



Keio Jean Monnet Workshop for EU Studies

“European Crisis from the Japanese Point of View
: Fiscal or Financial, which is the problem?”

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Hideki Hayashi

EUSI / Keio University

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1. Greek Crisis and its withdrawal from EMU

- Before the reelection in June, the withdrawal of Greece from EMU was one of the realistic alternatives
- Towards the next redemption period of Greek Government, scheduled to be on Aug 20th, the worries for ‘Sudden Death’, instead of ‘Death quietly’, have increased
- Still, Greece is different from Argentina ; for example, the procedure of the withdrawal from EMU and the EU.

2. The Contagion of the Crisis to Spain

- The rescue package for Spanish banks offered by the EU commission shows they never want the Crisis will affect Spain
- Ireland and Portugal are relatively recovering
- The contagion to Cyprus or Slovenia could be absorbed in the present rescue package

3. The architecture of the financial Safety Net

The EU / Euro Area Summit on 28th and 29th, June was accepted as successful one, in which the new measures were taken

- But the direct recapitalization by the ESM may be possible only when the integrated only when an effective single supervisory mechanism involving the ECB is established
- Following points are still not concrete:
 - (1) How the other part of the Banking union, the Deposit insurance and the resolution institutions will be formed
 - (2) How and when ESM will start actually

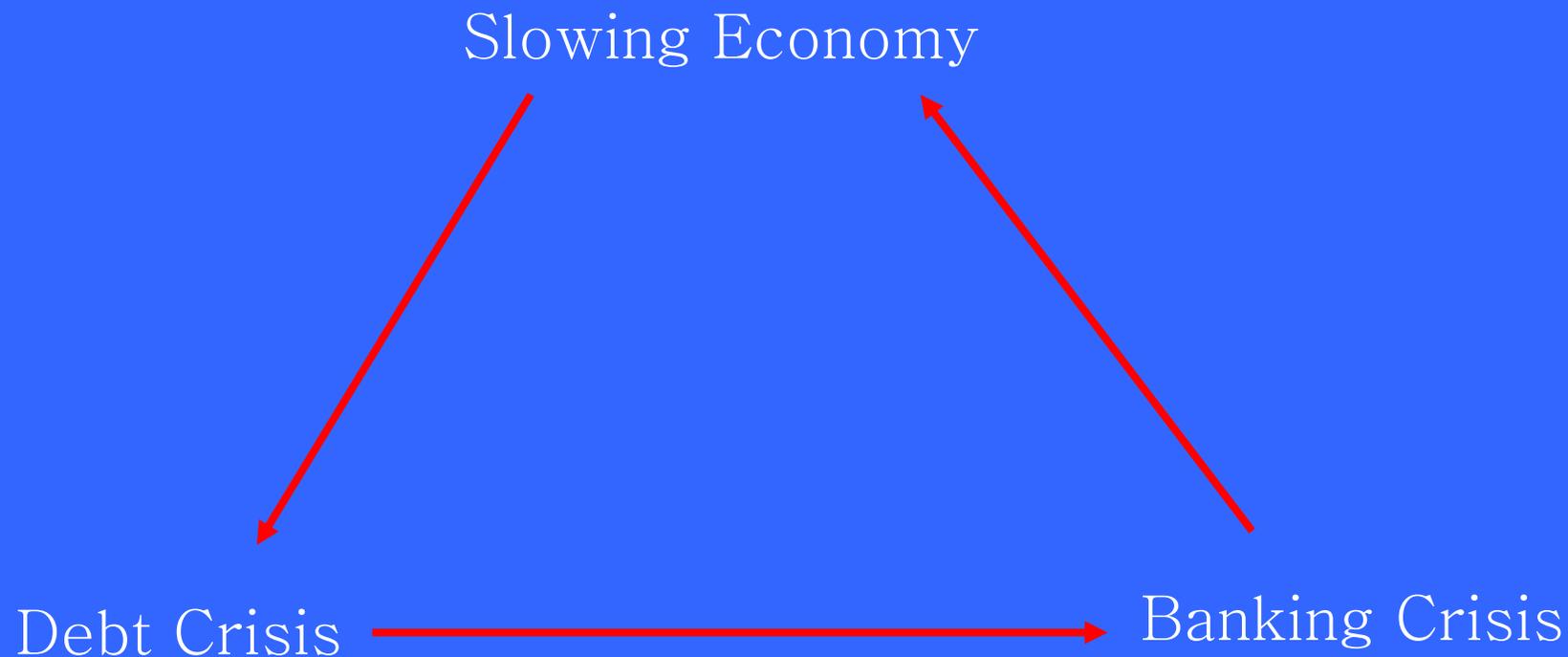
3. The architecture of the financial Safety Net

Who will take the responsibility of the Banking Supervision?

- (1) The central bank should be preferable, as they act as the lender of last resort, who will supply the funds to banks in case of financial crisis
 - (2) But the conflict of interest might happen, if they need to rescue or protect some banks
 - (3) When the resolution institution works, it may affect the fiscal policy of each country
- (出所) "What kind of Banking Union?"

