



## ERG: The state of the European Union economy?

### Eurozone Bailouts:

The bail outs to Eurozone have come from the:

- IMF
- European Stability Mechanism (ESM)
- European Financial Stabilisation Mechanism (EFSM) (now closed)
- European Financial Stability Facility EFSM (now closed)
- Greek Loan Facility
- Bilaterally, including by the UK to Ireland. I have not included other bilateral loans including by Russia to Cyprus, Sweden and Denmark to Ireland.

[The EU has also bailed out non-Eurozone states providing facilities to Latvia, Romania and Hungary.]

Lender €	IMF	ESM (Eurozone only)	EFSM (EU Budget)	UK bilateral	EFSF (Eurozone)	Greek Loan Facility Eurozone	Total
<b>Cyprus<sup>1</sup></b>	1bn <sup>2</sup>	6.3bn <sup>3</sup>					
<b>Greece</b>	32.1bn <sup>4</sup> (23.5 repaid)	21.4 so far (Out of 86bn <sup>5</sup> )	7.16bn <sup>6</sup> Short term loan (repaid)		130.9bn <sup>7</sup>	52.9bn <sup>8</sup>	
<b>Ireland<sup>9</sup></b>	22.5bn		22.5bn	3.8bn			
<b>Spain</b>		41.3 out of 100bn <sup>10</sup>					
<b>Portugal</b>	21.13bn <sup>11</sup>		24.3bn		26bn <sup>12</sup>		

<sup>1</sup> Cyprus controversially bailed in its bank depositors.

<sup>2</sup> <http://www.ft.com/cms/s/0/118d8034-e49f-11e5-ac45-5c039e797d1c.html#axzz4An01iP8N>

<sup>3</sup> <http://www.esm.europa.eu/assistance/cyprus/>

<sup>4</sup> [http://www.epc.eu/documents/uploads/pub\\_6345\\_financial\\_assistance\\_to\\_greece.pdf](http://www.epc.eu/documents/uploads/pub_6345_financial_assistance_to_greece.pdf)

<sup>5</sup> <http://www.esm.europa.eu/assistance/Greece/index.htm>

<sup>6</sup> [http://ec.europa.eu/economy\\_finance/eu\\_borrower/efsm/index\\_en.htm](http://ec.europa.eu/economy_finance/eu_borrower/efsm/index_en.htm)

<sup>7</sup> <http://www.efsf.europa.eu/about/operations/Greece/index.htm>

<sup>8</sup> [http://www.rekenkamer.nl/english/Publications/Topics/EU\\_governance\\_to\\_combat\\_the\\_economic\\_and\\_financial\\_crisis/Financial\\_stability\\_instruments/Financial\\_instruments/Greek\\_loan\\_facility](http://www.rekenkamer.nl/english/Publications/Topics/EU_governance_to_combat_the_economic_and_financial_crisis/Financial_stability_instruments/Financial_instruments/Greek_loan_facility)

<sup>9</sup> <http://www.ntma.ie/business-areas/funding-and-debt-management/euimf-programme/>

<sup>10</sup> <http://www.esm.europa.eu/assistance/spain/>

<sup>11</sup> <http://www.imf.org/external/np/exr/countryfacts/prt/>

<sup>12</sup> <http://www.efsf.europa.eu/about/operations/portugal/index.htm>

<b>Total</b>	76.73 (22.5 repaid)	69 out of 192.3	53.96 (7.16 repaid)	3.8	156.9	52.9	<b>411.43bn</b> out of 536.59bn (29.66) repaid
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## What was the UK on the hook for?

Out of the funds the UK was on the hook for the IMF funding via its shareholding in the IMF and the EFSM as this was backed up by the EU Budget. The UK also decided bilaterally to help Ireland.

