

What lies behind the success of the euro?

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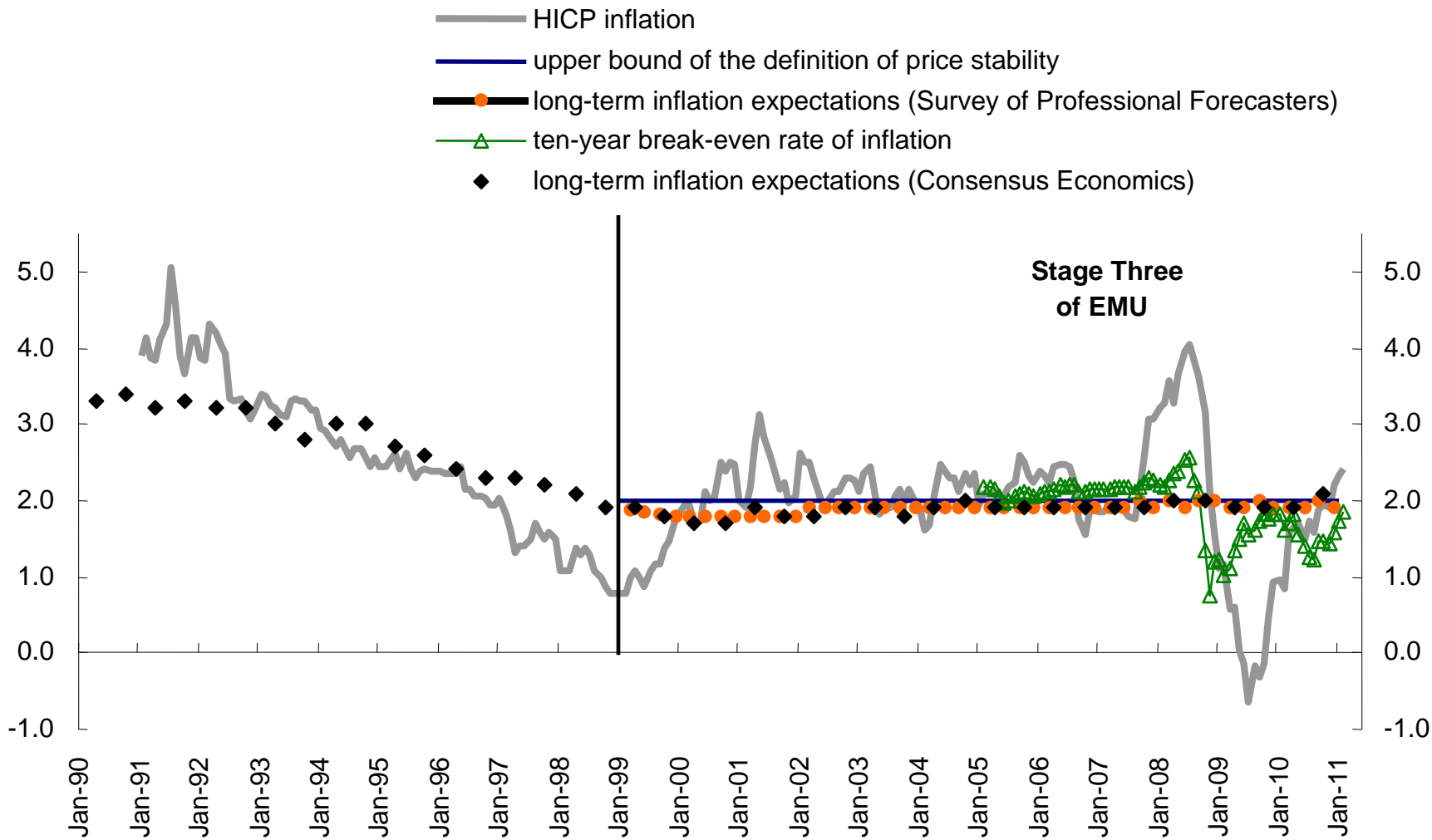


Overview

- I. Assessment of the economic situation of the euro area**
- II. The financial crisis as a test of strength for the euro
- III. Financial market reforms in the European Union
- IV. Safeguarding the future stability of the euro



