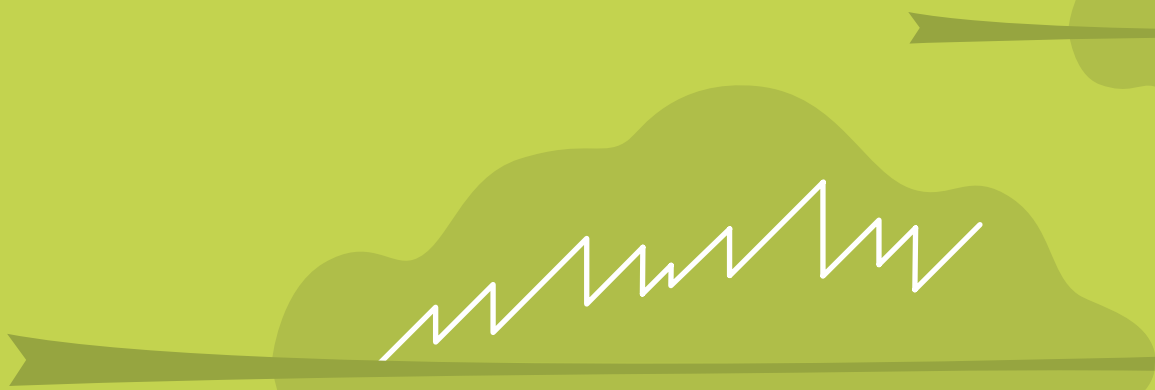




EUROPEAN REFORM BAROMETER

SPRING 2011



**GO FOR GROWTH:
RETHINKING THE ROLE
OF THE STATE**

BUSINESSEUROPE



WHO ARE WE?

BUSINESSEUROPE represents small, medium and large companies. Our members are 40 leading business federations from 34 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, the report identifies priorities for reform and key recommendations.

FOR FURTHER INFORMATION: ECONOMICS DEPARTMENT

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GO FOR GROWTH: RETHINKING THE ROLE OF THE STATE

1. THE EU IN A FAST CHANGING WORLD
2. KEY NATIONAL REFORM PRIORITIES
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GO FOR GROWTH



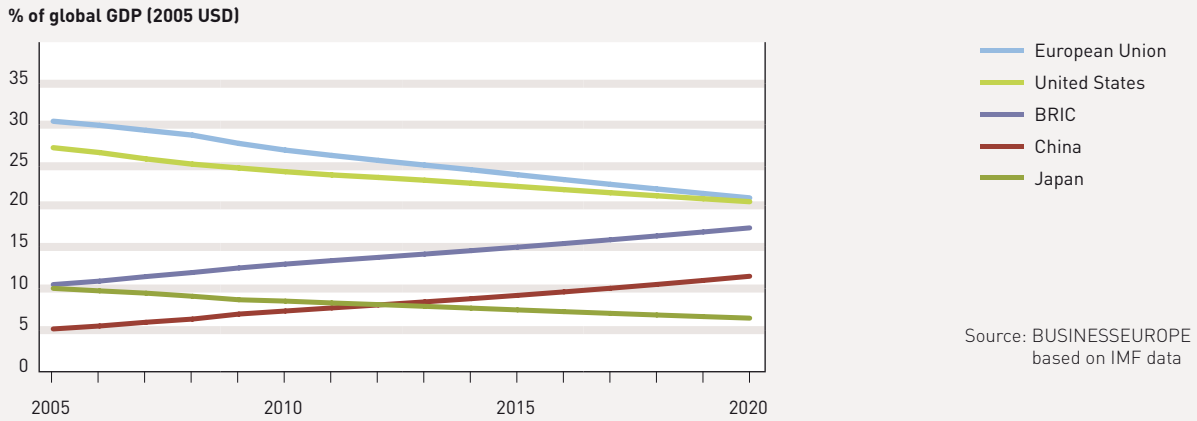
**RETHINKING
THE ROLE
OF THE STATE**

1. The EU in a fast changing world

Restoring solid foundations of economic growth on our continent is of highest priority. It is vital to deliver a lasting response to the financial and sovereign debt crisis and rebuild the necessary confidence for the future.

But the world is moving fast. Emerging markets have swiftly recovered from the global turmoil and are mobilising massive investments for future growth. The combined volume of economic activity by BRIC countries is set to reach that of the EU and US by the end of this decade – see figure 1. China in particular will in coming years make a massive contribution to global GDP and investment growth.

