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# **Euro Crisis or Growth Crisis?**

**Hans Martens  
Chief Executive  
European Policy Centre**

**July 17, 2012  
at the IGE/Prudential Global Lecture Forum, Seoul**

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## **Where did it come from?**

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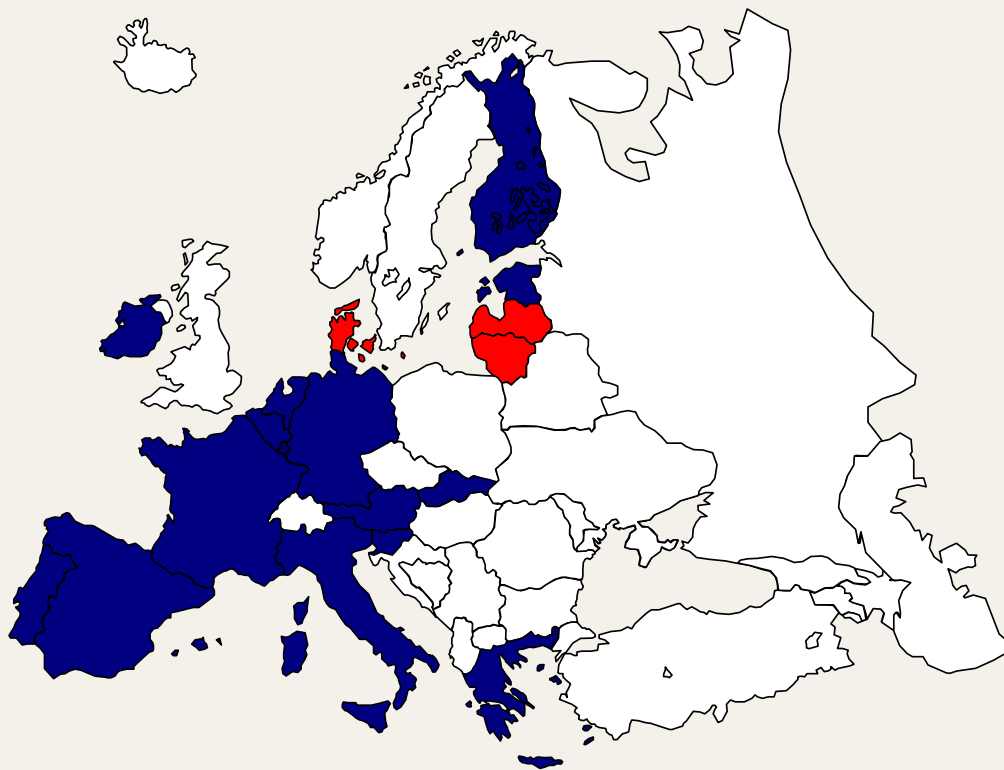
**An old dream, but building on the momentum of the Single Market**

**Based on the Growth and Stability Pact as access and permanent criteria – mostly on public debt and deficit levels**

**Launched in 1999 – with common currency by 2002**

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## Who is in the Euro?

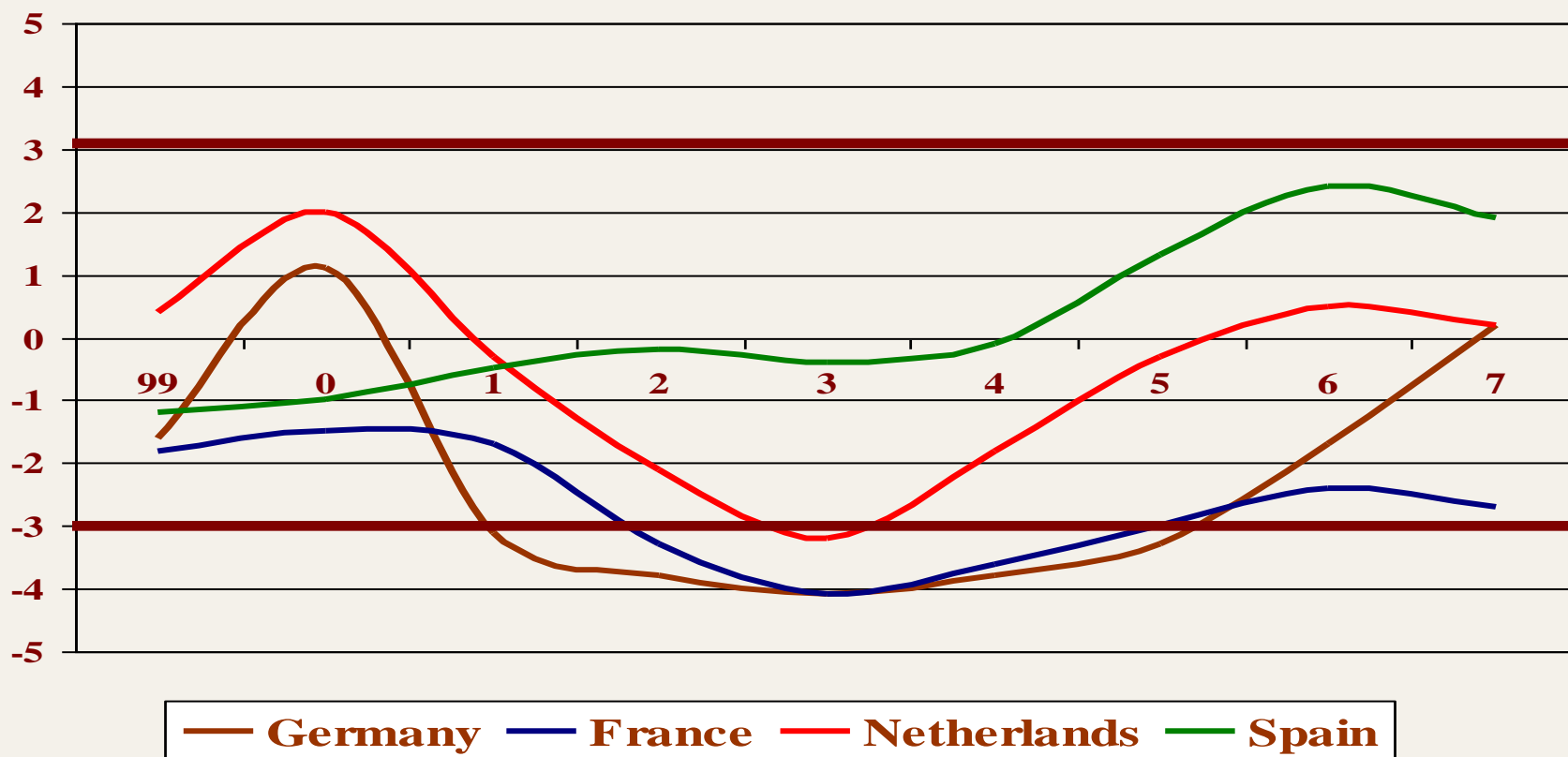


**17 countries = 326 million people**  
**3 countries tied to Euro.**

**Also currency in Montenegro, Kosovo, Andorra, Monaco, San Marino, Vatican State and overseas territories.**

**150 million in Africa use currency pegged to Euro**

# What happened to the Growth and Stability Pact ?



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## **The advice given at the time of start of the Euro**

