



Perspectives by Ruth Lea

Economic Adviser to Arbuthnot Banking Group



Uncertainty in the eu: no bailout for greece (yet) and faltering economic growth

Introduction

no explicit bailout for Greece - yet

There was, perhaps surprisingly, no confirmation of a specific Greek bailout at last week's summit meeting of the Council of the European Union. There was however an "Agreement to support Greece" which included the following:¹

"EU heads of state and government have pledged to help Greece tackle its debt crisis, if needed. ...They issued a statement stressing both responsibility by the Greek Government and EU solidarity. The Greek government is determined to improve the country's public finances and aims to reduce the budgetary deficit by 4% in 2010. It has not requested any financial support. The (EU) leaders expressed a strong political commitment to take determined and coordinated action if necessary. 'This agreement is the expression of a clear political will, and it is a political message that we wanted to send out today' said Herman Van Rompuy."

And the aforementioned "statement" included:²

"Euro area Member states will take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole."

Meetings this week of the Eurogroup of the EU16's finance ministers (15 February) and the EcoFin meeting of the EU27's finance ministers (16 February) may provide further details of possible plans to assist Greece but expectations are not high.

However weak these statements seem to be, it should be noted that former EU Economic and Monetary Affairs Commissioner Joaquin Almunia said, when interviewed in Davos in January, that "No. Greece will not default. Please. In the euro area default does not exist." He also insisted that there was "no chance" that Greece would leave the eurozone.³ This statement can surely be interpreted as a bailout of sorts for Greece if there seems to be any serious chance of Greek default. Crunch time could be in April when €12bn of Greek debt matures and must be refinanced.⁴

There was apparently at the summit meeting a division between Germany, on the one hand, which resisted an explicit bailout mainly because they could be expected to bear the greatest burden of such action and others, including France, which supported a bailout and, moreover, urged moves towards an EU “economic government”.

Whether there is or is not a Greek bailout, there is currently no shortage of speculation about the nature of such a bailout package. The highly respected think tank openeurope suggests ten potential procedures including direct cash transfers, bilateral or multilateral loans or the early release of EU subsidies.⁵ But, as we have written before, any bailout creates a dreadful precedent not least of all because Greece has effectively brought its current plight upon itself through indulgence and dishonesty.⁶

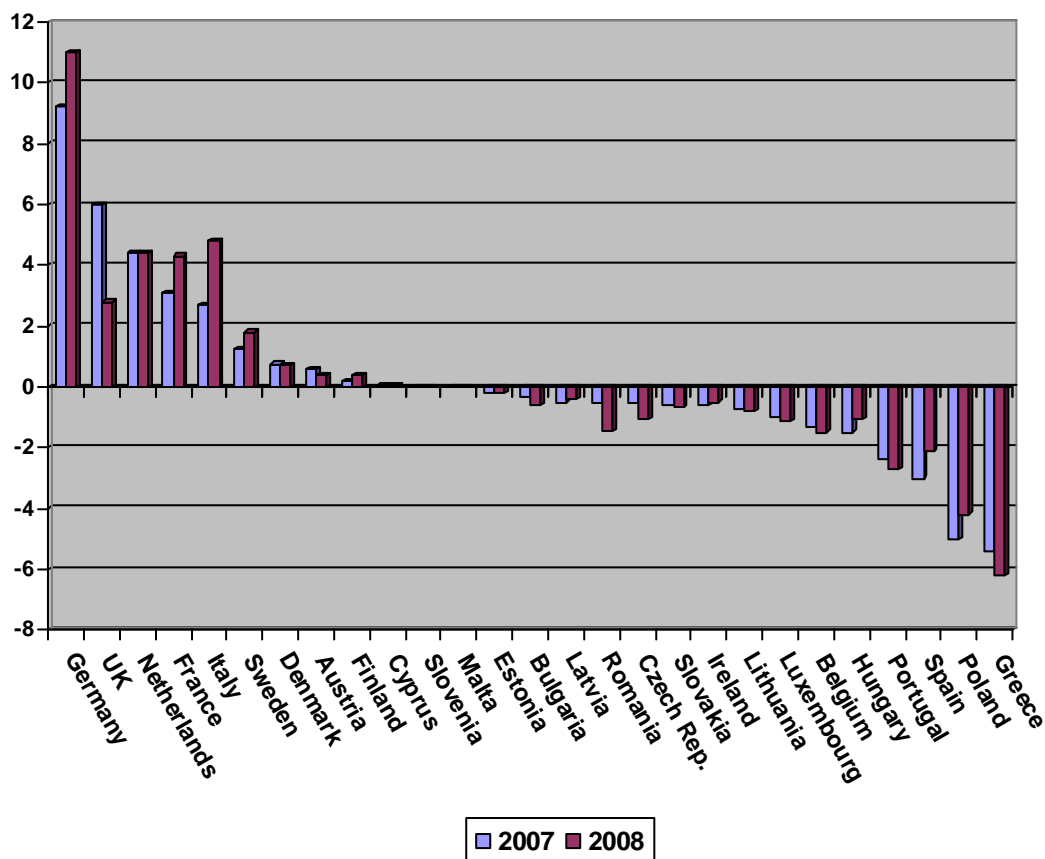
Greece is already very heavily subsidised by the EU

