GENERAL OVERWIEV ON EU ECONOMY

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Abstract

The impact of the international economic crisis on new EU member states has proven to be more severe than the first estimates of the economic analysts. The situation is different for each Member State, the nature and the dimension of the challenges faced are not identical, and the pace of reform is not the same. The economic crisis has prompted intense and sustained action by the EU's national governments, the European Central Bank and the Commission. All have been working closely together to support growth and employment, ensure financial stability, and put in place a better governance system for the future.

Sustainable development in the future is the common responsibility of all Member States and EU institutions, because our economies are closely interlinked, and the EU economic governance now reconfigured to provide more effective responses at the policy level, to give a good reaction to the present and the future challenges.

Keywords: *economic crisis, innovation, economic growth, investment, banks*

Introduction

The countries from Euro area have been affected by the crisis differently - while Germany and the northern countries generally have better overcame the crisis, the Southern part was confronted with a succession of crises and unprecedented recession.

There is no rule applies to all in order to stimulate growth and employment, but there are common objectives and a series of reforms that we need to develop differentiated on further fiscal consolidation, the resumption of normal lending to the economy, promoting growth and competitiveness in present and to the future, finding solutions to unemployment and the social consequences of the crisis, public administration modernization.

Spain, Portugal, Greece, Ireland, Italy, faced current account deficits in the past decade and in the same period, Germany, particularly, Austria, the Netherlands, Finland, Belgium had trade surpluses.

The analysts put this situation into account of common currency that would prove to be inadequate to the scale of a continent where countries coexist with very different economies.

In addition to an overvalued euro, the southern states have had a common impact of any economic crisis: public expenditures remain relatively stable (in the big public sector wages must be paid), but the revenues plunge immediately (loss crisis firms, thus less tax income receivable, less money from VAT, etc.).

For these countries there are few solutions: either immediately reduce wages and make mass redundancies or borrow. Greece borrowed heavily in the financial markets and this fact has had a big effect when investors alarmed by the financial condition began to demand an interest rate of 12% instead of 3% Thus, Greece and other countries have had to draw on IMF and other foreign donors in exchange for austerity policies, which are likely to be ineffective.

The situation in Germany is different because was slightly affected by the housing bubble; it's traditional more oriented to export than for consumption. This, combined with a policy of wage moderation, drove German export prices to be stable and fairly low. So that’s why, today Germany has a constant competitive advantage, and that keeps the euro at an exchange rate quite high. In fact, as U.S., Europe suffers from China's currency manipulation in exactly the same way it suffers Spain, Portugal or Italy because a euro too strong.

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Due to financial and economic crisis, Europe has adopted a series of measures such as the creation of the European Fund for Stability, idea of banking and fiscal union and ECB interventions. Although these measures had important results, return to growth requires more effort and international financial institutions to be involved in these efforts, and the focus on promoting sustainable economic performance in the EU region.

The western world is going through a combination of crisis financial, social, of the euro area and one of globalization.

Economic development in the emerging countries under the influence of the international financial crisis

In Romania in 2012 the economic growth, was due as a result of the significant increase of the volume of activity in the segment of services and the increases of taxes. Statistic data show that the results from agriculture and industry have negatively affected GDP growth (-1.4% influences the total GDP, respectively, -0.6%), while the building industry had a neutral effect.

Industry, agriculture and construction fields should be as high in total GDP in order to put a label whether a country is developed or not. Thus the services sector it creates gross value, but the weight in the GDP is less. The Lisbon strategy was established that EU countries must support the development of manufacturing in Europe not in other areas, because this part of industry will have the largest share in the wealth.

To achieve higher GDP EU countries should shift to developing sectors where there are as many operations with big complexity.

Agriculture did not affect the development of GDP in the first half of the year; the negative influence was strongly concentrated in the third quarter and declined in the last quarter of the year. On the other hand, services sector recorded a significant lead in the second half, managing to mitigate the decline in the third quarter GDP and return to positive territory in last quarter.

The construction domain felt a boost in mid, but only managed to cover what he lost at the beginning and end of 2012. We could not record growth for 2012, with no increase in taxes, so net taxes (taxes levied - State grants) supported the result of economic growth so the entire year, and each quarter, less an election period.

In this context, it is noteworthy that the development of industrial sector sets the tone for the whole economy and counts for the progress of labor productivity. Here this results achieved this year were lower than in 2011, except during recovery period in the second quarter when the outcome was almost similar with 2011.

For Romania the manufacturing industry has the largest share in the stock of foreign direct investments. Certainly it would have been much better for the Romanian economy if the foreign investment was bound to a greater extent for manufacturing, a domain where the added value is bigger comparing with other sectors. Manufacturing sector has the largest share in GDP. Companies with foreign capital who activated in the manufacturing sector had 43,4% of employees and created in 2011 64% of turnover and 57% of value added in the economy. Industrial sector has contributed with approximately 30% to Romanian GDP.

