

ERA Convention 2012

“Changing Rental”

The Eurozone crises
Are there any ways out?

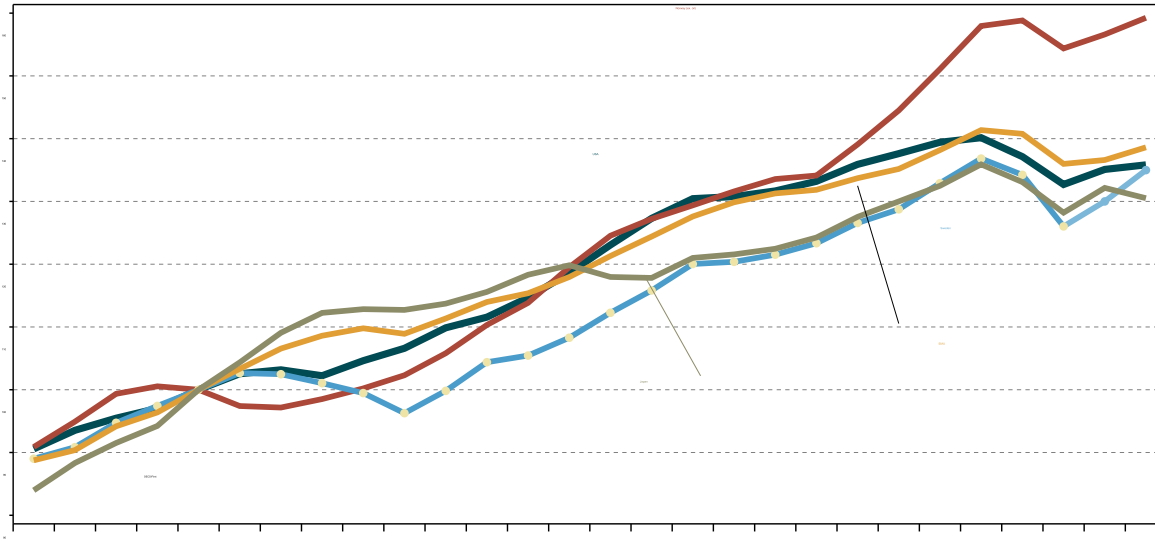
Harald Magnus Andreassen



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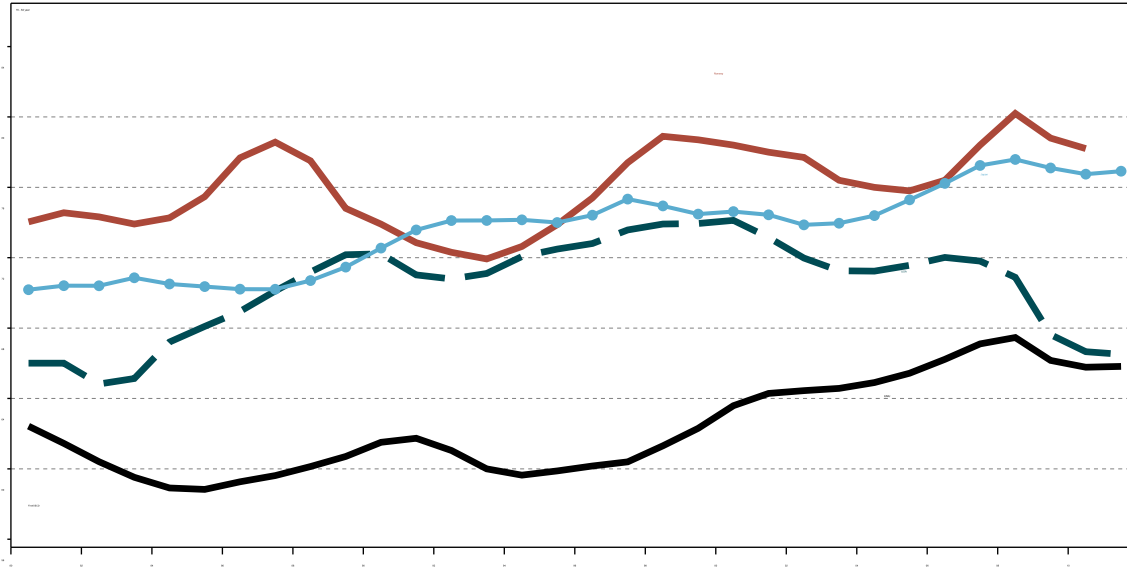
Europe, the big loser

(And Japan has lost two decades, hasn't it?)

