

THE EUROZONE CRISIS AND ITS IMPACT ON ASIA

- Euro area in the global economy: snapshot and projections
- The euro crisis: causes, solutions, prospects
- What should be done?
- International consequences of the euro crisis, especially on Asia

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- Eurozone and wider Europe in the global economy
 - “Shift to the East”: sharp divergence of economic performance after GFC
 - Accelerates long-run convergence of emerging markets, especially in Asia, on West
 - Policy outlook: Western pessimism, Asian optimism – but growth slowdown this year
 - Worse global growth prospects if US falls off fiscal cliff and/or euro destabilizes further

GDP Since the Crisis

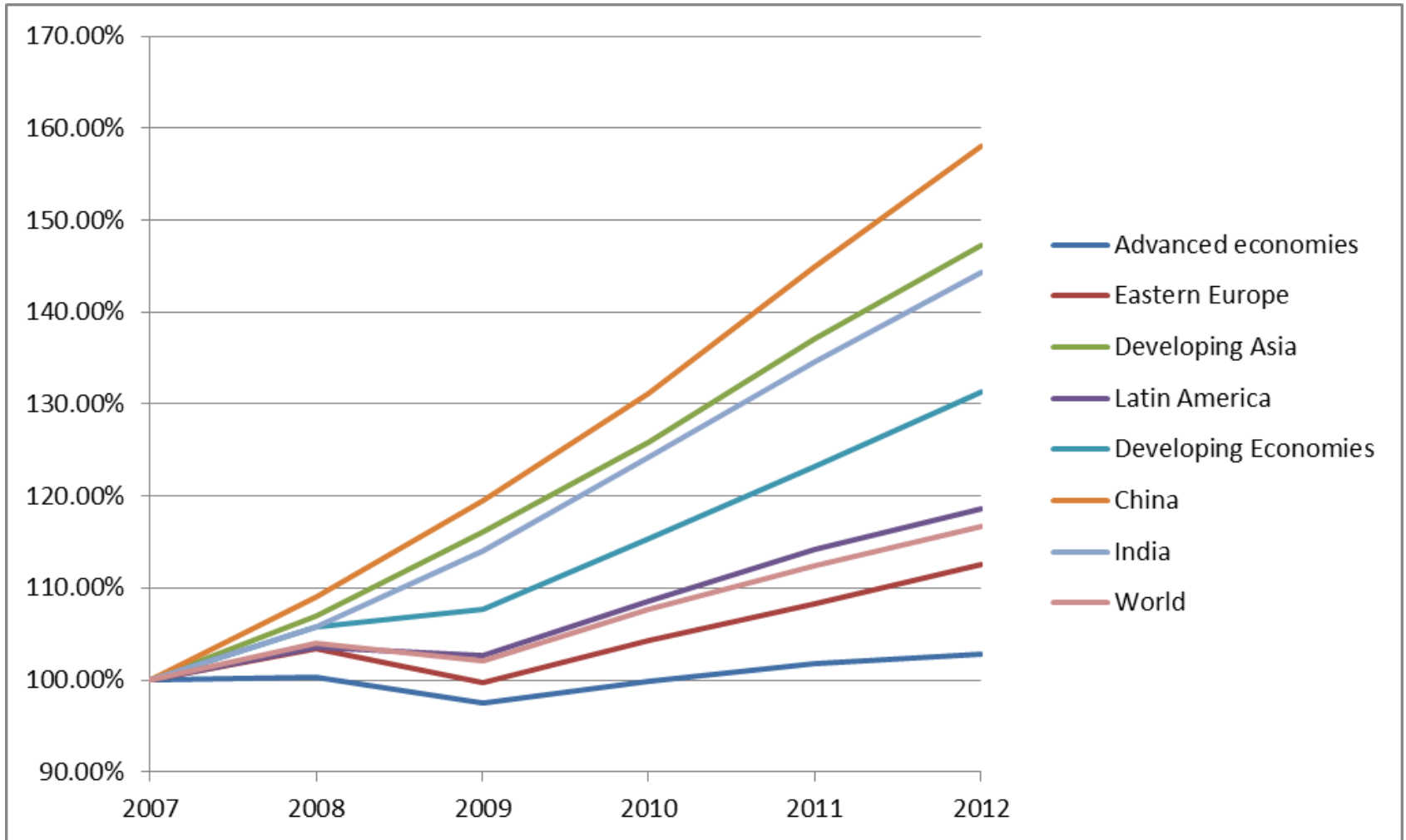


Table 1.1. Overview of the World Economic Outlook Projections*(Percent change unless noted otherwise)*

