



FINANCIAL
TIMES

Is the eurozone crisis fixed?

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Is the eurozone crisis fixed?

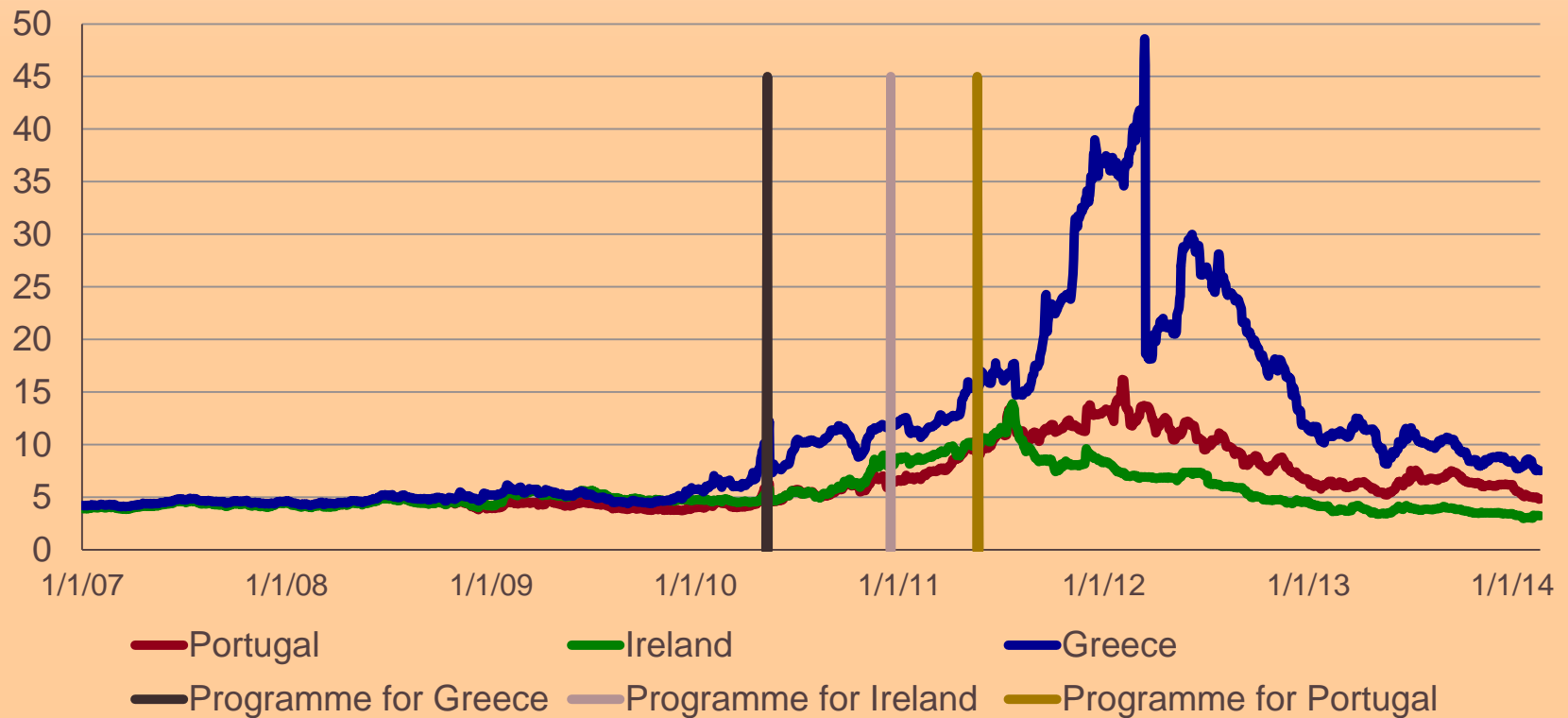
1. No. But it is in abatement.
2. Why the crisis is likely to reignite
3. Probability of a miserable marriage

1. Crisis in abatement

- A fall in financial stress and
- A recovery

1. Crisis in abatement

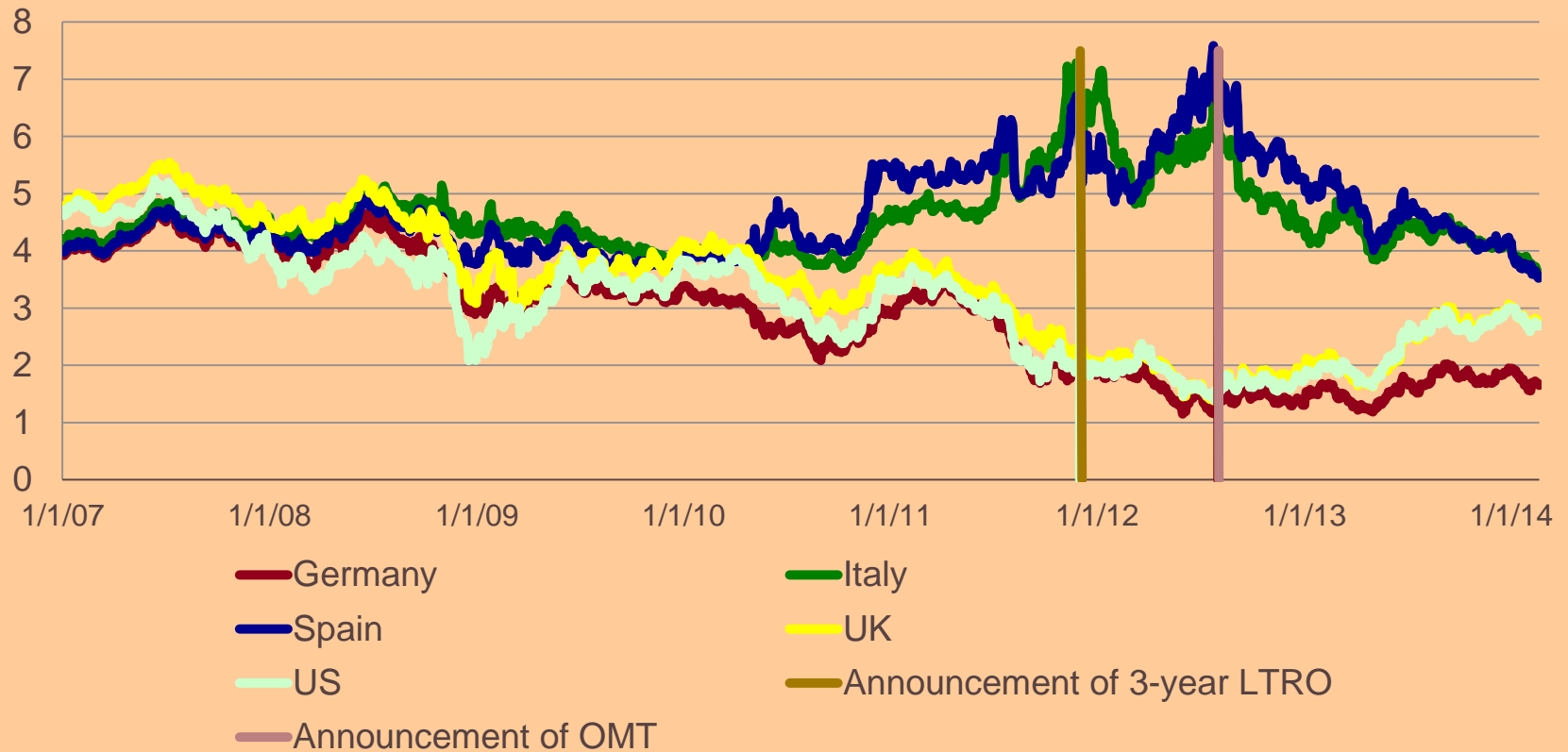
YIELDS ON 10-YEAR BONDS
(percentage points) (Source: Thomson Reuters Datastream)



