BUSINESSEUROPE

SPEECH

*** Check against delivery ***

4 July 2014

MACROECONOMIC DIALOGUE AT POLITICAL LEVEL
7 JULY 2014
11.00 – 12.30

JUSTUS LIPSIUS BUILDING
RUE DE LA LOI 175,
1000 BRUXELLES

ADDRESS BY EMMA MARCEGAGLIA
PRESIDENT OF BUSINESSEUROPE

Ladies and Gentleman,

Let me first thank you for the invitation to be here today, in this macroeconomic dialogue that BUSINESSEUROPE greatly values.

I will start by setting out the businesses' views on the economic situation, and I will then turn to the policy responses that we believe are needed to improve long-term competiveness, with a particular focus on what businesses would like to see from the Italian Presidency in the coming 6 months.

1. ECONOMIC SITUATION

On the positive side, we continue to expect Europe's economic recovery to gain strength and to gradually broaden to domestic demand.

- We forecast growth of 1.6% in the EU in 2014, and 1.2% in the Euro Area. We expect the recovery to gain further momentum into 2015, when we foresee growth of 1.9% in the EU and 1.6% in the Euro Area.

- The overall picture continues to hide country differences. I am pleased to say that we expect Greece, Portugal and Ireland to grow in 2014 and should be joined by Cyprus in 2015. I believe this demonstrates that reforms aimed at reducing competitiveness imbalances are increasingly bearing fruit.

However, unemployment is not expected to fall further in 2014. We expect EU unemployment to remain at 10.6% in the EU and fall marginally, to 11.7%, in the Euro Area.

- To some extent, employment growth coming slightly later than output growth in the recovery is what we would normally expect. But we also believe that much stronger growth is needed to really bring down unemployment, supported by labour reforms that make it more attractive for firms to take on workers, and in particular, to bring down youth unemployment.

We also believe **the recovery remains fragile with important downside risks**, in particular an escalation of tensions in **Ukraine,** as well as the continuing problems that many companies, particularly SMEs are facing regarding **access to finance.**

This brings me to the **measures undertaken in June by the ECB.** We believe that these measures are appropriate given the likelihood that **inflation** will remain below 2% for some time. We particularly welcome the fact that increased ECB liquidity is being targeted at improving lending conditions for small businesses. But while the increased liquidity can be helpful in improving access to finance for SMES, this crucial issue will only be properly addressed when all institutions work together to improve lending.

Finally, in terms of the outlook, I would like to mention investment.

- On the positive side, after a fall of 2.5% in 2013, EU businesses expect to see an improvement in investment in the coming years, with growth of 2.5% in 2014 and 3.9% in 2015.
- But this shouldn't distract us from the fact that investment as share of GDP in the EU fell from 22% before the crisis to its present level of 17%. And most importantly, while investment in the US and Japan has rebounded since 2009, in the EU we have seen a fall in the years 2011-2013. We need to do much more in Europe to create the stable, business-friendly environment which is crucial for long-term investment.

2. PRIORITIES OF THE ITALIAN PRESIDENCY

It is therefore essential that **competitiveness** is at the core of the Italian Presidency. This means a real reorientation of some of the policies we have seen in the past. Growth, employment and competitiveness must underlie each and every action.

Firstly, we believe that growth and consolidation of public finances must go hand in hand. As a number of people have pointed out in recent weeks, higher growth is needed to guarantee sustainable fiscal consolidation and to create jobs. However, at the same time, growth will not take place unless business and consumers have confidence in the sustainability of public finances.

- This means that the **Stability and Growth Pact** should be fully respected. As the European Council has pointed out, the SGP foresees flexibility in specific cases. We agree that we should make use of this built-in flexibility to allow investments in growth-enhancing areas, provided there is a strong and concrete commitment to bring forward structural reforms.

- Concerning **structural reforms,** as we have pointed out in our Reform Barometer, implementation remains very poor. I am pleased that the Commission have followed our example in giving much more focus to implementation. Without implementation, the semester process is doomed to fail. Member States need to show they are committed to reform by concrete actions to increase competitiveness – not only words.

- Finally, the Italian Presidency should give a strong push to further growth and competitiveness-enhancing reforms when working on the review of the **EU 2020 strategy** to be discussed at the December EU Council meeting.

Secondly, fighting youth employment is a priority for BUSINESSEUROPE. We urge the Italian Presidency to hold Member States to the promises they made during the European employment summits held in Berlin and in Paris and by implementing the Youth Employment Initiative. More ambitious labour market reforms are needed to really deliver job creation.

Finally, we believe a more coordinated and coherent industrial approach can improve competitiveness.

- Since 2008, European manufacturing production has declined by 12.4%, with almost 4 million industrial jobs lost in Europe. In 2013 alone, the share of manufacturing in the GDP lost one percentage point, decreasing to 15.1%.

- These are worrying numbers. It is therefore particularly disappointing that the goal proposed by the Commission of **20% of EU GDP being generated by industry by 2020** was not adopted. The European Council in October should re-discuss this and endorse the 20% industry target as part of a broader commitment of ensuring that the role of industry is at the core of the work programme of the upcoming European Commission and all other EU Institutions.

3. CONCLUSION

To conclude, what BUSINESSEUROPE would like to see are fewer priorities and bolder actions to improve competitiveness. It is only through raising competitiveness that we can deliver more growth and more jobs.

I would like to emphasise 3 priorities for the Italian presidency.

- Firstly, we need to make concrete greater progress in implanting structural reforms and continue to progress with growth-enhancing fiscal consolidation. We need to respect the stability and growth pact, whilst using its flexibility to prioritise investment.

- Secondly, we need to put industrial competitiveness at the heart of our growth agenda. I urge the Italian presidency to ask the Council to again consider adopting the 20% of GDP target for industry to send a clear signal that we are serious about creating an industrial renaissance in Europe.

- Finally, we need to move forward with completing the single market. For too long we have talked about the need for breaking down national barriers in areas such as energy and the digital economy.

We now have a new parliament in place and we will soon have a new commission. Business expects to see less talking and more action.

Thank you very much for your attention.

* * *