



EUROJÄRJESTELMÄ
EUROSYSTEMET

The current sovereign debt and banking
crisis – ways forward?

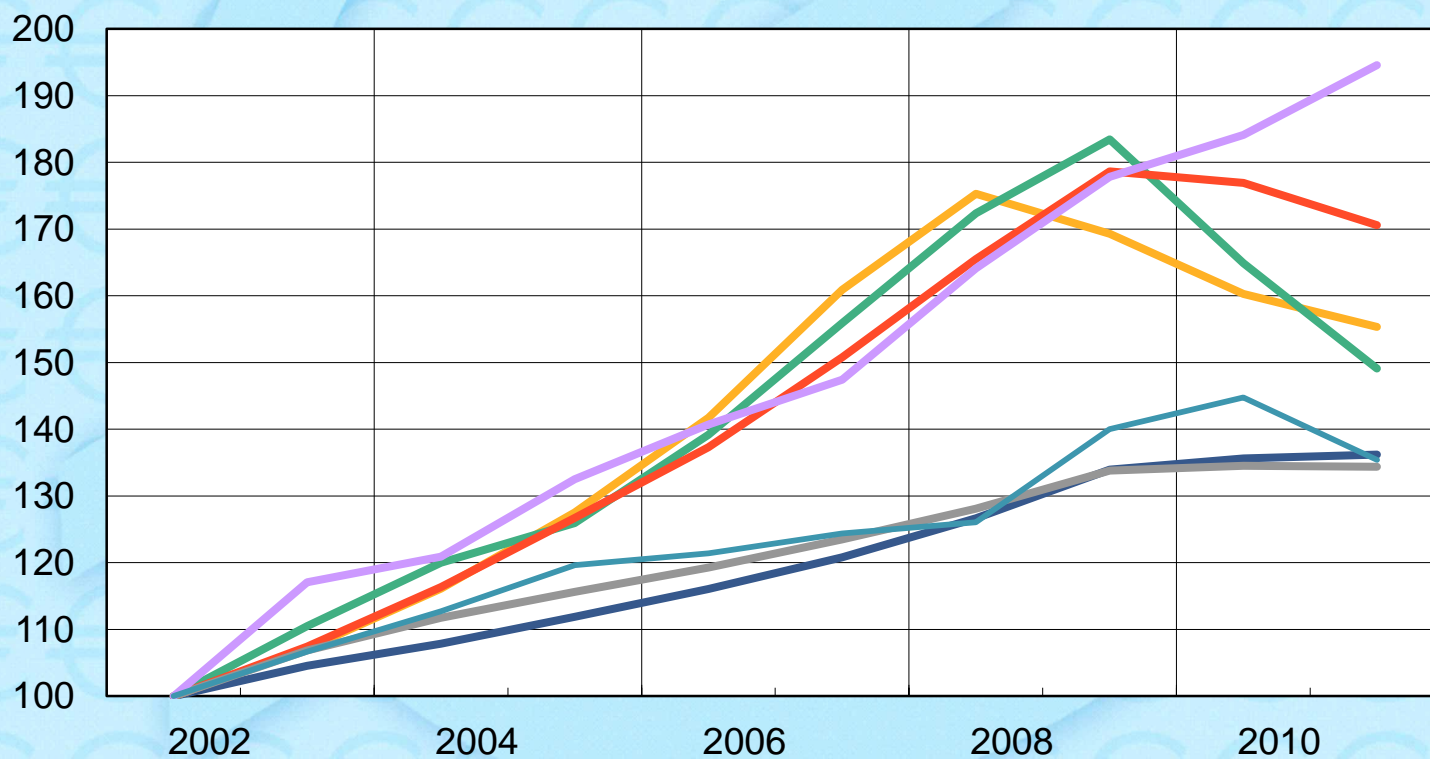
Slides to go with text

Seppo Honkapohja

Primary expenditure

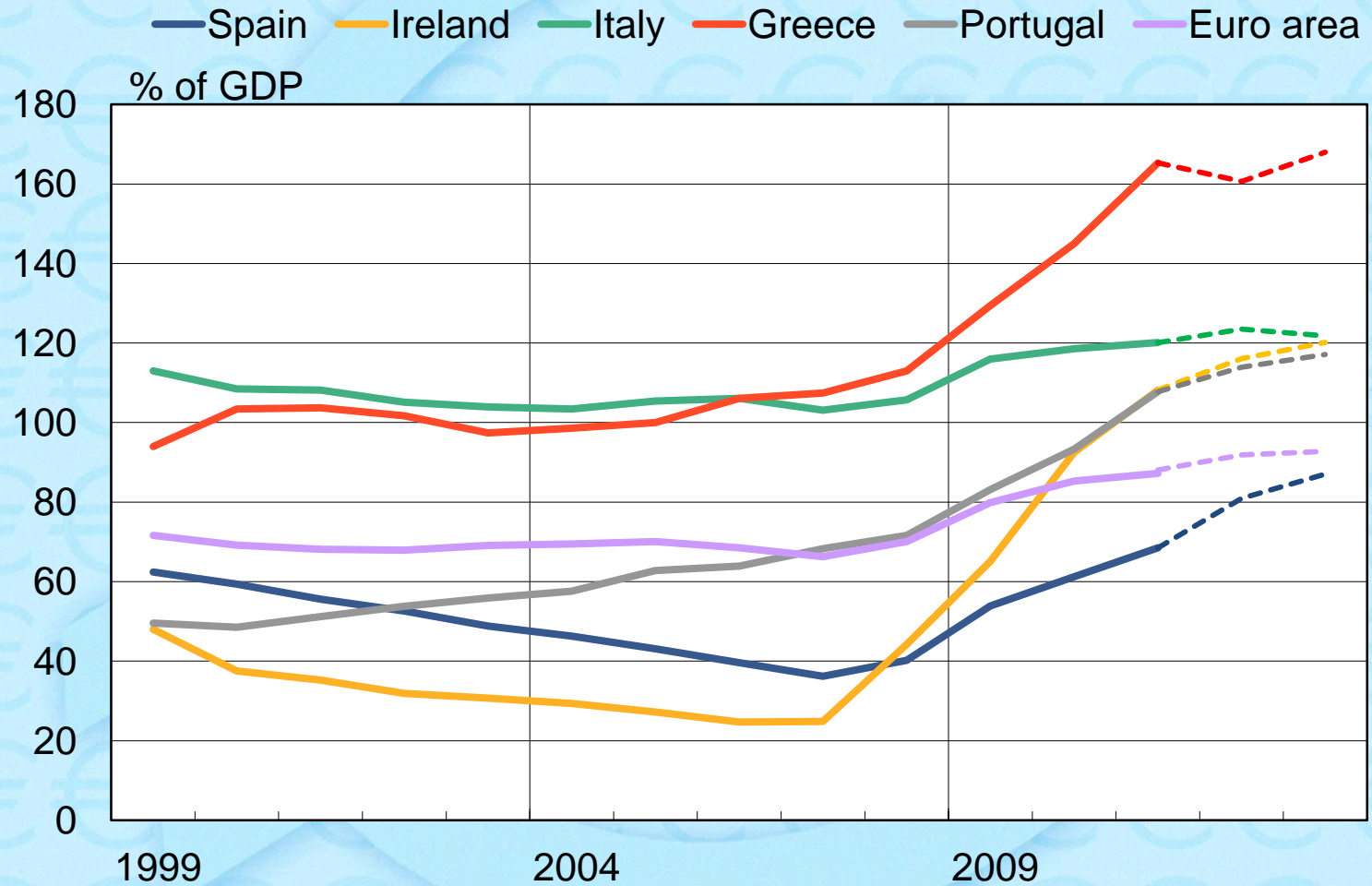
— Euro area — Ireland — Greece — Spain — Italy — Cyprus — Portugal

