Economic Outlook
Spring 2009

BUSINESSEUROPE

Business worried about access to finance and protectionism

The EU faces its biggest economic challenge

- For this year, BUSINESSEUROPE forecasts a fall in EU real GDP of 2.2%.
- EU27 investment spending is expected to plunge by 7.4% in 2009 and exports to contract by 5.9%.
- EU employment is expected to decrease by 4.5 million this year, with almost 2 million job losses accounted for by Spain and the United Kingdom.
- Inflation will fall close to zero around mid-2009 and will average 0.8% for the year as a whole.
- Downside risks to growth and inflation still dominate. BUSINESSEUROPE expresses particular concern regarding the rise of protectionist pressures and the risk of further deterioration in financing conditions.

A four-pillar strategy for the recovery

1 Restore companies' access to finance under affordable conditions
The sharp deterioration in the cost of and access to finance has become a life-threatening concern for numerous European companies. Coordinated and effective action is of the utmost importance to restore credit flows.

2 Fight protectionist reflexes which will undermine the internal market and free trade
BUSINESSEUROPE strongly opposes new impediments to international trade and capital flows, and asks for the level playing field on the internal market to be maintained.

3 Implement national recovery plans in a coordinated manner
BUSINESSEUROPE fully supports the EU economic recovery plan. Swift implementation and coordination between the 27 Member States must be stepped up and safeguarded by the European Commission and the Council.

4 Speed up structural reforms
A new reform momentum is vital, with priority for better regulation, flexibility and sustainability of public finances.

The Spring Economic Outlook is presented together with the European Reform Barometer which provides an assessment of member states' reform efforts under the Lisbon Strategy.

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Table 1: BUSINESSEUROPE forecasts (end-February 2009)

	EU 27		Euro area	
	2008	2009	2008	2009
Real GDP (annual % growth)	1.0	-2.2	0.8	-2.1
Inflation (%)	3.5	1.0	3.2	0.8
Unemployment (%)	7.0	9.0	7.5	9.5
Employment (%)	1.1	-2.0	0.9	-2.2
GDP components				
Private consumption (%)	1.0	-0.7	0.5	-0.4
Public consumption (%)	2.1	2.0	2.2	2.1
Gross fixed capital formation (%)	0.5	-7.4	0.8	-6.5
Exports (%)	1.8	-5.9	1.6	-6.6
Imports (%)	1.8	-4.8	1.4	-5.1

Source: BUSINESSEUROPE Economic Outlook *(Spring 2009)*

Table 2: Forecast largest EU Member States (end-February 2009)

	GDP		Fixed capital investment		Consumer price index		Employment	
	2008	2009	2008	2009	2008	2009	2008	2009
annual %-changes								
Germany	1.3	-2.3	4.4	-5.2	2.8	0.8	1.3	-0.9
United Kingdom	0.7	-3.3	-4.1	-10.0	3.6	1.0	0.9	-2.8
France	0.5	-1.6	0.3	-5.0	2.8	0.6	0.5	-2.3
Italy	-0.6	-2.0	-1.9	-6.3	3.5	1.0	0.3	-1.8
Spain	1.2	-2.8	-3.0	-9.9	4.1	0.7	-0.5	-5.6
Netherlands	2.0	-3.5	9.7	-11.3	2.2	1.0	1.4	-2.5
Poland	4.8	1.0	7.9	-20.0	4.2	2.5	2.9	-1.0
Belgium	1.1	-1.9	6.7	-4.9	4.5	0.5	7.1	-2.6
Sweden	-0.2	-3.2	3.5	-7.5	3.4	-0.7	1.2	-2.6
Austria	1.8	-1.2	2.2	-3.6	3.2	1.2	1.6	-1.0

Source: BUSINESSEUROPE Economic Outlook (Spring 2009)

More detailed results and individual member state forecasts are published on our website www. businesseurope.eu.

