SPEECH

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3 November 2008

NINETEENTH MEETING OF THE MACRO-ECONOMIC DIALOGUE AT POLITICAL LEVEL

Time slot: 5 minutes

Time:	15.00 - 16.30 hours
Chair:	Christine Lagarde, French Minister of Economic Affairs, Finance and Employment
Introductory statements:	**Joaquín Almunia**, Commissioner for Economic and Monetary Affairs **Jean-Claude Trichet**, President of the ECB **Jean-Claude Juncker**, President of the Eurogroup **John Monks**, Secretary General of ETUC **Philippe de Buck**, Director General of BUSINESSEUROPE

The financial market crisis is affecting developed and developing economies with a growing intensity and will result in a significant global economic slowdown.

The European business community has strongly appreciated the leadership of the French Presidency, of the European Commission, the Eurogroup and the ECB and I would like to thank them for their efforts.

But nevertheless, the size and scope of present headwinds are such, that BUSINESSEUROPE forecasts that the EU economy will stagnate in 2009. This will have important repercussions for investment spending and employment. We currently expect EU27 employment to decline by 1.1 million in 2009 due to a sharp deterioration in some industrial sectors. Despite a net job creation of 2 million this year and more than 10 million jobs over the past five years we need to monitor this development very closely.

But obviously, future wage developments need to be assessed against the background of a deteriorating labour market. We therefore plead for wage moderation in order to avoid second round inflation pressures for the euro area, taking into account the margins that exist in some countries. Falling energy and commodity prices have already contributed to declining inflation – we forecast 2.4% next year.

Today, our focus should be on policies that bring back confidence and trust to markets, companies and citizens. The Commission has provided a clear and comprehensive framework to address the main issues. At the extraordinary meeting on 7 November, we expect the European Council to show collective responsibility along three lines:

1. The EU has agreed on a joint action plan. Now it is key that national **implementation is effective and avoid harmful distortions to the internal market**.

   We urgently need to **reinforce coordination, transparency and convergence of financial market supervision in the EU.** BUSINESSEUROPE stands ready to contribute actively to the reflections of the High Level Group on cross-border financial supervision chaired by Jacques de Larosière.

2. **We need to mitigate the impact of the financial crisis on the economy**.
   a) First and foremost, <u>interest rate cuts</u> are a strong signal of support as they emphasise that the ECB is taking all necessary steps. BUSINESSEUROPE has highly appreciated the concerted interest rate cut of 0.5% on 8 October and I am very pleased that the ECB has already hinted at another rate cut very soon.
   b) But further initiatives are required to support a <u>continued flow of credit</u> to the economy. State guarantees to support bank lending to the private sector are one option. Sufficiently funded and rapidly accessible EIB instruments are another. Broad-based liquidity interventions by central banks should also underpin the supply of credit.
   c) We also need to find <u>additional means within the EU budget</u> to help member states facing severe financing difficulties and assist them when going through significant currency turbulences. This is particularly important for new member states which do not benefit from the shield the euro provides and so far depend on IMF rescue packages. Several of our member federations have indeed expressed concern about the lack of an adequate framework for EU support instruments.

d) Let me also say a word on fiscal policies: What matters most is the quality of public finances. Spending on education and training, infrastructures, science and technology should be maintained or reinforced where possible as recommended by the Lisbon Strategy. Public private partnerships are key to increase the quality and to decrease the costs of such initiatives. In addition, active labour market policies should be modernised along the lines of flexicurity principles as we agreed upon together with the trade unions.

   Of course, in the current exceptional circumstances we do not oppose that the flexibility provided by the Stability and Growth Pact needs will cushion the impact of the crisis. We certainly acknowledge the stabilising effects of counter-cyclical budgetary policies. But deficits above 3% of GDP will need to be transitory and compensated by clear corrective measures further ahead.

e) We welcome recent **amendments to accounting rules by the IASB**. But we cannot exclude that further reviews at the international level will be needed to avoid pro-cyclical effects of certain arrangements. We also need to support change to the rules on **rating agencies** in order to resolve conflict of interest and improve the reliability of their assessments.

3. Finally, Europe needs to ensure that the right decisions are taken at the **international level**. We strongly hope that during the G20 summit in Washington on 15 November European policy makers will speak with one voice and propose solutions to reinforce the international financial system and its institutions while ensuring an increased participation of emerging economies.

Finally and looking beyond the short term, it is of utmost importance that heads of government at the G20 recommit to **fight protectionism, move forward trade negotiations and promote open investment policies.**

I am also confident that the strong political momentum created by this crisis will be used to good effects to reinforce economic governance for the benefit of growth and jobs in Europe.

Thank you for your attention