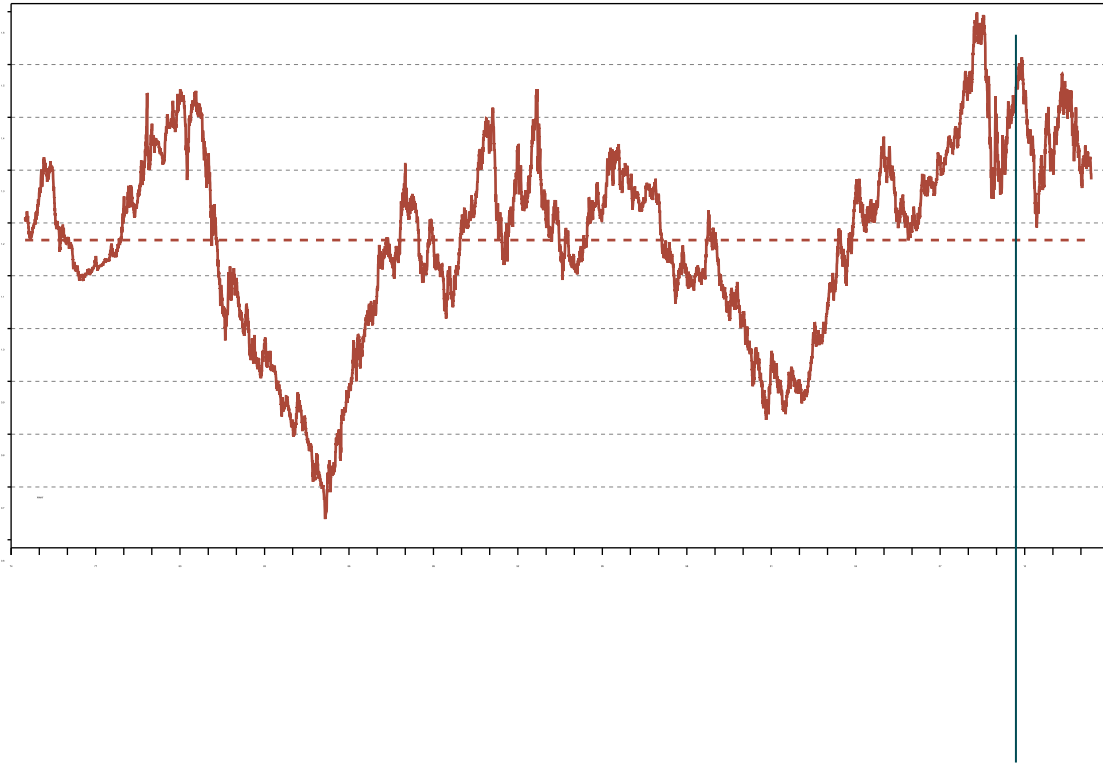


The European labour market is not working well

But is working better than before...



The Euro is the big loser, too

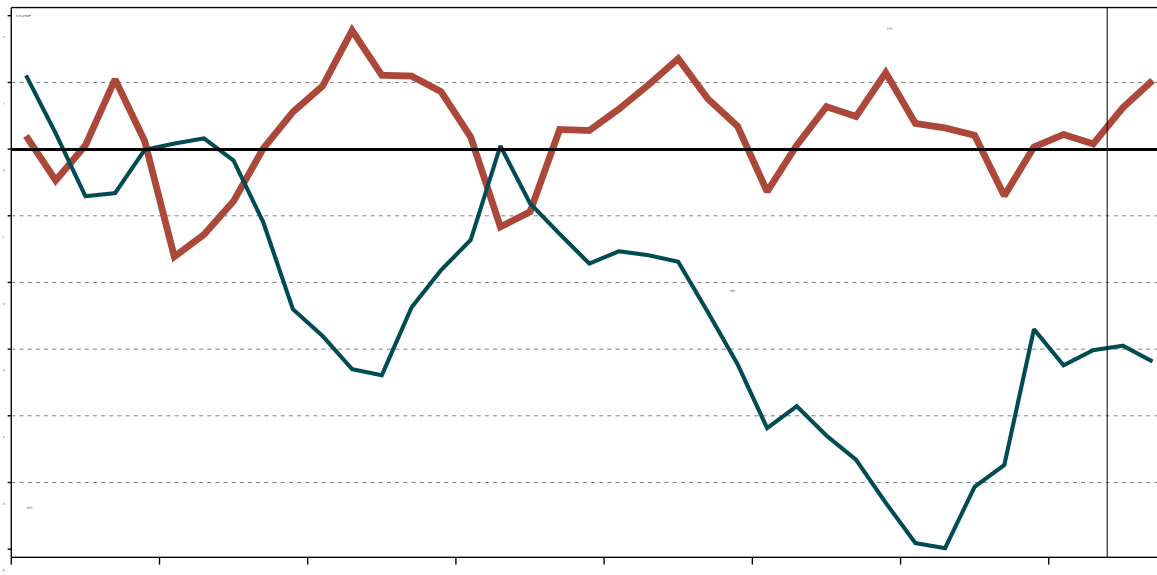


EUR strong



The Eurozone is not competitive

Well, it is running a current account surplus!



The Eurozone public sector is in a mess

But not like most other places...



