BUSINESSEUROPE

SPEAKING NOTES

27TH MACROECONOMIC DIALOGUE MEETING AT POLITICAL LEVEL

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- Since our last meeting in February, we have seen the economy further deteriorating. Looking forward, a great deal will depend on the important decisions will be made in the coming weeks.

- As I said at the tripartite social summit three weeks ago, we should altogether as social partners recognise the efforts made by the European Council, European Commission, and in particular the European Central Bank to safeguard the euro and put in place better European framework conditions for growth and jobs.

- But today, we are missing at the top of priorities an ambitious **European target for growth**. We should be able to double Europe's long-term annual growth rate from 1.25% (a rate observed during the years prior the crisis) to 2.5%.

- When combined with productivity growth of 1.9%, a performance we have already seen in Europe between 1995 and 2004, this would allow the creation of 1.4 million new jobs every year, and an average additional reduction in the structural budget deficit in EU Member States of 5% by 2020.

- But, before focusing on the most important policy challenges to enable us to achieve this target, let me give you business' views on the current economic situation.

1. ECONOMIC SITUATION

- In recent weeks we have seen further bad news regarding the European economy. Uncertainty in financial markets, while it has fallen in the last couple of months, remains high.

- What do we notice:

  - **business confidence falling** across the EU. The Economic Sentiment Indicator having reached its lowest level in 3 years;
  - **domestic demand and industrial production contracting**. They are now respectively 1.5% and 1.8% lower than one year ago;

- **unemployment** reaching 11.6% in the Euro Area, and more than 25 million of unemployed, in the EU. These are **the highest** level **observed in almost 20 years**;
- **only through net trade we can see some positive impetus for growth.** European exports to international partners are growing at a faster pace than world trade's growth. Over the last year EU exports grew by 5%, compared to a world trade's growth of 1%. This proves that **European industry remains strong**.

- As consequence of this weak economic environment, and political uncertainty, **companies are reluctant to invest**. Businesses investment remains weak, well below its long-term potential.

- Access to finance in some Euro Area Member States is a growing source of concern. **Divergence in the cost of capital** within the single currency union **is rising**, and the **banking system is becoming more fragmented**. I would like to give two examples of this situation:

  - The interest rate asked by banks to non-financial corporations for a short-term loan (1 year maturity) is around 5.3% in Spain compared to 3% in Germany. We have never seen such a strong difference since the inception of the Euro.
  - In the last year, the cross-border lending between financial institutions fell from a 30% of the total outstanding loans to a current 24%. This is the highest fragmentation observed over the last 3 years.

2. Policy Considerations

We have a five-point plan to restore confidence. In our 'Growing out of the crisis' we present our strategy.

First of all, safeguard the euro.

- **The ECB is playing an important role in strengthening the Euro**. European businesses strongly support ECB's assistance to liquidity, monetary and financial stability

- In terms of the **ECB's** activation of the **bond-purchase programme**, we welcome such an effort. **We also note the importance that the proposed measures are conditional upon** member states undertaking **structural reform** programmes.

- It is **important** that the ECB continues **to monitor the growing disparities in borrowing costs** for the same businesses within the Euro Area that the scheme is designed to address.

- However, **Euro Area Heads of State and Government urgently need to commit to building up the next stage of the economic and monetary union.** This involves decisions that, although long-term in nature, can have an immediate impact in increasing confidence in the European economy, and the euro area in particular.

- With this in mind, we fully support the October's European Council conclusions. In particular, there are **clear benefits to having a Single Supervisory Mechanism (SSM**) for European banks. This represents a necessary first step towards a deeper integration of financial markets within Europe. The Euro Area also needs a single bank resolution framework and credibly guaranteed deposits, as an integral part of a European banking union.

- A key aspect is that this mechanism must provide access to all to the **single market**, whose integrity **must be strengthened**. This means, for example, to give an important role to the European Banking Authority in the future framework.

Public finances and competitiveness must improve

- As our counterparties representing trade unions will agree on, **we need more investment and growth if we want to see employment improving**. In the current debate between austerity and growth, it is important to remember that restoring confidence is what we need to see sustainable growth.

- With regard to the strikes and demonstrations promoted by the European Trade Union Confederation (ETUC) for next Wednesday 14 November 2012, we – BUSINESSEUROPE – recognise and respect trade unions' rights to engage in collective actions. At the same time, we ask them not to use their concerns about national governments and/or the EU in actions such as strikes that will hit economic activity even more severely, at a time when companies are struggling.

- At the national level, Euro Area countries need to make progress in competitiveness-enhancing **structural reforms and smart fiscal consolidation**. Both are essential and necessary, as fiscal consolidation is the foundation for long-term growth and employment.

- The **European Commission must play its role** here, according to the new powers and new competencies granted in line with the European Semester.

- **We are happy to see concrete signs of improvements** in the macro-economic imbalances which contributed to generate the current crisis of confidence.

For example:

- **EU governments are making progress on essential fiscal consolidation.** Total government budgets deficits in the EU fell from 6.9% of EU GDP in 2009 to an expected 3.6% in 2012.
- **Some signs of competitiveness rebalancing in Euro Area's economies are emerging**. It is important to see that the imbalances that were accumulated in the years before 2008 are being reduced.
- In Portugal, Greece and Ireland current account deficits between 2009 and 2012 have fallen by respectively 7%, 6% and 4%. These are the best performances observed in the Euro Area, and indicate that economic convergence between Member States is improving.
- Competitiveness gains have contributed to this development, through measures to reduce both public and private sector wage costs and increase workplace productivity.

- **The way forward is for Member States to continue adopting reforms** aimed at boosting competitiveness and employment, and limit social hardship.

We need policies that support private sector-led growth

- Conditions for **private investment**, which is the real engine of growth, must be improved. In times of constrained public finances, our resources **must be spent in key areas** with strong return on investment in terms of competitiveness.

- We would have deep concerns if the final agreement on the **next multiannual financial framework (MFF) for 2014-2020** were to see reductions in the total expenditure affecting competitiveness-related areas which offer great potential to boost growth and jobs, in particular horizon 2020, connecting Europe facility and Competitiveness and SME programme.

Tapping the full potential of the single market

- The **single market must be completed and strengthened** in a number of key areas, by reducing the administrative burden for companies through smarter regulation. This can add an estimated €800billion to EU GDP.
- In particular, it is important to promote policies for the creation of a real single market for service. Europe is highly dependent on the services market, which accounts for around 70% of EU GDP and employment.

Expanding EU external trade

- Finally, **Europe's presence in expanding global markets** must be **strengthened** by engaging in closer bilateral trade relationships with key trade partners. The EU should also take decisive action to enforce free-trade rules in raw-material trade, given its high dependence on imports for most raw materials.

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