Exiting the Eurozone Crisis

Advantage Financial Conference

Milan, May 12, 2013

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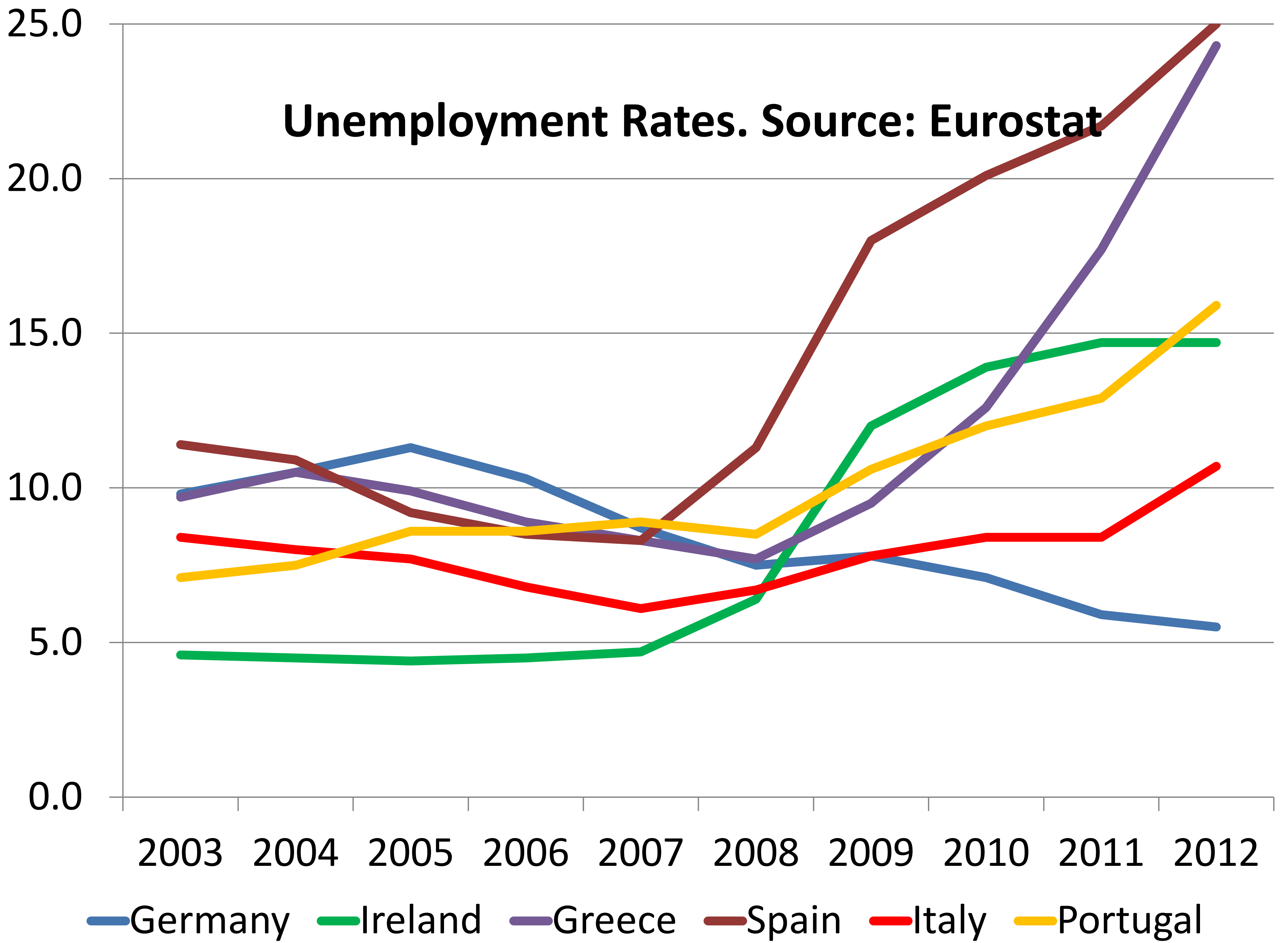
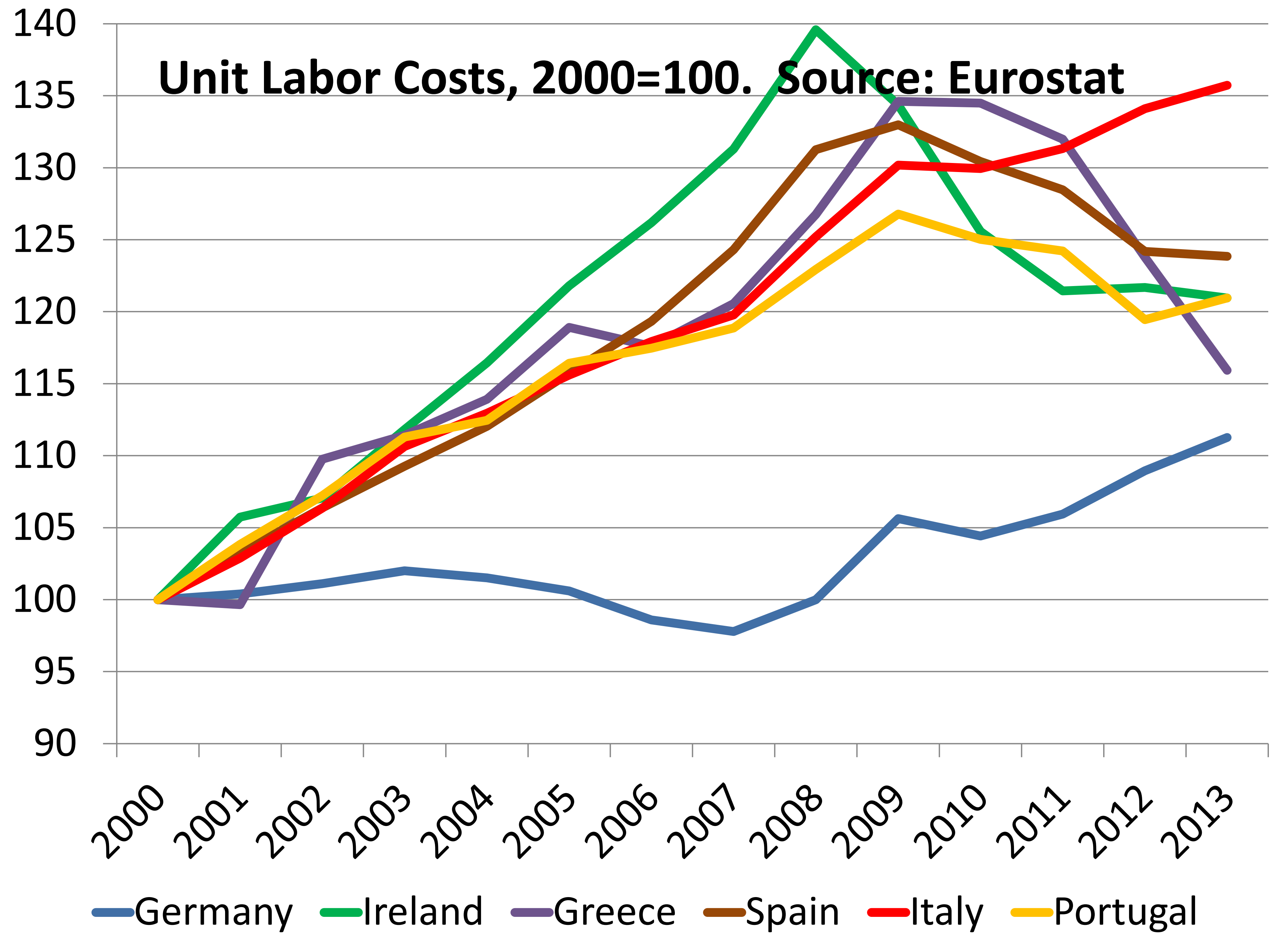
Three Problems

