

Economic Situation and Fiscal Challenges

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ECB Board member

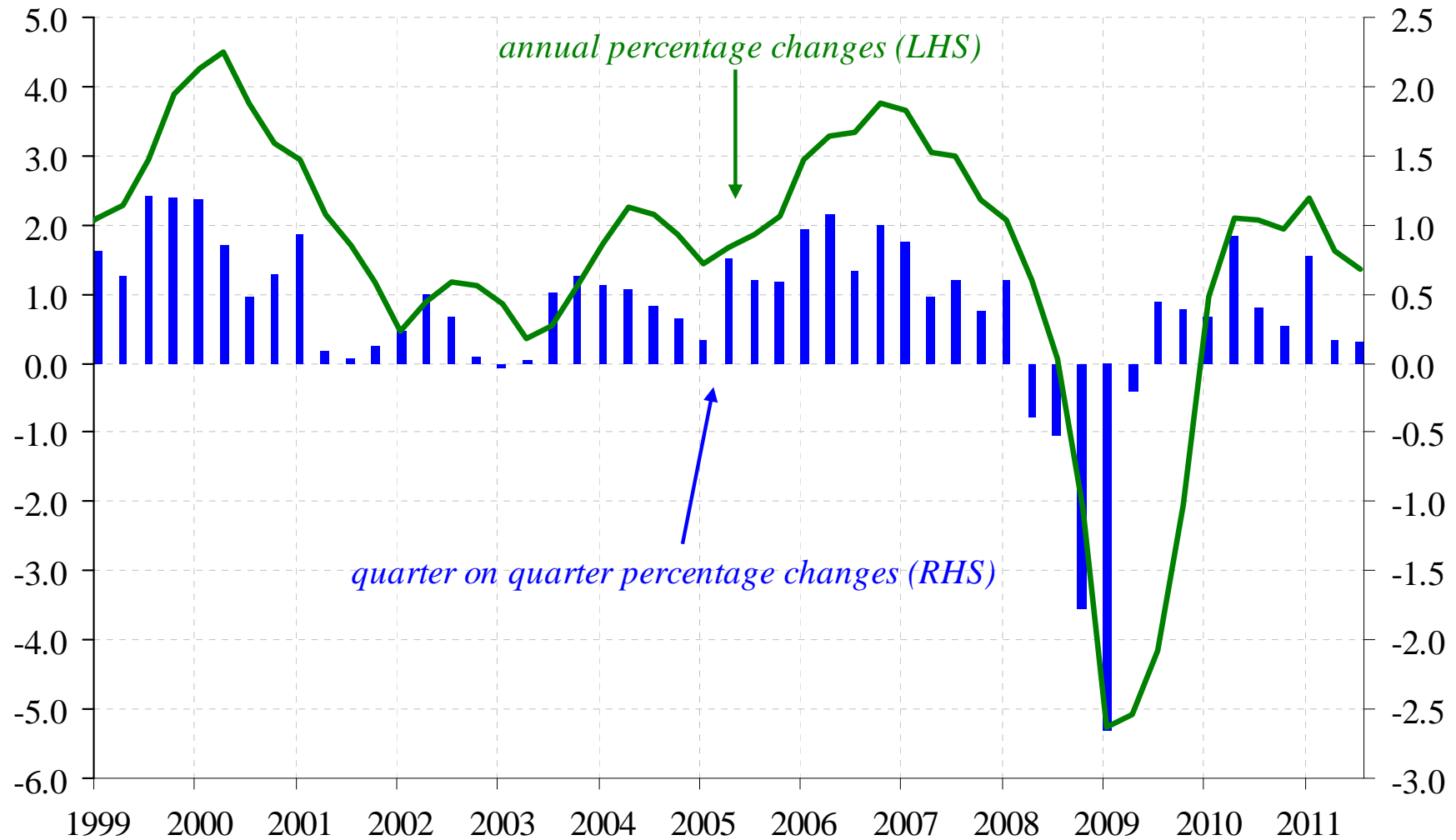
New York, 2 December 2011

Outline

- **Macroeconomic and monetary environment**
- **Monetary policy**
- **Fiscal policy**
- **Structural reforms**
- **Conclusion**

Real GDP growth

(annual percentage changes)

