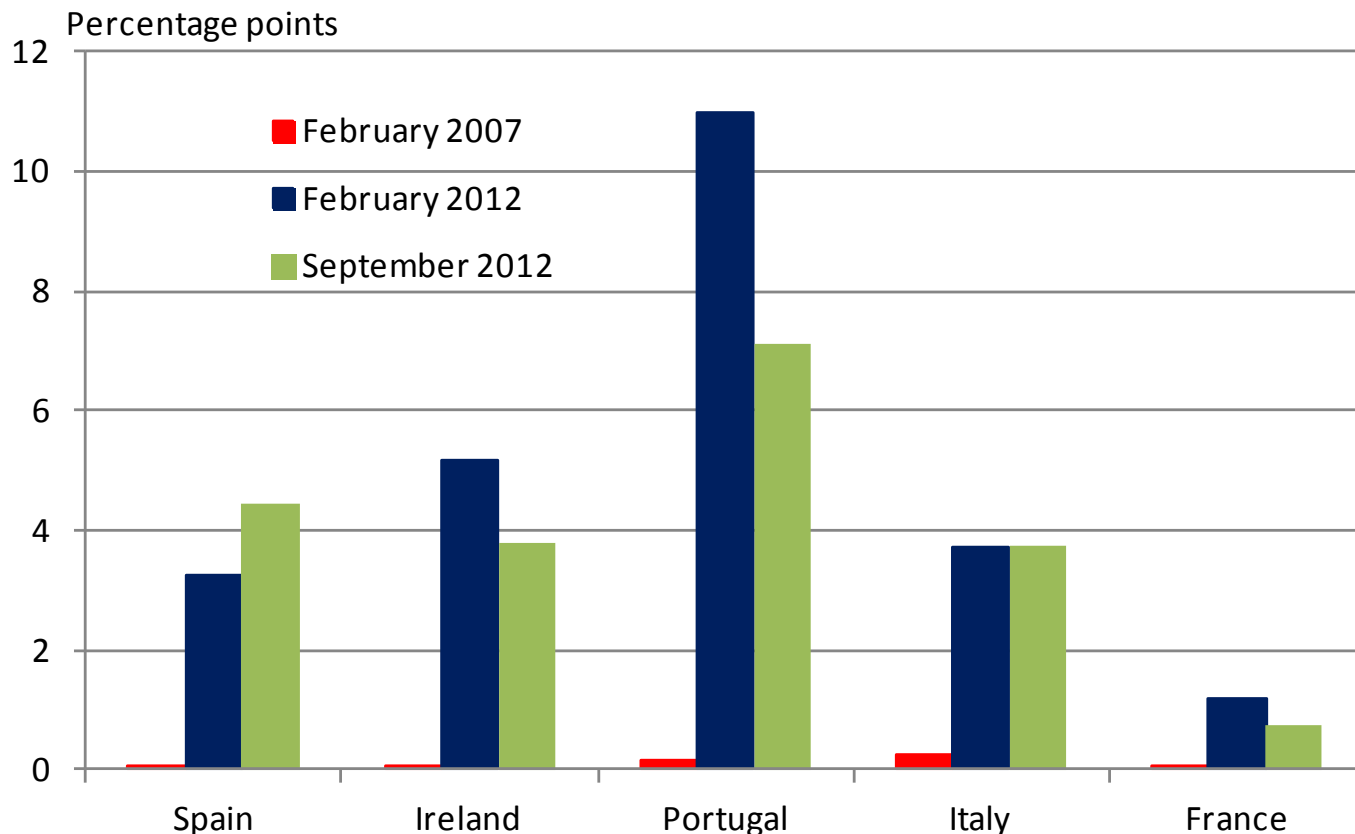




The Euro Area 2013-2014 Going Nowhere in Two Senses

Adam S. Posen
Global Economic Prospects Meeting
PIIE
November 8, 2012

