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GOVERNMENT AND CENTRAL BANK MEASURES IN TIME OF FINANCIAL CRISIS

MSc Neda Popovska Kamnar
neda@mol.com.mk

PhD candidate
University "Cyril and Methody"
Economic faculty-Skopje

Abstract

This paper presents the measures which the governments and the central banks are implementing in order to protect their countries from the latest global financial crisis. The first part of this paper is describing the causes of the financial crisis and the global reactions to the economic turbulences. The second part presents the measures of the main institutions in United States, Europe, England and also Sweden, Germany and Portugal, in order to improve the liquidity on their financial markets. In the third part are presented the measures by the governments and central banks of the emerging and Balkan countries.

Keywords: *financial crisis, measures, governments, central banks*

Introduction

Despite of different definitions and approaches to financial crisis, its main feature is unbalance between supply and demand for money. The liquidity is evaporated quickly because available money is withdrawn from banks forcing them either to sell other investments making up for the shortfall or to collapse. The financial crisis 2007 initially started in United States as a sub prime mortgage crisis, (the value of securitized mortgages was falling quickly), causing a liquidity crisis on the financial market. Global financial interconnection helped the financial crisis 2008 to escalate, and to transfer on the European ground, hitting the biggest European banks, markets and companies. One of the main reasons of the mortgage market collapse in USA was lack of regulation on the financial derivates market and on the financial agreements based on the high government securities for banks risk. It was a result of a period of aggressive risk-taking on the subprime market. As the financial crisis went to become deeper and deeper, it was clear the market couldn't solve the problems, and the governments and central banks intervention was inevitable. But still, after numerous direct measures introduce on the highest level, the financial crisis is not decelerated. The latest predictions are not optimistic truly -the crises will not slowdown till 2010.[19] The situation is becoming worse: few months ago the prognoses were mid-2009.

19) Regional Economic Outlook, IMF, october 2008

The consequences of the global financial crises

The global financial crises beginning from American market on July 2007 produced shockwaves enough to overwhelmed with economic problems the other countries of the world. It put the biggest financial institutions on their knees, and made the governments facing the biggest challenges since the last big Economic Deprecation 1929-1933. In less then a year we witness the biggest economies in the world, Europe, USA, Japan go in to recession. So far, the total estimated cost of interventions of all natures across developed economies amounted to around 8,600 billion dollars, half of which to be attributed to the U.S.[20] It was common to all: the capital markets had to deal with illiquidity, dropping asset prices and withdrawing of investments. The governments were faced with the failure of the supervision frameworks, finding themselves on the crossroad, how far to go in using a budget money in order to cover the wrong decisions of the private financial institutions

In the last year, the governments have not fight with the instability of the credit markets and bailing out the banks from bankruptcy only. They have had to find measures to stabilize the real sector dealing with big problems like output slowdown, high levels of inflation (mainly caused by the food and energy highest prices), increasing unemployment, budget deficit.... In the developed countries mostly the prediction for