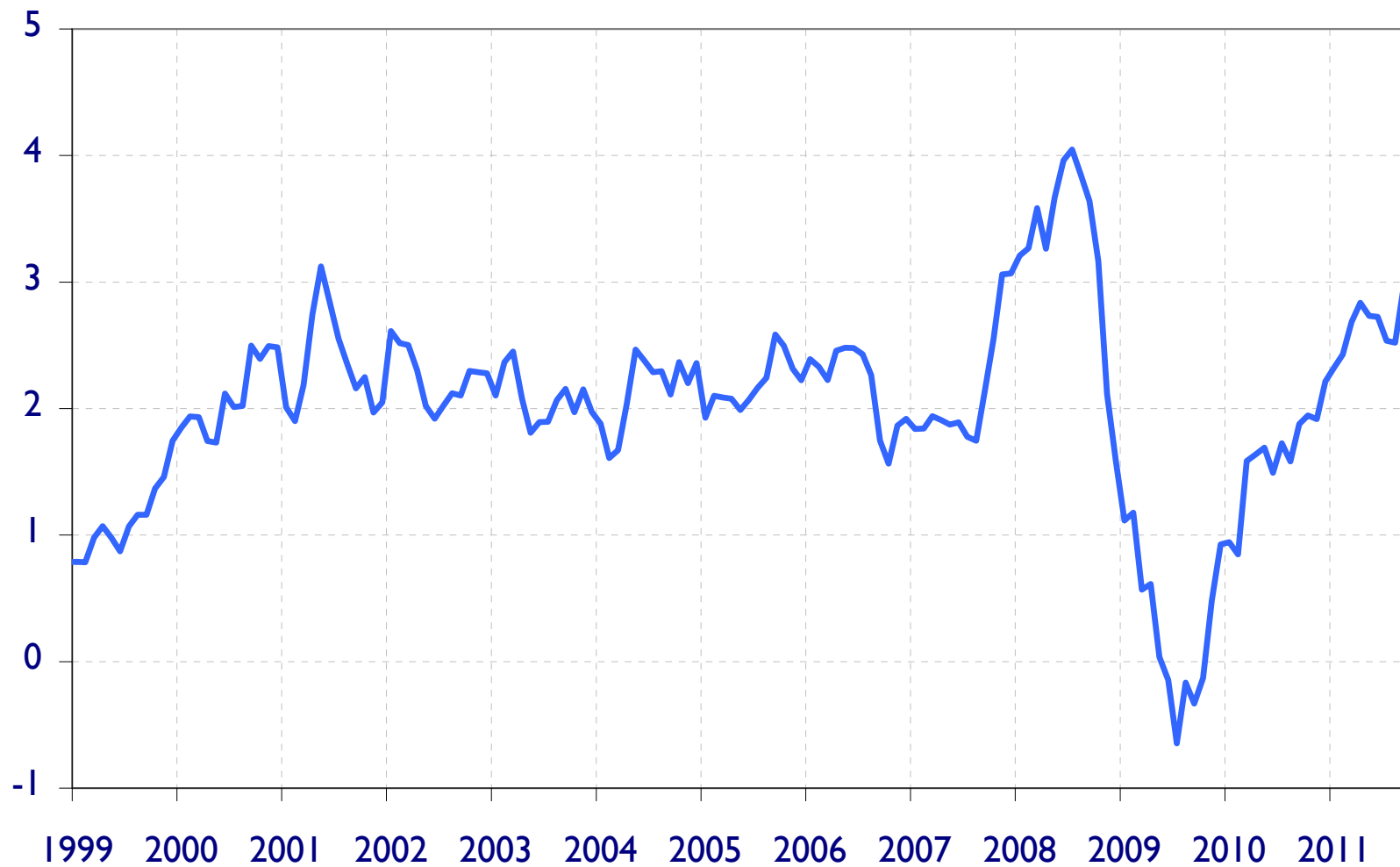


Latest observations: Q3 2011.

Source: Eurostat.

Inflation in the euro area

(annual percentage change)

