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Industrial competitiveness of EU member states: some progress made, but many challenges still lay ahead

Member States have made progress in improving the business environment, exports and sustainability. However, many problems still remain. The convergence between industrially most competitive countries and the moderate performers is at a standstill. Moreover, the cost of energy is increasing in almost all Member States, contributing to the de-industrialisation of Europe. Big roadblocks are also access to finance and a drop in investment in almost all Member States. For European industry to start flourishing again, the performance of public administration needs to be significantly improved as well.

The main messages to come out of this year's **2013 Member States Competitiveness Performance and Implementation of EU Industrial Policy** report are:

Positive points:

- Exports, mainly to the rest of the world, have been the main driver of industrial activity;
- Innovation performance has improved since 2008, but convergence seems to have ended since 2012;
- Business environment has improved in most Member States but so it has in the rest of the world;
- Most Member States have improved the skills base of their workforce.

Weak points:

- Investment remains stubbornly unresponsive to policy measures in the EU since the onset of the crisis;
- High energy prices pose a significant problem for industries;
- Access to finance has deteriorated in many Member States;
- For some Member States, improving the efficiency and effectiveness of public administrations is the key to restoring growth.

Implementation of industrial policy

The Competitiveness Report also looks at progress in the implementation of the EU's industrial policy. In line with the 2012 industrial policy Communication update *'A stronger European industry for growth and economy recovery*[1]*'*, the Commission has focused on establishing a broad partnership between the EU, its Member States and industry to set up investments in new technologies. In an effort to achieve this, task forces have been established for each priority action line identified in the Communication. The task forces work on a number of implementation measures which can produce tangible results in each of the priority action lines in the short to medium term.

Measures have been adopted at EU level to facilitate access to finance, access to markets, and human capital and skills development. However, two major factors jeopardise the success implementation of the EU industrial policy, namely:

- Barriers to the internal market, fiscal consolidation, bank deleveraging and low demand;
- Low level of investment, partly due to economic and political uncertainties.

Performance in Member States

The updated industrial performance scoreboard looks at Member States' industrial performance in five key areas: innovation and sustainability; business environment, services and infrastructure; public administration; finance and investment; and skills.

To facilitate analysis and comparison between Member States, the report has used cluster analysis to group Member States in three groups:

- The **consistent cluster** performs well in all areas of competitiveness. This cluster consists of Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, the Netherlands, Spain,[2] Sweden and the United Kingdom.
- The **moderate cluster** performs well in some competitiveness areas but face difficulties and deterioration in others. This cluster consists of Cyprus, Greece, Italy, Malta, Portugal and Slovenia.
- The **catching-up cluster** are Member States that are significant challenges in many areas, but are quickly improving. This cluster consists of Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.

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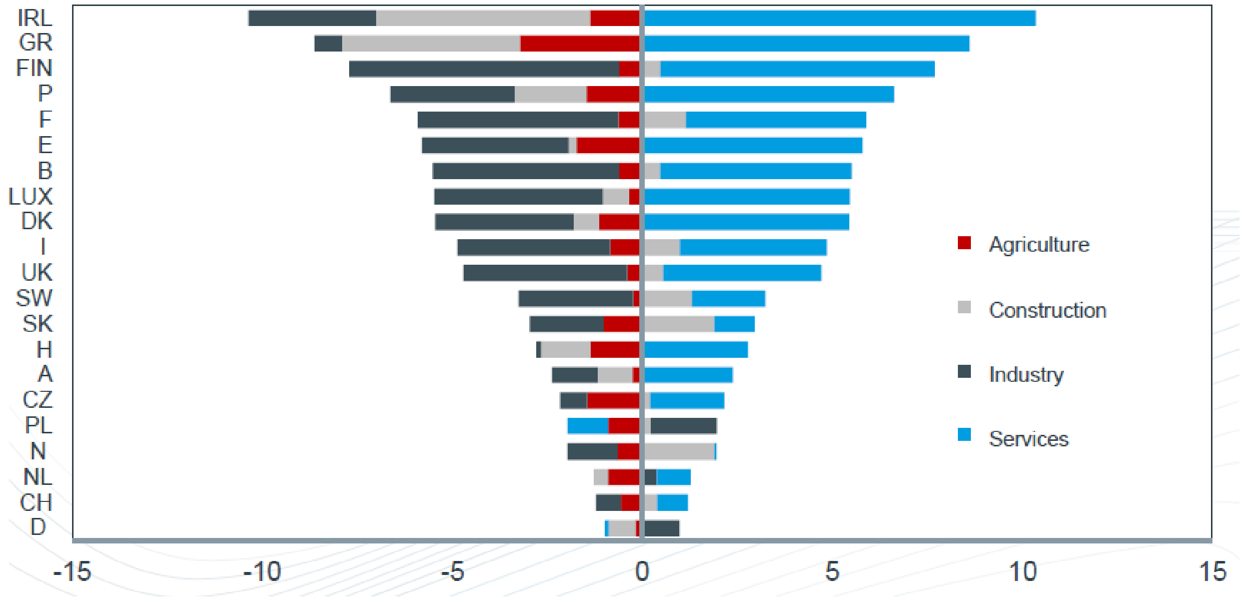
[1] COM (2012)582

[2] Spain is a borderline case, with weaker innovation capacity and difficult financing conditions, but performing very well in regard to other competitiveness indicators (energy intensity, export market shares, quality of infrastructure, high skills and labour productivity).

Changes in shares of GDP (2000 – 2011), percentage points



Notes: Industry includes manufacturing, energy and mining; Polish data for 2001-2011
Source: IW Köln, EUROSTAT.

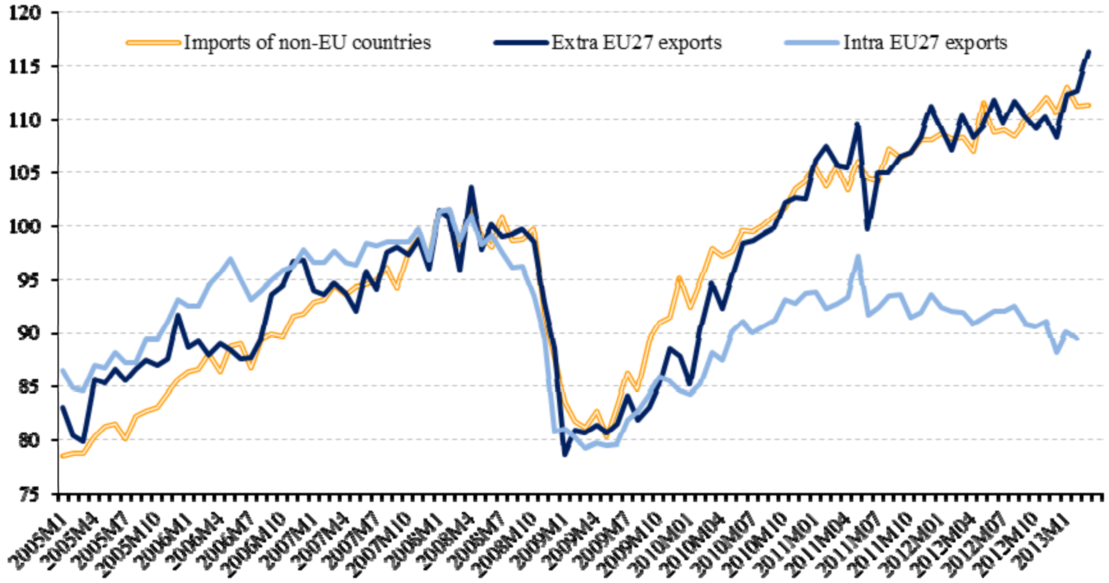
1. Exports, mainly to the rest of the world, have been the main driver of industrial activity

Internationalisation efforts have produced results given the very strong export performance of European industry. In particular, exports of high-tech goods and knowledge-intensive services indicate the shift towards high value-added activity and jobs.

Catching-up Member States have performed particularly well, with exports pushing growth. In fact, a majority of the catching-up economies have continued to expand their world export market shares since 2007. It is also worth noting that **moderate performers have improved their export performance** more than the consistent performers.

Although the Member States still export more to other EU countries than to the rest of the world, this internal EU trade is growing more slowly. In fact, data indicates that the countries most affected by the crisis are increasingly losing importance as a supplier to the EU economic core. Thus the EU internal market is becoming less important in supply chains.

