



2016

EUROCHAMBRES ECONOMIC SURVEY



EUROCHAMBRES

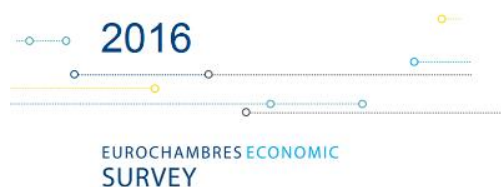
The Association of European
Chambers of Commerce and Industry

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Foreword



EUROCHAMBRES Economic Survey (EES) 2016, the 23rd edition of this annual assessment of the European business community's expectations for the year ahead, underlines that the repercussions of the financial crisis are still be felt. Most of the EES indicators show improvements, with increases forecast for domestic demand, export sales and employment. However, general business confidence and investment levels remain subdued. These mixed messages show us that the route to recovery for Europe's millions of businesses is difficult to navigate. Policy makers at EU, national and regional level need to act decisively and coherently in order to accelerate reforms and address negative externalities.

Economic policy conditions, domestic demand and labour costs are again identified as the main challenges for companies in the year ahead. In addition, geopolitical tensions and the economic downturn in certain emerging economies obstruct the path to pre-crisis levels of growth.

Amidst this period of precarious recovery, Europe is witnessing an unprecedented inward flow of refugees. This humanitarian crisis has huge social and political implications of course, but the integration of refugees can have positive economic effects. In order to harness this potential, the process must be addressed through a robust and effective strategy, coordinated at EU level.

EES2016 highlights the need for policy makers to step up a gear in their efforts to make the EU a better place to run a business. At EU level, this translates in particular

into effective delivery of the recent Digital Single Market, Capital Markets Union and Single Market Strategy packages. It also underlines the importance of the forthcoming Trade and Investment and New Skills Agenda action plans and the need to pursue the influential European semester cycle of economic policy guidance and surveillance with added rigour.

Businesses deliver the bulk of Europe's growth, jobs and innovation. But they can only do so if policy makers provide them with favourable conditions and facilitate their access to markets and resources. EUROCHAMBRES and the Chamber network remains committed to working with policy-makers at all levels to help ensure that this is the case.



Dr Richard Weber

President of EUROCHAMBRES

Executive Summary

The EUROCHAMBRES Economic Survey (EES) 2016 is based on responses from 59,000 European business to the study that was carried out by Chambers of Commerce in September and October 2015. The results indicate a moderate economic recovery in a context of intensified global challenges.

Domestic demand, employment and export sales show signs of improvement in 2016, but general business confidence and investments decline slightly, revealing a sense of uncertainty over the future.

- The main challenges identified for 2016 confirm the necessity to improve the functioning of the internal market. Companies' concerns revolve around stagnating domestic demand, labour markets and ongoing uncertainty over economic conditions.
- Geopolitical concerns affect companies' confidence in investment and business opportunities. The economic slowdown in emerging economies reduced trade intensity with those countries most affected, lowering European export sales in 2015. However, exchange rate fluctuations are expected to increase the competitiveness of the European manufacturing compared to foreign companies and result in improved export sales in 2016. Countries such as Italy and Spain register a significant increase in export sales for next year.
- Falling oil prices is a relevant factor that may well contribute to an improvement in domestic demand and the employment rate in 2016. Concerning the employment index itself, eastern European countries perform well in 2015, registering even greater expectations in 2016.

As ever, the EES outcomes vary considerably between participating countries, but overall are in line with the recent European Commission forecasts and point towards a moderate growth, despite uncertainty.

Challenges ahead

Since the outbreak of the financial crisis in 2008, Europe experienced banking and sovereign debt crisis, triggering a falling growth rate, with strong social and economic consequences.



EES 2016 reveals that the three main challenges for companies remain unchanged from 2015: domestic demand, labour cost and economic conditions.

The surveyed companies consider an increase in domestic demand and decrease in labour costs as the main factors to increase profits in the long term, however, deleveraging process requires stronger economic reforms and more stable economic policy conditions.

Figure 1: Challenges



Despite an increase in private consumption and a slight improvement in labour market conditions in 2015 and in 2016 forecasts, more sustained improvements in the European market are needed to ensure lasting progress in relation to these two keys factors for business.

Declining confidence

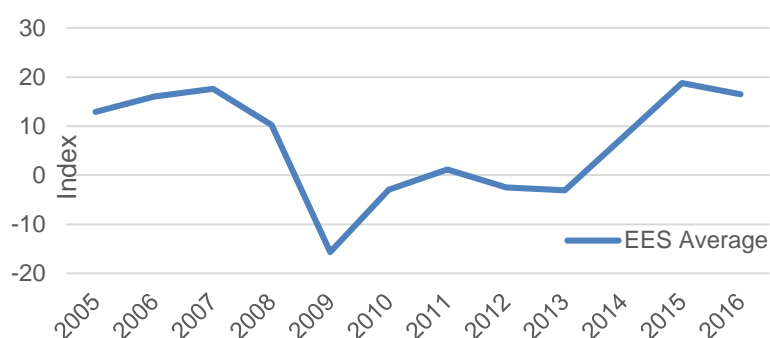
The European economy is maintaining a moderate recovery, but is exposed even more to global challenges. Investment and business confidence in 2016 seem heavily affected by the external environment and the political instability of some key trading partners.

Emerging Market Economies

In line with Commission and OECD forecasts, the economic slowdown in emerging markets is expected to have a negative impact on growth. The Chinese economy has slowed from over 10% in 2010 to 7.3% in 2014 and is expected to slow even more in 2016. Moreover, the collapse of the equity bubble in the Chinese market weakened trade in the first half of 2015, reducing the possibility of a Chinese economic rebalance in the short term.

