

# The euro crisis: an update

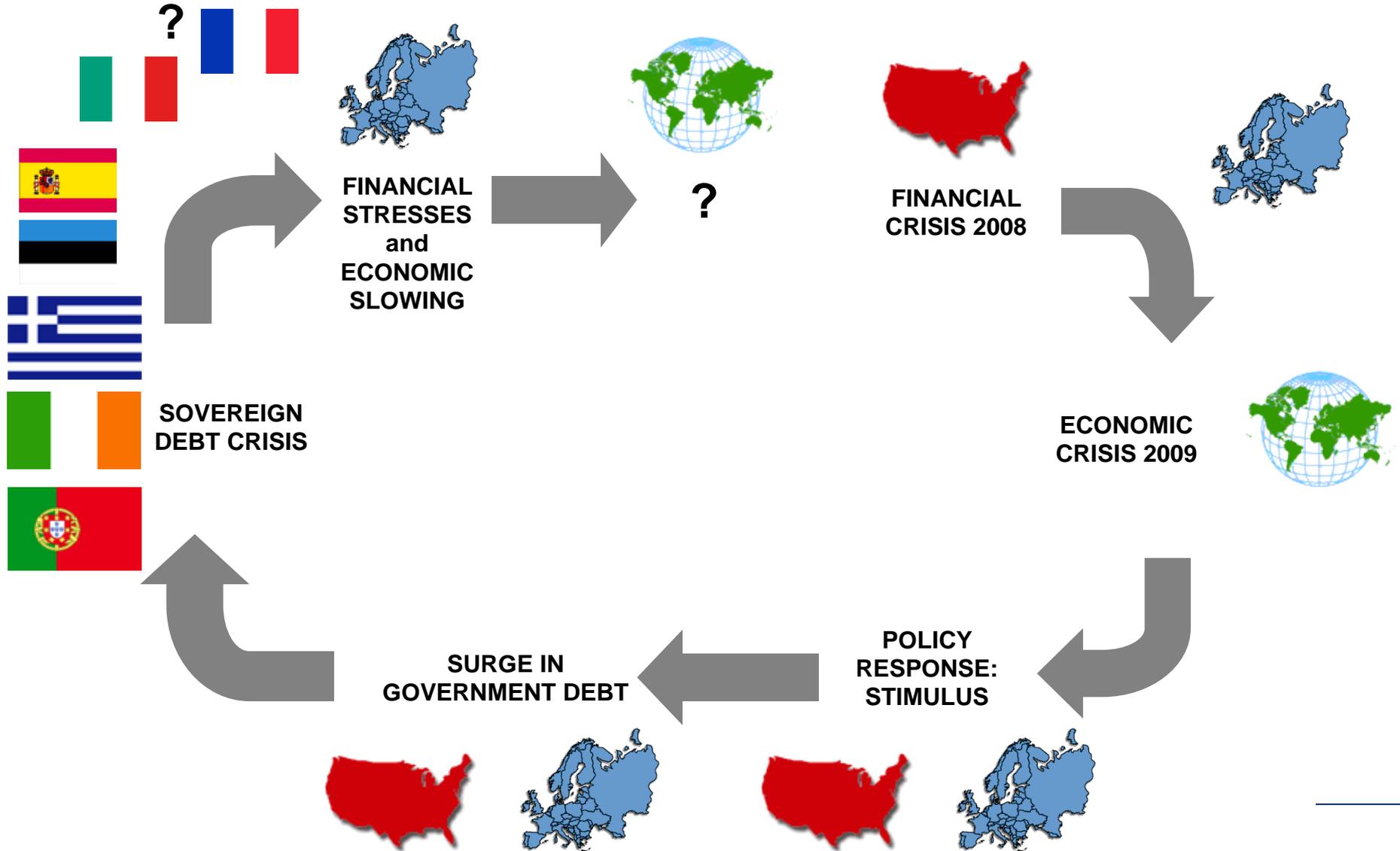
Euro Challenge 2013



Delegation of the European Union to the United States  
[www.euro-challenge.org](http://www.euro-challenge.org)

