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Global Financial Crisis

2008-2012

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I. Abstract

This paper analyses the consequences of the outbreak of the Global Financial Crisis of 2008, since its inception, due to subprime mortgages until 2012, interval in which it did not stop emerging the different consequences of the Great Recession among the different economies of the world.

To carry to out this analysis I have proceeded to the study of different sources such as: working papers, occasional papers, books, articles, etc. These sources are both institutional and private.

In this study you can appreciate that the consequences have been disparate among developed countries and developing countries. In both cases notable leaving latent the connexion that exists between both economies.

Also evident is that reactions in the various States, notably in the Eurozone have arrived late and are inadequate, reflecting the urgent need for greater regulation to prevent future crises of this magnitude as well as to mitigate the effects of future crises.

Keywords: Global Financial Crisis, Eurozone, Debt, Bankruptcy, GDP.

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4. Introduction

4.1. Issue motivation

The main reasons why I chose the theme of the Global Financial Crisis of 2008 as the centre of this work are:

- In first place, because is an issue that nowadays is still important since its pop in the 2008 and it will continue to be in the future we have ahead. The global financial crisis of 2008 has occupied during these years covers all over the world. It has filled the pages of books and it has resulted in multiple scripts that were at the cinema and on television.
- In second place, because it is an issue that affects us all, not just States, large banks and large international companies. The main victim of this crisis has been and is the normal citizen.
- And third and last place, because the economy is essential to human development, as can be seen by taking a quick look at the history of mankind. After every financial crisis there have been changes in political regimes, and in societies that suffered it. I.e., the economy without the politics and society cannot be understood, the three are closely related.

4.2. Thesis and hypothesis

The objective of this work is to carry out an analysis of the consequences of the eruption of the crisis in 2008 to 2012 in different economies around the globe, paying special attention to the Eurozone.

The result of that analysis leads to affirm that both the consequences and reactions depending on the country and region have been very mixed. To differentiate, we are going to divide these in two large blocks; on the one hand, the one of developed countries and on the other that of underdeveloped countries.

It follows another affirmation of the analysis. The need for new rules that would prevent in a future financial crisis, to its consequences to turn again into the same magnitude.

4.3. Sources and methodology

In the present work we will study:

- In first place, the subprime crisis as the origin of the global financial crisis
- Second, the global financial crisis in the developed countries
- Third, the financial crisis on the developing countries
- And in fourth and last place, the financial crisis in the Eurozone. In this last point, we will do an analyse through a chronology between 2008 and 2012, due to the complexity of sharing the single currency.

Research for the analysis conducted in this paper has been developed through the reading of books, working paper, article, reports, dealing with the effects of the financial crisis in different economies studied, as well as various related subjects.

5. Context and Causes

To understand the context and causes in which the global crisis originates in 2008, which affected the Eurozone and is the central issue of this work, we must first understand what happened in the United States between 2006 and 2008.

After the attacks carried out in New York and Washington on the 11th of September of 2001, the U.S. Government was worried about the possible consequences that could have the attacks on the country's economy. For this reason, they decided to take a measure which can build trust between investors and also increase the flow of capital. That measure was the reduction of bank rates to 1%. With this measure they did not realized that they started a countdown to what you will see below.

5.1. Subprime mortgage crisis

In accordance with what Edward Gramlich[1] talks in his book Subprime Mortgages: America´s Latest Boom and Bust, the price of housing property in the United States suffered its highest growth since the Second World War. What was to be the owner of a housing became a luxury not accessible for the whole world. The greater part of the population was forced to live renting. As the years passed, certain financial institutions began to grant mortgages, without just basic requirements such as having a stable employment.

These huge facilities for granting mortgages translated into granting a very high number of mortgages in the entire country. This brings me to pose a problem for the banks, which decided to sell these mortgages to investment firms located mainly in Wall Street. The objective of these signatures was to create financial instruments backed by these mortgages and promise to give investors a high profitability. But for this to be credible in the face of the investors, has to be mixed with the subprime mortgages with low risk to obtain a level of risk much more moderate. As you can see, this system was very delicate because if the holder of the mortgage of high risk did not pay, the entire system will be torn down. The Wall Street firms began to sell these financial instruments backed by mortgages to banks, pension funds, foreign Governments and insurance companies. During the year 2007 investment banks stopped paying dividends to their customers due to the holders of the mortgages of high risk being unable to meet their deadlines. This failure on the part of the holders of the mortgages of high risk, led investors to claim to the insurance companies the value of their investment, encountering a situation even grimmer. The insurance companies did not have sufficient funds to pay for what they had secured. (Gramlich, 2007).

[1] **Edward M. Gramlich**, was born the 18th of June and died the 5th of September of 2007, he dedicated his life to be a professor at the University of Michigan teaching economics. He was a member of the Board of Governors of the Federal Reserve.

In line with what was said by professor Gramlich we can find the position of Nadia Senanayake[2]. She outcomes this in her book Structured Finance and the 2007-2008 Financial Crisis. We can remark from her book the following quote: "*The financial turmoil of 2007-2008 was exacerbated by the complex structure of risk transfer instruments; however, the origination of the crisis was the subprime mortgage industry. Thus products that were collateralised by mortgages or subprime mortgages were characterised as toxic instruments that fuelled the occurrence of the financial turmoil. The structured credit issuance […] with mortgage backed securities (MBS) dominating issuance followed by collateral debt obligations (CDO) and asset backed securities (ABS).*" (Senanayake, 2010)

[2] **Nadia Senanayake**, works at Bloomberg LP in the Analytics and Financial Sales Department. She also studied at the University of Applied Sciences at Germany and at the Berlin School of Economics.

6. World Crisis

Then we are going to analyse the worldwide crisis as a result of subprime mortgages. We will carry this analysis out analysing individually the most important events, which we will place in their respective countries leaving part of the Eurozone, which will have an own section given the complex situation that caused the crisis in this region because of all countries sharing the single currency, the Euro.

6.1. The global financial crisis in developed countries.

6.1.1. Financial crisis of the United States (2008)

The crisis of subprime mortgages that we have seen in the previous point is immediately reflected in a liquidity crisis in the United States of America. The country suffered due to the strong real estate bubble and a really low value of the dollar.

The most notable events after the outbreak of the crisis were:

6.1.1.1. Lehman Brothers and AIG: The outbreak of the crisis

September 16, 2008 declared its bankruptcy, two of the most important companies of the United States of America. The Bank's investment Lehman Brothers and insurer AIG.

The Fourth Wall Street investment bank Lehman Brothers, was one of the institutions that acquired more financial instruments backed by mortgages subprime that we have already mentioned in the previous section. This led to that when the holders of these mortgages left of the mortgage system to cope with the payments not only collapse but also occur on account of heavy losses all both private and institutional investors who had invested in the same mortgage-backed financial instruments. In the case of Lehman Brothers, produced losses were such that the company was forced to file for bankruptcy with a balance strongly decompensated possessing a passive of four hundred thirty billion dollars (430,000 USD millions). This bankruptcy along with AIG, which we'll discuss later, meant the official outbreak of the financial crisis in the United States of America.

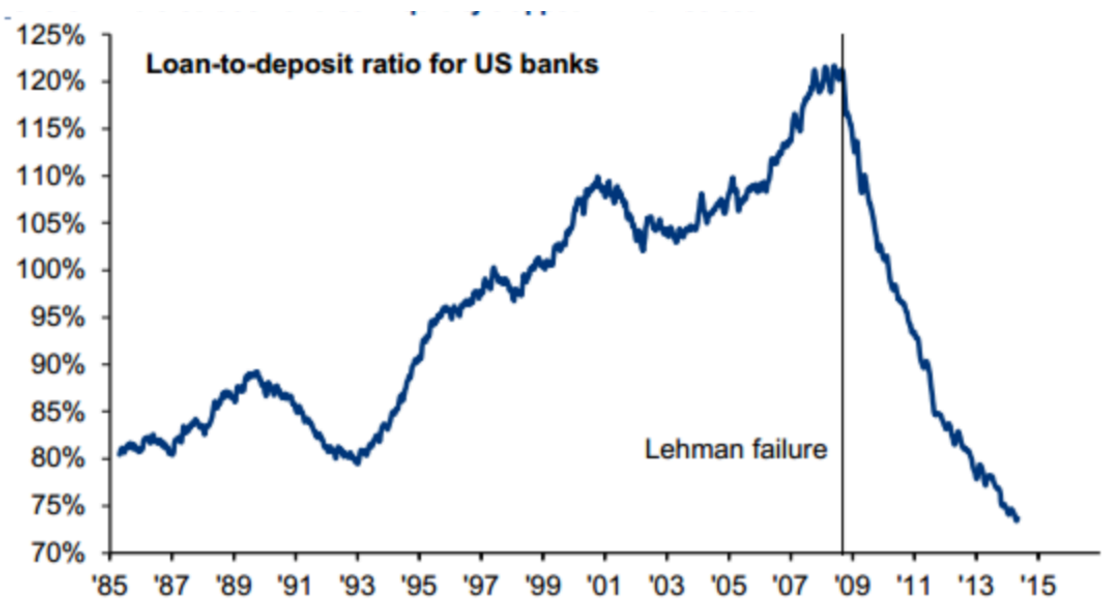

Illustration I Lehman´s Fall. Source: BofA Merrill Lynch Global Research, Federal Reserve Board, Haver

In line with what I have just said, it can be found in the Testimony Concerning the Lehman Brothers Examiner´s Report, which says *"[…] Key risk-taking activities that eventually contributed to Lehman´s collapse began when the firm embarked in 2006 on an aggressive growth strategy. […] Lehman invested its own capital in assets such as subprime and Alt-A residential mortgages and mortgage-backed securities, commercial real estate, and leveraged lending commitments. […] Lehman scaled back exposures in this area, but continued its growth strategy and increased its exposures to leveraged finance and to commercial real estate before liquidity dried up in these markets beginning in August 2007. During this time, Lehman reported its risk-taking activities under the CSE program. […] The near collapse of Bear Stearns in March 2008, which was averted only through a government assisted sale to JPMorgan Chase, resulted in a heightened focus on Lehman. […] In March, However, Lehman reported a first quarter profit and a $34 billion liquidity pool."* (Schapiro, 2010)[3]

[3] Mary L. Schapiro, was born on the 19th of June of 1955. She has being working at the U.S.Securities and Exchange Commission(SEC).

American International Group, Inc. (AIG), one of the leading companies worldwide in the insurance and financial services market presented its bankruptcy the same day as Lehman Brothers.

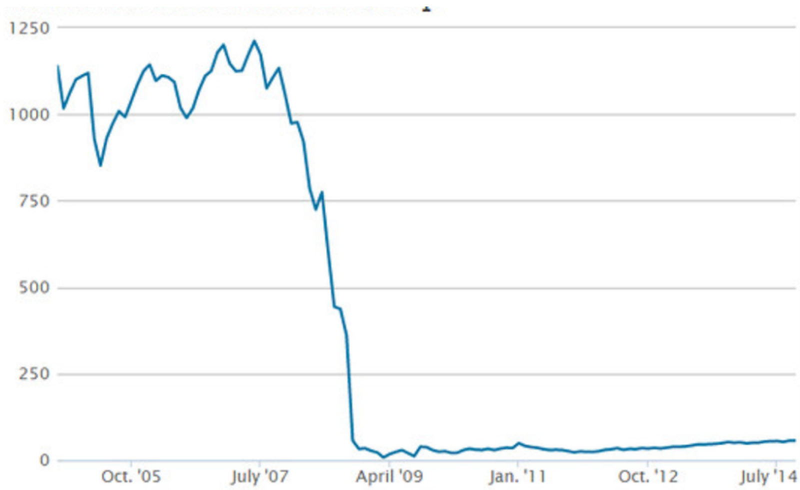

Illustration 2 AIG Fall. Source: WSJ Market Data Group

The case of AIG was especially delicate since on the one hand had secured a number so high of instruments financial that had as collateral them subprime mortgages whose claims total was of tens of thousands of millions of dollars. And on the other hand the company had bought these financial instruments. With the bursting of the housing bubble shrank the value of mortgages and this resulted in a huge loss to AIG, which forced the company to declare bankruptcy. In this situation the Government of United States of America, chaired by George W. Bush, bailed out AIG to prevent the collapse of the entire international financial system. This measure of the Government resulted in the delivery of eighty-five billion dollars to the insurance company. It was the largest pay-out ever made by the federal reserve (FED).

In line with what I have just said can be found in the book The AIG Story, which says "*By June 2007, AIG had written nearly $80 billion of swaps on the riskiest mortgage pools, quintupling its 2005 position, all unhedged. Many swaps required AIG to hand over cash if AIG were downgraded from AAA or the prevailing value of covered contracts declined, not merely pay only on default. In market parlance, this allowed customers to make "colateral calls" on AIG and required AIG to "post colateral" in response. […] From mid-2007 to late 2008, these problems gathered momentum and spread worldwide. For AIG, the events first produced colateral calls against it in late July 2007 and ultimately drained it of liquidity one year later."* (Greenberg & Cunningham, 2013)[4],[5]

Further supporting my position found in the June Oversight Report, The AIG Rescue, Its Impact on Markets, and the Government´s Exit Strategy "*The trigger and primary cause of AIG´s collapse came from inside AIGFP. This business unit, which included CDS on collateralized debt obligations (CDOs) backed by subprime mortgages, produced unrealized valuation losses and collateral calls that engulfed AIG in the fall of 2008. While the risk overhang in this business would have likely been sufficient to bring down the firm on its own, AIG´s securities lending operations, which involved securities pooled from AIG´s domestic life insurance subsidiaries, significantly*

[4] **Maurice Raymon Greenberg**, was born on the 4th of May of 1925. He served as the chairman and CEO of American International Group (AIG). This was the major insurance and financial services company of all times.
[5] **Lawrence A. Cunningha**, was born on July the 10th of 1962. He teaches Law at George Washington University.

raised the level of difficulty associated with executing a private sector solution or an orderly bankruptcy." (Warren, 2010)[6].

Referring to the action taken by the American Government to rescue AIG that we've encountered before, we can also mention to Elizabeth Warren *"At 9 p.m. Tuesday, the Federal Reserve Board of Governors, with the full support of Treasury, announced that, using its authority under Section 13(3) of the Federal Reserve Act, it had authorized FRBNY to establish an $85 billion RCF for AIG. (That same evening, FRBNY advanced $14 billion in credit to AIG.) The $85 billion facility would be secure by AIG´s assets and would "assist AIG in meeting its obligations as they come due and facilitate a process under which AIG will sell certain of its businesses in an orderly manner, with the least possible disruption to the overall economy*". (Warren, 2010).

This new situation caused great uncertainty in the markets and these led to a contraction. What was translating into a strong concern by investors, which were slowing their activity.

6.1.1.2. Fannie Mae & Freddie Mac

We cannot analyse the financial crisis in the United States of America without paying particular attention to the Federal National Mortgage Association (FNMA), better known as Fannie Mae and the Federal Home Loan Mortgage Corporation (FHLMC), better known as Freddie Mac, the two major mortgage country, both agencies sponsored by the Government of the United States.

Fannie Mae was created in 1938 to expand the secondary market for mortgages as part of the New Deal, the package of measures taken by Franklin Delano Roosevelt[7] to alleviate the effects of the great depression.

After more than thirty years as the only agency sponsored by the Government in order to expand the secondary market for mortgages in 1970 under the Presidency of Richard M. Nixon[8] created Freddie Mac

both agencies have a large and extensive experience in the mortgage industry and throughout its existence only facilitated low-risk mortgages. But this changed over one decade ago when they began to ease subprime mortgages.

Due to this change in policy, when holders of subprime mortgages were not able to meet these deadlines, both agencies were affected by the effect domino that caused. This meant the collapse of the actions of both agencies in the bag. What led the Government to come to the rescue of both agencies form joint since they are so intertwined that the fall of one would be that of the other and a huge blow to the American economy. According to this view, we found the speech of Henry M. Paulson[9]. *"And let me make clear what today's actions*

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[6]**Elizabeth Ann Warren** was bon in the 22[st] June of 1949. She belongs to the Democratic Party. She teaches law at Harvard Law School.

[7]**Franklin Delano Roosevelt** was born on the 30th of January of 1882 and passed away the 12th of April of 1945. He was the President of the United States from 1933 to 1945.

[8] **Richard Milhous Nixon** was born on the 9th of January of 1913 and passed away the 22nd of April of 1994. He was number 34th President of the United States between 1969 and 1974. He was the first president to resign.

