BUSINESSEUROPE

REFORM BAROMETER 2022

TAKING STOCK OF THE EU'S COMPETITIVENESS AFTER 2 YEARS OF THE PANDEMIC

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WHO ARE WE?

BusinessEurope is the leading advocate for growth and competitiveness at the European level, standing up for companies across the continent and campaigning on the issues that most influence their performance.

A recognised social partner, we speak for around 20 million enterprises of all sizes in 35 European countries whose national business federations are our direct members.

ABOUT THE REFORM BAROMETER

BusinessEurope's Reform Barometer looks at the global competitiveness performance of Europe on the basis of key indicators covering taxation and public finances, business environment, innovation and skills, access to finance and financial stability, and labour market. Moreover, complementing the European Commission's yearly European Semester consultation that suggests reform policies that can boost sustainable growth in Member States, we carry out a similar business semester process to lay out clear policy recommendations about how we can help our European companies succeed, as a thriving business sector is a necessary foundation to reach higher living, wage and income and provide funding to achieve many of the political goals and objectives, such as the green transformation to a climate-neutral economy, that we need to pursue in the 21st century.

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FOREWORD

Russia's illegal and brutal invasion of Ukraine means we are facing the most terrible war on European soil since the end of the Second World War. The European business community condemns in the strongest possible terms, the Russian action.

Our thoughts are with the Ukrainian people in these difficult moments, and we deeply regret all human lives lost due to this invasion. Europe needs to show now its strong and effective commitment to defend the rules-based international order, freedom and democracy, and to support Ukraine and its people.

The conflict comes after we had seen in recent weeks an increasing number of EU Member States significantly ease restrictions to reduce the spread of COVID-19. With high vaccinations across much of the EU offering strong protection against what appears to be a less harmful virus, we had reason for cautious optimism that COVID-19 will have less impact in the coming months.

This year's Barometer, prepared prior to the Russian invasion, considers in part 1 the issue of the structural, long-term impact of the COVID-19 crisis on the EU economy. On a positive note, the COVID-19 crisis appears to have provided a boost to global innovation and entrepreneurship, as companies have brought solutions to address not only the challenges of the pandemic, but also the digital and green transitions. We have seen a global increase in R&D, patents, and venture capital financing accompanying record numbers of new high-growth companies - so called 'unicorns'. However, whilst Europe may have progressed in many of these areas, it has rarely done so at the same speed as our international competitors, presenting a risk to our future prosperity.

With economies across the globe having significantly stepped up their investment and innovation efforts, often with strong government support, it is imperative that the EU makes the best possible use of its own Recovery and Resilience Facility to drive growth enhancing investment and reforms.

The majority of Member States have now submitted and received EU approval of their Recovery and Resilience plans, but many of the plans could have shown more reform ambitions and a full implementation will be essential. As we outline in part 2 of the report, which draws on a survey of our member federations from across the EU, there is increasing confidence that, aided by a strong legal framework that assures Member States only receive funds once detailed milestones have been achieved, implementation may be relatively comprehensive. Moreover, as we move to the implementation phase, there are positive early signs that governments are turning to social partners, often overlooked in the development of the plans, to ensure effective delivery.

The resilience and innovativeness of businesses and their employees, supported by decisive measures from governments, in response to COVID-19, has meant that the EU economy has now returned to pre-crisis levels. But the war in Ukraine has exacerbated ongoing challenges such as rising energy prices, inflation and global supply chain disruptions. Agile, innovative and resilient businesses underpinned by a supportive policy environment and a renewed European unity will be key to overcoming these challenges, and returning the EU economy to a path of sustained growth and prosperity.

Pierre Gattaz, President

Markus J. Beyrer, Director General

EXECUTIVE SUMMARY

The COVID-19 pandemic and the restrictions on economic activity it entailed plunged the EU and the global economy into the deepest recession in its history. The macroeconomics of the Russian invasion of Ukraine remain highly uncertain, although the war will clearly lead to lower EU growth and increased pressure on energy prices, inflation and public finances.

- EU output was almost 15 percent below its pre-crisis level in the second quarter of 2020, compared to a decrease of 10% in the US and a growing economy in China.

- While EU unemployment at the end of 2021 was already marginally below its pre-crisis levels, the EU labour market continues to face long-term structural challenges, with EU unemployment remaining more than two percentage points higher than in both the US and Japan.

- Overall investment levels decreased more in the EU during the pandemic than in the US.

BUSINESS ENVIRONMENT

Covid-19 disruptions weighed heavily on business activity. In the EU, a variety of Single Market disruptions occurred, ranging from physical blockages at EU borders to disruptions of supplies of critical and essential goods and services.

- The current geopolitical context and a strong global demand has meant that EU industrial energy prices have risen more than 60% by February 2022 since before the pandemic.

- Despite these strong disruptions, global entrepreneurship appears to have gathered pace during the pandemic. But whilst over 500 unicorns emerged in the EU during the pandemic, this compared to over 1500 in Asia and over 2000 in the US.

POLICY RECOMMENDATIONS:

→ Member States should continue to ensure that any restrictions put in place to address the spread of COVID-19 remain targeted and proportionate and coordinated, to ensure a common approach across the EU where possible and that restrictions are removed as soon as they are no longer necessary.

→ EU and national regulation must follow better regulation principles, rest on proper enforcement and keep administrative burden to a minimum in order to support start-ups and company expansion.

→ The European Commission and Member States should continue to implement targeted short- and medium-term support measures so that the continuation of European businesses heavily exposed to the energy price spike is not put at risk.

TAXATION AND PUBLIC FINANCES

Sustainable public finances are of key importance for long-term growth. Governments across the globe borrowed heavily to fight both the pandemic and its economic consequences.

- EU debt increased from an average of 79% of GDP in 2019 to around 92% in 2020 and 2021.
- Tax systems in the EU continue to be on average less competitive compared to other regions.
- The average tax wedge on labour is about 30% higher in the EU than in the US.

POLICY RECOMMENDATIONS:

→ Proper enforcement of the Stability and Growth Pact, revised following the conclusion of the ongoing review, preferably with simplified rules and reduced pro-cyclicality and reflecting the post-pandemic context, and the need for policy to respond to the Green Deal, will be essential to help Member States put their public finances on a sustainable footing.

→ The current low-interest rate environment provides some flexibility regarding the pace at which debt levels need to be reduced.

→ More attention needs to be directed at the quality of investments, with greater focus on the proportion of expenditure directed towards growth-enhancing expenditures.

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

ACCESS TO FINANCE

The support provided by governments to maintain finance to companies have ensured the spate of bankruptcies we would normally have anticipated during such a steep recession have not materialised, with the number of bankruptcies even falling below pre-crisis levels. While EU companies have taken on additional debt during the pandemic at a similar rate compared to non-EU businesses, a long-term challenge for the EU remains the availability of equity financing,

- EU bankruptcies in 2021 were 19% below pre-crisis levels.
- Overall financing conditions in the Euro area are now back at a similar level to pre-crisis, but they remain more tightened compared to the US.
- Bank loans accounted for around 28% of non-financial EU corporations' liabilities in 2020, compared to 11% in the US.

POLICY RECOMMENDATIONS:

→ Avoid any sudden tightening of financing conditions as we gradually leave the acute phase of the pandemic behind, as this would risk leading to a sharp increase in bankruptcies.

→ Ensure that new prudential rules for financial institutions do not significantly increase capital requirements overall, to support companies' need for capital for investment and trade and ensure access to risk management products at competitive terms.

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

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

LABOUR MARKET, HUMAN CAPITAL AND SKILLS

The pandemic looks likely to have profound implications for labour markets both within the EU and beyond. The growth of the digital economy has accelerated the increase in the requirements of employers towards IT skills, whilst more broadly, we are seeing a surprising tightness in EU labour markets.

- EU job vacancy rates have now risen above pre-pandemic levels and a shortage of labour is cited by more employers as a constraint on production than before the pandemic.

- Young people in both the EU and the US appear some way behind educational levels of their peers in Asian economies, according to the OECD PISA programme of standardised tests.

- Initial data suggests students in the EU may have been less affected by school closures than in the US, although this data varies considerably between specific Member States.

- Labour market regulation in the EU appears less supportive of job creation than in both China and the US.

POLICY RECOMMENDATIONS:

- → Urgent policy action is required to avoid labour market mismatches increasingly acting as a brake on economic growth. Education and training systems need to be better tailored to labour market needs, particularly to educate more STEM graduates, including through the use of more e-apprenticeships.

- → While blended learning options could be further developed, the work-based component of apprenticeships continues to be the main added value of this form of learning.

- → Increases in labour costs must be consistent with rises in productivity growth and require putting in place policies that can raise long-term productivity.

- → Policymakers must take steps to mitigate negative impacts of population ageing. Reforms must encourage people to stay in the workforce longer, make pension systems sustainable, and integrate legal migrants into the workforce.

INNOVATION

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

- The EU has a relatively long-standing gap in terms of overall R&D spending with our major competitors. According to OECD data, the EU invested 2.2% of GDP in R&D in 2019, compared to 3.1% in the US, 3.2% in Japan, and 2.2% in China.

- The EU continues to lag behind the US in terms of the number of world class universities with 18 such universities in the EU compared to 40 in the US.

- Whilst the EU performs better than the US in terms of the percentage of broadband that is based on (faster) fibre connections, such connections remain much less prevalent in the EU than in Japan and South Korea.

- ENISA found that EU organisations allocate on average 41% less to information security than their counterparts in the US.

POLICY RECOMMENDATIONS:

→ Member States should increase R&D spending and support stronger private sector R&D investment in order to reach the EU's target of investing 3% of GDP in innovation. In addition, future EU long-term budgets (MFF) must also scale up R&D and innovation support.

→ Digitalisation of public administration must be rolled out including secure and efficient interface with businesses. A strengthened digital infrastructure is essential to allow the EU to adopt the latest technologies (e.g. 5G) and enable businesses to compete globally.

→ The EU must support greater investment in a range of cybersecurity actions. Strong capacity around data analytics and exchanges will also be essential to achieve breakthroughs in cross-disciplinary areas of innovation. Highly digital skilled workforces will also be essential to achieving this.

MEMBER FEDERATIONS' ASSESSMENT OF IMPLEMENTATION OF NATIONAL RECOVERY PLANS AND COUNTRY-SPECIFIC RECOMMENDATIONS (CSRS)

With the economic impact of the pandemic in mind and expected lower EU growth and increased pressure on energy prices, inflation and public finance following the Russian invasion of Ukraine, it is essential that the EU's co-ordinated fiscal stimulus through the Recovery and Resilience Facility (RRF) is fully exploited as a once-in-a-generation opportunity to transform the EU economy and boost long-term growth in the EU.

According to a survey of BusinessEurope's member federations:

- 63% of member federations judge the EU's overall economic response to the pandemic as 'very good' or 'excellent' compared to 43% for the response at national level.

- Last year, the majority of our federations were disappointed by the relative lack of ambition in the recovery plans under the RRF, with only 10% of federations expecting the plans to have a large impact on economic performance. This year, member federations are more positive about the prospects for implementation, with 29% of federations being (very) satisfied with the implementation of their country's national recovery plan.

- Social partners are increasingly involved with the recovery plans as we move from design to implementation phases, with only 30% expressing dissatisfaction with their role so far in the implementation of the plan, compared to 71% last year.

- While there remains huge scope for Member States to improve the implementation of the country-specific recommendations (CSRs), this year our members consider that 34% of CSRs have been satisfactorily implemented (compared to just 13% two years ago), suggesting that RRF conditionality did help.

POLICY RECOMMENDATIONS:

- Increased long-term growth and employment in the EU is dependent upon proper implementation of a wide range of structural reforms. The European Commission should ensure strict control that Member States have invested funds from the Recovery and Resilience Facility as intended. No disbursements should be made before Member States have documented that they fully complied with milestones and targets for their recovery plans.

- Ensure that all potential suppliers have access to information on upcoming calls for tenders in the national recovery plans. This implies that the Single Market rules must be observed and obligatory web spaces on national recovery plans will include a public procurement plan for the coming month.

- We encourage the European Commission to continue updating the helpful Recovery and Resilience Facility Scoreboard, which provides citizens with a clear monitoring tool on the progress reached in each Member State in terms of the projects being taken forward and the milestones reached.

PART 1
A) HOW WILL THE COVID-19 PANDEMIC IMPACT THE EU'S RELATIVE ECONOMIC PERFORMANCE?

01

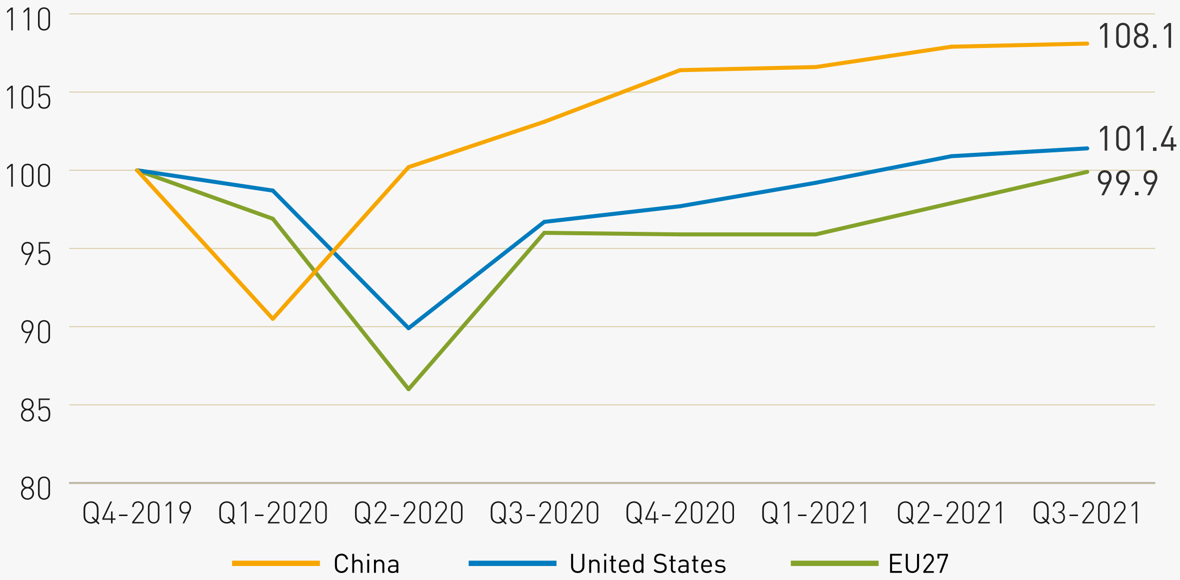
The COVID-19 pandemic and the restrictions on economic activity it entailed plunged the EU economy, and much of the global economy, into the deepest recession in its history. EU output at the height of lockdowns in the second quarter of 2020 was almost 15 percent below its pre-crisis level, a slightly deeper fall than that seen in the US, and a contrast to China where output had already returned to pre-crisis levels by Q2 2020 (chart 1). Overall EU output fell by 6.3% in 2020. Falls varied significantly (between -1% and -11%) in different Member States, according to their exposure and responses to the virus as well as their sectoral economic structures.

