



Fiscal policy challenges from a European perspective

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Public debt at record highs, peaking...

| Public debt in percent of GDP | | | | | |
|-------------------------------|-------|-------|-------|-------|-------|
| | 1999 | 2007 | 2009 | 2014 | 2016 |
| Euro Area | 70.5* | 65 | 78.4 | 94.2 | 92.5 |
| Germany | 60.3 | 63.8 | 72.7 | 74.6 | 68¾ |
| France | 60.2 | 64.4 | 79.0 | 95.0 | 97.0 |
| Italy | 109.6 | 99.7 | 112.5 | 132.1 | 130.6 |
| Spain | 60.9 | 35.5 | 52.7 | 97.7 | 101.4 |
| Portugal | 51.0 | 68.4 | 83.6 | 130.2 | 123.0 |
| Greece | 88.5* | 103.1 | 126.8 | 177.1 | 173.5 |
| Ireland | 46.7 | 24.0 | 62.3 | 109.7 | 103.8 |
| United Kingdom | 41.9 | 43.6 | 65.8 | 89.4 | 90.1 |

Source: European Commission Spring Forecast (5 May 2015) for 2014-2016; AMECO for 1999-2009

Germany: Federal Statistical Office and MoF-Projection rd. on ¼ percentage points

* European Commission Spring Forecast (5 May 2015): Statistical Annex

... but primary balance still often in deficit

| Primary net lending/borrowing in percent of GDP | | | | |
|---|------|-------|------|------|
| | 2007 | 2009 | 2014 | 2016 |
| Euro Area | 2.2 | -3.4 | 0.2 | 0.7 |
| Germany | 2.9 | -0.6 | 2.1 | 1½ |
| France | 0.1 | -4.8 | -1.8 | -1.3 |
| Italy | 3.2 | -0.9 | 1.6 | 2.3 |
| Spain | 3.6 | -9.3 | -2.5 | -0.6 |
| Portugal | -0.1 | -6.8 | 0.5 | 1.7 |
| Greece | -2.2 | -10.3 | 0.4 | 1.8 |
| Ireland | 1.3 | -11.9 | -0.1 | 0.6 |
| United Kingdom | -0.8 | -8.9 | -2.9 | -0.5 |

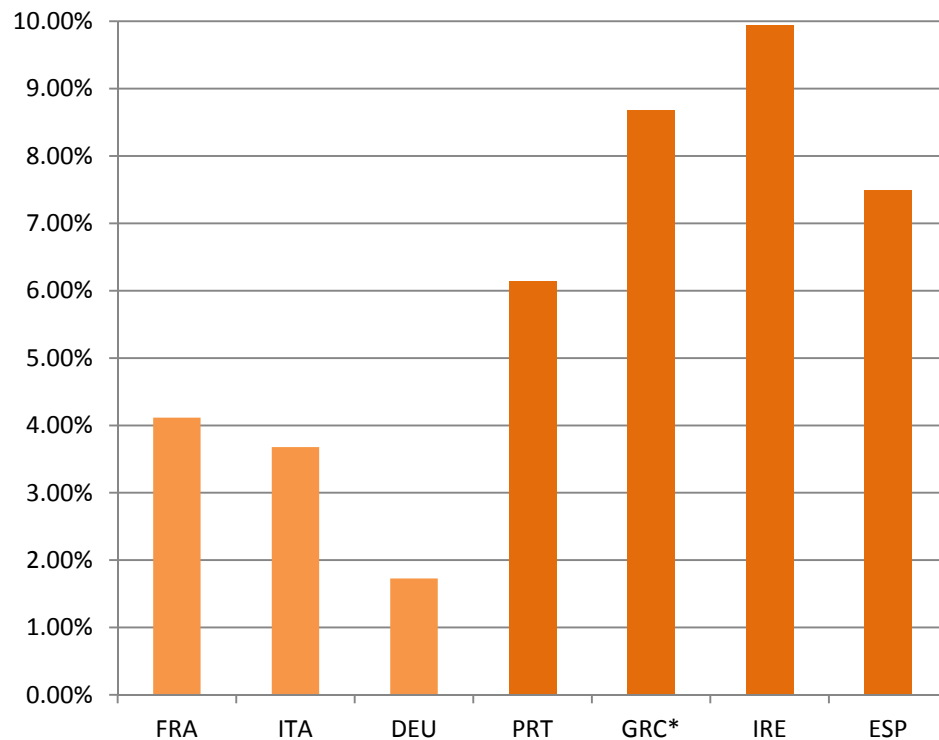
Source: European Commission Spring Forecast (5 May 2015) for 2014-2016; AMECO for 2007-2009
Germany: Federal Statistical Office and MoF-Projection rd. on ¼ percentage points

Government expenditure growth

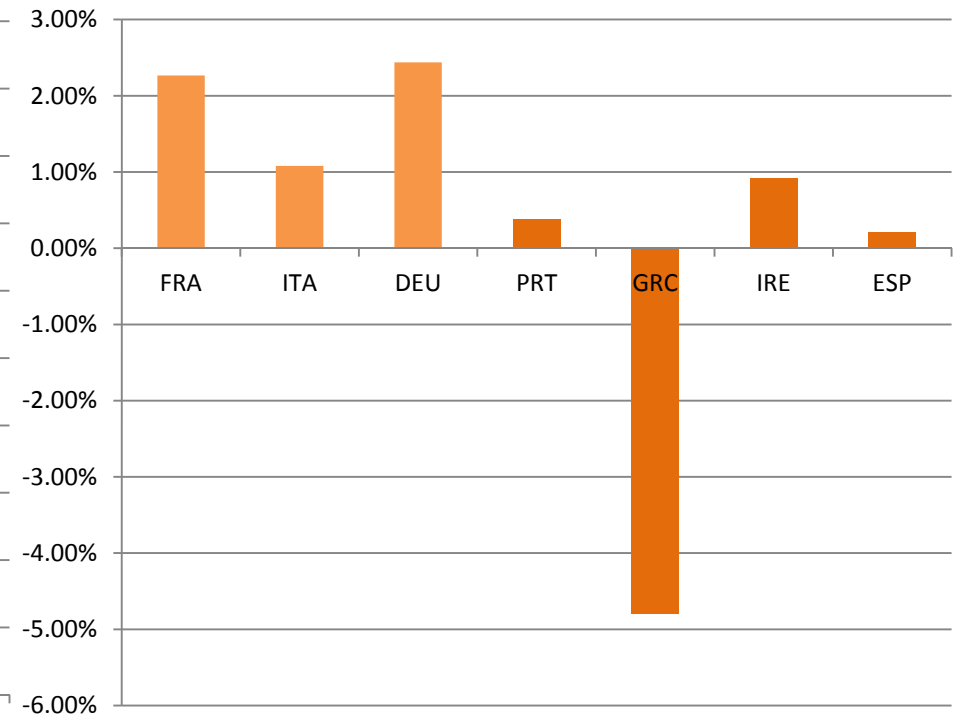
Before crisis: ...skyrocketed in some countries

