

Box 2.1**Summary of recent major events pertinent to the euro debt crisis (an update)***2012

7 Aug	S&P downgraded Greece's outlook from stable to negative, with credit rating unchanged at CCC
31 Aug	Spanish government announced to create an asset management company to help clean up its troubled banking sector, grant its central bank more power to intervene in troubled banks, and toughen rules on complex financial products
3 Sep	Moody's kept the European Union's (EU) provisional AAA rating, but lowered its outlook from stable to negative. In Spain, the Fund for Orderly Bank Restructuring injected €4.5 billion into ailing lender Bankia
6 Sep	The European Central Bank (ECB) decided to launch the Outright Monetary Transactions (OMTs) programme and to implement measures to preserve collateral availability
11 Sep	The troika agreed to relax Portugal's budget deficit targets for 2012, 2013 and 2014 from 4.5%, 3% and 2.3% to 5%, 4.5% and 2.5% respectively
12 Sep	The European Commission (EC) proposed a single euro area banking supervisor for which the ECB will be granted power to monitor eurozone banks. The German Constitutional Court found that injunctions against the European Stability Mechanism (ESM) and fiscal compact were unfounded, but further liability increases will require parliament's approval
25 Sep	The finance ministers of Germany, the Netherlands and Finland said direct bank recapitalisation by the ESM should not apply to legacy assets, such that Ireland and Spain may not be able to shift their current bank bailout costs to the ESM
27 Sep	Spain unveiled a package of regulatory overhauls, tax increases and spending cuts amounting to €13 billion in its 2013 budget, targeted to lower its budget deficit to 6.3% of GDP in 2012, 4.5% in 2013 and 2.8% in 2014. France unveiled an austerity budget saving of €30 billion for 2013, aimed at narrowing the deficit to 3% of GDP from 4.5% in 2012
28 Sep	Spain's banking sector audit showed a less-than-estimated capital shortfall of €3.75 billion, which will be the basis for the €100 billion bailout from the EU. The bank aid will inflate the 2012 budget deficit from 6.3% of GDP to 7.4%
1 Oct	Greece's budget for 2013 projected the general government deficit to decline to 4.2% from 6.6% of GDP in 2012, while GDP will shrink for a sixth year
8 Oct	The ESM was launched with a fresh lending capacity of €500 billion, and Moody's assigned it an Aaa credit rating with a negative outlook
9 Oct	11 eurozone countries agreed to levy taxes on bonds, shares and derivatives trading
10 Oct	S&P cut Spain's credit rating from BBB+ to BBB-, outlook negative. Italy announced a tax cut for low-income earners and a smaller increase in value-added tax
15 Oct	Portugal unveiled a budget proposal for 2013 that includes a spending cut of €1 billion and tax hikes of €4.3 billion
18 Oct	The European Council agreed to adopt a legal framework for a single banking supervisor by 1 January 2013, but it will not be operational until later in 2013
31 Oct	Portugal's government won parliamentary approval for the 2013 budget
1 Nov	Spain extended a short-selling ban on stocks for another three months
6 Nov	The French government announced a tax rebate to improve competitiveness
7 Nov	The Greek parliament approved a €13.5 billion austerity package
11 Nov	The Greek parliament further approved the 2013 budget

Box 2.1 (Cont'd)