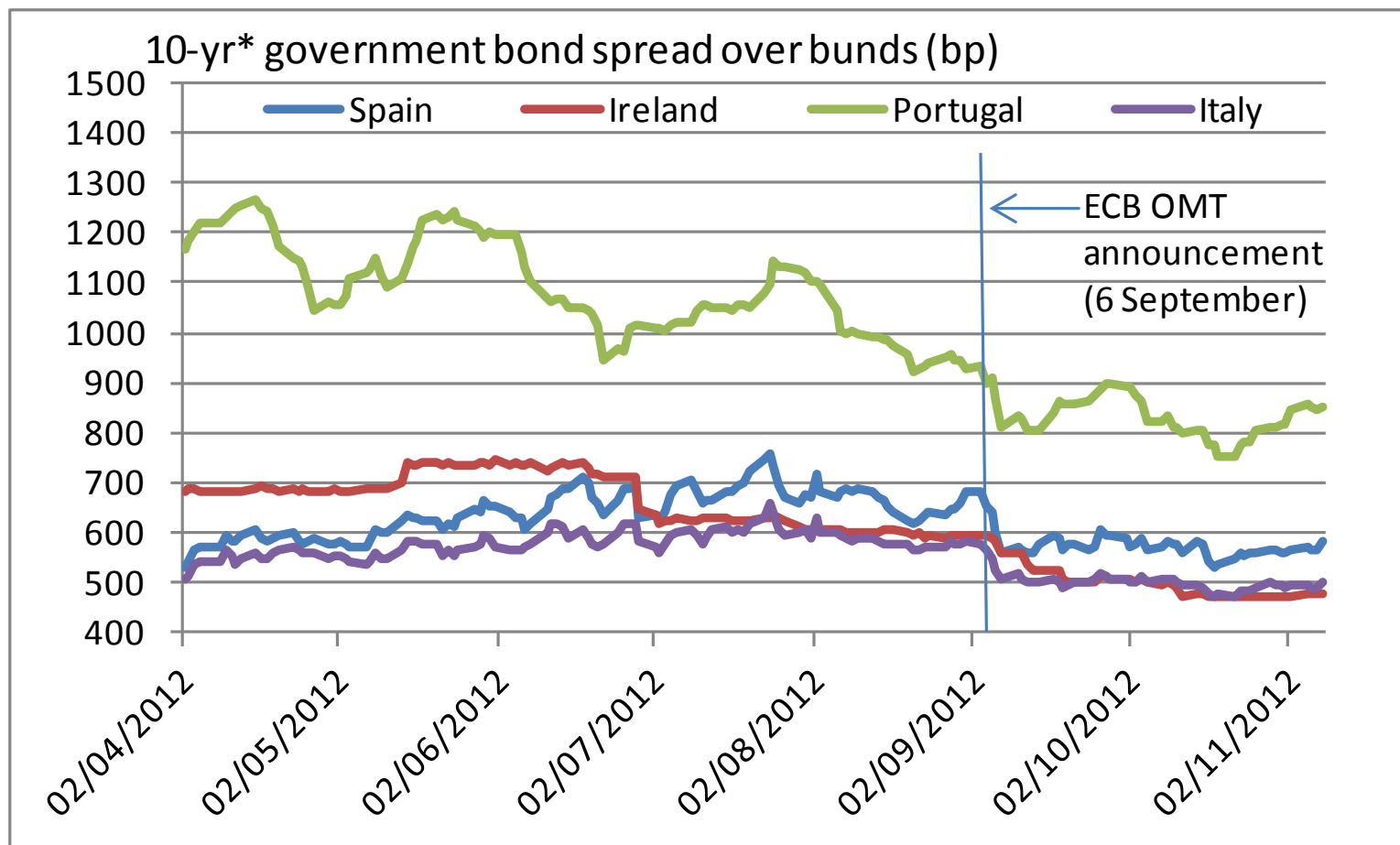
A sudden stop of capital flows – Now partially offset by monetary ease by ECB



Source: IMF International Financial Statistics and Bank of England calculations.

