

Europe's Remaining Challenges



Dublin Economics Workshop

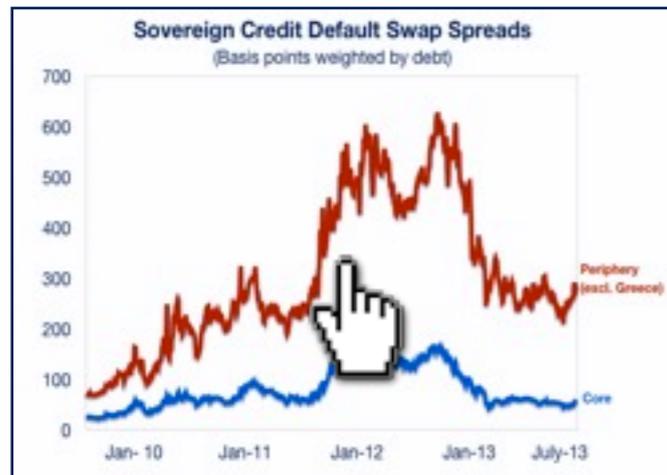
Limerick - October 19th 2013

Peter Breuer



3 Questions

Europe



What is happening?

Markets have been stabilizing and there are some signs of growth, but the recovery is still weak and fragile.

Why is this happening?

There are downdrafts from fragmentation, balance sheet weakness, fiscal drag and policy uncertainty; structural rigidities are amplifying the hit to jobs.

What should be done?

Euro area and national level policies need to tackle each of the factors listed above.





CDS Spreads

(Basis points weighted by debt)





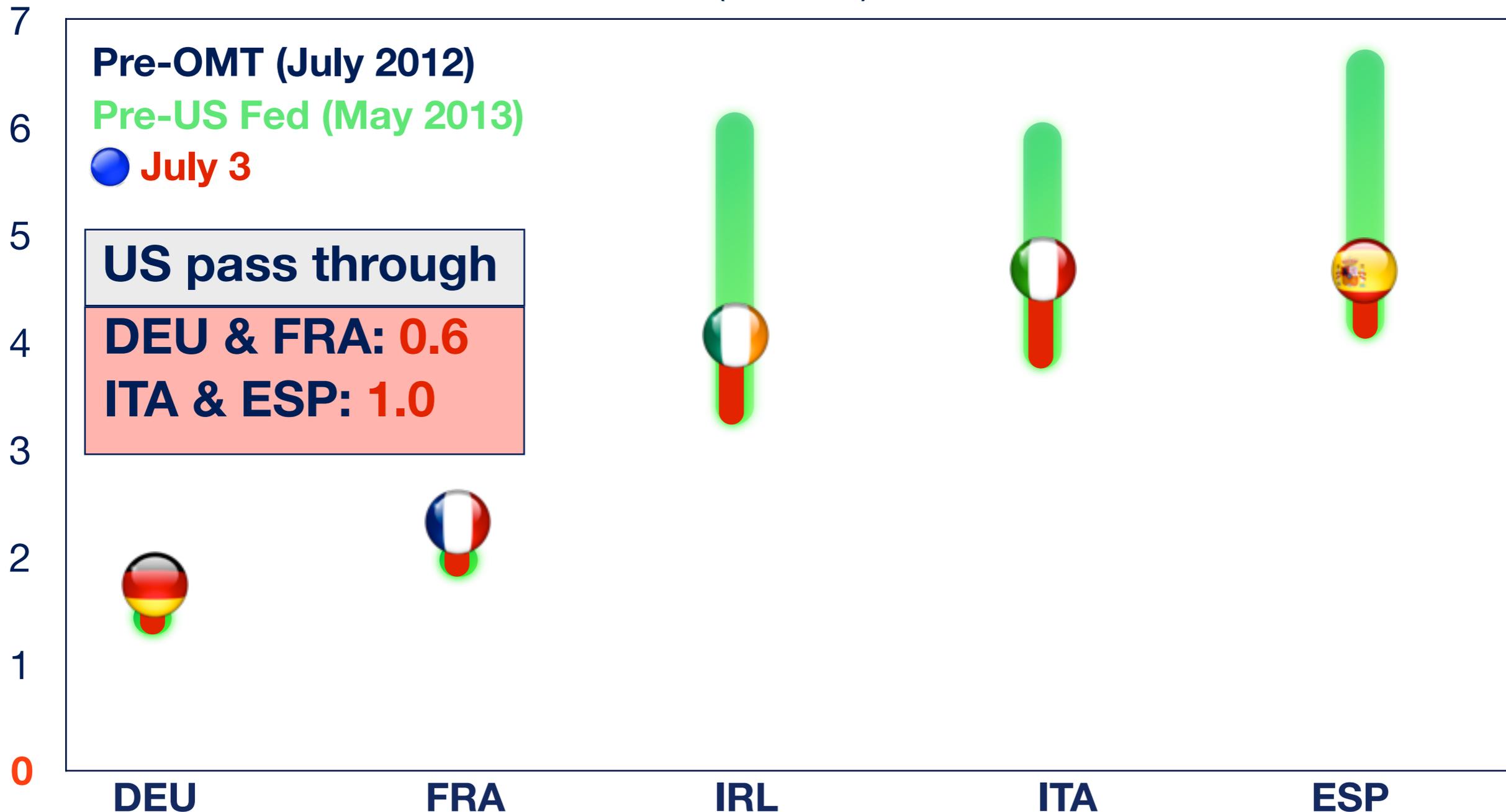
CDS Spreads

(Basis points weighted by assets)





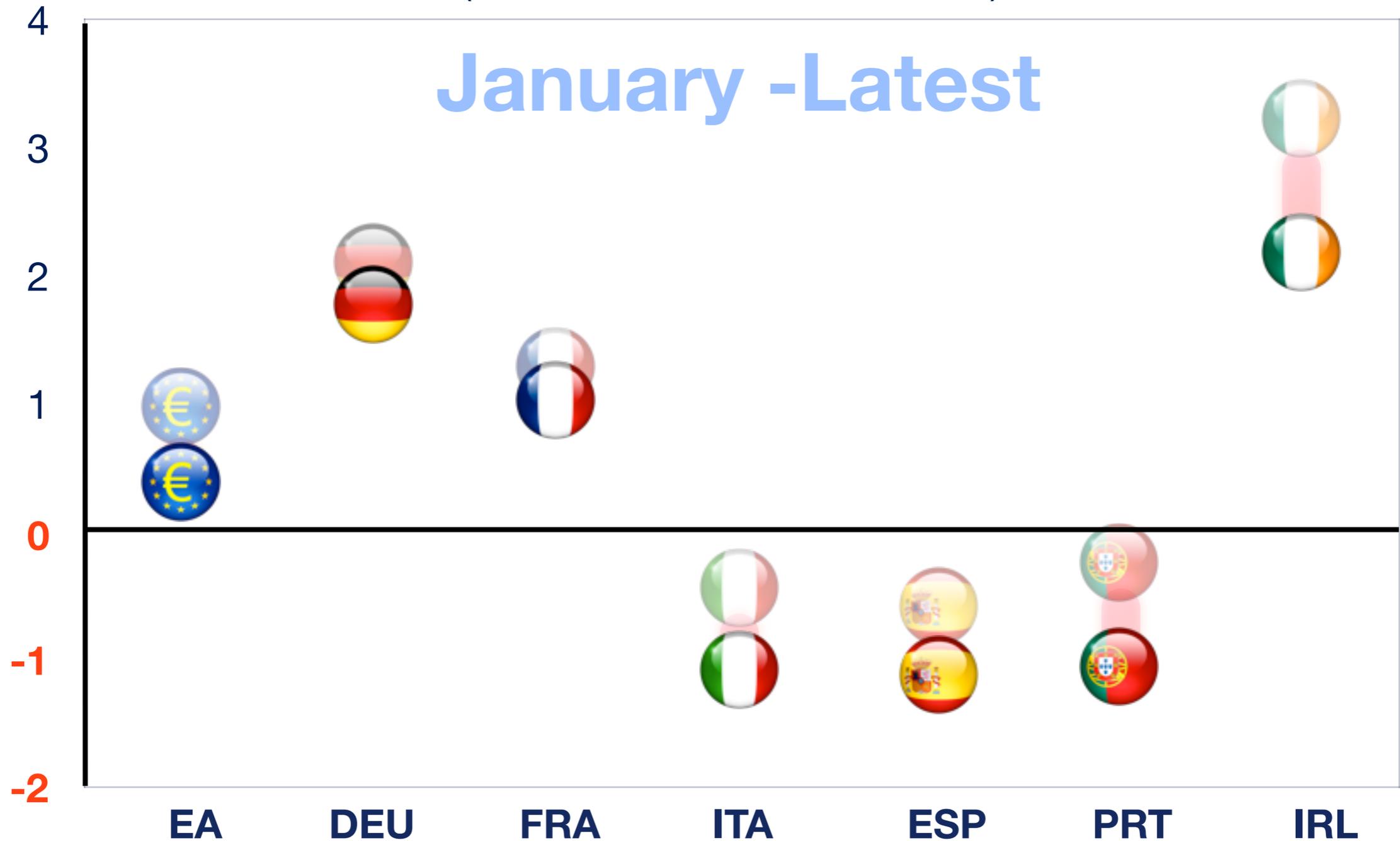
10-year Sovereign Yields (Percent)





