



Centre For European Studies FINANCIAL CRISIS WATCH

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Foreword by CES Head of Research

Watchtower: “Stealing the Left’s Clothes?”

In the European elections of June 4 to 7, the European Socialists’ hopes about politically profiting from the financial and economic crisis were dashed for good. Half a year ago, things had looked so promising: When the hot phase of the crisis was just 2 months old, Europe’s left believed that 2008 would mean a tidal shift in world history, that the left’s old critique of laissez faire capitalism would put it into a political pole position now, and that in a number of member states as well as on the EU level, socialists, maybe in cooperation with Greens and the radical left, could replace the incumbent Christian democrats and conservatives. Conversely, the centre right was seriously worried, and even the British weekly “The Economist” could not hide its unease about the political consequences of the crisis. The summer of 2009 was to mark a first climax in public frustration and social unrest, potentially with more to come. Accordingly, the European Socialists formulated an unprecedentedly aggressive election manifesto (“people first”) and launched an unprecedentedly ambitious campaign, with centrally coordinated events in the member states and an expensive design.

But because the mood in most member states developed in a completely unexpected direction, all this newfound vigour on the left was without effect. In the end, the EPP gathered almost as many EP seats as before the exodus of the British and Czech conservatives, and the PES ended up with around 80 seats less than the EPP. In view of the expectations at the beginning of the campaign, a defeat for the left (including the radical left, by the way) of epic proportions. Why is that?

There are several reasons. First and foremost, the centre right, in most member states stands for higher economic competence than the left. In this crisis, that aspect seemed to have been more important to voters than terms like “social justice” which are often associated more with left-of-centre parties. Second, with bailouts and stimuli, centre right governments adopted policies of state intervention classically associated with the left. British sociologist Simon Hix even speaks of the centre right “stealing the left’s clothes”. I wouldn’t go that far, because the decisive difference is that what is bread and butter for socialists, is a bunch of extraordinary measures in extraordinary times (to be ended as soon as recovery starts) for the centre right. But it is certainly correct that through the way the EPP family and its governments acted in the crisis, the left had no credible strategic alternative to offer, besides a feeble: “More of the same”. This, however, was not appreciated by voters.



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Third and last, in at least several key countries of the EU like France, Germany and Italy, the centre left had structural problems in their respective parties that are actually older than the crisis: An ageing electoral base, competition from the radical left, and severe problems with political and organisational cohesion as well as agonising conflicts between leaders.

And this is the twofold conclusion for Europe's victorious centre right: First, "let's capitalise on it!" – in other words, let's use the trust the voters have given our family to develop a future-oriented strategy for sustainable recovery. A Social Market Economy for the 21st century, in which a successful model from Europe's postwar era is adapted to the demographic, social, technological and ecological conditions of our globalised world. That will be a major achievement, and it will keep the European People's Party busy until its Congress in December in Bonn. Second, let's nevertheless be modest in all this. The EPP has no absolute majority in the Parliament, and will need to negotiate deals on personnel and legislation in future, too. And the bandwidth of political views on fundamental questions has hardly gotten smaller in the EPP family, the Tories' exodus notwithstanding. In other words, there will be no lack of hard work. Time to roll up our sleeves!



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FINANCIAL CRISIS: ACTIONS TAKEN BY EU MEMBER STATES

Austria

Austria's economy slid into a recession in the first quarter of this year. In the first three months of this year, GDP shrank by 2.6 per cent compared to the previous quarter. The slump was caused by a massive drop in exports, which led to a fall in investment given reduced demand in Central and Eastern Europe, the EU and the US. Large companies and industries were the hardest hit while small and medium enterprises, as well as households, had generally been spared by the global crisis. (10/06/2009)

[Recession confirmed in Austria in the first quarter](#) (Agence France Presse)

Bulgaria

Bulgaria's export and import shrank by almost one third in the first quarter of 2009 compared to the first quarter of 2008 as a result of the global financial and economic crisis. Preliminary data of the Bulgarian Statistical Institute show that Bulgaria's export was BGN 5.2 B in the first quarter of 2009 compared to BGN 7.1 B in the same period of 2008, a drop of 26.8 per cent. Bulgaria's import declined by 29.9 per cent - from BGN 11.2 B in January-March 2009 to BGN 7.8 B in the same period of 2009. Thus, for the first quarter of 2009, Bulgaria's foreign trade balance is negative by BGN 2.6 B. Bulgaria's main trading partner, the rest of the EU (60 per cent of the foreign trade) has received Bulgarian goods and services worth BGN 3.5 B, a 22.9 per cent decline compared to a year ago. (09/06/2009)

