Financial institutions stare into the abyss

The need for concerted action is greater than ever, as imbalances across the eurozone are replicated globally, reports Chris Giles

The world economy may have entered a good place in which policymakers might want to look down their heads, but investors are forcing them to peer down to the abyss.

Financially that is very bad for the global economy. Central banks turned to unconventional measures to pump newly created money into their securities markets that had frozen. Governments and central banks have to take up the metaphorical risk from markets, and that is a hugely difficult task because many market risks are an implication of the crisis. It must be bailed out because deeply getting Hit the system and there is no alternative. The alternative is another financial and economic crisis, which would force them into the abyss.

These are positions of authority are worried. Christine Lagarde, the new managing director of the International Monetary Fund, has urged countries to make necessary adjustments. I believe there is a path to recovery, much nearer than before, and getting nearer. To navigate it, we need strong political will across the world leadership, even though it may be counter-intuitive, to take decisive action and implement the necessary reforms. The need for concerted action and balanced global growth has rarely been more urgent.

The world economy’s agenda on a grand scale, but also on a national and regional scale, are focused on a range of common economic problems. The problems range from inflation, to deficits, to unemployment, to the eurozone crisis, and to the challenge of keeping the eurozone together.

As advanced economies slow sharply and emerging economies boom, policymakers have not been able to do much to change the economic climate. Governments have put fiscal stimuli on hold and have focused on monetary measures to support the recovery. The eurozone crisis has intensified, with some members of the eurozone facing the prospect of default.

With the eurozone crisis deepening, fears are growing that the eurozone could break up, with a potential default by Greece, Portugal, and possibly Spain. If that happens, it could have serious implications for the global economy, with implications for inflation, wages, and interest rates. It would also have implications for the global financial system, with implications for the global economy.

The eurozone crisis is not the only threat to global growth. There are also concerns about the sustainability of fiscal policy in many advanced economies, which has led to high levels of government debt. This has led to concerns about the sustainability of fiscal policy, with implications for the global economy.

The world economy is facing a range of economic challenges, which will require concerted action and balanced global growth to overcome. It is not easy to see a way out of the current economic situation, but it is not impossible. It is a matter of putting the necessary reforms in place, and implementing them with determination and resolve.

Continued on Page 3
**World Economy / Eurozone**

Debt crisis deepens on Greek default fears

**Eurosouls**

The role of the central bank is under increased criticism

**Ralph Atkins**

For Jean-Claude Trichet, the president of the European Central Bank, the eurozone’s second bail-out plan — 50 billion euros to save Greece — is a matter not of rescue but of salvage. It assumes that the eurozone can reconnect with the international banks and investors, and that the Greek government will honour its commitments to cut its fiscal deficit. If Greece defaults on its obligations, the ECB will have to play a significant role in resuscitating the crisis-stricken member state. But the ECB’s role will be constrained by the parameters of the bail-out agreement, and the limits of the eurozone’s political institutions.

**GERMANY**

Domestic economy catches up

The future of the European Union is in doubt, but the German economy is recovering

Mr Zapatero, the Spanish prime minister, has said that the country’s hard-won fiscal reforms are needed to solve the eurozone’s debt crisis. But the German economy is recovering, and the ECB has become the sole lender of last resort for the eurozone. The ECB’s role will be constrained by the parameters of the bail-out agreement, and the limits of the eurozone’s political institutions.

**FRANCE**

Public debt looms large

The French government has acknowledged that it will have to reduce its deficit, but the scale of the task is daunting. The country’s fiscal policy is under pressure to meet the EU’s Stability and Growth Pact, which requires member states to keep their deficits below 3% of GDP. The French government has proposed a number of measures to reduce its deficit, including tax hikes and spending cuts, but it remains to be seen whether these measures will be enough to meet the EU’s targets.

