

## It is not true that the stimulus policies in the euro zone are insufficient when compared with the stimulus package in the United States

Many investors believe that the euro zone will face problems because the economic policies are not stimulatory enough, compared with the policies conducted in the United States. The fact that stimulus policies in Europe are not coordinated is also pointed out.

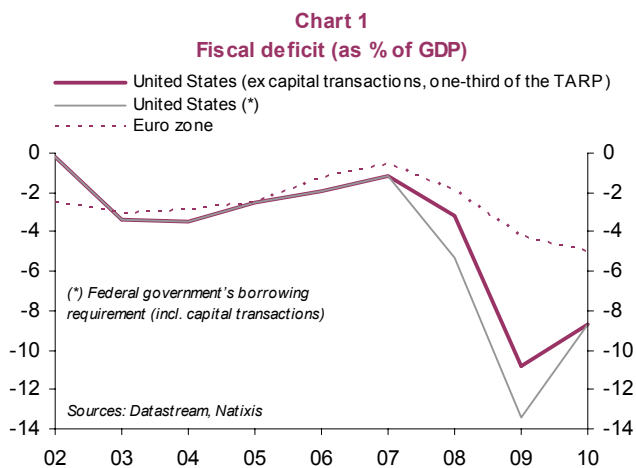
**The second point (lack of coordination) is true, but it is not obvious that it is so serious.**

The first point (insufficient stimulus) is wrong when comparing the scale of the stimulus with the magnitude of the shock that is affecting the economies.

### 1 - In the absolute, a smaller stimulus package in the euro zone than in the United States

We can measure the scale of the stimulus by:

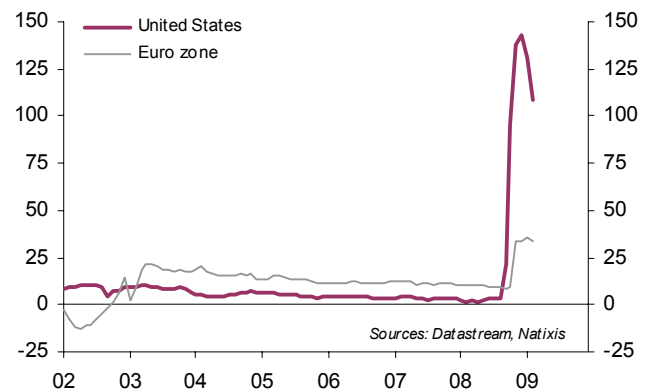
- the increase in the fiscal deficit (Chart 1)



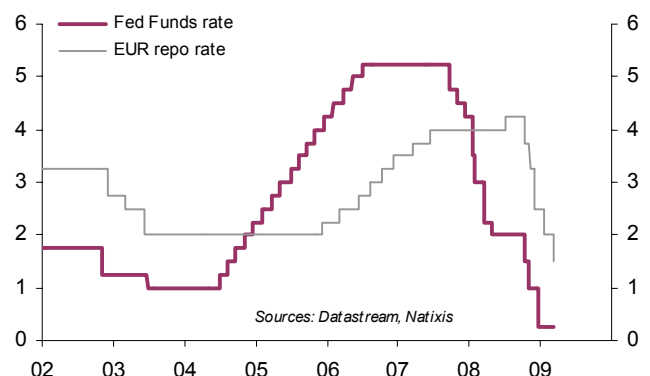
From 2007 to 2009, it was 11 percentage points of GDP in the United States, and 3.5 percentage points of GDP in the euro zone.

- monetary base growth (Chart 2)
- the cut in key intervention rates (Chart 3), which has been 5% in the United States and 2.75% in the euro zone since their peaks.

**Chart 2**  
Monetary base (in local currency, Y/Y as %)



**Chart 3**  
Key intervention rates



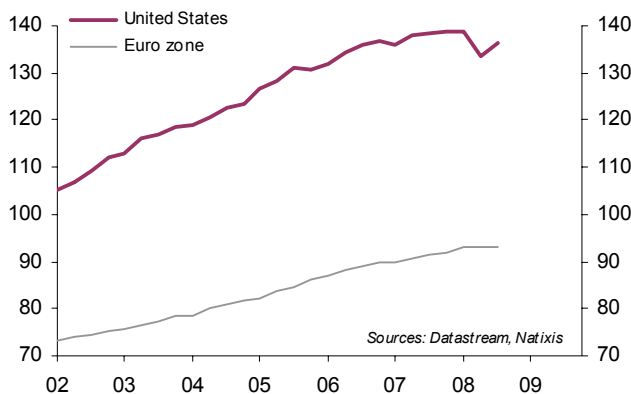
This shows that the scale of the stimulus is, all in all, nearly three times greater in the United States than in the euro zone.

