Competitiveness, internal imbalances and the euro

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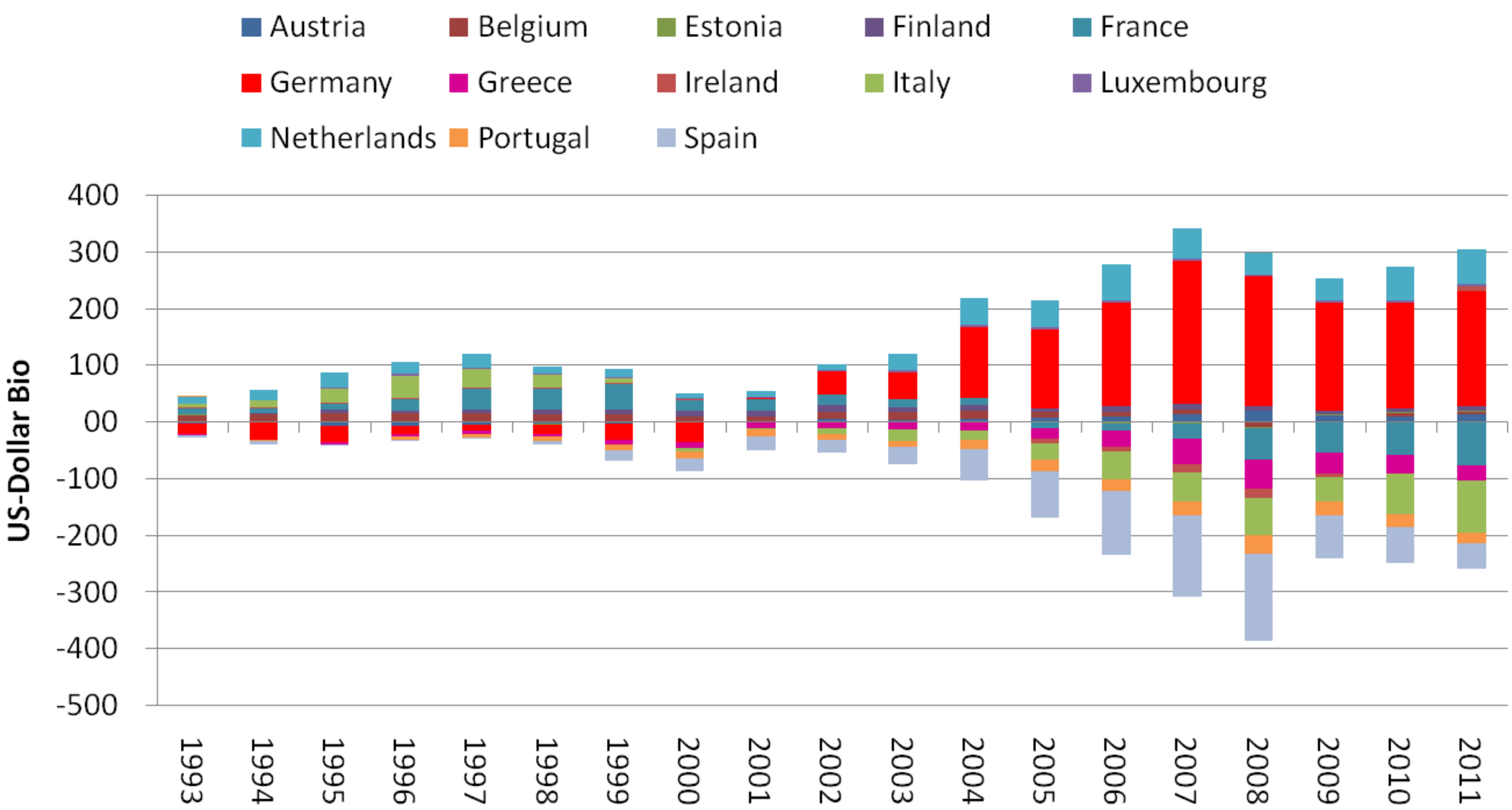
Imbalances of euro area members

