In the last 6 years, **5 million jobs have been lost in the EU**, compared to around 1 million jobs created in the US.
- The EU's share of worldwide **Foreign Direct Investment in flows** fell to 17% in 2013 compared to over 40% in 2000.

Urgent action is required to improve key competitiveness drivers

- The **overall tax burden** in the EU is over 50% higher than in the US and over 25% higher than in Japan. Member States need to continue **to progress towards fiscal sustainability**, focusing primarily on reductions in current public expenditure protecting investment, rather than tax rises.
- Cost of starting a business in the EU more than triples that of the US, while it takes businesses about twice as long to set up a company in the EU. All **regulation must be simplified and well designed, with minimum administrative burdens** in order to support business start-ups and companies' expansion. **Competitiveness proofing**, including an SME test, must become an integral part of ex-ante impact assessment for all legislative proposals.
- **Industrial energy prices** remain almost 2½ times higher than in the US despite the recent fall in oil prices, damaging competitiveness of companies operating in the EU. **Targets and measures to address the energy price differential with major competitors**, and to ensure energy security, should be introduced.
- **Education performance needs to be raised.** At present only 45% of EU adults aged over 25 participate in some sort of learning, compared to almost 60% in the US. Governments should prioritise ensuring Europeans of all ages have the knowledge and skills they need to succeed in labour markets. Governments should in particular address shortages in terms of science, technology, engineering, mathematics skills and boost work-based learning.
- Action is needed to ensure the EU fully exploits the benefits of the digital economy which could potentially **add more than €2 trillion to Europe's GDP by 2030**. The EU has underlying weaknesses in broadband investment which fell from €106 per person in 2008 to €90 in 2013, making the EU the only major economy that saw a decline in investment during this period.

- Businesses in the EU remain heavily reliant on the **banking** sector for funds, with stock market capitalisation less than 80% of GDP, compared to over 130% in the US. Increasingly stringent prudential regulation of banks continues to impact on **access to finance**, particularly in those countries most affected by the crisis. The EU needs to ensure that the proposed **Capital Markets Union** takes forward ambitious plans to reduce financial fragmentation in the EU and develop a genuine single market in financial services in order to improve alternatives to bank lending for EU companies.

- The average **tax wedge** on average income earners is almost 40% higher in the EU than in both the United States and Japan. The **tax burden on labour should be reduced** to foster job creation, in particular for young people, and make work more attractive for low-income earners, compared with welfare beneficiaries.

- To ensure **open, dynamic and mobile labour markets**, reforms focusing on stimulating job creation and employment participation, smoother labour market transitions, and better allocation of labour based on employers' needs must be implemented.

Member States must step up reform implementation

BUSINESSEUROPE's yearly survey of its member federations continues to reveal a **lack of consistent reform implementation, despite the right objectives for reform**:

- **90% of the Country-Specific Recommendations (CSRs) focus on the right reform objectives** (83% in 2013).

- However, only **22% of the CSRs assessed have been followed by satisfactory implementation**. A closer examination of the results reveals the following:

  - **Countries that were faced with greater difficulties as a result of the crisis have pushed forward reforms more forcefully than others in recent years.** In the case of Ireland and Portugal that have exited their assistance and adjustment programmes, assessment this year focuses on the implementation of new recommendations for long-term reform, hence implementation is more likely to be at an early stage.
  - **Several Member States improved their reform implementation,** notably **Italy where important reforms have also been taken forward outside the scope of the CSR framework**. Business federations in the **UK, Netherlands, Latvia and Estonia continue to be satisfied** with their country's reform efforts.
  - Some countries, including **Sweden and Finland**, that are traditionally very competitive, with strong growth and employment performance, **risk losing ground as a result of a failure to maintain a leading business environment**. **Hungary**'s reform implementation has fallen considerably.

- In terms of policy areas, reforms of the business environment and labour markets were on average the slowest in 2014, with the fastest progress in the area of innovation and skills.

A number of reforms need to be taken forward to strengthen the role of the European Semester in supporting structural reform. This should include steps to **improve implementation, ownership and coordination**.

Outline

PART 1
EU COMPETITIVENESS IN THE GLOBAL ECONOMY

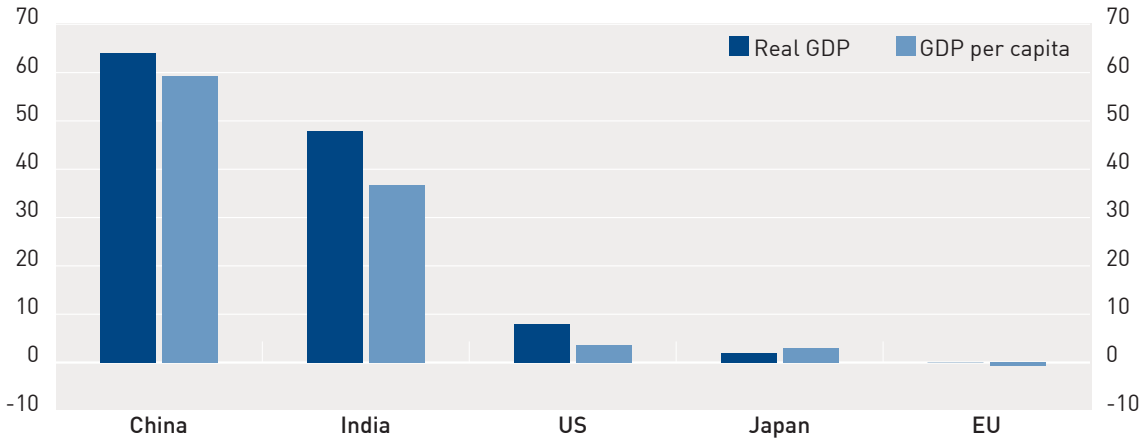
Introduction

The EU's economic recovery has once again failed to take off in 2014, with growth of just 1.3% compared to 2.4% in the US and 3.3% in the global economy.

While the EU is still occupied with the legacies of the crisis, other economies continue to press ahead (figure 1). US growth is already 8% higher than in 2008, and as a consequence, around 1 million new jobs have been created. In contrast, EU output is -0.2% lower than its pre-crisis peak, and it has lost about 5 million jobs. While the EU cannot be expected to match the growth rates of developing countries, the comparisons are nevertheless telling; since 2008, China's GDP has grown by 64% and India by 48%.

Figure 1 **EU output has fallen further behind global competitors**

Real and per capita GDP growth between 2008 and 2014, %

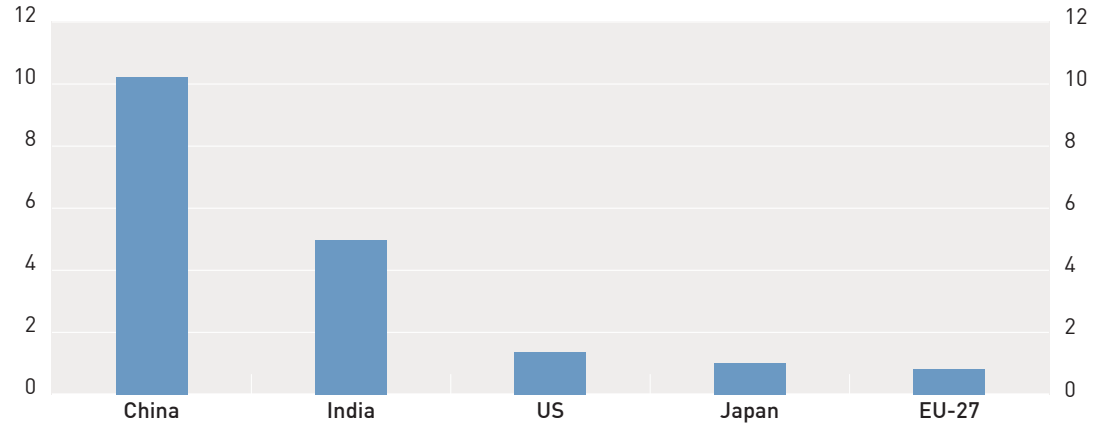


Source: BUSINESSEUROPE calculations based on IMF data and AMECO

Behind the strong Chinese and Indian growth depicted in figure 1, lie strong labour productivity gains, respectively as high as 10% and 5% annually over the last 12 years (figure 2). Whilst EU labour productivity is only slightly below the levels experienced in the US and Japan, productivity gains in the EU have arisen primarily through firms having to downsize.

Figure 2 **Significant improvements in global competitiveness in emerging markets**

Labour productivity per person employed, annual average % increase between 2001 and 2013

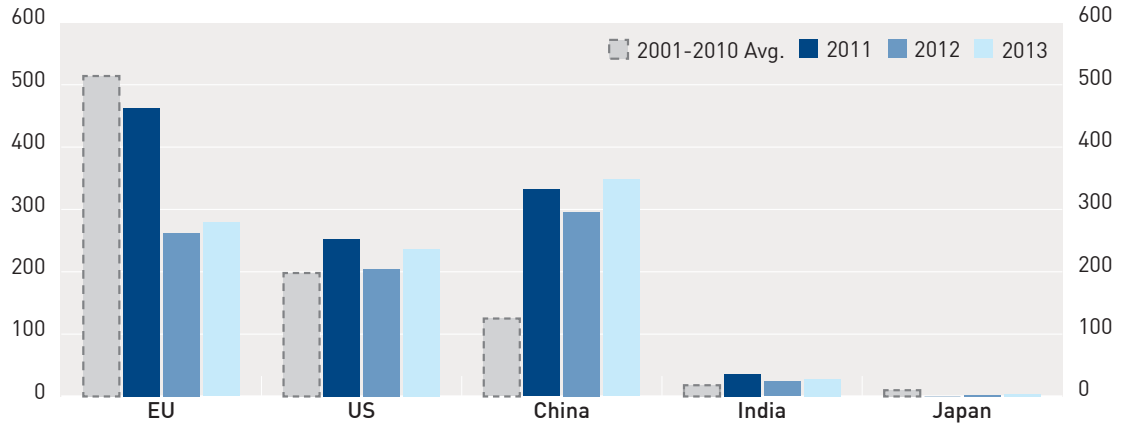


Source: BUSINESSEUROPE calculations based on Conference Board data and AMECO

Box 1 demonstrates that according to a variety of external competitiveness indicators the EU continues to lack behind major competitors. Weaknesses in the EU's business environment are also reflected in falling shares of global Foreign Direct Investment (figure 3). Since 2007, FDI into the EU came down sharply, reflecting the heightened uncertainty from the weak economic outlook and financial instability in the Euro-area. With increasing investment inflows into the US and China, the EU's share of global FDI fell to 17% in 2013 compared to over 40% in 2000.