WEO Growth Projections and Revisions

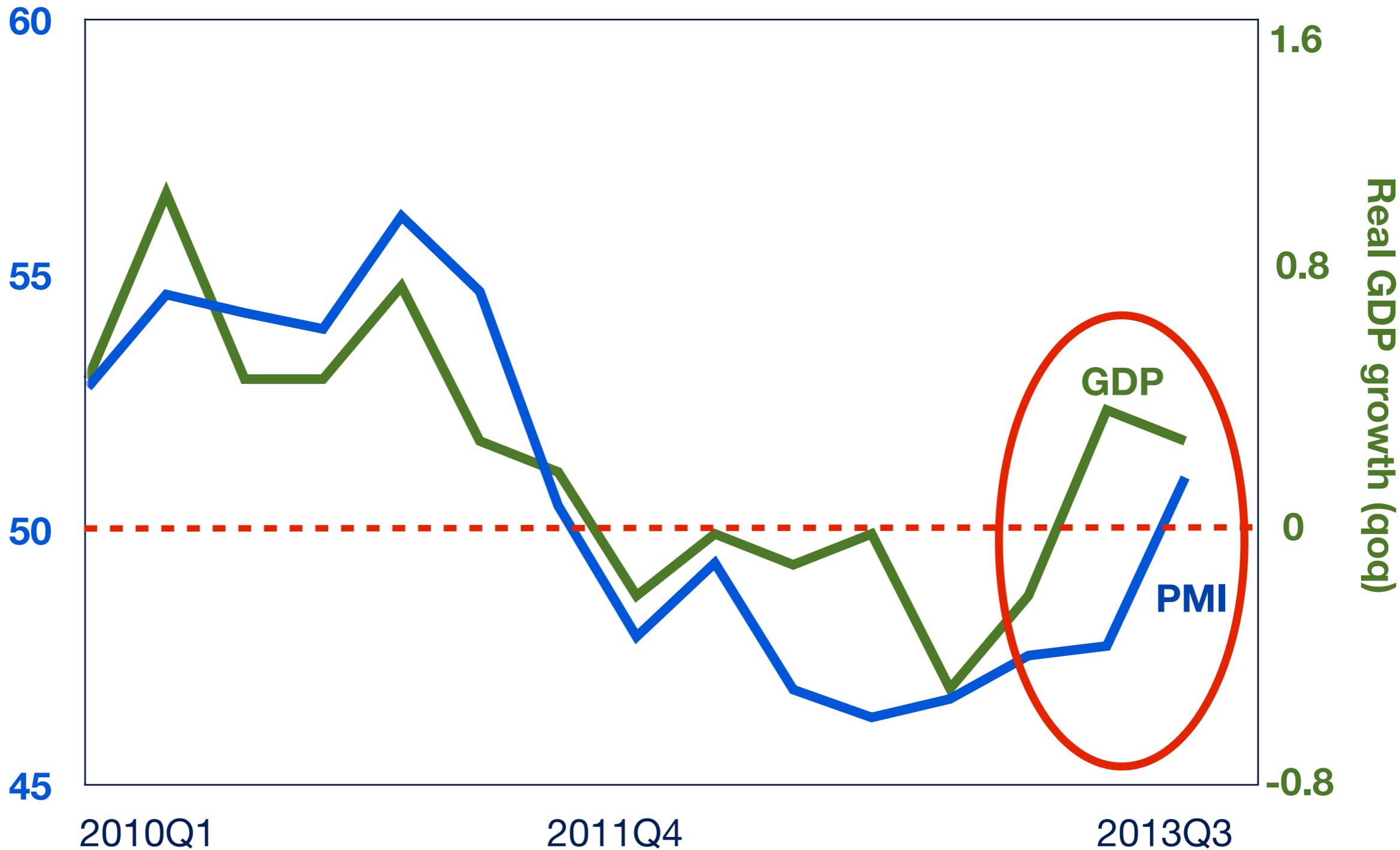
(Percent; cumulative 2013-14)





Euro Area: PMI and Real GDP Growth

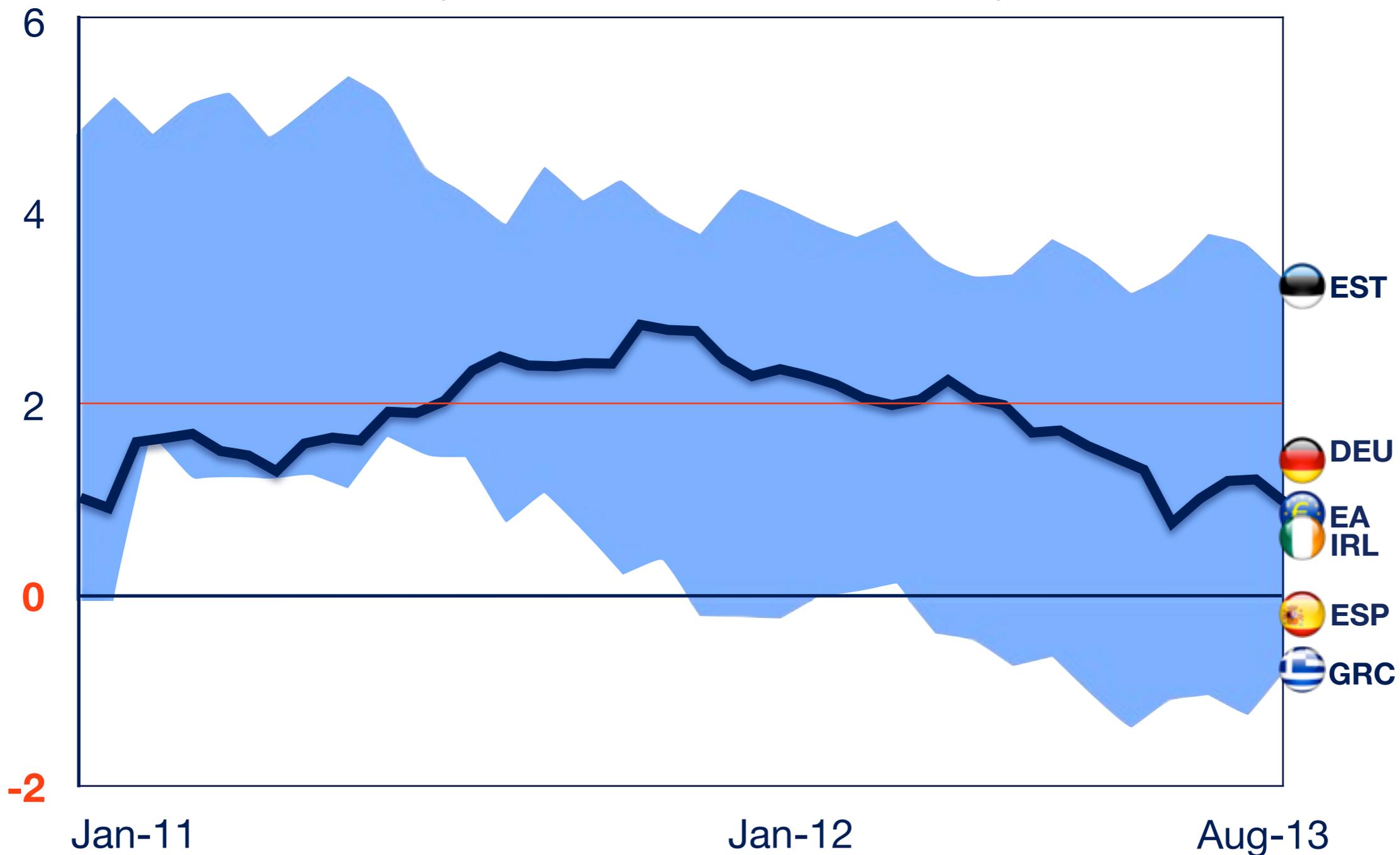
PMI (SA, composite; 50+ = expansion)
Q3 = July and August flash data avg.





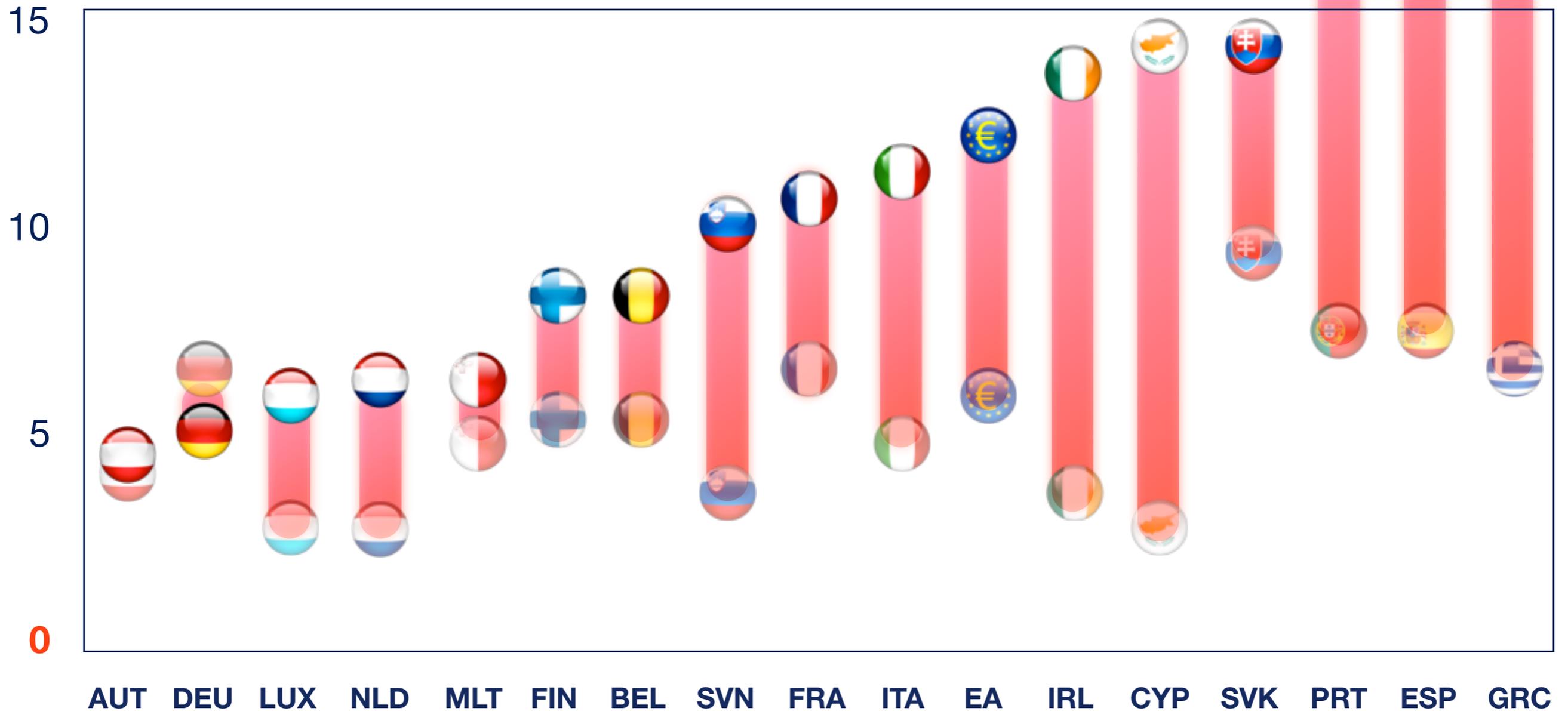
Euro Area HICP Inflation

(Percent, with constant tax rate)



