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From: Secretary-General of the European Commission,  
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 11 September 2014

To: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European  
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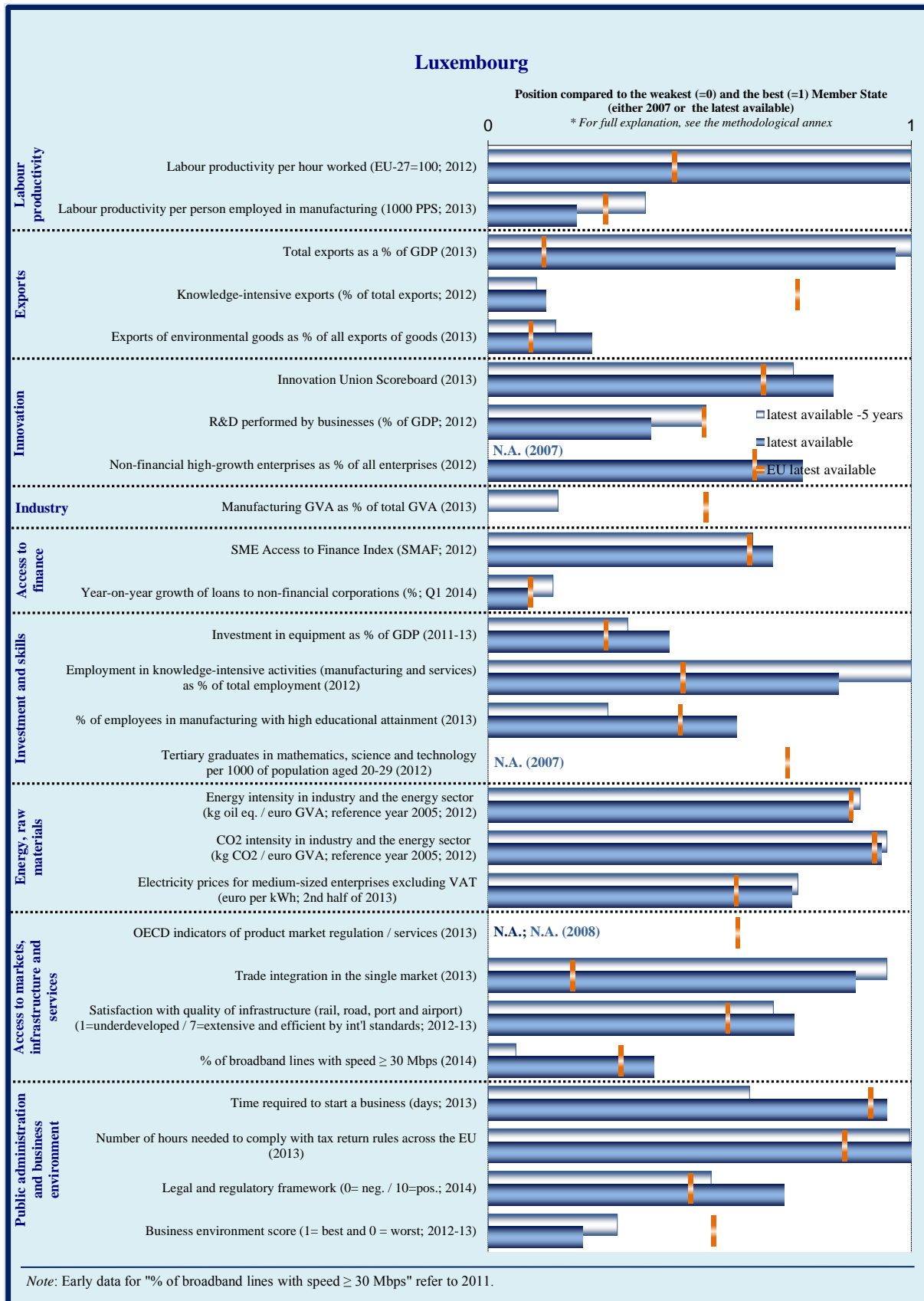
PART 6/8

**COMMISSION STAFF WORKING DOCUMENT**

**Reindustrialising Europe**

**Member States' Competitiveness Report 2014**

### 3.16 Luxembourg



### 3.16.1 Introduction and performance

Manufacturing industries in Luxembourg account for less than 10 % of value added or employment. The economy remains strongly specialised in services and depends particularly on financial services. Cost competitiveness of industry has deteriorated, particularly in the last five years, and the economy needs to diversify by fostering knowledge-based, innovative industries.

The new coalition government has agreed on a government programme, <sup>(337)</sup> and Prime Minister Xavier Bettel gave his first speech in front of Parliament last December, with some indications of future political priorities.

### 3.16.2 Access to finance and investment

Luxembourg's position as an important financial centre favours good financing conditions for enterprises, including SMEs. Smaller loans under EUR 1 million, which are taken out almost exclusively by SMEs, are less expensive in Luxembourg than elsewhere in the EU. Venture capital remains more accessible in Luxembourg than in the EU overall, as the country has a venture capital industry nucleus. Apart from some private initiatives in seed investing, the Chamber of Commerce has revitalised the Luxembourg Business Angel Network (LBAN), which gives SMEs the opportunity to pitch their project to experienced business angels. Other equity financing instruments include the joint venture of the Luxembourg National Credit and Investment Company (SNCI).

The government programme of December 2023 announced the creation of an agency for the promotion of financing and investment (*Agence de financement et d'investissement*). This agency will facilitate contacts between innovative enterprises and potential investors. It will detect and evaluate projects with high growth potential, monitor them and relay them towards equity funds, banks, business angels or other investors. The agency will work in close cooperation with Luxinnovation, <sup>(338)</sup> the innovation agency.

<sup>(337)</sup> <http://www.gouvernement.lu/3322796/Programme-gouvernemental.pdf>.

<sup>(338)</sup> National Agency for Innovation and Research, established in 1984 and subsequently constituted as an Economic Interest

Grouping (EIG) in 1998. It combines initiatives of: the Ministry of the Economy; the Ministry for Higher Education and Research; the Chamber of Commerce; the Chamber of Trades and Fedil – Business Federation Luxembourg.

Shortcomings in the area of access to finance relate to the legal and administrative framework as perceived by the World Bank's Doing Business report: information on credit continues to be regarded as relatively unclear and legal rights are also rated as less strong than elsewhere in the EU. Luxembourg also ranks much lower than the EU average in terms of use of European structural funds programmes for entrepreneurship and business creation.

### 3.16.3 Innovation and skills

The new government has confirmed the Luxembourg's commitment raising R&D expenditures to 2.3-2.6 % of GDP by 2020 (1.46 % in 2012), about 1 % of which is to be public research (0.46 % in 2012). Research and innovation remain a priority and the country specifically needs to strengthen its areas of specialisation and competence to spur innovation-driven growth. In spite of considerable efforts to build up public research capacities over the past 15 years, reaching the R&D intensity target requires higher business investment in R&D. The latter has fallen sharply (from 1.53 % of GDP in 2000 to 1.00 % in 2012). The low scores of Luxembourg on the indicators on cooperation between public research institutions and firms reflect the current disconnect between the public research system and private-sector R&D. Objectives in terms of spin-off creation specified in the performance contracts of public research organisations are not met.

To improve the situation, the main reform launched last year is the reinforcement of the country's policy on innovative clusters. Clusters are to be given new missions and a new cluster is to be set up in the automotive field. Moreover, the government has announced its intention to put in place a process to enable public research organisations and firms to develop common research agendas focused on middle- and long-term targets. Two important laws are scheduled for adoption in 2014: the consolidation of public research centres, expected to allow areas with major prospects of cooperation with industry (such as materials and sustainable development), to reach critical mass, with some less promising research subjects being discontinued; and the reform of the National Research Fund, expected to enable

Grouping (EIG) in 1998. It combines initiatives of: the Ministry of the Economy; the Ministry for Higher Education and Research; the Chamber of Commerce; the Chamber of Trades and Fedil – Business Federation Luxembourg.

better commercialisation of research results, and to foster public/ private mobility of researchers through a revised training scheme.

An OECD review of the Luxembourg system of innovation is expected at the end of 2014.

The difficult situation of workers with low skills (in particular migrants and young residents) arises from several factors. First, Luxembourg's education system faces specific challenges due to various factors in particular multilingualism and a high proportion of people with migrant background in the population. The share of low achievers in Luxembourg is significantly higher than the EU average in reading and science and somewhat higher in maths. <sup>(339)</sup> Second, vocational education does not sufficiently match young people's skills with labour demand, in particular for people with a migrant background. Third,, although adult participation in lifelong learning in Luxembourg has risen over the last few years (reaching 14.2 % in 2013 against an EU average of 9 %), greater adult participation is needed, as residents are facing competition from a large pool of potential skilled workers from neighbouring countries. The measures taken on lifelong learning should also be reinforced to help increase the labour market participation of older workers.

The new government programme has proposed to reform secondary education to provide students with resources adapted to their individual needs, allowing them to develop basic skills while leading as many as possible towards higher qualifications. . The programme plans to introduce better coordination of vocational training policies, employment policies and labour market needs. The programme also states that the strategy outlined in the 2012 White Paper on lifelong learning will be progressively implemented in collaboration with the partners involved. One of the measures implemented in 2013 is more government funding for firms investing in lifelong learning for their employees.

### 3.16.4 Energy, raw materials and sustainability

In spite of Luxembourg's remaining heavy industries and the use of large quantities of transport fuel due to transit traffic, energy intensity in Luxembourg is very

<sup>(339)</sup> OECD PISA 2012 survey.

close to the EU average. The efforts of government to promote energy efficiency focus mainly on buildings, with various initiatives to reduce energy use in the residential sector. In this regard, the government decided to go beyond European requirements and set 1 January 2019 as the deadline to achieve the target of "nearly zero energy buildings" for both public buildings and others.

Luxembourg is dependent on imports for all its energy needs. Further interconnections with neighbouring countries could therefore improve security of supply. With regard to electricity, the current interconnection capacity with Germany is sufficient but the situation has to be reassessed as a result of the German nuclear phase-out. During the first half of 2013 electricity prices for industrial consumers have remained above the EU average.

Compared to the EU average, peak-hour congestion in Luxembourg is a major problem. Luxembourg has the highest rate of car use in the EU, with 92 % of cross-border commuters using cars to get to work. Taking into consideration the high proportion of commuters from neighbouring countries, the problem would have to be addressed at regional level in consultation and cooperation with the foreign authorities from the greater region. To this end, the new government programme has proposed developing car-sharing initiatives and to integrate park and ride (P&R) at the borders with public transport systems in these areas.

Aware of the cross-border challenges, the government's transport department is currently working on a project to enhance cross border mobility with Germany and Belgium (*Schéma de mobilité transfrontalière*, SMOT). <sup>(340)</sup>

Despite these difficulties, Luxembourg continues to implement the 2012 Sustainable Mobility Strategy "MoDu", in which all administrations concerned collaborate in a sustainable, integrated response to the problems identified above, considering environmental, mobility, urban and rural planning issues. <sup>(341)</sup> This strategy also includes the sectorial plan for developing road and rail infrastructure under which recent measures include (i) a tramway in Luxembourg city connecting the central railway

<sup>(340)</sup> <http://www.mt.public.lu/presse/communiqués/2014/02/14-liege/index.html>.

<sup>(341)</sup> [http://www.mt.public.lu/planification\\_mobilite/1strategie\\_modu/index.html](http://www.mt.public.lu/planification_mobilite/1strategie_modu/index.html).

station and P&Rs with the EU and business quarters outside the city centre, (ii) an additional train station at the entrance of Luxembourg-city and (iii) an additional rail track towards the French border.

The target of increasing the share of renewable energy used in transport from 2 % in 2011 to 10 % by 2020 remains a challenge and “MoDu” aims at increasing the share of public transport in all motorised forms of domestic transport from 14.5 % in 2009 to 25 % in 2020. The existing vehicle fleet in Luxembourg is becoming greener and more fuel efficient, but the government is still far from its objective to increase the share of electric vehicles to 10 % of the fleet by 2020. Between 2005 and 2012, renewable energy consumption as a proportion of total consumption doubled in Luxembourg to 3.1 %, far from the 11 % target for 2020.

Based on the projections that Luxembourg submitted to the European Environmental Agency, the country is expected to miss its greenhouse gas (GHG) emission reduction target by a wide margin.

### 3.16.5 Access to markets, infrastructure and services

The Luxembourg economy is highly open and highly dependent on the neighbouring countries, in particular those of the *Grande Région* (Belgium, France and Germany). However, there are still restrictions on the cross border supply of goods in retail markets, as Luxembourg retailers may not always be free to source their goods at the best price on the internal market. Even though there may be valid reasons for certain price differences between national markets, there are also indications of territorial supply constraints that prevent lower prices in some national markets such as Luxembourg, especially in the case of branded products.

Trade is characterized by increasing deficits in the trade of goods and large surpluses in the trade of services, in particular financial services.

Although exports of high tech goods represent over 25 % of total exports of goods (15 % for the EU average), export growth remains slow, as a consequence of a significant loss in export market share for goods in the aftermath of the financial crisis. This reflects a structural loss of cost competitiveness. As a result of both wage increases and sluggish

productivity, the unit labour cost increased one and a half times faster in Luxembourg than in EU15 and more than four times faster than in Germany over 2000-2012, eroding the competitive position of the country.

The growth model in Luxembourg still greatly relies on its high performance in financial services. The new government is set to further promote these, as the 2013 programme envisages merging the two entities “Luxembourg for Finance” and “Luxembourg for Business” into a coordinated promotion entity piloted jointly by the Minister for Finance and the Minister for the Economy. Plans also include boosting research in the area of financial services.

### 3.16.6 Public administration and business environment

Reducing the administrative burden for citizens and enterprises and increasing efficiency have remained priorities for the new authorities.

