2023

REFORM BAROMETER

THE EU'S GLOBAL COMPETITIVENESS UNDER THREAT

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MARCH 2023

WHO ARE WE?

BusinessEurope is the leading advocate for growth and competitiveness at the 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 around 20 million enterprises of all sizes in 35 European countries whose national business federations are our direct members.

ABOUT 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. Moreover, complementing the European Commission's yearly European Semester consultation that suggests reform policies that can boost sustainable growth in Member States, we carry out a similar business semester process to lay out clear policy recommendations about how we can help our European companies succeed, as a thriving business sector is a necessary foundation to reach higher living, wage and income and provide funding to achieve many of the political goals and objectives, such as the green transformation to a climate-neutral economy, that we need to pursue in the 21st century.

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FOREWORD

2022 was an exceptionally challenging year for many EU businesses. Russia's illegal invasion of Ukraine in February led to skyrocketing energy prices, further disruptions to global supply chains and transport links, as well as higher food and raw material prices. Amidst an increasingly uncertain geo-political environment and exceptionally tight labour markets, businesses also had to contend with increased interest rates, raising financing costs and dampening consumer demand.

Recent months have seen more positive developments, including falling wholesale gas prices in the EU following a relatively mild autumn, and the easing of some global inflationary pressures, particularly as China reopened its economy post-Covid. But it's increasingly clear that EU businesses, particularly in more energy-intensive manufacturing industries, are facing a battle for long-term survival on global markets.

This year's Reform Barometer shows almost all our members think the EU investment environment is viewed less favourably vis-à-vis our global competitors than 3 years ago. Our members point in particular to two long-term challenges pushing investment away from the EU. Firstly, an increasing regulatory burden for EU companies means that almost half of our member federations see the regulatory burden here significantly higher than in other developed nations. Secondly, EU businesses are facing the prospect of long-term energy price rises well in excess of major competitors, with wholesale gas prices for summer 2025 trading at over 4 times their pre-Covid level in the EU, compared to less than twice pre-Covid levels in the United States.

Alongside these factors pushing investment away from the EU, the support for industry seen in other major regions, most recently through the U.S.'s Inflation Reduction Act (IRA) which seeks to provide up to $369billion dollar to US-based businesses for industrial transformation, is acting as a significant pull factor to invest outside the EU.

The answer to Europe's competitiveness challenge is not a global subsidy race. Instead, we need a comprehensive EU response to initiatives such as the IRA. This must address both long-term challenges such as high taxes, underdeveloped capital markets, and a lack of investment in R&D, as well as the more pressing need to provide regulatory breathing space to businesses and support the transition to a green economy through targeted EU programmes and a more flexible and simpler state aid framework.

In 2022 we saw the EU unite in leading the West in its response to Russia's invasion of Ukraine. The same unity and sense of purpose is now required from EU policy-makers to reverse the trends and to make Europe the place to be again for industrial investment and to ensure we are able to fully grasp the opportunities from the ongoing green transition to deliver EU growth and prosperity.

Fredrik Persson,
President

Markus J. Beyrer,
Director General

EXECUTIVE SUMMARY

PART 1: EU COMPETITIVENESS IN A GLOBAL PERSPECTIVE

2022 has been a challenging year for many businesses globally, but the EU's status as a net importer of energy, particularly Russian gas, has meant **our economy has been particularly exposed to the economic impacts of Russia's illegal invasion of Ukraine** in February 2022.

Whilst the reopening of the services sector after the Covid-crisis supported economic growth in the first half of 2022, the second half saw companies increasingly suffer from the impact of rising energy prices, higher financing costs and falling consumer demand.

With most forecasters, including BusinessEurope, expecting minimal growth in the EU economy in 2023, it is crucial that the EU urgently puts in place a framework to allow businesses to compete successfully in the global economy, and deliver much needed rises in living standards.

BUSINESS ENVIRONMENT

Regulatory burdens keep mounting in the EU

The majority of our member federations consider regulatory burdens to be higher in the EU than in other major developed economies, with many member federations reporting that this regulatory burden has increased over the past 12 months. Our members have also noted a **decline in the quality of application of EU better regulation tools** in recent years.

High energy prices are a key risk for competitiveness

A secure and competitively priced source of energy is an essential part of the business environment, particularly for manufacturers. Wholesale gas prices increased in the EU by over 1100% between 2019 (average) and their peak in Q3 2022, compared to increases of around 200% in the USA and 100% in Japan during the same period[1].

EU businesses are facing the prospect of **long-term energy price increases well in excess of major competitors**. Wholesale gas prices for summer 2025 are currently trading at over 4 times their pre-Covid level in the EU, compared to less than twice pre-Covid levels in the USA.

Investment has fallen as the EU has become less attractive for global investment.

The sharp rise in energy prices for EU companies in comparison to international competitors, combined with generous new financial support, for example in the USA through the Inflation Reduction Act, has raised questions about the attractiveness of the EU as an investment location.

Around 90% of our member federations believe that **global firms see the EU as a less attractive investment location in comparison to our international competitors than was the case 3 years ago.**

[1] TTF benchmark used for Europe, Japan LNG and Henry Hub for the USA.

Foreign direct investment inflows to the EU fell by 68% in 2021 compared to 2019 (pre-Covid), contrasting with a 63% increase in the USA during the same period.

The number of greenfield investment projects in the EU fell by 15% between 2021 and 2022, compared to an 18% increase in the US during the same period (UN/fDi markets).

POLICY RECOMMENDATIONS:

- **Remove regulatory barriers in the Single Market** in areas such as energy, environment, digital, retail, banking & capital, health and defence.
- Ensure that the **design of the consultations supports evidence collection for impact assessments** and extend the mandate of the **Regulatory Scrutiny Board. Make competitiveness checks mandatory** at both technical level (in impact assessments accompanying regulatory initiatives) and political level (assessment of new strategies, policies, programmes).
- **Reduce energy prices significantly**. In particular, by reducing taxes and levies on energy which make up a significant share of energy and electricity bills, we can help reduce the significant price gap with the rest of the world. A revision of European energy market design can also help secure a competitive and sustainable energy supply, while improving price signals for investment.
- In order to support industrial transformation, particularly in light of the U.S. IRA act, **maximize the effectiveness, and accessibility of existing EU instruments** (for example Horizon Europe, Invest EU), and improve **the regulatory framework for state aid**, by making it more transparent and predictable.
- **Speed up and simplify permitting and funding procedures**, which are key bottlenecks for projects and investments needed for a successful green and digital transformation.
- **Boost trade opportunities through concluding and ratifying trade agreements**, in particular with Australia, India, Chile, Mexico, New Zealand and Mercosur. **Strengthen supply of and access to critical raw materials** by swiftly adopting a well-designed Critical Raw Materials Act that secures supply.

TAXATION AND PUBLIC FINANCES - A RENEWED NEED TO STRENGTHEN

Sustainable public finances are of key importance for long-term growth. As we move out of the crisis, **Member States must take increased steps to strengthen public finances**.

EU governments' borrowing is still expected to average 3.6% of GDP in 2023, **with government debt of 86%** on average in the EU, still significantly above the 60% benchmark set out in the Maastricht Treaty.

Member States must develop tax systems that are **supportive of growth and employment**, with the Tax Foundation's International Tax Competitiveness Index showing that EU Member States lag behind other regions. The **average tax wedge on labour** is about 30% higher in the EU than in the USA.

POLICY RECOMMENDATIONS:

- **Agreement on new fiscal rules is urgently needed** ahead of Member States setting their 2024 budgets. Given high debt and deficit levels in some countries, a credible and respected framework is essential to maintain public finance sustainability in the EU.
- The European Commission's proposals focussing on Member States' net primary expenditure can potentially **simplify the rules**. But the rules must not provide excessive flexibility in their interpretation. The reference values of 3% of GDP for government deficits and 60% for government debt should continue to be part of the framework.
- We welcome the proposal to **support Member States undertaking growth-enhancing reforms and public investment** through a longer fiscal adjustment path. But this needs to be carefully monitored to ensure proper implementation.
- Greater ownership by Member States can potentially **enhance the enforceability of the rules.** Greater flexibility must go hand in hand with a stronger and more credible enforcement framework, linked to the possible withdrawal of Commission funding.
- Member States must ensure their tax systems support growth, **by reducing taxation on labour and capital (including corporate tax)**. They must ensure the **administration of their tax systems** becomes simpler, more predictable, more transparent, and user-friendly.

ACCESS TO FINANCE - STILL WORK TO DO

Access to finance on reasonable terms is a pre-condition for companies to thrive and make the investment necessary to drive growth, foster employment and maintain competitiveness.

Overall financing conditions in the euro area are now slightly tighter than pre-crisis, with the ECB's euro-area bank lending survey pointing to a tightening of credit standards through 2022.

EU companies continue to be more reliant upon debt than the more equity-focused US companies, with bank loans accounting for around 28% of non-financial corporations' liabilities in 2020, compared to 11% in the USA.

With growing uncertainty in the global economy, we saw venture capital funding fall dramatically in all major regions through 2022. Most importantly, **venture capital funding remains significantly lower in the Europe than in the USA**, with Asia also now the home of more venture capital funding than Europe.

The **number of bankruptcy declarations among EU businesses in Q4 2022 reached its highest level since record began**, increasing by 26.8% compared to Q3, following increases in each quarter of 2022.

POLICY RECOMMENDATIONS:

- Ensure that **financial regulation supports businesses' access to finance** during a challenging period where we see bankruptcies rising across the EU. In particular, new prudential rules for financial institutions, including the **implemention in the EU of the international Basel III agreement** must not significantly increase capital requirements overall.
- **Promote alternative sources of financing to bank lending**, including enhancing access to venture capital and mobilise more equity capital for entrepreneurs.

- **Ensure that actions to support sustainable finance are proportionate**, workable and accommodate the needs of the financial markets as well as the real economy to help companies finance their transition and funnel investments to support greening the economy.

INNOVATION – THE EU CONTINUES TO LAG ON KEY METRICS

The EU's innovation and technological capability is fundamental to our ability to attract and retain high-quality, high-productivity jobs, and take forward the green and digital transformations.

EU R&D investment, at 2.3% of GDP, remains below Japan and the USA where it is over 3% of GDP.

Of the 2500 companies globally investing most heavily in R&D, only 361 come from the EU, compared to 822 in the USA.

The EU continues to lag behind the USA in terms of the number of world class universities (although both regions have seen a fall in their global share as other regions take steps to develop).

POLICY RECOMMENDATIONS:

- **Member States should increase research and development (R&D) spending and** support stronger private-sector R&D investment in order to reach the EU's target of 3% of GDP. Use the **mid-term review of Horizon Europe programme** in 2023 to review current procedures and where possible simplify and fast-track them.

- **Digitalisation of public administration** must be rolled out including secure and efficient interface with businesses.

- **A strengthened digital infrastructure**, including large scale 5G, is essential to allow the EU to adopt the latest technologies and enable businesses to compete globally. The EU must support, through schemes such as the Digital Europe programme, **greater investment in a range of cybersecurity actions.**

- **Speed up the roll out of regulatory sandboxes** to allow for rapid experimentation and disruptive innovation to test next technologies.

