THE BROOKINGS INSTITUTION

THE AFTERMATH OF THE EUROPEAN CRISIS: WHERE ARE WE NOW?

Washington, D.C.

Thursday, May 1, 2014

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P R O C E E D I N G S

MR. DERVIS: Welcome everybody and thanks for being here. And I'm certainly glad that this is not yesterday because if it was yesterday and the rain had been pouring we would have a nice chat among ourselves. But it's a beautiful day, and of course that's sometimes another reason why people don't show up. But for this event we never had any worries. We have with us Jean Pisani-Ferry who is I would say of course one of the leading French economists but also European economists, global economists. Washington is very much also home for him. And he has written this book on, *The Euro Crisis and Its Aftermath*. We have copies outside for those who want to get it. It really is a wonderful book and I think it will give us the opportunity to talk about Europe looking backward a little bit, the key analytical points in evaluating the crisis, but I hope also very much looking forward.

And then we will have Jörg Decressin who is at the IMF who is now in Europe Department but was for a long time managing the Bruegel, who will give his reactions. And I just -- because I didn't know, I just discovered that Jörg was German so we have the French/German/European motor here at Brookings.

Jean in his book quotes a 14th century French philosopher, Nicolai Oresme, who wrote -- I'm quoting from Jean's book of course, "Money does not belong to the prince but to the community." And I think that, you know, that sentence is so important I think when one discusses and thinks about the euro because at the end of the day money has to be accepted by the community that is using it; that is the primary fundamental basis for it to work. And I think as we look at the euro we have to keep that in mind. I also would say that we are having this get together at a time when the degree of optimism about the eurozone and Europe and the European economy is quite a bit higher than it was about a year ago of course. You probably remember that up to about

six months ago or eight months ago, but certainly 2012 the large majority of economic analysts here in Washington at least, but not only in Washington, thought that Greece would exit the euro. Many thought that in fact the euro was more or less going to collapse. So now that has receded in the background. We had the Deputy Governor of the Bank of Greece here the other day giving us a talk. And they took a recent poll in Greece after all the suffering, after all the problems, 70 percent of the Greek citizens actually want to stay in the eurozone. So, you know, it's quite a telling I think message that many citizens give that they may have problems with Europe, they certainly have huge problems of unemployment, of social problems, livelihood problems, youth unemployment, but at the same time I think the commitment to the euro today both at the political high level but even among citizens is still very high. And I think this is one of the themes that we should discuss.

Two days ago we watched the first ever so-called Presidential debate in connection with the elections to the European Parliament. As you probably know, most of you, the Lisbon Treaty stipulates that while the Council of Leaders nominates the President of the Commission it has to do so taking into account the elections for the European Parliament. And, you know, by chance I kind of found out that it was streamed in euro news and we watched it and it was interesting because despite all the problems and the all the suffering and all the, you know, big challenges faced, and despite the fact that perhaps none of the candidates that were debating there will end up being President, there was some real energy there. And one point made by the candidates was if after all this election, this dynamic, this talk -- the leaders after all did endorse these candidates, it's not that these candidates just themselves, you know, appeared out of thin air. It would not be that easy to say to Europe well, fine you've had that, it was a nice entertainment, now let's go back to serious matters and choose the people we want in

our usual horse trading.

So there are lots of things I think in store for us over the next few months and reading Jean's book I think is one of the best preparations one can have in following what's happening, analyzing what is possible, and what the various options are, and being engaged in what is both politically so interesting but also economically so challenging. And yet at the end of the day so -- until now despite all the crisis a quite successful venture.

So with that I'm going to turn it to Jean who's going talk for about 15-20 minutes and then Jörg will give his perspective, and then we'll have a discussion. Jean, thank you so much for being here. (Applause)

MR. PISANI-FERRY: Thank you very much, Kemal. It's really good to be back here. I remember several debates in this room about the same issues. And today we have the privilege of being able to look back, discuss, without being caught in the smoke and fire of immediate concerns. When I first published the French version of what became a much longer, much more developed English book I remember the publisher was very fast and two months after I gave the manuscript it was on the shelves. And I was very nervous about this two months. I thought this was really extremely long and that so many things could happen. And with all regard to quality of the work of Oxford University Press it's almost a year since I gave the manuscript to them. And I wasn't so nervous about what could have happened during that year. So it's an indication that times have changed and that we are in a different environment where we can reflect and think and not only discuss what's the next hurdle to come.

The book is not a book defending a particular thesis. It's a book that tries to provide an analytical account of what happened of the euro crisis and the debates about it. This crisis was a true discovery process. It was a discovery process because

many things had been said, discussed before hand and many of the events that unfolded just were an illustration of what had been said before. That was, you know, to borrow from the famous quote this was the "known unknowns" of euro crisis. But there were also unknowns and knowns, the things that we really discovered during this crisis and that raised questions about how a monetary union works but even more fundamentally how the economy works. And that was what was really interesting in this crisis. And there were also political dimensions and those political dimensions they were extremely important throughout the process.

You mentioned this quote from the 14th century philosopher, Nicolai Oresme, but you did not mention that I borrowed the quote from Hans Tietmeyer. Hans Tietmeyer, the former Bundesbank President at a time when there was a discussion about whether or not to go for a common currency monetary union, he used to say that money is something really important and that to justify the independent or the central bank, he used to say that money belongs to a community, it doesn't belong to the prince. And therefore it has to be kept at a distance from the prince. But for Europe the question was what is this community? What's a community that is going to underpin the building of the single currency? And there were long discussions before the project started about what would create this community. The Germans had a concept for it; this was political union. And by political union they meant institutional investment that would create this community. But they didn't know exactly what they meant by political unions. It was more a concept than a plan for anything specific. The French had their own expression for it, it was called (speaking in French) and it was sort of the equivalent in the French culture of the political union. In a centralized culture the -- so you know what creates a community is a government. So we need a government to create the community. But they were absolutely unclear also about what they meant by the (speaking in French)

government.

