Financial chaos in the EU and the state of the European Union in a global context?

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 (Euozone)**	**Greek Loan Facility Eurozone**	**Total**
Cyprus[1]	1bn[2]	6.3bn[3]					
Greece	32.1bn[4] (23.5 repaid)	21.4 so far (Out of 86bn[5])	7.16bn[6] Short term loan (repaid)		130.9bn[7]	52.9bn[8]	
Ireland[9]	22.5bn		22.5bn	3.8bn			
Spain		41.3 out of 100bn[10]					
Portugal	21.13bn[11]		24.3bn		26bn[12]		
Total	76.73 (22.5 repaid)	69 out of 192.3	53.96 (7.16 repaid)	3.8	156.9	52.9	**411.43bn** out of 536.59bn (29.66) repaid

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[1] Cyprus controversially bailed in its bank depositors.
[2] http://www.ft.com/cms/s/0/118d8034-e49f-11e5-ac45-5c039e797d1c.html#axzz4An01iP8N
[3] http://www.esm.europa.eu/assistance/cyprus/
[4] http://www.epc.eu/documents/uploads/pub_6345_financial_assistance_to_greece.pdf
[5] http://www.esm.europa.eu/assistance/Greece/index.htm
[6] http://ec.europa.eu/economy_finance/eu_borrower/efsm/index_en.htm
[7] http://www.efsf.europa.eu/about/operations/Greece/index.htm
[8] http://www.rekenkamer.nl/english/Publications/Topics/EU_governance_to_combat_the_economic_and_financial_crisis/Financial_stability_instruments/Financial_instruments/Greek_loan_facility
[9] http://www.ntma.ie/business-areas/funding-and-debt-management/euimf-programme/
[10] http://www.esm.europa.eu/assistance/spain/
[11] http://www.imf.org/external/np/exr/countryfacts/prt/
[12] http://www.efsf.europa.eu/about/operations/portugal/index.htm

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
IMF	IMF shareholding: 4.939%[13]	€3.79bn
EFSM	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.*"[14]

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:

An IMF report of 23 May 2016[15] 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.

