SPEECH

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MACROECONOMIC DIALOGUE AT POLITICAL LEVEL
07 NOVEMBER 2016
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JUSTUS LIPSIUS BUILDING (ROOM 50.4)
RUE DE LA LOI 175,
1000 BRUXELLES

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Ladies and Gentleman,

Let me first thank you for taking time to engage with social partners today. As we have stressed in the past, BusinessEurope greatly values this marcoeconomic dialogue. We appreciate that the **new format** allows for a more focused discussion on a specific issue such as we are talking today on the EFSI.

I will start my intervention by setting out businesses' views on **the economic situation,** before turning to the discussion on **EFSI** and finally our **policy conclusions**.

1. ECONOMIC SITUATION

We have just recently published our Autumn Economic Outlook. We expect a **continuation of the EU's economic recovery despite an increasingly challenging international environment.**

For this year, our outlook is essentially unchanged from what we expected in spring. We now forecast growth of 1.9% in the EU and 1.7% in the Euro Area.

On the one hand, we see **positive signs domestically** with in particular consumer spending remaining the key driver of EU growth. Business confidence largely held up over the last months [so far despite the Brexit vote]. In line with this, investment growth, which at the start of this year slightly slowed, is expected to pick up again in the second half. For example, over 80% of our member federations from across Europe expect businesses to increase investment rates over the coming 6 months, compared to just over 50% when we surveyed them in spring.

On the other hand, we see **more difficulties externally.**

- Most concerning is the further slowdown in global trade growth to annual rates of below 1%, compared to an average of around 3% over the last 10 years.

- Currently Euro Area exports still benefit from the previous fall in the euro effective exchange rate. However, the euro's gradual appreciation since mid-2015 by around 6% will increasingly act as a drag on exports in the coming months.

Both of these factors make it more difficult for our European exporting companies to sell their products and services abroad. **To stimulate trade**, we need to address remaining barriers to global trade. In particular, we have to press ahead with global free trade agreements and bring them home.

Coming to next year, we did slightly revise down our growth expectations for 2017 by -0.3 percentage points for the EU to now 1.6% and by -0.2 percentage points for the Euro Area to now 1.5%. This is in line with the impact of the Brexit vote that could in the medium-term potentially lower EU exports to the UK due to falling UK domestic demand and the fall in the sterling exchange rate.

In the long-term, of course, Brexit has potentially significant implications for economic prospects both, in the UK, and the wider EU given the strong links of production in the two economies and, in particular, the importance of exports between the two economies.

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2. EFSI

Turning to the specific discussion point of today's meeting, I would like to emphasize that **increasing investment remains a key challenge** for Europe in order to promote growth and jobs.

In 2014, we launched the Investment Plan for Europe as we saw an **investment gap** of €335 bn**,** compared to pre-crisis levels [i.e. 1999-2008 the investment share of GDP was an average of 21.8%, compared to 19.3% in 2013]. This gap has only slightly reduced to about €317 bn which shows that there is still long way to go.

Weak investment can be partially explained by the different crises we are facing, and the high uncertainty on the political, economic and regulatory fronts. But this is not the whole story. **Many barriers preventing investment are structural.** Despite its strengths, the EU is an expensive and complicated place to do business. If we are serious about addressing the challenge of boosting investment, we must seriously address existing barriers to investment in Europe.

The European Commission is advancing, as promised, with its work on the **digital single market, energy union and capital markets union**. It also advanced with some important technical work [such as on the statistical implications of Public Private Partnerships, and a proposal to facilitate the blending of different EU instruments].

But so far, this addresses only a minor part of the existing barriers and much more is needed in these and many other areas. In particular, we need to continue deepening the single market. One major focus should be placed in expanding cross-border interconnections and energy infrastructures.

The EFSI alone is not enough to close the investment gap. **But** it is a **useful instrument** to help mobilizing private investment in Europe. At the same time, it brings a very much needed increased risk culture in Europe.

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Businesses **welcome the proposal to extend the EFSI** and to substantially increase its financial capacity. But as it is still early to fully understand the real impact of the EFSI. The revised regulation must therefore be agreed on the basis of the most recent evaluations and it must draw on the lessons from the experience so far.