The initial shock may have been stronger in the EU than the US. However, stronger growth in 2021, particularly as the vaccination campaign gathered pace in the EU meant that by the third quarter of 2021, EU growth during the almost two year pandemic period was only 1.5% lower than the US (where output had also been boosted, as we shall consider later, by a much larger government fiscal stimulus). Chart 1 also shows the relative slowdown in growth in China in 2021, as regional lockdowns continued to take place and port facilities suffered disruptions, impacting global supply chains.

Nevertheless, the EU is entering the pandemic period with output per person employed around only 70% of that enjoyed in the US[1]. The Russian invasion of the Ukraine, as we consider in detail in the box on page 12, clearly presents a further challenge for the EU economy. In particular with increases inflationary pressures and further demands on public spending, it will be crucial that the EU puts in places a supportive framework for growth and prosperity if we are to fully realise our scope to raise living standards in a sustainable and inclusive way.

CHART 1 **The pandemic impacted EU output slightly harder than the US**

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



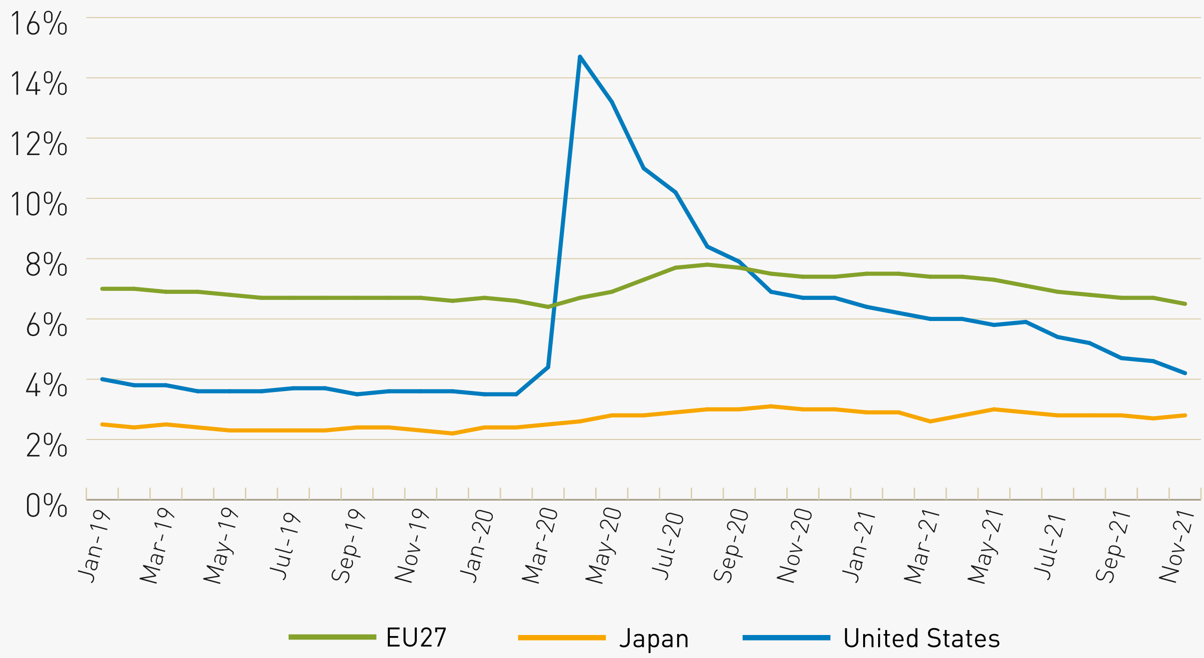
Source: Own calculations based on OECD

[1] *Source: Conference Board, total economy database*

The wide-variety of short-time working/furlough schemes either already in place or quickly developed and activated in the EU - and supported by the Commission's funding of Support to mitigate Unemployment Risks in an Emergency (SURE) - meant that the increase in unemployment seen during the early phase of the crisis was much lower in the EU than the US. Whilst unemployment remains slightly higher than its pre-crisis level in the US (chart 2), EU unemployment at the end of 2021 was already marginally below the level seen two years ago. However, this should not distract us from the long-term structural challenges facing the EU labour market, where unemployment remains more than two percentage points higher than in both the US and Japan. Moreover, whilst overall hours worked in the EU have recovered significantly from the 17% drop that occurred at the height of the crisis, they remain around 3% below pre-crisis levels towards the end of 2021.

CHART 2 **Short time working schemes ensured EU unemployment increased only marginally**

Unemployment rate, % of labour force



Source: OECD

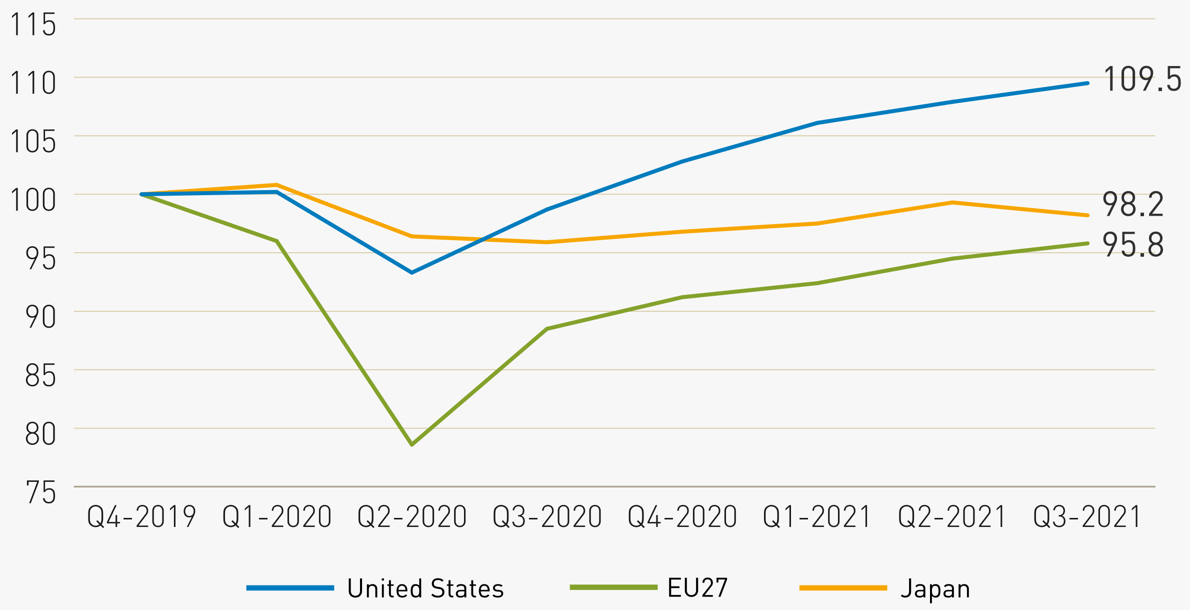
Part of the motivation for governments supporting workers and businesses through the crisis was to reduce long-term scarring to the productive potential of our economies. The fact that both unemployment increased only moderately and that companies' bankruptcies actually fell across the EU during the crisis, due to both government support and loan moratoriums, shows such schemes were relatively effective.

It will take some time for the full impact of the pandemic on long-term growth to become clearer. Our federations estimate that by 2025, output in their respective economies will be on average 2.5% lower than if the pandemic had not taken place. However, these estimates vary considerably among Member States (between 0% and 8%).

Part 1 of this report aims to make a first assessment, through a range of indicators, of the extent to which the EU economy has been impacted by the crisis, in comparison to other major developed economies. A starting point for such analysis is overall investment. As chart 3 shows, overall investment appears to have been hit slightly harder in the EU during the early phase of the crisis, in part due to the US' larger fiscal stimulus. The share of gross fixed capital formation in GDP declined slightly between 2019 and 2020, as a result of a real terms fall of 6%.

CHART 3 **Investment was hit harder in the EU than in the US during the pandemic**

Gross Fixed Capital Formation, seasonally and calendar days adjusted, current prices, index Q4 2019=100



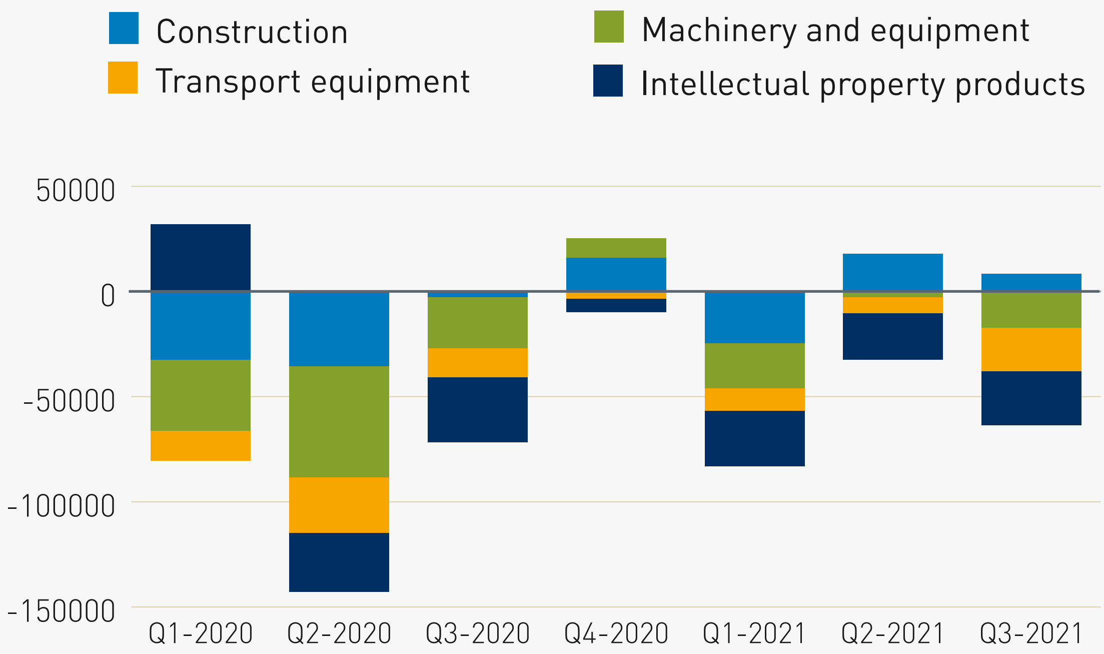
Source: Own calculations based on Fred (Federal Bank of St. Louis) and Eurostat

Chart 4 suggests that the fall in private investment during this period appears to have been relatively broad based, with construction, machinery and intellectual property investment all falling during the crisis.

On a more positive note, overall investment in the EU rebound by an estimated 5% in 2021, leaving it just 1% below its 2019 level. The EU's Recovery and Resilience Facility is expected to increase its grants during the coming years. We hope this will help the EU raise its long-term investment rate, to meet the needs of both the digital and energy twin transitions and our rapidly ageing population. The extent to which EU Member States are making effective use of these funds is the subject of part 2 of this publication.

CHART 4 **The fall in private EU investment was spread across a variety of categories**

Absolute change in private EU investment by category, compared to Q4 2019, € million



Source: Eurostat

POSSIBLE IMPACTS OF RUSSIA'S INVASION OF UKRAINE ON THE EU ECONOMY

The analysis in this report was prepared prior to Russia's invasion of Ukraine. As we set out in our statement ahead of the Informal European Council in Versailles on 10-11 March 2022[2], we strongly condemn the Russian invasion of Ukraine, which is a clear violation of international law, and the most serious security crisis since World War II. Our companies are taking concrete actions to provide humanitarian help and assist people fleeing combat zones. European businesses are fully committed to promote peace and democracy in this critical moment of our history.

Given the uncertainty around how the war will develop, **any economic forecasts at this stage are subject to extreme uncertainty**. The ECB's updated forecast outlines a central scenario by which EU GDP is 0.5 percentage points lower than previously forecast in 2022, with no catch-up in growth expected in either 2023 or 2024, although there are clear downside risks to such a forecast with their more pessimistic scenarios pointing to downward growth revisions of between 1.7 and 1.9 percentage points.

With Russia representing only 3% of global GDP and around 4% of EU exports, and Ukraine itself making up only around 1% of EU trade, we would not anticipate the majority of European companies to suffer significant direct impacts from the **loss of sales to either the Ukrainian or Russian markets, despite the IMF expecting a minimum fall of 10% output in Ukraine this**

[2] https://www.businesseurope.eu/publications/european-business-community-fully-stands-behind-eu-leaders-actions-defend-security-and

year, and analysts also expecting a deep recession in Russia. Similarly, **EU businesses' €311.4 FDI in Russia**, whilst important, accounts for less than 3% of overall outward EU FDI.

But there are a number of important routes through which the Ukraine war could have a more widespread impact on EU business and growth than simple GDP weights would suggest:

- **Russian imports have in recent years accounted for around 40% of the EU's gas consumption**, with energy products overall accounting for around 75% of Russia's exports to the EU. As we note in chart 7 of the report, both EU and global energy prices having increased dramatically over the past year. This has in turn led to increasing pressures on **inflation**, with rising energy prices along accounting for around 2.9 percentage points of the 5.1 percentage point inflation seen in 12 months ending January 2022 (energy accounts for 11% of the basket of goods making up the EU's inflation calculations, with the energy component rising by 28.8% during this period). Thus, rising energy prices are likely to pose challenges for both household and companies and policymakers. The ECB, which has raised its 2022 Euro Area inflation projection from 3.2% (December 21 forecast) to 5.1% (March 2022), has pledged to change policy with increased caution but, with signs that inflationary expectations are now increasing, is likely to come under increasing pressure to act more decisively to **address inflation, which would mean reducing the monetary policy support to the EU economy**.

- Russia accounts for a large share of certain **critical material for EU productions**, with Russian imports accounting for 40% of EU **palladium** imports and 30% of **vanadium** imports and towards 20% of **nickel and aluminum** imports. With global markets already disrupted and prices in markets for these materials already highly elevated, sourcing alternative supplies, is likely to raise businesses' cost significantly.

- The Ukraine war is also likely to lead to **disruptions in global transport links**, with in particularly, rail and road links from China and Asia, which would normally pass through Russia or Ukraine, impacting companies beyond those with Russian links.

- The war has already led to **increased volatility in financial markets**, with the potential to contribute to lower investment confidence if sustained. However, whilst there remains the possibility that individual banks with high lending exposure may suffer difficulties, the strengthening of the international banking framework in recent years, particularly around capital provision and resolution planning, make any more systemic difficulties unlikely.

The EU has taken strong action through additional **economic sanctions** to react to Russia's invasion of Ukraine. In order to be effective, these sanctions should be well targeted, as clear as possible and well-coordinated with relevant partners. Business is not happening in a vacuum and will stand behind the measures considered necessary by EU institutions.

European businesses, particularly those companies trading and operating in Russia will bear much of the costs of the sanctions, with a risk that broader business sentiment is damaged by the impacts outlined above, including uncertainty around global transportation, material and energy supplies. With the prospect of consumer confidence also being impacted by rising household energy prices squeezing disposable incomes, it will be important that Member States and the EU work closely and effectively to support the economy. In the immediate term, early guidance and detailed information regarding economic sanctions, as well as **supporting measures for workers and business will be essential to mitigate impacts and ensure direct impacts are not multiplied by falling business or consumer confidence**.

