

Brussels, 30 January 2012

President Barroso's presentation on growth at the Informal European Council of 30/01/2012

Once again we are meeting in an atmosphere of crisis and pressure. We know that our current problems are a consequence of long standing imbalances and divergences in competitiveness inside and outside the Euro area. I have illustrated the scale of the competitiveness challenge in previous presentations so I will not repeat them.

I see today's discussion as the continuation of our summits of October and December, where we discussed growth and competitiveness issues. In turn it should be a staging post for our next Summit in March, where we will adopt economic guidance under our European Semester.

[SLIDE 1. TACKLING THE "VICIOUS CIRCLE"]

I am starting with an illustration of the vicious circle that affects Europe today. In red in the upper part of the slide, you see the main causes of our current difficulties, which come from:

- First, a situation of low growth, low competitiveness and low productivity, leading to high levels of unemployment, exacerbated by the crisis.
- Second: uncertainty over the stability of our financial sector and consequences of deleveraging.
- And third: the persistence of doubts over the sustainability of our public finances.

These negative trends feed each other and fuel a crisis of confidence among investors and consumers. They also add to the self-fulfilling prophecies of the financial markets or rating agencies. They add to the re-financing costs of our public finances and hinder our recovery.

We need to break this vicious circle. In the grey boxes, you can see the tools we have to tackle these problems.

I will return to proposals for solutions later in my presentation.

[SLIDE 2. RESTORING GROWTH: A PRESSING PRIORITY]

This slide shows very clearly the fall in growth in 2008/2009 and a partial recovery since then. I cannot hide the fact that our current growth prospects are worse than 6 or 12 months ago. In all likelihood, aggregate output in the Euro area will decline this year – and this will affect the whole EU. You have seen the recent IMF forecasts

and others will be similar. The forecasts vary between mild and moderate recession. Why is that?

Today our growth prospects are worse than they were last year due to a combination of

- not resolving the Greek debt crisis decisively which has led to a cloud of uncertainty
- lack of confidence in the future of the Euro coming from the persistent sovereign debt crisis
- pressure on the banking system leading to deleveraging
- negative short term effects of fiscal consolidation – even if we know it is necessary, it reduces growth in the short term. Additional fiscal measures of around 0.7% of euro area GDP have been announced for 2012 and are expected to reduce growth by around 0.25% this year
- Slow down in the global economy and a risk of rising oil prices

That is why we need a holistic approach. One that combines a lasting solution for Greece (a PSI solution and a second programme), stronger firewalls (not only the ESM but also reinforcing the IMF), a Treaty level fiscal compact which I hope we will agree today. That would show the world our determination regarding the euro. Most of all we need more growth – because confidence in our capacity to grow is also part of the solution.

We must have confidence in ourselves. The EU is not the sick man of the world. We are making reforms that others have not yet started. And there is good news too. We have done a lot – the substantial ECB provision of three year financing at the end of last year has calmed markets. Measures being taken by Italy and Spain are working and are being acknowledged by the markets. So there is a way out.

I have put a question mark over 2012/2013 – our actions can make a difference. We can have better than expected results if we mitigate the negative impacts on growth that I have just outlined. At the same time, we need to be aware that if we do not solve the Euro area crisis accidents can happen.

[SLIDE 3 DISCIPLINE AND GROWTH MUST BE COMBINED]

It is absolutely necessary to get our public finances into good shape so that they are sustainable for the future. The challenge is to combine fiscal discipline with growth. I think we all know that most of our Member States do not have room for fiscal stimulus. This is why structural efforts are needed to renew our growth potential. This slide shows the extent of the task for each country.

The Commission will be tireless in implementing the reinforced Stability and Growth pact and our new six pack. I was pleased that in this year's first round, Belgium, Cyprus, Malta and Poland have taken the corrective action required. But fiscal consolidation is not enough. If we are not able to grow, then all of the sacrifice of fiscal consolidation will not succeed – and we will face not only economic but also political and social consequences. We need to be selective about where we cut, avoiding cuts in the very spending that will deliver our future growth. And we need to ensure appropriate social protection.