Figure 3 **China overtook EU as main destination for global investment**

Foreign Direct Investment, net inflows, current billions US dollars



Source: United Nations

Both policy and financial market developments in the first two months of 2015 point towards a macroeconomic environment much more supportive of growth in the EU, at least in the short-term. The expanded asset purchase programme of the ECB, set alongside the more flexible interpretation of the Stability and Growth Pact rules by the Commission, as well as lower oil prices and euro exchange rate, can all boost both domestic and external demand for goods and services produced in the EU.

The danger is that Europe uses this more supportive macroeconomic policy environment as an excuse to ease off on the essential structural reforms to both labour and product markets that can raise long-term output, ensure employment creation and sustainably raise European living standards.

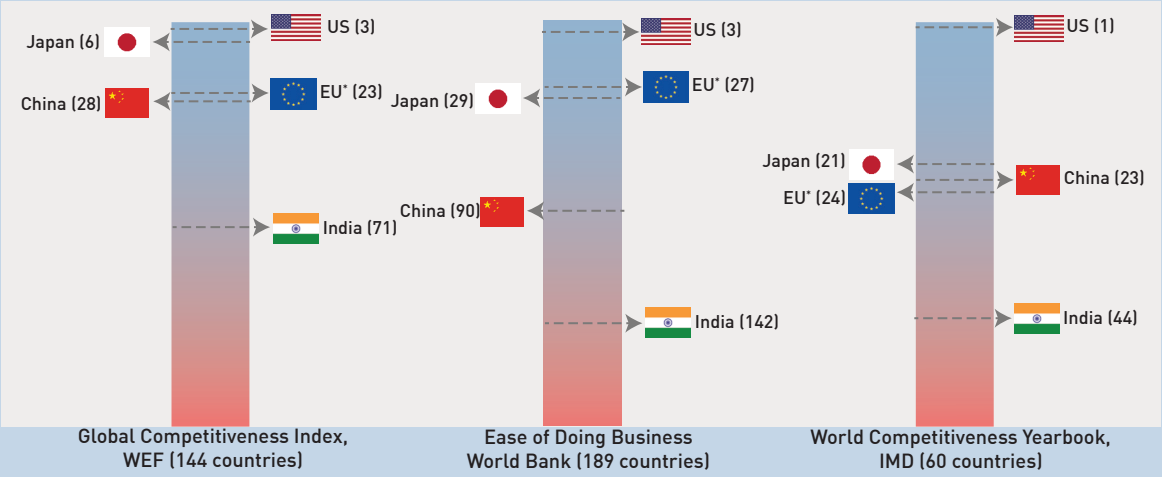
In this report, we look at 5 key areas to assess the EU's competitiveness underpinning long-term growth prospects, notably taxation and public finances, the business environment, innovation and skills, access to finance and financial stability and the labour market. Given the Commission's welcome focus on the digital economy this year, we have also included a box analysing the EU's relative performance in this area.

BOX 1 HOW DO INTERNATIONAL COMPETITIVENESS INDICATORS RANK THE EU?

A number of international institutes such as the World Economic Forum, the World Bank and IMD World Competitiveness Center provide different ways of looking at EU competitiveness. Given that they do not provide an overall EU ranking, we have calculated a weighted average for the EU based on individual Member States rankings.

As figure 4 shows, the EU ranks for all three institutes behind the US and in case of the WEF and IMF also behind Japan. This highlights that more effort is needed for the EU to catch up with other major economies in terms of competitiveness.

Figure 4 **The EU ranks consistently behind the US in global competitiveness rankings**
Competitiveness rankings for major economies (EU, US, Japan, China and India), 2014



**EU weighted average. Note that for IMD ranking the weighted average is based on 22 Member States.*

I. TAXATION AND PUBLIC FINANCES

KEY POLICY RECOMMENDATIONS

1 Member States must demonstrate their commitment to sustainable public finances, focusing primarily on reductions in current public expenditure which protect investment, rather than tax rises.

2 We support the increased flexibility in the Commission's approach regarding the enforcement of the Stability and Growth Pact, but this must be accompanied by proper enforcement by the Commission and Council to ensure compliance with the SGP rules.

3 Tax reforms should shift taxation away from labour and capital which are most damaging to growth employment.

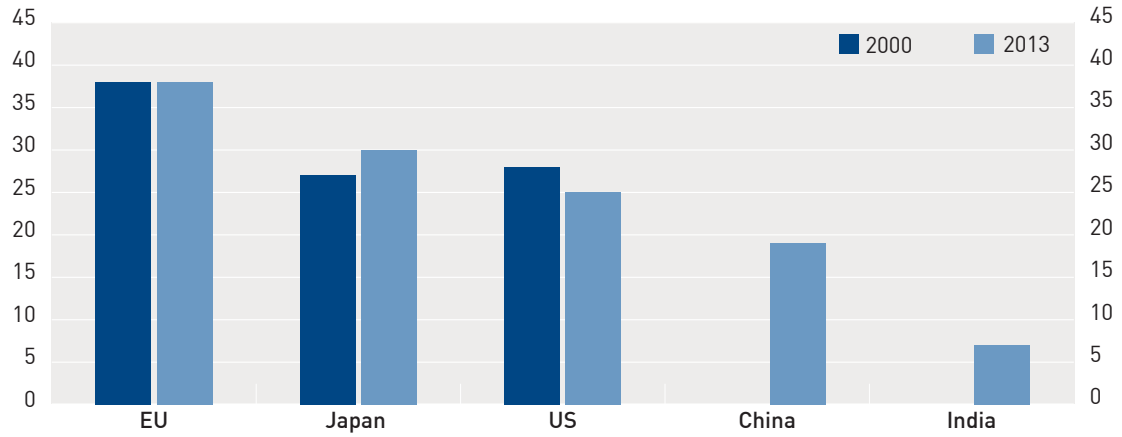
4 Member States should continue their efforts to ensure the administration of their tax systems becomes more simple, transparent and user-friendly.

The recent financial crisis was a strong reminder that sustainable public finances are essential for long-term growth. Lack of confidence in a government's ability to repay its debt can lead to a self-reinforcing spiral whereby increased borrowing levels lead to higher borrowing costs, and in turn require higher taxation levels.

While deficit spending as a percentage of GDP in the EU came down to 3% in 2014 compared to over 6% in 2009, overall government debt levels in the EU are still rising (88.1% in 2014) and are forecasted to come down only as of 2016.

Figure 5 **Overall tax burden in the EU is higher than elsewhere**

Total tax burden as % of GDP, 2014 (including social security contributions)



Source: OECD and Heritage Foundation for China and India

Figure 5 demonstrates that the overall tax burden in the EU is over 50% higher than in the US and over 25% higher than in Japan. This reflects, in part, policy choices linked to the European social model, including, for example, provision of public funded health care. But many Member States in the EU are at, or approaching, the point where tax levels are harmful for growth given that high levels of taxation negatively affect incentives both for investment and for workers to enter the labour market. Progress towards fiscal sustainability thus needs to ensure greater efficiency of the public sector and quality of public finances, with special attention to growth-enhancing investment rather than to tax increases.

II. BUSINESS ENVIRONMENT

KEY POLICY RECOMMENDATIONS

1 Achieve a truly integrated single market, in particular in the areas of digital economy, telecoms, energy and services, in order to enhance the EU's global competitiveness and support reindustrialisation.

2 Ensure that regulation, at EU and national level, is well designed and properly enforced, with minimum administrative burdens in order to support business start-ups and companies' expansion. Competitiveness proofing, including an SME test, must become an integral part of the ex-ante impact assessment for all legislative proposals.

3 Energy prices must allow EU businesses to be competitive in international markets. Targets and measures to address the energy price differential with major competitors and to ensure energy security should be introduced and taken into account in any EU energy and climate policy initiatives.

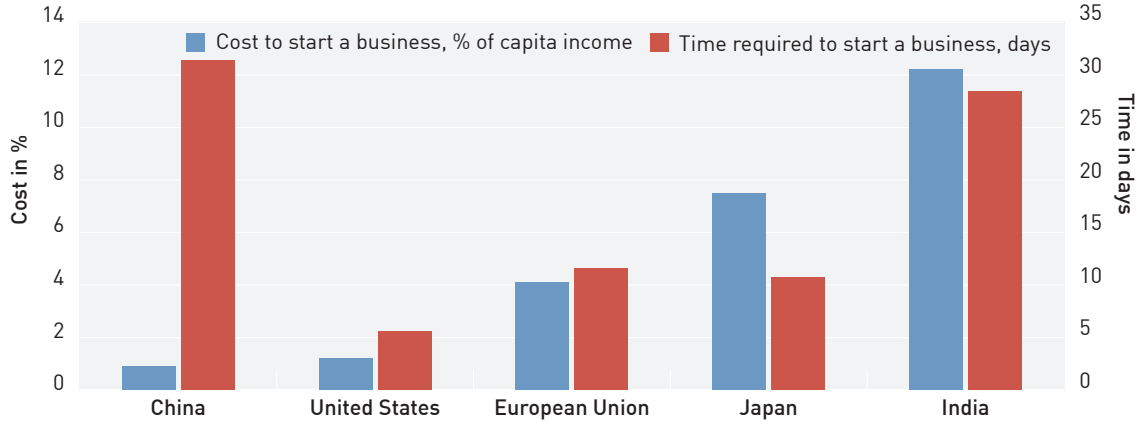
4 Trans-European (and national) infrastructure must be expanded. Remaining regulatory, administrative and technical barriers in all modes of transport need to be removed to ensure access to adequate infrastructure facilities. Likewise, energy infrastructures should be fully interconnected so as to further integrate the internal market.

A competitiveness-friendly business environment is imperative for company start-ups and expansion. Competition and, in turn, productivity growth, relies on open markets with clear and properly enforced rules, as well as legal certainty. In contrast, poorly designed regulation hampers competition and external competitiveness as companies waste time and financial resources meeting burdensome regulatory requirements.