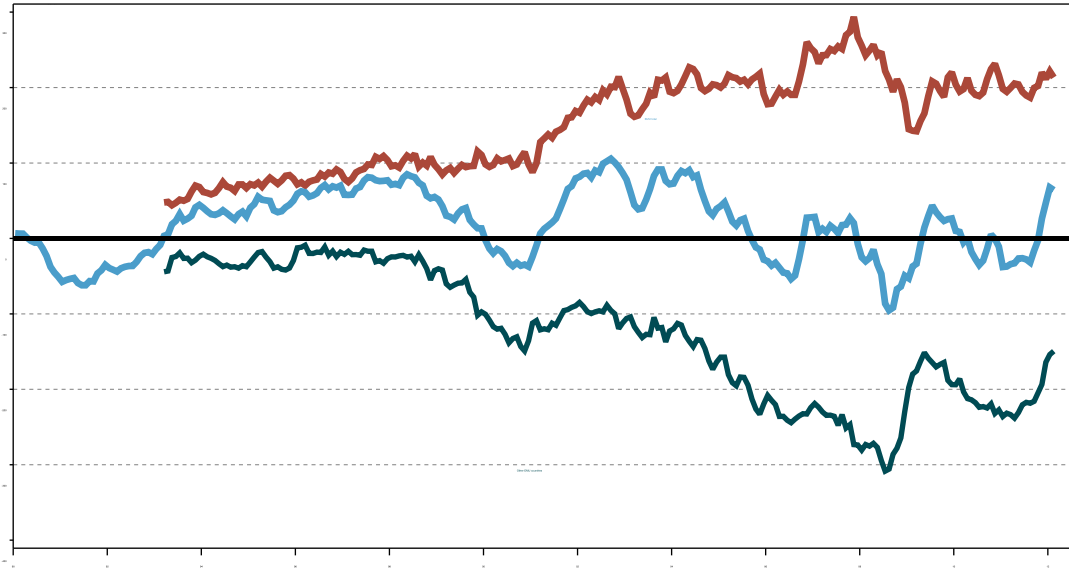
The Eurozone public sector is in a mess

And not much stimulus from fiscal policy in Europe

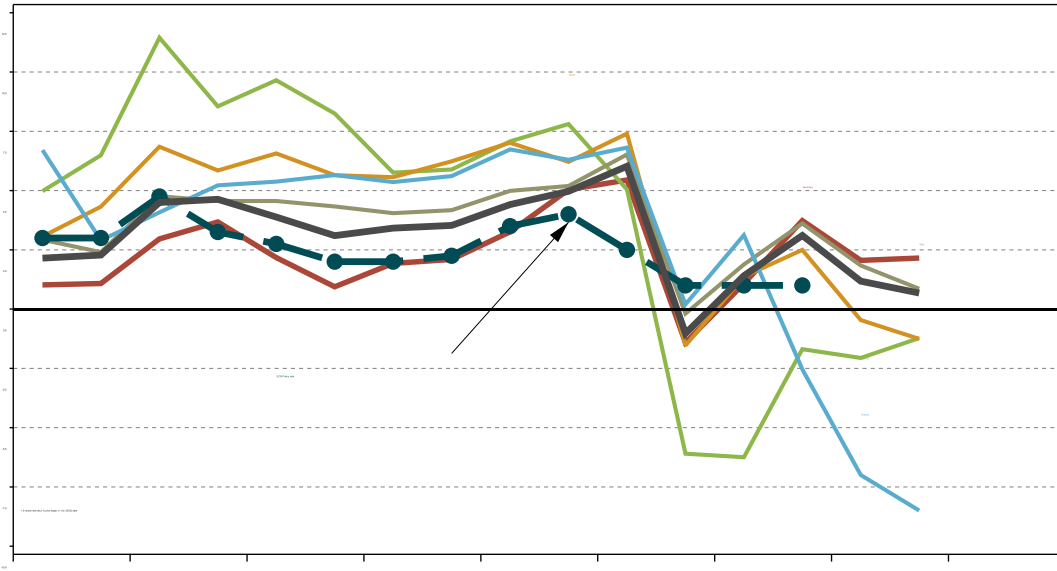


If only the Eurozone was one country...

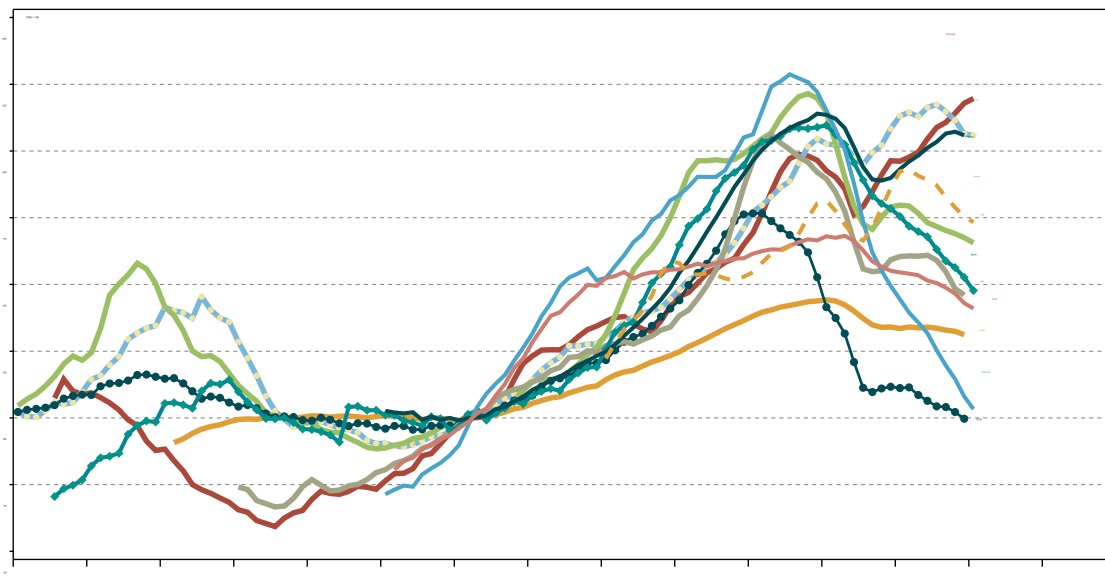
The imbalances rose, within the Eurozone



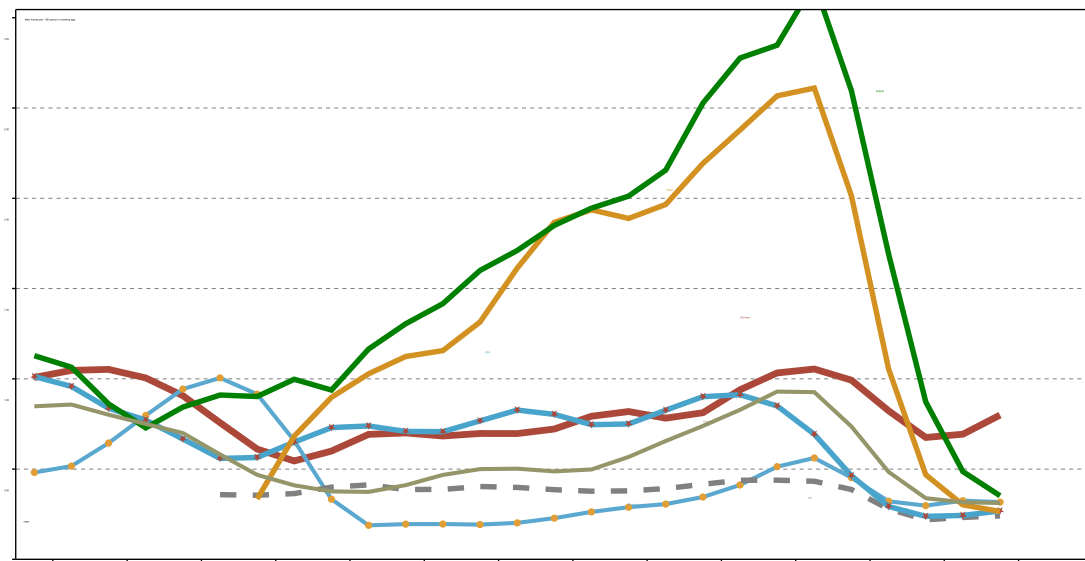
One seize didn't fit all, after all.



