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IIR Seminar

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Reforms and Recovery in Europe?
An Assessment of Europe and EURO Crisis Countries

Dr. Anna Schrade
Associate Professor, Institute for Industrial Research,
Kwansei Gakuin University

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Date & Time: 10 July 2019（Wed）, 11:10a.m. – 12:10p.m.
Venue: Kwansei Gakuin University, Lecture Hall D Room 205

関西学院大学産業研究所
Institute for Industrial Research（IIR）, Kwansei Gakuin University

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Today we will cover the problems, challenges and the future of the EU. How is the European economy fairing? Ten years ago, we all remember too well, the EU and several member states, were in trouble.
Could they recover? What problems are EU member states facing today, and to what extent are they related to the problems and the Eurozone crisis that unfolded ten years ago?

10 years ago, Europe was in crisis, facing a plethora of issues. The Eurozone crisis that unraveled in late 2009 has been the biggest crisis the EU has ever faced. How have things developed since then? What is the reality today? Have countries like Greece returned to normal life? In Greece, do we still have people looking for food in rubbish bins, and people waiting in line to get free food at soup kitchens?
During the Eurozone crisis, the Greek economy shrank by 25%. Such a decline of wealth is unprecedented in a developed country. The big question is whether GDP has returned to pre-crisis levels, and how the Greek economy is today.

The Greek economy is recovering, that is true, but it is still 20% smaller than before the crisis. How about the other Eurozone countries? How is the economy there? In order to understand this, we will very briefly analyse how the crisis unfolded in 2009 and how countries were affected.

What did the EU look like in the years before 2008? In many European economies, as well as in the US, economies were booming, the American economy was booming, the Spanish economy was booming. There were lots of business chances, and banks provided loans to a large number of people. Especially American banks were very generous in lending money to citizens without thorough background checks. Lending money to people is good business because you get high interest rates. Loans were advertised and promoted, and people took out mortgages, to buy houses, second houses, holiday houses, big cars. This was not only the case in the US, but to some extent also in European countries.

In Europe, the Spanish economy was booming, and people invested, also from other European countries (The British love Spain with its food there and the beaches, and the good weather. Same thing with the Germans.) Investment was rising and people were optimistic. Few foresaw a banking crisis and a general crash. But then, on 15 September 2008, the Lehman brothers bank filed for bankruptcy. Soon after that, it became obvious that not only the Lehman brothers were affected, but that all over the US, tens of thousands of people could not repay the mortgage on their house because they had several loans. Banks realised that they probably wouldn't get their money back, that there were too many subprime loans. The Global Financial Crisis began.

In 2007/08 it started to become obvious that banks and financial institutions had issued subprime loans and that debtors might not pay back. As I said before, the financial crisis started with subprime loans and people borrowing too much money, especially people who couldn't pay back. When the mortgage companies, the banks for example, started to worry, the bubble burst. The financial world started to crumble, and developed countries around the globe underwent the biggest economic crisis since the late 1920s. When the American economy enters a recession, markets around the world are affected. If America is not doing well, the world is not doing well – because we all trade, buy from each other. If the Americans don't buy TOYOTA, then the Japanese economy is negatively impacted. If they don't buy Mercedes, then the Germans export business suffers. If they don't buy Fiat, then the Italians are not happy – you see what I mean.

In 2007/08, the US economy entered a recession, and countries around the world followed. Due to the "Lehman shock", banks started to panic, governments started to panic, the Americans consumed less, productivity went down, and the crisis started. It has been the biggest crisis in the 21st century and it has impacted Europe very much.

Similar to the banking crisis in the US, also European banks lent and borrowed large amounts of money. Banks often lent too much money to people that didn't have a great credit scores, or to governments that already had huge amounts of debt. By late 2009/2010, the EU had its own debt crisis, with countries such as Greece, Spain, Italy and Ireland hit especially hard. Many of these countries had accumulated high levels of sovereign debt, and with interest rates rising, these governments felt increasing difficulties. A balanced budget was hardly possible with high spending, high interest rates and high unemployment, as was the case after the crisis started. Countries that had low productivity and suffered from a structural crisis, such as Greece, were hit especially hard.

The high sovereign debt level, coupled with high unemployment in Greece, spurred fears that Greek might go bankrupt or leave the Eurozone. In the Eurozone, if one country is in deep trouble, it impacts the other Eurozone countries as trust in the Euro as stable currency decreases. If trust decreases, the monetary value of the Euro decreases simultaneously.

In order to save the Euro from losing much of its value, EU countries and institutions had to do something. EU member states and their banks, institutions of the EU, plus the International Monetary Funds provided loans to Greece, but also to Ireland, Portugal, Spain and Cyprus. However, the loans didn't come without obligations. The creditor countries and institutions urged Greece to cut spending – to practice what is usually called austerity (limited government spending and support). Spending cuts affected universities, museums, libraries, but also hospitals, among many others.

Benefits for civil servants were reduced, and public support for people in need decreased. In order to receive a bailout, Greece had to agree to these austerity policies as proposed by countries like Germany. By 2012, the Greek economy has shrunk by around 25 percent, and unemployment was around 30 percent – also because the Greek state hired fewer workers due to austerity policies.

In what condition is Greece now? In a whole, Greece is better off than during the height of the crisis. The Euro was saved, and Greece was saved from economic collapse. Unemployment in Greece is decreasing, and the economy is growing again.