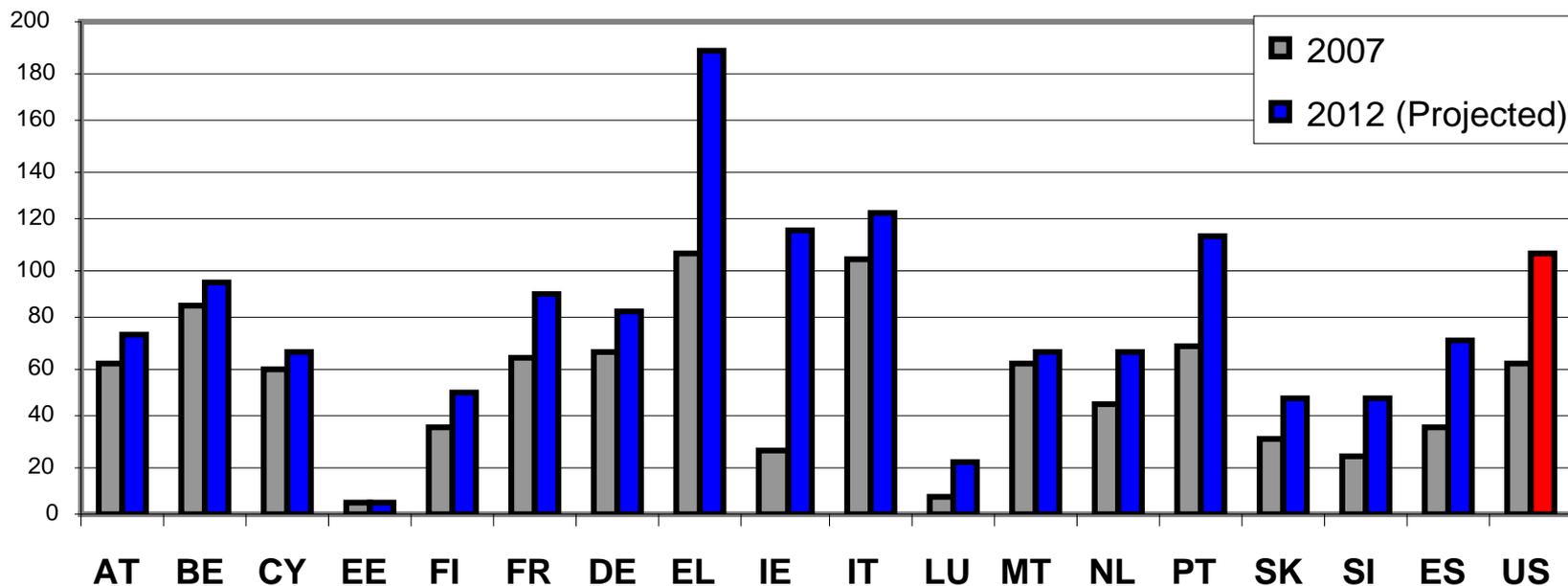
- An update on the economic situation in the euro area
  - Rebalancing Europe,
  - Policy responses – Rebuilding the EMU, a state of play of what Europe is doing to end the crisis
-