	UK %	UK Liable for
<b>IMF</b>	IMF shareholding: 4.939% <sup>13</sup>	€3.79bn
<b>EFSM</b>	Via EU Budget 10.7%	€5.77bn

## How else does the UK pay for Eurozone failure?

- By migration resulting from high unemployment in the Eurozone.
- By the diversion of the EU budget, in particular regional spending, to states hit by the Eurozone crisis.

## Eurozone diverting the EU28 Budget to help Greece. (*Emphasis added*)

*"Two days after an agreement paving the way for a new support programme for Greece, the European Commission revealed plans today to help Greece maximise its use of EU funds. **As mandated by the Euro Summit on 12/13 July**, this will help mobilise more than €35 billion up to 2020 to support the Greek economy, provided that the conditions agreed upon by the Euro Summit will be met."*<sup>14</sup>

The European Commission would doubtless say that Greece was legally entitled to these funds in the way other EU states are, however the fact that the European Commission has gone out of its way to facilitate spending in Greece seems to be a direct result of Eurozone policies and pressure.

## The EU 'no bail-out' pledge is not set in stone:

David Cameron 'won' a pledge to end the EFSM. The EFSM was based on Article 122 (introduced by Nice) and activated after the 2010 election but before the Coalition came to power. The EFSM was briefly used in 2015 for a short term loan post the political agreement to end its use.

David Cameron's deal does restate the no-bailout principle. This has not (and may not) change the EU treaties. The EU could potentially break the no-bailout pledge again by:

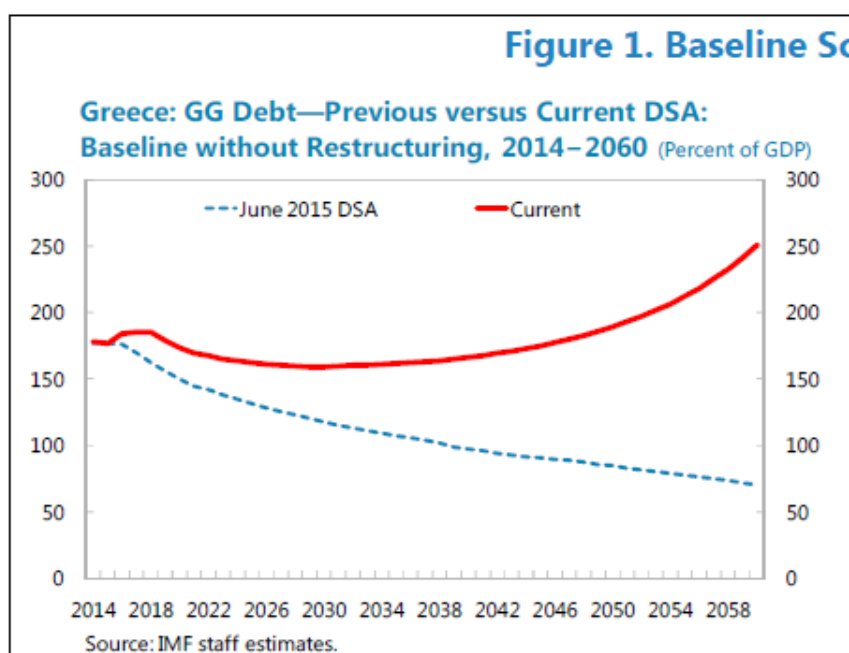
1. Use the remaining funds in the EFSM
2. Creating a new bail-out fund under Article 122
3. Moving EU funds between headings to refill the fund of fund the ESM.