	Year over Year						Q4 over Q4		
	2010	2011	Projections		Difference from July 2012 WEO Update		Estimates	Projections	
			2012	2013	2012	2013	2011	2012	2013
World Output¹	5.1	3.8	3.3	3.6	-0.2	-0.3	3.2	3.0	4.0
Advanced Economies	3.0	1.6	1.3	1.5	-0.1	-0.3	1.3	1.1	2.1
United States	2.4	1.8	2.2	2.1	0.1	-0.1	2.0	1.7	2.5
Euro Area	2.0	1.4	-0.4	0.2	-0.1	-0.5	0.7	-0.5	0.8
Germany	4.0	3.1	0.9	0.9	0.0	-0.5	1.9	0.9	1.4
France	1.7	1.7	0.1	0.4	-0.2	-0.5	1.2	0.0	0.8
Italy	1.8	0.4	-2.3	-0.7	-0.4	-0.4	-0.5	-2.3	0.0
Spain	-0.3	0.4	-1.5	-1.3	-0.1	-0.7	0.0	-2.3	0.2
Japan	4.5	-0.8	2.2	1.2	-0.2	-0.3	-0.6	1.6	2.1
United Kingdom	1.8	0.8	-0.4	1.1	-0.6	-0.3	0.6	0.0	1.2
Canada	3.2	2.4	1.9	2.0	-0.2	-0.2	2.2	1.7	2.2
Other Advanced Economies ²	5.9	3.2	2.1	3.0	-0.4	-0.4	2.4	2.3	3.6
Newly Industrialized Asian Economies	8.5	4.0	2.1	3.6	-0.6	-0.6	3.0	3.2	3.5
Emerging Market and Developing Economies³	7.4	6.2	5.3	5.6	-0.3	-0.2	5.7	5.5	6.2
Central and Eastern Europe	4.6	5.3	2.0	2.6	0.1	-0.2	3.6	1.9	3.3
Commonwealth of Independent States	4.8	4.9	4.0	4.1	-0.1	0.0	4.3	2.9	4.8
Russia	4.3	4.3	3.7	3.8	-0.3	-0.1	4.6	2.5	4.8
Excluding Russia	6.0	6.2	4.7	4.8	0.2	0.2	...	...	...
Developing Asia	9.5	7.8	6.7	7.2	-0.4	-0.3	6.9	7.2	7.4
China	10.4	9.2	7.8	8.2	-0.2	-0.2	8.9	7.9	8.1
India	10.1	6.8	4.9	6.0	-1.3	-0.6	5.0	5.5	5.9
ASEAN-5 ⁴	7.0	4.5	5.4	5.8	0.0	-0.3	2.8	7.2	6.6
Latin America and the Caribbean	6.2	4.5	3.2	3.9	-0.2	-0.3	3.7	3.0	4.6
Brazil	7.5	2.7	1.5	4.0	-1.0	-0.7	1.4	2.9	3.8
Mexico	5.6	3.9	3.8	3.5	-0.1	-0.2	3.9	3.2	4.1
Middle East and North Africa	5.0	3.3	5.3	3.6	-0.2	0.0	...	...	...
Sub-Saharan Africa ⁵	5.3	5.1	5.0	5.7	-0.1	0.0	...	...	...
South Africa	2.9	3.1	2.6	3.0	0.0	-0.3	2.6	2.7	3.3
<i>Memorandum</i>									
European Union	2.1	1.6	-0.2	0.5	-0.2	-0.5	0.8	-0.2	1.2
World Growth Based on Market Exchange Rates	4.1	2.8	2.6	2.9	-0.1	-0.3	2.3	2.2	3.3

World Trade Volume (goods and services)	12.6	5.8	3.2	4.5	-0.6	-0.7	...	...	...
Imports									
Advanced Economies	11.4	4.4	1.7	3.3	-0.2	-0.9	...	...	...
Emerging Market and Developing Economies	14.9	8.8	7.0	6.6	-0.8	-0.4	...	...	...
Exports									
Advanced Economies	12.0	5.3	2.2	3.6	-0.1	-0.7	...	...	...
Emerging Market and Developing Economies	13.7	6.5	4.0	5.7	-1.7	-0.5	...	...	...
Commodity Prices (U.S. dollars)									
Oil ⁶	27.9	31.6	2.1	-1.0	4.2	6.5	20.8	3.7	-3.3
Nonfuel (average based on world commodity export weights)	26.3	17.8	-9.5	-2.9	2.6	1.4	-6.4	1.9	-5.4
Consumer Prices									
Advanced Economies	1.5	2.7	1.9	1.6	-0.1	0.0	2.8	1.7	1.7
Emerging Market and Developing Economies ³	6.1	7.2	6.1	5.8	-0.2	0.2	6.5	5.6	5.3
London Interbank Offered Rate (percent)⁷									
On U.S. Dollar Deposits	0.5	0.5	0.7	0.6	-0.1	-0.2	...	...	...
On Euro Deposits	0.8	1.4	0.6	0.2	-0.1	-0.3	...	...	...
On Japanese Yen Deposits	0.4	0.3	0.4	0.3	0.0	-0.1	...	...	...

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during July 30–August 27, 2012. When economies are not listed alphabetically, they are ordered on the basis of economic size. The aggregated quarterly data are seasonally adjusted.

¹The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.

²Excludes the G7 economies (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

³The quarterly estimates and projections account for approximately 80 percent of the emerging market and developing economies.

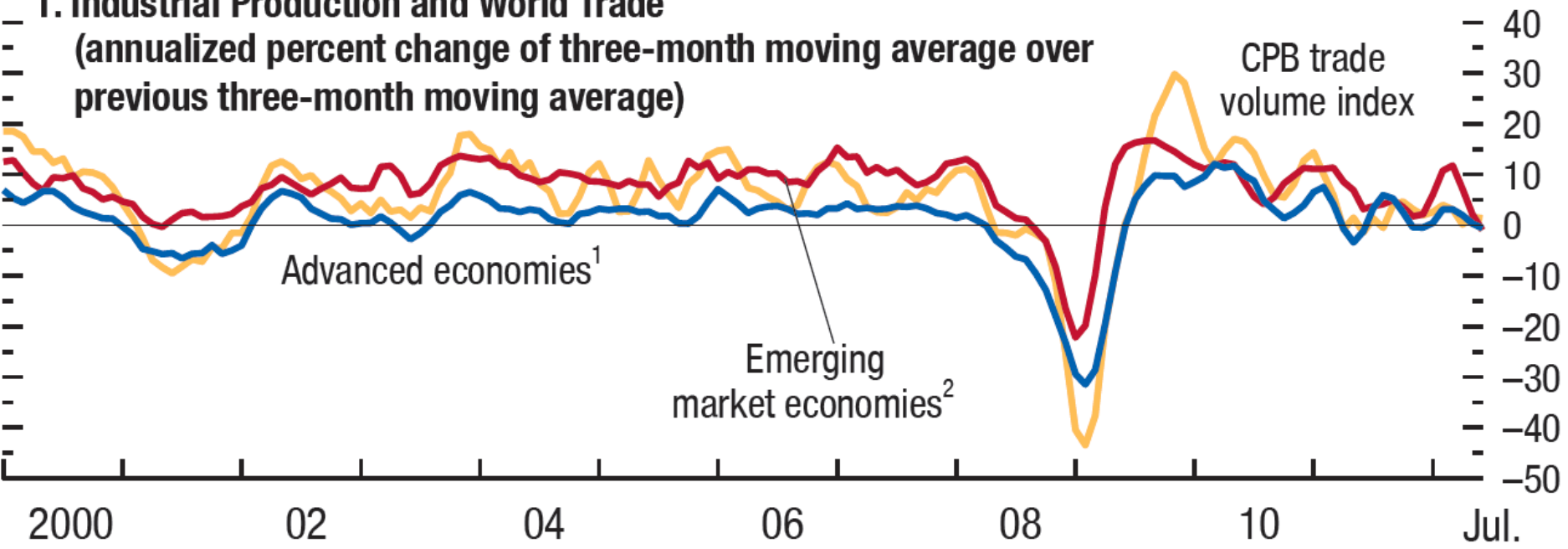
⁴Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