At first sight, things are much better in the Eurozone now than they were during the crisis, not only in Greece, but also in the other Eurozone member states. Since 2014, the Eurozone and the US economy display similar economic growth. All EU economies are growing, and unemployment rates are on the decline. After the peak of 25% in Spain, unemployment has nearly halved, being around 15% now. In May this year, average unemployment in all EU member states was the lowest in nearly 20 years, since 2000. In other words, the EU as a whole is moving in a good direction, with continuous growth and declining unemployment in most countries. Ten years after the Lehman shock, one can say that the Eurozone crisis is over.

In Greece, however, things are not as bright as they look at first sight. While government spending is decreasing and employment rising, Greece still doesn't have a consolidated budget due to the high interest rates they have to pay on their loans. Government debt is still the highest among the EU countries. Every Greek citizen is indebted by around Euro 32,000 – a debt the government took in their name. It will take Greece decades, or even centuries, to pay back the money they borrowed – if they ever will. Also, while the unemployment rate is declining, it is still high. Youth unemployment is still nearly 40% -- not as high as the 60% at the height of the crisis, but still very high. It remains the highest in the EU.

While in contrast with Spain – where the unfortunate situation 10 years ago was mainly due to a housing crisis – is recovering quickly, Greece and Italy are much less well off. This is mainly because of the structural problems that have existed long before the Eurozone crisis. These structural problems were aggravated with the Eurozone crisis, but not caused by it. Both countries, for example, keep struggling with low productivity, low female labor force participation, and an inefficient bureaucracy, among others.

Lastly, I want to discuss social issues in Greece. One third of the Greek population still lives in poverty or is at risk of social exclusion. However, as the crisis is over, no one talks about the crisis anymore. Poverty has different definitions; in this case it is relative poverty. Among those in poverty, a large amount of people cannot afford a stable food supply. In addition, 20% of the population cannot pay for rent and basic expenses. Without social benefits provided by the government, a half of the Greeks would be at risk of poverty. The poverty line in Greece is around 400 Euro for a single person, or around 800 Euros for two adults and two children. The 15% of the Greeks live in extreme poverty (figures from 2015).

Soup kitchens can still be found in many places, especially in Athens. Six years after the height of the crisis in 2012-2013, people still line up for food. Thousands of people who used to be a middle class still eat in soup kitchens where volunteers provide food. The NGO Boroume has served 20 million meals since the beginning of the crisis and is still continuing their work around the country.

Since the crisis, not only poverty has increased, but also the suicide rates. The 50% or more people have taken their own lives in 2018 as compared to 2010.

In summary, one can say that the Greek economy is improving. However, many people still live in poverty, and this new poverty is not disappearing quickly. People who used to be a middle class before the crisis have become poor and have remained poor. To what extent Greece can completely recover from this crisis is hard to estimate, also because Greece has lost around 500,000 people, among them many highly educated workers, since 2008 as they looked for work abroad. This labour mobility and the resulting Brain Drain could have considerable negative effects on Greece in the long run, especially if highly-skilled emigrants do not return. Since this new wave of emigration has started already shortly before the crisis – The Greek sovereign debt issues and high unemployment aggravated the speed up the process, but were not the only issue – there are doubts that Greece can keep or regain its talents in the future.

The good news from Greece, with which I want to finish, are that last year Greece counted the biggest number of tourists ever. Such a boost in tourism helps the economy. Tourism has always been a major pillar of the Greek economy, and with more than double the number of visitors in 2018 compared to 2010, there is hope that a new tourist boom can lead to major improvements for the Greek people.

In summary, it can be concluded the Eurozone is stable. There is no fear that the Euro will disappear. Countries like Ireland and Spain have recovered to the largest extent. Why did they recover? Because in Ireland the crisis was more a banking crisis, in Spain it was very much a housing, a property crisis. Greece didn't recover that fast due to structural problems, and Italy also has deep-rooted economic and social problems. Thus, it can be concluded that the EU as a whole is improving economically, but problems like those in Greece and Italy will not disappear easily.

At the same time, the EU has to face new problems, such as Brexit, which will greatly impact the European economy. In addition, growth in Germany is stalling. Thus, while at the moment, the EU looks stable, things can change very quickly.