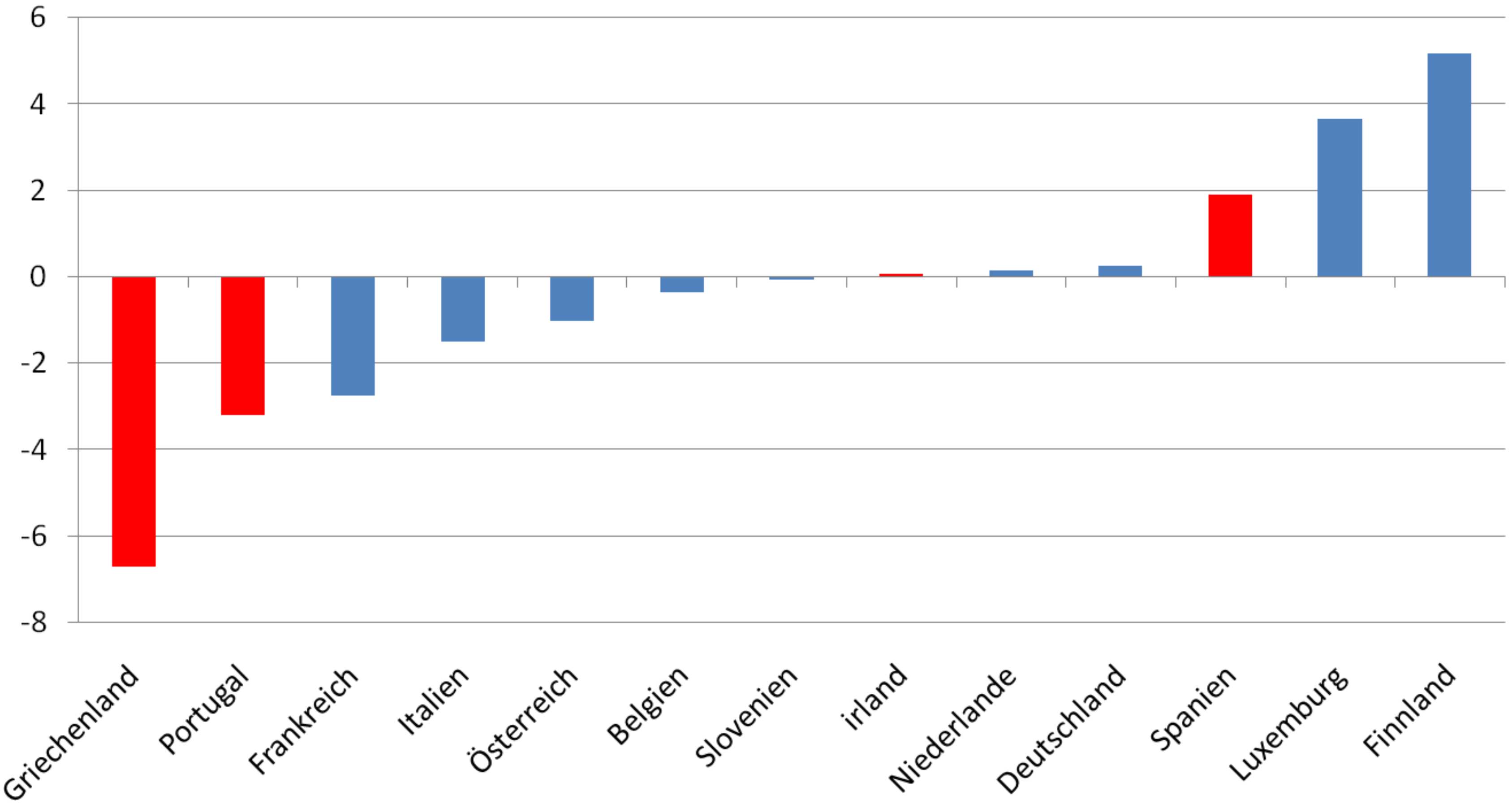


Source: OECD, Economic Outlook, No. 89, Annex Tables

Three sources of imbalances

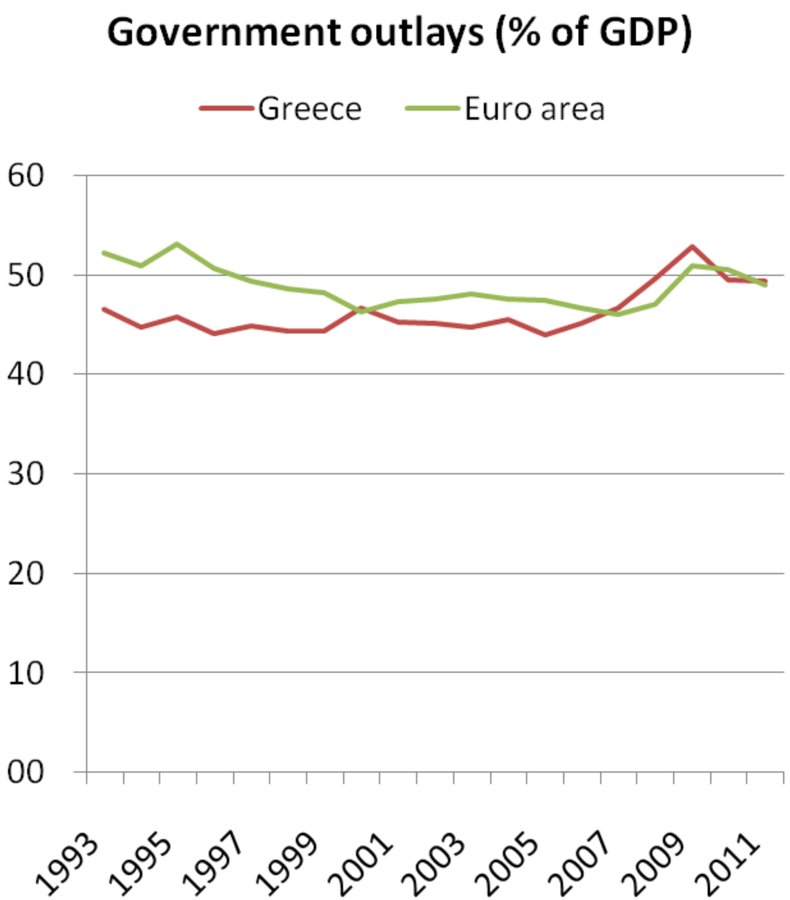
- Public imbalances
- Private imbalances
- Problems of competitiveness

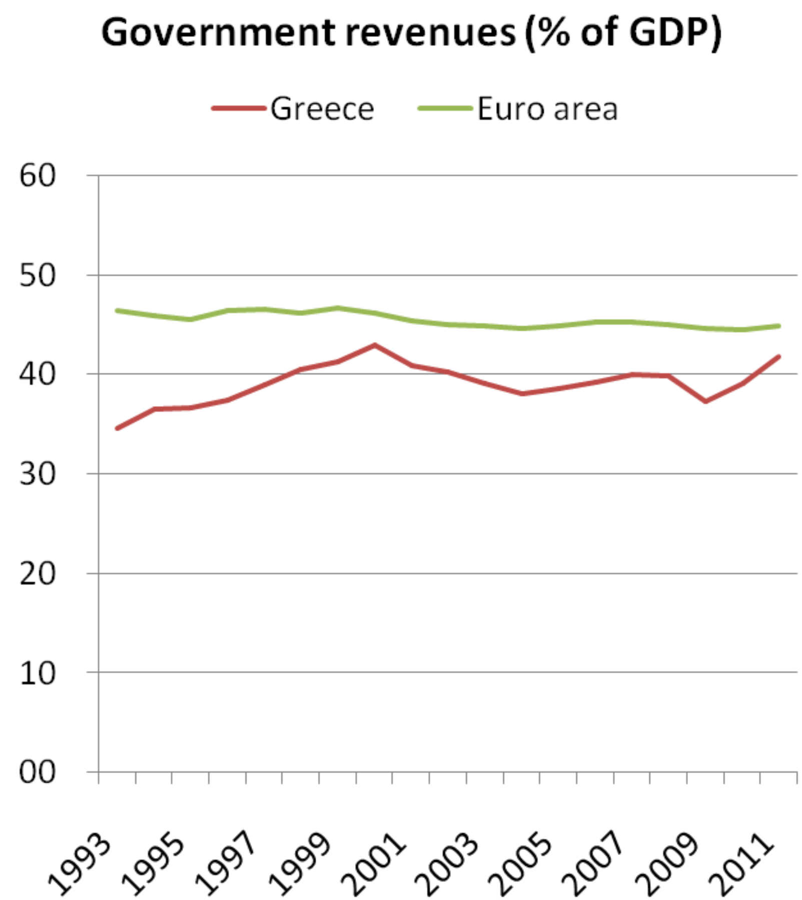
Public balances in % of GDP (2007)



