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SCOPE OF THIS BOOK

This book is not an in-depth discussion of the causes of the crisis, as those have already been analysed by others. Instead, this book focuses on the following: First, it explains the developments in some of Europe's national and regional economies in the years 2007–12 and how the global financial crisis translated into the different national and regional conditions. Second, the book appraises government responses to the financial and economic crises at the national, EU and regional levels during this period. Third, the book draws lessons from the government responses to the crisis. Finally, it outlines policy options for the countries and regions in question and for the EU as a whole. Thus, the book is not merely retrospective, but also forward looking as it attempts to construct evidence-based policy suggestions for European economies.

The volume covers 19 countries, one region and the EU level, including a separate chapter on steps taken by the European People's Party (EPP) Group in the European Parliament. Its scope ranges from large countries such as Germany, Italy, France, Spain and Poland to small EU economies such as Malta and Estonia, whose experience is nevertheless highly relevant and noteworthy. The final Synthesis outlines differences and similarities between the experiences in different countries and provides a composite European picture. All chapters include recommendations for policymakers, but an attempt has been made to use accessible language that conveys the meaning of complex economic concepts to the general reader.

Table 1 shows the countries and regions covered in this volume and demonstrates the institutional and economic diversity of European countries. The 19 countries in this volume represent less than two-fifths of Europe's 50 countries. Yet at the time of writing they together have seven central banks, with their own monetary policies, and seven currencies. Most countries were using the euro at the onset of the European financial crisis in 2008; two (Estonia and Slovakia) adopted the common currency in the course of the crisis; four continue to use their national currencies; and, at the time of writing, two countries, with their own currencies, were outside the EU (Croatia and Norway). GDP per capita in 2011 ranged from 49% of the EU average in Romania to 186% in Norway.

Table 1 **Countries covered in the volume, their EU membership status, currencies, central banks and GDP per capita**

Country	Membership status (2013)	Currency	Central bank (2013)	GDP per capita (2011; EU27=100)
Austria	EU	euro (1 Jan 1999)	ECB	129
Belgium	EU	euro (1 Jan 1999)	ECB	119
Cyprus	EU	euro (1 Jan 2008)	ECB	94
Estonia	EU	euro (1 Jan 2011)	ECB	67
Finland	EU	euro (1 Jan 1999)	ECB	114
France	EU	euro (1 Jan 1999)	ECB	108
Germany	EU	euro (1 Jan 1999)	ECB	121
Greece	EU	euro (1 Jan 2001)	ECB	79
Italy	EU	euro (1 Jan 1999)	ECB	100
Malta	EU	euro (1 Jan 2008)	ECB	85
Netherlands	EU	euro (1 Jan 1999)	ECB	131
Slovakia	EU	euro (1 Jan 2009)	ECB	73
Spain (including Catalonia)	EU	euro (1 Jan 1999)	ECB	98
Czech Republic	EU	Czech koruna	Czech National Bank	80
Hungary	EU	Hungarian forint	Hungarian National Bank	66
Poland	EU	Polish złoty	National Bank of Poland	64
Romania	EU	Romanian leu	National Bank of Romania	49
Croatia	to join the EU on 1 July 2013	Croatian kuna	Croatian National Bank	61
Norway	non-EU	Norwegian krone	Norges Bank	186

Source: Own compilation; GDP data: Eurostat.
Note: GDP data for Greece are provisional.

The period covered in the book ends in mid-2012, but some chapters were updated in January and February 2013.

GENESIS OF THIS BOOK

The authors of this book have been recommended by the member foundations or appointed by the Centre for European Studies (CES). Most of these member foundations have a nationwide reach, except for the Catalonia-based INEHCA, which was asked to contribute a regional chapter; and CEDER, which although attached to a region-based party in Flanders was asked to cover the whole of Belgium. The authors of the Polish chapter were nominated in cooperation with the Civic Institute in Warsaw. The CES itself invited authors to write chapters on France, Norway, the EU and the EPP Group in the European Parliament. The CES's Vít Novotný acted as editor of the volume.

Please see Table 2 for the list of countries and regions included in this volume, chapter authors and the foundations that recommended or appointed them. The opinions and interpretations in each chapter are those of the respective authors.

