



Economic Situation in Europe

Dr. Christian Kastrop

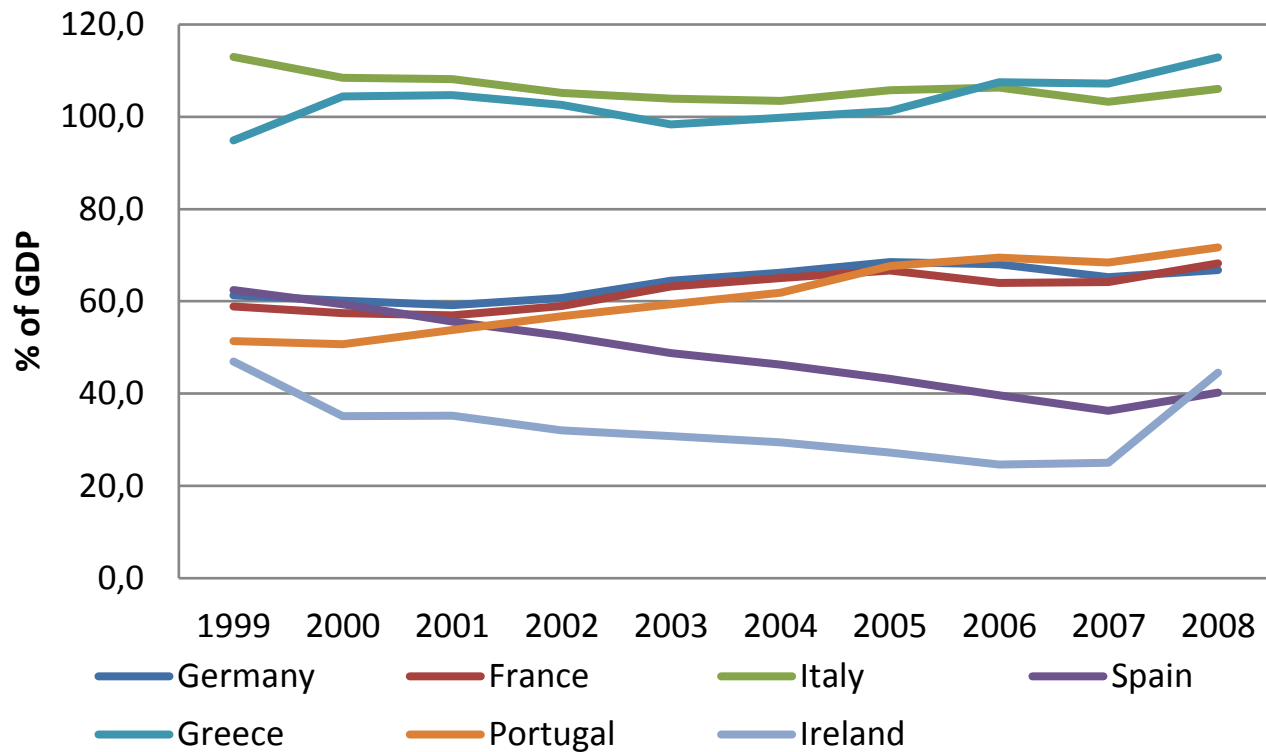
9th OECD-Asian Senior Budget Officials Annual Meeting,

