Background on sources of growth

Information prepared for the European Council,
23 October 2011

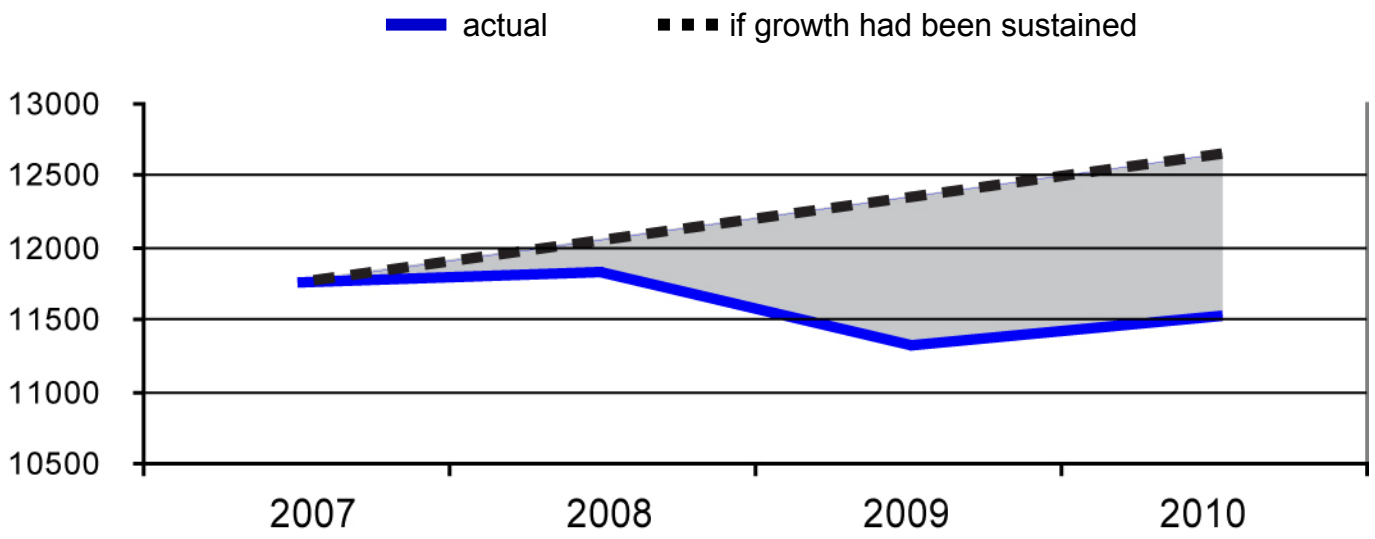
Contents

Where does Europe stand?

We have lost a lot

Actual growth compared to « crisis-free » growth

(EU GDP level, € billion)



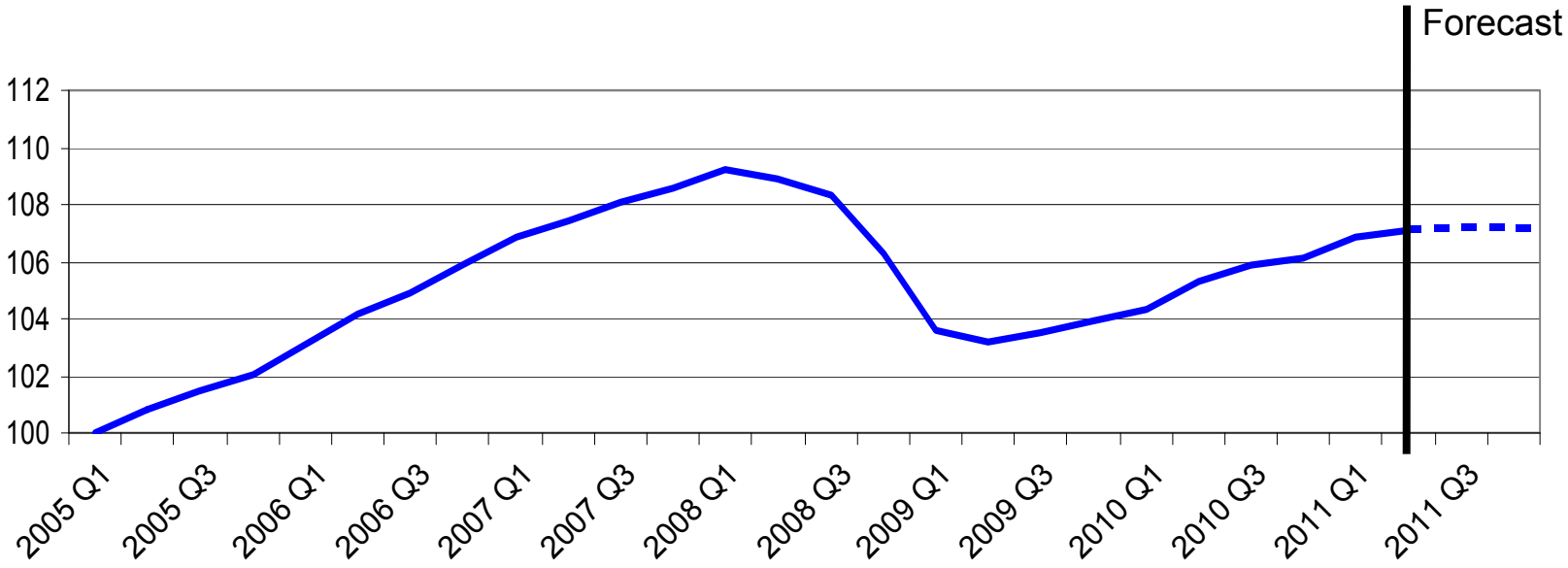
We have « lost » about € 2 000 billion between 2007-2010 due to the crisis, compared to a scenario where we would have kept our average growth rate over 1995-2007. This corresponds to the GDP of France or to 11% of Europe's cumulative debt.

Source: European Commission

Our recovery is ailing

EU GDP level in recent years

(first quarter 2005 = 100)



EU GDP grew strongly early in 2011, but has slowed substantially since then. Growth in the second half of 2011 is expected to be slow, stalling by the end of the year.

Source: European Commission

The situation is very uneven across the EU

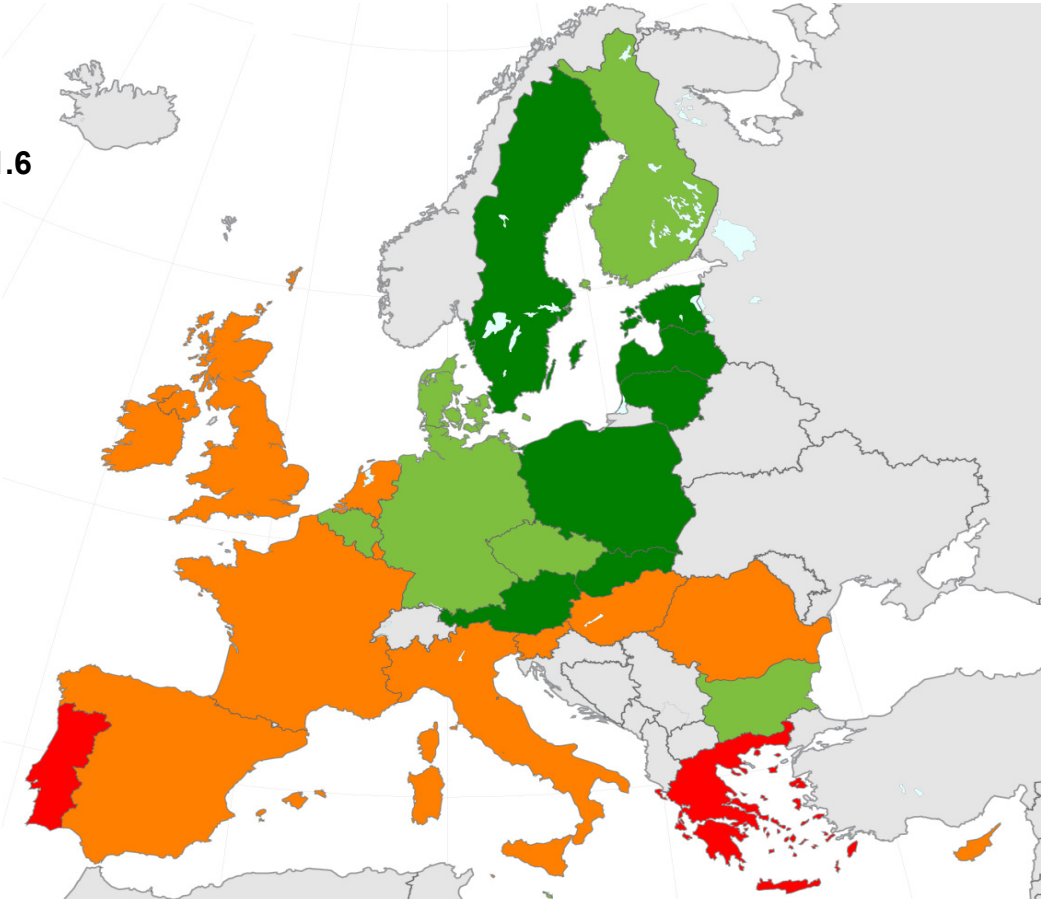
Real GDP growth rate in second quarter of 2011

(percentage change on second quarter 2010)

EU 27 = 1.7

Euro area (17 countries) = 1.6

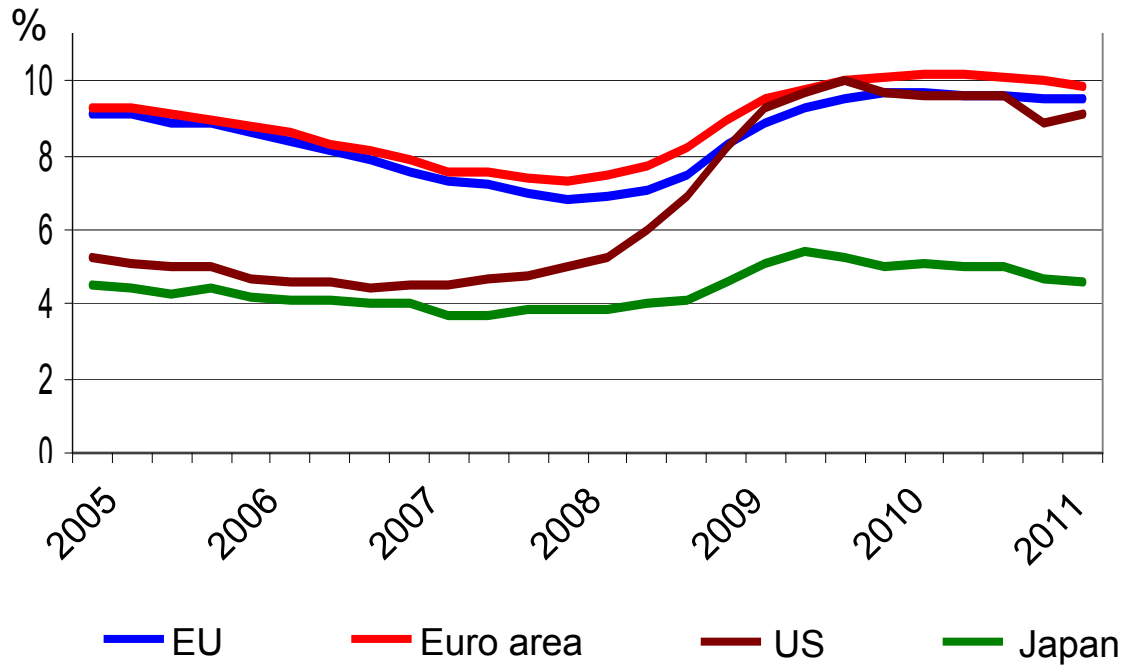
- **> 3.0**
- **1.7 – 3.0**
- **0 – 1.7**
- **<= 0**



Source: European Commission

Unemployment is reaching high levels

Unemployment rates in the EU, Euro Area, US and Japan



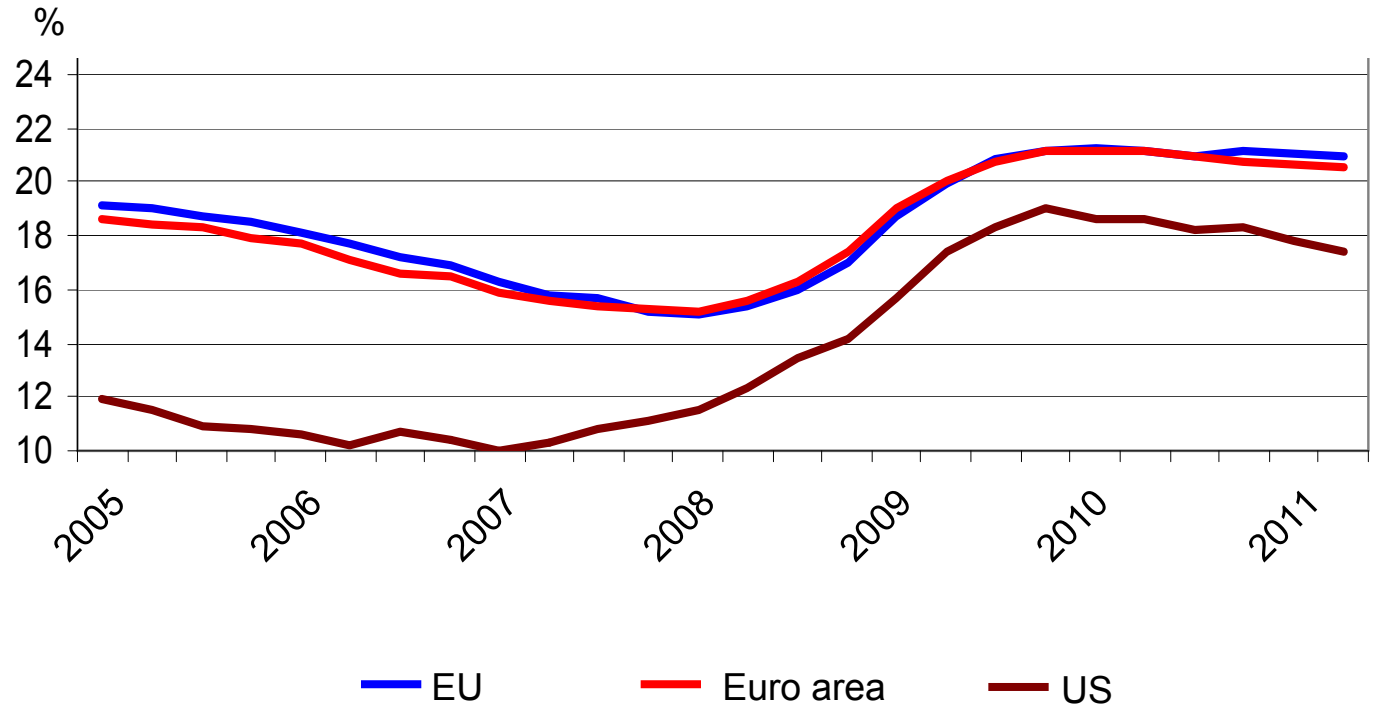
23 million people are now unemployed in the EU (10% of the working age population) and 16 million in the euro area (9.5%). The slight improvement since 2010 has come to an halt.

Source: European Commission

Young people are particularly hit

Youth unemployment rates in the EU, Euro Area and US

(under 25 year-olds)



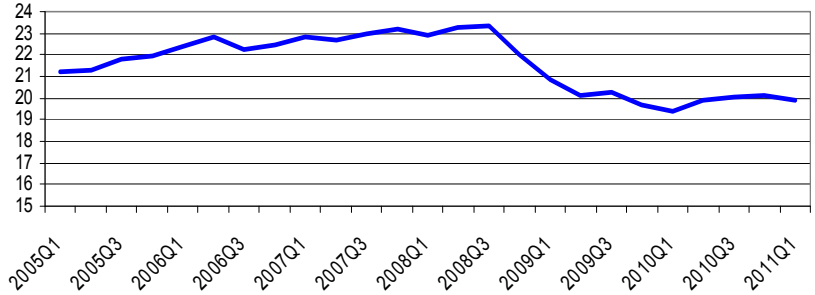
Unemployment is twice as high for young people. It has increased sharply due to the crisis and is now over 20%.

Source: European Commission

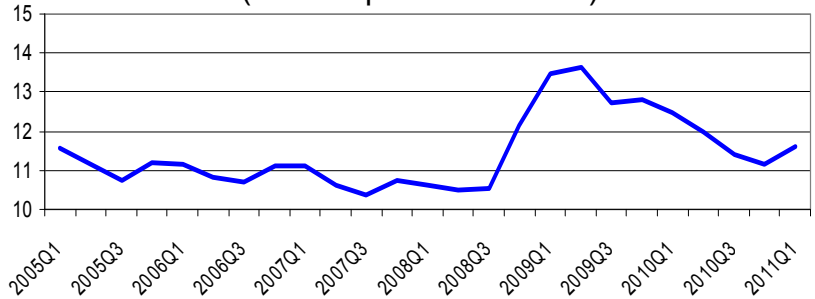
Confidence has been shaken…

EU business investment ratios and households savings

Business investment rate
(% of gross added value)



Households' saving rate
(% of disposable income)

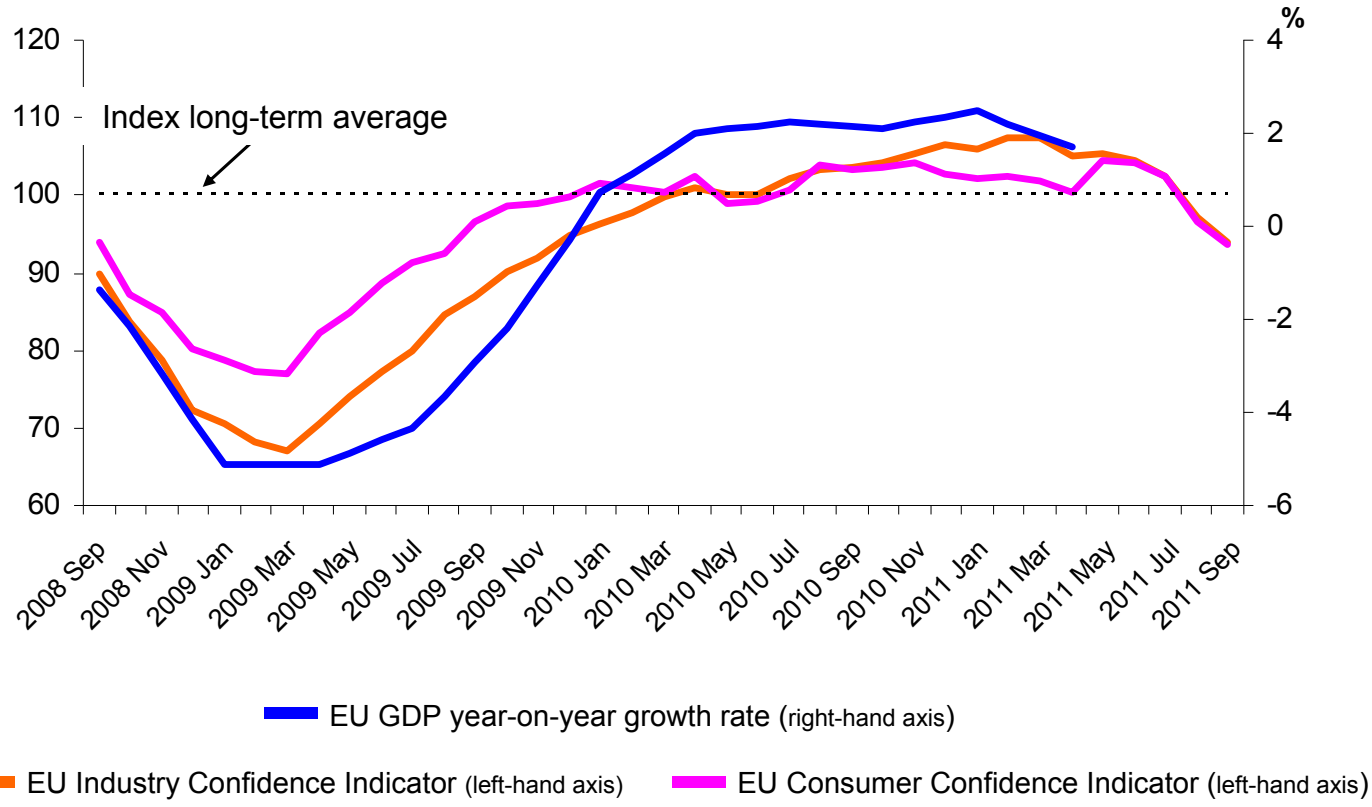


Investors are still holding back, and household savings rates reflect caution, limiting overall economic demand.

Source: European Commission

… and remains fragile

Business and consumer confidence indexes

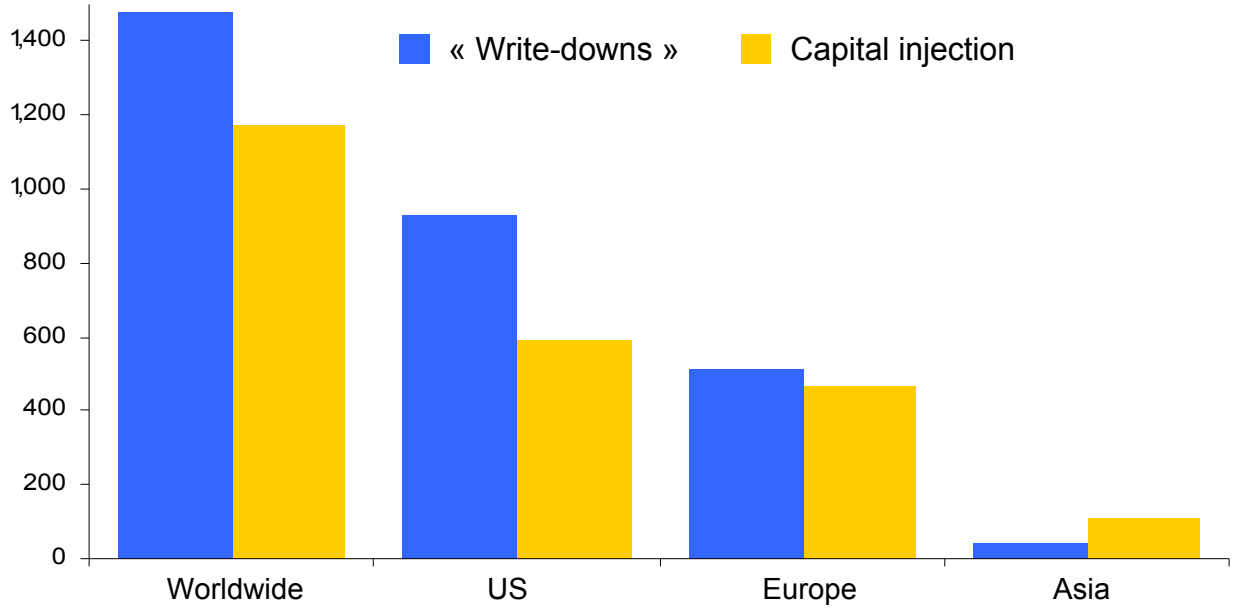


Source: European Commission

Our financial sector is still adjusting

Total realised "write-downs" and capital injections in the banking sector, from January 2007 to August 2011

(in € billion, by region)

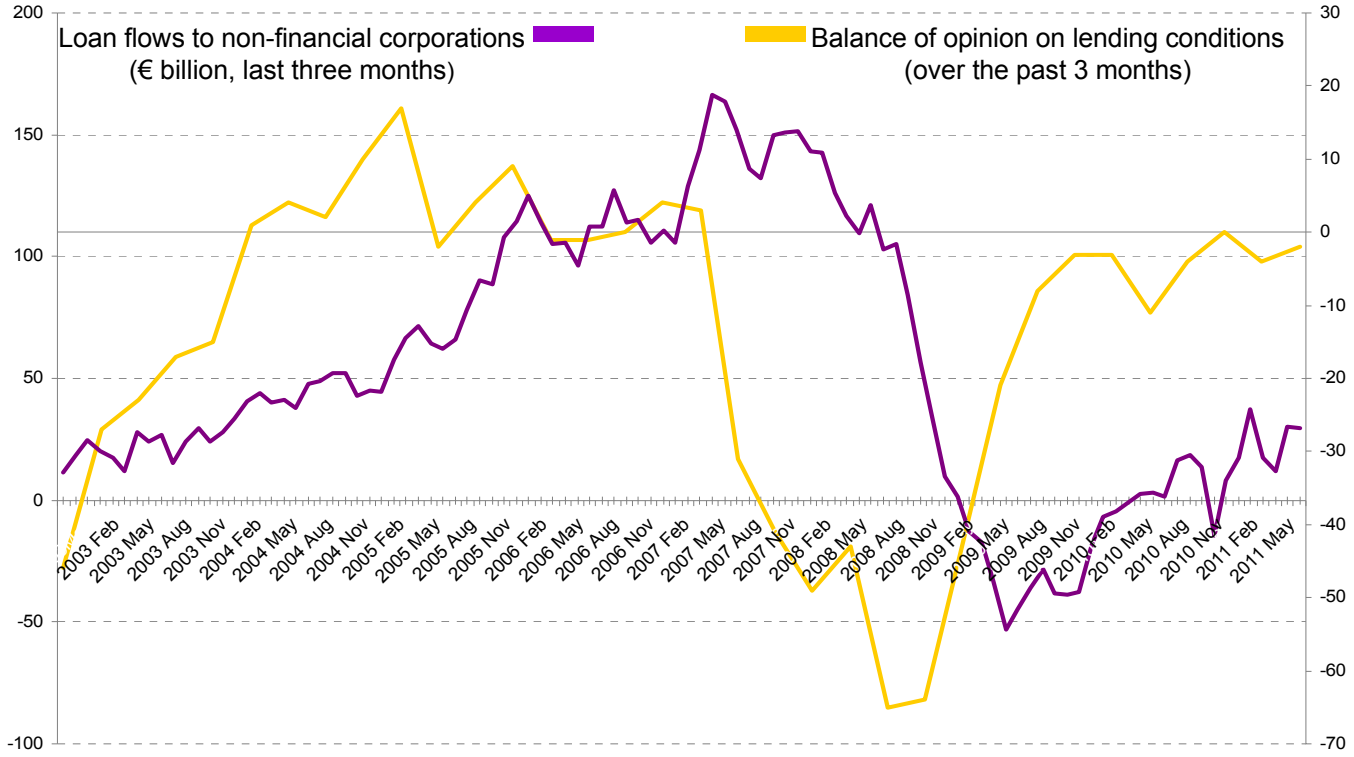


- **EU banks have raised as much additional capital as they have "written down" (lost in asset values) since the crisis started.**
- **There is still a significant adjustment to come ("deleveraging").**
- **Public aid and guarantees to the financial sector amounted to € 4.6 trillion over the period, i.e. 37% of EU GDP, or 6% of the total assets of the sector.**

Source: Bloomberg

Access to credit is more difficult

Loan flows to non-financial firms and bank lending conditions

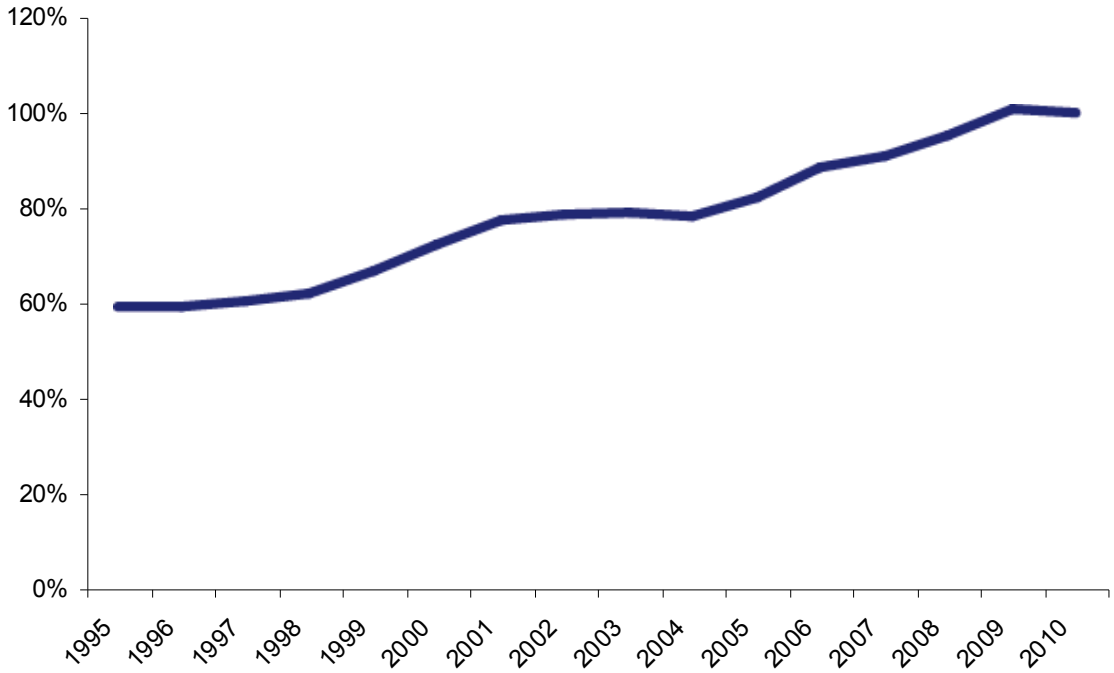


The crisis has resulted in a shortage of credit for non-financial firms and households, hindering recovery.

Source: European Central Bank

Debt holds back firms…

Stock of loans of non-financial corporations
(total outstanding loans each year, in % of gross value added)



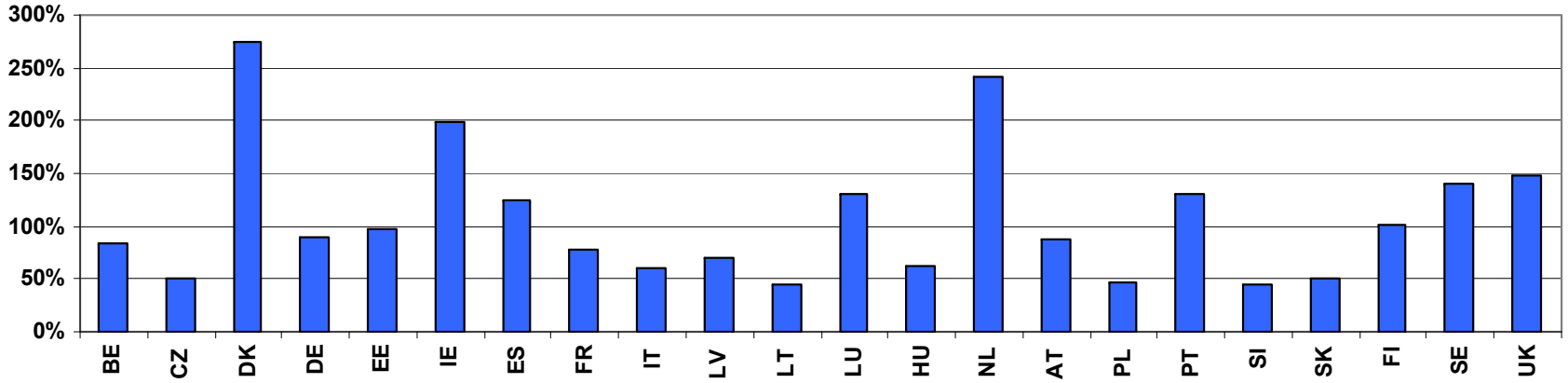
Non-financial corporations have accumulated debts over time and started to reduce them as of 2009. The overall level remains high and is likely to hold back future investment and growth.

Source: European Commission

… and households are also constrained

Household debt-to-income ratio in 2009

(calculated in % as: loans and liabilities / gross disposable income)



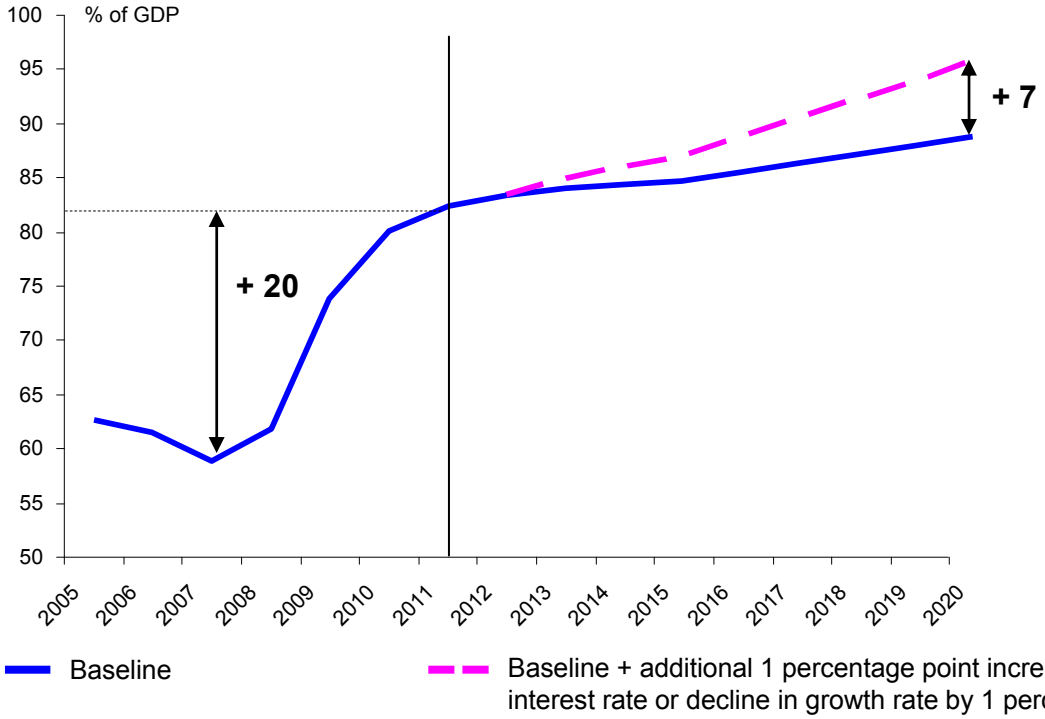
Household debt increased pre-crisis (relative credit boom). On average, every European was liable for € 16 800 of debt in 2009. This represents a very variable share of the disposable income depending on the country.

Source: European Commission
Note: no data for BG, EL, CY, MT, RO

Fiscal imbalances mean an extra cost for all

Gross public debt in the EU (% of GDP)

(past trends and medium-term projections)



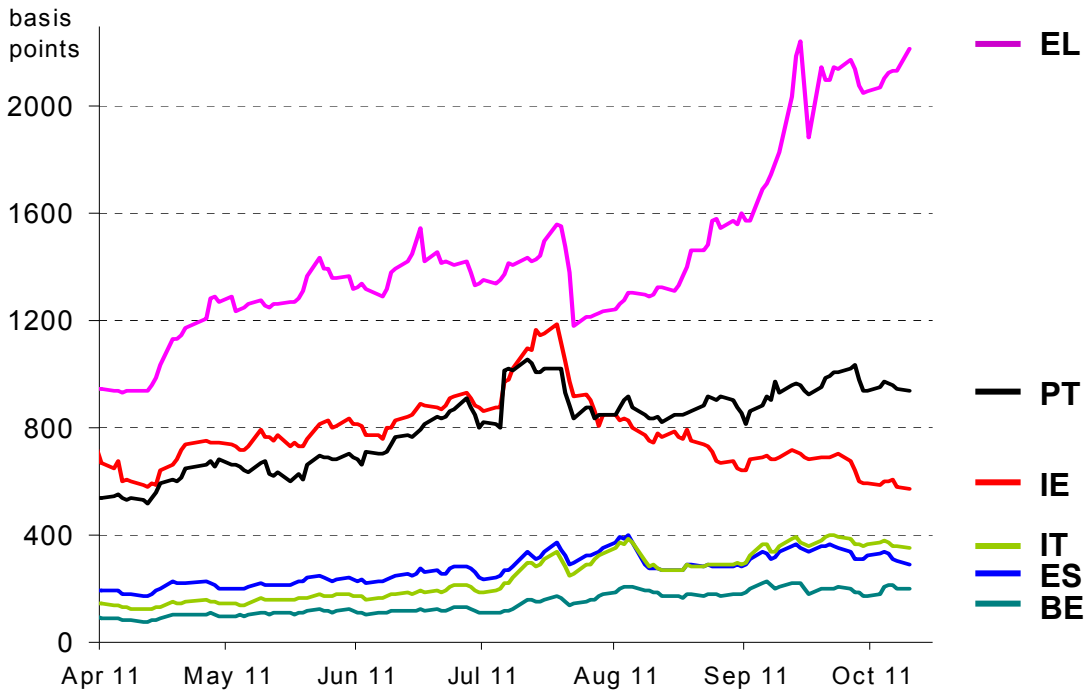
The level of GDP debt has increased from 60% to 80% as a result of the crisis. A further rise in borrowing costs or a decline in growth by 1 percentage point would substantially increase the burden, by another 7% of GDP by 2020.

