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**HUP ENTREPRENEURIAL DAY 2009  
ECONOMIC CRISIS: PROBLEMS AND OPTIONS  
TUESDAY 5 MAY 2009, ZAGREB**

***HOW IS EUROPE HANDLING THE CRISIS: PROBLEMS AND OPTIONS?*  
ADDRESS BY PHILIPPE DE BUCK, DIRECTOR GENERAL OF BUSINESSEUROPE**

Dear President,  
Dear Prime Minister,  
Ladies and Gentlemen,

I would like to start by thanking very much our host, Mr Damir KUŠTRAK. It is for me a great pleasure to have been invited to join HUP in this important event. It is an even greater honour to be given the opportunity to speak alongside such distinguished guests today.

The extent of the financial and economic crisis is now all too visible. It is leading Europe into its deepest recession on record. Companies of all sizes and from all sectors are severely affected. As business representatives and business leaders we are all very concerned. HUP made the crisis the topic of its Entrepreneurial Day this year. What is more important are the options to overcome it.

Croatia has not been spared. I look forward to hearing in more detail about the situation in the different sectors of the Croatian economy from prominent speakers in a few minutes. I would like to share with you the views of European companies on how is Europe handling the crisis?

BUSINESSEUROPE is the Confederation of European Business. We bring together 40 leading national business federations in 34 countries across Europe. Together they represent more than 20 million small, medium and larger companies. We are very proud that the representativeness of our organisation goes behind EU borders. We gather members originating not only from the 27 Member States of European Union. We also have members from the EU's neighbour countries and closest economic partners, as is the case for HUP. Promoting a favourable and competitive environment for companies to thrive is our main task.



And we succeeded over the past years! Yes, we had sustained growth in Europe. Thanks to the availability of private equity. Thanks to very low interest rates. Thanks to an unprecedented period of strong world growth. This benefited the EU as an open and export-oriented economy. This also benefited its neighbours. Unemployment was at a historically low level. Never before were so many jobs created in the EU. Ten million over the past three years alone.

Today we have entered a different era. It started back in 2006 with the beginning of the subprime crisis. It continued in 2007 with doubts about the value of toxic assets. It turned in 2008 into a complete freeze of interbank lending and capital markets. This was the last signal needed to reverse the economy from growth into recession.

The crisis in the financial sector – we have to admit it – has to a large extent a private business origin. It was amplified by the lack of appropriate coordination among regulators:

- Macro-economic policies were inadequately coordinated. Structural reforms were insufficient.
- Regulation was inappropriate or even absent for certain areas of activity.
- Existing monetary or exchange rate policies led to excessive liquidity on the money markets.
- High yields were achieved without any accurate assessment of the risks.

The Commission yesterday released its spring economic forecasts confirming the depth of the recession in Europe this year. EU27 GDP is expected to contract by close to 4%. Investment spending will plunge by 7.3%. Exports by 5.7%. Employment is also suffering more immediate consequences compared with previous downturns. BUSINESSEUROPE's updated forecasts foresee 5.2 million job losses in 2009.

These unprecedented difficulties have forced European policy-makers to refocus their priorities and actions. Over the past six months, the European Commission and EU27 Member States have agreed on a number of important measures at national and European level. Where are we now?

- Some measures have already been able to alleviate the impact of the crisis on companies and workers.
- In its latest forecasts, the European Commission sees the first signs of stabilisation of the EU economy in coming months.
- Business confidence stopped deteriorating in April. This is a first sign that the worst of the recession could be behind us.
- But the outlook remains extremely uncertain. The large majority of agreed measures will only produce their effect in the medium to long term.

We must beware of the temptation to simply awarding good and bad marks to policy-makers. We must actively take part in the European response to the crisis. In BUSINESSEUROPE, we have had an in-depth reflection with all our members on what should be the EU strategy to get out of the crisis. We have identified four pillars:



1. Companies' access to finance must be restored
2. All forms of protectionism must be resisted
3. Stimulus measures must support growth and jobs
4. Structural reforms must be implemented rapidly

## 1. COMPANIES' ACCESS TO FINANCE MUST BE RESTORED

This is the n°1 priority. There is no separation between the financial economy and the real economy. If anybody doubted this, they have the proof today. If the financial markets do not work properly, the economy at large is affected.

The financial turmoil was at the origin of the global economic crisis. We will not overcome it as long as we are unable to bring back confidence on the markets. The interventions of governments and central banks after the intensification of financial market tensions in September 2008 have been decisive. They have helped to maintain liquidity and reduce systemic risks in the financial system. European authorities have played their roles on time. They have mobilised huge means. We praise in particular the engagement of the ECB.

But clearly companies still face life-threatening financing difficulties. What more should be done?

Some actors have a key role to play in stopping a further escalation on the markets and providing immediate relief for companies:

- The ECB and national central banks should consider unconventional measures. These comprise the purchase of commercial paper and other short-term corporate debt instruments. We wait for possible decisions to be taken by governors at their monthly meeting next Thursday.
- The role of the EIB and EIF should also be further extended. The scope of risk-sharing guarantees should be widened.
- Member States must reduce payment delays, reduce administrative burdens and implement targeted fiscal measures.
- The European Commission must fight financial protectionism. A common European approach should allow the necessary restructuring of the banking sector while preserving competition and the integrity of capital markets.