# The never-ending crisis?



# Government (sovereign) debt levels ballooned

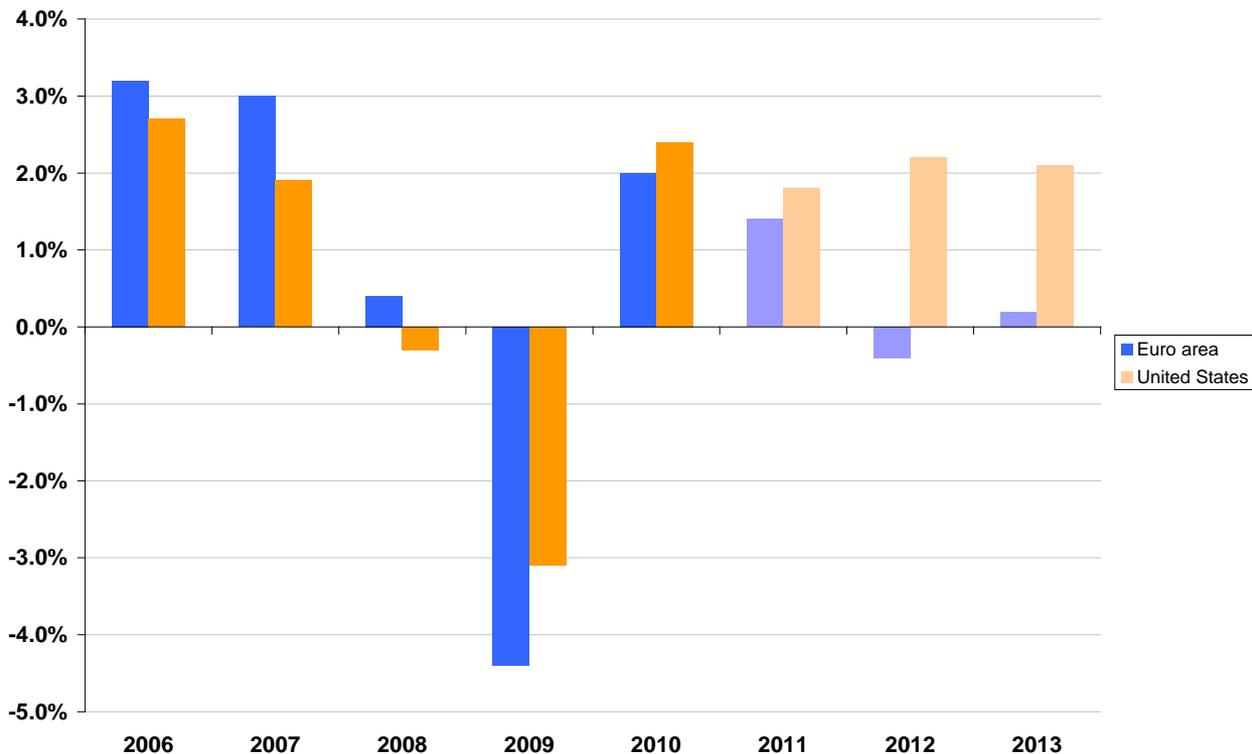
## Debt to GDP in the Euro Area Countries and the US (as % of GDP)