[Bulgaria export, import collapses by one third in January-March 2009](#) (Sofia Novinite)

A total of 12 432 new vehicles were sold in Bulgaria in the first five months of 2009 which is 50.32 per cent less than in the same period of 2008. The data shows that as a result of the financial and economic crisis, the Bulgarian market of heavy trucks in Bulgaria shrank by 80 per cent, the market of light trucks by 65 per cent, and the market of cars by 45 per cent. (09/06/2009)

[New car sales in Bulgaria drop by 50 per cent in January-May 2009](#) (Sofia Novinite)

The state budget of Bulgaria may end up with a deficit of BGN 2 or 3 billion towards the end of the 2009 financial year. If drastic measures are not taken immediately, the budget deficit may reach BGN 3 B. The lack of money is most visible in the State Social Security where there is already a deficit of BGN 500 M. (09/06/2009)

[Bulgaria budget deficit to reach BGN 3 B in 2009](#) (Sofia Novinite)



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Cyprus

The Ministry of Commerce, Industry and Tourism has arranged for an extraordinary meeting with tourism stakeholders tomorrow after it was revealed that bookings from the UK this year are down by 25 per cent. The crisis meeting will brainstorm ways to deal with this dramatic development such as measures to support tourism. Stakeholders attribute the reduction in bookings to the international financial crisis, which has affected the UK - a market that represents 50 per cent of tourist arrivals in Cyprus. (03/06/2009)

Tourism stakeholders meet as UK bookings down 25 per cent (Cyprus Mail)

Czech Republic

Wage growth in the Czech Republic in the first quarter was influenced by economic recession as companies had to save costs and cut staff. Wage growth in the first quarter was the smallest in the Czech Republic's existence. Nevertheless, real wages grew - also thanks to low inflation. Economists believe wages will rather stagnate than grow in the rest of this year. (05/06/2009)

Slow wage growth due to recession, will be worse (CTK Business News Wire)

Estonia

Although the rest of the world looks at Estonia and Latvia as if they were affected by the same disease, analysts and investors bring out remarkable advantages that help Estonia to distinguish itself from Latvia. "Estonia's luck is that you have currently more time to get the economy in order. In the worst case Latvia may run out of money soon," Lars Christensen, Senior Analyst at Danske Bank, said. (11/06/2009)

Estonia's health stronger than Latvia's (Baltic Business News)

Estonia is heading full speed towards the eurozone to avoid facing the same devaluation danger as neighbouring Latvia, says Andrus Ansip, the country's premier. "The only way out from these rumours about devaluation is for Estonia to join the Eurozone as soon as possible," he told journalists at the end of an official visit to Sweden. (09/06/2009)

Estonia speeds full tilt towards the Eurozone (Financial Times)

The GDP of Estonia decreased by 15.1 per cent in the first quarter of 2009 compared to the same quarter in the previous year, according to the first estimates of Statistics Estonia. (09/06/2009)

Estonian economy fell 15.1 pct in the Q1 (Baltic Business News)



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Finland

Finland's economy shrank more than 7 per cent in the first quarter, its worst performance in 15 years, official data showed, prompting the head of the central bank to urge the government to reconsider its finance policies. (07/06/2009)

Finland's economy shrank more than 7 per cent (Associated Press Online)

France

"Rules restricting budget overspending by EU countries should be relaxed because of the financial crisis," French Finance Minister Christine Lagarde said. She added she would also like crisis-related deficits to be treated in a different way from those not related to the crisis. Under EU rules, countries must keep their public deficits under 3 per cent of gross domestic product (GDP) and debt under 60 per cent of GDP. But deficits have ballooned: the crisis reduces tax receipts and raises public spending as governments try to spend their way out of recession. (02/06/2009)

Relax EU budget rules due to crisis: French minister (EUbusiness)

Germany

Germany's cabinet backed a "bad bank" plan for the regional Landesbank sector that would allow the publicly owned lenders to offload toxic assets and problematic business activities. Under a deal brokered by Finance Minister Peer Steinbrueck, German Laender leaders agreed to consolidate the Landesbank sector by the end of 2010 in return for the federal government's help in the form of the bad bank model. (10/06/2009)