External and internal EU trade



Source: EUROSTAT, CPB World Trade Monitor

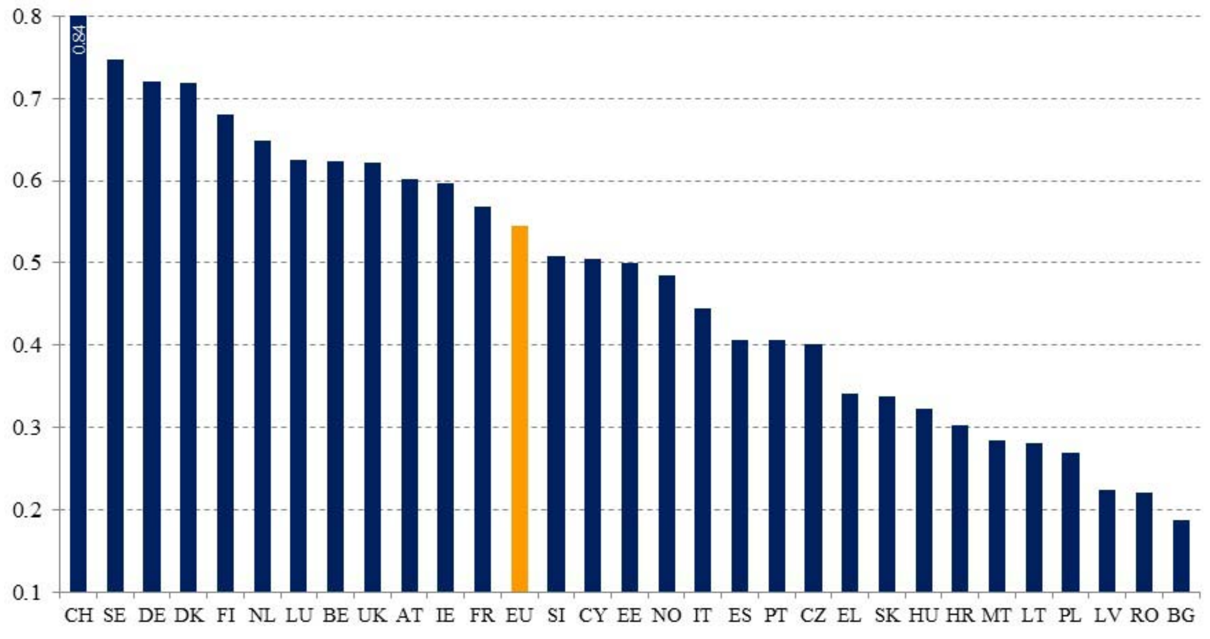
2. Innovation performance has improved since 2008, but convergence seems to have ended since 2012

The vast majority of Member States have increased their innovation performance since 2008 but relative performance differs.

All consistent performers have seen an improvement in innovation performance between 2008 and 2012. Catching up countries have shown the greatest growth between 2008 and 2012, with Estonia in particular registering significant growth. However, there are notable exceptions like Poland and Bulgaria, with Romania even deteriorating. Within the moderate performers, Malta and Greece have also experienced deterioration in innovation performance.

Since a number of the less innovative Member States are not keeping up with the most innovative Member States, differences in innovation performance in the EU has started to increase, signalling a possible halt to convergence in Member States' innovation performance.

Innovation Union Scoreboard (0=worst possible performance / 1=best possible performance)



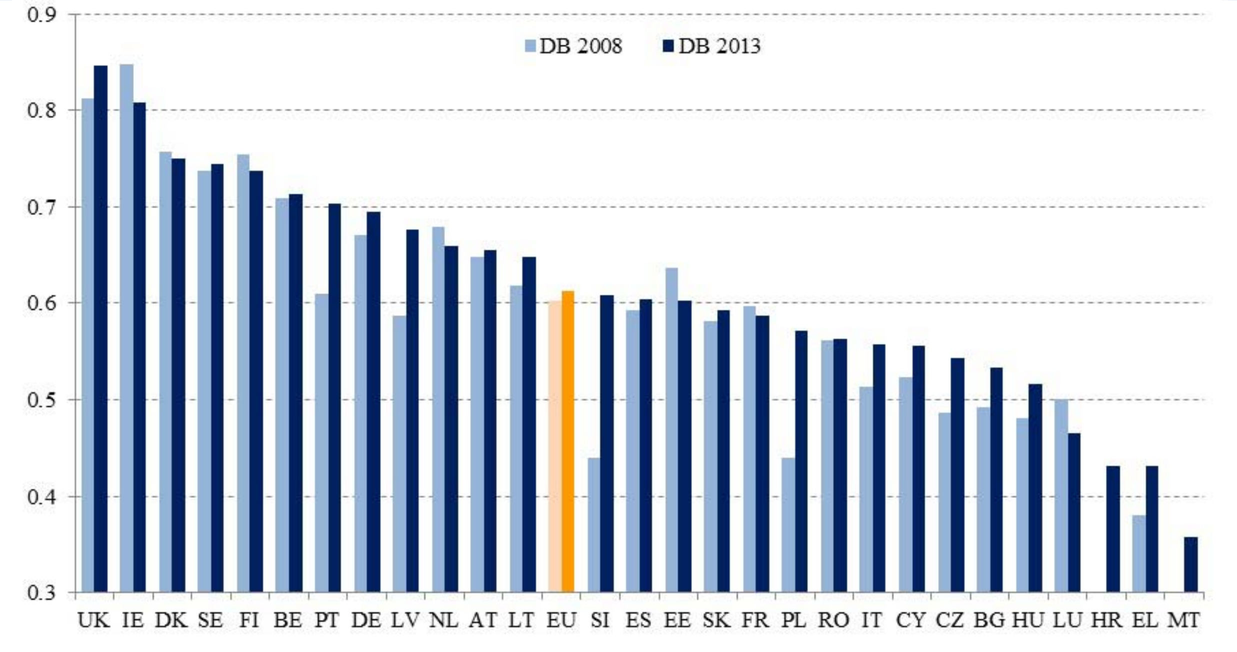
Source: Innovation Union Scoreboard 2013

Note: EU = EU27 average; the 0 to 1 scale is derived from the performance of EU countries and TR, IS, NO, CH, RS, and MK

3. Business environment has improved in most Member States but so has in the rest of the world

For the EU as a whole, the business environment improved slightly in the period 2007-2012. However**,** many competitors are improving their business environment even faster, and many Member States that have a relatively good business environment have stopped improving – and in some cases have slid down in the rankings. But even the good can improve, as is shown by Belgium, Germany, Sweden and UK.

Business Environment (0=least attractive, 1=most attractive; 2012)



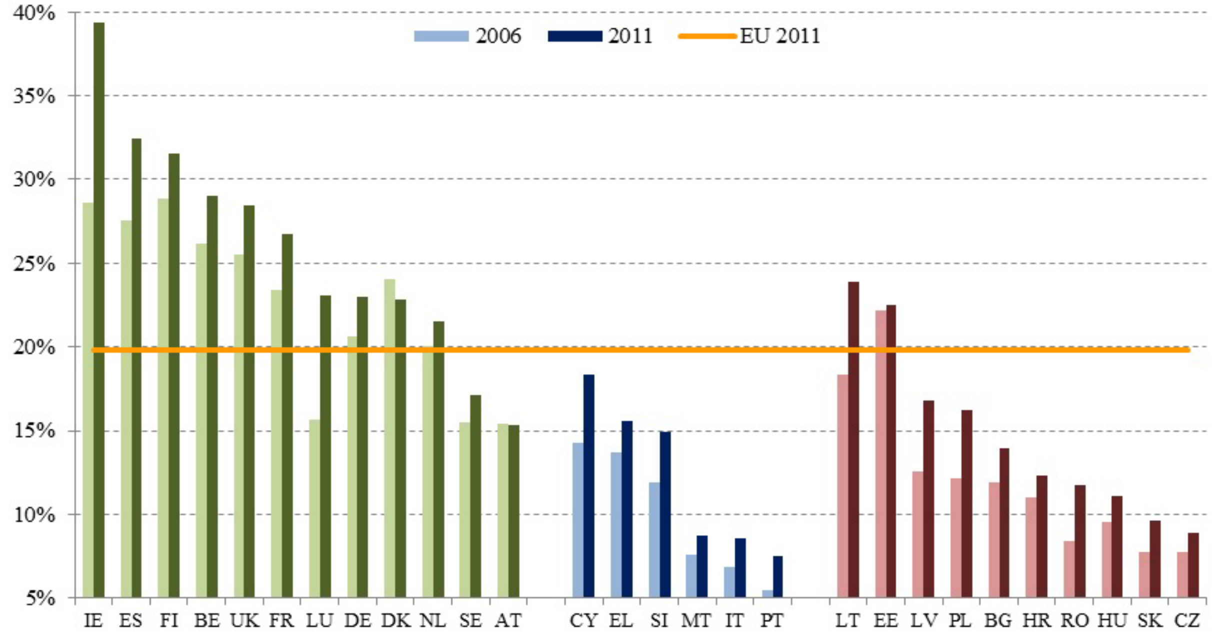
Note: EU = unweighted average; no data available for HR and MT – DB 2008

Source: Commission calculations based on World Bank Doing Business data

4. Most Member States have improved the skills base of their workforce

All Member States are increasingly responding to the demands of the market with most having improved the skills base of their workforce. In a majority of the consistent performers, manufacturing employs more highly qualified persons than in 2006. On the other hand, moderate performers and catching-up Member States are still below the EU average, with the latter improving since 2006.