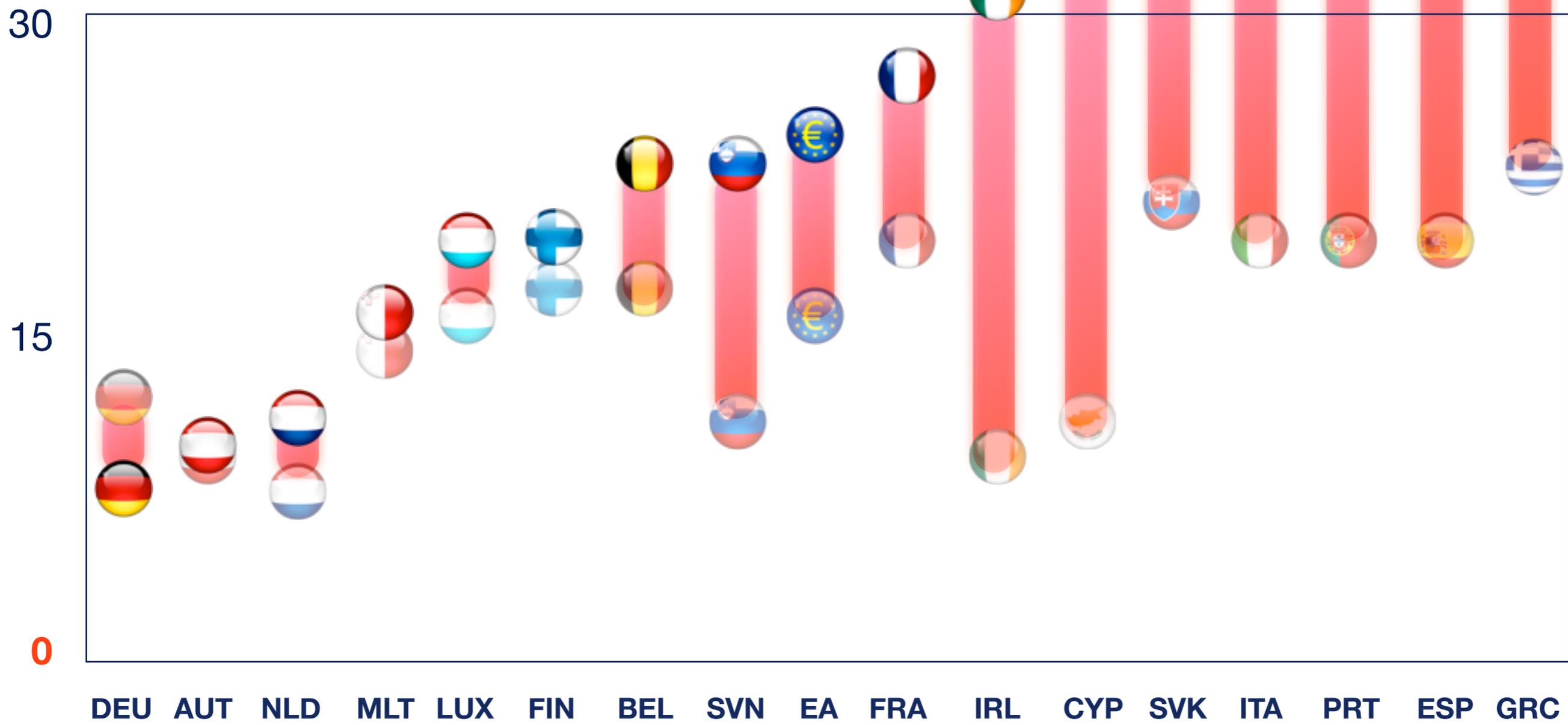


Total Unemployment Rate 2007-Latest



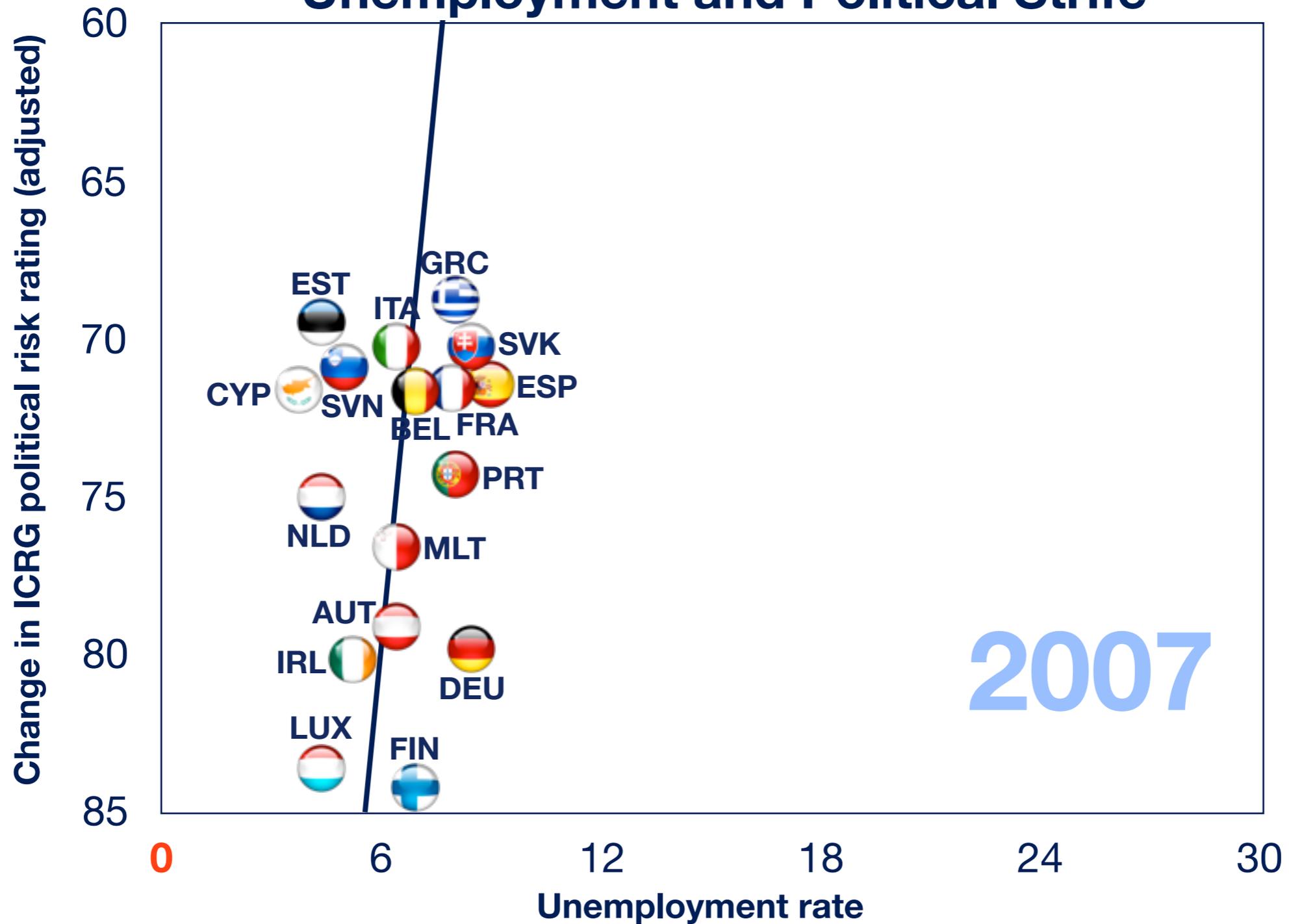


Youth Unemployment Rate 2007-Latest





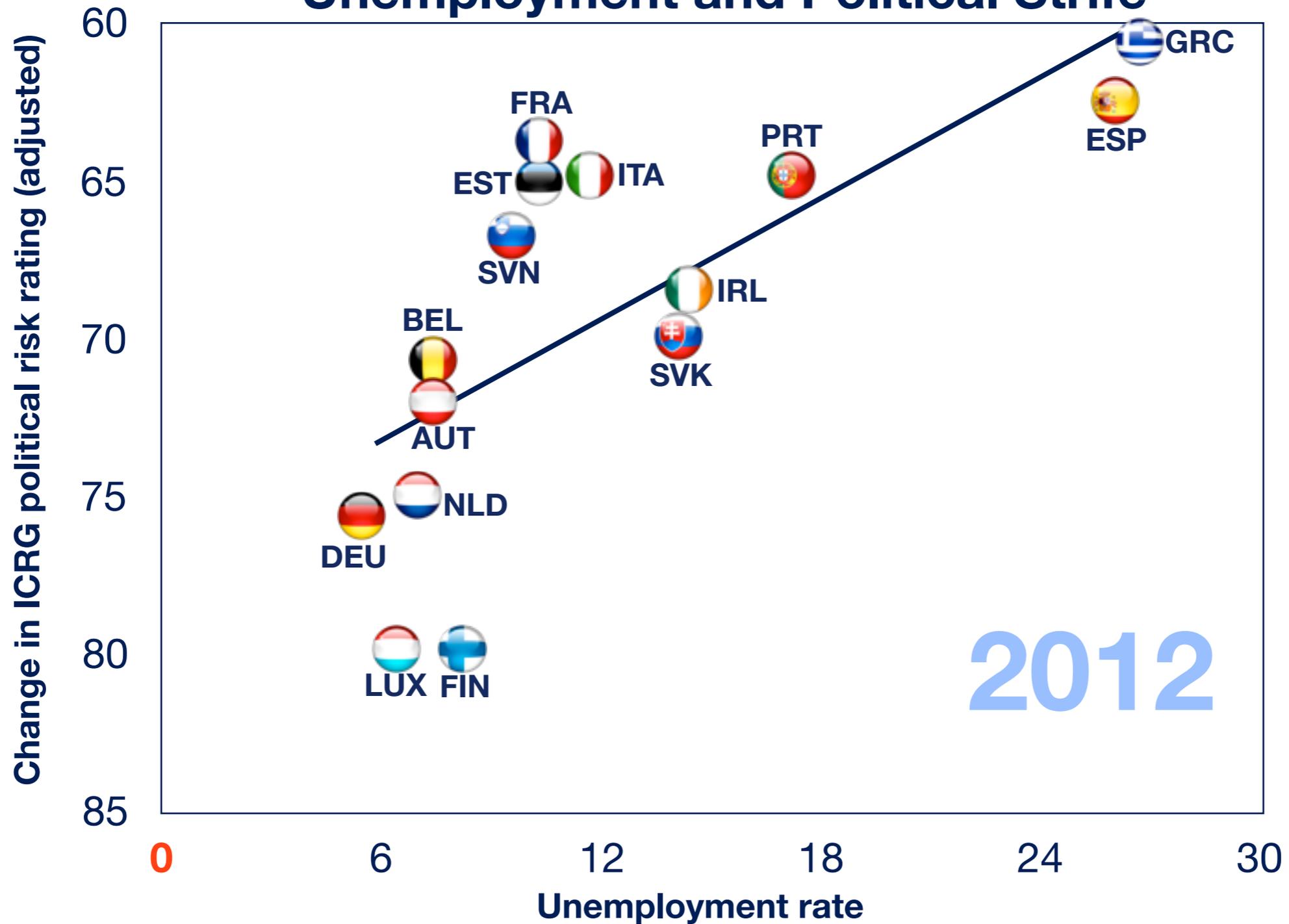
Unemployment and Political Strife



2007