German cabinet backs Landesbank 'bad bank' plan (Financial Times)

Germany's hopes of economic recovery have been set back by unexpectedly sharp falls in exports and industrial production that emphasise the fragility of Europe's largest economy. German exports in April were 4.8 per cent lower than in March, and 28.7 per cent down on a year earlier, official figures show – the steepest annual fall since records began in 1950, although officials said that April 2008 had been exceptionally positive. (09/06/2009)

Fall in exports hits German hopes of recovery (Financial Times)

Germany's economy will contract by more than 6 per cent this year, the Bundesbank warned on 5th June after admitting the severity of the country's recession had taken it aback. Sharply revising down its forecasts for this year and next, the German central bank said it "had not envisaged a downturn of this force, which is without historical parallel". Europe's largest economy had been hit by the "sharp slump" in global trade, exposing Germany's reliance on exports to power economic growth. (06/06/2009)

German GDP to fall 6 per cent, says central bank (Financial Times)+



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Germany rejects any changes to EU stability pact rules on national deficits, deputy finance minister Joerg Asmussen, said after France called for spending limits to be relaxed due to the financial crisis. With many European countries exceeding deficit limits laid down in the pact owing to stimulus packages aimed at fighting the economic crisis, French Finance Minister Christine Lagarde has called for a "specific analysis" of swelling budget deficits. Under the pact's rules, European Union countries are bound to maintain public deficits that do not exceed 3.0 per cent of gross domestic product and are supposed to work towards a balance or even surplus in times of economic growth. (04/06/2009)

Germany rejects French proposal on deficit rules (EUbusiness)

The European Union's top competition regulator strongly criticised Germany's "outdated" banking system, calling for urgent reforms to help get the European economy back on track. "The German model of three pillars -- private banks, cooperatives and (state-owned) savings banks -- is outdated," EU Competition Commissioner Neelie Kroes told the Sueddeutsche Zeitung daily in an interview. Germany's state-owned Landesbanken have been major casualties from the financial crisis, which has forced many of them to tap a government rescue package worth 480 billion euros for loan guarantees and emergency capital. (03/06/2009)

German banking system 'outdated': EU Commissioner (EUbusiness)

Greece

Economics and Finance Minister Yiannis Papathanassiou admitted that Greece will miss its 1.1 per cent growth target this year, as the slowing economy is further limiting price rises and pushing industrial output lower. Greece's 250-billion-euro economy slowed to an annual growth rate of 0.3 per cent in the first quarter of the year – its slowest pace since 1993 – and is expected to fall into recession during 2009, according to the European Commission. The slowing economy has resulted in consumer inflation decelerating 0.5 per cent year-on-year in May. Data from the National Statistics Service showed plummeting food, car and energy prices led inflation lower in a trend likely to continue in the coming months. (10/06/2009)

Macro data forces reality switch (Kathimerini)

Employment prospects in the tourism sector are among the most favorable in the labor market according to survey results, which also showed that Greek employers intend to slow down the rate of hirings in the third quarter of the year. The staffing services company Manpower, which prepared the survey, rated Greece's employment prospects in the third quarter of the year at a score of minus seven, the first time the indicator has been in negative territory. The study, which interviewed 750 employers, said 12 per cent of employers intend to increase staff levels, while 19 per cent of companies will go ahead with personnel reductions. (10/06/2009)

Third-quarter hiring prospects hit record low (Kathimerini)



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Hungary

Hungarian inflation accelerated to 3.8 per cent in May, defying predictions it would resume an eight-month downward trend broken by a surprise hike in April. Consumer prices also rose for the second consecutive month, up 1.5 per cent from April. Inflation has gradually decreased from an annual rate of 8.0 per cent in 2007 to 6.1 per cent in 2008. For 2009, the government expects 4.5 per cent. Hungary has been badly hit by the global economic crisis and has received conditional aid from the International Monetary Fund. (11/06/2009)

[Hungarian inflation accelerates to 3.8 per cent](#) (Agence France Presse)

Ireland

Support for the European Union's Lisbon treaty is consolidating in recession-hit Ireland, according to a poll released on 30th May. The TNS mrbi poll found support has increased by two points to 54 per cent on a similar survey a fortnight ago, while the percentage of "no" voters has fallen one point to 28 per cent. (01/06/2009)

[Support for EU treaty rising in ailing Ireland: poll](#) (EUbusiness)

