



Lessons from the euro crisis

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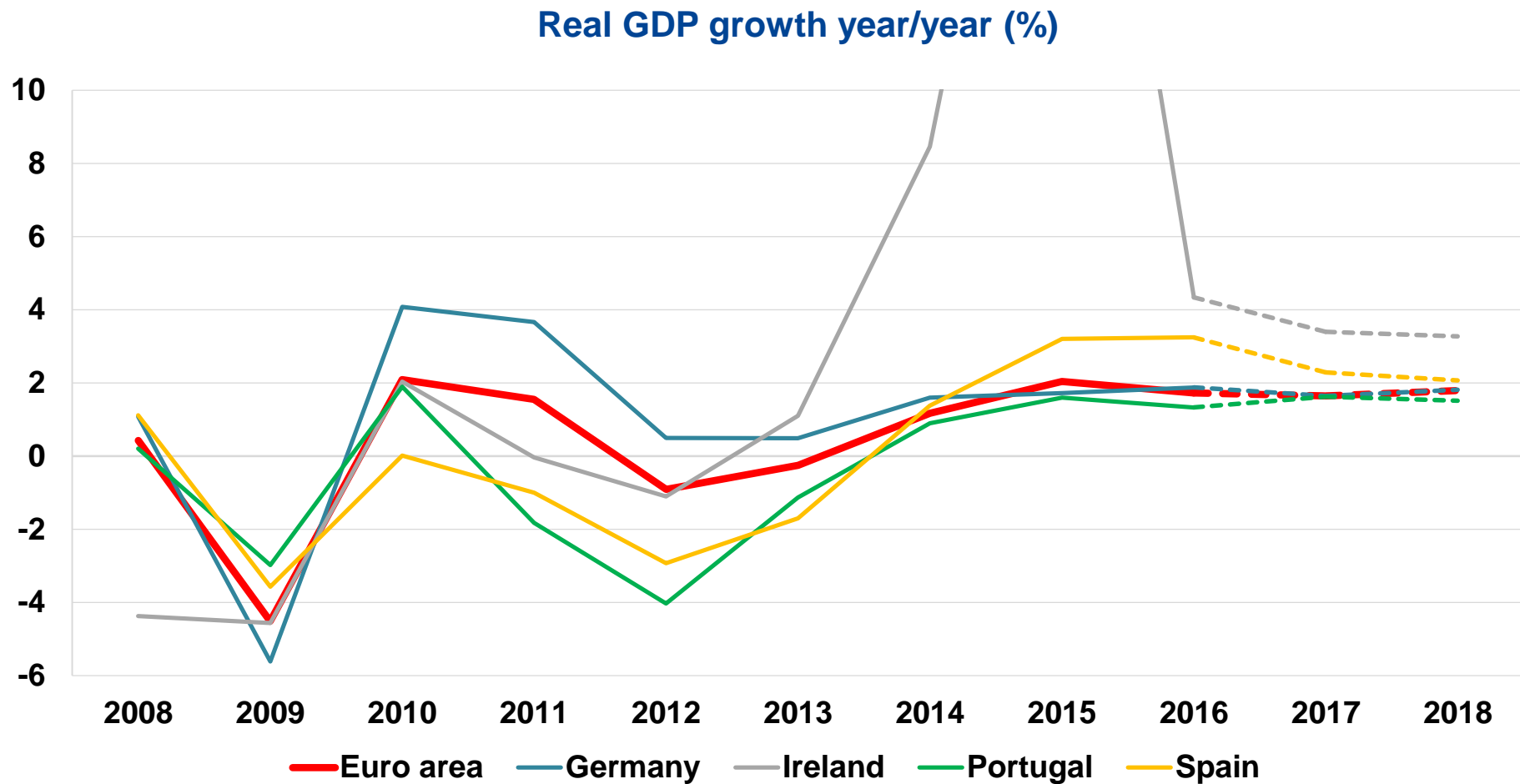
The European economy after the crisis

- 1. A comprehensive crisis response brought the euro area back to**
 - equitable growth
 - more balanced macro-economic position
 - safer banks
- 2. Overcoming legacies takes persistent efforts – more work needed**
 - Unemployment
 - Investment and productivity
 - Financial legacy assets
- 3. Making the euro area more robust – better risk-sharing**
- 4. Why populists are wrong about the euro area**

1. Europe's comprehensive response to the crisis

- **Budget consolidation and structural reform in euro area countries**
- **Accommodative monetary policy, including unconventional measures**
- **Closer economic policy coordination in the currency union**
- **Strengthening the banking system**
- **Firewalls against the crisis: EFSF and ESM**

