



# Europe – the lost continent?

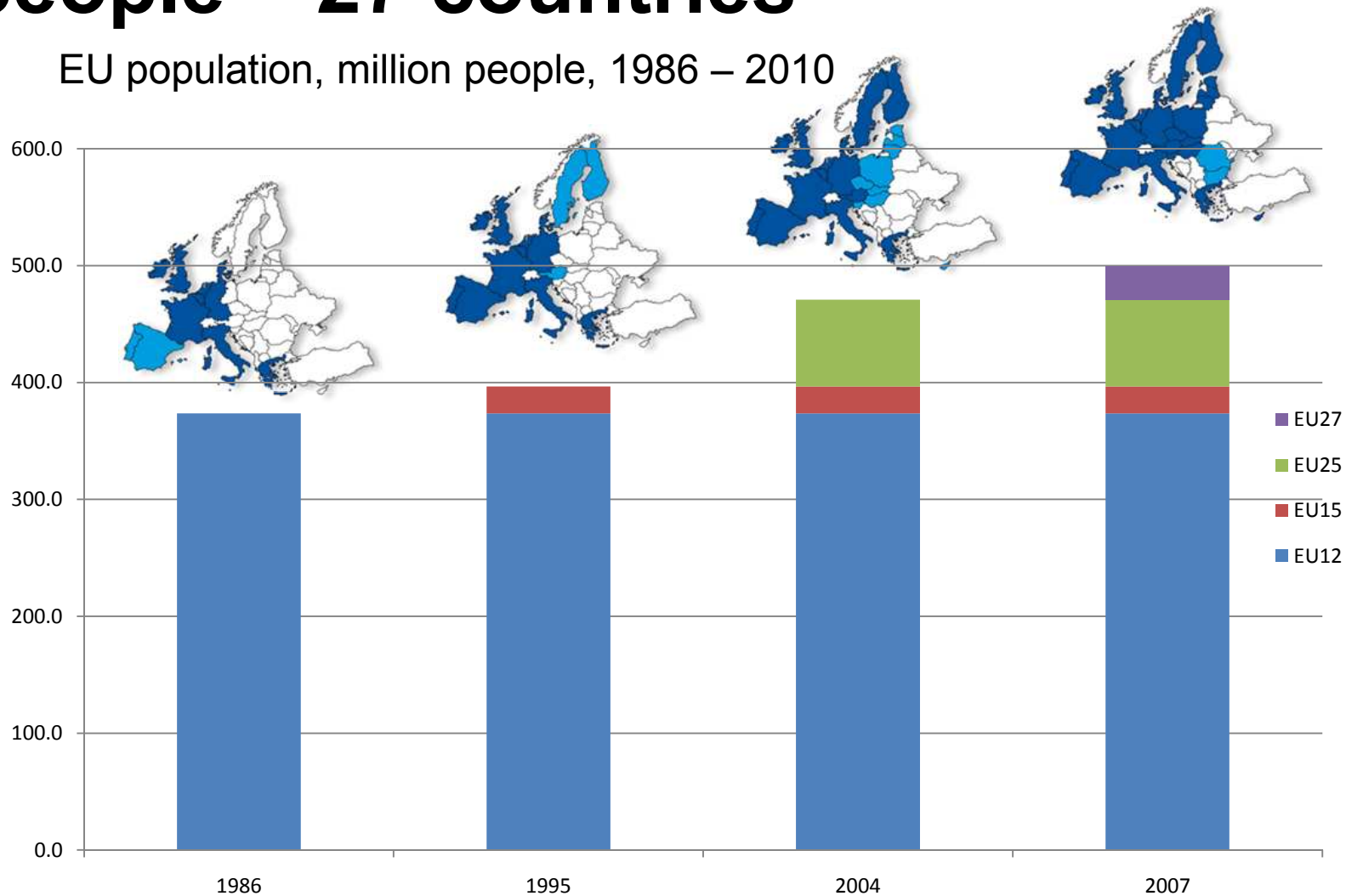
Howard Davies  
Director, LSE

European Union Chamber of  
Commerce in China  
Beijing, 27 July 2010

# The European Union: 500 million people – 27 countries



EU population, million people, 1986 – 2010



Source: Eurostat.