Concern about a slowdown in certain Emerging Market Economies (EMEs) are discernible from the EES forecasts on investment and business confidence (figures 2 and 3). Companies seem to be wary about their future investments. The evidence of a slight drop in investment forecasts may be the result of the current geopolitical situation, persistence of corporate deleveraging pressures and credit supplies constraints.

Figure 2: Investment



This is reflected in the EES investment indicator, which has slightly decreased from 18.7 in 2015 to 16.4 in 2016 (figure 2).

On a country level, the most striking result for the EES investment indicator comes from Serbia, with a massive 37.9 year-on-year upswing for 2016. The business environment improved as a result of reforms and a stronger government intervention to support investment

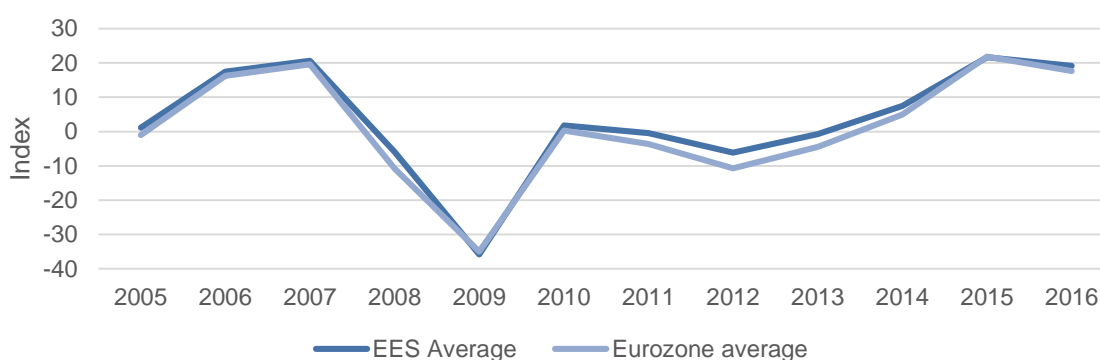
recovery through higher capital spending. At the other end of the scale, Austria has negative expectations on investment flows, with an index of -2.4.

Hungary's expectations are also negative figures, with an index of -7.3 in 2016. These figures may be attributed to a relative drop in EU funding, which boosted investments in previous years.

As a result of falling investment, the business confidence index fell from 21.6 to 19.0 (figure 3). Central-Eastern countries such as Slovakia (-18.9), Slovenia (-14.4), Estonia (-21.1) and Hungary (-25.9) register a significant drop in business confidence for next year.

Concerns over the Russian economic crisis, uncertainty about global growth and difficulties in accessing credit or other forms of financing contribute to this drop in business confidence.

Figure 3: Business confidence



Debt AND equity financing

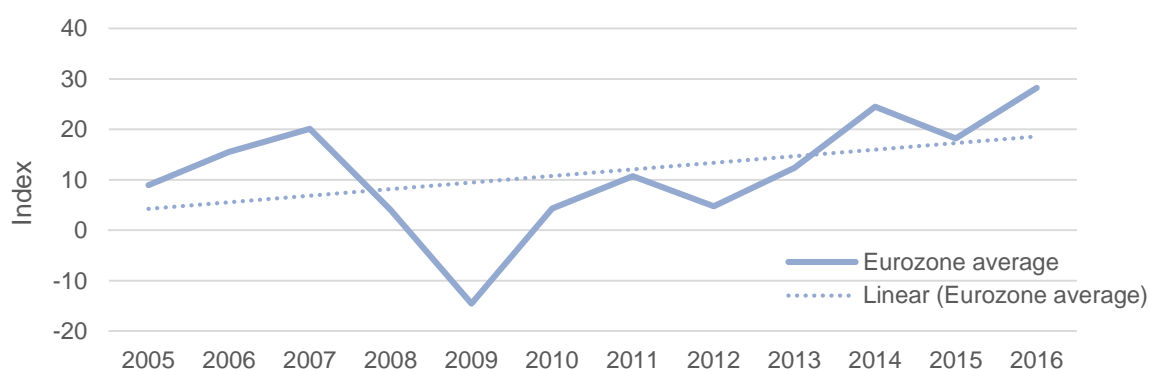
Businesses have different financing needs at different stages and not meeting those needs hampers SMEs' growth and confidence. Diversified sources must encompass both debt and equity based financing to reflect the varying investment needs and situations of businesses.

The new Capital Markets Union Action Plan can contribute to more dynamic and interconnected EU financial markets. The package has the potential to help businesses identify financing solutions that meet their needs, but will only prove substantive if the follow-up and implementation reflect the plan's ambition. EUROCHAMBRES recommends working with and investing in funds-of-funds by catalysing private investment using EU resources. Attention should also be given to better grouping of business angels to ensure more efficient economies of scale and better outreach, and more efficient exploitation of the abundance of guidance provided by accelerators and incubators.

Export sales- uneven trend

The export sales trend is uneven due to conflicting factors. On the one hand, political and economic tensions of trading partners may have undermined European export sales in 2015. On the other hand, expectations of Euro depreciation would boost export sales in 2016. In fact, the export growth indicator rises to 28.2 next year (figure 4).

Figure 4: Export sales



Imports of emerging countries such as South Korea and United Arab Emirates appear particularly weakened due to the economic slowdown. Furthermore, Brazil and Russia are experiencing strong recession combined with high levels of inflation.

Weaker import demand in these countries may consequently hit European exporting countries such as Italy, Germany, Spain and Portugal, which already registered a reduction of exports in 2015 compared to 2014. Despite the slight decrease in 2015, indicators remain positive and Spain is still performing well, with Belgium and Romania also posting strong output forecasts. In 2015, the least performing countries are Montenegro (-19.1), Hungary (-18.3), Cyprus (6.1) and Portugal (6.3).

