Patrick Honohan: The European Union – financial, fiscal, economic and political challenges ahead

Address by Mr Patrick Honohan, Governor of the Central Bank of Ireland, to the National Bank of Poland Bi-annual EU Presidency Lecture, Warsaw, 19 March 2013.

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Let me begin by thanking Marek Belka, President of the National Bank of Poland, for inviting me to give this inaugural lecture in the National Bank's bi-annual series during Ireland's Presidency of the European Union.

It is not, to be sure, my first visit to Poland: I have come here for both business and leisure, and most recently had the most interesting pleasure of visiting Wroclaw during the Polish Presidency at the Informal Ecofin meeting hosted by Marek and by Jacek Rostowski.

Ireland and Poland have many cultural ties, and as you know we have welcomed a large population of Poles in Ireland over the past decade. They came during the boom years, but many have put down roots and are staying with us even in these more difficult economic times; over 2½% of Ireland's population have Polish nationality.

I was interested to discover that, thanks to this migration flow and the associated two-way travel that follows from it, there are no fewer than 66 weekly nonstop flights between Ireland and Poland, surely a remarkable instance of European integration considering the distance involved of as much as 2000 kilometres and the relatively small population of my own country at just 4½ million.

A big part of the explanation – other historical developments aside – is of course the fact that Ireland and Poland share membership in the European Union; indeed, form the Western and Eastern borders of the Union at the latitude (52°-53°N) which Dublin and Warsaw share.

Poland took the Presidency of the Union for the first time in 2011; this role has rotated now to Ireland which performs it for the seventh time in the 40 years of its membership. As you know, during these semesters, each national government, supported by the national administrative structures, seeks to progress the Council's role in the strategic and legislative programme of the Union.

Poland's effective Presidency, in which you steered the turbulent discussions on economic governance during one of the most pressured episodes of the economic crisis, and secured agreement on reinforcing fiscal coordination through the so-called "six-pack" of legislative measures, is recalled as a strikingly successful one.

Eighteen months later, though the systemic financial crisis of the euro area is less acute, and even if employment growth has resumed in some countries, unemployment at record levels is but the most conspicuous evidence of the depth and persistence of recessionary times in Europe.

It would be astonishing if institutional deepening and reform in the economic infrastructures of the European Union were not still centre stage in the legislative agenda in 2013 and I can assure you that a large and intensive effort has been mounted by the administrative resources of the Irish economic and financial authorities to try to progress this agenda.

Before mentioning some of the detailed elements of current legislative debate, let me stand back a bit, though and ask why it is that the Eurosystem has needed a relaunch. How come the great expectations for the euro as the single currency of the European Union seem not to have been fully realized? Why have some commentators been identifying the euro as a source of weakness rather than strength of the euro area economies, as well of those which, like that of Poland, are intertwined with the euro area (I see, for example, that well over half of Poland's exports go to the euro area)? And are the reforms that are currently being

discussed of the correct type and sufficient in scale to set things back on the kind of path which was not only expected in advance, but up to the current crisis actually had been achieved in practice, with not only low inflation and anchored inflationary expectations, but also modest and falling debt ratios, convergence of financial market conditions, reasonably steady growth and – notably – a considerable reduction in unemployment?

In case there is any doubt that a relaunch is needed, it may be useful to note that the key entry-requirement indicators of government debt, government deficit and bond yields now show considerably greater divergence than at entry (even though the entry criteria were applied in a relatively liberal manner.

But what is needed is not only the kind of fiscal restraint that is clearly a prerequisite for restoring something closer to what was envisaged for these indicators as threshold levels for entry – that is the task of the six-pack and the two-pack legislative measures – but a deeper reform of policy and behaviour to ensure that the divergences do not easily recur, and construction of institutions that will help rebuild trust and confidence both to market participants and to partner countries within and outside the euro area.

For this, we need to understand what went wrong. It is easy to point to the global financial crisis as the culprit, and certainly that crisis, which had its origins in the United States, has had a devastating impact. But why have the problems been particularly deep and intractable in the euro area? After all, not all euro area countries have been equally affected. Germany, to take the largest and most striking example, has emerged from the shocks of the last few years with *lower* unemployment than before.

And, as for the most adversely affected countries, the imbalances and excesses which they have experienced have been quite diverse. Greece's problems have emerged as the result of large and under-appreciated fiscal deficits, Italy's as a result of high debt and persistent lack of growth dynamism, Ireland from a banking-driven boom-and-bust cycle. What is the common feature of these and other syndromes?

This is important for us in understanding what needs deepening in a relaunch of the system, and it also, of course, is vital for a country contemplating and preparing itself for a future euro membership.

I believe that the key to this mystery lies in the fact that the euro represents a commitment device, a policy straitjacket which, if accompanied by the behaviour to which the country implicitly and explicitly commits when it joins the currency union, will lead to an improved economic performance relative to what can otherwise be achieved.

The commitment is of course to policies that retain macroeconomic balance, which requires fiscal discipline, and international competitiveness in both price and non-price dimensions.

For decades, many European Union countries have had a chequered history of macroeconomic imbalances, generally resolved through devaluations at the cost of relatively high inflation, and high nominal and real interest rates, all of which contributed to growth-damaging uncertainty.

In addition to the considerable microeconomic benefits of eliminating currency conversion costs and all of the exchange rate risk for intra-euro area transactions, the main advantage of the currency union was seen to be lower inflation and interest rates, contributing to a stable growth platform.

Yet it was as if policymakers and market participants believed that the results would happen semi-automatically.

Governments would adopt restrained fiscal policies for fear of market reaction, and if they didn't markets would quickly penalize them with interest penalties that would incentivize them to get back on track.

Likewise any loss of competitiveness due to wage rates increasing faster than the currency area would result in such quick damage to employment that such divergences would be short-lived. Above all, private capital flows could be relied upon to be stabilizing and sustainable.

With such strong forces for macroeconomic stability, what need for anyone to pay attention to fiscal and cost competitiveness?

But markets were not as effective task-masters, and they allowed the old pattern of imbalances to persist. Indeed, the very fluidity of large-scale international capital flows (partly attributable to the currency union itself, but even more – as can be seen by the parallel experiences of countries such as Iceland and Latvia – by technology-driven liberalization of finance) allowed the imbalances to become larger than ever.

The difference now was that the old adjustment device – devaluation and inflation – had been eschewed. Imbalances, allowed to emerge, had even more costly consequences when those safety valves – imperfect and corrosive though they are – were not available. High debt ratios had to be sweated down or, when this was impossible in Greece, in effect written down.

The needed fiscal contraction removed demand and triggered the double-dip of the recession in several of the most affected countries, and unemployment soared, especially to the extent that the inflexibility of nominal wage rates inhibited needed restoration of cost-competitiveness.

The solvency of banks, both those in the countries suffering the adjustment, and those which had extended large advances across borders within the currency union, came under suspicion.

On top of this, the severity of the needed adjustment made markets question the ability of some member states to stick with the single currency – a doubt whose elimination required the invention of the ECB's Outright Monetary Transactions (OMT) programme.

In sum, the continued failure to maintain fiscal, cost and financial discipline in some countries, despite the implicit commitment to do so embodied in euro area membership, had much more severe consequences than they had had in the previous decades of autonomous and often weak currencies.

How can Poland ensure that life in the euro (whenever that comes about) could be accomplished without the mishaps and imbalances that have characterized several euro area countries in the financial crisis?

I believe that Ireland's experience suggests that this can be done, and that the errors that were made could be avoided without too much difficulty, as long as the commitment required of membership is widely appreciated.

Thus one would envisage a more decisive response – with macro prudential and fiscal tools – to the big property price and construction boom that made Ireland such a record-breaker in mid-decade; the degree to which fiscal balance was becoming dependent on boom-time revenues could have been better recognized, and public expenditure kept in check accordingly; finally, if and when things had got to the point of wide scale bank failure, crisis management could have allowed for a lower socialization of the losses.

In avoiding such pitfalls for the future, the new euro-area institutional arrangements will help, but in fact a well-managed economy has nothing to fear from the euro.

The consequences of misbehaviour in policy by those who failed to respect the commitment, have not only been for economic performance in stressed countries, but have also spilled-over into wider concerns about the functioning of the Economic and Monetary Union.

Cross-border interbank lending dried-up, introducing sizable divergences between the cost of credit in different member states which, though not as wide as they were at one point, have

remained substantial and represent a departure from what had come to be expected from the single currency area.

Credit no longer seems to flow seamlessly across borders without incurring what is de facto a country premium for the stressed countries.

It is often remarked that this is nothing more than a wholly justified risk-premium that should have been present from the start. That could be true for interest charged by the market for lending to Governments. But I am not so sure that it holds for non-Government borrowers: it seems to me that this is largely a spillover from fiscal and macro-prudential risks which cannot easily be avoided by firms in stressed countries even if their own firm-specific conditions would not warrant a high risk premium.

This is not, of course, the only country-specific national source of competitive advantage and disadvantage. Tax rates, social benefits, infrastructure, to name just a few. So the emergence of interest differentials on lending is not unique. But it is a departure from what was envisaged at the outset of the single currency and held out as an important integrating function of the euro.

And the sudden awakening of market to credit risk on lending to Governments is much more damaging now, when Governments have accumulated so much debt, than if it had been a constant from the outset.

Stressed countries have naturally turned, not only to the IMF, but also to their partners in the European Union for assistance in these circumstances. The countries that have avoided these errors have been called upon to provide financial assistance on a rather large scale to five stressed countries.

The assistance being granted is in the form of loans, but even so some taxpayers and electorates may fear that their savings are being threatened by being lent where markets have been reluctant to go. The fear seems to be that the system is having the effect of spreading the cost of policy errors in some countries to the taxpayers of countries that maintained discipline. This fear has been influencing the design of crisis management measures.

Thus, as is so often the case when it comes to the finances of stressed borrowers; neither the borrower nor the lender is content.

Herein lies the most fundamental rationale for a relaunch of the euro: the need to ensure collaborative arrangements that command the confidence of both the stressed and the strong. That confidence can underpin quicker and more comprehensive crisis management based on a stronger sense of trust, solidarity and common purpose among member states than has yet been fully in evidence.

The fiscal aspect of the crisis was the first to receive attention from the point of view of reforming and strengthening institutional structures. As the successive financial assistance packages to Greece, Ireland, Portugal and now Cyprus have been put in place in conjunction with the IMF to deal with the loss of market access by those countries in the crisis, institutional deepening has also been in the works. The initial funding vehicle, the EFSF, has been succeeded by a permanent successor, the ESM, incorporating risk-sharing mechanisms based on mutual national guarantees proportional to the share of ECB capital. But that is just one dimension of the fiscal institutional reforms.