Unemployment and Political Strife

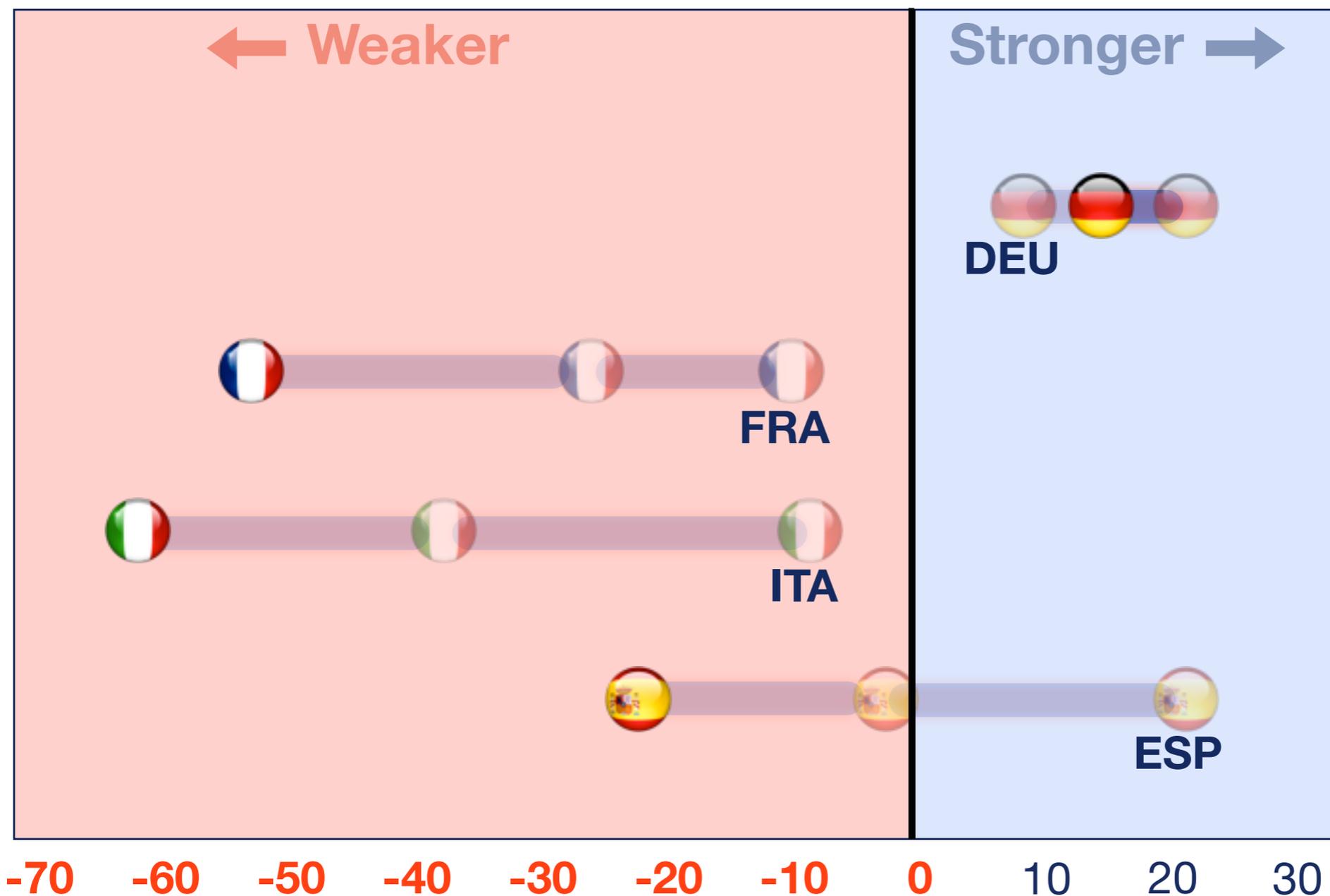


2012



Has the economy of your country been made stronger or weaker by the economic integration in Europe?

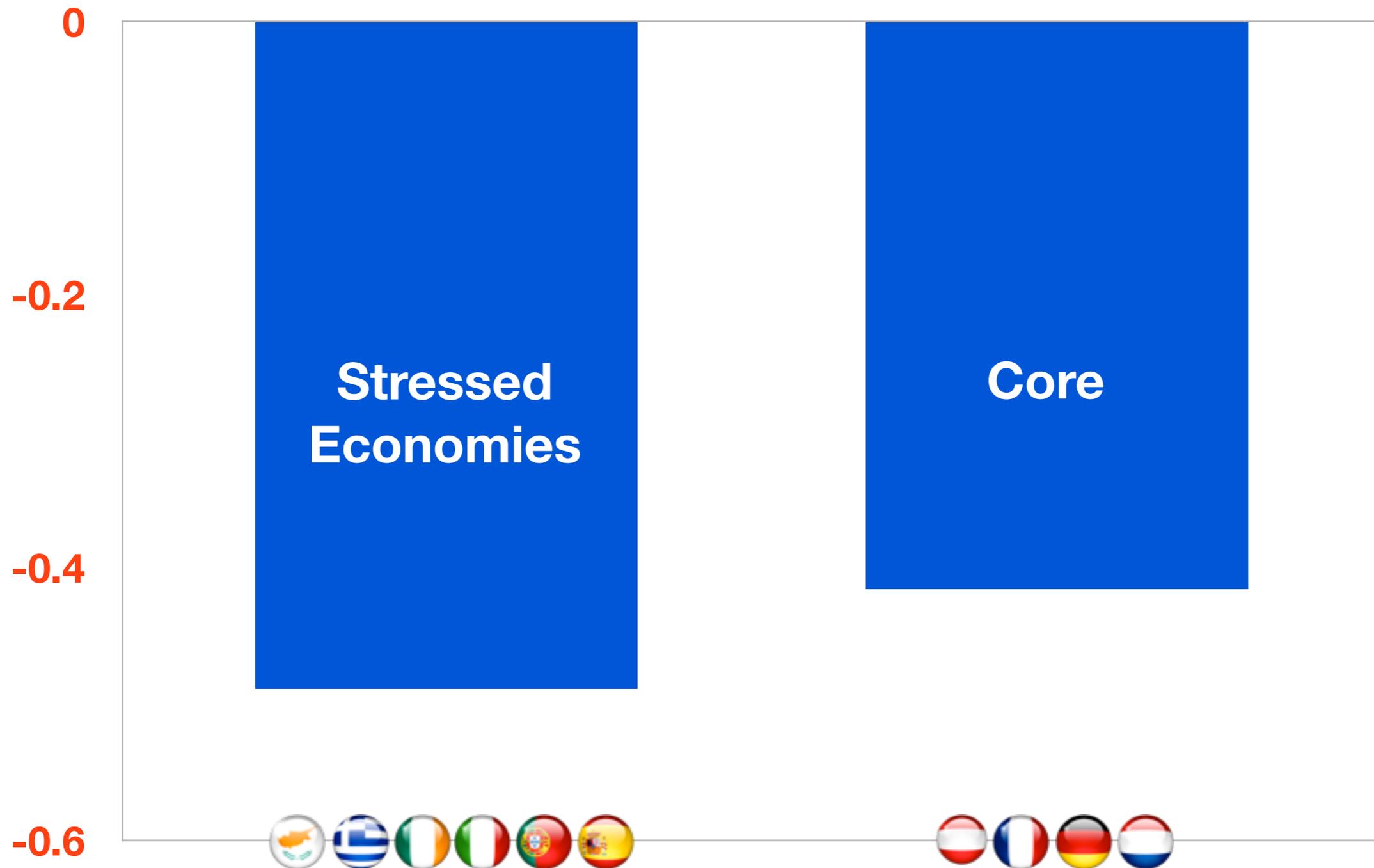
(Balance of responses)