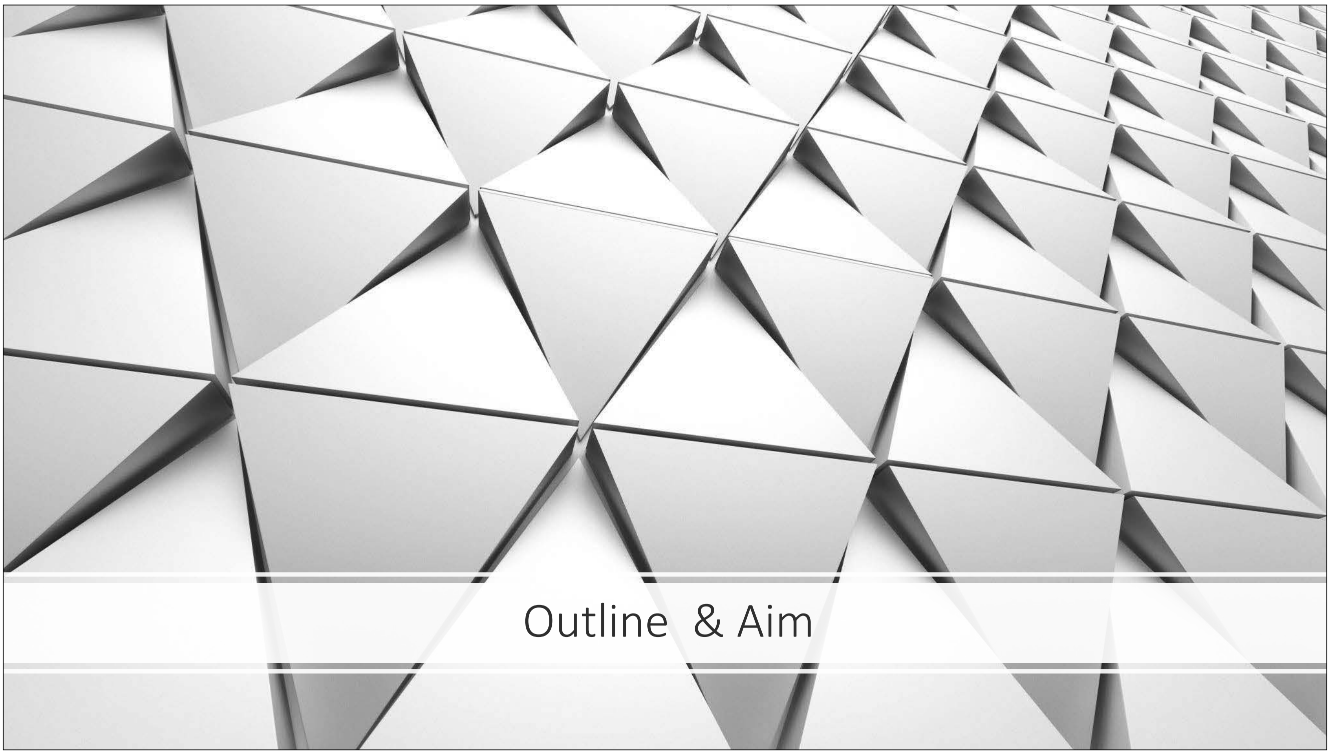
In addition, the long-term impacts of the Euro crisis will continue to impact politics and society. Europe experiences more and more populism, with people voting increasingly for right wing or left-wing parties. The Brexit vote in England was, partially, a reaction to the Eurozone crisis and the EU's problems. Anti-EU feelings are rising in several member states, not only in the UK.

The economic situation of the EU looks better than 10 years ago, but the economic growth can be fragile. In the current global climate, where the trade disputes affect the wealth of several countries, the economic growth is volatile.

10 years after the crisis: Greece, Spain & the Eurozone

Dr Anna Schrade
10 July 2019


Or this?


Outline & Aim

Outline & Aim

- **Aim:** to understand the economic situation of the Eurozone in general, and Greece in particular
- **Outline:**
  - 1) **Euro zone countries:**
    - How it used to be (2009)
    - During the crisis
    - Now
  - 2**) Greece**
    - How it used to be (2009)
    - During the crisis
    - Now

I. The world, how it used to be (until 2008)

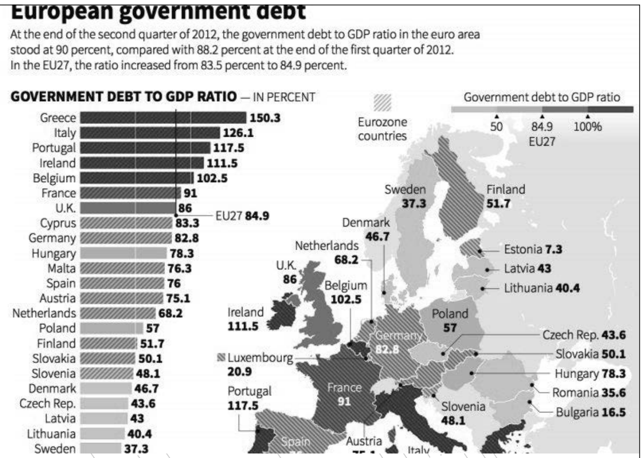
- **(Cheap) credits readily available** to almost all people without rigid checks [subprime mortgages)
- **High amount lending & spending** (private & governments) on credits