Taking the **cost and time to start a business** as a benchmark, it is clear that the EU has significant scope to improve its business environment (see figure 6). Cost of starting a business in the EU more than triples that of the US, while it takes businesses about twice as long to set up a company in the EU. The European Commission has estimated that the reduction of administrative burdens under the Action Programme for Reducing Administrative Burdens could lead to an increase of 1.4% in EU GDP, the equivalent to €150 billion.[1]

[1] European Commission Memo on The High Level Group on Administrative Burdens, 19 September 2013

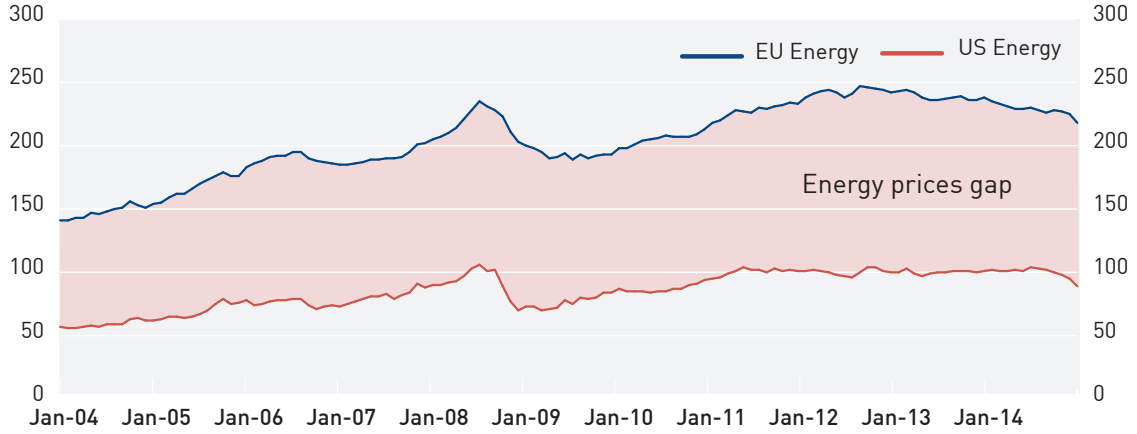
Figure 6 **EU business environment needs to improve to support start-ups**
Cost and time to start a business in 2014



Source: World Bank

Business competitiveness, especially in the manufacturing sector, also depends to a large extent on the secure **supply of competitively priced energy**. Yet, in the EU, retail prices for energy turn out to be significantly higher than in other major economies, in particular the US. Even with the recent fall in oil prices, industrial energy prices remain almost $2^{1/2}$ times higher in the EU than in the US (figure 7). Europe urgently needs to combine climate action with better cost efficiency to ensure that excessive energy prices compared to its partner economies do not hamper EU production. This also requires improved cooperation between EU Member States to build a common energy market.

Figure 7 **Relatively high energy prices are harming EU competitiveness**
Average energy prices for industrial producer in the EU and US from January 2004 - December 2014, US=100 in January 2013



Source: European Central Bank, US Federal Reserve and European Commission Energy prices report 2014

III. INNOVATION AND SKILLS

KEY POLICY RECOMMENDATIONS

1 To address serious skill shortages and mismatches which risk acting as a brake on economic growth in the EU, education and training systems need to be tailored to labour market needs.

2 In particular, more STEM graduates (science, technology, engineering and maths) are needed over the next years as well as people with good e-skills developed, for example, through e-apprenticeships.

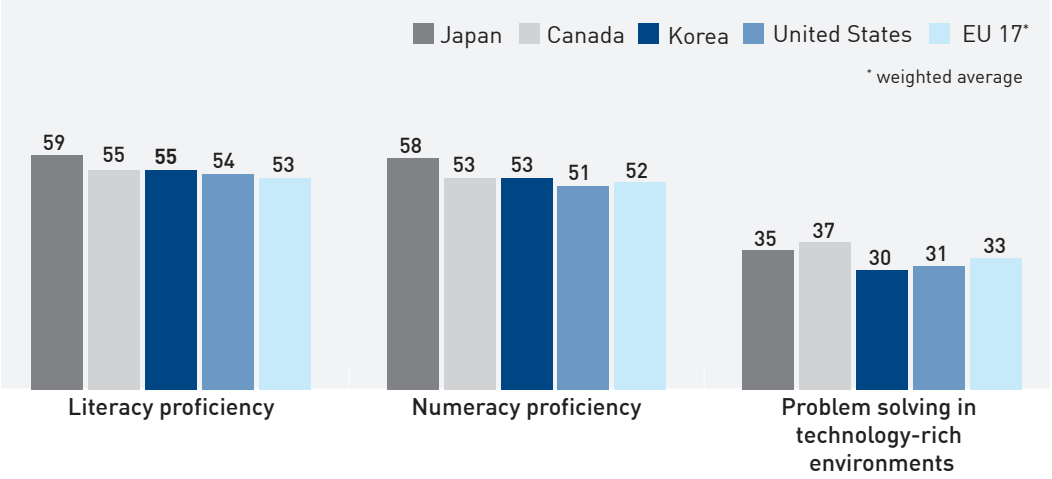
3 Innovation policies must be more business-orientated, with targeted initiatives that stimulate private R&D investment (e.g. tax incentives supporting access to finance). Incentives for cooperation between companies and research institutes in networks and clusters should be improved in order to facilitate the commercialisation of innovation.

4 Member States should focus on achieving better learning outcomes through resource-efficient investments in education to bring knowledge and skills to Europeans of all ages, needed to succeed on the labour market.

The EU's ability to innovate and to compete in an increasingly knowledge-intensive economy depends to a great extent on the skills and capabilities of its workforce. Measuring education performance is complex, particularly given the need to assess labour market relevance.

OECD analysis (figure 8) shows that the EU adult population lags behind the leading global performers in each of the key areas of literacy, numeracy and problem solving in technology-rich environments.

Figure 8 **Adult skills need to be improved in the EU**
Literacy, numeracy and problem solving skills of adult population (16-65 years), converted scores out of a 100, 2012

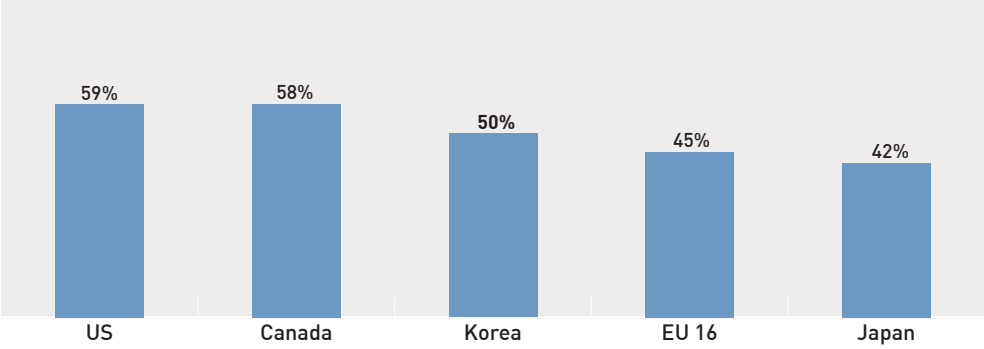


Source: Survey of Adult Skills (PIAAC)

Whilst weakness in adult skills may to a large extent reflect failures in school education, adult education also has a strong role to play in addressing such concerns. However, overall participation rates in formal and non-formal education and learning of 25-64 year olds in the EU are well below the levels observed across the Atlantic (see figure 9).

Figure 9 **The EU has low participation rates in education and learning**

Participation in formal and non-formal education and learning of 25-64 year olds during the previous 12 months period, 2012



Source: Education at a Glance - OECD 2014

In some systems, school-based learning is widely complemented by other forms such as workplace learning. Examples of this type of "dual system" can be found in Austria, Germany, Denmark, the Netherlands and Switzerland. One advantage of this practice is that it forms a series of public-private partnerships, allowing employers, in particular, and social partners to be involved in the development of vocational and educational training (VET) programmes, particularly apprenticeship schemes, in which they participate in defining and delivering the curricular programmes. Labour market needs and skills shortages can thus be addressed at an early stage.

Education institutions should open up more to partnerships with companies, in particular to encourage the development of STEM skills. The quality of initial education needs to be ensured by governments and the right framework conditions should be put in place at national level to encourage governments, companies and workers to invest in continuing education on a cost-sharing basis. The role of the European Union should be to support Member States' efforts to reform their education and training systems.

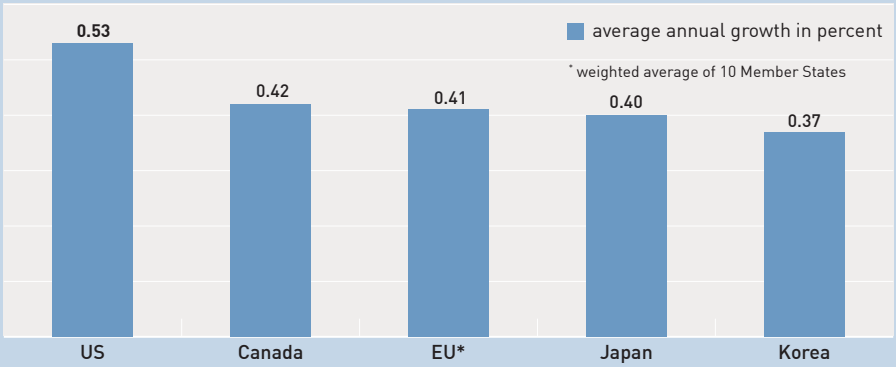
BOX 2 THE EU'S PERFORMANCE IN THE DIGITAL ECONOMY

Introductory remarks

Compared to the EU, ICT in the US has contributed to a much larger extent to growth over the past years (figure 10). The stronger preference for ICT in the US is also reflected in a higher share of ICT value-added in GDP (figure 11). Ranked by annual revenues, 13 out of the 20 global internet companies are based in the United States. In turn, four are based in China, two in Japan, one in South Korea and none in the EU[2]. Similarly, just eight of the world's top 100 high-tech companies have their headquarters in Europe and generate only a tenth of the industry's global revenues. It is thus not a great surprise that European entrepreneurs move to the United States to leverage the de-facto Single Market.

Figure 10 **The contribution of ICT to past growth in the EU is much lower compared to the US**

ICT contribution to average annual GDP growth rate, 1985-2010

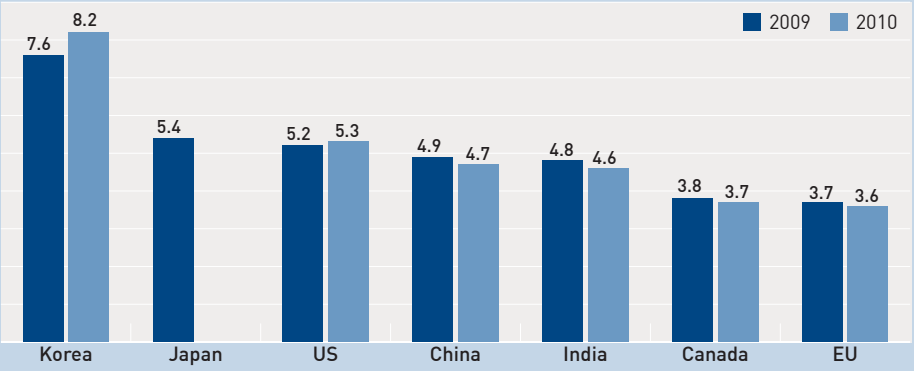


Source: OECD

Digital has a huge impact on industrial policy. A fourth industrial revolution is currently taking place, cross-linking industrial automation with IT applications over the internet. By connecting machines, work pieces and systems, it is possible to create intelligent networks along the entire value chain which can control each other autonomously. This will deliver efficiencies for EU industry and services contributing to the creation of new business models, with positive repercussions on the digital single market. Digitalisation is crucial to ensure Europe's competitive advantage in the global economy.