- There is a need to further incentivise training provision, with social partner-led approaches potentially playing a particularly important role in **equipping people with relevant skills.**

PART 2: MEMBER FEDERATIONS' ASSESSMENT OF KEY COMPETITIVENESS CHALLENGES

Chapter 2 considers our member federations' assessment of the present competitiveness challenges, and the policy response, in terms of the implementation of the recovery and resilience plans (RRPs) and the (linked) country-specific reform recommendations (CSRs) of the European Semester. We find:

Member federations perceive energy prices as the biggest challenge to Europe's investment environment (almost 90% of our members perceive energy prices as one of the top three challenges). The regulatory environment is perceived as one of the top three challenges by almost 60% of our members.

Member federations identify rising energy prices as the main driver for the EU's deteriorating competitiveness over the last 3 years compared to other regions, and also point to factors such as access to **raw materials, demographic change, and the regulatory environment** as increasingly important competitiveness challenges.

Member federations see scope for significant improvement in terms of the EU's economic policy response to the energy crisis, with only 22% judging the EU's economic response as very good or excellent, compared to over 60% of federations who considered the EU had done an excellent or very good job in handling the response to the COVID crisis.

Member States' implementation of their Recovery and Resilience Plans (RRPs) is slightly more negatively assessed now than in the previous year. Only 23% of federations are either satisfied or very satisfied with the implementation (compared to 29% in our 2022 survey).

Member federations need to be better involved by governments in the implementation of the RRPs. Only 17% of federations are satisfied with their role in the implementation process compared to 70% last year.

POLICY RECOMMENDATIONS:

- → The swift execution of the Recovery and Resilience Facility will remain vital in 2023. Overall, only 20% of requested grants and loans have been disbursed so far. **The European Commission must continue to ensure that Member States invest funds from the Recovery and Resilience Facility as intended.**

- → **The European Commission should continue updating the Recovery and Resilience Facility Scoreboard**, which provides citizens with a clear tool to monitor progress. **All potential suppliers have access to information on calls for tenders** in National Recovery and Resilience Plans, in **compliance with Single Market rules.**

PART 1
EU COMPETITIVENESS IN A GLOBAL PERSPECTIVE

01

INTRODUCTION: THE SPECTRE OF INFLATION RETURNS

2022 has been a challenging year for many businesses globally, but the EU's status as a net importer of energy, particularly Russian gas, has meant our economy has been particularly exposed to the economic impacts of Russia's illegal invasion of Ukraine in February 2022.

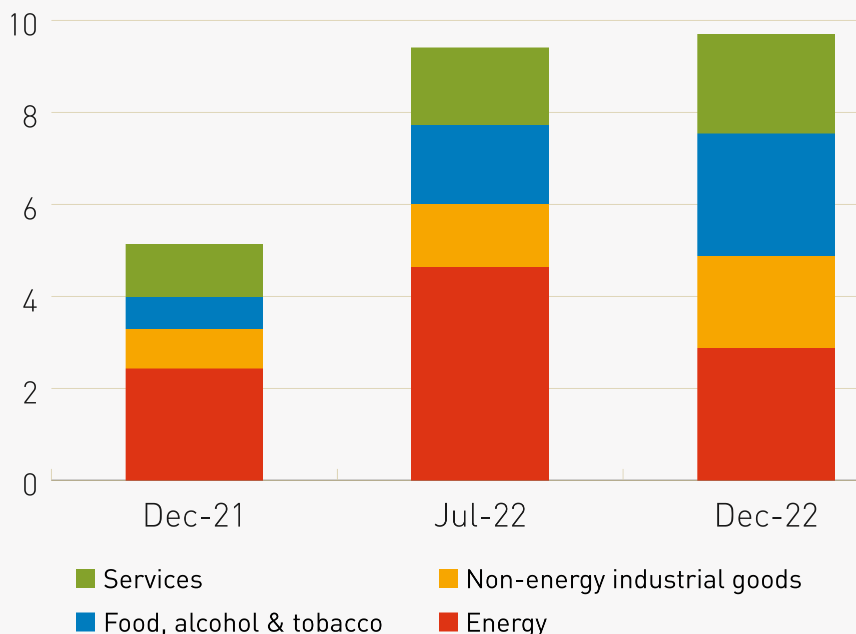
After starting the year facing rising prices for energy and raw materials, in part linked to the supply chain blockages that emerged following partial post-Covid opening of the global economy, Russia's invasion of Ukraine led to skyrocketing energy prices for households, but particularly businesses. With businesses unable and unwilling to fully pass such energy prices rises onto consumers, who themselves saw their disposable income reduced by rising energy and food prices, many EU businesses have seen operating margins cut substantially in the second half of the year, putting pressure on the survival of many.

Whilst we have seen global energy prices fall in the final months of the year, the pass through to businesses and consumers will take some time, and although headline inflation should fall (particularly as last year's huge rises drop out of the 12-month index), many businesses are likely to face high energy costs for a significant period.

Chart 1 also shows how price rises are slowly passing through into the broader economy, both directly where sectors are users of energy, and more indirectly through increases in wages, which are in part slowly being passed onto consumers. It's therefore important that the ECB continues to act decisively in pursuit of its mandate to maintain price stability, so as to ensure that inflationary expectations are not allowed to increase. This is particularly important in the context of wage negotiations, where it will be important that social partners continue to act responsibility to avoid a damaging wage/price spiral.

CHART 1 **Rising energy prices have slowly driven up prices in the broader economy**

Sectoral contributions to EU inflation

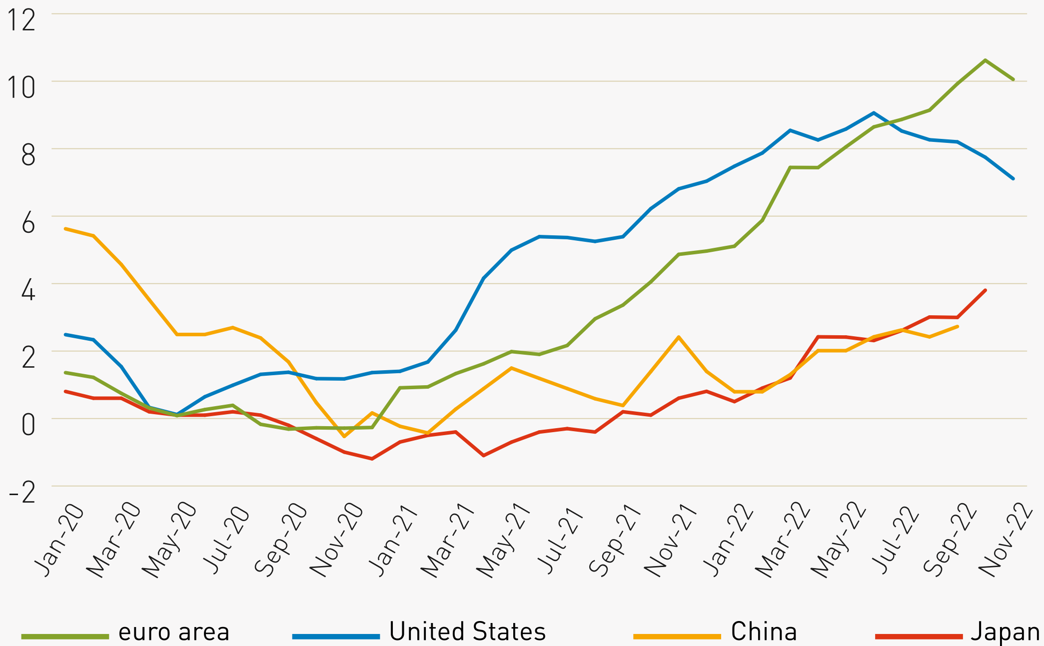


Source: Eurostat

Whilst inflationary pressures have been global, as chart 2 illustrates, the EU is presently seeing inflation rates above those of other major economies. With the USA, as a net energy exporter, much less exposed, particularly to rises in gas prices, they have now seen inflation rates, driven much more by domestic factors, clearly reach their peak. This in turn raises the prospect that interest rates may need to remain at higher levels than previously for a longer period in the EU than the USA, raising financing costs for businesses, as well as dampening domestic consumer demand.

CHART 2 **The EU has seen inflationary pressures rise more than in other major economies**

Inflation, selected major economies

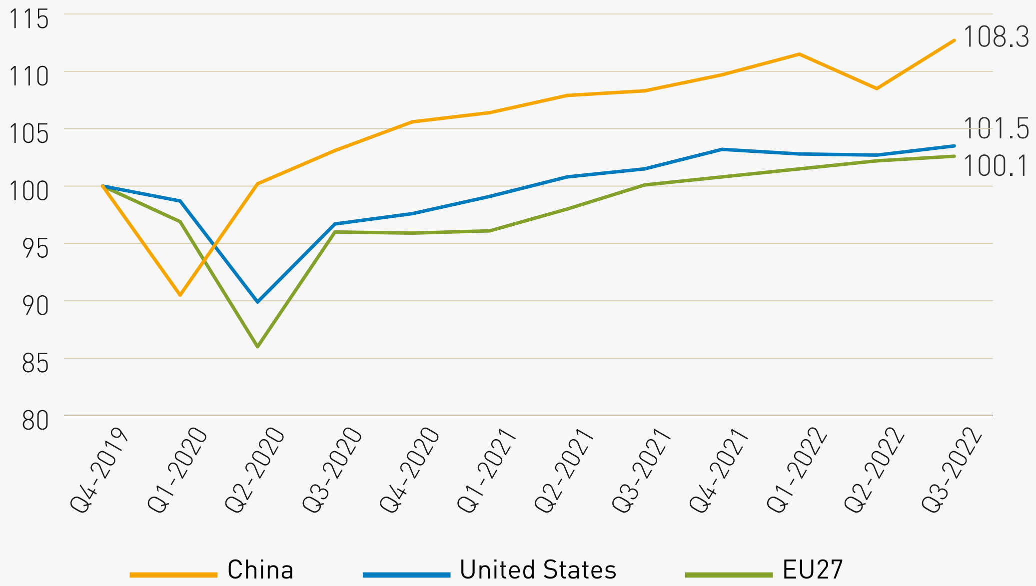


Source: own calculations based on OECD

In terms of output, on a positive note, the EU finally saw its economy exceed pre-Covid levels in 2022 (chart 3), with the first half of the year seeing some growth, particularly in the service sector which continued to open up following the removal of many of the remaining Covid-related restrictions at the start of the year. But the second half of 2022 has seen further challenges develop as manufacturers in particular suffered from the impact of rising energy prices (particularly in relation to international competitors, considered in more detail below), higher financing costs and falling consumer demand, all against an increasing uncertain geo-political and economic background.