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**No more devaluations**

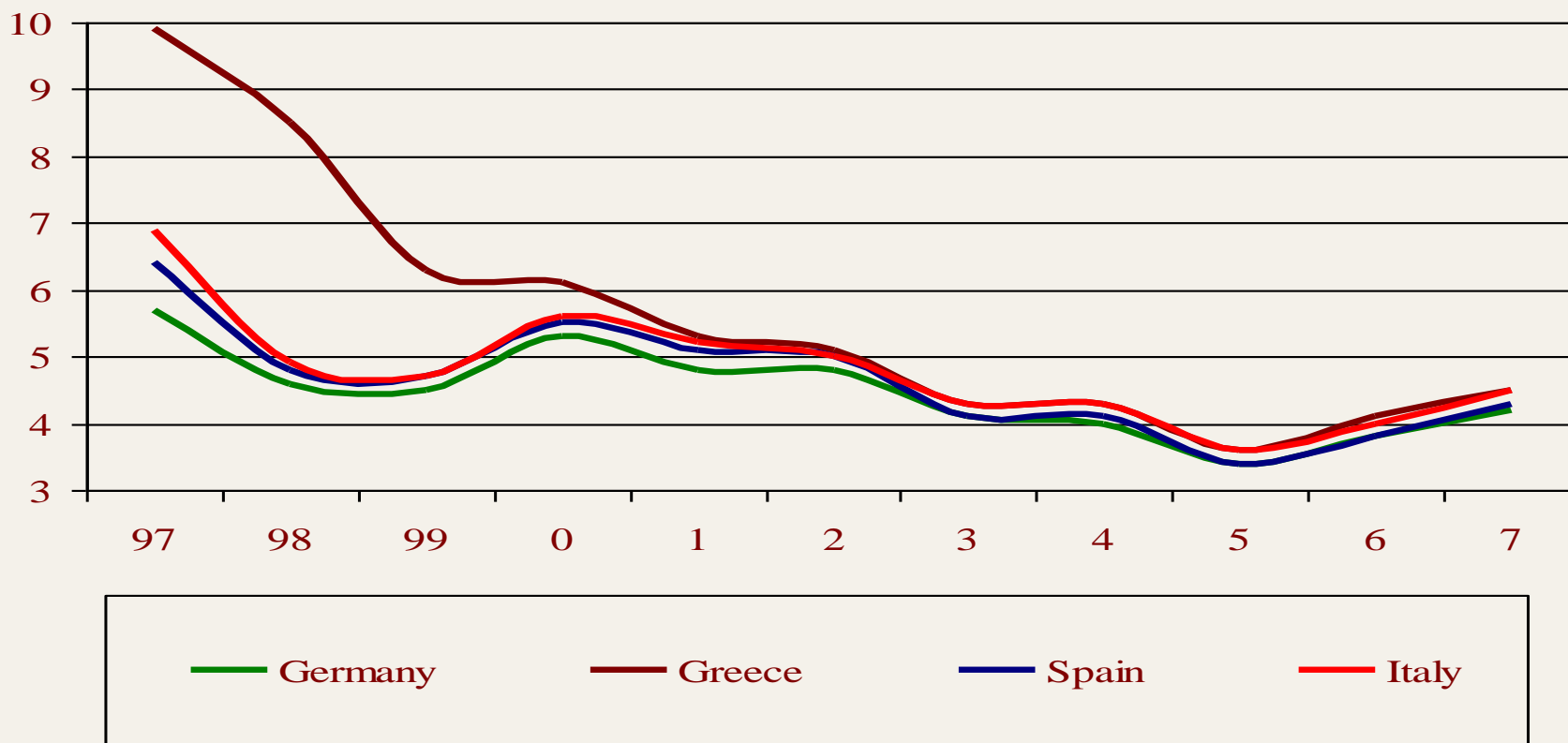
**Work on improving competitiveness via**

**Structural reforms**

**It did not happen, but why did it go well for 10 years?**

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## Because of interest rates



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## **And then**

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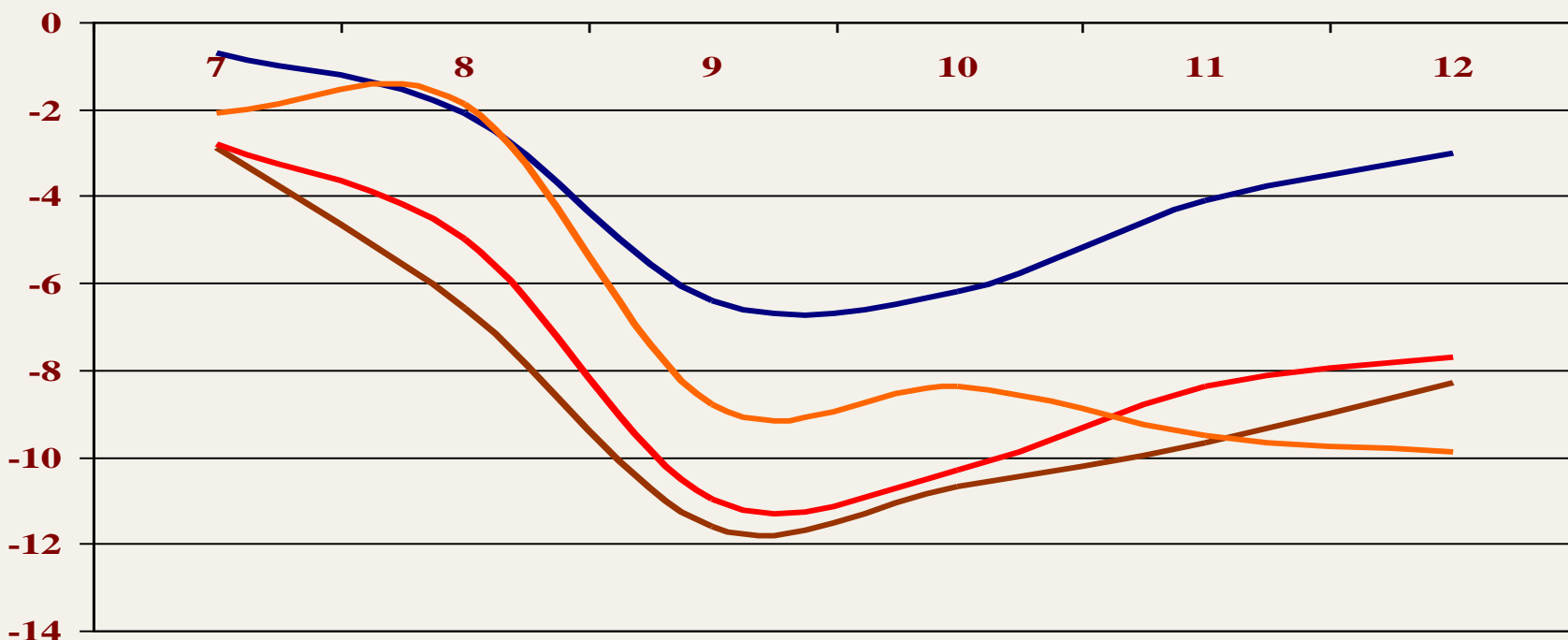
**The US triple deficit punctured the world economy, and the feast was over.**

