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The Stage of the European Union`s Economic Recovery

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Abstract

The European Union has faced since 2008 a financial and economic crisis simultaneously with a sovereign debt one. In this context, the European Union has tried to find the proper solutions to overcome its crisis. The purpose of this paper is to analyze EU`s economic recovery, in order to see if the solutions taken have been the most suitable. From this point of view, the findings revealed that EU is currently facing a fragile recovery, the measures taken being more suitable for countries that did not have structural problems, not for the ones facing a sovereign debt crisis.

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1. Introduction

The current global crisis started in the U.S. with a subprime mortgage crisis, immediately becoming a crisis of the entire banking system, moving to a monetary and financial market crisis. As a result all economic activities and economic sectors have been affected by this recession. Since its debut in 2007, the crisis continued to increased, despite the attempts of governments to stop its progress. However, in the last years there have been signs of economic recovery. Although for some countries the crisis has ended, there are others that are still struggling to get out of crisis.

The situation is the same in the European Union, where as Diacon, Donici & Maha (2013) state that there are countries that have not been affected by the crisis (Poland), countries that have overcome the crisis (Germany, United Kingdom or Netherlands) and countries for which the crisis is far from over (Greece, Spain).

In this context, the aim of this paper is to analyse EU`s economic recovery, taking into consideration the main economic indicators and the measures taken by different countries to counteract the effects of the 2007`s crisis.

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2. The European Union`s crisis – an overview

Although the economic and financial crisis has started in United States in 2007, the European Union has not remained immune to this severe and pervasive crisis. Before its beginning, the EU`s economy was the strongest that has ever been, with a growth of 3,4 % in 2006 and 3,2 % in 2007, the best values of the growth rate since 2000. In spite of this, the crisis has hit the European Union in early 2008, its effect occurring in two stages, as Yurtsever (2011) highlights. So, in the first stage the EU has faced the economic recession, following the global economic downturn. In this stage, the macroeconomic indicators have modified significantly both at EU level and in the individual countries (the real GDP dropped, the unemployment rate of the euro area increased, budget deficits exceeded the limit of 3% of GDP and public debts execeed 60 % of the GDP). In the second stage the EU has faced the sovereign debt crisis that firstly began in Greece (Yurtsever, 2011, p. 688).

Regarding the sovereign debt crisis, between 2008 and 2009 there was little concern about European sovereign debt. For all that, due to the global financial shock, in late 2009, a number of countries announced larger-than-expected increases in deficit/GDP ratios, among these Greece announcing a deficit forecast of 12.7 % of GDP for 2009, as Lane (2012) underlines. From this point on the sovereign debt crisis enhanced. Consequently, Greece was shut out of the bond market in May 2010, followed by Ireland in November 2010 and Portugal in April 2011. Also, Spain and Cyprus sought official funding in 2012. In each case of bailout, European Union and IMF programs have been established under which funding would be provided on condition that the recipient countries implemented fiscal austerity measures and structural reforms to boost growth (especially in Greece and Portugal) and recapitalized and deleveraged overextended banking systems (especially in Ireland) (Lane, 2012, p.57).

Therefore, in order to overcome its economic crisis, the European Union has taken different measures, going from a stimulus package at its` debut to fiscal austerity later on. However, according to Dabrowski (2010) the EU's answer to the crisis came quite late and sometimes not in a well-coordinated way, pointing out that until the late summer of 2008, the European Union downplayed the magnitude of the economic and financial crisis. At the time, the main policy concerns were related to the appreciation of the Euro, the continuing inflationary pressure, the reduction of the US demand for EU export and the weakening of the housing market in some countries of the EU. Also, due to various factors such as different speeds and strengths of cross-country financial contagion, uneven exposure of each country to shocks, uneven capacity and resources to provide rescue on individual economies and nervous reactions on a national level, the attempt to coordinate policies at a European level has proved to be very difficult (Dabrowski, 2010, p.42).

On the other hand, Yurtsever (2011) classifies the measures taken by the European Union into three types. Firstly, between 2008 and 2010 the European Union has introduced a stimulus package to recover the economy. This package was part of the European Economic Recovery Plan that was announced by the European Commission at the end of 2008. This plan has enumerated for the Member States a variety of proposals in key areas, all created to stimulate and support the economy and work towards a global solution. Secondly, because the European Union had to face a sovereign debt crisis simultaneously with the financial crisis, it has developed a number of reforms meant to assure a proper supervision and governance of the financial system, by creating the European Systemic Risk Board and the European System of Financial Supervisors. Thirdly, the EU has implemented policies in order to increase coordination among Member States through economic governance mechanisms. Among these, the European Union has created a fiscal surveillance mechanism for the countries in the Euro area.

At the same time, together with the measures implemented at the level of the European Union, each Member State has come up with its own solutions to counteract the effects of the economic and financial crisis. Consequently, most countries have taken tough austerity measures, especially starting with 2010. The austerity measures taken have included freezing or reducing of wages and pensions, raising the retirement age, increasing the VAT, taxation of pensions, increasing excises and the reduction of other public expenditures. However, the effectiveness of fiscal austerity policies is a topic highly debated among economists. While, Kondonassis (2013) argues that austerity is not the answer to the economic difficulties of the European countries, Radošević (2012) emphasizes that fiscal austerity is desirable for the long-run solvency and health of the economy, while it lowers growth and raises unemployment in a short term. Moreover, according to Radošević (2012) austerity causes higher unemployment which leads to higher deficits and eventually more austerity, resulting bad equilibrium of the economy.