	Real GDP growth				CPI inflation			
	2006	2007	2008	2009	2006	2007	2008	2009
Europe 1/2/	4.1	3.9	2.6	1.4	3.6	3.6	5.8	4.2
Advanced European economies 1	3.0	2.8	1.3	0.2	2.2	2.1	3.5	2.2
Emergening European economies 1/2	7.0	6.8	5.7	4.3	7.5	7.5	11.5	9.2
European Union	3.3	3.1	1.7	0.6	2.3	2.4	3.9	2.4
Euro area	2.8	2.6	1.3	0.2	2.2	2.1	3.5	1.9
Austria	3.4	3.1	2.0	0.8	1.7	2.2	3.5	2.3
Belgium	2.9	2.8	1.4	0.2	2.3	1.8	4.6	2.8
Cyprus	4.0	4.4	3.4	2.8	2.2	2.2	4.6	3.5
Finland	4.9	4.5	2.5	1.6	1.3	1.6	3.9	2.5
France	2.2	2.2	0.8	0.2	1.9	1.6	3.4	1.6
Germany	3.0	2.5	1.8	0.0	1.8	2.3	2.9	1.4
Greece	4.2	4.0	3.2	2.0	3.3	3.0	4.4	3.1
Ireland	5.7	6.0	-1.8	-0.6	2.7	2.9	3.5	2.4
Italy	1.8	1.5	-0.1	-0.2	2.2	2.0	3.4	1.9
Luxembourg	6.1	4.5	2.3	1.8	2.7	2.3	3.7	1.8
Malta	3.1	3.7	2.8	2.3	2.6	0.7	3.7	2.2
Netherlands	3.4	3.5	2.3	1.0	1.7	1.6	2.9	2.6
Portugal	1.4	1.9	0.6	0.1	3.0	2.4	3.2	2.0
Slovenia	5.7	6.1	4.3	3.7	2.5	3.6	5.9	3.3
Spain	3.9	3.7	1.4	-0.2	3.6	2.8	4.5	2.6
Denmark	3.9	1.7	1.0	0.5	1.9	1.7	3.4	2.8
Sweden	4.1	2.7	1.2	1.4	1.5	1.7	3.4	2.8
United kingdom	2.8	3.0	1.0	-0.1	2.3	2.3	3.8	2.9
New EU countries 1/	6.6	6.3	5.0	3.5	3.3	4.1	6.4	4.4
Bulgaria	6.3	6.2	6.3	4.2	7.4	7.6	12.2	7.0
Czech Republic	6.8	6.6	4.0	3.4	2.5	2.8	6.7	3.4
Hungary	3.9	1.3	1.9	2.3	3.9	7.9	6.3	4.1
Poland	6.2	6.6	5.2	3.8	1.0	2.5	4.0	3.3
Romania	7.9	6.0	8.6	4.8	6.6	4.8	8.2	6.6
Slovak Republic	8.5	10.4	7.4	5.6	4.3	1.9	3.9	3.6
Estonia	10.4	6.3	-1.5	0.5	4.4	6.6	10.2	5.1
Latvia	12.2	10.3	-0.9	-2.2	6.5	10.1	15.9	10.6
Lithuania	7.9	8.9	3.9	0.7	3.8	5.8	11.3	6.2
Albania	5.4	6.0	6.1	6.3	2.4	2.9	4.0	3.0
Belarus	10.0	8.2	9.2	8.0	7.0	8.4	15.3	9.6
Bosnia and Herzegovina	6.9	6.8	5.5	5.0	6.1	1.5	8.5	5.2
Croatia	4.8	5.6	3.8	3.7	3.2	2.9	7.0	4.9
Macedonia	4.0	5.0	5.5	5.0	3.2	2.3	8.5	3.0
Moldova	4.8	4.0	6.5	6.5	12.7	12.4	13.7	9.7
Montenegro	8.6	9.7	7.5	5.0	2.1	3.5	9.2	5.2
Russia	7.4	8.1	7.0	5.5	9.7	9.0	14.0	12.0
Serbia	5.6	7.1	6.0	6.0	12.7	6.8	10.7	7.5
Turkey	6.9	4.6	3.5	3.0	9.6	8.8	10.5	8.4
Ukraine	7.3	7.6	6.4	2.5	9.1	12.8	25.3	18.8

Source: IMF, Regional Economic Outlook, october 2008
1/Average weighted by PPP GDP
2/ Montenegro is excluded from the aggregate calculation

20) EU10 Regular Economic Report, October 2008, World bank

2009 is that the output will decline, in some cases negative, but the inflation rate will be stabilized. In the emerging countries the output grow in 2009 is expected to be positive, but lower than earlier, but still facing the problems with high inflation and credit expansion. Also, the influence of the finance crises in the countries with large external financing needs (Romania, Bulgaria, and Hungary) is through the slowdown in global demand in the EU countries and the tightening of the financial conditions.

As a result of sharply decreasing of the demand in advanced countries and worsening of credit conditions to emerging countries, in November, IMF produced new numbers for the global growth. According to the newest predictions, the global growth will continue to slow down to 3,7% in 2008 and 2,2% in 2009. The revised forecasts growth for 2009 in advanced countries to be negative 0,3 and for emerging and low income countries to be 5,1%.[21]