[9] **Henry Merritt Paulson, Jr** was born the 28th of March of 1946. During his job lifetime he has being working as the Secretary of the Treasury and also had being the Chairman and Chief Executive Officer of Goldman Sachs.

mean for Americans and their families. Fannie Mae and Freddie Mac are so large and so interwoven in our financial system that a failure of either of them would cause great turmoil in our financial markets here at home and around the globe. This turmoil would directly and negatively impact household wealth: from family budgets, to home values, to savings for college and retirement. A failure would affect the ability of Americans to get home loans, auto loans and other consumer credit and business finance. And a failure would be harmful to economic growth and job creation. That is why we have taken these actions today." (Paulson, 2008)

Following what was said in the speech of the Secretary of the Treasury, the FED approves the purchase of short term of Fannie Mae and Freddie Mac stock.

Illustration 3 Fannie Mae Fall. Source: WSJ Market Data Group

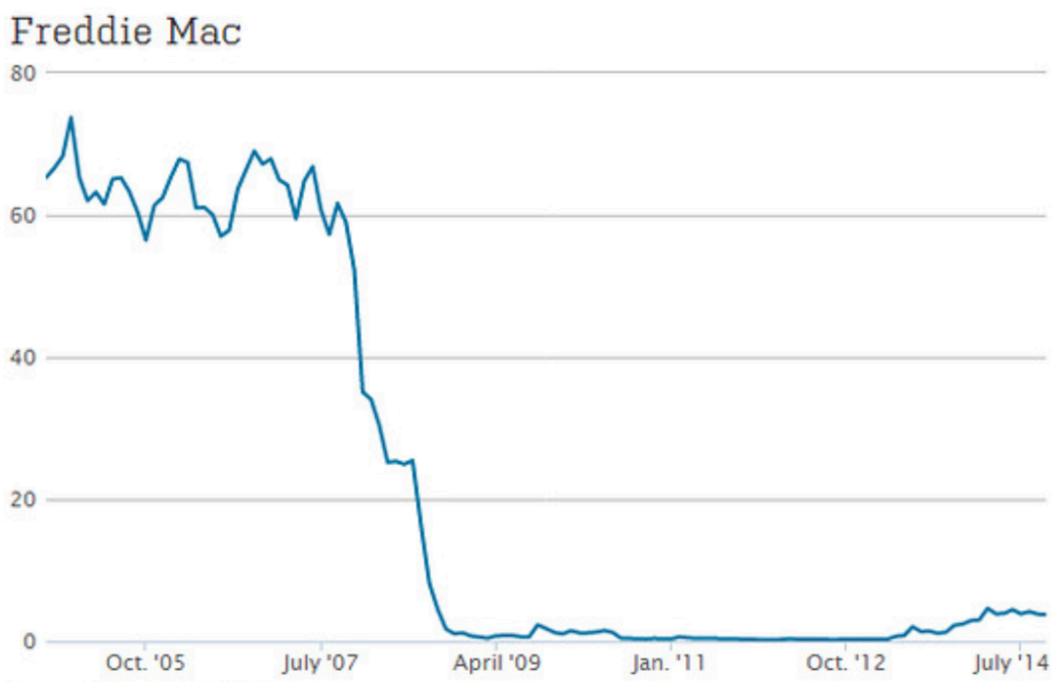


Illustration 4 Freddie Mac Fall. Source: WSJ Market Data Group

Meanwhile, Congress allowed to buy financial assets in delicate situations of the banks to the Treasury through the Emergency Economic Stabilisation Act. In addition to stimulate the economy is passed the American Recovery and Reinvestment Act, which inject seven hundred eighty-seven billion dollars. All this among other measures.

In against position with the mentioned in the previous paragraph, we find the following quote that not everyone agreed with the way in which the Government was facing the situation, in the Federal Reserve Bank of New York – Staff Reports from March of 2015; "*Summing up, Fannie Mae and Freddie Mac were too large and interconnected to be allowed to fail, especially in September 2008 given the deteriorating conditions in U.S. housing and financial markets and the central role of these two firms in the mortgage finance infrastructure. Our view is that an optimal intervention would have involved the following elements: (i) Fannie Mae and Freddie Mac would be enabled to continue their core securitization and guarantee functions as going concerns, thereby maintaining conforming mortgage credit supply. (ii) The two firms would continue to honor their agency debt and mortgage-backed securities obligations, given the amount and widely held nature of these securities, especially in leveraged financial institutions, and the potential for financial instability in case of default on these obligations. (iii) The value of the common and preferred equity in the two firms would be extinguished, reflecting their insolvent financial position. (iv) The two firms would be managed in a way that would provide flexibility to take into account macroeconomic objectives, rather than just maximizing the private value of their assets. (v) The structure of the rescue would prompt long-term reform and set in motion the transition to a better system within a reasonable period of time.*" (Frame, Fuster, Tracy, & Vickery, 2015)[10],[11],[12],[13].

[10]**W.Scott Frame** is an economist and works at the Federal Reserve Bank of Atlanta.

[11] **Andreas Fuster,** works at the Federal Reserve Bank of New York. He also has a Ph.D in Economics from Harvard University. He did also work while he was studying at the Federal Reserve Bank of Boston.

6.1.1.3. Merrill Lynch

The prestigious investment firm Merrill Lynch was also affected by the failure to pay the owners of mortgages subprime. After the fall of Lehman Brothers there was a strong convulsion which of course affected to Merrill Lynch, to the point that had to be acquired by Bank of America in September 2008 to prevent that run the same fate as Lehman Brothers.

Illustration 5 Merrill Lynch & Co Fall. Source: StockCharts.com

Already in October 2007 Merrill Lynch due to investments related to mortgages subprime this was forced to assume losses amounting to five billion dollars. Similarly, in January 2008 had to announce that losses for the fourth quarter of 2007 amounted to seven thousand seven hundred million dollars. The situation would go from bad to worse when announced that the losses amounted to nine billion in the first quarter of 2008.

After the failed attempt by Bank of America to buy Lehman Brothers, the Government of the United States, supported the purchase of Merrill Lynch to avoid another similar scandal. As we can see in the report of the Economist Martin Neil Baily and his fellow of the Brookings Institution entitled The big four banks: The evolution of the financial sector, Part 1; *"With no clear precedents or protocols for managing the failures of such large and interconnected institutions like Lehman Brothers, Merrill Lynch, and Bear Stearns before the crisis, the U.S. government took was forced to take an ad hoc approach, pushing these major investments banks into mergers with or acquisitions by other, stronger private institutions."* (Baily, bekker, & Holmes, 2015)[14]

[12] Joseph Tracy, he serves as Executive Vice President and Senior Advisor for the President. He also worked as an associate professor at Yale University and Columbia University.

[13] James Vickery, has worked as an assistant Vice President of the Federal Reserve Bank of New York in the department of Research and Statistics. He is specialized in banking.

[14] Martin Neil Baily was born on March the 29th of 1949. He served for Bill Clinton´s Administration. He is part of the Bipartisan Policy Center´s Financial Regulatory Reform Initiative.

Problems of Merrill Lynch would not end here, since Bank of America was penalized with a fine of more than nine billion dollars by the sub-prime-related behaviours. Bank of America, argues that the fine is due to the consultations that took place prior to purchase Merrill Lynch for its part.

6.1.1.4. Bear Stearns

The Bear Stearns Companies, Inc. Investment Bank, commonly known as Bear Stearns, founded in 1923 in New York was no exception with respect to its exposure to the subprime mortgages. Problems of investment firm started in 2007 with the bankruptcy of its high-risk investment funds.

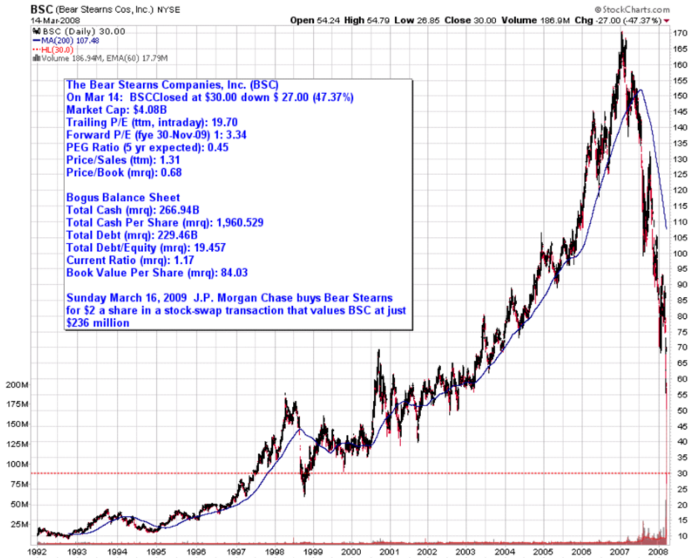


Illustration 6 Bear Stearns 1992-2008 Fall. Source: StockCharts.com

Such was the exposure of the bank mortgages subprime that losses not only presented after more than eight decades of profit, but that was the end for the prestigious investment firm. It was purchased by J. P. Morgan Chase & Co. After the acquisition of March 14, 2008 J. P. Morgan Chase & Co.[15] announced that it would dismiss half of Bear Stearns workers. The Secretary of the Treasury Mr. Paulson declared that it was the least harmful solution since it avoided the possible effect with you in United States banking. As I indicated at the beginning of this point, Bear Stearns exposure to mortgages subprime was such that in the paper, The Advantage of Failing First: Bear Stearns v. Lehman Brothers is expressed as follows;

- *"As the housing market began to deteriorate and subprime defaults increased, Bear took steps to reduce their high exposure to mortgage-backed assets in order to respond to increasing market pressure over these positions. On November 14, 2007, Bear wrote down its mortgage-related assets by $1.2 billion, which led to a $1.9 billion third quarter loss. Regulators grew concerned about Bear's intense concentration in the mortgage market, noting specifically the $13 billion in adjustable-rate mortgages on Bear's balance sheet waiting to be securitized, which were more than 30 times the value of its assets."* (Financial Crisis Inquiry Commission, 2010).

[15] J.P. Morgan Chase & Co is a multinational bank. We can say it was formed by the merge of J.P. Morgan & Co with Chase Manhattan Corporation in 2000.

- "*Consequently, there was internal disagreement as to how to deal with its large portfolio of mortgage holdings as seen in the previous figure. Bear's traders wanted to remove any remaining mortgage positions (Kelly, 2008). Alan Schwartz, Bear's new CEO, feared that selling mortgage positions would send a negative signal to the market. He also feared it would increase losses as the market for these securities was relatively illiquid, forcing them to sell at a discount. Despite hedges such as the "chaos trade" that bet on indices backed by subprime mortgages, Bear's overall exposure to mortgage securities proved to be too large. As fears about the health of Bear leaked to the markets, lenders demanded higher collateral and refused to lend against Bear's illiquid assets. The higher collateral calls forced Bear to sell assets at fire sale prices and take additional losses. Even as JP Morgan, their eventual acquirer, examined Bear's books, "they balked at the firm's precarious position and the continued size of its mortgage holdings*" (Stowell, 2009)" (Kensil & Margraf, 2015)

6.1.2. Iceland

Iceland, despite being a small island nation of more than three hundred thousand inhabitants requires a special mention in this analysis.

The Icelandic economy could boast of being one of the most modern in the world, but as we will see not proved to be effective. In 1998 the Government privatized the banking public creating three new private banks: Landsbanki, Kaupthing and Glitnir. The shareholders of them three new banks created companies to use them to acquire a greater percentage of actions in them same. What led to the control of three major banks of the country remain under the control of very few. To better understand the Icelandic Bank privatization, we should go to the words of Valur Ingimundarson, Philippe Urfalino and Irma Erlingsdóttir "*When the Independence Party and the Progressive Party formed a coalition government in April 1995, they brought forward the vision of a stronger Icelandic economy, achieved by privatizing state enterprises that had been competing with private and public companies. These enterprises included the two largest banks at the time, Landsbanki and Búnaoarbanki.*

The government´s ownership of banks and other financial companies had contributed to the lack of diversity in the market and had impeded the development of the Icelandic financial market, with negative consequences for the economy as as whole, as predicted by economic theories at the time.

The liberalization plan brought the promise of a modern financial system, devoid of politically motivated lending, and, even more importantly, a healthier economy with increased diversification. […] The vision of those two parties was, therefore, quite clear. It reflected the idea that these banks would be bought by experienced market participants, most likely foreign banks, which had built up substantial expertise in financial services not to be found in Iceland at the time. For this reason, the sale of these two banks should bring accumulated knowledge and experience from abroad for the future development of the Icelandic financial market, which was essentially in its formative stage around that time. The vision was even larger." (Ingimundarson, Urfalino, & Erlingsdóttir, 2016)

At the beginning of 2000, the Government took a series of measures that far from being advantageous for its economy became a serious problem for the same;

- Reduce the income tax,
- Much lower tax companies, and
- Eliminate the wealth tax

These measures were traduced in an increase to Iceland of capital from abroad, some of them already contaminated by mortgages subprime.

In addition to this we must keep in mind that these three aforementioned banks exchanged between thus shares and loans, so that they were dangerously related in such a way that if it something happened to one of them the other two would be affected. While these banks never had operated in the foreigner, requested and les were granted loans by a value total superior to them of one hundred thousand million of dollars which is several times the GDP of its country.

Between the year 2004 and 2006, in the real state sector, there were starting to build more buildings than between 1990 and the year 2000, this despite the fact that the construction sector saw the price of real state started to increase considerably.

Foreign banks continued to work ever more closely with the Icelanders. Which they kept experience fast and unrealistic growth that led to that the banking sector represented nearly 10 per cent of all the GDP of Iceland. This was very dangerous since as discussed above the three Icelandic banks were closely intertwined so that the bankruptcy of one, would mean the failure of the other two and these of the Icelandic financial system. Despite all this, the qualification of the three banks by Rating agencies was AAA.

As a natural result of the new relationship between the Icelandic banks and foreigners, the three banks of the island country advised its clients invest in funds of high performance of foreign banks which were backed by the subprime mortgages subprime.

We can now mention from the working paper Iceland´s Financial Crisis in an International Perspective the following statement; "*Iceland's crisis can be partly traced to the global imbalances of saving and investment that have affected many other countries, the United States as the world's consumer of last resort being the most prominent example. The existence of "surplus countries" such as Germany, China and Japan that export part of their savings implies that some other countries must spend more than they earn. But Iceland was more than passive in receiving capital inflows. Local businessmen took the opportunity to borrow through Iceland's commercial banking system to finance the acquisition of businesses in other countries. This explained an unparalleled expansion of the country's banking system, whose assets grew from amounting to one year's GDP in 2000 to more than seven year's GDP at the end of 2007. These businessmen also bought up businesses locally where share prices rose by a factor of nine from its bottom value in 2001 to its peak value in 2007."* (Halldorsson & Zoega, 2010).

The situation of the three banks was so delicate that just two weeks after the collapse of Lehman Brothers went bankrupt as it is said in the working paper Iceland´s Financial Crisis in an International Perspective "*The idyllic sparsely-populated Iceland became a symbol of the current world recession when its banking system collapsed in October 2008, only a couple of weeks after the failure of Lehman Brothers. Iceland's woes provide a case study of the impact of a country's entire banking system collapsing*". (Halldorsson & Zoega, 2010).

6.1.3. Japan

When we talk about the global financial crisis of 2008, may be the case of Japan the most singular of developed countries. The impact of the crisis on the banks of Japan was very small when compared with that of the United States or the Eurozone. This is due to their exposure to mortgage-backed financial products was very small. To understand this, we must bear in mind that at the beginning of the 2000 Japan was recovering from its crisis of 1990´s.

This Japanese crisis of 1990 was due to the outbreak, on one side of the housing bubble and the collapse of the stock market. Both resulting from speculation conducted in the country during the decade of the eighties.

To refer to what we have already said about Japanese banks, we can quote the OECD Economic Surveys; *"While this financial crisis is unique in certain aspects, such as the important role of securitisation, it resembles other bubble episodes, including Japan´s experience in the 1990´s, in many respects. The direct impact on Japanese banks from this crisis has been small compared with banks in other countries. According to an IMF estimate in April 2009, Japanese banks and other financial institutions will lose $149 billion in total due to the crisis (2% of their outstanding loans and securities), compared with $1.2 trillion (5%) in Europe and $2.7 trillion (10%) in the United States (IMF, 2009). One major reason was that Japanese banks in the first half of the current decade were preoccupied with recovering from last crisis by increasing their capital and reducing non-performing loans (NPLs). Indeed, NPLs were cut by more than half between FY 2001 and FY 2004, while normal loans outstanding fell by 16%. […] A number of other inter-related factors enabled Japanese banks to avoid the worst of the crisis."* (OECD, 2009).[16]

To understand much better, the Japanese crisis of the 90´s, we can do reference to BIS Papers, No6, The Financial Crisis in Japan during the 1990s: how the Bank of Japan responded and the lessons learnt; *"In the 1990s, Japan experienced a financial crisis after the bursting of a bubble. Although outside the scope of this paper, the seeds of the crisis might have been sown during the financial deregulation in the 1980s before the formation of asset bubbles. When the gap between competitive pressures in the financial markets and a "convoy" style of banking supervision and regulation that, in effect, ensured the viability of the weakest banks became unsustainable, the crisis erupted. In this regard, it may be argued that the crisis was accentuated by the formation and bursting of the bubble. It was an unprecedented crisis in terms of severity. Though essentially a domestic problem, with the authorities' primary concerns focused on its impact on the domestic financial system and economy, in an increasingly integrated global economy and finance there was a latent, potential risk that a mishandling of the crisis could trigger a cross-border financial crisis. Most of the seven years I spent at the Financial System Division of the Bank of Japan (1993 to 2000) were devoted to crisis management in an attempt to prevent the crisis from getting out of control. Throughout this period the Division remained totally committed to the policy objective of the central bank as stipulated in the Bank of Japan Law, namely, the maintenance of financial system stability".* (Nakaso, 2001).

