

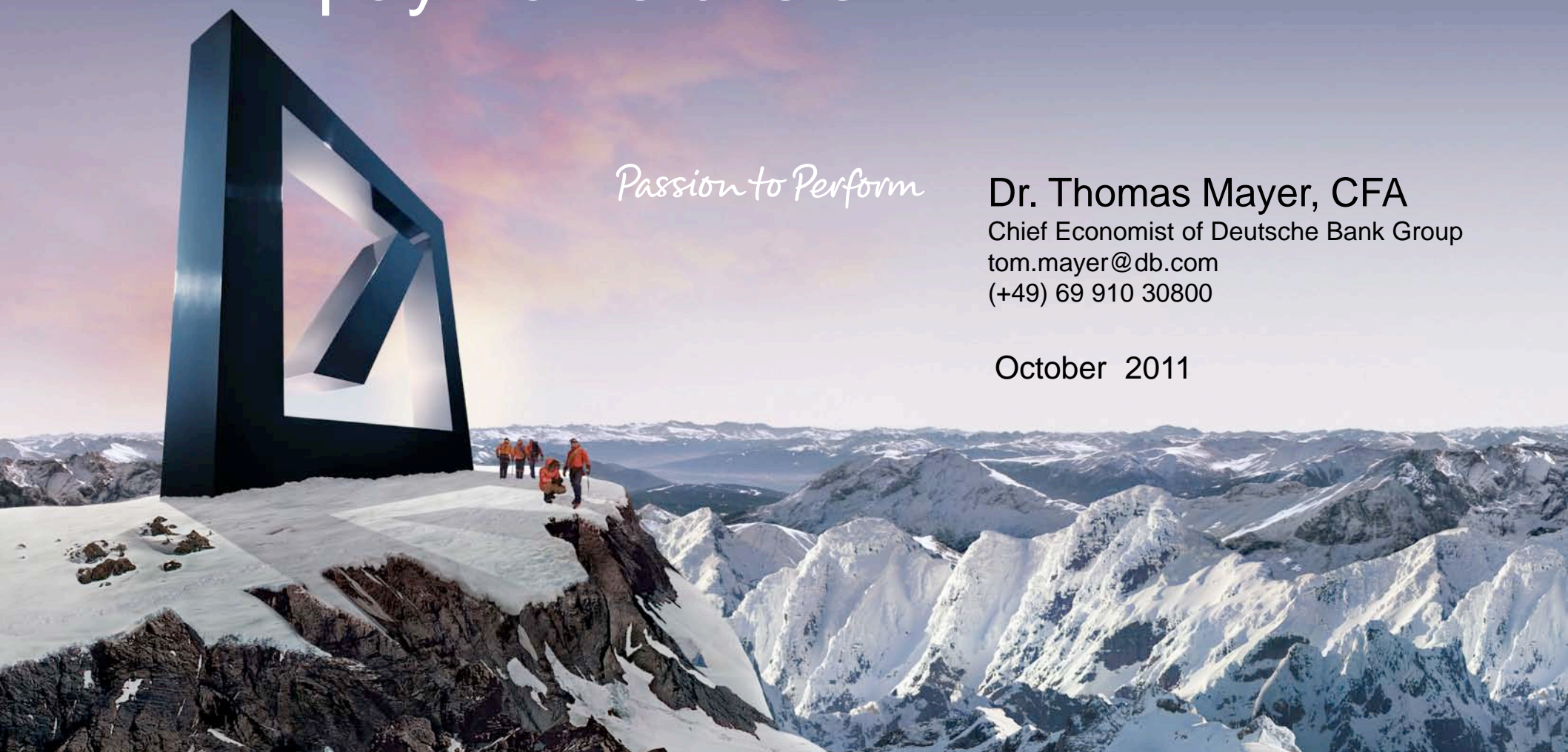


Euroland's hidden balance-of-payments crisis

