

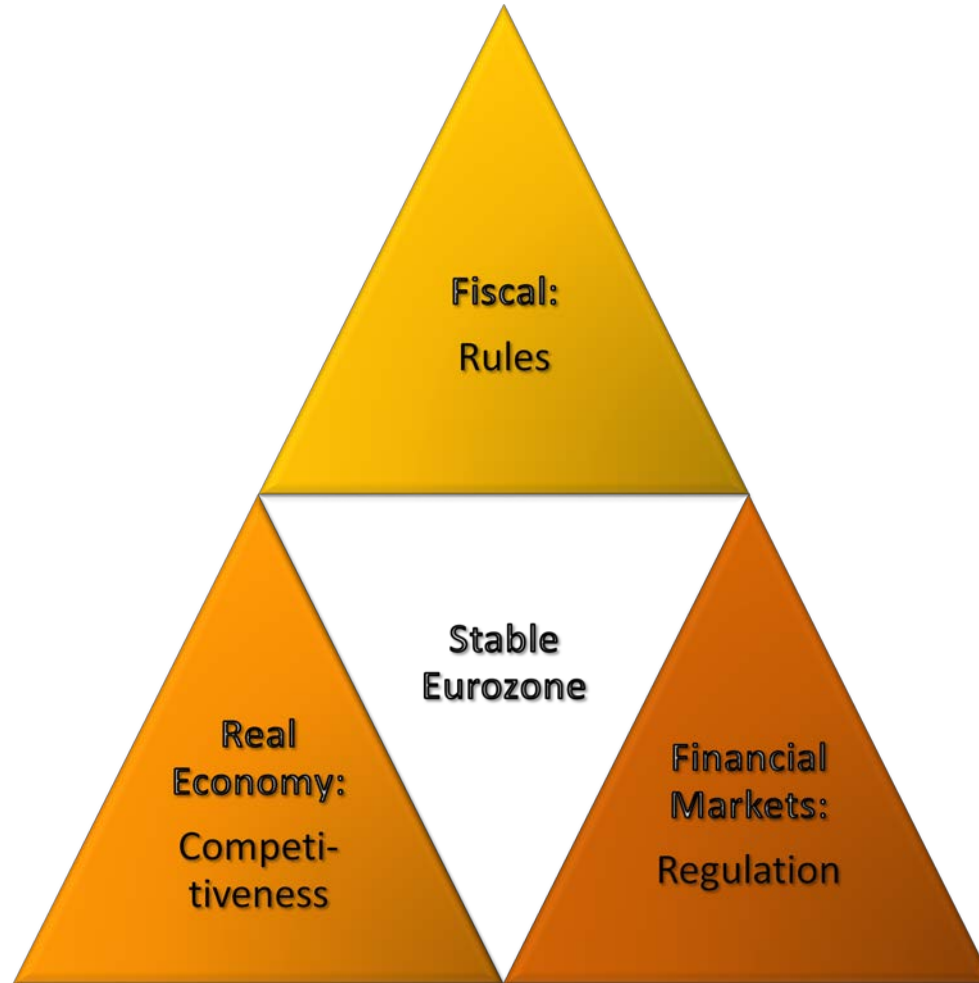
# Stability in the Eurozone: Challenges and Solutions

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Director General „Economic and Fiscal Policy Strategy;  
International Economy and Finance“

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# Triangle of Stability



■ ■ ■ ■ ■ ■ ■ ■  
Bundesministerium der Finanzen  
■ ■ ■ ■ ■ ■ ■ ■  
■ ■ ■ ■ ■ ■ ■ ■  
Berlin

# Instability threatens independence of monetary policy

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- **Fiscal dominance**
- Macroeconomic imbalances
- Financial dominance

# Public debt at record highs, peaking...

Public debt as a percentage of GDP					
	1999	2007	2009	2014	2016
<b>Euro area</b>	70,5*	65	78,4	94,2	92,5
<b>Germany</b>	60,2	63,7	72,6	74,7	68¾
<b>France</b>	60,2	64,4	79,0	95,0	97,0
<b>Italy</b>	109,6	99,7	112,5	132,1	130,6
<b>Spain</b>	60,9	35,5	52,7	97,7	101,4
<b>Portugal</b>	51,0	68,4	83,6	130,2	123,0
<b>Greece</b>	88,5*	103,1	126,8	177,1	173,5
<b>Ireland</b>	46,7	24,0	62,3	109,7	103,8
<b>UK</b>	41,9	43,6	65,8	89,4	90,1

