2019

EUROCHAMBRES ECONOMIC SURVEY

Contents

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Foreword

Over 45,000 entrepreneurs from 26 European countries contributed to the 26th edition of the EUROCHAMBRES Economic Survey. What do they tell us? The outlook for 2019 is positive overall, but challenges lie ahead.

The results, gathered by national Chambers across the EUROCHAMBRES network, reveal labour costs and lack of skilled workers as the main concerns of European businesses. Europe's competitiveness is largely built on human capital. This model is not viable if businesses cannot find staff who match their needs. Europe risks sleepwalking into a skills crisis and this pan-European problem requires pan-European solutions, so concrete and ambitious initiatives need to be coordinated at EU level and implemented across the member states to anticipate and prepare for future skills needs.

What else do entrepreneurs say? That they remain wary of domestic demand developments, that the price of energy and raw materials is particularly felt in some Eastern countries, that Turkish, Swedish and Irish entrepreneurs are adversely affected by exchange rates, and that the impact of Brexit is the source of most concern in Ireland, Malta, Cyprus and Italy. All entrepreneurs face challenges, but we are all interlinked, so we need to work together on common solutions for a competitive Europe.

Chambers, European institutions and member states each have a role to play, but we must listen to the concerns of our citizens and entrepreneurs. Despite broad support for the European project, there is no doubt that European institutions, national governments and civil society need to work hard and do better to restore citizens' trust and confidence.

Finally, we need to realize the potential of our cooperation and complete major projects like the Single Market, improve economic cooperation and further develop the EU's growth potential. With this in mind, I am pleased to present the EUROCHAMBRES Economic Survey 2019 and I am convinced that our findings will help us build a strong and successful future of Europe together.

Christoph Leitl

President

Acknowledgments

This survey is the result of collective work. For this reason we would like to warmly thank Claudia Huber and Christoph Haushofer (*Austrian Federal Economic Chamber*); Olga Chugunska (*Bulgarian Chamber of Commerce and Industry*); Dubravka Zubak, Željko Hanzl and Zvonimir Savic (*Croatian Chamber of Economy*); Leonidas Paschalides, Lia Riris and Georgia Venizelou (*Cyprus Chamber of Commerce and Industry*); Karina Kubelková (*Czech Chamber of Commerce*); Marko Udras (*Estonian Chamber of Commerce and Industry*); Timo Vuori (*Finland Chamber of Commerce*); Anna Corlay (*French Chamber of Commerce and Industry*); Sophia Krietenbrink, Ilja Nothnagel and Sebastian Titze (*Association of German Chambers of Industry and Commerce*); Vassilis Apostolopoulos (*Union of Hellenic Chambers of Commerce*); Ágoston Horváth, Makó Ágnes and Toth Istvan Jakab (*Hungarian Chamber of Commerce and Industry*); Emma Kerins and Gabriel Doran (*Chambers Ireland*); Domenico Mauriello and Flavio Burlizzi (*Union of Italian Chambers of Commerce, Industry, Craft and Agriculture*), Daiva Vyšniauskiene, Jonuška Alfredas, Rimantas Šidlauskas and Olga Grigiene (*Lithuanian Chambers of Commerce, Industry and Crafts Association*); Laure Demezet and Christel Chatelain (*Chamber of Commerce of the Grand Duchy of Luxembourg*); Nigel Mifsud and André Fenech (*The Malta Chamber of Commerce, Enterprise and Industry*); Elmer Hammink (*Netherlands Chamber of Commerce*); Monika Sasiak and Bartlomiej Nersewicz (*Polish Chamber of Commerce*); João Paes Cabral (*Portuguese Chamber of Commerce and Industry*); Sabina Strîmbovschi (*Chamber of Commerce and Industry of Romania*); Tatjana Maksimovic and Ilic Zdravko (*Chamber of Commerce and Industry of Serbia*); Kristina Jurikova and Juraj Pala (*Slovak Chamber of Commerce and Industry*); Darja Mocnik (*Chamber of Commerce and Industry of Slovenia*); Manuel Valero (*Chamber of Commerce of Spain*); Pernilla Johansson (*Southern Sweden Chamber of Commerce*); Çagri Gürgür (*Union of Chambers and Commodity Exchanges of Turkey*).

We are also grateful to our colleagues Ben Butters, Luis Piselli and Clemens Rosenmayr for their insightful comments.

Finally, our thanks go to the 45,084 entrepreneurs who daily with their work and passion contribute to the prosperity of our countries and have dedicated their time to answer our questions.

Angelo Parnofiello-Author

Iwona Mertin-Editor and Coordinator

Introduction

The EUROCHAMBRES Economic Survey (EES 2019), currently at its 26th consecutive edition, represents a valuable source of information with regard to the economic prospects for the forthcoming year. It allows the reader to capture in concise and easily readable indexes entrepreneurial voices from the EU and beyond and to picture the economic scenario policy makers may expect for 2019.

EES is essentially a piece of qualitative research carried out through the cooperation of 26 National Chambers of Commerce and Industry spread all over the continent, relying on a sample of over 45.000 respondents. Each National Chamber conducts interviews with a standardized questionnaire and procedure and provides EUROCHAMBRES with data that are aggregated and used to obtain the indexes presented in this report. Few surveys and organizations in Europe can count on panel information characterized by such a length and richness in time. Quantitative checks of our results, mainly capturing the relation between EES indexes and actual economic outcomes, have shown that our results are in line with general economic theories and provide accurate insight on the direction of the changes we may expect in the markets next year.

The report is organized as follows: the methodology section provides information on and outlines the main features of the survey; the Executive Summary provides at a glance a picture of the overall results; the Results section contains the results in further details from the challenges entrepreneurs expect in 2019 to the EES Indexes; the section Policy Recommendations draws the conclusions and provides ideal guidelines for future action.

Methodology

This survey is the result of a coordinated effort involving EUROCHAMBRES (ECH) and 26 National Chambers (NC) of Commerce and Industry.

Each NC is provided by ECH with a standardized questionnaire, a document containing questions with regard to six different economic indicators. Subsequently each Chamber selects a representative sample of enterprises.

The questionnaire contains, as mentioned above, six different questions referring to relevant economic indicators. Respondents are asked for Question n. 1 to highlight the "Challenges" for the forthcoming year being allowed to select three options out of eight pre-selected answers at disposal. Questions from n. 2-6 require to provide general information with regard to domestic sales, exports, employment, investments and overall confidence. In particular for each item respondents indicate if they expect an "Increase", "Decrease" or "Constant" level. A sample of the questionnaire is attached in an Appendix.

Afterwards the results are aggregated at national level by each Chamber and sent to ECH for processing. At this stage national results are condensed into EES Net Balance Indexes.

EES Indexes contain information at aggregated level for each country participating in the survey. ECH collects for each question the percentages of responses each option has received, that is the percentage of enterprises declaring "Increase", "Decrease' or "Constant". The Net Balance is then calculated for each country simply as "Increase" minus "Decrease".

The EES Net Index is the result of a weighted average according to country's share in the total GDP. National results are also used for internal analysis purposes to spot specific circumstances which may be otherwise lost in the overall picture. This process is repeated for each question.

Executive Summary

The global picture emerging from this year's EES could be defined briefly as characterized by a slight decline in some of the indexes but generally positive. Compared to previous years, particularly those after the financial crisis, when growth re-gained momentum and all the indicators were pointing toward a buoyant economic expansion, EES 2019 finds moderately and relatively less confidence for next year. This is valid for the aggregated indexes, nevertheless a detailed country-by-country analysis shows a multifaceted picture.

Beginning with the challenges businesses expect to face in 2019, the most perceived problem is labour costs (42.3% of EES interviewees). Hourly wages have increased substantially over the past years almost everywhere. Eastern Europe has been affected the most: salaries have risen up and almost doubled in the last 10 years. On the other hand, Western Europe usually characterized by higher taxes and higher shares of salaries dedicated to social protection, which are generally also borne by the employer, still register the highest figures and, despite these levels, report increases in hourly payrolls. The burden represented by high levels of taxation, administrative and legal requirements usually associated with the process of hiring a new employee, contribute to add further difficulties for entrepreneurs.

Closely tied, both conceptually and numerically, lack of skilled labour follows. It is decisively at the top of entrepreneurs' concerns ranking second at 41.8%. This matter has been highlighted and addressed at various levels. EUROCHAMBRES has on many occasions called on the institutions and acted to acknowledge the problem and undertake concrete actions consequently.

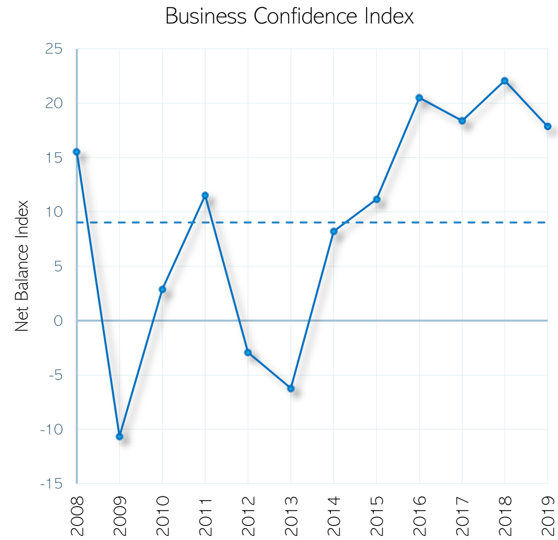

Figure 1a-EES Business Confidence Index

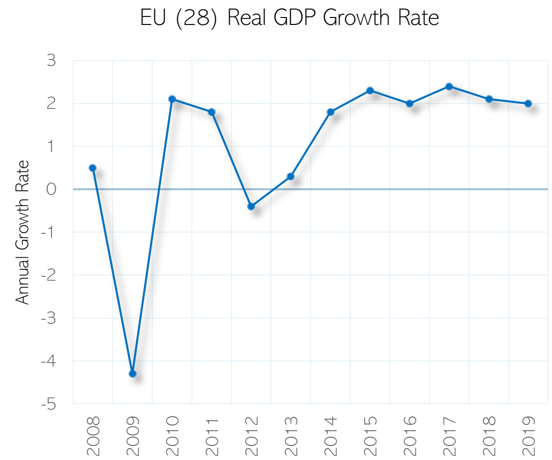

Figure 1b-EU (28) Real GDP Growth Rate (Source: Eurostat)

There are increasing signals that Europe is heading toward a skills-shortage crisis which may seriously impair its competitiveness and create a bottle-neck for further growth. These circumstances have caused in some countries, where unemployment is at historical minima, many vacancies to be left uncovered. As a consequence, this mismatch of supply and demand in the labour market, may ultimately give rise to distorted wages and therefore prices. For this reason it is of fundamental importance to protect and enhance capital, labour force and goods mobility to correct these imbalances, while investing more resources on better education in the long-run.

As already anticipated, this could also turn in a further increase of labour costs as these matters are deeply interrelated.

Another topic which has attracted attention, though at lower levels compared to EES 2018, is Domestic Demand[1], a powerful drive behind Europe's economic growth. Businesses seem to generally expect a 2019 characterized by further improvements, with national sales staying at this year's levels or possibly slightly increasing. The other items of the survey follow displaying lower figures: a) price of energy and raw materials (27.2%); b) access to financing (20,7%); c) foreign demand (16.5%); d) exchange rates (10.7%) and finally e) the impact of Brexit (7%).

Regarding EES Indexes, National Sales records a further increase compared to 2018 at 22 points, confirming the fact that this factor is one of the main drivers of the economic growth that has occurred in the last years.

Exports Sales are revised declining for 2019, probably due to rising fear of emerging trade barriers within the near future, with the relevant index dropping from 29 to 23 points.

The same pattern characterizes the trend in the indexes for expected labour force size and investments. Both show respectively a decrease from 17.3 to 15.8 and from 19.8 to 16.4.

The Business Confidence Index in conclusion is coherent with the scenario outlined so far: slightly declining if compared to the level registered in 2018 but nevertheless still positive. It scored roughly a 4 points drop from 22.1 to 17.8. This result is in line with general expectations and growth forecasts. The economy will continue to prosper but at a slower rate, with due regional exceptions.

Results

Challenges

For the EES 2019 respondents were asked to point out the main challenges they expect to face next year.

The questionnaire provided eight preselected answers and each interviewee was allowed to express at most three preferences.

The options in their exact wording are set out below:

- Domestic demand
- Foreign demand
- Labour costs
- Lack of skilled workers
- Exchange rates
- Prices of energy and raw materials
- Financing conditions
- Impact of Brexit

As briefly outlined in the previous section and as Fig. 2 shows, 42% of entrepreneurs expect labour costs to be the most important problem to face next year. These results are coherent with the economic scenario arising from actual data[2]. According to Eurostat, (nominal) hourly labour costs rose by 2.2% in the euro area (EA19) and by 2.6% in the EU28 in the second quarter of 2018, compared with the same quarter of the previous year. This increase is mainly driven by non-wages costs. Furthermore, considering a wider time span, Europe has witnessed in the last 13 years (*2004-2017*) a 35% increase in hourly wages on average.