Monetary policy matters in a sovereign panic

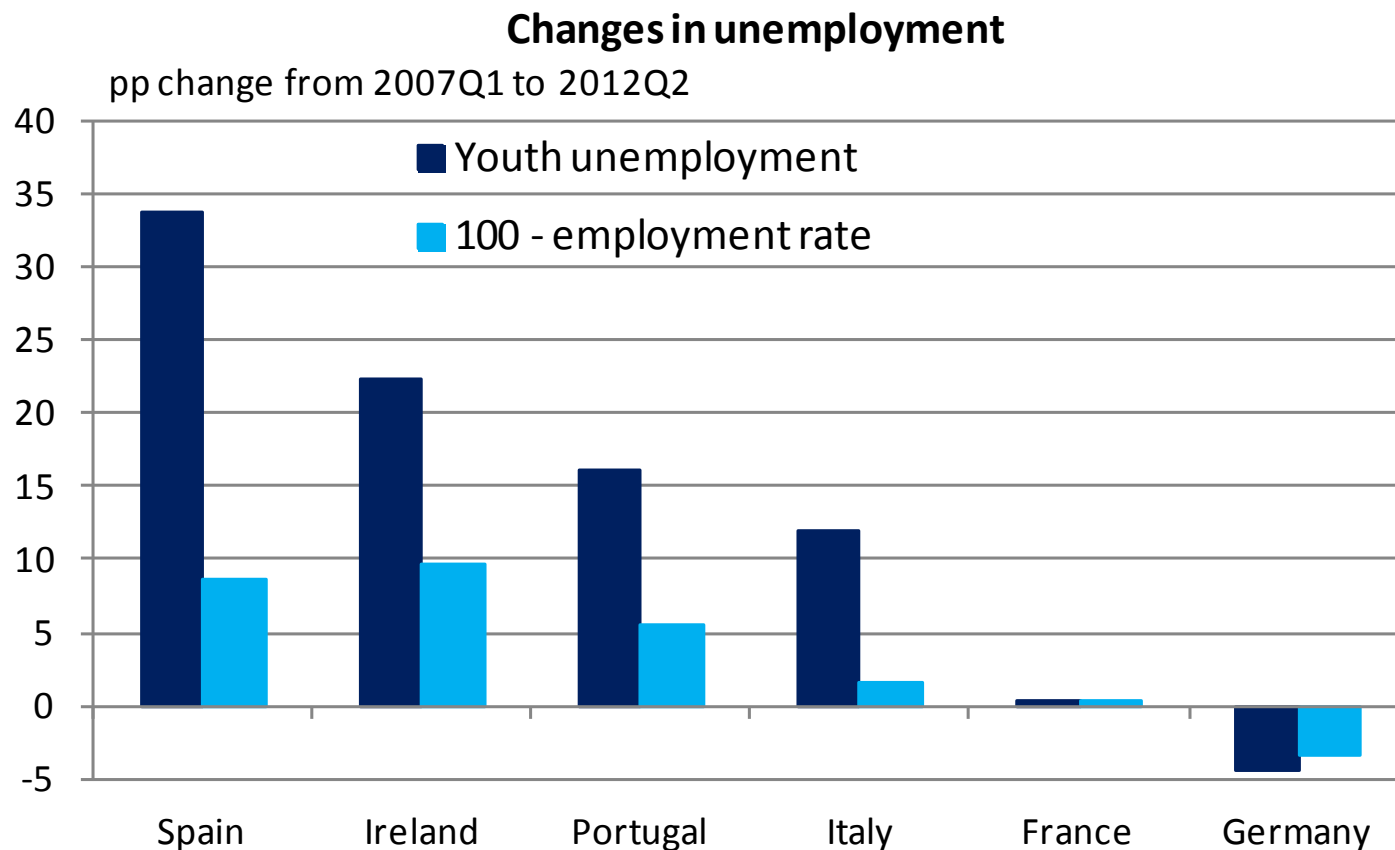
Spreads vs. Bunds from April 2012-present



