



BUSINESSEUROPE

Mind the gap!

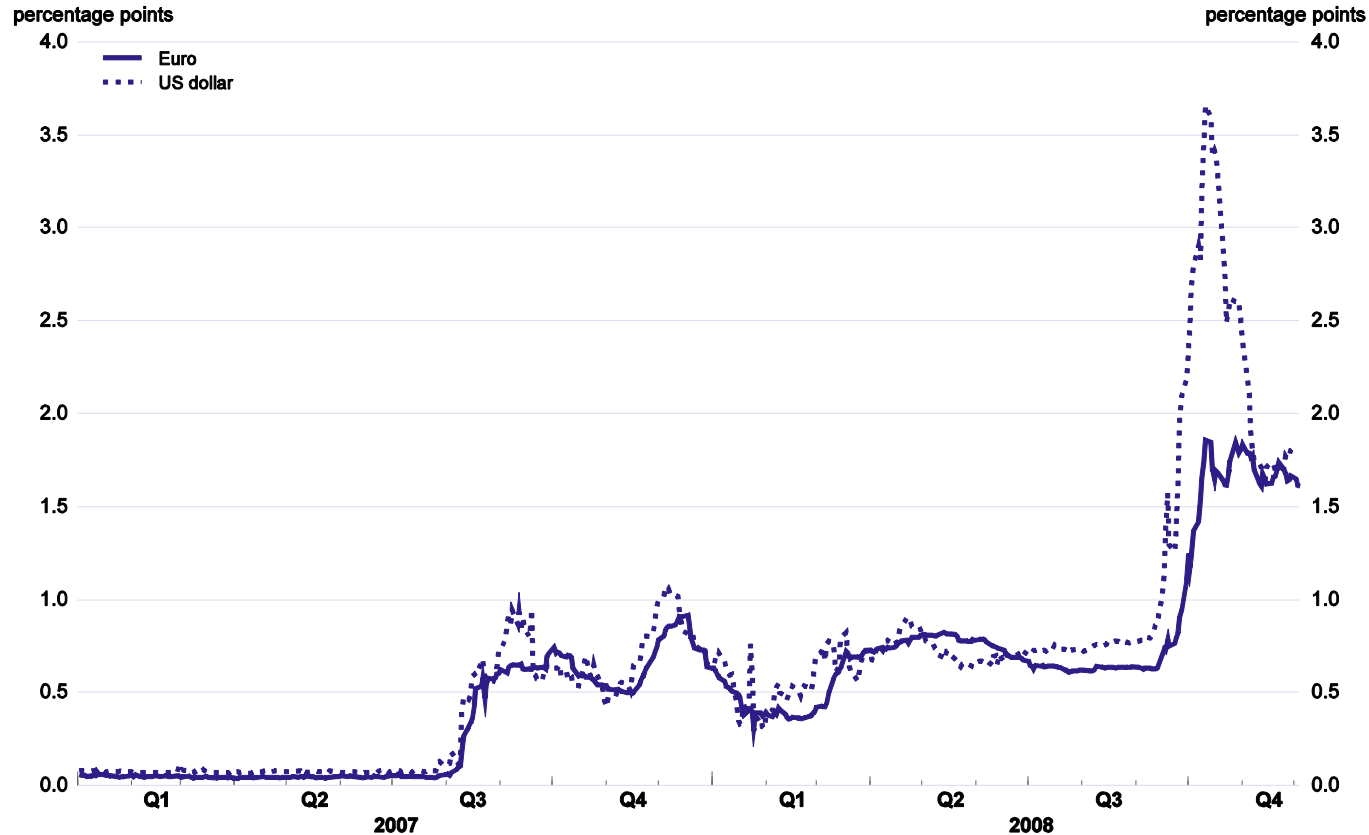
A European response to the crisis

KellenEurope

18 December 2008

Confidence in the banking sector not restored yet...

