

# **European Debt Crisis**

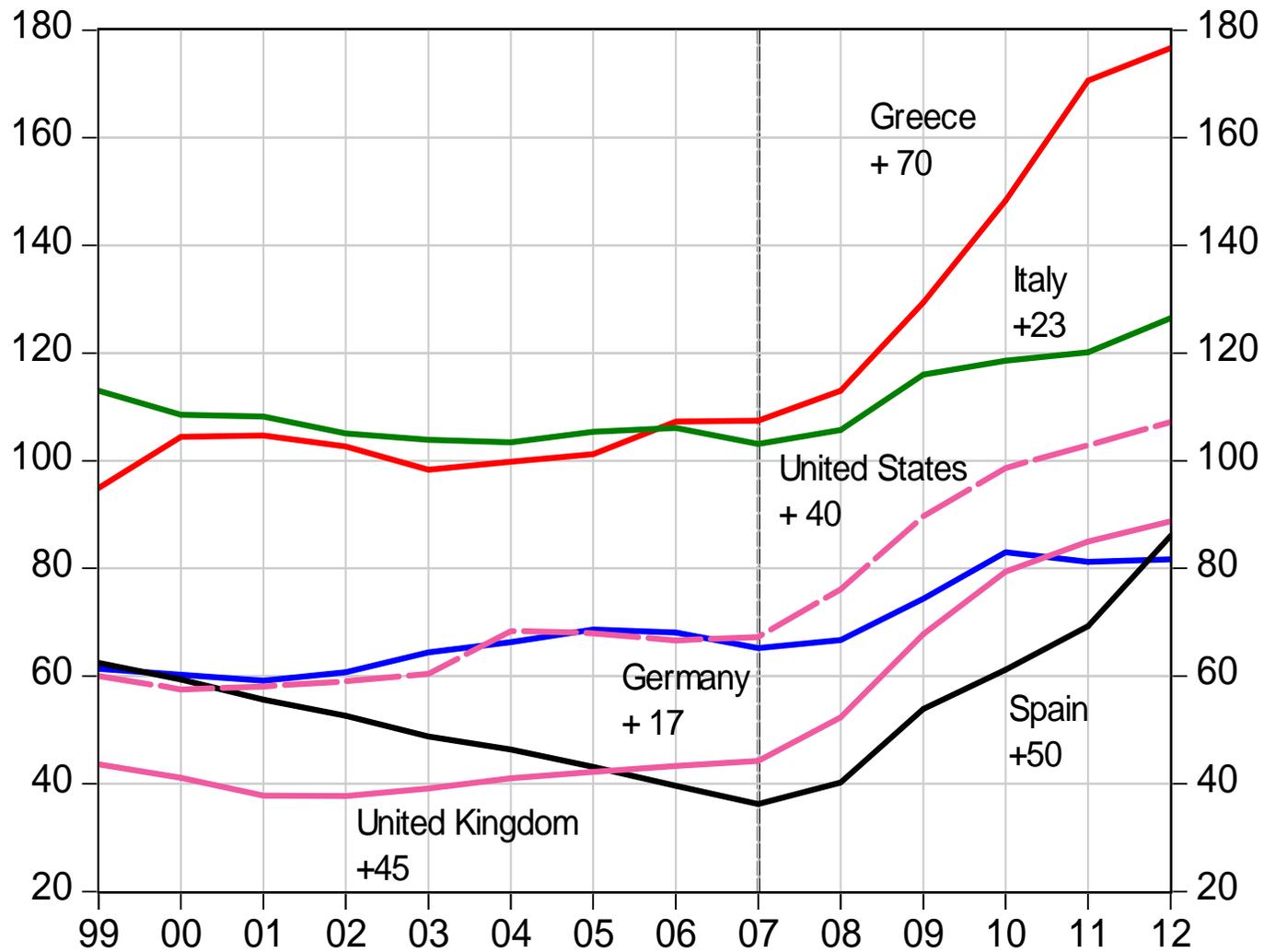
**Manfred J.M. Neumann**  
**University of Bonn**

