

The background of the slide is a light gray gradient with several realistic water droplets of various sizes scattered across it. The droplets have highlights and shadows, giving them a three-dimensional appearance.

# **CAN YOU SPEND YOUR WAY OUT OF A FINANCIAL CRISIS?**

## **THE CASE OF THE EU SPENDING POLICIES**

HELEEN AND MANOU

13 OCTOBER 2015

# MOTIVATION

- FINANCIAL CRISIS IN 2008-10: RETURN ON INVESTMENT REDUCED BY 15-20%
- TO MITIGATE THE IMPACT AND INCREASE GDP, SOME EU GOVERNMENTS WANTED TO ENCOURAGE HH TO INCREASE SPENDING (I.E. REDUCE SAVING) TOWARDS LOCALLY PRODUCED GOODS
  - ACTUAL SAVING RATES IN THE EU WAS ABOUT 11 % IN 2009 (BEFORE FINANCIAL CRISIS)
- HOWEVER THE EFFECTS OF SUCH POLICIES ARE NOT KNOWN

# OBJECTIVE

TO ASSESS THE IMPACTS OF THE SPENDING (SAVING) POLICIES ON:

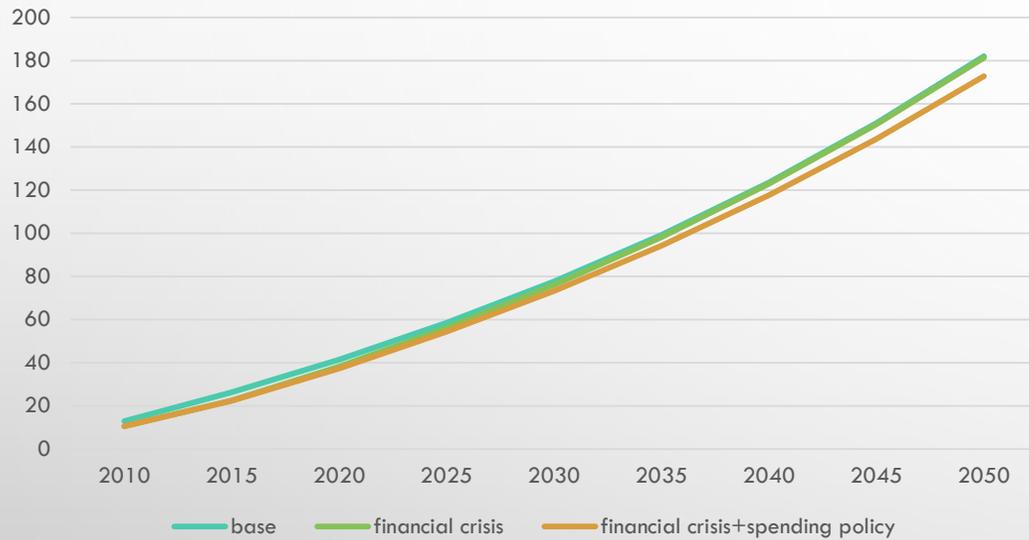
- GDP
- CONSUMPTION
- INVESTMENT
- WELFARE (2020 AND 2050 HORIZONS)
- INCOME FROM CAPITAL OWNERSHIP

