The European answer to the world financial crisis

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Concrete decisions for measures to cope with the financial crisis were made at the EU Summit in mid-October in Brussels. It took place immediately after the meeting of the leaders of the 15 countries of the euro-area, which had worked out a healing plan for restoring trust in the banking system. It implies the re-capitalization of financial institutions under difficulties, state guarantees for inter-banking loans as well as higher control and better accountability in the sector. The 27 EU member countries supported the plan and engaged to coordinate their efforts for coping with the financial crisis. Shortly before the meeting in Brussels Financial Ministers from the EU agreed on the increase of state guarantees for private deposits up to 50 000 euros in case a bank goes bankrupt. The next step was the participation of European leaders in the extraordinary forum of G-20 in Washington for overcoming the crisis.

Are the decisions made in Brussels adequate to the situation? Which are the most endangered and which are the best-protected countries? According to Georgi Angelov economic analyst from the Open Society Institute there is a large number of problems in Europe and they would not be solved in the short term.

“Practically Europe is quite unprepared for this crisis, Angelov claims. The governments were piling up budget deficits and debts even in the good years for the economy and now they don’t have many possibilities for maneuvering. Banks instead of putting aside reserves for bad instances, they have been working with minimal capital that proved insufficient and now need re-capitalization. These problems remain and reduce the possibilities to react at the moment. In fact Europe did not make the best of the last few good years to make a faster enlargement of the euro-area. On the one hand it would have increased the influence of the European currency as stable and attractive for investors, and on the other, it would have protected small countries from the influence of the crisis.”

Are the measures Europe is undertaking sufficient for coping with the crisis and what else should be done?

“The measures were to a certain degree sufficient to stop the melting down and the collapse of the financial system but they cannot annihilate old mistakes and problems, the analyst goes on to say. The EU is not yet the most competitive and dynamic economy. Respectively European public finances and state budgets and the EU budget itself, are still not the moving force of growth. In many cases they obstruct the economy. In this sense, measures should be taken in real economy, because besides protecting the system from a catastrophe we should also give it the chance to develop. This is the fundamental problem. On the other hand a clear policy for expanding the euro-area would provide the possibility for a much faster coping with existing panic.”

According to Georgi Angelov, Iceland is an example of how a small country with a “small” currency and big banking system was incapable of coping with the crisis because its banks didn’t have access to the European Central Bank. The banking sector was so large that when it tried to save it, the state went bankrupt, the economist further explains. Is that a danger for such a development in other countries as well?

“There is such a principle danger, especially for countries that resemble Iceland in one way or another, Georgi Angelov comments. The countries of “small” currencies in Europe are Sweden, Denmark and Switzerland. In Eastern Europe many countries have their own currencies. So does Great Britain – not small but not as substantial as the Euro and the Dollar. On the other hand there are countries of large banking systems, like Switzerland, Ireland and some Scandinavian countries where the banking sector is several times bigger than the GDP. The current crisis proves that the expansion of the Euro would be beneficial both to the EU and each separate small country. Those who were against the adoption of the Euro are now changing their opinion. The majority of people in Denmark support the adoption of the European currency. Iceland, which didn’t want to join the EU and adopt the Euro, is now ready to take these steps. We would perhaps see such a development in Switzerland, and why not in the UK as well.”

“There is a growth of confidence in the Euro at the moment” maintains Martin Zaimov , member of the executive council of Societe Generale Expressbank, Sofia and accentuates on the highly interesting evolution of the European currency.

“Interesting in the sense that few people think of the fact that the Euro as a product of an institution such as the European Central Bank is a unique currency. These are unique money in history, the banker claims. There has never been an emission of a currency on the part of an institution, which is totally separate from the public power or the power that has the right to accumulate money.”

It is believed that the confidence crisis towards banks in Europe is so far hushing down; people are reassured in the context of the measures taken in Europe and the USA on a global scale. Is that true?

“The major problem remains not so much the lack of confidence on the part of the public towards the banks, but the trust of the banks among each other, Martin Zaimov further comments. The concern in the USA and Europe is that such a lack of confidence among banking institutions and the participants in the financial system would entail a loss of confidence in the financial system itself. Because of the long duration of this tension there is obviously a drop in confidence and the political measures in the USA and Europe are trying to address this problem.”

According to Martin Zaimov something very important is happening at the moment, which is however not in the focus of attention.

“The supremacy of politicians over the influential personalities from the financial sphere was resumed, he comments. In the last 30-40 years the latter had acquired enormous influence and power over politicians, perhaps unprecedented in history. In a moment of crisis the only people that are institutionally entrusted to approach the problem about the insecurity of the future, are the politicians. And they are currently performing their part. Due to the years-long loss of power and prestige among the elite of communities however, they are facing difficulties because their competence is not at the necessary height.”