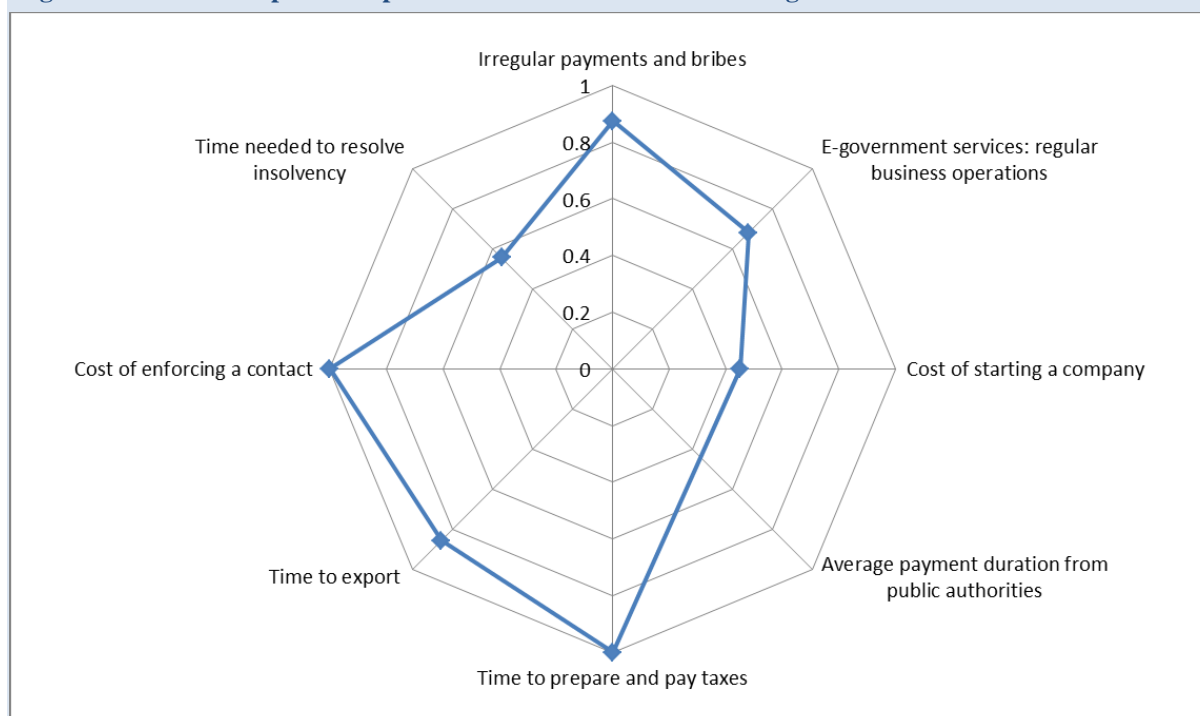
The new government has put in place a new, larger Ministry of the Economy, which now includes the former Ministry of SMEs and Tourism. The plan is to make this a one-stop-shop for enterprises that will regroup all the procedures for authorisations and subsidies.

In January 2014, the government set up a taskforce on administrative simplification chaired by the Ministry for Administration and Administrative Simplification, composed of representatives of a number of ministries. The aim of the taskforce is twofold: achieving better legislation and better preparation of legislation. The taskforce has also started to revise all authorisation procedures so as to lighten the administrative burden.

Other measures to modernise the legal and regulatory system include simplifying the legal process regarding dematerialisation of documents and their conservation in electronic form, generalised on-line access to VAT accounts and the publication of legal notices regarding companies and associations on an electronic platform.

In mid-2013, a new action plan for SMEs was announced, confirmed in the new government programme. The plan will be the framework for a more dynamic policy in support of SMEs and will be

Figure 3.16.1: Overall profile of public administration - Luxembourg



Note: Values have been scaled so that the best observation (Member State) gets 1 and the worst gets 0.

Source: World Bank Doing business; Intrum Justitia; OECD; World Economic Forum; European Commission

linked to the 10 Small Business Act principles and the Entrepreneurship 2020 action plan.

Concerning procurement, Luxembourg has one of the lowest EU publication rates of procurement contracts competitively advertised at EU level and a low uptake of e-procurement. <sup>(342)</sup> E-procurement can generate significant cost savings, improve the transparency of public procurement, shorten lead time and increase competition. Overall, its introduction is an opportunity to rethink the way public procurement is organised and a key element for leveraging smart procurement.

Efforts have been made to improve this situation. In 2012 Luxembourg set up a new platform which acts as a national hub for public procurement. This open source platform is a single point of access for economic operators in the field of public procurement in Luxembourg. It includes information on procedures; contract notices (*eNotification*) and tender documents (*eAccess*). Notification of contracts

<sup>(342)</sup> Latest data available are for 2011. For further information see e.g.: [http://ec.europa.eu/europe2020/pdf/csr2014/swd2014\\_luxembourg\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_luxembourg_en.pdf) and [http://ec.europa.eu/internal\\_market/publicprocurement/docs/modernising\\_rules/public-procurement-indicators-2011\\_en.pdf](http://ec.europa.eu/internal_market/publicprocurement/docs/modernising_rules/public-procurement-indicators-2011_en.pdf).

above and below thresholds on the national public procurement platform is mandatory for all awarding authorities. A service desk is available for economic operators and awarding authorities. In 2013 the legal framework was completed <sup>(343)</sup> to leverage the uptake of e-Procurement. For instance, secure communication (e.g. questions on a specific tender) between economic operators and awarding authorities during the tender phase is available and used. In 2014, a comprehensive e-Tendering function will be available.

Luxembourg has a relatively high enterprise survival rate after two years. The new government wishes to make it easier and faster to set up a business. Legislation adopted on 13 September 2011 simplified administrative procedures for the development and operating conditions of classified establishments, mainly by introducing tacit authorisation and obliging administrations to meet specific deadlines. Luxembourg generally ranks well in surveys of the administrative burdens of the tax system. The point of single contact performs well in terms of giving

<sup>(343)</sup> Règlement grand-ducal du 27 août 2013 relatif à l'utilisation des moyens électroniques dans les procédures des marchés publics modifiant le règlement grand-ducal modifié du 3 août 2009 portant exécution de la loi du 25 juin 2009 sur les marchés publics.

comprehensive information to businesses and allowing them to complete administrative formalities online.

Although a number of initiatives to foster entrepreneurship that started in previous years have continued, and although the scores of Luxembourg in this area have improved since 2009 (the entrepreneurship rate climbed from 8 % to 17 % between 2009 and 2012), Luxembourg still trails the EU on average significantly. <sup>(344)</sup> However there has been a considerable influx of foreigners setting up businesses in Luxembourg. Among the incumbent population, the appetite for self-employment remains below the EU average (36 %, EU: 37 %) and has even declined by some 7 % since 2009. The robust economic situation in Luxembourg makes self-employment just one of several career options, especially for skilled professionals. This is why entrepreneurship has so far remained a limited phenomenon in Luxembourg. The feasibility of becoming an entrepreneur is rated as relatively easy by 36 % (EU: 30 %) and school education is seen as a positive influence on the decision to set up a business (57 %, EU: 50 %).

lifelong learning is needed to tackle the country's structural unemployment.

Finally, Luxembourg continues to face the challenge of achieving the national target for reducing greenhouse gas emissions.

### 3.16.7 Conclusions

Luxembourg still scores well in terms of overall competitiveness, but the cost competitiveness of the economy remains the main medium and long term challenge, with the steady deterioration of the balance of trade for goods, compensated by large surpluses in the trade of services, particularly financial services on which growth remains strongly dependent.

Despite the Luxembourgish authorities' resolve to foster investment in R&D as part of a long-term policy for Luxembourg's economic development and diversification, the Luxembourgish research and innovation ecosystem remains very weak, with its public components not yet able to play a decisive role in fostering innovation-led growth.

The situation for workers with low skills (in particular migrants and young residents) remains difficult despite a large number of government and business initiatives. Greater adult participation in

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<sup>(344)</sup> [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/luxembourg\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/luxembourg_en.pdf).



### 3.17 Hungary

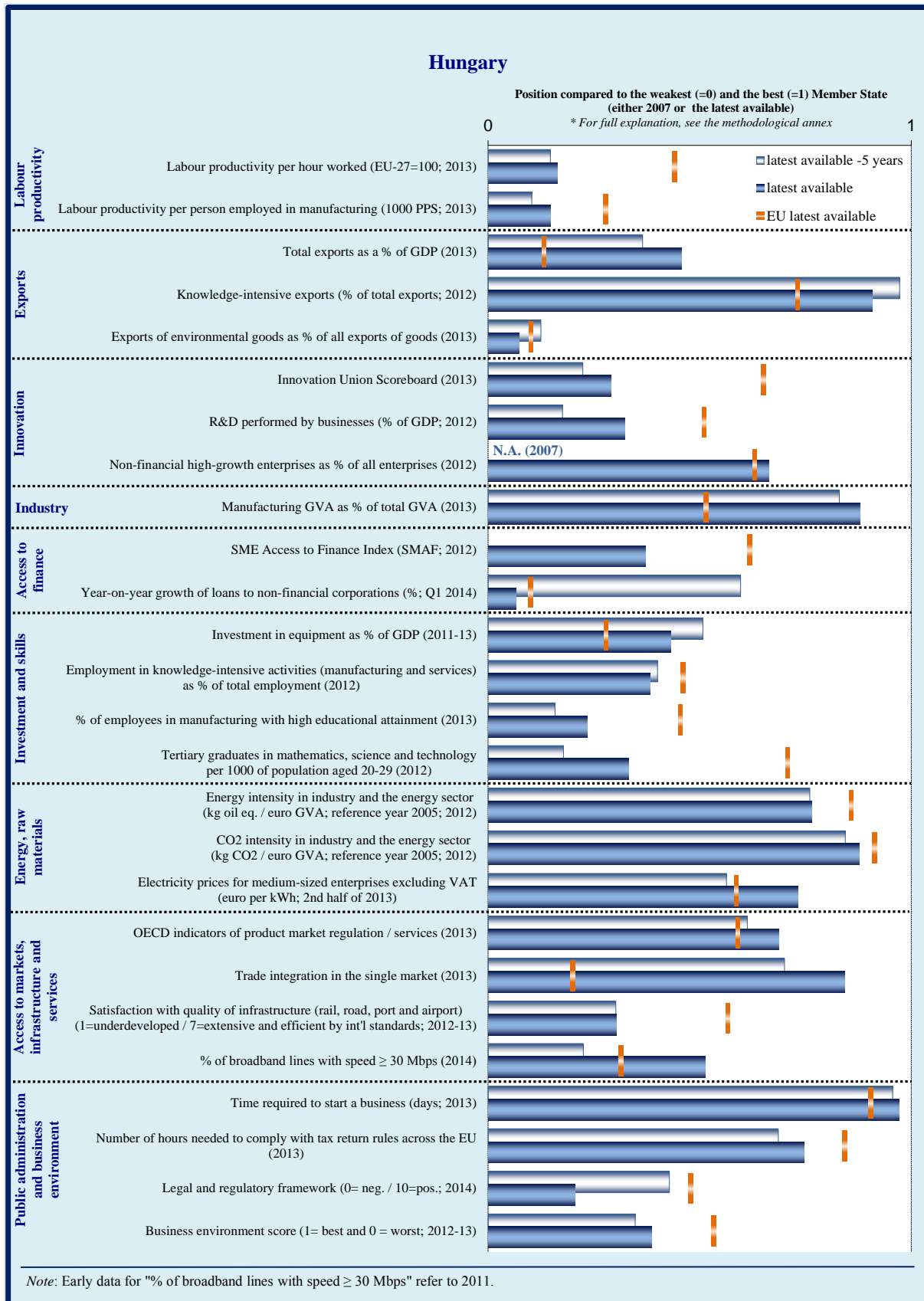
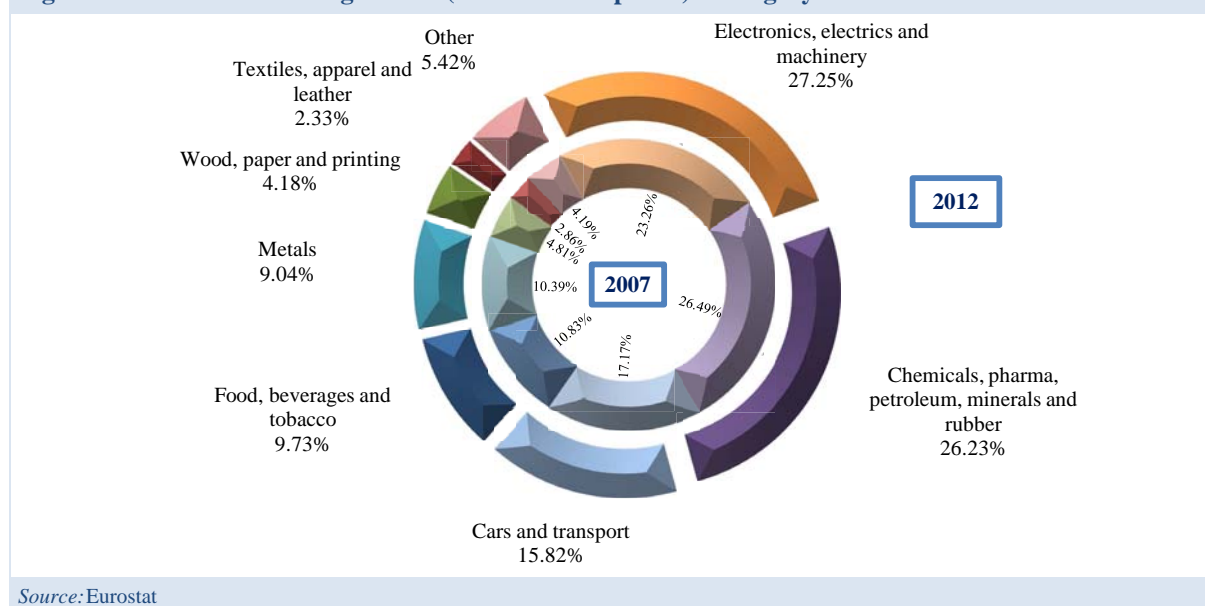


Figure 3.17.1: Manufacturing sectors (GVA at basic prices) - Hungary



### 3.17.1 Introduction and performance

The relative importance of manufacturing is higher than the EU average in Hungary, which specialises in technology-driven industries (transport equipment, electronics, pharmaceutical and food processing are the key sectors), both in value-added and exports. The relative importance of the automotive sector, which accounts for 18 % of all exports, has increased because of new investments.<sup>(345)</sup> The Hungarian economy has finally entered into recovery in 2013. In the first quarter of 2014, the GDP has increased by 3,5%<sup>(346)</sup> compared to the previous year partly due to the strong performance of industry, where the increasing export volume is driving growth. The construction sector also seems to have emerged from the recession. Nevertheless, there are some other exceptional factors that could contribute to this increase, such as the sped-up absorption of the EU structural funds from the 2006-2013 financing period.

<sup>(345)</sup> Mercedes has opened a plant in 2012, and Audi has expanded its investments since 2008, establishing an R&D center in 2013

<sup>(346)</sup> KSH

### 3.17.2 Access to finance and investment

#### *Bank lending*

Access to finance remains one of the most problematic aspects of competitiveness.<sup>(347)</sup> Lending conditions in the economy have worsened in the past period significantly due to the high level of non-performing foreign currency loans, high external indebtedness, as well as the special levies maintained in the financial sector.

To respond to these challenges, the Hungarian Central Bank has introduced in 2013 its Funding for Growth scheme.<sup>(348)</sup> The programme has been met with high demand, with the full available amount used, (however, a significant amount of it to pay back foreign currency loans). In view of these results, the programme has been extended to 2014.<sup>(349)</sup> In the new phase, the absorption has slowed down but it has gained momentum again in May and until late June 2014 HUF 223 billion has been used. It is also a positive sign that 98 % of these transactions are new

<sup>(347)</sup> World Economic Forum, The Global Competitiveness Report 2013

<sup>(348)</sup> The programme was launched in April 2013 to provide a refinancing loan to banks at 0% which could be used to provide loans to SMEs at 2.5%. The first amount was 750 bn HUF, 93% of which was used up by September 2013. The first pillar is for new loans, the second pillar is for refinancing FX loans, Annual Report MNB

<sup>(349)</sup> The new phase was launched with a maximum amount of HUF 500bn in the first step, with a maximum of 2000 bn HUF

loans and 60 % are loans for investment.<sup>(350)</sup> Three quarters of the loans has been made available in the agriculture, processing industry, retail and repair sectors.