KEY RESULTS OF BUSINESSEUROPE'S SPRING ECONOMIC OUTLOOK SURVEY

The speed with which the financial market turmoil has translated into an economic crisis of this magnitude was unexpected. European companies are currently feeling the full blast of the downturn reflected in collapsing order books and rising financial difficulties.

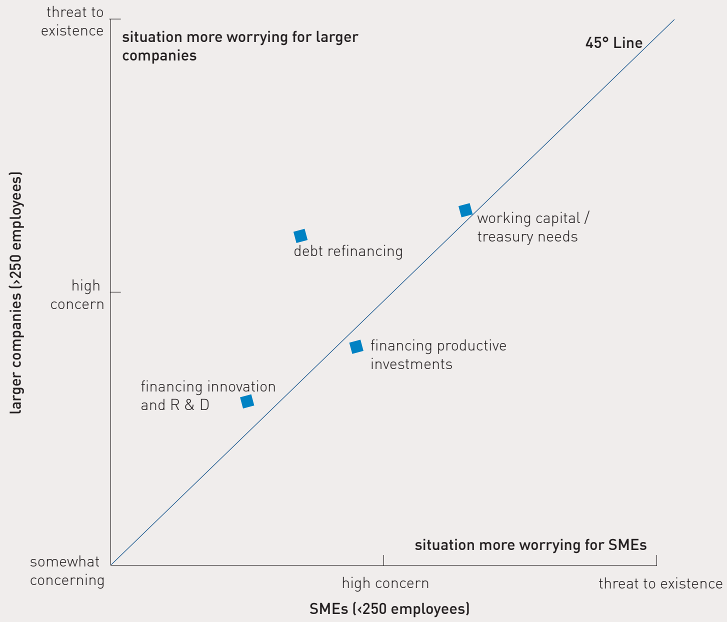
Real GDP predicted to shrink significantly in 2009

- For EU27, business sentiment deteriorated in recent months at an historic pace to reach its lowest level on record. Real GDP is now forecast to contract by 2.2% in EU27 and 2.1% in the euro area this year, with downside risks still dominating.
- Within the euro area, Ireland (down 7.7%), the Netherlands (down 3.5%), Spain (down 2.8%), Finland (down 2.5%) and Germany (down 2.3%) expect a particularly severe fall in economic growth.
- Outside monetary union, the United Kingdom (down 3.3%) is hard hit by the current crisis, while the Baltic States (down 6.4%) and Hungary (down 3.5%) are also suffering from a substantial contraction of business activity this year.

Companies' access to finance of utmost concern

- Irrespective of company size, access to finance has been severely affected by the financial crisis. However, the deterioration has been particularly detrimental for SMEs since the start of the year. Although member federations expect some stabilisation regarding the cost of finance over the coming six months as past interest rate cuts by central banks continue to feed through, access to finance will remain extremely difficult.

Chart 1
Companies' problems in access to finance
Source: BUSINESSEUROPE Economic Outlook *(Spring 2009)*