CHART 3 **The EU economy is finally larger than pre-crisis, but was largely flat through 2022**

Quarterly real GDP level, seasonally adjusted, index Q4 2019 = 100

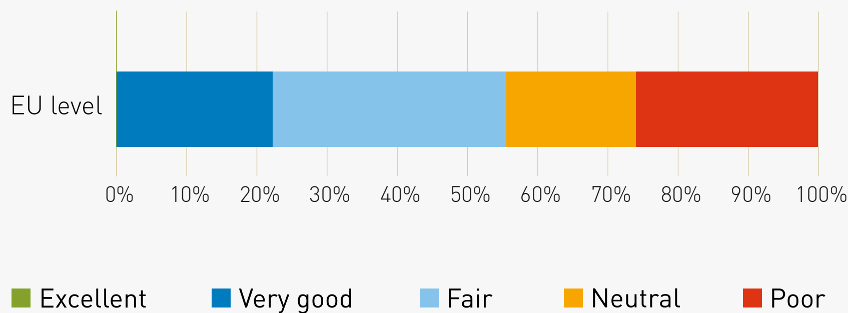


Source: own calculations based on OECD

Our own survey among member federations suggests that there is scope for significant improvement in terms of the EU's economic policy response to the energy crisis, with only 22% judging the EU's economic response as very good, in contrast to 59% considering it to have been fair or poor. This assessment of the EU's role is much less positive than last year's members' assessment of the EU's response to the pandemic, when more than 60% considered the EU had done an 'excellent' or 'very good' job in handling the response to the Covid crisis (chart 4).

CHART 4 **EU business federations see scope for significant improvement in the EU's response to the energy crisis**

Percentage of BusinessEurope member federations responding to the question "How do you judge the overall economic response from the European Union in 2022 to the energy crisis"?



Source: BusinessEurope, survey of member federations

With growth through the year largely flat, household incomes hit by rising energy costs, and most forecasters, including BusinessEurope, expecting minimal growth in the EU economy, it is crucial that the EU urgently puts in place a framework to allow our businesses to compete successfully in the global economy, and to deliver much needed rises in living standards.

ASSESSING THE EU ECONOMY POLICY ENVIRONMENT

Long-term sustainable EU growth requires a supportive policy environment in Part 1 of this report, we assess developments in the EU's economic environment offering high-level policy recommendations. The focus will be on 4 key areas: business environment, taxation and public finances, access to finance and innovation.

BUSINESS ENVIRONMENT

A competitiveness-friendly business environment is essential for company start-ups and expansion. Open markets with clear and properly enforced rules can promote competition, legal certainty and in turn, productivity growth.

Regulatory burdens keep mounting in the EU

A key foundation for a good business environment is clear regulation, with the avoidance of unnecessary rules and compliance costs.

With the World Bank no longer producing its Doing Business Report, internationally comparable data is scarce. However, in terms of more recent data, the German Regulatory Control Council has estimated that during the pandemic, newly added yearly compliance costs from the implementation of EU law (in Germany) was EUR 550 million[2].

Looking more broadly, regulatory barriers impeding cross-border business operations in the EU remain one of the key problems of business environment, amounting to EUR 713 bn of unleashed Single Market potential by 2029 alone[3].

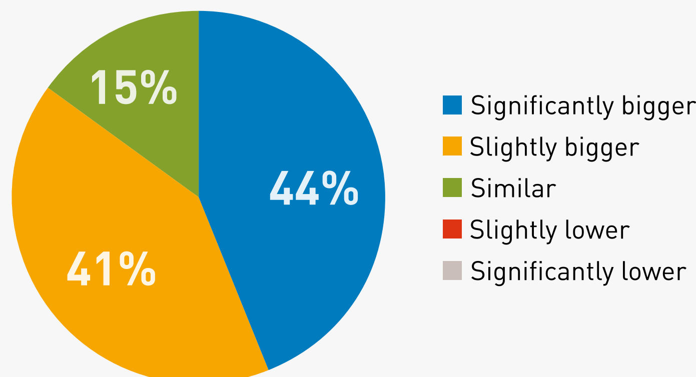
The 2023 survey of our member federations shows that the majority consider regulatory burdens to be higher in the EU than in other major developed economies (chart 5), and that for a large number of federations, this difference is significant. Many member federations also report that this regulatory burden has increased over the past 12 months.

[2] *https://www.normenkontrollrat.bund.de/resource/blob/300864/1959268/dfbaf1cf4066255b7c902e4000bb56c9/210916-jahresbericht-data.pdf?download=1*

[3] *European Commission, 10 March 2020, A new Industrial Strategy for a green and digital Europe (europa.eu).*

CHART 5 **Member Federations consider regulatory burdens to be larger in the EU than other major economies**

How do you view the impact and level of regulatory costs in the EU, when compared to other developed nations? (proportion of responses from member federations)



Source: Survey of member federations

Moreover, while the EU has set up a comparatively modern better regulation framework, the institutional setting still lacks the foundation for creating effective and proportionate laws. In particular, our members have in recent years noted a decline in the quality of application of EU better regulation tools, with deteriorating quality of the proposals and final legislative outcomes, including an exponential increase in the use of delegated acts by the Commission over the last decade[4].

Moreover, consultation with stakeholders regularly deviates from the standards set by the Commission, and the application of the one-in-one-out principle (OIOO) was delayed and did not apply to several legislations with an enormous impact on businesses at this challenging time. The quality of impact assessments by the Commission is often unsatisfactory, as also confirmed by the oversight body, the Regulatory Scrutiny Board, which noted in its 2021 Report that a key challenge in 2021 was to ensure the proper analysis of proportionality. The other noteworthy aspect, which will continue in 2022, is the close interlinkage between related initiatives. Coherence needs to be considered carefully when assessing linked initiatives, such as in the green and digital transitions. Furthermore, as noted by the OECD, the Council does not engage with regulatory impact assessments (RIAs) at all[5], and impact assessments of amendments by the European Parliament are limited, thus undermining the scope and use of the Commission's original RIA, despite the inter-institutional agreement signed in 2016 between the Council of the European Union, the European Parliament, and the European Commission[6].

Similarly, at Member State level, the impact of new EU laws is often not adequately assessed. RIAs are not required during the negotiation phase for a significant number of Member States, which could lead to omitting the impact of EU law on national specificities. Two thirds of Member States rarely or never assess the impact of gold-plating on the implementation of EU directives, and the same share fail to conduct RIAs during the development or adoption of EU directives and regulations. This is the case

[4] *Lund University Centre for European Studies, 2022*
[5] *https://www.cambridge.org/core/journals/european-journal-of-risk-regulation/article/abs/can-we-better-the-european-union-better-regulation-agenda/46A0BA96D46266FF5C8320A2DA3B937F*
[6] *https://www.oecd-ilibrary.org/sites/6e4b095d-en/1/3/2/index.html?itemId=/content/publication/6e4b095d-en&_csp_=2ca8c4c4a3deebb-9d09f5477c42bced6&itemIGO=oecd&itemContentType=book#section-d1e1576*

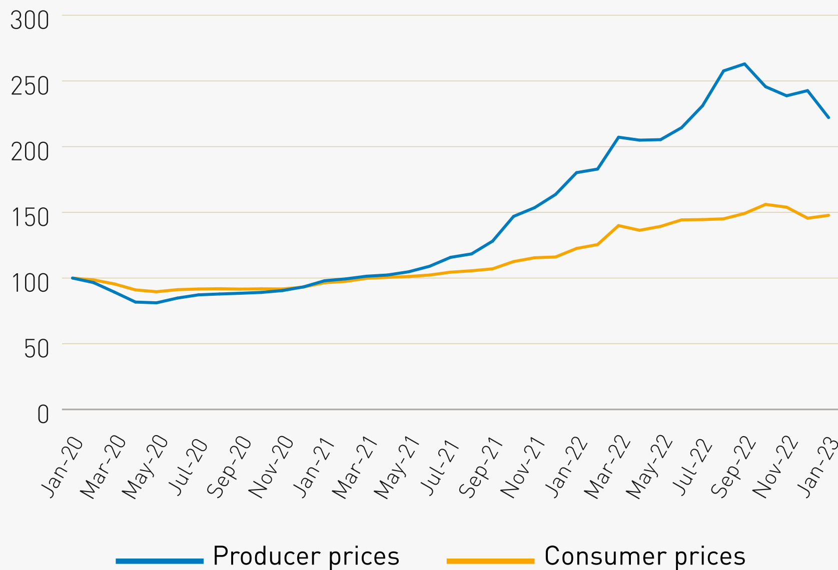
despite Member States having the capabilities to do so, given that all Member States report carrying out RIAs during the development of domestic regulation, according to the OECD[7]. Equally, there seems to be a lack of knowledge sharing between the Commission and national governments when evaluating the impact of EU law, with less than 15% of Member States sharing the results of their ex-post evaluations with the European Commission where the evaluation involved areas of EU legislative competencies.

HIGH ENERGY PRICES ARE A KEY RISK FOR COMPETITIVENESS

A secure and competitively priced source of energy is an essential part of the business environment, particularly for manufacturers. As has been well documented, we saw energy prices skyrocket during 2022, with Russia's illegal invasion of Ukraine having a dramatic impact on global energy markets which were already under pressure at the start of the year. Whilst the energy crisis has been global, it has also impacted the EU, as a net overall energy importer historically particularly reliant upon Russian gas imports, much more than other regions. For example, wholesale gas prices increased in the EU by over 1100% between 2019 (average) and their peak in Q3 2022, compared to increases of around 200% in the USA and 100% in Japan during the same period[8].

CHART 6 Skyrocketing energy prices have hit businesses even more deeply than consumers

Consumer and producer energy price indices, EU, January 2020 = 100



Source: Eurostat

As chart 6 shows, the rise in energy prices for consumers has been much less than would have been the case if they had been fully exposed to the price rises at earlier points in the supply chain (producer price), with many Member States taking steps to mitigate rising prices, particularly for vulnerable consumers. But it's also clear that businesses have seen much stronger price rises than households, with analysis by DG ENER showing that the average annual retail gas price (including taxes) for EU industrial consumers increased by 126% in Q2 2022 compared to a year earlier, more than twice the increase experienced by households (+62%) during the same period. Similarly, retail electricity prices for high-demand industrial consumers increased by 60% in the year to June 2022, twice as much as for households.

[7] https://www.oecd-ilibrary.org/sites/6e4b095d-en/1/3/5/index.html?itemId=/content/publication/6e4b095d-en&_csp_=2ca8c4c4a3deebb-9d09f5477c42bced6&itemIGO=oecd&itemContentType=book#section-d1e15637

[8] *TTF benchmark used for Europe, Japan LNG and Henry Hub for the USA.*

As a result, many businesses have had to absorb a growing share of input costs. For example, in Portugal and in Denmark, 50% of surveyed companies were absorbing a significant share of the recent cost increases, which are adversely impacting their markups. In Germany, energy prices pose an existential threat to 34% of companies from the sample. In Italy, operating margins in the manufacturing sector have decreased by 3.6% between Q4 2020 and Q2 2022 due to the inability of companies to match rising input costs. Thus, whilst some EU companies have seen profits increase or maintained during 2022, this to a large extent reflects either the very strong and exceptional performance of parts of the energy sector, or the fact the EU firms have seen profits supported by activities outside of Europe.

Whilst wholesale European gas prices have fallen from their peaks in the summer, EU businesses are nevertheless facing the prospect of long-term energy prices rises well in excess of major competitors. Wholesale gas prices for summer 2025 are currently trading at over 4 times their pre-Covid level in the EU, compared to less than twice pre-Covid levels in the USA.