⁵The current WEO projections include South Sudan. However, for sub-Saharan Africa, the forecast comparison with the July 2012 *WEO Update* does not include South Sudan because South Sudan was not included in the July projections. The World and Emerging Market and Developing Economies aggregates also are not directly comparable with the July 2012 *WEO Update* for the same reason, but South Sudan's weight in these aggregates is very small.

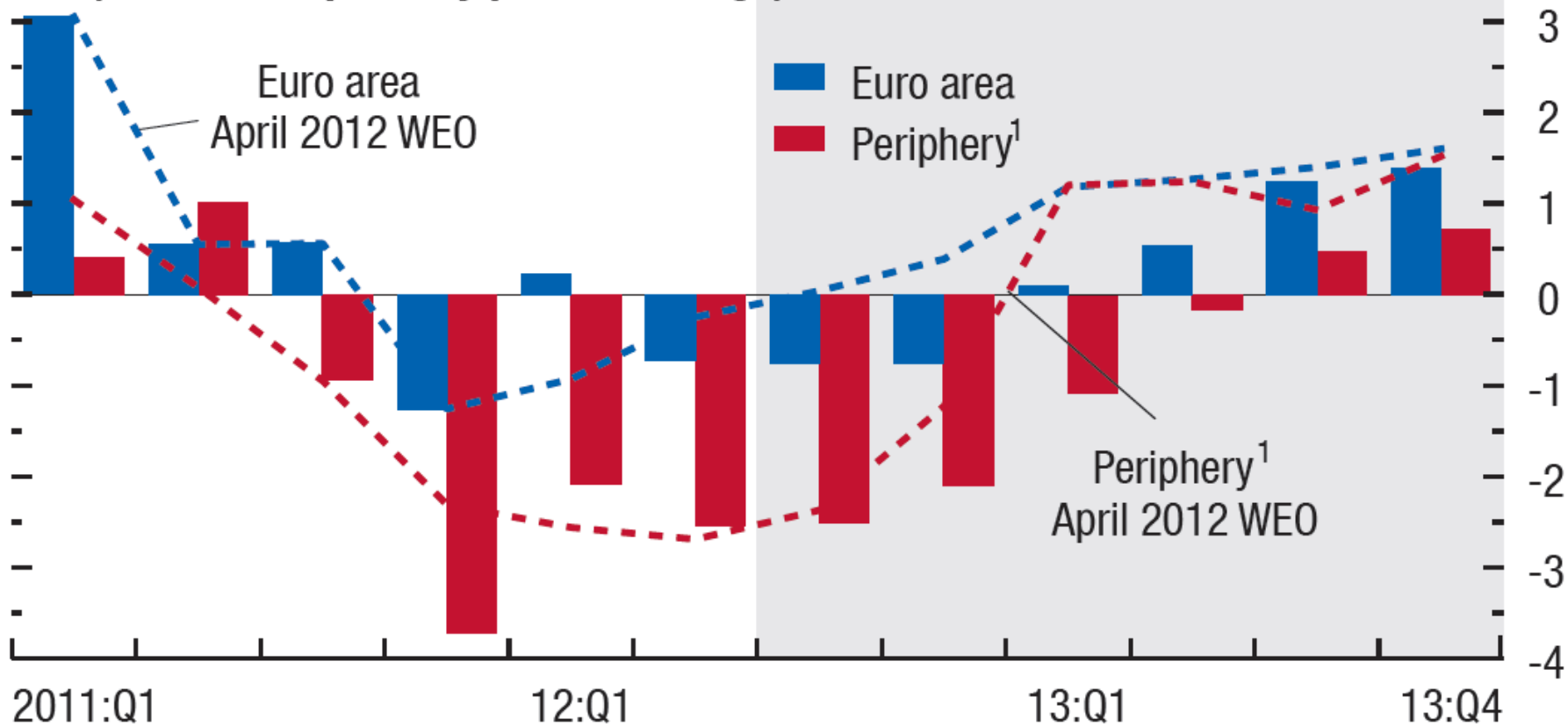
⁶Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$104.01 in 2011; the assumed price based on futures markets is \$106.18 in 2012 and \$105.10 in 2013.

⁷Six-month rate for the United States and Japan. Three-month rate for the euro area.