12 Nov	Fitch affirmed Portugal's credit rating at BB+, outlook negative
14 Nov	Fitch affirmed Ireland's credit rating at BBB+, and raised its outlook to stable
19 Nov	Moody's downgraded France's credit rating from Aaa to Aa1 and the outlook remained negative, given the weakness of its economy
23 Nov	EU leaders ended a two-day summit without a deal on the Multiannual Financial Framework (MFF) for the period 2014-2020
25 Nov	Four separatist parties in Spain's Catalonia won a majority in regional elections
26 Nov	The Eurogroup agreed to launch procedures for the next aid tranche to Greece, and will take initiatives, including reduction of interest rates, extension of maturities and return of Securities Market Programme profits to Greece, to bring Greece's debt ratio back to a sustainable level
28 Nov	The EC approved restructuring plans of four Spanish banks, clearing the way for them to receive aid from the ESM
30 Nov	Moody's downgraded both the EFSF and ESM's credit rating by one notch to Aa1 and maintained a negative outlook
3 Dec	Spain requested the disbursement of €9.5 billion of European funds to recapitalise its banking sector. Greece launched a €10 billion offer to retire roughly half of the debt the country owes to private creditors, paving the way for the release of the next aid tranche from its European partners
5 Dec	S&P downgraded Greece's credit rating from CCC to selective default
11 Dec	Investors offered to sell back to Greece €1.9 billion of their holdings of sovereign bonds, better than its target to unlock its next tranche of aid
13 Dec	EU finance ministers agreed on a single supervisory mechanism for banks. The ECB is expected to assume the supervisory role on 1 March 2014 at the earliest. The Eurogroup formally approved the disbursement of €9.1 billion in several tranches under the second adjustment programme for Greece
18 Dec	S&P raised Greece's rating from selective default to B- with a stable outlook
19 Dec	The ECB will again accept Greek government bonds as collateral for loans to banks. Spain's Catalonia region agreed to form a new government and hold a referendum on independence in 2014
21 Dec	Italian Prime Minister Monti resigned after the parliament passed 2013 budget
28 Dec	France's Constitutional Council rejected a top 75% income tax rate to be introduced in 2013, but the government could redraft the proposal to address their concerns

2013

1 Jan	Fiscal compact entered into force after ratification by 12 eurozone members
2 Jan	Portugal's government sent the 2013 budget to Constitutional Court for review
6 Jan	The Basel Committee agreed to relax the full implementation of its liquidity rule until 2019
11 Jan	S&P affirmed Ireland's BBB+ credit rating and negative outlook. French unions and employers' organisations reached an agreement to enhance labour market flexibility, pending parliamentary approval
16 Jan	European parliament passed a law that tightens restrictions on credit rating agencies and increases their potential liabilities
18 Jan	An IMF report estimated Greece might face a funding gap of €5.5 to €9.5 billion during 2015 to 2016 and require further assistance from its European partners
22 Jan	The Ecofin adopted a decision authorising 11 member states to proceed with the introduction of financial transaction tax through enhanced cooperation

Box 2.1 (Cont'd)

23 Jan	Portugal successfully sold €2.5 billion five-year bond as a first step to regain access to long-term debt markets
25 Jan	ECB announced that 278 banks will repay €137.2 billion on 30 January, the first opportunity for early repayment of first three-year LTRO, indicating somewhat stabilising conditions in the European financial system
1 Feb	The Netherlands nationalised the fourth largest bank, SNS Reaal at a cost of €3.7 billion
5 Feb	Fitch affirmed its AAA rating of the Netherlands, but changed the outlook from stable to negative
8 Feb	The EU leaders agreed on the next Multiannual Financial Framework (MFF) for 2014 to 2020
11 Feb	The Eurogroup discussed direct recapitalisation of banks by ESM, delayed a decision on a bailout programme for Cyprus and noted the Greek programme was on track

Note : (*) Please see **Box 2.1** of the *Half-yearly Economic Report 2012* for earlier developments.

At the European Council Summit in June 2012, an integrated framework was set out for four broad building blocks for future eurozone integration: (1) the financial sector, (2) fiscal matters, (3) economic policy, and (4) democratic legitimacy. In the December Summit, progress was made on the timeline for a single banking supervisor, but other aspects such as a single resolution authority, a deposit guarantee scheme and a single rulebook will need to be worked out. Working towards a banking union is only a first step towards the smooth running of the EMU, and the process towards fuller integration is bound to be lengthy. Separately, while the Eurogroup has agreed on initiatives to help Greece bring its debt back to a more sustainable level, further assistance cannot be ruled out to ensure its debt-to-GDP ratio to reach 175% in 2016 and 124% in 2020. At this moment, the euro debt situation is still fluid as EU leaders plough through their differences in rectifying the structural issues, thereby continuing to pose uncertainty to the global economic outlook.