CAN YOU SPEND YOUR WAY OUT OF A FINANCIAL CRISIS?
THE CASE OF THE EU SPENDING POLICIES

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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

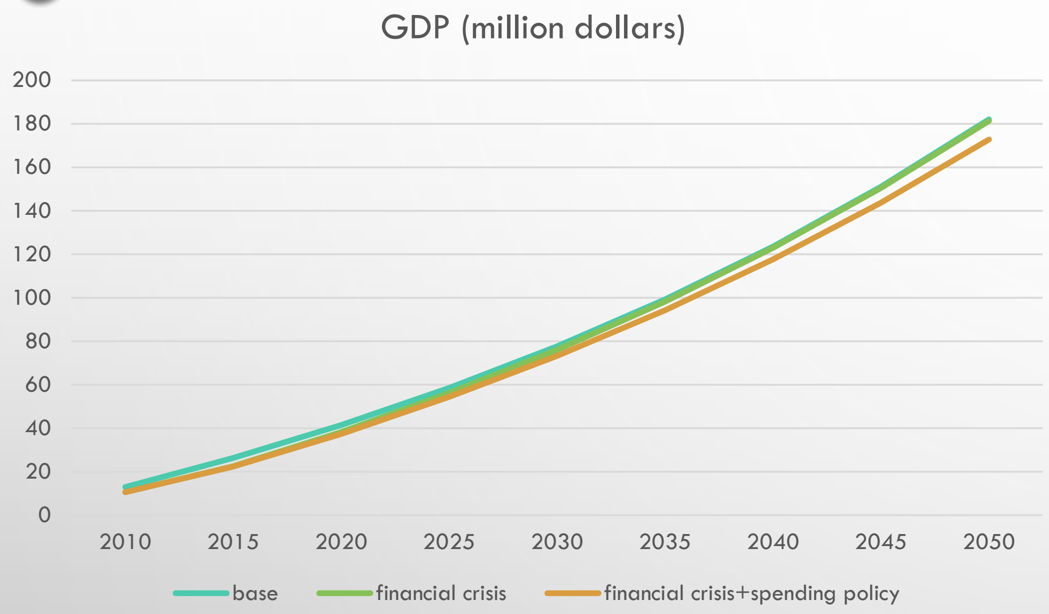
TO ASSESS THE IMPACTS OF THE SPENDING (SAVING) POLICIES ON:

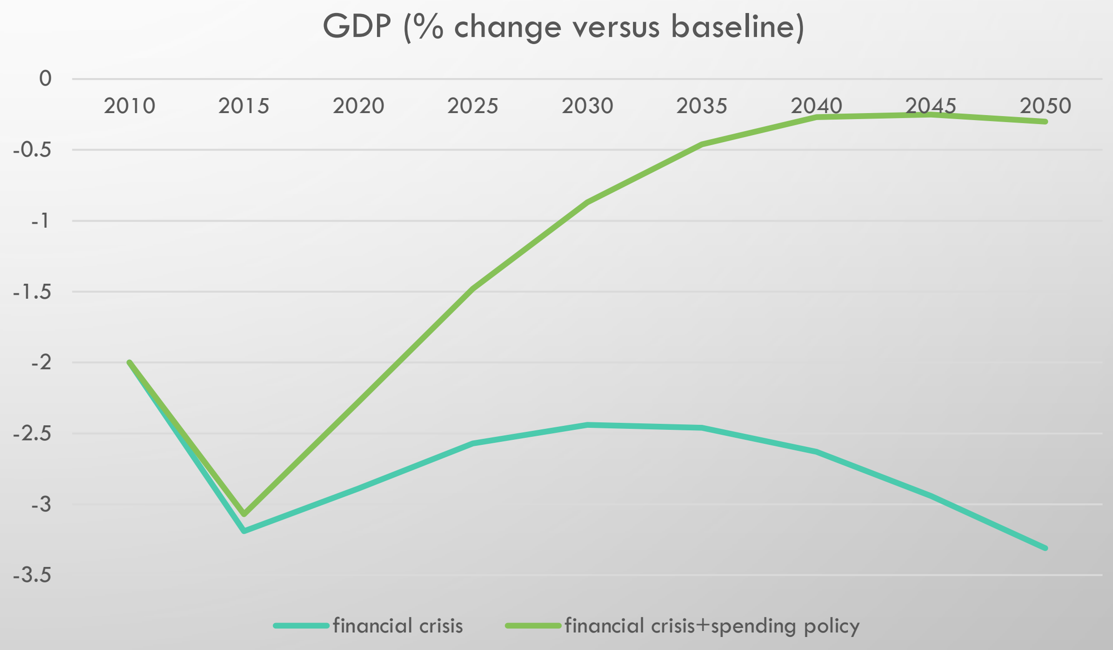
- GDP
- CONSUMPTION
- INVESTMENT
- WELFARE (2020 AND 2050 HORIZONS)
- INCOME FROM CAPITAL OWNERSHIP