2009
2012
2013



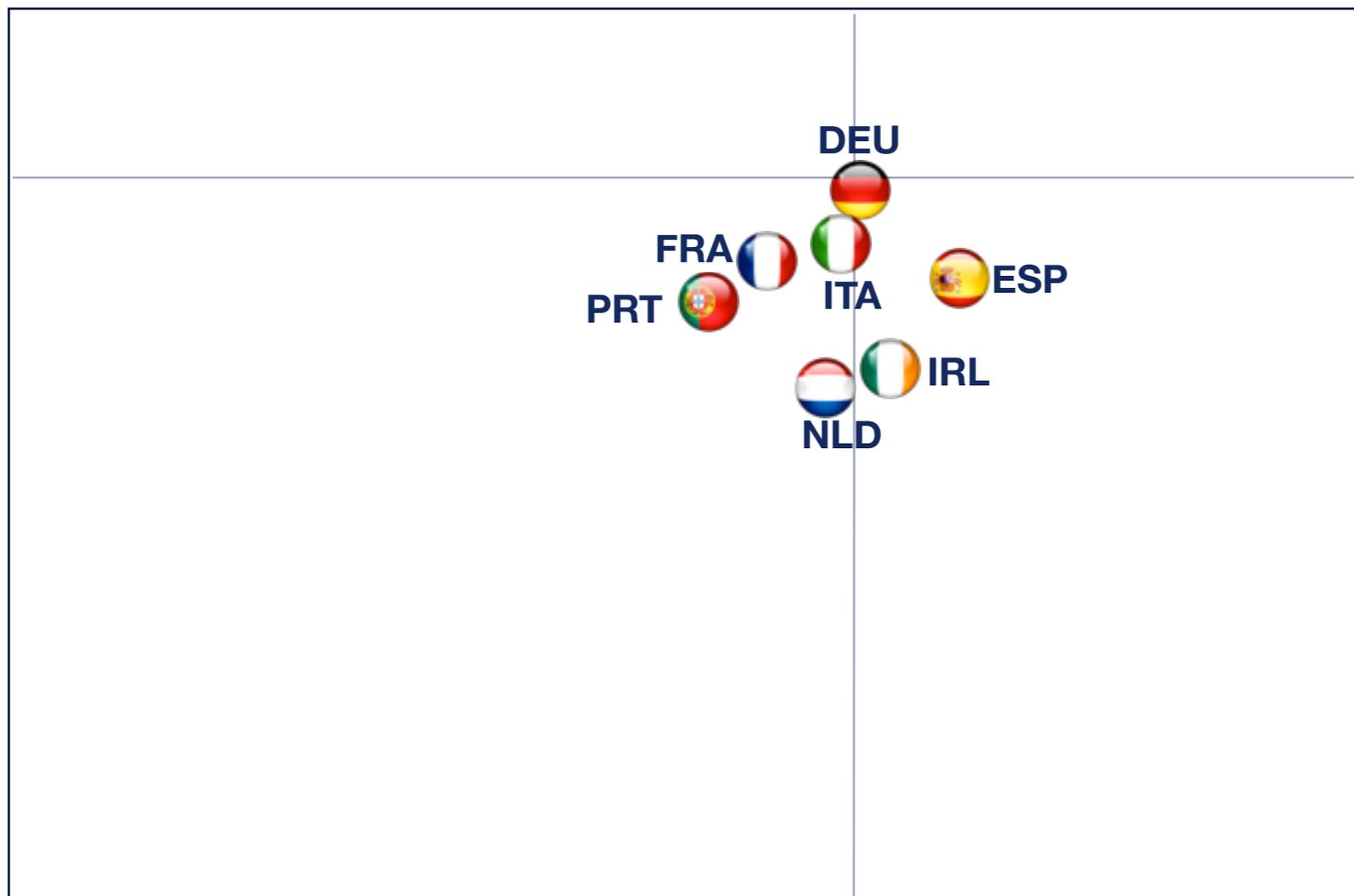
Avg. Correlation of Europe Uncertainty and Growth, 2007-13



