A few things you wanted to know about the Eurozone but always were afraid to ask

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- The crisis of 2008-2009 has revealed a huge split within the Euro zone, between the Central and Northern countries and the Mediterranean and Celtic ones.

- While both groups have had very low inflation thanks to the euro, the Southern tier has paid for its lower competitiveness either through higher unemployment or higher deficits (current account and budget deficit).

- Enhancing competitiveness and productivity in the Southern group is a question of economics, but also of a cultural change. At the end of the day, **a common currency** is a reflection of **a common culture**. This has important implications also for the countries that are still to join the Euro zone.

EUROZONE COUNTRIES MACRO INDICATORS (2009)

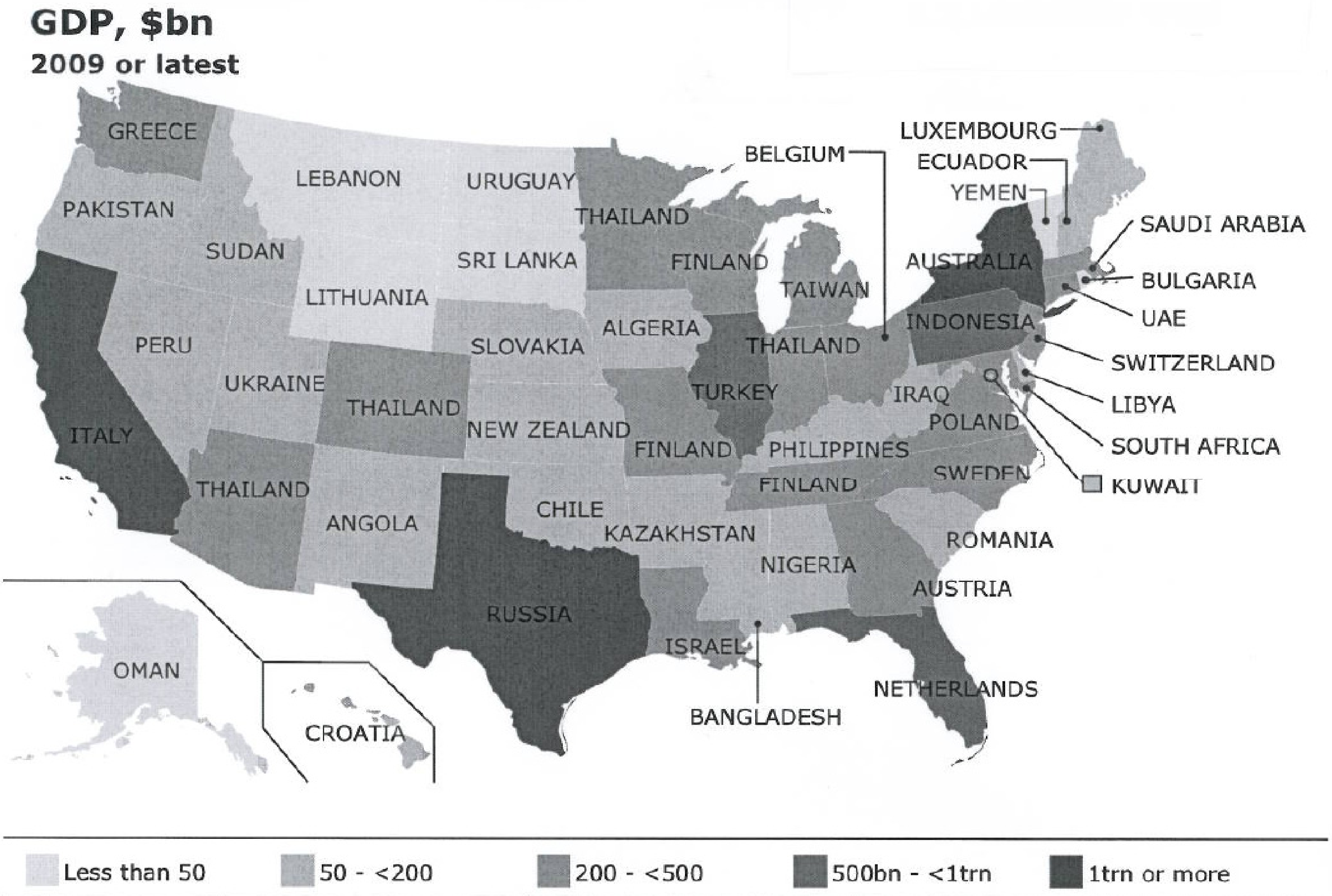
No.	Country	CPI	Unemployment Rate	Current Account(%GDP)	Budget Deficit (%GDP)
			Central and Northern Europe		
1	Germany	0.2	7.5	5.0	-3.3
2	Netherlands	1.0	3.4	5.4	-5.3
3	Belgium	0.0	7.9	0.5	-6.0
4	Austria	0.4	4.8	2.1	-4.3
5	Finland	1.6	8.2	1.3	-2.3
6	Luxemburg	0.0	5.4	5.6	-0.7
7	Slovakia	1.6	12.0	-3.2	-6.8
8	Slovenia	0.8	5.9	-1.0	-5.7
			Mediterranean and Celtic Europe		
1	France	0.1	9.5	-2.2	-7.5
2	Italy	0.8	7.8	-3.2	-5.3
3	Spain	-0.2	18.0	-5.4	-11.2
4	Greece	1.3	9.5	-11.2	-13.6
5	Portugal	-0.9	9.6	-10.1	-9.4
6	Cyprus	0.2	5.3	-8.1	-6.1
7	Ireland	-1.7	11.8	-2.9	-14.3
8	Malta	1.8	6.9	-2.9	-3.8