Inflation and inflation expectations in the euro area



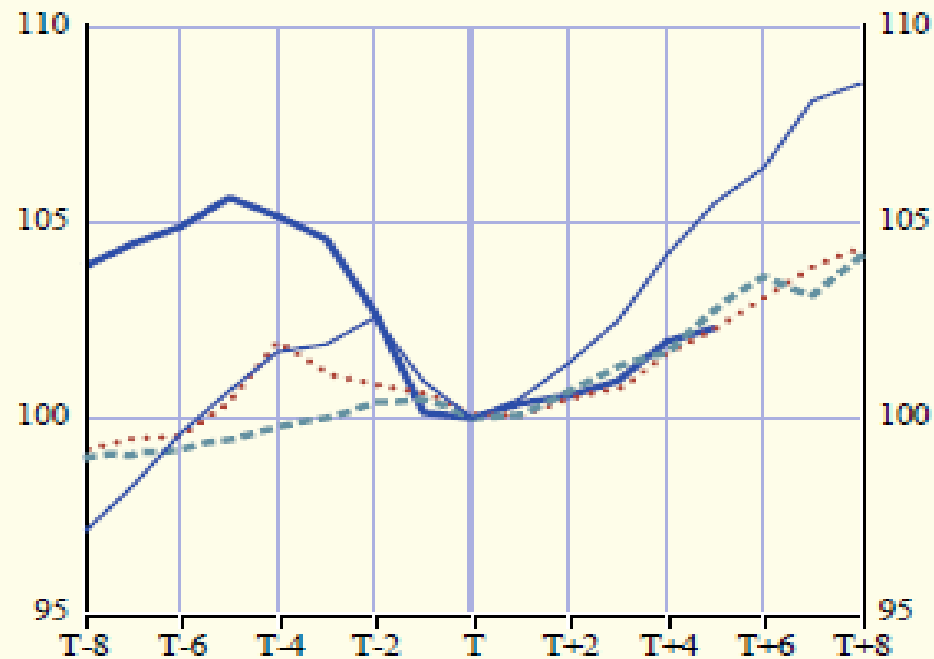
Sources: ECB, Eurostat and Consensus Economics.

Economic recovery in the euro area

Chart A Euro area GDP across recoveries

(index: T = 100; T represents the trough in GDP)