Table 2 **Chapter authors and participating foundations**

Chapter	Authors	Foundation
Austria	Christian Moser	PolAk
Belgium	Niko Gobbin	CEDER
Croatia	Martina Dalić	ZHDZ
Cyprus	Sotiris Themistokleous, Charalambos Vrasidas and Michalinos Zembylas	Institute for Eurodemocracy
The Czech Republic	Jan Málek	EAD
Estonia	Andres Arrak	Pro Patria
Finland	Henna Hopia and Sami Metelinen	KANSIO
France	Jean-François Jamet	CES
Germany	Lothar Funk	KAS
Greece	Pantelis Sklias	KKID
Hungary	Zsolt Szabó	PMA
Italy	Leonardo Becchetti	ILS
Malta	Gordon Cordina and Stephanie Vella	AZAD
The Netherlands	Raymond Gradus and Roel Beetsma	CDA-WI
Norway	Marius Gustavson	CES
Poland	Dominika Sztuka and Jan Gmurczyk	CES
Romania	Paul Dragos Aligica and Vlad Tarko	ISP
Slovakia	Martin Valentovič	IPMS
Spain	Miguel Marín	FAES
Catalonia (Spain)	Lluís Franco i Sala	INEHCA
EU	Stefano Riela and Carlo Altomonte	CES
EPP Group	Corien Wortmann-Kool MEP and Maarten Willemen	
Synthesis	Vít Novotný, Andraž Kastelic, Santiago Robles, Stefaan De Corte, John Lageson and Henna Hopia	CES

This book has a wide focus, which is unique in comparison with existing literature on the financial and economic crisis. Its strength is in offering rich empirical detail, comparing government responses and providing a centre-right policy stance on economic reforms.

France | Lowering the Barriers to Growth

Jean-François Jamet[265]

Appointed by the Centre for European Studies

Abstract This chapter analyses France's response to the economic crisis from 2007 to 2012. While this period corresponds with that of Nicolas Sarkozy's presidency, it would be wrong to assume that all his decisions were taken in reaction to the crisis. Until September 2008, the French government did not expect a recession and most structural reforms during Sarkozy's presidency were decided upon before that date. The response to the crisis had two main components: automatic stabilisers, which played the greatest role, and the fiscal stimulus, which focused on investment. Following the recovery and the developments of the sovereign debt crisis in Europe, the French government initiated a consolidation of public finances. After a significant pension reform, austerity measures focused on tax increases, many of which reversed the tax cuts introduced at the beginning of Sarkozy's term of office. While the impact of the crisis was mitigated as a result of France's countercyclical policy, many issues persist—in particular, high unemployment and lagging competitiveness. More reforms are therefore needed, but it is not clear whether the new French president, François Hollande, is ready to undertake them. The reforms should focus on a simplification of the French labour market and tax system, as well as on targeted spending cuts. However, France's economic performance also depends to a large

265 I am grateful to Tanguy Séné for excellent research assistance. The corresponding research paper (in French) is available online at http://www.jf-jamet.eu/upload/background-paper-france.pdf. This background paper provides the corresponding timeline, policy sector, content description, origin of the reform, name of the minister in charge, impact on public finances and political reactions, as well as a short bibliography for each important economic reform, as well as stimulus and austerity policies.

extent on European and international developments and strictly national policies will not be sufficient in that context.

INTRODUCTION

When Sarkozy was elected president in May 2007, he was surely not expecting that during his presidency he would have to face the worst economic crisis since the Second World War. His ambition was initially to boost growth by creating a 'confidence shock' (*choc de confiance*) through tax cuts aimed at supporting consumption and buying power, an approach consistent with the traditional focus on consumption in French macroeconomic policy. However, even before the arrival of the crisis, he had announced a number of structural reforms. This increased the credibility of France's economic policy when the crisis erupted.

At the beginning of the financial crisis in the summer of 2007, many, including the French government, did not understand the impact it would have on the real economy. In June 2008, when France took over the presidency of the EU Council, economic matters were not one of the French presidency's initial priorities. However, the impact of the financial crisis became clearer with the bankruptcy of Lehman Brothers in September 2008 and its subsequent worldwide repercussions.