Istanbul, 19. November 2012

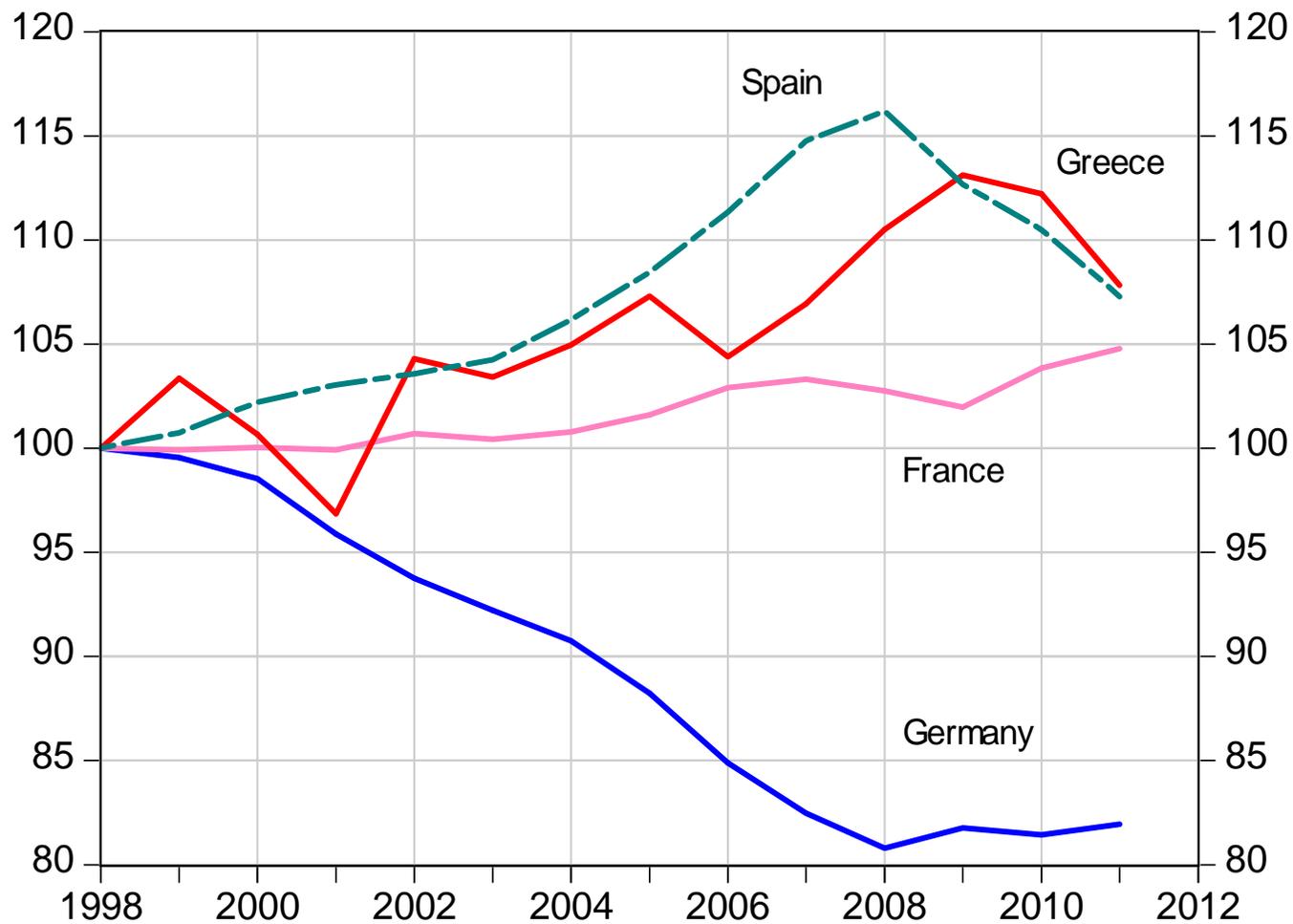
**1. Greece:** a bottomless pit ?

**2. European Central Bank (ECB):**

on forbidden paths ?