One reason would be joining the European context; our result is still above the average growth of -0,3% recorded in the EU27. Eurostat data showed that in 2011 only seven countries had growth above 1% (Latvia, Lithuania, Estonia, Slovakia, Poland, Sweden and Malta), while eight states saw declines of over 1% of GDP (Greece - with a minus 6,4%, Portugal, Cyprus, Slovenia, Italy, Hungary, Spain and the Czech Republic).

As the period of economic uncertainty remains in Europe, state members were made unable to fulfill Europe 2020 objectives regarding employment, research and development, climate change energy, education and fighting poverty, so we can say that Europe didn’t achieve its objectives. It is necessary to make progresses in all these areas to evolve towards a European smart, sustainable and positive development.

Under this strategy, Member States submit with annual frequency, the national reform programs, in accordance with the integrated guidelines, aimed at removing obstacles to economic growth and employment at national level.

The efforts of Member States are supported in the EU by initiatives and policies which are associated, for example, with the process of achieving the single market for funding research and innovation and to improve access EU firms to international markets.

Economic reforms undertake in the goods, services and labor market have to be flexible and to stimulate competition and they are essential for the smooth functioning of EMU. These reforms allow Member States to increase potential economic growth and the level of employment. Also, these reforms are the base support for Member States to improve productivity and competitiveness, while improving resilience of these economies to economic shocks. Implementing structural reforms in the euro area is a must, because Member States cannot use monetary and exchange rate policy as an instrument of national economic policies. Therefore, structural reforms are also essential to avoid imbalances in the euro area.

On a short-term the fiscal consolidation can have a negative effect on economic growth; this effect can be amplified during the financial crisis when funding conditions for other operators are also strict. The fiscal consolidation is not the only factor that matters for growth: according to the choices made on the structure adjustment "multiplier effect" of fiscal policy will be different.

In countries with relatively large shares of public expenditure in GDP and relatively high tax rates, the fiscal consolidation achieved through spending cuts rather than through a further increase of the tax revenue contributes more to long-term economic growth.

Less developed member states are unable to finance their needs and that’s why they have to address to markets and to make efforts to control rising spreads for bonds because doubts of investors about the sustainability of their public finances. To restore investor confidence, reduce costs and debt repayment create fiscal room for maneuver in these countries need sustained effort, at a pace appropriate for the inclusion of public finances on a sustainable path. Negative impact on growth can be largely mitigated, provided that fiscal adjustment is correctly designed. Regaining fiscal sustainability will be the benefit of the public and the private ones of these countries and will contribute to the overall financial stability of the EU.

EU states have different economical and fiscal position and that is why the EU Commission is in favor of filing a differentiated fiscal consolidation effort, appropriate for each country. Under the Stability and Growth Pact, these strategies should focus on the progress made in structural terms rather than in purely nominal and include a structural adjustment to support both growth and social equity. Such a differentiated approach also contributes to readjust current account imbalances.

Aspects of banking system in emerging countries

Deteriorating of sovereign debts continued to affect seriously banks' funding costs and market access. Sovereign debts problems may affect banks in various ways, from direct losses on sovereign debts and lower values for the activities and funding guarantees from the central bank, to lower benefits that banks derive from government guarantees, including a damaged quotes bank.

Market participants remained concerned about sovereign exposures after the European Banking Authority (EBA) published on the 18 of july 2012 the results of the second round of bank stress tests. The financial markets react not so confident, encouraging, despite improvements in the quality, seriousness and cross-checking against comparing with the last year's exercise.

EBA identified capital shortfalls in eight of 90 major banks, and recommended raising capital for another 16 banks which have passed within a 1 point percentage compared to the threshold of 5% for Tier 1 capital. The impact of this identified data on the market was limited but showed somewhat greater differentiation between banks. CDS rates rose for Greek and Spanish banks, and fell for Irish and Portuguese banks. The analysts focused on sovereign exposures communication accompanying the official results to run their own sovereign default scenarios.

In most cases, it has been suggested that reductions generated by peripheral European debts could lower the capital ratios, but at manageable levels. However, serious concerns regarding the expansion of the sovereign debts crisis in Italy and Spain led to a vast sale of shares and securities in banking system. Increased selling pressure from banks in Italy and Spain, those of Belgium and France, and later in banks across the continent, including those based in the Nordic countries.

In the absence of market financing, banks based in countries associated with sovereign debts problems continued to rely on ECB liquidity to finance a significant portion of their balance sheet. For Greek banks, central bank financing was 96 billion euro, plus cash emergency for Irish and Portuguese banks, the corresponding figures were 98 billion Euros and 46 billion Euro. Banks in Italy have doubled borrowing from the ECB as at 85 billion Euros. However, research in the area indicates that most large European banks have already funded about 90% of their funding target 2012 and 2013 were pre-funded.

This year Romanian banks faced a shortage of consumer confidence, which was in the end expressed by a low credit portfolio.

According to the specialists, a preliminary financial result for the 40 credit institutions on the Romanian market indicates cumulative record loss of 2.12 billion lei last year, almost triple from 2011. Last year was the third year in a row when the Romanian banking system recorded a negative result, bringing the highest increase in volume loss1.