[16] The Organisation for Economic Co-operation and Development (OECD) is an organization of 35 countries which main objective is to improve world trade.

The fact that the Japanese banking just lost one hundred forty-nine million dollars with mortgages subprime, compared the billions that lost United States and Europe, it makes us wonder what or which is the main cause of the crisis in Japan. To find the answer we must cast our eyes towards exports, which accounted for 20% of the GDP of Japan and were tremendously affected by a fall of 13.9% in 2008.

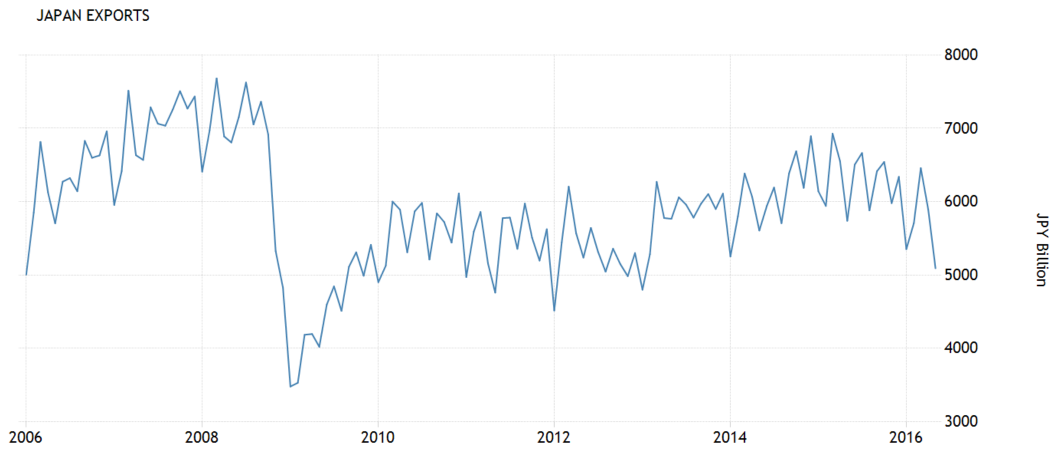


Illustration 7 Japan Exports Fall. Source: www.tradingeconomics.com Ministry of Finance Japan

This sharp decline is explained because Japan mainly exported to developed countries, if they had been hard hit by the crisis triggered by sub-prime financial subprime, as it is the case of the United States, which was the second country where most exported Japan. This fall in exports, meant that in the last months of 2008 the GDP of Japan were reduced by 3.3%. The above is supported by the following two quotes from the BIS Papers, No6, The Financial Crisis in Japan during the 1990s: how the Bank of Japan responded and the lessons learnt;

"Growth in Japanese export markets may be less buoyant. During the 2002-07 expansion, Japan´s export market expanded at a 10% annual rate, led by 20% import growth in China (Japan´s largest market) and supported by 6% US import growth (the second-largest market). Looking ahead, a more developed Chinese economy may be unable to sustain such rapid import growth in US consumption. [...] An export-led expansion in Japan would reverse the unwinding of global imbalances and thus put upward pressure on the exchange rate, thus constraining export growth". (OECD, 2009).

"The negative fallout of the global crisis was initially expected to be limited because Japanese financial institutions were relatively insulated from financial turmoil. Indeed, the banking sector had focused on traditional banking activities and its exposure to risky assets was therefore relatively small [...]. In this event, Japan´s GDP contracted at a 12.6% annual rate between the third quarter of 2008 and the first quarter of 2009". (OECD, 2009)

The recovery of Japan will be associated with its international business partners.

6.1.4. Australia

The effects of the global economic crisis, were especially unusual given that while the banking systems around the world needed an injection of capital, the Australian showed its strength not in need of any assistance. The effects of the crisis in Australia resulted in:

- On the one hand on the one sharp fall in stock market that led to the S & P/ASX200[17] to subside after the announcement of the bankruptcy of Lehman Brothers on September 15, 2008 (outbreak of the financial crisis) of the 4817.70 the same day at the 3154.50 points on March 09, 2009. (Illustration 8). Despite this sharp decline the Australian stock index, began to recover from the second half of 2009. The stock market rebounded during the first half of 2009.

Illustration 8 Index ASX 200-Evolution over 10 years Source: XE.com

- On the other hand, the dollar Australian (AUD) was strongly devalued against the US dollar (USD). (Illustration 9) from having a value prior to the outbreak of the crisis with an exchange rate of 0.84 US dollars per Australian dollar, reaching its minimum in November 2008 with an exchange rate of 0.64 dollars per Australian dollar. Despite this rapidly falling Australian currency recovery didn't wait long, showing a clear recovery during the first half of 2009 and arriving at a more regular rate beginning July 24, 2009, with an exchange rate of 0.82 dollars per Australian dollar.

[17] The S&P/ASX 200 index is the stock market index of Australia. And also from the Austrlaian Securities Exchange from Standard & Poor´s.

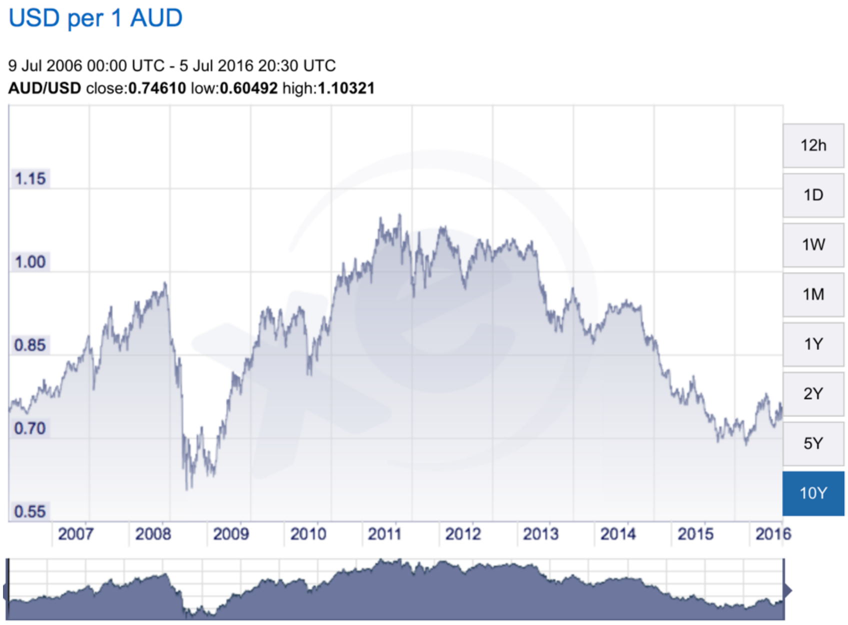


Illustration 9 AUD/USD exchange rate over the last 8 years

All this we can see this reflected in the article in the Australian Bureau Statistics of June 2010, which reads as follows; *"The effect of the crisis on Australia has been considerably less than in many other countries. The Australian economy has recorded markedly better growth outcomes than most other developed economies, many of which have experienced severe recessions and rises in unemployment. The Australian financial system has been markedly more resilient. Notably, Australian banks have continued to be profitable and have not required any capital injections from the Government.*

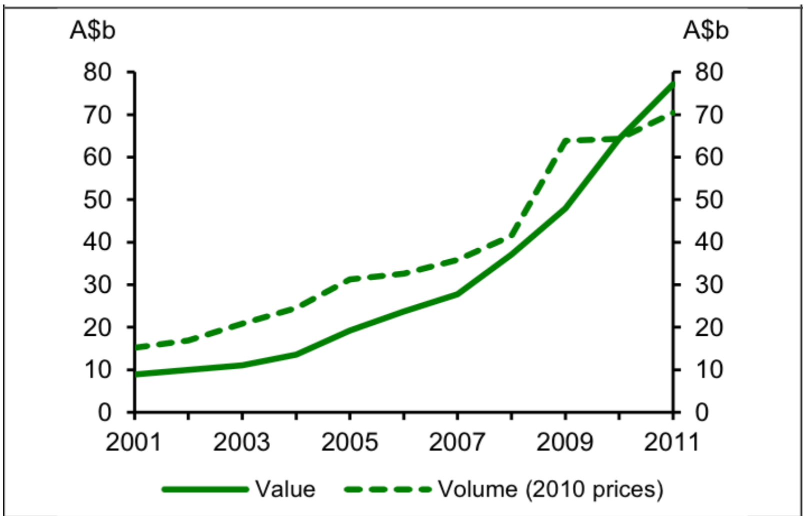
That said, the local economy and financial markets have not been immune. Growth in the economy slowed to around half a per cent and the unemployment rate has risen by nearly two percentage points to around 5¾ per cent by November 2009.

The most obvious impact of the financial crisis on most Australian households was the large decline in equity prices, which reduced the wealth of Australian households by nearly 10 per cent by March 2009. However, since the trough in equity markets in March 2009, the local market had recovered half of its decline by the end of November 2009.

The Australian dollar also depreciated rapidly and sizeably as the crisis intensified, declining by over 30 per cent from its July 2008 peak. Around the time of the Lehman bankruptcy, conditions in the foreign exchange market were particularly illiquid, prompting the Reserve Bank of Australia (RBA) to intervene in the market to *enhance liquidity. Since March 2009, as fears abated, the Australian dollar largely recovered, reflecting the relative strength of the Australian economy.*

The credit and money markets in Australia have also proven to be more resilient than in many other countries, necessitating considerably less intervention by the RBA than occurred in many other countries. In large part this reflected the health of the Australian banking system. The Australian banks had almost no holdings of the "toxic" securities that severely affected other global banks. The health of the Australian banking system facilitated the effectiveness of the monetary and fiscal response, particularly by allowing much of the large easing in monetary policy to be passed through to interest rates on loans to households and businesses, in stark contrast to the outcome in other developed economies." (AUSTRALIA, 2010)

- The third pillar of the Australian economy which was strongly affected were exports. Until the outbreak of the crisis, major trading partners of Australia in terms of exports were United States, Japan and United Kingdom. As a result of their economic situation, these countries reduced their exports which hit the Australian economy. This situation would also be brief given that Australia found a new partner commercial, the People's Republic of China, which went from being the sixth country receiving more imports from Australia in 2001 to first place from 2009.



DFAT estimate based on ABS trade data, ABS catalogues 5368.55.004 and 5302.0 and China import data on the Global Trade Atlas.

Illustration 10 Australian exports to China from year 2001 to 2011

The curious change of situation that suffered them exports Australian is reflected in these words of the Department of Foreign Affairs and Trade of Australia; *"[…] Australia's average export growth rate of 8.4 per cent per annum to the world. As a result, China has risen from being Australia's 6th largest export market in 2001 to become our largest export market since 2009. It is now significantly ahead of Australia's second largest export market, Japan (exports valued at $52.4 billion in 2011)."* (Australia's exports to China 2001 to 2011, 2012)

6.2. The global economic crisis on developing countries

6.2.1. People´s Republic of China

The global financial economic crisis affected not only developed countries, but it also strongly affected developing countries. The most relevant example is the People's Republic of China. Chinese is 2008 is faced to problems different from those who had them countries developed. I had no problems spending or debt as they could have West as Greece, as we will see later.

Their exports as them of Japan, is looked affected of form very aggressive since some of the commercial partners were countries Western affected by the crisis financial unleashed by them mortgages subprime or of high risk, as the United States.

This was a severe blow to the economy China, carrying decades watching their exports grew without hardly any contractions. The value of exports by China went from 1,607 trillions in 2008 to 1,358 trillions in 2009, i.e. exports were reduced by a total amount of 0,249 trillions (see the picture here below)

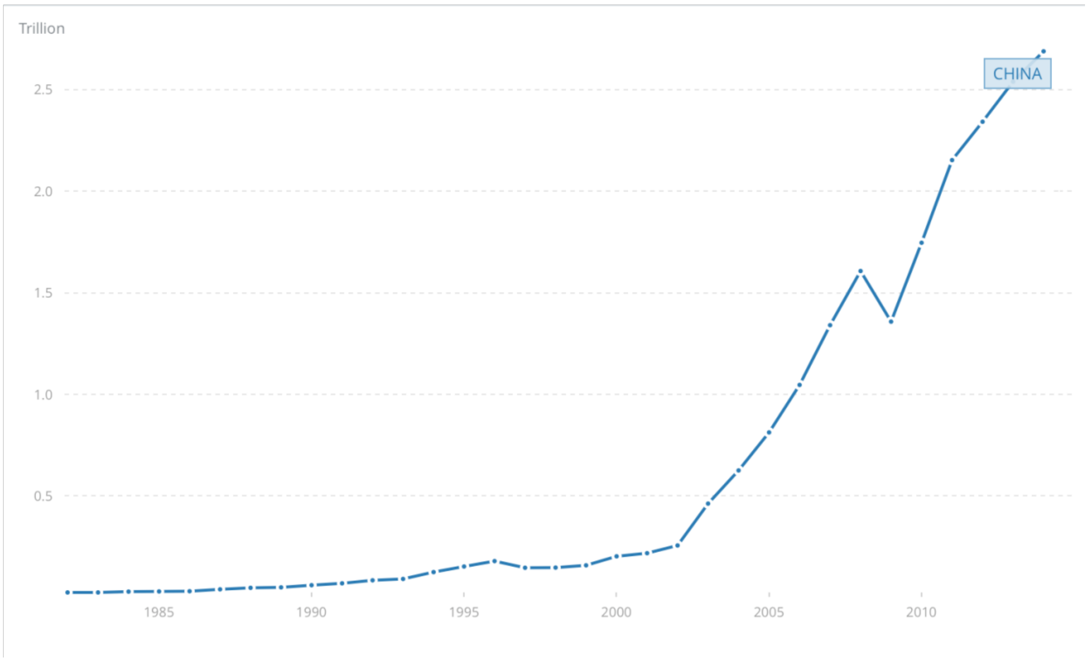


Illustration 11 China´s exports. Source: World Bank

All this meant that the economy China, was growing 13% from 2007 to 6% in 2008. The response of the Chinese Government to the effects of the crisis was very rapid. In November 2008 the Government of the people's Republic of china adopted a 4-trilliones-Yuan stimulus plan. The previously expressed situation can be reflected in this fragment taken from the paper entitled China and the Financial Crisis – Stimulating and

Understanding Household Consumption; *"The government response to domestic contraction and international recession has been swift and aggressive. While investment has been the predominant focus of stimulus, there is some truth to Premier Wen Jiabao's assertion that "China's stimulus package focuses on expanding domestic demand and is aimed at driving economic growth through both consumption and investment". The stimulus package and additional government spending have come in many forms. In rural areas, the government has moved to boost consumption, both directly and indirectly. The minimum purchasing price of grains was raised by 15%. Farmer subsidies were increased, resulting in a transfer of about CNY [RMB] 123 billion. Subsidies amounting to CNY 40 billion were given to rural households for purchases of home appliances, agricultural machinery, automobiles and motorcycles. This included a CNY 20 billion, 13% subsidy to purchase home appliances in rural areas and a "bring automobiles to the countryside" program which was meant to contribute CNY 5 billion between March and September. […] In addition, many government efforts have been made to increase the breadth of the social safety net. A trial rural old-age insurance program has been established in 10% of China's counties, covering 90 million people. The government is spending CNY 12 billion to increase teacher salaries, and has allocated CNY 43 billion to provide health insurance for retirees of closed or bankrupt SOEs. In April, a health care reform package was announced that will involve CNY 850 billion through 201. Two thirds will be spent on patients and one third on hospitals. Outside of these new programs, the 2009 budget for "education, medical and health care, social security, employment, government sub seized housing and other programs related to people's wellbeing" will be 29.4% higher than in 2008. As part of the CNY 4 trillion stimulus package, there is a CNY 40 billion allocation for medical services, culture, and education, as well as a CNY 280 billion allocation for affordable housing. All of these programs to boost social welfare should increase consumption both by increasing current expenditure on the relevant items (i.e. health care, education) and by decreasing precautionary savings."* (Mingchun, 2009) (Ligang, 2009) (Wang & Zhang, 2009) (Bulman, 2010).

The picture here below shows the growth on real GDP of China compare with the rest of the world.