1. Growth in Europe: back to normal

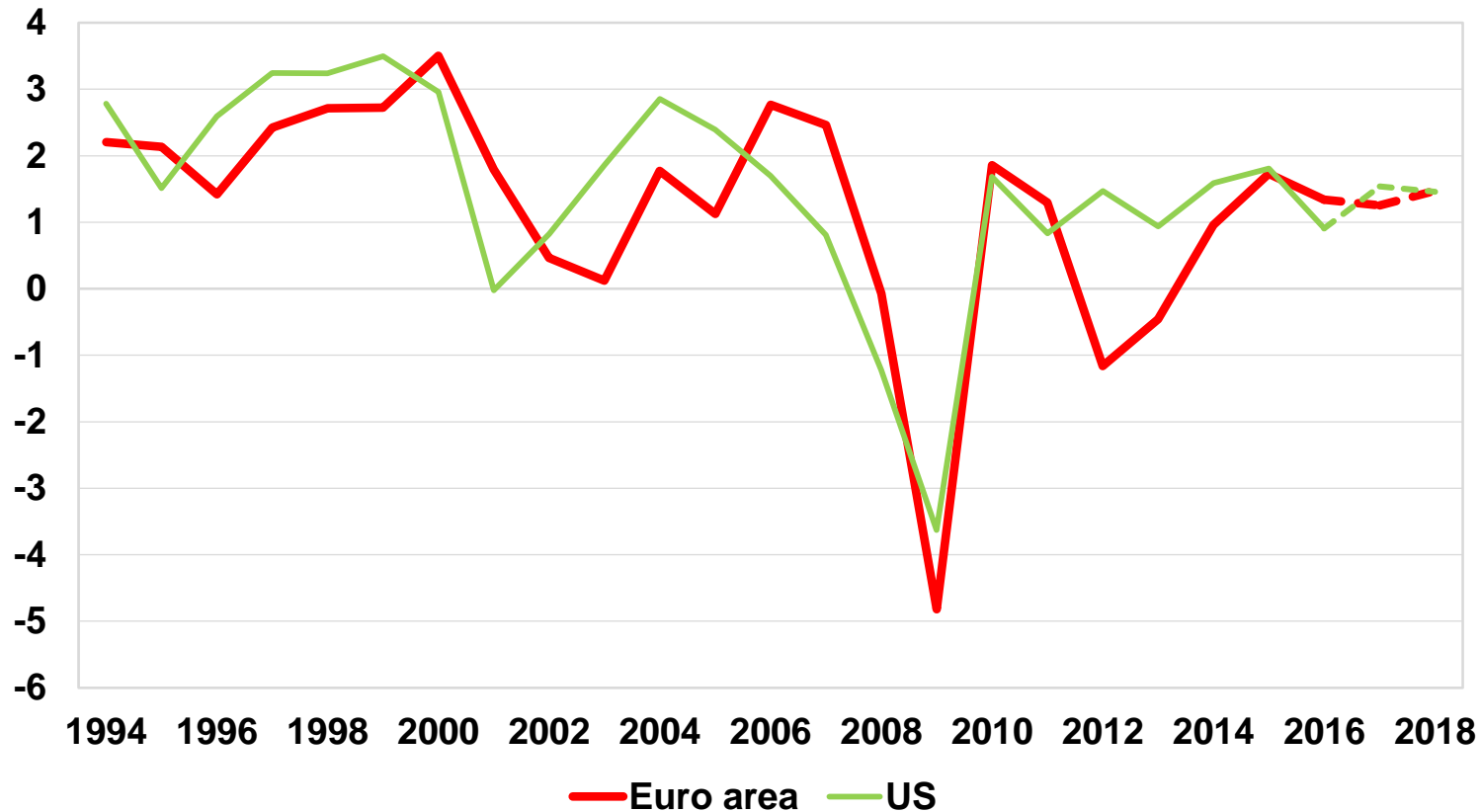


Note: Figure for Ireland in 2015: 26.3%

Source: EC European Economic Forecast – Winter 2017

1. Growth in Europe is moving in line with the U.S. again

Per capita growth in US and EU is very similar



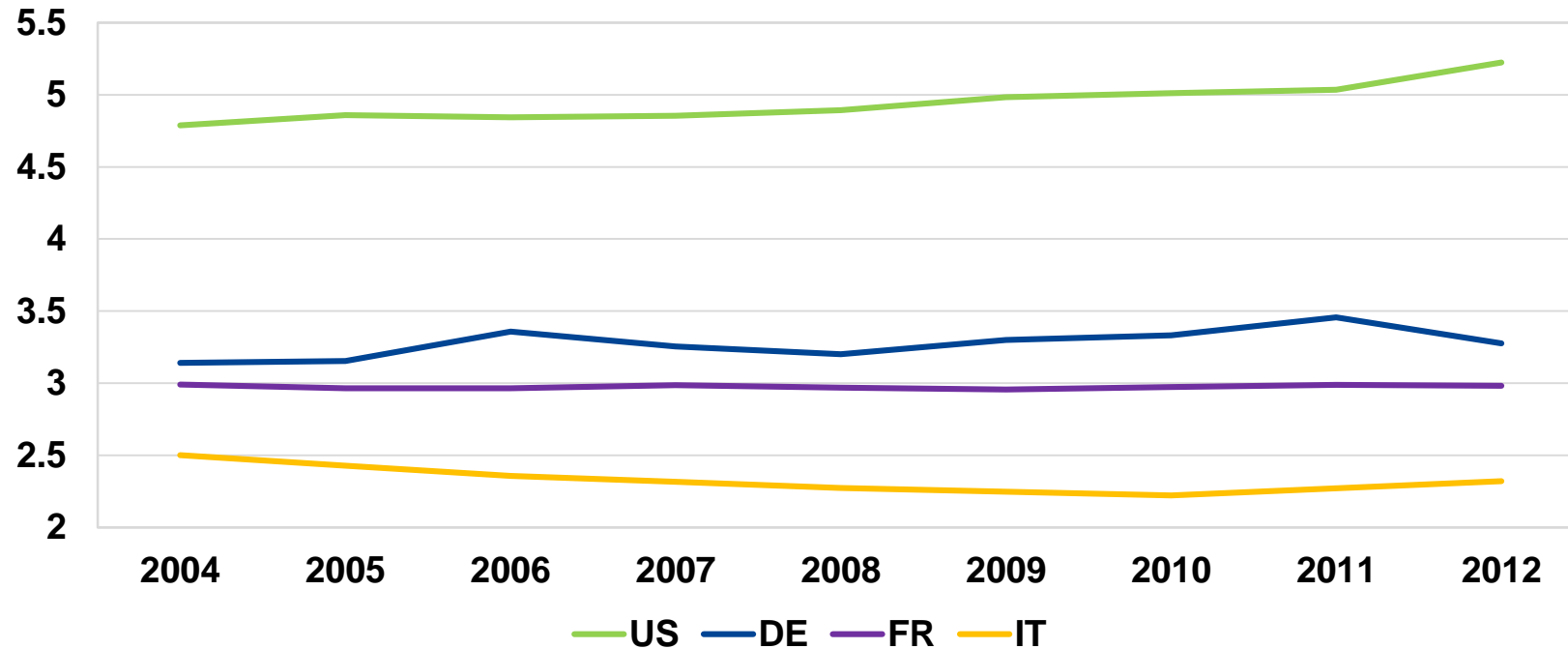
Average GDP growth per capita, 1999-2008

| | |
|-----------|------|
| euro area | 1.6% |
| US | 1.6% |

Source: EC European Economic Forecast – Winter 2017

...but income equality in Europe is much greater than in the U.S.

