

The Current Economic Situation

Euro Challenge Conference Call – March 16th, 2010

Nigel Nagarajan and Sarah Cartmell

Delegation of the European Union to the USA

Washington, DC

Tough start to 2010 for the euro

- Fragile recovery facing headwinds
- Big questions about sovereign debt in some euro area countries
- Challenge: When to exit from supportive fiscal & monetary policies?
- What are the long-term lessons of this crisis?



The Euro Challenge Question

(Part 1)

Describe the current economic situation in the euro area

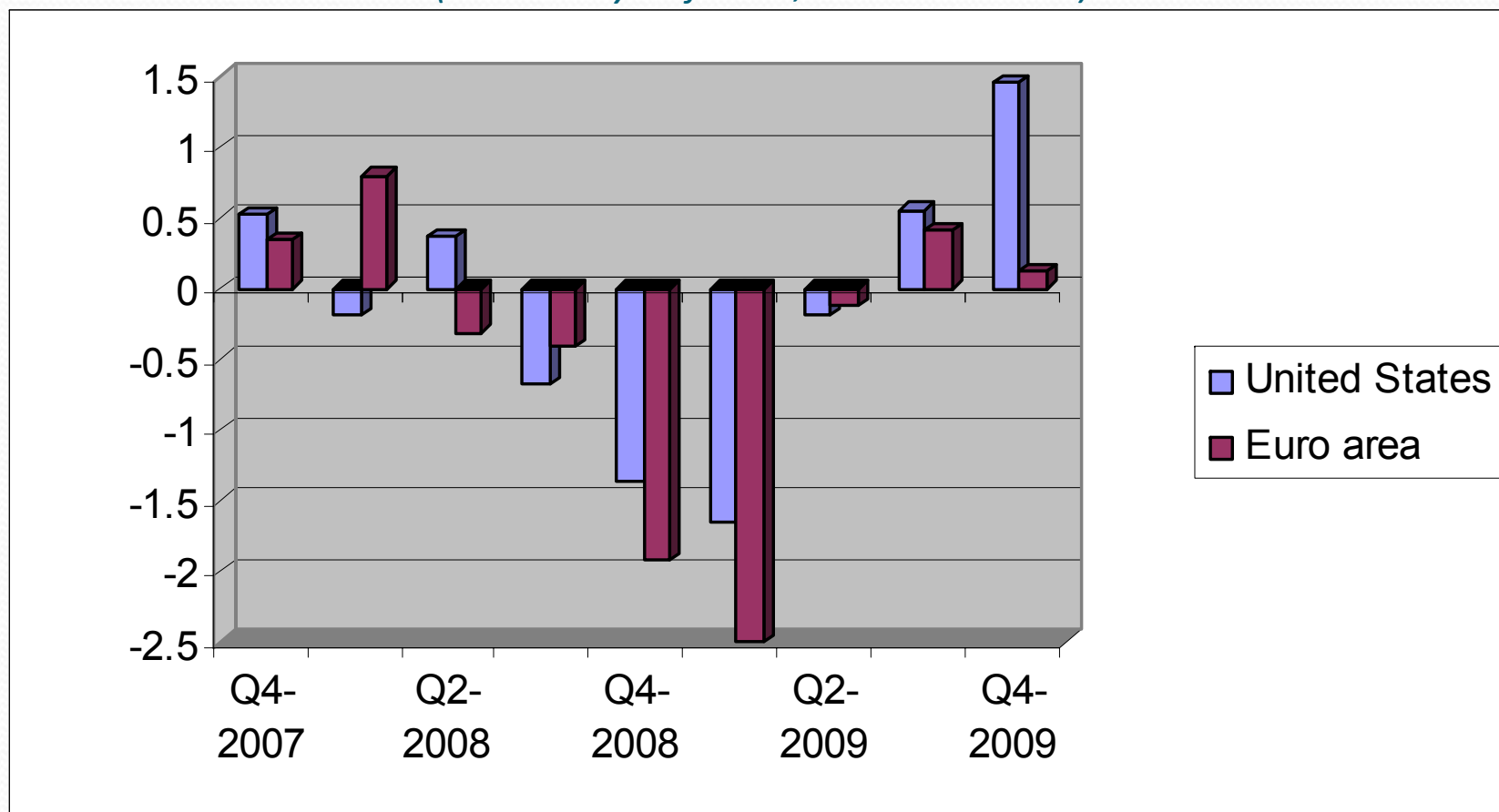
- What is meant by current?
- Discussing the economic situation:
 - GDP growth
 - Inflation
 - Unemployment
- NB euro area not EU