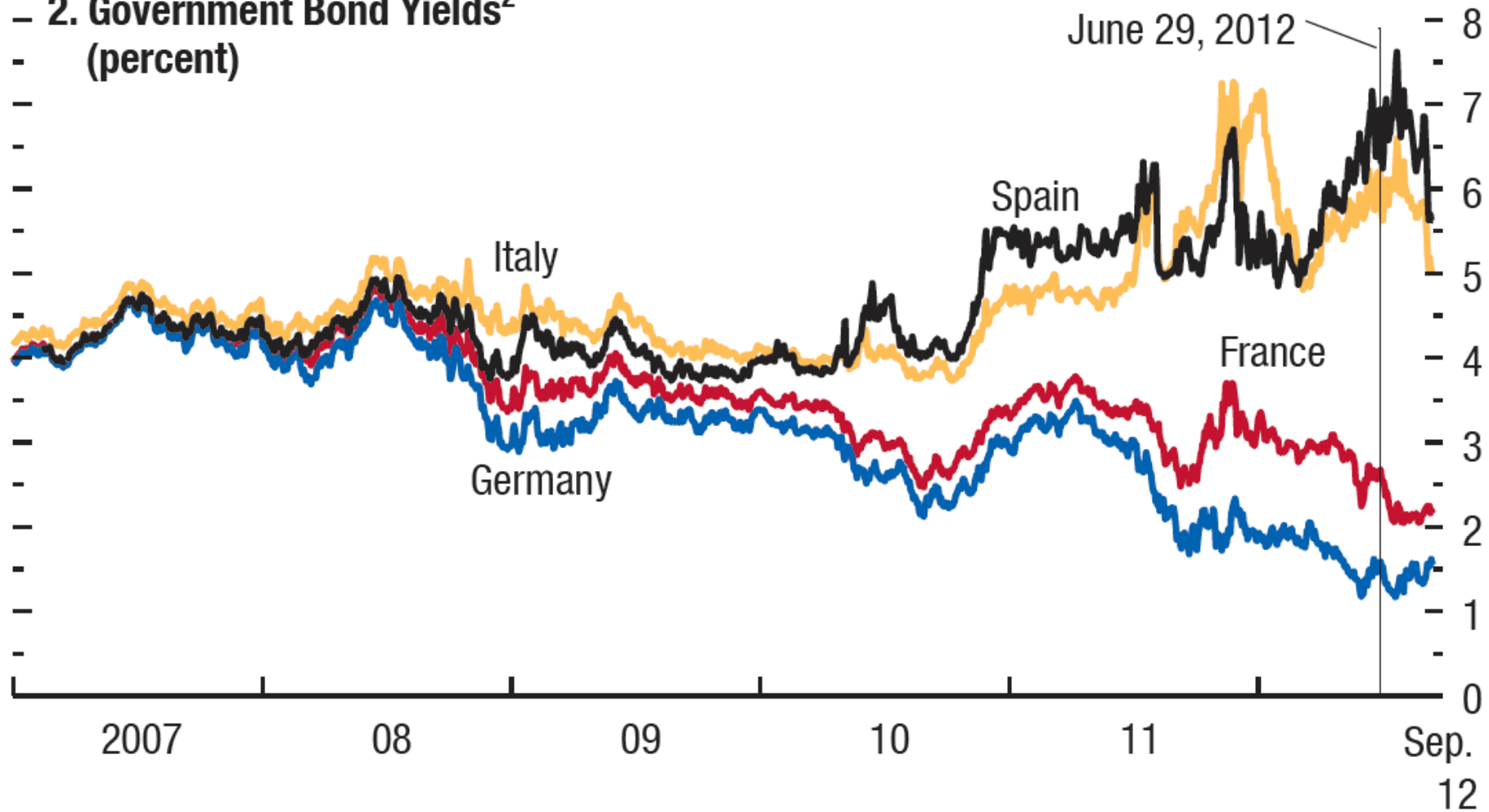
1. Industrial Production and World Trade (annualized percent change of three-month moving average over previous three-month moving average)



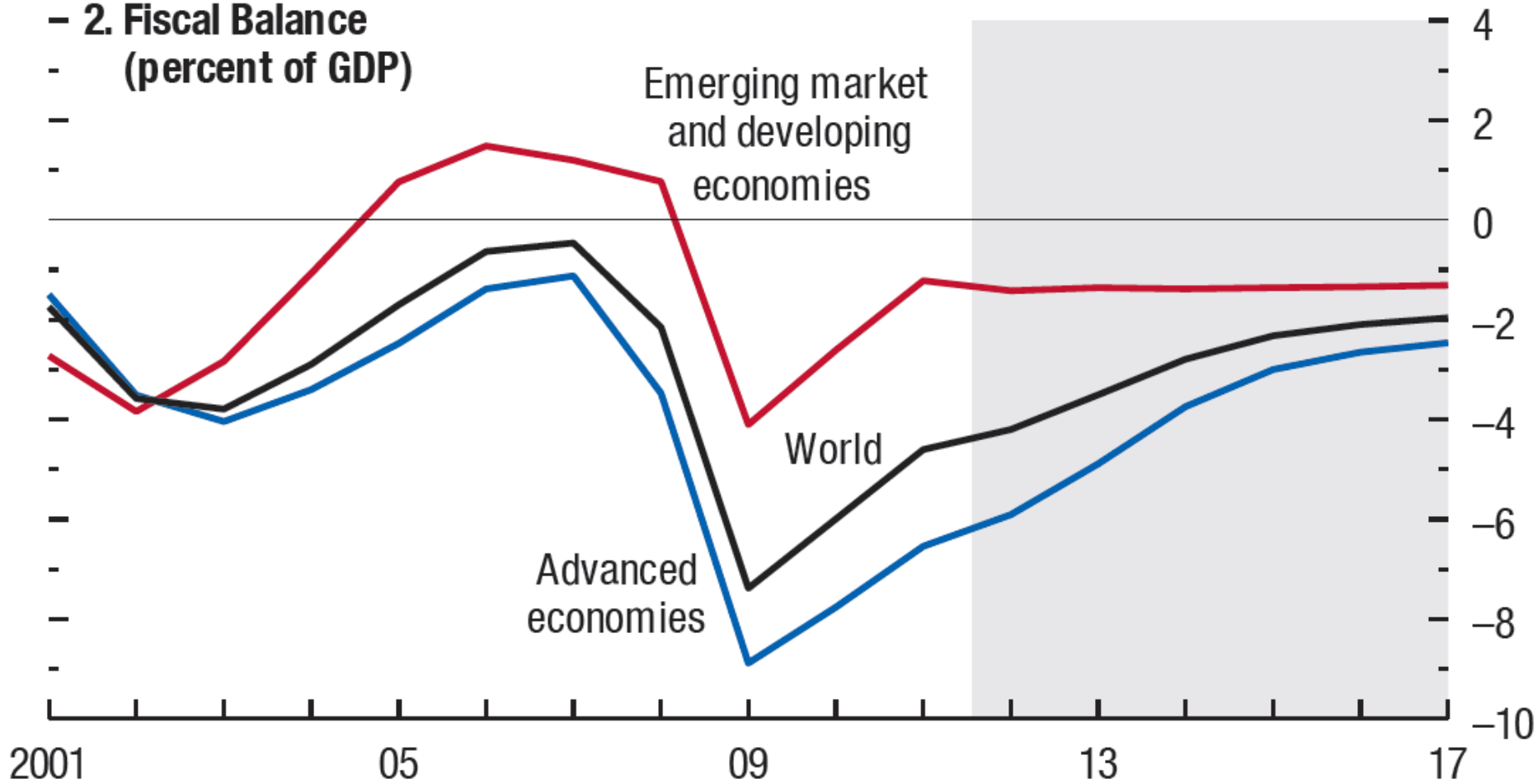
1. Real GDP Growth (annualized quarterly percent change)