One of openeurope’s possibilities was the early release of EU subsidies already agreed for Greece. These are very substantial and could prove a significant player in any bailout. Greece is already the most heavily subsidised country in the EU in terms of net receipts from Brussels.

The chart below shows that in 2007 and 2008 the EU’s major net recipients were Hungary, Portugal, Spain, Poland and Greece. Greece’s net gain amounted to €6.2bn in 2008 - that is nearly €550 (£480) for every one of its 11.3 million citizens. This per capita largesse was significantly higher than for Poland (population 38 million) and Spain (population 46 million). EU population data are listed in annex table 1.

The major net contributors are consistently Germany, the UK (the 2008 were erratically low), the Netherlands, France, Italy and Sweden. The highest per capita net contributors are the Netherlands and Sweden.

EU budget: net contributors (+ve) & net recipients (-ve), 2007 and 2008 (€bn)



Sources of data: European Commission: *EU budget 2007: Financial Report*, September 2008 for 2007 data and European Commission: *EU budget 2008: Financial Report*, September 2009 for 2008 data.

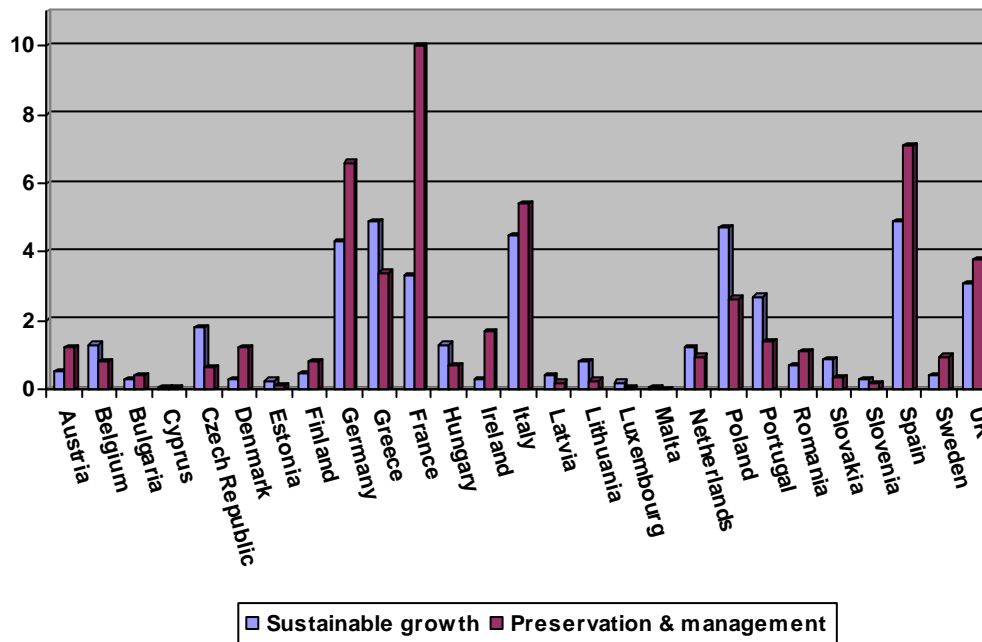
Turning to the purely receipts side of the EU budget the major sources of receipts are classified in two groups:

- Spending for “sustainable growth”, regional policy and the cohesion of growth and employment, including funding from the well-resourced European Regional Development Fund.
- “Preservation and management of natural resources”, most of which relates to CAP (Common Agricultural Policy) and other rural development.

The next chart shows that the countries receiving the greatest funds for “sustainable growth” were Germany, Greece, Italy, Poland, Spain and the UK in 2008. Of these Greece was by far the most generously financed in per capita terms. Turning to funding for CAP et al, the largest recipient was France, followed by Spain, Germany and the UK. But Greece and Ireland were also generously supported.

Please note that some new members received special funds in 2008 relating to their relatively recent accession to the EU but not shown in the chart below. They included Bulgaria (€0.2bn), Poland (€0.1bn) and Romania (€0.75bn). Whilst Poland joined in 2004, Bulgaria and Romania joined in 2007.

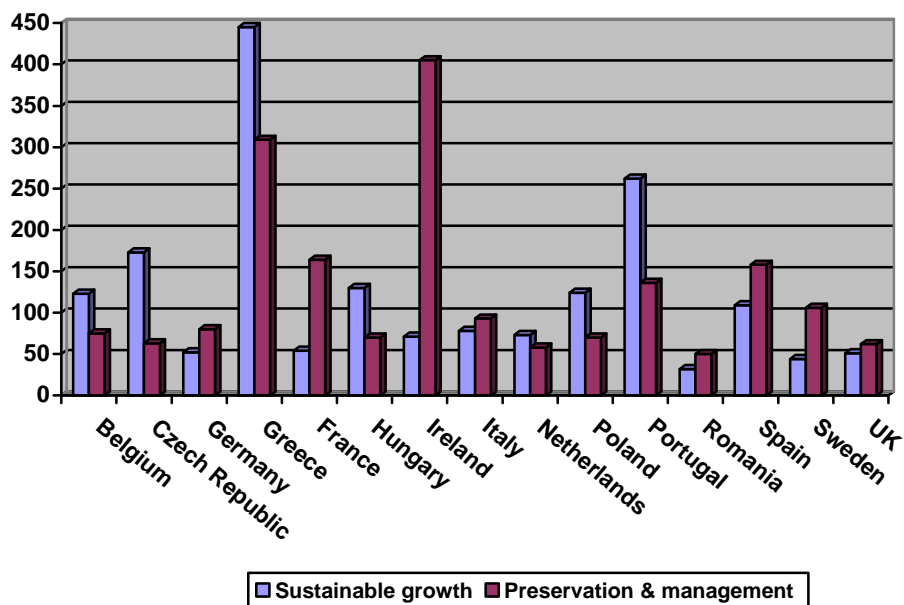
Receipts for “sustainable growth” and “preservation & management”, €bn, 2008



Source: European Commission website, <http://ec.europa.eu/budget>

The next chart allows for the very considerable disparity in country population size. The receipts for “sustainable growth” and “preservation and management” are shown for selected EU member states in per capita terms. Greece is by far the most generously supported country receiving €445 for “sustainable growth” and €310 for “preservation and management” in 2008.