CLOSURES AND SHOCKS

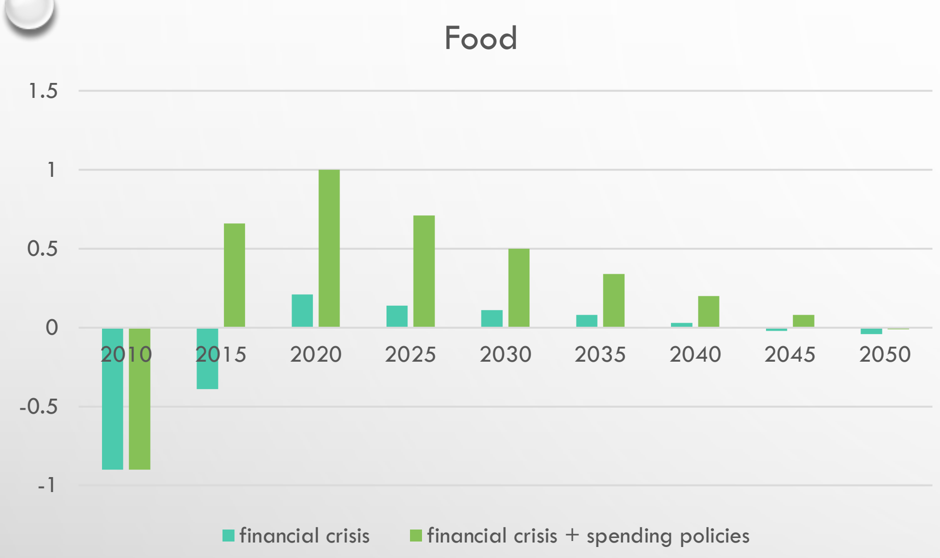
	1. Baseline	2. Financial Crisis	3. Financial Crisis + Spending policies
Financial shocks	None	srorge=-25% (2005-10) srorge= -10% (2010-15)	srorge= -25% (2005-10) srorge= -10% (2010-15)
Decrease in Saving rates	None	None	Dpsave = - 15%(2010-15)
Encourage HH investment on local firms	None	None	Swqhf =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

