Economic Outlook
February 2010

BUSINESSEUROPE

2010 - BETTER BUT STILL FRAGILE

Confidence is improving...

- The recession was severe but relatively short-lived. BUSINESSEUROPE forecasts EU real GDP to grow by 1.2% in 2010 following a fall of 4.1% in 2009. This represents an upward revision of 0.5% this year.
- A return to growth has been driven by the resurgence of global trade and stabilisation policies undertaken by central banks and governments.
- European companies, helped by governments and a constructive attitude of workers, have also made great efforts to limit job losses.

...but challenges remain daunting

- The shift from private to public debt is not sustainable and will soon constrain the recovery.
- The current recovery momentum is not yet sufficient to restore job creation.
- A weakened banking sector might prove unable to expand credit supplies to support new investments.
- Europe is lagging behind in the global upturn.

Need for clear political commitment

Public interventions in the economy are reaching their limits. To sustain growth and job creation, Europe must restore the viability of public finances and implement far-reaching reforms.

Policy-makers must focus on doubling Europe's growth potential to reach an average 2% over the period 2010-2014:

- Stimulating business investment by supporting access to finance, markets and technologies will greatly facilitate exit strategies and support successful transitions on the labour market.
- Policies oriented on free trade and resolute resistance of protectionist reflexes remain a key priority.
- Ensuring that all G20 members honour their commitments and better coordinate their policies in the future will prove to be essential.

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Table 1: BUSINESSEUROPE forecasts (end-January 2010)

	EU 27		Euro area	
	2009	2010	2009	2010
Real GDP (annual % growth)	-4.1	1.2	-4.0	1.2
Inflation (%)	0.8	1.5	0.3	1.2
Unemployment (%)	8.9	10.2	9.4	10.8
Employment (%)	-1.7	-1.3	-2.0	-1.5
Gross government debt (% of GDP)	73.4	79.7	79.3	85.0
GDP components				
Private consumption (%)	-1.5	0.4	-1.1	0.3
Public consumption (%)	2.0	1.2	2.2	1.5
Gross fixed capital formation (%)	-13.3	-1.6	-13.9	-1.4
Exports (%)	-12.8	4.2	-13.4	4.7
Imports (%)	-12.6	2.9	-11.8	2.9

Source: BUSINESSEUROPE Economic Outlook *(February 2010)*

Table 2: Forecast largest EU Member States (end-January 2010)

	Real GDP growth		Inflation		Employment growth		Investment		Exports	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
annual %-changes										
Germany	-5.0	1.8	0.3	1.0	-0.1	-1.3	-20.9	2.0	-14.7	6.9
United Kingdom	-4.5	1.2	2.1	2.3	0.0	-0.9	-14.0	-3.7	-10.9	1.9
France	-2.2	2.0	0.1	1.0	-1.2	-0.5	-7.0	-0.6	-10.8	5.5
Italy	-4.7	1.1	0.8	1.4	-1.5	-1.3	-12.6	1.4	-19.0	4.0
Spain	-3.6	-0.6	-0.3	1.7	-6.8	-2.5	-15.9	-8.7	-12.6	2.4
Netherlands	-4.0	1.5	1.3	1.0	-2.8	-3.5	-15.8	-7.3	-9.5	6.0
Poland	1.6	2.7	3.7	2.0	-0.9	0.1	0.0	5.0	-11.0	8.0
Belgium	-3.1	1.0	0.0	1.6	-0.6	-1.5	-4.1	-1.3	-12.1	3.0
Sweden	-4.4	1.7	-0.3	1.4	-2.2	-2.0	-14.0	-5.0	-12.3	7.5
Austria	-3.5	1.5	0.5	1.3	-1.3	-0.3	-10.4	0.8	-14.6	4.6

Source: BUSINESSEUROPE Economic Outlook *(February 2010)*

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

TENTATIVE RECOVERY UNDER WAY

The revival of global trade combined with decisive measures taken by European governments and central banks have allowed a significant improvement in confidence and economic conditions since last summer.