# The Euro: A single currency for Europeans



- EU countries using the euro
- EU countries not using the euro

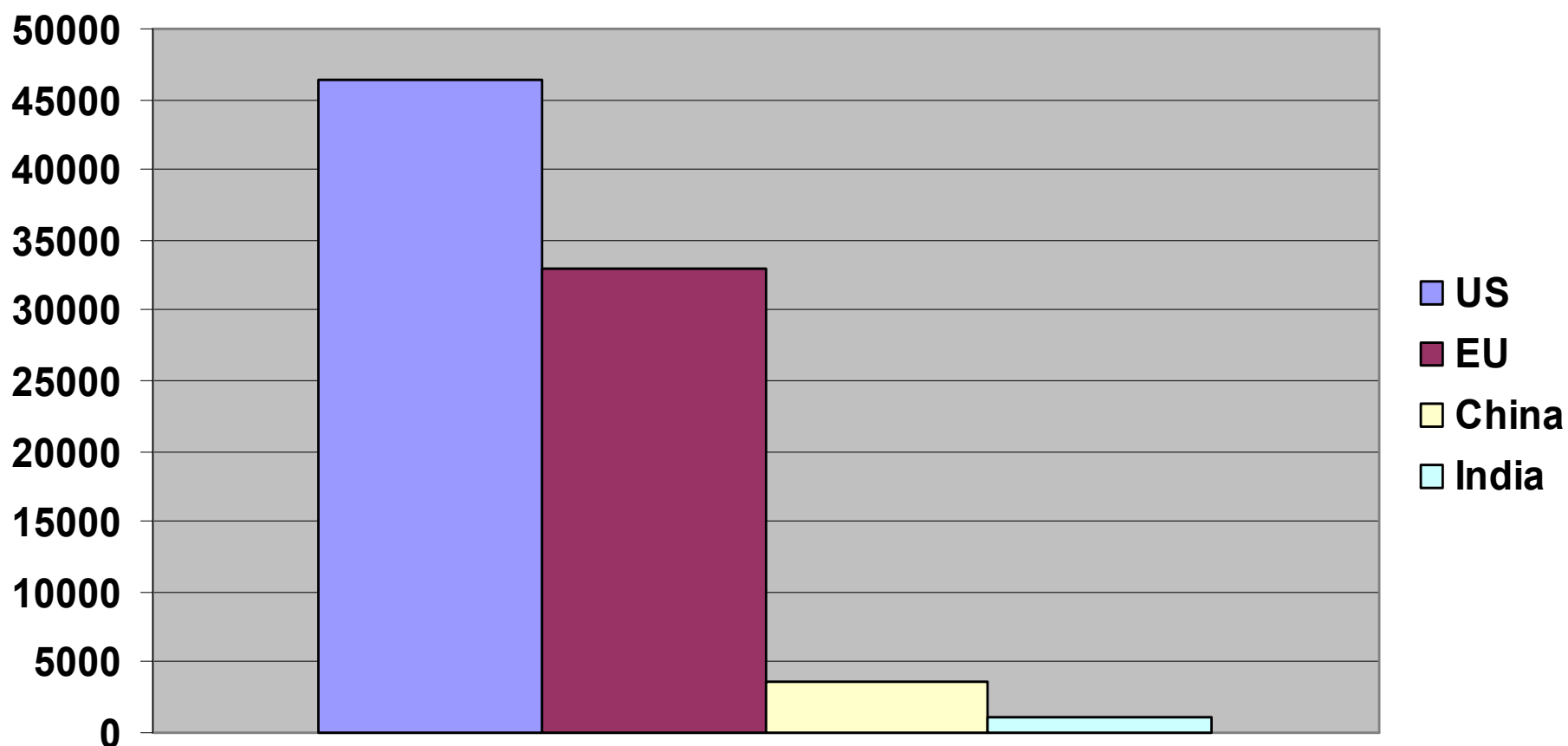


Source: <http://europa.eu/>

# How rich is the EU compared to the US, China and India?



GDP per capita\*, current prices (US dollars), 2009



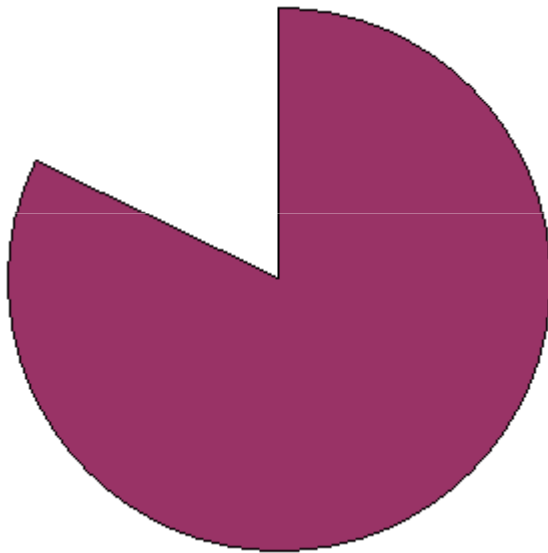
\*Numbers for China and India are estimates.

Source: IMF World Economic Outlook, April 2010.

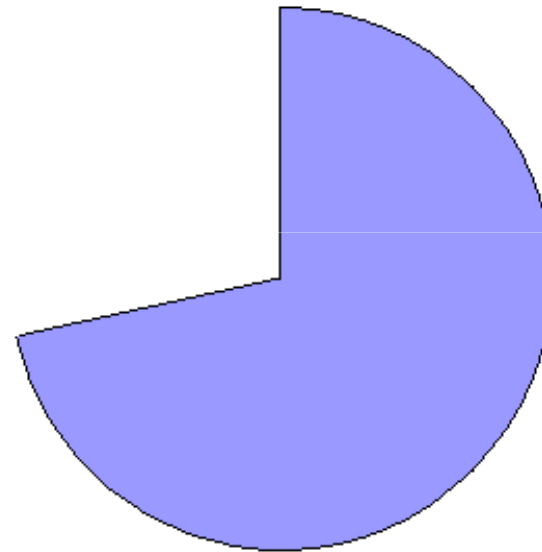
# The EU economy is close in size to that of the US



GDP, current prices (Billion US dollars), 2009



EU (16,447 Billion USD)



