MEASURES AND INSTRUMENTS USED AS A RESPONSE TO CRISES IN EUROPEAN UNION – AN OVERVIEW

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During latest times, financial crises have been a common occurrence in emerging market (and transition) countries with negative influence for the economies. Financial crises have had negative effects on real output, work force, poverty and political instability. Latest crises (2008) that struck US become international, its consequence being received in European countries too. This paper wants to discuss some intervention measures taken in the European Union Area and some importants funds used as tools for crises fighting. The European Economic Recovery Plan and EU funding mechanisms (The European Social Fund (ESF) and The European Globalization Adjustment Fund (EGF)) are taken into discussion.

Key words: crises prevention instruments , financial system, The European Economic Recovery Plan and EU funding mechanisms (The European Social Fund (ESF) and The European Globalization Adjustment Fund (EGF)

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Actual crises (started in summer 2007) is considered to be without precedent in post-war economies related to its size and extend, but also has many common features with recessions in the past. The crises was headed, in an international approach, by a rapid credit growth, availability of liquidity at a low price, low risk premiums, strong leveraging, development of bubbles in real estate sector (US subprime market). In Romania, the crises was preceded by easy credit access (so called “creditul cu buletinul”), rising prices in real estate sector explained by trouble-free admission to credit, growth in imports and consumption, growing wedges (in some sectors). These factors contribute to vulnerable financial institutions that jeopardize the entire system. Such occurrences happened before (Japan and the Nordic countries in the early 1990s, the Asian crisis in the late-1990s), but this time, the crisis became global.
In its early stages, the crisis manifested with an heightened liquidity shortage among financial institutions, rising the concerns about solvency of financial institutions, and culminating with the default of Lehman Brothers. After that, confidence collapsed, investors considerable liquidate their positions, and stokmarket went into crisis. Related to EU economy, this downturn was compared to facts happened during the Great Depression of the 30’s.

International background

Crises in statistic data- an overview

The world economy faced during latest period severe stress tests and criticisms of the authorities and civil society around the world, the banks being made responsible for the financial crisis started in 2008. Recently, the Basel Committee on Banking Supervision, the agency to monitor international banking activity, said the world's largest banks have a cash deficit of 1.730 trillion

Euros (2.287 trillion U.S. dollars), a problem are required to solve in the next three years. Also, the 91 largest banks and a capital deficit of 577 billion Euros compared to 7% level that you must meet to enter into class I, a measure of financial stability. Although markets were ready to hear capital deficit, and the reduction of liquidity shock could be more difficult to repair, since the euro area faced market dysfunctions.

For the first time since 1980, world economic growth fell into negative trend (-0.6%), with the euro area economy declining 4.1 %. Trade has been adversely affected, dropping more than 20% at global level and 16% at European level.. It is estimated that the performance of EU Member States will be among the weakest, with a growth of 1 % against 4.6%, on average, at world level. Government stimulus was significant in 2009: average fiscal deficit at EU level reached almost 7% of GDP and public debt as a share in GDP increased by 12 %age points (and an additional rise by around 6 %age points is foreseen for 2010). These developments are not sustainable and therefore call for fiscal consolidation measures in most European economies. The withdrawal of fiscal stimuli may hamper the resumption of economic growth in Romania's main trading partners and could adversely affect demand for Romanian exports in the future. The international financial system received a strong support from monetary and fiscal authorities in 2009. Central banks in many developed economies resorted to extraordinary policy measures to provide liquidity2. Monetary policy rates dropped to historical lows (1 % in the case of the single European currency and near 0 % in the case of the US dollar). Given that the standard monetary policy easing measures have been almost exhausted, some central banks switched from the yield-based approach to a quantitative one.

The central banks of those advanced economies saw a significant increase in the size of their balance sheets and in the maturities of their asset holdings. Most major global banks meet minimum capital requirements, but many would be forced to restrict the payment of bonuses and dividends, if the new rules of Basel III (which regulates banking activity) should be applied immediately. That is why, according to the agreement, the requirements will be met by one, over eight years. It is believed that new regulations, much tougher to maintain a capital "healthy" for at least 7% (compared to 4.5% as it was before), will have a modest impact on the overall economy, despite business feared a negative impact on output and unemployment (see below - 1.4. Basel Accords requirements). Basel Committee said that if measures are implemented over a period of eight years, as is planned, would result in a maximum decline of 0.22% of global GDP. In addition, given that Basel III will be introduced between 2013 and 2019, the maximum impact on GDP would not be seen only in nine years. These new regulations could "cut" 3% of economic growth over the next five years in the U.S., Euro zone and Japan could eliminate 10 million jobs.