There are significant geographical variations with Eastern Europe reporting booming hourly labour costs which are expected to keep following this trend in the coming years. Table 1 below shows a selected group of these countries with related annual growth rates

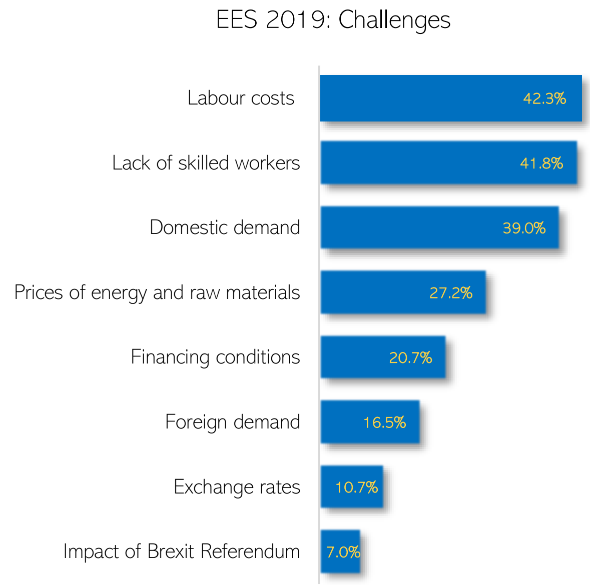

Figure 2. Challenges 2019-Weighted share of respondents (EES 26 Countries)

	2012	2013	2014	2015	2016	2017
BG	30.77	5.88	5.56	7.89	7.32	11.36
CZ	8.70	-3.00	-3.09	4.26	3.06	11.88
EE	8.86	6.98	6.52	6.12	4.81	7.34
LT	1.69	3.33	6.45	7.58	5.63	8.00
LV	0.00	5.08	4.84	4.62	7.35	9.59
PL	3.95	2.53	2.47	3.61	0.00	9.30
RO	-2.38	7.32	4.55	6.52	12.24	14.55
SK	27.14	3.37	5.43	3.09	4.00	6.73

Table 1. Nominal wages annual growth rate compared to previous year (Source: Eurostat)

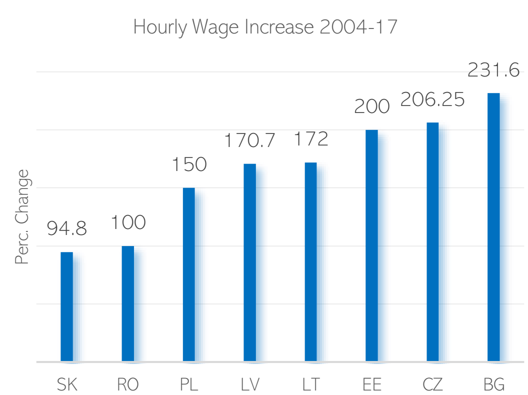

Figure 3. Overall nominal wage increase 2004-2017 (Source: Eurostat)

which generally stood around 10% on average. These rates have as a consequence caused wages to more than double in the region. In Bulgaria, the Czech Republic and Estonia there have been increases of 200%. In the other countries of the cluster (Lithuania, Latvia, Poland, Romania and Slovakia) increases of 100% or more are reported. Unemployment rates have reached historic minima and companies struggle with the *shortage of skilled labour*. With GDP growth rates among the highest in the EU the demand for labour has been growing fast. On the other hand, negative demographic trends (declining birth rates, ageing of the population) are impacting the size of the labour force. Furthermore, these countries are net suppliers of workers within the EU, a fact that exacerbates labour shortages.

In absolute terms Finland, Germany, Netherlands, Austria, France, Luxembourg and Sweden have the highest labour costs among surveyed countries with compensations above 30 euros per hour. Despite already high levels, Euro zone labour costs rose at their steepest rate in almost six years in the second quarter of 2018. In the long run, if labour force and capital mobility in Europe are granted and the goal of a fully-fledged single market is pursued, we may witness a balancing of labour costs across the continent, technically called wage equalization. The pressure on wages in the east is getting stronger as outlined above, where lower labour costs have attracted a considerable amount of investments increasing labour demand, while in the west this may cause salaries and wages to be stationary, where unemployment rates are also slightly higher.

As shown in Figure 4 on the right, the countries where this topic has attracted attention the most are Estonia, Italy, the Czech Republic and France while, on the other hand, it seems to be of secondary importance in Serbia, Turkey, Finland, Portugal and Cyprus.

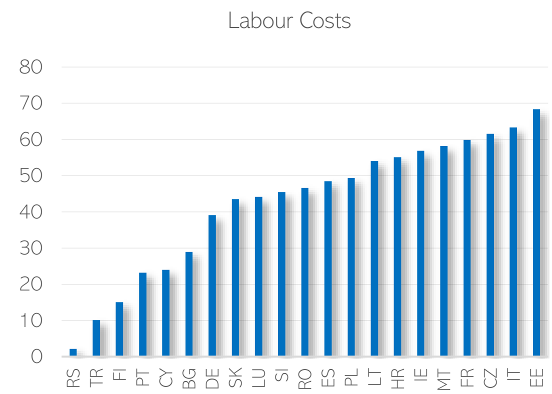

Figure 4-Labour Costs percentages by country.

Following immediately Labour Costs, EES results report Lack of Skilled Workers as an issue worthy of attention as much as the previous one with 41.8% of respondents. This problem is the result of structural changes that are affecting the nature of work, the way goods and services are produced and traded, and ultimately also consumers behaviours. Generally, it seems that education systems across the surveyed countries are not able to keep up with the changes in business practices and technology that are defining what kinds of jobs will be created. Furthermore, the pace at which these changes affect the markets have increasingly accelerated making it difficult to adapt. Designing and implementing education systems reforms is costly and requires long time before a fully-fledged result may be subject to assessment. It is necessary to find ways to incentivize training provided by companies and firms. This may be achieved by creating fiscal incentives or preferential taxation schemes for resources spent on these activities.

Due attention nevertheless should be paid to SMEs as the result of these measures could end up benefiting mainly large enterprises which generally already have means and consolidated practices for the purpose.

It is also of great importance to ensure that European entrepreneurs are granted a high level of labour mobility with as little friction as possible.

Figure 5-Lack of skilled worker percentages by country.

The countries where this issue is having higher priority are:

- Bulgaria (63%)
- Czech Republic (59%)
- Germany (62%)
- Lithuania (66%)
- Luxembourg (65%)
- Malta (72%)
- Netherlands (62%)
- Slovenia (64%)
- Sweden (54%)

These countries differ for several reasons, and therefore the causes at the root of the problem will, as a consequence, be different. The picture outlined here is intended for descriptive purposes only, nevertheless it may shed light on problems that could be subject to further inquiries and research.

Education and training are the immediate factors to investigate in order to understand why they stand as outliers. A recently published CEDEFOP (2018) working paper, presenting a comparative study on VET and apprenticeships in Europe, identified at least one apprenticeship scheme which had a stable/valid legal basis and is mainstreamed at system level in 24 out of the 30 countries covered. No system-level mainstream apprenticeship schemes were identified in six countries: Bulgaria, Czech Republic, Lithuania, Malta, Slovenia and Slovakia, which could be one of the reasons why these countries have reported higher-than-average values in this year's EES. Nevertheless, some of these countries have undertaken pilot projects which have as their main objective the creation of specific VET programs provided by companies themselves.

Another factor which could also possibly have an influence, is the proportion of early leavers from education programs[3]. Malta and Bulgaria which are some of the countries most affected by the lack of skills as EES data shows, also have higher numbers of early leavers compared to other European countries. The EU average stands at 10.6 % and relates to the share of 18-24 olds individuals who, in 2017, had completed at most a lower secondary education and were not in further education or training. Malta and Bulgaria reported 18% and 12.7% respectively.

EES results could therefore, for different reasons, be symptomatic of underlying problems, as those just mentioned. These may as well be reflected in the Job Vacancy Rate[4]. As showed in Fig. below the overall Job Vacancy Rate in the European Union has almost doubled in the last seven years. This percentage is obtained as the ratio of vacant over total number of posts available (occupied plus vacant). This means that more jobs are available and supplied on the labour market and the chances that these may be left uncovered for a longer time are higher, as suggested by EES 2019 results, partly due to skill and/or demand-supply mismatches.

Looking specifically by country, the highest job vacancy rates in the second quarter of 2018 were recorded in the Czech Republic (5.4 %), the Netherlands (3.1 %) and Germany

(2.9 %), figures which again partly match the list of outliers of above. Entrepreneurs in these countries are in fact facing more difficulties in finding appropriate human resources.

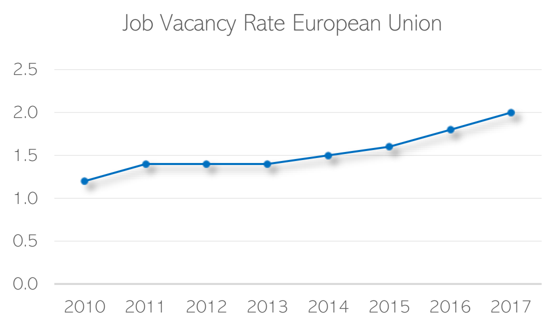

Figure 6-EU 28 Job Vacancy Rate time series (Source: Eurostat)

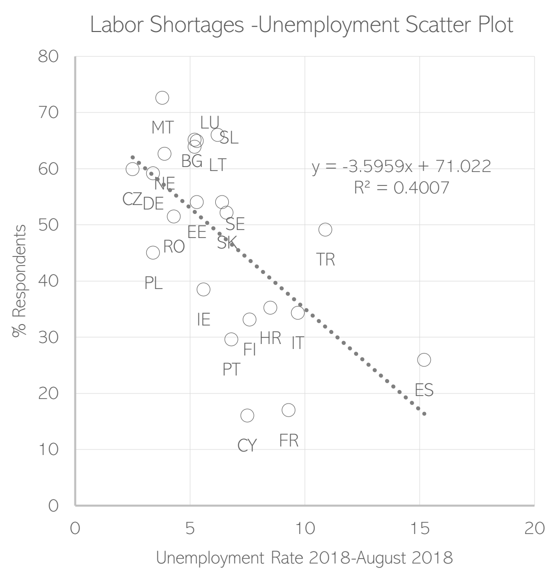

Figure 7- Labor Shortages-Unemployment Scatter Plot-(Source: EES 2019; Eurostat)

Generally, when the proportion of unemployed over the total available labour force is high it should be easier for employers to cover vacancies and chances to find a qualified worker could be higher. This assumption has been confirmed by the EES responses: each country has been positioned in the scatter box above with respect to percentage of respondents indicating "Lack of Skilled Labour" and the relevant unemployment rate registered in August 2018. As the picture suggests the relation is negative, i.e. as the unemployment rate grows, the percentage of respondents tends to decrease on average. Namely for each additional unit in unemployment EES values tend to decrease by 4 percentage points on average[5].

The third challenge in line is "Domestic Demand". 39% (weighted average over GDP) of respondents over the whole sample have indicated this item as being a possible negative factor for next year.

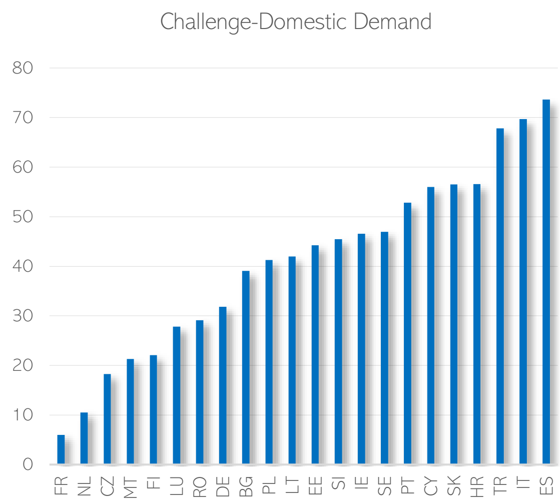

Figure 8-Domestic demand percentages by country-(EES 2019 Data)

The 2013-18 economic growth in Europe has been consistently driven by domestic demand broadly speaking. Further growth may be still fostered by this factor. The countries where this challenge is expected to have the highest impact are Spain, Italy, Turkey, Croatia, Slovakia, Cyprus and Portugal, where more than half of respondents fear unfavourable changes.

Spain[6] is projected to grow, in line with EU average, by 2.2% in real terms. Nevertheless, if data on contribution to growth are considered, by breaking down the role each factor (investments, private consumption, public consumption, net exports) has played from 2015 onward, it is immediately evident that private consumption (i.e. domestic demand) has constantly declined. On the other hand, investments have compensated this fall together with public consumption. It is realistic therefore to state that Spanish firms and companies may have in fact experienced (or may expect) a drop in the volumes of orders.

Italy[7], despite showing signs of recovery in the last years, has lost momentum in 2018. In line with other countries, the recovery has been driven by domestic demand which, between 2016 and 2017 recorded a slight decrease. The rate at which the Italian economy is expected to grow in 2019 is lower, compared to 2018, which may justify the fact that "Domestic Demand" concerns Italian entrepreneurs.