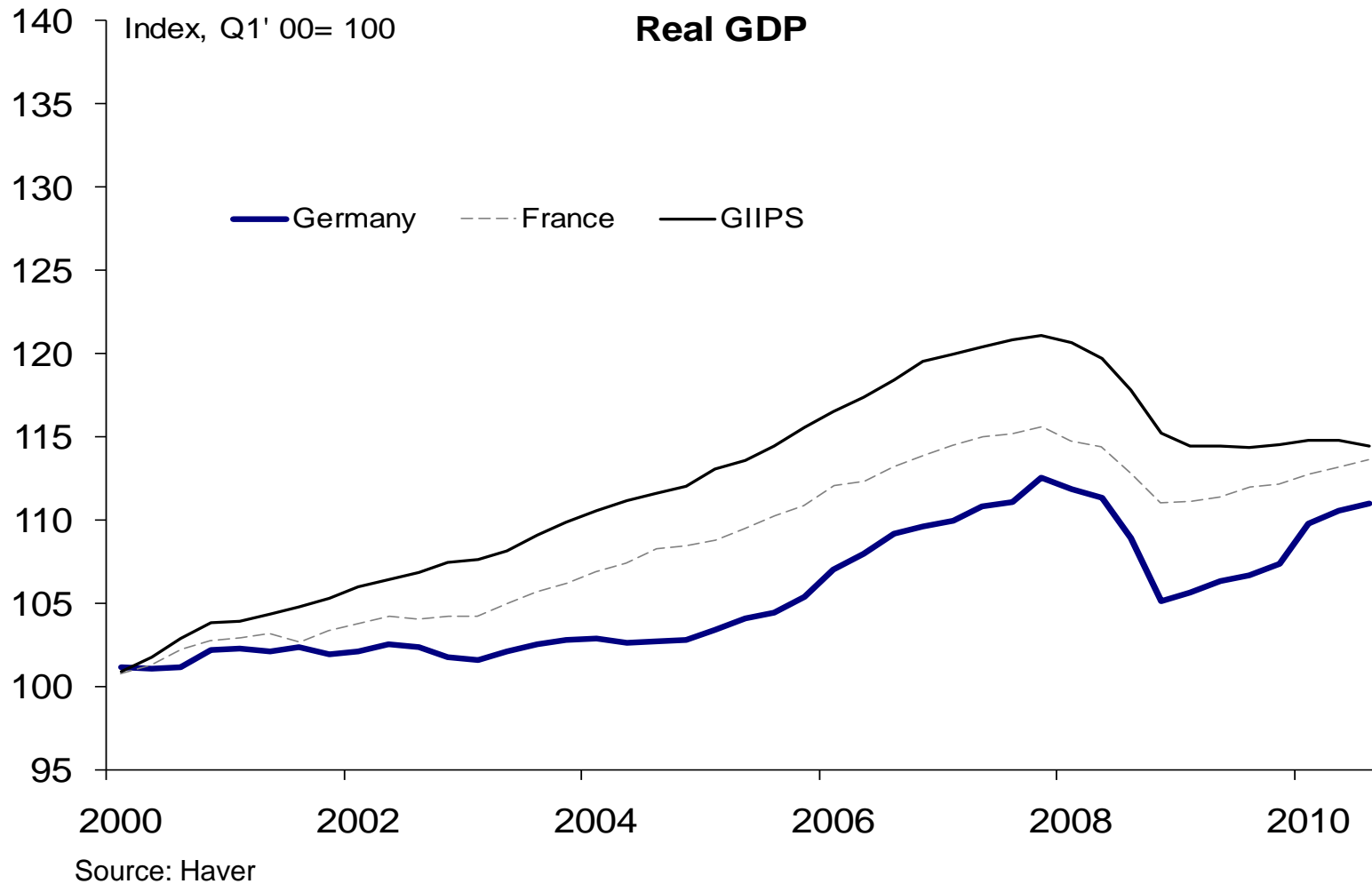
Passion to Perform