Source: OECD, Economic Outlook, No. 89, Annex Tables

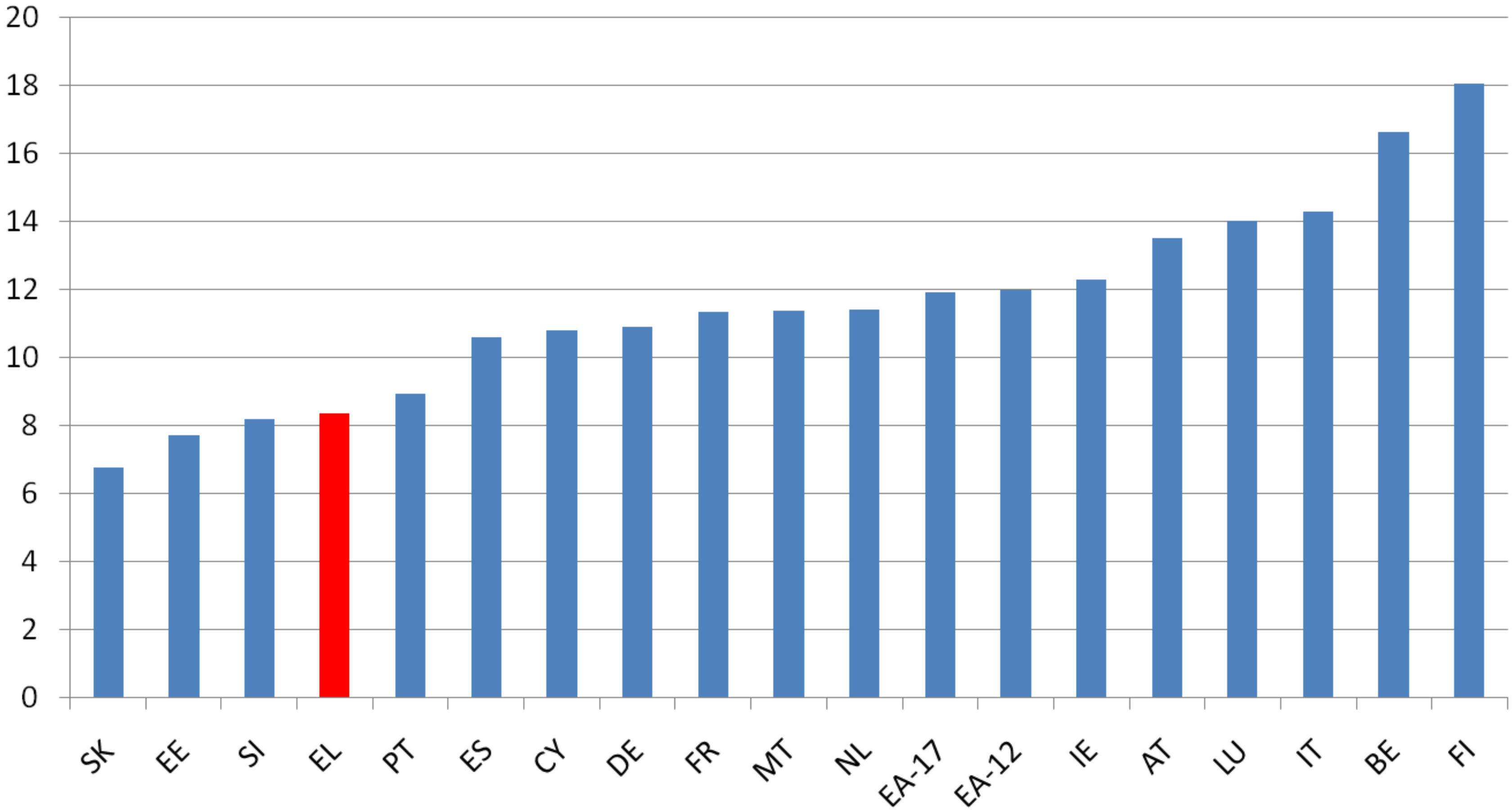
The fiscal problem of Greece





Source: OECD, Economic Outlook, No. 89, Annex Tables

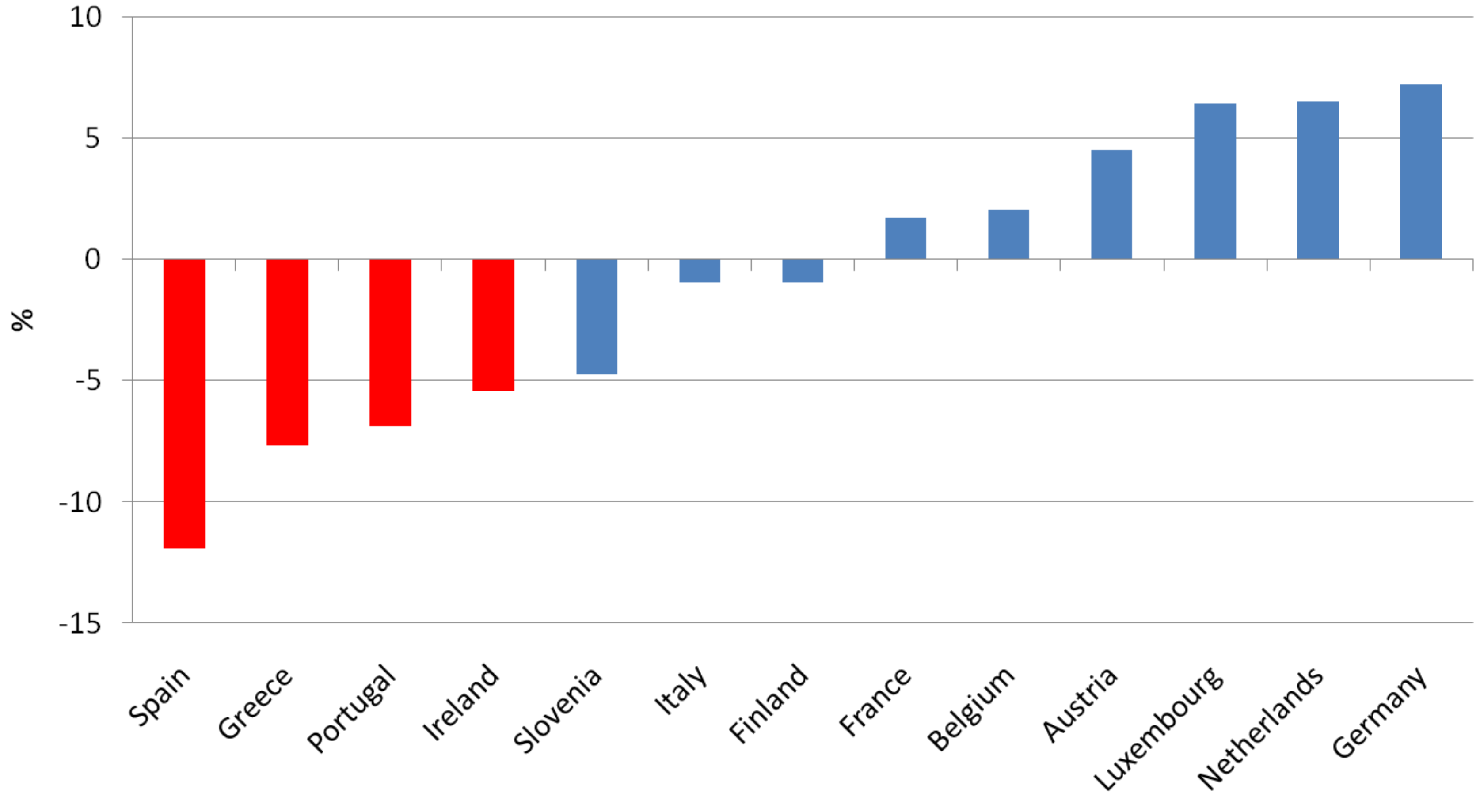
Very low direct taxes (% of GDP)



Source: European Economy, Statistical Annex, Spring 2011

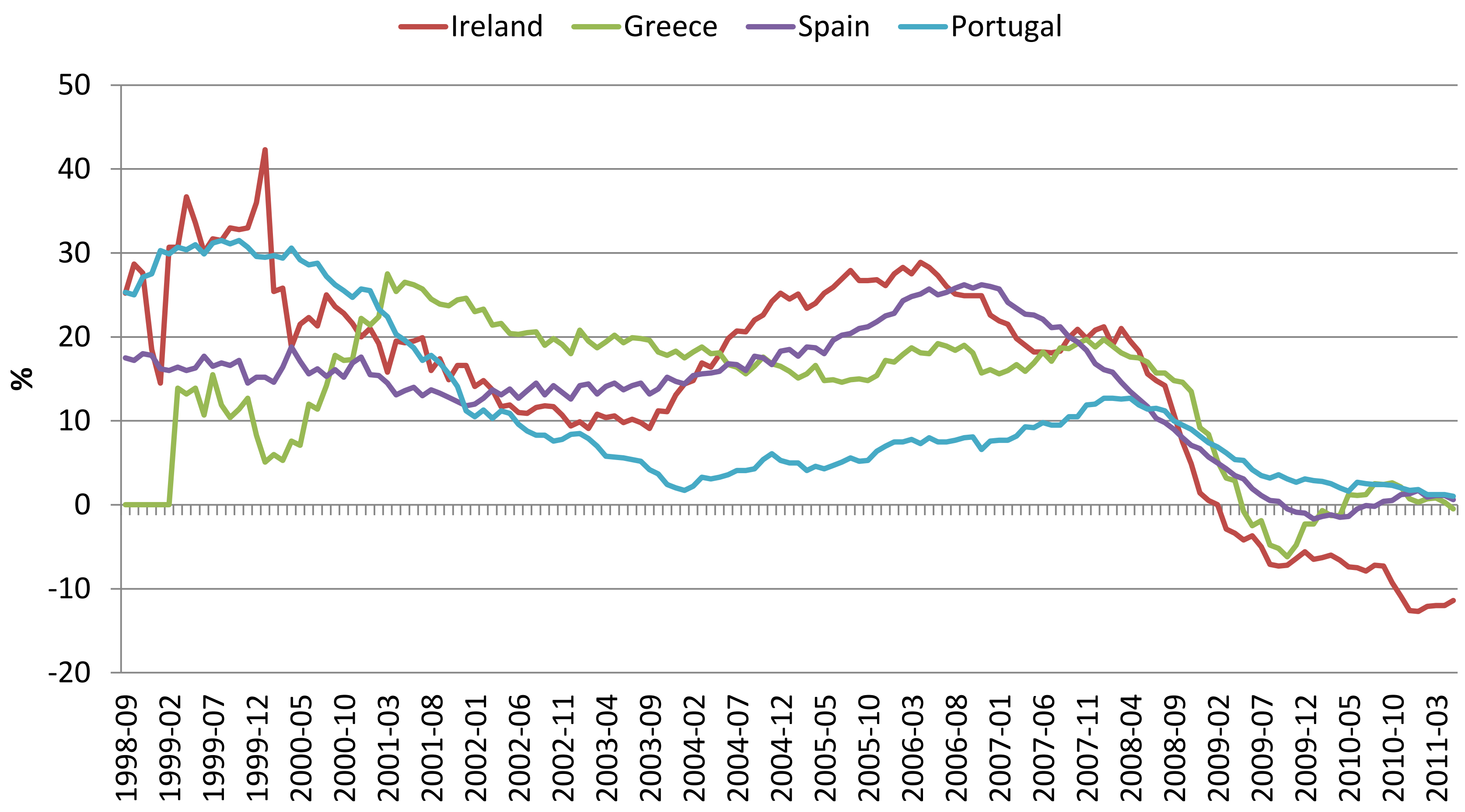
Private Balances in % of GDP (2007)

(Private balance = current balance ./. fiscal balance)



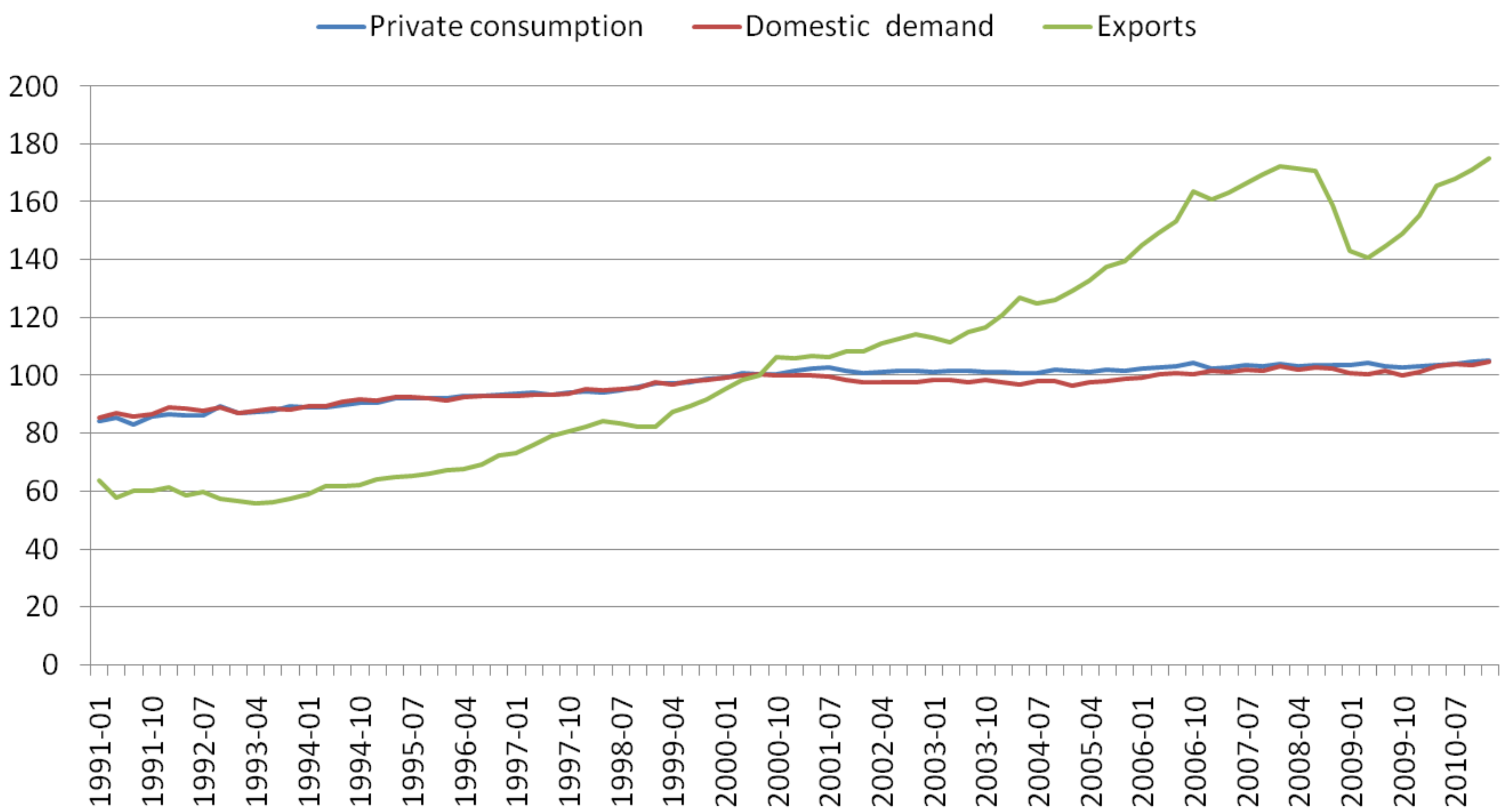
Source: OECD, Economic Outlook, No. 89, Annex Tables