Ratio of highest 10% earners vs lowest 10% earners in US and European countries

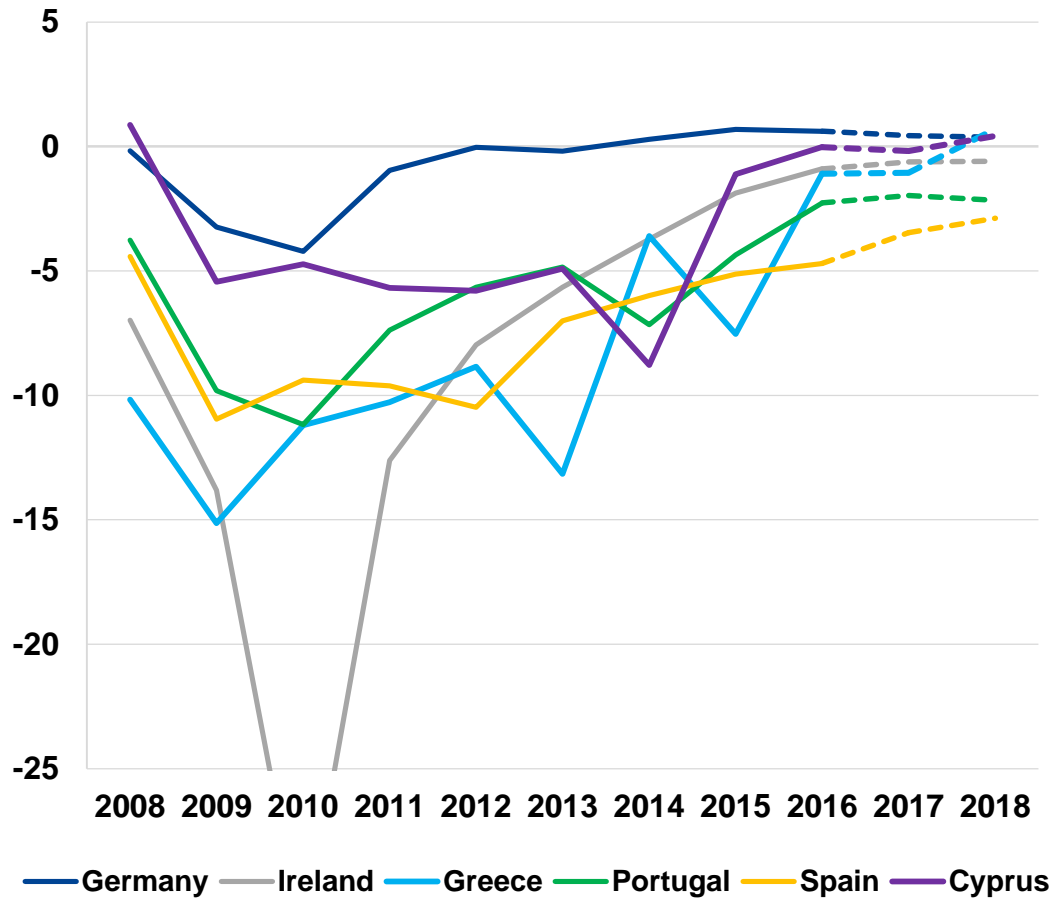


Note: Gross earnings of full-time dependent employees

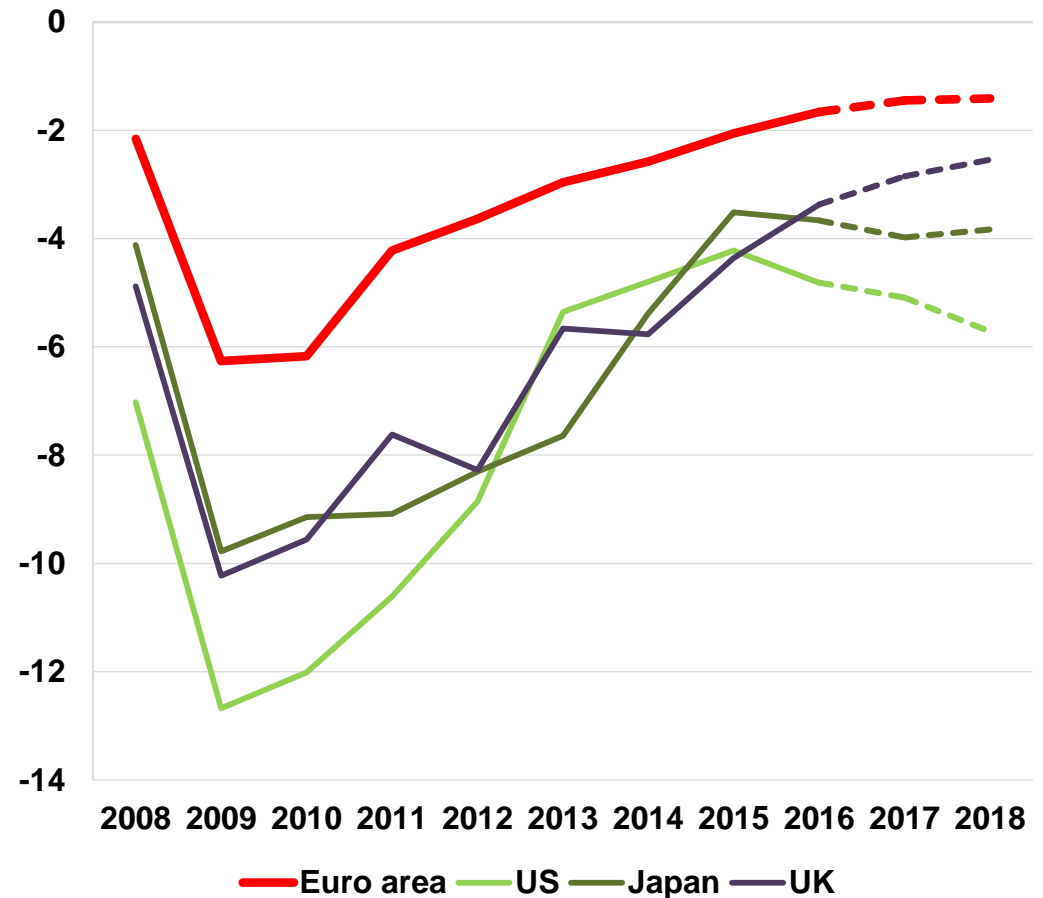
Source: OECD

1. Fiscal deficits are shrinking

Government balance in programme countries (% of GDP)



