

Comments on Pisani-Ferry, Sapir and Wolff (2013)

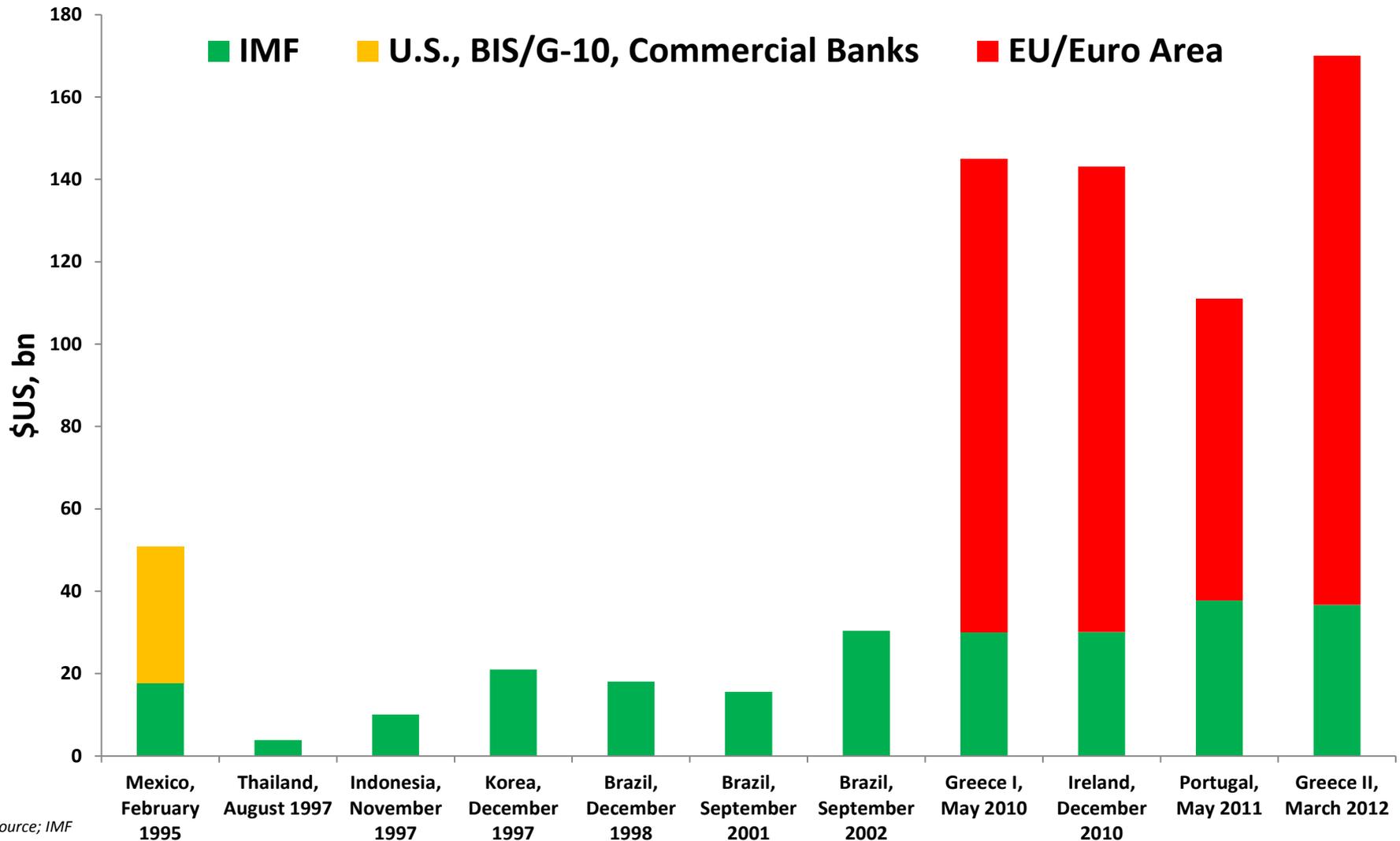
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Outline

- 1) Size Matters for Moral Hazard**
- 2) Size of Imbalances Matters for Forecasts/DSA**
- 3) Common Physical Currency More Important Than Any Individual Program Country**