Excessive growth rates of bank lending to the private sector



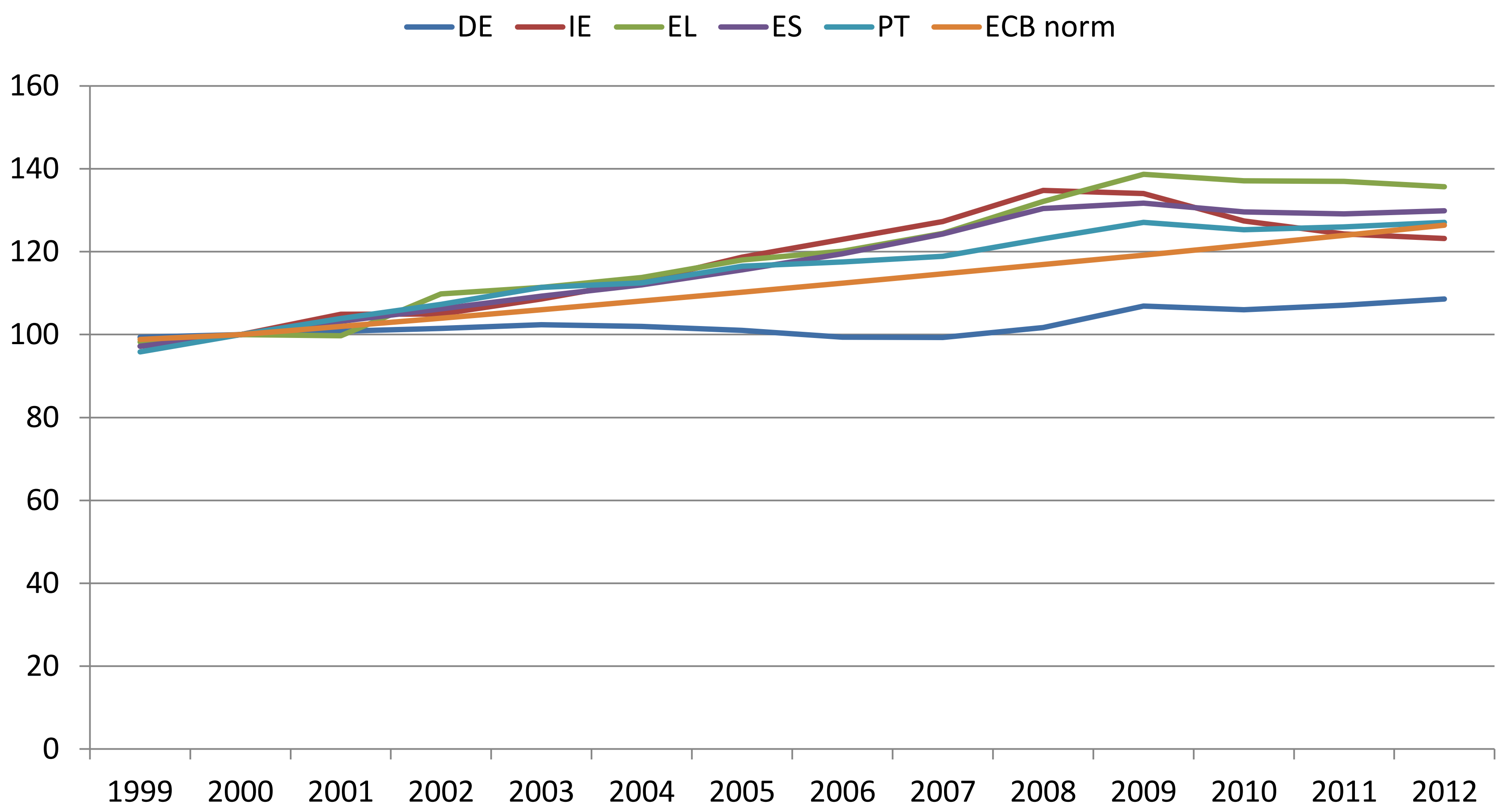
YoY growth rates of bank loans of euro area MFIs to the private sector. Source: ECB

Germany‘s contribution to the crisis



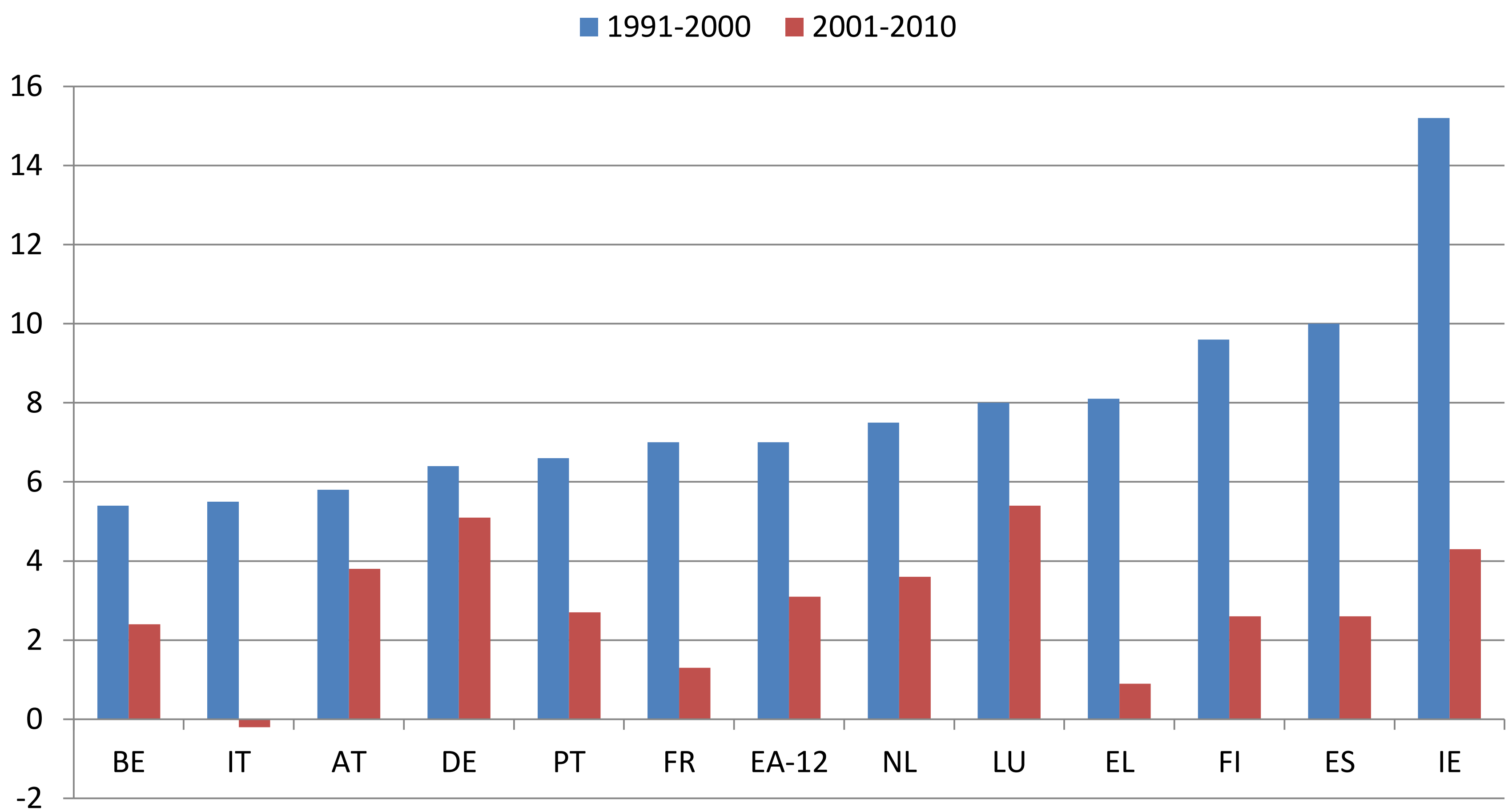
2000=100. Source: Statistisches Bundesamt

