

The European crisis and Russia

UDC338.124.4 (4):338to2(470+571)

LBC 65.9 (2)-97

L-99

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At estimation of the impact of the European crisis on the economy of Russia it is necessary to consider that it arose in connection with the problems, first of all, in the European area itself, and aggravated in the conditions of the global crisis. At the same time, one should consider the depressive state of the Russian economy, which due to its primitive structure, excessive permeability and often contradicting economic policy, is very vulnerable to the impact of external factors.

The global crisis has a systematic nature, which means that it is provoked by the financial capitalism as a modern system of capitalistic social structure. This crisis is financial, economic, cyclic and ideological at the same time.

In the context of the set up problem, the credit aspect of the crisis deserves special attention. In the period of mortgaging boom, banks actually refused from direct provision of loans to the borrowers. They preferred to borrow funds on the market and securitize their debts or pay with them for other securities, or to trade them at financial markets. As a result, loan market turned into risk market. The fact is that securitization with application of new financial instruments takes the risks out of the bank balances, the risks are “dissolved”. English economist R. Skidelsky states that “the crisis... reflects the crash of the system, based on indebtedness”.¹ He believes that “the banks turned into casinos”.² It is obvious that these processes were developed in Europe being one of the primary parts of the global financial market. Financial crisis was aggravated by the debt one.

¹ Skidelsky R. Financial crisis and outlines of the future global economic system. *Mir peremen*, 2009, No. 1, p.13.

² *Ibid*, 2009, No. 1, p.12.

Impact of the European crisis on the Russian economy may be assessed, if we understand the reasons of this crisis and its consequences in the short term and in more distant prospective. These reasons relate to the legal basis of the EU, absence of a uniform “Ministry of Finance”, labour market, stimulation of economic growth, development of small and medium business, etc. There are considerable reasons in the sphere of state finance and bank system. It is necessary to pay attention to the fact that the EU is actually divided into two parts – less developed south and (except for Italy) more developed north.

In the period before crisis, from the moment of introduction of euro into currency turnover, i.e. in 2002-2008, according to data of IBRD, the average annual labour capacity in the south EU was negative: in Greece it was reducing by 2% per year, in Spain – by 0.5%, in Portugal – by 0.1%. At the same time it grew in all countries of the “north EU” within the range of 0.7% (Ireland) – 3.1 % (Luxembourg).³

In relation to the background of crisis in the euro zone (apart from the specified reasons, related to the whole EU), it is necessary to pay attention to the fact that factors in the credit, currency and financial spheres acted simultaneously and promoted influence on each other. As a result, debts (state and private) became the main problem of the eurozone. Today, two main Maastricht criteria (state debt of no more than 60% of GDP, lack of budget of no more than 3% of GDP), seem to be forgotten.

Nobel prize winner P. Krugman considers that “the basis of eurocrisis is the crisis of payment balance, which was taken for the budget crisis (it means that there is no budget crisis – M.L.), and the main issue is how realizable “internal devaluation (i.e. decrease of wages and other costs)” in the debtor countries is. Further he states that the roots of the eurozone crisis lie not in wastage of governments, but in powerful flows of capital, which in fat years came from the center (especially from Germany) to the periphery of the eurozone. These flows caused boom at the periphery and simultaneously fast growth of wages in Greece, Portugal, Spain, Italy and Ireland in comparison to Germany.⁴ “If peripheral countries still had their own currencies, they would turn to devaluation for recovery of competitiveness, but they have none, so they await a long term of mass unemployment and slow deflation. Debt crisis in problem countries is mostly a side product of this sad prospect, because depression in economy leads to budget deficits, and deflation increases debt burden”.⁵

We can restrain from agreement with P. Krugman in the thing that the main cause of the European crisis is deficit of payment balances of the south EU countries in economic relations with northern partners, what, as he believes, “is a history of mostly currency nature”. But no one will make disputes about the fact, that crisis was mostly (if not

³ Jelers F., Pauli K. Lzjudo on the brink of a precipice.// Profil, 2012, No. 21, p. 9

⁴ Krigman P. Pain and not only in Spain.// Nezavisimaya gazeta, October 8, 2012, p.5.