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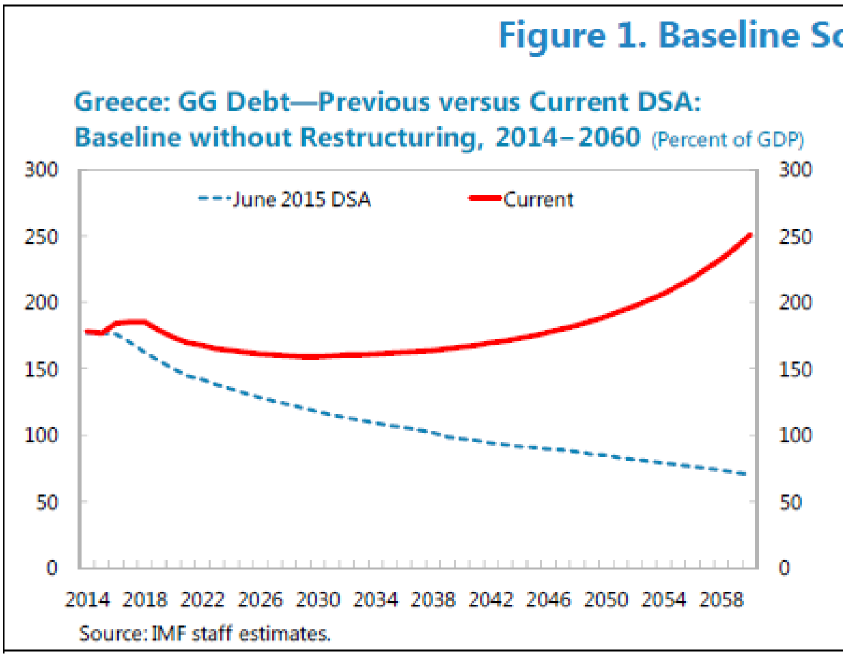
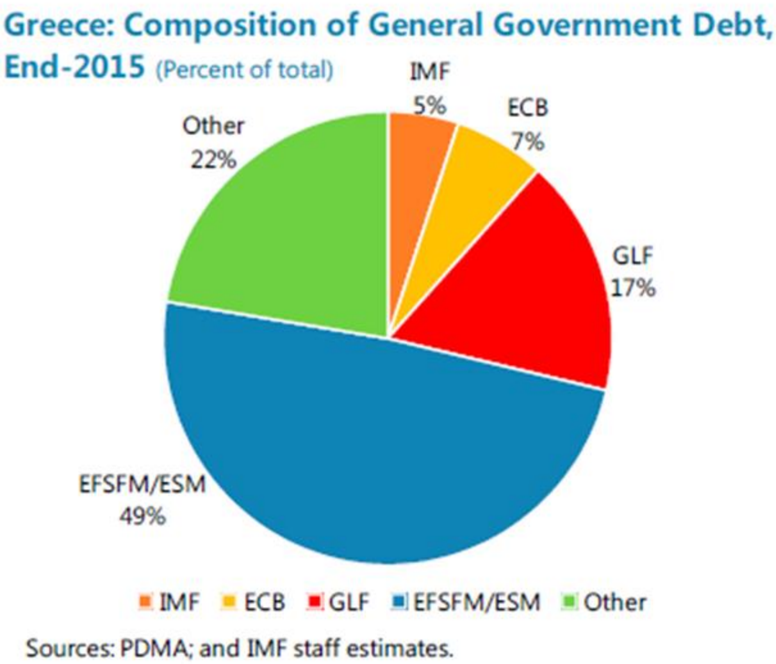
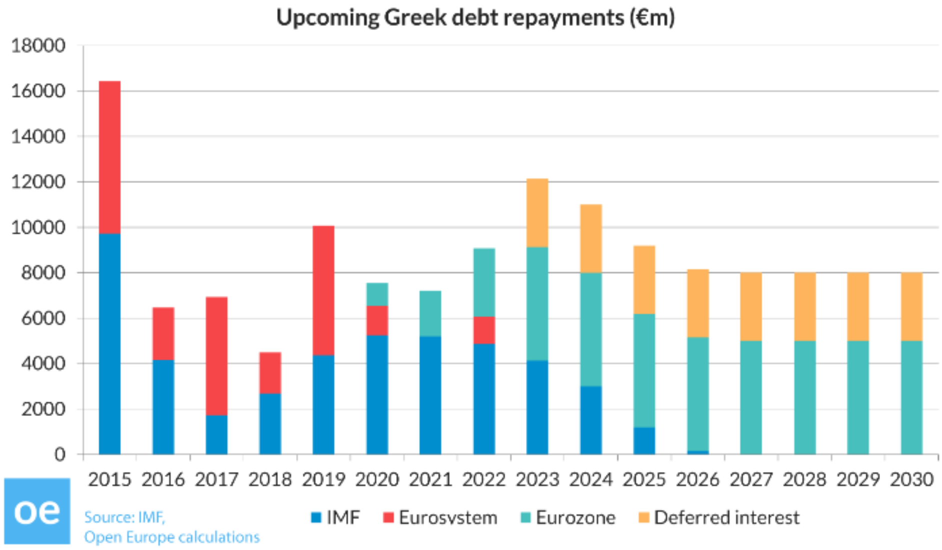
[13] IMF: http://www.imf.org/external/np/sec/misc/consents.htm
[14] European Commission, 6 October 2015; http://europa.eu/rapid/press-release_STATEMENT-15-5779_en.htm
[15] IMF "DEBT SUSTAINABILITY ANALYSIS"http://www.imf.org/external/pubs/ft/scr/2016/cr16130.pdf



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.