**Source:** European Commission Spring Forecast (5 May 2015); for 2007-2009; AMECO; 1999-2009: Euro area excluding EST and GRC (16 countries); **Germany:** Federal Statistical Office and MoF-Projection rd. on ¼ percentage points

\* European Commission Spring Forecast (5 May 2015) [Statistical Annex]

# ... but primary balance still often in deficit

Primary net lending/borrowing as a percentage of GDP				
	2007	2009	2014	2016
Euro area	2.2	-3.4	0.2	0.7
Germany	3.0	-0.4	2.4	1 ½
France	0,1	-4,8	-1,8	-1,3
Italy	3,2	-0,9	1,6	2,3
Spain	3,6	-9.3	-2.5	-0.6
Portugal	-0,1	-6,8	0,5	1,7
Greece	-2,2	-10,3	0,4	1,8
Ireland	1,3	-11,9	-0,1	0,6
UK	-0,8	-8,9	-2,9	-0,5

Source: European Commission Spring Forecast (5 May 2015); for 2007-2009: AMECO; 2007-2009: Euro area excluding EST and GRC (16 countries); Germany: Federal Statistical Office and MoF-Projection rd. on ¼ percentage points

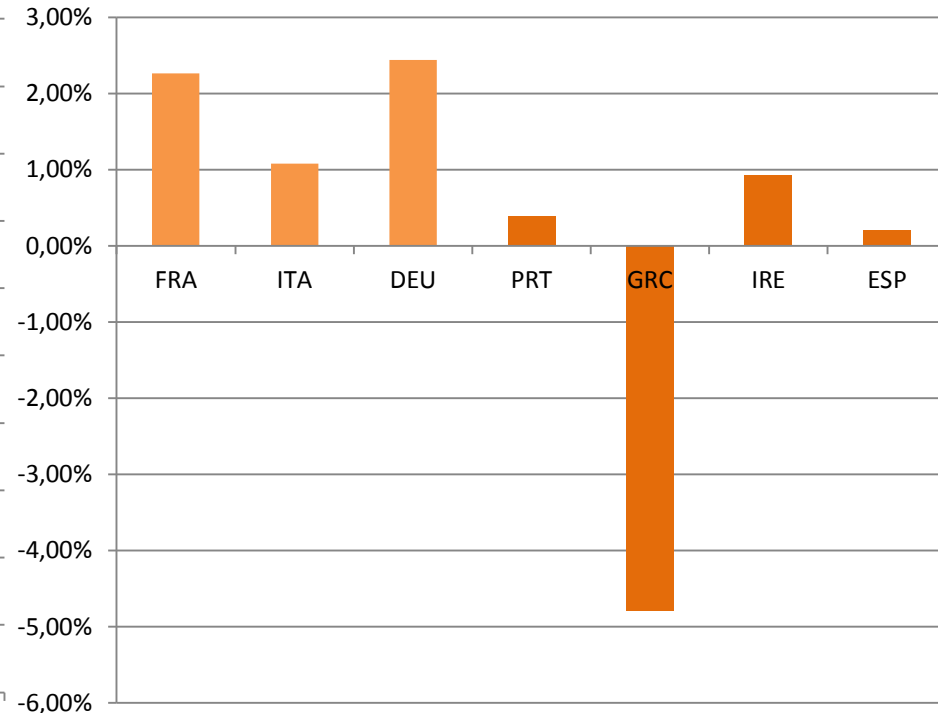
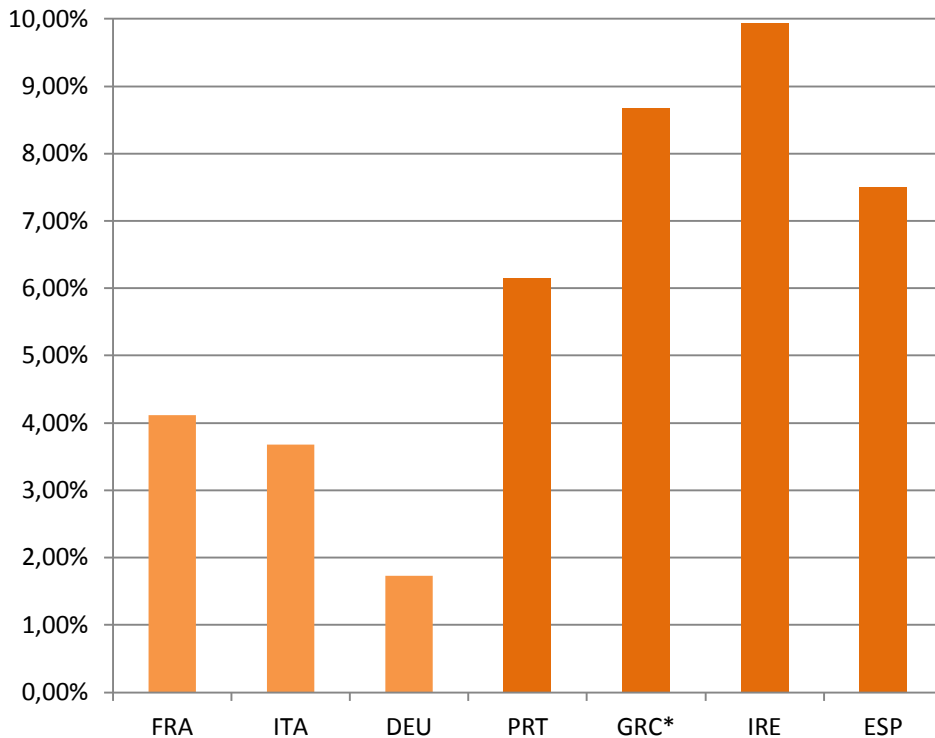
# Healthier government expenditure growth

