

MACROECONOMIC DIALOGUE

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SECRETARY GENERAL
UNICE**

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Ministers,
Presidents,
Commissioners,

1. Europe is at a decisive point. Not only European enterprises but also citizens have high expectations regarding your actions at both national and European levels to deliver sustainable growth and jobs. Many European countries have accumulated disappointing economic performances for many years and consequently, poor job prospects. All instruments of economic governance should put the European economy on the right track:
 - Preliminary results of the UNICE Economic Outlook Spring 2005 confirm the urgent need to re-focus the Lisbon Strategy on growth and jobs
 - Changes can be made to improve the way the SGP works but now the debate on the Stability and Growth Pact should come to an end in order to restore confidence in this essential coordination mechanism.
 - I would also like to add that the Lisbon Agenda is linked to the financial perspectives 2007-2013 within which a shift of priority is key to translate the new impetus given by the Commission to the Lisbon Strategy into reality.
2. First, I would like to give you some – not yet public – preliminary results of the **UNICE Economic Outlook Spring 2005**.
 - A levelling off of growth in the European economy is confirmed. EU growth is expected to decelerate from an estimated 2.5% in 2004 to 2.2% in 2005. Compared with our main competitors, the EU appears to be lagging behind and is vulnerable to an expected cooling of external demand. The euro area is even expected to grow at an annual rate of only 1.8% in 2005.
 - Growth is too sluggish to create jobs significantly. Despite exceeding 2% in 2004, growth has not generated new jobs significantly. Combined with doubts about the sustainability of health care and pension systems with an ageing population and still large budget deficits, poor job prospects shed light on the depressed state of private consumers in Europe.
 - Globally, investment expectations deteriorate, particularly in industries. A slight improvement could nevertheless be expected in Germany where competitiveness conditions have significantly improved over the last years.

Related to the pessimist trend in investment expectations, I would like to stress that current uncertainties regarding the Services Directive are not likely to help improving sluggish business expectations. On the contrary, Europe needs a truly Internal Market for services, eliminating obstacles to cross-border provision and establishment of services based on the country of origin principle.

3. Regarding our outlook, I would like also to stress the importance of a **stable currency for economic growth**. In addition to current oil prices, the euro level and volatility vis-à-vis the dollar and dollar-pegged Asian currencies impact negatively on entrepreneurs' prospects and confidence.

At our last meeting, we wondered whether any measure could be examined for smoothing out the surge in the euro's external value. I would like to express again this concern for European businesses that are increasingly having difficulties to remain competitive in some countries such as Italy and Spain, particularly for exposed small and medium-sized enterprises as they can hardly hedge their currency exposure.

4. On the policy side of the issue, I would like to stress that the **Stability and Growth Pact** and the **Growth and Employment Strategy** are complementary agendas. The Lisbon Goals cannot be achieved without a stable macroeconomic environment while the decline in growth potential makes it politically difficult to consolidate public finances. But the binding fiscal rules of the SGP force national governments to adapt their spending structures to prioritise competitiveness-enhancing investment. This is not an easy task but, as experience shows, it is rewarding in terms of growth.

Changes can certainly be made to improve the way the SGP works in economic good times, to differentiate the corrective path to be followed in case of Excessive Deficit Procedure and to strengthen its medium-term orientation, particularly in the context of an ageing population. But no reform should water down the system by reviewing the reference values of 3% GDP for the budget deficit and 60% for public debt and its initial objectives in terms of macroeconomic stability and sustainable growth.

5. Finally, I take the opportunity to express a request regarding the **financial perspectives 2007-2013**: do not "sacrifice" competitiveness because of other politically very sensitive issues. Negotiations will certainly be tough in the coming months, but no compromise should be achieved at the expense of the competitiveness sub-heading, and in particular of research and technological innovation. In the likely context of a very tight budget constraint, the question of the Common Agricultural expenditure will have to be addressed.

Boosting growth and creating jobs will only be achieved provided entrepreneurs are convinced Europe is still a good location to do business. The implementation of the Growth and Employment Strategy is the central channel to feed such expectations. But sound public finances, a competitiveness-oriented EU budget and a stable currency are also key elements of the overall Growth Strategy.

European businesses have high expectations regarding the Spring Summit. This is a decisive time for European governments to show determination and perseverance to implement the right reform policies for growth and jobs.

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