Bangkok, December 13/14, 2012



Prior to the crisis: diverging government debt developments in the euro area

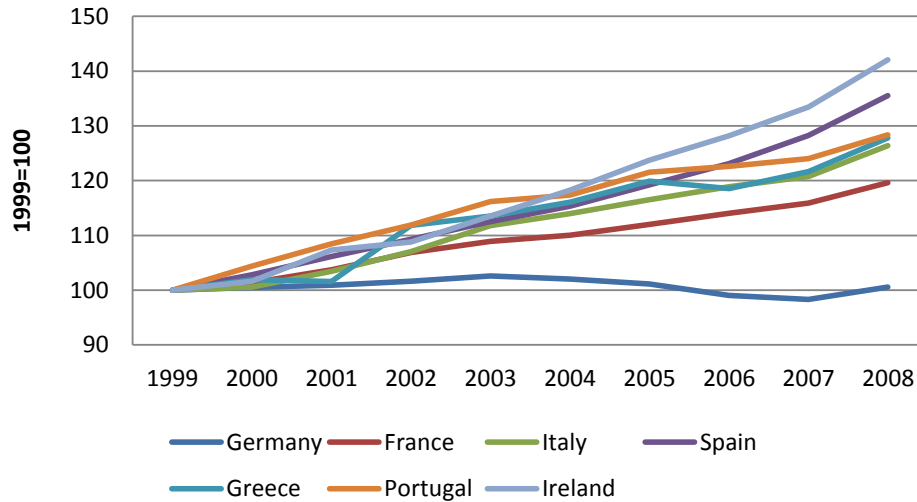
Government debt



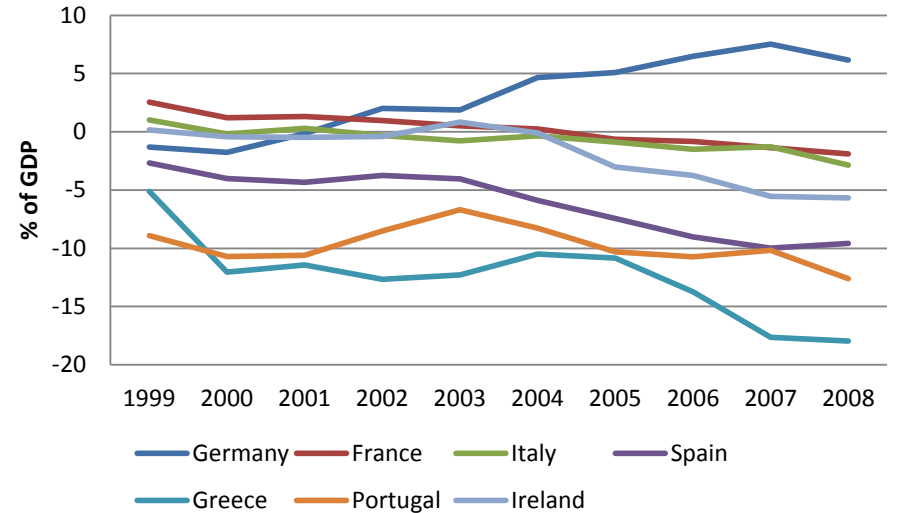


Prior to the crisis: diverging competitiveness indicators

Unit labour costs



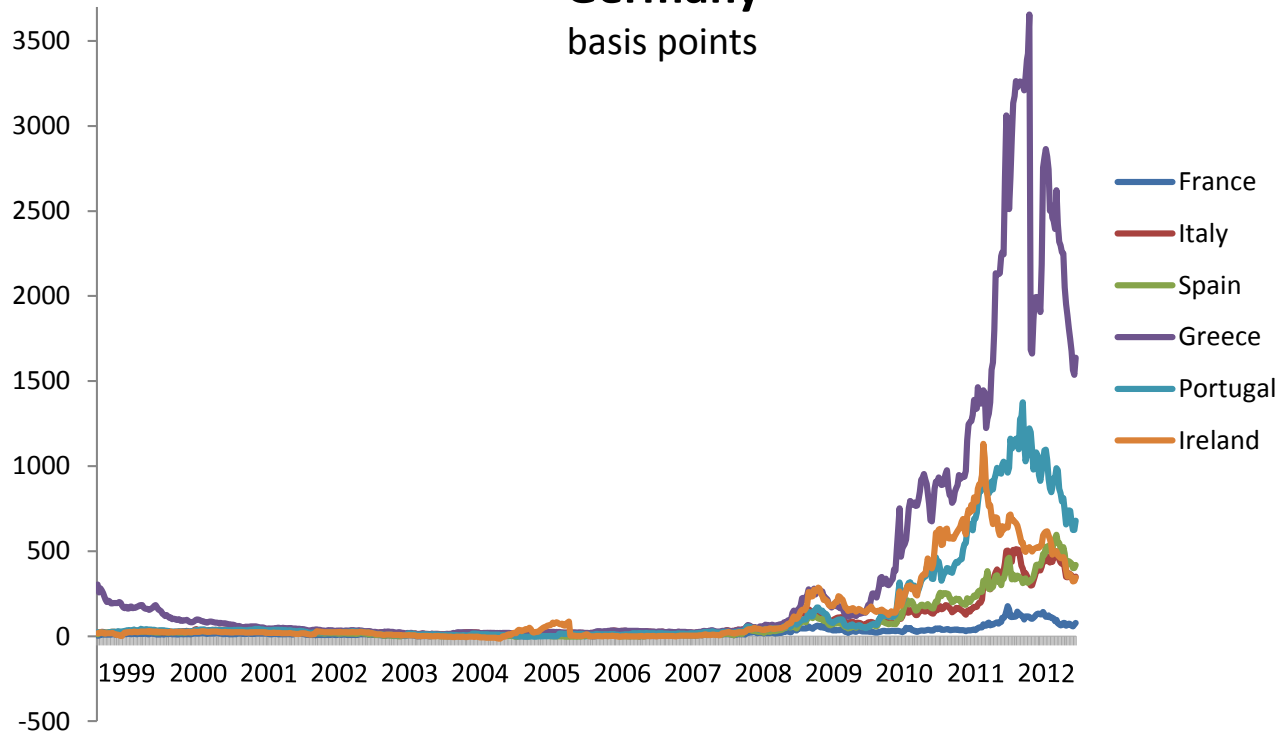
Current account





... nevertheless strong compression of spreads up to 2008

10-yr government bond spreads vis-à-vis Germany basis points





The European debt crisis - policy lessons

- European institutional framework prior to the crisis
 - ⇒ weaknesses in economic governance ...
 - ⇒ ... reflected in lack of credibility of no-bailout clause ...
 - ⇒ ... and lax implementation of SGP rules ...
 - ⇒ ... and deficiencies in economic and structural policy coordination as well as financial supervision and regulation
- ⇒ Result: easy lending conditions (low spreads), large fiscal and macroeconomic imbalances, adverse risk loop between public and banking sector
- ⇒ Urgent need for reform: For a smooth functioning of EMU, governance and financial framework need to ensure stable fiscal, financial and macroeconomic developments at the Member State level.



Recent institutional reform developments

- Recent reform developments go in the direction of an enhanced European federalism.
 - ⇒ Stronger economic policy coordination: European Semester and Euro Plus Pact
 - ⇒ Macroeconomic Imbalances Procedure: prevention and correction of macroeconomic imbalances within the EU
 - ⇒ SGP reform („Six-Pack“, „Two-Pack“): strengthened preventive and corrective arm, enhanced sanction and enforcement mechanism, improved budgetary surveillance of EA countries
 - ⇒ Treaty on Stability, Coordination and Governance in the EMU: structural balanced budget rules at the Member State level (national transposition of rule supervised by ECJ)