Source: Bloomberg

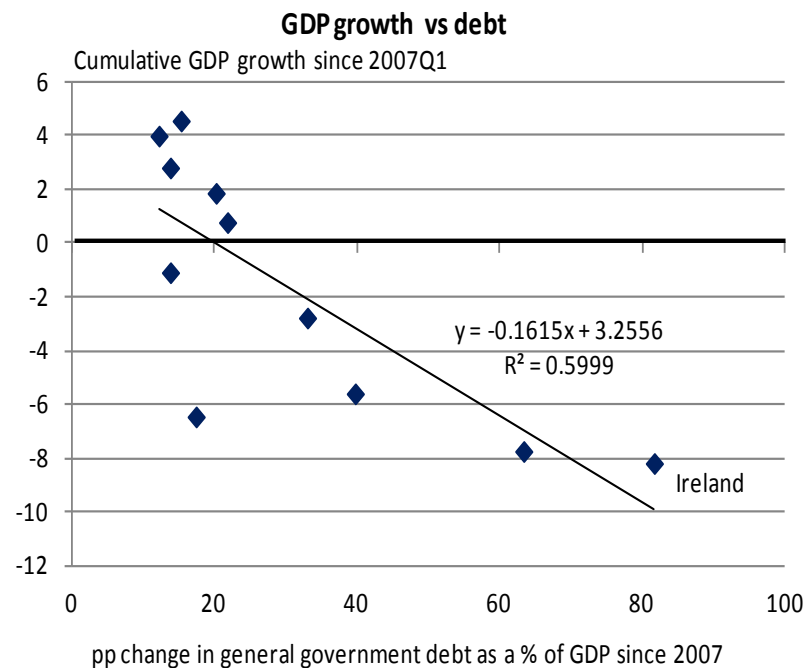
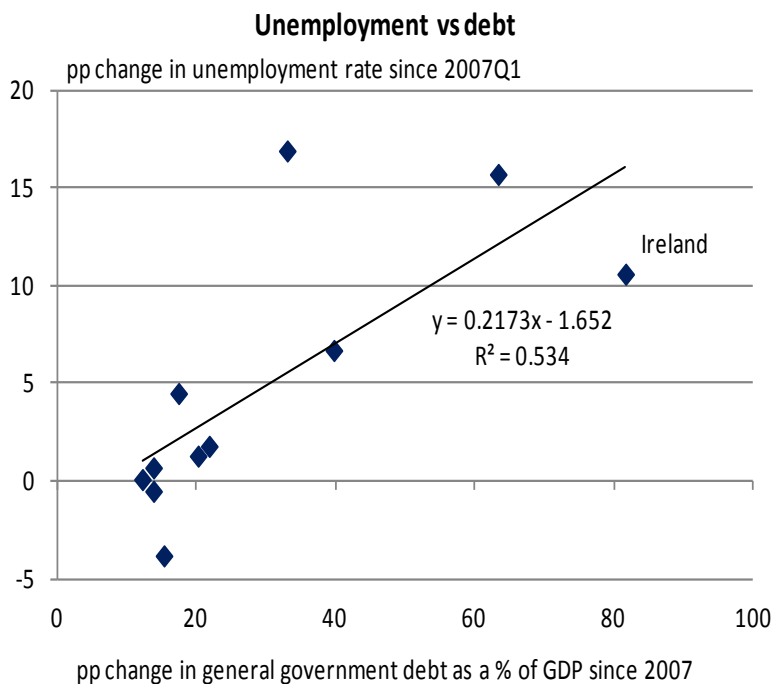
* For Ireland yields on government bonds with a 9-year maturity were used instead

Youth unemployment – with its lasting effects – has risen a lot, and participation has declined



Source: OECD and Eurostat.

