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9 February 2009

## TWENTIETH MEETING OF THE MACRO-ECONOMIC DIALOGUE AT POLITICAL LEVEL

### INTRODUCTORY STATEMENT BY ERNEST-ANTOINE SEILLIÈRE, PRESIDENT OF BUSINESSEUROPE

Since our last meeting in October, the economic situation has deteriorated sharply. The recession arrived faster in Europe than we expected, and it is deeper and more widespread. In fact, the IMF predicts that world economic growth will virtually stall in 2009.

Although the crisis originated outside Europe, our companies are affected severely:

- Business confidence in Europe currently is at the lowest level since 1985.
- Weak banks and skyrocketing risk aversion is strangling companies' access to finance.
- Companies' assessment of new orders has plunged dramatically. In January it stands at an all-time low.
- Looking forward, we fear that rising losses in the financial sector could lead to a new spiral of asset price depreciation, credit restrictions and growing risks of default among non-financial corporations.
- The IMF estimates that total bank losses could amount to 2,200bn USD – with a substantial share accounted for by European banks. Disclosed losses to date are only a fraction of this amount.

Understandably, employment intentions of companies have already deteriorated. Timely policy decisions are therefore critical to avoid an escalation of labour market problems.

BUSINESSEUROPE advocates a four-pillar strategy:

#### 1. **Companies' access to finance must be improved**

In the short run, restoring access to finance for companies is absolutely critical. Unless financial markets and commercial banks return to normal functions, the effectiveness of recovery plans will be severely limited.

#### 2. **Member states must support growth and jobs with stimulus measures**

We are clearly in favour of bold and well designed economic stimulus packages, although we feel some of them are not sufficiently targeted.



### **3. Implementation of structural reforms must be accelerated**

This is needed to shore up companies, help labour markets and improve public finances.

### **4. We must resist all forms of protectionism**

It must be obvious to everybody that a new era of protectionism would be fatal. Therefore it is critical that governments honour the undertakings they gave at the G20 summit in Washington on 14-15 November 2008. Better coordination of recovery plans and in particular credible reforms of financial markets at the international level must be ensured. Business has high expectations regarding the next summit in London on 2 April.

This is the strategy we propose. Now, it is critical not to lose valuable time. What do we expect?

#### a) The European Commission

- The business community appreciates the Commission's efforts to ensure a European approach to the current crisis. We have welcomed the temporary state aid rules and the EU recovery plan. We also approve of its determination to concentrate support measures on sectors that are hardest hit, for example the automotive industry. The Commission should make sure that the recovery measures are implemented at both national and EU-wide level.
- But we also need from the Commission a clear strategy to deal with growing public deficits. Unless cost-saving reforms are undertaken, for example pension or public sector reforms, the credibility of both the Stability and Growth Pact and the Lisbon Strategy will be brought into question.
- Finally, we strongly encourage the Commission to intervene whenever potentially protectionist measures are identified. This must hold for our global trading partners, but of course also within the EU.

#### b) The EcoFin Council and the Eurogroup

- Public interventions to shore up banks and capital markets are vital. Important steps have been taken. But, I feel there is still a lot that can be done to improve the scope and effectiveness of bank rescue plans.
- We at BUSINESSEUROPE have set up a high-level group that will make concrete proposals in coming weeks. Of course, we must keep in mind that measures should be effective in restoring credit flows but also proportionate, reversible and well coordinated.
- At present, the business community is very concerned about the impact of uncoordinated national proposals that will give rise to financial protectionism across Europe.



- Looking beyond the financial markets, I must say that we are particularly alarmed about the lack of a credible medium-term strategy towards sustainable public finances.
- Therefore recovery plans must include structural reforms as formulated within the Lisbon Strategy.
- In this respect, I strongly encourage the EcoFin Council to send a strong signal regarding the principle of “smart” infrastructure investments. The Council must quickly agree on the use of 5bn euro of unspent Common Agricultural Policy funds for investments in broadband Internet infrastructure and energy interconnections.

## c) Central banks and the ECB

- The first line of defence in such a crisis obviously is monetary policy. Over the past months, the ECB has done a great job, but the business community is convinced that interest rates will need to be cut further – and, President Trichet, we have understood your message of 5 February loud and clearly and fully appreciate it.
- But, the ECB should also consider, like the US Fed or the Bank of England, measures of quantitative as well as qualitative easing, i.e. direct purchase of government and corporate debt on secondary markets.

## d) Trade unions

- Under current circumstances, an effective dialogue between social partners is important. The economic situation has evolved. But this is by no means a reason to backtrack on the conclusions of our joint labour market analysis of October 2007. It is no reason either to question what we have agreed – together – regarding flexicurity. In fact, the real impact of flexicurity is not measured in good times. Its effectiveness is demonstrated precisely under more difficult conditions – as today.
- Therefore we must speed up the implementation of the flexicurity approach and focus in particular on three aspects:
  - o working time flexibility. This is a good way to allow companies to keep their skilled workforce and to avoid layoffs.
  - o Lower non-wage labour costs. This will also help companies maintain their head counts.
  - o Education and training. The next economic upswing will be unthinkable if companies lack a sufficiently qualified work force.



e) Companies

- Finally, companies also need to do their part – and I am very confident about that. Despite the extremely difficult economic situation, I see committed entrepreneurs who do their best and try to maintain their workforce.
- As the president of BUSINESSEUROPE I also strongly encourage them to use the current situation and to invest in training, skills and human resources. This is crucial to lay the foundations for future growth.
- But I must say that this is also the time for a strong and effective social dialogue – at European and national level. I can assure you, BUSINESSEUROPE is open for fruitful discussions.

Thank you for your attention!

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