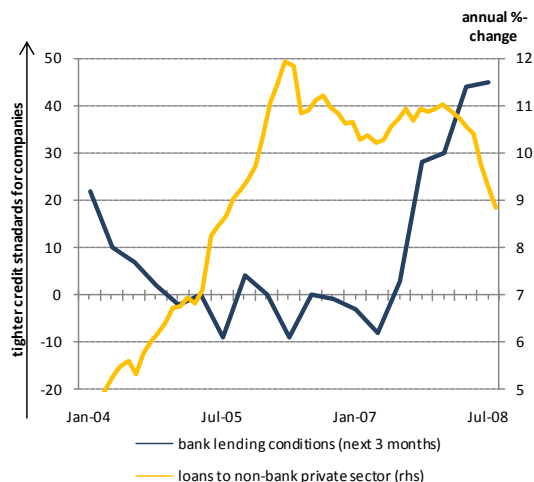


ECONOMIC SITUATION AND FINANCIAL MARKET CRISIS

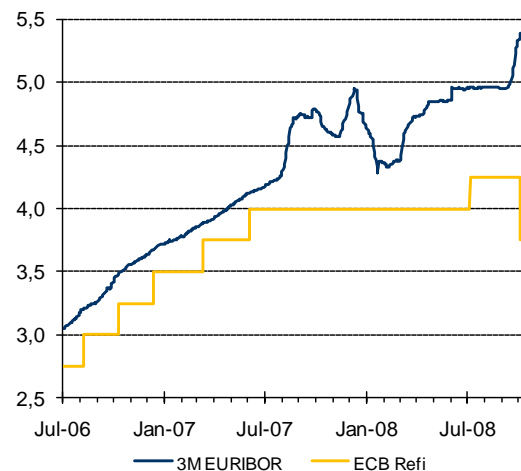
The business community strongly supports the exceptional measures undertaken by governments and central banks in recent weeks to stabilise financial markets, and especially their growing degree of coordination. These bold and concerted measures raise expectations that the peak of the financial market crisis has passed.

Figure 1: Tighter credit standards and decelerating credit growth



Source: *BUSINESSEUROPE, ECB*

Figure 2: Money market tensions persist, but show signs of abating

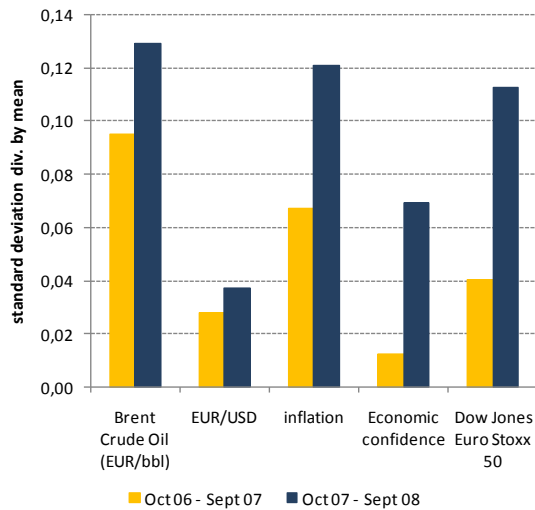


Source: *BUSINESSEUROPE, ECB, www.euribor.com*

However, effects on the real economy will intensify in coming quarters, weighing on economic activity and labour market conditions in Europe and elsewhere. Although recent actions by governments and central banks reinforce *BUSINESSEUROPE*'s working assumption that Europe will avoid a severe credit crunch, hard economic times lie ahead. Countries undergoing significant housing and construction corrections (Ireland, Spain, United Kingdom) are already in recession and their prospects for 2009 remain bleak.

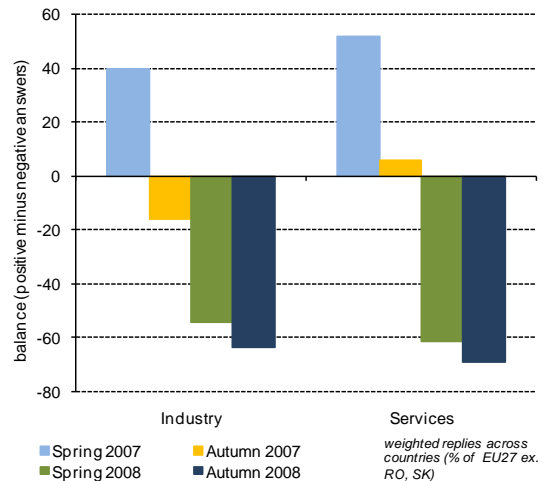
Uncertainty about market prospects and future access to finance is affecting companies across all sectors and countries, disrupting the international supply chain and weakening the most vulnerable companies, in particular SMEs. Rising economic uncertainty is amplified by concerns about possible overreactions on the side of regulation, state interventions and protectionist measures, which would aggravate the downturn and push back the recovery process.