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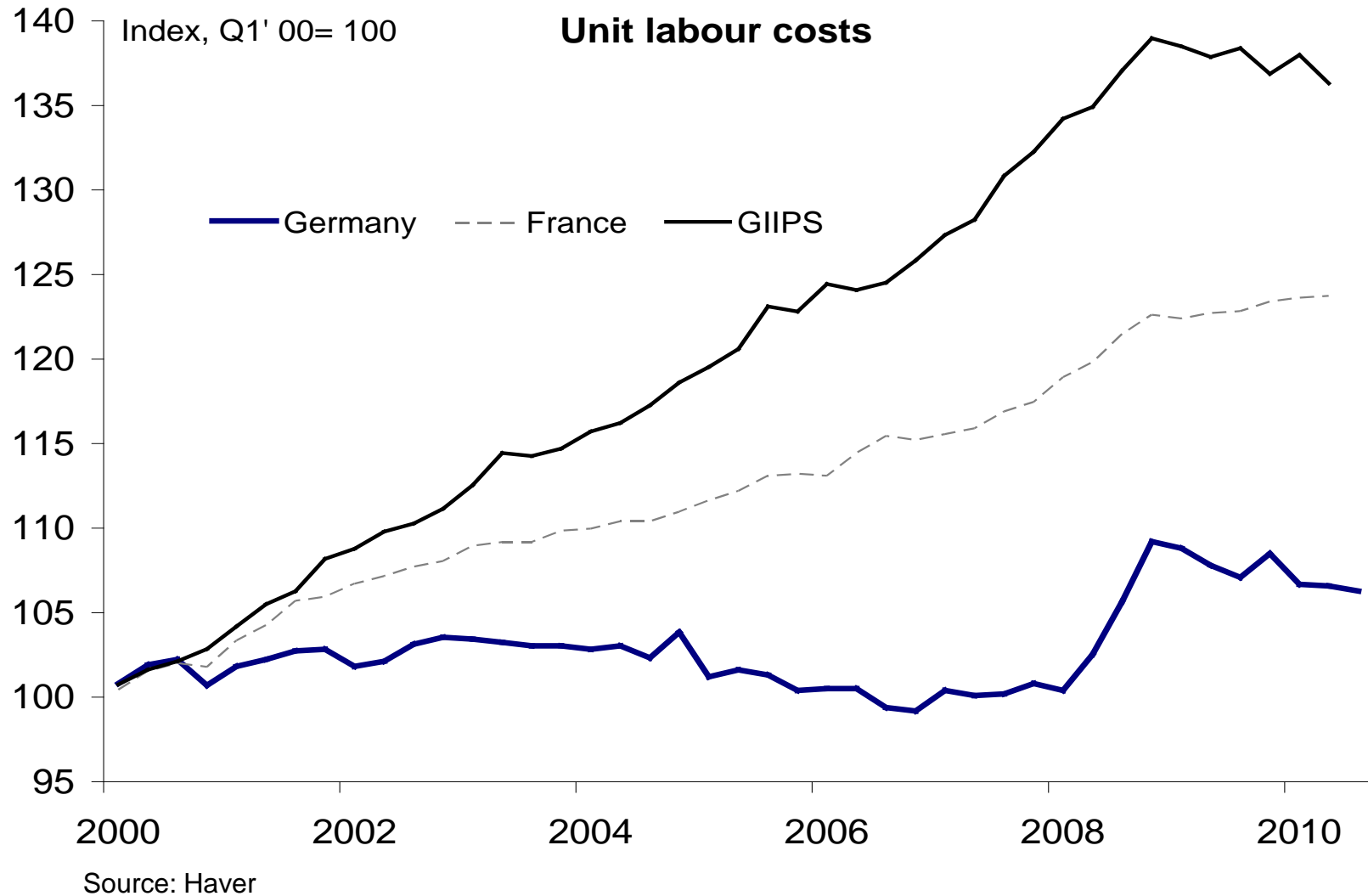
October 2011