The Szechenyi card programme, which provides credit-card based low-interest loans for micro- to medium-sized enterprises at Hungarian credit institutions, continues to be an important tool in the financing of SMEs. However, according to stakeholders, its attractiveness has been somewhat affected by the Funding for Growth scheme, due to the discrepancy of interest rates.

#### *Venture capital and other finance*

Access to venture capital has improved over the last year, having changed from being below the EU average to slightly above.<sup>(351)</sup> The JEREMIE<sup>(352)</sup> scheme of the structural funds continues to be the most important source of venture capital in Hungary. However stakeholders note a mismatch between the size of the funding and the needs in the economy. Notably, it has been difficult for start-ups to obtain a “seed capital” type of funding.<sup>(353)</sup>

#### *Investment*

The Hungarian Investment and Trade Agency<sup>(354)</sup> provides international investors with a wide range of information and support services. Foreign direct investment inflows have started to increase again primarily due to new investments in the automobile sector, however in regional comparison Hungary’s net FDI inflow position is lagging behind.<sup>(355)</sup> There seems to be a slight positive turn in the expectations of some foreign investors, who foresee further growth in investments in 2014.<sup>(356)</sup>

<sup>(350)</sup> [http://www.mnb.hu/Root/Dokumentumtar/MNB/Monetaris\\_politika/NHP/NHP2\\_kihasznaaltsag\\_kozlemeny\\_20140506.pdf](http://www.mnb.hu/Root/Dokumentumtar/MNB/Monetaris_politika/NHP/NHP2_kihasznaaltsag_kozlemeny_20140506.pdf)

<sup>(351)</sup> 2013 SBA Fact Sheet Hungary

<sup>(352)</sup> Joint European Resources for Micro- to Medium-Sized Enterprises

<sup>(353)</sup> The government has started to tackle this issue partially via the incubator programmes set up in the ICT sector

<sup>(354)</sup> <http://hita.hu/>

<sup>(355)</sup> Macroeconomic Imbalances, Hungary 2014, [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2014/pdf/ocp180\\_en.pdf](http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp180_en.pdf)

<sup>(356)</sup> Konjunktúra jelentés, Magyarország 2014, Német Kereskedelmi és Iparkamara, [http://www.ahkungarn.hu/fileadmin/ahk\\_ungarn/Dokumente/Bereich\\_CC/Publikationen/Konjunktur/2014/Konj2014\\_hu\\_web.pdf](http://www.ahkungarn.hu/fileadmin/ahk_ungarn/Dokumente/Bereich_CC/Publikationen/Konjunktur/2014/Konj2014_hu_web.pdf)

The government has also continued concluding strategic partnership agreements with big companies already present in Hungary. The government sees these agreements as a tool to stimulate the R&D activity, to increase the proportion of Hungarian subcontractors, and to involve these companies in the dual vocational training system, among other objectives.

### 3.17.3 Innovation and skills

#### *Innovation*

The Innovation Union Scoreboard 2014<sup>(357)</sup> confirmed Hungary's position among the “moderate innovators” of the EU.<sup>(358)</sup> While Hungary is still on track to achieve its R&D expenditure target of 1.8% of GDP,<sup>(359)</sup> the ambitiousness of the target itself can be questioned from a long term competitiveness perspective. Moreover, significant disparities exist in innovation performance and expenditure at regional level, as almost all R&D activity is concentrated around the capital. This approach has also been confirmed by the new Innovation Strategy<sup>(360)</sup> which was adopted on 13 July 2013. The strategy sets the framework for innovation spending in the period of 2013-2020 with a special focus on high-growth capacity start-ups in the ICT sector.<sup>(361)</sup>

The tax treatment of R&D expenditure<sup>(362)</sup> has undergone some changes in businesses, most notably as regards the deductibility from the innovation levy.<sup>(363)</sup> The importance of this fiscal incentive was to create links between businesses and local universities and research institutes that may have not arisen otherwise. A new fiscal incentive has been introduced for the deductibility of social contribution when employing PhD students. It remains questionable if this incentive is a suitable tool to boost innovation capacity in SMEs.

<sup>(357)</sup> European Commission, Innovation Union Scoreboard 2014, <http://ec.europa.eu/enterprise/policies/innovation>.

<sup>(358)</sup> Together with HR, CZ, EL, IT, LT, MT, PL, PT, SK and ES.

<sup>(359)</sup> GERD in % of GDP is 1.3% (2012), Eurostat

<sup>(360)</sup> <http://www.nih.gov.hu/strategiaalkotas/hirek-esemenyek/nemzeti-kfi>

<sup>(361)</sup> The Budapest 2.0.2.0 Runway Start-Up credo has been adopted in early 2014 with the participation of the start-up community

<http://www.nih.gov.hu/strategy/publications/budapest-2-0-2-0-runway>

<sup>(362)</sup> The innovation levy is no longer tax deductible, even in case of in-house innovation..

<sup>(363)</sup> The deductibility was discontinued due to the possibility of tax evasion.

While in general the share of businesses in R&D has grown, indicators for non-R&D innovation expenditure in firms and in-house innovation by SMEs have declined in 2006-2013. <sup>(364)</sup> Innovation in SMEs in general is lacklustre <sup>(365)</sup> suggesting weak spill-over between the technologically advanced foreign companies and the local SMEs. Better integration of SMEs into the supply chain of these large companies is an identified objective of the SME Strategy of the government, adopted in January 2014.

### Skills

Skilled labour force is an important element in attracting foreign direct investment. While labour productivity in manufacturing has increased along with the number of science, technology and math graduates, Hungary's performance is still far from the best-performing Member States. The vocational training system has been reformed recently in close cooperation with industry reinforcing the dual training elements of the system. The new system was rolled out on 1 September 2013, and therefore there are no evaluations available yet. However, it seems that at this stage there is room for improvement as regards the capacity of vocational placements to meet the demand.

This could be partially due to the tax incentives linked to vocational training, as these are more suitable for big companies as compared to SMEs. There are however some direct support schemes available to SMEs, such as development of training workshops.

## 3.17.4 Energy, raw materials and sustainability

### Energy use and prices

The energy intensity of the economy overall has slightly increased with significant potential for savings. About 70 % of the current building stock is

<sup>(364)</sup> Business enterprise expenditure on R&D (BERD) was 0.85 % of the GDP in 2012, making Hungary rank 15 in the EU. However a high proportion of BERD is carried out in foreign partners engaged in high- and medium-technology manufacturing, while domestically owned industry performs little innovation.

<sup>(365)</sup> [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm#h2-2](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm#h2-2) In Hungary only 13% of the SMEs carry out innovation activities, far behind the EU average of 30%.

in need of renovation, as 40 % of all energy use is linked to the heating and cooling of these buildings (including hot water). The sector also accounts for the largest part of CO<sub>2</sub> emissions. The National Building Energy Strategy, which would draw up the most important objectives in this area for the investment of the EU structural funds for the 2014-20 period, was planned to be adopted by June 2013. This has been delayed however, even though investment in energy efficiency, besides the environmental and cost saving benefits could also be a trigger to stimulate the construction sector.

Energy prices on the other hand have been reduced in the household sector via regulatory measures putting the long-term sustainability of the network at risk, as the providers cannot fully recover their costs. Therefore some of these costs may be offset via the prices charged for industrial users, negatively affecting their competitiveness. <sup>(366)</sup> The repressed prices in the household sector also make the recuperation of investments in energy-efficiency more difficult, and may be a disincentive for new investments. These potential distortions have been addressed in the 2014 country-specific recommendations.

### Resource efficiency

Resource efficiency in Hungary is weak with low levels of recycling. In 2012, Hungary used landfills for as much as 65.4 % of its municipal waste and recycled only 25.5 %; <sup>(367)</sup> this latter figure is below the EU average. <sup>(368)</sup> In 2013, Hungary adopted a new waste management law, strengthening the role of government and municipalities by prescribing rules of majority ownership by these public actors in the waste collection sector and introducing price-regulation. <sup>(369)</sup> This reorganization has affected market-based investments into complex waste management infrastructures. The government has also introduced different fees in the sector, including a landfilling tax which is scheduled to progressively increase until 2016. As the changes have only entered into effect as of 2014, it is yet to be seen if the

<sup>(366)</sup> Macroeconomic Imbalances, Hungary 2014, [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2014/pdf/ocp180\\_en.pdf](http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp180_en.pdf)

<sup>(367)</sup> 9% of this waste-stream was used energy recovery.

<sup>(368)</sup> EUROSTAT 2014.

<sup>(369)</sup> As of 1 January 2014 only companies where the state or local authorities are majority owners can be registered waste collectors. Provisions regarding the fees paid by residents for the collection and treatment of municipal waste is part of the law, however those will enter into effect as from 2015

measure will contribute to its stated objectives, namely increased resource efficiency and improved quality and safety in public waste management services.

#### *Other sustainability issues*

The green economy in Hungary is driven by infrastructure investments, such as water treatment facilities, mostly financed by EU structural funds. Green entrepreneurship on the other hand has not yet taken root in Hungary; 82% of Hungarian SMEs do not offer green services or goods,<sup>(370)</sup> mostly for a lack of demand. The share of environmental goods in all exports has decreased over time.

### 3.17.5 Access to markets, infrastructure and services

#### *Internationalisation*

Weak internationalisation<sup>(371)</sup> and a modest level of innovation in the business sector, particularly among SMEs, remains an obstacle to increased competitiveness.<sup>(372)</sup> Only 13 % of Hungarian SMEs carry out innovation activities as opposed to an EU average of 30 %.

Notable measures to enhance internationalisation were the export credit programme of EXIMBANK and the setting up of trading houses in key new markets within the context of the “Opening to the East” strategy in order to help market access for SMEs. Moreover, the Hungarian Chamber of Industry and Commerce has extensive programmes to enhance the export activity of Hungarian SMEs.

So far the different support tools and funding schemes for SME competitiveness have failed to bring about significant increase in SME’s capacity to internationalise and innovate. In 2014, Hungary adopted the ‘Strategy for the development of SME 2014-2020’ to enhance the growth potential of these companies setting out specific objectives for the next EU financing period. The effective deployment of these funds will be an important tool to tackle the competitiveness challenges of Hungarian SMEs.

<sup>(370)</sup> [http://ec.europa.eu/public\\_opinion/flash/fl\\_381\\_en.pdf](http://ec.europa.eu/public_opinion/flash/fl_381_en.pdf)

<sup>(371)</sup> [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm#h2-2](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm#h2-2)

<sup>(372)</sup> [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/hungary\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/hungary_en.pdf).

#### *Business services and network industries*

Hungary continues to maintain the additional sector-specific taxes introduced after the financial crisis. Moreover, a new special tax on advertisements was adopted in June 2014.

In certain service sectors (household waste treatment, pharmacies, mobile payment services, retail tobacco and publication of school textbooks) new barriers have been introduced. All these recent measures, coupled with those previously introduced (e.g. retail, meal vouchers), have contributed to the uncertainty of the investment climate.

#### *Infrastructure*

While road infrastructure has improved in recent years, the rail and waterway infrastructure continues to be a barrier to competitiveness. As of 1 July 2013, the government has introduced an e-toll for distance-based charging of heavy goods vehicles. Being an average logistics performer<sup>(373)</sup> at the crossroads of trans-European corridors, there is room in Hungary for exploiting the capacity of inland ports and (intermodal) terminals,<sup>(374)</sup> e.g. by improving their accessibility and service level. The Hungarian National Transport Strategy, expected to be finalized in 2014, will provide the framework of strategic prioritisation of transport developments.

### 3.17.6 Public administration and business environment

#### *Entrepreneurship and Small Business Act (SBA)*

SMEs play an important role in the Hungarian economy in terms of employment, however the value added generated by these companies is significantly lower than the EU average.<sup>(375)</sup> While manufacturing is an important driver of the economy, the percentage of SMEs active in the sector is below the EU average. SMEs were also slower to recover from the crisis; their value added output has been growing constantly, but in 2012 was still below the 2008 levels. One notable exception is the information and communication sector, where important success

<sup>(373)</sup> <http://lpi.worldbank.org/international/global>

<sup>(374)</sup> The utilisation of Hungarian ports is around 50%, [http://ifka.hu/ifka2/img/files/logstrat/logstrat\\_final\\_0816.pdf](http://ifka.hu/ifka2/img/files/logstrat/logstrat_final_0816.pdf)

<sup>(375)</sup> [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/hungary\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/hungary_en.pdf)

stories have emerged. Building on these success stories, the government has put in place a business incubator programme in 2013, with three incubators focusing on ICT, and one on the biotech sector.

SME performance improved for the areas of single market, access to finance, responsive administration, state aid and public procurement where Hungary performs in line with or in some cases even outperforms the EU average. SME performance in general is still lagging behind the EU average in the aspects of internationalization, environment, skills and innovation, the think small principle and second chance.<sup>(376)</sup> To combat these weaknesses, the SME Strategy identifies three main areas of intervention: the enhancement of growth potential, the improvement of access to external funding sources and the development of the business environment.

This Strategy together with the Smart Specialization Strategy and the RDI Strategy will form an important part of the framework of the different programmes to be launched in the 2014-2020 planning period of the structural funds. The government has announced that in this financing period 60 % of the available funds will be spent on economic development, the enhancement of the competitiveness of SMEs being an important objective in this area.<sup>(377)</sup>

#### *Administrative modernisation*

Low levels of government effectiveness and high administrative burden have been long-standing problems in Hungary. Hungary has been ranking consistently low in indicators linked to the quality of policymaking<sup>(378)</sup> and its position in most

international competitiveness rankings has deteriorated over time.<sup>(379)</sup>

Hungary has started two large-scale programmes in 2011, (the Magyary programme and the Cutting Red Tape programme) to tackle the systemic problems of public administration.

#### *Reducing administrative burden*

In the framework of the Magyary programme, reforms have been implemented both in institutional and organizational aspects. These changes have brought about improvements in the responsiveness of public administration,<sup>(380)</sup> but administrative capacities, especially human resources skills, could be further improved to increase effectiveness.