Figure 3: Uncertainty also associated with high volatility of key variables



Source: BUSINESSEUROPE, ECB, Eurostat, Dow Jones

Figure 4: Business confidence continues to fall



Source: BUSINESSEUROPE Economic Outlook (Autumn 2008)

Against this background, BUSINESSEUROPE will considerably reduce its growth forecast for 2009 when it publishes its Economic Outlook report on 27 October. In particular, investment spending is expected to recede in 2009 and employment levels will decline slightly – for the first time since 1994.

Clear policy response is therefore of the essence:

- Responding to the financial market crisis

Euro-area and EU governments have agreed on joint actions to be undertaken in order to alleviate the impact of the financial market turmoil. In particular as regards euro-area countries, the comprehensive response to the crisis agreed upon in close collaboration with the ECB and the Commission represents a significant step forward for the economic governance of European monetary union.

Governments and supervisors must now show their commitment to translate this European approach into national measures, ensuring sufficient coordination and a level playing field on the internal market. Achieving more transparency, better coordination and convergence of market supervision, state interventions and liquidity policies by central banks is vital to resolve the crisis effectively and without generating harmful market distortions.

In addition, BUSINESSEUROPE strongly emphasise the following points:

1. In the face of global turmoil, international initiatives must be reinforced to increase the resilience of the international financial system and its institutions. EU policy-makers should engage their partners in order to foster an in depth debate on international supervision, rating agencies, risk management and accounting standards.

2. While the present financial turbulence will undoubtedly accelerate a review of certain regulatory arrangements, the European business community insists that hurried solutions to a rapidly evolving financial situation would be counterproductive, and merely lead to increased costs and reduced choice for issuers and investors.
3. The pro-cyclical nature of fair value measurement of financial assets appears to have worsened the impact of the crisis on financial and non-financial corporations. It is vital that accounting standard-setters take up the issue and seriously consider amending fair value accounting rules for assets in markets where liquidity suddenly disappears.
4. Commercial banks must do their utmost to restore confidence by cleaning up their balance sheets and communicating their precise financial situation in a transparent way.

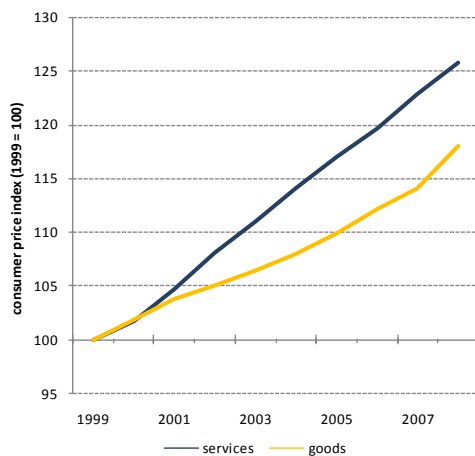
- *Preparing and facilitating the next upturn*

While finding solutions to the financial crisis, policy-makers should agree on measures that will help the recovery process once the present turmoil starts to abate.

1. Concerted interest rate cuts by the ECB and other major central banks in October have been a welcome acknowledgement of the risk to world growth arising from the turmoil. The ECB's steps to ease liquidity constraints and lower market interest rates were timely, and should help to support confidence during the difficult months to come. BUSINESSEUROPE fully trusts the ECB to consider all future options, including further concerted interest rate cuts, in order to attenuate the economic impact of the crisis while maintaining price stability.
2. The EU's overall resilience to the present turmoil will depend on its capacity to maintain companies' access to finance, in particular for SMEs. Targeted measures and state guarantees could be considered to maintain a continued flow of credit to companies and households, while the instruments of the European Investment Bank should be appropriately funded and used effectively.
3. At the same time, European policy makers must make rapid progress in implementing the principles of the Small Business Act. Unlocking the huge growth, innovation and productivity potential of SMEs is essential in order to sustain growth in Europe.
4. Governments should make real efforts to improve the quality of public expenditures and the tax system in order to encourage a sustainable supply-side recovery, while keeping a tight lid on budget deficits. The Stability and Growth Pact allows for certain flexibility in cases of exceptional circumstances but we consider that the 3% of GDP limit should remain binding where annual average growth is not expected to come into negative territory in 2008 or 2009. In any case, a clear commitment to corrective measures past the present downturn will be needed to ensure a credible path towards balanced budgets in coming years.