Figure 11 **The EU has historically lower rates of ICT value-added in GDP**

ICT value-added as a share of GDP, 2009 and 2010



Source: European Commission

[2] See Mary Meeker annual report on Internet Trends 2014

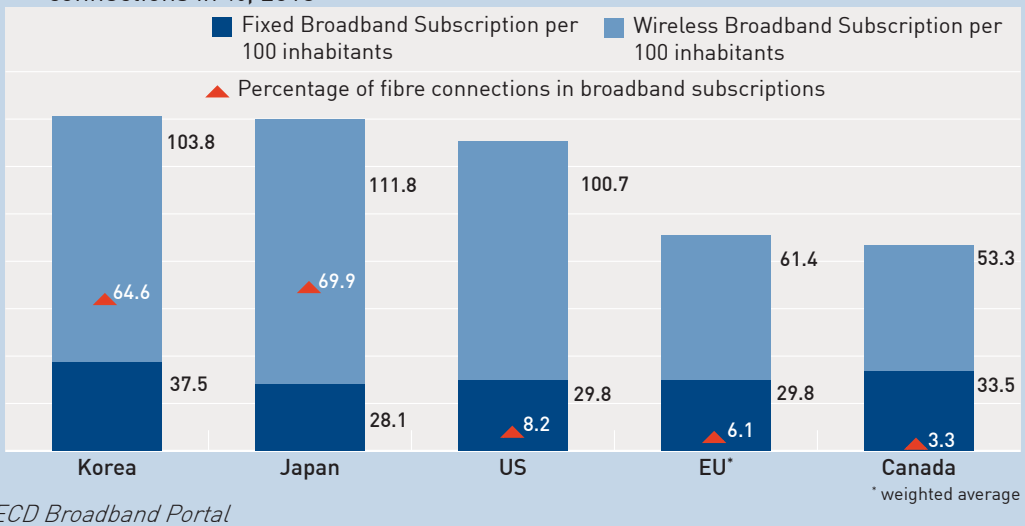
Key indicators

In the following, we are taking a closer look at some more indicators to assess the relative state of development of the EU's digital economy. To understand the development of the digital economy, in particular broadband metrics provide a useful starting point. The OECD defines broadband as internet connections which are "capable of download speeds of at least 256 kbit/s." It is estimated that an increase in the broadband penetration rate by 10 percentage points is expected to increase annual per-capita GDP growth by 0.9 to 1.5 percentage points in OECD countries.

When looking at broadband subscriptions, it becomes clear that the EU is lagging behind other major economies for wireless broadband subscriptions and to a somewhat lesser extent for fixed subscriptions (figure 12)[3]. Fibre connections, enabling quicker connections and disconnection than traditional copper lines, are much more common in Japan and Korea than in the EU. In Japan, fibre connections make up almost 70% of total broadband subscriptions, whereas this figure is only around 8% in the US and an estimated 6% in the EU.

Figure 12 **The EU lags behind in the development of (fast) broadband connections**

Fixed and wireless broadband subscriptions per 100 inhabitants and fibre connections in %, 2013



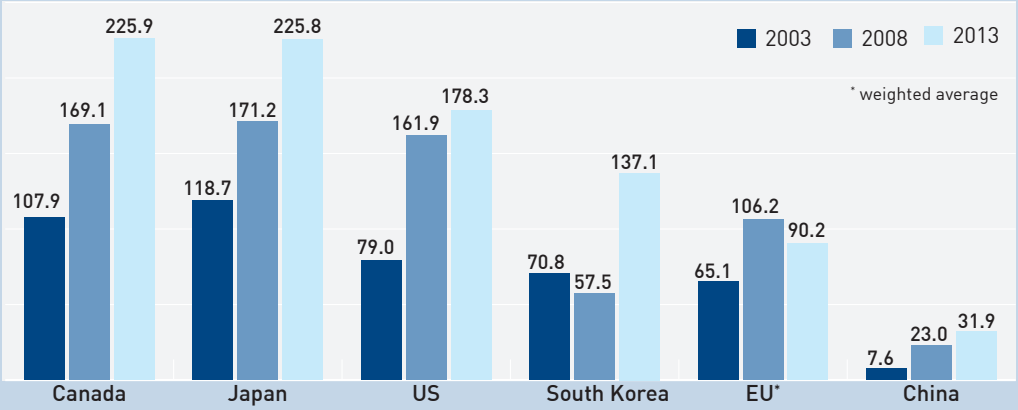
Source: OECD Broadband Portal

In line with fewer broadband subscriptions and slower internet connections, investment levels in broadband infrastructure are also lower in the EU compared to other large economies. In 2013, investment in broadband infrastructure on a per-capita basis was €90.2 in the EU, compared to €225.9 in Canada, €225.8 in Japan or €178.3 in the US (figure 13). The EU is the only economy where per-capita investment fell between 2008 and 2013.

[3] Numbers above 100 arise for wireless broadband as some people have more than one subscription.

Figure 13 **The EU is the only major economy where investment in broadband has declined**

Broadband infrastructure investment per capita in euro (at 2010 exchange rate to USD)



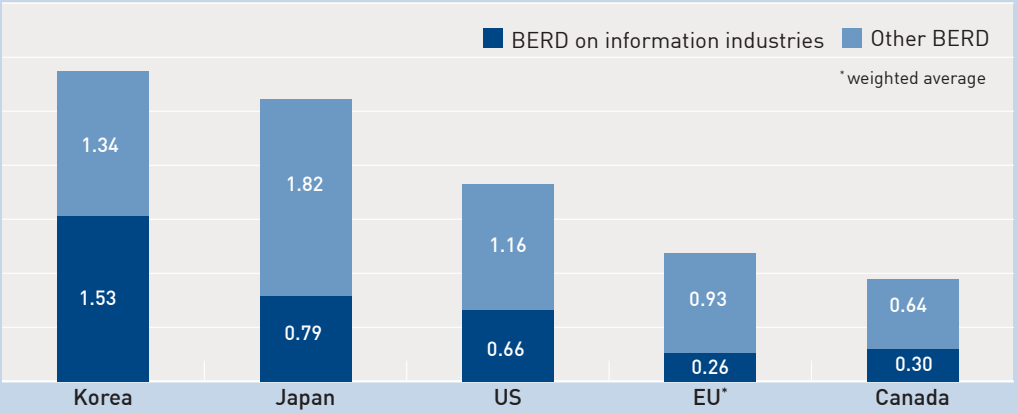
Source: Infonetics Research, US Census Bureau, and European Commission, Aalborg and George Mason University

The EU depicts as well slightly lower rates of internet usage compared to Japan, Canada, Korea and the United States. While in 2013 75.6% of individuals were using the internet in the EU, these were 86.3% in Japan, 85.8% in Canada and 84.2% in the US[4].

Next to basic infrastructure, business R&D expenditure (BERD) on information industries[5] as a percentage of GDP is much lower in the EU compared to other large economies (figure 14). It accounted for around 0.26% of GDP in 2011 which is significantly less than the shares in the US, Japan and Korea.

Figure 14 **There is scope to improve EU business R&D expenditure on information industries**

BERD on information industries as % of GDP in 2011



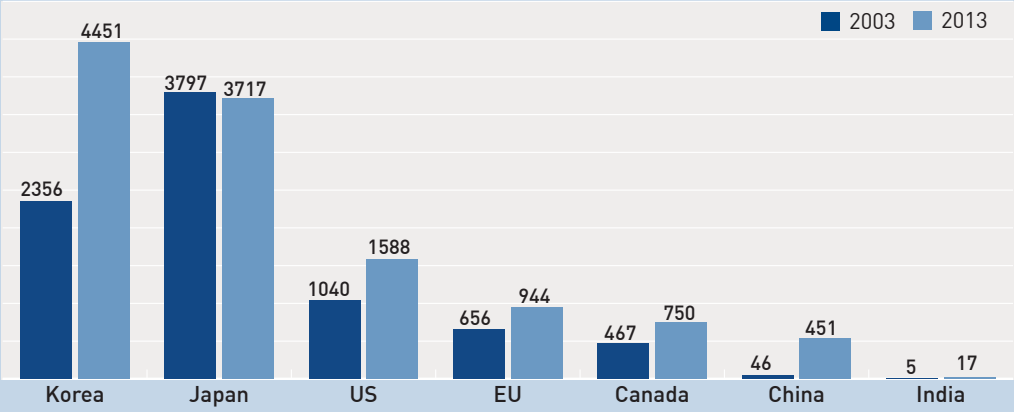
Source: OECD

[4] For reference see International Telecommunication Union (ITU), United Nations
[5] These include: ICT equipment; publishing, audiovisual and broadcasting activities; telecommunications, IT and other information services and other ICT services.

In the EU, also fewer ICT-related patent applications are filed compared to other large economies (figure 15). This may be related to fewer high-tech companies headquartered in the EU as aforementioned. One should however note that patents constitute only one form of copyright protection.

Figure 15 **Fewer ICT-related patent applications in the EU than in Korea, Japan and the US**

Total ICT patent applications[6] per one million inhabitants, 2003 and 2013



Source: WIPO

Conclusion

It appears that the European Union has significant work ahead when it comes to adopting the latest technologies enabling businesses to grasp new opportunities to compete globally and to leveraging untapped growth opportunities. This is especially the case when it comes to providing basic infrastructure as well as innovation and R&D to develop its digital economy. Networks are the backbone of the digital economy. Investment in technologically neutral infrastructure that enables fast, and reliable connectivity provided at competitive prices will be the foundation of future EU growth and job creation.

However, it should not be forgotten that the creation of the digital single market requires much more than simply investing in networks. A fully functioning digital single market also requires action in the fields of eliminating barriers hampering cross-border e-commerce, or addressing legal fragmentation in certain areas of consumer legislation, taxation, copyright and data protection rules. Finally, Europe needs a cultural transition towards embracing digital entrepreneurship and fostering the digital skills of its workforce to become a global leader in innovation technology.

[6] This includes patents filed directly and under the Patent Cooperation Treaty (PCT) which is an international patent law treaty concluded in 1970, providing a uniform procedure for filing patent applications.

IV. ACCESS TO FINANCE AND FINANCIAL STABILITY

KEY POLICY RECOMMENDATIONS

1 Ensure that the proposed Capital Markets Union takes forward ambitious plans to reduce financial fragmentation in the EU and develop a genuine single market in financial services. In particular, the Capital Markets Union must support the EU wide development of complementary sources of finance to bank lending, in order to offset the consequences of bank's deleveraging on companies' access to credit, in particular SMEs.