Diverging unit labor costs



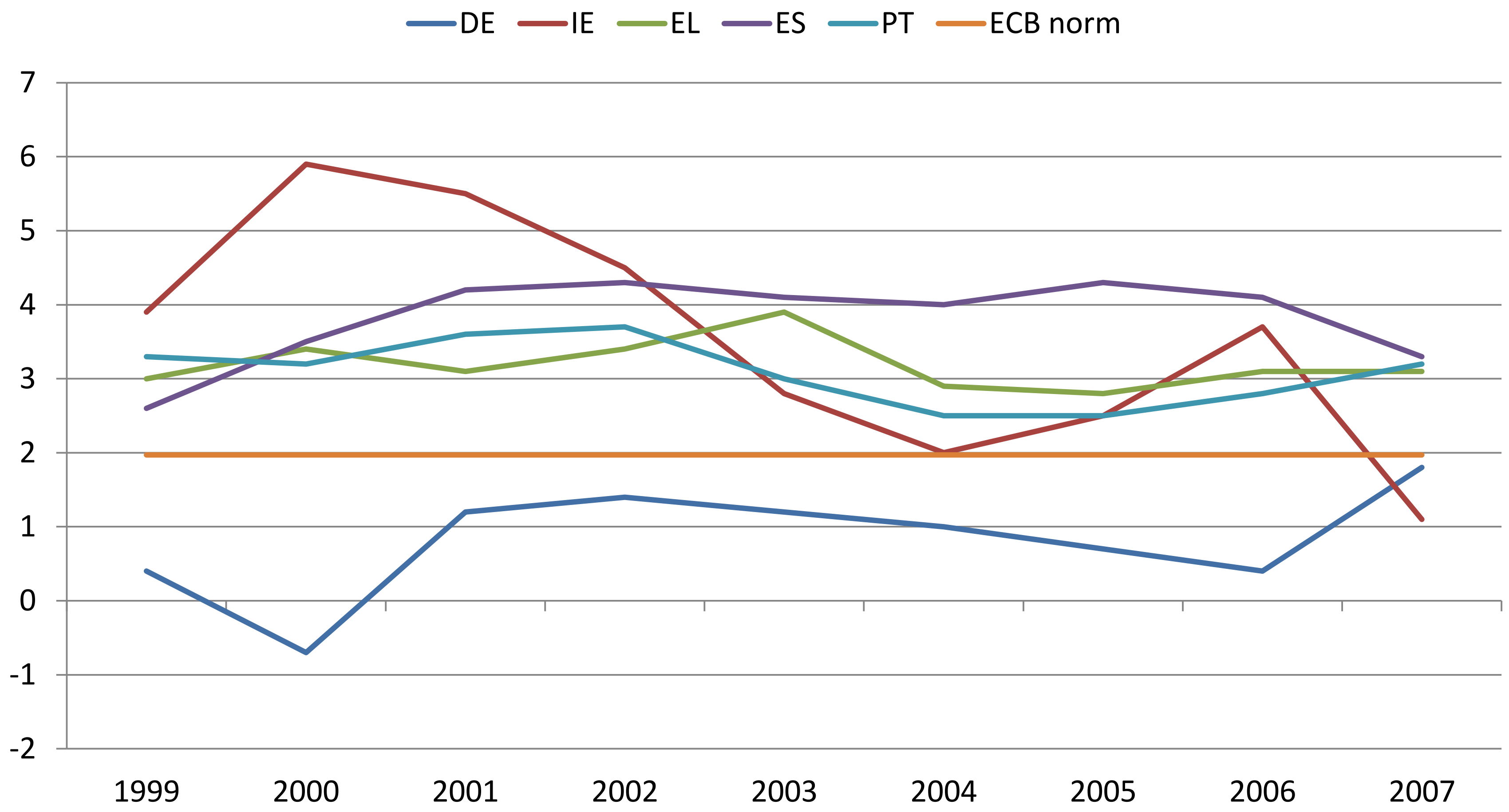
2000=100. Source: European Economy, Statistical Annex, Spring 2011

Declining growth rate of exports



Average annual growth rate of exports at 2000 prices
Source: European Economy, Statistical Annex, Spring 2011

Deflationary and inflationary tendences until 2007



Price deflator GDP at market prices.

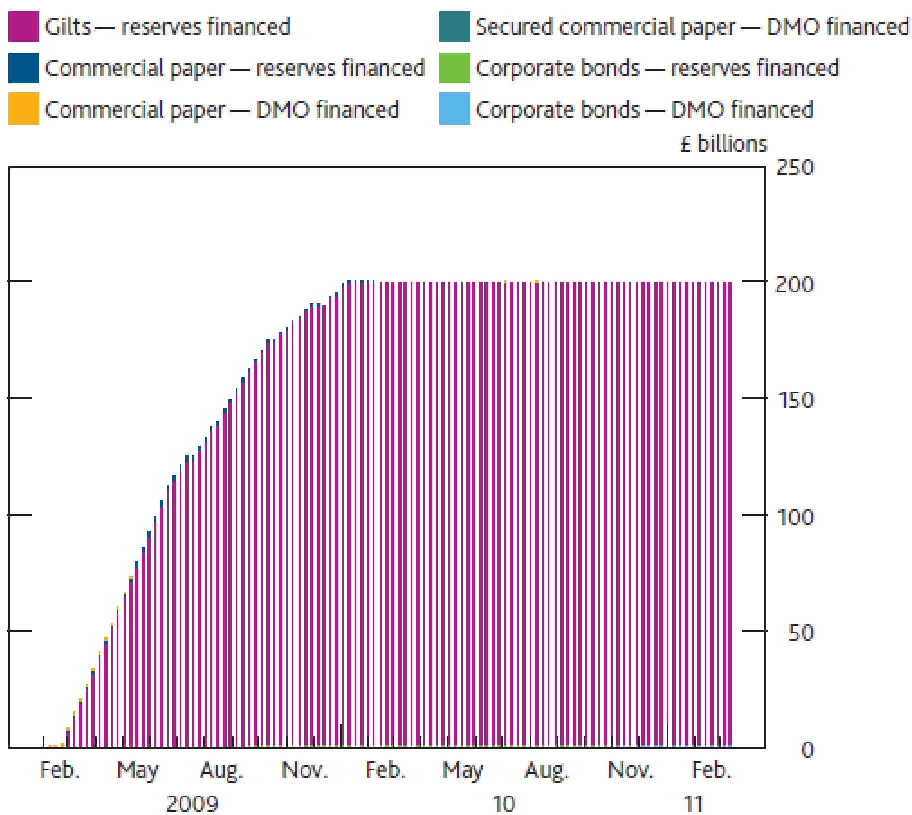
Source: European Economy, Statistical Annex, Spring 2011

