Crisis Management Similarities and Differences in the Newly Accessed Central and Eastern European Countries

Árpád Kovács

1. Introduction

One of the cornerstones of the analysis of the economic crisis that began in 2008 is the analysis and evaluation of the different crisis management methods employed by the Central and Eastern European countries. Several researchers have been addressing the problems of the crisis.[1] However, most of these analyses are focusing on the antecedents and symptoms of the crisis, on the ways out via individual economic policies.[2] Focusing on *budgets and public finances*, the present monograph examines the similarities and differences of the crisis management practices employed by those Central and Eastern European countries that accessed the European Union between 2004 and 2007 and that were formerly "socialist" with a so-called planned economy (the EU-10) in comparison to each other and to the European "core-countries." We are

[1] This monograph is focusing on these countries because the historical and economic positions of the two Mediterranean countries that accessed the EU at the same time belong to different geopolitical groups – according to the categorisation used in the EU – when compared to Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia that, after World War II, belonged to the same political and economic block and shared a similar fate; despite a number of similarities, Slovenia can be put into the category of the "socialist block", with certain distinctions regarding its development course and inherited traditions.

[2] Lehman Brothers Holdings Inc. announced the greatest bankruptcy of economic history on September 15, 2008. Usually, this date is considered as the eruption of the crisis of the financial mediator systems.

presenting the *fiscal policy* steps that governments took by sorting them into so-called “action matrices.”[3]

The “matrices” that sum up the characteristics of measures introduced at the eruption of the 2008 crisis and in 2010 and 2011 make the life cycles of the various measures traceable, whereas the analysis of the “condensation” of identities and differences helps to identify the characteristics of the different socio-economic traditions, public finance policies and governance models.

Our attempt is not merely to present the trends of the identities and differences of the crisis management by using the methods referred to in the literature review and sorted according to EU categorisations; we also attempt to analyse to what extent the crisis management of the Central and Eastern European countries that accessed the EU later,

- had a solid, theoretical grounding;
- proved to be pro-active and preventive;
- assisted in the re-structuring of social and economic services and the efficient operation of the large entitlement systems; and
- provided a solid, harmonised regulatory and governance framework.

In our conclusions, we are seeking to answer how, to what extent, and how separately, the crisis management by the Central and Eastern European countries has contributed to the stability of public finances, and whether the chosen solutions will be able to offer a sustainable, new development perspective by vitalising the economy or whether they will merely offer short-term relief. We tried to answer the question whether the crisis-related problems, by causing serious instability in certain countries, will deepen to the extent that they might endanger the sustainability of the European integration.

2. The trend in public debt in the EU countries and in the EU-10

The literature review on the topic shows that researchers agree that the financial crisis and the contraction of the economic performance have created a difficult situation regarding the sustainability of fiscal policies in every country of the European Union. Additionally, to a different extent in the different countries, new problems have emerged that can be traced

[3] We are only summarising literature from the second half of 2011, ignoring the tabular, comparative summary of the measures taken (European Institute 2011).

back to the persistent imbalance of performance and consumption, the issues that have not been addressed for a long time, and structural deficiencies. With the crisis, these issues have become more exposed, and they show the constraints of public financing.[4]

The performance of the economy and the extent of public financing, namely its functioning and *the efficiency of the allocation of coherent expenditures and their structure will, always and in every country, mutually determine each other*. Figures 8-1/a/b/c and 8-2 show the proportions and trends of the given years.

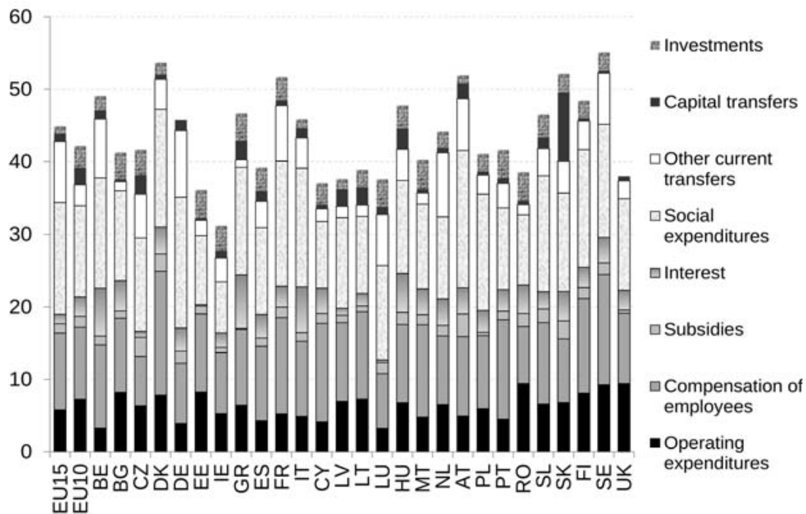

Fig. 8-1/a The amount and internal distribution of public expenditures in 2000 by country and EU-15 and EU-10 average, gross sum, in % of the GDP
Source: Eurostat

[4] Naturally, the articulation of the individual measures required simplifications and contractions that are based on focal points from the literature review. We are also aware that even a classification that considers most factors can only be accidental and that assigning other limits or categorisation would also be possible; it is also possible to believe that certain measures ("packages") are "independent" from the crisis and "merely" reflect the "general" modernisation intention prevailing within public finance.