2 Prudential rules must strike the right balance between increasing financial stability and supporting companies' financing needs for investment and business activities.

3 Public funds are most effective in encouraging growth-enhancing investment when used to leverage private sector activity. It is important that the European Fund for Strategic Investment fulfills its full potential in supporting investment and growth.

4 Advance all dimensions of the Union in order to facilitate the Banking Union to reduce the fragmentation of financial markets and to fully restore the transmission mechanism for monetary policy.

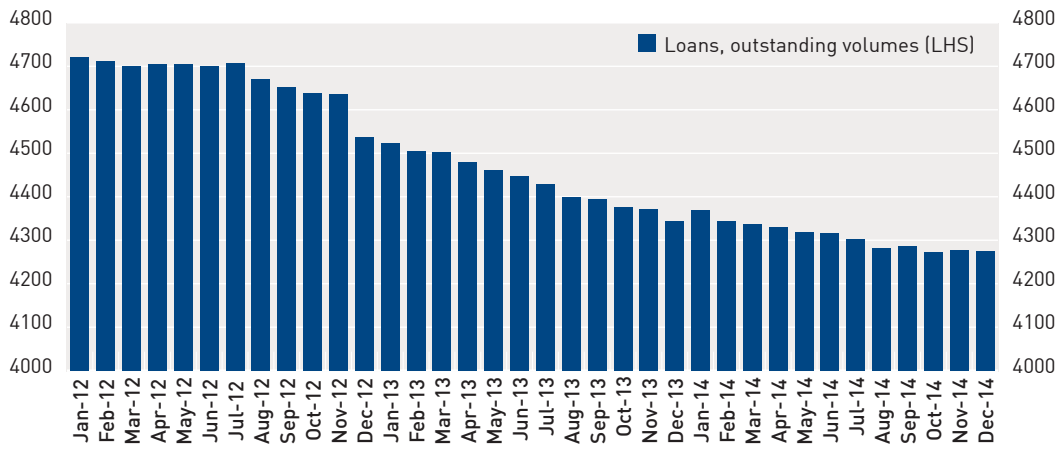
Access to finance on reasonable terms is a pre-condition for companies making the investment necessary to drive growth and maintain competitiveness. Finance needs to be available through multiple channels in order to both provide stability and meet the different financing needs of companies of all sizes, notably SMEs.

The lack of access to finance poses limits to businesses operating at their full potential, reduces investment and diminishes growth prospects. The damage financial instability causes to access to finance, confidence and growth has clearly been illustrated by the financial crisis. The negative feedback loop between political uncertainty and financial market instability that we saw since 2010 can still be observed at present, even despite the actions undertaken by the EU and the ECB and more coordinated banking supervision.

Despite the increasing involvement of the European Central Bank, bank lending to businesses is still falling. Bank lending to non-financial corporations in the Euro-area is down by almost 10% since 2012, with new issuance falling short of loan repayments (figure 16).

Figure 16 **Bank lending to business has fallen considerably**

Bank loans to Euro-area non-financial corporations, outstanding billion euros



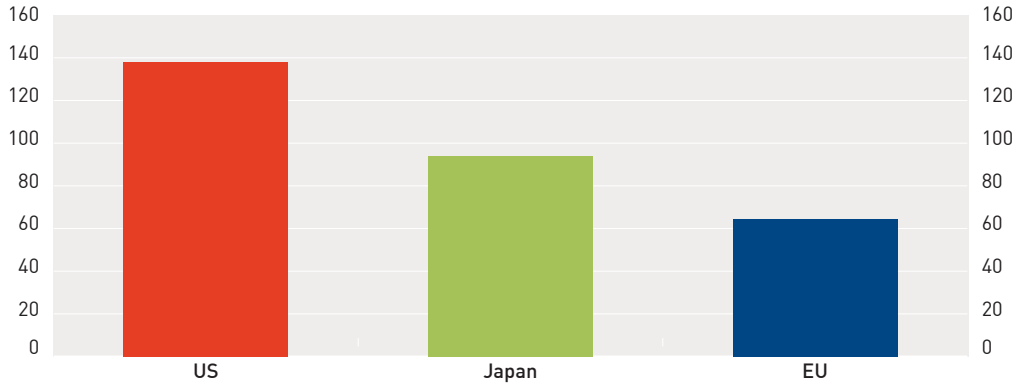
Source: European Central Bank

Given that traditional bank lending is becoming increasingly difficult to obtain for businesses in some EU countries, exploring non-bank financing routes becomes an increasingly important way to access credit. Non-bank financing can yield benefits by enlarging the real economy's access to finance, enabling risk-sharing and supporting market liquidity. In tougher regulatory environments, the costs associated with holding securities, loans and trading exposure render traditional lending even more expensive. In particular, SMEs access to finance remains constrained by burdensome reporting requirements and regulatory disincentives to securitisation.

Businesses in the EU remain heavily reliant on the banking sector for funds. For every €10 borrowed by European enterprises, around €8 comes from banks and only €2 from capital markets. In the US, it is the opposite situation. This is reflected in stock market capitalisation of just 65% of GDP in the EU, compared to 138% in the US (figure 17). Similarly, the outstanding stock of corporate bonds increased from €624 billion in 2007 to €1024 billion in 2014 in the Euro-area, while it increased from €3828 billion to €5648 billion in the US during the same period [7].

Venture capital, can be a key source of finance, particularly for growth companies. However, the EU has failed to make significant progress in recent years compared to US levels. In 2013, the EU accounted for only 15% of global venture capital investment, compared to 68% for the US.

Figure 17 **Stock market capitalisation as a % of GDP**



Source: European Commission

[7] Data until the third quarter of 2014 for EU and US. Sources: European Central Bank (ECB) and Securities Industry and Financial Markets Association (SIEMA).

V. LABOUR MARKET

KEY POLICY RECOMMENDATIONS

1 **To ensure open, dynamic and mobile labour markets, reforms focusing on stimulating job creation, in particular for young people, and employment participation, smoother labour market transitions, and better allocation of labour based on employers' needs must be implemented.**

2 **In order to maintain and increase global competitiveness, labour markets' regulatory framework needs to be clear, simple and flexible. At the same time, labour markets need to ensure that increases in labour costs are consistent with rises in productivity growth.**

3 **Reducing non-wage labour costs through targeted cuts in employers' social security contributions can play an important role in stimulating demand by encouraging employers to hire more staff. The tax burden on labour should be reduced to make work more attractive, especially for low-income earners, compared with welfare beneficiaries.**

The high and persistent unemployment levels in many EU Member States underline the difficulties European labour markets face as a result of underlying structural weaknesses.

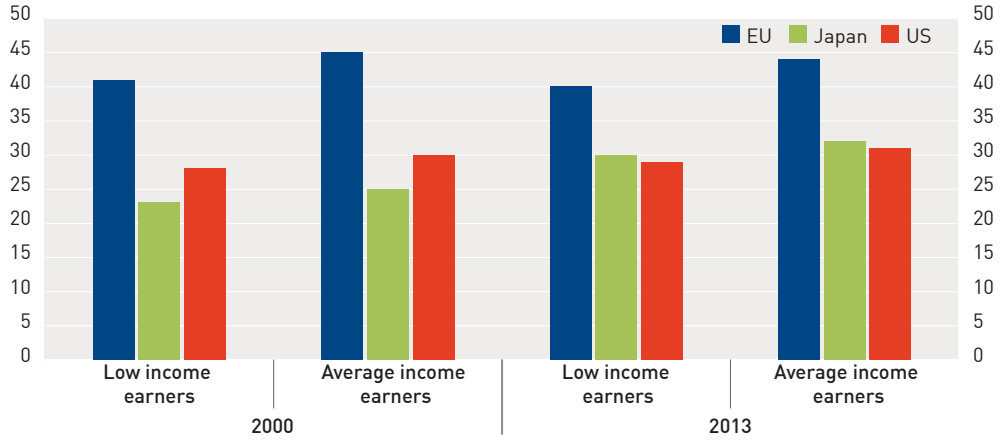
Well-functioning and flexible labour markets are vital to facilitate the transition between jobs and match skills supply and labour demand. Labour market rigidities, on the other hand, reduce the attractiveness of a country for foreign and domestic investment, hampering employment creation, productivity and economic growth. In addition to the lack of skilled workers and inadequate training systems, excessive payroll taxes pose a barrier to new hiring.

Both the OECD and the Commission emphasise that high levels of labour taxation may have detrimental effects on employment, damaging incentives both for workers to enter the labour market (if net gains after taxes and benefits are small) and employers to take on new staff (if labour costs are very high). In particular, low-skilled/low earners and second-earners may be negatively affected as the labour demand and supply tends to be more elastic for these groups. It is thus a particular concern that the average tax wedge on average income earners in the EU is almost 40% higher in the EU than in both the US and Japan (figure 18). It is imperative to build tax systems that are more growth-friendly and to shift taxation away from labour.

Labour market flexibility is even more important in a monetary union in the case of adverse shocks as members of the currency union can no longer boost short-term competitiveness through currency devaluation. Therefore, a renewed commitment to labour market reforms is needed, in the framework of a reinforced Economic and Monetary Union that allows for an increase of cross-border mobility among other issues. The EU, Member States and social partners have an interest in ensuring that a framework is in place which fosters mobility for workers, researchers and of scientific knowledge across EU borders, within Member States and between occupations. This can play an important role in helping to match labour supply with demand. However, just 0.1% of the EU workforce moves country in a given year for work, compared with over 3% between US states.

Figure 18 **The tax wedge on income earners in the EU needs to come down**

Tax wedge on low and average income earners (single person), 2000 and 2013

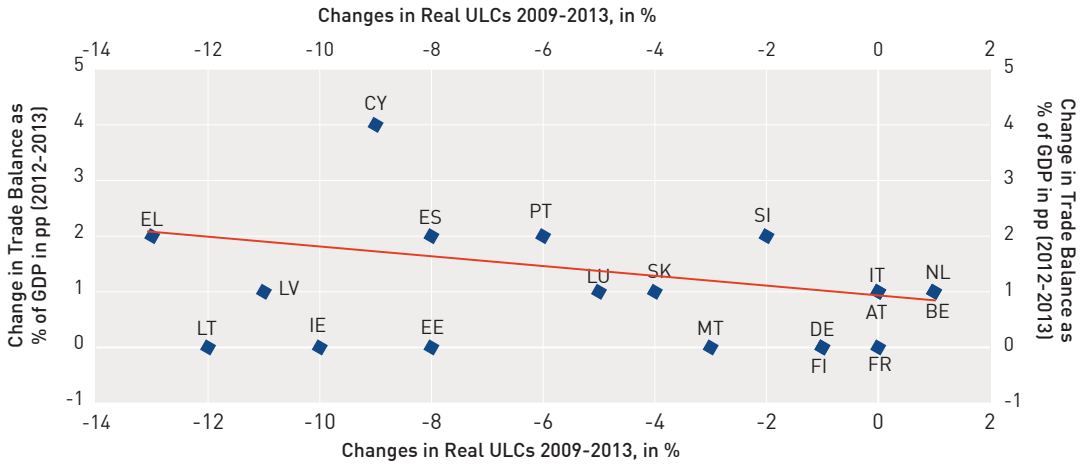


Source: OECD

Figure 19 shows both that Euro-area members that allowed Unit Labour Costs (UCLs) to rise in the pre-crisis period have made progress in reducing ULCs, and that such reductions in real unit labour costs have helped EU Member States to improve their international competitiveness. During the period 2009-2013, Greece (with -13.1%), Lithuania (with -12.0%) and Latvia (with -11.5%) led Member States' efforts in bringing down real ULCs. These countries experience now significant improvements in their trade balance as a percentage of GDP (1.5pp in Greece, 1.2pp in Latvia and 0.4pp in Lithuania).