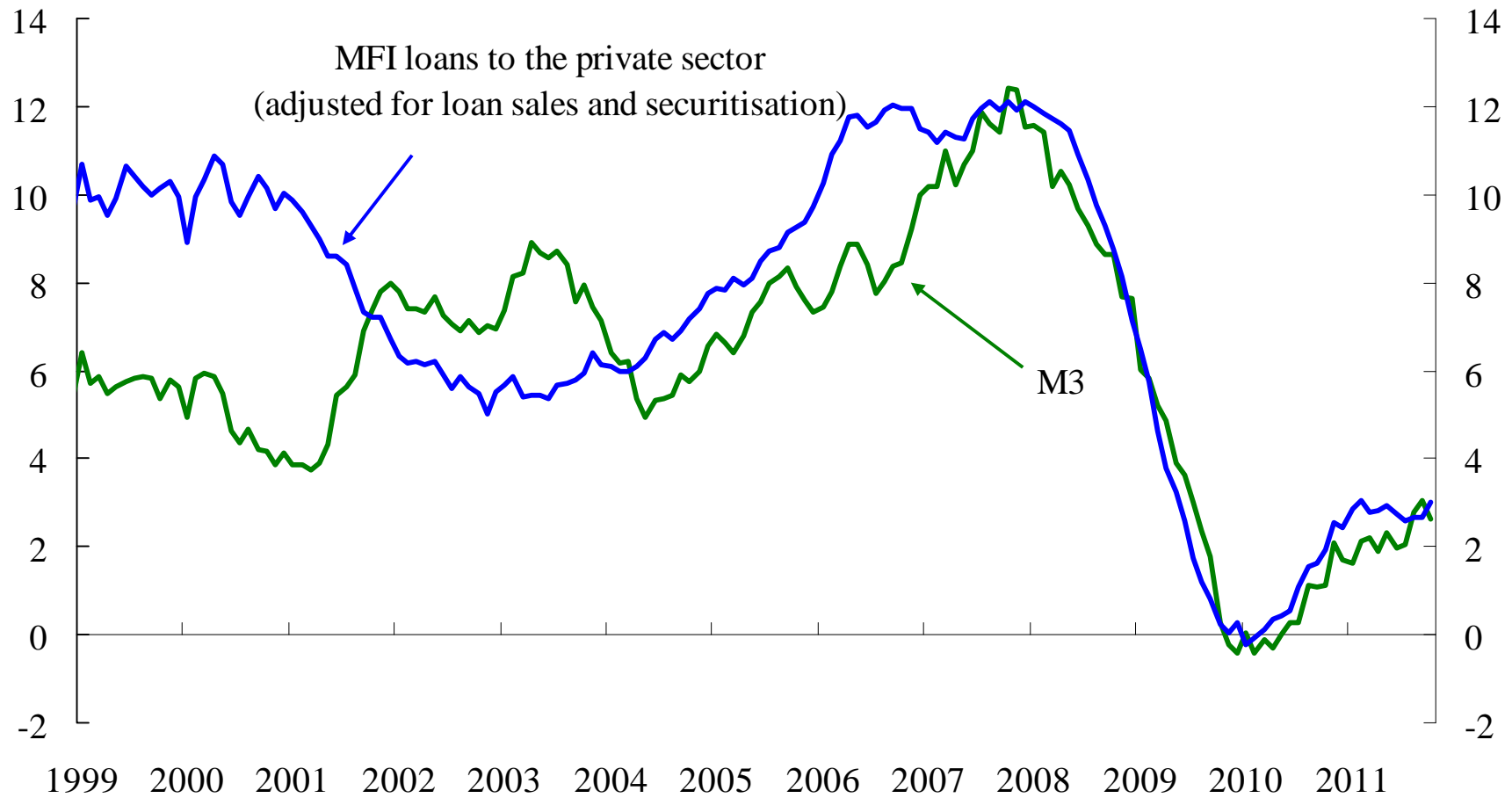


Latest observations: October 2011.

Source: Eurostat.

Euro area monetary aggregates

(annual percentage changes; adjusted for seasonal and calendar effects)

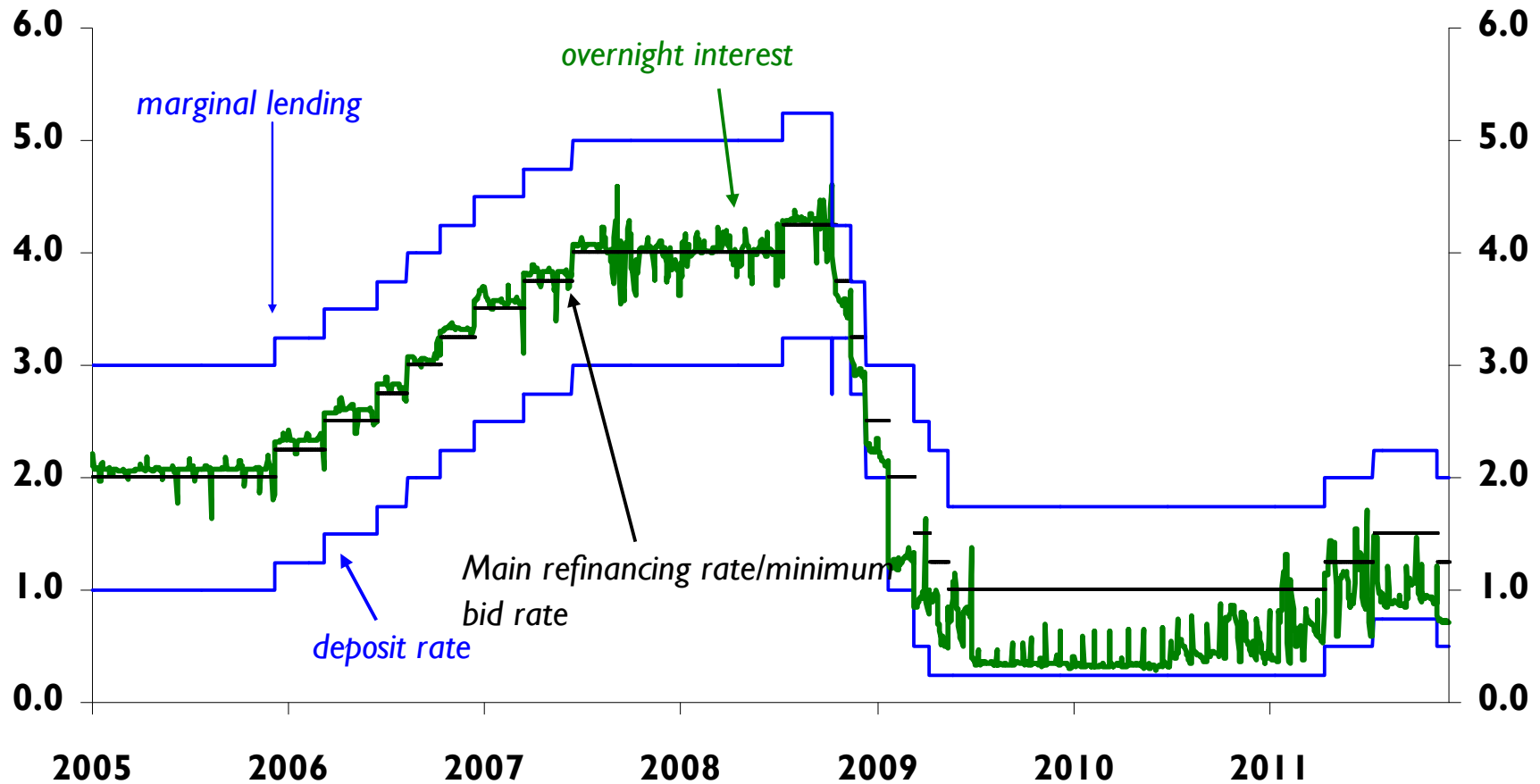


Latest observations: October 2011.

Source: ECB.

Key ECB interest rates

(percentage per annum)



Latest observations: 30 November 2011 for policy rates and 29 November 2011 for overnight interest rate.