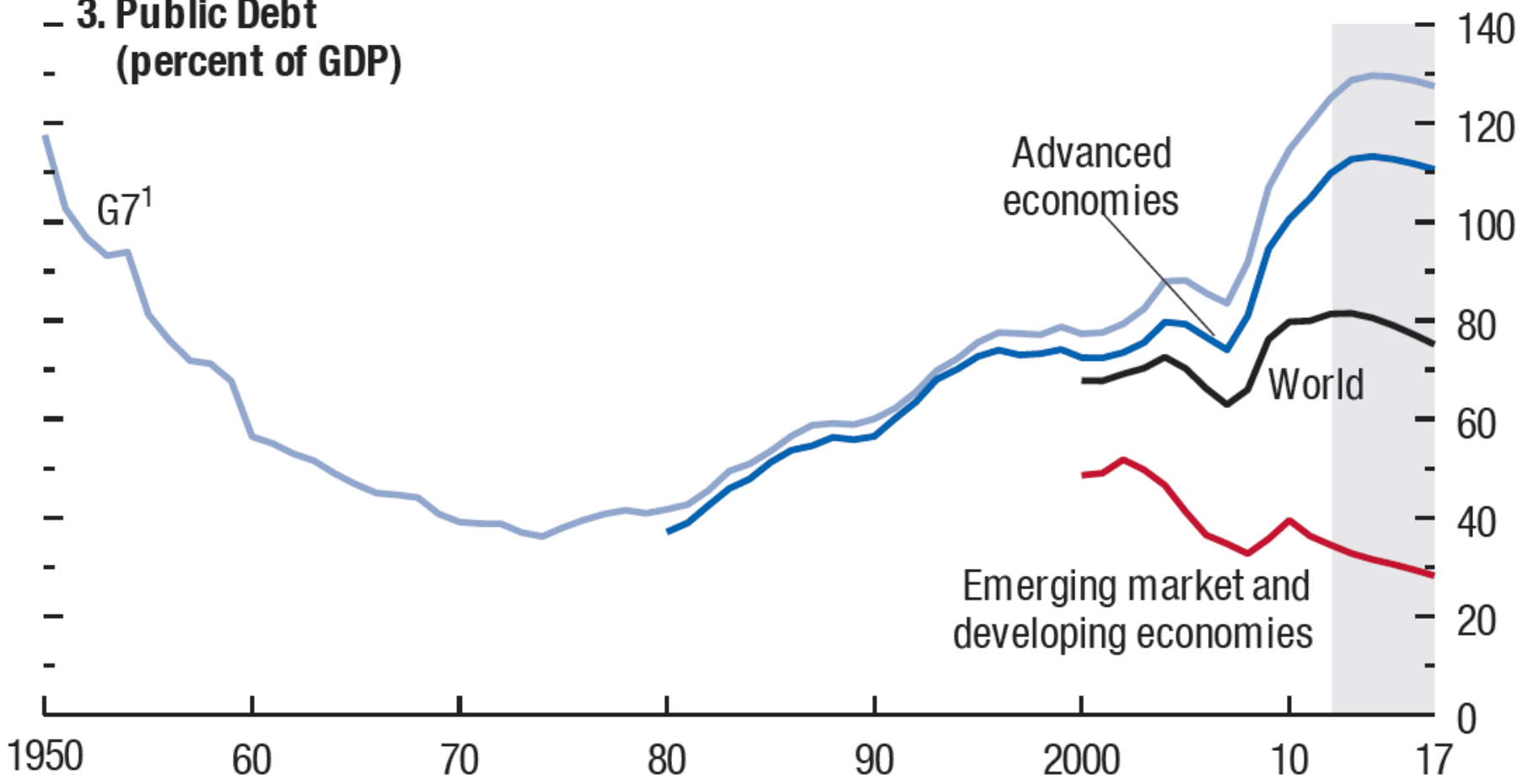
2. Government Bond Yields²
(percent)



