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ANALYSES

Germany facing the global financial crisis

The global financial crisis has also affected Germany, albeit to a lesser extent than the USA and other Eurozone countries. The main problem for the German financial sector is not bad loans but a decline in inter-bank loans, falling confidence in the banking system, and the real possibility of economic recession those may entail. The comprehensive rescue plan announced by the government, for which 500 billion euros has been allocated, gives hope that the deadlock will be broken – although it is unclear when. The financial crisis in Germany and the related downturn in the country's economy will have a negative effect on the economic growth in Poland; however not to a significant extent. The present situation is also highly likely to have political implications for the results of the upcoming elections in Germany.

Impact of the global financial crisis on the German economy

The German financial sector, which is closely linked to the global, including that of the USA, banking and settlement system, has not managed to escape the world crisis. The problem with bad loans, which gave rise to the financial crisis in the USA, has not reached a significant scale in Germany. However, two German banks, Hypo Real Estate and IKB, which had been indirectly engaged in the financial operations of the bankrupt US bank Lehman Brothers, have run into serious trouble. The German government, which appreciates the magnitude of the problem and fears an escalation of the crisis, has supported the banks with 35 and 10 billion euros respectively in loan guarantees to let them regain financial liquidity. Although such moves have prevented the financial crisis from immediate escalation, they have still failed to hold in check the worsening problems with upholding liquidity in inter-bank lending and to contribute to building up confidence in the German financial sector, which is vital to overcome the difficulties.

Both the government and economists in Germany believe that the crisis in the financial sector has reached a serious scale and first of all puts at risk economic growth, aggravates the situation on the labour market and worsens public sentiment. Furthermore, it will prevent the country from achieving budgetary equilibrium in 2011 as planned.

Until recently, 2.1% economic growth was forecasted for 2008. Now the rate has fallen to 1.8–1.7% (IWF and Kieler Institut für Wirtschaft institutes). The economic growth in 2009 will reach a maximum of 0.2% or even 0%, thus meaning market stagnation. The forecasted decrease in economic activity in Germany, signs of which had been evident even before the global financial problems emerged, would result from a worsening export price competitiveness of German products due to the strength of the euro, rising raw

material and energy prices, higher production costs, increasing inflation and continuing insufficient demand on the domestic market. Elements of the financial crisis have reinforced the impact of all those unfavourable economic factors. According to the most optimistic forecasts, visible growth in the German economy can be expected in 8 to 12 months' time.

Measures taken by the German government

The US concept, according to which the state treasury took over bad debts, has not been copied by the European Union. A similar EU project, which provided for establishing a common pool of funds for buying out debts from endangered banks, has been rejected by Chancellor Merkel. The EU framework guidelines which were ultimately adopted provide that individual Eurozone countries will create systems of guarantees for inter-bank loans and pools of funds to offer capital to certain banks endangered by the crisis.

The real moves made by the German government to resolve the crisis include the creation of a pool of 400 billion euros for loan guarantees to banks and additional funds, ranging between 70 and 80 billion euros, for direct capital injections into endangered banks and insurance institutions. Bank deposit guarantees will be increased to 50,000 euros. The assessed risk of budget losses in cases where it is necessary to fulfil the granted guarantees is 5% of the fund value. 20 billion euros has been allocated for this purpose. A law that will put into effect the government's bills is to be passed within the next few days. The law is also expected to oblige the aid beneficiaries to "take solid and reliable measures." In practice this may mean setting limits on managers' bonuses and severance pay, or the finance minister having influence on their lending policies.

The fact that the largest bailout package in the post-war history of Germany has been allocated for the stabilisation of the financial system indicates that the scale of the problem is significant and the chance of a swift solution is small.

Consequences of the German financial crisis on home policy...