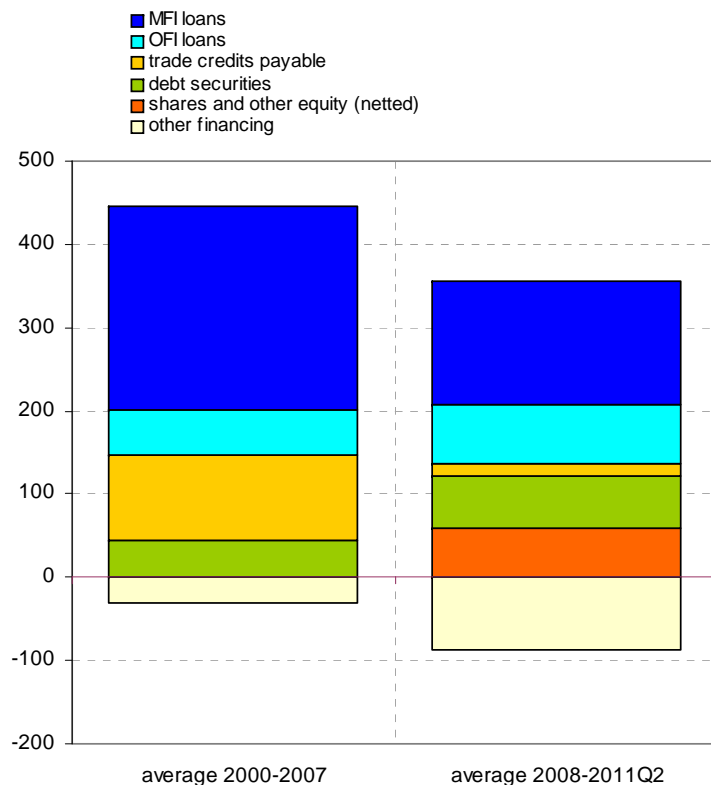
Sources: ECB, Reuters.

Risks of very low interest rates for long

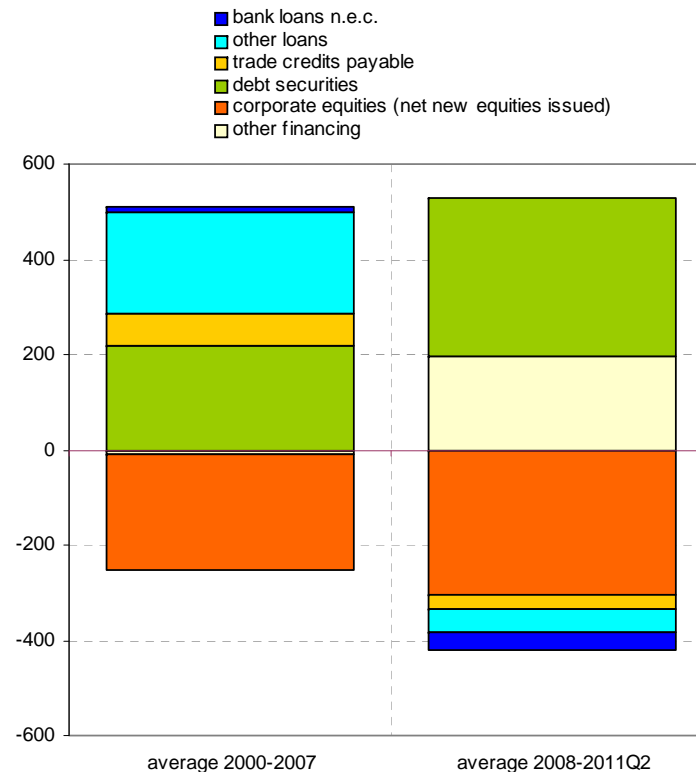
- **May create basis for future period of instability**
- **Little financial incentive for de-leveraging for banking and non-financial sectors**
- **Negative impact on trading activity on money markets and on some financial institutions (money market funds)**

External financing of non-financial corporations in the euro area and the United States

Euro area: (based on transactions, in EUR billions)



US: (based on transactions, in USD billions)