Government debt net increase is the *result* of the recession for the most part (>austerity)

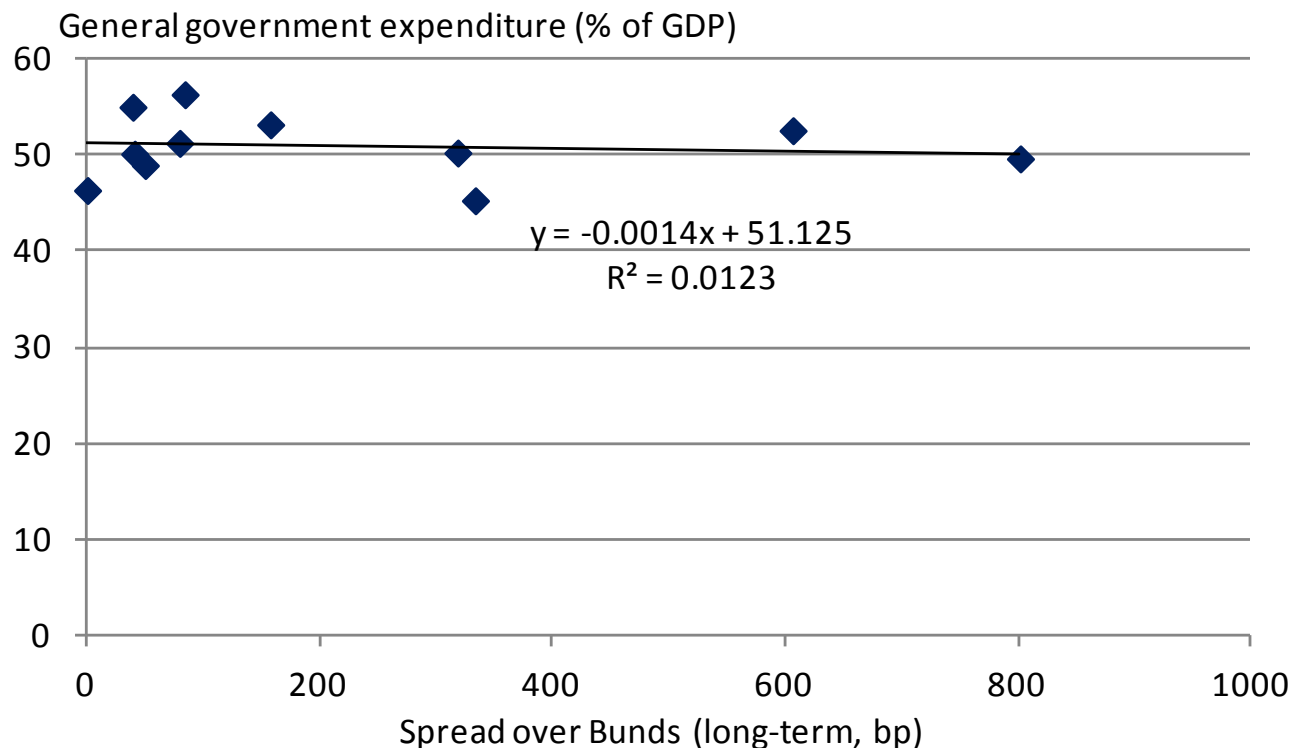


Source: OECD, Eurostat and Bank of England calculations.

Includes Portugal, Italy, Ireland, Greece, Spain, Germany, France, Finland, Austria, Netherlands and Belgium.

Government debt data are annual to 2011. Unemployment data monthly to August 2012 (except Greece which is to June 2012). GDP data are quarterly to 2012Q2 except Ireland (2012Q1) and Greece (2011Q1).

