



SPRING  
2012

# EUROPEAN REFORM BAROMETER

 FEBRUARY 2012

**STRUCTURAL REFORMS:**  
TIME TO FOCUS ON  
IMPLEMENTATION

## BUSINESSEUROPE



### WHO ARE WE?

BUSINESSEUROPE represents small, medium and large companies. Our members are 41 leading business federations from 35 countries working together to achieve growth and competitiveness in Europe.

### WHAT IS THE EUROPEAN REFORM BAROMETER?

BUSINESSEUROPE's Reform Barometer looks at the global performance of the EU, its 27 Member States, Iceland, Norway and Switzerland on the basis of key indicators covering productivity, investment, trade, competitiveness, employment, fiscal sustainability and financial stability. Based on a survey of BUSINESSEUROPE's member federations<sup>(1)</sup>, the report assesses reform progress in the preceding year and identifies priorities for reform.

### FOR FURTHER INFORMATION: ECONOMICS DEPARTMENT

James Watson, director and Joana Valente, adviser  
tel +32 2 237 65 20 – e-mail: [j.valente@businessseurope.eu](mailto:j.valente@businessseurope.eu)  
BUSINESSEUROPE Av. de Cortenbergh 168 – 1000 Brussels

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<sup>1</sup> Romania and Slovakia have not taken part of the survey.  
The results for Bulgaria were not available at the time overall results were compiled but the answers can be found in the **country fiches**.

Note: Countries are sorted in alphabetical order by name in local language

## FOREWORD

In 2011 we saw increased economic uncertainty in the EU as concern about the sustainability of government debt positions in a number of EU countries led to broader financial market instability which impacted upon the confidence of businesses, investors and consumers.

Throughout this period of uncertainty the business community has sent a clear and unanimous message: **we need to safeguard and strengthen the euro! The euro is essential to investment and future growth in the European economy.**

**Structural reforms and fiscal consolidation in all Member States are key to both sustainable growth and the long-term credibility of the euro.** The challenges currently facing the euro, and to a broader extent the EU, arise from that fact that Member States have failed to undertake the structural reforms necessary to improve competitiveness.

**Over the last 12 months, European leaders have improved the economic governance structure of the EU.** The European Semester, the six-pack, the Euro Plus Pact and Europe 2020 all offer the potential to improve policy coordination and provide incentives for greater fiscal discipline and structural reform.

**But our report shows that these new instruments have failed to provide a sufficient boost to the implementation of structural reforms at national level.** While key challenges are considered to be generally well identified in the National Reform Programmes, and the Commission has played an important role in providing robust country-specific recommendations, implementation by many Member States during much of 2011 was disappointing. Only in the final months of the year did we see member states start to undertake reforms of the sort of magnitude required to really boost growth.

**Leaders need to build on recent reform momentum and step up to the plate in 2012 to deliver the structural reforms that can unleash the enormous untapped potential of Europe's many innovative firms and skilled workers.** Reforms that combine fiscal consolidation with growth-enhancing investments, while removing market rigidities to build a true single market across our continent. That is the way to restore confidence in the European economy and maintain Europe as an attractive place to invest, work, and live in.



**Jürgen R. Thumann**  
President  
BUSINESSEUROPE



**Philippe de Buck**  
Director General  
BUSINESSEUROPE

# BUSINESSEUROPE



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# 2012 REFORM BAROMETER

## key conclusions and recommendations

For the 2012 Reform Barometer, BUSINESSEUROPE carried out an in-depth survey of its member federations to evaluate the success of the European Semester in helping drive structural reforms. Member federations have assessed Member States' reform efforts in 2011 and highlighted reform priorities for 2012. The second part of the report assesses Member States' relative performance based on key indicators. It highlights the fact that member states delaying structural reforms continue to face greater challenges in terms of growth, employment and export performance.

### KEY CONCLUSIONS

- 1 Key challenges were generally well identified by Member States in their National Reform Programmes;
- 2 The European Commission played an important role in providing adequate country-specific recommendations;
- 3 While a number of Member States have made important reform progress in the final months of 2011, implementation of structural reforms during much of the year was disappointing. Member States must build on recent reform momentum during 2012;
- 4 Disparities can be found in reform progress across policy areas. Greater progress was achieved in 2011 as regards financial stability and public finances than with policies to directly boost productivity and investment;
- 5 Consolidation of public finance and improvements in the efficiency of the public sector are businesses' key priorities for 2012;
- 6 Access to capital has become a much more pressing priority for business;
- 7 Reform of pension, health and wage bargaining systems continue to be a priority for well functioning labour markets.

### RECOMMENDATIONS TO KEY ACTORS

#### Member States

- Implement structural reforms with urgency as part of a broader commitment to the European Semester.

#### European Commission

- Maintain robust country-specific recommendations and ensure independent monitoring of macroeconomic imbalances and structural reforms implementation.

#### European Parliament

- Increase pressure for structural reform by continuing to engage constructively in public discussion and holding key players to account.

#### European Council and Eurogroup

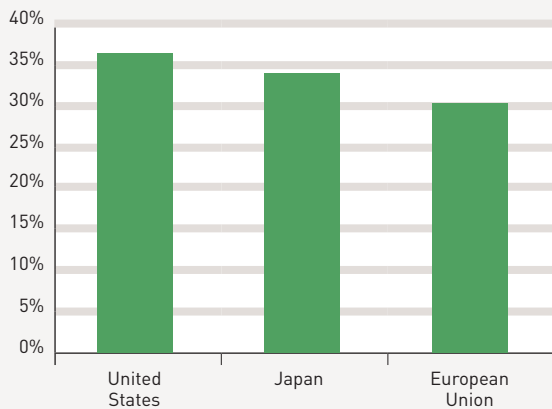
- Uphold robust Commission reform recommendations and enhance peer pressure for structural reforms by demonstrating a commitment to impose sanctions on non-compliant Member States as foreseen by economic governance rules;
- Ensure that policies at EU level support growth and structural reforms.

# Introduction: Structural reform is essential for EU growth and global competitiveness

2011 saw the EU facing an increasingly acute crisis relating to sovereign debt exposure in a number of Euro Area member states. Much attention has focused on the short-term actions required to safeguard the euro, including the development of the Euro Area’s crisis management tool, the European Stability Mechanism (ESM) and non-standard measures undertaken by the ECB to help stabilise the financial system.

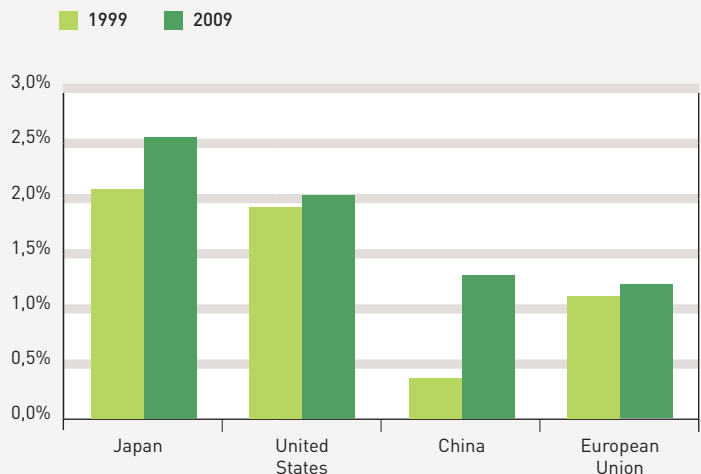
But the crisis has also revealed the fundamental importance for euro sustainability of Member States undertaking structural reforms to improve the competitiveness of their economies and improve budgetary sustainability. As the previous Reform Barometer has shown, countries that performed badly according to our competitiveness and reform indicators, are also those that have faced greatest difficulties responding to the crisis.

**FIGURE 1. LABOUR PRODUCTIVITY GROWTH BETWEEN 2001 AND 2011**



Source: European Commission, AMECO database

**FIGURE 2. BUSINESS ENTERPRISE EXPENDITURE ON R&D (AS % GDP)**



Source: OECD

The crisis threatens to leave a lasting scar on the European economy unless leaders can use it as the impetus to accelerate and strengthen economic reform. Output in 2011 remained below the levels achieved prior to the crisis in 17 European economies, while unemployment has risen to 9.5% in the EU, (despite almost 1 million jobs being created in 2011), with youth unemployment levels of over 21% a particular concern.

The EU continues to exhibit productivity levels around 27% lower than the USA. As Figure 1 illustrates, instead of closing the gap, lower productivity growth in the EU over the last 10 years has actually contributed to a widening of this gap. Member States must further refocus policies towards increasing productivity and employment, particularly given the continuing ageing population and falling labour force, if they want to enhance growth and maintain living standards.

In terms of the EU's role in the global economy, rapid catch-up growth in many emerging economies means that the EU continues to experience a falling share of global GDP (from 25% in 2000 to 20% in 2011). Whilst clearly a challenge to European businesses, the rising strength of the emerging economies also offers immense opportunities. EU companies can benefit from expanding overseas markets, building on the experience and long-standing success of many EU companies in global markets.

But as figure 2 illustrates, in recent years, EU investment in R&D has grown much less than in Japan, the USA and China. Competitiveness surveys, such as that carried out by the World Economic Forum, also continue to point to weaknesses in the EU's innovation capability. Whereas the world's largest economies are increasingly investing in innovation and new technologies, the EU is in danger of falling behind its main competitors.

Boosting productivity and strengthening the knowledge economy are crucial to allowing European companies to improve their competitiveness and strengthen Europe's role in developing and exporting high added-value goods and services. Similarly, the Commission estimates that structural reforms linked to Europe 2020 could boost annual EU GDP by a total of 7% by 2020 and would have the potential to create up to 11 million jobs across the EU.

European leaders must demonstrate their commitment to implementing comprehensive reform strategies that can both restore confidence in the European economy, and particularly the euro, and increase growth and employment in our continent.



# PART I



## MEMBER FEDERATIONS' ASSESSMENT OF REFORM PROGRESS IN 2011 AND PRIORITIES FOR REFORM IN 2012



# 1. Member federations' analysis of reform progress in 2011 <sup>(2)</sup>

2011 saw the first year of the European Semester. Under this process, stability and convergence reports and National Reform Programmes are submitted by Member States and discussed at EU level during the first half of the year prior to implementation. We believe that this new code of conduct offers significant potential to improve the functioning of the European Union and boost policy coordination if Member States use the European Semester as a springboard for improving their reform efforts.

**For this year's Reform Barometer we have carried out an in-depth survey of our member federations to evaluate the success of the European Semester in helping drive structural reform. We asked them to:**

- > comment on the success of the European Semester process in helping drive reform (figure 3);
- > analyse progress effort in Member States against the reform priorities business federations identified for 2011<sup>(3)</sup> (figure 4);
- > and identify priorities for reform in 2012 (chapter 2, figure 7).

**This first part of the report discusses the results of this survey, providing an overview of how Europe's national business federations perceive reform efforts and complementing the quantitative performance analysis in part 2.**

The survey results raise an important concern. While key challenges have generally been properly identified in the National Reform Programmes, implementation has in many cases been poor. This is in line with the Commission view that "member states have not done enough to enact the measures they have committed to at EU level"<sup>(4)</sup>. However, we recognise that important reform progress took place in the last months of 2011 in many countries. As we consider in the next section, business will be looking to Member States to make the most of the reform momentum and step up the pace of implementation in 2012.