1. Unemployment
2. Debt
3. Banks

… but there is an even bigger problem.


"Η Ελλάδα πίνει το κώνειο"
ΟΙ ΚΛΕΦΤΕΣ
ΦΥΛΑΚΗ .....!

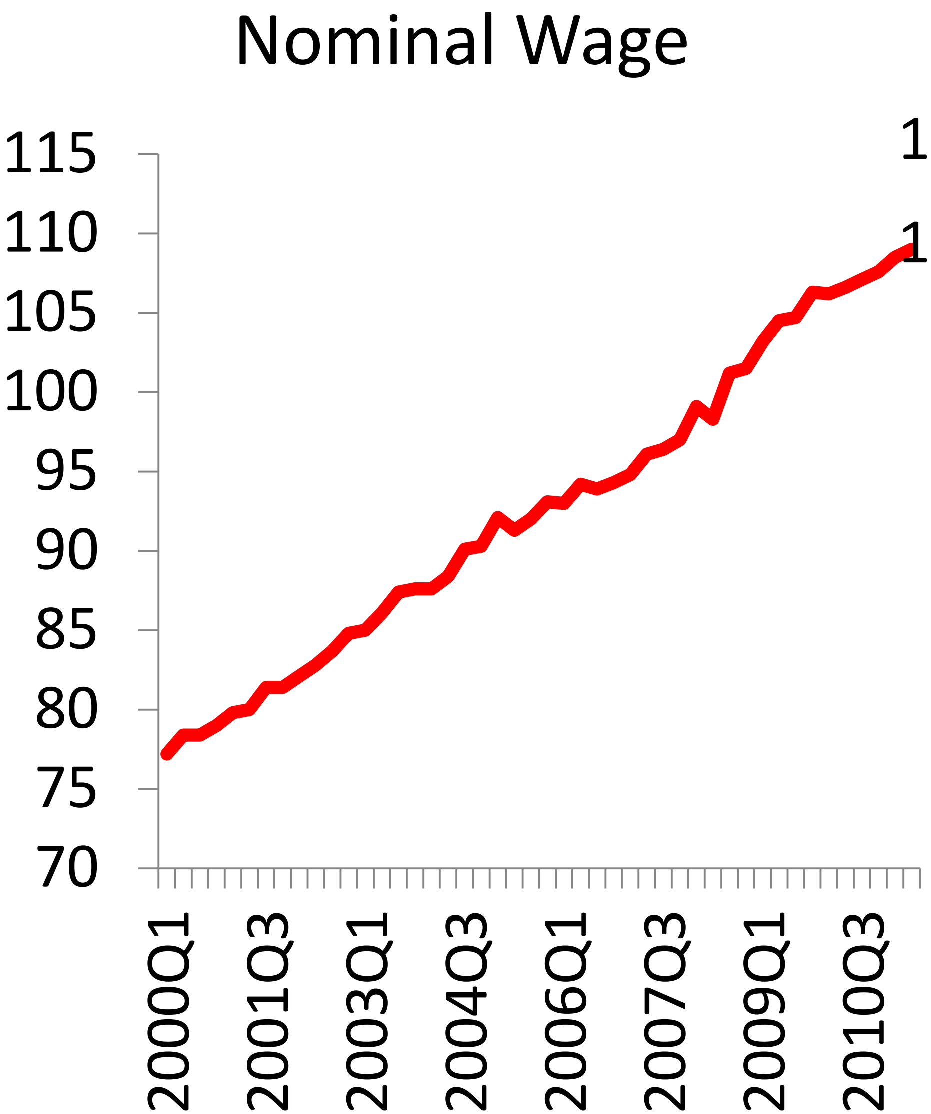

Unemployment Rates. Source: Eurostat
25.0
20.0
15.0
10.0
5.0
0.0
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Germany
Ireland
Greece
Spain
Italy
Portugal

