

SPEECH

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EIGHTEENTH MEETING OF THE MACRO-ECONOMIC DIALOGUE AT POLITICAL LEVEL

ADDRESS BY ERNEST-ANTOINE SEILLIÈRE PRESIDENT OF BUSINESSEUROPE

- Over the most recent months, downside risks to the global economic outlook have materialised rapidly. The US economy seems to be on the brink of recession and its sheer weight, the importance of trade flows, financial market integration and confidence channels make a decoupling scenario between the US and the rest of the world unlikely. With a US consumer market still six times larger than that of China and India combined, a relapse in US consumption will not leave anyone unscathed.
- But at present, we are not overly pessimistic for growth in Europe. Risks of a recession on this side of the Atlantic are still a distant prospect and from the echoes of our members we could still expect EU growth to remain around 2% in 2008.
- European economies, not to mention Germany in particular, have undergone important structural changes in recent years, and this will clearly be a factor of resilience looking forward.
 - First of all, companies are now better prepared than in the past to withstand financial market turmoil and a likely tightening of borrowing conditions. Profitability and balance sheets are strong after years of successful consolidation, and this will provide ongoing support for capital investment plans.
 - Second, EU labour markets have improved substantially in recent years. Companies have created nine million jobs since 2005 and they still expect a positive trend in coming months. This should bode well for private consumption.

- Third, high household savings, a reduction in public deficits and a less vulnerable housing market make the outlook in Europe much less bleak than in the US.
- Of course, companies will continue investing and hiring only if they are reassured that policy responses are appropriate and proportionate.
- First of all, we do not see the need for large budgetary “rescue packages” in Europe. This debate inspired by the 150 billion dollar fiscal stimulus endorsed by US Congress and the IMF’s U-turn on “Targeted Fiscal Boosts” expressed by Managing Director Strauss-Kahn in recent weeks, is out of place in the EU – and will encourage electoral tactics to triumph again over sound economic reasoning.
- What would be more appropriate for governments to do is to improve the quality of public expenditures and reform tax systems to help the private sector develop the markets and technologies that will drive the next upturn.
- As regards monetary policy, the business community endorses the position of the ECB in the present situation, and carefully follows the wording of its communication.
- The answer to legitimate concerns about purchasing power is to contain inflation trends, to focus on jobs rather than higher wage demands, and to implement well targeted structural reforms.
- For instance, more competition in retail, transport and energy sectors would help reduce current price pressures and would boost consumers’ purchasing power. The effect could be significant even in the short term.
- Hence, reinforcing the internal market and pushing for further liberalisation of highly regulated markets is more than ever a priority.
- It is also vital to help low skilled to succeed better in the labour market, which requires a wide range of measures which are well defined within the concept of flexicurity.
- European social partners have provided joint recommendations in this regard and I particularly applaud the example set by the agreement of French social partners on labour market reforms, directly drawing on our European agreement. This is the first and good example of the implementation of the flexicurity approach that European Social Partners have commonly agreed.
- Let me finally say a few words on financial market turmoil which has animated the regulatory debate in Europe and at the international level.
- Given the sophistication of financial instruments, the increasing number of actors and the sometimes opaque role of rating agencies, we fully support the need for more transparency and better coordination of market supervision.
- However, discussions must remain objective and well-balanced. Dogmatic positions would be highly counterproductive. Regulation should rather protect

markets and market participants from inherent risks due to information asymmetries and other market inefficiencies but at the same time promote the development of financial markets and not thwart their innovation.

- Finally, we must not overlook the issue of exchange rate developments. Everyone is conscious of the difficulties encountered by exporting sectors linked to the dollar, such as for instance the aeronautical and space industry, but this also applies to many other sectors of the economy.
- The euro is strong, and its international role is increasing rapidly. We need an international representation that matches this situation, both in a bilateral dialogue and in the context of multilateral institutions where China and other emerging economies must take their appropriate place.
- First steps into the right direction have been made. I want to congratulate especially President Juncker, President Trichet and Commissioner Almunia for their joint visit to China end November 2007. BUSINESSEUROPE has highly appreciated this initiative.
- At the multilateral level, we are disappointed to see that the G7 has this weekend again produced a relatively weak statement, without addressing the responsibility of its members in solving global imbalances. The credibility of this forum will decline rapidly if it is not able to steer meaningful actions.

Thank you for your attention.