Percentage of people employed in manufacturing with high qualifications

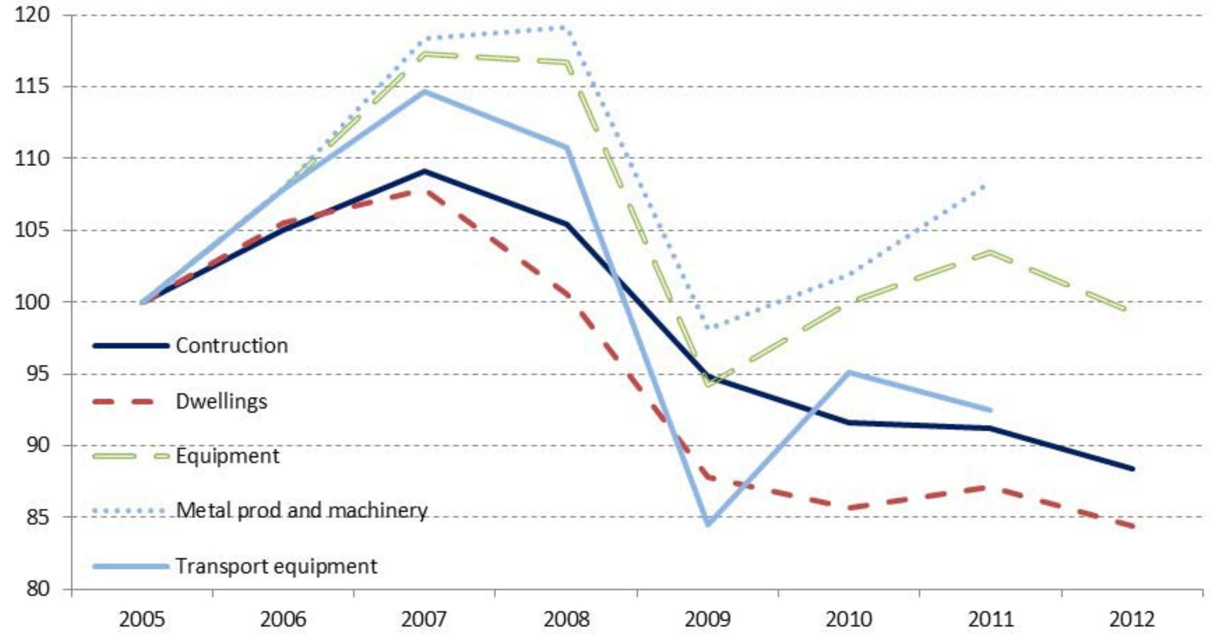


Source: Eurostat

5. Investment remains stubbornly unresponsive in the EU since the onset of the crisis

Economic recovery requires investment to pick up. The EU investment level has fallen by over three percentage points of the EU GDP, from 21.1 % in 2007 to 18 % 2012. This is mostly due to the collapse of investment related to construction, as investment in equipment, metal products and machinery has remained relatively resilient during the crisis. Until now, investment remains unresponsive to policy measures in the EU. It is very difficult to identify when investment will recover but cost conditions and uncertainties have been identified as major factors delaying this recovery.

Evolution of investment components in the EU (2005=100)

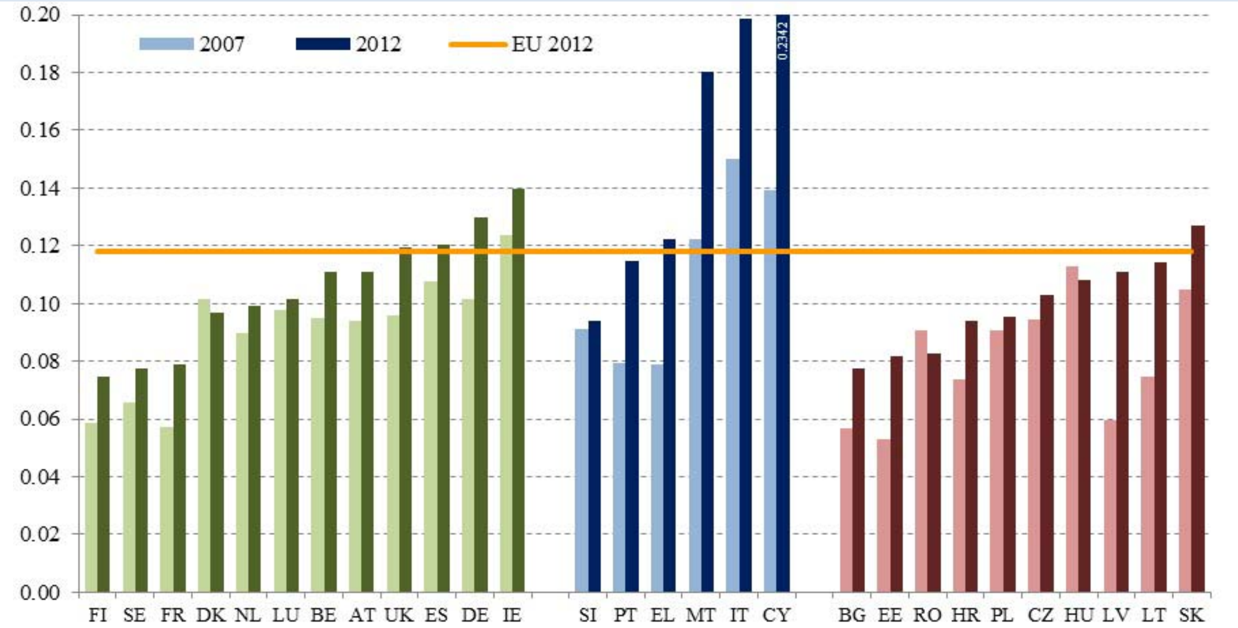


Source: Eurostat

6. High energy prices pose a significant problem for industries

High energy prices are one of the factors contributing to the de-industrialisation process, as prices being high by global comparison. As Member States rely on various fuel mixes and different infrastructure, electricity prices for industrial consumers vary considerably across the EU. Most of the consistent performers have below-average electricity prices. A majority of the moderate performers have seen major increases in electricity prices since 2007, in particular Cyprus, Italy and Malta. In almost all catching-up economies, mid-sized enterprises have below-average electricity prices.

Electricity prices for mid-sized enterprises (excluding VAT)



Note: data refer to prices in the second half-year; including tax, except VAT; expressed in euro/KWh for consumption band IC

(500 MWh < Consumption < 2 000 MWh); IT (2nd half of 2008 instead of 2007),

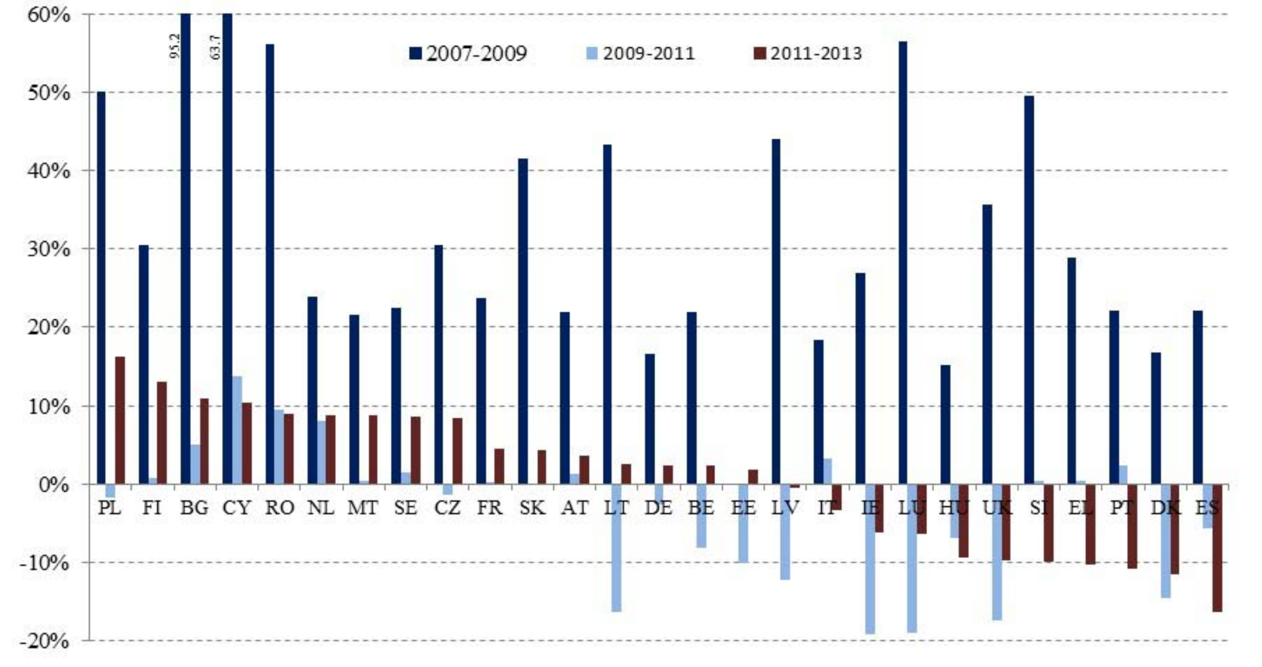
Source: Eurostat

7. Access to finance has deteriorated in many Member States

The crisis has continued to have a negative effect on access to finance in many Member States. The tightening of credit standards and the banks' continued deleveraging have reduced the supply of credit. Interest rate differentials have grown between countries, and between large and small firms, in particular worsening the situation in the crisis countries. However, demand for new loans has also dropped as many businesses have postponed investments.

