

3 Structural indicators of the euro area business environment

Business practices in the euro area countries remain very heterogeneous and generally far from being among the best global performers.

A friendly business environment can facilitate the creation of new firms, promote economic activity, boost employment and increase the resilience of economies to adverse shocks.¹³ A number of institutions¹⁴, including the ECB¹⁵, have called for reforms to the business environment to boost economic dynamism and encourage enterprise in the euro area. This box uses structural indicators to provide an overview, stylised facts and intuitive examples of where the euro area countries stand regarding their business environment compared with the world's best performers, and how this may have changed during the crisis.

Structural indicators confirm that the environment in the majority of euro area countries remains rather business-unfriendly.

The World Bank's "ease of doing business"¹⁶ indicator captures key aspects of the business environment and is presented in Chart A, with the horizontal axis indicating the global ranking of countries and the histograms showing the level of the indicator. The yellow dots show the change in the indicators in the years 2008-13, and the red triangles display progress during 2013-16. The ranking from the *Doing Business 2017* report indicates that not a single euro area country is mentioned among the top ten world performers.¹⁷ The highest ranking euro area countries are Estonia (12), Finland (13) and Latvia (14), while the lowest ranking countries include Luxembourg (59), Greece (61) and Malta (76). Looking at the implementation of reforms, countries such as Latvia, Portugal and Slovenia showed significant progress towards a more friendly business environment during the crisis in 2008-13 (yellow dots). However, the pace of reform over the period 2013-16 was substantially slower in the majority of euro area countries (red triangles). In fact, progress in key areas of the business environment since 2013 accelerated only in Ireland, Austria, the Netherlands, France, Spain, Belgium and Cyprus. At the same time, some euro area countries moved even further away from best practice over the period 2013-16 (e.g. Greece, Italy, Slovakia and Estonia). Moreover, the euro area average (light blue line) is far away from the world's best performers (green line), with the overall ranking of some euro area countries being among the worst performing advanced economies.

¹³ As a recent example, see Sondermann, D., "Towards more resilient economies: the role of well-functioning economic structures", *ECB Working Paper Series*, No 1984, November 2016.

¹⁴ See for example the European Commission, [Recommendation for a Council Recommendation on the economic policy of the euro area](#), COM(2016) 726, 16 November 2016.

¹⁵ See for example recent speeches of the Executive Board members and introductory statements of the ECB President, including Draghi, M., "[The productivity challenge for Europe](#)", The 100th anniversary of the Deusto Business School, Madrid, 30 November 2016, or Draghi, M., "[Introductory statement to the plenary debate of the European Parliament on the ECB's Annual Report 2015](#)", Strasbourg, 21 November 2016.

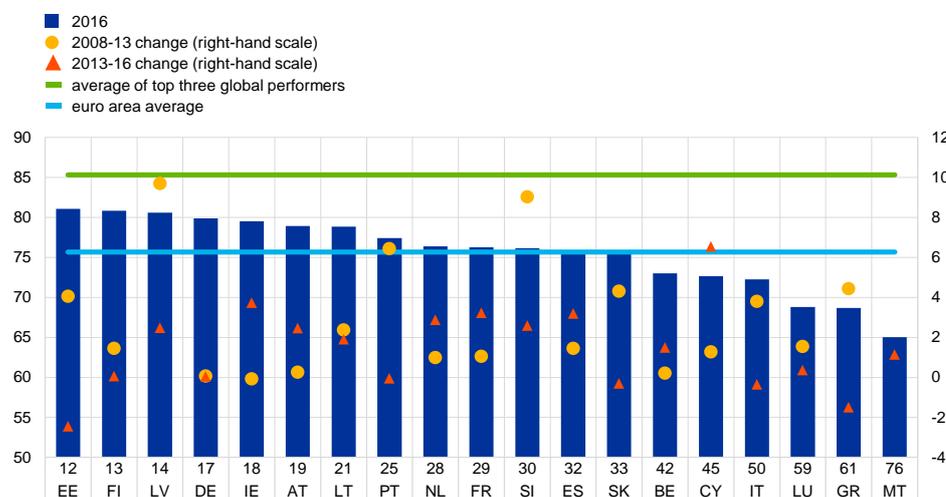
¹⁶ The overall Doing Business indicator is an aggregation of ten sub-indicators: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The sub-indicators themselves are also an aggregation of several indicators.