# CLOSURES AND SHOCKS

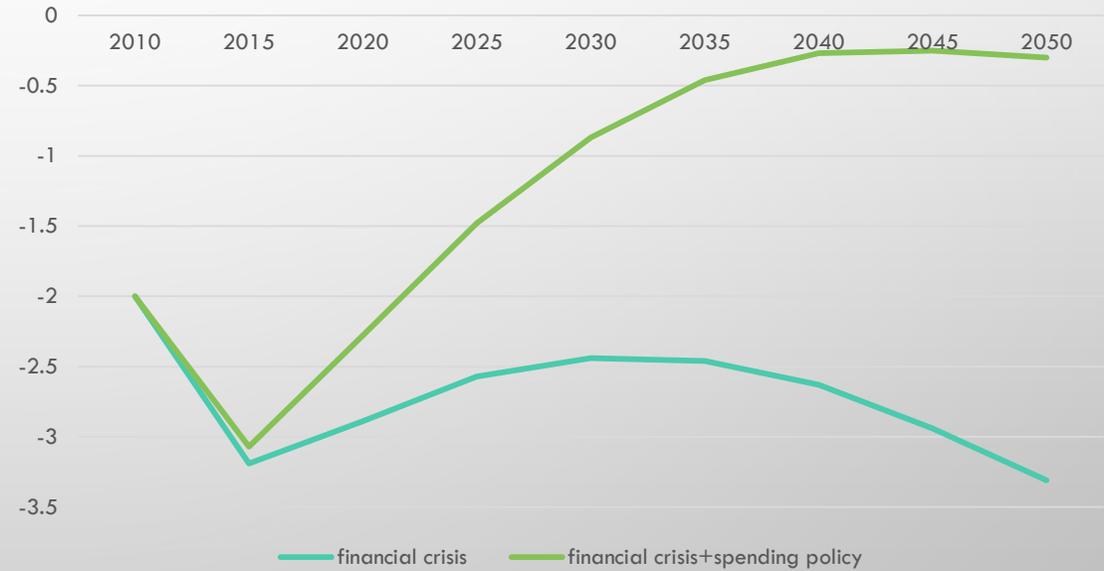
	1. Baseline	2. Financial Crisis	3. Financial Crisis + Spending policies
Financial shocks	None	sorge=-25% (2005-10) sorge= -10% (2010-15)	sorge= -25% (2005-10) sorge= -10% (2010-15)
Decrease in Saving rates	None	None	Dpsave = - 15%(2010-15)
Encourage HH investment on local firms	None	None	Swqhf = + 10%(2010-15)

# IMPACTS ON GDP

GDP (million dollars)

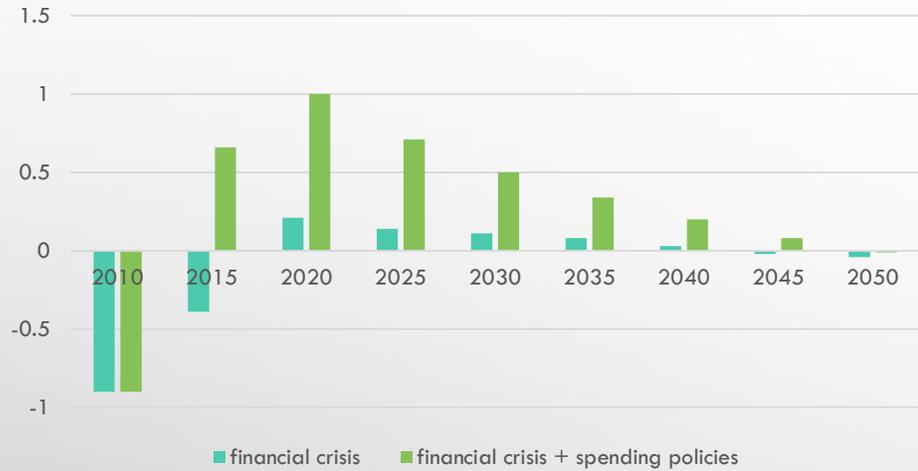


GDP (% change versus baseline)