Receipts, selected EU countries, € per capita, 2008



Source: European Commission website, <http://ec.europa.eu/budget>

EU 4th quarter GDP data: disappointingly weak

Last week Eurostat, the statistical office of the EU, released 4th quarter “flash” estimates for GDP. They made for dispiriting reading. GDP increased by a paltry 0.1% in the quarter for both the EU27 and the EU16, the euro area. Of the “big 5”, which account for 72% of total EU GDP, only France showed any significant growth recording a quarterly increase of 0.6%. But the French data have to be qualified. Even though household consumption, helped by car purchases, and general government consumption were both strongly up and a positive swing in inventories helped GDP, the balance of external trade deteriorated with imports growing strongly. It should be noted that, even though France is running sizeable public borrowing at present (8% of GDP), the French government is taking a leisurely approach to fiscal consolidation in order to maintain growth.

The German economy lost momentum in the final quarter of 2009 and GDP was stagnant. The only positive contribution was made by foreign trade: while exports grew again, imports decreased. Final consumption expenditure, probably hit by the lapsing of the car scrappage scheme, and capital formation were down. The highly internationally competitive German economy shows no sign of the rebalancing growth from net exports to the domestic economy and thus correcting the severe imbalances in the eurozone between surplus Germany (with the Netherlands) and the deficit Club Med.⁷

Information of the components of demand is scanty for the other “big 5” economies at this stage of the statistical release cycle. The quarterly GDP data for all EU countries are shown in table 2 in the annex.

The “big 5” EU countries: GDP, volume, seasonally adjusted data, % growth rates

	2009, Quarterly change (%)				2009, Year-on-year change (%)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EA16 (euro area)	-2.5	-0.1	0.4	0.1	-5.0	-4.8	-4.0	-2.1
EU27	-2.4	-0.3	0.3	0.1	-4.9	-5.0	-4.3	-2.3
Selected member states*:								
Germany (20.4%)	-3.5	0.4	0.7	0.0	-6.7	-5.8	-4.8	-2.4
France (15.8%)	-1.4	0.3	0.2	0.6	-3.5	-2.7	-2.3	-0.3
UK (14.9%)	-2.5	-0.7	-0.2	0.1	-5.2	-5.8	-5.1	-3.2
Italy (12.4%)	-2.7	-0.5	0.6	-0.2	-6.0	-5.9	-4.6	-2.8
Spain (8.5%)	-1.6	-1.1	-0.3	-0.1	-3.2	-4.2	-4.0	-3.1

Source: Eurostat, “Euro area and EU27 GDP up by 0.1%”, 12 February 2010. The data are seasonally adjusted. The US quarterly data are released by the US authorities in annualised format.

* Share of EU GDP in brackets.

The performance of the EU has been compared unfavourably with what was, in some quarters, considered a relatively stellar performance by the US.⁸ GDP rose by 5.7% (1.4% non-annualised) in the 4th quarter compared with just over 2% (annualised) in the 3rd. But much of the growth reflected a significant slowdown in the rate of de-stocking - inventories were still down but significantly less down than in the 3rd quarter. Private consumption was also higher as was spending on IT and software. But other components were relatively weak and a strong recovery is by no means established.

Weak EU growth projected

Even though the 4th quarter data for the EU were disappointing, the provisional outcomes for the year 2009 as a whole were similar to the Commission's November 2009 forecast, as shown in the table below. What is so noticeable about the forecasts is that they are so weak and augur badly for key British export markets over the next two years.

European Commission: GDP forecasts, annual growth rates (%)

	Outturns			Nov 2009 forecast		
	2007	2008	2009	2009	2010	2011
EU27	2.9	0.8	-4.1	-4.1	0.7	1.6
Selected EU Member states:						
Germany (20.4%)	2.5	1.3	-4.9	-5.0	1.2	1.7
France (15.8%)	2.3	0.4	-2.2	-2.2	1.2	1.5
UK (14.9%)	2.6	0.6	-4.8	-4.6	0.9	1.9
Italy (12.4%)	1.6	-1.0	-4.9	-4.7	0.7	1.4
Spain (8.5%)	3.6	0.9	-3.6	-3.7	-0.8	1.0

Sources: European Commission, Economic and Financial Affairs, *European Economic Forecast – autumn 2009*, November 2009.