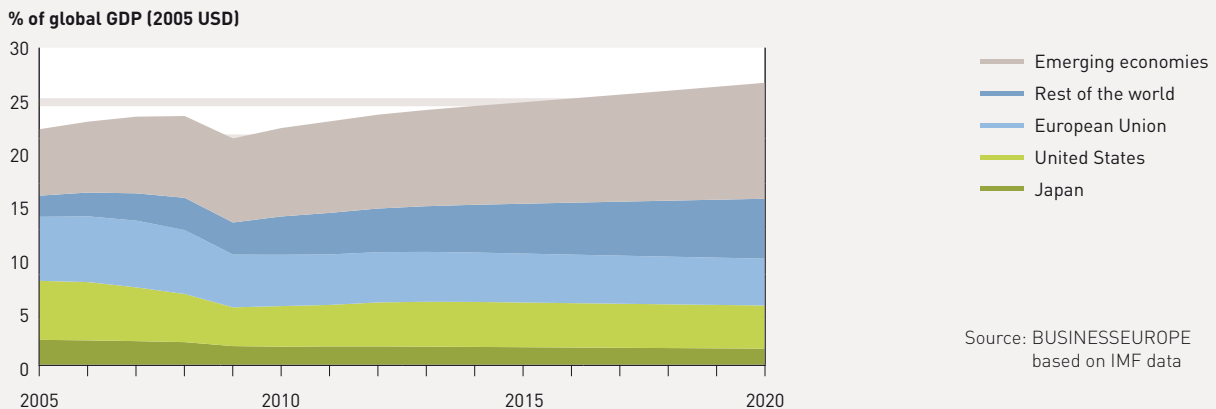
FIGURE 1. CONTRIBUTION TO GLOBAL GDP BY REGIONS UNTIL 2020



In this new economic order, the US economy is showing greater resilience than the EU. It will again this year outperform in terms of GDP and productivity growth, although facing major fiscal and macroeconomic adjustments ahead.

The EU as a whole has important assets, such as a robust industrial basis, a well educated workforce and a balanced current account position. But it continues to lose global market shares, lacks the necessary flexibility and is affected by chronically low labour utilisation and productivity growth. Internal divergences and slow competitiveness adjustments also come at a collective cost to the EU's aggregate performance.

FIGURE 2. GLOBAL INVESTMENT DEMAND BY REGIONS UNTIL 2020



2. Key reform priorities at national level



EU's collective success in coming years is inextricably linked to its capacity to foster national policies supporting global competitiveness, restoring fiscal sustainability, stimulating private investment and job creation. With Europe's 2020 strategy and so-called European Semester the EU has potentially reinforced its capacity for action.

But in our assessment, most governments have so far failed to deliver ambitious strategies to restore growth, competitiveness and overcome post-crisis challenges. The views of BUSINESSEUROPE members on the most significant and urgent reform priorities are summarised in figure 3. These results are a weighted average of the five most frequently quoted policy priorities for business federations among the 27 EU Member States.

FIGURE 3. KEY REFORM PRIORITIES ACCORDING TO BUSINESSEUROPE MEMBERS

1	Capping public expenditures and increasing public sector efficiency	Austria, Belgium, Czech Republic, Cyprus, Denmark, France, Greece, Hungary, Ireland, Italy, Lithuania, Malta, Netherlands, Poland, Portugal, Slovenia, Spain, United Kingdom
2	Improving framework conditions for R&D and innovation	Belgium, Czech Republic, Cyprus, France, Germany, Lithuania, Malta, Netherlands, Portugal, Spain
3	Supporting active labour market policies	Denmark, France, Hungary, Italy, Luxembourg, Malta, Netherlands, Poland, Sweden, United Kingdom
4	Removing regulatory barriers to entrepreneurship	Czech Republic, Cyprus, Greece, Lithuania, Malta, Netherlands, Poland, Portugal, Slovenia, Spain, Sweden, United Kingdom
5	Developing effective public investments	Austria, Germany, Italy
6	Reforming pension systems	Austria, Belgium, Finland, France, Greece, Hungary, Luxembourg, Netherlands, Poland, Slovenia
7	Improving wage bargaining and wage-setting systems	Belgium, Cyprus, Finland, Germany, Luxembourg, Portugal, Spain

RETHINKING THE ROLE OF THE STATE

Compared with last year, a perceptible shift is observed in business opinion. In particular, greater emphasis is put this year on the quality of public finances. This includes a strong call for greater public sector efficiency, cuts in wasteful spending and renewed focus on public investments.

In these times of fiscal retrenchment, business sees in most parts of Europe the need to rethink the role of the public sector, readjusting its size and level of intervention to a new economic reality.

Deep public sector reforms, more investment-oriented public spending and credible commitment to cap taxation and limit its distorting effects on economic activity would go a long way in stimulating productivity and job creation in Europe. Accelerating pension reforms has also become a necessity in the current environment. Pension reforms supporting longer working lives are of fundamental importance to guarantee the sustainability of social protection systems in an ageing society, and should also stimulate growth and confidence in the short term, boosting employment opportunities and creating additional fiscal room to manoeuvre.

EXAMPLES OF COUNTRY RECOMMENDATIONS

FRANCE

Fix a limit on public deficit in the constitution. Evaluate the efficiency of public spending. Adapt retirement age to life expectancy, increase efficiency of public health system.

ITALY

Increase in public investment to 2.5% of GDP; promoting Public-Private Partnership; new rules to speed up approval of investment projects. Reduction of primary expenditure; implementation of spending review; the cut of unnecessary public bodies such as Provinces.

SPAIN

Introduce a national agreement to reduce public sector size and public spending; assessment of public spending; efficiency and cost-cutting measures versus raising fiscal pressure; control of local and regional administration spending.

GEARING UP FOR INNOVATION AND ADAPTABILITY

In the current recovery phase, companies across Europe insist on the need for better framework conditions for innovation, greater availability of a skilled, flexible and affordable workforce. Removing regulatory and other barriers to innovation and entrepreneurship are considered particularly important in order to reap greater benefits from fast changing market and technological conditions. Competitiveness and trade openness must go hand in hand with a forceful strategy to unleash SMEs' growth potential. These are key ingredients to stimulate rising productivity and job creation on our continent.

Having a workforce equipped with the right skills is one of the most important factors of success in today's global competition. Active labour market policies must ensure a more efficient matching between the skills demanded by companies and those available on the market.