Source: European Commission, Spring 2012

# A slow and subdued recovery

Euro Area & US GDP with Forecasts

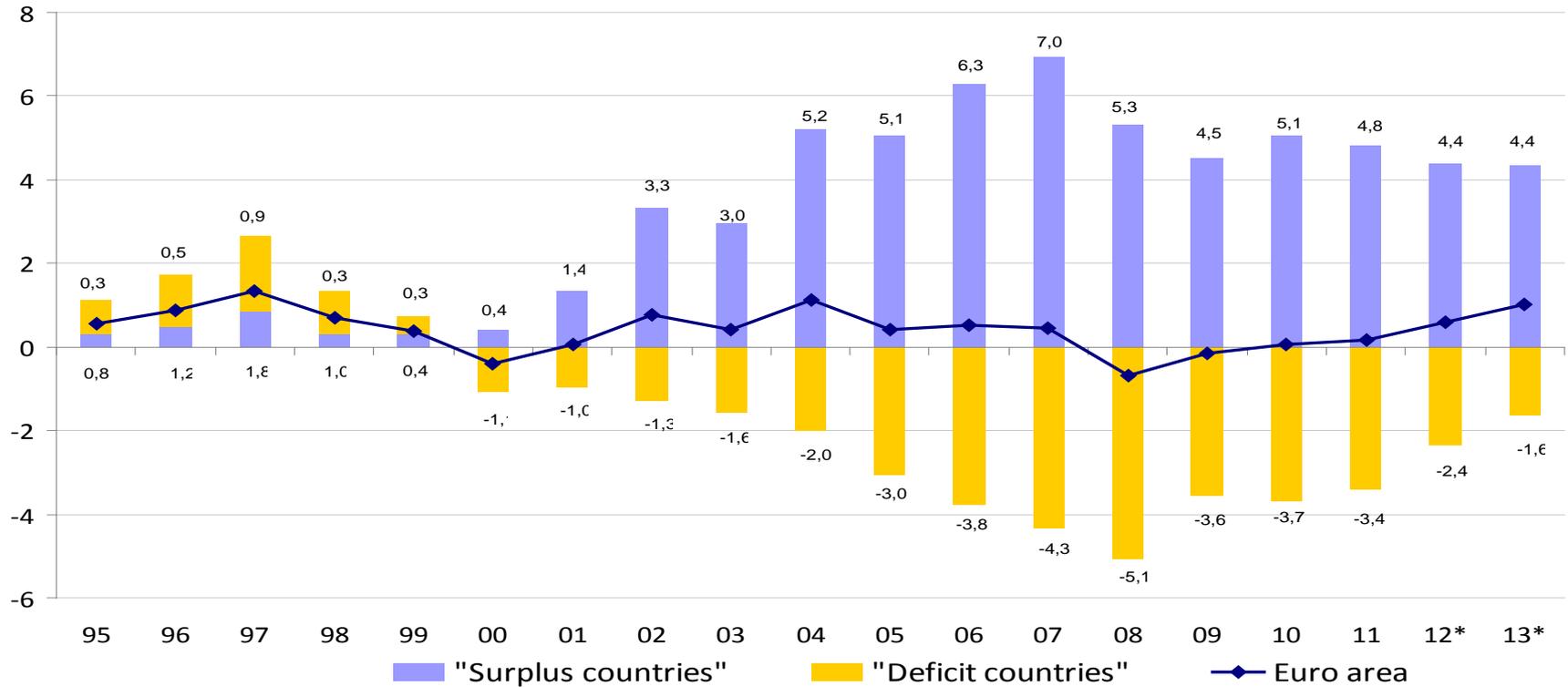


- The euro area economy is projected to experience a mild recession in 2012 and early 2013

- Unemployment (currently at 11.6% in EA) is on the rise again, with big differences between countries (low of 4.4% in Austria, high of 25.8% in Spain)

- Inflation (2.5%) is above the ECB's preferred "close to but below 2%", but is expected to decline further due to slower growth