## CONCLUSION 1

### Key challenges were generally well identified by Member States in their National Reform Programmes.

- ➔ Most BUSINESSEUROPE member federations consider that the National Reform Programmes (NRPs) submitted by their governments in April 2011 reflect the key challenges faced by their country to a large or to some extent.

Similarly, the Euro Plus Pact commitments that fall under areas of national competence are also generally seen as appropriate by members. Only Italy, Hungary and Slovenia consider them not to be properly addressed in the NRPs.

<sup>2</sup> Due to the absence of a working government in Belgium for most of 2011, VBO-FEB has exceptionally not answered parts of the survey in this year's report.

<sup>3</sup> BUSINESSEUROPE, *European Reform Barometer Spring 2011 – rethinking the role of the state*

<sup>4</sup> European Commission, *Annual Growth Survey 2012*, 23 November 2011.

While generally addressing the right priorities, BUSINESSEUROPE members consider that Member States' NRPs generally lack ambition, a forward-looking perspective and implementation guidance. Our members have suggested that actual commitment to reform has not improved significantly when compared with previous years.

**FIGURE 3. DO NATIONAL REFORM PROGRAMMES, SUBMITTED BY YOUR GOVERNMENT IN APRIL 2011, PROPERLY REFLECT THE KEY CHALLENGES IN YOUR COUNTRY?**

| TO A LARGE EXTENT  | TO SOME EXTENT  | NOT ENOUGH  |
|--|---|---|
| CZECH REPUBLIC<br>DENMARK<br>SPAIN<br>FRANCE<br>HUNGARY<br>NETHERLANDS<br>PORTUGAL<br>SLOVENIA | GERMANY<br>ESTONIA<br>GREECE<br>LATVIA<br>LITHUANIA<br>MALTA<br>AUSTRIA<br>POLAND<br>UNITED KINGDOM | IRELAND<br>ITALY<br>CYPRUS<br>LUXEMBOURG<br>FINLAND<br>SWEDEN |

Source: BUSINESSEUROPE survey of member federations

## CONCLUSION 2

### The European Commission played an important role in providing adequate country-specific recommendations.

→ The large majority of BUSINESSEUROPE member federations believe the latest Commission country-specific recommendations were fully appropriate. Only four members (Czech Republic, Lithuania, Hungary and Sweden) considered recommendations to be too positive. Results concerning the Euro Plus Pact were also encouraging with most members considering Commission recommendations in this area to be highly appropriate.

BUSINESSEUROPE welcomes the fact that the Commission has stepped up its role and, where necessary, provided robust country-specific recommendations contrary to the years preceding the financial crisis, when recommendations too often lacked ambition and failed to address the real structural weaknesses of Member States.

We hope the Commission will continue to play a central role in the European Semester, engaging not only in assessing reform plans but also providing a robust assessment of implementation progress in each Member State and its impact on growth and jobs.

CONCLUSION 3

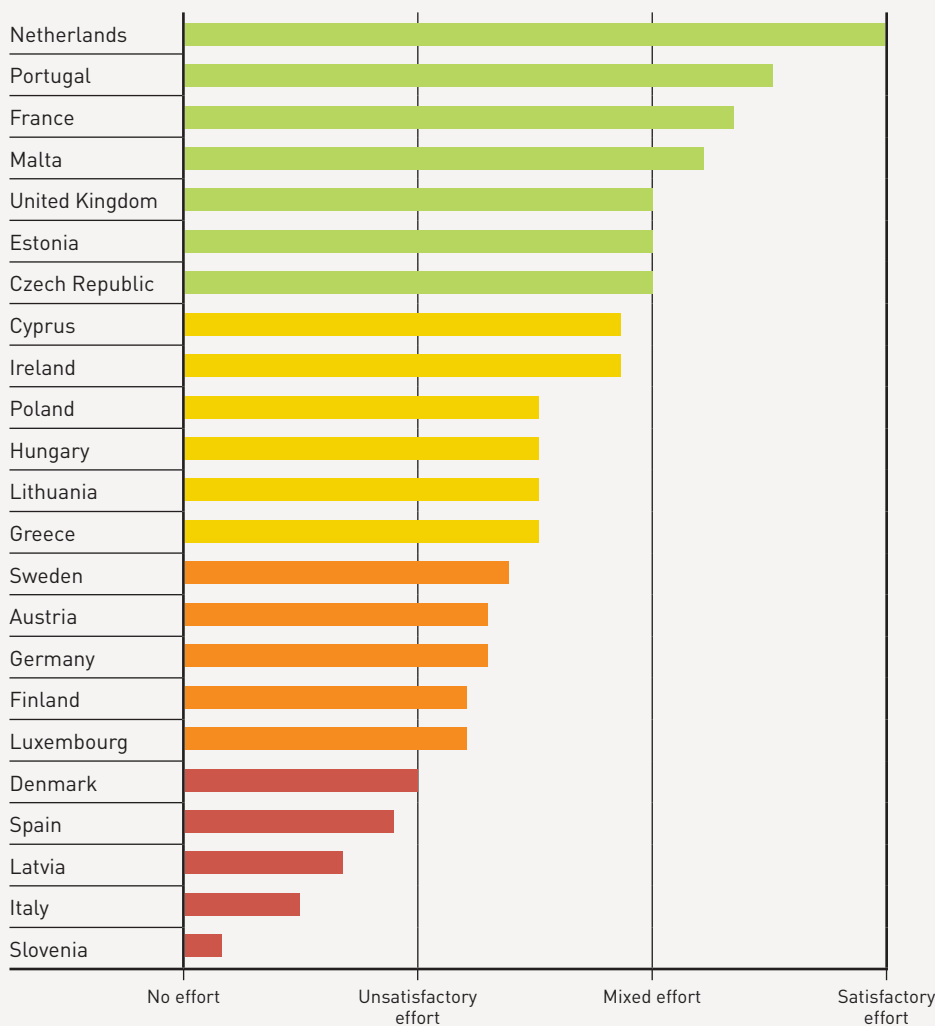
**While a number of Member States have made important reform progress in the final months of 2011, implementation of structural reforms during much of the year was disappointing. Member States must build on recent reform momentum during 2012.**

→ While the identification of priority issues, assisted by the Commission, has been strong, business remains concerned about the level of implementation. Lack of implementation at national level damages the credibility of the European Semester and provides unpromising prospects.

As demonstrated in figure 4, most BUSINESSEUROPE members consider implementation effort to be unsatisfactory, with federations from Slovenia, Italy, Latvia, Spain and Denmark particularly concerned by a lack of reform effort. While federations from the Netherlands, Portugal, France, and Malta, were most positive about the pace of reform, no federation considered progress to have been even close to excellent.

However, our survey provides an overview of 2011 as a whole and does not fully reflect reform efforts by new governments in southern Europe in the final months of the year. While there is cause for optimism in such recent reform efforts, it will be important that governments maintain the reform momentum, particularly regarding implementation in 2012.

FIGURE 4. MEMBER FEDERATIONS' ASSESSMENT OF NATIONAL REFORM EFFORTS IN 2011



Source:  
BUSINESSEUROPE survey  
of member federations

Note:  
weighted average of member  
federations' assessment of  
reform progress overall and  
reform progress in the priorities  
identified in 2011

**CONCLUSION 4**

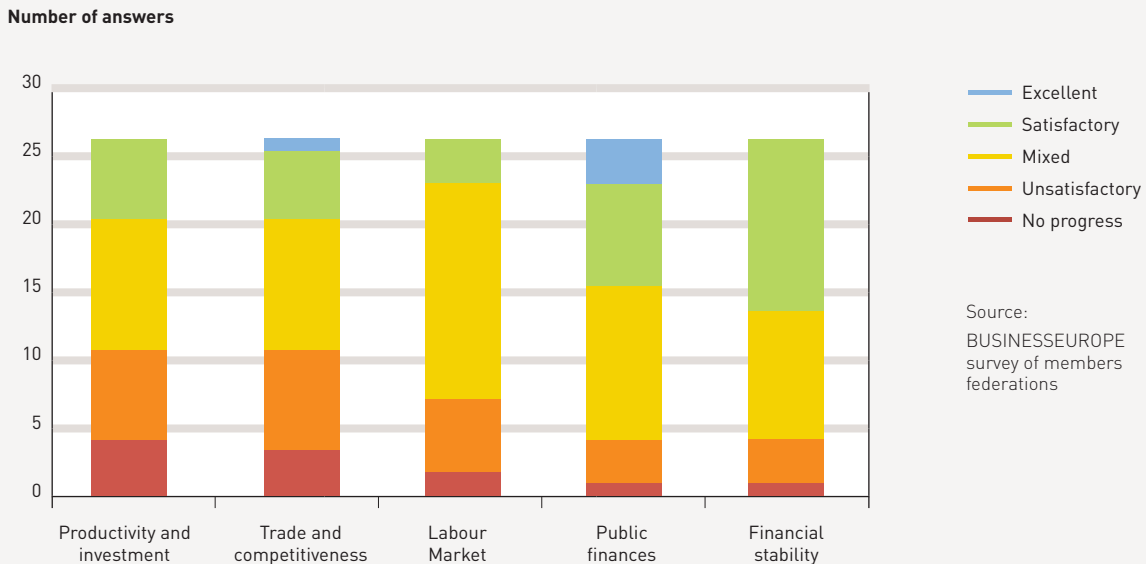
**Disparities can be found in the reform progress across policy areas. Greater progress was achieved in 2011 as regards financial stability and public finances than with policies to directly boost productivity and investment.**

→ Figure 5 shows our members’ assessment of reform progress in five main policy areas. Satisfactory progress has been mainly identified in financial stability with progress on the derivatives and trading directives, part of the European Market Infrastructure Regulation (EMIR), partly explaining this positive assessment. Public finances also have a relatively positive assessment mainly driven by recent efforts from EU member states to consolidate their public finances.

In contrast, unsatisfactory or no progress has been identified mainly in terms of productivity and investment, trade and competitiveness. Industrial activity remains subdued in many countries and investments in research and innovation are being significantly affected. In addition, the positive signs of global recovery that emerged in the first months of 2011 have reversed and renewed fears of trade protectionism have emerged.

Labour markets present a mixed picture with some areas considered to improve, mainly education and training, while active labour markets policies are still lagging behind.