The crisis will have a limited impact on German politics. Although the coalition members, the CDU/CSU and the SPD, have clearly different points of view regarding the scope of possible state interference with the economy and although the unofficial campaign in the run-up to the parliamentary elections has begun, the government represents a uniform stance in the face of a real threat to the German financial market. If the consequences of the financial crisis become aggravated for Germany, tension between Chancellor Angela Merkel (CDU) and Minister of Finance Peter Steinbrück (SPD) may increase. However, the *raison d'état* will still consolidate the coalition. So far, the crisis has had a positive effects on Chancellor Merkel's approval ratings. Public opinion polls show support for her re-election as chancellor (while support for the CDU has been dropping). If, however, the SPD appears to have more successful recipes for overcoming the financial crisis in Germany, support for Merkel will shrink and voters' favour will be shifted to her counter-candidate, the present Minister of Foreign Affairs Frank-Walter Steinmeier. If the crisis

were to deepen and the government's actions were inefficient, opposition parties could benefit. Support for them however would grow in protest against the governing coalition rather than owing to their proposals to ease the consequences of the crisis.

... and for economic relations with Poland

The expected economic downturn in Germany, which has been aggravated by the financial crisis, will cause a slowdown of economic growth in Poland. However, considering the stable foundations of the Polish economy and its rapid growth over past years, this impact is unlikely to be overly strong. How long it takes the global financial system to regain stability and whether the current situation will cause a recession on a global scale are the most essential questions now. In the short term, the slump in the German market may adversely affect the situation in Poland, which has already become evident (stoppages at the Opel factory in Gliwice, falling demand for Polish furniture and copper products on the German market). This entails a reduction in export production, fewer orders for transport companies and a repeated worsening of the situation on the labour market.

Rafat Żmijewski

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EVENTS

Parliamentary elections in Lithuania – first round

The parliamentary elections in Lithuania on 12 October were won by the Andrius Kubilius-led Conservatives/Christian Democrats, who received 19.6% of the votes for party lists (70 out of 141 MPs are elected at this stage). Arunas Valinskas's populist National Revival Party, which had been created shortly before the election, received 15.1% of the votes, thus coming second, which surprised many. 12.7% of the votes were cast for another populist party, the Order and Justice headed by former president Rolandas Paksas. Good results achieved by those three parties, whose campaigns were based on criticism of the left-wing government, prove that Lithuanians voted for changes and against the Social Democrats, who had been in power for nearly two terms. The turnout reached 48.5%.

The party led by the unpopular Prime Minister Gediminas Kirkilas took fourth place (11.7%). It was followed by Viktor Uspaskich's populist Labour Party (9%), a former member of the coalition with the Social Democrats. The 5% electoral threshold was also reached by the Liberal Union (5.7%) and the Liberal and Centre Union (5.3%). The Electoral Action of Poles in Lithuania (AWPL), the party representing the interests of that national minority group, received 4.8% of votes, thus failing to reach the threshold. However, its leader Waldemar Tomaszewski won a personal victory; he was one of the four candidates to win their seats in the first round in single-member constituencies (there are 71 of them). The other three seats were won by the Social Democrats.

The fact that the Conservatives won the elections does not necessarily mean that they will form the government coalition. In turn, the Social Democrats have a chance of creating a centrist-left coalition together with the populists. The runoff, which will be held on 26 October in 67 single-member constituencies, will be the decisive one. The Conservatives (45 candidates) and Social Democrats (23 candidates) again have the greatest opportunities. Four more Poles also have a chance of being elected. <jhyn>

MOL became the biggest shareholder in the Croatian INA

The Croatian Central Depository Agency announced on 10 October that the Hungarian oil & gas corporation MOL would take over 22% of shares in the oil & gas company INA, thus becoming the largest shareholder in the company. MOL wants to gain a majority stake in INA, which will probably happen this year as a result of a deal with the Croatian government. Engagement in INA will allow the Hungarian corporation to strengthen its position against its regional competitors, especially the Austrian OMV (which wants to take it over).

Minority shareholders deposited 22% of shares for sale in response to MOL's public bid placed on 2 September intended at a buyout of stock exchange-

traded shares in the Croatian INA company. Takeover of the shares will allow MOL to increase its stake in INA from 25% to 47%. At first, MOL's bid failed to arouse major interest. However, the global financial crisis caused a significant reduction in share prices and the shareholders became more willing to respond to the Hungarian company's offer.