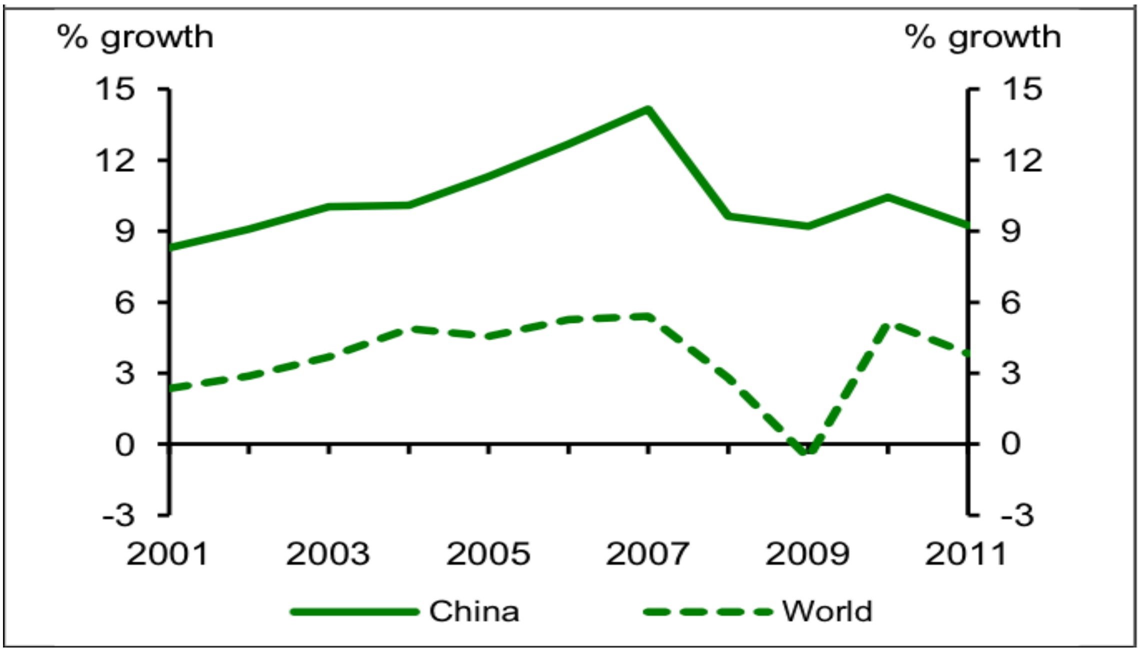


Illustration 12 China´s GDP growth compare with the rest of the world. Source: IMF World Economic Outlook Database (Oct-2012)

6.2.2. India

India, the other Asian giant is also a clear example that the crisis affected not only developed countries, but also emerging economies. The India had decades experiencing great growth in their GDP, especially since 1990. The picture below this paragraph shows us India´s GDP evolution.

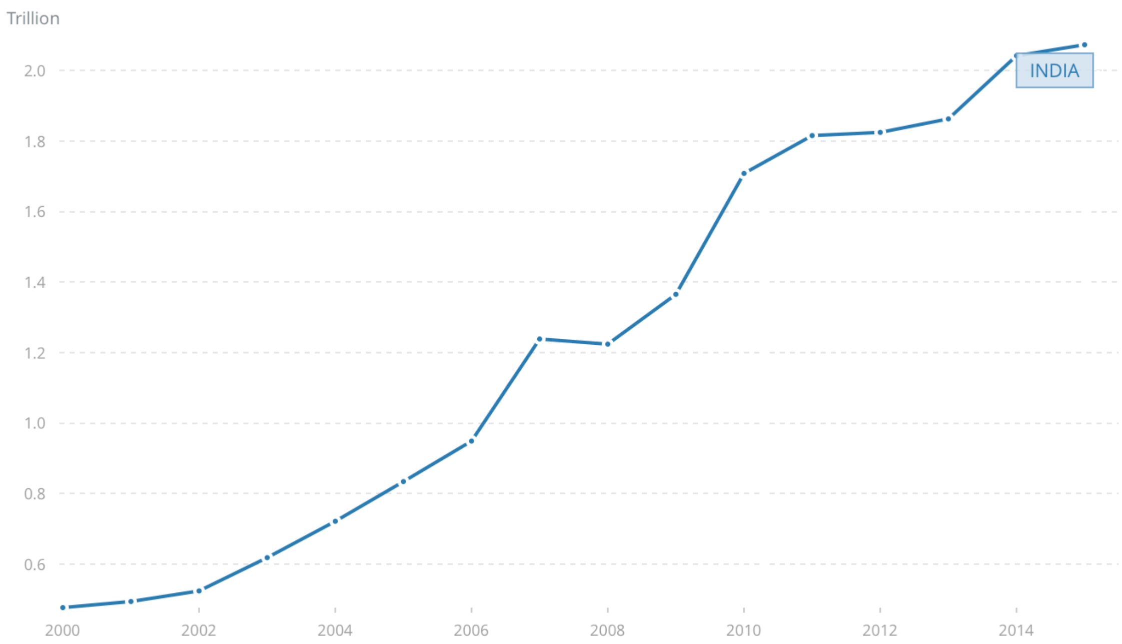


Illustration 13 India´s GDP evolution. Source. Data World Bank

Its banking system has not been affected by the pop of mortgages subprime given that most of its banks were not exposed to such loans. In fact, the beginning of the sub-prime crisis subprime was positive at first for the India economy, since it attracted the investment of foreign capital during the last months of 2007 and early 2008.

As it was moving the global financial crisis in the developed countries were changing things for the India. Foreign investors began to withdraw their capital since they had no liquidity in their countries of origin. This led to the current account of the balance of payments of the India is personal at more than 80 billion between 2008 and 2013 as we can see in the picture here below.

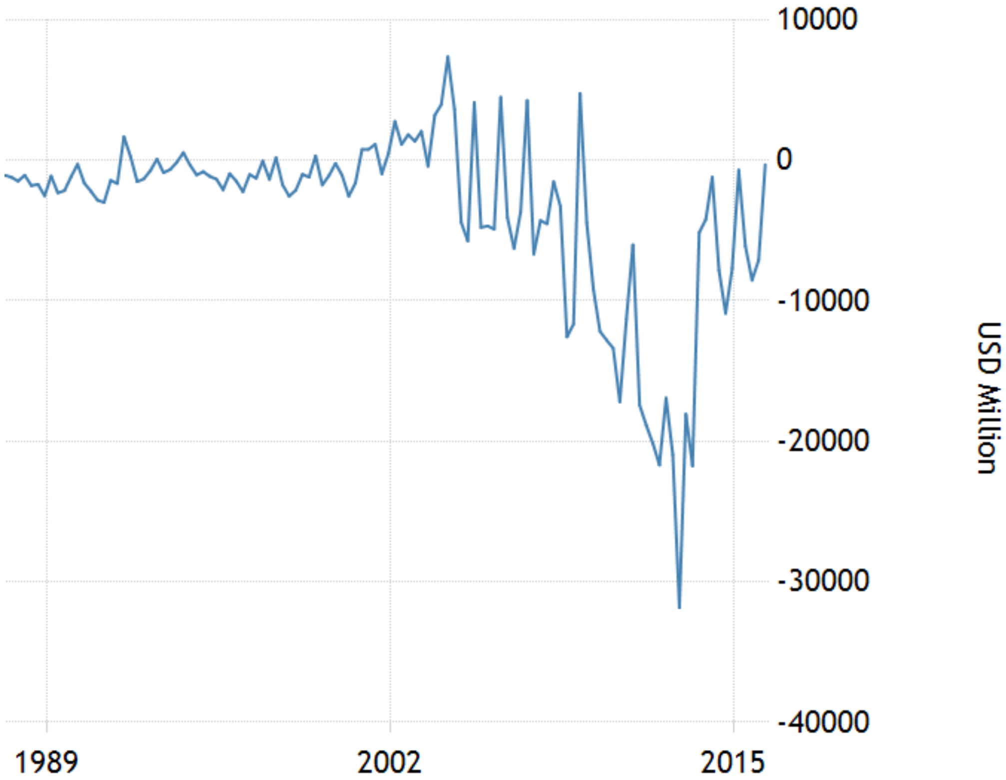


Illustration 14 India´s current account evolution. Source: Tradingeconomics.com/Reserve Bank of India

Another consequence of the lack of liquidity in the India economy was the fall in the value of its exports which also suffered a sharp drop at the end of 2008.

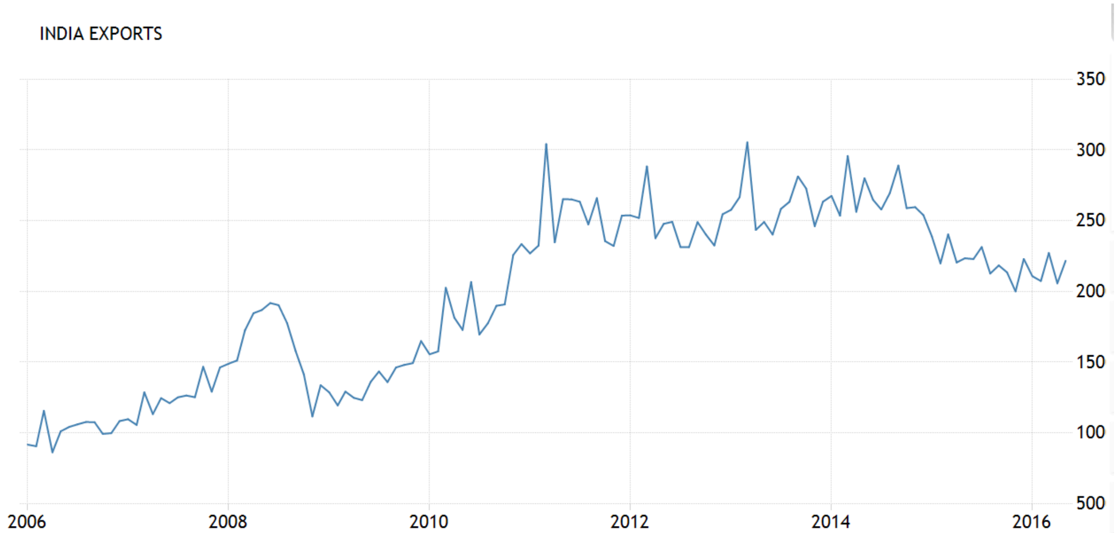


Illustration 15 India´s exports. Source: tradingeconomics.com/Ministry of commerce and industry of India

All this accumulation of events led to the economy Indian pass to grow in 2008 / 2009 a 5.8% facing the 9% of the exercise earlier. This what we see collected in the paper Global Financial Crisis, its Impact on India and the Policy Response; *"The global financial crisis began to affect India from early 2008 through a withdrawal of capital from India's financial markets. This is shown in India's balance of payments as a substantial decline in net capital inflows in the first half of 2008-09 to US$ 19 billion from US$ 51.4 billion in the first half of 2007- 08, a 63% decline. This is seen from a large outflow of portfolio investment (as equity disinvestment by foreign institutional investors); and lower external commercial borrowings, short-term trade credit, and short-term bank borrowings. Inflows under foreign direct investment, external assistance and NRI deposits, by contrast, surged during the first half of 2008-09.*

In the second half of 2008-09, net capital flows turned negative as there were huge outflows of portfolio investment, short-term trade finance and banking capital. Capital flows under foreign direct investment and external commercial borrowings recorded sharp declines of 66 percent and 56 percent respectively over the same period of 2007-08. However, inflows under external assistance and NRI deposits continued to rise considerably during the second half of 2008-09.

While capital account suffered right from the beginning of 2008-09, the impact of the global crisis on the current account was felt only in the second half of 2008-09. In the first half of 2008-09, merchandise exports in fact grew strongly at 35 percent and invisible receipts by 32%.

[…]Merchandise exports declined by about 18 percent in the second half of 2008-09 over the same period of 2007-08, and imports declined by 11%" (Bajpai, 2011).

6.2.3. South Africa

As we have seen in the study of the global financial crisis that we have been so far, this spread quickly by most developed countries due to the close financial relationships that exist between them, being in a different way the spread between the developing countries and especially in the case of the continent of Africa. During the beginning of the crisis in late 2008, it was thought that African countries would not be affected by the financial crisis that quickly spread through the rest of the world. This could be true in the majority of African economies but would not be the first economy of the continent thus: Republic of South Africa.

Prior to the crisis the economy of South Africa grew at a good pace inter annual. Between 2000 and 2003 she grew an average of 3.6% and between the years of 2004 and 2007 came to grow to an average of 5.1%. This growth was due to various factors including the increase of the investment public but more especially to private, the improvement of financial services, the increase in construction and increased consumption of households as well as an increase in mining exports, especially to Europe. Thanks to all this the rate of inflation in South Africa fell to have single-digit, and have as we have seen good growth of its GDP.

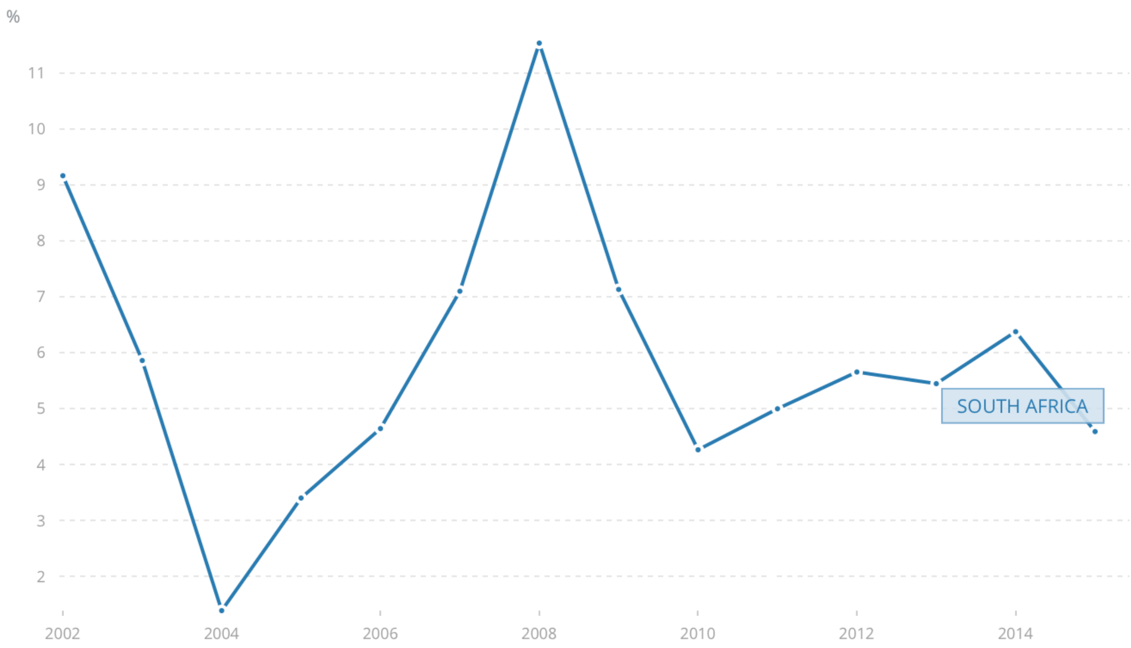


Illustration 16 Evolution of inflation in South Africa. Source: Data World Bank International Monetary Fund, International Financial Statistics and data files

Similar to other emerging economies South Africa's banking sector was not affected since the South African banks had no exposure to the subprime loans (sub-prime). The problem with the country's economy African came in 2009. When for the first time in a decade its GDP had negative growth, going to grow 3.2% in 2008 to -1.5 in 2009 (see the picture here below).