The Irish government said it would inject up to 4.0 billion euros into Anglo Irish Bank, recently nationalised by Dublin, subject to European Union approval. The announcement came as Anglo Irish Bank reported a pre-tax loss of 4.1 billion euros in the six months to March compared to a year earlier. Finance Minister Brian Lenihan said the government's overriding concern was to "protect the economy from the wider losses that would occur in the event of the failure of the bank, to protect the 64 billion euros of customer and interbank deposits in the bank and to prevent the bank becoming a systemic threat to the financial system." (29/05/2009)

[Ireland to inject EUR 4.0bn into Anglo Irish Bank](#) (EUbusiness)

Italy

Italian carmaker Fiat closed its takeover of Chrysler on 10th June, sealing the deal on Fiat's ambitious move to create a growing global player following one of the worst crises in the auto industry's history. In a victory for the U.S. administration driving the restructuring of bankrupt Chrysler, the Supreme Court on 9th June denied a request from Indiana pension funds to delay the sale. Fiat Chief Executive Sergio Marchionne will become CEO of Chrysler. The automaker's former CEO, Bob Nardelli, will leave the company and return to Cerberus Capital, its former majority owner. (11/06/2009)

[Fiat closes Chrysler deal, names Marchionne CEO](#) (CNBC)

Latvia

Latvia's government discussed tough choices to find 500 million lats (\$1.01 billion) in savings this year and win further loans to avert a currency devaluation and an economic collapse. Ratings agency Moody's expected a devaluation to be avoided, but said economic pressure on the small Baltic state of 2.3 million people would persist. (11/06/2009)

[Hopes rise for Latvian intervention to unfreeze market](#) (CNBC)



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On June 10, Valdis Dombrovskis, Prime Minister of the Republic of Latvia, paid a visit to Brussels where he met José Manuel Barroso, President of the European Commission, and Joaquín Almunia, European Commissioner for Economic and Monetary Affairs. The main topic of talks was the economic situation in Latvia and the progress of budgetary amendments. (10/06/2009)

Dombrovskis in Brussels met for Barroso and Almunia (The Baltics Today)

Latvia's currency stabilised on 9th June, boosting sentiment towards other Eastern European currencies, after the government said it had found another 500m lats (€711m) in budget savings. Over the past week the Baltic country has been struggling to abate market rumours that it is about to devalue, a move that could force neighbouring Lithuania and Estonia to follow suit and endanger prospects for fast recovery across Eastern Europe. (09/06/2009)

Latvian currency rallies on budget cuts (Financial Times)

The parliament in crisis-stricken Latvia approved cuts to the country's draft budget in the first reading, the first step toward meeting conditions for a much needed international bailout. Legislators in the 100-member Saeima voted 68 for to 10 against, approving a deficit of 9.2 per cent of gross domestic product based on forecasts that the small Baltic nation's economy will shrink by 18 per cent this year -- the worst in the 27-nation EU. Legislators are expected to approve further cuts and pass the budget by 17th June. The current deficit is nearly double the 5.0 per cent Riga agreed to with the International Monetary Fund, the European Union and several individual countries in December in a 7.5-billion-euro rescue package. (04/06/2009)

Latvian parliament starts budget cuts required for bailout (EUbusiness)

The treasury of crisis-hit Latvia said it had sold one-month' debt worth 2.75 million lats (3.86 million euros) in a direct offer one day after a failed sale of treasury bills spooked markets and fuelled devaluation fears. The planned offer made by the Baltic nation included the debt it failed to sell on 3rd June when it offered 50 million lats to investors. (04/06/2009)

Latvia sells nearly EUR 4 million debt day after failed auction (EUbusiness)

Lithuania

A recent survey has shown that 70 per cent of Lithuanian construction companies are considering to fire staff. The layoffs come as 77 per cent of companies see a drop in orders. The trends in the construction sector remained similar in May as in the previous month. (10/06/2009)

Mass layoffs for construction companies (Baltic Times)



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Poland

Real GDP is forecast to contract slightly in 2009 as a result of the international crisis. A gradual recovery is expected to start in 2010 and annual average GDP growth is forecast to be around 3.5 per cent in the later years of the forecast period. A progressive pick-up in exports as global economic activity recovers will lead to the current-account deficit narrowing as a share of GDP from 2010, after a small expansion in 2009. Despite the economic downturn, the government will attempt to keep public spending under control. However, the Economist Intelligence Unit expects Poland to breach the Maastricht budget deficit criterion in 2009-10. (05/06/2009)

