

# **Why further eurozone integration could hurt Europe's competitiveness**



# Europe's four crises



# The role of the euro

- The crisis started in the US

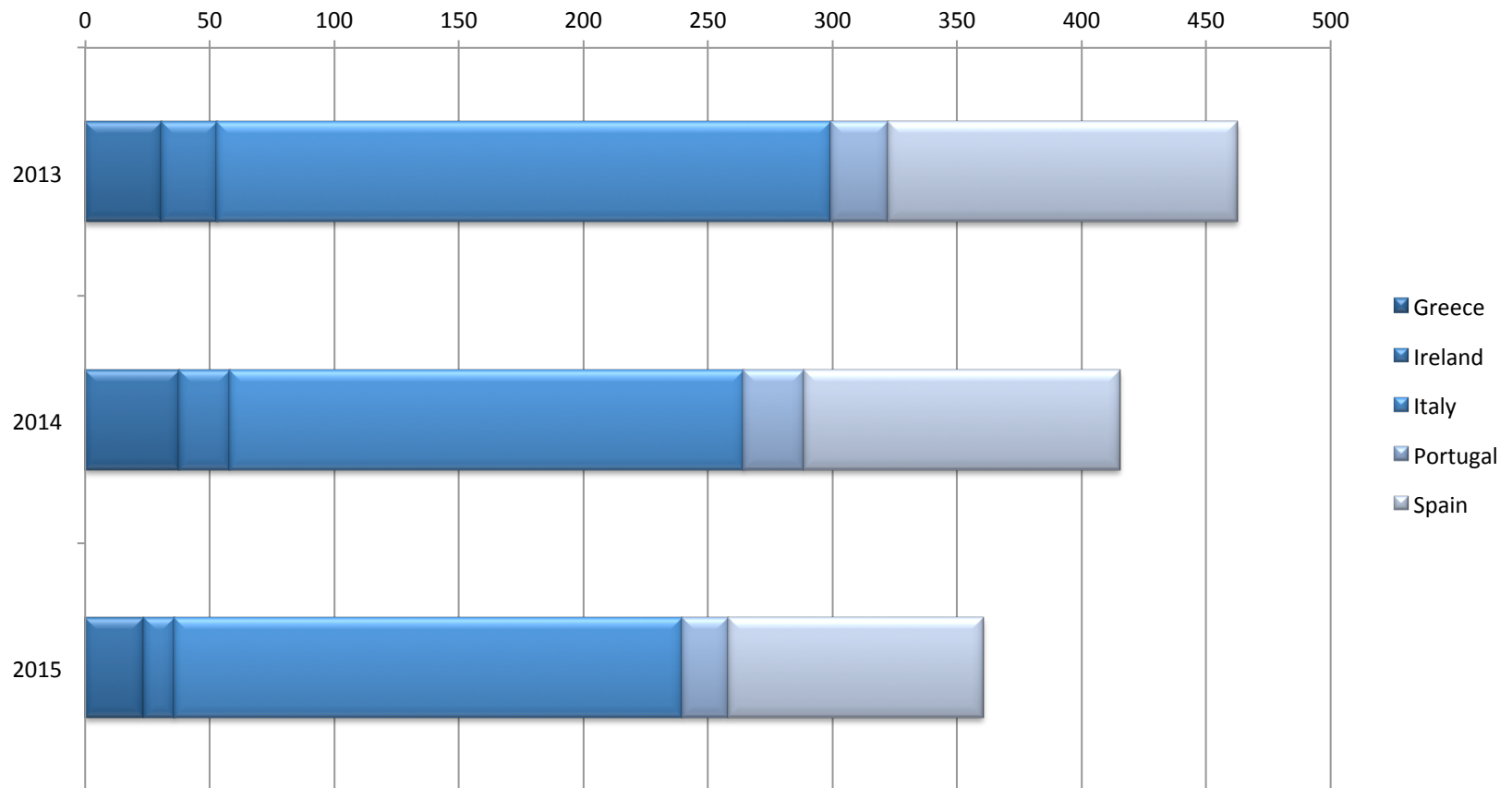
but...

- ...the euro locked it in:
  - One-size-fits-all interest rates
  - Perverse incentives
  - Exposed tremendous imbalances
  - Political stalemate