Source: European Commission

The financial markets remain volatile

Sovereign bond spread over German bund, ten-year maturity

(basis points over time)



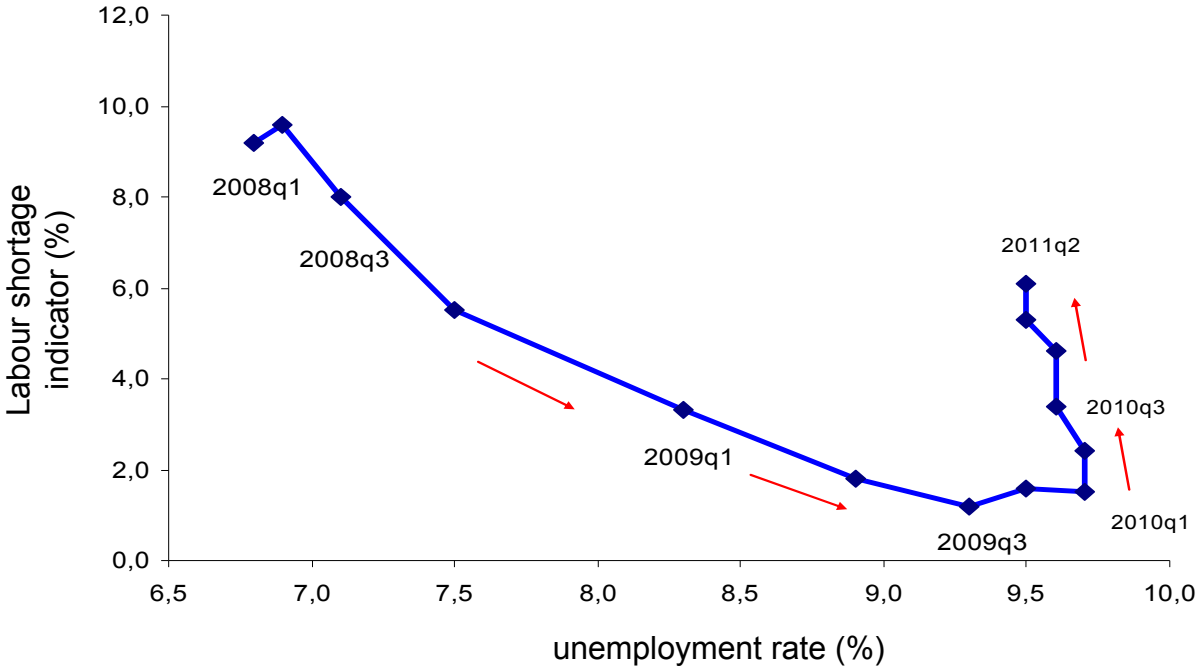
Uncertainties over the sustainability of debts in a number of countries have led their borrowing costs to rise.

Source: European Commission

Labour mismatches may hinder recovery

Evolution of labour shortages and unemployment over time

(labour shortage = % of manufacturing firms indicating labour as a factor limiting the production)



Unfilled vacancies started to increase as of mid-2009, while unemployment is also reaching very high levels. This points to labour market mismatches, such as inadequate skills or limited mobility, in certain sectors and regions.

Source: European Commission

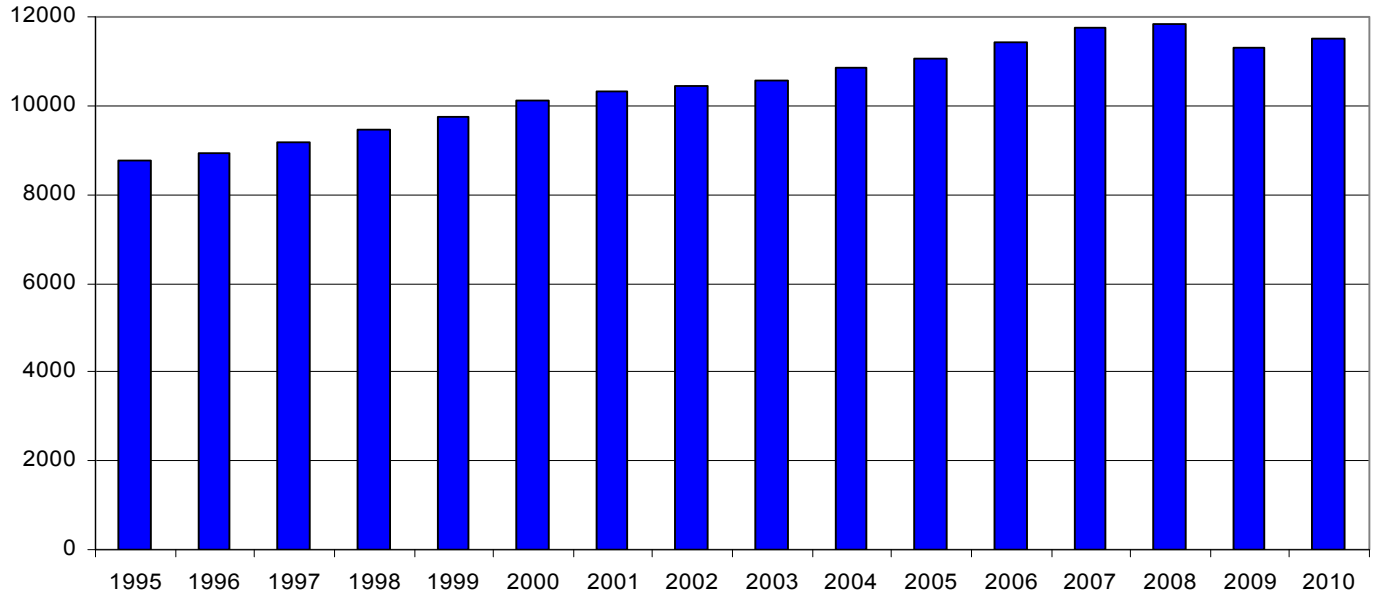
Europe’s track-record

Europe’s track-record

1. Overall performance

EU GDP has grown over the last 15 years

EU GDP 1995-2010
(in € billion, 2005 prices)



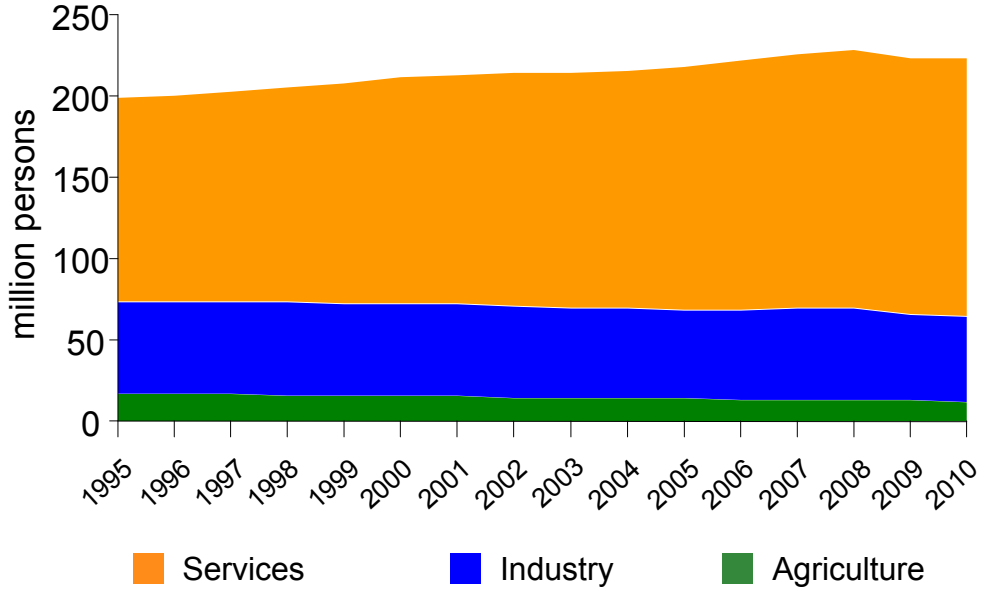
EU GDP grew by nearly 35% over 1995-2008 and reduced by approximately 2.5% over 2008-2010. Over the last 15 years, this represents an average annual growth of 1.8% (US = 2.5%).

Source: European Commission

Europe created 23 million jobs

Numbers employed in the EU from 1995 to 2010

(million persons in total and in the main sectors of the economy)

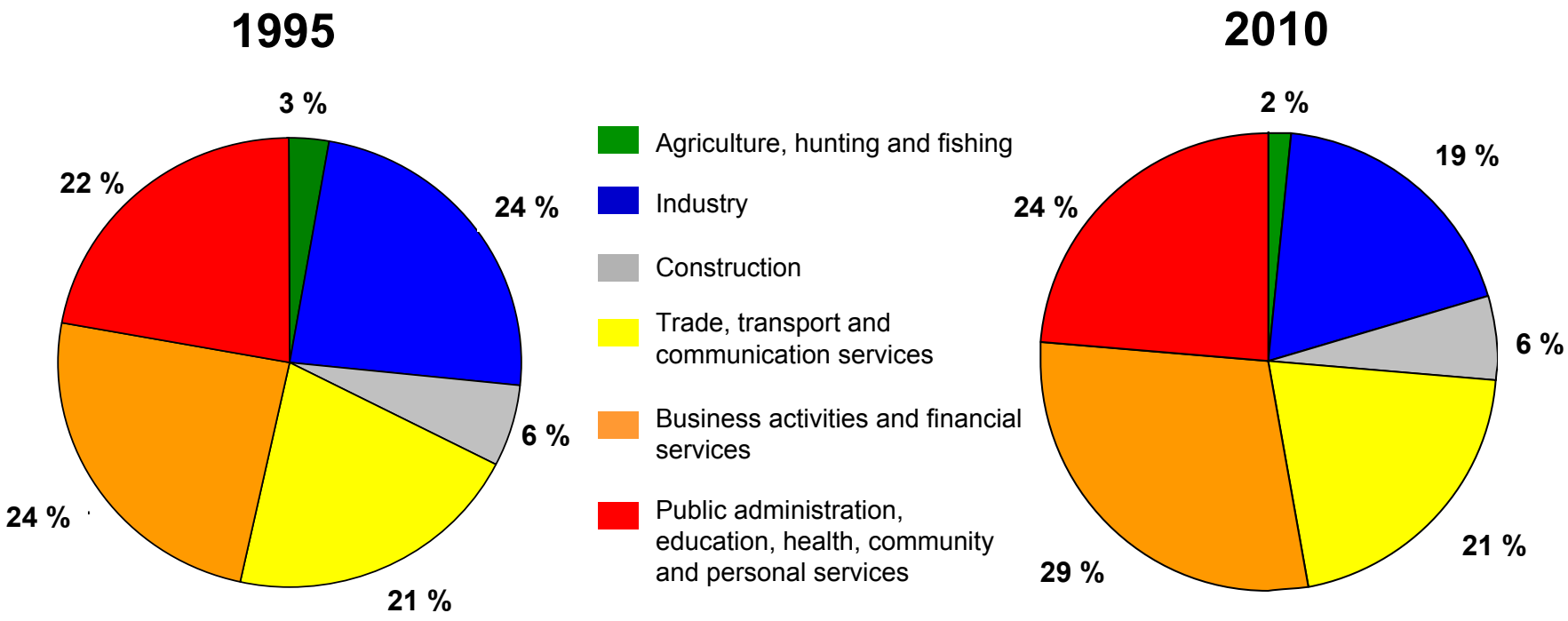


- **23 million extra jobs created since 1995.**
- **33 million in services, but industry and agriculture each lost about 5 million (the total number of jobs of the Czech Republic or Portugal). In agriculture, job loss was continuous. In industry, 4.6 million jobs were lost over 2008-2010.**

Source: European Commission

The picture of the EU economy is changing

Share of sectors in total economy



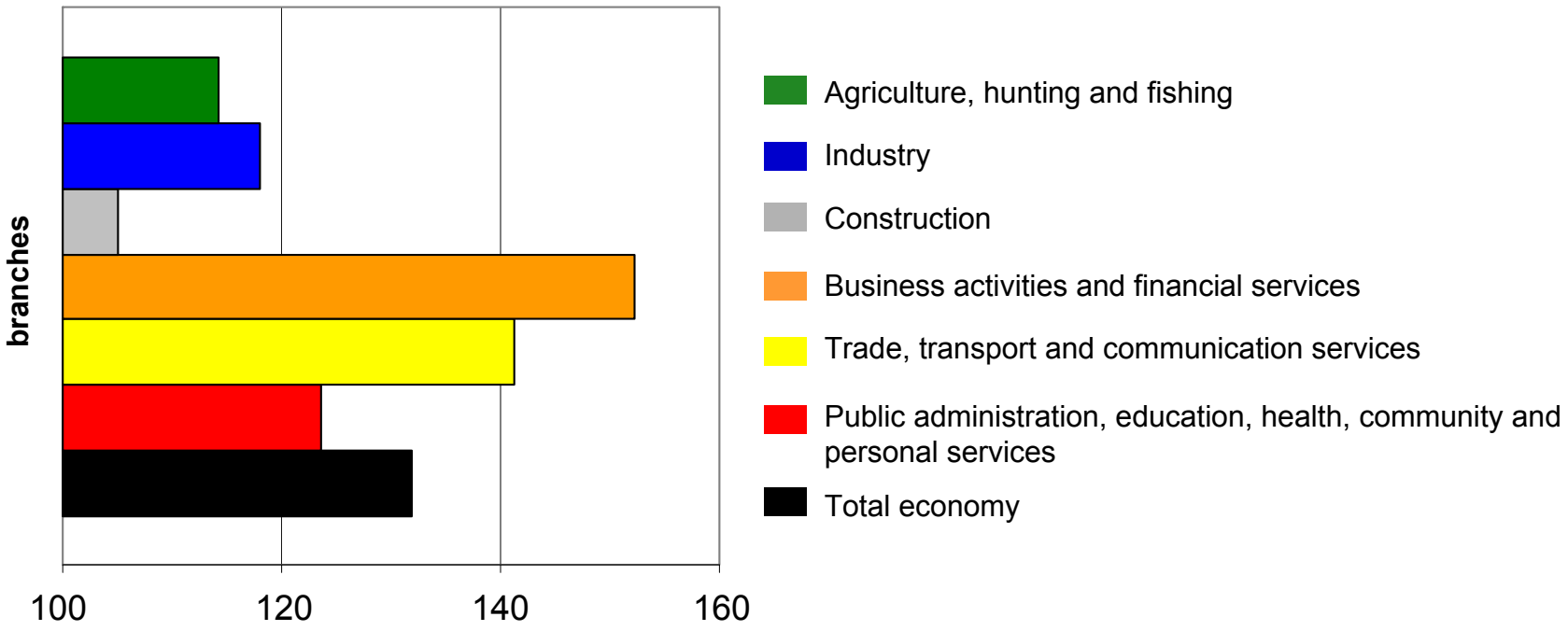
In 1995, services accounted for about 2/3 of the total economy (cf. trade, transport, communication, business activities, financial services, public administration, education and welfare). In 2010, they represented about 3/4 of the economy.

Source: European Commission

What this means for each sector

Growth in gross added value by sector

Situation in 2010 compared to 1995 (1995 = 100)

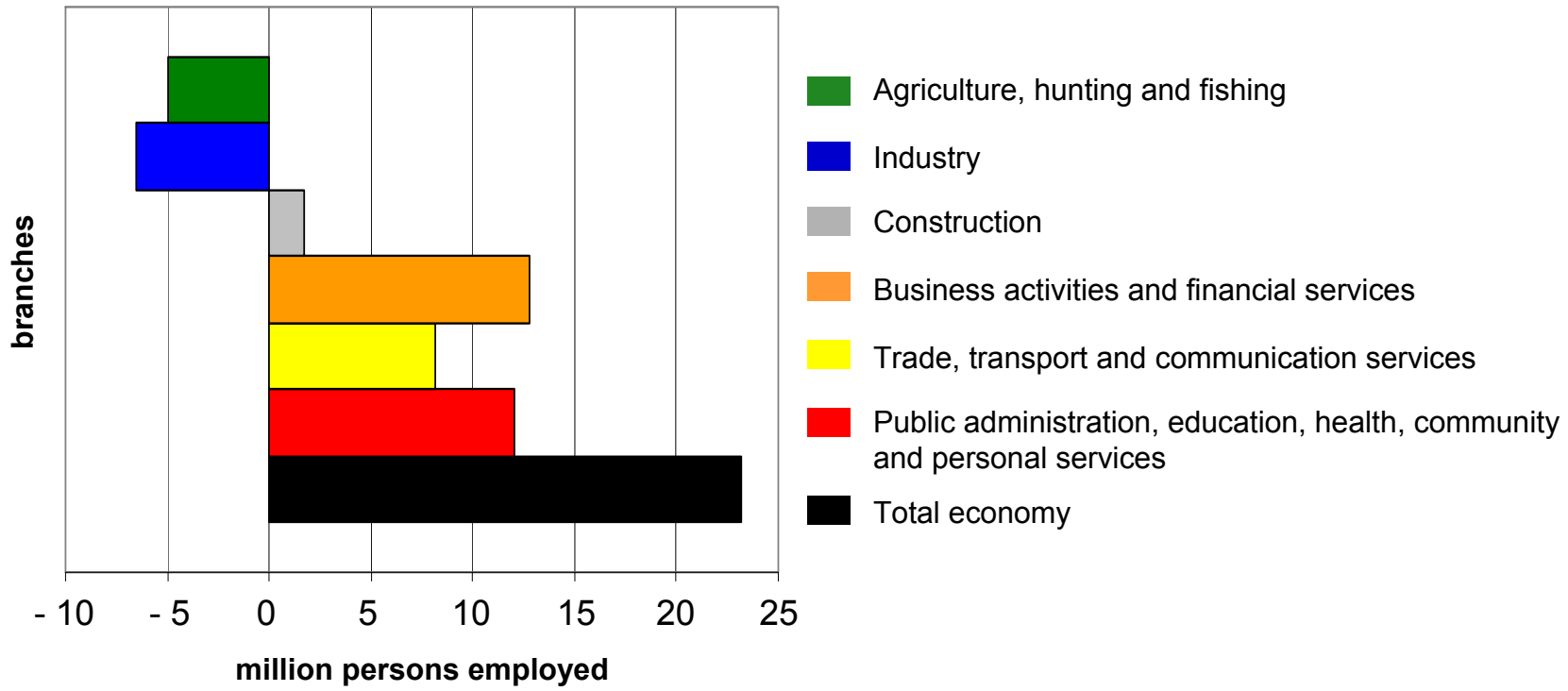


While the overall economy has grown by one third over 15 years, business activities - such as accounting, legal and consulting services - , financial services, trade, transport and communication services have grown much more.

Source: European Commission

What this means for job creation

Job creation by branches from 1995 to 2010

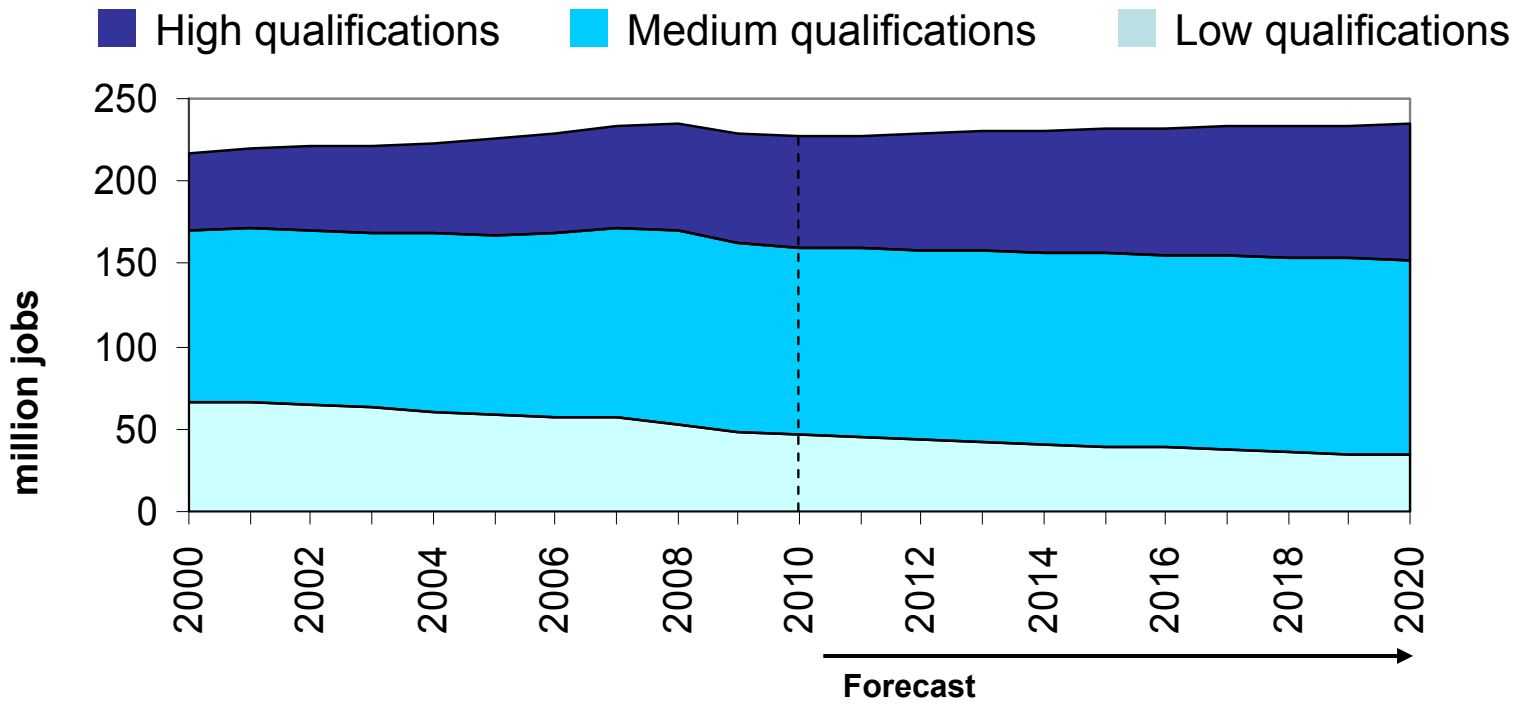


Job creation was driven by the services sector. The primary and secondary sectors have lost about 10 million jobs since the mid-1990s.

Source: European Commission

The types of jobs created

Skills content of current and future jobs



- **In 2000, 22% of the jobs required high qualifications while 29% required low qualifications. In 2010, it was the reverse.**
- **By 2020, 35% of jobs will require high qualifications and 12 million jobs less will require low qualifications.**

Source: European Commission

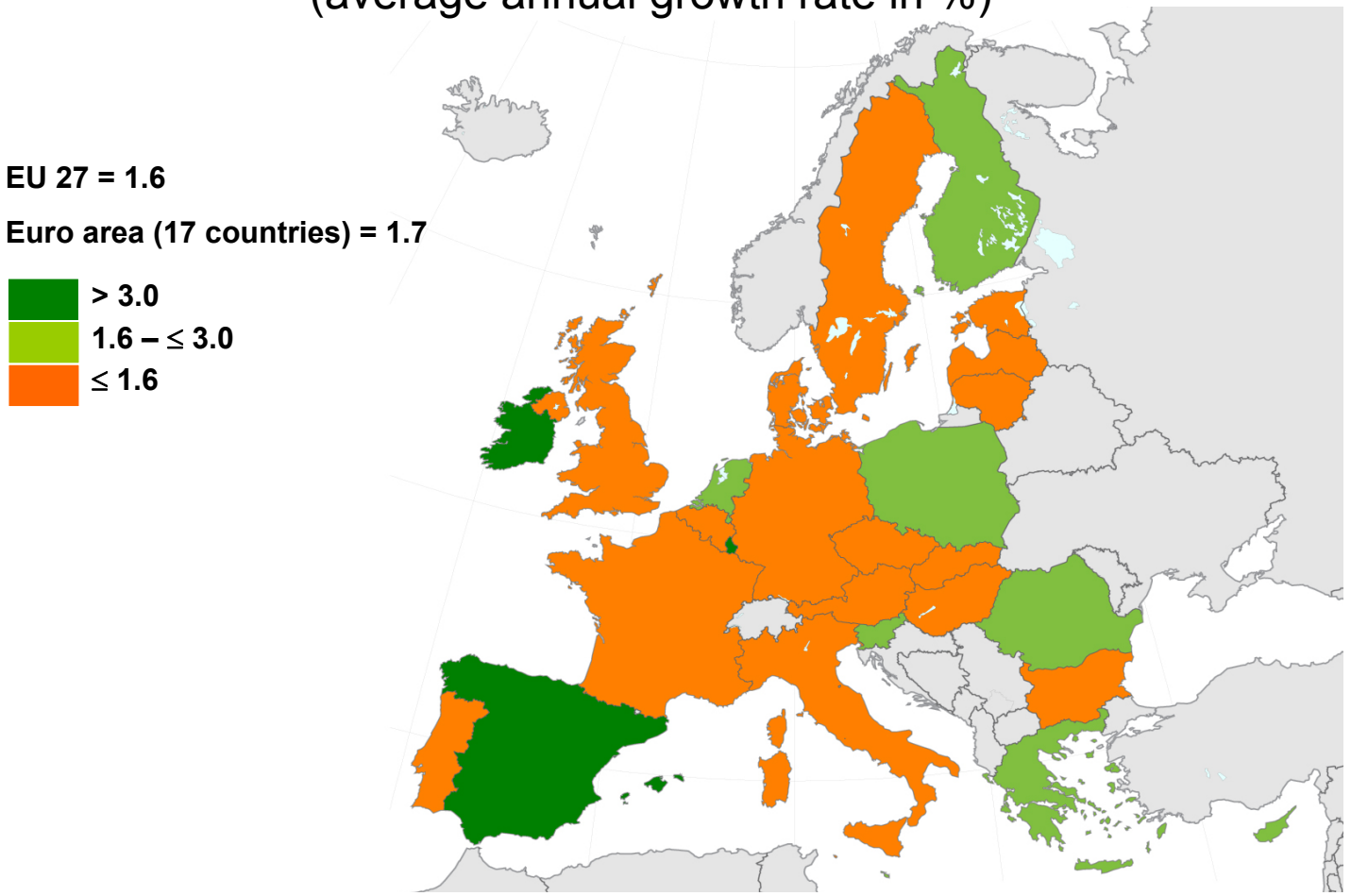
Europe's track-record

2. The service sector

Job creation in services across Europe

Job trends in the service sector from 1995 to 2010

(average annual growth rate in %)

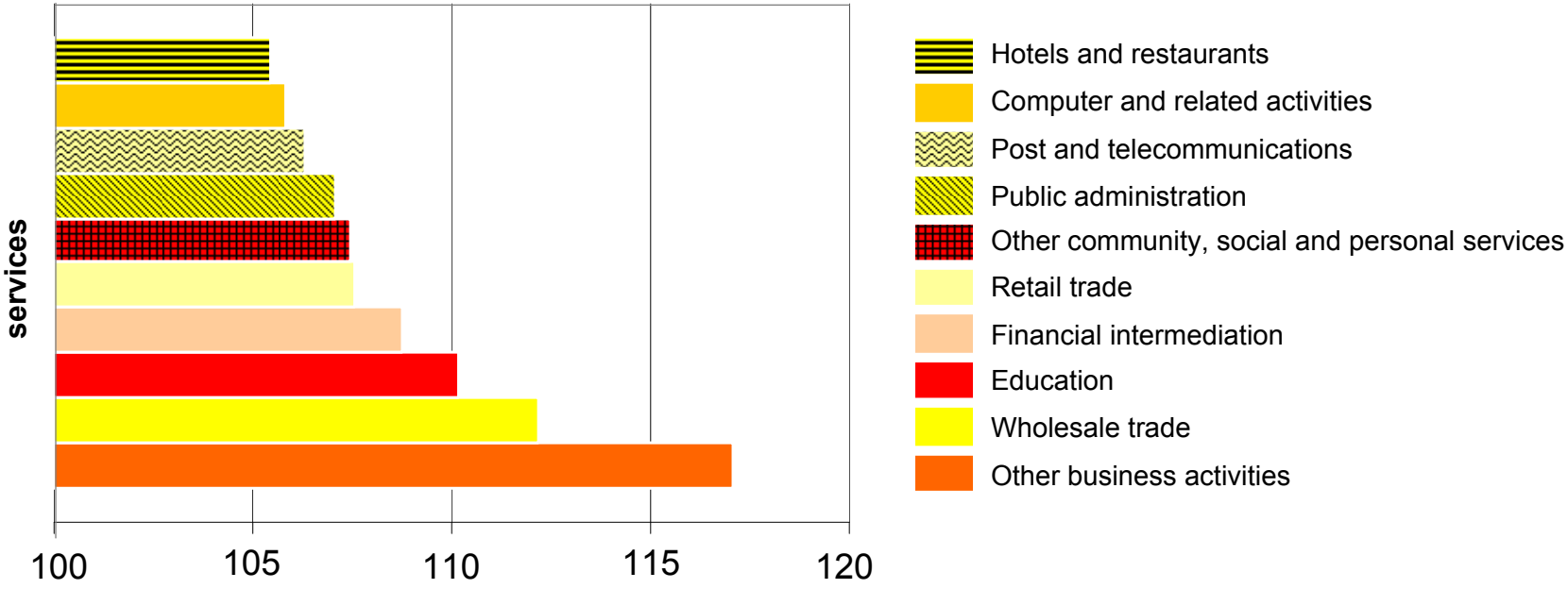


Source: European Commission

Key service sectors that support growth

Value added growth of the top 10 « growing » services

Situation in 2008 compared to 1995 (1995 = 100)

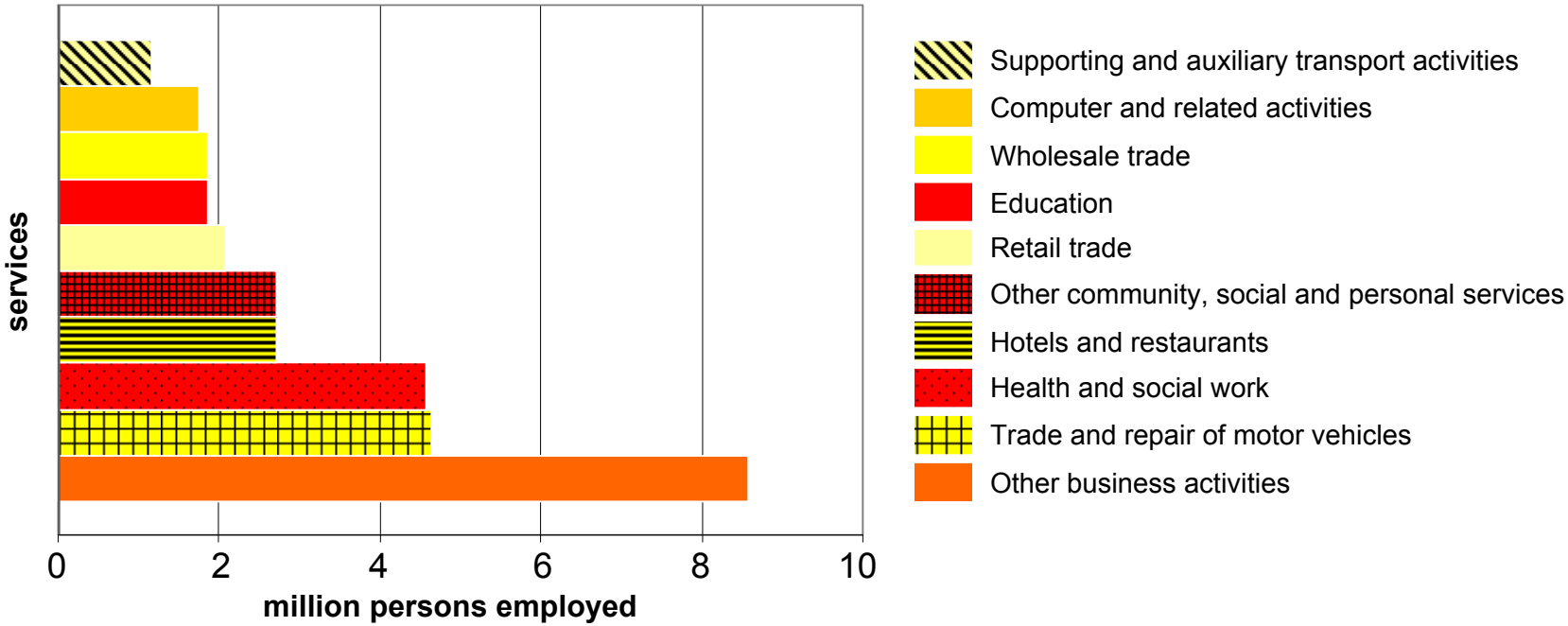


These sectors contributed most to growth in services over the last 15 years. Except for business activities, these sectors are not necessarily the ones creating most jobs (see next slide).

Source: European Commission

Job creation in the service sector

Top 10 « job-creating » service sectors
between 1995 and 2009



These sectors created most jobs over the last 15 years. Except for business activities, these sectors are not necessarily the ones driving growth most (see previous slide).

