

A Business Assessment of the first National Reform Programmes



OVERALL VERDICT

**Good analysis of the challenges,
but unambitious plans to address them**

This document provides a qualitative business assessment of the national reform programmes in all EU Member States. It outlines the limited expectations of the business community concerning the likely impact of the measures proposed, always assuming that the programmes are actually implemented. The opinions expressed by the Chambers of Commerce in each country relate to the national level, but together also paint a general picture at European level.

Time-distance update

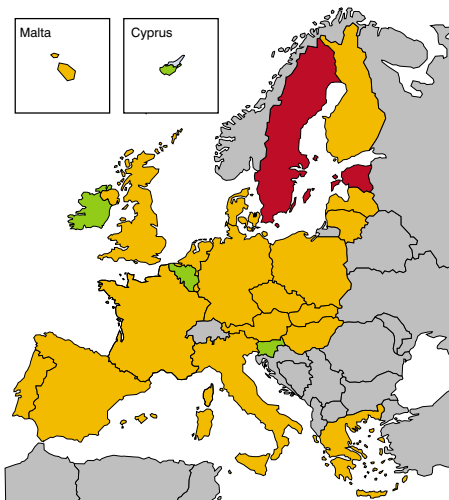
This document also contains the update of the results of the EUROCHAMBRES study “A comparison of European and US Economies based on Time Distances” published in 2005. The study compared the EU and US regarding GDP, R&D investment, productivity and employment in terms of time distances, addressing the question “When did the US achieve the current EU levels for these indicators?” The update shows Europe slipping further behind the US.

Correct analysis of the issues...

Chambers believe that the governments have a reasonably good idea of the challenges facing business and the economy in each country. Chambers in 10 countries feel the analysis reflects the situation very well, and the remaining Chambers that answered state that the analysis reflects the situation partly.

... but policy responses not enough...

Business competitiveness



Investment conditions for R&D & innovation

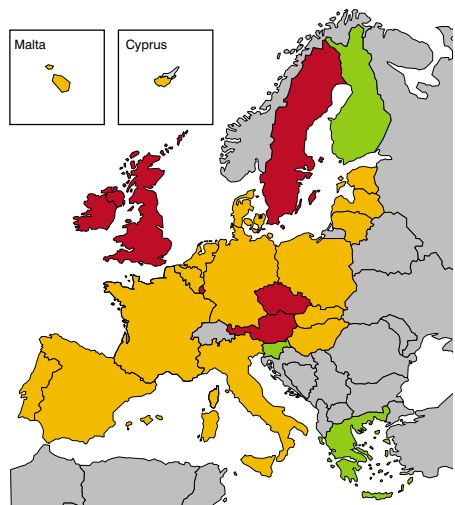
Will the implementation of the action plan improve the conditions for investment in R&D and lead to more innovation?

In Belgium, Cyprus, Ireland and Slovenia the Chambers expect the reform programmes will improve the conditions for investment and innovation considerably, while 19 Chambers expect a slight improvement only. The Estonian and Swedish Chambers do not foresee any change.

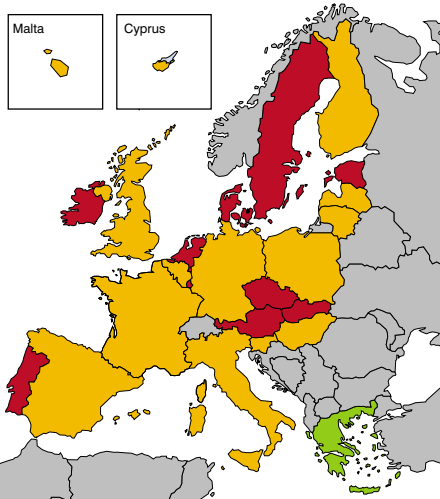
Internal market

Will the implementation of the action plan deepen and extend the Internal Market?

6 out of 25 Chambers do not expect any deepening or extension of the Internal Market as a result of implementing the reform plans. 19 Chambers believe the situation will improve somewhat - of these the Finnish, Greek and Slovenian Chambers expect the effects to be considerable.



- Yes, it will improve considerably
- Yes, it will improve slightly
- No, it will not improve
- No, it will deteriorate



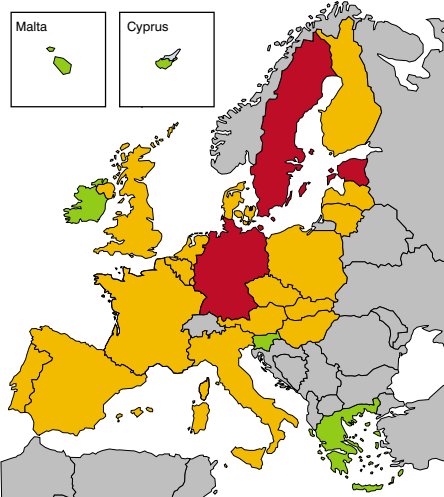
Matching of labour market needs & labour market flexibility

Will the implementation of the action plan improve the matching of labour market needs and lead to more flexibility of the labour market?

10 of the 25 Chambers do not expect improvement in the matching of labour market needs and increased flexibility of the labour market as a result of the reform plans. The remaining 15 Chambers believe the situation will improve, but only in Greece does the Chamber anticipate considerable improvement.

Some business participation

Most Chambers were involved in the development of the reform programmes. Despite this, from a business viewpoint had only been partly taken into account or not at all.