Turkey[8], in line with the other countries has benefited of a favourable conjuncture during the last years, recording positive growth rates year on year, growth which has mainly been driven by exports in this case. The Turkish Lira has been highly volatile, especially at the beginning of 2018, with high inflation rates and strong depreciation on the exchange markets. This has impaired consumers' purchasing power which could eventually result in decreasing domestic demand. Disinflation is projected to be slow.

Croatia[9] also fits well the picture outlined for the countries above, with private consumption being one of the main leading factors of growth. The country has nevertheless experienced a slight and unexpected slowdown in 2017-Q4 and growth for 2019 is projected positive but at a slower rate compared to this year. The "Business Confidence Index" for 2019 is also negative for the second consecutive year.

Results from Slovakia[10] are rather contrasting with the situation the country has faced this year and 2019 forecasts. Further inquiries and research, possibly looking at the sectors most affected by these negative responses on domestic demand, could help to have more details and understand the causes at the root of the matter. The same applies to the Cypriot economy.

Beyond these case-by-case scenarios for those countries where the figures were higher than average, "Domestic Demand" as already said has gained the third position in this EES edition. This result at first sight may appear in contrast with what the EES Index for expected National Sales reports. The latter records a further increase for 2019 compared to 2018. It is important to bear in mind that EES Indexes are the result of an aggregated and weighted average. Breaking them down into single components and analysing the results on a country by country basis may help explain this apparent contradiction. The scatter-plot below places each country on the plotting area according to % reporting Domestic Demand (DD) as a challenge and % indicating an expected net increase in national sales.

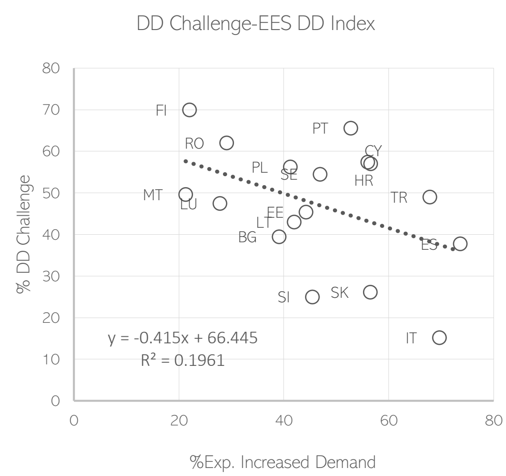

Figure 9-Domestic demand %Challenge-National sales net index scatter-plot-(EES 2019 data)

As visibly evident from the scatter-plot above in Figure 9, on average as the percentage of those expecting higher national sales in 2019 increases on the X axis, so the percentage of respondents in each country indicating DD as a challenge for 2019 declines. Therefore, despite the apparent contradiction resulting from Question 1 and 2, the picture emerging from the decomposition of the index indicates that the answers received are internally consistent.

In the fourth place, "Price of energy and raw materials" received 27 percentage points (weighted average of national results over share in total GDP). Almost one out of three of the EES respondents is concerned about increasing prices, which may eventually turn out negative for competitiveness. This result is particularly driven by some eastern European countries and Italy.

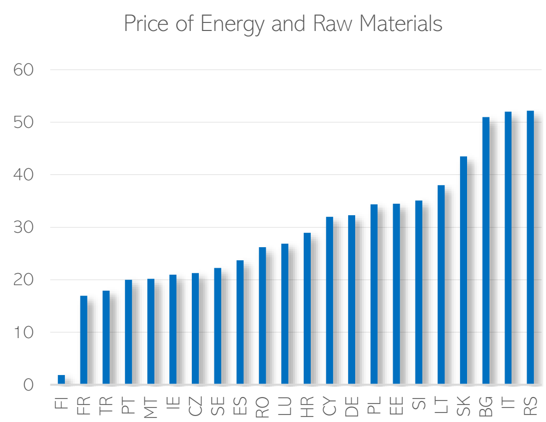

Figure 10-Price of energy and raw materials percentages by country-(EES Data)

Generally crude oil prices have been on the rise over the last years together with natural gas. Geopolitical tensions and instability in certain areas of the globe, have provoked volatile prices and, in some cases, supplies at prices artificially inflated. It is fundamental that these problems are solved as rapidly as possible. Besides efforts for a better integrated and thus for a more competitive energy market, Europe must continue to invest and research in alternative and cleaner sources of energy. This aspect is of primary importance both strategically and commercially, particularly when about half of the energy demand in the EU is satisfied through imports from third countries all over the world. This represents a burden and a factor difficult to control and which could potentially have consistent repercussions on our enterprises. Keeping a productive plant at fully functioning capacity entails high energy-related fixed costs.

The European Institutions could represent a forum to discuss these matters. Given the effort required and the scale of this subject, they are a political body capable of gathering and coordinating the appropriate resources, both financial and political.

Moving forward, "Financing conditions" has gained the fifth place for 2019 attracting the attention of 20% of EES interviewees (weighted average of national results over share in total GDP). Accessing finance is a concern for a lower share of entrepreneurs. Nevertheless, many micro and small companies still face difficulties. Interest rates on the other hand have reached rather low levels. This is the result of favourable monetary policies, pursued in the Eurozone for example, which have had a considerable and positive impact on the cost of borrowing. As a result accessing finance is more convenient and affordable to a greater proportion of agents.

Additionally, institutional actors have played also an important role at different levels, from local authorities to European Institutions. EIB Group-supported investments for example mobilized EUR 544 billion between 2015 and 2016. Furthermore, the actions undertaken in the context of the EFSI are expected to boost investments in the EU economy in the coming years totaling some EUR 161 billion. By 2020 European GDP is expected to increase by 0.67% and some 690.000 jobs are expected to have been created due to these activities to the benefit of over 700.000 SMEs (*EIB data and forecast*).

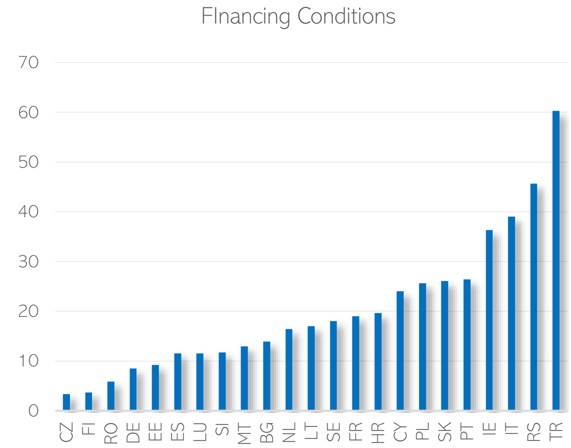

Figure 11-Financing conditions percentages by country-(EES 2019 Data)

As said, this is a topic which has generally caused relatively less concern compared to other challenges. Nevertheless, there are some exceptions, as it is the case for Turkey (60%), Serbia (45%), Italy (39%) and Ireland (36%) which have all reported data above the average.

The Turkish economy, as already mentioned above, has suffered from the swings that the Lira has experienced in the last year. As a consequence, the banking sector also has found itself in a weaker position with capitalization problems and declining assets quality.

In Serbia, SMEs tend to rely on their own resources and with difficulties apply for credit, which is usually represented by bank loans with little presence of other instruments (e.g. equity investments). Additionally, interest rates are relatively high making borrowing prohibitive.

In Italy the latest political developments (both domestic and international) have added a margin of uncertainty on different fronts. Italian banks are highly exposed on domestic sovereign bonds and questions on the sustainability of this debt/GDP level have contributed to cast uncertainty over the near future. Internal funding costs have been rising for Italian principal lenders which will ultimately ask for higher returns on loans. Hence, higher borrowing costs are feared for the coming years, as signalled by the feedback received from this country in this year EES. This is confirmed also in the last published survey on expected growth and inflation by Banca d'Italia[11] (2018, Q2).

According to the SMEs Market Report published by the Irish Central Bank[12], SMEs in this country suffer from higher rejection rates (almost double) compared to other EU countries. Furthermore, the interest rates for loans below 0.25 million for non-financial corporations in Ireland as of March 2018 was almost double compared to elsewhere in Europe (5.2 vs 2.6 on average). These factors make access to finance for Irish enterprises rather difficult explaining why this country stands out in this section. Hence, despite a buoyant growth rate projected for next year, this is a problem that deserves further attention and research, and action should be undertaken to avoid a deceleration in the economy due to difficult and costly access to capital.

Moving ahead with following items, "Foreign Demand" collected 16.5% of responses. With global GDP growth outside the EU now expected at 4.1% in both 2018 and 2019, compared to 3.8% in 2017, it is reasonable to expect satisfying volumes of trade both intra and extra EU. Positive expectations are mostly concentrated in advanced economies, particularly the US, but prospects have also improved for some emerging markets, including China. More specifically, global import volumes (outside the EU) are expected to have grown by 4.6% (y-o-y) in 2017 (compared to 1.3% in 2016), The momentum has continued to carry on throughout 2018 but it is expected to moderate slightly in 2019[13]. In line with the latter projection, EES respondents anticipate on average a relative reduction on foreign sales (see below). This could be partly due to increasing concern over re-emerging trade barriers, sanctions and confrontation among some countries which may undermine the liberal trend that has characterized international trade in the last period. Therefore, despite positive growth and demand forecast for next year, entrepreneurs begin to fear disruptive forces which may reduce the scope of their action in this sector of trade. It is fundamental to work multilaterally, seeking positive solutions and agreements in international fora. Political and social stability is an essential factor to secure trade and investments, which are essential factors for prosperous and peaceful economies.

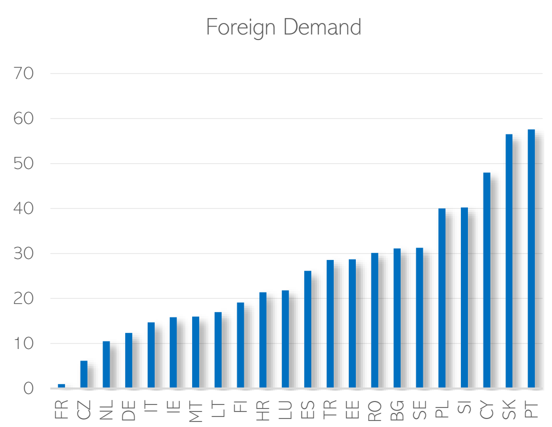

Figure 12-Foreign demand percentages by country (EES Data)

There are important geographical variations with Portugal, Slovakia, Cyprus, Slovenia and Poland being the countries where the issue is most felt.

More than 50% of Portuguese entrepreneurs expect foreign demand to be a challenge in 2019. The country has experienced a slowdown in the growth rate at the beginning of 2018 and apparently this was caused by weaker net exports. Regarding 2019, according to EC forecasts[14], the contribution of exports to growth (expected at 2%), will be even less significant, in line with what EES responses from this country suggest.

Similarly to Portugal, the share of Slovak companies concerned by this issue is above 50%. The Slovak economy is characterized by large volumes of exports especially in vehicles and car components (*World Bank Data on Trade, 2016*). Recent developments in the international arena have caused increasing concern. Nevertheless, the outlook for 2019 remains globally positive.

As for Cyprus, exports for this country have increased in the period Jan-Jul 2018 compared to last year, improving its current account balance position. Nevertheless, almost 50% entrepreneurs expect possibly a reduction or a challenging scenario for 2019. A closer look to other EES items may help partially explain this situation. One of Cyprus principal trade partners with regard to exports is the United Kingdom. Accordingly, Cypriot results for "Impact of Brexit" display values above the average compared to other participants to the survey. Hence, the uncertainty surrounding the divorce between the EU and the UK, could be at the root of this concern.

Slovenia is one of those countries where wages have been growing at a fast rate in the last years. This has caused increasing costs for enterprises which have resulted in diminishing margins for those who are involved in export activities. As a result, according to OECD analysis[15], the share of gains in this market on the overall economy is forecast to decrease in 2019.

The same justification as above, together with uncertainty surrounding international trade more generally, may suit the results coming from Polish interviewees (40%) who expect a rather challenging 2019 with regard to this topic.

"Exchange Rates" and "Impact of Brexit" are the closing items of this section which have respectively been addressed by 10.7 % and 7% of EES respondents. They nevertheless deserve special attention since, for some countries in particular, these are definitely going to be problems which need to be promptly tackled.

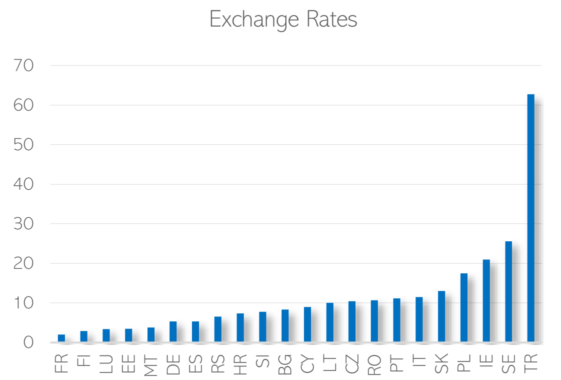

Figure 13-Exchange rates percentages by country (EES Data).

Beginning with exchange rates, for countries in the eurozone the values displayed are rather low, between 2 and 10 percent of respondents.