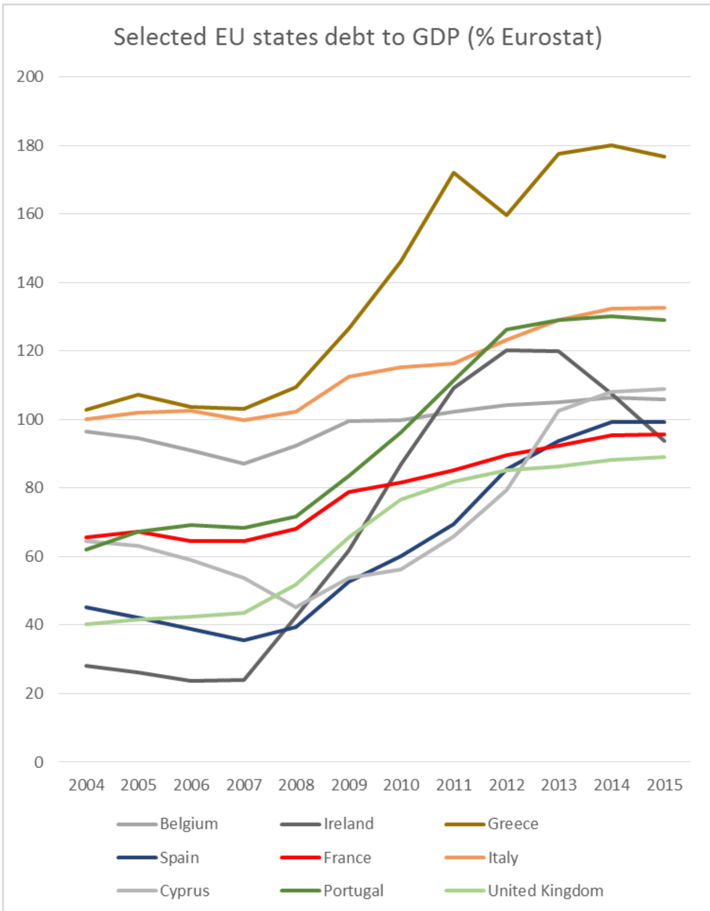


Greek debt repayments are due on a regular basis, meaning a crisis could be triggered at any stage:



Source: Open Europe / IMF[16]

EU debt levels:



Source Eurostat

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[16] 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

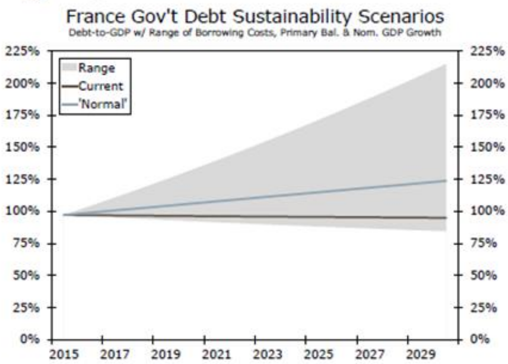


Figure 6

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

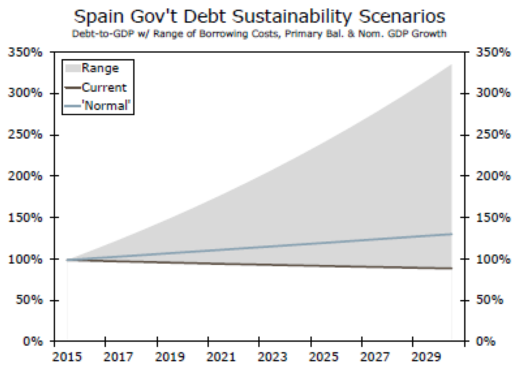


Figure 8

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

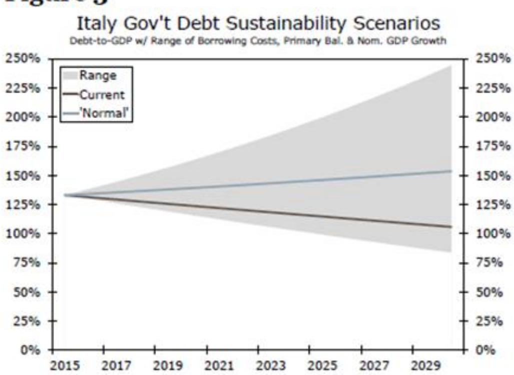


Figure 4

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 [17]

[17] 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.[18],[19]

