



Brussels, 4 December 2008

**SME UNION Leitl asks Commission to ease pro-cyclical effects of Basel II:
Banking regulation must not aggravate current economic downturn**

“The European economy is confronted with a bleak economic outlook for 2009. It is of utmost importance to ensure SMEs access to finance and to avoid further credit crunches”, explained SME UNION President Christoph Leitl today in Brussels. Small and Medium-Sized enterprises (SMEs) are the backbone of Europe’s economy and are traditionally depending on bank lending and overdrafts. SMEs are therefore the very first ones to be affected if banks change their lending policies.

Christoph Leitl explained in a CNBC live interview today that the task of ratings (bank internal and external ratings) in the Basel II framework could aggravate the economic downturn. For the rating systems the negative economic outlook for 2009 means higher probability of defaults which has the effect that banks will need even more own capital in their balance sheets. This could have the effect that banks tighten their lending policies even further which would lead to an additional deterioration of economic growth prospects. Leitl: “This vicious circle has to be avoided. Banking regulation should ensure the financial system’s stability, but at the same time it must not be a factor that negatively affects the macro-economic stability” Leitl described.

Therefore President Leitl asked, in a recent letter to Internal Market Commissioner Charlie McCreevy, to implement measures in the Capital Requirement Directive - the implementation of Basel II in the EU - that would ease pro-cyclical effects of the current Basel II framework. Possible measures mentioned by the SME UNION President included the examination of probability of defaults in times of crises and its effects on bank’s capital as well as wider and simpler recognition of collateral provided by SMEs.

Further information: sme@sme-union.org, www.sme-union.org; Tel: +32/2/233 38 38

SME UNION (Small and Medium Entrepreneurs Union) of the EPP (European People’s Party) is the network of pro-business Christian-Democrat, Conservative and Liberal politicians and political organizations. Its main objective is to help in shaping EU policy in a more SME friendly way. www.sme-union.org