Turkey for the reasons already explained above has experienced turbulence on the exchange markets, so the figure from this country does not emerge as unexpected (62%)

Swedish respondents also reports a higher than average result (20%). The Swedish Krona has depreciated against the Euro over the last year. This has probably made Swedish exports more attractive for foreign markets but it could surely represent a challenge for those sectors of the economy that rely on imported supplies which, as a result, have become more expensive in terms of the national currency. It is worth considering that as of 2016 almost 30% of Swedish imports were from Germany and the Netherlands, both EMU countries[16]. The same has happened against the Pound Sterling, with UK being the fifth most important trade partner for this economy. As an open economy, Sweden is rather subject to international variations, and the volatility on the exchange markets does not make it easy to plan activities.

More than 20% of Irish entrepreneurs are concerned about what has been happening and could potentially unfold on foreign exchanges markets. As is well known, in the wake of the uncertainty created by the referendum in the UK, the Euro has appreciated against the Pound. Since the biggest trade deficit Ireland has on record is with the United Kingdom[17], it is evident as this may have created an abundantly favourable condition for those companies relying on imports. On the other hand, since exports to that country are also significant, this may have had negative repercussions on companies involved in these activities, What could be expected next is rather more nebulous and could therefore be the reason for a challenging 2019. The other main Irish trade partner are the US. A strong Euro in this relation did not help and in this case as well the exchange rate has been rather volatile.

Finally "Impact of Brexit" scores 7 percentage points (weighted average over share in total GDP).

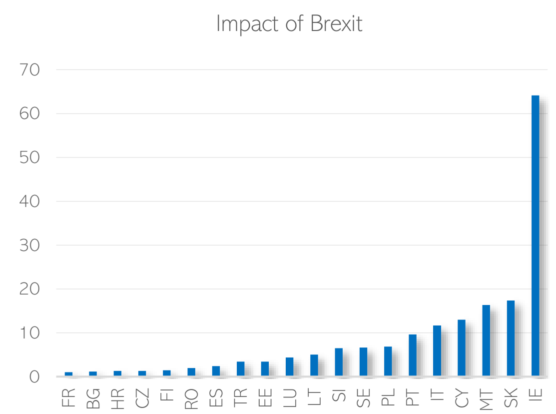

Figure 14-Impact of Brexit percentages by country (EES Data)

As predictable also for the reasons outlined above, in Ireland the impact of Brexit is at the top of concerns where more than 60% of respondents have expressed their regarding this matter. The unresolved question of the border with Northern Ireland and its status in relation to the European Customs Union, the uncertainty regarding the overall results of the negotiations, the nature of the deal and the very question of whether one will be reached, are continuously adding uncertainty for economic actors in this region. This could have potentially negative effects on the Irish economy and entrepreneurs are obviously worried. It is unquestionable nevertheless that new frictions will arise and this will ultimately add more costs which Irish and British firms will have to bear. This could potentially have heavy effects on GDP and growth in the coming years. According to an assessment made by the Irish government[18], estimates show that Ireland's GDP would be 4.3% worse off under a free trade agreement Brexit, with exports declining by 4.5% and imports by 4.8%. The worse scenario for Ireland would be if no deal is reached within the deadline of the negotiations and thereafter takes place on WTO terms. This would could potentially hit Ireland's GDP and cause potential losses amounting at 7.7% off its exports and 8.2% off its imports. Even in a "soft" EEA-style Brexit, in which the UK would remain in the single market, the Irish economy would be left in a worse state, with GDP decreasing by 2.8%, imports by 3.3% and exports by 3.5%.

Concerning the rest of the countries displaying higher values for this item, namely Slovakia, Malta, Cyprus and Italy, it is evident from trade statistics (*World Bank Group Data*) that these countries are generally strong economic partners with the UK and therefore, as it is the case for Ireland, concerns over the final outcome of Brexit are rather easily predictable.

EES Indexes

National Sales

EES Interviewees were asked to anticipate the level of revenues deriving from national sales in 2019. As for all the following questions, three options were available: Increase; Remain Constant; Decrease.

EES collects the percentages each option has received in each country. The balance is calculated as %Increase minus %Decrease. Resulting values are weighted over the share in the total GDP of EES Countries and summed to obtain the index hereunder presented.

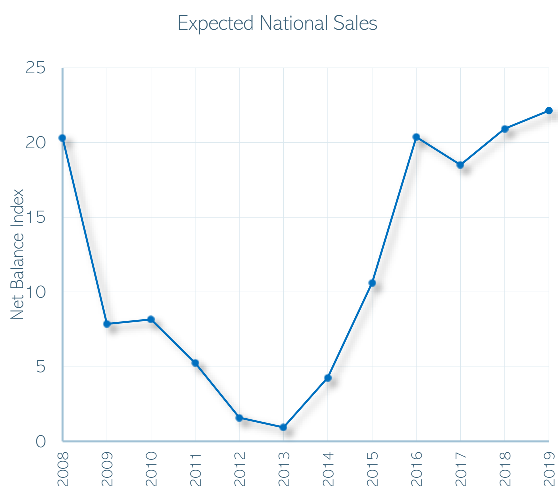

Figure 1-National Sales Balance Index (EES Data)

As anticipated above, domestic demand has been at the core of the economic recovery in several European countries and is projected to be one of the major drivers also in 2019. This year index for national sales sets a further increase on record, passing from 20.9 to 22.1 points. There is growing confidence overall on the expected volumes of sales.

Among the 26 surveyed countries none has reported a negative balance. The highest expected increase has been registered in Finland, Portugal, Romania, Cyprus, Croatia and Poland. On the other hand, a rather levelled off 2019 is expected in France and Italy, where nevertheless the balance is still positive.

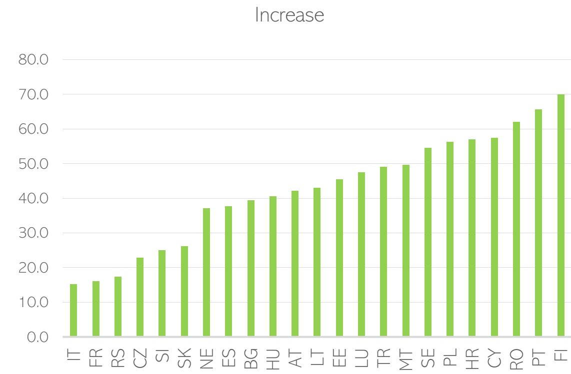

Figure 2-Percentage of respondent expecting "Increase" 2019 per country (EES Data).

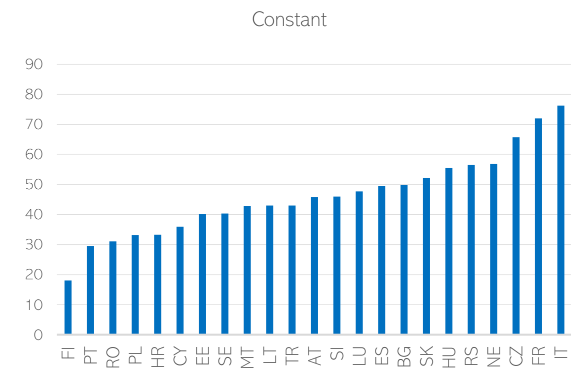

Figure 3- Percentage of respondent expecting "Constant" 2019 per country (EES Data).

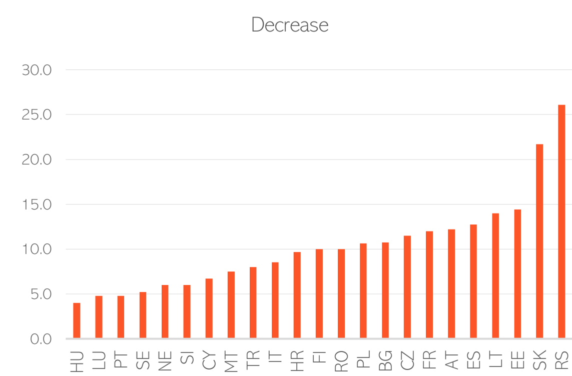

Figure 4-Percentage of respondent expecting "Decrease" 2019 per country (EES Data).

The most relevant reductions in revenues are expected in Serbia and Slovakia, which have clearly reported values above the average compared to other countries.

Overall for 2019 it is possible to expect therefore satisfying and potentially growing levels of expenditure across Europe and beyond. Positive signals are also coming from consumers' side. According to last data (Oct. 2018) available published by the European Commission DG ECFIN[19], Consumers Confidence Index stood well above its long term average in the EU 28 sending encouraging signals also for the near future.

Export Sales

The third question related to expected revenues from export sales. This item of the survey was set following the same procedure for question 2.

Figure 5-Expected Export Sales Net Index (EES Data).

The index for 2019 is in decline compared to last year, dropping to 23.5 points, signalling that some European enterprises fear overall a possible reduction of the level of exports. Nevertheless it sets on positive values, which means that the share of those expecting an increase still outweighs the share of respondents anticipating reductions. Hence exports may continue to grow but at a slower rate.

Despite positive growth rates foreseen worldwide[20], with the economy in the US accelerating, as well as in China and India, expectations for some interviewees are pointing toward a contraction of the volumes. In other words, positive growth outside and in the EU could potentially mean higher foreign demand for national goods, especially for export driven economies. Increasing uncertainties with regard to the international trade environment, rising confrontations and signals of rising protectionism, are all factors undermining expectations for the future. There is a concrete risk that, despite favourable economic conditions, entrepreneurs may not be able to benefit at full potential. This means that there may be scope for increased international trade that will remain unexploited.

It is interesting also to decompose the index down into its three components and to pool respondents together (i.e. use unweighted average). The evolution in time depicted in the graph hereunder clearly shows that this year decrease is mainly driven by an increment in the percentage of respondent expecting lower revenues.

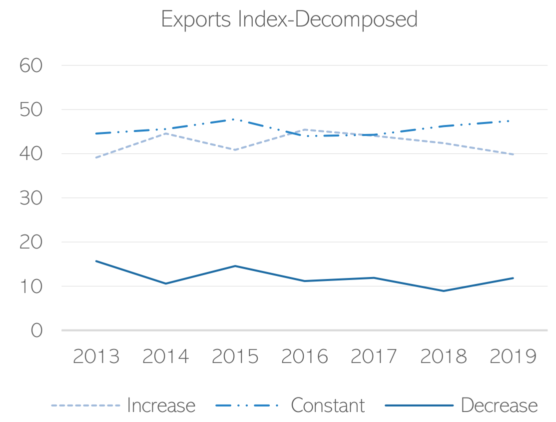

Figure 6-Expected Export Sales components-Unweighted yearly EES average (EES Data).

This is in line with the latest economic outlooks pointing toward a decelerating pace of global trade exchanges.

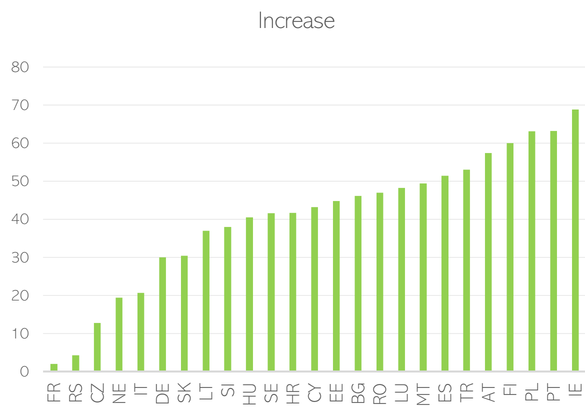

Figure 7- Percentage of respondent expecting "Increase" 2019 per country (EES Data).

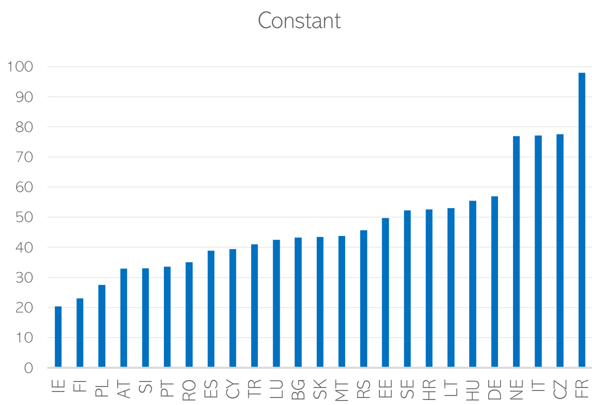

Figure 8- Percentage of respondent expecting "Constant" 2019 per country (EES Data).

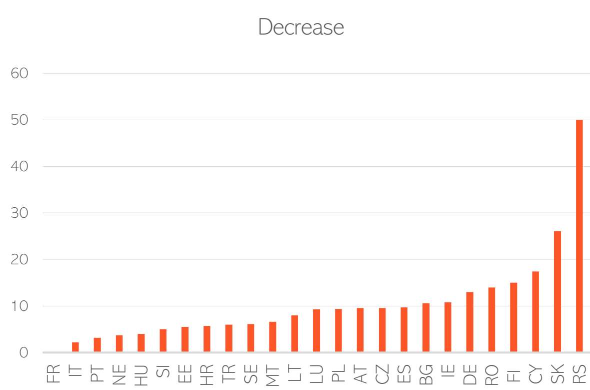

Figure 9- Percentage of respondent expecting "Decrease" 2019 per country (EES Data).