But the Ukraine war also has important implications for a number of long-term issues raised in this paper. Successive shocks show the **importance of building a more resilient European economy**. We need to reduce dependencies and exposure to unreliable suppliers, but we also need to build coalitions with like-minded partners and diversify our sources of supply. In particular, the EU urgently needs **to strengthen the internal energy market and diversify its energy supply sources** to increase its resilience. The Green Deal, with the accelerated deployment of energy efficiency and renewable energy projects, is an important part of the answer. However, our economy needs to stay efficient, and this requires realistic energy policies. The European Union must urgently develop and implement a coordinated plan to decrease Europe's energy dependency and better exploit its own energy resources.

There will also be consequences for **public finances**. The war is likely to lead to increased defence expenditure by EU governments, both in the short and long-term, with Germany having already committed to increasing defence expenditure from 1.4% of GDP to 2.0% of GDP. There will also be substantial costs to absorbing and integrating refugees, both a moral imperative and positive response to the EU's tight labour market. Bruegel[3] suggests that total discretionary spending (including temporary tax cuts to lower energy prices, and significant spending on energy security (including building reserves), could represent €175 billion or about 1.25% of GDP in 2022, with a clear additional potential for falling overall tax revenues if growth is reduced significantly. The Commission's Fiscal guidance for 2023 acknowledges potential impacts from the conflict, and it will be **important the Commission both acts cautiously to ensure Member States are able to properly support impacted workers and businesses, whilst at the same time helping ensure Member States take action to strengthen public finances in the medium term**.

Whilst the war in Ukraine will have global consequences, it is also clear that the economic consequences will impact the EU more than more geographically distant regions such as the US. A strong economy will be the basis for the EU to address this and other challenges, further emphasising the importance of supporting EU business competitiveness.

[3] https://www.bruegel.org/2022/03/the-economic-policy-consequences-of-the-war/

PART 1
B) ASSESSING THE EU ECONOMY POLICY ENVIRONMENT

Long-term sustainable EU growth requires supportive policy environment, in Part 1b of this report, we assess developments in the EU's economic environment in 5 keys areas we have traditionally used for assessment in our Reform Barometer, offering high-level policy recommendations.

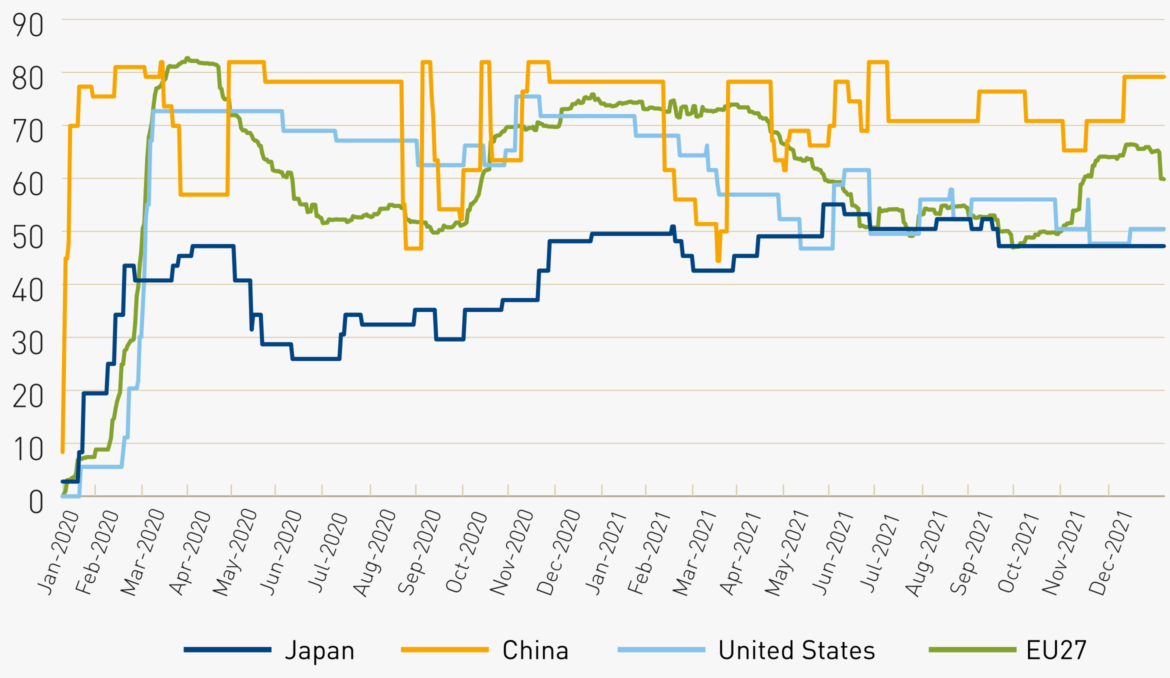
BUSINESS ENVIRONMENT

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

The last two years have seen unprecedented restrictions placed on business and individual activity in order to reduce the transmission of the virus and save lives. As the Oxford measure of COVID-19 strictness (chart 5) illustrates, the EU Member States have generally been in line with other major regions in terms of the overall strictness of rules. Amongst major economies, only Japan was able to consistently maintain less strict rules. The strictness of rules in the EU, US and China has crisscrossed each other throughout the pandemic. However, in recent months EU Member States have on average maintained stricter rules than those in the US. The hope must be that as the Omicron wave continues to fall in many Member States, an increasing number will rapidly be able to remove restrictions, as has already been the case in countries such as Ireland and Denmark.

CHART 5 **Relative strictness of COVID-19 restrictions has varied between global regions during the pandemic**

The University of Oxford's COVID-19 stringency index, score 0 to 100 (100 = strictest)



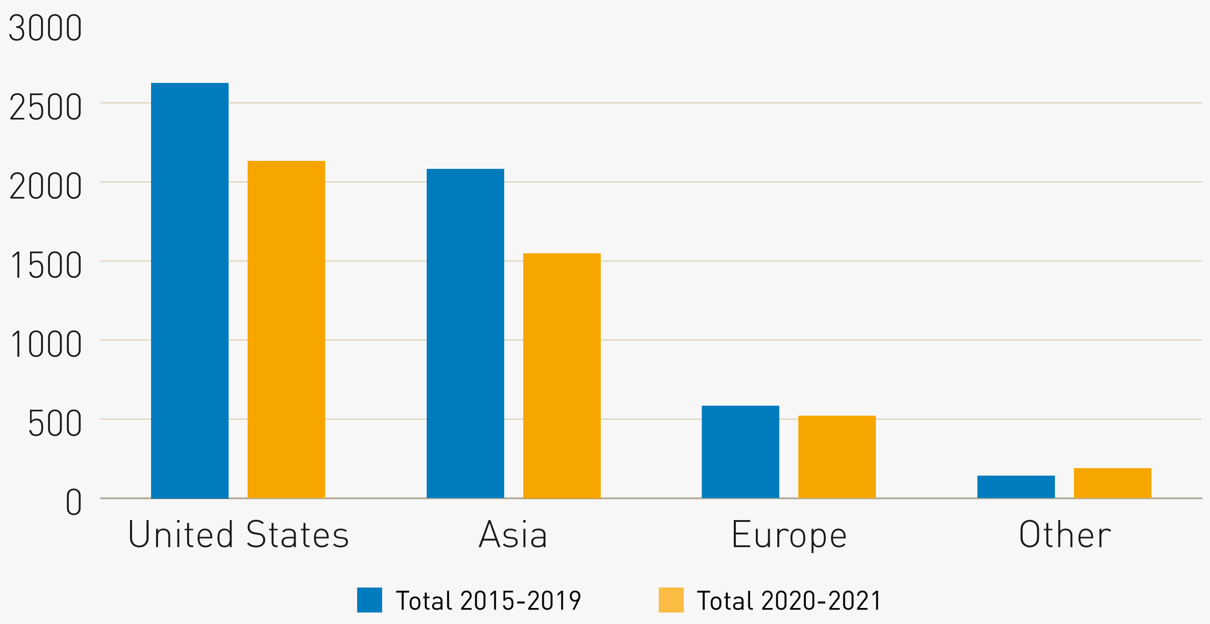
Source: Own calculations based on Oxford COVID-19 Stringency Index; a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100. GDP-weighted for EU27

Despite these strong disruptions, global entrepreneurship appears to have gathered pace during the pandemic. We have seen many long-standing companies adapt their business models in light of the pandemic, including to deliver life-saving drugs and equipment. But, we have also seen a rise in the growth of new 'unicorns' (young companies with a valuation of more than $1 billion), with almost as many such companies emerging globally in the 2020 and the first three quarters of 2021, than in the five years between 2015 and 2019.

The concern for the EU is that it continues to lag significantly behind both the US and Asia in giving birth to such high-growth companies, with just over 500 unicorns emerging in the EU during the pandemic compared to over 1500 in Asia and over 2000 in the US.

CHART 6 **The EU continues to significantly lag behind the US and Asia regarding high-growth firms ('unicorns')**

Number of new unicorns, 2015-2021



Source: CB Insights

Such data would suggest there is a difficulty to expand and grow in the EU's Single Market. Regulatory heterogeneity, administrative complexity and different approaches in, for example, consumer protection, services or data economy, lead to persistent fragmentation of the Single Market, not allowing its four freedoms to fully deliver business efficiencies and productivity gains.

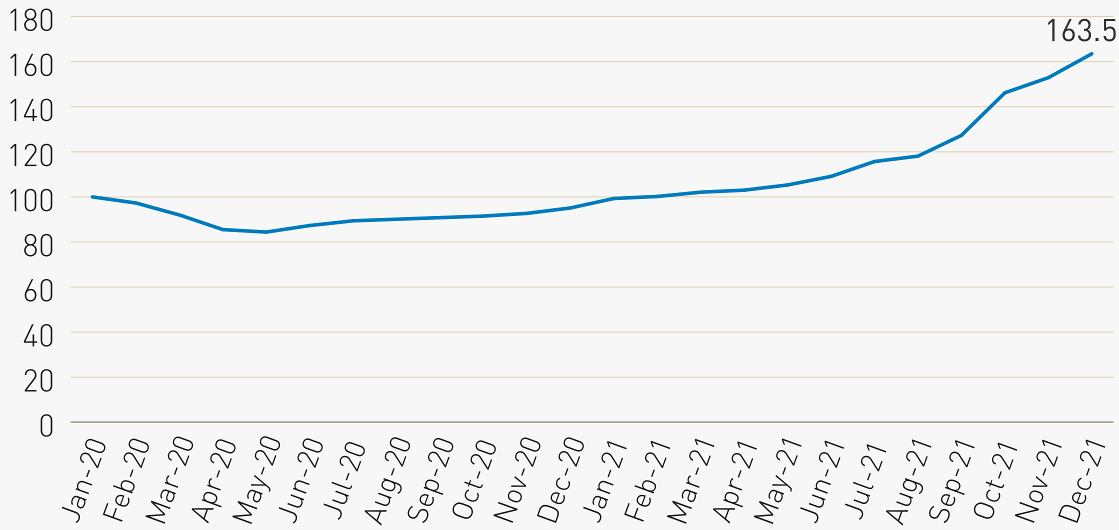
It is a significant concern that a variety of Single Market disruptions were reported by our members during the pandemic. They ranged from physical blockages at internal EU borders but also external EU borders, to disruptions of supplies of critical and/or essential goods and services, shortages of inventory, and barriers to mobility of workers. The disruptions proved the already known disappearance of the distinction between "goods" and "services", as any disruption of goods supplies immediately affected the service provision and vice-versa. The Single Market blockages and supply disruptions due to COVID-19 occurred generally as a) restrictions on free movement of persons, b) restrictions on "non-essential" business activities as such; c) increased administrative burden (additional certifications and/or other documents required, justified or not, sometimes discriminatory).

While the Commission made commendable efforts to protect the Single Market freedoms when the crisis hit, it remains unclear whether and how each barrier that had existed already before the pandemic will be addressed, underlining the importance of continuing to deepen and strengthen all aspects of the Single Market, including through EU legislation, where necessary.

Finally, a secure and competitively priced source of energy is an essential part of the business environment, particularly for manufacturers. In recent months, we have seen a huge increase in the cost of energy to both industrial users (chart 7) and consumers, as global demand has increased post-pandemic, whilst both weather and geopolitical factors have reduced or unsettled supply. Such rises are to a large extent a global phenomenon but ensuring that EU consumers retain energy at stable and reasonable prices, including through the green transition, is of strategic importance for competitiveness.

CHART 7 **Industrial energy prices in the EU increased substantially in the second half of 2021**

Producer price indices, EU, January 2020 = 100



Source: OECD

POLICY RECOMMENDATIONS

→ Member States should continue to ensure that any restrictions put in place to address the spread of COVID-19 remain targeted and proportionate and coordinated, to ensure a common approach across the EU where possible and that restrictions are removed as soon as they are no longer necessary.

→ Regulation at EU and national level must follow better regulation principles, rest on proper enforcement and keep administrative burdens to a minimum in order to support business start-ups and company expansion. Competitiveness proofing, including an SME test, must be an integral part of ex-ante impact assessments.

→ The European Commission and Member States should continue to implement targeted short- and medium-term support measures so that the continuation of European businesses heavily exposed to the energy price spike is not put at risk.

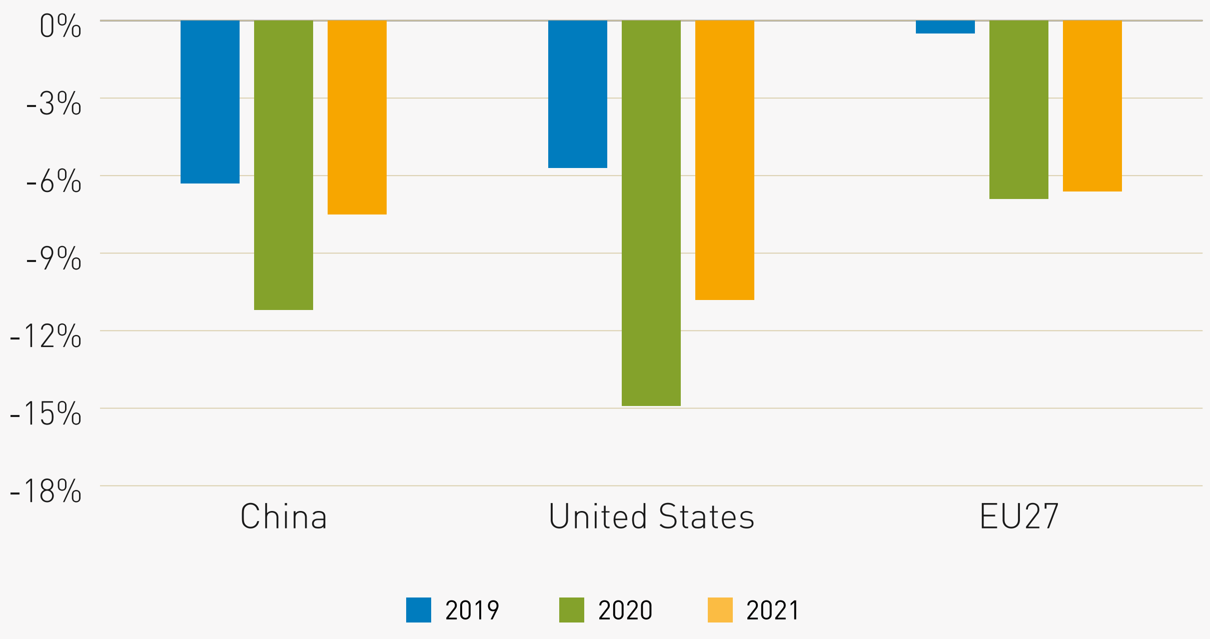
TAXATION AND PUBLIC FINANCES

Sustainable public finances are of key importance for long-term growth. Borrowing costs for many EU Member States remain at historically low levels, supported both by ECB purchases and low global interest rates. However, the financial crisis provides a lasting reminder that falling confidence in a government's ability to repay debt can lead to a vicious cycle whereby increased borrowing levels lead to higher borrowing costs, and in turn require higher taxation.