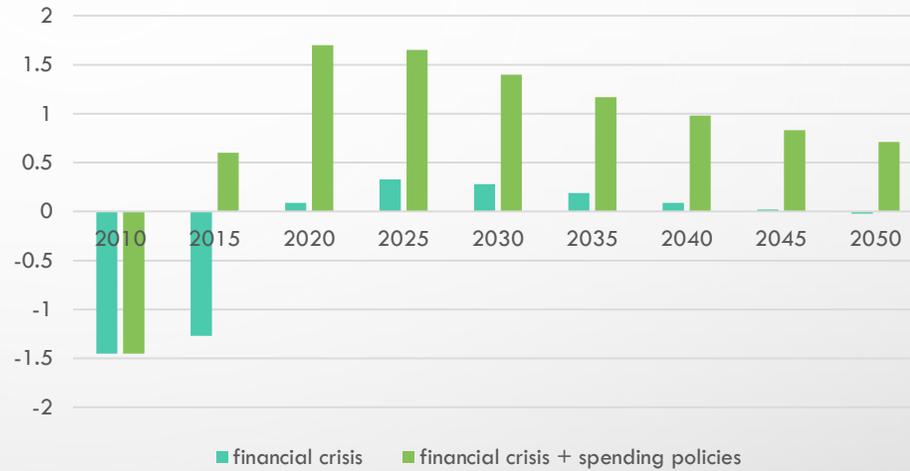


# IMPACTS ON CONSUMPTION (% CHANGE VS. BASE)

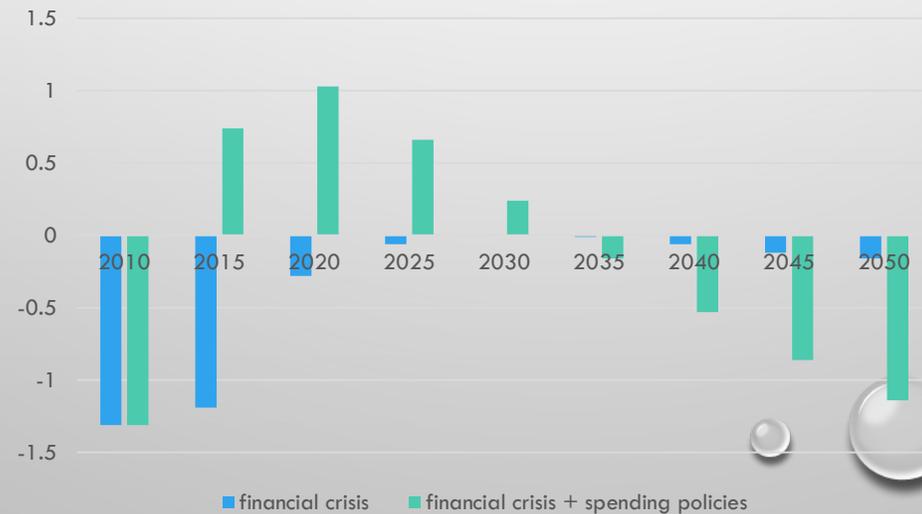