Figure 19 **Countries where UCLs adjusted show improved export performance**

Changes in real unit labour costs (2009-2013) and in net exports (2012-2013), in %



Source: Eurostat & European Commission AMECO Database

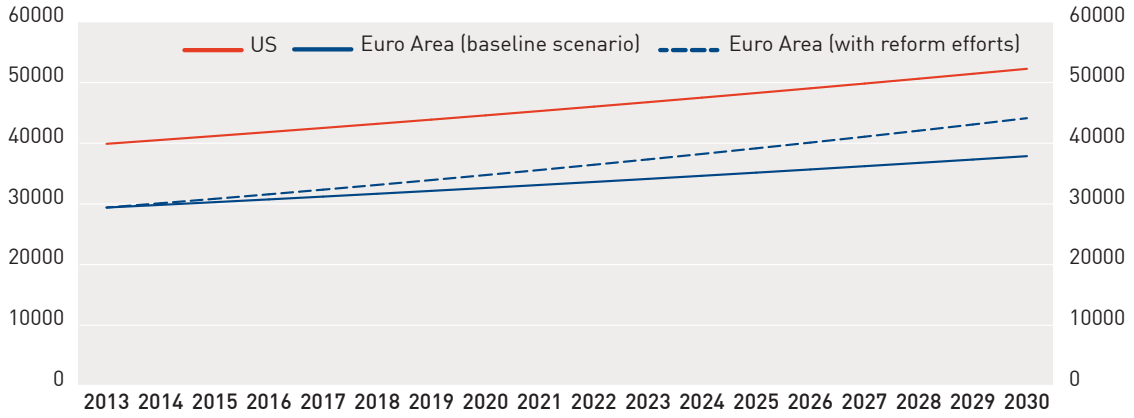
Yet, more action needs to be forthcoming to implement structural reforms in both labour and product markets aimed at improving competitiveness. This includes, among other things, efficient collective bargaining structures and implementing measures that reduce tax wedges on employment.

PART 2
STRUCTURAL REFORM PROGRESS

As Part 1 of this report demonstrates, a failure to take forward structural reforms has had a significant impact on Europe's competitiveness and in turn its growth and employment performance.

A recent OECD study highlights the potential benefit of structural reforms to long-term growth in the Euro-area[8]. Analysis suggests that "if countries were to move to best practice in product and labour market policy settings, aggregate output in the Euro-area could rise by more than 6% by 2025". As illustrated in figure 20, this would almost halve the per-capita gap with the United States by 2030.

Figure 20 **Structural reforms can raise long-term output significantly in the Euro Area**
Expected long-term growth prospects (GDP per capita in €) for Euro Area (with and without additional reform efforts) and the US



Source: Eurostat & European Commission AMECO Database

While many of the policy instruments to implement structural reforms are in the hands of Member States, the strong inter-linkages between the economies of EU Member States, particularly those in the single currency area, mean there is a clear role for the EU helping to take forward reforms.

This chapter analyses the results of a survey of BUSINESSEUROPE Member Federations regarding reform effort over the year, linked to the European Semester. The results provide a warning that **whilst the new Commission's priorities of structural reforms, investment and fiscal responsibility are a welcome signal, we need a step change in action on the ground if we are to see reform implementation necessary to strengthen the foundations of a prosperous and cohesive Europe**.

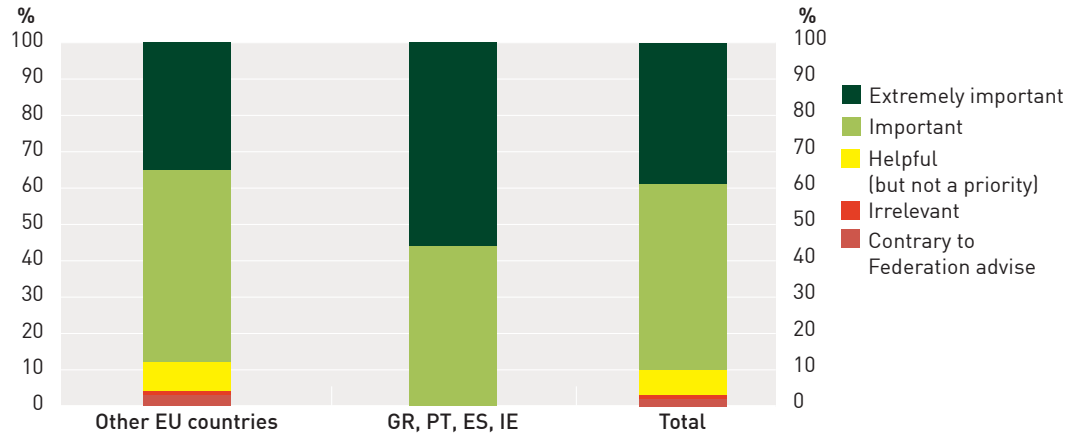
[8] OECD, Economic Challenges and Policy Recommendations for the Euro Area, Better Policies Series, 2014

I. COUNTRY-SPECIFIC RECOMMENDATIONS

The Commission has continued the trend since the launch of the European Semester in 2011 of providing clearer and more robust Country-Specific Recommendations (CSRs) to EU Member States.

BUSINESSEUROPE member federations believe that **90% of the CSRs they have analysed focus on the right issues for reform in EU Member States** (figure 21), an increase compared with 83% in 2013.

Figure 21 **Assessment of the 2014 Country-Specific Recommendation objectives**
Member Federations' assessment of the appropriateness of individual CSRs

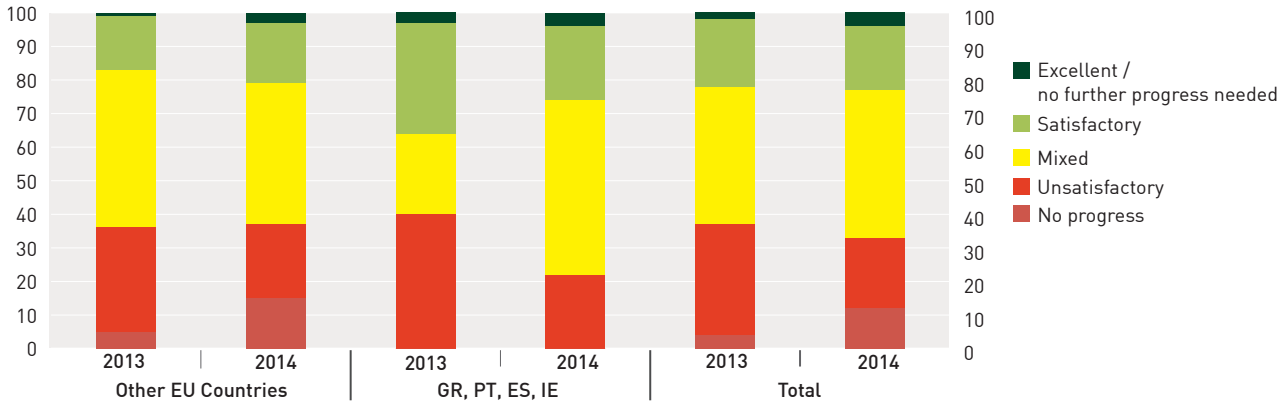


Source: BUSINESSEUROPE Survey of Member Federations

But our Member Federations provide a stark warning regarding the continuing lack of consistent reform implementation across the EU. Our member federations conclude that **only 22% of the 2014 CSRs assessed are evaluated as satisfactorily implemented**, a similar figure to the 23% observed 12 months ago (figure 22).

When taking into account the additional proportion of CSRs where mixed (i.e. some) progress has been identified, the figure increases to 67%. But this still leaves 33% of CSRs where unsatisfactory or no progress at all has been accomplished.

Figure 22 **Progress in implementing the 2014 Country-Specific Recommendations**
Member Federations' assessment of the appropriateness of Member States' efforts to implement recommendations



Source: BUSINESSEUROPE Survey of Member Federations

However, it is important to emphasise the different drivers behind these overall figures.

- **Countries that were faced with greater difficulties as a result of the crisis have pushed forward reforms most forcefully in recent years.** In the case of Ireland and Portugal that have exited their assistance and adjustment programmes, assessment this year focus on the implementation of new recommendations for long-term reform, hence implementation is more likely to be at an early stage. It is particularly important that these countries continue to implement reforms to build growth, jobs and competitiveness. The OECD's 2015 "Going for growth" report[9] states that while reform activity remains high in Greece, Ireland, Portugal and Spain, it is declining. As we consider in box 3, where Member States have undertaken reforms, there is evidence that such reforms are have a positive impact on the economy.

- **Some Member States improved their reform implementation, notably Italy, where important reforms have also been taken forward outside the scope of the CSR framework.** In addition to the general positive assessment of reform effort in the context of the European Semester, the government has taken also forward its Job Act which is of major significance for the Italian labour market, with very positive results expected in terms of job creation.

- Business federations in the **UK, Netherlands, Latvia, and Estonia continue to be satisfied with their country's reform efforts**.

- However, **in some Member States, notably Sweden and Finland**, overall implementation has fallen, raising concerns that **t**hese countries that traditionally had strong competitiveness, growth and employment performance **risk losing ground as a result of a failure to maintain a leading business environment**. **Hungary**'s reform implementation has fallen considerably.

BOX 3 STRUCTURAL REFORMS ARE BEARING FRUITS

Even though it typically takes a number of years for the full benefits of structural reforms to come through the initial benefits for those countries that have made a clear effort to reform are in past year already becoming evident as we consider in more depth below.

A 2012 OECD review of structural reforms concluded that 'fears that reforms may depress economic activity in the short run are overblown', going on to argue that no reforms were found to have had systematic adverse short-term effects[10].

Given the clear long-term benefits of reforms – simulations show large potential gains in output and employment, raising EU GDP by 3% after five years and 6% after ten years[11] – it is clear that Member States have no excuses for not pressing ahead with appropriately ambitious structural reform programmes.