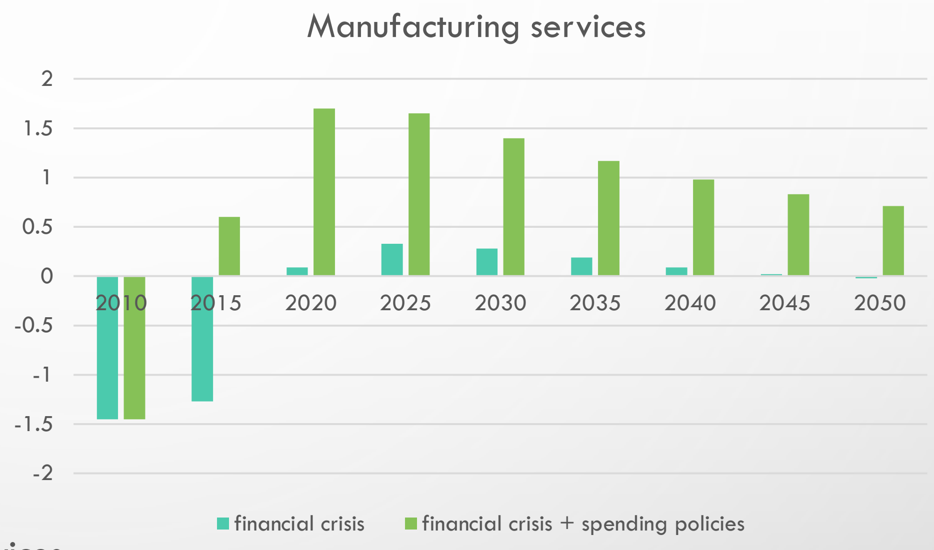
IMPACTS ON GDP

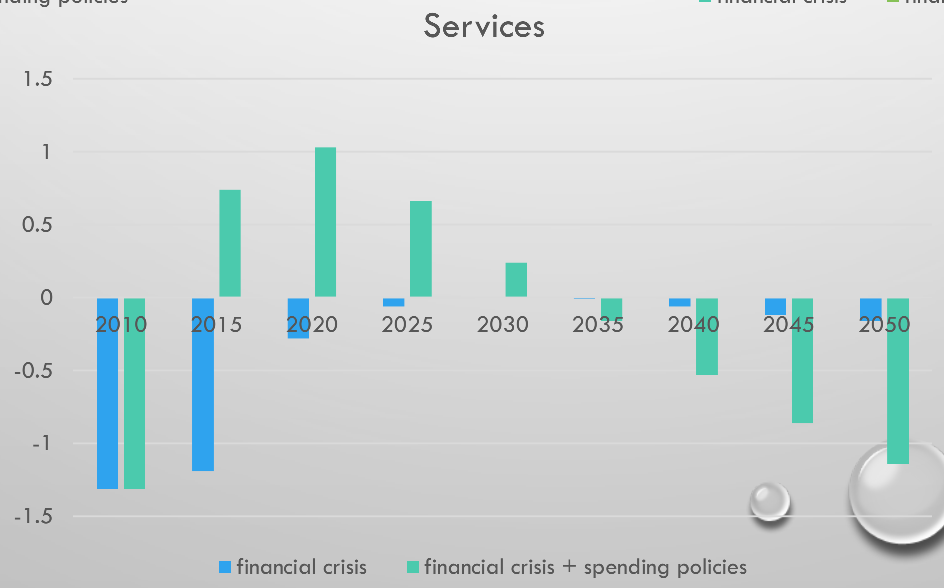