Source: European Commission

Europe’s track-record

3. The industrial sector

Job trends in industry across Europe

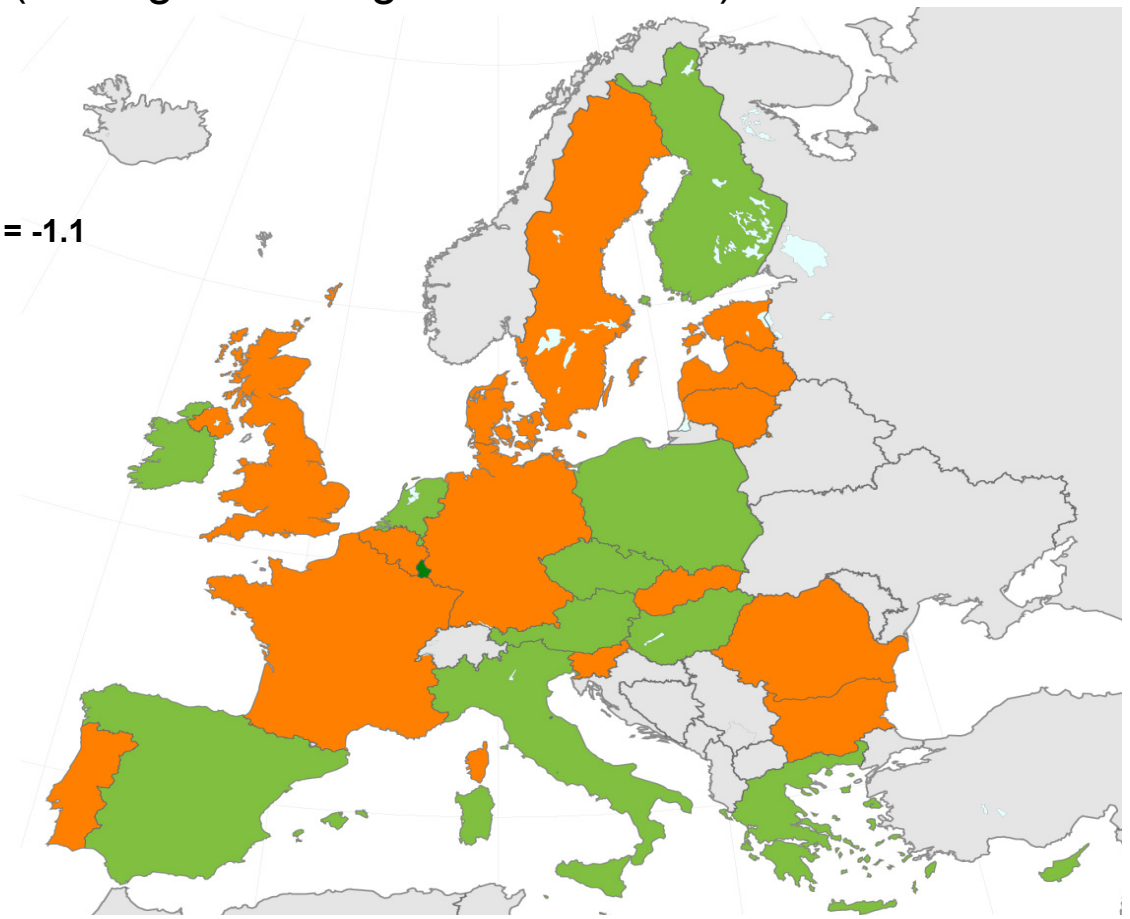
Job trends in the industrial sector since 1995

(average annual growth rate in %)

EU 27 = - 0.9

Euro area (17 countries) = -1.1

- **> 0**
- **-1.1 – ≤ 0**
- **≤ -1.1**

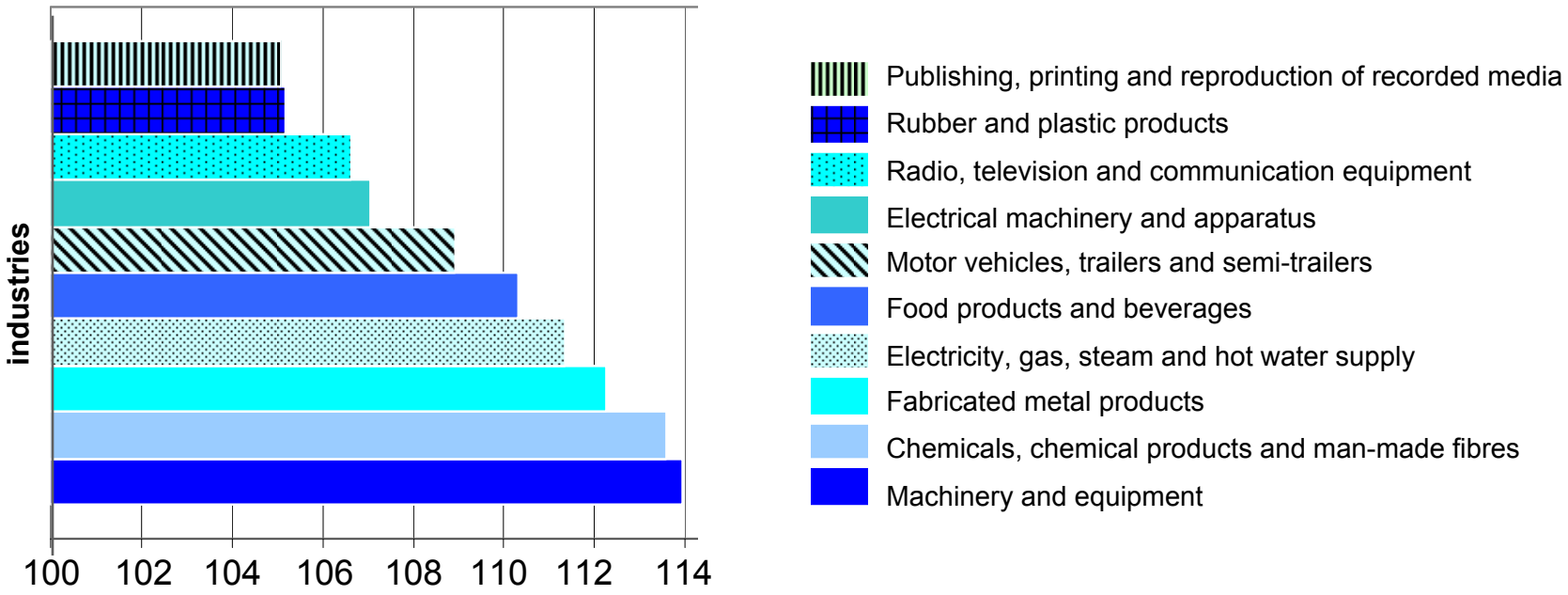


Source: European Commission

Key manufacturing sectors supporting growth

Value added growth of the top 10 « growing » industries

Situation in 2008 compared to 1995 (1995 = 100)



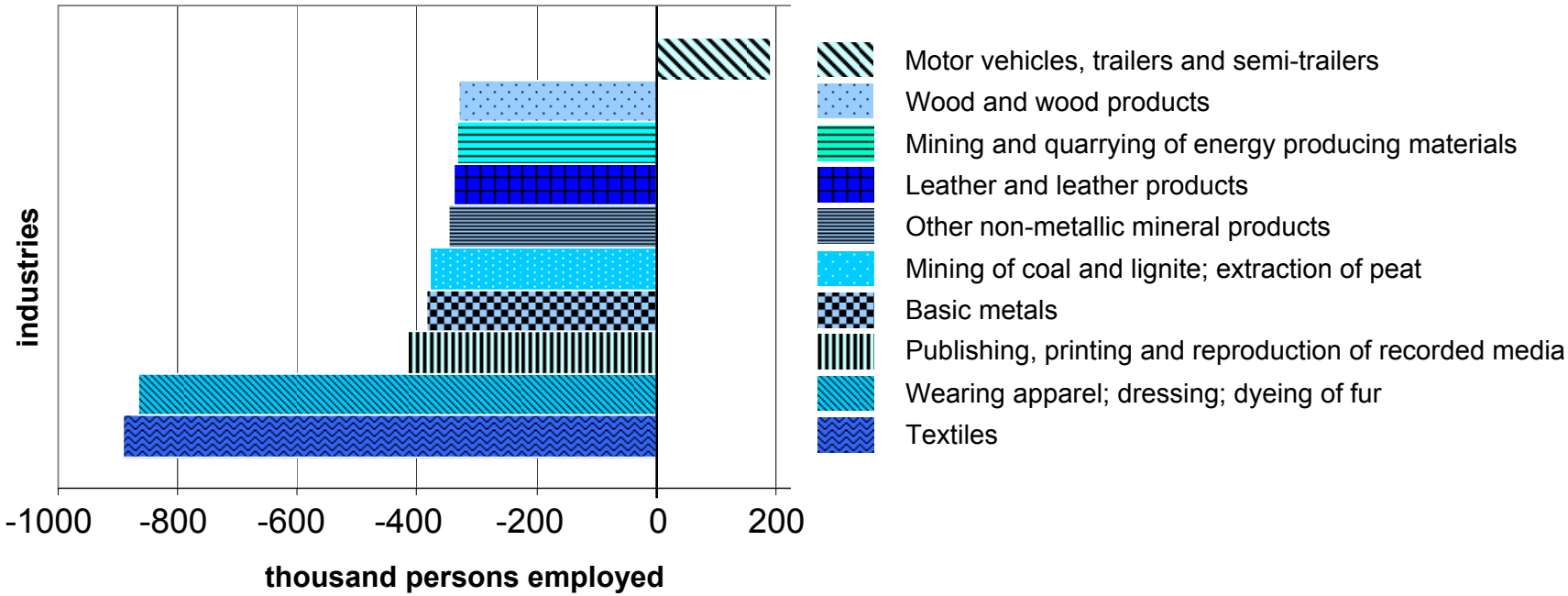
Out of 30 sub-sectors classified as "industry", the above ten are the ones which contributed most to growth in the industrial sector.

Source: European Commission

Job trends in industry

Job creation / loss in « top 10 » industries

between 1995 and 2009

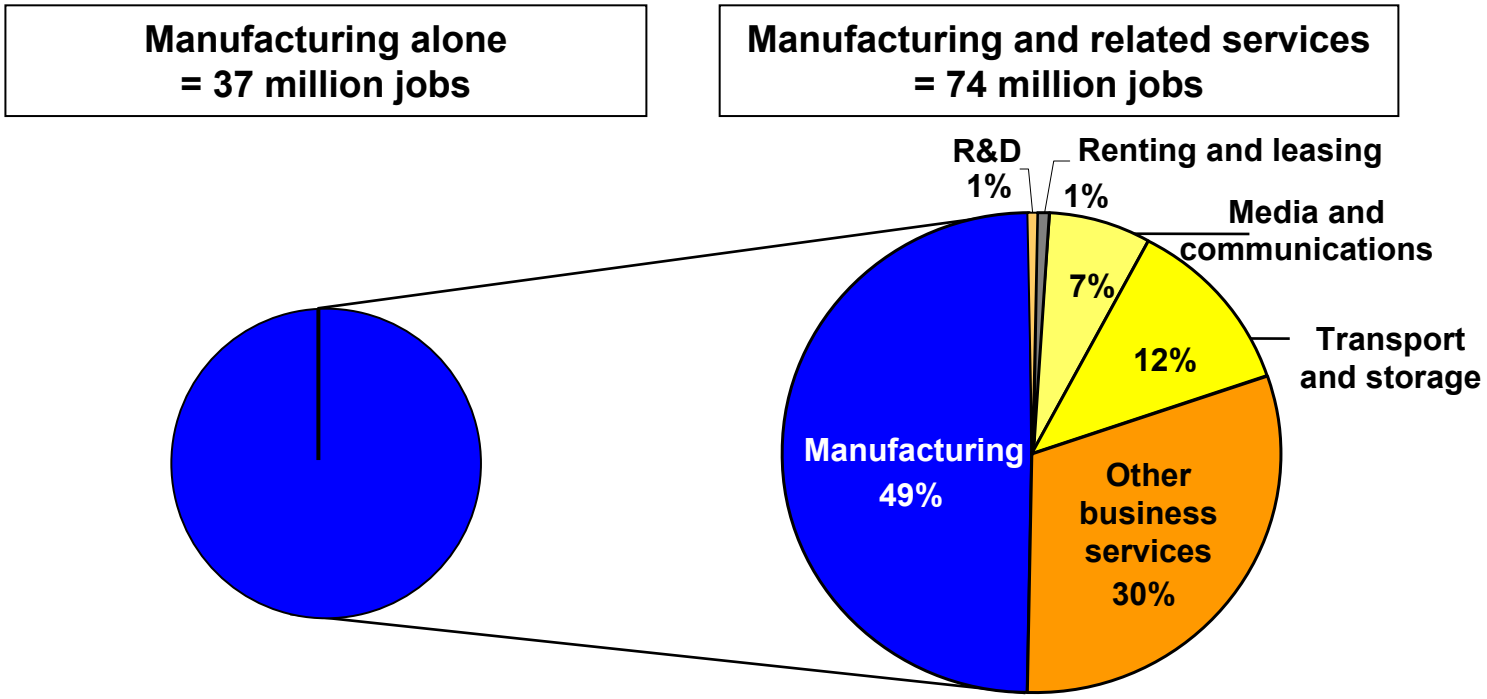


Apart from the car sector, a wide range of industries has lost jobs. This reflects technological progress and greater productivity, outsourcing or relocation strategies in a number of industries, as well as changing consumer demand.

Source: European Commission

Manufacturing also drives service sector jobs

Manufacturing and related business services
(number of jobs in 2009)



For every job in manufacturing it is estimated that a further complementary job is needed in a related business service, such as logistics, marketing or legal advice. In total, some 74 million jobs therefore depend on manufacturing.

Source: European Commission

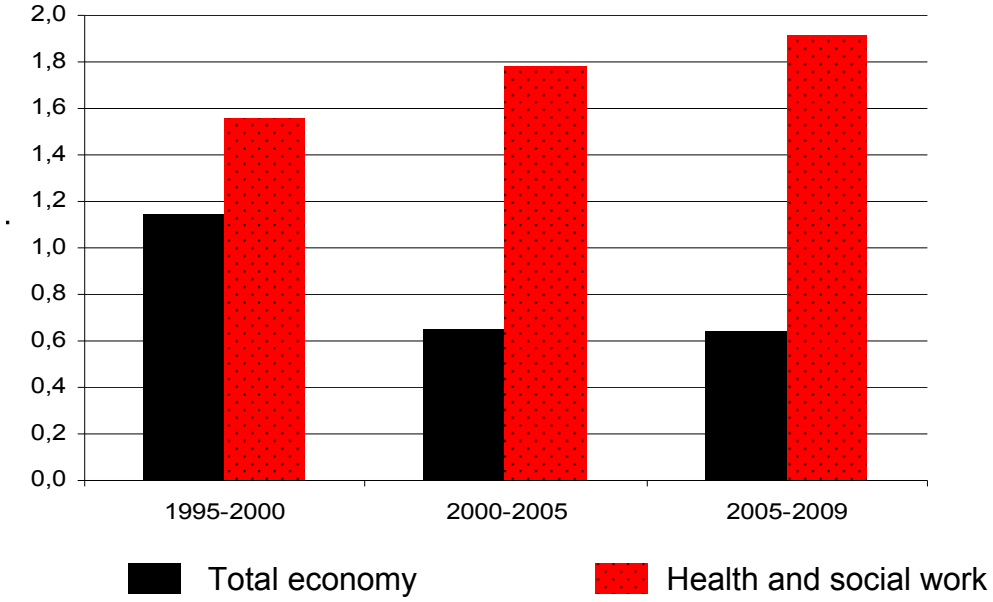
Europe’s track-record

4. Selected examples

Health and social sector

Employment in health and social sector 1995-2009

(average annual growth for each period, in %)

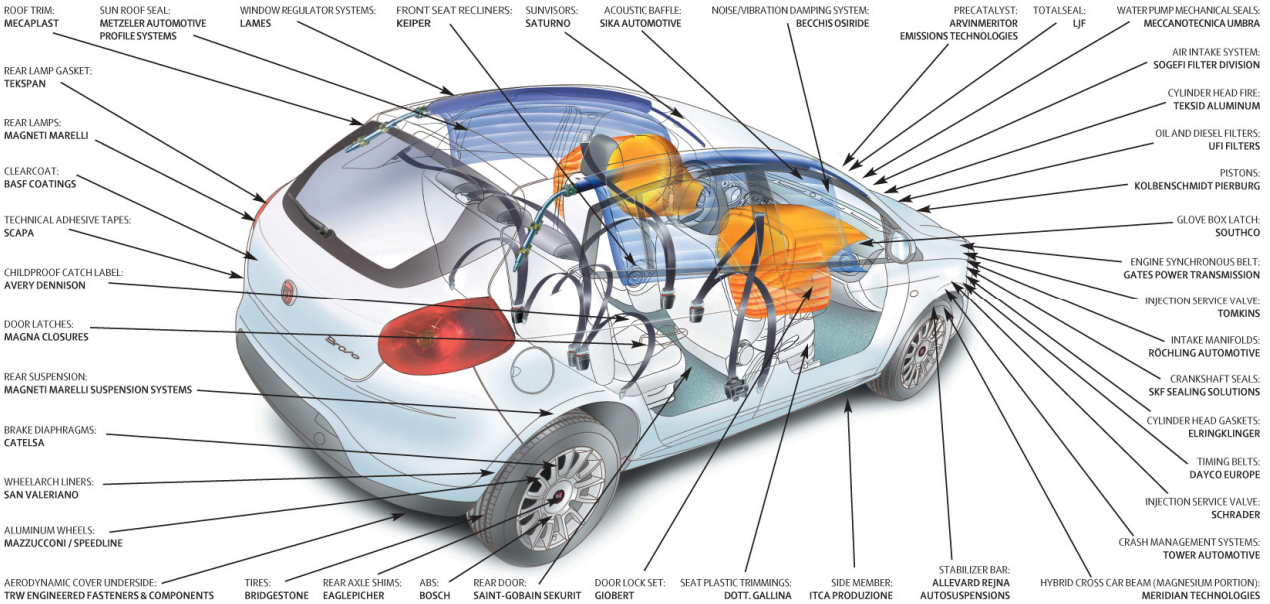


- **4.2 million jobs created over 2000-2009**
- **More than a quarter of total job creation over the same period**
- **10% of all jobs in countries like DK, FI, NL and SE**
- **Around 5% of the total economic output**
- **Ageing will reinforce this trend**

Source: European Commission

Car industry

Suppliers of a Fiat Bravo: an overview



© Automotive News

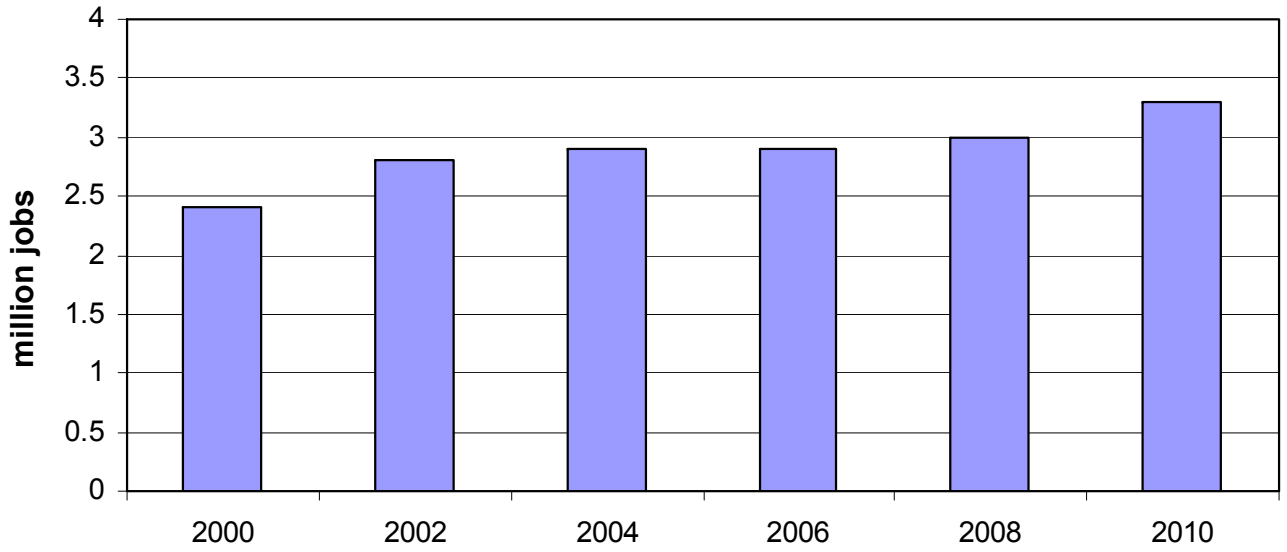
- **Currently 3.5 million jobs or 12.6 million when indirect jobs are counted**
- **About 1.5% of EU's total GDP and 22% of the world's car production**
- **Number of jobs increased by about a quarter since 1995**
- **250 production lines split between 16 Member States**
- **All Member States involved in the supply chain and sales**
- **Typically around 50 component suppliers per car, spread all over Europe**
- **Around 75% of the value-added of a new car is generated by these suppliers**

Source: European Commission

« Green » sectors

Jobs in eco-industry

(sectors developing sustainable production technologies and services)



Over three million people currently work in the development of technologies and services to limit the environmental impact of production and consumption patterns. The sector continues to grow.

Source: Ecorys, European Commission

« High-tech » sector

Trends in « high-tech » sector 1995-2009

	1995-2009
Economic growth in high-tech sector	4.1%
Jobs created in high-tech	1.4 million

- The high-tech sector, i.e. sectors with a large proportion of high-skilled jobs, represented 5.5% of total employment and about 8% of EU's GDP in 2009.
- The sector has grown much more rapidly than the rest of economy (4.1% versus 1.8%) and it has created 1.4 million extra jobs between 1995 and 2009.
- This is particularly the case for high-tech services such as telecommunications, computer services and research & development.

Source: European Commission

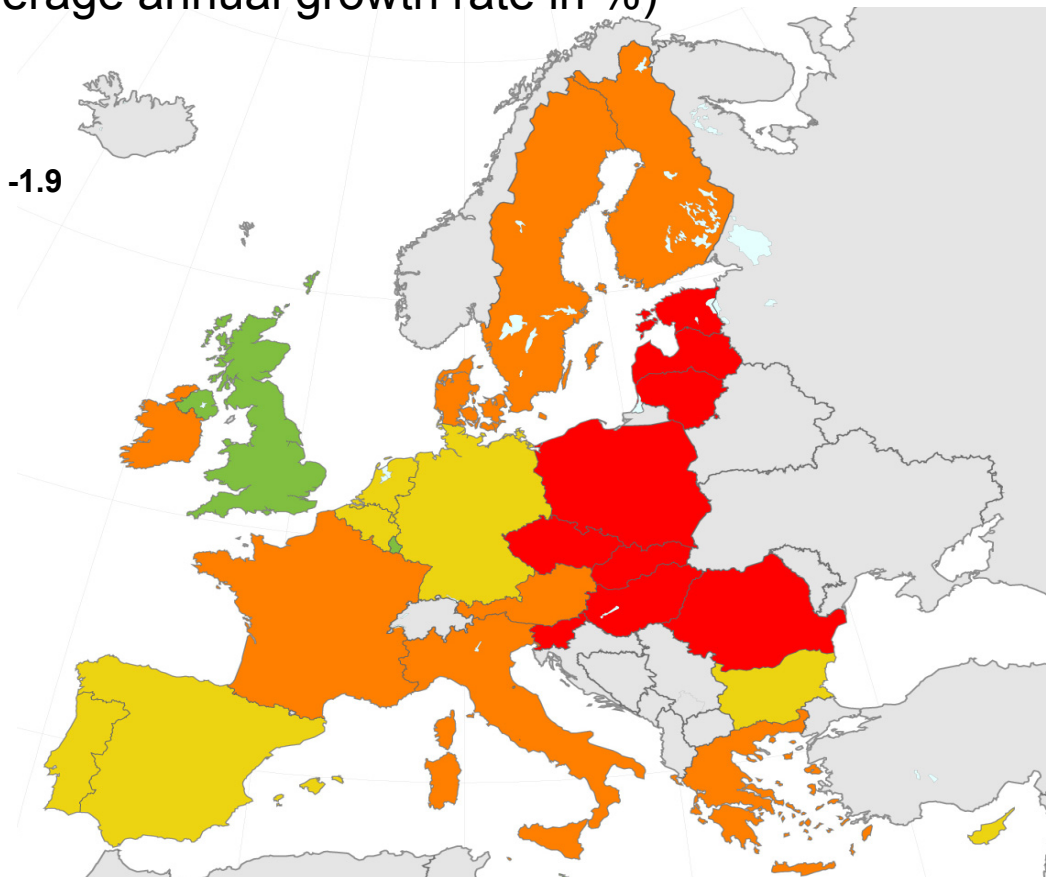
Trends in agriculture across Europe

Job trends in the agricultural sector from 1995 to 2010

(average annual growth rate in %)

EU 27 = - 2.3
Euro area (17 countries) = -1.9

- **> 0**
- **-1.9 – ≤ 0**
- **-3.0 – ≤ -1.9**
- **≤ - 3.0**



Source: European Commission

Europe’s growth potential

Restoring our GDP growth potential

Average annual potential growth in the EU

(productivity, investment and labour components, in %)

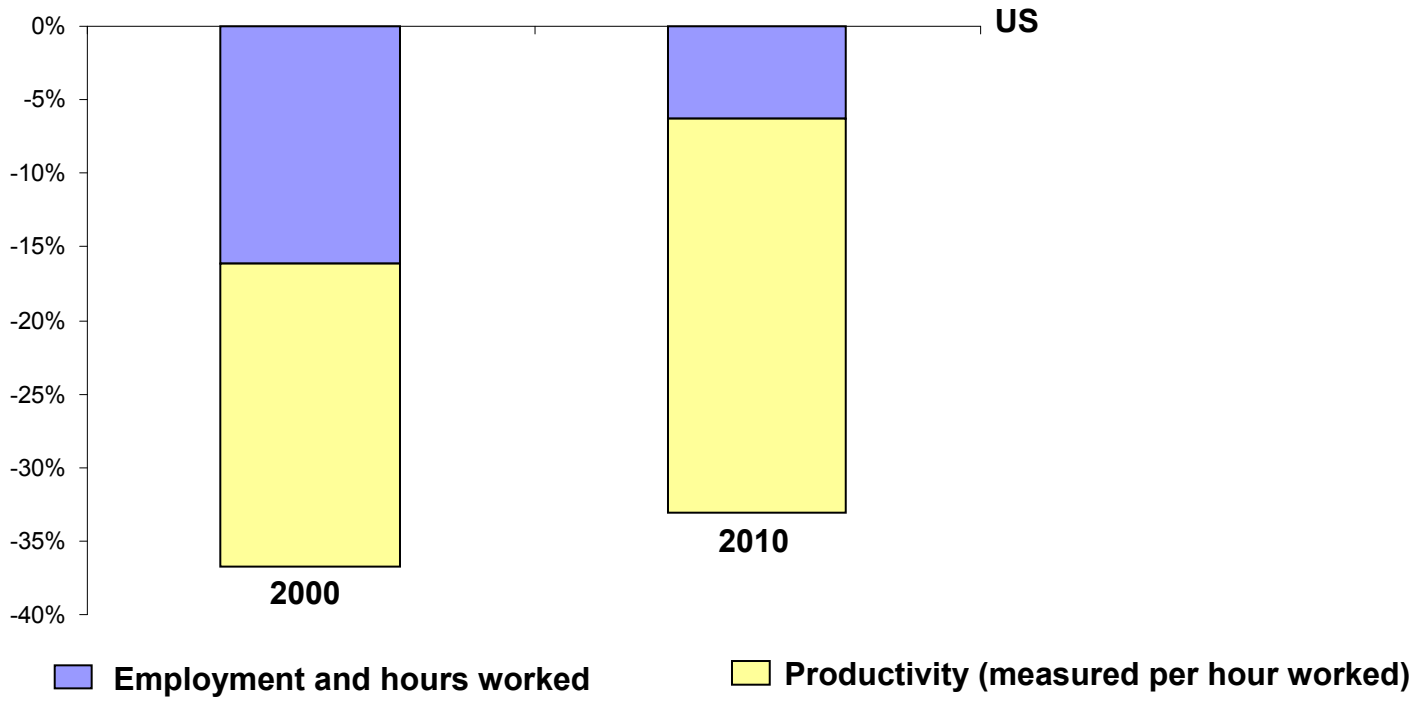
The crisis cut our growth potential by one quarter, mainly as a result of job losses and limited working hours. Beyond the crisis, ageing will reduce our workforce and this will further reduce our capacity to grow.

Source: European Commission

Acting on our growth levers

Sources of per capita real income differences compared to the US

(GDP per head, broken down by employment and productivity)



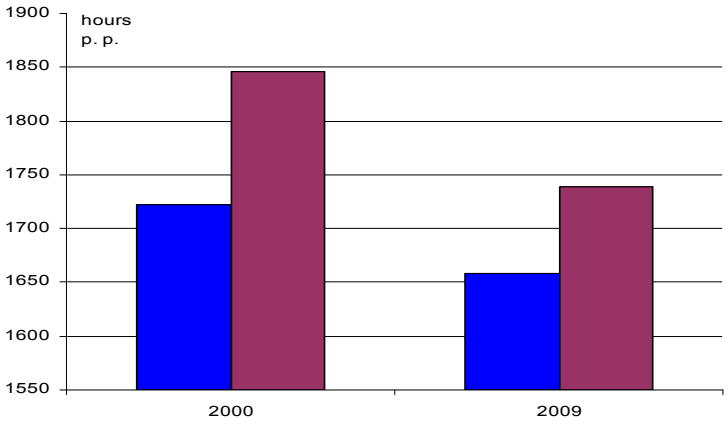
Despite a small catching up in employment and hours worked, the EU income gap with the US has not narrowed significantly. Over three quarters of the gap is currently explained by lagging productivity.

Source: European Commission

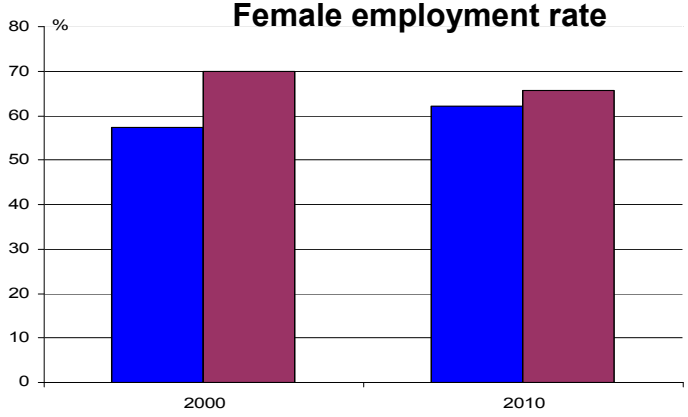
Explaining the employment gap

Employment rate
(= employed / working-age population)

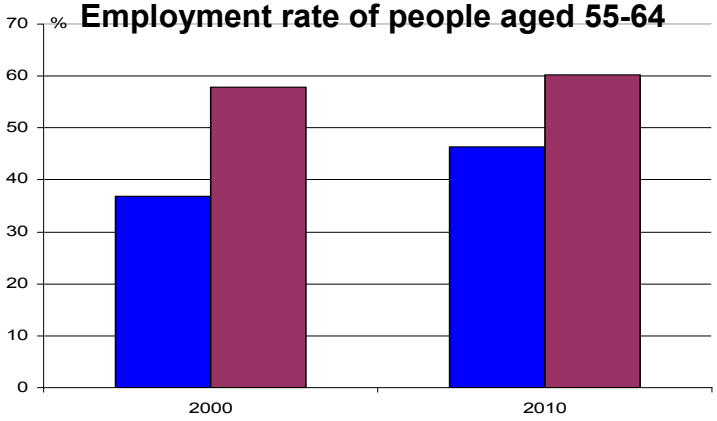
Average annual hours worked per person employed



Female employment rate



Employment rate of people aged 55-64



EU

US

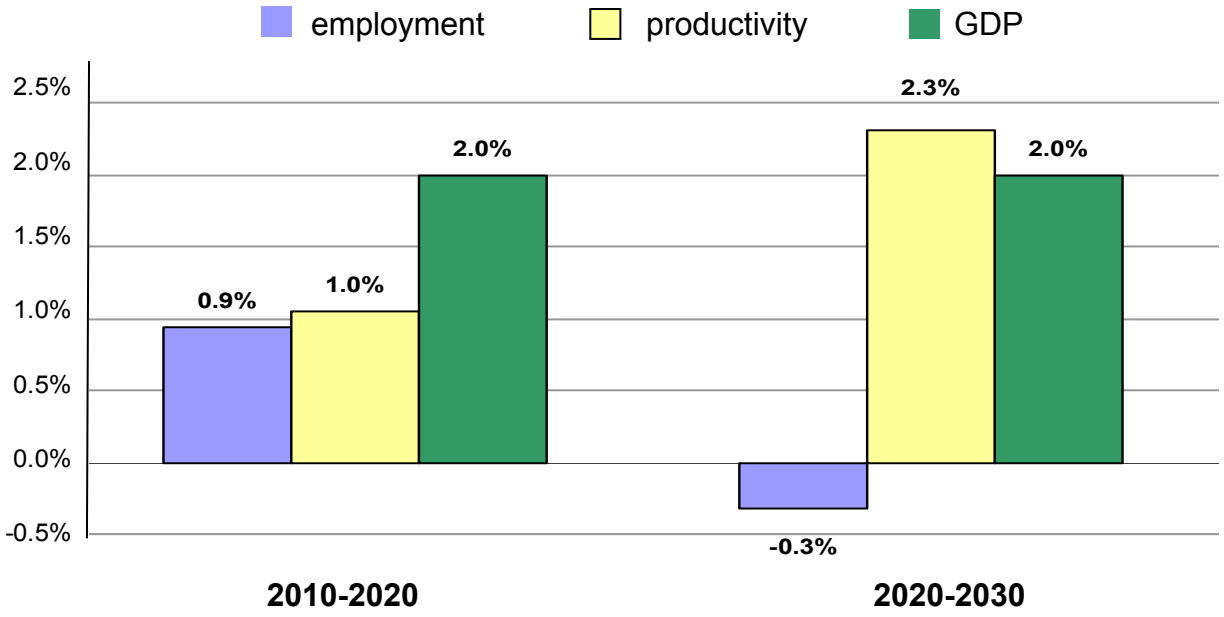
The employment gap with the US is explained by lower employment rates for both genders and at all age groups, as well as fewer hours worked. Europe's performance has improved relatively over time. The impact of the crisis is significant, notably in the US.

Source: European Commission

The prospect of a reduced workforce

Contribution of employment and productivity to growth

Implicit productivity growth required to maintain 2% GDP growth - assuming that a 75% employment rate is achieved by 2020 for people aged 20-64

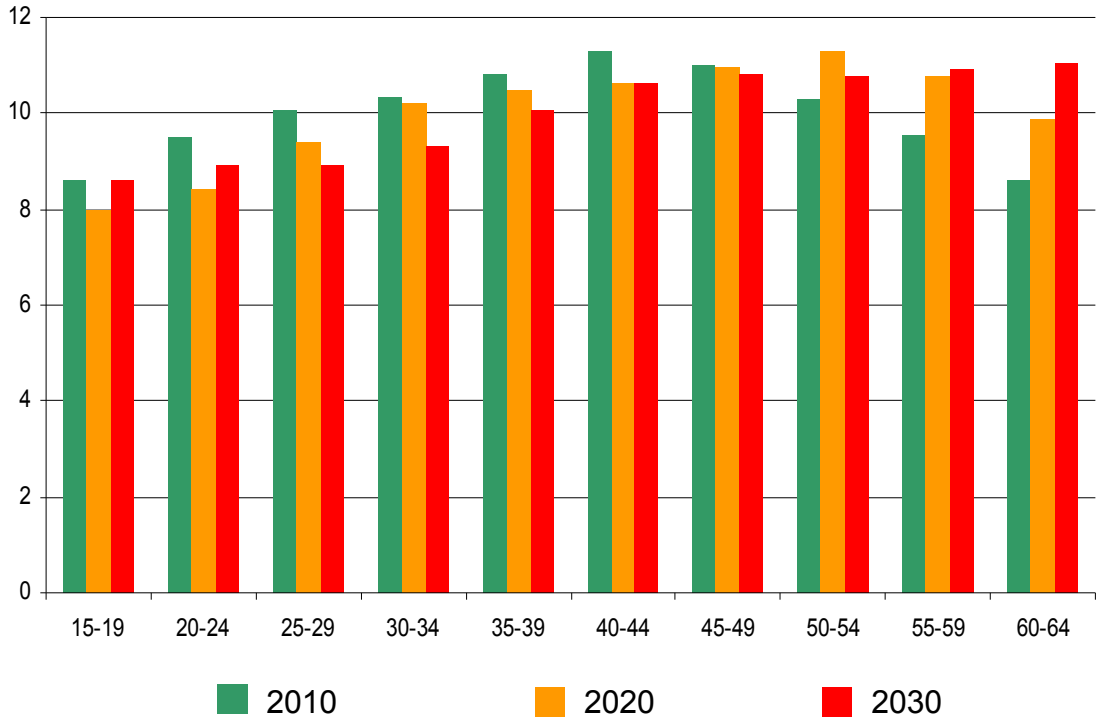


Even if the EU reaches its target of a 75% employment rate (compared to 68.6% now), the number of people employed will diminish due to ageing. To counter the negative impact and maintain our growth level, productivity will need to increase very significantly.