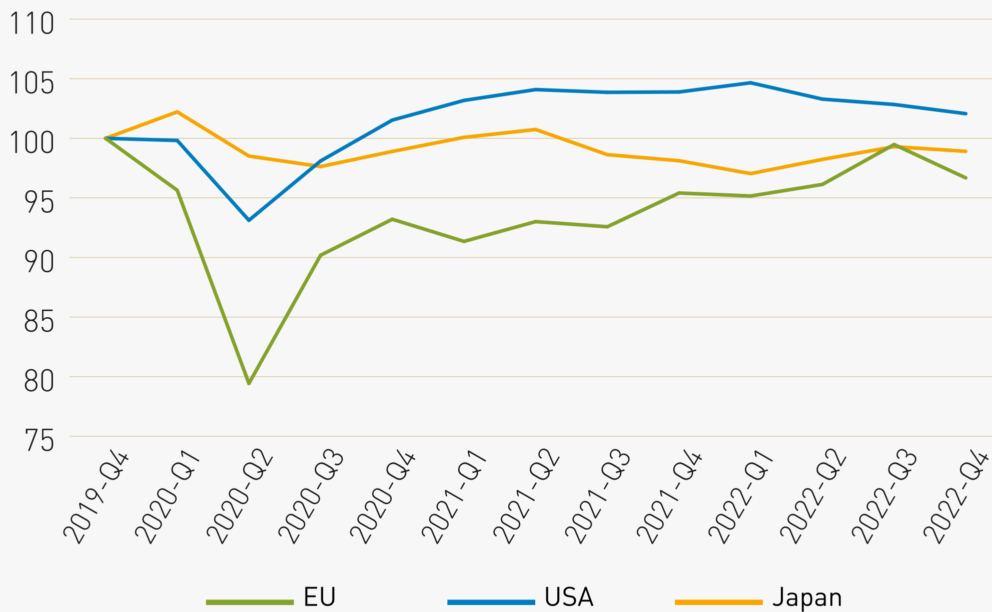
Investment has fallen as the EU has become less attractive for global investment

The sharp rise in energy prices for EU companies in comparison to international competitors, combined with generous new financial support, for example in the USA through the Inflation Reduction Act, has raised questions about the attractiveness of the EU as an investment location.

As chart 7 shows, overall investment was hit slightly harder in the EU during the early phase of the crisis, in part due to the US' larger fiscal stimulus. The EU has gradually returned towards pre-Covid investment levels through 2022, with investment around 1% below 2019 levels in Q3 2022, whilst US investment was around 2% above pre-Covid levels.

CHART 7 **Investment was hit harder in the EU than in the USA during the pandemic**

Gross fixed capital formation, current prices, index Q4 2019 = 100



Source: OECD

Foreign direct investment data points to the EU facing strong challenges, with FDI inflows falling by 68% in 2021 compared to 2019 (pre-Covid), whilst the USA saw a corresponding increase during the same period of 63%, with companies taking advantage, in particular, of the more supportive corporate tax environment following the implementation in the USA of the Tax Cuts and Jobs Act. Nevertheless, with FDI data driven to a large extent by mergers and acquisitions, surveys such as those by EY[9] looking at greenfield (i.e., new) investment projects are helpful in gaining an additional insight into business investment. The EY analysis shows that greenfield FDI improved in the EU in 2021, with 5,877 new projects announced, up by 5% compared to 2020, albeit still 12% below the 2017 level.

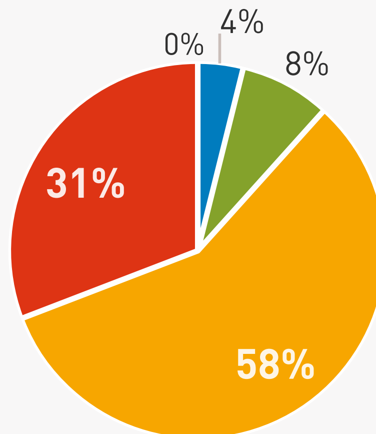
More worryingly, the EY survey also notes that only 25% of businesses surveyed after the middle of March planned to establish or expand operations in Europe over the next year, compared to 79% before March, illustrating the, at least, short-term impact of the Russian invasion of Ukraine and subsequent increase in uncertainty on investment. This more negative trend for 2022 is backed up by UN/fDi markets data showing that the number of greenfield projects in the EU fell by 15% between 2021 and 2022, compared to an 18% increase in the USA during the same period.

A survey of our own member federations illustrates the increasing issue of the long-term attractiveness of the EU as an investment location (chart 8). In particular, around 90% of our member federations believe that global firms see the EU as a less attractive investment location in comparison to our international competitors than was the case 3 years ago.

With Europe entering the pandemic with a longstanding investment gap with the USA, and the green and digital transitions clearly requiring a step change in investment levels, it will therefore be essential that policy-makers work on all levels to improve the attractiveness of the EU business environment in the coming months, building on the Commission's February 1st Green Deal Industrial Plan.

CHART 8 **Almost all our member federations think that the EU is relatively less attractive to investors, vis -à-vis other regions than it was 3 years ago.**

Percentage for member federations responses to the question 'How do you think the EU investment environment is seen by global firms vis-à-vis international competitors, compared to 3 years ago?'



Source: BusinessEurope survey of member federations

[9] *EY, EU attractiveness survey May 2022, accessible via* https://www.ey.com/en_be/attractiveness/ey-europe-attractiveness-survey.

POLICY RECOMMENDATIONS

→ **Remove regulatory barriers in the Single Market** in areas such as energy, environment, digital, retail, banking & capital, health and defence.

→ Ensure that the **design of the consultations supports evidence collection for impact** assessments and extend the mandate of the **Regulatory Scrutiny Board. Make the competitiveness check announced by President von der Leyen mandatory** at technical level (in impact assessments accompanying regulatory initiatives) and introduce it at political level (assessment of new strategies, policies, programmes).

→ **Better define the scope and conditions of delegation of powers to the European Commission** in basic legal acts to prevent legal uncertainties and complexity, and increase the transparency and early involvement of stakeholders when preparing delegated acts, including when their content is prepared by the European agencies.

→ **Reduce energy prices significantly**. In particular, by reducing taxes and levies on energy which make up a significant share of energy and electricity bills, we can help reduce the significant price gap with the rest of the world. Revision of European energy market design can also help secure a competitive and sustainable energy supply, while improving price signals for investment.

→ In order to support industrial transformation, particularly in light of the U.S. Inflation Reduction Act, **maximize the effectiveness, and accessibility of existing EU instruments** (for example Horizon Europe, Invest EU), and **improve the regulatory framework for state aid**, by making it more transparent and predictable.

→ **Speed up and simplify permitting and funding procedures** which are key bottlenecks for projects and investments needed for a successful green and digital transformation. We need to shorten permitting processes in the whole value chain at European, national, regional level and better facilitate the participation of companies and Member States in Important Projects of Common European Interest and other funding frameworks.

→ **Boost trade opportunities through concluding and ratifying trade agreements**, in particular with Australia, India, Chile, Mexico, New Zealand and Mercosur. **Strengthen supply of and access to critical raw materials** by swiftly adopting a well-designed Critical Raw Materials Act that secures supply.

TAXATION AND PUBLIC FINANCES

Sustainable public finances are of key importance for long-term growth. Nominal borrowing costs for many EU Member States have risen this year in response to increases in ECB lending rates, but remain at historically low levels, particularly in real terms. Nevertheless, it remains the case that confidence in public finances can quickly lead to a self-reinforcing spiral whereby higher borrowing costs further weaken public finances.

The pandemic has also reminded us that ensuring that public finances are strengthened during periods of growth is essential to providing scope for expansionary fiscal policy during more difficult times. Fiscal deficits run by governments during the COVID-19 crisis in the EU were generally not as large as those seen elsewhere (particularly in China and the USA), and the EU's overall economic performance during this period looks more positive in the context of more moderate public stimulus. Whilst the increase in EU governments' average annual public deficit from -0.5% in 2019 to -6.9% in 2020 was clearly essential in reducing the impact of the crisis, it is important that as we move out of the crisis, Member States take increased steps to strengthen public finances, with EU governments' borrowing still expected to average 3.6% of GDP in 2023.

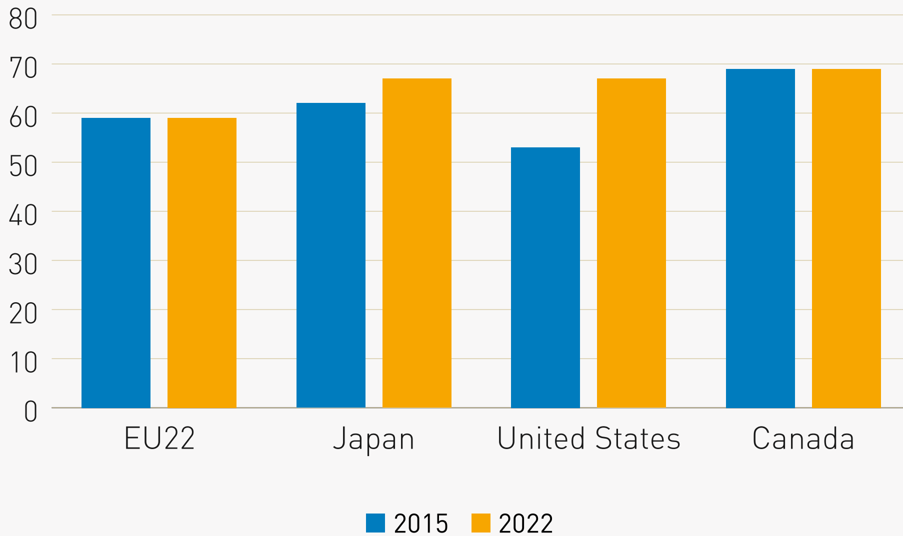
As a consequence of increased borrowing, government debt across the globe increased during the pandemic. Perhaps surprisingly, EU government debt levels as a share of GDP actually fell from 89.4% in 2021 to 86% in 2022, as high inflation increased the overall size of the economy in nominal terms. However, with inflation not expected to remain so elevated for an extended period, Commission forecasts suggest that debt will only fall marginally in the coming years, remaining significantly above the 60% benchmark set out in the Maastricht Treaty. Whilst different definitions of government debt make international comparisons difficult, most estimates suggest average government debt in the EU is around 40 percentage points lower than in the USA, but 20 percent points higher than headline rate in China (although the IMF suggest that when off-balance sheet debt is accounted for, such as local government borrowing, or special purpose vehicle, public debt is likely to exceed 120% of GDP).

Strengthening public finances in the EU will be a difficult but essential challenge, particularly in light of increasing calls for public funding in areas such as the digital and green transitions, an ageing population, and the need to increase resilience, including to mitigate the threat of future pandemics and current geopolitical uncertainty.

In the context of increased pressure on public finances in the coming years, it will be particularly important that Member States develop tax systems that are supportive of growth and employment as well as ensuring efficient public spending. The Tax Foundation's International Tax Competitiveness Index provides a starting point for such analysis, with a particular focus on the neutrality of tax systems, their ability to support growth without penalising investment, not favouring certain sectors over others and on avoiding increases in the complexity of tax systems. As we see in chart 9, the EU Member States lag somewhat behind other regions.