The Cutting Red Tape programme was rolled out in 2011 to reduce the administrative burden on businesses. The implementation of the 106 planned measures has largely finished by the beginning of 2014 and according to government estimates, the initial target of a 25 % reduction of administrative burden has been achieved.<sup>(381)</sup> Nevertheless these results have yet not been felt by the business sector, which continues to report a high level of administrative burden and only minor improvements.<sup>(382)</sup>

While Hungary has not yet reached the EU average in the area of e-government, several measures have been put in place in the last 4 years, including electronic permissions and documentations for construction, electronic system for filing annual company accounts and electronic payment system for business taxes. On the other hand, in the area of e-procurement, the

<sup>(376)</sup> [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/hungary\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/hungary_en.pdf)

<sup>(377)</sup> <http://www.kormany.hu/hu/nemzetgazdasagi-miniszterium/tervezeskoordinacioert-felelos-allamtitkarsag/hirek/a-kormany-celja-a-kkv-szektor-versenykepessegenek-novelese>

<sup>(378)</sup> According to the last World Economic Forum's Global Competitiveness Report 2013-2014, Hungary performs poorly in a number of institutional indicators: *Burden of Government Regulation* (Hungary is 25<sup>th</sup> in the EU); *Efficiency of Legal Framework in Challenging Regulations* (27<sup>th</sup> in the EU); *Transparency of Policy Making* (27<sup>th</sup> in the EU); *Lack of Trust in Politicians* (Hungary ranks 129<sup>th</sup> out of a total of 148 countries); *Favouritism in Decision of Government's Officials* (116<sup>th</sup>); *Wastefulness of Government Spending* (110<sup>th</sup>); and *Diversion of Public Funds* (110<sup>th</sup>). Most of the deterioration in these indicators took place until 2009., while since then these indicators have remained broadly stable.

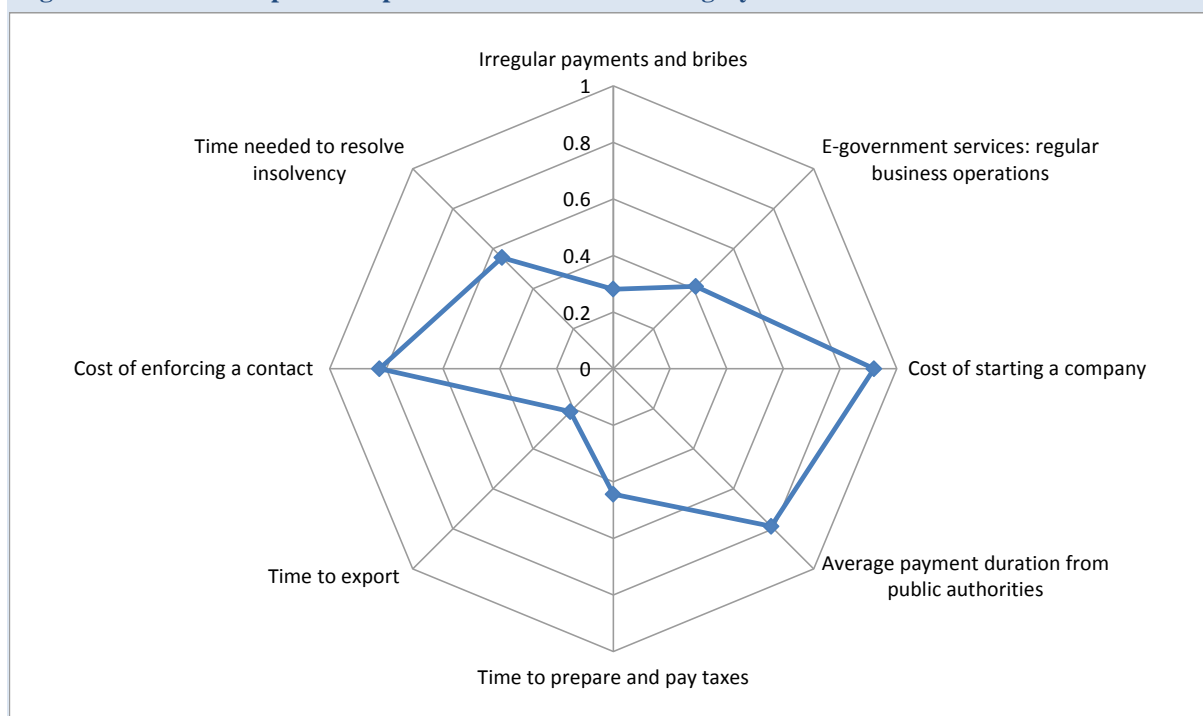
<sup>(379)</sup> The country has lost five places in the International Institute for Management Development's in the World Competitiveness Yearbook (down to 50<sup>th</sup> from 45<sup>th</sup> in the 2012 report); three places in the Global Competitiveness Report 2013-2014 (63<sup>rd</sup> from 60<sup>th</sup>); two places in the Doing Business ranking (54<sup>th</sup> from 52<sup>nd</sup> in 2013). By contrast, Hungary has gained two places in the 2014 World Competitiveness Yearbook of IDM.

<sup>(380)</sup> Notably, Hungary scores above the EU average in terms of time to obtain construction permits and starting a business. Shorter deadlines have been introduced in public administration procedures.

<sup>(381)</sup> It is not entirely clear if this figure is based only on ex-ante estimates or if burdens that have emerged in the meantime have been taken into account.

<sup>(382)</sup> As communicated by all business sector actors met by the Commission during its EU Semester mission. See also the

Figure 3.17.2: Overall profile of public administration - Hungary



Note: Values have been scaled so that the best observation (Member State) gets 1 and the worst gets 0.

Source: World Bank Doing business; Intrum Justitia; OECD; World Economic Forum; European Commission

country is still lagging far behind the EU average, resulting in a CSR on this point.<sup>(383)</sup>

Another notable measure in 2013 was the online linking of cash registers to the tax office, which required upfront investment, but should result in simplification for businesses in the long run and contribute to the whitening of the economy.

Finally, the Civil Code has been reformed and re-codified to adapt it to modern business life. The changes entered into force as of 15 March 2014, affecting important aspects of business, such as the liability of managers or changes in the enforcement procedure in case of late-payment. Contracting practices will have to be reformed in order to take into account the changes.

#### Business environment

Frequent legislative changes have led to a regulatory environment characterized by unpredictability and uncertainty. Regulatory impact assessments are

<sup>(383)</sup> '3<sup>rd</sup> Hungarian CEO Survey' by PWC and in particular the assessment by businesses that the costs of regulation..

[http://ec.europa.eu/europe2020/pdf/csr2014/swd2014\\_hungary\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_hungary_en.pdf)

compulsory in Hungary, <sup>(384)</sup> however not always applied and the quality could be improved. Although the impact assessment requirements formally include an evaluation of effects on SMEs, a proper SME test is not systematically applied.

In 2013, new measures have been introduced to strengthen transparency in public administration, such as the introduction of ethical codes and the new whistle-blower regulation. While these are steps in the right direction, further efforts are needed to tackle corruption effectively, especially in the area of public procurement.

#### 3.17.7 Conclusions

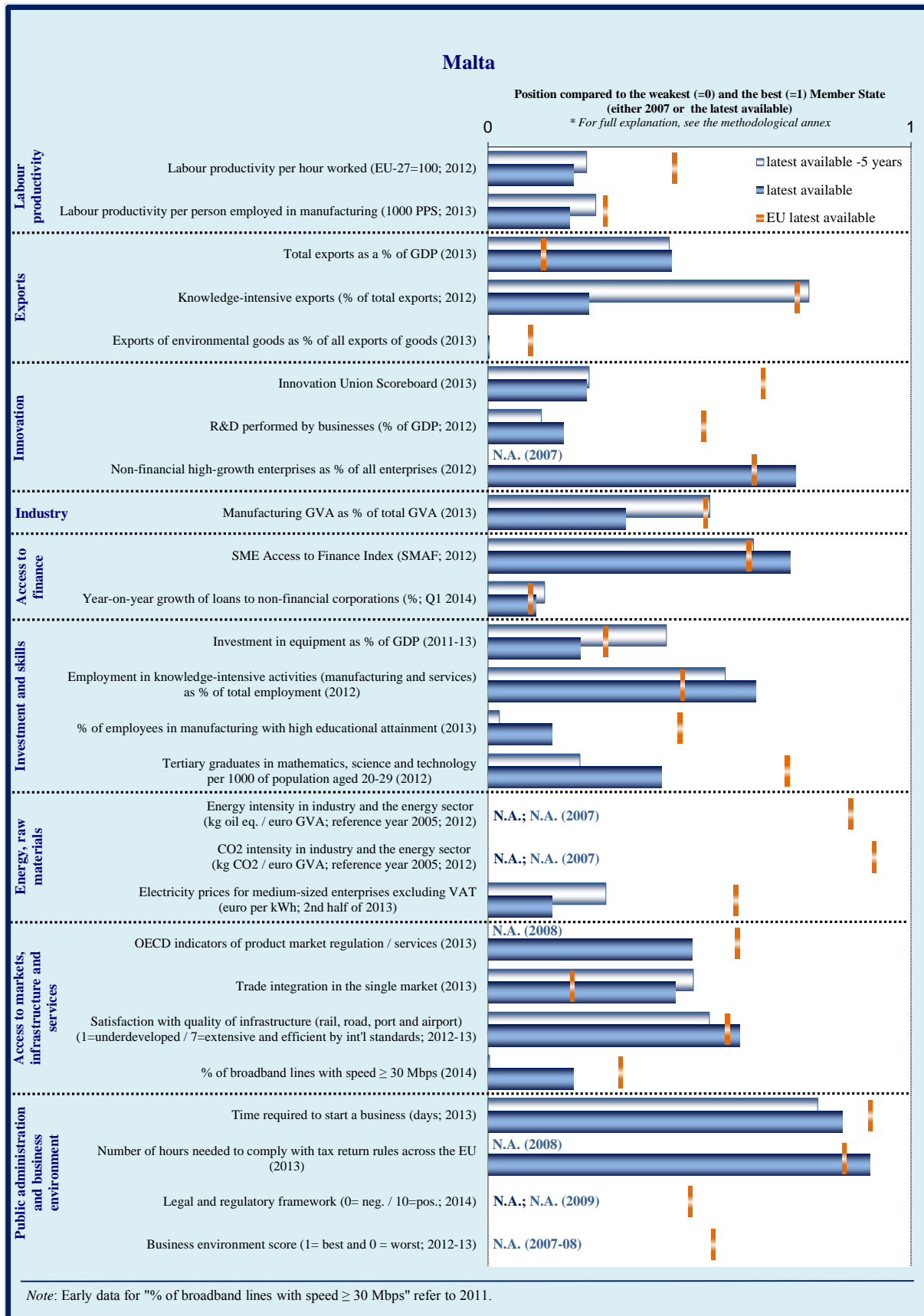
Manufacturing, dominated by large international companies, accounts for a large proportion of the Hungarian value added and the integration of the domestic SMEs into this value chain remains weak. It is crucial that the large percentage from the EU structural funds earmarked for economic development brings about the structural changes needed for long term competitiveness. Especially the untapped

<sup>(384)</sup> These rules can be easily circumvented though in practice, as proposals by individual MEPs are not subject to impact assessments.

potential in infrastructure, innovation, and sustainability will have to be addressed by these programmes. Despite wide-sweeping reforms, public administration is still burdensome and the regulatory environment continues to be an obstacle to competitiveness.



### 3.18 Malta



### 3.18.1 Introduction and performance

Although the manufacturing proportion of GDP in Malta (about 13 %) is lower than the EU average, some industrial sectors continue to expand. The service economy, traditionally dominated by tourism (10 % of GDP at direct impact level, 25 % when the full impact is estimated), has diversified as other activities are also expanding. In a pre-2014 budget document, <sup>(385)</sup> the Ministry of Finance evaluated the country's competitiveness based on the performance of its industries relative to their EU-27 counterparts. It concluded that over the past 10 years Malta has gained a competitive advantage in the fast growing pharmaceuticals, computer-related, financial and business services and remote gaming sectors.

Productivity growth has lagged behind the euro area average over the past decade, but Malta remains a leader in export performance. This is reflected in the share of high-tech exports in total exports (see below under 'Access to markets').

The new Europe 2020 R&D expenditure target for Malta is 2 %, (up from 0.67 %). A new National Research and Innovation Strategy 2020 approved in February 2014 was launched on 10 June 2014, raising Malta's ambition to put knowledge and innovation at the heart of the economy by fostering knowledge-driven, value-added growth.

### 3.18.2 Access to finance and investment

Malta has performed well on access to finance in particular for SMEs. The loan guarantee scheme JEREMIE (Joint European Resources for Micro to Medium Enterprises), <sup>(386)</sup> which has been very successful, was renewed in September 2013. Tax credits for investment continue to be granted under the 'MicroInvest' scheme. Malta intends to participate in the Commission "SME initiative" by offering uncapped guarantees for capital relief.

A number of new initiatives have been launched, to help provide seed capital for potentially high-growth

<sup>(385)</sup> [http://mfin.gov.mt/en/The-Budget/Documents/The\\_Budget\\_2014/Pre\\_Budget\\_2014.pdf](http://mfin.gov.mt/en/The-Budget/Documents/The_Budget_2014/Pre_Budget_2014.pdf).

<sup>(386)</sup> JEREMIE was an initiative the European Commission developed together with the European Investment Fund for 2007-13. It promoted the use of financial instruments to improve access to finance for SMEs through European structural Funds interventions.

and innovative small businesses. They include a new guarantee scheme for start-ups agreed in January 2014 between the European Investment Fund (EIF) and the Bank of Valletta, and the allocation of EUR 100 000 to a seed capital fund to help graduates and entrepreneurs start a new business (the fund will be run jointly by the Ministry of the Economy and Investment and the Ministry of Education).

The 'Malta Trade for Growth' initiative aims to help local companies bolster their international trade, particularly with emerging markets. This EUR 50 million fund offers a reduction in interest rates on trade or receivables finance facilities. It also offers a discount on opening and advising fees for documentary letters of credit regarding international markets.

With interest rates in Malta relatively high, the Maltese authorities are reflecting on setting up crowd funding systems or a development bank to make it even easier for small businesses to access finance.

Investment in infrastructure geared towards developing innovative activities is a high priority, using European structural funds in particular. In addition to the Life Sciences Park and within it, Malta Enterprise is developing a digital hub which should be completed by the end of 2014. With the aim of stimulating small enterprise clustering, it will be able to house up to 15 new enterprises, employing around 120 people. It will also house around 12 hot desks where students and prospective entrepreneurs may work on their projects, with assistance from the businesses already set up in the hub.

The Maltese authorities continue to regularly upgrade infrastructure in the business parks they run. To date four of its industrial parks have been extensively upgraded and further upgrading is planned in the coming years.

### 3.18.3 Innovation and skills

Given the Maltese authorities' focus on innovation-driven growth and Malta's new R&D target of 2 % of GDP, the new National Research and Innovation Strategy 2020 includes a smart specialisation goal, identifying areas of the national economy that Malta can develop through innovation. The strategy will be accompanied by a rolling action plan outlining what must be done to achieve its objectives.

The National Research and Innovation Strategy 2020 is made up of three 'building blocks' aimed at tackling the shortcomings of the Maltese innovation system: support for research and innovation (helping innovative ventures to take shape and flourish), investing in a stronger knowledge base (building capacity and excellence in the earlier stages of R&D to achieve close-to-market R&D and innovation), smart and flexible specialisation (prioritising a number of thematic areas for long-term innovation). The strategy also proposes a mechanism for the co-design of implementing measures by different stakeholders, knowledge-based policy design and policy monitoring and review.

Malta must focus on three weaknesses as far as skills are concerned: a high rate of early school leaving, a relatively low rate of tertiary education attainment and an outdated vocational training system. Vocational education and training is being introduced in all mainstream secondary schools. National qualifications are being created in conjunction with further and higher education institutions and in the 2015-2016 school year, vocational education and training will be rolled out to all secondary schools in Malta.