The debt crisis emerged in the Euro area , where banks are deeply involved. German banks have borrowed amount equivalent to 6% of GDP in Germany to Ireland and another 6.2% to Spain. Thus, over 12% of the GDP of most powerful countries in the European Union is in the hands of two countries with the highest risk. Also, British banks such as Barclays and HSBC should be to recover loans to Ireland, which is equivalent to 9.4 per cent of UK GDP. Amounts equivalent to 5.7% of British GDP is in the form of bank loans in Spain.

Dutch banks appear to be located in the worst case, the amount representing 16.4% of GDP of the country borrowed Spain. Amounts due to banks equivalent are closed to 13% of GDP in Portugal, and 8.9% of GDP in France. Ireland, which just received a loan of around EUR 85 billion from the IMF and the EU. Irish banks have lost a third of deposits due to fears of bankruptcies and, moreover, have borrowed amount equivalent to 14.5% of GDP. American banks are not better from this point of view, borrowing, together, 353 billion dollars to Portugal, Ireland, Greece and Spain.To prevent a real disaster, Ireland is already the fourth nationalization of the banks, Alliend Irish Banks (AIB), which offered 3.7 billion Euros. (all data is in

concordance with). The world economy deteriorated significantly in 2009 (down 0.6 %), its first contraction in 30 years, while the EU economy saw a sharper fall (more than 4 %), the important government stimulus packages notwithstanding.
The Romanian economy followed a similar trend as the other countries in Central and Eastern Europe, except Poland. The economic contraction was sharp (7.1%) and the fiscal deficit widened substantially (to 7.4 % of GDP) (according to European economic statistics, Eurostat, 2010, accessed on epp.eurostat.ec.europa.eu/cache/ITY.../KS-GK.../KS-GK-10-001-EN.PDF: 1-7).

Global crises and effects on EU
Some authors suggests that actual crises has three phases:
The first phase – so called "toxic securities" – began in the United States, than spread to Europe through the banking systems in which these high-yield and financial instruments with high-risk accounted for large intermediation.
The second phase of the crisis was marked by the reduction of the economic activity in 2009. To combat the effects of the crises, the ECB adopted a expansion monetary policy, and fiscal stimulus was introduced in almost all EU countries.
The third phase of the crisis, that is typically assigned to EU, began with the "discovery" of the critical state of the public finances in Greece in early 2010 (other countries faced the same situation e.g. Portugal) and the rapid contagion of most of the European sovereign debt market.(Saccomani, 2001: 3)
In response to downturn of the European economy, EU took a series of actions, most important of the measures for crises fighting being as follows:
- the stimulus package – the European Economic Recovery Plan (EERP)
- EU funding mechanisms: The European Social Fund (ESF) and he European Globalization Adjustment Fund (EGF).
- Europe 2020 strategy – New skills for new jobs.

The European Economic Recovery Plan
Objectives, major pillars and key principle of the EERP
As a response to crises, a European Economic Recovery Plan (EERP) was proposed by the Commission in a communication to Parliament in November 2008, with the declared goal of crises fighting. The EERP had two major pillars and one key principle. The first pillar was aiming the boost of economic demand and stimulation of consumer s confidence. The second pillar referred the competitiveness in the long term. The underlying principle was solidarity and social justice. Regarding the first pillar the Commission' proposal was that Member States and the EU to agree a budgetary impulse amounting 200 billion Euros (1.5% of EU GDP) in order to boost demand. The second pillar proposed "smart" investments for tomorrow needs: investing in energy efficiency to create jobs and save energy; investing in infrastructure and inter-connection; investing in clean technology to boost construction and automobiles sectors for preceding the low-carbon future market. As regards of the challenges the EERP was to open up new finances for SMEs, cut administrative burdens and start investments to modernize infrastructure (Barroso 2008: 3).
The strategic aims of the EERP were: stimulate demand and boost confidence of the consumers; lessen the human cost of economic crises; tune the economy for future needs as Lisbon Strategy for Growth and Jobs statutes by structural reforms, innovation and building knowledge economy; speed up shifts to low carbon economy through new technologies, new green collar jobs, open up new opportunities in fast growing world markets.

For achieving tactical aims the EERP proposed to exploit the synergies and avoid spillover effects, use all available policies, focusing on fiscal policies, structural and financial market reform, also ensuring coherence between strategic and tactical aims.

Actions for supporting real economy in boosting confidence

In order to achieve this goal, taken actions had to combine monetary and credit aspects, budgetary policies and actions in Lisbon strategy for growth and jobs. Even if all actions are important, our paper focuses on budgetary policy actions. Even though some monetary and credit conditions are taken into discussion. In this approach, it become important to emphasize the role of the European Central Bank and other central banks, the role of national banks, and the role of European Investment Bank and the European Bank for Reconstruction and Development.