Country forecast summary (EIU ViewsWire Select)

Romania

The Romanian economy shrank 4.6 per cent in the first quarter 2009 compared with the previous three months, confirming that the country had entered a recession. The agriculture sector registered a 7.6 per cent decline in activity in the first quarter and the industrial sector 1.4 per cent. The International Monetary Fund recently approved a 12.9-billion-euro loan for Romania, forecasting a 4.1 per cent contraction in the economy this year. (04/06/2009)

Romanian economy enters recession (Agence France Presse)

Slovakia

Slovakia posted a trade surplus of 372.4 million euros in April, following a revised surplus of 104.9 million euros in March. Exports fell at an annual pace of 24.3 per cent to 3.4 billion euros while imports dropped 35.9 per cent to 3.0 billion euros in April. Tumbling exports due to low demand amid the global economic crisis pushed Slovakia's economy into a 5.6-per cent contraction on a 12-month comparison in the first quarter of 2009. In full-year 2009, the Slovak economy is expected to contract by 3.5 per cent. (11/06/2009)

Slovak trade stays in black in April (Agence France Presse)

Slovenia

Slovenia's economy shrank at an annual rate of 8.5 per cent in the first quarter of this year. This is the second consecutive quarter of negative growth, which means Slovenia slipped into recession. Statisticians registered substantial falls in investments, exports and imports, the aggregates which recorded the highest growth in the first half of 2008. Exports decreased by 21.1 per cent and imports by 22.7 per cent. The external trade balance contributed 1.6 percentage points to GDP volume. (09/06/2009)

Slovenia officially in recession (STA News Agency)



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Sweden

Sweden's central bank on 10th June geared up for a possible Latvian devaluation by borrowing €3bn from the European Central Bank under an existing 10 billion euros swap agreement. The move came as Sweden's banking regulator said that the country's banks – which dominate the Baltic banking sector – had a strong enough capital base to withstand a financial crisis there but that nevertheless they might have to raise more capital to calm the markets. (10/06/2009)

Riksbank borrows €3bn from ECB (Financial Times)

Swedish Finance Minister Anders Borg called on the IMF and other international lenders to release desperately needed cash to Latvia after Riga committed to deep budget cuts. Latvia vowed on 8th June to slash its budget by 10 per cent in a drive to meet the terms of an international bailout which the recession-hit Baltic state needs to avert an economic meltdown. Sweden in particular has been following developments in struggling Latvia because Swedish banks are heavily exposed to the country through loans they made before its boom turned to bust. (09/06/2009)

Swedish finance minister urges IMF action on Latvian bailout (EUbusiness)

Swedish banks will lose 16 billion euros this year and next because of the credit crisis, the country's central bank estimated. The losses, worth 170 billion kronor, will arise mainly from activities in the Baltic countries and Eastern Europe, the Riksbank said. But it added that big Swedish banks such as Nordea, Handelsbanken, SEB and Swedbank were well-placed to weather the storm. (02/06/2009)

Swedish lenders face EUR 16bn losses: central bank (EUbusiness)

Spain

Housing sales in Spain plunged 16.5 per cent in the first quarter from the last three months of 2008. On an annual basis, the decline was 34.19 per cent. A study by Spain's second-largest bank BBVA last week predicted housing prices in Spain would fall nearly 30 per cent between 2008 and 2011 before they start to recover from the collapse of the property boom. The slump in the building sector has spread to other areas, pushing the unemployment rate to 17.4 per cent in the first quarter of 2009, the highest level in the European Union. (09/06/2009)

Housing sales plummet 16.5 per cent in Spain (Agence France Presse)

United Kingdom

UK industrial output rose unexpectedly in April - the first month-on-month climb since February 2008, official figures have shown. Output rose by 0.3 per cent from the previous month, the Office for National Statistics said. Analysts had been expecting output to fall by 0.1 per cent. Manufacturing rose 0.2 per cent in April, which was also an unexpected increase. Meanwhile, a respected research institute has forecast that the UK economy may be at a turning point. (11/06/2009)

UK output sees surprise increase (BBC)



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The Pound Sterling has reached its highest level against the euro since the beginning of the year after data suggested the UK recession may be over. One pound was worth 1.1758 euros in early afternoon trading, having closed the previous day at 1.1672 euros. The pound was also boosted by data showing industrial output rose in April - the first monthly rise in 14 months. In addition, the Pound's rise was aided by a survey on attitudes to inflation by the Bank of England, which showed inflation expectations for the coming year rose to 2.4 per cent in May from 2.1 per cent in February, the first rise since August. (11/06/2009)