General government primary expenditure, w/o capital transfers, index, 2002 = 100



Source: Eurostat
25851@Chart16

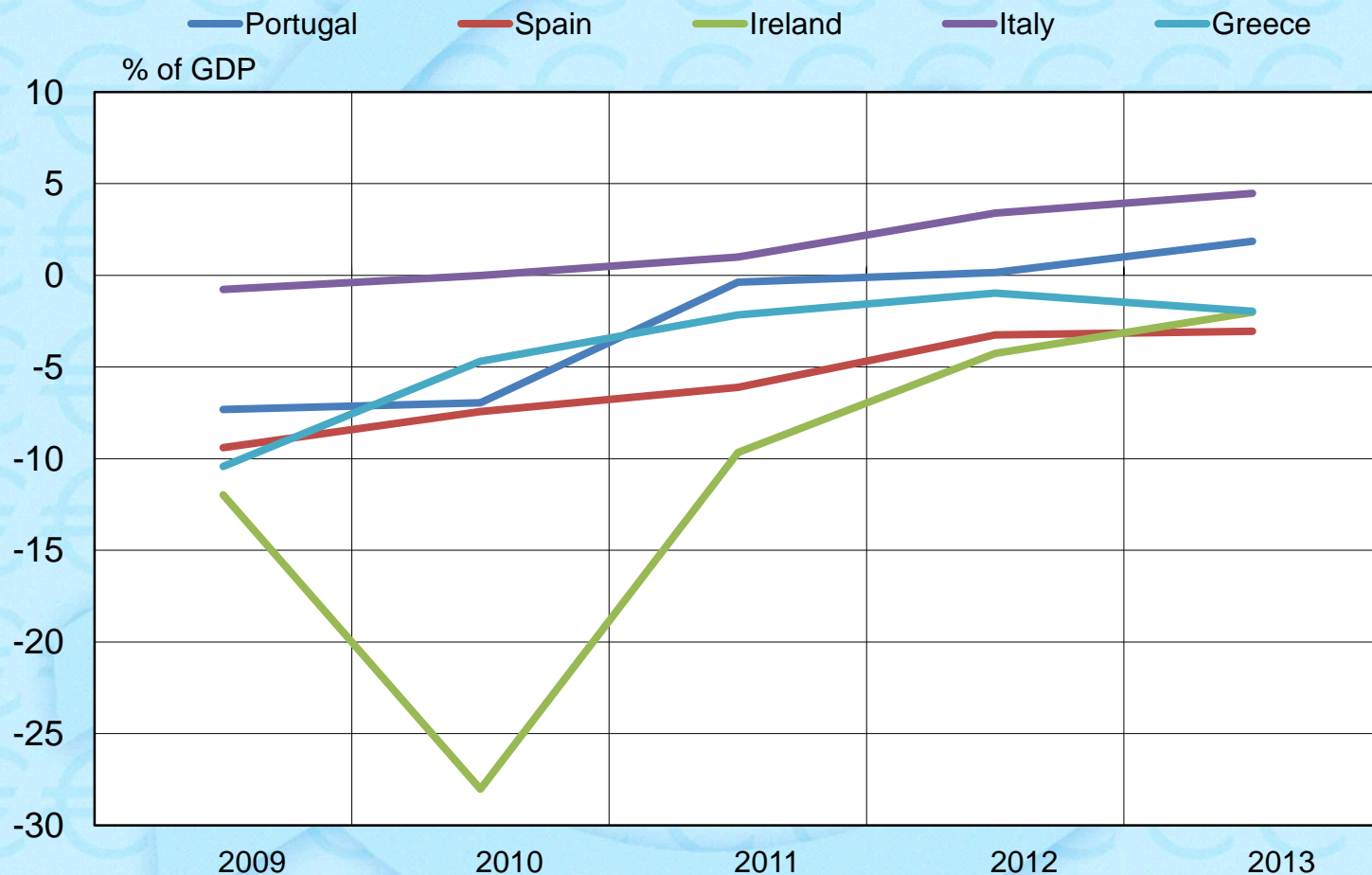