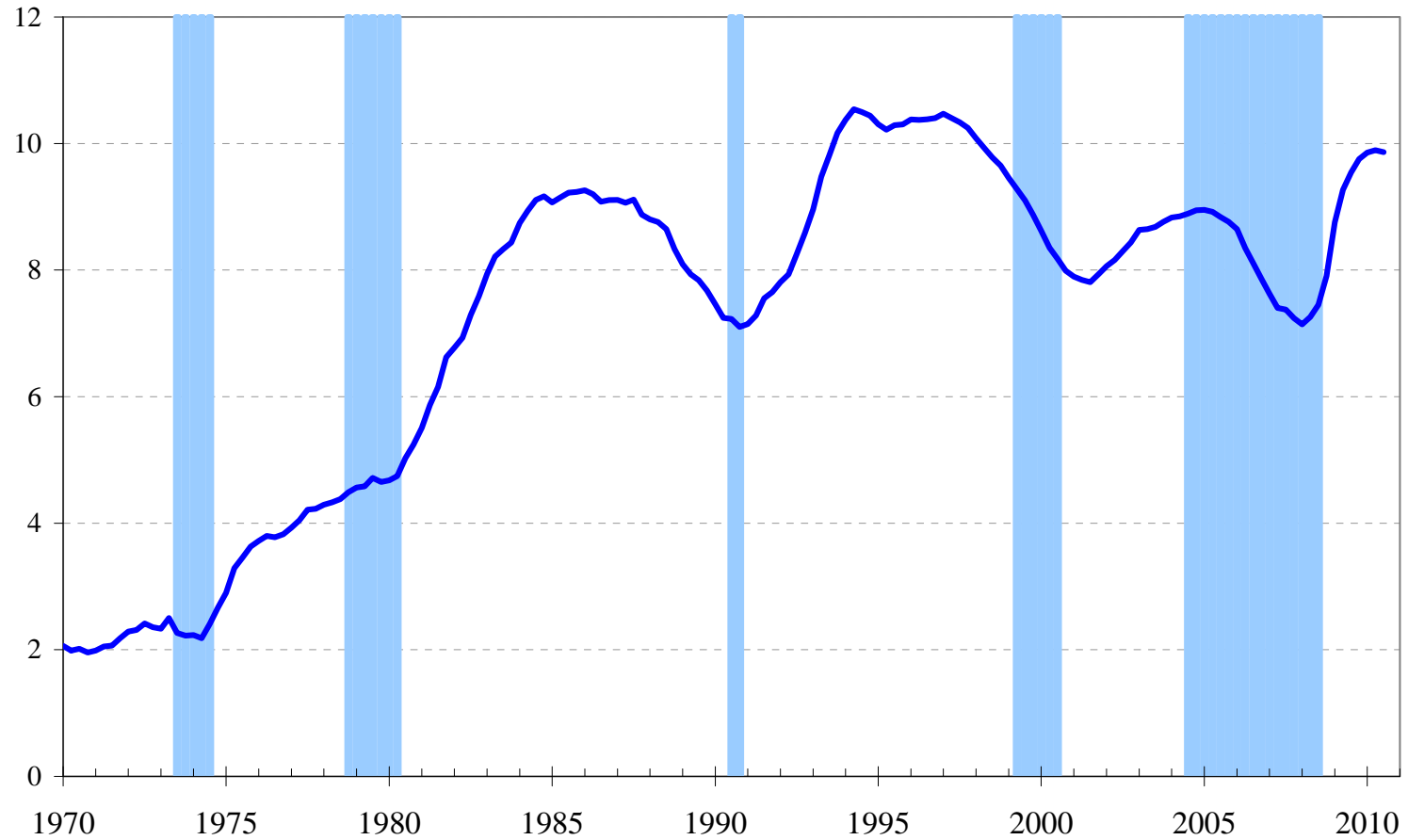
- T = Q2 2009
- T = Q1 1993
- - - T = Q3 1982
- T = Q1 1975



Sources: Eurostat, AWM database and ECB staff calculations.

Unemployment in the euro area

(% of the labour force; seasonally adjusted)



Source: OECD.