While access to bank finance has been relatively easy and stable in Austria, Bulgaria Finland, Poland, Slovakia and Sweden it has continued to deteriorate in other countries in particular, Greece, Ireland, Italy, Portugal, Slovenia and Spain.

Change in bank loans to non-financial institutions



Note: Cumulative annual flows of bank loans to non-financial institutions from March (t) to February(t+2) as% of outstanding volumes at March(t)

Data for DK and UK missing, 2007 data RO and EE missing, more limited dataset is available for loans (referring only to home or reference area) in non-euro EU Member States

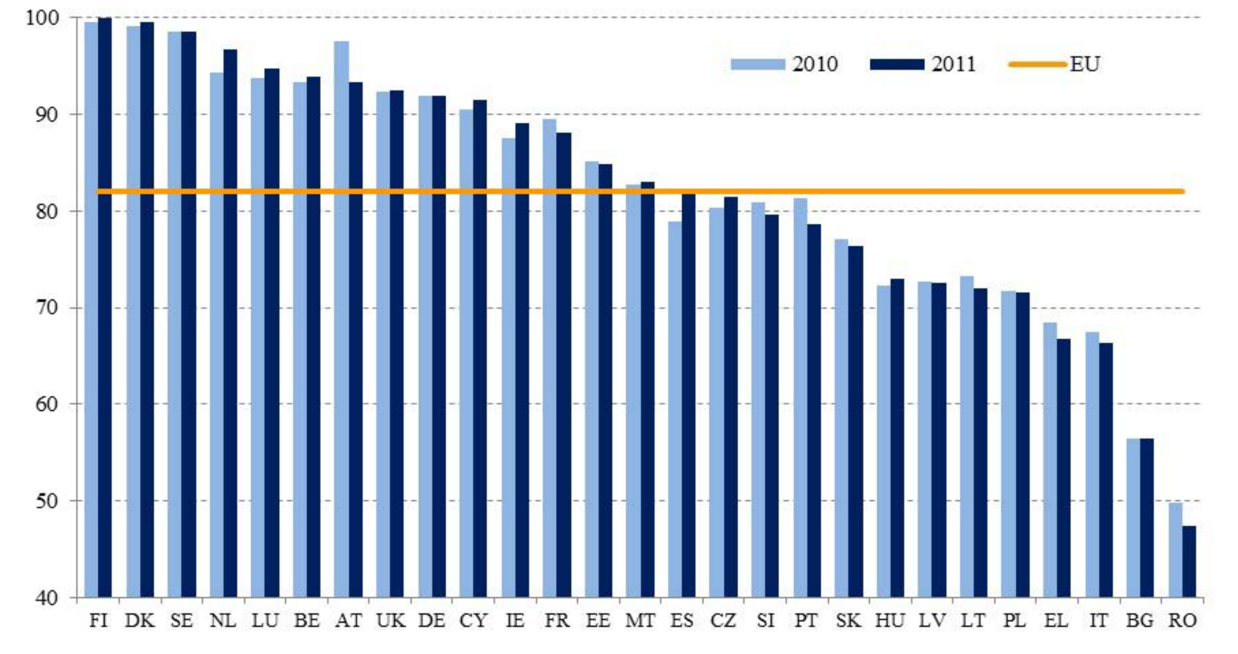
Source: ECB - Monetary Financial Institutions Balance Sheet Items Statistics

8. For some Member States, improving the efficiency and effectiveness of public administrations is the key to restoring growth

The ineffectiveness of the public administration in some Member States is proving to be a barrier to growth and competitiveness**.** While Member States are slowly reforming their public administrations and judicial systems in areas covered under the country-specific recommendations of the European Semester, a faster pace of reform would be beneficial.

The most prominent areas of reform in the public administration amongst Member States has been to reduce administrative burden on firms; enhance capacity for strategic and budgetary planning; ensure strategic and effective human resources management; and improve co-ordination between levels of administration.

Figure: Government effectiveness



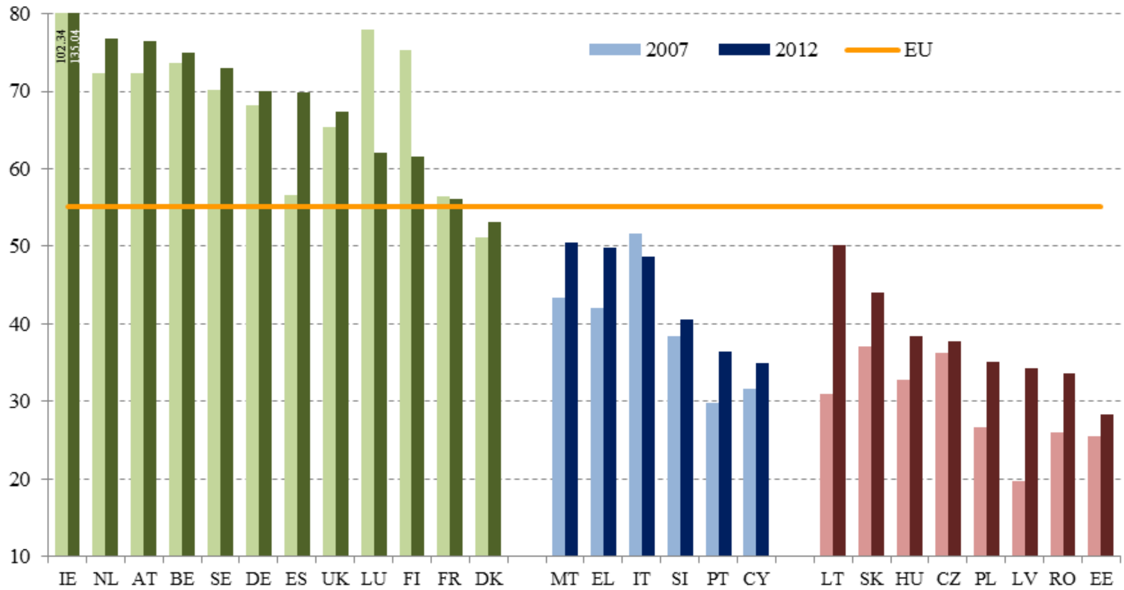
Note: EU level for 2010 is the same as 2011

Source: World Bank – Worldwide Governance Indicators (2010; 2011).

9. Investment is needed for higher productivity

In a large majority of Member States, labour productivity in manufacturing has risen since 2007. However, in many of them it reflects the fact that the total workforce shrank faster than the manufacturing production declined. Lower investments in equipment and innovation are likely to limit the potential for further improvements in many Member States.

Labour productivity in manufacturing



Note: expressed as gross value added, in 1000 PPS/employee, RO (2011), no data for HR and BG. *Source:* Eurostat

Member State analysis

Austria

Austrian competitiveness is based on **solid performance in many areas**, and in the short run it has no major bottlenecks. However, it faces relative structural weaknesses in some areas, which may harm the long-term potential of its economy.

The skills available in Austria's workforce are currently not fully utilised (e.g. women, workers with migrant background). **Measures that increase the quantity and quality of the workforce and that optimise its utilisation are important**. The need for action to support the knowledge triangle (education, research and innovation) has been recognised by the government and a strategy to address this challenge is being implemented.

The generally favourable business environment would, however, benefit from more streamlined administrative procedures for start-ups, and from an increased availability of non-bank financing.

Belgium

Belgium presents a competitiveness profile that reflects in many ways the **average position of Western Europe**. The relatively good competitive position of Belgium has eroded in recent years. Firstly, while in terms of productivity levels Belgium belongs to the top EU countries, **in terms of productivity growth performance is weak**. Secondly, Belgian exports are mainly composed of low/medium-tech goods, facing fiercer competition from lower-cost countries. In such a context, a key challenge for Belgium is finding ways to speed up the transition towards a more knowledge-intensive economy, and to implement further initiatives at the federal and regional levels in order to simplify and streamline administrative procedures.