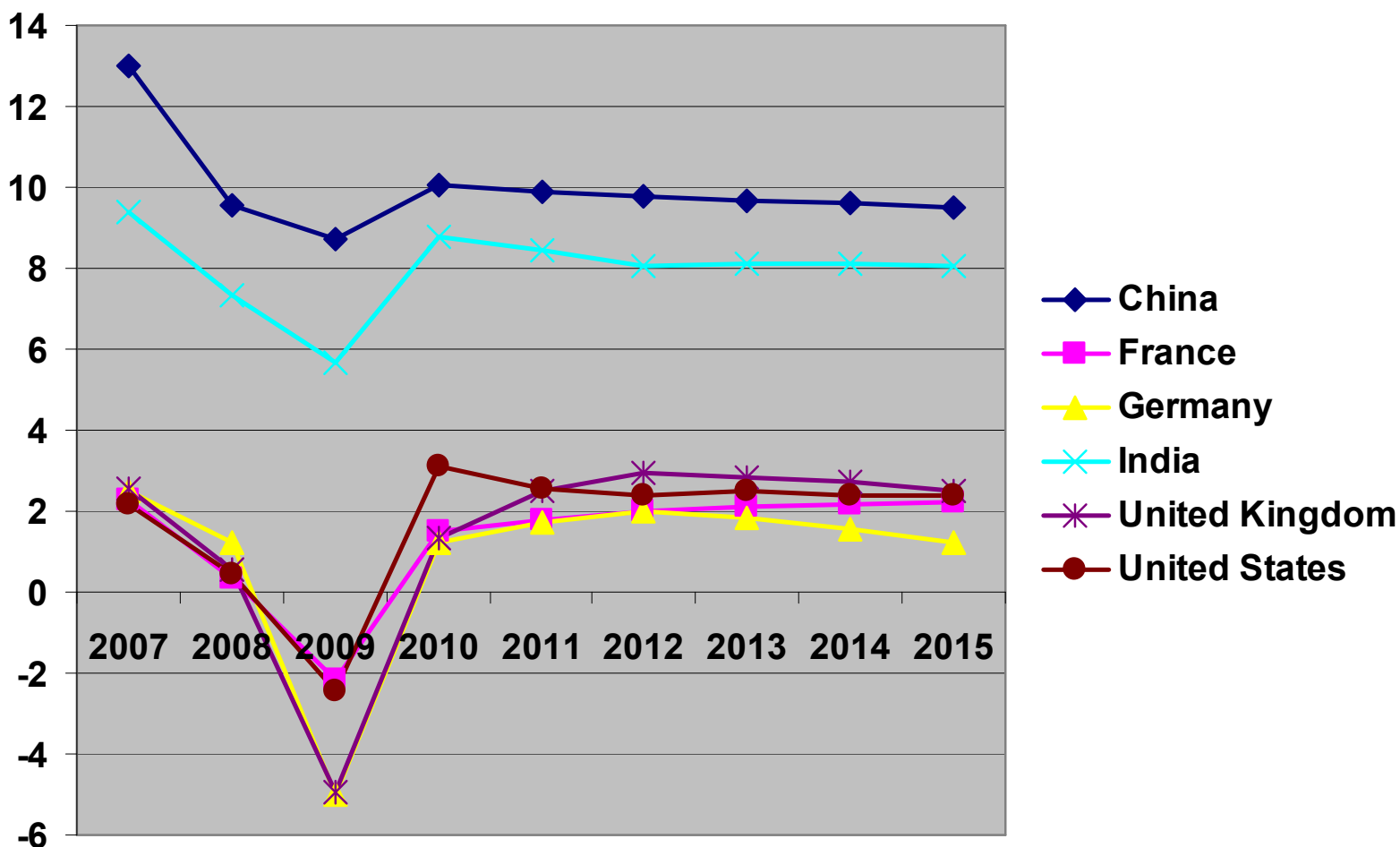
US (14,256 Billion USD)

Source: IMF World Economic Outlook, April 2010.

# Europe's post-crisis growth rates likely to be sluggish



Gross domestic product forecast (% change), constant prices, 2007-2015



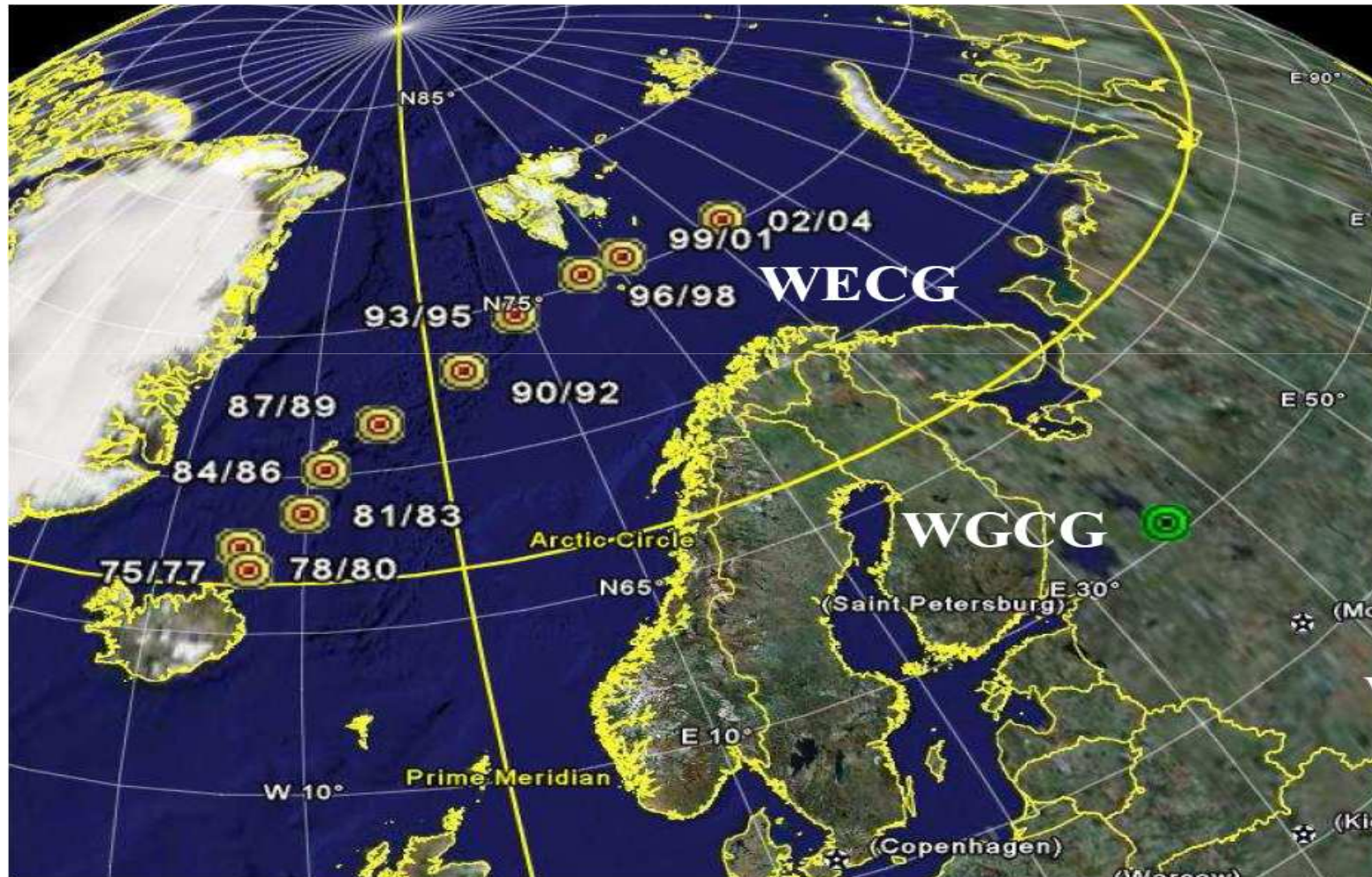
Source: IMF World Economic Outlook, April 2010.



