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Tackling Economic Crisis in European Union— Results of the Informal Summit on 1 March 2009

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During the meeting on 1 March 2009, the heads of state and government of the EU member states emphasized the importance of coordinated crisis-fighting efforts compatible with the rules of the internal market and agreed an approach to financial aid for Central and East European states. At a formal meeting scheduled for 19–20 March, the European Council will take decisions necessary to minimize the threat of rising protectionism, within the internal market and the external environment alike.

Macroeconomic Context. The EU27 group has now formally entered “technical recession,” with third- and fourth-quarter 2008 GDP down, respectively, by 0.2% and 1.5%. Consumer and business confidence indicators, which have sunk to record-low levels, are a revealing symptom that the crisis is deepening in the EU. In February 2009 the Economic Sentiment Indicator (ESI) and the Business Climate Indicator (BCI) were at their lowest since their launch in 1985. The economic downturn is affecting the EU labor market more and more conspicuously. The EU27’s unemployment rate rose 0.4 percentage point between October 2008 and January 2009 (to 7.6%), and it has gained 0.8 percentage point since January 2008. In view of expectations of an increasingly turbulent state of the European labor market, the Czech Republic as the current holder of the EU Council Presidency decided to call another informal summit, scheduled for this May, to address measures to minimize the impact of the crisis on employment and social policy. Conclusions of the next European Council meeting could be helpful in the context of the May summit because, as the communication from the 1 March summit emphasized, the European Council was going to assess stimulation efforts taken so far within the framework of the European Economic Recovery Plan (EERP) adopted in December 2008.

Protectionism Issue. Increasingly intense economic problems, macroeconomic and microeconomic alike (such as a deteriorating situation in various industries, most notably in the automotive industry), have triggered the growth of protectionist sentiments in various EU countries (including France, Spain and the U.K.). This resulted in an approach of which France’s EUR6bn bail-out plan for the car industry—one making support to domestic businesses contingent on their keeping production in France—was symbolic. This plan met with much criticism in the EU, mainly from new member states from Central and Eastern Europe which, meeting at Poland’s initiative on the day of the summit, voiced support for adherence to Community legislation on the functioning of the internal market. Eventually, France has given up the most controversial elements of the plan. Objection to protectionist measures and concern for the rules of the internal market, expressed by highlighting the European Commission’s role as the “guardian of the Treaty,” are key messages of the 1 March EU summit . From the perspective of minimizing in practice the threat of protectionism, it is important that in their joint position the leaders of the EU countries expressed their belief that closer coordination of aid for the car industry was necessary. Indeed, in recent weeks it transpired that cooperation in this field was very weak, a situation making the adoption by individual countries of protectionist measures more likely. The Commission presented, on this 25 February, a communication on instruments of aid for the car industry. However, this document does not contain any important new elements, as the measures specified there are general rather than tailored to the specific nature of the automotive industry and it covers forms of aid already provided for in “Temporary Community framework for State aid measures to support (…) in the current financial and economic crisis” of December 2008 (new forms of loan guarantees) and in the EERP (financing for projects concerned with the development of clean technology in the car industry; the use of the European Social Fund or European Globalization Adjustment Fund resources).

It should be noted that of late protectionist tendencies have become more pronounced in a number of important economies of the world. The American draft of the stimulus package of January 2009 contained a “buy American” clause, which committed businesses pursuing investment projects financed under this package to buy products made in the USA (e.g. steel). The EU criticized this, and in the final version of the package the “buy American” principle was soften. Measures indicative of protectionism have been adopted, or are contemplated, by other countries, including Brazil, Russia and India. It should be noted that such actions are contrary to the provisions of the Washington G20 summit of 15 November 2008, the members of which explicitly undertook to refrain from taking a protectionist approach.

Economic Problems of Central and East European Countries. Different countries in Central and Eastern Europe have felt the impact of the financial and economic crisis in varying degrees. Among EU members, Latvia and Hungary have been hit the hardest. Both these countries received, already in 2008, external aid (the bulk of which was provided by the EU, the International Monetary Fund and the World Bank) to support their financial stability. Latvia borrowed EUR7.5bn (of which EUR3.1bn from the EU) and Hungary—EUR20bn (of which EUR6.5bn from the EU). In both these cases the EU’s financial involvement was funded from the “Medium-term financial assistance facility” created in 2002 pursuant to Article 119 TEC specifically for non-euro-zone member states experiencing difficulties with their balance of payments equilibrium. In the autumn of 2008 funds available under this facility were increased to EUR25bn.

In view of obviously diverse economic situations of the different Central and East European member states, the participants of the 1 March summit objected to a blanket treatment of the region in assessments of the severity of the crisis. They also emphasized that banks from the EU15 countries should not apply, in their dealings with their subsidiaries in the Central and East European member states, practices capable of restricting lending by the latter. They did not find a special aid fund in support of financial stability in the countries of the region (to be set in an amount of EUR160–190bn, according to Hungary’s proposal) indispensable. That proposal, not having been submitted for detailed consultations beforehand, was received unfavourably by the remaining EU members. Instead, a decision was taken to develop the present case-by-case approach to aid for those countries in the region that were struggling with grave problems of financial stability. It should be noted that the European Investment Bank, European Bank for Reconstruction and Development and the World Bank announced they could allocate, within the framework of coordinated actions in 2009–2010, EUR24.5bn to support for the banking systems of states in the region.

Conclusions. The decisions taken by the 1 March EU summit are a good starting point for the EU’s continued efforts to minimize the risk of protectionism within the Community. In this context, the European Council meeting on 19–20 March should adopt concrete arrangements for improving the efficiency of anti-crisis measures implemented for the greatest part within the EERP recovery plan. Of particular importance is the need to improve exchange of information on current initiatives adopted by EU governments as they tackle the crisis. In connection with recent evidence of protectionism outside the EU, the European Council should adopt a clear position on this issue, one the EU can present at the G20 summit in London on this 2 April. The approach to aid for Central and East European countries reflects objective difficulties of drawing up a single aid plan for the entire region. It cannot be ruled out that member countries whose banks have largest exposure to the region (e.g. Austria) will resolve to take unilateral aid measures if faced with the prospect of sustaining heavy losses due to financial instability of Central and East European countries.