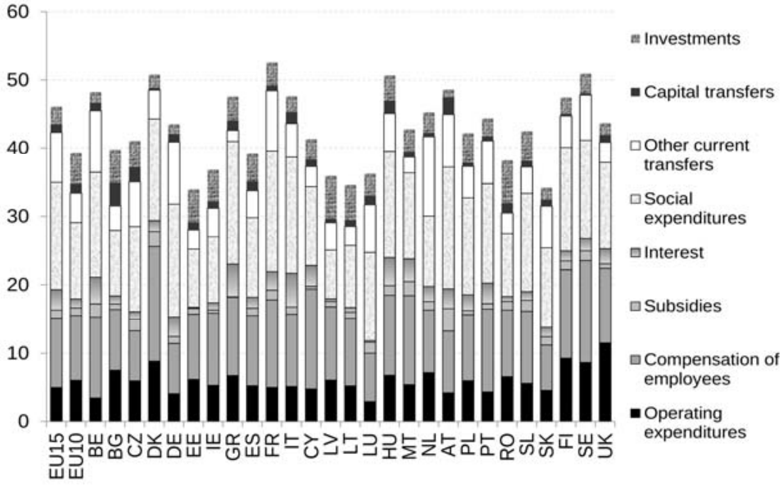

Fig. 8-1/b The amount and internal distribution of public expenditures in 2007 by country and EU-15 and EU-10 average, in % of the GDP
Source: Eurostat

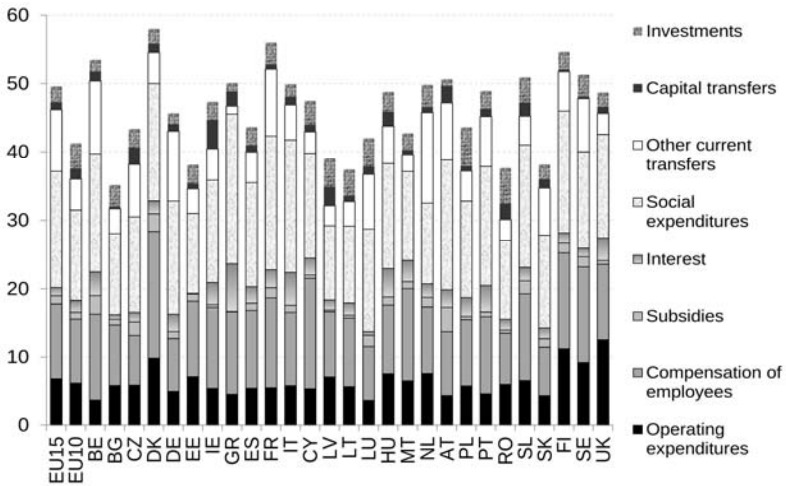

Fig. 8-1/c The amount and internal distribution of public expenditures in 2011 by country and EU-15 and EU-10 average, expenditure gross sum in % of the GDP
Source: Eurostat

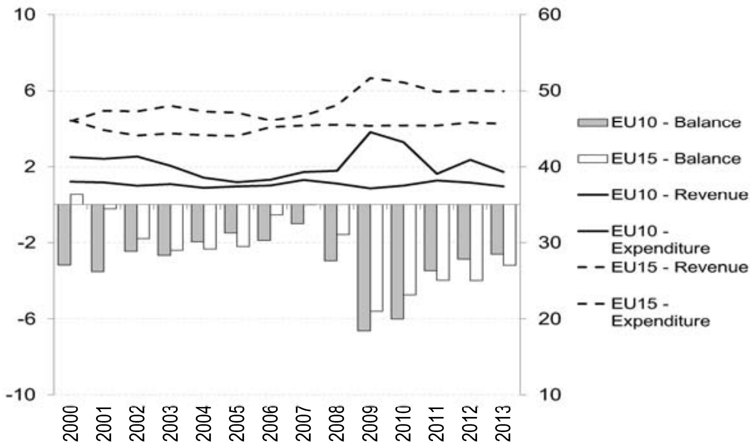

Fig. 8-2 Public revenues, expenditures, and deficit trends in the EU-15 and EU-10 countries, in % of the GDP
Source: Eurostat

As shown in Figure 8-2, the countries most affected by the crisis, the outdated structure of public expenditures and, most importantly, their unsustainable growth, played significant roles in the escalation of financial problems and the debt crisis (OECD 2010 and Inotai 2011). The transformation endeavours (modernisation, efficiency improvements) and the structural reforms that occurred in various short or long-term national government programmes have not resulted in radical changes. The ensuing and mostly campaign-like steps led to only a few and very different results in the different countries. However, it is worth analysing the reasons for the lack of significant results in more detail.

When comparing the average financing ratios of Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia and Slovakia (EU-10) with those of the EU-15 group consisting of the former EU, it is notable that there are no significant differences in the various public finance structures that would determine the sustainability of the financing. Additionally, we should note that the sustainability of the more developed, yet similarly outdated social entitlement systems of the Baltic states, Bulgaria, Poland, Romania and Slovakia, i.e., the majority of the later accessing European countries, requires less sacrifices than in the Czech Republic, Hungary and Slovenia. The public finance structure in the

examined EU-10 group, partly due to the entitlements from the "socialistic" heritage, is rather rigid, and changing it significantly would require an emergency situation or the support of the society. The public finance structure has advanced, or rather inched forward, by changes affecting the total functioning of the state. In turn, social demand tends to result in over-consumption, inefficient but "familiar" social services, and qualitative improvements, not paying attention to the fact that the outdated financing system is leading to a path of deficits (Fig. 8-2); prior to the crisis, the individual countries have followed this path that they were unable to stray from, even at the price of heavy sacrifices.

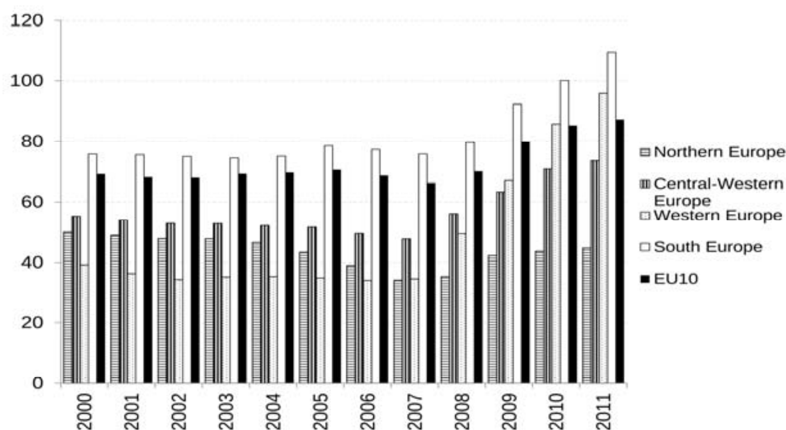

Fig. 8-3 Trend of indebtedness in proportion to the GDP in the EU-10 and Northern, Western and Southern European countries (2000–2011)
Source: Eurostat

Due to the earlier evolving and deepening "financing gap," the crisis affected the Central and Eastern European countries at the peripheries much more than the countries of Northern and Western Europe. In the first phase of the crisis, the situations of the EU-10 countries were in many aspects similar, as shown in Figure 8-3, before a relative improvement of the positions started. However, there were stability problems in the EU-10 as well as in the Southern European countries, where governments have been financing social services that lagged far behind the performance of the real economy in respect to their structure, scope and quality (Csaba 2010). According to different authors, the present Euro crisis is first of all a budgetary and public debt crisis or, in other words, a *sovereign*

debt crisis, but one that affects only certain (southern) countries of the euro zone (Carmoy and Combes 2011 and Palánkai 2011).