The governments and the central banks are facing many challenges in this global economic downturn. The new regulations, measures, bailout state-aid packages are passing on daily bases, with the hope that the liquidity on the markets will be improved. The central banks measures were mainly focused on improving the liquidity problems, through credit lines, reversed repo auctions, state bonds as collateral and etc. The governments adopted highly expenses packages to help private financial institutions, which lately also include help to the vulnerable sectors of the industries (examples of car industry, productions of steel and etc). The USA government adopted 700 billions dollars package to buy troubled financial assets while UK approved 50 billion pounds bank bailout package. The government of Japan offered stimulus package of 5.1 billion dollars, after the country went in their first recession in seven years. Also, the Bank of Japan, slash the interest rates for first time in seven years by 20 basic points, to 0.3%. The latest news are saying that the European commission unveiled an economic recovery plan, which will total 200 billions euro, or 1.5% of the EU member's GDP. Most of the money will be supplied by member state, and around 30 billions Euros will be provided by certain actions of European Union. This package will be implemented in 2009 and some measure would continue into 2010.

There were many discussion should the government use budget money gathered through the taxes in order to bailout the private institutions from their huge deficits. But, it looks that they didn't have much choice. Those institutions were just "too big to fail", which means that their failure would influence the economy of the country, the rate of the employment, and the domino effect on other smaller companies will happened. For example, UK government in their bailout package, helped the financial institution like "HBOS" which have total assets of 838 billions Euros (in 2007) "Lloyds TS" with total assets of 444 billions Euros and "Bradford and BIngley" with total assets of 65 billions Euros. Also, European government helped "ING" with total assets of 1,370 billions Euros. In the following tables is presented the government assistance in the biggest financial institutions, where the financial crises had a huge influence on their assets and rising debts.

United States	$ Bn
Fannie Mae and Freddie Mac	200
Wachovia	12
Citigroup	25
JPMorgan Chase	25
Bank of America	20
Merrill Lynch	5
Wells Fargo	25
Goldman Sachs	10
Morgan Stanley	10
Bank of New York Mellon	up to 3
State Street	up to 3
Total	**338**

Source: Financial Times

Europe	€ Bn
Fortis	11.2
Hypo Real Estate	50
Glitnir	0.6
Dexia	6.4
Landsbanki	n.a
Kaupthing	n.a
UBS	3.9
ING	10
Credit Agricole	3
BNP Paribas	2.55
Societe Generale	1.7
Credit Mutuel	1.2
Caisse d'Epargne	1.1
Banque Populaire	0.95
KBC	3.5
Commerzbank	8.2
Total	**104.3**

United Kindom	£ Bn
Bradford and BIngley	18
Royal Bank of Scotland	20
HBOS	11.5
Lloyd TSB	5.5
Total	**55**

21) World Economic Outlook Update, IMF, november 2008

World leaders recently gathered at the summit of Group of 20 in Washington, to address the economic crisis in the world, and concluded that it's necessary to speed up the regulatory reforms, to support the global growth and to avoid protectionism. From the summit G-20, the countries decided to create new short-term liquidity facility and to review the instruments and facilities. Also, they agreed that the fiscal stimulus is essential to restore global growth, decrease the inflation risk and provide the room for easing the monetary policy. In the future it's necessary to strength the role of IMF in the contents of providing macro-financial policy. G-20 agreed that the countries should restrain from raising new barriers to trade and investments during the next year, because their very important for the growth of the countries.

In November 2008, IMF wasn't very optimistic about the future developments of the financial crisis. The chief economist of IMF said that the global financial crisis is set to worsen and that the situation will not improve until 2010. He also urged central banks around the world to cut interest rates, lowering close to zero as possible. IMF promised to help Latvia, after assisted Iceland, Hungary, Ukraine, Serbia and Pakistan, but pointing out that it is not able to solve all financial issues. The IMF had spent a fifth of its 200 billion euro fund in a period of two weeks.

The government and central bank measures

What kind of measures did the governments and the central banks proceed in the last year? The governments of the developed countries were trying to bring back the confidence and liquidity into the markets, and saving the biggest financial institutions from drawing in the same time. Their agenda has stimulations of the output grow and the protection the working places of millions people in the industry too. The emerging countries were more focused on the stabilization the inflation, reduction the credit expansion pressure and regulation the trade deficit. "Never is everything so black". Some analysis for these countries comes to conclusion, that the weak connection between their banking systems and the world financial markets, contribute in limiting the effects of the financial crisis

The government of the United States of America presented their bailout program which cost 700 billion dollars and with purpose to purchase bad assets, to reduce the uncertainty of value of the remain assets and to restore confidence in the credit markets. At the beginning, 250 billion dollars went for the purchase of bank stock, giving the infusion of cash to the financial institutions and 40$ billion dollars as an investment in troubled insurance giant American International Group. This brought many discussions about the credibility of this plan, because almost half of the money of the bailout program was spend, before any problematic assets were bought. But, the government is not giving up!