Fiscal consolidation is progressing

Government deficits (% of GDP)

	2009	2010	2011	2012	2013	2014	2009-12
Germany	-3,1	-4,1	-0,8	-0,2	-0,2	0,0	2,9
France	-7,5	-7,1	-5,2	-4,5	-3,5	-3,5	3,0
Italy	-5,4	-4,5	-3,9	-2,9	-2,1	-2,1	2,6
Spain	-11,2	-9,7	-9,4	-8,0	-6,0	-6,4	3,2
Greece	-15,6	-10,7	-9,4	-6,8	-5,5	-4,6	8,8
Portugal	-10,2	-9,8	-4,4	-5,0	-4,5	-2,5	5,1
Ireland	-13,9	-30,9	-13,4	-8,4	-7,5	-5,0	5,5
Euro-17	-6,3	-6,2	-4,1	-3,3	-2,6	-2,5	3,0
USA	-13,3	-11,2	-10,1	-8,7	-7,3	-5,6	4,7
Japan	-10,4	-9,4	-9,8	-10,0	-9,1	-7,2	0,4

Source: AMECO, IMF WEO



Improvement in competitiveness indicators

Current account (% of GDP)

	2008	2009	2010	2011	2012	2013	2014	2008-12
Germany	6,2	6,0	6,1	5,6	5,7	5,0	4,7	-0,4
France	-1,9	-1,8	-2,0	-2,6	-2,2	-1,8	-1,9	-0,3
Italy	-2,9	-2,0	-3,5	-3,3	-1,2	-0,4	-0,3	1,7
Spain	-9,6	-4,8	-4,4	-3,7	-2,4	-0,5	0,4	7,2
Greece	-18,0	-14,4	-12,8	-11,7	-8,3	-6,3	-5,2	9,7
Portugal	-12,6	-10,8	-9,7	-6,6	-3,0	-1,8	-1,5	9,6
Ireland	-5,7	-2,3	1,1	1,1	2,3	3,4	4,4	7,9
Euro-17	-0,7	0,1	0,3	0,3	1,1	1,5	1,6	1,8

Source: AMECO



Towards a stable architecture for the euro area

- Despite of recent progress, more needs to be done:
 - euro area governance framework needs to be fully implemented and further developed to achieve the necessary coordination of fiscal and economic policies.
- What if countries persistently fail to deliver their policy commitments (as observed in the past)?
 - ⇒ Effective policy intervention rights at the euro area level necessary. [Minister Schäuble made a related proposal.]
 - ⇒ Need to reinforce the no-bailout clause of the Treaty to set right incentives! [Insolvency Law?]

EU at the crossroads

- Problems of existing tools
- Joint and several?
- What about Preferences?
- Theory of Federations/ Real Federations
- Worst Case: forced and misconstructured Union
- **WANTED: Comprehensive Masterplan**

Thank you for your attention!