Sarkozy made a quick turnaround and decided to take action rather than continuing to deny the crisis. From the first meeting to decide on how to rescue the ailing banks in October 2008 to the adoption of the first stimulus package in December 2008, France made a clear choice to act boldly. One characteristic of the French stimulus plan was that it focused on supporting investment rather than consumption. This marked a change in France's macroeconomic policy.

The stimulus package and the large French automatic stabilisers allowed France to limit the recession and the surge in unemployment. However, this came at the cost of a large fiscal deficit and rising public debt. The real difficulty, though, arose from the sovereign debt crisis in Europe. The inability of the eurozone to deal quickly with the Greek debt overhang cast doubt on the likelihood of recovery in the whole of Europe and ultimately led to a second credit crunch in autumn 2011. The focus was suddenly on austerity and the French government's priority became the (ultimately unsuccessful) protection of France's AAA rating and convergence with Germany in a desperate effort to curb France's twin deficits. In particular, the French government had to renege on its initial tax cuts.

Looking back at what is still recent history, it appears that the French countercyclical policy has had some success although it suffered because of events in other European countries. It is probably too early to assess the full impact of the investment-led strategy, which is expected to produce results in the medium to long term, but it clearly marks a new direction for French economic policy. A number of structural reforms were introduced, although more needs to be done on several fronts. Finally, tax instability is still an issue for the country as a result of a political debate that largely focuses on redistribution and the financing of the ever-increasing public expenditure.

This chapter analyses France's response to the economic crisis from 2007 to 2012. Section one explains the impact of the crisis in the context of the macroeconomic developments that have characterised the French economy in recent years. Section two presents the French government's response to the economic crisis, focusing on stimulus policies, structural reforms and public finance consolidation. Section three summarises the lessons learned and presents national policy recommendations.

MACROECONOMIC TRENDS AND THE IMPACT OF THE CRISIS

The impact of the crisis and the corresponding policy response need to be assessed in the context of long-term macroeconomic developments in the French economy. In particular, the debate on the role of public intervention in the course of the crisis cannot be properly understood without making reference to pre-existing structural issues.

From slow growth to limited recession and back

Although the economic crisis caused a severe recession in France (-2.7% in 2009, Table 1), its impact was not as dramatic as it was in some other Member States: the contraction of the economy remained limited by international standards.

There were two reasons for this. First, the French economy had been characterised by relatively slow growth in the preceding years: after the acceleration at the end of the 1990s, annual growth averaged 1.8% during 2001–7 (Table 1). Second, the impact of the crisis was mitigated by automatic stabilisers (particularly large given the extent of public expenditure in the French economy) and stimulus policies. Private investment took the most serious hit, decreasing by 9% in 2009, but it did not collapse (Table 1). In addition, consumption did not recede, most likely as a result of social protection and the high saving rate in France (which stood at 15% of gross disposable income before the crisis[266]).

266 INSEE, *Comptes nationaux: Base 2005*, accessed at http://www.insee.fr/fr/themes/tableau.asp?reg_id=0&ref_id=NATTEF08148 on 2 November 2012.

Germany | Sweeping Structural Reforms Can Work

Lothar Funk[307]

Recommended by the Konrad Adenauer Foundation, Berlin, Germany

Abstract Germany has coped better than most other eurozone member countries with the ongoing crisis, although the country's social market economy—including its focus on price stability, stable public finances, free collective bargaining and open markets—has been challenged. This chapter argues that the most important reasons for Germany's performance can be found in the employment- and growth-enhancing structural reforms implemented prior to the crisis. These included labour market and welfare state incentives. Germany's production mix in capital goods, which includes advanced manufactured goods as well as consumer durables, was also important as these were in high demand outside the eurozone. Other reasons for this good performance included the successful management of the crisis by all actors, including social partners, and the strengthening of the stability-oriented economic policy in place after 2009 under the federal governments led by Christian-Democratic Chancellor Angela Merkel. Further national structural reforms in Germany would be beneficial.