Malta has made progress in setting up a comprehensive early school leaving monitoring system. It is also working on making education and training more relevant to the labour market and on reforming apprenticeship schemes; reforms in that area have been so far limited.

To better assess skill shortages and better match the supply and demand for skills, an employability index will be developed to alert students to job vacancies. The Employment and Training Corporation will also set up a skills bank with information from public and private educational institutions (such as the University of Malta or the Malta College of Arts, Science and Technology, (MCAST)). It will also attempt to forecast and anticipate skill shortages in a number of ways, by building closer relations with stakeholders.

A sector-specific skills committee will be appointed in 2014, with a number of sector-specific skills groups representing various local industry sectors. The sector-specific skills committee and the groups will be made up of representatives from industry, education, government and workers' representatives. The committee's main aim will be to develop

occupational standards reflecting the demands of industry and serving as benchmarks for recognising knowledge, skills and competences individuals have informally acquired.

The University of Malta and MCAST have designed new courses that are relevant to industry needs. They also have upgraded their apprenticeship schemes. Between 2014 and 2015 all courses at MCAST will be renewed, modernised and upgraded to better reflect the needs of industry. There are also plans to offer more courses as apprenticeships, to give MCAST more control over the learning process during the work stage of the apprenticeship and to integrate more work-based units as accredited parts of a course.

### 3.18.4 Energy, raw materials and sustainability

The authorities are reforming the energy system. The completion of the electricity interconnector with Sicily, expected at the end of 2014, will link Malta to the European grid. This will diversify the country's energy supply, help cut its greenhouse gas emissions and make it possible to decommission the obsolete facilities at the Marsa power plant. To further reduce Malta's reliance on imported oil, it is planned to shift energy generation to natural gas. Under an agreement between Enemalta and the Chinese company Shangai Electric Power, an existing Enemalta power plant will be converted to gas. Enemalta is about to finalise a power purchase agreement for which a consortium will be given the task of commissioning new gas producing capacities to be used in conjunction with the electricity interconnector. Malta is also considering connecting to the European Gas Network. This would result in the price of electricity for households (-25 % on average in 2014) and businesses (-15 % on average in 2015).

It remains difficult to generate renewable energy. The large scale wind energy projects, originally designed to help reach most of the national energy target for renewable energy sources (10 %), are likely to be abandoned due to environmental concerns. Malta is shifting the focus to producing decentralised renewable energy using solar panels. This was successfully sped up, but not enough to get close to reaching the national target for renewable energy sources.

Making the transport sector more efficient and reducing the impact of congestion on the economy remains key challenges. Poor performance in these areas impairs productivity growth and affects health. Preventing and reducing waste generation, increasing recycling and fostering innovative eco-friendly product design also remain a challenge. In particular, against the backdrop of water scarcity, water savings rates are still relatively low.

### 3.18.5 Access to markets, infrastructure and services

The Maltese economy is very open with exports representing over 100 % of GDP (over 25 % of which are classified as knowledge-intensive goods or services) and high-tech exports about 32 % of total goods exports, the best performance in EU27. According to the Ministry of Finance's analysis of sectors, <sup>(387)</sup> competitive advantage gains (see introduction for the corresponding sectors) are generally associated with gains in export market shares. Malta is better at gaining market shares in services than in manufacturing, and its exports of goods are more sensitive to exchange rate movements than its exports of services.

Inward foreign direct investment (FDI) is concentrated mainly in financial and insurance activities (about 80 %), followed by transport services, accommodation and real estate activities and manufacturing. Malta Enterprise has approved a number of FDI projects aimed at improving Malta's knowledge base and innovation capacity. It observed a sharp upturn of new projects approved in 2013, compared to low activity in 2010-2012. It is confident that 2014 will compare well with 2013.

### 3.18.6 Public administration and business environment

Further administrative simplifications include integrating various revenue departments (VAT, customs and Inland Revenue), simplifying social benefit procedures and the procedures for registering and procuring medicines.

Malta ranks low on the EU's league tables in terms of the efficiency of public procurement procedures. However, the average duration of the most frequently used procurement procedures was reduced by around 15 % in 2013 (from 295 days in 2010 to 249 days in 2013 – 119 days on average for the EU). In 2013, the government announced its objective of reducing the lengths of the tendering/advertising periods, and of the average adjudication period. The average tendering period in 2013 was 50.5 days and the average adjudication period was 149.5 days. The roll out of e-procurement has been completed in respect of public tenders above the EU threshold. By the end of 2014 significant progress will have been made on e-procurement take-up for tenders below the EU thresholds. The new system has received positive stakeholder feedback is expected to become more efficient over time.

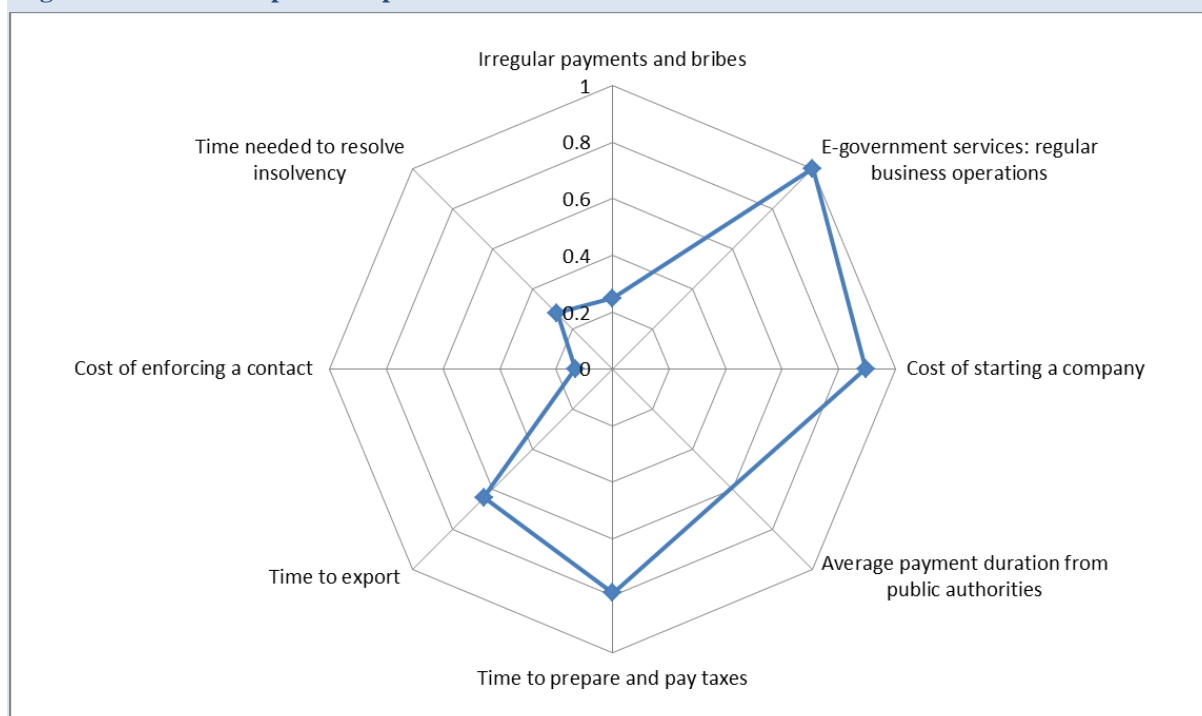
Despite on-going reform, the judicial system is still flawed. Proceedings in civil, commercial and administrative cases are shorter than before but are still amongst the highest in the EU. The courts' rate of resolving civil and commercial cases at first instance improved. However, the rate of resolving administrative cases is the lowest known in the EU. <sup>(388)</sup> The World Bank's *Doing Business* report regards insolvency procedures as flawed, - it estimates that they take up to three years to finish. The judicial reform expert commission delivered its final report to the government on 30 November 2013. It contains about 450 recommendations on improving the administration of justice. The government is consulting the stakeholders on the measures proposed. The time frame for the implementation of all the reform measures is 2014 to 2016. Some of them will require amendments to the constitution.

In the "*Doing Business*" Report 2014, Malta ranks 103rd out of 189 economies, falling by three places to the equivalent of its 2013 ranking. The Maltese authorities acknowledge that certain problems had to be solved to make it easier to do business and make the country more attractive to foreign investors. However, they have raised about the methodology used in the World Bank report and its direct applicability to all countries surveyed.

<sup>(387)</sup> For the source of this information, see note 1 above.

<sup>(388)</sup> 2014 EU Justice scoreboard, figure 7. [http://ec.europa.eu/justice/effective-justice/files/justice\\_scoreboard\\_2014\\_en.pdf](http://ec.europa.eu/justice/effective-justice/files/justice_scoreboard_2014_en.pdf)

Figure 3.18.1: Overall profile of public administration - Malta



Note: Values have been scaled so that the best observation (Member State) gets 1 and the worst gets 0.

Source: World Bank Doing business; Intrum Justitia; OECD; World Economic Forum; European Commission

While Malta has made considerable progress towards streamlining regulations since adopting the Small Business Act Malta (SBA) in 2011, progress towards implementing an SME test seems to have slowed down. New legislation requires explanatory notes and user guidelines to be provided. Those in charge of coordinating implementation of the SBA in Malta are working with those involved in drafting legislation to provide training and information on the requirements and implications of the SBA for Malta. The Maltese authorities are aiming to have passed primary and secondary legislation on the subject by the end of 2014 and to have brought it into force by the first quarter of 2015.

With regard to entrepreneurship, indicators measuring entrepreneurial activity, such as the entrepreneurship and the self-employment rate, remain below the EU average. However, the traditionally reserved attitude towards entrepreneurship seems to be changing with the entrepreneurship rate increasing from 6 % in 2009 to 17 % in 2012. <sup>(389)</sup> Schemes to promote and support entrepreneurship are in place, and at all stages

<sup>(389)</sup> See the 2013 SBA Fact Sheet for Malta at [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/malta\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/malta_en.pdf).

of education a number of measures have been put in place to foster entrepreneurial attitudes.

For example, the Malta College of Arts, Science and Technology currently offers high-level entrepreneurship courses. It is now working on expanding its entrepreneurship curriculum by offering training at all levels as part of its educational and training courses. At the beginning of 2014, Malta Enterprise was finalising an agreement with MCAST and the Kordin Business Incubation Centre to lease offices at special rates at the centre to MCAST students who are starting a business.

### 3.18.7 Conclusions

Malta has continued to weather the international crisis relatively well. Maintaining financial stability and external competitiveness remain crucial conditions for economic growth.

In terms of structural reforms, the country has adopted more ambitious plans to deliver knowledge-based growth and continues to work on improving skills, making better use of human capital, rationalising the energy supply system and

modernising and simplifying administrative procedures.

More should be done to ensure that growth and the economy in general are sustainable. Efforts to implement the Small Business Act with the help of the business community could be stepped up.

### 3.19 Netherlands

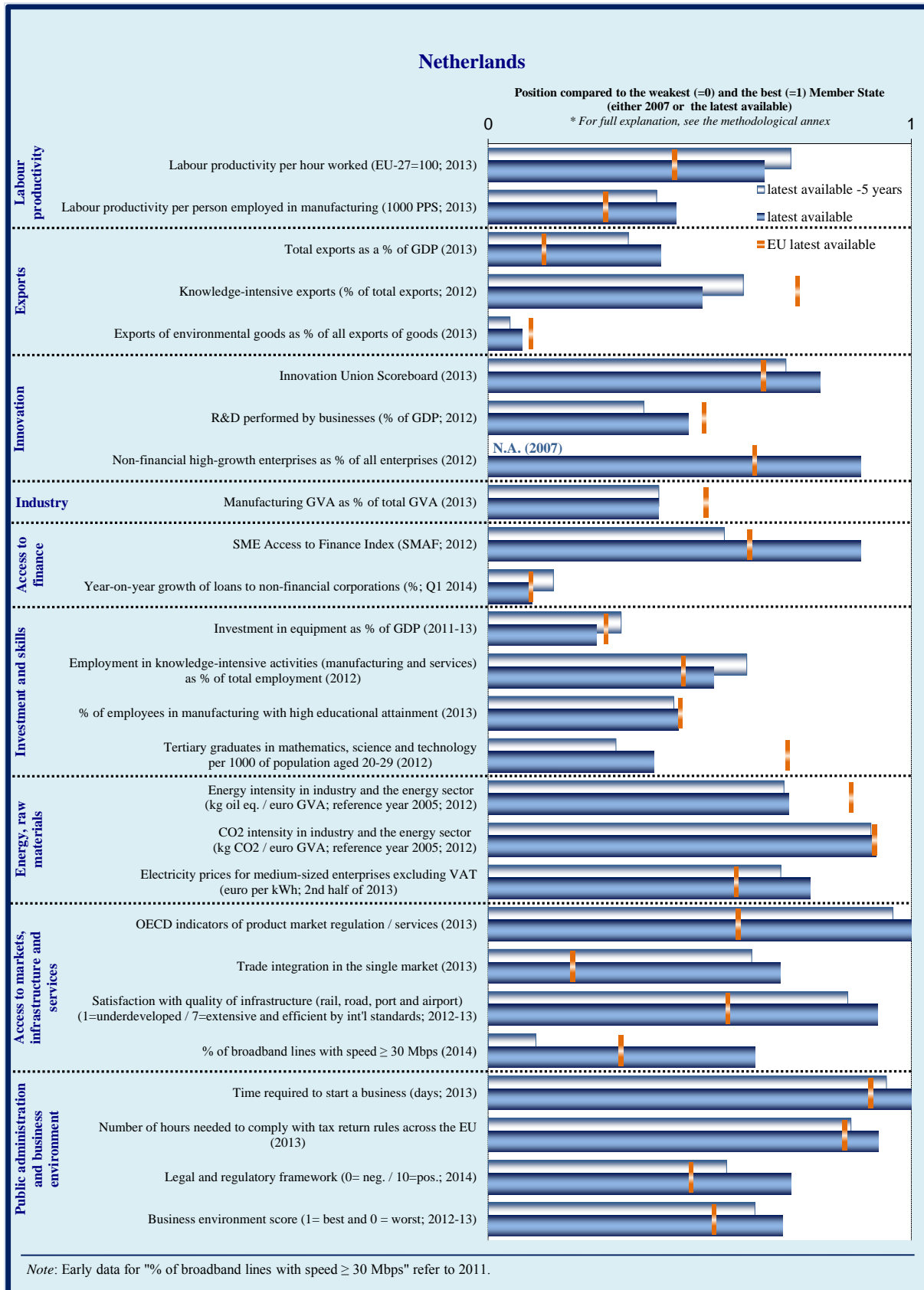
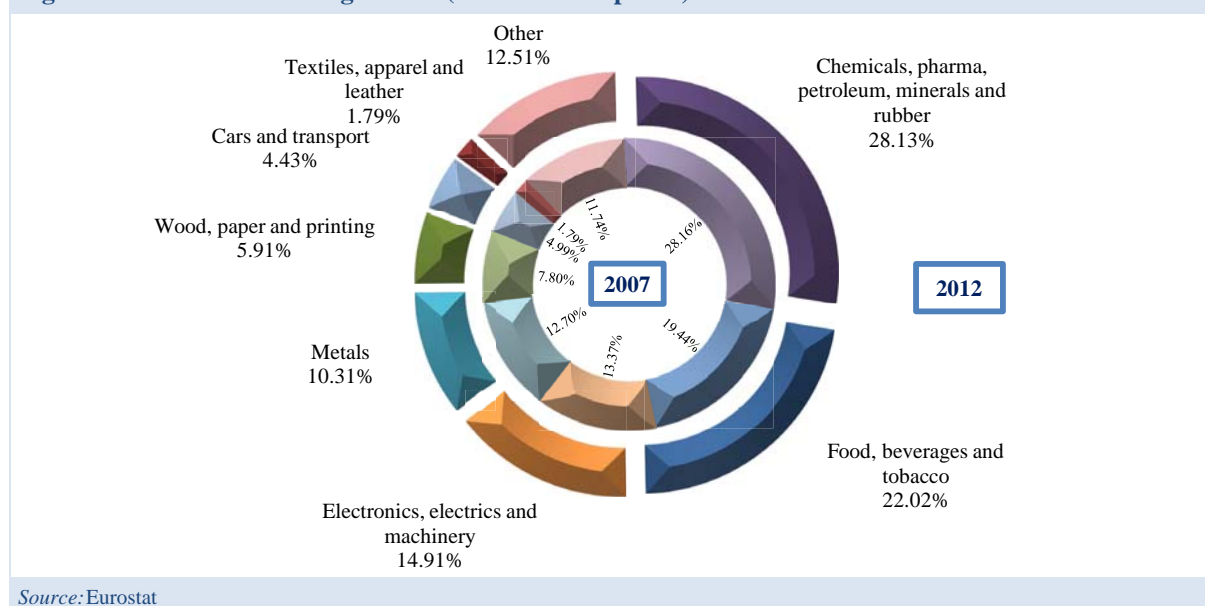


