



# DRIVING THE EUROPEAN RECOVERY

THE WORLD IS FACING A FINANCIAL AND ECONOMIC CRISIS UNLIKE ANY SEEN BEFORE. HOW WE RESPOND WILL SHAPE OUR FUTURE FOR MANY YEARS TO COME.

The EU approach stresses the need for common strategies that promote European principles and long-term goals. From the start of the storm, the Union has played a key role in coordinating national positions - both within Europe and at the international level. Through concerted action, the Union has succeeded in preventing a meltdown of European financial markets, saving millions of jobs. Member countries are now implementing an economic recovery plan that represents the most ambitious effort ever to align their economic policies. Rejecting protectionism, the plan seeks to strengthen the single market, long a catalyst for European growth.

Though it has meant hardship for many people, the crisis has taught us some valuable lessons. We now know that the financial system is deeply flawed. The EU is working to put a stop to loose banking practices within its own borders. The European example is also driving action at the international level.

No country could escape such a destructive force. But by pooling efforts and resources, Europe can emerge stronger and better prepared for the future.

## REFORMING THE FINANCIAL SYSTEM

The EU is taking unprecedented measures to restore stability to financial markets and to get credit flowing again. These must be matched by robust reform to prevent a repeat of the crisis and to rebuild trust in the banking industry.

Financial products, activities and participants must be effectively regulated and supervised. Ethical behaviour should be promoted and unethical behaviour sanctioned. To achieve a lasting recovery, Europe must have a reliable financial market that fulfills its core function - providing mortgages, pensions and loans.

The EU has already taken steps to increase protection for bank depositors, make credit ratings more reliable, improve risk management in financial firms and reinforce the solidity and supervision of banks and insurance companies. The Union is also moving to tighten rules on hedge funds and to curb banking pay practices that encourage recklessness.

On an issue crucial to unlocking credit, the commission has recommended ways countries can deal with 'impaired' assets

The crisis has presented new challenges, including the need to better regulate and monitor the financial industry. But old ones, like climate change, also demand urgent attention

- those that are worth less than the value listed on the company's balance sheet. Many banks remain reluctant to issue loans out of concern for their potential losses on impaired assets.

Looking ahead, the EU has set out a detailed roadmap for improving the regulation and supervision of its financial markets and institutions. The plan calls for measures to promote propriety, integrity and transparency and to safeguard against system-wide threats and excessive risk-taking. It foresees a European structure for supervision of financial firms active in several member countries and a European body to oversee the stability of the financial system as a whole.

The EU is also driving reform at the international level. In line with EU recommendations, a new global agreement gives international financial institutions a larger role in monitoring economic risks. Other changes include an end to tax havens that refuse to cooperate with tax authorities from other countries.

### SUPPORTING THE REAL ECONOMY

The EU has launched its most ambitious effort ever to revive growth and build a stronger and more stable economy. Drawing on the strengths of the common market, its recovery plan stresses the importance of



coordinating European and national positions so they have more impact. At the core is a combined effort to give the economy an immediate boost through investments compatible with open markets and long-term goals. The EU has committed roughly €400bn - about 3.3% of its gross domestic product - over two years to stimulate activity and support people through the crisis. The full impact of stimulus spending is not yet clear, but recovery will be gradual. Moreover, fundamental changes that were already foreseen in the boom years are even more important now.

The crisis has presented new challenges, including the need to better regulate and monitor the financial industry. But old ones, like climate change, also demand urgent attention. Looking beyond the recession, the EU plan is designed to speed up the transition to a low-carbon economy, diversify energy sources and promote leading-edge industries - all essential to lasting prosperity. Well before Europe began feeling the full impact of the market turmoil, the EU took steps to reform the financial industry,

agreeing on measures that are now being put into practice and strengthened with additional changes. The EU is also guiding member countries on how to support their economies without hurting each other's industries or sinking taxpayers deep in debt. Small and mid-sized businesses are receiving special attention, since they provide most of the jobs in the EU.