**FIGURE 5. MEMBER FEDERATIONS’ ASSESSMENT OF REFORM PROGRESS BY MAIN POLICY AREAS IN 2011**



**FIGURE 6. MEMBER FEDERATIONS' ASSESSMENT OF REFORM PROGRESS  
BY MAIN POLICY AREAS IN 2011 DETAILED RESULTS**

|                       | <b>Productivity and Investment</b>  | <b>Trade and competitiveness</b>   | <b>Labour market</b>   | <b>Public finances</b>  | <b>Financial stability</b>  |
|-----------------------|---|--|--|---|---|
| <b>Excellent</b>      |   | Ireland  |  | Ireland<br>Sweden<br>Norway   |   |
| <b>Satisfactory</b>   | Germany<br>Estonia<br>Ireland<br>Netherlands<br>Austria<br>Poland                                     | Germany<br>Estonia<br>Netherlands<br>Austria<br>UK   | Greece<br>Malta<br>Norway  | Czech Republic<br>France<br>Italy<br>Netherlands<br>Portugal<br>Finland<br>UK<br>Switzerland                        | Germany<br>Estonia<br>Ireland<br>France<br>Italy<br>Latvia<br>Lithuania<br>Netherlands<br>Finland<br>Sweden<br>Iceland<br>Norway<br>Switzerland |
| <b>Mixed</b>          | Czech Republic<br>France<br>Lithuania<br>Luxembourg<br>Malta<br>Sweden<br>UK<br>Norway<br>Switzerland | Spain<br>France<br>Cyprus<br>Latvia<br>Lithuania<br>Portugal<br>Finland<br>Sweden<br>Switzerland | Czech Republic<br>Denmark<br>Germany<br>Estonia<br>Ireland<br>France<br>Italy<br>Cyprus<br>Latvia<br>Hungary<br>Netherlands<br>Austria<br>Portugal<br>Finland<br>UK<br>Switzerland | Germany<br>Estonia<br>Greece<br>Spain<br>Latvia<br>Lithuania<br>Luxembourg<br>Hungary<br>Malta<br>Poland<br>Iceland | Czech Republic<br>Denmark<br>Luxembourg<br>Hungary<br>Malta<br>Austria<br>Poland<br>Portugal<br>UK  |
| <b>Unsatisfactory</b> | Greece<br>Spain<br>Cyprus<br>Latvia<br>Hungary<br>Portugal<br>Finland                                 | Greece<br>Italy<br>Luxembourg<br>Hungary<br>Malta<br>Poland<br>Iceland<br>Norway                 | Spain<br>Lithuania<br>Poland<br>Sweden<br>Iceland  | Denmark<br>Cyprus<br>Austria  | Greece<br>Spain<br>Cyprus   |
| <b>No progress</b>    | Denmark<br>Italy<br>Slovenia<br>Iceland   | Czech Republic<br>Denmark<br>Slovenia  | Luxembourg<br>Slovenia   | Slovenia  | Slovenia  |

## 2. Priority areas for reform in 2012

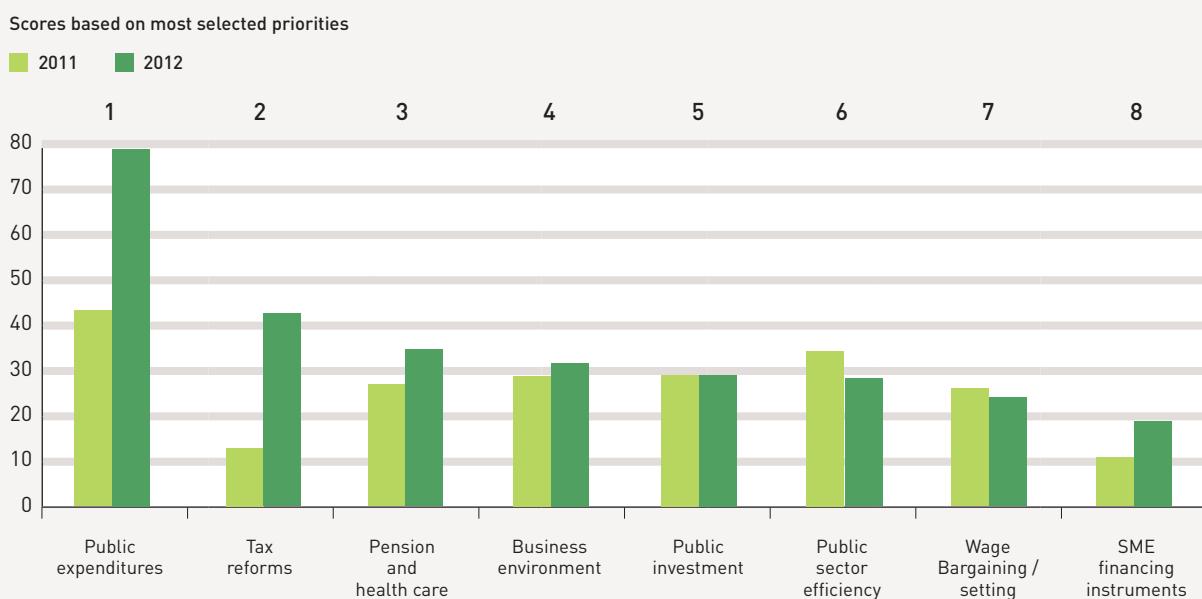
The way in which Member States address structural weaknesses in 2012 will play an important role in determining both long-term growth prospects for the EU and investor perceptions of the robustness of the euro. Successful implementation of ambitious structural reforms has the potential to help restore Europe’s global competitiveness whilst a failure to implement reforms will both restrict growth and deepen competitiveness divergences and macroeconomic imbalances already prevalent in the EU.

In particular, by demonstrating their commitment to implementing ambitious structural reforms, many Euro Area countries can increase investor confidence in their fiscal positions (particularly as revenue increases with growth), and reduce their long-term borrowing costs, creating a positive feedback loop as both business and consumer confidence is boosted.

The agreement on the so-called ‘six-pack’ of legislation to strengthen economic governance in 2011 was helpful in this respect. It strengthens the Stability and Growth Pact rules, including improving early prevention through greater surveillance, and it goes beyond fiscal rules by introducing the excessive imbalances procedure to monitor macroeconomic imbalances. It will be important that the ‘six-pack’ is fully implemented during 2012, which will be supported by the intergovernmental treaty for a broader fiscal compact once ratified.

The priorities identified by BUSINESSEUROPE member federations (figure 7) are in line with the main priorities set out by the Commission in its Annual Growth Survey. European companies are looking for governments in 2012 to prioritise the delivery of growth-friendly fiscal consolidation, pension reform, modernised public administration, improved lending conditions, and revised wage-setting mechanisms.

FIGURE 7. MEMBER FEDERATIONS’ REFORM PRIORITIES FOR 2012



Source: BUSINESSEUROPE survey of members federations  
 Note: weighted average of the most selected policy priorities

## CONCLUSION 5

## Consolidation of public finance and improvements in the efficiency of the public sector are businesses' key priorities for 2012.

- European businesses, through our member federations, gives clear priority to policy areas related with the reform of the public sector which largely reflects developments over the past months, as the sovereign debt crisis became more acute.

Consolidation efforts must be focused on reducing expenditure rather than increasing tax revenue. This means increasing the efficiency of public administrations as well as, in some Member States, improving the capacity of the state to deliver fiscal and structural reforms. Public investment should be focused on growth-enhancing areas such as research and innovation, education, and skills. Tax systems should provide greater incentives for individuals and firms to drive growth and job creation.

Business believes that efforts to regain competitiveness and create jobs in Europe risk being undermined as long as public consolidation is not well on track. This provides a clear-cut message from companies to European leaders: **decisive action must be taken to restore healthy public finances so that governments and companies can refocus efforts on those areas that are crucial to ensure sustainable growth, create jobs and increase competitiveness in Europe.**

## CONCLUSION 6

## Access to capital has become a much more pressing priority.

- Alongside an increasing need for fiscal consolidation, our survey shows that improving access to finance has become a growing priority. The worsening conditions of the banking sector, following the continuation of the sovereign debt crisis, together with upcoming regulatory changes, is imposing important restrictions to the supply of credit, particularly for smaller companies.

New capital requirements in particular will force banks to hold a greater amount of higher-quality capital against the loans provided to these companies. The cumulative effects of these and other measures have the potential to significantly affect lending. Reforms must therefore strike the right balance and be mindful of their consequences for firms seeking investment to drive growth. In this context, BUSINESSEUROPE opposes the introduction of the financial transaction tax (FTT) as its burden would pass on final users, leading to higher costs of capital and lower growth, while not addressing the core sources of instability.

Action should be also taken to enable European companies to access financial markets directly through, for example, the promotion of pooled corporate bond issuance for SMEs. Improvements in the EU venture capital regime would help drive investment amongst SMEs. National tax systems, which currently penalise equity financing over debt financing, should be improved to make risk capital investments more attractive.

## CONCLUSION 7

## Reform of pensions, health and wage bargaining systems continue to be a priority for well functioning labour markets.

→ In September 2011, BUSINESSEUROPE published a report entitled “putting Europe to work”<sup>5</sup>, calling on Member States urgently to put in place the conditions to help creating the 17.6 million new jobs needed to reach the Europe 2020 75% employment rate target by 2020.

A key recommendation was to make permanent contracts more employment-friendly, a proposal supported by the Commission in its 2012 Annual Growth Survey’s which advises Member States to “reform employment protection legislation in consultation with social partners with a view to reducing the excessive rigidities of permanent contracts”.

Reforming pension and healthcare systems remains a fundamental priority for the business community as revealed in our survey. Although a number of Member States have already taken steps to reform their pension systems, further reform is necessary to ensure the sustainability of the system and avoid further labour market shortages. Reforms should aim at to extend working lives along with the creation of employment opportunities for older workers.

Finally, BUSINESSEUROPE members attach much importance to reform wage bargaining/setting systems. Wage flexibility is an essential element of European private companies’ competitiveness to win markets at global level and create employment in Europe. Companies must be able to adapt wages to their performance, aligning them on productivity. Reforms are therefore needed to put in place more flexible and/or decentralised wage bargaining structures and help ensure that growth of real wages is kept in line with labour productivity.

### EXAMPLE RECOMMENDATIONS FROM BUSINESSEUROPE MEMBER FEDERATIONS

#### Public Sector reform

##### FRANCE

Reduce public spending versus increase fiscal pressure especially on businesses. Apply and extend the “golden rule” and the control of spending to all public administrations (including State, local administration, social security, etc.)

##### UK

Accelerate more efficient procurement in the public sector, by using private sector providers, eliminating needless duplication, getting economies of scale via centralisation, and re-examining how things are done.

#### Access to finance

##### IRELAND

Introduce loan guarantee schemes for SMEs, and accelerate the reform of state-covered banks to ensure the return to more normal lending practices.

##### PORTUGAL

Create conditions to minimise the impact of banks’ deleveraging process on credit flows to the private sector.

<sup>5</sup> BUSINESSEUROPE report “Putting Europe to Work”

# PART II



## KEY PERFORMANCE AND POLICY INDICATORS



# 1. Benchmarking our way up

The need to enhance peer pressure at EU level and make further use of a scoreboard of indicators has been advocated by BUSINESSEUROPE for a long time. This is fundamental to identify priority areas for reform, growth and competitiveness bottlenecks. It can also improve the commitment of members to reform, with the best performing countries as the benchmark.

This chapter assesses the overall performance of Member States based on key performance and policy indicators to provide an indicator of where policy reform may be required. Our Reform Barometer is complemented by those produced by other organisations. The Danish Industries Global Benchmarking Report, for example, provides a broader assessment of developments in the long term business environment and the performance of individual OECD member countries in over 80 indicators.

The new excessive imbalances procedure, set-up in the context of the legislative package on economic governance, and its scoreboard of indicators are therefore welcome. This is an important part of the reinforced surveillance that previously focused only on the Stability and Growth Pact rules and ignored the emergence of macroeconomic imbalances that, as we have seen in the Spanish and Irish case, are so important. We count on the Commission to enhance the impact of this exercise by providing robust recommendations where evidence-based and in-depth reviews warrant such action.

However, we reiterate that threshold should never be taken as benchmarks with the risks of accelerating imbalances. The close relationship between Euro Area and ERM II countries should also be taken into consideration, with both groups subject to the same indicators and thresholds. Euro Plus Pact members whose currency is not the euro and have voluntarily agreed to converge their economic policies to the Euro Area should also be subject to similar thresholds.