Greater wage flexibility is also vital to support job creation and competitiveness, better reflecting labour market and productivity conditions, limiting wage and price inertia and boosting global competitiveness. Consequently, wage indexation systems need to be abolished.

EXAMPLES OF COUNTRY RECOMMENDATIONS

GERMANY

Increase expenditures for R&D and implement an R&D tax credit scheme. Create a positive climate for innovation within society and boost STEM-qualifications to improve the supply of skilled employees.

FINLAND

Larger share of annual wage increases should be negotiated at the firm level and opt-out clauses from central collective agreements be allowed, thus making wages more responsive to local conditions.

3. Benchmarking our way up

The development of performance scoreboards has been advocated for a long time by BUSINESSEUROPE. Such a framework is vital to detect key reform priorities, learn from best practices and keep the pressure on governments tempted to shift the burden of adjustment to future generations.

BUSINESSEUROPE'S PERFORMANCE SCOREBOARD INCLUDES 34 STRUCTURAL INDICATORS GROUPED UNDER FIVE THEMES:

1. productivity and investment
2. trade and competitiveness
3. employment and labour participation
4. fiscal sustainability
5. financial stability

Detailed results for each of these policy pillars are presented later in this report and individual fiches for the 27 Member States, Norway, Iceland and Switzerland are published on our website (www.businessseurope.eu)

Bearing in mind the limits of data aggregation, figure 4 presents a summary of the overall performance of individual economies in our 2011 Reform Barometer, based on the average rank on the 34 indicators included on the scoreboard.

Among the best performers, combining high overall scores and further improvements from the previous year, **Germany, Sweden and Austria** stand at the forefront within the EU. Common features shared by these economies include high productivity levels, a robust industrial basis, strong current account positions and relatively sound public finances. **Norway and Switzerland** also belong to the best performing category when the wider EEA region is considered.

This year again, the **Czech Republic, Poland and Slovakia** rank well in the scoreboard, benefiting from robust competitiveness, above average hours worked per person and a generally sound macroeconomic environment.

Among weak performers, **Greece** fares worst this year with low scores in terms of industrial activity and export performance, high youth unemployment and public indebtedness. However, a noticeable improvement in the government's primary balance in 2010 is making a positive contribution to fiscal sustainability.

Portugal is in a slightly better position but faces important structural adjustments as well, captured in its large current account deficit and weak productivity growth. Nonetheless, sustainability of pension systems is a positive feature worth mentioning.

FIGURE 4. OVERALL PERFORMANCE BASED ON 34 STRUCTURAL INDICATORS

	Above average GDP/capita		Below average GDP/capita
Above average performance	Austria ↗		Bulgaria =
	Denmark ↘		Czech Republic =
	Finland =		Estonia ↗
	Germany ↗		Poland =
	Iceland ↗		Slovenia =
	Luxembourg ↘		
	Netherlands =		
	Norway ↘		
	Sweden ↗		
	Switzerland ↘		
Below average performance	Belgium ↗		Cyprus ↘
	France =		Greece =
	Ireland ↘		Hungary ↗
	Italy ↗		Latvia ↘
	Spain ↘		Lithuania ↘
	United-Kingdom ↘		Malta ↗
			Portugal =
			Romania =
			Slovakia =

Sources: BUSINESSEUROPE Spring 2011 Reform Barometer

Note: Within each category, countries are listed alphabetically. Arrows (↗) / (↘) indicate an overall improvement / deterioration with respect to last year, whereas an equal sign (=), indicates that the country's relative performance remains broadly unchanged.

Among larger economies, Spain and the United Kingdom have above average GDP per capital and productivity levels but suffer from a relatively small industrial base and had in 2010 still large government primary deficits.

Spain faces at present specific challenges in its labour market, with the highest unemployment rate in Europe, while the UK endures low private and public sector investment as a proportion of GDP.

Italy has a low level of labour participation, subdued export performance and high public debt, but has a sound government primary balance, a relatively high level of private investment and low levels of private and external indebtedness.

France has among the highest levels of hourly productivity among industrial countries but suffers from low labour utilisation and hours worked, insufficient corporate profitability, high taxation and a loss of export market shares.

DETAILED SCOREBOARD



DATA REFER TO 2010
AND CHANGES FROM 2009
UNLESS OTHERWISE STATED

- PILLAR I
PRODUCTIVITY AND INVESTMENT
- PILLAR II
TRADE AND COMPETITIVENESS
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PILLAR I

PRODUCTIVITY AND INVESTMENT

Labour productivity is the main determinant of economic growth and prosperity and is tightly connected to the ability to innovate and compete at the global level. Europe faces a double challenge, in view of increased global competition and an ageing society. It needs to make more efforts to stimulate its research and innovation capacity, boost industrial competitiveness and entrepreneurship. As can be seen in figure 6, when R&D efforts are targeted towards industry needs, these are more likely to translate into actual patents.

The EU is lagging behind the US and Japan in R&D expenditure, and is significantly below the US in terms of labour productivity – figure 5. Innovation, industrial and entrepreneurship policies go hand in hand. They are mutually reinforcing as most R&D and innovation stems from the manufacturing sector and is spread to fast growing companies.

On the whole, Finland, Sweden and Austria are among top EU performers in this category. In contrast, Cyprus, Latvia, Lithuania, Romania and Portugal are the worst performers. Estonia, Slovenia, Sweden, and Finland have made relative progress in this year's scoreboard, whereas Cyprus, Greece, and Spain have lost some ground.

Our members have identified R&D and innovation as the 2nd out of 22 priorities, highlighting its importance to increase the growth potential.