General government debt



Sources: Eurostat and European Commission.

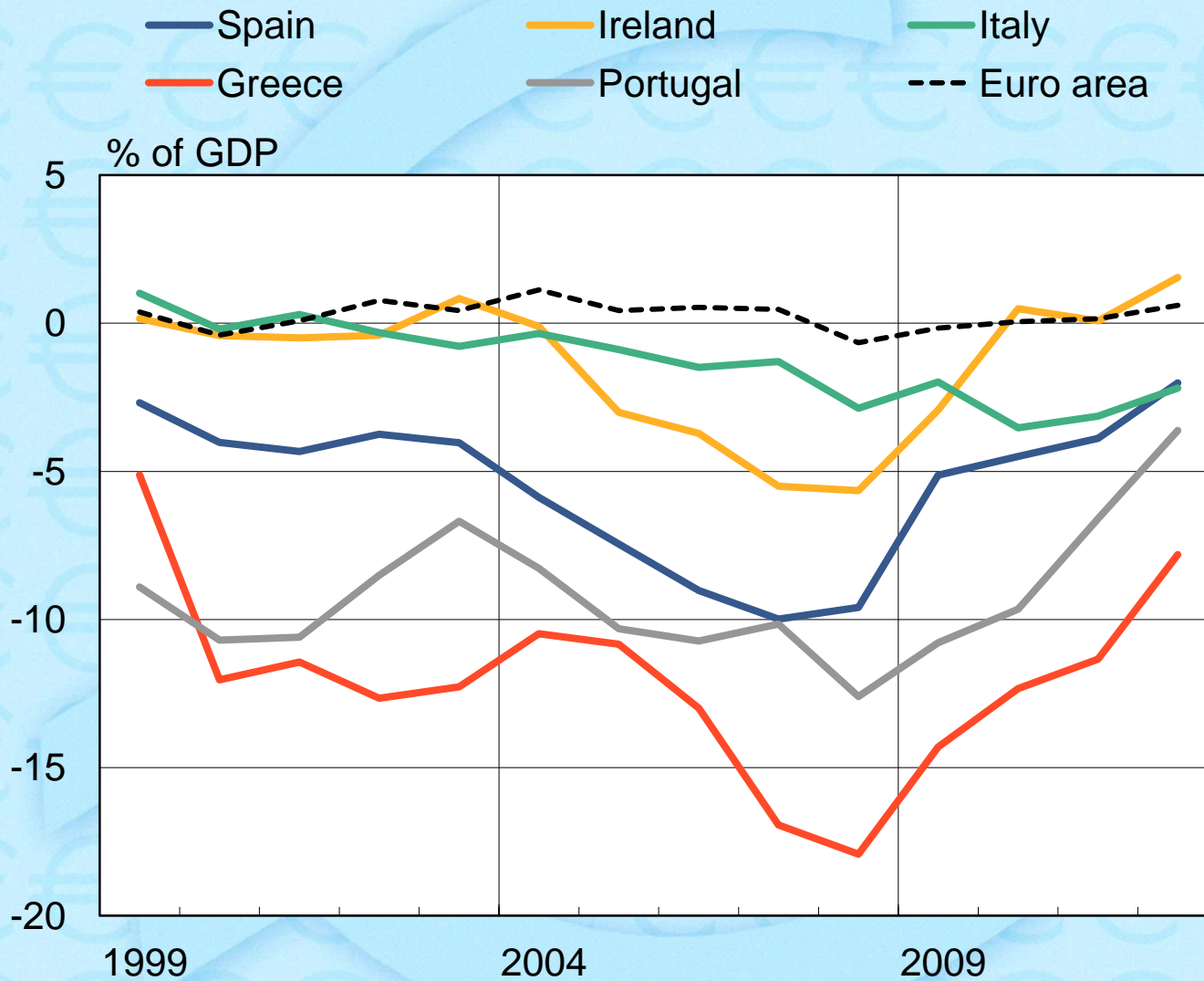
24297@Velat(en) (2)