Money markets under continued strain



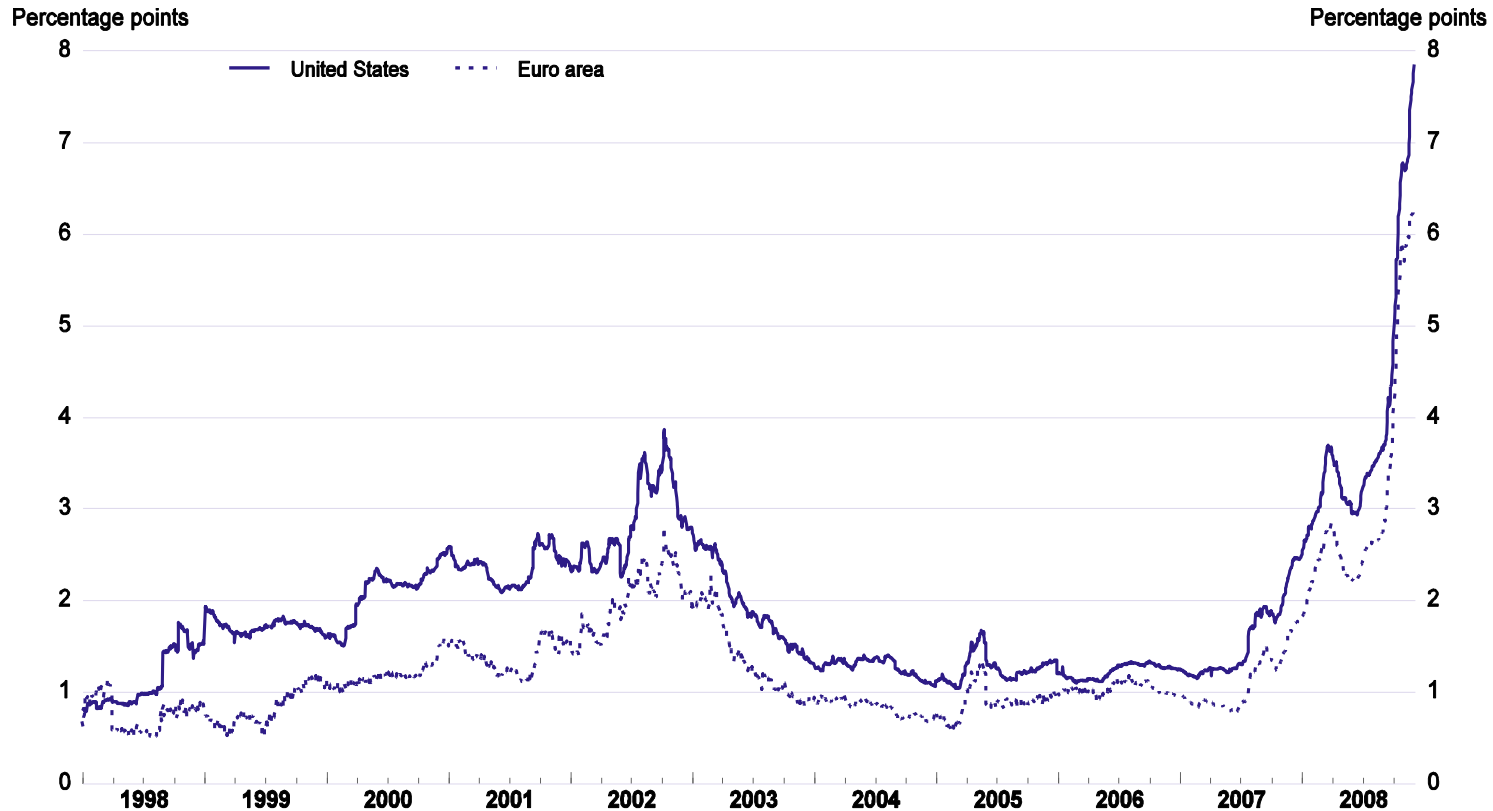
Spread between three-month EURIBOR and EONIA three-month swap index for euro area; spread between Three-month LIBOR and three-month overnight index swap for the United States

Source: Datastream; and Bloomberg



Dramatic shortage of financing is having a major effect on business activity...