Figure 3.19.1: Manufacturing sectors (GVA at basic prices) - Netherlands



### 3.19.1 Introduction and performance

According to the Industrial Performance Scoreboard, the Netherlands is among the Member States with high and improving competitiveness. Manufacturing contributes 13 % of the total value added, slightly below the EU average (15 %). The Netherlands is specialised in capital-intensive manufacturing and medium-tech sectors such as chemical products, refined petroleum, electronics and machinery, transport equipment and foodstuffs. Price and cost competitiveness indicators are in line with euro area averages and with other industrialised countries. The Netherlands has the sixth highest labour costs in manufacturing among the EU Member States, but labour productivity per hour worked is about 29 percentage points above the EU average and about 16 percentage points above the euro area average.<sup>(390)</sup> The World Economic Forum's *Global Competitiveness Report* ranks the Netherlands in eighth place. The general business outlook is improving, as the Dutch economy is slowly emerging from a prolonged recession. Overall, Dutch industrial competitiveness is good, but maintaining and improving its competitive position in the future will be a challenge.

<sup>(390)</sup> Eurostat data for 2013

### 3.19.2 Access to finance and investment

#### *Access to finance*

The gap between bank lending conditions for SMEs and large companies seems to have widened further in 2013. According to recent ECB surveys, 20 % of SMEs, one of the highest percentages in the EU, highlighted access to finance as their biggest problem. However, demand from SMEs for credit seems relatively low compared to other Member States. Overall, around 5 % of all SMEs have their loan applications rejected, slightly higher than in Germany (3 %), but comparable to Belgium (4 %) and France (5 %). At the same time, large companies seem to benefit from improvements in financing conditions. The Dutch authorities have taken a number of measures to support SMEs' access to finance, for example by continuing existing guarantee schemes, by reinforcing available budgets and by increasing the maximum ceiling for micro-credits. For example, the budget for the guarantee scheme '*Borgstellingskrediet MKB*' has been increased from EUR 750 million to EUR 1 billion while other guarantee schemes such as '*Garantie Ondernemingsfinanciering*' and '*GroEIFaciliteit*' are being continued. The maximum ceiling for micro-credits ('*Qredits*') has been raised from EUR 50 000 to EUR 150 000 in 2013. In 2014, an additional EUR 75 million has been allocated for providing early-phase financing and the government is making further investments in the regional development associations.



It is also exploring alternative ways of financing such as crowd funding. While access to finance remains a challenge for SMEs, the situation is likely to improve as the economic recovery continues. <sup>(391)</sup>

### *Investment developments*

According to the European Commission Spring Economic Forecast, corporate investment rebounded strongly towards the end of 2013, in line with the improved business outlook. The forecast for gross fixed capital formation for this year is + 4.9 % (after two years of decline), of which + 8.2 % investments in equipment. According to the UNCTAD *World Investment Report 2014*, the Netherlands successfully attracts foreign direct investment, in particular from North America and Asia. The location, good infrastructure and favourable business environment are important factors, but the tax system also plays a role, in particular for multinational firms. The high net stock of international direct investment is partly also the result of intra-company tax optimisation. <sup>(392)</sup> The ‘Netherlands Foreign Investment Agency’ <sup>(393)</sup> provides investors with a wide range of information and support services.

### 3.19.3 Innovation and skills

#### *Innovation*

According to the Innovation Union Scoreboard 2014, the Netherlands is one of the top ‘innovation followers’. It is also catching up as regards non-R&D innovation expenditure and the innovation performance of SMEs. The government has reaffirmed its intention to reach an R&D intensity of 2.5 % of GDP by 2020. In 2012, the Netherlands spent 2.16 % of GDP on R&D (2011: 2.04 %). Private R&D investments have slightly increased to 1.22 % of GDP in 2012 but still remain below the Euro area average (1.35 %). This is partly because the Dutch economy features a large service sector and a manufacturing industry geared towards medium-tech sectors. A significant proportion of private research and development expenditure is concentrated in a limited number of large multinational firms.

<sup>(391)</sup> See also the Commission assessment of the 2014 national reform programme and stability programme for the Netherlands.

<sup>(392)</sup> See also the In-Depth Review of Macroeconomic imbalances for the Netherlands 2014.

<sup>(393)</sup> <http://www.nfia.nl>.

The government continues to pursue closer cooperation with the business sector and knowledge institutions as well as regional and local authorities to stimulate research and innovation. It is also implementing the enterprise policy “*To the Top*” <sup>(394)</sup> introduced in 2012 with its “top sectors” approach, <sup>(395)</sup> complemented by wider use of indirect support to research & innovation activities via instruments such as tax incentives and an innovation fund supporting entrepreneurship. This enterprise policy addresses a weakness in the Dutch innovation system by bringing researchers closer to businesses and by putting businesses in the driving seat when designing public-private partnerships for innovation. The strategy increasingly focuses on tackling global societal challenges, for example, in the areas of agro-food, energy or health. Stakeholders are closely involved in the process and SME participation is given particular attention. While it is still too early for a full assessment of the strategy, including the extent to which it mobilises additional private investment, its on-going implementation is promising.

Over the last few years, specific innovation subsidies have been reduced considerably and changed into generic tax incentives. The most important instruments are the SME+ Innovation Fund (*Innovatiefonds MKB+*) and tax facilities, such as the tax credit for R&D labour costs (*WBSO*), the Research & Development Allowance (*RDA*) and the tax relief for innovation (*Innovation box*). In 2014, the government has further expanded some of its instruments (including the WBSO and RDA) to provide additional support to small businesses. As highlighted in the EU2020 recommendations, it is important to safeguard public expenditure on growth-enhancing items such as research and education. <sup>(396)</sup>

#### *Skills*

Skills shortages, especially in engineering and technology-related professions, may become a bottleneck to growth and innovation. The number of technology graduates in the Netherlands is not increasing fast enough. Analyses show that each year 30 000 additional technology graduates may be needed to meet the growing demand for skilled technologists. <sup>(397)</sup> In response to these challenges,

<sup>(394)</sup> ‘*To the top: towards a new enterprise policy*’.

<sup>(395)</sup> [Progress Report on Enterprise Policy 2013](#).

<sup>(396)</sup> See also the Commission assessment of the 2014 national reform programme and stability programme for the Netherlands.

<sup>(397)</sup> [Research Centre for Education and the Labour Market](#).

the government announced its *National Technology Pact 2020* <sup>(398)</sup>, which involves commitments from both public and private stakeholders. It has identified 22 concrete measures for better adapting the educational system and the labour market to the changing requirements of the technology sector. A coordinating group composed of regional representatives, central government, employers, workers, the top sectors and the education community is monitoring its implementation. <sup>(399)</sup> Effective implementation of the strategy will be crucial to preserving and improving the innovative capacity of high-tech companies in the Netherlands.

### 3.19.4 Energy, raw materials and sustainability

#### *Energy use and prices*

The Netherlands has reached a renewable energy share of only 4.47 % by 2012, way off its EU2020 target of 14 % in 2020. <sup>(400)</sup> On 6 September 2013, more than 40 organisations, including central, regional and local government, employers and unions, environmental organisations, other civil-society organisations as well as financial institutions, signed a legally non-binding *Energy Agreement for Sustainable Growth*, <sup>(401)</sup> which commits the parties to actions contributing towards meeting EU and national targets on energy efficiency and renewable energy deployment. The main sustainability initiatives of the current government are in particular the ‘top sector approach’, the incentive scheme SDE+ for renewable energy investments, and ‘Green deals’ for energy efficiency and other environmental projects.

The ‘Green deals’ instrument is proving successful in supporting local projects and collaboration among stakeholders. Over 160 ‘Green deals’ have been signed since 2011. <sup>(402)</sup> The scheme has been broadened beyond sustainable energy and energy-saving projects.

<sup>(398)</sup> [Nationaal Techniekpact 2020](#).

<sup>(399)</sup> [www.techniekpact.nl](http://www.techniekpact.nl).

<sup>(400)</sup> See also the [Commission assessment of the 2014 national reform programme and stability programme for the Netherlands](#).

<sup>(401)</sup> [Energieakkoord voor duurzame groei \(SER 2013\)](#).

<sup>(402)</sup> [Green deal](#).

#### *Resource efficiency*

A promising development is that the government recently published an ambitious, comprehensive programme supporting the transition to a more resource-efficient and ultimately regenerative ‘circular economy’. <sup>(403)</sup> SMEs in particular could still benefit from further improvements in their resource efficiency. Environmental sustainability is now officially integrated in all ‘top sectors’ and is also taken up by the cross-cutting theme of bio-economy. The effectiveness of integrating environmental aspects and resource efficiency into the top sector approach still needs to be evaluated.

#### *Other sustainability issues*

The government pursues a sustainable procurement policy and has established targets for the procurement of environmentally friendly products. The aim is that by 2015, public authorities purchase only environmentally friendly products. Moreover, a joint programme has been launched with the business sector to find novel ways of introducing sustainable procurement that encourage innovation. At 3.9 % of GDP, the Netherlands has the second highest level of environmental taxes as a percentage of GDP in the EU. It raises significant revenues from transport taxes, notably the vehicle registration tax, and it is one of the few Member States with a significant contribution from pollution taxes, <sup>(404)</sup> mainly from water and sewage charges.

### 3.19.5 Access to markets, infrastructure and services

#### *Internationalisation*

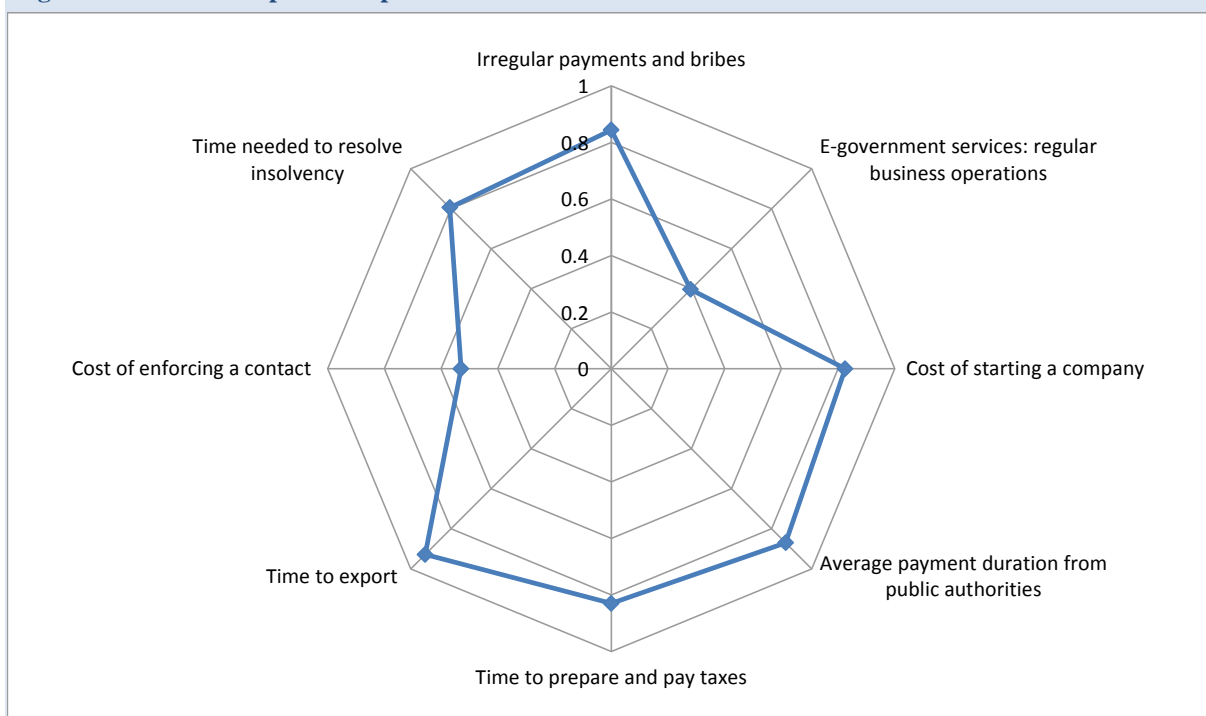
Overall, the Netherlands accounts for 9.0 % of EU exports and has one of the highest current account surpluses as a percentage of GDP in the euro area. <sup>(405)</sup> The goods balance is increasingly driven by re-exports, due to the country’s role as a major transit hub for global trade and supply chains. However, initiatives to maintain a competitive edge across exporting industries and to safeguard the value added derived from the total export volume, are important, as the value-added of re-exports is

<sup>(403)</sup> [Opportunities for a circular economy in the Netherlands](#).

<sup>(404)</sup> Eurostat, [Taxation Trends in the European Union](#), 2013.

<sup>(405)</sup> See also the [In-Depth Review of Macroeconomic imbalances for the Netherlands 2014](#).

Figure 3.19.2: Overall profile of public administration - Netherlands



Note: Values have been scaled so that the best observation (Member State) gets 1 and the worst gets 0.