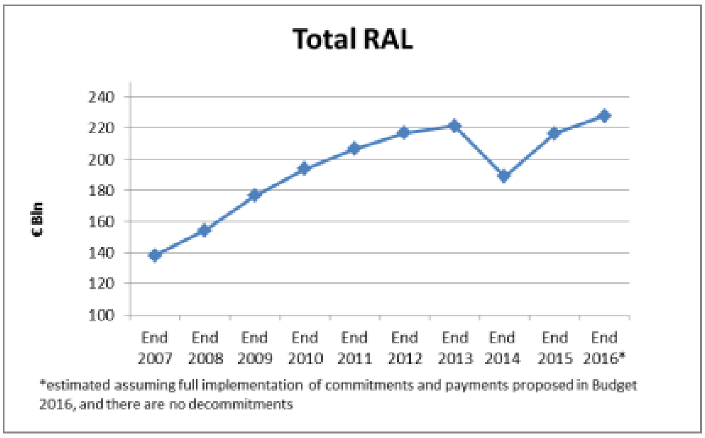
What is probably more of a danger is the composition of the Eurozone bank's Tier 1 capital, in particular which sovereign Eurozone bonds are counted, raising the potential for a default in Greece or another state impacting on the solvency of banks elsewhere. We saw this to an extent with Cypriot Bank's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

Is the EU Budget Bust by €220bn? RAL's

The EU Budget works on Commitments and allocations, commitments to allow spending and then allocations of current spending. Not all the commitments are spent and build up in the system. It was probably help in unlocking these for Greece that the Euro Area Summit requested from the European Commission for Greece. The solution that has evaded the EU so far is to cancel the commitments, but that could be politically difficult.

[I have been looking into these and it still needs a bit of tying down but Matthew Holehouse of the Telegraph in Brussels is potentially interested]

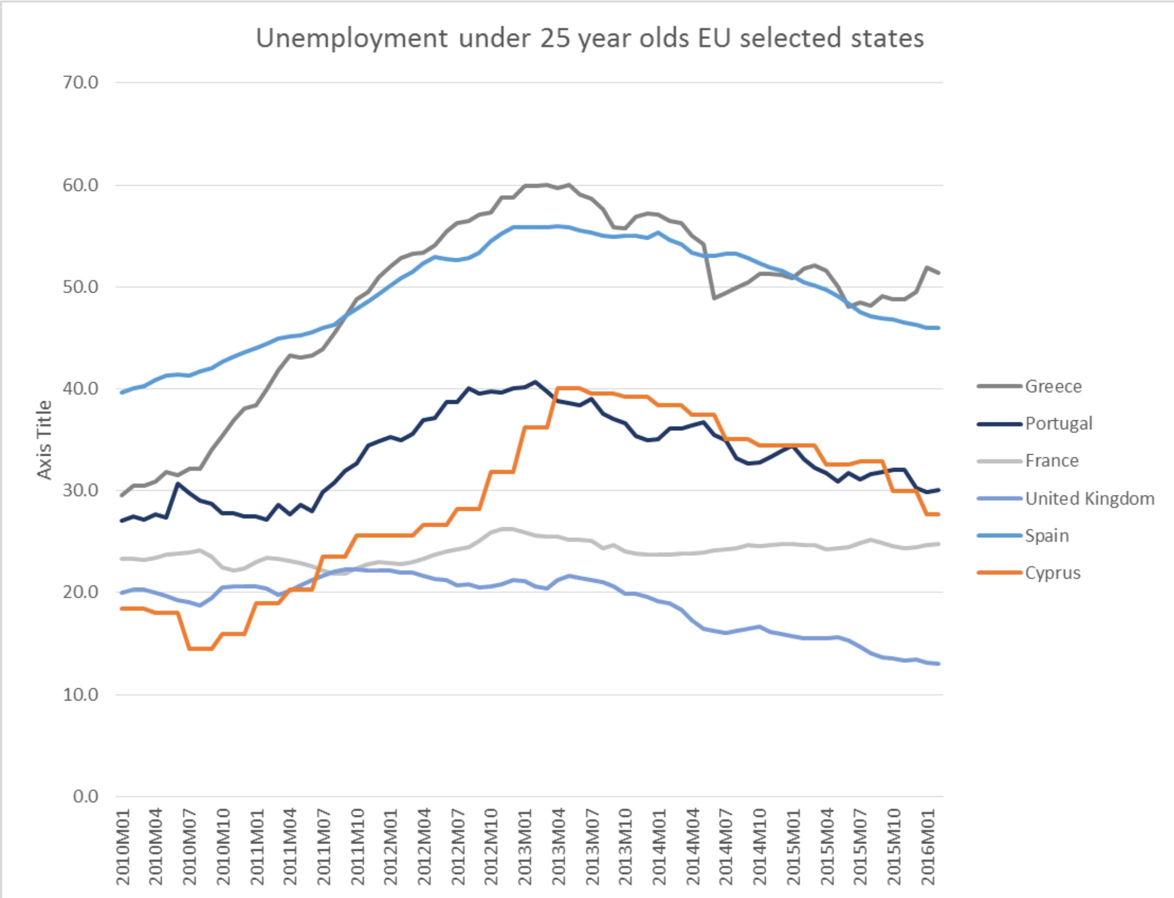
<u>The €220bn gap between commitments and allocations:</u>



