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MEETING WITH MICHAEL GLOS, MINISTER OF ECONOMICS AND TECHNOLOGY

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BUSINESSEUROPE PRIORITIES FOR THE EUROPEAN ECONOMIC RECOVERY

Recent developments clearly confirm the depth of the financial and economic crisis:

- In December, EU27 business confidence hit the lowest level since 1985.
- Industrial production is contracting at the fastest pace since early 1993, with a year-on-year decline of 7.7% registered in November 2008 (industrial production excluding construction and energy).
- Companies face a dramatic deterioration in financing conditions and are scaling back investment very significantly.
- Unemployment in Europe is rising at the fastest pace since 1993. Total unemployment decreased by 300,000 in 2008. The current consensus of forecasters expects for 2009 an increase in the number of unemployed close to 2.5 million.
- On the positive side, oil prices have dropped considerably over the last six months, meaning that inflation in the euro area will continue its downward trend from the latest estimate of 1.6% in December 2008.

Important initiatives have already been taken by Governments and central banks to address the more immediate concerns:

- Interest rates set by central banks have been slashed to very low levels, and liquidity interventions broadened considerably. In this regard we welcome yesterday's decision by the ECB to cut interest rates further to 2%. Against the recent series of very weak economic data and with further evidence of falling inflation, it is important that the ECB maintains its pragmatic and pro-active attitude and will provide further monetary stimulus to the economy if deemed necessary.
- Bank rescue plans in the euro area were accorded for a total amount of almost €2,000bn, of which €1,700bn in guarantees and €300bn in capital injections. In the EU as a whole, rescue plans amount to more than €2,500bn, of which €370bn in capital injections.

THE CONFEDERATION OF EUROPEAN BUSINESS a.i.s.b.l.

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@BUSINESSEUROPE.EU
WWW.BUSINESSEUROPE.EU

- European Heads of State and Government agreed on an EU recovery plan amounting to €200bn at their December Summit, comprising €170bn in national measures and €30bn from EU financial resources.

But challenges remain immense, and despite common intentions, European Member States still fail to show a strong commitment to coordination.

Against this background we think urgent policy actions are needed along three lines:

1. **Reduce level of financial stress**

The scope and size of bank rescue plans has been impressive, but their effectiveness varies. The recapitalisation process remains incomplete and interbank guarantees are fragmented and insufficient to restore confidence in the banking sector.

To restore a normal functioning of the interbank market, we consider that the ECB could take more prominent role by becoming a "clearing house" for interbank lending. We appreciate that ECB Vice-President Papademos recently communicated that such an option was "potentially applicable"

We also strongly encourage public guarantees and risk sharing facilities to support lending to companies, keeping in mind the need to maintain a level playing field on the internal market

BUSINESSEUROPE is also reflecting at present on the suitability of more radical measures if normal conditions to finance economic activity cannot be restored rapidly (e.g. the direct purchase of long term Government bonds, commercial paper and other corporate instruments by the ECB and other European central banks).

Finally, EU policy makers must bear in mind the situation of new Member States which are severely affected by the crisis but have limited financial resources to rescue their economies. The EU must stand ready to help them financially and make sure that more mature economies are mindful of the effects of their rescue measures and guarantees for new Member States.

2. **Implement recovery plan**

According to our calculations, national recovery plans in the EU for 2009 amount to €140bn or 1.1% of GDP, compared with €170bn has committed by Heads of State and Government at the December European Council.

However, we strongly appreciate that after some hesitation has also Germany signalled its intention to implement a more substantial national rescue package. For the credibility and impact of the EU's recovery plan it was absolutely critical that Germany committed to more ambitious actions.

It is also important that Governments take measures showing their commitment to restore sound budgetary positions after the peak of the turmoil has passed, as

Germany just did with its plan to prohibit deficits in excess of 0.5% of GDP in "normal times".

This is a condition for the effectiveness of the recovery measures. Otherwise, concerns about rising public debt will dominate, which will crowd out the effect on consumption and business investment (i.e. higher long-term interest rates, expectations of higher taxes in the future).

At EU wide level, we regret that some Member States appear reluctant to agree on the use of €5bn of unspent Common Agricultural Policy funds for investments in broad-band internet infrastructure and energy interconnections. While the Commission should provide sufficient details about the nature of the investment projects, we consider that these are in principle "smart" infrastructure projects that should receive the backing of Member States.

The importance of better energy interconnections has been emphasised once again by the latest Russian-Ukrainian gas dispute underlining the need to rapidly complete the internal market for energy.

3. Speed up reforms

The current situation must serve as a catalyst for structural reforms to increase the long term growth potential by improving economic and labour market structures. Failing to make these changes will allow other regions to emerge ahead of Europe.

It is important that Member States not only focus on financial market reforms, but especially push ahead labour market reforms. Flexicurity principles need to be implemented urgently in order to avoid lasting negative repercussions of the crisis on employment.

Of course, these measures need to be placed in a wider context. The economic recovery is unthinkable without further product market reforms or stimulating SMEs and entrepreneurship across Europe. Giving substance to the "Think Small First" principle is therefore crucial. 2008 has been the year of adopting the Small Business Act, 2009 must be the year of implementation.

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