1. Crisis in abatement

END OF THE PANIC

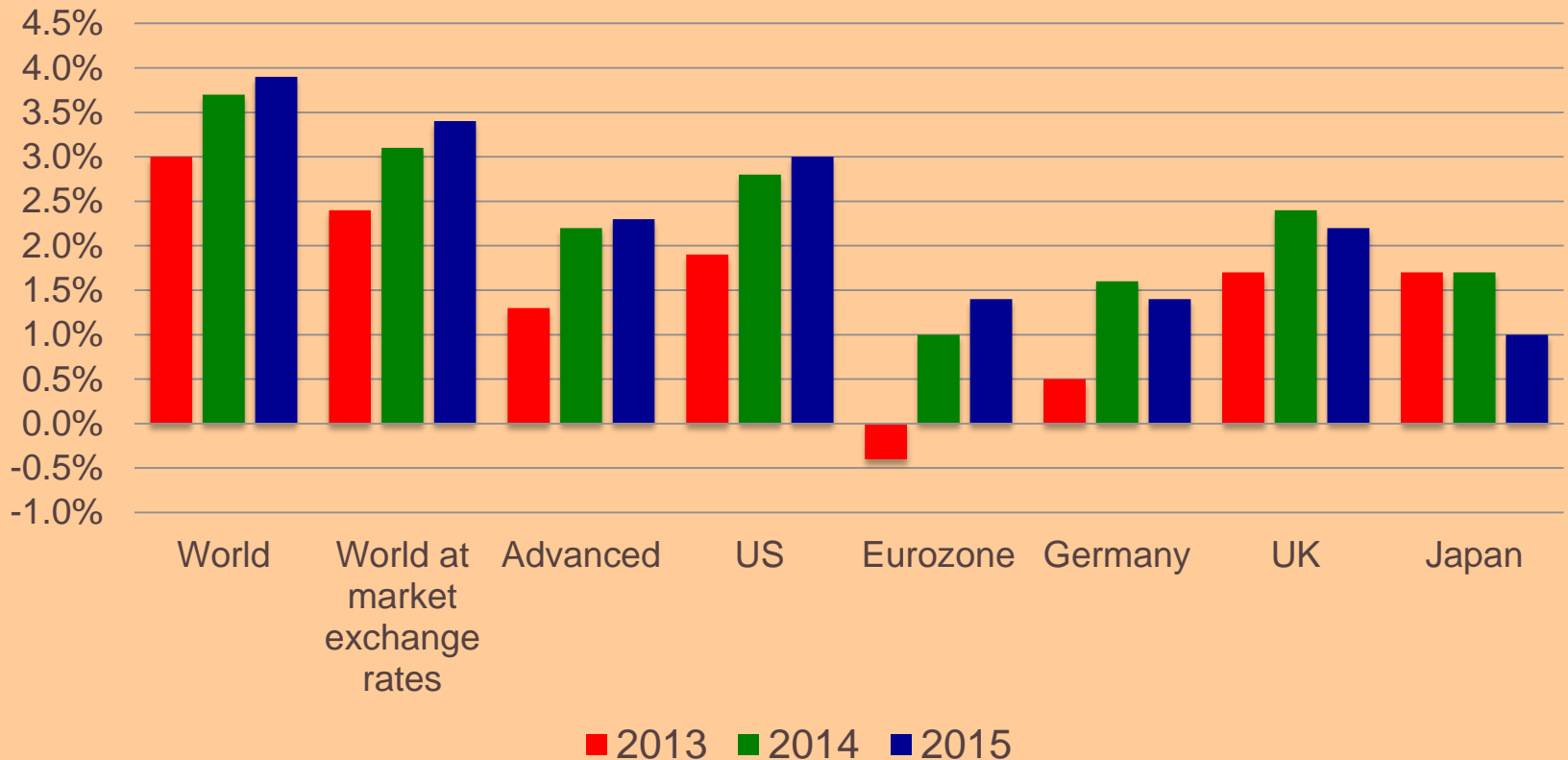
10-YEAR BOND YIELDS



1. Crisis in abatement

RECOVERY EXPECTED

IMF FORECASTS (January 2014)