EXAMPLES OF COUNTRY RECOMMENDATIONS




SPAIN

Adapt the research being conducted by university and technology centres to the needs of the industrial sector. Reinforce public-private collaboration and promote transfer of knowledge from basic research to technological applications.

GREECE

Deregulate all restricted professions, open up energy and transportation sectors, simplify the procedures for licensing new businesses and investments.

FIGURE 5. EU PERFORMANCE IN THE WORLD

	Labour productivity per person employed (in PPP, US=100)		Industrial activity (% total value added)		R&D expenditure (as % GDP)	
	2010	Change from 2009	2010	Change from 2009	2009	Change from 2008
 EU 27	71	-1%	20%	1%	2,0	0,1
Euro area	77	-1%	20%	1%	2,1	0,1
Best 5 EU	85	0%	34%	1%	3,2	0,1
 United States	100	-	17%	0%	2,8 (1)	N/A
 Japan	67	1%	21%	-4%	3,4 (1)	N/A

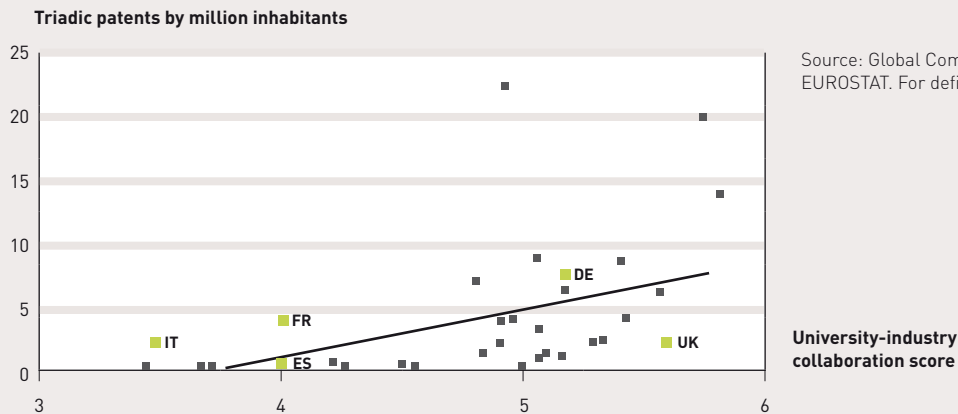
Source: AMECO Database, EUROSTAT

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

	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	-2	5	=	4	-1	19	=	11	=	22	2
Bulgaria	31	=	32	=	1	=	16	1	28	2	1	1
Czech Republic	24	=	25	=	23	1	2	1	19	-1	12	-2
Denmark	13	1	16	1	10	-3	20	=	4	2	25	1
Germany	7	=	14	1	6	=	14	=	6	3	20	2
Estonia	25	1	27	1	28	-1	13	3	20	1	10	10
Ireland	8	=	4	=	32	-2	1	=	16	3	5	=
Greece	22	-2	19	-1	21	-8	29	=	26	1	2	-1
Spain	12	-1	9	1	9	-1	26	-1	21	-1	23	-6
France	6	=	6	=	8	2	28	-2	10	=	29	=
Italy	16	=	12	=	7	2	18	=	22	=	16	-1
Cyprus	21	-2	20	=	25	-11	30	=	31	1	14	-2
Latvia	29	=	30	=	17	4	25	2	31	-6	8	1
Lithuania	28	=	29	=	31	=	10	=	24	=	6	2
Luxembourg	1	=	1	=	29	=	31	=	17	-2	11	=
Hungary	26	-1	26	=	14	-3	9	=	23	=	13	=
Malta	19	2	21	=	22	1	N/A	N/A	27	2	3	=
Netherlands	4	1	8	1	18	-2	21	1	14	=	17	1
Austria	10	=	10	-2	5	=	12	=	8	-1	21	-2
Poland	27	=	28	-1	30	-4	6	1	25	=	9	-3
Portugal	23	=	24	=	19	-2	22	-1	18	-1	24	-1
Romania	30	=	31	=	20	2	8	=	29	-2	15	-1
Slovenia	18	=	22	=	15	5	7	-1	13	=	27	=
Slovakia	20	2	23	=	12	=	3	-1	29	2	4	3
Finland	15	=	13	1	11	4	5	=	1	1	18	3
Sweden	9	=	7	=	13	6	11	2	2	-1	26	2
United Kingdom	11	1	11	=	27	1	27	-3	12	=	19	-3
Iceland	N/A	N/A	17	-1	24	8	23	5	9	-1	N/A	N/A
Norway	2	=	2	=	2	=	4	=	15	=	7	-3
Switzerland	14	-1	15	-2	3	1	15	=	5	-1	28	-3
United States	3	1	3	=	26	-1	24	-1	7	-2	N/A	N/A
Japan	17	=	18	1	16	2	17	-6	3	=	N/A	N/A

[1] Data refer to 2009 / 2008

FIGURE 6. PATENTS AND UNIVERSITY-INDUSTRY COLLABORATION



PILLAR II

TRADE AND COMPETITIVENESS

Together with innovation, competitiveness is a key pillar for excelling in an opened, globalised world in which most of the growth comes from emerging countries. The tradable sector traditionally supports high value-added activities, with high capital intensity and high output multipliers. Cost competitiveness is a key pillar to compete in the global economy, and labour costs are an important competitive adjustment channel (figure 8).