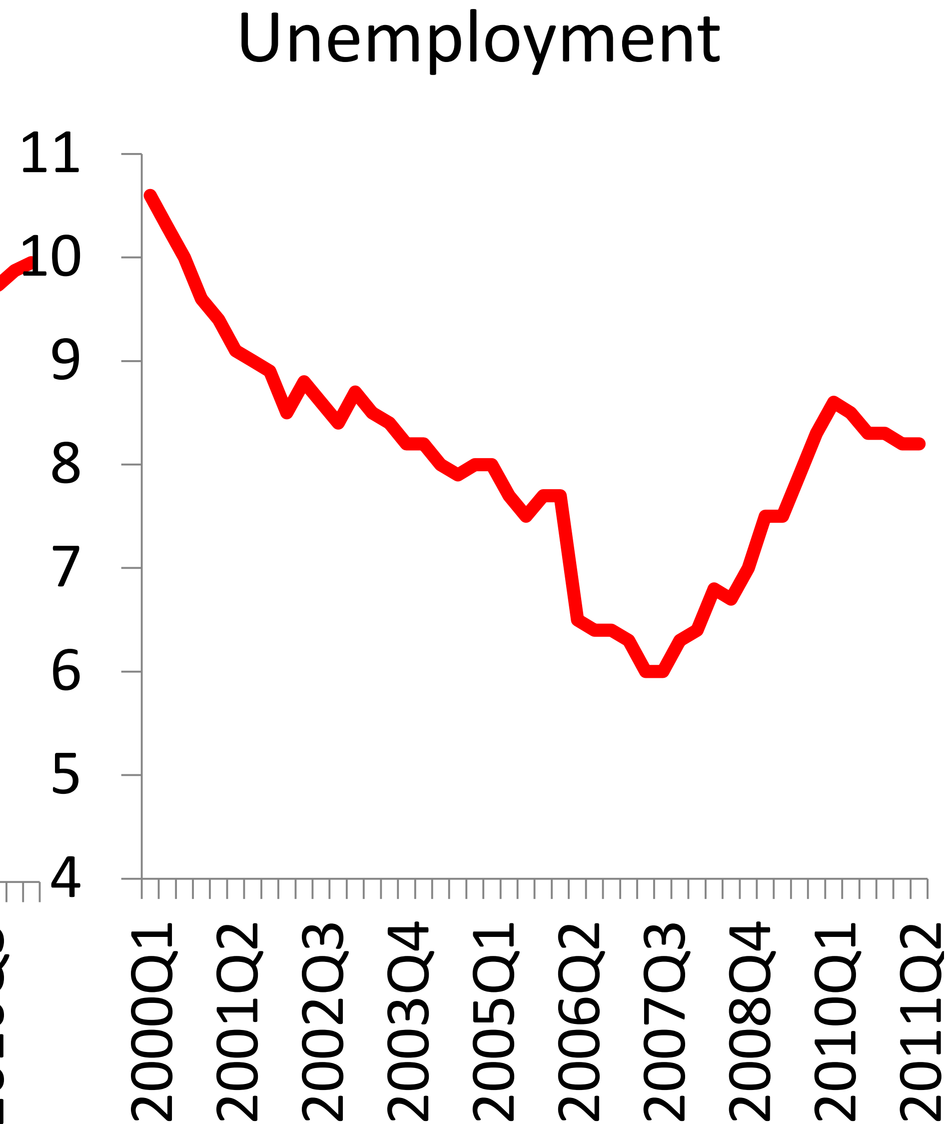


Unit Labor Costs, 2000=100. Source: Eurostat
140
135
130
125
120
115
110
105
100
95
90
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Germany
Ireland
Greece
Spain
Italy
Portugal

