



# TEAM 1

# FINANCIAL CRISIS

## The future of EURO

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05. WHAT IS HAPPENING NOW?

# 01. ORIGINS



In **2003** the US was in danger of deflation, so the President of the FED at the time, Alan Greenspan, decided to promote a drastic lowering of the price of money to a 1% interest rate.

**Result:** Massive injection of liquidity in to the US economy. Banks began to grant housing loans to more and more people.

Low interest on the price of money continued up to **2006**. With the price of official money so low (and the unstoppable increase on housing prices) they needed to grant more mortgages due to the low profit margin obtained.

# 01. ORIGINS



This is where subprime mortgages appear, high risk mortgages given to people with unstable working conditions that did not meet the requirements to access them (no down payment, no proof of income).

**Result:** The rules of risk control were broken.

At the same time those banks that granted subprime mortgages got rid of them by selling them as bonds on the market (to investment banks or hedge funds), due to their high risk they had high return interest.

**Result:** Everyone was buying, selling and ensuring very dangerous bonds, and in turn were indebted (often to buy more bonds) using those bonds as collateral.

# 01. ORIGINS



In **2006** the combination of higher interest rates established by the FED and the end of the grace period of mortgages began to take its toll on those who had contracted subprime loans.

**Results:** U.S. banks start to take heavy losses and become suspicious of each other, a situation that begins to spread around the world: Wall Street is the global financial heart. Nobody pays money to anyone because nobody knows if the other is solvent.

**Bankruptcy of some banks such as Lehman Brothers.**

# 01. ORIGINS



**The lack of money reduces the number of loans granted by banks.**

Without loans, companies suffer and stop their activity, which eventually causes the economy to grow less and unemployment to rise.

**Result:** US government and the EU decide to buy financial firms (rescued by the state) and the so called toxic assets (high risk bonds) in a way of trying to solve the situation.

But these actions were taken too late so global recession **could not be avoided.**

# 02. CONSEQUENCES

## Economic

- Global diminution of all commercial activities, industrial but also services.
- Company shutdown.
- Collapse of certain industries.
- Stagflation

# 02. CONSEQUENCES

## Social

- Purchasing power diminution.
- Growth of unemployment.

## Politic

- Emerging of new political movements (nationalisms and so forth) against austerity.



