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Deepening of the Economic and Monetary Union from the Perspective of SMEs

As President of the European Association of Craft, Small and Medium-Sized Enterprises (SMEs) UEAPME, but also as owner of a SME, which is active at international level, I am well aware about the challenges monetary union is facing and we follow closely the ongoing debate, which is also crucial for our 23 million SMEs in Europe.

What I would like to do in my introduction is to explain the main challenges of small enterprises in Europe related to the ongoing debate about monetary union. What do SMEs need and which progress they can realistically expect from the next reform steps?

The challenges, I would like to touch are:

- the ongoing problems SMEs have – at least in some countries – with access to finance
- deficits in public investment, especially in IT infrastructure, qualification as well as research and innovation
- missing structural reforms to increase the competitiveness in Europe
- economic and social stability in case of external shocks in order to avoid a dramatic decrease of domestic demand

Let me start with access to finance. Due to the structure of the European economy, which is dominated by micro and small enterprises, the overwhelming majority of our SMEs depends on debt financing, if they need access to external finance. I am not denying the importance of capital markets and UEAPME fully supports the efforts made to create a European Capital Markets Union, but we have to be aware that more than 95% of our companies will not be able to benefit from it. The majority of SMEs is depending and will depend on bank finance.

Therefore, completing the banking union and improving the capacity of banks to lend to SMEs is crucial for the ability of SMEs to invest, to grow, and to create jobs. This is why UEAPME supports the completion of the banking union. However, we are aware that this will only happen, if it goes hand in hand with risk reduction in the banking system. We understand that some Member States want to avoid a future deposit guarantee scheme, which pays in the first round for failures in the past. This is why UEAPME agrees with the efforts made to reduce the amount of non-performing loans. Another important project in this context is the review of banking regulations, where we need a continuation of the SME supporting factor and more proportionality as regards to obligations for smaller local banks, which play an important role in financing local SMEs in many countries.

As regards public investments, one has to be aware that small enterprises depend more on a well-functioning infrastructure and on skilled labor supply than multinationals. This means, an increase of public investments in modern IT, transport and energy infrastructure as well as in qualification systems providing the needed skills is crucial to support economic growth and job creation in Europe's SME sector. Therefore, UEAPME asks to apply the Stability and Growth Pact in a way that is does not only focus on the quantity of public spending, but also to its contribution to future growth. The same is true for the revenue system: tax avoidance and fraud as well as a too strong dependence on labor related taxes reduce the potential for growth and employment. This is why the composition of public revenues should also be analyzed. For the same reasons, UEAPME fully agrees with the request to increase public investments or to cut taxes on wages in those countries having budgetary leeway for it.

My third point tackles the deficits in the implementation of needed structural reforms. Not only business organizations but also the European Commission regularly complains about the lack of implementation of needed and agreed structural reforms in many Member States. Delays in modernizing products, services, and labor markets are reducing the growth potential of Europe's economy and the competitiveness of our companies.

Therefore, UEAPME supports the intention of the current proposal of the European Commission to increase the technical and financial support to Member States to implement priority reforms. However, this must avoid moral hazard and must not encourage governments to delay reforms until they get financial support. Furthermore, if the implementation of needed reforms creates costs for front loading, such costs should be treated favorably in the framework of the European Semester.

My last point is the adequate reaction on external shocks, which may easily result in an economic downturn or even a recession in affected Member States. SMEs – acting to a large extend at local level – suffer more from crisis in a certain region than larger enterprises. It is therefore in our interest to avoid economic or social disruption created by such a shock. However, it has to be clear that the main instrument to buffer such shocks are sustainable public finances, allowing the full functioning of automatic stabilizers and the implementation of structural reforms to increase the resilience of national economies. Therefore, UEAPME shows some hesitation towards a financial stabilization function and has always argued that if such an instrument will be introduced, it has to be strictly conditional on the implementation of reforms and it has to exclude moral hazard.

Furthermore, if such a stabilization instrument were provided, we would have preferred a kind of "rainy day fund" to an investment stabilization function. Hence, a rainy day fund provides more leeway for discretionary measures, adapted to the concrete needs of a country and more possibilities for conditionality compared to a rule base investment support.

With these four policy areas I have demonstrated that SMEs in Europe want to see progress in deepening the Economic and Monetary Union and why smaller companies would benefit from it. However, I am convinced that we also need realistic expectations. There is neither the need to change the European treaties nor the need to wait for a political union to realize the needed step forwards.

I am even more hesitant as regards the European Stability Mechanism or a potential European monetary fund and I do not expect that now the time has come to move from intergovernmental solutions to a community solution in the framework of the current treaty. As long as there is no further progress in risk reduction and economic convergence, it will be difficult to convince all Member States to hand over such competences to European institutions.

Let me finish by stating that at least the next steps, which UEAPME is expecting in the interest of our SMEs, can be done without such changes. Therefore, I would like to invite policymakers to take the necessary steps now and not use unfeasible reform wishes for a deeper Economic and Monetary Union as an excuse for doing nothing.