The fortunes of Cyprus and some east European countries are linked to weaker demand in Russia, with ongoing sanctions having negative consequences for export sales. Portugal relies even more heavily on the Brazilian economy and, therefore, has experienced a reduction of exports since 2014.

Despite external challenges, export sales in 2016 are expected to increase overall, mostly due to recent exchange rate developments. In 2015, the euro depreciated by almost 20% against the US dollar and about 10% against the British pound. Exchange rate developments should bring positive effects in 2016 with a general increase in export sales. According to EES2016, the index is expected to rise to 28.2 next year after a small reduction in 2015 (figure 4).

A weaker euro can benefit countries such as Ireland that trade heavily with US and other countries like Italy and Spain that are particularly sensitive to exchange rate fluctuations. Italian and Spanish companies register an increase in the export indicator for 2016 to 18.2 and 51.0 respectively.

Design TTIP in an SME-friendly manner

The Transatlantic Trade and Investment Partnership (TTIP) can unleash the potential of the transatlantic economy that accounts for roughly 50% of world GDP, bringing with it many benefits for both consumers and businesses. TTIP, designed in an SME-friendly manner, has significant potential to better utilize SMEs as a prime source of job creation and sustainable growth on both sides of the Atlantic.

EUROCHAMBRES calls for a deep and comprehensive agreement, which sets a worldwide standard in terms of a 21st century SME-friendly trade agreement. Currently in terms of value, one third of direct exports to the US come from European SMEs and that figure can be further increased through firmly embedding the “Think small first Principle” across the entire agreement.

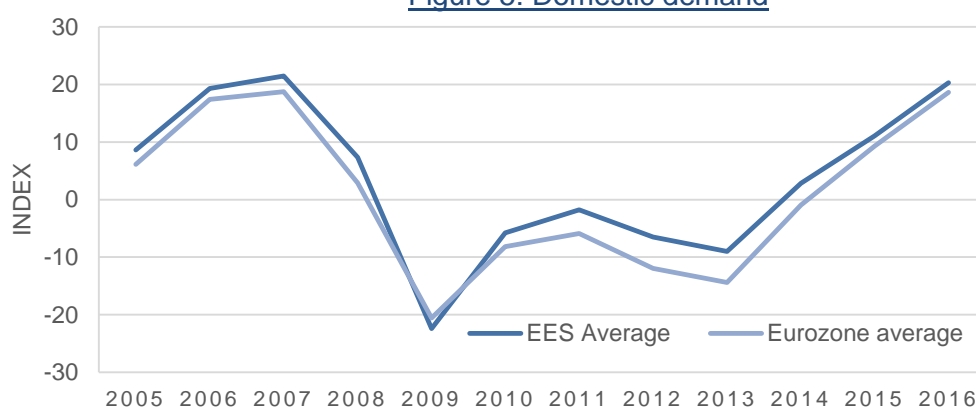
Domestic demand and employment recovery

Domestic demand is strengthening in most Eurozone and across most EES countries (figure 5). Increasing private consumption is leading to a rise in domestic demand that is forecast to continue. Growth in domestic demand is in line with European Commission expectations for 2016 and is underpinned by the positive impact on the purchasing power of lower oil prices, which has not yet affected the real economy.

Reductions in oil prices will benefit European growth, raising disposable household income and widening company profit margins. However, the drop in oil prices could have a different impact in different European regions. On the one hand, some countries that rely more on oil imports than other countries may experience an increase in private consumption. On the other hand, countries that trade more with commodity exporting countries may be affected by a slowdown in foreign demand growth.

Figure 5: Domestic demand

In 2016, domestic demand in Spain (41.0), Portugal (65.7) and Romania (44.1) is expected to increase



considerably. Indicators for Hungary and Cyprus remain negative (-27.2 and -5.7 respectively).

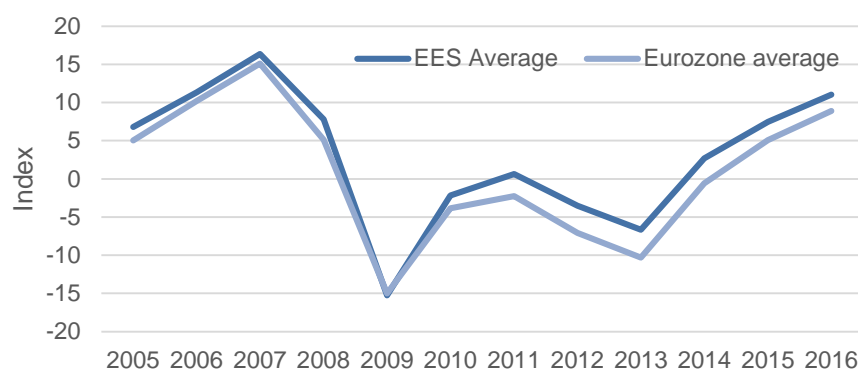
Cyprus in particular has experienced a deep recession over recent years, but started to show the first signs of recovery in 2015. Expectations for 2016 are driven in particular by EU sanctions against Russia, one of the major trading partners of Cyprus. Moreover, in the

financial sector, the slow reduction of non-performing loans after the crisis and tight credit conditions could undermine business activities and private consumption next year.

***Making the single market a reality for businesses
in the digital era***

Digitalization diminishes the relevance of national borders to traders, but policies and regulation too often preserve them. This was confirmed at the 2014 European Parliament of Enterprises, where 84% of entrepreneurs voted that the single market does not sufficiently help them do business across the EU. A follow-up EUROCHAMBRES survey highlighted the need of businesses, especially SMEs, for clear information on rules and requirements and for far greater simplicity in complying with them.