Source: EC[20]

[18] Bank of England Resilience of the UK financial system July 2015 http://www.bankofengland.co.uk/publications/Documents/fsr/2015/fsr37sec7.pdf
[19] ECB stress tests 2014: http://www.eba.europa.eu/documents/10180/851779/2014%20EU-wide%20ST-aggregate%20results.pdf
[20] http://ec.europa.eu/budget/library/biblio/documents/2015/active-monitoring-and-forecast-of-budget-implementation-2015.pdf ; http://www.europarl.europa.eu/sides/getAllAnswers.do?reference=E-2015-007073&language=EN

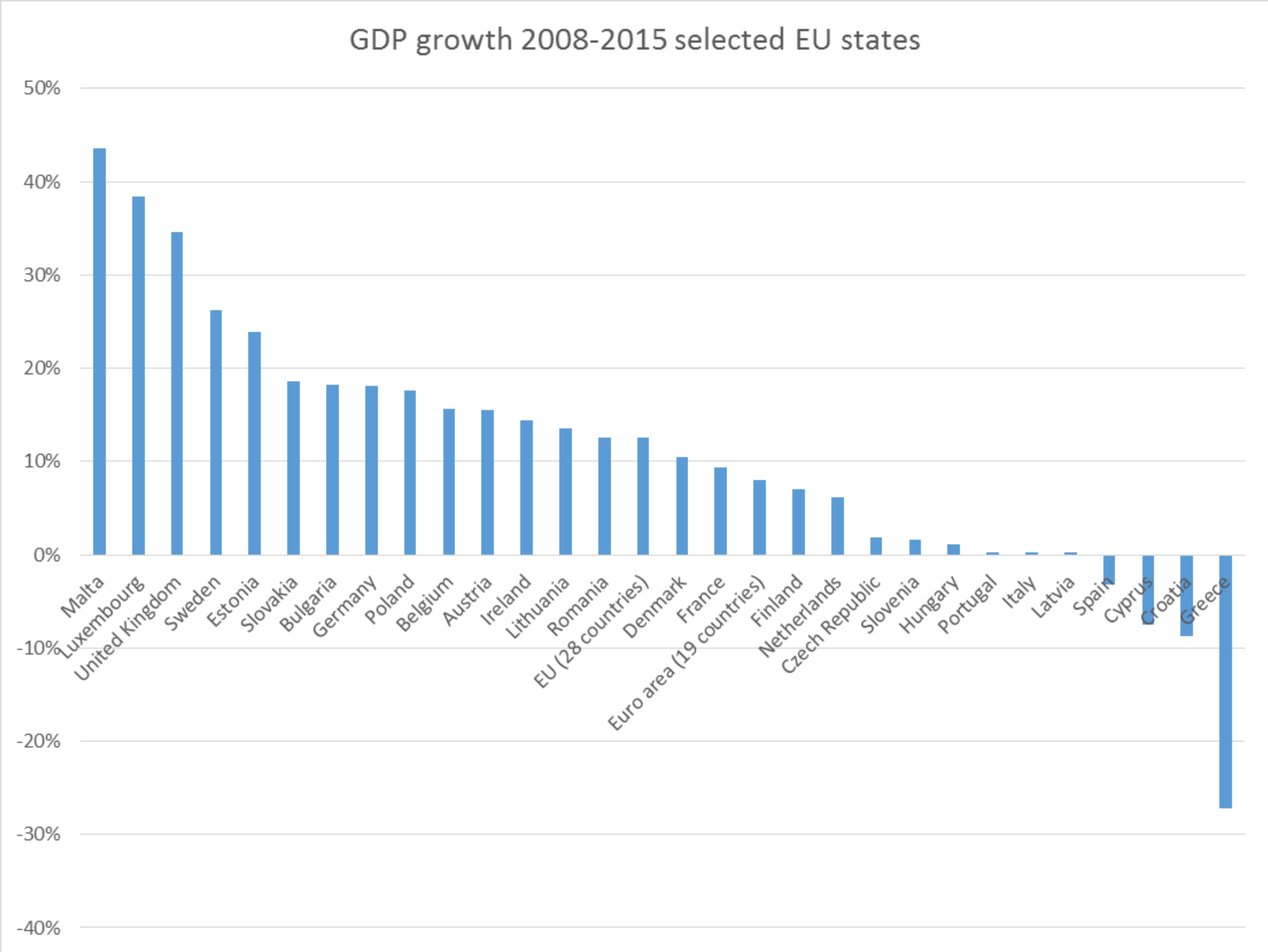
EU Youth Unemployment (under 25 yr olds) – selected states



