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On the project

Due to the new treaty provisions of the Lisbon Treaty and the economic crises the enlarged EU of 27 member states is on the search for a new *modus operandi* while also continuing membership talks with candidate countries. The EU-27 Watch project is mapping out discourses on these and more issues in European policies all over Europe. Research institutes from all 27 member states and the four candidate countries give overviews on the discourses in their respective countries.

The reports focus on a **reporting period from December 2009 until May 2010**. This survey was conducted on the basis of a questionnaire that has been elaborated in March and April 2010. Most of the 31 reports were delivered in May 2010. This issue and all previous issues are available on the EU-27 Watch website: www.EU-27Watch.org.

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Croatia**European economic policy, the financial and economic crisis and its consequence for Croatia****Valentina Vučković and Nevenka Čučković***

The financial package to assist Greece received with relief, but worries remain

The news on the Greek debt crisis was received by the Croatian government, business circles, and academic and financial analysts with great concerns and with fears of a spill over effect on the region. The fear was thereby stronger considering the fact that the crisis could endanger the whole monetary and economic architecture of the EU and cause the first exit of a country from the Economic and Monetary Union (EMU).¹ Croatian analysts and media closely monitored the sequence of events in the process of conciliating on the issue of the mechanism for helping Greece. Most of the initial debates and reports were focused on the reactions coming from Germany and whether the EU will react at all to provide help to Greece in order to avoid Greece's potential bankruptcy and prevent the crisis from spilling over to other countries.² At the beginning of discussions on the financial package, every report stressed that the EU does not foresee assistance for the Eurozone members on the verge of national bankruptcy and therefore the Greek financial crisis threatens not only the Eurozone, but also the entire EU.³ Luka Brkić, professor at the Faculty of Political Science, Zagreb, was confident, however, that the EU will do everything possible in order to save Greece and prevent potential spill over of debt crises to other member states. He argues that the stake would otherwise be too high because the fall of the Euro would lead to the collapse of the EU. He considers the danger from a domino effect realistic, thus making this fear completely justified. Brkić also pointed out that there are some systemic errors in the foundations of the Economic and Monetary Union.⁴ Borislav Škegro, former Minister of Finance of Croatia and one of the authors of the Croatian programme for economic recovery, stressed the fact that Greece consciously falsified its data, relying on the assumption that Germany would provide help with the main goal of saving the Euro.⁵

As elsewhere in the region, many Croatian experts especially focused on the issue of to which extent the Greek crisis would affect Croatia's economy. Željko Rohatinski, governor of the Croatian National Bank, pointed out that Croatia could draw some lessons from the most troubled countries at present – Greece, Spain, Portugal and Ireland – for long-term growth, which could not be driven solely on the expansion of domestic demand, the construction sector and international loans. According to Rohatinski, the situation in these countries highlighted the importance of the policies that the Croatian National Bank undertook in the last five to six years. Otherwise, the Croatian indicators would be very similar to the Greek ones. He stressed that there is no alternative to cutting government expenditures for the year of 2010.⁶ Rohatinski also stated that the Greek example is a clear message that no one will help you if you are not capable of helping yourself.⁷ Boris Vujčić, vice-governor of the Croatian National Bank, warns that the fear from the Greek scenario is not unjustified, but that Croatia is still not threatened by it and that the situation is currently stabilising.⁸ Croatian Minister of Finance Ivan Šuker strongly holds that there will be no crisis spill over to Croatia, and that Croatia is not faced with the Greek syndrome.⁹ On the other side, Zdeslav Šantić, economic analyst from Splitska Banka Societe Generale Group, believes that the Greek crisis will certainly have consequences in a wider range of countries.¹⁰ Mirjana Turudić, Croatian Chamber of Economy, pointed out that spill over from the Greek crisis on the Croatian economy will be limited due to relatively small foreign trade with Greece.¹¹ Željko Perić, one of the advisors of Croatian Prime Minister Jadranka Kosor, stated that Croatia is not directly threatened by the Greek crisis and that the consequences could only be felt if this crisis significantly slows down the recovery of key EU economies or causes serious financial crisis in Europe. However, they will be directly reflected through the cost of future debts.¹²

The final agreement on the financial package combining bilateral loans from the Eurozone and financing through the International Monetary Fund has been received in Croatia with relief. Both economic and political analysts often emphasised that this is more of a political than monetary issue, which changes the rules of the game within the EU. From this aspect, Germany is no longer seen as accepting the role of European treasurer or cashier, while the opponents claim that Germany ignores the principles of solidarity and collectiveness. There was a lot of public attention focused on this issue.¹³ Analysts assess that Angela Merkel has stood firm in her intention of dictating the terms of the resolution of the largest crisis in the Eurozone¹⁴ and that Germany's motives are not just to prevent

* Institute for International Relations.