VICIOUS CIRCLE SINCE 2010

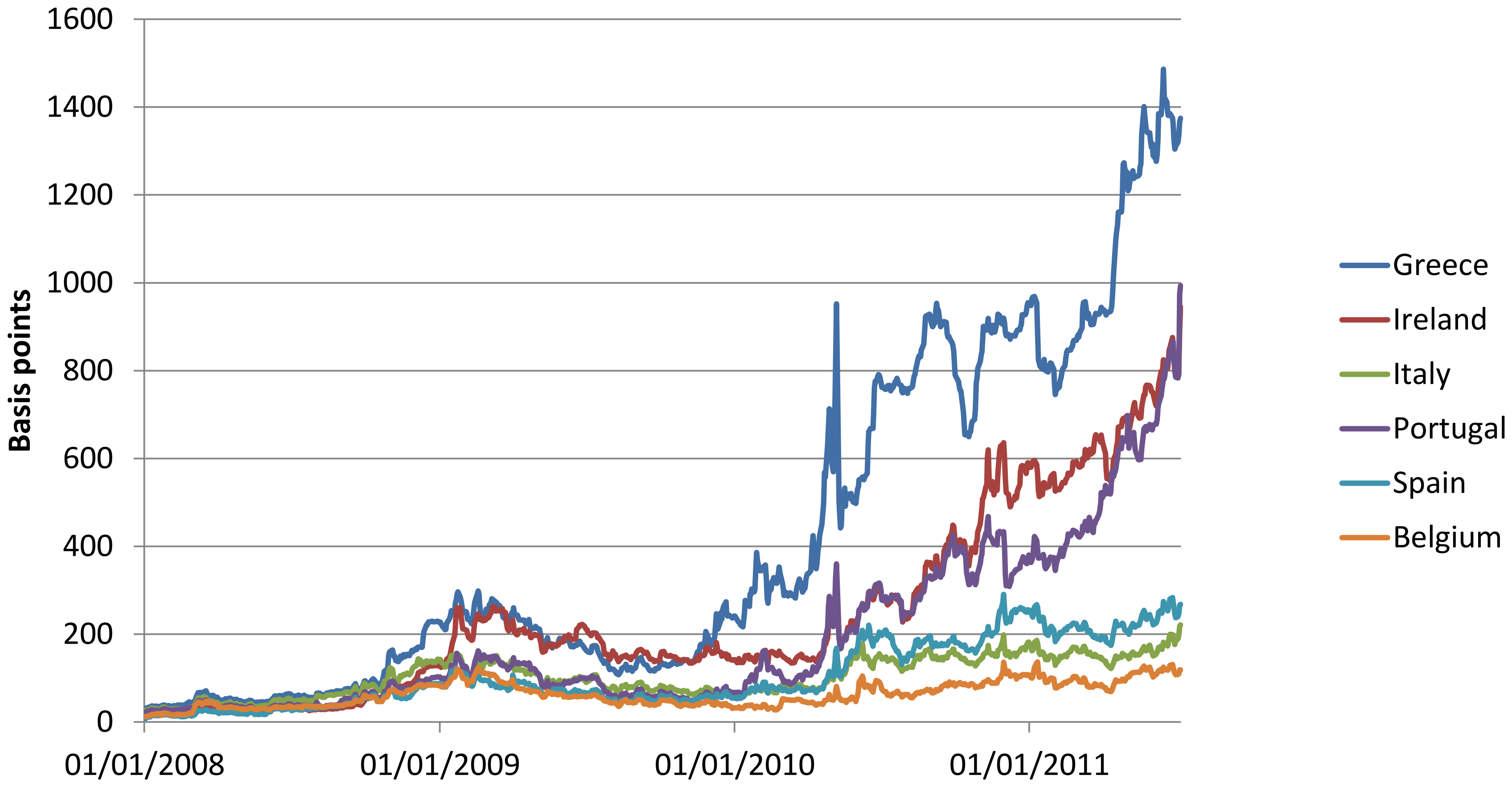
The market is dead, long live the market

Quantitative easing: Bank of England (= 14.3 % of GDP in 2009)

Chart 1 Cumulative asset purchases by type: amounts outstanding[(a)]

