BUSINESSEUROPE

SPEAKING POINTS

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"BANKS FOR GROWTH" EUROPEAN BANKING FEDERATION CONFERENCE 20 MARCH 2013, BRUSSELS

SESSION III – THE CHALLENGE OF FINANCING BUSINESS? 14.15 – 15.30 HOURS

MR JÜRGEN R. THUMANN, PRESIDENT OF BUSINESSEUROPE

Ladies and Gentlemen,

It is a pleasure and an honour to join the EBF annual conference and to speak about the challenges of financing business.

Economic situation

Let me start by some key facts concerning the economic situation and the state of access to finance in Europe.

We have seen some tentative signs, during the first months of 2013, that confidence in the European economy is at least stabilising and in some countries, slowly starting to return.

A strong and clear commitment by the ECB to safeguard the Euro, steps towards a banking union, and progress on structural reform in a number of Member States have all contributed to an improvement of financial stability since last summer.

But Europe is now entering into a critical phase of its recovery. On the surface, there are signs of improvement but we are walking on very thin ice and the pendulum can quickly swing back to the worst moments of the crisis if doubts about the ability to pursue necessary reforms in the European Union re-emerge.

Access to finance situation

Access to finance remains a major concern. Both demand and supply factors continue to have a negative impact on levels of new borrowing and investment by companies.

Reflecting recent uncertainty and continuing weaknesses in the economy, the demand for loans from many businesses remains subdued.

But, on the supply side, interest rates charged for bank loans to businesses continue to diverge, depending on both the size of the business and the country where the business applies for bank loans.

But overall as the latest ECB lending surveys highlights, the terms and conditions under which banks are willing to lend to business, remain very tight.

This supply constraint will become an increasingly important issue as the economy starts to pick up and demand for finance increases.

And as we are all aware, bank lending is a particularly important issue here in Europe, where companies depend highly on bank intermediation for their access to finance compared, for example, to the US.

Policy responses

So, what needs to be done?

We think policy makers need to take action in 3 areas:

- Firstly, we continue to need to do everything we can to reinforce the euro.

As well as growth-enhancing reforms at national level, this means, strengthening the foundations upon which the euro itself is built.

Of particular importance is building the banking union where we are looking forward to the finalisation and implementation of a single supervisory mechanism for all credit institutions established in the euro area. This must be followed by further action to strengthen bank resolution and deposit insurance schemes.

- Secondly, we need to ensure that financial market reforms strike the right balance between safeguarding financial stability and the financing needs of companies. I shall turn to this issue in more detail in a moment.

- And finally, as others on the panel *have spoken / will speak about*, we need to develop alternative sources of financing for companies.

Financial Market Reform

But let me focus upon what we mean by a balanced agenda of financial markets reforms:

Firstly, let me be clear, BUSINESSEUROPE supports regulatory initiatives that address the regulatory failures that led to the financial crisis and reduce the risk of new crises occurring.

But as I said, reforms must strike the right balance and be mindful of their consequences for non-financial companies which depend on the services of financial companies for their investments in the real economy.

Basel III is a case in point. Tighter capital rules for banks are clearly needed but this will obviously lead to more restrictive lending conditions for companies.

This will interact with other prudential rules, such as those linked to **Solvency II** for insurance companies, which also discourage investment in riskier assets such as equity and favours government debt.

New accounting rules will also impact on capital allocation such as requirements to bring securitised loans on to banks' books and rules related to the way financial institutions account for bad loans.

Smart regulation must ensure that the right solutions are found and that policies are effective and proportionate in their scope and nature. Comprehensive impact assessments must therefore be carried out which address the cumulative impact of different reform measures.

Conclusions

And finally as a concluding point. We need a balanced financial reform agenda. And part of that balance means ensuring that there is a consistent application of regulatory standards at global level.

G20 countries should work cooperatively on the implementation and further calibration of the new rules – especially across the Atlantic – to ensure both that access to finance and the competitiveness of European companies will not be unduly affected, and that the EU will not be hit by a financial crisis from elsewhere in the global economy.

Thank you for your attention.

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