

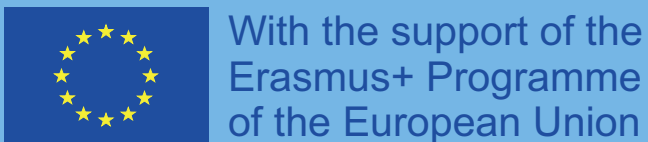
Jean Monnet Module

“Economic Policy in the European Union”

Session 2.1. Economic crisis in the European Union and in Spain

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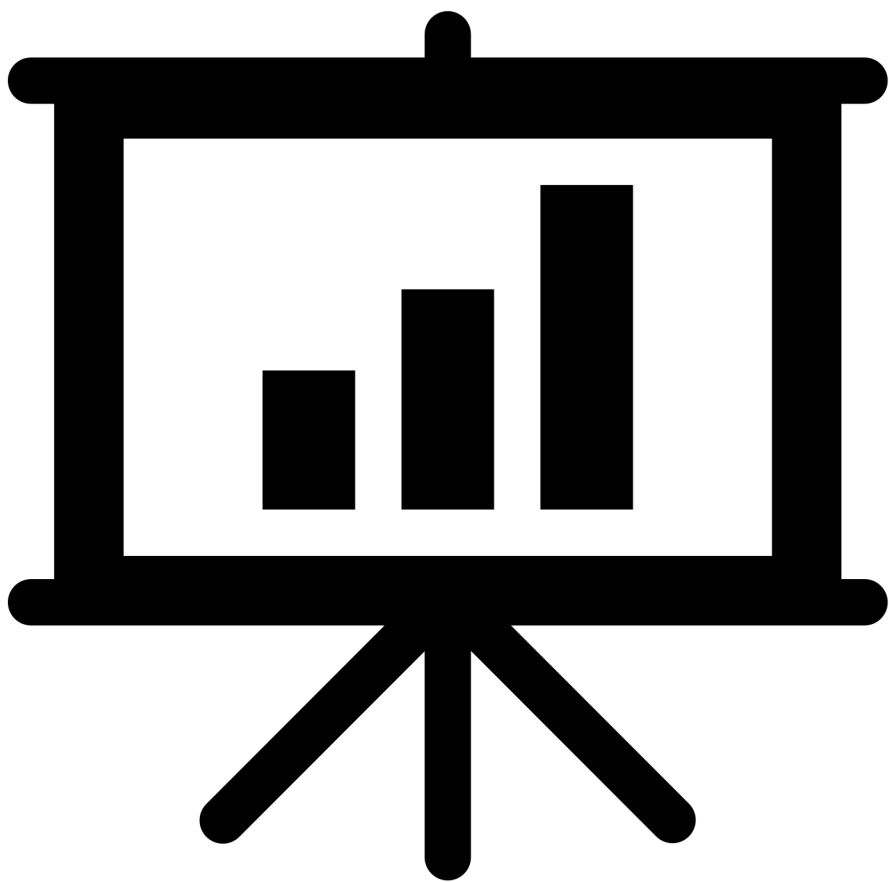
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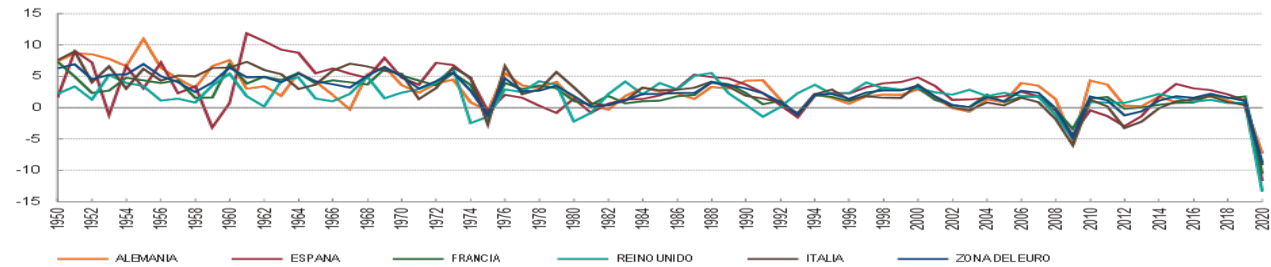
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EVOLUCION HISTORICA DEL PIB PER CAPITA