INTRODUCTION

The current balance between economic freedom and social well-being in Germany's Social Market Economy (SME) has been regarded as the major cause of its recent much admired success in fighting its enduring high unemployment and low growth

307 The author gratefully acknowledges the valuable comments made on an earlier draft by the editor of the volume.

problems.[308] The economic goals that Germany has achieved closely resemble those desired for the EU as a whole, for which the Treaty of Lisbon sets as an objective a 'highly competitive social market economy'. In truth, however, deep divisions with respect to economic performance currently exist among the EU Member States and particularly within the eurozone. Although Germany is no longer regarded as the 'sick man of Europe' (a phrase often used during the 1990s and until about 2005 outside the country to refer to its overregulation and bureaucracy),[309] the situation in quite a few neighbouring members of the European Monetary Union (EMU) and of the EU as a whole is still unhealthy in spite of the repeated and ongoing efforts to treat the disease.

The financial crisis originating in the US hit Germany while it was under the rule of the CDU/CSU–SPD coalition. This Grand Coalition was led by Chancellor Angela Merkel of the Christian Democratic Union (CDU) and included the Social Democrats (SPD). Both the CDU with its Bavaria-based partner, the Christian Social Union (CSU), and the Social Democrats, had very similar shares of the vote: 35.2% for the CDU/CSU and 34.2% for the SPD. This limited the government's ability to carry out controversial structural reforms. Nevertheless, significant progress was achieved, in part because controversial employment-friendly structural reforms had been implemented by the previous SPD–Green government and in part because the Grand Coalition and the actors on the employers' as well as the employees' side coped better with the crisis than many spectators, especially abroad, expected. Without a doubt, Germany was hit hard by the effects of the almost worldwide slowdown. This sudden fall in aggregate demand not only put financial stability at risk because of the unexpectedly large exposure of the German banking system to the crisis, but it also had a strongly adverse effect on short-term economic growth and longer-term public finance. This explains why the German government adopted emergency measures in several related fields, primarily to ensure financial stability and back aggregate demand. Table 1 gives a short overview.

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308 L. Funk, 'Social Market Economy at Sixty: Path Dependence and Path Changes', in C. L. Glossner and D. Gregosz (eds.), *Sixty Years of Social Market Economy: Formation, Development and Perspectives of a Peacemaking Formula* (Sankt Augustin: Konrad-Adenauer-Stiftung, 2010). Also see OECD, *OECD Economic Surveys Germany* (Paris: OECD, 2012), 10–12, in which the OECD praises the country's adaptation to the crisis as a 'German labour miracle' and draws out 'lessons for other countries'.

309 See, for example, L. Funk, *The German Economy during the Financial and Economic Crisis since 2008/2009: An Unexpected Success Story Revisited* (Sankt Augustin: Konrad-Adenauer-Stiftung, 2012).

Table 1 **Overview of crisis-related measures taken in Germany during the emergency period of 2008–9**

Financial market–strengthening measures
— Government support for the financial sector
— Increase of deposit insurance
— Purchase of toxic assets
— Banning/restricting of short selling
Demand management–related measures
— Increase in government investment as a share of GDP
— Infrastructure measures with respect to transport, telecoms, health, education and green investment
— Total tax revenue as a share of GDP fell due to the operation of automatic fiscal stabilisers, discretionary tax, and research and development measures
— A cut in the lowest marginal rate of income tax
— Reductions in non-wage labour costs for new or continuing workers
Measures in the area of (active) labour market policies
— Improved job search assistance and matching for unemployed people
— Training programmes to help unemployed people find work
— Training for existing workers
— Short-time work measures
— No change in replacement rates, duration of unemployment benefits or eligibility for unemployment benefits, which allowed automatic stabilisers to have a large impact
Further issues of importance (especially in other countries)
— Subsidies for vehicle-related industries but no further international trade measures and no industry support apart from loan and credit guarantees
— No action with respect to product market regulation measures or ongoing subsidisation of enterprises without a sustainable business model

Source: Author's own compilation based on OECD, *Going for Growth* (Paris: OECD Publishing, 2010), 22, 25–6, 27, 32, 36–7 and 40; and OECD, *OECD Economic Surveys Germany*, 34–7.

As the facts of the recent German macroeconomic performance demonstrate in the following section, overall Germany has done surprisingly well during the crisis, which began in 2007. The section on coping with the crisis analyses the specific German dependence on external trade and the emergency interventions carried out during the initial crisis. The two subsequent sections examine two aspects of the crisis in more detail: fiscal consolidation, and employment and growth-friendly policies. The final sections ask in what respect the German experience may be useful for other EU Member States and provide recommendations. Germany's role in stabilising the euro, although an important topic, is beyond the scope of this chapter.