## Greek crisis/debt forgiveness is on hold until after the referendum:

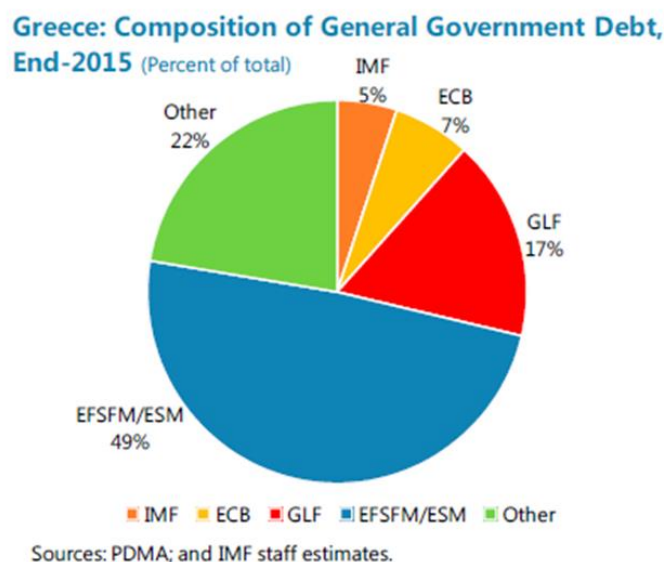
<sup>13</sup> IMF: <http://www.imf.org/external/np/sec/misc/consents.htm>

<sup>14</sup> European Commission, 6 October 2015; [http://europa.eu/rapid/press-release\\_STATEMENT-15-5779\\_en.htm](http://europa.eu/rapid/press-release_STATEMENT-15-5779_en.htm)

An IMF report of 23 May 2016<sup>15</sup> demonstrates that on its current trajectory Greece will require debt write downs in order to put its debt on a sustainable footing. As you can see from the IMF graph below Greek debt will on its current path not reduce eventually expanding to over 250% of GDP.



The IMF has also calculated where Greek debt is held. The majority of it is held by the Eurozone institutions, the GLF and ESM. Discussion of debt write downs will no doubt precipitate another political crisis in Greece and Germany.



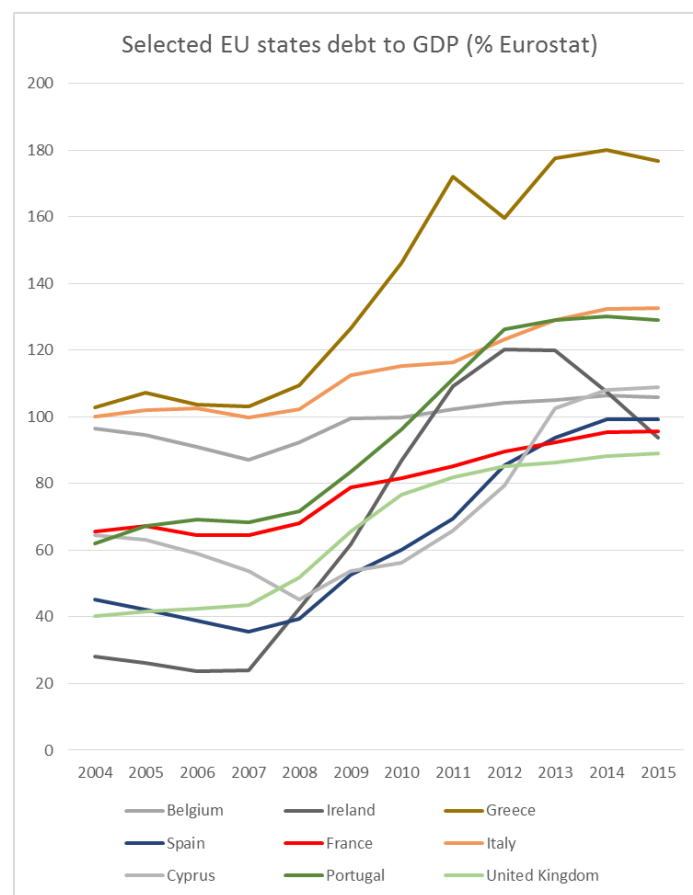
Greek debt repayments are due on a regular basis, meaning a crisis could be triggered at any stage:

<sup>15</sup> IMF “DEBT SUSTAINABILITY ANALYSIS” <http://www.imf.org/external/pubs/ft/scr/2016/cr16130.pdf>