Source: Eurostat

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.



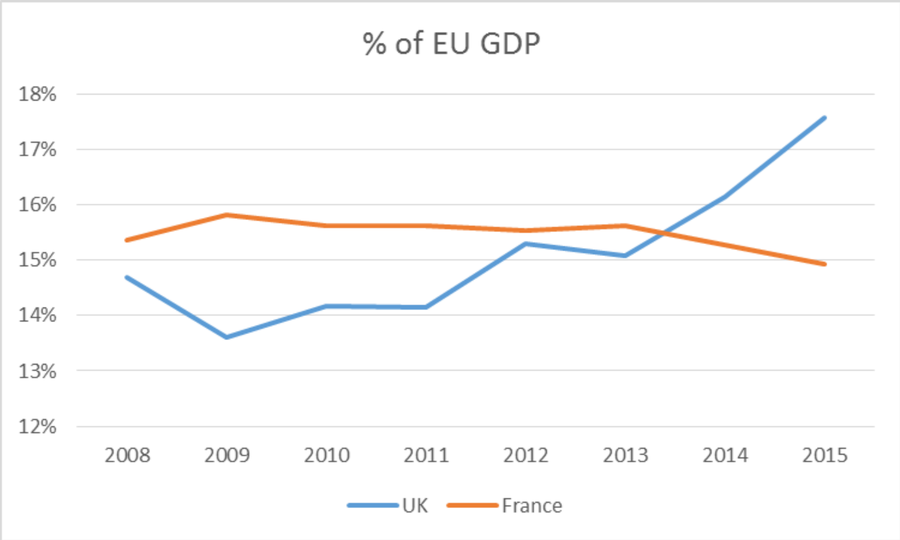
EU as a % of World Output 1980 – 2015

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%.[21]

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.

[21] IMF: http://www.imf.org/external/datamapper/index.php



Source: Eurostat

Projection of EU Budget:

Another new figure could be the UK's budget contributions up until 2030. Which would be c.£236bn if it follows the UK economy upwards.

Chris Heaton-Harris MP might use the figure in an article. It is calculated from a straight line based on the current 0.77% of GDP, post rebate we pay. The GDP % will go higher as the rebate dwindles and budget increases.

<u>Estimated contribution untill 2030:</u>

	contrib	
2009	8737	
2010	12150	
2011	12214	
2012	12636	
2013	14461	
2014	14361	
2015	12918	
2016		13938.18
2017		14131.76
2018		14325.35
2019		14635.09
2020		14867.39
2021		15331.99
2022		15486.86
2023		15874.03
2024		16106.34
2025		16416.07
2026		16648.38
2027		16803.25
2028		17035.55
2029		17267.85
2030		17500.15
		236368.2