RECENT GERMAN MACROECONOMIC PERFORMANCE

In contrast to many other nations, Germany made a rather strong recovery from the crisis in 2008 and 2009. The sharp downturn after September 2008 and particularly in 2009 (–5.1% real GDP, the deepest sudden fall since the Second World War) was short-lived. Since then, Germany has achieved higher growth rates: 4.2% in 2010 and 3.0% in 2011. Unemployment has declined and consumer prices have remained roughly in line with the goal of price stability. Net foreign demand (exports minus imports) fell from 7% to 5% or slightly above. In 2009, German net foreign demand was more than €50 billion lower than in 2007 (Table 2).

Table 2 **Selected main indicators for the German economy**

Year	2007	2008	2009	2010	2011
Real GDP, annual change (%)	3.3	1.1	-5.1	4.2	3.0
Consumer prices, annual change (%)	2.3	2.6	0.3	1.1	2.3
Unemployment rate (%)	8.7	7.5	7.8	7.1	5.9
Net foreign demand, % of GDP (in brackets: €bn)	7.0 (169.98)	6.2 (154.17)	5.0 (118.51)	5.5 (135.45)	5.1 (131.42)

Source: European Commission, Directorate-General for Economic and Financial Affairs, *General Government Data: General Government Revenue, Expenditure, Balances and Gross Debt Part I: Tables by Country*, Autumn 2012 (Brussels); Germany, Federal Ministry of Economics and Technology, *Facts about German Foreign Trade in 2011* (Berlin, March 2012), 2–3, accessed at http://www.bmwi.de/English/Redaktion/Pdf/facts-about-german-foreign-trade-in-2011,property=pdf,bereich=bmwi,sprache=en,rwb=true.pdf on 1 February 2013.

A closer look at Table 3 shows that the crises since 2008 (for each indicator the value is set to 100 here) only caused transitory shocks to several important economic indicators, apart from real investment, which in 2011 was at 93.1% of the value in 2008, after falling 24.1% to 75.9% in 2009. In particular, real exports also fell considerably (by 13.7%) but had returned to their original level by the end of 2010 and increased further in 2011. Taking these fluctuations into account, the resilience of gainful employment is particularly noteworthy (only –1.2% in 2009 with slight increases afterwards). At the same time, real wages and consumption remained roughly constant even in 2009, the year of deep crisis, and increased slightly in successive years.

According to many commentators[310] Germany's boom is the result of a mixture of factors, especially the supply-side reforms implemented during the last decade combined with the more traditional elements of its SME, as well as the efforts to regain a balanced budget prior to the crisis and the successful management of it while it was ongoing. Despite the still rather heavy headwinds, it appears possible according to the federal government that the crisis can be borne in 2013 with a slowing of

310 L. Funk, *The German Economy*, 23–30.

Synthesis

Vít Novotný, Andraž Kastelic, Santiago Robles, Stefaan De Corte, John Lageson and Henna Hopia

Centre for European Studies

Abstract The global economic crisis that began in 2007 has exposed weaknesses in European economies. It has shown that the financial sector has not been adequately regulated and supervised, that governments and individuals have overspent and that European economies have suffered, and are still suffering, from structural problems. These structural problems include rigid labour markets that fail to react to economic downturns and divide the population into insiders and outsiders. They also include inefficient administrative structures and outdated industries.

In the pre-crisis period, economic and financial reforms enabled some European countries and regions to withstand the coming crisis. Competitive industries, flexible labour markets, well-regulated and supervised banks and a functioning administrative systems all put countries in good stead to weather the crisis. To handle the financial crisis, governments and central banks used a variety of policy measures, such as tightening bank supervision, providing loans and guarantees, and nationalising financial institutions. Central banks, including the European Central Bank (ECB), provided liquidity to the banking system. Eventually, the ECB assumed the role of lender of last resort. In addressing the economic and debt crisis, the quality of government response also mattered. Several governments reacted swiftly, others with a delay but then effectively and still others had to apply for financial assistance with conditions attached. There were problems with democratic legitimacy in enforcing the conditions of the bailouts. Stimulus and austerity were applied by different governments in different measures, and both had their place in the handling of the crisis.