After crisis: ...reduced sharply

average annual growth rate of nominal government expenditure 1999-2009



average annual growth rate of nominal government expenditure 2010-2016



Source: AMECO (COM Spring forecast 2015); *ESA95 Eurostat

Cyclically adjusted primary balance not always improving...

| Cyclically adjusted primary balances as a percentage of GDP | | | | |
|---|------|------|-------|-------|
| | 2013 | 2014 | 2015 | 2016 |
| Germany | 2.7 | 2.8 | 2 1/4 | 1 3/4 |
| Spain | 0.7 | 0.9 | 0.6 | 0.4 |
| France | -0.8 | -0,4 | -0.3 | -0.3 |
| Italy | 4.2 | 3.9 | 3.6 | 3.3 |
| Portugal | 3.5 | 3.1 | 3.4 | 2.4 |
| Greece | -2.3 | 4.9 | 5.2 | 2.5 |
| Ireland | -0.1 | -0.1 | 0.2 | 0.2 |

Source: European Commission Spring Forecast (5 May 2015); Germany 2014 and onwards:
German Stability Programme, April 2015, MoF-Projection rd. on ¼ percentage points

Public expenditure ratios slightly decreasing

but still above pre-crisis years and high compared to international competitors

| Public expenditure in percent of GDP | | | | | |
|--------------------------------------|-------|------|------|------|------|
| | 1999 | 2007 | 2009 | 2014 | 2016 |
| Euro Area | 48.0* | 45.3 | 50.6 | 49.0 | 48.0 |
| Germany | 47.7 | 42.8 | 47.6 | 44.3 | 43¾ |
| France | 52.1 | 52.2 | 56.8 | 57.2 | 56.5 |
| Italy | 47.3 | 46.8 | 51.1 | 51.1 | 49.9 |
| Spain | 39.9 | 38.9 | 45.8 | 43.6 | 41.4 |
| Portugal | 36.6 | 40.8 | 45.3 | 45.7 | 44.7 |
| Greece | 49.8* | 46.9 | 54.0 | 49.3 | 47.9 |
| Ireland | 34.0 | 35.9 | 47.6 | 39.0 | 36.8 |
| United Kingdom | 38.2 | 42.9 | 49.7 | 44.4 | 41.9 |
| Singapore | 22.8 | 12.0 | 18.0 | 18.2 | 20.4 |
| Korea | 17.2 | 20.5 | 21.3 | 21.3 | 20.8 |

Source: European Commission Spring Forecast (5 May 2015) for 2014-2016; AMECO for 1999-2009

Germany: Federal Statistical Office and MoF-Projection rd. on ¼ percentage points

For Singapore and Korea: IMF World Economic Outlook (April 2015)

*ESA 1995, Eurostat

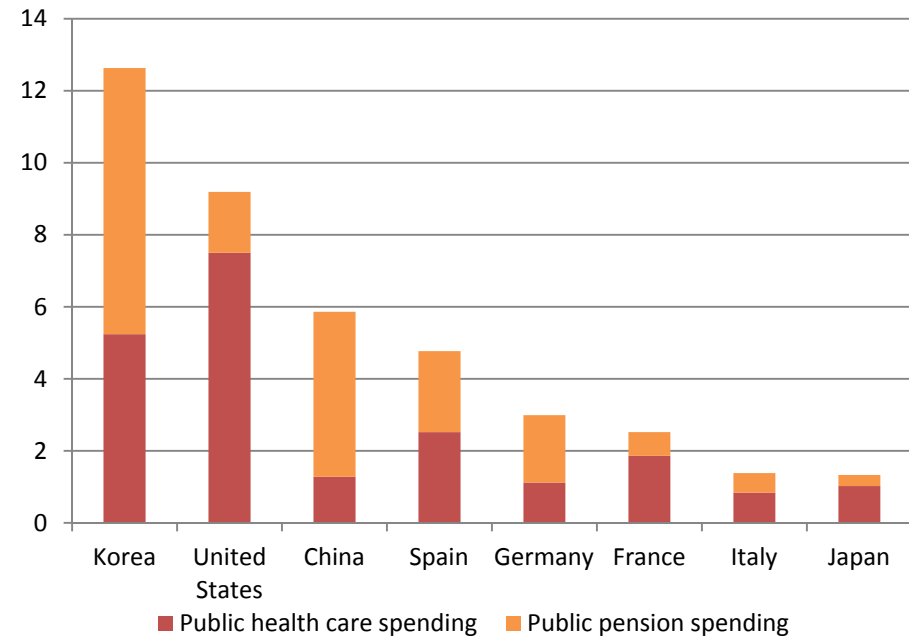
Demographic challenges

Old-age dependency ratio
(ratio of population 65+ per 100 population 15-64)

| | 2010 | 2040 |
|------------------|-------------|-------------|
| Korea | 15.3 | 54.4 |
| USA | 19.4 | 36.2 |
| China | 11.1 | 39.6 |
| Germany | 31.3 | 55.8 |
| Spain | 25.2 | 57.2 |
| France | 25.4 | 45.6 |
| Italy | 31.2 | 63.1 |
| Japan | 36.0 | 63.8 |
| Euro Area | 27.5 | 49.4 |