Italy

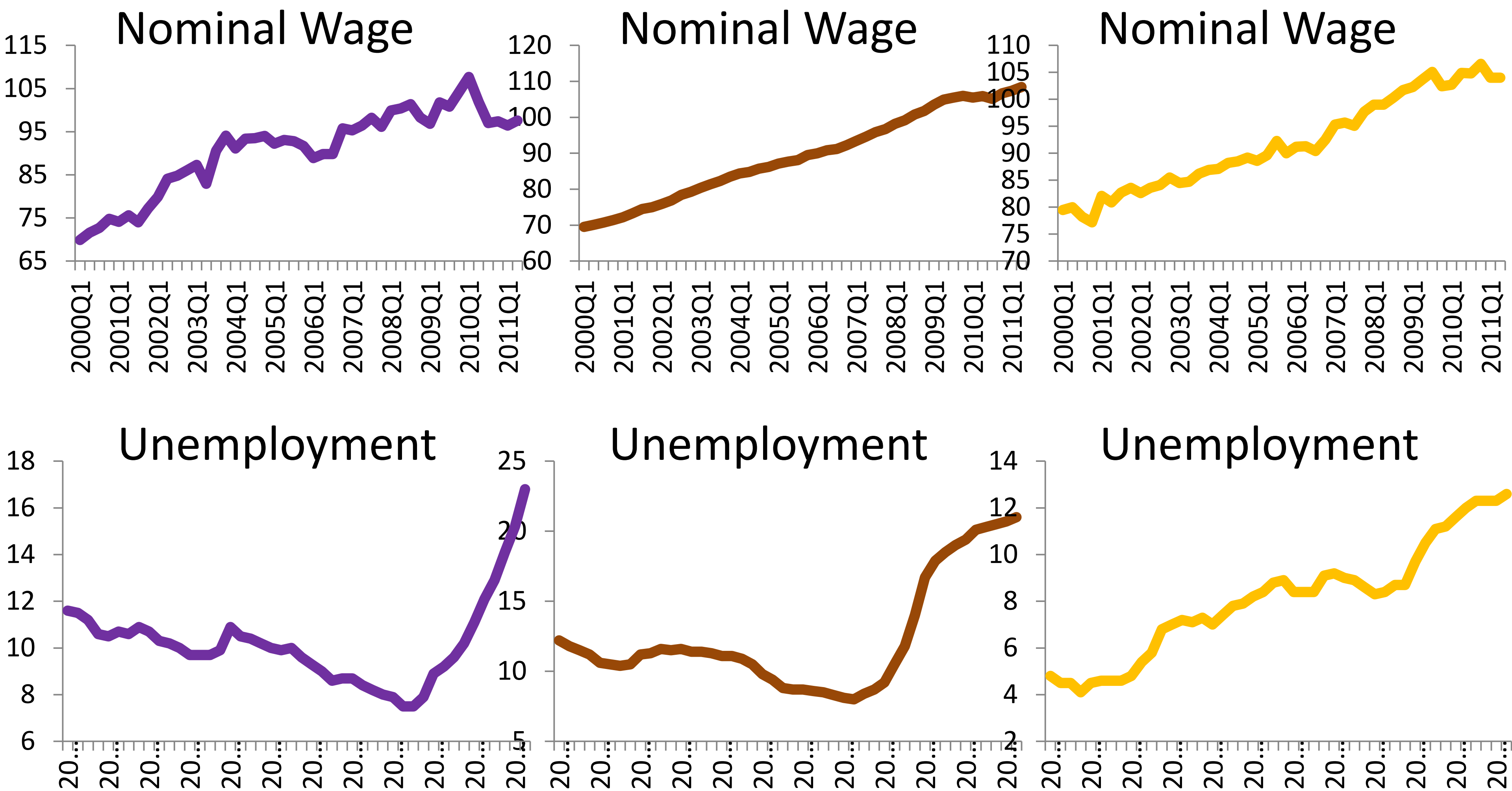
Source: Schmitt-Grohe-Uribe, 2013

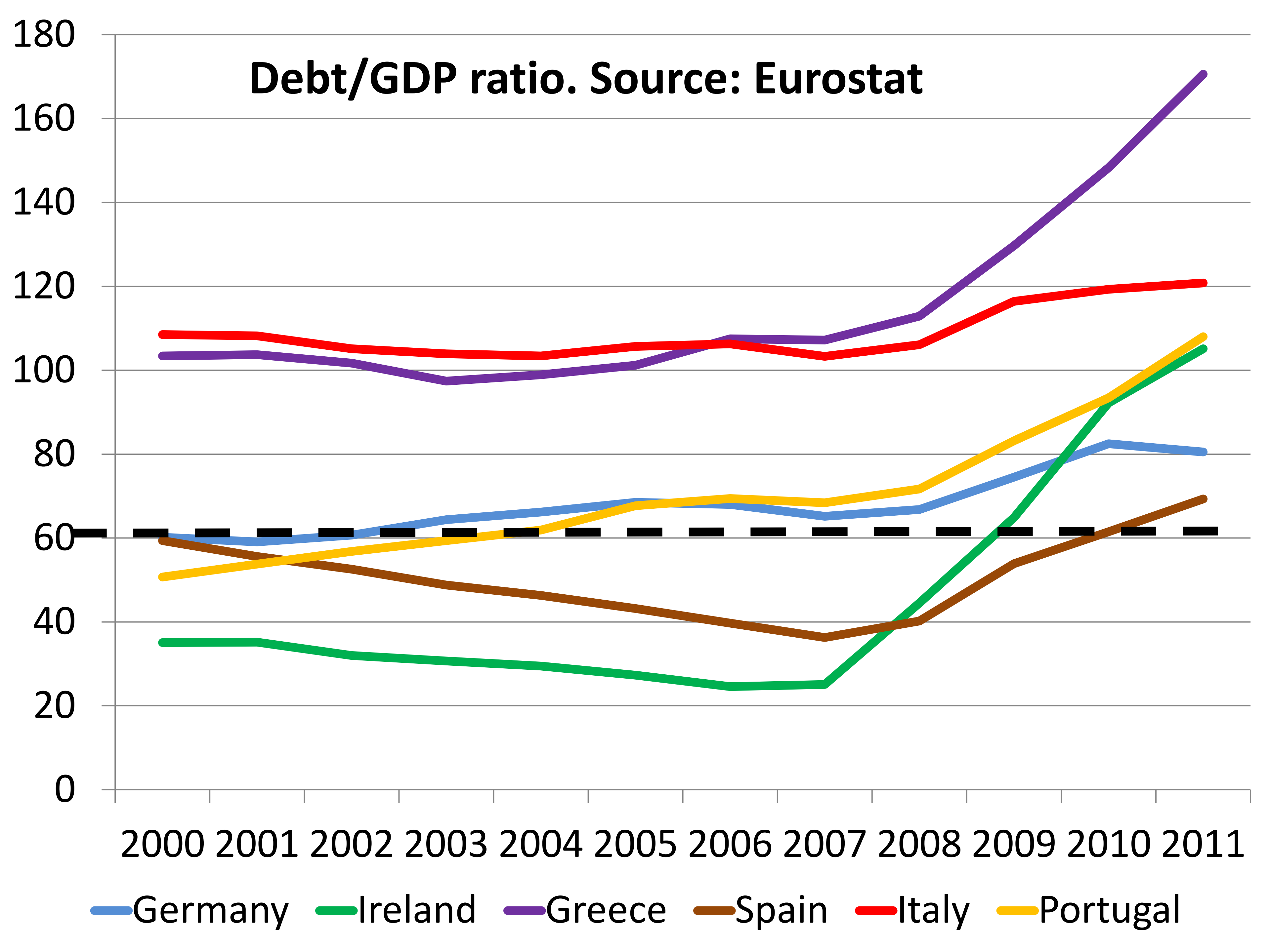