2008 Euro Challenge
winners – Rumson Fair
Haven HS (NJ)

Real GDP growth (quarterly)

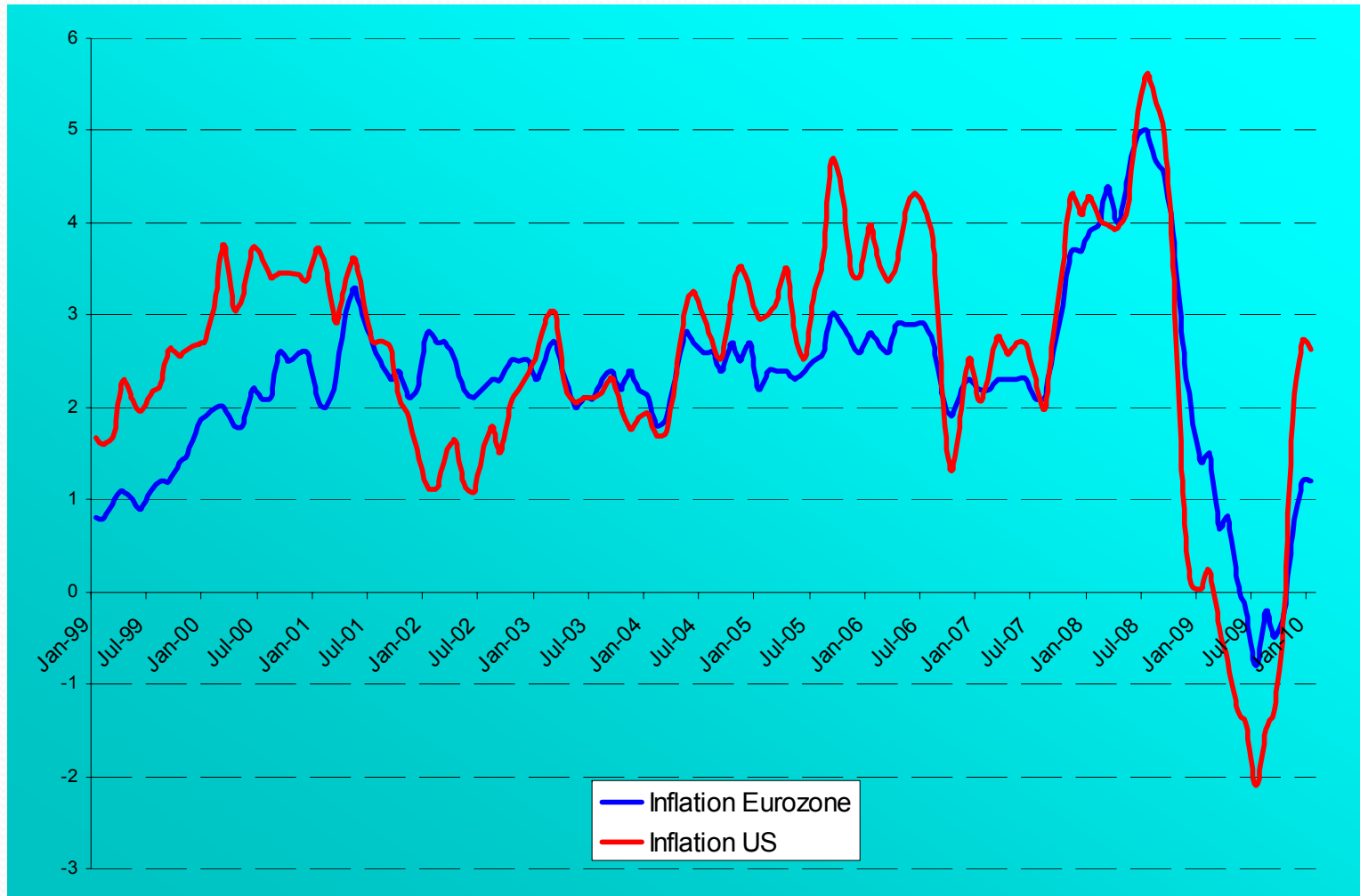
Percent change compared with previous quarter
(seasonally adjusted, not annualized)