## BUSINESSEUROPE benchmarking results

Figure 8 provides a summary of the overall performance of individual economies in 2011, based on key structural indicators described in more detail in the next chapter. In terms of overall performance, **Austria, Germany and Sweden** remain as frontrunners this year combining both high overall performance and improvements from last year. These countries score particularly well in current account, unit labour costs and R&D.

**Denmark** is well placed with an important improvement from the previous year particularly noticeable in trade and competitiveness indicators. **Switzerland** and **Norway** have generally high scores in most indicators, in particular employment, current account and primary balance.

**Czech Republic** performs very well in industrial activity, trade and public finances indicators. However its productivity indicators are relatively low.

**Spain**, while being below the average performance and with a weak score in industrial activity and several labour market indicators, has seen a remarkable improvement when compared with the year before, mainly because of trade and competitiveness indicators. Furthermore, since the recent elections in 2011, the new government is currently involved in a very dynamic reform process particularly in the financial, fiscal and labour market fields. The Spanish business community is supportive of these reforms and confident its economy will regain credibility.

FIGURE 8. OVERALL RELATIVE PERFORMANCE BASED ON KEY STRUCTURAL INDICATORS

## ABOVE-AVERAGE PERFORMERS



## BELOW-AVERAGE PERFORMERS



**Malta**, whilst maintaining its position relative to other EU performers, has seen an improvement in absolute terms in a number of indicators, most notably, the contribution of net exports to GDP. Malta has been able to build on the relatively benign impact of the financial crisis on the economy.

**Italy**, remains in the bottom half of EU performance, but this position does not take into consideration the important reform measures that have been put in place towards the end of the year.

The **UK** performs relatively poorly in private investment, industrial activity and some public finances indicators but ranks well in employment and high tech exports. Its performance has been downgraded compared with the previous year given the large fall in indicators such as the relative change in global trade and high marginal tax rates.

**Portugal** is still performing below the average with important difficulties in current account and unemployment indicators but important progress has been reached in some areas such as exports, government deficit and primary balances where it gained some positions.

**Greece** performance remains lagging in most indicators but improvement is noticeable in some indicators such as unit labour costs and primary balance.

## 2. Detailed scoreboard

### I. PRODUCTIVITY AND INVESTMENT

Labour productivity and investment are key drivers of economic growth. Improved labour productivity enhances company performances favouring the creation of new resources for investments in new technologies and business start-ups. Furthermore, gains in innovation, especially in cross-sector technologies, accelerate overall productivity growth, bringing spill-over effects to the whole economy.

Nevertheless, we observe a persistent gap in investments in R&D between EU, USA and Japan (table 1b). This demands a concerted policy response aimed at supporting innovation and in turn the productivity of EU industries. Policy needs to go beyond directly encouraging investment, requiring broader improvements to framework or market conditions, efforts to stimulate demand and markets for innovation, and the nurturing future innovative talent.

FIGURE 9. OVERALL RELATIVE PERFORMANCE ON PRODUCTIVITY AND INVESTMENT

#### ABOVE-AVERAGE PERFORMERS

| ↑   | =  | ↓       |
|---|--|---------|
| AUSTRIA<br>IRELAND<br>MALTA<br>NETHERLANDS<br>SLOVAKIA<br>FINLAND | BELGIUM<br>CZECH REPUBLIC<br>GERMANY<br>ITALY<br>LUXEMBOURG<br>SWEDEN<br>NORWAY<br>SWITZERLAND | DENMARK |

(Relative performance of countries. ↑ / ↓ for countries that have respectively a better/worse relative performance compared with the previous year)

#### BELOW-AVERAGE PERFORMERS

| ↑                                       | =   | ↓  |
|---|---|--|
| ESTONIA<br>SPAIN<br>ICELAND<br>SLOVENIA | BULGARIA<br>CYPRUS<br>FRANCE<br>LITHUANIA<br>POLAND | GREECE<br>LATVIA<br>HUNGARY<br>PORTUGAL<br>ROMANIA<br>UK |

TABLE 1A. PRODUCTIVITY AND INVESTMENT

|                | Labour productivity per hour worked |        | Labour productivity per person employed |        | Private investment (as % GDP) |        | Industrial activity (% total value added) |        | R&D expenditure (as % GDP) (1) |        | Operating surplus (% total value added) |        |
|----------------|-------------------------------------|--------|---|--------|-------------------------------|--------|---|--------|--------------------------------|--------|---|--------|
|                | Rank                                | Change | Rank                                    | Change | Rank                          | Change | Rank                                      | Change | Rank                           | Change | Rank                                    | Change |
| Belgium        | 5                                   | 0      | 5                                       | 0      | 4                             | 0      | 21  | 0      | 12                             | -1     | 23                                      | -1     |
| Bulgaria       | 30                                  | 1      | 32                                      | 0      | 28                            | -1     | 14  | -1     | 28                             | 2      | 1                                       | 0      |
| Czech Republic | 23                                  | 1      | 25                                      | 0      | 6                             | 0      | 1   | 0      | 20                             | -1     | 11                                      | 0      |
| Denmark        | 9                                   | 0      | 13                                      | 0      | 13                            | -2     | 20  | -1     | 5                              | 0      | 25                                      | -1     |
| Germany        | 8                                   | 0      | 16                                      | 0      | 9                             | 1      | 13  | 1      | 7                              | 0      | 21                                      | -4     |
| Estonia        | 25                                  | 0      | 27                                      | 0      | 15                            | 2      | 15  | -3     | 18                             | 3      | 13                                      | 0      |
| Ireland        | 7                                   | 0      | 4                                       | 0      | 30                            | 2      | 2   | 1      | 14                             | 4      | 5                                       | 0      |
| Greece*        | 20                                  | 2      | 19                                      | -1     | 22                            | -4     | 29  | 0      | 28                             | -2     | 2                                       | 0      |
| Spain          | 15                                  | 0      | 12                                      | 0      | 17                            | 6      | 25  | 1      | 21                             | -1     | 20                                      | 0      |
| France         | 6                                   | 0      | 7                                       | 0      | 19                            | 1      | 28  | 0      | 10                             | 0      | 29                                      | 0      |
| Italy          | 16                                  | 0      | 14                                      | 0      | 5                             | 0      | 18  | 0      | 22                             | 0      | 18                                      | -2     |
| Cyprus         | 21                                  | -1     | 21                                      | 0      | 31                            | -1     | 30  | 0      | 31                             | 1      | 15                                      | 0      |
| Latvia         | 29                                  | 0      | 30                                      | 0      | 25                            | -3     | 26  | -1     | 28                             | -3     | 7                                       | 0      |
| Lithuania      | 27                                  | 0      | 29                                      | 0      | 27                            | 1      | 10  | 0      | 24                             | 0      | 4                                       | -1     |
| Luxembourg     | 1                                   | 0      | 1                                       | 0      | 24                            | 2      | 31  | 0      | 17                             | -1     | 12                                      | 0      |
| Hungary        | 26                                  | 0      | 26                                      | 0      | 18                            | -3     | 5   | 0      | 23                             | 0      | 14                                      | 0      |
| Malta          | 18                                  | 0      | 20                                      | 0      | 7                             | 0      | N/A                                       | N/A    | 26                             | 3      | 8                                       | 1      |
| Netherlands    | 4                                   | 0      | 8                                       | 0      | 16                            | 0      | 19  | 1      | 13                             | 0      | 17                                      | 1      |
| Austria        | 11                                  | 0      | 6                                       | 0      | 3                             | 0      | 12  | 3      | 9                              | -1     | 16                                      | 3      |
| Poland         | 28                                  | 0      | 28                                      | 0      | 32                            | -3     | 6   | 0      | 25                             | 1      | 10                                      | 0      |
| Portugal       | 24                                  | -1     | 24                                      | 0      | 20                            | 1      | 22  | 0      | 19                             | -2     | 26                                      | -3     |
| Romania        | 31                                  | -1     | 31                                      | 0      | 14                            | -1     | 4   | 0      | 32                             | -4     | 3                                       | 1      |
| Slovenia       | 19                                  | 0      | 23                                      | 0      | 12                            | 0      | 9   | 0      | 11                             | 3      | 28                                      | 0      |
| Slovakia       | 22                                  | -1     | 22                                      | 0      | 2                             | 0      | 7   | 0      | 26                             | 4      | 6                                       | 0      |
| Finland        | 12                                  | 1      | 9                                       | 0      | 26                            | -1     | 8   | 0      | 1                              | 0      | 19                                      | 2      |
| Sweden         | 10                                  | 0      | 10                                      | 0      | 8                             | 1      | 11  | 0      | 3                              | -2     | 27                                      | 0      |
| United Kingdom | 14                                  | 0      | 15                                      | 0      | 21                            | -2     | 27  | 0      | 15                             | -3     | 24                                      | 2      |
| Iceland        | N/A                                 | N/A    | 18                                      | 1      | 29                            | 2      | 23  | 0      | 4                              | 5      | N/A                                     | N/A    |
| Norway         | 2                                   | 0      | 2                                       | 0      | 23                            | 1      | 3   | -1     | 16                             | -1     | 9                                       | -1     |
| Switzerland    | 13                                  | -1     | 11                                      | 0      | 1                             | 0      | 16  | 0      | 6                              | -2     | 22                                      | 3      |
| United States  | 3                                   | 0      | 3                                       | 0      | 11                            | 3      | 24  | 0      | 8                              | -2     | N/A                                     | N/A    |
| Japan          | 17                                  | 0      | 17                                      | 0      | 10                            | -2     | 17  | 0      | 2                              | 1      | N/A                                     | N/A    |

(1) Data refer to 2010 / 2009 \* In the case of Greece, operating surplus is significantly increased by the inclusion of data originating from self-employment

TABLE 1B. PERFORMANCE IN THE WORLD – PRODUCTIVITY AND INVESTMENT

|               | Labour productivity per person employed (in PPP, US=100) |                  | Industrial activity (% total value added) |                  | R&D expenditure (% as GDP) |                  |
|---------------|--|------------------|---|------------------|----------------------------|------------------|
|               | 2011   | Change from 2010 | 2011                                      | Change from 2010 | 2010                       | Change from 2009 |
| EU 27         | 69   | 0%               | 19%                                       | 0%               | 2,0                        | 0,0              |
| Euro area     | 77   | -3%              | 19%                                       | 0%               | 2,1                        | 0,0              |
| Best 5 EU     | 84   | 1%               | 30%                                       | 1%               | 3,2                        | 0,1              |
| United States | 100  | -                | 17%                                       | 0%               | 2,8                        | 0,0              |
| Japan         | 67   | -1%              | 21%                                       | 0%               | 3,5                        | 0,0              |

(1) Data for R&D expenditure in US and Japan refers to 2008

## II. TRADE AND COMPETITIVENESS

In a context where competition in many traditional sectors is increasingly subject to severe, often low-wage competition, taking advantage of expanding global markets by improving the capacity to export high added-value goods and services is a key challenge for EU economies.

Europe must upgrade the framework and market conditions in which industry operates, actively developing fundamental horizontal policies in various policy fields and implementing a thorough “competitiveness proofing” of all new legislation.

At international level, EU institutions must defend open and fair markets, as they are the precondition for growth and jobs in an EU economy which largely relies on exports. Industrial policy must not lead to new protectionism and should be flanked by an appropriate international trade policy. In this regard, it is crucial for the competitiveness of European business that the EU secures market access in emerging markets and undistorted access to raw materials.