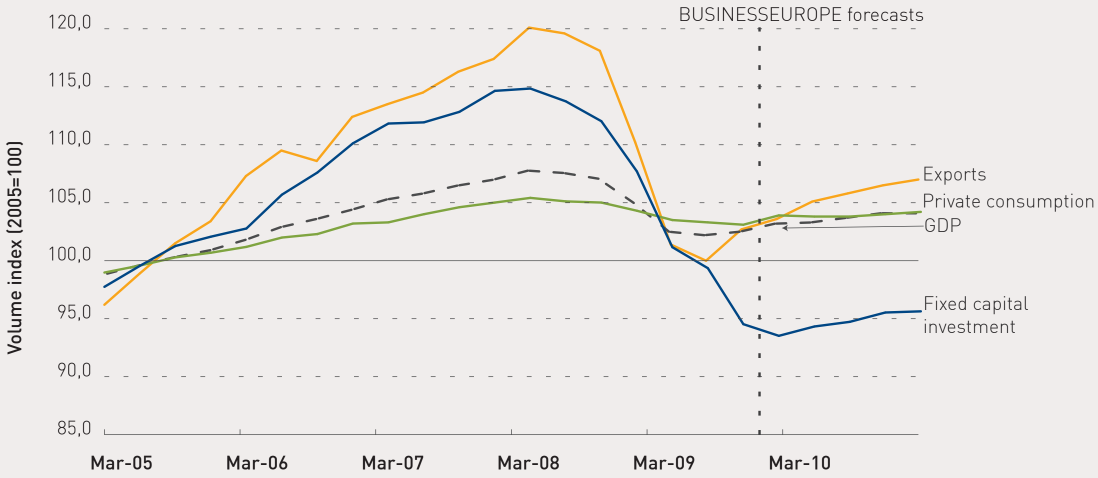
The recession in Europe ended in the second half of 2009 and BUSINESSEUROPE predicts real GDP growth in the EU to reach 1.2% this year.

However, a sustained recovery momentum is still some distance away and several member states are expected to see a further contraction of economic activity in 2010.

Chart 1

Exports will be an important driver for recovery in 2010

Source: BUSINESSEUROPE (February 2010 Economic Outlook), Eurostat



Exports are a key driver for growth in Europe

The world economic outlook has improved significantly over the last six months. World GDP is expected to increase by around 4% this year, and world trade volumes by more than 5%, following a slump of 12.3% in 2009.

Although trade levels are still far from recovering the losses incurred during the crisis, a better global environment bodes well for European exporters and for the wider economy. Robust demand from emerging economies will be a particularly important support factor for growth in Europe.

BUSINESSEUROPE expects export volumes to pick up by 4.2% in 2010, thus being by far the most dynamic demand component in the upturn.

Weak private investment casts a shadow over the recovery

EU investment collapsed in 2009 (down 13.3%) and will continue to contract on average this year (down 1.6%). This sharp correction in capital spending was due to a combined deterioration of overall activity in 2009, weakened corporate balance sheets and constrained access to finance.

Overcapacities have built up in many sectors and pressure to restore corporate profitability and reduce indebtedness remains intense.

This legacy from the crisis combined with persistent dysfunctions in the supply of financing could have severe and persistent repercussions on companies' balance sheets and investment decisions. This is a key challenge as massive investments will be needed in key sectors and technologies to boost the EU's future growth potential.