From the above, it can be concluded that, as a consequence of the convergence[5] of basic social rights and demands, the welfare systems and institutional and entitlement models of the European Union countries are showing a number of similarities. At the same time, regarding the financing of these similar solutions, the differences were significant even prior to the crisis. Now, in light of the crisis – as we will show when discussing the crisis management measures – *the different approaches that were directly related to the size of public finance, the structure of services financed by the public finance, the technical implementation of the entitlements and their sustainable financing and, thus, a given country's inclination for crisis*[6] are called into question (Kovács 2011a and Muraközi 2012).

When comparing the GDP proportionate budget deficit of the EU-27 in 2009 to the pre-crisis years, it has nearly tripled to 6.8%, and the same development occurred in the Euro zone: the GDP proportionate budget deficit reached 6.3%. Budget surpluses disappeared in all countries, and only Denmark, Estonia, Finland, Germany, Luxemburg and Sweden performed below the 3% deficit threshold. The deficit level was approximately average in countries such as France, Italy, the Netherlands,

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[5] In the second decade of the 21st century there are four interlinked and consequential challenges seeking answers (Muraközy 2012). Namely:

1. the lack of optimal-sized and affordable public services may result in losses that could
2. make it difficult to keep up in the competition of social models and the global economy. This challenge, in the coming decades, will be coupled with
3. changing demographic situations and, in a number of European countries, including Hungary, borrowing as a result of the postponement of reforms; social consumption that could not be financed from domestic resources and that was in no relation to the economic performance of the country resulted in the ensuing, differentiated
4. debt crisis that caused serious burdens making recovery difficult not only among those countries directly affected, but also within the risk-sharing community of the European Union (Cipriani 2010).

Among those challenges, in the coming decades, the management of the crisis and the challenges caused by demographic trends will receive most attention. Thus, it is not possible to employ action scenarios reflecting the traditional economic literature that emphasises economic development while maintaining social cohesion.

[6] Here we can refer to various norms, guidelines, and charters, but also to the fact that the Union identifies itself as a market economy, which is reflected, in different forms or wording, in the fundamental laws of the individual countries.

Poland, Slovenia and Slovakia. With a 4.4% deficit, Hungary's situation can be considered better than average.[7] By 2009, the budget deficit of several countries was near to or even higher than 10%, which can be considered a crisis level. Among the Euro zone countries, Greece, with a deficit of 15.4%, Ireland (14.4%), Spain (11.1%) and Portugal (9.2%) were in such a crisis situation. Similarly, high deficits were observed in the United Kingdom (11.4%) and, among the examined Central and Eastern European countries, in Lithuania (10.2%), Latvia (9.2%) and Romania (8.6%).

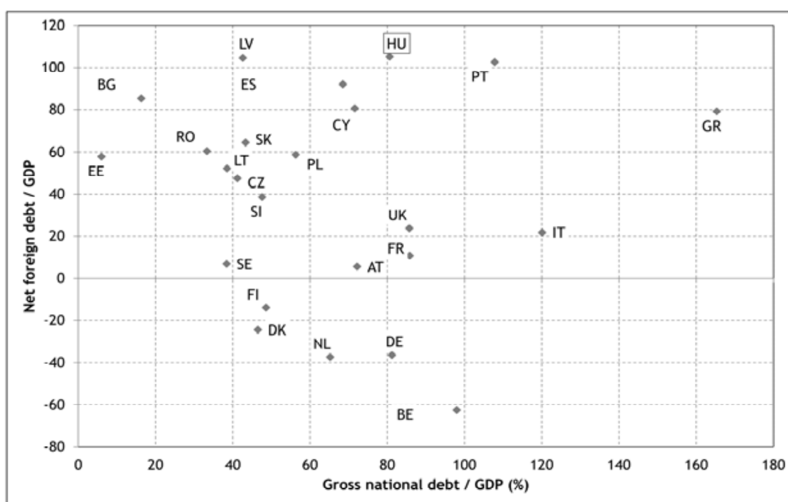

Fig. 8-4 Debt map of the European Union
Source: MNB data

The budget crisis continued in 2010–2011, and the average deficit of the EU-27 kept rising to 7.2%. In 2011, it was solely Sweden that produced a budget surplus (0.9%). The success of public finance stabilisation in seven countries, including three of the group of examined countries (Bulgaria, Germany and Hungary), that were able to reduce or stabilise their respective deficits in 2011 is conspicuous. Portugal (5.9%) as well as France, Poland and Slovenia (all 5.8%) had significant deficits.

[7] Obviously, maintaining welfare and education systems with identical efficiency, scope, quality and availability essentially requires identical expenditures, whether they are financed by taxes, centralised redistribution or citizen's income. Real differences are extorted by the differences of the economic performance.

Ireland (10.5%), Greece (9.5%), the United Kingdom (8.6%) and Spain (6.3%) were facing a grave situation.

According to forecasts, the majority of the EU countries will be successful in significantly decreasing their budget deficits. Among the Central and Eastern European countries, a deficit surpassing the 3% limit can be expected in Poland and Slovakia. Their trends, however, indicate that the stabilisation results will approach those of the so-called core countries of the euro zone. None of the EU-10 countries belongs to the lagging Mediterranean group, although, concerning the sustainability of stability, as can be seen in the trend prognosis of economic growth and investments in Figure 8-5/a-b, they are in different positions. The level of their respective deficits can be attributed to one-time effects (e.g., in Hungary), to the curtailment of services without structural transformation (e.g., in Romania), or to the invariability of the inherited low level (e.g., Slovakia, the Baltic states, Romania).