FIGURE 10. OVERALL RELATIVE PERFORMANCE ON TRADE AND COMPETITIVENESS

### ABOVE-AVERAGE PERFORMERS

| ↑  | =   | ↓                               |
|--|---|---------------------------------|
| AUSTRIA<br>CZECH REPUBLIC<br>DENMARK<br>IRELAND<br>HUNGARY<br>LUXEMBOURG<br>SLOVAKIA | BULGARIA<br>MALTA<br>NETHERLANDS<br>SWEDEN<br>SWITZERLAND | GERMANY<br>ESTONIA<br>LITHUANIA |

(Relative performance of countries. ↑ / ↓ for countries that have respectively a better/worse relative performance compared with the previous year)

### BELOW-AVERAGE PERFORMERS

| ↑                                    | =   | ↓   |
|--------------------------------------|---|---|
| CYPRUS<br>GREECE<br>SPAIN<br>ROMANIA | ITALY<br>FRANCE<br>PORTUGAL<br>SLOVENIA<br>UK<br>NORWAY | BELGIUM<br>FINLAND<br>LATVIA<br>POLAND<br>ICELAND |

TABLE 2A. TRADE AND COMPETITIVENESS

|                | Current account<br>(as % GDP) |        | Export market<br>share<br>(gain from 2000) |        | Net export<br>contribution<br>to GDP growth |        | Relative change<br>in global trade |        | Relative unit<br>labour cost<br>(gain from 2000) |        | High-tech exports<br>(% total exports) [2] |        |
|----------------|-------------------------------|--------|--|--------|---|--------|------------------------------------|--------|--|--------|--|--------|
|                | Rank                          | Change | Rank                                       | Change | Rank  | Change | Rank                               | Change | Rank   | Change | Rank                                       | Change |
| Belgium        | 11                            | 0      | 24   | 0      | 22  | -10    | 17                                 | 5      | 13   | -2     | 18   | 1      |
| Bulgaria       | 13                            | 5      | 4  | 0      | 8   | -7     | 4                                  | 9      | 28   | -3     | 29   | 1      |
| Czech Republic | 25                            | 1      | 5  | 1      | 7   | 4      | 5                                  | 2      | 19   | 0      | 12   | 1      |
| Denmark        | 4                             | 2      | 23   | 3      | 12  | 8      | 22                                 | 7      | 22   | 1      | 16   | 1      |
| Germany        | 7                             | -2     | 9  | 1      | 20  | -11    | 7                                  | 8      | 2  | 0      | 14   | 1      |
| Estonia        | 8                             | 0      | 8  | 4      | 14  | -9     | 1                                  | 2      | 29   | 0      | 20   | -2     |
| Ireland        | 14                            | 2      | 12   | 1      | 2   | 1      | 29                                 | 1      | 12   | 8      | 6  | -3     |
| Greece         | 31                            | 1      | 31   | 0      | 3   | 1      | 32                                 | -1     | 8  | 5      | 22   | 1      |
| Spain          | 24                            | 3      | 14   | 3      | 9   | 5      | 12                                 | 14     | 15   | 2      | 28   | 1      |
| France         | 22                            | -3     | 28   | 0      | 27  | -6     | 16                                 | 9      | 11   | -2     | 8  | 0      |
| Italy          | 26                            | -4     | 29   | 0      | 19  | 4      | 14                                 | 2      | 20   | -2     | 21   | 1      |
| Cyprus         | 29                            | 0      | 26   | 1      | 13  | 16     | 31                                 | -7     | 18   | -2     | 7  | 0      |
| Latvia         | 17                            | -5     | 11   | -3     | 32  | -8     | 3                                  | 3      | 30   | 0      | 27   | 0      |
| Lithuania      | 19                            | -5     | 1  | 0      | 29  | -10    | 2                                  | 0      | 10   | 0      | 24   | -4     |
| Luxembourg     | 6                             | -3     | 24   | 0      | 30  | 1      | 19                                 | 13     | 13   | -2     | 2  | 0      |
| Hungary        | 12                            | 3      | 3  | 5      | 5   | 1      | 18                                 | -4     | 27   | 1      | 5  | 1      |
| Malta          | 21                            | 3      | 20   | -1     | 10  | -8     | 20                                 | 8      | 24   | 0      | 1  | 0      |
| Netherlands    | 5                             | 2      | 17   | -2     | 15  | -2     | 11                                 | 0      | 17   | -2     | 9  | 2      |
| Austria        | 10                            | 0      | 18   | 0      | 16  | 0      | 9                                  | 12     | 4  | 1      | 17   | -1     |
| Poland         | 28                            | 0      | 6  | -1     | 23  | 4      | 26                                 | -18    | 5  | -2     | 25   | 3      |
| Portugal       | 30                            | 0      | 19   | 1      | 1   | 17     | 30                                 | -3     | 16   | -2     | 31   | -10    |
| Romania        | 27                            | -2     | 2  | 0      | 21  | 9      | 10                                 | -1     | 31   | 0      | 19   | 5      |
| Slovenia       | 15                            | 2      | 10   | -1     | 6   | 2      | 23                                 | -5     | 25   | 1      | 26   | -1     |
| Slovakia       | 18                            | 5      | 7  | 0      | 4   | 13     | 13                                 | -3     | 23   | -1     | 23   | 2      |
| Finland        | 16                            | -3     | 27   | -4     | 28  | -13    | 15                                 | 4      | 9  | -1     | 15   | -6     |
| Sweden         | 3                             | 1      | 15   | 1      | 17  | 5      | 8                                  | -4     | 3  | 1      | 13   | 1      |
| United Kingdom | 20                            | 0      | 21   | 0      | 11  | 15     | 27                                 | -15    | 21   | 0      | 10   | 2      |
| Iceland        | 32                            | -1     | N/A  | N/A    | 26  | 2      | 24                                 | -4     | N/A  | N/A    | 32   | 0      |
| Norway         | 2                             | 0      | 30   | 0      | 31  | 1      | 21                                 | 2      | 26   | 1      | 30   | 1      |
| Switzerland    | 1                             | 0      | 16   | -2     | 18  | -8     | 6                                  | 11     | 6  | 0      | 4  | 1      |
| United States  | 23                            | -2     | 22   | 0      | 24  | 1      | 25                                 | -20    | 7  | 0      | 3  | 1      |
| Japan          | 9                             | 0      | 13   | -2     | 25  | -18    | 28                                 | -27    | 1  | 0      | 11   | -1     |

[2] Data refer to 2009 / 2008

FIGURE 2B. EU PERFORMANCE IN THE WORLD – TRADE AND COMPETITIVENESS

|                      | Export market share<br>(change since 2000) |                     | Relative unit labour cost<br>(change since 2000) |                     | High-tech exports<br>(% total exports) |                     |
|----------------------|--|---------------------|--|---------------------|--|---------------------|
|                      | 2011                                       | Change from<br>2010 | 2011   | Change from<br>2010 | 2009                                   | Change from<br>2008 |
| <b>EU 27</b>         | 4,7  | 1,5                 | -1,5   | 2,3                 | 16,9                                   | 1,5                 |
| <b>Euro area</b>     | 1,7  | 1,3                 | -6,7   | 0,7                 | 8,9                                    | 0,9                 |
| <b>Best 5 EU</b>     | 63,2                                       | 5,1                 | -7,0   | -0,2                | 30,0                                   | 1,3                 |
| <b>United States</b> | -4,2                                       | 0,3                 | -2,5   | 0,1                 | 22,6                                   | 0,0                 |
| <b>Japan</b>         | 6,9  | -4,4                | -32,1  | -0,2                | 17,4                                   | 1,1                 |

### III. EMPLOYMENT, LABOUR PARTICIPATION AND HOURS WORKED

The recent economic and financial crisis deeply underlined structural weaknesses in EU labour markets. Whereas unemployment rose in several Member States, we also keep recording structural inefficiencies in European labour markets. Reforms geared towards flexicurity principles can improve geographical and occupational mobility, as well as a better matching of skills and jobs.

Modernising wage bargaining and wage-setting mechanisms is also key to improve competitive adjustment channels, so that companies can produce in each country with globally competitive unit labour costs. Removing price-indexation schemes, restricting indirect labour costs, and reforming social benefit systems are important priorities in this respect.

It is important to remember that labour market conditions are expected to hold reasonably well in those countries that introduced structural reforms on time. On the contrary, those countries that failed to do so are expected to see further increases in unemployment.

#### EXAMPLES OF COUNTRY RECOMMENDATIONS

##### BELGIUM

Labour costs may not increase faster than the average of our three neighbouring countries (competitiveness law of 1996)



##### GERMANY

Establish the legal basis for the principle of one firm - one collective agreement ("Tarifeinheit").

FIGURE 11. OVERALL RELATIVE PERFORMANCE ON LABOUR MARKET

#### ABOVE-AVERAGE PERFORMERS



(Relative performance of countries.  /  for countries that have respectively a better/worse relative performance compared with the previous year)