Before crisis: ...skyrocketed in some countries

After crisis: ...reduced sharply

average annual growth rate of nominal government expenditure 1999-2009

average annual growth rate of nominal government expenditure 2010-2016



Source: AMECO (COM Spring forecast 2015); \*ESA95 Eurostat

# Public expenditure ratios: room for reduction

Public expenditure as a percentage of GDP					
	1999	2007	2009	2014	2016
<b>Euro area</b>	47,5*	45,3	50,6	49,0	48,0
<b>Germany</b>	47,6	42,7	47,4	43,9	43 ¾
<b>France</b>	52,1	52,2	56,8	57,2	56,5
<b>Italy</b>	47,3	46,8	51,1	51,1	49,9
<b>Spain</b>	39,9	38,9	45,8	43,6	41,4
<b>Portugal</b>	36,6	40,8	45,3	45,7	44,7
<b>Greece</b>	44,5*	46,9	54,0	49,3	47,9
<b>Ireland</b>	34,0	35,9	47,6	39,0	36,8
<b>UK</b>	38,2	42,9	49,7	44,4	41,9
<b>Singapur</b>	22,8	12,0	18,0	18,2	20,4
<b>Korea</b>	17,2	20,5	21,3	21,3	20,8

**Source:** European Commission Spring Forecast (5 May 2015); For Singapur and Korea: IMF World Economic Outlook (April 2015); for 2007-2009: AMECO; 1999-2009: Euro area excluding EST and GRC (16 countries); [Germany: Federal Statistical Office and MoF-Projection rd. on ¼ percentage points](#)