2. Fiscal Balance
(percent of GDP)



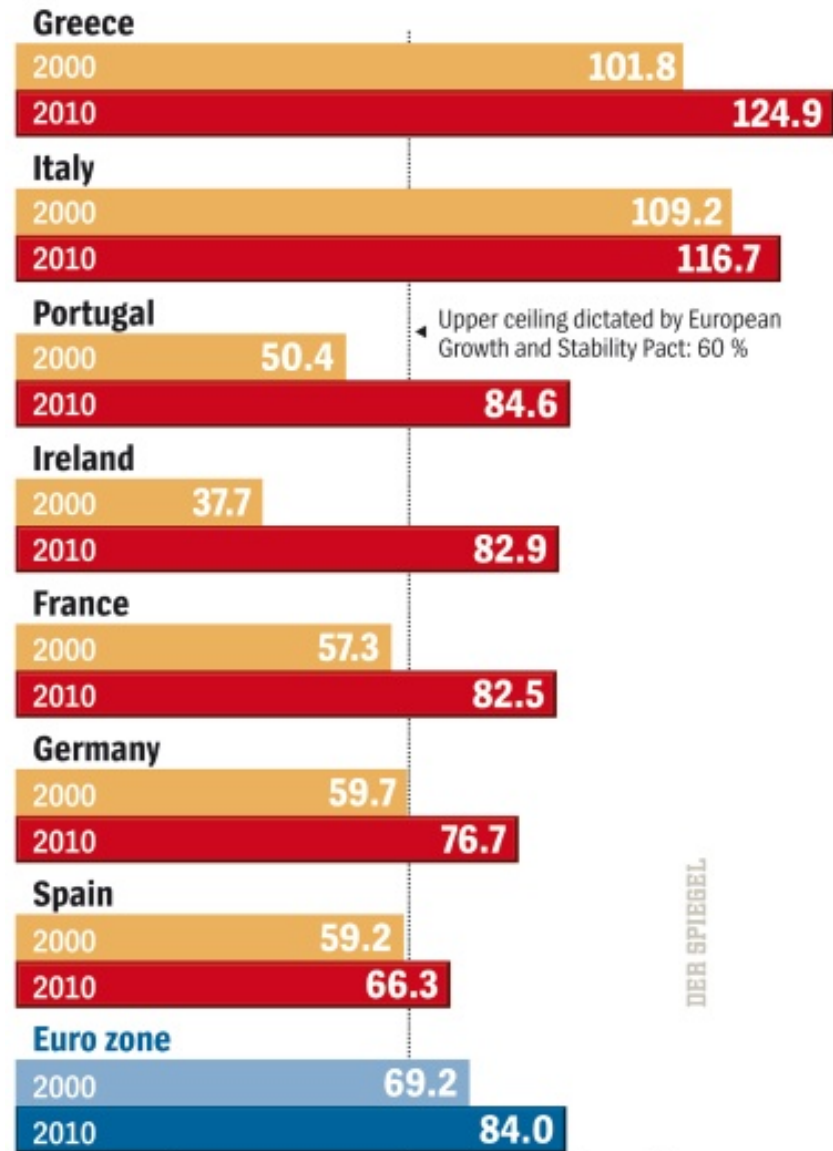
3. Public Debt (percent of GDP)



The official debt explosion despite the Maastricht Treaty ceiling of 60% Debt/GDP