Source: World Bank Doing business; Intrum Justitia; OECD; World Economic Forum; European Commission

relatively low. Exports with high domestic value added include for example agricultural products, foodstuffs, chemical products, rubber and plastics, machinery and transport equipment. Nearly 80 % of goods exports go to the EU. Compared to the EU average, Dutch SMEs tend to be more active internationally. The government supports the internationalisation of businesses, especially SMEs, through various measures, such as making available information about key markets and customs procedures, but also through export credit insurance instruments. An internet portal<sup>(406)</sup> provides enterprises with useful information, including on how to expand their business abroad.

#### *Business services and network industries*

The Dutch economy is particularly strong in financial and business services, which account for nearly a third of GDP. Several important services are included in the 'top sector' approach and therefore receive significant policy attention (e.g. energy, transport and logistics, cultural and creative industries etc). Competition in electricity supply seems to work well and changing supplier is relatively easy. Unbundling has worked well and the provision of information by

suppliers to consumers is supervised by the authority for consumers and markets.<sup>(407)</sup> The number of consumers that have switched their gas or electricity suppliers has gone up compared to previous years. According to the World Economic Forum,<sup>(408)</sup> the Netherlands is among the top countries to benefit from modern information and communication technologies.

#### *Infrastructure*

Overall, the Netherlands has maintained a very good network infrastructure and a high level of service quality in public transport, without overtly high levels of subsidies. Satisfaction with the quality of the infrastructure is among the highest in the EU. Peak hour congestion is a problem, even though the downturn of the economy and recent infrastructure developments have substantially improved traffic flows.

<sup>(407)</sup> <https://www.acm.nl/en/>.

<sup>(408)</sup> World Economic Forum, [Networked Readiness Index](#)

<sup>(406)</sup> [www.ondernemersplein.nl](http://www.ondernemersplein.nl).

### 3.19.6 Public administration and business environment

#### *Public administration*

The perceived quality of public services is relatively high.<sup>(409)</sup> The use of tools to improve public administration (such as e-government, performance and service orientation) is more widespread than average in the EU. By 2017, all enterprises will have the right to communicate and to do business with the authorities online. In general, enterprises benefit from relatively swift payment by public authorities. Public procurement processes seem to be relatively efficient, but the value of the contracts published under EU procurement legislation is among the lowest in the EU. There is a framework to systematically assess the impact of new policy and legislation. In 2013, an impact assessment commission chaired by the Prime Minister was introduced and the mandate of the Dutch advisory board on regulatory burden will be extended until 2017. However, there may be room for further improvement on implementation in practice.

In January 2014, the chamber of commerce and the innovation agency 'Syntens' were merged into one centralized organisation with a radically simplified governance structure. The number of local offices has been considerably reduced, while services provided via an internet portal are being significantly reinforced. Moreover, mandatory membership fees for enterprises have been abolished. It is still too early to assess the impact of this reorganisation, but the approach seems promising.

Much of the planned state budget consolidation should be achieved through reducing the size of the public sector and modernising public administration. Although this reduction entails considerable potential efficiency gains, it is subject to implementation risks, including preserving the high quality of public services. In addition, the government is planning to decentralise many responsibilities to municipalities. It remains to be seen whether these efficiency gains can be fully realised within the envisaged time frame.

#### *Business environment*

According to the World Bank's *Doing Business 2014* report, the Netherlands has a favourable business

environment that encourages the competitiveness of enterprises, although there may still be scope for further improvement in certain areas. It is ranked 28<sup>th</sup> out of 189 for doing business. The Netherlands has a tradition of efficient public services and a light administrative burden for businesses. In April 2013, a new programme was launched, focusing on a more qualitative approach towards reducing all regulatory burdens.<sup>(410)</sup> By 2017, a reduction of EUR 2.5 billion should be achieved in the regulatory burden on businesses, professionals and citizens, through the introduction of new regulations linked to the revision or scrapping of existing rules.

Tax compliance and tax administration are more efficient than the EU average. It takes businesses considerably less time to pay taxes and the associated administrative costs are below the EU average. Moreover, several measures have been introduced to promote the use of ICT, such as the application of Standard Business Reporting in the tax domain. The introduction of an electronic business file for exchanging data with the authorities is expected to contribute to efficiency and reducing the regulatory burden. The time required to start a business is among the shortest in the EU. The procedures for starting a business have recently been further simplified and the minimum paid-in capital requirements abolished.

### 3.19.7 Conclusions

Overall, the Netherlands ranks among the top performers in many of the competitiveness indicators of the Industrial Performance Scoreboard. The business environment supports the competitiveness of enterprises and there is a tradition of efficient public services and low administrative burden on businesses. Strengths include in particular the favourable business environment and good infrastructure, the quality of institutions, the good education system and science base as well as the efficient goods market. Moreover, the Netherlands successfully uses modern information and communication technologies to boost innovation and competitiveness.

The implementation of the enterprise policy 'To the Top' points to progress in strengthening the Dutch innovation and competitiveness performance. Nevertheless, despite the favourable framework

<sup>(409)</sup> European Commission, [Excellence in public administration for competitiveness in EU Member States](#).

<sup>(410)</sup> 'Goed geregeld, een verantwoorde vermindering van regeldruk 2012-17', 2013.

conditions, maintaining and improving its competitive position in the future will be a challenge. Further efforts to reduce skill shortages, especially in engineering and technology-related professions, are needed to increase the competitiveness of the Dutch economy. Access to finance also remains a challenge for SMEs, but the situation is likely to improve as the economic recovery continues.

### 3.20 Austria

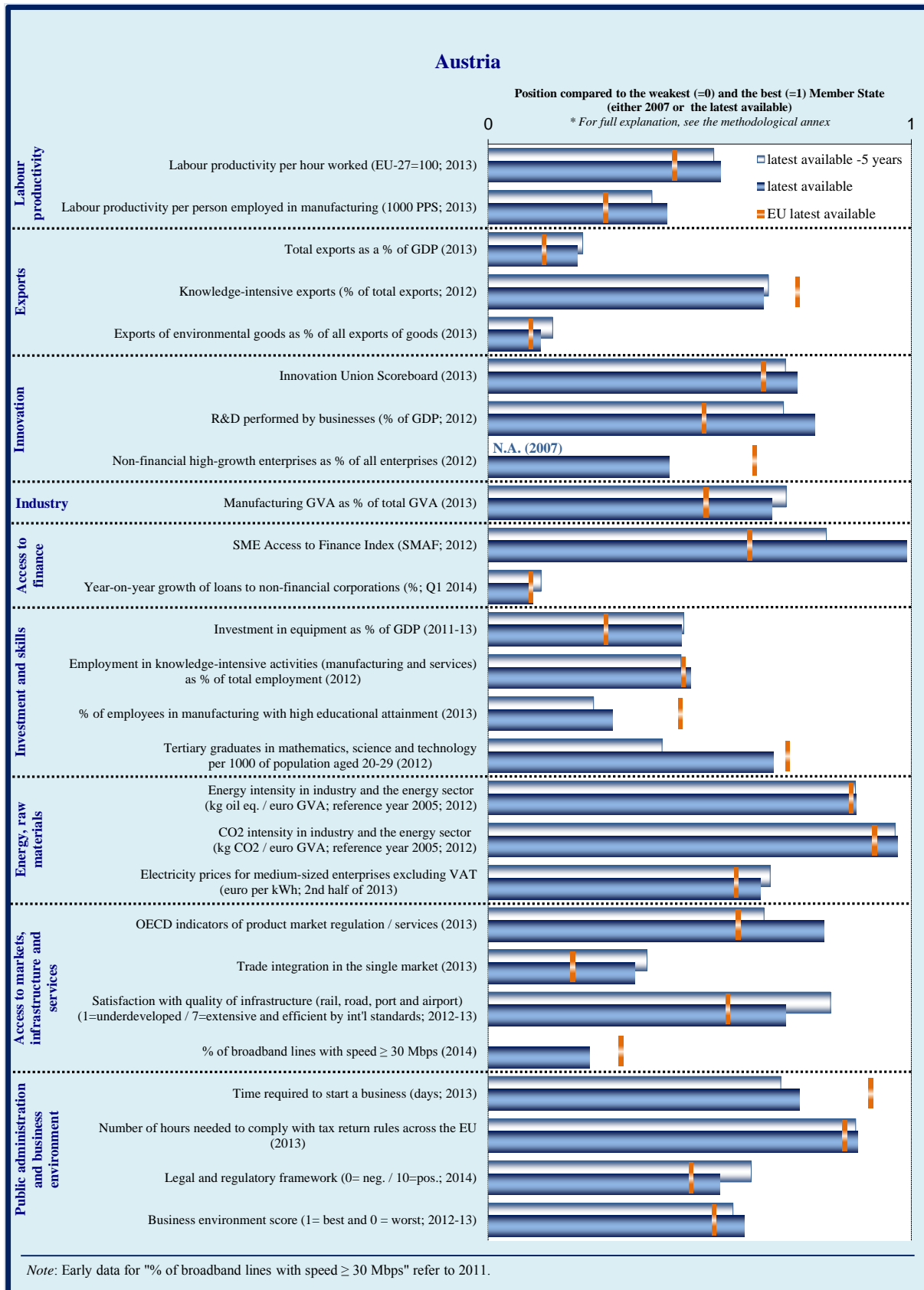
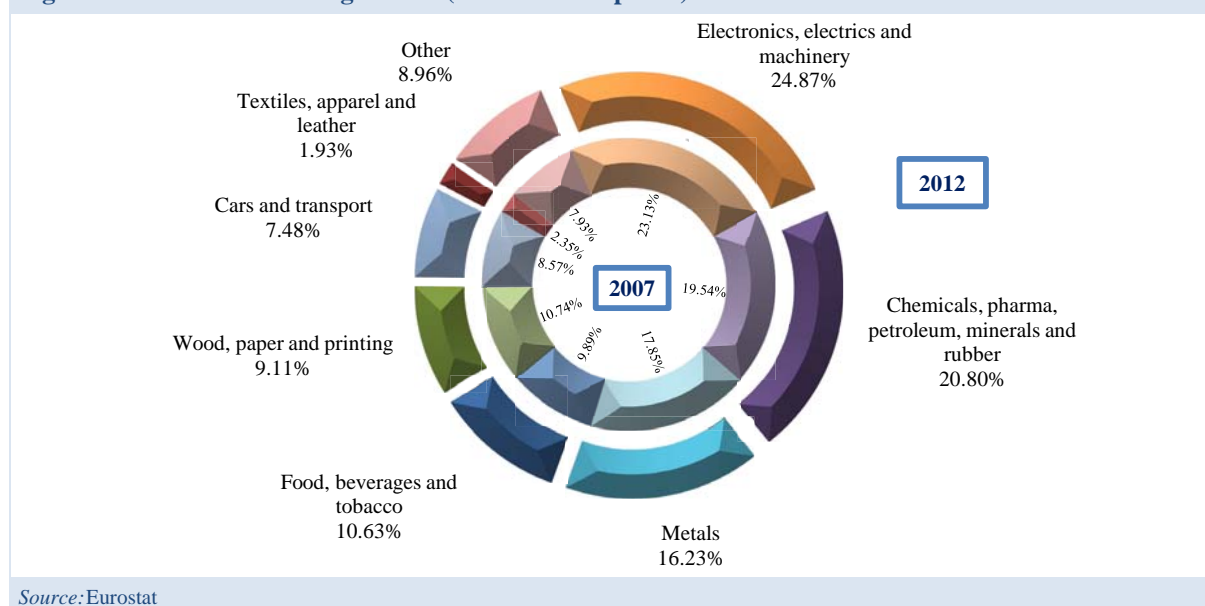


Figure 3.20.1: Manufacturing sectors (GVA at basic prices) - Austria



### 3.20.1 Introduction and performance

While the Austrian economy in general and particularly its manufacturing sector have weathered the crisis years well, it faced in 2013 an environment of perceived uncertainty, leading to slow foreign and stagnating domestic demand. Economic growth decelerated further to 0.3 % with the manufacturing sector acting as its major contributor (real growth of 1.3 %). This growth was enabled by solid labour productivity growth (real GDP per hour worked: plus 1.1 %). Exports also grew with a real annual increase of 2.7 %, which more than compensated for stagnating domestic consumption. The proportion of knowledge-intensive exports is still slightly above the (weighted) EU average (25.5 % of GDP compared to 23.6 %), but the trend is not all positive as this figure decreased for Austria in recent years while it increased in the EU as a whole.

Manufacturing continues to substantially contribute to the economy's total value added with 18.3 %, against an average of 15.1 % in the EU as a whole. If construction is included, this becomes 25 %, also above the EU average. There have been no major changes in the breakdown across manufacturing sectors in recent years.

### 3.20.2 Access to finance and investment

#### *Access to finance*

Austria continues to fare better than the EU average in most aspects of access to finance. In the current market environment, the diversified and overall stable banking system provides companies with sufficient debt financing. This includes SMEs, who, however, continue to report some restrictions in terms of availability of loans and provision of collateral. Therefore, although there is no credit crunch, there is still a question on how Austrian enterprises will be able to contribute to growth and job creation once the economic recovery picks up speed and more loans will be needed.

In this context, it is positive that enterprises' reliance on debt financing continues to decrease. Political measures taken in 2013 and prepared for 2014, including better support for start-ups and first (albeit limited) regulatory improvements to facilitate crowdfunding, help companies to strengthen their equity base. For SMEs and start-ups especially, however, further progress hinges on better incentives for investors, improved SME access to financial markets, and more effective state support. Parts of the financial sphere remain underdeveloped, and the main challenge is still to develop more alternatives to bank lending. The key bottleneck here is small-scale equity and mezzanine financing, which goes beyond the lack of venture capital. It is therefore necessary to

focus on accompanying measures that aim at improving the legislative framework for new forms of finance (crowdfunding) and a holistic approach to better match supply and demand for risk finance. An online calculator of creditworthiness (KMU Bonitätsrechner<sup>(411)</sup>) was launched in 2013 and is an innovative support tool for SMEs looking for financing. It enables them to obtain an approximate picture of their current creditworthiness.

### Investment

Total gross fixed capital formation in Austria decreased by 0.7 % in real terms in 2013.<sup>(412)</sup> There was strong variation across investment types. Whereas investments in construction grew by 1.2 % in real terms, the demand for machinery (-3.2 % in real terms) and transport equipment (-3.8 % in real terms) were significantly below the 2012 level.

## 3.20.3 Innovation and skills

### Innovation

Overall R&D spending in Austria is among the highest (5<sup>th</sup>) in the EU; Austria's total R&D intensity stands at 2.84 % of GDP (2012). Comparatively speaking it has increased well over the last 10 years. Notwithstanding on-going improvements,<sup>(413)</sup> innovation outputs and related economic effects are weaker compared to Europe's 'innovation leaders'.<sup>(414)</sup> One structural factor behind this is the increasing but still comparatively low tertiary attainment rate (27 % in 2013 against an EU average of 36.6 %, excluding ISCED 4a<sup>(415)</sup>). If ISCED 4a graduates, mainly from higher technical schools (Höhere Technische Lehranstalten), are included this difference is less pronounced. Moreover, a well-functioning dual education system provides skilled labour for rapid technical implementation in the context of innovation. Although business R&D

intensity is also above EU average, the start-up and growth dynamics of innovative firms (the percentage of employees in fast-growing firms, 4 % in 2010) are below it (6 %).