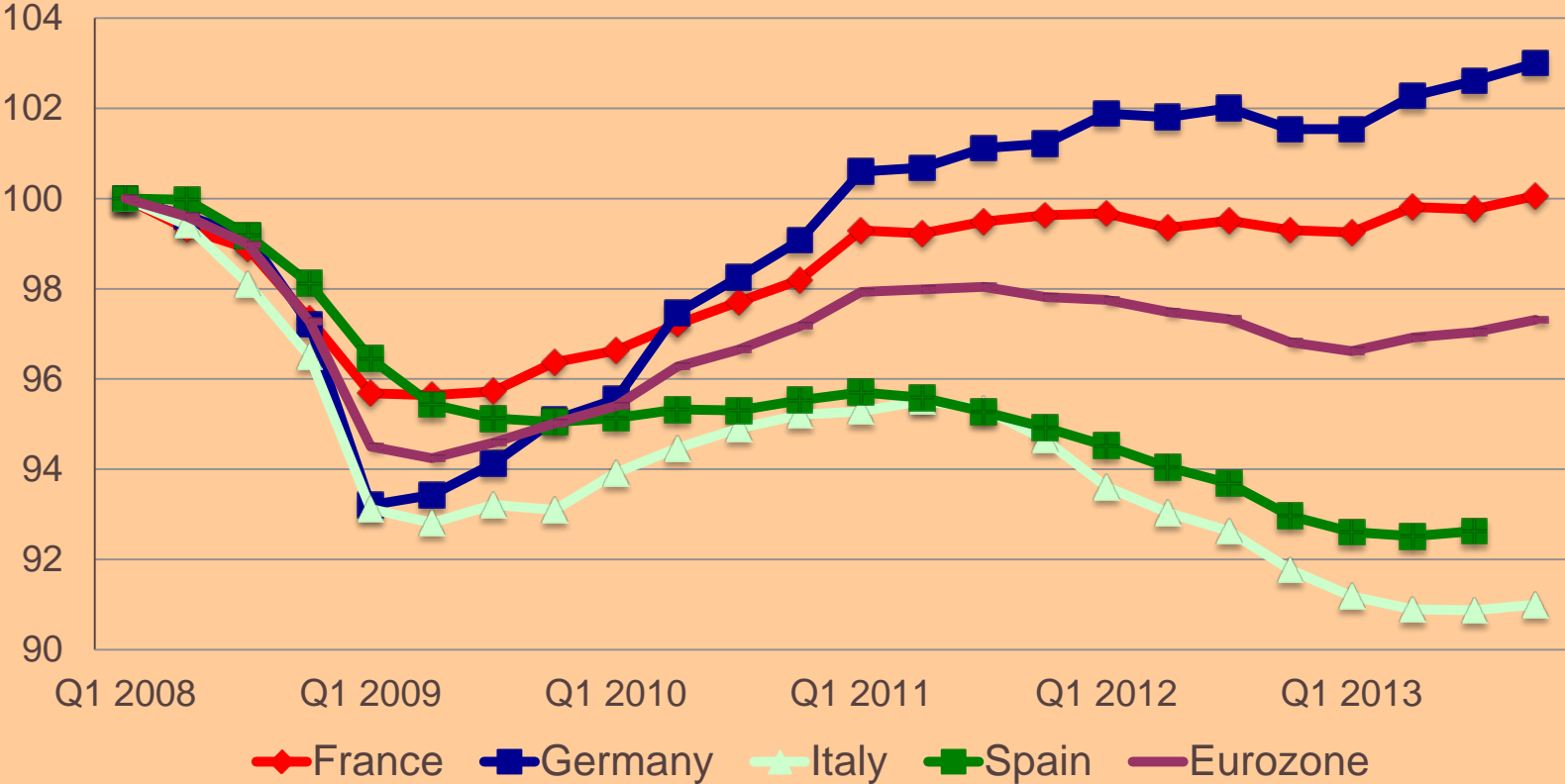
2. Why the crisis might reignite

- Deep recessions in crisis-hit countries
- Improved competitiveness from higher productivity
- And so high unemployment
- Stagnant domestic demand
- A structurally mercantilist core
- So dependence on external demand
- Falling inflation
- Severe risk of debt deflation