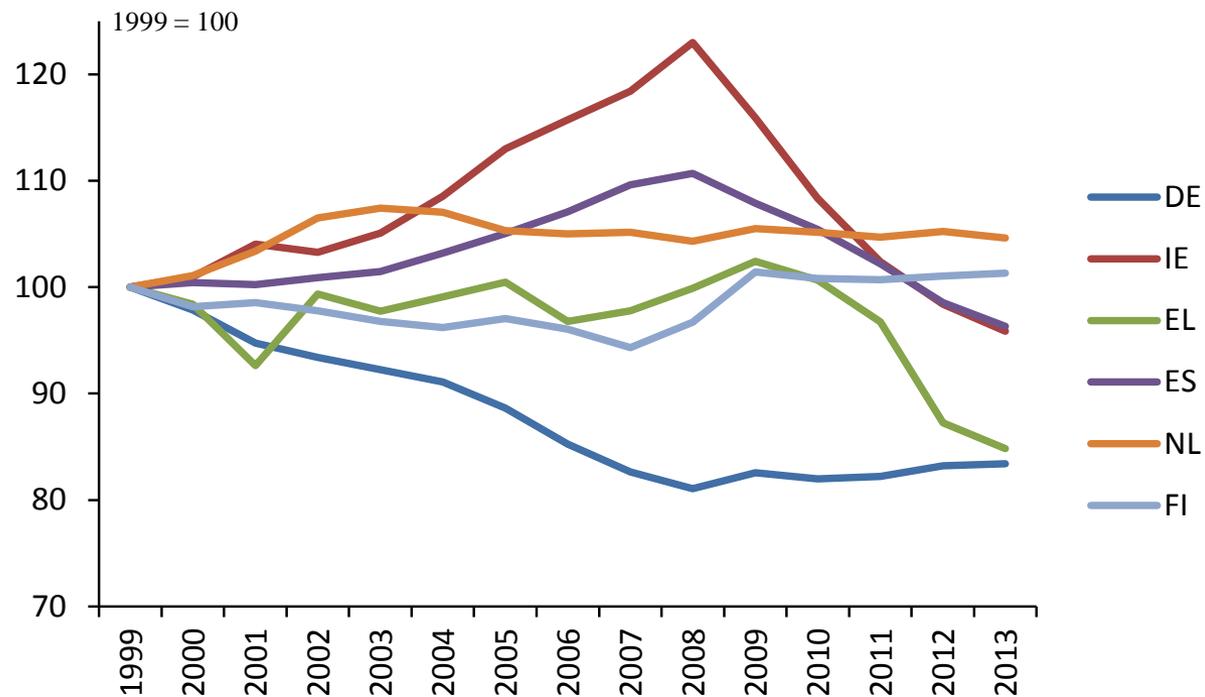
# External rebalancing is moving on



\* ECFIN 2012 Spring Forecast

# ... helped by adjustments in labour costs

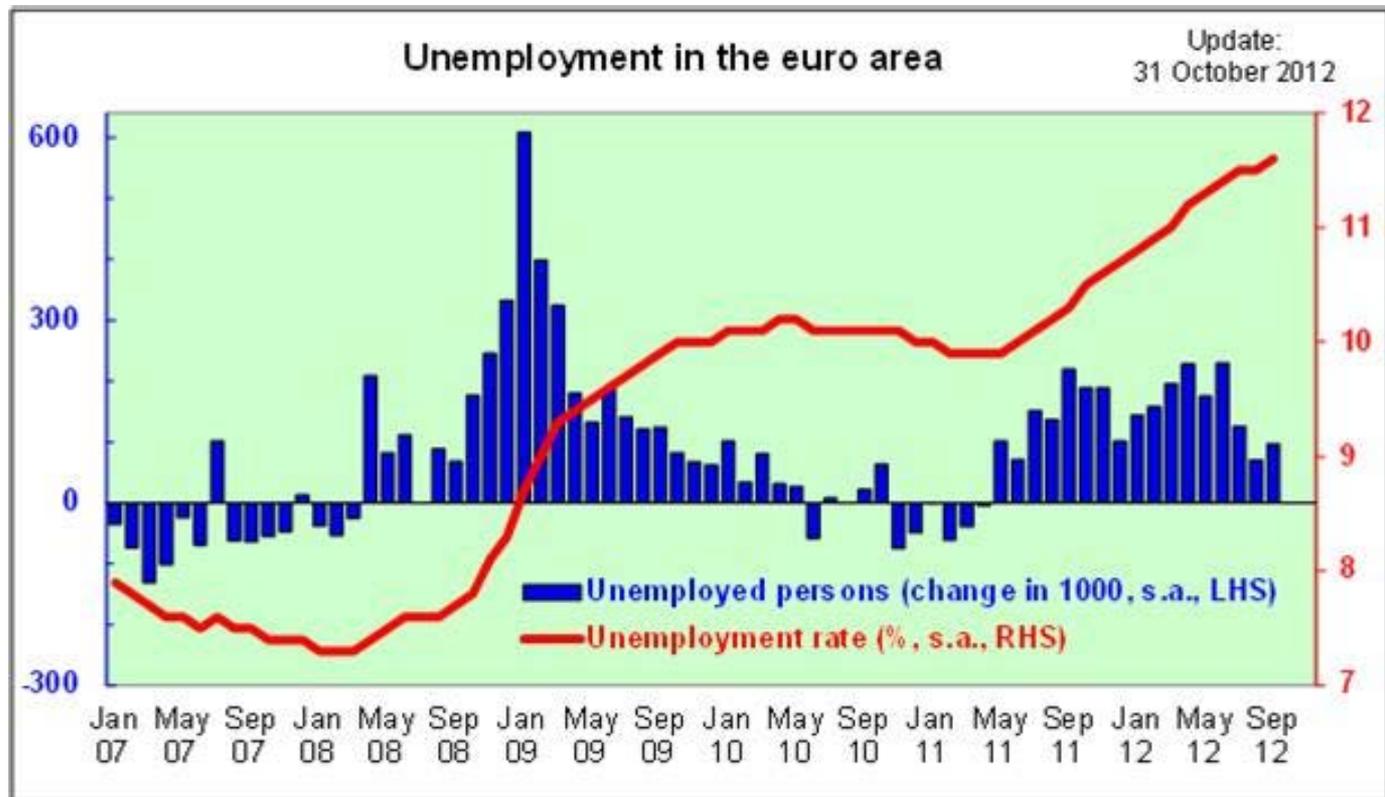
Changes in relative unit labour costs, selected Member States