Bulgaria

Despite the relative progress of Bulgaria between 2007-2011, it is still characterised by **low productivity and dominance of low-tech and medium-low tech industries**. The transition from a resource based to an innovation based economy is a challenge. However, high and medium-high technology firms produce 29% of the total value added and employ 21% of the labour force in manufacturing. Higher productivity should also be pursued in the services sectors, including tourism.

Some of the main issues that need to be tackled by Bulgaria are the structural labour market mismatches and **substantial lack of graduates with engineering and technical skills**. Moreover, Bulgaria is the most energy intensive and CO_2 intensive Member States. Energy sector reform and strategic targeting of energy and resource efficiency, along with improvements in household energy intensity, are essential to economic development, competitiveness and political stability.

Investment in infrastructure could unlock wider growth and investment, particularly in railways and ports, but also in multimodal hubs, as these would allow Bulgaria to exploit its geographical location at the crossroads of the EU, the Balkans and Turkey.

On the positive side, a national strategy for SMEs 2014-2020 has gone through public consultation, indicating that the Bulgarian authorities are grasping the problem. Further trends in improving business environment is confirmed by recent measures taken to lower starting capital requirement; introducing e-government services to facilitate tax compliance; enabling tax payments using a single account and internet banking; and lowering bank charges. It is easier to start a business than last year, as both the time needed and the costs have fallen.

Croatia

Croatia continues to suffer from recession - its economy has not grown since 2008, contracting in 2012 by 2% and in 2013 by 1%. Access to finance for businesses, especially SMEs, remains constrained. FDI has fallen by 75% from 2008 levels. Exports were also hard hit, especially given that the EU is the destination for 63% of Croatia's exports.

On the other hand, Croatia's **accession to the EU has been a major driver of reform**. A number of reforms have aimed at improving the business environment, including the introduction of simplified schemes of company registration, major reforms to the judiciary, as well the formation of a Working Group whose aim is the removal of administrative barriers towards investment. Policy strategies are being developed, such as the National Innovation Strategy outlining 12 industrial sectors that are to become innovation priorities.

Competitiveness is still hindered by a number of factors, such as low innovation expenditure and a weak innovation infrastructure, constrained access to finance, an inefficient public administration and high levels of business corruption. One positive area is sustainability. Croatia is more energy efficient than the EU average. The use of renewable energy is high, mainly thanks to the use of hydroelectric power, and Croatia has adopted an ambitious target of increasing its electricity generation from renewable sources to 35% by 2020.

Cyprus

The role of manufacturing in Cyprus is less important than the EU average, measuring 6.1 % of value added against 15.4 % in the EU as a whole. It also employs slightly over 10 % of the total workforce, the lowest rate in the EU (EU average 17.5 %).

The financial crisis that hit Cyprus has **revealed the risks of an economic model heavily dependent on financial services.** The introduction of the economic adjustment programme in April 2013, which involves the downsizing and restructuring of the banking sector, will have an effect on day-to-day business transactions and could threaten the viability of many firms and further reduce confidence.

Still, there is now an opportunity to restructure and modernise the economy along more sustainable lines, in sectors that suit Cyprus' infrastructure and human capital. The structural measures and reforms of the economic adjustment programme will support competitiveness and underpin sustainable and balanced growth in the long term.

Czech Republic

The Czech Republic is currently passing through a **difficult economic scenario** with growth contracting in 2012 and with further stagnation expected in 2013. The Czech Republic falls within the catching-up cluster of Member States. Manufacturing plays an important role in the Czech economy, accounting for approximately one-fourth of the value added, significantly higher than the EU average. Exports have been performing well with the annual growth rates being higher than the OECD and Eurozone averages.

Some of the **major challenges facing the Czech Republic concern issues pertaining to public administration**, such as an effective implementation of the anti-corruption strategy and a robust public servants act. Sustainable industry, improved transport infrastructure and improving the quality of education and skills are also areas where there are significant challenges which need to be overcome to enhance competitiveness.

On the other hand, it is encouraging to note that a venture capital is being set up by the government which is an important move forward given the lack of such instruments in the past. There is keen interest in this by enterprise and thus such finance is likely to be taken up rapidly.

Denmark

Denmark is a small and wealthy open economy, **ranked among the most competitive in Europe**. The wider prospects for the EU economy will clearly influence this scenario.

The highly skilled workforce, strong research and innovation capacity, flexible labour rules and high-quality infrastructure are among the Danish economy's strong points. **Further improvements in the links between research and businesses** could help investment in research and innovation to be more effective, while improved credit conditions should help innovative SMEs to invest.

The continuous attention on improving competitions conditions by dedicated policies could also be helpful to improve Denmark's competitiveness, which is also influenced by the wage growth. Although wage growth was too strong in the boom years, it has slowed down and is not too far off a sustainable level. The need to improve competitiveness and productivity have been the topics of considerable debate in Denmark, and the government set up a productivity committee to identify the major drivers and the main barriers. The productivity committee outcomes are being delivered during 2013.

Estonia

Economic growth in Estonia has slowed down recently after an impressive export-led recovery from the crisis, even though it still outpaces the EU average thanks to stronger domestic demand. Manufacturing in particular seems in good health, also in qualitative terms, as the **share of medium- to high-tech products is increasing**. This positive trend is likely to be strengthened in the future by the substantial surge of the research and development expenditure.

Significant **efforts are still needed to reduce the high energy intensity of the economy**, which is due not only to the reliance on shale oil, but also to the low energy efficiency of residential buildings and businesses. Also high on the agenda are the skill shortages that constitute one of the mayor bottlenecks to grow and move up the value–added chain.

The administrative and regulatory burden on Estonian businesses is reasonable, and public administration is efficient, thanks in particular to the widespread use of well-developed e-government tools; however, the efficiency of local governments can be further improved. Estonian companies reduced their need for capital in reaction to the crisis and are thus able to cope with a still restricted access to finance, which however limits their capacity to invest and grow.

Finland

Finland continues to be **among the most competitive Member States**, but there are underlying problems that need to be addressed to preserve and enhance its position. The decline in the telecommunications and forestry industries means that productive resources should gradually move to other goods and services, in particular to those that have high added value. The speed and success of this transition is a crucial factor in determining the future competitiveness of Finland.

Although Finland provides a good environment for businesses, there are **not enough innovative high-growth firms.** The limited international exposure of the Finnish research and innovation system is likely to be one reason, and further efforts to create global links and exposure would be helpful. Also smaller Finnish firms need to enter into new markets and increase their exports, but for this many of them need managers and investors that have the experience and skills to support growth and internationalisation.

Further challenges facing Finland include the need to increase competition in retail trade and in some services markets, as well as to improve the energy and materials efficiency of Finnish industries that remain more energy-intensive than the EU average.

Lastly, in a global environment where many countries are rapidly reducing the administrative burden on business, no country can afford to stand still. Despite a relatively good starting point, Finland has potential to further reduce this burden, in particular as progress so far has been limited.

France

Although productivity levels in France remain high, **the competitiveness gap vis-à-vis the best EU performers is widening**, driven by both cost and non-cost factors, in the context of a deteriorating external position and high public debt. To restore competitiveness, the government has adopted in November 2012 a Pact for Growth, Competitiveness and Employment aimed at lowering taxes and business costs, facilitating access to finance, supporting innovation, and ensuring a simpler and a more stable regulatory, administrative and tax environment. In April 2013, a set of ten enterprise-friendly measures were announced following the "Assises de l'entrepreneuriat", most of which will take effect in 2014.

While the measures announced would represent steps in the right direction, the final impact depends on how effective this implementation is, and how well the measures are coordinated, with a view to avoid overlaps and further complexity, and to maximise synergies. Further steps would consist in supplementing these reforms with measures removing the structural weaknesses that slow down productivity growth and hamper the profitability of firms (in particular labour market rigidities, regulatory burden, complex taxation and limited competition).

Germany

Overall, Germany continues to be **among the top performers** in many of the competitiveness indicators of the Industrial Performance Scoreboard. The manufacturing sector remains one of the key drivers of value added and employment. Firms benefit greatly from a **favourable and stable business environment, a strong competitive position, and the global reach** of Germany's external trade. While the regulatory environment is generally good, there is still room for improvement and SMEs in particular would benefit from further simplification.

Despite the currently favourable conditions, industry faces important challenges in securing its competitiveness in the medium and long term. In particular, demographic challenges may act as a brake on growth and innovation in the future. Moreover, the **declining number of entrepreneurs** could have an increasingly negative impact over time. At the global level, Germany is in danger of losing ground as emerging markets are catching up in its traditional areas of competence. In order to remain at the technological frontier and to secure its competitive position in the future, **continued investments in education, R&D and innovation are essential**. Lastly, the new energy strategy is creating growth opportunities for many sectors, but is also presenting considerable challenges in terms of energy costs and timely deployment of the required infrastructure.