## Debt levels in the eurozone (% GDP)

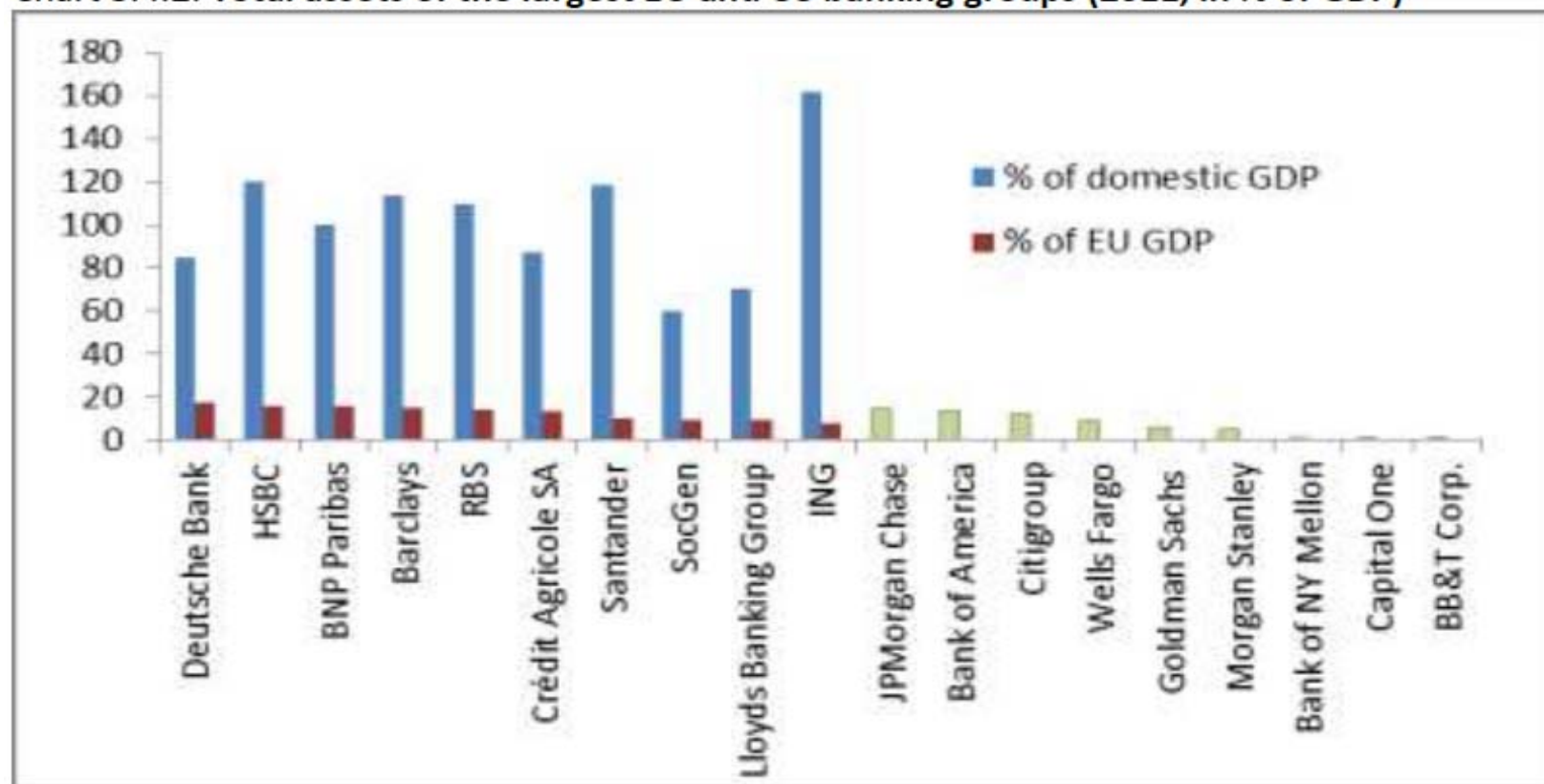
		General Government			Households		Nonfinancial Firms		Financial Institutions			External Liabilities		
		Gross debt <sup>2</sup>	Net debt <sup>2,3</sup>	Primary balance <sup>2</sup>	Gross debt <sup>4</sup>	Net debt <sup>4,5</sup>	Gross debt <sup>4</sup>	Debt over equity (percent)	Gross debt <sup>4</sup>	Bank leverage <sup>6</sup>	Bank claims on public sector <sup>4</sup>	Gross <sup>4,7</sup>	Net <sup>4,7</sup>	Government debt held abroad <sup>8</sup>
Euro area	Greece	171	n.a.	-1.7	69	-58	73	235	40	n.a.	13	204	96	95
	Ireland	118	103	-4.4	117	-74	289	109	706	8.3	28	1,750	99	71
	Italy	126	103	2.6	51	-174	114	138	105	5.2	38	146	24	46
	Portugal	119	113	-0.7	104	-125	158	154	59	4.5	24	285	108	64
	Spain	91	79	-4.5	87	-74	186	143	115	4.9	35	225	92	25
	Belgium	99	83	0.1	55	-202	186	52	123	n.a.	24	404	-65	57
	France	90	84	-2.2	67	-134	134	68	172	2.5	18	296	16	58
	Germany	83	58	1.4	58	-122	64	96	97	2.2	23	219	-38	51
	Euro area	94	73	-0.5	71	-130	138	107	145	n.a.	n.a.	194	12	26

# Debt crisis: Financing needs PIIGS 2013 - 2015 (€bn)



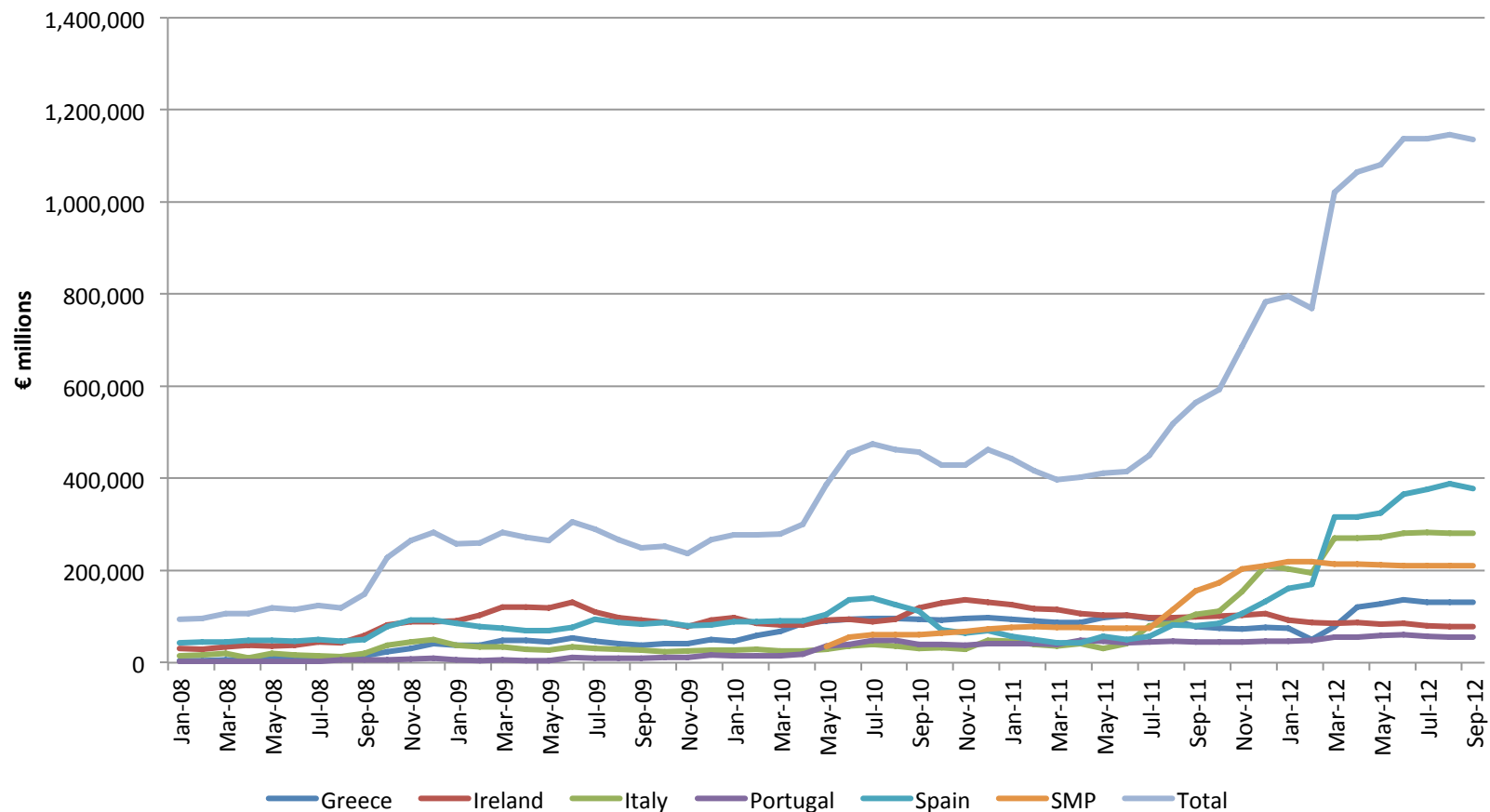
# Bank crisis: Size of banks relative to GDP