Source: European Commission, September 2012

# But unemployment rates remain inacceptably high

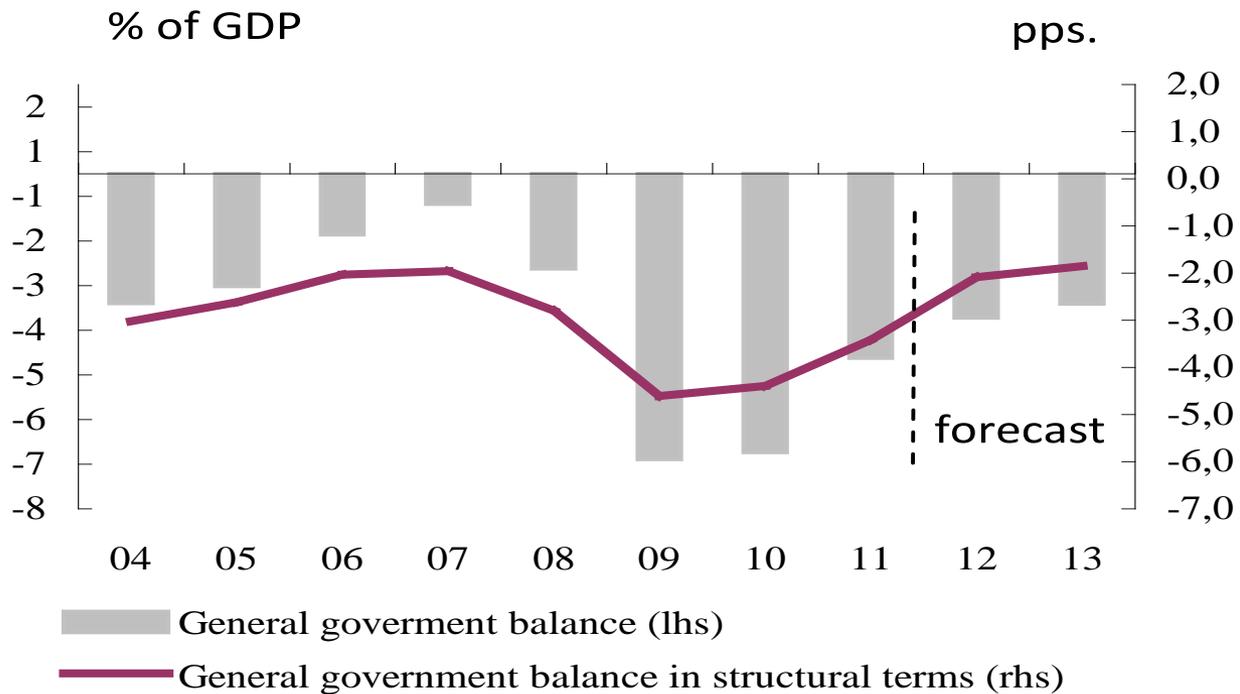
...at 11.6 % in the euro area



Source: Eurostat, October 2012

# Public deficits continue to narrow

## General government budget balance, euro area



Source: European Commission, Spring 2012

# Europe's response to the crisis



# Strengthening the “E” in EMU

## PROGRAMS

Financial backstops for countries in difficulty (but with policy conditions enforced by the “troika”)