## Food



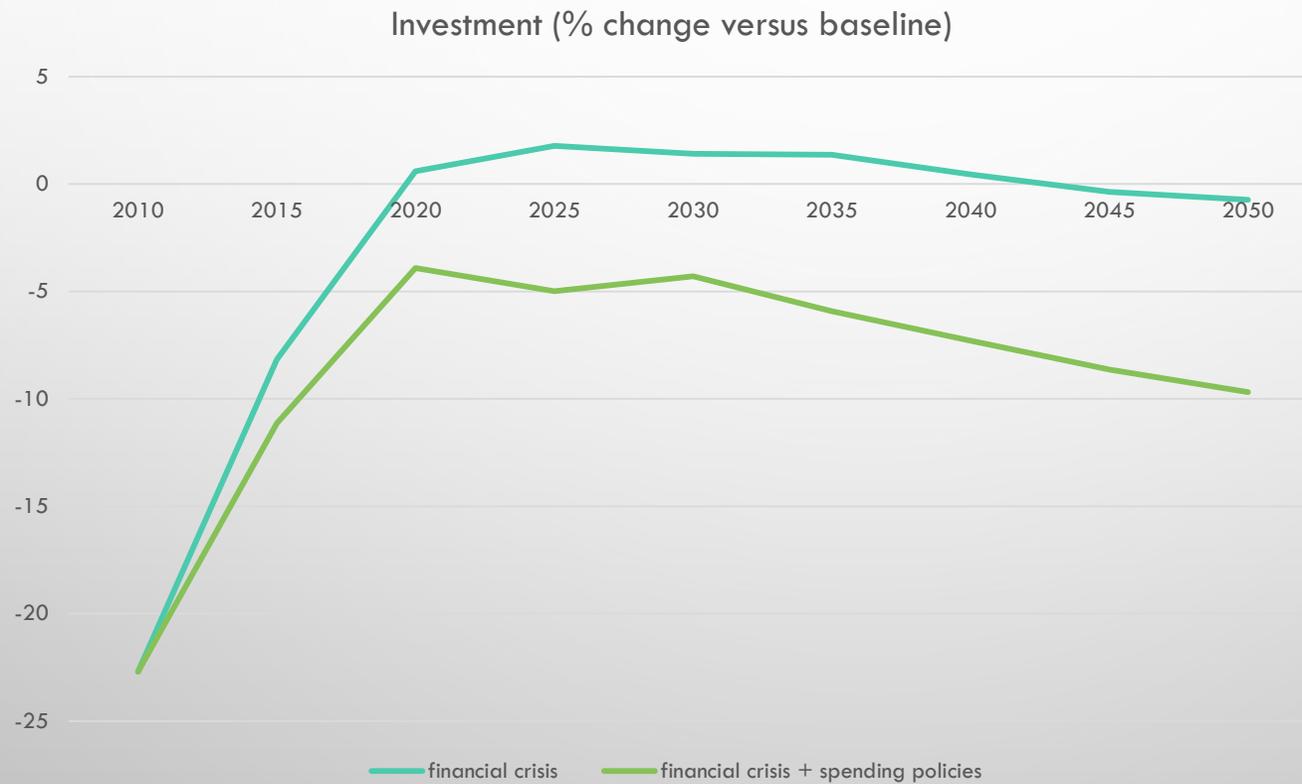
## Manufacturing services



## Services

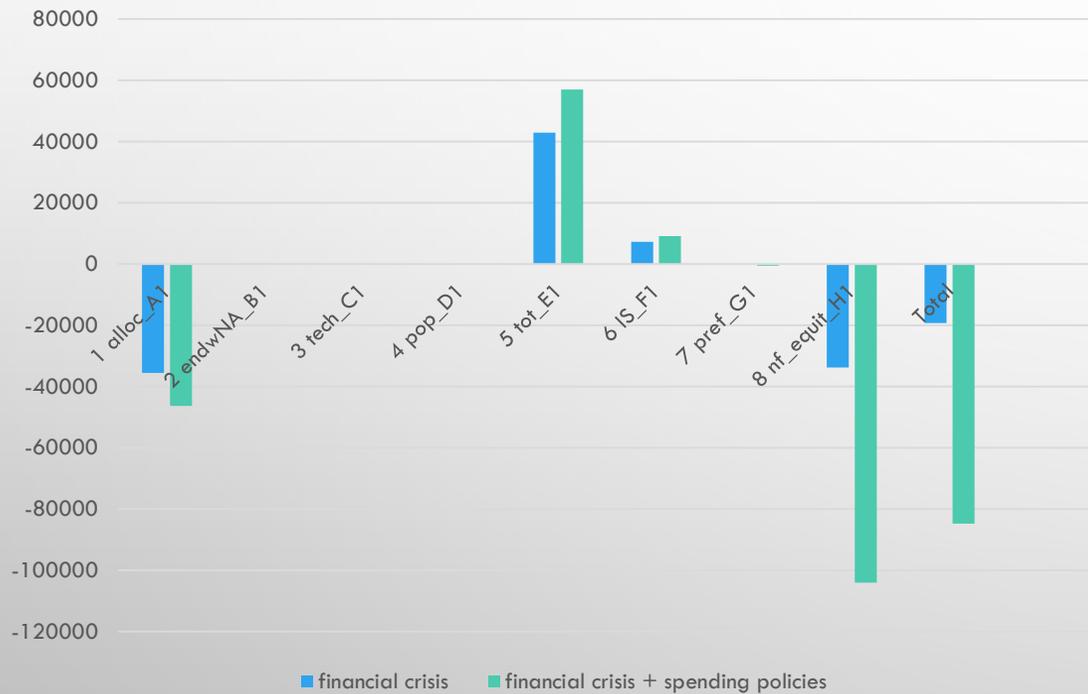