**Now the "West" is struggling with the same problems: Deficit, debt, unemployment and very low growth**

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# Public budgets

% of GDP

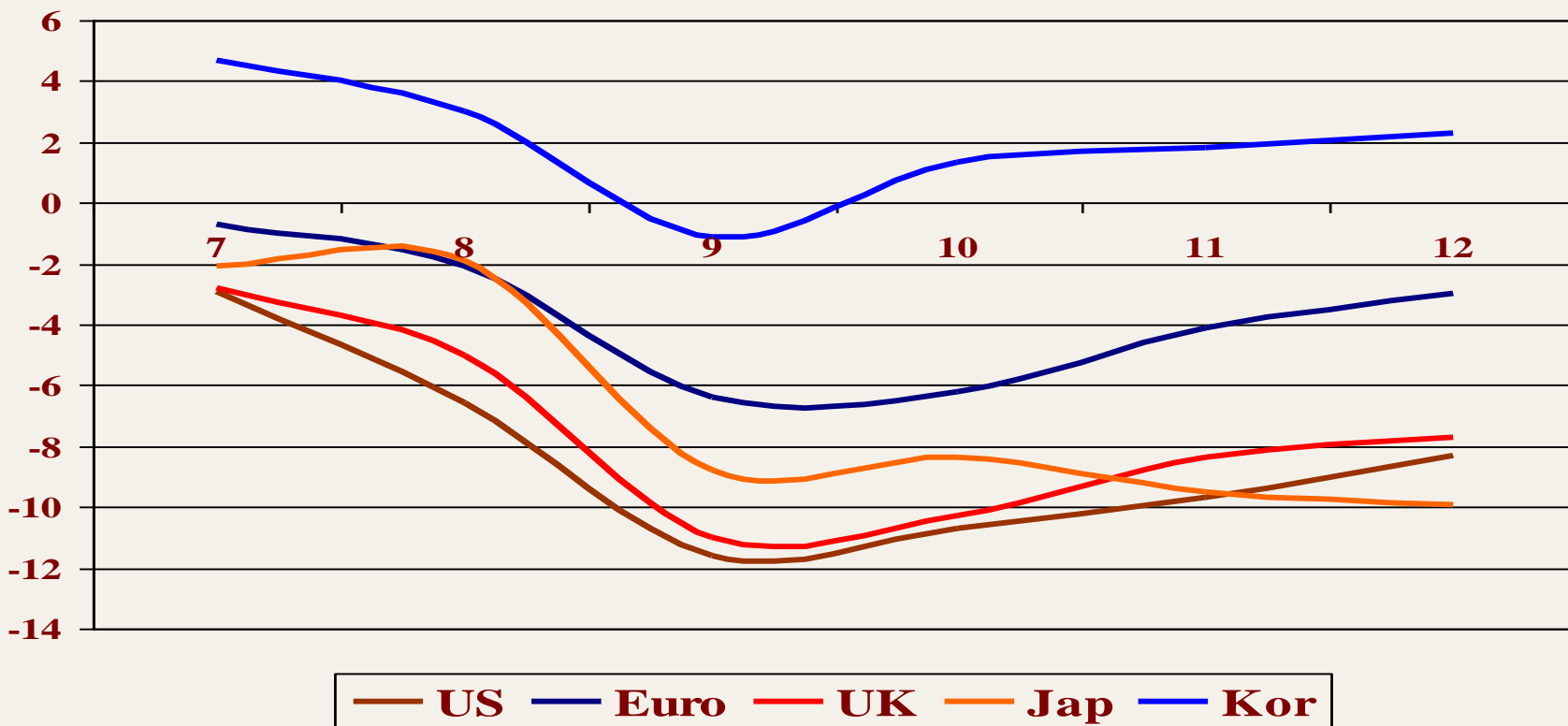


— US — Euro — UK — Jap



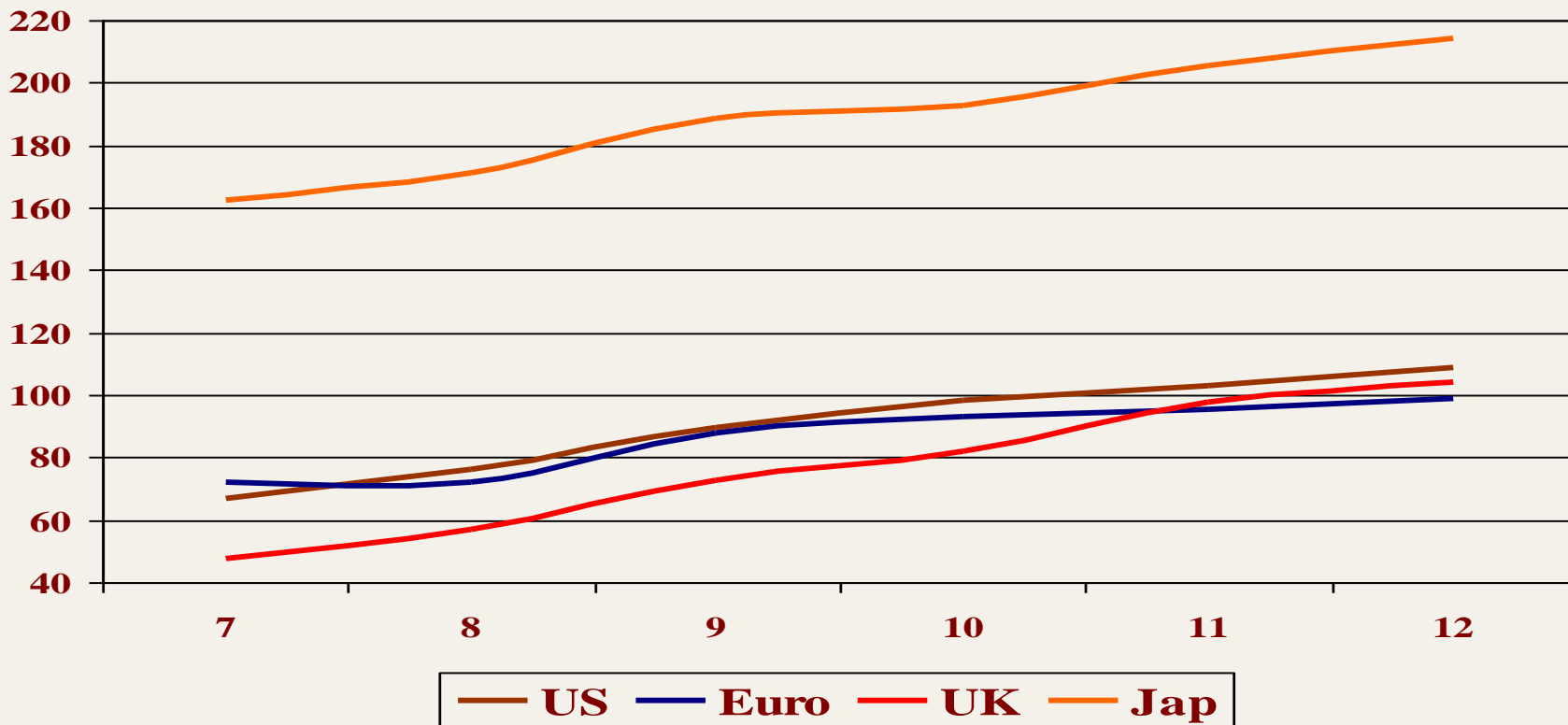
# Public budgets

% of GDP

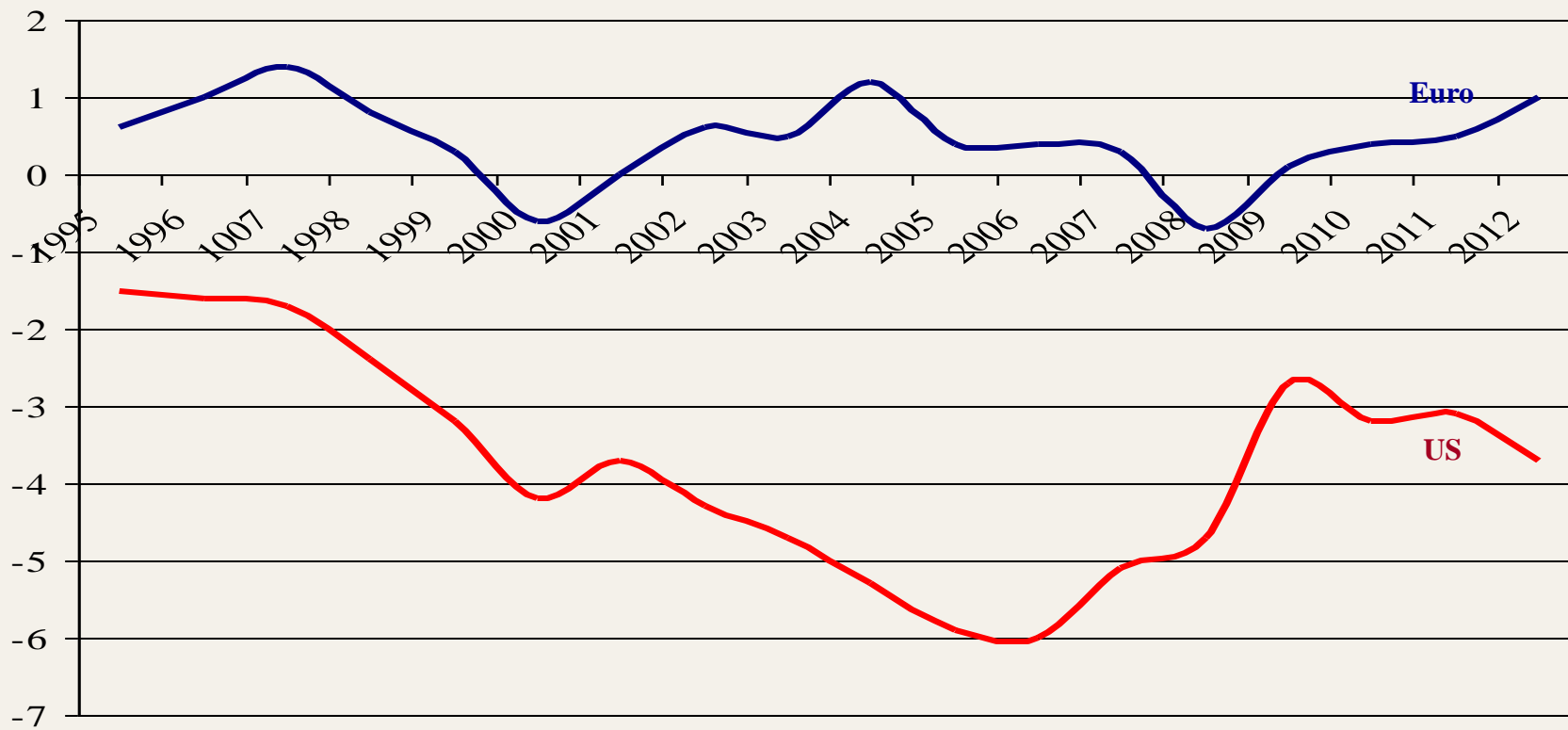


# Public debt

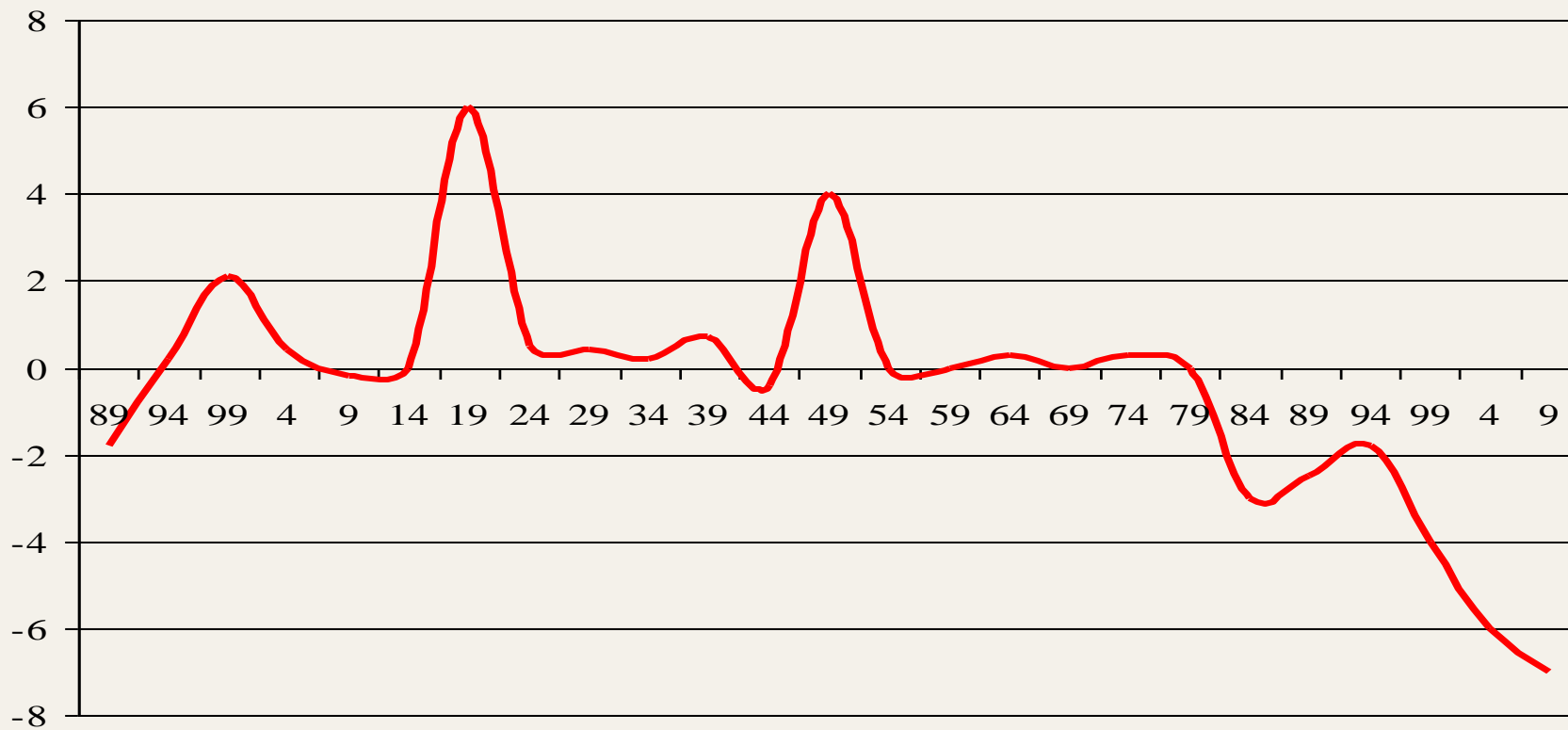
% of GDP



## US and EU current account 1995 – 2012 - % of GDP



# US current account 1889 – 2009 - % of GDP



Source: OECD Economic Outlook no. 76

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## **Federal Reserve Chairman Alan Greenspan 13.03.2002:**

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**Greenspan noted that over the past six years, about 40 percent of growth in U.S. capital stock has been financed by foreign investment, increasing America's reliance on others and running up mounting deficits that need to be controlled because it means a growing share of interest payments are sent abroad.**

**"Countries that have gone down this path invariably run into trouble, and so would we," he said. "Eventually, the current account deficit will have to be restrained," he said.**

**"Because of the near certainty of a major rise in the retiree-to-worker ratio in the next few decades, we now face the pressing need to set policies for the enhanced productivity growth that will be necessary," Greenspan said.**

**Boosting savings is essential even though it does not affect the number of people in the workforce. "But it surely affects capital investment, which it finances, and the productivity that it engenders," Greenspan noted.**

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## **Has the Euro delivered?**

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**It has been a dream come through:**