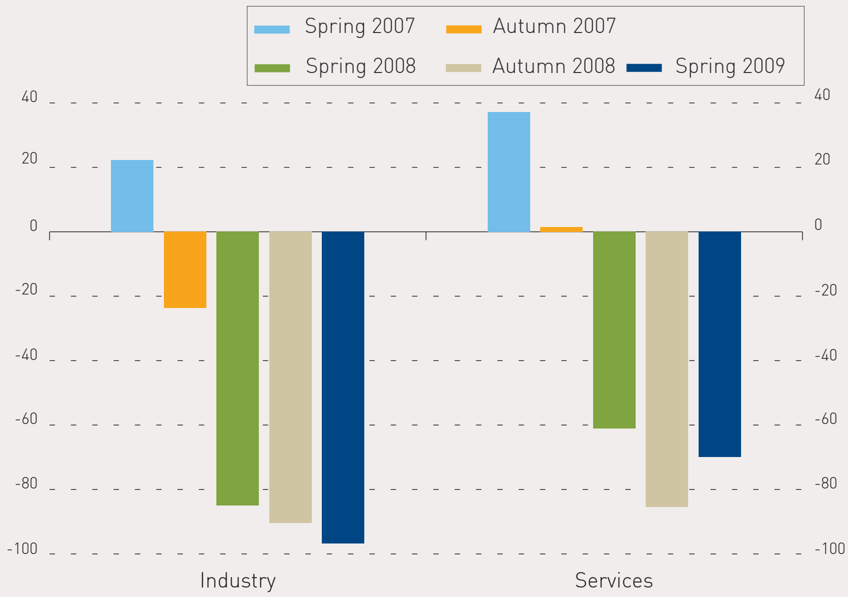


- Our spring survey reveals that financing difficulties related to working capital needs are at present the biggest concern for SMEs and large companies alike. Member federations in Belgium, Estonia, France, Greece, Hungary, Ireland, Poland, Portugal, Spain and Sweden assess the situation as being existence-threatening. Larger companies also face substantial problems in refinancing their outstanding debt.
- Due to an increase in late payments, malfunctioning capital markets and the shortage of credit insurance, the situation is expected to remain precarious over the coming months. Nevertheless, companies are thinking about the post-crisis business environment and their market position. In this respect problems encountered in financing R&D are considered a serious impediment for future product innovation and growth.

Companies' profitability continues to deteriorate

- The sharp contraction in both domestic and external demand and the rising cost of financing is leading to a further deterioration in companies' profitability throughout the first half of 2009, particularly in industry where a continued downward trend is observed in all EU member states.

Chart 2
Outlook for business profitability over next six months remains weak
Source: BUSINESSEUROPE Economic Outlook *(Spring 2009)*



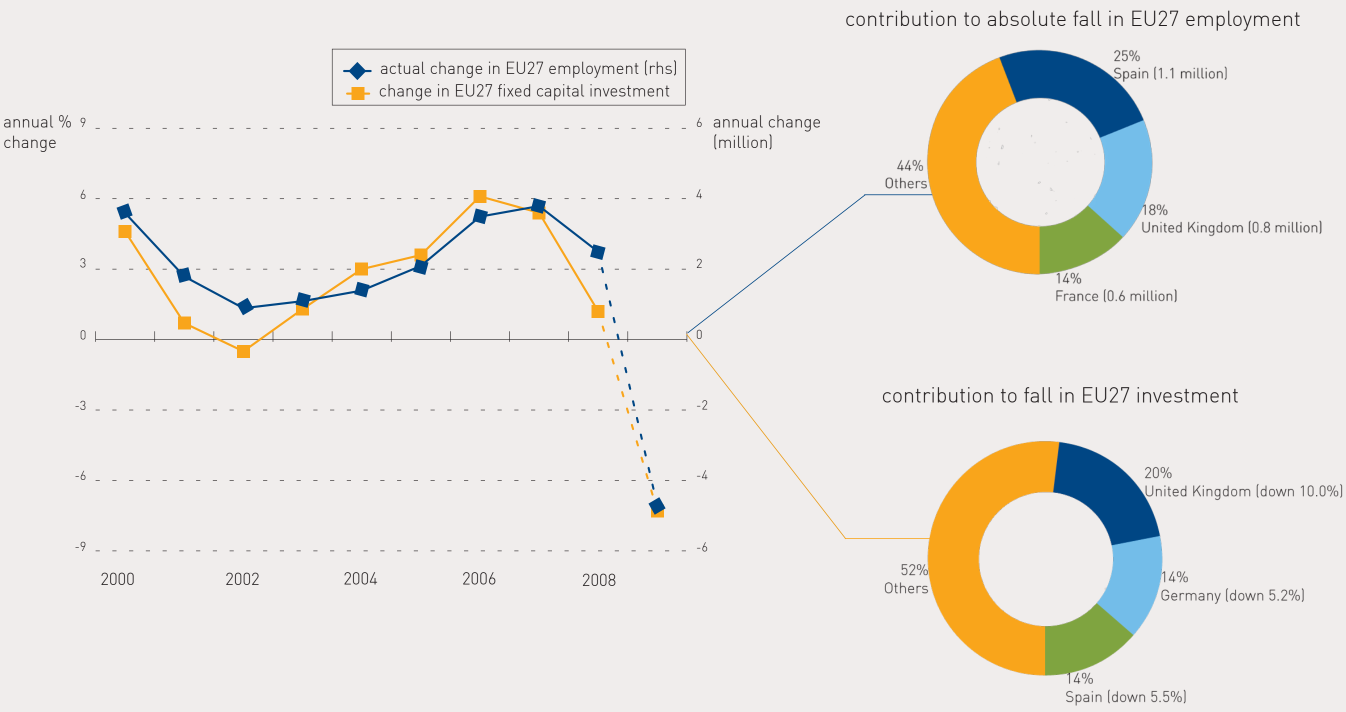
- Profitability in the non-financial services sector is deteriorating in countries representing 71% of the EU GDP but is stabilising in Germany and Poland. A less negative assessment in the services sector relates to a more limited exposure to debt financing problems and falling export demand.