Spreads to bunds vs *level* of public spending – No relationship in a panic and sudden stop



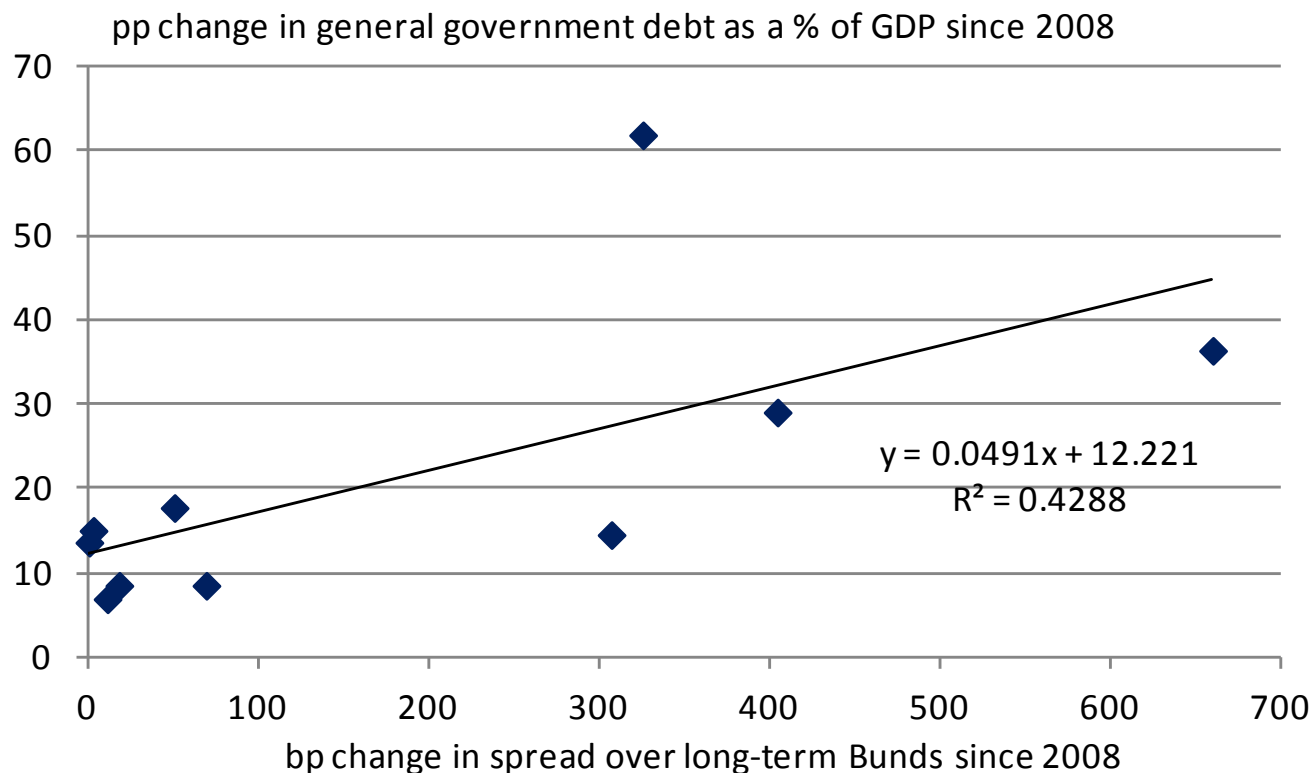
Source: IMF, Eurostat and Bank of England calculations.

Includes Portugal, Italy, Ireland, Spain, Germany, France, Finland, Austria, Netherlands, and Belgium.

Average government bond spreads are calculated over October 2010 - September 2012. Average government expenditure is calculated from 2010Q3 to 2012Q2 except for Germany and France (2011Q4).