The lattes news from USA is that the government unveiled new programs that will provide 800 billion dollars to help the credit markets. According to this, the Federal Reserve created the Term Asset-Backed Securities Loan Facility (TALF), a facility that will help market participants meet the credit needs of households and small businesses by supporting the issuance of asset-backed securities (ABS) collateralized by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration (SBA).Under the TALF, the Federal Reserve Bank of New York (FRBNY) will lend up to $200 billions on a non-recourse basis to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. The department of the Treasury, Federal Deposit Insurance Corporation and the Federal Reserve put into place several programs designed to promote financial stability. They make available new capital to the institutions, increase the guarantees on bank deposit accounts and provide backup liquidity to banks. There is also a plan by the federal housing finance agency for speeding up the process for renegotiating thousands of delinquent loans held by the two mortgage giants (Fannie Mae and Freddie Mac).

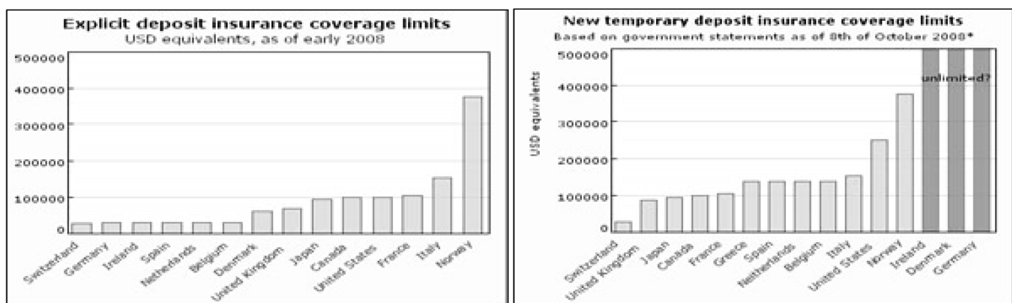
The latest "institutional saving" by the U.S government was made for banking giant Citigroup after its shares plunged by more than 60%. The US Treasury is set to invest $20 billions in return for preferred shares in Citigroup. The Treasury and the Federal Deposit Insurance Corp will also guarantee up to $306 billions of

risky loans and securities on Citigroup's books. The plan follows a $25 billions injection of public funds in the bank in October. Citigroup announced 52,000 job losses worldwide, on top of 23,000 job cuts previously. Citigroup has lost more than $20 billions in the past year because of the global financial crisis.

The government of Great Britain announced the recapitalization of the UK banking system of at least 50 billion pounds and together with the liquidity support from the Bank of England and the new quarantine scheme is planning to bring back the confidence in the financial system. According to this, at least 200 billion pounds will be made available through the Special Liquidity Scheme, which will allow banks to swap illiquid assets of sufficiently high quality for Treasury Bills in certain time period. Also, the responsibility for losses on their loan stays with the banks. The bank will continue to conduct auctions to lend sterling for three months and US dollars for one week, against extended collateral. Also, to provide liquidity insurance to the banking system, the central bank introduce Discount Window facility which is intended for eligible banks and building societies which may borrow gilts, for up to 30 days, against a wide range of collateral in return for a fee, which will vary with the collateral used and the total size of borrowings.

Unfortunately, the Basel principles for supervision appeared inefficient in preventing and solving the financial crisis. The measures introduced with this supervision framework showed their weakness in certain sectors of the capital markets, not able to perceive the early signs of trouble. As a result of this, The European commission made changes in the Directive for bank capital requirements, with aim to reduce the risks in borrowing and lending and increase the power of supervision. So, with the new rules, the banks are limited to lend beyond a certain limit to any one party, so they can have enough capital to protect from risk and to protect their depositors. The changes in regulation were made in order to improve the quality of bank's capital, the management of the liquidity risk and the management of securitized products.