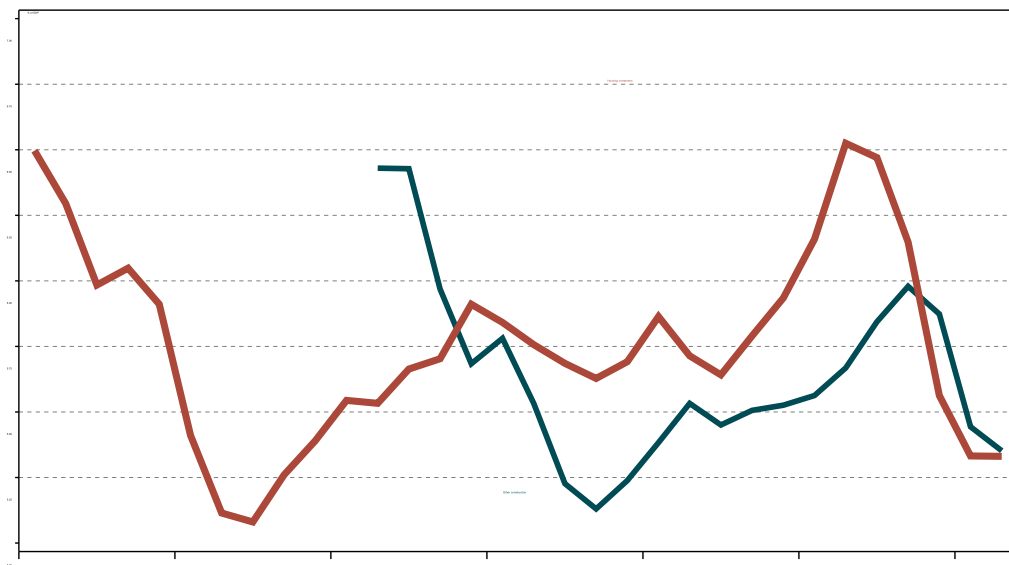
Some house prices rose



.. And some houses were build, some places

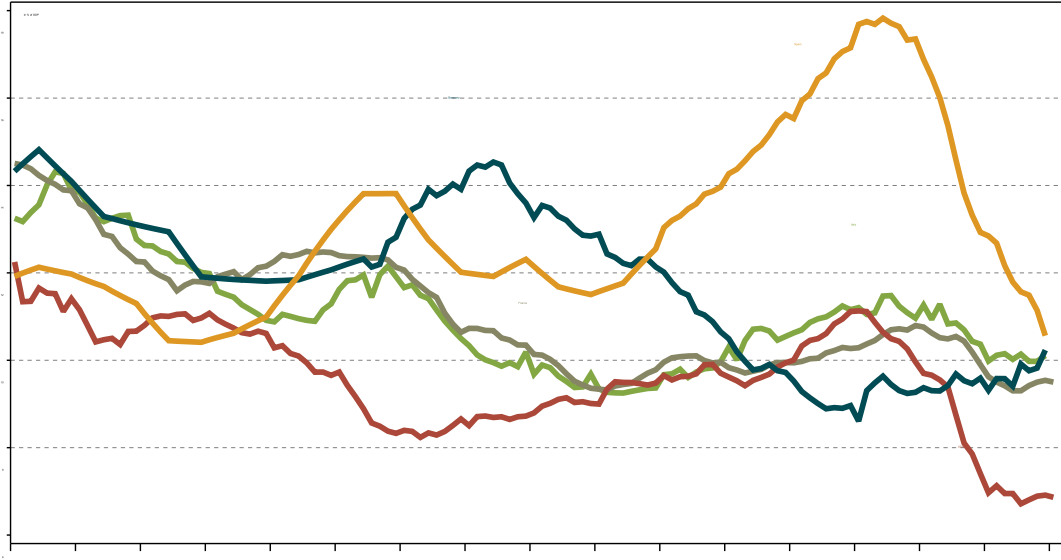


And it was not only the housing sector



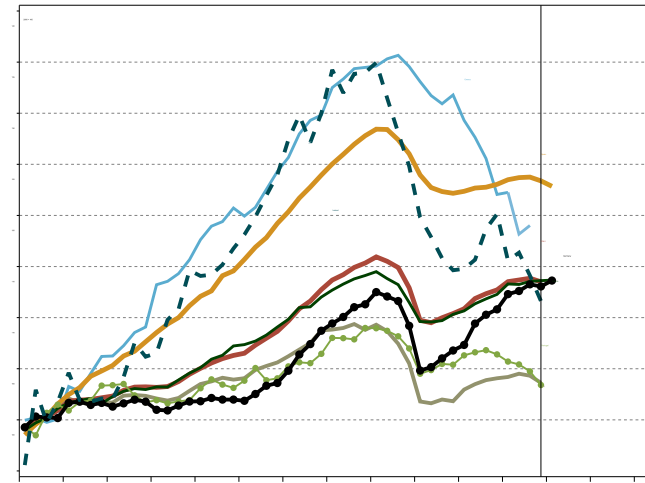
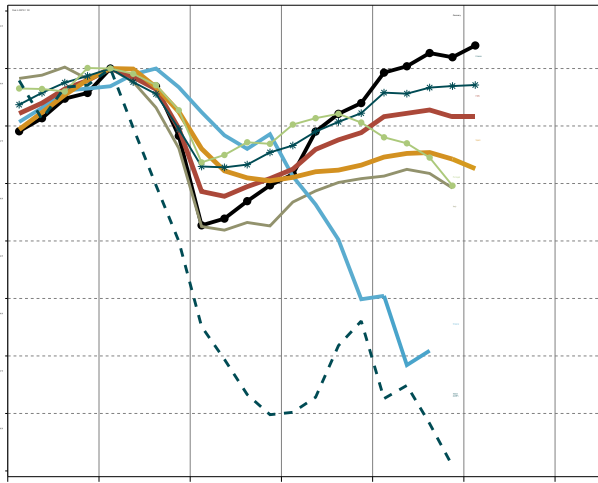
The differences more important than the average

Investment levels are not frighteningly high in Italy, France.
Spain could undershoot for several years



What goes up, must...

