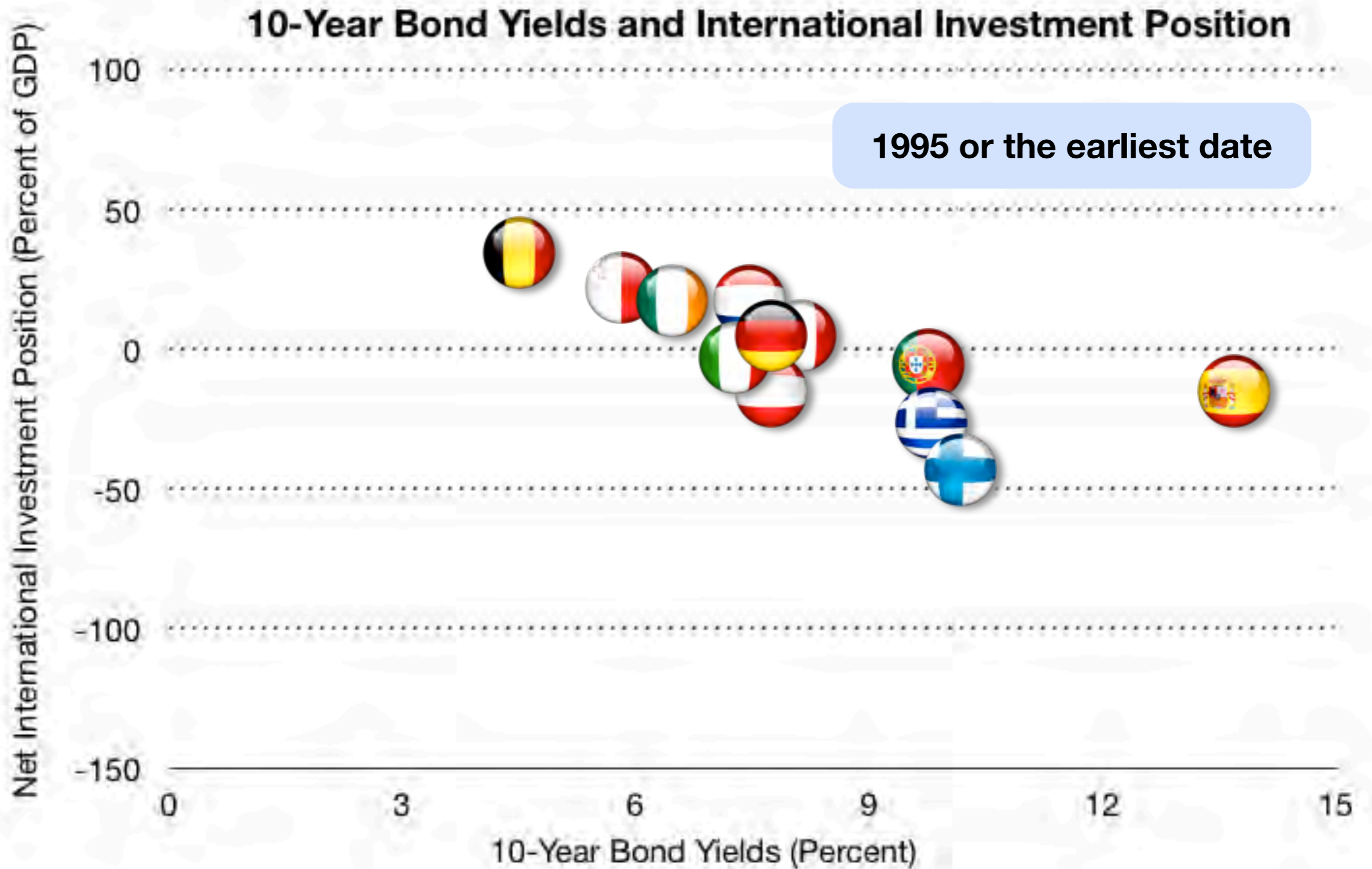


European Department Seminar

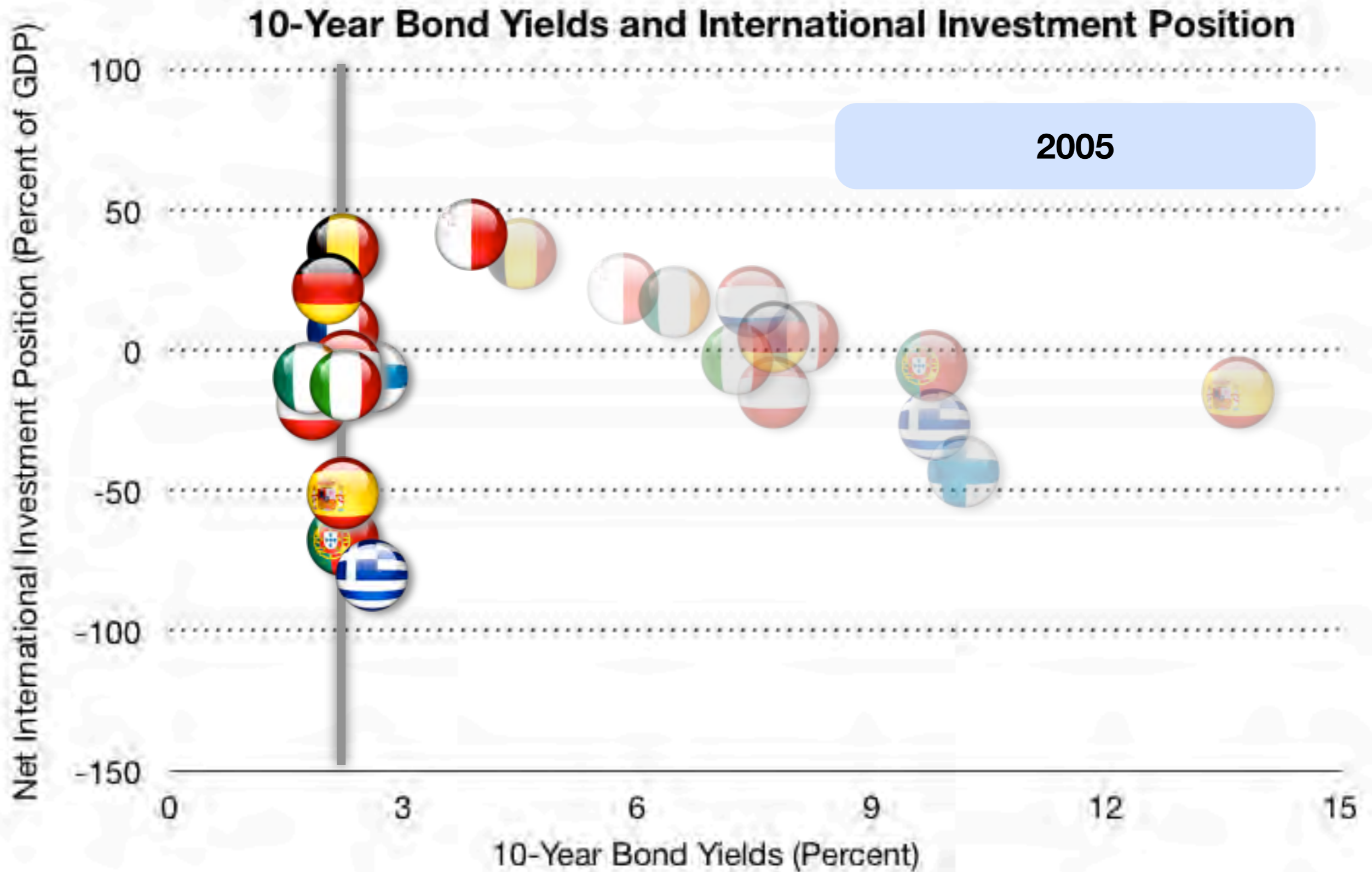


April 2012

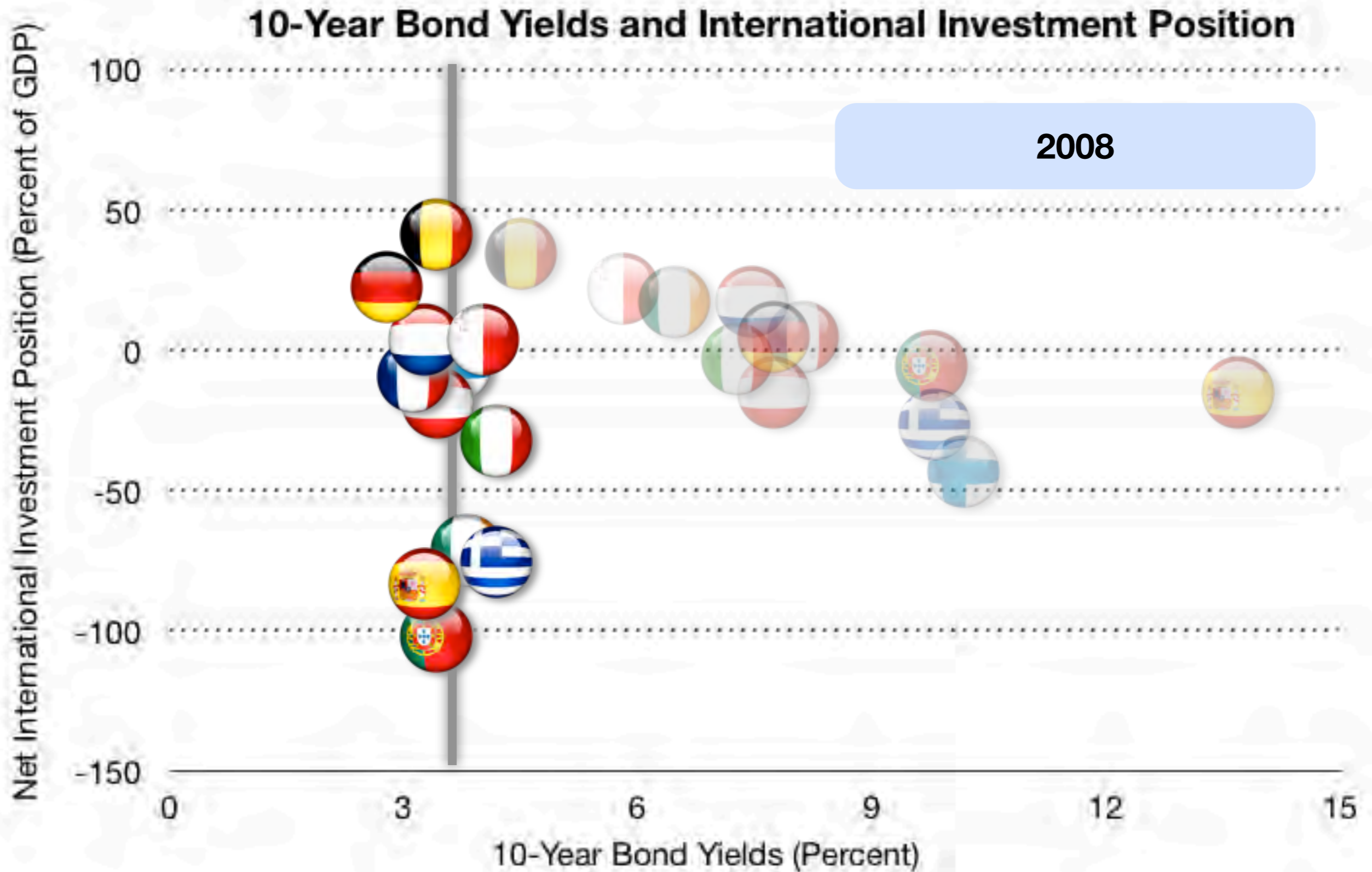
Convergence



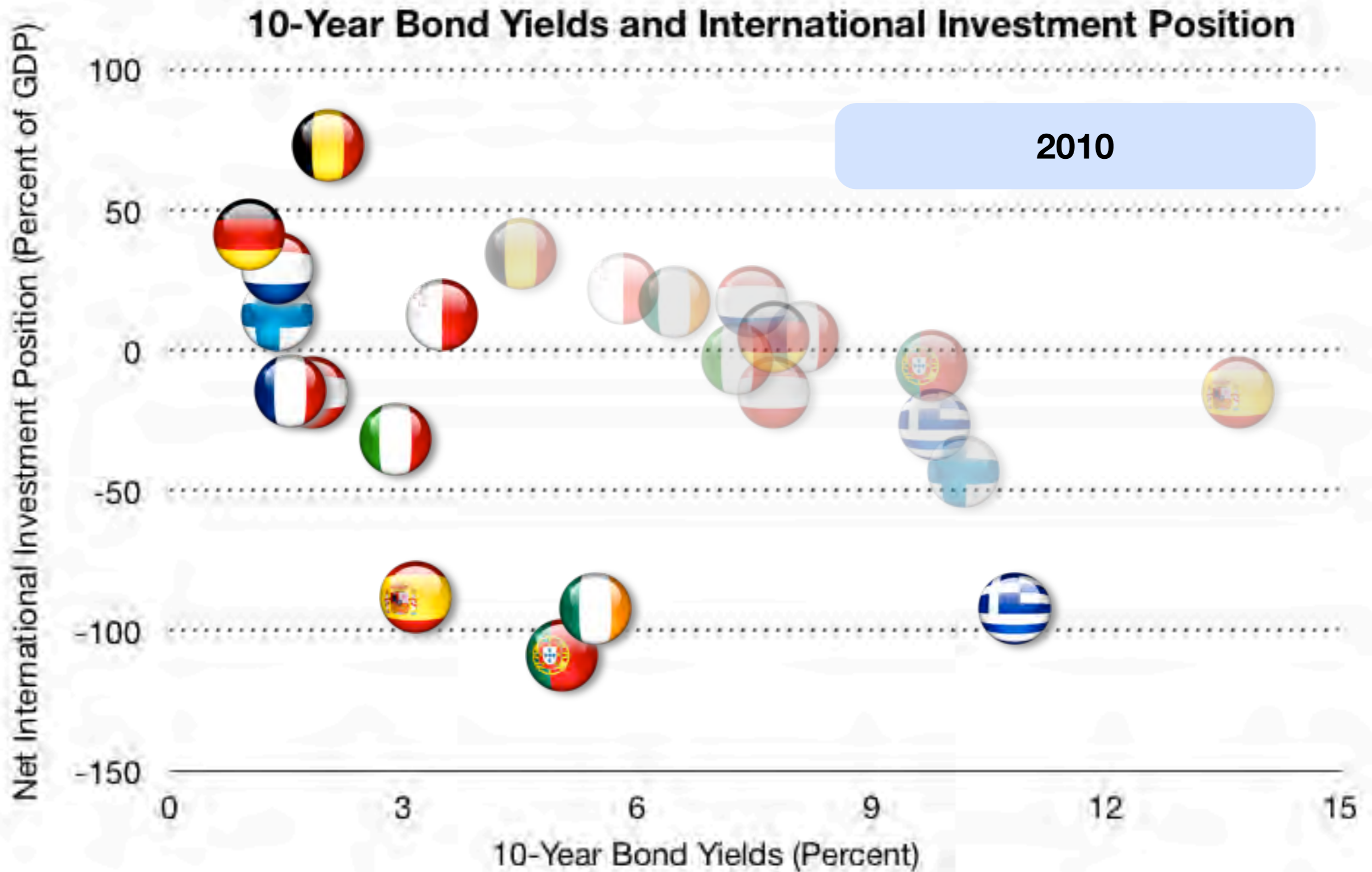
Convergence



Convergence

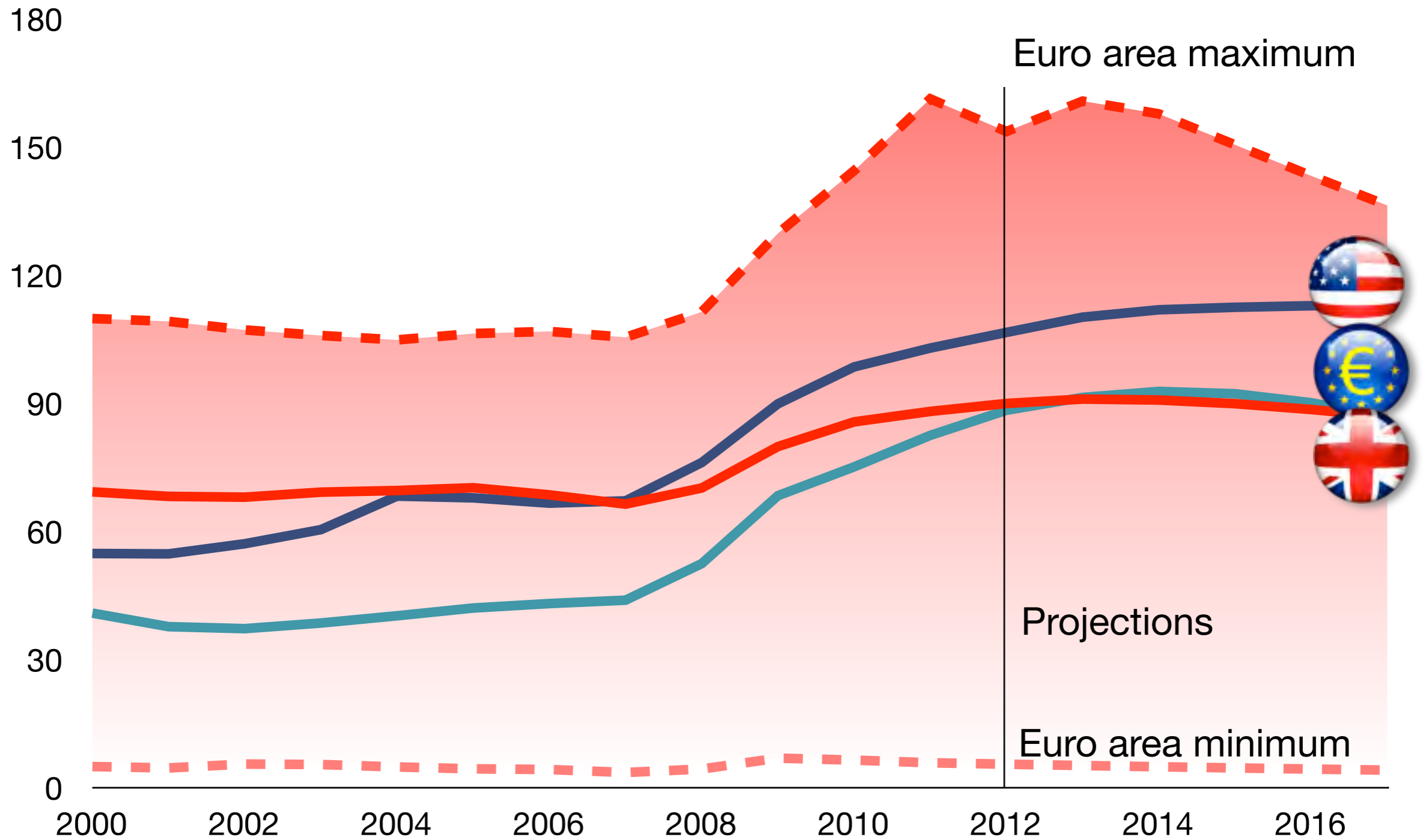


Convergence



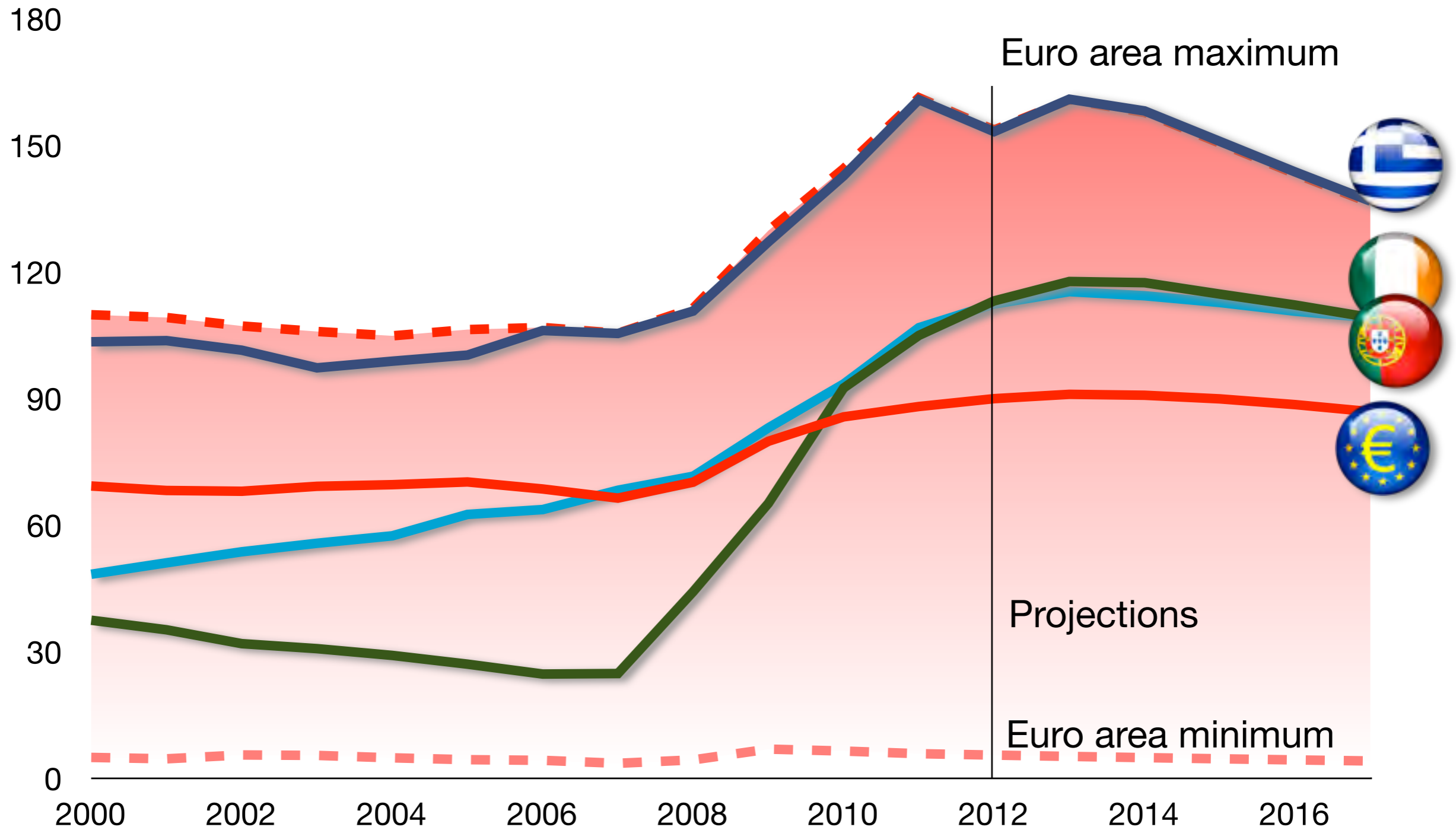
Debt

