

5 Structural reform needs in the euro area: insights from a survey of large companies

This box summarises the results of an ad hoc ECB survey of leading euro area businesses on structural reforms in the euro area.²⁵ The importance of structural reforms as a means of increasing the rate of potential growth and strengthening the resilience of the euro area economy has been repeatedly emphasised by policymakers over recent years.²⁶ But, so far, there have been few attempts to gauge the opinion of the business community on this subject. The survey had three objectives: (1) to gain information on the impact of recently implemented reforms in the euro area and see these from a business perspective; (2) to understand the major perceived obstacles to implementing reforms; and (3) to acquire insights into the reform priorities needed to further improve the euro area business environment and labour markets, as well as to complete the European Single Market.

Responses were received from some 55 leading euro area enterprises, non-financial companies active across a wide range of sectors. Respondents were typically among the leaders in their respective sectors. Together, the 55 companies account for approximately 1% of total euro area employment. In terms of sectoral composition, some 30 respondents were principally active in the broader industrial sector (including construction), while 25 companies were service providers. Around two-thirds of companies were primarily engaged in the provision of business-to-business products and services, while the remaining third were mainly business-to-consumer companies.

The majority of companies indicated that the recent structural reforms have had a positive impact on their business operations. Positive assessments were mainly related to the effect of labour market reforms. Respondents noted, in particular, the impact of the 2012 reforms in Spain²⁷, which have improved labour market flexibility.

The pace of reform over the period 2013-16 (see Chart A) was characterised as “slow and fragmented” by over 60% of respondents. Just over a quarter of respondents – from a wide range of sectors – perceived implementation to have been “slow but comprehensive”. Notable exceptions were companies heavily active in Spain, which tended to be more positive on this front. Overall, however, only a few companies (mainly operating in a services sector) considered reform implementation as “fast”, while no respondent characterised recent reforms as “fast and comprehensive”.

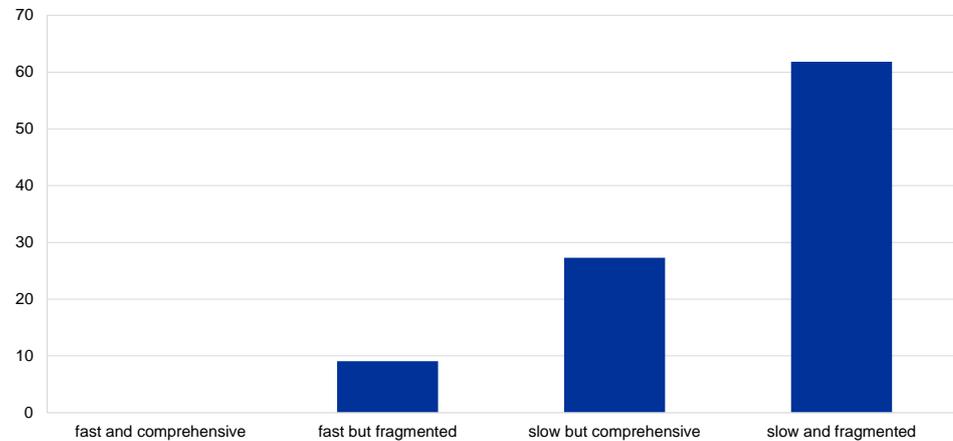
²⁵ The survey was sent out in spring 2017.

²⁶ For example, see: Draghi, M., *Structural Reforms, Inflation and Monetary Policy*, introductory speech for the ECB Forum on Central Banking, Sintra, 22 May 2015; Praet, P., *The euro area economy, monetary policy and structural reforms*, remarks at the Observatory Group roundtable, New York, 18 November 2016.

²⁷ For Spain, around a third of respondents assessed the reforms enacted since 2008 to have had a positive impact on investment (particularly by increasing the share of total investment allocated to research and development, and thereby enhancing support for innovation). Meanwhile, more than 40% considered reforms supportive to productivity growth, and nearly 40% felt that reforms had contributed to stronger employment growth by reducing the risks (and costs) of hiring and by helping to increase wage flexibility.