I have already mentioned in passing the progress towards strengthening the surveillance of national policies and economic policy coordination through the adoption of legislative measures: the six-pack under your Presidency and the two-pack under our own, thereby building the fiscal dimension to this concept of closer collaborative arrangements. The six – pack greatly reinforces the preventive arm of the Stability and Growth Pact with the possibility of sanctions and stronger powers for the Commission and the two – pack introduces the procedures to allow for meaningful and timely action. The Intergovernmental

Fiscal Stability Treaty has incorporated the core principles of the Stability and Growth Pact into binding national legislation. It was passed by Referendum in Ireland in May 2012 with 60% of the vote. As for Poland, I understand that the President of Poland last month gave his assent also to this Treaty.

But the crisis has above all had at its root, failures in banking and finance, and in the regulation and supervision of banks. Faced with the crisis, the ECB has stepped up to the plate with a succession of policy innovations (difficult to design in a multi-country environment) including the open-ended liquidity provision, the long-term refinancing operations, the securities market programme and its successor the OMT, specifically designed to remove redenomination risk. These have been non-standard measures designed to improve the transmission of monetary policy and thereby serving to remove obstacles to the accommodating low interest rate policy being effective throughout the euro area.

Here too (in banking and finance) structural reforms are needed alongside these conjunctural measures, and an institutional strengthening agenda is also being fleshed-out. The most immediate part of this agenda at present is the creation of a Single Supervisory Mechanism for banking based in the ECB. Securing agreement on the legal texts that will form the basis of the SSM is high on the action list of the Irish Presidency.

Would the SSM, had it been in place, have prevented the banking collapse? This is a tough question. While there is a lot to hope for from centralization of bank supervision – removal of the perception of national political pressures, emotional detachment from the waves of euphoria that occasionally sweep national financial systems, a cross-fertilization of supervisory perspectives from different parts of the Union to name a few aspects – it has to be acknowledged that supervisory failures across the world in the lead-up to the great financial crisis were very widespread.

Still, not creating a single supervisor was a missed opportunity at the start of the EMU and one which will yield benefits, I am convinced, down the road. In the more immediate future, I think its creation is one of the essential ingredients for building confidence in the strong countries that banking weaknesses that have been exposed in the stressed countries are not going to recur or persist because of supervisory inadequacies.

To be sure, a single resolution authority and a common deposit guarantee system will also be needed in the Banking Union when it is complete. The former will build on the current draft legislation on national resolution systems, which is being actively negotiated in this Presidency, and the latter's importance has been underlined, I believe, by some very recent developments.

Let me describe in a little more detail the progress of discussions in our Presidency.

As an over-riding theme for this Presidency, Ireland seeks to be seen as "a recovery country driving recovery in Europe". Thus, we are trying to build on our national experience through considerable domestic efforts for recovery to help consolidate fiscal and economic stability across the European scene. Ireland has long entered such endeavours inspired by certain core values:

- Ireland has always upheld the Community method rather than intergovernmentalism
- Ireland is strongly commited to working constructively with the European Parliament
- Ireland is a long standing advocate of global institutions and of trade. (Recent examples: it is a member of the UN Human Rights Council and chaired the Organisation for Security and Cooperation in Europe in 2012).

Apart from the financial agenda, among the specific objectives of the current Presidency – on a number of which good progress has already been made – are:

- Support to President Van Rompuy in getting agreement on the budget for 2014–2020 and finalising negotiations with the European Parliament.
- Finalising agreement on the "two-pack" of measures to enhance coordination of the budgetary process for the Euro area.
- Promoting the Digital Single Market Agenda, tackling issues such as e-signatures, intellectual property rights and cyber security.
- Agreement on opening a comprehensive EU-US trade deal.
- A Youth Unemployment package including a Youth Guarantee, a fund to help young people into a job, apprenticeship or further education or training within 4 months of leaving school.

On the Financial Services front the Irish Presidency has, in the interests of getting results for the Union as a whole, made some tactical decisions and prioritised efforts on six files for the first half of our mandate. In the coming days, we will review progress and decide priorities for the second half. This approach partly reflects a pragmatic approach from a relatively small administration but is primarily based on a realistic assessment of the decision-taking capacity of the Union's institutions.

Absolute priority has been given to all files relating to the promotion of a Banking Union as set out in the December 2012 European Council conclusions. As I have already suggested, a Banking Union, shifting supervision of banks to the European level, combined with a common system for deposit protection and integrated bank crisis management will reassure citizens and markets that a common, high level of prudential regulation is being consistently applied. It will help build the necessary trust between member states which is a pre-condition for the introduction of common financial arrangements. This will pave the way towards the use of the ESM as a public backstop to directly recapitalise banks and help break the negative feedback loop between banks and their sovereigns.

I will say a little about progress on the Banking Union files:

CRD IV

Agreement on CRD IV (when it is confirmed) will mean that Europe can fulfil the requirements of Basel III and its G20 commitments to greatly strengthen the prudential requirements for banks, and improve governance and remuneration practices. It will also be a large step forward in the completion of the single rulebook.

A huge effort has been put into getting final agreement on CRD IV. This has been a massive undertaking which has absorbed the energies of many Presidencies including the Polish. In the first 8 weeks our Presidency held 7 Council Working Party meetings, 5 Political Trilogues and a large number of technical Trilogues before reaching outline overall agreement with the Parliament on 28 February and in the Council on 5th March. Final formal agreement (including clarification of a number of technical drafting points) is in sight.

Single supervisory mechanism

The SSM, the transfer to the European level of key supervisory tasks for banks, is designed to provide strong and consistent supervision across the Euro Area. As I mentioned, it holds the promise of removing local politics from the enforcement of bank supervision and will lever a diversity of supervisory experience – best practice across Europe. Most importantly it will help to break the link between sovereigns and banks.

There have been 10 Political Trilogues and 8 meetings of the Ad Hoc Working Party. Good progress has been made on the ECB Regulation and examination of the EBA Regulation is under way. The contours of an agreement are emerging. Intensive negotiations and technical work is scheduled to continue for the coming weeks and Parliament is geared to conclude by

the end of the month. A particular pressure is the need to allow sufficient time for the German parliamentary process of ratification to conclude before Bundestag dissolution on 5 July.

Extensive preparations are well under way in the ECB to take responsibility for supervision within 12 months of final agreement on the Regulations.

Crisis management: bank recovery and resolution

Even if the European Commission's estimate that banking collapses have led to over €4.5 trillion (or 37% EU GDP) of state aid going to distressed financial institutions between October 2008 and October 2011 adopts the most expansive possible definition (and is far greater than the likely ultimate fiscal cost of the crisis), it is clear that crisis management and resolution has entailed extremely high budgetary costs, and even higher overall economic costs – crippling in the case of some countries. The Recovery and Resolution proposal (relating to national crisis resolution, and not specifically to a Union-wide, or euro area-wide mechanism) would ensure that in future national authorities will have the means to intervene decisively before problems occur and early on in the process if they do. They could also ensure that the cost of restructuring and resolving failing banks falls on the owners and creditors and not on taxpayers.

The December Summit asked the Council to agree this dossier by end March and for Trilogies to be completed before June. This is a very tight schedule indeed. The Commission proposal dates from June 2012. The Presidency has conducted intensive work teasing out and clarifying the issues. Principally they are:

- the balance of power between home and host authorities in group scenarios and the role of the EBA in mediation
- financing and funding arrangements
- bail-in; its scope and possible exclusions
- the use of Deposit Guarantee Schemes in bail-in
- the transposition date for the bail-in tool
- possible inclusion of public intervention tools in the Directive

Discussions to date within the Council have been technical and slow moving and it is only recently that a compromise text covering all the elements has been tabled. We now have a tool box which is understood and which can work but Member States have not addressed the cost of the compromise needed to achieve a workable regime.

Now that the issues have been clarified it is time for the member states to begin to take decisions.

Related to this is the Deposit Guarantee Scheme Directive which aims to significantly enhance depositors' confidence by introducing a higher level of coverage, faster payout and more credible funding of the schemes. However, Member States are unwilling to restart negotiations of this proposal until the Bank Resolution package is nearer conclusion – in particular its treatment of funding. The European Council asked for work on this dossier to be accelerated so that it can be adopted in line with Bank Recovery and Resolution.

Clearly the Recovery and Resolution proposal and the Deposit Guarantee Scheme will be pressure points for the remainder of the Irish Presidency.

Outside of the Banking Union priority we are focusing on certain Markets and Consumer files and I will deal briefly with them.

MiFID II/MiFIR

This proposal aims to make financial markets more efficient, resilient and transparent and to respond to the challenges of new trading venues, products and technological developments.

Following an intensive round of bilaterals the Presidency has issued 3 compromise texts in the hope of getting agreement on a General Council approach by April so as to allow engagement with an impatient Parliament to begin.

There are important differences between key member states on three main issues

- transparency for equity trading venues
- rules for the Organised Trading Facility category
- non-discriminatory clearing access.

Having said that, discussions are beginning to go in the right direction as Member States realise they have to finalise their positions soon.

Market abuse regulation

The issue of market abuse has risen up the agenda especially for the Parliament who are linking it to public concern about the manipulation of benchmarks including LIBOR.

Steady progress is being made and depending on resources the file may be taken forward in a drive for agreement in the second half of the Presidency. The main issue to get right is the interaction within the Regulation between criminal and administrative regimes.

Central securities depositories regulation.

This regulation aims to bring more safety and efficiency to security settlement in Europe. It is also linked to the introduction of T2S on schedule in 2015. The Presidency is carrying out a technical review and may allocate additional resources to advance this file in the latter half of the Presidency. There are a number of issues on which it will be quite difficult to achieve compromise including whether banking services should be separated from core CSD services and on whether to include provisions on conflict of laws

Consumers

Within the broad consumer agenda the Irish Presidency is concentrating its resources on getting agreement on the Mortgage Credit Directive.

The Directive would facilitate cross border activity, enhance consumer protection and ensure more responsible mortgage lending.

There have been a large number of Council Working Party meetings and Trilogues. Good progress is being made but there are a considerable number of outstanding issues. These include FX lending, tying practices, conduct of business requirements, the treatment of variable interest and loan rates and early repayment.