And in the end the euro was created without having forged a community. And what was discovered also in this crisis was that the fact that this money, this currency was introduced did not by itself create a community. That was one of the mistakes that were made to believe that by the fact that we would share a currency we would de facto have a sense of community that would be created by the currency. The currency did not create it. What happened is that having done so much to introduce a currency, to delegate those new powers to Frankfurt and in part to Brussels, national governments reacted by emphasizing where they were still in control. And therefore refusing to go any further in terms of delegation of power because they thought we have made such big investment, we have made such a big concession by giving all those powers to Frankfurt and Brussels that we want to keep the rest for us at home. So in fact it was almost opposite reaction after the introduction of the currency. Perhaps the period was a bit too short to judge. Perhaps this, you know, creation of a community it's a matter for centuries rather than decades. But at least in the short time span between the introduction of the currency and the crisis this sort of mechanism that would have created a community did not take place.

When the crisis happened, started in 2010 and as it unfolded it became clear that there were several views of why it happened and what were the underlying problems. There were essentially three views that developed. One was the sort of northern European view that essentially the design was good but the enforcement had been weak. So it was a crisis of enforcement of the community-agreed rules. The Maastricht Treaty was not to be challenged, but that essentially there had been a failure of enforcement. And it is much too safe for this -- it's easy obviously because Greece is a sort of a pragmatic example of a country that signed to the single currency but did not

abide by the rule. One may wonder what would have happened had Ireland been the first country to request financial assistance because Ireland was a completely different case. Ireland was a country that had an impeccable fiscal record; it was a country that had an also very flexible labor market. Ireland on many accounts were just ticking the boxes. But it was Greece and so this perception, immediately the narrative about the crisis was it's a crisis of lack of enforcement of the rules. Now the second reading is the one that is very common in the city and in U.S. universities that it was a bad idea to start with, that it was not a matter of design it was a matter of why it was created and what was the purpose and how it was assumed that a single currency would work with very different economies, with the very weak adjustment mechanisms between these economies. So basically, you know, the fact that it was bound not to be an optimum currency, yeah, that this was known and that it would end up in difficulties. Perhaps the clearest and at the time the most direct exposition of this view was the paper by Martin Feldstein in '97, EMU and International Conflict, where he went as far as saying it's going to create acrimony and conflict between participating countries. But he went one step further but many academics held the view that there was a mistake in the conception, in the very purpose.

And again it's hard to dispute and this was known from the start that the EMU was not an optimum currency. Yeah, yeah, that the adjustment mechanisms were weak. Again there was some confidence in the fact that over time sort of indigenously it would develop into an optimum currency, yeah. This was a view put forward by Andrew Rose and Jeff Frankel. Eventually it did not by the simple mechanism of integration. Integration did not develop much actually. Trade integration developed much less than anticipated and market integration more broadly was not pushed by governments, again because they had the feeling that they had transferred already much too much to

Brussels and that they wanted to keep control of what we made. So this view again has something to it even though it went too far when predicting that EMU would not be created and then that the euro would explode. It underestimated the political will in Europe to create it and to stick to it once it had been created.

The third view is the view that's essentially associated with sort of pro-Europeans and in some respect with the French and southern Europe views which was that it was not so much a failure of fiscal discipline, it was not so much a matter of wrong idea, but it was a matter of incomplete integration. And that it was -- the failure to go further and to compliment the euro as it was with other dimensions, be it banking union, be it a system of economy governance, be it further integration in certain fields, that created the problem, the crisis exposed. And perhaps, you know, if you think of a country like Spain, like Ireland you would say that problems there were not of a fiscal region, they were much more of problems having with banking sector, with a lack of domestic supervision of the banking sector, but also with a lack of a banking union, with a lack of a more European approach to these issues. So the financial side of the monetary union was not there and that was part of the problem.

Those three views are not incompatible but each of them points to a different direction for things that need to be achieved and they can provide guideposts for reading the debates that we've had. The debate about crisis management, the debate about austerities, debate about exit. So to continue question is why has it been so difficult when the crisis happened to find responses, you know, to find solutions? And you can read the crisis of the -- if you -- I mean what do -- in the book is I tell the history of the crisis, episode after episode. And when you do that it's very clear that responses were delayed and delayed. There was an attempt to convince market that halfback solutions were full solutions, that compromises were agreements and this contributed to

the aggravation step after step of this euro crisis. And I see many of us, you know, going through these episodes essentially perceived the unfolding of events as always Europe being one step behind the curve, being one euro short, and so being hopelessly unable to rise to the challenge and define responses at the -- corresponding to the magnitude of the problem that it was dealing with.