Chart A
Pace of reform (2013-16)

(percentage of respondents)

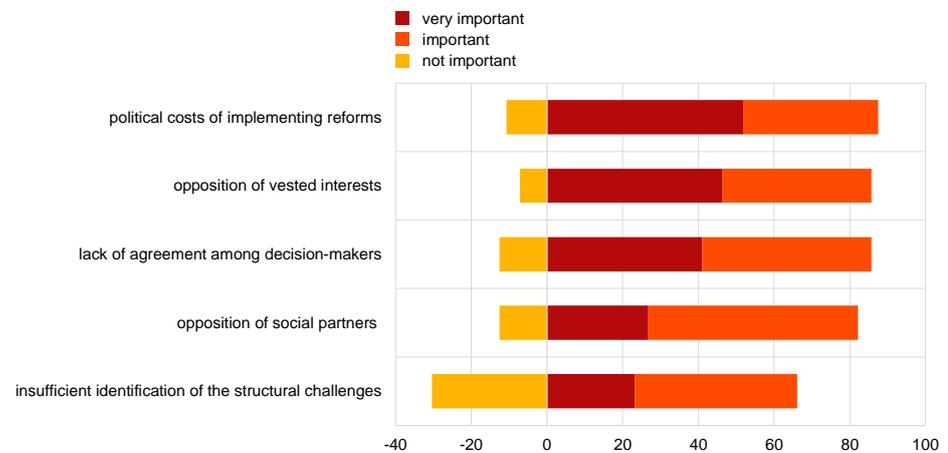


Sources: ECB Structural Reforms Survey and ECB staff calculations.

Note: based on responses to the question "How would you assess the pace of structural reform implementation in euro area countries over the last three years?"

Chart B
Barriers to reform momentum

(percentage of respondents)



Sources: ECB Structural Reforms Survey and ECB staff calculations.

Notes: based on responses to the question "In your opinion, what are the most important barriers to the implementation of structural reforms across the euro area?" Negative percentages refer to respondents reporting elements as "not important".

Obstacles to further reform efforts (see Chart B) were mainly attributed to political constraints and opposition from vested interests. Few survey participants saw reform efforts as having stalled because of a lack of clarity on reform needs. Instead, some 85% of companies suggested that reform implementation was principally hampered by political considerations. Opposition from "vested interests" and a lack of agreement among decision-makers also ranked highly as obstacles to reform efforts (at least 40% of respondents categorised these as "very important" obstacles).

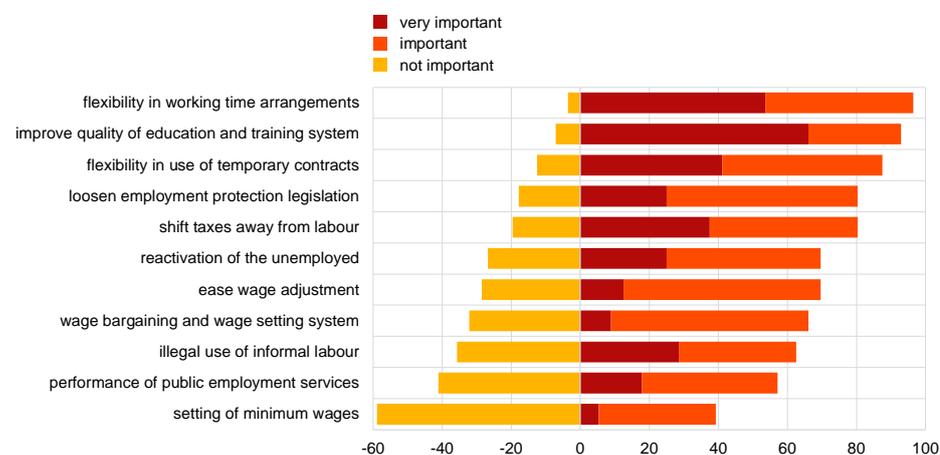
When asked about ongoing reform needs, businesses consistently highlighted labour market reforms as the most pressing area for further action, while further reforms aimed at product markets and the broader business environment were also seen as important. This finding reflects both the consistently higher rankings of labour market variables, rated as “important” and “very important” under standardised questions on reform needs in three different areas (completion of the European Single Market, country-level business environments and labour markets), as well as responses to a more open question requesting respondents to specify “the most pressing” reforms from their point of view.²⁸