Primary deficits are gradually improving



Source: European Commission.
Commission forecast for 2012-2013.
26306@Chart14

Current account, GIIPS

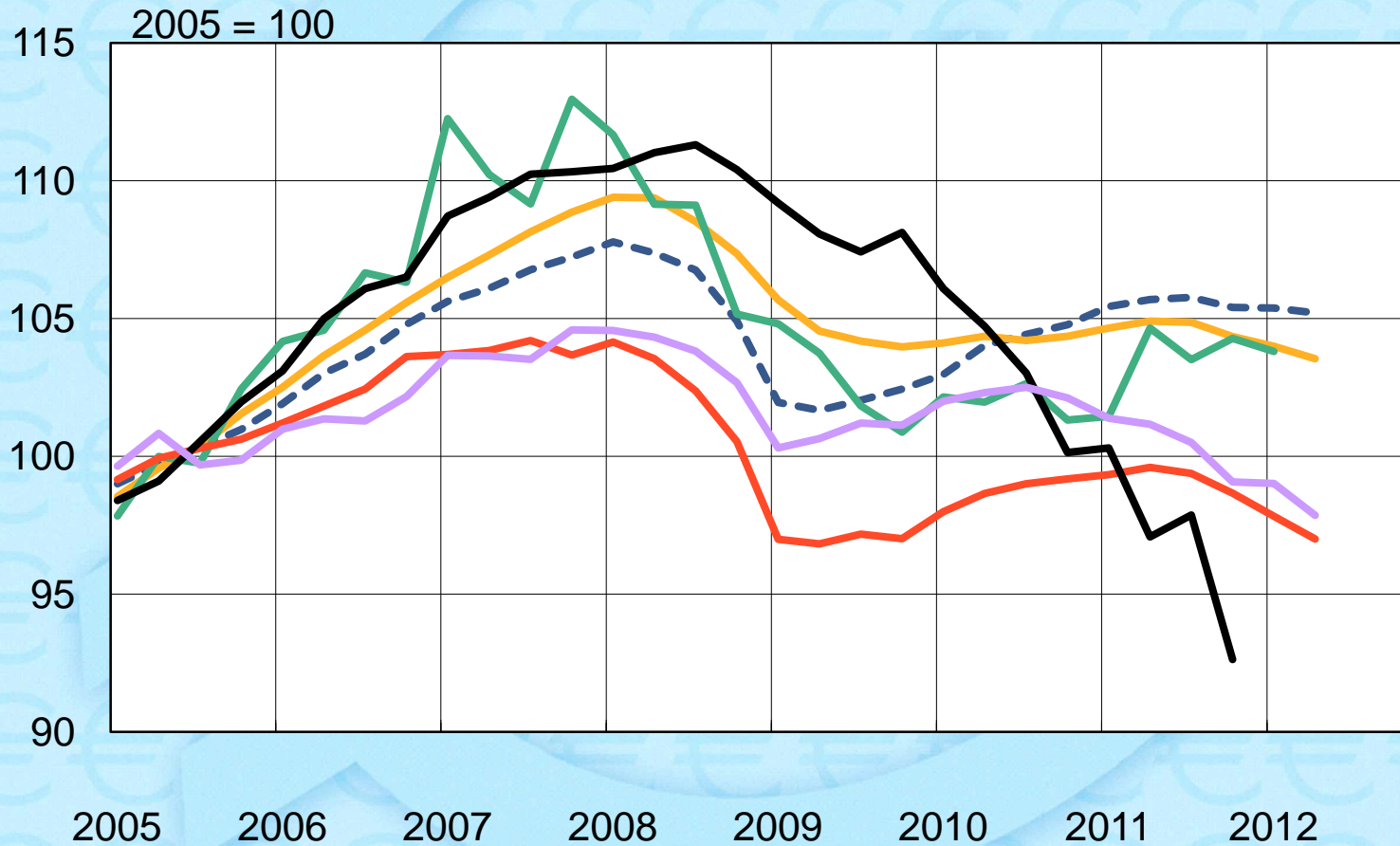


Source: European Commission forecast, Spring 2012.