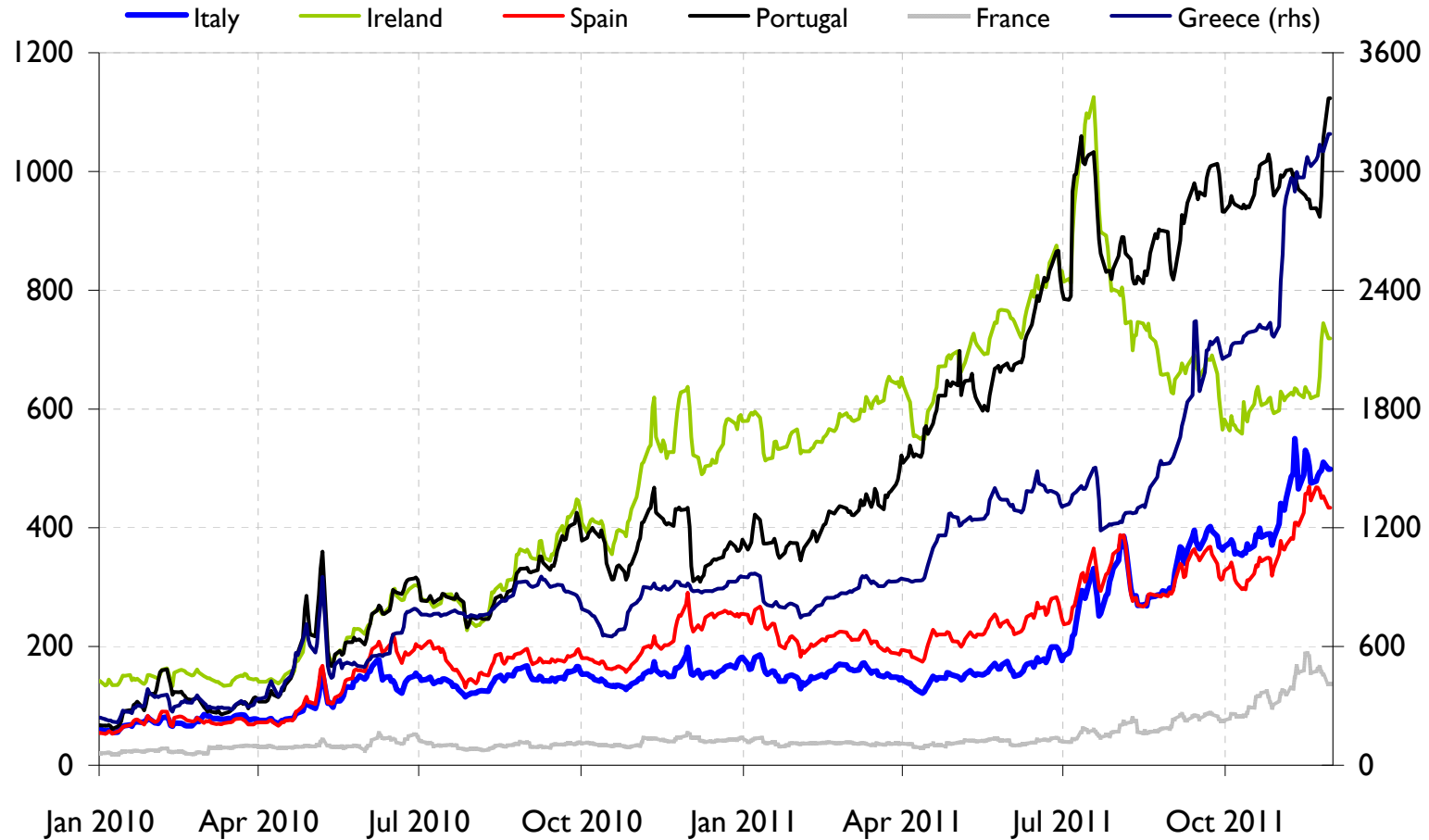


Sources : Integrated euro area accounts, Board of Governors of the Federal Reserve System.

Notes: For the euro area: In order to increase the comparability with the United States, 'total external financing' has been netted with shares and other equity investment, other accounts receivables (excluding trade credits receivable) and loans granted by non-financial corporations. Shares and other equity have been "consolidated" by netting out non-financial corporations' equity investment. 'Other financing' includes other accounts payable excluding trade credits payable, financial derivatives and financing through direct pension commitments. In order to increase the comparability with the United States, inter-company loans have been "consolidated" by netting loans granted by non-financial corporations.

For the US: 'Total external financing' has been netted with 'other miscellaneous assets'. 'Other financing' includes miscellaneous liabilities (netted), taxes payable and proprietors' net investment. Bank loans n.e.c. is the statistical category "bank loans not elsewhere classified" in the US Flow of funds.

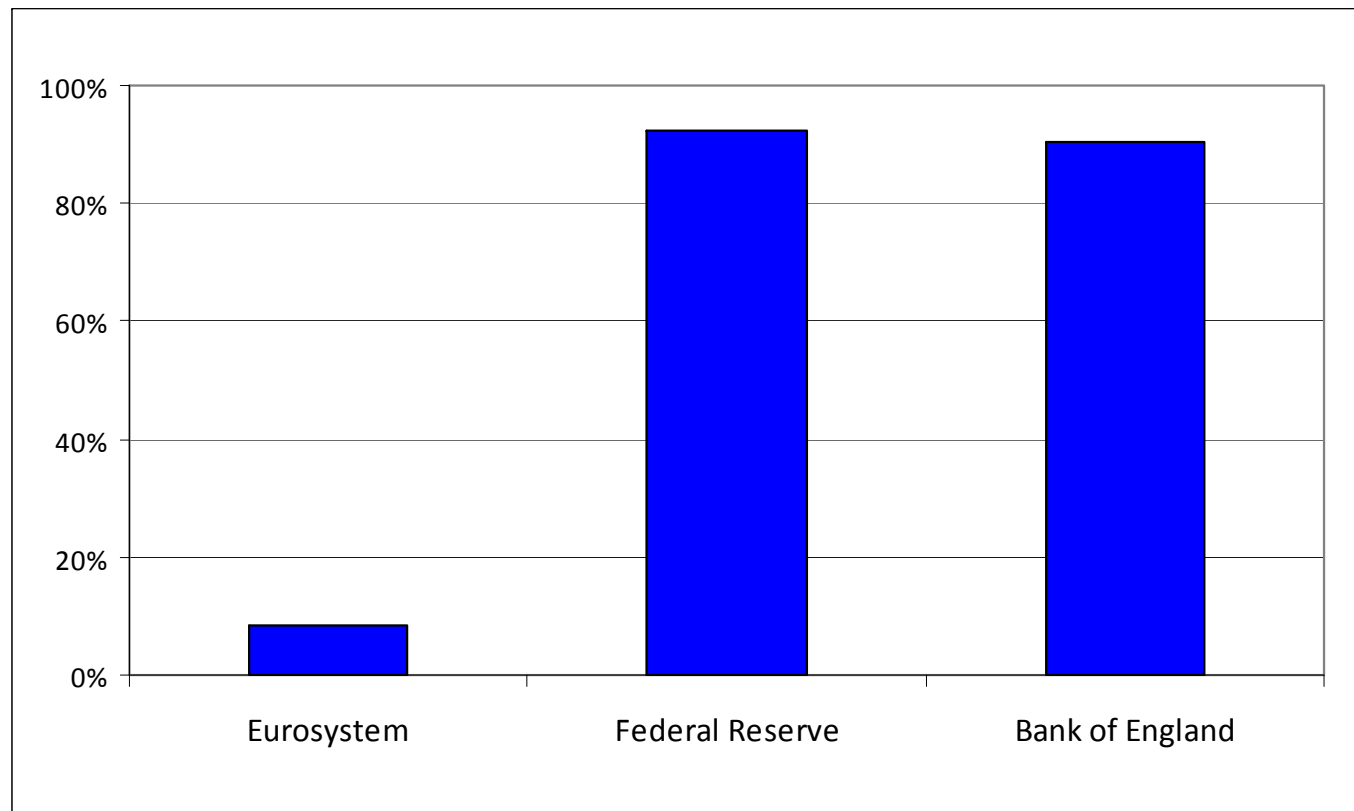
Sovereign bond yield spreads in the euro area