A charitable view, I think that by the standards of international diplomacy things went very fast. I mean if you just look at what was agreed, the fiscal treaty, the design of an assistance mechanism which also required a new treaty, the older reforms of civilians, the banking union, et cetera. All that went extremely fast by any standard known, you know, in Europe and beyond. But this is a too charitable view even though it's true because we were confronted with, you know, events that went at an incredible speed and with incredible force. And so you have to measure performance against the strength, the force of what you were confronted to and the risks which were at some point absolutely vital. And also if you look back and ask yourself what has been the costs of this mismanagement taking into account both the prevention and the crisis management the cost has been obviously huge. You know, we're speaking of a lost decade in southern Europe. It measures up to the Latin American lost decade in terms of GDP per capita being 10 years later at the same level as it was at the beginning of the decade. We're speaking of unemployment rates that are now three times higher in southern Europe than they are in northern Europe. For young people they're five times higher. So we're speaking of acrimony among European citizens but what should be done that we're going to see the result of in the election with the French and entire European parties certainly having a strong showing in some countries. You're speaking of a weakening in Europe of Europe in the eyes of the rest of the world. All that is important. So it's a bit too charitable to say yes, it took time but it took time, you know, with respect to the crisis

momentum, not with respect to the standards of international diplomacy.

I think what has to be said is that all these delays, all these partial responses -- and I could go through all of them -- they basically resulted from the fact that this crisis was in fact also a constitutional crisis for the euro. What we had to revisit were all the compromises, all the agreements for which there were different interpretations depending on the country and that were extremely difficult to revisit. So it was not the difficulty of simply agreeing on something or just deciding in the same way you would say let's decide on an IMF program for country X or country Y which is basically an executive decision about implementing an existing mechanism to a particular case. It was some -- there were some fundamental questions each time, what is the no bailout clause for example. You know, there was this view that you don't bailout governments. What does it mean exactly? So going back to the Treaty you find a sentence, you have different interpretations. Some people say it means there is no assistance whatsoever, some people say the sentence in the Treaty does not legally exclude financial assistance. And that's a fundamentally constitutional issue. How do you interpret the rules of the game? The same happens to the debt restructuring. You know, is that restructuring part of what could happen in a monetary union or not? This was Greek -- the Greek debt restructuring was a first restructuring of a sovereign debt since the war in an advanced country. So for some people it was really changing the rule, the implicit rule of the game that the definition of an advance country is that it does not restructure its debts, that it serves its debt without any, you know, any accident. And that's a common property of advanced country, of European country that a safe asset is a safe asset. Revisiting that meant deciding whether you had to accept that a safe asset wasn't exactly what you thought before and again this gave rise to many discussions. So different interpretations, different philosophies and again the background as I said of different readings of the

crisis; different narratives of the crisis that captured the public opinion. In northern Europe the perception that it was all about others flirting the rules. In southern Europe that it was all about the system that was wrong and working against them. And in these conditions you had to find solutions.

So that's, yeah, it's time to wrap up as Kemal kindly tells me. So time to wrap up and I'm not going to develop on what is to be done now because that's I suppose what you're going to ask us to discuss. Let me just say that the question ahead of us, the questions ahead of us are probably as important and as difficult as the question that we have solved. The questions ahead of us are questions about the degree of integration, about some of these unresolved constitutional issues, because some were resolved but some haven't been resolved. I mean on the bailout for example we still don't have a very clear answer about what are the rules of the game. And they are about governance and they are also obviously starting from where we are about the conditions in which we are going to return to prosperity in Europe because I'm very interested and I think that those issue of systemic designs are fundamental, but what is of interest to most people is when are we going to start recreating jobs, when is the adjustment going to --

(Interference on recording)

MR. PISANI-FERRY: Okay. No. And so when is it that, you know, we are going to start reversing the divergence and start returning prosperity. So those are issues unfortunately I don't have time to address now but I'm sure we are going to address them in the discussion.

MR. DERVIS: Thank you. The subject is vast. Thank you. (Applause) Jörg, I mean the IMF also embarked on an amazing journey with this. So give us a little bit -- not just, you know, Europe but also for the IMF, what did it mean?

MR. DECRESSIN: Yes. I'll talk briefly about that in my remarks. I

wanted to first revisit the book. I thought -- there's a lot of economics books that I received that die a slow death on my bedside table. This one arrived via email in my inbox in the office. I thought I'm going to -- may have a quick look at it and then proceeded to neglect all my duties for a whole afternoon and I was done with almost two thirds of the book. And then I thought like I may as well throw in the next morning and I was through with it. And it was a wonderful book; a very delightful and insightful read that I can very strongly recommend. Very accessible, very readable. So what I'll try to do is briefly in my remarks cover some of his theses and my views on them, frame it around three questions. What went wrong, why, and what to do about it. And to do so what I propose to do with you is compare the euro area crisis with the U.S. crisis. So as we know it takes two to tango, it takes at least two to have a party and you can argue that both the U.S. and the euro area had a credit party. In both the U.S. and the euro area there were over optimistic borrowers and imprudent lenders. In both the U.S. and the euro area there was some regions that borrowed more, where the party was stronger than in other regions. And in both the U.S. and the euro area the party ended with a terrible hangover. But it seems like the U.S. got over this hangover a good deal better than the euro area.

So the question is why. And I submit three factors that I draw out of the book. The first is you need to think of the euro area as a collection of countries not a collection of states as in the U.S. The lenders in the crisis were mostly located in one specific area. These were the banks of Germany and France. And they lent to banks and people in the periphery, Ireland, Spain, Portugal and Greece. And it seems that in the end the lenders thought of themselves mostly as German and French and the borrowers mostly as Spaniards, Portuguese, Greek and Irish people. So by comparison in the U.S. no one looked at the U.S. credit crisis as a crisis where people from Maine

ended up bailing out people from Florida. So in the euro area it was different and it reflects that all politics in the end is local politics. And it also reflects the fact that there is no effective euro area wide political accountability. So that was reason number one.