During the last decade the EU as a whole has lost labour cost competitiveness to its main trading partners, and has fared worse than the US and Japan in high-tech exports—figure 7. This is worrying because the traditional manufacturing base faces more intense cost competition from the emerging world than high-tech manufacturing exports.

Overall, Germany, Netherlands, Ireland, Austria, and Sweden hold the top positions in competitiveness indicators, whereas Romania (despite an impressive gain in market share since 2000), Estonia, Latvia, Portugal, and Italy are at the bottom of the table. Ireland, Bulgaria, Lithuania, and Malta have improved their relative competitive position over the last year, whereas the UK, Latvia, and Czech Republic have lost some ground.

Compared with last year's Reform Barometer, trade and competitiveness has increased its rank among EU's top priorities, which evidences a change of mood from an "exit" strategy, focused primarily in consolidation, to an "entry" strategy, with a focus on growth.

EXAMPLES OF COUNTRY RECOMMENDATIONS






UNITED KINGDOM

Increasing exports is a key priority for the UK as it seeks to rebalance away from credit-assisted consumption towards more exports and investment.

SWITZERLAND

Further free trade agreements, sector specific agreements with the EU, opening of agricultural sector.

FIGURE 7. EU PERFORMANCE IN THE WORLD

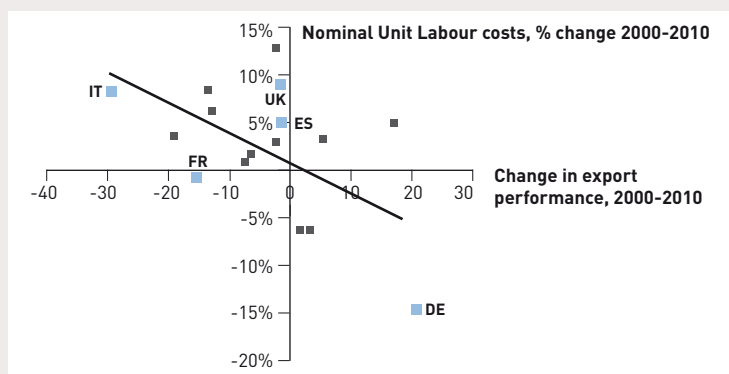
	Export market share (gain from 2000)		Relative unit labour cost (gain from 2000)		High-tech exports (% total exports)	
	2010	Change from 2009	2010	Change from 2009	2008	Change from 2007
 EU 27	2,4	0,8	-2,5	-0,2	15,4	-0,6
 Euro area	-0,2	1,0	-7,2	-0,7	7,9	-0,1
 Best 5 EU	63,4	5,0	-7,8	0,3	28,8	0,4
 United States	4,8	-0,1	-5,1	-0,5	19,2	-1,2
 Japan	13,8	11,5	-32,5	-2,0	16,3	-1,7

Source: AMECO Database, Eurostat

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

[2] Data refer to 2008 / 2007

FIGURE 8. COST COMPETITIVENESS IS KEY FOR EXPORT PERFORMANCE



Source: AMECO Database, Eurostat

PILLAR III

EMPLOYMENT, LABOUR PARTICIPATION AND HOURS WORKED

The most immediate and noticeable consequence of the crisis for European citizens has been the rise in unemployment. If policy-makers are sincere about prioritising employment and job creation, then increasing labour market flexibility is where they need to start – figure 10. Active labour market policies would also help increasing adaptability and skills, whereas reducing the tax wedge on labour would stimulate labour supply.

Despite the particular demographic challenge that Europe faces, labour market indicators in Europe have consistently underperformed those of our main trading partners, in terms of employment rates, unemployment, or annual hours worked (figure 9).

The EU countries with the best employment records are Cyprus, Netherlands, Denmark, and, despite low annual hours worked and low participation rate of older workers, Austria and Sweden. Switzerland, Iceland and Norway present among the highest employment rates. The countries with the worst performance are Hungary, Italy, Belgium, France, Slovakia and Spain. Sweden, Belgium, Poland, Finland, and Malta have experienced a relative improvement in their overall labour market performance in this year's scoreboard, whereas Bulgaria, Estonia, Denmark, Latvia, and Lithuania have lost some ground from last year.

Labour market reforms geared towards flexicurity principles, are an important priority to our Members to boost job creation and reconcile it with rising productivity at the same time.

EXAMPLES OF COUNTRY RECOMMENDATIONS

DENMARK

Increase the education level, get young people to engage in education earlier.
Increase effective retirement age.
Labour taxation to stimulate labour supply: dismiss top-bracket income tax.

GERMANY




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

Improve incentives to re-integrate job-seekers into the labour market.

NETHERLANDS

Support a higher participation rate and larger internal and external mobility of elderly workers.

FIGURE 9. EU PERFORMANCE IN THE WORLD

	Employment rate 55-64 (% population 55-64)		Annual hours worked (per capita)		Unemployment rate (% labour force)	
	2010	Change from 2009	2010	Change from 2009	2010	Change from 2009
 EU 27	46,2	0,2	1665	0,25	9,6	0,70
Euro area	45,7	0,5	1597	0,36	10,1	0,60
Best 5 EU	59,7	0,2	1965	0,57	5,6	0,24
 United States	59,8	-0,8	1738	N/A	9,6	0,30
 Japan	65,6	0,1	1713	N/A	5,1	0,00