\*ESA 1995, Eurostat

# Instability threatens independence of monetary policy

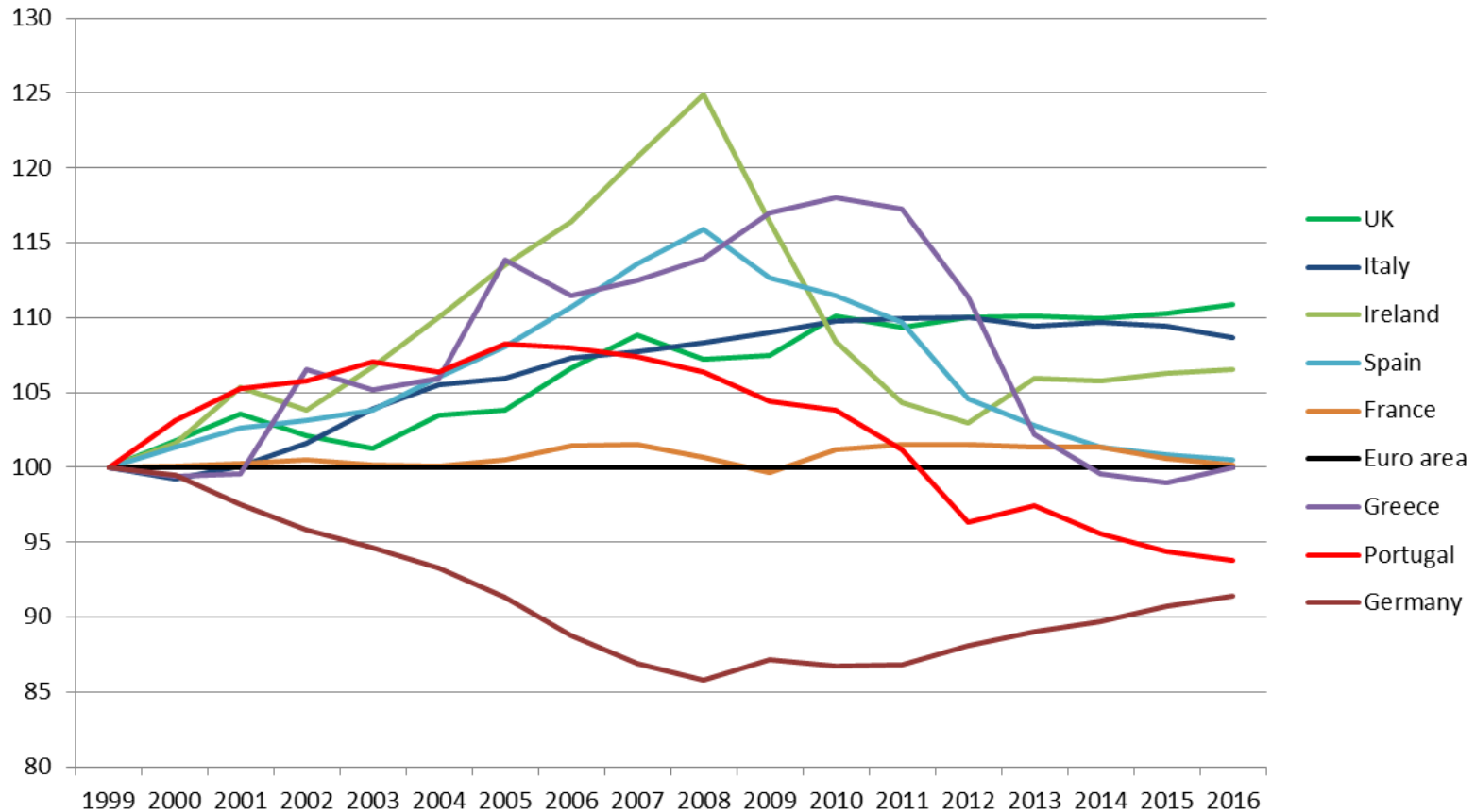
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- Fiscal dominance
- **Macroeconomic imbalances**
- Financial dominance