The task now is to prevent future crises and to put the EU and European countries and regions on the path to economic growth. In order to achieve this, governments, in collaboration with one another and with the EU, should improve bank supervision and regulatory and risk-management mechanisms. They should also undertake

fiscal consolidation measures, bearing in mind that government deficit and debt reduce investor confidence, destabilise economies and incur costs that burden future generations. Alongside fiscal consolidation, it is structural reforms that create lasting growth. These reforms include creating flexible labour markets, improving employability and ensuring the retirement age is rising in line with life expectancy. This also includes improving the workings of the public administration and justice systems, improving conditions for investment and enterprise, privatising uncompetitive state industries, upgrading the infrastructure and regulatory conditions for information technologies, and making health care systems more efficient. Budget consolidation and reforms should be undertaken while bearing in mind national and regional conditions and the need to retain the support of the population.

INTRODUCTION

Although the economic crisis is not over at the time of writing (early 2013), the chapters in this volume provide material that outlines some of the lessons from the handling of the crisis so far. This chapter provides an overview and summary of all the chapters in this book and draws a composite Europe-wide picture. The chapter is structured as follows. Section one covers the period before the crisis. Section two describes government and central bank responses to the crisis in the financial sector. Section three describes national and regional government responses to the contraction of European economies, focusing on public budgets, stimulus and austerity, as well as on the question of democratic legitimacy. Section four is devoted to structural reforms. Finally, section five provides recommendations to policymakers. Only countries and regions covered in the volume are analysed in this chapter.

BEFORE THE CRISIS

Several chapters in the book indicate the importance of the period before 2007, that is, before the financial and economic crisis occurred. Countries that had taken steps towards developing competitive economies with flexible labour markets and well-regulated banking institutions fared better during the crisis than countries with slacking competitiveness, indebted public budgets and a problematic financial sector.

The financial sector

In the decade before the crisis, European banking experienced beneficial reforms but also mismanagement and problems with regulation.[694] Focusing on the latter, Sotiris Themistokleous et al. argue in their chapter on Cyprus that if the financial sector supervision mechanisms had been more effective, the island would not have required the European financial support mechanism. The financial sector in Spain was burdened by loans to the construction sector, as suggested in the chapter by Miguel Marín. A similar pattern of cheap loans, especially in the construction industry, is also described in the Estonian chapter by Andres Arrak. (The difficulties faced by the banking sectors of Iceland, the UK and Ireland are not covered in this volume.)

The financial sectors in other countries were in relatively good health. With hindsight, the experience of a previous banking crises had improved banking supervision and resulted in greater capitalisation of the banks. As mentioned by Martin Valentovič and Jan Málek respectively, the banks in Slovakia and the Czech Republic were reconstructed and capitalised following these countries' financial crises in the late 1990s. In these two countries, the restructuring of bad loans significantly strengthened those sectors and largely saved them from the negative implications of the current crisis. Good pre-crisis management of the financial sectors could be observed in several other countries, including Finland (see the chapter by Henna Hopia and Sami Metelinen) and Norway (Marius Gustavson). The financial sectors did not experience significant problems in Malta (Gordon Cordina and Stephanie Vella), Croatia (Martina Dalič) or Poland (Dominika Sztuka and Jan Gmurczyk). The banks in these countries displayed conservative lending models, a reliance on domestic savings and a high degree of capitalisation.

Budgets and deficits

Reducing public deficit and debt was a concern for both the European Commission and the Member States in the 1990s and 2000s. The Stability and Growth Pact (SGP) of 1997 was designed to strengthen discipline in public finances across the EU in order to ensure stability in the future eurozone and the proper functioning of the Single Market.[695] The current crisis has shown that the SGP has not been able to prevent precarious situations in states' finances. Analysing government deficits

694 D. Masciandaro, R. V. Pansini and M. Quintyn, 'The Economic Crisis: Did Financial Supervision Matter?' IMF Working Paper WP/11/261 (November 2011), 4.