There are considerable geographical variations. Irish firms together with Portuguese, Polish and Finnish entrepreneurs are those expecting a promising year ahead.

Some central-western economies, as it is the case for France, Czech Republic, Italy, Netherlands and Germany, expect by absolute majority a rather static 2019.

A negative feedback comes instead from Serbian enterprises which by almost 50% anticipate decreasing sales abroad.

Employment

As for question n.4, respondents were asked information on the expected size of their workforce in 2019.

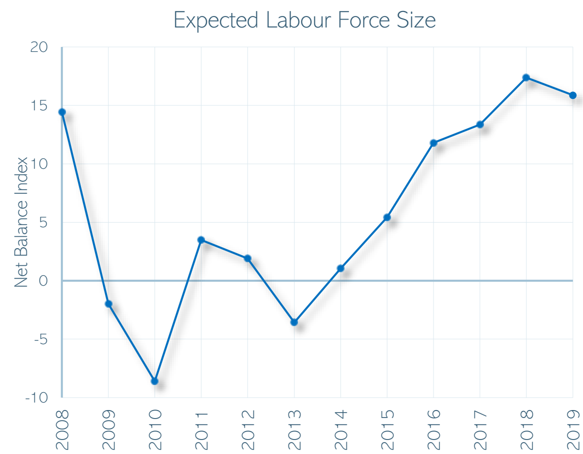

Figure 10-Expected Labour Force Size Net Index (EES Data)

The EES Index for this year has slightly declined compared to 2018 nevertheless standing on positive values, in line with the other indicators. It has dropped from 17.8 to 15.3 points. This means that a reduction in the expansion rate of the labour force could be expected. In fact, a decomposition of the index supports this assumption. On average the percentage of respondents per country expecting a decrease in the size of the labour force has basically remained at the same level as last year (8% unweighted). The option that has recorded the highest increase, which therefore explains the reduction in the net index, is "Constant" rising from 51% to 60%

(unweighted). Thus, entrepreneurs are headed toward a rather static 2019 in comparison to the last years, as our data suggest.

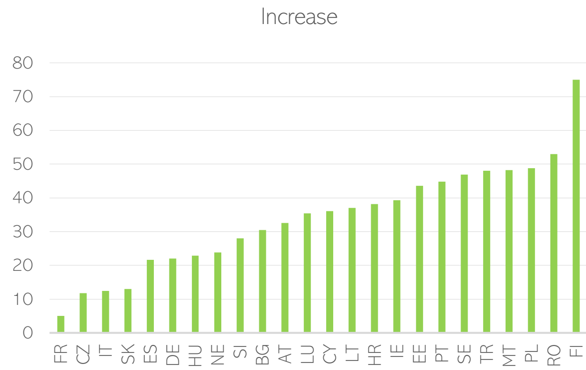

Figure 11-Percentage of respondent expecting "Increase" 2019 per country (EES Data).

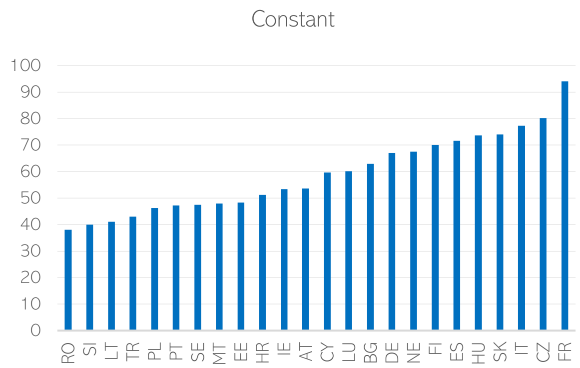

Figure 12- Percentage of respondent expecting "Constant" 2019 per country (EES Data).

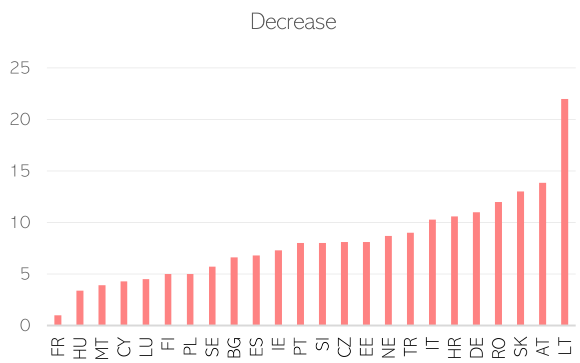

Figure 13-Percentage of respondent expecting "Decrease" 2019 per country (EES Data).

As the graphs above suggest, the country expecting the highest increase in the participating labour force is Finland. Entrepreneurs from this country have by an astonishing majority of 70% declared that they are potentially going to hire next year. This means that demand for work is growing at sustained pace. Wages have decreased between 2016 and 2017 by 1.50 percentage points, despite rising demand. At the same time Finland is experiencing a reduction in the working-age population which, could possibly impair economic growth in the coming years.

Romanian companies stay in line with more than 50% of respondents anticipating buoyant recruitment in 2019. This result is coherent with a GDP growth rate projected at a promising 3.8% for next year.

The same positive scenario is common also to Poland and Malta with almost 50% of companies expecting to hire and expand their personnel next year. Turkey, despite some macroeconomic imbalances recorded at the beginning of 2018, displays encouraging signals for the year ahead.

France, Italy, Czech Republic and Slovakia are instead headed toward a stationary 2019, with no significant changes anticipated in these labour markets.

Lithuania on the other hand stands out compared to other surveyed countries for the share of respondents anticipating a reduction of the labour force. The participation rate has continued to increase in the last years causing unemployment to decrease substantially. Wages have risen substantially as already shown, and companies continue to face a shortage of labour, all of which could impair economic growth. Thus, this makes Lithuania an exemplary case for what is happening in eastern Europe. In recent years, Lithuania's working age population (aged 15 to 64) has been decreasing at an annual pace of 1.1 to 1.8 per cent. According to a Bank of Lithuania survey[21], some businesses, especially small ones, reported that they can no longer raise wages. In addition, for some firms these costs may have become an excessive burden and therefore expect possibly a reduction of their staff.

The labour market in Europe as it has been shown above is characterized by different situations. Western Europe countries are characterized by the highest hourly nominal wages[22] in absolute terms with the highest in Denmark (€42.5), Belgium (€39.6), Sweden (€38.3), Luxembourg (€37.6) and France (€36.0). Despite these levels these countries are still experiencing increments. In Eastern Europe on the other hand, wages are considerably lower but growing at impressive rates, with unemployment at historical minima; the lowest wages were recorded in Bulgaria (€4.9), Romania (€6.3), Lithuania (€8.0), Latvia (€8.1), Hungary (€9.1) and Poland (€9.4). This has created as described above some problems in this region with labour shortages and potentially supply-demand mismatches on the labour market.

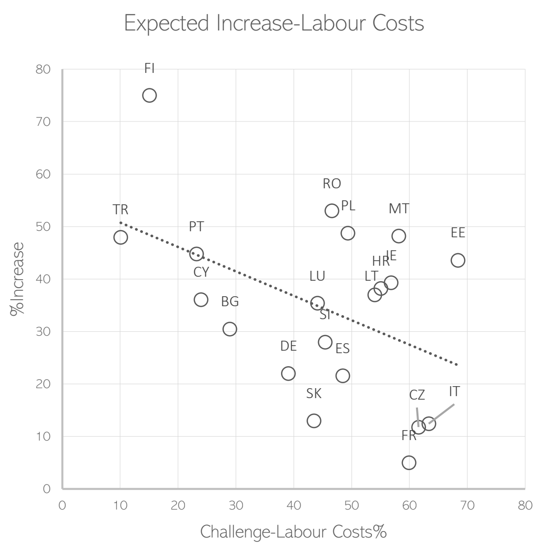

Figure 14-% Respondents expecting an increase in Labour force size (Y axis) vs. % Respondents indicating Labour Costs as a Challenge (X axis) per country-Scatter Plot

It is worth checking if the countries reporting higher labour costs as a challenge also report lower values for the expected labour force size. For this purpose, in the scatter-plot above, each country is positioned according to the percentage values reported for labour force perceived as a challenge (horizontal axis) and for "Increase" in this question. As the picture shows, on average the relation is negative, that is higher labour costs are negatively affecting respondents' propensity to expand the labour force and recruit more personnel.

Another topic closely related at the core of current debates is the response of wage and price inflation to changing levels of unemployment, a relation captured by what is generally known in economics as Phillips Curve.

As already described briefly above, when the unemployment rate is higher it is easier for employers to fill vacancies at relatively low prices given the high supply of labour in the market. When unemployment rates start declining, as it may be the case in a period of economic expansion and growth, higher demand for work causes enterprises to compete for scarcer resources (labour) and therefore wages tend to increase. This is what is happening in eastern Europe where high demand for work, unemployment rates at minima and labour shortages caused by different factors, have caused labour costs to increase considerably. With time, higher costs for producers are gradually transferred over final goods prices which tend to increase, causing inflation. The relation between wages, inflation and unemployment rates (which could be seen as a proxy for labour demand) is a particular one and requires a balanced expansion. In other words, when an upward swing in the economy increases labour demand from the productive sector causing wages to grow, consequently a satisfying level of inflation should be accompanying this process to make it sustainable. If wages grow too rapidly and this rise is not met by an appropriate level of inflation, it will be harder for companies to cover the costs associated, with revenues which are not accordingly growing due to inflation (i.e. higher prices).

What is the appropriate level of inflation given a certain growth rate, unemployment rate and wage level, it is a broad question that goes beyond the possibilities and the scope of this survey. Nevertheless, it is interesting to note some descriptive evidence coming from data which may help understand this nexus.

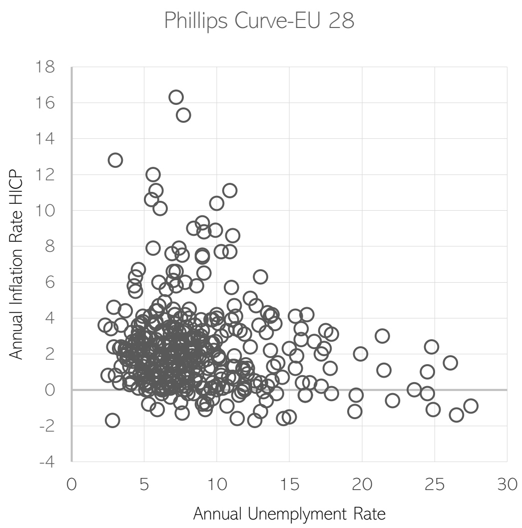

Figure 15-Phillips Curve EU 28-Scatter Plot-Y axis : Annual inflation rate HICP (Source of data: Eurostat); X axis: Annual Unemployment Rate (Source of data: Eurostat)

Let us first look at the overall relation in the EU (28) between inflation and unemployment rate. In the scatter-plot above data[23] for EU 28 countries from 2008 until 2017 are used. Visually the distribution of the observations recalls what in general theory is the hypothesized shape of the Phillips Curve. As the unemployment rate diminishes the inflation rate tends to increase and, below 5%, it tends to higher values asymptotically. Vice versa higher unemployment rates are generally associated with lower inflation rates (potentially deflationary as well). Nevertheless, there are interesting variation among European economies which are worth being considered. For this purpose, let us split the sample in two groups, one for Central and Eastern Europe (CEE)[24] countries and the other for Western Europe (WE)[25] countries.

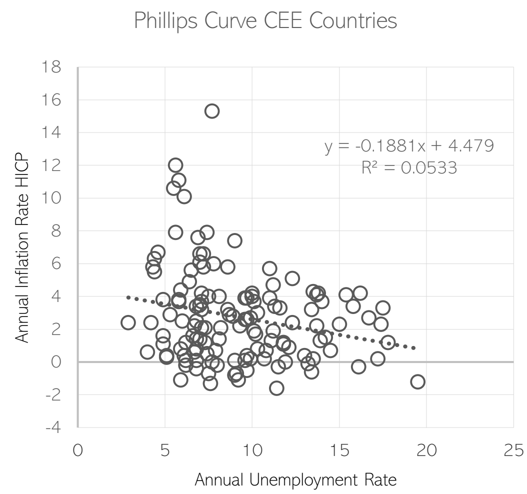

Figure 16- Phillips Curve CEE Countries-Scatter Plot-Y axis : Annual inflation rate HICP (Source of data: Eurostat); X axis: Annual Unemployment Rate (Source of data: Eurostat)

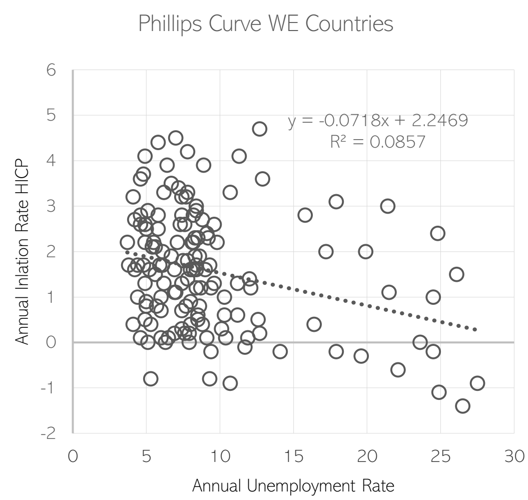

Figure 17- Phillips Curve WE Countries-Scatter Plot-Y axis : Annual inflation rate HICP (Source of data: Eurostat); X axis: Annual Unemployment Rate (Source of data: Eurostat)

The first observable thing is that inflation in the two clusters has responded quite differently to changing levels of unemployment in the period of analysis. The estimated coefficient for CEE countries is almost double than that estimated for WE countries. This means that in CEE changing unemployment rates have had a greater impact on price inflation compared to western countries. This reasoning could be reversed for WE in the sense that the effect has been considerably lower in comparison.