Pound hits 2009 high against euro (BBC)

The UK aerospace sector is set to cut 10 per cent of jobs, about 10,000 posts, in the next year, an industry body has said. The Society of British Aerospace Companies said falling passenger levels were hitting aircraft orders as well as spending on research and development. (10/06/2009)

UK aerospace 'facing job cuts' (BBC)

The UK has secured a promise from its European Union partners that EU supervisors will not be given the power to force national governments into recapitalising banks with taxpayers' money. The promise, contained in a statement after an EU finance ministers' meeting in Luxembourg on 9th June, eased British concerns about whether an overhaul of EU financial supervision might restrict national fiscal sovereignty. (10/06/2009)

UK wins EU bank concession (Financial Times)

FINANCIAL CRISIS: ACTIONS TAKEN WORLDWIDE

Africa

The African Development Bank (AfDB) said it had approved a loan of \$1,5bn for Botswana to help it cope with the global financial crisis. The loan, which is to support the country's budget, has been designed to fill part of the gap in the government's 2009-10 budget deficit estimated at 13.5 per cent of GDP. Botswana is regarded as one of the best-managed economies in Africa but has not escaped the financial crisis because of falling commodity prices, particularly diamonds. Botswana, historically a net contributor of AfDB, makes use of stability funds for the first time in the last 17 years. (04/06/2009)

Botswana gets \$1.5bn from aid bank (Africa News-Business Daily)



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The African competitiveness report was unveiled on 10th June at the World Economic Forum on Africa, by the African Development Bank, the World Bank and the World Economic Forum. The report stresses the importance to tackle the structural problems affecting African development. Limited access to financial services remains a major obstacle for African enterprises, but underdeveloped infrastructure, limited healthcare and educational services, and poor institutional frameworks also make African countries less competitive in the global marketplace. The report also analyses a number of case studies that exemplify African successes and highlight the key conditions to creating a sustainable business-friendly environment. (09/06/2009)

[Link to the report](#) (AFDB)

Brazil

Brazilian finance minister Guido Mantega announced on 10th June that his country is looking to buy \$10 billion in IMF bonds. This move would follow China and Russia in pursuing a diversification of their dollar-heavy reserves. Brazil, with a \$204 billion trade surplus, is in the best position to become a central actor in the IMF strategy to push lending capacity to other emerging economies. (10/06/2009)

[Brazil joins Russia, China in eyeing IMF bonds](#) (Forbes)

China

China's exports plunged in May for a seventh month as the global downturn battered trade, while imports also dropped sharply. Chinese trade collapsed in late 2008 as the global economic crisis cut into demand for Chinese exports. The government is trying to shield China from the downturn by pumping up domestic consumption with 4 trillion yuan (\$586 billion) to pump money into the economy through higher spending on public works construction and other initiatives. (11/06/2009)

[China's exports plunged for a seventh month](#) (General Administration of Customs in China)

US Treasury Secretary Timothy Geithner made the most of his first Beijing visit to lobby China to continue expanding its foreign exchange reserve portfolio in US treasury bonds, securities widely regarded to be low risk and highly liquid. Geithner is the first US treasury secretary to make a trip to sell treasuries in the history of Sino-US diplomatic relations and a rare event in world financial history. Geithner's Beijing visit itself provides a hint about real concerns - so-called risk-free treasuries are no longer immune from risk. (08/06/2009)

[China in liquidity double-bind with US treasury bonds](#) (China Daily)

On 7th June China and Japan held their second high-level dialogue on the global crisis. Both countries proclaimed the political will to find common solutions and to boost their economic and trade relations. Wang Qishan, Chinese Vice Premier, and Japanese Foreign Minister Hirofumi Nakasone also reaffirmed the will to push forward the building of the "10+3" regional foreign exchange reserve pooling and the Asian bond market, and to provide funding support to businesses from both countries to jointly explore third-country markets. (07/06/2009)

[China, Japan hold high-level economic dialogue](#) (Xinhua Agency News)