**No more exchange costs**

**Full price transparency**

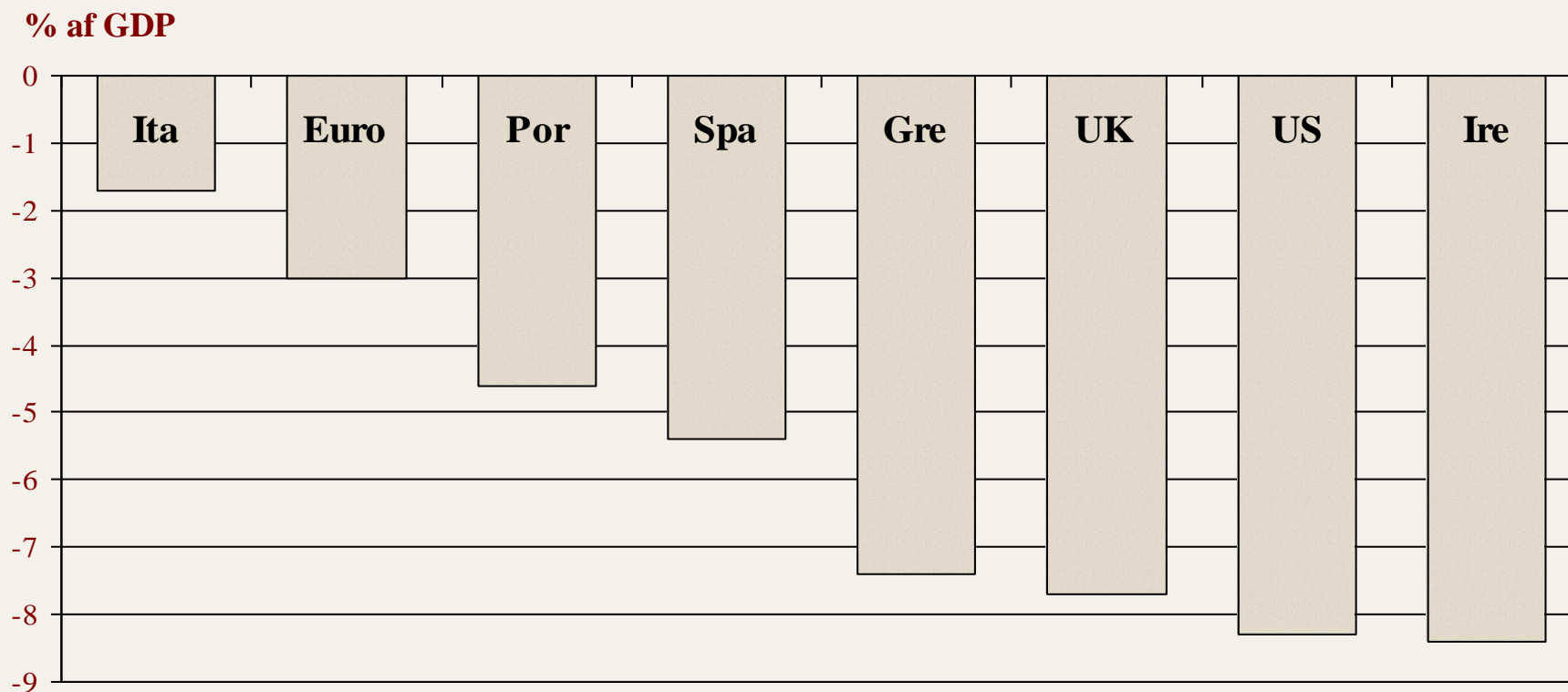
**Low inflation**

**Currency stability**

**But although Euro is not part of global imbalances  
it has large internal imbalances**

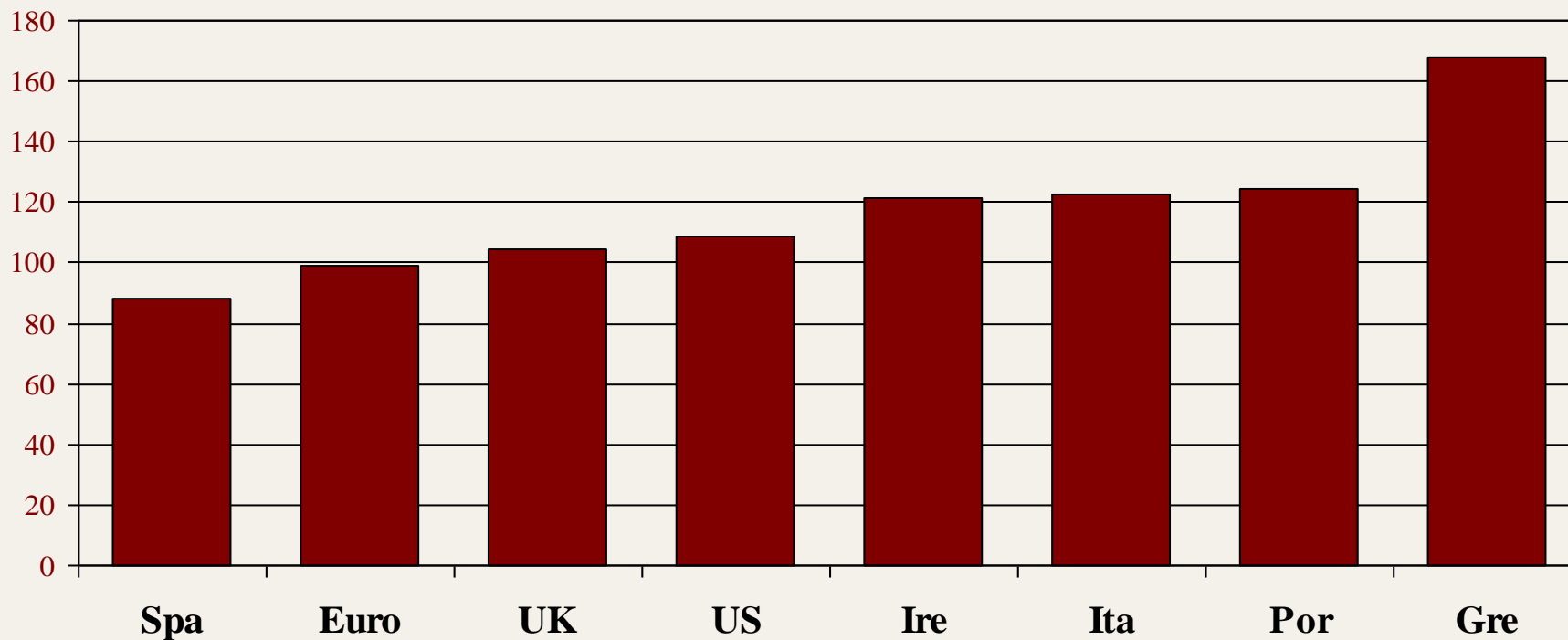
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## Public budget deficits 2012