**Debt / GDP - Ratios**



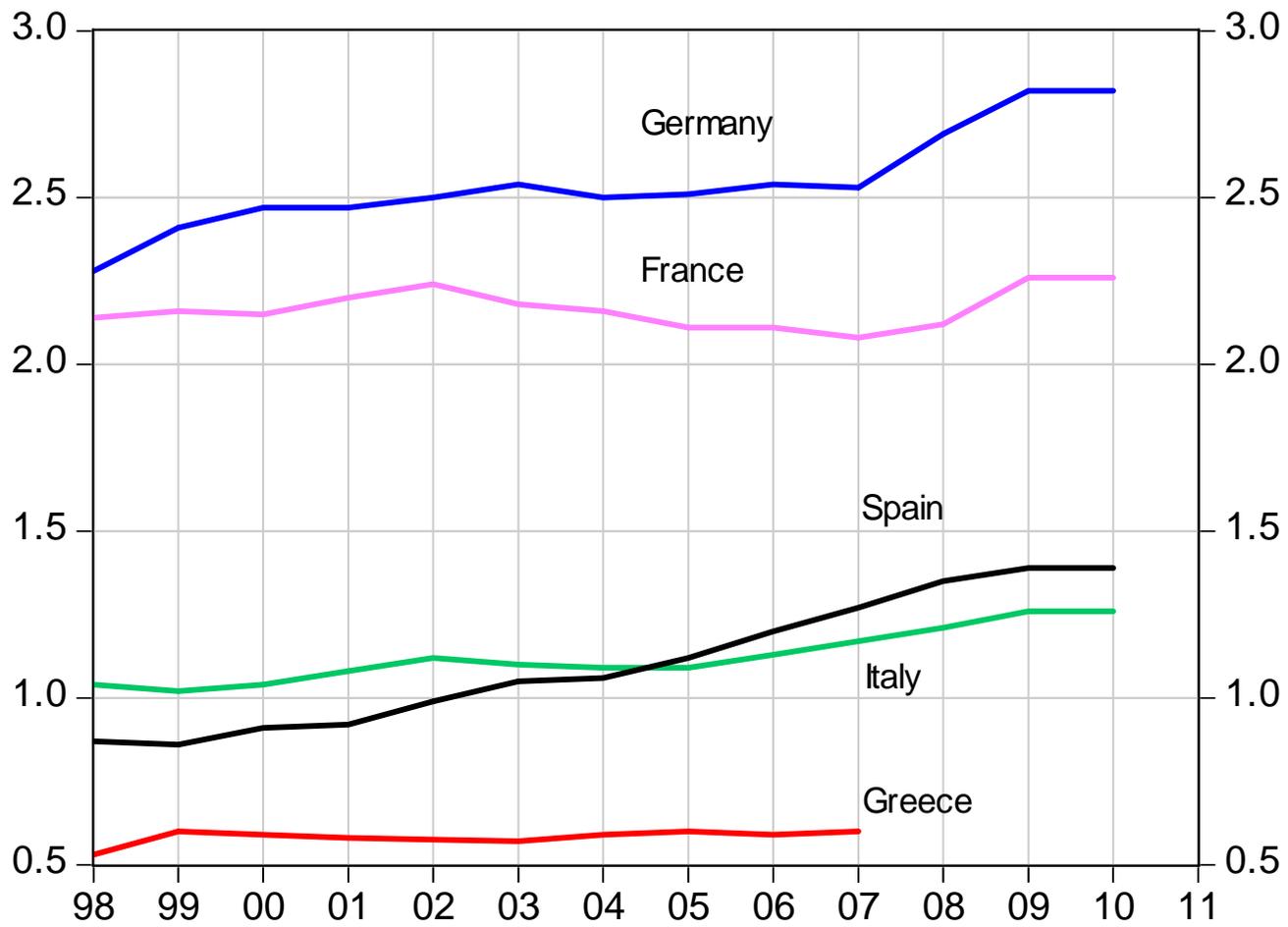
**Real Effective Exchange Rates vis-à-vis Eurozone  
(based on unit labour cost)**

