



# Euro Area Fact Book

The euro area came into existence on 1 January 1999 when the euro was officially launched in 11 EU member states. The euro area now comprises 17 member states and accounts for almost 15% of world GDP – second only to the United States of America.

Prior to the launch of the euro many critics noted that a monetary union would not work without a fiscal union. The Stability and Growth Pact, which among other things stipulates that government debt should be below 60% of GDP and that the government deficit should be below 3% of GDP, was supposed to work as a safeguard to ensure that member states implemented prudent fiscal policies. However, fiscal slippage did take place in a number of countries including France and Germany, but the Council then failed to apply sanctions. Following the financial crisis, which caused a substantial deterioration in government budgets, the euro area as a whole now breaches both the government debt and deficit limit.

The financial crisis became a debt crisis when revisions of Greek budget data in the autumn of 2009 showed that the fiscal situation was substantially worse than previously thought. Greece was then granted a EUR110bn EU/IMF package in May 2010. In the meantime the debt crisis had become contagious and in an attempt to stop the crisis the EU and IMF on 9 May 2010 presented rescue funds totalling EUR750bn and the ECB announced that it would begin to purchase government bonds in the secondary market. Ireland, which had a government budget deficit of 32% of GDP in 2010 caused by one-off expenditures to bank rescues, was the first country to receive a EUR85bn rescue package from the new funds in November 2010. Portugal received a EUR78bn rescue package in May 2011 and Greece was committed EUR109bn in a second rescue package in July 2011. Substantial fiscal tightening in Greece and Ireland has resulted in a sharp reduction in budget deficits, but has also caused severe recessions.

At the Euro Summit on 26 October 2011, leaders agreed on a comprehensive package to combat the debt crisis. The *summit statement* includes agreements on leveraging the European rescue fund (see below), recapitalising banks, a 50% voluntary debt reduction for private investors in Greek government debt and intentions to set up a public guarantee scheme to support banks' access to funding.

The *European Financial Stability Facility* (EFSF) was created as part of the deal announced on 9 May 2010. At the EU summit on 21 July 2011, it was agreed to enhance the capabilities of the EFSF by increasing its actual lending capacity to EUR440bn and allowing it to purchase government bonds in the secondary market (based on ECB analysis) and for EFSF funds to be used for recapitalisation of banks. At the Euro Summit in October 2011 two models for leveraging the EFSF were agreed: A first loss insurance model and setting up Special Purpose Vehicles to attract investors. The two models may increase the EFSF remaining firepower to around EUR1000bn.

## Key facts

- 17 member states
- Population: 332 million (2010).
- GDP: EUR9.2trn (14.6% of World GDP)
- GDP per capita: EUR27,700.
- Euro Group President: Jean Claude Juncker
- ECB President: Mario Draghi

## Economic characteristics

- Economic and monetary union
- Second highest GDP in the world
- Three member states have an EU/IMF programme
- Large public sector
- Large government debt and deficit
- High unemployment rate

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The European Financial Stability Mechanism (EFSM), which has EUR60bn administered by the European Commission, also contributes to the rescue packages as does the IMF, which has committed EUR250bn. The European Stability Mechanism (ESM), which will be a permanent international institution located in Luxembourg, will take over the roles of the EFSF and EFSM from mid-2013 at the latest.

The debt crisis has put substantial pressure on the financial system within the euro area. EU wide bank stress tests published in October 2009 and in July 2010 were widely criticised for not taking the potential consequences of the debt crisis fully into account. Indeed the stress tests failed to forecast the Irish banking crisis less than four months prior to the banking sector collapse.

The *European Banking authority*, which from 1 January 2011 took over the responsibilities of the Committee of European Banking Supervisors (CEBS), published a third stress test in July 2011. This stress test gave access to more detailed information on each of the participating banks, but still has difficulties identifying risky banks. Dexia, which came twelfth out of 91 banks, needed state guarantees from Belgium and France less than three months after the stress tests. EBA estimates that in order to achieve the 9% capital ratio target agreed at the Euro Summit on 26 October the total recapitalisation needed for euro area banks is EUR106bn.

The *European Central Bank* is in charge of monetary policy within the euro area. Its primary objective is to maintain price stability. The ECB Governing Council has defined this as keeping euro area inflation (HICP) below, but close to, 2%. The ECB reserves its main policy tool - the interest rate - to achieving this target. Other measures are used to secure the smooth functioning of the financial system. These non-standard measures include a covered bond programme, a Securities Market Programme (SMP) for government bond purchases in the secondary market and long-term Refinancing Operations (LTRO) with full allotment. The ECB Governing Council consists of six executive board members and the governors of the national central banks of the euro area countries. Executive board members including the ECB president serve for eight years. The ECB is located in Frankfurt, Germany.