A Threat to the Euro

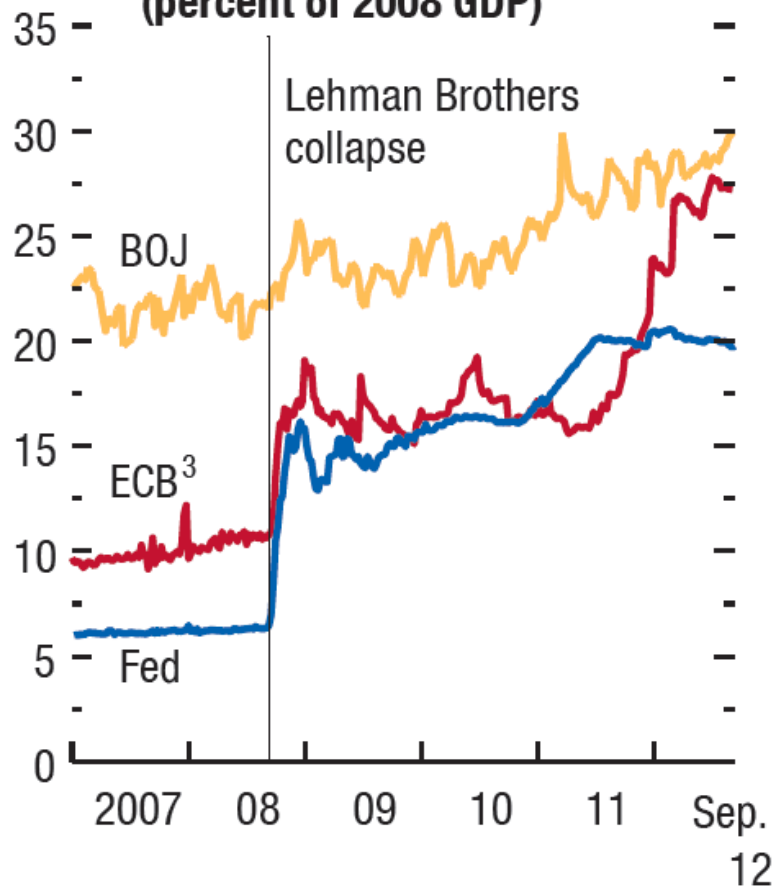
National debts as a percentage of GDP



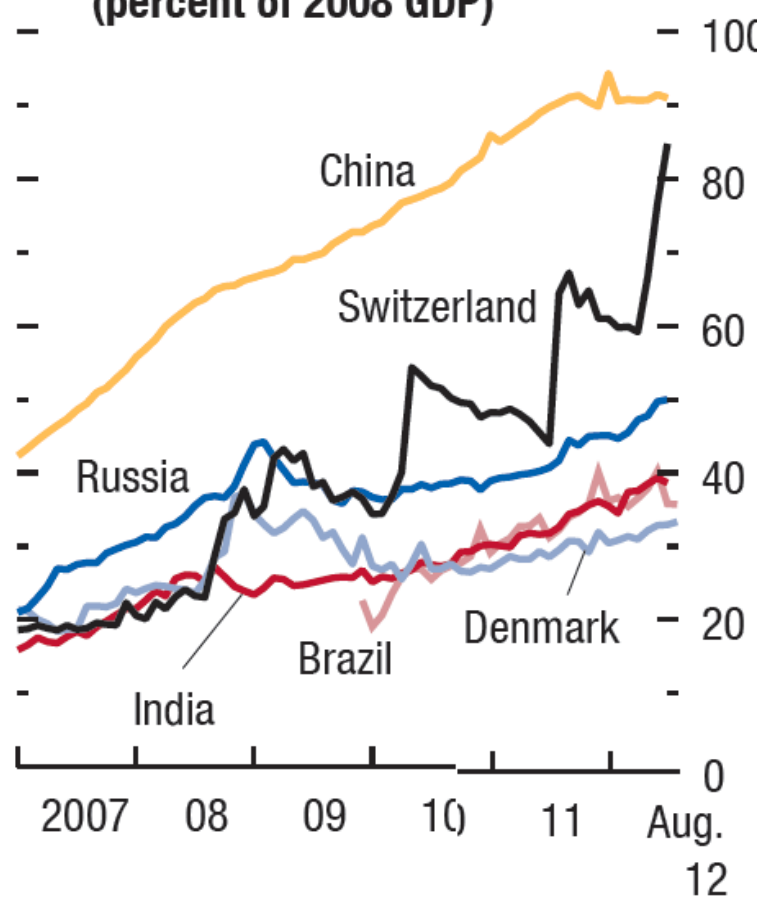
2010 = forecast

Source: European Commission

**3. Central Bank Total Assets
(percent of 2008 GDP)**



**4. Central Bank Total Assets
(percent of 2008 GDP)**

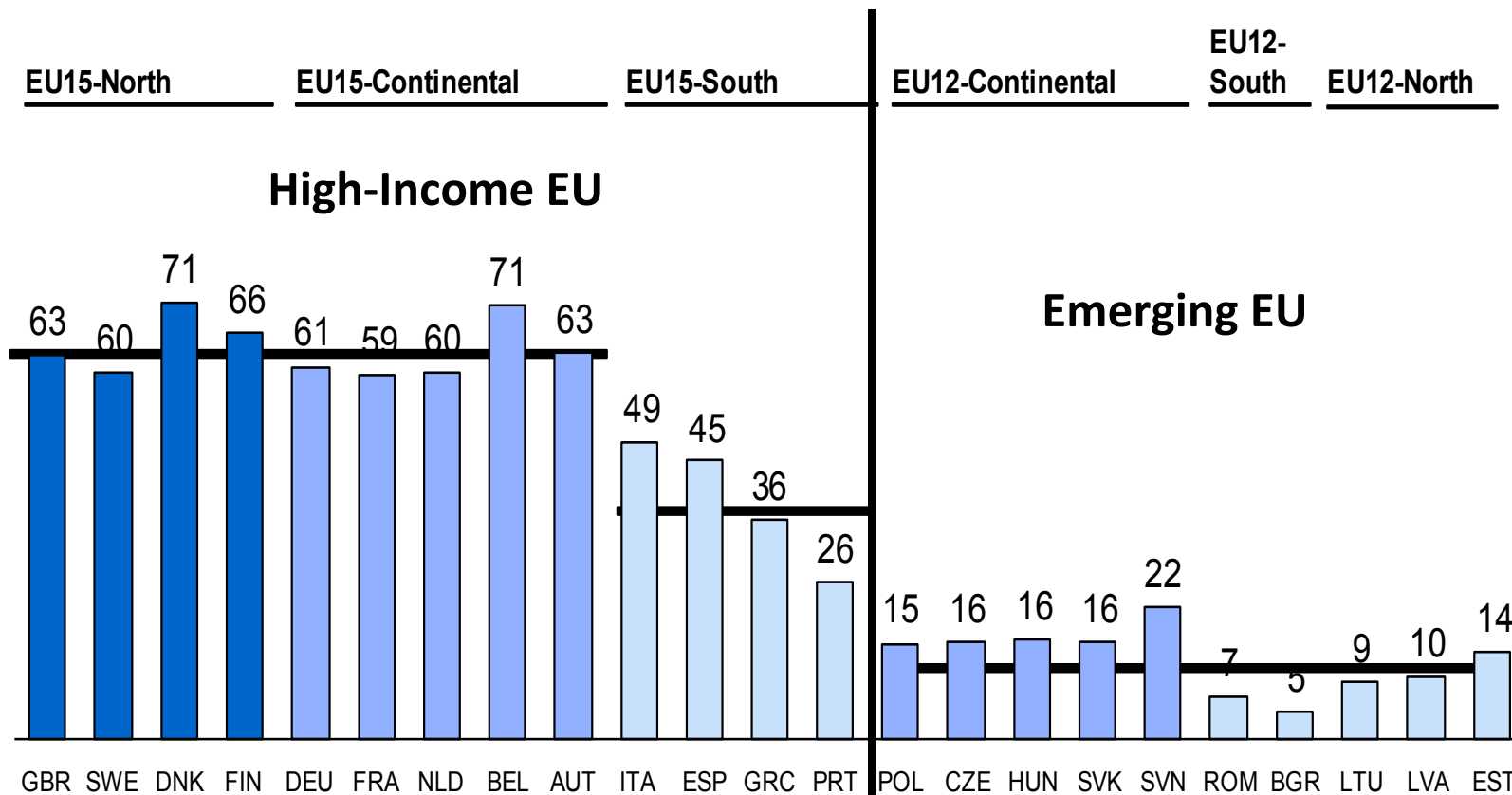


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- The euro crisis: causes, solutions, prospects
 - The euro: a political project with huge economic birth defects
 - A triple crisis: currency, sovereign debt, bank debt
 - Half-baked solutions followed by policy centralisation: 1) greater “firepower”; 2) fiscal compact; 3) banking union; 4) mutualisation of sovereign debt?; 5) political union?