The Commission's new Single Market Strategy is a step in the right direction, correctly focusing on addressing disparities in national interpretations of EU legislation, but more also needs to be done to improve the provision of online information and support services to cross-border traders. The Digital Single Market communication must complement the strategy by ensuring a coherent and business-friendly regime for online business processes and commercial models.

Figure 6: Employment

The labour market is still coping with the legacy of the crisis. The EES employment indicator has reflected this and only after 2014 did it start to improve again (figure 6). This remains a priority for reforms,

but it is registering some signs of recovery. Employment expectations increased from 7.4 in 2015 to 11.0 in 2016 (figure 6). Job creation is boosted by major reforms in the labour market such as the decentralization of wage bargaining and more flexible wage arrangements. Moreover, implementation of reforms to lower the tax wedge in some Member States may continue to reduce the unemployment rate. Improvements in labour market conditions are also driven in part by lower oil prices that free up resources and generate revenue for companies, encouraging job creation.

In addition, there is a general improvement of labour markets in eastern European economies. Slovenia's employment expectation rises from 17.0 in 2015 to 20.9 in 2016, and Romania's from 20.0 to 35.1. Employment expectations in Italy remain negative decreasing slightly further from -2.1 in 2015 to -3.1 in 2016.

Avoiding a jobless recovery

While economic recovery remains in first gear, it is too early to gauge whether fears of a jobless recovery are valid. Encouragingly though, EES 2016 indicates that businesses are optimistic about creating employment in those countries that are implementing labour market reforms which make it easier to do so. The European Commission must continue to drive such reforms through the European Semester economic policy guidance and surveillance process.

Meanwhile, EUROCHAMBRES urges the Commission to address the perpetual issue of skills mismatches in its forthcoming News Skills Agenda. The communication should contain measures to improve the provision of vocational education and training and apprenticeship schemes in certain member states, as well as initiatives to enhance labour mobility and a new, pan-European approach to skills forecasting.

Appendix

Methodology

About the Survey

EUROCHAMBRES Economic Survey (EES) is an annual qualitative survey of business expectations in Europe. The survey is implemented by the Chambers of Commerce and Industry and co-ordinated by EUROCHAMBRES and is now in its 23rd year. It is based on a harmonised questionnaire sent to business owner-managers from EU member states as well as to EU candidate countries: Serbia, Turkey and Montenegro. The questionnaire focuses on five economic indicators: business confidence, domestic sales, exports, employment and investment and also includes two questions on challenges. For EES 2016, 59 000 businesses responded during early autumn 2015. Data has been aggregated at national level and weighted according to the respective 2014 GDP to obtain EU estimates.

Implementation

Chambers of Commerce and Industry in Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Finland, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Montenegro, the Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain, Serbia and Turkey have asked companies a set of 12 questions on their past and future expectations.

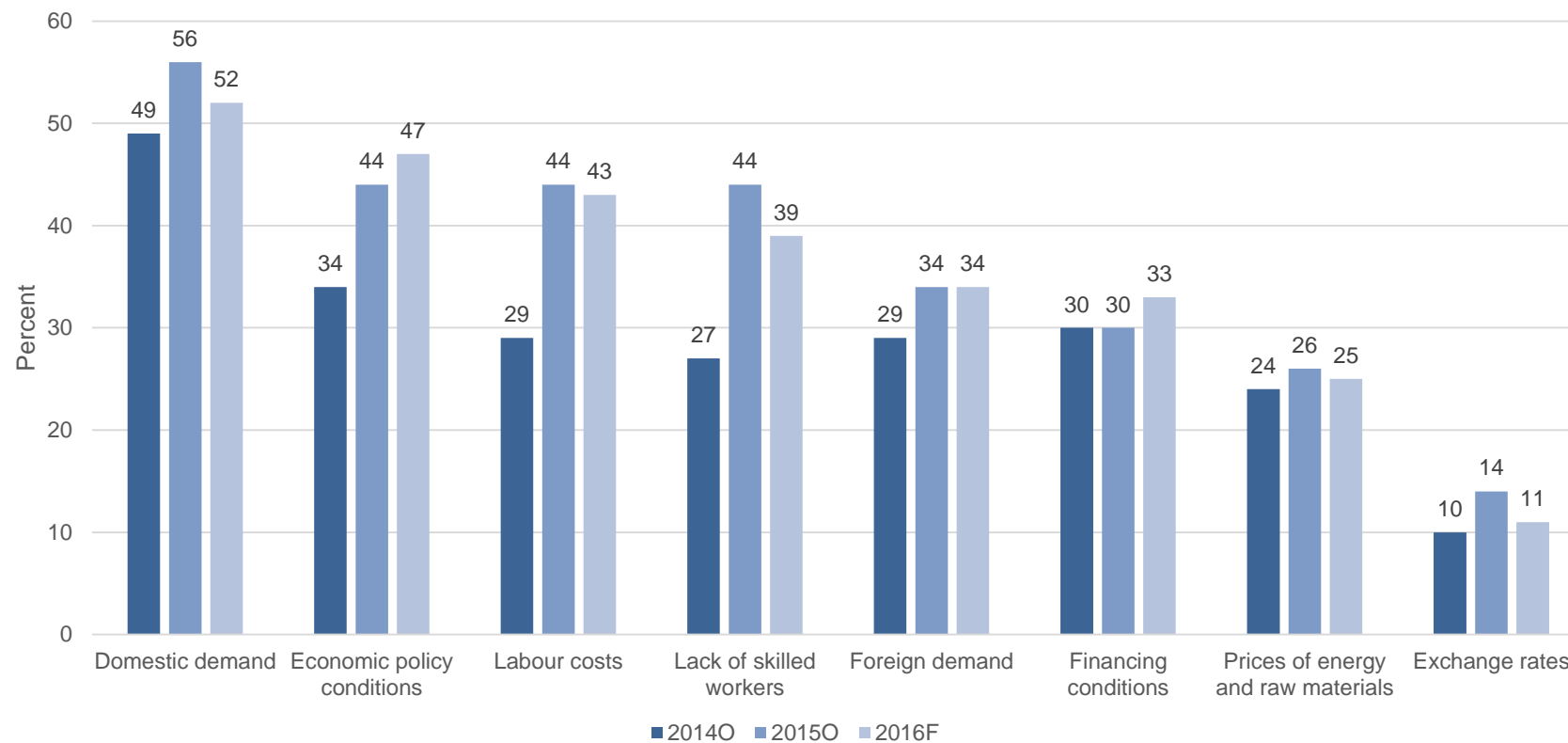
Business owner-managers were asked to give a comparative response, i.e. “better than the previous year”, “the same as the previous year” or “worse than the previous year” to two questions per indicator: one on the outcomes of 2015 as compared to the previous year, and one on expectations for 2016. Responses from entrepreneurs were collected and aggregated at national level according to official regional GDP. At European level, results were weighted according to national GDP. Weighted averages were used to guarantee representability by size and region.

