BUSINESSEUROPE

SPEAKING NOTES

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"IS EUROPE DOING ENOUGH TO FIGHT THE CREDIT CRISIS?"

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Ladies and Gentlemen,

I warmly welcome you to the joint BUSINESSEUROPE-CEPS conference with a highly topical question: "Is Europe Doing Enough to Fight the Credit Crisis?"

Introduction

I agree with Onno Ruding on the political importance of the report produced by the de Larosière Group. We need to restore confidence in financial markets. We need a regulatory framework which will prevent a repetition of this crisis in the future.

I am very happy that Martin Power is here to present the European Financial Supervision Package availed by the Commission today. This will undoubtedly open a lively debate on the future architecture of financial supervision in Europe.

BUSINESSEUROPE has already emphasised the need to strengthen cross-border supervision. We have also asked to extend oversight to all unregulated actors.

In addition, there is a need to revive markets that for good or bad reasons suffered most from the crisis. These markets continue to play a vital role for corporate financing.

To restore their functioning, we have called for the

- standardisation of over-the-counter credit derivatives;
- the central clearing of credit default swaps;
- and increased transparency of securitised products.

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State of financial and economic crisis

But EU institutions cannot only focus on the necessary reforms of financial markets. A lot still needs to be done to contain the credit crisis and its effect on the wider economy.

European companies are now feeling the full blast of the financial crisis:

- Investment has already fallen by more than 15% from its peak in the first quarter of 2008. This compares with a mere 3% contraction following the dot.com bubble.

- Intra-EU trade has dropped by a stunning 25% according to February data. This is even more than the collapse of exports towards the rest of the world. Rising trade financing difficulties, also within the EU, are an important factor for this massive trade dislocation.

As a result, EU GDP is expected to decline by 4% and 5.7 million jobs will be lost by the end of this year. The manufacturing sector is acutely affected.

European decision-makers have not stood idly by:

- The European Central Bank has been pro-active and has stepped up the use of non-conventional policy instruments to provide banks with urgently needed liquidity.

- The European Investment Bank is on target to meet its commitment for the anti-crisis programme announced last December.

- The European Commission has adjusted and speeded up state aid notification procedures and has mobilised EU financial resources in support of a recovery.

- Member States have safeguarded the viability of commercial banks in distress. In some cases, measures have been taken to ensure continued flow of credit to companies.

Need for a strong and coordinated policy response

Is this a sufficiently strong reply? We do not think so.

The European economy has now hopefully entered a phase of stabilisation. But the credit crisis is still brewing and will continue to drag economic activity down.

Two figures illustrate the challenge ahead: losses in the European financial sector could reach €1 trillion by 2010, according to the IMF. So far, banks have disclosed less than a third of these losses, at around €300 billion.

On top of that, we already observe that the pace of credit rating downgrades and the risk of corporate default are rising rapidly. This could result in a further drain on banks' balance sheets.

If the IMF estimates are correct, the consequences are all too obvious: banks will need to seek fresh capital, reduce the volume of lending and tighten further credit standards.

Indeed, our member federations have reported a worsening access to finance in May, in particular for SMEs.

Furthermore, euro area statistics show that cross-border lending between financial institutions has decreased sharply. This damages the functioning of the Internal market and is the result of rescue plans that oblige banks to focus on national markets.

Our March report on access to finance made the point that a more forceful and coordinated European response to the crisis is possible, and is needed. The report was drafted by a taskforce of experts under the chairmanship of Jean-Paul Betbèze, with many of them present today. It issued 16 recommendations, nearly all of them involving a role for European institutions (ECB, EIB, European Commission).

This seminar allows us to debate these recommendations and to highlight the need to reinforce the European response to the credit crisis.

Questions for discussion

The first panel today will discuss the more urgent measures to ease companies' access to finance.

What I would like to hear from the panel is:

- Firstly, how to restore trade financing and credit insurance in a consistent way across the EU internal market;
- Second, whether the ECB would consider the direct purchase of corporate debt instruments if bank lending conditions do not soften in coming weeks;
- Third, whether panellists agree that risk-sharing guarantees could play a greater role to restore access to finance for companies, in particular for SMEs. The EIB is working on this, and we will hear more of national best practices today from Finnvera, the Finnish Export Credit Agency.

The second panel will discuss what is needed to restore confidence in financial markets.

Here I would like to hear what should be done to improve the consistency of national bank rescue plans.

- Is there a consensus developing on how to deal with toxic assets?
- Do we have a common approach to assessing the extent of solvency problems across Europe?
- Do we have a well-defined exit strategy when things turn up again?

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Conclusion

Let me conclude on a more positive note.

This crisis, like many before it, will also bring opportunities. A new generation of entrepreneurs, a faster take-up of productivity-enhancing technologies and new fields of innovation will emerge.

We have to ensure that sufficient financing is available to innovators and entrepreneurs to regenerate our economy and build up our future competitiveness.

This is highly relevant when discussing the future of banking and of financial market regulation in the EU. Better risk management is needed to prevent major systemic crises from emerging again. But this must not, however, stifle the sort of risk-taking that entrepreneurs are undertaking on a daily basis to expand their business and innovate, for the greater benefit of society.

Rather than imposing a trade-off between financial stability and growth, we should seek to reinforce the relationship between the two.

With this thought, I leave the floor to our first panel and look forward to a fruitful discussion.

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