According to what is said above this is not surprising given the dynamics in CEE.

Furthermore, this is another confirmation of a flattening Phillips Curve especially for the countries in the eurozone. There could be many reasons behind this, but it would be interesting to investigate if already high wage levels in WE in addition to relatively inflexible contracts result in a diluted relation between these two variables. This means that independently from what is happening in the labour market and in the economy, wages will tend to be rather fixed and therefore also price inflation will be relatively less sensible to these changes. Another explanation could be that in WE differently from CEE inflation expectation are considerably lower and therefore also wages tend to be relatively more stable in time.

This is remarkably more evident if the relation between the unemployment rate and wage inflation[26] is considered as shown in the graphs below.

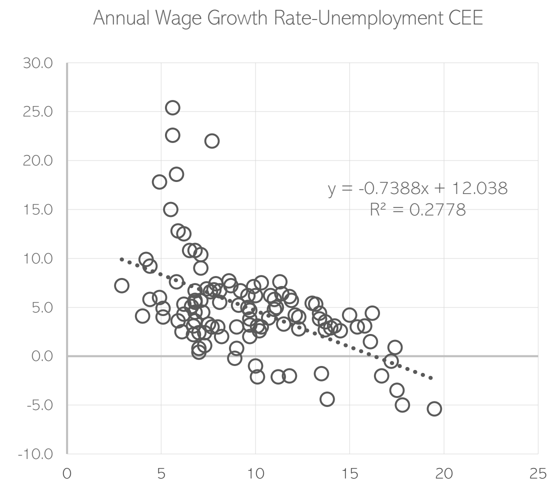

Figure 18-Annual Wage Growth Rate-Annual Unemployment Rate CEE Scatter-plot-(Source of Data: Eurostat).

The coefficient estimated for CEE suggests quite a marked negative relation between the unemployment rate and wage increase in this region. This means that entrepreneurs in these countries are rather dependent on what is happening in the labour market and wages are rather flexible apparently. Lithuania as outlined above is a good example, but the same dynamics are common to other countries also.

In WE instead this relation is considerably lower and the estimated linear coefficient is 0.157 in absolute value, which suggests that wages are in fact rather stickier compared to CEE and have reacted less to changes in the unemployment rate.

Figure 19- Annual Wage Growth Rate-Annual Unemployment Rate CEE Scatter-plot-(Source of Data: Eurostat).

If on the other hand the relation between wage increase and price inflation is considered the picture in the two clusters appears rather different.

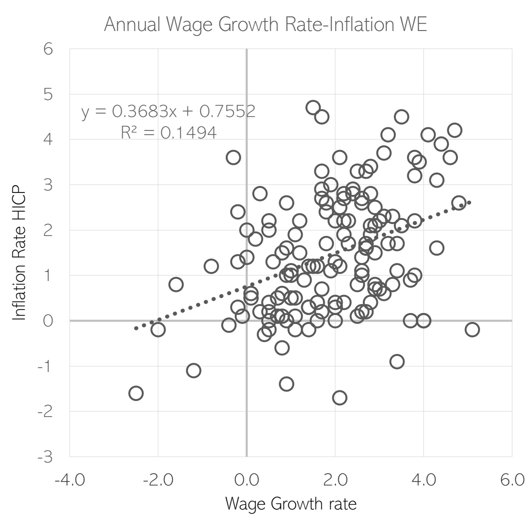

Figure 20-Annual Inflation Rate HICP- Annual Wage Growth Rate WE-(Source of Data: Eurostat)

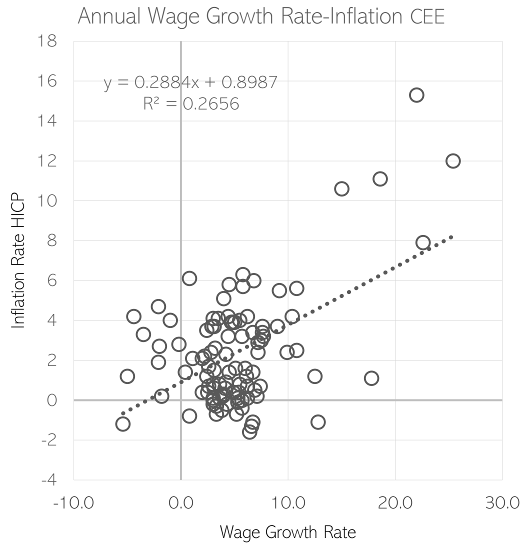

Figure 21-Annual Inflation Rate HICP- Annual Wage Growth Rate CEE-(Source of Data: Eurostat)

As already outlined above, for a company it is important that to a given increase in costs caused by higher wages corresponds a balanced inflation rate. This means that output could be sold at a higher price accordingly and compensate the increase in the costs of inputs, namely labour, allowing thus a further expansion. In such a way it is possible to continue hiring if inflation is not subdued and therefore take advantage fully of the positive momentum in the economy. Naturally, following this reasoning it is important not to overlook the potential loss in competitiveness deriving from a higher inflation rate.

As data above suggest in the graphs, in WE inflation has responded more promptly to rising wage growth rates, more if compared to what has characterized CEE in the period of analysis. The coefficient estimated (OLS linear) for the latter is in fact lower (compared to WE). This means that for producers in this region probably the sudden increase in wage experienced from 2008 to 2017 has been met with a lower rise in inflation proportionally. This might have caused difficulties as the margins for entrepreneurs could be diminishing given rising costs and an insufficiently compensating price increase. By clustering countries as just done above, WE display a lower average in relation to indicating "Labour Costs" as a challenge compared to CEE countries; 43% and 50% of respondents respectively. Thus, labour costs for entrepreneurs in CEE are on average a matter of concern which has higher priority compared to those in WE. This could be symptomatic of subdued inflation rates in Central and Eastern Europe countries.

Thus, despite a flatter Phillips curve in WE compared to CEE, the former group has experienced a more balanced development with regard to wage increase and price inflation compared to the latter.

Investments

For question n. 5 respondents were asked if they expect their level of investments to increase, remain constant or decrease in 2019.

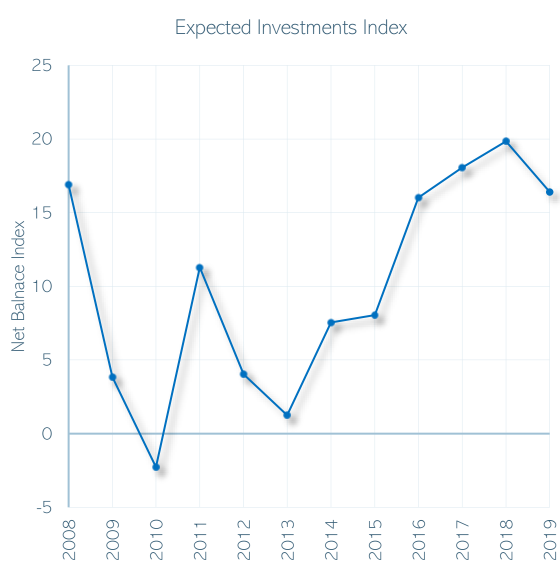

Figure 22-Expected Investments Net Balance Index-(EES Data)

The overall index for investments has constantly been on positive values through the last years as it fully recovered after the financial crisis. EES 2019 shows a slight reduction in the last polling, but the net balance is still positive, i.e. despite reductions we still have a higher share of respondents foreseeing or planning increase in investments for 2019. The index sets around 15 points declining from its peak in 2018 at 20 points.

If the index is split in its three components by pooling respondents (i.e. using unweighted values), it is possible to observe that the share of entrepreneurs declaring a "decrease" in investments is 2 percentage points higher compared to last year, causing the above-mentioned decline.

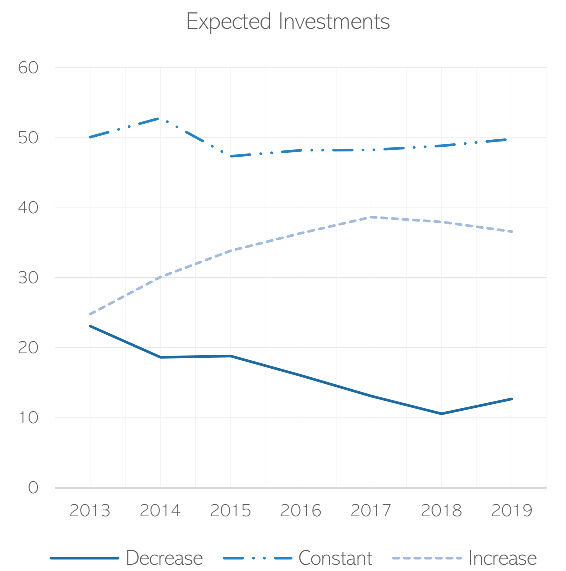

Figure 23-Expected Investments Index components-Unweighted EES yearly average

Finland, Romania Portugal, Malta, Cyprus and Slovakia are the markets where the highest increase (in relative terms) in investments is expected for 2019. On the other hand, Central Europe and partly Southern Europe sets on lower but still positive values, indicating less momentum in these geographical areas, while countries in the Balkans like Greece and Serbia still struggle with low expected level of investments and difficult economic conditions more generally.

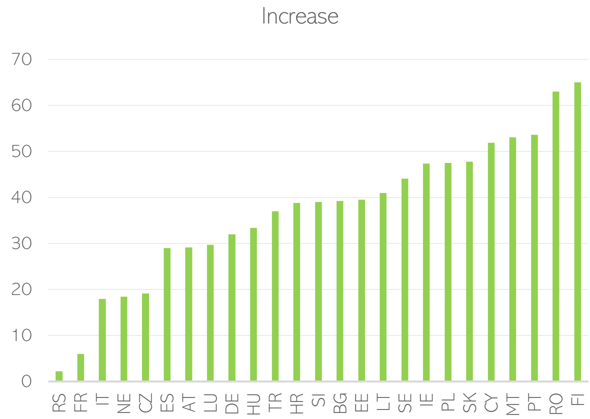

Figure 24-Percentage of Respondents expecting "Increase" in 2019 per country-(EES Data)

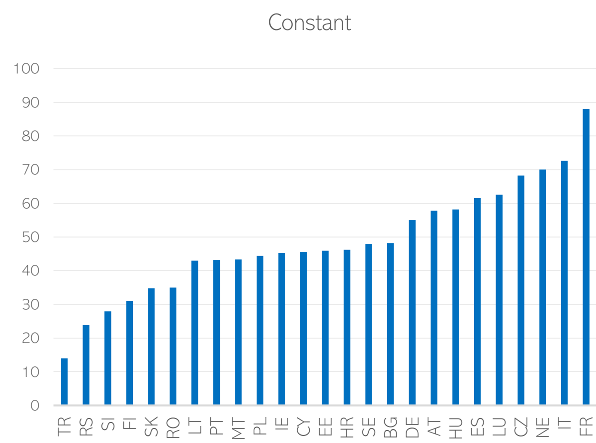

Figure 25-Percentage of Respondents expecting "Constant" in 2019 per country-(EES Data)

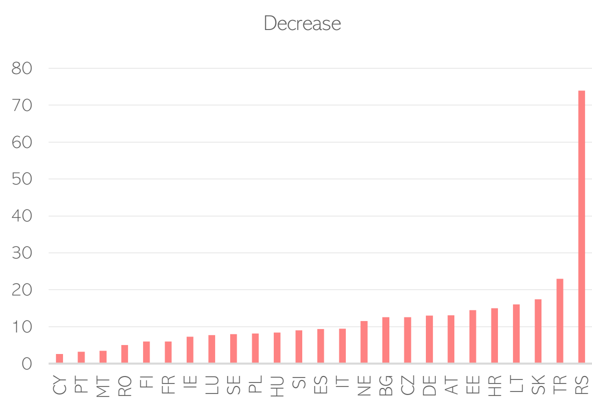

Figure 26-Percentage of Respondents expecting "Decrease" in 2019 per country-(EES Data)

Business Confidence

In line with the other indicators presented above, the Business Confidence Index also shows a slightly decreased value. From the peak registered in 2018 at 22 points it has now dropped to 17.8 points.

