BUSINESSEUROPE

DRAFT SPEAKING NOTES

13 November 2013

29TH MACROECONOMIC DIALOGUE MEETING AT POLITICAL LEVEL

BRUSSELS, 14 NOVEMBER 2013, 10H30/12H00
VENUE: COUNCIL SECRETARIAT, JUSTUS LIPSIUS BUILDING
RUE DE LA LOI 175, 1048 BRUSSELS

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INTRODUCTORY REMARKS

- It is a pleasure for me to present business views on the economic situation.

- I will also set out some of the policy responses business believe are needed to facilitate growth and investment.

- The overall picture presented by European Commission in its forecast released last week broadly corresponds to what we observe.

- We are clearly starting to turn the corner, as business confidence slowly picks up. But the recent improvement is obviously not sufficient to raise living standards and make significant inroads into Europe's unacceptably high levels of unemployment.

- So we need to avoid complacency. We need to give greater priority to economic competitiveness. Especially because enhancing growth and job creation is the only real answer to reduce unemployment.

- But before focusing on the most appropriate policy to facilitate investment and growth, let me turn to some messages from our Autumn Economic Outlook which we published today.

1. ECONOMIC SITUATION – BUSINESSEUROPE'S AUTUMN ECONOMIC OUTLOOK

- Based on the input from all our members I can confirm that businesses see **the recovery emerging**
  - We see **EU output likely to be flat overall this year**, but slowly picking up to register **1.4% in 2014** (0.0% in 2013)
  - We agree with the Commission that **Euro Area growth is likely to be slightly lower** than in the EU **(1.1 % in 2014,** -0.5% in 2013)
- But there continue to be **divergences between member states**. Amongst the largest economies, three main groups of countries can be identified
  - The United Kingdom (+2.3%), Poland (+2.6%), and Sweden (+2.1%) are expected to grow relatively strongly
  - Germany (+1.8%) will lead the recovery in the eurozone
  - But growth will remain weak in France (+0.6%), Italy (+0.7%), Spain (+0.8%) and the Netherlands (+0.5%).
- **Business exports will act as an important driver for EU growth.**
  - The **trade surplus** will grow to 1.9% of GDP in the EU and to 3.0% of GDP in the Euro Area.
  - This is in part a result of the **reduction in imbalances** within the Euro Area.
    - Current account deficits of almost 10% in Spain in 2009, 6% in Ireland and 11% in Portugal in 2008 are expected to be replaced by surpluses of around 5% in Ireland and 2% in Spain and Portugal this year.
    - In some countries wage adjustments are playing an important role in aiding such adjustment. This year, unit labour cost this will have fallen by 6.5% in Greece and 1.3% in Spain, [unchanged in Portugal and increased by 0.8% in Ireland].

- But while nominal average wages have fallen by 7% in Greece, they have increased by 0.8% in Spain and 2.5% in Portugal

- So in some countries we clearly need greater wage adjustment if we are to ensure that adjustment doesn't take place through job losses.

- **Domestic demand will start to play a stronger role in driving the recovery**

  - We are hopeful that private consumption will start to make a positive contribution to overall growth, (growing by +0.9% in 2014), as consumer confidence picks up and real wages also increase in some countries.

  - **Private investment may also be at a turning point**; we expect it to grow by 3.3% in 2014, having contracted by 2.1% in 2013, although much more needs to be done to support business confidence.

But as I said, **the situation remains fragile**, and yesterday's data showed that industrial output fell by 0.5% in September and is still down by -0.2% on a 3 month basis is a reminder of this. And we await today's Q3 GDP data release with interest:

- **The employment situation remains an acute concern**

  - The unemployment rate is expected to fall only marginally, remaining at 10.6% in the EU and 11.5% in the Euro Area in 2014.

  - In spite of the mounting recovery, only 0.5 million jobs are expected to be created in the EU next year. Half of these jobs are foreseen to come from Germany alone.

- **Downside risks to growth remain significant**

  - European Businesses continue to see difficult banking lending conditions as the major concerns, alongside the risk of future tax rises.

  - In particular, interest rates charged for lending to businesses continue to diverge, depending on both the size of the business and the country where the business applied for bank loans. Within the Euro area, the discrepancy remains extremely high. For example, the costs of a short-term loan is estimated to range from 3.0% in Germany against 4.3% in Italy, 5.0% in Spain, 6.2% in Portugal and 6.5% in Greece.

2. Policy Recommendations

- While European businesses see the potential for a pick-up in investment, a **stronger focus on pro-competitiveness measures** is necessary to strengthen growth and ensure a job rich recovery.