2. Why the crisis might reignite

RECESSIONS IN THE EUROZONE

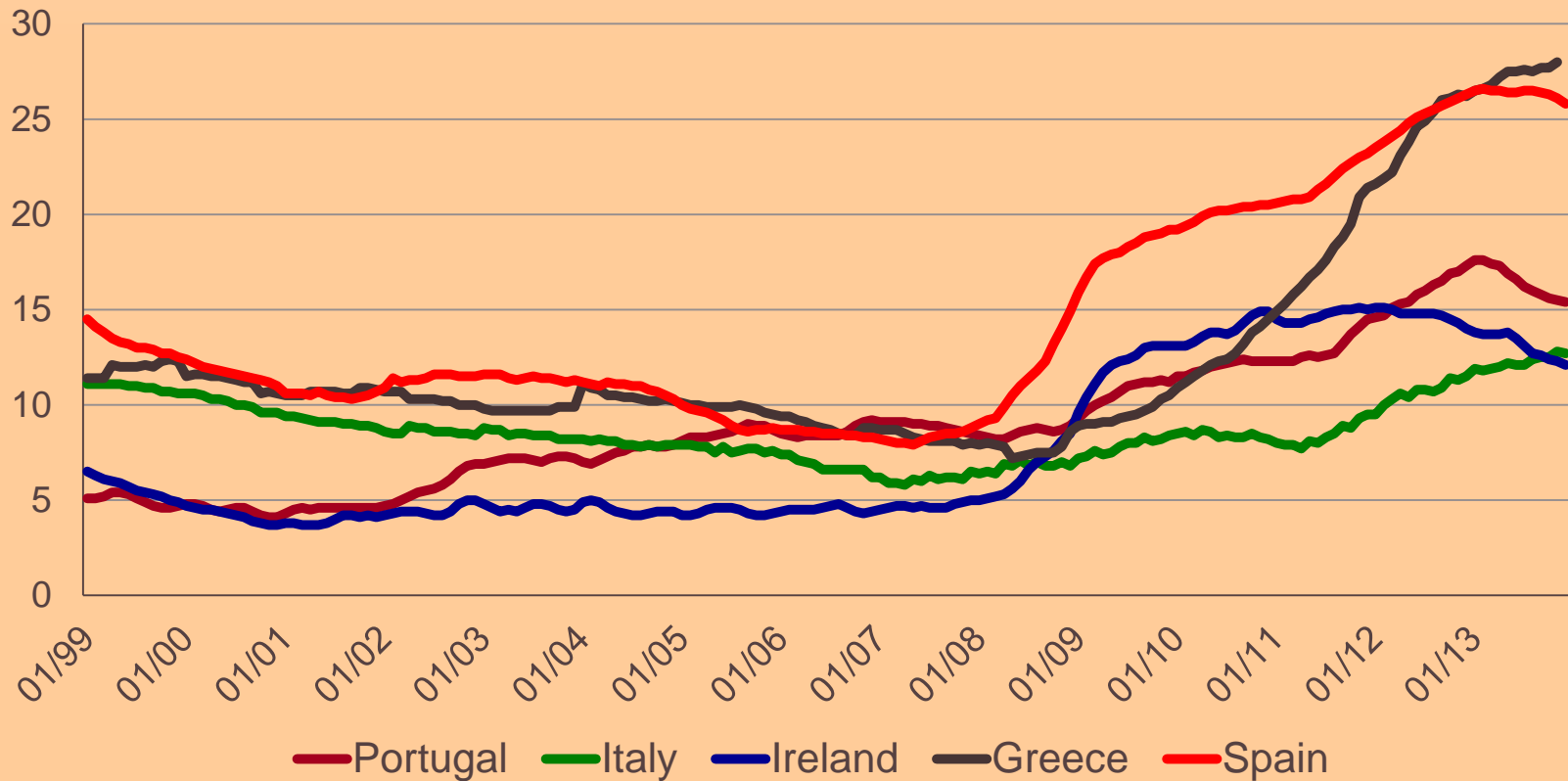
GDP IN THE EUROZONE CRISIS



2. Why the crisis might reignite

POLITICAL STRESSES IN CRISIS-HIT EUROPE

UNEMPLOYMENT RATE IN CRISIS-HIT COUNTRIES