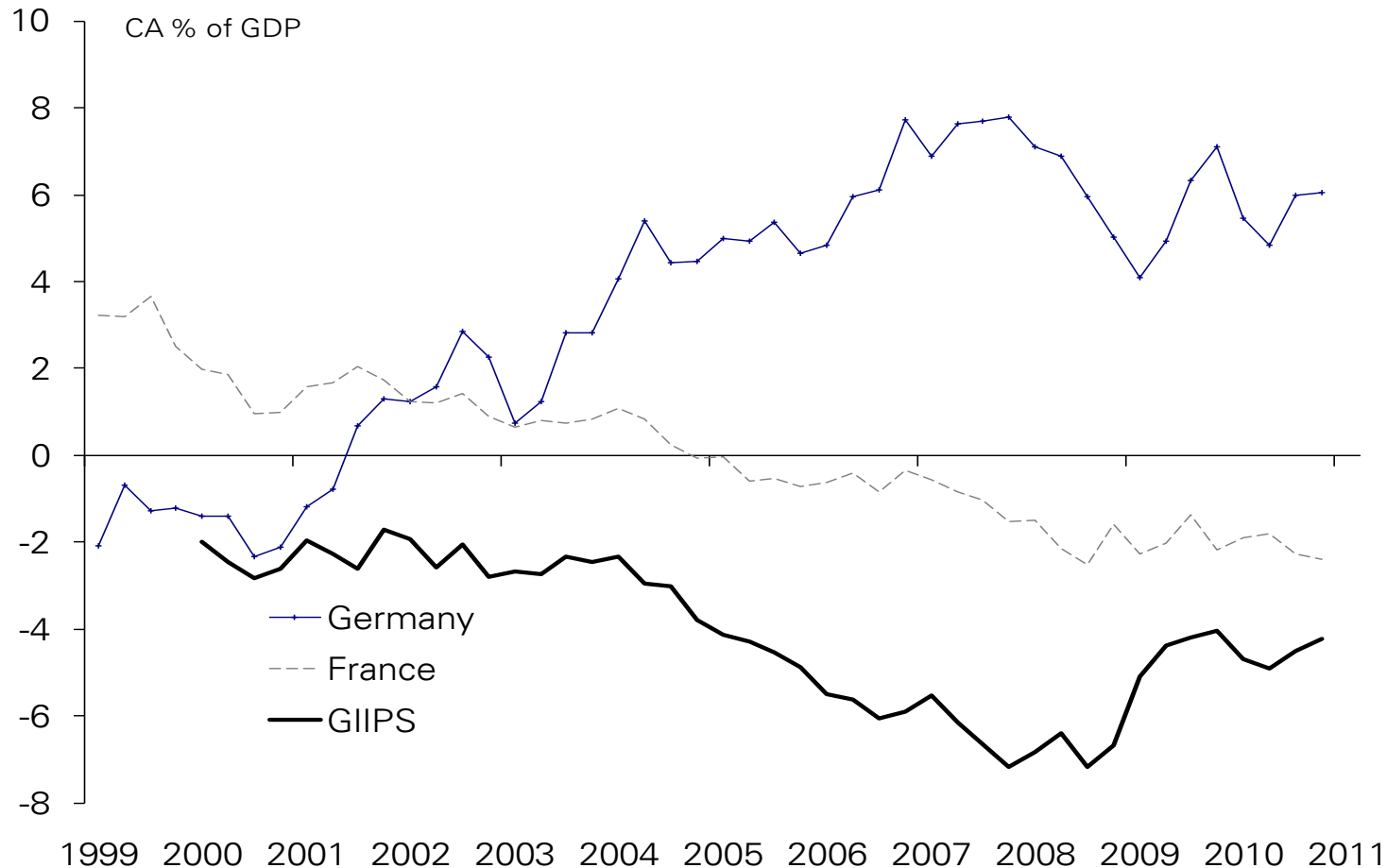
Cheap credit turned the first 10 years of EMU into a big party for some...



...where cost discipline was lost...