## FIREWALL

A permanent mechanism (ESM) to stem the risk of contagion to other countries



## GROWTH

Boost growth through “structural reforms” and completing the single market

## BANKS

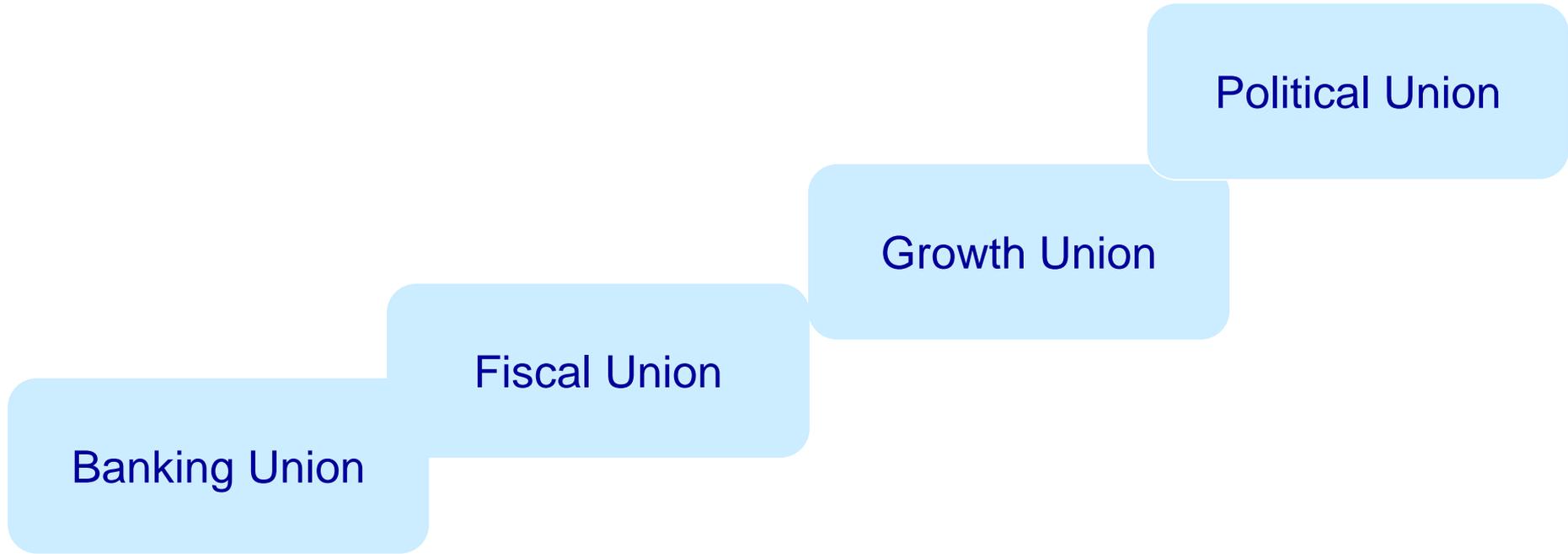
Strengthen the banking system, including better financial supervision at the EU level

## RULES

Stronger, more effective fiscal rules and greater coordination of economic policies



# More “union”, now and later on...



The European Union is gradually solidifying

# The case for the euro

**Strong political commitment of leaders to defend the euro**

**Break-up or shrinking of the euro area would involve huge costs, make it harder for countries to borrow.**

**Governance of euro area is being strengthened, flaws fixed**

**Balanced emphasis on growth and fiscal adjustment**

**More sustainable public finances and economic reforms will help countries**



**“The euro is at the core of our European project.”**

**Statement by Heads of State or Government of the euro area and EU institutions, Oct. 26<sup>th</sup>, 2011**

# Good luck in the Euro Challenge 2013!



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