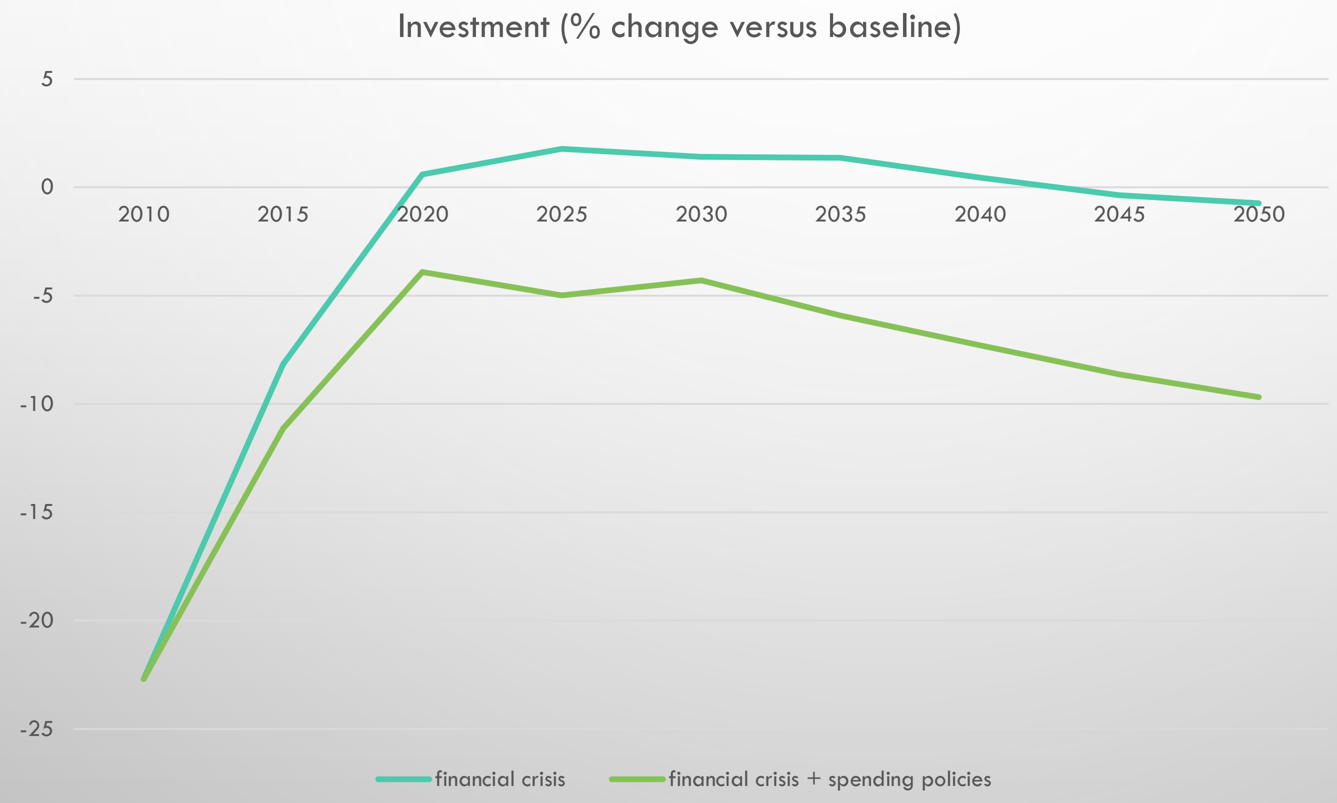
IMPACTS ON CONSUMPTION (% CHANGE VS. BASE)