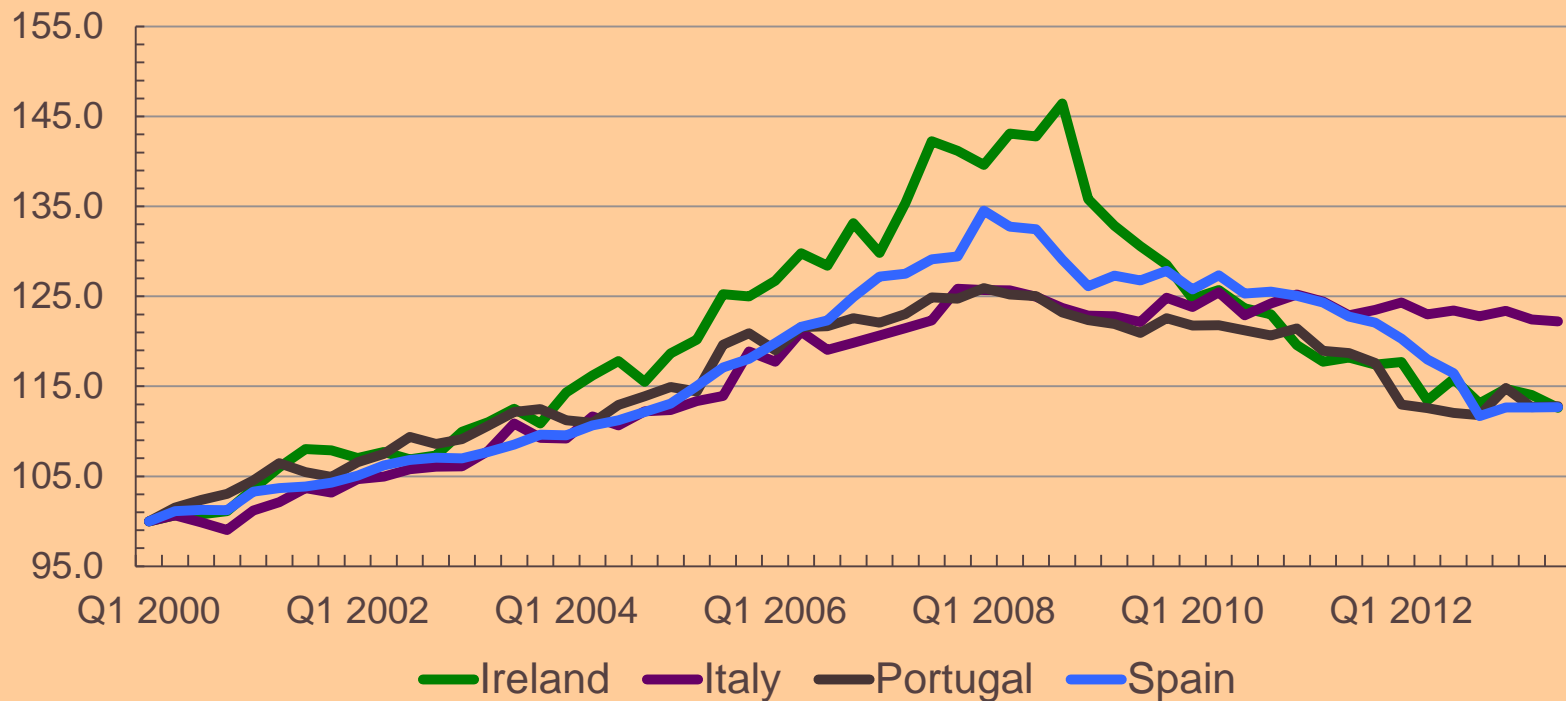


2. Why the crisis might reignite

SPAIN AND IRELAND HAVE DONE WELL

WHOLE ECONOMY UNIT LABOUR COSTS RELATIVE TO GERMANY

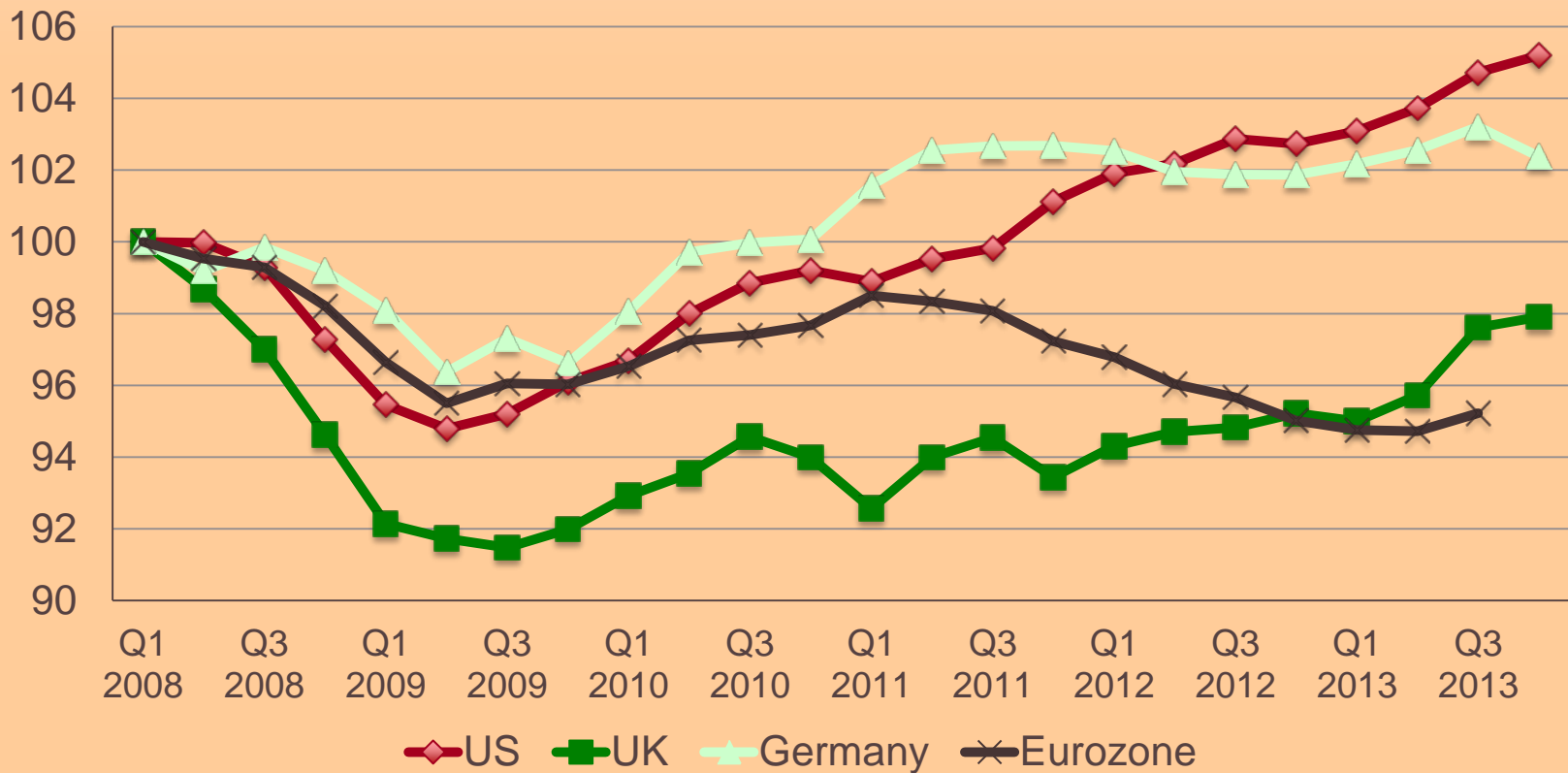
(Q1 2000 = 100)(Source: Eurostat)