Source: OECD

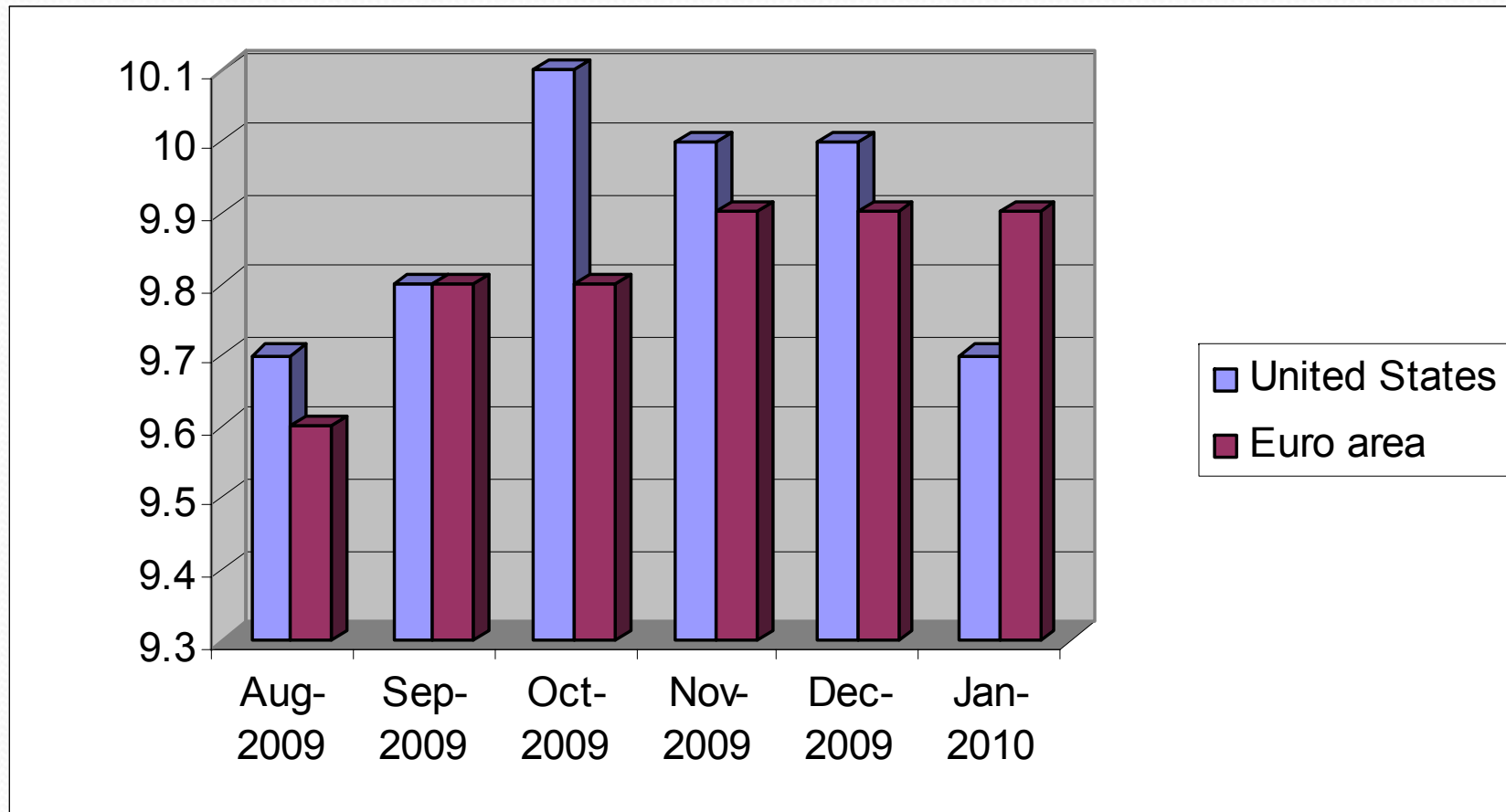
Inflation, euro area and US

(y-o-y change in %)