The *Eurogroup* is the main political body of the euro area and is comprised of the finance ministers of the euro area, the Commissioner for economic and monetary affairs and the President of the European Central Bank. The Eurogroup meets the day before the regular *Economic and Financial Affairs Council* (Ecofin). During the debt crisis many key decisions have been taken at the level of the heads of state or government of the euro area. At the Euro Summit on 26 October it was agreed to hold *Euro Summits* at the level of heads of state or government at least twice a year.

The need for fiscal tightening at the euro area level and the ongoing deleveraging in the private sector means that euro area GDP growth is likely to remain sluggish for a prolonged period. Exports are performing well, but the growth rotation to domestic demand has failed to materialise. As a result, the unemployment rate, which currently stands at 10%, is expected to remain elevated and could even start to climb again.

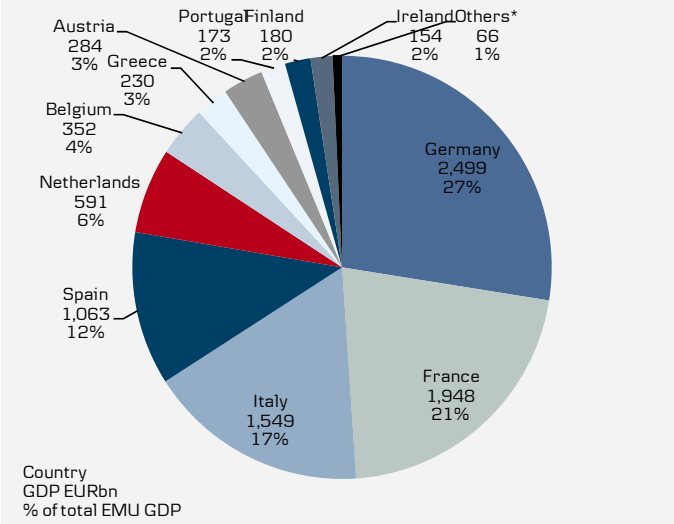
## Outlook for key economic variables

EURO	GDP (1)			CPI (1)			Unemployment (2)			Govt. Budget (3)			Govt. Debt (3)		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
Austria	2.1	3.3	1.6	1.7	3.2	2.2	4.4	4.1	4.1	-5.6	-3.5	-3.2	72.2	72.3	73.9
Belgium	2.1	2.4	1.5	2.3	3.2	2.0	8.4	7.9	8.1	-6.3	-3.5	-3.4	96.7	94.6	94.3
Cyprus	1.0	0.0	1.0	2.6	4.0	2.4	6.4	7.4	7.2	-6.3	-6.6	-4.5	60.8	64.0	66.4
Estonia	3.1	6.5	4.0	2.9	5.1	3.5	16.9	13.5	11.5	0.2	-0.1	-2.3	6.6	6.0	5.6
Finland	3.6	3.5	2.2	1.7	3.1	2.0	8.4	7.8	7.6	-4.2	-1.0	0.3	48.4	50.2	50.3
France	1.4	1.7	1.4	1.7	2.1	1.4	9.8	9.5	9.2	-7.1	-6.7	-6.1	82.3	86.8	89.4
Germany	3.6	2.7	1.3	1.2	2.2	1.3	7.1	6.0	6.2	-4.6	-3.6	-2.2	84.0	82.6	81.9
Greece	-4.4	-5.0	-2.0	4.7	2.9	1.0	12.5	16.5	18.5	-7.1	-8.0	-6.9	142.8	165.6	189.1
Ireland	-0.4	0.4	1.5	-1.6	1.1	0.6	13.6	14.3	13.9	-13.3	-10.3	-8.6	94.9	109.3	115.4
Italy	1.3	0.6	0.3	1.6	2.6	1.6	8.4	8.2	8.5	-5.6	-4.0	-2.4	119.0	121.1	121.4
Luxembourg	3.5	3.6	2.7	2.3	3.6	1.4	6.2	5.8	6.0	-4.4	-0.7	-1.2	18.4	19.7	21.5
Malta	3.1	2.5	2.2	2.0	2.6	2.3	6.9	6.3	6.2	-4.4	-2.9	-2.9	67.1	66.3	66.1
Netherlands	1.6	1.6	1.3	0.9	2.5	2.0	4.5	4.2	4.2	-5.7	-3.8	-2.8	63.7	65.5	66.5
Portugal	1.3	-2.2	-1.8	1.4	3.4	2.1	12.0	12.2	13.4	-7.3	-5.9	-4.5	92.9	106.0	111.8
Slovakia	4.0	3.3	3.3	0.7	3.6	1.8	14.4	13.4	12.3	-7.9	-4.9	-3.8	41.8	44.9	46.9
Slovenia	1.2	1.9	2.0	1.8	1.8	2.1	7.3	8.2	8.0	-5.6	-6.2	-4.7	37.3	43.6	47.2
Spain	-0.1	0.8	1.1	2.0	2.9	1.5	20.1	20.7	19.7	-12.5	-6.1	-5.2	60.1	67.4	70.2
Euro average	1.8	1.6	1.1	1.6	2.5	1.5	10.1	9.9	9.9	-6.6	-5.9	-5.1	85.8	88.6	90.0
Denmark	1.7	1.5	1.5	2.3	3.2	2.4	4.2	4.5	4.4	-3.5	n.a.	n.a.	43.7	44.3	45.8

1) % y/y. 2) % of labour force. 3) % of GDP.