The pandemic has also reminded us that ensuring that public finances are strengthened during periods of growth is essential to providing scope for expansionary fiscal policy during more difficult times. Fiscal deficits run by governments during the COVID-19 crisis in the EU were generally not as large as those seen elsewhere (particularly in China and the US), and the EU's overall economic performance during this period looks more positive in the context of more moderate public stimulus. Nevertheless, the increase in EU governments' average annual public deficit from -0.5% in 2019 to -6.9% in 2020 was clearly essential in reducing the impact of the crisis.

CHART 8 **Governments across the globe borrowed heavily to fight both the pandemic and its economic consequences**

Public deficit, % of GDP

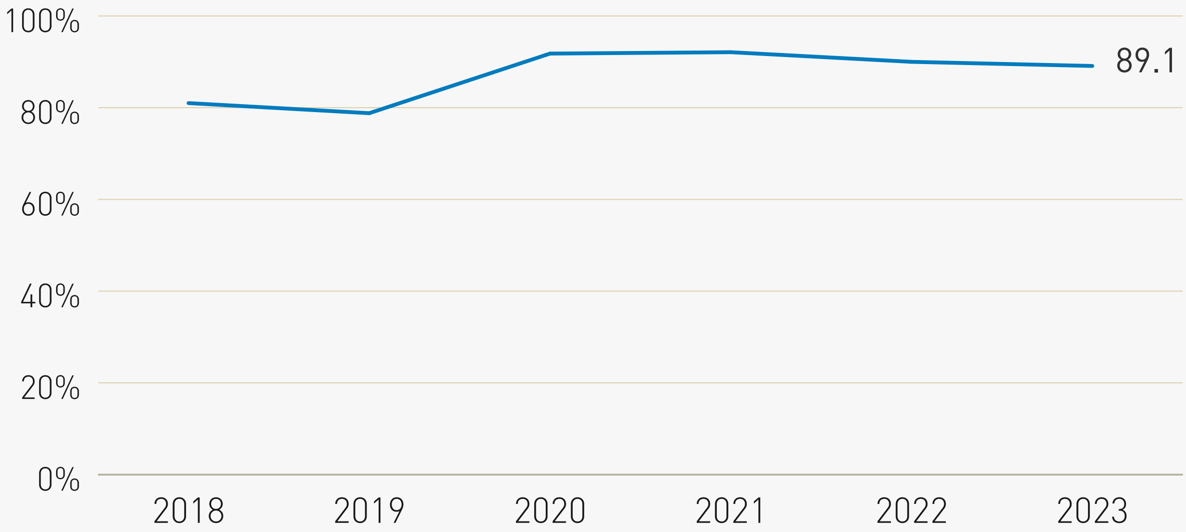


Source: IMF, Eurostat and AMECO

As a consequence of increased borrowing, government debt across the globe increased. In the EU, we saw debt increase from an average of 79% of GDP in 2019 to around 92% in 2020 and 2021. The Commission is suggesting that debt will only fall marginally in the coming years, remaining significantly above the 60% benchmark set out in the Maastricht Treaty. Whilst different definitions of government debt make international comparisons difficult, most estimates suggest average government debt in the EU is around 20% percent points higher than in China, but around 40% percentage points lower than in the US.

CHART 9 **Government debt levels across the EU have increased substantially during the pandemic**

Central government debt, % of GDP, EU



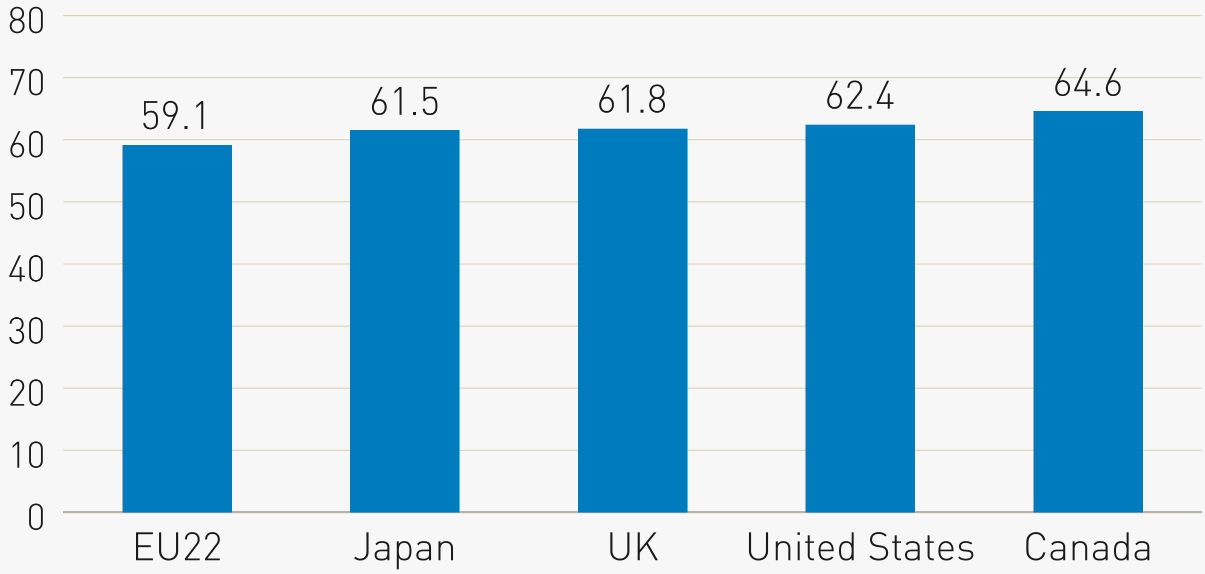
Source: European Commission – Autumn 2021 Economic Forecast

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

In the context of increased pressure on public finances in the coming years, it will be particularly important that Member States develop tax systems that are supportive of growth and employment as well as ensuring efficient public spending. The Tax Foundation's International Tax Competitiveness Index provides a starting point for such analysis, with a particular focus on the neutrality of tax systems, their ability to support growth without penalising investment, not favouring certain sectors over others and on increases in the complexity of tax systems. As we see in chart 10, the EU Member States lag somewhat behind other regions.

CHART 10 **EU Member States continue to lag behind internationally regarding tax competitiveness**

International Tax Competitiveness Index, 100 = highest score

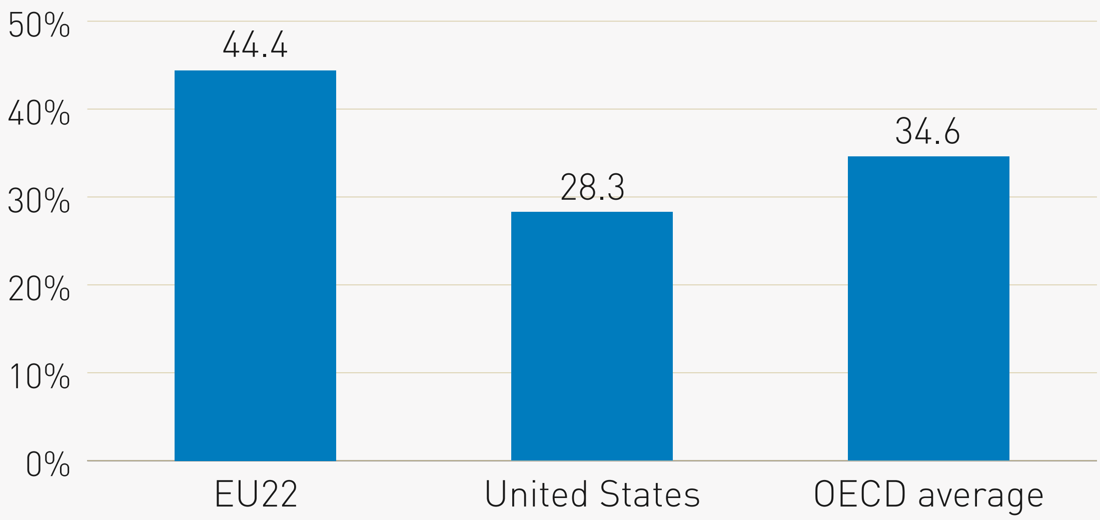


Source: Own calcuations from TaxFoundation. GDP-weighted for EU countries that are OECD members.

Both the OECD and the European Commission stress in particular that high levels of labour taxation may have a detrimental effect on employment by reducing incentives, both for workers to enter the labour market (if net gains after taxes and benefits are small) and employers to hire more staff (if labour costs are very high). It is therefore a particular concern that the average tax wedge on labour is about 30% higher in the EU than in the US (chart 11).

CHART 11 **Taxes on labour are significantly high**

Average tax wedge, % labour costs, single person at 100% of average earnings, no child, 2020



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

POLICY RECOMMENDATIONS

- Whilst policymakers must avoid a premature unwinding of measures to support business and workers, in the medium-term Member States must return to fiscally sustainable positions. Proper enforcement of the Stability and Growth Pact, revised following the conclusion of the ongoing review, preferably with simplified rules and reduced pro-cyclicality and reflecting the post-pandemic context, and the need for policy to respond to the Green Deal challenge, will be essential to help Member States put their public finances on a sustainable footing and strengthening investment confidence.
- The current low-interest rate environment provides some flexibility regarding the pace at which debt levels need to be reduced, provided this is employed wisely by focusing on productive investment and reforms that create fiscal space for future crises.
- More attention needs to be directed at the quality of investments, with a greater focus on the proportion of Member States' expenditure directed towards growth-enhancing expenditures, particularly public investment.
- Member States must also ensure their tax systems support growth, by reducing taxation on labour and capital (including corporate tax) which are particularly damaging to growth and employment, as well as by continuing their efforts to ensure the administration of their tax systems becomes simpler, more predictable, more transparent and user-friendly.

ACCESS TO FINANCE

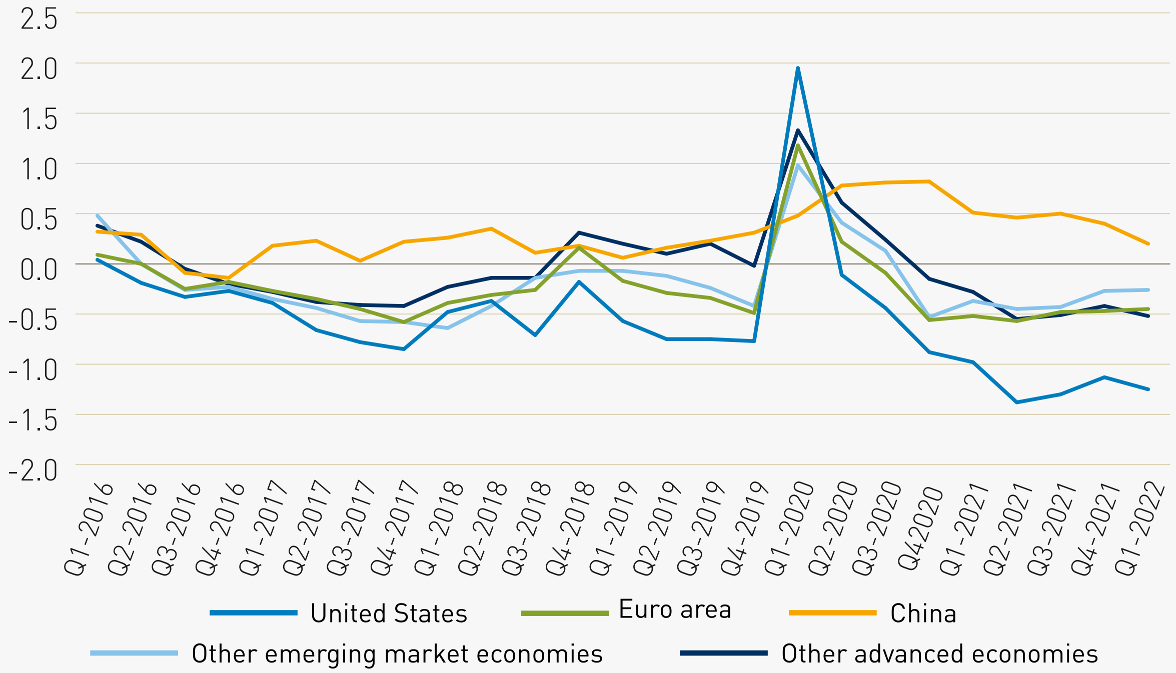
Access to finance on reasonable terms is a pre-condition for companies to thrive and make the investment necessary to drive growth, foster employment and maintain competitiveness. In order to provide stability and meet the different financing needs of companies (in particular of SMEs), finance needs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

As has been well documented, the support provided by governments to firms and workers through furlough schemes, combined with schemes to maintain finance to companies, at both national and EU level, have ensured the spate of bankruptcies we would normally have anticipated during such a steep recession has not materialised. EU bankruptcies fell by 32% in Q2 2020 compared to Q2 2019 and were around 23% down in 2020 as a whole and initial data suggest they were 19% below pre-crisis levels in 2021.

We nevertheless saw a sharp tightening of overall financial conditions at the start of the pandemic across all major regions, and a similarly sharp easing through the summer (chart 12). According to the IMF, overall financing conditions in the Euro area are at a similar level to pre-crisis. However, this contrasts with the US where financing conditions are now significantly more supportive than before the crisis.

CHART 12 **Overall financial conditions tightened at the start of the pandemic but quickly returned to pre-crisis levels**

Financial Conditions Indices, standard deviation from mean, positive values = tightening, negative values = loosening

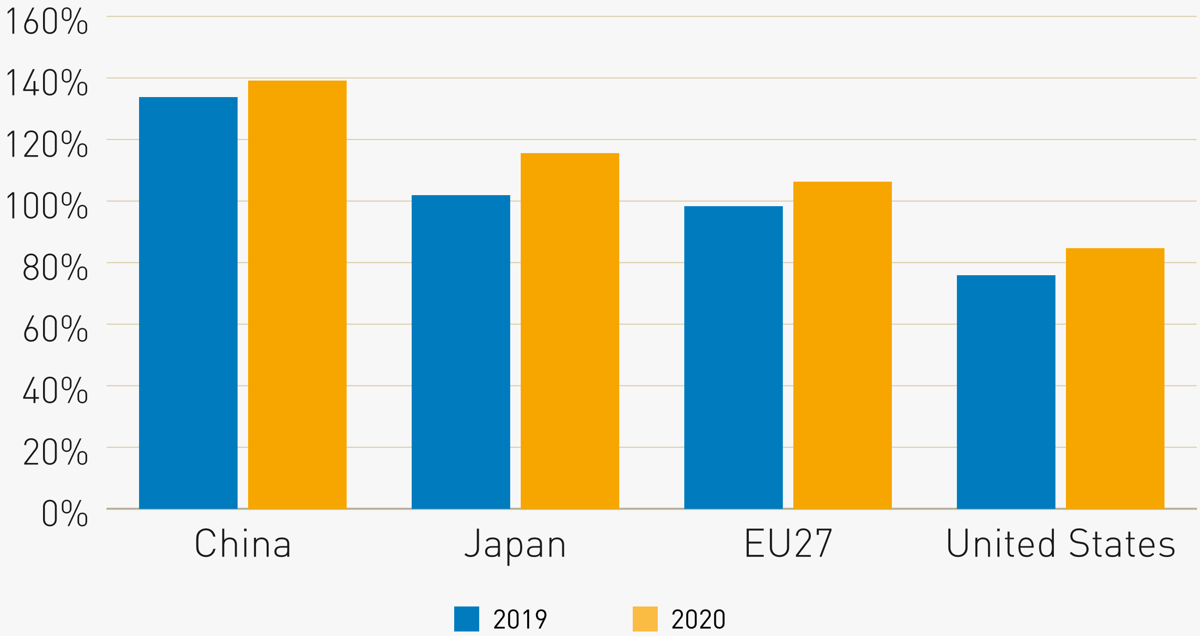


Source: IMF (based on Bloomberg Finance LP, Haver Analytics)

The downside to the support for financing during the pandemic is that many companies have had to take on considerable new debt. As seen in chart 13, initial data from the World Bank suggest EU non-financial companies have taken on such new debt at a similar rate to overseas companies.