#### BELOW-AVERAGE PERFORMERS



TABLE 3A. LABOUR MARKET

|                | Employment rate (% working age population, 15-64) |        | Employment rate 15-24 (% population 15-24) |        | Employment rate 55-64 (% population 55-64) |        | Annual hours worked (per person employed) |        | Dependency ratio (working age pop as % total population) |        | Labour Participation rate (% working age population) |        | Unemployment rate (% labour force) |        |
|----------------|---|--------|--|--------|--|--------|---|--------|--|--------|--|--------|------------------------------------|--------|
|                | Rank  | Change | Rank                                       | Change | Rank                                       | Change | Rank                                      | Change | Rank   | Change | Rank   | Change | Rank                               | Change |
| Belgium        | 20  | -1     | 21   | 1      | 26   | 1      | 25  | 0      | 27   | -1     | 26   | 0      | 19                                 | 0      |
| Bulgaria       | 28  | -6     | 30   | -4     | 20   | 0      | 21  | 0      | 7  | 2      | 29   | -2     | 20                                 | 3      |
| Czech Republic | 14  | 3      | 23   | -1     | 18   | 0      | 3   | 2      | 6  | -2     | 20   | 0      | 11                                 | 0      |
| Denmark        | 6   | -1     | 4  | 0      | 8  | 0      | 26  | 0      | 30   | -1     | 5  | 0      | 7                                  | 2      |
| Germany        | 7   | 1      | 8  | 1      | 7  | 0      | 30  | 0      | 25   | 2      | 9  | 0      | 10                                 | 1      |
| Estonia        | 18  | 2      | 15   | 6      | 12   | 0      | 7   | 2      | 17   | -2     | 12   | 1      | 29                                 | 0      |
| Ireland        | 25  | -4     | 18   | -2     | 14   | 0      | 12  | 0      | 14   | 2      | 22   | -1     | 26                                 | 1      |
| Greece         | 31  | -8     | 32   | -2     | 22   | 0      | 4   | -2     | 18   | 2      | 25   | -2     | 28                                 | -2     |
| Spain          | 27  | 1      | 25   | -1     | 19   | 0      | 18  | 0      | 15   | -1     | 17   | 0      | 32                                 | 0      |
| France         | 18  | 0      | 17   | 0      | 24   | 1      | 28  | 0      | 31   | 0      | 21   | 1      | 23                                 | -2     |
| Italy          | 30  | 0      | 28   | 1      | 28   | 0      | 13  | 0      | 28   | 0      | 31   | -1     | 18                                 | 0      |
| Cyprus         | 11  | -1     | 14   | 1      | 11   | -1     | 9   | 1      | 3  | 0      | 13   | -2     | 8                                  | 0      |
| Latvia         | 21  | 3      | 20   | -1     | 15   | 2      | 6   | 0      | 10   | 0      | 16   | 0      | 31                                 | 0      |
| Lithuania      | 22  | 7      | 29   | 2      | 16   | 0      | 8   | 0      | 4  | 3      | 19   | 0      | 30                                 | 0      |
| Luxembourg     | 15  | 1      | 27   | 0      | 27   | -1     | 27  | 0      | 12   | 0      | 23   | 2      | 6                                  | 0      |
| Hungary        | 32  | 0      | 31   | 1      | 30   | 0      | 5   | -2     | 9  | 2      | 30   | 1      | 24                                 | 1      |
| Malta          | 29  | 2      | 10   | 0      | 31   | 1      | 11  | 0      | 11   | -3     | 32   | 0      | 8                                  | -1     |
| Netherlands    | 4   | 0      | 2  | -1     | 13   | 0      | 31  | 0      | 21   | -2     | 7  | 0      | 4                                  | 0      |
| Austria        | 8   | -1     | 5  | 0      | 21   | 0      | 20  | 0      | 16   | 1      | 11   | 1      | 3                                  | 0      |
| Poland         | 23  | 1      | 22   | -2     | 29   | 2      | 1   | 0      | 2  | 0      | 28   | 0      | 21                                 | -1     |
| Portugal       | 16  | -1     | 19   | -1     | 17   | -2     | 2   | 2      | 22   | 0      | 8  | 0      | 25                                 | -1     |
| Romania        | 26  | 0      | 24   | 1      | 25   | -2     | 10  | -3     | 5  | 0      | 27   | 2      | 14                                 | -1     |
| Slovenia       | 17  | -3     | 16   | -2     | 32   | -3     | 19  | 0      | 8  | -2     | 18   | 0      | 12                                 | -2     |
| Slovakia       | 23  | 3      | 26   | 2      | 23   | 1      | 14  | 0      | 1  | 0      | 24   | 0      | 27                                 | 1      |
| Finland        | 12  | 0      | 12   | 0      | 10   | 1      | 17  | 0      | 26   | -2     | 14   | 0      | 15                                 | 1      |
| Sweden         | 5   | 1      | 13   | 0      | 2  | 0      | 24  | 0      | 29   | 1      | 4  | 0      | 17                                 | -1     |
| United Kingdom | 10  | 1      | 9  | -1     | 9  | 0      | 23  | -1     | 23   | 0      | 10   | 0      | 16                                 | -1     |
| Iceland        | 2   | 0      | 1  | 2      | 1  | 0      | N/A                                       | N/A    | 20   | -2     | 1  | 0      | 13                                 | 1      |
| Norway         | 3   | 0      | 6  | 0      | 3  | 0      | 29  | 0      | 24   | 1      | 6  | 0      | 2                                  | -1     |
| Switzerland    | 1   | 0      | 3  | -1     | 4  | 0      | 22  | 1      | 13   | 0      | 2  | 0      | 1                                  | 1      |
| United States  | 13  | 0      | 7  | 0      | 6  | 0      | 15  | 0      | 19   | 2      | 15   | 0      | 22                                 | -1     |
| Japan          | 9   | 0      | 11   | 0      | 5  | 0      | 16  | 0      | 32   | 0      | 3  | 0      | 5                                  | 0      |

TABLE 3B. EU PERFORMANCE IN THE WORLD – LABOUR MARKET

|               | Employment rate 55-64 (% population 55-64) |                  | Annual hours worked (per capital) |                  | Unemployment rate (% labour force) |                  |
|---------------|--|------------------|-----------------------------------|------------------|------------------------------------|------------------|
|               | 2011                                       | Change from 2010 | 2011                              | Change from 2010 | 2011                               | Change from 2010 |
| EU 27         | 47,1                                       | 0,8              | 1650                              | -0,15            | 9,5                                | -0,10            |
| Euro area     | 46,7                                       | 0,9              | 1578                              | -0,03            | 10,0                               | -0,10            |
| Best 5 EU     | 43,4                                       | 0,6              | 1954                              | -0,58            | 5,4                                | -0,14            |
| United States | 60,1                                       | -0,2             | 1733                              | 0,52             | 9,4                                | -0,20            |
| Japan         | 65,6                                       | 0,4              | 1733                              | 1,13             | 4,9                                | -0,20            |

## IV. PUBLIC FINANCES AND FISCAL SUSTAINABILITY

The European Union is facing a severe sovereign debt crisis, which has been also caused by a lack of fiscal discipline in some Member States. Confidence in the capacity of some Member States to grow and bring their public finances to sustainable levels is clearly reflected in a reduced confidence from investors, households and financial institutions. As a consequence, borrowing has become more expensive, with higher interest rates on government bonds in turn and impacting on business and consumer confidence, and forming a negative feedback loop.

While the public debt in the EU as a whole is lower than in the USA and Japan, concerns about sustainability are higher, particularly given that the EU will soon join Japan in having an ageing population impact on public finances. As discussed earlier, it will be important that recent commitments by member states to improve economic governance, particularly of the Euro Area are implemented in full.

### EXAMPLES OF COUNTRY RECOMMENDATIONS

#### FINLAND

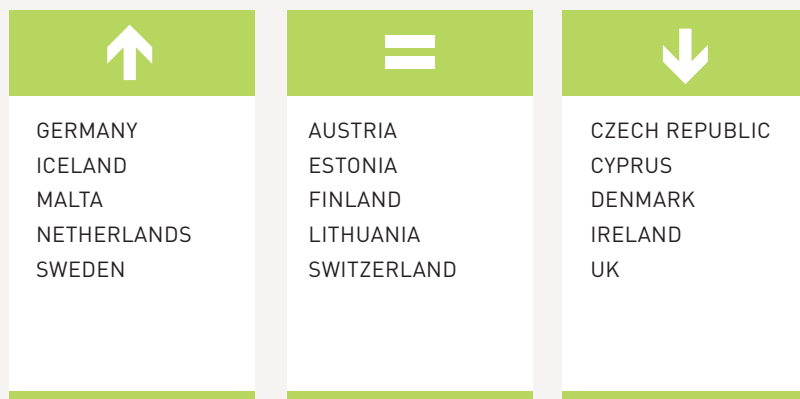
Cut down some welfare services, open competition in production of public welfare services and implement municipal reform with the objective of creating economically robust municipal structure.



#### SPAIN

National agreement to reduce public sector size and public spending, Assessment and transparency of public spending, Efficiency and cost-cutting measures versus raising fiscal pressure, Pension system reform, Control of local and regional administration spending.

FIGURE 12. OVERALL RELATIVE PERFORMANCE ON PUBLIC FINANCES

#### ABOVE-AVERAGE PERFORMERS



(Relative performance of countries.  /  for countries that have respectively a better/worse relative performance compared with the previous year)

#### BELOW-AVERAGE PERFORMERS



TABLE 4A. PUBLIC FINANCES AND FISCAL SUSTAINABILITY

|                | Five best |        | Lowest third |        | Gross debt, general government (as % GDP) |        | Net debt, general government (as % GDP) (1) |        | Government deficit (as % GDP) |        | Primary balance (as % GDP) |        | Tax burden (as % GDP) |        | Highest marginal tax rate (individual rate, %) (1) |        | Public investment (% total current expenditure) |        |  |  |    |    |  |  |
|----------------|-----------|--------|--------------|--------|---|--------|---|--------|-------------------------------|--------|----------------------------|--------|-----------------------|--------|--|--------|---|--------|--|--|----|----|--|--|
|                | Rank      | Change | Rank         | Change | Rank                                      | Change | Rank  | Change | Rank                          | Change | Rank                       | Change | Rank                  | Change | Rank   | Change | Rank  | Change |  |  |    |    |  |  |
| Belgium        | 25        | 3      |              |        | 26  | 1      |   |        | 12                            | -2     |                            |        | 12                    | -3     |  |        | 26  | 0      |  |  | 31 | 0  |  |  |
| Bulgaria       | 2         | 0      |              |        | 4   | 0      |   |        | 9                             | -1     |                            |        | 15                    | -1     |  |        | 1   | 0      |  |  | 3  | -1 |  |  |
| Czech Republic | 7         | -2     |              |        | 9   | -1     |   |        | 15                            | 0      |                            |        | 20                    | -3     |  |        | 2   | 0      |  |  | 8  | -3 |  |  |
| Denmark        | 9         | 1      |              |        | 3   | 0      |   |        | 13                            | -6     |                            |        | 17                    | -7     |  |        | 31  | 0      |  |  | 28 | 1  |  |  |
| Germany        | 21        | 2      |              |        | 17  | 1      |   |        | 8                             | 4      |                            |        | 5                     | 8      |  |        | 24  | 0      |  |  | 30 | 0  |  |  |
| Estonia        | 1         | 0      |              |        | 2   | 0      |   |        | 4                             | -1     |                            |        | 6                     | -2     |  |        | 7   | -1     |  |  | 6  | 1  |  |  |
| Ireland        | 28        | -2     |              |        | 18  | -3     |   |        | 32                            | 0      |                            |        | 31                    | 1      |  |        | 9   | 0      |  |  | 25 | -1 |  |  |
| Greece         | 30        | 0      |              |        | 29  | 1      |   |        | 29                            | 1      |                            |        | 16                    | 6      |  |        | 20  | 1      |  |  | 22 | 1  |  |  |
| Spain          | 17        | -2     |              |        | 14  | 2      |   |        | 26                            | 0      |                            |        | 28                    | 2      |  |        | 12  | 0      |  |  | 20 | -1 |  |  |
| France         | 23        | -1     |              |        | 21  | -2     |   |        | 25                            | -3     |                            |        | 24                    | -3     |  |        | 29  | 0      |  |  | 16 | 1  |  |  |
| Italy          | 29        | 0      |              |        | 28  | 0      |   |        | 14                            | 0      |                            |        | 7                     | -2     |  |        | 19  | 0      |  |  | 29 | -1 |  |  |
| Cyprus         | 16        | 0      |              |        | 27  | -1     |   |        | 27                            | -10    |                            |        | 26                    | -11    |  |        | 17  | 1      |  |  | 9  | -1 |  |  |
| Latvia         | 11        | 1      |              |        | 12  | 0      |   |        | 16                            | 9      |                            |        | 18                    | 10     |  |        | 4   | -1     |  |  | 8  | -1 |  |  |
| Lithuania      | 6         | 0      |              |        | 8   | -3     |   |        | 19                            | 2      |                            |        | 22                    | 2      |  |        | 3   | 1      |  |  | 2  | 0  |  |  |
| Luxembourg     | 3         | 0      |              |        | N/A                                       | N/A    |   |        | 6                             | -1     |                            |        | 10                    | -2     |  |        | 23  | -2     |  |  | 18 | -3 |  |  |
| Hungary        | 20        | 1      |              |        | 22  | 1      |   |        | 2                             | 9      |                            |        | 2                     | 4      |  |        | 19  | 1      |  |  | 4  | 6  |  |  |
| Malta          | 18        | 0      |              |        | 19  | 2      |   |        | 10                            | -1     |                            |        | 8                     | -1     |  |        | 14  | 1      |  |  | 12 | 0  |  |  |
| Netherlands    | 15        | 2      |              |        | 16  | 1      |   |        | 17                            | -1     |                            |        | 19                    | -3     |  |        | 22  | 1      |  |  | 30 | 0  |  |  |
| Austria        | 19        | 0      |              |        | 20  | 0      |   |        | 11                            | 2      |                            |        | 13                    | -1     |  |        | 28  | 0      |  |  | 26 | 0  |  |  |
| Poland         | 14        | 0      |              |        | 15  | -1     |   |        | 20                            | 4      |                            |        | 21                    | 2      |  |        | 11  | -1     |  |  | 11 | -1 |  |  |
| Portugal       | 27        | -2     |              |        | 23  | 2      |   |        | 24                            | 3      |                            |        | 14                    | 13     |  |        | 18  | -2     |  |  | 23 | 0  |  |  |
| Romania        | 4         | 0      |              |        | 10  | 1      |   |        | 18                            | 2      |                            |        | 23                    | 2      |  |        | 5   | 0      |  |  | 4  | 0  |  |  |
| Slovenia       | 12        | -5     |              |        | 6   | 0      |   |        | 22                            | -4     |                            |        | 25                    | -6     |  |        | 21  | 1      |  |  | 16 | 1  |  |  |
| Slovakia       | 10        | -1     |              |        | 13  | 0      |   |        | 23                            | 0      |                            |        | 27                    | -1     |  |        | 6   | 0      |  |  | 6  | -1 |  |  |
| Finland        | 13        | 0      |              |        | 11  | -1     |   |        | 7                             | -1     |                            |        | 9                     | 2      |  |        | 26  | -1     |  |  | 10 | -1 |  |  |
| Sweden         | 5         | 3      |              |        | 5   | 2      |   |        | 3                             | 1      |                            |        | 3                     | 0      |  |        | 30  | 1      |  |  | 32 | 0  |  |  |
| United Kingdom | 22        | -2     |              |        | 24  | 0      |   |        | 30                            | -1     |                            |        | 30                    | -1     |  |        | 20  | -1     |  |  | 26 | 0  |  |  |
| Iceland        | 24        | 0      |              |        | N/A                                       | N/A    |   |        | 21                            | 7      |                            |        | 11                    | 9      |  |        | 16  | 1      |  |  | 14 | 0  |  |  |
| Norway         | 8         | 3      |              |        | 1   | 0      |   |        | 1                             | 0      |                            |        | 1                     | 0      |  |        | 27  | -1     |  |  | 24 | 1  |  |  |
| Switzerland    | N/A       | N/A    |              |        | 7   | 2      |   |        | 5                             | -3     |                            |        | 4                     | -2     |  |        | 7   | 1      |  |  | 15 | 1  |  |  |
| United States  | 26        | 1      |              |        | 25  | -3     |   |        | 31                            | 0      |                            |        | 32                    | -1     |  |        | 1   | 0      |  |  | 12 | 0  |  |  |
| Japan          | 31        | 0      |              |        | 30  | -1     |   |        | 28                            | -9     |                            |        | 29                    | -11    |  |        | 8   | -1     |  |  | 26 | 0  |  |  |