Selected government balances (% of GDP)

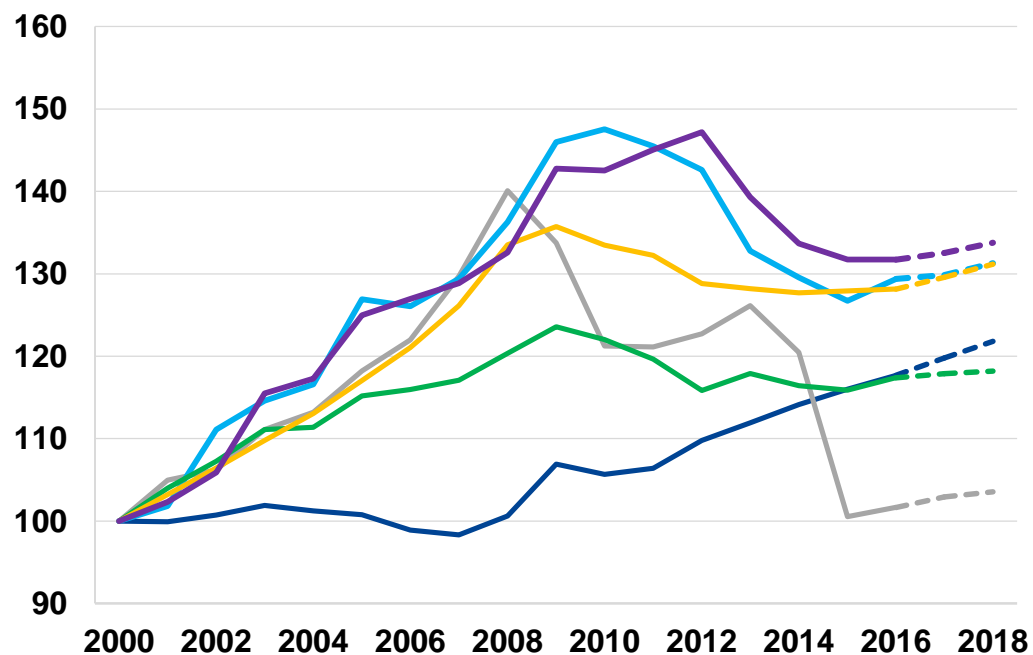


Note: Government balance for Ireland in 2010: -32.4%
 Source: European Commission Economic Forecast – Winter 2017

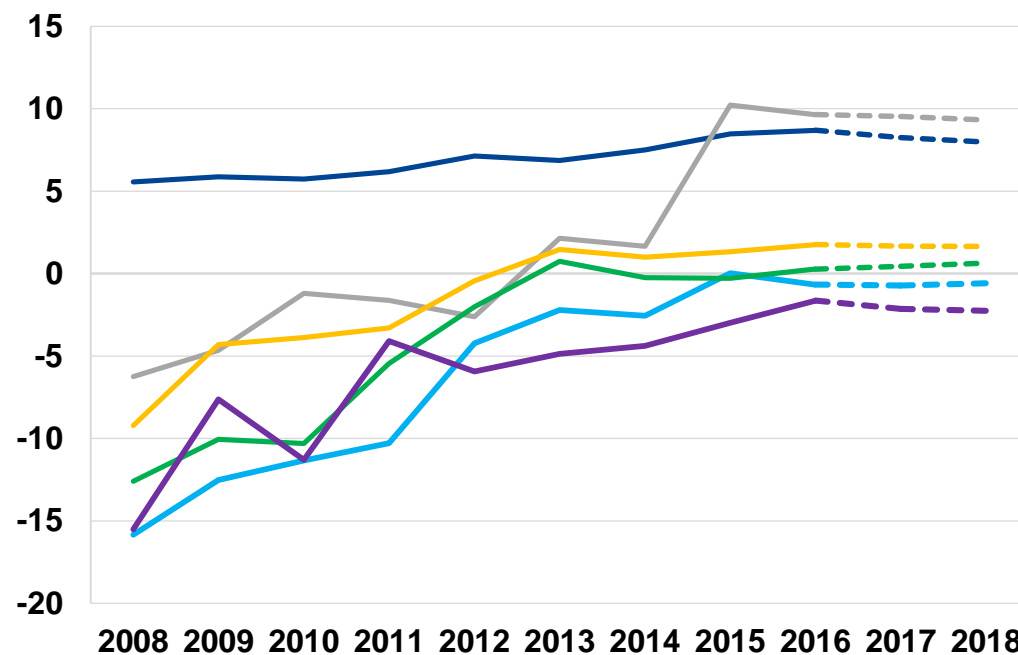
1. Competitiveness is improving

- Thanks to the convergence in competitiveness, external imbalances in the periphery have disappeared

Nominal unit labour costs (2000=100)



Current account balance (% of GDP)



