

A BUMPY ROAD TO RECOVERY

First signs of stabilisation ...

- Recent data and confidence indicators suggest that economic activity is stabilising in the EU and that the recession might be drawing to a close.
- Fiscal and monetary stimuli together with resilient growth in Asia have led to improved economic prospects.

... but no reason for leaps of joy

- However, BUSINESSEUROPE does not yet see the conditions for sustained growth and predicts a bumpy road ahead for the recovery.
- EU real GDP is estimated to contract by 3.9% this year before increasing by 0.7% in 2010.
- Long-lasting consequences of the crisis are notably expected on investment, employment and public finances.
- Against the backdrop of significant overcapacity and rising unemployment, inflation in the euro area will remain subdued, averaging 0.3% this year and rising to a mere 1.3% in 2010.

Unresolved challenges must be addressed

Beyond past losses in output and income levels, BUSINESSEUROPE's member federations are concerned about the risk that the current crisis will negatively affect the EU's growth potential in the years ahead. The following challenges will need to be resolved:

- 1 Stabilise financial markets**
The financial system must be fixed and the credit flow restored. A recovery is impossible without improved access to finance and an appropriate evaluation of risk to support business investments.
- 2 Ensure long-term sustainability of public finances**
With the impact of demographic ageing to be felt in the near future, confidence in the sustainability of public finances must be restored. However, withdrawing stimulus measures prematurely or merely reverting to tax hikes would obliterate any hope of a sustained economic revival.
- 3 Boost reforms supporting investment, innovation and skills**
Structural reforms are a precondition for a lasting return to growth, job creation and healthier public finances. These must create a more attractive environment for entrepreneurship and innovation, address rising unemployment and boost skills for the upturn.

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Table 1: BUSINESSEUROPE forecasts (end-August 2009)

	EU 27		Euro area	
	2009	2010	2009	2010
Real GDP (annual % growth)	-3.9	0.7	-4.1	0.5
Inflation (%)	0.8	1.4	0.3	1.3
Unemployment (%)	9.4	10.8	9.8	11.3
Employment (%)	-2.6	-1.6	-2.6	-1.6
GDP components				
Private consumption (%)	-1.4	0.1	-1.3	-0.2
Public consumption (%)	1.0	0.4	0.3	0.2
Gross fixed capital formation (%)	-10.3	-1.8	-10.3	-2.2
Exports (%)	-14.7	1.4	-15.9	1.5
Imports (%)	-12.5	0.8	-12.6	0.7

Source: BUSINESSEUROPE Economic Outlook, Autumn 2009

Table 2: Forecast largest national economies (end-August 2009)

	Real GDP		Fixed capital investment		Consumer price index		Employment	
	2009	2010	2009	2010	2009	2010	2009	2010
<i>annual % changes</i>								
Germany	-5.0	1.0	-8.1	-0.3	0.3	0.7	-1.1	-2.0
United Kingdom	-3.9	0.7	-11.1	-0.5	1.9	1.6	-3.6	-1.5
France	-2.2	1.5	-6.8	-0.8	0.2	1.5	-1.3	-0.5
Italy	-4.8	0.8	-13.1	1.5	0.7	1.3	-2.8	-1.4
Spain	-4.1	-0.9	-12.6	-5.8	-0.1	2.0	-7.0	-2.7
Netherlands	-4.8	-0.5	-14.8	-13.0	1.0	1.3	-1.5	-4.0
Poland	0.5	3.5	-7.0	2.0	3.9	2.5	-1.2	0.1
Belgium	-3.5	-0.2	-5.2	-2.7	0.1	1.3	-3.0	-0.8
Sweden	-5.0	1.0	-14.0	-5.0	-0.3	1.3	-2.4	-2.3
Austria	-3.8	0.5	-11.0	-1.0	0.5	1.5	-1.5	-1.1

Source: BUSINESSEUROPE Economic Outlook, Autumn 2009

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

A FRAGILE RECOVERY MOMENTUM

Positive second quarter GDP growth in some EU member states and improvements in national, European and global confidence indicators suggest that the recession might be drawing to a close. However, it is still too early to give the “all clear”.