(1) Data refer to 2010 / 2009 \* Changes are not available

TABLE 4B. EU PERFORMANCE IN THE WORLD – PUBLIC FINANCES

|                      | Gross debt, general government (as % GDP) |                  | Tax burden (as % GDP) |                  | Public investment (% total expenditure) |                  |
|----------------------|---|------------------|-----------------------|------------------|---|------------------|
|                      | 2011                                      | Change from 2010 | 2011                  | Change from 2010 | 2011                                    | Change from 2010 |
| <b>EU 27</b>         | 82,5                                      | 2,1              | 40,2                  | 0,4              | 5,56                                    | 0,00             |
| <b>Euro area</b>     | 85,3                                      | 2,4              | 40,9                  | 0,5              | 5,09                                    | 0,00             |
| <b>Best 5 EU</b>     | 22,6                                      | 0,1              | 27,9                  | 0,1              | 15,96                                   | 0,01             |
| <b>United States</b> | 101                                       | 5,8              | 25,7                  | 0,4              | 6,61                                    | 0,00             |
| <b>Japan</b>         | 206,2                                     | 8,7              | 30,1                  | 1,1              | 7,50                                    | -0,01            |

## V. FINANCIAL STABILITY <sup>(6)</sup>

The crisis exposed vulnerabilities in the financial system of many countries which had previously been overlooked. In the EU, fragility of banks and concerns over sovereign liquidity are negatively impacting on corporate investments, with potentially serious consequences for competitiveness and growth. Businesses view both the availability and cost of finance as highly restrictive to their ability to pursue investment opportunities.

EU Member States will have to face the challenge of enhancing financial stability through strengthened regulatory measures while maintaining the flow of credit to the economy. Responding to temporary increases in capital requirements by deleveraging would increase the cost of capital for companies, reducing investments and growth in an already weak economic environment. In order to increase the availability of finance and increase the profitability of investments, the instability in the financial sector must be reduced.

The indicators in table 5 consider the size, leverage and health of the banking system, because larger, more leveraged banking systems pose greater systemic risks. Other indicators measure the degree of foreign financing and the leverage and volume of loans to firms and households, as leverage and rapid credit growth within the private sector played a substantial role in the recent crisis. These variables combine to give an overall picture of the financial stability of EU Member States.

### EXAMPLE OF RECOMMENDATIONS FROM BUSINESSEUROPE MEMBER FEDERATIONS

#### IRELAND

Introduce loan guarantee scheme for SMEs. Accelerate reform of state-covered banks to ensure return to more normal lending practices

#### LITHUANIA

Improve performance of JEREMIE schemes. Every particular project should be taken into account when considering lending independently of the influence of central banks on general situation in the country.

<sup>6</sup> Given the lack of data for many countries in several indicators, a figure on the overall performance in this pillar will not be presented.

TABLE 5. FINANCIAL STABILITY

|                | Net foreign assets<br>[% GDP] (1) |        | Net financial assets,<br>households<br>[% GDP] (1) |        | Net financial liabilities, non<br>financial corporations<br>[% GDP] (1) |        | Bank Regulatory<br>Capital to Risk-<br>Weighted Assets<br>(%) (1) |        | Non performing<br>loans<br>[% total gross<br>loans] (1) |        | Loans to private<br>sector (% GDP) |        | Bank liabilities<br>[% GDP] |        |
|----------------|-----------------------------------|--------|--|--------|---|--------|---|--------|---|--------|------------------------------------|--------|-----------------------------|--------|
|                | Rank                              | Change | Rank   | Change | Rank  | Change | Rank  | Change | Rank  | Change | Rank                               | Change | Rank                        | Change |
| Belgium        | 5                                 | -2     | 2  | 0      | 9   | 0      | 5   | 5      | 7   | 3      | 8                                  | 1      | 18                          | 1      |
| Bulgaria       | 28                                | -1     | 19   | 1      | 26  | 0      | 10  | -4     | 18  | 4      | 7                                  | 0      | 5                           | 0      |
| Czech Republic | 16                                | -1     | 21   | 0      | 8   | 0      | 11  | 1      | 15  | 2      | 4                                  | -1     | N/A                         | N/A    |
| Denmark        | 7                                 | 0      | 12   | 1      | 5   | 0      | 11  | -4     | 8   | 4      | 24                                 | -1     | 20                          | 0      |
| Germany        | 6                                 | -1     | 8  | 1      | 2   | 0      | 17  | 5      | N/A   | N/A    | 13                                 | 2      | N/A                         | N/A    |
| Estonia        | 21                                | 0      | 17   | -1     | 25  | 0      | 3   | 0      | 13  | 6      | 12                                 | 4      | 8                           | 1      |
| Ireland        | 24                                | 1      | N/A  | N/A    | N/A   | N/A    | 16  | 8      | 22  | 5      | 23                                 | 1      | N/A                         | N/A    |
| Greece         | 23                                | 1      | 22   | -4     | 4   | 0      | 22  | -2     | 21  | 5      | 16                                 | -8     | 11                          | 0      |
| Spain          | 22                                | 1      | 16   | -1     | 21  | 0      | 29  | -1     | 14  | 4      | 22                                 | 0      | 17                          | 1      |
| France         | 10                                | 0      | 6  | 1      | 15  | 0      | 27  | -1     | 10  | 5      | 14                                 | -2     | 16                          | -2     |
| Italy          | 14                                | 0      | 3  | 0      | 20  | 0      | 30  | 2      | 20  | 4      | 15                                 | -1     | N/A                         | N/A    |
| Cyprus         | 4                                 | 0      | 7  | -1     | 22  | 0      | 24  | 3      | 17  | -1     | 25                                 | 0      | 23                          | 0      |
| Latvia         | 25                                | -3     | 27   | 0      | 10  | 0      | 25  | -3     | 26  | 2      | 11                                 | 2      | 10                          | -2     |
| Lithuania      | 19                                | 0      | 24   | 0      | 13  | 0      | 25  | 3      | 27  | 3      | 5                                  | 0      | 4                           | 0      |
| Luxembourg     | 1                                 | 11     | 15   | -3     | 27  | 0      | 7   | -6     | 1   | 2      | 26                                 | 0      | 6                           | 0      |
| Hungary        | 26                                | 2      | 18   | -1     | 19  | 0      | 21  | -6     | 24  | -1     | 6                                  | 0      | 24                          | -1     |
| Malta          | 9                                 | -3     | 4  | 0      | 14  | 0      | 6   | -2     | 19  | -10    | 19                                 | 0      | 21                          | 0      |
| Netherlands    | 3                                 | -1     | 5  | 0      | 3   | 0      | 17  | -4     | 5   | N/A    | 21                                 | 0      | 21                          | 0      |
| Austria        | 11                                | -2     | 10   | 0      | 7   | 0      | 19  | 1      | 6   | 1      | 18                                 | 0      | 15                          | 0      |
| Poland         | 18                                | 0      | 23   | -1     | 6   | 0      | 22  | -4     | 11  | 14     | 3                                  | 1      | 3                           | 0      |
| Portugal       | 27                                | -1     | 9  | -1     | 24  | 0      | 32  | -1     | 9   | 2      | 20                                 | 0      | 19                          | -2     |
| Romania        | 20                                | 0      | 13   | 10     | 17  | 0      | 9   | 0      | 25  | 4      | 1                                  | 0      | 1                           | 0      |
| Slovenia       | 15                                | 1      | 14   | 0      | 16  | 0      | 30  | -2     | 23  | -16    | 10                                 | 1      | 7                           | 0      |
| Slovakia       | 17                                | 0      | 25   | 1      | 1   | 0      | 20  | -3     | 16  | 4      | 2                                  | 0      | 2                           | 0      |
| Finland        | 8                                 | 0      | 20   | -1     | 18  | 0      | 13  | -5     | N/A   | N/A    | 9                                  | 1      | 14                          | -2     |
| Sweden         | 12                                | -1     | 11   | 0      | 23  | 0      | 28  | -4     | 2   | 4      | N/A                                | N/A    | 13                          | 3      |
| United Kingdom | N/A                               | N/A    | N/A  | N/A    | N/A   | N/A    | 14  | 2      | 12  | 2      | N/A                                | N/A    | N/A                         | N/A    |
| Iceland        | N/A                               | N/A    | N/A  | N/A    | N/A   | N/A    | 2   | 0      | N/A   | N/A    | N/A                                | N/A    | N/A                         | N/A    |
| Norway         | 2                                 | -1     | 26   | -1     | 11  | 0      | 15  | 4      | 4   | 0      | N/A                                | N/A    | 9                           | 1      |
| Switzerland    | 13                                | 0      | 1  | 0      | 12  | 0      | 1   | 4      | 3   | -2     | 17                                 | 0      | 12                          | 1      |
| United States  | N/A                               | N/A    | N/A  | N/A    | N/A   | N/A    | 8   | 3      | N/A   | N/A    | N/A                                | N/A    | N/A                         | N/A    |
| Japan          | N/A                               | N/A    | N/A  | N/A    | N/A   | N/A    | 4   | 9      | N/A   | N/A    | N/A                                | N/A    | N/A                         | N/A    |