Protectionism must be avoided, as it can only lead to stagnation - and a deeper and longer recession. For 15 years, the single market has been the motor for Europe's economic growth, creating millions of jobs. Now it can be the engine for recovery, provided action is closely coordinated at the EU level.

### KEEPING PEOPLE IN EMPLOYMENT

The EU is committed to doing everything it can to keep people employed. With the economy expected to shed at least 3.5 million jobs before it rebounds, the situation calls for a major mobilisation of resources, both to create and to protect jobs.

From the start of the crisis, the Union has taken strong and effective action to cushion the impact on workers. When banks buckled in autumn 2008, the EU swiftly produced a rescue plan, preventing a meltdown of the financial markets and saving millions of jobs. Weeks later, the commission came forward with a comprehensive, far-reaching package of measures to boost consumer demand and promote major investments in infrastructure. Adopted by member countries in December 2008, the economic recovery plan is now in effect and the impact being closely monitored.

In keeping with the plan, national governments have introduced measures to stem job losses and tackle long-term challenges to the labour market, such as the rise in the average age of workers. The commission, meanwhile, is easing access to EU funds for retraining laid-off workers and helping them find new jobs.

Specifically, the EU is speeding up €1.8bn in payments earmarked for its social fund, which supports millions of workers every

ments about how to improve the situation. As many people as possible must be kept employed, for example by financial support for companies that cut hours instead of jobs.

Mobility is essential. Workers must be allowed to continue to move about the EU freely. This will not only improve their chances of finding a job; it is their right as EU citizens and members of a single market.

### PROMOTING GLOBAL RECOVERY

The world is witnessing the worst economic storm in decades, one that has swept from country to country with lightening speed and devastating force. Confronted with a global crisis, we need a global response. The EU has already taken steps at home to put a stop to loose banking practices that have felled banks and frozen up credit. Now the European example is driving action at the international level.

The Group of 20 leading industrial and emerging nations has adopted a strategy that broadly endorses the European approach. It recognises the need for govern-

strengthen regulation of hedge funds and private equity. Action is also being taken to ensure that pay practices do not encourage recklessness.

They also want to give international financial institutions a bigger role in monitoring economic risks and to let emerging and developing economies have more voice in these institutions - again in line with EU recommendations.

The EU is also contributing significantly to the largest fiscal expansion the world has ever seen, pumping at least €400bn into the economy within a framework designed to keep member countries from undermining each other. Member countries have agreed to target these investments to green technologies so as to accelerate the transition to a low-carbon economy. G20 leaders have embraced that approach.

Likewise, the Union is providing a large share of more than €800bn in loans and guarantees pledged to countries badly damaged by the global downturn. And it is committed to honouring its pledges to increase aid to developing nations.

All this spending must be consistent with open markets, as history has shown that protectionism is disastrous in a downturn. The EU will work for a breakthrough in world trade talks. Concluding the long-stalled negotiations could boost the world economy by more than €110bn.

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year. The commission has also moved to expand the scope of a fund set up to help workers hit by shifts in world trade patterns. The new rules lower the amount of matching funds required from governments.

The EU continues to provide monthly updates on unemployment. It is also consulting with trade unions, businesses and govern-

ment spending to stimulate the economy but also calls for tighter rules and more oversight of the financial industry. The goals are much the same as those pursued at the EU level: to promote transparency and to safeguard against system-wide threats and excessive risk-taking. At the EU's urging, G20 leaders have pledged to crack down on tax havens and to

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*The European Commission embodies and upholds the general interest of the Union and is the driving force in the Union's institutional system. Its four main roles are to propose legislation to Parliament and the Council, to administer and implement Community policies, to enforce Community law (jointly with the Court of Justice) and to negotiate international agreements, mainly those relating to trade and cooperation. This article was provided by The European Commission from: [http://ec.europa.eu/financial-crisis/index\\_en.htm](http://ec.europa.eu/financial-crisis/index_en.htm)*