Source: European Commission

The prospect of an ageing workforce

Working age population by age groups, projected up to 2030

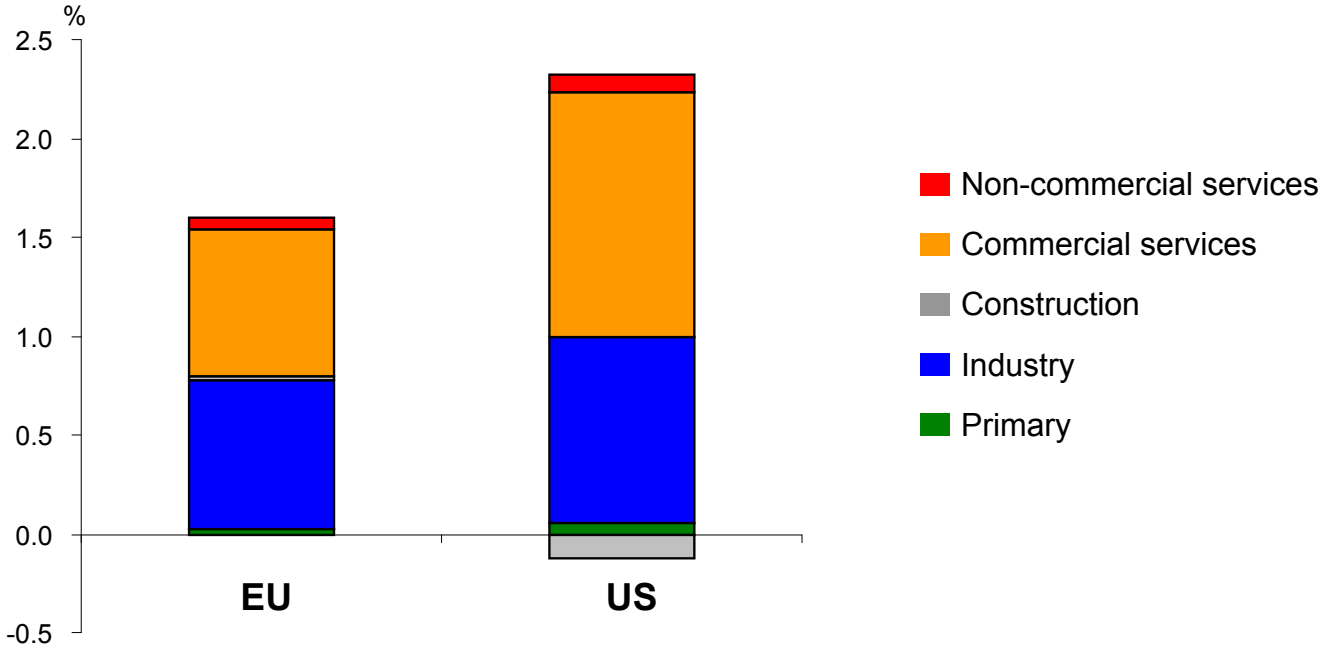


The share of workers over 50 will increase rapidly in the coming years. The average age at work will be over 40 for the first time ever, rising from the current 39.6 to 40.8 by 2030.

Source: European Commission

Explaining the productivity gap

Sector contribution to hourly labour productivity growth in EU25 and US (1995-2007)

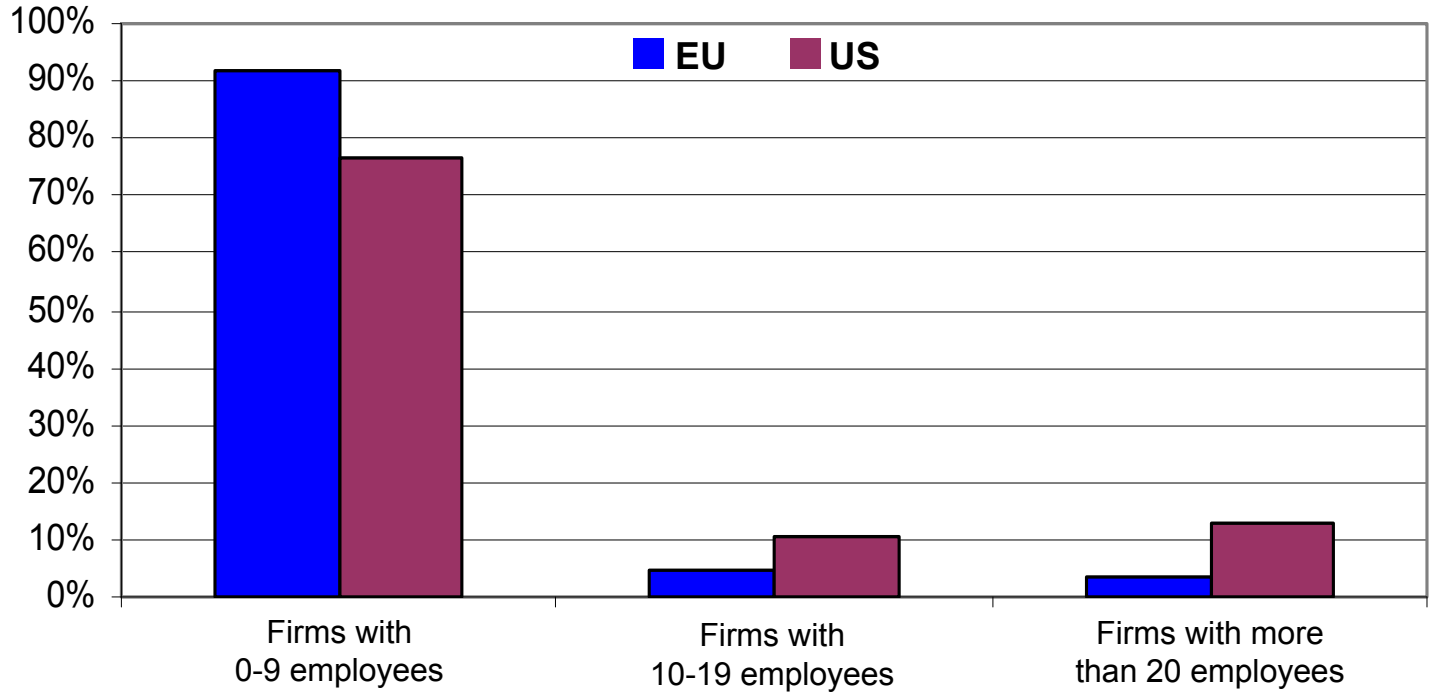


From 1995 to 2007, labour productivity grew much more slowly in the EU than in the US. The gap is particularly striking for commercial services, but industry was also lagging behind significantly.

Source: European Commission

Europe's firms are « small »…

Share of employees in firms according to their size in 2008

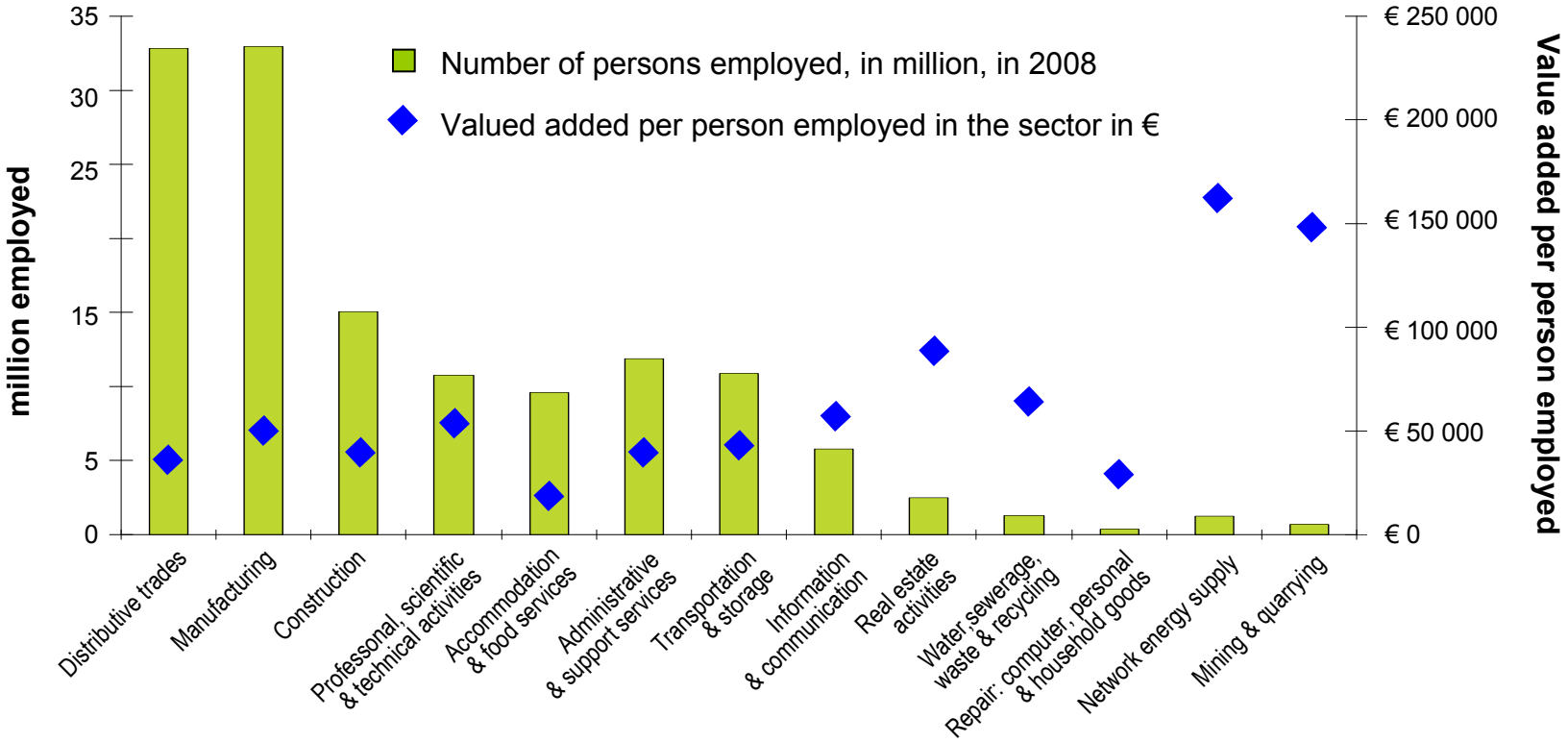


EU firms are « smaller » than in the US, with 90% of the workforce employed in firms of less than 10 employees. Three reasons are often quoted: i) historical specialisation (« path dependency »); ii) a more fragmented internal market; iii) barriers such as low access to finance. These affect EU's overall job and growth performance.

Source: European Commission

… and specialised in more “traditional” sectors

Numbers employed and wealth created per sector

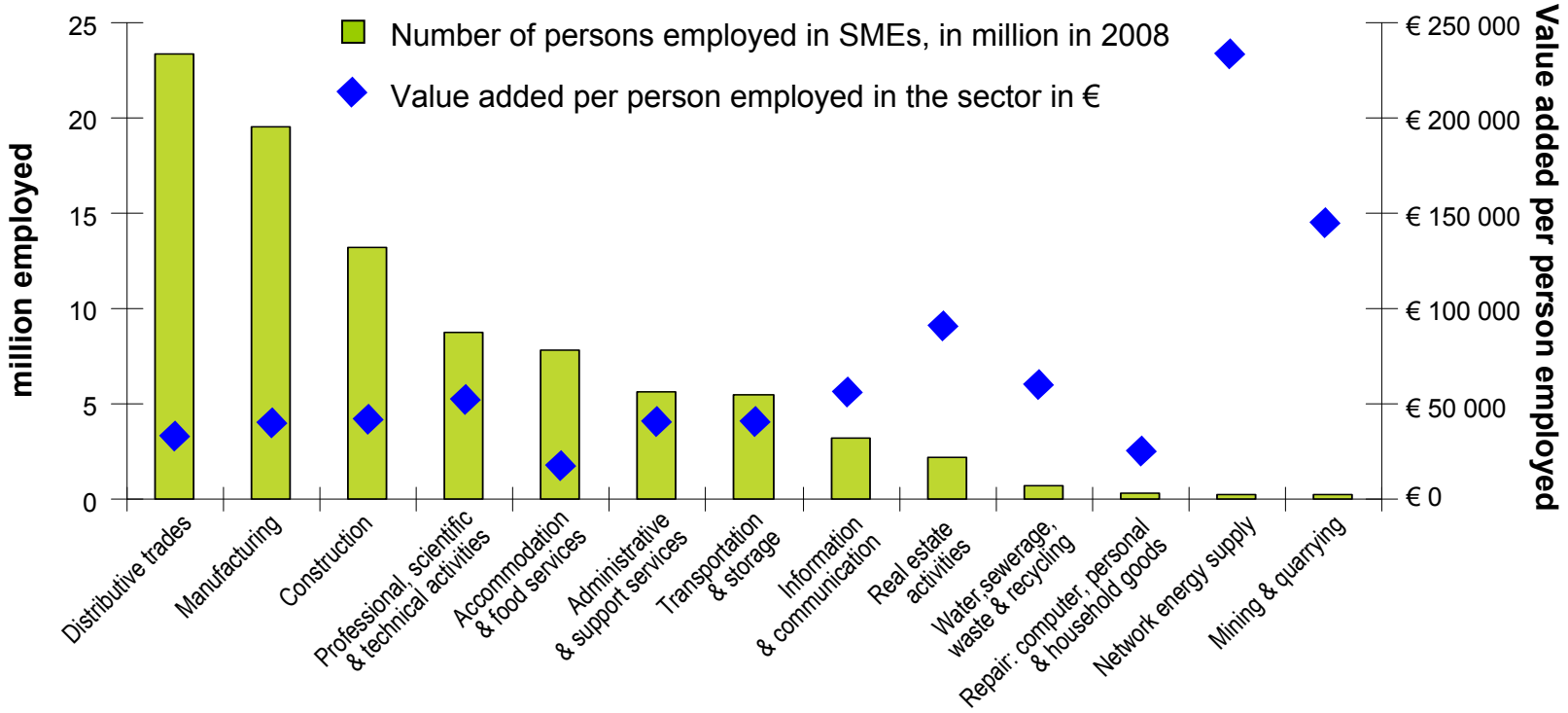


In 2008, 80 million persons were employed in the « traditional » sectors of distributive trades, manufacturing and construction. Professional, information and communication service sectors employ only 16 million persons.

Source: European Commission

This is also the case for SMEs

Numbers employed in SMEs and wealth created per sector

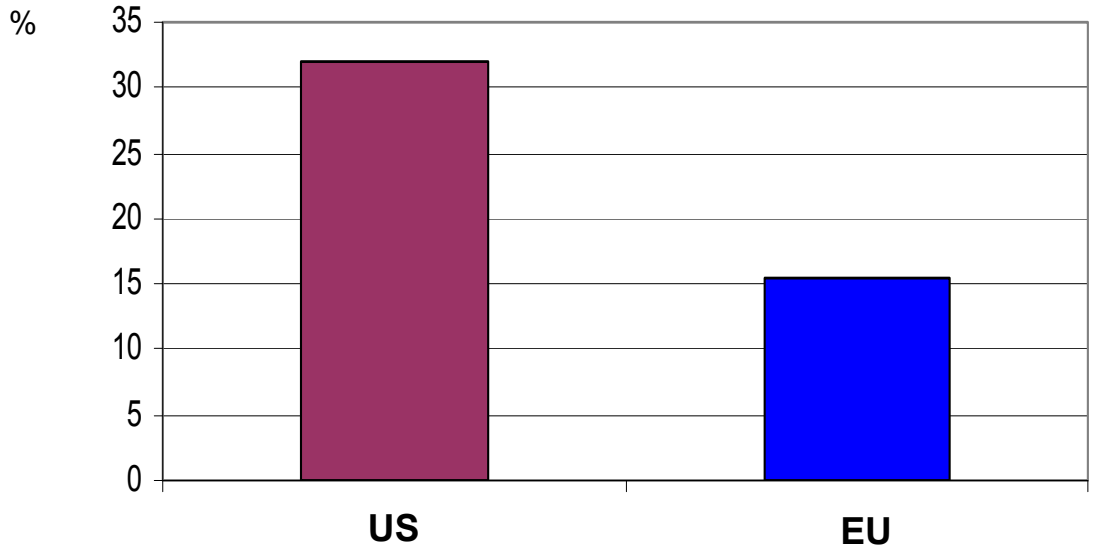


90 million people work in SMEs (< 250 employees), of which 56 million work in three sectors: distributive trades, manufacturing and construction. The added value created in these sectors is lower than the average for SMEs employees.

Source: European Commission

The EU is lagging behind on ICT take-up

Business investment in ICT
(as % of total investment by firms in 2009)

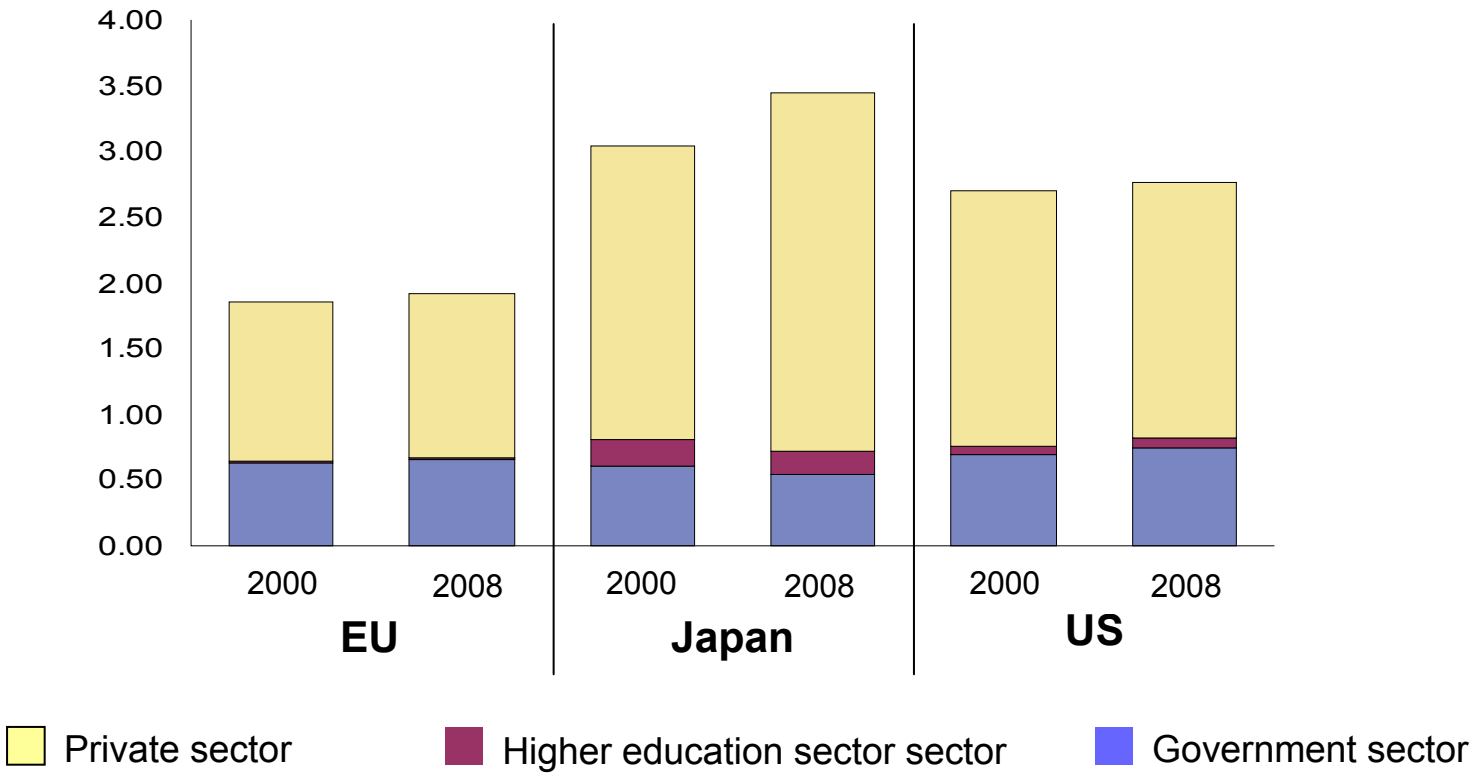


The EU is lagging behind the US regarding investment in hardware, software and communications equipment. If the EU matched US levels, this would add about 5% to the GDP level in 2020.

Source: OECD, Oxford economics

Our business structure drives our R&D (1)

Expenditure on R&D as a % of GDP

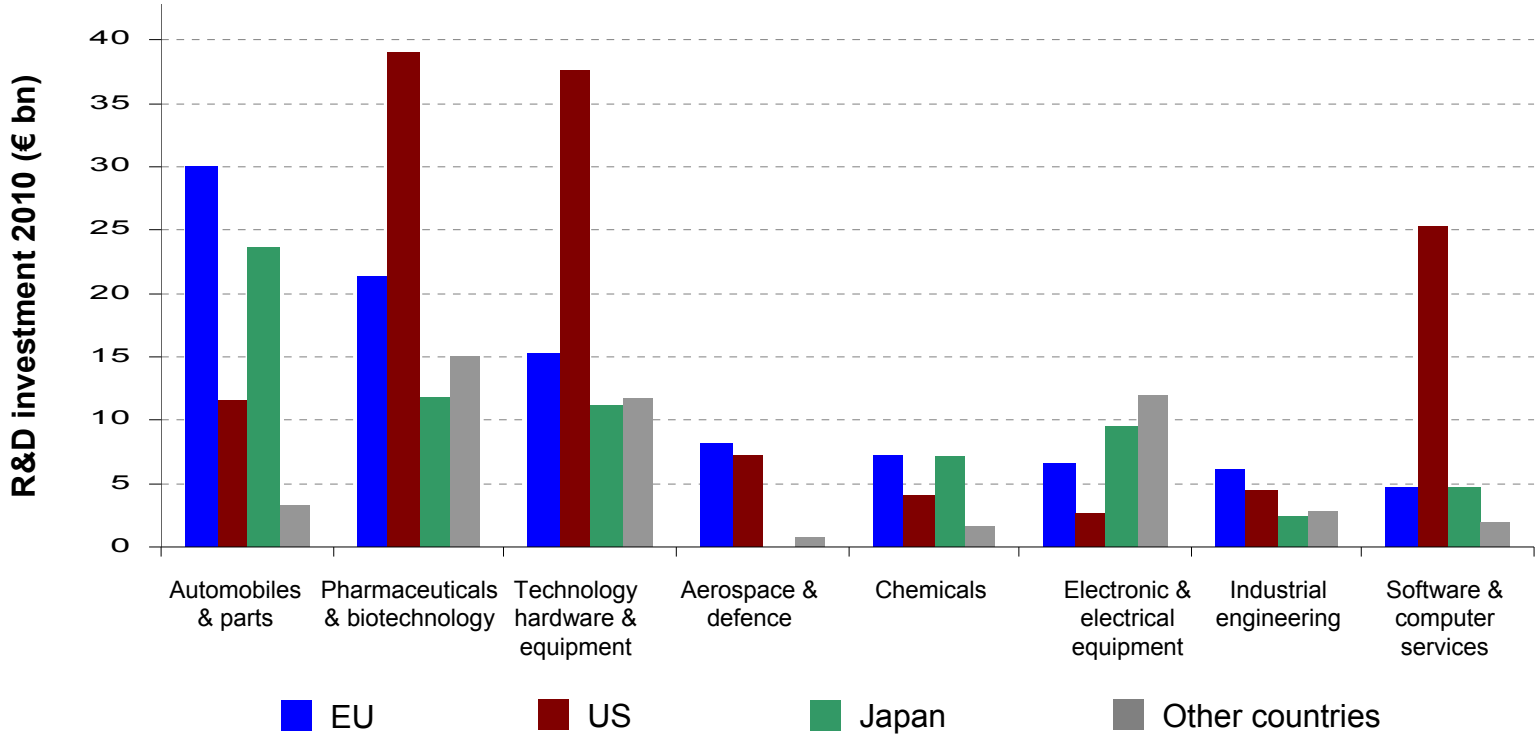


In spite of our 3% target, there has been little progress on R&D spending since 2000. The EU is particularly lagging in terms of private R&D spending.

Source: European Commission

Our business structure drives our R&D (2)

Sectoral R&D investments across the world (in billion €)

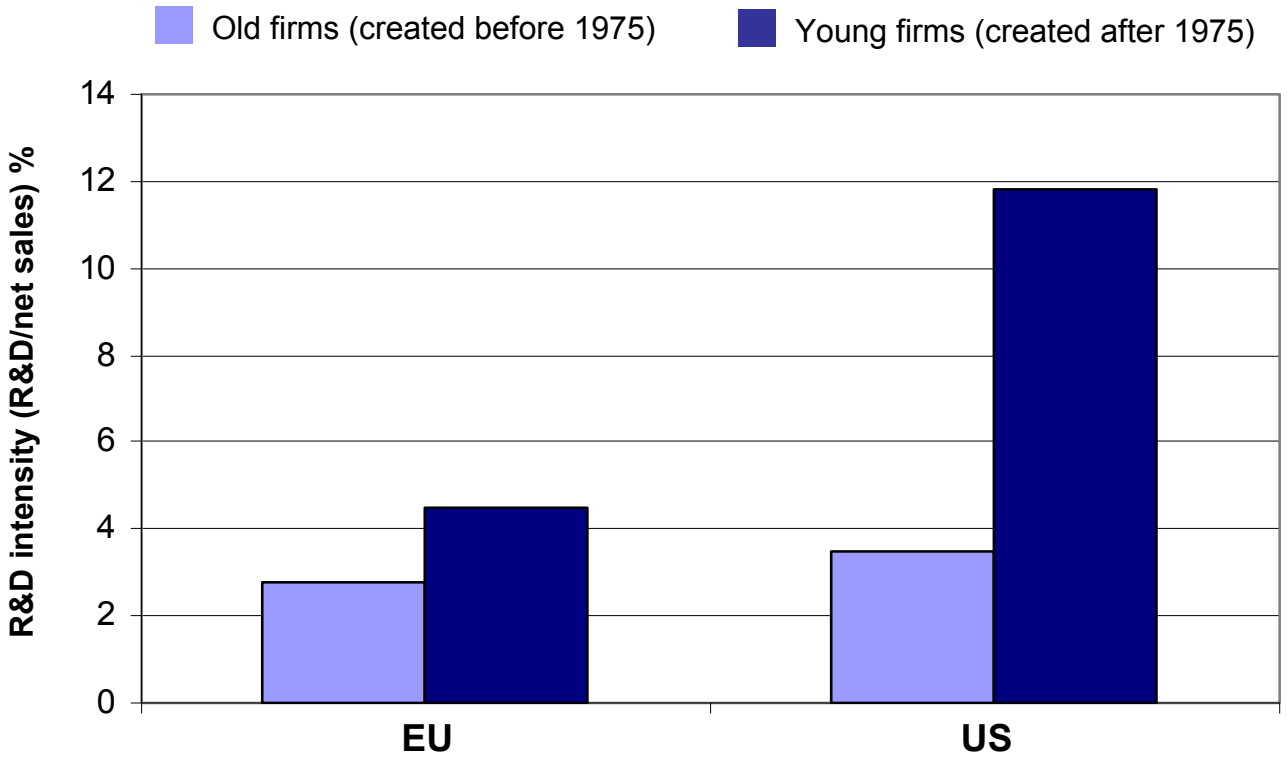


The EU's research efforts are lagging behind in fast-growing technology-driven sectors such as software, hardware and electronic equipment. Only in the traditional automobile sector the EU is the undisputed R&D leader.

Source: European Commission

Our young firms invest less in R&D

R&D intensity by age for EU and US companies



Young EU companies created after 1975 invest much less in R&D than their counterparts in the US. This reflects a specialisation in more "traditional" sectors, but also a difficulty to "grow" across borders and to access finance.

Source: European Commission

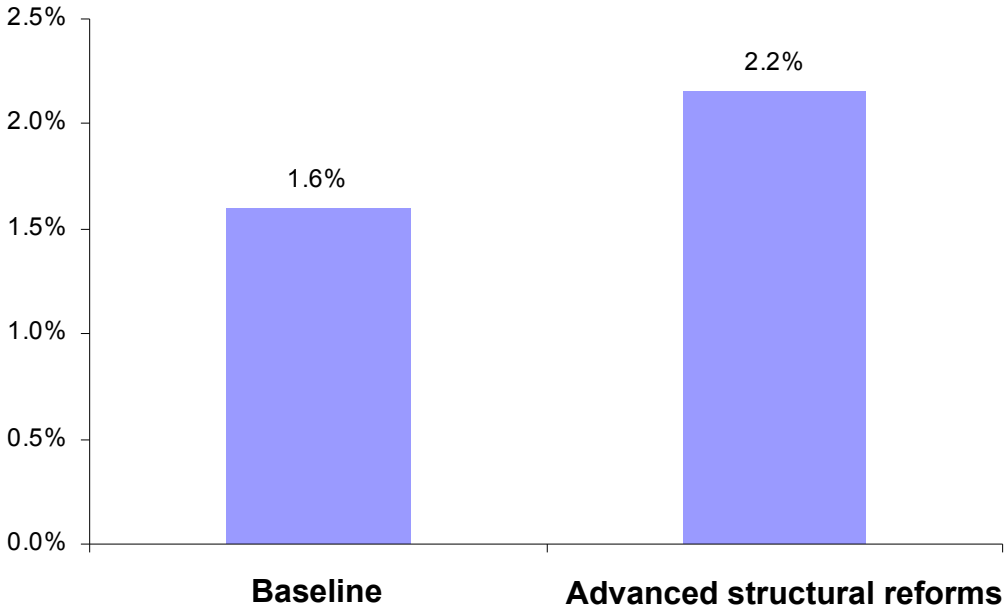
Where are our YOLLIES?

More than half of the US leading innovators are « young » (i.e. born after 1975). US « young leading innovative companies » (YOLLIES) account for 35% of total R&D for leading innovators and include firms like Microsoft, Cisco, Amgen, Oracle, Google, Sun, Qualcomm, Apple, Genzyme and Ebay. By contrast, in Europe, only one in five leading innovators is « young», with a share of 7% of total R&D among leading innovators.

Source: European Commission, quoted by the World Bank

What if we meet our Europe 2020 targets?

Average annual GDP growth: scenarios for 2010-2020



Reaching the Europe 2020 targets will raise growth significantly. This requires structural reforms together with fiscal consolidation efforts so as to increase growth by half a percentage point every year.

Source: European Commission

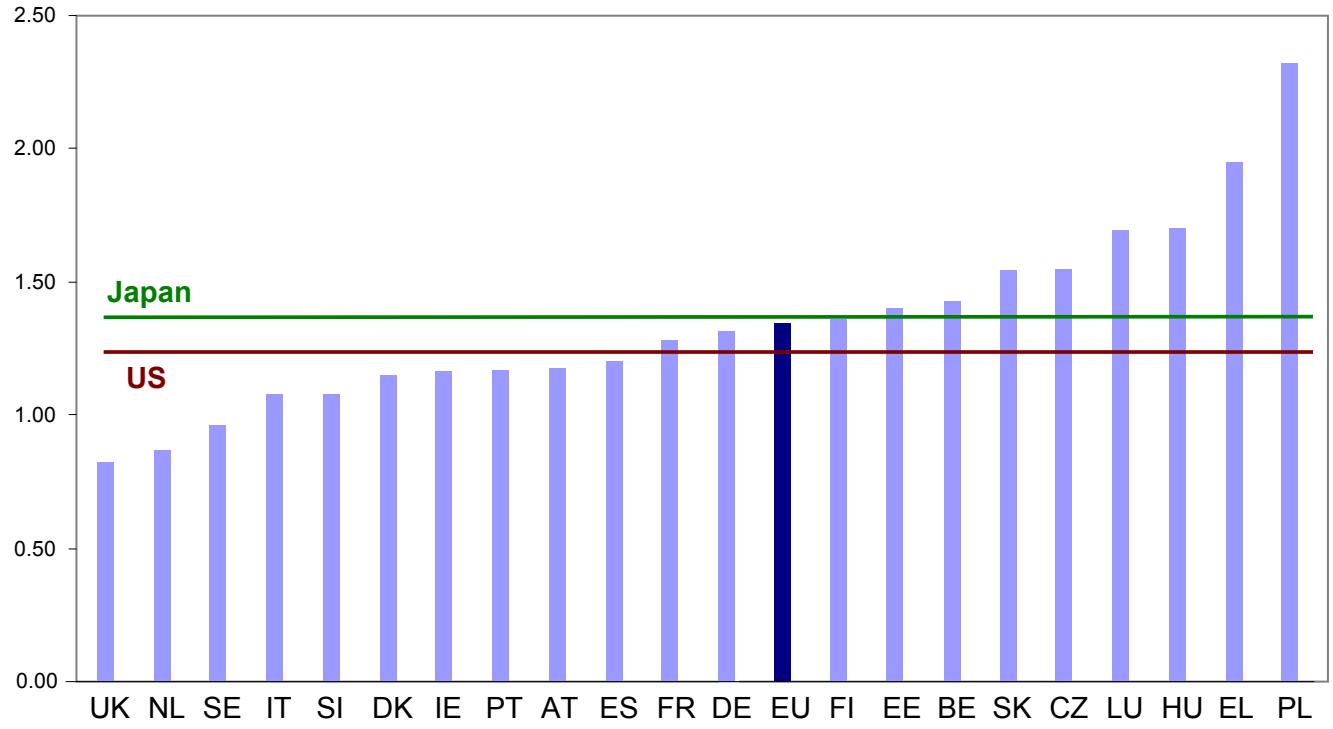
Key internal levers

Key internal levers

1. Entrepreneurship, business environment, innovation and access to finance

Barriers to entrepreneurship

OECD index of barriers to entrepreneurship (2008)

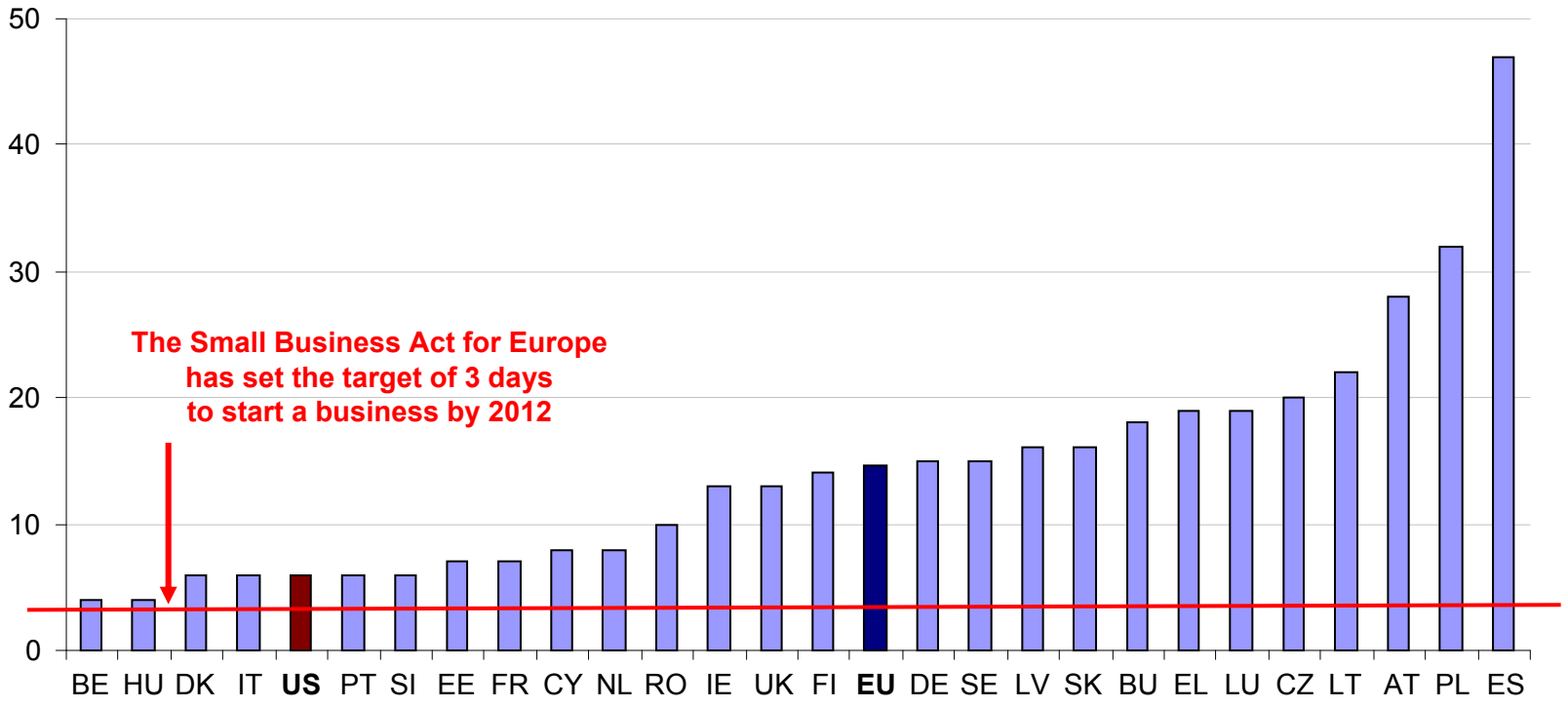


Entrepreneurs in many Member States still face important barriers, such as regulatory and administrative opacity, administrative burden for start-ups and barriers to competition, that slow economic growth.