The next step to be taken by MOL on its way towards taking over control of INA, which is the Hungarian company's strategic goal, will be negotiations with the Croatian government (which holds 44% of the shares) concerning the sale of a further 19% of shares, which will probably be swapped for shares in MOL. Zagreb seems to be willing to co-operate with the Hungarian company. However, at the same time, it wants to have a guarantee of influence on decisions concerning a possible further resale of shares in the Croatian company.

Control of INA will allow MOL to reinforce its position in the region by obtaining broader access to new markets and increasing the profits of the entire MOL Group. At the same time, the company's value will grow, which will reduce the risk of its hostile takeover by OMV. <boc>

Serbian success in the UN General Assembly

On 8 October, a relative majority of votes were cast in the United Nations General Assembly in support for the Serbian motion to the International Court of Justice (ICJ) for the issue of a consultative opinion on the legality of Kosovo's proclamation of independence. The Court's award will not be binding. However, the very fact that the UN General Assembly has voted in favour of the Serbian motion is likely to slow down the process of recognition of Kosovo's independence.

Serbia, which is strongly against the fact Kosovo became independent, took efforts in mid July to bring about the General Assembly vote for its motion to the ICJ for considering the legality of Kosovo's independence. Belgrade was not restrained by reservations against this initiative made by member states of the EU, which Serbia wants to join (22 out of the 27 EU member states recognised the independence of Kosovo). The Serbian motion was supported by 77 countries (including Russia, Brazil, India, China, Argentina, Indonesia, Spain, Greece and Egypt), 6 countries opposed the motion (including the USA and Albania), 74 abstained from voting, and 35 did not take part in the vote at all. Most of countries which had recognised independence of Kosovo (48 at the time of the vote) either abstained from voting or did not participate in the vote. This approach can be explained by the Western belief that blocking the Serbian initiative at the General Assembly would be received in Serbia as further proof of the country's unfair treatment in the international arena.

The Court will pass its verdict on Serbia's motion within several months. Hesitating countries will probably withhold their decisions to recognise Kosovo until the opinion is issued. Meanwhile, the independence of Kosovo is such a controversial issue that an ambiguous award can be expected from the Court. <abalc>

Montenegro and Macedonia recognise the independence of Kosovo

On 9 October, the independence of Kosovo was recognised by its two neighbours, Montenegro and Macedonia. This decision signals the failure of Belgrade's attempts to cause the regional isolation of Kosovo. The normalisation of Kosovo's relations with Macedonia and Montenegro, and the moderate reaction from Belgrade contribute to reinforcing stability in the Western Balkans.

Macedonia and Montenegro offered recognition shortly after the vote for the Serbian motion to the International Court of Justice for considering the legality of Kosovo's independence at the UN General Assembly, which had been unfavourable to Priština. Since Macedonia and Montenegro have recognised the country's independence, Serbia is now the only neighbour of Kosovo to reject it. Belgrade's reaction has been rather moderate. Although ambassadors of both countries to Belgrade were expelled, Serbian authorities are still declaring the continuation of co-operation with Podgorica and Skopje.

The decisions of Montenegro and Macedonia were taken under pressure from Western states which have recognised the independence of Kosovo. In the case of Macedonia, a numerous Albanian community accounting for more than 25% of the country's population, played a major part. The recognition of Kosovo has brought nearer both the end of the process of the Kosovan-Macedonian border delimitation and the vote of the Montenegrin parliament for a Euro-Atlantic integration programme, which provides for the harmonisation of Podgorica's foreign policy with NATO and EU member states. <abalc>

German technologies for the Russian extraction and shipbuilding industries

Wismar and Rostock-Warnemünde, two German shipyards in north-eastern Germany which the Russian investment fund FLC West purchased in early 2008, will carry out commissions from Russia worth €2.5 billion. The Russians want to modernise the fleets of their oil and gas companies in order to adapt them to the conditions of oil and gas extraction in Arctic regions. German know-how will also be used for modernising and developing the shipbuilding industry in Russia.