Sources: Reuters EcoWin and Danske Markets

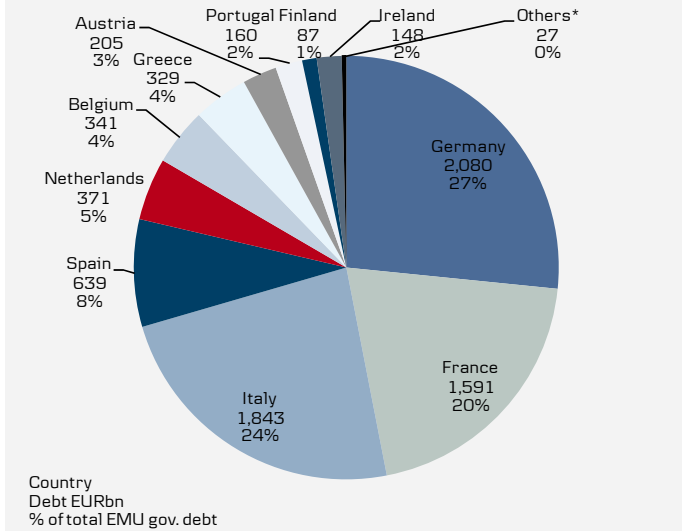
Share in total EMU nominal GDP (EUR9.2trn)



\*Slovakia, Slovenia, Luxembourg, Cyprus, Malta, Estonia

Sources: Eurostat

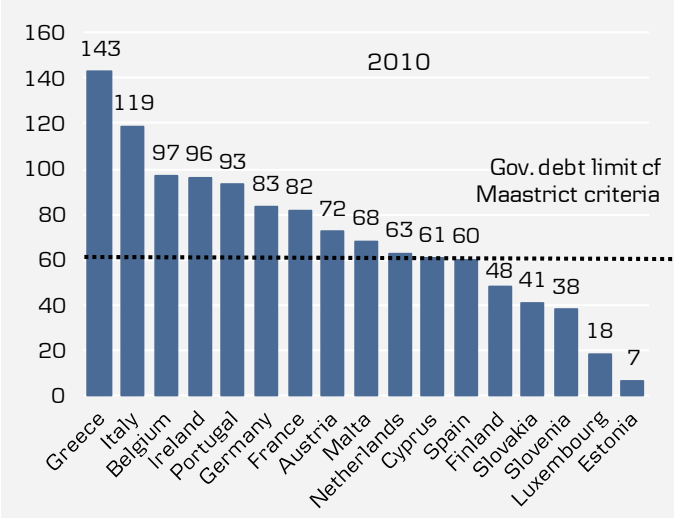
Share in total EMU government debt (EUR7.9trn)