Source: Open Europe / IMF<sup>16</sup>

## EU debt levels:



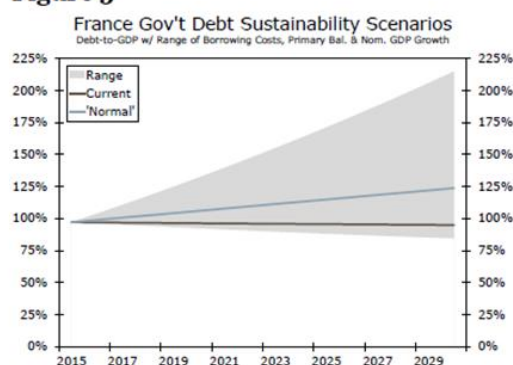
Source Eurostat

<sup>16</sup> Open Europe: <http://openeurope.org.uk/today/blog/what-can-the-eurozone-offer-to-get-the-imf-on-board-with-the-third-greek-bailout/>

## Debt sustainability

Debt sustainability is the result of a number of factors including, how long term the debt is, whether it is external or internal debt, economic outlook and government policies on the deficit. Within the Euro Italy, France and Spain are unable to devalue or issue more currency. Wells Fargo recently did a basic exercise in debt sustainability which raised questions over France and Spain in particular. Italy may be sustainable if its government sticks to its policies helped by the fact much of the debt is domestic.

**Figure 5**

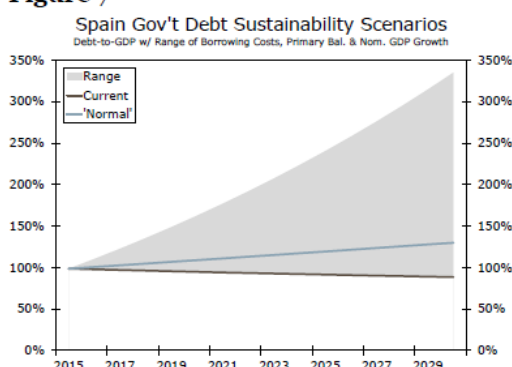


**Figure 6**

France Debt Sustainability Parameters				
	Worst Case	Best Case	Current	"Normal"
Primary Balance	-4.5%	-1.8%	-1.8%	-1.8%
Borrowing Cost	3.00%	0.00%	0.00%	3.00%
Growth	0.8%	3.1%	2.1%	3.1%

Source: International Monetary Fund, Bloomberg LP and Wells Fargo Securities, LLC

**Figure 7**

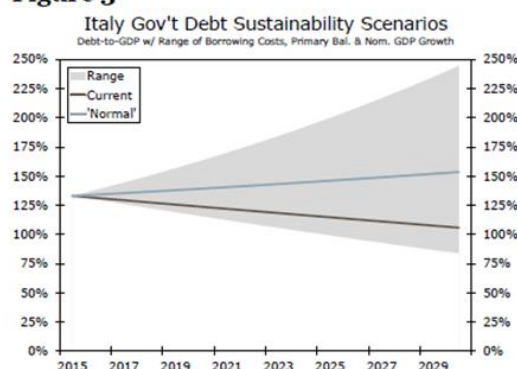


**Figure 8**

Spain Debt Sustainability Parameters				
	Worst Case	Best Case	Current	"Normal"
Primary Balance	-7.9%	-1.8%	-1.8%	-1.8%
Borrowing Cost	4.00%	1.00%	1.00%	4.00%
Growth	0.0%	3.7%	3.7%	3.7%

Source: International Monetary Fund, Bloomberg LP and Wells Fargo Securities, LLC

**Figure 3**



**Figure 4**

Italy Debt Sustainability Parameters				
	Worst Case	Best Case	Current	"Normal"
Primary Balance	-0.2%	1.9%	1.3%	1.3%
Borrowing Cost	4.00%	0.75%	0.75%	4.00%
Growth	0.0%	2.1%	1.2%	2.1%

Source: International Monetary Fund, Bloomberg LP and Wells Fargo Securities, LLC

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<sup>17</sup> Wells Fargo, 4 March 2016: "How Sustainable Is European Sovereign Debt?"