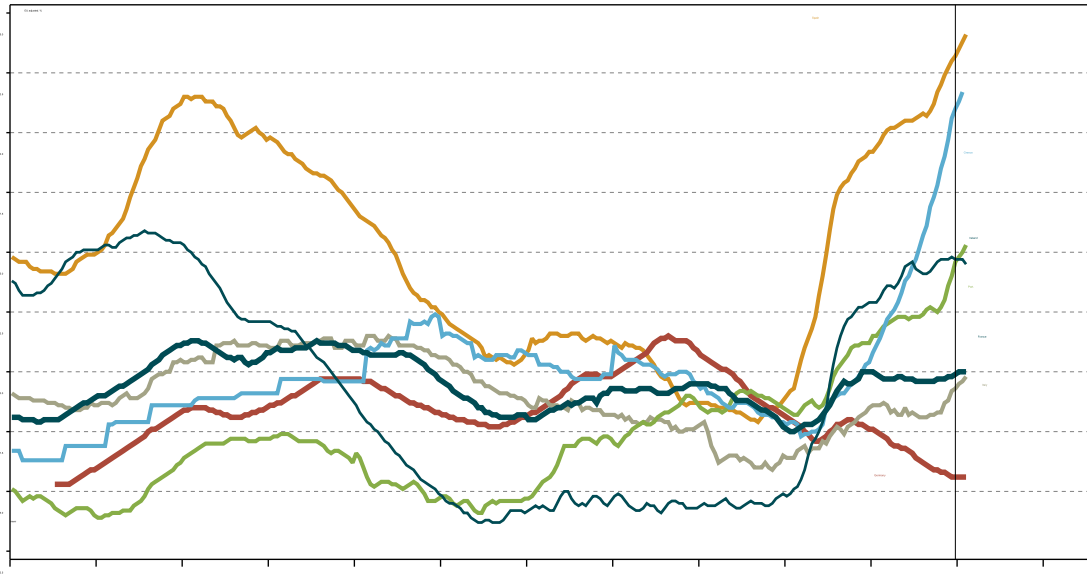
They are not yet back to the stone age



Italy and Portugal has some long term growth challenges...

The real problem, now

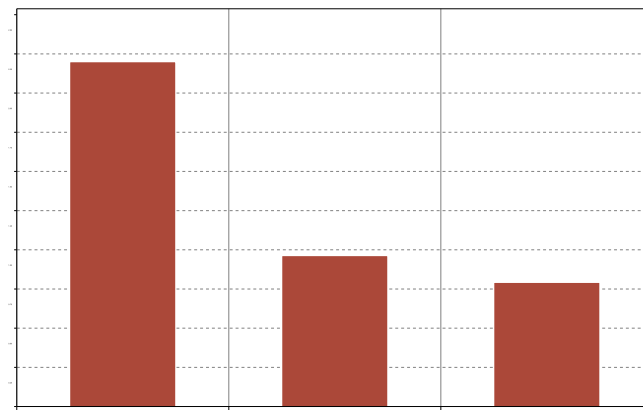
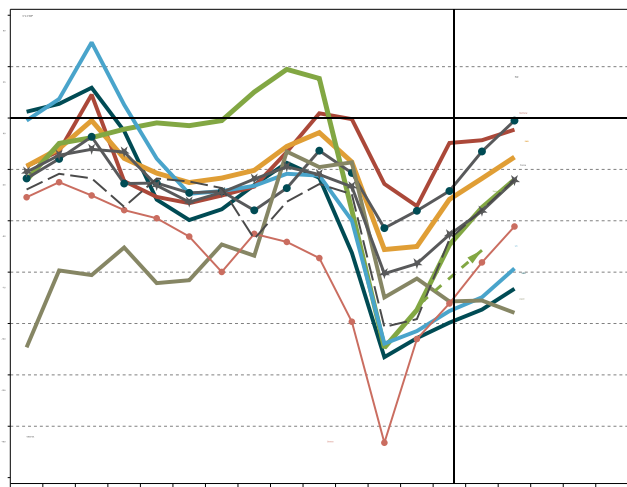
Spain's unemployment rate below Germany's in 2006/7 at 8%. Now it's 24% vs. 6%
Luckily Italy's unemployment rate is at 'just' 10%



The EMU response

- **The South: Start a gradual repair process**
- **The North: Accept a bridge financing of the South**
 - Take care of Greece, as long as the Greeks' want it.
(And Portugal and Ireland)
 - Build a shelter around the others. But they are much larger...
- **The risks:**
 - The medicine does not work (*fast enough*)
 - The medicine is too harsh (*the patient declines to take it*)
 - The medicine men are running out of it (*German patience*)
 - The part time medicine men (markets) don't believe in it