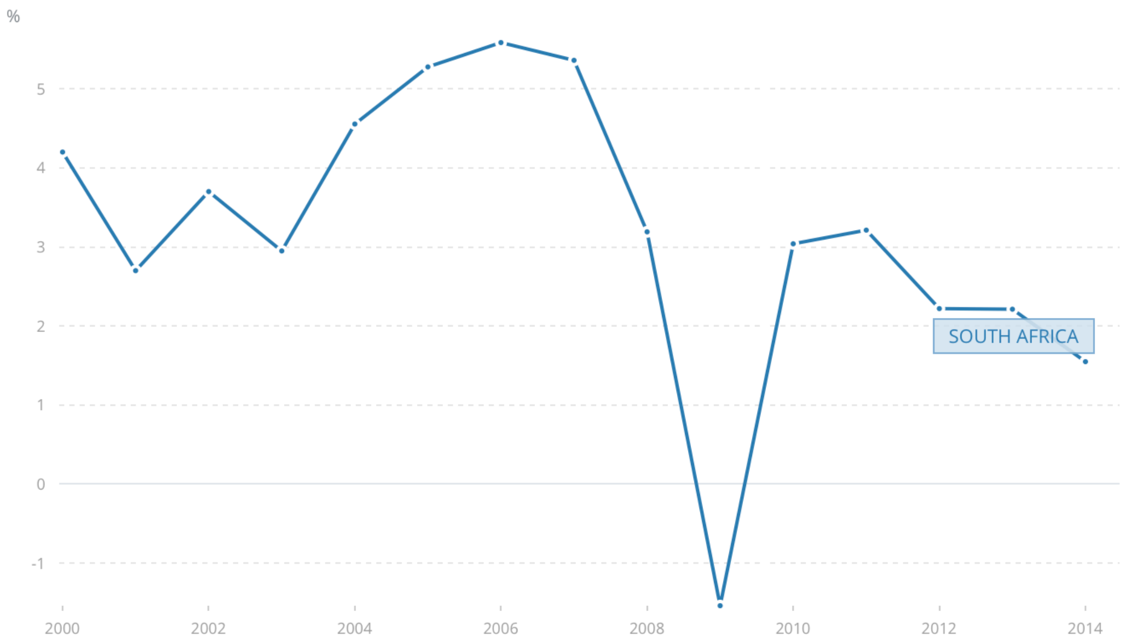


Illustration 17 South Africa´s GDP evolution. Source: World Bank national accounts data, and OECD National Accounts data files

This contraction of GDP was due to different causes of internal and other external. The most important internal cause is unemployment, which grew from the end of 2008 and especially during 2009 and 2010. This internal cause is given in part justified by the main external problem that had the country, the fall of the demand for raw materials like Platinum which South Africa is one of the world's largest producers. This metal is widely used in the automobile manufacturing sector, which had experienced a sharp decline in developed countries as in the Eurozone. This decline in demand in raw materials resulted in a drop in exports of the country.

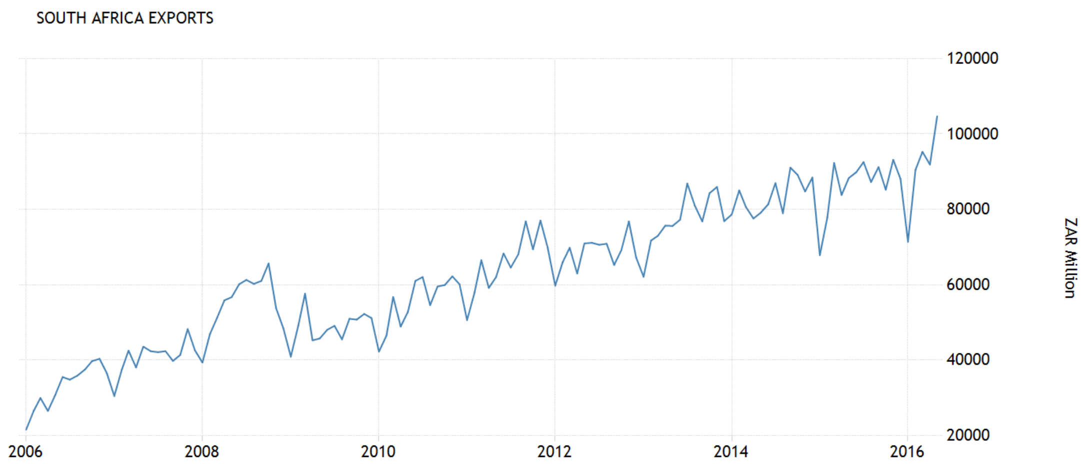


Illustration 18 South Africa´s exports evolution. Source: trading economics, south Africa revenue

All this situation in the African country is reflected in the words of Michele Zini[18], Research Analyst at the world banks office in South Africa;

"When the storm hit, South Africa had been sitting on relatively strong fundamentals and emerging from a protracted period of economic expansion. The meltdown allowed "not so well hidden" vulnerabilities to surface. Unemployment, inequality, poverty, crime, and HIV/AIDS still continue to plague the country. Agriculture, mining and manufacturing declined while the trade and current account deficit (CAD) widened. Household indebtedness reached worrying levels in a low interest rate environment and inflationary pressures mounted. Moreover, severe energy shortages erupted (inducing blackouts) and a tense political climate resulted in President Mbeki's resignation.

In months ahead, the sustainability of the CAD and the impact of the crisis on the real economy will remain the key issues. The financial account has so far been sufficient to finance the CAD, but sudden stops of capital inflows are not unheard of in developing countries during hard times. While the free floating exchange rate rules out insolvency issues, financing the CAD will be much more difficult and costly; on the other hand, lower global

[18] Michele Zini works as a research analyst at the world bank's office in South Africa. He did study a master's degree in politics and economics from the London School of Economics.

demand will hurt South Africa's export sector and the falling rand is not expected to significantly counter the decline. The crisis has also impacted the real economy. House prices have been declining, along with vehicle sales. Manufacturing production has slowed, the mining sector is shrinking further, and retrenchments are on the increase. Growth is expected to slow down which is a risky proposition for South Africa and for Africa as a whole. Luckily, the sound fiscal position will somewhat cushion the economic slowdown." (Africa, 2008).

6.2.4. Brazil

Brazil is a case surprising regarding the way in which addressed the crisis financial world. Since seeing your data virtually dodged it, though, have been strongly seen its economy after the outbreak of the crisis in September 2008. The years prior to the crisis Brazil experienced a cycle very strong of growth. Its citizens were soon indebted and obligations unlike that in Europe or the United States were in the short term. It also received strong inflow of foreign capital.

The most affected sector within the Brazilian economy was without doubt the industrialist whose collapse dragged GDP causing a fall of 2.9 per cent in the last quarter of 2008 and 0.9% in the first quarter of 2009.

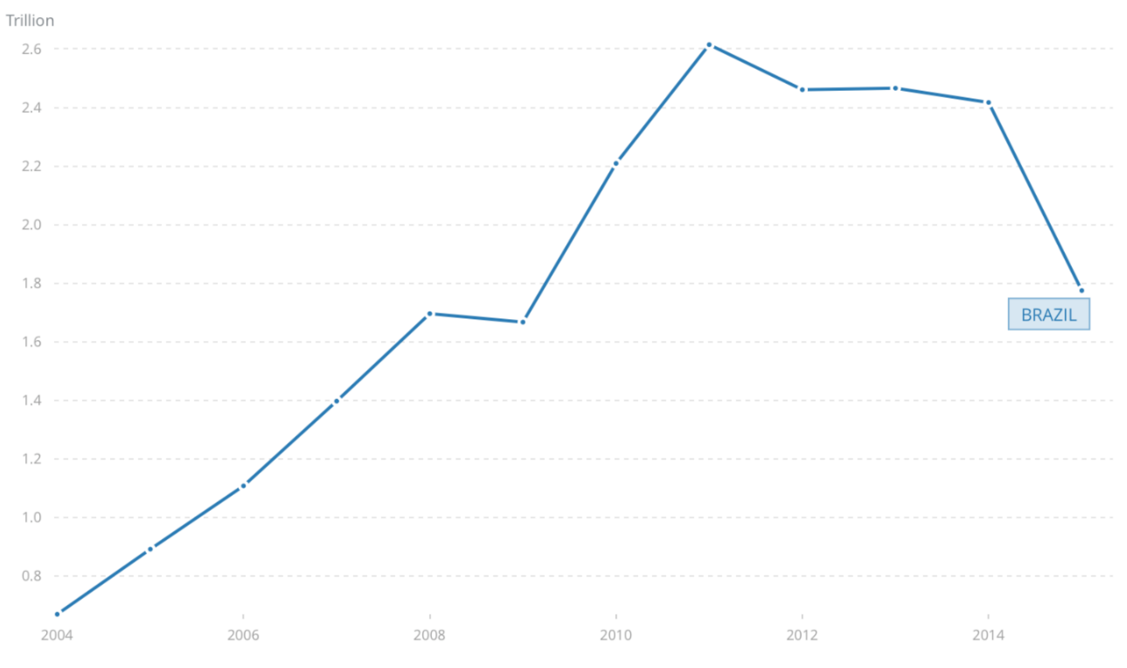


Illustration 19. Brazil´s GDP Evolution. Source: World Bank national accounts data, and OECD National Accounts data files.

This fall of the industrial sector was produced by the reduction of demand for Brazilian exports by emerging countries, which were the main customers of the Brazilian industry.

Is also worth mentioning that the Brazilian real depreciated more than 30% in the last quarter of 2008 resulting in a credit-crunch.

Faced with this situation the Brazilian Government took several steps quickly aimed at increasing personal spending, some of which was to raise pensions and the ground of civil servants, thanks to that both sectors of the population had better access to credit or greater capacity to buy consumer goods. Another important measure was the reduction of taxes in different consumer goods especially highlighting the automobile sector.

While all this was happening in Brazil, from China arrived requests to increase imports from the Asian country Brazil. Becoming, the Popular Republic of China buyer of 13% of the exports of Brazil, thus becoming the first commercial partner of the State negatives.

All these measures taken by the Brazilian Government together to increase external demand and their property were translated into a quick recovery for its economy from the second half of 2009. Reflected in its GDP that barely fell compared to the previous year and soared in the following two.

In the next publication of the Rabobank[19] we find reflected the analysis I've done on the economy of Brazil; *"Brazil's resilience was demonstrated when the 2008 global financial crisis struck. The country suffered from the quick fall of commodity prices and the strain on financial markets. For the first time in its history, Brazil was able to enact countercyclical policies during a (global) crisis. Instead of having to tighten fiscal and monetary policies, which was necessary in the past to preserve confidence, Brazil had enough buffers to counter the crisis by increasing public spending and lowering interest rates.*

As a result of these stimulus measures, and also due to a strong recovery of commodity prices, the Brazilian economy recovered vigorously in 2010, with GDP growth swinging from minus 0.9% in 2009 to 7.5% in 2010. Meanwhile, large oil reserves were found in the Atlantic Ocean. This meant that Brazil, which had already experienced a strong growth of oil production in the first decade of the 21st century, could become a major oil producer, with partially state owned Petrobras playing a central role. In 2010, Petrobras raised USD 70bn in the world's biggest IPO ever. However, growth fell disappointingly to 2.7% in 2011 0.9% in 2012." (Rabobank, 2014)

[19] Rabobank is a dutch multinational bank. It is oriented to food and agricultural financing.

7. The global financial crisis on the Eurozone and its consequences

I will develop this paragraph through an analysis of the most relevant points concerning the most notable events that occurred within the Eurozone between 2008 and 2012.

The consequences in the Eurozone of what we have seen in the previous section are the following:

7.1.1. Time line

7.1.1.1. 2008.

After the entry of the Euro as the single currency in January 1999, the first consequences that we can see from the global financial crisis in the Eurozone becomes evident in December of the year 2008. Such as the withdrawal of capital from investments from outside the Eurozone in developed countries, and the heavy indebtedness or high debt. When the leaders of the European Union were forced to launch a stimulus plan of 200 billion euros.

In accordance with the Communication from the Commission to the European Council,

"The European Economic Recovery Plan has two key pillars, and one underlying principle:

- *The first pillar is a major injection of purchasing power into the economy, to boost demand and stimulate confidence. The Commission is proposing that, as a matter of urgency, Member States and the EU agree to an immediate budgetary impulse amounting to € 200 billion (1.5% of GDP), to boost demand in full respect of the Stability and Growth Pact.*

- *The second pillar rests on the need to direct short-term action to reinforce Europe's competitiveness in the long term. The Plan sets out a comprehensive programme to direct action to "smart" investment. Smart investment means investing in the right skills for tomorrow's needs; investing in energy efficiency to create jobs and save energy; investing in clean technologies to boost sectors like construction and automobiles in the low-carbon markets of the future; and investing in infrastructure and inter-connection to promote efficiency and innovation. At the same time, the ten Actions for Recovery included in the Plan will help Member States to put the right social and economic levers in place to meet today's challenge: to open up new finance for SMEs, cut administrative burdens and kick-start investment to modernise infrastructure. It will drive a competitive Europe ready for the low-carbon economy.*
- *The fundamental principle of this Plan is solidarity and social justice. In times of hardship, our action must be geared to help those most in need. To work to protect jobs through action on social charges. To immediately address the long-term job prospects of those losing their jobs, through the European Globalisation Adjustment Fund and an accelerated European Social Fund. To cut energy costs for the*

vulnerable through targeted energy efficiency. To address the needs of those who cannot yet use the internet as a tool to connect". (Barros, 2008)

Due to the fact that the trust of citizens and companies had disappeared, added to the fact that the slowdown had spread to emerging economies affecting the exports of Europe and to the fragile financial market conditions, the European Union was obliged to take a series of measures that are translated in the recovery plan that we have quoted.

The objectives of the plan that we are dealing with, are the following:

- reduce the energy dependency of Europe from third countries,
- to stimulate demand and increase consumer confidence and
- make a Europe more competitive in the global market.

To achieve these objectives, the members of the Eurozone, must work together by applying state policies that continue to about the same principles.

7.1.1.2. 2009

The structural weaknesses of the Greek economy, together with more than a decade of high levels of debt and deficit, this caused the Greek debt came to 113 per cent of its GDP, (300 billion Euros).

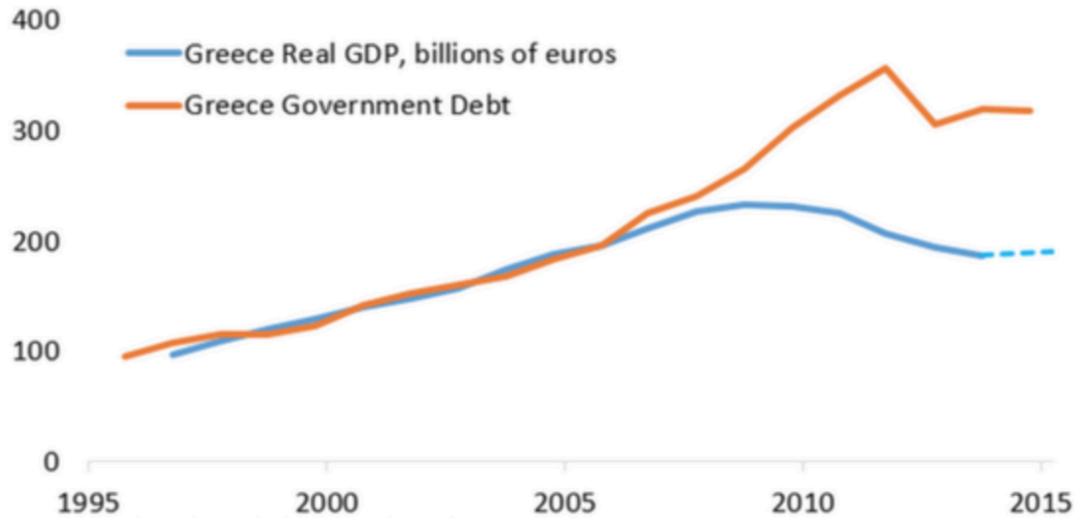


Illustration 20 Evolution of Greece GDP and Government Debt. Source: National Statistical Service of Greece, Eurostat.

This meant that the Greek debt reached the 53 points above the European average, which was in the 60%.

In accordance with the report of the Congressional Research Service[20] (a public policy research arm of the United States Congress.) there are potential domestic and international causes;

[20] The congressional Research Service (CRS) is a public organism of the United States Congress.

"High Government Spending and Weak Government Revenues;

Between 2001 and 2007, Greece's GDP grew at an average annual rate of 4.3%, compared to a Eurozone average of 3.1%. High economic growth rates were driven primarily by increases in private consumption (largely fueled by easier access to credit) and public investment financed by the EU and the central government. Over the past six years, however, while the central government expenditures increased by 87%, revenues grew by only 31%, leading to budget deficits well above the EU's agreed-upon 3% of GDP threshold.

Observers identify a large and inefficient public administration in Greece, costly pension and healthcare systems, tax evasion, and a general "absence of the will to maintain fiscal discipline" as major factors behind Greece's deficit [...] In 2009, Greek government expenditures accounted for 50% of GDP Successive Greek governments have taken steps to modernize and consolidate the public administration. However, observers continue to cite over-staffing and poor productivity in the public sector as an impediment to improved economic performance. An aging Greek population—the percentage of Greeks aged over 64 is expected to rise from 19% in 2007 to 32% in 2060—could place additional burdens on public spending and what is widely considered one of Europe's most generous pension systems. According to the OECD, Greece's "replacement rate of 70%-80% of wages (plus any benefits from supplementary schemes) is high, and entitlement to a full pension requires only 35 years of contributions, compared to 40 in many other countries." Absent reform, total Greek public pension payments are expected to increase from 11.5% of GDP in 2005 to 24% of GDP in 2050." (Greece´s Debt Crisis: Overview, Policy Responses, and implications; Congressional Research Service; Nelson, Belkin, Mix; April 27, 2010; pg4-5)

"Structural Policies and Declining International Competitiveness Greek industry is suffering from declining international competitiveness. Economists cite high relative wages and low productivity as a primary factor. According to one study, wages in Greece have increased at a 5% annual rate since the country adopted the euro, about double the average rate in the Eurozone as a whole. Over the same period, Greek exports to its major trading partners grew at 3.8% per year, only half the rate of those countries¨ imports from other trading partners " (Paul Belkin, 2011)

After the elections of October 2009, the new Government of the Panhellenic Socialist Movement (PASOK)[21], led by Yorgos Pampandréu[22], met with a great fear of default on its sovereign debt on the part of creditors. In spite of this fear and the lack of confidence on the part of the creditors the Greek prime minister wanted to send a message of confidence in which ensured that debt could cope with their debt.