CHART 13 **Companies across the globe have had to take on additional debt due to the pandemic**

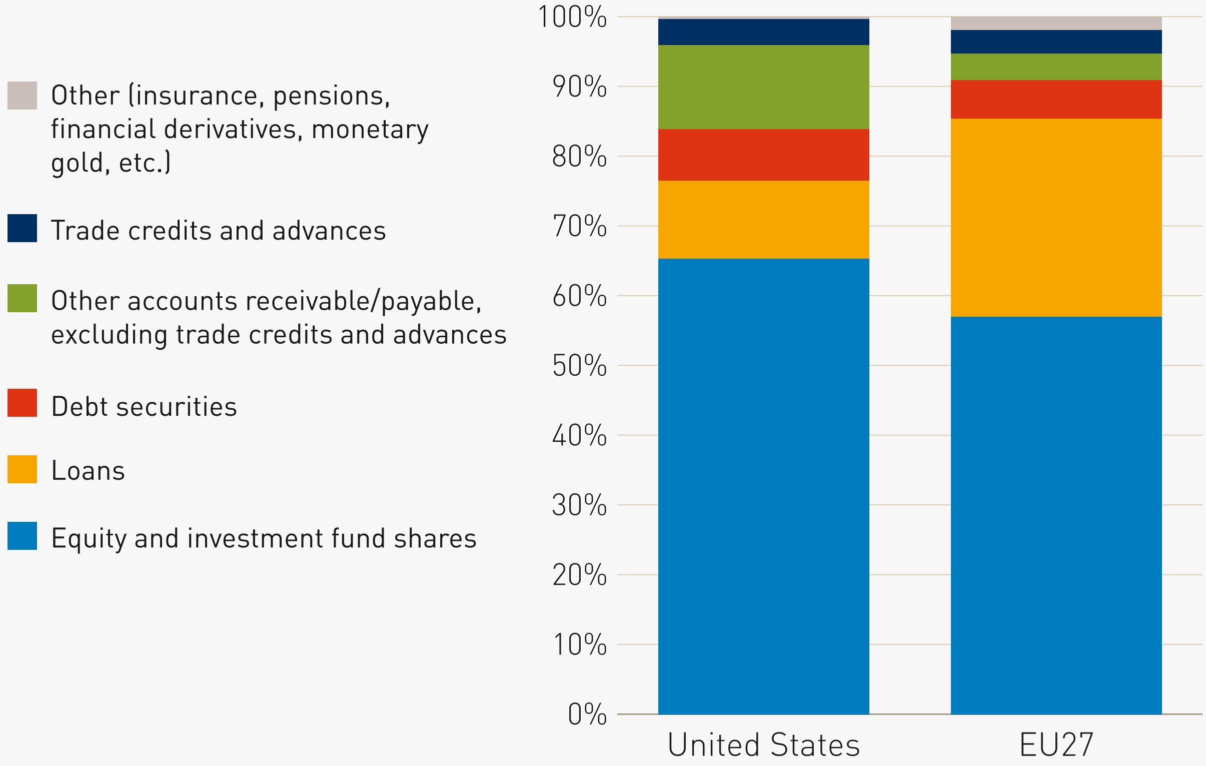
Non-financial corporate debt, loans and debt securities, % of GDP



Source: Own calculations based on World Bank

CHART 14 **EU companies continue to be more reliant upon debt than more equity focused US companies**

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

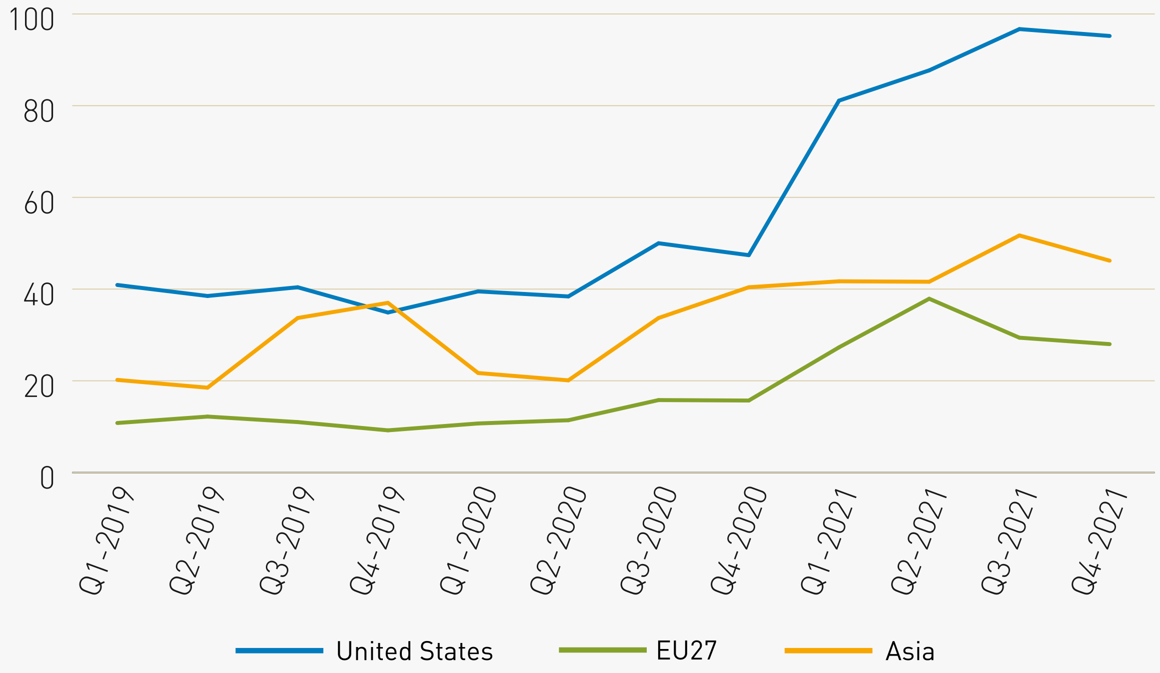


Source: Own calculations based on OECD and Eurostat

One specific source of equity financing, particularly valuable to SMEs is venture capital (VC). Surprisingly, we have seen a significant increase in venture capital investment globally (chart 15). On a positive note, the EU has seen a stronger growth of VC investment during the pandemic than other major regions with investment increasing by around over 270% in 2021, compared to 2019. This is well above the 65% increase seen in Asia and growth was also slower in the US (around 130%). However, given the US's stronger starting point, in absolute terms, the venture capital gap with the US actually increased.

CHART 15 **Global venture capital investment has increased, but the EU continues to lag**

Venture capital, current prices, $ billion



Source: KPMG and Venture Capital Pulse

POLICY RECOMMENDATIONS

→ Avoid any sudden tightening of financing conditions as we gradually leave the acute phase of the pandemic behind, as this would risk leading to a sharp increase in bankruptcies.

→ Ensure that new prudential rules for financial institutions do not significantly increase capital requirements overall, to support companies' need for capital for investment and trade (bank loans, bonds, equity investment, venture capital and trade finance) and ensure access to risk management products at competitive terms.

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

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

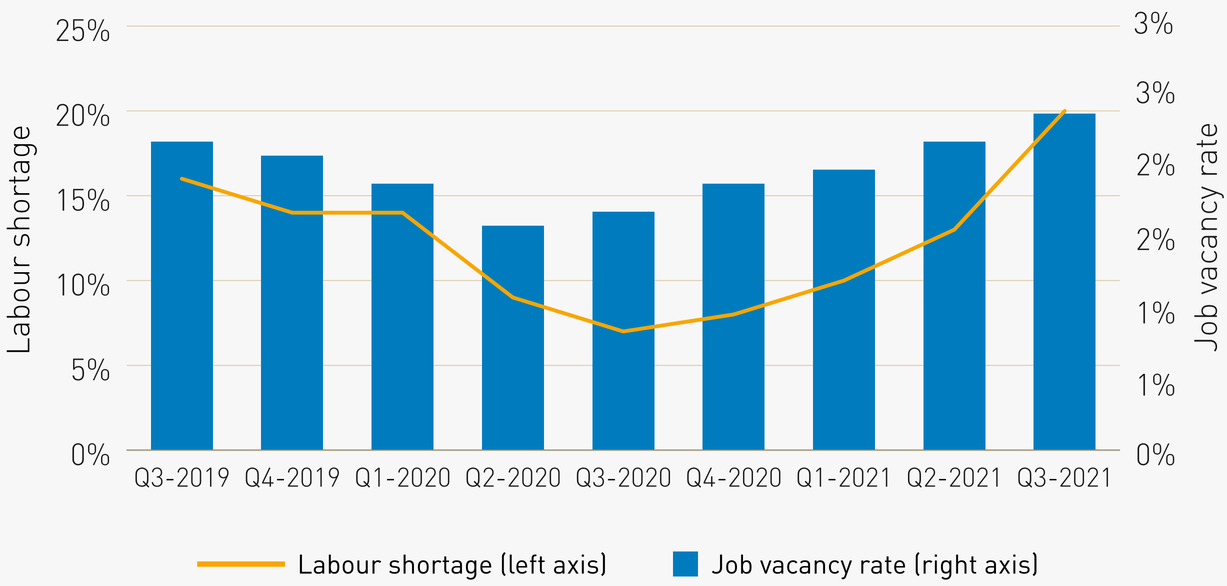
LABOUR MARKET, HUMAN CAPITAL AND SKILLS

The pandemic looks likely to have profound implications for labour markets both within the EU and beyond. On the one hand, the growth of the digital economy during the pandemic has accelerated the increase in the requirements of employers towards IT skills. At the same time, whilst most office workers are likely to return to working at their employers' premises (at least partially), the shift to telework we have seen during the pandemic is unlikely to be fully reversed. There appears less evidence within the EU of what is being termed in the US as 'The Great Resignation'. However, it cannot be ruled out that a combination of forced savings, and a re-evaluation of life goals as a result of the pandemic, may prompt some workers (particularly older ones) to be less likely to seek employment. Finally, the pandemic has also disrupted education for many people, with the possibility of long-term damage to productivity and welfare.

As a result, we are seeing a surprising tightness in EU labour markets. Chart 16 shows that job vacancy rates have now risen above pre-pandemic levels and a shortage of labour is cited by more employers as a constraint on production than before the pandemic.

CHART 16 **Employers are experiencing significant recruitment challenges**

Job vacancy rate for industry, service, construction, seasonally adjusted & labour shortage = % of companies reporting that shortage of labour is a factor limiting production in industry

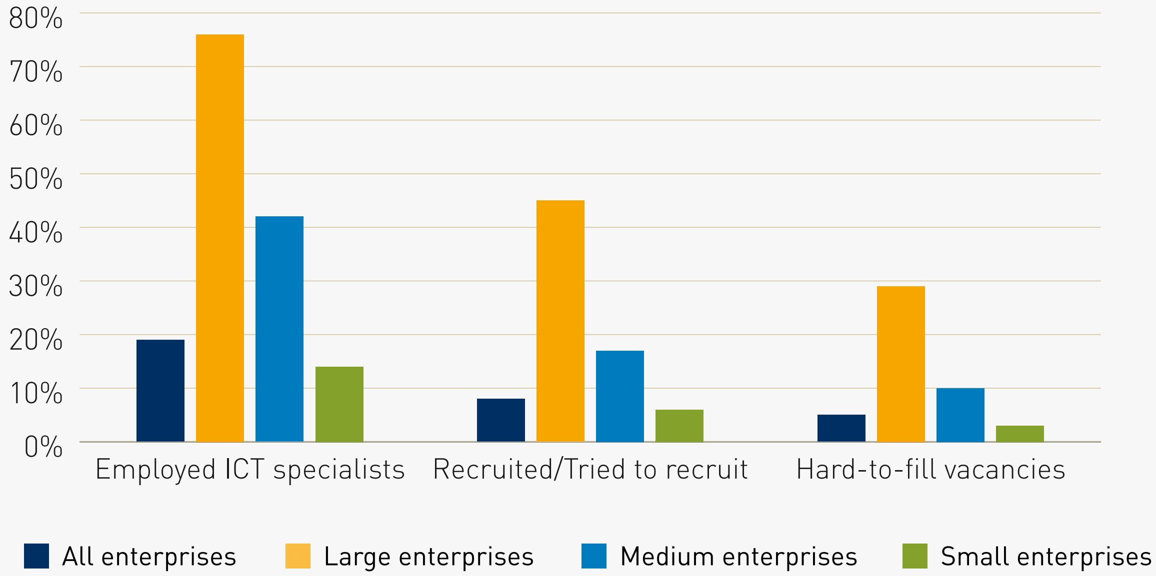


Source: Eurostat

Recruitment difficulties for ICT professionals were already significant before the COVID-19 crisis. According to a Eurostat survey, 55% of companies experienced difficulties in recruiting ICT specialists in 2020. The difficulty to recruit ICT specialists is getting worse, as labour shortages have become a growing concern during the recovery. Chart 17 shows how companies of different sizes are experiencing this ICT professionals' shortage.