The Presidency is intent on reaching agreement. It hopes that the willingness to negotiate and compromise which was earlier expressed by all institutions – Council, Parliament and Commission – begins to be translated into concrete results.

ECOFIN

The next major event for the Presidency will be the informal ECOFIN meeting in Dublin 12–13 April. Among the topics for discussion I expect that Ministers and Governors will be wanting to take a strategic view in their discussions on Banking Union; there is also the opportunity to have a discussion on Long Term Financing of the European Economy, an issue which may have been a bit neglected in the crisis, but is to be the subject of a forthcoming Commission Green Paper (which is expected mid-March).

In these difficult times, Jean Monnet's famous remark – true not only for our continent and the great endeavour that he and others launched so effectively – "Europe will be forged in crises, and will be the sum of the solutions adopted for those crises" should be a leitmotiv for our thinking now. This is not a time for stop-gaps, but for ensuring that each policy choice that is made is guided, not only by short-term expediency, but by a clear vision of where Europe is going. Europe is far more than an economic, budgetary and financial entity, but it is in these fields that current challenges inevitably dominate official decision-making now.

I hope not to sound sycophantic, but I have to say that I think that the proposals for a new architecture – for Union in the financial, fiscal, economic and political domains – which have been made by the four Presidents of the European Council, the European Commission, the Eurogroup and the ECB last Summer, hit the nail on the head, and sketched the way in which a new European framework must emerge, heralding a greater sharing of sovereignty combined with risk sharing and financial backstops. This is a viable path which, if we follow it to its conclusion, will help replace the somewhat fraught and crisis-prone regime in which we have been living for the past half-decade. To recall, this vision incorporates

- an integrated financial framework – Banking Union – to ensure financial stability
- an integrated budgetary framework – Fiscal Union – ensuring coordination and solidarity
- an integrated economic policy framework – Economic Union – to promote growth, employment and competitiveness
- the necessary democratic legitimacy and accountability – Political Union

What is needed, therefore, is a staged process, a mutually reinforcing series of carefully sequenced steps which will combine substantial ambition with careful balancing in each phase. Moves towards more responsibility and economic discipline should be combined with more solidarity and financial support. Deeper integration of regulation and policy must be accompanied by political integration to ensure democratic legitimacy and accountability.

Fine words, you will say, but who can doubt the need for this – including the Political Integration dimension which really is well beyond my mandate, not to say my competence. After all, Jean Claude Juncker (drawing on his long-term experience as President of the Eurogroup) put it succinctly: "Ministers know what measures need to be taken but do not know how they can be subsequently re-elected."

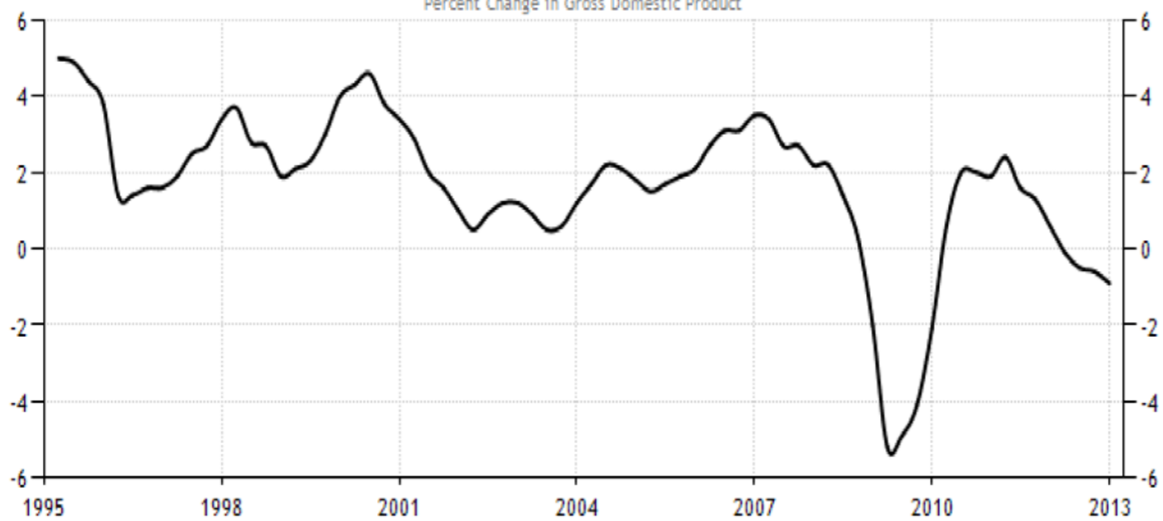
It will not be enough to provide in the future for a greater involvement of the European Parliament, however essential that may be. Decisions on national budgets traditionally have been at the heart of Member States' parliamentary democracies; a stronger European dimension and mechanisms will have to be found by which national parliaments can be brought further into the European decision making process.

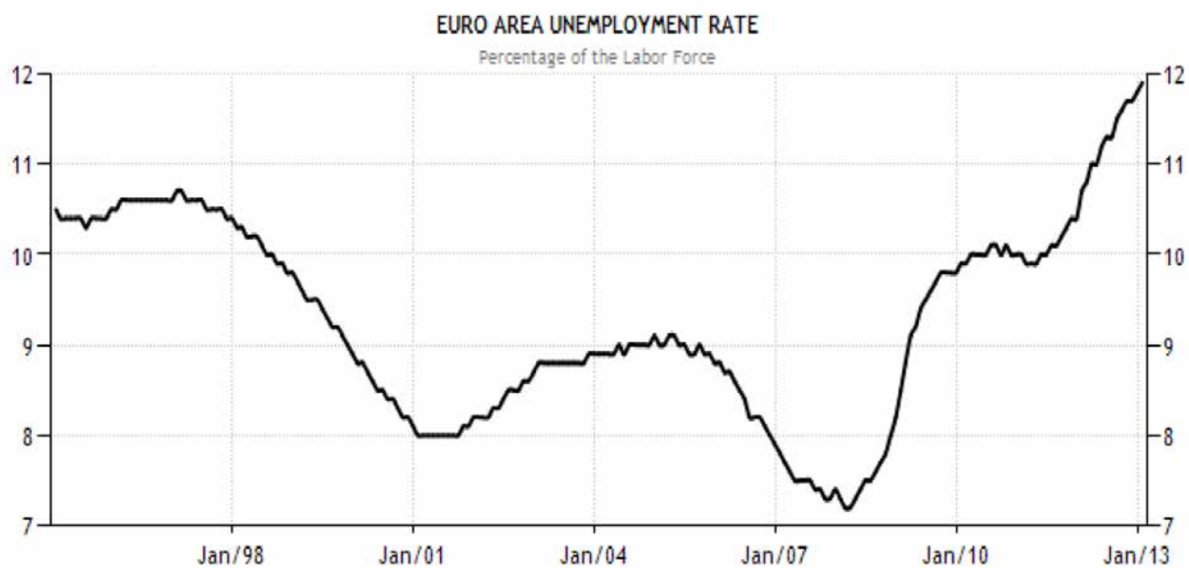
The crisis, its resolution and the long term development of the EMU have both a European and a domestic dimension. Onto the national political system level falls the challenge of striking a new social contract, reorienting expenditure, modernising tax systems, promoting flexibility, strengthening competitiveness.

In Ireland we believe that if we are to stay on the path to a successful consolidation and adjustment continued efforts are needed at both national and European levels. Other countries are facing or may face the same challenges.

The coming years will test the ability of all our leaders to manage successfully in the interaction between the national and the European.

EURO AREA UNEMPLOYMENT RATE
Percentage of the Labor Force
12
11
10
9
8
7
Jan/98
Jan/01
Jan/04
Jan/07
Jan/10
Jan/13
SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT


EURO AREA GDP ANNUAL GROWTH RATE
Percent Change in Gross Domestic Product
6
4
2
0
-2
-4
-6
1995
1998
2001
2004
2007
2010
2013
SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT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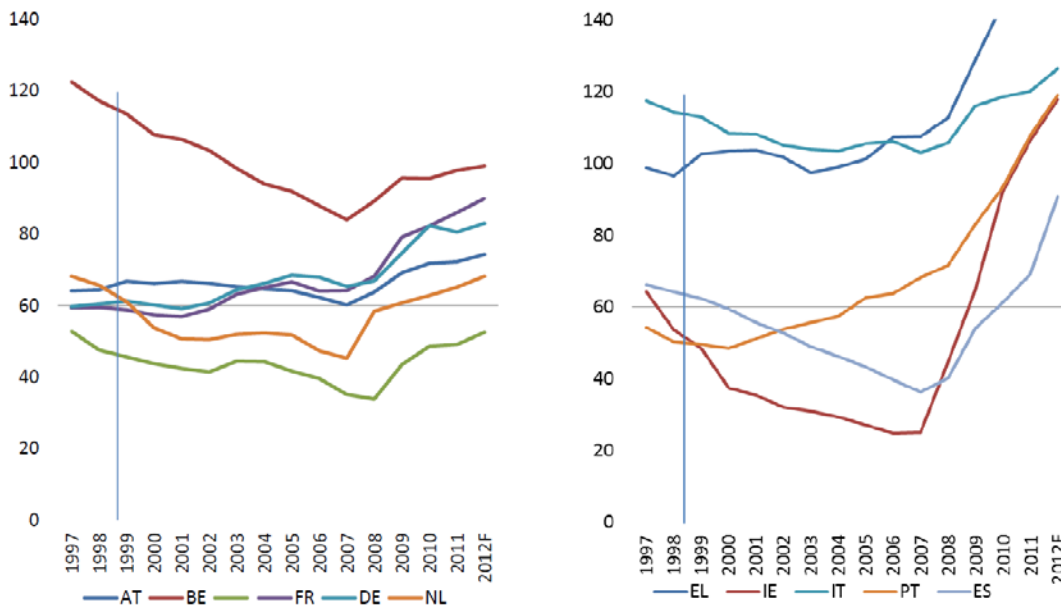
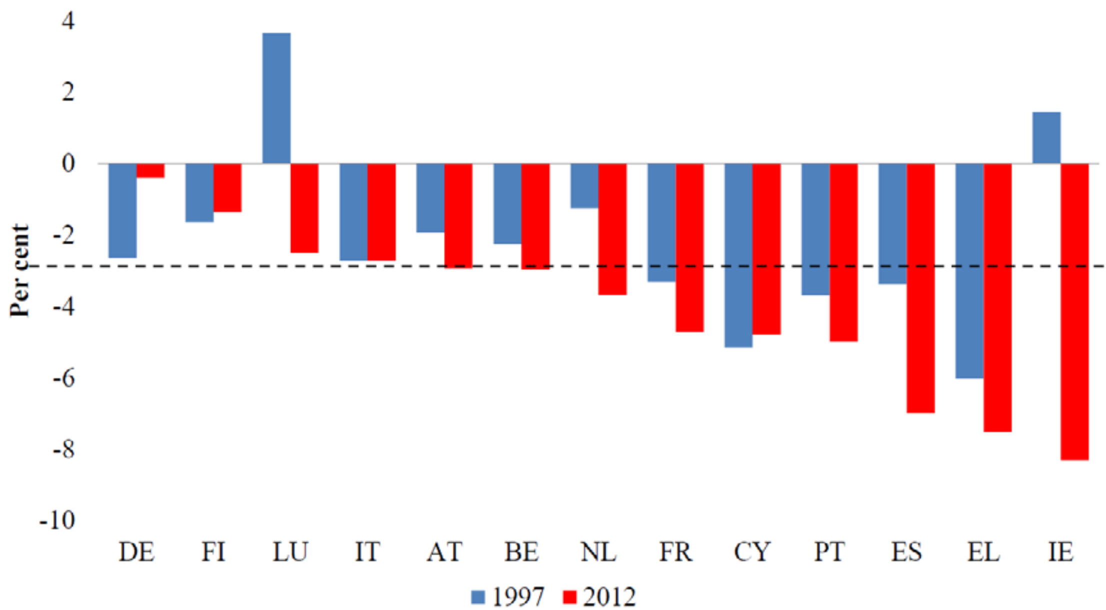
Percentage of the Labor Force
12
11
10
9
8
7
Jan/98
Jan/01
Jan/04
Jan/07
Jan/10
Jan/13
SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