Greece

Greece has started the process of transformation, from an economy based on consumption to one with a bigger focus on investments and exports. Exports have already increased over recent years but, as a result of the recession and the credit crunch, investment is still disappointing.

The regulatory environment has constrained businesses and entrepreneurship, and these, combined with the lack of competition, have led to lacklustre productivity and competitiveness. However, **steps are being taken to tackle many of the structural barriers and regulatory failings**. Encouragingly, many efforts are starting to show results, and the ranking of Greece in the World Bank's 'Doing Business' indicators has improved. Further significant measures have been taken to ease the creation of companies, and to simplify licensing procedures and investment authorisations.

The difficult economic conditions, continuing uncertainty, and in particular the credit crunch, continue to make conducting business difficult, in particular for SMEs. Economic growth is one of the top priorities of the government, and in this context, reforming the public administration remains central in terms of securing the capacity and competence to implement newly adopted legislation and to improve the business environment. A dynamic corporate sector is crucial to re-starting the economy and achieving growth.

Hungary

Despite the economic crisis, Hungary's **export performance continues to be a main driver of the economy**, especially in the transport vehicle and high tech sectors. In other areas, the country's industrial competitiveness faces a series of challenges. Business environment continues to be a major obstacle, as recent reforms have not yet brought about a significant positive impact. Due to the rapidly-changing and unpredictable regulatory framework and government interventions, trust has been eroded. Investments have slowed down, especially among SMEs due to tight credit conditions.

Low level of innovation, labour productivity and skill levels hamper the switch to a knowledge-intensive economy. New initiatives have been launched in these areas; the success of which is vital if growth-oriented innovative enterprises are to emerge.

Timely, effective and consistent implementation of reforms is crucial to improve competitiveness in the long term.

Ireland

Ireland is rebounding from its severe downturn and growth, and albeit slow, is becoming more broad-based. It remains on track to exit the economic adjustment programme at the end of 2013 and economic reforms are delivering improved competitiveness and attracting increased investment. **Starting a business is now easier in Ireland than anywhere else in the EU** and the surge of services exports, in particular, has contributed to a current-account surplus of 4.9% of GDP.

However, Ireland is tackling major challenges such as insufficient access to finance for SMEs, stubbornly high youth and long-term unemployment, high energy prices and skills mismatches resulting from recent structural changes in the economy. To that effect, Government initiatives such as the 'Action Plan for Jobs' need to deliver the right policies and actions to comprehensively and coherently address the key issues. On-going reforms and programmes to, for instance, train and re-skill the workforce and exploit the country's innovative and green potential are also welcome.

Many of the building blocks are in place for a sustainable economic recovery in Ireland but **significant headwinds and burdens remain**. It is especially crucial that conditions allow normal credit flows and lending to resume so that indigenous businesses in particular can drive renewed growth, jobs and demand in the domestic economy.

Italy

Although the share of manufacturing in total value added in the economy remains slightly above the EU average, Italy is **experiencing a real de-industrialisation**, as the industrial production index has lost 20 percentage points since 2007. In terms of average unit labour costs, Italy's competitiveness has eroded considerably over the last ten years, in particular due to an increase in gross hourly earnings combined with no productivity growth. However, real wages have remained almost stable, suggesting that the focus of reforms should be on productivity and reforming the tax wedge on labour.

Although the government has continued to pursue reforms to improve the business environment and making it more conducive to growth, this remains the main obstacle to the competitiveness of Italian industry. In particular, the public sector needs further coherent structural measures to evolve into a modern and efficient administration.

An important message for policy focus can be found in the performance of firms that have adopted a strategy of innovation and internationalisation. These firms have fared far better in the crisis. It appears that the choice to compete internationally is a key factor leading to innovation. From this point of view, the recent reform of the governance of the internationalisation system can prove a pivotal step for Italian competitiveness.

Latvia

Latvia has seen a **fast economic recovery as a result of regained competitiveness driving investments, exports and private consumption**. Construction and manufacturing are the fastest growing supply components of GDP. Despite some slowdown, the country's economic growth is forecast to remain among the highest in the EU, at 3.8% in 2013 and 4.1% in 2014.

One of the main challenges for Latvia is the transition from low to medium and high technology sectors. The transition requires investment in research and innovation, but R&D funding and involvement from industry, and the current R&D intensity, are low.

The costs of starting a business are significantly lower than the EU average and licensing procedures are straightforward. However, for the construction sector obtaining licences and permits is still problematic. The World Bank ranks Latvia among the top performers for ease of getting credit and for the level of legal rights for borrowers and lenders. In this context, an important initiative is the creation of a single institute responsible for all support instruments; a one-stop shop for access to finance should be operational by the end of 2013.

Lithuania

The Lithuanian economy has rebounded quickly from the crisis mainly due to rising exports, helped by an improvement in price competitiveness. **Industry is gradually shifting to higher value-added manufacturing** and Lithuania is developing expertise in knowledge-intensive services, such as IT support.

Since 2010, the government has been undertaking a far-reaching reform of state-owned enterprises (SOEs). The objective is to restructure corporate governance, increase transparency and enhance competition and efficiency. Most aspects of the reform have been established. The government should continue monitoring progress on the implementation of the adopted resolutions.

The economy still faces competitiveness challenges in several areas. **Electricity and gas prices for businesses remain high** compared to the EU average and Lithuania is one of the most energy and carbon-intensive economies in the EU. Although the administrative burden for businesses has been reduced, there is still room to streamline business licences and building permits and to reduce the number of inspections by government agencies. Businesses still report a lack of technical and business skills and investment remains weak, particularly in research and development, which is restraining potential growth.

Luxembourg

Among the EU27 countries, Luxembourg still scores well in terms of overall competitiveness. Nevertheless, **the cost competitiveness of the economy remains the main medium-long term challenge** of Luxembourg, due to high wage increases and low productivity growth. Labour costs are increasing faster than in neighbouring Member States, especially in the manufacturing industry. Financial services have been a prime mover for growth in the past decades and good progress was made towards a more diversified, knowledge-intensive economy. The development of a more focused smart specialisation strategy could give stronger leverage to research and innovation funding, in particular through more support to clusters.

The situation for workers with low skills (in particular migrants and young resident people) remains difficult despite a large number of government and business initiatives. Greater adult participation in lifelong learning is needed to tackle the country's structural unemployment. Luxembourg continues to face the challenge of achieving the national target for the reduction of greenhouse gas emissions.

Malta

Malta continues to withstand the impact of the international crisis relatively well. Given the large size of its financial sector and the high exposure of domestic banks to the real estate sector, maintaining financial stability remains crucial.

In terms of structural reforms, **medium and long-term sustainable growth will depend on the successful move to a more knowledge-based economy**, further improving skills and the utilisation of human capital, and adopting more ambitious R&D targets.

Investment plans for improving the energy supply are encouraging as they promise to reduce dependency, improve cost competitiveness and boost efficiency. Policy measures to address the challenges involved in meeting climate and renewable energy targets need to be maintained and stepped up. Efforts to implement the Small Business Act with the support of the business community, a large majority of which are SMEs, should be maintained.

Netherlands

Overall, the Netherlands continues to be **among the top performers in many of the competitiveness indicators** of the Industrial Performance Scoreboard. The favourable business environment encourages the competitiveness of enterprises and the Netherlands has a tradition of efficient public services and light administrative burden for businesses. Other strengths include the quality of institutions, the education system and science base, the efficient goods market as well as the technological readiness.

Despite the favourable framework conditions, the Netherlands is likely to face challenges in maintaining and improving its competitive position in the future. While the Netherlands has managed to improve its innovation performance in some areas, **the relatively low private R&D investments may weaken its competitiveness in the future**. Moreover, skills shortages are emerging especially in engineering and technology-related professions, a situation which is becoming an increasing concern and a potential barrier to growth.

Poland

Poland's **competitiveness profile is improving**, although reform is slow in some areas. Economic growth continues, to which manufacturing exports are a large contribution. The value added of industry is rising, with high-tech manufacturing growing by 14.5% annually in the years 2005-2011. Labour productivity is still low, but it is slowly catching up.

Sustainability and innovation performance remain problem areas. In the area of innovation, greater participation of the private sector in R&D is needed. Reforms were delayed in the area of sustainability – a partial package of renewable energy legislation dating back to 2011 was finally passed in summer 2013 under threat of sanctions for non-enforcement of relevant EU directives. On the other hand, the business environment has seen improvement, in particular in relation to procedures for establishing a firm, where a one-day online procedure for single-ownership SMEs is widely used. The business environment is still hampered by an inefficient tax administration and lengthy procedures for construction licensing and permits. Infrastructure, especially for transport and energy, still needs to be improved.

Access to finance remains a relative strong point for Polish businesses. This can be traced back to financial stability, continuing FDI, a change in the national loan guarantee scheme introducing de minimis rules, as well as new programmes introducing private financing from sources including venture capital for start-ups and innovative enterprises.