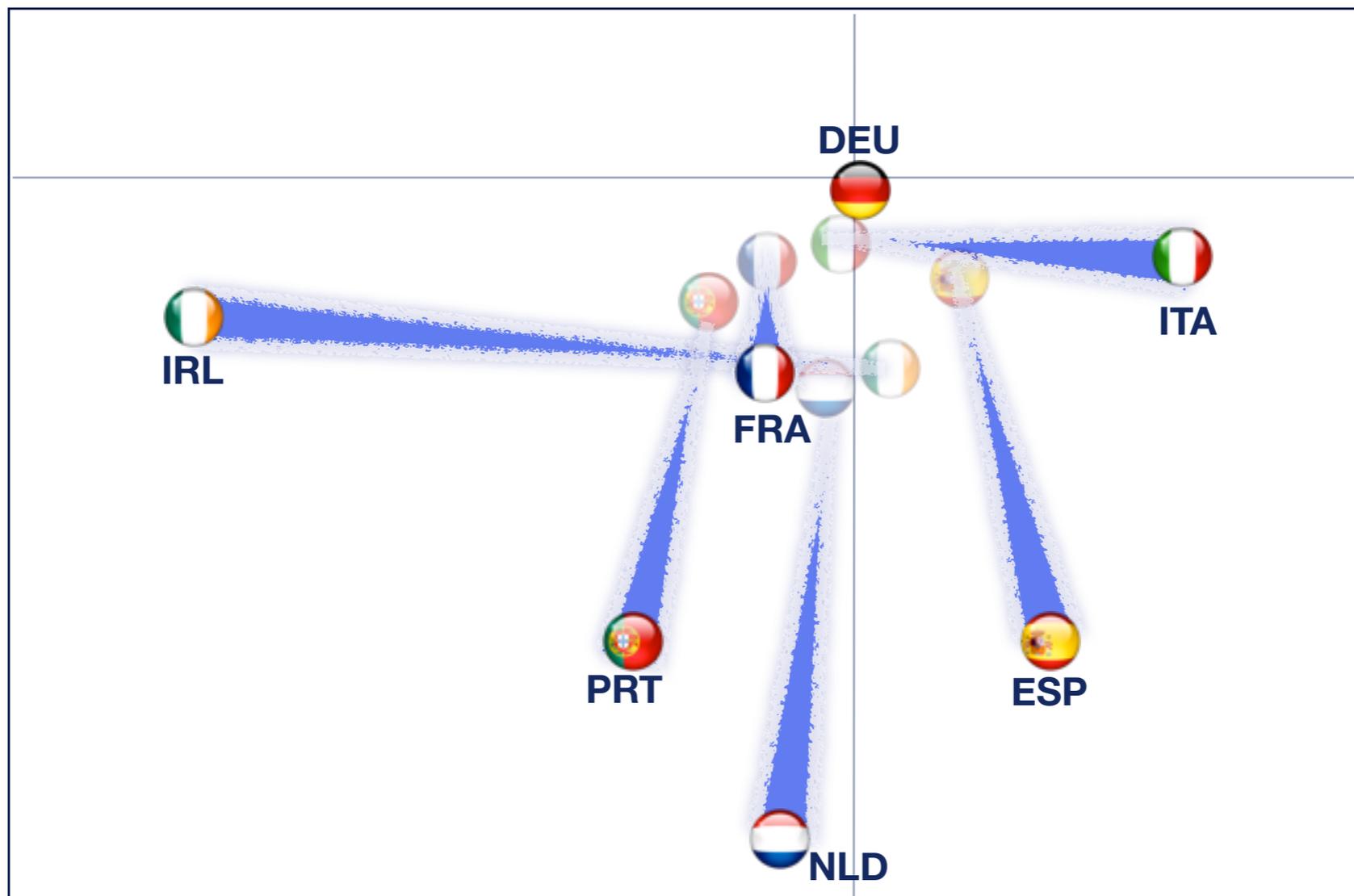


Change in Cross-border Financial Linkages

pre-crisis

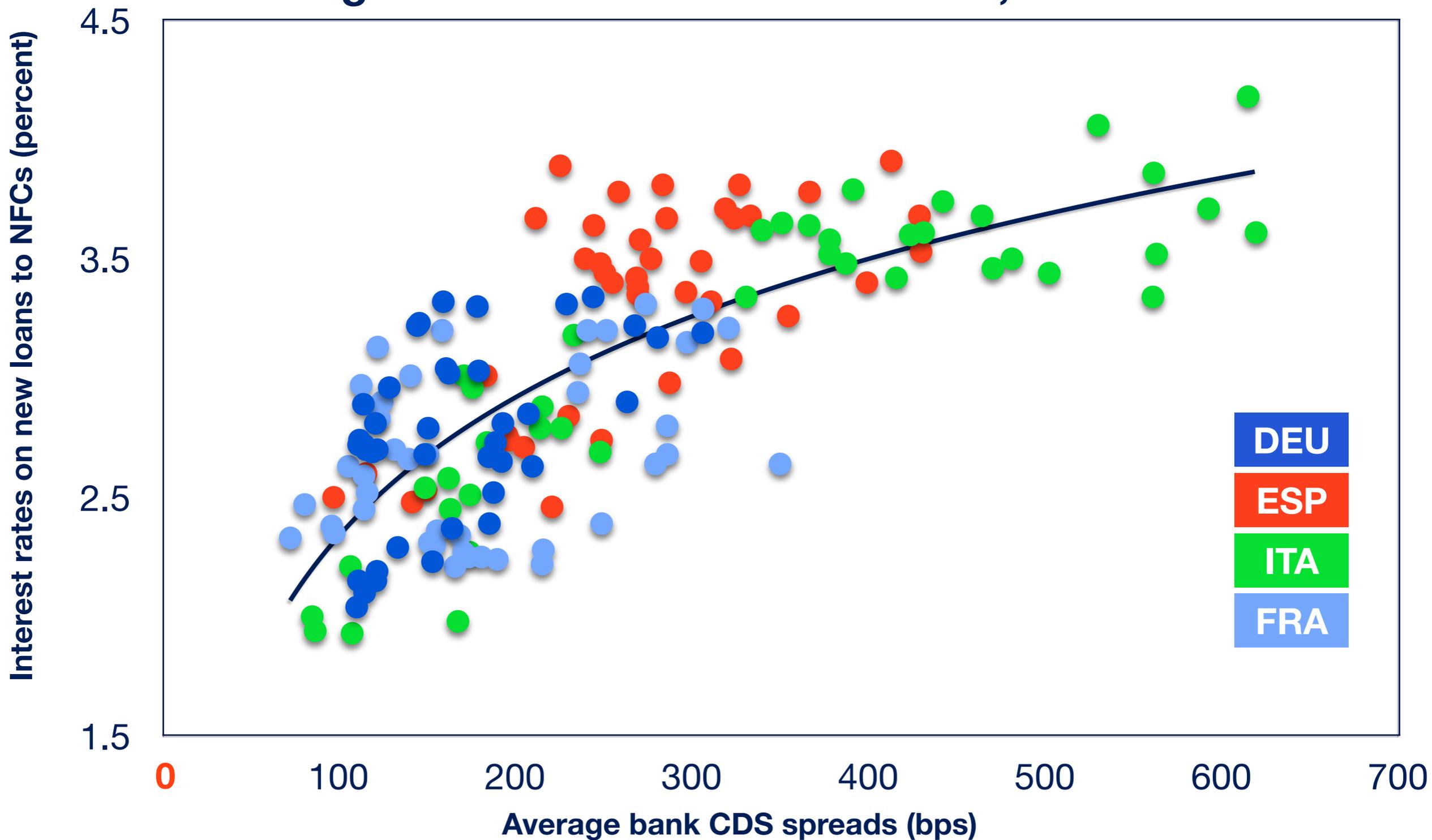


Change in Cross-border Financial Linkages post-crisis



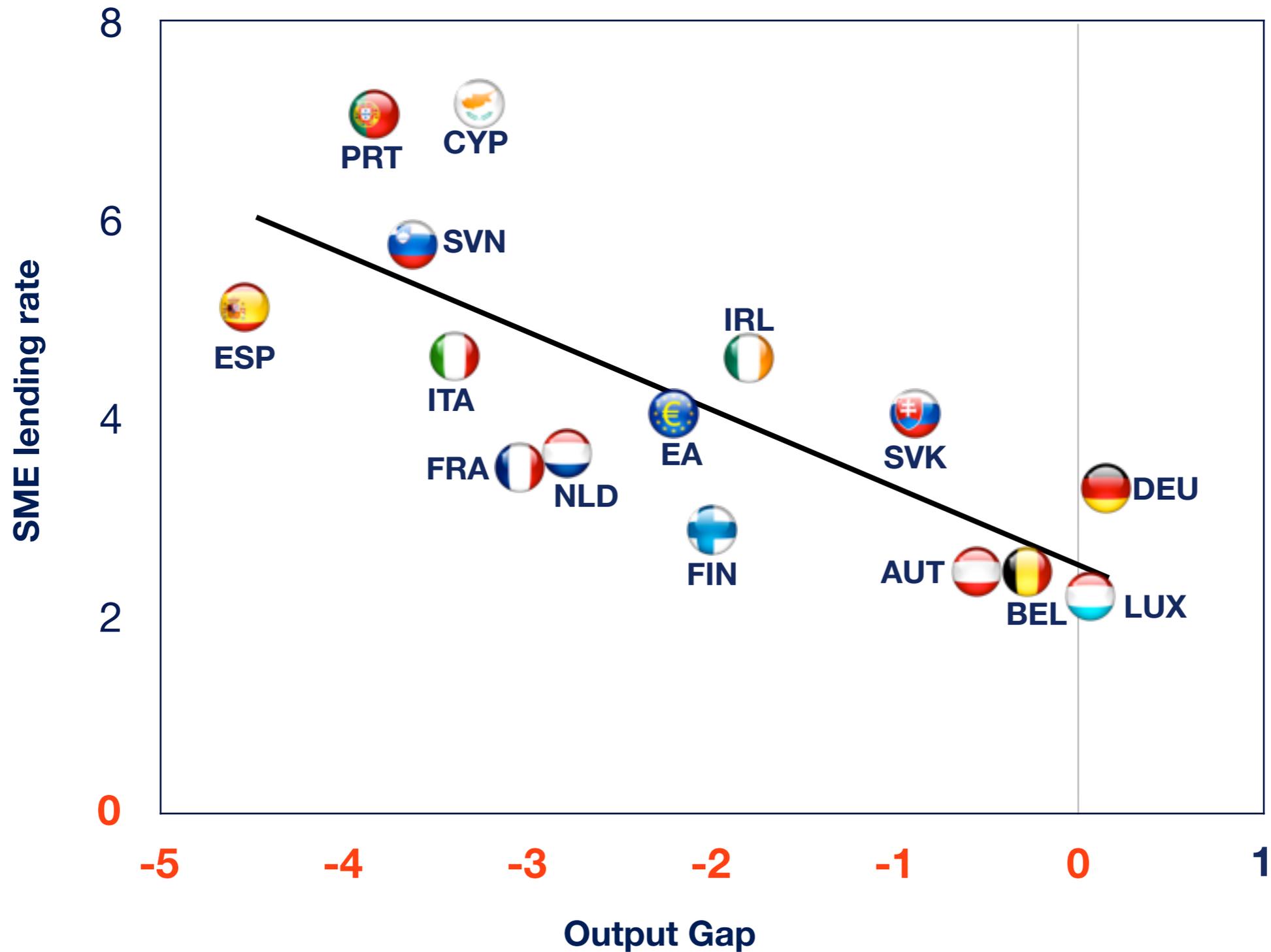


Fragmentation and Interest Rates, 2010-Latest



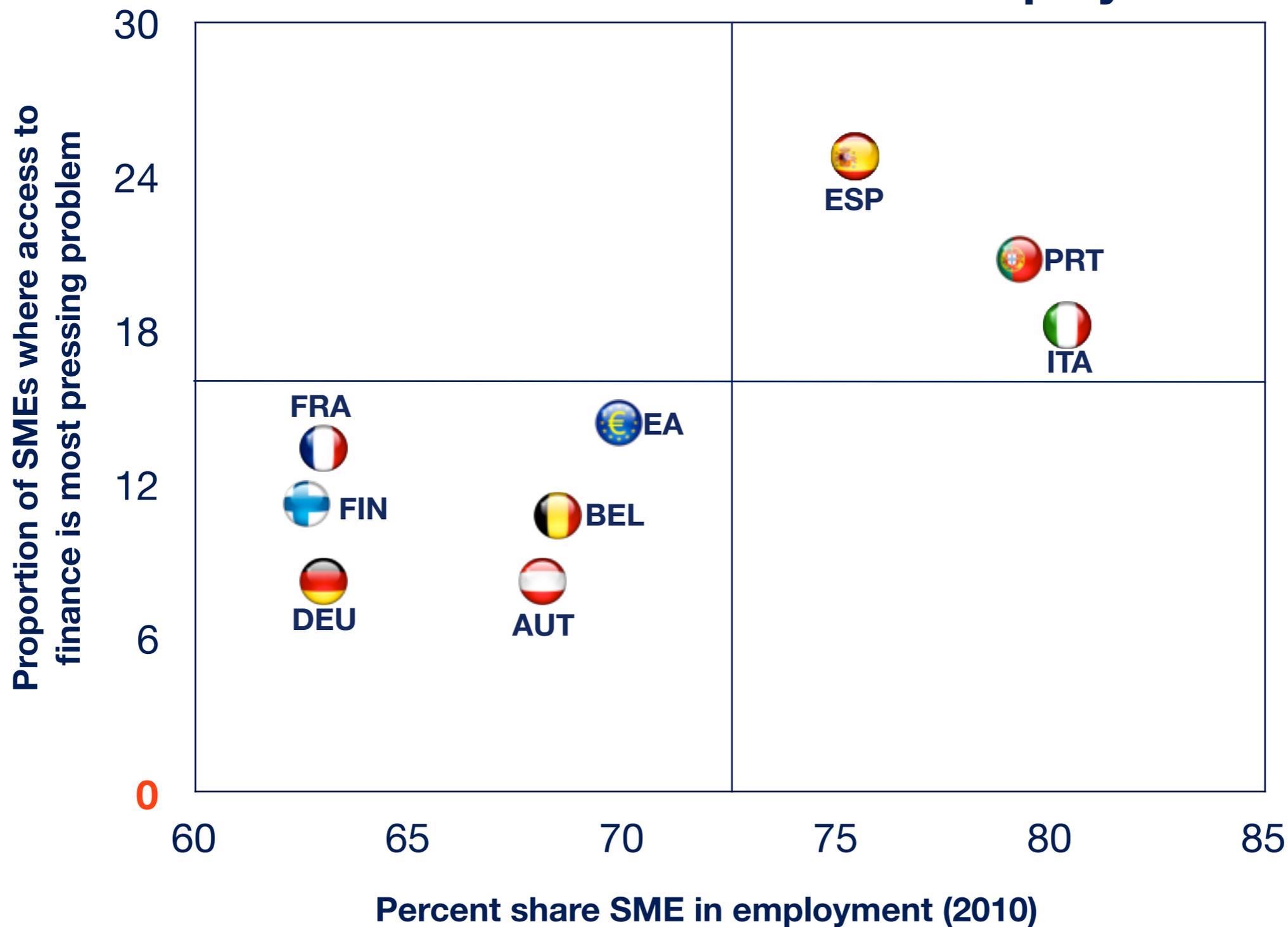