When searching for the causes of the growing national debt in the period of 2007–2011 (Fig. 8-6), concerning the EU-10, we can find several reasons. In the case of Romania and Poland, the 14.8% growth of national debt compared to the GDP can be explained entirely by the deterioration of the primary balance of the central budget, whereas, in the case of the Czech Republic, 13.7% of the 14.6% growth can be explained via that same reason. In the case of Lithuania, approximately half of the national debt deterioration can be explained by the deterioration of the primary balance. At the same time, in Hungary, the significant deterioration of the interest rate conditions for financing, the drop in the economic performance and the lagging speed of cost cuts[8] were also responsible for the growing national debt. In the remaining countries, a variety of other causes for debt deterioration were found. All these causes show that without a transformation of public finance structures, it would be difficult to achieve sustainable financing. However, as shown in Figures 8-1/a-c, only moderate results were achieved in this field.

[8] Most scholars accepted the favourable Hungarian deficit indicators because they were realised by using the share of the private pension fund above HUF 500 billion and by using other, non-recurring measures. At present, there are no rules concerning the structural balance. The Maastricht criteria merely state that the deficit cannot be higher than 3% of the GDP. There is a significant difference between the Maastricht deficit and a "structural deficit." Namely, the latter has to be adjusted by the so-called cyclical and non-recurring items; in our case, this would mean a 6–7% deficit.

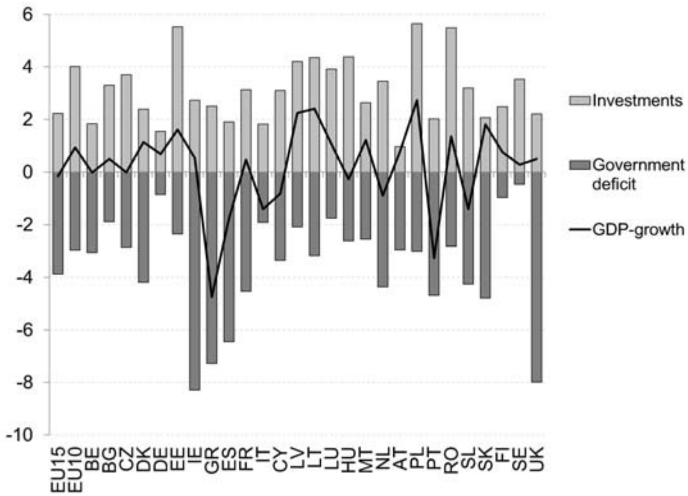

Fig. 8-5/a Expected trend of GDP growth, investments and budget deficits in 2012
Source: European Commission (2011)

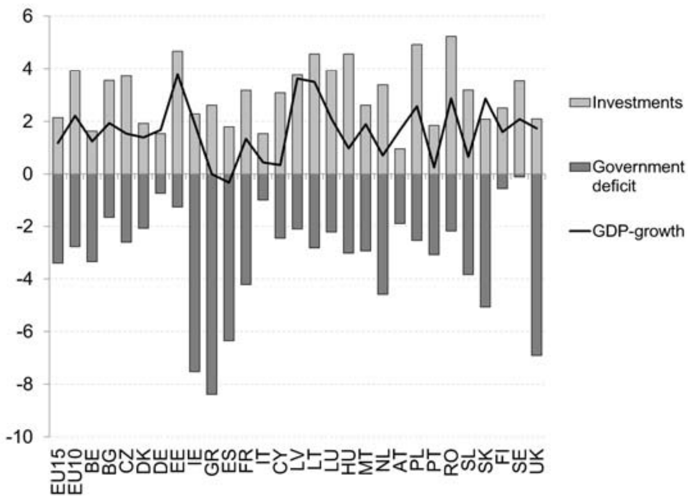

Fig. 8-5/b Forecast of the GDP growth, investments and budget deficits in 2013, in % of the GDP
Source: European Commission (2011)

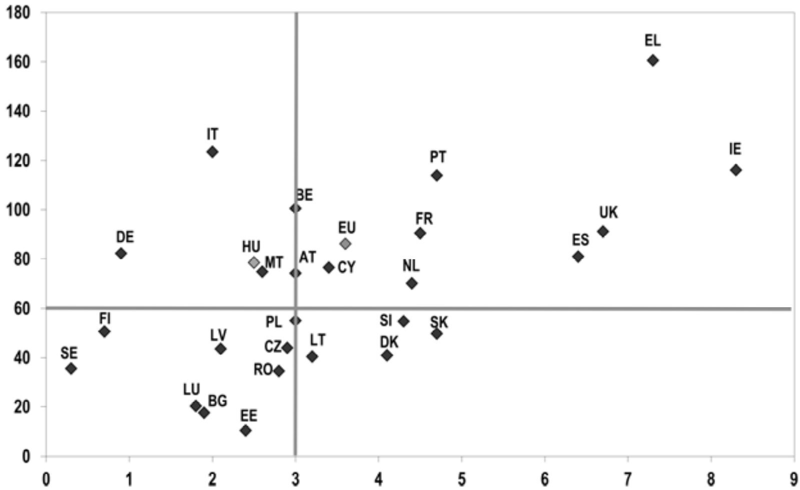

Fig. 8-6 Public finance deficit and public debt in the EU in 2012[9], in % of the GDP
Source: European Commission (2011) and GKI Economic Research Co.
Note: The lines within the diagram show the so-called Maastricht criteria.

Declining investments observed in indebted countries lead to a lasting decline in growth, which also cannot be compensated by the low level of domestic demand. The chances of recovery from the crisis look particularly gloomy in countries where the debt service for the previously accumulated deficit, despite some successful corrections and even with a positive budget, is so high that following the implementation of current financing restrictions, there is not enough money, and investments in infrastructure developments keep being postponed (see, for example, Hungary). This development, in turn, will reduce the chances for growth, even in the short run.