Source: UN World Population Prospects: The 2015 Revision.
Euro Area: The 2015 Ageing Report

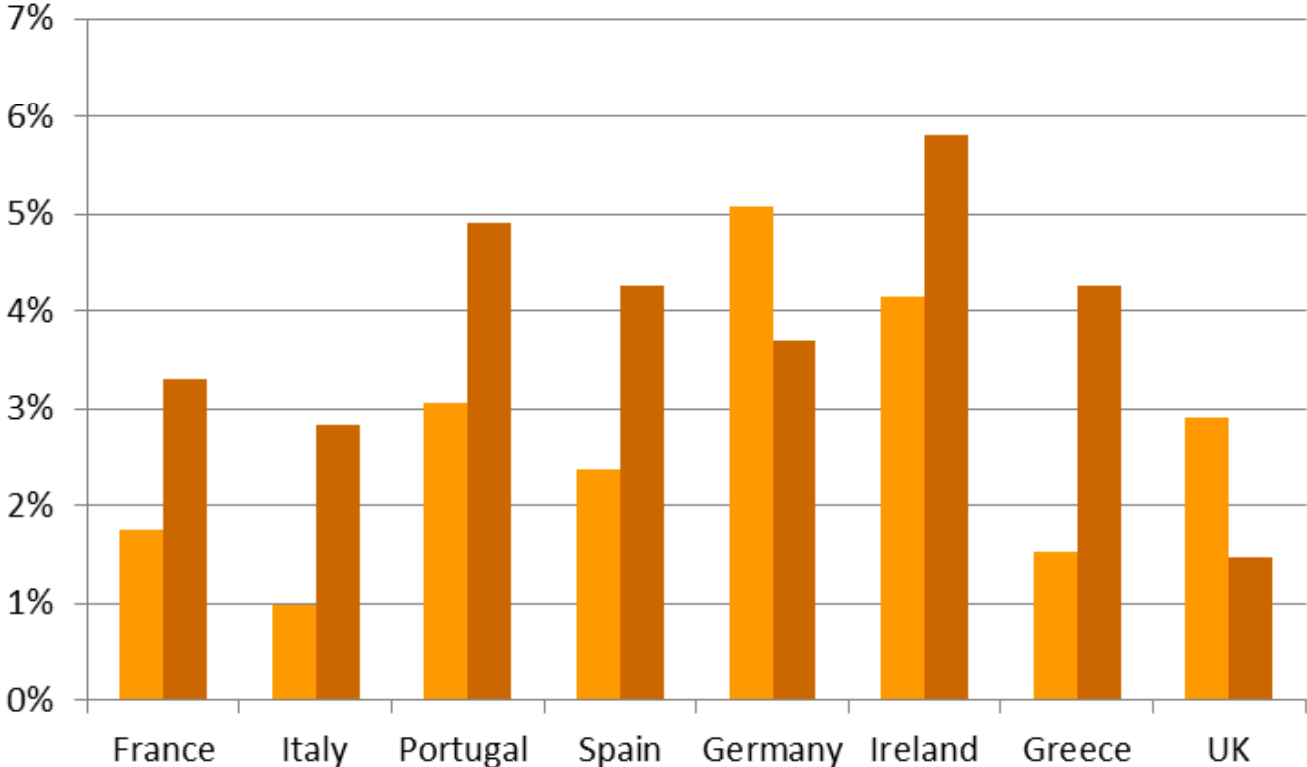
Projected changes in age-related spending 2013–40 in % of potential GDP



Source: BIS, Annual Report 2013

Macroeconomic rebalancing in progress

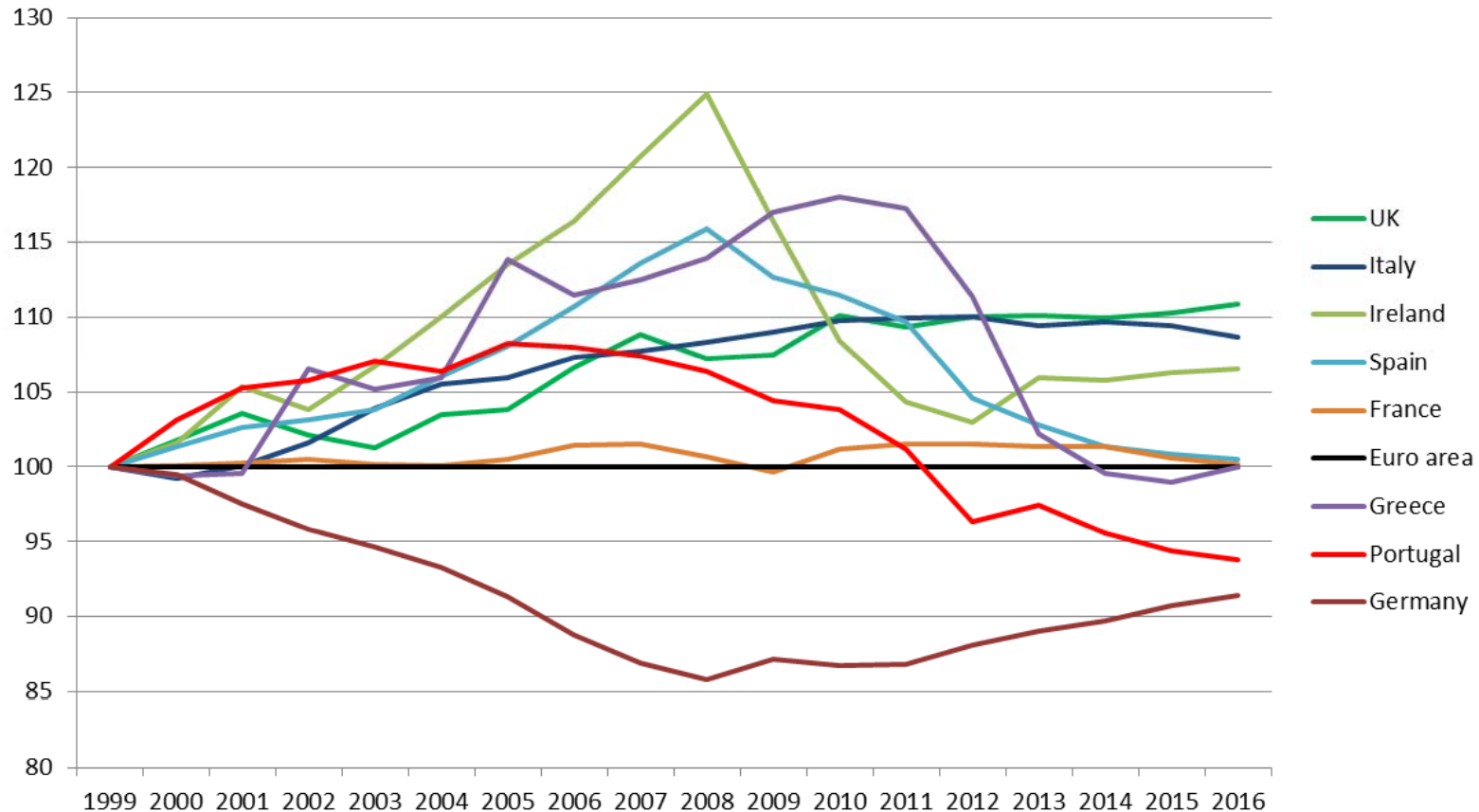
Exports of goods and services at constant prices, avg. growth rate
1999-2009 - 2010-2016