II. The world in September 2008:

Lehman shock and the beginning of the global financial crisis

The world in 2009: Global Financial Crisis

From subprime mortgage crisis to global financial crisis



EU

Banking crisis
sovereign debt crisis
structural crisis

Fears of a
- ‘Grexit’ (Greece exiting the Euro zone)
- free fall/end of the EURO

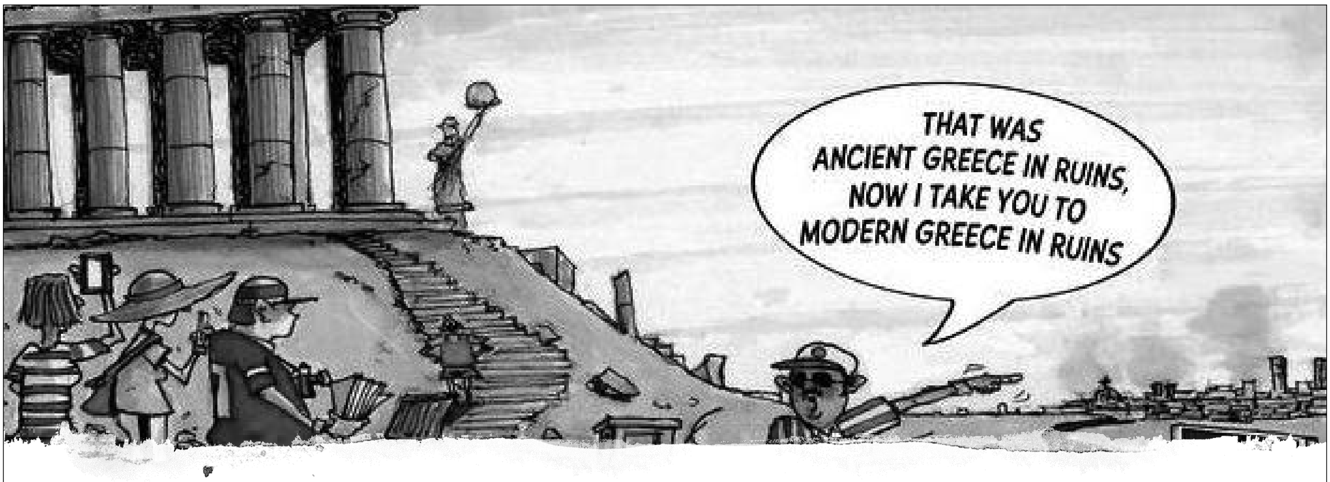
Sovereign debt crisis: bailouts in Greece, Spain, Portugal, Italy, Ireland
(in return for dramatic budget cuts)

- **To save the Euro** (and the Euro zone member countries): massive lending (bailouts) to countries and their banks

Austerity policies in Greece

- High pressure from lenders (e.g. Germany, IMF) on Greece to cut spending

=> **austerity policies in Greece**



Greece 2012:
- Greek economy devastated (loss of 25% of GDP)
- High unemployment, high poverty

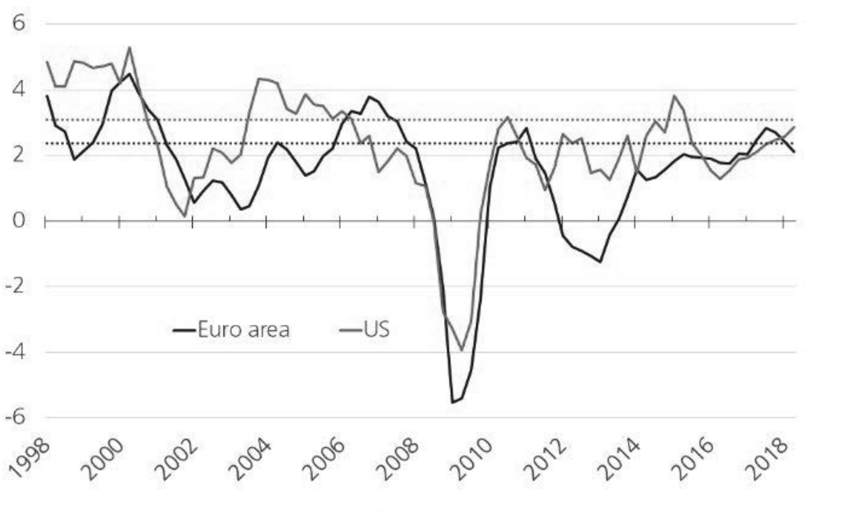
The Euro zone now: some good news

Issues that have been solved since the beginning of the Eurozone crisis (2009)

- The EURO was saved
- Greece was saved from economic collapse through 3 bailouts (approx. EUR 290 billion)
- Unemployment in the crisis countries was reduced
- (Nearly) all EU economies (incl. Greece) are growing again

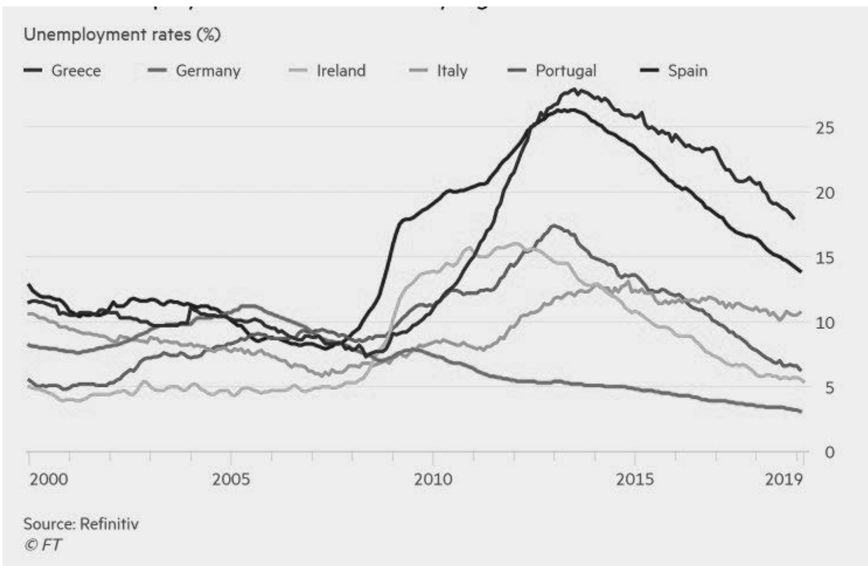
Eurozone is growing again (partially faster than US)

Figure B - Real GDP growth (annual change in %, dotted line = average period 1998-2007)



