The Eurozone Crisis - Taking stock

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The views expressed are those of the speaker, and do not necessarily reflect the position of any other institution with which the author is currently or previously affiliated with...
This old Prussian anecdote is a good summary of state of play

“Die Lage ist ernst, aber nicht hoffnungslos”
(The situation is serious but not hopeless).

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(The situation is hopeless but not serious).

The German/Northern European view of the euro crisis?

Market view?

The Southern view of the euro crisis?
Is this a temporary lull in the euro debt crisis…?

Less Google searches on debt crisis…

…and euro collapse averted/on hold?

Source: Google

Source: European Central Bank
…or are we at the end of the beginning of the crisis?

Less Google searches on debt crisis…

…with decline in Spanish and Italian bond yields

Source: Google

Source: Bloomberg
A milestone in the euro crisis was reached in Q2/Q3 2012

1. Greek election outcome gave a pro-euro coalition government

2. ESM became operational with an aim to directly re-capitalise banks

3. Steps towards European banking union have been taken

4. Bond purchases in tandem by ECB and EFSF/ESM

5. Another round of coordinated monetary easing globally
However, euro area recession looks set to continue with monetary policy in Spain and Italy too tight.
Fiscal stance remains tight in 2012-13

Burden of adjustment falls on deficit countries

Source: IMF Fiscal Monitor October 2012
Note: Fiscal stance is proxied by the change in the cyclically adjusted primary balance (CAPD).

Source: IMF WEO October 2012
Central bank reserve managers have maintained euro exposure

Currency shares in foreign exchange reserves with disclosed currency composition

Source: European Central Bank
Note: Constant exchange rates are assumed
Market participants remain skeptical of Plan A.

The share of Italian government securities held by foreigners

Source: Banca d’Italia
Investors continue to withdraw capital from the periphery

Net Balance with the Eurosystem / Target [bn €]

DNLF = Germany, Netherlands, Luxembourg, Finland
GIIPS = Greece, Italy, Ireland, Portugal, Spain

Institute of Empirical Economic Research - Universität Osnabrück
Some glimmer of hope in September 2012 figures?
Capital flight from periphery demonstrates need for banking union

1. Banking union? Ambitious roadmap and time table...progress is slow!

2. More integration is needed also on the fiscal side (i.e. deeper union)

3. Markets need to be assured that there is a “financial bridge”. Not sure the ECB/ESM tandem buying is sufficient.

4. Is there political willingness for a “deeper” union? No consensus currently
Public support for the European economic and monetary union

Source: European Commission Eurobarometer
Capital flight from periphery demonstrates need for banking union

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5. Is growth going to return? If so when? Or do we need to re-think the path of fiscal austerity
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