Role of ECB, central banks, EU banks, EIB and EBRD

In time of crises, it is considered that monetary policy has a crucial role in order to achieve the reduction of inflation over the medium-term. Some actions had been done; ECB along with other EU central banks had been already cut interest rates, being a scope for further reductions. The objective was to the stabilization of markets and contribution to liquidity.

Reliable and well function financial system (primarily the financial sector) is a premise to a healthy, growing economy, so stabilizing the banking system becomes an important step for promoting a sustainable recovery. The Commission proposal refers to major financial support provided by the Member States to the banking sector for encouraging normal lending activities and boost investments. Related to EIB and EBRD, current crises reinforced interventions, EIB was expected to increase its early intervention with 15 billions Euro, to incorporate reserves to reinforce its capital base (60 billions Euro), and EBRD was also supposed to add 500 millions Euro per year to its level of financing (according to *Communication from the Commission to the European Council – A European Recovery Plan*, COM (2008) 800, 2008: 7, presented on the official website of the European Commission).

Proposals related to Budgetary Policy

In time of crises budgetary policy has an even important role in stabilization of the economy and sustain demand. The Commission recommended a co-ordinated policy in the Member States, focused on budgetary stimulation packages. The proposals for 2009 Related to national budgets included an budgetary impulse of 170 billions Euro (1.2% of Union's GDP) in order to achieve the growth of the European economy and lower the unemployment. Growing expenditures and/or reductions of taxation were also proposed. The budgetary stimulation should have taken account of the starting position of the states. For states, particularly those from outside the Euro area, which were facing significant external and internal imbalances, policy had to essentially target the correction of such imbalances.

The budgetary stimulation was designed to respect the following principles:

- should be co-ordinated and used temporarily;
- should use revenue and expenditure as budgetary instruments;
- Stability and Growth Pact should be respected;
- should be accompanied by other structural reforms in order to grow the demand.

Conclusions of the EERP

The European Economic Recovery Plan was designed to impulse Europe's economy. It was proposed for achieving the following targets:

- European Commission and the Council should work together to ensure that national and EU measures would amount 1.5% of GDP;

- make use of impulse measures respecting the flexibility in accordance with the Stability and Growth Pact;
- accelerate the proposed actions outlined in the European Economic Recovery Plan by legislative activity needed for implementing these measures;
- identify any further measures necessary at EU and Member State level to stimulate the recovery;
- work together with international partners to implement global solutions to strengthen global governance and achieve the economic recovery.

EU funding mechanisms

The European Social Fund (ESF)

The Fund is considered to be the EU's largest instrument for intervention on labour markets and for investing in people. The amount of money spending is more than €10 billion per year. The goal is to give support for Member States to reform labour markets and their institutions. The crises intervention through this instruments consisted in €19 billion of the ESF's operations in 2009-2010 targeted to assist Member States for "rapid reaction packages" together with social partners.

Related to Fund management during crises, the rules were simplified, in order to achieve the follwing goals:
- guidance on good practices to foster implementation;
- interventions for targeted employment services with upskilling and training measures;
- mobility and entrepreneurship incentives,
- support for those in particularly difficult situations, such as young people or older workers.
- training measures focused on the shift towards a green economy.

The European Globalization Adjustment Fund (EGF)

The Fund was created to support workers who lose their jobs in cases where enterprises shut down, factories are relocated to a country outside the EU, or a sector loses many jobs in a regio., The EGF can help workers to find new jobs . The intervention is set to maximum annual amount of €500 million. The EGF provides one-off, time limited individual support through active measures as follows:
-job search assistance, occupational guidance, tailor-made training and retraining, including IT skills and certification of acquired experience, outplacement assistance and entrepreneurship promotion or aid for self-employment;
-special time-limited measures, such as job search allowances, mobility allowances or allowances to individuals participating in lifelong learning and training activities.

In order to fighft the crises, some amendaments were introduced for simplifying the Fund procedures. Some major changes are presented below:
- the redundancy threshold was lowered to a ceiling of 0.35 % of the annual maximum amount of the EGF, used to finance administrative and technical assistance
- co-financing rate was increased.
- indirect costs of Grants (declared on a flat-rate basis) became eligible for a contribution from the EGF of up to 20 % of the direct costs of an operation.
- period for the eligible actions was extended. (***, EU's Response to the Crisis:2)

Conclusions

The EU recession recovery is proving to be slow and fragile, with lots of disparities through European countries. The growth was modest in some Member States, and other are still in recession. Given the future economic growth foreseen for 2011, unemployment is likely to begin declining this year. Future challenges for the EU and its Member States are related to the balance and measures to fight crisis, called crises exit strategies. The main objective is to support further economic growth and employment, the minimization of difficult labor market conditions during the recovery and beyond. This increase is needed for labor market policies. Those are aimed at preventing long-term unemployment, helping peoples to maintain or find a job.

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