# Cumulative Change of Real Exchange Rates 1998 - 2011

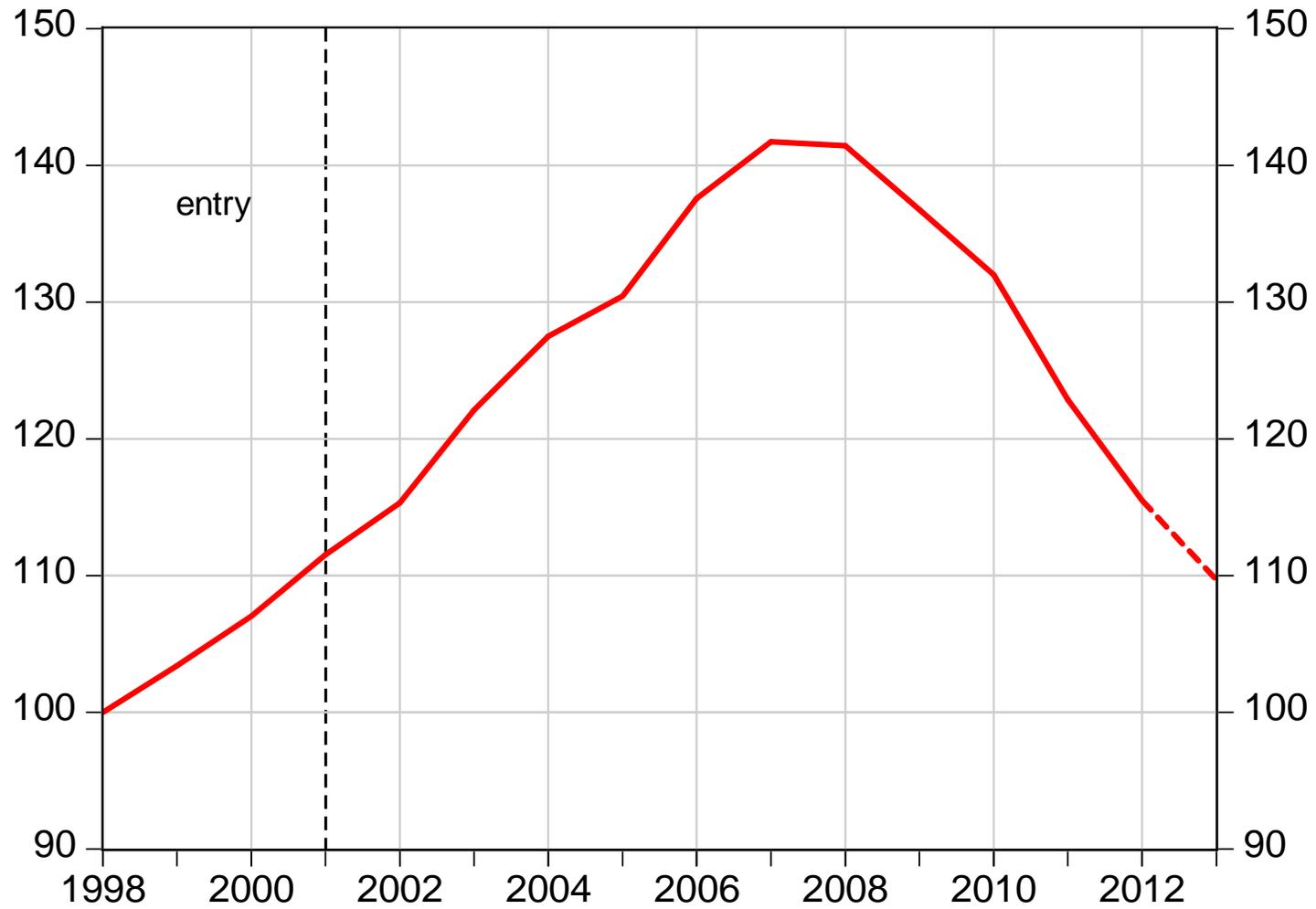
(vis-à-vis 16 euro countries + 20 trading partners);

percent	GDP-deflator	Unit labour cost
<b>Germany</b>	- 18,2	- 19,4
Austria	- 4,3	- 7,0
Finland	- 6,8	2,0
...		
Portugal	3,9	5,0
Spain	11,5	4,8
<b>Greece</b>	<b>11,0</b>	<b>6,0</b>

Source: Deutsche Bundesbank



**R&D-Expenditure, percent of GDP**



## Greek GDP: Race to the bottom

## Greece

- past growth driven by excessive consumption
- extremely poor public administration (taxes, corruption etc.)
- protectionist regulation of professions in favour of insiders
- extremely poor public administration + messy politics