⁵ www.bfm.ru/articles



primarily) provoked by the credit expansion of, first of all, Germany and inflow of investments from the EU North to the South. And it is not clear now what banks and countries will be able to give the money back to their creditors.

The situation in the bank sphere cannot help causing serious disturbance in Russia, because Russian banks get loans and refinance them in European banks. Banks of eurozone counted for the fact, that in case of necessity, the EU will protect their interests. Banks of the Federal Republic of Germany were quiet for a certain time, realizing that they were covered by state warranty of provision of their interests.

Such warranty was one of the most important reasons, due to which German banks invested into “rubbish” securities of financial institutions of Greece, Spain, Ireland, actively funded doubtful projects in the market of real estate, and “Cypriote banks turned into terminal station for investors, apt to deviation from payment of taxes”.⁶ The circumstance that balances of leading banks of debtor countries multiply exceed volumes of their economies, and this evidences that bank systems of these countries are not in good condition and require “readjustment”, is related to this warranty as well. The balance of banks of Cyprus and Ireland exceeds GDP about 7 times. This correlation is 22:1 in Luxembourg. This problem in various degrees relates to many countries of the eurozone.

“Der Spiegel” magazine wrote that “from the beginning of crisis of the eurozone they did not manage to “moderate” their banks: balance cost of financial concerns exceeds the volume of economy of the European currency union 3.5 times”.⁷ According to the data of the same magazine, the total amount of aid to the financial sector, approved by the European Commission in 2008 is 5 trillion euro. Only Germany provided its banks with 646 billion euro. In such situation the issue of possibility of “adjustment” to the aid for problematic banks and taxpayers of private creditors (bond holders and major depositors) appeared. But at this they are afraid that implementation of these measures will lead to the export of capital from the countries sank in debts and other economic and political problems.

Greece turned to be the weakest part of the eurozone. Due to depressing situation in this country they started to consider the issue of its withdrawal from the eurozone, probably, temporary one. However, Greece (and the eurozone itself) managed to be saved. In May 2012, the eurozone countries and IMF agreed to provide Greece with the pack of aid in the amount of 110 billion euro, and in March 2012 the second aid pack of 130 billion euro was approved. Apart from this, private creditor of the Greek government in 2011 agreed to write of 50% of the Greek debt.⁸

The next strike at the eurozone, euro and the EU as a whole, directly touching interests of the Russian capital, were events in Cyprus. The European crisis in various

⁶ A bomb from Brussels// Profil, 2013, No. 13, p.38.

⁷ Ibid, 2013, No 13, p. 38.

⁸ Koksharov A. Rush to the abyss. // Expert, 2012, No. 25, p.17.

degree affects various spheres of the Russian economy. As a result, it is reflected in dynamics of our GDP. The degree of impact of the European crisis on GDP as a whole, cannot be expressed in quantity. Though separate facts evidence that this influence is great and it negatively affects the dynamics of the Russian economy, the condition of which, apart from the European crisis, is affected by such factors as general external demand and internal problems of the country. According to the estimates of Higher School of Economics, “as a result of Cypriote crisis, the growth of the Russian economy will probably decelerate by 0.2-0.3% per year”.⁹ But this is impact of events in Cyprus only. One may suppose that situation in the EU as a whole influences the economy of Russian much more.

