THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 16 (16) • March 26, 2009 • © PISM

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Financial and Economic Crisis in the European Union—Decisions of the European Council of 19–20 March 2009

by Marcin Koczor

During its meeting of 19–20 March, the European Council made important financial decisions as part of the struggle against the economic crisis and worked out a common position for the G20 summit in London. EU member states recognized the size of the present fiscal stimulus package as sufficient, counting that it would lead to the reversal of negative trends. By the same token, they rejected the American proposal to initiate a so-called 'second round' economic stimulus. At this point, there is no certainty as to when Europe will see economic growth again—much will depend on the situation in individual EU member states.

General Economic Measures. The size of the stimulus package in the EU will amount to about €400 bn (approx. 3.3% of the EU's GDP) in the years 2009 and 2010. This amount also includes the so-called automatic stabilizers (mainly social benefits and income taxes), and for this reason it cannot be treated as an indication of the true scale of EU member states' financial contribution to restoring economic growth. The European Council achieved a long-awaited understanding on the location of €5 bn that, in keeping with the European Commission's proposal, were to be set aside for specific energy projects and the development of broadband Internet. An earlier understanding on this issue had been blocked for a number of reasons. The discussions focused on the scale of these investments' real influence on economic revival, the Commission's choice of projects (especially the Nabucco gas pipeline project), and also the legal bases for making use of the funds (these are to be taken from the EU budget margin for the Common Agricultural Policy). According to the conclusions reached by the European Council, €3.98 bn are to be set aside for energy-related projects, the largest part of which is to be used for supporting the construction of gas distribution infrastructure. The amount of €1.02 bn will be set aside to finance broadband Internet infrastructure and other initiatives aimed at the development of rural areas (e.g. in climate change, renewable energy or biodiversity). The final compromise was reached after it had been decided that all the funds are to be spent by the end of 2010, so that they would constitute a real contribution to stimulus measures. Following this deadline, all unspent funds are to revert to the budgets of individual member states.

According to the European Commission data, EU member states took up, or intend to take up, about 500 initiatives that are to help overcome the crisis. Some of them are to be found in National Reform Programs or Stability/Convergence Programs. They can be divided into four types: investments, such as in infrastructure—32%; support measures for enterprises, e.g. easier access to financing, reduction of administrative burdens—31%; increase of households' purchasing power through reduced taxes and increased social transfers—21%; assistance for the labor market, such as reduction of fiscal burdens on labor, and assistance for professional reintegration—16%.

The European Council once again stressed the importance in the present circumstances of respecting the Stability and Growth Pact. The economic crisis has had a negative impact on budget stability in many EU member states, an indication of which can be seen in the fact that several days after the end of the summit, the Commission recommended that the ECOFIN Council formally open the Excessive Deficit Procedure (EDP) with regard to France, Greece, Spain and Ireland, setting

deadlines by which these countries must bring their budget deficit below the 3% reference point. With regard to the UK, which has been subject to the EDP since July 2008, the Commission recommended setting a new deadline for deficit reduction.

The Financial Sector. The EU measures that were undertaken in connection with the financial crisis are concentrated on two levels. The first is assistance to financial institutions aimed at helping maintain the stability of the system. Since the fall of 2008, when the coordination framework was set up, until mid-March 2009, the European Commission adopted 45 decisions connected with various forms of public assistance extended to financial institutions. At present, a key task in terms of assistance for the financial sector is the resolution of the problem of banks' low quality ('toxic') assets. The basis for the coordination of steps taken in this area are the February 2009 guidelines of the European Commission, under which state assistance should be granted in keeping with the principles of necessity, proportionality and respect for free competition. The appraisal of such assets should be carried out by independent experts using economic—not market—value as a basis. The division of costs connected with buying out the assets should be spread among the shareholders of the given financial institution, its creditors and the state. The practical methods of dealing with 'toxic' assets were left to the discretion of individual member states.

The second level includes measures for a more intensive and better regulation and supervision of the financial sector. The European Council adopted the conclusions contained in the report of Jacques de Larosière's group on the issue of a comprehensive reform of financial supervision. In consequence, by the end of May 2009 the Commission is to prepare a package of legislative proposals reflecting the report's most important recommendations. These include the establishment of a general supervisory organ for financial markets (the European Systemic Risk Council) and the creation of distinct supervisory organs for the banking, insurance and securities sectors that would replace these sectors' supervisory committees, which are devoid of any meaningful competencies (the so-called Level 3 Committees).

The Global Dimension. The EU position worked out in connection with the G20 summit is in large measure based on decisions taken by the G20's EU member states during a meeting that took place on 22 February in Berlin, and rests on three pillars. The first is the postulate to reinforce coordination of anti-crisis economic assistance measures. The EU has called for the avoidance of all manifestations of protectionism and also stressed the importance of cohesion between the stimulation measures taken and the stability of public finances. The second pillar consists in the assumption that no segment of the financial market should be excluded from regulation and supervision. In this context, the European Council has spoken of the necessity to regulate the activities of hedge funds, investments in non-public capital markets (private equity), and alternative investment instruments or rating agencies. It also drew attention to the necessity of taking steps against countries in which the legislation in force makes it possible to avoid paying taxes or to launder money. The third pillar of the EU's position is the postulate to strengthen the role of the International Monetary Fund. EU member states stress the necessity of a significant increase of the resources available to the IMF (to US$500 bn). Wishing to provide an example to other participants of the London summit, the EU member states expressed their readiness to support the Fund with a €75-bn loan to which they are to contribute on a voluntary basis. They are also calling for a reform of the way in which the IMF operates, so the Fund's decision-making process would reflect the economic potential of states.

Conclusions. With ever deeper recession in Europe (according to the IMF, the fall of the GDP in the eurozone could be greater than in the USA and could amount to 3.2% in 2009), ever greater doubts could emerge about the adequacy of the anti-crisis measures taken by the EU. The effects of the stimulus measures could be visible on different scales and at different times in individual member states. One should not, therefore, expect countries to emerge from the crisis at an equal pace in the entire EU area. One of the factors that will influence the effectiveness of the stimulus is the efficiency of reforms within the framework of the Lisbon Strategy. Differences of views between the EU and the USA on the coordination of anti-crisis measures in the global dimension could make it difficult to reach a specific understanding on this subject at the G20 level. It seems that for the Community (especially Germany, France and, to a lesser degree, the UK) the highest priority is regulating and supervising the financial sector. Strengthening the role of the IMF is also of key importance for the EU, as loans from this source are an indispensable element of assistance packages, also for EU countries that are not in the eurozone (such as, recently, Romania), and play a complementary role with regard to the EU's balance of payments support instrument (the European Council agreed to double it to €50 bn). Speeding up the reform of the IMF's decision-making procedures, a pre-requisite for ensuring the Fund's more efficient operation in the future, is also highly desirable.