# IMPACTS ON INVESTMENT (QCGDS)

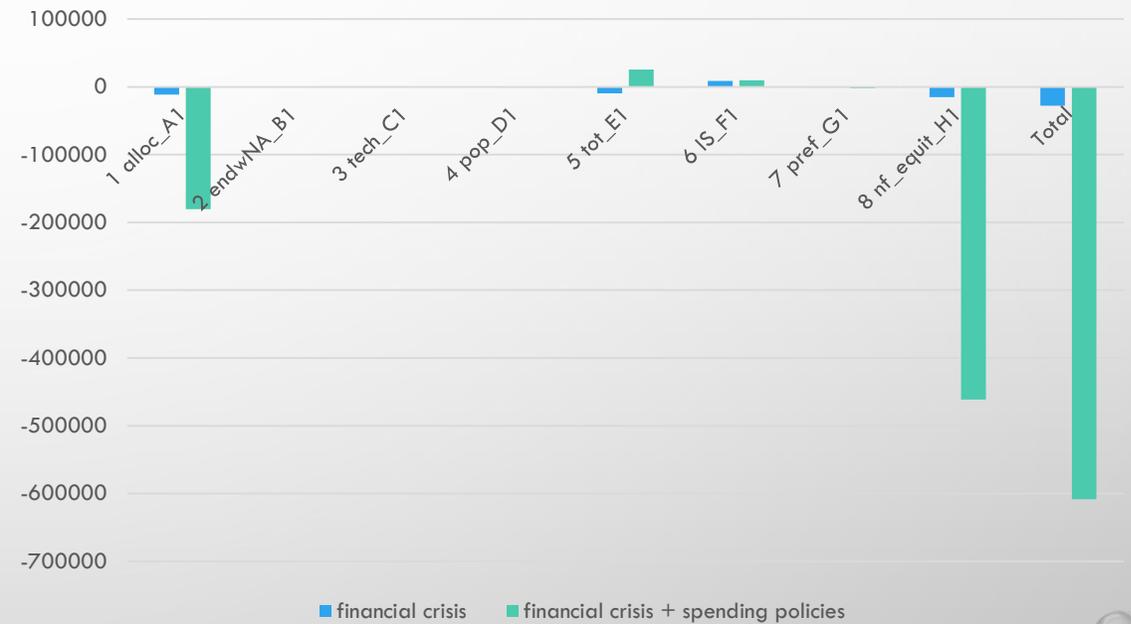


# WELFARE DECOMPOSITION (SHORT AND LONG RUN)

Welfare Change (2020)