695 N. Nugent, The Government and Politics of the European Union (Basingstoke: Macmillan, 1999), 56.

and debt in the countries and regions covered in the volume, one can see an overall increase in both deficit and debt in the period 2001–4 and from 2008 onwards (see Tables 1 and 2).

Table 1 **General government surplus/deficit (% of GDP)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	-1.7	0.0	-0.7	-1.5	-4.4	-1.7	-1.5	-0.9	-0.9	-4.1	-4.5	-2.5
Belgium	0.0	0.4	-0.1	-0.1	-0.1	-2.5	0.4	-0.1	-1.0	-5.5	-3.8	-3.7
Croatia	n/a	n/a	-4.1	-4.5	-4.3	-4.0	-3.0	-2.5	-1.4	-4.2	-5.1	-5.1
Cyprus	-2.3	-2.2	-4.4	-6.6	-4.1	-2.4	-1.2	+3.5	+0.9	-6.1	-5.3	-6.3
Czech Republic	-3.6	-5.6	-6.5	-6.7	-2.8	-3.2	-2.4	-0.7	-2.2	-5.8	-4.8	-3.3
Estonia	-0.2	-0.1	+0.3	+1.7	+1.6	+1.6	+2.5	+2.4	-2.9	-2.0	+0.2	+1.1
Finland	+7.0	+5.1	+4.2	+2.6	+2.5	+2.9	+4.2	+5.3	+4.4	-2.5	-2.5	-0.6
France	-1.5	-1.5	-3.1	-4.1	-3.6	-2.9	-2.3	-2.7	-3.3	-7.5	-7.1	-5.2
Germany	+1.1	-3.1	-3.8	-4.2	-3.8	-3.3	-1.6	+0.2	-0.1	-3.1	-4.1	-0.8
Greece	-3.7	-4.5	-4.8	-5.6	-7.5	-5.2	-5.7	-6.5	-9.8	-15.6	-10.7	-9.4
Hungary	-3.0	-4.1	-9.0	-7.3	-6.5	-7.9	-9.4	-5.1	-3.7	-4.6	-4.4	+4.3
Italy	-0.8	-3.1	-3.1	-3.6	-3.5	-4.4	-3.4	-1.6	-2.7	-5.4	-4.5	-3.9
Malta	-5.8	-6.4	-5.8	-9.2	-4.7	-2.9	-2.8	-2.3	-4.6	-3.9	-3.6	-2.7
Netherlands	+2.0	-0.2	-2.1	-3.1	-1.7	-0.3	+0.5	+0.2	+0.5	-5.6	-5.1	-4.5
Norway	n/a	+13.5	+9.3	+7.3	+11.1	+15.1	+18.5	+17.5	+18.8	+10.6	+11.2	+13.6
Poland	-3.0	-5.3	-5.0	-6.2	-5.4	-4.1	-3.6	-1.9	-3.7	-7.4	-7.9	-5.0
Romania	-4.7	-3.5	-2.0	-1.5	-1.2	-1.2	-2.2	-2.9	-5.7	-9.0	-6.8	-5.5
Slovakia	-12.3	-6.5	-8.2	-2.8	-2.4	-2.8	-3.2	-1.8	-2.1	-8.0	-7.7	-4.9
Spain	-0.9	-0.5	-0.2	-0.3	-0.1	+1.3	+2.4	+1.9	-4.5	-11.2	-9.7	-9.4
Catalonia (Spain)	n/a	n/a	n/a	-0.7	-0.4	-0.4	-0.2	-0.6	-2.5	-2.4	-4.2	-3.7
eurozone (17 countries)	-0.1	-1.9	-2.6	-3.1	-2.9	-2.5	-1.3	-0.7	-2.1	-6.3	-6.2	-4.1
EU (27 countries)	+0.6	-1.5	-2.6	-3.2	-2.9	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4

Source: Eurostat; Catalonia: Idescat.

The average EU27 deficit was below 3% in the run-up to the crisis, reaching a mere 0.9% in 2007. Countries such as Norway, Spain (including the region of Catalonia, chapter by Lluís Franco i Sala), Finland, the Netherlands, Estonia and Cyprus had adopted prudent fiscal policies. In contrast, some governments, such as those of Greece, Hungary, Poland, Malta, Croatia and Italy, had been running relatively high deficits for many years, with some of them breaching the rules laid out in the SGP. In 2003, France and Germany weakened the rules underpinning the euro. Unfortunately, as explained in the European People's Party (EPP) Group chapter by Corien Wortmann-Kool and Maarten Willemen, the Council had not properly implemented the SGP.