Portugal

Portugal is implementing **major structural reforms to restore the competitiveness** of its economy. The government is rebalancing the economy towards export-led growth by putting exporting companies at the core of its policy initiatives.

Difficult credit conditions remain a major factor constraining the operations and growth of SMEs. The government is trying to ease these credit constraints by strengthening its existing instruments, e.g. state-guaranteed lines of credit, and fostering the use of alternative financing mechanisms.

Portugal has also streamlined its business environment, in particular in the area of licensing, and enhancing competition in services. As a result, starting up a businesses and obtaining the necessary licences is easier than in most Member States.

Lastly, the government has also adopted several measures to raise the quality of research and knowledge creation. However, there is **still a significant gap between knowledge creation, knowledge transfer and its translation into economic value** through innovation, which partially results from the low share of research-intensive sectors in the economy.

Romania

Romania's declining competitiveness reflects the fact that major changes to improve the business environment have been postponed. As a result, **the administrative burden remains substantial.**

Comprehensive and effective efforts to foster structural change towards a more knowledge-intensive economy need to be implemented to improve the situation. An improvement in the business climate requires solutions and changes across the whole public administration. Similarly, considerable efforts would be needed to ensure that Romania is able to implement its commitments aimed at enhancing the independence of the judiciary.

Several national strategies are currently being drafted and efforts are being made to strengthen competitiveness in areas important for growth. However, effective implementation is required for visible and lasting results.

The sustainable and transparent exploitation of raw materials is another challenge for the country, as environmental and health damage will have a negative impact on the medium- and long-term competitiveness.

Slovakia

Based on unit labour costs, Slovak industry is **among the most competitive in the 'catching-up' Member States**. It has benefited from transfers of advanced technology based on foreign direct investment and manufacturing has become more productive in the past decade.

Improving productivity and competitiveness have made the Slovak economy more attractive. Indeed, the multinationals in the Slovak Republic are highly productive. However, the main policy challenge is to boost innovation and knowledge intensity in domestic firms, in particular SMEs. Moreover, challenges in the education and the R&D system limit its longer-term potential, as innovation capacity and the move towards a more knowledge-based economy can only take place relatively slowly.

Improvements in public administration and the judiciary are also important as this would help businesses and the investment climate in general. Further challenges are posed by the high energy intensity and rather high energy prices, in particular for some business segments.

Slovenia

Slovenia has **slipped back into recession** as its real GDP declined by 2.3 % in 2012. The recession and the associated credit crunch have created a very difficult situation for most SMEs. Financial instruments of the Slovenian Enterprise Fund and of SID bank have worked well but, as **the banking system remains fragile and lending constrained**, further measures might be needed for lending to SMEs to resume.

In this weak macroeconomic context with falling export market shares and low stock of foreign direct investment, facilitating investment through improving the business environment is crucial. An improved business environment could help in attracting foreign investment and boosting exports. Currently there are bottlenecks that hinder investment, such as long procedures, regulated professions, lengthy judicial proceedings and inefficiencies in insolvency procedures.

Slovenia's performance in innovation is close to EU average. Slovenia has to preserve its relative performance but in order to do so it has to overcome some specific hurdles like the level of the budget financed investment which decreased significantly. Measures to promote research and innovation are essential in order to move the country to a more knowledge-intensive economy.

Spain

Spain is still undergoing a deep structural adjustment to correct the imbalances built up during the housing and credit booms. Structural reforms need to be completed before their full impact on growth and competitiveness is felt. The government's reform agenda has focused on two key areas: easing access to finance, and improving the business environment.

The lack of access to finance is a major factor constraining the operations and growth of SMEs. Bank credit for SMEs is relatively costly and difficult to attain, and the interest rate differential is high compared to other Member States. The government has adopted a series of measures to facilitate access to credit, in particular loan guarantees, and to promote alternative financial instruments. But for now there are no signs of substantial improvement.

The legal and regulatory framework for businesses remains very burdensome. The government has adopted various measures to improve the current situation, but progress has been slow and some flagship reforms are not yet adopted, such as the law to support entrepreneurs and their internationalisation.

Sweden

Sweden is **one of the most competitive economies in the world**, with a strong corporate sector. It ranks fourth in the World Economic Forum *Global Competitiveness Report 2012-13*, after Switzerland, Singapore and Finland. According to the *2013 Innovation Union Scoreboard*, Sweden **continues to be the EU innovation leader**. A new Research and Innovation Bill, which was adopted in October 2012, contains priorities for 2013-16 aiming at strengthening the links between R&D investments and economic growth. A challenge for the Swedish innovation system is to ensure that the high R&D expenditure is translated into commercially viable products that yield economic growth in the future. In addition, Sweden needs to safeguard domestic R&D investments as there are signs of increased investment and relocations abroad.

Sweden's public administration is considered to be efficient and performs well with regard to government effectiveness. The government has put forward a series of initiatives to simplify the administrative burden for businesses, taking into account companies' day-to-day reality.

The size of the export market has helped the economy to perform well despite the euro-area downturn. However, Sweden's export market shares are on a negative trend and companies are facing problems arising from weaker demand from traditional export markets. Exports fell by 4 % in 2012 due to weak external demand and the strengthening of the Swedish currency. The uncertain global economic situation has slowed economic growth and required a downward adjustment of the economic growth forecast.

UK

The UK economic performance is uneven, and so is its competitiveness profile. Its **service sector is extremely competitive**: only the US export more services. On the other hand, its **industrial performance is adversely affected by structural problems**, such as inadequate infrastructure and shortage of the right skills among the workforce. In this regard, the policy priorities appear to have been targeted correctly. Priority has been given to the infrastructural projects capable of boosting growth, and numerous schemes have been created to provide workers with good vocational or technical skills, but time is needed for their impact to be felt.

British companies operate in a **generally business-friendly environment**, can rely on an efficient public administration, and have strong links with academia, which makes it easier to commercialise research and innovation. However, smaller companies have a harder time than larger ones. They find it particularly difficult to win public procurement contracts, and struggle much more to have access to finance. Namely, to see a bank loan approved is still difficult for small companies, as support schemes have benefited until now above all larger companies and the real estate sector, while the impact of the growing availability of alternative financial sources is still small.

Lastly, the UK is **among the best performers in terms of sustainability**, as it is well on track to meet its carbon emission targets and supports sustainable growth with a number of often creative and innovative schemes.

More information: [The Competitiveness report on all Member States]

Annex: **Implementation of 2012 Industrial Policy Communication**

In 2012, the Commission identified a series of actions to spur industrial competitiveness. The goal was to make sure that the impact of the reforms initiated by the Commission in 2010 would make themselves felt more quickly. To this end, the Commission focused on establishing a broad partnership between the EU, its Member States and industry to improve the conditions of doing business and to dramatically step up investments in new technologies. The attached table gives an overview of progress achieved.

Theme	Sub-theme	Action	Deliverable	State of play
Facilitating investment in technologies and innovation	Priority action lines	Advanced manufacturing technologies for clean production	Task Force	Task Force adopted Roadmap, priorities include support for market oriented pre-competitive research in manufacturing and process development via Public-Private Partnerships (e.g. "SPIRE"), and exploring stronger incentives for commercialisation. A first public hearing and workshops took place.
		Key Enabling Technologies	Task Force	Task Force adopted Roadmap. High-Level Group and a Member States' group established, Commission reviewing recommendations. A Memorandum of Understanding has been signed with the EIB on 27 February 2013. This paves the way for improved access to finance for investments in KETs. Support for multi-KETs pilot lines of high industrial interest in four priority areas. Support for SME innovation capacity through KETs technological platforms.
		Bio-based products	Task Force	Task Force adopted Roadmap, priorities include standardisation programme for bio-based products; communication strategy about the availability of standardisation documents, and information to public procurers. An Expert Group for Bio-based Products has been established.
		Sustainable industrial policy, construction and raw materials	Task Force	Task Force adopted Roadmap, priorities include screening of national buildings regulations in order to elaborate an interpretative document on requirements for a sustainable use of natural resources, and mapping of skills needs for energy efficiency in building renovation.
		Clean vehicles and vessels	Task Force	Task Force adopted Roadmap, priorities include follow-up of the PPP European Green Cars Initiative, which will leverage public funding in order to increase the investment in clean technologies. Development and harmonisation on global type-approval legislation for electric and fuel cells vehicles. Publication of guidelines on financial incentives, for demand-side measures.
		Smart grids	Task Force	Task Force adopted Roadmap. Priorities include determining concrete needs of EU technology providers, and actions to promote investment in smart appliances.
	Accompanying measures	Promote demand-led innovation	Action plan to boost the demand for innovative goods/services	The Commission will provide support for the completion of targeted market-specific roadmaps starting in 2014 and will launch an innovation demand-side monitoring system (to be finalised in 2016) to spread the knowledge about demand-side innovation policies and to facilitate the streamlining of these policies into EU research and industrial policy.
		Skills promotion	Establishment of learning network on workplace innovation	European Workplace Innovation Network launched on 10 April 2013
		Coordination of R&I efforts across the EU	Adoption of a set of legislation on Public Private Partnerships and Public-Public Partnerships referred to as the Innovation Investment Package	Set of legislation adopted on 10 July 2013. The inter-institutional process is on-going on those legislations; the process should be completed by the end of the first quarter of 2014.
		Wider use of design, as well as other non-technological innovations	Implementation of action plan for accelerating the take-up of design in innovation policy	Building on the recommendations of the European Design Leadership Board, an Action Plan for Design-Driven Innovation is forthcoming. A call for proposals was launched on 2 July 2013 to accelerate the take-up of design in innovation policies at European, national and regional levels and to promote the increased use of design in European industry as well as in the public sector to promote value creation, competitiveness and efficient use of resource.
		Creative industries	Implementation of proposals on fashion industries and high-end industries	Implementation of the Communication on Promoting cultural and creative sectors for growth and jobs in the EU – COM(2012)537 – ongoing.