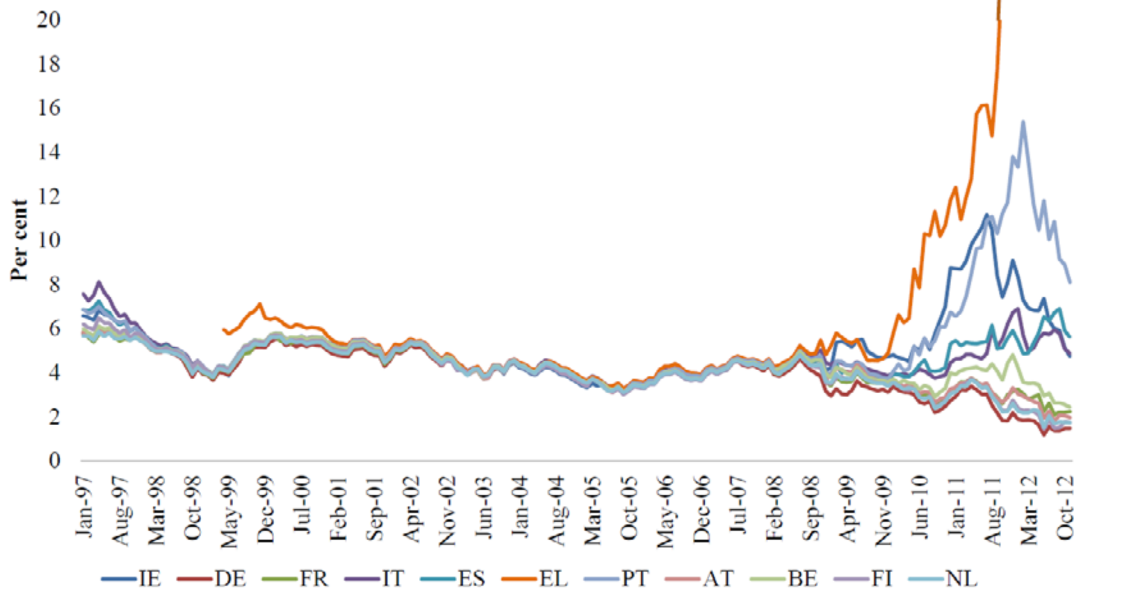
EURO AREA GOVERNMENT DEBT TO GDP
Percentage of the GDP
90
85
80
75
70
65
71.6
69.1
68.1
67.9
69
69.5
70
68.4
66.2
70.2
80
85.4
87.3
2000
2002
2004
2006
2008
2010
2012
SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT