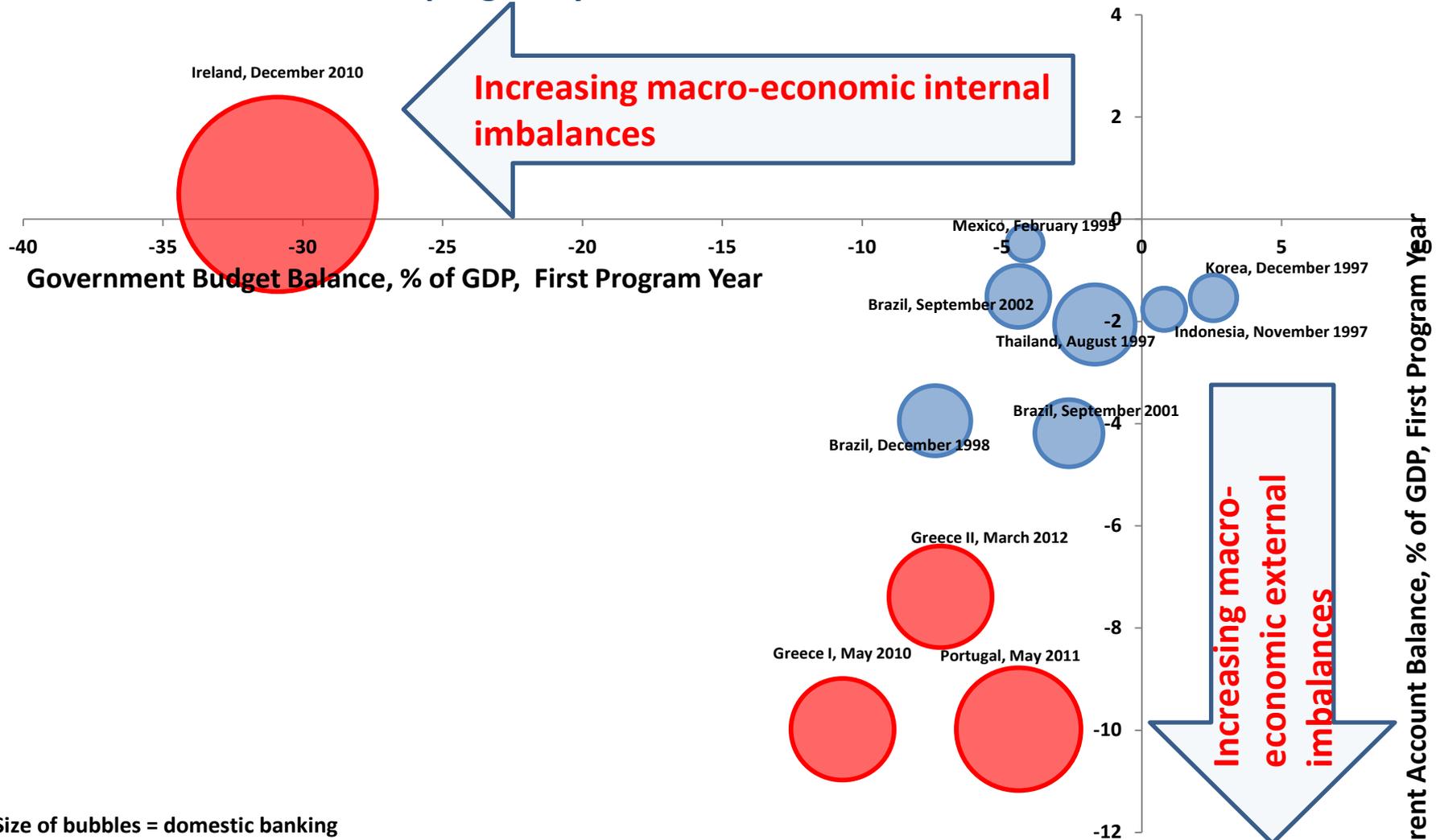
Euro area programs far bigger, but passed 17 parliaments (cost = moral hazard concerns)

Size of select IMF programs, by source of financing, \$USbn



Euro area countries had far larger imbalances to correct (uncertainty = much higher)

Select macro indicators, first program year



Size of bubbles = domestic banking sector in % of GDP in first program year

Sources; IMF, Eurostat, EIU

Preserving the euro took political precedent over individual program countries



No, it
wasn't!
But.....

1) Cross-border contagion inside a currency union much higher than elsewhere

2) EU institutions/leaders prioritized this at critical moments, despite adverse effects on program countries

3) Absent crisis institutions (EFSF/ESM/OMT) were designed for the euro – NOT program countries

4) Cataclysmic cost of exit provides important leverage – but NOT to small program countries