Source: KBC Economic Research based on:OECD

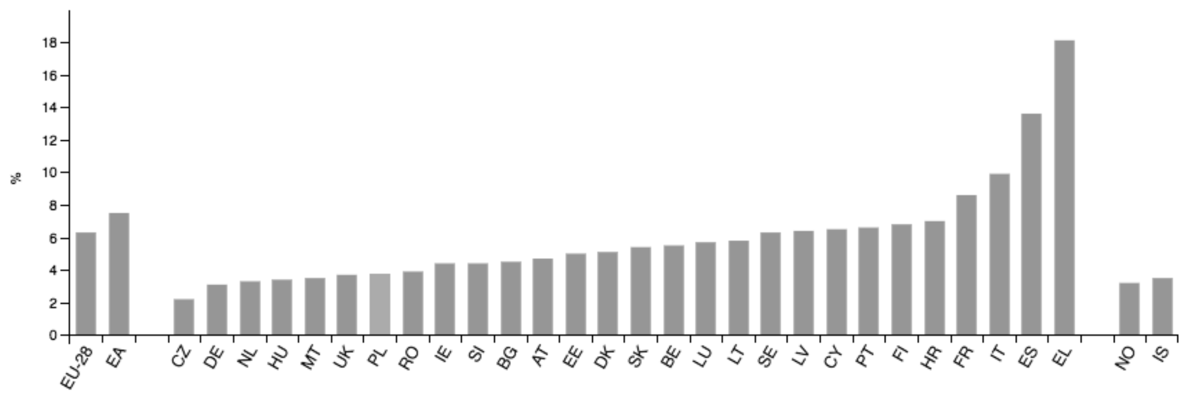
Unemployment rates improving



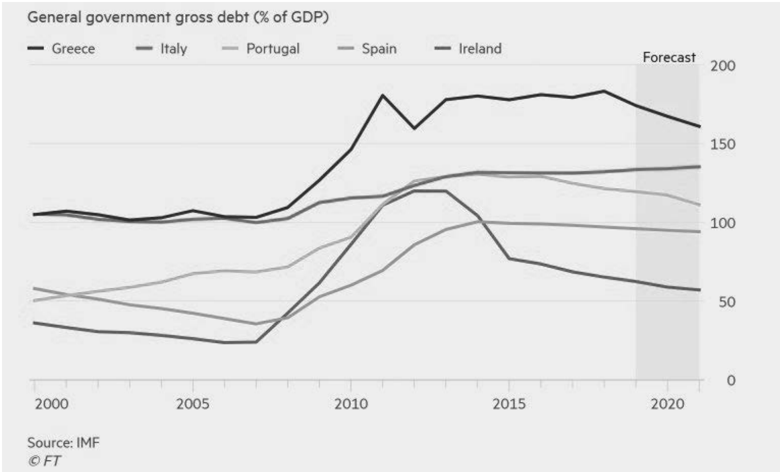
- **EU-28 unemployment at 6.3 % in May 2019, lowest since the start of the EU monthly unemployment series in January 2000.**

(Euro zone: 7.5%)

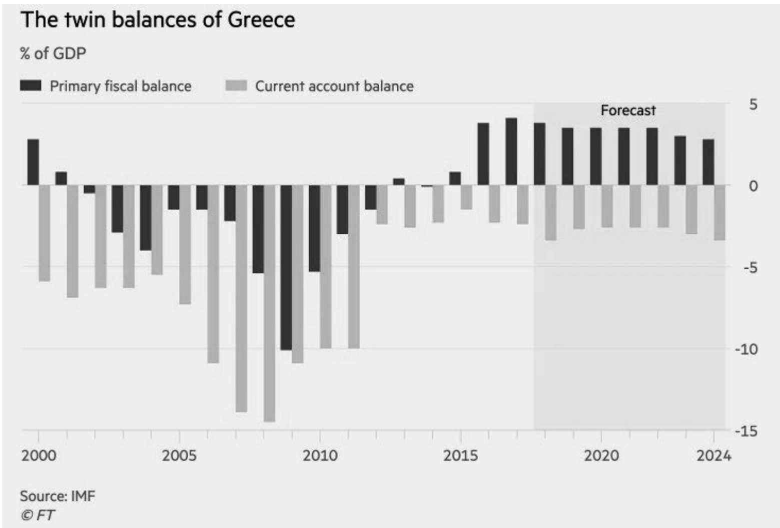
Unemployment rates, seasonally adjusted, May 2019 (%)