# The World's Economic Centre of Gravity is moving eastwards



Projection of the World's Economic and Geographic Centre of Gravity

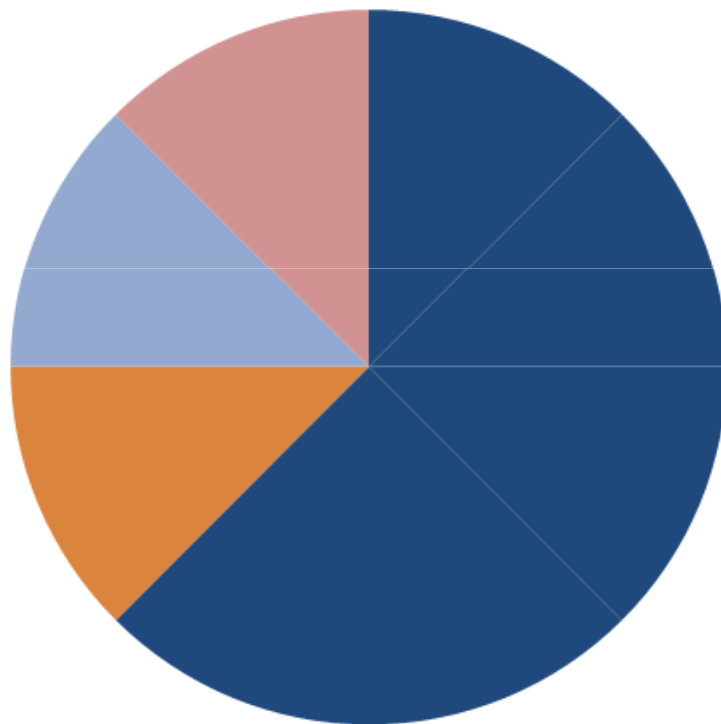


Source: Grether JM, Mathys N (2008): Is the World's Economic Center of Gravity Already in Asia?