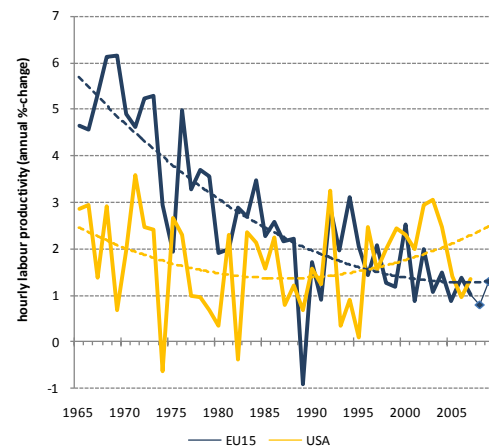
5. Policy-makers must remain committed to structural reforms and rapid implementation of the agreed recommendations under the Lisbon strategy for growth and jobs, which remains the pertinent framework to respond to current challenges.
6. Boosting Europe's disappointing productivity gains must be an absolute priority for the future. Indeed, current problems emphasise the negative effects of lacklustre productivity growth especially on inflation and Europe's overall resilience to external shocks. Furthermore, with demographic trends will start affecting labour markets negatively around 2010, growth and prosperity will more than ever rely on a substantial productivity push.

Figure 5: Euro area inflation highest in services sector



Source: *BUSINESSEUROPE, Eurostat*

Figure 6: Europe's hourly labour productivity growth falling further

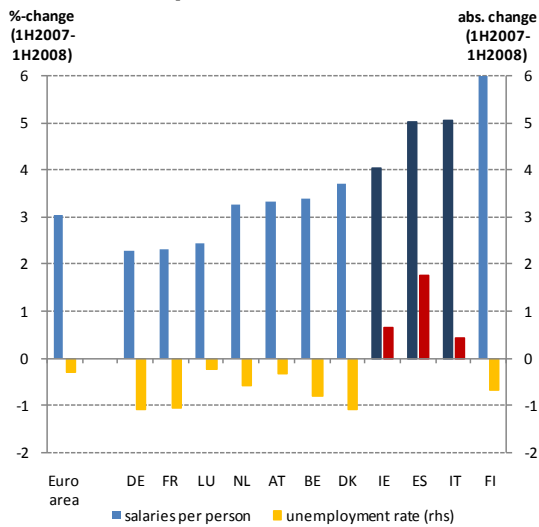


Source: *BUSINESSEUROPE, The Conference Board and Groningen Growth and Development Centre (Total Economy Database, September 2008)*

7. Legitimate concerns about purchasing power are not a matter of indifference for the business community. Millions of companies rely on a strong consumer market in Europe. But responses need to balance concerns about purchasing power and the need to reinforce companies' competitiveness.
 - There is a consensus that nominal wages should grow in line with productivity and include a component that reflects future inflation developments, not past trends. With companies facing extraordinary headwinds and rising borrowing costs, excessive wage deals risk aggravating the deterioration in employment conditions.
 - *BUSINESSEUROPE* insists that wage developments reflect the diversity of productivity levels and trends as well as the specific conditions of labour market and competitiveness conditions, in particular where significant rebalancing is needed such as in Spain, Ireland, Greece, Portugal, Italy or France.
 - New ways need to be explored that reconcile better wage policies and companies' competitiveness. *BUSINESSEUROPE* is convinced that possibilities of voluntary financial participation schemes in the debate on

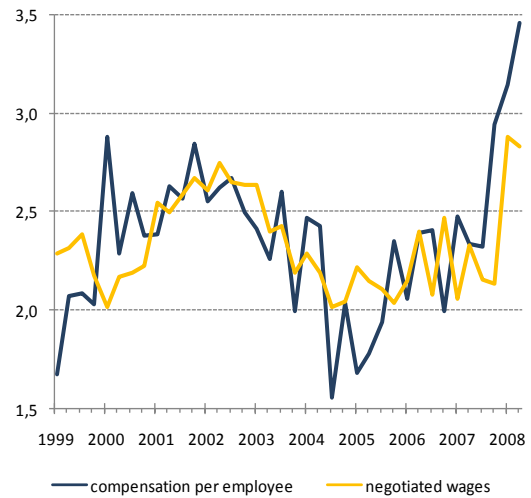
wages and purchasing power offer an appealing solution to workers and companies alike. Financial participation schemes involve employees more closely in the life of the business, allow them to share in the success of their company and align their interests with those of the company's shareholders and link employees to the company over the longer term.

Figure 7: Wage developments are a concern in specific member states ...



Source: BUSINESSSEUROPE, Eurostat

Figure 8: ... labour cost pressures have risen in the euro area as a whole



Source: BUSINESSSEUROPE, ECB