



"The voice of crafts and SMEs in Europe"

ECB's interest hike must not be the first of a series

Brussels, 3 July 2008 – UEAPME, the European craft and SME employers' organisation, reacted cautiously to European Central Bank's decision to raise interest rates by 25 basis points, taken today (Thursday) by the ECB Governing Council meeting in Frankfurt. According to UEAPME, a hike in interest rates is not the correct way to tackle the rising inflation in the EU, which is mainly due to external "shock factors" such as high oil and commodity prices. Today's decision is likely to put pressure disproportionately on the real economy, a worrying signal for European crafts and SMEs at a moment when the Eurozone is showing clear signs of a slowdown. Today's decision must not be the first of a series, warned the organisation.

Economic and Fiscal Policy Director **Gerhard Huemer** offered the following comments:

"Today's decision is clearly driven by the desire to keep inflation under control in the Eurozone. While this is a laudable goal, a hike in interest rates is the wrong weapon for the right target. Increasing interest rates makes economic sense in case of overheating economies, much less so to fight inflation, especially if it is caused by higher commodity prices."

"Higher external commodity prices, such as energy prices, are already putting downward pressures on living standards across the Eurozone. Increasing interest rates at this stage will further cut the purchasing power for the real economy, which will ultimately share most of the burden. Today's decision will have a negative knock-on effect on the confidence of investors and consumers, and is the wrong signal to give to an economy that is already worried by the next downturn."

"The European Central Bank built up a good reputation for its excellent handling of the credit crunch caused by the sub-prime mortgage crisis and by keeping interest rates stable in the last year. Today's decision, however, puts a dent in this reputation, and must not become the first of a series. Another hike before the end of the year would dilapidate the credibility capital gained by the ECB so far."

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EDITORS' NOTES: UEAPME is the employers' organisation representing exclusively crafts, trades and SMEs from the EU and accession countries at European level. UEAPME has 86 member organisations covering over 12 million enterprises with 55 million employees. UEAPME is a European Social Partner. For further information: <http://www.ueapme.com/>

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