Source: AMECO (COM Spring Forecast 2015)

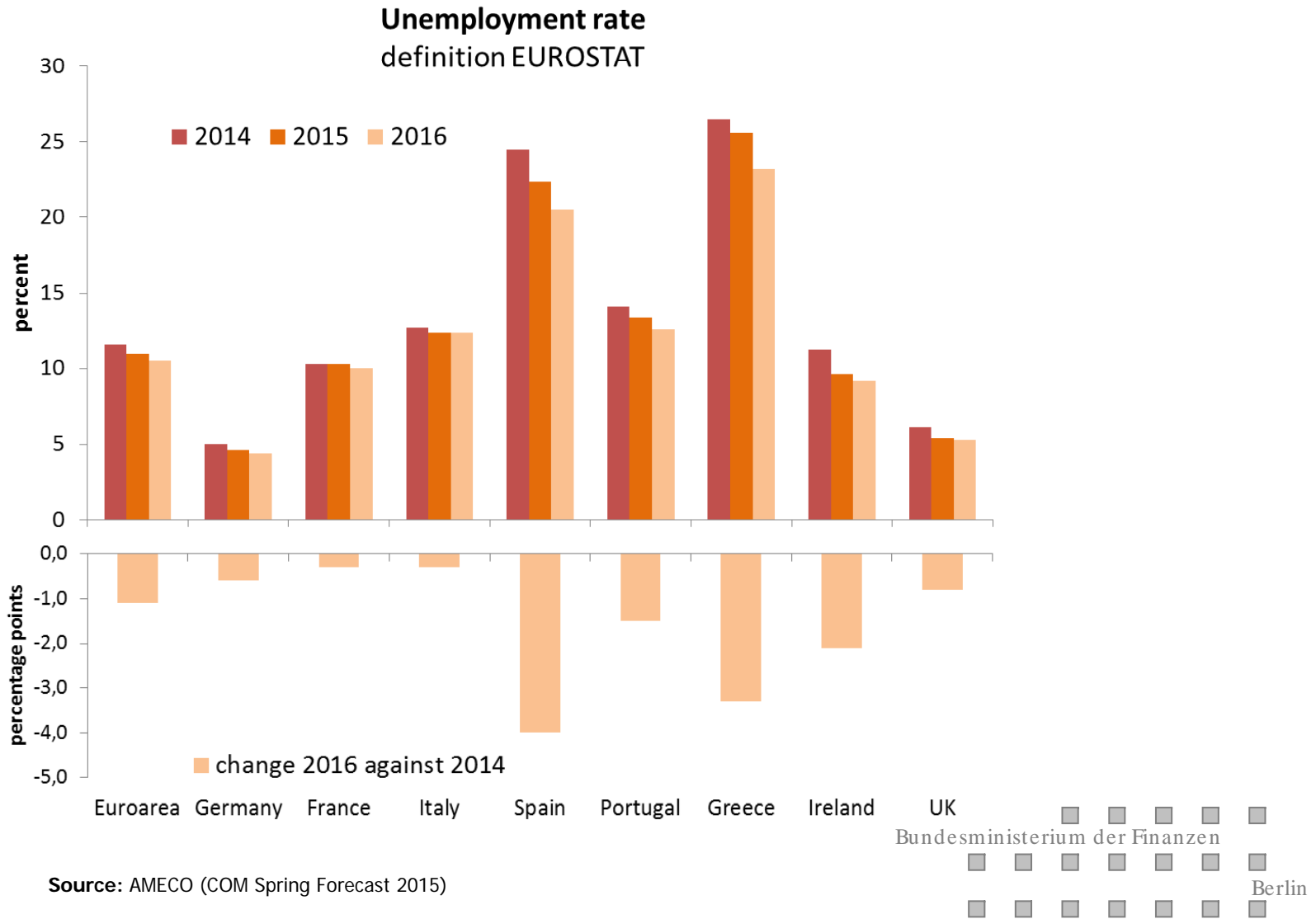
Unit labour cost divergence reversing

Euro area = 100



Source: AMECO (COM Spring Forecast 2015)