Human resources & modern education and training systems

Will the implementation of the action plan lead to more investment in human resources and modernise education and training systems?

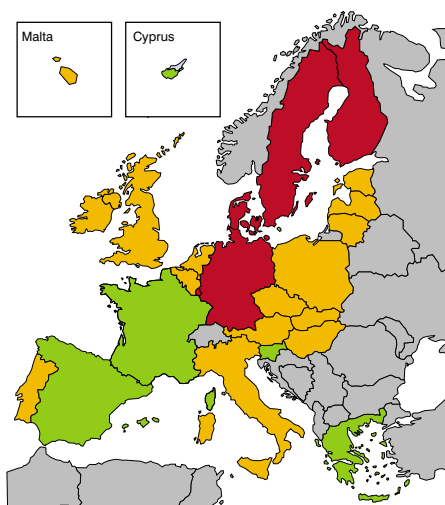
22 out of 25 Chambers believe implementation of the action plan will increase investment in HR and lead to modernising education and training systems as a result of the reform plans. Five of these Chambers believe the effects will be considerable. In Estonia, Germany and Sweden we expect the situation to remain unchanged.

The macro-economic situation

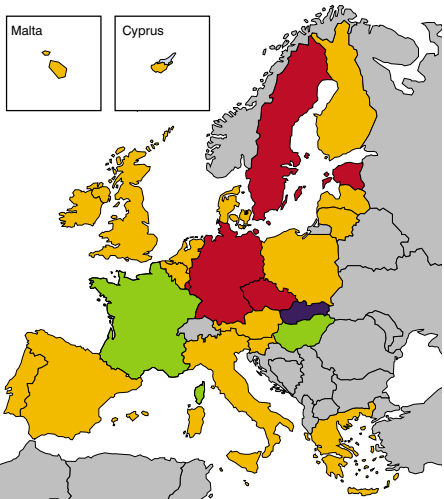
Stability

Will the implementation of the action plan lead to increased macro-economic stability in your country?

Only 5 out of the 25 governments are judged to have presented programmes that will considerably improve macro-economic stability. The programmes of another 5 countries are judged not likely to bring any improvement at all. The remaining 15 Chambers expect slight improvement only.



improve considerably
improve slightly
not change
deteriorate slightly



Employment

Will the implementation of the action plan lead to an increased employment rate in your country?

Only the French and Hungarian Chambers feel that implementing their national plans will lead to a considerable improvement in employment. Five Chambers fear that no improvement will occur. The Slovak Chamber even fears a decline. A majority - 17 out 25 Chambers - expect only a slight increase of employment.

Growth

Will the implementation of the action plan lead to an improvement of economic growth rates in your country?

Chambers in Cyprus, France and Hungary believe economic growth in their countries will improve considerably as a result of the programmes, while in Germany and Sweden no change in growth rates is foreseen at all. A majority of Chambers think there will be slight improvement instead.

on – but limited impact

orm plans. However, 5 Chambers were withheld or not offered relatively high involvement, 18 of the 25 Chambers believe the not at all in the final plans produced.

...while the EU falls further behind the US

European and US economies compared in time distances: The 2004 update - deterioration rather than improvement

EUROCHAMBRES published a study in 2005 comparing EU and US economic growth, R&D investment, productivity and employment in terms of time distances, finding large time lags of the EU for all indicators in 2003¹. One year later, the update for 2004 shows a mixed performance²:

- The EU's time-lags for income and productivity per employed remained unchanged compared to 2003, at respectively 18 and 14 years.
- The EU's time lag for R&D investment per capita and employment rate each deteriorated by one year compared to 2003, increasing to 24 and 26 years respectively. Our 2004 level of R&D investment per capita was reached by the US in 1980 and our rate of employment in 1978.
- However, the EU's time-lag for productivity per hour improved by one year. Our 2004 level was reached by the US in 2000.

Conclusions

True reforms still lacking

- Despite the overall positive verdict on the governments' analyses of the economic situation in their countries, the national reform programmes are generally not expected to result in the radical reforms that are needed.
- Generally, only limited, incremental improvement is expected. This is true both for the macro-economic situation and factors related to business competitiveness.

Business competitiveness

- We witness most optimism concerning investment conditions for R&D and innovation, HR investment and modernisation of education and training systems.
- However, the business community is less optimistic about the effects the reform plans will have on development of the Internal Market and is pessimistic regarding the likely effects on labour market needs and flexibility.

Macro-economic situation

- In general, we expect macro-economic stability and economic growth to improve only slightly as a result of the reform programmes.
- Our expectations regarding increased employment are the most limited.

Against the background of patchy economic performance of the EU, limited results of the Lisbon Strategy over the first five years and continued competitiveness gaps with our international trading partners, the reform programmes proposed are disappointing. Radical reforms are needed to improve the economic situation rapidly and effectively. The reform programmes lack ambition, and must be strengthened.

1) This study and update are based on the use of the "time distance measure" methodology developed by Prof. Pavle Sicherl of the Ljubljana University and founder of the Socio-Economic Indicators Center (www.sicenter.si), Ljubljana. All research for the study and the 2004 update were undertaken by him. For reasons of availability and/or comparable data the comparison is limited to the EU Members before 1st. May 2004.

2) The same data sources were used as in the 2005 EUROCHAMBRES study.



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