Corporate bond spreads going through the roof

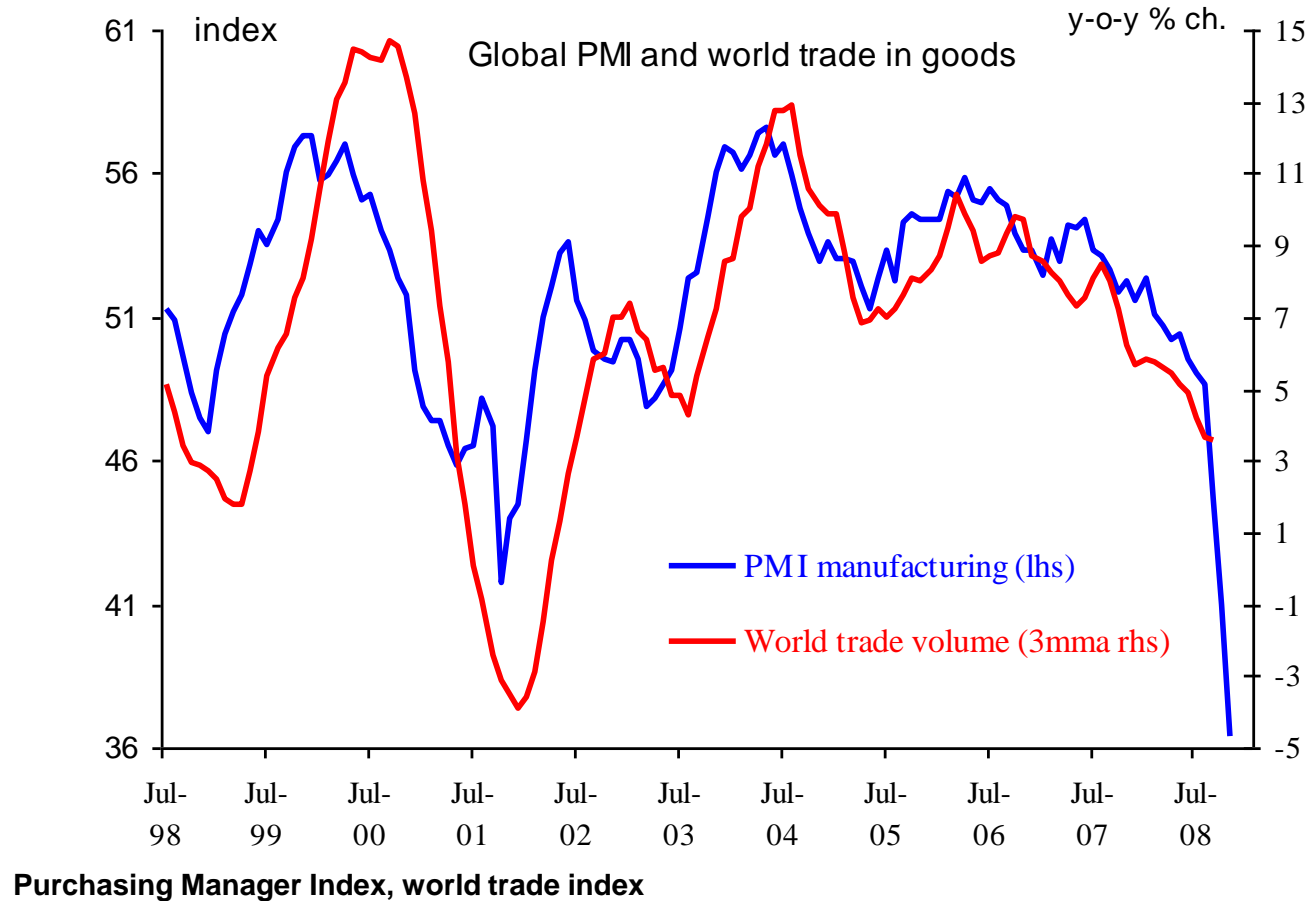


Merryl Lynch corporate BBB rate bonds. Spreads based on average yields for 5-7 years and 7-10 years.