# EU is losing its share in global economic governance

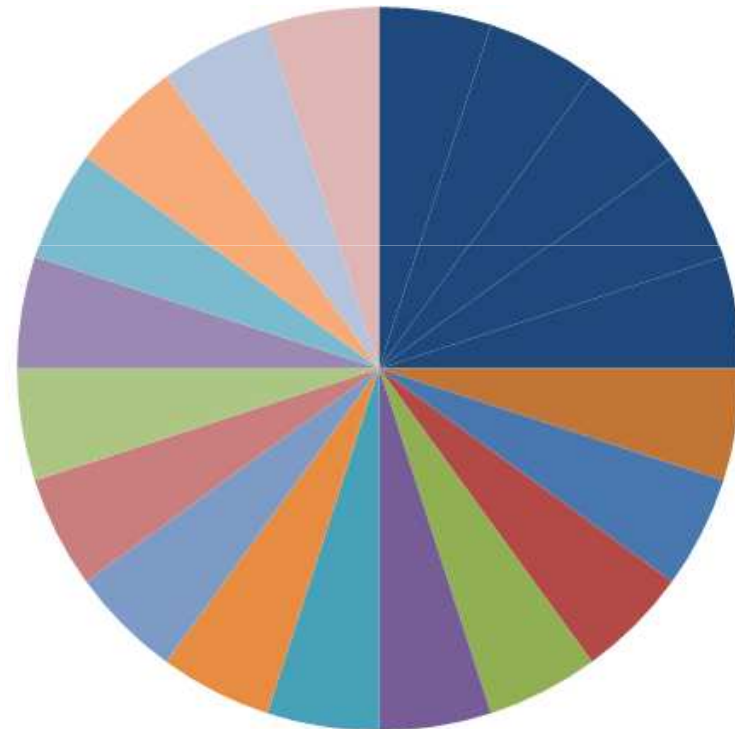


## G8



■ France  
■ Germany  
■ Italy  
■ UK  
■ EU  
■ Canada  
■ Japan  
■ Russia

## G20

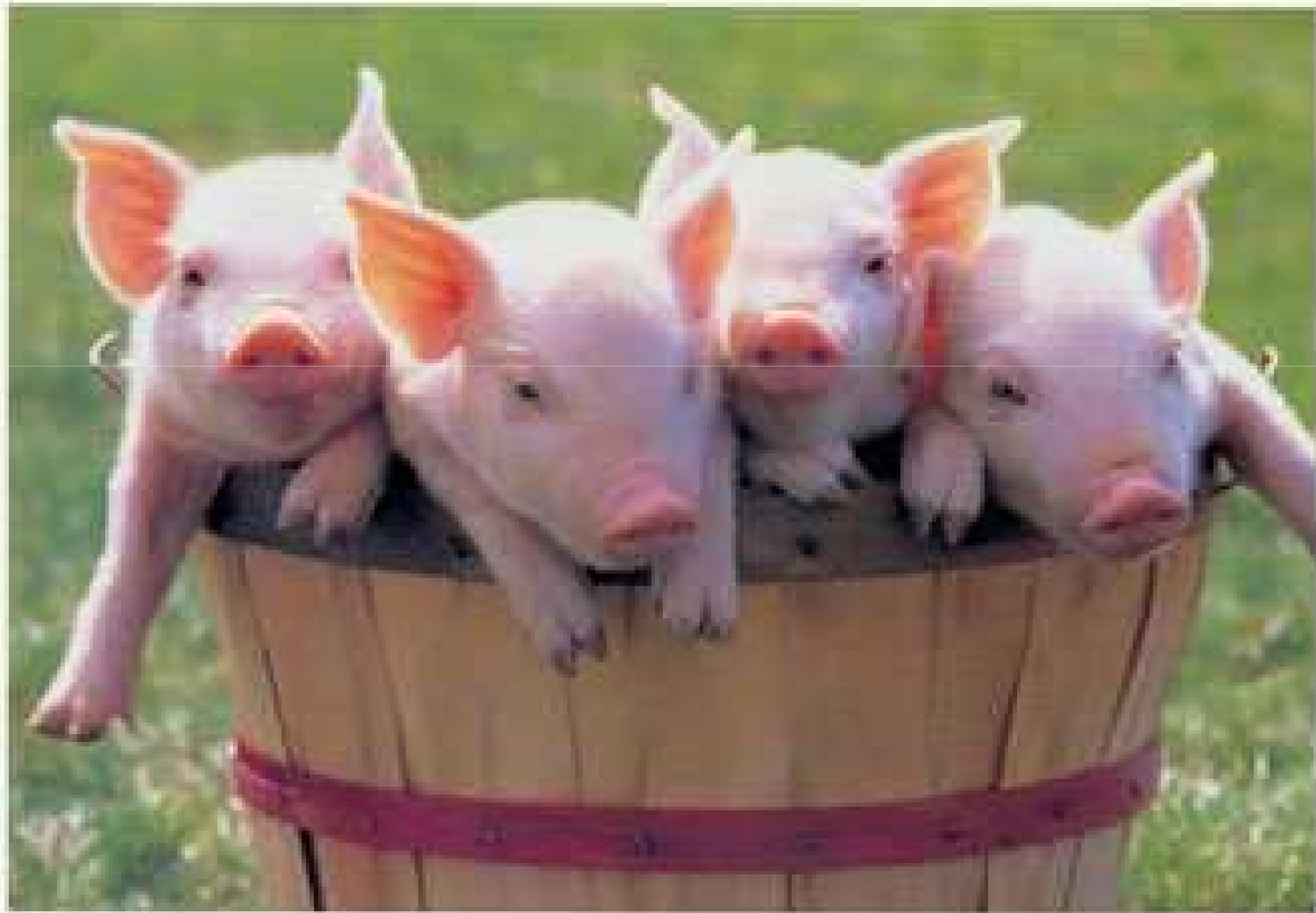


■ France  
■ Argentina  
■ India  
■ Saudi Arabia  
■ Germany  
■ Australia  
■ Indonesia  
■ South Africa  
■ Italy  
■ Brazil  
■ Japan  
■ Republic of Korea  
■ UK  
■ Canada  
■ Mexico  
■ Turkey  
■ EU  
■ China  
■ Russia  
■ US

Source: [www.g20.org](http://www.g20.org).