The other changes were made in the Directive on Deposit guarantee scheme in order to improve the deposit protection and to bring back the confidence in the banking system. With the new amendment of this Directive, the minimum level of coverage for depositors will be increased within one year from 20.000 euro to 100.000 Euros and initially to 50.000 euro in the intervening period. The payout period in the event of bank failure will be reduce from 3 months to 3 days. According to estimates, about 65 % of the deposits are covered with the current regime, and with the new improvements in the regulations, will cover around 80% (with coverage of 50.000 Euros) and 90% (with coverage of 100.000 Euros) of deposits. Several EU countries (Germany, Ireland, Greece, and Slovenia) have moved to protect all bank deposits.[22] But, there is a time lag. The new regulations will be realized in 2010, which means that they will not help in the current financial instability.



Source: OECD, organization for economic co-operation and development

European commission approved state aid packages to Germany, Hungary, Portugal and Sweden which proved capital measures and quarantines to the institutions, but in the same time, protect the state for other expenses. Each of the approved packages will be monitored by the authorities in order to see the affectability of the proposed measures.

22) See reference 1

The rescue package of Germany consists of recapitalization scheme which will introduce new capital to banks and insurance companies in exchange for share; guarantee scheme which will provide new issuance of short and medium term debt in return for market-oriented remuneration and temporary acquisition of assets which means that this assets will be bought back after 36 months without the state making a loss.

The rescue package for Portugal provides guarantees to financing operations of eligible credit institutions. The guarantee scheme provides state quarantines for financing agreements and emission of non subordinated short and medium term debt of solvent credit institutions. The total budget of the scheme is 20 billion Euros. The scheme is for all solvent banks in Portugal and it will be available till the end of 2009.

To support the institutions that have problems in financing, the rescue package proposed from European commission for Sweden was consists of quarantine scheme covering new issuances of short and medium term non-subordinated debt. The amount of total debt to be covered is around 150 billions euro and concerns instruments with maturity of maximum three years. Debt covered by the quarantine will be acceptable by the Swedish Central bank as equivalent to government bonds.

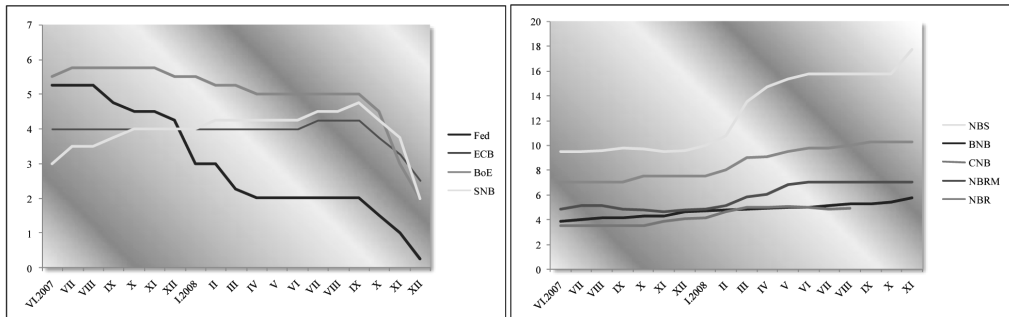
In order to restore financial systems of the countries and bring back the investor's confidence in the markets and economy, the successful cooperation between the governments and central banks is necessary. Using their monetary instruments and establishing different facilities for liquidity, central banks are taking an active role in the process of recovering the global economy. A detail structure of the central banks measures are presented in the following table:

Feb.07	ECB	Renew the supplementary longer term refinancing operations
Mar.11	FED	Introduces a Term Securities Lending Facility (TSLF)
Mar.16	FED	Announced the introduction of a Primary Dealer Credit Facility (PDCF)
Mar.28	ECB	Supplementary 6 months longer-term refinancing operations
Apr.21	BOE	Launched a Special Liquidity Scheme
May.02	ECB, FED, SNB	Expansion of their liquidity measures
	ECB	Increase the amount of US dollars liquidity provided to the counterparties of the Euro system to 25 billions od dollars in each bi-weekly auction
	FED	Increase in the amounts auctioned to eligible depository institutions under its biweekly term auction Facility from 50 billions to 75 billions of dollars
	FED	Increase in existing temporary reciprocal currency arrangements with the ECB and SNB.
Jul.30	FED	Introduction of longer terms to maturity in its term auction facility
Sep.14	FED	Changes in the collateral and in the schedule of Term Security Lending Facility auctions
Sep.17	BOE	extension of the drawdown period for its special liquidity scheme
Sep.18	BOE, ECB, Fed, BoJ, SNB	Measures to address the pressure in the US dollar short term funding markets
	BOE	Lend each day US dollar funds overnight against eligible collateral (repo operations)
	BOE	Swap line with FED
	ECB	adding an overnight maturity to its operations providing US dollars funding to Euro system counterparties and by increasing the amounts offered in the Term Auction Facility operations
	FED	180 billions of dollars expansion of its temporary swap lines
Sep.19	FED	Extending loans to banking organizations to finance their purchases of high-quality asset-backed commercial paper (ABCP) from money market mutual funds
Sep.26	FED, BOE, ECB,SNB	Introduction of operations to provide US dollar liquidity with a one week maturity
Sep.29	ECB	Special term refinancing operations
	FED, ECB	Doubled their swap lines from 120 to 240 billions of dollars
Oct.03	BOE	Extension of the collateral eligible in its current weekly sterling three-months repo operations
Oct.07	FED	Creating Commercial Paper Funding Facility
Oct.08	BOE	Recapitalization of the UK banking sector
Oct.13	BOE,ECB, SNB	Tenders of US dollar funding at 7,28 and 84 maturity at fixed interest rates for full allotment
Oct.15	ECB, SNB	Measures to improve liquidity in short-term Swiss franc money markets
Oct.16	ECB, MNB	Agreements on repurchase transaction which provide a facility to borrow up to 5 €bn
Oct.21	FED	Creating Money Market Investor Funding Facility
Oct.23	ECB	Changes in the framework for implementation of monetary policy in the euro area
Oct.27	ECB, DNB	Swap line of 12 billions of Euros

*ECB-European Central Bank, FED- Federal Reserve Bank, BOE-Bank of England, SNB-Swiss National bank, BoJ-Bank of Japan, MNB-National bank of Hungary, DNB-National bank of Denmark

One of the main instruments of the central banks to low the borrowing costs and stimulate the financial markets is the referent rates. The Federal Reserve Bank starting from July 2007 has reduce the referent rate for 5 percentage points (from 5,25% in July 2007, to 0,25% in December 2008), the European central bank from 4% in July 2007, to 2,5% in December 2008, and the referent rate in United Kingdom was reduce from 5,75 in July 2007 to 2% in December 2008. The expectations are that the referent rates will be reducing in the future, in order to stimulate the financial markets. On the other side, most of the central banks of emerg-

ing countries increase their referent rates in order to tighten the financial conditions, cause of their battle with high inflation rate.



Fed-Federal Reserve Bank, ECB-European central bank; BoE-Bank of England; SNB-Swiss National bank

NBS-National bank of Serbia,; BNB-National bank of Bulgaria; CNB-National bank of Croatia; NBRM-National bank of Macedonia; NBR-National bank of Romania

The financial crises had the biggest impact on the developed countries, which banks and financial institutions are part of the global financial markets. The influence of the financial crisis in emerging and Balkan countries was mostly in the real and external sector.

From all of the countries in the region, the most affected from the financial crises was Hungary. The purpose of the proposed measures from European Commission was to help in fiscal consolidation of the country, to reform the fiscal governance and to support market liquidity. Hungary received a loan from European community of 6.5 billion Euros under the European Community facility for medium-term assistance in conjunction with IMF assistance to the amount of 12.5 billion Euros and World bank-1 billion Euros. Also, under the agreement with the ECB, Hungarian government and central bank introduced two-way daily swap tenders and overnight FX swap facility providing euro liquidity. The National bank of Hungary signed agreement with primarily dealers of government securities and offered to provide liquidity in the form of secured loans to banks and primary dealers in the exchange of continuous bid-offer prices at the stock exchange for all publicly issued foreign-denominated government securities. The National bank introduced two new lending facilities: a weekly tender for two-week (fixed-rate secured loans, without a limit on the amount) and a regular tender for six month (variable-rate secured loans, for a pre-specific amount). Also, the National bank increases the referent rate from 7.75% in July 2007, to 11.5% in November 2008.