- I would like to spell out, more in detail, what we see as the key drivers of sustained economic growth in Europe. I think that some of these priorities are in line with those set out in the 2014 annual growth survey.

Reform priorities

- Our members continue to point to 3 broad priorities for reform:

    - **Firstly, growth-enhancing fiscal consolidation** needs to focus upon reductions in public expenditure, rather than tax increases. As your autumn forecasts also notes, in some European countries government deficit will still exceed 3% in future years unless further measures are taken.

    - **Ambitious labour market reforms** are needed to overcome labour market rigidities and to increase productivity and employment. In particular, these can help reduce the structurally high levels of youth unemployment.

  As a broader plan to boost employment, we must make sure that the up to € 8 billion in 2014-2015 allocated to fight youth unemployment are spent in an efficient way. Priority areas should be:

    - **Improving education and training** to ensure that qualifications correspond to labour market needs.
    - **Making hiring of young people a more attractive option for employers** by reducing taxation and social contributions.
    - Better matching of labour supply and demand **by improved efficiency of public employment agencies** and cooperation between public and private employment services.
    - **Promoting young entrepreneurship.**

- o Reforms must open **product markets** to increased competition, including through completion of the single market in areas such as services, energy and digital economy

Required EU responses

In each of these areas business is looking to the EU institutions to play a strong and resolute role:

- We have seen yesterday, that the Commission is taking its responsibilities seriously as regards identifying **imbalances** with the publication of the **alert mechanism report**. If necessary it must be prepared to take action if they are not addressed.

- However, we believe that member states whose businesses are successful in exporting to international markets should be supported and not penalized.

- Tomorrow, the Commission will have its first opportunity under the new economic governance framework to comment on **euro area members' draft budgets**. Again, it must not be scared to take tough political decisions.

- And progress needs to pick up regarding completing the **single market** [as the commission's own report showed yesterday] particularly regarding the digital economy.

Access to finance

Access to finance for businesses must also be improved.

- A well functioning **banking union** is needed to enhance access to finance, particularly for European SMEs.

- As an essential prerequisite to the single supervisory mechanism, the ECB/EBA's planned asset quality review stress-tests of banks must be carried out in a thorough, robust and transparent manner which contributes to restoring confidence in financial institutions.

- And we hope the Council will make good progress regarding strengthening bank resolution to help further build confidence both in banks and in public finances.

- Finally, the recent increase in capital of the European Investment Bank (EUR 10 billion) needs to be accompanied by an examination of further innovative ways through which finance for long-term investment can be mobilised at both EU and Member State level.

- We have written a joint letter with the unions call for agreement on projects to be taken forward through the **project bond inititiatve** and to support the initiative for the EIB to use structural funds to further support lending to SMES. We hope that this initiative can be agreed in December and funds can start flowing to the businesses that need them in the new year.

Strengthening Industry competitiveness

- Much more needs to be done in order to achieve the Commission's goal to raise industry's share to 20% of EU GDP by 2020, including:

  o Efforts to reduce the regulatory burden on businesses must accelerate.

  o addressing inconsistent energy and environmental policies. This has resulted in industrial energy prices racing far ahead of those in the US, putting EU industry at a competitive disadvantage.

  o Europe is also losing ground in innovation and skills. This is crucial if we are to attract the high quality, high paid jobs found in globally footloose, technology intensive sectors.

  o We therefore call for further efforts to help R&D spending to reach the goal of 3% of GDP. Education systems must also better meet future skills, particularly by having a greater focus on STEM.

Expanding international trade

- **Access for EU exporters to important international markets should continue to be improved.** The EU must urgently work on effectively reducing non-tariff barriers and on increasing protection of intellectual property rights and market access to EU companies in investments, public procurement and services.

- The priority in this area is the conclusion of a growth enhancing, **ambitious and comprehensive Transatlantic Trade and Investment Partnership with the United States.**

3. CONCLUSION:

- In conclusion, there are **tentative signs that the European Economy is starting to regain some of the confidence** that it has lost over the last couple of years.

- But there is much more that EU economic policy can do to **fully regain the business confidence** needed to put in place the private investment necessary to make the recovery sustained and job-rich.

- The EU is improving some of key macro-economic fundamentals, as **structural reforms are already starting to show results in some countries**, and some important steps towards stronger coordination of economic policies have been made.

- We have made a start on structural reforms and fiscal consolidation, but we must stick to that path. Above all, **policy makers must avoid complacency.** The chance to make things working is there, but price of a failure would be high.

- And the Commission must play its role in promoting growth friendly policies at EU level.

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

Thanks for your attention