The current improvement in confidence can be attributed to the following factors:

- 1** National governments, central banks and European institutions have enacted substantial support and rescue measures which are gradually feeding through into the economy.
- 2** The sharp contraction in inventories, which was a drag on industrial activity and trade in the first semester of 2009, will come to an end.
- 3** Emerging economies, especially in Asia, have weathered the global storm relatively well thus far and export order books of European companies have started to improve again.

Notwithstanding these short-term support factors, the longer-term repercussions of the crisis will continue to weigh on growth prospects for a considerable period of time.

At present, BUSINESSEUROPE expects the economic environment to remain extremely volatile, allowing for only subdued positive quarter-on-quarter growth for the second half of 2009. In the short term, a dampening effect of an outbreak of influenza A (H1N1) cannot be excluded.

In this context, BUSINESSEUROPE predicts EU GDP to fall on average by 3.9% this year before increasing by a mere 0.7% in 2010.

The ongoing correction in fixed capital investment will continue against the backdrop of significant overcapacity, constrained access to finance and corporate bankruptcies. The business community forecasts investment to nosedive by 10.3% this year and expects a further contraction by 1.8% next year.

INSUFFICIENT STEAM TO LIFT LABOUR MARKET CONDITIONS

The expected upturn in economic activity in 2010 will be insufficient to spark a measurable improvement in labour market conditions (see Chart 1).

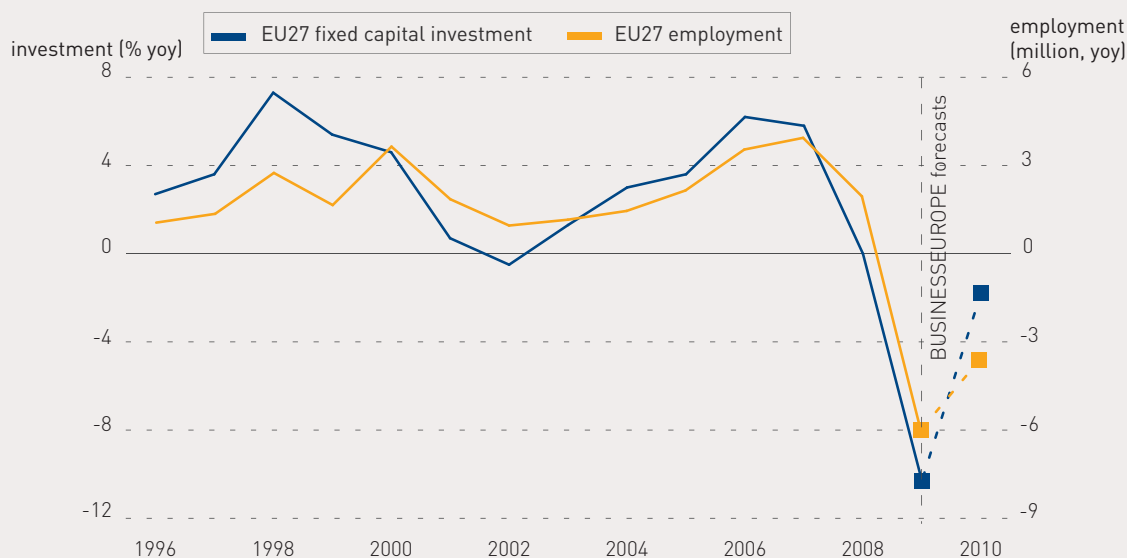
BUSINESSEUROPE's member federations expect more than 9 million jobs to be lost in the EU27 over the period 2009-2010, with close to 6 million this year alone. In absolute figures, Spain (minus 1.9 million) and the United Kingdom (minus 1.5 million) account for more than 1/3 in all EU job losses this year and next.

But it is Ireland and Lithuania that will feel the most severe effects of the crisis on labour market conditions, with employment levels forecast to fall by a total of almost 13% and 11% respectively.

Against this background, private consumption is forecast to stagnate in 2010 following a contraction this year.