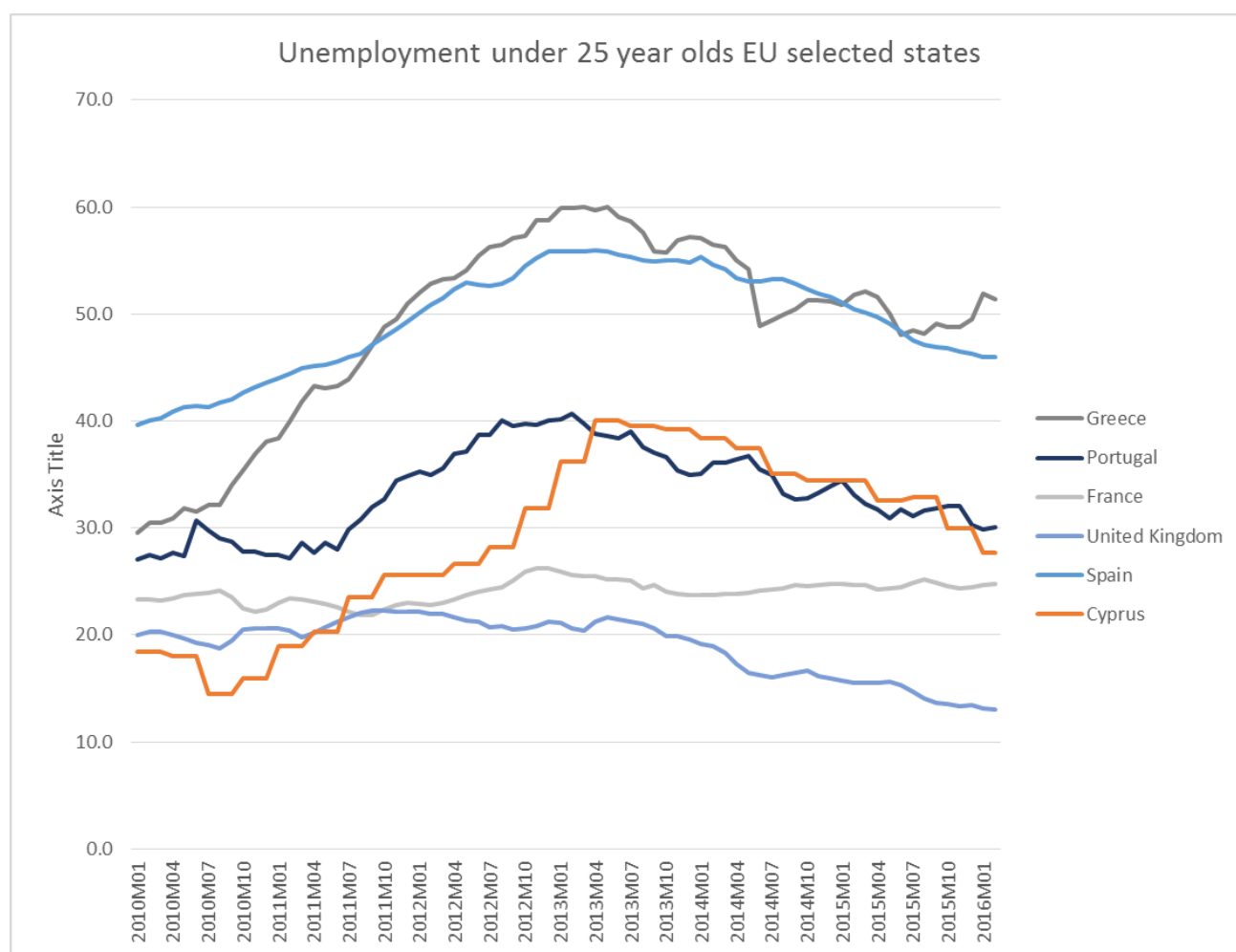
<https://www08.wellsfargomedia.com/assets/pdf/commercial/insights/economics/international-reports/global-government-debt-20160304.pdf>