Note: No data for BG, CY, LT, LV, MT, RO
Source: OECD

Helping our entrepreneurs

Time to start a business (calendar days)

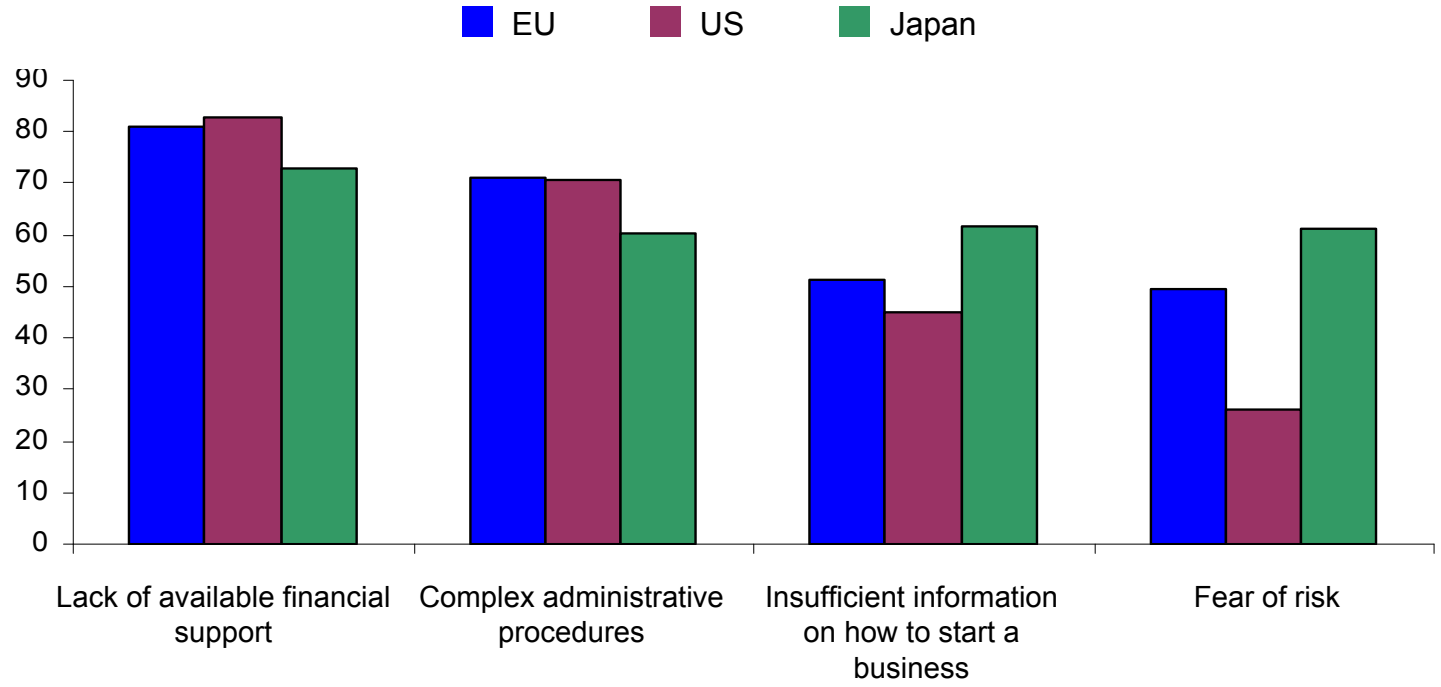


It currently takes 15 days to start a business in Europe, and only 6 in the US. The agreed EU target is 3 days by 2012, for less than € 100.

Source: European Commission

Start-ups face many challenges

Perceived barriers to business start-up
(firm survey results from December 2009)

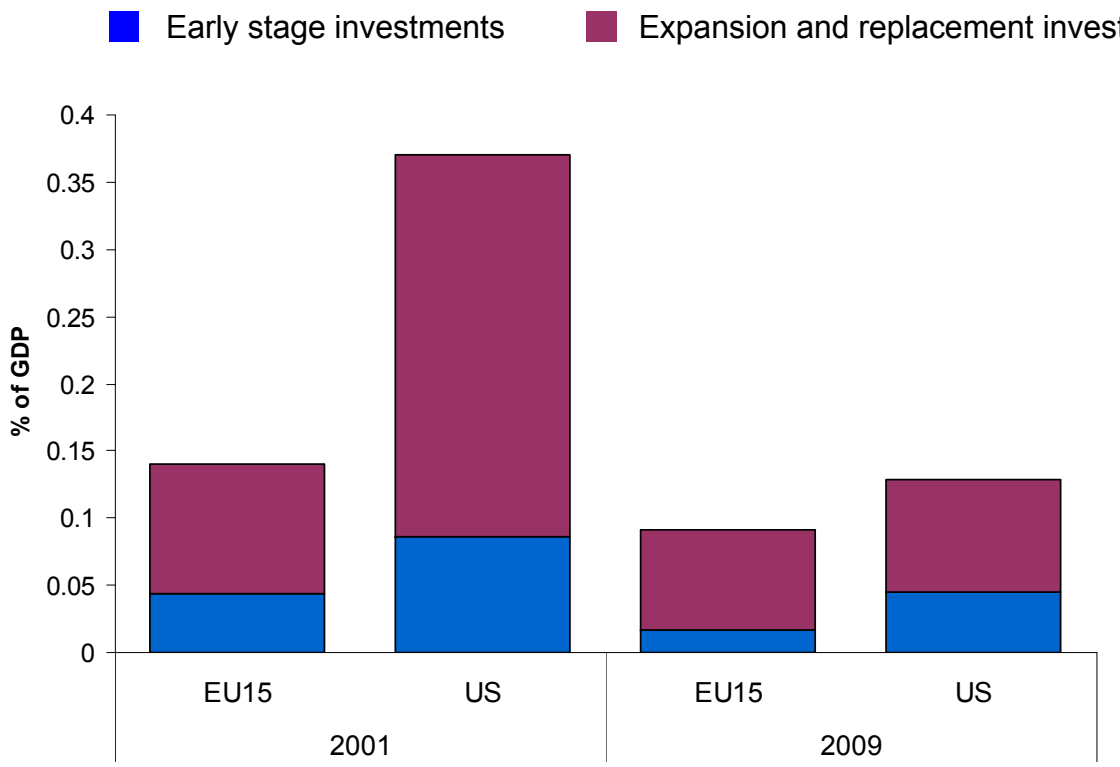


Post-crisis, EU start-ups see limited access to capital as a major hindrance, but other structural barriers also have an impact.

Source: European Commission, Eurobarometer n°283, December 2009.

Venture capital is in short supply in Europe

Venture capital investments by investment stage (% GDP)

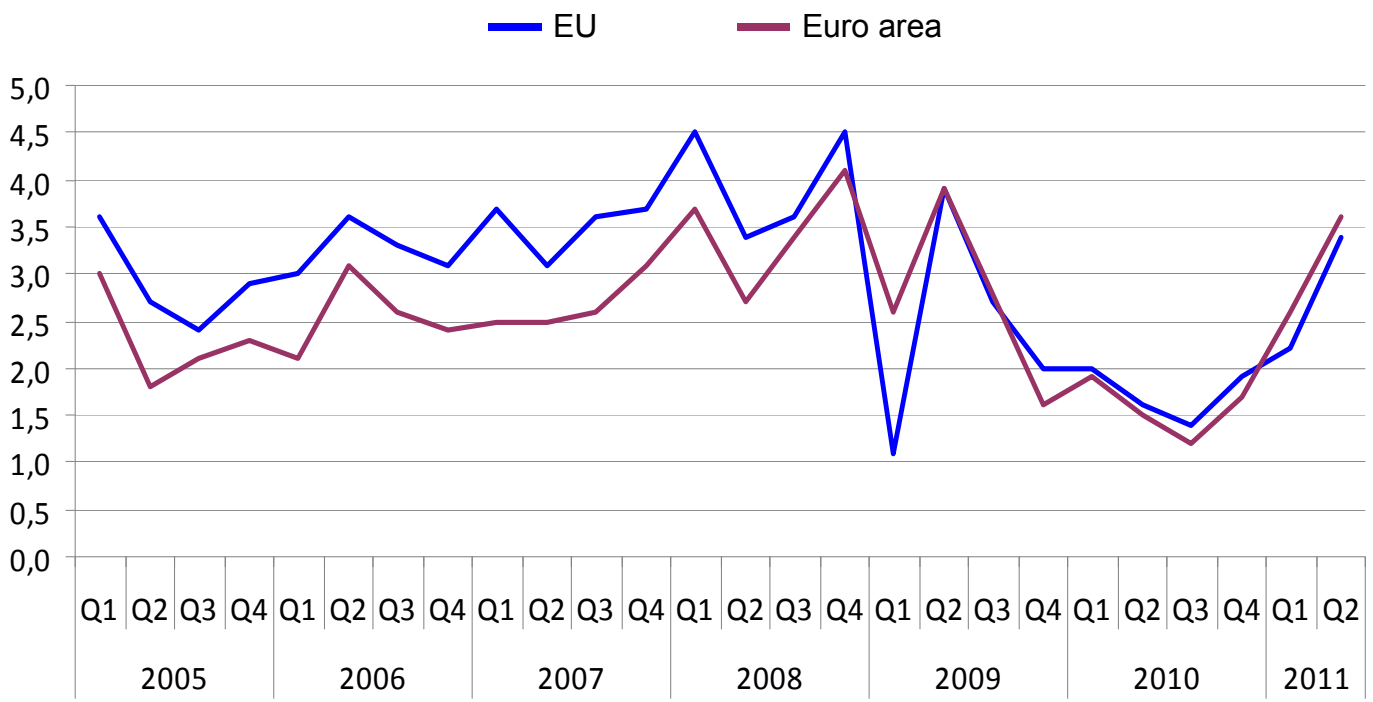


EU firms have traditionally much less access to venture capital than their US counterparts. The crisis has further limited access.

Source: European Private Equity and Venture Capital Association (EVCA), European Commission

Labour costs must be watched closely

Labour cost index - total labour costs
(year-on-year % change)

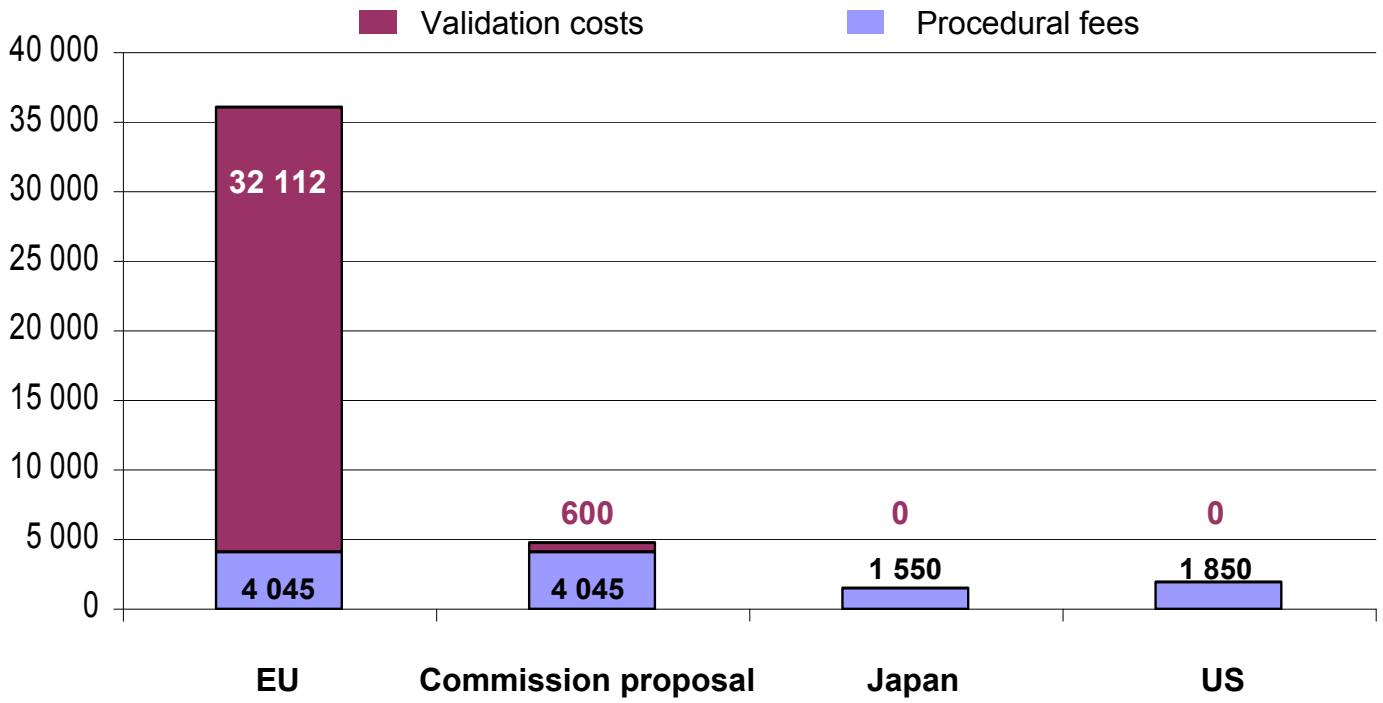


Labour costs are growing again. They need to stay in line with productivity to help absorb unemployment and prevent loss of competitiveness.

Source: European Commission

EU patenting costs could drop drastically

Cost of patenting in Europe compared to elsewhere in the world (in €)

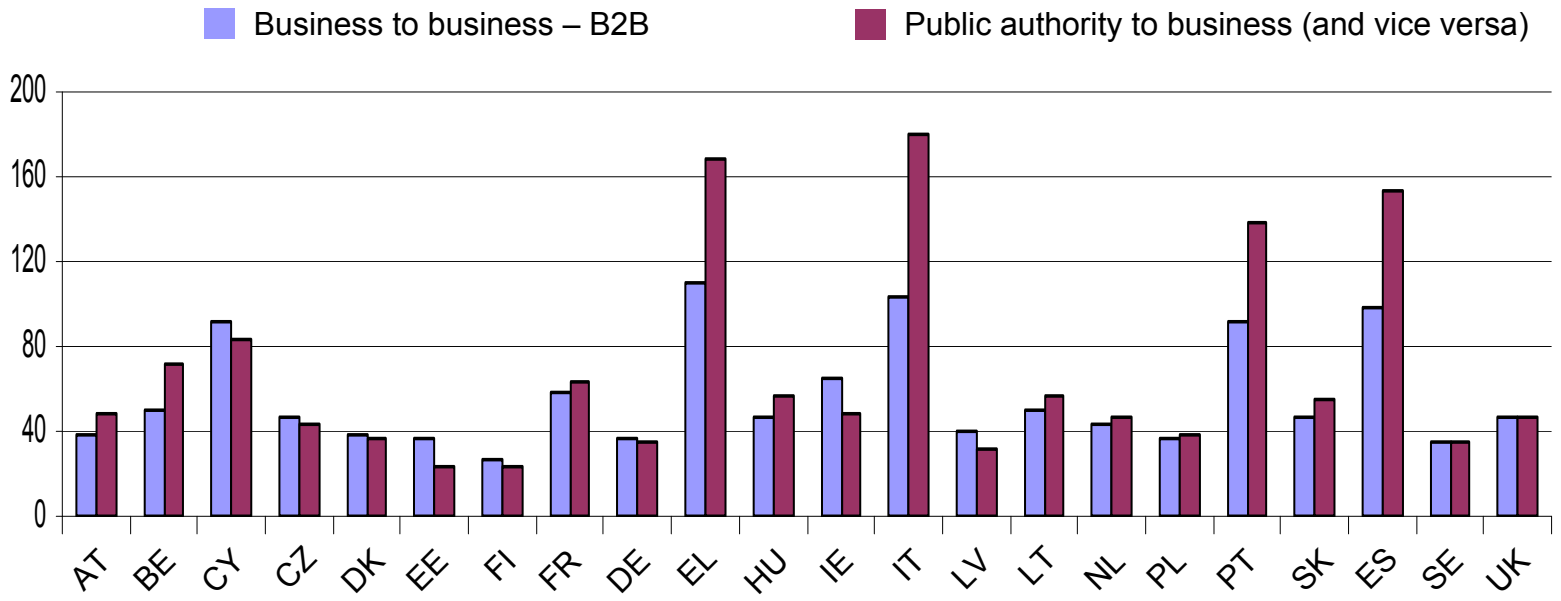


Today, average EU costs of patenting is close to € 35 000. Such costs could be reduced by 80% if the proposed "unitary patent" system is adopted.

Source: European Commission

Late payments: an obstacle for many SMEs

Average payment duration of bills in number of days in 2010



Late payments are a major obstacle for firms to manage cash flows. Delays exceed 4 months in some countries, with bills usually paid faster in the north. The late payments Directive to be transposed by March 2013 will tackle this problem.

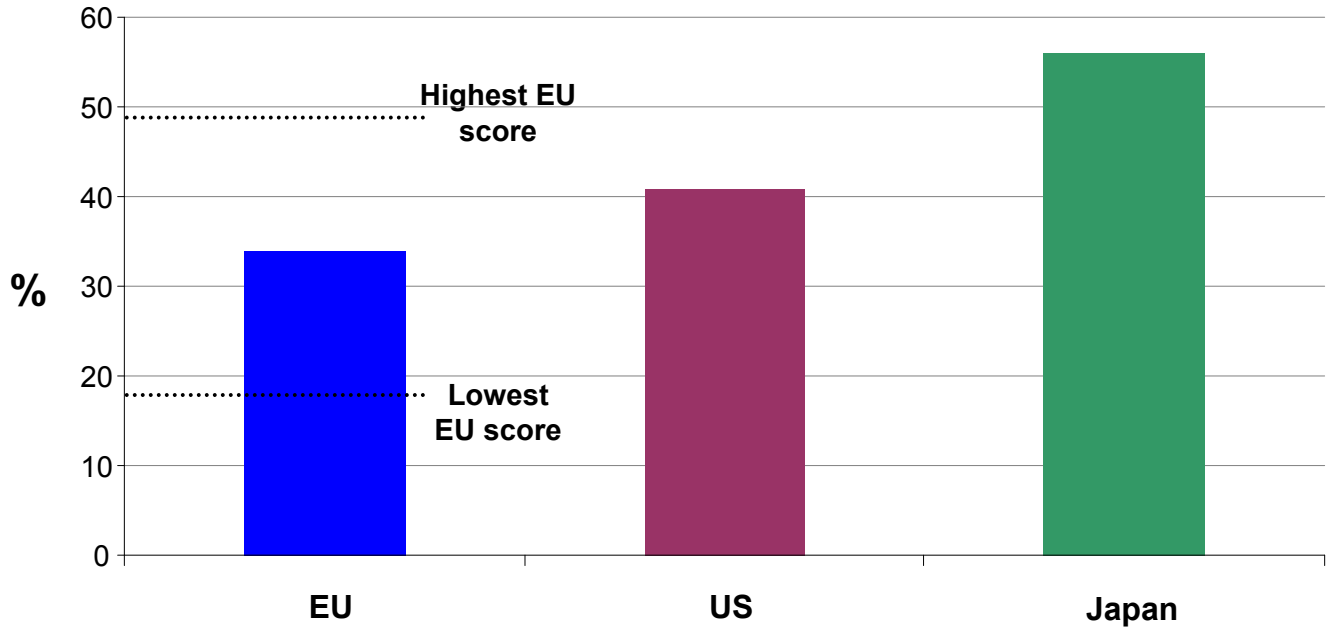
Source: European Payment Index 2011

Key internal levers

2. Skills and human capital

Broadening access to tertiary education

Share of population aged 25-34 with tertiary education in 2009



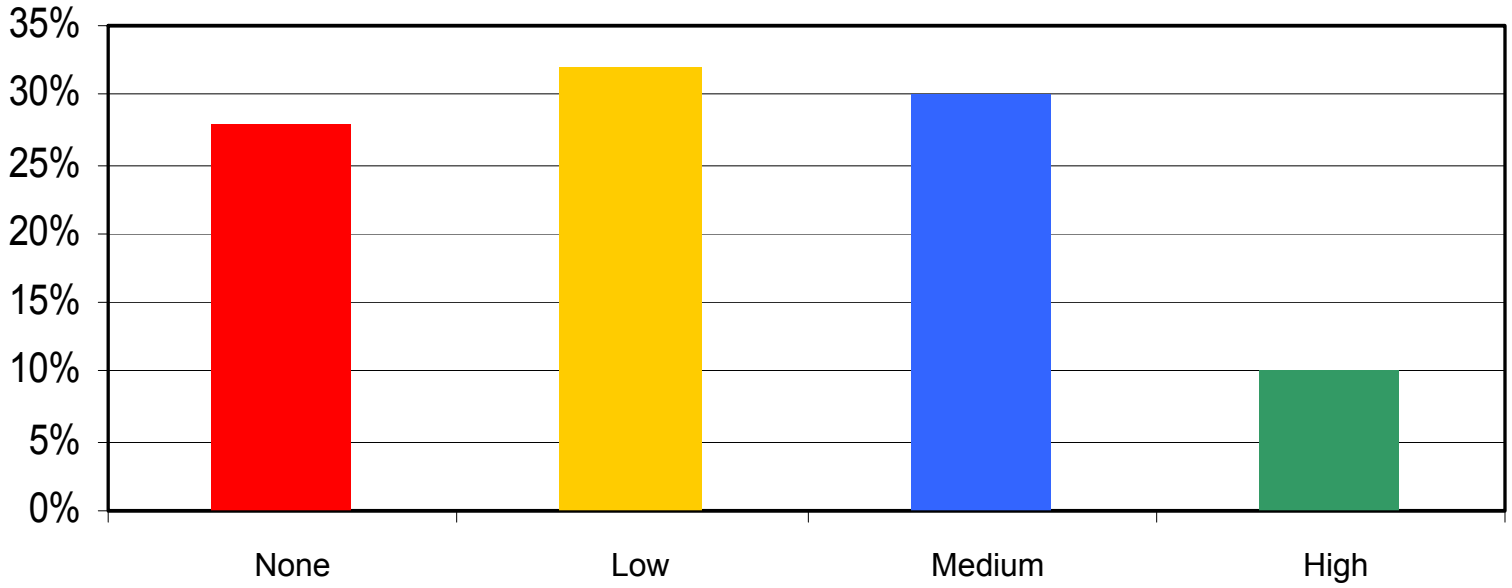
Today in the EU, only about one person in three aged 25-34 has completed a university degree, compared to well above 50% in Japan and more than 40% in the US. Canada, Australia and South Korea all do better than the EU.

Source: OECD

The case of « bottlenecks » in IT

Percentage of EU population with IT skills in 2010

(various levels of qualifications)

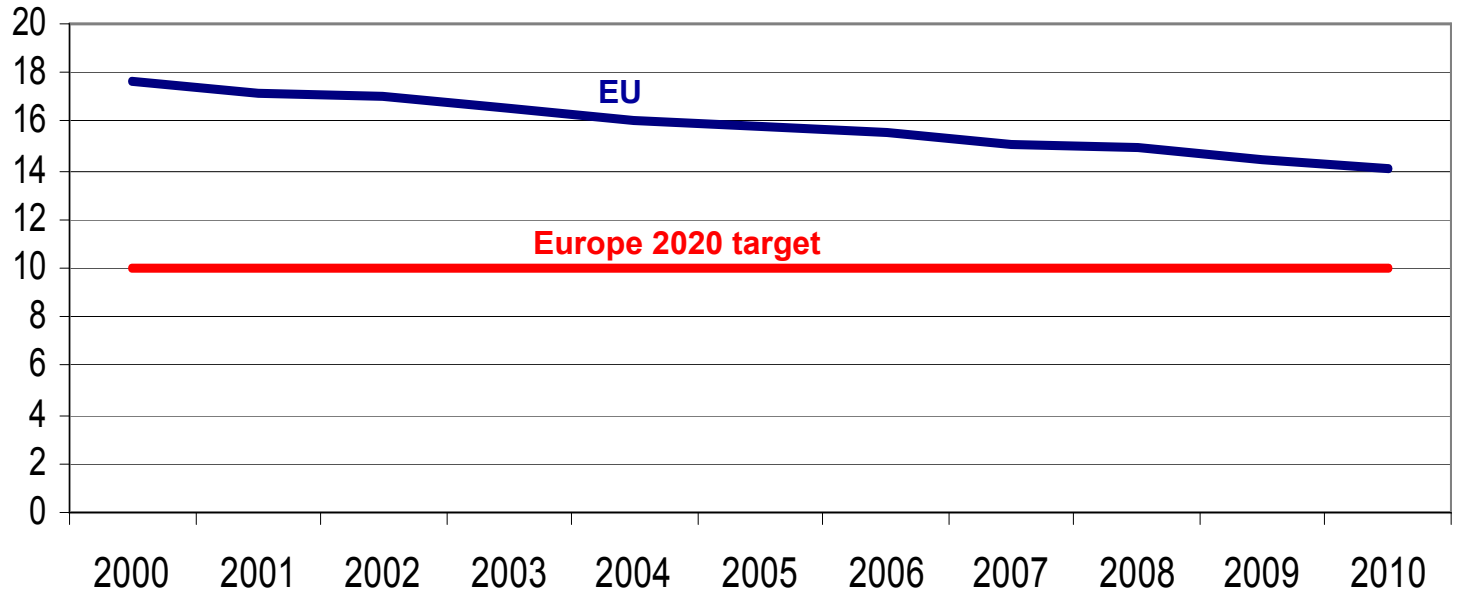


60% of Europeans have low or no IT skills. The situation is also worrying for IT professionals. The number of IT graduates has not increased since 2008. If this persists, the EU may lack 700 000 IT professionals by 2015.

Source: European Commission

Boosting our skills and human capital

Share of early school leavers
(% of the 18-24 population with at best lower secondary education)



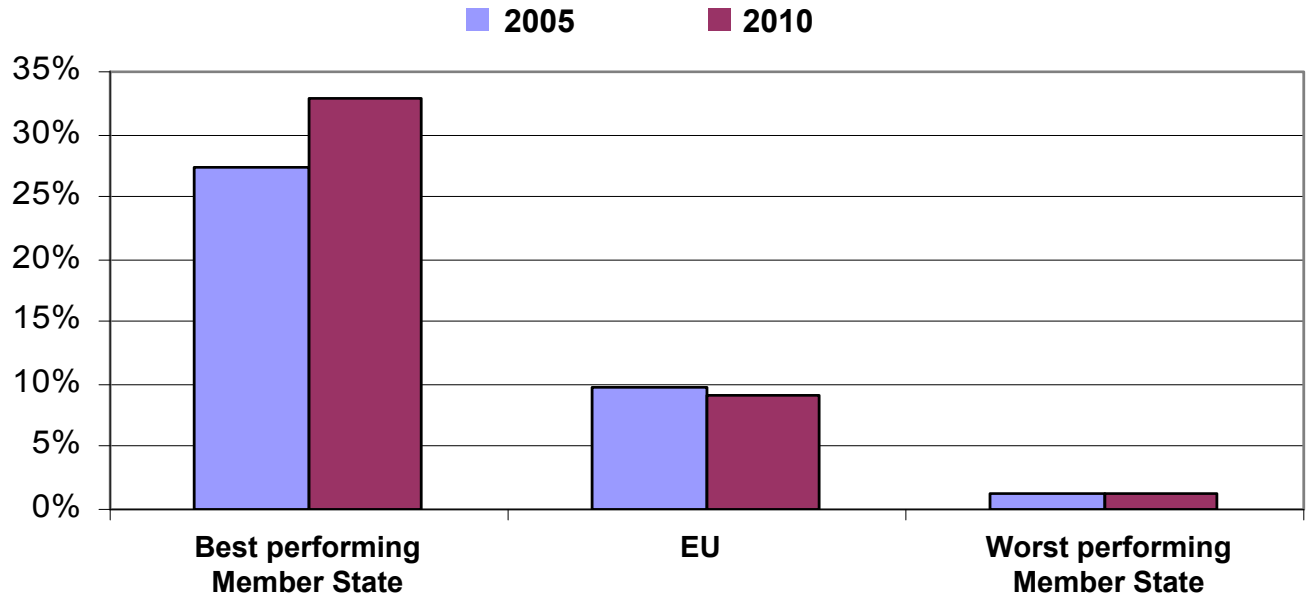
Every year, 6 million of young Europeans drop out of school with at best a lower secondary education. This currently represents 14% of 18-24 year olds.

Source: European Commission

Promoting active ageing

Share of adult population (25-64) participating in lifelong learning

(i.e. receiving education or training during the last 4 weeks)

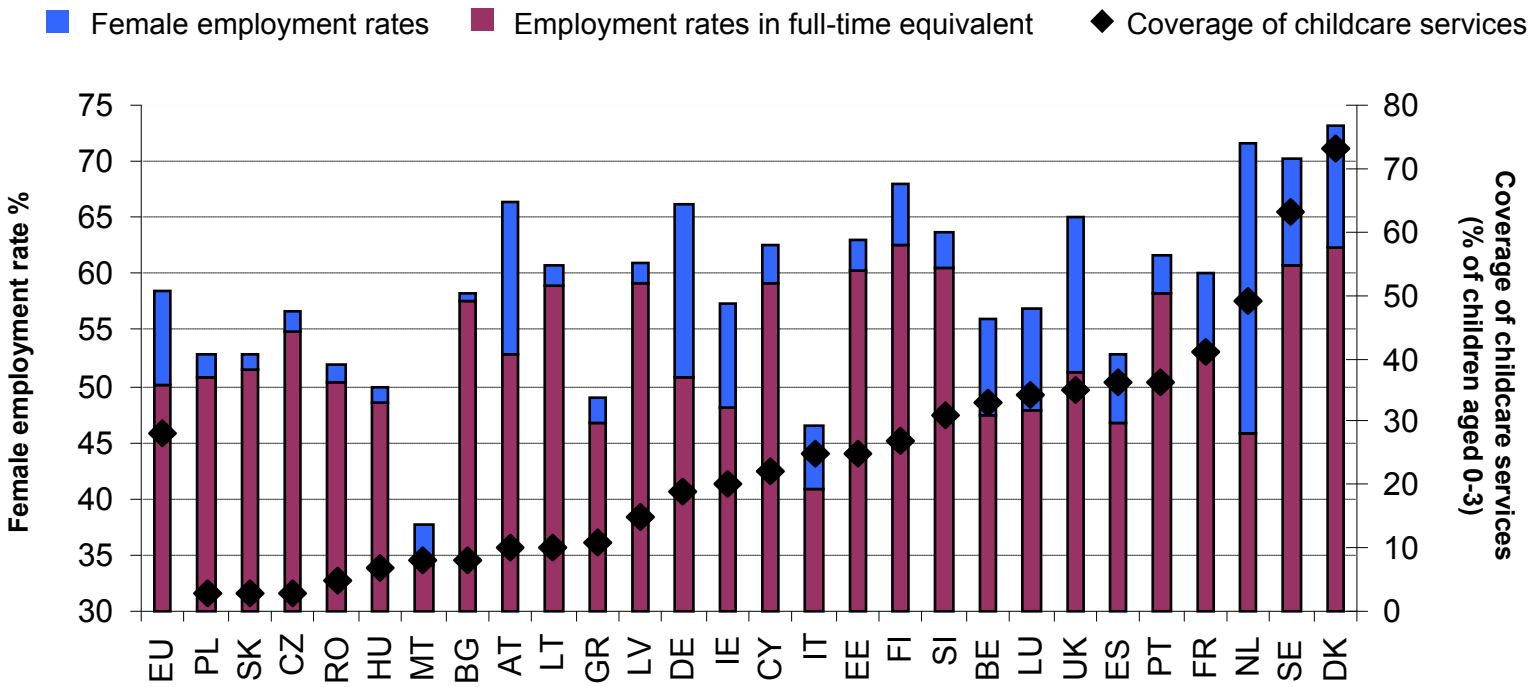


About 80 million people in the EU have only low or basic skills. More access to training could help reduce this, but actual participation is stagnating. Participation is highest for the youngest, the most educated and the employed, and is thus lowest amongst groups needing training the most.

Source: European Commission

Improving access to the labour market

Female employment and coverage of childcare services in 2009



Female employment rates vary a lot in the EU. If the share of part-time is factored in to estimate a "full-time equivalent employment rate", less than half of the female workforce is employed in several countries. The availability of childcare seems to play an important role.