General Government Gross Debt (Percent of GDP)



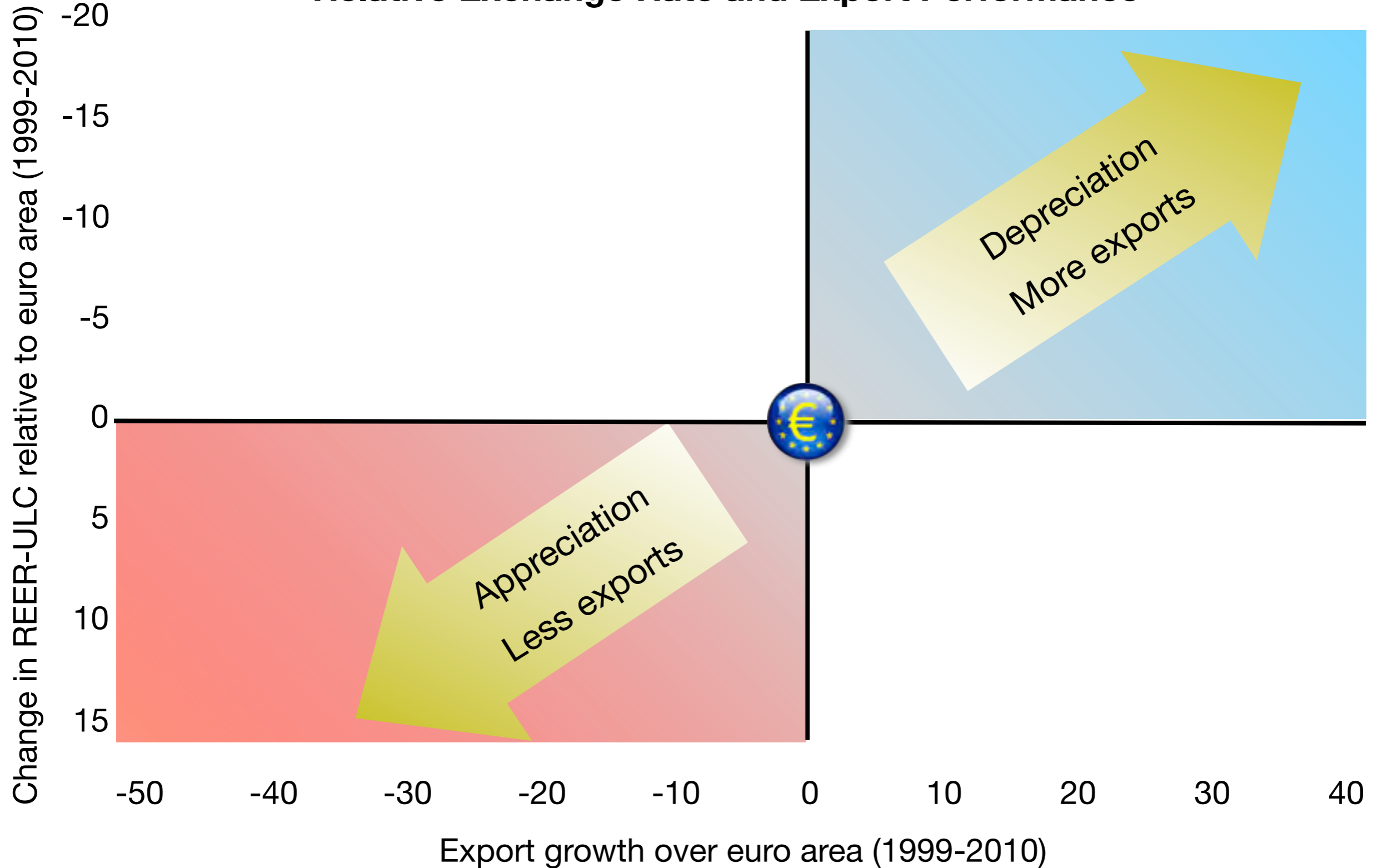
Debt

General Government Gross Debt (Percent of GDP)



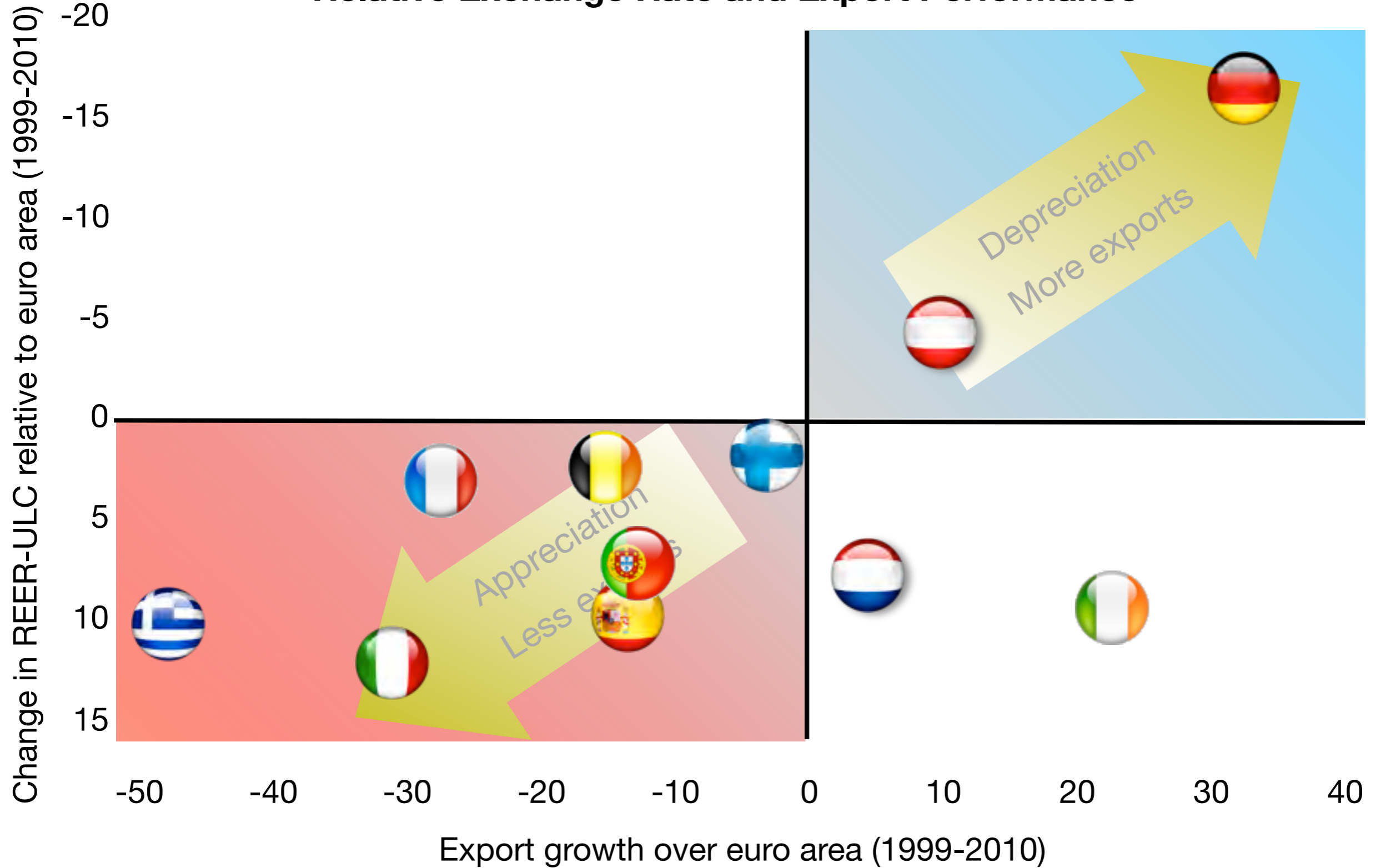
Competitiveness

Relative Exchange Rate and Export Performance



Competitiveness

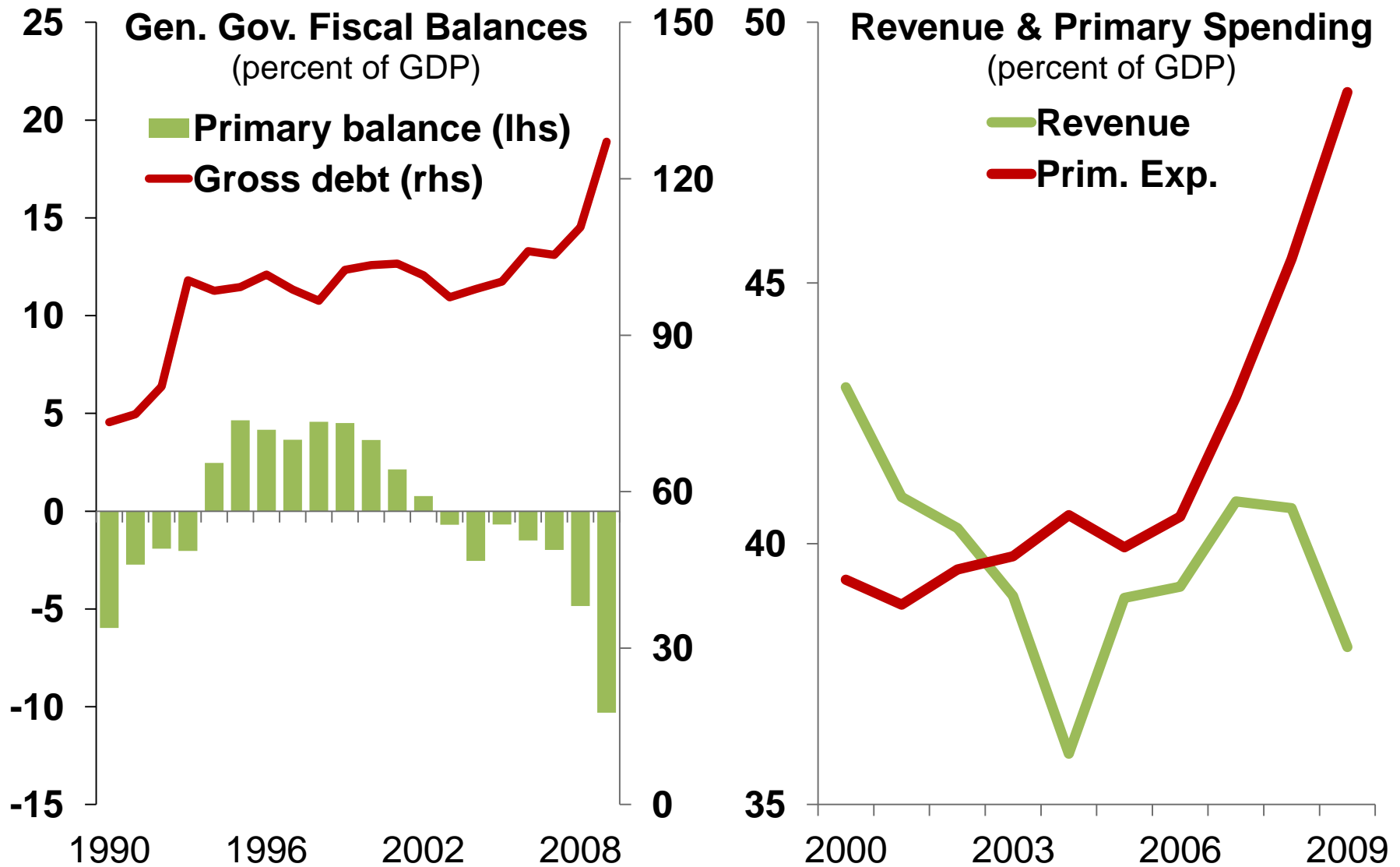
Relative Exchange Rate and Export Performance