I. THE 2008 CRISIS IN THE EUROPEAN UNION

It was started in 2007 with de supprime mortgages

Liquidity cisis

Credit crunch

Economic crisis

Sovereign Debt Crisis



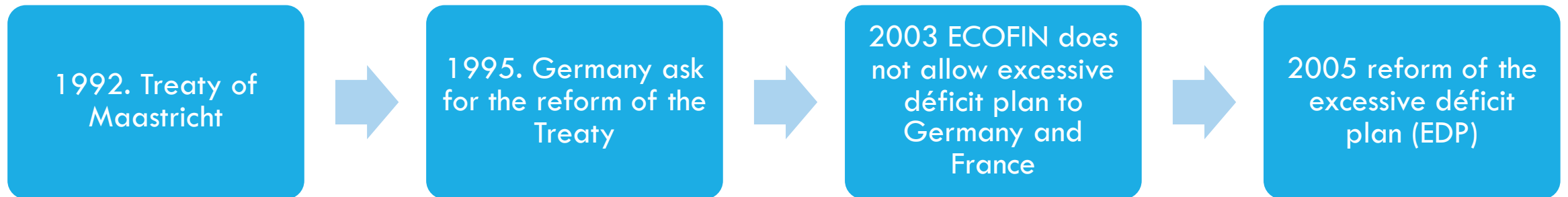
"I THOUGHT WE WERE JUST BUYING A HOUSE!"

I. THE 2008 CRISIS IN THE EUROPEAN UNION

- In June 2010 the recession hit Europe. The States went into debt to bail out their banks, the deficit increased and, with it, the debt of their countries. It is known as the sovereign debt crisis. Given the seriousness of the situation, the very survival of the euro was even questioned.
- The southern countries were the hardest hit. Greece, Portugal, Ireland and Cyprus were completely rescued and Spain received aid for the financial system, in total a disbursement of almost 500,000 million euros.
- The northern countries agreed to intervene.

I. THE 2008 CRISIS IN THE EUROPEAN UNION

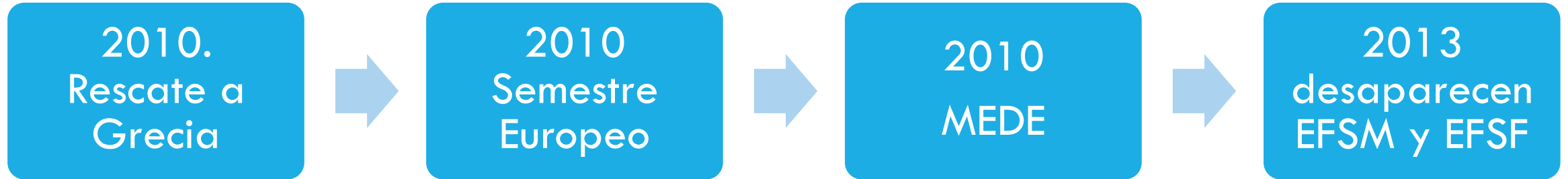
- It evidenced the poor coordination of European economic policy
- The rescue of Greece in 2010 highlighted weaknesses in economic governance and a lack of rigor in applying the SGP



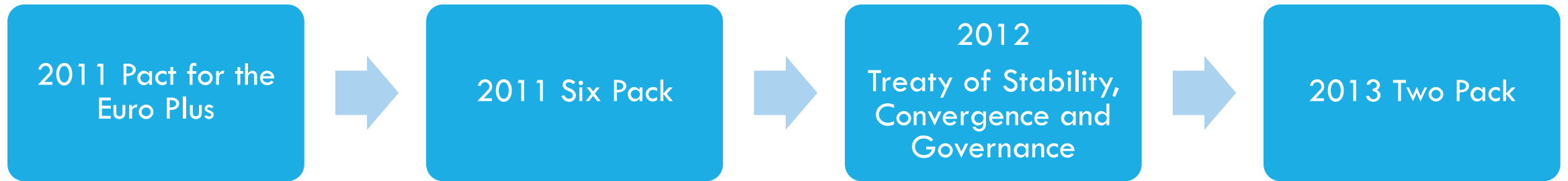
Evolución de indicadores 2000 – 2010 (porcentaje del PIB)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Déficit público	1,3	2,0	2,7	3,1	2,9	2,6	1,5	0,6	2,2	6,2	6,3
Deuda pública	69,0	68,0	68,0	69,3	69,6	70,3	68,3	65,9	69,6	80,2	85,8