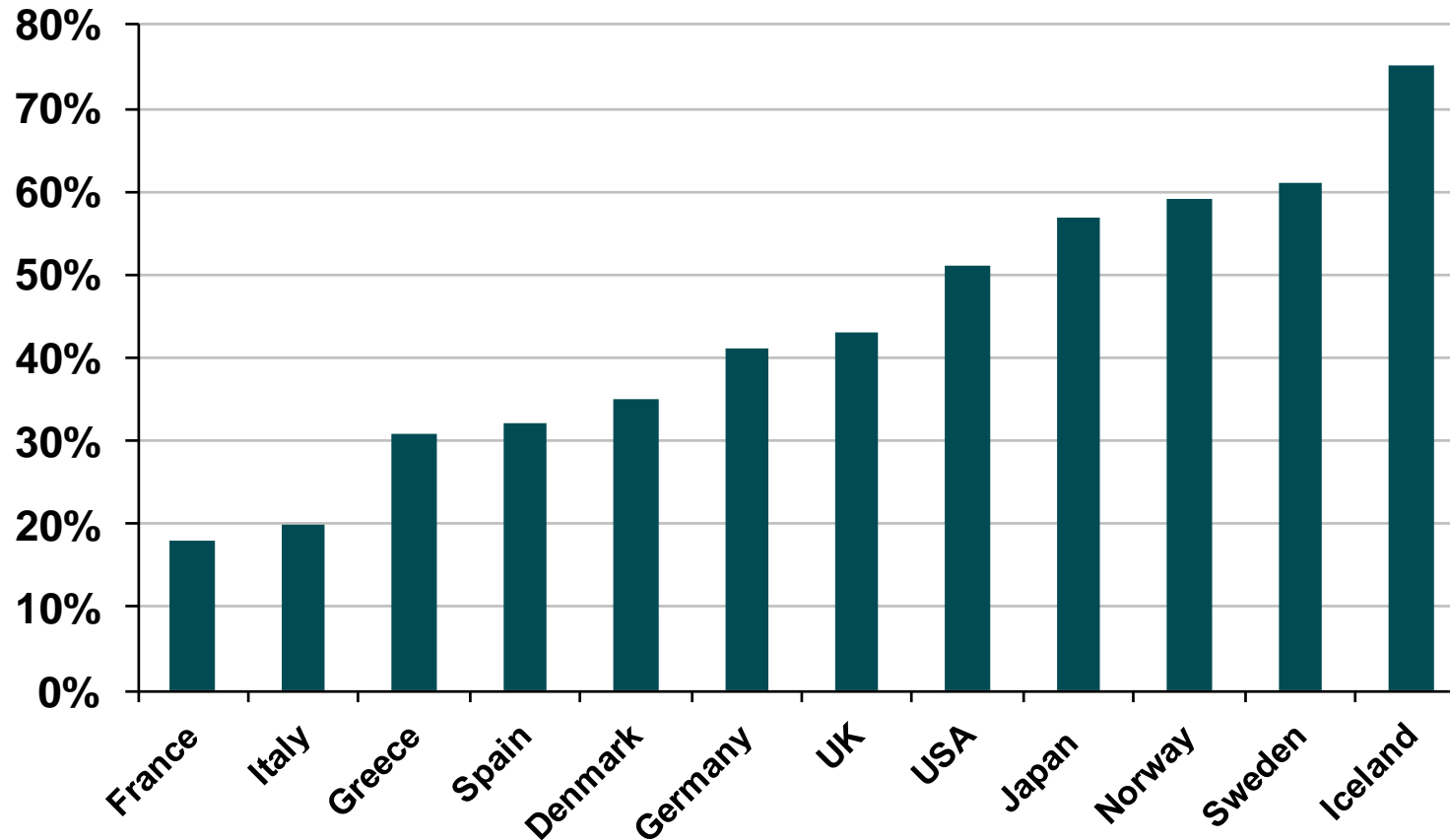
More austerity ahead, but much is done several places!



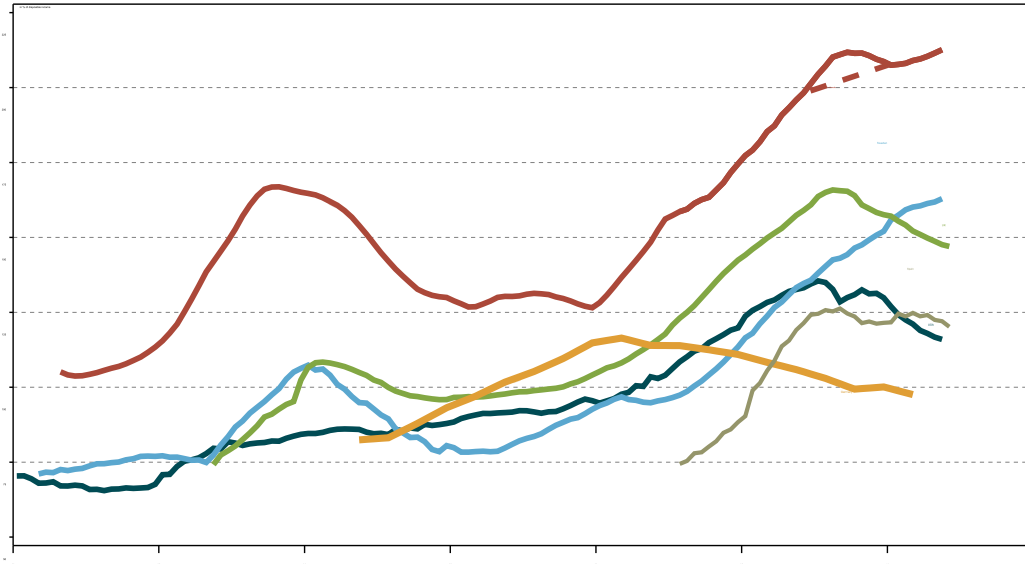
Somebody has a potential for doing things better

All PIGS++ have decided to lift the pension age

Employment rate 60 - 64 years

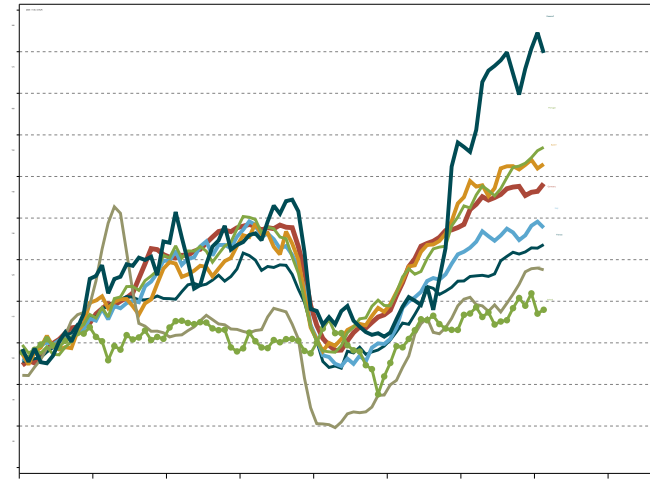
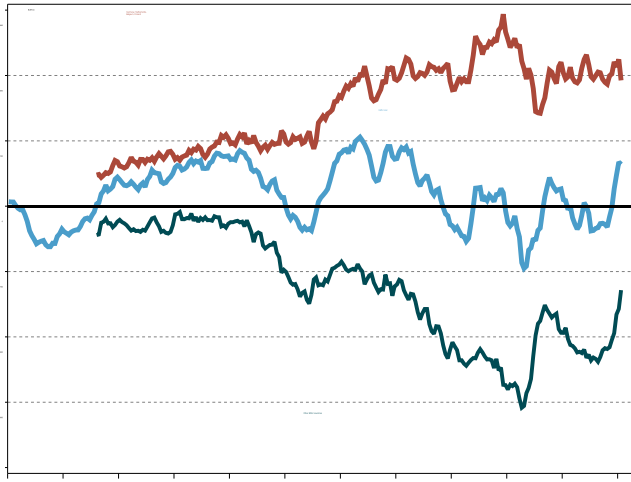