Results are a balance figure, obtained by deducting the percentage of companies giving a negative response from the percentage of companies giving a positive response, thereby obtaining the 'net positive response'. Analysis of the results was based on input from national Chambers, as well as on various external sources.

In the case of Finland and Ireland, an alternative methodology was followed: rather than questionnaires being sent to businesses, they were answered by Chambers of Commerce and Industry at regional level, and then aggregated at national level according to regional GDPs. Answers were based on Chamber analysis and conclusions regarding the outcomes in 2015 and 2016 expectations for businesses.

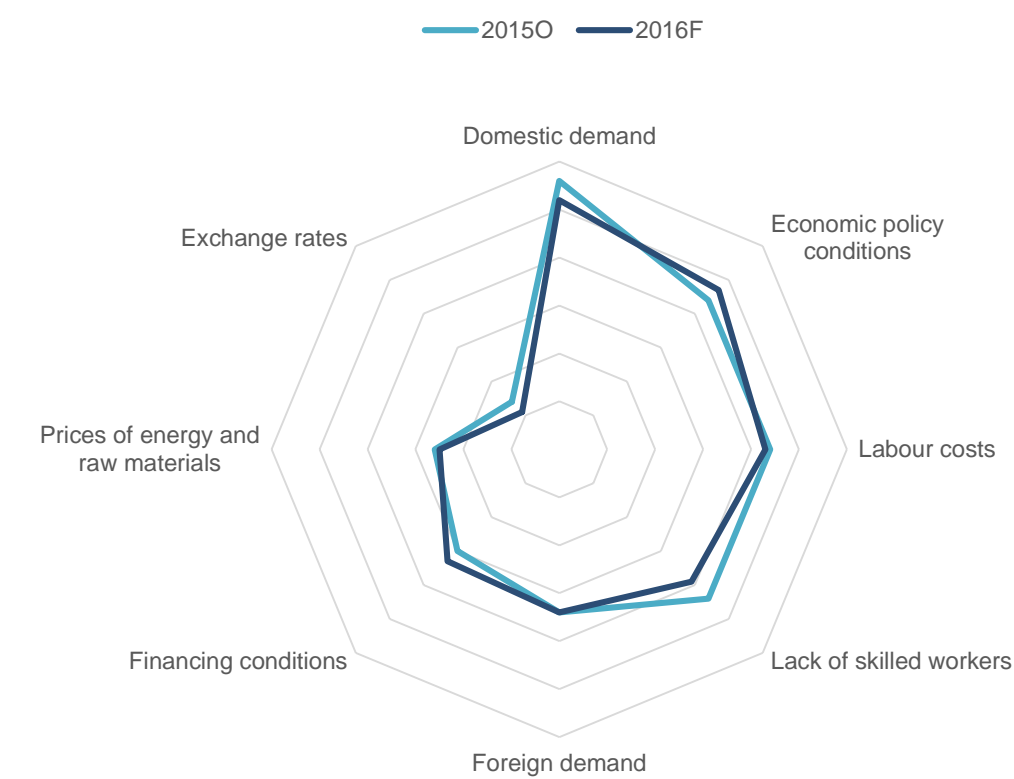
Tables

Figure 1: Challenges (2014-2016)