Reason number two is simply bad euro area crisis management and resolution. And here as Jean in his book writes, the truth is that the whole issue of crisis management has been left aside in the Maastricht negotiations. Very true. In the U.S. there is fed; it's the lender of last resort. It acts in concert with the FDIC and the Treasury. Where things in the crisis did not work very well, such as with investment banks, solutions were found relatively quickly. In the euro area by contrast no such mechanisms existed. The ECB is not a lender of last resort. At national levels most countries did not have effective ways to take banks out of business. There were even at the national level no bank specific insolvency frameworks in most countries let alone at the euro area level. So what did we have? We had decentralized crisis management and resolution which resulted in a big mess. When the crisis struck it was all about externalizing liabilities and internalizing assets. So core banks and bond holders withdrew their funds from the periphery and the ECB was sent in to lend instead. That was to put it mildly sub optimal, but one can argue that the ECB did the best it could out of a terrible hand it was dealt. So that was reason number two, crisis management and resolution.

Reason number three is -- and that's important -- the narrative of the crisis. As Jean put it, it will never be known how things would have been if Brian Cowen, the Irish Prime Minister, had requested help first, before his Greek colleague, George Papandreou. We all know Ireland had grown prudent fiscal policy, had seen strong growth, strong export growth, it could not be faulted for violating the stability and growth pact which at least normally was the most important set of rules governing the functioning

of the euro area. The same goes for Spain. Portugal is a bit of a mixed bag. It met the pact in terms of the letter but perhaps not in terms of the spirit. But it was Greece which came first and Greece was facing a fiscal crisis. And even worse it appeared that the country had met the criteria for joining European monetary union on the basis of false data. So this transformed the entire story from one of imprudent private borrowers and imprudent private lenders to one of badly run countries that did not play by the rules, taking advantage of well run countries that had played by the rules.

So we can now with these three reasons have a long debate. Was this fundamental problem political or was the fundamental problem simply that there was too much faith being put in the private sector? In any case the upshot of these three reasons is that not only did the people in the core economies fail to appreciate the role played by their own banks in fueling the credit party in the periphery, they also failed to appreciate the extent to which their own banks offloaded risk on the balance sheet of the ECB. And even worse people in the core now thought that because bad fiscal policy made a major contribution to the crisis solving the crisis required mainly a good dose of fiscal adjustment. In short what was mainly a financial crisis between private borrowers and private lenders became to be seen as a fiscal crisis caused by the public sector. Instead of borrowers and lenders pitted against one another like in the U.S. it was a story of governments and countries pitted against one another.

Now the narrative of the crisis critically shapes its resolution. So the questions are why did a more nuanced reading of this narrative not emerge? Was it because the European leaders didn't understand? Was it that the less nuanced crisis suited the preferences? Was it because they didn't know how to deal with banks and simply pushed the problems onto the sovereigns? Or was it the powerful banks themselves? One could probably raise a few more questions but I already don't know the

answers to these. (Laughter) So now the issue is where to go from here, where to go from here.

So Jean, these are four questions that Europe must answer. First, is the euro area willing to embrace more product, labor and capital market integration? Second, is it ready to consider more risk sharing between different countries including a framework to deal with sovereign default. Third, is it ready for a federal budget? Fourth, is it ready for institution reform and better decision making? So the answers that seem to be emerging to these questions are qualified yeses to some of them, okay. Let me to try to sum up how Jean puts it. On more integration there is a project for banking union and it can help to greatly integrate Europe's financial markets. So progress on number one. On number two, risk sharing between governments, we now have the European stability mechanism. This is a major step forward. On number three, the federal budget, nothing has really changed. On better decision making, let's just say nothing much has really changed either. Jean concludes -- this is perhaps the longest sentence you will in the book and translated he is a politician after all -- in the near term this may well prove sufficient to contain risks. In practical terms and for the short term the difference between the reforms that could be implemented and those that are being or will be implemented is less significant than it seems. (Laughter)

So let me conclude here with just a few remarks on one proposal that Jean makes in the book which is euro bonds. And he proposes those as a European safe asset and says that obviously they would have to come with a system based on -- and the control of national budgets. Of the budget deficit not of the spending and taxing, right. That should be left to the countries. So what I wonder is how can you enforce good fiscal behavior between sovereign nations including between some nations that are just simply too big to fail? I want to say again I think that for the most part the nations in

the euro area have followed reasonably prudent fiscal policy. I would say many of them fiscal policy was better than the U.S. and in the U.K. in the euro area before the crisis. But I wonder how they will deal with the temptations offered by euro bonds. From a narrow academic perspective I would argue, you know, how important are euro bonds in terms of risk sharing? If you look at the literature on risk sharing between regions in the U.S. it emphasizes capital market integration and credit market integration as the more important sources of risk sharing. So where do I stand on this? Ultimately I think we do need more fiscal risk sharing in the euro area, but over the medium term I would put greater emphasis on other mechanisms. To me this means improving financial crisis management and resolution. Issues such as building a European bank specific insolvency framework, and a common fiscal backstop for the banking union just as the FDIC has here with the Treasury. It also means advancing financial integration more generally and advancing with the Europeanization of firms and banks in Europe. Now for all of this to happen of course the European citizen and their political class need to be willing to buy into the euro. And this will also mean that they will need to take reforms that make their economies at the national level operate more effectively within the euro area. And that will for some economies mean some major political and intuitional reforms.