The tide has turned, most places



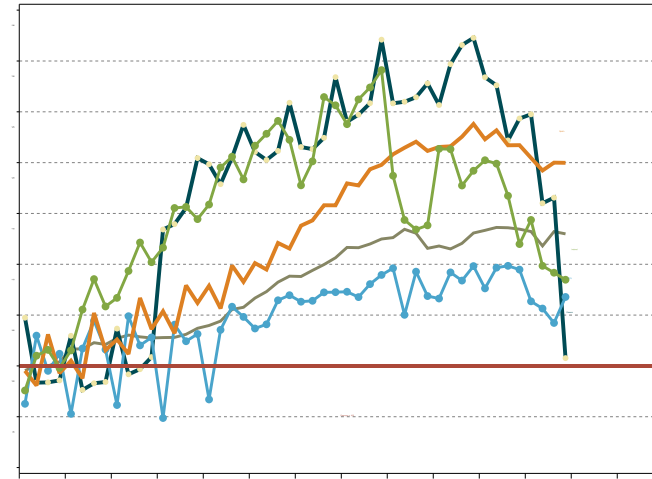
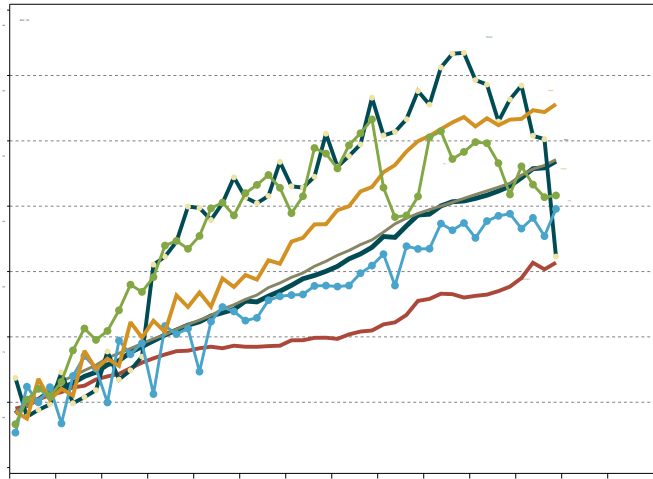
Look to... Spain & Portugal! and Greece!!!

Huge trade imbalances within the Eurozone. They are not fundable any more
They are now rapidly reversed!



Something has already happened!

Much of the labour cost bonanza is already history

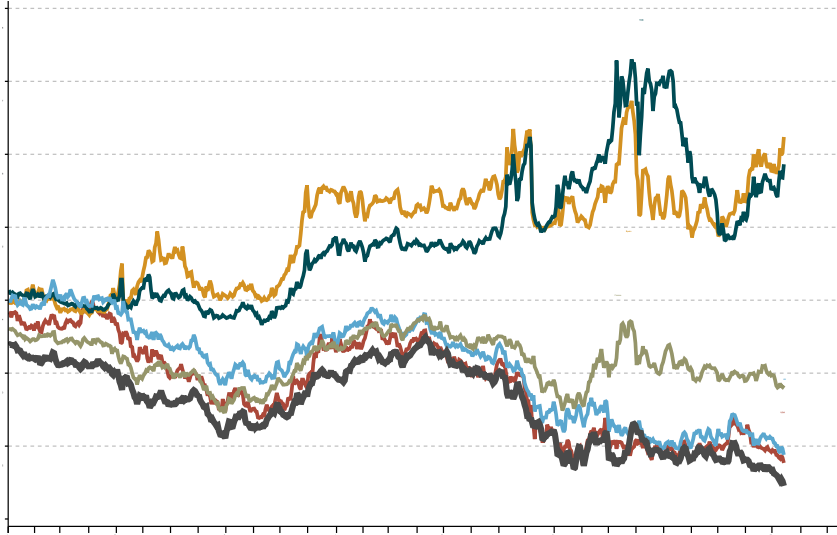


Spain is struggling more than ever

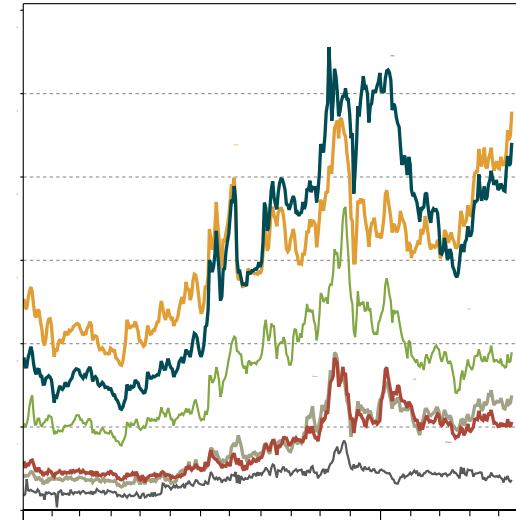
How large will banks' losses on the property/construction sector be?

Huge write-downs may not be sufficient. And the government must pick up the bill

10 y government bonds



Spread vs. Germany



Banks' funding still a HUGE challenge in Europe. Too low equity

Who of you have thought of moving deposits to Greece, Spain or Italy lately?