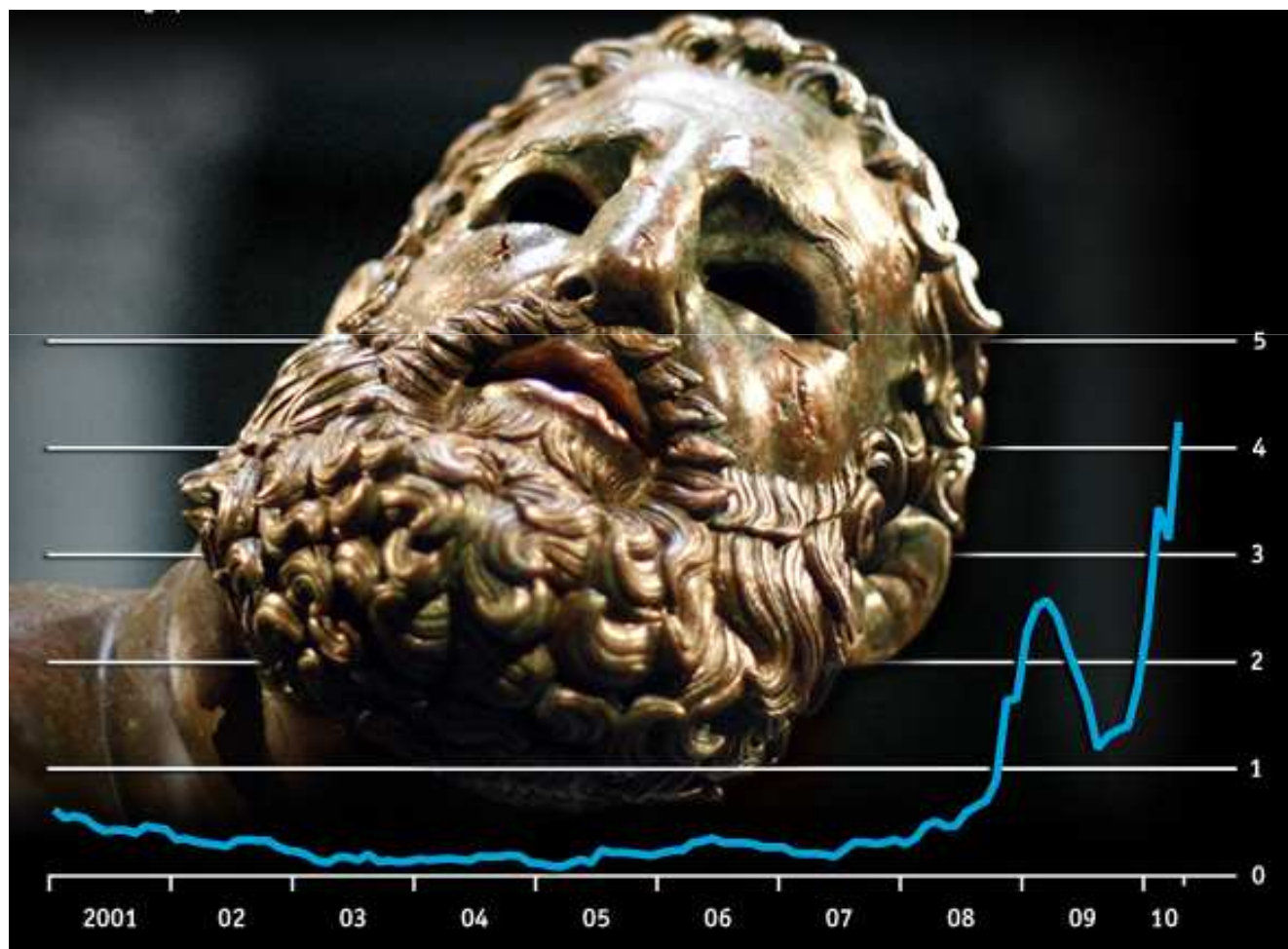




# Costs of borrowing in the Eurozone have been growing apart



10-year Greek government-bond spreads over German bunds, percentage points, 2001 - 2010

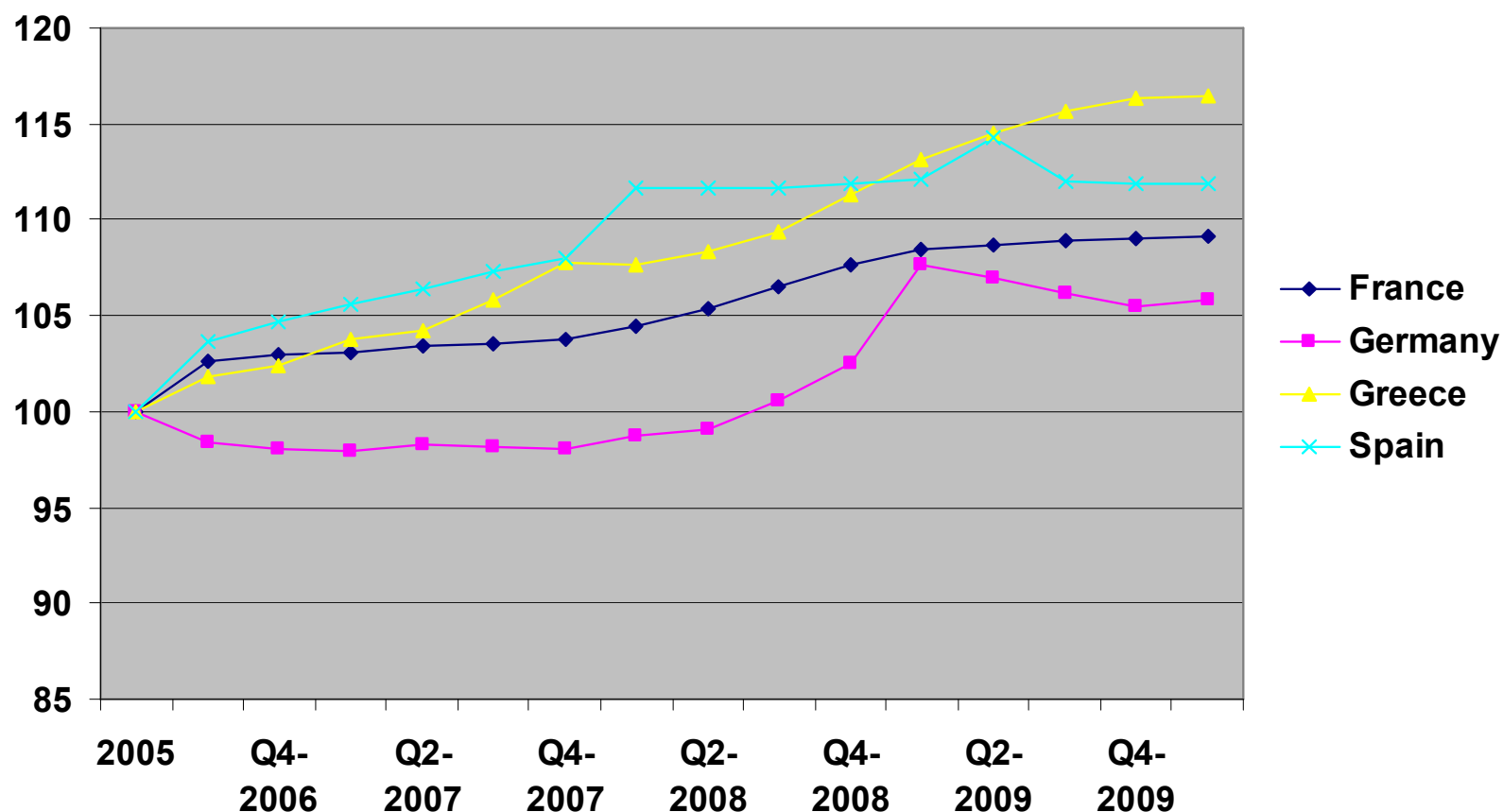


Source: The Economist, 9 April 2010.