GREECE

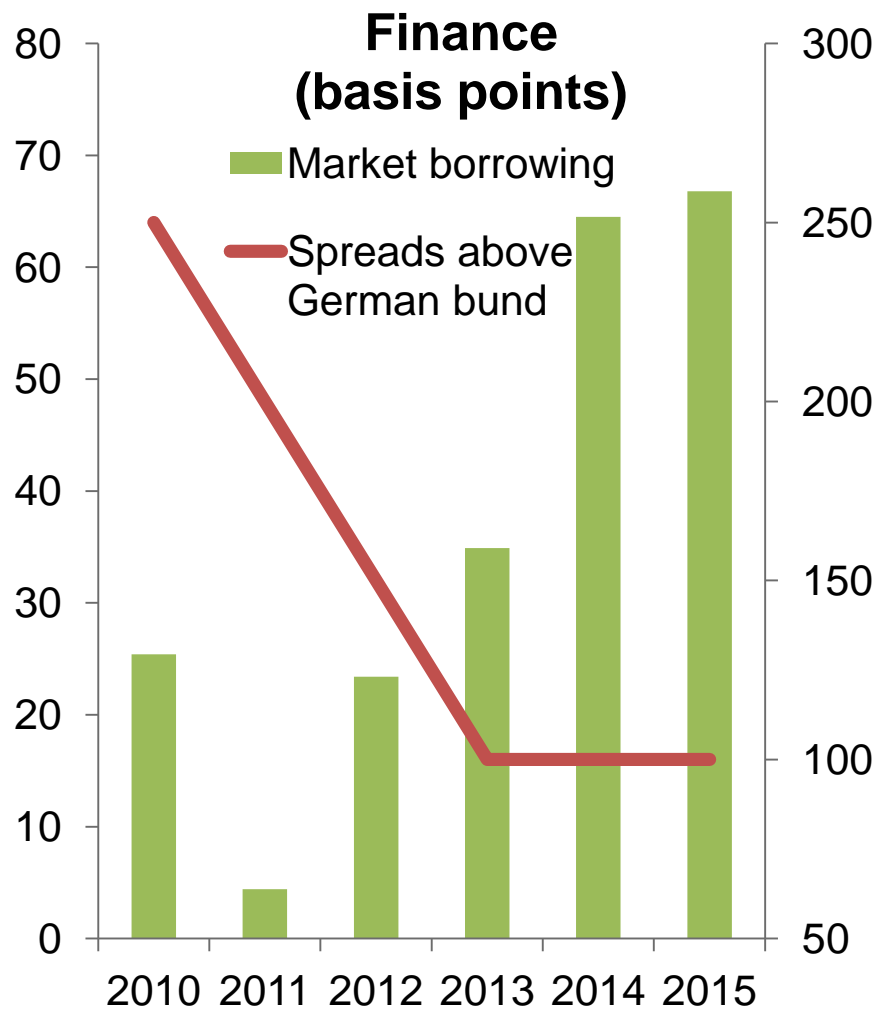
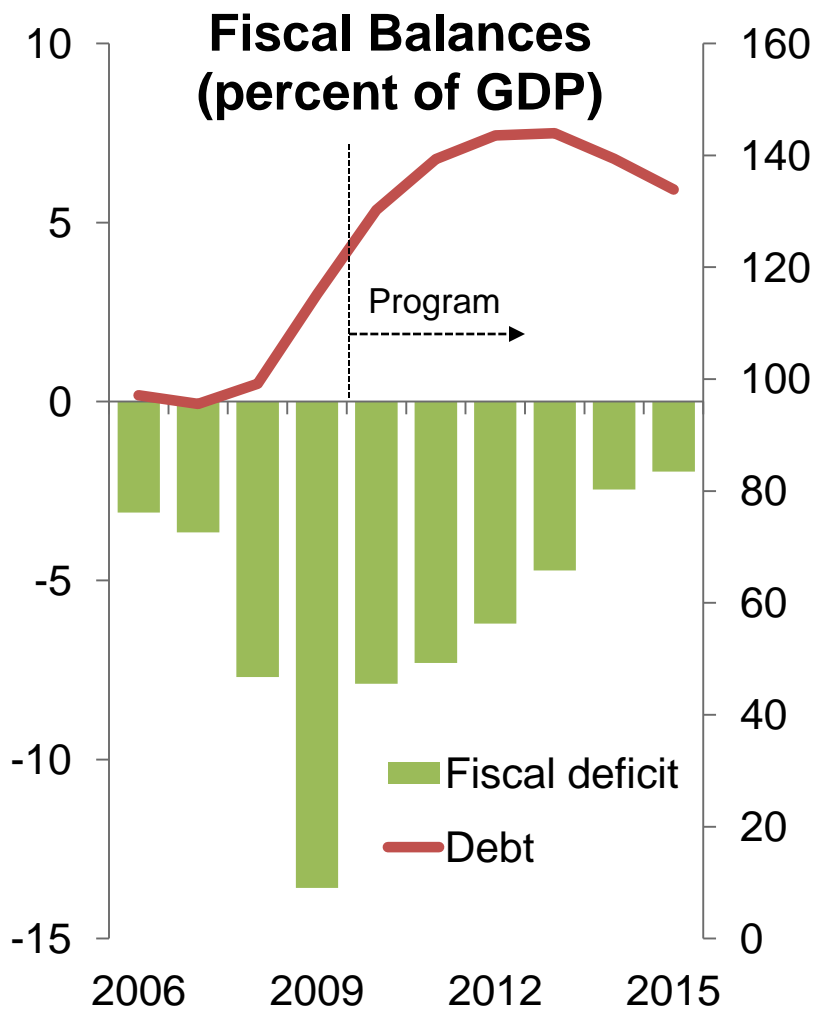
In Greece, debt and deficits climbed to precipitous levels.

The massive spending increases behind this drove up wages and prices, badly undermining competitiveness, and setting the stage for the crisis.

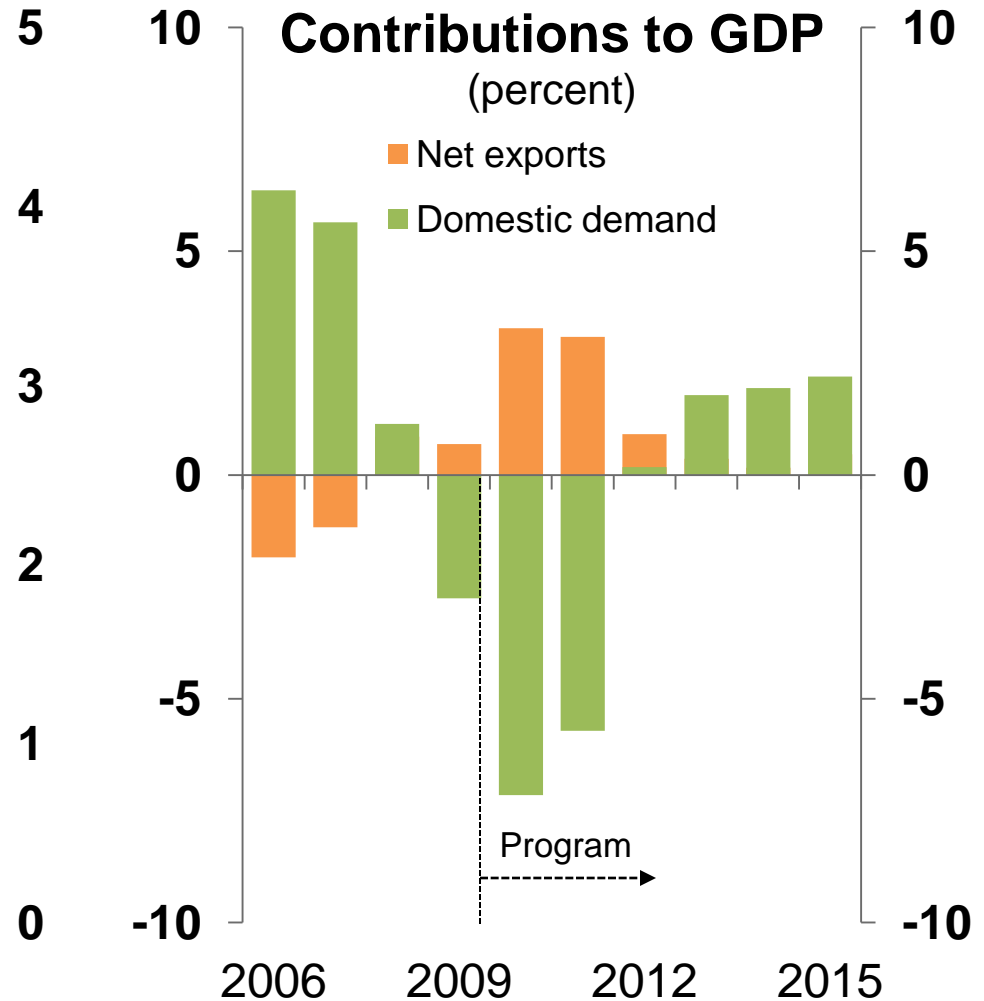
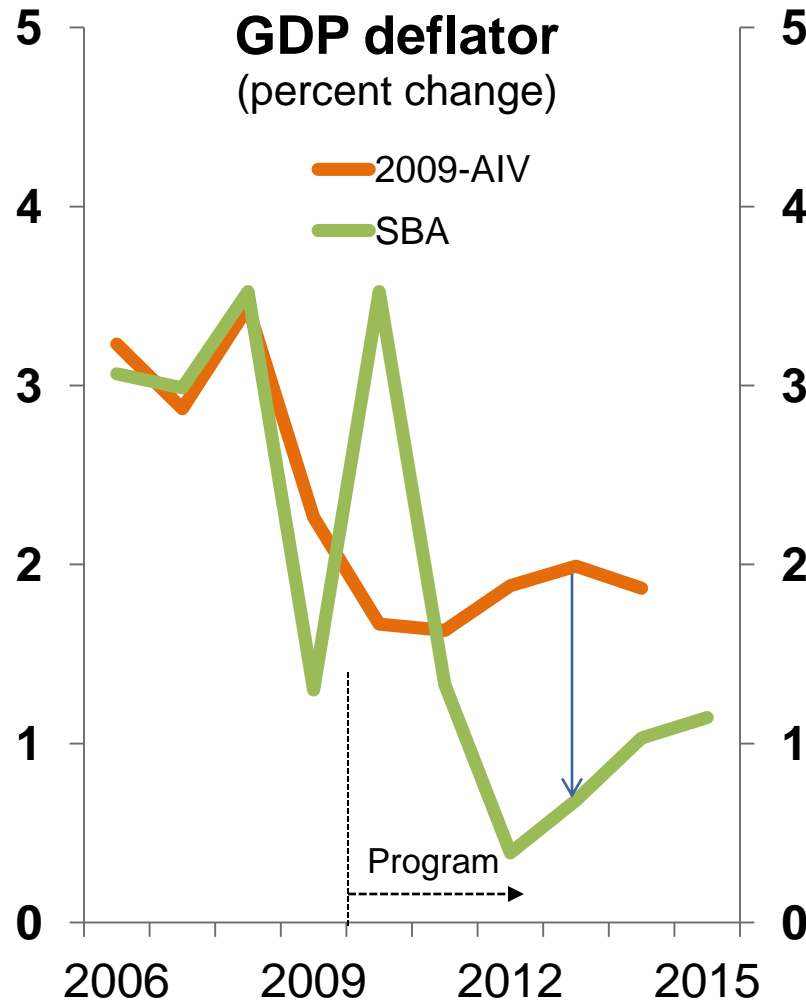