\*Slovakia, Slovenia, Luxembourg, Cyprus, Malta, Estonia

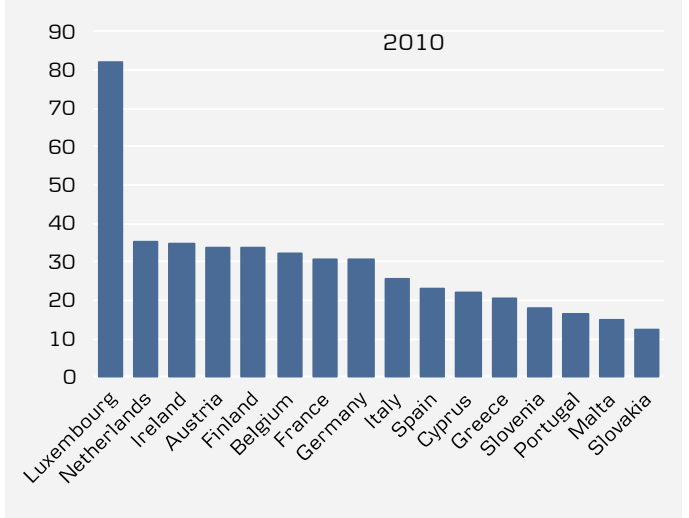
Sources: Eurostat

Worrying European debt crisis - debt must be reduced



Sources: Eurostat

GDP per capita in 2010



Estonia is missing

Sources: IMF

**Business Climate - Ranking of economies, sorted by "Ease of Doing Business"**

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business	Corruption index
Ireland	9	11	38	78	15	5	7	23	37	9	8.0
Finland	13	32	55	26	32	59	65	6	11	6	9.2
Estonia	17	37	24	13	32	59	30	4	50	70	6.5
Germany	22	88	18	67	15	93	88	14	6	35	7.9
Belgium	25	31	41	177	46	16	70	44	21	8	7.1
France	26	21	19	142	46	74	55	26	7	44	6.8
Netherlands	30	71	105	46	46	109	27	13	29	11	8.8
Portugal	31	59	111	31	89	44	73	27	24	21	6.0
Austria	32	125	57	33	15	132	104	25	9	20	7.9
Cyprus	37	26	75	66	72	93	32	19	104	22	6.3
Slovakia	41	68	56	9	15	109	122	102	71	33	6.4
Slovenia	42	28	63	97	116	20	80	56	60	38	4.3
Luxembourg	45	77	42	129	116	120	15	32	1	45	8.5
Spain	49	147	49	54	46	93	71	54	52	19	6.1
Italy	80	68	92	95	89	59	128	59	157	30	3.9
Greece	109	149	51	153	89	154	74	84	88	49	3.5
Malta	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.6
Singapore	1	4	2	15	6	2	4	1	13	2	9.3
Denmark	6	27	10	30	15	28	13	5	30	5	9.3
Chad	183	182	101	137	152	154	179	171	164	183	1.7

Sources: World Bank Group and Transparency International

**Credit ratings and outlook**

Economy	Moody's rating	Outlook	S&P rating	Outlook	Fitch rating	Outlook
Austria	Aaa	STABLE	AAA	STABLE	AAA	STABLE
Belgium	Aa1	REVIEW	AA+	NEG	AA+	NEG
Cyprus	Baa1	NEG	BBB+	NEG	BBB	NEG
Estonia	A1	STABLE	AA-	STABLE	A+	STABLE
Finland	Aaa	STABLE	AAA	STABLE	AAA	STABLE
France	Aaa	STABLE	AAA	STABLE	AAA	STABLE
Germany	Aaa	STABLE	AAA	STABLE	AAA	STABLE
Greece	C+	DEVELOP	CC	NEG	CCC	NEG
Ireland	Ba1	NEG	BBB+	STABLE	BBB+	NEG
Italy	A2	NEG	A	NEG	A+	STABLE
Luxembourg	Aaa	STABLE	AAA	STABLE	AAA	STABLE
Malta	A1	STABLE	A	STABLE	A+	STABLE
Netherlands	Aaa	STABLE	AAA	STABLE	AAA	STABLE
Portugal	Ba2	NEG	BBB-	NEG	BBB-	NEG WATCH
Slovakia	A1	STABLE	A+	POS	A+	STABLE
Slovenia	Aa3	NEG	AA-	NEG	AA-	STABLE
Spain	A1	NEG	AA-	NEG	AA-	NEG

Sources: Bloomberg

## Key macroeconomic indicators

### Structural indicators

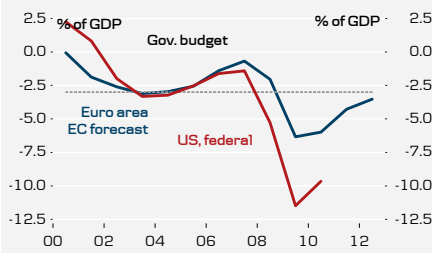
Euro area (EMU) versus the US							
	When	US	EMU		When	US	EMU
GDP(1)	Q2-11	0.3	0.2	GDP per capita (3)	2010	34,179	27,799
Public sector (2)	2010	36.2	50.9	Unemployment (4)	2010	9.1	10.0
Private cons (2)	Q2-11	70.8	57.7	Inflation (5)	Apr-11	3.9	3.0
Investments (2)	Q2-11	12.5	19.8	Public budget (2, 6)	2012	-6.9	-3.5
Exports (2)	Q2-11	13.3	43.4	Public debt (2, 6)	2012	105.7	88.7
C/A (2) - 12M av.	Q2-11	-0.9	-0.4	Long-term interest rates	Apr-11	1.96	4.08

1: % q/q, 2: Pct of GDP, 3: EUR per capita, 4: % of labour force, 5: % y/y, 6: EC fcst for EMU, President's budget for US