# Unit labour costs in Greece and Spain have been growing more rapidly than in Germany or France



Quarterly unit labour cost\*, index (2005 = 100.0), 2006 Q3 – 2010 Q1



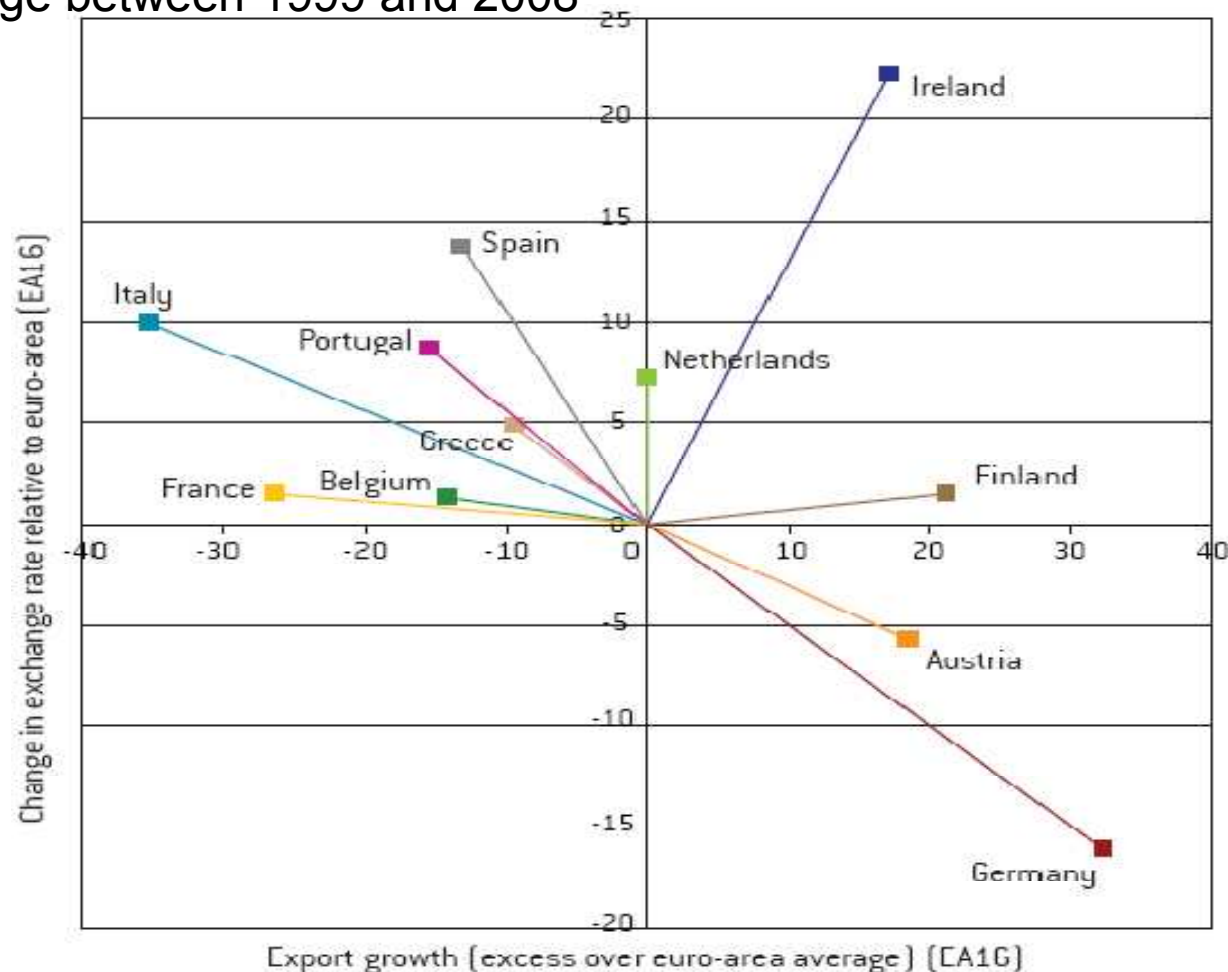
\* Unit labour costs measure the average cost of labour per unit of output and are calculated as the ratio of total labour costs to real output, seasonally adjusted.

Source: OECD Data, 22 July 2010.

# There has been a remarkable divergence in competitiveness



Real exchange rate\* and relative export performance, cumulative change between 1999 and 2008



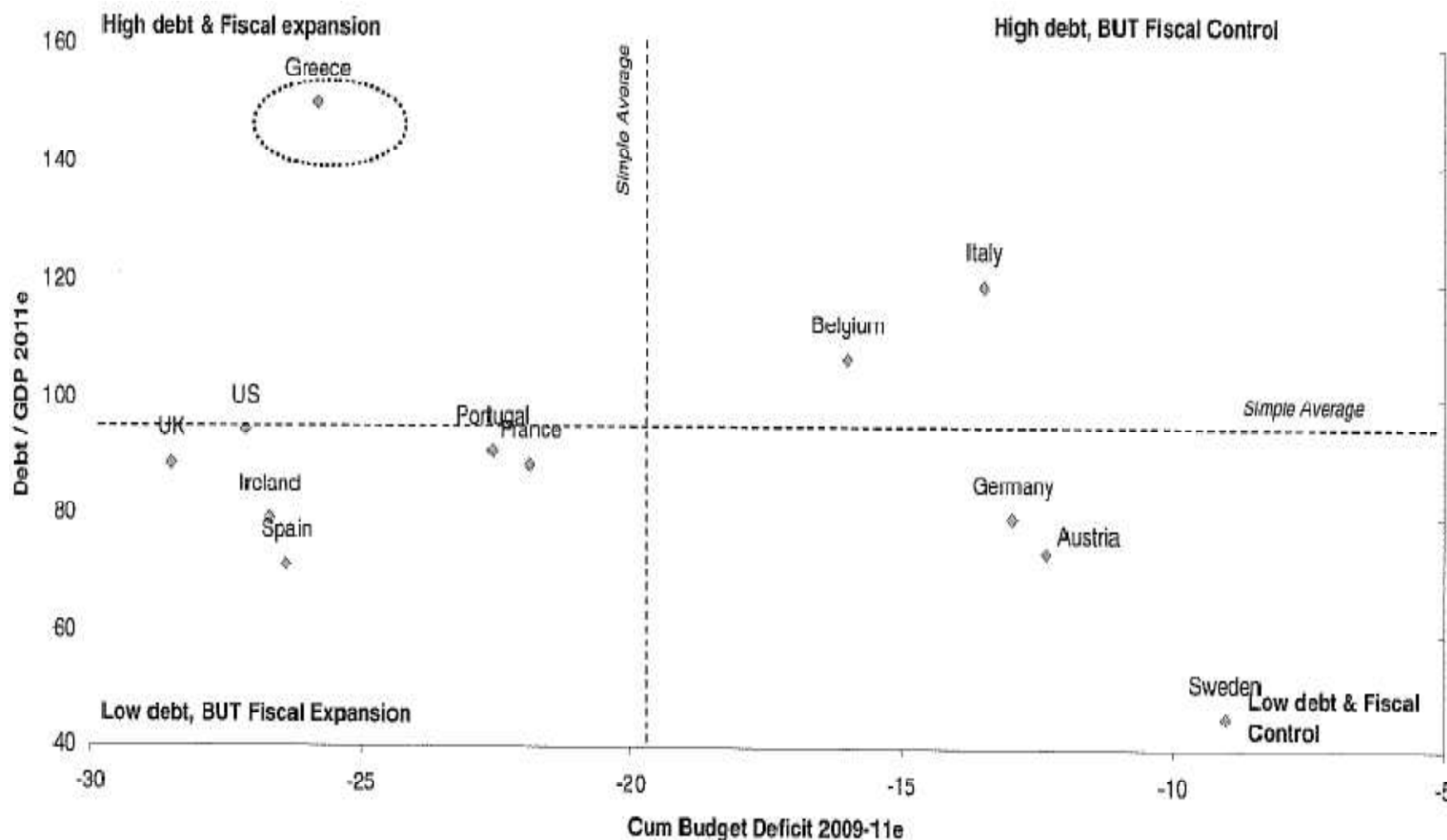
\*Real exchange rates are based on unit labour costs.