I. THE 2008 CRISIS IN THE EUROPEAN UNION



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I. THE 2008 CRISIS IN THE EUROPEAN UNION



EUROPEAN STABILITY MECHANISM (ESM):

- It is part of the EU strategy designed to ensure financial stability in the euro area. The ESM provides assistance to euro area countries experiencing or at risk of economic difficulties.
- On February 2012, the euro area countries signed an intergovernmental treaty creating the ESM. Launched at the end of 2012, the ESM is an organization under international public law based in Luxembourg. Its shareholders are euro area countries. The ESM issues debt securities to finance loans and other forms of financial assistance to euro area countries.
- The ESM took the place of its predecessor, the European Financial Stabilization Fund (EFSF), created in 2010. It is authorized to:
 - make loans in the context of a macroeconomic adjustment program;
 - acquire debt in the primary and secondary debt markets;
 - provide financial aid of a preventive nature in the form of lines of credit;
 - finance the recapitalizations of financial institutions through loans to the governments of its member countries.

I. THE 2008 CRISIS IN THE EUROPEAN UNION

The Banking Union emerged in 2012 in response to the financial crisis and is made up of three fundamental pillars:

- Single Supervisory Mechanism (SSM), a banking supervision system made up of the European Central Bank and the competent supervisory authorities of the participating countries.
- Single Resolution Mechanism (SRM), in charge of resolving troubled banks in an orderly manner and minimizing costs for taxpayers and the real economy.
- European Deposit Guarantee System (SEGD), still under negotiation.

I. THE 2008 CRISIS IN THE EUROPEAN UNION

- The Single Supervisory Mechanism (SSM) establishes a new financial supervision system made up of the European Central Bank (ECB) and the competent national authorities of the participating European Union (EU) countries.
- Its main objectives are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.
- It constitutes the first step towards the so-called “Banking Union”, of which the Single Resolution Mechanism is also part, and which is expected to be completed with a harmonized system of deposit guarantees.

II. THE 2008 CRISIS IN SPAIN

The FROB: It is the Executive Resolution Authority. It was created on the occasion of the 2008 financial crisis to manage the resolution processes of credit institutions and investment services companies. This includes monitoring of holdings in BFA-Bankia and SAREB. It is the resolution authority in the executive phase within the European MUR and collaborates with the Spanish preventive authorities (Bank of Spain and CNMV) within the Spanish institutional framework.

What is bank resolution?

The resolution is the restructuring of a credit institution or an unviable investment services company, or that is foreseeable that it will be in the near future, when there are no other alternatives and for reasons of public interest and financial stability it is necessary to avoid your bankruptcy settlement

II. THE 2008 CRISIS IN SPAIN

Faced with the necessary reform of the Spanish financial sector, it was launched under the tutelage of the ECB, the EC and the IMF. This reform includes the creation of a “bad bank” that had EU financing of between 20.000 and 50.000 million euros.

LA SAREB: Asset Management Company from Bank Restructuring. It is a public limited company for the management of assets transferred by the 4 nationalized entities and by the entities in the process of restructuring or resolution as provided for in Law 9/2012. It is owned 55% by private capital and 45% by public capital through the FROB. It was considered a fundamental element for the reorganization of the Spanish banking system and the reactivation of the real estate market. It is scheduled for 15 years, until 2027 and its objective is the sale of all its assets.

They received 200.000 assets worth 50.781 million euros and loans to the developer and 20% real estate.