Concerning the labour market (see Chart C), reforms aimed at further improving workforce “flexibility” were deemed worthy of prioritisation, with efforts supporting more flexible working time arrangements, easier usage of temporary contracts and less stringent employment protection legislation being three of the top four priorities for at least 80% of companies. Moreover, around 50% of respondents suggested that reforms aimed at enhancing workforce flexibility were likely to have the single greatest impact on business outcomes – given their importance for regaining competitiveness and also because they would allow companies to better respond to growing volatility in demand and changing demand patterns.

Chart C

Labour market reform needs in the euro area

(percentage of respondents; responses ranked by overall rating)



Sources: ECB Structural Reforms Survey and ECB staff calculations.

Notes: based on responses to the question “How do you assess labour market reform needs in the euro area countries in your sector?” Negative percentages refer to respondents reporting elements as “not important”.

In addition, reforms to improve the quality of education and training systems were highlighted by over 90% of businesses. This was considered particularly

²⁸ The results are consistent with those of other ECB surveys of large firms, as reflected in previous issues of the Economic Bulletin. See, in particular, the boxes entitled “What is behind the low investment in the euro area? Responses from a survey of large euro area firms” (Issue 8, 2015) and “Global production patterns from a European perspective: insights from a survey of large euro area firms” (Issue 6, 2016).

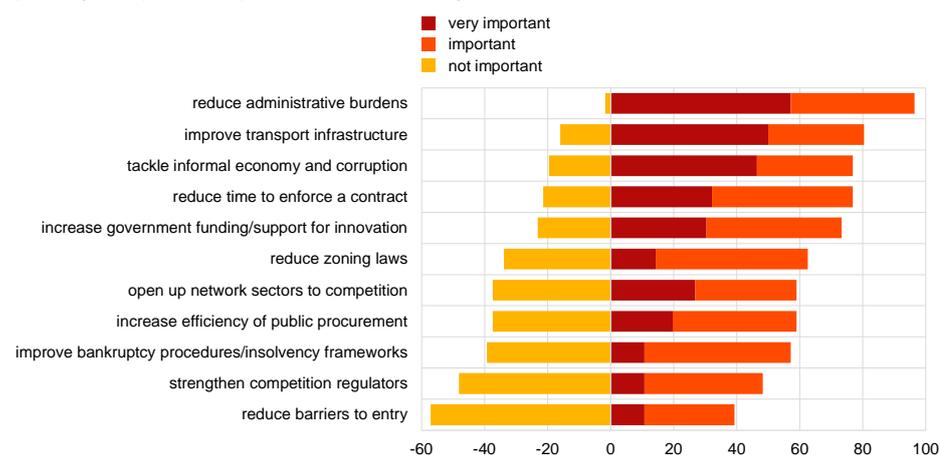
relevant in the light of shifts towards knowledge-intensive skill sets, digitalisation and long-standing structural deficits in engineering skills. Further efforts to move taxes and social charges away from labour were also widely reported as important areas for additional reforms, while further reforms to wage bargaining systems and wage setting frameworks (including minimum wages) were underlined less often.

As regards potential reform priorities for enhancing the wider business environment (see Chart D), efforts to reduce administrative burdens were also emphasised by more than 90% of companies. Indeed, almost 60% indicated that further work in this area was “very important”²⁹. Survey participants suggested that such reforms would be likely to help reduce the administrative costs of suppliers, refocus resources away from compliance procedures and speed up the opening of new stores.³⁰ Network constraints were also deemed important, with around 80% of companies highlighting the necessity of further improvements to the transport infrastructure³¹ and 60% emphasising a lack of competition in network sectors.

