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Towards solid growth: investment, reforms and fiscal responsibility

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CHECK AGAINST DELIVERY

Ladies and Gentlemen,

I would like to thank the Lisbon Council and Berenberg Bank for inviting me here today to reflect on progress made and share my views on the economic situation and imminent policy priorities for the EU.

The annual launch of the Euro Plus Monitor has become a regular appointment in the calendar agendas of many engaged intellectuals and policy makers in the EU. And the report itself, in a relatively short spun of its existence, has become a respected source of analysis on reform and economic progress made by the European countries.

The very first finding of this year's report reads "The worst is over". Indeed, Europe has overcome the peak of the crisis marked by confidence losses, risks of state defaults and existential threat. But this does not mean that we can lean back in self-content. To the contrary.

The on-going recovery is fragile and many Europeans are still facing the social consequences of the crisis. The unemployment, albeit relatively stable, is persistently high – at 11.5%, with 12 EU economies recording double-digit figures.

At the same time, the less favourable global economic conditions and increased geopolitical tensions negatively affect the confidence.

Still, according to our last Economic Forecast, published last month, we expect economic growth to pick up in all 28 EU Member States. This is the first time since the crisis. Growth in the EU is expected to be at 1.5 % next year, accelerating to 2% in 2016.

But the recovery remains uneven across the countries.

In the last decade, many European economies built up large and unsustainable macroeconomic imbalances. This is the main cause for the substantial economic divergences between the EU Member States.

In spite of the progress made so far, with several vulnerable Member States having gained competitiveness and turned their current accounts into surplus, high levels of private and public debt are still a drag on growth in many countries. In other words, the correction is not over and, regrettably, policy action has not been sufficiently timely and strong in all Member States. Consequently, the recovery is strengthening in some, but it remains much weaker in others.

The countries that went through the worst during the crisis, but have undertaken decisive reforms, are now recovering strongly. Ireland has recently become the fastest-growing economy in the euro area, growth is gathering speed in Spain and it is set to accelerate in Portugal and Greece. This clearly shows that "reforms are paying off" – as highlighted in the report.

In today’s environment of low inflation and high unemployment the risk of low growth is our primary concern.

As you are all well aware, the Commission has adopted its Annual Growth Survey where we set our views on the economic policy priorities for the near future. We build our agenda for the EU's economic and social policy on three pillars: targeted investment, structural reforms and fiscal responsibility.

First, on investment – when compared to other major economies, investment in Europe has not recovered as fast as elsewhere, for example in the US. The level of investment in Europe is below its longer-term "sustainable" level of around 20% of GDP. Lack of investment is both a short-term and a long-term concern. Therefore, the Commission put forward the Investment Plan for Europe – a package of measures to unlock public and private investments in the real economy of at least € 315 billion over the next three years (2015-2017).

Second, on structural reforms – that figure so prominently in this year's Euro Plus Monitor – we are committed to deepen the single market, improve regulation so it helps competitiveness, and not holds it back. We will work to create a digital single market and an energy union.

But the main responsibility for structural reforms lies with Member States.

There is much more to be done to reform labour markets, improve the effectiveness of product and services markets and to modernise public administration.

Business-friendly environment, well-functioning markets and cutting red tape are the best preconditions for investment to rebound. Businesses and competition benefit from transparent administrative procedures to ensure fair public procurement and from measures to avoid mismanagement of public funds or even corruption.

The call for reforms is addressed to all Member States. Also the countries with large and persistent current account surpluses should reform more actively to vitalise their domestic demand, in particular investment. This would contribute to raising their medium-term growth prospects and could entail the additional benefit of helping the economic recovery in Europe. Of course, increased domestic demand in some parts of Europe does not automatically translate into increased imports from other parts. Therefore, the vulnerable countries need to continue to improve their competiveness to be able to take advantage of such greater demand.

At this point, ladies and gentlemen, let me stress that the EU fiscal framework – the Stability and Growth Pact – has never been an obstacle to structural reforms.

Many structural reforms imply little, if any, fiscal costs. Indeed, measures to simplify the tax system, for example by closing loopholes, steps to reduce red tape or measures to enhance the efficiency of the legal system could help encourage investment and enhance economic activity. This would also have a beneficial impact on public finances.

And big ticket items, in particular the costs of pension reforms introducing a mandatory second pillar, are well taken into account.

But structural reforms may be politically difficult. They often involve eliminating privileges held by certain vested interests. But they contribute to both economic efficiency and social fairness and help increase welfare for the society as a whole.

Successful reforms thrive on efficient and constructive dialogue between social partners. Constructive social dialogue is a key enabler of structural change. In the Annual Growth Survey we are presenting proposals in the context of the streaming of the European Semester on how to improve the dialogue, strengthen the ownership of the reforms and their implementation.

Finally, we must not forget about fiscal responsibility.

The heavy pulling in terms of fiscal consolidation is behind us; the overall fiscal stance is broadly neutral now. The structural balance is expected to remain stable this and next year.

Yet, very high levels of debt remain a drag on growth in many Member States and they need to take measures to address this.

All Member States should put greater emphasis on the quality of public finances and the composition of national budgets. We strongly encourage all Member States to prioritise growth-enhancing expenditure, including investment, and to shift tax burden away from labour.

Ladies and Gentlemen,

Many Europeans have paid a high price for a neglect of structural reforms, productive investment and fiscal responsibility.

If we want to keep up to speed in this globalised world, if we want to continue to benefit from our European social model, Europe must move forward. Everyone needs to recognise this responsibility.

I hope that next year the comprehensive indicators in Euro Plus Monitor – the "adjustment progress indicator" and the "fundamental health indicator" – will not have to tell the story of any laggards.