Each Member State has different possibilities and constraints – some have more room on the expenditure side, others on the revenue side. In the Annual Growth Survey the Commission has developed ideas on how to use and adapt taxation, for example by shifting tax away from labour and towards consumption, energy and

property taxes. For example: Italy has shifted the burden of taxation in that sense, notably to property, and that is very positive.

Combining fiscal consolidation and growth is challenging. But we are not condemned to a grim future. Europe has a comprehensive growth strategy – the Europe 2020 strategy - which has the right elements and also measurable objectives.

[SLIDE 4: EUROPE 2020: THE EU's GROWTH STRATEGY]

Whenever I read about what other countries are doing or what numerous commentators say we should be doing, it comes down to implementing what we have already decided in Europe 2020 – to create sustainable growth in the EU – growth that is also smart and inclusive. But we are already two years into this strategy and it's only 8 years to 2020. Our old model of growth is broken. Europe needs to take a new path. We don't need to re-invent the wheel every time we meet. It will be far more credible if we are coherent, consistent, determined and implement our growth strategy with vigour. Implementation is the key word.

I want to commend the outgoing Polish Presidency for having commissioned a report just published by the World Bank. It is called "Golden Growth: restoring the lustre of the European economic model". It is a realistically optimistic report, well worth reading. It explains the advantages of the European economic model. It gives clear warnings about what has to change. The message of the report is that we have many strengths and – if we make the necessary changes – we can still be one of the leading economies of the world.

[SLIDE 5: EU RECOMMENDATIONS FOR ACTION AT NATIONAL LEVEL]

You are all familiar with our economic governance structures. Given the need for structural reform the Commission has made detailed recommendations to Member States. This slide gives a panorama of our recommendations (except for the programme countries). For example, every one got a recommendation on fiscal consolidation. We made 36 separate recommendations to you just in the area of labour market policy.

If I can summarise our view on this in one sentence it is: labour law should treat insiders and outsiders more equally.

We are now engaged in a round of bilateral consultations with all Member States as part of the European Semester. We are seeing a much more serious approach and a greater willingness to acknowledge and tackle weaknesses – this is promising and a direct result of the big decisions we took last year. We are getting to the heart of the problem as Member States seem more willing to discuss the difficulties you have in implementing structural reforms (such as in adapting labour market policies and pension reforms). We have to accept that the results of some of these actions taken time to appear. Look at the Harz reforms in Germany. Adopted in 2003-2005 they are part of the strong economic performance that Germany enjoys today. Italy and Portugal are now deciding and implementing similarly far reaching reforms. (But results will take some time to appear).

[SLIDE 6: COMMITMENTS MADE UNDER THE EURO PLUS PACT]

Under the Euro Plus Pact the participating Member States made commitments across the four policy areas covered by the Pact. For example, there are 44 commitments to act in areas like labour market flexibility, undeclared work, lower labour taxes and the participation of second earners.

In the run up to the June European Council we will be assessing what you have done with these recommendations and pledges and we will be making new recommendations where needed.

[SLIDE 7: ANNUAL GROWTH SURVEY: FIVE PRIORITIES For 20120]

In its Annual Growth Survey the Commission has already set out its views on the policy priorities for the EU as a whole. Let me just recall them:

- Pursuing differentiated growth-friendly fiscal consolidation.
- Restoring normal lending to the economy.
- Promoting growth and competitiveness.
- Tackling unemployment and the social consequences of the crisis.
- Modernising public administration.

These five priorities apply across the board. For the rest of this presentation I will focus on tackling youth unemployment, the challenges of the Internal Market and helping SMEs.