European Commission forecasts continuation of recession in the European Union as a whole and in the eurozone particularly. According to the data of European Commission, growth of GDP of the eurozone according to the results of 2012 turned out to be negative for the first time from 2009; for the past year GDP decreased by 0.6 %. In 2012, economy of the European Union decreased by 0.3%. According to the new forecast of European Commission, in compliance with the results of 2013, GDP of the eurozone will decrease by 0.4%. Negative growth of GDP will be recorded in 8 out of 17 states of the currency union: Greece, Spain, France, Italy, Holland, Portugal, Slovenia and Cyprus.¹⁰

In Russia, the decrease of rate of GDP growth started in the first quarter of 2012 and continued within the whole year of 2013. In August 2012, the decline was found in industry agriculture and trade, and, obviously, economy comes into the stage of stagnation. Thought, the Ministry of Economic Development believes that in 2013 GDP will grow at the best case by 2.4 % and at the worst case – by 1.7%¹¹

At estimation of impact of the European crisis on the Russian economy it is necessary to consider the following “channels”. More than half of Russian export and over 40% of import falls within Europe. Reduction of demand and decrease in prices for oil and gas may affect Russia in the most negative way. According to the estimates, decrease of oil prices by 10 USD per barrel leads to increase of deficit of the country budget by 1.4% of GDP.¹² The share of European countries in capital export from Russia (in the form of direct and portfolio investments), according to the data of Rosstat, at the end of 2012 was equal to about 3% (we mean the share in accumulated investments abroad), i.e. about 82 billion dollars. At the same time the share of investments from Europe to the Russian economy in their general volume was equal to about 70% (i.e. over 250 billion dollars). At this, direct investments prevail in export and import of capital in relations with Europe.

⁹ Aleksashenko Sergey. What shall we do after Cyprus?// “Argumenty i fakty”, 2013, No. 15, p.21

¹⁰ New front line// “Vedomosti” May 6, 2013, p.5.

¹¹ “Komsomolskaja Pravda”, April 29, 2013, p.10

¹² Russia on the junk. //RBK. September 2013, p.23.



The impact of the European crisis on the Russian financial sphere was clearly shown by the event in Cyprus in spring of 2013. Ya. Mirkin writes: “Russian economy steadily, year by year, keeps itself in the area of capital outflow. All positive balance of the trade balance is taken abroad (payment of services, flows of investments, wages, dividends, international reserves, etc.). Though the factor of indefiniteness arose. This is a crash of Cypriote offshore, through which 35-40% of import and export of capital under direct foreign investments and 10-15% under portfolio ones were conducted. This may affect the amounts of capital circulation, but the general situation of capital outflow, liquidity, when our boat goes aground, will not change.”¹³

According to the estimates of V. Belov (Institute of Europe of the Russian Academy of Sciences), “up to 30% of securities of the Russian market came through Cyprus. Losses of GDP are possible, there is information that there will be problems with funding of Olympic objects, because a part of deals was performed through the Cypriote offshore”.¹⁴ More or less exact estimates of Russian losses in Cyprus (after writing off 30% of deposits, exceeding 100 thousand euro and due to other circumstances) are unknown. Approximate estimates of losses of Russian companies and banks in Cyprus equal to 20-25 billion dollars. It is known that Russian companies regulate a part from 19 billion euro of the deposit amount of bank system of Cyprus, regulated by non-residents of Cyprus (mainly from Russia, Ukraine and Lebanon), a part of 40 billion euro, belonging to residents of the country (though Cypriote companies are directly or indirectly of Russian origin) and a part of unknown amounts in the bank system of the country on call accounts (so called settlement accounts).¹⁵

Event in Cyprus are not local financial problems. They touch the eurozone and the EU and, as noted before, world finances. Confiscation of deposits may be used in other countries (for example, in Spain, Portugal, Ireland, Argentina and other countries, where state debt exceeds 100% of GDP).

Noted changes in the role of banks, probably, will lead to cardinal changes in global bank system. During many years bankers practiced formation of recourse base of their banks due to deposits. The funds were attracted with the help of interest, paid to the depositors. Today such practice started to disappear. For example, the largest Swiss banks from 2012 started imposition of charge from the clients for allocation of funds at deposit accounts. Bankers of other countries may follow their Swiss colleagues.