Chart 3.4.2: Total assets of the largest EU and US banking groups (2011, in % of GDP)

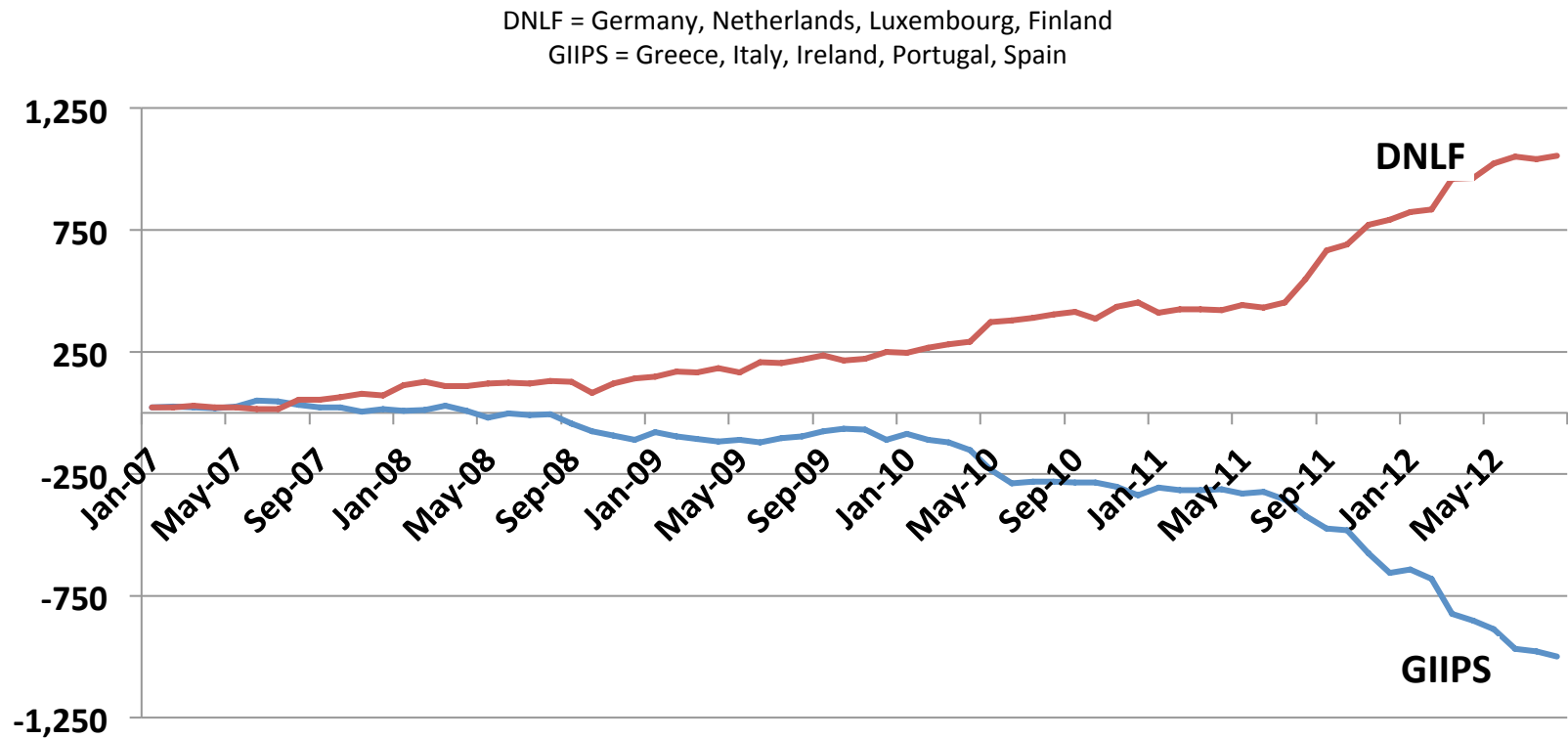


Source: Data from SNL Financial. Eurostat for GDP data.