Now for us at the IMF this has been a very, very surprising turn of events, the whole euro area crisis. And it has meant some profound changes also in the framework that we use to lend to specific countries. But, you know, but overall what we are doing in these countries is not so different in terms of the help that we are providing financially relative to what we have done in other cases that come before. I mean we also had problems with advanced economies back in the '70s. It has been a process that has worked well considering that we had to collaborate with the European Commission

and the ECB which themselves had to collaborate with many other players in Europe. And the programs that we put in place were typically put in place very rapidly and helped stem the problems. Where of course there is a big issue is that national responses could only be part of the solution, right. So there was always going to have to be an area wide response to help national responses gain traction in terms of stabilizing the crisis. And that has been more complicated and very unusual in comparison to the experiences we've had with other countries where it was more the IMF with a specific country. But all in all I would sum up that so far together with our European colleagues we have come out reasonably well in managing the most acute problems of this crisis.

Kemal, thank you very much.

MR. DERVIS: Thank you. (Applause) So I'll start the discussion a little bit and then we'll go to a wider discussion. But one question I would like to ask in the way both of you starting with Jean, but also Jörg. You know, one element of the crisis I think was the fact that current account deficits were not really considered a problem inside a monetary union. I mean it's part of what I think Jean said, you know, how it evolved, but he didn't quite put it that way. But there were huge current account deficits, particularly Spain but also some of the other countries. Greece of course was smaller. Even Ireland had a significant current account deficit. And it only later became clear in a sense even within a -- or at least in an unfinished monetary union, current account deficits are a problem because they affect capital flows which may not be sustainable. Nobody worries as far as I know about the current account deficit of California, Texas or Illinois; nobody even knows about it. But there are other mechanisms here. The Spanish deficit reached close to 10 percent of GDP at point, for several years. I was always watching, you know, when Turkey might be overtaking Spain in terms of the current account deficit. It almost happened. Thankfully we had a flexible exchange rate in

Turkey.

Now -- okay, it seems like the crisis has been overcome but the question that is kind of a little bit in my mind, are we now missing yet another similar problem in the sense that we have huge current account surpluses in the north and particularly in Germany which are partly the reason for a very strong euro which doesn't seem to go with the weakness in the European labor markets in most of Europe. And yet the same language is used that was used about the Spanish deficit to say but why are you worried about the German surplus? It is after all a surplus in a monetary union. So that's my first question. I mean any views on how these current accounts should be looked at?

MR. PISANI-FERRY: I think we all knew that current account deficits of the size that we observed were the symptom of something going wrong. I mean it was a symptom of overheating in Spain and other countries. It was the counterpart of massive capital flows that were fueling the credit boom. So all that we knew in the same way we know today that a seven percent current account surplus in Germany is the symptom of not enough domestic investment in Germany and has consequences also for the overall current account surplus, the euro area and consequence for the exchange rate, et cetera. So the macro sort of things were clear before. There was a failure to act but I think there was no mystery. Where there was a mystery or that nobody believed that a current account by itself could not be financed, a current account deficit. That certainly you would have capital outflows as we saw. I mean we had sudden stops in the euro are and that nobody believed before that it could happen. The reason why it happened has to do with what you said about banks. I mean the fact that you had, you know, suddenly investors being afraid of investing in anything having to do with Spain because it perceived that there was too much risk concentrated in the balance sheet of the Spanish banks. So basically not touching any of them anymore. And the fact that it could

happen, that was not foreseen. I mean I checked. There were -- there was one paper by Peter Garber outlining something of this sort, the possibility of the crisis with the monetary union. But most of the papers including by me was saying, you know, it's like regions in a country and regions in a country you don't worry about the financing of current account. You may worry about investment or you may worry - -you may ask why either so little saving here or there, but you're not worried about --

MR. DERVIS: So what about the German surplus and the northern European surplus? Something just to live with or is it a real issue for economic policy?

MR. PISANI-FERRY: I mean it's a real issue for I think the -- in macro terms, they are symmetry correct of the adjustment, that essentially the adjustment took place in southern Europe and not in northern Europe resulting in a current account surplus for the whole of the euro area and with effect on the exchange rate that's a problem. Now from the German point of view I think that the interesting debate is about why Germany had such a high current account surplus and what are the effects for Germany of having it. And their interesting paper is suggesting that not the best use of German savings is to invest abroad. That, you know, this savings would be better invested at home.

MR. DERVIS: Jörg, what do you think on this current account issue? I think we are looking forward.

MR. DECRESSIN: Yeah. Fundamentally I mean it's hard to envision that a surplus ever gives you problems like a deficit does, right. That's number one. So -
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MR. DERVIS: Well, "you" meaning who?

MR. DECRESSIN: I mean I'm talking about --

MR. DERVIS: The surplus owner?

MR. DECRESSIN: The surplus owner. That's who I'm talking about.

MR. DERVIS: China's surplus we all said was a big problem for the world.

MR. DECRESSIN: Yeah. Now the -- what I would -- the way I characterize what happened in Europe is pretty much the same thing what happened at the world level. We didn't have a rebalancing of demand process, right. In the end rather -- you know, we had less demand in the deficit countries because of the contraction. This was not compensated for by more demand in the surplus countries and the result was we settled on a slow growth path. That was the case at the global level and the same thing is now happening at the euro area level. So we have lower growth basically everywhere, in Germany as well as in the periphery. It is in that sense a problem for all of these economies.