Macroeconomic projections from ECB staff

Table A Macroeconomic projections for the euro area

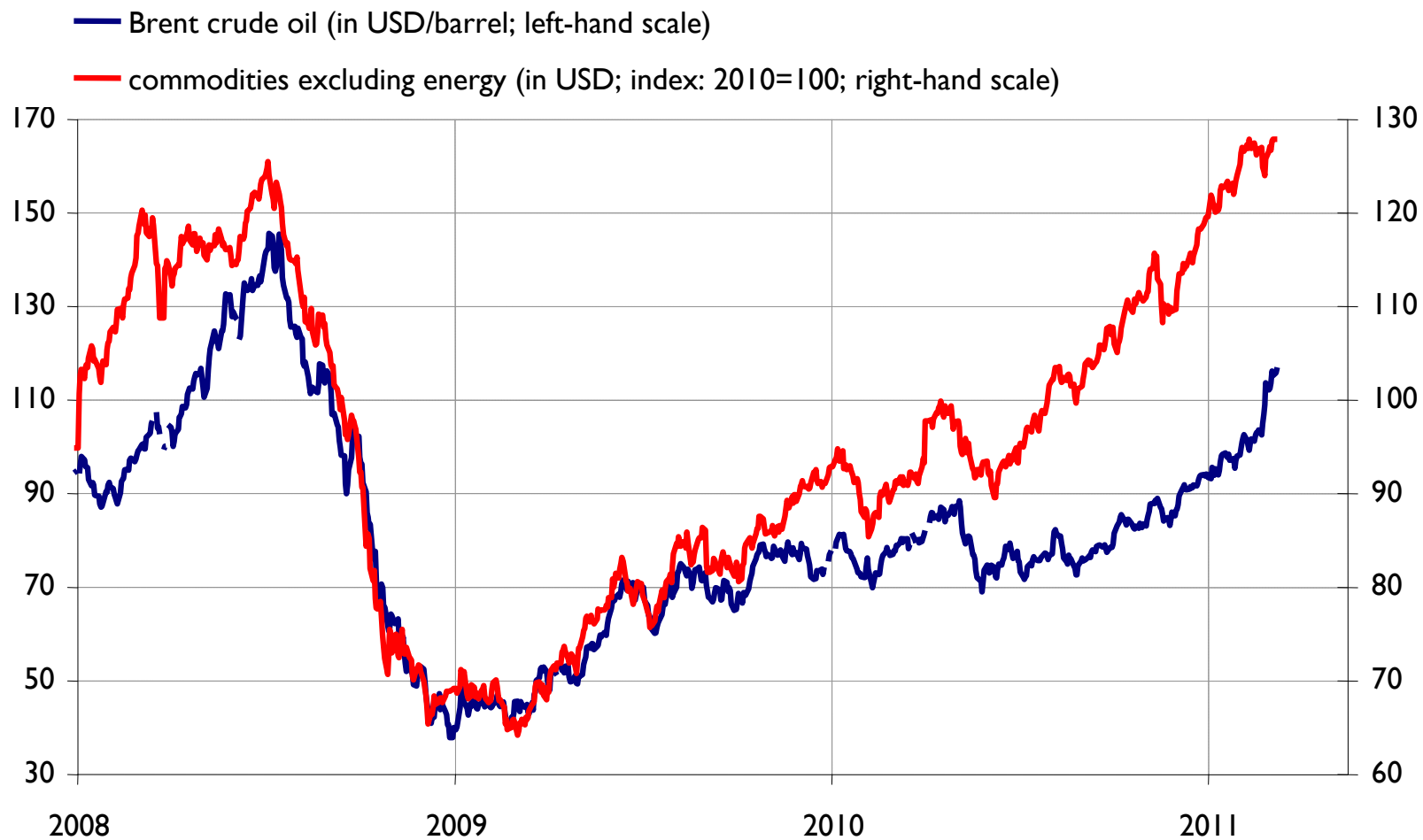
(average annual percentage changes)^{1), 2)}

	2010	2011	2012
HICP	1.6	2.0 – 2.6	1.0 – 2.4
Real GDP	1.7	1.3 – 2.1	0.8 – 2.8
Private consumption	0.7	0.6 – 1.4	0.4 – 2.2
Government consumption	0.8	-0.3 – 0.5	-0.5 – 0.9
Gross fixed capital formation	-0.8	0.4 – 3.4	0.7 – 5.5
Exports (goods and services)	10.9	4.9 – 9.5	3.0 – 9.2
Imports (goods and services)	9.0	3.5 – 7.7	2.8 – 8.4

- 1) The projections for real GDP and its components are based on working day-adjusted data. The projections for imports and exports include intra-euro area trade.
- 2) The data refer to the euro area including Estonia, except for the HICP data in 2010. The average annual percentage change for the HICP in 2011 is based on a euro area composition in 2010 that already includes Estonia.



Oil price developments



Sources: Bloomberg and HWWI.