Chart 1

Employment and investment under continued pressure
Source: BUSINESSEUROPE (Economic Outlook, Autumn 2009), Eurostat

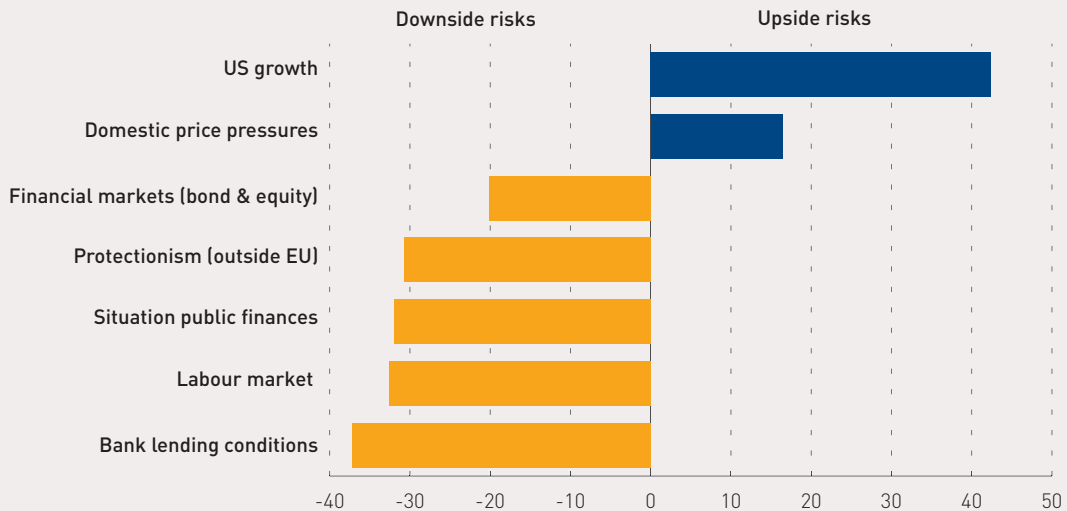


DOWNSIDE RISKS TO THE GROWTH SCENARIO STILL DOMINATE

Chart 2

Risks to the baseline growth scenario

Source: BUSINESSEUROPE (Economic Outlook, Autumn 2009)



In addition to companies' ongoing problems in access to finance, concerns regarding labour market conditions and the sustainability of public finances, BUSINESSEUROPE's member federations are troubled by the rise in protectionism (see Chart 2).

Nevertheless, two potential support factors have been identified as well: a more rapid recovery of the US economy and the absence of inflationary risks allowing central banks to maintain their supportive monetary policy.

IMPACT OF THE CRISIS ON LONGER-TERM PROSPECTS

Business is concerned about the lasting damage this crisis could inflict on the EU's growth potential. With entire business sectors and industries profoundly affected, a reduction in supply-side capacity and erosion of the tax base and public finances has been inevitable in the short term.

But the scope of future policy responses will be vital in determining the final outcome on the welfare of European citizens, the sustainability of social systems and Europe's position on the international stage.

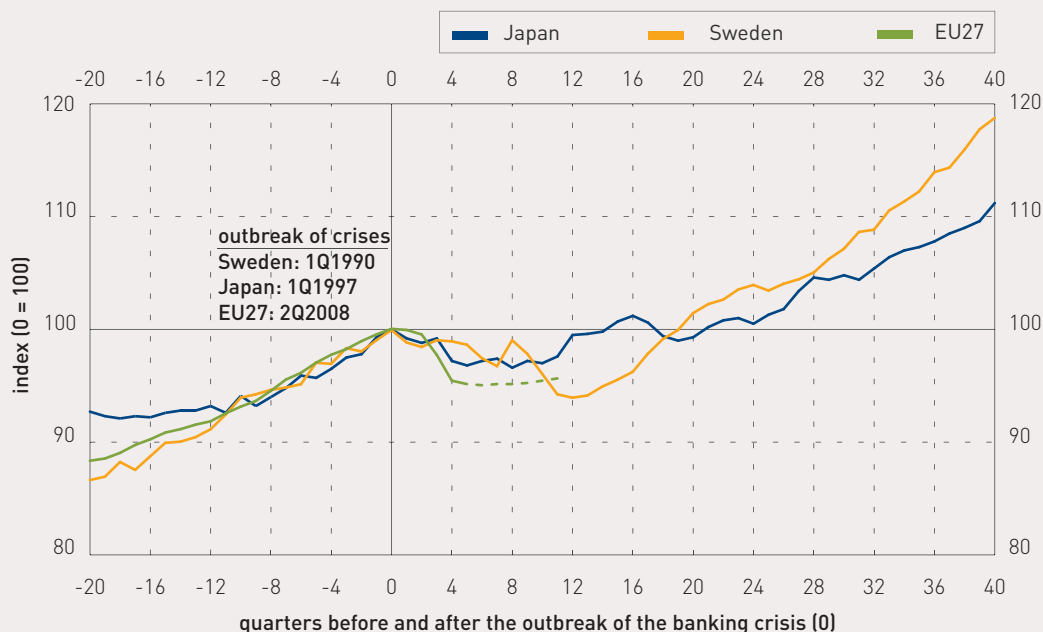
The contrasting experience of Sweden and Japan with banking crises during the 1990s demonstrates that a lasting recovery is only possible if credit flows are restored and far-reaching reforms enacted.