Governance of the research and innovation system has been streamlined under the new federal government, by merging the portfolios for research, science and economy in one ministry. This means that one entity will deal with research and innovation at all stages from fundamental to close-to-market.

Through a 2013 amendment to the federal public procurement law (Bundesvergabegesetz), innovation has been introduced as a secondary criterion in public tendering. A specific service was set up within the federal public procurement agency<sup>(416)</sup> that offers information, training and fora for exchanging information with other public bodies in charge of promoting innovation, research and technology, procuring administrations and potential bidders.

Within its very differentiated system of research and innovation promotion programmes Austria has two particularly successful instruments for promoting research cooperation and co-financing of industry and public research institutions: the Competence Centres for Excellent Technologies (COMET) and the Christian Doppler Labs. Both entail cooperation on basic and application-oriented research and development using public research infrastructure. A funding programme launched in 2013 with a budget of EUR 20 million promotes the development of prototypes created in projects where Austrian state universities and research institutes work together. It gives an incentive to set up strategic partnerships within the framework of the regional and thematic knowledge transfer centres.

The Markt.Start scheme provides the payment of up to EUR 1 million for newly developed products are developed as a result of publicly-funded<sup>(417)</sup> research projects.

### Skills gaps

The proportion of university students and graduates in mathematics, engineering and science aged 25 to 34 has increased in recent years but is still considered

<sup>(411)</sup> <http://kmu-bonitaet.wkoratgeber.at/>

<sup>(412)</sup> Statistik Austria

<sup>(413)</sup> Innovation Output Indicator

<sup>(414)</sup> Innovation Union Scoreboard; The gap between Austria and the group of innovation leaders is smaller when corrected for structural effects resulting from Austria's geographical situation and sectorial structure (see e.g. Österreichischer Forschungs- und Technologiebericht 2014).

<sup>(415)</sup> The International Standard Classification of Education (ISCED) is a classification scheme developed by the UNESCO to make it easier to compare education statistics and indicators across countries based on uniform and internationally-agreed definitions. It defines six levels of

education from pre-primary up to the second stage of tertiary education (e.g. PhD).

<sup>(416)</sup> Bundesbeschaffungsgesellschaft

<sup>(417)</sup> through the Forschungsförderungsgesellschaft



a potential skills bottleneck by companies and research institutions.

Austria's education system still has weaknesses that limit the optimal build-up and use of available skills, in particular those of women and citizens with migrant backgrounds. This is confirmed by recent OECD studies and continued high dropout rates for higher education. <sup>(418)</sup>

In order to promote lifelong learning a 2013 amendment to the labour law makes it possible for people to work part time for to participate in professional training measures.

The 'red-white-red card card' labour immigration management tool continues to help filling certain skills shortages in sectors with bottlenecks. These sectors are identified annually, through a decree. Almost 2000 cards were issued in 2013, taking the total to some 4600 since the scheme was launched in July 2011. Around 480 were given to third-country graduates of Austrian universities. Only about 17 % of these graduates stay in Austria, even though 31 % of them declare the intention to stay. <sup>(419)</sup> In order to facilitate the recognition of professional qualifications acquired abroad, free-of-charge consulting services on recognition procedures have been introduced at regional level in 2013. Demand for them has been substantial.

### 3.20.4 Energy, raw materials and sustainability

#### *Energy use and prices*

Austria continues to develop and implement ambitious policies in the area of energy and sustainability. As at EU level, the challenge is to avoid negative effects on industrial competitiveness. Austria's energy strategy from 2010 is a core policy document and includes targets and objectives for renewables, energy efficiency and energy security. About 70 % of the strategy's measures have been partially- or fully implemented. In terms of its energy and CO2 intensity, Austrian industry has performed

consistently well since 2005 compared to other EU Member States.

Programmes for thermal insulation of both residential and industrial buildings remain successful funding instruments at federal and state level. The federal programme has an annual budget of EUR 100 million over several years, and state-level programmes together have an average annual budget of EUR 2.6 billion. Their combined impact on energy savings is estimated at 3 700 TJ. Austria is on track to achieving its target of a renewable energy production share of 34 %. This progress is driven partly by its high usage of biomass, its traditional strong potential and usage of water power, and the impacts of the 2012 Green Electricity Act.

Electricity prices for industry have risen slightly and have remained below EU-wide trends in the last few years. Medium-sized enterprises paid 11.1 cents per kWh in 2013 compared to 10.7 cents five years before. <sup>(420)</sup> This increase is partly explained by subsidies for green electricity, at around EUR 360 million in 2012 – about 17 % more than in 2011. Most of them are paid for by industry. This development is partly caused by falling before-tax market prices.

#### *Resource efficiency*

Even though Austria is currently on track to reaching its energy efficiency target of stabilising its final energy consumption at 2005 levels (1 118 PJ), according to projections this figure will rise to 1 162 PJ by 2020, <sup>(421)</sup> indicating a need for further efforts. Greenhouse gas emissions in non-ETS sectors seem to be on track, having decreased by 12 % (2011) compared to the 2005 baseline. However, this development might be partly due to the moderate economic growth seen in recent years. A law on energy efficiency has been recently adopted. It includes a comprehensive mix of measures such as an obligation for energy suppliers to put in place energy efficiency measures for end consumers; penalties for missing energy efficiency targets; a target for public building renovation and energy demand; obligations for energy audits and energy management systems for large companies and quality standards for energy service providers.

<sup>(418)</sup> For further analysis, see Commission's Staff Working Document 'Assessment of the 2014 National Reform Programme and Stability Programme for Austria'.

<sup>(419)</sup> OECD (2011) International Migration Outlook 2011 based on Institut für Höhere Studien (2010): Internationale Studierende - Zusatzbericht der Studierenden-Sozialerhebung 2009.

<sup>(420)</sup> Source: Eurostat; prices excluding VAT and recoverable taxes and levies.

<sup>(421)</sup> Source: Reference scenario "EU Energy, transport and GHG emissions trends to 2050".

### *Other sustainability issues*

The car registration tax was modified in spring 2014, and further strengthened incentives for using vehicles with low CO<sub>2</sub> emissions. It also introduced progressive tax increases for high emission vehicles. In addition the motor vehicle insurance tax was reformed, linking the tax level to motor power and creating incentives for using weaker engines.

A recent preliminary evaluation of the green public procurement action plan from 2010 shows an increase in awareness and in the use of sustainability criteria for public procurement, as compared to 2008 at all levels of government. The downside is that procurement procedures have become increasingly complex because there are now more criteria (see also section above on innovative procurement), resulting in higher administrative burdens.

### 3.20.5 Access to markets, infrastructure and services

#### *Internationalisation*

The ‘go-international’ initiative was launched in 2003 and since then has helped Austrian companies interested in exporting to access international markets. The companies receive information, advice and financial support for market entry costs such as events, trade fairs and missions. Since the initiative’s launch, the number of exporting firms has more than doubled.

Two recent projects run by the Economic Chamber – called Webshopoffensive and Websitecheck – aim to promote and professionalise the development of e-commerce as a way of accessing new markets.

#### *Infrastructure*

There are important investments to improve the Austrian rail infrastructure (partly co-funded by the EU), in particular along the TEN-T network, including the construction of the Semmering- and Koralm tunnel along the Baltic-Adriatic corridor, upgrading of the cross border section between Vienna and Bratislava and of parts of the Rhine-Danube corridor. Further efforts to promote competition

would allow generating additional benefits from the already existing high quality infrastructure. <sup>(422)</sup>

#### *Business services and network industries*

In the Austrian professional services sector, there is room to further promote competition by reducing barriers to entry and conduct requirements. In particular, requirements relating to legal form, shareholding and professional qualifications make it very difficult to set up interdisciplinary services companies. Intentions to address this, announced both by the previous and the current government, have so far not been followed by concrete action. <sup>(423)</sup>

### 3.20.6 Public administration and business environment

#### *Public administration*

Austria continues to perform well across a number of indicators of the quality of its public administration including the World Bank’s government effectiveness indicator or the World Economic Forum’s ‘perception of burden of government regulation’.

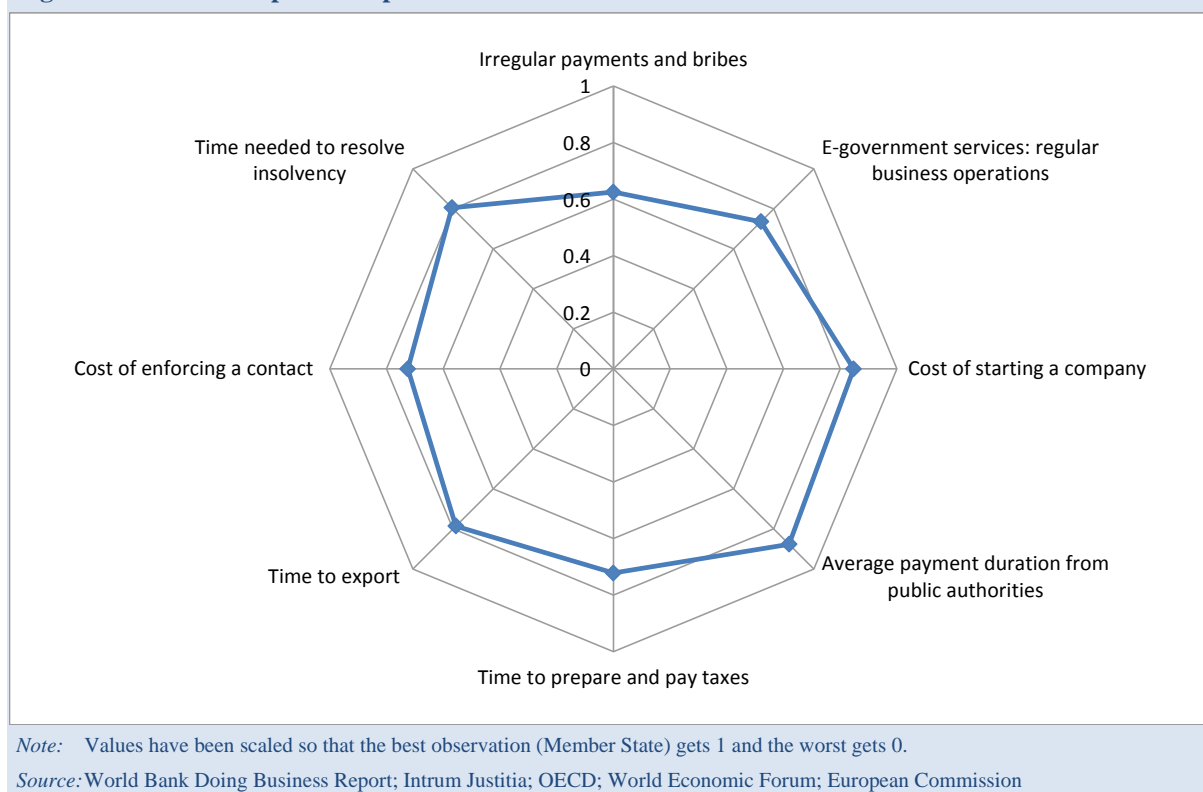
E-government services are being further developed and mainstreamed, in particular through the flagship project business service portal. At present, 20 services are offered and accessible through a single sign-on for registered users. Further services are expected to be added in 2014, for instance the administration of social insurance rights. Newly registered companies automatically have full access to these services after they complete the registration process. A complementary measure is the obligatory introduction of e-invoicing for contractors of federal administrations in January 2014. Its launch has been successful and is expected to generate savings of some EUR 4.6 million for the administrations and EUR 14 million for companies.

Another on-going major project related to administrative modernisation is the switch from the current system of 14 trade registers at three levels of government to one central system based on centralised information. It will streamline procedures

<sup>(422)</sup> For further analysis, see Commission Staff Working Document ‘Assessment of the 2014 National Reform Programme and Stability Programme for Austria’.

<sup>(423)</sup> For further analysis, see Commission Staff Working Document ‘Assessment of the 2014 National Reform Programme and Stability Programme for Austria’.

Figure 3.20.2: Overall profile of public administration - Austria



for registering trade activities and data exchange between public administrations and facilitate e-government services. Its full launch is planned for 2015.

An IT-based impact assessment system was launched in 2013. It consists of a number of modules corresponding to different types of impacts (budgetary, administrative burden, SMEs, gender equality, etc.). These are analysed depending on the content of the specific initiative and on the expected surpassing of pre-defined threshold values. A significant limitation of the system is that it does not envisage analysis of alternative policy options to the baseline and the planned proposal. It remains to be evaluated if the filtering based on threshold values and the closed questionnaire type of analysis leads to overall thorough and relevant assessments.

#### *Business environment*

Austria has further strengthened its favourable business environment, especially for SMEs. In 2013, it made further progress in several key areas of the Small Business Act, including entrepreneurship, responsive administration, state aid and public procurement, and skills & innovation. As a result,

Austria's SME sector remains among the top performers in the EU and continues to grow.

Within the spectrum of measures adopted in the above-mentioned areas, it is particularly noteworthy that the federal public procurement agency revised its internal manuals in 2013 and is offers training on making procurement practices more SME-friendly. An important element of the respective 'SME strategy' is the division of tenders into lots. <sup>(424)</sup>

Moreover, Austria has taken steps in 2013 to improve start-up conditions through a reform of the limited liability company. It reduced the needed start-up capital and related costs for notaries and lawyers and dropped the requirement for announcement in paper form. The reform has led to a boost in the rate of limited liability company start-ups, but has also had some adverse effects, as established companies merely changed legal form to reduce their equity base and save on taxes. An amendment that tackles these adverse effects entered into force in March 2014. It leaves the improved start-up conditions for this legal

<sup>(424)</sup> For further analysis about the efficiency of exploitation of the public procurement system, see Commission Staff Working Document 'Assessment of the 2014 National Reform Programme and Stability Programme for Austria'.

form unchanged for the first ten business years, including a reduced minimum corporate tax.

### 3.20.7 Conclusions

Overall, Austria has a strong and competitive economy that is driven by a dynamic manufacturing sector. High labour productivity and high exports are key pillars of this and key contributors to total value added and employment. The already favourable business environment and efficient public administration continue to be modernised. In the short term, there are no obvious bottlenecks that could put this performance into question.

However, certain structural weaknesses limit Austria's long-term potential to become an even more high-tech, high value-added economy. The catching-up process to becoming an 'innovation leader' has slowed down in spite of on-going efforts to implement the 2011 research and innovation strategy. The availability of highly skilled labour has improved, but there is further potential through increasing the number of tertiary education graduates, improving labour immigration and using more fully available skills including those of women and migrants. This would help the economy move up the innovation and high-value-added ladders. Pursuing ambitious energy and climate policies creates challenges for maintaining competitiveness in energy-intensive industries.

The limited availability of non-banking financing as well as question marks over banks' potential to provide more loans, in particular to SMEs, could limit their growth potential and ability to fully contribute to a stronger economic recovery.