# Banking crisis: The reliability on ECB cash

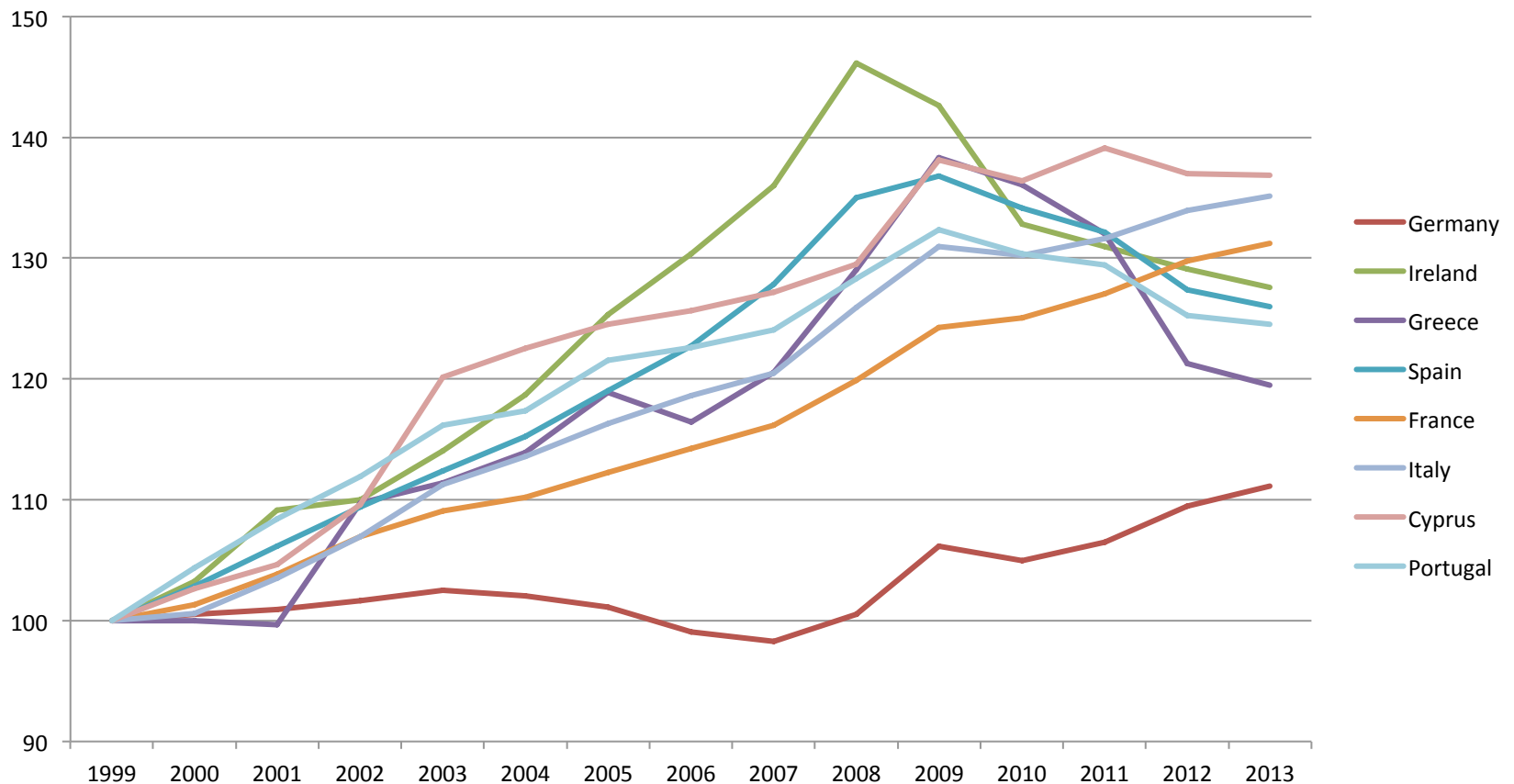


# Bank crisis / debt crisis: Net Balance within Eurosystem / Target [€bn]