In addition to massive and timely interventions to stabilise the financial sector, during and immediately after the outbreak of the crisis in the early 1990s the Swedish government introduced structural reforms that lifted the longer-term performance. A pension reform was launched, product market deregulation promoted and lower social security reimbursements and unemployment benefits agreed upon.

By contrast, Japan's response was belated and ill-designed. Banks were allowed to hide losses for too long and reforms were too slow. As a result, Japanese businesses, households and ultimately public finances suffered major losses.

Chart 3

Banking crises, recessions and possible paths for recovery
Source: BUSINESSEUROPE (Economic Outlook, Autumn 2009), Eurostat



ADDRESSING THE UNRESOLVED CHALLENGES

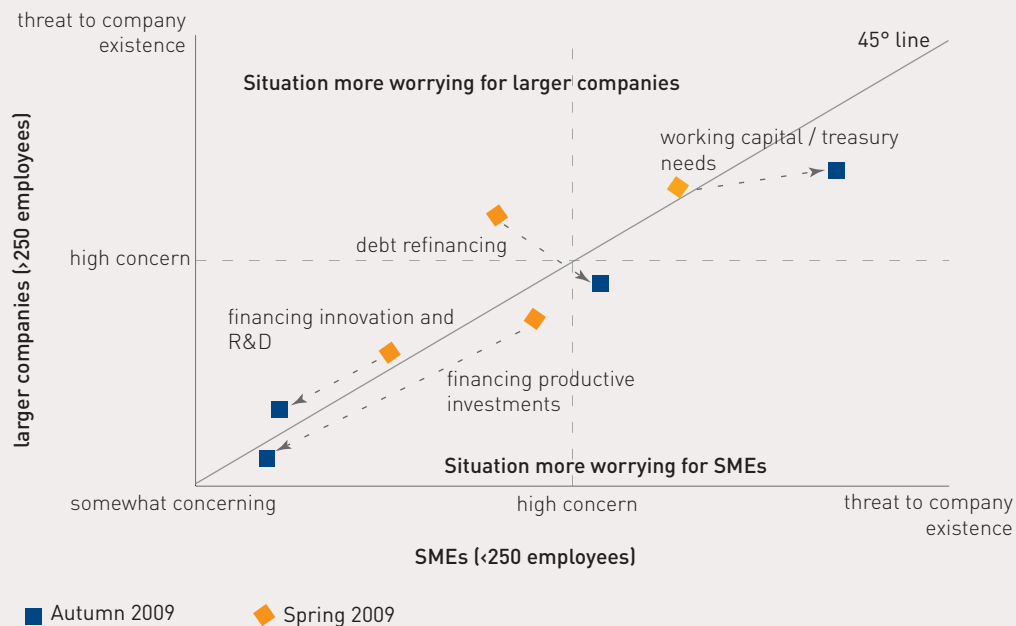
1 Stabilisation of financial markets

Financial market turmoil has sharply restricted companies' access to capital. Although the cost of credit has fallen due to decisive central bank intervention, loan conditions and credit risk assessments continue to severely restrict companies' access to finance.

Overall, the situation remains critical and is particularly preoccupying for SMEs. The situation has deteriorated even further in recent months as regards financing working capital needs and debt refinancing, sometimes directly threatening companies' survival (see Chart 4).