Source: Eurostat and St. Louis Fed

Unemployment rate



Source: OECD

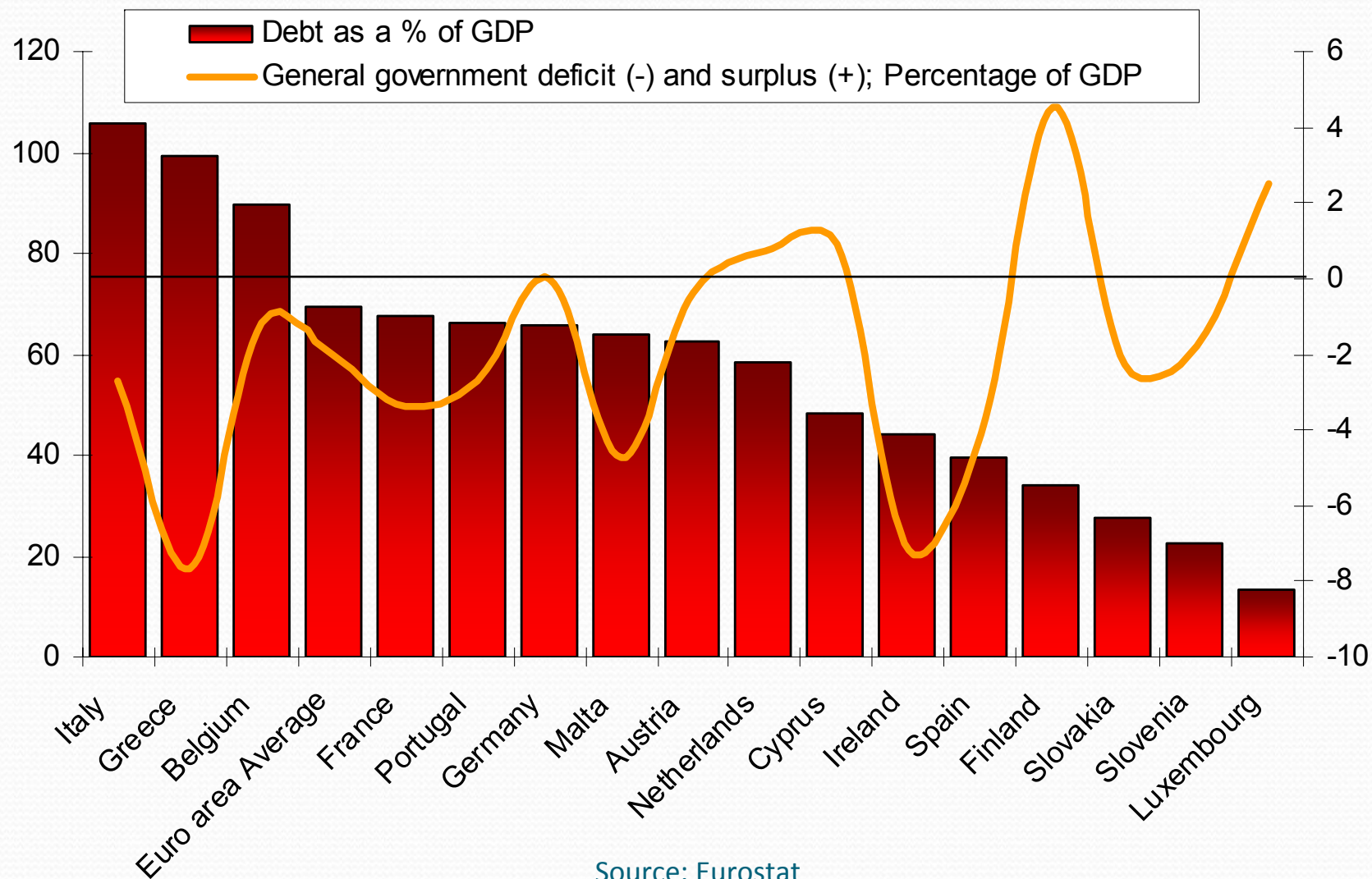
European Commission forecast

(Interim forecast – February 2010)

Real annual % change unless otherwise stated	2009	2010	2011
Real GDP growth	0.1	0.7	1.5
Inflation	0.4	1.1	1.5
Unemployment rate (percentage of labor force)	10.0	10.7	10.9

Source: European Commission

Government debt & deficits, 2008



Source: Eurostat

Europe's response to the crisis

The ECB reduces interest rates to historically low levels



Oct 08: euro area governments adopt concerted action plan to support their financial systems

Dec 08: EU governments adopt European Economic Recovery Plan - a coordinated fiscal stimulus