CHART 9 **EU Member States continue to lag behind internationally regarding tax competitiveness**

International Tax Competitiveness Index, 100 = highest score

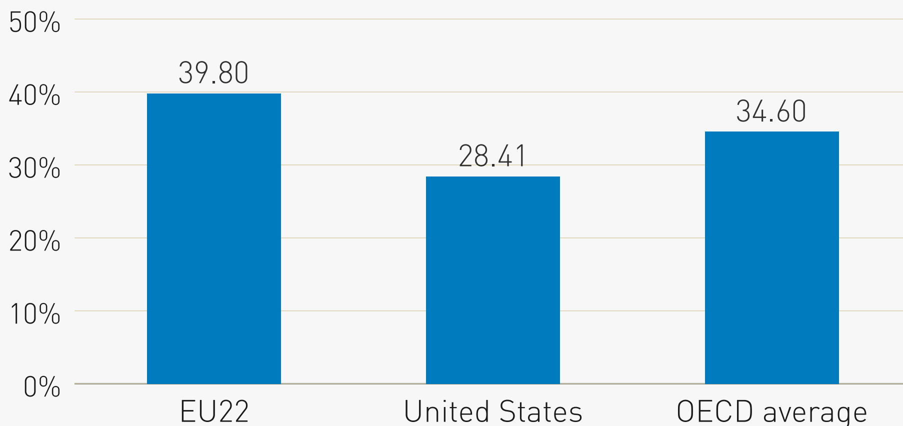


Source: own calculations from TaxFoundation. GDP-weighted for EU countries that are OECD members.

Both the OECD and the European Commission stress in particular that high levels of labour taxation may have a detrimental effect on employment by reducing incentives, both for workers to enter the labour market (if net gains after taxes and benefits are small) and employers to hire more staff (if labour costs are very high). It is therefore a particular concern that the average tax wedge on labour is about 40% higher in the EU than in the USA (chart 10).

CHART 10 **Taxes on labour are significantly higher than in other major regions**

Average tax wedge, % labour costs, single person at 100% of average earnings, no child, 2021



Source: OECD. GDP-weighted for EU countries that are OECD members

POLICY RECOMMENDATIONS

→ **Agreement on new fiscal rules is urgently needed** ahead of Member States setting their 2024 budgets. Given high debt and deficit levels in some countries, a credible and respected framework is essential to maintain public finance sustainability in the EU.

→ The Commission's proposals to focus on Member States' net primary expenditure can potentially **simplify the rules**. But the rules must not provide excessive flexibility in their interpretation. The reference values of 3% of GDP for government deficits and 60% for government debt, should continue to be part of the framework.

→ We welcome the proposal to s**upport Member States undertaking growth-enhancing reforms and public investment** through a longer fiscal adjustment path. But this needs to be carefully monitored to ensure proper implementation.

→ Greater ownership by Member States can potentially **enhance the enforceability of the rules**. Greater flexibility must go hand in hand with a stronger and more credible enforcement framework, linked to the possible withdrawal of Commission funding.

→ More attention needs to be directed at the **quality of investments**, with a greater focus on the proportion of Member States' expenditure directed towards growth-enhancing expenditures, particularly public investment. Member States also need to focus on increasing the efficiency of public expenditure.

→ Member States must ensure their tax systems support growth, **by reducing taxation on labour and capital (including corporate tax**). They must ensure the **administration of their tax systems** becomes simpler, more predictable, more transparent, and user-friendly.

→ Member States need to ensure that **non-wage labour costs in their domestic contexts are not hindering employment creation**. Countries with excessively high non-wage labour costs need to reduce these costs, including by well-targeted tax shifts. Member States should also coordinate more closely with social partners their long-term strategy to maintain social contributions at a reasonable level that does not penalise employment creation.

ACCESS TO FINANCE

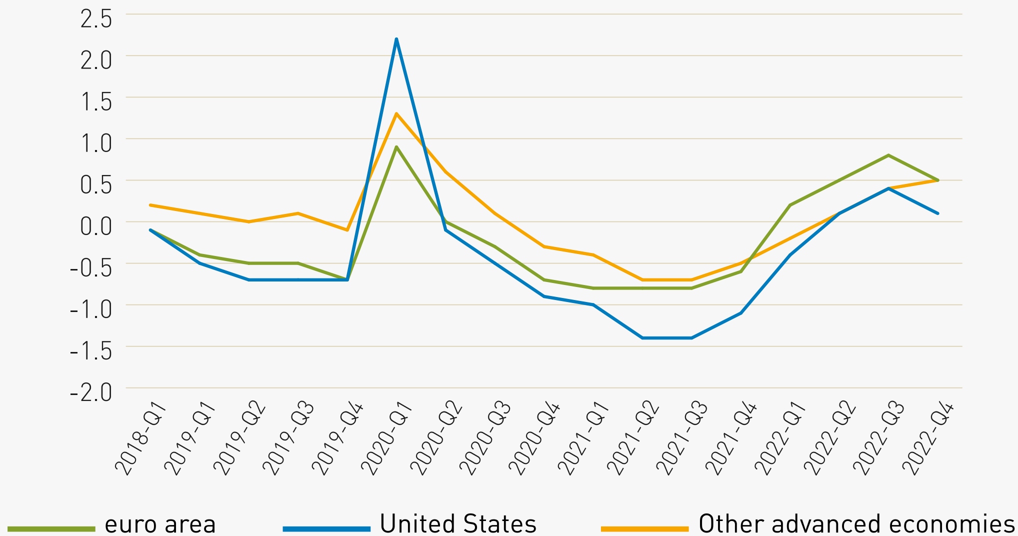
Access to finance on reasonable terms is a pre-condition for companies to thrive and make the investment necessary to drive growth, foster employment and maintain competitiveness. In order to provide stability and meet the different financing needs of companies (in particular of SMEs), finance needs to be available through a variety of different channels.

As has been well documented, the support provided by governments to firms and workers through furlough schemes, combined with schemes to maintain finance to companies, at both national and EU level, helped ensure the spate of bankruptcies we would normally have anticipated during such a steep recession did not materialised. EU bankruptcies fell by 28% in Q2 2020 compared to Q2 2019 and were around 5% down in 2020 as a whole. After remaining largely stable in 2021, the number of bankruptcy declarations among EU businesses in Q4 2022 reached its highest levels since record began, increasing by 26.8% compared to Q3, following increases in each quarter of 2022, indicating that many companies, particularly SMEs, are clearly struggling with increases in costs.

Following a sharp gradual tightening of overall financial conditions through much of 2022, and (surprisingly) a small loosening in the final quarter of the year (chart 11), overall financing conditions in the euro area are now slightly higher than pre-crisis, with a similar situation in the USA. The ECB's euro area bank lending survey points to a similar tightening of credit standards through 2022, albeit with no drop in the final quarter, where in contrast to the IMF, it suggests, "the net tightening of credit standards was the largest reported since the euro area sovereign debt crisis".

CHART 11 **Overall financial conditions tightened at the start of the pandemic but quickly returned to pre-crisis levels**

Financial conditions indices, standard deviation from mean, positive values = tightening, negative values = loosening



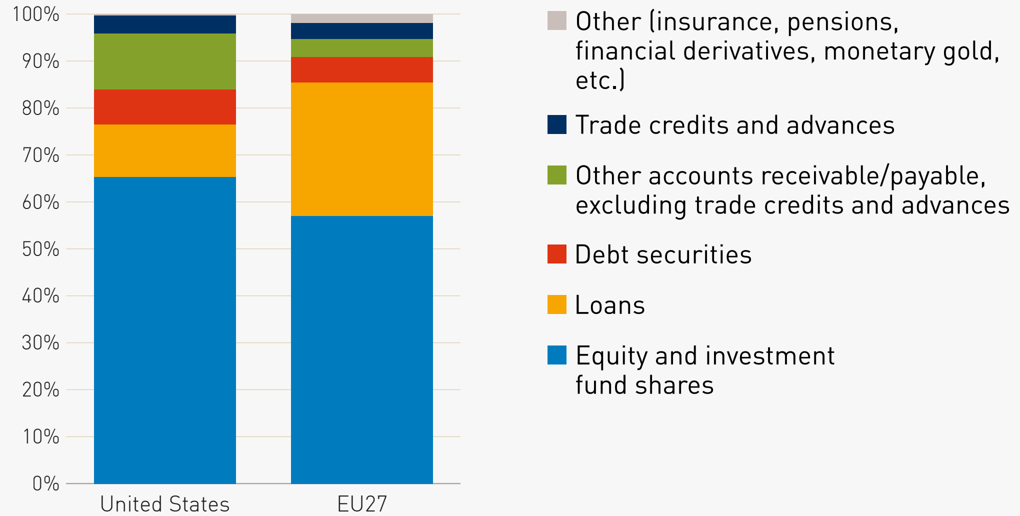
Source: IMF

A long-term challenge for the EU is to increase the availability of equity financing, to complement bank lending, through the development of the capital markets union[10]. As we see from chart 12, EU companies continue to be more reliant upon debt than the more equity-focused US companies, with bank loans accounting for around 28% of non-financial corporations' liabilities in 2020, compared to 11% in the USA.

[10] *E OliverWymen (2023). The EU banking regulatory framework and its impact on banks. Available at https://www.oliverwyman.com/our-expertise/insights/2023/jan/the-eu-banking-regulatory-framework-and-its-impact-on-banks-and-the-economy.html*

CHART 12 **EU companies continue to be more reliant upon debt than more equity-focused US companies**

Liabilities held by non-financial corporations, 2020, in the EU and United States

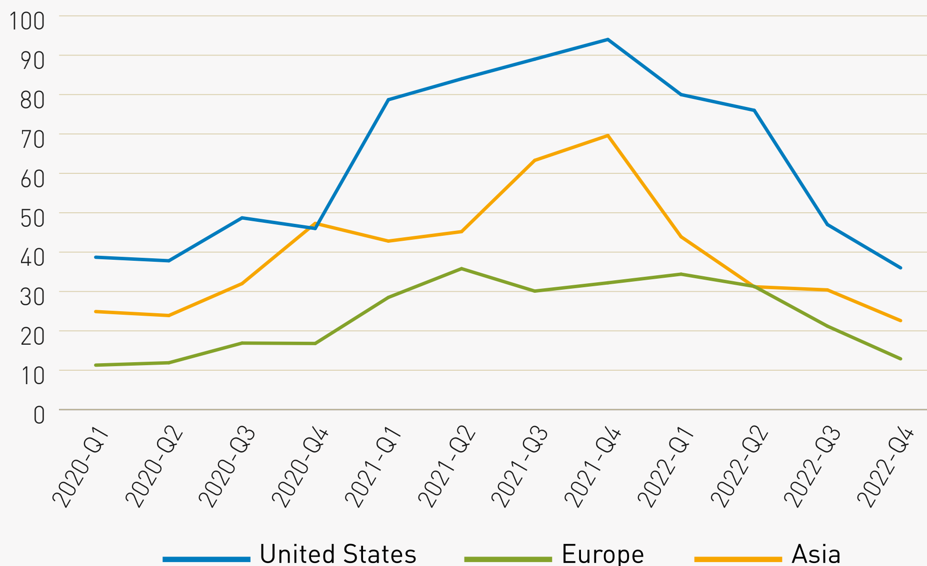


Source: own calculations based on OECD and Eurostat

One specific source of equity financing, particularly valuable to SMEs, is venture capital (VC). In recent years venture capital financing in the EU has largely followed global trends, with the immediate post-pandemic period being characterised by very high levels of VC funding. With growing uncertainty in the global economy, we saw VC funding fall dramatically in all major regions through 2022. Most importantly, VC funding remains significantly lower in the Europe than in the USA, with Asia also now the home of more VC funding than Europe (chart 13).