# Unit labour cost divergence reversing

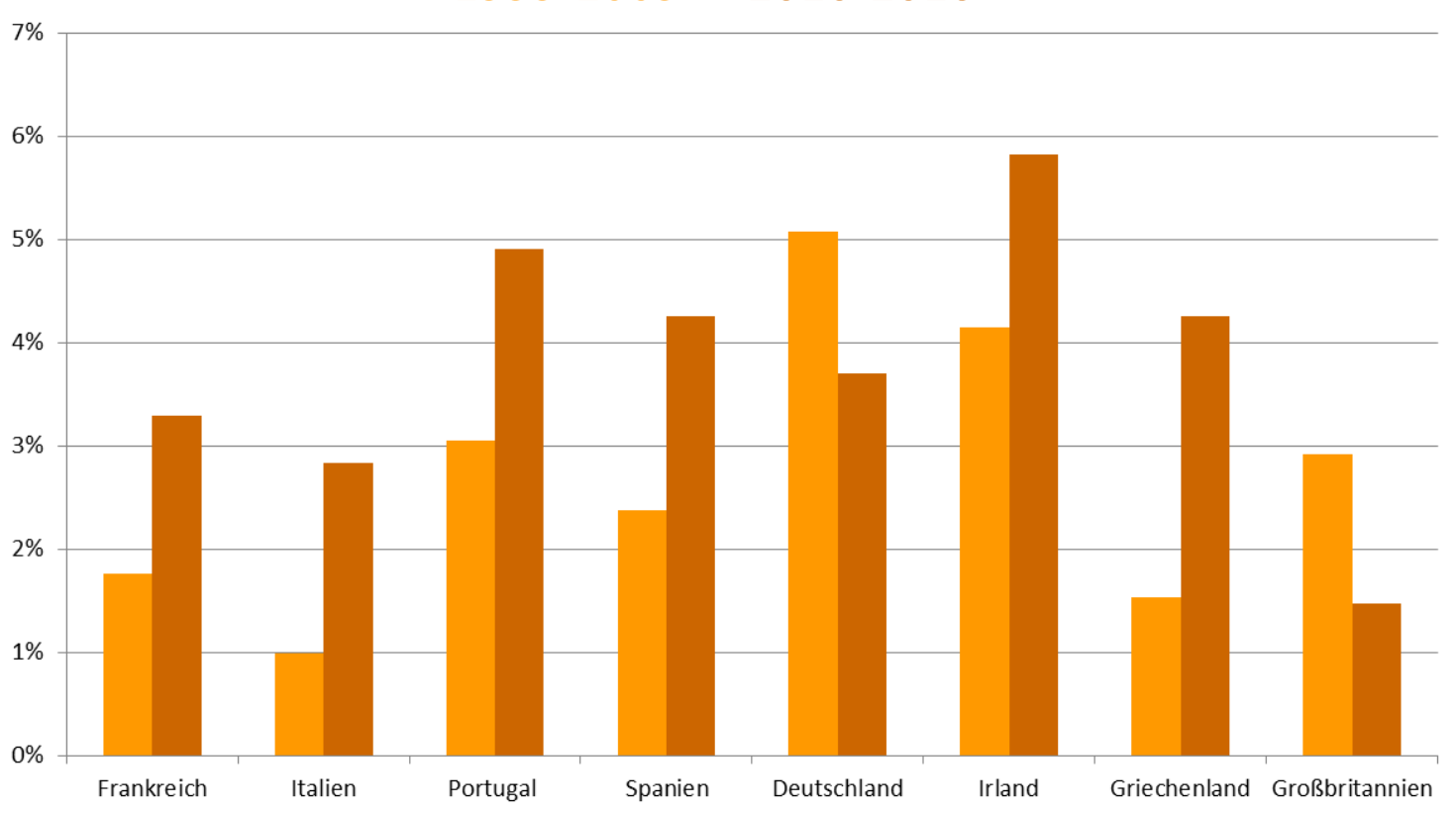
Euro area = 100



Source: AMECO (COM Spring Forecast 2015)