4. How will “the vicious circle between Fiscal and Financial issues” stop?

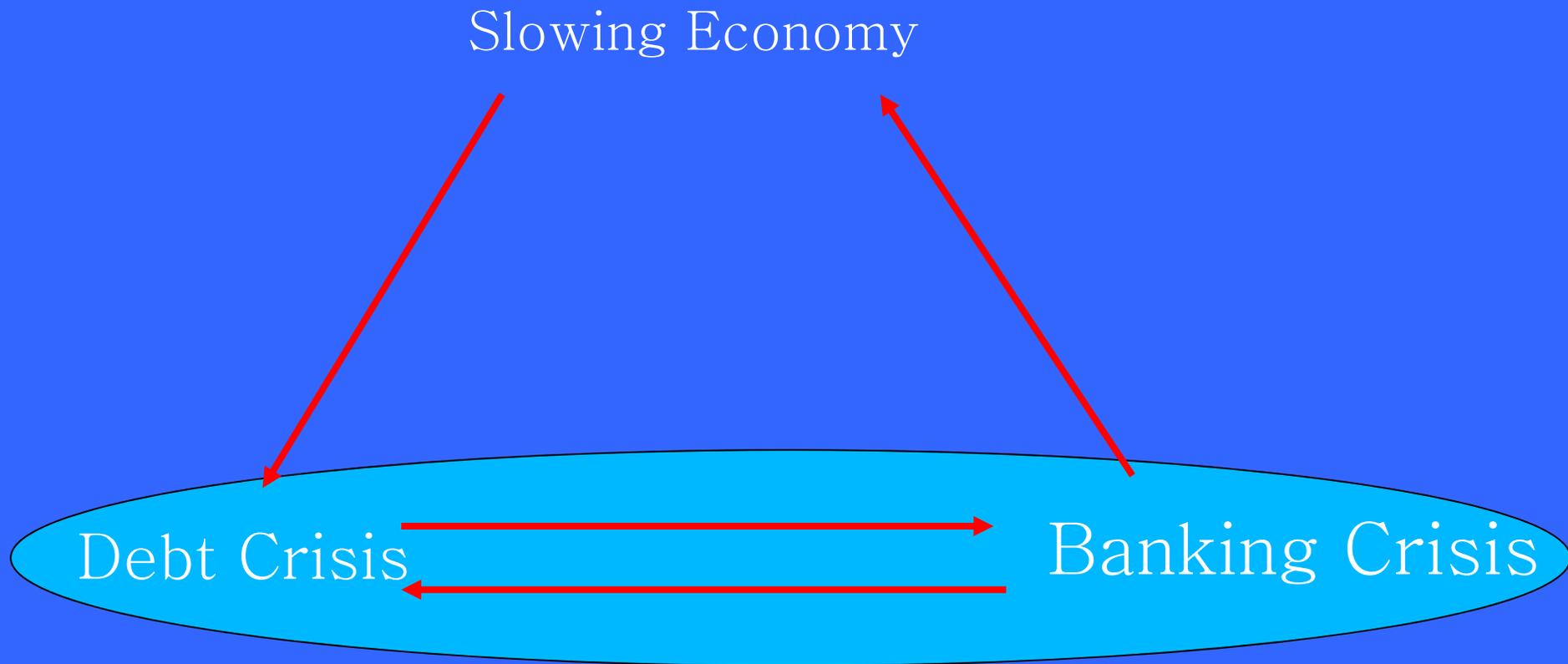
(1) The Vicious Circle of three factors



(Source) European commission

4. How will “the vicious circle between Fiscal and Financial issues” stop?

Presently more focus on Banking Crisis



(Source) European commission, the Author modified

4. How will “the vicious circle between Fiscal and Financial issues” stop?

“Compact for Growth and Jobs” which was decided in EU / Euro Area Summit provided the fund of 120 billion Euro. This could be understood as “Substantial Eurobond”

- “The Structural fund” of 60 billion (1) can be applied to the poor region which belong to the countries now in correspond to the half of the amount and (2) can be paid rather quickly
- The investment by EIB on infrastructure is (1) similar to Eurobonds as its funding is based on the EU but (2) the way of the expense can be specified

4. How will “the vicious circle between Fiscal and Financial issues” stop?

- German attitude is gradually changing, especially from the industrial sector
- France is afraid of the contagion to Spain, Italy, then France itself
- Italy is struggling with structural reform as the time is limited both in economic and political sense

Conclusion – Future Direction –

- (1) After the EU / Euro Area Summit, the design for the new institutional framework is the key issue, when we discuss the Euro can survive as the major currency or not
- (2) Especially the most important issue is the single supervisory mechanism lead by the ECB, which should be specified until the end of 2012
- (3) Eurobond may be the long term issue which may be realistic, after the fiscal integration, which Germany insists, come into true