2. Why the crisis might reignite

A DEMAND DISASTER ESPECIALLY IN EUROPE

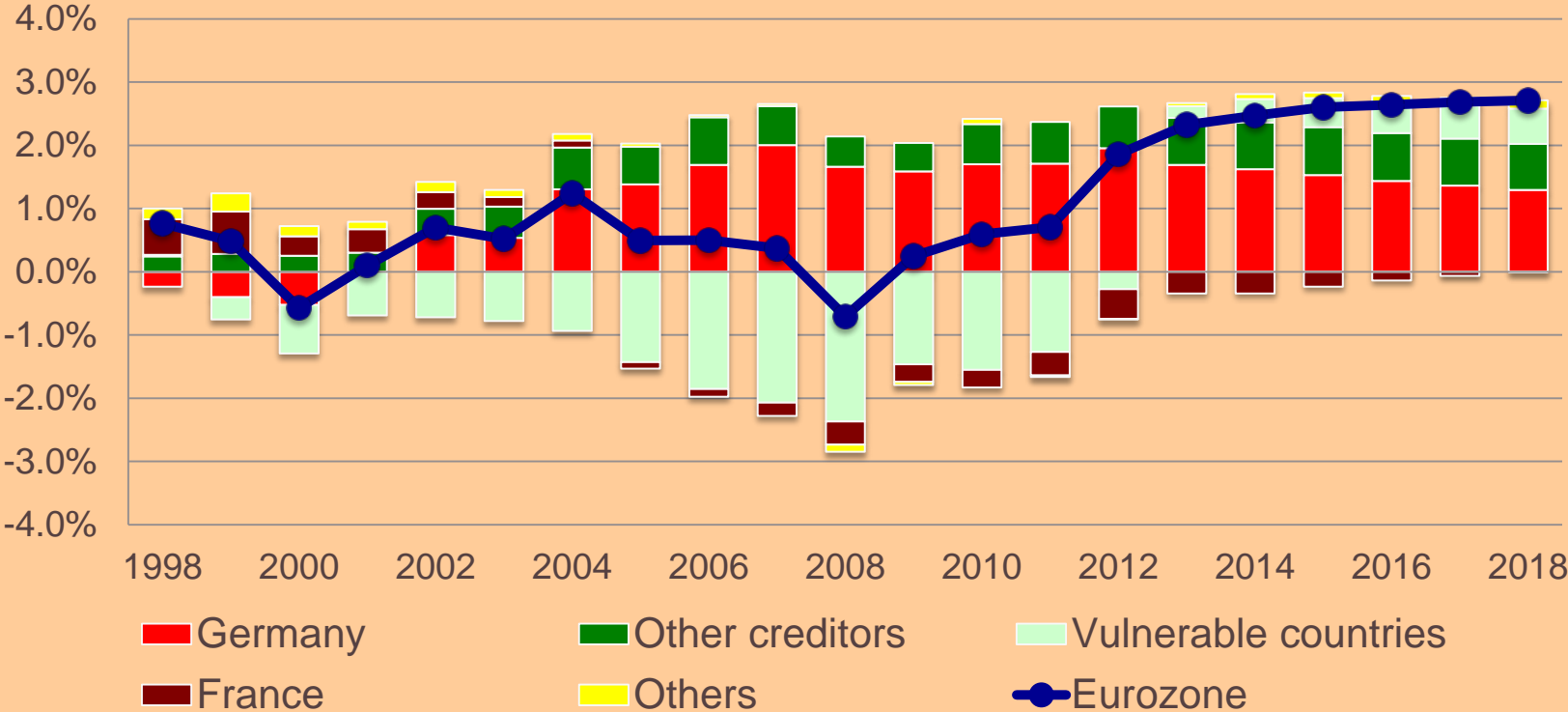
REAL DOMESTIC DEMAND IN THE CRISIS



2. Why the crisis might reignite

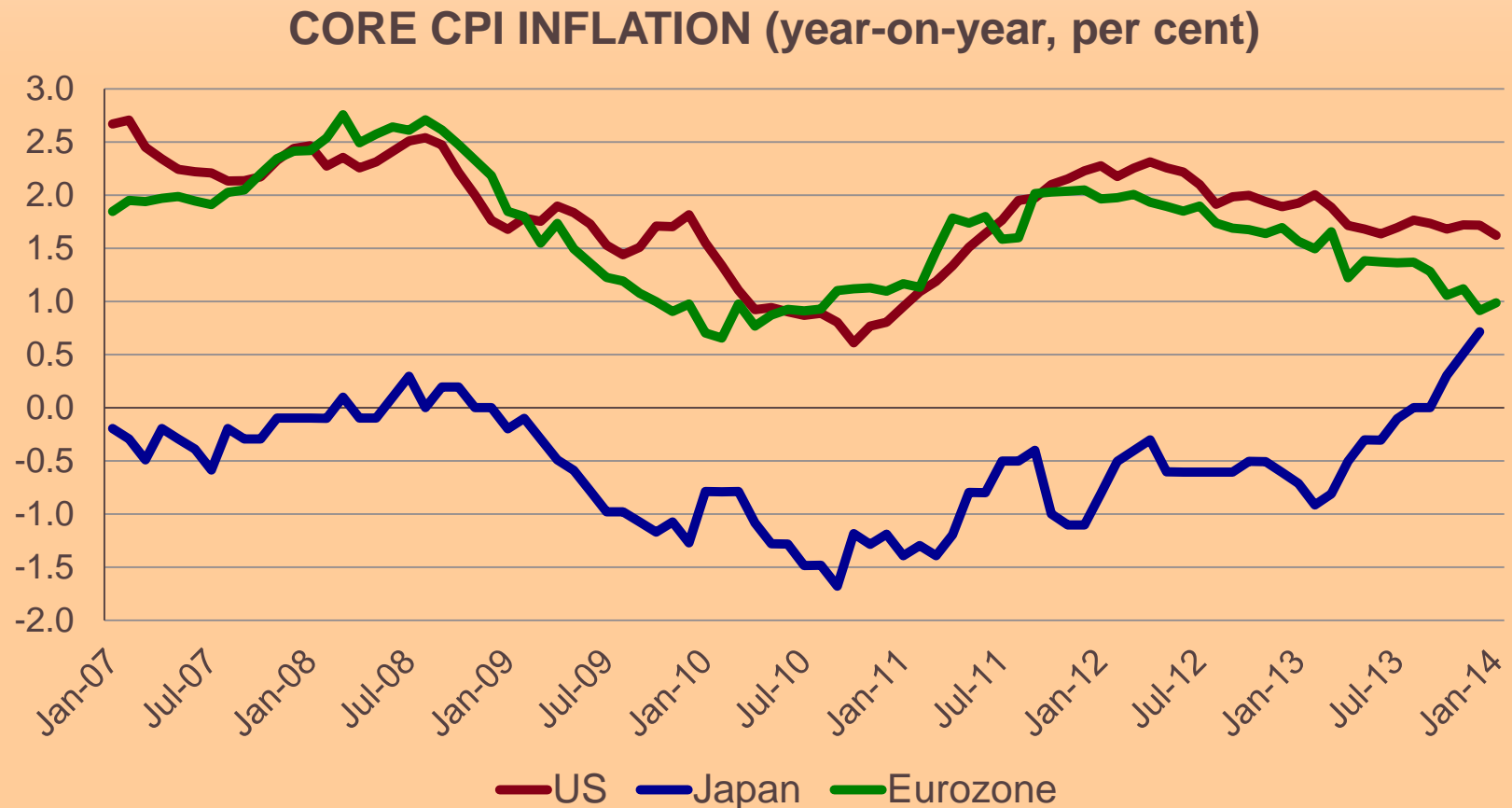
TOWARDS A GERMAN EUROZONE

EUROZONE IMBALANCES ON CURRENT ACCOUNT (as per cent of Eurozone GDP)