Welfare Change 2050



■ financial crisis ■ financial crisis + spending policies

# IMPACTS ON INCOME FROM OWNERSHIP OF CAPITAL ENDOWMENT

Income capital ownership 2020

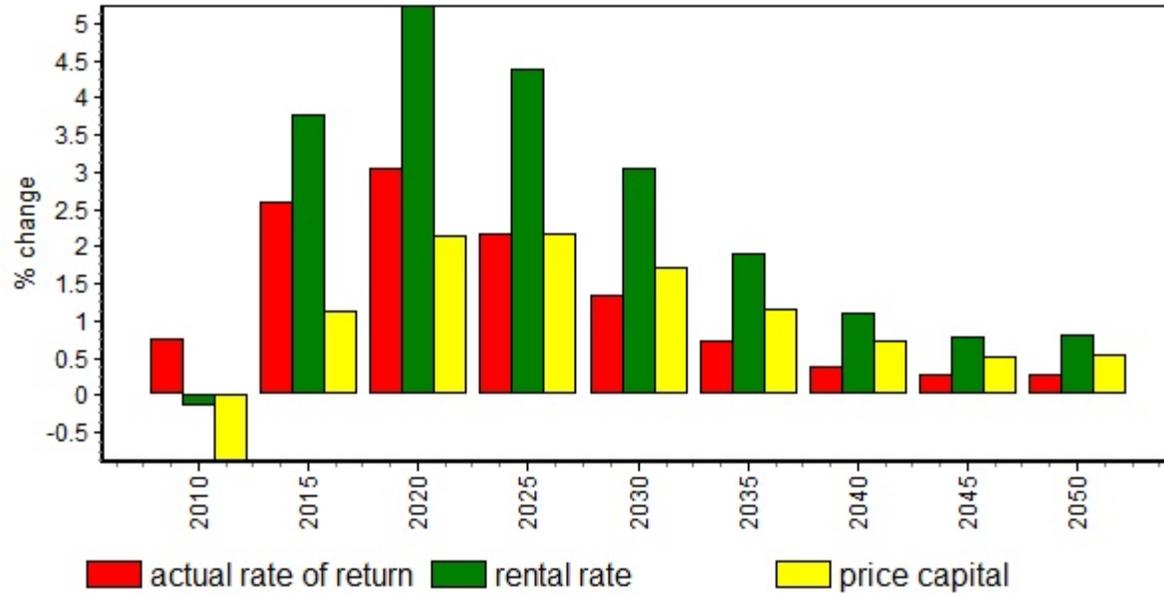


Income capital ownership 2050

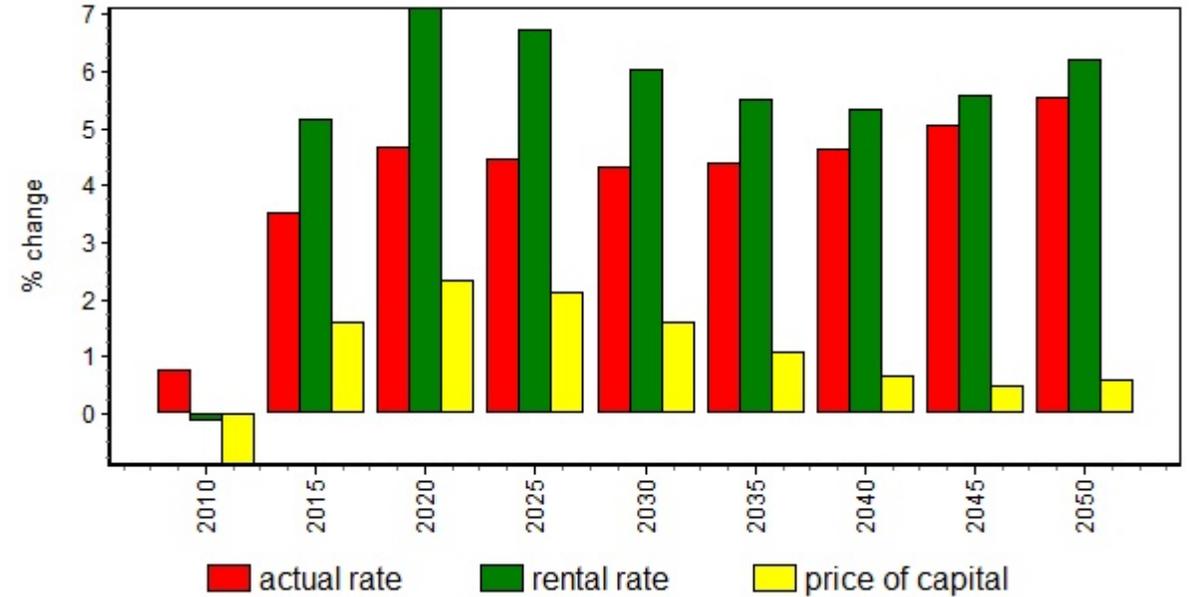


# WHAT HAPPENED TO ACTUAL RATE OF RETURN ?

Financial crisis



Financial crisis + spending policy



# CONCLUSION

- **FINANCIAL CRISIS REDUCES GDP BY 8% IN 2020**
  - BUT IN THE LONG RUN (2050) THIS NEGATIVE EFFECT VANISHES
- POLICIES ENCOURAGING HH TO INCREASE SPENDING (I.E. REDUCE SAVING) AND TOWARDS DOMESTIC GOODS REDUCE GDP BY 10% (VS. BASE) AND BY 2 % (VS. FINANCIAL CRISIS SCENARIO)
  - IN THE LONG-RUN (2050) THIS POLICY EFFECT PERSISTS (GDP FALLS BY 4% VS BASE)
- **GOVERNMENT POLICIES TO INCREASE GDP BY ENCOURAGING HH TO INCREASE SPENDING (REDUCE SAVING) AND BUY MORE DOMESTIC GOODS TO INCREASE GDP PRODUCE THE OPPOSITE EFFECTS**
- **=> YOU CANNOT SPEND YOUR WAY OUT OF A FINANCIAL CRISIS !**