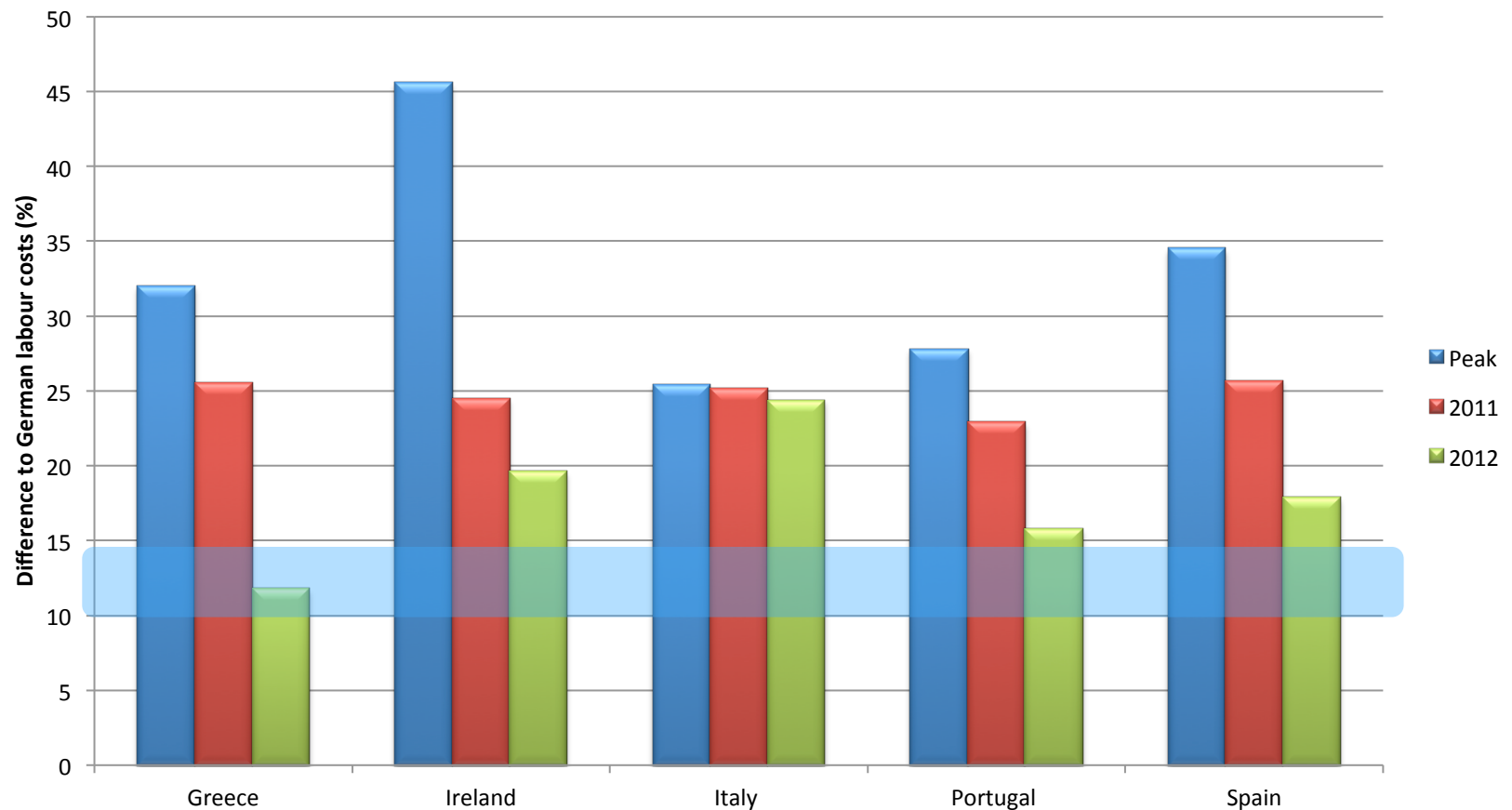




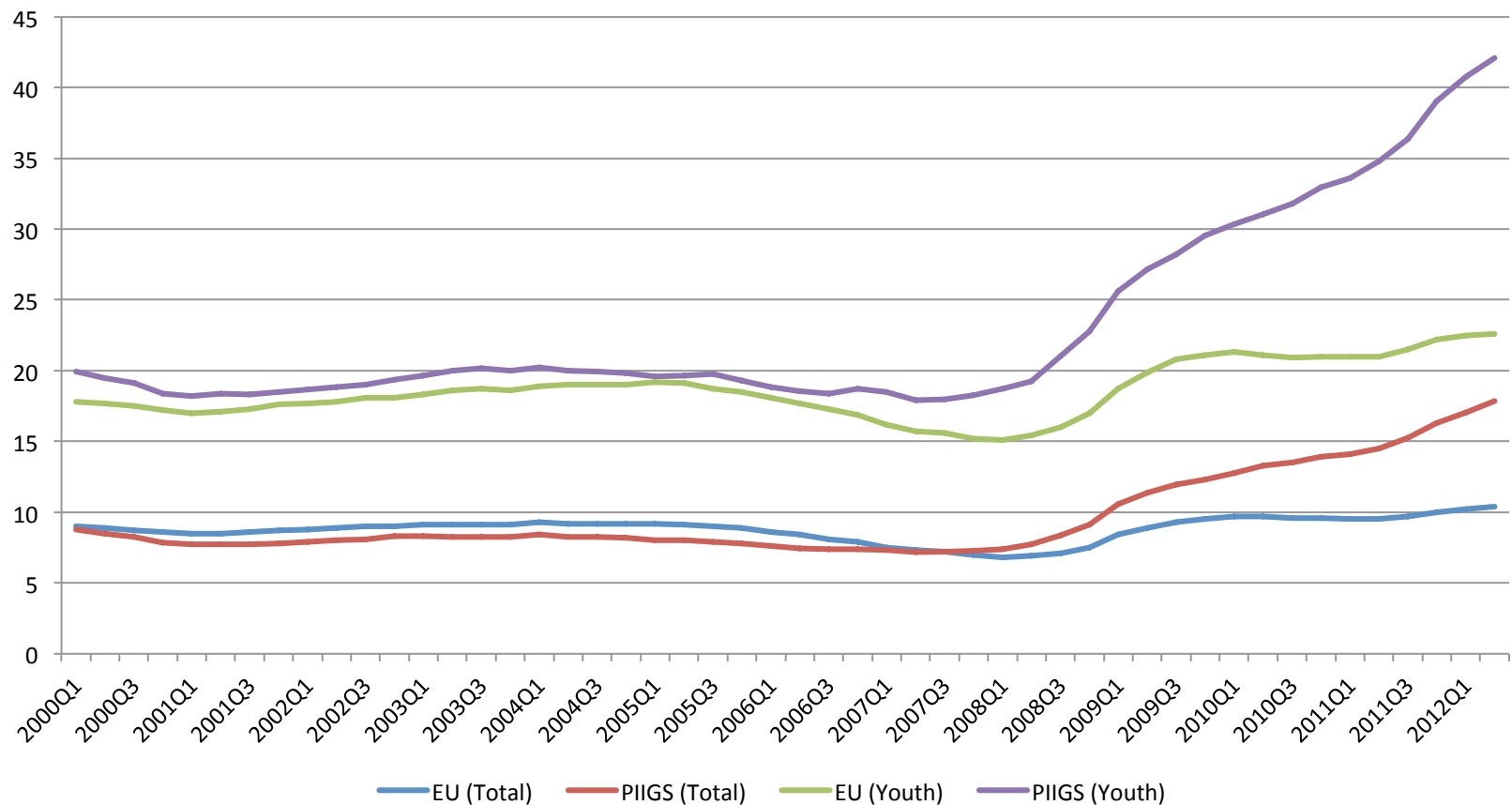
# Competitiveness: Real unit labour cost trends selected euro members (1999=100)