# 02. CONSEQUENCES

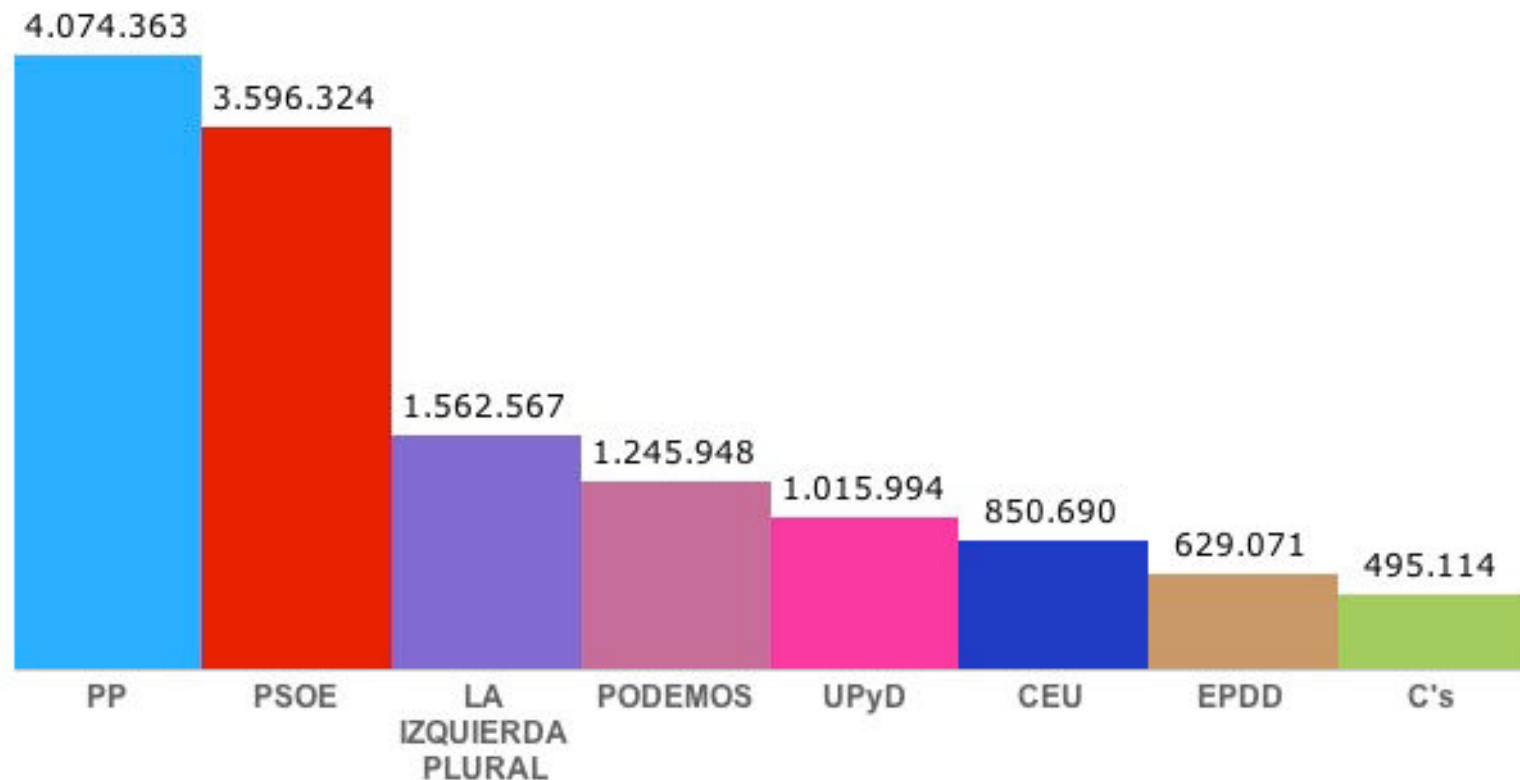
## Technologic and Ecologist

- Fall of innovation due to reduction of subventions during the crisis.
- Reduction of subventions regarding clean and renewable energy.

# 02. CONSEQUENCES



⊙ Effects of austerity measures in the Elections for the European Parliament:



# 02. CONSEQUENCES



The **European elections** in Spain suffered high fragmentation of the vote. Although the level of participation was similar to that of five years ago its distribution changed significantly compared to previous European elections.

**Result:** Abstention from the conservative vote is offset by greater mobilization of the vote on the left and nationalist wing.

Some of the PP voters (center right) nurtured new formations such as UPyD (centre), VOX (right) and Citizens (center). However, the vast majority of votes missed by the PP regarding the elections have gone to abstention: up to a 84%.

# 02. CONSEQUENCES



The Socialist Party (center left), meanwhile, has given some of its voters to IU (extreme left), although abstention was also the overwhelming preference of the disenchanting socialist voters.

Nationalist options with more extreme positions than five years ago have captured more than 20% of the electorate in the Basque Country or Catalonia.

In the ideological axis a radicalization of the left has also been produced due to the economic crisis, with the appearance of the political party Podemos.

# 02. CONSEQUENCES



The results of the **Italian** voters showed a victory of the Democratic Party of Prime Minister Matteo Renzi with a 34.5%. The populist formation of Beppe Grillo, MoVimento 5 Stelle, got 25.5%; Silvio Berlusconi's party, Forza Italia, 17%; Northern League, 6.5%.

**The participation rate was around 51%.**

In **Portugal**, the Socialist party succeeded, it obtained between 30 and 34% of the votes, about seven points higher than in previous European Elections, while Portugal Alliance, comprising the PPD / PSD Prime Minister and his partner coalition, obtained between 25 and 29%.