- Under these circumstances, EU27 fixed investment spending is expected to plunge by 7.4% this year with Spain, United Kingdom and Germany accounting for nearly half of the decline. In percentage changes, the slump will be particularly pronounced in Ireland (down 30.3%), the Netherlands (down 11%), the United Kingdom (down 10%), Spain (down 10%) and Sweden (down 7.5%). As regards Central and Eastern European member states, Lithuania, Estonia and Poland are expected to experience a reduction of fixed capital investment by around 20%.

European labour markets under severe pressure

- Despite companies' important efforts to retain their human capital for the recovery, EU employment is currently suffering immediate and severe consequences of the crisis. Job losses are expected to reach 4.5 million this year in EU27, with Spain and the United Kingdom alone accounting for almost 2 million.
- In percentage terms, the deterioration in employment conditions will be particularly severe in Estonia (down 11.2%), Ireland (down 7%), Spain (down 5.4%), the United Kingdom (down 2.8%) and Belgium (down 2.6%).

Chart 3
Employment and investment spending expected to plummet in 2009
Source: BUSINESSEUROPE Economic Outlook *(Spring 2009)*, Eurostat

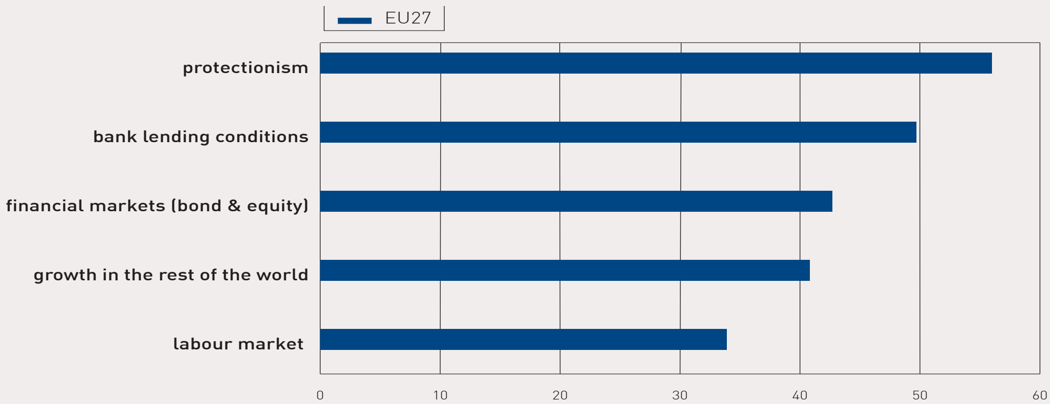


Public finances under strain

- The situation of public finances is also expected to deteriorate sharply. A dramatic deterioration in tax receipts and significant economic stimulus measures will cause budget deficits to swell to almost 4.4% of GDP for the EU in 2009 according to the latest Commission forecasts. The situation is likely to be substantially worse in Ireland (11%), the United Kingdom (9%), Spain (6%) and France (5%).
- Bank rescue plans add to government liabilities and put additional pressure on public debt levels. EU public debt is expected to reach 71% of GDP in 2010 – compared with 61% of GDP in 2008. Financial markets have already started to question the sustainability of public finances in several member states as widening spreads across euro area member states underline.
- These worrisome fiscal situations will limit governments' room to manoeuvre in the short term. Furthermore, governments' competition on financial markets to raise the amounts for national rescue measures will increase borrowing costs for companies.