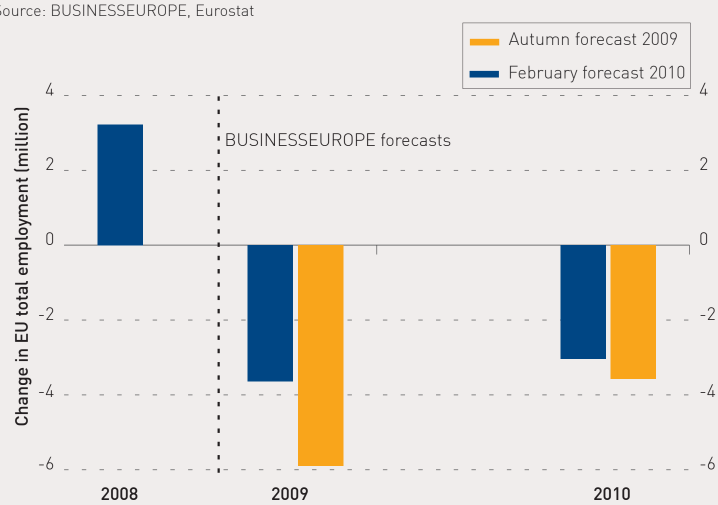
Labour markets are still under pressure

The deterioration of EU labour market conditions was on average not as severe as initially expected. This partly stems from the swift implementation of support measures and short-time working schemes in several member states.

Currently the business community forecasts a total of 6.6 million jobs to be lost in the EU for the years 2009 and 2010. Compared with the autumn forecast this decreases the total number of jobs expected to be lost due to the crisis by 2.8 million.

The situation remains very critical, though, in member states that are undergoing severe adjustments from past sectoral and macroeconomic imbalances. By 2010 unemployment rates will peak in Spain (20.4%), Estonia (18%), Lithuania (16%) and Ireland (13.5%), with the EU average reaching 10.2%.

Chart 2
Employment prospects are still mixed
Source: BUSINESSEUROPE, Eurostat



PRIORITIES TO CONSOLIDATE THE RECOVERY

The business community identifies in particular three areas of concern.

1 Member federations identify the situation of public finances as the biggest risk

Markets have started to question fiscal sustainability in several EU member states. The spread on sovereign bond yields has risen substantially in recent weeks, especially for Greece.

If governments are unable to restore confidence in public finances the result will be a generalised increase in interest rates, financial market volatility and expectations of higher taxes in the future. This will inevitably crowd out private spending and in particular corporate investments.

Speculative attacks must be dealt with and could be alleviated with targeted commitments by EU institutions. This should include a collective assurance to undertake all necessary steps to preserve fiscal and financial stability in the euro area, and in the EU as whole. A further extension by the ECB of its current collateral policy, i.e. accepting government debt rated BBB and above, would also contribute to alleviating tensions on capital markets without jeopardising ECB's political independence or compromising its mandate.

But this is not a substitute for the necessary adjustment at national level. Large fiscal imbalances must be addressed with credible and decisive actions by the governments themselves, backed by strict surveillance by European institutions.

Chart 3
Government bond yields are rising rapidly
Source: BUSINESSEUROPE, Datastream

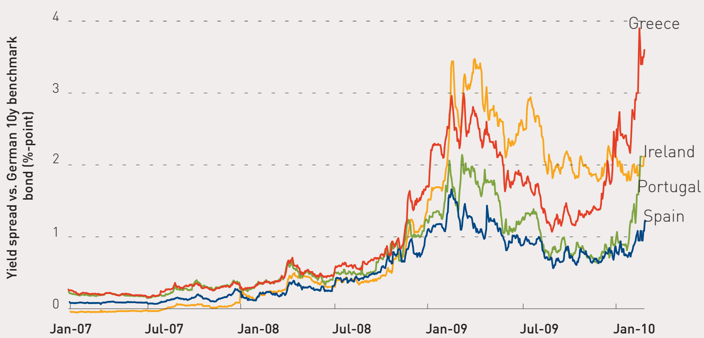
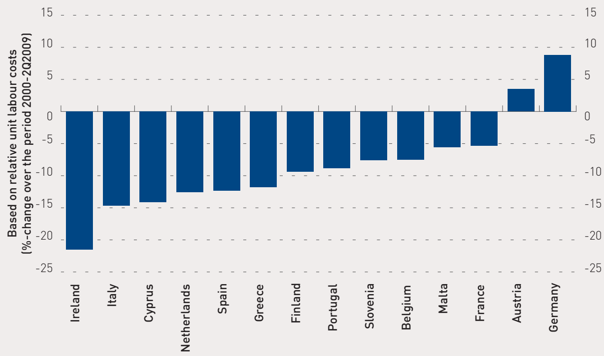