...and where financing of external deficits was not (seen as) a problem



Source: Haver

The consequences of cheap credit



Visible:

- Public sector debt crisis
- Banking crisis

Still invisible:

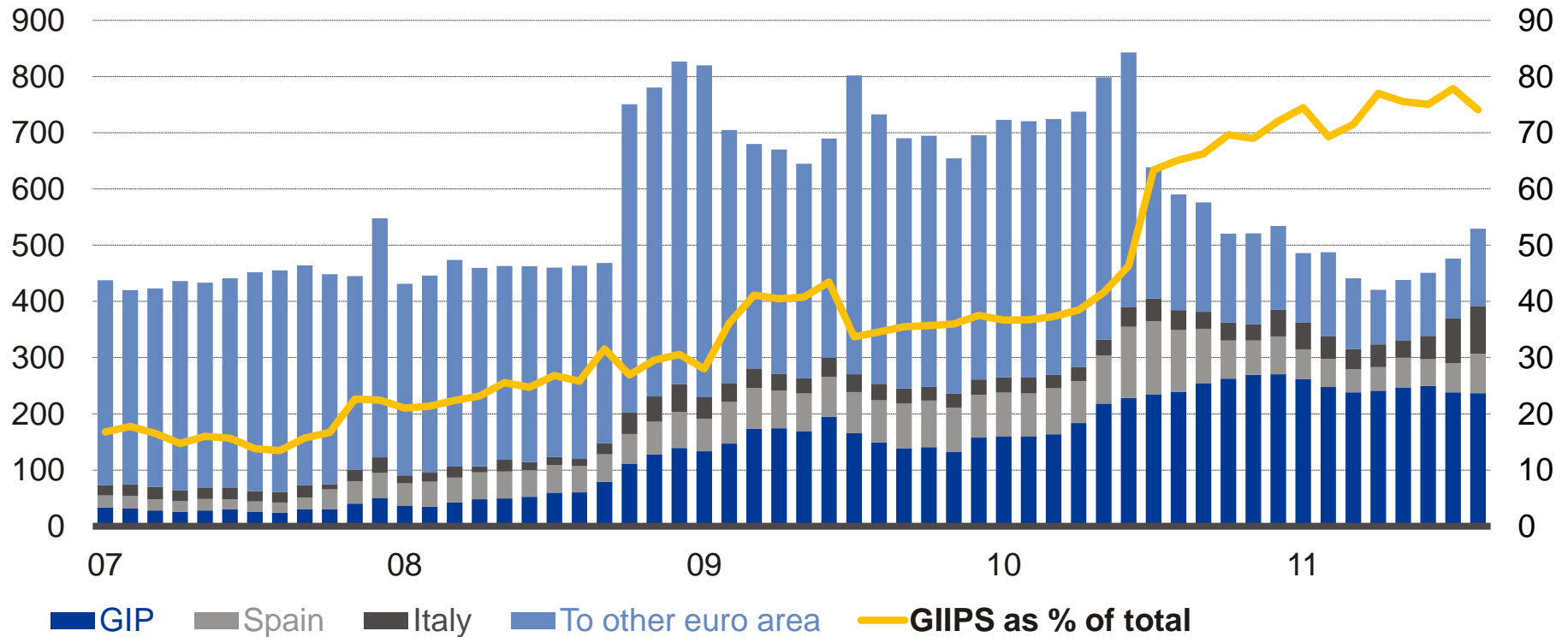
- Balance-of-payments crisis

ECB lending concentrating on GIIPS



ECB Refinancing

EUR bn (left), % total ECB standard refinancing (rights)