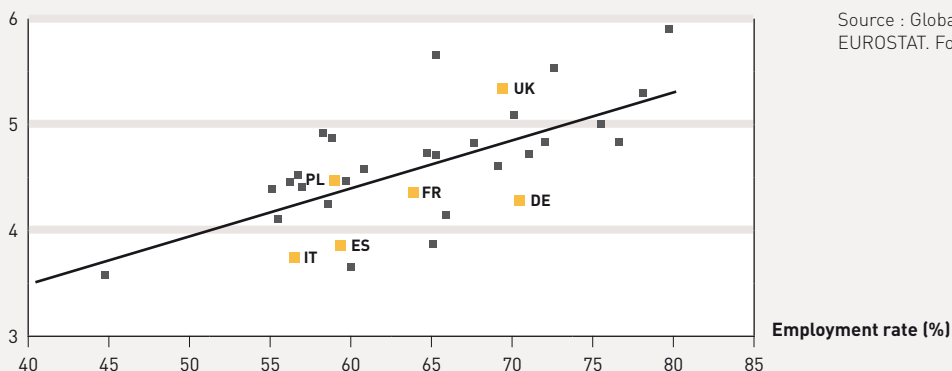
Source: AMECO Database, Eurostat

■ Five best ■ Lowest third

	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
BE	19	3	24	1	27	2	25	1	26	1	26	1	19	-1
BG	22	-2	26	=	19	=	19	=	9	-1	27	-1	23	-12
CZ	17	-1	23	1	18	=	5	1	4	=	21	1	11	-1
DK	5	=	4	-2	10	-2	27	=	27	-1	4	-1	9	=
DE	8	=	9	=	7	3	30	=	23	2	9	1	11	4
EE	23	-4	25	-6	13	-6	7	4	17	-1	12	1	29	1
IE	21	=	17	-2	14	2	12	=	22	-4	20	-1	27	=
GR	20	3	27	1	21	1	2	=	18	1	23	=	26	-3
ES	26	1	21	-1	20	=	20	=	12	-1	17	=	32	=
FR	18	=	16	1	26	-1	26	-1	31	=	19	1	21	2
IT	29	1	28	2	28	-1	13	=	28	=	30	=	18	-1
CY	10	=	15	-1	9	2	10	=	3	=	11	=	8	-1
LV	27	-3	20	1	16	-2	4	=	10	=	16	-4	31	=
LT	30	-4	31	=	17	-2	8	=	7	2	22	-1	30	-1
LU	16	1	30	-7	25	1	28	=	13	=	24	1	6	-1
HU	32	-1	32	=	30	=	3	=	11	1	31	=	25	1
MT	31	1	10	=	32	=	11	-2	6	=	32	=	7	6
NL	3	=	1	=	12	1	31	=	19	1	6	-2	4	-2
AT	7	=	5	=	22	1	24	-1	14	3	14	=	3	1
PL	24	4	19	3	31	=	1	=	2	=	29	=	20	-1
PT	15	=	18	=	15	2	6	-1	21	=	8	=	24	1
RO	25	4	22	5	23	-2	9	-2	5	=	28	=	13	-1
SI	14	=	14	2	29	-1	17	=	8	-1	18	=	10	-2
SK	27	-2	29	=	24	=	15	1	1	=	25	-1	28	=
FI	12	=	12	=	11	1	18	=	25	-2	13	3	16	3
SE	6	=	13	=	2	=	23	1	29	1	5	1	16	5
UK	11	-1	8	=	8	=	22	-1	24	=	10	-1	15	1
IS	2	=	3	1	1	=	N/A	N/A	16	-1	2	=	14	=
NO	4	=	6	=	4	-1	29	=	30	-1	7	=	1	=
CH	1	=	2	1	3	1	21	1	15	-1	1	=	2	1
USA	13	=	7	=	6	=	14	=	20	2	15	=	21	1
JPN	9	=	11	=	5	=	16	-1	32	=	3	2	5	=

FIGURE 10. LABOUR MARKET FLEXIBILITY LEADS TO HIGHER EMPLOYMENT RATES

Labour Market Efficiency Index



Source : Global Competitiveness Report 2010-11, EUROSTAT. For definitions see appendix.

PILLAR IV

PUBLIC FINANCES AND FISCAL SUSTAINABILITY

Combining fiscal sustainability and growth can only be achieved through smart but resolute fiscal consolidation. These two objectives are mutually reinforcing. Fiscal discipline provides confidence to households and investors. Growth and jobs are the only base for sustainable tax revenues for governments. Smart consolidation should focus on increasing the efficiency of the public and quality of public spending. “Less expenditure” does not mean “Worse expenditure” (figure 12).

The EU has a whole has a lower level of public debt than the US and Japan; however, and given Europe’s lower growth potential and ageing society, the debt burden is equally unsustainable unless bold action is taken (figure 11).

Based on the selected list of public finance indicators, Greece, Belgium, UK and Ireland are showing low average ranks in this scoreboard. The countries that have made progress from the previous year are Hungary, Malta, Bulgaria, and Greece; whereas those that have shown further deterioration are Ireland, Luxembourg, Denmark, and the UK. Sustainability of public finances is the top priority to our members, which advocate for a smart consolidation of public finances.

EXAMPLES OF COUNTRY RECOMMENDATIONS

SWEDEN

Reduce capital income tax and marginal taxes.

LATVIA

- Implement public spending decisions on the basis of cost-benefit analysis;
- Implement structural social security, education and healthcare system reforms;
- Create long-term public finance strategy oriented towards concrete long-term fiscal goals.






GREECE

- Fight waste in public enterprises;
- Centralise the financial supervision of public enterprises;
- Introduce stronger expenditure-control mechanisms;
- Better management of human resources in the public sector.