The Government of PASOK, encounter with a high public expenditure. We must point out mainly the military expenditure and expenditure that was caused because of the high number of Greeks who charged a pension.

The problem is compounded when we analyse the structural policies of the country and found high salaries together with a low productivity.

These alarming factors led to an imbalance in the balance of trade [23](is the difference between exports and imports).

[21] This party was founded in 1974 by Andreas Papandreou. It was a democratic socialist and nationalist party. The PASOK became the first left party on wining a majority in Greece.

[22] **Yorgos Pampandréu**, had served under his father orders. He was leader of the PASOK. Also he has being the President of the Socialist International.

[23] **Balance of trade (BOF),** is the difference between the imports and exports of a country.

"Increased Access to Capital at Low Interest Rates

The perceptions of stability conferred by euro membership allowed Greece, as well as other Eurozone members, to borrow at a more favourable interest rate than would likely have been the case outside the EU, making it easier to finance the state budget and service existing debt. This benefit, however, may also have contributed to Greece's current debt problems: observers argue that access to artificially cheap credit allowed Greece to accumulate high levels of debt. Critics assert that if the market had discouraged excess borrowing by making debt financing more expensive, Greece would have been forced to come to terms earlier with the need for austerity and reform". (Paul Belkin, 2011)

"*Issues with EU Rules Enforcement*

The European Commission initiated an excessive deficit procedure against Greece in 2004 when Greece reported an upward revision of its 2003 budget deficit figure to 3.2% of GDP. In its report, the Commission indicated that "the quality of public data is not satisfactory," noting that the EU's statistical office, Eurostat, had not certified or had unilaterally amended data provided by the National Statistical Service of Greece since 2000. Subsequent statistical revisions between 2004 and 2007 revealed that Greece had violated the 3% limit in every year since 2000, with its deficit topping out at 7.9% of GDP in 2004. The Commission also noted that Greece's debt had been above 100% of GDP since before Greece joined the euro, and that the statistical revisions had pushed the debt number up as well. The EU closed the excessive deficit procedure in 2007, with the Commission pronouncing itself satisfied that Greece had taken sufficient measures, "mainly of a permanent nature," and that the country's deficit would be 2.6% of GDP in 2006 and 2.4% in 2007.

The Commission also concluded that "the Greek statistical authorities improved their procedures," leading to "an overall higher quality of data." The Commission opened a new excessive deficit procedure in 2009 when Greece's 2007 deficit was reported at 3.5% of GDP, and that procedure is ongoing in the context of the current situation. This points to a broader problem of a monetary union without a fiscal union, as discussed below in "European Integration." (Paul Belkin, 2011)

In terms of the inflow of capital at a reduced interest rate was a dangerous tool, because the damage that could result of its abused was greater than the benefits obtained from it. As demonstrated in the Greek case over the years.

Due to internal difficulties, the Greek Government was not able to correctly apply the directives of the European Union.

All this atmosphere of uncertainty in Greece, caused concern that the Greek crisis could spread to other Eurozone countries.

7.1.1.3. 2010

7.1.1.3.1. Greece

Closely linked with what we have seen that happened in December 2009, we found during the first half of 2010 a joint visit to Athens by the IMF[24], the ECB[25] and the EC[26], with the mission for an in-depth analysis of the financial situation of Greece. The conclusion of the trip was that it was necessary to prepare a financial package of 110 billion euros and that Greece reforming its political measures.

"Structural fiscal reforms

[…] The programme foresees the implementation of an ambitious pension reform.

- ***Diagnostic** -- The authorities agreed that the current system was unsustainable and would become insolvent if measures were not taken to place it on a sound footing – if nothing was done the fund for self-employed would face liquidity problems already in the second half of 2010. Under unchanged policies, Greece has a sustainability gap of 14.1% of GDP, compared to an EU average of 6.5% of GDP. […]*

- ***Process** -- On 9 February 2010 the Labour and Social Security Minister proposed a reform of the system. The draft reform planned to increase the average retirement age to 63, separated the financing of healthcare and pension systems, and increased the retirement age of women in the public sector. Considering that the plan was not ambitious enough, the Commission and the IMF suggested that the authorities should strengthen their proposal. […]*

- ***Outcome** – […] The reform will remove incentives for retirement before the statutory age. In particular, pension benefits will be reduced by 6 percent per year for people entering retirement between the ages of 60 and 65 with a contributory period of less than 40 years.*

- ***Follow up** -- The Greek Cabinet approved a draft bill on the reform of the social security and the pension systems on 10 May 2010. Before presentation of the draft bill in Parliament, the National Actuarial Authority will produce pension spending projections for the period 2010-2060. […]* (Directorate-General for Economic and Financial Affairs , 2010)

All these fiscal reforms that we have quoted were necessary since the situation in the country was becoming more precarious. It may 20, 2010 the country faced the fifth of the eight general strikes that would suffer this year. During the month of June, the Greek Prime Minister Yorgos Papamdréu managed to approve the austerity plan agreed with the European Union and the IMF to prevent the bankruptcy of the Hellenic State. During the same month the Fitch rating agency downgraded the rating of Greece to BBB-, leaving close to the high-yield bond. On the other hand, the

[24] **The International Monetary Fund** (IMF), has 189 countries as members. They all work together to mainly improve global monetary cooperation.

[25] **The European Central Bank** (ECB), is the main bank of Europe and has 19 members which are the states members of the European Union. It is part of the seven institutions of the European Union.

[26] **The European Commission (EC),** is the main institution of the European Union.

Moody´s[27] agency downgraded the credit rating of bonds issued by the Greek State in four steps, from A3 to Ba1.

Finally, in the midst of all this atmosphere of tension, the Greek Parliament adopted;

- with 157 votes of PASOK, the increase of the years of contribution to obtain the maximum pension, reform pensions for public employees,
- the increase in the average age of retirement to 65,
- matched retirement among men and women age and,
- reduction of wages.

7.1.1.3.2. Ireland

While in Greece was happening all mentioned in the preceding paragraph, in other peripheral country in the European Union, the situation was not much better. In this case, we talk about Ireland. Where the rate of unemployment was uncontrolled and banking scandals occurred.

"[...] Structural fiscal reforms

The mission commended the authorities for the establishment of the Fiscal Advisory Council. The five-member Council brings to the debate a host of skills and knowledge, as well as credibility. Looking ahead, it will be important to further underpin the Council's independence in the context of the Fiscal Responsibility Law for introduction by end-Q4 2011[...]

The public wage bill and long term pension costs are being reduced as planned. The authorities confirmed that a minimum 10% reduction in pay for new entrants to the public service is in place, in addition to an effective 14% reduction to salaries of existing staff put in place between 2009 and 2010, as well as an effective pay freeze until 2014. Planned reductions in public service numbers are in line with targets and measures to reduce the overall public service wage bill have strong support from both government and unions. A reform of pension entitlements for new public service employees is set for legislative introduction before end-September 2011. It will link retirement benefits to average earnings and link pension payments to inflation, and is estimated to reduce the long term public pension burden by about 35%." (Directorate-Generale for Economic and Financial Affairs, 2011)

In the case of Ireland, the measures adopted have two clear objectives, clean up public accounts and restructure the banking tax reforms referred to in the preceding paragraph, together with the injection of € 85 billion. As in the Greek case agencies Fitch[28] and Moody´s lowered the rating of the Irish debt. In the case of Fitch let the Irish debt at BBB rating. In the case of Moody´s, it downgraded the rating on five steps from Aa2 to baa1.

With all this accumulation of situations the perspective of Ireland was negative.

7.1.1.3.3. European Stabilisation mechanism to pressure financial stability.

[27] **Moody's Corporation,** is part of the holding company Moody's Investor Service (MIS). It is an American credit agency. It helps by giving financial analysis software.

[28] **Fitch Ratings Inc.** is part of the credit rating agencies with Moody's and Standard & Poor's.

While Greece and Ireland experienced the situation described above and the fear of contagion spread to other peripheral countries, the Council adopted the creation of a European stabilization mechanism to preserve financial stability.

"The Council and the Member States have decided today on a comprehensive package of measures to preserve financial stability in Europe, including a European Financial Stabilisation mechanism with a total volume of up to EUR 500 billion.

*In the wake of the crisis in Greece, the situation in financial markets is fragile and there was a risk of contagion which we needed to address. We have therefore taken the final steps of the support package for Greece, the establishment of a European stabilisation mechanism and a strong commitment to accelerated fiscal consolidation, where warranted." (*European Stabilisation Mechanism to Preserve Financial Stability; Press Release; Elena Salgado et al; Brussel; 9/10 May, 2010; pg6)

"[…] the Council is strongly committed to ensure fiscal sustainability and enhanced economic growth in all Member States and therefore agrees that plans for fiscal consolidation and structural reforms will be accelerated, where warranted. […] (Salgado, 2010)

These determinations of the Council intended to deter speculators and defend the euro. The European Stabilization Mechanism to Preserve Financial Stability would come to the rescue of a Member State where it had difficulties in payment, although always with strict conditions.

So that the EFSF[29] can act, it is necessary for a Member State of the Eurozone to make a request. That has negotiated with the European Commission and the International Monetary Fund a program for the country. That the program has been accepted by the Euro Group. And finally that it has signed a Memorandum of understanding.

7.1.1.4. 2011

7.1.1.4.1. Portugal

The following Member State to need a bailout was Portugal. Since the Government of Portugal had promoted the bypass and the bubbles of investment through opaque and unnecessary measures.

Enters into force, a new special tax on the extra payment of Christmas, through which are assessed 50 per cent of the same.

"FISCAL STRUCTURAL MEASURES

[29] **The European Financial Stability Facility** (EFSF), is an organism which is financed by the Eurozone to help Europe with its sovereign-debt crisis.

[…] Fiscal consolidation will be supported by flanking measures to ensure fiscal targets will be met. Measures will go beyond mere cost savings and include the strengthening of the fiscal framework, administrative capacity, spending controls and curtailing the risks from the wider public sector, notably stemming from PPPs and SOEs.

[…] The government will step up its budget planning and implementation capacity. The new budgetary framework law sets up a multi-annual framework with expenditure and budget balance rules, binding the expenses of the State and all entities in the public administration. It also establishes a Fiscal Council as an independent advisory body. The law will improve the existing framework in line with international best practices. In addition, the Ministry of Finance will start publishing quarterly targets for total revenue, tax revenue, total expenditure, total primary expenditure and the budgetary balance of the central administration, regional and local administration as well as social security. Data reporting requirements will be further extended. These will help the early detection of budgetary slippages.

[…] To remove inefficiencies, administrative bodies will be merged or closed. Public sector services will be re-arranged, closing or streamlining inefficient and redundant services and agencies while ensuring adequate staffing. Setting up proper procedures and administrative structures will reduce costs. Within the revenue administration, for instance, this concerns the merging of the three tax agencies, to raise the efficiency and effectiveness of the tax administration.

[…] Local government spending will be monitored more closely and government administration reorganised. The monitoring and budget execution of local and regional governments will be strengthened. Administrative structures are often too fragmented to be efficient. There are currently 308 municipalities and 4,259 parishes, pointing to potential cost savings. The government will prepare a plan to reorganise and reduce the number of local government administrations to enhance service delivery, improve efficiency and reduce costs." (Directorate-General for Economic and Financial Affairs, 2011)

As in the previous cases, the Commission justifies these measures which we have already quoted, under the situation Portugal was living at this time. The Moody´s agency downgraded by four levels the rating of the debt of Portugal, to Ba2, already considered High Yield bond. As Portugal debt rating, the rating of four of its banks suffered the same fate by the Agency Moody´s, down between three and four steps. These banks are: Banco Comercial Portuguese (Ba2), Banco Internacional do Funchal (Ba2), Caixa Geral de Depósitos (Ba1) and Banco Espirito Santo (Ba1). All qualified as high-yield bond.

But this would not be the only attack the Portuguese Banks will received from the agency Moody´s, since a few months later other Portuguese banks rating also decreased, being the main banks in the country with an equivalent to high-yield bond rating, with the only exception of Banco Santander Totta, which is the Portuguese subsidiary of Banco Santander (Spain). This performance of the Moody´s Agency, made that the Government of Portugal felt that the measures they had taken were not are taken into account.

Problems were increasing in Portugal during 2011. The region of Madeira hid debts estimated at more than 1 billion euros (1000€ million). Which had to be recognized a few months after that it amounted to five thousand million of euros. (5000€ million). This entire situation coupled with other adverse factors, that all of the led to a climate of instability in the country that did lower its GDP, several general strikes occurred and its risk premium rose to the one thousand one hundred and seventy-seven basis points.

As mentioned at beginning of this appointment, these circumstances are according to the Commission, the measures that are required to Portugal in Exchange for the bailout.

7.1.1.4.2. Italian austerity measures

Although the situation of the Republic of Italy, another peripheral Eurozone country, was not as desperate as Greece, Ireland or Portugal, the European Union urged Mario Monti[30], President of the Council of Ministers of Italy, to take a package of measures aimed at achieving a greater degree of austerity. Such austerity consists in reducing the expenditure public as well as in increase of taxes.

This austerity is reflected in the following manner:

"*Qualifying conditions The normal pension age under the new system will increase gradually for men and women. In 2012, it was 62 for women employed in the private sector; 63 for self-employed women and 66 for men (both employed and self-employed). For women, the reform has established gradual increases in pension age, so as to equal men's at 66 years by 2018. Further increases in line with life expectancy evolution will take place after 2018 to achieve 67 at least in 2021. The 2011 pension reform has however introduced a flexible window of retirement between 62 and 70 years. Old-age pensions can be obtained with a minimum length of 20 year of contributions and whether the pension amount is not lower that 1.5 times the social assistance* […]." (OECD, 2013)

Analysing this quotation from the OECD, we can see certain similarities regarding the extension or increasing the age of retirement between Greek and the Italian case. Without being so outrageous the Italian case also required settings in this field to increase revenues by the State by its citizens to work for more years. Thus are one of the two basic pillars of austerity, increase revenues, which both demand from Europe.

"Nevertheless, a general strike was organized by the trade unions on 12 December 2011 to protest against "inequitable" budget revisions, while the spread on Italy's government assets continued to float over 450 percentage points. The package indeed failed to implement tax risings on upper classes or the called-for "tassa patrimoniale" (capital levy) which would have more equitably distributed the burden of the budget law, while the effect of spending cuts have mainly affected retirees, consumers and weaker social strata" (Cencig, 2012)

Analyzing this coming appointment of Research Division EU Integration, we find another example of the need that had Italy increase your income. Given that approved a "tassa patrimoniale" wealth tax.

"*Spending review and Decreto Sviluppo. A ministers' committee presided by the Minister Piero Giarda was built at the end of April 2012 with the task to perform a comprehensive process of spending review. […] A first group of public spending containment measures is intended to reduce inefficiencies in the purchasing of goods and services by the public administration, and the central PA will be subject to 10-20 percent offices and personnel cuts. State property is to be more efficiently utilized and state-owned services- supplying enterprises will be either alienated or*

[30] **Mario Monti** was born the 19th of March of 1943. He had being the Prime Minister of Italy.

dismissed. In addition, both ministries and territorial administration bodies have undergone substantial cuts, and the number of provinces will be halved by the end of 2012 in accordance to territory and population criteria. [...] The government later promoted another emergency decree (Legge Mon- ti-Passera "Misure per la crescita e lo sviluppo sostenibile") which was finally approved on 3 August 2012. The decree law aims at fostering development growth, envisioning a number of provisions in fields ranging from tax relief for hiring highly qualified workers to VAT reductions on energy requalification and building renovation spending" (Cencig, 2012)

Analysing these quotes also Research Division EU integration, we observed that Italy applied the second principle of austerity: spending cuts. He did so through layoffs in the public entities to be more effective, among other measures. At the same time favoured the recruitment of highly qualified staff to promote the creation of a quality employment and increase revenue from public coffers.

Despite all the efforts and measures undertaken by the Government of the Italian Republic Standard & Poors, rating agency fell note to Italian sovereign debt to BBB. Meanwhile Moody´s rating agency, changed the rating for Italy of A3 to A2. Both agencies based their decision on the weaknesses of the Italian economy.