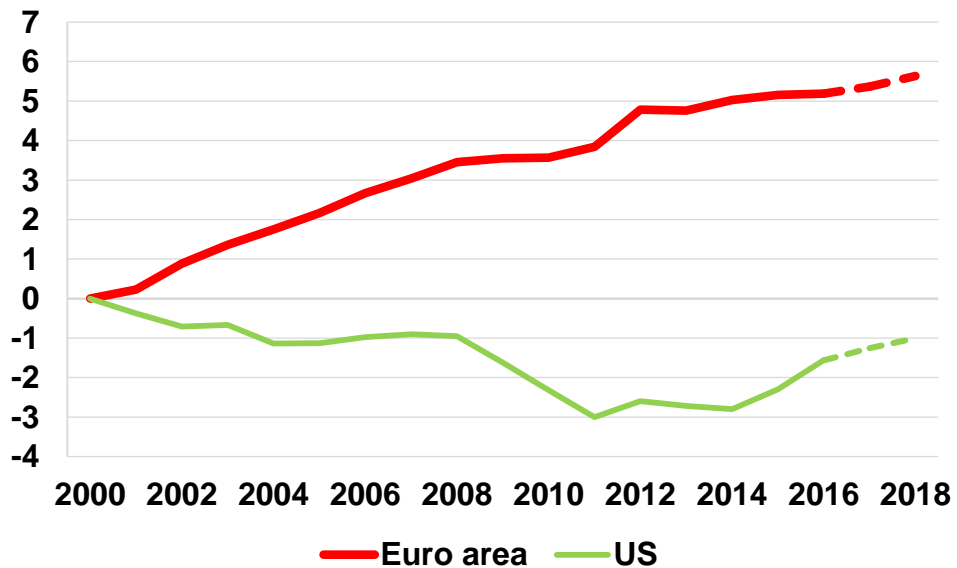
— Germany — Ireland — Greece
— Portugal — Spain — Cyprus

Source: EC European Economic Forecast – Winter 2017

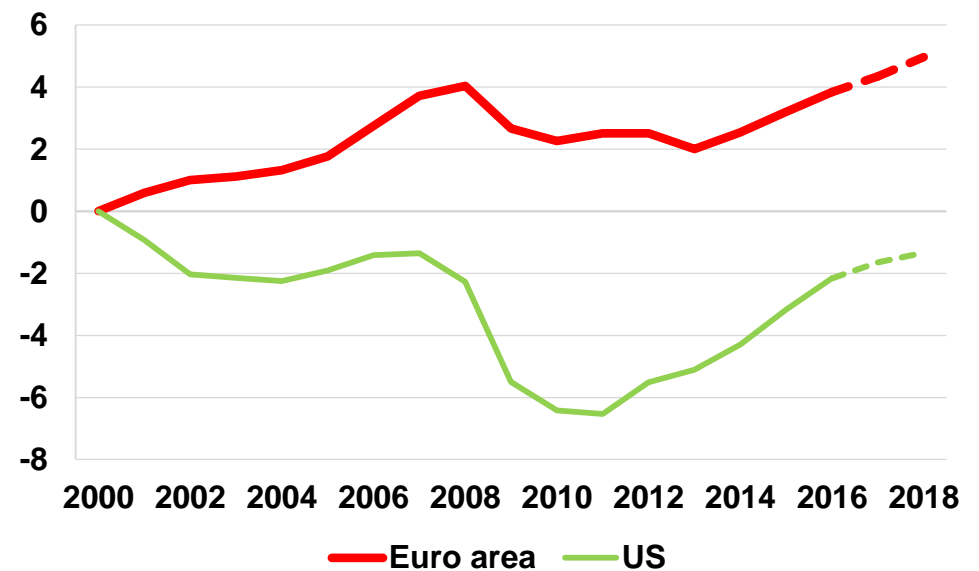
1. Employment in Europe better than recognized

- Unlike in previous crises, participation and employment rate did not fall in Europe

Participation rate (p.p. change)



Employment rate (p.p. change)

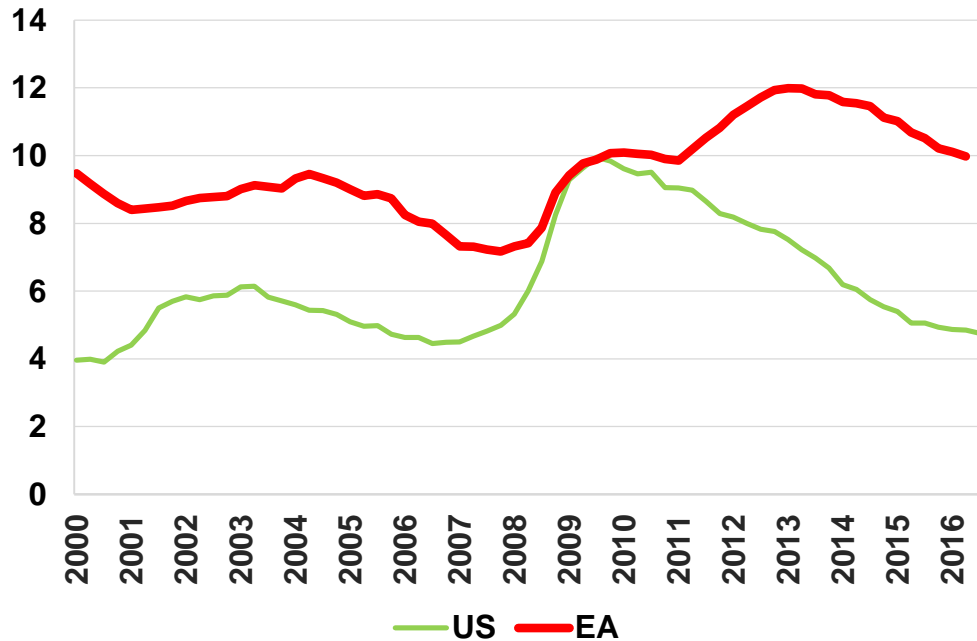


Cumulative percentage point change since 2000
Age group: 16-64
Source: EC European Economic Forecast – Winter 2017