## Public debt 2012

% of GDP



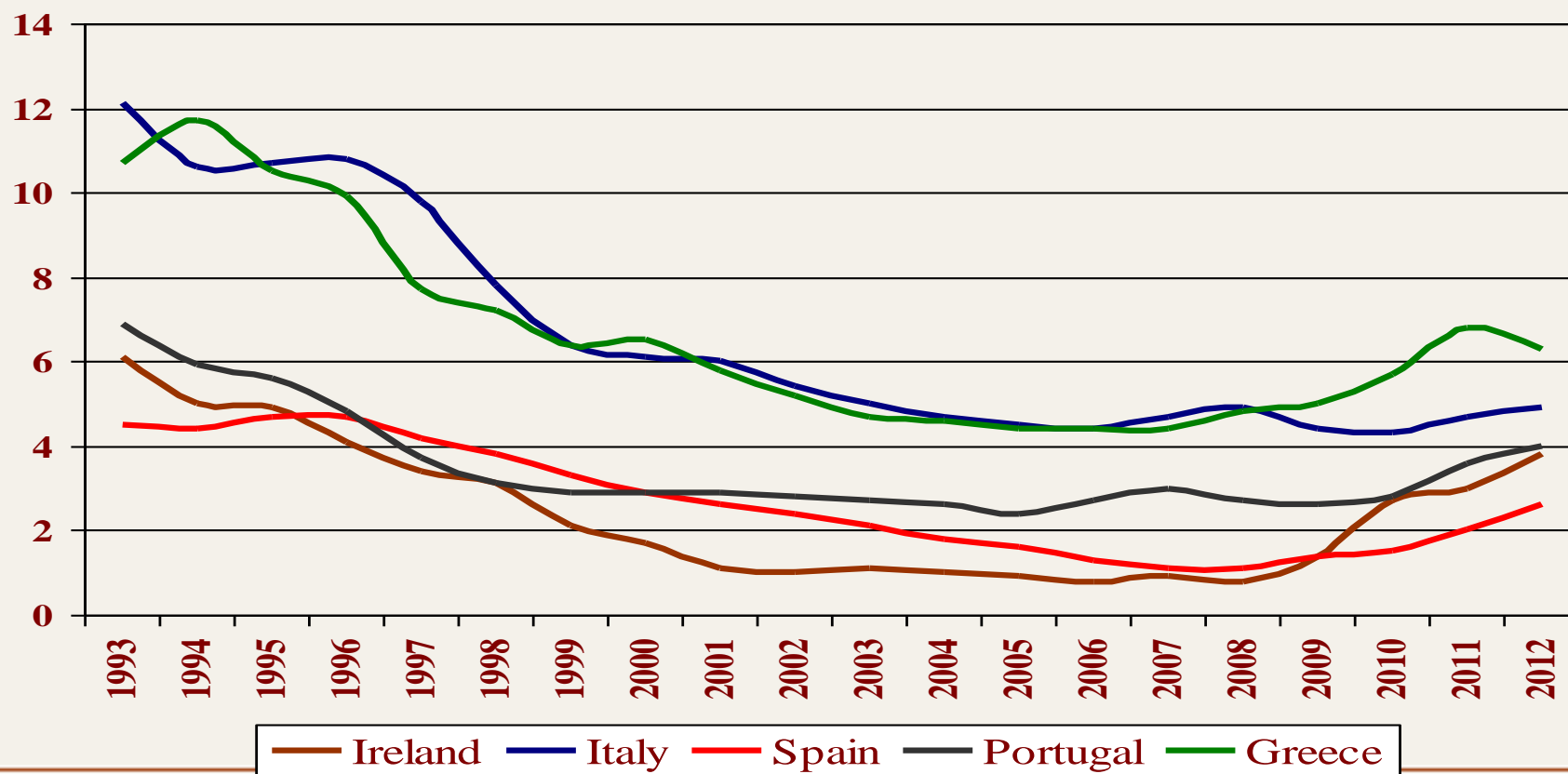


## Different countries – different problems

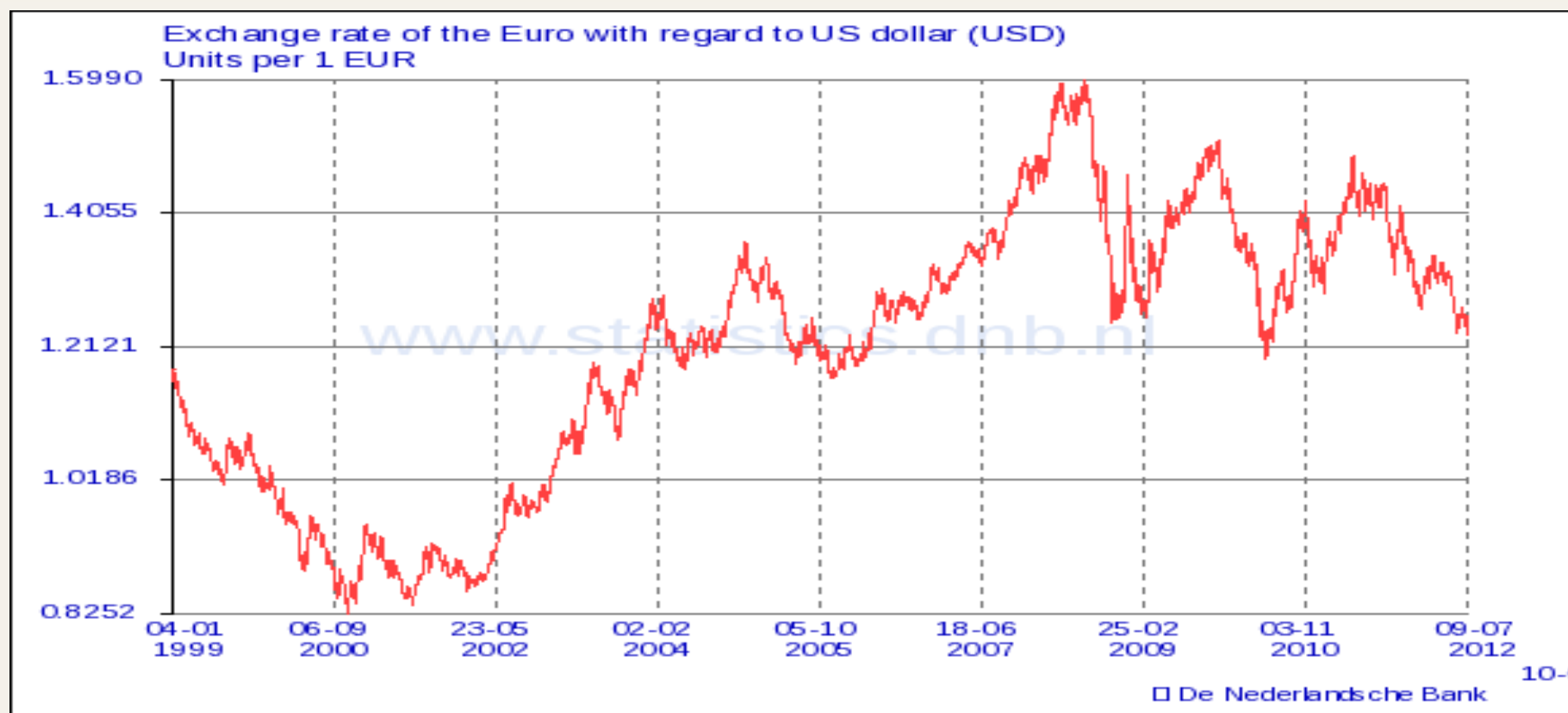
### North – South divide, especially on economic growth

Country	Deficit	Debt	Politics	Growth	Other
<b>Greece</b>	Bad	Bad	Bad	Bad	
<b>Italy</b>	Small	Large, but stable	Bad, but better now	Bad	Most debt national