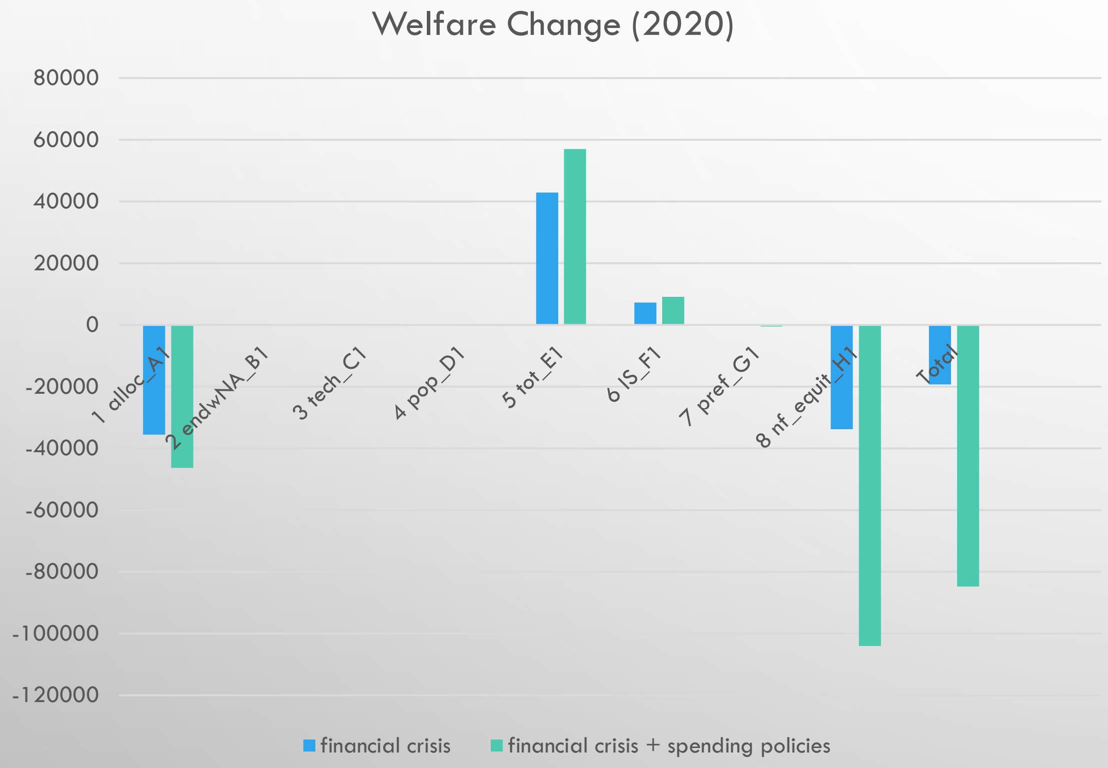


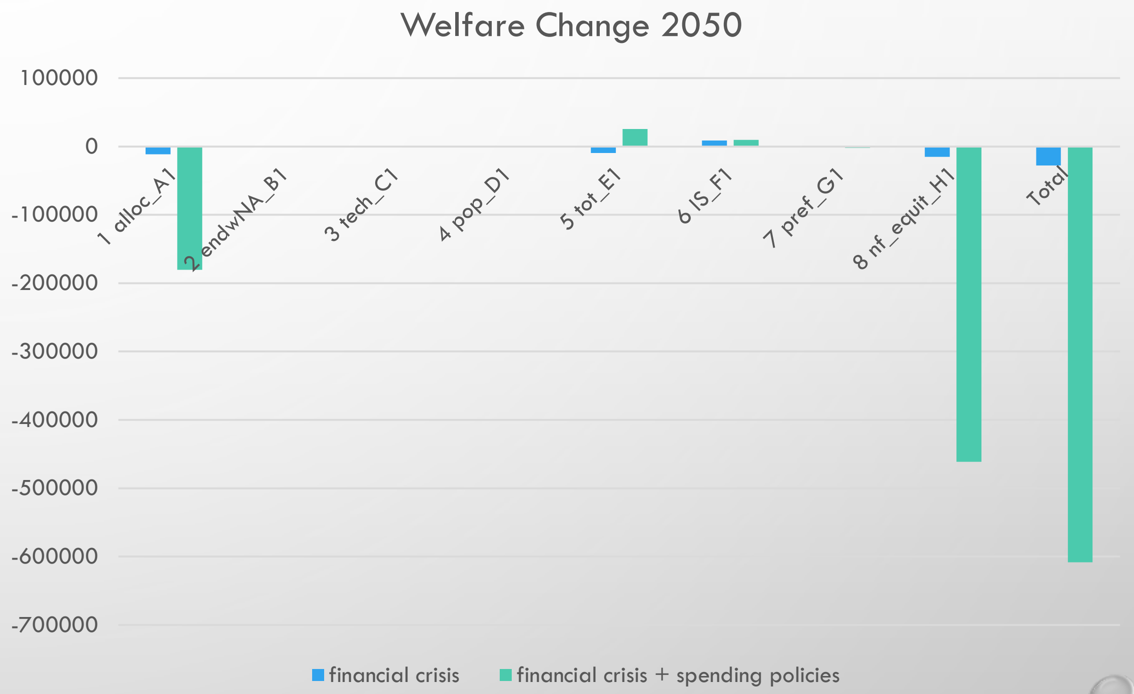


IMPACTS ON INVESTMENT (QCGDS)