**2 - But the magnitude of the shock is also greater in the United States**

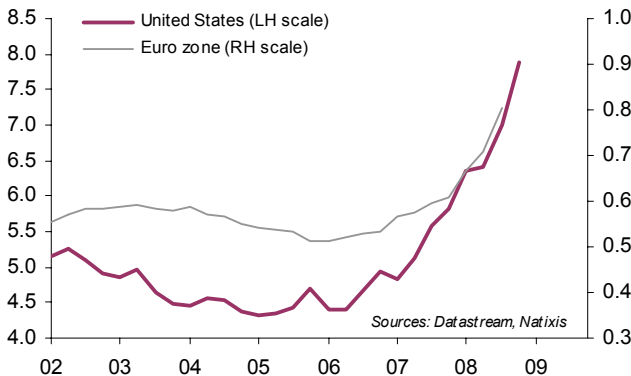
The shock that has caused the need for stimulus has several components:

- the need to reduce household debt leverage. The debt leverage has increased markedly less in the euro zone (**Chart 4**; 32 percentage points in the United States and 20 percentage points in the euro zone from 2002 to the peak)
- the losses incurred by investment banks due to capital losses on their assets (**Table 1**) are more than twice as large in the United States
- the losses recorded by retail banks due to household defaults (**Chart 5**) are almost 10 times larger in the United States
- the slowdown in exports due to the decline in global trade (**Chart 6**) has been 35 percentage points since the peak in the United States, but only 15 percentage points in the euro zone.

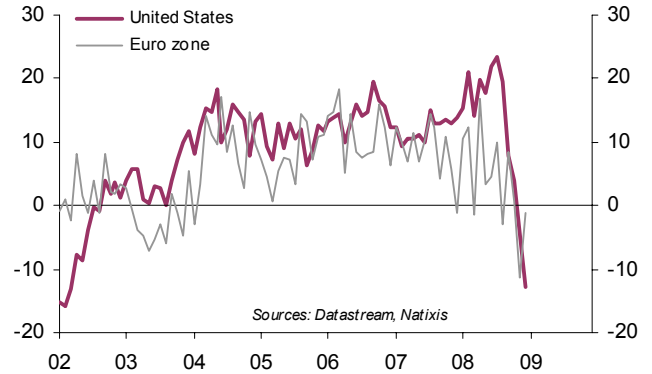
**Chart 4**  
Household debt load (as % of GDI)



**Chart 5**  
Household default rate on mortgage loans



**Chart 6**  
Exports in value terms  
(in local currency, Y/Y as %)



When putting all these components of the unfavourable shock together, we conclude that the shock is three times larger in the United States than in the euro zone.

When comparing the magnitude of the shock and the scale of the stimulus, there is clearly proportionality.

**3 - Admittedly, the stimulus programmes are not coordinated**

Table 2 shows the structure of the fiscal stimulus programmes for the four largest euro-zone countries. The lack of coordination can be seen from the difference between these structures. Tax cuts and transfers represent 60% of the total in Germany; 60% in France; 80% in Italy; 82% in Spain. Direct government expenditure (infrastructure investments) represent 40% of the total in Germany, 40% in France; 20% in Italy; 18% in Spain.

However, is the lack of coordination a problem? The answer is no, as long as the externalities are positive, i.e. as long as the stimulus programme in one country has a positive effect on the economy in the other countries.

Stimulus measures generate negative externalities if they are implemented in order to take market shares from other countries. Two examples are subsidies and cuts in welfare contributions.

We can see that they represent only 26 % of the total economic stimulus package in Germany, 11% in France, and almost nothing in Italy and in Spain.

All in all, the concerns about the economic situation in the euro zone and the euro's stability, due to the (supposed) insufficient stimulation policies, are - in our opinion - unfounded when looking at the magnitude of the shock compared with the United States.

**Table 1**  
**Asset write-downs and capital increases by banks**

In USD bn	Total		Q4-08 (as of 22/10/2008)		Q3-08		Q2-08	
	Write-down	Increase	Write-down	Increase	Write-down	Increase	Write-down	Increase
Americas	813.1	571.5	0.8	50.4	197.7	261.5	196.8	43.9
Europe	355.7	378.7	0	58.5	85.7	139.5	47.7	49.1

In USD bn	Q1-08		Q4-07		Q3-07		Prior to Q3-07	
	Write-down	Increase	Write-down	Increase	Write-down	Increase	Write-down	Increase
Americas	132.8	62.5	126.2	47.1	28	0.8	0.7	0
Europe	76.7	21.1	76.9	24.5	15.9	10.6	2.8	5