<b>Spain</b>	Large	Medium	Good	Bad	Public finances fine. Private debt bad
<b>Ireland</b>	Bad	Bad	Good	Medium	Overexposure to banks
<b>Portugal</b>	Medium	Medium	Good	Bad	

## Net debt interest payments % of GDP



# A currency in crises?



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## **The role of the ECB**

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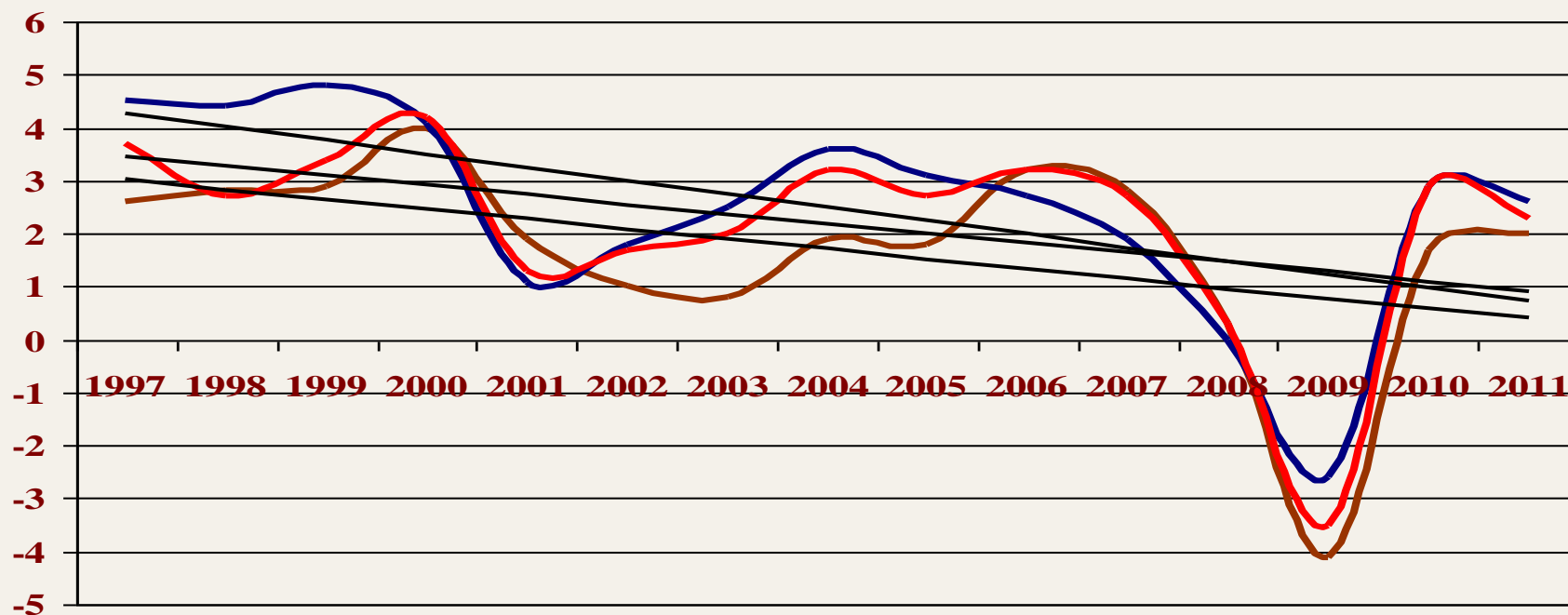
**Price stability**