Source: Oxford Economics

- Unlike the USA, the Euro zone is not a genuine federation of states. Therefore, fiscal transfers on a large scale are not allowed (and are not foreseeable in the near future).

- Under this circumstances, respecting the Maastricht fiscal criteria represents the lowest common denominator, but even this was not observed in the last decade. Not penalizing states when they erred resulted into a huge moral hazard.

- In the MT/LT, Europe will lose its economic and political relevance if it will not find the willingness to stay united.



GDP, $bn
2009 or latest
GREECE
PAKISTAN
LEBANON
URUGUAY
THAILAND
SUDAN
SRI LANKA
FINLAND
TAIWAN
LITHUANIA
ITALY
PERU
UKRAINE
THAILAND
SLOVAKIA
ALGERIA
THAILAND
TURKEY
NEW ZEALAND
FINLAND
PHILIPPINES
FINLAND
THAILAND
ANGOLA
CHILE
KAZAKHSTAN
NIGERIA
RUSSIA
ISRAEL
BANGLADESH
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AUSTRIA
ROMANIA
SWEDEN
POLAND
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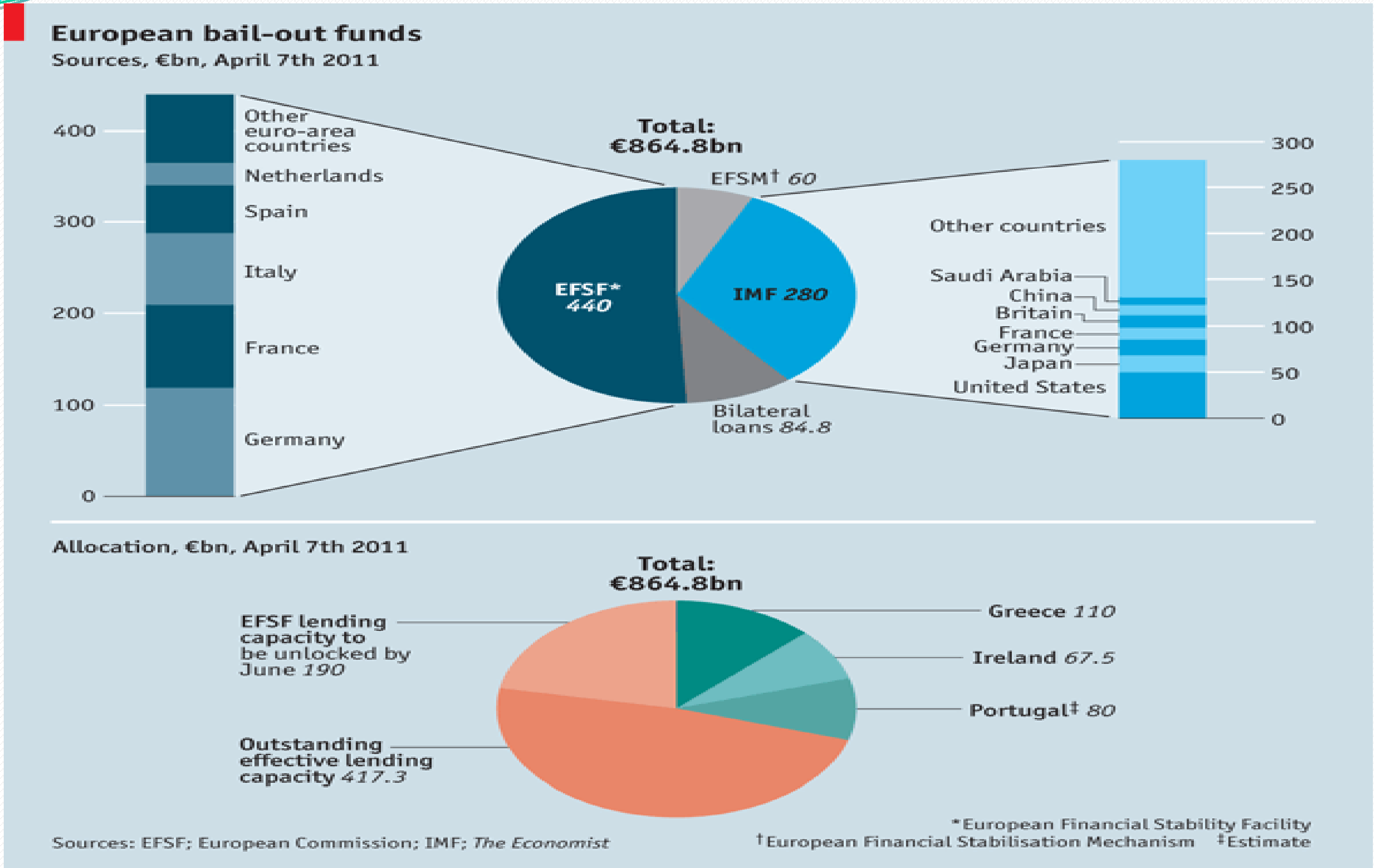
AUSTRALIA
BELGIUM
LUXEMBOURG
ECUADOR
YEMEN
SAUDI ARABIA
BULGARIA
UAE
SWITZERLAND
LIBYA
SOUTH AFRICA
KUWAIT
OMAN
CROATIA
Less than 50
50 - <200
200 - <500
500bn - <1trn
1trn or more

- Among the many recent European initiatives to enhance economic governance (the European Semester, the Euro Plus Pact, etc.) the setting of the European Financial Stabilization Mechanism, starting 2013, looks as extremely important.

- The setting up of an “European IMF” was long overdue. Decisions on countries’ finances will still be taken at a political level, but at least they will be documented by technical analyses.

- The Euro zone is an union of the willing and of the able. Therefore, a country whose citizens are no longer willing or able to raise to the challenges, should be allowed to leave the Euro zone.

- However, its citizens should be informed about the real costs of such an option (and only later judge if the measures expected from them are too demanding).



Source: the Economist

Thank You
for your attention!