# Macroeconomic rebalancing in progress

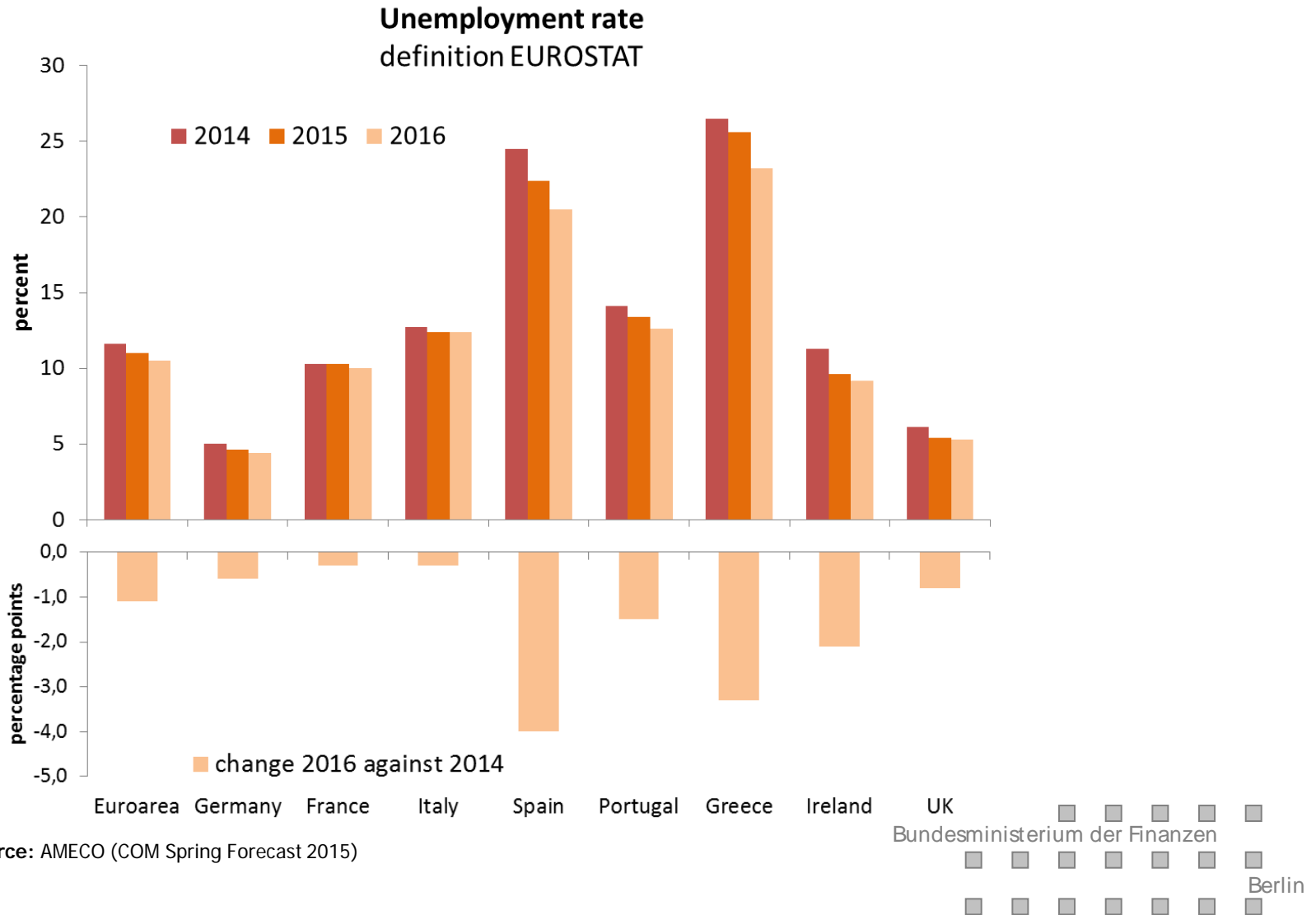
Exports of goods and services at constant prices, avg. growth rate  
1999-2009 - 2010-2016



Source: AMECO (COM Spring Forecast 2015)



# Unemployment rates high, improvements



11 Source: AMECO (COM Spring Forecast 2015)

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# Private sector debt stabilizing at high levels

Debt outstanding in percent of GDP

## Private Households

	1999	2007	2014
Euro area	49	60	61
Germany	70	61	55
France	34	47	56
Italy	21	38	43
Spain	42	81	71
Portugal	53	87	81
Greece	10	38	63
Ireland	48 <sup>1</sup>	99	86
United Kingdom	66	96	88