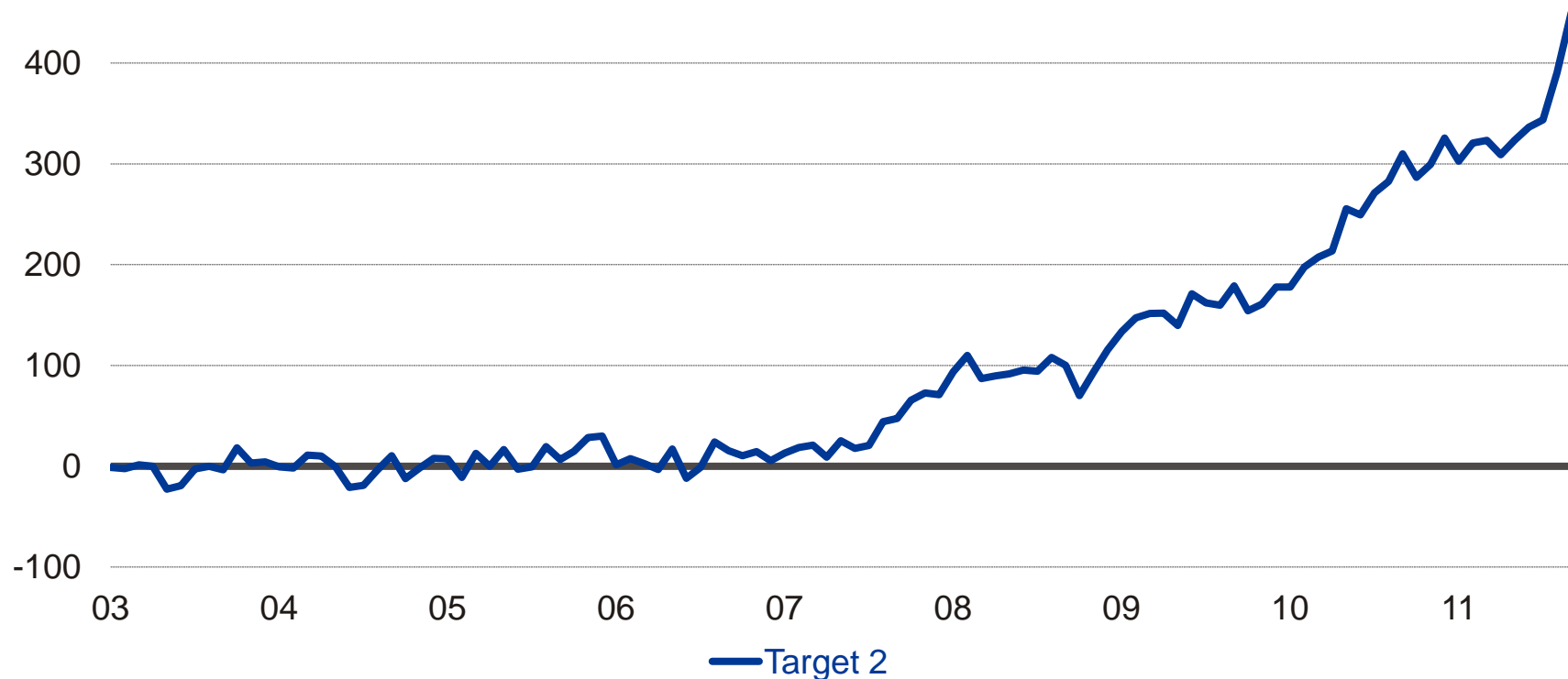
Source: ECB, NCBs, DB Research

... and external imbalances



Claims of the Bundesbank against the Eurosystem

EUR bn



Source: Bundesbank

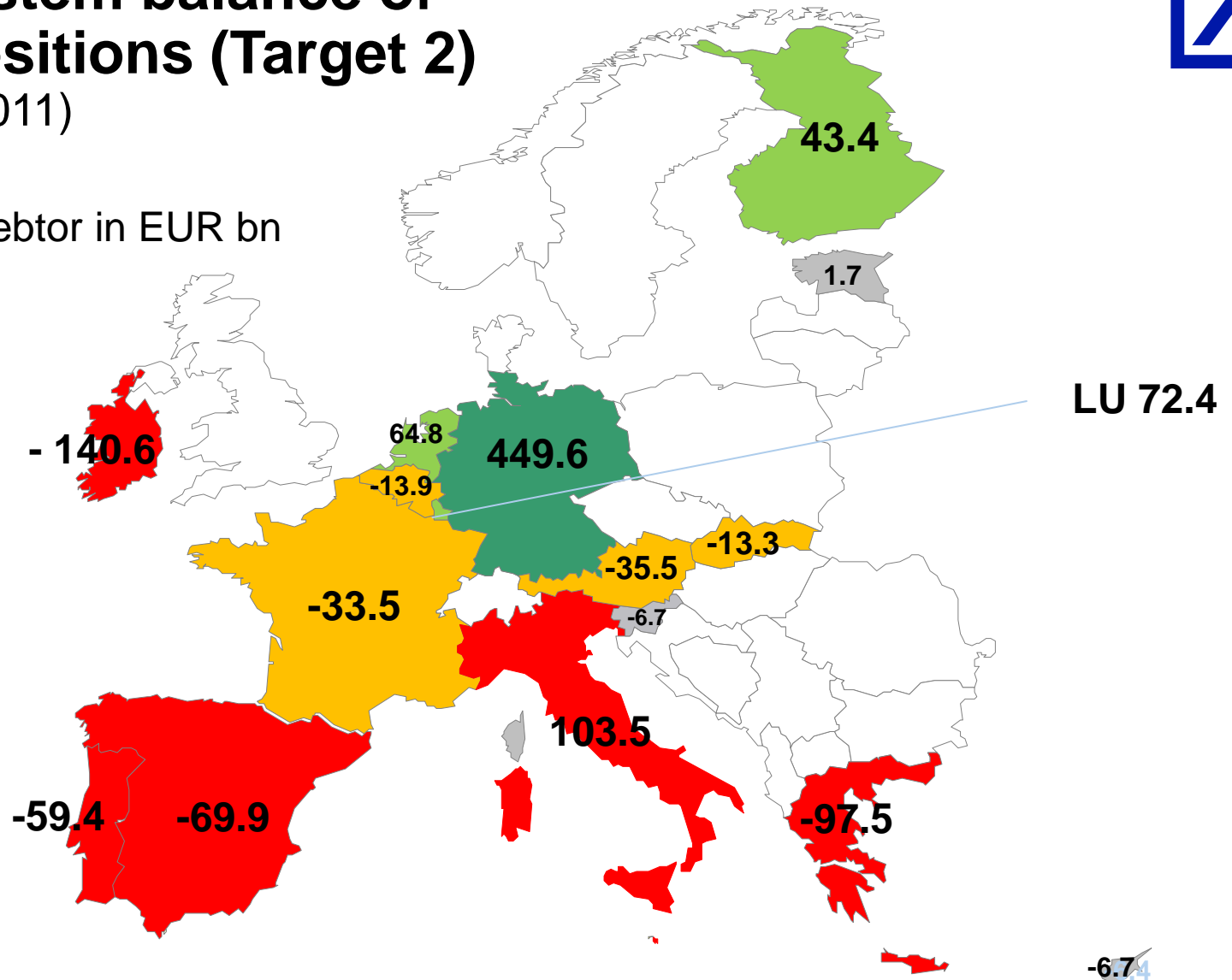
Intra-Eurosystem balance of payments positions (Target 2)

(as of Aug/Sept 2011)



Range of creditor/debtor in EUR bn

- Major creditor
- important creditor
- Nearly balanced
- important debtor
- Major debtor



Recommendation: Garber, Peter (1998). "Notes on the role of Target in a stage III crisis", NBER Working Paper No. 6619
 Source: NCBs, DB Research

Possible outcomes



-
- Permanent resource transfer through BoP imbalances (unlikely)
 - Permanent resource transfer through government budgets (unlikely)
 - Internal real exchange rate realignment through deflation in the „south“ (unlikely)
 - Internal real exchange rate realignment through inflation in the „north“

But:

- Will the „north“ remain in EMU if the price is higher inflation?

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