Chart 4

Companies' problems in accessing finance
Source: BUSINESSEUROPE (Economic Outlook, Autumn 2009)



2 Long-term sustainability of public finances

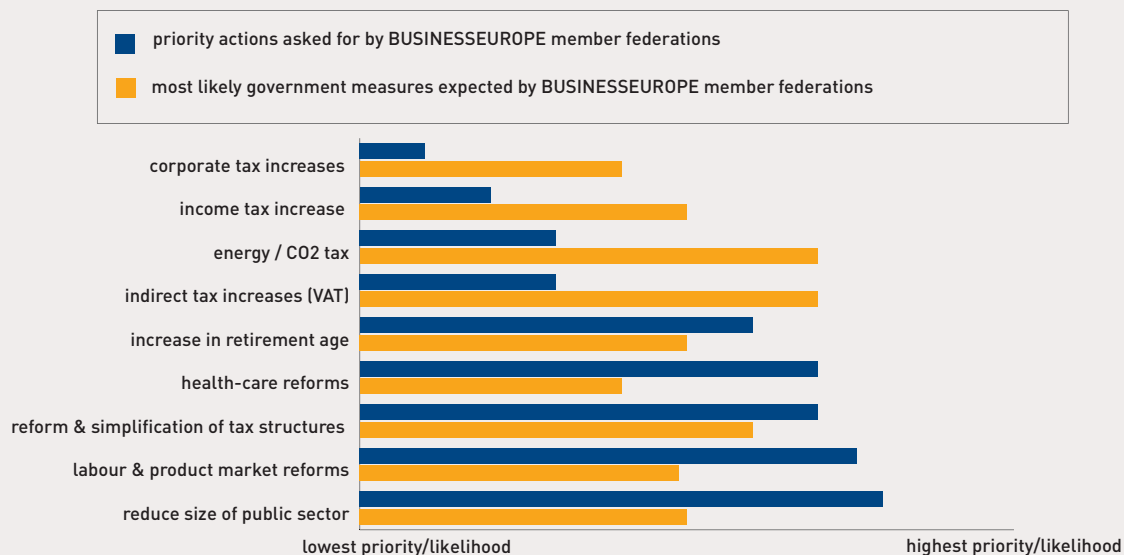
Business is increasingly concerned by the evolution of public finances in the EU. With the impact of demographic ageing to be felt in the near future, governments must commit credibly to modernising the public sector, and reforms fostering growth and the sustainability of social systems.

However, the business community is worried that instead of opting for thorough reforms, as identified by business (see Chart 5), governments will focus on tax increases. This would significantly dent the EU's hope of a sustained economic revival.

Chart 5

Discrepancy between business federation's most advocated measures to restore budget balance and national governments' most likely choice

Source: BUSINESSEUROPE (Economic Outlook, Autumn 2009)



3 Structural reforms for growth and job creation

Structural reforms that foster business investment, entrepreneurship and innovation are a precondition for a sustainable recovery that goes hand in hand with vibrant job creation and a return to fiscal sustainability.

Instead of preventing the risk of capital outflows, we need to enhance the chance for capital inflows. This will contribute to the expansion of our economies, limit risks of protectionism and lead to significant additional public revenue to restore healthy public finances.

Governments will also need to undertake the necessary measures to prevent higher unemployment to become entrenched, to boost education and skills for the recovery and to encourage more people to take part in the labour market.

TIME FOR A FRESH VISION FOR THE EU'S GROWTH STRATEGY

The business community expects from all policy-makers an unwavering commitment to open market principles and to pushing forward the necessary reforms to strengthen Europe's capacity for growth and job creation in the post-crisis environment.

With a new European Commission and Parliament, the European Union has a unique opportunity to inspire a fresh vision and set the course for a coherent strategy to ensure a lasting recovery in Europe.

In a letter sent to President Barroso on 3 September 2009, BUSINESSEUROPE's President Jürgen Thumann and Director General Philippe de Buck presented and spelled out the following key priorities for European decision-makers:

- Fix the financial system and restore credit flows;
- Implement reforms to attract investment and innovation;
- Develop a viable exit strategy to excessive public deficits;
- Boost employment and skills in an ageing society;
- Form a competitive climate and energy strategy;
- Develop a comprehensive international agenda.

These policies must be implemented at EU and national level and be coordinated as part of a coherent EU growth strategy, extending and improving on the current Lisbon agenda. BUSINESSEUROPE is determined to play an active role in the elaboration of this agenda for a flourishing Europe.

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		