1. Design of the SBA

Fiscal adjustment was expected to boost market confidence and restore financing



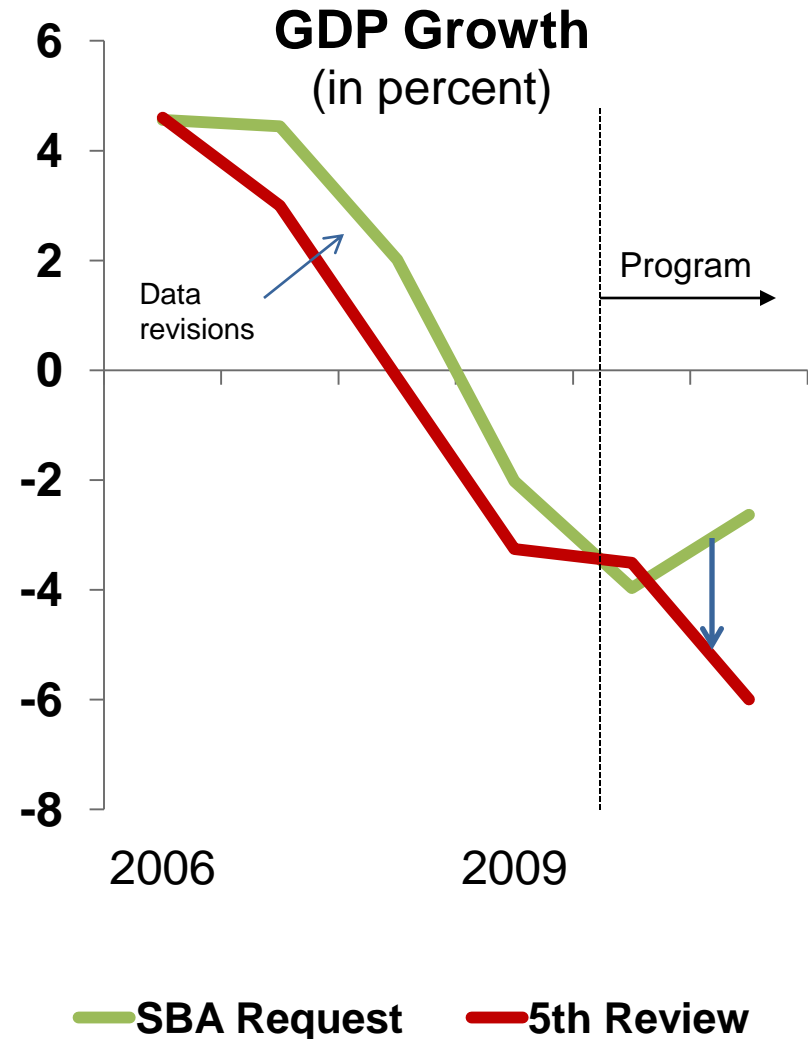
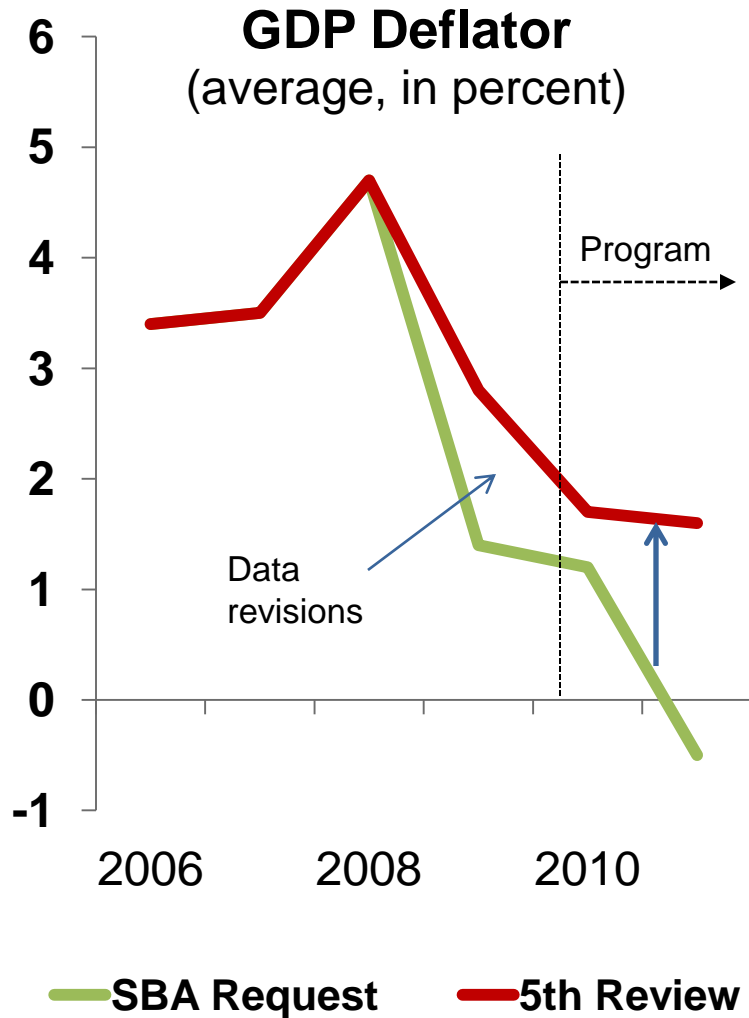
Structural reforms were designed to improve competitiveness and trigger an export-led recovery.
(which would help reduce the impact of fiscal adjustment).



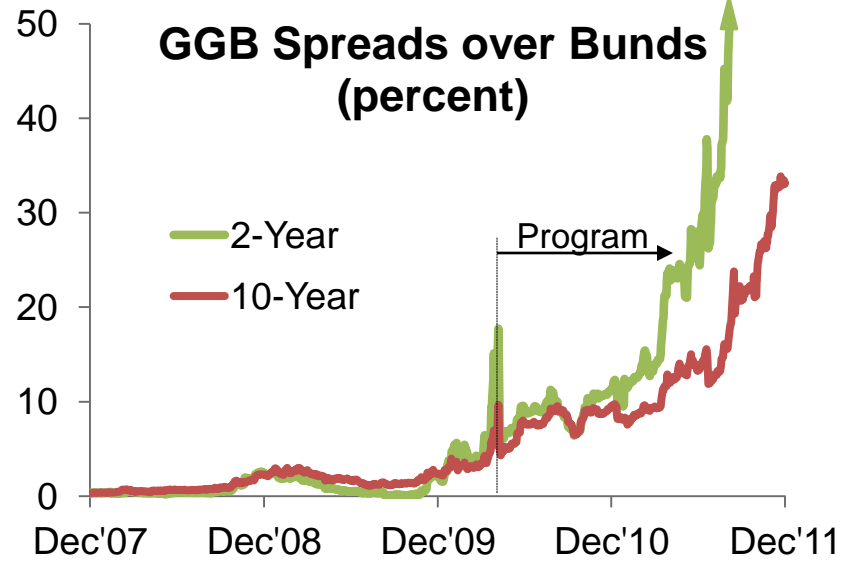
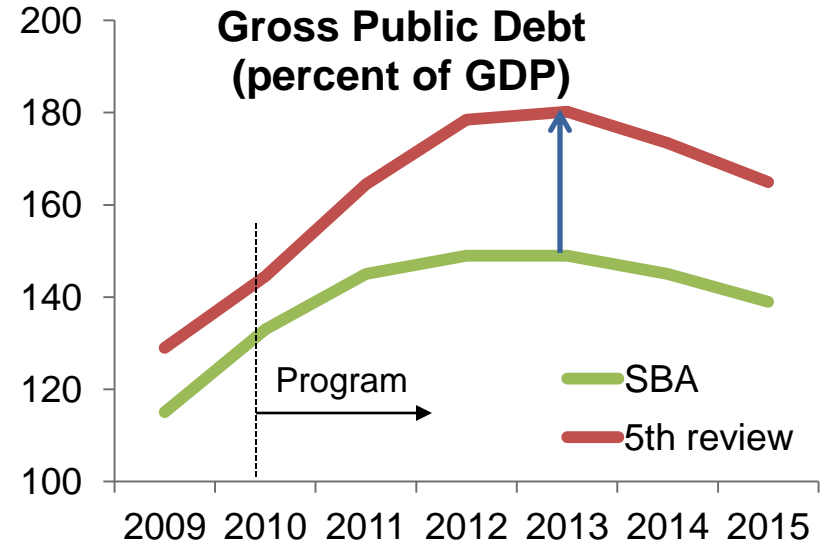
2. SBA IMPLEMENTATION

Experience and outcomes

Competitiveness problems have proven less tractable, and the recession has proven deeper than expected.



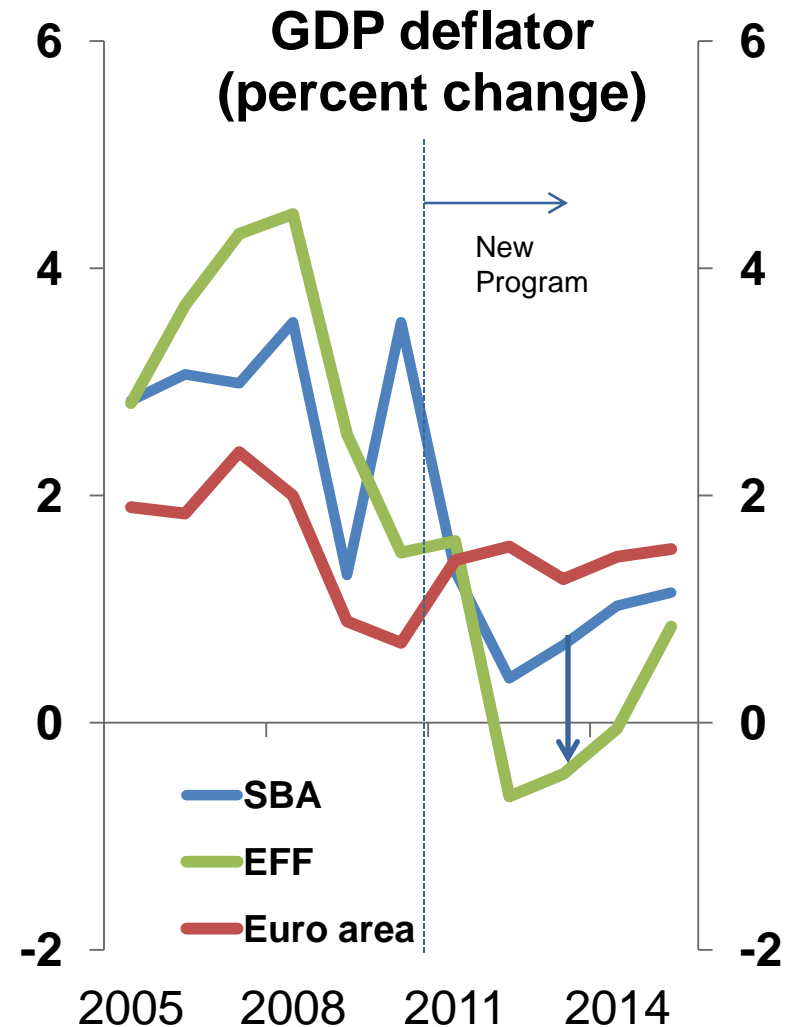
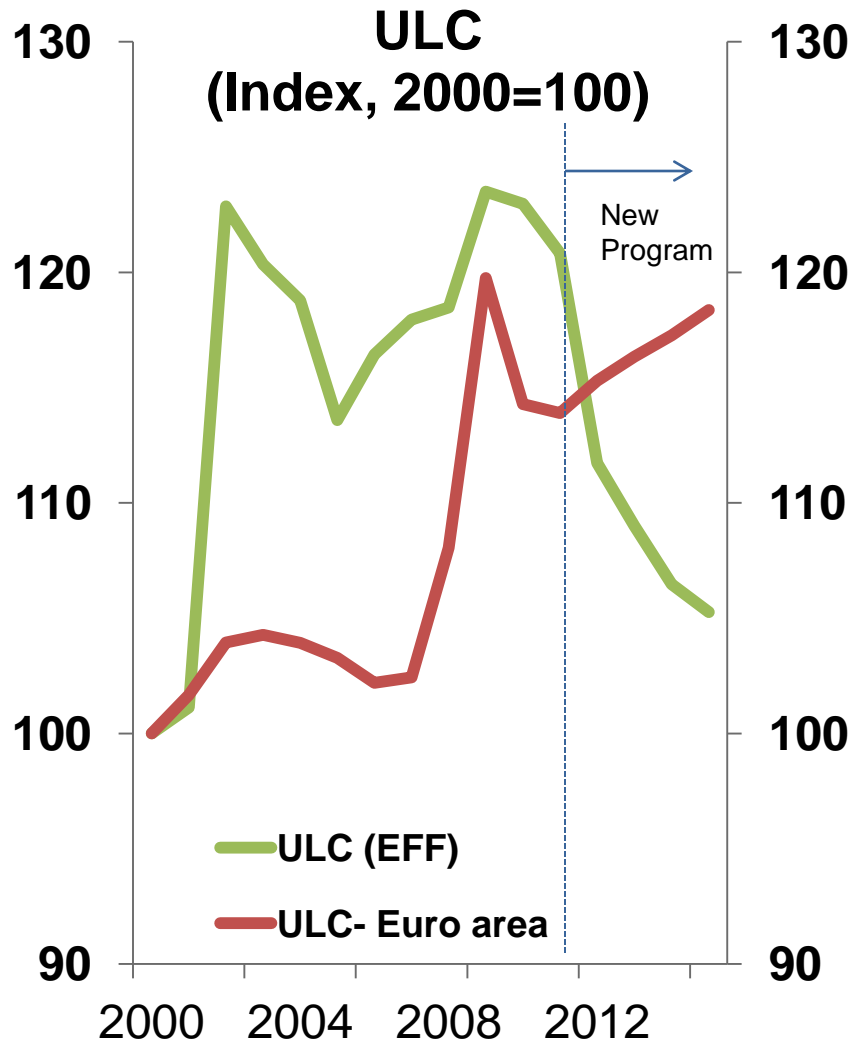
Significant fiscal adjustment, but soaring debt and spreads...



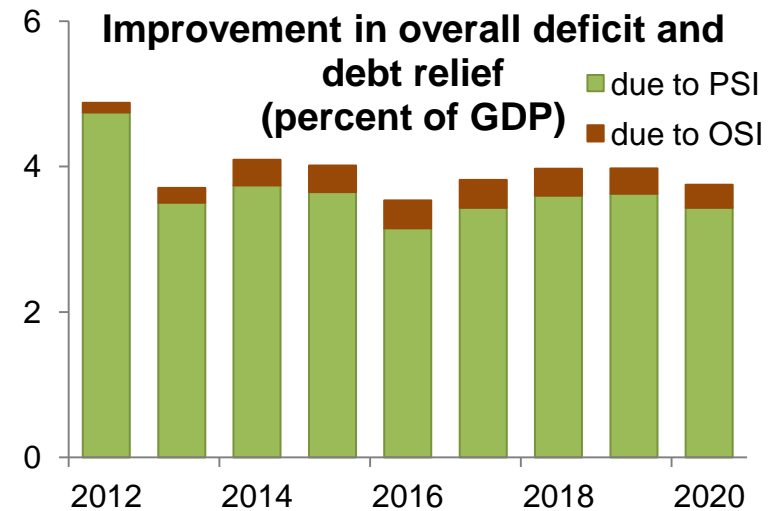
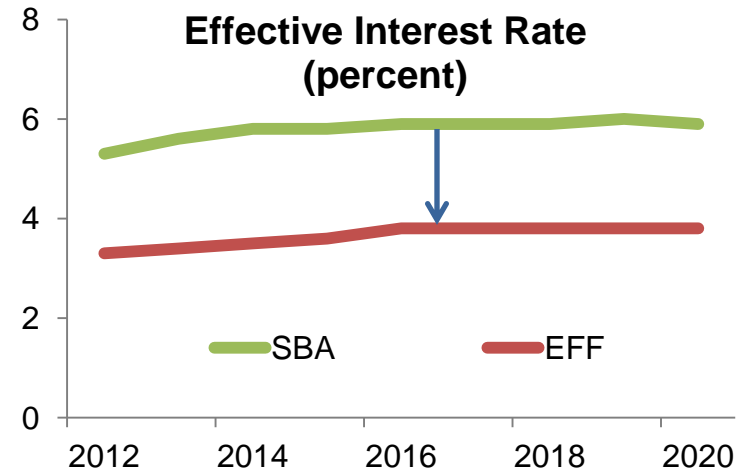
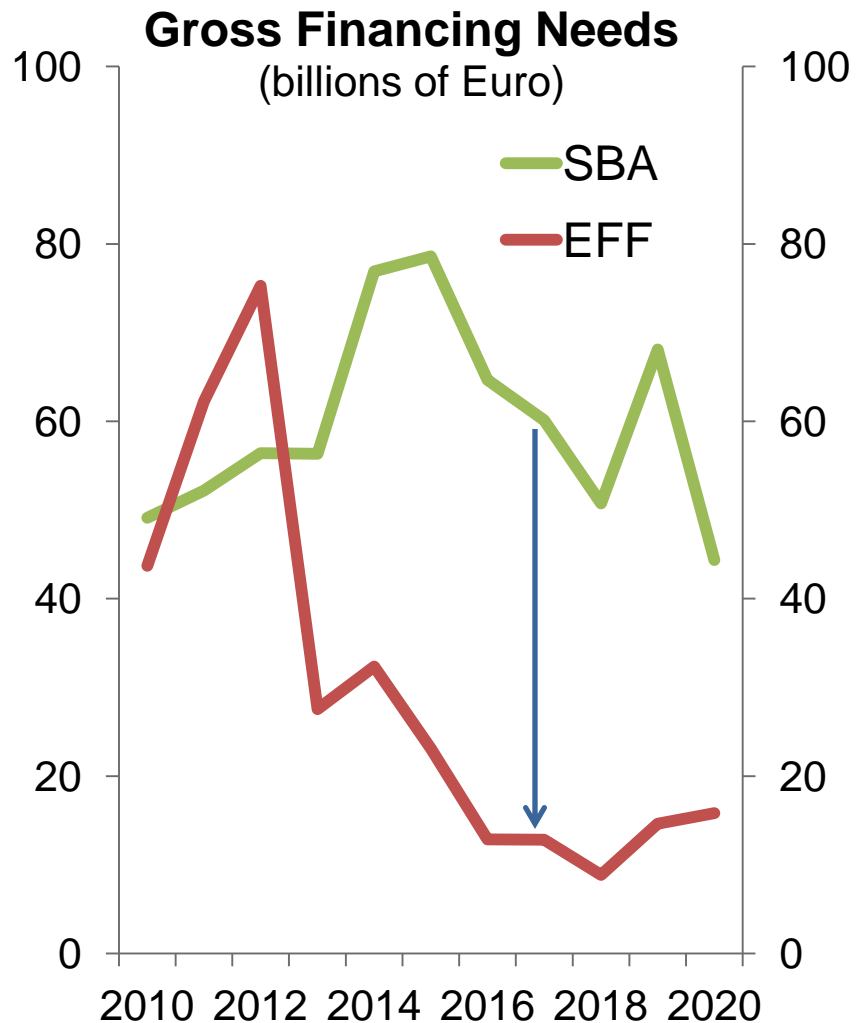
3. The new EFF program