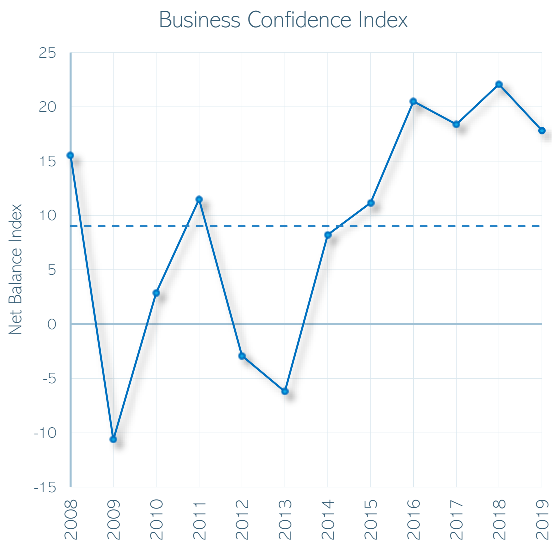

Figure 27-Business Confidence Net Balance Index-(EES Data)

Business confidence is still high at values above its historical average (dashed line) of 9 points.

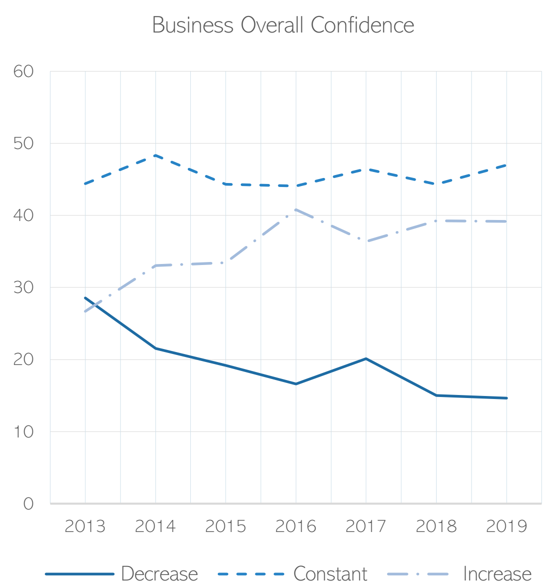

Figure 28-Business Confidence Index components-Unweighted yearly EES average.

In this case by breaking the index into its main (unweighted) components it is possible to note that the decrease in the net balance is due to an increase in the share of respondents expecting a "Constant" in 2019. Furthermore, the percentage of those expecting worsening conditions (Decrease) has indeed declined compared to last year. Substantially there has been a flow of respondents from "Increase" to "Constant" which explains this year variation in the Index. Thus the entrepreneurs are preparing for a globally positive 2019 which for a relative majority will be rather static compared to 2018.

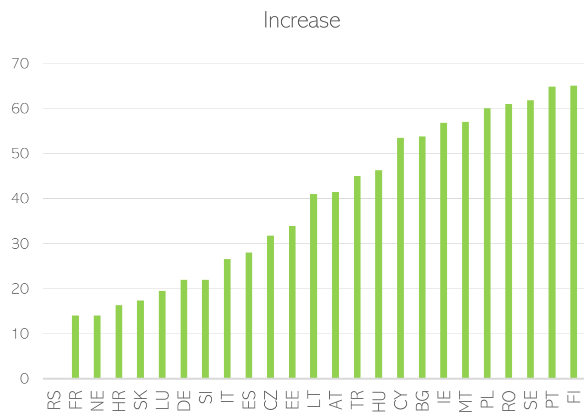

Figure 29-Percentage of Respondents expecting "Increase" in 2019 per country (EES Data).

Finland, Portugal, Sweden, Romania and Poland are the countries reporting the highest confidence looking forward at 2019.

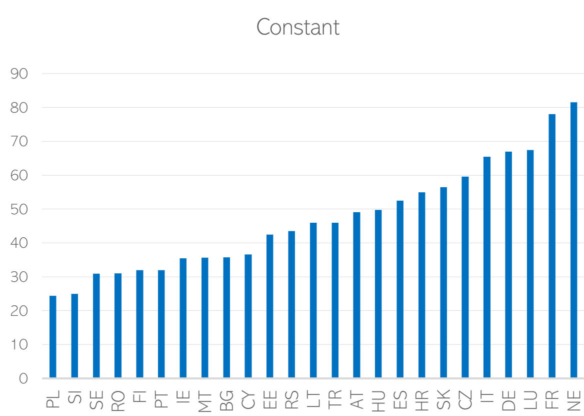

Figure 30-Percentage of Respondents expecting "Constant" in 2019 per country (EES Data).

On the other hand, as already anticipated, central and western Europe is characterized by a rather static expectation for the year head. Netherlands, France, Luxembourg, Germany and Italy are indeed the countries reporting the higher values of respondents expecting a basically unchanged 2019.

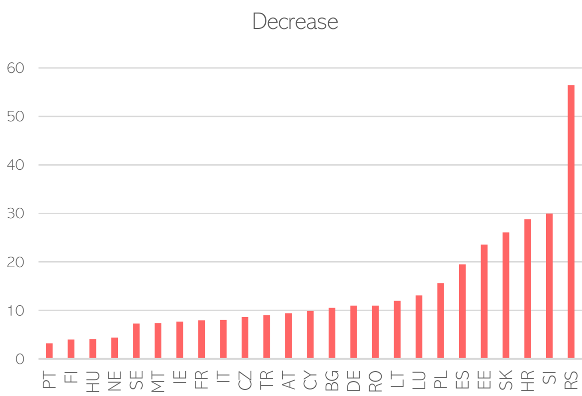

Figure 31-Percentage of Respondents expecting "Decrease" in 2019 per country (EES Data).

A negative outlook comes from Serbian enterprises which by a relative majority expect worsening economic conditions. They are followed by Slovenia, Croatia, Slovakia and Estonia. These countries are all expected to keep growing, but as outlined above they face several challenges in the labour market which could potentially explain these higher values.

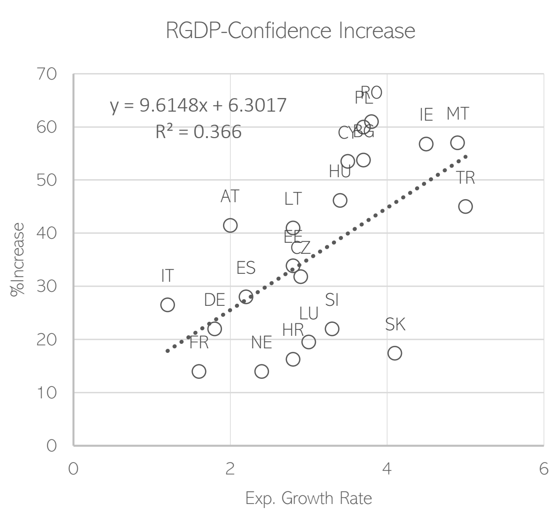

Figure 32-Real GDP Growth Rate (expected) 2019 (X axis)- % Respondents expecting "Increase" in Confidence (Y axis)-Scatter-Plot. (Source of Data: EC November 2018 Forecasts; EES Data)

Additionally, it is interesting to check whether expected improvements for the year ahead, i.e. the share of respondents declaring an "increase" are in some way connected to the expected economic growth[27]. In the scatter-plot above, each country is positioned according its reported percentage in "Increase" and the related Real GDP growth forecast. As it is shown, the relation is positive, that is on average higher confidence corresponds to higher expected growth. In particular, for each additional point in growth rate, the percentage of respondents declaring positive expectation increases by 9 points.

Policy Recommendations[28]

#EntrepreneursSay They Need…

Confident Europe

Market access is critical to the scalability of companies and investments alike. Linked to this, it is of paramount importance to ensure follow-up on and delivery of the aims contained in the Capital Markets Union, the Digital Single Market and the Single Market Strategy. Other initiatives that might be taken at EU level will be irrelevant and ineffectual in absence of a more dynamic capital market, a 'digital by default' approach across the EU and a more complete and functioning single market for goods and services, both online and offline. Additionally, when envisaging exemptions or other mitigating measures, the potential negative unintended consequences that such measures might have on the growth of individual businesses and on the economy as a whole should be carefully taken into account. Finally, given the importance of SMEs for economic growth, job creation and competitiveness, the SME dimension should be central to the next Multiannual Financial Framework.

Skilled Europe

Concrete and ambitious initiatives should be adopted by the European Commission to anticipate and prepare the skills needed in the labour market. A Europe-wide skills forecasting tool should be developed and – critically if it is to have its desired impact - then feed effectively into the design and delivery of education curricula. Education and training systems must pay closer attention to developing necessary key competences. Employability should be included as a criterion for measuring the effectiveness of higher education institutions, which would help ensure that curricula are targeted towards labour market opportunities for graduates. In parallel to efforts focused on initial VET, the Commission should not overlook the importance of in-company continuing education and training to lifelong learning and to helping employees maintain relevant knowledge and skills.

Single Market Europe

The Commission should come forward with ambitious measures to complete the Single Market for services, an area where there is still huge untapped potential and where SMEs play a prominent role. But this will prove futile if co-legislators do not embrace the need to reduce national barriers in this important sector. While more maximum harmonisation initiatives in the area of consumer protection are potentially beneficial to both economic operators and consumers, legislators should realise that "too much" is counterproductive and could have unintended consequences for the desired policy objective. Moreover, while aligning online and offline rules offers more transparency, there is no sense in abolishing rules that have proven their worth. In the area of e-commerce, a thorough assessment is needed of whether obliging traders to sell is indeed serving consumers' interests and of the costs/benefits to businesses.

Sustainable Europe

A market-oriented approach must be strictly applied to energy markets in order to keep costs down for consumers and help maintain public support for the energy transition. Moreover, the EU should create a cost-effective European support scheme for renewables, so that investments can be made where they have the greatest economic effects. Further, the Circular Economy must actively include SMEs, notably by increasing trust in secondary raw materials (e.g. through quality standards) and by providing better framework conditions for investment in green technologies, e.g. by boosting alternative forms of financing and taking measures to ensure sufficient public support. Finally, cross-border trade in secondary raw material markets should be facilitated by removing regulatory barriers that still exist within the EU. In particular, national end-of-waste criteria should be streamlined and contradictory rules in chemicals, waste and product legislation addressed.

Europe's business worth investing in

There is a strong need to equip European businesses with greater knowledge of financing tools in order to help them to continue and scale up. The EU should support a Europe-wide analysis of levels of entrepreneurs' financial literacy. Given the continuing difficulties that SMEs encounter in securing bank financing in certain member states, further efforts are needed to promote and facilitate the availability of alternative sources of finance. Finally, it goes without saying that there is a macro-level aspect to the financing of businesses; if the whole economy is in difficulty, this inevitably has a knock-on effect on access to finance for businesses, as we saw with the 2008 crisis and for an extended period thereafter. Policy-makers and regulators have a responsibility not only to ensure the health of the financial sector, but also to shield the real economy from the impact of potential future crises.

Europe as a global trade leader

The strong correlation between internationalization and growth must be harnessed if the EU is to remain a global economic frontrunner. The EU must pursue a 'European way' to shape globalization and lead by example in order to adapt to a shifting geopolitical landscape, as well as to evolving expectations of businesses and citizens. For SMEs, it is especially important to put the 'think small first' principle at the heart of EU trade policy making as only such inclusive approach will ensure proper implementation. Ambitious SME chapters in all agreements are not enough – simple rules of origins in particular need to be a benchmark, since overly-complicated requirements impede SMEs from making use of them. Dedicated internal implementation roadmaps must accompany EU trade agreements so that the benefits of trade reach entrepreneurs and SMEs in particular.