[10] Going for Growth 2012: Structural reforms can make the difference
[11] European Commission 2014, Economic Papers 541, "The potential growth impact of structural reforms in the EU

[9] OECD, Going for Growth 2015: breaking the vicious circle

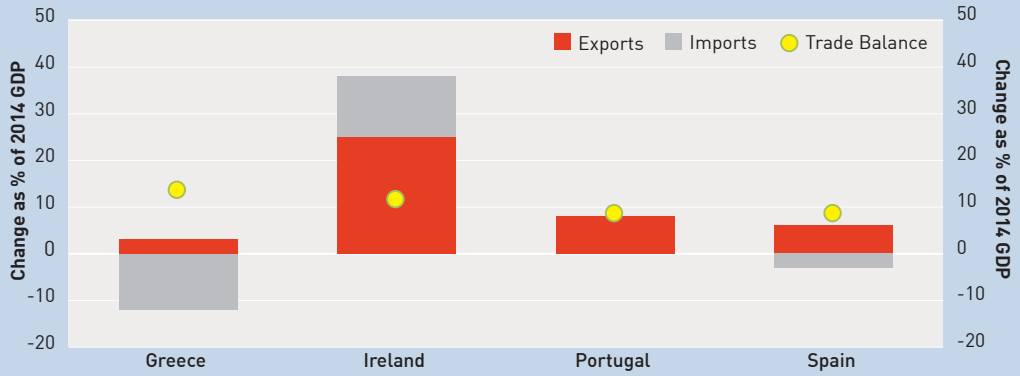
Labour market reforms

Ensuring that unit labour cost (ULC) rises are in line with international competitors is key for both companies and Member States. For those countries that are members of the Euro-area, this means ensuring that labour cost rises are in line with productivity increases.

As already noted in the labour market section in Part 1, euro area members that allowed ULCs to rise in the pre-crisis period have meanwhile made progress in reducing them. Such reductions in real unit labour costs have helped EU Member States to improve their international competitiveness, notably their trade balance the majority of improvement through improved exports rather than lower imports as figure 23 indicates.

Figure 23 **Improvements in the trade balance have been driven by exports in most programme countries**

Total change in exports, imports and the trade balance, 2007-2014



Source: AMECO database

Such improvements would have not have been possible without specific reforms in the Member States.

- In **Spain**, the extensive reforms on collective wage bargaining and employment protection regimes introduced in July 2012[12] are already supporting job creation.
  - The OECD finds that "the reform could be considered responsible for about 25,000 new permanent contracts each month"[13].
  - In consequence, we have seen falls in unemployment that came much earlier in the economic cycle than what would be normally expected. After a peak at 26.3% in February 2013, unemployment fell to 23.9% in November 2014.
  - In the long run, the OECD estimates that "labour productivity should grow faster by about ¼ of a percentage point each year in the business sector as a result of the reform". This would translate into 0.15 faster annual GDP growth.

[12] In short, the reform consisted of two elements: first, it introduced changes in the collective bargaining system and it made it easier for firms to opt-out from a collective agreement and implement internal flexibility measures. Second, modifications were made to the provisions of Spain's Employment Protection Legislation (EPL), including a reshaping of the definition for unfair dismissal, reducing monetary compensation for unfair dismissal and eliminating the requirements of administrative authorisation for collective redundancies. For SMEs, a new permanent contract for full-time employees was introduced that entailed an extended trial period of one year.
[13] OECD (2014), The 2012 Labour Market Reform in Spain: A Preliminary Assessment, OECD Publishing. http://dx.doi.org/10.1787/9789264213586-en

- **Ireland** is one of the Euro-area countries where unit labour costs declined considerably and where we now see large improvements in the current account balance (from -2.3% of GDP to an estimated 6.6% in 2013).
  - ➔ Ireland made significant reform efforts to enhance labour market flexibility and improving training for the unemployed.
  - ➔ Early benefits can already be seen in unemployment rates that fell from peak 15.1% in early 2012 to 10.7% in November 2014.

- For **France**, the OECD estimates that recent reform efforts to reduce the tax wedge and active labour market policies should boost GDP by 0.6% over 5 years and 1.3% over 10 years.
  - ➔ Nevertheless, the OECD notes that future reforms need to be pursued and their pace accelerated, widely addressing high minimum wages and ensuring that labour law legislation will not discourage high permanent wages.

- **Greece** implemented significant reforms in 2012, reducing the minimum wage and introducing more flexibility in the wage-setting and mediation mechanisms and dismissals.
  - ➔ As a result the decline in salaried private-sector employment that had been continuous since the onset of the crisis was brought to an end. Subsequently, during 2014 job growth became significant demonstrating that the increased flexibility indeed worked towards the protection of jobs.

Product market reforms

Reforms of labour markets can be most effective in delivering growth when accompanied by product market reforms to encourage firm creation and increase competition.

- In **Spain**, efforts to reduce the cost and complexity of registering new companies may have led to a rise in the entry rate for micro-enterprises[14].
  - ➔ In particular, the fall in the number of firms in the retail sector which took place following the crisis has been reversed as a result of the reforms. From 2010 onwards, new micro-enterprises increased from 9.4% to 11.7%.

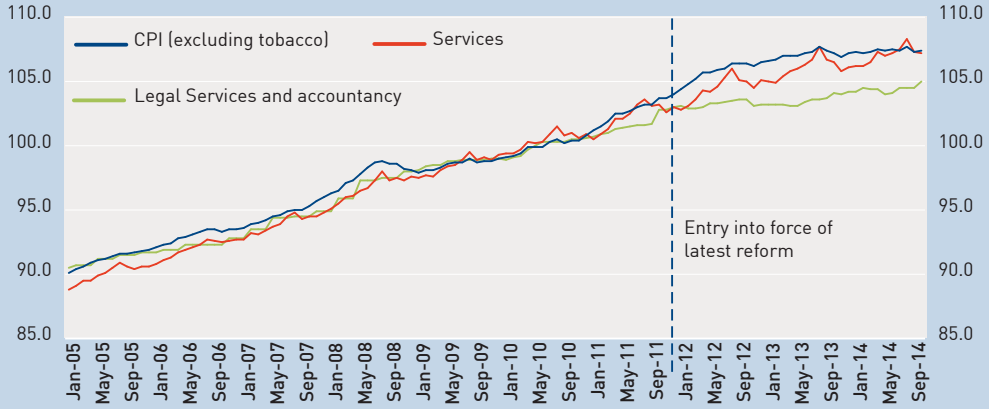
- In **Portugal,** efforts in 2011 to replace authorisation/licensing and substituting them with an online declaration platform has contributed to increasing company start-ups[15].
  - ➔ The removal of complex authorisation schemes had positive effects on the number of new companies entering the market ("birth rates"), especially in the accommodation and food and beverages sectors targeted by the project.
  - ➔ The birth rates of enterprises as a share of active enterprises increased in the accommodation sector from 11.2% to 12.9% while it increased in the food and beverages sector from 7.5% to 10.9% between 2010 and 2012.

- In **Italy,** efforts to liberalise professional services and to create a more competitive environment have improved prices for consumers.
  - ➔ From January 2012, when the reform became operational, prices in professional services grew by 1.8% at a considerably slower pace than the overall services prices that increased by 4.3% (figure 24). Previously, the different price indices increased at roughly the same pace.

[14] European Commission, European Economy 5/2014. The reforms include the removal of authorisation schemes such as licensing requirements for small retail establishments.
[15] European Economy 5/2014

Figure 24 **Deregulation in legal services and accountancy has increased competition and lowered prices**

Evolution of price indices, January 2005 - September 214



Source: European Commission & Italian National Institute of Statistics (ISTAT)

- In **Greece,** efforts to improve business regulation have led to the country's rise of 97 places in the "Starting a Business Index" of the World Bank "Doing Business Report"[16].
  - Greece introduced among others, an electronic registry to simplify the creation of new businesses ("GEMI") in April 2011 and introduced a new form of limited liability corporation ("IKE") without capital requirement.
  - Licencing procedures, that were excessively complex, are gradually being streamlined. Tangible improvements are already obvious for smaller companies.
  - Numerous reforms have removed obstacles to the competitive working of markets. A short list of examples includes the deregulation of entry and fees in legal services and fees for engineers, the licencing of bakeries, the hiring of limousines and the sale of pasteurised milk, abolishing the need to certify copies of documents for official use and liberalising the home-porting of cruise ships.

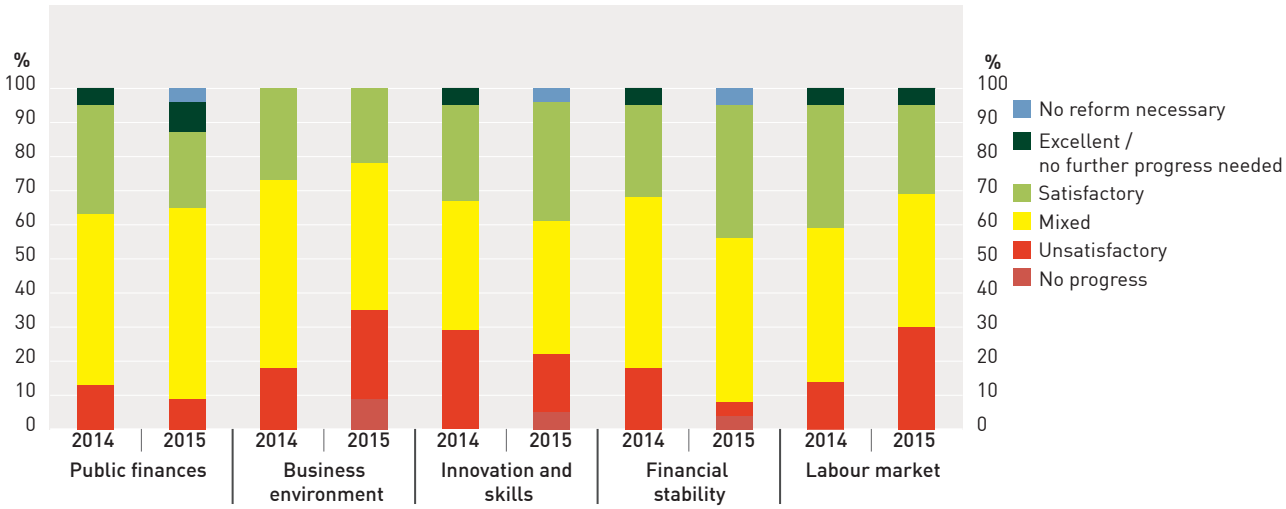
[16] The country rose from the 149th place in 2011 to the 52nd place in 2014.