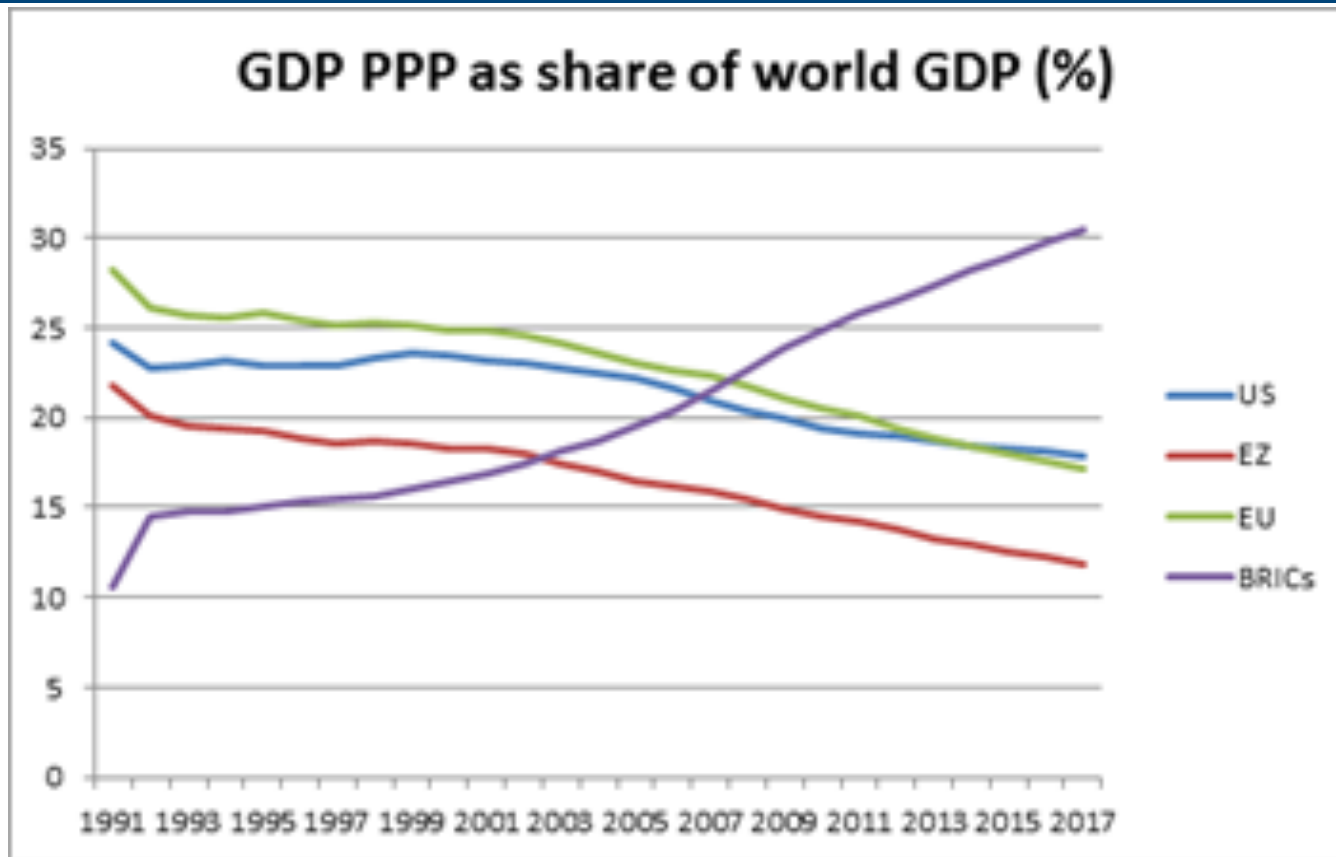
# Competitiveness: Internal devaluation



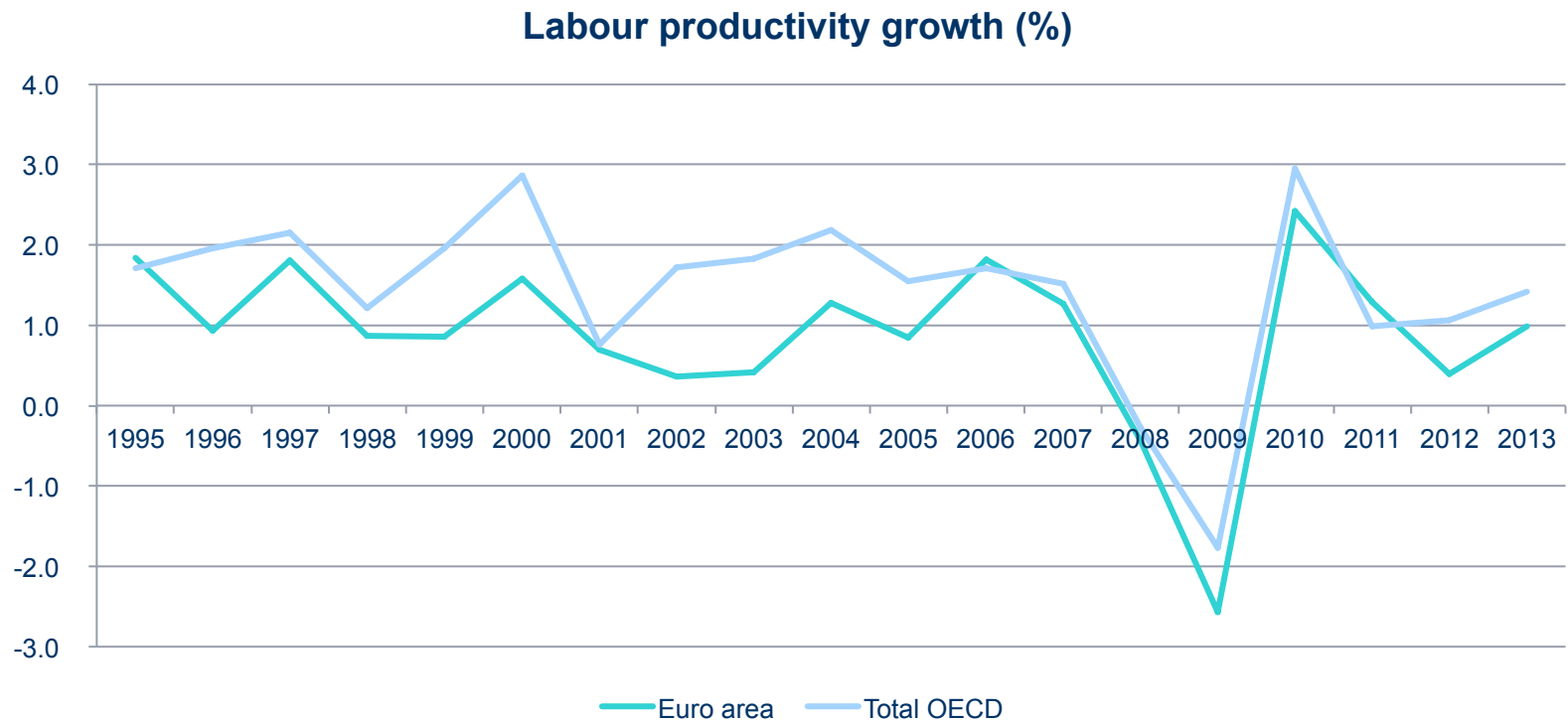
# Competitiveness: Unemployment levels (%)