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Iceland

The UK and Iceland have reached agreement on the financing package for compensating depositors in Icesave, the offshore branch of Landsbanki, which collapsed in the island's financial crisis last October. The deal, announced on 6th June, will help mend the battered relations between the two countries and start to restore trust in Iceland's financial system. Iceland agreed in covering the cost of the compensation scheme until the EEA limit of €21000 as a part of the broader action by part of the British government to cover the deposits in full. Under the agreement the UK will lend Iceland's compensation scheme £2.3bn and unfreeze Landsbanki's UK assets. (07/06/2009)

[Iceland reaches Icesave deal with UK](#) (Financial Times)

India

Arvind Subramanian - senior fellow at The Peterson Institute for International Economics – has analysed the reasons behind the strong economic stability that India demonstrated throughout the whole financial and economic crisis. Subramanian argues that India was advantaged by its historical political and economic cautiousness that maintain very conservative and sound policies both on banking and savings. But the sound and conservative economic policies that shielded India from the financial crisis also risk to constraint its future economic development. (07/06/2009)

[India's Goldilocks Globalization](#) (Newsweek)

Japan

Japan is now to evaluate the financial stimulus package launched months ago to avert a feared credit crisis. In the darkest period of the financial crisis, the perspective of an increasing amount of bankruptcies and a severely weakened stock market pushed both the Japanese government and the Bank of Japan to adopt a 30000bn yen package in loan guarantees to encourage banks to lend to cash-strapped companies. The first evaluation of the results of this stimulus package has seen the overall number of bankruptcies fall and a general recovery of the Nikkei index after the 26 year low registered on 10th March (10/06/2009)

[Japan's urgent action averts credit crisis](#) (Financial Times)



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Russia

The summit of the leaders of the BRIC countries - Brazil, Russia, India and China - and a session of the Shanghai Cooperation Organization (SCO) Council of heads of state has been held in Yekaterinburg on June 15-16. The summit focused on the future perspectives for transnational cooperation to address the effects of the financial and economic crisis. The leaders of the SCO (Russia, Kazakhstan, China, Kyrgyzstan, Tajikistan, and Uzbekistan) and India, Iran, Pakistan and Mongolia, which have observer status, will also discuss the organisation's activity during the Russian presidency in 2008-2009. This high-level meeting is expected to focus on ways to boost international trade and avoid a general return to protectionism. All BRIC countries are strongly export-led and suffer more than others from the overall shrinking of international trade. (09/06/2009)

[SCO, BRIC leaders to meet in Yekaterinburg on June 15-16 - Kremlin](#) (United News of India)

President Dmitri A. Medvedev attacked the idea of a new global financial architecture based on the dollar as world reserve currency and instead re-proposed the idea of forming a supranational currency, using special drawing rights units of the International Monetary Funds as a basis. According to the advisors of the Russian president, financial actors should look at regional currencies as an alternative to spread the potential risk linked to widespread reserve currencies. Nevertheless, independent economists generally dismiss Moscow's position -and the offering of the ruble as a reserve currency -as highly unrealistic, particularly given the wobbly recent history of the ruble. (05/06/2009)

[Russian warns against relying on dollar](#) (The New York Times)

Switzerland

Because of its role as international financial centre, Switzerland is registering a substantial increase in spying activities related to the financial crisis. A report from the Swiss Intelligence Service highlights the increasing trend reinforced by the financial crisis and the pressure and competition between financial centres, especially in terms of cyber-attacks and attempt to access banks networks and databases. (08/06/2009)

[Spies crowd into Switzerland amid financial crisis](#) (Agence France Presse)

United States

The increase in IMF funds discussed on 2nd April at the Group of Eight countries seems now at risk. The negative economic conjuncture exposes the re-financing of the International Monetary Fund to negative reactions reflecting the concerns of a part of American taxpayers who attacked this proposal by considering it a "global bailout". The Senate has approved the U.S. \$100 billion part of the IMF new strategy. However, the proposal has not yet passed in the House of Representatives that might keep it on hold. 41 liberal Democrats already opposed it because of the policies adopted by the IMF to push developing countries to adopt credit restrictive measures in exchange for financial support. (11/06/2009)

[Congress should support promised aid to the IMF](#) (The Washington Post)



Centre For European Studies FINANCIAL CRISIS WATCH

Last updated on 13/06/2009

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There is a hope for recovery in US local economies, the Federal Reserve said during the presentation of its June beige book, a regular report on the state of local economies in a dozen of Fed districts. Although the economic health "remained weak or deteriorated further" from mid-April to May, some less-bad indicators bubbled to the surface. There are signals of improved confidence in several of the districts taken into consideration. Manufacturers reported a slightly better outlook. Home sales bounced back in some markets. Import and export traffic brightened elsewhere. And some parts of the country even said the abysmal job market was leveling out or improving slightly. (10/06/2009)
Fed sees bright spots in weak economy (The New York Times)