¹⁷ See the [Doing Business 2017](#) report.

Chart A

Overall “ease of doing business” ranking

(distance to frontier (left-hand scale); implementation of reform (right-hand scale))



Sources: World Bank, Doing Business and ECB calculations.

Notes: The left-hand scale depicts the distance to frontier (DTF). The higher the value, the closer the country is to the frontier (frontier = 100). As a measure of the reforms implemented, the right-hand scale shows the change in the DTF over the periods 2008-13 (yellow dots) and 2013-16 (red triangles). A positive (negative) change in the implementation of reform means a country is moving closer to (further away from) the frontier. The number on the horizontal axis stands for the current world ranking of the country. No value is available for MT for 2008.

The majority of euro area countries also remain far from the competitiveness frontier (see Chart B). This is confirmed by the Global Competitiveness Index¹⁸,

which suggests that many euro area countries still face substantial competitiveness issues. Whereas the Netherlands, Germany and Finland score among the top ten of the world’s most competitive economies, a number of euro area countries still rank among the least competitive advanced economies in the world. According to the index, competitiveness deteriorated over the period 2008 to 2013 in a number of countries (e.g. France, Spain, Slovenia, Slovakia, Cyprus and Greece), but improved somewhat between 2013 and 2016¹⁹ in a majority of euro area countries, with the exception of Finland and Cyprus. Given the low total factor productivity (TFP) growth over the past 20 years in the euro area, combined with a poor outlook for future productivity growth, a major improvement towards more competitive structures²⁰ is crucial for catching up with the most competitive economies.

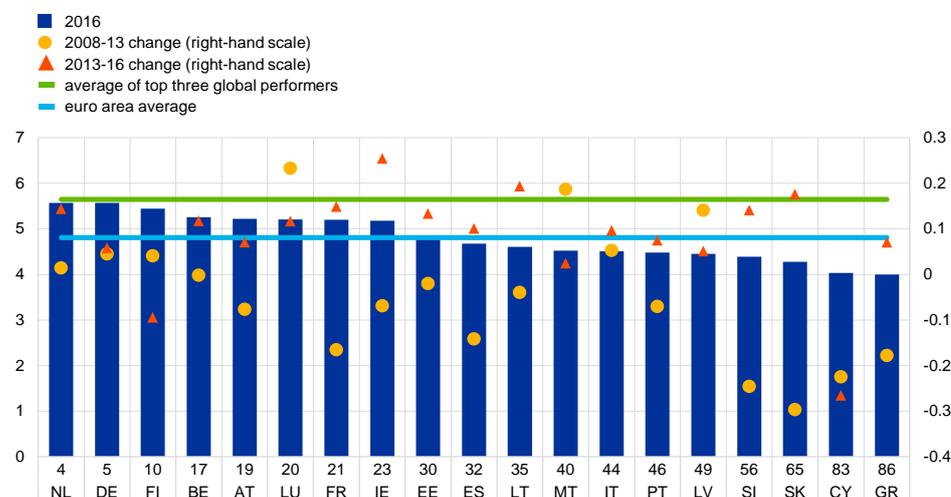
¹⁸ The Global Competitiveness Index assesses the competitiveness landscape of 138 economies on a scale of 1 (worst) to 7 (best), providing insight into the drivers of their productivity and prosperity. The index integrates more than 100 variables, combining the macroeconomic and micro/business aspects of competitiveness into a single index. Moreover, the overall indicator is an aggregation from 12 pillars (sub-indicators), but in this box only the aggregate indicator is reported.