CHART 13 **EU venture capital investment fell back in 2022 in line with global trends**

Venture capital, current prices, $ billion



Source: KPMG and Venture Capital Pulse

POLICY RECOMMENDATIONS

→ Ensure that **financial regulation supports businesses' access to finance** during a challenging period where we see bankruptcies rising across the EU. Research shows that the incremental difference in regulatory-induced cost at EU banks compared to US peers can explain 0.8-1.0 percentage points of the return on equity (RoE) gap. In particular, new prudential rules for financial institutions, including the **implemention in the EU of the international Basel III agreement** must not significantly increase capital requirements overall.

→ In particular, in relation to Basel III, the **SME and infrastructure supporting factors** will be important for the support of SMEs, which are especially dependent on bank lending, and for the financing of infrastructure projects, which Europe will need to meet its objectives linked to the green and digital transitions. Limiting the application of the infrastructure supporting factor by introducing additional environmental criteria that would request either an EU taxonomy alignment or linking eligibility for the SME supporting factor to environmental performance of SMEs, would make it more difficult for SMEs to manage their own green transition and would crowd out EU banks and corporates from important non-EU infrastructure projects.

→ **Promote alternative sources of financing to bank lending**, that are accessible, including enhancing access to venture capital and mobilise more equity capital for entrepreneurs.

→ **Ensure that actions to support sustainable finance are proportionate**, workable and accommodate the needs of the financial markets as well as the real economy to help companies finance their transition and funnel investments to support greening the economy.

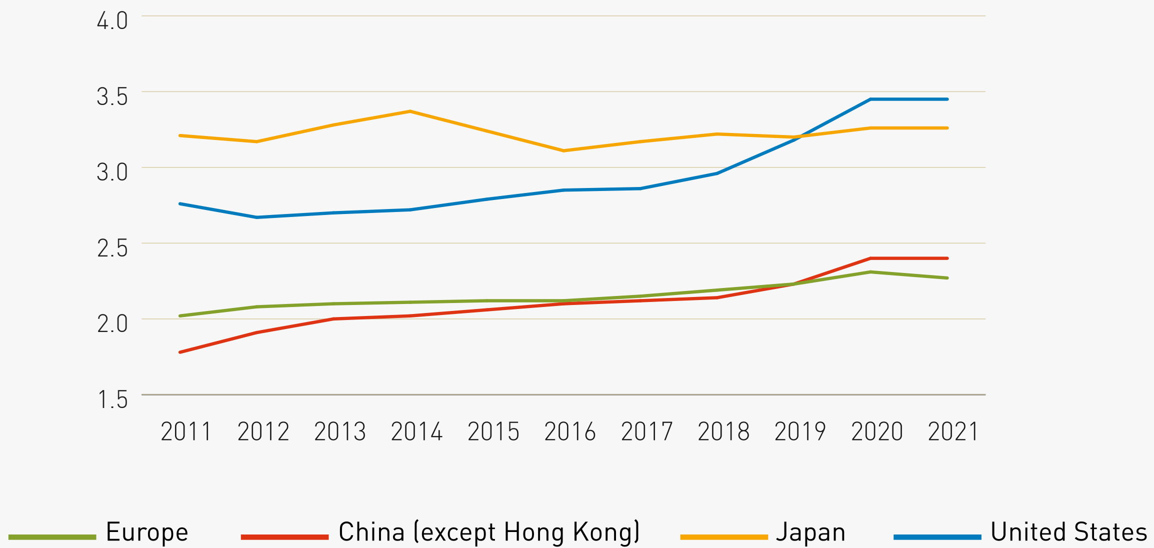
INNOVATION

The EU's innovation and technological capability is fundamental to our ability to attract and retain high-quality, high-productivity jobs, and take forward the green and digital transformations that are needed across all sectors so that we can compete successfully in the global economy. Measuring innovation capacity and technological readiness is a complex exercise, but R&D investment, (fast) broadband access, patent registrations, the number of world-class universities provide useful pointers in assessing both our current and future capability.

The EU has a relatively long-standing gap in terms of overall R&D spending with our major competitors. As chart 14 shows below, R&D investment globally was largely unchanged between 2020 and 2021, with the EU figures remaining around 2.3% of GDP, compared to over 3% of GDP in Japan and USA. The EU's R&D scoreboard[11] provides further insights into global R&D investment, noting that over the 2500 companies globally investing most heavily in R&D, only 361 come from the EU, compared to 822 in the USA. At sectoral level four key sectors account for more than three quarters of the total Scoreboard R&D: ICT producers (22.6%), health industries (21.5%), ICT services (19.8%) and automotive (13.9%). Whilst the EU performs above average in its share of global automotive R&D, it has a limited presence amongst heavily investing ICT firms.

CHART 14 **The EU continues to lag internationally in terms of R&D**

R&D investment as a share of GDP, 2011-2021



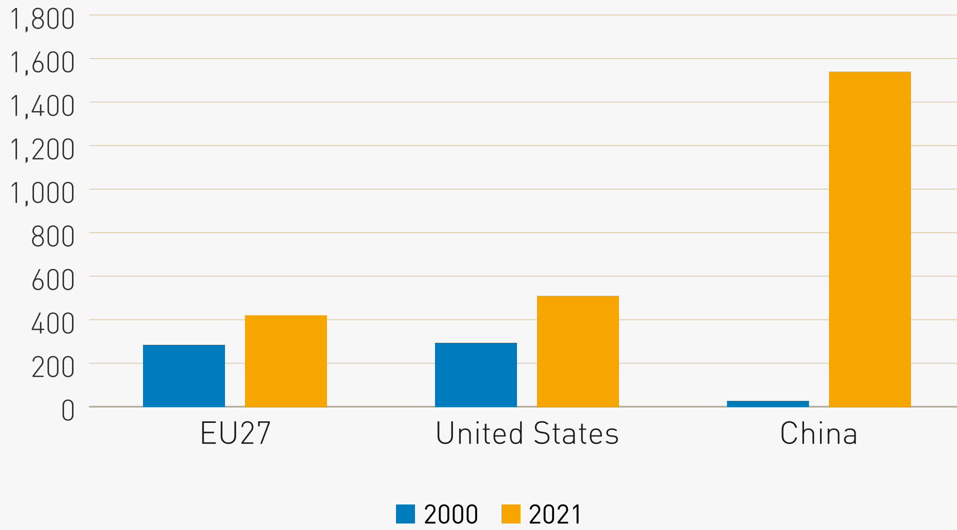
Source: Eurostat/OECD

Patent applications provide an alternative measure of innovation performance. Companies will use many different methods to protect intellectual property (IP), hence such data should be treated with caution. As chart 15 illustrates, patent applications in the EU lagged behind over the last 20 years, while applications rose steeply in China (from very low levels) and in the USA (where applications increased by almost 80%). But looking more closely, we see that US patent applications rose by 2.7% between 2020 and 2021, further emphasising that despite stong patent growth in China (6.7% between 2020 and 2021), and 1.2% growth in the EU between 2020 and 2021, leading companies may be using patents less as a way of protecting intellectual property.

[11] https://iri.jrc.ec.europa.eu/scoreboard/2022-eu-industrial-rd-investment-scoreboard

CHART 15 **The EU continues to file significantly fewer patent applications than the USA and China**

Number of patent applications (000's)

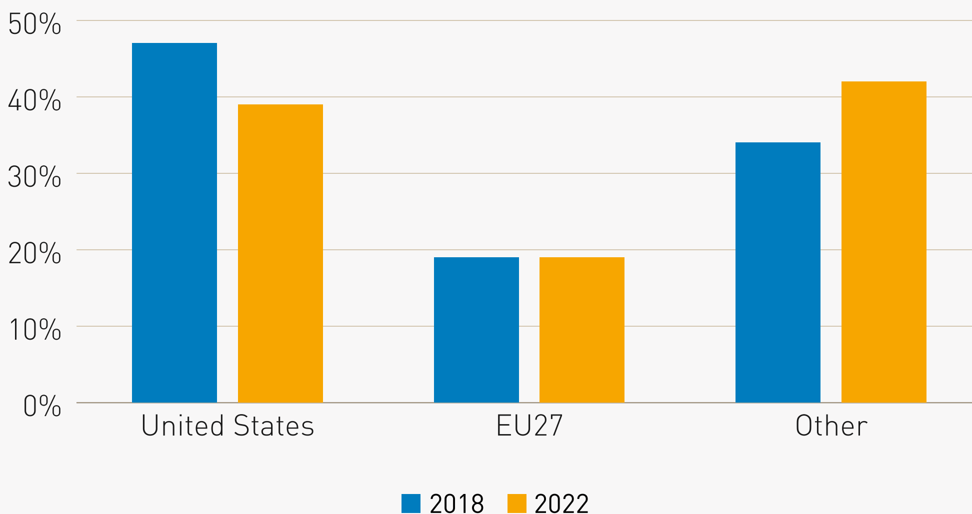


Source: own calculations based on WIPO

World-class universities are also likely to be key to innovation and regional growth in the coming years, when working effectively with local companies to build innovation infrastructures. Chart 16 shows that the EU continues to lag behind the USA in terms of the number of world-class universities (although both regions have seen a fall in their global share as other regions take steps to develop).

CHART 16 **The EU has relatively few world-class universities**

Share of top 100 universities in the world based on location

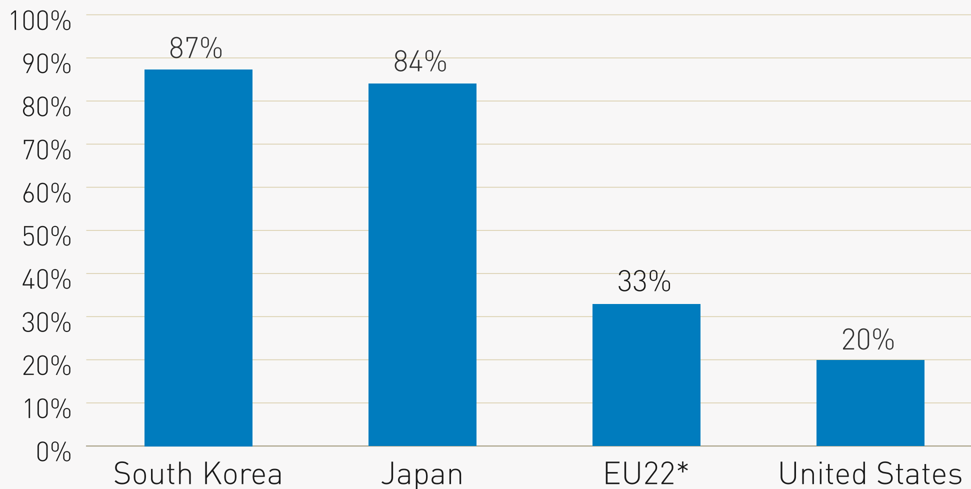


Source: own calculations based on the Academic Ranking of World Universities, Shanghai Jiao Tong University

Regarding the EU's progress on the digital transition, broadband is increasingly becoming a key enabler of economic and social growth. Unfortunately, the EU continues to lag behind its competitors in some key metrics for digital communication. As illustrated in chart 17, whilst the EU performs better than the USA in terms of the percentage of broadband that is based on (faster) fibre connections, faster fibre connections remain much less prevalent in the EU than in the leading countries in this area (notably Japan and South Korea).