CHART 17 **ICT specialist shortages are a key bottleneck to Europe's digital transition**

Percentage of enterprises employing, recruiting, and having hard-to-fill vacancies for ICT specialists, by size class, EU, 2020

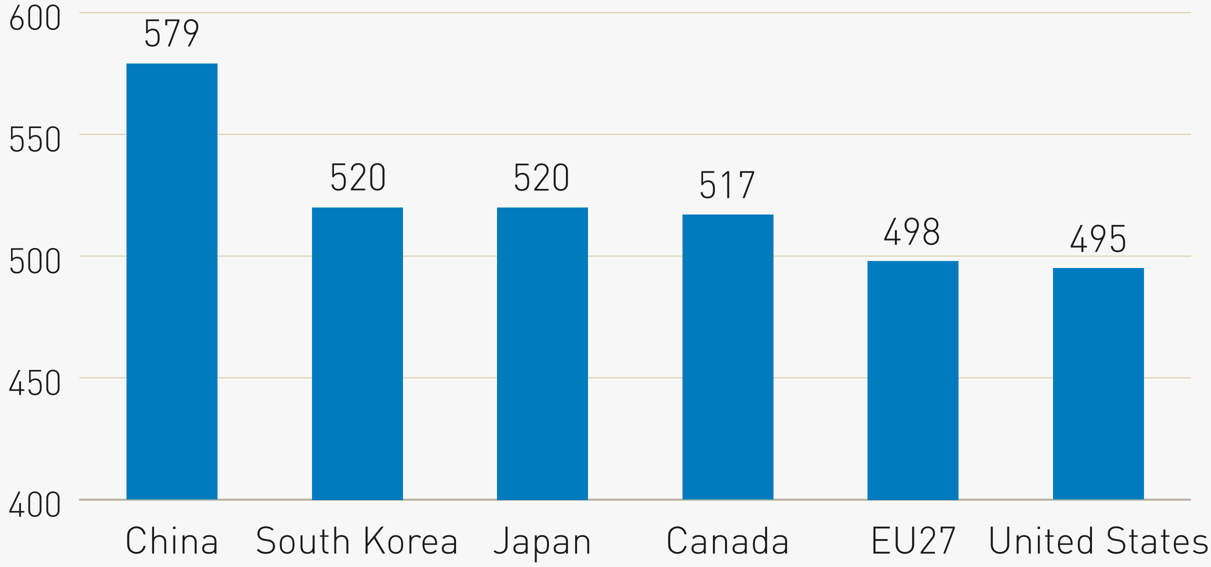


Source: Eurostat

Against the backdrop of an ageing population, it seems that employers will face increasing recruitment pressures for a number of years, particularly in highly skilled areas. Addressing this will require strong policy support across the whole education field, from nursery school, through university and life-long learning. A particularly longstanding concern is that young people in both the EU and the US appear some way behind educational levels of their peers in Asian economies, according to the OECD PISA programme of standardised tests (chart 18).

CHART 18 **EU pupils appear less strong in key subjects than in many other large global economies**

Simple average of reading, math, science PISA scores, 2018

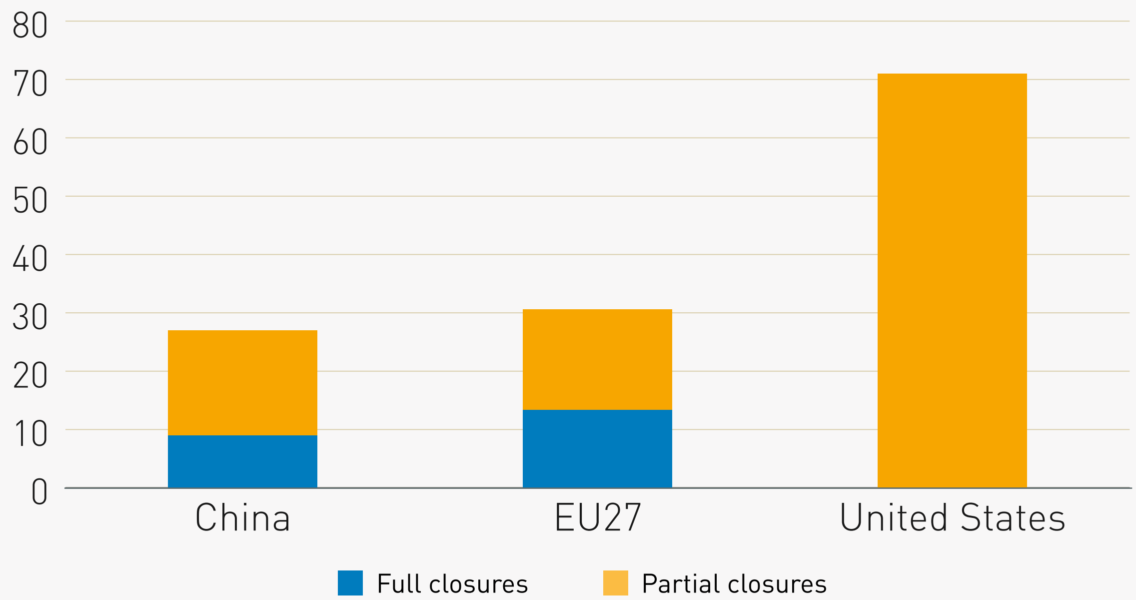


Source: Own calculations based on OECD

We will have to wait some time before the full impact of school closures on our young-people abilities becomes fully clear. Many schools have sought to replace 'in-situ' teaching with on-line learning. However, this is unlikely to provide the full range of inter-personal and more technical skills essential for young people. On a positive note, Chart 19 suggests that the students in the EU may have been less affected by school closures than in the US , although this data varies considerably between specific Member States.

CHART 19 **The EU lost fewer days at school due to the pandemic than the US**

Number of weeks schools were fully or partially closed as a result of COVID-19, March 2020-February 2022

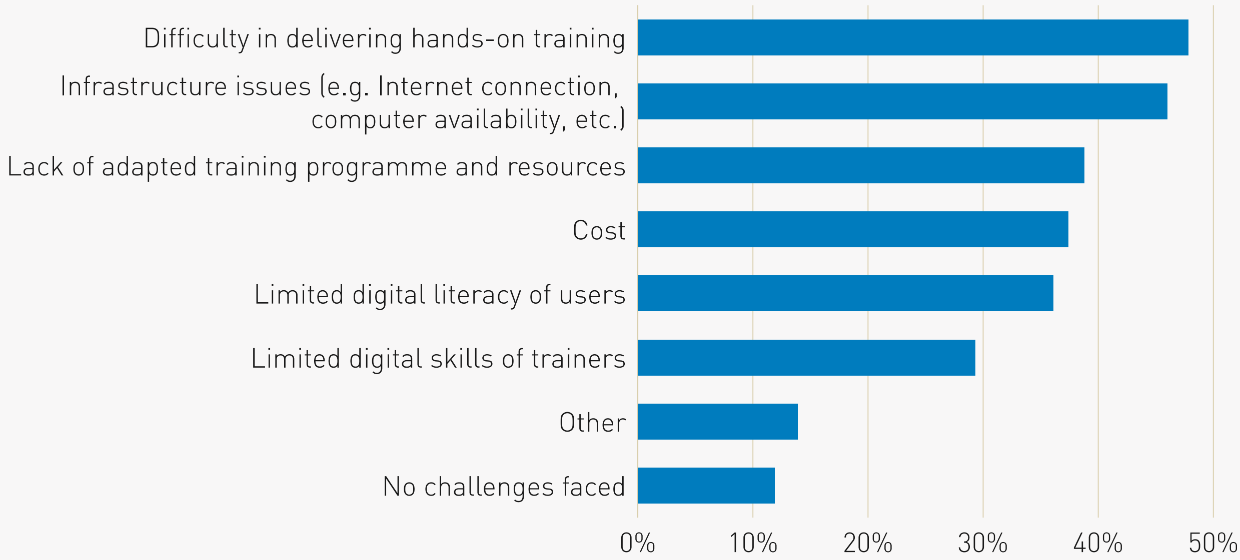


Source: Own calculations from UNESCO Global Monitoring of School Closures caused by COVID-19. Population-weighted for EU27

Companies' ability to provide training in the workplace was severely affected during the peak of the pandemic. The impact of restrictions particularly affected the work-based component of apprenticeship training, which is crucial for providing learners with the work-ready skills and competences that enhance their employability and are so highly valued by employers. Chart 20 shows the challenges faced by employers in continuing apprenticeship training during this time. COVID-19 has highlighted the importance of digital literacy among learners and teachers. It also demonstrates the added value of practical learning experiences, which are particularly important in apprenticeships.

CHART 20 **Challenges faced by companies in continuing apprenticeship training**

Percentage of enterprises answering to the question "What challenges are faced by your enterprise or organisation in continuing the training of apprentices during the pandemic?"

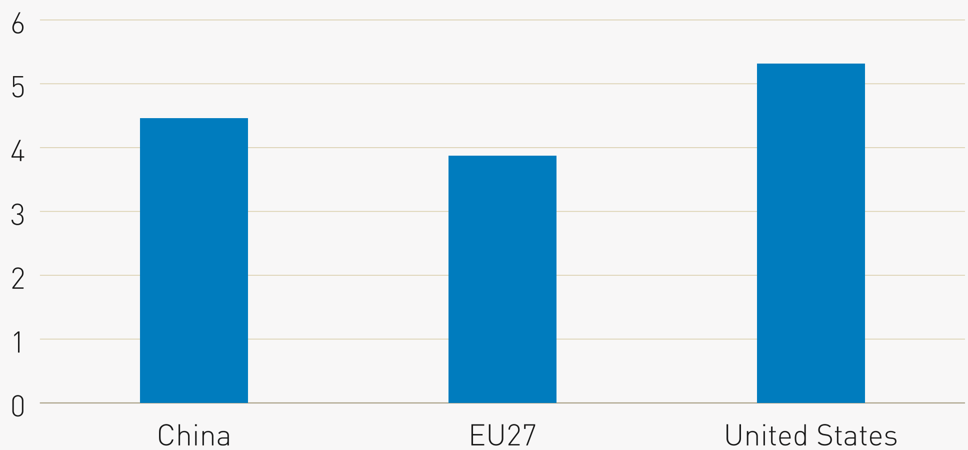


Source: ILO Global Survey and the impact of COVID-19 on staff development and training, 2020

As well as supporting education and training, policymakers need to ensure that labour market regulations encourage businesses to take on additional workers. As chart 21 shows, labour market regulation in the EU appears less supportive of job creation than in both China and the US.

CHART 21 **Labour market regulations in the EU could better support employment**

The World Economic Forum Hiring and Firing Index, 1 = not possible at all, 7 = great extent, 2019



Source: Own calculations based on World Economic Forum

POLICY RECOMMENDATIONS

→ Urgent policy action is required to avoid labour market mismatches increasingly acting as a brake on economic growth. Education and training systems need to be better tailored to labour market needs, particularly to educate more STEM graduates (science, technology, engineering and maths).

→ Policymakers should also take steps to promote digital skills through the use of more e-apprenticeships (apprenticeships in digital and technical-based occupations and which use digital learning platforms), as part of initial education and training as well as in an up-skilling and re-skilling perspective (which can be an effective way to reduce the specific shortages many companies experience in terms of hiring ICT professionals).

→ While blended learning options could be further developed, the work-based component of apprenticeships continues to be the main added value of this form of learning. It is important that Member States, together with employers, continue to work towards the goal set out in the Council recommendation on Quality and Effective Apprenticeships, whereby the majority of the training time should be in the company.

→ The labour markets' regulatory framework should be clear, simple and flexible. Increases in labour costs must be consistent with rises in productivity growth and require putting in place policies that can raise long-term productivity.

→ It is imperative that policymakers take steps to mitigate negative impacts of population ageing. Reforms must encourage people to stay in the workforce longer, make pension systems sustainable, and integrate legal migrants into the workforce.

INNOVATION

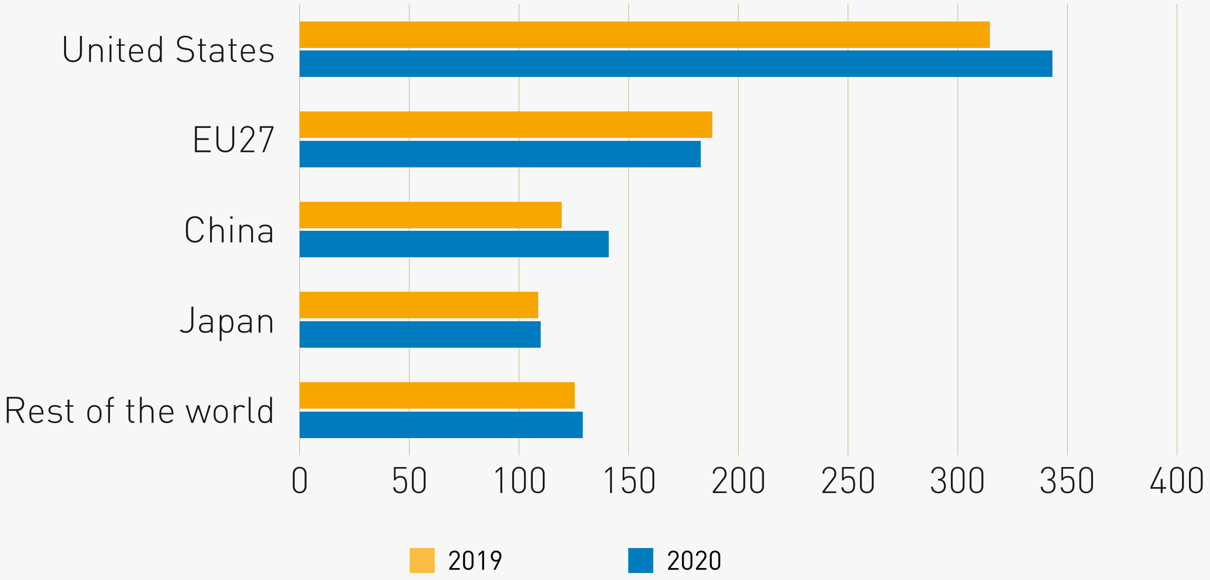
The EU's innovation and technological capability is fundamental to our ability to attract and retain high-quality, high-productivity jobs, and take forward the digital transformation that is needed across all sectors to ensure that we are able to compete successfully in the global economy. There has been clear evidence for companies and workers innovating during the pandemic, both to deliver essential health care related products and to continue to deliver despite restrictions. However, the question arises of how have traditional economy wide measures of innovation fared during the pandemic (particularly compared to global competitors). Measuring innovation capacity and technological readiness is a complex exercise, but R&D investment, (fast) broadband access, patent registrations, the number of world-class universities provide useful pointers in assessing both our current and future capability.

The EU has a relatively long-standing gap in terms of overall R&D spending with our major competitors. According to OECD data, the EU invested 2.2% of GDP in R&D in 2019, compared to 3.1% in the US, 3.2% in Japan, and 2.2% in China (noting that Chinese investment in R&D was below 1% of GDP at the turn of the century). We do not have official data available yet for all global regions. However, for the EU, Eurostat has calculated that EU R&D remained essentially stable between 2019 and 2020, falling from €312 billion in 2019 to €311 billion in 2020. With the fall in GDP, this actually increased the share of EU R&D expenditure to 2.3% of GDP.

In the absence of official data, an early indication of global R&D trends during the pandemic is provided by the European Commission's 2021 EU Industrial R&D Investment Scoreboard. The scoreboard reports on the 2500 companies that invest globally the most in R&D. As shown in chart 22 below, this partial data (public investment is particularly important for R&D), suggests the EU may have lost ground in terms of R&D during the pandemic. The US and Chinese R&D investment by large companies increased strongly in 2020, boosted by strong health care and tech sectors, compared to a slight fall on this measure in EU R&D.