*O for outcome, F for forecast, in percentage to number of respondents

Challenges



*2015O- outcome, 2016F- forecast

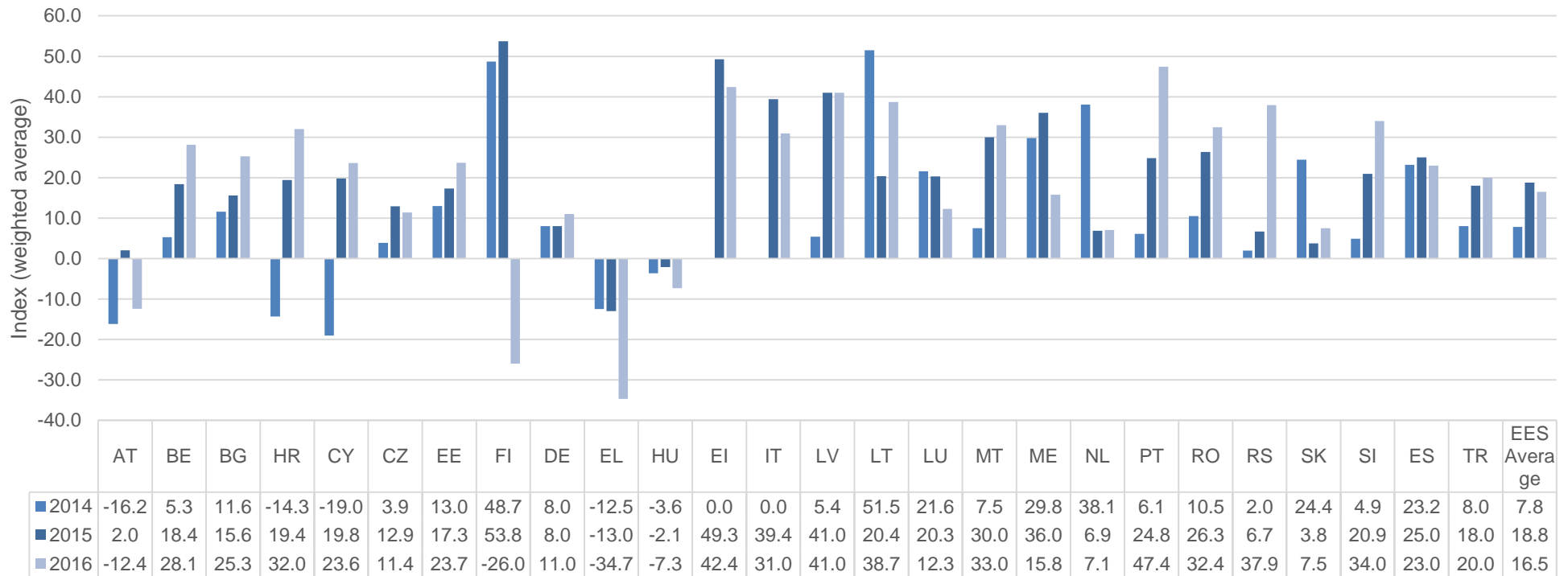
Figure 2: Investment per country (2014-2016)

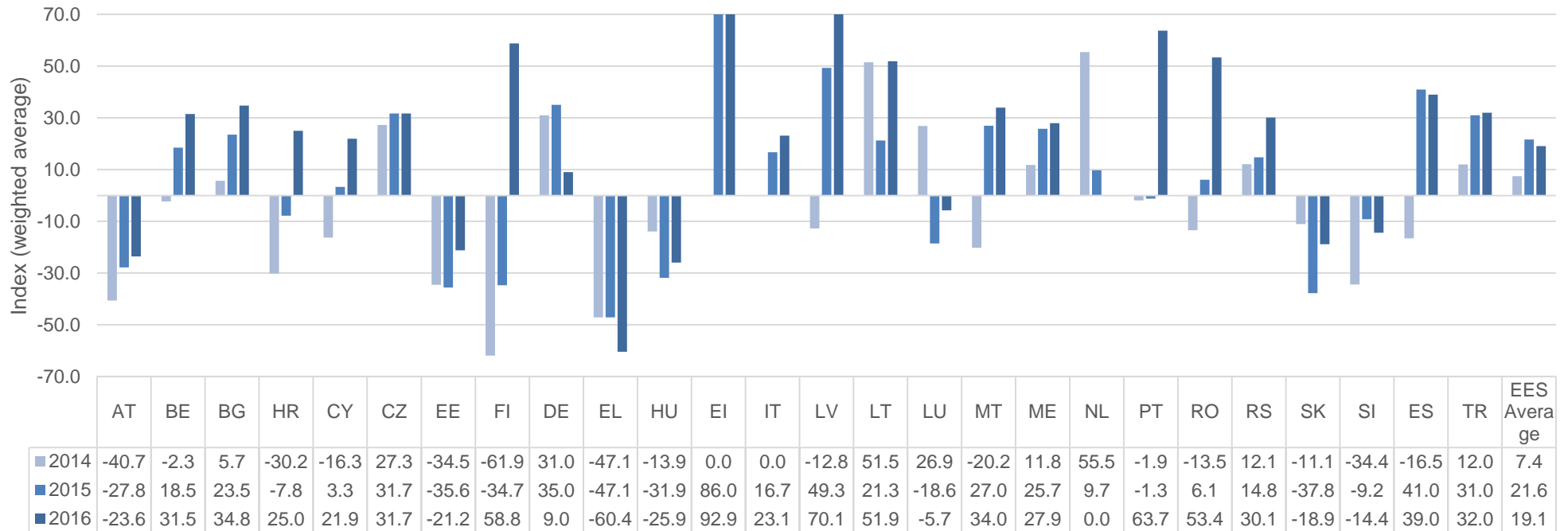
Figure 3: Business confidence per country (2014-2016)

Figure 4: Export sales per country (2014-2016)