As we speak, more than 23 million people are unemployed in the EU. Coincidentally we also have around 23 million SMEs. If each SME took on just one new employee, we would solve our problem. Of course real life is more complicated but I quote the co-incidence just to show that the problem could be manageable if we can get businesses growing again. Let's not forget – it is companies that create jobs and SMEs create most of them. This is what matters most for our young people.

[SLIDE 8: FOCUS 1: TACKLING YOUTH UNEMPLOYMENT]

Today I want to focus on youth unemployment. It is reaching very high levels in some Member States. This can have long term consequences with young people becoming alienated from the world of work.

This map shows you youth unemployment levels as a percentage of the labour force. Fifteen countries are above the EU average of 22% - an already high figure. Eight are around 30% or more. This is unacceptable and a terrible indictment of our performance. In some Member States, for example Spain, almost one in every two young people available for work is unemployed.

[SLIDE 9: UNEMPLOYMENT LEVELS VARY GREATLY]

This slide helps us to see youth unemployment in the wider context of unemployment. It shows percentages and absolute numbers of unemployed people, for the overall population and for young people in particular. You can see the scale of the problem we face when you realise that youth unemployment is below 10% in only three Member States - our three best performers are Germany, Netherlands and Austria.

You can also see that the number of young unemployed is close to 1 million in Spain and in the UK.

While the UK percentage is lower, one million unemployed young people is a big problem.

The importance of this phenomenon led the Commission to launch a Youth Opportunities Initiative in December. In that initiative I proposed to redeploy the structural funds to support training and work experience for young people.

Only last Monday I was discussing it with the social partners at European level. They are willing to help. I know that BusinessEurope has just written to Herman to confirm their interest. I want to work with you and with your national social partners to bring it to life so that we can give hope to young people – and their parents.

[SLIDE 10: THE EU OPENS UP NEW OPPORTUNITIES]

We all know that the main competences for combating youth unemployment lie at national (or even regional and local level). But for most young people, the wider European Union represents opportunity. This slide shows what we are already doing in terms of cross border mobility for young people, making it possible for them to study, train and work in another country.

I have previously explained to you how the LEONARDO programme supports 80 000 apprentices every year and the ERASMUS programme annually supports 200 000 young people to study abroad. We already have an EU wide system for advertising job vacancies. It is called EURES and it has over one million vacancies in its data base. This shows the skills mismatch problem clearly. We have 1.3 million vacancies and 5.3 million young unemployed.

[SLIDE 11: A "YOUTH ON THE MOVE" PACT (1)]

Without being exhaustive, I would like to propose a two pronged approach:

- A "Youth on the Move" Pact to combat youth unemployment involving all Member States (that wish to participate)
- A particular focus on the eight Member States with youth unemployment levels significantly above the EU average.

The "Youth on the Move Pact" will bring together EU and national actions. Inside your National Reform Programme, each Member State should include a national

plan for combating youth unemployment as part of your national jobs plan. This plan should bring together all the actions that can help young people get additional training, retraining and work experience.

At its core should be the Youth Guarantee – which ensures that all young people are either in a job, in education or training within four months of leaving school. And it would also involve a commitment from the social partners to do more on this.

These national plans should specifically look at how to take up EU level schemes for mobility of young people– such as LEONARDO, ERASMUS, EURES. What the national plans now should do is to activate these EU tools. In some cases you might like to make use these EU mechanisms by using national funding to expand the number of places for your young people, in cases where we have already reached the limits of EU funding.

[SLIDE 12: A "YOUTH ON THE MOVE" PACT (2)]

Eight Member States have youth unemployment levels significantly above the EU average - Spain, Greece, Slovakia, Lithuania, Italy, Portugal, Latvia and Ireland. With these eight, I propose to set up "action teams" consisting of your authorities, the national social partners and the Commission. In the 11 weeks between now and mid April the "action teams" will develop targeted plans to be included in the National Reform Programmes. Drawing on the Social and Regional Funds that can still be reprogrammed, the "action teams" will combine national and EU funds. I see this more intensive scheme for the most affected Member States as a pilot. I will be writing to the Prime Ministers of these countries after this meeting to propose that we start work immediately. If this approach delivers good results we can expand it to other Member States.