Government debt declining

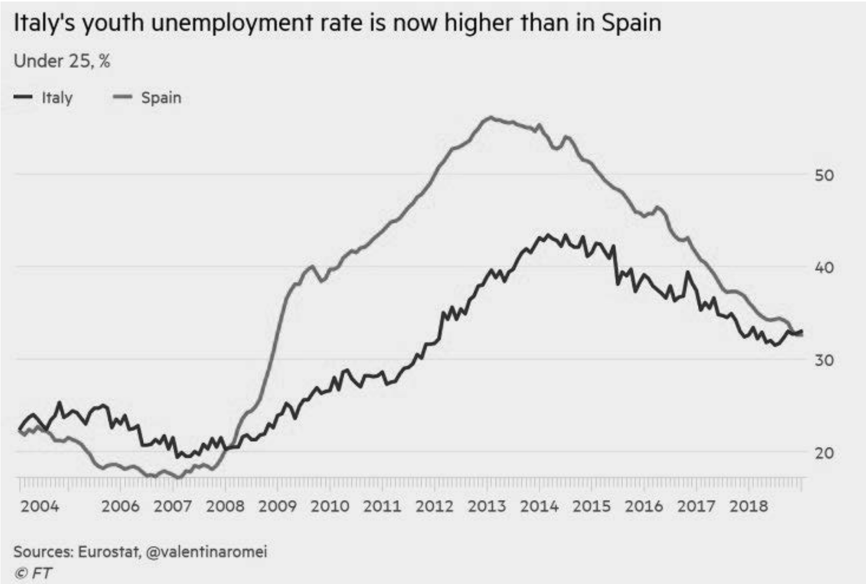


Even Greek economy growing again



Greek economy growing, with consolidated budget (however, in reality, still budget deficit due to interest rates on loans)

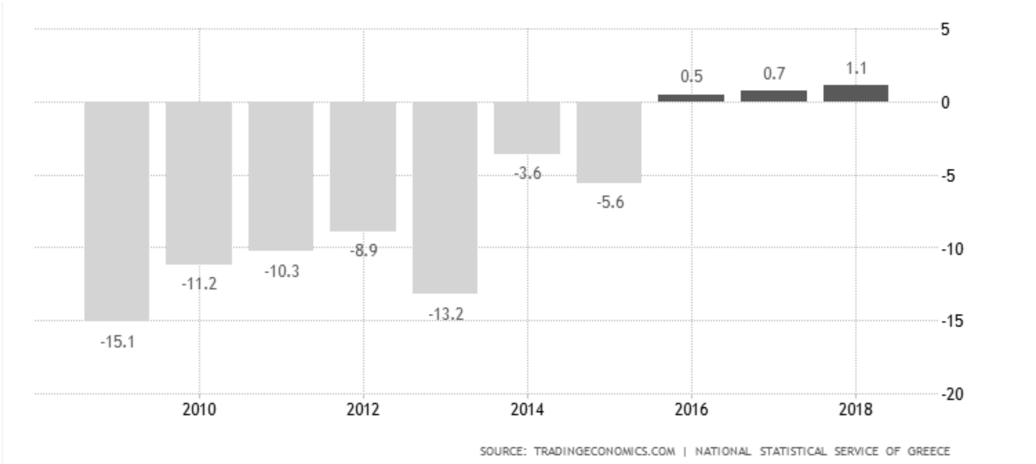
Some countries, like Spain, recovered & could cut unemployment; others, like Italy, are still facing big problems



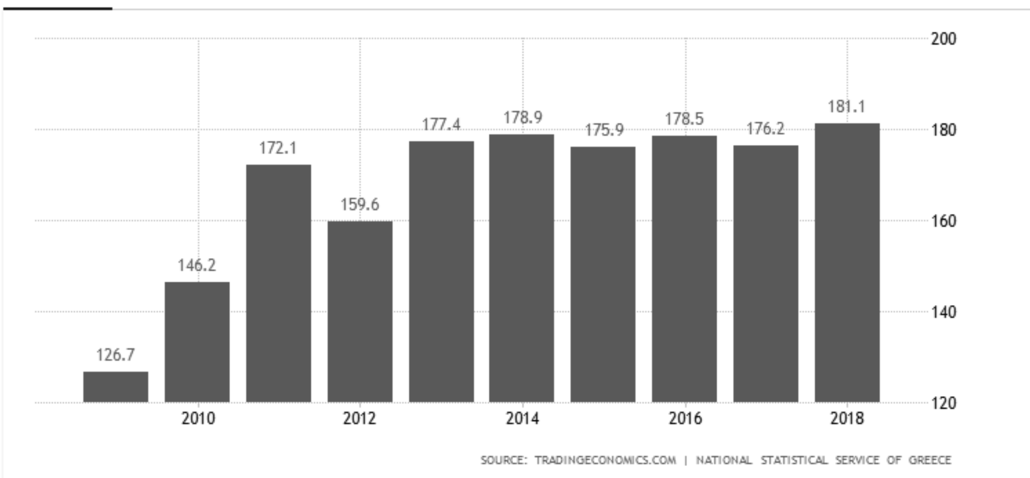
Structural crisis in Italy
=> hard to recover from

Economic outlook of Greece 2019: good & bad news

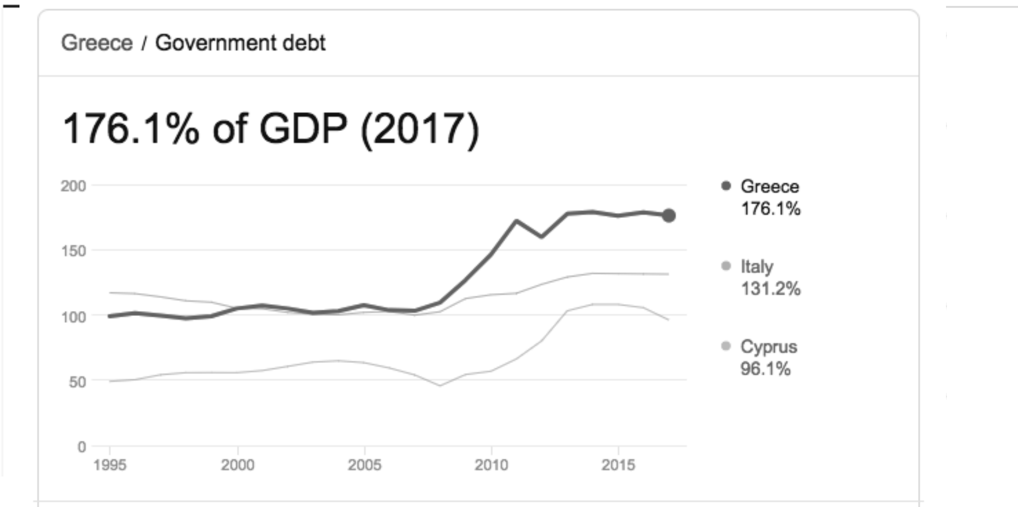
Greece's government budget improving (no deficit spending since 2016)