(1) Data refer to 2010 / 2009

## ANNEX

REFORM PRIORITIES AND REFORM PROGRESS BY MEMBER STATE <sup>(7)</sup>

Note: three top priorities per federation, rank assesses progress reform in 2011:

- 1. Excellent/no further progress needed    — 4. Unsatisfactory  
— 2. Satisfactory    — 5. No progress  
— 3. Mixed

|    |      | Priority 1                 |   | Priority 2                 |   | Priority 3                |   |
|----|------|----------------------------|---|----------------------------|---|---------------------------|---|
| BE | 2011 | Wage bargaining/setting    | - | Pension and health care    | - | Public expenditures       | - |
|    | 2012 | Wage bargaining/setting    |   | Public expenditures        |   | Pension and health care   |   |
| CZ | 2011 | Public expenditures        | 3 | Competition policy         | 2 | Business Environment      | 3 |
|    | 2012 | Business environment       |   | Competition policy         |   | Public sector efficiency  |   |
| DK | 2011 | Labour supply measures     | 2 | Making work-pay            | 4 | Active labour market      | 4 |
|    | 2012 | Labour supply measures     |   | Tax reforms                |   | Labour mismatch/mobility  |   |
| DE | 2011 | Public investment          | 3 | Wage bargaining/setting    | 5 | Labour mismatch/mobility  | 4 |
|    | 2012 | Business environment       |   | Public expenditures        |   | Labour mismatch/mobility  |   |
| EE | 2011 | -                          | - | -                          | - | -                         | - |
|    | 2012 | Public expenditures        |   | Competition policy         |   | ICT                       |   |
| IE | 2011 | Public expenditures        | 2 | Bank lending conditions    | 4 | Making work-pay           | 3 |
|    | 2012 | Public expenditures        |   | Bank lending conditions    |   | Making work-pay           |   |
| GR | 2011 | Public expenditures        | 3 | Business environment       | 4 | Openness trade/investment | 3 |
|    | 2012 | Public expenditures        |   | Business environment       |   | Tax reforms               |   |
| ES | 2011 | Tax reforms                | 5 | Public sector efficiency   | 4 | R&D and Innovation        | 4 |
|    | 2012 | Tax reforms                |   | Public sector efficiency   |   | Bank lending conditions   |   |
| FR | 2011 | Public expenditures        | 2 | Pension and health care    | 3 | Active labour market      | 3 |
|    | 2012 | Public expenditures        |   | Tax reforms                |   | Pension and health care   |   |
| IT | 2011 | Competition policy         | 5 | Public expenditures        | 3 | Public investment         | 5 |
|    | 2012 | Public expenditures        |   | Sector specific regulation |   | Pension and health care   |   |
| CY | 2011 | Public expenditures        | 3 | Public sector efficiency   | 4 | Business environment      | 4 |
|    | 2012 | Public expenditures        |   | Pension and health care    |   | Business environment      |   |
| LV | 2011 | -                          | - | -                          | - | -                         | - |
|    | 2012 | Tax reforms                |   | Public expenditures        |   | Competition policy        |   |
| LT | 2011 | Business environment       | 2 | Bank lending conditions    | 4 | Public expenditures       | 3 |
|    | 2012 | Sector specific regulation |   | Making work-pay            |   | Business environment      |   |
| LU | 2011 | Labour mismatch/ mobility  | 4 | Active labour market       | 5 | Wage bargaining/setting   | 3 |
|    | 2012 | Labour mismatch/ mobility  |   | Active labour market       |   | Wage bargaining/setting   |   |
| HU | 2011 | Labour mismatch/ mobility  | 2 | Bank lending conditions    | 4 | Labour supply measures    | 3 |
|    | 2012 | Bank lending conditions    |   | Competition policy         |   | Public expenditures       |   |
| MT | 2011 | Public sector efficiency   | 4 | Business environment       | 2 | R&D and Innovation        | 3 |
|    | 2012 | Public sector efficiency   |   | Business environment       |   | R&D and Innovation        |   |

<sup>7</sup> For details, please see detailed **country fiches** at [BUSINESSEUROPE'S website](http://BUSINESSEUROPE'S website)

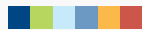
|    |      | Priority 1                  |   | Priority 2                |   | Priority 3                |   |
|----|------|-----------------------------|---|---------------------------|---|---------------------------|---|
| NL | 2011 | Pension and health care     | 2 | R&D and Innovation        | 2 | Business environment      | 1 |
|    | 2012 | Public expenditure          |   | Pension and health care   |   | R&D and Innovation        |   |
| AT | 2011 | Public sector efficiency    | 5 | Public expenditures       | 4 | Pension and health care   | 4 |
|    | 2012 | Quality fiscal institutions |   | Public expenditures       |   | Pension and health care   |   |
| PL | 2011 | Business environment        | 3 | Public expenditures       | 5 | Pension and health care   | 5 |
|    | 2012 | Public expenditures         |   | Business Environment      |   | Pension and health care   |   |
| PT | 2011 | Public expenditures         | 2 | Bank lending conditions   | 5 | Wage bargaining/setting   | 2 |
|    | 2012 | Bank lending conditions     |   | Public expenditures       |   | Business environment      |   |
| SI | 2011 | Public expenditures         | 5 | Labour mismatch/ mobility | 5 | Pension and health care   | 5 |
|    | 2012 | Bank lending conditions     |   | Making work-pay           |   | Public expenditures       |   |
| FI | 2011 | Tax reforms                 | 4 | Making work-pay           | 4 | Pension and health care   | 4 |
|    | 2012 | Tax reforms                 |   | Making work-pay           |   | Pension and health care   |   |
| SE | 2011 | Tax reforms                 | 5 | Job protection            | 4 | Labour mismatch/ mobility | 4 |
|    | 2012 | Tax reforms                 |   | Job protection            |   | Labour mismatch/ mobility |   |
| UK | 2011 | Openness trade/investment   | 3 | Public sector efficiency  | 3 | Active labour market      | 3 |
|    | 2012 | Public expenditures         |   | Public sector efficiency  |   | Venture capital & SMEs    |   |
| NO | 2011 | Public investment           | 3 | Making work-pay           | 4 | Labour supply measures    | 5 |
|    | 2012 | Public investment           |   | Making work-pay           |   | Labour supply measures    |   |
| CH | 2011 | Business environment        | 4 | Openness trade/investment | 3 | Tax reforms               | 3 |
|    | 2012 | Tax reforms                 |   | Openness trade/investment |   | R&D and Innovation        |   |
| IS | 2011 | Lt investment instruments   | 4 | Bank lending conditions   | 2 | Tax reforms               | 4 |
|    |      | Lt investment instruments   |   | Bank lending conditions   |   | Competition policy        |   |

### Proposed policy areas

1. Business Environment - Regulatory barriers to entrepreneurship
2. Business Dynamics - Start-up conditions
3. R&D and Innovation
4. ICT
5. Competition policy framework
6. Sector-specific regulation (telecom, energy)
7. Market integration - Openness to trade and investment
8. Active labour market policies
9. Job protection
10. Labour supply measures for specific groups (older workers, women, etc.)
11. Wage bargaining and wage-setting policies
12. Labour market mismatch and labour mobility
13. Making work pay: interplay of tax and benefit system
14. Pension and health care reforms
15. Quality of fiscal institutions and budgetary framework
16. Consolidation of public expenditures
17. Public sector efficiency
18. Public investment
19. Tax reforms
20. Access to bond markets
21. Access to equity markets
22. Venture capital and SME financing instruments
23. Bank lending conditions
24. Long-term investment instruments

# APPENDIX

## METHODOLOGY AND DATA DEFINITION



Data used were directly taken from the European Commission, DG ECFIN, AMECO database, unless otherwise mentioned. Data refer to 2011 unless otherwise mentioned.

### I. Productivity and investment

- Hourly labour productivity =  $Y/(E*H)$ 
  - Y: GDP at Purchasing Power Parity
  - E: Employment, persons: all domestic industries
  - H: Average annual hours worked per person employed
- Productivity per person employed: Gross domestic product at PPP/ Employment, persons
- Corporate investment rate =  $(PGFCF - NRGFCF) / Y$ 
  - PGFCF: Private gross fixed capital formation (at current prices)
  - NRGFCF: Gross fixed capital formation: construction total economy (at current prices)
  - Nominal GDP levels
- Industry over total value added: industry / total gross value added at 2000 prices
- R&D: gross domestic expenditure on R&D – Source: Eurostat
- Profit: Gross operating surplus as a percentage of gross value added at basic prices

### II. Trade and competitiveness

- Export market share: Market performance of exports of goods and services (in volumes) on export weighted imports of goods and services of 35 industrial markets (EU-27, TR CH NR US CA JP AU MX NZ); 2000=100
- Net exports: trade balance as a percentage of GDP
- Gain in global trade share: relative gain in average share of imports and exports in world trade including EA
- Current account balance: Balance on current transactions with rest of the world (as percentage GDP at market prices)
- Unit Labour costs: Nominal unit labour cost, total economy, relative to 35 industrial countries: double export weights, total economy 2000=100
- High-tech exports: as a percentage of total exports – Source: Eurostat

### III. Employment, labour participation and hours worked

- Employment rate: as a percentage of working age population – Source: Eurostat
- Employment rate 15-24 years – Source: Eurostat
- Employment rate 55-64 years –Source: Eurostat
- Annual hours worked per person employed (OECD definition)
- Labour participation: labour force as percentage of active population (Labour Force Statistics)
- Working age population: as a percentage of total population –Source: Eurostat
- Unemployment rate: as a percentage of labour force – Source: Eurostat

### IV. Public finances and fiscal sustainability

- Gross debt general government: General government consolidated gross debt: excessive deficit procedure definition, as percentage of GDP
- Net debt general government as a percentage of GDP – Source: Eurostat
- Public deficit: net lending/ net borrowing of general government: excessive deficit procedure definition
- Public investment: Gross fixed capital formation: general government as percentage of total current expenditure of the general government
- Tax burden: total tax burden including imputed social security contributions, total economy
- Primary Balance: General government net lending excluding interest as a percentage of GDP
- Highest marginal tax rate, individual rate (%): Highest marginal tax rate (individual rate) is the highest rate shown on the schedule of tax rates applied to the taxable income of individuals. – Source: World development indicators

### V. Financial stability

- Net foreign assets: as percentage of GDP – Source: Eurostat
- Net financial assets, households: as percentage of GDP – Source: Eurostat
- Net financial liabilities, non-financial corporations: as percentage of GDP – Source: Eurostat
- Regulatory tier 1 capital: as percentage of risk weighted assets – Source: IMF
- Non-performing loans to total gross loans: as percentage of GDP – Source: IMF
- Loans to private sector: loans to non-financial corporations and households as a percentage of GDP – Source: Eurostat
- Bank liabilities: as percentage of GDP – Source: Eurostat



# BUSINESSEUROPE



Members are 41 leading national business federations in 35 european countries

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