This was the consequence of worsening the deterioration of loan quality, but also the balance of credits, while the production of new loans collapsed and many banks have become non-performing assets sold packages. Negative results have been affected both large and small banks. In 2011, cumulative losses of banks totaled 777 million lei and in 2010 about 516 million lei. At a loss of 2,1 billion, return on equity in the system remained in negative territory with a loss of 5,4%. As in previous years, the central bank continued to press banks with negative shareholders to provide additional capital amounts so that the average solvency system stood at 14,6% at the end.

Throughout 2012 the banking system solvency was over 14,50 %. The system is stable. Not all banks had the level of solvency over 14,50 %. Are 16 to 17 banks where central bank imposed a higher solvency limit of 10%, not 8%, and asked them monthly reporting, not quarterly, given their previous developments.

According to estimates made by the central bank, at the end of last year, performing loan ratio in the Romanian bank system rose to 18,2 %, almost four percentage points higher than previous year. This growth is not surprising, given that the economy has not recovered, many insolvencies continued to show among companies, many of restructured loans in the first years of crisis have come to acquire new debts, transforming into "toxic actives". Also, the banking system has been shaken by a series of fraud cases that are still under investigation, and the high level of non-performing loan suggests weaknesses in risk assessment systems. Analysts say that the growth of "toxic waste" does not stop even this year.

Companies, besides the difficult access to financing their activities, they are loaded by increasing pressure on interest. Banks derive a gain of 4,6 percentage points for new loans comparing with deposits of firms and 5,2 % for the hip, double the other countries in the region.

In Poland, the profit margin was 2,2 % for new loans and 2,1 % for those sold referring to deposits in December, banks in Hungary, had a profit margin of more than HUF deposits of 2,6 % in December, the Czech Republic, the difference between interest rates on loans and deposits by firms (in crowns, local currency) was 2,2 percentage points at the end of last year. Same margin exists for loans in sold.

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[1] National Bank of Romania (NBR), "Financial Stability Report", 2012.

Only banks in Bulgaria have higher margins of profit, comparable to those in Romania in relation to firms, 5 % for th loans to the hip and 4,3 % for new loans. Although high profit margins and commissions increased lately banking system in Romania posted a record loss last year of 2,1bn lei. NPL ratio reached 18,2% in November last year, from 14,3% in December 2011 and about 2% in 2008. The largest banks in the system have non-performing loans over 20% of the portfolio.

BCR (Erste Austria) had a rate of nonperforming loans (NPL) of 26% in September 2012. For comparison, the Czech Republic banks have an NPL ratio of 5,2%, Poland 8,7%, while banks in Hungary have an NPL rate of 18%, similar to those in Bulgaria. Most banks balance sheets hit corporate loans, where NPL rate is increasing because of poor risk analysis for real estate financing granted before the crisis and the difficult economic environment in other sectors.

Banks in Romania intended in 2012, to decrease the level of nonperforming loans (NPL), unlike other years, when they had focused more on high volume for the loans.

The existence of a well-crystallized risk management and a proper capitalization is essential in order for the banks to operate in a healthy manner and contribute to the stability of the financial system. In this context, the identification of possible weaknesses in the management of key banking risks was still the center of gravity of supervision.

Analyzing the nature of foreign capital entered to the Romanian banking system we notice the European domination even from the countries of the European Union. And here we could see an interesting concentration, the accumulation of over 40% of the investors in just two countries, Austria and Greece, which are not reference economic powers in Europe.

Sure that dominant infusion of foreign capital, contributes equally to a strong dependence for the banks in Romania to the international financial turmoil, and this fact contribute to the stability of our financial sector.

Conclusions

European Union shall take effective measures to gradually overcome the biggest financial and economic crisis in decades. The impact of the international economic crisis on new EU member states has proven to be more severe than the first estimates of the economical analysts.

The situation is different for each Member State, the nature and the dimension of the challenges faced are not identical, and the pace of reform is not the same. Reforms are implemented and yet important adjustments occur, but there you can see a recovery.

It is necessary to continue the process of adopting the reforms in order to build future economic growth and competitiveness, smart sustainable and inclusive growth, job creation, and in the same time the EU must be able to demonstrate that their policies work, that will produce results in time and will be implemented fairly in terms of the impact on our societies.

Sustainable development in the future is the common responsibility of all Member States and EU institutions, because our economies are closely interlinked, and the EU economic governance now reconfigured to provide more effective responses at the policy level, to give a good reaction to the present and the future challenges.

The first, who will notice the results of these policies, are Member States which have undertaken profound reforms, reduces imbalances and improves competitiveness. Reform process must be aimed not only at restoring economic growth, but also on setting the foundations of a different quality growth after the crisis. Structural reforms at national and EU level should strengthen the EU's ability to compete globally, generating internal growth through sustainable activities that will equip the EU with the policies and tools to ensure a prosperous, and effective use of resources.

Unity and equity in the Member States and at EU level will be essential elements to ensure that efforts will be acceptable politically and socially, and in the end is also the benefit of all.

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