Sources: Reuters EcoWin and Danske Markets

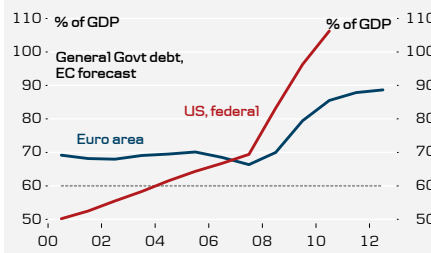
### Public finances

#### The Maastricht criteria is not fulfilled



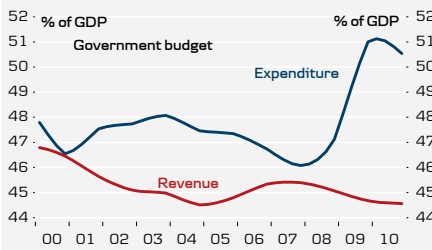
Sources: Reuters EcoWin and Danske Markets

#### Growth in government debt has slowed



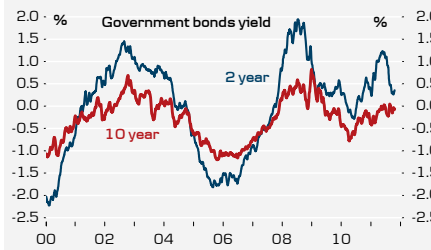
Sources: Reuters EcoWin and Danske Markets

#### Budget deficit caused by a sharp rise in expenditures



Sources: Reuters EcoWin and Danske Markets

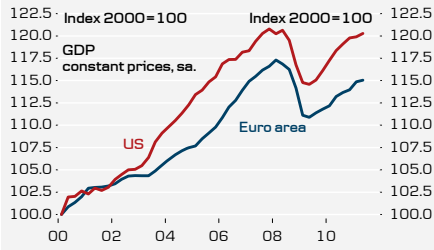
#### German government bond spread to US



Sources: Reuters EcoWin and Danske Markets

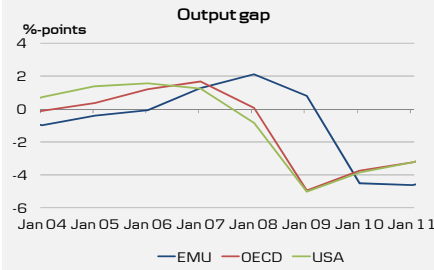
National Account

Moderate GDP rebound



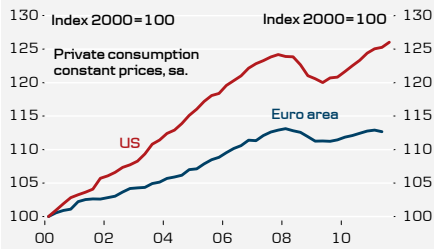
Sources: Reuters EcoWin and Danske Markets

Output gap has not narrowed yet



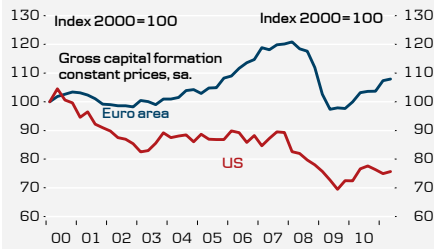
Sources: OECD

Private consumption at 2008 level



Sources: Reuters EcoWin and Danske Markets

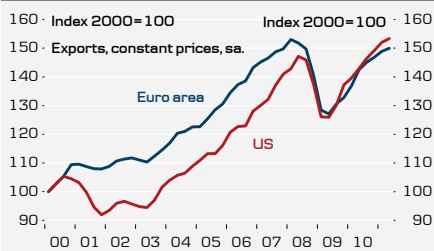
Investments have not fully recovered



Sources: Reuters EcoWin and Danske Markets

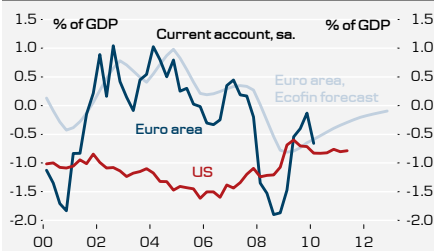
Export and trade

Exports have almost recovered



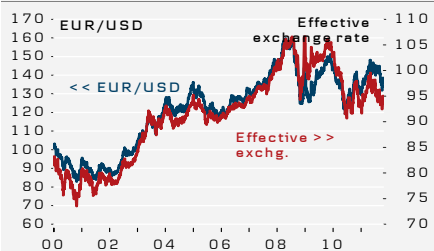
Sources: Reuters EcoWin and Danske Markets

Small current account deficit



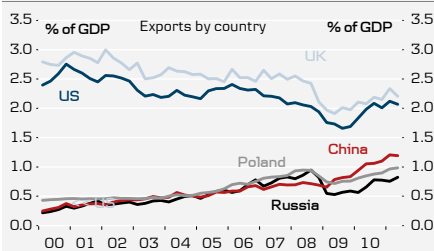
Sources: Reuters EcoWin and Danske Markets