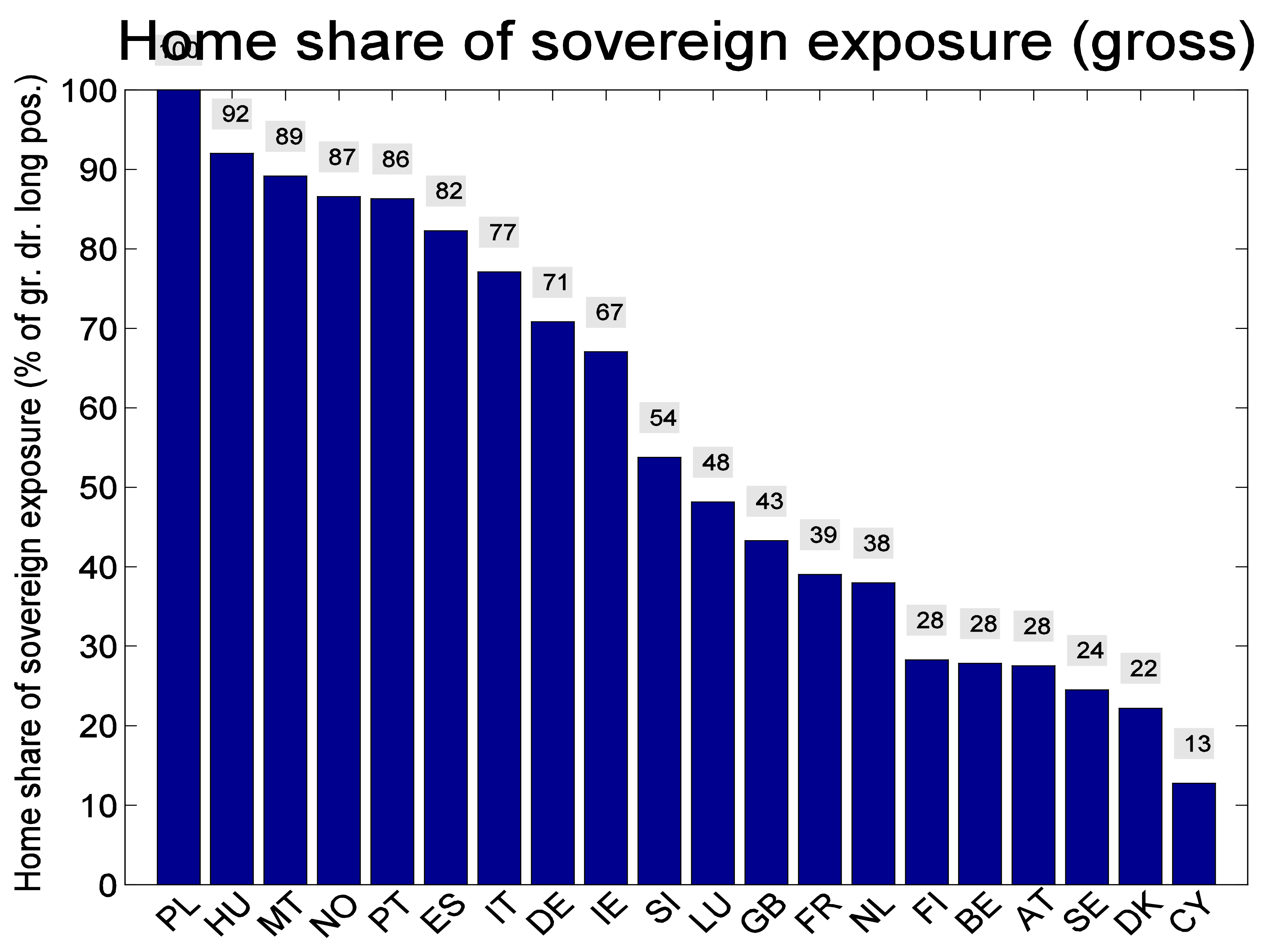


Greece Spain Portugal

Source: Schmitt-Grohe-Uribe, 2013




Debt/GDP ratio. Source: Eurostat
180
160
140
120
100
80
60
40
20
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
Germany
Ireland
Greece
Spain
Italy
Portugal