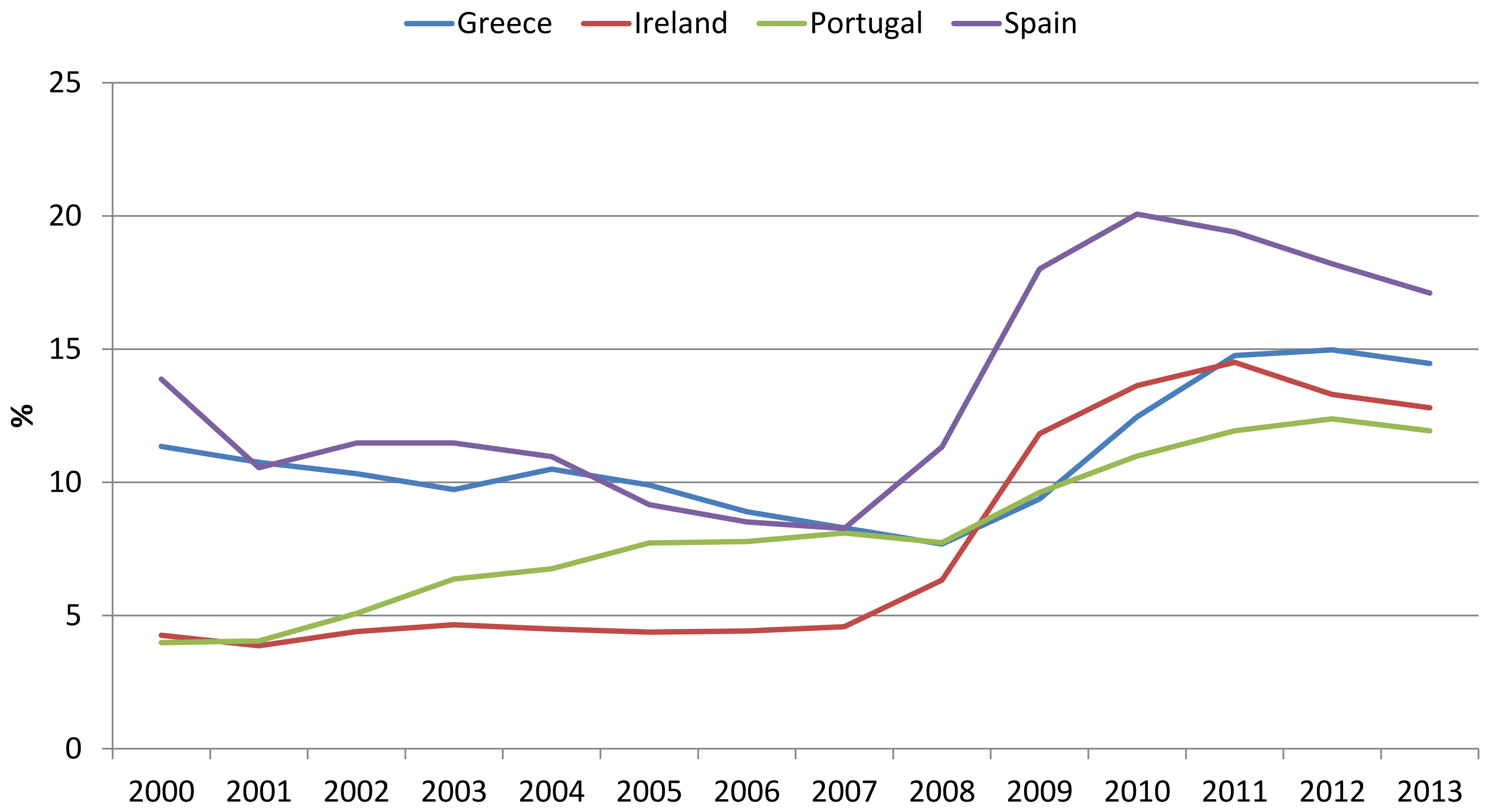


Destabilizing spreads



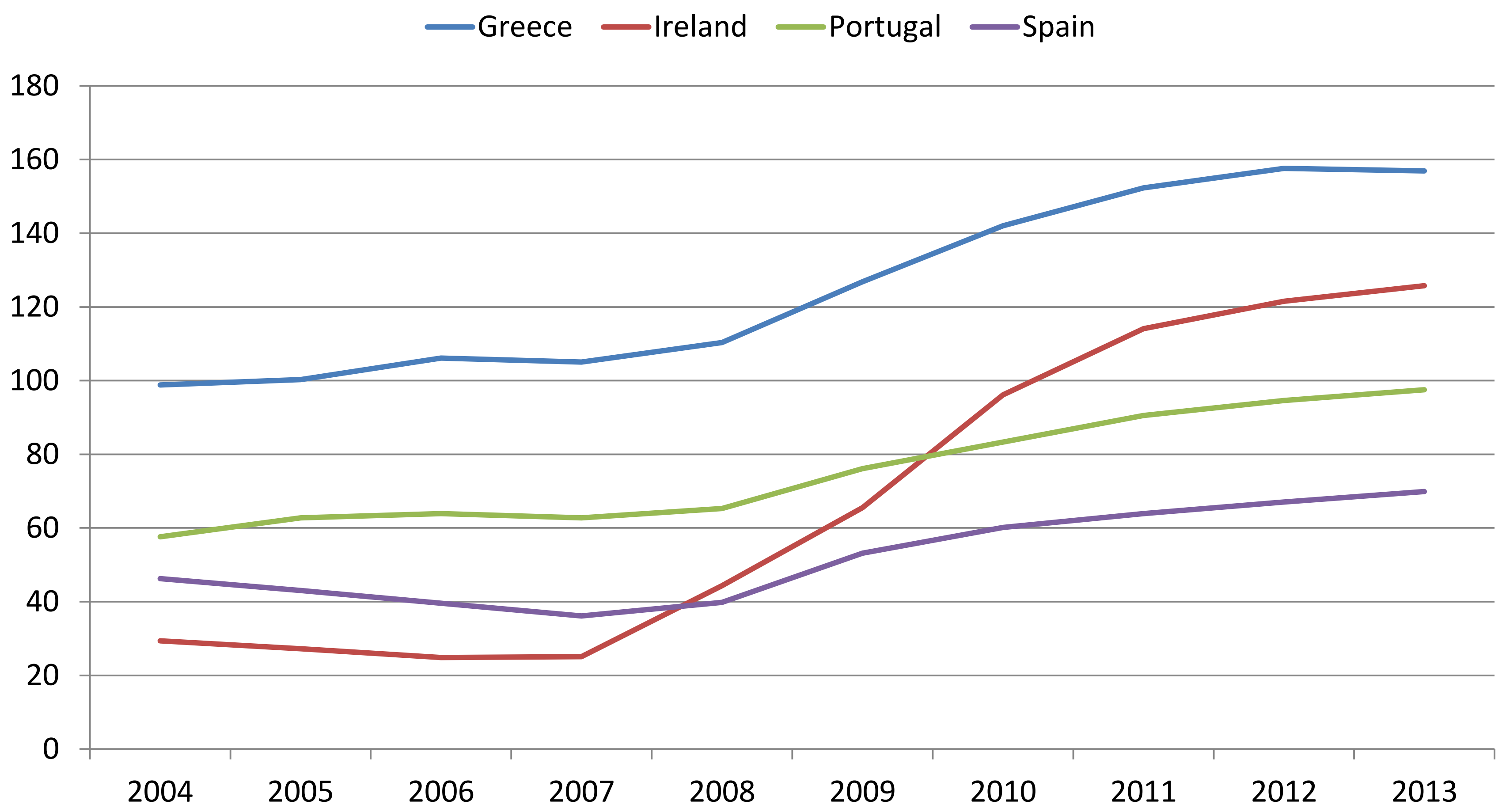
EFSF modelled as „Schuldturm“

The dire perspective of the problem countries: unemployment



Source: IMF World Economic Outlook Database

The dire perspective of the problem countries: debt ratios



Source: IMF World Economic Outlook Database

SHORT-TERM SOLUTIONS

Scenario I (ECB approach?)

- No significant debt reduction
- Growing guarantee obligations for strong member countries
- Growing tensions in problem countries
- Bail-out of speculators
- Permanent risk of disorderly default

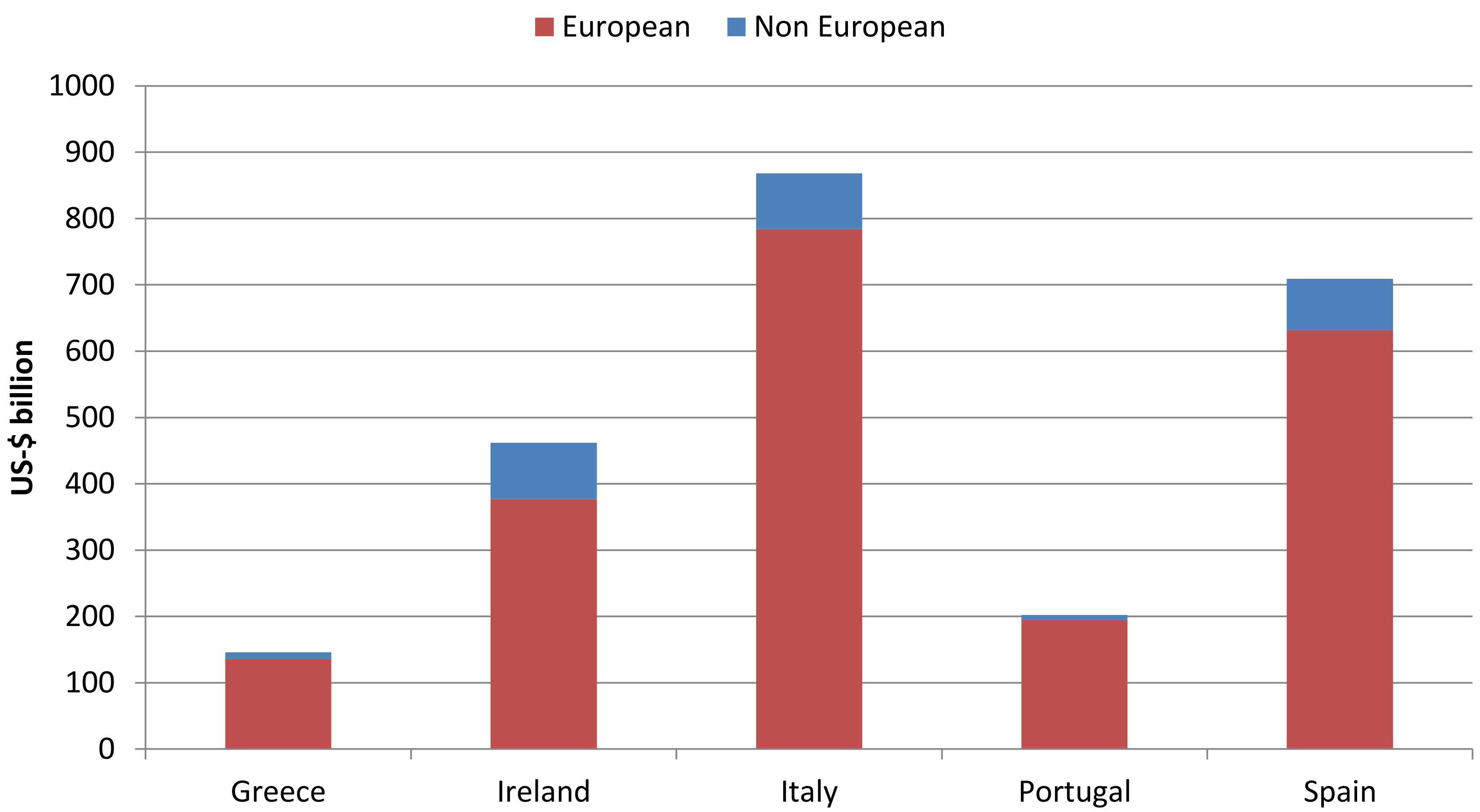
Scenario 2: „Haircut“

- Significant debt reduction for Greece and possibly Ireland
- Exchange into EFSF bonds
- Restructuring of banks by EFSF
- Ringfencing of other problem countries
- Initiative for growth in problem countries

Scenario 3: Exit from euro area

- Strong political pressure from Greece
- Disorderly default
- Difficult technical and legal problems
- High risks for global financial system

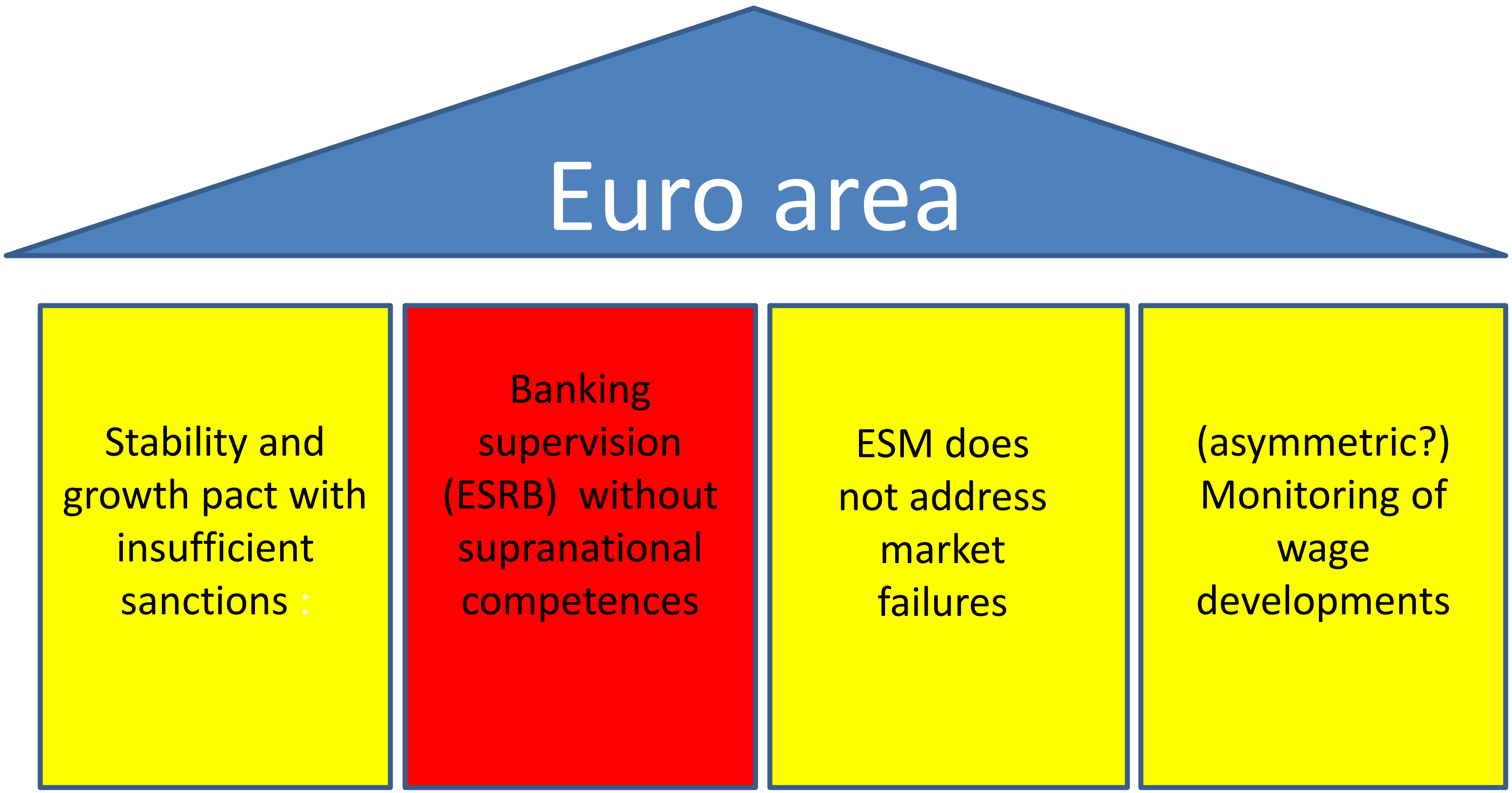
Bank exposures to GIPSI: 2397 US-$ billion