7.1.1.5. 2012

7.1.1.5.1. Introduction to 2012

Finally, we come to the year 2012, which is the last year of our analysis. It was a year filled with turmoil that began with the descent by S & P's rating of nine countries of the Eurozone. The Agency cut the rating of the long-term debt of France, which went from AAA to AA; Austria went from AAA to AA; Malta went from A to A-; Slovakia lost A by A and Slovenia went from a rating from A to A. These countries were those who lost a step in their qualification. Meanwhile Spain went from AA - to A; Cyprus went from BBB - to BB and Portugal from BBB - to BB. These countries were those that lost two steps in their rating. Spain on the other hand requires a special mention for being the fourth time that they lowered its note in three years. Meanwhile Germany (AAA), Belgium (AA), Estonia (AA-), Finland (AAA), Ireland (BBB), Luxembourg (AAA) and Holland (AAA). All of them kept their qualification but with varying perspectives depending on the country.

Founded by Henry Varnum Poor[31], risk rating agency justified its decision claiming that the measures carried out by European leaders were insufficient. This criterion is also shared by the population of the Eurozone. On the other hand, it was expected that the Spanish economy would continue in recession at least for two years more. Spain this year faced two general strikes which occurred during the 29th of March and the 14th of November, but not was the only peripheral euro-zone countries that faced this general strikes, since the second Spanish general strike, it became a movement that led to other countries such as Cyprus, Malta and Portugal, simultaneously receiving support both in Greece and France. This European general strike is a clear sign of the discontent of society motivated by efforts that were submitted by the cuts that were mandatory from the Government of the Eurozone.

[31] Henry Varpum Poor was born in December the 8th in 1812 and died the 4th of January of 1905. He was the founder of Standard & Poor´s.

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7.1.1.5.2. The second economic adjustment programme for Greece

To understand The Second Economic Adjustment Programme for Greece we have to make reference to The Economic Adjustment Programme for Greece Fourth Review-Spring 2011;

- The Economic Adjustment Programme for Greece Fourth Review-Spring 2011

"The fiscal consolidation measures cover the whole range of government activity. Main areas include:

- *Cuts in the public sector wage bill. The main measures are the implementation of the rule of 1 recruitment for 10 exits in 2011 (therefore stricter that the previously agreed 1-for-5 rule), an increase in the weekly working hours for public sector employees from 371⁄2 to 40 hours and a reduction in overtime payments; the reduction in allowances in the context of a comprehensive wage grid reform [...]*
- *Cuts in operational expenditure. This will result from the implementation of e-procurement for all public procurement; rationalisation of energy expenses; reduction in administrative costs associated with National Strategic Reference Framework (ESPA); reduction in rental expenses following more efficient use of public property [...]*
- *Cuts in extra-budgetary funds' expenses, the closure of entities and cuts in transfers to other entities. The mandate, viability and expenses of all entities subsidized by the public sector will be re-assessed, and the government committed to continue the programme of closure; merger and downsizing of entities [...]*
- *Savings in state-owned enterprises following their restructuring. This covers a reduction in personnel expenses; reduction in operational expenses and mergers and closure of enterprises, apart from the privatisation of some of them.*
- *Cuts in operational defence-related expenditure on top of the previously planned reduction in military equipment procurement.*
- *Cuts in healthcare and pharmaceutical expenditure through the streamlining of the hospital network (new 'health map') and associated reduction in hospitals expenses; a re-evaluation of the mandate and expenses of non-hospital supervised entities [...]*
- *Cuts in social benefits through adjustment in supplementary pension schemes and subsequent freeze through 2015; a freeze in the base pensions; the reform of the disability pension system; a census of pensioners and cross-checking of personal data with full implementation of social security number and caps on pensions [...]*
- *Permanent and temporary cuts in public investment.*
- *Cuts in other expenditure through cuts in expenses by local government financed by state grants; reduction in subsidies to residents of remote areas.*
- *Increases in local government revenue through an increase in revenues from tolls, fees, rights and other revenue streams following the merging of local administrations; and an increase in local tax compliance.*
- *Increases in tax rates and broadening of tax bases: an increase in VAT rate on restaurants and bars from 13 to 23 percent from September 2011 on; increase in property taxes which have been much below the EU average, including a special levy on high-value real estate and increased fines on unauthorised buildings and settlement of planning infringements [...]*

- *Increases in social contributions through the full implementation of a single unified payroll and insurance contribution payment method; an increase in contribution rates for farmers; the establishment of solidarity contribution for civil servants […]*
- *Improvements in tax compliance are also expected to increase revenue. Although the government has started to implement an action plan against tax evasion, no improvement in tax compliance has been considered in the projections through 2012 to reduce budgeting risks."* (Directorate-General for Economic and Financial Affairs, 2011)

- The Second Economic Adjustment Programme for Greece

"*[…] STRUCTURAL FISCAL REFORMS*

[…] Privatisation

[…] Although only a few transactions have occurred so far, mechanisms are progressively in place to ensure a continuous supply of assets to the market. Due to negative market conditions, legal complications and delays in implementing some intermediate steps, privatisation proceeds collected in 2011 were slightly below EUR 1.6 billion. In the months preceding the debt exchange operation (PSI), the market was particularly hostile to Greek assets. […]

*[…] The target of collecting EUR 50 billion in privatisation receipts remains viable, although over a much longer horizon than envisaged initially. […]" (*Occasional Papers 94; The Second Economic Adjustment Programme for Greece; European Commission; Directorate-General for Economic and Financial Affairs; March; 2012; pg. 44)

"[…] Revenue administration, fight against tax evasion and tax reform

[…] The tax reform has been delayed. The tax reform, whose adoption by Parliament was initially planned for September 2011 and then postponed to March 2012, is now expected to be enacted by end-June 2012. This revision in the time-schedule was in agreement with the staff teams, given that the need to prepare the reform properly and in consultation with a wide range of stakeholders could not be accommodated in view of other urgent tasks that are putting a strain on the authorities' resources. […]

[…] The authorities committed to refrain from extending tax amnesties in the future. Greece has a tradition of very frequent tax amnesties, partially in the form of very generous instalment plans for tax debts. […]

[…] Strengthening revenue administration and fighting tax evasion are amongst the top priorities of the new programme. This is not only because of the need to increase revenue and reduce the government deficit without further increases in tax rates. It is also important for the social acceptability of the adjustment programme, as the reduction in tax evasion will lead to a fairer sharing of the adjustment burden. Despite some progress, the implementation of those reforms has been slow and results are not yet satisfactory. Tax and social security evasion may have actually increased in 2011, against the backdrop of negative economic growth and increased liquidity constraints of taxpayers. […]

[…] There are several parallel initiatives to improve tax collection. The most important are: a new tax dispute resolution system which will make it compulsory to exhaust the administrative dispute phase before moving on to the

judicial stage; an increase in the number of tax auditors from 1 000 to 2 000; and the replacement of managers in tax offices that underperform relative to their performance targets defined under the programme. […]" (Directorate-General for Economic and Financial Affairs, 2012)

"[…] Expenditure control

[…] Reforms to strengthen public expenditure management are progressing. Timely provision of fiscal data has been improved due to the online submission of such data by line ministries, local governments and legal entities. […]

[…] The level of arrears remains high despite the current process of setting up commitment registries. Although commitment registries are now operational in line ministries, the reform of public finance management is delayed and the level of arrears is still high especially for the social security funds and hospitals. […]"

"[…] Healthcare and pension reform

[…] Healthcare reform is a crucial component of Greece's fiscal consolidation efforts, given the high share of public expenditure that is spent on healthcare. Despite efforts and some progress in reforming the system, major weaknesses still need to be addressed to increase the efficiency, cost-effectiveness and equity of the system. […]" (Directorate-General for Economic and Financial Affairs, 2012)

These measures that I have just quoted, are an attempt to stop the desperate situation in which Greece was immerse due to a long list of errors committed by successive Governments during several decades.

Measures that we can observe from the above already mentioned, are the principles or pillars of the austerity that so long has been claiming the German State. The spending cuts and tax hikes to raise revenues. Within the cuts the more noteworthy are undoubtedly cuts in expenditure, healthcare and pharmaceutical, since the well-being of citizens should be the first priority of a State and therefore the last to be trimmed from the state budget.

We can also observe that again Greece, must pay particular attention to the pensions of its citizens. Having to reform again the State pension system and freezing pensions in a future.

In relation to the defence, we find a completely exorbitant military spending. The Hellenic Republic, came to invest 5.6% of its GDP on military spending. The highest percentage of the European Union.

Another interesting measure aimed at reducing the Greek public spending is the privatization of public enterprises thus relieving the State spending.

Finally, we'll talk about tax evasion, a very common practice in Greece for decades. The package of measures includes actions to prevent this practice. But as time has shown us, far from slowing has been increased. The evasion tax in Greece experiment their greater growth with the arrival to the Government of Alexis Tsipras[32] and Syriza[33] (coalition of the left radical). The total amount of this second bailout was one hundred thirty billion euros.

[32] Alexis Tsipras was born on the 28th of July of 1974, he is the leader of the SYRIZA party and he is serving as Prime Minister of Greece.

7.1.1.5.3. Spain

The Kingdom of Spain received a controversial bailout during the year 2012. Since the Government led by Mariano Rajoy Brey[34], President of Spain, always has denied that it was a bailout and its retractors always have supported it is a bailout. The European Commission lent money under circumstances totally different from the Greek, Portuguese and Irish situation. The sum total of the loan was used to carry out a form of bailout to the Spanish Government and its banks. The causes that led to Spain to need such help were the explosion of massive real estate bubble and the financial crisis of 2008.

Now we are going to name the main keys for understanding to Spain´s financial sector program;

On May 9, 2012 was a historic event in the Spanish financial sector, the nationalization of Banco Financiero y de Ahorro (BFA) matrix of Bankia. In September of 2012 the Spanish banks were submitted to a stress test that came to determine which banks could overcome the situation in which the financial system was immerse and which were not. Therefore, this motivates a key to overcome the situation and repay the loan which is the Bank recapitalization;

"[…] Bank Recapitalization, Restructuring, and Resolution […] A key element of the program was the establishment of a rigorous process to identify and address undercapitalized banks. This process has proceeded as follows:

• In September 2012, an independent stress test of banks' balance sheets—based on revised data from an asset quality review conducted by four major international accounting firms—identified ten banks that were projected to face capital shortfalls relative to a benchmark of a 6 percent CT1 capital ratio by end-2014 under an adverse scenario." (International Monetary Fund , 2014)

This resulted in a succession of fusions and takeovers between the different banks and other financial institutions in the country. Spanish banks were forced to recapitalize to be able to strengthen their structures and to be able to respond to its obligations in the medium and long term.

The second key to understanding Spain's financial sector the program is naming the SAREB;

"A second key element of the program was the segregation of state-aided banks REDs and foreclosed assets into SAREB. All state-aided banks were required to transfer their REDs and foreclosed assets over a minimum size to SAREB in exchange for government- guaranteed senior bonds issued by SAREB. In total, nearly 200,000 real estate-related assets were transferred to SAREB at a total transfer price of €51 billion, or 47 percent of these assets' gross book value." (International Monetary Fund , 2014)

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[33] **SYRIZA**, it was founded in 2004. His chairman is Alexis Tsipras whom has served as prime minister of Greece. The SYRIZA is a coalition between the radical left parties and the left wing.

[34] **Mariano Rajoy Brey,** was born on 27th of March of 1955. He is serving as the President of Spain. He is the leader of the People´s Party.

The “Sociedad de Gestión Procedentes de la Reestructuación Bancaria” hereinafter SAREB[35]. It is a joint company owned 55% by private capital and 45% by public capital. It is dedicated to the management of assets that have been transferred from nationalized banks and entities in the process of restructuring.

The SAREB was created with the intention of selling real estate and to be closed before November 2027.

7.1.1.6. PIIGS

PIIGS (Portugal, Italy, Ireland, Greece and Spain) is a pejorative term coined by the Anglo-Saxons media to refer to countries with major problems of deficit and the most lopsided balance of payments in the Eurozone. As we have seen in the previous paragraphs, the countries that form the group called PIIGS have strong budget deficits and have experienced a sharp increase in the debt burden. All Governments involved were not able to take appropriate economic measures to control the situation. The reduction in revenues in the Budget of the State in these countries caused pressure on this same budgets to make them increase, and therefore this way of managing the money caused debts, huge debts.

[35]SAREB, it can be defined as being a bank that belongs to the Spanish government. The Spanish Government manages the assets from the nationalized banks: BFA- Bankia, Catalunya Bank, NGC Banco-Gallego and Banco de Valencia.

8. Conclusions

First. The first conclusion to which I have came out by carrying out this study, is that the different economies of the world have a degree of interconnection higher than we could have predicted years ago.
Since the outbreak of the Great Recession (2008 Global Financial Crisis) we have seen how the effects of a national problem had spread like a virus through all economies in the world, affecting in different ways, and at the end, also causing an effect on the economies of third countries. This national problem, the subprime mortgages of the United States of North America, far from only being a problem in its real estate sector it greatly affected the US financial sector. This sector related to their namesakes from the more developed economies, was such that immediately after the collapse of the American economies the rest were dragged, suffering a heavy blow that still nowadays most of the economies have not yet recovered.

All of this leads me to say that globalization is a purely economic process, since the borders are simple geographical lines that nothing affect the economy, because as we have seen throughout this work, the financial crisis world has not differentiated between developed economies or developing, or even with the poorest countries who although they have not been analysed in the work, also suffered the consequences of the crisis.

To understand that globalization is an economic phenomenon is enough only by taking a glance at history. After the discovery of America in 1492 it began the age of discoveries, which did not carry the powers to extend their territories without further, but by economic interests. The discovering of this new and enormous territory brought the tobacco trade, the potato and the tomato, among many other things that today we don't see how special were at that time and still continue to be, but which led to the restructuring of the economy of all the European powers, also influenced by the expansion in Asia.

This restructuring led to the creation of the first Corporation in the world, the Dutch West Indies Company, which also was the first company to publish its accounts. Other potential economies created similar companies for West or East always aimed to get more benefits and strengthen its own economies.

As a result of this trade expansion, banks also were forced to modernize. This evolution of the banking linked to its commercial and territorial expansion during the following centuries added hand to a long process of decolonization that required that it metropolis kept commercial relations with its former colony following and whose conclusion can place after the end of the Second War World and, on the other hand, the invention of the media of telecommunication such as the telegraph, the telephone, or later the telematics brings us up to today's banking. Today, as consequence of it spoken, the different banks of the world carry out between them thousands of operations of trading daily by a total of thousands of millions of dollars, which have their impact in the economies of the countries of the companies involved.

A clear reflection of what I just explain can be found throughout this work. Where we can see as the collapse of the financial system of the United States had serious repercussions around the world, highlighting the situation of the Eurozone among developed countries and China among developing countries. Perhaps the best way to understand what had happened in the year 2008 is to take a look at the graph of the GDP of the world and see how for the first time dropped significantly since the Second World War, from 63.129 trillion to 59.836 trillion. A reduction of 3.293 trillion, almost equivalent to the GDP of Germany of the past 2015.

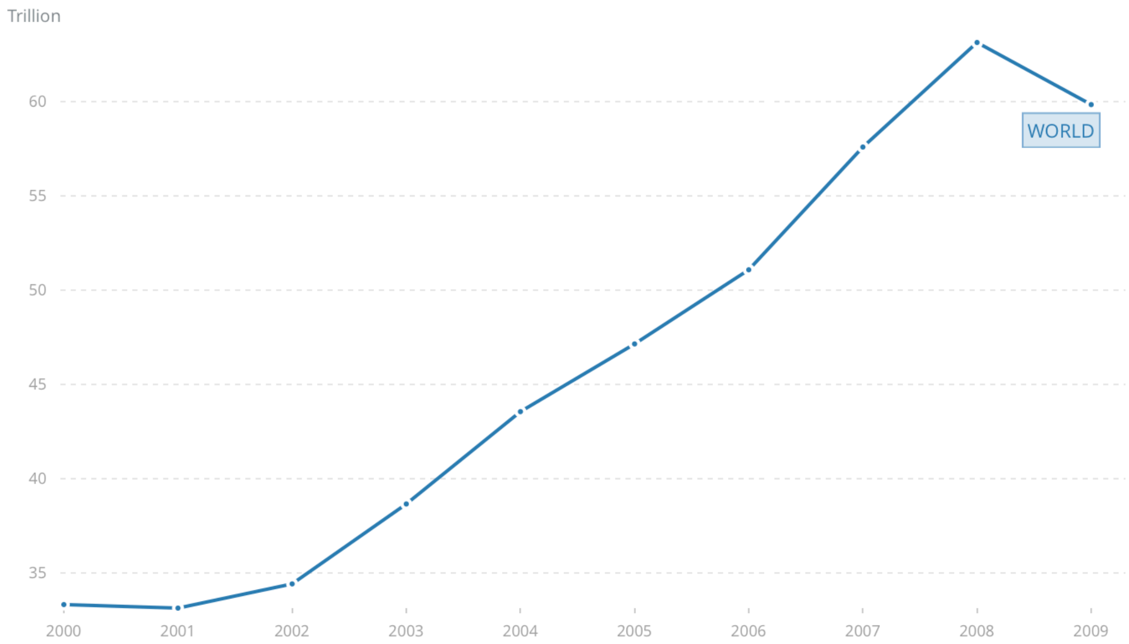

Illustration 21 GDP of the World 2000-2009. Source: World Bank National accounts data, and OECD National Accounts data files.