## **Competitiveness : inside or outside the euro ?**

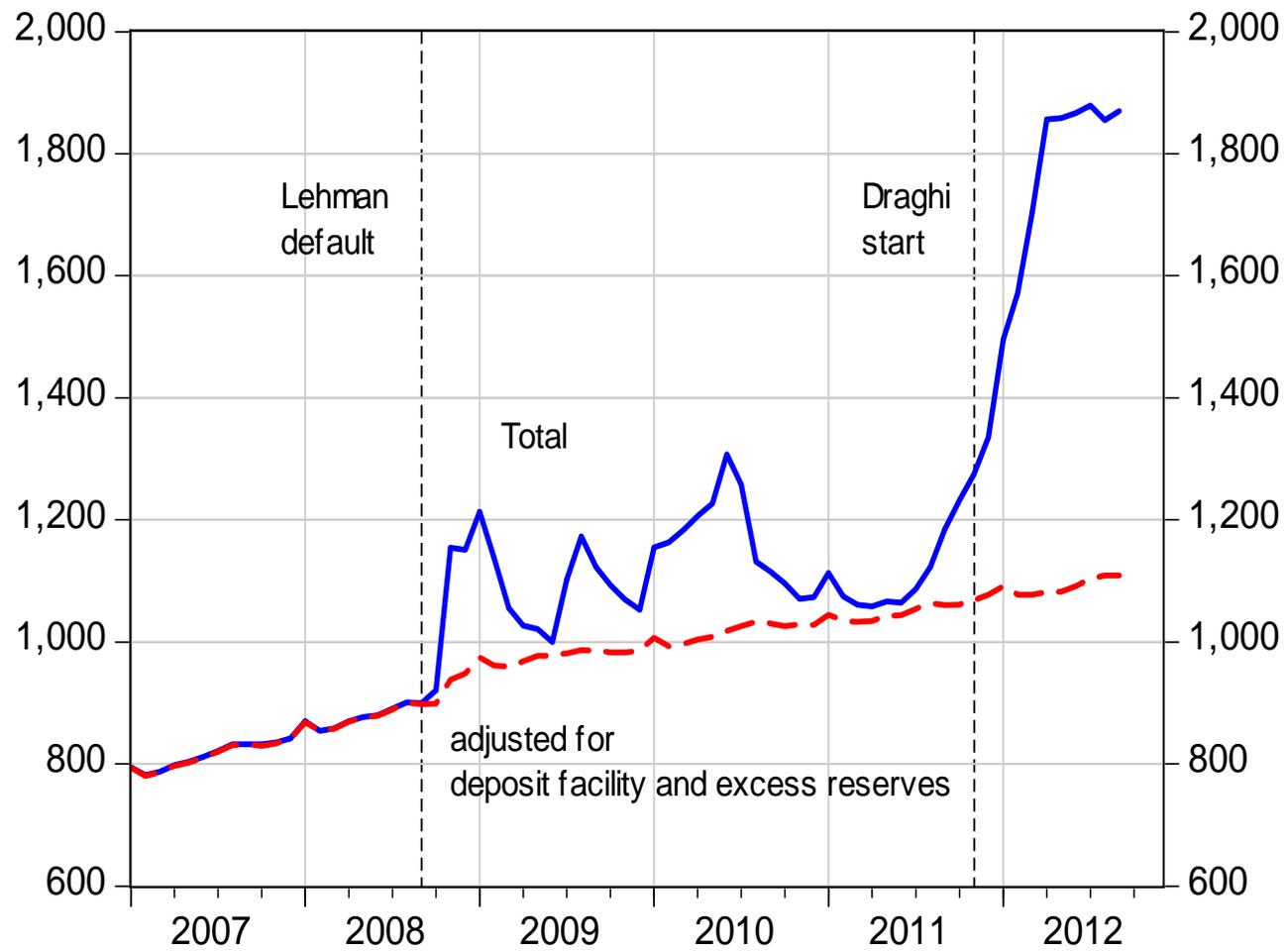
Take responsibility for the mess

Create attractive conditions for private investment

## ECB on forbidden paths

supporting overly indebted member states

- \* excessive lending to banks
  - jumbo tenders
  - long-term (maturities up to 3 years)
  - reduced quality of collateral
- \* systematic purchase of sovereign bonds
  - SMP securities market programme
  - EUR 220 billion
  - OMT outright monetray transactions
  - no limits (quantity, duration)



## Monetary Base (Euro billion)

## **Mario Draghi**

does he stand for monetary stability

or

for misusing monetary policy

as a source of government finance ?

**If the latter,**

the provision of independence to the ECB  
loses justification

so does the rule „one man, one vote“