CHART 22 **EU spending on R&D appears to have lost pace with global competitors in 2020**

R&D investment by largest 2500 companies globally, current prices, 2019-2020, € billion



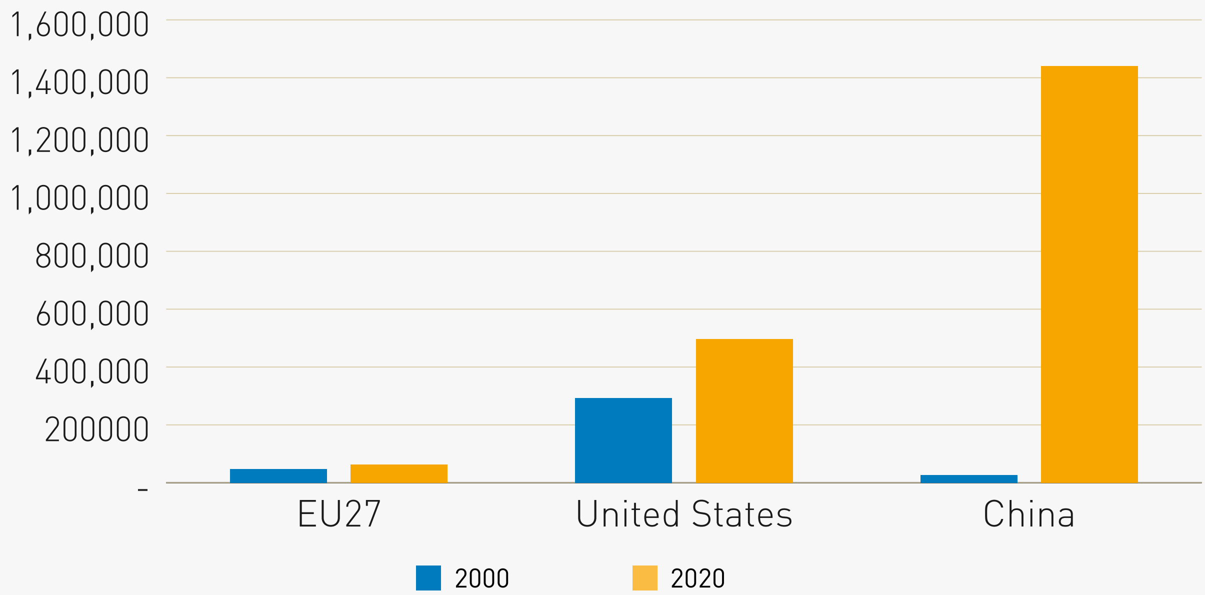
Source: The 2021 EU Industrial R&D Investment Scoreboard, European Commission

Patent applications provide an alternative measure of innovation performance. Companies will use many different methods to protect intellectual property (IP), hence such data should be treated with caution. Nevertheless, global patent data from WIPO supports the picture of a surge in innovation during the pandemic, with almost 3.3 million patents registered globally in 2020 (an increase of 1.6% compared to 2019) and over 17 million trademarks registered in 2020 (an increase of 13.7% on 2019).

However, the long-term picture remains less positive for the EU. As chart 23 illustrates, patent applications stagnated in the EU over the last 20 recent years, while applications rose steeply in China (from very low levels) and in the US (where applications increased by almost 80%). As a result, the patent gap between the EU and US has grown over time.

CHART 23 **The EU continues to file significantly fewer patent applications than the US and China**

Number of patent applications, direct and PCT national phase entries

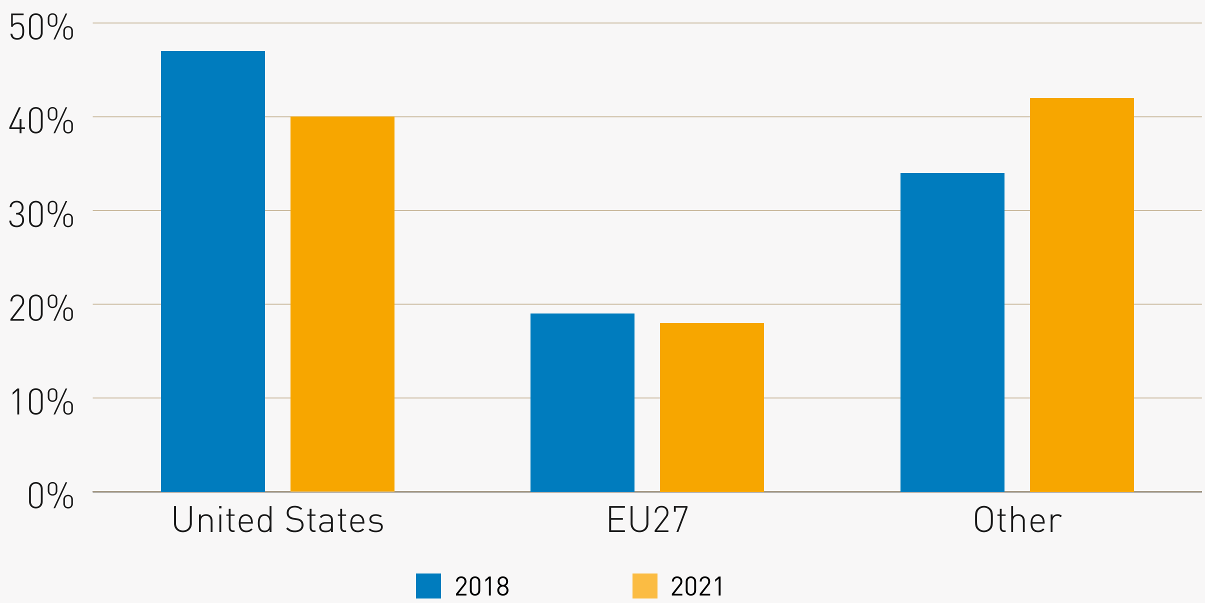


Source: Own calculations based on WIPO

World-class universities are also likely to be key to innovation and regional growth in the coming years, when working effectively with local companies to build innovation infrastructures. Chart 24 shows that the EU continues to lag behind the US in terms of the number of world class universities (although both regions have seen a fall in their global share as other regions take steps to develop).

CHART 24 **The EU has relatively few world-class universities**

Share of top 100 universities in the world based on location

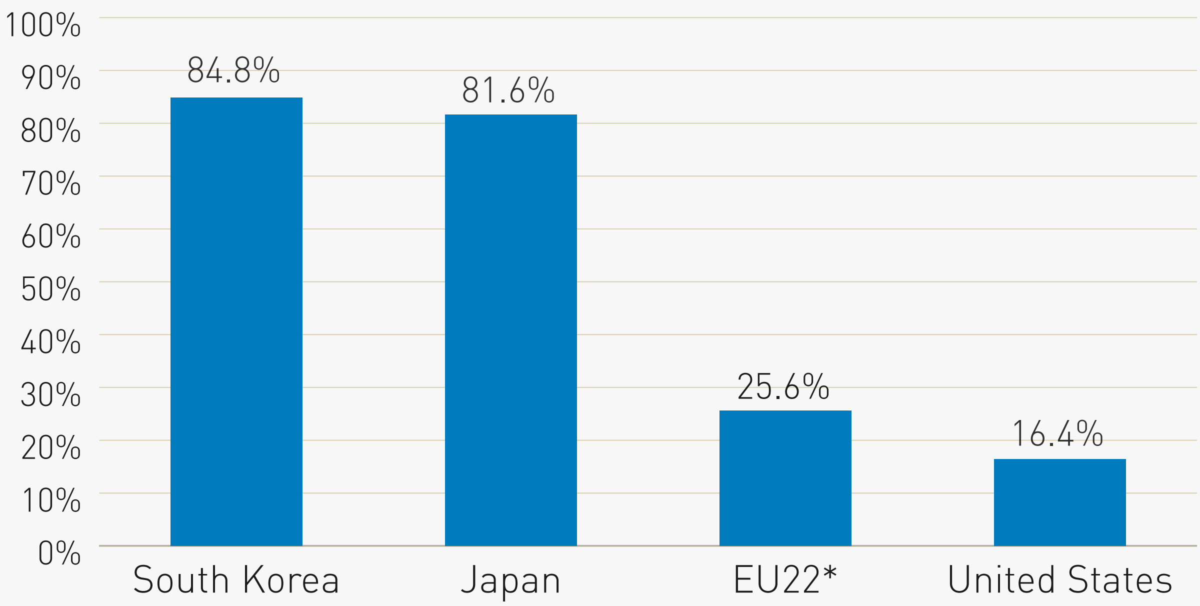


Source: Own calculations based on the Academic Ranking of World Universities, Shanghai Jiao Tong University

Regarding the EU's progress on the digital transition, broadband is increasingly becoming a key enabler of economic and social growth. Unfortunately, the EU continues to lag behind its competitors in some key metrics for digital communication. As illustrated in chart 25, whilst the EU performs better than the US in terms of the percentage of broadband that is based on (faster) fibre connections, faster fibre connections remain much less prevalent in the EU than in the leading countries in this area (notably Japan and South Korea).

CHART 25 **The EU lags significantly behind Japan and Korea regarding fibre broadband provision**

Percentage of total broadband that is fibre, Q4 2020



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

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

POLICY RECOMMENDATIONS

→ Member States should increase research and development (R&D) spending and support stronger private sector R&D investment in order to reach the EU's target of investing 3% of GDP in innovation. Future EU long-term budgets (MFF) must scale up R&D and innovation support, including by developing innovation eco-systems, and by improving synergies between government, university and private sector actors.

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

→ A strengthened digital infrastructure is essential to allow the EU to adopt the latest technologies and enable businesses to compete globally. This is especially the case when it comes to providing very high-capacity networks in order to launch 5G on a large scale.

→ The EU must support, through schemes such as the Digital Europe programme, greater investment in a range of cybersecurity actions, including vulnerability assessments, enhanced governance, and risk and compliance management

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

THE RECOVERY AND RESILIENCE FACILITY AND THE EUROPEAN SEMESTER

The European Council consisting of the EU heads of states and governments of each Member State reached a political agreement in July 2020 to establish a €750 recovery plan dubbed "Next Generation EU" to mitigate the impact of the COVID-19 on the European economies.

Its largest component, the Recovery and Resilience Facility, was established in an EU regulation adopted in February 2021. It consists of €312.5 grants allocated to Member States following an allocation key that considers population size, GDP and employment situation. Countries can additionally request loans, with a total of €360 bn available through the Recovery and resilience Facility.

In order to access funding from the Recovery and Resilience Facility, **Member States have presented National Recovery and Resilience Plans.** The plans describe how the money will be spent and must correspond to the requirements of the regulation establishing the facility.

As highlighted in the Commission's first Annual Report on the Implementation of the Recovery and Resilience Facility[4], published on 1 March 2022, **26 Member States have submitted national plans, and 22 have been approved so far, with €47 bn in grants and €20 bn in loans already disbursed.**

The key now will be ensuring full implementation of these national plans. The Commission has vowed to ensure that the objectives within the national plans are complied with, and only pay out funding once pre-defined **milestones, regarding both investments and reforms, agreed by the Member States and the EU** are reached.

The RRF covers a time period from 2021 to the end of 2026. The implementation of national plans will thus continue over the coming years. 70% of the total amount available should be legally committed by Member States by 31 December 2022, and 30% between 1 January 2023 and 31 December 2023.

The Commission has taken action to try to ensure its overarching tool for economic policy coordination, the European Semester, evolves in line with the requirements of the Recovery and Resilience Facility. The regulation establishing the RRF stipulated 11 **assessment criteria** that each national plan has had to meet. Most notably, at least 37% must be allocated to "green" investments, 20% to digital investments, and plans must "contribute to effectively addressing all or a significant subset of challenges identified in the relevant country-specific recommendations" of the European Semester. That means the **recovery funding is tied with the European Semester and its country-specific recommendations**. Whilst not required to address all CSRs, countries have committed to some reforms as part of their national plans. With the pay-out of funding being conditional on satisfactory progress on the national plan, this will include meeting the agreed CSR related reform objectives.

The Commission has also launched an **online Scoreboard** measuring the objectives and projects within each national plan as well as quantifying how much has been reached and how much funding has been disseminated so far to each Member State.

[4] *COM(2022) 75 final - Report from the Commission to the European Parliament and the Council on the implementation of the Recovery and Resilience Facility: https://ec.europa.eu/info/sites/default/files/com_2022_75_1_en.pdf*

PART 2 - MEMBER FEDERATIONS' ASSESSMENT OF IMPLEMENTATION OF THE NATIONAL RECOVERY AND RESILIENCE PLANS AND COUNTRY-SPECIFIC RECOMMENDATIONS

02

As part 1 outlines, the pandemic has hit the EU economy slightly harder than other major economic regions. The fiscal stimulus in the EU is considerable, but nevertheless slightly smaller than that in the US. In this context, it is essential that the EU's own coordinated fiscal stimulus through the Recovery and Resilience Facility (RRF) is fully exploited as a once-in-a-generation opportunity to transform our economies and boost long-term growth in the EU.

This chapter analyses the results of a survey of BusinessEurope's member federations on the COVID-19 pandemic and Member States' implementation of the National Recovery and Resilience Plans. In addition, federations commented on the appropriateness of each of the Commission's country-specifc recommendations (CSRs) of the European Semester of 2020 and on their government's efforts to implement them. This is of particular relevance given the strong conditionality between the disbursements of tranches of RRF funds and the implementation of CSRs. Detailed answers by member federations on individual country recommendations can be found on BusinessEurope's website.

OVERALL POLICY RESPONSE TO COVID-19

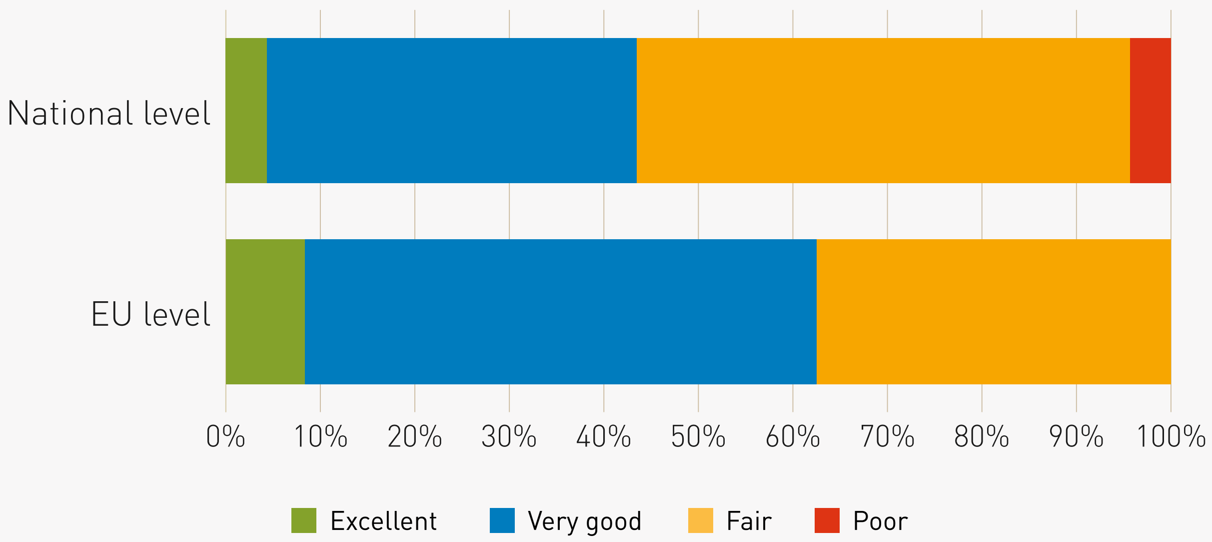
As a starting point, we asked federations about the economic response to the COVID-19 crisis at both national and EU level and the implementation of the recovery plans under the RRF.