III. THE COVID-19 CRISIS IN THE EUROPEAN UNION



- The lack of fiscal union is evident, which makes the EU incapable of reacting quickly to the health and economic crisis
- The pandemic comes at a time of low growth in the eurozone
- In 2012 Draghi warned about the consequences of debt to get out of the crisis, now, Christine Lagarde asks governments to spend whatever is necessary to contain the pandemic

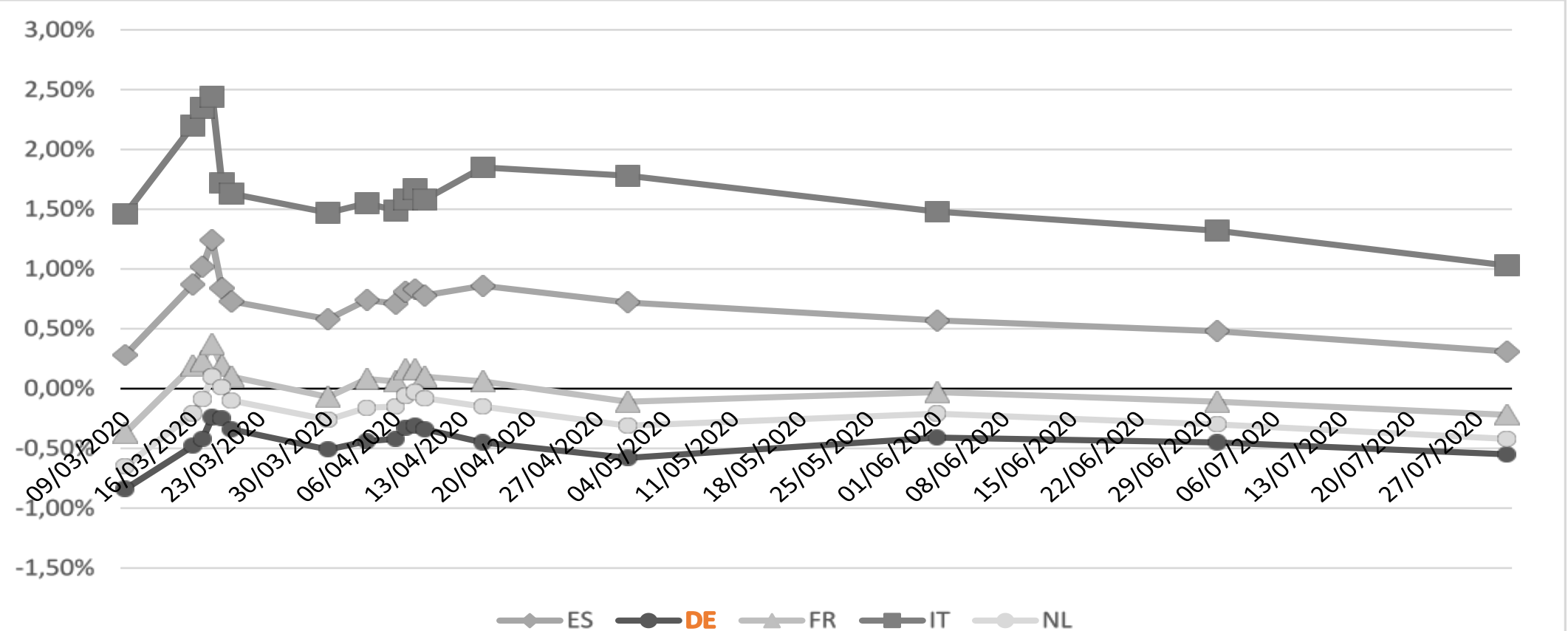
Previsiones económicas para la Eurozona			
INDICADOR	2019	2020	2021
PIB real (variación PIB %)	1,2	-7,7	6,3
Déficit público (% del PIB)	-0,6	-8,5	-3,5
Deuda pública (% del PIB)	86,0	102,7	98,8