MALTA

Reduction of unnecessary welfare programmes, rationalisation of health expenditure

FIGURE 11. EU PERFORMANCE IN THE WORLD

	Gross debt, general government (as % GDP)		Tax burden (as % GDP)		Public investment (% total expenditure)	
	2010	Change from 2009	2010	Change from 2009	2010	Change from 2009
 EU 27	79,1	5,2	39,7	-0,1	6,06	0,00
 Euro area	84,1	5,0	40,4	-0,1	5,69	0,00
 Best 5 EU	24,1	4,7	30,5	-0,5	14,00	0,00
 United States	92,2	7,5	24,8	0,5	9,63	0,02
 Japan	192,3	3,4	28,1	-0,1	8,31	0,00

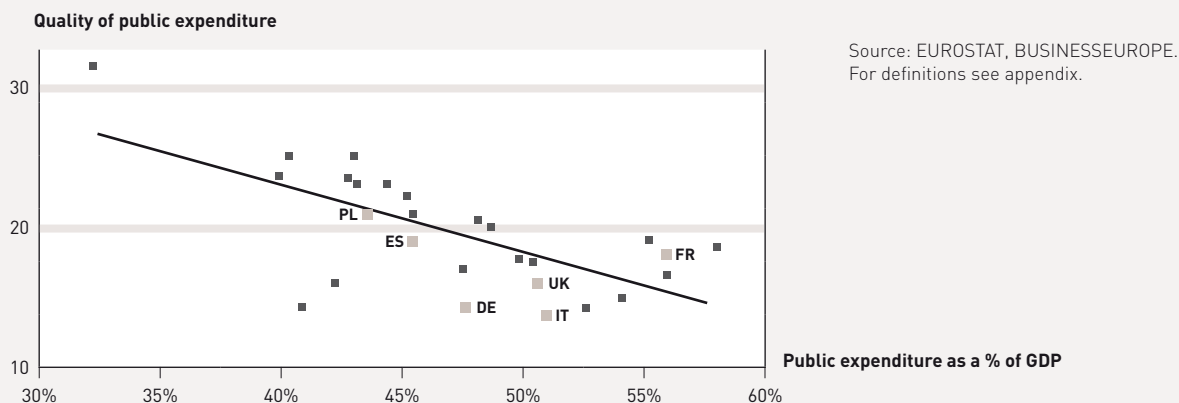
Source: AMECO Database, Eurostat

■ 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)		Required adjustment linked to ageing (% GDP) (1)*	
	Rank	Change	Rank	Change	Rank	Change	Rank	Change	Rank	Change	Rank	Change	Rank	Change	Rank	Change
BE	28	=	27	1	12	6	10	3	31	-1	27	=	31	-2	20	
BG	3	=	5	2	8	4	14	4	6	3	1	=	4	-2	5	
CZ	7	-1	6	4	15	=	20	=	15	1	2	=	3	1	13	
DK	11	-1	7	2	14	-7	15	-5	32	=	32	=	28	3	12	
DE	20	2	21	2	7	1	9	-3	24	1	25	1	30	=	16	
EE	1	=	3	2	4	1	7	5	14	3	6	-1	6	-1	2	
IE	27	-9	15	1	32	-1	32	=	8	-1	26	-5	7	-1	22	
GR	30	=	30	-1	29	3	18	13	13	-1	16	-1	23	-4	28	
ES	16	-1	17	1	28	=	29	1	11	=	23	1	8	=	21	
FR	24	=	22	=	24	-3	23	-1	28	=	16	-1	21	1	9	
IT	29	=	28	2	13	=	6	2	26	1	23	1	27	1	9	
CY	15	1	18	2	18	-1	16	=	12	3	8	=	12	-2	25	
LV	12	-3	11	1	23	4	26	2	2	=	7	=	5	2	7	
LT	5	=	10	-2	27	-3	27	-1	7	1	2	4	9	2	14	
LU	2	=	N/A	N/A	5	-2	11	-6	20	=	15	-1	13	-1	27	
HU	22	3	25	2	9	2	3	=	22	1	13	=	17	4	4	
MT	19	2	23	3	10	=	8	-1	17	1	11	-1	18	7	19	
NL	17	=	16	3	17	-3	17	-3	23	-1	30	=	16	-2	22	
AT	18	1	19	2	11	-2	12	-3	29	=	27	=	32	=	17	
PL	14	=	14	3	25	-5	24	-3	10	=	10	5	1	2	1	
PT	23	=	24	1	22	3	22	2	16	-2	22	1	24	2	8	
RO	4	=	12	2	21	2	25	=	4	=	4	-1	2	-1	18	
SI	8	-1	8	3	16	=	21	-2	21	=	21	=	10	-1	26	
SK	9	-1	13	2	26	-4	28	-5	3	2	5	-1	22	1	11	
FI	13	-1	2	1	6	=	13	-2	27	-1	9	=	25	2	22	
SE	6	5	4	2	3	1	5	-1	30	1	31	=	19	-1	6	
UK	21	-1	26	-2	30	=	30	-1	19	=	16	-1	26	-2	14	
IS	25	2	N/A	N/A	19	7	2	13	18	-5	14	-2	29	-13	N/A	
NO	10	3	1	=	1	=	1	=	25	-1	16	-1	14	-1	N/A	
CH	N/A	N/A	9	4	2	=	4	-2	9	-3	16	-1	20	=	3	
USA	26	=	20	-16	31	-2	31	-4	1	=	11	-1	11	6	N/A	
JPN	31	=	29	-27	20	-1	19	-2	5	-2	27	=	15	=	N/A	