Unemployment rates high, improvements



Private sector debt stabilizing at high levels

Debt outstanding in percent of GDP

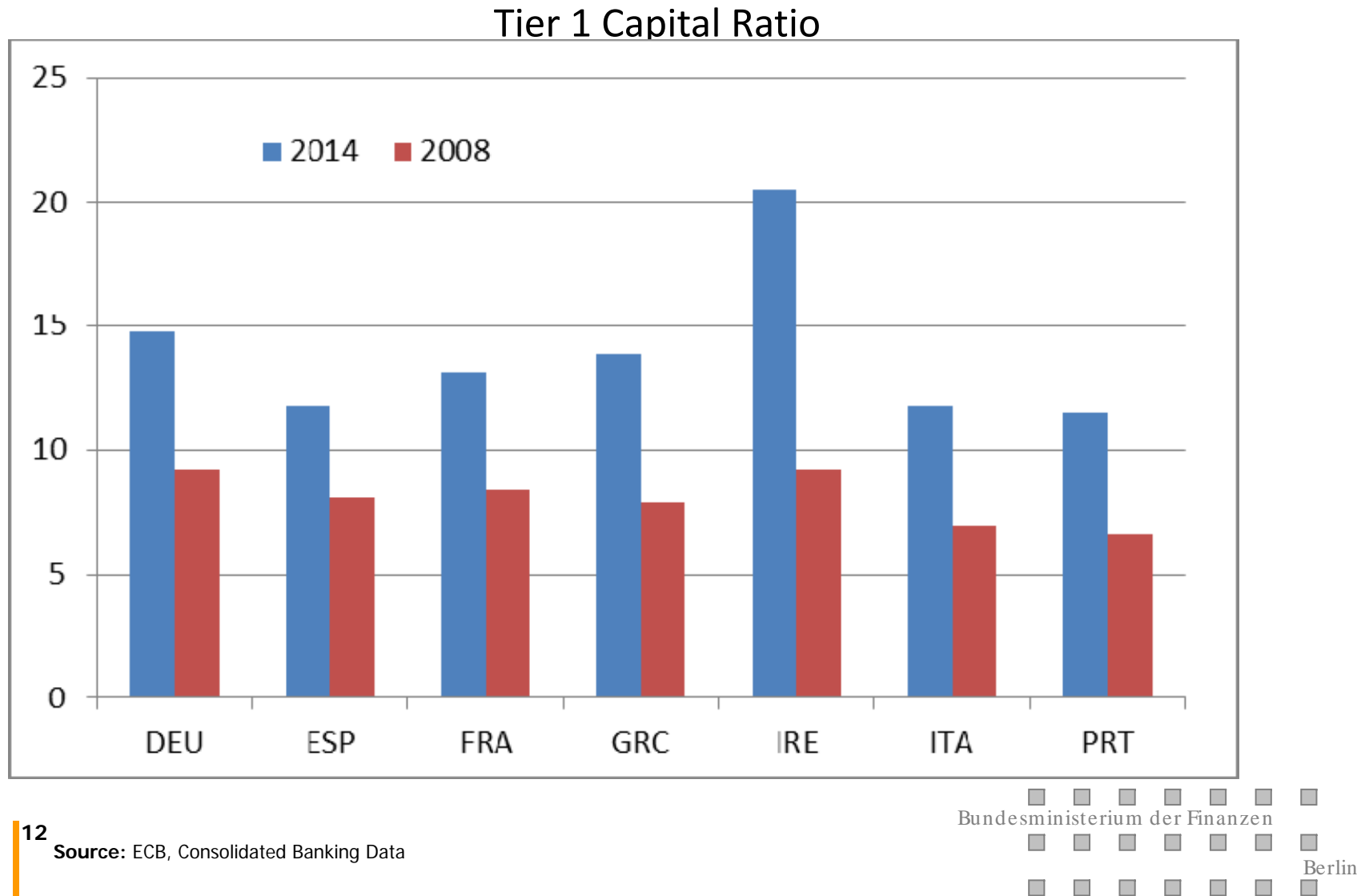
Private Households

| | 1999 | 2007 | 2014 |
|----------------|-----------------|------|------|
| Euro area | 49 | 60 | 61 |
| Germany | 70 | 61 | 55 |
| France | 34 | 47 | 56 |
| Italy | 21 | 38 | 43 |
| Spain | 42 | 81 | 71 |
| Portugal | 53 | 87 | 81 |
| Greece | 10 | 38 | 63 |
| Ireland | 48 ¹ | 99 | 86 |
| United Kingdom | 66 | 96 | 88 |