MR. DERVIS: Okay. One more follow up question and then I'll turn to the -- if you look forward there's Europe, European Union, there the eurozone, and the Treaty says that -- the Maastricht Treaty I think says that the currency of the European Union is the euro. Britain negotiated a formal opt out, so did Denmark. Sweden, in a way which I never understood, doesn't have an opt out but isn't in the euro and somehow manages that forever. But how do you see the future? Do you see five years, six, eight years from now European Union with everybody in the eurozone, you know, Sweden having finally decided to join and Poland coming in, and the Eastern European countries? Except the U.K., let's not talk about the U.K. because nobody thinks that they would be in. but, you know the U.K. will be out of the eurozone, somehow associated with it and everybody else will be in or do you think that those countries that are theoretically going to be in the eurozone, in fact many of them may not be and that you will have a kind of two party Europe with the eurozone and the non-eurozone countries? What is the more

likely scenario?

MR. PISANI-FERRY: My short answer would first be ask Mr. Putin.

MR. DERVIS: Ask Mr. Putin?

MR. PISANI-FERRY: Yeah. (Laughter)

MR. DERVIS: Okay.

MR. PISANI-FERRY: No, because --

MR. DERVIS: Well, let's do that. (Laughter)

MR. PISANI-FERRY: It's only half a joke because --

MR. DERVIS: Yeah. No, no; I know what you're saying.

MR. PISANI-FERRY: Yes. I mean -- and we're seeing that participation in single currency is regarded as a sort of way to strengthen national security which is interesting because it reminds me of a paper written by Adam Posen who at the time was asking, you know, what's the different between -- why is that the euro cannot become a global currency on par with the dollar? His answer was because it doesn't -- there is no army, there is no security. And that the security link associated with participation in a currency union or anchoring your currency to a certain currency is -- I mean shouldn't be underestimated. So that would be part of my answer. And what I see is that in central and eastern Europe more interest in joining because of the security council.

Now in terms of the pure economics of it I think it's clear that some countries have decided not to join and won't join and Sweden is part of it. And I think that's normal by the way. I don't think that to state in a treaty that the euro is the currency of EU and that it means that even if you don't want to join you have to join if you for instance (inaudible) doesn't make sense. And it has to be a decision and a decision that is supported by the people in the country because it implies, you know -- I mean we've seen what implies in terms of different adjustment, acceptance of some, you know,

sacrificing at some point, something, some trade off.

MR. DERVIS: Just to understand, but if that's so why is that two countries had to negotiate an opt out?

MR. PISANI-FERRY: Because they did it initially at a time where they were already undecided or decided not to join. Sweden, there was a referendum, in the end they decided not to join and so they don't fulfill the criteria. And among the criteria there's one criteria in which is that you've got to have maintained a fixed exchange rate for a certain period. It's easy if you're in a floating exchange rate, you just don't fulfill the criteria.

In central and eastern Europe I think there's a lot of interest in -- there was already a lot of interest in joining. Poland for example participated very constructively in discussions about many aspects so, yeah, I think eventually they will join.

MR. DERVIS: Jörg, any quick reactions to that?

MR. DECRESSIN: Well, I mean we have now more members of the euro area than before the crisis, right.

MR. DERVIS: Yes.

MR. DECRESSIN: Notwithstanding all that has happened. And it seems that in central and eastern Europe there is appreciable buy in in the vision of a euro area with the -- that is pretty close to the Germanic vision in terms of how economic policies should be run, right. And there was a great readiness. I mean it was readiness to make the sacrifices, you know, that they felt had to be made in order to be members. They, you know, shouldered the adjustments much more -- I mean it seemed to have been politically easier to affect the adjustment in these economies than in the periphery of the euro area. And so I share Jean's view that there is greater interest now for other reasons

and that in the end it means there'll be more members.

MR. DERVIS: All right. Let's turn to the floor now. I'll start with you in front and -- okay. Please do identify yourself. We'll take three or four questions at a time.

MR. RISSMANN: Yes, with pleasure. My name is -- I like this commonistic approach. My name is Wilhelm Rissmann from the German office in the World Bank. And I have to out myself as being a fossil of the Maastricht negotiation. I was a legal advisor to (inaudible) at that time. So I say okay, we did our best at that time. I think more was not possible. I think Jean has identified some deficits of the negotiation at that time. But I come from a background when in 1985 I challenged Mr. Schlesinger who was my teacher at that time and became later on the President of the Buba, why shouldn't we have a European currency? And he was at that time telling all his students that well this is the crown of European integration. That was the official Buba rate. So I was more than please to be a legal advisor then only seven years later to do it. And it materialized another eight years later. In the meantime we had a big mess up of market failure, market misunderstanding, political failure, not simply to say the market did not understand that we were still separate as has been said, countries with more money and they made perhaps wrong bets. And to make it very short I think the lessons learned, if you look on the scoring in the latest report of standard and polls on the world reserve currencies we can't be happy that there is so much let's say political misunderstanding on what to do because otherwise the euro would skyrocket. All this basic figures about the book of the ECB as so much better as the reset of the reserve currencies that I think we had done a very, very good job on Maastricht. Thank you.

MR. DERVIS: Thank you. Vito. Legendary head of the Fiscal Department of the IMF.

MR. TANZI: I am Vito Tanzi. I was the head of the Fiscal Affairs

Department for 20 years of the Fund.

MR. DERVIS: If you'd stand up I think people will hear you better. Yeah.