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[9] “Reflexivity” is a concept promoted by George Soros. In his opinion, the balance of the market is the result of the continuous interaction of the subjective decisions by the actors of the market and the fundamentals of the market; thus, he rejects the theoretical principle that had been tacitly accepted in the course of the governance of the international financial system, according to which money markets are always aiming at a balanced position. During the crisis, investors and market analysers have exposed themselves as commentators serving their own interests and striving for influence in the processes. The world economy has been drifting and cannot provide an answer to the emerging social issues yet. At the same time, the whole European economy governing system is quietly moving towards centralisation and protection under the slogan of “let’s save what can be saved.”

Financing is influenced by the bankruptcy risk rating of the given country and by the costs of the external borrowing operations, the so-called credit default swap (CDS) premiums.[10] CDS premiums prevail via the strong fluctuation of securities market yields, and deviations are a sign of the fluctuating level of trust in the government policy of the given country. Figure 8-7 shows the aggregated, mutual effects of the securities market yields and political events[11] (European Commission 2011 and European Parliament 2011).

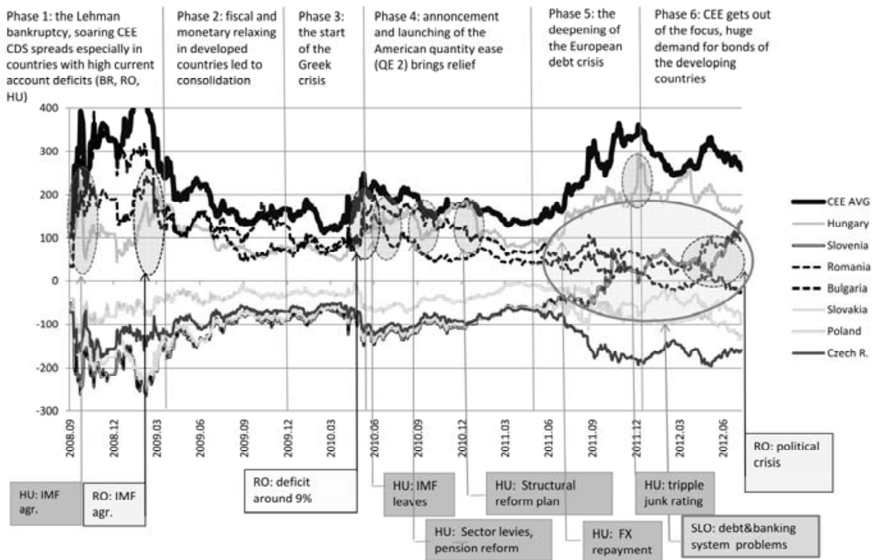

Fig. 8-7 Security markets yields of the EU-10 countries and decisive political events and economic initiatives
Source: Eurostat, OTP, own compilation

[10] Naturally, even the possibilities of decreasing expenditures cannot be final, and the transformation of the public finance structure, in the beginning, tends to show growing expenditures. An analysis of these social connections (action brakes in governance), and budgetary policy is beyond the scope of this article.
[11] At the beginning of January 2012, the Hungarian Credit Default Swap (CDS) rate was 670 basis points, compared to 255 at the beginning of summer in 2011. In March 2009, at the time of the expansion of the global financial crisis following the collapse of the large American bank Lehman Brothers in the fall of 2008, and when Hungary was near bankruptcy, the CDS rate was 630 basis points.

3. Matrices of fiscal interventions and the ensuing consequences

Shortly after the eruption of the Greek crisis, a number of leading economists called attention to the lack of economic policy harmonisation and the “softness” of the Stability and Growth Pact (Boefinger and Ried 2010). This situation implied that the member states would manage the effects of the economic crisis individually, which is what actually happened. Obviously, this led to a “mix of action scenarios” marked by significant randomness, instead of a scenario built on economic, social and political research. However, this approach also included some decisive elements that are prevailing in the long run.

The employed solutions included a mixture of taxations, cost reductions, service cuts, restrictions, consumption reductions and economic stimulus. However, the proportions, timing or dosage were different, depending on the size of the given country, its economic strength, indebtedness, social traditions, feasibility or the preferences of the respective government. Obviously, the results were also different. The same solutions, for example the introduction of a modest income tax, in some countries led to an increase in domestic savings, whereas in other countries those were depleted or transferred abroad (Haan et al. 2002).

The time that has passed since the eruption of the crisis can be divided into two phases: From 2008-2010, the first economic and political reactions indicated fundamentally similar situations in the individual countries. Regarding crisis management, maintaining the viability of the financial intermediary system was considered most important, followed by preventing economic decline. To this end, governments, if there was money for such measures, also tried to use appropriated stimulus funds. The EU-10 countries, however, did not have resources for the broad implementation of such solutions.

The deepening of the crisis from 2010 onward led to the renewal of crisis management strategies, including the employed solutions. Trying to identify the fundamental, stable characteristics of the EU-27 crisis management and the differences of the two crisis phases, we can find them in the following 7 areas:

- the prevailing reduction of public finance expenditures (restrictions) *in both phases* (in 2008–2010 and in 2011);
- the general growth of taxes, duties and levies of contributions that can be found *in both phases* (2008–2010 and 2011);

- the interventions into the economy, primarily into the labour market, that prevailed *in both phases* (2008–2010 and 2011);
- the selective reduction of taxes, duties and levies of contributions targeted at specific fields, characteristic primarily *in the first phase* (2008–2010);
- individual bank rescue operations *in the first phase* (2008–2010);
- changes to the operational rules, institutional systems and structures of public finance *that generally prevailed in the first phase*[12] (2008–2010), and
- special taxes targeted at the financial sector, *characteristic in the second phase of crisis management* (2011).

[12] A survey conducted by the European Committee in 2009 and encompassing 21 member states emphasised the following (European Commission 2010b):

- Among the countries that responded to the questionnaire, 19 often resorted to employing budgetary procedures as fiscal means that included the general curtailment of expenditures, building up bigger reserves and differentiated structural transformations.
- 13 countries introduced new, numeric fiscal rules; 13 countries reported new fiscal frameworks.
- In the given period, increasing transparency and the employment of the programs and the transformation of the budget process were characteristic.
- Strengthening fiscal discipline (e.g., budget centralisation, top-down budget) scarcely emerged.
- From among the 21 countries that responded, 19 introduced new fiscal rules, whereas 2 transformed the existing rules.
- 8 new regulations were dealing with restricting the growth of expenditures, 6 were dealing with balanced budgets, and 5 focused on the debt level.
- In the field of medium-term financial planning, ten countries witnessed both the transformation of the existing rules and the introduction of new regulations.
- 3 countries introduced as a first step medium-term financial planning systems as means of emerging from the crisis; therefore, 25 EU member states have such systems.
- Although several countries introduced new fiscal rules, the Council's recommendations have not been largely reflected yet; progress has been reported only in 7 cases.