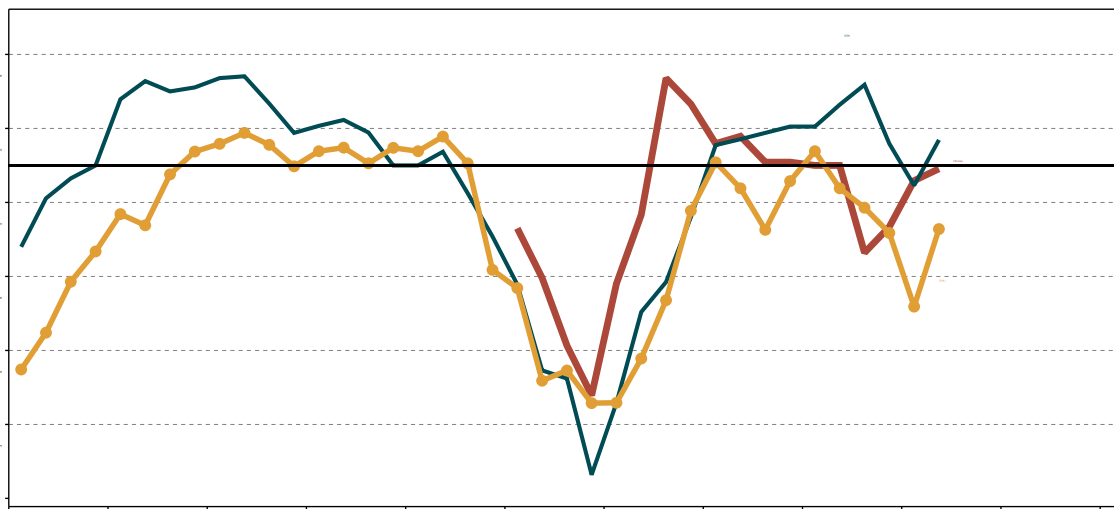
Median CDS 5Y Bank Sector



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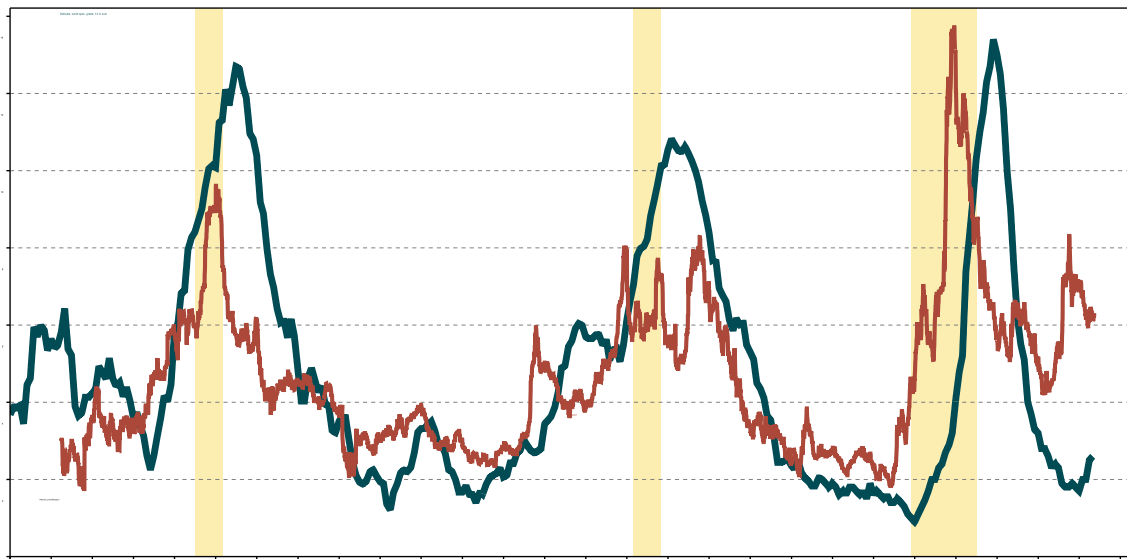


The banks' are not tightening everywhere. But still in Europe

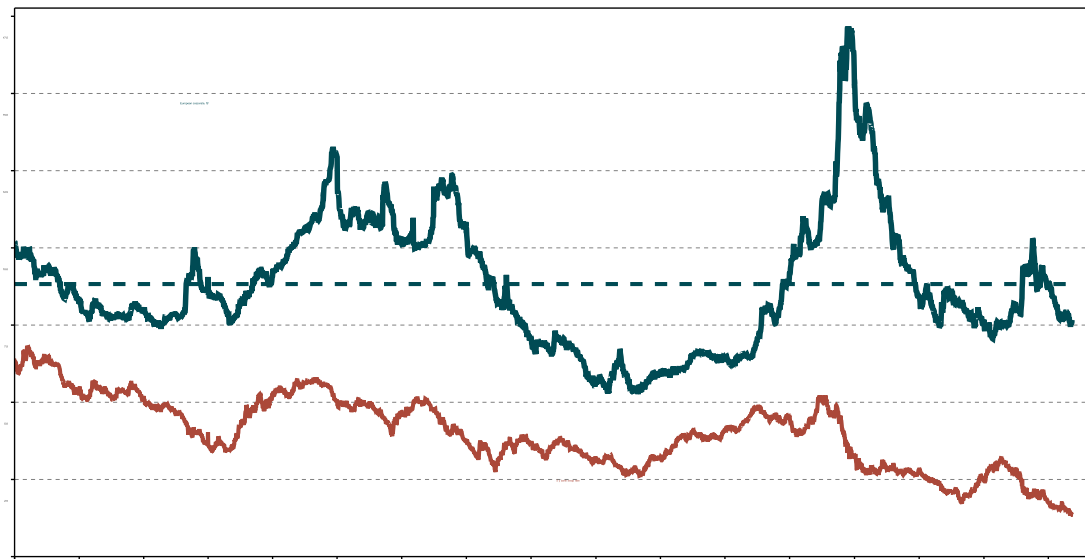


Gobal credit spreads still elevated

.. And well above normal levels



But 'all in' borrowing cost is not too high: Swap rates are record low



The outlook: There are ways out (for most of them)

- The worst is behind us (in the real economy)..
 - The private sector has adjusted, **construction is beaten down**
 - The public sector is underway, will not accelerate fiscal tightening
- .. but the real economy is weak some places, and patience is running thin
 - The electorate, the market
- Greece is not important, by itself..
- **Additional policy measures needed**
 - ECB bank/country lending
 - German/French 'growth compact' – some fiscal leeway
 - An Italian, Spanish policy confirmation
- What's at risk?
 - The European (peace) project

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The Eurozone crises

There any ways out

but will they walk the walk?

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