Greece from going bankrupt, but also to demonstrate its dedication to European ideals and to preserve the stability of the Euro.¹⁵ The journalist Ines Sabalić of the Croatian business journal *Banka* elaborated the issue of German leadership within the context of the EU's disagreement concerning the Greek crisis. Sabalić stresses that criticism and demands toward Germany are somewhat contradictory – they all want it to lead, but not on the path designed by itself and perhaps with different goals on the agenda. Germans do not believe that their role as the strongest EU engine is respected enough.¹⁶ In the end, Germany promised to participate in the financial package for Greece with the main motives of preserving the stability of the common currency and demonstrating its full dedication to European ideals.¹⁷ The significance of the achieved agreement was also underlined by the political weekly *Nacional* by quoting the Member of the European Central Bank's (ECB) Executive Board, Bini Smaghi, who stated that the arrangement on helping Greece represents a turning point in the crisis, adding that the statements on the breaking up of the Eurozone and the inability of Greece in paying its debt are quite absurd.¹⁸

The Stability and Growth Pact shows visible cracks

The fundamental issues concerning reform of the pact's rules, by which any future crisis could be prevented and in the worst scenario some countries could be excluded from the EMU, were in Croatia more discussed by analysts and media than by the political elite, neither from the ruling government nor the opposition. It was often underlined that the EU must learn some lessons from the Greek case and to arrange institutional mechanism which would be in charge of dealing with such issues,¹⁹ especially since there are some other EU countries whose large debts represent the latest aggravating point in the crisis. The reform of the Stability and Growth Pact is rather urgent, as it appeared to be inefficient and did not succeed in preventing the current situation. Charles Wyplosz, the leading expert for monetary issues, stressed in his article in *Banka* that the pact could primarily be strengthened by working towards a common fiscal EU policy. The only solution would then be to transfer part of the responsibility of national parliaments to the European Parliament, which would require a completely new pact.²⁰ Croatian analysts also stressed that adopting stricter International Monetary Fund (IMF) rules and effective penalties and measures for preventing large indebtedness must be ensured, even at the cost of reforming the Lisbon Treaty.²¹ The media reactions also echoed how Angela Merkel often points out that the Greek crisis revealed defects within the Eurozone, since it endangered the stability of the Euro and that Germany does not back down from the complex reform of European agreements. The daily newspaper *Poslovni dnevnik* stressed that a reason why Germany initiated necessary changes of commitments to EU arrangements is precisely to increase surveillance and sanctioning of violation of budget deficit limitation. It is obvious that Merkel conditions financial help to Greece by changing the rules of Stabilization and Growth Pact.²²

Europe in need of stronger coordination of economic policies: but in which form?

As seen by most economic analysts, the crisis revealed evidence that the Eurozone is an unfinished institutional agenda and that there should also be other instruments which could coordinate fiscal policy.²³ Vladimir Gligorov, economic analyst and advisor to the former Croatian President Mesić, argues that the EU definitely needs a stabilisation policy. He suggests two solutions: first, to increase the degree of fiscal interdependence, and second, to develop a fund which could intervene in the case of a crisis. However, at the moment, it is not quite clear how a potential instrument for such interventions should be designed.²⁴

Politically, the global crisis represents an enormous challenge for the EU, since it has neither a common economic governance nor a fiscal policy.²⁵ Croatian media gave a lot of attention to French President Nicolas Sarkozy's opinion that Europe needs some form of economic governance that would act as a counterbalance to the European Central Bank (ECB). In the past, Germans have usually rejected those arguments, but the German Minister of Finance has now tabled the motion of forming a European Monetary Fund (EMF), which would function similarly to the IMF. The disadvantage of this motion is that it requires the reform of European treaties for which ratification in all states is needed. On the other hand, Howard Davies, former vice-governor of the Bank of England believes that European economic governance is not needed at all. What is needed is reaching the collective arrangement on fiscal discipline and revival of Stability and Growth Pact. Also Otmar Issing, chief economist of the ECB, argues that the Stability and Growth Pact has all the rules necessary for the functioning of the EMU, and that there is no need for macroeconomic policy coordination. Europe does not need a French plan for coordination of tax policy or another IMF. It needs fiscal discipline which would prevent other countries from getting by without any consequences.²⁶