Regarding this issue, the opinion of the European Committee is that additional/complementary fiscal incentives and initiatives are necessary. Fiscal regulations appeared strong enough only in 5 countries, which could lead to the conclusion that as long as the old structure can be financed, countries keep postponing the structural reform of public finance.

Additional measures are showing a rather mixed picture. The concerned countries regarded strengthening the monitoring of financial and economic processes, establishing supranational controlling and coordinating institutions, and the operation of these institutions as part of an early warning system as the best tools to prevent unexpected situations. The establishment of such a system, however, has been proceeding slowly and accompanied by debates (Moser 2011). At the same time, new advisory institutions with a specific control function have been formed, such as fiscal councils. By 2008, no such institution had been established among the EU-10 countries, but Hungary and Slovenia in 2009, Romania in 2010, and Slovakia in 2012 set up independent fiscal councils.

With the exception of Hungary, the intensive phase of crisis management in the EU-10 countries, not unlike in the Northern and Western parts of the EU, occurred in the years 2008–2009. In the Mediterranean countries, the indecisiveness concerning interventions resulted in the escalation of the crisis.

Considering the reasons and the feasibility of the intermediary "solutions" included in the "action scenario matrices," they are related to the public finance balance, the production and welfare systems and the size of the challenge. Obviously, governmental action is more "activist", both in terms of measure and expansion, in situations where the structural transformation of the welfare system made the decrease of public finance expenditures and their structural transformation more urgent.

Naturally, the conditionalities (e.g., social, stability, political, economic, public administration) of similar mixes of action scenarios differ; thus, the mechanisms are also different from country to country. In other words, identical or very similar prescriptions and "dosages" of solutions or techniques might lead to different results.[13] As such, it is difficult to draw generalised conclusions. However, even within the outlined limits, we can note that regarding the depth of the problems and crisis management activities *it would be impossible to state that there is a significant relationship between a country's size of public finance, its financing, and the inclination for a crisis*. Considering the successful crisis management,

[13] Answering these questions, namely why similar public finance governing and crisis solutions lead to different results in different EU countries, is beyond the limits of the present study; identifying the limits of creating a model in this respect would require additional research, involving many aspects of social studies such as the history of law, traditions, analysis of political, governance and management traditions as well as national characters.

or rather the absence of a crisis, in Slovenia,[14] the Northern European countries and the examined Central and Eastern European block of countries and considering the significant expansion of these countries' social services, we can conclude that *the question is not in what model (type of state participation) entitlement systems can function, but whether they are functioning efficiently and whether their financing is in harmony with the performance of the economy.*

Comparing the matrices, it was clear that tax reductions were implemented as a stimulus for certain productive industries. Also, special taxes were introduced as part of a general increase in tax burdens. The introduction of special taxes (solidarity taxes) and tax exemptions in Hungary has not been a unique phenomenon in the course of crisis management. The extent (e.g., the significant reduction of personal income taxes and corporate taxes), the broad variety of implementation tools, and the fragmented nature of the tax system itself, were significantly different and more complicated.[15] Regarding bank taxes, it is important to note that the concept itself has been used not only in countries belonging to the euro zone (Austria, France, Germany), but also in Hungary, Sweden, and the United Kingdom. At the same time, regarding the performance of the banking system, size indicators and the *gross sum of revenues* of the public finances of the countries that reported a resource surplus (and partial correction of the division of burdens) to ensure a balanced budget, *the solution employed in Hungary was incomparably more radical then the measures introduced in other countries and of a magnitude that might endanger the financing activity of the banking system and, also, economic growth*.[16]

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[14] Contradictory information has been published about Slovenia recently, stating that it had accumulated many problems, that the economy was overheated prior to the crisis and that the current correction is belated; this information might imply the revaluation of the country's role as a "star pupil."

[15] Now, by making the conditionality of collection even harder, the trend of budgetary revenues is becoming disadvantageous, whereas leaving more income with the targeted section of the population – the so-called middle-class – did not result in significant saving surpluses, partly due to the decreasing of heavy indebtedness, partly due to lack of trust.

[16]In the period of 2008-2011 – with the exception of bank consolidating actions – Hungary tried almost every step of fiscal policy, which, in some cases, represented the opposite of existing policies, administering major changes that resulted in shocks to the system. It was also obvious that, especially in an unstable environment, repeatedly opting for creative, non-orthodox solutions that had not been tried before and that were scarcely paying attention to the harmonisation of different interests had a higher risk of achieving the desired results. First, because

4. First phase of crisis management in the EU-10 countries: 2008–2010

Looking at the reaction to activities during the first phase, we can see that government rhetoric was emphasising the decreasing of the burdens of the real economy as well as the launching of economic development in the EU-10 countries (Table 8-1). However, the actions themselves were not consistent, partly due to a lack of resources and due to political fluctuations. Revenue concentration generally became more moderate. The dynamics of the welfare expenses of public finance have generally dwindled; occasionally, countries spent less on such expenses, also in absolute numbers. The general assumption was that even with an increase – in contrast to a selective reduction – of corporate taxes, more would remain for development and to support innovations indispensable for growth. However, this assumption applied only to the Baltic States and Poland, who are closest to the group of the Northern countries.[17]

It is understandable that in every crisis where jobs are eliminated, the state tries actively to boost employment and offers support and training; thus, various labour-market programmes could be observed. One of the significant steps of the crisis management was a major decrease in, or even the elimination of, such "benefits" due to their welfare character, which lowered the labour-market participation of individuals. However, in 2009

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the institutional system was bearing the burden and the responsibility of the international crisis management fearing the possible spreading of such "innovations" that might tear up cooperation, it was distrustful and ready to implement sanctions. Second, the rapidly changing conditions themselves pose a risk to feasibility. Creative ideas, if not tested for feasibility, sooner or later might become counter-productive and (might) lead to a diversion from the chosen scenario or make the goal unachievable, together with all the social and economic consequences.