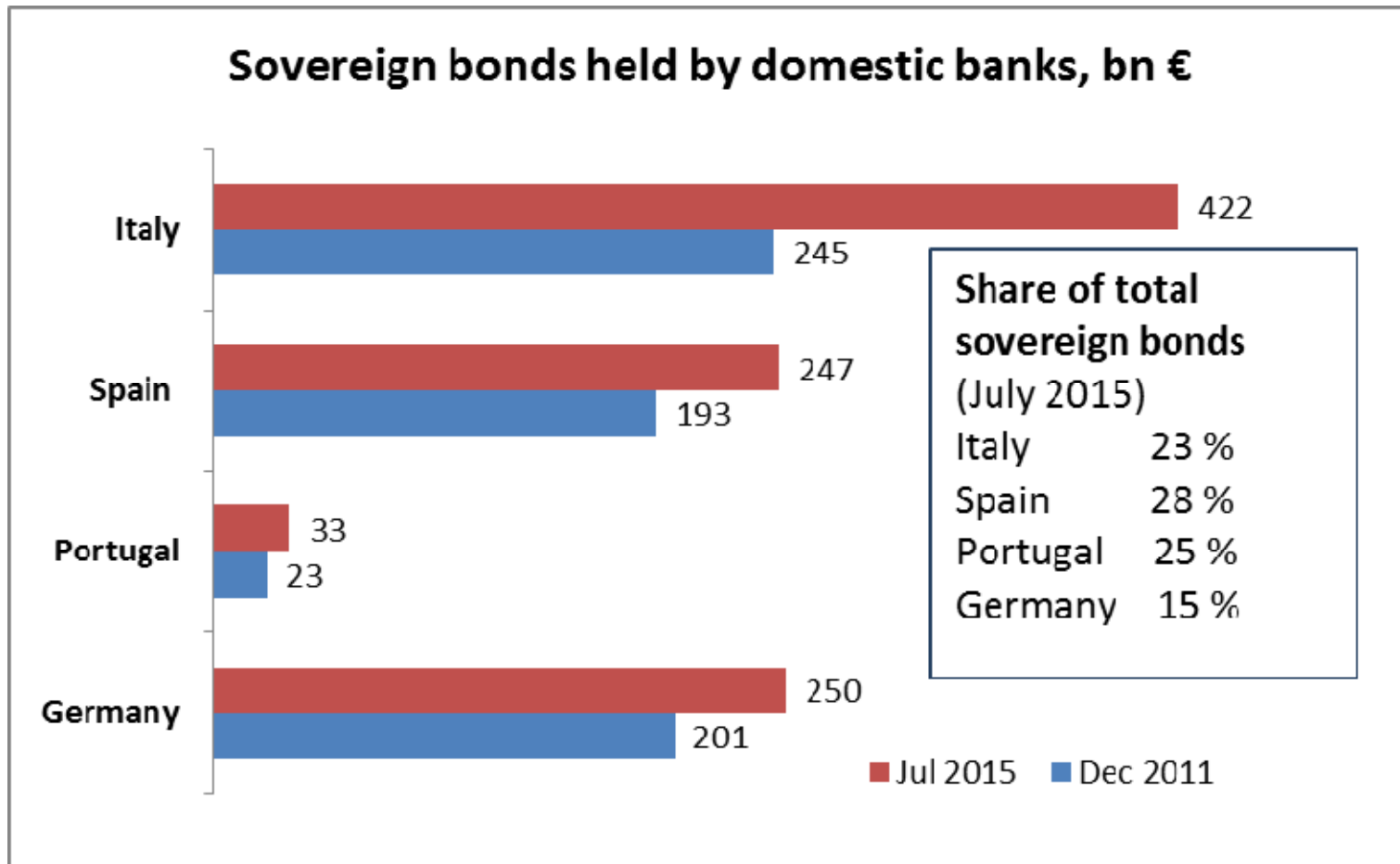
Nonfinancial Corporations

| | 1999 | 2007 | 2014 |
|----------------|-----------------|------|------|
| Euro area | 87 | 103 | 107 |
| Germany | 63 | 64 | 64 |
| France | 93 | 104 | 123 |
| Italy | 60 | 82 | 83 |
| Spain | 63 | 125 | 111 |
| Portugal | 80 | 111 | 128 |
| Greece | 34 | 56 | 66 |
| Ireland | 94 ¹ | 102 | 185 |
| United Kingdom | 92 | 117 | 112 |

Financial sector more resilient...



