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PRESIDENT SEILLIÈRE'S ADDRESS DURING THE MACROECONOMIC DIALOGUE MEETING – 13 MARCH 2006

Presidents,
Ministers,
Commissioners,
Ladies and Gentlemen,

ECONOMIC OUTLOOK

- As explained by previous speakers, the recovery seems finally to be under way in Europe. UNICE also confirms this in its Spring forecasts published today, which put growth this year at 2.3% in the EU and 2.0% in the euro area.
- Beyond recent encouraging confidence indicators, other positive signals are coming from more dynamic business investment and exports.
- However, the current economic upturn is fragile. UNICE considers that the outlook for private consumption remains subdued in some of the larger EU economies, and the external environment could become less favourable next year. In this context, UNICE expects growth to slacken already in 2007, to 2.1% in the EU and to 1.7% in the euro area.
- The business community continues to see important obstacles to a sustained resurgence of domestic demand, and this is reflected in more cautious growth forecasts than presented, for instance, this month by the ECB.
- To keep up the recovery momentum, policy-makers will need to act decisively to restore confidence.

MACROECONOMIC POLICIES

- First of all, governments must use better economic conditions to engage on a credible path of fiscal consolidation. Their lack of preparedness in the face of an ageing society is creating anxiety, which has negative effects on economic decisions today.
- Regarding monetary policy, UNICE acknowledges that the current ECB stance remains supportive to investment and growth, even after a second interest rate hike earlier this month. However, UNICE sees no underlying inflationary pressures developing and the uncertain outlook for growth calls for caution in future decisions. In this light, we suggest ECB waits for more convincing signs of a sustained upturn or clearer inflationary risks before contemplating new interest rate hikes.

NATIONAL REFORM PROGRAMMES AND THE SPRING SUMMIT

- In any event, the most pertinent area of action to restore confidence in Europe's prospects is to move ahead with an ambitious and coherent reform agenda. The Spring EU Council will offer an excellent opportunity to do this, and better economic conditions also provide a good basis for implementation.
- What should be done?
- First of all, efficient economic governance in Europe is imperative to restore business confidence.
- The recent National Reform Programmes are an important step in the right direction. However, substantial progress needs to be made to turn good intentions into actions.
- National implementation is key, especially in Germany, France and Italy. In this regard, the Commission and Council will need to devise more efficient mechanisms to monitor national reform efforts.

CHALLENGE OF GLOBALISATION

- Europe also needs to face globalisation more pro-actively. Citizens' fears of change need to be addressed with better explanations of the benefits of international competition: cheaper and better products and services, bigger markets, more opportunities and, consequently, more growth and better jobs.
- Resorting to protectionism will not work for Europe. Member states' interventions to shield markets from international competition endanger our competitiveness and threaten European integration.
- The right way to address globalisation is to increase adaptability, and to promote our capacity to innovate and develop human capital under rapidly changing conditions. This calls for the removal of barriers to entrepreneurship and for the modernisation of labour market structures and social systems.
- Important economic gains are also in store for Europe if a successful conclusion to WTO negotiations is reached this year. This means that the EU must stress more decisively that negotiations on services and manufacturing products are brought to the fore.
- EU policy-makers would also need to encourage China and other Asian countries more vigorously to let their currencies adjust to market forces. More exchange rate flexibility in Asia will be crucial to avoid the weight of an inexorable depreciation of the US dollar falling predominantly on the euro and other European currencies. Europe would unduly suffer from such an adjustment, and we should make whatever possible to reduce the likelihood of such a catastrophic scenario.

INTERNAL MARKET AND SERVICES DIRECTIVE

- Finally, reinforcing our internal market is another positive response to globalisation. UNICE strongly urges a vigorous defence of the internal market objectives and calls the European Commission to take action against member states which would infringe against existing internal market directives.
- Completing the internal market for services could be a crucial contribution to strengthen Europe's internal growth and competitiveness. However, the outcome on the vote of the Services Directive in the European Parliament is a great disappointment and deprives the directive of much of its value. The European Council and Commission should work to rebalance the proposal to ensure a broader scope and more legal certainty.