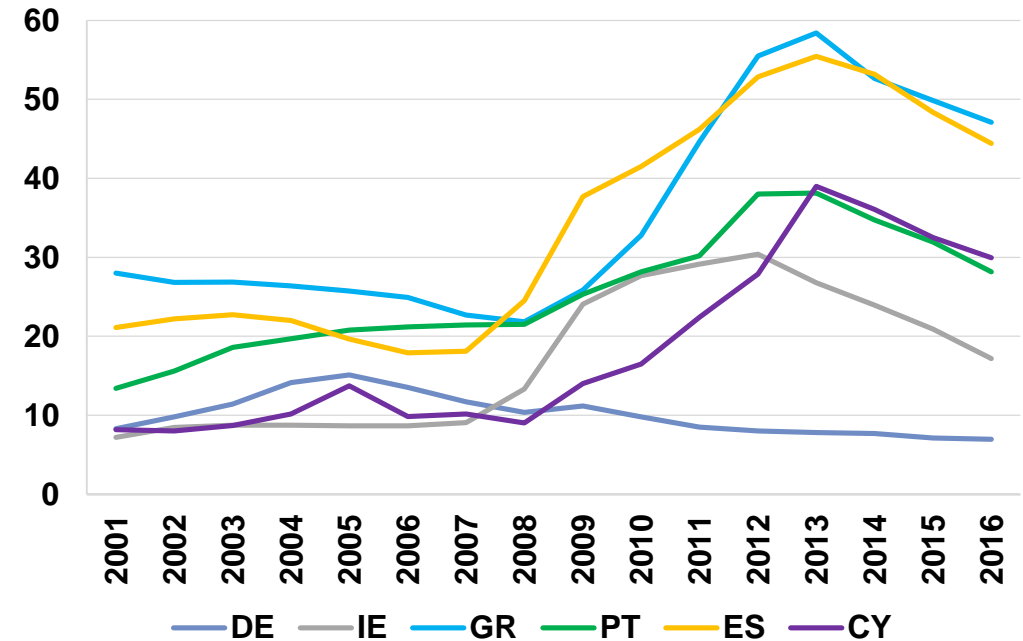
2. Youth unemployment still unacceptably high

- Unemployment rate still above pre-crisis levels
- High youth unemployment particularly concerning

Unemployment rate (%)



Unemployment rate under 25 (%)

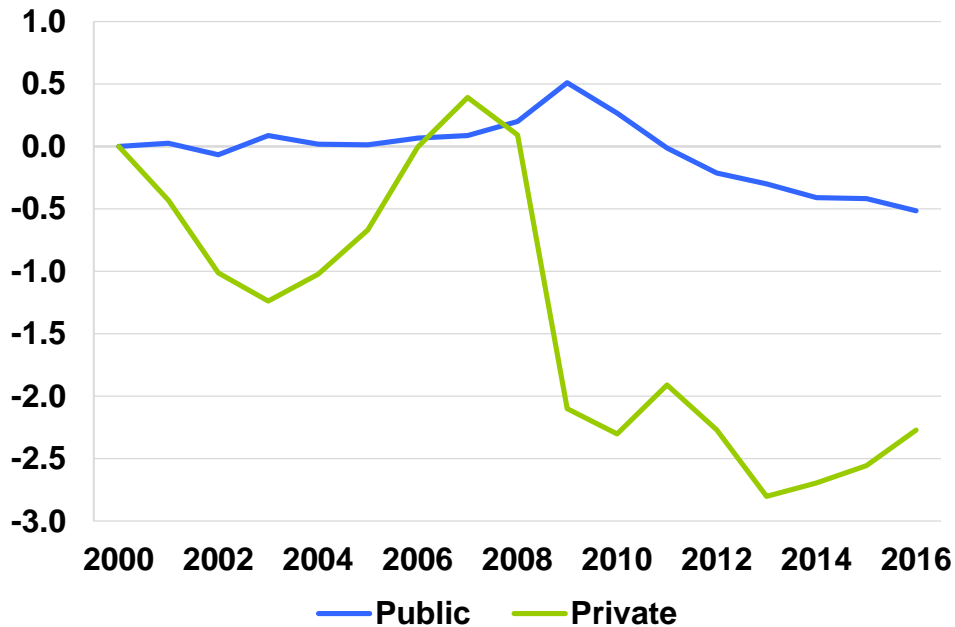


Source: Eurostat

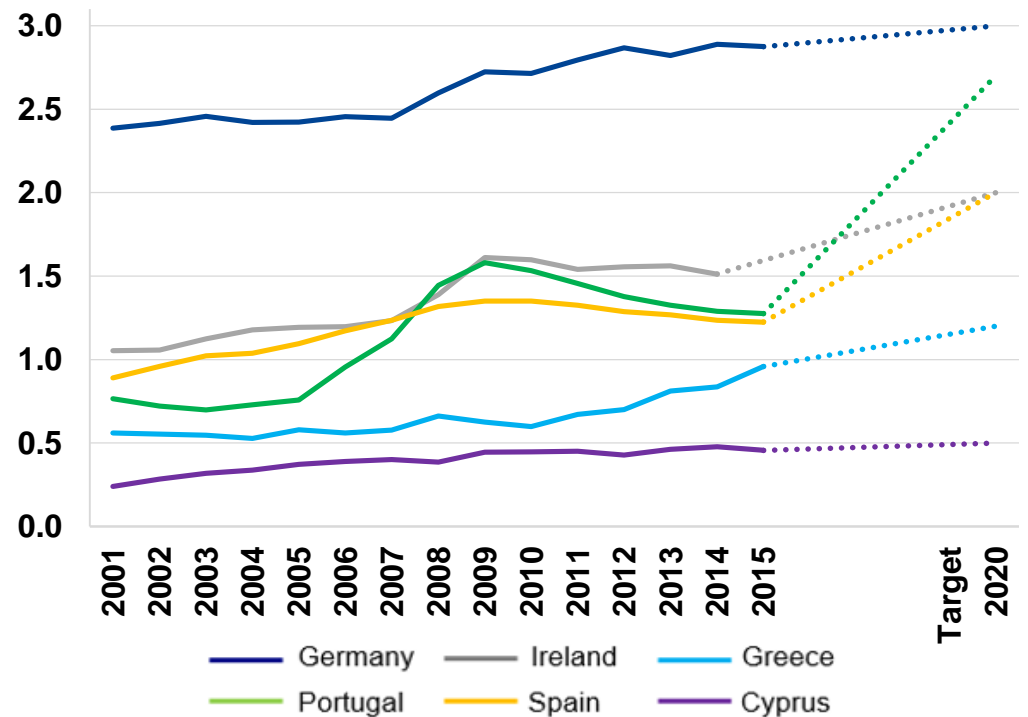
2. The investment gap after the crisis

- Investment critical for both recovery and long-term growth
- Both public and private investment stay below pre-crisis levels