... but sovereign-bank nexus still high

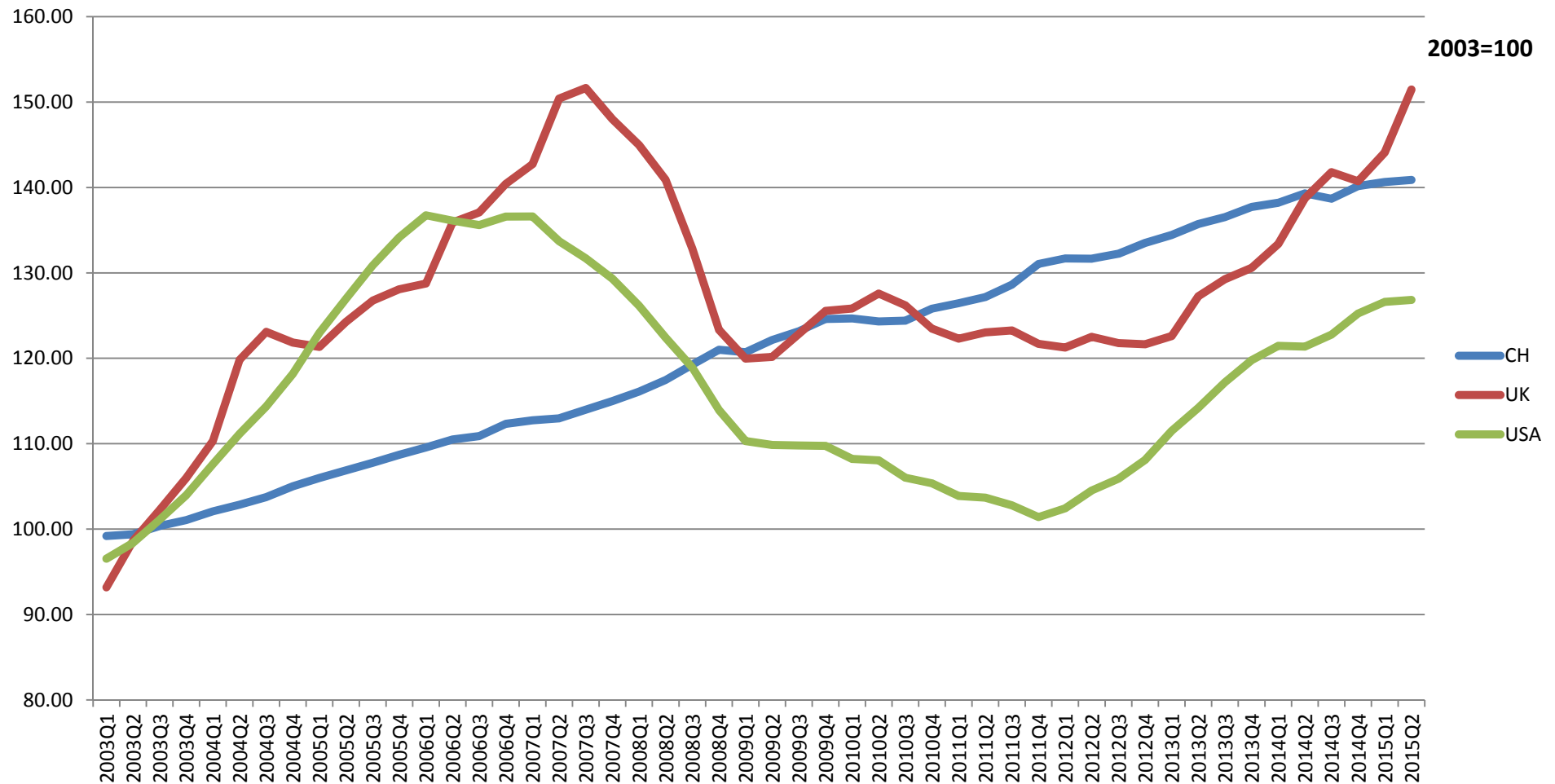


Non-standard measures of monetary policy

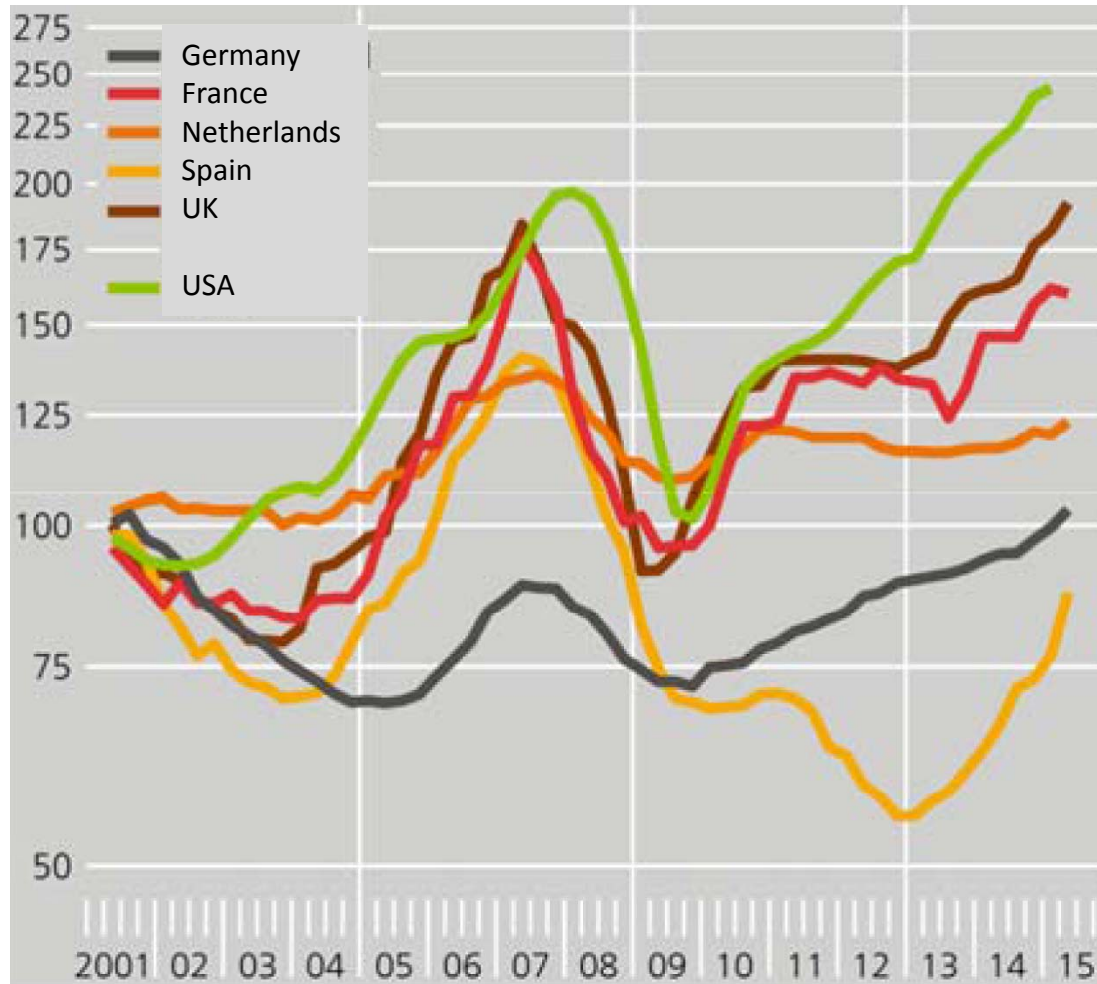
Are we already in the „long run“ of negative side effects?

- Risk of bubbles / bursts / financial instability
- Low investment productivity; diverted into real estate / financial investments
- No “creative destruction“, Zombification
- Uncertainty over “new normal“ and long term stability
- Policy moral hazard