Note: 10-year government bond yield spreads against the German bund.
Latest observations: 29 November 2011.

Non-standard security purchase programmes in the euro area, the US and then UK

(as a % of total consolidated balance sheet size)

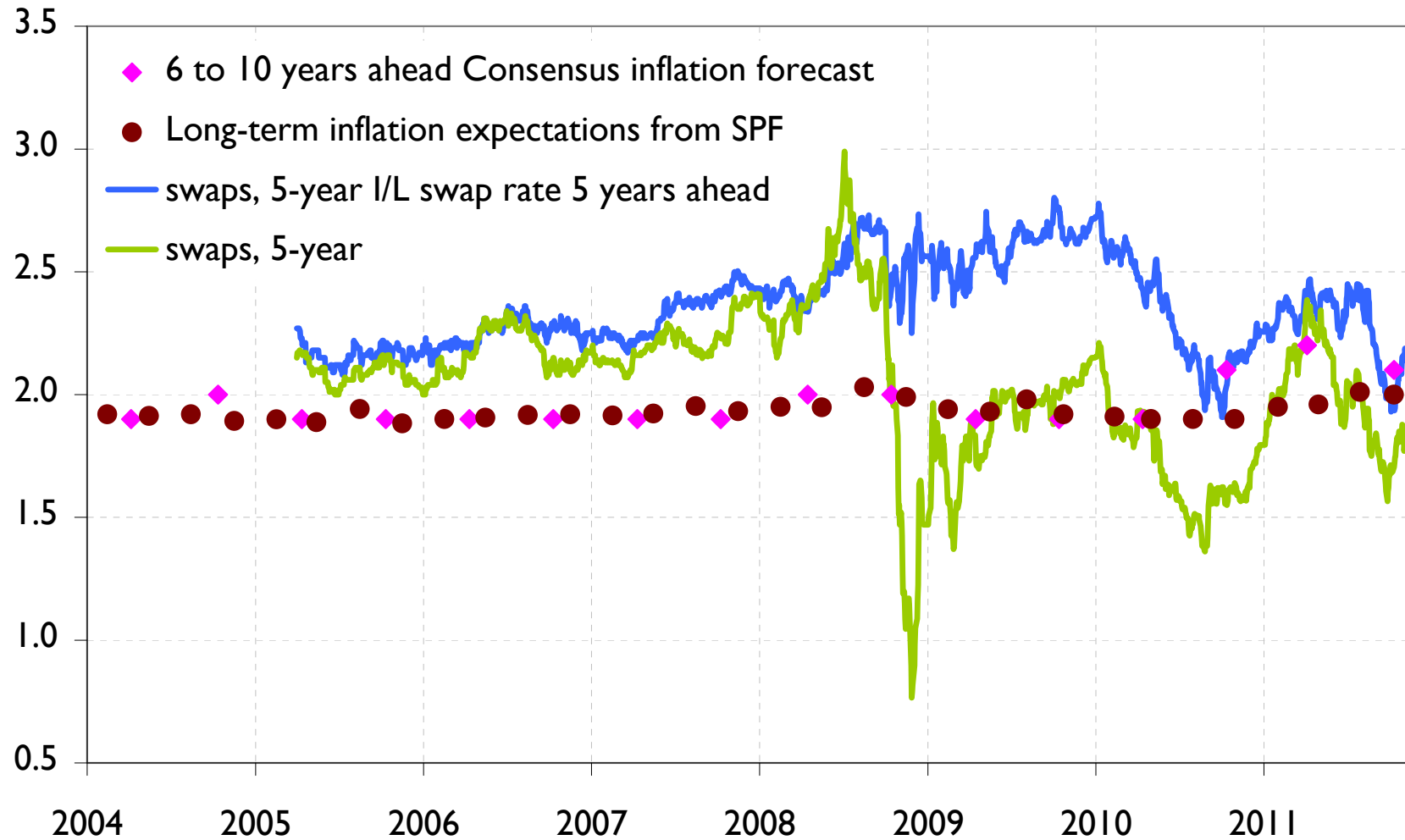


Note: Bonds include government and private bonds.

Latest observations: 25 November 2011 for the Eurosystem, 23 November 2011 for the Federal Reserve and the Bank of England.