Chart 4
Competitiveness differences persist in the euro area
Source: BUSINESSEUROPE, ECB



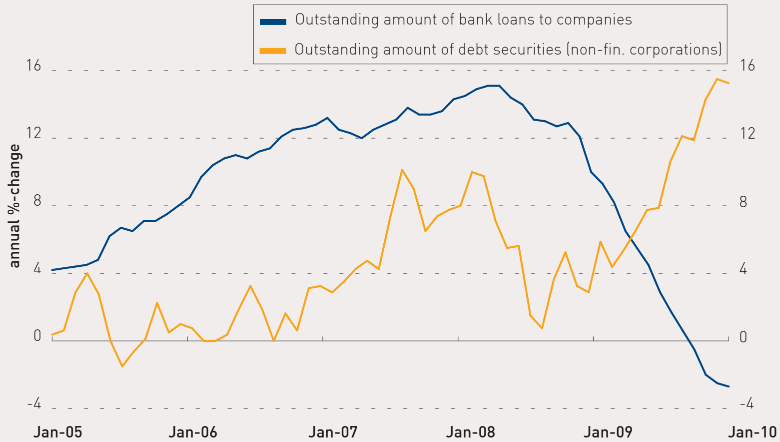
2 Companies' access to external financing, in particular bank loans, remains constrained

Substantive public support measures have helped to stabilise the financial sector. However weak balance sheet positions amplify banks' concerns regarding the impact of the recession and the subsequent rise in non-performing loans on their lending capacities. Annual growth rates of loans to the business sector was negative at the end of 2009 and the situation is unlikely to improve in the first half of 2010.

As investments from most innovative companies and for R&D projects are often perceived as being more risky, lingering problems in the banking sector could withhold key ingredients for tomorrow's growth and prosperity.

Indeed, BUSINESSEUROPE's members single out the availability of finance as a major factor preventing new investments.

Chart 5
Companies turn to alternative ways of financing
Source: BUSINESSEUROPE, ECB



3 The situation on European labour markets could also deteriorate further

Following the recession, companies will have to restore productivity. Governments thus need to complement temporary support schemes with long-term structural reforms. This requires putting in place measures and policies that will help to address the social and employment impact of the crisis while increasing the efficiency of our labour markets in the long run. This is the flexicurity approach which remains key to address current and upcoming challenges.

BUSINESSES EXPECT A CREDIBLE RESPONSE TO THEIR CONCERNS

Thriving companies are the best insurance to preserve prosperity and sustain Europe's social model. They generate growth, create jobs and hence contribute a large share to government revenue through their taxes.

BUSINESSEUROPE identifies the need for policy action at domestic and international level.

1 Maintaining the recovery momentum in the short term

Regarding monetary policy, the business community is confident that the ECB will continue to show a strong degree of responsibility and leadership in the months ahead. Exceptional interventions should be gradually phased out while maintaining a supportive monetary policy stance based on a symmetric assessment of inflation risks.

Fiscal consolidation strategies should be ready for coordinated implementation in 2011 and be tightly linked to an ambitious reform agenda supporting growth and improving the sustainability of social systems.

2 Raising Europe's growth potential

To address the medium-term consequences of the crisis in a sustainable manner the EU must raise its faltering growth potential.

The crisis has taken a severe toll and the European Commission estimates that potential growth will not exceed 1% over the coming years. Most BUSINESSEUROPE member federations also expect the crisis to have a lasting impact on Europe's long-term growth performance.

We estimate that raising EU's growth potential from 1% at present to an average of 2% over the period 2010-14 could, through higher labour demand and fiscal revenue, translate into 6.5 million new jobs in the EU by 2014 and savings of more than 450 billion euro in public debt levels.