CHART 17 The EU lags significantly behind Japan and South Korea regarding fibre broadband provision

Percentage of total broadband that is fibre, Q2 2022



Source: OECD, with *EU countries who are also members of the OECD

Our progress regarding the digital transition will be hampered if we fail to address the growing challenge of cybersecurity, the annual cost of which was estimated to have reached €5.5 trillion globally by 2020. In its 2020 report ENISA, the EU agency for cybersecurity, found that EU organisations allocate on average 41% less to information security than their counterparts in the USA.

POLICY RECOMMENDATIONS

→ **Member States should increase research and** development (R&D) spending and support stronger private-sector R&D investment in order to reach the EU's target of 3% of GDP. Use the **mid-term review of the Horizon Europe programme** in 2023 to review current procedures and where possible simplify and fast-track them.

→ **Digitalisation of public administration** must be rolled out including secure and efficient interface with businesses.

→ **A strengthened digital infrastructure**, including large scale 5G, is essential to allow the EU to adopt the latest technologies and enable businesses to compete globally. The EU must support, through schemes such as the Digital Europe programme, **greater investment in a range of cybersecurity actions**, including vulnerability assessments, enhanced governance, and risk and compliance management.

→ **Strong capacity around data analytics and data exchanges** will be essential to achieving breakthroughs in many cross-disciplinary areas of innovation. High-skilled workforces will be essential to achieving this, including around digital skills. Regulatory action to enable data sharing must consider incentives and compensation for the parties concerned in order to support the collection, processing and sharing of good quality data.

→ **Speed up the rollout of regulatory sandboxes** to allow for rapid experimentation and disruptive innovation to test next technologies.

→ There is a need to further incentivise the provision of, and participation in, **training in an up-skilling and re-skilling perspective**. Taking into account national circumstances, social partner-led approaches, such as employee training and training funds, can play a particularly important role in equipping people with the skills needed on our labour markets. Targeted training provision is also an important feature of stepping up efforts to activate the in-active in our societies, including getting the unemployed into work.

→ There is a need to foster the role that **skilled economic migrants** can play in helping to address labour and skills gaps, including through the setting up of an EU Talent Pool.

THE RECOVERY AND RESILIENCE FACILITY AND THE EUROPEAN SEMESTER

The Recovery and Resilience Facility (RRF) is a temporary recovery instrument that was established in an EU regulation that entered into force on 19 February 2021 to mitigate the impact of the COVID-19 on the European economies. The RRF is the largest component of the €750 recovery plan dubbed "Next Generation EU". It consists of grants worth €338 bn allocated to Member States following an allocation key that considers population size, GDP, and employment situation. Countries can additionally request loans, with a total of €385.8 bn available through the RRF. It finances reforms and investments in Member States from the start of the pandemic in February 2020 until 31 December 2026.

In order to access funding from the RRF, **Member States presented national Recovery and Resilience Plans (RRPs)**. The plans describe how the money will be spent and must correspond to the requirements of the regulation establishing the facility. The plans of all 27 Member States were approved by the end of 2022. But with most national plans already approved in the second half of 2021, implementation in most Member States was in full swing in 2022.

In reaction to Russia's invasion of Ukraine and for a rapid reduction of fossil fuel imports from Russia, on 18 May 2022 **the Commission proposed to reinforce the firepower of the RRF in the framework of the REPowerEU plan**. The plan made additional RRF grants of €20 bn available to Member States. It put forward targeted amendments to the RRF Regulation to integrate dedicated REPowerEU chapters in Member States' existing Recovery and Resilience Plans. The objective of the new REPowerEU chapters is to strengthen EU energy resilience on top of the measures which were already in the RRPs. The Commission's country-specific recommendations (CSRs) in the 2022 European Semester cycle also fed into the design and assessment of these measures. In addition, the REPowerEU Regulation provides dedicated funding sources to finance the relevant measures. Member States have to submit their loan requests with their modified RRPs including REPowerEU chapters by end August 2023.

The European Commission has taken action to ensure that its overarching tool for economic policy coordination, the European Semester, evolves in line with the requirements of the RRF and REPowerEU plan. The regulation establishing the RRF stipulated 11 **assessment criteria** that each national plan has had to meet. Most notably, at least 37% must be allocated to "green" investments (in addition, the REPowerEU chapter itself should also achieve a climate target of at least 37%) and 20% to digital investments. As of February 2023, the reforms and investments proposed by Member States have exceeded the set targets: for the RRF as a whole, estimated climate expenditure amounts to about 40% and digital expenditure to about 26%. Plans must also "contribute to effectively addressing all or a significant subset of challenges identified in the relevant country-specific recommendations". That means the **recovery funding is tied with the European Semester and its country-specific recommendations**. Whilst not required to address all CSRs, countries have committed to some reforms as part of their national plans. With the pay-out of funding being conditional on satisfactory progress on the national plan, this will include meeting the agreed CSR-related reform objectives.

Full implementation of the national plans remains important. The Commission must continue to ensure that Member States comply with the objectives of their national plans, and only pay out funding once **milestones, regarding both investments and reforms, agreed by the Member States and the EU** are reached. To monitor EU countries' progress in implementing their recovery and resilience plans, the Commission has also launched an online Scoreboard measuring the objectives and projects within each national plan as well as quantifying how much has been reached and how much funding has been disseminated so far to each Member State. **As highlighted by the Commission Scoreboard, only €97 bn in grants out of a total of €338 billion and only €47 bn in loans out of a total of €385.6 billion have been disbursed so far.**

PART 2
MEMBER FEDERATIONS' ASSESSMENT OF KEY COMPETITIVENESS CHALLENGES

02

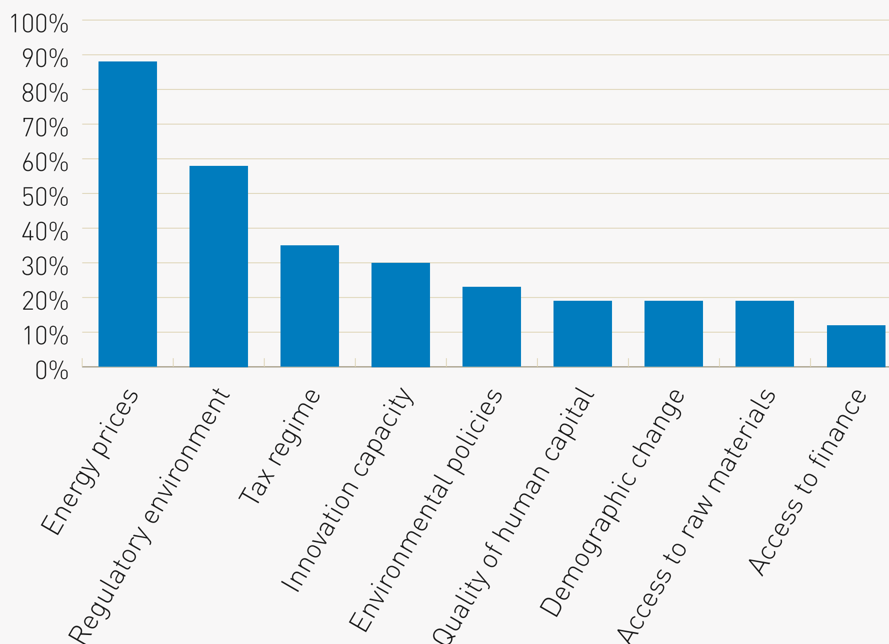
This chapter considers members' assessment of the present competitiveness challenges, and the policy response, both at EU level and at member state level, in terms of the implementation of the recovery and resilience plans (RRPs) and the (linked) country-specifc reform recommendations (CSRs) of the European Semester.

MEMBER FEDERATIONS' ASSESSMENT OF KEY COMPETITIVENESS CHALLENGES

As a starting point we asked member federations to consider the main challenges threatening the attractiveness of the EU as an investment environment vis-à-vis international competitors (chart 18).

CHART 18 **Energy prices and regulatory burden are the biggest challenge for Europe's investment environment vis-à-vis international competitors**

Percentage of federations who considered the subject to be one of the three main challenges threatening the attractiveness of the EU as an investment environment vis-à-vis international competitors



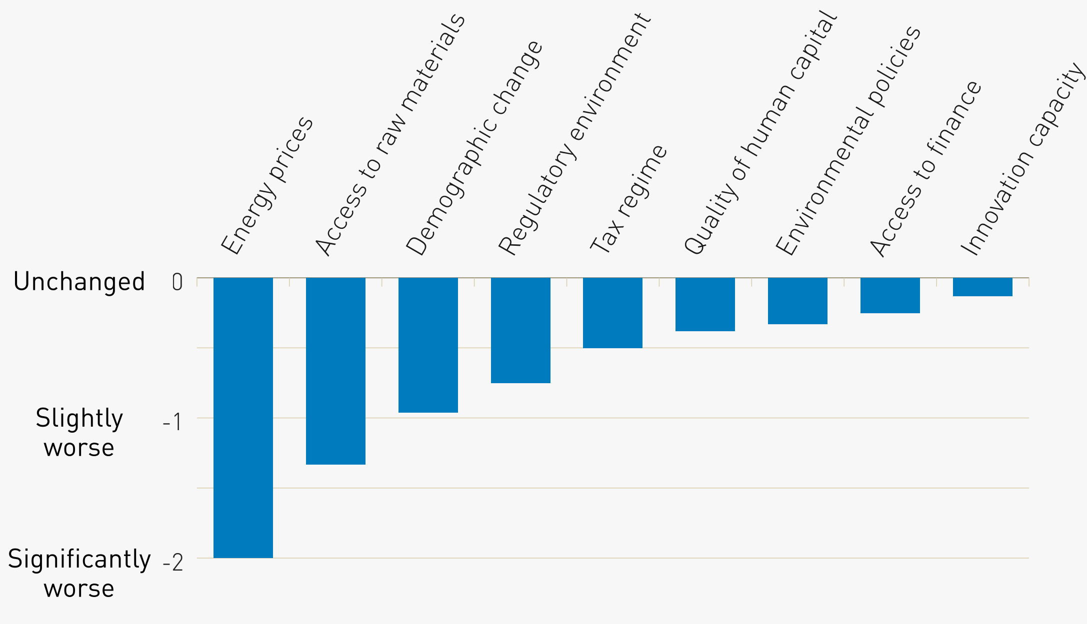
Source: BusinessEurope, survey of member federations

Unsurprising, given the dramatic rises in energy prices through 2022 considered in chapter 1, most members perceive energy prices as most challenging to Europe's investment environment (almost 90% of our members perceive energy prices as one of the top three challenges). The regulatory environment is perceived as one of the top three challenges by almost 60% of our members. We therefore underline the importance of taking into account the cumulative effect of EU legislation and of avoiding unnecessary revisions of EU law, such as the European Works Council Directive or the Packaging and Packaging Waste Directive, and of agreeing on workable EU provisions in the revised Industrial Emissions Directive and on due diligence. In present circumstances, it is particularly important to support European companies in their efforts to deal with a tense geopolitical situation and to avoid adding to their burden by imposing due diligence requirements that are unmanageable for larger companies and unbearable for SMEs.