Considerable public attention in Croatia was given to the Spanish head of government José Luis Rodríguez Zapatero's proposal to establish the European economic governance as special representation for coordination of economic policies competent for introducing sanctions to those member states not complying with the Stability and Growth Pact (or the Europe 2020 Strategy). However, analysts consider such proposals as just testing the internal pulse of the EU. The media reported on the positions of José Manuel Barroso and Herman Van Rompuy, who do not support Zapatero in his idea of European economic government. Furthermore, Olli Rehn does not reject the idea of establishing a high committee for the economy, i.e., he supports the establishment of a specific body for monitoring and controlling economic movements. According to Rehn, there is a void in the systemic surveillance of economic risks, but filling it could potentially create anti-European public sentiments.²⁷ The Croatian Ministry of Foreign Affairs delivered an interview explaining Barroso position. He suggested a type of mechanism which would guarantee that individual countries could follow the fundamental principle of fiscal stability. He rejects Sarkozy's proposal on the establishment of an economic government and stresses that there will certainly not be one; the only thing that can be done is to improve the process of policy-making. In the interview, Barroso pointed out that by the act of establishing firmer economic governance, France would like to limit the role and independence of the European Central Bank.²⁸

Europe 2020 Strategy – a good business plan, but needs more resolute implementation actions

The Croatian public was very much interested in the new Europe 2020 Strategy, which should replace the Lisbon Strategy accepted in 2000.²⁹ The Europe 2020 Strategy is presented in the media as a good business plan, but the question is whether it can be applied. The Strategy gives hope, at least on paper, since there are a lot of issues still to be discussed, but it is seen as useless if the main EU actors will not start with its implementation.³⁰ Comments frequently point out that the key for its success is monitoring individual countries' progress through instruments provided by the Strategy as well as through the Stability and Growth Pact.³¹ In addition, the Europe 2020 Strategy is seen as a vision for the improvement of the European social market development model. To achieve the set goals, it will be necessary to take actions and initiatives on all – EU, member states and local – levels of governance, as well as to affirm leadership and credibility.³² Their views on the Strategy are also shared by the Croatian employers association (HUP), pointing towards European competitiveness as the key to sustainable economic recovery. The European economic and social model offers a solid basis for transforming these challenges into opportunities for development. In order to achieve this, strong political leadership and firm commitment to reform are much needed.³³ The public interest was also directed towards the comparison of this Strategy versus the Lisbon Strategy. The novelties in this Strategy, in comparison with the Lisbon Strategy, are potential corrective measures, which would include reducing subsidies from EU funds. On the other hand, it is being recognised that such measures would erode public support from the EU. Furthermore, to induce member states to follow the set guidelines, the most appropriate solution would be to reward those member states which apply them through additional funds. Additionally, the European Commission could also send warnings to countries violating the common principles.³⁴

¹ Banka Magazine: Greek crisis distresses the EU, 29 January 2010, available at: <http://www.bankamagazine.hr/Naslovnica/Vijesti/Komentari/analize/tabid/138/View/Details/ItemID/57191/ttl/Grcka-kriza-trese-eurozonu/Default.aspx> (last access: 17 May 2010).

² Hina: On the Eve of the EU Summit: The agreement on providing help to Greece achieved, 11 February 2010, available at: <http://dalje.com/hr-svijet/postignut-dogovor-o-pomoci-grckoj/293805> (last access: 17 May 2010).

³ Tea Šupe: Drago Munjiz: Europe will not allow Greece to disrupt the Euro and EU, 5 March 2010, available at: <http://dalje.com/hr-hrvatska/europa-nece-dozvoliti-da-grcka-srusi-euro-i-eu/296541> (last access: 17 May 2010).

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⁵ Greece lied assuming there will be Hallo, Deutschland to save the euro, 4 May 2010, available at: <http://www.business.hr/hr/Naslovnica/Politika/Grcka-je-lagala-znajuci-da-ce-biti-Hallo-Deutschland-spasavaj-euro!?homesrclink=preporuke> (last access: 18 May 2010).