Next, the opinion of Sofia residents in a poll asking them the question “Are you OK with the measures that the European Commission has taken in response to the financial crisis?”

Vesselin Fezliiski (59), a sociologist, believes that the EC has taken serious measures, and as to whether they are adequate, this will become clear as the crisis unfolds.

„Everybody agrees that the East European countries are potentially threatened, while on the other hand, given that Bulgaria lives with a currency board arrangement and that there is information about our banks enjoying high profits, we can assume that we are in no great trouble”, he says. “The support provided to European banks which is almost tantamount to nationalization, suggests that the blow on the financial sector has caused widespread fear and that the consequences are grave and likely to bring about shrinking production, rising unemployment, and to a new wave of the crisis. And this crisis, I believe, may shake the European Union to its very foundations. I mean the failure of the European Constitution and the resistance put to the Treaty of Lisbon. On different issues member states have different views, that is, we are together, but we are also different. The economic and financial aspects of the crisis can even undo agreements for unity already achieved. That’s because when the EU makes measures, it makes them by issuing directives later implemented by member countries. Besides, it is unlikely for the EU to set up an anti-crisis model similar to pre-accession funds – we can hardly count on that. Still, I believe that when the crisis arrives to us more tangibly, it will hardly hit that strong, because the poor always lose less.”

Boryana Dimitrova (45), an economist, cannot for the time being report any concussions in the household budget. She explains this with that fact that she hasn’t invested much cash in a bank. As to the EC anti-crisis measures, she cannot say how they will impact on Bulgaria. Still, has she got any worries in this respect?

„For the time being, no, as we have not actually felt the effects of what is underway. It was assumed that the crisis would bypass Bulgaria, but I think this is overoptimistic. There will be layoffs and bankruptcies too. The construction business is facing a decline, as demand for housing plummets.”

In the view of Rossitsa Tzenkova, (38), a hair-dresser, the crisis will not come strong locally, because on the one hand, Bulgaria has been constantly crisis-stricken for the past years, and is a small country with a small industrial and production sector, on the other.

„I am left with the impression that we are told time and again that the crisis will strike in March and that we are in for a catastrophe, no less, that would trouble every household around”, she adds. “This is a way to inflate the problem and to give people extra worries that prevent them from doing their job and living in calm. As to myself, I am neither calm, nor worried over the crisis and over the EC measures against it, because Bulgaria is a small country that has always depended on somebody. Well, at the same time I can see that people in much larger countries with stronger involvement in EU are in great trouble – they are made redundant, lose their jobs and incomes. But as far as my job is concerned, it is running as usual, because after all everybody can afford a hairdresser, right?”

Radio Bulgaria talked over the phone with Graham Watson, leader of the group of the Alliance of Liberals and Democrats for Europe (ALDE) in the European Parliament. We asked him whether the European Union is flexible enough to deal with critical situations of the scale of the global financial turmoil.

„I think the European Union is in a much better position now, after the G 20 Summit and after the meetings we’ve had within the Union, to meet the challenges of the Global financial crisis. Clearly nobody knows how long or how deep the recession is going to be, but we have had a good look at the management of the economic policy, we’ve decided that there need to be some flexibility in the criteria that we have. But at the same time we recognize that we have to carry on the Lisbon Strategy for economic growth if we are to be successful. And while some countries in the European Union are already in recession, it is very pleasing to see that countries like Bulgaria and Romania still have fairly robust economic growth!”

What will be the EU response to the economic crisis and what measures have been mapped out in this direction?

„Liberal Democrats have argued in favor of the setting up of a European financial service or authority as a “watchdog” to guide the practices of banks and other financial services. Sadly we don’t have agreement on that yet, but I believe that we have to continue the work towards it. Because it is only through transparency and proper oversight of financial markets, that we will keep them honest!”

To what extent can European citizens rely on their own institutions to protect them from the raging financial crisis?

„Probably the first lesson of this financial crisis is that if we want to survive, then we have to be prepared to work together. If we all go our separate ways, if we all have different policies and response to the crisis, then we will certainly all sink together. The great advantage of EU membership is solidarity in the difficult times”.

How would you comment on the statements of some analysts that we are now witnessing the demise of capitalism and the emergency of a new economic system?

„I don’t believe we’re witnessing the end of capitalism! What I hope we are witnessing is a recession in which we will look at the quality of economic growth as well as the quantity. World GDP is forecast to double in the next 20 years, even with the current recession. But if growth continues to be based on using finite resources and not taking responsibility for waste, then it will create as much human misery as it creates human happiness! What we now have to do is look for intelligent growth, sustainable growth, based on a green economy”.

Graham Watson, leader of the group of the Alliance of Liberals and Democrats for Europe (ALDE) in the European Parliament.

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