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28TH MACROECONOMIC DIALOGUE MEETING AT POLITICAL LEVEL

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BRUSSELS, 4 MARCH 2013

- It is with the greatest pleasure that I address this forum for the first time since taking up my position as Director General of BUSINESSEUROPE.
- The macroeconomic dialogue is an important occasion for European partners to discuss together the policies to help Europe address today's economic challenges
- And I must say that these challenges remain significant. The overall picture presented in ECB and European Commission's forecasts broadly corresponds to what we observe.
- Business has been strongly impacted by uncertainty. However, financial markets are broadly stabilising. There are some signs of confidence slowly returning, and we are seeing some progress on structural reforms in a number of EU countries.
- There is clearly no reason for complacency. Much more needs to be done. We are at a dangerous point as the virtuous circle of greater financial market stability, and improving confidence that the Euro Area is starting to benefit from, can quickly be reversed if leaders become complacent and ease off on reforms.
- But before focusing on the appropriate policy responses, let me give you business' views on the current economic situation.

1. ECONOMIC SITUATION

We remain concerned by the current state of the real economy:

- **The impact of the uncertainty from the sovereign bonds crisis continues to be strong.** In the last 3 months of 2012 the European economy contracted at its strongest pace since 2009, in contrast to international partners like United States and Japan continuing to have more positive growth prospects.
- With capacity at relative low rate and industry production 2.3% lower than one year ago, **low investment figures are observed.** Reflecting weak businesses activity, the demand for loans remains subdued.



- But at the same time, **financing supply conditions for businesses within the euro area remain extremely uneven**, and in some countries are very tight. This makes a recovery more difficult. The average interest rate for a bank short term loan to businesses (up to 1 year) in December still remained at almost 5% in Spain and 4.5% in Italy, while in Germany this rate was at around 3%, the ECB main refinancing rate remaining at its historic low of 0.75%.
- **As business activity remains constrained, the labour market continues to suffer**, with a particular concern regarding youth unemployment.
- But, as already highlighted by the European Commission and the ECB, **there are signs that uncertainty around the euro and sovereign debt has started to ease**:
- **The Economic Sentiment Indicator** in the EU, albeit remaining at a very low level, **has increased over the last three months**. This recovery seems to come once again mainly from Germany, where the Ifo business climate Index between January and February rose at its greatest pace since summer 2010
- **EU governments are making progress on essential fiscal consolidation**. Total government budgets deficits in the EU fell from almost 7% of EU GDP in 2009 to less than 4% in 2012.
- **Competitiveness rebalancing within the euro area is progressing**. For example, in Portugal, Greece, Spain and Ireland current account deficits between 2009 and 2012 have fallen by respectively 8%, 7%, 6% and 4%.

2. POLICY RESPONSES

As I said, **there is much to be done**, and it has to be done quickly, if we want to rebuild business confidence and boost long-term investment in Europe.

I would like to spell out, more in detail, what we see as the key drivers to restore sustained economic growth in Europe. I think that our priorities are very much in line with those set out in the 2013 annual growth survey.

Firstly, we need a stronger Economic and Financial Union

- **The ECB is playing an important role in strengthening the Euro**. European businesses strongly supports the ECB's assistance to liquidity, monetary and financial stability. It is now important to move towards a stronger economic and financial integration.
- **The new Single Supervisory Mechanism** will need to be finalised and made operational.



- The Euro Area also needs a **single bank resolution framework for banks and credibly guaranteed deposits**, as an integral part of a European banking union.

Member States must keep the reform momentum

- At the national level, Euro Area countries need to make progress in **competitiveness-enhancing structural reforms**.
- In particular, bold actions are needed to **overcome labour market rigidities and to open up product markets to increased competition**. Here we observed some progress, recently, in France and Spain, which are moving towards more flexible labour markets.
- **Fiscal consolidation** remains a key priority for Europe. Fiscal consolidation, when focused upon reductions in public expenditure, rather than tax increase, is the foundation for long-term growth and employment.
- With this in mind, **we welcome efforts to strengthen the European Semester**, with the Commission providing ambitious Country Specific Recommendations and the ECOFIN Council continuing to play a leading role in finalizing them and ensuring their implementation.

Addressing growing youth unemployment

- **Education and labour market reforms are needed to overcome the structurally high levels of youth unemployment**. Labour market needs be put at the centre of education through developing stronger partnerships between education providers and employers. This particularly concerns vocational education and training.
- BUSINESSEUROPE supports the principles of work-based learning, and the **strengthening of dual-learning elements in Member States' existing systems**, mainly in the form of apprenticeships.
- Concerning the youth guarantee scheme, each national government should be able to appraise the need for such a scheme and in doing so should ensure the principles of quality, relevance and efficiency in actions that are undertaken.

Financial conditions for businesses needs to improve

- Policy also needs to ensure that companies, particularly SMEs, are able to **access finance on reasonable terms**.
- This means, for example, that **new regulations covering financial services strike the right balance between increasing financial stability and** ensuring that banks are able to increase lending to businesses as the economy picks up.



- Policy must also support the development of **alternative financing routes** to bank lending, like securitisation and bonds.

Strengthening Europe's industrial base

- Having a **strong industrial base** is essential for economic growth and prosperity, and something Europe cannot do without. We believe that all the EU policies, when designed and implemented, should take into account their implication to the **competitiveness of European industry**.
- We support the Commission's objective to raise industry's share of Europe's GDP from 16% to 20% by 2020. This is a good target, but has to be complemented by an annual check of its achievement at national and EU level.
- In particular, poorly designed and inconsistent energy and climate policies continue to put our industry at disadvantage. Our competitiveness is undermined by high energy prices: up by 28% between 2003 and 2011.
- Strong protection of intellectual property rights is key if Europe wants to assist companies, and in particular SMEs, in their investments in innovation and R & D. It is important that the recently adopted unitary patent together with the international patent court agreement is properly and rapidly implemented so that companies can benefit from easier and cheaper patent protection.

Tackling the obstacles to the development of the Single Market

- **The single market must be completed and strengthened in a number of key areas**, by reducing the administrative burden for companies through smarter regulation.
- I am in particular referring to fundamental areas such as services, energy, transport and digital markets, where existing legislative fragmentation and inconsistencies hamper economic growth.

Expanding external trade

- Finally, **we see expanding free trade, and opening markets for investment, services, public procurement and raw materials as an opportunity for Europe**. Exports and secure access to raw materials will be even more important for our prosperity in the future, since global growth is increasingly coming from overseas markets, and Europe has a high dependency on imports for most raw materials.
- **Trade policies needs to make markets more open**, by developing closer bilateral trade relationships with key trade partners. For example, BUSINESSEUROPE is very supportive of an US-EU transatlantic agreement to



expand trade and investment across the Atlantic, given its great potential boost to competitiveness and growth.

3. CONCLUSION:

In conclusion, there are tentative signs that the European Economy is starting to regain a little of the confidence that it has lost over the last couple of years. But there is much more to do before businesses fully regain the confidence they need to put in place private investment, which is the real driver of growth and employment.

We are now entering a critical and dangerous point in the reform process. Above all, policy makers must avoid complacency. We have a possibly once in a generation chance to put in place far reaching structural reforms, but at the same time, the price of a failure would be high. We have made a start on structural reforms and fiscal consolidation. We must stick to that path. And the Commission must play its role in promoting growth friendly policies at EU level.

On both these areas, I promise that I will do everything to ensure BUSINESSEUROPE gives you its full support.

Thanks for your attention

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