All this interconnection between the economies of the world makes me arrive to the term "Global Village", coined by Marshall McLuhan[36]. Although the Canadian theory refers to the information, is perfectly extrapolated to finance, since it exposes people to contemplate distant or alien as usual or normal facts finding these out of our understanding by having received only part of the information, which has also been selected in turn by a third party. Well, this is exactly what happened to them, the people who hired the subprime mortgages and subsequently investors who relied on the financial instruments backed by those mortgages. All of them received only part of the information and it created in their minds an image of normality with respect to those investments which were clearly much away from reality.

This interconnection between the different economies of the globe is a double-edged weapon. Since it can be very advantageous for more related economies if used correctly, as a catastrophe if used badly by lack of Regulation. Banks are fundamental instruments for trade and are no longer entities that operate in a single country or region. Some have a large presence in foreign countries and therefore their actions can have direct impact on the economies of those countries.

[36] **Herbert Marshall McLuhan** was born in July the 21st of 1911 and died in December the 31st of 1980. He was a professor of English. His work in public intellectual and communication is used in advertising and television.

Second. Another important conclusion that I have reached following the completion of this work is that we must learn from our mistakes.

I say this because while carrying out the phase of documentation about the pop of the crisis, as more deepened more it came to my head the following words: "Great Depression" (Crisis of the 29). It is inevitable to look back and see how after seventy-nine years we have not learned from our mistakes.

To understand what I mean, it is necessary to take into account the financial crisis of 1907, in which Wall Street fell by 51% and resulted in the failure of several banks, as well as many small and large companies in the United States. At that time there was no central bank in the country and the stock market regulation was practically non-existent. This provoked panic spread quickly, since there was no entity that could inject capital to stimulate the economy, and there were no legal mechanisms that could have slowed what was happening. Luckily, the banker J.P. Morgan[37] was pleased to intervene on their own by injecting large amounts of money to stimulate the market and convince other bankers to do the same. After this crisis, the U.S. Government learned a lesson and created the Federal Reserve System (FED) in 1913. After this crisis, the United States returned to live a time of great economic growth in which its citizens preferred to opt for a speculative economy instead of a real economy. This among other reasons, such as the bad banking structure of the United States in those years was one of the triggers of the Crack of 29.

Any speculation prior to Thursday and to black Tuesday led to, after these, international trade fell more than 50%, so quickly that it affected countries all over the world. In addition, in United States unemployment had soared by setting an unbeaten record even by the Great Recession of 2008 (illustration 22).

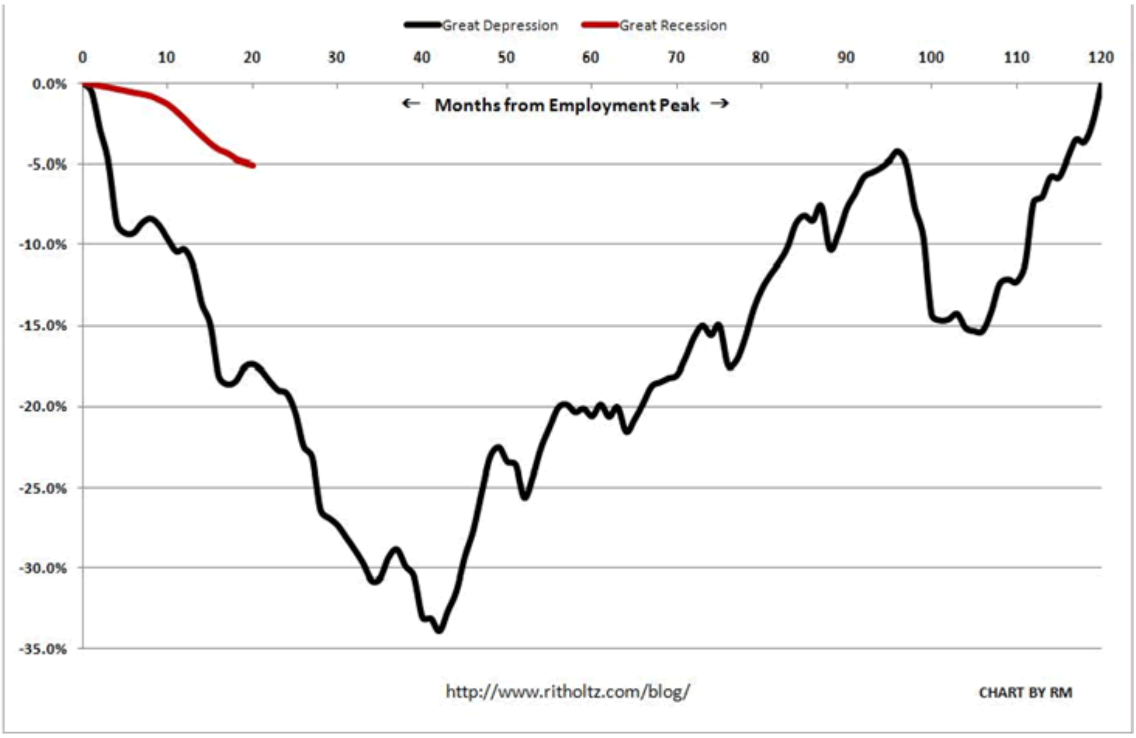

Illustration 22 Great Depression of 1929 vs Great Recession of 2007. Source: BLS, NBER (National Bureau of Economics Research)

[37] **John Pierpont (J.P.) Morgan,** was born on April the 17th and died on the 31st of March. He was a banker and was crucial in the creation of the company: United States Steel Corporation.

Against this background, the most significant response was undoubtedly "The General Theory of Employment, Interest and Money" by John Maynard Keynes[38]. The main postulate of this theory is that state intervention is needed to regulate the economy and public spending. The other great response to the Great Depression came from the hand of Franklin D. Roosevelt's New Deal, which already I have appointed talking about Fannie Mae. This program of measures to mitigate the effects of the Great Depression and stimulate the economy of the United States is closely linked to the precepts of Keynesianism. The American government made significant investments in public works translated as the Hoover Dam, on the frontier of the states of Arizona and Nevada.

Moreover, the Financial Crisis of 2008 was caused due to the housing boom produced thanks to the famous subprime mortgages. Which, as we have seen, consisted in making loans to unqualified persons to return them, either by not having a working landline or for any other reason. In general, no one was unhappy with the system, although was unsustainable in a long term. This resulted in a speculative bubble that would definitely explode in 2008: The American banking system collapsing and leading to the bankruptcy of several banks and many companies. As a consequence, direct of this appears it named in many occasions in this work, lack of liquidity, also called "credit crunch". Speaking of this it would be unforgivable not to mention Lehman Brothers and AIG, two failures that marked the beginning of the financial crisis.

As we have seen during this work, in all countries affected by the International Financial Crisis 2008, was required state intervention. In the United States, the FED had to provide relief to many companies with million-dollar figures. This was the case with AIG, which received eighty-five billion dollars (USD 85,000,000,000) to avoid its bankruptcy and with it the bankruptcy of the American economy that hit hard the world due to its huge size in the world of insurance companies.

On the other side of the Atlantic, in the Eurozone, EU leaders approved a 200 billion euros' stimulus package in late 2008 (EUR 200,000,000,000) to stop the already remarkable effects of the crisis in Europe. Which as we have seen in the study of the Eurozone we must add two bailouts to the one of Greece which were the ones for Ireland and Portugal, the Italian austerity measures and all this without forgetting the banking rescue of Spain.

I.e., both crises have some worrying similarities despite being separated for almost eighty years. Which leads us to think that Governments, and therefore people did not learn the lesson despite being beaten beforehand. The fact that they are separated by so many years and that among them there is a change of generation is no excuse for not taking the appropriate measures.

In both the trigger crises was speculation, and in both was necessary at all costs the State intervention to avoid a greater evil.

Still worries me more that these are not the only points in common between the two crises. Every financial Crisis has implications social and political, since it may not be understood any of the three branches as independent.

As a result of the great depression, it originated a great discontent among the citizens of various countries who were the main actors in the field of international trade. These countries had undergone a major change in its economy since the end of the First World War and blamed what happened in 1929 to that change. This provoked

[38] John Maynard Keynes, was born the 5th of June of 1883 and died the 21st of April of 1946. The was a precursor in new ideas respect to macroeconomics and the policies used by the governments. His ideas are used in the school of thought which its name is Keynesian economics.

nationalist parties taking an important leading role. In Germany after the death of the President Paul von Hindenburg[39], it took the power: Adolf Hitler[40], which is named leader and Chancellor Imperial, transforming the Republic of Weimar in the Third Reich. To understand the situation in Germany at that time, we must take into account the critical effects of the economic crisis to reach a society that lived with the harsh conditions imposed by the Treaty of Versailles [41](1919), which forced them to pay for the damage caused during World War II, which produced constant demonstrations of all the signs. This led to the discontent of the citizen's witch did not see with good eyes the promises of the Nationalist Party German Worker.

In the South of Europe occurred something similar that was Italian Prime Minister and later "dulce" Benito Mussolini[42].

As well, since the outbreak of the crisis in 2008, it has not stopped happen is a phenomena expressing the discontent of the citizens with their politicians. Moreover, due to the advances in communication regarding the stage of the Great Depression, social mobilization has been impressive, largely supported by social networks. To not extend, I will only highlight the most relevant phenomena, such as movement 15 M in Spain, which produced rather then global mobilization of October 15, whose main branch is the Occupy Wall Street (OWS). These citizen's movements have resulted in some cases in the creation of new political parties, as in the case of Spain, they have obtained a fairly significant representation in Parliament, clearly we are talking about "Podemos".
In Greece on the other hand, in 2012 is formed SYRIZA, a new party from a previous Eurosceptic left-wing coalition that would come to power in 2015 causing new convulsions within the already badly injured Greece.

Is therefore making it one of the main conclusions of this work is that we do not learn and therefore need to remember our mistakes.

Patterns in common between both crises are not only economic, but also social and political. And although I do not see likely to happen the same thing that occurred as a consequence of all this in 1939 (World War II), the history has left us clear overkill have never brought or will bring to us nothing good.

I can not end this conclusion without citing Adam Smith[43], who seemed to already foresee this popular discontent for Justice in 1776 in his work the wealth of Nations, where he said the following:

"Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, labourers, and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be

[39] **Paul Ludwig Hans Anton von Beneckendorff und von Hindenburg**, was born in October of 1847 and died in August of 1934. The served as President of Germany from 1925 until 1934.
[40] **Adolf Hilter** was born on the 20th of April of 1889 and died on the 30th of April of 1945. He was the leader of the Nazi Party. (Nationalsozialistische Deutsche Arbeiterpartei), He was a dictator of Germany and he started the Second World War in Europe. He served as Chancellor of Germany and Führer.
[41] **The treaty of Versailles** is a peace treaty signed at the end of the First World War. It was signed the 28th of June of 1919.
[42] **Benito Amilcare Andrea Mussolini**, was born on the 29th of July of 1883. He served as the Prime Minister of Italy from 1922 until 1943. He then started a dictatorship and he was called Il Duce. He also started the fascism movement.
[43] **Adam Smith,** was born on 1723 and passed away on July the 17th of 1790. He is well known for have written The Theory of Moral Sentiments in 1759 and also because of An inquiry into the Nature and Causes of the Wealth of Nations in 1776.

flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged." (Smith, 1776)

Third. The third, last and most important of the conclusions that I have reached during the realization of this work has been the urgent need to create a more homogeneous regulation between different States to avoid situations that have triggered the Great Recession of 2008 so that they do not occur again and thus prevent the next crisis to have effects of such magnitude. In addition, they must develop other standards dedicated to alleviate the effects of future crises. It is consistent that, if we have a global economy, i.e. in common, laws designed to curb detonating behaviours of crises and to mitigate the effect are also common.

The European Union reacted in a slow and insufficient way after the outbreak of the crisis of 2008. Is clear that missed forecast from their leaders and that some of the measures taken during the crisis not were the successful. But those problems not are found in the EU in itself, but to level State. We have analysed during this work to the group named by the British press as the PIIGS, composed of Portugal, Ireland, Italy, Greece, and Spain.

These countries were the more affected by the crisis within the Eurozone, since their economies not were prepared to support the hit of the great recession of 2008 by them following reasons:

- In Portugal, we can appreciate that the Government had promoted the overspending and the bubbles of investment.
- In Ireland, we saw the explosion of housing bubble that had grown exceedingly accompanied by public spending on infrastructure also excessive.
- Italy, in 2011 had to approve a controversial austerity measures aimed to cut public spending and increase revenues, all through the privatization of several public enterprises and increasing the retirement age to 67 years.
- In the case of Greece, we saw a spending wasteful, especially in defence and higher pensions, accompanied by a wild tax evasion.
- Spain, when the crisis arrived it had also had to cope with internal problems. The explosion of the great housing bubble and its banking crisis.

All these domestic circumstances of each country led to the consequences of the crisis were higher than in the rest of the Eurozone, but due to the close links existing between the Member States, others were also affected.

This is what leads me to sign that the EU needs to adopt a series of policies aimed at controlling public spending among its members as well as others to control the growth of bubbles both financial investment or any other factor that may cause wobble a State's economy with the consequent drag to the other members in the event of a new crisis. And although this may seem radical, we must understand that if you really want a European Union we fail every one of its members to act on behalf when the consequences of their actions affect directly the rest. This is clear if we really want a United Europe.

It is impossible not to name one of the main precursors of the European Union, Winston Churchil[44]l, who in his speech youngsters from 1946 at the University of Zurich urged the inhabitants of Europe to work together to create the "United States of Europe" to achieve a common good for all. I.e., we must work to have uniform regulations and act as a single entity in the international framework.

In case contrary we should ask ourselves what really want to be the European Union. A commercial Alliance, an agreement framework for the free movement of persons. We define the goal and mark the way.

As important or more is the creation of regulations that regularize the market to curb the triggers of the crisis in the United States. The major financial crises of the world have originated in this country. And although I am in favour of the free market, this has proven ineffective by itself and require certain State-surveillance, since by elements who act in bad faith, as by those who act recklessly we have been repeatedly immersed in financial crises. Between the elements who act in bad markets can not conclude this work without naming to Bernard Madoff, respected figure on Wall Street that turned out to be the architect of one of the biggest scams of humanity through fraudulent investments and the amount surpassed the $ 50 billion (US $ 50,000,000,000).

History has made us it clear that the United States, the world's most influential economy, has been learning based on errors, and never keeping up with events. This is reflected in what you discussed earlier about the crisis of 1907, 1929, and of course during the analysis carried out in this country during this work on the Financial Crisis of 2008, where they were forced to improvise to get ahead.

Definitely United States need to be enacted new laws aimed to prevent repetition of the mistakes made over and over again.

Iceland deserves a mention, since their efforts to solve the most complex situation that lived after the outbreak of the crisis has been completely opposite to the rest of developed countries and curiously more effective. The small country did not provide a single Crown of the bailout to the banks and focused on reducing its energy dependence on third countries through the development of renewable energy-related infrastructure, as well as facilitating the creation of companies like the airline Wow Air.

The first, begin to create such legislation that among other things limit and monitor public spending. That you control the access to credit, which should not never miss the citizen, but must not be given in an uncontrolled manner how mortgages subprime. That contemplate the austerity, but properly, since it is not good that absolutely everything is privatized.

The second, diversify its GDP and thus not be so exposed to changes, as we have seen recently in Russia and Saudi Arabia with the fall of the price of oil, which led to the collapse of the rubble and suspension of the welfare State in the Arab country.

And the third, the promotion of birth attached to the constant improvement of the educational system.

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[44] **Sir Winston Leonard Spencer-Churchill**, was born on the 30th of November of 1874 and died on the 24th of January of 1965. He served as the Prime Minister of the United Kingdom from 1940 to 1945 and also from 1951 until 1955. We can also mention that the was awarded with the Nobel Prize in Literature.

Although they may seem more political than economic, and social measures as I have already explained in this work, cannot be understood the economy without society or politics. The best way to be prepared for events such as the great recession is a well prepared young population that translates into a large workforce that is capable of charging with pensions and the rest of problems bringing a crisis of this kind.

No doubt there will be a next crisis, that is why we must ensure that during the coming years our motto is being prepared to make its effects as non-destructive as possible. This makes me want to finish my work with the famous phrase of Publius Flavoius Vegetius Renatus[45]:

"Si vis pacem, para bellum"

[45]**Publius Flavius Vegetius Renatus,** was a writer better known for Epitoma Rei Militaris and Digesta Artis Mulomedicinae. He lived in the Later Roman Empire.

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