BUSINESSEUROPE

SPEAKING NOTES

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MANAGERS IN AN ECONOMY UNDER CRISIS

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- A few months ago the recovery seemed well anchored. This was initially driven by exports, which stimulated industrial production and company investment. In turn, this led to higher employment and consumption.

- But the economic situation has worsened substantially in recent months. Growth of around 1.7% is still expected for the EU in 2011. But we now have great concerns over growth in 2012.

- This was mainly due to instability in financial markets associated to political uncertainty that started to take a toll on the real economy. Investments and exports started to lose steam, and private consumption became negative in the second quarter.

- Economic sentiment and overall business climate have also deteriorated markedly and uncertainty in financial markets adds to an already fragile banking sector, and is having a very negative impact on company investment.

- However, we see that companies in many parts of Europe remain positive about long-term growth prospects. They are seeking to invest in new plants or technologies and to expand into new markets. But their efforts risk being undermined by continuing political uncertainty.

- In fact, a sense of urgency from European leaders is still missing. Policy decisions have been responding to the course of economic and financial developments rather than being in the driving seat and anticipate events. European leaders need now to act early and in a co-ordinated, consistent and decisive way to break this vicious circle and restore confidence.

- It is fundamental to safeguard the euro. This is a primary priority for the business community. Company investment depends on it.

- This requires strong action at both the EU level by improving economic governance and at national level by restoring fiscal sustainability.

At a EU level

- The adoption of the 6 pack to strengthen the stability and growth pact was a crucial step. This has meant compromises on all sides. But it has shown that all parties recognized that building confidence in Europe's economic governance is essential in order to create the conditions for long-term growth. We must now to focus on implementation, ensuring that rules are fully respected.

- With the European Semester and a strong role for the Commission in the process, we believe that the implementation of the National Reform Programmes will be stepped-up.

- We also welcome the euro-group agreement made on 21st July. It put forward a comprehensive package for Greece and improved financing terms for Portugal and Ireland. The measures to increase the powers of the EFSF (European Financial Stability Facility) and its successor the ESM (European Stability Mechanism) were particularly important. We have called on Member States to take swift and decisive action to quickly ratify the 21st agreement in a manner that increase market confidence.

- Looking ahead, taking into consideration the continuing financial market uncertainty, it is clear that more radical reform may be required to safeguard the euro.

- Whatever decision comes next, it is important that a clear and complete strategy is underlined. Partial reforms that focus on austerity only will not work. Growth-enhancing reforms must come along with it. In the same way, we cannot pursue a strategy that ignores the link between banking and sovereignty crisis. However, any realistic proposal regarding new financial instruments needs to ensure that proper incentives are put in place for Member States to improve fiscal discipline.

At a Member State level

- These same principles must also be applied at national level. Member States must take decisive actions to combine a smart consolidation of public finances with the implementation of growth-enhancing structural reforms. This means combining an exit strategy to cap public indebtedness with an entry strategy, investing in innovation, skills, technology and modern infrastructure.

- It is not only about reducing public indebtedness, but doing so in a smart way to shift resources to productive uses. We believe that fiscal consolidation can best contribute to raising growth if measures are focused primarily on reducing and improving the efficiency of public spending, rather than increasing taxation.

- The financial and economic crises do not explain all the difficulties that European economy faces. Countries that have having accumulated large debt and competitiveness imbalances before the crisis are facing more severe structural adjustment challenges.

- An internal rebalancing requires an ambitious policy response to implement structural reforms, not only at the fiscal level, but also by addressing labour and product market rigidities, and by improving adjustment mechanisms.

- Structural reforms should also be targeted at improving competition and addressing rigidities in product and service markets, providing opportunities for entrepreneurship and tapping the potential for investment and job creation.

- A balanced agenda for the financial sector reform is also essential. In this context, effective financial supervision is crucial to ensure confidence in financial markets and improve financial stability management.

- Some measures may be unpopular and challenging politically, but it is the only way to preserve living standards in the years ahead and is in the long-term interest of workers and citizens in the EU.

Thank you!

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