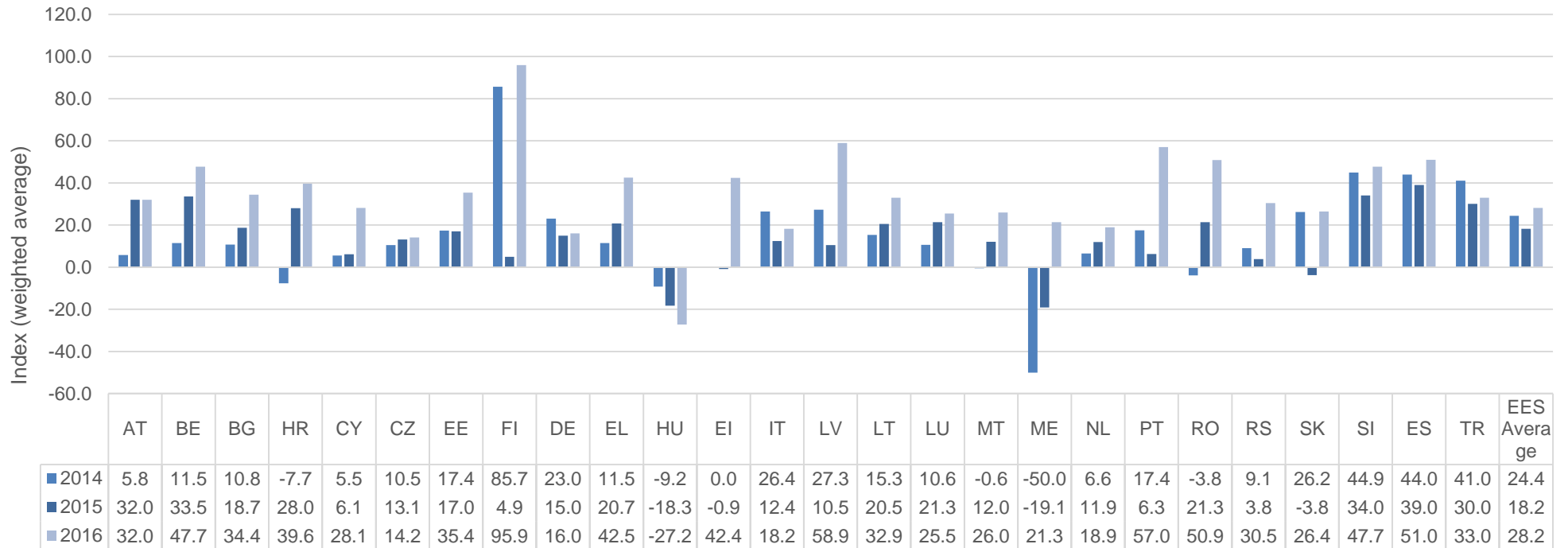


Figure 5: Domestic sales per country (2014-2016)

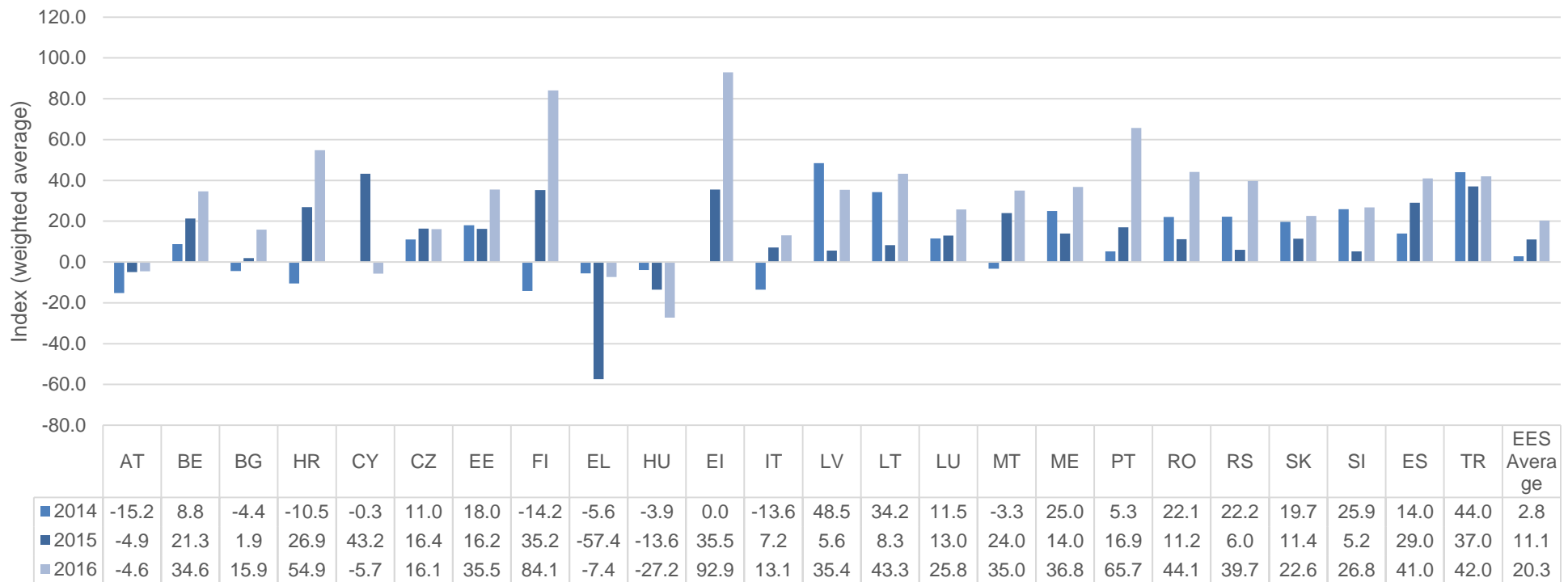
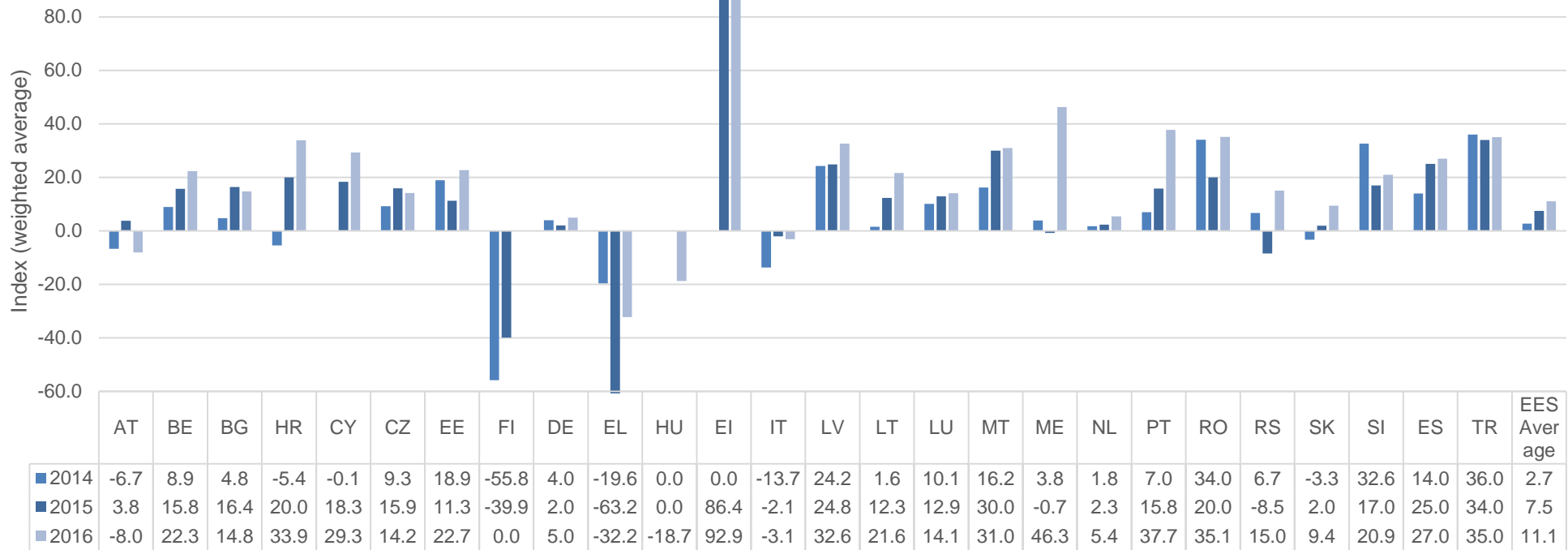