Table 2 **Government debt (% of GDP)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	66.2	66.8	66.2	65.3	64.7	64.2	62.3	60.2	63.8	69.2	72.0	72.4
Belgium	107.8	106.5	103.4	98.4	94.0	92.0	88.0	84.0	89.2	95.7	95.5	97.8
Croatia	n/a	n/a	40.0	40.9	43.2	43.7	35.5	32.9	28.9	35.3	n/a	n/a
Cyprus	59.6	61.2	65.1	69.7	70.9	69.4	64.7	58.8	48.9	58.5	61.3	71.1
Czech Republic	17.8	23.9	27.1	28.6	28.9	28.4	28.3	27.9	28.7	34.2	37.8	40.8
Estonia	5.1	4.8	5.7	5.6	5.0	4.6	4.4	3.7	4.5	7.2	6.7	6.1
Finland	43.8	42.5	41.5	44.5	44.4	41.7	39.6	35.2	33.9	43.5	48.6	49.0
France	57.3	56.9	58.8	62.9	64.9	66.4	63.7	64.2	68.2	79.2	82.3	86.0
Germany	60.2	59.1	60.7	64.4	66.2	68.5	68.0	65.2	66.8	74.5	82.5	80.5
Greece	103.4	103.7	101.7	97.4	98.6	100.0	106.1	107.4	112.9	129.7	148.3	170.6
Hungary	56.1	52.7	55.9	58.6	59.5	61.7	65.9	67.0	73.0	79.8	81.8	81.4
Italy	108.5	108.2	105.1	103.9	103.4	105.7	106.3	103.3	106.1	116.4	119.2	120.7
Malta	54.9	60.5	59.1	67.6	71.7	69.7	64.0	61.9	62.0	67.6	68.3	70.9
Netherlands	53.8	50.7	50.5	52.0	52.4	51.8	47.4	45.3	58.5	60.8	63.1	65.5
Norway	NA	29.2	36.1	44.3	45.6	44.5	55.4	51.5	48.2	43.5	43.7	29.0
Poland	36.8	37.6	42.2	47.1	45.7	47.1	47.7	45.0	47.1	50.9	54.8	56.4
Romania	22.5	25.7	24.9	21.5	18.7	15.8	12.4	12.8	13.4	23.6	30.5	33.4
Slovakia	50.3	48.9	43.4	42.4	41.5	34.2	30.5	29.6	27.9	35.6	41.0	43.3
Spain	59.4	55.6	52.6	48.8	46.3	43.2	39.7	36.3	40.2	53.9	61.5	69.3
Catalonia (Spain)	8.5	8.4	7.9	7.4	7.8	8.1	7.6	7.5	9.3	11.9	16.2	20.7
EU (27 countries)	61.9	61.0	60.5	61.9	62.3	62.8	61.6	59.0	62.2	74.6	80.0	82.5

Source: Eurostat; Catalonia: Idescat.

Analysing the debt levels before the crisis, one can also find divergence (see Table 2). Some of the countries that faced a sovereign debt crisis in the period 2008–11 had managed to reach very low debt levels before the crisis and were comfortably within the Maastricht criterion of 60% of GDP. For example, Romania's government debt was at 12.8% in 2007, and Spain's was modest at 36.3%. The debt of several other countries was also extremely low, such as Estonia's at 3.7% of GDP. In contrast, Greece's debt was 107.4% of GDP in 2007 and Italy's was 103.3%, although Italy had managed to stabilise its debt level. Looking back, one can see that the level of government debt was not necessarily a good predictor of a financial and economic crisis in the country in question.

The crisis has shown that government budgets and deficits cannot be looked at in isolation and that debt held by companies and households is more important than has generally been assumed. As Carlo Altomonte and Stefano Riela demonstrate in their chapter on the EU, the convergence criteria established by the Maastricht Treaty were limited to public finances and ignored private sector debt. This resulted in private sector debt bubbles, especially with regard to property and private credit.