For 2009 outturn data: ONS for UK, Statistisches Bundesamt Deutschland for Germany, INSEE for France, ISTAT for Italy and Spain's National Statistics Office.

Much has been written on the need for an export-led recovery in the UK, given the other negatives in the economy – not least of all heavily indebted consumers and the need for major fiscal consolidation. But even though the pound is at competitive levels there are, so far, few signs of any convincing pick-up in net exports. On the contrary, the latest trade figures suggested that export growth in 2009Q4 was being outstripped by the growth in imports.⁹

But, given the weakness of Britain's main export markets, perhaps this is not so surprising. In 2008 the UK's main export markets for goods were, in descending order of importance, the USA, Germany, the Netherlands (distorted by entrepôt trade), Ireland, France, Belgium (also distorted by entrepôt trade), Spain and Italy.¹⁰ Economic recovery in these economies are patchy – to say the least.

And a final thought concerning the USA and Ireland which are of special significance to Britain as we customarily run trade surpluses with these countries. In particular, Irish economic weakness alone contributed to a fall in the bilateral visible trade surplus of over £3bn in 2009.

References

1. Council of the European Union, "Agreement to support Greece", 11 February 2010, www.consilium.europa.eu
2. Council of the European Union, "Statement by the Heads of State or Government of the European Union", 11 February 2010, www.consilium.europa.eu
3. Reuters, "Davos, EU's Almunia: no chance Greece default, euro zone exit", 29 January 2010, www.reuters.com.
4. Lex, "Dealing with Greece", *FT*, 13 February 2010.
5. Openeurope, *A Greek bailout*, February 2010, www.openeurope.org.uk
6. Ruth Lea, "Greece's possible bailout: a painful precedent", Arbuthnot Banking Group, 1 Feb 2010.
7. Ruth Lea, "The divergent eurozone: no easy solutions in sight", Arbuthnot Banking Group, 18 January 2010.
8. Ralph Atkins, "Europe trails in the dust of US recovery", *FT*, 13 February 2010.
9. ONS, *UK trade: December 2009*, 9 February 2010.
10. ONS, *UK balance of payments, the Pink Book*, 2009 edition.

Annex tables

Table 1 EU population data, 1 January 2010, forecasts

Member State	Millions (% of total)	Cumulative % of total
European Union, EU27	501.3 (100%)	
Euro area, EU16	329.7 (65.8%)	
Germany*	81.8 (16.3%)	16.3
France*	64.7 (12.9%)	29.2
United Kingdom	62.0 (12.4%)	41.6
Italy*	60.4 (12.0%)	53.6
Spain*	46.1 (9.2%)	62.8
Poland	38.2 (7.6%)	70.4
Romania	21.5 (4.3%)	74.7
Netherlands*	16.6 (3.3%)	78.0
Greece*	11.3 (2.3%)	80.3
Belgium*	10.8 (2.1%)	82.4
Portugal*	10.6 (2.1%)	84.5
Czech Republic	10.5 (2.1%)	86.6
Hungary	10.0 (2.0%)	88.6
Sweden	9.3 (1.9%)	90.5
Austria*	8.4 (1.7%)	92.2
Bulgaria	7.6 (1.5%)	93.7
Denmark	5.5 (1.1%)	94.8
Slovakia*	5.4 (1.1%)	95.9
Finland*	5.4 (1.1%)	97.0
Ireland*	4.5 (0.9%)	97.9
Lithuania	3.3 (0.6%)	98.5
Latvia	2.2 (0.4%)	98.9
Slovenia*	2.1 (0.4%)	99.3

Estonia	1.3 (0.3%)	99.6
Cyprus*	0.8 (0.2%)	99.8
Luxembourg*	0.5 (0.1%)	99.9
Malta*	0.4 (0.1%)	100.0

Source: Eurostat website, asterisked countries euro members.