The involvement of national social partners will be crucial so that they can commit to increasing places for apprentices, providing traineeships etc. Each country has different problems and different schemes in place. For example, France has just announced an important increase in funding for apprenticeships.

We must work with existing mechanisms in order to deliver some quick wins. In addition to targeting and reprogramming funds, we can also work together on longer term policy measures to promote youth employment - for example, by adjusting the tax and social contributions burden.

We have good examples – for instance the Netherlands launched a Youth Unemployment Taskforce in 2003 and has a national action plan on youth since 2009. It is delivering good results. Poland is using European Social Fund support for 6-12 month traineeships for graduates and Slovenia is using the ESF to fund a "reactivation" programme for young adults under 26. These are experiences which could be of benefit to many other countries.

I would now like to move to the second focus of my presentation: helping SMEs.

[SLIDE 13: FOCUS 2: HELPING OUR ENTREPRENEURS]

Our 23 million SMEs represent around two thirds of all private sector jobs. They have created 80% of all new jobs in the EU in the last five years. But many of them are struggling. This slide shows you the extent of their difficulties, and how these

difficulties have evolved over time between 2009 – the worst year of the crisis - and 2011.

Clearly, the lack of demand is a problem: our SMEs need customers, at home – in our single market – but also outside the EU, where markets are expanding fast. Today, only 13% of European SMEs are operating on foreign markets. We need to help them to go international and to take up the great opportunities being opened up by our trade agreements such as that with Korea. We also need to step up our efforts to conclude new agreements in the coming months. We need to take up the advantages offered by the trans Atlantic economic space – work is already underway on this.

Access to finance is a major issue for SMEs. We have all heard examples of companies that cannot get loans. SMEs are particularly affected by the reduced availability and higher cost of loans.

Another interesting finding of this graph is that a growing number of SMEs find it difficult to recruit or keep skilled staff. We know there are a lot of unfilled vacancies and untapped potential in SMEs: this is where our agenda for youth and for SMEs connect, and this is where we should be putting our efforts!

[SLIDE 14: AND BOOSTING COMPETITIVENESS OF OUR SMEs]

Clearly, we can do a lot more for our SMEs. This slide summarises the main strands of work.

Our internal market is a rich source of untapped potential. (The World Bank report I referred to calls it our "crown jewel"). The ideas that several of you have proposed for this meeting converge with the Commission's priorities. After 30 years, we need to finally agree on the European patent. We can do much more to open up the digital single market, better implement the services directive, open up network industries and make better use of the structural funds. According to some estimates liberalising services and creating a truly internal digital market could be worth € 800 billion. That would be a real boost to growth and jobs!

One example of what needs to change. IKEA makes 62 % of its products in Europe and plans to invest € 3 billion here this year. In China it can get a permit to open a new store in 8 months. In Pisa, Italy it waited for 6 years for a permit, eventually ran out of patience and moved to another location in the same region. They also have examples of long delays in German Lander.

At our last meeting we also agreed to fast track a set of growth enhancing measures including the Single Market act. With the help of the Danish presidency I think we can make good progress with the European Parliament on this growth package in the coming months. I have a suggestion for you: why not keep up the pace after our rules are adopted by reducing the usual two year transposition period for directives in this package from two years to one? That would send a strong signal of commitment to our business community. I will come back at a future meeting with more developed ideas on how we can get more out of our Single market, focusing on the areas where there are the largest potential economic benefits.

We have already taken important decisions to help SMEs.

Take the example of access to finance: we have several schemes at EU level to give loans to SMEs and we have also developed with you national schemes supported by the structural funds for micro and SMEs. Many of these schemes have proven their worth and could lend more if they had more funding.