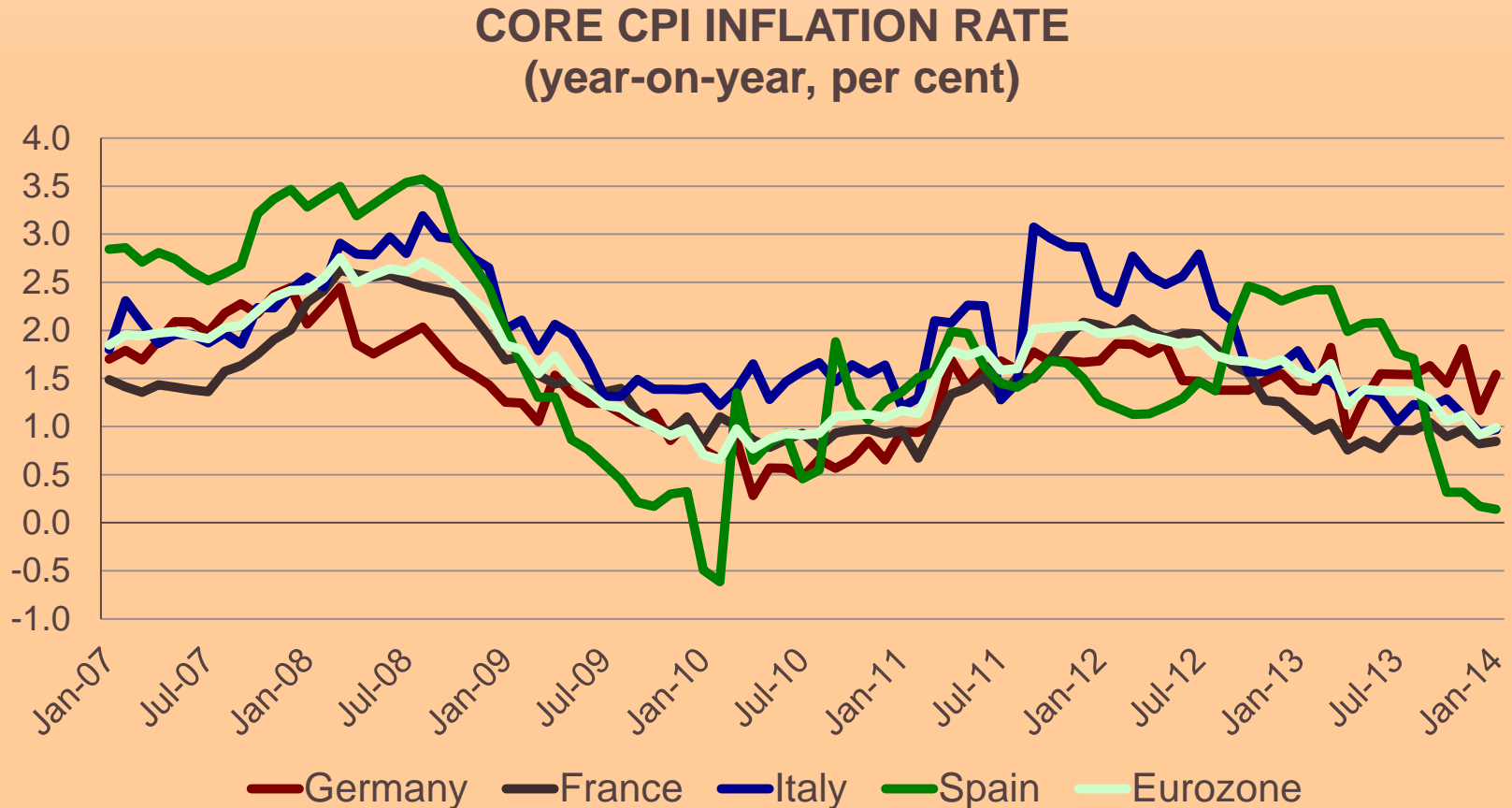
2. Why the crisis might reignite

CORE INFLATION IS LOW AND FALLING



2. Why the crisis might reignite

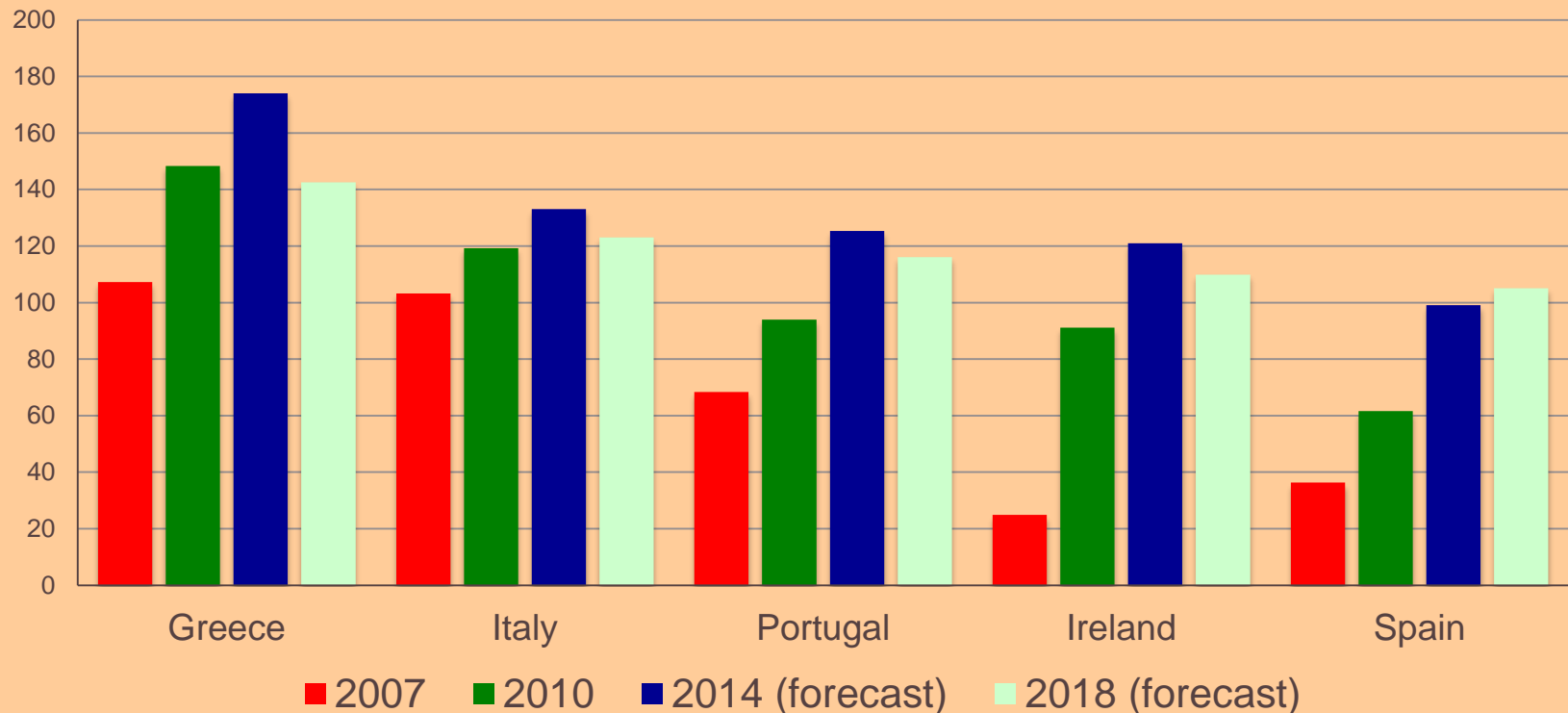
IN EUROZONE LOW INFLATION IS A HUGE THREAT