¹⁹ It should be noted that the Global Competitiveness Index corrects for the GDP per capita effect. Therefore, countries with higher GDP per capita are expected to have, on average, a more competitive environment, hence the economic recovery helps countries achieve a higher score for the indicator.

²⁰ See also “Increasing resilience and long-term growth: the importance of sound institutions and economic structures for euro area countries and EMU”, *Economic Bulletin*, ECB, Issue 5, 2016.

Chart B
Overall “Global Competitiveness Index”

(index (left-hand scale); implementation of reforms (right-hand scale))



Sources: World Economic Forum and ECB calculations.

Notes: On the left-hand scale, higher values imply greater competitiveness. As a measure of the reforms implemented, the right-hand scale shows the change in the index over the periods 2008-13 (yellow dots) and 2013-16 (red triangles). A positive (negative) change in the implementation of reform greater (less) than zero means a country performed better (worse) at the end of the phase with respect to the starting point. The number on the horizontal axis stands for the current world ranking of the country.

Sub-components of the Doing Business indicator – such as “enforcing contracts” – confirm that the gap between the best performers and the euro area countries is substantial.

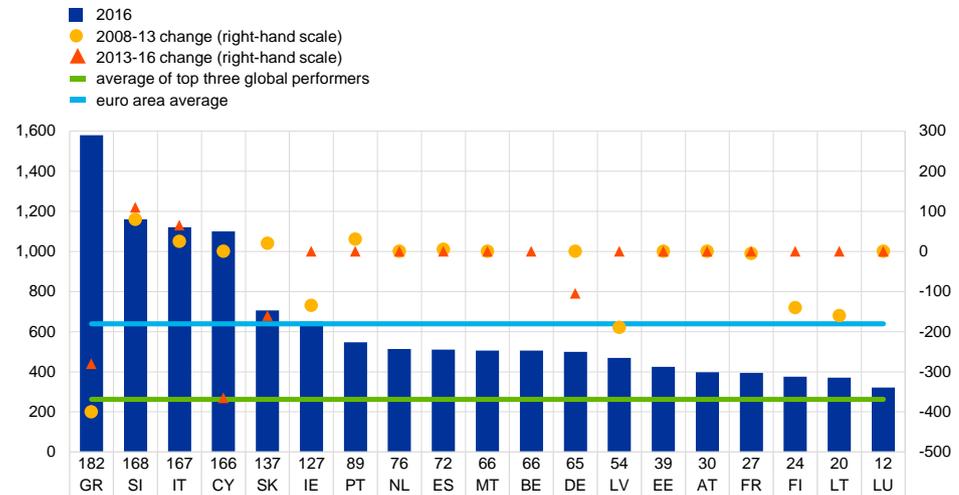
Lengthy court proceedings and difficulties in enforcing contracts²¹ may be signs of limitations in a country’s legal system. Such limitations can, for example, discourage investors or reduce access to external financing that firms may need. It is therefore a source of concern that it takes more than 600 days on average to enforce a contract in the euro area but only about 250 days in the best performing countries across the globe (see Chart C). Indeed, it still takes more than three years to enforce a contract in Greece, Slovenia, Italy and Cyprus, even though some progress after 2008 can be observed in Slovenia and Italy. However, their reform efforts are still not commensurate with what is required to align them closer to the world’s best performers. By contrast, it takes about a year to enforce a contract in Luxembourg, Lithuania and Finland.

²¹ For a detailed review of the literature in this area, see Aboal, D., Noya, N. and Rius, A., “Contract Enforcement and Investment: A Systematic Review of the Evidence”, *World Development*, Vol. 64, pp. 322–338, 2014, December.

Chart C

“Number of days to enforce contracts” indicator

(enforcing contracts: time (days) (left-hand scale); implementation of reform (right-hand scale))



Sources: World Bank, Doing Business (enforcing contracts time component) and ECB calculations.