[17] When experiencing the first signs of the crisis, the government of Lithuania made several, impressive promises, which included a whole range of measures: decreasing the salaries of senior officials and public servants, with the exception of teachers, increasing the value added tax, launching of employment protection programmes, and more (Hawkesworth et al. 2010). The government used the majority of the saved money for innovations and education because it considered these fields to be one of the most important engines of growth. As a counterexample, we can mention the case of the Czech Republic where, despite the increase of certain tax revenues (VAT, consumption taxes), the government did not pay much attention to supporting innovations and education; on the contrary, the amount of money spent on such purposes has decreased significantly (Hrdlicka et al. 2010).

Table 8-1 Characteristic crisis management steps in the years 2008–2009

Country	Measures taken												
	Significant curtailment of public finance expenditures	Raising taxes, duties, contributions	Decreasing taxes, duties, affixes	Significant money market borrowing for current financing	Borrowing from organisations, due to the pressures of the crisis	Introduction of solidarity tax for the banks	Solidarity taxes targeted at the servicing sectors	Specific bank saving actions	New governing and/or control organisations in public finance management	Transformation of the operational rules of public finance	Other, individual steps (e.g., privatisation, use of private pension fund assets)	Economy (consumption) stimulus programmes	Labour market interventions
EU-10													
Bulgaria	X	X	X		X					X			X
Czech Republic	X		X							X			X
Estonia		X								X			X
Hungary	X	X	X	X	X				X	X		X	X
Poland		X	X		X					X			X
Latvia		X	X							X			X
Lithuania	X	X	X							X			X
Romania	X	X		X	X				X	X			X
Slovakia		X	X							X			X
Slovenia		X	X						X	X			X

Source: OECD (2011) and European Commission (2010b), own compilation

and 2010, the incentive programmes started to get “exhausted” as a consequence of the restrictions of the fiscal leeway (European Commission 2010a). The ineffective labour-market interventions, however, have not adequately recognised the dynamics of the deepening crisis and its effects on the structural transformation of the labour market. However, short-term governmental interests in maintaining social peace have also contributed to the contradictory character of the activities.[18]

5. Characteristics of the second phase of crisis management

The analysis showed that in the gripping global crisis, due to a lack of balance in world markets, earlier stimulus activities were not able to generate substantive growth. Thus, the effects of implemented measures have usually “lagged” behind the events, and stimulating the economy with public finance resources has also resulted in a transfer of market risks to the public sector. Therefore, after a certain period, when governments kept balancing public finances with new restrictions, the lessening of the burdens of the real sector was not able to boost growth in the real economy. Most countries that implemented economic stimulus measures saw their GDP deficit grow by 0.1-0.5%, which explains the complete disappearance of this solution from the crisis management toolbox (European Commission 2010a, 2010b, 2010c, 2011).

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[18] Decreasing the various burdens of employees and employers represents an important measure to protect jobs. We find frequent examples illustrating this statement in the crisis management strategies of the countries addressed earlier: the wide-range measures taken in Slovakia included the partial or full overtaking of health insurance and pension contributions, the support of flexible working hours, the supervision of laws governing employment, and the saving of building construction jobs by government orders (Bucek 2010). In a similar way, Slovenia also spent a significant amount on protecting work places, on mitigating the effects of the crisis on businesses, as well as on increasing innovation and education expenses, similar to the above-mentioned case of the Baltic states (Beynet and Leibfritz 2009). In this respect, Poland has not been an exception either; as in the years prior to the crisis, it worked toward sustaining the domestic market and supporting the significant entrepreneurial layer of the society. This effort was manifested in the support of flexible working hours or the partial or full taking over of various contributions (Reichardt 2011). Drawing EU support in euros offered partial coverage to facilitate these actions; the favourably low exchange rate of the national currency as well as revenues from an increasing VAT have also served these purposes (Csomós 2011).

Within the EU member states, with the exception of Romania, Hungary and the Mediterranean countries that had been unable to solve the crisis, the crisis management in the period of 2010–2011 moved away from wide-range activities and indirect interventions targeted at public finance towards more reserved governmental activities.

The EU-10 countries were also able to consolidate their situations; contrary to earlier steps, they employed mostly 2–3 crisis management measures that typically have been restricted to the field of energy or general consumption taxes. At the same time, budgetary austerity measures and the protection of the labour market invariably prevailed. Estonia introduced exemplary restrictions as a result of its rapid growth after 2010.

The characteristic feature of the EU-10 crisis management was that, although with a delay compared to the Northern and Western countries of the EU, it also resorted to deficit reduction. Among the latter group of countries, this approach was more characteristic in the first period of the crisis, and both the efficiency and magnitude have been more favourable. However, while savings and restrictive measures contribute to the reduction of national debt, without additional, balancing steps such measures involved the risk of entering a downward spiral of increasing recession.

Budgetary measures impact fiscal sustainability through several channels: primarily, they affect the balance, followed by growth effects and long-term growth effects resulting from the increased trust of investors. In this respect, the ability to reach a consensus to introduce measures, and the consistency and predictability of these measures are important. In this respect, the Central and Eastern European countries followed a course that reflected a rather mixed picture, and the governments considered a lack of trust mostly as their heritage (Table 8-2).

