BUSINESSEUROPE

SPEECH

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THE EUROFI FINANCIAL FORUM 2009
"WHAT PRIORITIES FOR THE INCOMING EUROPEAN AUTHORITIES IN LIGHT OF THE FINANCIAL CRISIS?" ON 29 SEPTEMBER - 1 OCTOBER IN GÖTEBURG

SPEAKING NOTES FOR PLENARY SESSION "KEY DRIVERS TO EXIT FROM THE CURRENT CRISIS" ON 29 SEPTEMBER, 16.30-18.00
PHILIPPE DE BUCK, DIRECTOR GENERAL OF BUSINESSEUROPE

Ladies and Gentlemen,

The mood among European companies has improved during the summer but **the recovery is on very fragile grounds and access to finance is still a major concern**.

- Thanks to the determined interventions by central banks and governments, financial markets tensions have eased considerably. Banks can now finance themselves at quite favourable conditions, at least on short-term maturities.
- But funding conditions for companies remain very tight. In our September Economic Outlook we predict that EU investment will fall by over 10% this year and by another 2% next year.
- Despite this collapse in capital spending, the demand for financing is still elevated. The best illustration of that is the extraordinary level of activity on corporate bond markets during the first half of 2009.
- Companies are credit-constrained. No one can reasonably deny that banks are more selective and less able/willing to lend today. They are seeking to reinforce their capital basis and rebuild their profitability. And they are pressed to do it now because they know that exceptional support measures will come to an end and more stringent capital rules will be imposed on them in the future.
- So, yes, we are very concerned about access to credit for companies, in particular for SMEs, with many of them struggling today to meet their basic funding and working capital needs.
- In a recent ECB survey, 43% of SMEs in the euro area reported a deterioration in the availability of bank loans during the first half of 2009.

Our credo is: financial stability and growth can and should be achieved at the same time. It would be totally wrong to oppose the two objectives. To reinforce financing stability we need to re-open funding channels and restore investor's confidence.

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At the beginning of 2009, our organisation has issued 16 recommendations to facilitate **access to finance for companies** (Betbeze report).

A great number of them have been implemented or proposed for implementation. For instance, the role of the EIB and ECB was significantly bolstered. Also reforms are under way to put securitization and derivatives markets on a sounder footing (securitisation: part of the risk of the underlying assets retained by the originator; credit derivatives: standardisation and central clearing process, where appropriate)

BUSINESSEUROPE is now working together with the main **European financial associations representing banks (EBF), securities exchanges (FESE), pension funds (EFRP), venture capital (EVCA) and the accountancy profession (FEE).** Our common objective is to make sure that financial market reforms correct the excesses of the past without stiffing the financing of growth and investment.

We have a strong common basis and clear messages to policy makers.

I would like to mention **three of these messages**:

(1) Supervision should be adapted to the reality of integrated financial markets

a. The European Commission last week presented its proposals for a better coordinated supervision system based on the de Larosière report.
b. But effective cross-border supervision also depends on clear rules to resolve crisis when they occur. This includes progress between European Member States on the thorny issue of burden-sharing.
c. We also need progress on the treatment of systemic banks, which is not necessarily linked to their actual size. In our report we call for an internationally-agreed framework for winding down large financial firms. The conclusion of the G20 last week provides a good basis for future work on this important issue.

(2) Better use of capital buffers – at the right time

a. Enhancing capital requirements must be at the core of reform efforts. If done properly, it will lead to a more resilient financial system, will improve risk management and reduce pro-cyclicality.
b. But there are three issues that are of essence here:
    i. We need a thorough impact on companies' access to finance. We need a complete picture of all the interactions between individual proposals and how they will affect the availability of credit, particularly for SMEs. The current approach to changing capital rules for banks is too fragmented.
    ii. Timing is key. More stringent capital requirements should only be put in place when the recovery is firmly anchored to avoid further credit constraints.
    iii. We need a level playing field at the International Level. In this regard, the G20 conclusions last Friday demonstrate a strong commitment.

(3) Coordinated exit to public interventions in the financial sector

a. The financial system still needs the support of central banks and governments. But we need to plan ahead the exit strategies.
b. The withdrawal will need to be timely and based on internationally coordinated criteria to avoid further financial turmoil.
c. There, we also very much welcome that the G20 is determined to make progress on the coordination of exit strategies before the end of the year.

Let me conclude by emphasizing that **<u>any exit strategy to this crisis must be broad-based</u>** not only aimed at healing the ills of the financial sector. Governments also need to cope with excessive public deficits without simply reverting to tax hikes. They need to enact reforms that **<u>foster entrepreneurship, employment and innovation</u>**.

Finally, fighting protectionism and achieving a global approach to trade liberalisation and climate mitigation are other crucial elements to reach again a sustainable growth path.

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