The Treasury Department decided to allow ten of the US largest banks to repay \$68 billion in federal aid granted at the height of the financial crisis. The Obama administration considers this decision "a milestone of the financial rescue plan reflecting a new confidence in the stability and profitability of the financial market". It can also be considered a victory for the banks that will then be able to show market strength and avoid financial restrictions. However, American Treasury Secretary Timothy Geithner remained cautious in his declaration. He acknowledged the positive message stemming from this decision but he also wanted to stress the importance of ensuring a long-term solution to the problem. (10/06/2009)

10 banks allowed to repay \$68B in bailout money (The Washington Post)

HIGHLIGHTS

Visegrad Four heads discuss economic crisis, energy policy: On 4th June the prime ministers of the Czech Republic, Hungary, Poland and Slovakia met to discuss the necessary steps to address the economic crisis, energy security and other issues related to the EU. The leaders of the Visegrad 4 countries discussed measures to tackle the financial crisis in their countries, which were particularly affected by it. Czech PM Fischer declared also that this meeting was of vital importance in order to find shared solutions to ensure energy security for Central-Eastern Europe. (03/06/2009)

Visegrad Four heads discuss economic crisis, energy policy (CTK National News Wire)



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ECOFIN 8th - 9th June: The Council approved on 9th June the conclusions on the reform of the EU's supervisory framework for financial services, and agreed to submit them to the European Council (18 and 19 June) along with certain issues that remain outstanding. The conclusions set out the Council's position on a communication from the Commission on European financial supervision, which builds on the recommendations of the De Larosière group. The new framework is aimed at strengthening the supervisory system and rebuilding trust in the financial system following the global financial crisis. (09/06/2009)

[Link to the report](#) (Council of the EU)

G8 in Italy 12th - 13th June: The final statement issued by the G8 Finance Ministers' Meeting reports that "there are signs of a stabilisation of the economy, although the situation is still uncertain and significant risks remain to economic and financial stability." The G8 finance ministers and EU Commissioner for Economic and Monetary Affairs Joaquin Almunia were joined at the meeting by the World Bank, the International Monetary Fund, the African Development Bank, the Organisation for Economic Cooperation and Development, the International Fund for Agricultural Development, the International Monetary and Financial Committee and the Financial Stability Board. (13/06/2009)

[G8 Finance Ministers' Meeting Ends in Lecce](#) (G8 Summit 2009)

OUR COMPETITORS' VIEWS ON FINANCIAL CRISIS

PES

Commenting on the Employment Plan published by the European Commission, PES President Poul Nyrup Rasmussen said: "Europe needs more than a shared commitment for employment – it needs much stronger action right now." He also said that "Shifting around the European Social Fund while unemployment rockets to 27 million unemployed next year is not the answer. Micro-credit is unlikely to have macro results in a hurry. Raising awareness of job mobility is not going to help when there aren't enough jobs anywhere. We need a new and stronger recovery plan. We need stronger policies for job creation, on the national and European level. We need stronger financial instruments, on national and European level, to create jobs. We need more and better proposals to safeguard jobs and more coordinated restructuring processes. We need a stronger emphasis on tackling the poverty and ill-health that will be created by the crisis." (03/06/2009)

[Rasmussen: Commission moves around social fund while unemployment rockets](#) (PES News)



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Greens/EFA

Speaking on the European energy market, Claude Turmes (MEP, Greens/EFA) said: "Giving priority to renewables would also help to address another urgent problem: the fact that the current credit crunch adds to the risk of further concentration of control of the EU electricity market by an oligarchy of energy companies. Research shows the credit crunch is hitting independent power operators hardest, and these make up the bulk of renewables energy investors over the last years. Having already favoured the dominant energy companies in the so-called EU recovery plan, the EU Commission must not once again favour the big players over the independent operators, at the expense of having a competitive energy market with fair prices for consumers." (10/06/2009)

'New Entrants Reserve': Coal strikes gold as EU Commission favours funding CCS over renewables
(Greens News)

Editor: Roland Freudenstein

Research Assistance: Katarína Králiková

Design: José Luis Fontalba

Questions and comments: briefs@thinkingeurope.eu