Table 2 GDP, volume, seasonally adjusted data, % growth rates

	% change compared with the previous quarter				% change compared with the same quarter of the previous year			
	2009				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EA16 (euro area)	-2.5	-0.1	0.4	0.1	-5.0	-4.8	-4.0	-2.1
EU27	-2.4	-0.3	0.3	0.1	-4.9	-5.0	-4.3	-2.3
Member States:								
Austria	-2.2	-0.5	0.5	0.4	-3.8	-4.5	-3.4	-1.8
Belgium	-1.7	-0.1	0.7	:	-3.7	-4.2	-3.2	:
Bulgaria	:	:	:	:	-3.5	-4.9	-5.4	-6.2
Czech Republic	-4.4	0.2	0.8	-0.6	-4.2	-4.7	-4.1	-4.2
Denmark	-1.4	-2.3	0.6	:	-3.9	-7.0	-5.4	:
Estonia	-6.0	-3.4	-3.0	2.6	-15.0	-16.1	-15.6	-9.4
Finland	-4.9	-0.3	0.3	:	-7.8	-8.9	-8.8	:
Germany	-3.5	0.4	0.7	0.0	-6.7	-5.8	-4.8	-2.4
Greece (EL)	-1.0	-0.3	-0.5	-0.8	-1.0	-1.9	-2.5	-2.6
France	-1.4	0.3	0.2	0.6	-3.5	-2.7	-2.3	-0.3
Hungary	-2.3	-1.4	-1.2	-0.4	-5.6	-6.8	-7.1	-5.3
Ireland	-2.1	-0.6	0.3	:	-9.0	-7.8	-7.6	:
Italy	-2.7	-0.5	0.6	-0.2	-6.0	-5.9	-4.6	-2.8
Cyprus (KI)	-0.7	-1.0	-0.8	-0.3	0.4	-1.4	-2.3	-2.7
Latvia	-11.4	-0.2	-4.0	-3.2	-18.7	-17.3	-19.3	-17.9
Lithuania	-11.3	-7.7	6.1	0.2	-13.1	-19.7	-14.2	-13.0
Luxembourg	-0.9	-2.7	4.2	:	-6.3	-7.3	-2.6	:
Malta	-0.8	-0.7	0.4	:	-1.2	-2.9	-2.1	:
Netherlands	-2.3	-1.1	0.5	0.3	-4.5	-5.5	-3.7	-2.2
Poland	0.1	0.5	0.5	:	1.5	1.3	1.0	:
Portugal	-2.0	0.6	0.6	0.0	-3.9	-3.5	-2.5	-0.8
Romania	-4.6	-1.1	-0.6	-1.5	-6.2	-8.7	-7.1	-6.6
Slovakia	-8.1	1.2	1.6	2.0	-5.7	-5.5	-4.9	-2.7
Slovenia	-6.2	0.6	1.0	:	-8.8	-9.0	-8.5	:
Spain (ES)	-1.6	-1.1	-0.3	-0.1	-3.2	-4.2	-4.0	-3.1
Sweden	-0.8	0.3	0.2	:	-6.3	-5.8	-5.2	:
United Kingdom	-2.5	-0.7	-0.2	0.1	-5.2	-5.8	-5.1	-3.2
EFTA countries								
Iceland	-5.1	-0.4	-5.7	:	-6.3	-0.7	-8.0	:
Norway	-0.7	-0.9	0.9	:	-1.1	-2.3	-0.7	:
Switzerland	-0.9	-0.3	0.3	:	-1.7	-2.3	-1.5	:
Main economic partners								
United	-1.6	-0.2	0.6	1.4	-3.3	-3.8	-2.6	0.1

States								
Japan	-3.1	0.7	0.3	:	-8.6	-6.0	-4.7	:

Source: Eurostat, "Euro area and EU27 GDP up by 0.1%", 12 February 2010. The data are seasonally adjusted. The US quarterly data are released by the US authorities in annualised format.

**Ruth Lea, Economic Adviser, Director,
 Arbuthnot Banking Group,
ruthlea@arbuthnot.co.uk,
 Tel: 07800 608 674**