BUSINESSEUROPE

SPEECH / SPEAKING NOTES

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30TH MACROECONOMIC DIALOGUE MEETING AT POLITICAL LEVEL

INTERVENTION BY MARKUS J. BEYRER, DIRECTOR GENERAL OF BUSINESSEUROPE

[Check against delivery]

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INTRODUCTORY REMARKS

- It is a pleasure to be here. We greatly value this dialogue.
- I will firstly set out businesses' views on the economic situation
- before turning to the policy responses that we believe are needed to improve long-term competiveness.

1. ECONOMIC SITUATION

- Since our last meeting, **we have seen the EU economy starting to turn the corner**, as business confidence slowly picks up. We agree with the recent forecast of both Commission and ECB, which left the projections for this year broadly unchanged, although we are our course keeping a close eye on the worrying developments in the Ukraine.
    - We are still expecting to see EU output picking up by 1.4% this year (1.1% in the Euro Area), albeit with divergences between member states.
- We see the beginning **of a recovery in domestic demand:**
    - **Private consumption can start to make a positive contribution to GDP growth**, (rising by +0.9% in 2014), as consumer confidence picks up and real wages also increase in some countries.

- **Business investment may also be reaching a turning point**; we expect it to grow by 3.3% this year, after having contracted by 3.0%, or € 7 billion, in the last year. But much more needs to be done to support business confidence.

- **But business exports will continue to act as an important driver** for EU growth. *[The **trade surplus** will grow to 1.9% of GDP in the EU and to almost 3.0% of GDP in the Euro Area.]*

    - One positive point is that we are seeing some of the imbalances in the EU start to reduce, in part due to progress in putting in place reforms.

        → For example, 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, 3% in Spain and 1% in Portugal this year.

But as I said, the situation remains fragile:

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

    - We only expect the unemployment rate to fall marginally this year, remaining at 10.6% in the EU and 11.5% in the Euro Area at the end of this year.

- **Access to finance remains a pressing constraint**

    - While large companies can increasingly rely on alternative way of financing – we welcome for example the increase in corporate bond issuance in the last 6 months of 2013 (accounting for €37 billion) - **SMEs access to finance remains severely constrained.**

→ *The **bank lending interest rate** for loans to SMEs are presently estimated to average 3.1 % in Germany, against a 4.4% in Italy, 4.8% in*

Spain 5.9% in Portugal and 6.1% in Greece. We have seen only little improvement in the last 6 months.

*→ In 2013, due to both demand and supply constraints, Euro Area **loans to non-financial corporations** fell by €192 billion (4.5%).*

So we really do need to act urgently to improve access to finance and help drive investment. In particular:

- We must reach an agreement on **banking union, notably a single resolution mechanism** by the end of the legislative term.

- We support the **ECB's asset quality review** of banks and believe that if carried out in a thorough, robust and transparent manner it can contribute to restoring confidence in financial institutions.

- **More generally, prudential rules** must strike the right balance between increasing financial stability and supporting companies' need for capital for investment. Solvency II is a particularly important issue at present.

- Greater **leverage of public funds** must be ensured. A number of the schemes being taken forward by the European Investment Bank have a key role to play, but we want to see more urgency in how they are taken forward and implemented.

- **And finally, complementary sources of finance** to bank lending, such as venture capital and properly regulated securitisation must be developed.

Finally, I wanted to touch on the recent discussion regarding price developments in the EU

- ○ We of course cannot ignore that in the Euro Area inflation has been on the decline in the last months *[in February it was estimated to be unchanged at 0.8%].*
- ○ But we are also emphasising that inflation remains positive across the overall Eurozone.

- We believe that we are very fortunate to have an independent central bank, with a clear mandate to maintain price stability – including avoiding deflation. And we have every confidence that the ECB will take the measures it feels necessary, should the situation requires it.

2. Policy Responses

In summary, 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.

BUSINESSEUROPE's 2014 Reform Barometer

We have for a number of years supported the reform process by producing our own Reform Barometer. This year's edition which we will be publishing in the coming days highlights some of the reasons why **Europe is losing ground** in the global economy. In particular:

- the overall tax burden in the EU is 50% higher than in the United States and 30% higher than in Japan
- the average tax wedge on low income earners is 40% higher in the EU than in both United States and Japan
- administration requirements to start a new business are 3 times more burdensome than in competing developed economies like the US
- industrial electricity price rose by 37% in the EU[1] between 2005 and 2012, compared to a fall of 4% in the US
- R&D spending as a percentage of GDP has remained at around 2% in the last decade, far behind the 3% EU 2020 target and what Japan (3.4%) and United States (2.8) achieve
- education performance is also much weaker than key competitors and we are less able to equip citizens with the skills they need to succeed on labour markets.

[1] Average of OECD EU members, source IEA

We have also made an **assessment of the** overall **implementation of the** 2013 **country specific recommendations**. In particular:

• **Our members tell us that Commission and Council's reform objectives, generally focus on the right issues for competitiveness**, with 84% of the CSRs assessed by Member Federations viewed as important or extremely important.

• **However, only 24% of the recommendations we have assessed have been followed by satisfactory implementation. So there needs to be a much stronger focus on reform implementation in Member States.**

Improving industrial competitiveness

• Finally, ahead of the Council next week, I wanted to emphasise the importance of Europe having a much stronger focus on **improving industrial competitiveness** as part of a broader growth strategy**.**

• This **requires a new European industrial governance** that delivers real priortisation and mainstreaming of competitiveness in all policy areas.

• In BUSINESSEUROPE recommendations for an industrial compact we have identified 7 key policy priorities:

1. **access to finance** for companies on reasonable terms – as I have already set out

2. **increased labour market flexibility** and productivity, in open, dynamic labour markets encouraging job creation,

3. **educating for employment**, to put an end to the scandalous coexistence of record levels of unemployment and thousands of unfilled vacancies for lack of candidates with the right skills, even in countries under EU financial assistance;

4. an **ambitious international trade policy**, opening up new market opportunities across the world, and better regulatory cooperation

with the US; *and*, together with it, clever measures to further **develop the Single Market**, not via more legislation but through smarter regulation and less red tape;

5. **innovation-friendly** framework **conditions** to be able to turn research results in market products;

6. **efficient infrastructures** to enable our companies to participate in international value chains;

7. an **energy** and climate policy which truly put **cost competitiveness**, security of supply and climate objectives on an equal footing and a clear strategy to avoid "investment leakage".

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. **Access to finance is certainly one of the most important aspects.**

- As we set out in our Reform Barometer, 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, and maintain the reform momentum.** 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.