MR. TANZI: I was also a member of the Italian government at one point. I'm the author -- I should reveal I am an author of a similar book that came out (laughter) about three-four months ago; was finished about a year ago. It's called the, The Dollars, Euros and Debt, published by major European publisher, Macmillan. And the perspective of the book is somewhat different, you know, and it's essentially -- by the one way one year when I was finishing the book around April-May of last year I was very optimistic. In fact the end of the book said that European Monetary Union is a great achievement and will continue forever. Now maybe forever is too long but who knows. But the point that the book -- the book takes a different perspective and the perspective is that the crisis was largely a fiscal crisis, you know. Many of the countries cheated in many ways, you know. You mentioned Greece that cheated with the accounts by a large amount by the way, six-seven percent of GDP. The Italians did the same, you know. They applied the Goodhart's Law to the fiscal account. They cheated on many -- even the Germans did to some extent. So that the fiscal situation was very ambiguous, you know, deeply flawed. And that's the first point. The crisis to my judgment was largely a consequence of that. They had joined a club which was the European Monetary Union which has clear rules, fiscal rules which were not respected from the beginning. The rules said that you should have zero asset. And the crisis you can go up to three percent, but everybody including the French, especially the French in fact, immediately pushed over the three percent from the beginning. But the bottom line is that this optimism about the U.S. and pessimism about the European -- have great -- I have a difficult time to understand. The public debt of the U.S. is larger than the European Union now, you know, it's the account. The U.S. is having major problems in Illinois, in California, in Michigan, et cetera. If those were

independent countries -- called independent countries you would have the same attention as you have to Greece. The fiscal account in the U.S. are in a mess and, you know, especially if you take a longer perspective of it. The European Union, there have been major adjustment in Greece, in Spain and in Portugal. Maybe in Italy they say a little bit more questionable; we'll see what our new Prime Minister is going to do. But, you know, I really don't understand this pessimism.

Also this discussion of current accounts. You know, it's true that the current -- we don't know the data about what happened in Nebraska or -- but the same adjustment take place within the U.S. In fact one of the theme of the book, there's a whole chapter comparing the monetary union of the U.S. with the monetary union of Europe. And I find that they are not very different. Even mobility; mobility seemed to be greater in Europe that it is in the United States. Few people move in the United States. People don't know this. Those who move are the retirees who go to vacation places and those who move less than 50 miles from the house where they lived. So this kind of adjustment we talk about in the U.S., it's just a dream, you know. And I'm glad you mentioned critically Feldstein. I think Feldstein did a great disservice by saying that, you know, the problem was the rule.

But also the final statement that I -- I'm finishing -- the final statement is that it took 200 years for the U.S. to go from the beginning to where they are today. The European Union is only at 15 years old. So give them a little bit more time.

MR. DERVIS: Okay. Yes, the gentleman -- not -- like --

SPEAKER: Yes, I'm (inaudible), a European, at least since last Monday. I had a little mess there in passport issue. As a young -- and in Sweden we heard in the churches all the time quite frequently songs that sang -- that prayed for god make us daring. And risk taking is definitely something that has made and created Europe. Now

in June 2004 the Bosun Committee introduced capital requirements that really subsidized risk aversion and taxed risk taking. And those capital requirements -- for instance for a German bank if we wanted to lend to a German businessman, eight percent capital. If we wanted to lend to Greece, zero. Those capital requirements distorted the allocation of bank credit in all Europe. It's not mentioned in the book. If you have a comment please.

MR. DERVIS: Okay. I'll take one more -- yeah, I think the gentleman here, the middle and -- okay. I will take -- you also want? Okay. Here. Yes, just one. Sorry for being the guy who has to choose.

MR. CONMY: Thank you. Kevin Conmy from the --

MR. DERVIS: Just be quick because -- yeah.

MR. CONMY: Yes. Yeah. Kevin Conmy from the Irish Embassy. I was interested in the idea that you've both mentioned that maybe it would have been different if Ireland had been first into the lion's den but I suppose I just want to cast some doubt on that idea. I think the crisis resolution phase went on for long enough to realize that the problem became an existential threat to the euro itself and the decision making and resolution phases still took a lot of pain, suffering, political hesitation in many capitals, including in the most important capitals. So I don't really buy the idea that if Ireland had been the first in that it would have been handled much differently. And secondly I think the question about the surpluses that you started with goes to the heart of the future of this. I mean what's Europe going to do about jobs and growth? We've been listening for years to our Lisbon agenda being trotted out and European Council's dedicated to jobs and growth. We still ain't getting there 20 years on. So that's really the bigger question. The improvements in banking union and fiscal management, all of the solutions which you've given a B+ to in the discussion are all very good, but fundamentally it's what kind of economic space does Europe want and what are Europe's leaders prepared to really

do to make European Union part of the engine rather than presiding over an economy that fails to produce the kind of growth and jobs that are necessary? Thanks.

MR. DERVIS: Thank you. One more question, then we turn to.

MS. RASTELLO: Hello. I'm Sandrine Rastello with Bloomberg. I was wondering going forward if there was to be any more joint bailout in the eurozone? Do you think The Troika, whatever would replace it? What should be necessary to change? We know there's been a lot of tension including recently regarding the bank recaps in Greece. So what would you say should be changed or tweaked? And that's it.

MR. DERVIS: Jörg, maybe you go first this time and then we?

MR. DECRESSIN: Yeah, good.

MR. DERVIS: Just pick whichever you want to.