There are also a number of things that you and we can do to improve the availability of credit to the real economy and to help businesses to develop, for instance:

- we have decided last December to enable the structural funds to be used to provide guarantees for working capital in SMEs
- the Commission has put forward a proposal to facilitate access to venture capital. The proposal is on the table and I would urge you to adopt this year.

Take another example: the reduction of red-tape. Already now, the Commission:

- has gone beyond the 25% target of reduction of administrative burden and tabled proposals for a 31% reduction
- and has proposed to exempt micro enterprises from new EU level regulation unless there is a compelling reason to include them.

But reduction of red tape is not just the Commission's job:

- All of you can reduce the time it takes to set up a business to the 3 days we have agreed under the Small Business Act. You will remember the slide I showed you in October – this has been updated in slide 42 of the background booklet and you can see progress. Eleven Member States now meet our target. I can only encourage the other sixteen to follow their example. This is a question of overcoming national inertia and bureaucracy – so it's up to you!
- Another example is late payments to business – the latest figures from the European Payments Index show that around 25% of all bankruptcies in Europe are due to late or non payment of outstanding invoices, and SMEs are particularly vulnerable. All Member States should bring forward the implementation of the Late Payments Directive under which the public sector must pay its bills within 30 days. The Directive has been adopted and will enter into force in March 2013. This will be a challenge for some of you. You can see the detail in slide 43 of the background booklet. You could all decide to tackle this situation now by accelerating transposition of the Directive.

[SLIDE 15: EU STRUCTURAL FUNDS]

I have focused so far on combating youth unemployment and helping our SMEs, because I believe these are two urgent areas where we need quick wins. With these two priorities in mind, I have been looking at how to use the existing EU budget to the full. As this slide shows, there is quite a large sum of money still to be allocated under the structural funds - € 82 billion in total. While much of it is already destined for good projects, at least some of this money could be redirected into SME lending programmes if you make the choice. For example, you could make use of the new possibility opened up by the Commission at the end of last year to allow Regional Fund money to guarantee bank loans for working capital for SMEs. You could speed up decisions on our pilot project bond proposal and put public and private funding together to bring forward important infrastructure projects.

Today I want to encourage all of you who still have large sums available to sit down with the Commission and to look at the advantages of re-programming funds. We could decide together to move money away from underperforming or lower priority programmes into existing mechanisms that have proved to be effective. Or to accelerate delivery of help to SMEs by topping up existing loan facilities which are already oversubscribed. I know that Mario has been doing this very recently in Italy

and in Portugal some SMEs facilities are already exhausted and would benefit from topping up.

But you need to give leadership on this. You will need to overcome bureaucratic resistance in your own administrations to make these changes.

NEXT STEPS

[SLIDE 16: NEXT STEPS IN THE EUROPEAN SEMESTER]

We have a clear timetable for action. At our meeting on 1 March the European Council will issue guidance to all Member States, as part of the European Semester. This will be based on the Commission's Annual Growth Survey. It will indicate the priorities that should feature in your National Reform Programmes. In June, on the basis of clear country specific recommendations issued by the Commission in May, you will adopt recommendations to each other.

The eyes of the world, and in particular of the markets, will be on us. We must show that we have learned the lessons of this crisis. What I have shown you again today is that we have clear priorities and that we need to act convincingly on them. That we have the right policy tools and that now we will use them – and be seen to use them. That we can take additional short term measures to create a sense of momentum and to bring hope to our citizens.

To conclude, we have one key task for the coming weeks – to win back confidence: the confidence of financial markets, business, consumers and our citizens. We can do this by taking the necessary decisions quickly and implementing them swiftly. Most of all, we must do this together. Most of the solutions lie at national level but if you tackle these challenges within a European framework we can all achieve better results.

For more information:

A copy of the presentation and additional background slides can be found using the following links:

President Barroso's website: http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/2012/01/20120127_speeches_2_en.htm

Europe 2020 website: http://ec.europa.eu/europe2020/documents/documents-and-reports/subject/europe-2020-presentations/index_en.htm