Euro area: public and private investment
(% GDP, cum. p.p. change since 2000)

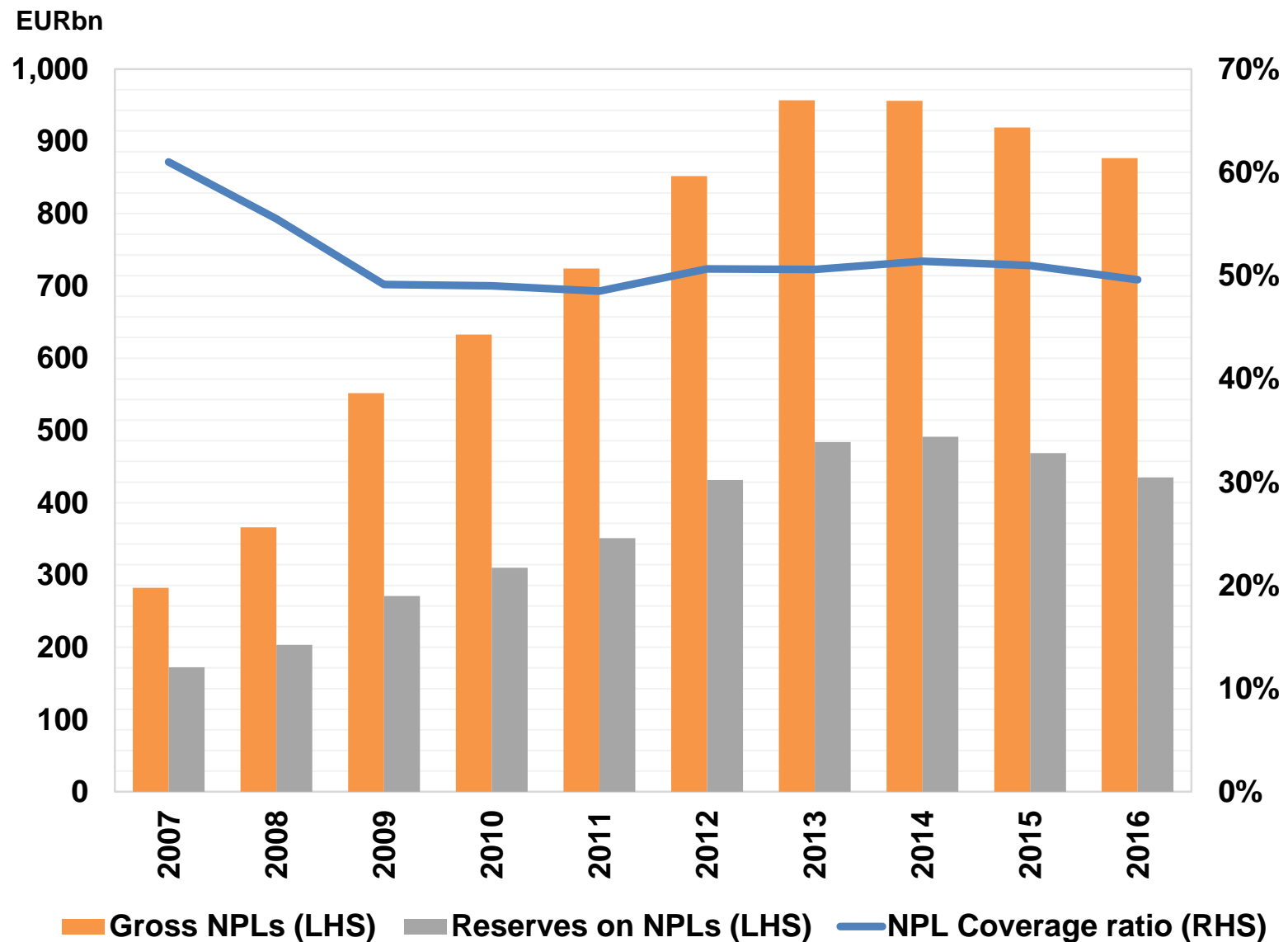


Spending on R&D (% GDP)