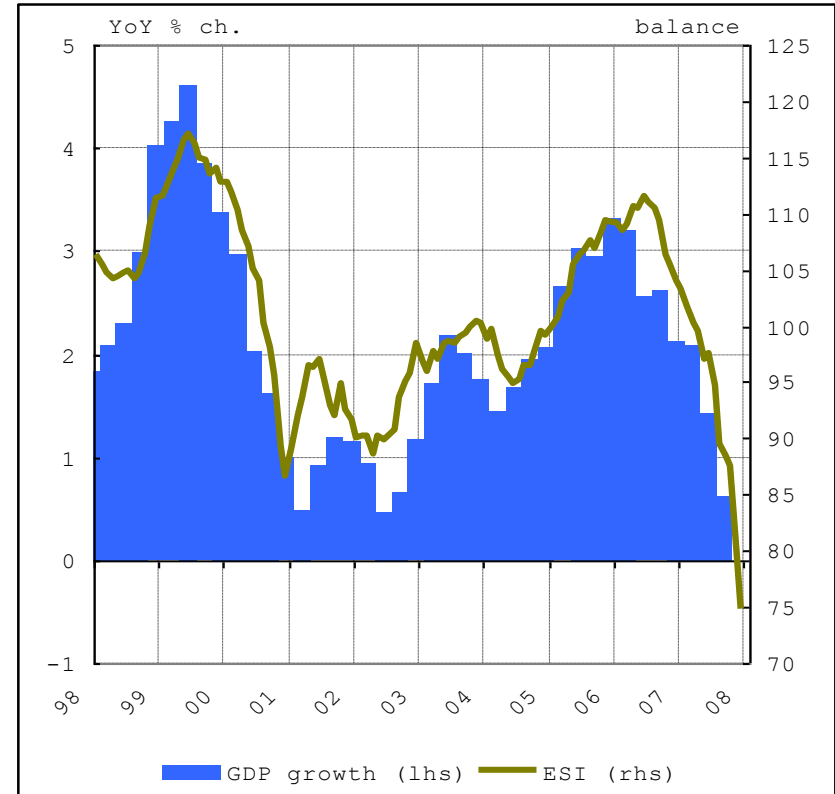
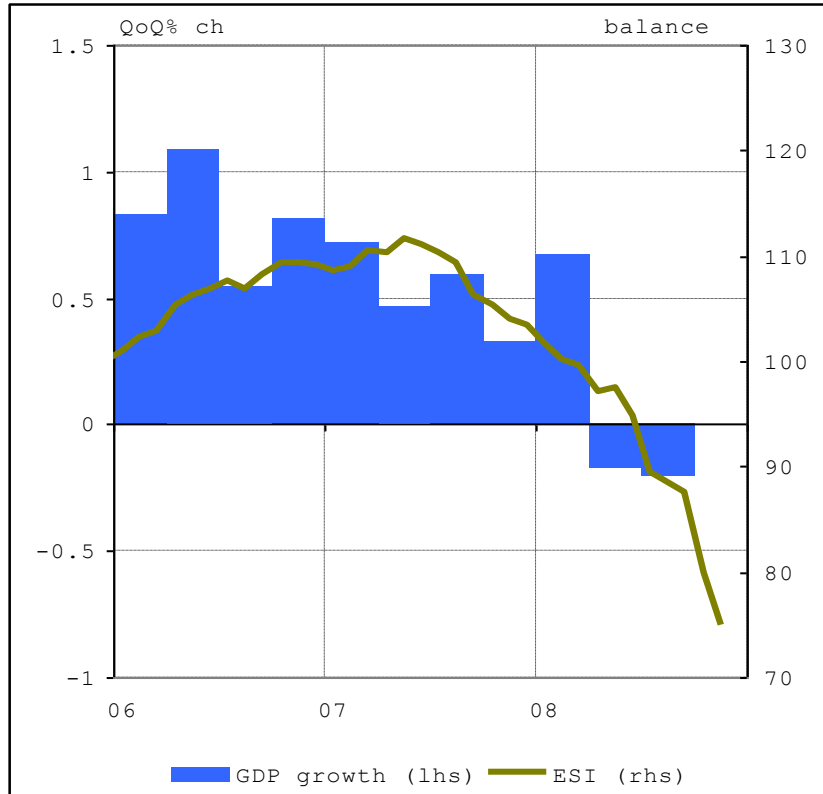
A crisis of global proportion: world activity and trade is taking a nose dive...

Global confidence in industry and world trade in goods



The recession in Europe is deep and sudden...

GDP growth and ESI, euro area



Eurostat, EU Commission



Length and scope of the downturn is unknown, but likely to be significant...

Forecasts still assume a gradual recovery in 2009H2

IMF forecasts, nov. 6	2007	2008	2009
World growth (market exc. rate)	3.7	2.6	1.1
Advanced economies	2.6	1.4	-0.3
United States	2.0	1.4	-0.7
Euro area	2.6	1.2	-0.5
Germany	2.5	1.7	-0.8
France	2.2	0.8	-0.5
Italy	1.5	-0.2	-0.6
Spain	3.7	1.4	-0.7
Japan	2.1	0.5	-0.2
United Kingdom	3.0	0.8	-1.3

IMF, November 2008



A four pillar response to the crisis...

1. Reduce level of financial stress

- ⇒ Improve effectiveness of bank rescue plans
- ⇒ Incentives to restore financing flows to companies
- ⇒ Consider exceptional measures (direct purchase of commercial paper and other corporate debt instruments)

2. Design effective monetary and fiscal stimulus

- ⇒ Low interest rates and broad liquidity interventions by central banks
- ⇒ Bold fiscal stimulus under key conditions (timely, targeted, transitory and coordinated at both EU and international level)
- ⇒ Avoid a war of subsidies, support investment and adaptability



A four pillar response to the crisis...

3. Resist all forms of protectionism

- ⇒ Conclude Doha trade negotiations
- ⇒ Avoid fuelling trade tensions through artificial support measures (subsidies, currency devaluations, etc...)
- ⇒ Prevent a fall back to old-style industrial policies/economic nationalism

4. Speed up reforms

- ⇒ Crisis will have lasting impact on growth (risk averseness, higher public debt, higher unemployment, significant relocation of resources)
- ⇒ Financial market reforms but also product, labour and public finance reforms)



The EU can come out of the crisis politically reinforced ...

- Political leadership since the start of the crisis
- Collective responsibility is possible
- Common challenges will dominate in coming years
- The euro is an asset

But....

- Member states must show a strong commitment to coordinated economic policies
- The Commission has to raise its game and make the Lisbon Strategy a more effective instrument for the recovery