## Nonfinancial Corporations

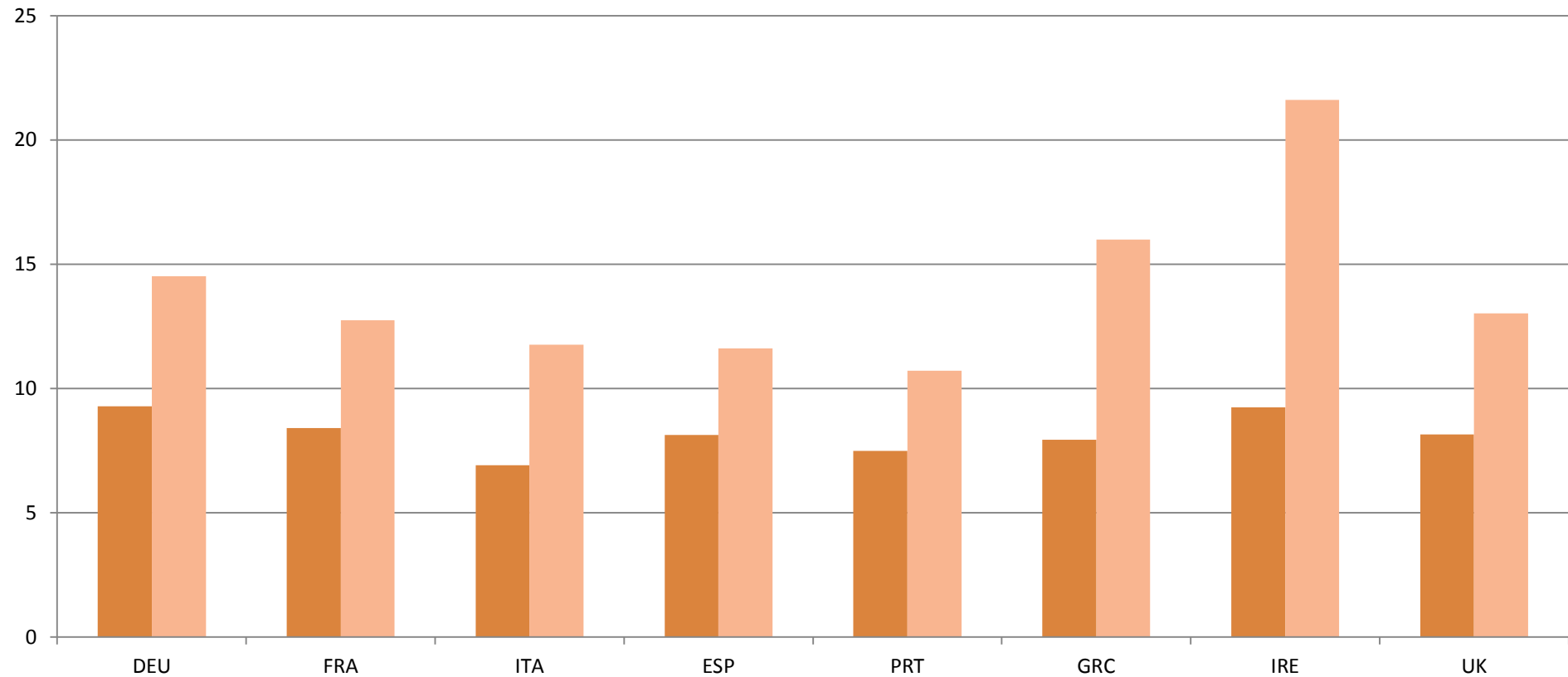
	1999	2007	2014
Euro area	87	103	107
Germany	63	64	64
France	93	104	123
Italy	60	82	83
Spain	63	125	111
Portugal	80	111	128
Greece	34	56	66
Ireland	94 <sup>1</sup>	102	185
United Kingdom	92	117	112