Source: European Commission

Key internal levers

3. Single market and digital agenda

The internal market has helped us grow…

The positive impact of the single market in terms of economic integration

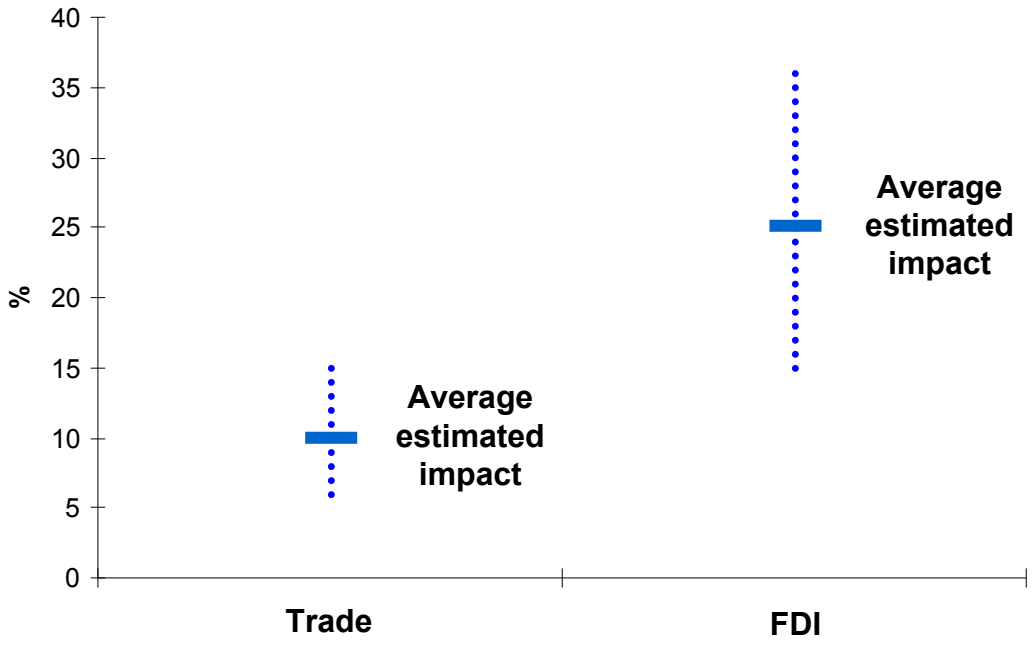
- Intra-EU exports = 67% of total exports
- Intra-EU FDI = 62% of total FDI

- 2.1% extra GDP over 1992-2006
- € 500 per head
- 2.75 million jobs

Source: European Commission

… and the Euro generated tangible benefits

Effects of the Euro on trade and foreign direct investments in the Euro area: ranges of estimated impacts

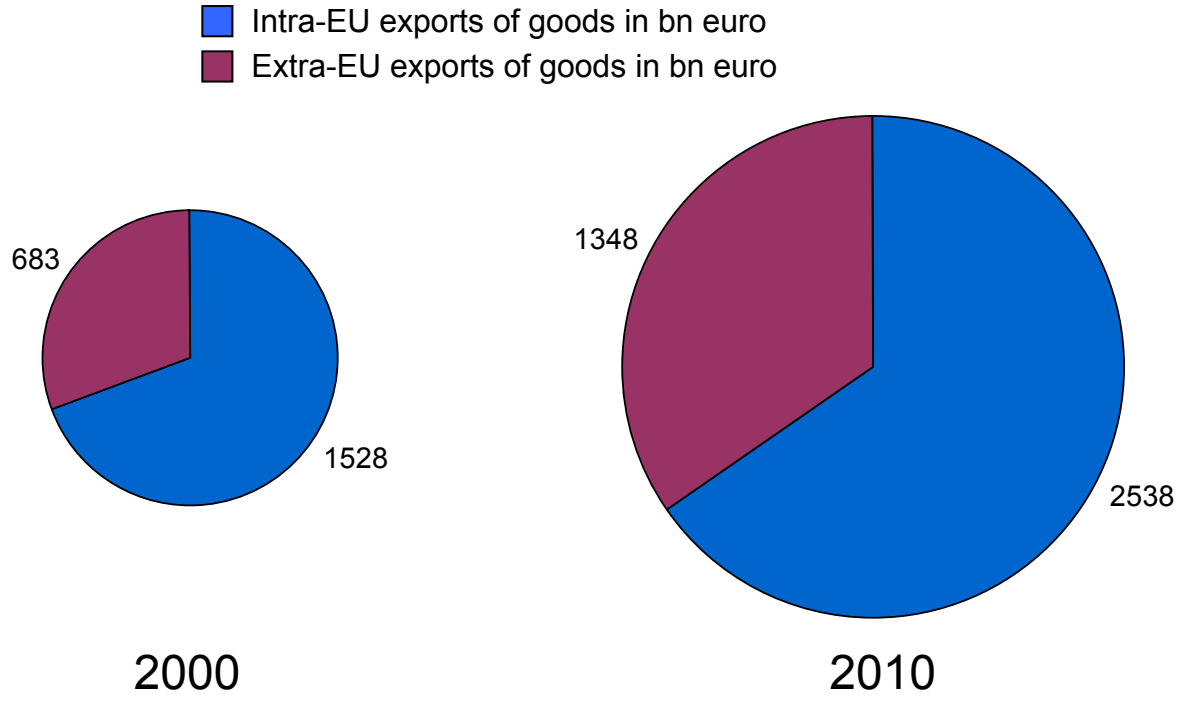


In addition to the benefits brought about by greater price transparency and the elimination of currency exchange costs, the Euro helped boost intra-Euro area trade by 5-15%, and intra-Euro area investment flows by as much as 15-35%.

Source: European Commission

Trade is a catalyst for growth

Intra-EU and extra-EU exports of goods

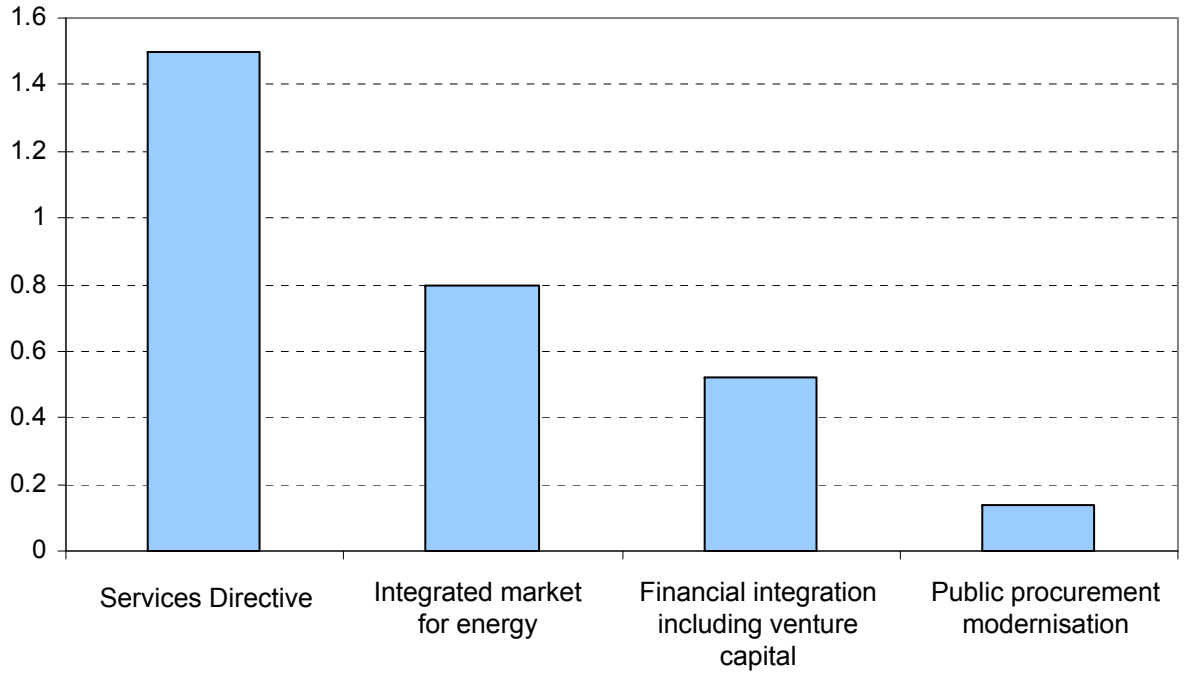


Intra-EU trade has been high and growing over the last decade. For every € 1000 of wealth created in a Member State, it is estimated that about € 200 end up benefiting other EU Member States through trade.

Source: European Commission

Still a large potential for the internal market…

Medium-term impact (2020) on EU GDP of specific EU level reform measures – model simulations

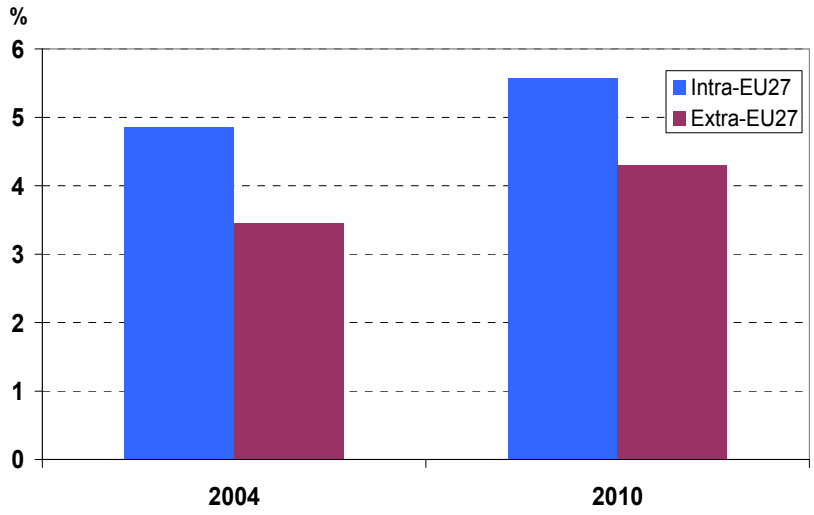


Completing the single market would significantly boost growth. Implementing the above reforms would add around 3% to the GDP level in 2020.

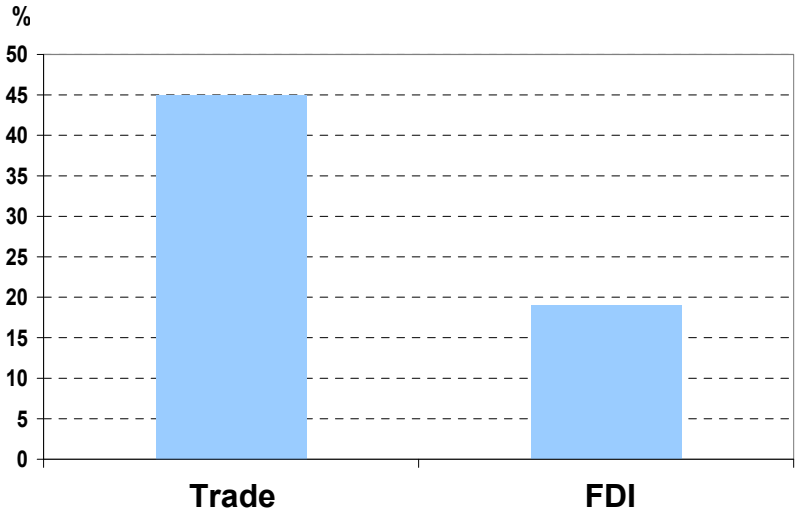
Source: European Commission

… in particular on services

EU exports of services
(% GDP)



Effects of the Services Directive



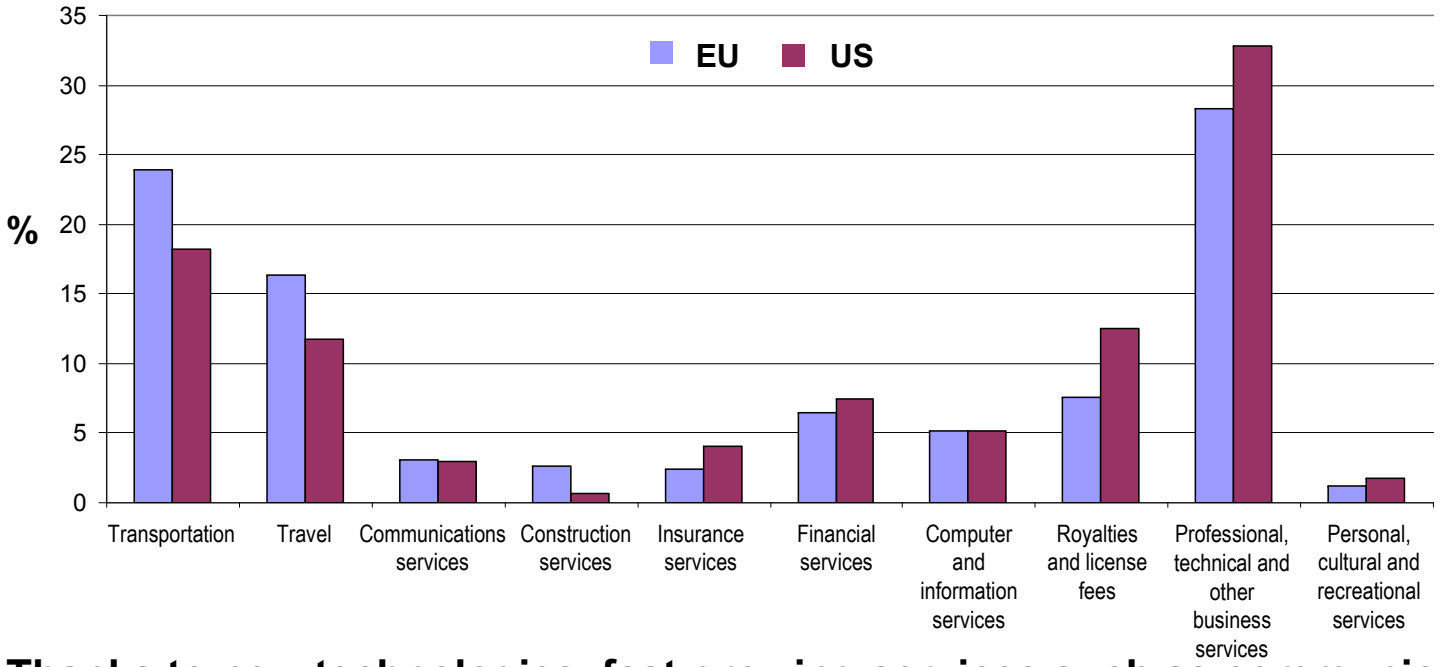
The EU is a significant market for cross-border trade in services - but the intra-EU dimension for services (58% of total) is weaker than for goods (67% of total). The full implementation of the Services Directive could increase trade in commercial services by 45% and Foreign Direct Investment (FDI) by around 20%. It can bring 0.5 to 1.5% increase in GDP.

Source: European Commission

IT progress opens up new opportunities

EU and US trade in services with the rest of the world

(2010, in %)



Thanks to new technologies, fast-growing services such as communication, insurance, finance and business services can now easily be delivered across borders. More traditional services (e.g. transport, construction or travel) still require face-to-face contact. The EU is strong on many services, but the US is often a leader in fast-growing markets.

Source: European Commission

Manufacturing will play a strategic role

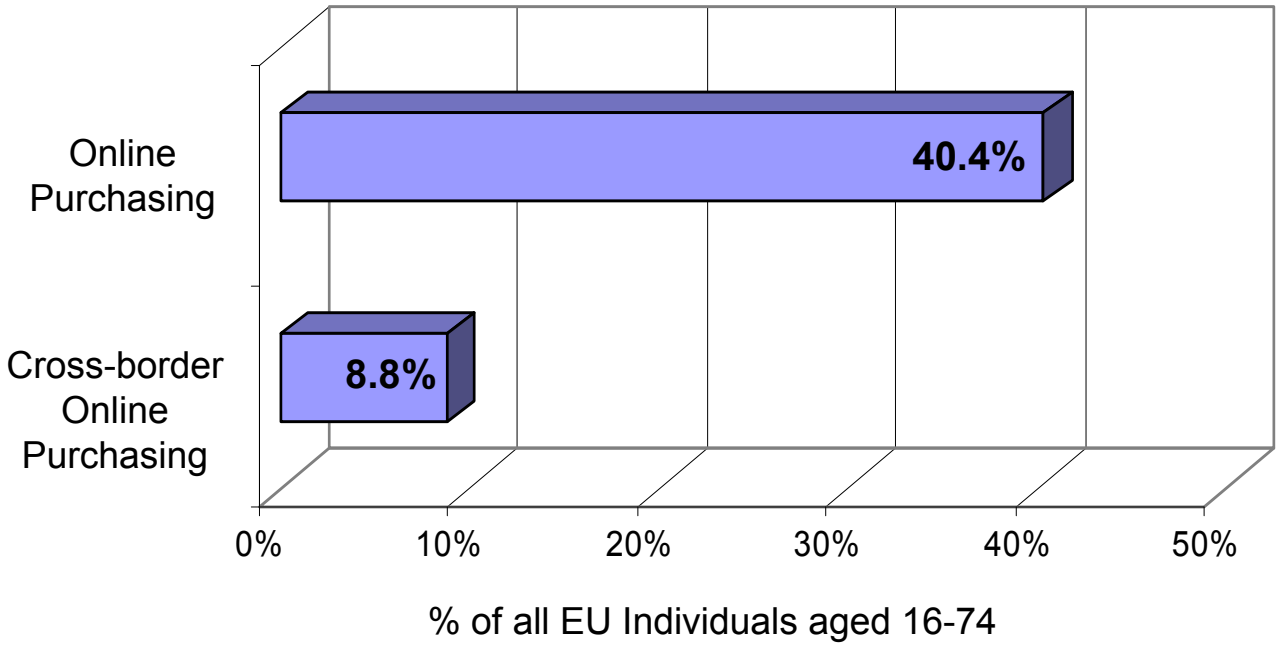
New products / trends	Sectors with opportunities
Intelligent products that do the job	Automotive
Clean production	Mechanical/electrical engineering
Key enabling technologies	Nano-, biotechnology, photonics, ICT
Advanced materials	Chemicals, plastics, metals, pulp and paper
Healthy ageing	Pharmaceuticals
Global security	Space, aerospace

Emerging societal and technological trends will open up further growth potential for several key manufacturing sectors. Already now, the manufacturing sector accounts for 75% of EU exports and 80% of R&D.

Source: European Commission

Spreading the use of e-commerce

Share of consumers using e-commerce in 2010

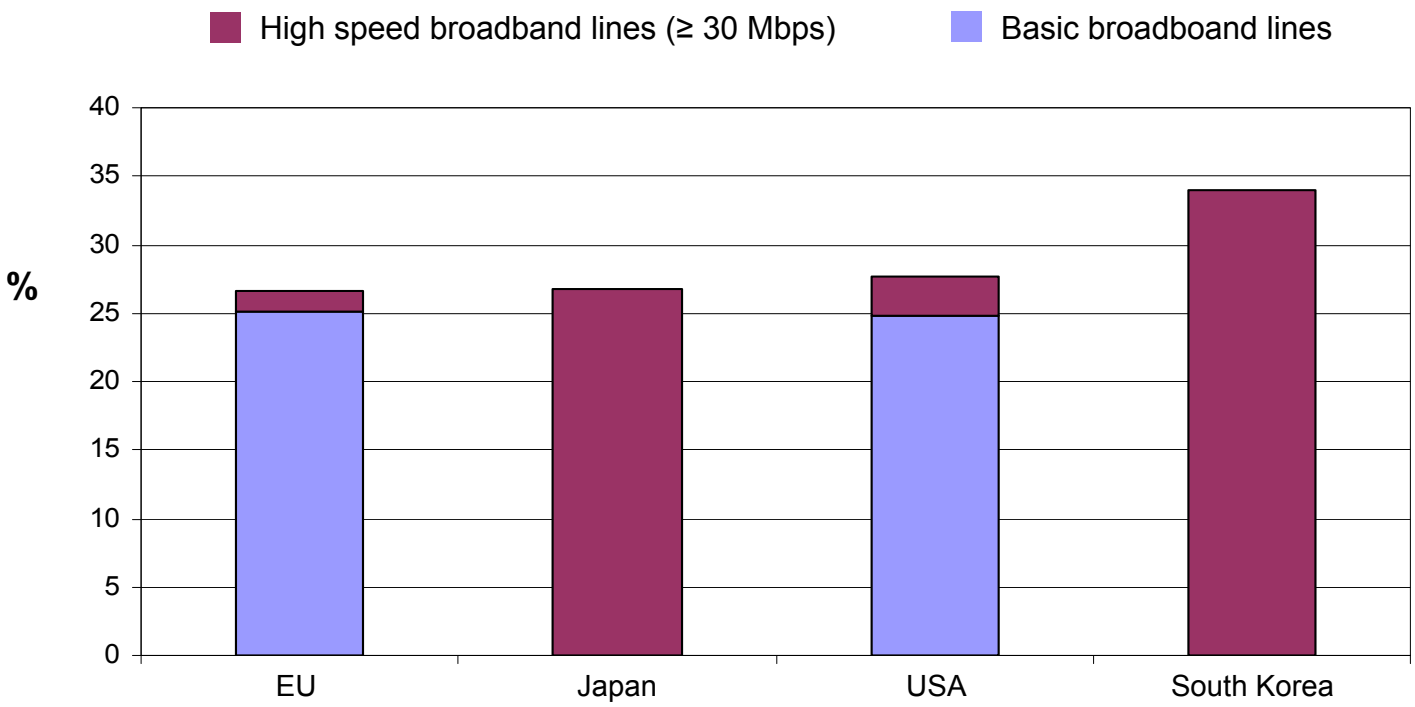


The total estimated value of online transactions in Europe was around € 165 billion in 2010. About 40% of consumers have used internet to purchase goods and services, but only 9% have done so from another Member State. E-commerce stimulates competition in retail markets and creates new business opportunities, in particular for SMEs.

Source: European Commission and Centre for Retail Research

Catching up with high-capacity broadband

Fixed broadband subscribers per population (December 2010)

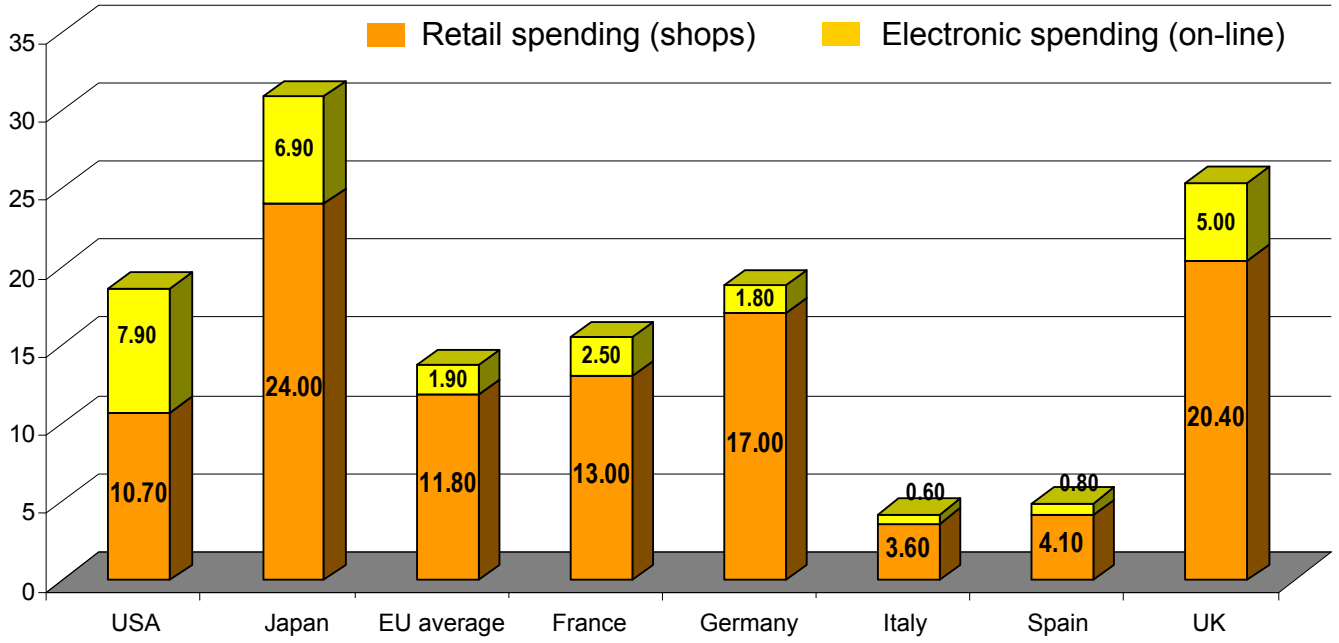


More than 50% of broadband lines in Japan and 40% in Korea are fibre, delivering high-capacity connections. Only 1% in Europe. High capacity connections facilitate the spread of internet-based services and e-commerce.

Source: European Commission

Moving towards a true digital internal market

Spending on music: retail versus electronic purchase
(per capita in € in 2009)



In 2009, each of us spent € 2 buying music on-line. In the US, it was four times more. Currently, i-tunes is available only in 15 Member States and Spotify only in 7. The difference is even more striking in the e-books market. In the US, e-books are now outselling hard-covers whilst the EU e-book market is anaemic.

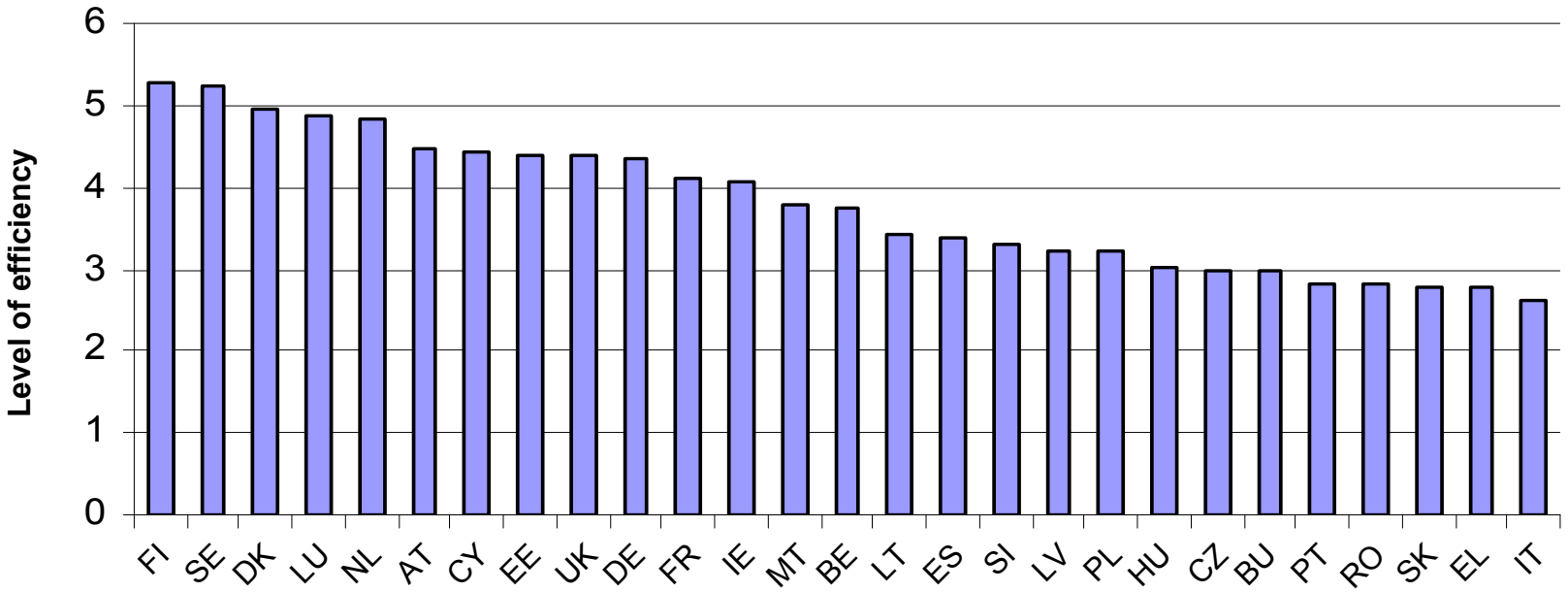
Source: International Federation of the Phonographic Industry

Key internal levers

4. Quality of administration and regulation

Quality of public administration

Government efficiency indicator of the World Economic Forum (2011-12)

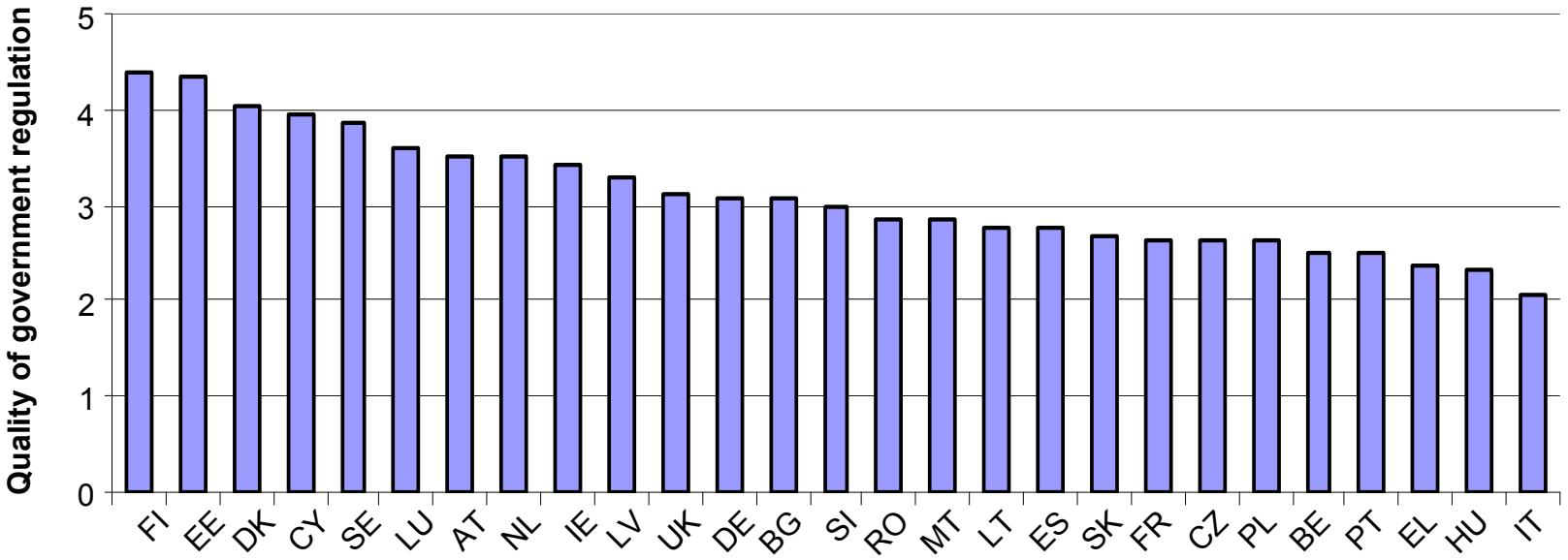


According to international rankings, government efficiency varies a lot across the EU. Only Finland, Sweden and Denmark rank among the world's top 10.

Source: World Economic Forum

Quality of regulation

Burden of government regulation indicator of the World Economic Forum (2011-12)

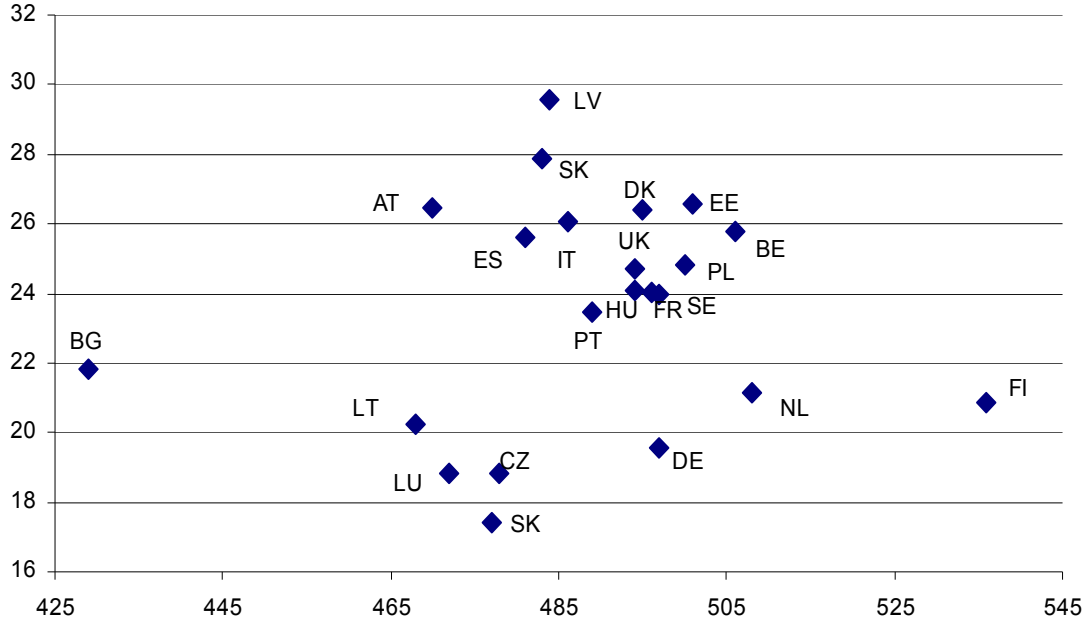


On an international scale, regulatory burden is high in the EU, and none of the Member States ranks among the world's "top 10". At EU level, efforts are on-going to improve the quality of regulation and reduce administrative burden.

Source: World Economic Forum

Quality of expenditure: the case of education

PISA reading scores and spending on primary and secondary education as a % of GDP per capita



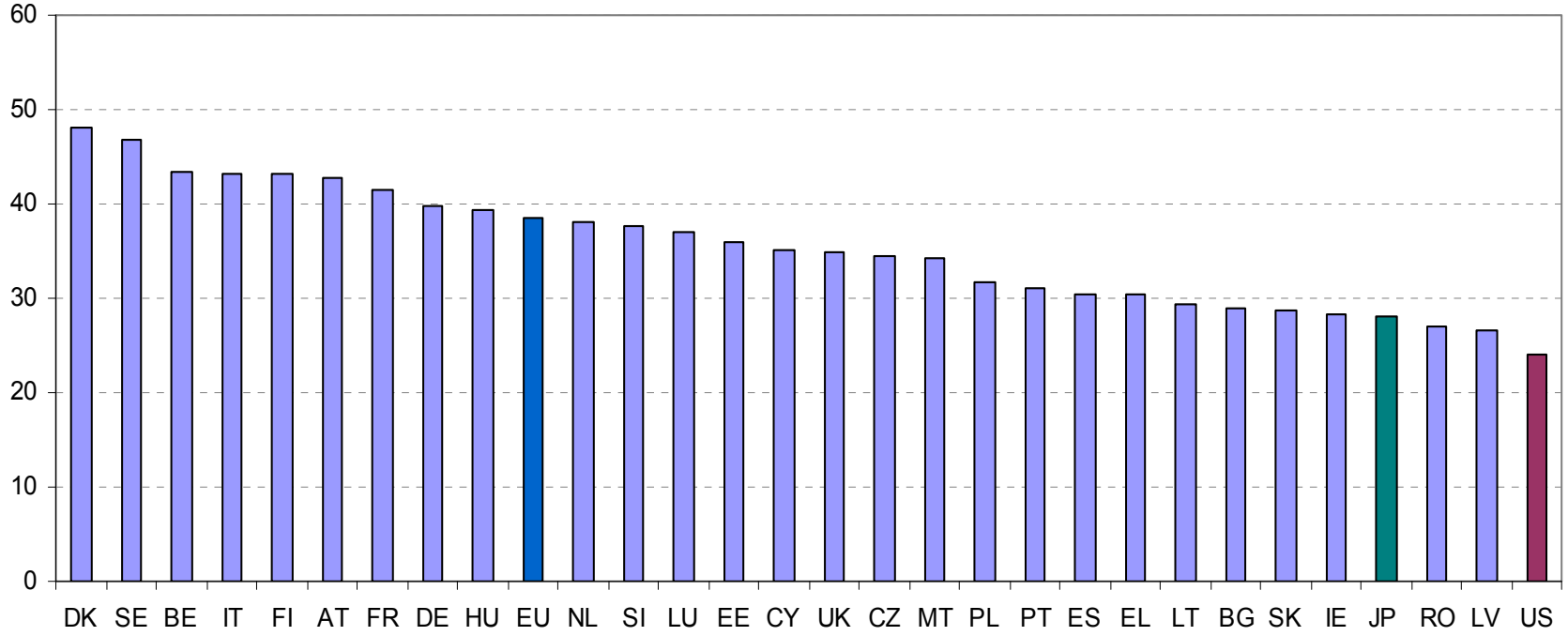
There is little correlation between spending on primary and secondary education per pupil (as a % of GDP per capita) and PISA results. Finland and the Netherlands are below the EU average on spending per pupil in relative terms (23.6%) while their PISA scores are among the highest. Many of the countries with high relative spending levels only show around average PISA reading scores.