Policy Adaptation

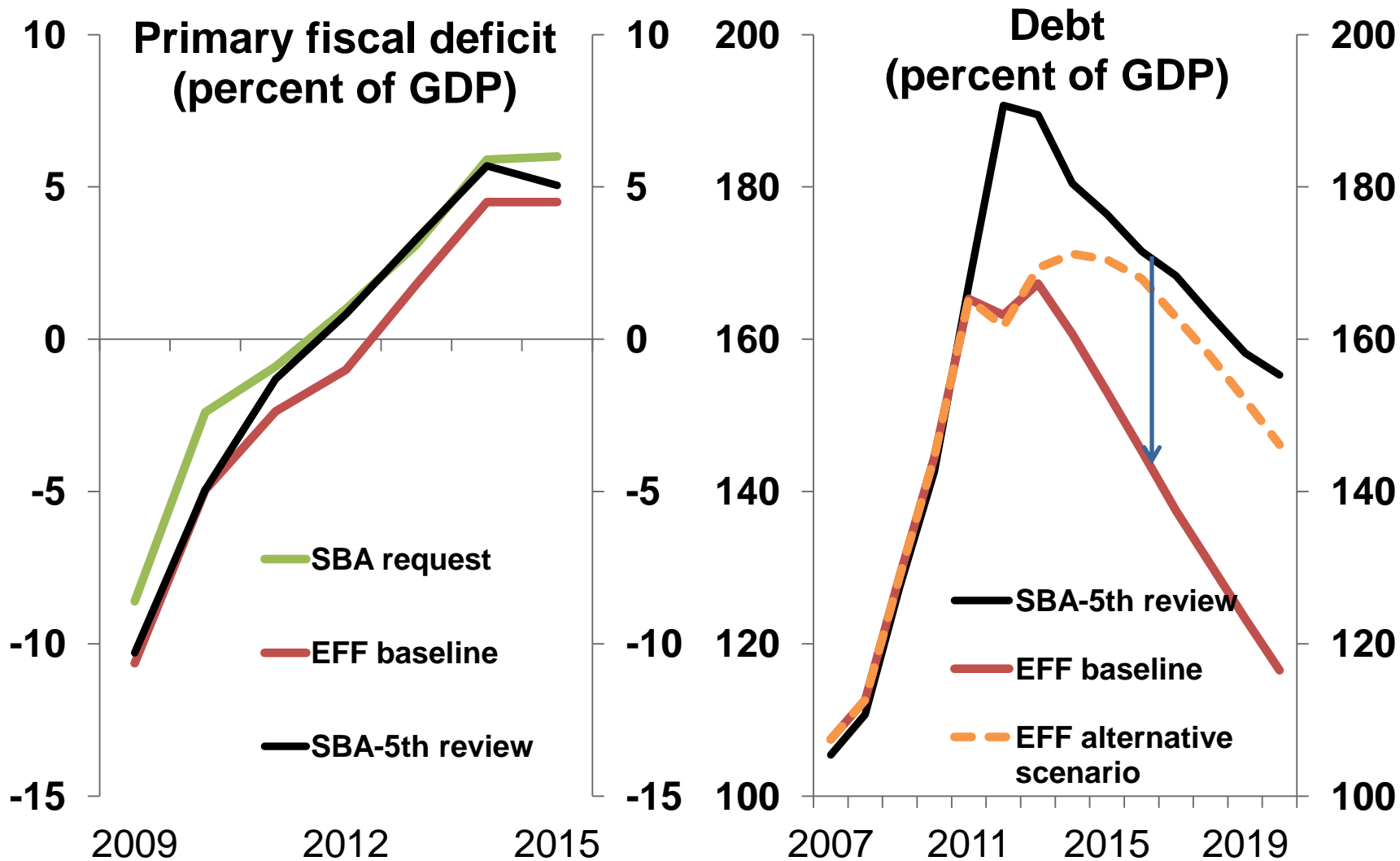
The new program places emphasis on directly securing faster competitiveness improvements to bring forward the recovery



Additional financing, including via debt relief, provides Greece with time to restore external sustainability



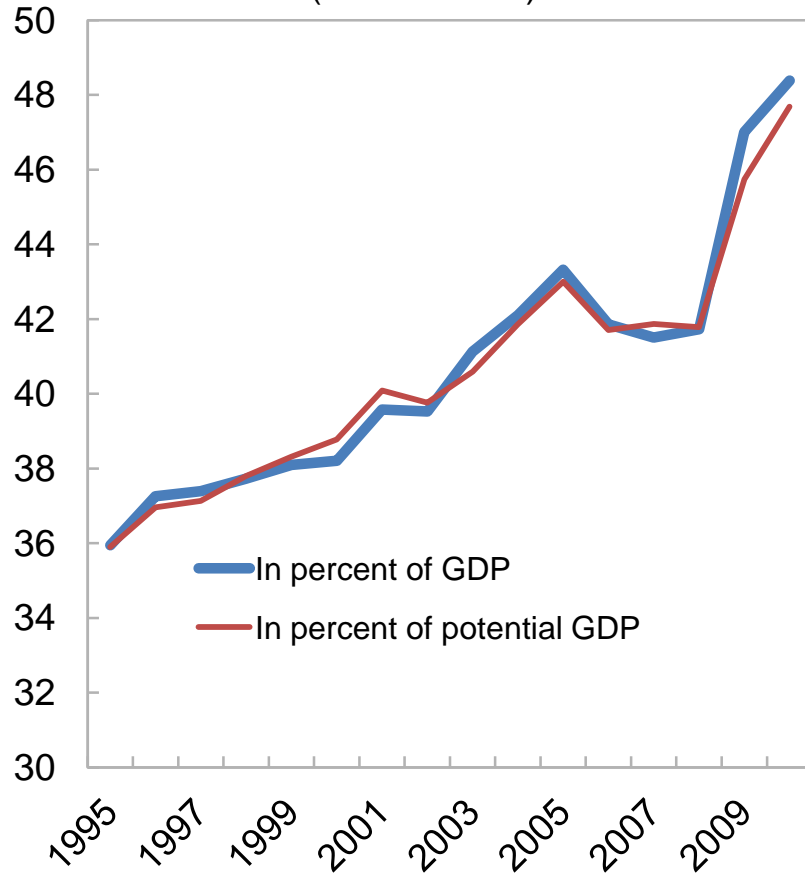
Fiscal adjustment has been slowed down and debt relief has placed public debt on a better (but still risky) trajectory



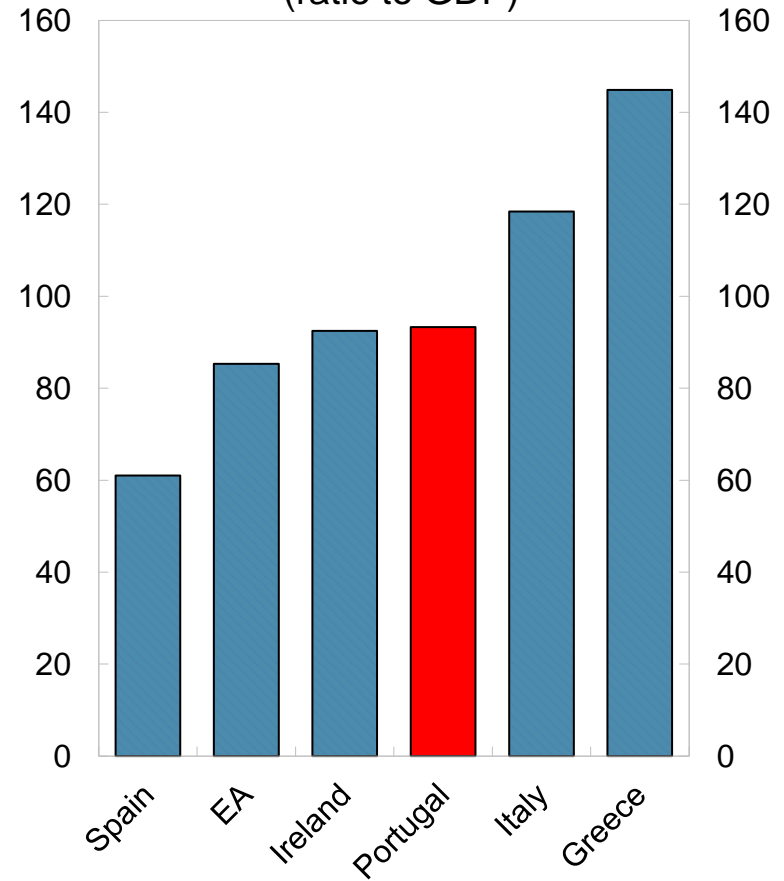
Portugal

Problem 1: Unsustainable fiscal policies

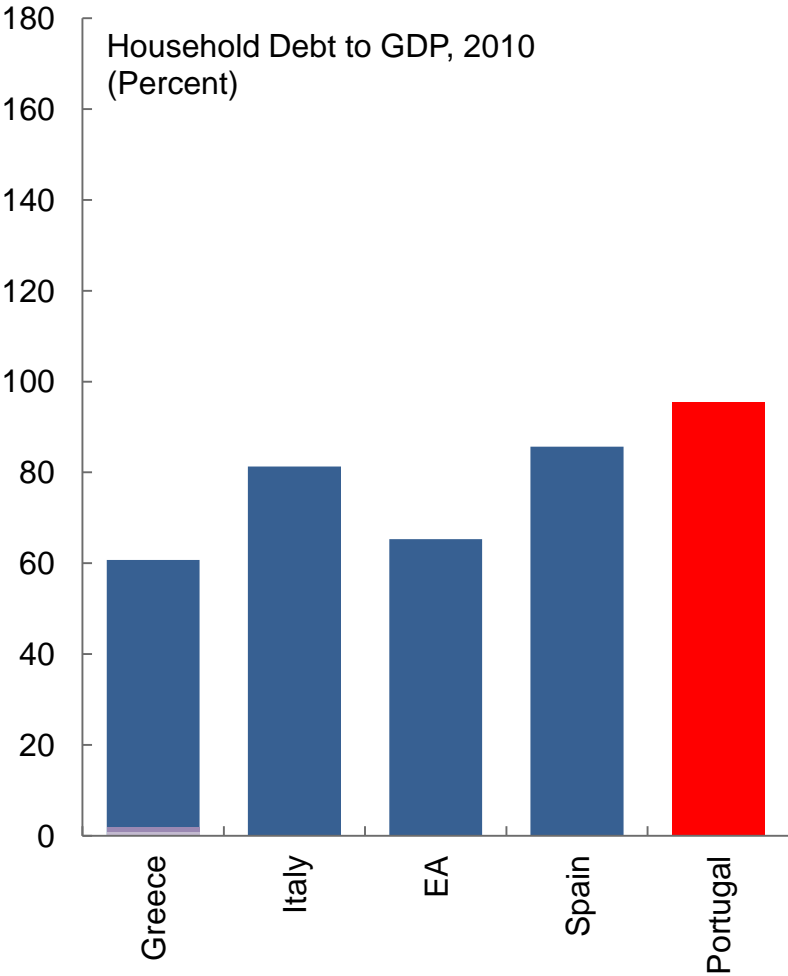
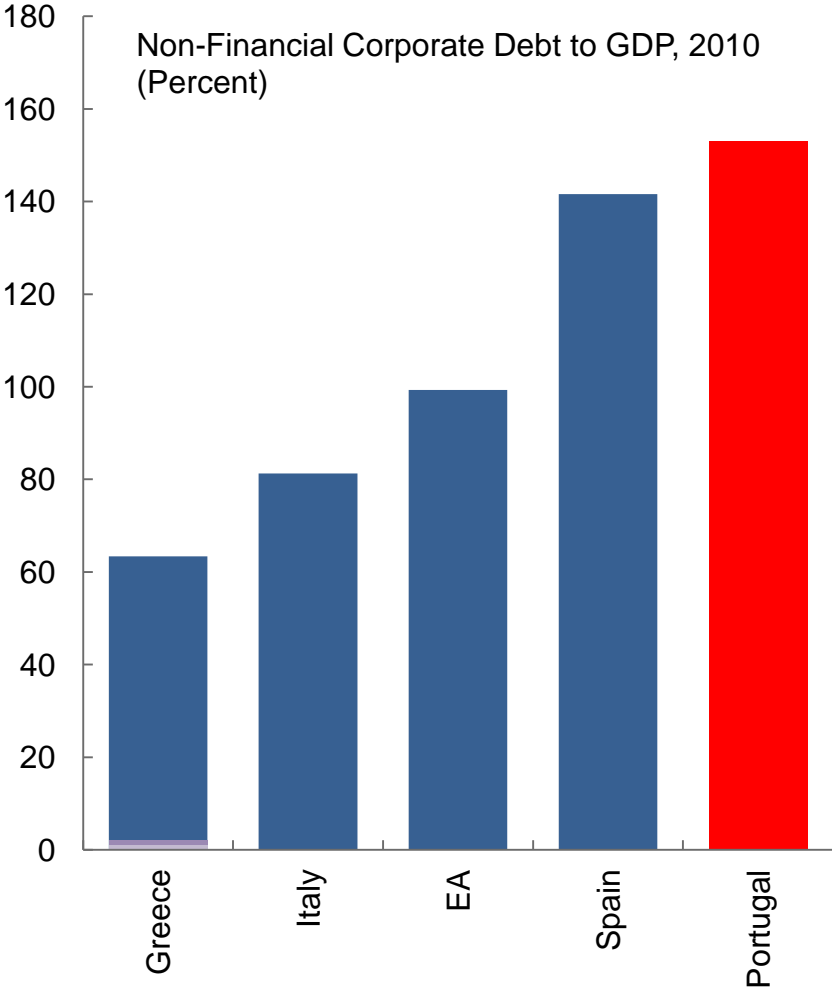
Primary Government Spending
(ratio to GDP)



