

The Fiscal/Monetary  
Mix Challenges in  
Spurring EU/EZ  
Growth

**28 February 2013**

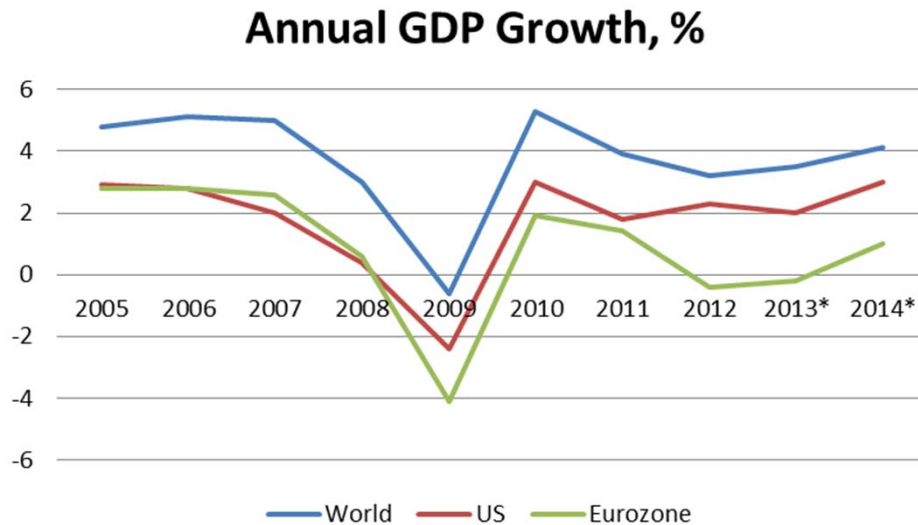
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# Why Is the EU/EZ Recovery So Weak?

- Euro – ‘a currency without a state’. Initially - fears of a break-up.
- Contagion effects across Eurozone/EU are high – due to trade, banking services, etc.
- Sovereign debt crises – started with Greece but the underlying problems are deeper in several other EU economies; unemployment, low demand. High public sector indebtedness.
- Reaction to crisis slow to emerge on the political front. Political vs economic union or GE vs FR. The stabilising (?) role of the Fiscal Pact.
- Role of the ECB crucial in abating the effects of the crisis in the short term but medium term issues still persist.

# The World Economy Is Recovering at Different Speeds; EZ Growth – an ‘Older’ Issue



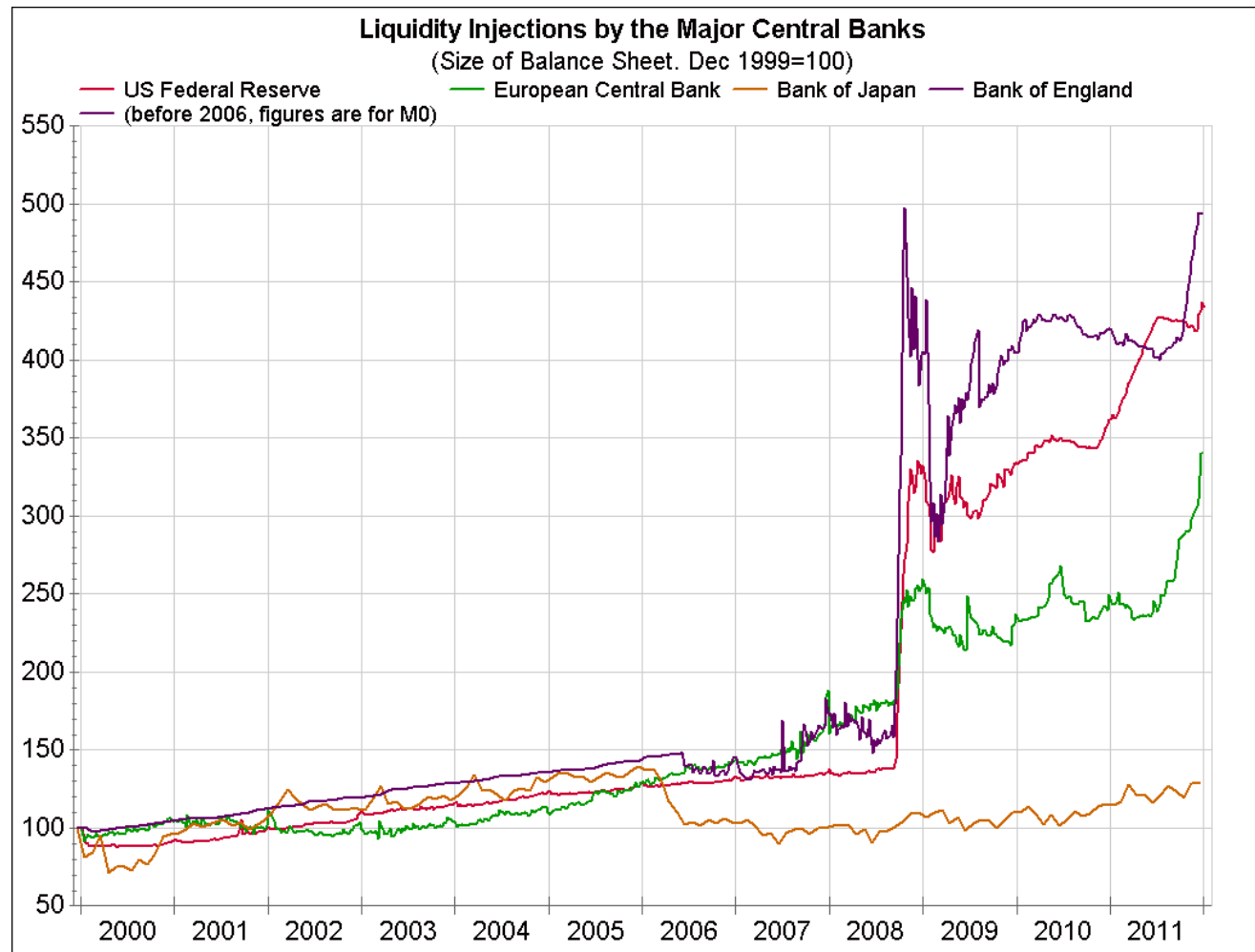
Average annual output growth, %:

	<i>00-07</i>	<i>08-14</i>
World	4.3	3.2
US	3.5	1.4
EZ	2.0	0.0

- Recovery in developed economies expected to be weak and long-lasting.
- Increased market volatility.
- The EZ growth was weaker – compared to the US – even before the crisis, suggesting deeper structural problems.

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# The Role of Monetary Policy in Curbing the Crisis Effects So Far



# Fiscal Policy Is Becoming More Constrained

Year 2012	Unemployment Rate, %	General Government Gross Debt, % of GDP
Germany	5.5	81.6
France	10.3	90.3
Italy	10.6	127
Spain	25.0	88.4
Ireland	14.8	117.2
Greece	24.7	161.6
Eurozone	11.4	92.9

Source: EC, European Economic  
Forecast, Winter 2013

- The Threat of Growing Public Debt.
- The Political Cost of Unemployment.
- Restoring Households Purchasing Power.

# Economic Growth Challenges in EZ/EU

- Both monetary and fiscal policies in EU/EZ would face ‘sustainability’ constraints in the medium term unless ‘decent’ growth resumes quickly.
- The relevance of external shocks: medium-term EU’s economic growth based largely on higher external demand; the ECB’s monetary policy influenced by the behaviour of other CB’s.
- The inter-generational distributional wealth effect would need to change. A feasible way would be a gradual return towards some sort of ‘laissez-faire’ policy with small government – a modified version of the ‘Coolidge approach’.