II. PROGRESS BY AREA

In addition to assessing reform effort in implementing the Country Specific Recommendations, BUSINESSEUROPE member federations have assessed reform progress in five broad policy areas that correspond to the areas analysed in Part 1 of this report.

Figure 25 **Reform progress by main policy areas**

Member Federations' assessment of reform progress by main areas



Source: BUSINESSEUROPE Survey of Member Federations

- Progress has been particularly slow in terms of improving the **business environment**, notably regarding the high costs of doing business and limited progress on the single market. Federations in Italy and Croatia are particularly concerned about reforms in this field alongside business representatives from Sweden, Portugal, Hungary, France, Bulgaria and Belgium. Businesses across Europe also report an increasing number of national measures that de facto restrict free movement in the single market, often to protect own industries or create an artificial level playing field.
- Strong dissatisfaction with progress in terms of **labour market** reforms is also clear. Some countries have adopted important reforms or pursued the reform agenda in the last year, such as Italy, Spain or Finland and to a certain extent Belgium. But overall the actions taken are largely insufficient to increase employment, sustain social systems and achieve a better skills match. Bolder actions to address growth bottlenecks in labour markets and social policies will be essential to reduce unemployment in Europe. More specifically, wage setting continues to be a major source of concern in many Member States. A statutory minimum wage has been introduced in Germany and is expected to impact negatively on job opportunities especially for low-skilled workers. Wage increases not reflecting productivity (Hungary) or with no formal consultation of social partners (Bulgaria) have also been reported. Also negatively, Poland has introduced a reform which limits the flexibility of fixed-term contracts. By contrast, the labour market reform in Italy is very positive and is expected to have a positive impact on growth and employment creation. The positive role played by social partners in Finland with their negotiation of an important reform of the pension system is also worth highlighting as it shows that social partnership can be helpful to achieve necessary change in some issues.
- We believe that reforms of **innovation and skills** systems have slightly improved from last year. But more efforts are needed to ensure skills reforms become clear and more tangible, in particular by addressing skills mismatches, skills development and attracting talents. Examples of improvements in innovation include Italy, where tax measures have been introduced to improve research and innovation investment.
- In terms of **financial stability**, the large number of reforms introduced in the past years make reform in this area less urgent. There is however the concern that reforms to improve the stability of the financial sector have been taken too far, with their cumulative impact affecting negatively the real economy.

- Progress has been also continued in terms of **public finances** with several members exiting excessive deficit procedures. Federations from Hungary, Ireland and Latvia are particularly positive about reforms in this area.

BOX 4 ASSESSMENT OF RECENT LABOUR MARKET REFORMS

Flexible labour markets

Objective: Flexible labour markets that are characterised by the availability of different contractual arrangements, as well as the necessary working time and wage flexibility, including aligning wages with productivity levels, while respecting the autonomy of social partners in the collective bargaining process.

Positive

- **Poland**: Increased employment flexibility by providing the possibility to work on Sundays and holidays for operators providing cross-border services.
- **UK**: A flexible labour market is critical to UK competitiveness and the ability of businesses to grow. It allows firms to respond quickly to growth opportunities and provide individuals with the opportunity to fit work around other commitments, such as caring or studying. Flexible contractual arrangements, such as part time and zero hour contracts, helped to keep people in work during the recession and have contributed to record levels of employment in the UK.

Negative

- **Poland**: Amendments to the Labour Code proposed on provisions concerning fixed-term contracts. The bill tabled in the autumn of 2014 limits the flexibility of fixed-term contracts, imposes contract termination conditions which are equal to those applicable under indefinite-term employment contracts. This will substantially increase the employment protection level and reduce the flexibility of the Polish labour market.

Encouraging employment by making work pay

Objective: Reducing the tax burden on labour, including targeted cuts in employer's social security contributions, will encourage employers to hire more staff. Employment also needs to be a more attractive option than income support.

Positive

- **Belgium**: slight "gradual reduction of unemployment benefits" (FR: dégressivité) in unemployment benefits to reduce disincentives to work for long-term unemployed and youngsters ‹ 25 years.
- **Spain**: 1/ Reform of the active employment policies, which homogenises policy implementation in all the Autonomous Communities and makes the public funding conditional on the achievement of measurable results. 2/ Launching of the National System of Youth Guarantee, aiming to the improvement of skills and employability of young people. 3/ Promotion of public-private partnerships in labour intermediation services.
- **Poland**: Amendment of the Act on the promotion of employment and institutions of the labour market which provides for activities under the ALMP. Expected this will contribute to making the PES and the ALMP more effective. However, in creating those incentives, no effort was made to simultaneously reduce the obstacles that make the situation of those persons in the labour market more difficult.
- **UK**: The continued roll out of Universal Credit (UC) aims to merge a number of benefits in order to simplify the system and ensure that work pays. UC will make it easier for individuals to recognise the financial benefits of work and in smoothing out the artificial thresholds the new system will increase flexibility as businesses will not have to organise staffing according to welfare policy.

Negative

- **Germany**: Minimum wage: introduction of a statutory minimum wage of €8.50 per hour (effective 1 January 2015), which will worsen the job opportunities especially for low-skilled workers. Only a very limited number of exceptions for special groups such as the long-term unemployed, apprentices and trainees are foreseen.
- **Bulgaria**: Minimum wage increase for 2015 (+11.8%) set without formal consultation of social partners; setting of minimum and maximum social security threshold for 2015 neglecting employers' federations official opinion.

Sustainability of social protection systems

Objective: Social protection systems need to be sustainable to cope with high levels of unemployment in the short-term (through encouraging people into work) and Europe's ageing population in the long-term. Pension reform - linking the retirement age to life expectancy - will help address the demographic challenge.

Positive

- **Finland**: Major pension reform negotiated by social partners. Main objectives: extend working careers by at least 1.5 years and raise effective average retirement age to at least 62.4 years by 2025; help reduce the sustainability gap of public finances by 1.1 % of GDP and promote employment; secure financing of statutory earnings related pensions and abolish pressure to increase the level of pension contributions.
- **Belgium**: 1/ Reduction of early-exit possibilities. 2/ Higher statutory retirement age and longer career length requirements.

Negative

- **France**: From 1 January 2015 any employer must take into consideration 4 "arduous/ strenuous work factors: night work, repetitive work, shift work and work in a compression chamber". Each employee earns bonus points and can be eligible to early retirement or to specific training. The system is a source of complexity, legal uncertainty and is very costly for business.
- **Bulgaria**: Changes in the social security ("right for choice" between second and first pillar - additional pension provided by private pension fund and first pillar for those born after 1959) without formal consultation of social partners.

Educate for employment

Objective: Education curricula need to be better aligned to the needs of the labour market with a focus on employability and overcoming skills mismatches. Resource-efficient training schemes are also required, inside and outside companies, on a cost-sharing basis.

Positive

- **Spain**: Recent Organic Law on the Improvement of Quality Education introduces dual vocational training. Represents a good step to bring the worlds of education and business closer. Royal Decree on a new training and learning contract going in the same direction of strengthening the dual VET in Spain. Although further efforts are needed to increase the labour market relevance of education and training.
- **UK**: Progress is being made on the government's agenda, including raising the participation age and requiring maths and English to be studied to a GCSE 'C' grade level until 18. Positive apprenticeship reform continues, however the progress on the funding reform has been slow.

Other

- **Austria**: Austria has a long tradition in apprenticeship training. The current government programme encompasses the further development of the dual system.
  Besides the general school system needs to be revised. IV has presented a new model for an Austrian school system that is currently discussed with all relevant stakeholders.

III. PRIORITIES

We have also surveyed our Member Federations regarding future reform priorities, with the results summarised in figure 26.

Figure 26 **Reform priorities rank for 2015**
Member Federations' assessment of priorities for reform in 2015

	Difference from 2014
1 Business environment	+1
2 Tax reforms	+3
3 Public sector efficiency	+3
4 Pension and health care reforms	-1
5 Consolidation of public expenditures	-4
6 Active labour market policies	+1
7 Labour market mismatch and labour mobility	+4
8 Public investment	+7
9 R&D and Innovation	-1
10 Long-term investment instruments	+2

Source: BUSINESSEUROPE Survey of Member Federations

- Improving the **business environment** is the key priority for BUSINESSEUROPE members in order to address the weaknesses around the cost of doing business and the single market, which are so damaging for investment.

- **Tax reforms** have become a higher priority for business over the last 12 months. As recommended in chapter 1, Member States must achieve a more growth-friendly composition of fiscal policies by reducing the tax burden, particularly by reducing taxes on labour and capital. It is also important to have stable, predictable tax systems, and make the administration of tax systems more simple, transparent and user-friendly.

- In line with reducing the tax burden, members are increasingly focussed on the need to improve the **efficiency of the public sector**, with **health and pension reforms** remaining an important priority.

- When it comes to reform priorities on the labour markets, **active labour market policies** (ALMPs) are one key area where performance should be improved, by assessing the cost effectiveness of spending in achieving employment outcomes. **Mobility** should also be a reform priority: it is a key component of the single market, helps optimise job opportunities available and address **mismatches** between labour supply and demand.

- Business also giving increased prominence to the need for **targeted increases in public investment**, particularly when used to address key infrastructure and skills barriers where investment can increase growth. Some Member States need to increase their public investment, while others need to optimise it. Drawing on the flexibility within the Stability and Growth Pact, Member States should prioritise public investment, while at the same time ensuring the sustainability of public finances.

IV. IMPROVING THE EUROPEAN SEMESTER

This report has once again highlighted the poor level of implementation of reforms in many Member States. We believe a number of reforms need to be taken forward to strengthen the role of the European Semester in supporting structural reform.

- **Improve implementation**: The European Semester must have an increased focus on implementation, with discussion based on independent analysis in the Council. Such discussion can be supported by ensuring the CSRs are accompanied by detailed roadmaps for implementation with specific, measurable milestones. Greater prioritisation of CSRs can also ensure more key reforms are delivered.

- **Improve ownership**: Political discussion at national level must be enhanced. Commissioners can play an important role in communicating the EU's role in Member States to European capitals raising political awareness is important to improve local ownership. Similarly, enhancing consultation and involvement of social partners at national and European level can improve both the formulation and implementation of the CSRs.

- **Improve coordination**: In addition, the cross-border dimension and spillover effects of reforms need to be properly analysed and discussed with other Member States, when relevant and appropriately addressed.

BUSINESSEUROPE

BUSINESSEUROPE is the leading advocate for growth and competitiveness at European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for all-sized enterprises in 33 European countries whose national business federations are our direct members.

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Denmark	Denmark	Estonia	Finland	France	Germany
Germany	Greece	Hungary	Iceland	Iceland	Ireland
Italy	Latvia	Lithuania	Luxembourg	Malta	Montenegro
Norway	Poland	Portugal	Portugal	Rep. of San Marino	Slovak Republic
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