The survey also points to longstanding competitiveness challenges for the EU economy, many of which have been identified in part 1, including tax regimes in member states and innovation capacity.

CHART 19 **Rising energy prices are the main driver of weakening EU competitiveness**

Average score of federations responding to the question "For each of these areas, how have the overall conditions, and competitive positions, developed in the past 3 years?" (2 = significant improvement, 1 = improved somewhat, 0 = unchanged, -1 = slightly worse, -2 = significantly worse)



Source: BusinessEurope, survey of member federations

Looking specifically at factors driving changes in international competitiveness over the past 3 years, members once again identified the energy price situation as the main culprit for the deteriorated overall conditions (chart 19). **But business federations also point to factors such as access to raw materials, demographic change, and the regulatory environment as increasingly important competitiveness challenges for EU businesses in the global economy.**

These structural issues create a competitive disadvantage for companies in Europe and hinder investment, employment, and growth. Aggressive supporting schemes in third countries with strong local content requirements and discriminatory provisions favouring domestic production, like the U.S. Inflation Reduction Act (IRA), increase the pressure. That makes it clear that to preserve the competitiveness of Europe's industry, the Commission's new Green Deal Industrial plan will have to simultaneously address the push factors resulting from higher energy and regulatory costs, and counter the financial pull factor created by supporting schemes such as the U.S. IRA. To improve investment conditions in the EU, it will also be important to put in place a fully-fledged programme to simplify the regulatory framework in the EU single market and advance its integration on the occasion of its 30th anniversary.

IMPLEMENTATION OF NATIONAL RECOVERY AND RESILIENCE PLANS

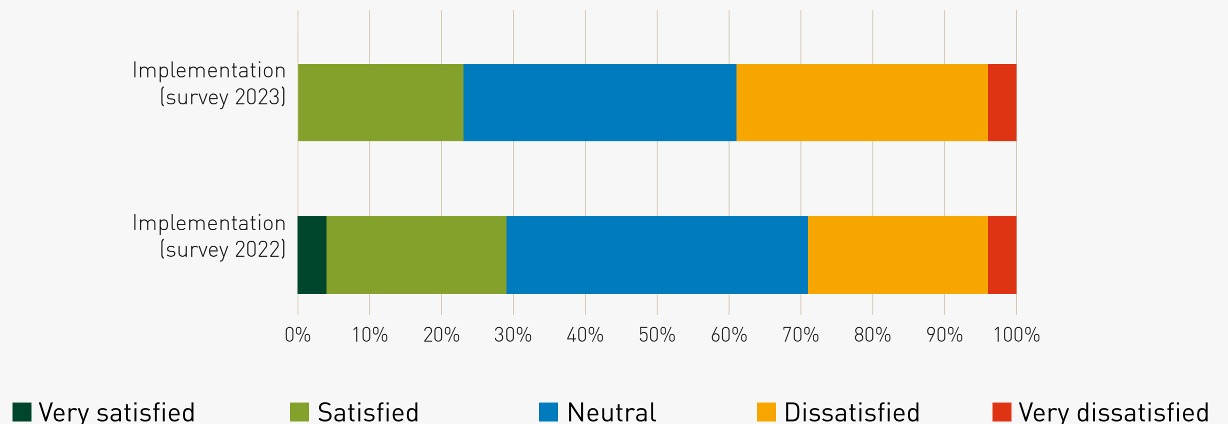
As we explain in the box, the Recovery and Resilience Facility was a key part of the EU's response to the pandemic, providing Member States with the funds necessary to undertake investment and reform through joint EU borrowing. Proper implementation of the recovery and resilience plans, which was in full swing in 2022 for most Member States, will be key to increasing EU competitiveness and prosperity. In this context, we asked our members to provide an assessment of the implementation of the recovery plans.

Overall, Member States' implementation of their recovery plans is slightly more negatively assessed now than in the previous year. In our 2023 survey, only 23% of federations are either satisfied or very satisfied with the implementation (compared to 29% in our 2022 survey), and 39% are either dissatisfied or very dissatisfied (compared to 29% in 2022). So, we observe a growing share of member federations that is more negative about the implementation process (chart 20).

The swift execution of the Recovery and Resilience Facility will remain vital in 2023. Overall, with substantial resources still to be disbursed (only 20% of requested grants and loans had been disbursed by the end of 2022), and progress in implementation likely to slow down with Member States moving to the more difficult reforms, the European Commission should continue to strictly control that Member States invest funds from the Recovery and Resilience Facility as intended. No disbursements should be made before Member States have documented that they fully complied with milestones and targets for their National Recovery and Resilience Plans.

CHART 20 **Business federations have mixed views about the implementation of their recovery plans**

Percentage of federations responding to the question: "How satisfied are you with the way your country is implementing the national recovery and resilience plan?"

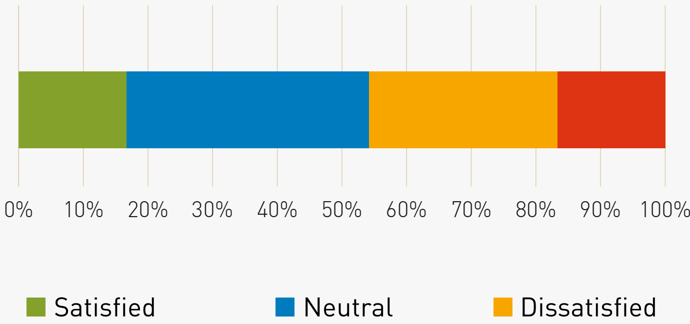


Source: BusinessEurope, survey of member federations

We continue to evaluate positively the European Commission's Recovery and Resilience Facility Scoreboard, which provides a clear overview of where Member States stand in their implementation of the plans and provides the European public with a monitoring tool on the expenditure per policy area and a breakdown of the milestones Member States have reached.

CHART 21 **Involvement of social partners in the implementation process of the recovery plans is not satisfactory**

Percentage of federations responding to the question "How satisfied are you with the involvement of social partners in the implementation so far of your national recovery and resilience plan?"



Source: BusinessEurope, survey of member federations

Full engagement with social partners will continue to be essential if we are to fully realise the potential benefits of the recovery plans. Social partners can act as important bridge-builders in particular through jointly agreed solutions, in order to ensure that the measures foreseen are both economically feasible and socially acceptable.

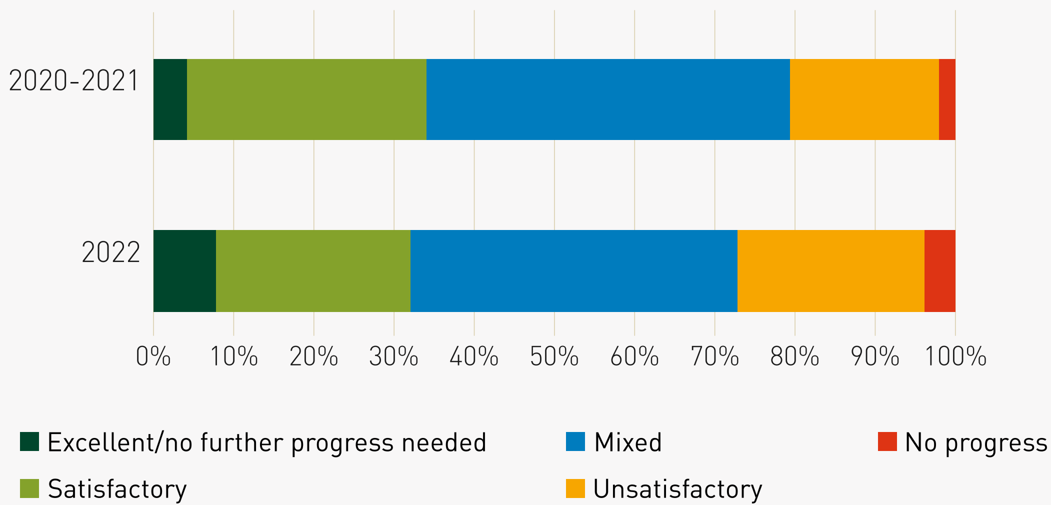
Last year, only 30% of federations expressed some dissatisfaction with their role in the implementation of the plan, compared to 70% of member federations who last year considered their involvement appropriate in the implementation of the recovery plan. This assessment is in stark contrast to only 17% of member federations who this year reported to be satisfied with their role in the implementation process. This year, 46% of our members were either dissatisfied or very dissatisfied which shows that there is clearly scope for involving social partners more to help implement key investments and reforms in a number of member states (chart 21).

IMPLEMENTATION OF COUNTRY-SPECIFIC RECOMMENDATIONS (CSRs)

Member States continue to pursue the country-specific recommendations agreed with the EU in 2022, under the revised European Semester process, with national reforms plans themselves aiming to supply the delivery of the reforms.

CHART 22 **Implementation of the structural reforms, as agreed under the European Semester remains mixed**

Percentage of federations responding to the question: "How do you assess the reform effort of your government regarding each CSR as listed in the European Semester in 2022?"



Source: BusinessEurope, survey of member federations

As has been the case in previous years, our members are of the view that the Commission and Council have identified the right priorities for countries' reform. 80% of the listed CSRs agreed in 2022 are seen as (extremely) important for the economic well-being of EU Member States (slightly down from 87% in 2021).

Similarly to last year, about one third of our member federations consider that the CSRs have been satisfactorily implemented, with satisfaction rising to 73% in 2023 when considering those with mixed satisfaction concerning implementation (compared to 79% last year). We believe that implementation has improved overall with the Recovery and Resilience Facility which is performance-based and only fulfilment of agreed milestones and targets towards achieving the reforms and investments in the national plans will unlock regular payment. Due to this integration of the RRF and CSRs, the Commission has more leverage to withhold RRF funds dependent upon implementation of CSRs.

But there also remains some scope for Member States to improve implementation of the CSRs. One fourth of CSRs still suffer from unsatisfactory implementation according to our members (up from one-fifth last year). Hence, the European Commission must continue to ensure that the disbursement of funds is strictly dependent on the implementation of the CSRs. Amongst member federations, there is great trust in the European Commission delivering on this, with almost 90% expressing confidence on the matter.

POLICY RECOMMENDATIONS

→ In order to address the threat of deindustrialisation and support business investment within Europe, the new Green Deal Industrial Plan must address push factors resulting from higher energy and regulatory costs and the financial pull factor created by the U.S. Inflation Reduction Act.

→ Increased long-term growth and employment in the EU is dependent upon proper implementation of a wide range of structural reforms. Among other things, reforms to ensure a sufficient supply of qualified labour which must contribute to a rapid green and digital transition. Therefore, the swift execution of the Recovery and Resilience Facility will remain vital in 2023. Overall, only 20% of requested grants and loans have been disbursed so far. With substantial resources still to be disbursed, and progress in implementation likely to slow down with Member States moving to the more difficult reforms, **the European Commission should continue to ensure strict control that Member States have invested funds from the Recovery and Resilience Facility as intended.**

→ **The European Commission should continue updating the Recovery and Resilience Facility Scoreboard**, which provides citizens with a clear monitoring tool on progress.

→ **All potential suppliers should have access to information on calls for tenders** in National Recovery and Resilience Plans, in **compliance with Single Market rules**.

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