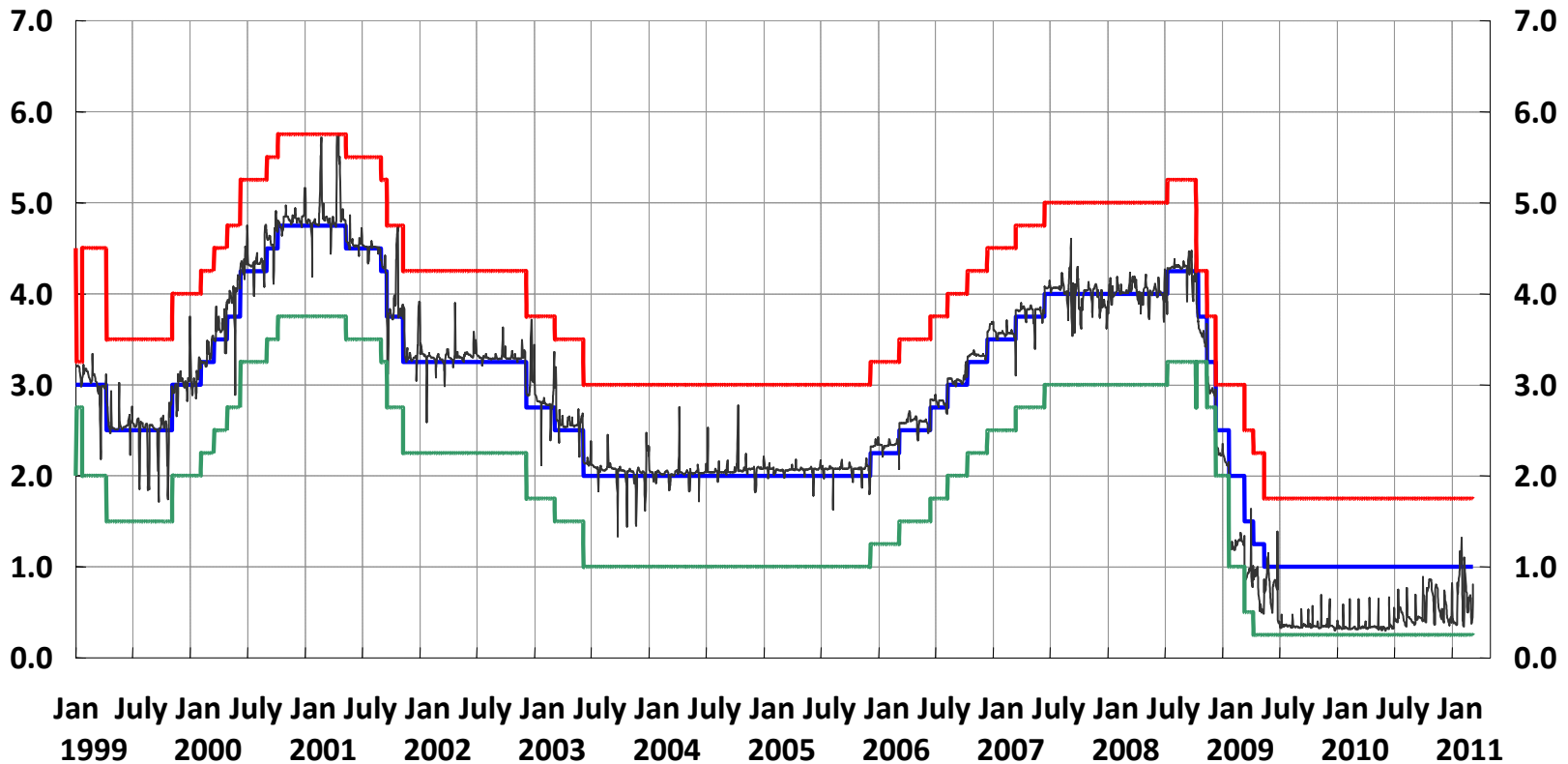
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