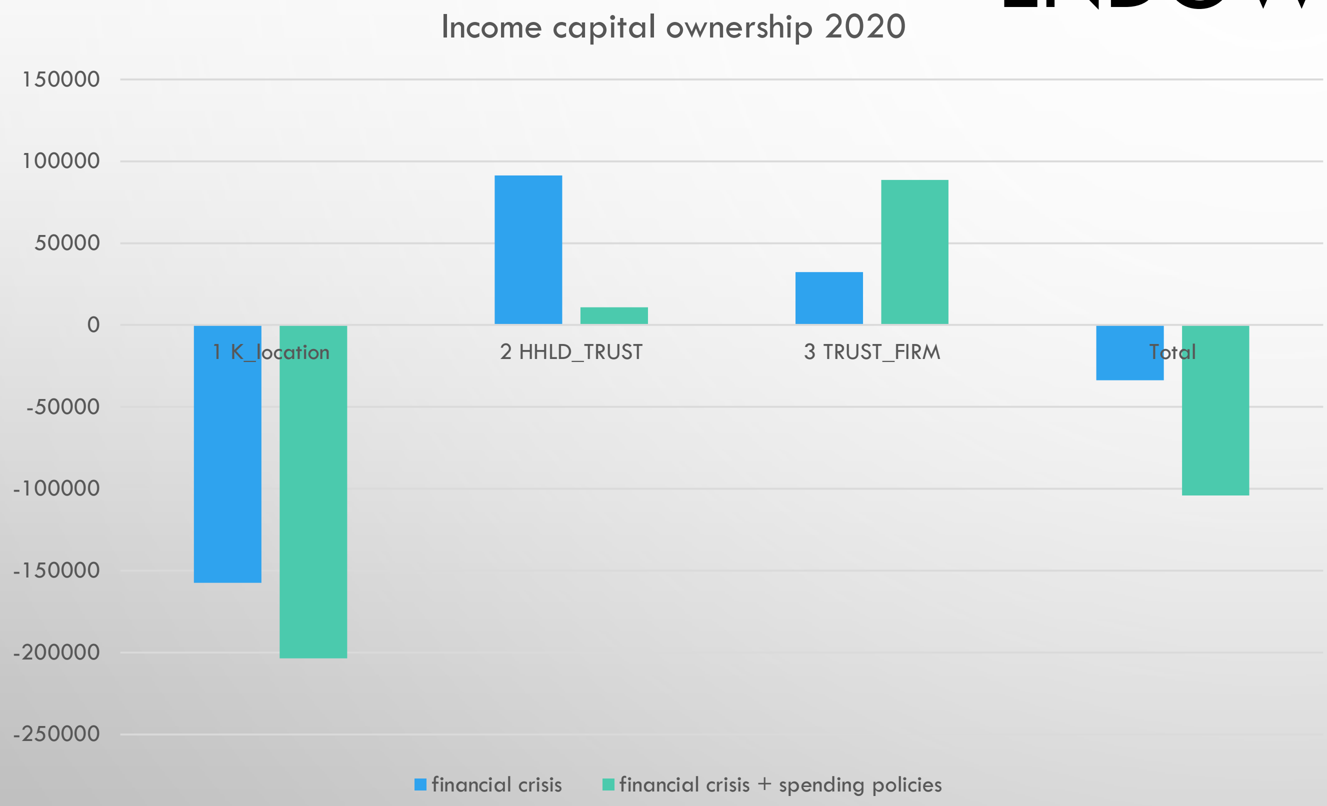


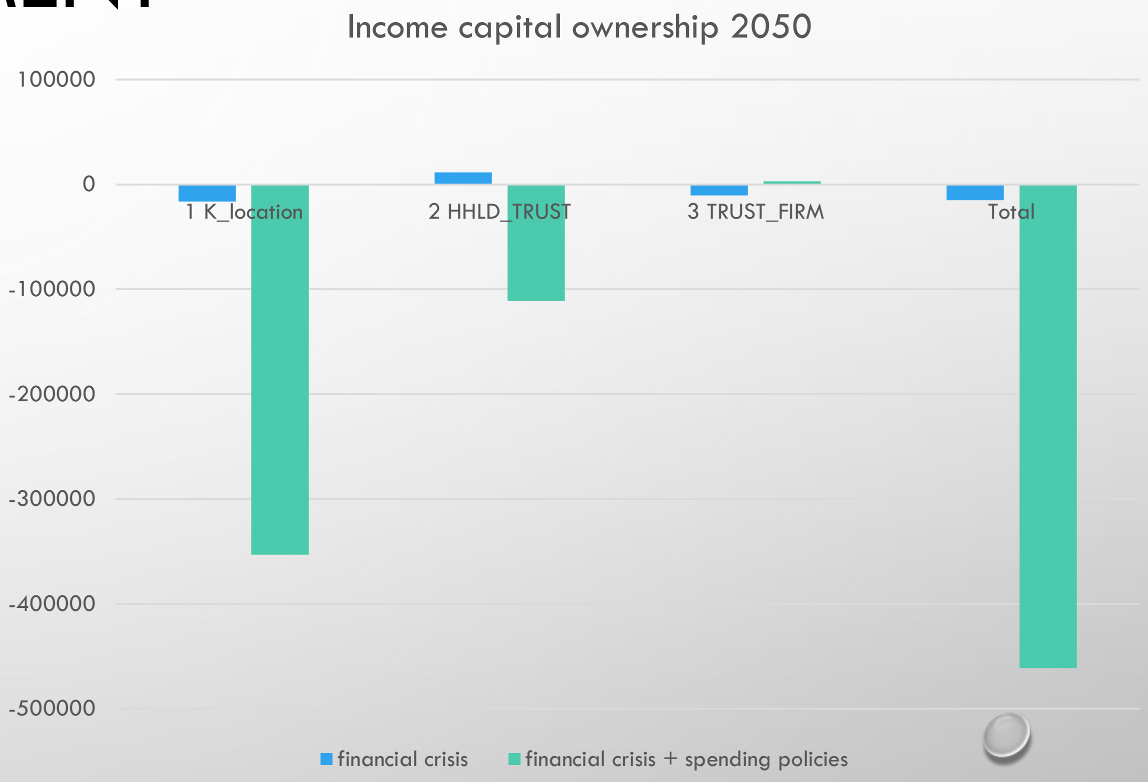
WELFARE DECOMPOSITION (SHORT AND LONG RUN)