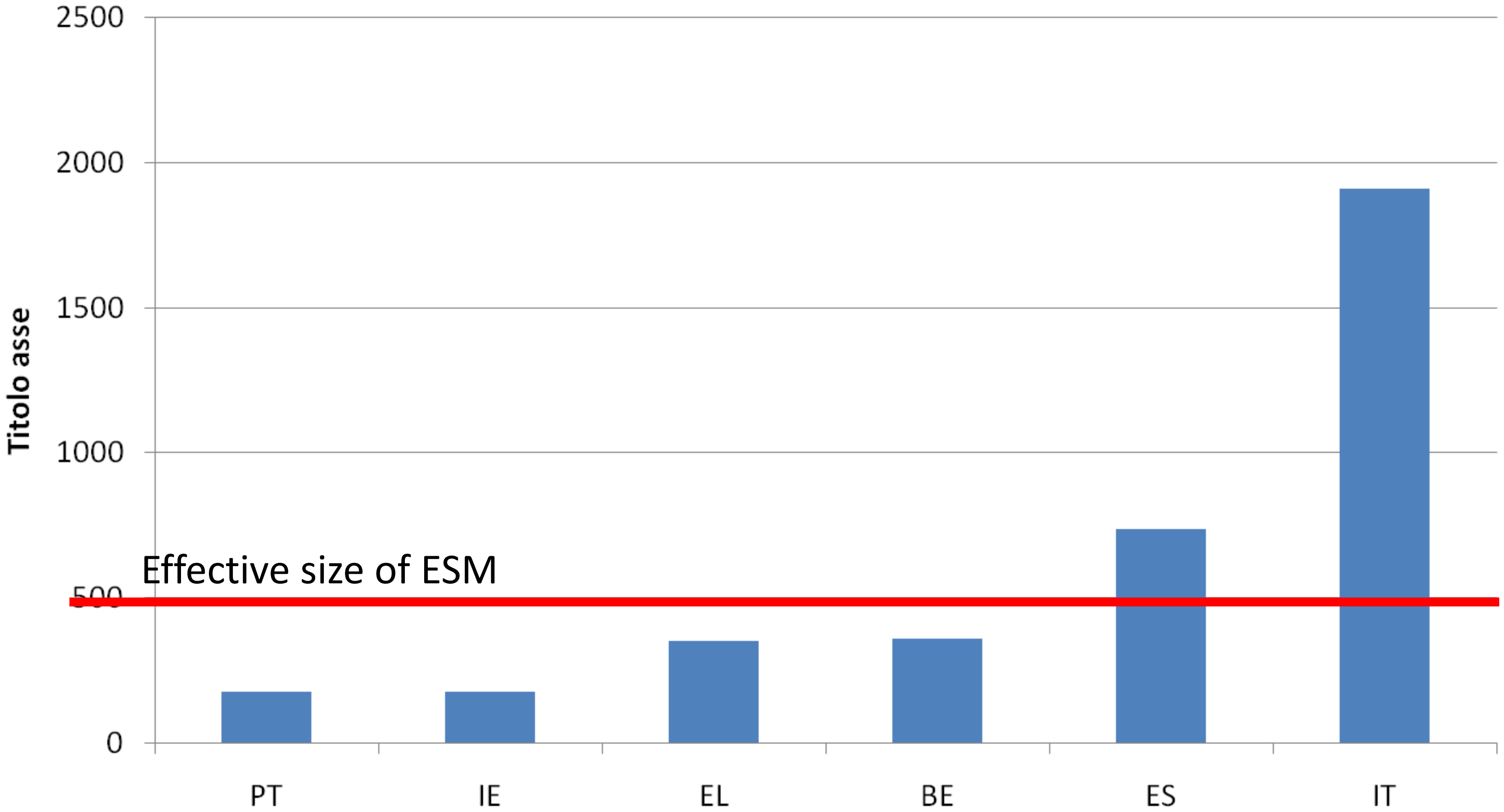
End December 2010. Source: BIS

At a crossroads between monetary nationalism and an enhanced European integration

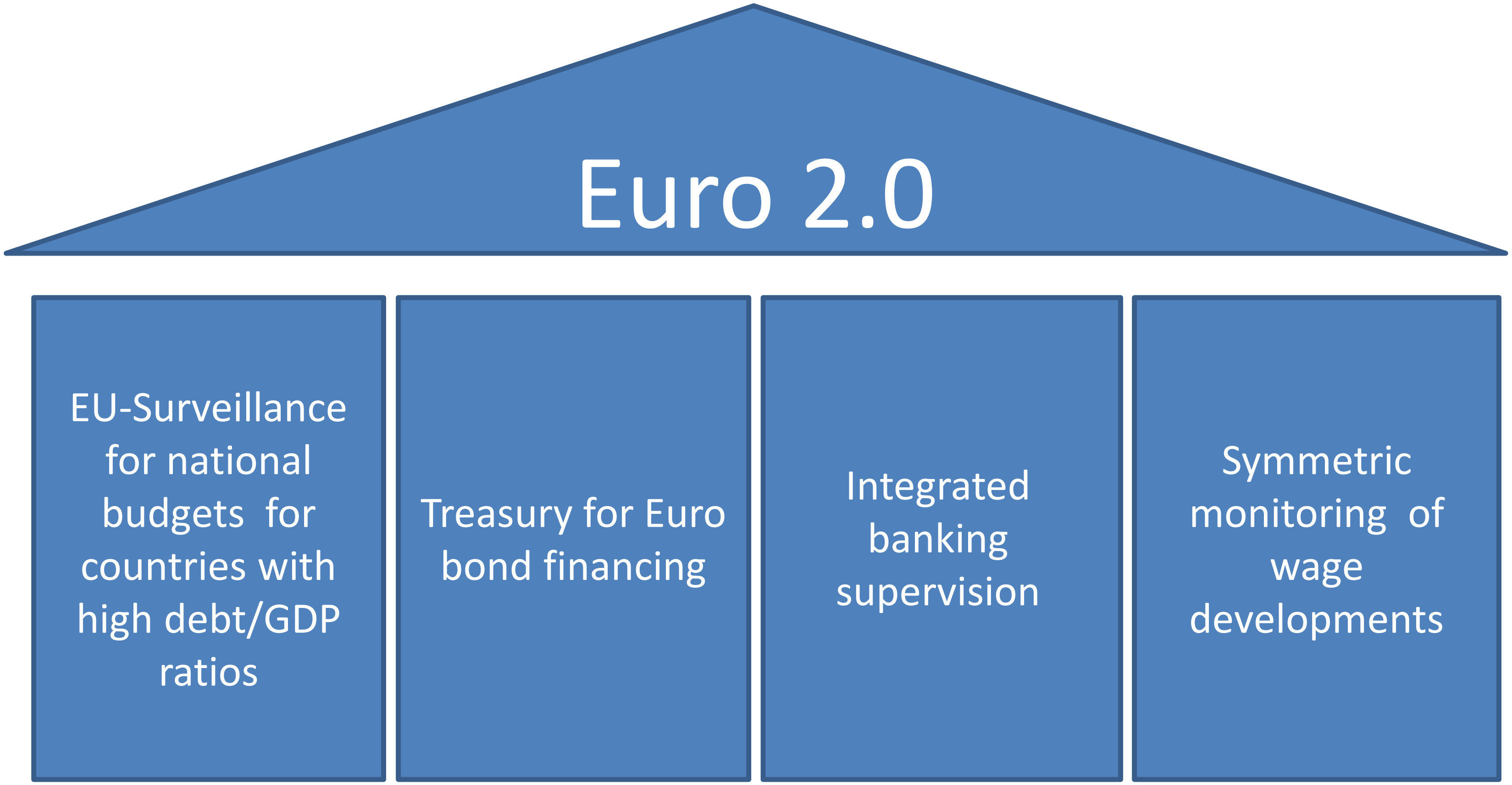
The structure of the Euro area according to the decisions of 25 March 2011



Current debt levels of possible ESM candidates



Euro with political integration



Conclusion

- No one-dimensional explanation of the crisis
- Four institutional flaws of current arrangement
  - Insufficient control over public imbalances
  - Insufficient control over private imbalanced
  - Insufficient control over wage developments
  - Insufficient protection against financial markets and rating agencies
- Isolated solution for Greece is difficult to find
- The alternative: More integration or back to monetary nationalism