III. THE COVID-19 CRISIS IN THE EUROPEAN UNION

Deuda pública bruta (% del PIB)			
Países	2019	2020	2021
Bélgica	98,6	113,8	110,0
Alemania	59,8	75,6	71,8
Estonia	8,4	20,7	22,6
Irlanda	58,8	66,4	66,7
Grecia	176,6	196,4	182,6
España	95,5	115,6	113,7
Francia	98,1	116,5	118,9
Italia	134,8	158,9	153,6
Chipre	95,5	115,7	105,0
Lituania	36,3	48,5	48,4
Letonia	36,9	43,1	43,7
Luxemburgo	22,1	26,4	25,7
Malta	43,1	50,7	50,8
P. Bajos	48,6	62,1	57,6
Austria	70,4	78,8	75,8
Portugal	117,7	131,6	124,4
Eslovenia	66,1	83,7	79,9
Eslovaquia	48,0	59,5	59,9
Finlandia	59,4	69,4	69,6
Zona Euro	86,0	102,7	98,8

III. THE COVID-19 CRISIS IN THE EUROPEAN UNION

Evolución del tipo de interés del bono a 10 años (marzo-julio de 2020)



III. THE COVID-19 CRISIS IN THE EUROPEAN UNION

"Next Generation EU" (2021-2023) (en millones de euros de 2.018)			
Detalle de los programas:	Ayuda directa	Préstamo	Total
Apoyo a la recuperación de los Estados miembros	370.000	360.000	730.000
Facilidad para la recuperación y la resiliencia.	312.500	360.000	672.500
Iniciativa REACT-EU y política de cohesión para la recuperación.	47.500	0	47.500
Apoyo a una transición justa.	10.000	0	10.000
Impulso al relanzamiento de la economía y ayuda a la movilización de la inversión privada	5.600	0	5.600
Programa InvestEU reforzado	5.600	0	5.600
Aprendiendo las lecciones de la crisis	14.400	0	14.400
Cuarto Programa de Salud de la UE	7.500	0	7.500
Mecanismo de protección civil (rescEU) reforzado	1.900	0	1.900
Horizonte Europa	5.000	0	5.000
Total Next Generation	390.000	360.000	750.000

Fuente: Elaboración propia a partir de datos de la CE.



THE IMPACT OF THE CRISIS IN THE MFF 2021-27

The Council of Europe began to debate again in July where the following was agreed:

- Set the 2021-2027 MFF at 1,074 billion euros.
- Reduce MFF contributions from Denmark, Germany, the Netherlands, Austria and Sweden.
- "Next Generation EU" for 750,000 million.
- Allocate 30% of the MFF to projects of the Paris Agreement and the climate objectives for 2.030 of the EU.
- New income to repay the loans.
- Loans to finance part of the EU Budget.

IV. SOVEREIGN DEBT IN THE EU AND THE EUROBONDS

2008

- European Stability Mechanism (ESM, 2013)
- Eurobonds

2020

- NEXT GENERATION EU
- Eurobonds (moral hazard)

IV. EUROBONDS AS A SOLUTION TO THE 2008 CRISIS

1993: White Paper “Growth, Competitiveness and Employment” >> Union Bonds.

2008: Outbreak of the crisis

2010: Financial Times article by Juncker and Tremonti. EU project bonds.