# Global competitiveness



# Global competitiveness



# Is fiscal / banking union the answer?

- “Inexorable logic” of the euro?
- Joint back stop for banks (deposit guarantee scheme / resolution fund)
- Fiscal distribution (eurobonds / transfers)

# 1. Can Germany afford it?

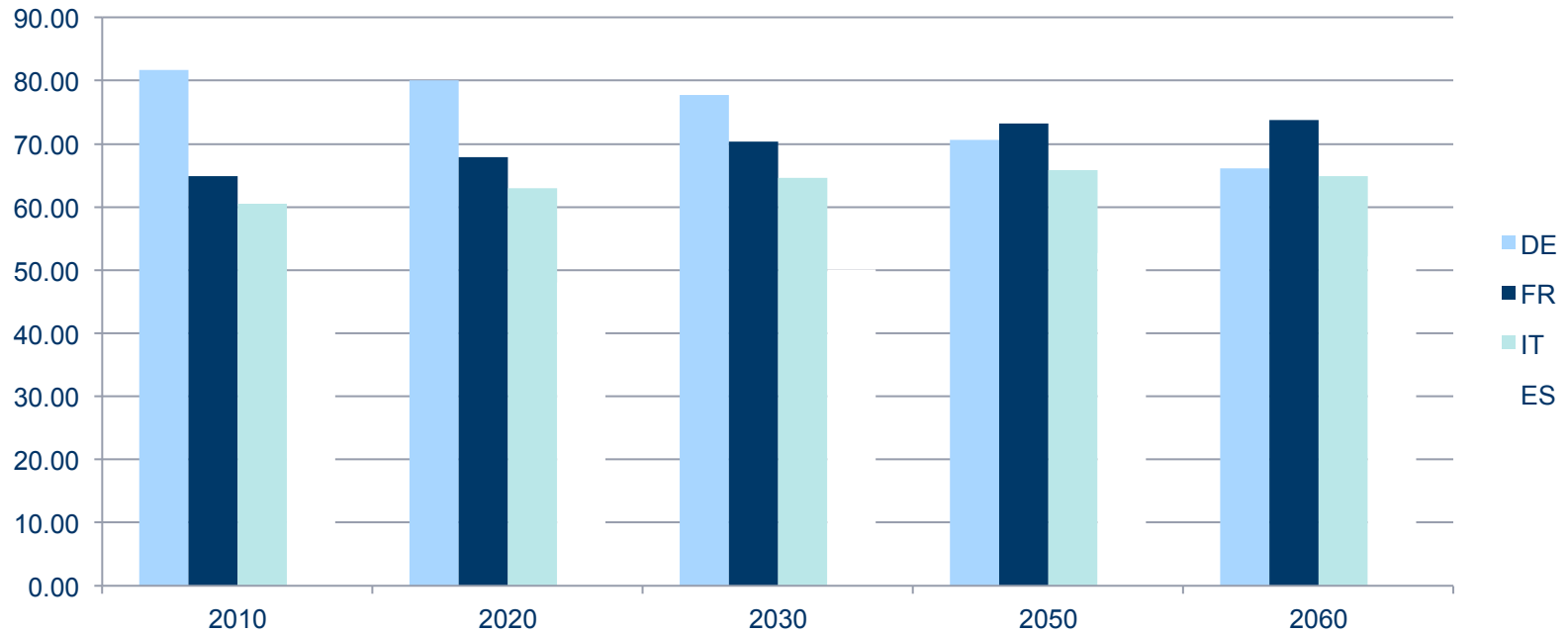
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Superman: "Easy, Miss, I've got you."

Lois Lane: "You...you've got me, who's got you?"

# Germany's demographic trends

Figure: Eurozone population projections  
selected member states 2010 - 2060 (millions)





## 2. How to avoid moral hazard in a fiscal / banking union?

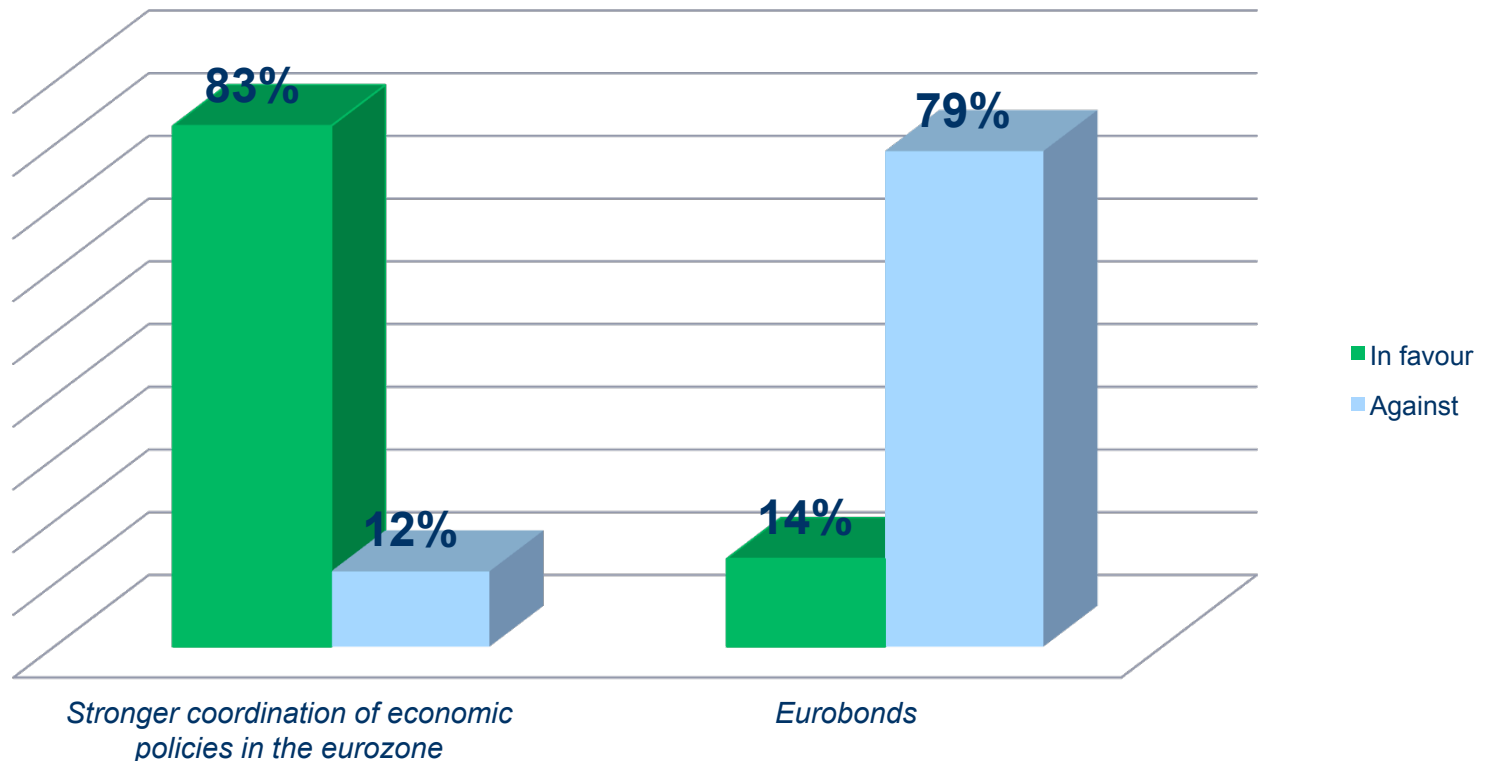
- Will it be possible to incentivise reforms in a fully fledged fiscal / banking union?
- How to avoid déjà vu?
- Berlin's answer: strict central controls