23586@Chart4(en)

GDP, GIIPS

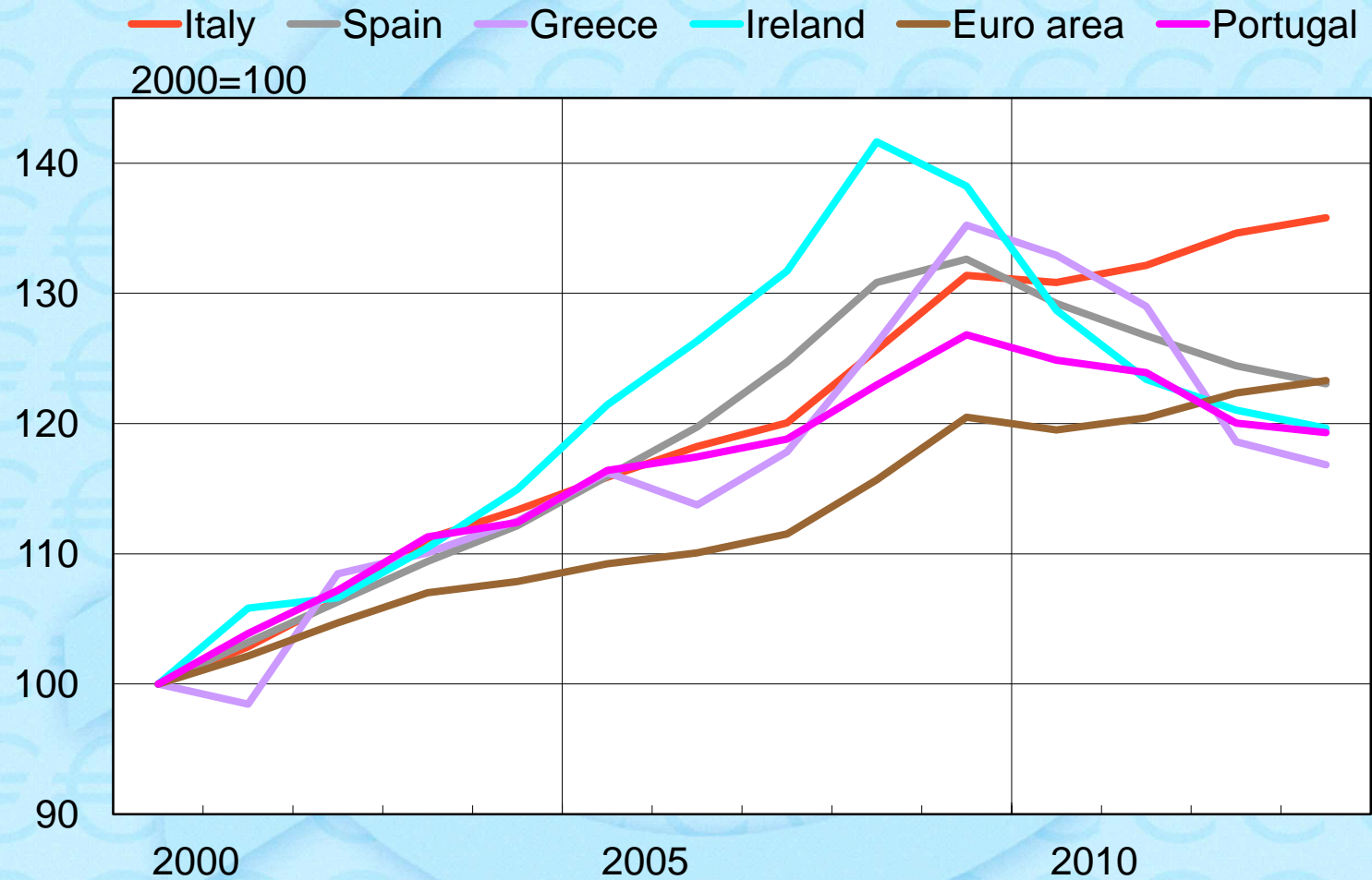
--- Euro area — Spain — Ireland — Italy — Greece — Portugal



Source: Eurostat.