## Current state of EU banking system

ECB stress tests 2014 found that for all EU banks the weighted average Common Equity Tier 1 was 11.1%. The UK at that point was just above the EU average.<sup>18, 19</sup>

What is probably more of a danger is the composition of the Eurozone bank's Tier 1 capital, in particular which sovereign Eurozone bonds are counted, raising the potential for a default in Greece or another state impacting on the solvency of banks elsewhere. We saw this to an extent with Cypriot Bank's holdings of Greek sovereign debt.

## EU Youth Unemployment (under 25 yr olds) – selected states



Source: Eurostat

<sup>18</sup> Bank of England Resilience of the UK financial system July 2015

<http://www.bankofengland.co.uk/publications/Documents/fsr/2015/fsr37sec7.pdf>

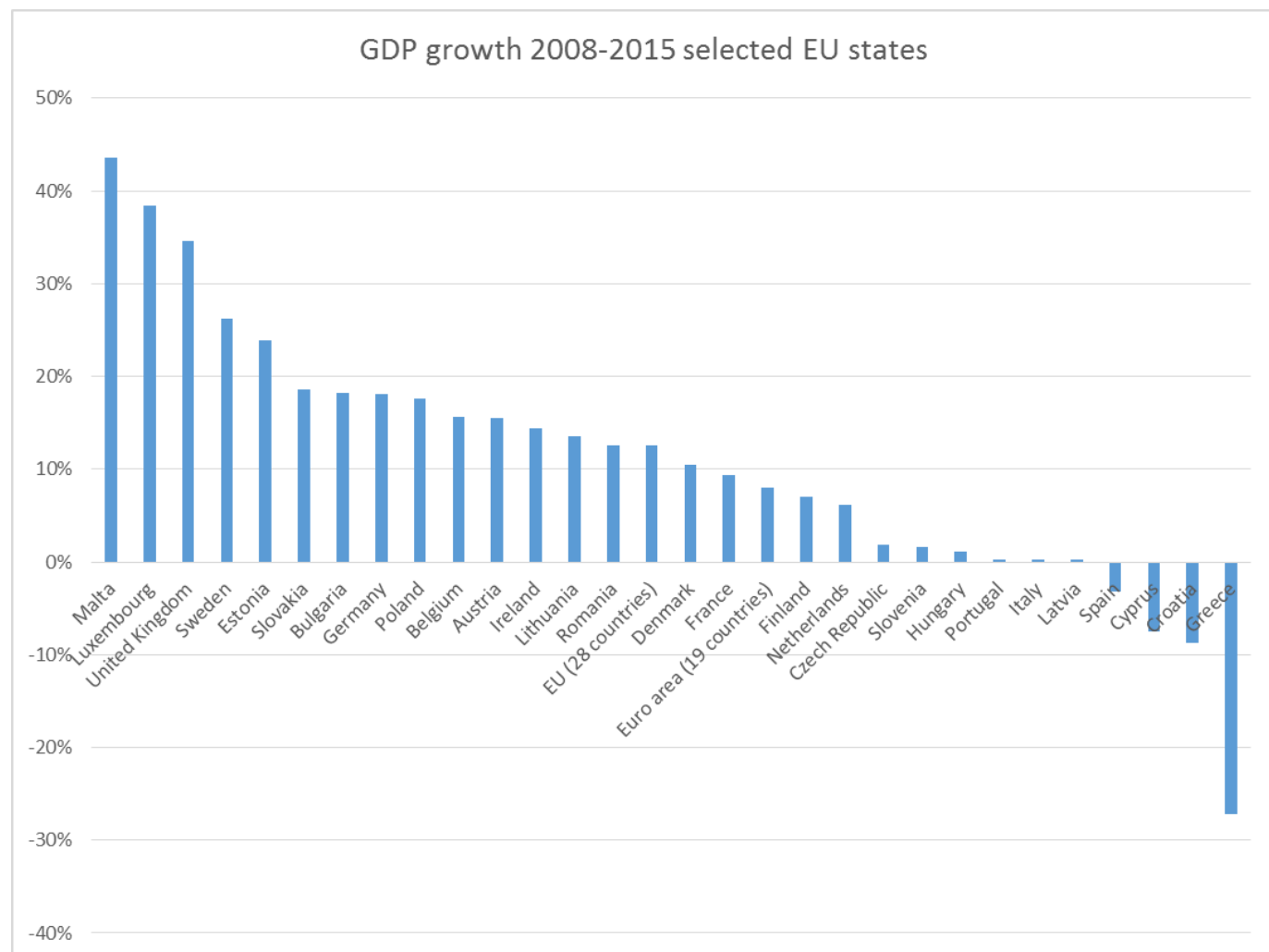
<sup>19</sup> ECB stress tests 2014: <http://www.eba.europa.eu/documents/10180/851779/2014%20EU-wide%20ST-aggregate%20results.pdf>

