Closing Remarks

“The Economic Weimar Triangle:

Industrial policy of the European Union”

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The Conference Board in its latest estimates indicates precedent decline in productivity of the world economy. Total Factor Productivity (TFP), estimated for the global economy, fell in 2013 by 0.1 % mainly due to the decline in capital productivity. The dynamics of labor productivity also decreases gradually from 3.9% in 2010, by 1.8 % in 2012 , to 1.7 % in 2013 Only the States escaped decline in labor productivity; there the growth rate is maintained in the years 2012-2-13 at a low level of 0.9 %.

OECD pencils long-term rising trends of growth in labor costs. In the euro area from 2000 to present, despite ongoing nightmarish 5 year-old crisis, labor costs rose by an impressive 36.2% in the case of Italy, equally impressive 25.2% in the case of Spain and did considerable 11.4 % in Germany. Such a growth rate of labor costs in some sense, give us the explanation of the causes progressive loss of competitiveness at the periphery. But it is also not the very best predictor for losing competitiveness across Europe as a whole.

Crisis petrified disturbing trend misalignment of the competitiveness of the U.S. economy vs Europe. The European deficit of trade in energy and raw materials has doubled over the last seven years. Prices of energy consumed by European industry today are 2- fold higher than in the United States and more than 20 % higher than in China. Industrial gas prices are 3 -4-fold higher than in the United States and Russia, and 12 % higher than in China. The gap in energy prices between Europe and the most dynamic economies in the world has significantly widened. In the course of last few yearsprocess of deindustalisation in the U.S. and Europe continued, strengthened at this time a manufacturing sector in many catching-up countries. Manufacturing added today barely 12% to U.S.’s GDP , 15% in Western Europe and more than 30 % in China or South Korea.

The IEA said the EU would lose a third of its global markets share of energy- intensive exports over the next two decades, because energy prices would stay much higher than

those in the U.S.. High energy prices damage competitiveness of industries that employ almost 30m people in Europe. So far about re-industrialization for Europe.

In 2012 , the European Union had three quarters of the U.S. economy productivity per hour worked , and two thirds of its income per capita . Much of productivity problem in Europe was related to low technology development and lack of innovation. In the year 2015 the EU would have almost 900 thousand vacancies in the digital sector. And all this at the same time, when almost 1 in 4 young guys are unemployed. It's shocking!

Look at startups problem. Cost of beginning new business in Europe is twice that of doing the same in the U.S. Starting a company in Italy, for example, cost on av. EUR 3.653 against EUR 162 in CDN. And we talk here not on Hi-Tech companies but usually simplySMEs.

Let me conclude saying: we can enjoy that the crisis passed the corner. But not quite lose sight of its long-term effects of the devastating global economy. Because without a doubt, in the coming years, it is the consequences of the crisis are accumulated in a fall in productivity, deepening of differences in efficiency, piling up profitable differentiations - will affect both the dynamics of global growth and intensification of social conflicts.

The current mood in Europe boosted by PMI readings are good. Ireland, Portugal, are back on the debt market. We noticed more than 63 % growth in corporate loans in 2013. But we cannot lose sight of the long-term structural problems.

The Eurozone is stabilizing at a very high unemployment rate; locates potential growth below 1%, the same look of the observed GDP forecasts. Deflationary pressures seen in consumer prices (0.7% core inflation in December 2013) and deflation in producer prices (-1.2 %), the creep growth – all that must remain us of the lost decade in Japanese style. The swap markets are priced at 16% risk of deflation in October this year. Without inflation there is no monetization of debt. The problem of insolvency of the most indebted countries in the Eurozone remains still unresolved. Also remains unresolved by this node connecting the risk of government bonds with a risk for banks' balance sheets. Since October 2011, i.e. before the ECB pumped into the market 1 trillion within the LTROs, the share of bonds in total assets of Spanish banks increased from 5 to 9.4 %, Italian 6.4 to 10.3 % of the Portuguese from 4.6 to 7.8 %, Slovene 7.8 to 10 %. This share has increased also in German banks from 3.8 to 4.5 % , Austrian and French jumped too by 1 pp.The tendency to conduct structural reformsdecreases with the decline in the current market pressures on the valuation of sovereign debt. European banks during the past 2 years have reduced the share of lending in the amount of EUR 2 trillion.Banks urgently need 40 billion more to meet the capital requirements.

Old Europe has a lot of unresolved structural problems. It is still too leveraged by an oversized banking system. Europe bends under the weight of debts. It has a decreasing competitiveness. Unfavorable demographic structure. Europe today is 7 % of the world population , 25 % of the world economy and half of global social spending. Extremely bad mix.

Institutional reforms undertaken in the euro area after the outbreak of the crisis are unfinished and nothing indicates their completion this year. Solomon verdict of the German

Constitutional Court, referring to the European Court of Justice the question of the legacy of the ECB conditional Outright Monetary Transactions on the secondary bond market (OMT), is clearly unfavorable for lasting stability in the debt market, because it removes ECB backstops.

Let us rejoice in the return to 1% growth in the euro zone. But to build on this base hurray medium and long-term optimistic scenario - and just such a period is counted in the economy - it's a little but not enough.