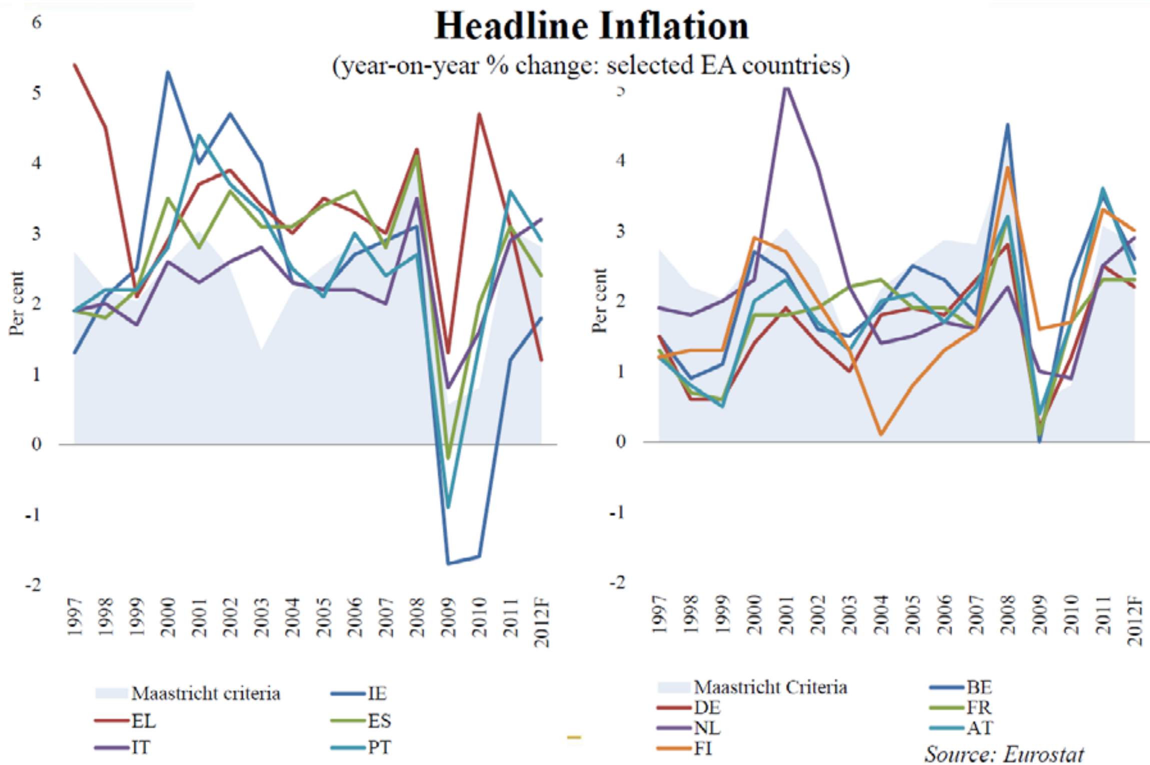
Source: IMF WEO Database



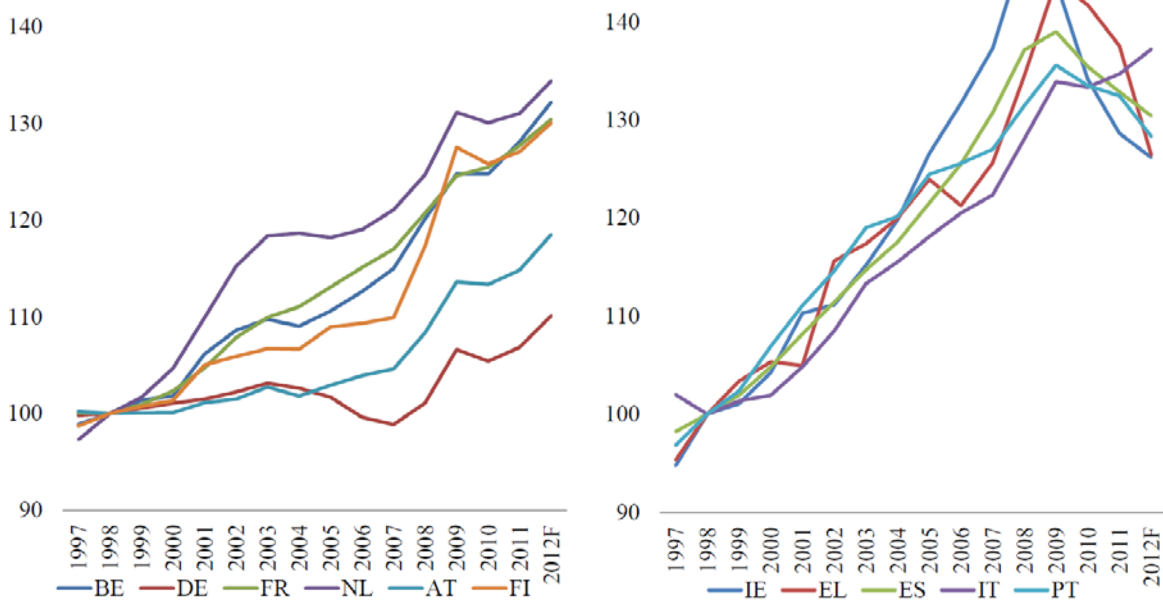
Source: IMF WEO Database

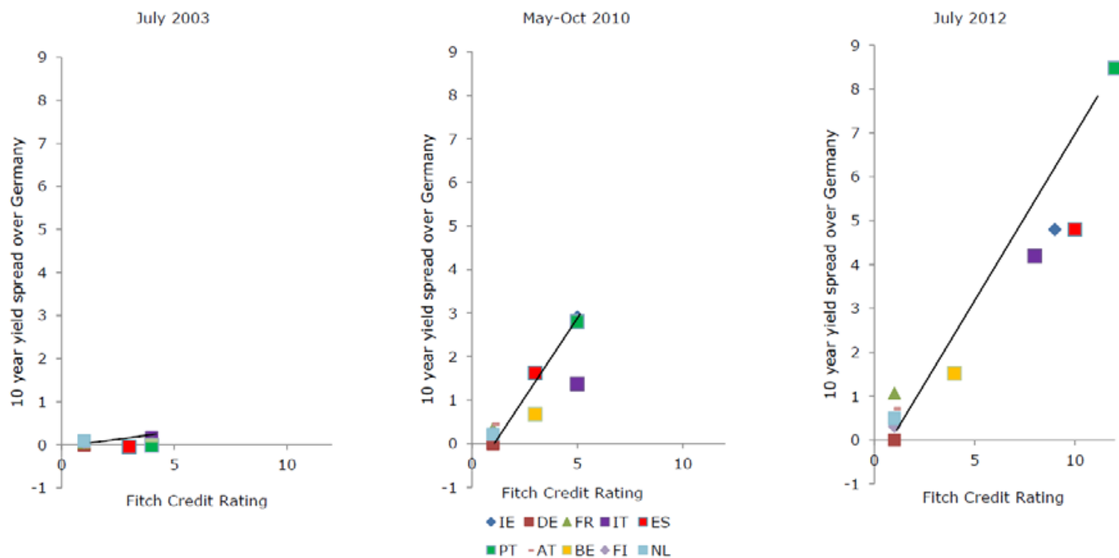


Source: Thomson Reuters DataStream

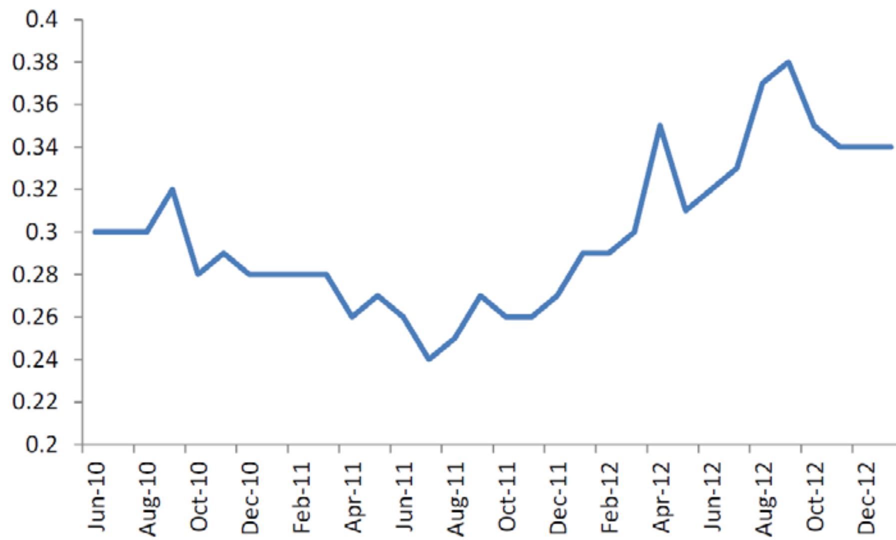


Source: Eurostat


Nominal Unit Labour Costs
(Selected EA Countries; Index 1998=100)
150
140
130
120
110
100
90
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012F
BE
DE
FR
NL
AT
FI
IE
EL
ES
IT
PT
Source: AMECO Database


Euro area credit ratings vs. yield spreads
July 2003
May-Oct 2010
July 2012
10 year yield spread over Germany
Fitch Credit Rating
IE
DE
FR
IT
ES
PT
AT
BE
FI
NL
Fitch credit rating: 1 = AAA, 10 = BBB
Source: Fitch and DataStream

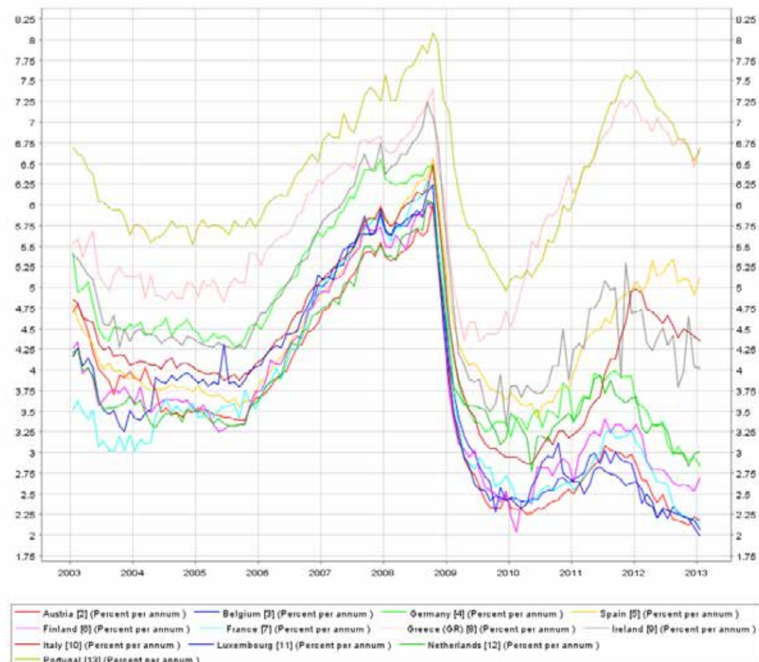
Coefficient of variation, interest rates on bank loans of up to 1 year, EA countries



Source: ECB

Bank lending rates: EA countries

(that joined before 2003)
(to NFCs; < 1 year: < €1m)

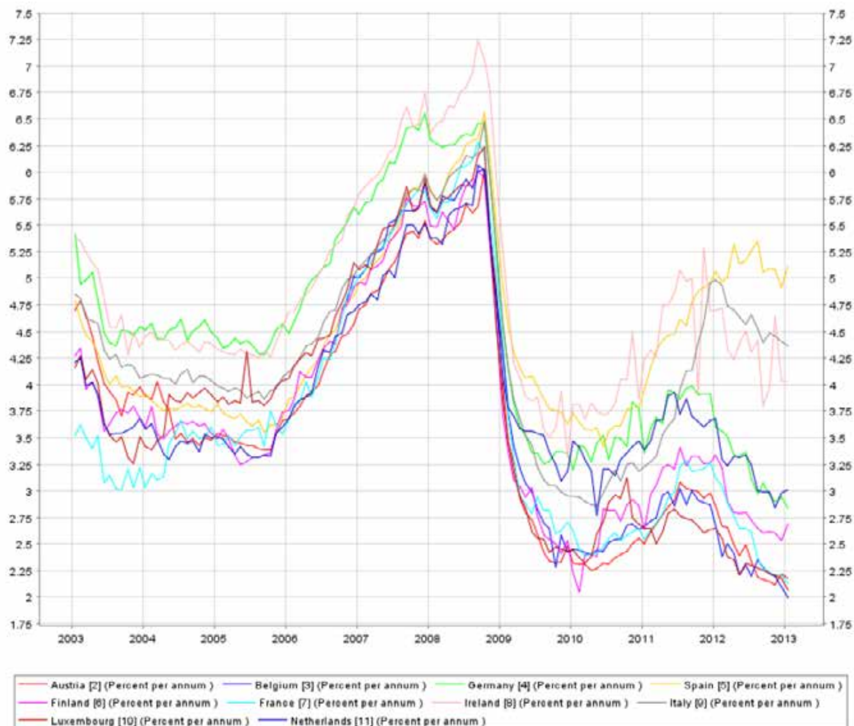


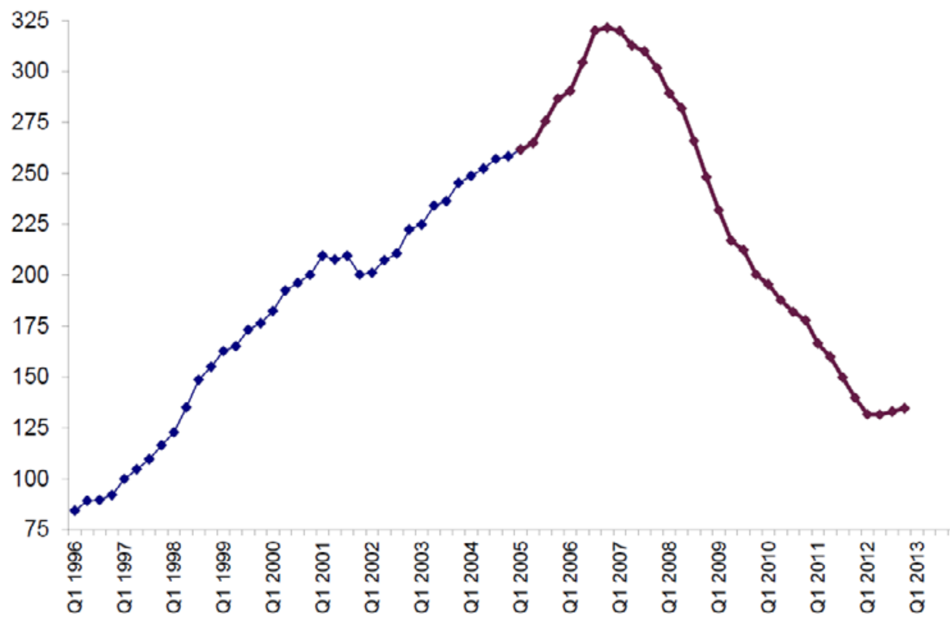
Austria [2] (Percent per annum) Belgium [3] (Percent per annum) Germany [4] (Percent per annum) Spain [5] (Percent per annum)
Finland [6] (Percent per annum) France [7] (Percent per annum) Greece (GR) [8] (Percent per annum) Ireland [9] (Percent per annum)
Italy [10] (Percent per annum) Luxembourg [11] (Percent per annum) Netherlands [12] (Percent per annum)
Portugal [13] (Percent per annum)

