BUSINESSEUROPE

SPEECH

21 Feb 2017

MACROECONOMIC DIALOGUE AT POLITICAL LEVEL
21 FEBRUARY 2017
08.00 – 09.30

EUROPA BUILDING (ROOM S5.1)
RUE DE LA LOI 155,
1000 BRUXELLES

INTERVENTION BY MARKUS J. BEYRER
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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 fiscal stance in supporting growth.

I will start my intervention by setting out businesses' views on **the economic situation,** before turning to the questions on **the euro area fiscal stance**.

1. ECONOMIC SITUATION

Over the last year we have seen a **continuation of the EU's economic recovery**. Business sentiment has picked up since the summer, despite a year that saw a number of political surprises [Commission Business Confidence indicator up from 0.06 in Aug 16 to 0.77 in Jan 17].

- **Growth** is expected to have been 1.8%, after 2.2% in 2015, and slightly above the 1.6% in the US. It is also positive to see that the

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Commission expects economic growth across all EU Member States over the entire forecasting period [2016, 2017 and 2018].

- We have also seen further positive developments in the **labour market**. About 3 million jobs were created during the last year.

However, we must also be clear that these **positive headline numbers are still strongly supported by temporary factors** such as the ECB's expanded asset purchase programme, and a relatively low euro effective exchange rate.

By definition these one-off factors are bound to vanish in the future, so literally-speaking we need to make sure to fix the roof now while the sun is still shining. **There is clearly much more the EU can do to raise competitiveness and long-term growth.**

- Despite a stronger year in 2016, the **US economic recovery since the crisis in 2008 remains much stronger than the EU's**. EU per-capita growth averaged just 0.9% between 2011 and 2016, a quarter of a percentage point below that of the US.

- As a consequence, **EU employment creation since the crisis remains much weaker than in the US**, with about one million new jobs created in the EU compared to 6 million in the US. The latest data shows that unemployment in the US is less than half that of the Euro Area [4.7% in the US vs. 9.6% in the Euro Area in December 2016].

- In particular worrying are the **low estimates for potential growth** of only 1.3% in the EU in 2016 and with 1.4% not much better in the next two years according to the Commission's latest forecast. In contrast, potential growth in the US is 2.1%.

Against this background, business federations are concerned about the still **unacceptable level of reform implementation** in EU Member States.

- On the **2nd of March**, we will release our **new BusinessEurope Reform Barometer** that has for a number of years been a key indicator of how European businesses assess Europe's competitive strengths and weaknesses, and how they see reform progress in Member States.

- According to our **preliminary estimates** our members find that only 17% of country-specific reform recommendations (CSRs) have been implemented satisfactorily, even poorer than our observations for 2015 (20%) and 2014 (22%).

- Our members still highlight the urgent need to reform tax systems and make improvements in the general business environment.

It is therefore **essential that the European Semester has an increased focus on implementation**, with the EU using all available tools to support Member States in their reform efforts.

2. FISCAL STANCE

When looking at countries **fiscal position**, it is also the case, that whilst there have been improvements over the past year, we must not ignore structural weaknesses.

While Euro Area economies have recently been making gradual progress in bringing down **deficits** [-1.7% in 2016 from -2.1% in 2015], **public debt** is still only very slowly coming down [to 91.5% in 2016 from 94.4% in 2014].

We continue to believe that it is of **vital importance that member states make progress in reducing debt levels**, whilst economic conditions, in particular monetary policy is supportive. Particularly, given increasing global uncertainty, member states need to strengthen their long-term fiscal positions so that they are better prepared in case of the next economic downturn.

Regarding the concept of a **euro area fiscal stance**, we believe that given the existence of economic spillovers between member states, it is clearly desirable that we have **greater co-ordination of economic policies** between euro area member states.

However, in terms of a euro area fiscal stance, as the Commission acknowledges, 'the EU's current fiscal framework contains **no rules or instruments to directly manage the aggregate fiscal stance** of the euro area'.

We think it is therefore important that the Commission first fully **uses its existing tools in this area**.

Proper enforcement of the **Stability and Growth Pact** (SGP) is essential to help member states put their public finances on a stronger footing, and in particular bring down debt levels which in many member states remains well above the 60%/GDP Maastricht threshold. Fiscal consolidation is key in order to strengthen investment trust in the Euro area.

But it is also **essential that the SGP gives the full support possible to member states who wish to orientate their budgets towards investment and growth-supporting expenditure.** We believe the forthcoming white paper, and the expected 'stability orientated review of the SGP', provides the opportunity to review the effectiveness of the SGP in supporting public investment, notably through the investment clause, and to consider if there are ways that government investment could be further incentivized whilst retaining the existing SGP framework.

Looking more broadly than fiscal policy, as mentioned earlier, it is important that there is **greater implementation of the Council Country Specific reform recommendations**, with for example proposals to liberalise service markets in some countries having the potential to increase demand in others.

And finally, we need to have strengthened implementation of the Macroeconomic Imbalance Procedure, as my President has recently made

clear, in both countries running trade deficits and surpluses, in line with the rules.

Any proposals with regard to a euro area fiscal stance must therefore be fully consistent with the guidance the EU gives member states through such instruments, particularly the SGP. We are concerned that analysis by some experts suggests that given the lack of scope for fiscal expansion in some member state under the rules of the SGP, the proposed fiscal stance would require countries with more fiscal space to run huge fiscal deficits.

In sum, we do recognise the potential for spillovers stemming from the fiscal policies of member states, and for this reason we support greater co-ordination of economic policies between euro area member states. But the first step towards greater co-ordination must be better implementation of the SGP, CSRs and Macroeconomic Imbalances Procedures, all of which have been developed in part due to the recognition of such spillovers.

Thank you very much for your attention!