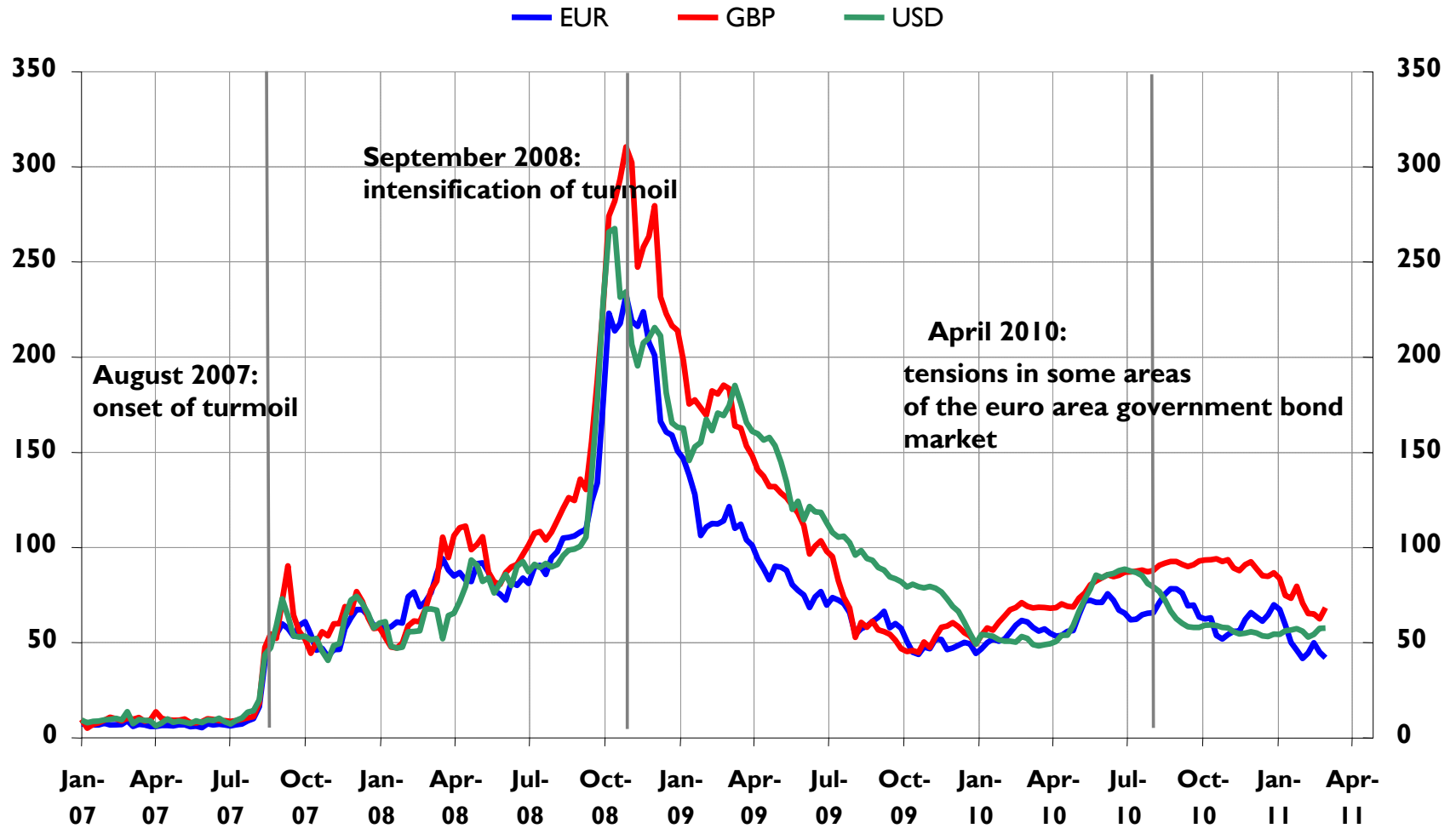
Central bank interest rates in the euro area

