Global financial crisis 2007-2008: effects on Poland and Croatia

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Content

- Global financial crisis – general facts
- Analysis of Croatian economy before and after the crisis
- Analysis of Polish economy before and after the crisis
- Conclusion ➔ similarities and differences

Global crisis – why did it happen?

- Greedy bankers?
- Government?
- People buying too much houses? 😊
- Hot money?
- Or..?

IS IT JUST CAPITALISM?

Results of the crisis (1)

- First 10 days of October the stock overall value dropped for more than 10 billion dollars
- At the end of 2008 the overall value of stocks in America dropped for more than 40%
- American government invested 150 billion $ in AIG and 306 billion $ in Citigroup (too big to fail)
- Lehman Brothers and Washington Mutual bankrupted (biggest company and biggest bank to bankrupt)
- ECB borrowed 500 billion $ to European banks

Results of the crisis (2)

- IMF became a „must” not an option for most of the IMF members
- From 2008 - 2009 overall production declined for 13%
- 2009 global output contracted for 2%
- Tens of millions people fell into extreme poverty
- Number of people living in hunger rose to more than 1 billion in 2009 (about 20 % of people!)
- WORLD ENTERED RECESSION / DEPRESSION
Croatian economy - analysis

- GDP rate
- Inflation rate
- Unemployment rate
- Current account balance

But first, let's explain the flow of crisis in Croatia.

2008. savings risk free amount raised from 14,000 EUR to 56,000 EUR

Beginning of 2/2009, Croatian government states „We are not in recession!“

End of 2/2009 – 10 antirecession measures

6/2009 Prime minister resigned - should we trust you government?

6/2008 Industrial production fell by 13,7 % and employment in that sector felt by 9,5 % compared to 6/2007

Economic institute projections: GDP growth -5 %, household spending -9 %, investment and exports - 15%, government spending NO CHANGE

2009 GDP „growth“ rate -7,4 %

Pressures from various sides demanding restructuring of public sector with anti recession measures did not bring any results since none of the political parties didn’t want to impose those measures due to forthcoming local elections

New public budget rebalancing:

Taxes 22 → 23 %
Crisis tax 2 %: 400 – 800 eur
4 %: > 800 eur

However, it is not just global crisis which put Croatia in recession. Transition, war damage, criminal privatization, wrong economic politics and endless borrowing are the structural reasons behind the recession / depression.

What about the Central bank of Croatia? Couldn’t it do something?

Central bank measures

- 2 main objectives:
  1) price stability
  2) economic growth but only if price stability is secured

- Foreign exchange reserves grew for 24 % from 9,1 – 11,3 billion EUR
  - low inflation
  - high reserves
  - stable exchange rate to Eur (7,5 HRK = 1 EUR)

Now, let’s get to numbers and graphs...
Domestic savings in Croatian banks and saving banks, billions HRK

75 billion HRK = 1 billion EUR

Source: Index.hr
2015. and 2016. should bring positive GDP growth rates for Croatia in range between 1-2 %, but the interest on credits and loans are 3,4% of GDP... Conclusion ? Bigger growth or...

Poland economy - analysis

Poland During Global Financial Crisis

2009
• the budgets of the state received 10 billion $ less than planned
• Polish government did not decide to implement quantitative easing to stimulate the economy
• Instead, they implemented the savings and belt-tightening policy

2011
• Raising VAT tax from 22% to 23%

2012
• Raising the retirement age to 67

Poland Public Debt

Anti-crisis measures

Government

• Reduction of labor costs through wage subsidies or subsidies for training costs
• Help program in the repayment of a housing loan for the unemployed
• Solutions to stimulate investment:
  • increase the availability and reduce the cost of loans
  • use of EU funds
Central Bank

Lowering the NBP interest rates from 6% to 3.5%, i.e., the lowest historical level

Maintaining liquidity in the banking sector by extending the range of collateral, reduction reserve requirement and supporting lending

GDP (current US$)

GDP growth (annual %)

Inflation, consumer prices (annual %)

Unemployment, total (% of total labor force) (national estimate)

Current account balance (BoP, current US$)
Similarities

• Tightening strategies during the crisis (even though more effective in Poland)
• Raising VAT from 22-23 %
• Growing public debt
• Current account balance deficit (except 2013)
• Inflation about 2-4 %

Differences

• GDP contraction in Croatia → growth in Poland
• Constant unemployment rate in Poland from 2010 → growth in Croatia
• Change of government after the crisis in Croatia

References and sources

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