Source: Bruegel Policy Brief, March 2010.

# Greece is by far the most vulnerable European country



Estimates of cumulative budget deficit (%), 2009 – 2011, and debt to GDP ratio (%), 2011



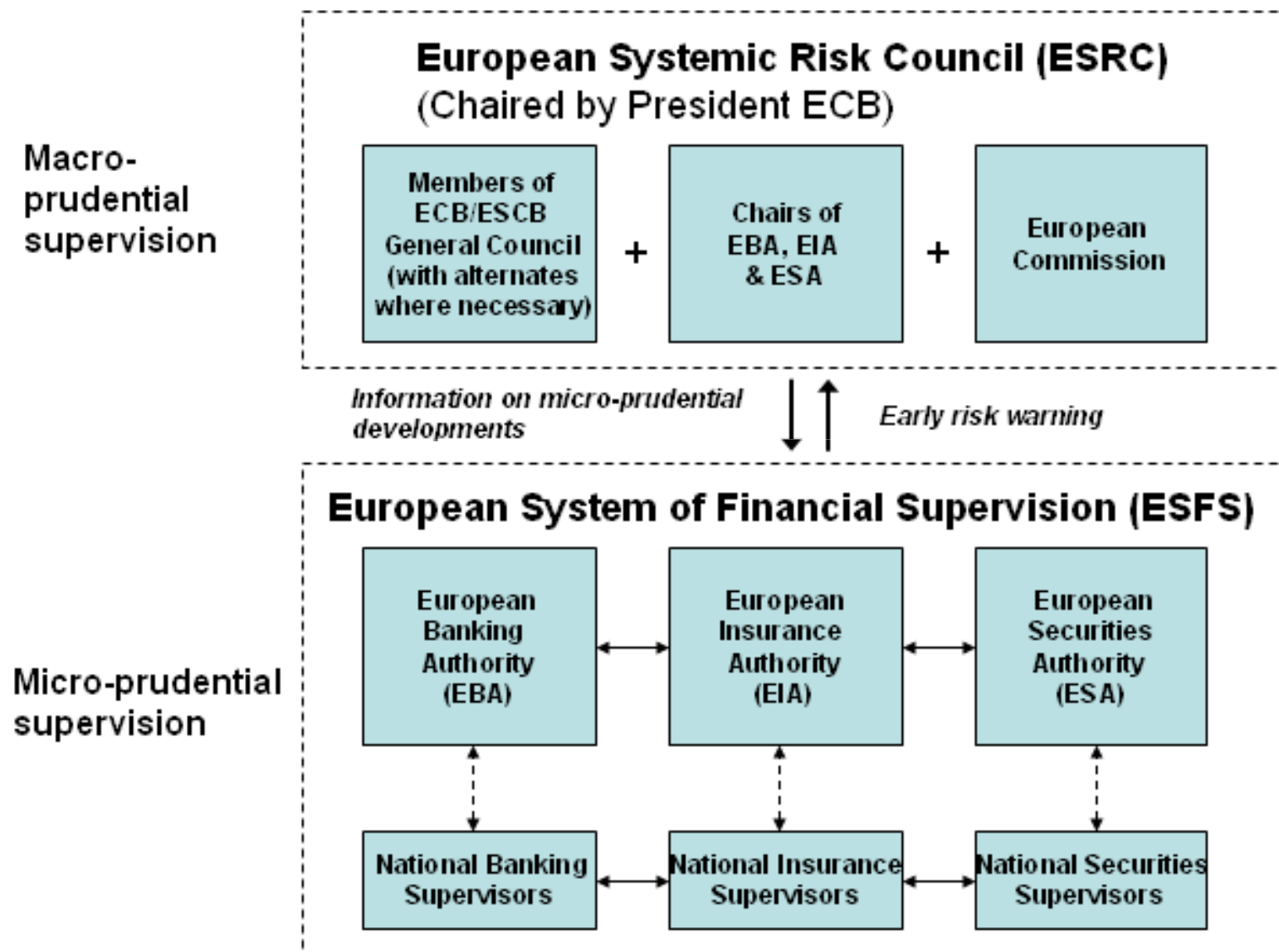
Source: IMF, Morgan Stanley Research Estimates.



# **Steps towards a resolution of the crisis**



- **Fiscal consolidation**
- **European Central Bank buys sovereign debt**
- **European Financial Stability Facility**
- **Bank Stress Tests**
- **New Regulatory System**



Source: De Larosi re Report, February 2009.

# But is this enough?



- **German fiscal retrenchment makes life harder for the PIGS**
- **Still no 'economic government'**
- **No fiscal transfer mechanism**





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