

Is the Euro Area Crisis Really Over?

Comments on Martin Wolf
PIIE, April 9th 2014

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What Didn't Happen!

Second, we are no longer including Grexit at the start of 2014 in our base case. We still believe that there is a fairly high risk of Grexit in coming years, but no longer put it in our base case at any particular date

Buiter and Rahbari; Citibank Global Research, May 2013

No Exits.....*but rather two new euro members!*

No Retail Bank Runs..... *except in non-euro island nations*

No Social Street Explosion..... *“Thousands of youths armed with stones, batons and firebombs engaged in running battles with riot police, destroying shops, banks and cars in cities across Greece last night after a second day of rioting. The violence, the country's worst civil disturbances in years, erupted late on Saturday when it emerged that a teenage boy had been killed by police in Exarchia, a district of central Athens long associated with lawlessness and drug abuse.” Guardian, December 7th 2008(!)*

No Political Takeover by Populists – 1930s Cancelled..... *Unlike in Washington, the political mega-trend in Europe is NOT polarization, but convergence between center-right and center-left and upcoming EU Parliamentary Elections will be no different*

What Has Happened?



Why is the euro zone crisis not over? **Martin Wolf, Associate Editor & Chief** **Economics Commentator, *Financial Times***

National Economists Club & Peterson Institute for International
Economics

3rd May 2012

Peterson Institute, Washington DC

What Has Happened?

7. What needs to be done in the longer term?

- In the longer term, the euro zone needs a minimum fiscal union
- This should not include permanent fiscal transfers
- It should include:
 - "eurozone" of the banking system:
 - An adequate safety net for the public (many times bigger than the European Stability Mechanism) and a mechanism for containing interest rates on sovereign bonds for countries that are adjusting.
 - And so a more supportive central bank
 - The fiscal union should be able to provide forward guidance; neg. deposit rate?; moral interventions..... QE?
- Such a "eurozone" of the banking system would be possible without a BRRD (Bail-ins) if (and only if) banks could be resolved without any support.

No need to be the United States of Europe!

No need for eurobonds!

Banking Union ✓

OMT Program ✓

France 2014 ?

BRRD (Bail-ins) ✓

What Has Happened?

7. What needs to be done in the longer term?

- It is clear that willingness to reform was substantial, once it became obvious that the original design had failed
- But the willingness to reform has also declined
- The obstacles to reform are now much larger

Surely 100% today?

- (The points are large); and
- (and peoples do not like one another very much
- (do not identify with one another very much and the misery is unexpected)
- Will the euro zone survive another decade?
- I give it 50:50.