Source: European Commission, OECD

Quality of taxation systems

Overall tax-to-GDP ratio in the EU, US and Japan in 2009

(in %, including social security contributions)



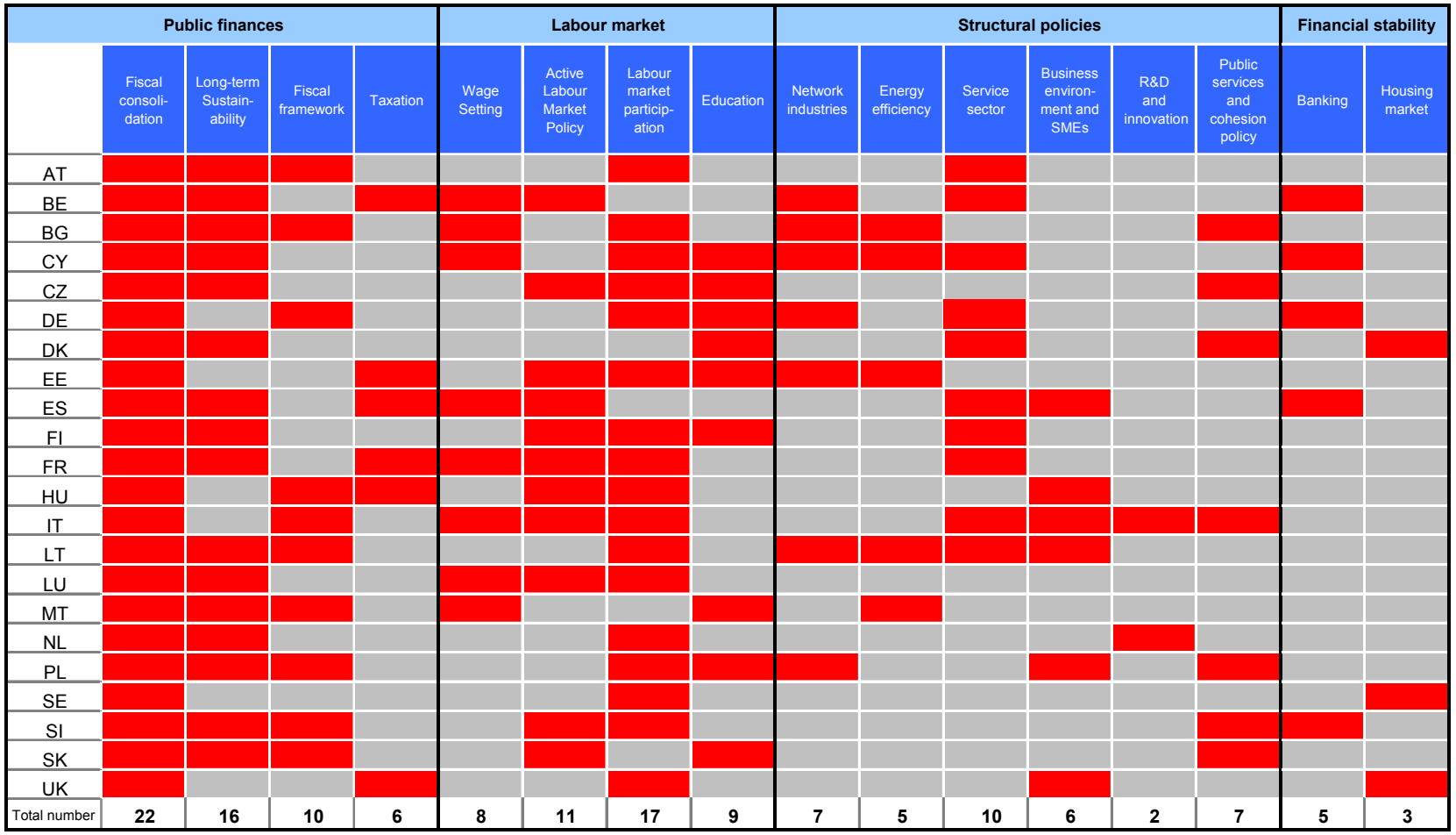
Given the high tax burden in the EU, shifting taxes from labour towards less distortive taxes, such as those on environmentally-damaging activities or consumption, could contribute to stimulating jobs and growth.

Source: OECD

Key internal levers

5. Key areas for action at national and EU level

Recommendations for action at national level



Note: For IE, LV, EL, PT and RO, the only recommendation is to implement existing commitments under EU/IMF financial assistance programmes

Source: European Commission

Priority areas for action at EU level

Strengthened EU economic governance

- Macro-economic & fiscal surveillance
- Regulation of financial services
- Targets and guidance for structural reforms

Europe 2020 flagships for smart, sustainable and inclusive growth

- Digital Agenda
- Youth on the Move
- Innovation Union
- New Industrial Policy
- New Skills and new Jobs
- Platform against Poverty
- Resource Efficiency

Modernised EU levers for growth and jobs

- Single Market Act
- Trade and external policies
- Structural Funds

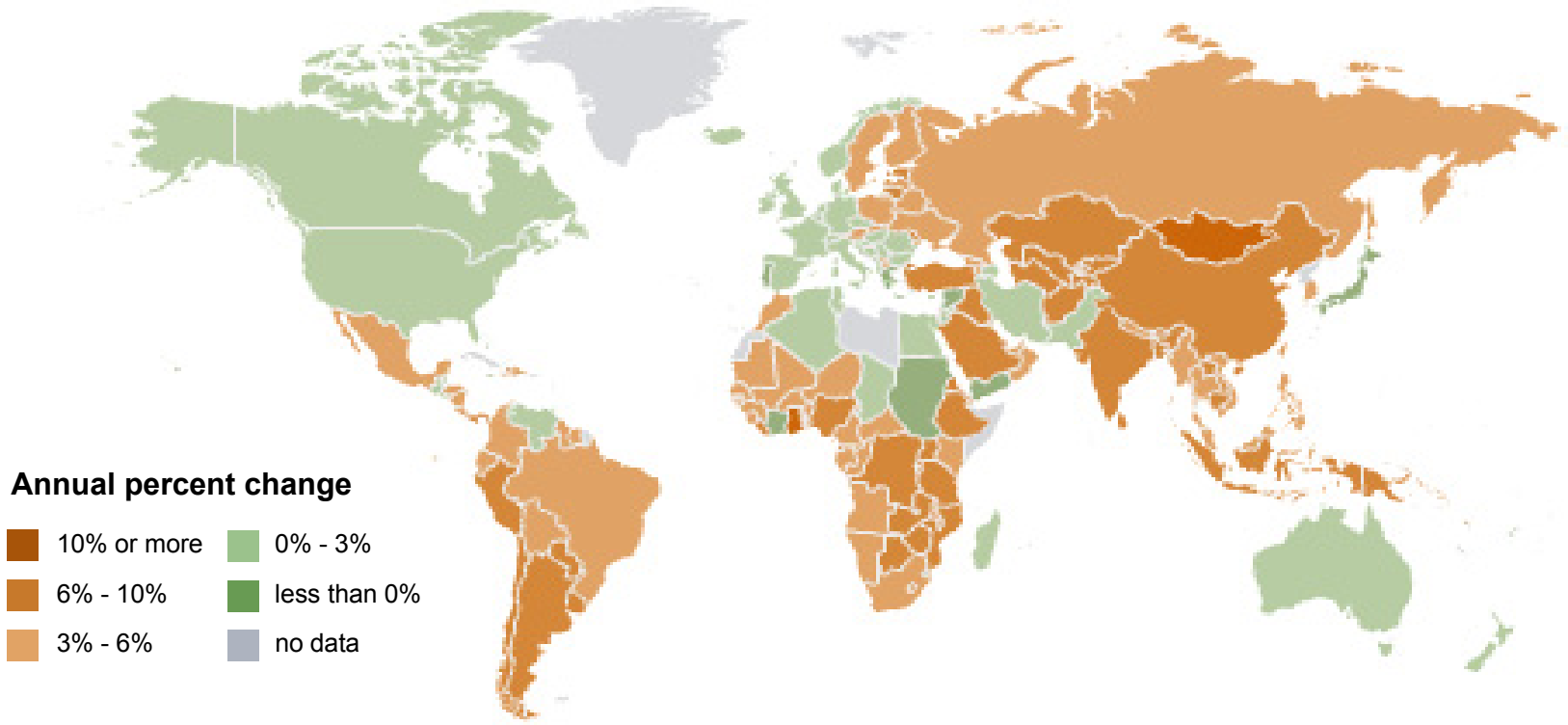
External challenges and opportunities

External challenges

1. Global growth opportunities and trade performances

EU growth depends on global growth (1)

Real GDP growth in 2011



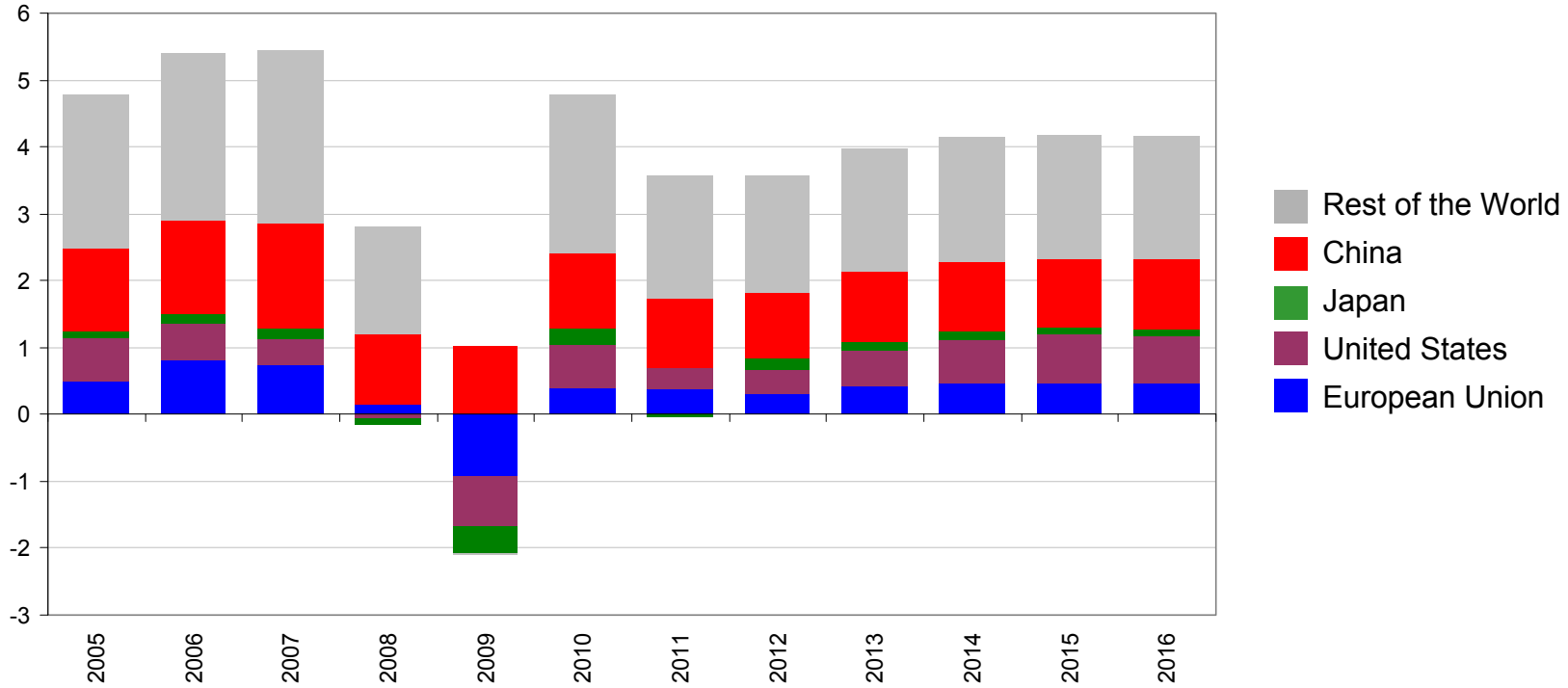
By 2015, 90 % of future economic growth will be generated *outside* of Europe.

Source: IMF World Economic Outlook (September 2011)

EU growth depends on global growth (2)

Contributions to global GDP growth

(% based on 2007 purchasing power standard weights)

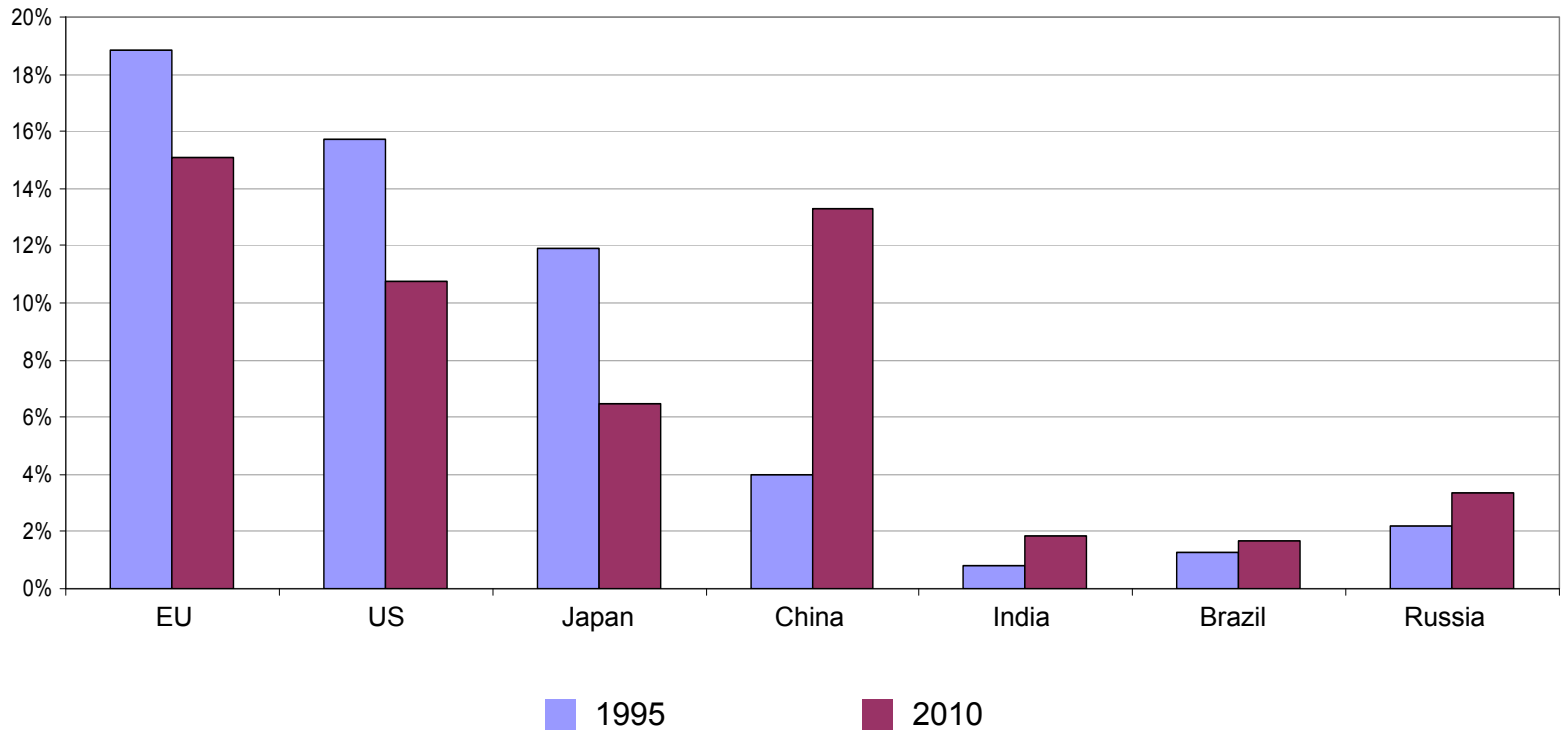


Global growth is expected to be strong again, but may remain below pre-crisis levels for some time. China and emerging countries will contribute significantly.

Source: IMF World Economic Outlook (September 2011)

EU export performance remains strong

Export share (goods, % world exports)

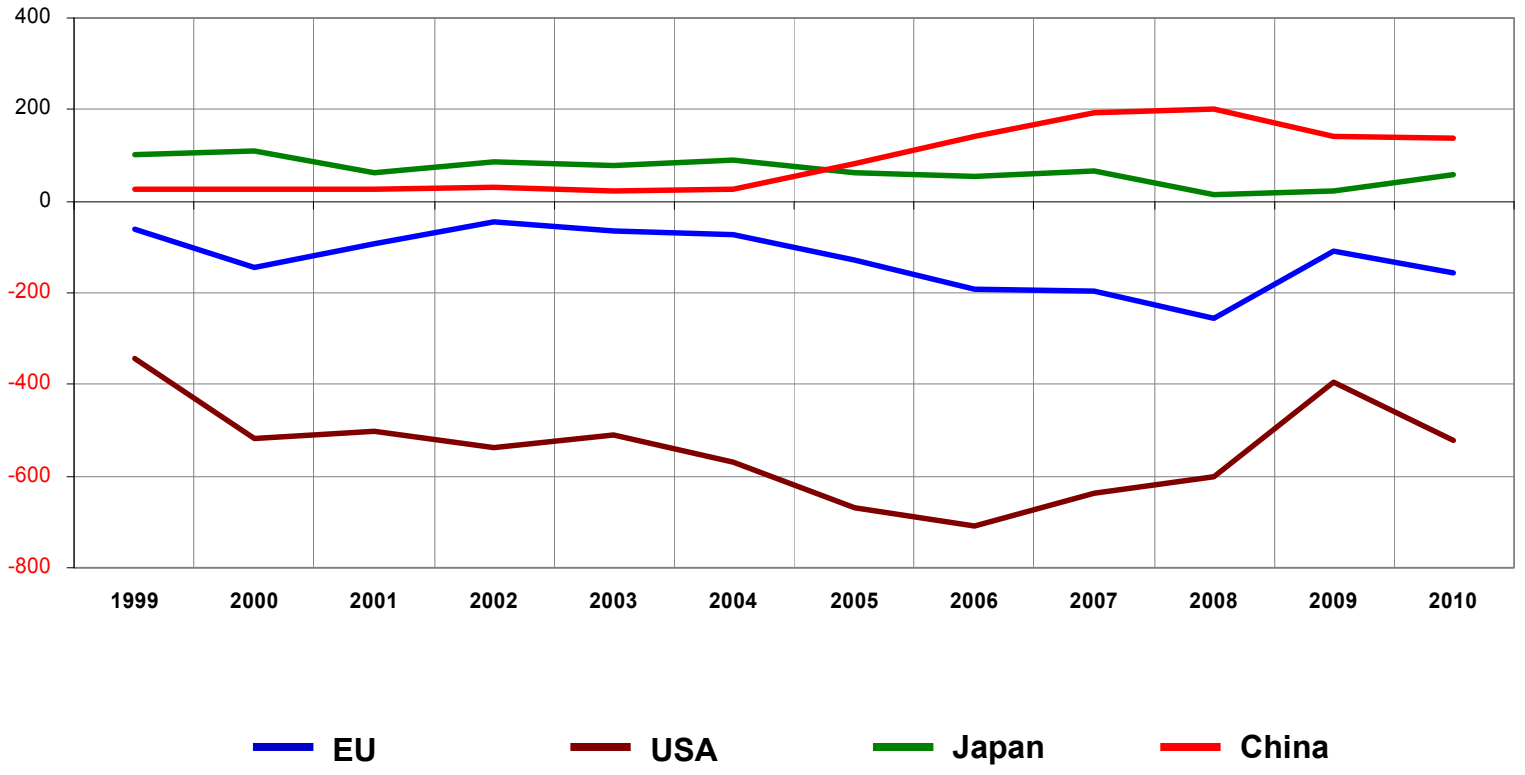


The EU benefits from being one of the most open economies in the world and its external position remains relatively strong, despite fierce global competition.

Source: WTO, European Commission

EU's trade balance in relation to others

Trade balances (billion Euro)

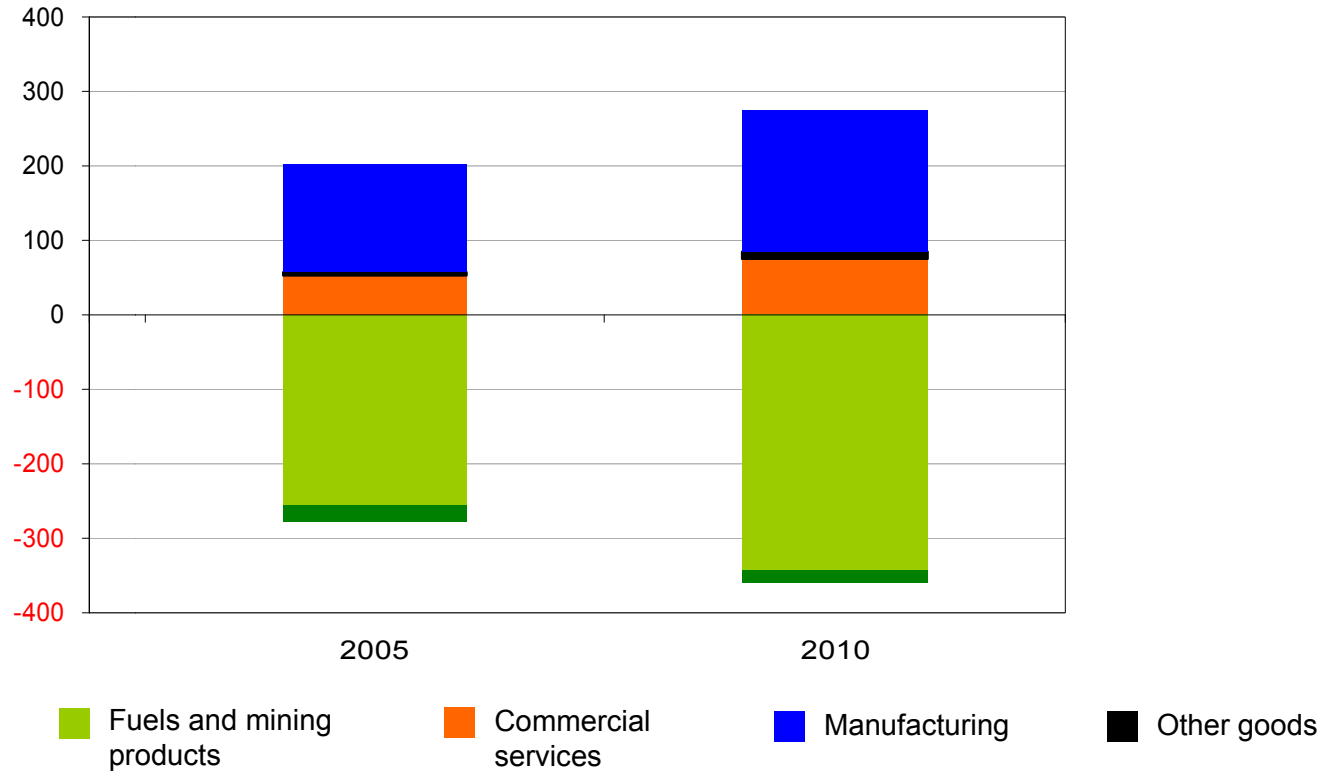


The EU has experienced a small trade deficit over the last decade as a result mainly of its imports of energy and raw materials (see next slide).

Source: WTO, European Commission

The structure of the EU's trade balance

EU trade balance in 2005 and 2010 (€ billion)



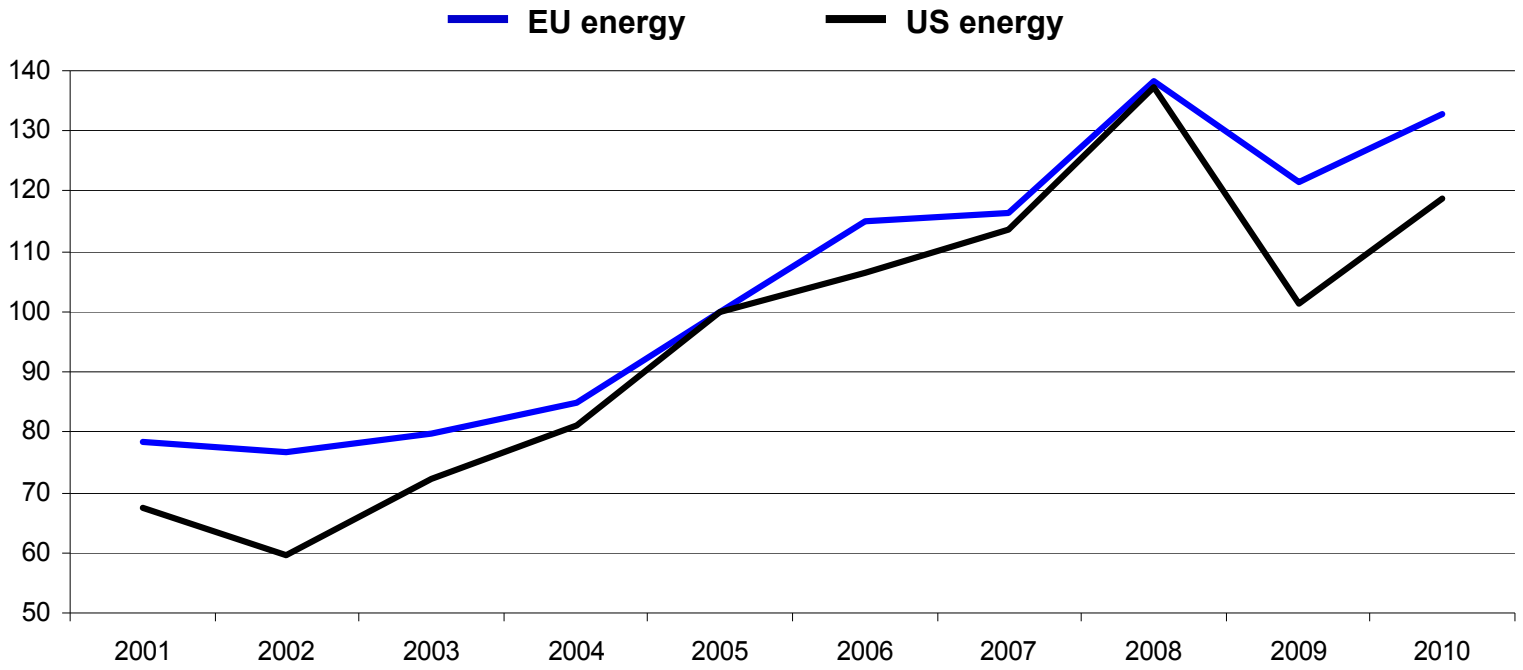
When excluding the large deficit on energy and raw materials, the EU trade balance is strong, with a large surplus in manufactured goods and services.

Source: WTO, European Commission

The costs of energy

Price index for energy in the EU and US 2001-2010

(2005 prices = 100)



As the EU imports more than half of its energy, the global rise in energy prices means that the price paid for energy in the EU is now almost double that of ten years ago. This is a significant extra cost for EU business and households.

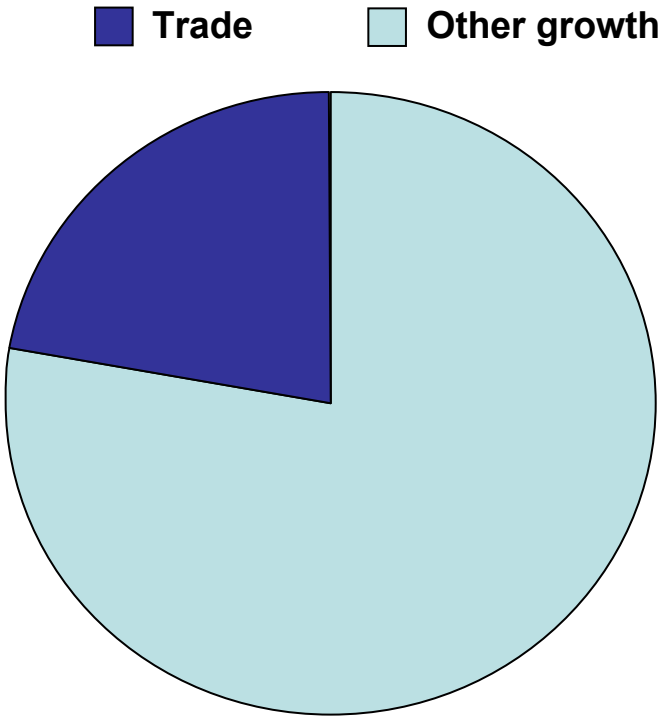
Source: European Commission

External challenges

2. The importance of trade for Europe's growth and jobs

The contribution of trade to growth

Sources of growth in the EU in 2010

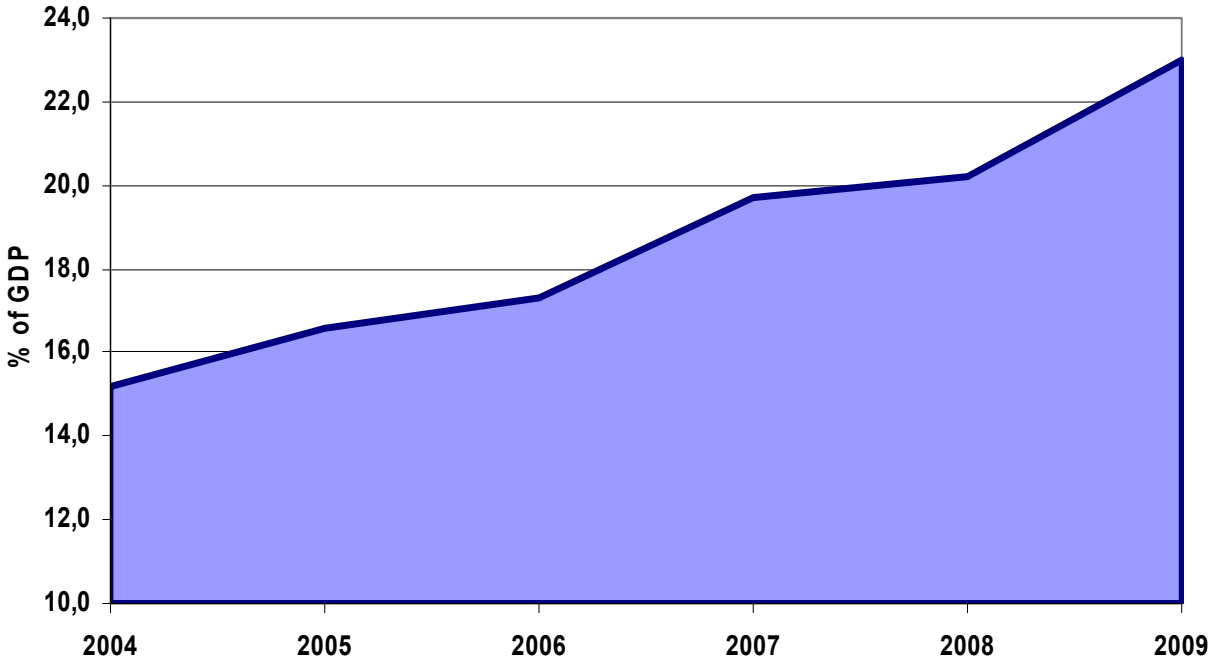


Extra-EU trade is a cushion when domestic demand is weak: in 2010, roughly 1/4 of EU growth came from international trade.

Source: European Commission

The role of FDI in steering growth

EU inward FDI from the rest of the world: situation at the end of the year as a % of GDP

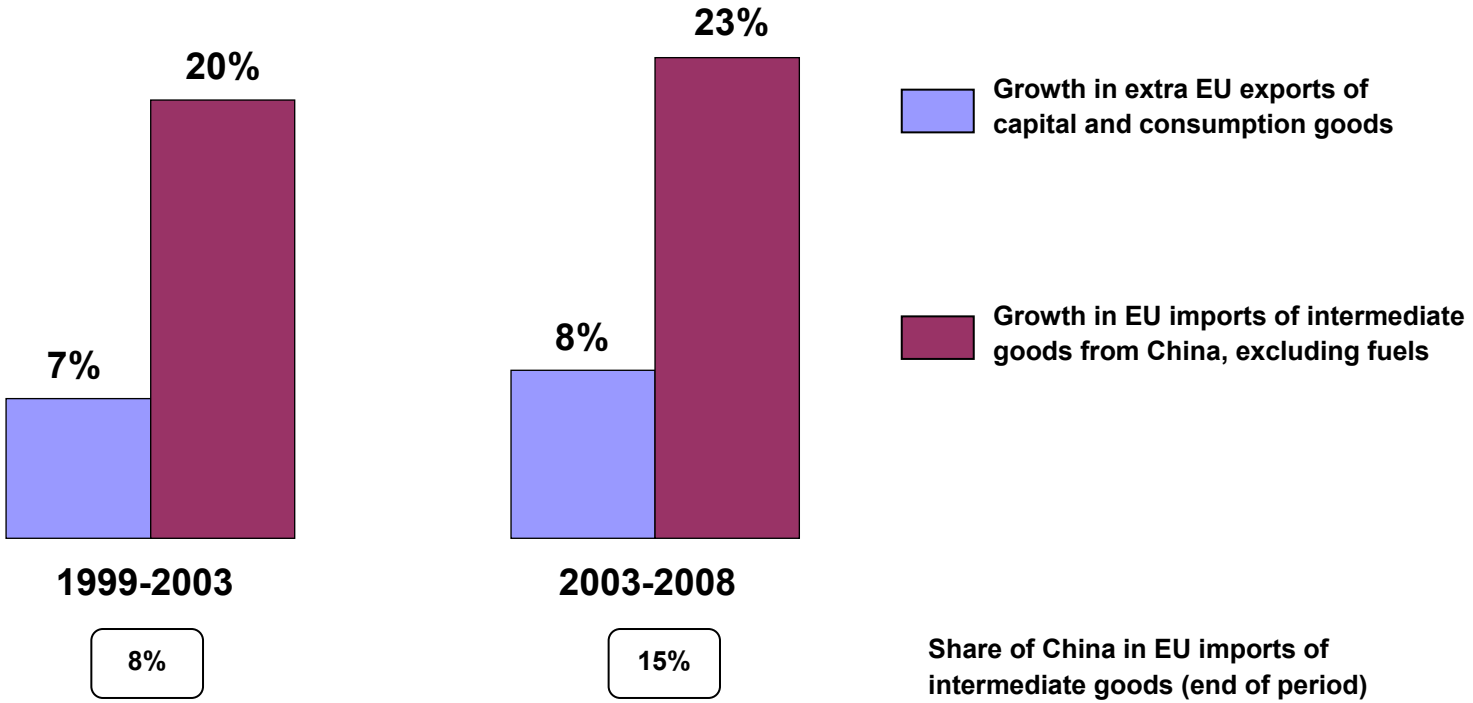


Inward investment is playing an increasingly important role in GDP growth. In the long-term, Europe's capacity to attract investment is key to its economic and technological development.

