



Europe's 500 - Entrepreneurs for Growth, the European organization for growth entrepreneurs, recommends a combination of bank support with extension of credit to the real economy.

Brussels, October 16, 2008: The speed and resolution with which the EU and the European countries have introduced concerted measures have triggered a sense of relief worldwide and for growth entrepreneurs as well.

### **The damage to the real economy, however, has already been done**

Apart from these positive effects on the stabilization of the banking system, the effect of the credit crunch caused by the banking crisis has already brought about extensive damage to the real economy. The indisputable recession is a chain reaction resulting from the credit tightening to the real economy, which can also persist when the credit transactions between the banks have been re-established. The credit crunch strikes the entire capital goods industry all the way to durable consumer goods such as, for example, the automobile sector.

### **Combination with further credit extension is necessary**

The growth entrepreneurs thus recommend the strict combination of the now upcoming development of bank stabilization packages, in particular the offering of capital and bonds, with the maintenance of credit transactions and new extension of credit or as the case may be, renewal of existing credit to the real economy, and in particular to small and medium size businesses. Small and medium size businesses employ approximately 70% of all wage earners. The first big drag has already occurred and has become noticeable in the radical decrease of incoming orders in the industry. The consequence of this will be a delayed drastic reduction of production, employment, business volume and profit. This economic slump, which will affect us especially in the year 2009, when the existing orders from the current year have been processed, will put the companies under pressure to repay credit based on existing covenants (financial ratios), which in turn can have a dragging and crisis sharpening effect on the real economy (negative spiral), even though the banks by then are back in a secure position.

The very welcome bank bailout package can thus only achieve the desired positive effect on the real economy if the support measures of the banks are not only coupled to an unrestricted continuation of the extension of credit to the real economy, but the borrowers are granted the necessary leeway in the covenants during the year 2009, in order not to unfairly punish them for the delayed effects of the banking crisis. In order to accomplish this, several regulations from Basel II should be relaxed simultaneously (or temporarily).

### **Temporary flexibilization required for 2009**

For example, interest conditions could be made temporarily adjustable up or down, coupled to operating profits. Otherwise, in a year's time, you would hear again that the small and medium size businesses unfortunately do not have enough capital and it could have already been forgotten that the banks had been bailed out in order to keep the real economy alive.

### **Credit insurance**

"The real economy will require a year of patience and adaptation time for the absorption of the delayed slump caused by the credit crunch, as well as rules that must provide enough breathing room for the packages currently developed for this purpose, in order to prevent a delayed negative chain reaction," states Martin Schoeller, President of Europe's 500, the organization for growth entrepreneurs.

Europe's 500 also suggests that it be made possible for small and medium-sized businesses to acquire guarantees for capital investment loans through the insurers.

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