Notes: In the left-hand scale, the higher the value, the more costly it is to enforce a contract as measured by time. As a measure of the reforms implemented, the right-hand scale shows the changes in the number of days needed to enforce a contract over the periods 2008-13 (yellow dots) and 2013-16 (red triangles). A change in the implementation of reform greater (less) than zero means a country is moving closer to (further away from) best practice. The number below the chart stands for the current world ranking of the country. No value is available for MT for 2008.

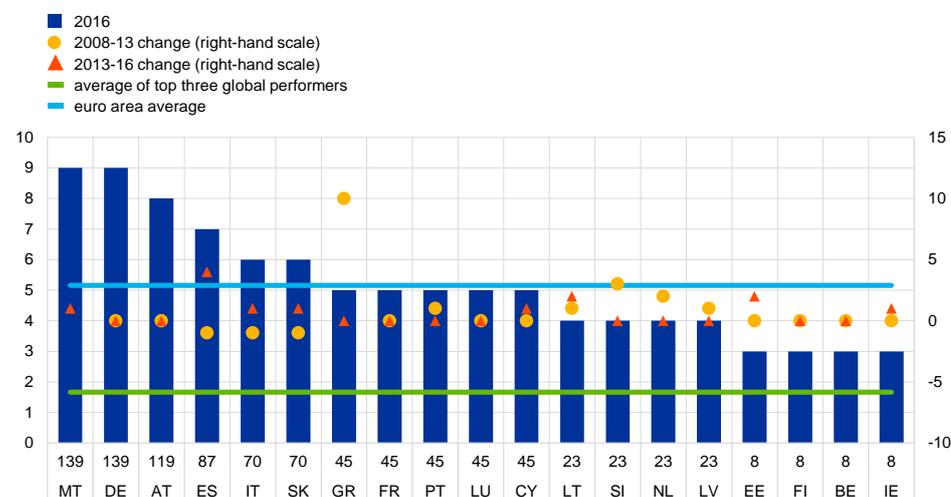
Five procedures need to be undertaken to open a business in the euro area, which amounts to far more red tape in comparison with the world’s best performers (see Chart D). This figure varies, from three procedures (in Belgium, Estonia, Finland and Ireland) to nine (Germany and Malta), whereas the global best performer requires only one. Apart from Greece, a large majority of euro area countries made little effort to cut red tape. Stringent bureaucracy and burdensome regulations make it harder for firms to allocate resources efficiently and can often signal that the public administration is unwieldy.²²

²² See, for example, Gust, C., and Marquez, J., “International comparisons of productivity growth: the role of information technology and regulatory practices”, *Labour Economics*, Vol. 11, Issue 1, pp. 33-58, 2004, February.

Chart D

“Number of procedures to open a business” indicator

(starting a business: procedures (number) (left-hand scale); implementation of reform (right-hand scale))



Sources: World Bank, Doing Business (starting a business – number of procedures) and ECB calculations.

Notes: In the left-hand scale, the higher the value, the more costly it is to start a business as measured by a number of procedures involved when opening a business. As a measure of the reforms implemented, the right-hand scale shows the changes in the number of procedures involved when opening a business over the periods 2008-13 (yellow dots) and 2013-16 (red triangles). A change in the implementation of reform greater (less) than zero means a country is moving closer to (further away from) best practice. The number below the chart stands for the current world ranking of the country. No value is available for MT for 2008.

To increase investment and productivity, boost job creation and guarantee sufficient shock absorption capacity, action to address the above-mentioned weaknesses in the business environment – including measures to facilitate the entry of new firms and enhance competitiveness – should be a matter of priority in the euro area. A number of euro area countries have relatively unfriendly business environments across a number of indicators, and would therefore benefit the most from substantial reforms in this area. Nevertheless, the overall message across various measures and indicators is that the euro area lags behind the world’s best performers. The euro area countries can therefore benefit significantly from implementing reforms to improve their business environments.