SPEECH

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As the President of BUSINESSEUROPE, the Confederation of European Business, it is a great pleasure to share in such a distinguished setting our views on the progress of structural reforms in Europe.

European companies face immense challenges:

- The US economy is on the brink of recession
- The euro trades at a record high vis-à-vis the US dollar – above 1.50.
- The oil price (BRENT) has crossed the psychologically sensitive mark of 100 US dollar per barrel.
- Inflation pressures are rising in Europe and elsewhere.
- Financial market turmoil is not abating.

Nevertheless, Europe still has a good chance to keep growing at around 2% this year (echoes from member federations so far), notably thanks to past corporate restructuring – reinforcing the resilience of companies to present financial headwinds and to an overvalued euro – and thanks to significant improvements on the job creation front in the last two years.
However, Europe's economic future also lies in the hands of policy makers and depends in particular on their reform drive.

<u>The "don'ts" and "dos" of policy making in today's environment:</u>

<u>The "Don'ts":</u>
- push for large fiscal stimulus packages in an ageing society and with high public debt in most parts of the EU;
- Push for higher wage growth, when inflation in the euro area is already above 3% and with the euro trading above 1.5 against the dollar;

These policies would hurt business confidence at the worst possible time, and soon lead to negative consequences for the European economy.

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The "Dos":

- A credible commitment towards fiscal sustainability and moderate wage settlements, leaving sufficient room for central banks to spur growth
- Fast-track implementation of reforms able to boost global competitiveness and domestic demand at same time.
    - For instance, more competition in retail, transport and energy sectors would achieve such objective, reducing price pressures, boosting purchasing power, productivity and employment, even in the relatively short term.

There is a huge untapped potential for growth in Europe:

- Let me briefly take stock of **what has been achieved** since the re-launch of the Lisbon Strategy in 2005:

    1. More than 9 million jobs have been created between 2005 and 2007, compared to 1 million between 2000 and 2004
    2. EU policies are now more focused on growth and jobs; and increased attention is paid to innovation, education, better regulation and the internal market.
    3. New coordination instruments, like the obligation for each country to draw up a National Reform Programme and implement a set of Country-Specific Recommendations were important steps forward as well.

- The Lisbon strategy is more than ever a priority and we remain fully committed to it. The Lisbon strategy conceals at least an additional percentage point of EU annual growth for a decade or more, if properly implemented. Just reaching the R&D target of 3% of GDP (from 2% currently) could boost GDP by 5% over the medium term.

- But unfortunately we have observed that **governments continue to shy away from most urgent and daunting reforms.**

    - Our recent Reform Barometer survey has shown that national reforms have progressed slowest in those areas that rank the most important to the business community (incentives to work and participate in the labour market, sustainable public finances, education and training, pension reforms).

- There has also been a tendency for governments to reform in reaction to negative circumstances rather than taking measures in good times, when reforms yield better and more rapid results;

    - This tendency is again repeated today, when higher growth over the last two years has led to a certain reform fatigue, be it in old member states like Germany, Italy or Spain, or in new member states like Poland, the Czech Republic and Slovakia.

- BUSINESSEUROPE deplores this reform fatigue which is damaging for growth, for jobs, and for the good governance and cohesion of monetary union.

- This trend must be resisted by a renewed commitment of member states for the Lisbon strategy and reinforced governance by European institutions.

We think we can achieve that by asking

Member States:

- to present clear action plans, specifying targets and time schedules to deliver on agreed recommendations, and to spell out in coming months how flexicurity principles will be integrated in reform strategies.
- to raise the profile of the Lisbon Strategy in national policy debates, for instance by involving stakeholders more and at an earlier stage, by supporting a benchmarking culture and with better communication.
- to reaffirm their commitment to fiscal sustainability, in full coherence with the Stability and Growth Pact and with the pledge by euro-area Member States to balance their budgets by 2010.

The European Council:

- to increase peer pressure, avoid complacency – in particular towards larger EU Member States that too often lack decisive reform momentum – and to reinforce the role of the eurogroup in the governance of the Lisbon Strategy for euro-area countries.

The Commission:

- to improve benchmarking instruments and methods for evaluating reform priorities, and to keep a distance from national political considerations.
- to better link the implementation of EU policies at national level with the evaluation of Member States' reform progress, and in particular the appropriate use of EU cohesion funds and proper enforcement of internal market rules.
- to ensure that an ambitious Community Lisbon Programme, deepening the internal market, reducing red tape and empowering the knowledge-based economy, produces concrete results and reinforces the actions of Member States.

We have stressed these issues over the past months and in the run-up to the Spring Council.

I am very pleased to note that the Commission and the Council have taken several of our suggestions on board.

Now it is up to the national governments to honour their pledges and learn from past mistakes. If they do, I am confident that good results can be achieved before 2010.