Inflation expectations in the euro area

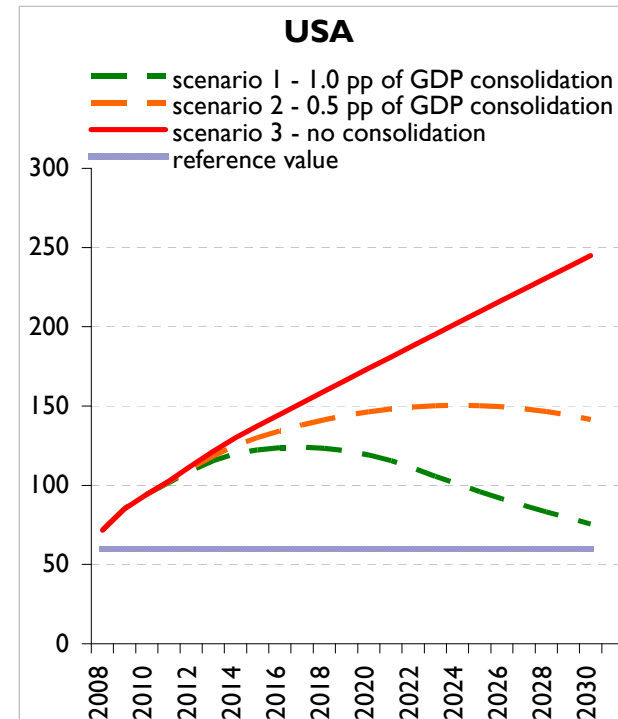
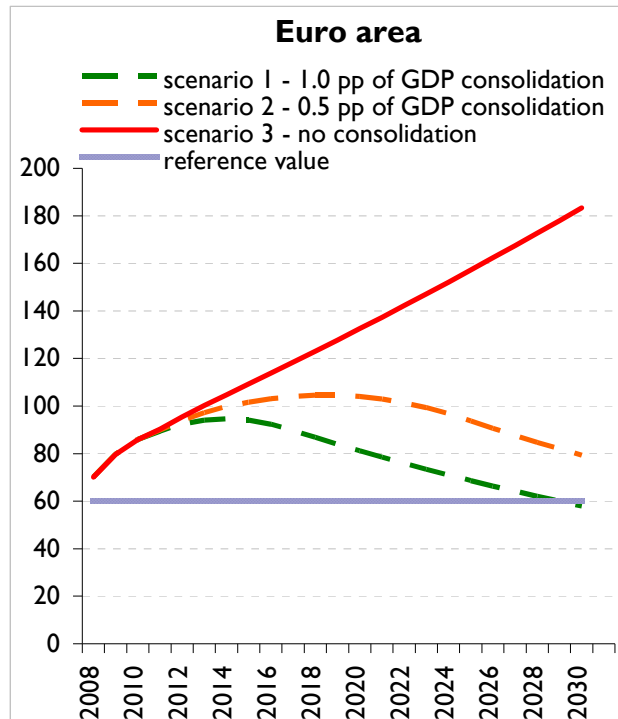
(percent per annum)



Latest observations: 28 November 2011.

Sources: Reuters, ECB, Consensus Economics and ECB calculations.

Debt scenarios: Euro area and United States



Source: ECB calculations.

Notes: All three scenarios use the IMF World Economic Outlook (September 2011) forecast for general government debt and primary balance up to 2010 as a starting point. Fiscal developments as of 2011 are determined by three alternatives scenarios: Scenario 1 assumes a rather rapid fiscal consolidation process, with the primary balance improving by 1.0 percentage point of GDP per year until an overall balanced budget is reached. Scenario 2 assumes a less ambitious consolidation path, with the primary balance improving by only 0.5 percentage point of GDP per year until an overall balanced budget is reached. Scenario 3 assumes that no consolidation efforts are made. The primary balance remains constant at the forecast value for 2010 over the whole simulation period. The macroeconomic assumptions underlying the three scenarios are as follows: nominal GDP growth comes from the IMF World Economic Outlook (September 2011) up to 2016 and afterwards it is equal to the value of 2016. The nominal implicit interest rate on government debt is assumed constant at the value recorded in 2008 (as the values for the period 2009-10 could be distorted by the financial crisis).