SME Lending Rate and Output Gap, 2012



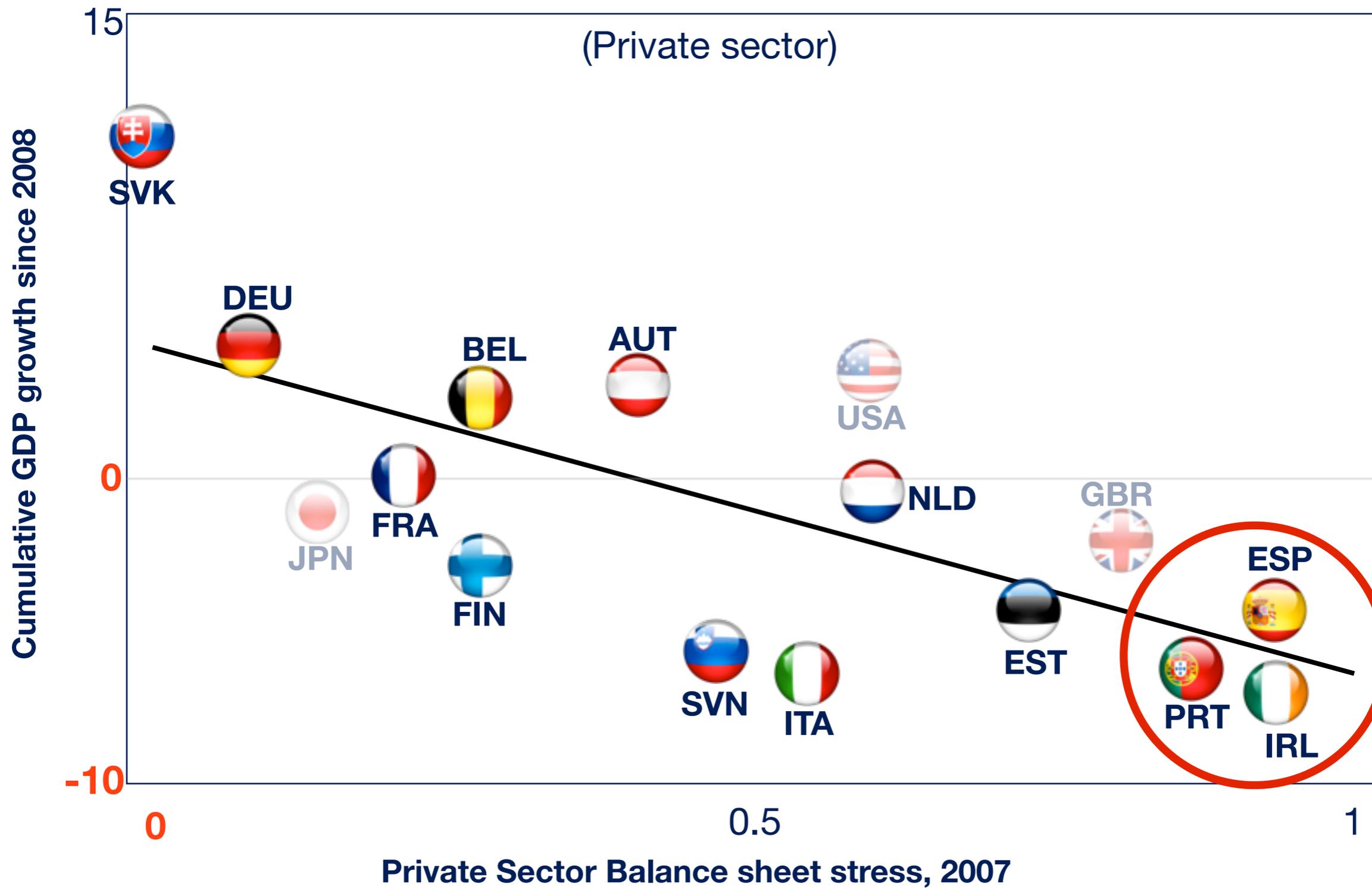


SMEs Access to Finance and Employment





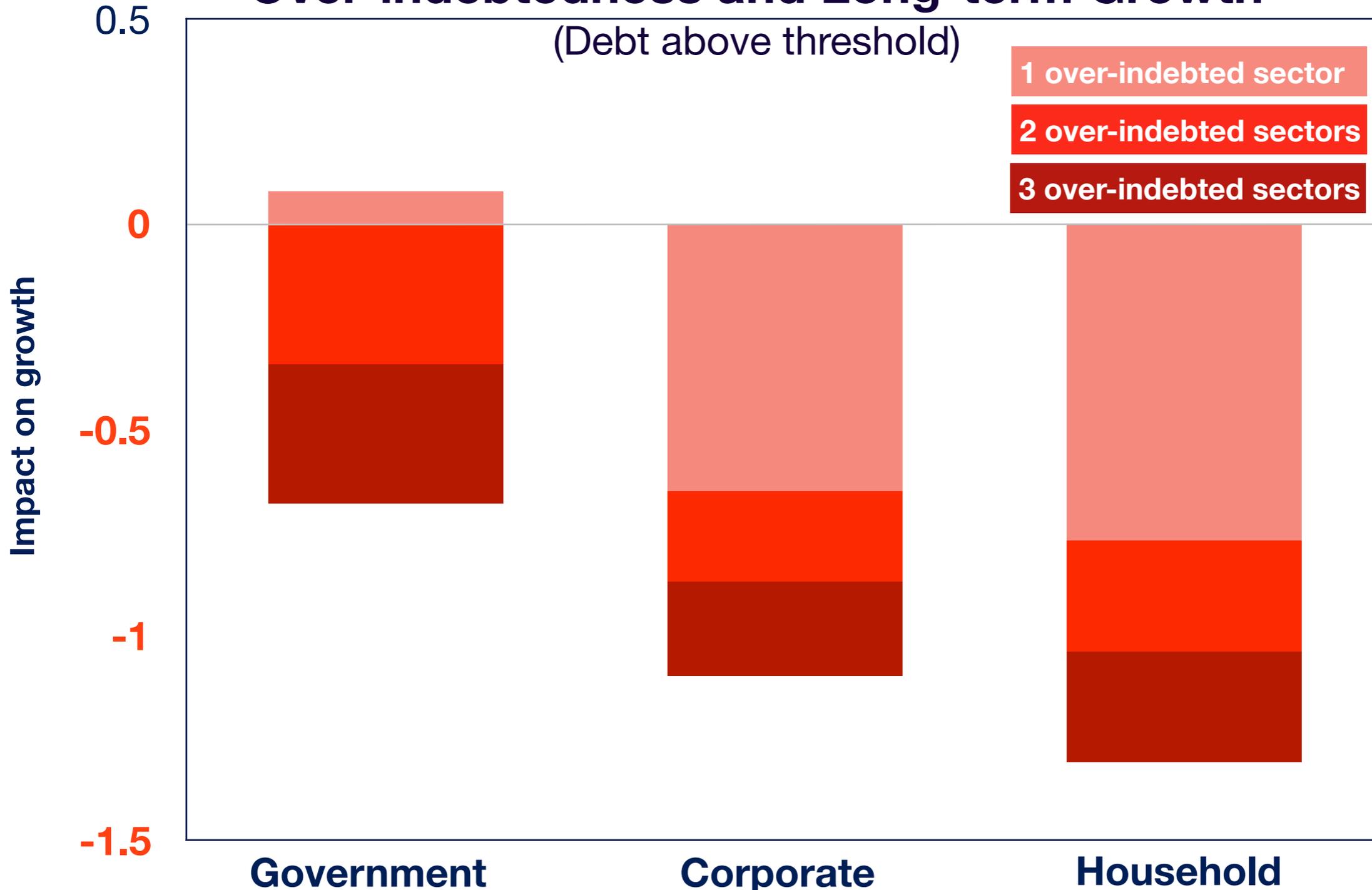
Growth and Balance Sheet Stress





Over-indebtedness and Long-term Growth

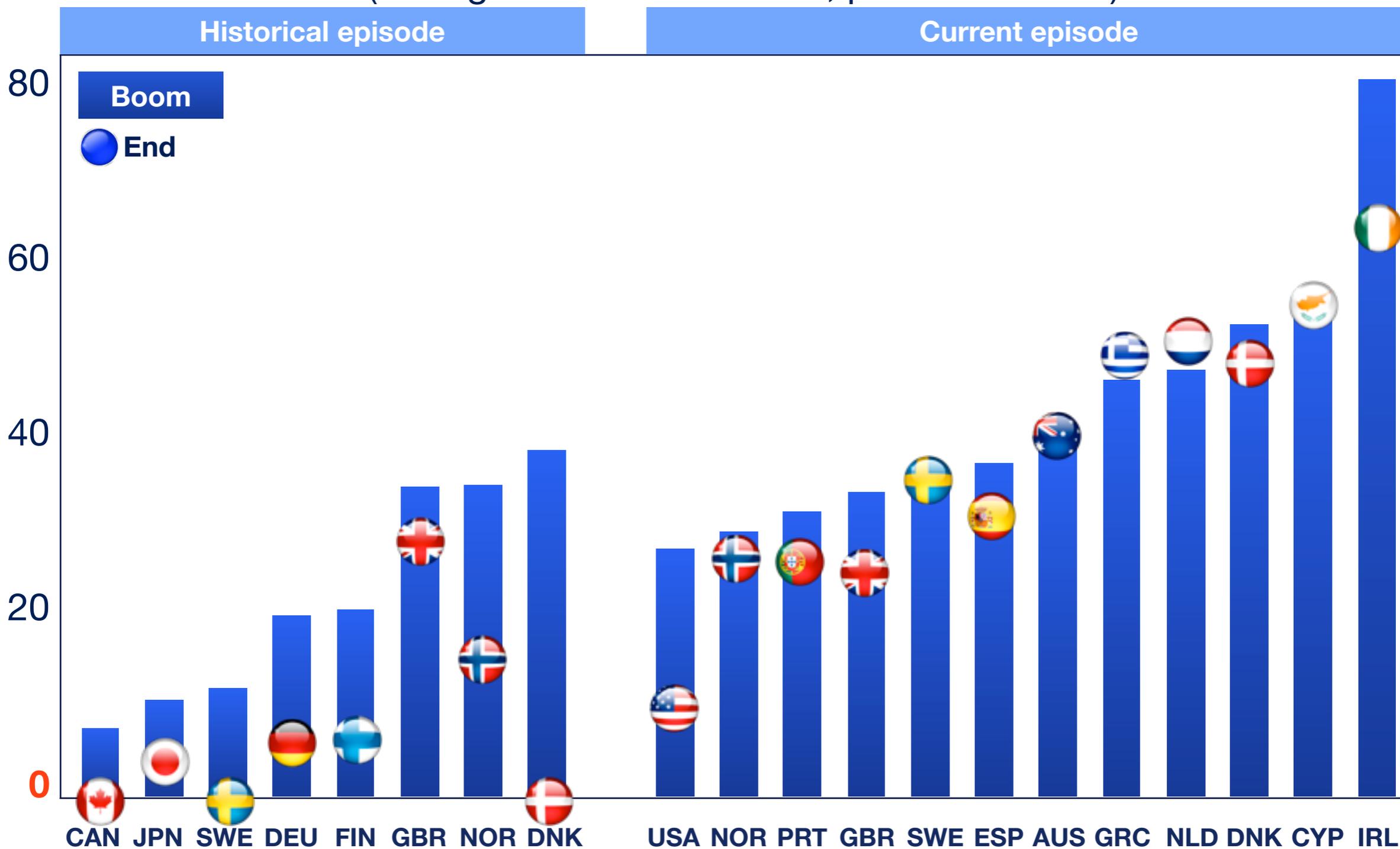
(Debt above threshold)