Source: EC European Economic Forecast – Winter 2017

2. Europe: Non-Performing Loans are stalling at a high level...



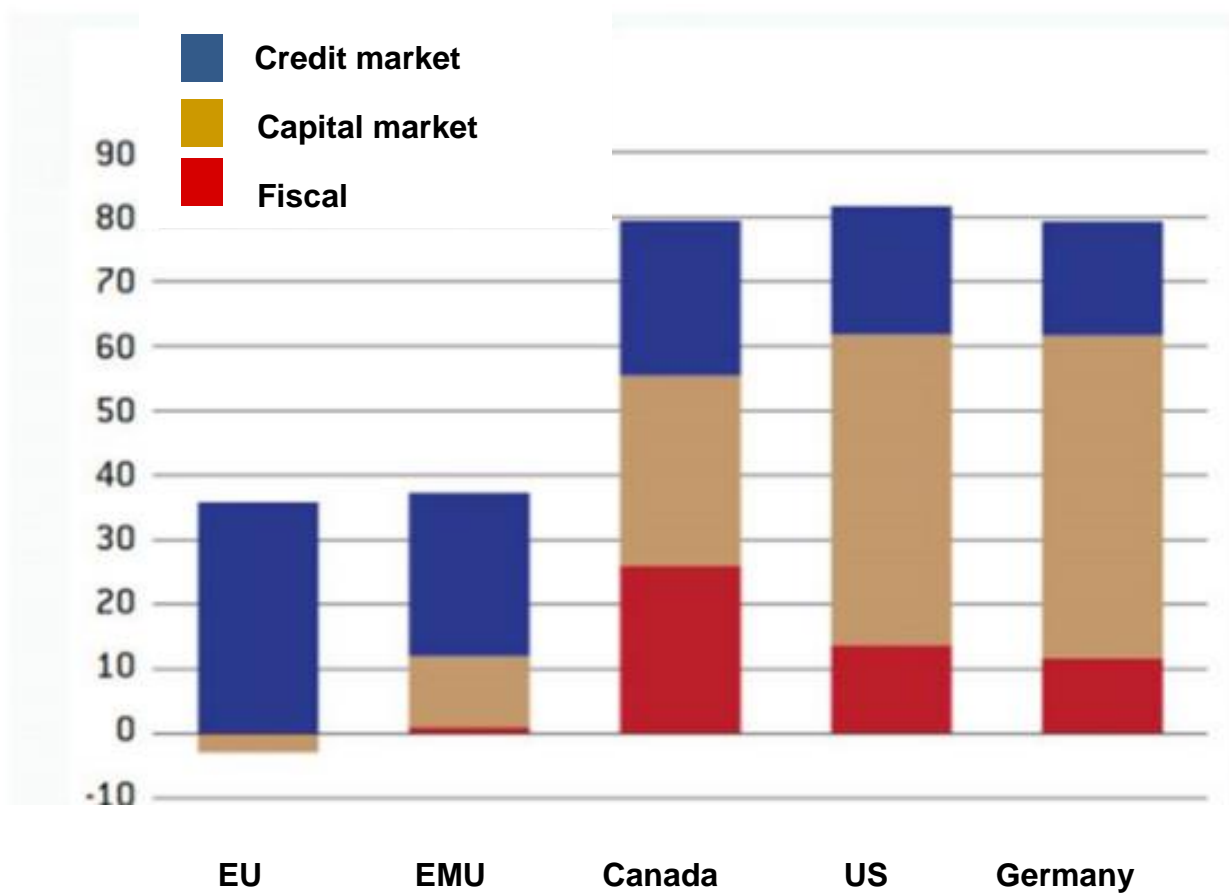
3. How to make the euro more robust

- **No full Fiscal Union needed**
- **No full Political Union needed**
- **Complete Banking Union**
 - European Deposit Insurance
 - Backstop for the SRF
- **Capital Markets Union**
 - To facilitate private sector efforts for financial integration
 - More capital flows, more risk sharing
 - Address taxation, insolvency and company law issues
- **Fiscal Union**
 - Limited fiscal capacity for the euro area

Risk sharing is underdeveloped in the EU and euro area

- Economic risk sharing in the euro area is lagging behind the US

Percentage of shock smoothed by different channels



4. Why populists are wrong about the euro area

Myth #1: Euro area is underperforming

- Euro area is doing better than generally recognised – per-capita growth close to the US, more equal income distribution, overcoming imbalances and making banks safer

Myth #2: Euro area too rigid to respond to policy challenges

- Remarkable achievements over the crisis: SGP reform, banking union, country programmes all agreed jointly around one table – historically unprecedented success

Myth #3: Euro area is flawed and source of the crisis

- Diversity in income is not an issue. Imbalances due to policy mistakes caused the crisis, not the euro. But imbalances were successfully addressed within monetary union.

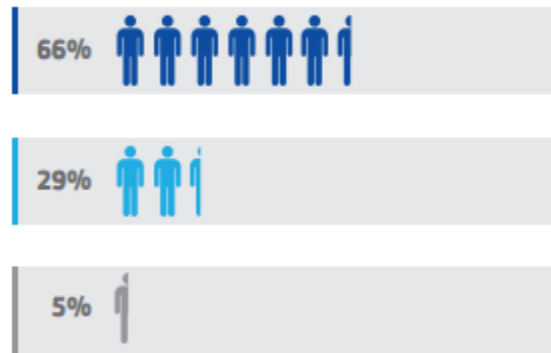
Myth #4: Euro area countries can do better when exiting

- Leaving the euro area would only make people poorer, not richer if the fundamental problems of a country are not resolved

5. How do Europeans see the EU?

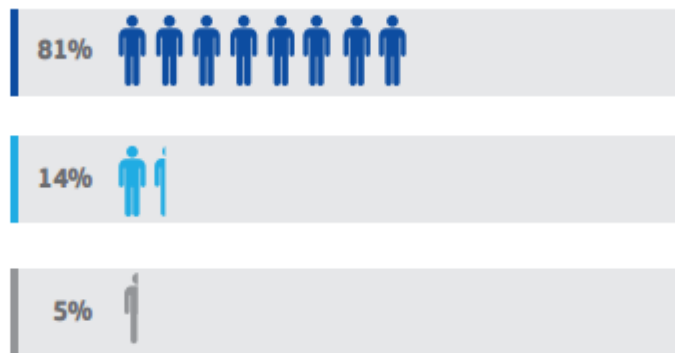
EU as a place of stability

■ Total 'Agree' ■ Don't know
■ Total 'Disagree'



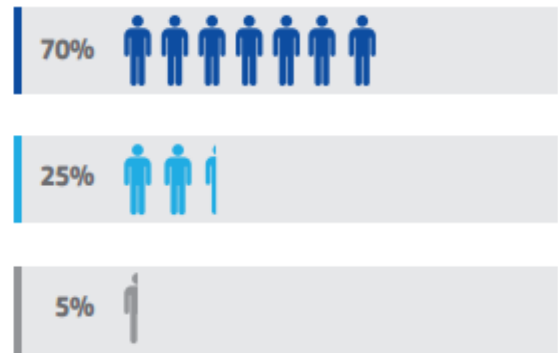
Support for the EU four freedoms

■ For ■ Don't know
■ Against



Support for the euro

■ For (euro area) ■ Don't know
■ Against (euro area)



Source: Eurobarometer, October and November 2016, EU28

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