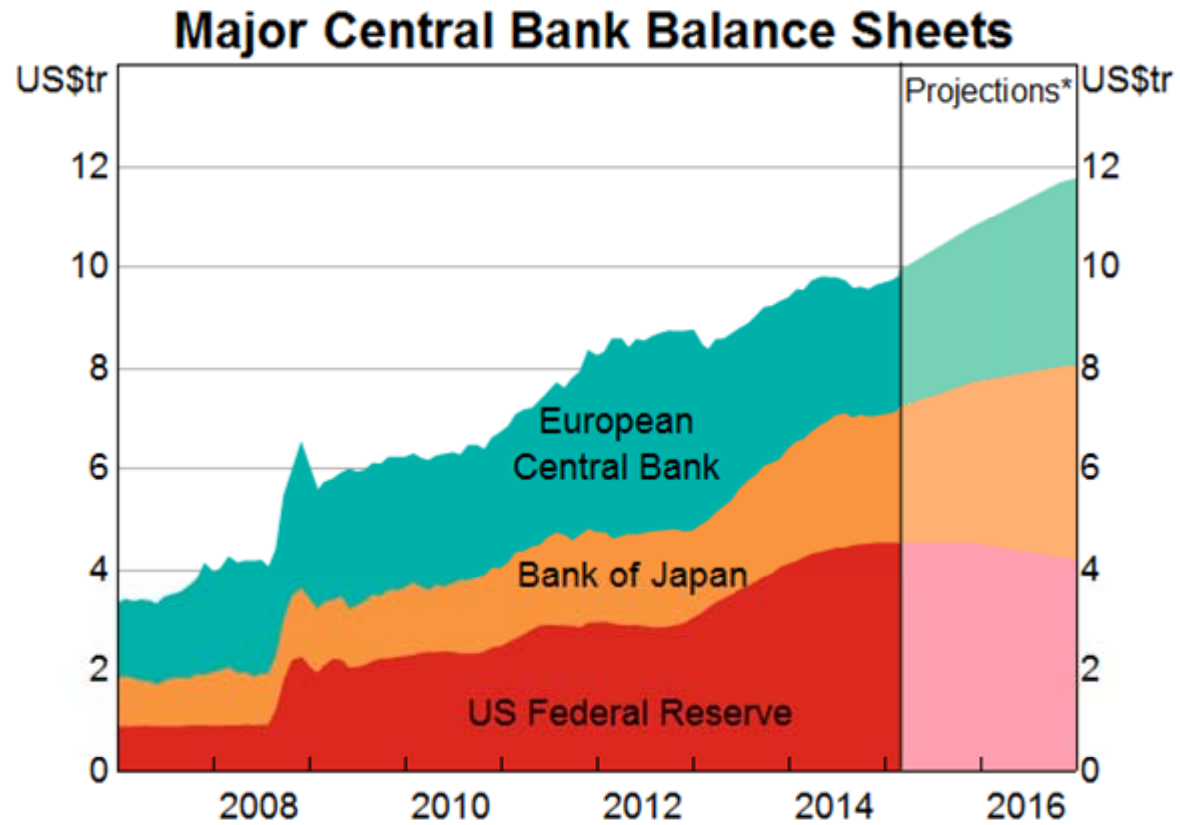
House price indices 2/2



Office property prices



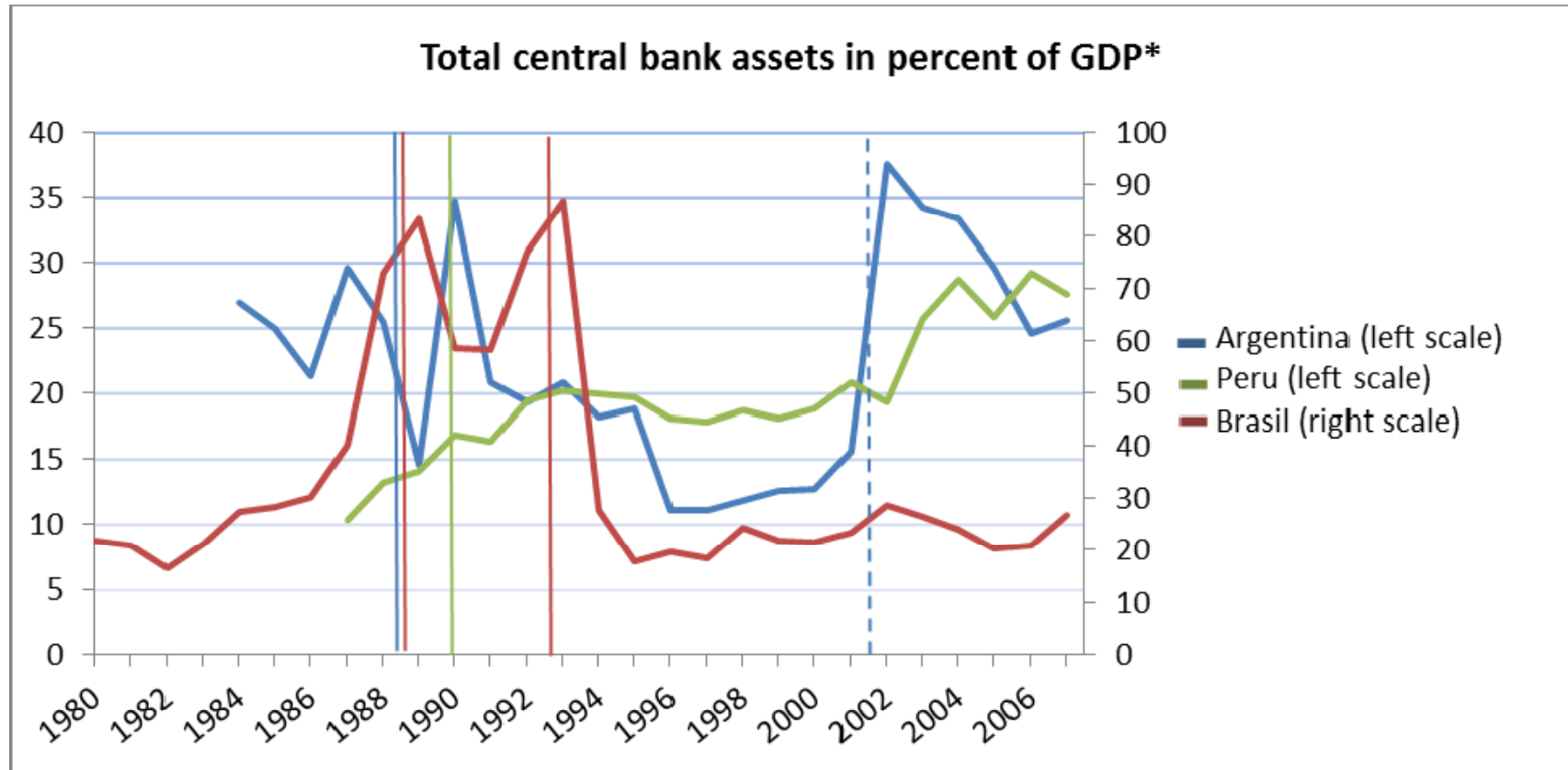
How far can Central Banks go? 1/2



* Based on central bank communicated intentions; assumes constant exchange rates

Sources: Bloomberg; RBA; Thomson Reuters

How far can Central Banks go? 2/2



*Vertical lines: start of hyperinflation in respective countries; dashed blue line: start of Argentina crisis

Source: IMF, Banco Central de la República Argentina, Banco Central do Brasil, Banco Central de Reserva del Perú

How to “unburden” monetary policy?

- Prevent fiscal dominance, stick to rules-based fiscal framework
 - sustainable public finances; debt restructuring provisions?
- Economic policy coordination, single market
 - flexible factor markets, competitiveness, employment and growth
- Well-regulated financial markets
 - financing of real economy, financial stability, bail in