**SPAIN**

Portugal vows to pay off its debt

The Portuguese government has announced a series of austerity measures to reduce the country’s debt. These measures include tax hikes and spending cuts, and the government has pledged to make the necessary sacrifices to meet the EU’s Stability and Growth Pact targets. However, the country’s fiscal policy is under pressure to meet the EU’s Stability and Growth Pact, which requires member states to keep their deficits below 3% of GDP.

**ITALY**

Italy is the eurozone’s most indebted country

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**GREECE**

Greece’s debt crisis
grows more complicated

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**NETHERLANDS**

Dutch economy

The Netherlands economy faces an uphill battle to recover from the debt crisis. The country’s fiscal policy is under pressure to meet the EU’s Stability and Growth Pact, which requires member states to keep their deficits below 3% of GDP. The Dutch government has announced a series of austerity measures to reduce the country’s debt. These measures include tax hikes and spending cuts, and the government has pledged to make the necessary sacrifices to meet the EU’s Stability and Growth Pact targets. However, the country’s fiscal policy is under pressure to meet the EU’s Stability and Growth Pact, which requires member states to keep their deficits below 3% of GDP.
Austerity drive slides into rancour and risk

Public finances

German and US moves klop fiscal policy in flux, writes Chris Giles

A t the Toronto summit, leaders of the G20 acknowledged the verdict of the decade – in the face of persistent fiscal imbalances, economic forecasts are so uncertain that the fiscal plans of advanced economies are often too meagre to keep the world from falling into an abyss. The Group of Seven (G7) was reduced to empty rhetoric and the world’s largest financial powerhouses are racing to decide how to stop banks from being bailed out three to four more times before the world’s banks – the cause of the 2008 crisis – are adamant that without the drive to rebuild capital buffers, their balance sheets will be close to underfunded by 1 per centage points of gross national income. In 2012, if Mr Obama can get his jobs plan through Congress, Europe will soon be forced to decide how much further banks need to go to protect themselves from the latest wave of bad news. The European Commission will issue its annual Stability and Growth Report before the end of this month, and one of the key questions will be how much better the single currency has become with a comprehensive banking union.

Europe is about to start a two-year period that will shape which country is the eurozone’s next victim. The eurozone is trying to get borrowing costs under control and the European Central Bank has cut interest rates to their lowest levels. The ECB’s governing council is assessing whether a €500 billion programme to buy assets is justified. But the approach has been interpreted as a sign that the ECB is losing control of doing less to keep the eurozone on course.

The surprise is that after more than 30 years of fiscal integration, the west European core, from Iceland to Hungary, is not yet stable enough to stop a conflict between its divergent interests. The eurozone is again in flux. The US has suddenly become the loosest of the leading economies. The US government is the only economic entity that continues to make policy at breakneck speed, while Europe’s finance ministers continue to jockey for position. Britain will keep fiscal plans on track, but Germany is putting more pressure on the eurozone to cut deficits fast. France can do little until France’s new prime minister, Jean-Marc Ayrault, takes office in June. Spain has signed a memorandum of understanding with the EU by June 6. It is evident, but simplistic, to argue that a political drive in 2012 of any G7 country’s deficits has no chance of improving the loosest plans for fiscal policy in the loosest eurozone – a big if – the US would only shift towards a deficit budget by 1 per centage points of gross national income. In 2012, if Mr Obama can get his jobs plan through Congress, Europe will soon be forced to decide how much further banks need to go to protect themselves from the latest wave of bad news. The European Commission will issue its annual Stability and Growth Report before the end of this month, and one of the key questions will be how much better the single currency has become with a comprehensive banking union.

Germany is putting huge pressure on the eurozone to cut deficits quickly. In May, the finance minister of the eurozone’s largest country, Wolfgang Schäuble, said that it was clear that the eurozone needed a crisis fund to manage the next wave of bad news. Schäuble wants the fund to work as a fiscal policy instrument that would not be subject to the eurozone’s criteria.

With the big issues in Europe unresolved, there is no solution to the eurozone’s fiscal problems. In the absence of tax harmonization programmes in Europe, in an attempt to stimulate markets that their own results are strong. With the biggest burden of the eurozone debt crisis on Germany, the country has taken a lead in seeking a solution to the eurozone’s fiscal problems.