Biggest risk to the outlook: rising credit restrictions and protectionism

Chart 4
Major downside risks to the economic outlook for 2009
Source: BUSINESSEUROPE Economic Outlook *(Spring 2009)*



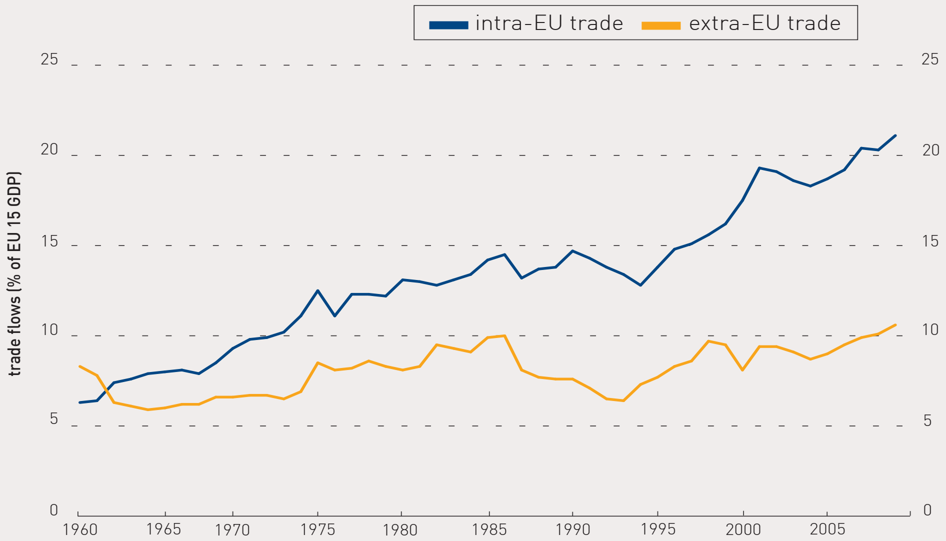
- Taken together, bank lending conditions and the situation on financial markets are considered the biggest downside risk by BUSINESSEUROPE federations. There is in particular the concern that the recession will deepen financial sector losses, leading to a downward spiral of falling asset prices, new credit restrictions and a wave of corporate bankruptcies.

- However, according to our member federations, the rise of protectionism is the most important individual risk to the European economic outlook. This does not only include protectionist reflexes at the global level as we have already seen in Russia, India and event the US, but also the risk of reversing European economic integration through uncoordinated national stimulus initiatives.

- Rising intra-EU trade, cross-border capital flows and labour mobility have significantly contributed to growth and job creation and supported in particular the rapid catching-up process of the new member states.

Chart 5

Importance of the single market
Source: BUSINESSEUROPE, European Commission's Ameco database



BUSINESSEUROPE'S KEY RECOMMENDATIONS

The highly uncertain economic and financial environment for companies, the resurgence of protectionist reflexes and citizens' anxieties regarding labour market prospects emphasise the urgent need for a timely, targeted and above all coordinated recovery strategy for Europe.

Rescue measures should respond to three essential criteria: They must:

- stabilise the economic and financial situation in the short term;
- build on market principles and uphold the internal market;
- create the conditions for a sustained recovery.

National emergency plans should not be allowed to come at a cost for EU integration, unity and cohesion.

1 Restore companies' access to finance under affordable conditions

Companies' biggest short-term concern is undoubtedly the impact of the crisis on their access to finance, in particular for short-term treasury and working capital needs.