Source: European Commission

Our futures are interlinked

Relation between EU imports and exports of goods

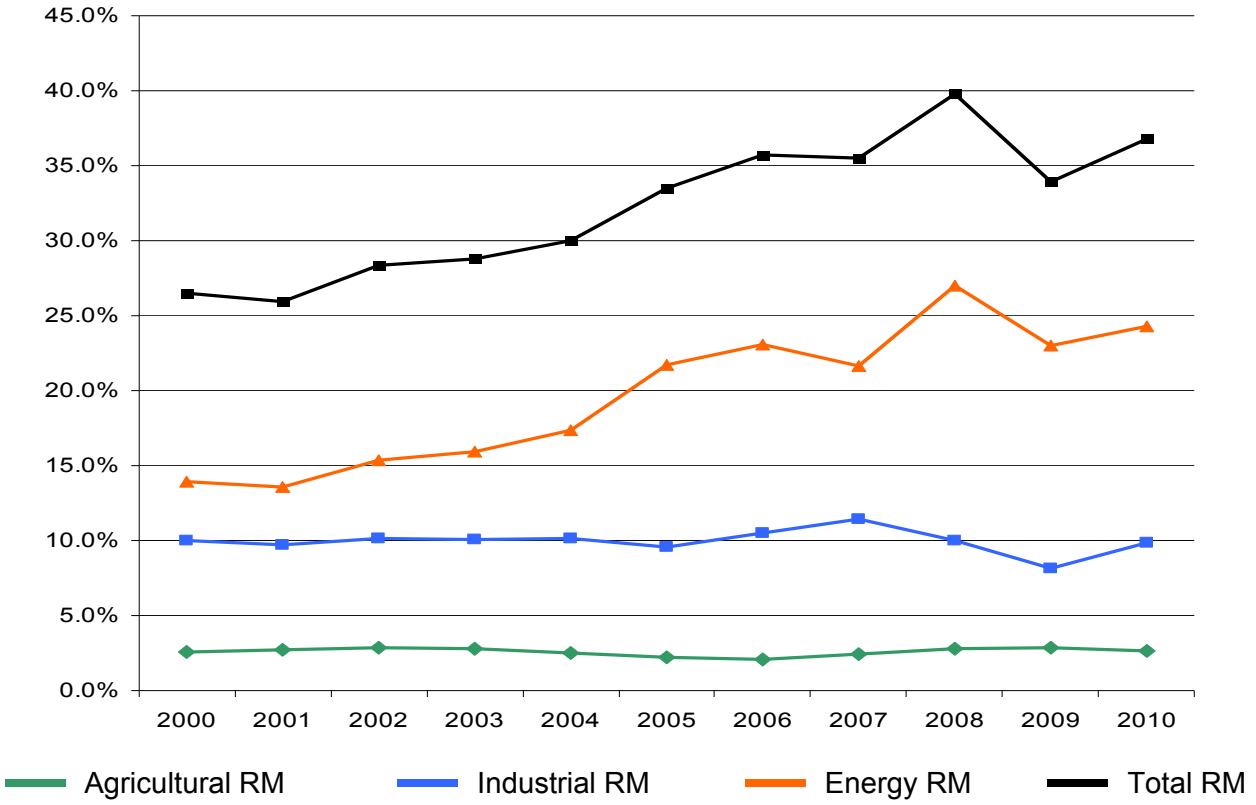


Two thirds of EU imports are key intermediates for production and exports, and they come increasingly from BRIC countries. China doubled its share in EU imports of intermediate goods since 1999. These imports have contributed to the strong growth of EU exports of final goods.

Source: European Commission

The EU is dependent on raw materials

Share of raw materials (RM) in EU imports (%)



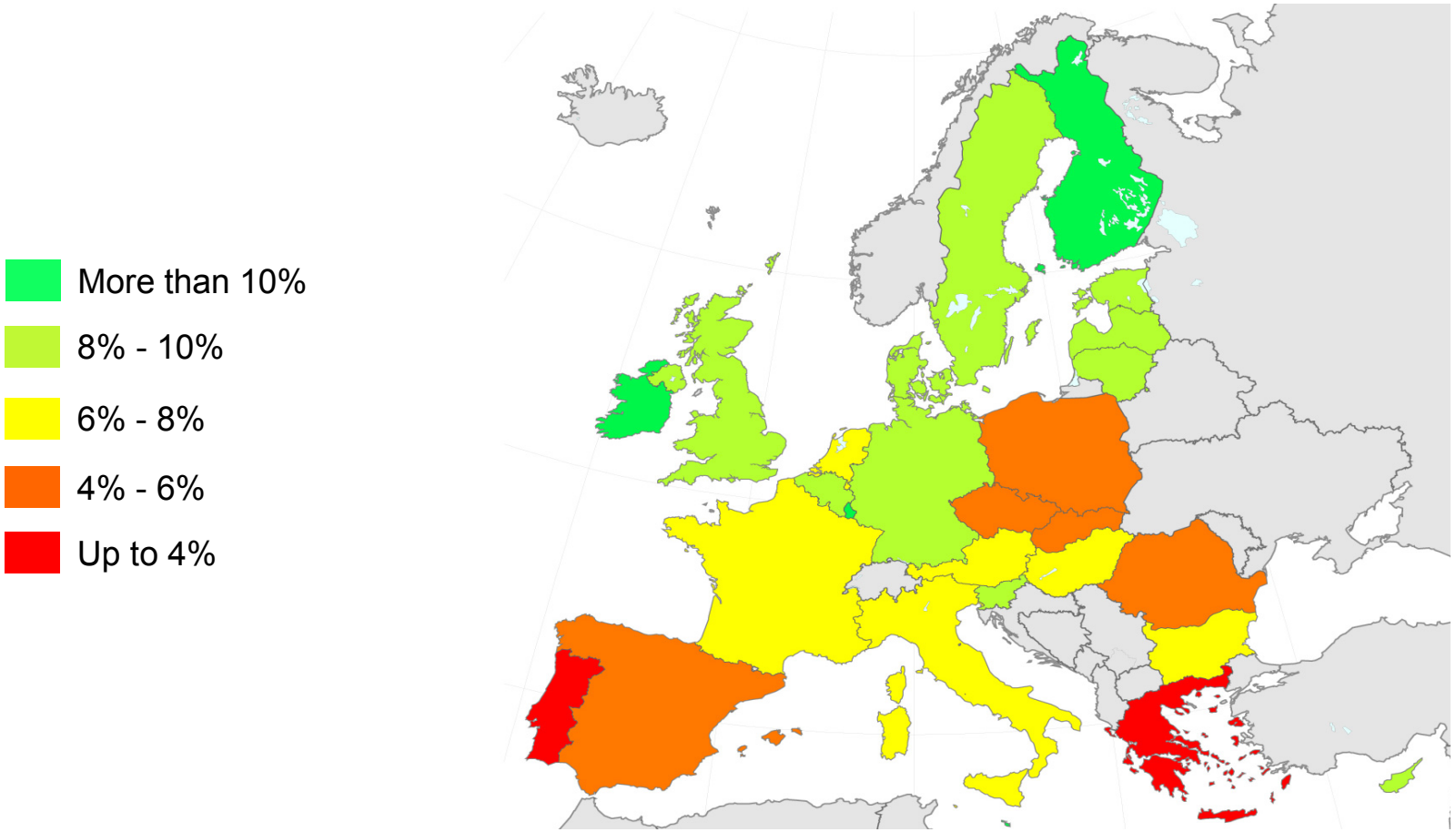
The share of imports of raw materials, notably energy, has been continuously rising and now represents more than a third of total EU imports.

Source: European Commission

Many EU jobs depend on trade outside the EU

Export-oriented employment as part of overall employment

(in %, latest available figures)



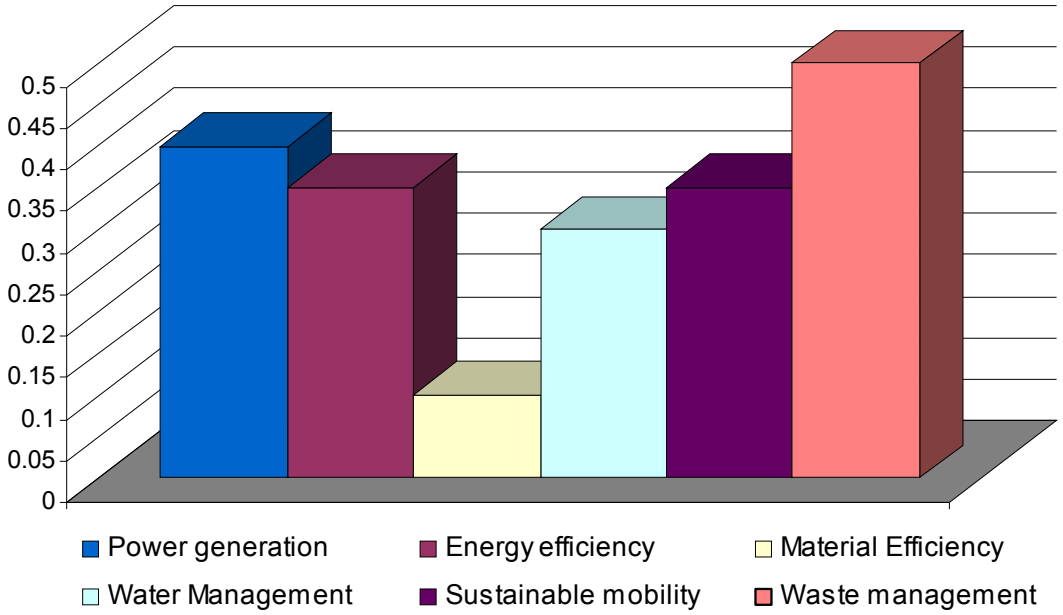
Source: European Commission

The example of the EU-South Korea Free Trade Agreement

- € 1.6 billion in customs duties saved per year
- New trade opportunities once fully implemented: nearly € 20 billion of additional EU goods and services exports
- New access for service suppliers
- Tackling non-tariff barriers
- Access to government procurement
- Protection of intellectual property
- Strong competition rules
- Commitment to sustainable development

The example of “green” sectors

Europe’s share of the world market in “green” sectors



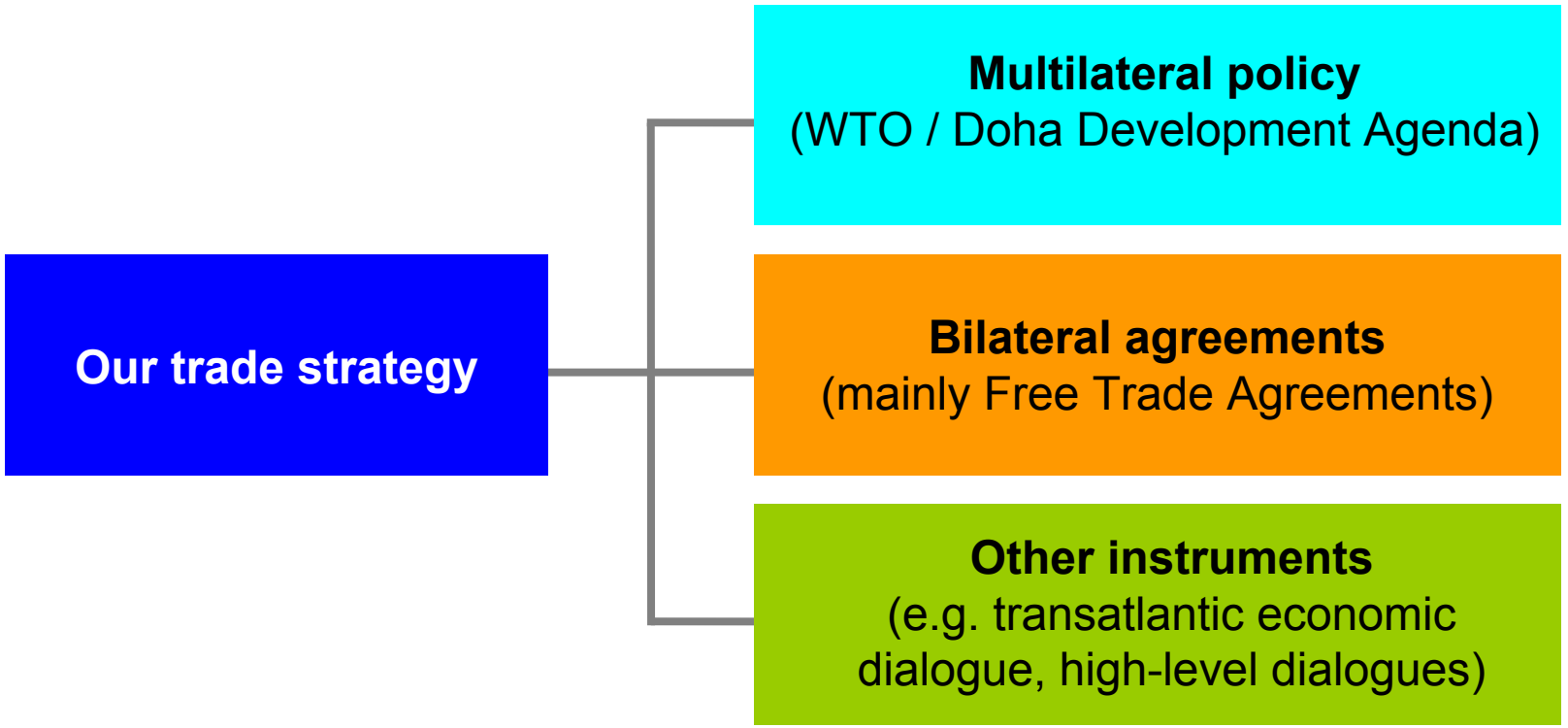
Europe is a world leader in environmental technologies. This global market is forecast to triple by 2030.

Source: Roland Berger, European Commission

External challenges

3. Europe's trade strategy and priorities

Trade and investment policy – how we engage



The EU has the policies to tap into the external growth potential

Trade and investment

Resources efficiency

Strength of the Single Market

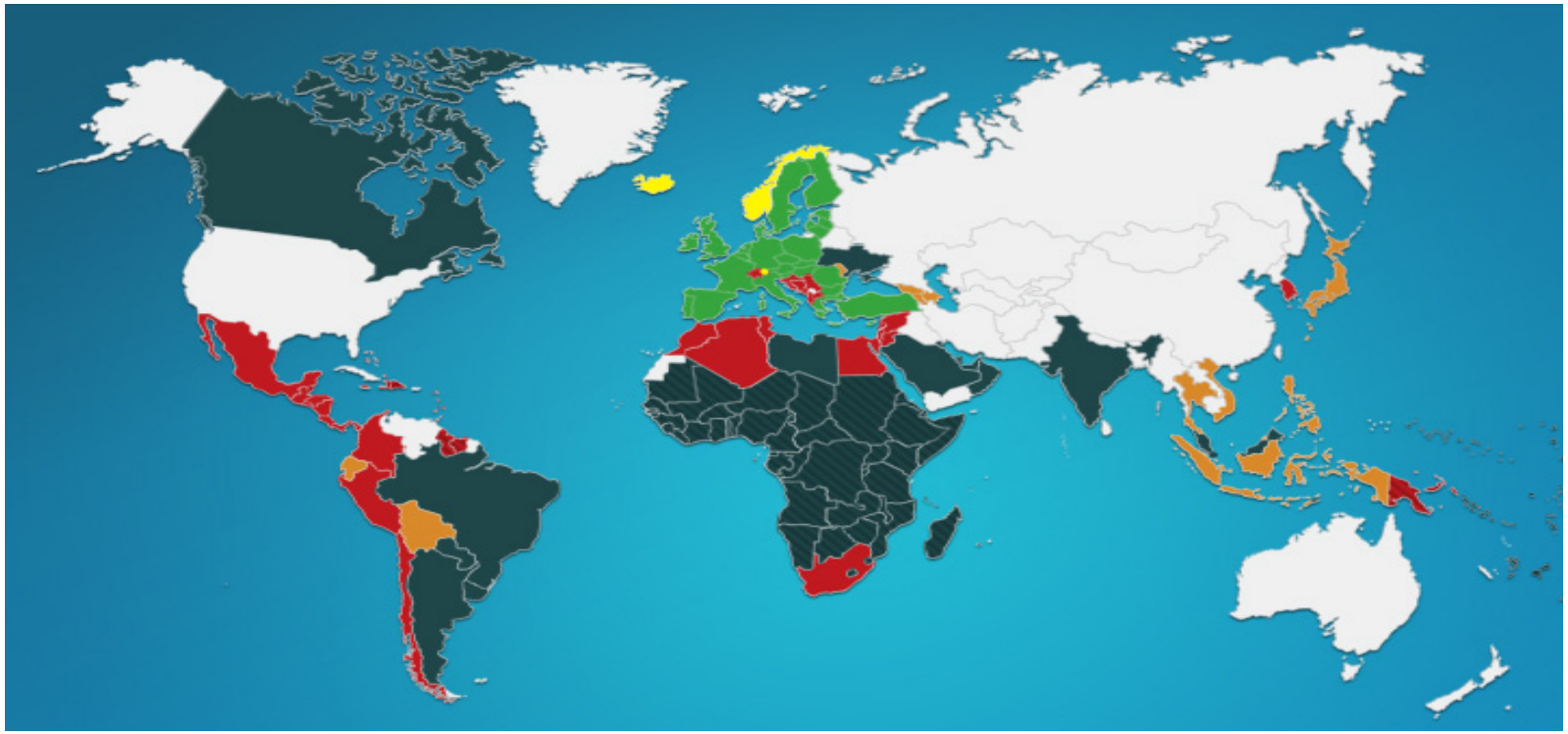
Innovation and green technologies

Projection of the EU's regulatory model

Energy security and climate change

Overview of EU agreements

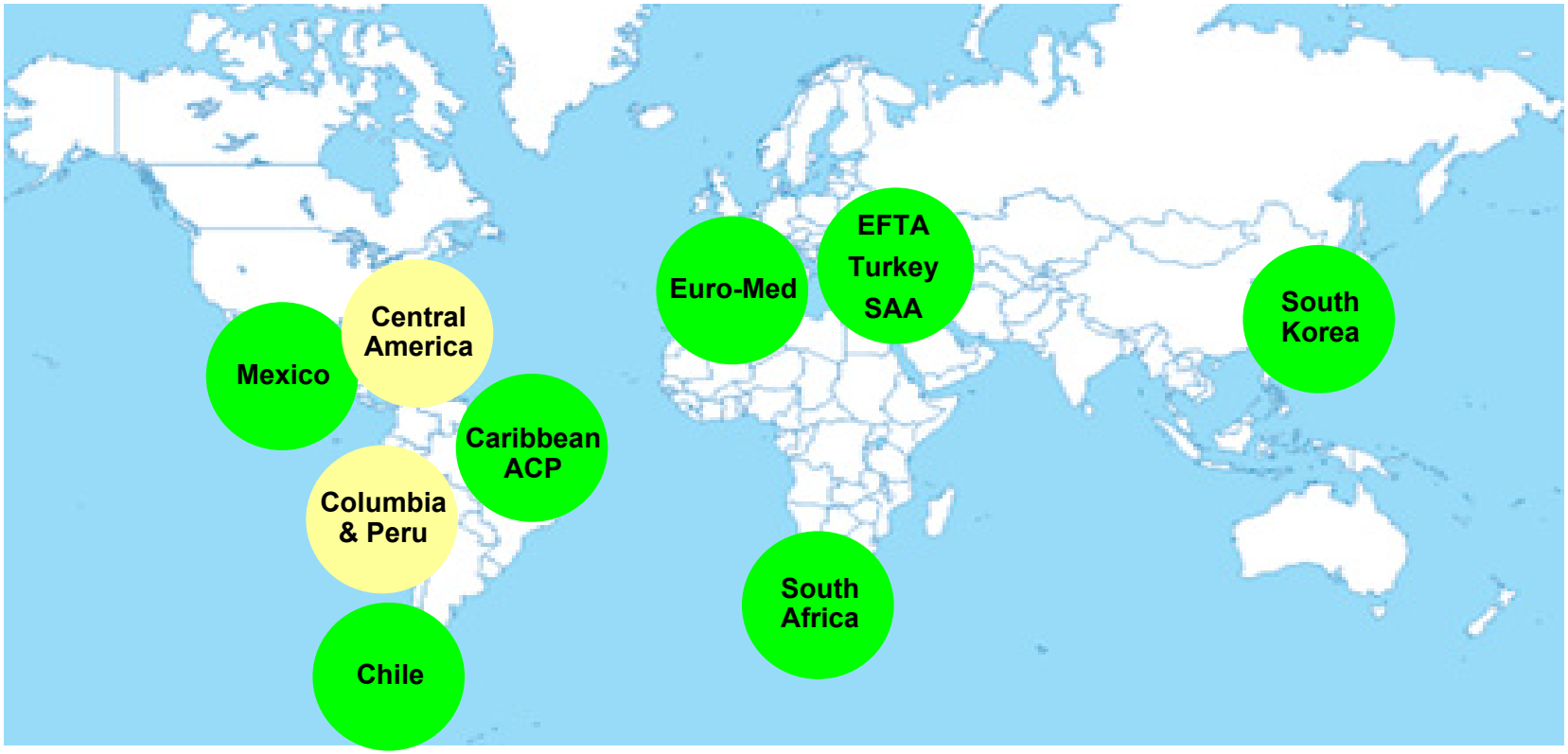
- Countries with which the EU has concluded preferential trade agreements
- Countries with which the EU is currently negotiating preferential trade agreements
- Countries with which the EU is considering opening preferential negotiations
- EU and its customs union
- European Economic Area



Bilateral agreements already in place

Agreements in force

Negotiations concluded

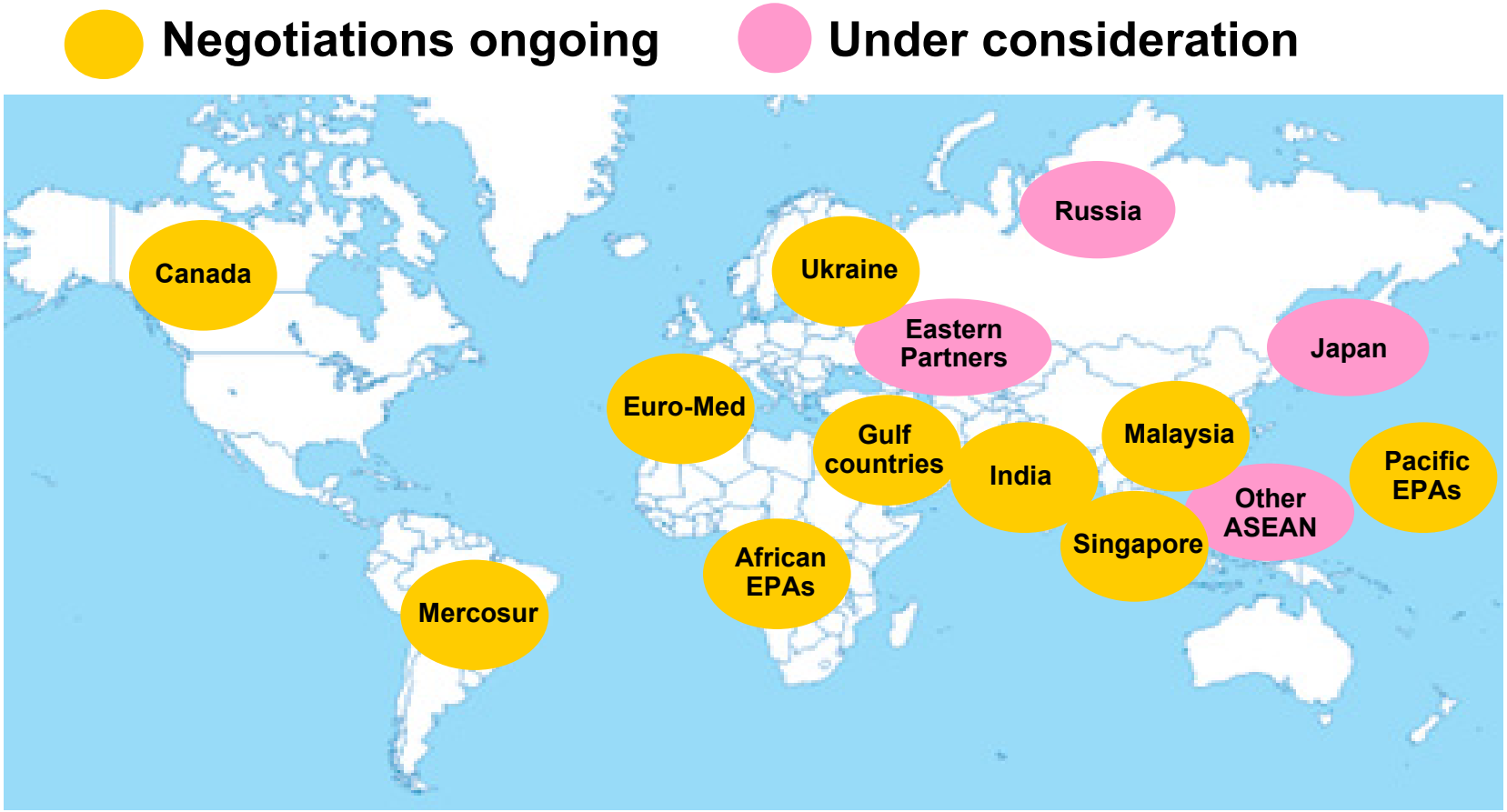


ACP stands for « African, Caribbean and Pacific Group of States »

EFTA stands for « European Free Trade Association »

SAA stands for « Stabilisation and Association Agreements » signed with Western Balkan countries

Bilateral agreements under development



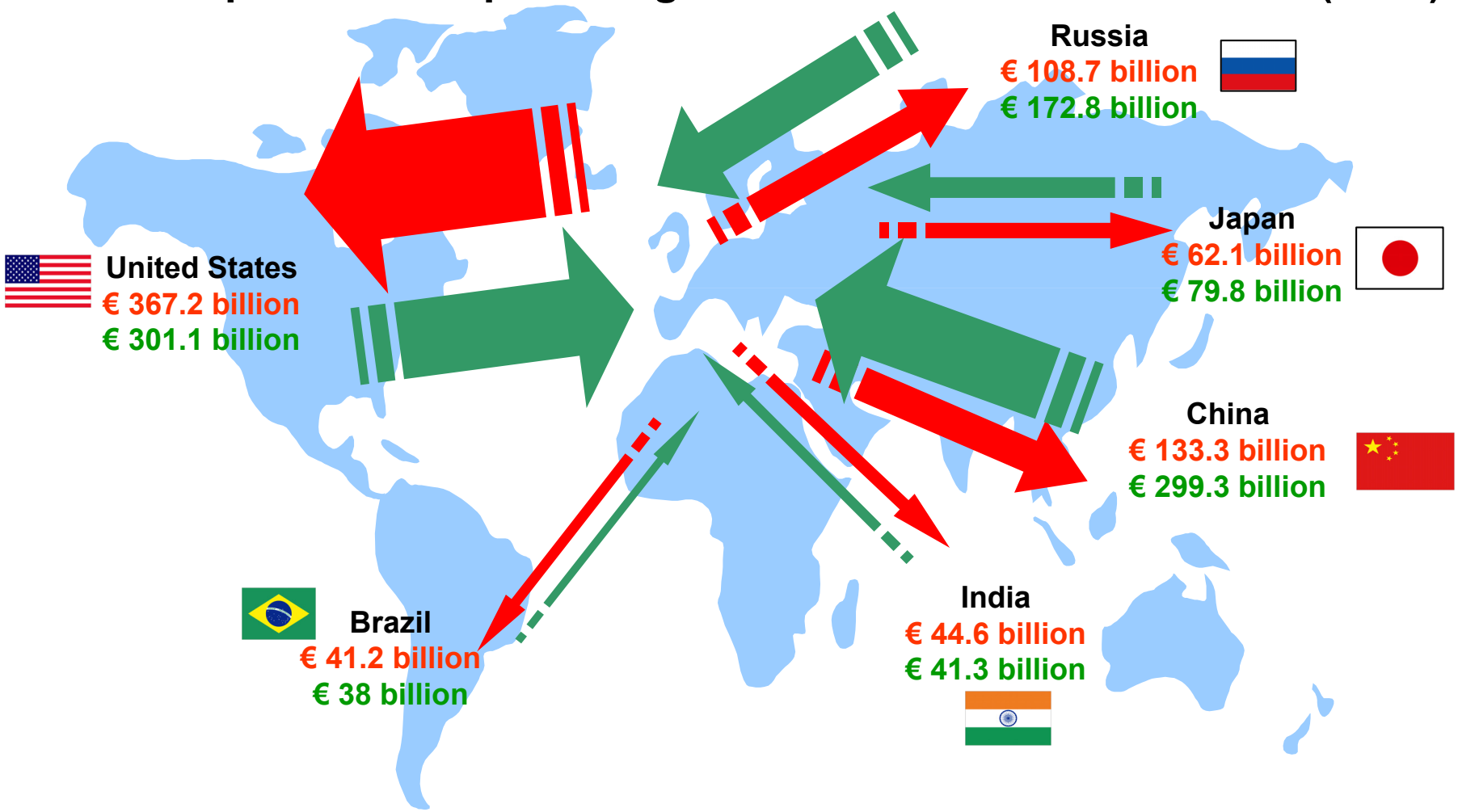
EPAs: Economic Partnership Agreements with ACP countries

Euromed: Forthcoming negotiations on deep and comprehensive Free Trade Agreements

Russia: Commitment to negotiate a Free Trade Agreement already contained in the Partnership and Cooperation Agreement of 1997

Strategic economic partners – trade links

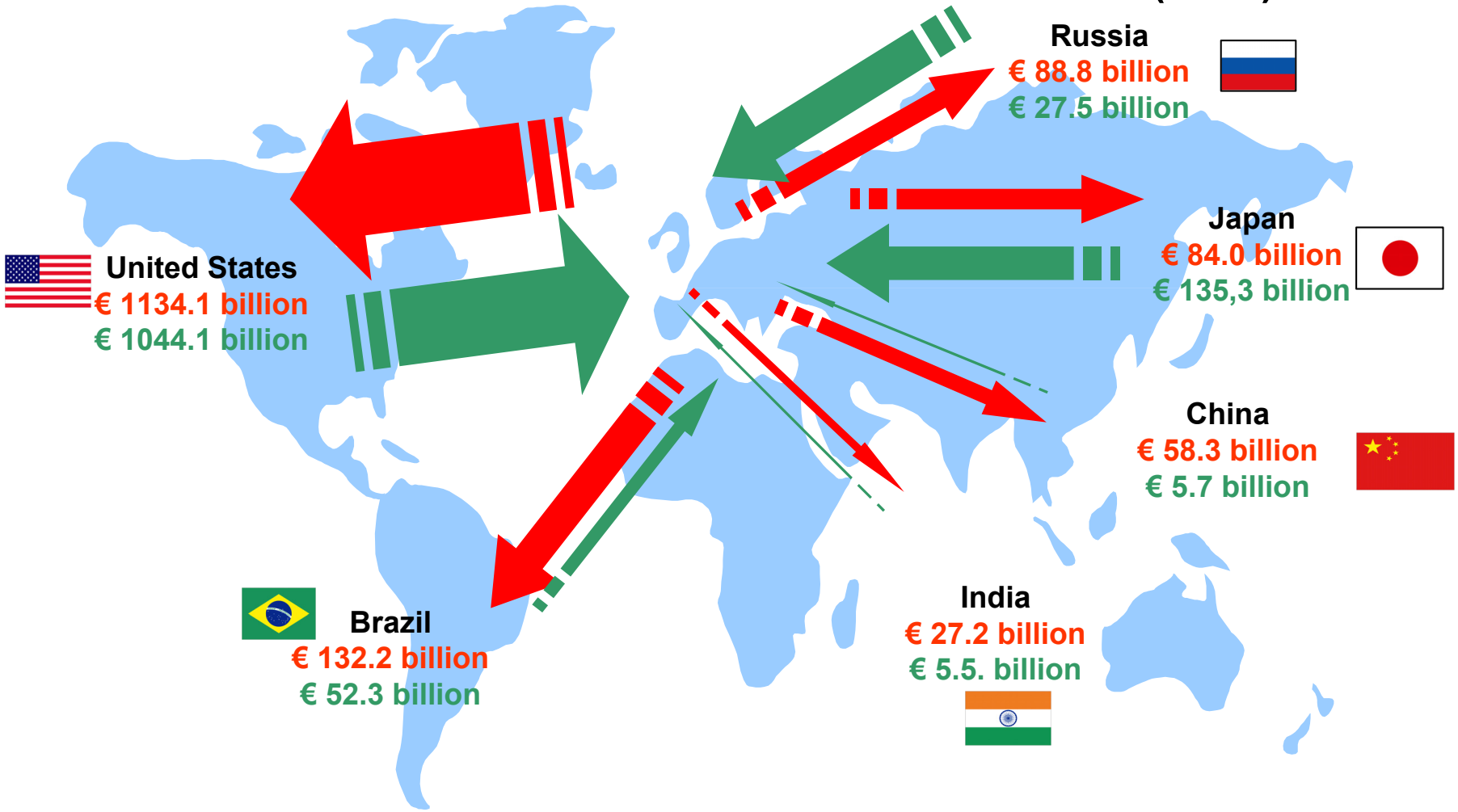
EU exports and imports in goods and commercial services (2010)



Source: European Commission

Strategic economic partners – investment links

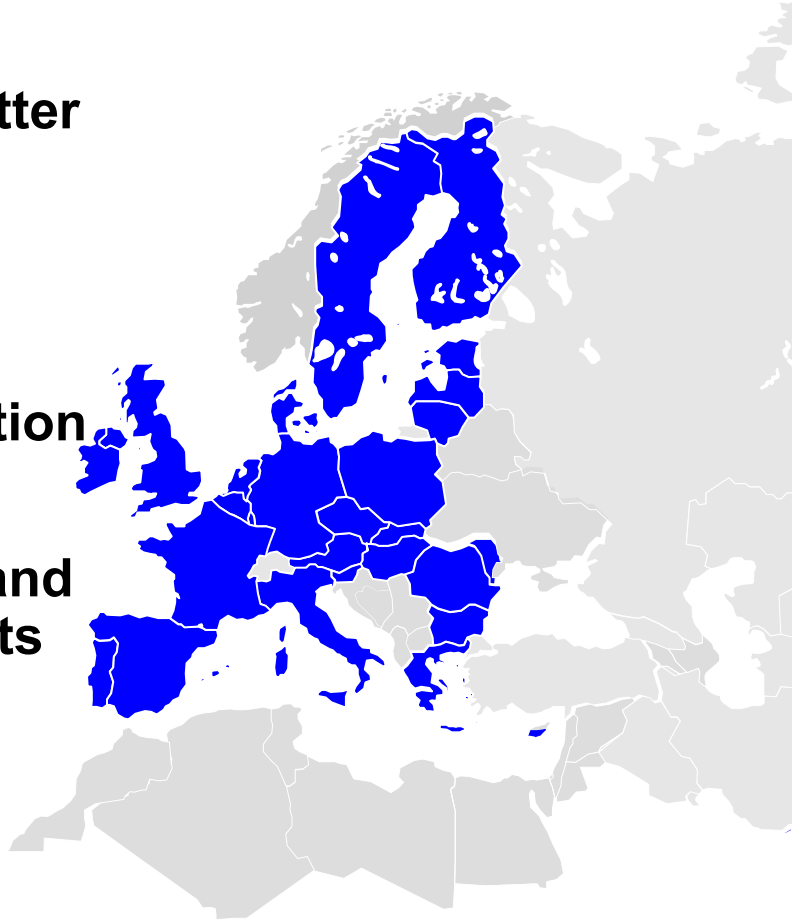
EU inward and outward investment stocks (2009)



Source: European Commission

Focus on our neighbourhood: Southern Mediterranean / Eastern Partnership

- **Neighbourhood countries matter economically: our 5th most important trading partner**
- **Security and solidarity**
- **Sharing prosperity / participation in the Single Market**
- **Ambitious work plan agreed and perspective of new agreements ("Arab Spring")**



Source: European Commission

Focus on Asia

- **Fastest growing economies in the world**

GDP growth rates	2010	2011	2012
Developing Asia	**9.5**	**8.2**	**8.0**
China	10.3	9.5	9.0
India	10.1	7.8	7.5
ASEAN-5	**6.9**	**5.3**	**5.6**
Indonesia	6.1	6.4	6.3
Thailand	7.8	3.5	4.8
Malaysia	7.2	5.2	5.1
Philippines	7.6	4.7	4.9
Vietnam	6.8	5.8	6.3

- **Fast regional economic integration**
  - ASEAN integration
  - China - ASEAN agreement
  - ASEAN – Japan agreement
- **Crucial part in Europe's supply chain**

Source: IMF, World Economic Outlook, September 2011


EUROPE 2020