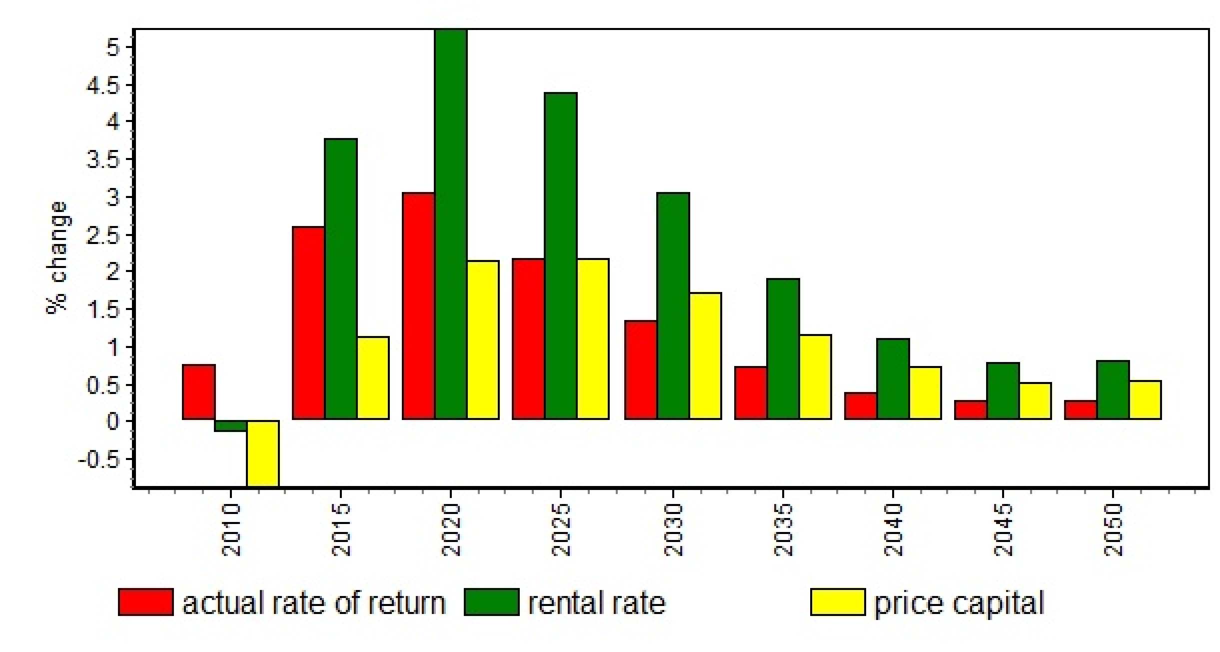
IMPACTS ON INCOME FROM OWNERSHIP OF CAPITAL ENDOWMENT



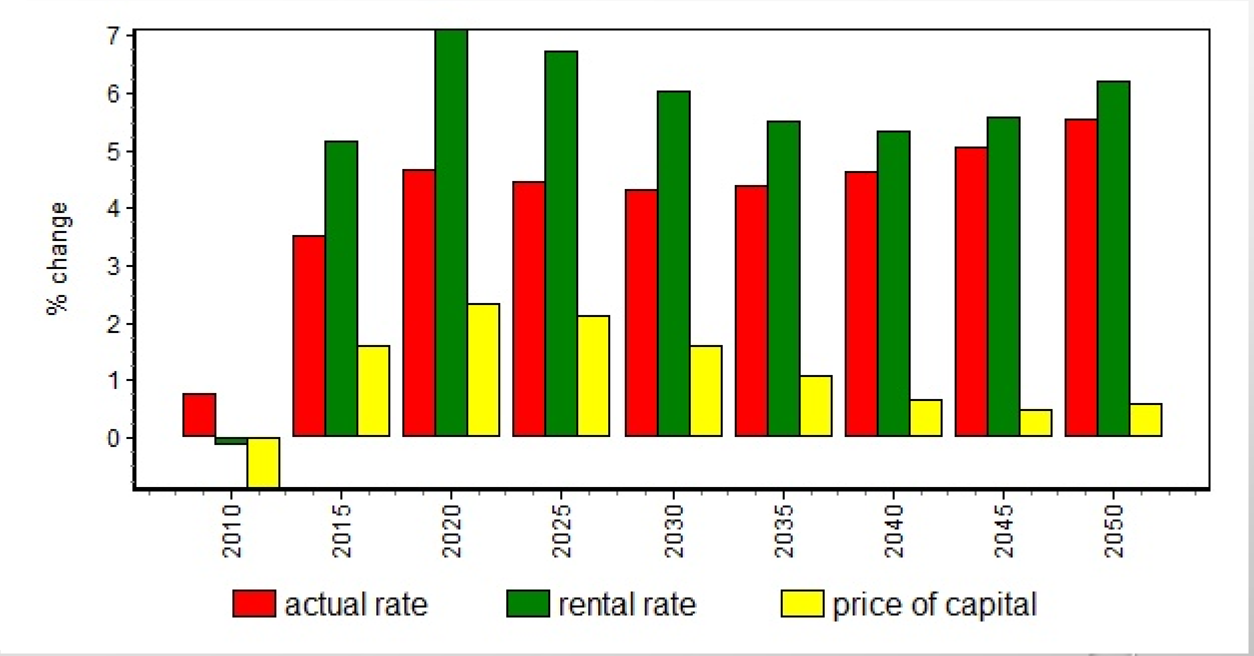


WHAT HAPPENED TO ACTUAL RATE OF RETURN ?

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 !**