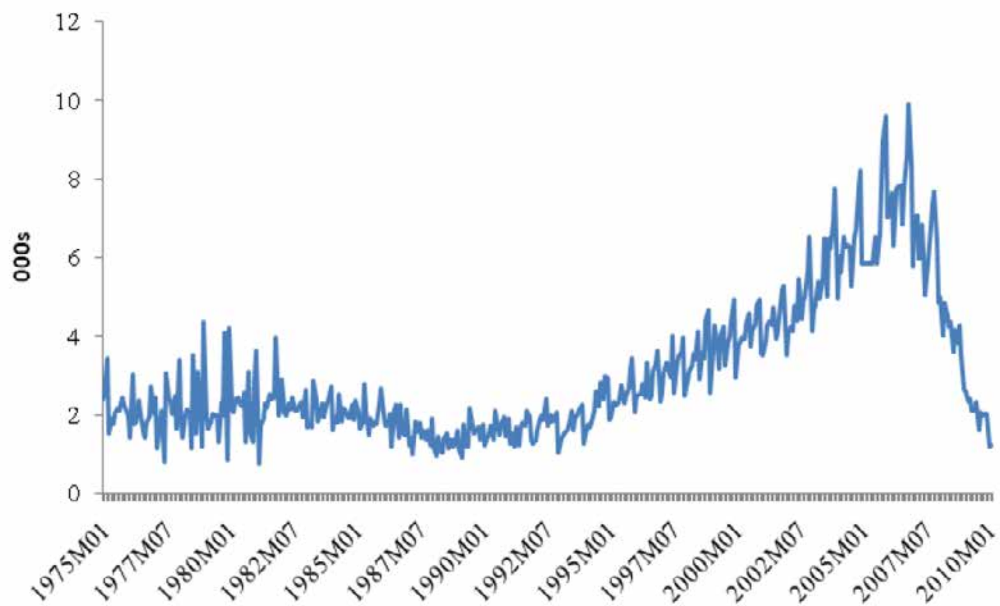
Bank lending rates: EA countries

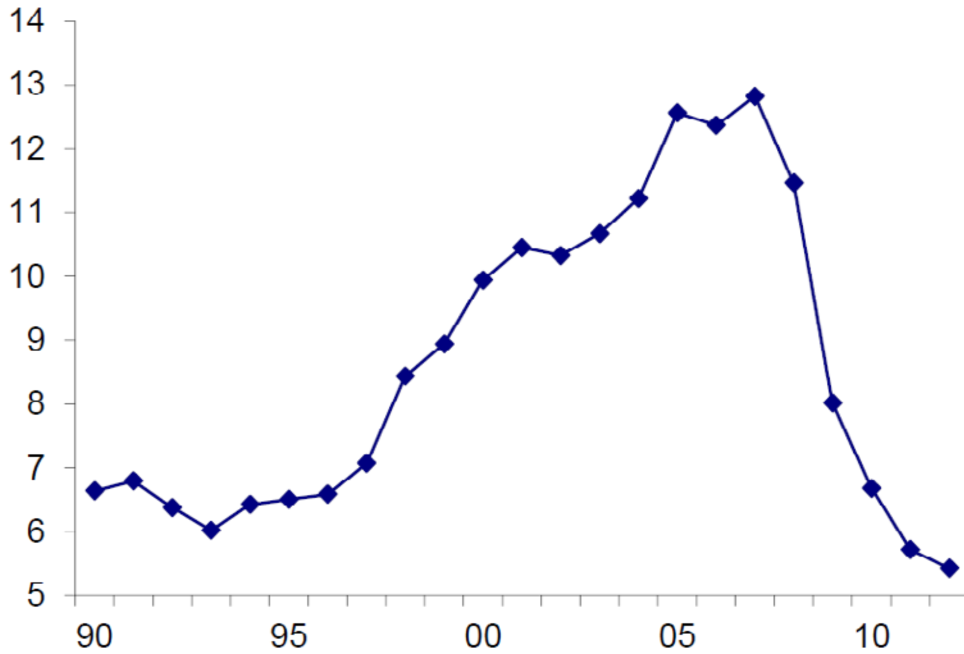
Excluding Portugal, Greece

(that joined before 2003)
(to NFCs; < 1 year: < €1m)

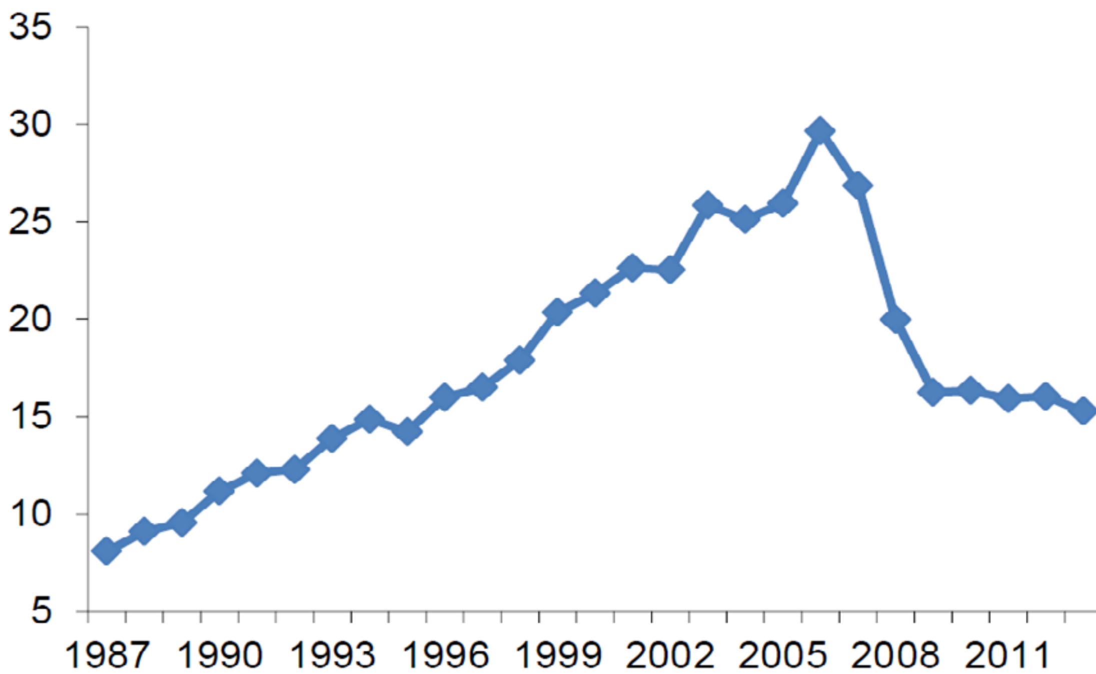



Dublin residential property prices, real terms, 1996-2012
325
300
275
250
225
200
175
150
125
100
75
Q1 1996
Q1 1997
Q1 1998
Q1 1999
Q1 2000
Q1 2001
Q1 2002
Q1 2003
Q1 2004
Q1 2005
Q1 2006
Q1 2007
Q1 2008
Q1 2009
Q1 2010
Q1 2011
Q1 2012
Q1 2013


Ireland: House completions monthly, 1975-2010
000s
12
10
8
6
4
2
0
1975M01
1977M07
1980M01
1982M07
1985M01
1987M07
1990M01
1992M07
1995M01
1997M07
2000M01
2002M07
2005M01
2007M07
2010M01

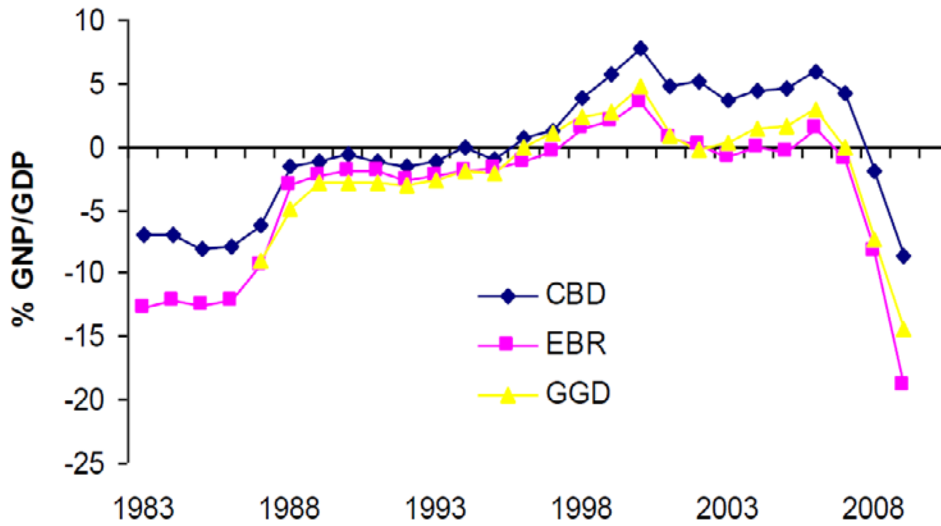


Employment in construction
as % of total employment, 1990-2012 (April)
14
13
12
11
10
9
8
7
6
5
90
95
00
05
10



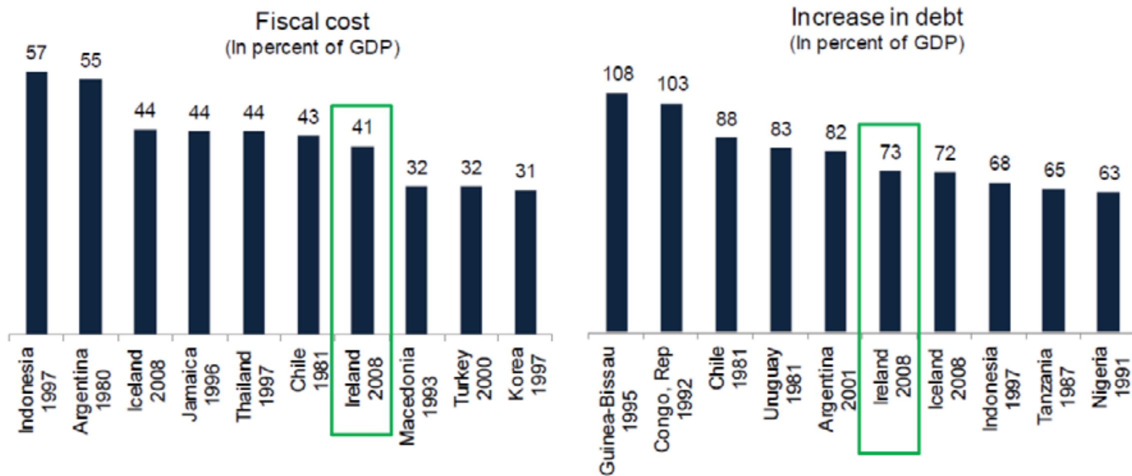
Ireland: Cyclical taxes as % total 1987-2013
Corporation tax, CGT and stamps
35
30
25
20
15
10
5
1987
1990
1993
1996
1999
2002
2005
2008
2011

