

Emergency Resolution adopted by the EPP Congress (Warsaw, 29-30 April 2009)

“Emerging from the Global Economic and Financial Crisis”

Looking at the recent dwindling figures of international trade, industrial production and FDIs, the European People's Party (EPP) recognizes that we face the greatest challenge to the world economy in modern times; a crisis which mainly derived from three sources: 1) the high global imbalances which contributed to the worldwide economic slump, 2) the fragile US housing policy and the resulting housing bubble generated by the overly low interest rate policies of the 1990's, and 3) partly irresponsible behavior of the players. These two self-reinforcing crises accelerated the financial collapse, thus turning into a systemic crisis which would naturally affect our economies deeper and for a longer timeframe.

Following the latest global growth estimates made by the IMF, 71 countries have a growth rate which is lower than last year's growth rate (of these, 30 countries belong to the list of 34 most developed nations), while only 17 countries can show a positive trend with respect to last year. This clearly shows that developed economies such as Japan, Europe (and within Europe, Germany and the UK in particular) and the United States had to endure the biggest GDP contractions, while emerging countries still represent the bulk of growth worldwide. In fact, emerging markets indeed contributed much more than average to global growth and most probably will continue to do so also in the future. Similar parallels can be drawn if we look at the number of writedowns resulting from US-originated "toxic" assets: of a total estimation of between \$ 2.7 and 4 trillion, over half comes from US, UK and German banks.

In the aftermath of the collapse of Communist systems, we enjoyed a prolonged and unprecedented period of global growth which has lasted for two decades. Especially in Europe, the positive effects of the Social Market Economy have demonstrated that a socially responsible and sustainable free market system can give prosperity to everyone. Today, we must jointly tackle the challenge posed by the global economic crisis, and seize the opportunity of change given by globalization and the essential structural reforms needed in Europe. We have the right resources, the proper knowledge and the necessary human skills to overcome this crisis.

In hindsight, it can be stated that major failures in financial regulation and supervision were fundamental causes of the crisis. In addition, the securitization of assets created a lack of transparency that led to the fact that risks were not priced properly. Confidence will not be restored until we rebuild trust in our financial system. In order to limit the impact of the current developments on the well-being of our citizens, the main goals are therefore 1) to rapidly restore confidence to the banking system which has to deliver its commitment to provide firms and households with credits, 2) to urge for a serious reform of the international financial sector through introducing and strengthening European and global supervision and efficient regulation, and 3) to enact policies which can curb the growth of public spending in the long run. Especially the regulation should be designed in such a way that funding for investments in innovation in the non-financial sector is not discouraged in Europe. Public policies should not hinder structural change. On the contrary, they should encourage innovation, growth and especially new investments in capital expenditures.

We need to encourage entrepreneurship and ensure that young people have the opportunity to start new businesses, thus helping to bring back growth, dynamism and job creation to our economies. As an example, this could be done through a proper fiscal framework for venture capitalists, „business angels“ and other entrepreneurs who take the risk of funding new enterprises.

Furthermore, we recognize the need for widening support of credit flows also to emerging countries. The agreed additional doubling of IMF funds at the recent G-20 Summit in London is certainly a positive sign in this direction.

In addition, we appreciate the positive role played by the European Central Bank during the recent crisis, guaranteeing macroeconomic stability and low inflation in Europe. We also renew our support to the Stability and Growth Pact in Europe.

As the biggest political force in Europe, we have committed ourselves to act with determination and urgency to translate these words into action. We therefore recognize that the following measures should be swiftly enacted in cooperation with the national governments and the appropriate international institutions:

- 1. Avert a deterioration of the current crisis into a global depression by resisting protectionist temptations and by supporting a rapid conclusion of the Doha Development Round.**

2. **Restore trust in the banking sector by swiftly dealing with the “toxic asset” question, on the one hand, and by reorienting the financial sector so as to serve again the real economy, on the other hand.** Effective and adequate financing of businesses and employment-creating SMEs must be restarted in order to reactivate the real economy; the aim should be to re-establish the financing of the real economy as the core activity of financial institutions. Also, and as current measures are not sufficient, we urgently need to restart the banking sector in order to make the credit flowing again to the real economy. This requires credible stress tests for cross-border banks.
3. **Improve the risk assessment in financial institutions, and enhance the transparency in the international financial markets** by making it compulsory for banks to explain their financial products to retail customers taking their respective risk levels into account. More resources should be invested for educational projects for consumer awareness and understanding of financial markets.
4. **Need for strengthened international cooperation by establishing a coordinated regulatory and supervisory framework in financial markets.** In this sense, we encourage the IMF and FSB to jointly develop an international framework for dealing with cross-border banking, strengthen regulatory standards and close the existing accounting gap. Regulators around the world will also need to enhance their expertise and know-how in dealing with ever complex financial instruments.
5. **Registration of hedge funds.** Although we recognize that hedge funds have not been the originators of this crisis, they should nonetheless be registered and be required to disclose appropriate information to supervisors or regulators on the size of their investments, including on their leverage, if they surpass a certain size. This will be necessary for the assessment of the systemic risks that they pose individually or collectively to the financial system. They should also be subject to oversight in order to ensure that they have adequate risk management structures in place.
6. **Global regulation including tax havens and “non-cooperative centers”.** It is essential to introduce international standards against the risks posed by non-cooperative jurisdictions. Effective sanctions should be put in place to protect us from risks arising as a result of a lack of transparency and regulation. However, this should not impede tax competition.
7. **Reform credit rating agencies** by ending the current conflict of interest, by improving the effective oversight, transparency and quality of their activities and by breaking their oligopolistic nature (i.e.: by creating new rating agencies operating in competition to the ones already established). We believe that rating agencies must be “single-product firms” providing no services other than ratings.
8. **Need to reform managers’ payroll schemes** by ensuring that payments are not finalized over short periods where risks are realized over long periods. Shareholders and boards of directors of all public and private companies need to play a more active role in the design, operation, and evaluation of compensation schemes, and they should be held responsible. Firms should publicly disclose clear, comprehensive, and timely information about compensation. The public, including shareholders, should be adequately informed on a timely basis on compensation policies to exercise effective monitoring, and supervisors will assess firms’ compensation policies as part of their overall assessment of their soundness.

In summary, we intend to restore confidence, growth, and jobs; repair the financial system to restore lending; strengthen financial regulation to rebuild trust; fund and reform our international financial institutions to overcome this crisis and prevent future ones; promote global trade and investment and reject protectionism, to underpin prosperity; and build an inclusive, green, sustainable and competitive economy.

By acting together to fulfill these pledges we will bring the world economy out of recession and limit the impact of future economic crisis. This is our commitment for the well-being of all our citizens in Europe.