



News release

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Skills shortage could cost the European Union EUR 324 billion per year

Romania loses more than EUR 10 billion per year as a result of skills shortage

Private businesses across Europe see regulation and bureaucracy in their domestic economies as more of a threat to the development of their companies than regulation and bureaucracy coming from the European Union (EU), according to PwC's *European Private Business Survey*. In the report surveying 2,447 companies across 31 European countries, 39% said domestic red tape was a concern, compared with about 29% citing EU red tape as a problem.

That sentiment was particularly pronounced in countries such as Croatia, Greece, Finland, Hungary, Italy and the UK. As an example, almost 71% of respondents in Greece cited Greek red tape as a concern, compared with 24% pointing the finger at EU red tape.

The most striking finding of the survey is that while it is often perceived in some areas that regulatory and bureaucratic intervention of the EU authorities is stifling businesses' initiative and ensnaring companies in red tape, most private businesses do not feel that way. Therefore, 39% of respondents said domestic red tape was a concern, compared with about 29% citing EU red tape as a problem. Competition (52%) and skills shortage (43%), in that order, were finger pointed by those surveyed as top two biggest threats, ahead of bureaucracy/domestic regulation for growth. In Italy, for example, where anti-establishment, Eurosceptic parties have very recently scored electoral success, as many as 49% of respondents felt domestic bureaucracy was a problem, compared with 20% singling out EU red tape. Furthermore, even in the UK, private businesses felt domestic bureaucracy and regulation were more of a threat to their businesses than EU bureaucracy and regulation. Data reveals that almost 35% of respondents cited British red tape as a concern, compared with 25% pointing the finger at EU red tape.

Private businesses see hiring skilled staff being important to their growth strategies, but asked what the number one problem is for them, private businesses cite their inability to recruit enough qualified staff. In this context, the skills shortage is costing the region a massive EUR 324 billion annually in lost revenues – just from private businesses. That's around the combined annual GDP of Portugal, Hungary, and Croatia. As a natural connection, digitalization was mentioned as a priority by a modest 31% of private businesses in Europe.

Private businesses in Eastern Europe were among the most vocal about the difficulty of hiring skilled employees. Economic losses, compared to country's GDP, due to skills shortage show some worrying numbers for countries such as Bulgaria (13.2%), Romania (6%), Poland (5.7%), Malta (5.6%) and Hungary (5.2%). This totals an astonishing EUR 46.4 billion of losses reported to GDP,



for these countries, from this issue alone. Sectors most affected were construction and manufacturing.

“Romania loses 6% of GDP, annually, by skills shortage alone. The availability of qualified staff is dependent on factors such as free movement of labor, including easing working permits requirements for non-EU countries nationals, and educational systems that provide graduates with the right qualifications. It is necessary a re-shape of the educational system to meet the needs of the business environment. At the same time, a review of Romania’s red tape is necessary in order to make more efficient the interaction between the government and the taxpayer. This rearrangement should be followed by investment in digitalization that will allow a fluent interaction between the two. These measures are needed especially because local entrepreneurs see Romania as having a high degree of red tape (80%) of all surveyed countries. At the same time, investments are necessary in developing the communication and transport infrastructure in order to allow business to develop and invest in new services and products, expanding the growth area”, said Mihai Anița, Partner, Private Company Sector, PwC Romania.

Talent scarcity comes at a time when unemployment is falling through much of Europe. Unemployment rates among the EU28 have been improving since 2013 and stood at 7.1% in February 2018, down from 8% a year ago. The employment market is tightening at a time when private businesses are wanting to invest more and recruit more qualified staff to grow their businesses. One problem is that while youth unemployment is still above 10% in many economies in Europe, many young people aren’t able to take up new positions because they lack the right skills. Governments need to take the issue of skills shortage more seriously, because educational systems in many of these countries aren’t training enough people with the right skills for the growing demands of private businesses. This will only become more urgent as demand for skilled employees rises and as private businesses invest more in skills-intensive digital technologies to make them more competitive.

Private businesses are optimistic about growth prospects in Europe, where, in spite of recent signs of weakness, the region has enjoyed a roughly two-year period of respectable, positive growth. Some of the most optimistic private businesses are in Austria, Finland, and the Netherlands. Even businesses in the UK and Ireland, where Brexit is a daily concern, are positive and continue to be so in the year ahead. Digital growth strategies are particularly strong among private businesses in Scandinavia and Western Europe, and specifically in countries such as Norway, the Netherlands, Switzerland and Austria. Private businesses were less concerned about digital strategies to grow their businesses in Central and Eastern Europe, and Southern Mediterranean countries.

The growth strategy for many of these economies is focused on expanding product/service portfolio (40%) and domestic revenue growth (39%) while they put aside the fact that digital technologies are often a means to achieve these ends. Many of them could lose their competitive edge if they don’t start to consider what digital means for their businesses and act accordingly. Notably, digitalization is only mentioned by 31% of private businesses in Europe. This implies that many still don’t fully understand what a digital future means for their companies and are underestimating its disruptive force as well as the risks associated with digital. Only a minority see cyber as a major risk. Greater clarity of thought around digitalization is needed.

Innovation is the key to any businesses fortunes and increasingly innovation will be driven through digital efforts. Businesses need to be aware of the opportunities digitalization represents for their business, but also the threats it presents to their companies and the sectors they operation in. Knowledge of these opportunities and threats will be key to their continuing fortunes. Talking about education and skilled workforce, governments can’t be entirely responsible for training the employees of the future, businesses also need to take the lead in this area. This is particularly the case with existing employees. Although employees might have the right skills for businesses today, they might not have the right skills for business tomorrow. Private companies need to continually invest in training their staff. This will also help to retain them. It is also important that the governments listen to the business environment, no matter the industry, and try to better align educational qualifications with the demands of private business.

**About the report**

To gain the entrepreneurs' perspective on the above topics, a representative survey of 2,447 private businesses across 31 European countries (EU28 plus Switzerland, Norway and Turkey) was conducted. The aim was to provide insights into how European private businesses perceive the economic environment and growth perspectives, their growth strategies, key opportunities for growth and risks that might limit private businesses' ambitions.

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