Greek government debt (as % of GDP) still high



Government debt the highest among EU MS

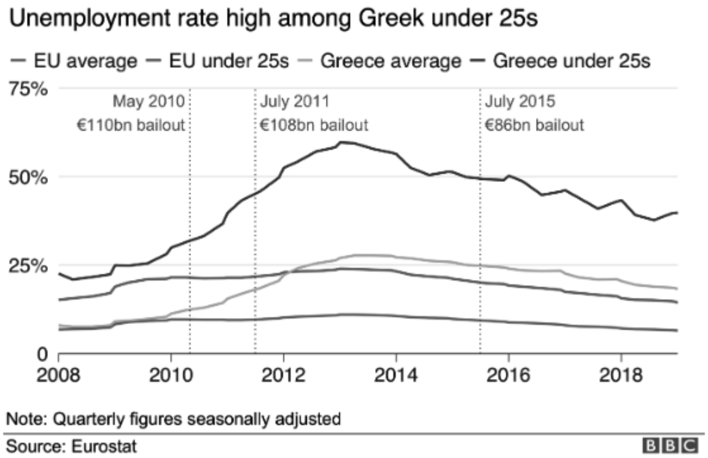


Greece's debt persisting :

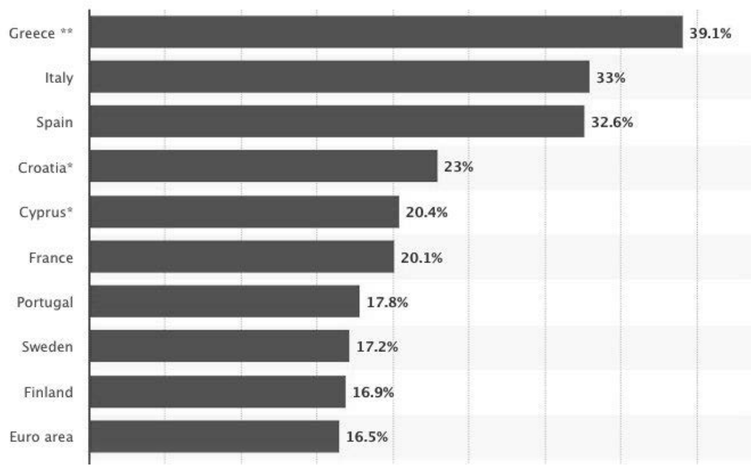
Interest Payments Per Year	Interest Payments Per Second	National Debt Per Citizen
18,758,230,436€	**595€**	**32,853€**

Debt as % of GDP	GDP Of Greece	Greece Population
194.41%	**182,714,030,503€**	**10,812,508**

(Youth) unemployment declining, but still high



Youth unemployment rate in Europe (EU member states) as of January 2019 (seasonally adjusted)



Social issues in Greece

Wealth loss in Greece:

• Deposits, bonds, and property values declining significantly

=> **GDP shrank by 25%,** now still over 20% below 2009 levels

• 2015 – 2019: **Improvements in regard to budget deficit, debts, employment & poverty, but still major issues**

"Certainly regarding the humanitarian crisis, the worst part is over. However, the fact that it is no longer a front page story, does not mean that the situation has improved so much. It has been stabilized. There is still great need, undoubtedly,"

Greeks in relative poverty / at risk of poverty

- **35%** of country's population (3.7 million) **at risk of poverty or social exclusion** according [2017 survey by ELSTAT]
  - Poverty threshold: annual income of 4,560 euros per person / 9,576 euros per household with two adults and two children under the age of 14.
- **Without social benefits, 50.8 percent of the country's population would be deemed at risk of poverty**

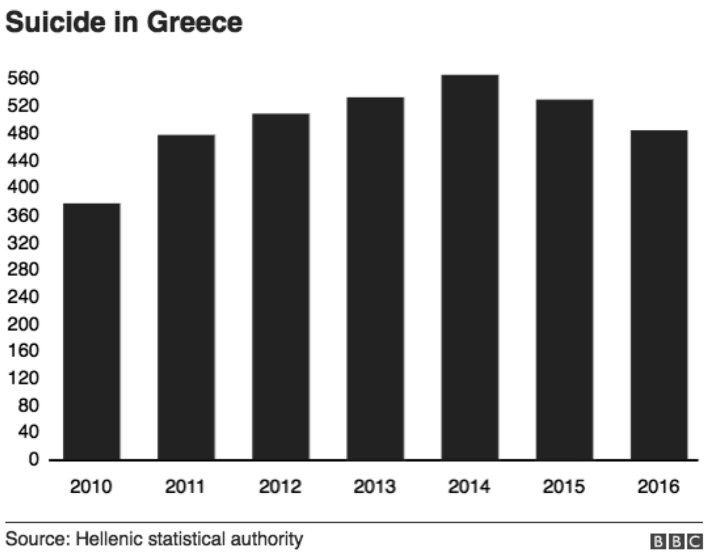
Extreme poverty

- 2009: 2.2 % in extreme poverty
- 2015: 15 % in extreme poverty
    - Extreme poverty in Greece: 182 euros per month for a single member suburban or rural household, to 905 euros per month for parents with two children living in Athens and paying rent