Ireland: Government Surplus 1983-2009

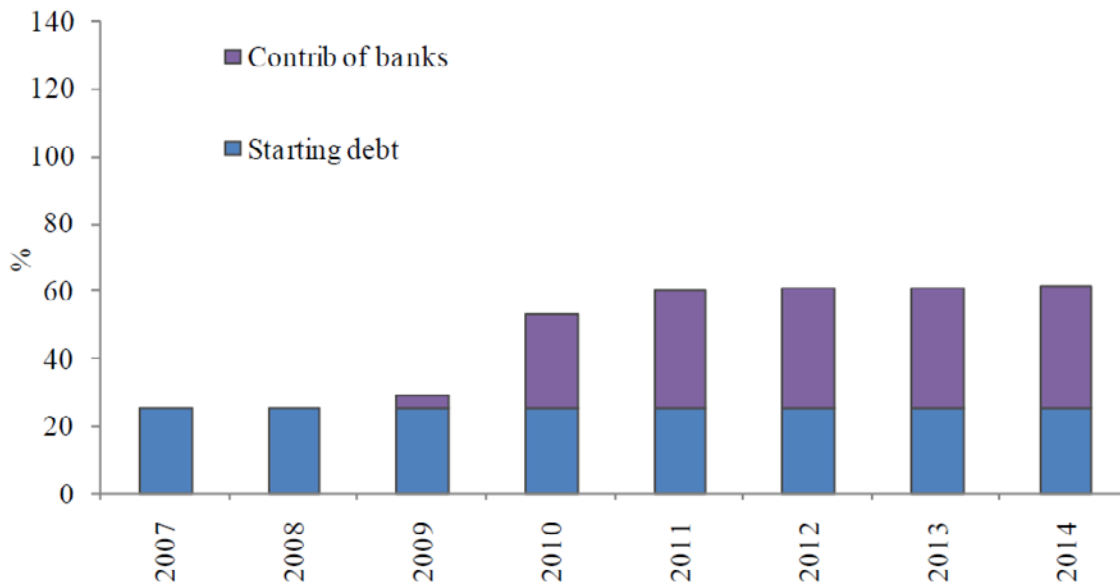


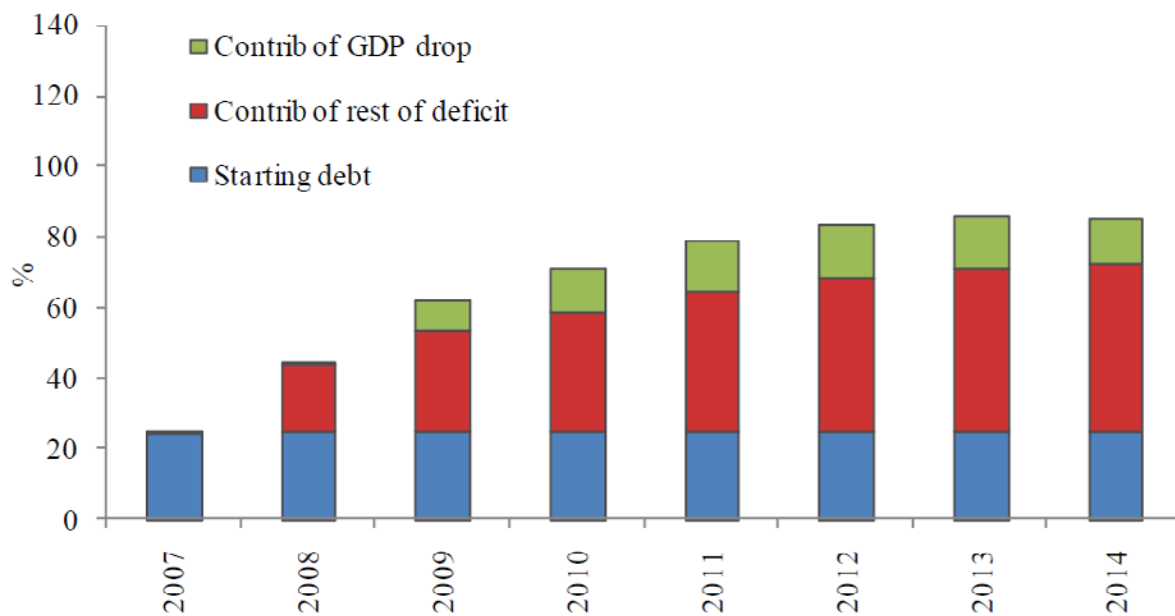
NB: No bank bail-out costs entered budgetary accounts before 2010

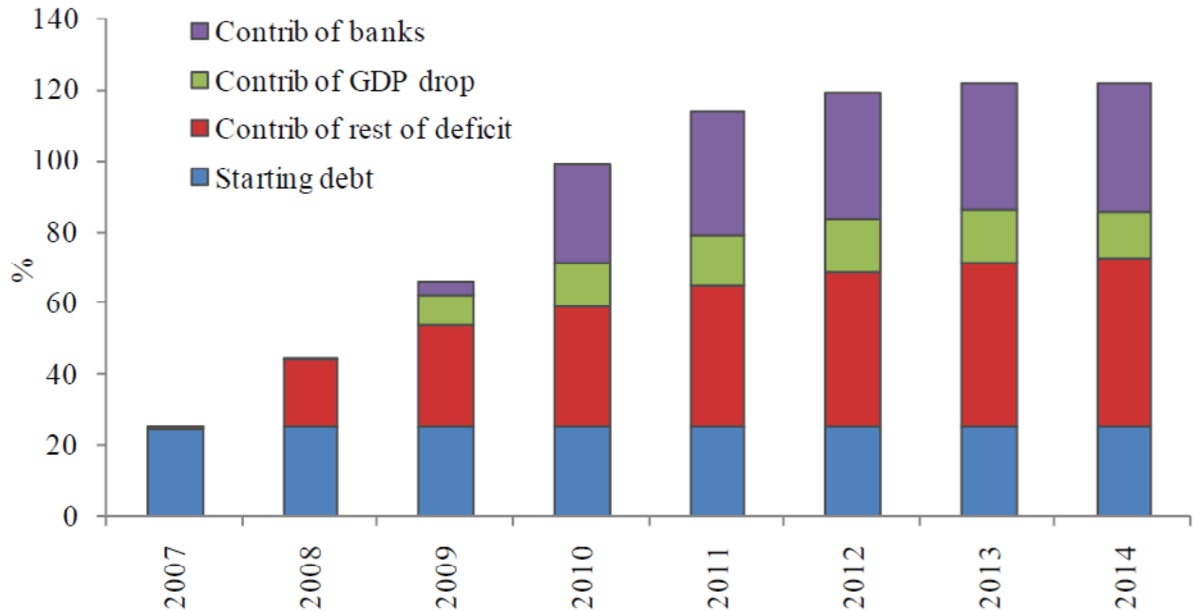
Costliest banking crises in history

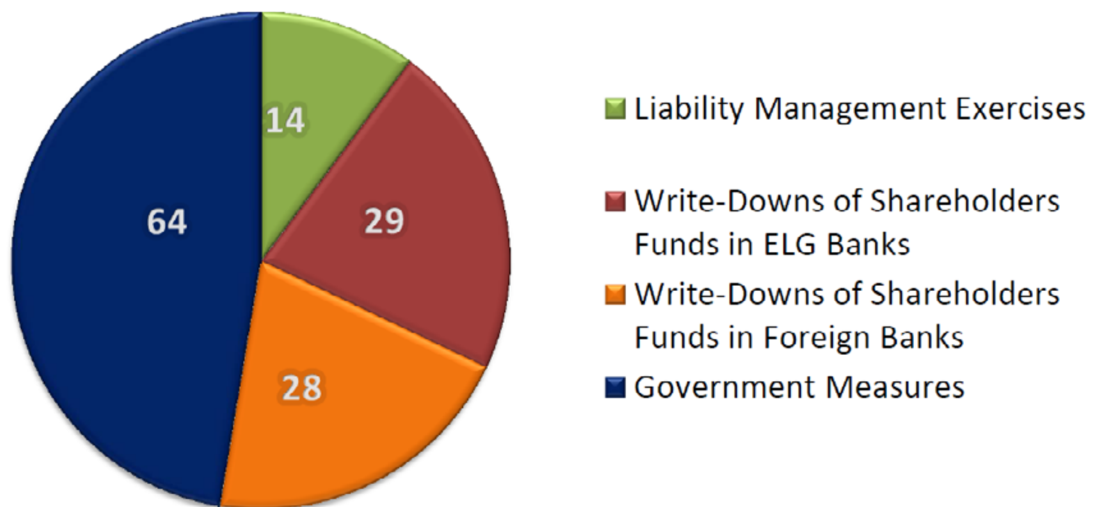


Source: Laeven and Valencia, 2012

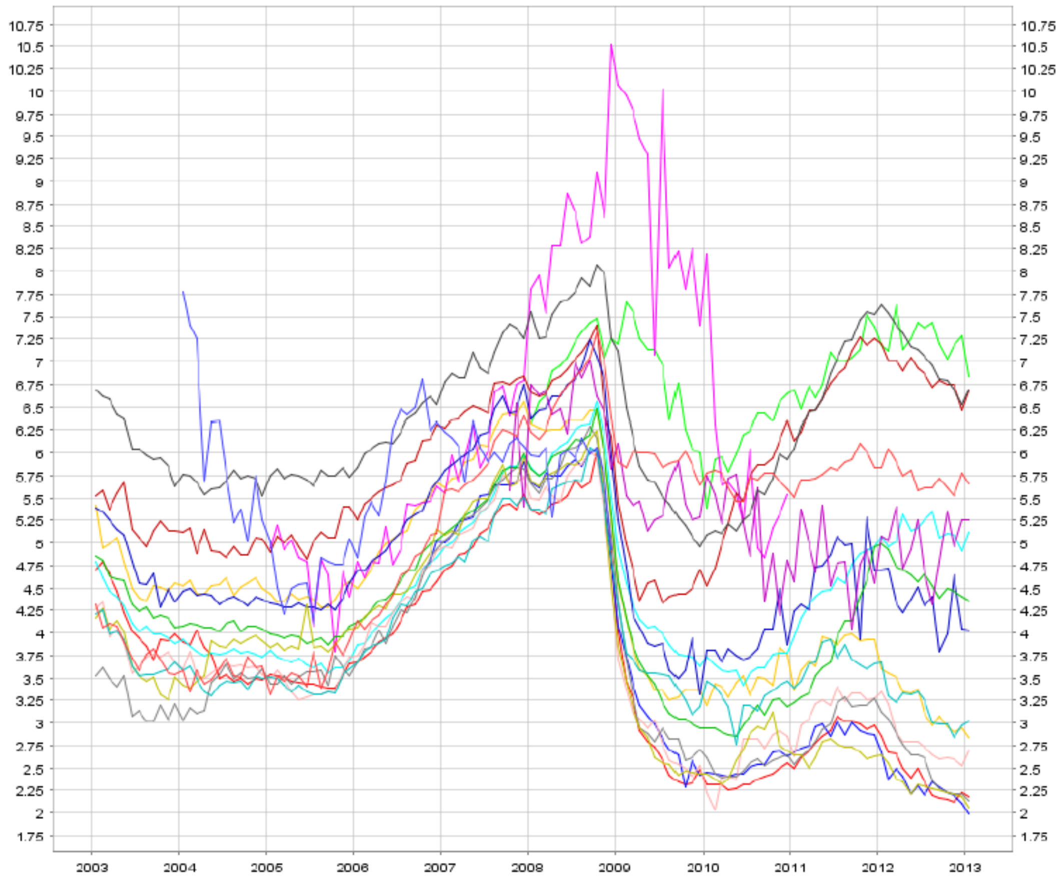

Ireland: Components of Debt/GDP
Contrib of banks
Starting debt
%
140
120
100
80
60
40
20
0
2007
2008
2009
2010
2011
2012
2013
2014