A decline in growth feeds market concerns

Spreads vs *change* in public debt since 2008

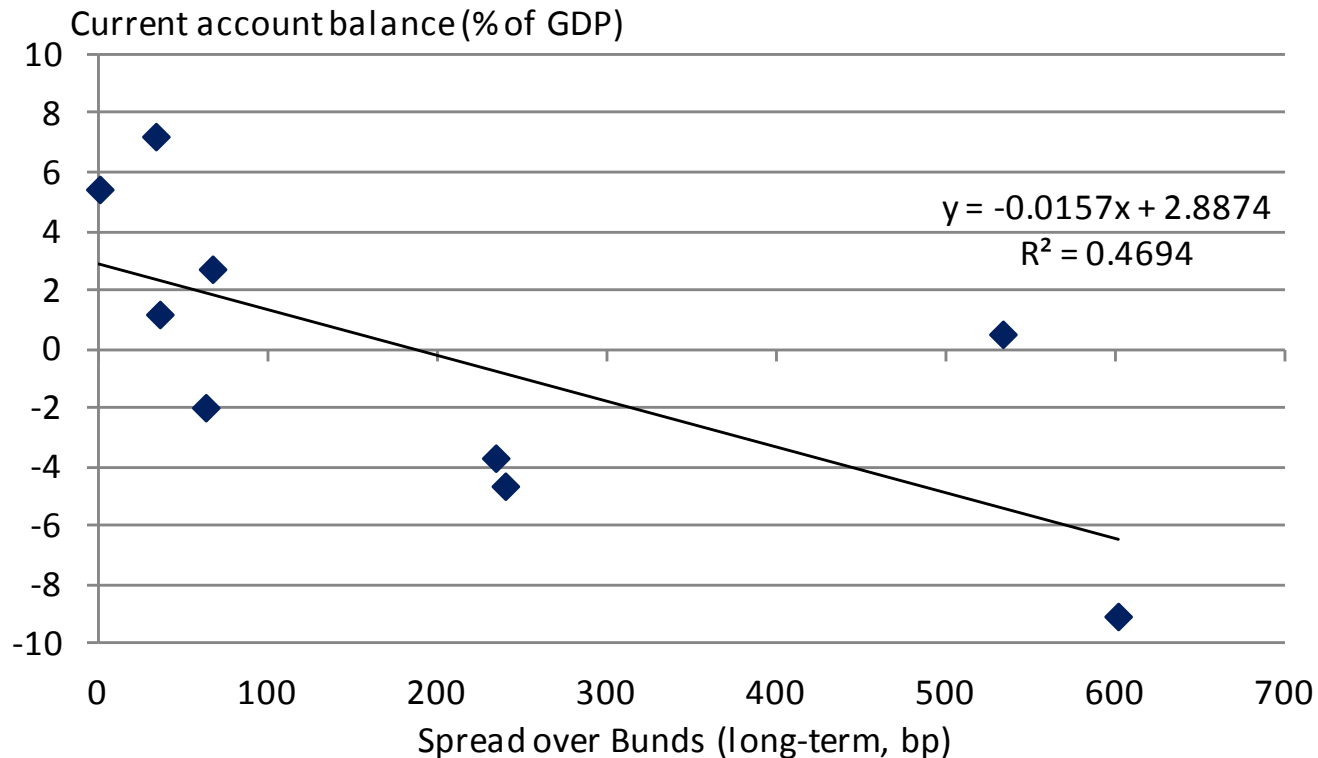


Source: IMF, Eurostat and Bank of England calculations.

Includes Portugal, Italy, Ireland, Spain, Germany, France, Finland, Austria, Netherlands and Belgium .

The change in government bond spreads is calculated from 2008 to September 2012. The change in government debt data is from 2008 to 2011.

Spreads responded ultimately to changes in foreign indebtedness (as fits a sudden stop)



Source: IMF, OECD and Bank of England calculations.

Includes Portugal, Italy, Ireland, Spain, Germany, France, Finland, Austria, Netherlands, and Belgium.

Average government bond spreads are calculated over February 2010 - February 2012. Average current account balance is calculated from 2010Q1 to 2011Q3 except Italy (Q2) and Germany (Q4).