Notes

1) Domestic Demand, National Sales and its main proxy (Private Consumption) are used in the sections of this report interchangeably.
2) Source of Data: Eurostat-Last update: 17.10.2018-Date of extraction: 19 Oct 2018. Hyperlink to the table: https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tps00173 -Short Description: data consisting of average hourly labour costs which are defined as total labour costs divided by the corresponding number of hours worked by the yearly average number of employees, expressed in full-time units." Labour Costs (D) cover Wages and Salaries (D11) and non-wage costs (Employers' social contributions plus taxes less subsidies: D12+D4-D5)
3) https://ec.europa.eu/eurostat/statistics-explained/index.php/Early_leavers_from_education_and_training
4) https://ec.europa.eu/eurostat/statistics-explained/index.php/Job_vacancy_statistics and https://ec.europa.eu/eurostat/web/labour-market/job-vacancies
5) This result is based on a simple OLS linear regression of EES values on registered unemployment (Source: Eurostat). Results are statistically significant ($p<0.002$).
6) Spain Economic Outlook ECFIN Autumn 2018: https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_081018_es_en.pdf
7) Italy Economic Outlook ECFIN Autumn 2018: https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_081018_it_en.pdf
8) OECD Economic Forecast (May 2018), Turkey, http://www.oecd.org/eco/outlook/economic-forecast-summary-turkey-oecd-economic-outlook.pdf
9) Croatia Economic Outlook ECFIN Autumn 2018 https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_081018_hr_en.pdf
10) Slovakia Economic Outlook ECFIN Autumn 2018 https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_081018_sk_en.pdf
11) Banca d'Italia, "*Indagine sulle aspettative di inflazione e crescita*" July 2018, www.bancaditalia.it/statistiche/index.html
12) Central Bank of Ireland, SME Market Report, 2018, https://www.centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2018.pdf?sfvrsn=6
13) European Commission, *Winter 2018 Interim Economic Forecast: A solid and lasting expansion* https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_winter_0718_overview_en.pdf
14) Portugal Economic Outlook ECFIN 2018: https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_081018_pt_en.pdf
15) Slovenia Economic Outlook OECD, 2018. http://www.oecd.org/eco/outlook/economic-forecast-summary-slovenia-oecd-economic-outlook.pdf
16) World Bank Group Data on International Trade: https://wits.worldbank.org/countrysnapshot/en/SWE
17) World Bank Group Data on International Trade: https://wits.worldbank.org/countrysnapshot/en/IRL
18) Copenhagen Economics "*Ireland & the impacts of Brexit strategic implications for Ireland arising from changing EU-UK trading relations*, (2018) https://dbei.gov.ie/en/Publications/Publication-files/Ireland-and-the-Impacts-of-Brexit.pdf
19) https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/business-and-consumer-surveys/latest-business-and-consumer-surveys_en
20) See 13.
21) Bank of Lithuania, *Lithuanian Economic Review 2017* https://www.lb.lt/uploads/publications/docs/18368_3f948ab542ea78dbf14da776424b5ae2.pdf
22) See 2.
23) Source of Data Unemployment: Eurostat,Hyperlink to the table: https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tps00203 Source of Data Annual Inflation Rate HICP: Eurostat, Hyperlink to the table: https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00118&plugin=1
24) CEE countries include: *Bulgaria, Czechia, Estonia, Croatia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, Slovakia*
25) WE countries include: *Belgium, Germany, Greece, Spain, France, Italy, Luxembourg, Netherlands, Austria, Portugal, Finland, Sweden.*
26) *Labour cost index by NACE Rev. 2 activity - nominal value, annual data [lc_lci_r2_a], Source of data: Eurostat, UNIT: Percentage change on previous period. NACE_R2 Industry, construction and services (except activities of households as employers and extra-territorial organisations and bodies)*
27) European Commission GDP Growth Rate Forecasts, Autumn 2018.
28) EUROCHAMBRES, Declaration of Entrepreneurial Rights (2018). http://www.eurochambres.eu/Content/default.asp?pagename=DeclarationEntrepreneurialRights

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Appendix

Questionnaire Sample

CHALLENGES	LABOUR
***Q.1** We expect that the biggest challenge(s) for the economic development of our company in 2019 will be (max. 3 answers possible):* Domestic demand ( ) Foreign demand ( ) Labour costs ( ) Lack of skilled workers ( ) Exchange rates ( ) Prices of energy and raw materials ( ) Financing conditions ( ) Impact of Brexit ( )	***Q.4** We expect that during 2019 the size of our workforce will:* Increase ( ) Remain constant ( ) Decrease ( )
NATIONAL SALES	**INVESTMENT**
***Q.2** We expect that our revenue from national sales in 2019 will:* Increase ( ) Remain constant ( ) Decrease ( )	***Q.5** We expect that during 2019 our level of investments will:* Increase ( ) Remain constant ( ) Decrease ( )
EXPORT SALES	**BUSINESS CONFIDENCE**
***Q.3** We expect that our revenue from export sales in 2019 will:* Increase ( ) Remain constant ( ) Decrease ( )	***Q.6** We expect that during 2019, overall developments for our business will be*: Favourable ( ) Remain constant ( ) Unfavourable ( )

National Results

Challenges 2019 (Percentages by Country)

Country	*Domestic Demand*	*Foreign Demand*	*Labour Costs*	*Lack of Skills*	*Exchange Rates*	*Price of Energy*	*Financing Conditions*	*Impact of Brexit*
Bulgaria	39.1	31.2	29.0	63.9	8.3	51.0	13.9	1.2
Croatia	56.6	21.4	55.1	35.2	7.3	28.9	19.7	1.3
Cyprus	56.0	48.0	24.0	16.0	9.0	32.0	24.0	13.0
Czech Rep.	18.3	6.2	61.6	59.9	10.4	21.3	3.4	1.3
Estonia	44.3	28.7	68.4	54.0	3.4	34.5	9.2	3.4
Finland	22.1	19.1	15.1	33.1	2.9	1.8	3.7	1.5
France	6.0	1.0	59.9	17.0	2.0	17.0	19.0	1.0
Germany	31.9	12.4	39.1	59.2	5.3	32.3	8.5	0.0
Ireland	46.6	15.8	56.8	38.5	20.9	20.9	36.3	64.1
Italy	69.7	14.7	63.3	34.3	11.5	52.0	39.0	11.7
Lithuania	42.0	17.0	54.0	66.0	10.0	38.0	17.0	5.0
Luxembourg	27.8	21.8	44.1	65.2	3.4	26.9	11.6	4.4
Malta	21.3	16.0	58.2	72.6	3.8	20.2	12.9	16.3
Netherlands	10.5	10.5	0.0	62.7	0.0	0.0	16.4	0.0
Poland	41.3	40.0	49.4	45.0	17.5	34.4	25.6	6.9
Portugal	52.8	57.6	23.2	29.6	11.2	20.0	26.4	9.6
Romania	29.1	30.1	46.6	51.5	10.7	26.2	5.8	1.9
Serbia	100.0	91.3	2.2	0.0	6.5	52.2	45.7	0.0
Slovakia	56.5	56.5	43.5	52.2	13.0	43.5	26.1	17.4
Slovenia	45.5	40.3	45.5	64.9	7.8	35.1	11.7	6.5
Spain	73.6	26.1	48.5	25.9	5.4	23.7	11.5	2.4
Sweden	46.9	31.3	0.0	54.0	25.6	22.3	18.0	6.6
Turkey	67.8	28.6	10.1	49.1	62.8	17.9	60.3	3.4

Notes*:*

1. *Respondents could indicate for Question 1-Challenges 2019 up to three possible options therefore the shares per country exceed unity when summed.*
2. *Percentages equal to zero indicate an option left out of the questionnaire for the related country.*

Expected National Sales 2019 (Percentages by Country)

Country	*Increase*	*Constant*	*Decrease*	*Balance*
Austria	42.1	45.7	12.2	29.9
Bulgaria	39.5	49.8	10.7	28.7
Croatia	57.0	33.3	9.7	47.4
Cyprus	57.4	35.9	6.7	50.7
Czech Rep.	22.8	65.7	11.5	11.3
Estonia	45.4	40.2	14.4	31.0
Finland	70.0	18.0	12.0	58.0
France	16.0	72.0	12.0	4.0
Hungary	40.5	55.5	4.0	36.5
Ireland	56.4	36.7	6.9	49.5
Italy	15.2	76.3	8.5	6.6
Lithuania	43.0	43.0	14.0	29.0
Luxembourg	47.5	47.7	4.8	42.7
Malta	49.6	42.9	7.5	42.1
Netherlands	37.1	56.9	6.0	31.1
Poland	56.3	33.1	10.6	45.6
Portugal	65.6	29.6	4.8	60.8
Romania	62.0	28.0	10.0	52.0
Serbia	17.4	56.5	26.1	-8.7
Slovakia	26.1	52.2	21.7	4.4
Slovenia	32.5	59.7	7.8	24.7
Spain	37.7	49.5	12.7	25.0
Sweden	54.5	40.3	5.2	49.3
Turkey	49.0	43.0	8.0	41.0

Expected Export Sales 2019 (Percentages by Country)

Country	*Increase*	*Constant*	*Decrease*	*Balance*
Austria	57.4	33.0	9.6	47.9
Bulgaria	46.2	43.2	10.6	35.5
Croatia	41.7	52.6	5.7	36.0
Cyprus	43.2	39.4	17.4	25.8
Czech Rep.	12.8	77.6	9.6	3.2
Estonia	44.8	49.7	5.5	39.3
Finland	60.0	23.0	17.0	43.0
France	2.0	98.0	0.0	2.0
Germany	30.0	57.0	13.0	17.0
Greece	39.4	26.6	34.0	5.4
Hungary	40.5	55.5	4.0	36.5
Ireland	68.8	20.4	10.8	58.0
Italy	20.7	77.1	2.2	18.5
Lithuania	37.0	55.0	8.0	29.0
Luxembourg	48.2	42.5	9.3	38.9
Malta	49.4	43.8	6.8	42.6
Netherlands	19.4	76.9	3.7	15.7
Poland	63.1	27.5	9.4	53.8
Portugal	63.2	33.6	3.2	60.0
Romania	48.0	37.0	15.0	33.0
Serbia	4.3	45.7	50.0	-45.7
Slovakia	30.4	43.5	26.1	4.3
Slovenia	49.7	43.5	6.8	42.9
Spain	51.4	38.9	9.7	41.7
Sweden	41.6	52.3	6.1	35.5
Turkey	53.0	41.0	6.0	47.0

Expected Labour Force Size 2019 (Percentages by Country)

Country	*Increase*	*Constant*	*Decrease*	*Balance*
Austria	32.6	53.6	13.9	18.7
Bulgaria	30.5	62.9	6.6	23.9
Croatia	38.2	51.2	10.6	27.6
Cyprus	36.1	59.6	4.3	31.8
Czech Rep.	11.8	80.1	8.1	3.7
Estonia	43.6	48.3	8.1	35.5
Finland	75.0	20.0	5.0	70.0
France	5.0	94.0	1.0	4.0
Germany	22.0	67.0	11.0	11.0
Greece	53.0	14.7	32.3	20.7
Hungary	22.9	73.7	3.4	19.5
Ireland	39.3	53.4	7.3	32.0
Italy	12.4	77.3	10.3	2.2
Lithuania	37.0	41.0	22.0	15.0
Luxembourg	35.4	60.1	4.5	30.9
Malta	48.2	47.9	3.9	44.3
Netherlands	23.8	67.5	8.7	15.1
Poland	48.8	46.3	5.0	43.8
Portugal	44.8	47.2	8.0	36.8
Romania	53.0	35.0	12.0	41.0
Serbia	0.0	95.7	4.3	-4.3
Slovakia	13.0	74.0	13.0	0.0
Slovenia	36.4	53.2	10.4	26.0
Spain	21.6	71.6	6.8	14.8
Sweden	46.9	47.4	5.7	41.2
Turkey	48.0	43.0	9.0	39.0

Expected Investments 2019 (Percentages by Country)

Country	*Increase*	*Constant*	*Decrease*	*Balance*
Austria	29.1	57.8	13.1	16.1
Bulgaria	39.2	48.2	12.6	26.7
Croatia	38.8	46.2	15.0	23.8
Cyprus	51.9	45.5	2.6	49.3
Czech Rep.	19.1	68.3	12.6	6.5
Estonia	39.6	45.9	14.5	25.1
Finland	65.0	31.0	4.0	61.0
France	6.0	88.0	6.0	0.0
Germany	32.0	55.0	13.0	19.0
Hungary	33.4	58.2	8.4	25.0
Ireland	47.4	45.3	7.3	40.1
Italy	18.0	72.6	9.4	8.6
Lithuania	41.0	43.0	16.0	25.0
Luxembourg	29.7	62.6	7.7	22.0
Malta	53.1	43.4	3.5	49.6
Netherlands	18.4	70.1	11.5	6.9
Poland	47.5	44.4	8.1	39.4
Portugal	53.6	43.2	3.2	50.4
Romania	63.0	32.0	5.0	58.0
Serbia	2.2	23.9	73.9	-71.7
Slovakia	47.8	34.8	17.4	30.4
Slovenia	50.5	37.8	11.7	38.8
Spain	29.0	61.6	9.4	19.6
Sweden	44.1	47.9	8.0	36.1
Turkey	37.0	49.0	14.0	23.0

Business Confidence 2019 (Percentages by Country)

Country	*Increase*	*Constant*	*Decrease*	*Balance*
Austria	41.5	49.1	9.4	32.0
Bulgaria	53.8	35.7	10.5	43.3
Croatia	16.3	54.9	28.8	-12.5
Cyprus	53.5	36.6	9.9	43.6
Czech Rep.	31.8	59.6	8.6	23.2
Estonia	33.9	42.5	23.6	10.3
Finland	64.0	32.0	4.0	60.0
France	14.0	78.0	8.0	6.0
Germany	22.0	67.0	11.0	11.0
Greece	17.7	0.0	82.3	-64.6
Hungary	46.2	49.7	4.1	42.1
Ireland	56.8	35.5	7.7	49.1
Italy	26.5	65.4	8.1	18.5
Lithuania	42.0	46.0	12.0	30.0
Luxembourg	19.5	67.4	13.1	6.4
Malta	57.0	35.6	7.4	49.6
Netherlands	14.0	81.6	4.4	9.6
Poland	60.0	24.4	15.6	44.4
Portugal	64.8	32.0	3.2	61.6
Romania	61.0	28.0	11.0	50.0
Serbia	0.0	43.5	56.5	-56.5
Slovakia	17.4	56.5	26.1	-8.7
Slovenia	28.6	32.4	39.0	-10.4
Spain	28.0	52.5	19.5	8.5
Sweden	61.8	30.9	7.3	54.5
Turkey	45.0	46.0	9.0	36.0