Background slides

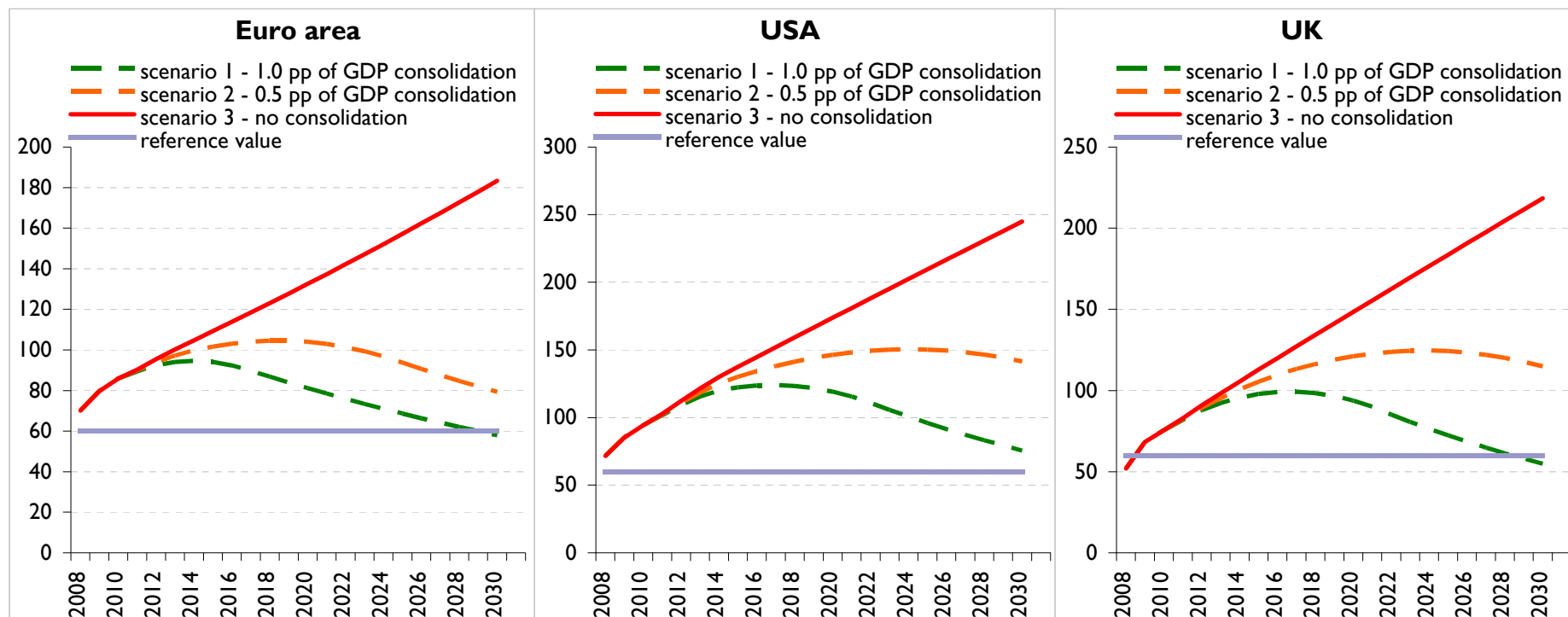
Recent fiscal developments

General government fiscal positions

(% of GDP)	budget balance				gross debt			
	2010	2011	2012	2013	2010	2011	2012	2013
Belgium	-4.1	-3.6	-4.6	-4.5	96.2	97.2	99.2	100.3
Germany	-4.3	-1.3	-1.0	-0.7	83.2	81.7	81.2	79.9
Estonia	0.2	0.8	-1.8	-0.8	6.7	5.8	6.0	6.1
Ireland	-31.3	-10.3	-8.6	-7.8	94.9	108.1	117.5	121.1
Greece	-10.6	-8.9	-7.0	-6.8	144.9	162.8	198.3	198.5
Spain	-9.3	-6.6	-5.9	-5.3	61.0	69.6	73.8	78.0
France	-7.1	-5.8	-5.3	-5.1	82.3	85.4	89.2	91.7
Italy	-4.6	-4.0	-2.3	-1.2	118.4	120.5	120.5	118.7
Cyprus	-5.3	-6.7	-4.9	-4.7	61.5	64.9	68.4	70.9
Luxembourg	-1.1	-0.6	-1.1	-0.9	19.1	19.5	20.2	20.3
Malta	-3.6	-3.0	-3.5	-3.6	69.0	69.6	70.8	71.5
Netherlands	-5.1	-4.3	-3.1	-2.7	62.9	64.2	64.9	66.0
Austria	-4.4	-3.4	-3.1	-2.9	71.8	72.2	73.3	73.7
Portugal	-9.8	-5.8	-4.5	-3.2	93.3	101.6	111.0	112.1
Slovenia	-5.8	-5.7	-5.3	-5.7	38.8	45.5	50.1	54.6
Slovakia	-7.7	-5.8	-4.9	-5.0	41.0	44.5	47.5	51.1
Finland	-2.5	-1.0	-0.7	-0.7	48.3	49.1	51.8	53.5
Euro area	-6.2	-4.1	-3.4	-3.0	85.6	88.0	90.4	90.9
United States	-10.3	-9.6	-7.9	-6.2	94.4	100.0	105.0	108.9
United Kingdom	-10.3	-9.4	-7.8	-5.8	79.9	84.0	88.8	85.9
Japan	-9.2	-10.3	-9.1	-7.8	220.0	233.1	238.4	242.9

Sources: European Commission Autumn 2011 Forecast and IMF World Economic Outlook (September 2011) in the case of Japan and the United States.

Debt scenarios (EA, US, UK)



Source: ECB calculations.

Notes: All three scenarios use the IMF World Economic Outlook (September 2011) forecast for general government debt and primary balance up to 2010 as a starting point. Fiscal developments as of 2011 are determined by three alternatives scenarios: Scenario 1 assumes a rather rapid fiscal consolidation process, with the primary balance improving by 1.0 percentage point of GDP per year until an overall balanced budget is reached. Scenario 2 assumes a less ambitious consolidation path, with the primary balance improving by only 0.5 percentage point of GDP per year until an overall balanced budget is reached. Scenario 3 assumes that no consolidation efforts are made. The primary balance remains constant at the forecast value for 2010 over the whole simulation period. The macroeconomic assumptions underlying the three scenarios are as follows: nominal GDP growth comes from the IMF World Economic Outlook (September 2011) up to 2016 and afterwards it is equal to the value of 2016. The nominal implicit interest rate on government debt is assumed constant at the value recorded in 2008 (as the values for the period 2009-10 could be distorted by the financial crisis).