The euro strengthened in the 00s



Sources: Reuters EcoWin and Danske Markets

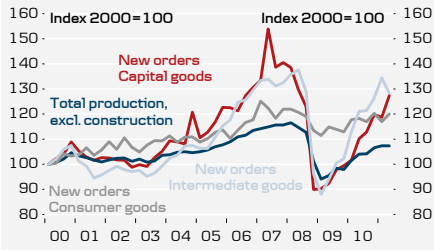
Exports to China are rising



Sources: Reuters EcoWin and Danske Markets

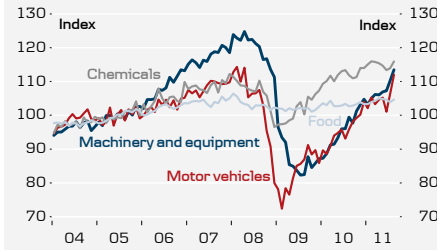
Industrial activity indicators

Industrial recovery



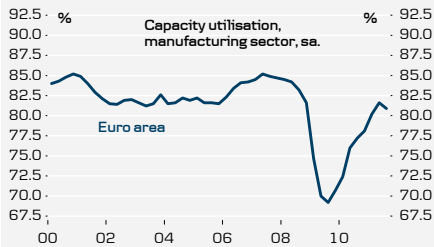
Sources: Reuters EcoWin and Danske Markets

Industrial production, sectors



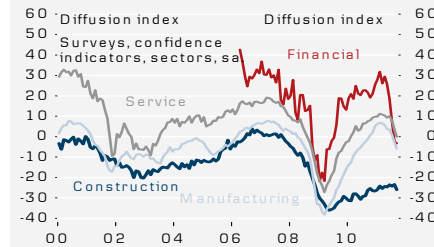
Sources: Reuters EcoWin and Danske Markets

Capacity utilisation



Sources: Reuters EcoWin and Danske Markets

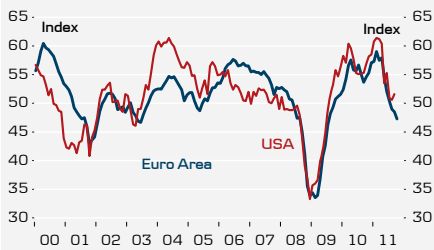
Business confidence is going down



Sources: Reuters EcoWin and Danske Markets

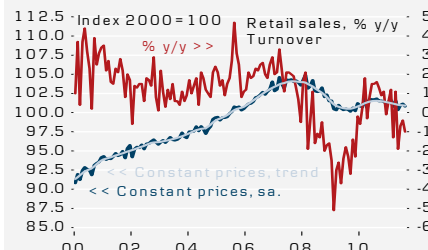
Leading indicators

PMI has declined sharply



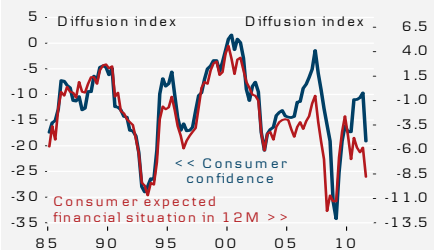
Sources: Reuters EcoWin and Danske Markets

Retail sales are decreasing again



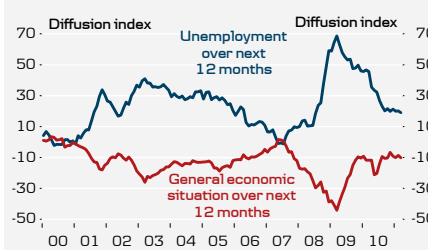
Sources: Reuters EcoWin and Danske Markets

Consumer confidence is falling again



Sources: Reuters EcoWin and Danske Markets

... and the budding optimism is gone



Sources: Reuters EcoWin and Danske Markets



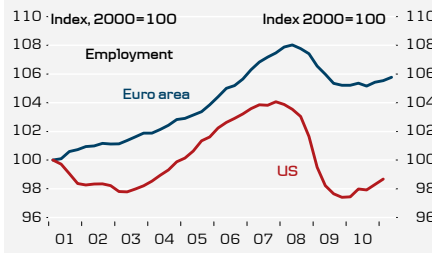
Labour market and demographics

Unemployment rate has topped



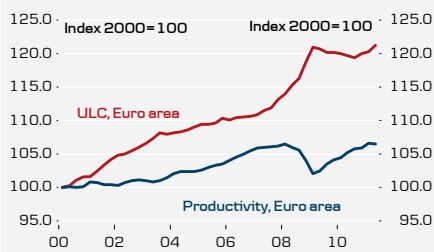
Sources: Reuters EcoWin and Danske Markets

... and employment is recovering slowly



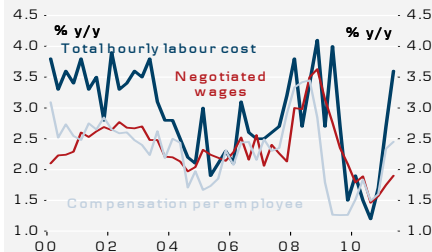
Sources: Reuters EcoWin and Danske Markets