In Romania, the banks had to face increasing of their external costs. Also through the monetary tightening, the central bank manages to moderate the credit expansion, and limited the influence on the aggregate demand which stimulate the rate of inflation. In order to improve the liquidity management on the interbank money market, the central bank reduce the minimum reserve requirement ratio on leu denominated liabilities of credit institutions to 18% from 20%, and leave unchanged the existing minimum reserve requirements ration foreign currency denominated liabilities. On this way, the banks can have less money on the account in the central bank and more money on disposal (around 500 million Euros). Also, the central bank increases the referent rate from 7% in July 2007, to 10.25% in November 2008. The government proposed a package which includes lowering taxes and injecting over 10 billions Euros in the economy over the next four years. After the announcement of certain industries that they will lay off more than 800 employers because of the decreasing of production, government proposed a bonus of 1000 Euros for each job created for unemployed people.

In order to limited the effects from the unfavorable developments in financial markets the central bank in Slovakia decide to announce a decree which ensure that in the management of assets and liabilities of the banks and branch offices of foreign banks, their mutual ratio corresponds to ongoing liquidity in accordance with the circumstances and anticipated economic indicators from the date of the euro changeover in the Slovak republic. In order to stimulate the investors, the Central bank decided to reduce the referent rate start-

ing from 4.25% in July 2007, to 3.25% in November 2008. The government proposed a program of 26 steps for protecting the Slovakian economy from the financial crisis. The program is consist of more effective use of EU funds, loans for small and medium-sized businesses, support for applied research and innovation, public spending cuts, a committee to monitor the impact of the global crisis, a push to influence the pricing policies of energy companies and preferential treatment for domestic suppliers. The government isn't planning to increase or decrease taxes or social insurances contributions. Also, to unsure the confidence in the banking sector, the protection of the money deposits in the Slovakia banks is 100%, instead of previous 90%.

Around 90% of the financial institutions in Estonia are owned by Swedish and Danish banking groups which mean that every measure which is taken in these two countries will influence the Estonia banking sector. Also, every step that the government or the central bank will take in order to protect the banking system in Estonia from the financial turmoil it will be a subject of cross-border consideration. Still, the main institutions of Estonia, the Central bank, Ministry of finance and Financial Supervision Authority have signed a specific cooperation memorandum to manage financial crisis and laid down the basis for joint creation in the even of financial crises. Also, the central bank increased the risk weights attributed to housing loans when calculating capital adequacy and increase the amount of guaranteed deposits up to 50.000 euro per customer per financial institutions. The government is preparing a preventive package with possible scope of state guarantees and loans which will be efficient in shortest period.

The global financial crisis had partly impact on the real and external sector in Macedonia. The main reason is that our production companies are very dependent from the European market where in this last months the demand is on the lowest level. The latest measures from the government were in direction of normalizing the situation in the real sector. Those measure include: four-year standstill and writing off liabilities of firms on the basis of contributions for mandatory health insurance and if they were regularly maintained, the debt will be written off completely, writing off interest rates on personal tax, profit tax, VAT, property taxes and pension insurance benefits under the condition that bonds fully pay the main debt, payment of tax debt in installments, gain taxation only if it is allocated in dividends, reduction of customs fees primarily for commodities, lower taxation of farmers. The total amounts of the measures are 330 million euro. The measures also encompass cutting down the duty tariffs which refers to raw materials for trade, economy, and information society. The measures taken by the Central bank were in direction of slowing down the credit expansion and reducing the inflation rate. In order to tighten monetary conditions, the central bank increased the referent rate few time since the beginning of financial crisis (from 5, 13% in July 2007, to 7% in November 2008). Also there was a decision about compulsory deposit by the bank in NBRM which means that if the bank register high growth in the households credit than the allowed growth rates (compared the end of every month, to end of May), the bank need to deposit a certain percentage of money at the central bank.

The slower world economic growth had impact on the countries which output grow is very dependable from their export and foreign investments. So, Serbia had downgraded its economic growth forecast for 2009 to 3.0 percent from an earlier estimate of up to 7.0 percent. Also, it freezes the increase of salaries and pension, and decrease the material expenses of the administration. Recently, the government of Serbia had agreed a 518 million dollar line with the International Monetary Fund. This 15-month standby arrangement would be available for Serbia to draw on if needed amid the financial turbulence. On the other hand, the central bank nil the reserve requirements on new external borrowing by banks to offset the increase in price of foreign credits. Also, through the change in the composition of required reserves (higher share of dinars), the central bank release foreign exchange liquidity to banks. The deposit insurance level was raised to 50,000 Euros, and the tax on interest income and foreign currency deposits is going to be abolished in 2009. In order to ease the inflation pressure, the central bank decided to tighten the monetary conditions through the increase of referent rate to 17.5% in November(from 9,5% in July 2007).