The specified commission is also a kind of tax, but imposed not by the state, but a private structure (deposit and credit facility), that received appropriate authorities from the state. Thus, in spite of the events in Cyprus, the global bank system is obviously

¹³ Mirkin Ja.M. Summer: cold finances.// Rossijskaja gazeta, May 13, 2013, p.4

¹⁴ Belov Valdislav. Germany has violated the rules of the game and has not estimated the consequences.// Odnako, 2013, No. 12, p.25.

¹⁵ “Vedomosti”, March 26, 2013, p. 04

going to go through significant changes and transformations. Trust to bank institutes in the world is rapidly decreasing.

Impact of crisis of the EU on Russia is not limited by foreign trade and financial sphere. This factor should be considered at conduction of foreign policy and implementation of foreign economic strategy, the highest priority of which is creation of the Eurasian Economic Union, and further – currency union of partner countries. It is obvious that in this case errors and miscounts, admitted at establishment and operation of the eurozone, which before the crisis was an example for countries, entered the path of integration, should be considered.

There are various points of view of competent economists, which are sometimes completely contradicting, in relation to the future of the eurozone. Some of them think that eurozone will survive (probably in a restricted format). The others (P. Krugman and others) believe that creation of the eurozone itself is the reason of all disasters. In our opinion, it is too early to say goodbye to the eurozone, but it is necessary to solve a number of complicated political, institutional and economic problems, including in the field of energetics, financial regulation, youth unemployment, etc. Crisis and actual social and economic problems cause growing euroscepticism of population of the EU countries. Closing of offshore in Cyprus does not mean that offshores in other countries do not operate either (including European ones, e.g. London).

In order to protect the Russian financial system and economy from further losses, A. Nagorny and N. Konkov offer to adopt the following, in our opinion, reasonable measures:

- To obligate the representatives of the state in management bodies of corporations to take measures on return of their funds and assets to the Russian Federation;
- To offer to non-state companies to change the structure of ownership and transfer parent structures of holdings to the jurisdiction of the Russian Federation;
- To introduce amendments to the Federal Law “On currency regulation and currency control”, aimed at establishment of encumbrances in cases of realization of operations on transfer of financial funds to the offshore areas;
- To introduce mandatory reservation of currency operations (in certain amount from the amount of currency transaction for a certain term on special account with the Bank of Russia);
- To establish mandatory opening of special account with reservation of funds thereon at realization of currency transactions with securities;
- To preliminary register accounts (deposits) opened by the residents (legal entities and natural persons) with banks located in the offshore areas, in taxation authorities;
- To obligate natural persons to provide taxation authorities with reports on account activity with banks, located within the territory of offshore areas (similar to those, established in relation to legal entities).



- To adopt the Federal Law “On taxation of foreign accounts (analogue of FATCA act - Foreign Account Tax Compliance Act – acting in the USA) which will spread the national mode of taxation to all accounts of the Russian residents abroad;
- To adopt amendments to the active legislation with granting of the Bank of Russia and other commercial banks with the right and liability to terminate transactions from Russia to the address of residents of offshore areas, as well as doubtful operations;
- To adopt amendments to the active legislation on termination of capital outflows;
- It is necessary to introduce a tax on financial transactions (similar to that imposed in the EU from 2015).¹⁶

These measures as a part of economic and industrial policy would facilitate deoffshorization of economy, prevention of capital outflow, increase of investments in Russia, security of economic development, movement of the country along the way of innovation development.

Lessons of the European crisis, errors and miscalculations in economic, money, credit and financial policy of the EU and the eurozone shall be considered at determination of regional and country priorities of renewed foreign economic strategy of Russia for the future, first of all, by considering the implementation of the project of European integration.

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¹⁶ Nagornyj A., Konkov N. Cyprus of the Plague.// “Zavtra”, 2013, No. 15, p.1.