2010: State of the Union Address

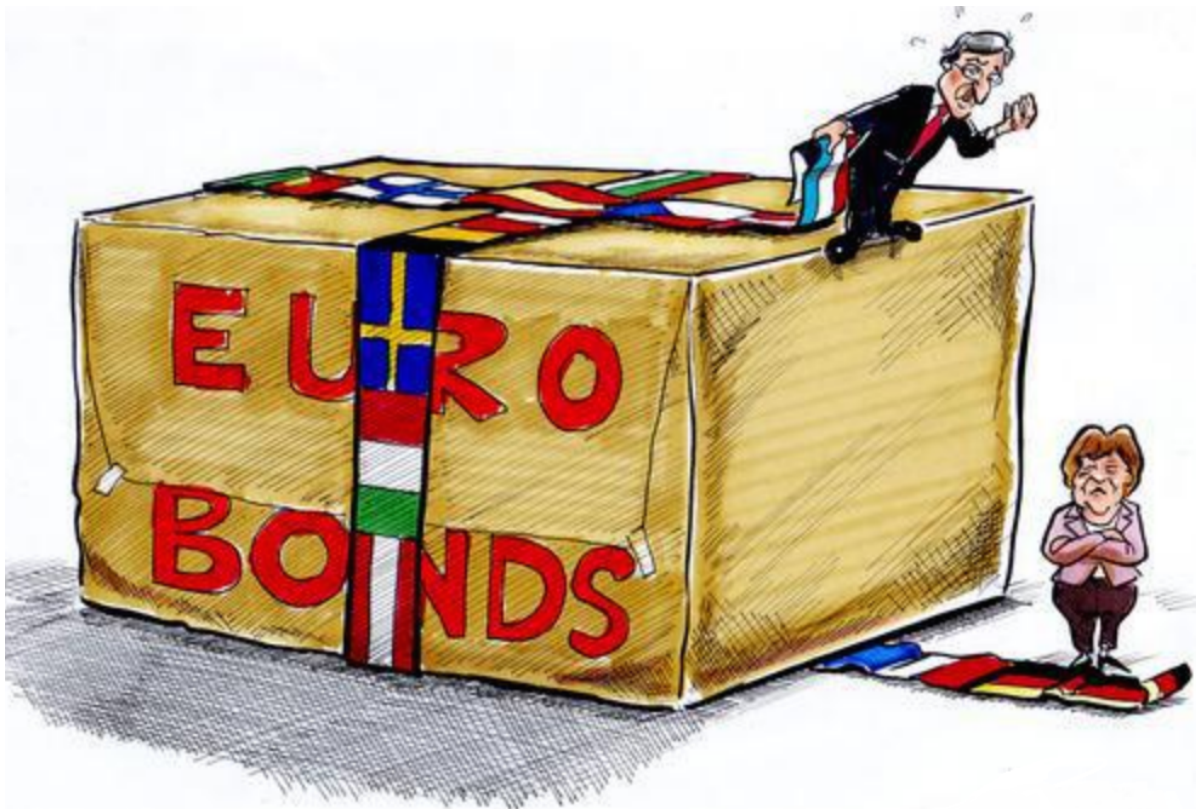
2011: European Parliament "On innovative financing at global and European level"

2020: The debate with the pandemic is reopened although it is ruled out in favor of fiscal and monetary measures

IV. EUROBONDS AS A SOLUTION TO THE 2008 CRISIS

More relevant proposals:

- Gros y Micosi (2009)
- De Grauwe y Moesen (2009)
- Collignon (2010)
- Delpla y von Weizsäcker
- Juncker y Tremonti
- Consejo Alemán de Expertos Económicos



IV. EURO BONDS AS A SOLUTION TO THE 2020 CRISIS

Most relevant proposals:

- Daniel Gros
- Marcelo Messori

**V. EUROBONDS
AS A SOLUTION
TO THE CRISIS**

EUROBONDS

DISADVANTAGES

ADVANTAGES

VI. THE CURRENT CRISIS IN SPAIN

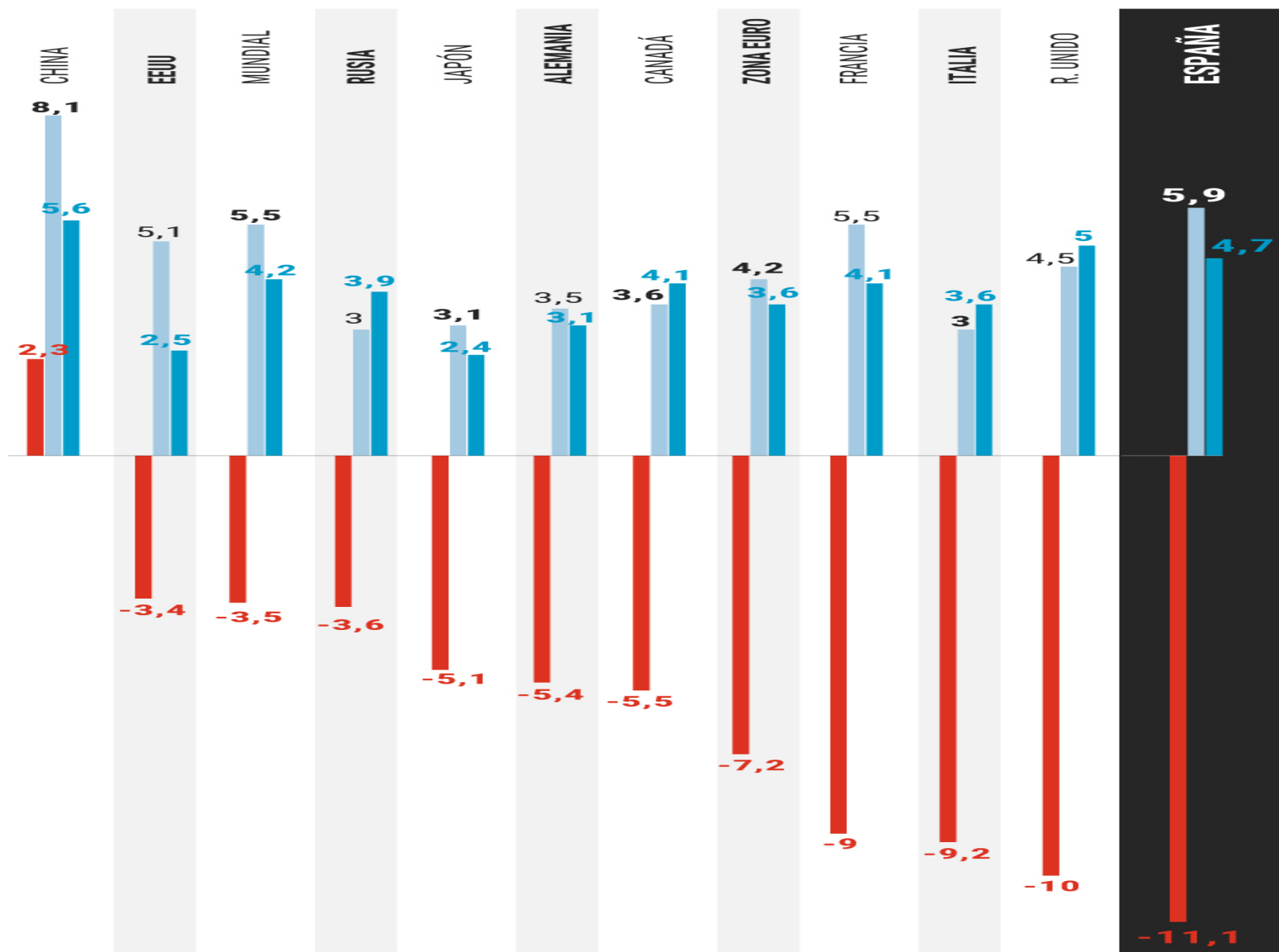
- The IMF raises the growth forecast for the World Economy but lowers that of Spain.
- Spanish GDP 4,9% in 2021. 2022: 5.8%.
- Excessive dependence on tourism (12% of GDP)
- Strict restrictions at the beginning of the pandemic due to infections.
- Many small and medium-sized enterprises (70% of employment)
- Spain is the 5th developed country with a population of more than 10 million people with the most deaths from coronavirus, only behind Belgium, Italy, the United Kingdom and the United States.
- Uncertainty in the evolution of the pandemic

LAS PREVISIONES DEL FMI

■ 2020

■ 2021

■ 2022



FUENTE: FMI.
IGG | EL MUNDO GRÁFICOS

VI. THE CURRENT CRISIS IN SPAIN

PERSPECTIVES:

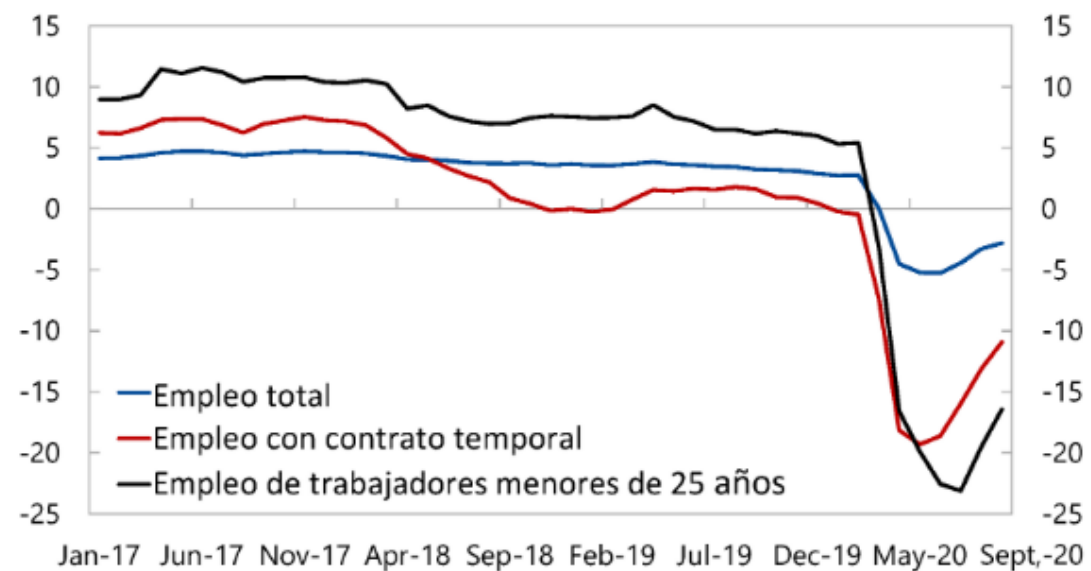
- Try to improve health care system
- Strengthen the digitization of the economy
- Keep official interest rates at zero and facilitate asset purchases.
- Address vulnerabilities in the corporate sector taking into account the impact of the measures taken: The proportion of debt at risk of vulnerable companies is estimated to increase by 7 percentage points compared to an increase of 27 percentage points without policy measures.
- The EU Recovery and Resilience Mechanism is an opportunity for Spain. It can provide a boost to demand to support recovery, while also improving gaps in green infrastructure and human capital.
- The pandemic is increasing inequalities in the labor market to the detriment of the young, low-skilled and temporary.
- The pandemic is having a particularly detrimental effect on women as the proportion of female workers in jobs affected by the pandemic was 29% compared to 21% for men.
- Widening the gap between rich and poor economies



Jóvenes y desempleados

En España, la pérdida de empleos ha golpeado más duramente a los jóvenes, muchos de los cuales tenían empleos temporales.

(afiliación a la seguridad social, crecimiento interanual, porcentaje)



Fuentes: Ministerio de Inclusión, Seguridad Social y Migraciones, y cálculos del personal técnico del FMI.

Nota: Régimen general solamente.

VI. THE CURRENT CRISIS IN SPAIN

Following the approval by the European Council, on July 2020, of the European Recovery Instrument (Next Generation EU), whose funds will be allocated to the Member States of the European Union through the development of National Recovery and Resilience Plans, on December 2020, Royal Decree Law 36/2020 was published, approving urgent measures for the modernization of the Public Administration and for the execution of the Recovery, Transformation and Resilience Plan (PRTR).

VI. THE CURRENT CRISIS IN SPAIN

Strategic Projects for Economic Recovery and Transformation (PERTES)

They are a new figure of key public-private collaboration for the execution of the different tractor projects contemplated in the Recovery, Transformation and Resilience Plan, being necessary to adapt the regulatory framework of the instruments of public-private collaboration to formulas that, while maintaining controls and community requirements, allow more flexible and adaptive formulas to the requirements of the projects that can be financed with the European Recovery Instrument.

This new figure will be applied in the area of the Recovery, Transformation and Resilience Plan since it is intended to reinforce those projects included in it that clearly contribute to economic growth, employment and the competitiveness of our country.

These are projects of a strategic nature, with a significant potential to drag out the rest of the economy, and which require collaboration between Administrations, companies and research centers.

VII. CONCLUSIONS

- The two crises have had different characteristics
- Eurobonds have been studied as alternatives in both cases
- Data on Public Debt are very high
- There are groups that are particularly disadvantaged, such as young people and women
- It is necessary to use very well the aid that Spain receives



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