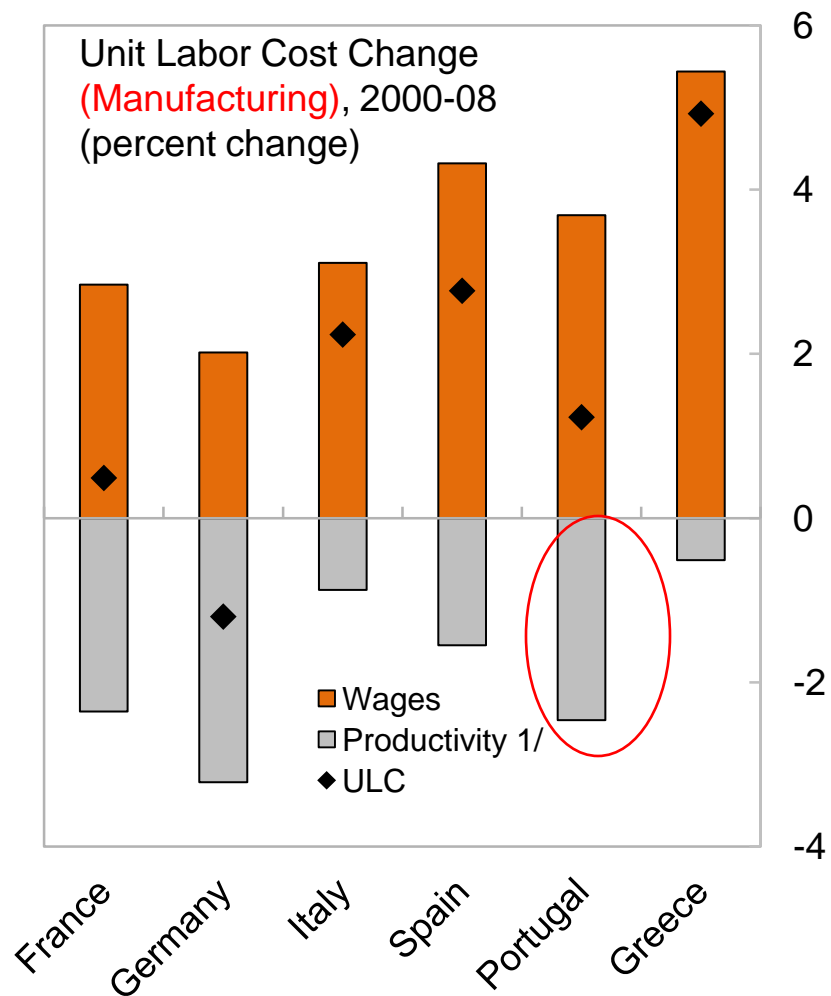
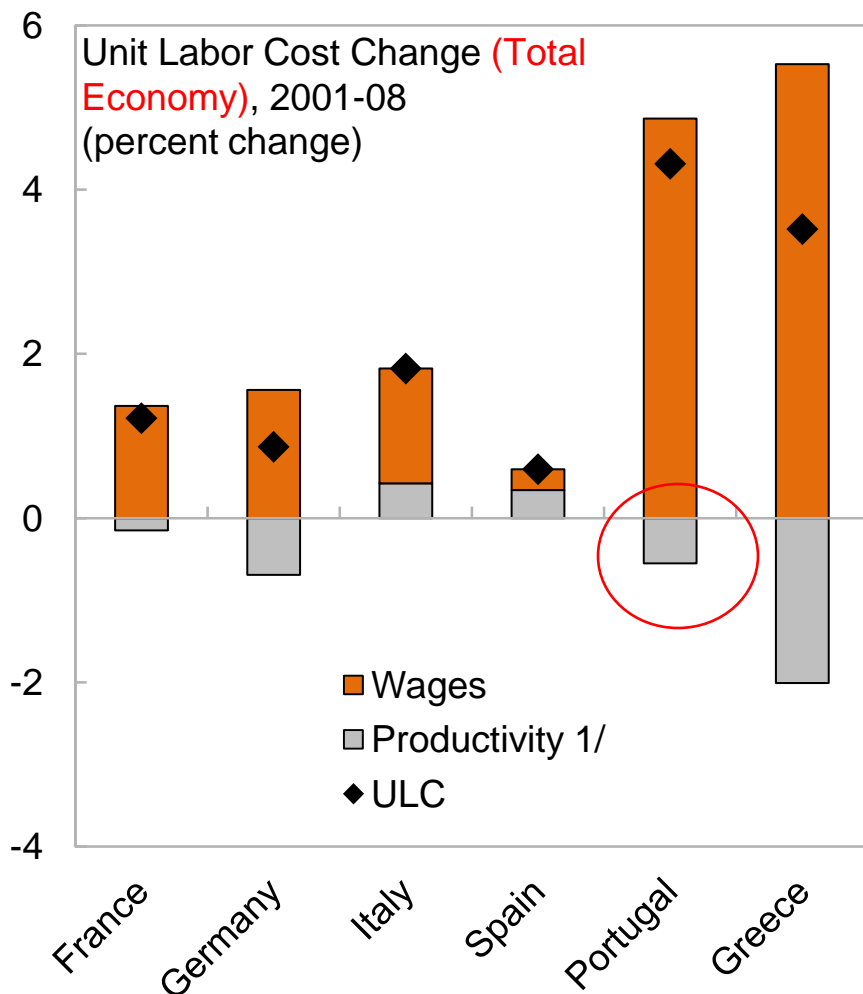
General Government Debt, 2010
(ratio to GDP)



Problem 2: High corporate, household and financial sector indebtedness

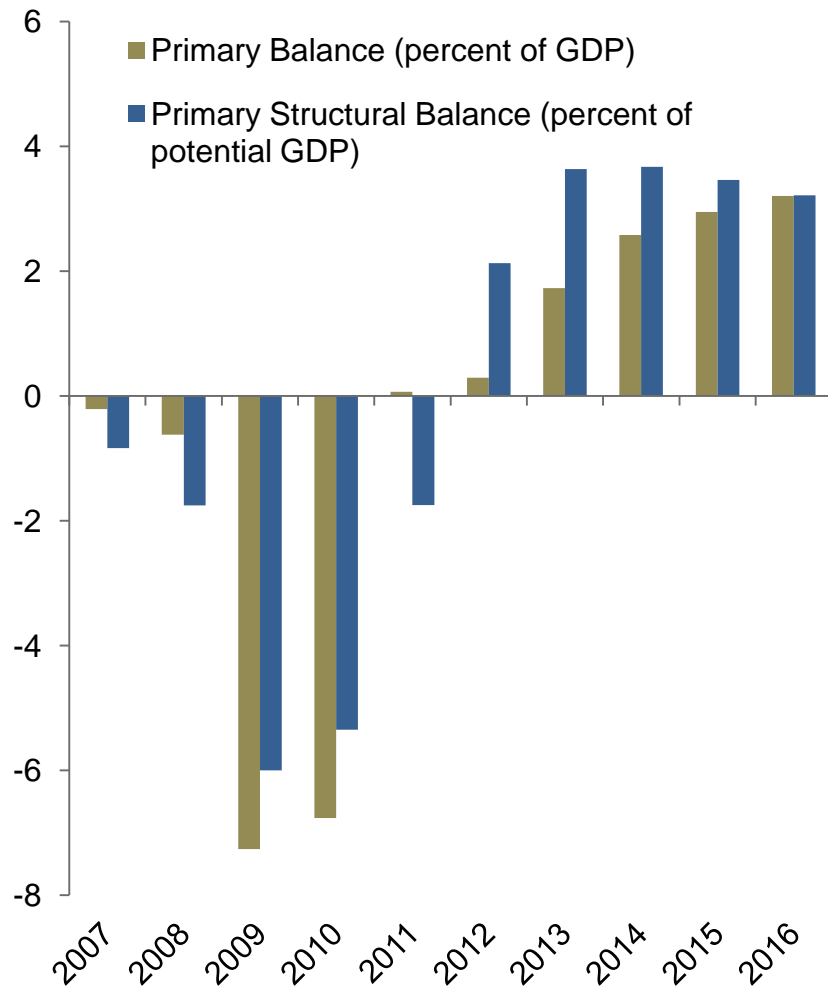


Problem 3: Loss of competitiveness, resulting in low-growth and a high current account deficit

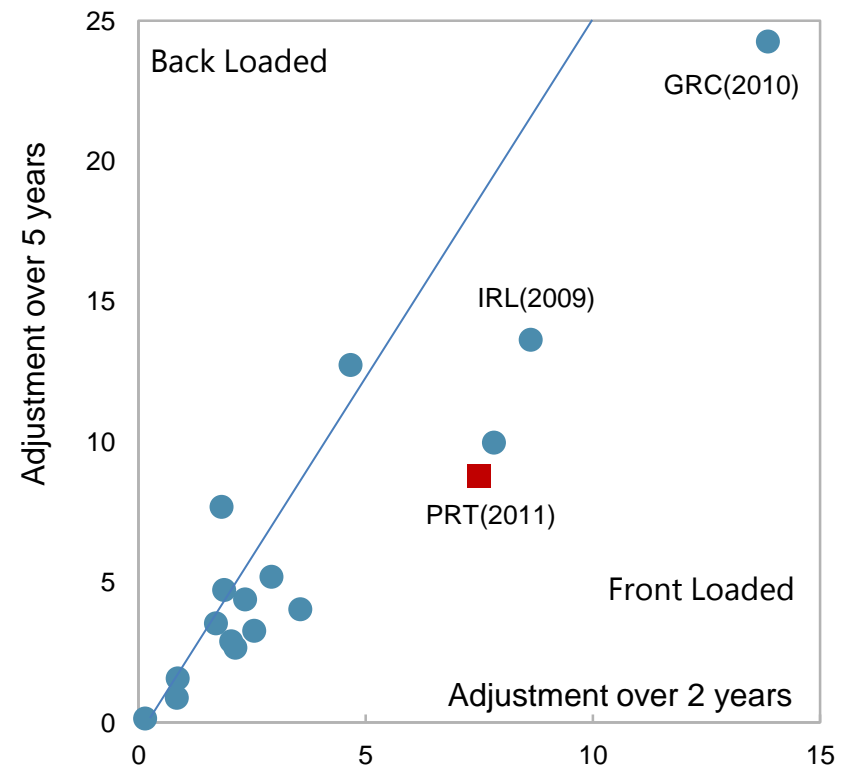


1/ Negative = increase in labor productivity.

Pillar 1: Fiscal Solvency

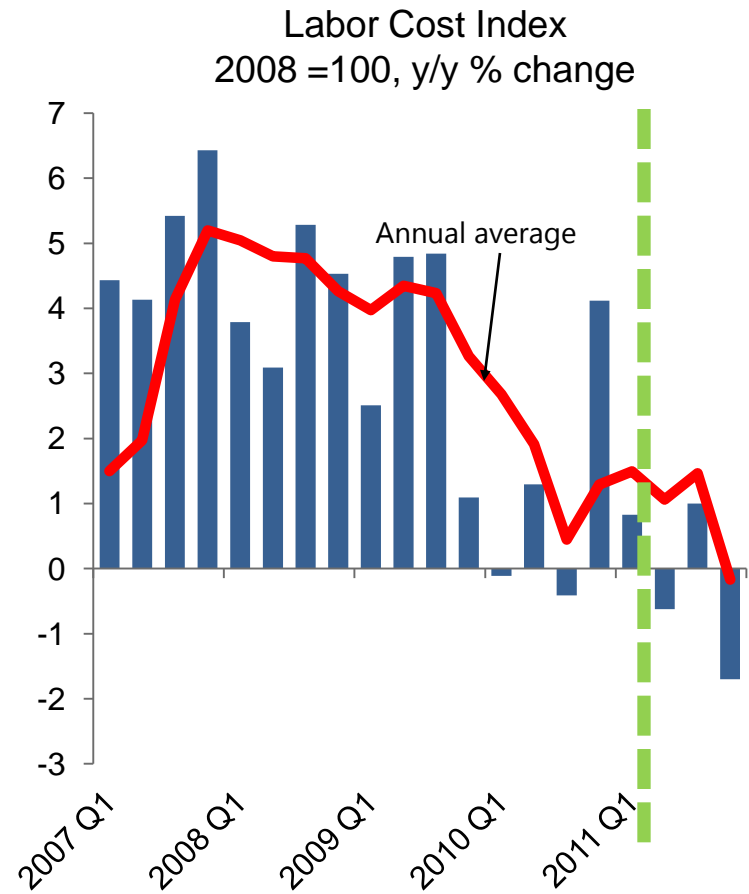
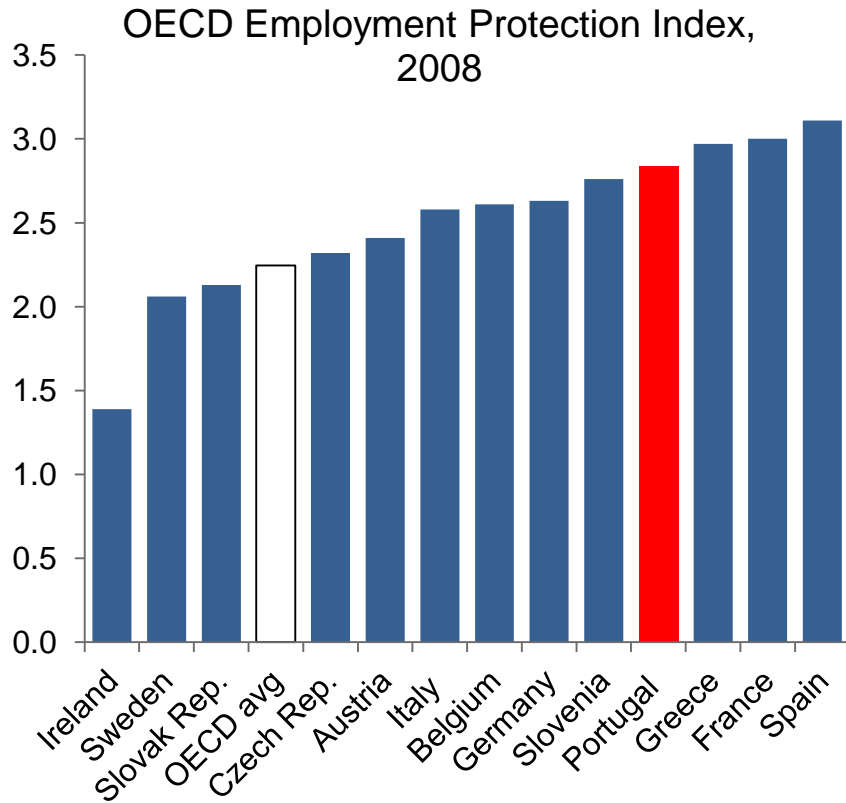


Magnitude and Timing of Fiscal Adjustment in Euro Area
(change in structural primary balance as percent of GDP)¹



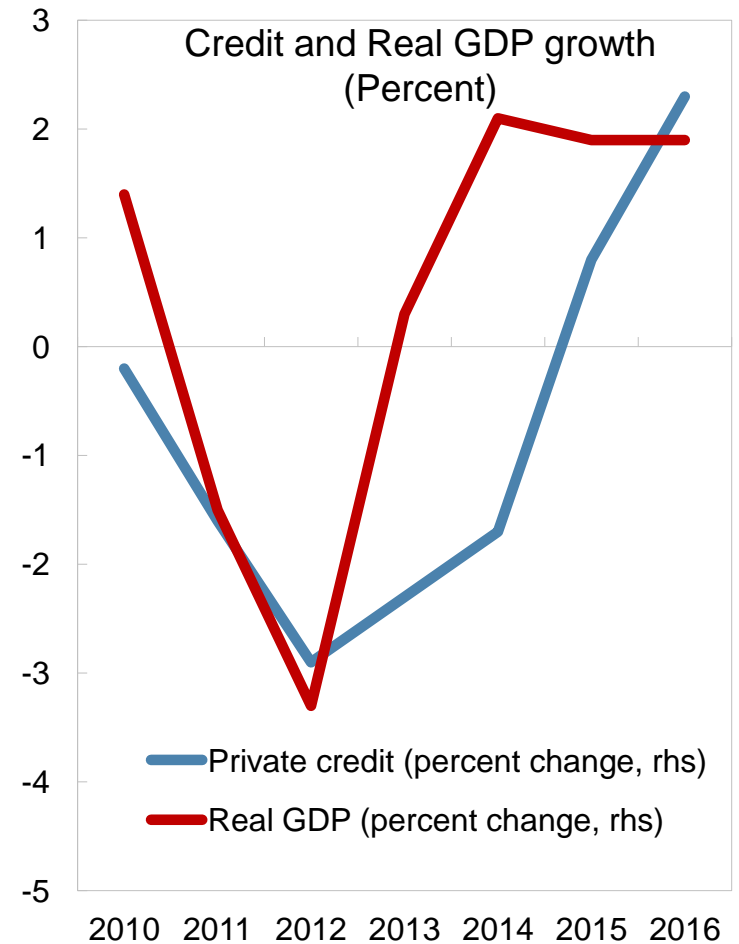
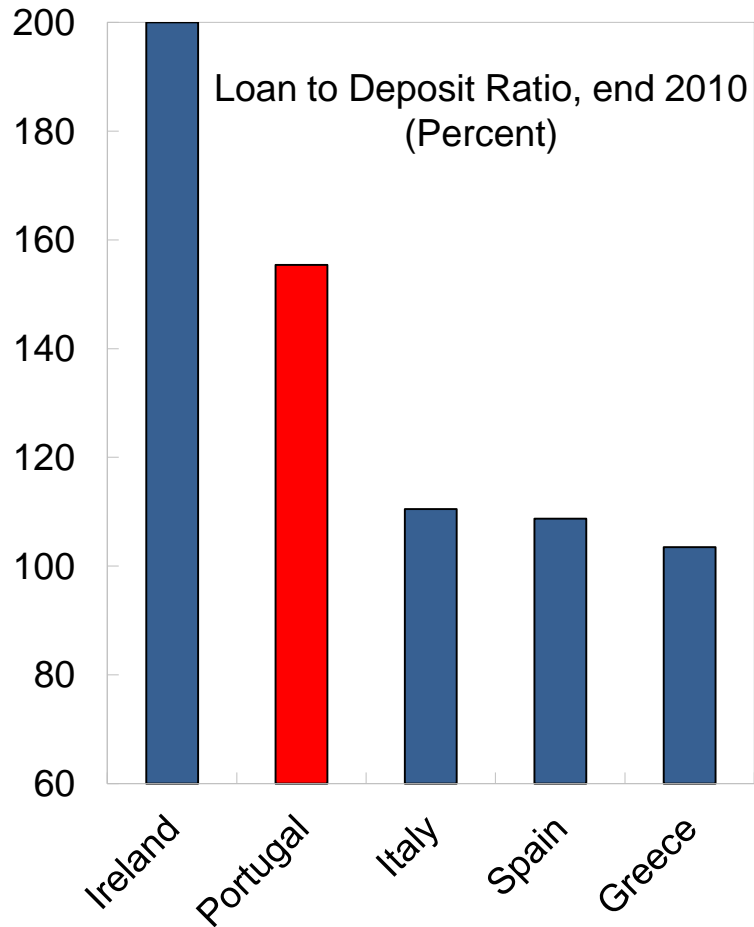
¹ Since structural adjustment started -- between 2009 and 2012 depending on the country (2011 for Portugal).