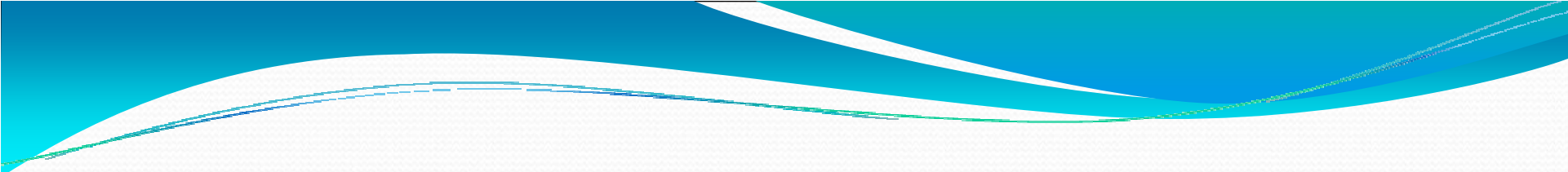


When do we EXIT?

- Timing the exit is crucial:
 - If monetary policy too loose for too long → bubbles, inflation
 - If fiscal policy too expansionary → debt piles up
- Different fiscal starting positions:
 - Countries with healthier fiscal positions, like Germany, can exit later
 - Countries with weaker fiscal positions, like Greece, don't have the luxury of waiting

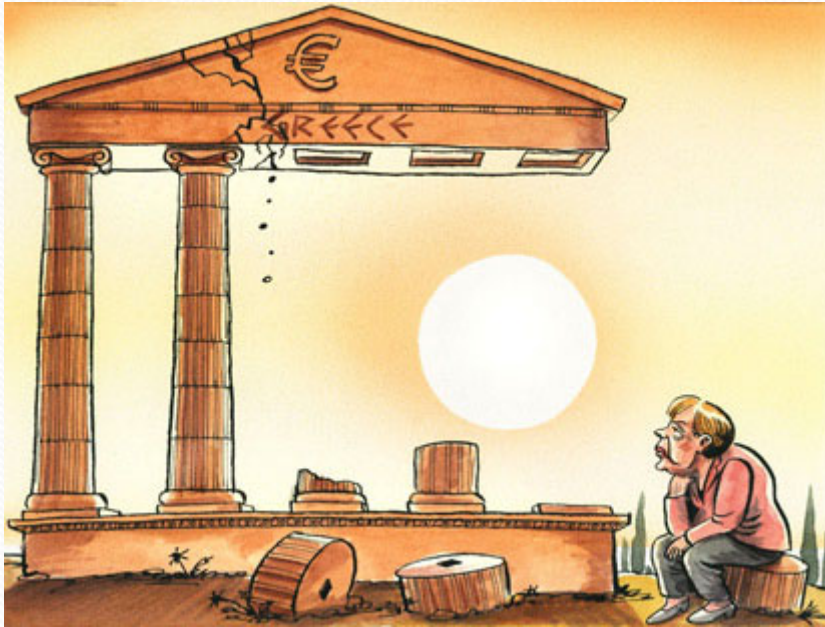
Supportive monetary & fiscal policies averted another Great Depression





*The next two slides are for
your information only (you
won't be expected to discuss
these topics in your
presentation)*

A Greek crisis? A euro crisis?



Source: *The Economist*

- Common monetary policy in EMU, but separate fiscal policies
- The Greek crisis shows what can happen without a sound national fiscal policy
- The Greek deficit is so large that it compromises the government's ability to borrow

- Should other euro area countries help Greece?
- What about moral hazard?
- Will the crisis spread?

Europe 2020 Strategy

"We need to build a new economic model"



- **Headline targets:**
 - Invest 3% of EU GDP in R&D
 - Lift 20 million people out of poverty
 - Raise the employment rate to 75%
 - Meet 20/20/20 climate/energy targets
 - Increase high school and college completion rates
- **Achieved through:**
 - **Smart growth:** An innovative, educated, digitally connected society.
 - **Sustainable growth:** Resource efficient, competitive and green industry.
 - **Inclusive growth:** Fight poverty and modernize labor markets.

Stay informed! (we make it easy)

- Take a break from your friends' photos on Facebook:
<http://www.facebook.com/pages/The-Euro-Challenge-High-School-Competition/33926921634>
- Check out the collection of news articles and commentary on our Delicious page: <http://delicious.com/eurochallenge>
- Need a quick answer to a complex question? Get off Google and ask away on the Euro Challenge forum: <http://www.euro-challenge.org/forum/>
- Don't let the competition get ahead. Follow us on Twitter:
<http://twitter.com/eurochallenge>