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GENERAL SECRETARIAT OF THE COUNCIL OF THE EU

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THE EUROPEAN UNION AND ITS ACTION IN RESPONSE TO THE ECONOMIC AND FINANCIAL CRISIS

Following closely the evolution of the economic and financial crisis, the EU is deploying all its efforts by acting in a coordinated manner in order to restore confidence and financial stability and put the real economy back on track.

- In the wake of the European Council on 15 and 16 October and the informal meeting of Heads of State and Government of the EU on 7 November, the **European Council on 11 and 12 December** stressed the need for Member States to be able to finalise without delay the emergency measures required to restore the smooth operation of the financial system and confidence among market players. The European Council urged banks and financial institutions to make full use of the facilities granted to them to maintain and support lending to the economy and pass on key interest rate reductions to borrowers, whether for the benefit of enterprises or households. It called, as a priority, for the implementation of measures to create greater stability, supervision and transparency of the financial sector.

In response to this call, the EU is currently undertaking a significant amount of legislative work:

- adoption of a **directive on deposit guarantee schemes**, which seeks to ensure better protection for savers by raising the deposit guarantee level to EUR 50 000 from 30 June 2009 and to EUR 100 000 from 31 December 2011, a **directive on UCITS** (undertakings for collective investment in transferable securities) which modernises the regulatory framework applicable to European investment funds (UCITS), which represent a market of EUR 6 000 to 7 000 billion, and a **regulation on the facility providing medium-term financial assistance** for the balances of payments of non-euro area Member States in financial difficulties, by increasing the total amount of loans available from EUR 12 billion at present to EUR 25 billion;

- negotiations with the European Parliament are under way on a **directive on the solvency of insurance companies**, which aims to strengthen the protection of policyholders and beneficiaries, on **a capital requirements directive for banks** concerning *inter alia* the strengthening of supervision of cross-border banking groups and the introduction of rules on liquidity risk, and on a **regulation on credit rating agencies** aimed at ensuring that credit ratings used in the EU are of the highest quality and issued by agencies that are subject to stringent requirements since credit ratings have a significant impact on the confidence of investors and consumers.

On the **economic side**, the European Council endorsed a European Economic Recovery Plan which provides a coherent framework for action to be taken at both Union and Member State level and is based on an effort equivalent in total to around 1,5 % of European Union GDP. On the legislative side, the Economic and Financial Affairs Council on 10 March, in response to the request of the December European Council, approved the possibility for those Member States that so desire **to apply reduced VAT rates in certain sectors**.
In addition, the European Council emphasised that, for the implementation of all the Recovery Plan measures, the revised Stability and Growth Pact remains the cornerstone of the EU's budgetary framework.

- At their **informal meeting on 1 March 2009**, EU Heads of State and Government reaffirmed that financial stability depended on restoring appropriate and efficient financing conditions in the economy and unblocking the credit channel, whilst dealing with toxic bank assets. In doing so, it is necessary to act in line with the guidelines provided by the Commission on 25 February and in full respect of competition rules. As for the regulation and supervision of financial institutions, they welcomed the contribution of the High Level Group on financial supervision chaired by Jacques de Larosière[1].

  Regarding the consequences of the crisis on the **real economy**, the Heads of State and Government are closely monitoring the implementation of the European Recovery Programme at both European and national levels. The single market must serve as the engine for recovery to support growth and jobs. Employment being central to their concerns, the Heads of State and Government welcomed the Commission's communication of 25 February on the automotive sector, in particular the enhanced European coordination of schemes for the renewal of car fleets, to which it refers. Thus, action at EU level consists in using existing tools such as the European Social Fund and the revised Globalisation Adjustment Fund to their full potential to limit job losses. Moreover, an extraordinary summit to be held on 7 May will be devoted to employment in order to agree on concrete guidelines and measures to mitigate the social and employment impact of the crisis.

- Finally, the EU is also active on the **international scene** and is working together in a coordinated manner with its international partners. It was its initiative to convene the Washington summit on 15 November 2008, which drew up an ambitious programme of work with a view to coordinated recovery of the world economy, more effective regulation of financial markets, better global governance and the rejection of protectionism. In this case, the Heads of State and Government stressed on 1 March 2009 the importance of the G-20 summit, to be held in London on 2 April, for rebuilding the confidence of businesses, citizens and the financial sector. Furthermore, they considered it necessary to build consensus on modalities leading to a rapid conclusion of the Doha Development Agenda.

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[1] Former Director General of the International Monetary Fund.