BUSINESSEUROPE urges:

- → the **ECB** to step up its efforts to reduce the cost of financing, to provide liquidity and to implement the right incentives in order to restore interbank lending. The ECB should take all actions and initiatives deemed appropriate as the crisis unfolds, including the purchase of commercial paper and other corporate debt instruments;
- → the **EIB** and the **EIF** to step up their interventions to improve companies' access to finance by privileging risk-sharing schemes, mezzanine financing and widening eligibility criteria to include working capital;
- → the **European Commission** and the **Council** to ensure close coordination for member states' financial rescue initiatives that support companies' access to finance, to preserve competition in the banking sector and the integrity of financial markets.

2 Fight protectionist reflexes which will undermine the internal market and free trade

Business is increasingly concerned about the proliferation of protectionist measures and the impact of rising state intervention in the economy.

At the EU level, BUSINESSEUROPE

- → expects the **Commission** to defend the Treaties, to fight any national initiative that could undermine the Internal Market and to continue to apply its competition policy vigorously. A specific framework should be put in place to monitor and fight the emergence of financial protectionism;
- → calls on **member states** to honour their commitments to fight protectionism and coordinate their actions in a credible manner as agreed upon at the exceptional European Summit on 1 March.

At the global level, BUSINESSEUROPE:

- encourages the **Commission** to intervene with trade partners whenever they impose new barriers to trade;
- presses for the rapid conclusion of ambitious trade agreements and for the resumption of the Transatlantic Economic Council to prevent regulatory divergence with the US;
- calls on the **G20** to restate and live up to its commitment to avoid new protectionist measures at the April London Summit.

3 Implement national recovery plans in a coordinated manner

Business is convinced that decisive national recovery measures must be implemented rapidly. We estimate that discretionary measures to support the recovery currently amount to 1.2% of GDP this year, while automatic stabiliser effects should add another 2% of GDP. This seems an adequate contribution to economic stabilisation, especially considering rising concerns about the sustainability of public finances in many Member States. What is critical at present is to better coordinate national programmes, set clear deadlines and monitor their implementation.

BUSINESSEUROPE calls in particular on:

- the **Commission** and the **Council** to safeguard a sufficient level of coordination and screening at the European level. The European Commission should assess and inform on announced measures, their stage of implementation and their expected impact on growth and jobs;
- **Member States** to focus on smart investment and temporary measures that help ease cash-flow constraints of companies, e.g. faster VAT and other tax refunds;
- the **Council** and the **European Parliament** to allow for more flexibility between EU budget lines in order to be able to absorb unspent funds, and in particular to agree on the 5 billion euro EU investment plan for energy interconnections and internet broadband;
- **EU institutions** and **governments** to step up their solidarity with member states outside the euro area. The agreement reached between EIB, EBRD and the World Bank to provide 24.5 billion euro in support of the eastern European banking sector has been an important step. The EU medium-term assistance facility to help non-euro area countries facing balance of payment difficulties should also be raised significantly further from the current 25 billion euro ceiling.

4 Speed up structural reforms

Reforms are a vital pillar of the recovery strategy and must be given new impetus to help companies, workers and governments cope with the tremendous pressure they are currently facing.

In present circumstances, the business community gives highest priority to:

- better regulation;
- labour and skills flexibility;
- measures to support the sustainability of public finances.

BUSINESSEUROPE is presenting its assessment of national reforms carried out during 2008 and key reform priorities for 2009 in separate report entitled, the “European Reform Barometer Spring 2009”, which is available on our website.

BUSINESSEUROPE

MEMBERS ARE 40 LEADING
NATIONAL BUSINESS FEDERATIONS
IN 34 EUROPEAN COUNTRIES

Austria	Belgium	Bulgaria	Croatia	Cyprus	Czech Republic
Denmark	Denmark	Estonia	Finland	France	Germany
Germany	Greece	Hungary	Iceland	Iceland	Ireland
Italy	Latvia	Lithuania	Luxembourg	Malta	Montenegro
Norway	Poland	Portugal	Portugal	Rep. of San Marino	Romania
Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Switzerland
The Netherlands	Turkey	Turkey	United Kingdom		