Sources: Bloomberg and companies

**Table 2A**  
**Stimulus programmes**  
**Forecast German fiscal deficits in 2009 and 2010**

	In EUR bn		As % of GDP	
	2009	2010	2009	2010
Deficit in the previous year	-10.0	-76.1	-0.4%	-3.0%
Cyclical change in the deficit	-33.0	0.0	-1.3%	0.0%
Increase in child benefits	-2.3	-2.1	-0.1%	-0.1%
Reduction in unemployment contributions	-4.0	-3.2	-0.2%	-0.1%
Repayment of tax exemption on transport	-2.5		-0.1%	
Stimulus package 1	-2.6	-5.7	-0.1%	-0.2%
Tax deduction for renovation work on housing		-0.9		0.0%
Introduction of declining balance depreciation rates	-1.9	-4.3	-0.1%	-0.2%
Specific depreciation rules for SMEs	-0.2	-0.4	0.0%	0.0%
Temporary suspension of road tax	-0.4	-0.1	0.0%	0.0%
Stimulus package 2	-21.8	-24.5	-0.9%	-1.0%
Changes in income tax schedules	-3.0	-6.0	-0.1%	-0.2%
Public expenditure on investment	-9.0	-9.0	-0.4%	-0.3%
Reduction in health contributions	-3.0	-6.0	-0.1%	-0.2%
Car-scrapping incentive	-1.5		-0.1%	
Cash payment for birth of child	-1.8		-0.1%	
Child benefit for long-duration job seekers	-0.5	-0.5	0.0%	0.0%
Employment policy	-3.0	-3.0	-0.1%	-0.1%
<b>Total</b>			<b>-3.0%</b>	<b>-4.4%</b>

**Table 2B**  
**France: Stimulus package (2009)**

	EUR bn	% GDP
Support for companies to improve their cash flow (early repayment of sums due by tax authorities, etc.)	11.4	0.58%
Public investment (infrastructures)	6.5	0.33%
Quasi-public investment (SNCF, EDF, RFF, etc.)	4	0.21%
Employment policy (very small firms exempted from welfare contributions, etc.)	1.2	0.06%
Purchasing power ( <i>Active Solidarity</i> , i.e. earned income tax credit for low-income households)	0.8	0.04%
Other (housing, automobile, etc.)	2.1	0.11%
<b>Total</b>	<b>26</b>	<b>1.3%</b>

Source: Natixis

+ bailout plan for the carmakers: EUR 7.8 bn (EUR 6.5 bn in loans over 5 years + EUR 1.3 bn in financing from state refinancing company SFEF)  
+ support plan for households: EUR 2.6 bn

**Table 2C**  
**Italy: Cost of various measures (stimulus package, in EUR million)**

Direct support for households (cash handouts, "social debit card", maternity grant, primarily in 2009)	2,500
Ceiling on mortgage loans to first-time home owners (2009)	between 250 and 350
Motorway tolls frozen (2009)	87
Tax measures in favour of households and companies (2009, 2010 and 2011)	800
Creation of an investment fund for rail transport (two-thirds in 2009, the rest in 2009, 2010 and 2011)	1,500
Support of the automobile sector (car-scrapping incentive, incentives to buy "green" cars) and tax deductions for purchases of furniture and household appliances by households	2,000
<b>Total</b>	<b>Around EUR 7 bn</b>

Source: Natixis

**Table 2D**  
**Spain: Measures with a direct impact on the budget**

2008 budget	EUR mn		% GDP	
Before general election: measures decided in 2007, impacting the 2008 Finance Bill	9,703			1,098
- Reduction in tax schedule and increase in ceiling on personal and household income and increase in ceiling for earned income		940	0.09	
- Effect of 2007 reform on personal income tax in 2008		1,889	0.17	
- Cash payment for birth or adoption		1,192	0.11	
- Support for low-income tenants		350	0.03	
- 2.5 percentage point cut in corporate tax		5,332	0.49	
New expenditure in 2008 Finance Bill	1,245			
- Support for young homebuyers		436	0.04	
- Development aid		809	0.07	
After general election: Additional Finance Act	2,000			
- Employment agencies		2,000	0.18	
Stimulus package I (decided in the spring after the general election)	9,601			
- EUR 400 tax cut for all taxpayers and freelancers liable to personal income tax.		5,400	0.49	
- Plan to monitor new job seekers individually.		201	0.02	
- Increase in the Spanish Treasury's fund to guarantee securitisation of loans granted to SMEs.		2,000	0.18	
- Increase in the ICO's (Instituto de Crédito Oficial) fund to guarantee securitisation of mortgage loans granted to households acquiring subsidised housing.		2,000	0.18	
Stimulus package III (decided on 28 November)	10,850		1.0	
- Funding of new infrastructure facilities built by municipalities		8,000		
- Support for the car industry		800		
- Environment		600		
- R&D		500		
- Complementary funding of aid for dependent people.		400		
- Renovation of barracks, police stations and housing.		520		
- Social tourism:		30		
<b>Total new expenditure in 2008</b>	<b>22,549</b>		<b>3.0</b>	

2009 budget	EUR mn		% GDP	
Stimulus package I (decided in the spring after the general election)	7,800		0,7	1,117
- Rescinding of wealth tax.		1,800	0,2	
- Monthly repayment of VAT.		6,000	0,5	
Stimulus package II (decided on 3 November 2008)				
- Measures in favour of employment (various exemptions and bonus for hiring job seekers with dependent family on an open-ended contract)	170		0,0	
Automobile sector bailout plan	3,270		0,3	
<b>Total new expenditure in 2009</b>	<b>11,240</b>		<b>1.0</b>	

Source: Natixis