The FLC West investment fund is a company controlled by the Russian state, whose mission is to invest in strategically important sectors. In early 2008, the fund took over 70% of shares in the German shipyards in Wismar and Rostock-Warnemünde from the Norwegian Aker Yards shipbuilding concern (along with the shipyard in Mykolayiv, Ukraine). These three shipyards formed the shipbuilding group named Wadan Yards, which, as the chairman of the board of directors Anderi Burlakov has recently stated, will focus on the production of specialised vessels (including vessels for the transport of oil and gas in Arctic regions, as well as icebreakers) and oil rigs. Wadan Yards will also participate in the construction of new shipyards in Russia. The German shipyards have hitherto dealt with the construction of container ships adapted to cruising in Arctic waters.

With this acquisition, Russia will be able to modernise the fleets of the Russian companies dealing with the extraction of oil and gas in Arctic regions. The German technologies thus acquired will also allow the modernisation and development of the Russian shipbuilding industry in a domain of strategic importance for the Russian state, that of oil and gas extraction. <jus>

Germany: Strasbourg Court rejects the Prussian Trust's claim

The European Court of Human Rights (ECtHR) in Strasbourg on 9 October rejected the Prussian Trust's claim against Poland, including charges of violation of human rights and ownership titles. The Court found that Poland had no obligation of restitution to the plaintiffs who had lost their property in 1945. The Court's award did not arouse big interest in Germany. There were noted strong Polish reactions; according to some comments, such large interest was a consequence of the insufficient settlement of historical issues in Poland.

The Court passed the award in response to the claim brought in 2006 by the Prussian Trust, which was representing the interests of 22 German expellees. The Prussian Trust claimed that Poland should either give back the property or pay compensation for property lost after WWII. The Court found the claim inadmissible because Poland had not administered the land from which Germans had been displaced in 1945. It further argued that Poland had ratified the European Convention on Human Rights, which had come into force in 1953, as late as 1994.

Chancellor Angela Merkel and Frank-Walter Steinmeier expressed their opinion on this matter, repeating that the award complied with the German government's stance regarding the groundlessness of the claims. Although the German government deems the matter closed, it cannot be ruled out that actions aimed at regaining property lost by Germans will be continued. The Prussian Trust has promised to bring further claims to the international courts, including the American courts, and more claims to the ECtHR concerning property lost at later times after the war. <MŚK>

The CDU launches a campaign in eastern Germany

On 10 October, the CDU held a congress in Dresden devoted to development prospects of eastern Germany. Following the CSU's defeat in Bavaria, the Christian Democrats are trying to regain support in the west of the country and to keep their electorate in the new federal states. The congress was an element of the CDU's struggle for voters, which have been taken away from it by The Left, an increasingly popular party in the east.

19 years after the fall of the Berlin Wall the differences between the eastern and western parts of Germany have not been eliminated. The key problems are unemployment (12.2%), which is two times higher than in the old states, and dependence on funds from the federal budget (approximately 26 billion euros allocated until 2015 as part of Solidarity Pacts I and II, and 2.3 billion

euros until 2013 as part of the investment allowance for innovative investments offered to eastern German enterprises). The programme 'Prospects for the East', which envisaged support for economic independence, agriculture and rural areas, the promotion and support for universities' research activity and for boosting employment, was presented at the CDU congress.

The attempts to gain support of the Osis and the sharp criticism expressed by Christian Democratic politicians against The Left and the SPD, provide a clear sign that the electoral campaign has started. East Germans, who federal politicians usually pay little attention to, have already decided twice on the parliamentary election results. In 1990 and 1998, their votes let the CDU and the SPD, respectively, win a majority of votes on the federal scale. Christian Democrats hope that an effective campaign in eastern Germany may turn out to be a successful move in the context of parliamentary elections in 2009. <zawil>

CES

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