Productivity hampered by high ULC



Sources: Reuters EcoWin and Danske Markets

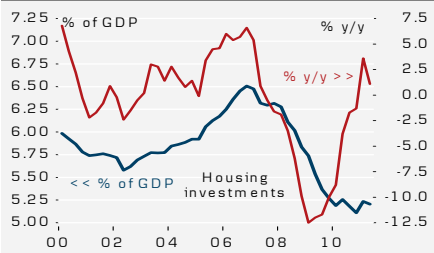
High wage increases



Sources: Reuters EcoWin and Danske Markets

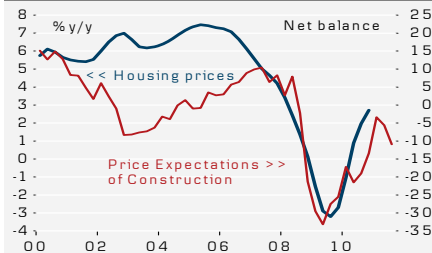
Housing market

Housing investments are recovering



Sources: Reuters EcoWin and Danske Markets

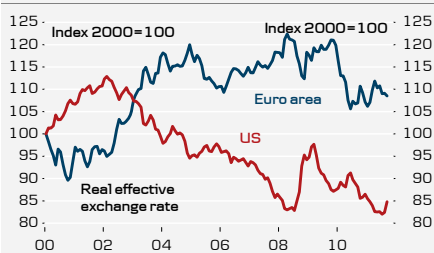
House prices stabilising



Sources: Reuters EcoWin and Danske Markets

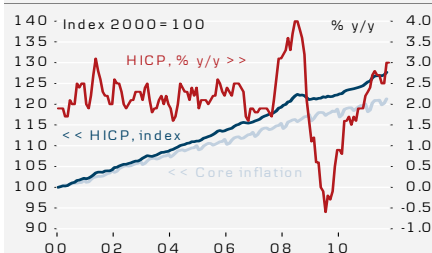
Competitiveness indicators

Real effective exchange rate



Sources: Reuters EcoWin and Danske Markets

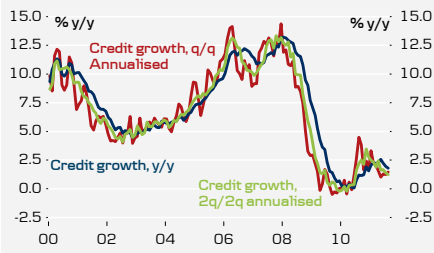
Inflation above inflation target



Sources: Reuters EcoWin and Danske Markets

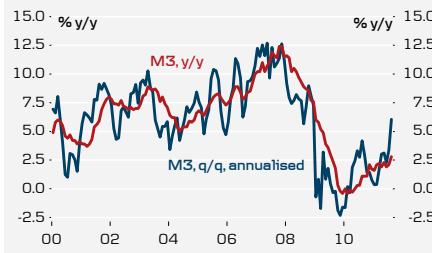
Money and credit

Low credit growth



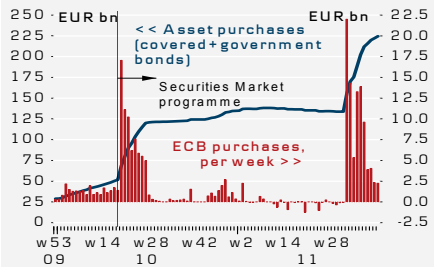
Sources: Reuters EcoWin and Danske Markets

Money supply is increasing



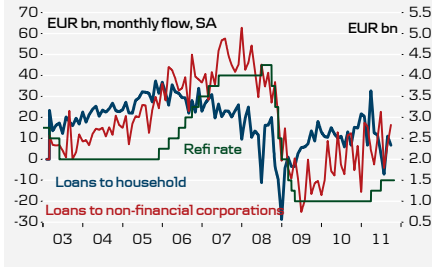
Sources: Reuters EcoWin and Danske Markets

ECB asset purchases



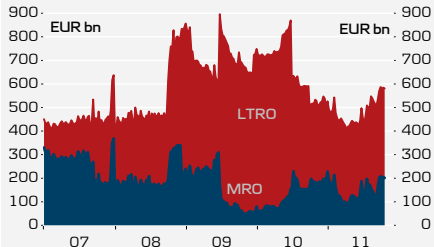
Sources: Reuters EcoWin and Danske Markets

Monthly loan flows



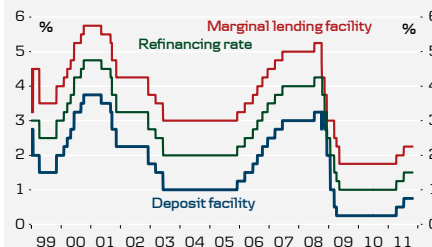
Sources: Reuters EcoWin and Danske Markets