Them e	Sub-theme	Action	Deliverable	State of play
Access to markets	Improving the Internal market for goods	Fitness checks	New generation of "horizontal" fitness checks and cumulative cost assessments for specific industrial sectors	Fitness check for petroleum refining sector: mandate discussed with stakeholders and quantitative assessment launched. Final results in Q3 2014. Cumulative cost assessments for the steel (already completed) and aluminium sector (to be completed in 2013).
		Better functioning of the internal market for products	Evaluation of the functioning and analysis of the Internal Market for industrial products	A public consultation took place. The Commission will prepare a Review of the internal market for industrial products by the end of 2013.
		Improve the EU framework for Market surveillance	Adoption of a Product Safety and Market Surveillance Package	Package adopted on 13 February 2013. Includes proposed revision of the General Product Safety Directive and proposal for Regulation on market surveillance of products as well as multi-annual action plan for market surveillance -COM(2013)75, COM(2013) 76, COM(2013)78
		Full internal market integration of security and space sectors	Implementation of the actions foreseen in the security industrial policy communication	Communication on space industrial policy adopted on 28 February 2013 – COM(2013)108.
		Enhancing the efficiency of the defence market.	Communication on a comprehensive strategy to strengthen Europe's defence sector	Communication on a comprehensive strategy to strengthen Europe's defence sector adopted on 24 July 2013 (COM(2013) 542).
		Encourage MS to introduce impact assessments and competitiveness proofing	Exploiting the potential of the 98/34 procedure to help guide EU legislative priorities	Discussions with Member States took place. New elements to be included in the procedure.
		Coordination on methodologies for pricing/reimbursement of medicinal products	Launch of policy strategy agenda to strengthen the competitiveness of the pharmaceuticals industry	Possible Action Plan on the competitiveness of the pharmaceutical sector being considered.
		Improve the internal market in Business services	High Level Group on Business services	HLG launched on 14 March 2013. Second meeting took place on 18 June. The Group is focusing on innovation, internationalisation, skills, internal market and other regulatory instruments. The final report will be delivered in March 2014.

Theme	Sub-theme	Action	Deliverable	State of play
Access to markets (continued)	Fostering entrepreneurship to render the Internal Market more dynamic	Foster growth of start-ups and provide support for early-stage businesses, transfer of businesses and efficient bankruptcy procedures.	Entrepreneurship action plan	Action plan adopted on 9 January 2013 – COM(2012)795.
		Stimulating uptake of digital technologies and e-commerce	Revision of legislation on cross-border online sales	On 23 April 2013, the Commission published a report outlining the state of play on the implementation of the e-commerce action plan 2012-2015. In 2013, the Commission intends to bring forward proposals to remove further obstacles to the Digital Single Market, in particular as regards payments and delivery. Proposal for a Directive on electronic invoicing in public procurement adopted on 26 June 2013. Digital Entrepreneurship Monitor started in January 2013. The European Multi-stakeholder Forum on e-Invoicing will issue reports in October 2013.
	Internal Market for technology, the unitary patent and protection of IPR	Creation of a uniform, EU-wide patent protection	European patent with unitary effect	The unitary patent protection regulations were adopted in December 2012 in the framework of enhanced cooperation and will apply from the date of entry into force of the Agreement on a Unified Patent Court. Preparatory measures for the unitary patent are being taken by the participating Member States in the select committee in the framework of the European patent office.
		Explore accounting methods to value patents	Expert group conclusions	An expert group for Intellectual Property Valuation will issue a report at the end of 2013.
		Optimising the use and protection of trade secrets	Examination of legal framework for trade secrets protection	In July 2013 the Commission published the results of a public consultation on trade secrets as well as a study on the economic and legal aspects of trade secrets in the Internal Market, which includes a survey to more than 500 companies. Both the survey and the consultation show a strong support from the industry for an EU initiative on trade secrets. The Commission is considering the adoption of an initiative (legislative or non-legislative) in the last quarter of 2013.
		Improving incorporation of IPR in standards	Measures increasing transparency and improving the treatment of IPR in standardisation	The Commission has initiated in 2012 a wide-ranging fact finding exercise, aimed at identifying further areas of possible improvement of the current framework governing IPR in standardization. A study has been commissioned and will bring results in late 2013. This work will feed into the independent review of the European standardization system which the Commission will launch by the end of 2013.
		Developing the "raw materials diplomacy" / Promoting international regulatory cooperation and convergence	Missions for growth in third countries Promoting international regulatory cooperation and convergence	Since October 2012, VP Tajani led Missions for Growth to Morocco, Tunisia, Egypt, Peru, Russia and China, with the signature of letters of intent to reinforce bilateral cooperation and dialogue. Before the end of the year, new missions foreseen to Vietnam/Myanmar/ Thailand and to Israel. Follow-up missions by DG Calleja to Mexico and Colombia.
		Support the enforcement of IPR in third countries	SME IPR Helpdesks in ASEAN and Mercosur	ASEAN IPR SME Helpdesk established. Mercosur Helpdesk to be launched before the end of 2013.

Theme	Sub-theme	Action	Deliverable	State of play
Access to finance and capital markets	**Public sector support to facilitate access to capital**	Facilitate access to EU finance	Launch a single portal providing information on how to access finance from the different EU programmes	Single portal on EU finance launched and expanded in June 2013 to cover Structural Funds.
		Improve access to finance for SMEs	New initiatives to restore access to finance for SMEs	In June 2013, the EIB and the Commission presented a joint report to the European Council setting out 3 options to better support SMEs, notably by better combing resources under the 2014-2020 MFF. Also, The EIB, the Commission and the European Central Bank are analysing the best ways of enhancing funding to SMEs and revitalising the securitisation market.
	Access to capital markets	Improve financing framework conditions	Green Paper on long-term financing of the economy	Green Paper adopted on 20 March 2013 – COM(2013)150, launching a public consultation. To be followed by a Communication.
		Create a Single Market for Venture Capital funds	Review of the operating environment of venture capital markets Complete the examination of tax obstacles to cross border VC investments	Regulation 345/2013 on European venture capital funds was adopted by the European Parliament and the Council in April 2013 and applies from 22 July 2013. The public consultation on tax problems linked to cross-border venture capital investment was closed in November 2012. The Commission is considering possible initiatives.
The crucial role of human capital	**Job creation**	Reform of the network of European employment services	Transforming EURES into a European placement and recruitment tool	Decision to reform and modernise EURES adopted on 26 November 2012 and due to be implemented by 1 January 2014.
		Promoting traineeships	Providing a Quality Framework for Traineeships	Communication with second-stage consultation adopted on 5 December 2012. Commission will adopt Quality Framework by the end of 2013.
	Investment in skills and training to accompany structural change	Improve the matching of skills and jobs	Develop a European classification of Skills/ Competences, Qualifications and Occupations (ESCO) Development of multi-stakeholders partnerships in the ICT sector to address the skills shortage in that sector	The Commission is developing ESCO in collaboration with stakeholders, as a semantic asset to support applications on the labour market and in education/training (e.g. tools for competence-based online job matching, career guidance applications). It will become available in October 2013. EU Skills Panorama launched on December 2012. Sector Skills Alliances launched in jan. 2013 (covering Automotive industry, Health-care, Sustainable construction, and Tourism). "Grand Coalition for Digital Jobs" launched by the Commission on 4 March 2013. The 'EURAXESS – Researchers in Motion' jobs portal is further developed to improve the matching of skills and jobs for researchers.
		Providing better skills supply	Communication on implementing efficient reforms and effective education and training systems	"Rethinking education" strategy adopted on 20 November 2012 – COM(2012)669. To improve the quality and supply of apprenticeships in Europe, the European Alliance for Apprenticeships was launched by the Commission on 2 July 2013. The "Erasmus +" programme, which fosters cross-border vocational training, will be fully operational by January 2014