Just the interest payments on public debt saved annually if the EU's potential growth can be increased as suggested above would by 2014 surpass current spending on competitiveness programmes in the EU budget.

Moreover credible commitments to the future sustainability of public finances will provide positive incentives for private investment and thus trigger a virtuous cycle between companies' sustained spending on R&D, innovation and future growth rates.

Table 3: Expected benefits of doubling Europe's growth from 1% to 2% over the period 2010-2014

EU27	2014
Employment (million)	**+ 6.5**
Public debt (bn EUR) % of GDP	**- 450** *- 6.9*
Interest payments (% of GDP)	**- 11.5** *- 0.2*

Source: BUSINESSEUROPE

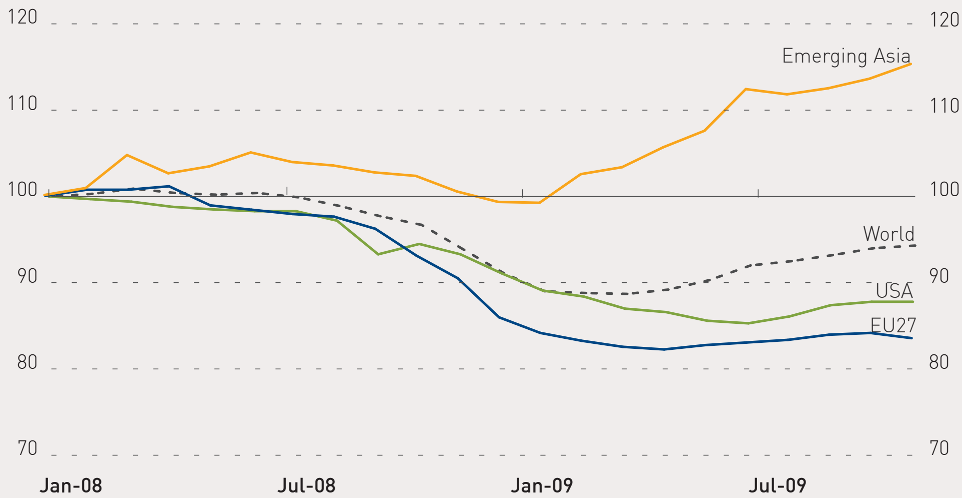
BUSINESSEUROPE estimates that the above-mentioned supplementary gains in job creation and savings in terms of public debt and interest service could be achieved over the period 2010-2014. They represent the difference between a scenario of lacklustre GDP growth of 1% and a scenario of improving performance of 2% per annum on average for the 5-year period.

BUSINESSEUROPE has made concrete proposals on how to achieve a doubling of Europe's potential growth in its recent publication "Go for growth" and in its response to the Commission's consultation on the EU2020 strategy.

3 Making Europe's voice heard at the global level

The domestic policy agenda must be complemented by a solid external strategy. As a mature market with challenging demographic projections, Europe must be outward looking and globally competitive to support domestic growth and prosperity. It is thus essential that the EU defends the importance of free trade and fights any protectionist tendencies.

Chart 6
Industrial production: Europe misses out on global recovery
Source: BUSINESSEUROPE, Centraal Plan Bureau



This is all the more appropriate as in BUSINESSEUROPE's view a renaissance of protectionism and beggar-thy-neighbour policies cannot be excluded.

- The temptation to raise barriers to trade in an attempt to protect domestic industry or to shield local workers against foreign competition will seem increasingly rewarding for numerous politicians if the current recovery proves to be short-lived.
- As a reaction to the disappointing outcome of the Copenhagen climate conference and the lack of follow-up actions to the G20 process, many countries might be tempted by unilateral approaches.

Europe must therefore continue to fight protectionist tendencies and work towards greater commitments from partners on free trade, open investment policies and improved coordination of economic policies. G20 commitments must be honoured and macroeconomic imbalances alleviated in an orderly manner. In this respect the possibilities that exist since the entry into force of the Lisbon Treaty, especially regarding external euro-area representation, should be used in a constructive manner.

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		

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