The European Commission has identified a fiscal policy programme for the eurozone that would mark an end for bailouts and mark the start of a new fiscal policy discipline. The programme would not be subject to the eurozone’s criteria. Germany is the loosest of the leading economies. The US government is the only economic entity that continues to make policy at breakneck speed, while Europe’s finance ministers continue to jockey for position. In the US, the Federal Reserve is cutting interest rates to almost zero and the US Treasury is selling a wide range of fiscal instruments to raise funds. The US government is the only economic entity that continues to make policy at breakneck speed, while Europe’s finance ministers continue to jockey for position. In the US, the Federal Reserve is cutting interest rates to almost zero and the US Treasury is selling a wide range of fiscal instruments to raise funds. The US government is the only economic entity that continues to make policy at breakneck speed, while Europe’s finance ministers continue to jockey for position. In the US, the Federal Reserve is cutting interest rates to almost zero and the US Treasury is selling a wide range of fiscal instruments to raise funds.
The path to recovery proves to be a long and painful one

Central banks
There is still no consensus on the risks of extra monetary stimulus, says Robin Harding

Three years after the peak of the Great Recession, central banks are in a race to the bottom. The search for unconventional monetary policy is on. There are problems with the ready availability of near-zero interest rates and liquidity, and there are signs that at least one branch of the eurozone economy is weakening.

Monetary policy can do no more harm by trying to withdraw liquidity

Claire Jones

Unanimously the best bank in Lebanon.

The euro crisis and US recession are hitting confidence, says Norma Cohen

If investors’ expectations of tomorrow are what drive markets today, many of the world’s stock and bond markets are in for a painful ride in the months ahead. As the start of a volatile year, stock and bond markets were sent into a tailspin last week by the Securities and Exchange Commission’s decision to ban short-selling of some stocks. On Monday, the Nikkei 225 Index was down 1.7% in Tokyo, the FTSE 100 off by 1.6% in London, and the Hang Seng Index off 3.3% in Hong Kong. The S&P 500 index was down nearly 2%.

Markets
The euro crisis and US recession are hitting confidence, says Norma Cohen

Optimistic investors in short supply as Japan seeks growth

Greece, Portugal, Belgium and Spain can hardly be described as investment havens. There are likely to be months of heightened uncertainty, particularly if European leaders fail to address the underlying structural issues that led to the crisis in the first place. But in the long run, the region’s economic prospects look brighter than ever, despite the political and regulatory challenges.

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Central banks walk a monetary tightrope

Mario Draghi Set to inherit an ECB in crisis

The challenges facing Mario Draghi, when he takes over as European Central Bank president on September 1, could hardly be greater, says John Storey.

In the midst of the biggest crisis since the euro’s launch in 2002, the Italian central banker faces the Herculean task of reviving the region’s stagnating economy, stabilising a sovereign-debt crisis that has undermined investor confidence, and averting a further meltdown of financial institutions. Mario Draghi has already fought off the Lehman Brothers-type panic of 2008 by buying $1.25 trillion (£800bn) of government debt, and has promised to do more if necessary.

Draghi’s record as head of Italy’s central bank has been overshadowed by the crisis in recent months. But in the early 1990s, he headed Italy’s treasury department – a job he served prior to becoming governor of the Bank of Italy. As head of the BoI, Draghi helped persuade German officials to accept Italy’s application to join the eurozone.

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Global growth
The founding economies need to find common ground, says Chris Giles

Grand ambitions were the order of the day when Cécile Lagarde took over the presidency of the French G20 bloc and the Group of Eight on July 5. The first G20 meeting under her chairmanship, on the sidelines of the IMF and World Bank annual meetings in Washington, was the first for new heads of both the International Monetary Fund and the World Bank. Mrs Lagarde’s focus was the world’s biggest economy, with 17.3% of the global population and 19% of global GDP.

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