Table 8-2 Characteristic steps employed in crisis management in the years 2010–2011

Country	Measures taken												
	Significant curtailment of public finance expenditures	Raising taxes, duties, contributions	Raising taxes, duties, contributions	Significant money market borrowing for current financing	Borrowing from organisations, due to the pressures of the crisis	Introduction of solidarity tax for the banks	Solidarity taxes targeted at the servicing sectors	Specific bank saving actions	New governing and/or controlling organisations in public finance management	Labour market interventions	Economy (consumption) stimulus programmes	Other, individual steps (e.g., privatisation, use of private pension fund assets)	Transformation of the operational rules of public finance
EU-10													
Bulgaria	X	X								X			
Czech Republic	X	X	X							X			
Estonia	X									X			
Hungary	X	X	X	X	X	X	X		X	X	X	x	X
Poland	X	X								X			
Latvia	X				X					X			
Lithuania	X	X								X			
Romania	X	X		X	X				X	X			
Slovakia	X	X								X			
Slovenia	No substantive measures that would be related to crisis management								X	X			

Source: OECD (2010) and European Commission (2010b) analyses, own compilation

6. Conclusions

The present crisis is a mix of problems with global, regional and national origins, reflecting that all three components can be attributed to the fact that institutional systems were not able to keep up with the changes in the economy. The multifaceted character of the European Union, mostly as a result of the expansion of the organisation to the South and the East, has become more pronounced. This fact is expressed in differences such as level of development, economic and social structures, traditions and values, which are all connected to the present European crisis by intricate links; therefore, the solution to the crisis does not depend solely on new institutions and policies (Kiss 2011).

Regarding the question of whether identities or differences were more dominant, we can state that *with respect to the employed solutions, identities were more dominant than differences, also in the case of the later accessed Central and Eastern European countries*. Differences have been present mostly around measures of interventions, the number of intervention areas, methods resorting to more “activist” interventions, individual solutions or more normative, careful approaches.

At the eruption of the crisis in 2008 and in 2009, EU countries with reserves and resources opted for Keynesian, demand-oriented, anti-cyclical economic policies that contributed to the growth of indebtedness, made debt financing more expensive, and resulted in growing budget shortfalls.

One consensus on the issue is that inadequate management was one of the major reasons for the deepening of the crisis. These days, it seems that decision-making based on socio-economic research is absent at the level of governmental, global and regional institutions. The conceptual and strategic handling of the problems is missing in the “Mediterranean” and “Continental” group of EU member states.[19] Mutually exclusive steps can often be observed, but such solutions reinforce rather than solve the crisis in the long run. Sustainable growth and monetary stability is not possible without the coherent implementation of reforms concerning the structure of public finance (Kovács 2011b). The definition of public tasks is a fundamental and conceptual issue, which is necessary on both national and EU levels. Budgetary savings should also be “sustainable” and have long-term effects.

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[19] “Public finance expenditure overruns” is a relative concept: it shows to what extent governance is able to continuously maintain harmony between the available sources and the financed services to ensure the prevailing of social cohesion, either by meeting the growing social demand or not.

EU membership offered a certain (limited) protection against the direct, short-term consequences of the crisis. The imperfection of the integration framework has negatively influenced crisis management, which was not institutionalised (Carmoy and Combes 2011). The EU-27 countries and the EU itself, as observed, have not been able to employ a preventive, proactive and theoretically well-founded crisis management. However, by 2012, the EU was mostly able to stabilise its position and, for the time being, show solidarity with countries that are in trouble and unable to renew their social and economic models or that are still struggling with the debt trap.[20] The measures taken served the sustainability of the social and economic functioning on the EU level, and the chance remained that efficiency improvements and new growth would become reality, not only for certain groups of EU members but also for the whole union.

Instead of welfare redistribution, sharing of risks and burdens were the characteristic features. Today, regarding the EU countries – with significant simplifications – two groups can be observed: one group consists of those countries that had been able to stabilise their respective positions with the help of strict restrictions, whereas the other group contains those countries that are either bankrupt or on the brink of bankruptcy due to the late introduction of correction measures or the lack of social-political conditions for the implementation of restrictions.

The examined EU-10 countries belong more to the former group of countries that were able to stabilise their situations by resorting to strict fiscal restrictions, even though to a different degree and with different chances; they showed specific reactions related to government changes, followed occasional detours and used action scenario mixes that, in some cases, contained counterproductive elements. The chances of the EU-10 regarding catching up have improved. The crisis had painted a gloomy picture, based on earlier experiences, in respect to the "outer circle" or a

[20] The countries that received assistance were, in turn, former members of the EU. Unfortunately, there is little literature on what roles the dictate of political and economic interests have played in the enforcement of the common risks or to what extent considerations that focused on the development of the EU have influenced the decisions. Under these circumstances, it is a significant result that – for the time being – none of the new member states received assistance; although, this could also be explained by the relative low level of social services. In the case of Latvia and Romania, a financial safety net worth €1.7, respectively €12 billion was set up in 2009. Besides Hungary, Romania is currently also negotiating with international financial institutions and organisations on setting up a similar safety net worth €15 billion. In exchange, it will likely commit to the establishment of a system of responsible and sustainable budgetary processes (IMF 2009a, 2009b).

two-speed development (Farkas 2009). This group of countries has integrated more into the "core Europe" and the internal markets of the EU. The work force in those countries is well trained, and the legal environment for investments is mostly adequate. Poland, the Baltic States, Slovenia and, partly, due to geo-political reasons, the Czech Republic and Slovakia are closer to the core; Hungary, due to the market integration and, lately, the reduction and maintenance of a lower budget shortfall, belongs also to the circle of the "Northern and Western Group" of the EU. Hungary, however, has not yet entered the road to consolidation regarding the predictability and functioning of its institutional systems or the steady financing of the public finance system. Regarding investments with a significant effect on growth, Hungary is lagging behind. As a consequence, the chance of Hungary catching up is closer to Romania and Bulgaria, which are two countries with very favourable indebtedness indicators.

The conditions of the crisis made it obvious that maintaining public finance stability, boosting the economy and achieving sustainable development do not depend on the "appropriate mix or dosage" of economic rationalisations, which includes not only the taxation of restrictive and "relaxing" measures but also external and internal social adaptabilities, so-called quality adaptabilities, that cannot be quantified. Great self-discipline, restraint, patience and consensus seeking are required to ensure that endeavours to adjust to the changes are not distracted by the reflex to intervene immediately, resulting in improvised solutions. It is impossible to realise sound objectives if the tools are inappropriate, contradict each other, are unacceptable in the given socio-economic environment, or do not reflect economic realities. At the same time, the decision on what is unfeasible, futile and destabilising, and what is right, will improve safety, and create sustainable value, is impacted by constant changes and balance-related problems, which, in today's Europe, represent the greatest challenge.

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