Pillar 2: Enhancing Growth and Competitiveness



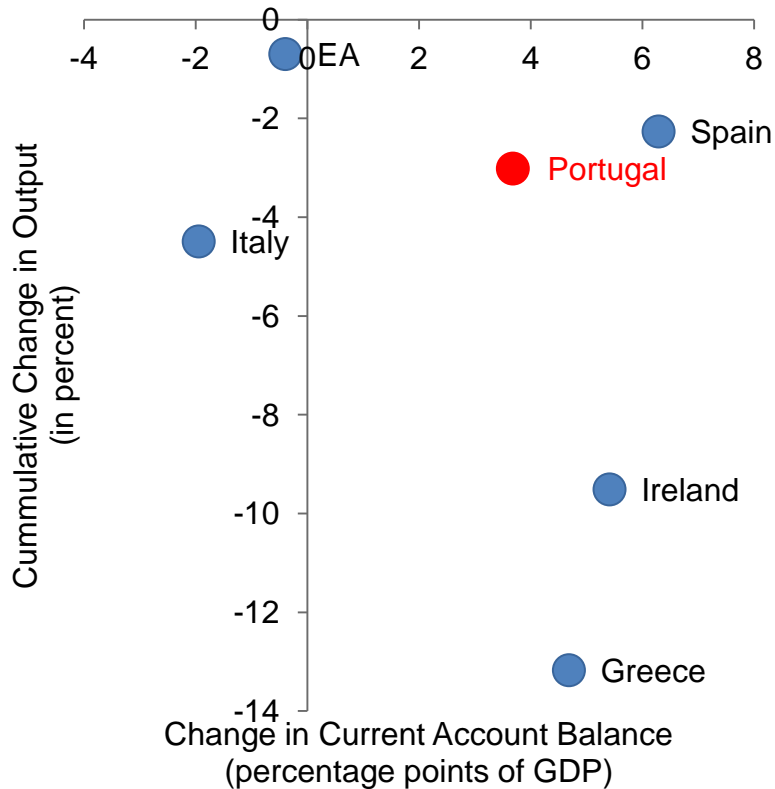
Source: OECD. 2009 data for Portugal and France.

Pillar 3: Private Sector Deleveraging

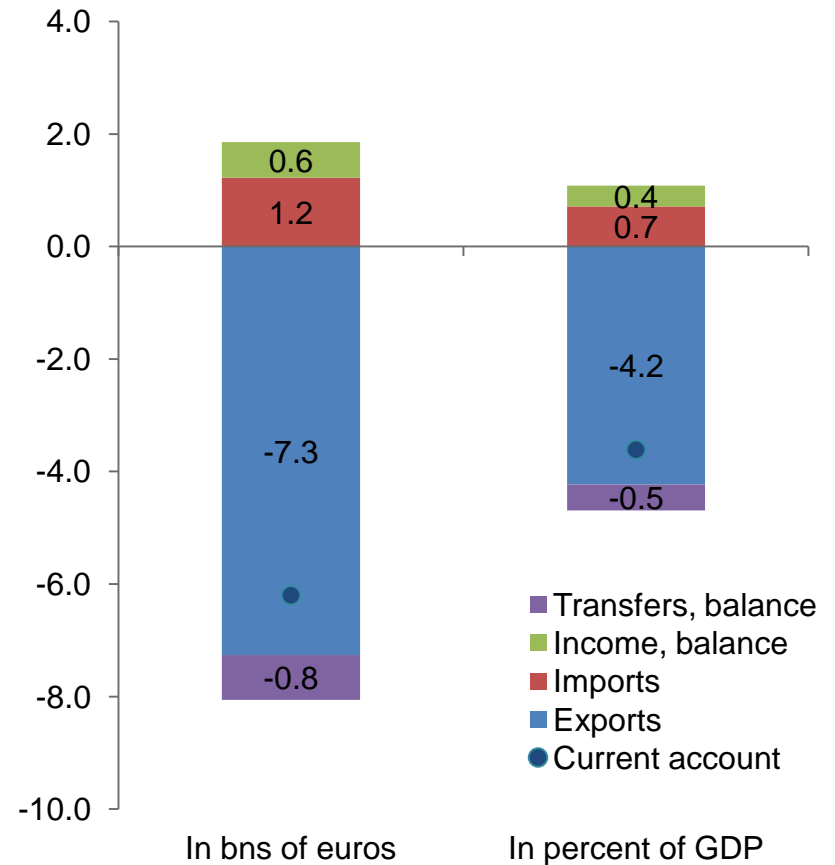


11-months into the program, some encouraging signs...

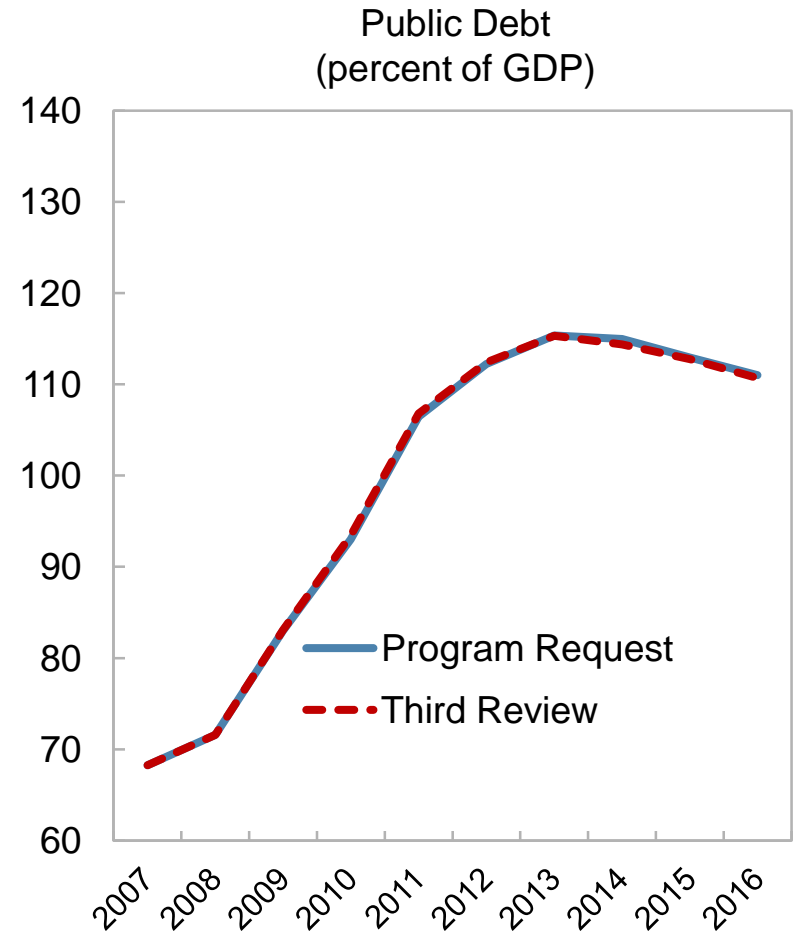
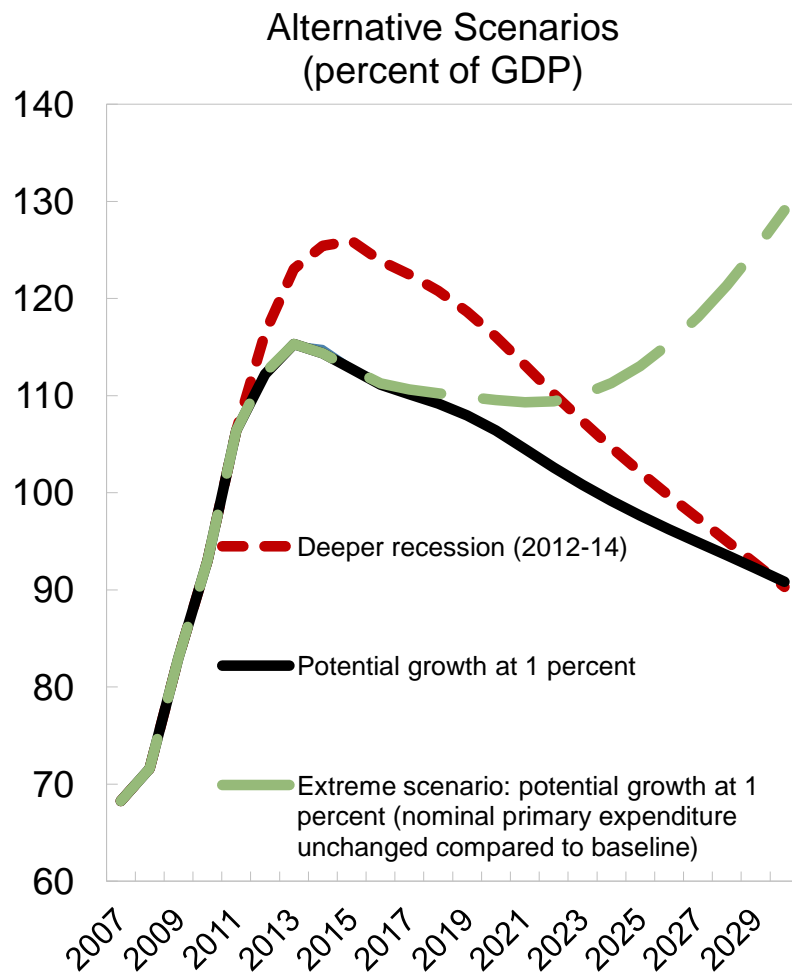
Output Loss and External Adjustment, 2007-2011



Change in the current account: 2011-2010



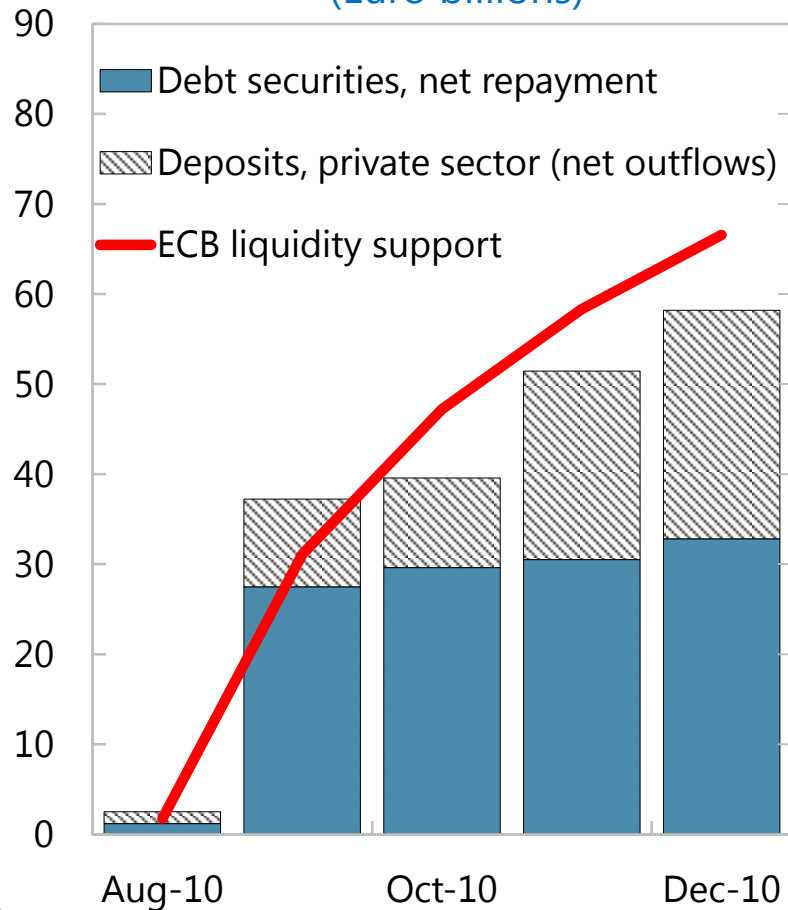
So far so good, but significant challenges ahead



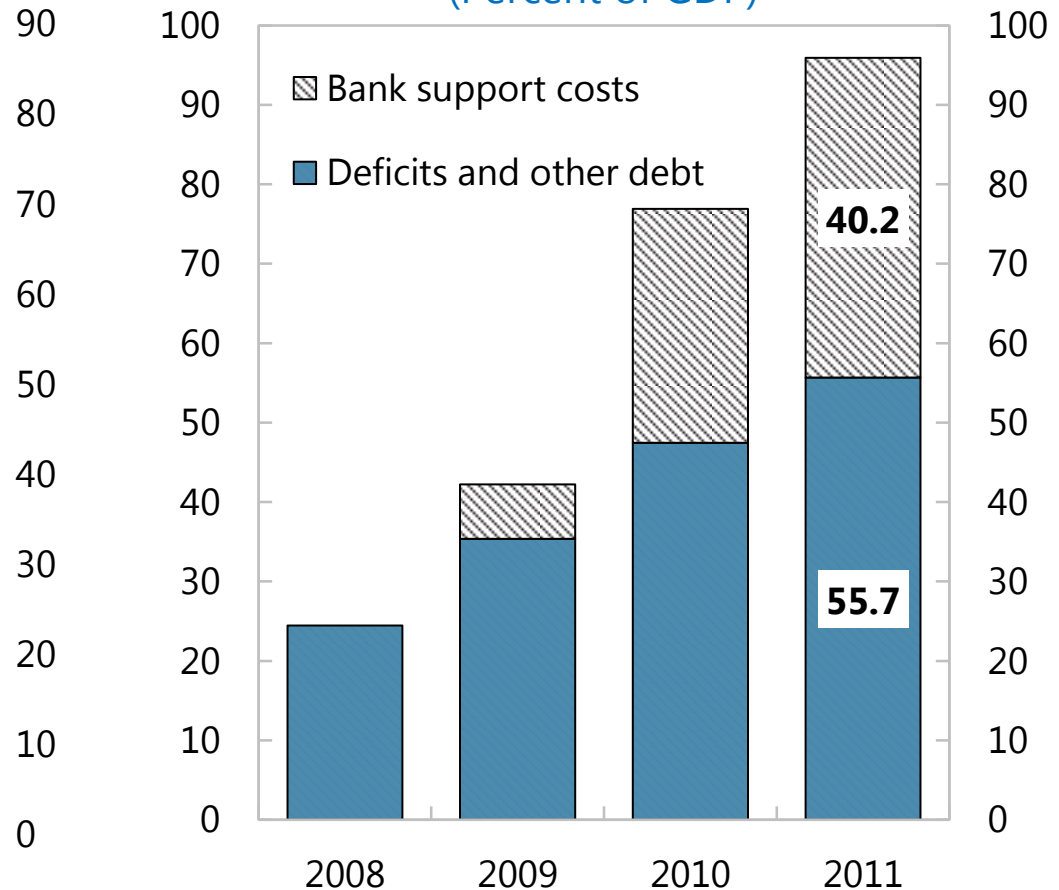
Ireland

Pre-Program Policy Response was Substantial but Bank Funding Runs Force Program in late 2010