# Political crisis: 17 national democracies

- 17 national parliaments
  - Electoral cycles
  - Constitutional limitations
  - Public opinion
  - No demos
- = Massive risk of political backlash

# Support for a transferunion?

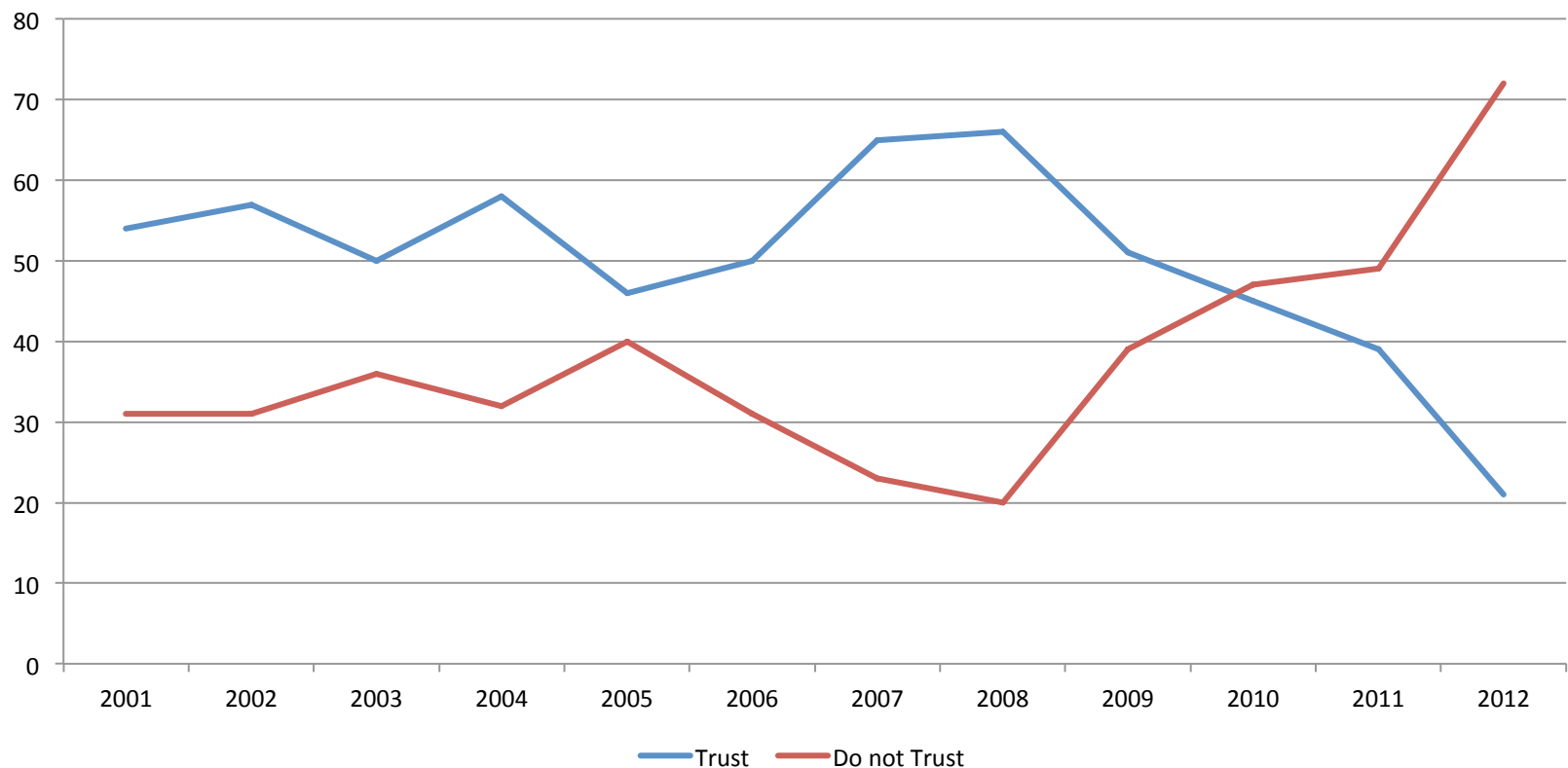
*Support for greater eurozone integration vs debt pooling  
(Germany)*



Sources: Eurobarometer/ZDF

# Support for central fiscal controls?

Do you trust the EU (Portugal, Ireland, Italy, Greece, Spain)?



# What alternatives?

- Muddle through: Cash for austerity
- Transfer-union / bank-union: Who'll be lender of last resort? Political and economic price?
- Euro break-up: Greece or more countries?