Europe after the crisis: the potential for positive surprises

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How Europe is beating the crisis
Europe’s business cycle decoupled from the US

**Industrial production, % yoy**

- **US**
- **Eurozone**

**Unemployment, %**

- **US**
- **Eurozone**

Source: Thomson Reuters Datastream

Source: Bloomberg
Stress in the financial system

2yr government bond yields, %

Source: Bloomberg
Returning to growth – a two-pronged approach

• Re-establish financial stability and confidence

• Structural reform to improve economic efficiency
Re-establish financial stability and confidence

Strengthening the euro’s governance

- Stringent budget surveillance
- Macroeconomic policy coordination
- Financial support mechanisms
- Banking union
What is good?

- Stability has returned
- New governance built quickly, despite hostile public opinion
- Improvement economic performance
- Reforms are paying off in countries that have been serious about them
- Even France is planning a ‘radical policy shift’
Challenges

• Maintain stability
• Make new governance work
• Implement / continue with reform
• Reverse increasingly eurosceptic public opinion
Europe will exceed expectations, because

- Expectations are very low
- Moving to a properly functioning monetary union
- Success of reforms and peer pressure will push laggards on to reform route
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