Household Deleveraging Episodes

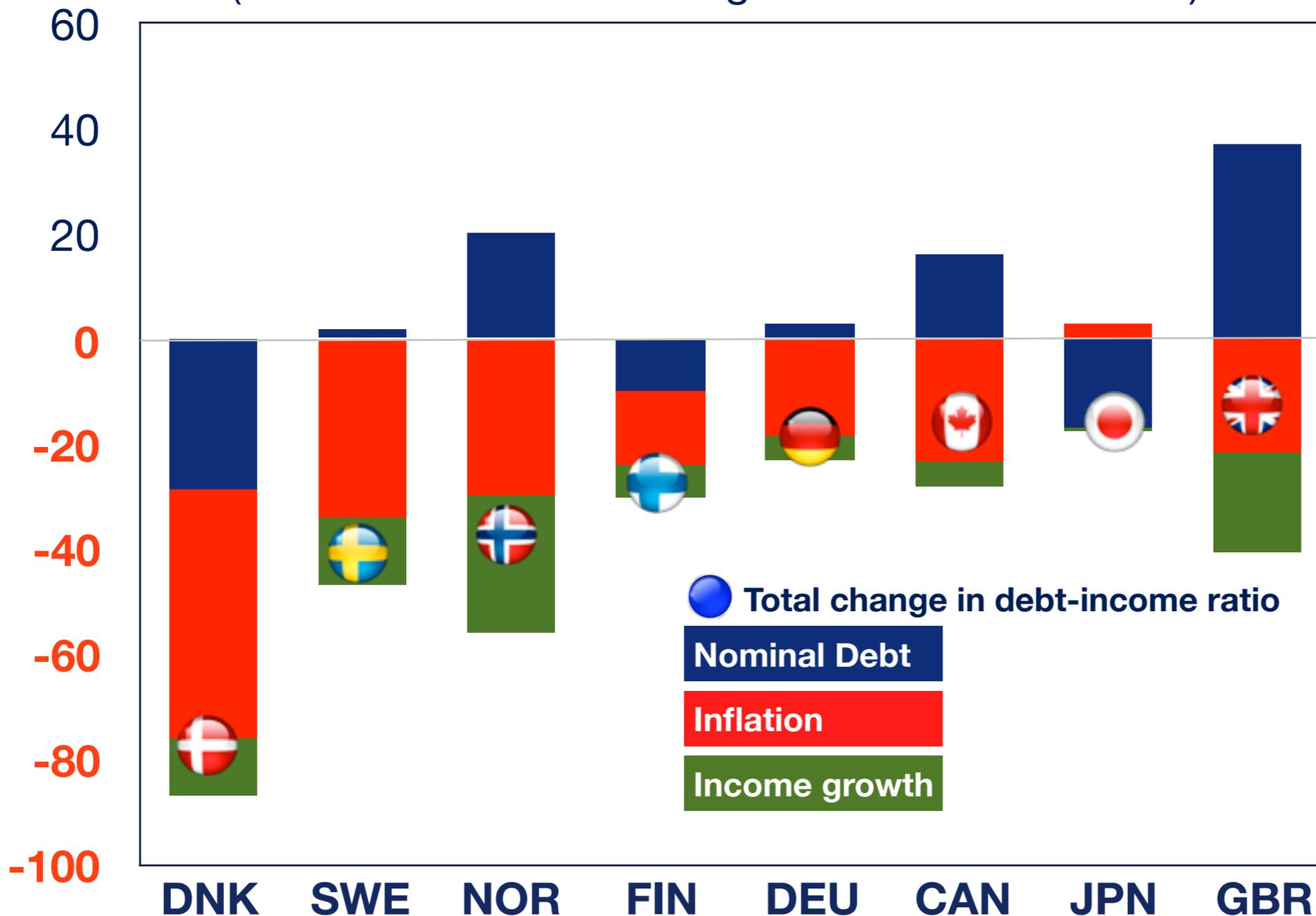
(Change in household debt, percent of GDP)





Household Deleveraging Episodes

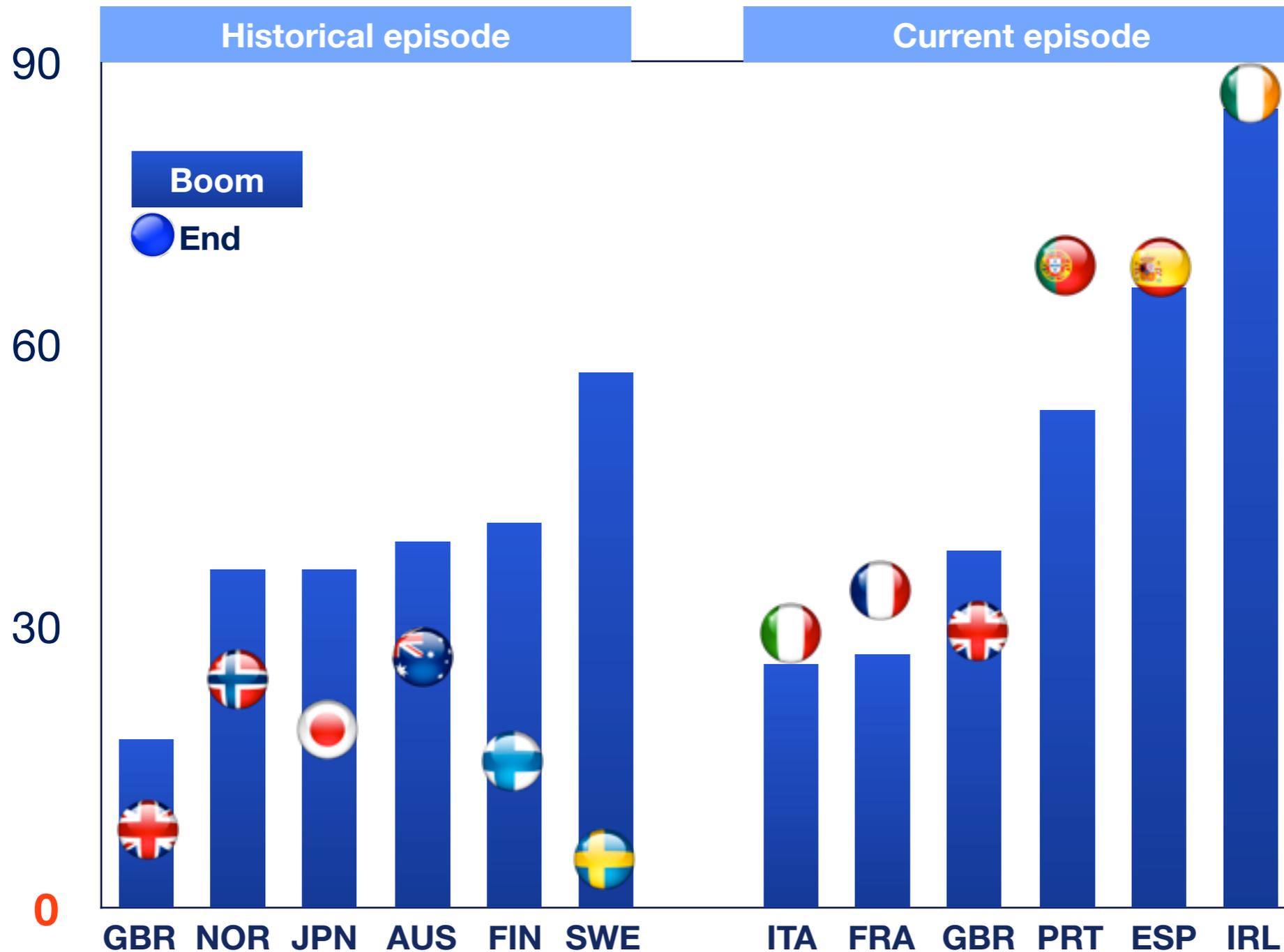
(Contribution to the change in debt-income ratio)





Corporate Deleveraging Episodes

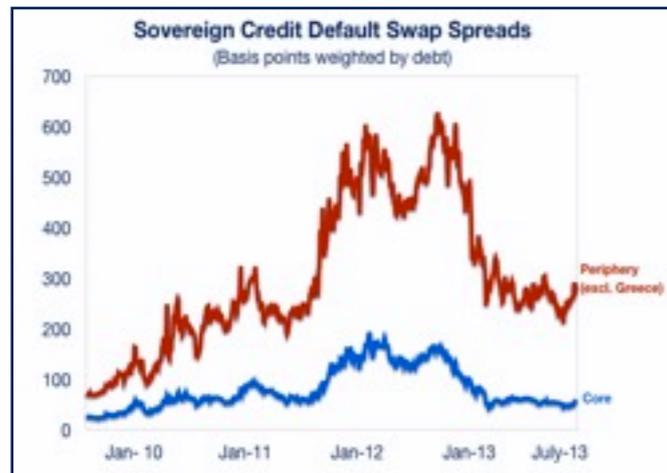
(Change in corporate debt, percent of GDP)





3 Questions

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Why is this happening?

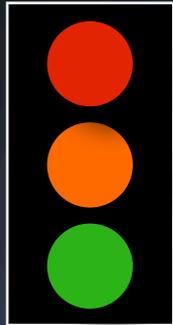
There are downdrafts from fragmentation, balance sheet weakness, fiscal drag and policy uncertainty; structural rigidities are amplifying the hit to jobs.

What should be done?

Euro area and national level policies need to tackle each of the factors listed above.







Loss recognition



Recapitalization



Recap Backstop





Single Supervisory
Mechanism

Single Resolution
Mechanism

Backstop for
resolution

Fiscal integration





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