One issue we saw so far is that **bigger Member States**, many with great technical and administrative capacity, **are taking disproportionally greater advantage of the EFSI.** We see this as a problem mostly when it comes to big projects, and it shows that more action is needed to support those Member States lagging behind. This can be done in particular by greater technical assistance and capacity building at national and regional level.

The **Advisory Hub** is a tool with great potential which should be become a more proactive platform in supporting Member States to take forward projects, and a real facilitator of cross-border projects which still face incredible barriers.

In particular, the Hub and the operational staff of the EIB should identify barriers in the roll-over and implementation of the different projects, and understand where procedures involving multiple national approvals can be simplified. This information should then properly feed into the European Commission. It is very important to understand that **advancing in the regulatory pillar is fundamental also for the success of the EFSI**.

Another lesson is the **much faster than expected uptake of the SME Window**. Therefore, we can only welcome its reinforcement.

We equally **welcome the efforts placed on clarifying additionality**, which should cover not only the greater risk taken by the EIB in relation to its normal activities, but also by ensuring that the EFSI only intervenes where market gaps are identified.

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The **market-based logic** of the EFSI is a key principle that should be defended. The EFSI should finance the best available projects, aligned with EU priorities, without prioritizing specific sectors or regions. The proposal to set a 40% target for EFSI projects related to COP21 objectives is arbitrary and counters this principle of the EFSI.

Finally, we **regret that money is being taken from the Connecting Europe Facility**, a performing and already underfunded programme, instead of from less performing parts of the budget. The proposal to include new sectors, such as agriculture and fisheries, is welcomed, but the possibility of toping up the current guarantee with CAP funds should be investigated, if these sectors are to be included.

3. Policy conclusions

To conclude let me address a few policy issues, including those discussion points raised by the presidency.

Firstly, as I have said, whilst investment continues to grow**, we need to make more progress on closing the still significant investment gap** compared to pre-crisis levels.

EFSI can clearly be part of the solution in stimulating private investment. However, if we want to build the foundations for our future competitiveness and prosperity, we also need to tackle the obstacles that hamper private investment.

In addition, targeted increases in public investment are also important, particularly when used to address key infrastructure and skills barriers. Some Member States need to increase their public investment, while others need to optimise it.

Secondly, and linked to my last remark, where necessary, member states have to pursue further fiscal consolidation while drawing on the flexibility within the Stability and Growth Pact. The pact is very much needed and must be complied with.

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We acknowledge that rules have become increasingly complicated over time. This means we need to aim to simplify the rules, while remaining flexible and maintaining the core. We must not drop what we have achieved so far and start a public discourse before we know what we really want to achieve.

Thirdly, we cannot win our battle for competitiveness, growth and employment, if we shoot our common **international trade policy** in the foot. Trade has brought significant benefits to EU companies as well as citizens for decades and should continue to do so. CETA is a very bad example in this regard. A failure would shed a disastrous light on our credibility as a reliable partner and as an attractive business location.

As I pointed out before, the continuing slowdown in global trade growth increases the importance of reducing remaining barriers to global trade. This increases the need that we press ahead with a number of global free trade agreements and bring them home.

Fourthly, completing the Economic and Monetary Union (EMU), as set out in the Five Presidents' report, is both a priority and a matter of urgency for business. Despite some recent progress, there is still unfinished work to be completed to further strengthen EMU in order to further enhance our capacity to bounce back in the event of another crisis.

This also includes completing the banking union which is key in order to address the fragmentation of the EU savings and credit markets and break the negative feedback loop between the financing of banks and governments.

Finally, regarding **Brexit**, the UK's vote to leave the EU represents a significant long-term risk to both the EU and UK economies given the profound interconnectedness of the two.

As BusinessEurope we been very clear in our stance. Companies and workers must not pay the price for Brexit. Mitigating adverse

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consequences of Brexit for companies and citizens across Europe is essential. We want to maintain as close as possible economic relations between the EU and the UK but this must not happen at the expense of the integrity of the Single Market. Therefore, cherry picking between the four Single Market freedoms and ill-designed compromises opening the way to “Europe à la carte” is not an option. Furthermore, in order to limit uncertainty, achievable solutions should be delivered in a reasonable period of time.

Thank you very much for your attention!

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