(1) Data refer to 2009 / 2008 * Changes are not available

FIGURE 12. MORE PUBLIC EXPENDITURE DOES NOT LEAD TO “BETTER” EXPENDITURE



PILLAR V

FINANCIAL STABILITY

	Net foreign assets [% GDP] (1)		Net financial assets, households [% GDP] (1)		Net financial liabilities, non financial corpora- tions [% GDP] (1)		Bank Regulatory Capital to Risk- Weighted Assets (%) (1)		Non performing loans [% total gross loans] (1)		Loans to private sector [% GDP]		Bank liabilities (% GDP)	
	Rank	Change	Rank	Change	Rank	Change	Rank	Change	Rank	Change	Rank	Change	Rank	Change
BE	3	-1	2	=	9	-6	4	-2	10	-2	8	1	19	=
BG	24	1	18	-2	22	1	5	-1	22	-8	7	=	5	=
CZ	11	1	N/A	N/A	N/A	N/A	18	=	17	=	4	=	N/A	N/A
DK	5	1	11	1	7	=	19	N/A	12	N/A	24	-1	20	=
DE	4	=	6	1	3	1	11	-4	12	5	13	2	N/A	N/A
EE	19	=	14	-1	23	-1	8	1	19	-8	11	5	10	-1
IE	18	=	N/A	N/A	N/A	N/A	30	-5	27	-11	23	1	N/A	N/A
GR	23	=	16	-1	4	1	28	=	26	1	16	-8	11	=
ES	21	=	12	-1	19	1	26	-7	18	4	22	-1	18	-1
FR	8	-1	5	1	13	-2	25	1	15	2	14	-2	14	=
IT	10	-2	3	=	12	1	27	-3	24	2	15	-1	N/A	N/A
CY	N/A	N/A	N/A	N/A	N/A	N/A	32	N/A	16	N/A	25	=	N/A	N/A
LV	20	=	23	=	10	=	14	2	28	-5	12	1	9	-1
LT	17	-1	20	=	14	-2	17	-7	30	-5	6	=	4	=
LU	N/A	N/A	N/A	N/A	N/A	N/A	2	1	3	1	26	=	N/A	N/A
HU	25	-1	15	-1	18	=	22	-2	23	-2	5	=	6	=
MT	N/A	N/A	N/A	N/A	N/A	N/A	1	=	9	-1	19	=	N/A	N/A
NL	2	1	4	=	2	-1	10	5	N/A	N/A	20	2	N/A	N/A
AT	9	=	8	=	8	1	9	1	7	5	18	=	16	2
PL	16	1	19	=	6	=	20	=	25	-1	3	=	3	=
PT	22	=	7	-2	21	=	31	-3	11	1	21	-1	17	-2
RO	15	=	13	4	16	=	13	-7	29	-1	1	=	2	-1
SI	13	=	10	=	15	2	29	-12	7	3	9	1	7	=
SK	14	=	21	=	1	1	24	-1	20	-6	2	=	1	1
FI	6	-1	17	1	17	-2	15	-8	2	-1	10	1	12	=
SE	7	3	9	=	20	-1	23	4	6	-2	N/A	N/A	15	1
UK	N/A	N/A	N/A	N/A	N/A	N/A	11	-1	14	-8	N/A	N/A	N/A	N/A
IS	N/A	N/A	N/A	N/A	N/A	N/A	6	N/A	31	N/A	N/A	N/A	N/A	N/A
NO	1	=	22	=	5	3	21	-1	4	-1	N/A	N/A	8	2
CH	12	-1	1	=	11	3	3	2	1	=	17	=	13	=
USA	N/A	N/A	N/A	N/A	N/A	N/A	16	-3	21	-1	N/A	N/A	N/A	N/A
JPN	N/A	N/A	N/A	N/A	N/A	N/A	7	7	5	1	N/A	N/A	N/A	N/A

(1) Data refer to 2009 / 2008

APPENDIX

DEFINITIONS, DATA DESCRIPTION, AND SOURCES



Figure 6

- Triadic Patents are a series of corresponding patents filed at the European Patent Office (EPO), United States Patent and Trademark Office (USPTO), and the Japan Patent Office (JPO), for the same inventor, and by the same applicant.
- University-Industry collaboration score is an index elaborated by the World Economic Forum (Global Competitiveness Report)

Figure 10

- Labour market flexibility is an index elaborated by the World Economic Forum (Global Competitiveness Report). It is composed of Labour Market Flexibility indicators (50%), and Efficient use of talent (50%)

Figure 12

- Quality of public expenditure is defined as the sum of productive public expenditure (Education, R&D, and public investment), over total public expenditure

DATA DESCRIPTION AND SOURCES

Data used was directly taken from the European Commission, DG ECFIN, AMECO database, 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: non residential construction and civil engineering (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
- Share in global trade: 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 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)
- Dependency ratio: working age population as 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
- Required budgetary adjustment linked to ageing: required adjustment in the primary balance needed to compensate the rise of age-related costs. – Source: European Commission, Sustainability Report 2009
- 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 40 LEADING
NATIONAL BUSINESS FEDERATIONS
IN 34 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
 Slovak Republic	 Slovenia	 Spain	 Sweden	 Switzerland	 Switzerland
 The Netherlands	 Turkey	 Turkey	 United Kingdom		