One of the most unique measures for protection from the financial crises was proposed by the government in Croatia. In order to decrees the spending, the government banned buying Christmas and New Year presents, as well organizing lunches base on this events. This interesting proposal brought disagreements between the president of Croatia and the government, cause of their different opinions about the limitation

of savings. Also, the government freezes the salaries for the next time period. On the other hand, the central bank abolished marginal reserve requirement, in order to return 355 millions Euros and 129 millions dollars to the banks and to ensure additional foreign currency liquidity. Also, the vault cash is excluded from reserve requirements (to neutralize surplus liquidity preventing it from creating inflation pressures); amendments to the decision on the purchase of compulsory CNB bills broadened the calculation base for subscription of compulsory CNB bills in cases where the growth of placements to residents exceeds the permissible rate (to slow down the banks lending). Croatia's Central Bank has lowered its compulsory reserve rate for banking institutes operating in Croatia from the present 17% to 14%, thus releasing almost 11 billion euro to the sector to help tackle the first solvency problems due to the global financial crisis.

The central bank in Bosnia and Herzegovina decide all credit lines that the commercial banks are drawing from abroad, not to be calculated in the reserve requirements, with aim to stimulate the inflow of capital from the domestic banking system. Also the rate of reserve requirement is reduced from 18% to 14%, which will help to 4% of the banks to get additional liquidity of 727 millions kuni.

In Slovenia, the central bank introduce amendments of the regulation for credit risk losses of the banks with aim to reduce the original own funds deduction item in the collective assessment of financial assets. With this measure, it will be set aside 8 billion Euros for credit institutions if the market situation doesn't improve. Also, it was adopted an amendment to the Regulation on Credit Protection relating to certified real estate values. It extended until the end of 2009 the transitional period in which banks may also take valuations by court-appointed values. Because of the declining in the amounts of tolar cash being exchanged for Euros, Central bank adopted a regulation which from 1 January 2009, tolar cash may only be exchanged commission-free at the main counters of the Bank of Slovenia. The Slovenian government's aim is to maintain guarantees for the deposits of natural persons at banks and because of that it will implement a state guarantee, without a limit on the amount, for the insured deposits of natural persons and micro and small companies at banks in Slovenia.

The central bank of Montenegro make a decision for using the reserve requirements from the commercial banks for a period longer then one day, which will allow the banks to use up to 50% from the resources from the reserve requirements. Also, there is a new decision for approving short-term loans to the banks for the period not longer than 30 days. The central bank will approve these loans according to proportional participation that the banks have in the total assets of the banking sector. In ordering to protect the banks in the situation of credit expansion, which means to have enough capital to cover their costs and risks, the central bank made some changes in the decision for minimum capital standards. According to this, the banks which have annual growth rate of credits above 60% will have to have solvency coefficient at least 10%, and if the loans are larger than the coefficient of solvency should be around 12%. Decision for the minimum standards for management of the credit risk, have some new limitations for the credit activities of the banks. This decision is mostly for the larger banks, because their credit expansion can have negative impact on the economy. So, the bank that have net-credits in the balance sheet above 200 millions euro can have annual rate of growth of the credits of 30% comparing with the end of the previous year, and if the net credits are 100-200 millions than the growth is 40% and to 100 millions the growth is 60%.

Conclusion:

The world economy is facing with very serious challenges. How to answer to the crisis in the moment, in which there is not enough knowledge about the crisis dimensions and consequences for monetary and real sector as well. What kind of package of direct and indirect measures will be suitable to this period, enough efficiently to fight with current consequences and to stop further deepness of the crisis? After a long period of development in developed and emerging countries, the stability of the financial system is priority among measures. Each country is going to take measures which are efficient weapon against the crisis, not worrying too much about the level of government intervention in the market issues. The disadvantage of the Balkan countries especially Macedonia in having less developed financial systems maybe it will turn in their

advantage because it means not enough globalize financial flows and absents of whole open door for entering all consequences of multidimensional crisis. But, the package of measures in these countries must have power to act fast, urgently, promptly and efficiently with determined goals towards stabilizing the financial sector. In contrary, the real sector will suffer the most.

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