**No QE!**

**Moderate periodic bond market interventions**

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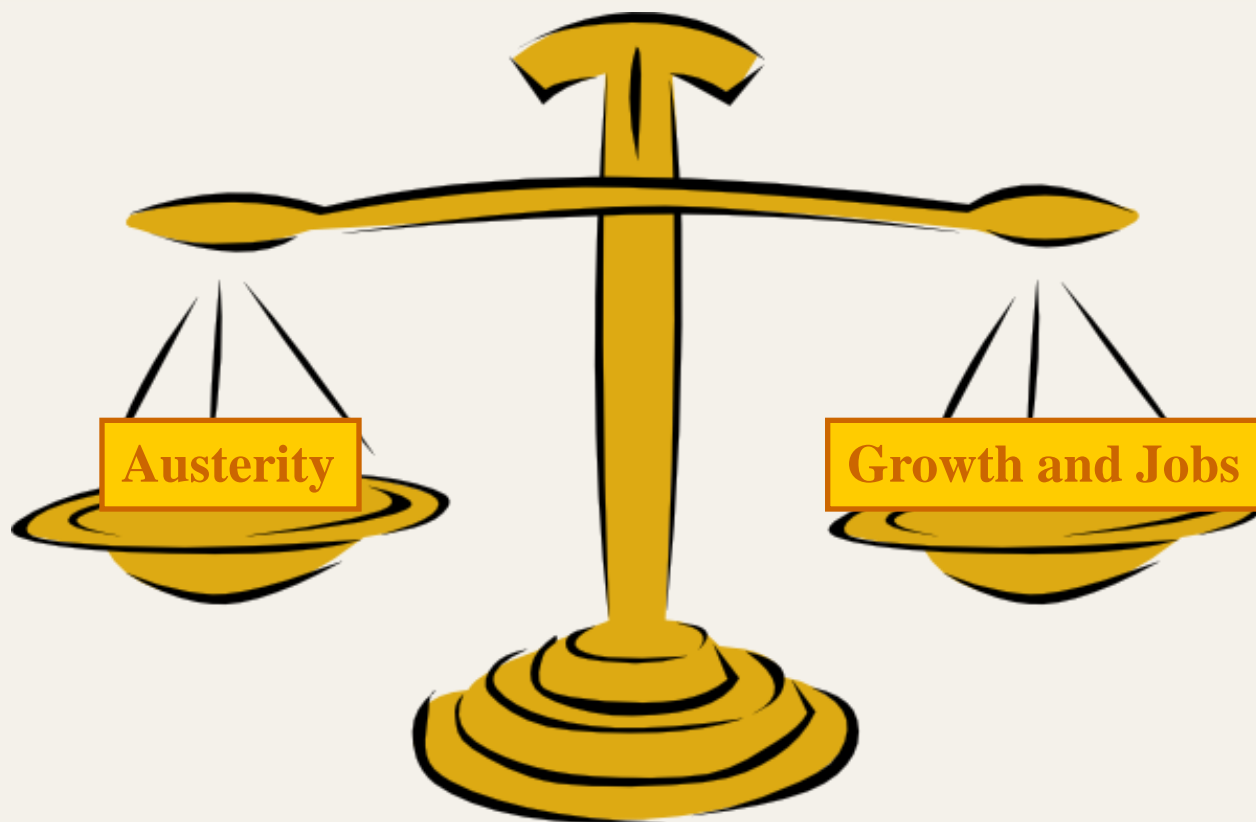
## We have a Western World Growth crises GDP Growth %



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## A delicate balance

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## What has happened

**Euro Plus Pact**  
March 2011

**European semester**  
July 2011

**Six-pack**  
November 2011

**Financial compact**  
February 2012

**European Financial  
Stability Facility (EFSF)**  
May 2010 €780 bill

**European Stability  
Mechanism (ESM)**  
2013? €700 bill

Direct recapitalisation of banks  
Intervention in secondary markets

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## **Next steps**

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### **Banking Union:**

**EU banking supervision**

**EU depositor guarantee scheme consolidated**

### **Fiscal Union/Transfer Union**

**Can it get democratic legitimacy?**

**Do we really need dramatic changes?**

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## **Next steps**

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**Anybody exiting?**

**Anybody entering?**

**The real threat is political, not economical**

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## **Four scenarios**

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**Growth returns and we are all happy**

**Ambitious muddle-through**

**Fully-fledged fiscal union**

**Collapse with serious political consequences**

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# Political and social pressure



## Austerity angst spreads to Britain

Source : [International Herald Tribune n°40517](#) Paru le 1 Juillet 2011

Dans [Quotidiens;international](#)

### Résumé :

Joining a growing wave of unrest in Europe against stringent austerity measures, tens of thousands of British teachers and public-sector workers across the country walked off their jobs Thursday in protest over proposed changes to their pension plan. Union officials warned that the strike could beth ...



# The people we need

**EUROPE, NORTH AFRICA AND WEST ASIA: REGIONS**



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Map by Tom Elliott for the Ancient World Mapping center, University of North Carolina at Chapel Hill, [www.unc.edu/awmc](http://www.unc.edu/awmc)

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Lambert Azimuthal Equal Area Projection  
 Scale: 1:27 million (1 inch = 426 miles; 1 centimeter = 270 kilometers)

Elevation from the SRTM30 dataset, via GICF ([gicf.umiacs.umd.edu](http://gicf.umiacs.umd.edu)); historic coastlines and rivers after the Barrington Atlas of the Greek and Roman World (Princeton, 2000); addl. linework from 'ESRI Maps and Data' 2003. Symbology is original work of the Ancient World Mapping Center