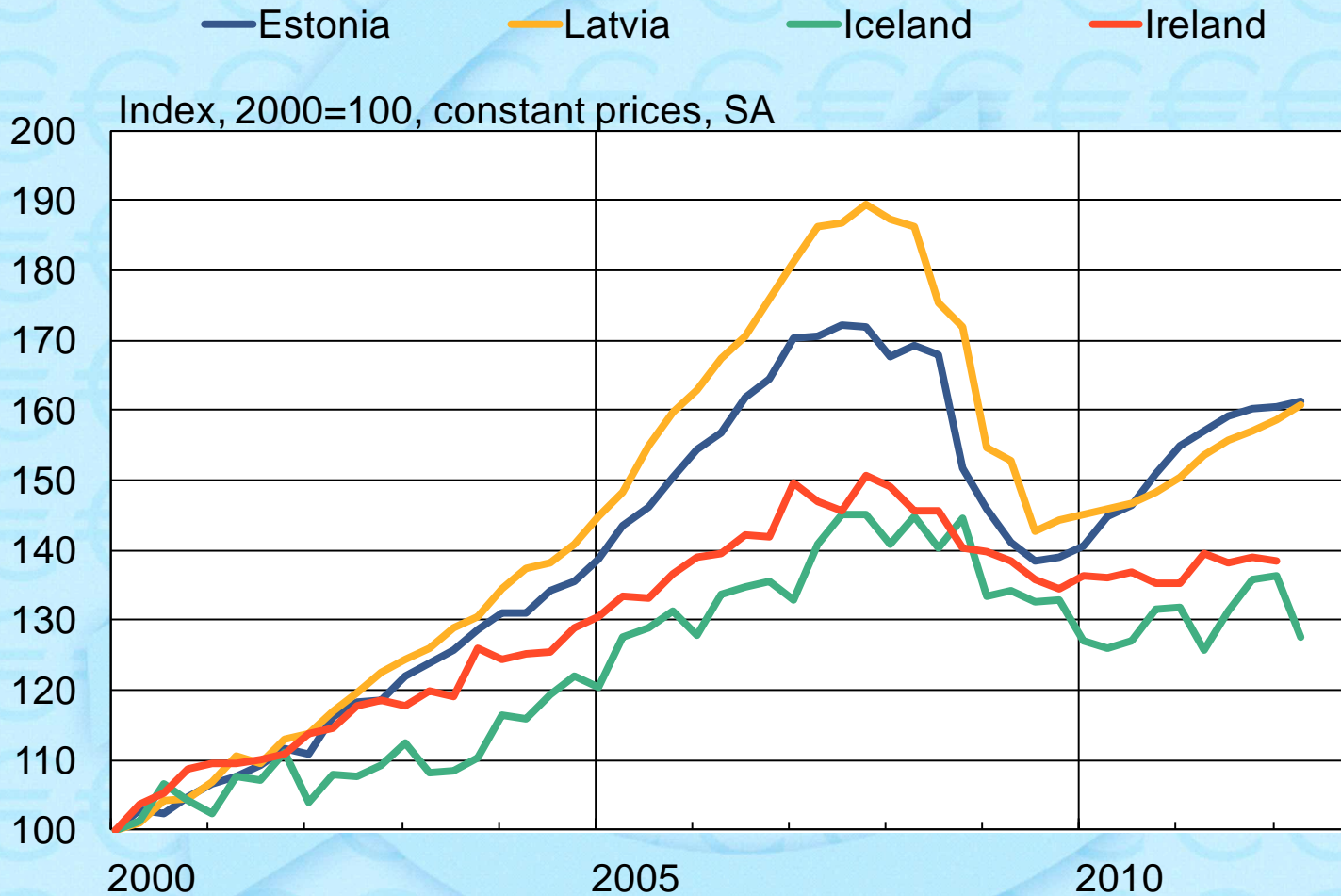
23586@Chart40(en)

Unit labour costs have declined from their peak



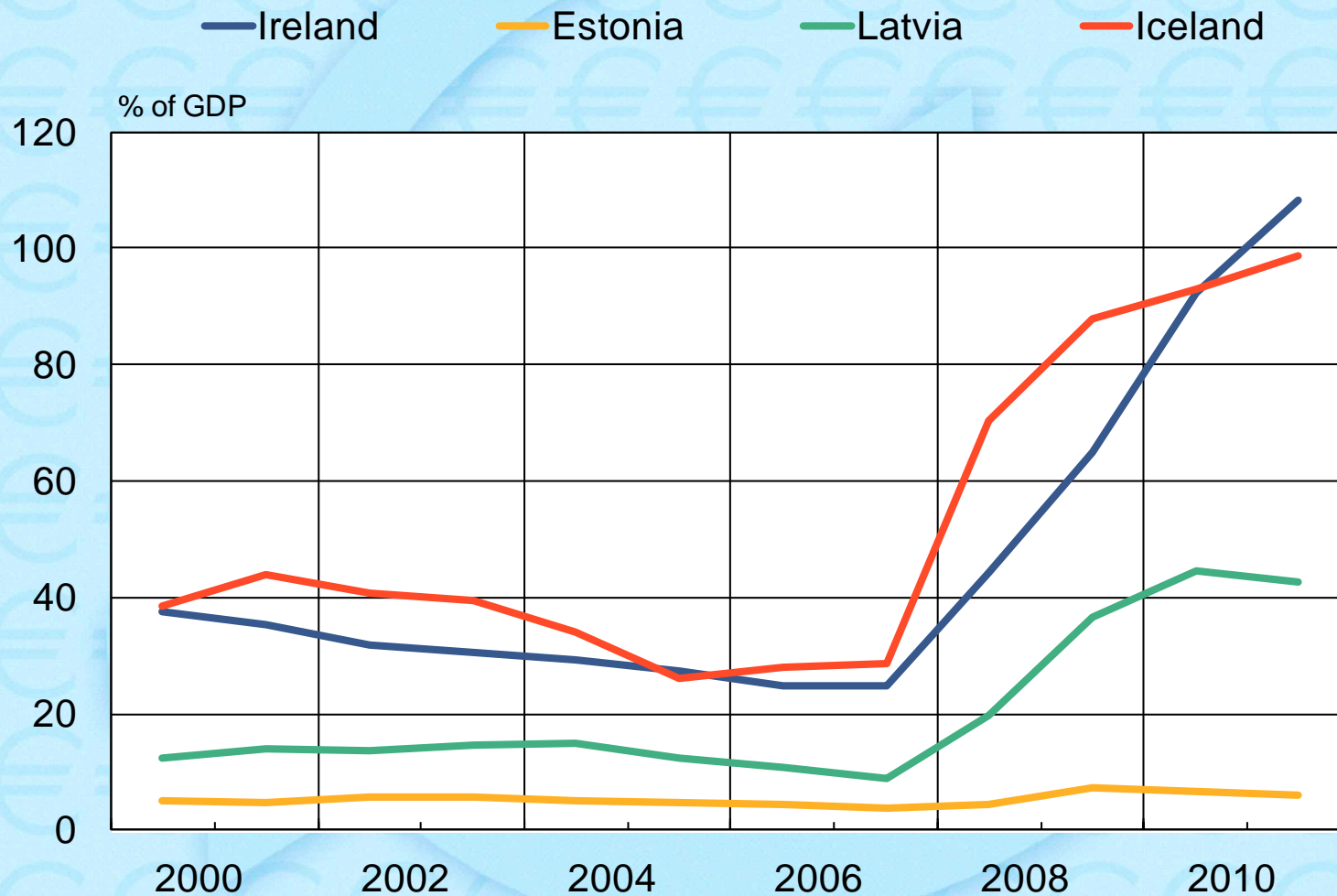
Source: European Commission.
Commission forecast for 2012-13.