⁶ Rohatinski: There is no exit from the crisis without cutting the government expenditures, 16 February 2010, available at: <http://www.jutarnji.hr/zeljko-rohatinski-i-kriza--da-hnb-nije-reagirao--hrvatska-bi-bila-duzna-kao-grcka/566776/> (last access: 19 May 2010).

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⁹ Šuker argues that Croatia is not threatened by the Greek syndrome, 29 April 2010, available at: <http://metro-portal.hr/vijesti/hrvatska/suker-uvjerava-da-hrvatskoj-ne-prijeti-sindrom-grcke> (last access: 18 May 2010).

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- ¹² Ibid.
- ¹³ Jurica Körbler: Merkel calls for new rules within the Eurozone, Vjesnik, 25 March 2010, available at: <http://www.vjesnik.hr/html/2010/03/25/ClanakTx.asp?r=tem&c=4> (last access: 18 May 2010).
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Questionnaire for EU-27 Watch, No. 9

Reporting period December 2009 until May 2010 – Deadline for country reports 21 May

All questions refer to the position/assessment of your country's government, opposition, political parties, civil society organisations, pressure groups, press/media, and public opinion. Please name sources wherever possible!

1. Implementation of the Lisbon Treaty

On the 1 December 2009 the EU-reform ended with the entering into force of the Lisbon Treaty. However, the new treaty provisions still have to be implemented. Some procedures and conditions have to be determined. In other cases, procedures, power relations, and decision-making mechanisms will change due to the new provisions.

- How is the work of the new President of the European Council, Herman Van Rompuy, assessed in your country? Which changes to the role of the rotating council presidency are expected?
- How is the work of the new High Representative of the Union for Foreign Affairs and Security Policy, Catherine Ashton, assessed in your country? Please take into particular consideration both her role within the European Commission and her relationship to the Council of the European Union.
- On 25 March 2010 a "Proposal for a Council Decision establishing the organisation and functioning of the European External Action Service" was presented. How is this concept perceived in your country? Which alternatives are discussed?
- On 31 March 2010 the European Commission presented a proposal defining the rules and procedures for the European Citizens' Initiative (ECI). What are the expectations for the ECI in your country? What are the various positions concerning the rules and procedures?

2. Enlargement and European Neighbourhood Policy

The European Commission has given its opinion on Iceland's application for EU-membership and a decision from the Council is expected before the end of June. Croatia seems to have settled its border dispute with Slovenia. Against this background:

- Which countries does your country expect to become members of the European Union in the next enlargement round? What are the opinions in your country on the membership of these countries?
- How are the membership perspectives of those countries discussed, which are not expected to become a member in the next enlargement round?

The Eastern Partnership and the Union for the Mediterranean were the last major projects dealing with the European neighbourhood:

- How are these projects assessed in your country?

3. European economic policy and the financial and economic crisis

The European Council agreed on 25/26 March on the key elements of the Europe 2020 strategy, the successor of the Lisbon strategy. While not being on the formal agenda the economic and financial situation in Greece was discussed. The European Council agreed on a finance package combining bilateral loans from the eurozone and financing through the International Monetary Fund.

- How is the finance package for Greece assessed in your country? Are there any opinions on the process, how the agreement on the package was reached?
- Which lessons should be drawn from the Greek case for a reform of the Stability and Growth Pact?
- How is the idea of "a strong coordination of economic policies in Europe" perceived in your country? What concepts of an European economic governance are discussed in your country and which role do they assign to the Euro group?
- How is the Europe 2020 strategy discussed in your country? What are the priorities for the Europe 2020 strategy from your country's perspective?

4. Climate and energy policy

The climate conference in Copenhagen took note of the Copenhagen Accord but did not reach a binding agreement. The next conference of the parties (COP 16 & CMP 6) will take place at the end of November 2010.

- How is the Copenhagen conference assessed in your country? Please take into consideration the negotiation strategy of European Union and the results of the conference.
- Does the European Union need to change its own energy and climate policy in order to give a new impulse to the international negotiations?
- Is a global agreement within the UNFCCC the best strategy to fight climate change? If not, which alternative strategy should the European Union follow?
- What is your country's position on financing mitigation and adaptation efforts in developing countries?

5. Current issues and discourses in your country

Which other topics and discourses are highly salient in your country but not covered by this questionnaire?