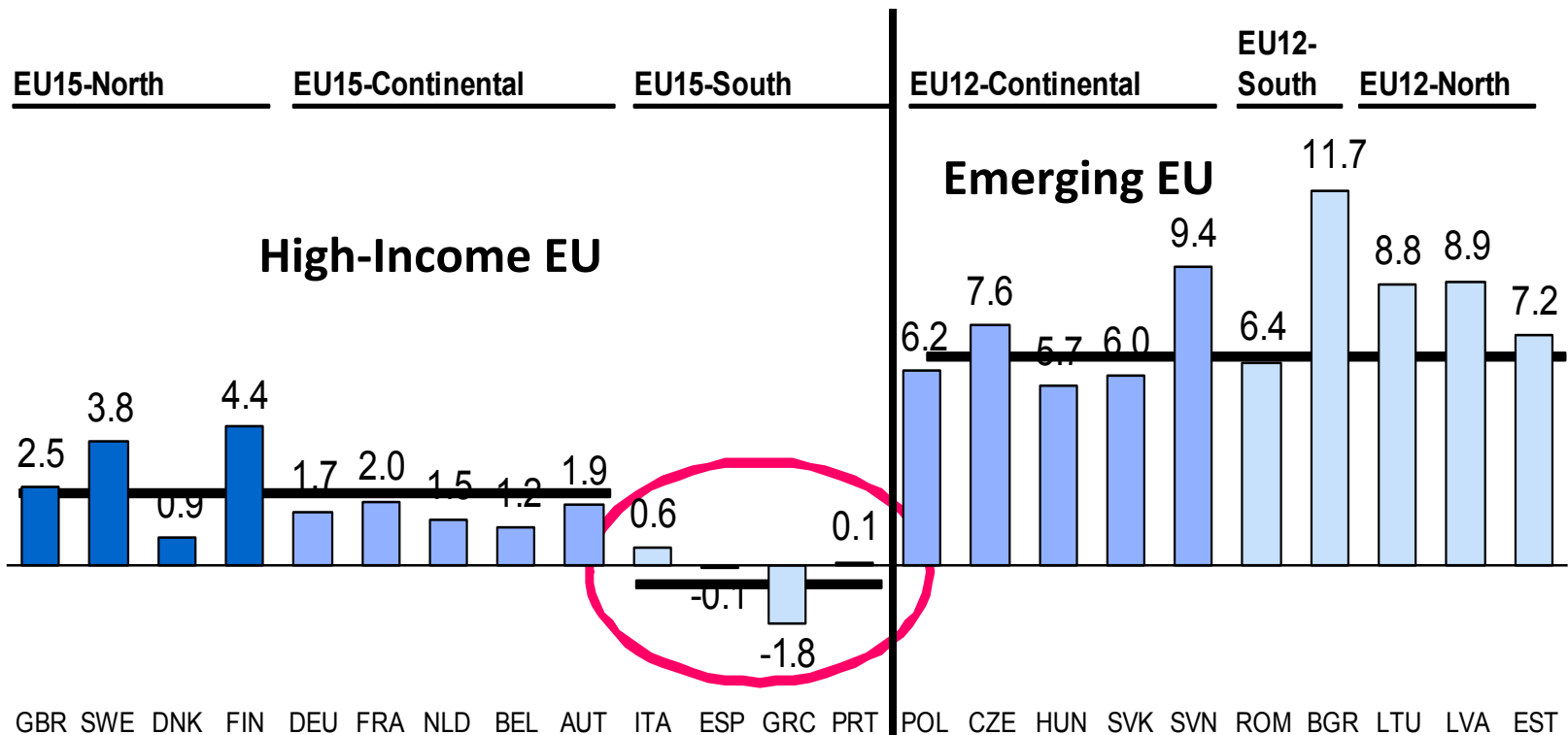
Productivity levels were middling in the South and low in the East Average productivity in 2002, thousands of 2005 US\$



Source: World Bank staff, based on Eurostat.

The East had been catching up, but the South was falling behind

Average productivity growth in EU27, annual rates, 2002-2007



Source: World Bank staff, based on Eurostat.

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- The euro crisis: causes, solutions, consequences (cont.)
 - Why I don't think it will work: 1) not enough firepower; 2) fiscal rules will be weak and often broken; 3) popular backlash against further policy centralisation
 - Scenario 1: Euro survives in present form but with semi-permanent crises and anaemic economies
 - Scenario 2: Euro breaks up – how and when?

THE EUROZONE CRISIS AND ITS IMPACT ON ASIA

- What should be done?
 - A Plan B:
 - 1) Get back to macroeconomic – monetary and fiscal – basics
 - 2) Unfinished business on structural reforms – an incomplete Single Market
 - 3) Decentralise existing policy competences and encourage policy competition
 - Big Europe not Small Europe

THE TRUE DEBT OF EUROPE

Greece	875%
France	549%
Portugal	492%
United Kingdom	442%
Germany	418%
Ireland	405%
Italy	364%
Spain	244%
EU 25	434%

THE EUROZONE CRISIS AND ITS IMPACT ON ASIA

- Consequences of euro crisis for Asia
 - Scenario 1: Euro intact, but anaemic eurozone market for emerging-market exports
 - Scenario 2: Euro break-up – contagion through trade and financial markets; country capacity to respond; different levels of impact on different parts of Asia
 - Need for contingency planning – don't assume the euro will survive in present form