Probable success cases GDP: Estonia, Latvia, Ireland and Iceland



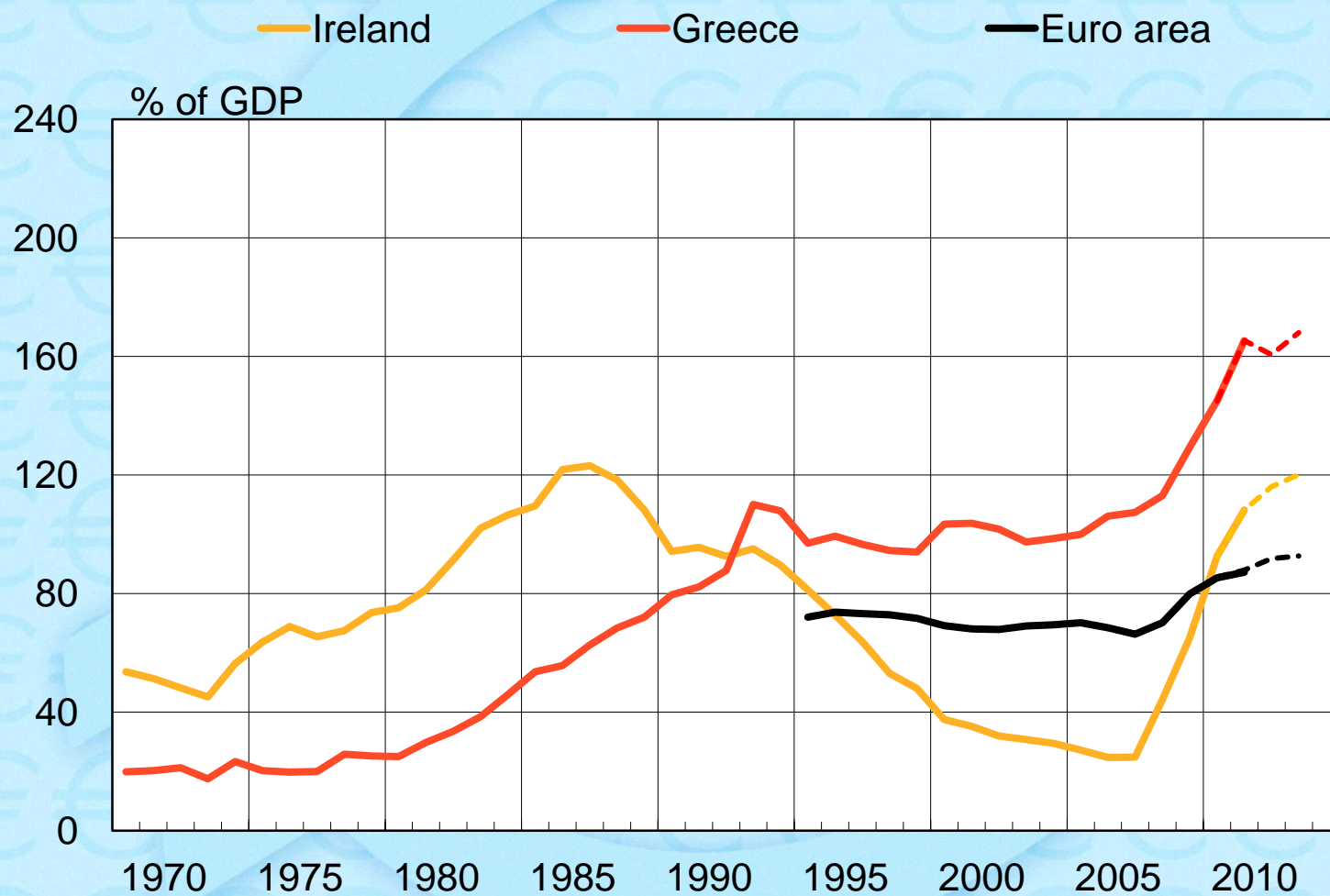
Source: Eurostat, national authorities
25492@GDP