Poverty => Soup kitchens

- Boroume (food bank, NGO) offers more than 24,000 portions of food every day, collaborating with 1,200 charitable institutions, soup kitchens and municipal social services all over Greece
- Boroume has provided those in need over 20 million meals since 2011

The social effects of poverty



Summary Greece:

- economy is still over 20% smaller than before the crisis
- highly indebted: will take many decades to repay its debt (nearly impossible)
- 'New Poor': large segments of population still living in poverty (e.g. use of soup kitchens etc.)

The good news for Greece

Major pillar of economic growth: Tourism

- Eight years on, Greece feels like the worst is behind it. A boom in tourism, its biggest industry, is helping, with a record 32 million visitors expected this year, more than double the number in 2010.




Summary Euro zone crisis

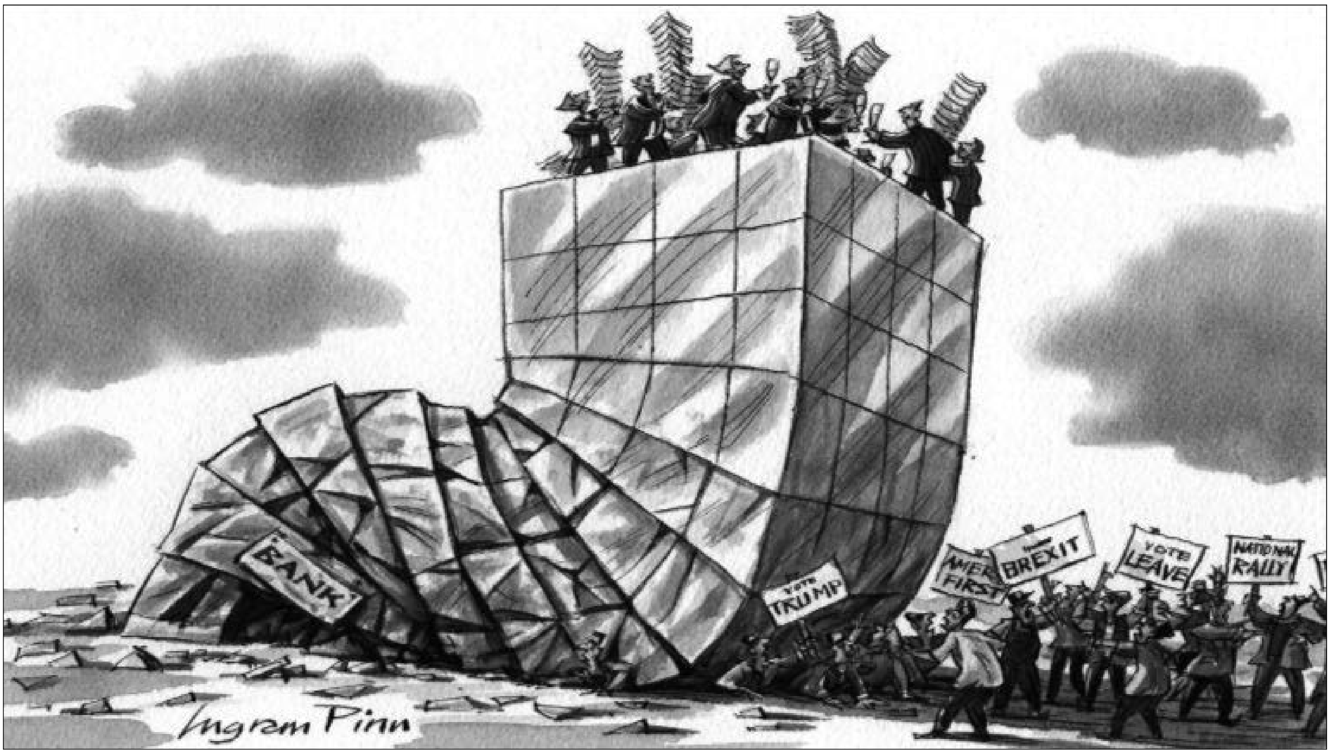
Summary

- Recovery in numerous Eurozone member states (Ireland, Spain etc.)
- Slow recovery in countries with structural problems (Greece, Italy)

New issues the EU is facing

New issues in the EU that occurred due to/after the crisis

- **Brain drain from Greece:** 500,000 Greeks left the country between 2008 and 2016 (beginning before the crisis)
- Rise of left-/right-wing populism
- Increasing anti-EU feelings (e.g. UK)


BANK
VOTE TRUMP
AMER FIRST
BREXIT
VOTE LEAVE
NATIONAL RALLY
Ingram Pinn

【Profile】

Dr. Anna Schrade holds a MSc and PhD from the University of Oxford (UK).

She taught as Associate Professor (focus; EU Economics) at Kobe University before joining KGU in 2018.

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Publisher

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