Chart D

Business environment reform needs in the euro area

(percentage of respondents; responses ranked by overall rating)



Sources: ECB Structural Reforms Survey and ECB staff calculations.

Notes: based on responses to the question “How do you assess structural reform needs relating to the business environment at country level in the euro area in your sector?” Negative percentages refer to respondents reporting elements as “not important”.

Reform needs related to the completion of the Single Market (see Chart E)

were also highlighted. Around 80% of respondents saw the necessity of further reforms to tackle the complexity and heterogeneity of licencing regulations across euro area countries and 75% indicated that more reforms were still needed to reduce the administrative procedures hindering companies from operating in other euro area countries. Companies noted that, even now, there was considerable complexity in doing business across borders within the Single Market.

²⁹ Only reforms to improve the quality of education and training systems scored higher.

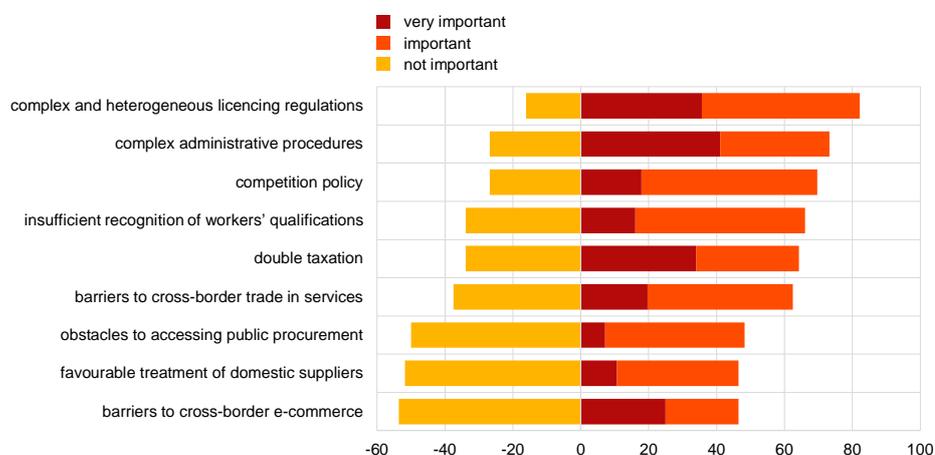
³⁰ Though a clear minority view, one respondent claimed that, in his opinion, administrative burdens have increased since 2008. Meanwhile, others argued that disproportionate regulation and reporting requirements may be a hindrance regarding compliance or supervision by oversight authorities.

³¹ Companies claimed that improvements to the transport infrastructure would help reduce supply chain costs, boost investment and employment and lead to greater business volumes.

Chart E

Reform needs related to the completion of the Single Market

(percentage of respondents; responses ranked by overall rating)



Sources: ECB Structural Reforms Survey and ECB staff calculations.

Notes: based on responses to the question "In your opinion, which of the following reform needs related to the completion of the Single European Market create difficulties in carrying out business operations across borders in the euro area in your sector?" Negative percentages refer to respondents reporting elements as "not important".

A lack of harmonisation in tax policies was also emphasised. Several companies suggested the need to harmonise tax policies across all EU countries as regards corporate income tax, local taxes and social charges. A more aligned "European approach" to transfer pricing that is acceptable to all European tax authorities was also proposed.

The results of the 2017 ECB Structural Reforms Survey illustrate considerable agreement on the necessity of further reforms to national labour markets, highlight some important areas where additional reforms can be implemented to improve national business environments and also reveal where businesses still see a need for more effort in support of harmonisation across the EU.

From a policy perspective, the results of the survey, including the findings on the main barriers to reform implementation, seem to underline the need for further national and supranational coordination and supervision of reform processes. Given the considerable scope for structural reforms to benefit the growth potential of the euro area economy, greater attention to further reforms seems warranted.