



20 February 2012

26TH MACROECONOMIC DIALOGUE MEETING AT POLITICAL LEVEL

BRUSSELS, 20 FEBRUARY 2011

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- First, **welcome and congratulate Mr. Draghi, and Mr. Guindé de Vallerin** for their respective appointments as the President of the ECB and as a Chair of the Economic Policy Committee (EPC)
- We believe that the **EPC's work**, in particular in monitoring Member States national reform programmes **will be more important than ever**, as the Commission comes under increased scrutiny to exercise its new powers **under both the European Semester and the Stability and Growth Pact**.

1. GREECE

- Let me turn into the most pressing issue: later today the Eurogroup will take **important decisions** regarding **Greece**.
- We discussed this issue at our **Executive Committee** last week, and our Members have a unanimous view that:
 - Euro needs to be safeguarded and reinforced. **Safeguarding the euro is fundamental to growth and stability** of the EU economy
 - We must do everything it takes to **maintain the Eurozone intact, Greece included**
 - **European leaders must not abandon Greece. Allowing Greece to default would:**
 - Have a terrible impact on both the economy and the broader foundations of society in Greece itself.
 - Increase instability in other Member States
 - In particular, there is a clear risk to the stability of the financial system in Europe, and the possible consequences both on access to finance for companies and for broader business and consumer confidence.



- We **recognize the important efforts of the Greek population** in recent months. **But it is clear that the readjustment process will take a long period following** years of accumulation of imbalances.
- For instance, in Greece, **wages have increased much faster than productivity** for more than a decade. Now it is inevitable to align wages with productivity if the country is to remain competitive at the international stage
- **In turn for the next round of funding. Greek authorities**, with political support from the Troika, need to demonstrate a firm **commitment to reforms** and **create the business friendly environment essential for long-term growth**

2. ECONOMIC SITUATION

- Turning to the broader economy, political uncertainty has continued throughout the autumn, and businesses and the economy are paying a high price for this
- We have had a **difficult start of the year**
- However, more **recently**, we have seen some **tentative signs of stabilization**:
 - **World growth remains robust**. US growth in particular has strengthened, and reached 3% in the last quarter
 - **External sector** is acting as an **engine for industrial activity in Germany and elsewhere** in Europe
 - **Bond yields for Italy and Spain have fallen** significantly since the start of the year.
- Therefore, positive conditions for a recovery to get in a firmer footing exist, but **what Europe is lacking is confidence and credibility due to political indecision**
 - In the EU institutions
 - In our currency
 - In the financial sector
 - In sovereign debt markets
- That **confidence has stabilized is in no small part due to the decisive action undertaken by the ECB** in December by making available medium-term lending for banks at a 1% rate. This intervention was successful in stabilizing financial markets, for which we would like to congratulate Mr. Draghi.



3. STRUCTURAL REFORMS

- **2012: is a year in which the EU is at a Cross-roads:**
 - The **way in which Member States address structural weaknesses in 2012 will determine the long-term growth** for the EU and investor perceptions of the robustness of the euro.
 - If necessary reforms are undertaken, we will finish the year in a much better position that we are now.
- In this context, we are clear that **Italy, Spain and Greece have all made unprecedented reforms efforts** towards the end of last year.
- For instance, Italy has recently undergone the reform of its pension system, and the adjustment package approved in December will bring the cyclically adjusted budget into balance next year.
- Spain has recently undertaken an ambitious reform to flexibilize the labour market, and is currently restructuring of the financial sector.
- **But all countries need to build on this momentum and continue implementing the necessary structural reforms to drive growth.**
- As reports such as that by Mckinsey have shown for Greece, **successful implementation of ambitious structural reforms can restore Europe's global competitiveness** whilst a failure will damage growth and deepen macroeconomic imbalances.
- **Reforms also need to include fiscal consolidation.** We understand why people are opposing fiscal consolidation, but given the exceptional circumstances, what the Euro area needs above all is to regain the confidence of investors, and this can only be done through fiscal consolidation.
- But for **fiscal consolidation to be supportive of growth**, the **focus** should be on **reducing wasteful expenditure** – while maintaining productive investments-, instead of increasing taxes
- Reform process is also need to ensure that we maintain **access to capital** to allow investment to drive growth. In recent months we are concerned that access to capital by companies has become more restrictive, partly because of bank's difficulties to access wholesale financing, and more stringent regulation.
- These include Basel III, Solvency II, and new Accounting regulations, which all interact with each other and affect bank capacity to lend.



4. CONCLUSIONS

- With the **6 pack** in place and agreement on the **fiscal compact** we believe the **new economic governance architecture** in the EU is **reinforced**. But policy makers need to make use of these new powers where necessary to encourage reform.
- In particular, The **Commission must play its role** according to the new powers and new competencies granted in line with the European Semester
- For example, we have recently seen the publication of the first **imbalances alert mechanism report**. Here the commission and council need to take seriously the wide ranging imbalances revealed in the report and reflect on concrete actions required to put EU growth on a more sustainable footing.

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