# 03. SOLUTIONS

- An important intervention of the BCE
- Create a helpful economy
  - Countries acting as banks
  - More budget control
- Create FESF (*Fonds Européen De Stabilité Financière*)
- Create MSE
- Fuse of MSE and FESF

# 04. RESULTS



The Banks in each country should adjust to the specifications and needs of the country. Better regulations and rules will prevent from bad usages of reserves and help keeping liquidity.

The example of Greece, shows that by working together the EU is stronger. Countries can help each other to avoid bankruptcy.

# 04. RESULTS



**European Union** and member countries wanted to ameliorate supervisor on budget:

**European Financial Stability Facility (EFSF):** Preserving financial stability in Europe by providing financial assistance to eurozone states in economic difficulty.

**European Stability Mechanism (ESM):** Permanent firewall for the eurozone to safeguard and provide instant access to financial assistance programs for member states of the eurozone in financial difficulty.

**European Investment Bank (EIB):** The European Union's nonprofit long-term lending institution.

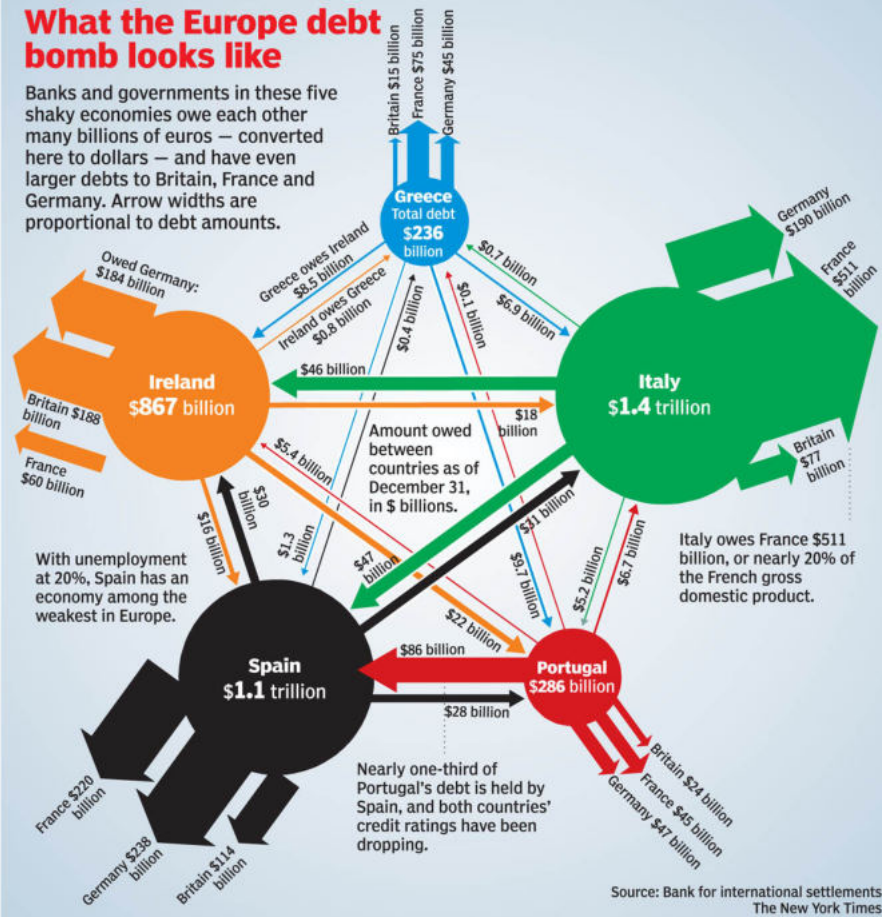


# 05. W. H. T.?



## What the Europe debt bomb looks like

Banks and governments in these five shaky economies owe each other many billions of euros – converted here to dollars – and have even larger debts to Britain, France and Germany. Arrow widths are proportional to debt amounts.