The survey suggests that our member federations are relatively pleased with the EU's economic policy response to the crisis, with 63% judging the EU's economic response as 'very good' or 'excellent' (compared to 43% of satisfaction for the response at national level). The positive assessment of the EU's role is in contrast with last year, when more than 40% considered the EU had done too little in ensuring the continuation of the four freedoms of the Single Market during the height of the pandemic (when several Member States closed their borders or imposed strict uncoordinated border checks).

Looking forward, the European Commission is due to adopt a proposal on a Single Market Emergency Instrument in 2022. Dependent on its design, it may be a step forward to ensure additional structures and tools are fully in place to guarantee the circulation of goods and services in the EU at all times.

CHART 26 **Member federations are relatively positive about the EU's economic policy response to the crisis**

Percentage of federations responding to the question "How do you judge the overall economic response to the COVID-19 crisis at national and EU level"?



Source: BusinessEurope, survey of member federations

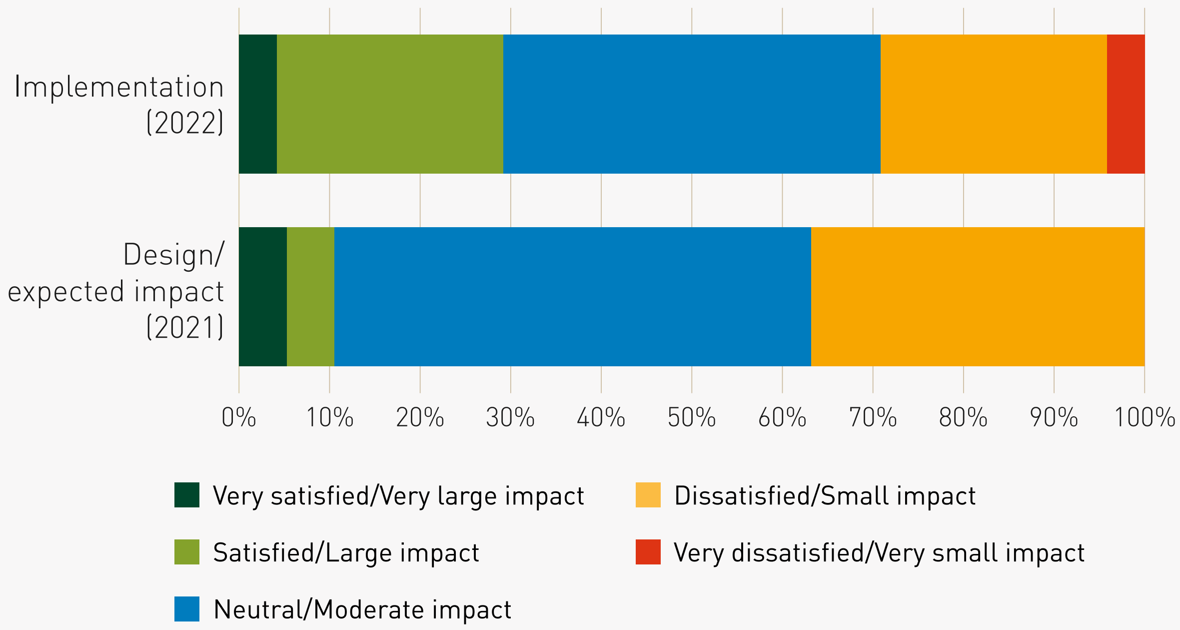
IMPLEMENTATION OF NATIONAL RECOVERY AND RESILIENCE PLANS

As we explain in the background box on the RRF, 2021 saw the majority of EU Member States complete the design of their RRF, obtain endorsement from the Commission and Council, and begin implementation, with initial pre-financing payments having already been paid to a number of Member States. In this context, we asked our members to provide an early assessment of the implementation of the recovery plans.

Overall, Member States' work on their recovery plans is more positively assessed by our member federations than was the case in 2021. In 2021 the majority of our federations were disappointed by the relative lack of ambition in the plans, with only 10% of federations expecting the plans to have a large impact on economic performance, compared to 37% that expected the impact to be small. Now, our member federations are more positive about the prospects for implementation. Overall, 29% of federations are either satisfied or very satisfied with the implementation, although there remains a significant share of federations who continue be concerned about implementation.

CHART 27 **Satisfaction with recovery plans on the rise, but scope for improvements remain**

Percentage of federations responding to the question: "How satisfied are you with the implementation or design/impact of your National Recovery and Resilience Plan?"[5]



Source: BusinessEurope, survey of member federations

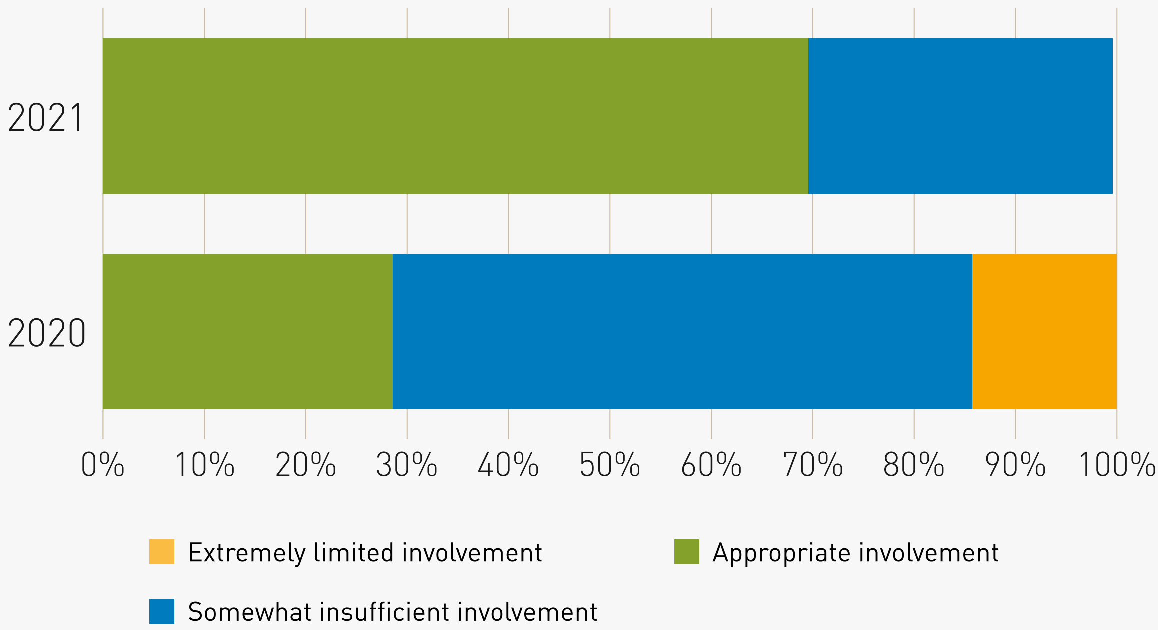
We expect implementation to benefit from the detailed agreements between the EU and Member States, regarding the reforms and investments which will need to be delivered, with measurable milestones to be met by Member States before funds are disbursed to Member States.

Similarly, implementation is expected to be aided by the European Commission's publication of a Recovery and Resilience Facility Scoreboard, which provides a clear overview of where Member States stand in their implementation of the plans, and provides the European public with a monitoring tool on the expenditure per policy area and a breakdown of the milestones Member States have reached.

[5] The question assessing the design/expected impact of the recovery plans was part of the survey for BusinessEurope's 2021 edition of the Reform Barometer.

CHART 28 **Involvement of social partners in the delivery of recovery plan has improved**

Percentage of federations responding to the question "To what extent are you satisfied with the involvement of social partners in the development of your National Recovery and Resilience Plan?"



Source: BusinessEurope, survey of member federations[6]

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

On a positive note, there are some indications that social partners are increasingly involved in the delivery of the reform plans as we shift from the design to implementation phases. Only 30% of federations expressed dissatisfaction with their role so far in the implementation of the plan, compared to 71% of member federations who last year were dissatisfied with their role in the design of the recovery plan. Nevertheless, there is clearly scope to deepen the role of social partners in helping to implement a range of key investments and reforms in a number of member states.

IMPLEMENTATION OF COUNTRY-SPECIFIC RECOMMENDATIONS (CSRs)

Member States continue to pursue the country-specific recommendations agreed with the EU in 2020, under the revised European Semester process, with national reforms plans themselves aiming to supply the delivery of the reforms.

As has been the case in previous years, our members are of the view that the Commission and Council have identified the right priorities for countries' reform. Nearly all (87%) of the listed CSRs agreed in 2020, and continuing to be valid in 2021, are seen as (extremely) important for the economic well-being of EU Member States, in line with findings from previous years.

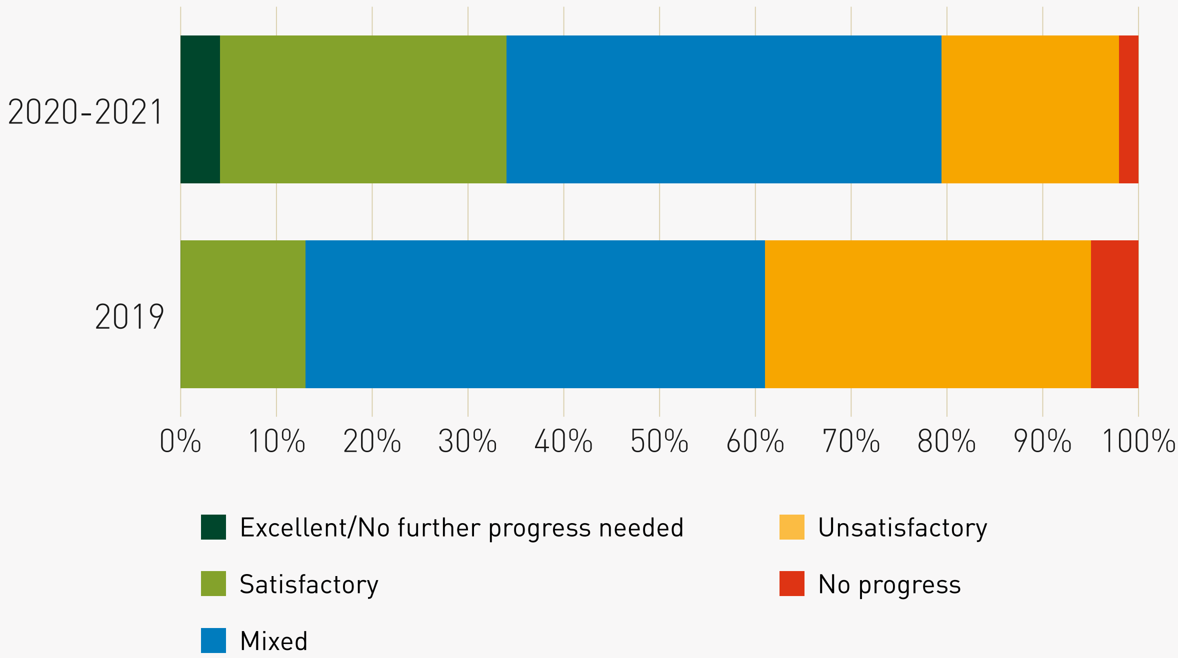
[6] This year's survey responses of 'satisfied' or 'neutral' regarding the involvement of social partners in the roll-out of the recovery plan were made to correspond to last year's response of 'appropriate involvement of social partners in design of recovery plan'.

In previous years, we often found disappointing levels of implementation of the CSRs. There remains huge scope for Member States to improve implementation of the CSRs. However, there are some positive signs; this year our members consider that 34% of CSRs have been satisfactorily implemented (compared to just 13% two years ago), with satisfaction rising to 79% when considering those with mixed satisfaction concerning implementation (compared to 61% two years ago).

In practice, the more short-term nature of the current CSRs, aimed at addressing the COVID-19 emergency have assisted implementation. However, we believe that the fact that payments related foreseen under the RRF are in part dependent upon implementation of CSRs also helped.

CHART 29 **Implementation of the structural reforms, as agreed under the European Semester, are on the rise**

Percentage of federations responding to the question: "How do you assess the reform effort of your government regarding each CSR as listed in the 2020 European Semester in 2020 & 2021?"



Source: BusinessEurope, survey of member federations

Nevertheless, One-fifth of CSRs still suffers from unsatisfactory implementation according to our members. Similarly, the Commission recognised in its first annual report on the RRF that not all challenges identified in the CSRs are currently addressed by the recovery plans. In particular, CSRs relating to the areas of public finance, taxation, competition in services, and housing market tend to be 'not systematically covered' by the recovery plans, the Commission argues.

The European Commission must continue to ensure that the disbursement of funds is strictly dependent on the implementation of the CSRs. Amongst member federations, there is great trust in the European Commission delivering on this, with 83% expressing (full) confidence on the matter.

REFORM PRIORITIES FOR 2022

Looking forward, we have also surveyed our member federations regarding reform priorities for 2022 (chart 5). Setting aside the immediate challenges linked to rising energy prices, supply disruptions and inflation risks, our members' reform priorities are a clear response to both the likelihood of continuing pressures on labour supply given ageing populations, and the need to make structural changes to strengthen public finances following recent borrowing.

Top priority for the highest number of members are reforms to the tax system and to increase public sector efficiency, with members particularly keen to ensure that the interplay between tax and benefit systems works better to encourage more people to be part of the labour force. With inflation well above the ECB's 2% target, members are also giving increasing priority to wage bargaining and wage-setting policies, which will be essential both to maintain a skilled labour force at competitive wages and at a macro-economic level, to avoid a damaging wage-price inflationary spiral.

CHART 30 **Strengthening public finances will be a key priority for 2022, in particular by increasing employment**

Top 10 ranking of policy priorities for 2022 according to survey of member federations, compared to our policy priorities ranking for the year 2021.

	Difference from 2021
1. Public Sector Efficiency	+1
2. Tax reforms	+2
3. Labour market mismatches and labour mobility	=
4. R&D and innovation	+2
5. Business environment	-4
6. Making work pay: interplay of tax and benefit system	+4
7. Wage bargaining and wage-setting policies	+12
8. Pension and healthcare reforms	-3
9. Consolidation of public expenditures	+1
10. Sector specific regulation	-1

Source: BusinessEurope, survey of member federations

POLICY RECOMMENDATIONS

→ Increased long-term growth and employment in the EU is dependent upon proper implementation of a wide range of structural reforms. The European Commission should ensure strict control that Member States have invested funds from the Recovery and Resilience Facility as intended. No disbursements should be made before Member States have documented that they fully complied with milestones and targets for their National Recovery and Resilience Plans.

→ Ensure that all potential suppliers have access to information on upcoming calls for tenders in National Recovery and Resilience Plans. This implies that the Single Market rules must be observed and obligatory web spaces on National Recovery and Resilience Plans will include a public procurement plan for the coming month.

→ We encourage the European Commission to continue updating the helpful Recovery and Resilience Facility Scoreboard, which provides citizens with a clear monitoring tool on the progress reached in each Member State in terms of the projects being taken forward and the milestones reached.

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Germany	Greece	Hungary	Iceland	Iceland	Ireland
Italy	Latvia	Lithuania	Luxembourg	Malta	Montenegro
Norway	Poland	Portugal	Rep. of San Marino	Romania	Serbia
Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Switzerland
The Netherlands	Turkey	Turkey	United Kingdom		

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