Government debt: Estonia, Latvia, Ireland and Iceland



Source: Eurostat
25492@GovDebt2

Debt consolidation is a slow process

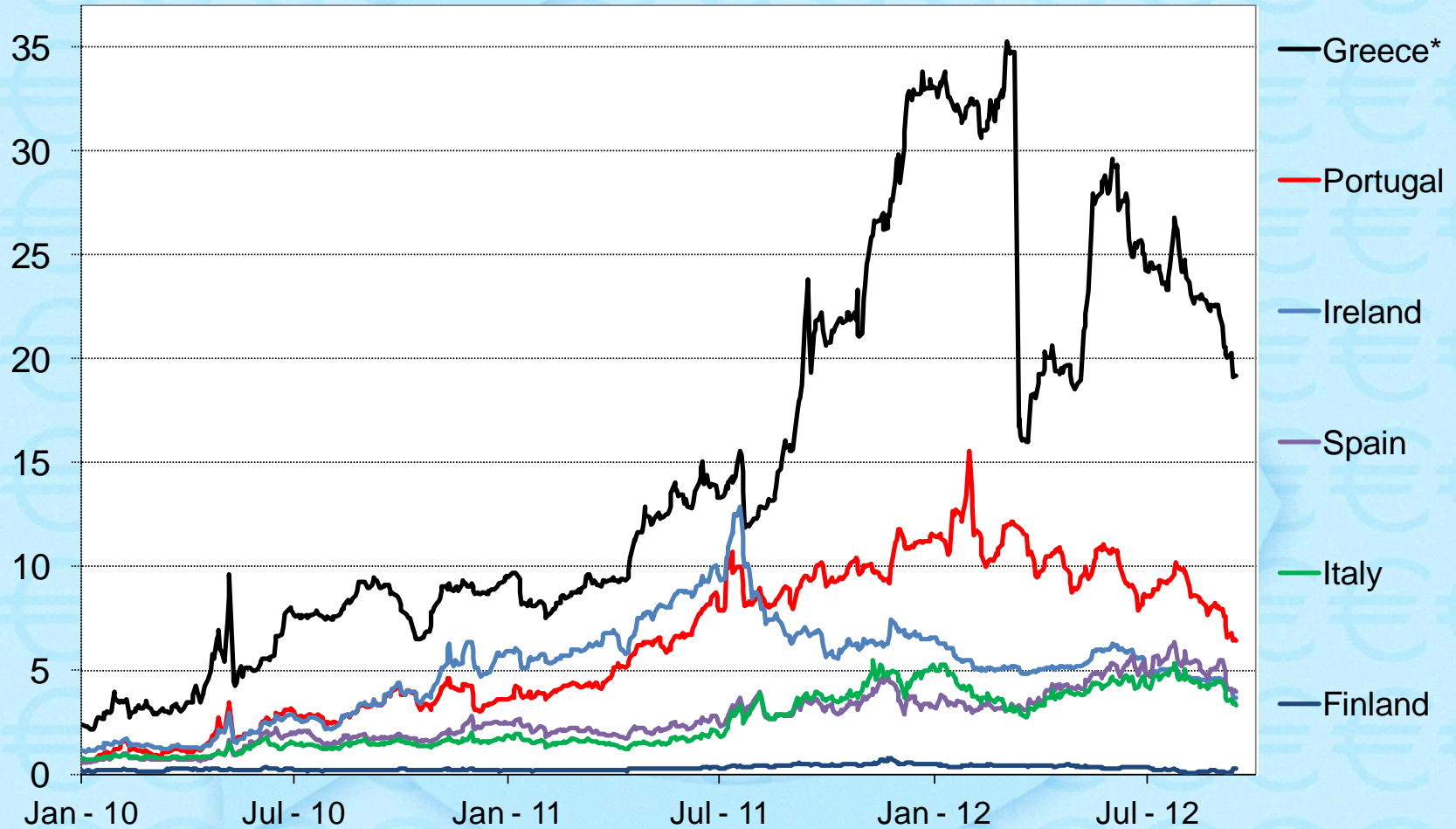


Sources: Eurostat and European Commission. Forecast spring 2012.

23162@EA J-velka(pitkä)

Sovereign yield spreads vis-à-vis Germany (10 y)

Percentage points



Source: Bloomberg.

*Greek private sector involvement (PSI) took place on 12 March 12. Thereafter quotations are for new Greek bonds.

Euro area bank CDS prices



Source: Bloomberg.
5-year CDS prices.

Possible design for a banking union

Should include:

Micro supervision

- Administrative duties
- Costs small



Crisis resolution

- Administrative duties
- "bail-in" from investors
- No bank support



Deposit insurance

- Administrative duties
- Funded by fees from banks
- Final responsibility to governments? (Systemic crisis)

Outside the banking union:

Bank support ("bail out")

- Expensive, politically difficult
- Case by case political decisions (ESM?)

The system in the United States:

FDIC:

- Supervision, resolution and deposit insurance
- No finance from government budget

TARP

- Discretionary political arrangement
- Financing from federal budget