2. Why the crisis might reignite?

WHY DEBT DEFLATION IS A RISK

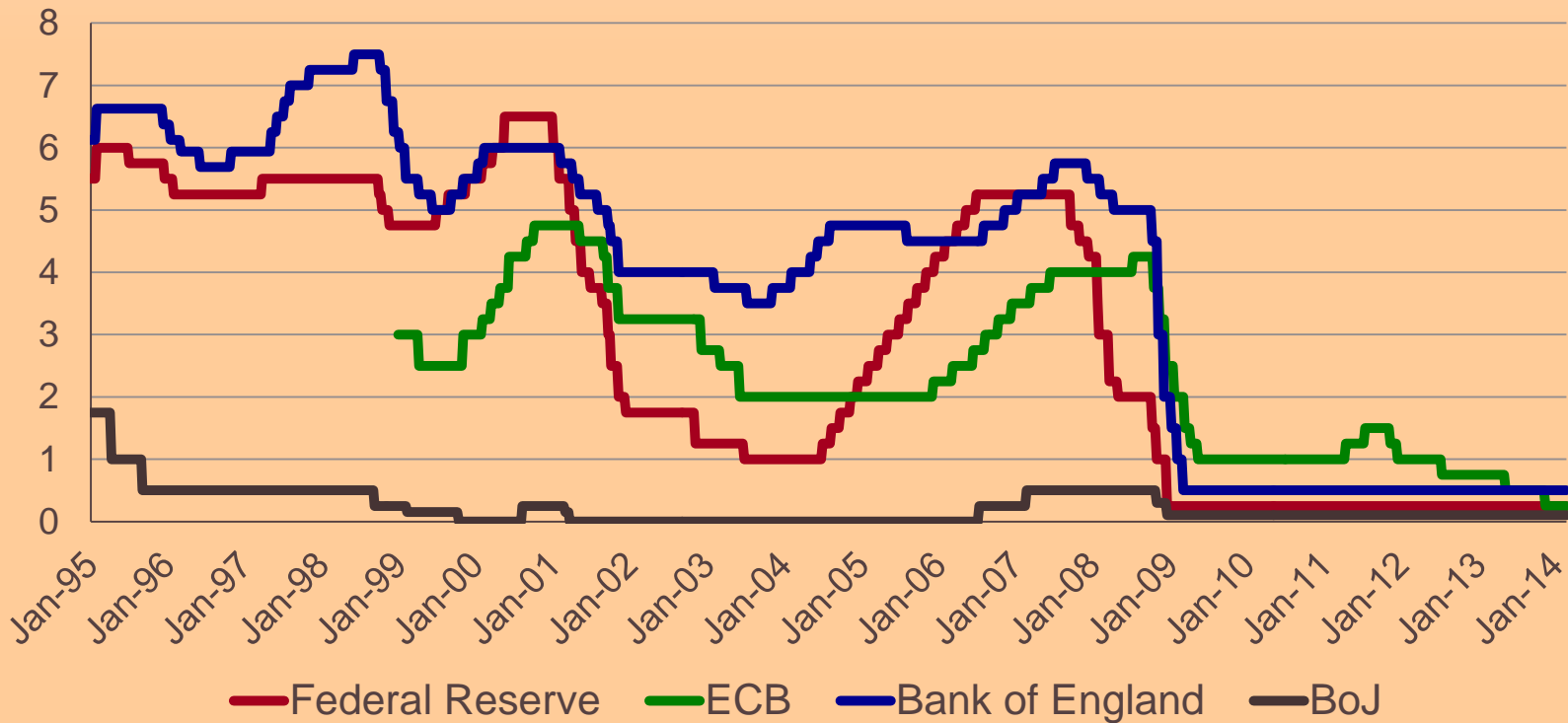
GROSS PUBLIC DEBT OVER GDP (PER CENT)
Source: IMF



2. Why the crisis might reignite

CONVENTIONAL MONETARY POLICY AT AN END

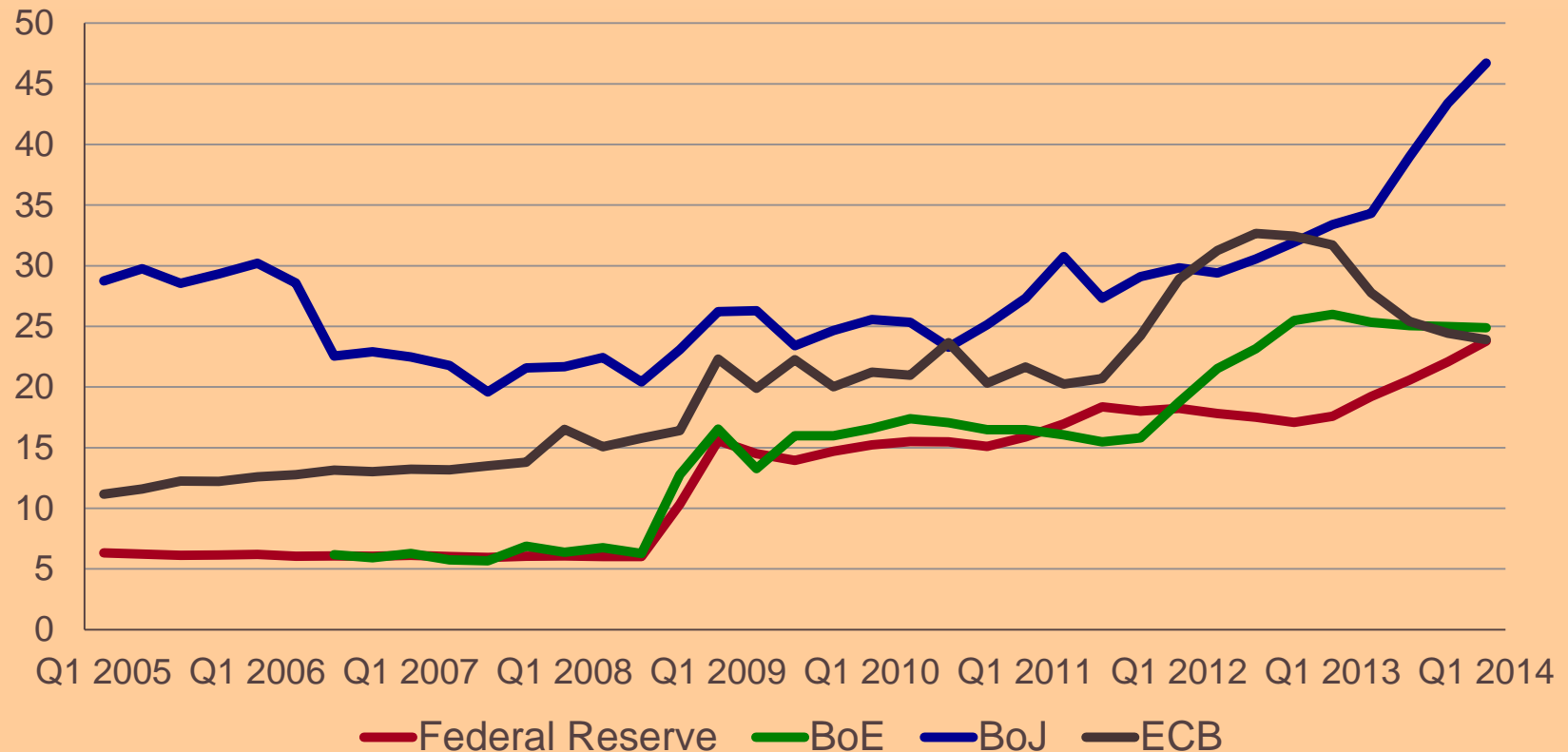
CENTRAL BANK SHORT-TERM POLICY RATES



2. Why the crisis might reignite?

SO THE ECB CONFRONTS ITS NIGHTMARES

CENTRAL BANK ASSETS OVER GDP (per cent)



3. Probability of a miserable marriage

- “Whatever it takes” has worked
- But the eurozone economy is performing miserably
- And adjustment is extremely painful, since it is intolerably asymmetric and so politically lethal
- That will not change
- The future depends on the interaction between politics and economics – both highly unpredictable
- The eurozone is likely, but not sure, to survive, though mainly because break-up would be so painful
- Members are doomed to a bad marriage.