## UK Job creation for EU citizens:

The OECD found that “Out of around 2.5 million jobs that were added to the UK in 2005-15, 2.2 million were supplied by immigrants, with nearly 60% originating from the EU”.<sup>20</sup>

## EU Economic growth 2008-2015

The overall economic growth in the EU hides a number of lost decades for some, Italy for instance is only just back where it was in 2008.



## EU as a % of World Output 1980 – 2015

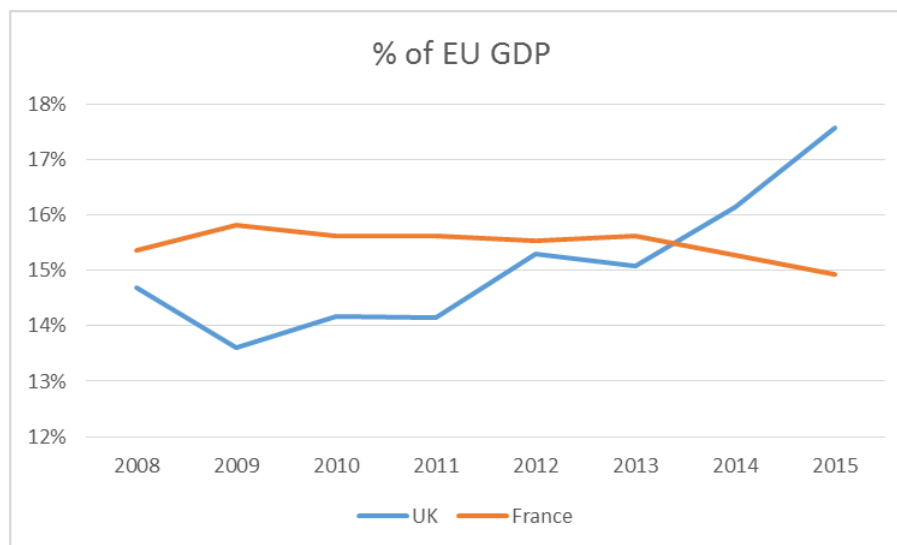
The EU's share of world GDP was 34% in 1980 and was down to 22% in 2015 in nominal terms. In PPP terms the EU's % of world GDP has decreased from 30% to 16.9%.<sup>21</sup>

<sup>20</sup> OECD: Policy paper April 2016: <http://www.oecd.org/economy/The-Economic-consequences-of-Brexit-27-april-2016.pdf>

<sup>21</sup> IMF: <http://www.imf.org/external/datamapper/index.php>

## UK's share of EU GDP has gone up –

The UK's EU budget contribution increases in line with its relative GDP performance. It is therefore likely to continue to go up.



Source: Eurostat