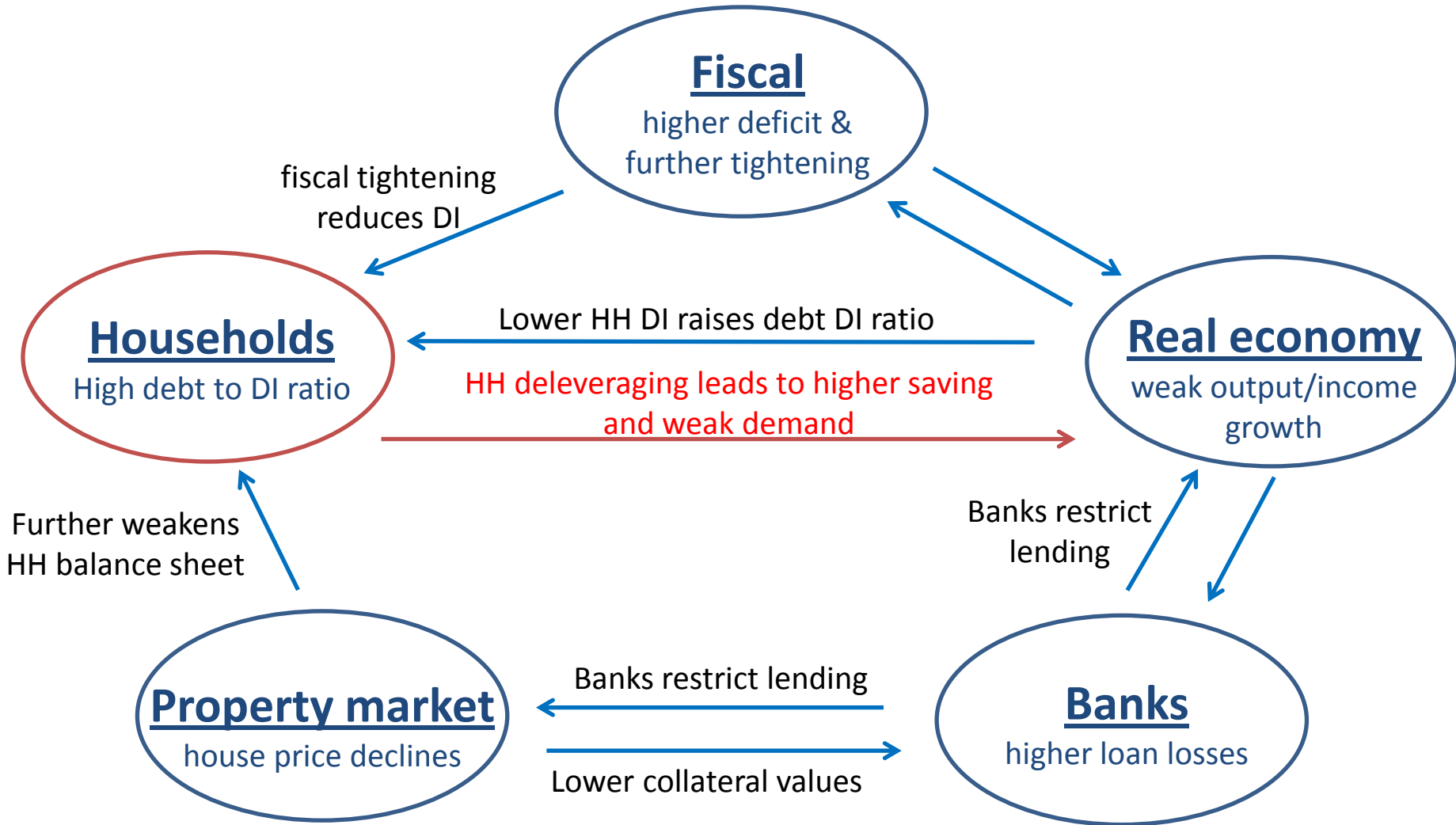
Bank Funding Outflows (Euro billions)



Government Debt, Net (Percent of GDP)



High Private Debts Increase the Risk of a Pernicious Downward Cycle

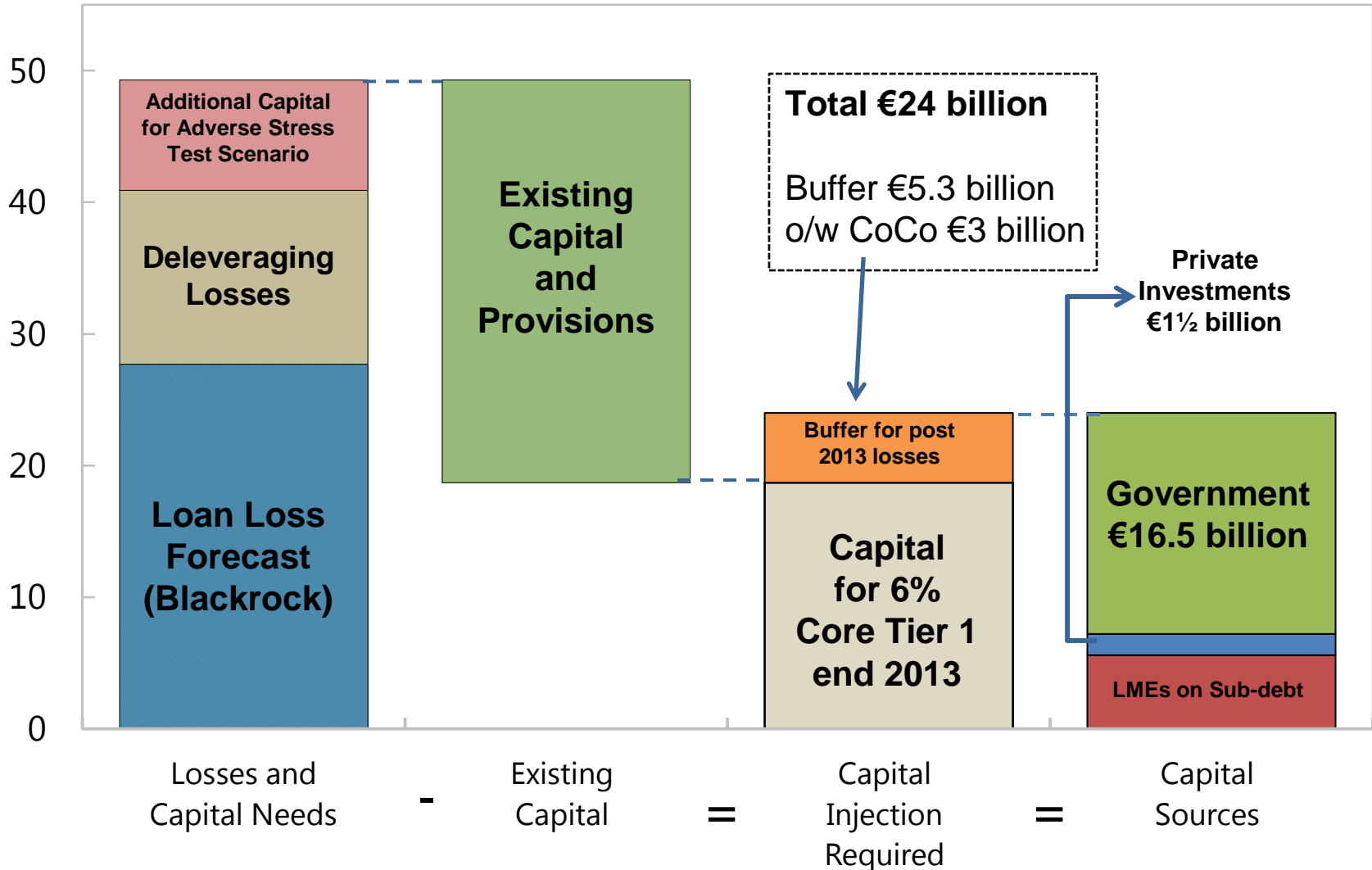


DI= disposable income

HH = households

Bank Recapitalization—Credible, Cost Mitigated

Recapitalization (Billions of euros)

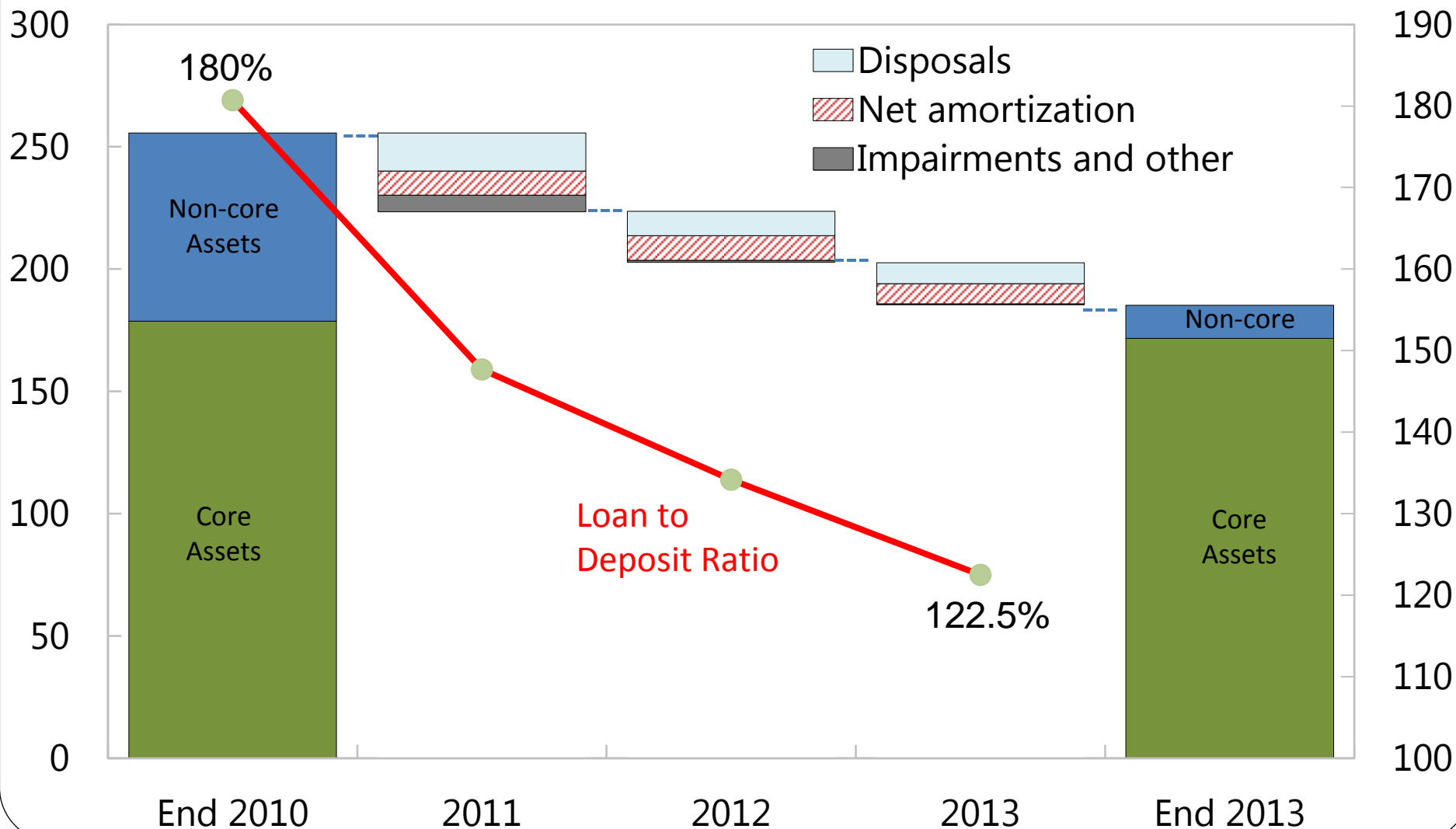


Deleveraging—Phased, mostly Offshore Assets

Deleveraging, 2011-2013

(Euro billions)

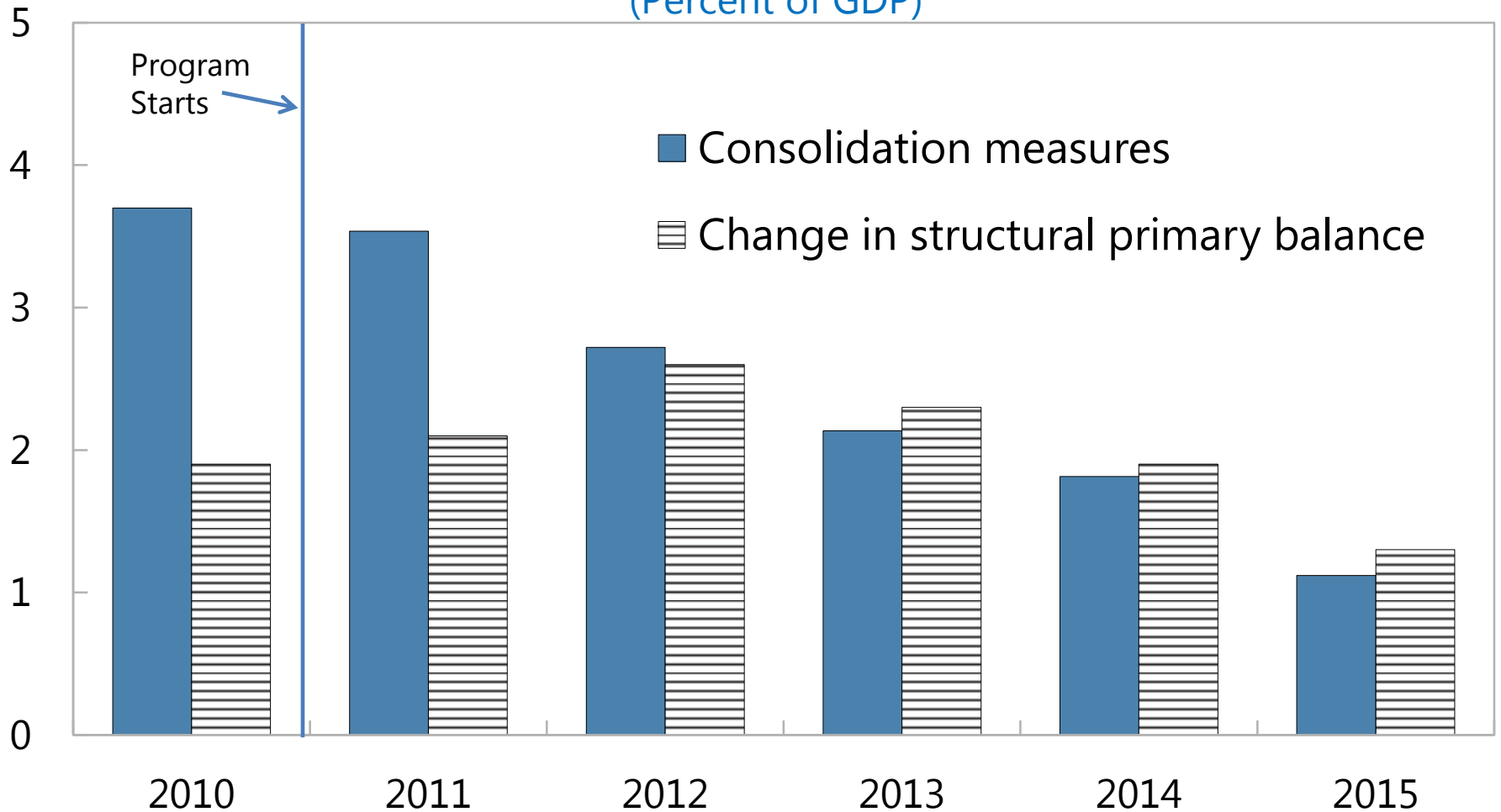
(Loan/Deposit %)



Fiscal Consolidation: Front-loaded but Phased (Target 3% Deficit in 2015)

Fiscal Adjustment

(Percent of GDP)



Positive Experience So Far, But Risks Remain

Government Debt

(Percent)

(Percent of GDP)