- main refinancing rate / minimum bid rate
- overnight interest rate / EONIA
- deposit rate
- marginal lending rate



Source: ECB.

Interest rate spreads in interbank trading

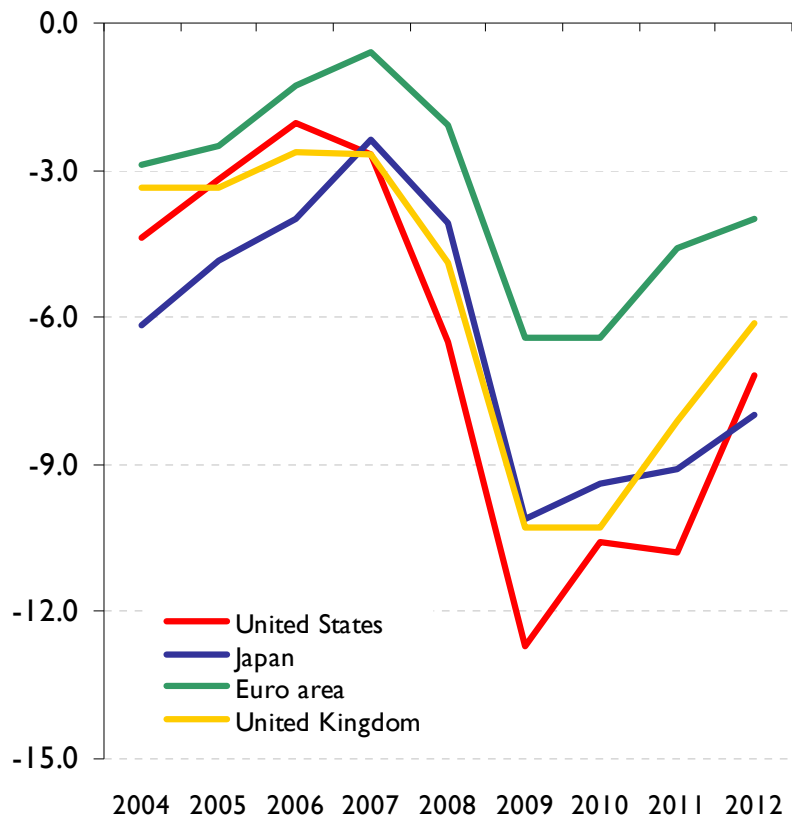


Source: Bloomberg.

Public deficits and government debt ratios

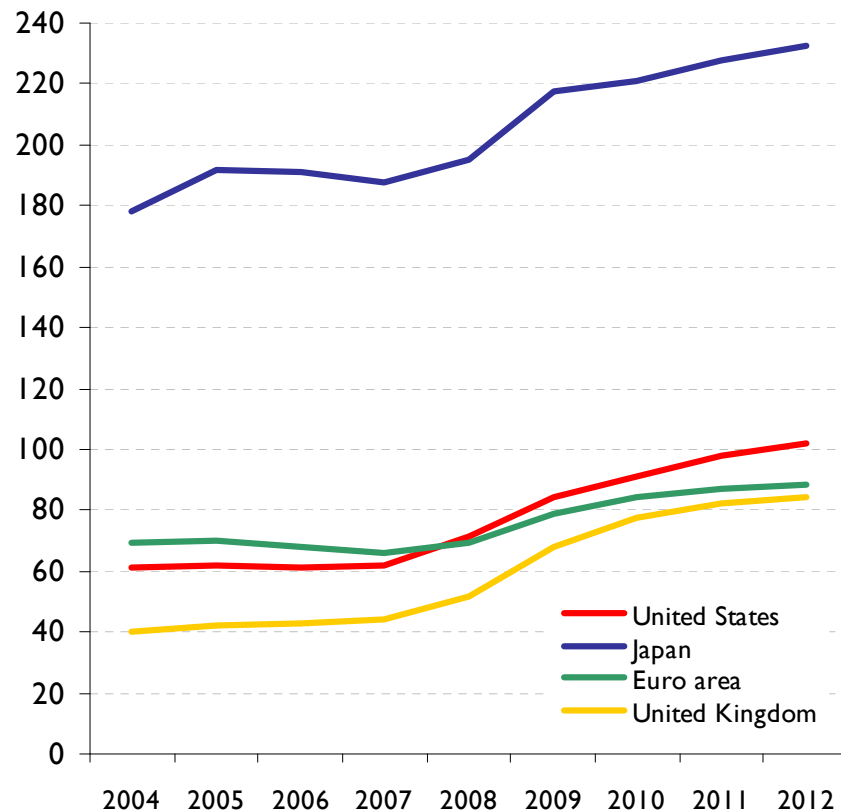
General government budget balance

(2004-2012, as a percentage of GDP)



General government gross debt

(2004-2012, as a percentage of GDP)



Sources: IMF Fiscal Monitor, update January 2011.



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Reforms to the financial regulatory and supervisory frameworks - initial steps

- Agreement on a **new regulatory framework** (“Basel III”)
- Reform of European financial supervision:
 1. Establishment of three **new European supervisory authorities** for banking, insurance and financial markets
 2. Establishment of the **European Systemic Risk Board (ESRB)**

Reforms to the financial regulatory and supervisory frameworks – the next steps

1. Wider casting of the regulatory net
2. Greater transparency as regards over-the-counter trades
3. Banks to assume responsibility (e.g. corporate governance)



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Further efforts required from the perspective of the ECB

Fiscal surveillance

- Sanctions should be triggered automatically.
- Clearly defined regulations for reducing debt ratios are required.

Macroeconomic surveillance

- Clearly defined financial sanctions are required.
- Surveillance must target euro area countries which continue to suffer from losses in competitiveness and high current account deficits.
- The procedure needs more transparent and more effective trigger mechanisms.

Three-point programme to safeguard the euro:

- **Sound fiscal policy**
- **Sustainable economic growth**
- **A stable financial system**