ECB refinancing operations



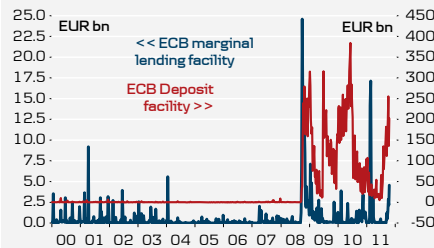
Sources: Reuters EcoWin and Danske Markets

ECB policy rates



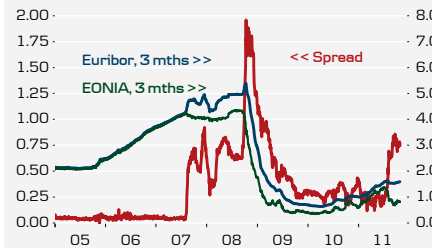
Sources: Reuters EcoWin and Danske Markets

ECB marginal lending and deposit facility



Sources: Reuters EcoWin and Danske Markets

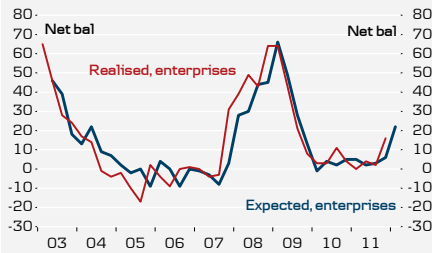
Euribor-Eonia 3M spread



Sources: Reuters EcoWin and Danske Markets

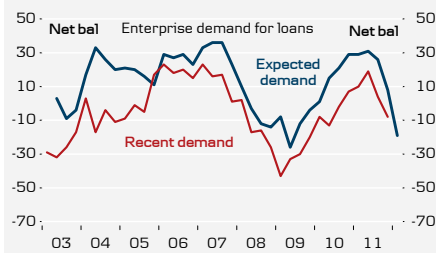
**Bank lending survey**

**Tightening in credit standards on loans to enterprises**



Sources: Reuters Ecowin and Danske Markets

**Lower enterprise demands for loans**



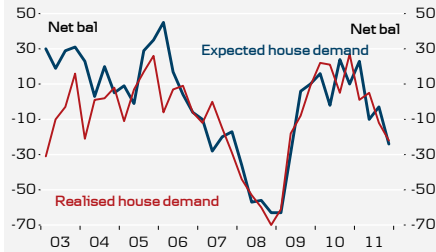
Sources: Reuters Ecowin and Danske Markets

**Tightening in credit standards on loans for house purchase**



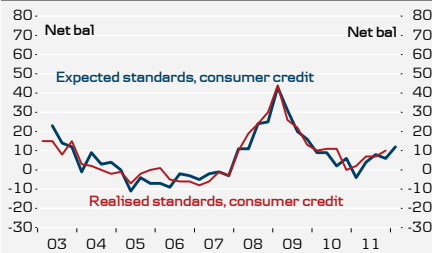
Sources: Reuters Ecowin and Danske Markets

**Lower demand for loans for house purchase**



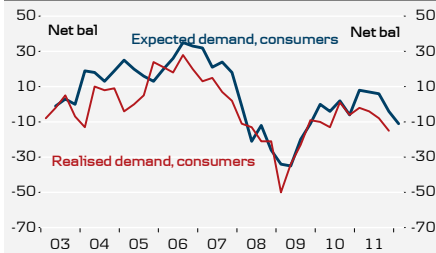
Sources: Reuters Ecowin and Danske Markets

**Tightening in credit standards on consumer credit**



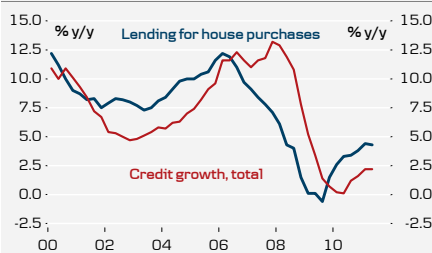
Sources: Reuters Ecowin and Danske Markets

**Lower demand for consumer credit**



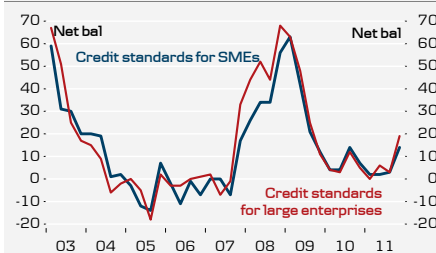
Sources: Reuters Ecowin and Danske Markets

**Growth in lending for house purchases**



Sources: Reuters Ecowin and Danske Markets

**Credit standards for SMEs**



Sources: Reuters Ecowin and Danske Markets

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