Ireland: Components of Debt/GDP
Contrib of GDP drop
Contrib of rest of deficit
Starting debt
%
140
120
100
80
60
40
20
0
2007
2008
2009
2010
2011
2012
2013
2014

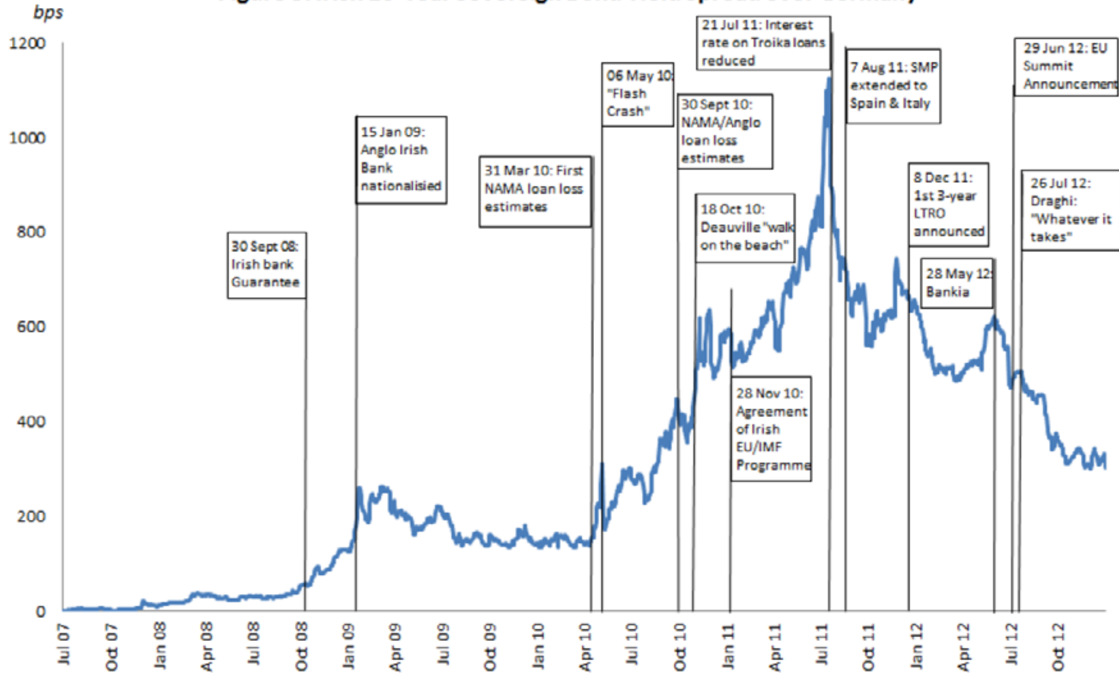

Ireland: Components of Debt/GDP
140
120
100
80
60
40
20
0
%
Contrib of banks
Contrib of GDP drop
Contrib of rest of deficit
Starting debt
2007
2008
2009
2010
2011
2012
2013
2014


Ireland: Allocation of banking losses/
cost of capital injections 2009-2011 (€bn)
14
29
28
64
Liability Management Exercises
Write-Downs of Shareholders Funds in ELG Banks
Write-Downs of Shareholders Funds in Foreign Banks
Government Measures

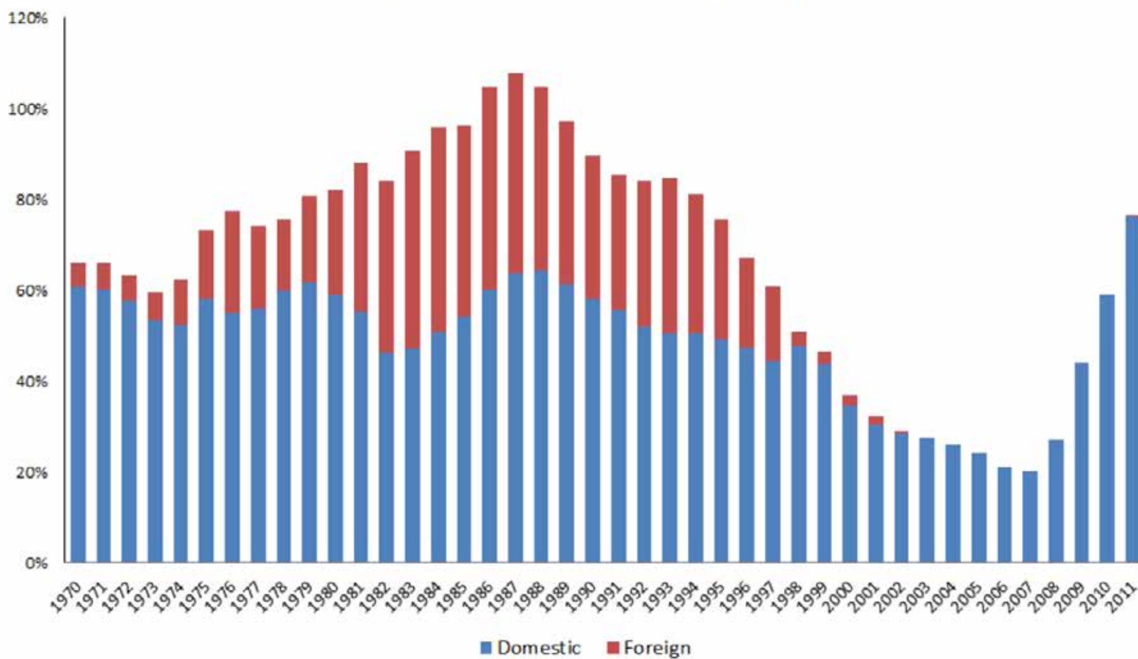
Source: Thomson Reuters Datastream (monthly data)


10.75
10.5
10.25
10
9.75
9.5
9.25
9
8.75
8.5
8.25
8
7.75
7.5
7.25
7
6.75
6.5
6.25
6
5.75
5.5
5.25
5
4.75
4.5
4.25
4
3.75
3.5
3.25
3
2.75
2.5
2.25
2
1.75
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

Austria, Euro [2] (Percent per annum)
Belgium, Euro [3] (Percent per annum)
Cyprus, Euro [4] (Percent per annum)
Germany, Euro [5] (Percent per annum)
Estonia, Estonian kroon [6] (Percent per annum)
Spain, Euro [7] (Percent per annum)
Finland, Euro [8] (Percent per annum)
France, Euro [9] (Percent per annum)
Greece (GR), Euro [10] (Percent per annum)
Ireland, Euro [11] (Percent per annum)
Italy, Euro [12] (Percent per annum)
Luxembourg, Euro [13] (Percent per annum)
Malta, Euro [14] (Percent per annum)
Netherlands, Euro [15] (Percent per annum)
Portugal, Euro [16] (Percent per annum)
Slovenia, Euro [17] (Percent per annum)
Slovakia, Slovak koruna [18] (Percent per annum)

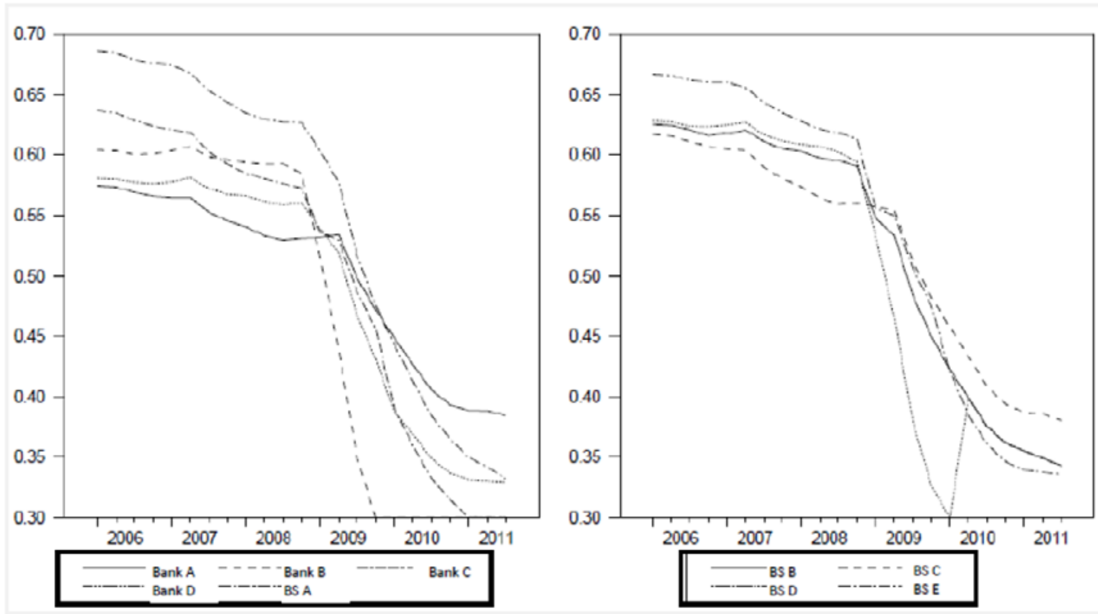


Source: Thomson Reuters Datastream



Source: NTMA, AMECO

Elasticity of Irish Variable Mortgage Rate to 3-Month EURIBOR
(Recursive Estimates)



Source: Central Bank of Ireland