Of course financial market rules have to be reviewed. International coordination is essential to prevent the situation from repeating. The agenda of financial market reforms agreed by the G20 leaders in London on 2 April was an important step. Europe has demonstrated leadership by putting sensible proposals on the table. It is now crucial that the G20 commitments are turned into concrete actions.



## **2. ALL FORMS OF PROTECTIONISM MUST BE RESISTED**

Protectionism does not save jobs. It destroys them. Everybody will lose if global free trade is undermined. This is particularly true for smaller and export-oriented economies that rely heavily on external demand. The latest forecasts give rise to very serious concerns. According to the IMF and the World Bank, trade activity will decline by approximately 10% this year. What is being done by policy-makers to curb this dangerous trend?

G20 countries have strengthened their commitment to combat protectionism at their London summit. A move applauded by the entire business community. Together we are monitoring the emergence of protectionist measures throughout the world. We will continue to inform the Commission and press it to intervene with trade partners whenever new barriers to free trade and investment arise. It is important that you do the same with your government.

An ambitious and balanced conclusion of the Doha Round is the most important achievement that is still missing in a global recovery strategy.

## **3. STIMULUS MEASURES MUST SUPPORT GROWTH AND JOBS**

The cornerstone of the EU response to the crisis is the Economic Recovery Plan endorsed by EU leaders in December. It calls for EU and national stimulus measures amounting to €200 billion (1.5% of EU GDP). It also allows €5 billion for strategic infrastructure investments.

Decisive national recovery measures must be targeted, timely and temporary. We estimate that discretionary measures to support the recovery currently amount to 1.2% of GDP. Automatic stabilisers are likely to add another 2% of GDP. This is a substantial contribution to economic stabilisation. But is it enough?

We do not call for more public spending. What is critical at present is:

- better coordination of national measures,
- clear deadlines for their implementation,
- and monitoring at EU level.

This is our message to the EU. This should be done with no delay.

## **4. STRUCTURAL REFORMS MUST BE IMPLEMENTED RAPIDLY**

There is no shortcut to the recovery. Only through an effective reform strategy will it be possible to create the conditions for a sustainable recovery. And this has been so far missing in the European response to the crisis.



We regret to have already gathered evidence of a slowdown in progress in 2008. Our spring European Reform Barometer provides a comprehensive review of structural reforms across EU Member States. It is based on member federations' assessment of national reform progress. What do we learn?

- Better regulation can bring quick wins for companies. Progressing on simplification and transparency is a priority. So is ensuring correct implementation of internal market legislation into national law. A number of legislative proposals which could create unnecessary burden for companies in these particularly difficult times should be re-examined.
- Sustainability of public finances must be ensured by reducing age-related expenditures, improving effectiveness of public administrations and developing performance benchmarking.
- Labour market reforms are needed now to increase adaptability of the workforce. This will mitigate the social impact of the crisis. It is urgent to introduce flexible working time arrangements, reduce non wage labour costs and invest in education and training. Well-functioning social dialogue is essential to prepare and accompany these structural changes.

A special Employment Summit will take place this Thursday in Prague. This will be an important milestone to see how Europe can alleviate the impact of the crisis for workers and companies. We believe the European social partners can show the way forward. BUSINESSEUROPE will present 12 new concrete proposals on this occasion.

## **CONCLUSION**

Europe's response to the global economic and financial crisis goes in the right direction. EU actions have been so far supported by the business community. We believe Europe is on the right track. But it is time for EU leaders to demonstrate they can move a step further along the four-pillar strategy advocated by BUSINESSEUROPE.

The EU cannot do it all alone. We are now living a world crisis and a global recession expected in 2009. If we want the signs of a possible recovery by the end of 2010 to materialise, we need a strong international coordination to rapidly and properly implement sustainable remedies to the crisis. No country should be left behind.

At the EU level, this is particularly true for candidate countries. The current difficulties should by no means fuel political arguments that would freeze EU accession negotiations. So far technical negotiations between the EU and Croatia have proceeded smoothly. Cross-border trade increased significantly since the opening of the EU market under the Stabilisation and Association Agreement in 2002. European and Croatian companies would benefit even more from a closer economic integration. We encourage Croatia to pursue its convergence efforts and complete the EU accession process as soon as possible.



Enlargement will be a major challenge for Europe's future. I can name many others: shaping globalisation, dealing with the demographic transition, fighting climate change. We put high expectations in the new European Parliament to address these challenges. We have just published our message in view of the European elections next month. Only by putting companies and their competitiveness at the heart of the political agenda will be able to "*unfold Europe's future*".

BUSINESSEUROPE, HUP and the rest of our members will remain vigilant, continue to defend our positions and remain confident in what the companies we represent can achieve. Together we will continue to be proactive in offering sustainable solutions to the world's economic and social challenges.

Thank you very much for your attention.

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