Figure 6: Employment per country (2014-2016)

Questionnaire

CHALLENGES	LABOUR
<p><u>Q.1 Compared with 2014, the biggest challenge(s) for the economic development of our company in 2015 was (max. 3 answers possible):</u></p> <ul style="list-style-type: none"> <input type="checkbox"/> Domestic demand <input type="checkbox"/> Foreign demand <input type="checkbox"/> Labour costs <input type="checkbox"/> Lack of skilled workers <input type="checkbox"/> Exchange rates <input type="checkbox"/> Price of energy and raw materials <input type="checkbox"/> Financing conditions <input type="checkbox"/> Economic policy conditions 	<p><u>Q.7 Compared with 2014, the size of our workforce in 2015 has:</u></p> <ul style="list-style-type: none"> <input type="checkbox"/> Increased <input type="checkbox"/> Remained constant <input type="checkbox"/> Decreased
<p><u>Q.2 We expect that the biggest challenge(s) for the economic development of our company in 2016 will be (max. 3 answers possible):</u></p> <ul style="list-style-type: none"> <input type="checkbox"/> Domestic demand <input type="checkbox"/> Foreign demand <input type="checkbox"/> Labour costs <input type="checkbox"/> Lack of skilled workers <input type="checkbox"/> Exchange rates <input type="checkbox"/> Price of energy and raw materials <input type="checkbox"/> Financing conditions <input type="checkbox"/> Economic policy conditions 	<p><u>Q.8 We expect that during 2016 the size of our workforce will:</u></p> <ul style="list-style-type: none"> <input type="checkbox"/> Increase <input type="checkbox"/> Remain constant <input type="checkbox"/> Decrease

NATIONAL SALES	INVESTMENT
<p><u>Q.3 Compared with 2014, our revenue from national sales in 2015 has:</u></p> <p> <input type="checkbox"/> Increased <input type="checkbox"/> Remained constant <input type="checkbox"/> Decreased </p>	<p><u>Q.9 Compared with 2014, our level of investments in 2015 has:</u></p> <p> <input type="checkbox"/> Increased <input type="checkbox"/> Remained constant <input type="checkbox"/> Decreased </p>
<p><u>Q.4 We expect that our revenue from national sales in 2016 will:</u></p> <p> <input type="checkbox"/> Increase <input type="checkbox"/> Remain constant <input type="checkbox"/> Decrease </p>	<p><u>Q.10 We expect that during 2016 our level of investments will:</u></p> <p> <input type="checkbox"/> Increase <input type="checkbox"/> Remain constant <input type="checkbox"/> Decrease </p>
EXPORT SALES	BUSINESS CONFIDENCE
<p><u>Q.5 Compared with 2014, our revenue from export sales in 2015 has:</u></p> <p> <input type="checkbox"/> Increased <input type="checkbox"/> Remained constant <input type="checkbox"/> Decreased </p>	<p><u>Q.11 Compared with 2014, overall developments for our business in 2015 were:</u></p> <p> <input type="checkbox"/> Favourable <input type="checkbox"/> Remained constant <input type="checkbox"/> Unfavourable </p>
<p><u>Q.6 We expect that our revenue from export sales in 2016 will:</u></p> <p> <input type="checkbox"/> Increase <input type="checkbox"/> Remain constant <input type="checkbox"/> Decrease </p>	<p><u>Q.12 We expect that during 2016, overall developments for our business will be:</u></p> <p> <input type="checkbox"/> Favourable <input type="checkbox"/> Remain constant <input type="checkbox"/> Unfavourable </p>

Abbreviations for countries participating in survey

Abbreviations (EU countries arranged in alphabetical order)	
AT	Austria
BE	Belgium
BG	Bulgaria
HR	Croatia
CY	Cyprus
CZ	Czech Republic
EE	Estonia
FI	Finland
DE	Germany
EL	Greece
HU	Hungary
IE	Ireland
IT	Italy
LV	Latvia
LT	Lithuania
LU	Luxembourg
MT	Malta
ME	Montenegro
NL	Netherlands
PT	Portugal
RO	Romania
SK	Slovakia
SI	Slovenia
ES	Spain
RS	Serbia
TR	Turkey

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