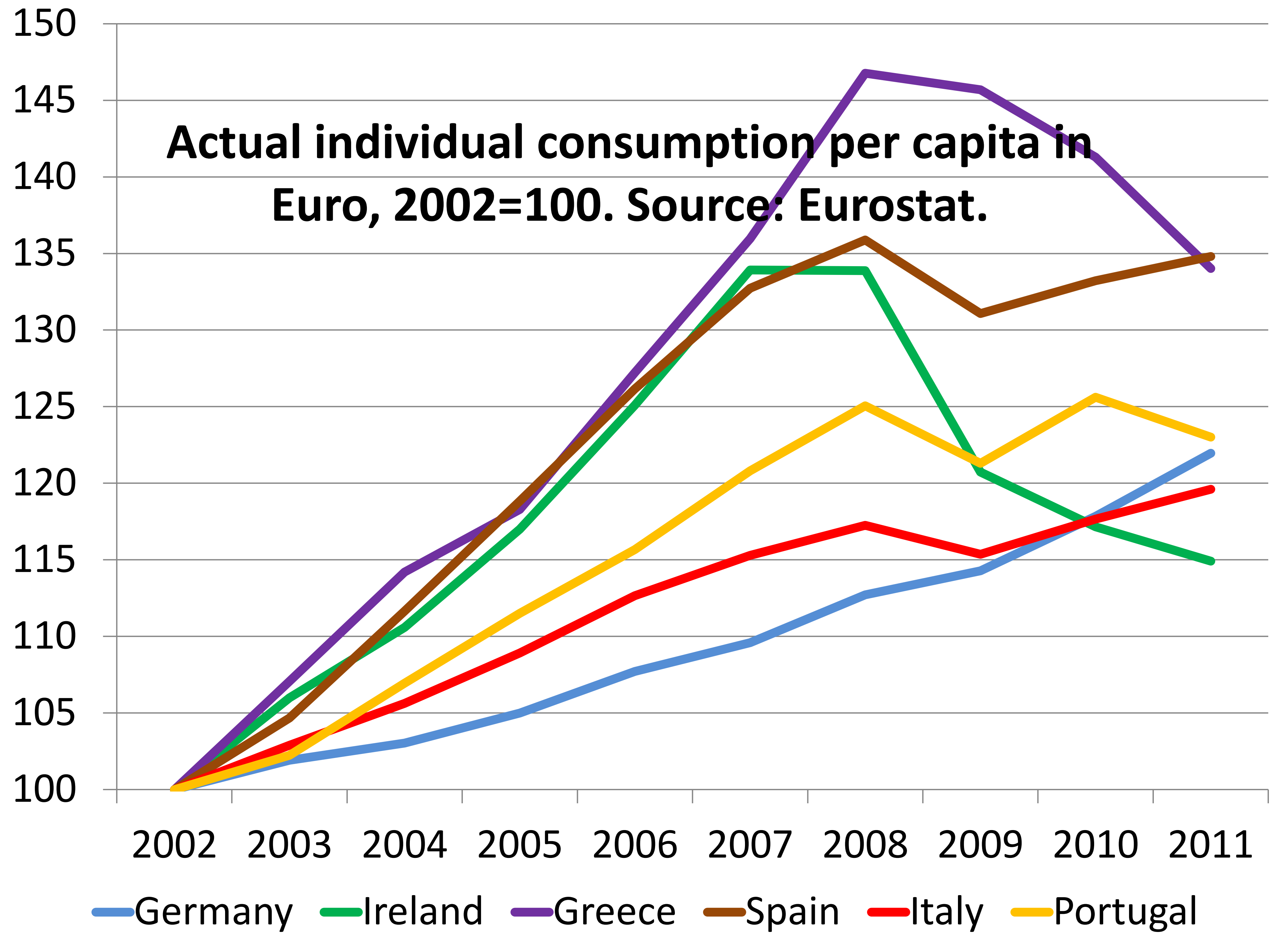
Home share of sovereign exposure (gross)
Home share of sovereign exposure (% of gr. dr. long pos.)
100
90
80
70
60
50
40
30
20
10
0
100
92
89
87
86
82
77
71
67
54
48
43
39
38
28
28
28
24
22
13
PL
HU
MT
NO
PT
ES
IT
DE
IE
SI
LU
GB
FR
NL
FI
BE
AT
SE
DK
CY

Policy Options: if crisis returns

1. Germany pays.
2. ECB pays.
3. Germany exits ("Neuro").
4. South exits.
5. **Stick to original promises.**

Policy Options: if crisis abates

- “Fiscal stimulus”? No.
  - GDP change per “accounting”
- Reform labor markets.
- Decouple country banks from country debt.
- Clean up banking system.
- Medium/long-term fiscal consolidation.
- Open markets.
- “Fiscal devaluation”
- ECB: 4 percent inflation for five years.
- Banking union: proceed carefully.


Actual individual consumption per capita in Euro, 2002=100. Source: Eurostat.
150
145
140
135
130
125
120
115
110
105
100
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
Germany
Ireland
Greece
Spain
Italy
Portugal

Conclusions

1. No magic bullet.
2. Don’t promise that northern friends will pay forever or that the ECB will solve it all.
3. Living beyond means must come to an end. Painful, but unavoidable.

Clean up, and be prepared. Then, the future will be bright in Europe once again.

Thanks