UNICE

THE VOICE OF BUSINESS IN EUROPE

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Statement of Dr Strube, President of UNICE
At the Macroeconomic Dialogue on the Political Level.
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Thank you Mr Chairman, Since this is the first time I attend this meeting, let me start with stressing the importance of the Macroeconomic Dialogue between policy-makers and the social partners. It is a welcome confidence-building opportunity and, in respect of the autonomy of the parties involved, a useful channel for communication and exchanging views between representatives of economic players. My intention is to make full use of this channel to discuss with you the key issues to strengthen the European economy and the European business' competitiveness. I am looking forward to a fruitful collaboration.

Economic Situation

I share the views expressed by Commissioner Solbes and President Trichet on the current state of the European economy. The Commission's autumn forecasts are broadly in line with UNICE's forecasts. The scenario, which sees the European Union economy reviving at the end of 2003 and strengthening in 2004, seems to be becoming a reality. Nevertheless, the growth rate will have been among the lowest since the early 1990s. Recession in the eurozone was just missed. It is true that in 2003 many exogenous factors, and not the least the war in Iraq, have increased uncertainty and damaged confidence. But, this may only partly explain the poor economic performance in Europe and particularly in the Eurozone.

Other countries like the USA or Japan facing the same unfavourable environment have performed significantly better. Strikingly, the forecasts made at the beginning of the year for the USA were confirmed or even revised upwards, whereas for Europe they have been revised significantly downwards. Growth in the USA is expected to exceed the European performance by 2% points in 2003. Europe as a whole is not creating its own growth and once again is dependent on US efforts. I share Mr Monks' view, that we should become masters of our own economic growth.
Obviously, there are some homegrown causes for this poor performance.

Policy mix

Some people argue that the policies of the "Policy Mix" are being handled too restrictively to stimulate growth. I do not share this view, on the contrary.

The European Central Bank has managed to control inflation, which is expected to fluctuate around its 2% target. ECB's clarification of its definition of price stability, less than but close to 2%, has calmed fears of deflation and reduced the risk of it occurring. Interest rates are historically low and confidence in the euro is strong.

The exchange rate between the euro and the currencies of other large economies, particularly the dollar, needs close monitoring though, since an excessively rapid appreciation of the euro could harm European competitiveness. Also, the peg of the Chinese Yuan to the dollar provides China, at this moment, with an additional competitive advantage and this should be dealt with.

Let me be clear. I am not calling here for protectionist measures, on the contrary. We are in favour of open and fair trade. UNICE looks for the EU to explore with China ways for the Yuan to better reflect market forces. The weight of the adjustment of the US current account deficit must not be borne by Europe alone. This issue should be raised in the appropriate fora, like the G8 for instance.

A strong Euro backs our forecast of low inflation in 2004 and could provide the ECB with more room for manoeuvre for setting its monetary policy. Stable Monetary policy has made the euro a success and it must be preserved.

Unfortunately fiscal policy is a different story. Budgetary discipline has been relaxed. The budget deficit has deteriorated in 2003 by 0.6% points of GDP in the eurozone and 0.8% points in the European Union. In my opinion, high public deficits are one of the causes of low growth. They lead, in the future to tax increases and, already today to a loss of confidence, which depresses economic recovery. Sustainable growth can only be achieved with a stable monetary and fiscal policy.

The European Stability and Growth Pact has provided a very necessary fiscal discipline which needs to be continued, and any attempts to weaken this "stability anchor" have to be resisted. Therefore, concerning the excessive deficit procedure, I support Mr. Trichet's view and his call "to each institution and each government involved to live up to their responsibilities". It is an illusion to believe that overspending public money could solve Europe's problem.

<u>Structural reform.</u>

The core of the problem lies elsewhere and is well known. Europe suffers from a lack of overall competitiveness. UNICE has always asked for less and better regulation, a lower tax burden and structural reforms that will enhance European companies' competitiveness as well as the promotion of entrepreneurship.

Competitiveness must become key not only in the EU but also in the Member States. The solution is to achieve the Lisbon Strategy, but its implementation depends essentially on national reforms. The reform initiatives in many Member States are signs that governments are finally taking the Lisbon Strategy seriously. But reforms have to be speeded up.

Ten days ago, UNICE organised the first "European Competitiveness Day" here in Brussels in order to remind policy-makers of the crucial role that increasing European companies' competitiveness can play in unleashing their growth potential. Companies are like Gulliver, they are tied down by too many obstacles.
It is time:

- for a real commitment to competitiveness,
- for modernising our national social systems and for decision-makers to put resources where the growth drivers are, with specific attention to investments in infrastructures, R&D, education and training.

In this context, the recent "Growth initiative" launched by the Commission is welcomed as long as it will not jeopardise stability and as long as the projects are aimed at increasing the overall competitiveness of Europe.

In that regard, the Commission's focus on "getting rid of administrative and regulatory barriers, which hold back investment" is particularly welcome and the best way to stimulate the European growth. However, the experience with the Lisbon Strategy teaches us that talk is cheap. The growth initiative will have to prove the ability to walk the talk.

To sum up, Mr Chairman, the recovery seems to back our forecasts, even though it is weak and arrives rather late, particularly in comparison with other areas. The recovery must be strengthened but we should avoid looking for a short-term cure that jeopardizes stability. It is crucial to actually implement the structural reforms that are already well identified and to unleash European companies' potential.

Thank you Mr Chairman.

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