**Source:** Statistical Data Warehouse, June 2015. Annual data; except for GRC and ITA 2014: Quarterly data Q4

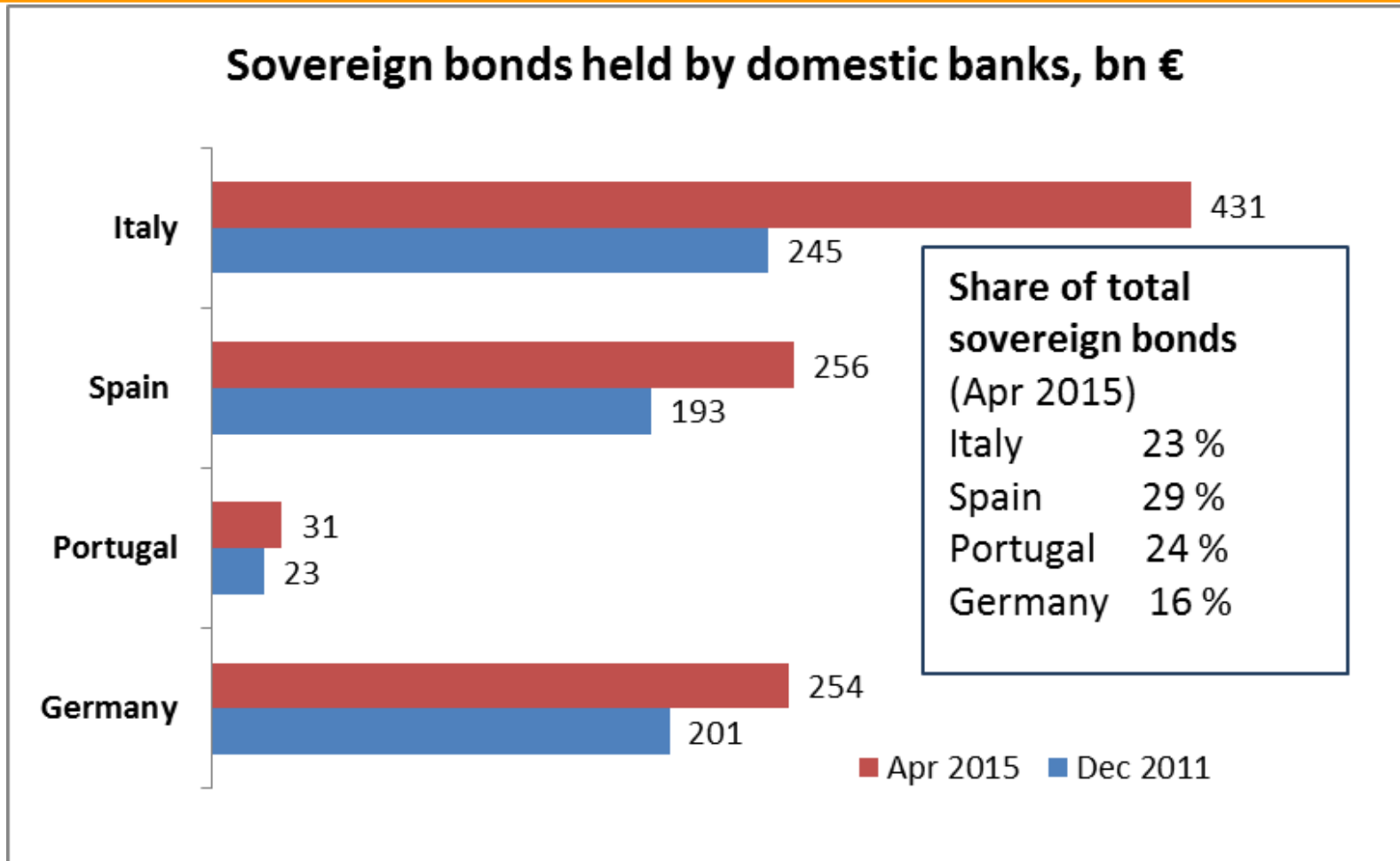
# Financial sector more resilient...

## Tier 1 Capital Ratio

2008Q4 2014Q2



# ... but sovereign-bank nexus still high



# How to “unburden” monetary policy?

- Rules-based fiscal framework
  - sustainable public finances
- Economic policy coordination, single market
  - flexible factor markets, competitiveness, employment and growth
- Well-regulated financial markets
  - financing of real economy, financial stability



# Strategy for stabilising Economic and Monetary Union

AIM

CRISIS PREVENTION

**Reduce government debt**

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Stability and Growth Pact and Fiscal Compact

- MTOs and 3% limit; adjustment path
- Binding debt reduction (debt percentage-60% x <sup>1</sup>/<sub>20</sub> p.a.)
- Quasi-automatic sanctions (including deposits and fines)
- National „debt brakes“

**Coordinate economic policies**

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Europa 2020

Macroeconomic surveillance procedure

Euro Plus Pact

**Stabilise financial market**

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Financial market reform

- New oversight mechanisms for the EU financial market (at both the macro and the micro levels)
- Stricter regulation (including increases in capital)
- Banking Union including a Single Supervisory Mechanism as well as new rules for the resolution of banks and a single bank resolution fund

EMERGENCY ASSISTANCE

**European Stability Mechanism (ESM)**  
*Permanent “protective mechanism”*

**European Financial Stability Facility (EFSF)**  
*Temporary “rescue package”*