Due to the economic recession which started in 2008, several members of the European Union became historically known as **PIGS**. These states include **Portugal, Italy, Greece and Spain** and if combined together, they form the acronym **PIGS**. The reason why these countries were grouped together is the substantial instability of their economies, which was an evident problem in 2009.

# 05. W. H. T.?

The reason why the five countries gained popularity is a serious concern within **the EU, with regard to their national debts, especially for Greece**. The latter country was involved in a controversial affair after allegedly falsifying its public financial data. In the year 2010, it was evident that the five states were in need of corrective action in order to regain their former financial stability.

In all of these cases the politicians were involved in corruption schemes, and the population started opening their eyes. While **politicians continued with their luxurious/corrupt lives**, citizens were condemned to suffer the strength of its mistakes. But people didn't want to remain silence, they wanted to be heard and they were willing to do everything possible.

05. W. H. T.?



**But, what these countries did?**

# 05. W. H. T.?



**Angry Portuguese:** in the Portuguese capital prior to Spanish, protests were developed. The March 12 protest, like in Spain, was convened by social networks and a remote and reluctant to political parties platform. Also in Portugal began their rebellion against social cuts, job insecurity and the infamous dictatorship of financial institutions. As in other countries, also took to the streets before than in Spain, but the media coverage of the Spanish Revolution.



# 05. W. H. T.?



**Angry Italians:** like in the other countries, Italian “indignados” occupied the streets in about 50 Italian cities. In protest against poor working conditions in which they live, mobilized under the slogan: “Our time is now. Life does not wait.” Between them, similar stories happen: young people who didn’t know the meaning of a stable job and are students, call center workers, interns and researchers. Throughout Italy there would be a total of 4 million young people in this situation. To this we add 2 million young people who neither study nor work. Also, unemployment among young Italians is 30%.



# 05. W. H. T.?



**Angry Greeks:** On May 5, 2010, a general strike and protest marches in major cities took place across Greece. The protests were sparked by plans to cut public spending, such as wages and raise taxes as austerity measures in exchange for 110 000 000 000 € rescue to resolve the Greek debt crisis of 2010.



# 05. W. H. T.?



**Angry Spanish:** in over fifty cities, the Spanish civil society protested against politicians<sup>20</sup> inspired by the revolt in Greece in 2008 and also in the revolutions and protests in the Arab world for 2010-2011. The first manifestation concluded on the May 16 morning, when they were evicted from *Puerta del Sol* attendees who were assembled there, being arrested 19 persons. On May 17, they returned to concentrate 10 000 people.



# 05. W. H. T.?



Until today **we can see the consequences of these revolutions.**

In these countries there are a lot of **high qualified unemployed people** that must agree to be treated by the behavior of their politicians.

The politicians brought them to this situation and now they have to pay. This fact has transformed the population, a **weary population that goes out to claim justice** at the slightest nonconformity.



# 05. W. H. T.?



## **Spain's King Juan Carlos abdicate in favor of son Crown Prince Felipe**

Juan Carlos oversaw his country's transition from dictatorship to democracy. His popularity also dipped following royal scandals in the middle of Spain's financial crisis.

At Zarzuela Palace on the outskirts of Madrid, Spanish royal advisers were earlier this year trying to put a brave face on King Juan Carlos's constant bungling and falling poll ratings. Two plans for this:

- Follow the example of the British monarch
- Dutch model

# 05. W. H. T.?



Abdication does not solve the Spanish monarchy's problems. It creates a few more, starting with the status of the ex king himself. More seriously for Spain, the King is not alone in suffering sinking support in opinion polls. After half a decade of economic crisis and with corruption now seen as an inherent part of political life, Spaniards are fed up with most of the institutions that Juan Carlos helped to either introduce or democratise.

The country's political establishment is the main culprit. The results of the European elections, which saw the two parties that have taken turns to govern Spain for the past three decades jointly receive less than half the vote, were proof of that.

**Abdication sets an example for other parts of Spain's tarnished establishment that must now either reform or face a similar end.**

# THANK YOU