MR. DECRESSIN: Yeah, I mean briefly. So I think I heard the hypothesis here strong euro means Maastricht has been a success. I think if you are a bond holder, yes. Especially if you are holding German bonds and French bonds, you know, with the interest rates having come down so much you're sitting on a handful of capital gains. If for you very low inflation between one and two percent is very important because maybe you have a fixed pension or fixed income or whatever, you're doing great. If you are someone else then I think it is a little more mixed to put it mildly. So I think yes, the euro has delivered low inflation and it has delivered low interest rates and a strong currency, but it has not delivered on a number of other fronts.

On the crisis being largely a fiscal crisis I think there -- I think we differ, we simply differ and we've laid out the reasons. True, they didn't have -- the governments didn't have balance over the medium term, fiscal balance over the medium term which was an objective of the stability and growth pact, but the failures in the private sector were of such an order of magnitude -- I mean you're talking now about debts

having been raised by 20 percent of GDP or so that, you know, this additional buffer that you would have had by having your fiscal -- before the crisis imbalance mind you I think the average deficit in the euro area in 2008 was 1.5 percent or so. You know, it wouldn't have made a big difference. I just don't believe it would because they were literally floored by the debts from the private sector which were pushed onto sovereign balance sheets.

The capital requirements, you know, taxing entrepreneurs, taxing -- sorry, the capital requirements. Eight percent, you know, in entrepreneurs, zero percent on governments. You raise a good question there. It really revolves -- an answer to this revolves around do you believe that government has a stabilizing function in the economy, right. Do you believe that government is fundamentally something good to have around? If that's your belief then it doesn't make sense necessarily to ask for capital requirements on purchases of government debt because you believe that the government in the end has to have the ability to act as a stabilizer when the private sector is taking flight from risk, right. That's when the government has to be able to step in and the last thing we want is then for all people to also dump government assets and basically -- I don't know what they would do, you know, buy, you know, buy gold. So it's a good issue. If on the other hand you're concerned -- if your view is that the government is the problem, right, then you would want to have a capital requirement. So it depends on where you stand.

I think the issue of the government being the problem was very much a story of the 1970s and to some extent 1980s. The problems we are dealing with now are more problems in the private sector. We are dealing with excesses in private lending and borrowing and it proves very hard for us to get a handle on these. You know, we're having hopes for macroprudential instruments but they are all untested and only the

future will show how we deal with them when new credit booms evolve.

Then on making Europe an engine of growth is absolutely -- it's absolutely true. Stabilization has been achieved, now it is about getting back to growth. And as I said the large increase in the current account surplus of the euro area and especially Germany is a symptom of low growth, of a problem that needs to be addressed. Part of addressing the problem of course is to get to policies that are sufficiently supported on the macroeconomic front.

And, yeah, let me leave it at that, Kemal, and pass the floor to Jean.

MR. PISANI-FERRY: Okay. That I agree with most of you said so let me just comment on -- to Vito. I would add the following, I could agree that the fiscal surveillance is much too much based on, you know, some simple guide posts and not -- doesn't take risk into account sufficiently. I would be interested in having an approach that looks at the -- what are the risks for public finances because in my view what really mattered was that in the course of two years countries could move from a surplus to a sort of 11 percent, 9 percent deficit, like Spain. Ireland also, the situation can deteriorate extremely fast. And so if you want the fiscal -- if you want to focus on the fiscal surveillance then you have to take into account those risks and not have such a very deterministic approach of fiscal discipline that implicitly assumes that, you know, the problem is going from two to three percent or four percent and then you can control it on the road. I mean it's a -- to think that materialization of fiscal risk has been very different from what was envisioned.

On Ireland, the only thing I said was that the fact that the crisis happened first in Greece affected the perception by public opinion. And I think that remains correct that, you know, it -- the image was the Greek -- I mean in Germany this image was a Greek pensioner, you know, getting pension that are much more generous in Germany.

There was the people, the Greek doctors aren't paying taxes, et cetera. So it was essentially when the crisis happened the image that remained was this image of a country not playing by the rules. And had it been a country that played by the rules -- I mean inevitably this would have raised questions about what are the causes of this crisis, what the private behavior that gave rise to it. You know, where is the system deficient, because you couldn't have blamed the country for not having played by the rules. So that's not to say that, you know, solving the Irish case and they were not a number of questions about the Irish crisis and were very difficult by themselves. And, you know, there is the whole new question of the bailing out of foreign banks, et cetera, that would have remained a bone of contention. But I was speaking of public perception.

On German growth I strongly agree. That's an essential part of the issue.

Now on The Troika, when I was at Bruegel we published a study on The Troika and there was a recent update. Basically what we were saying is that -- well, first of all it was necessary to have the IMF participating. I think all the experience of the adjustment program showed that it was indispensable; that simply the EU didn't have the technology to deal with such problems. That the institutional set up was what it was. I mean it was strange. I think the ECB -- there are questions about the role of the ECB because, you know, the central bank normally sits on the other side of the table. The role of the ECB in The Troika is much less clear than the role of the commission and the role of the IMF which are both, you know, part of the negotiation of specific condition. To the ECB you don't know exactly why it's being there and when you discuss with people that they tell you it's because the ECB needs to gather information by being part of the Troika which is not a very good explanation.

Now on the commission side I think the question now having gained

much more experience the question is what should be the role going forward assuming you would go forward with some other -- what should be the relative role of the IMF and the commission. But we said in this report that it would be better for the IMF to be able to work out without jeopardizing completely the program. So to be more a catalytic lender that could decide whether to join or not. This is sort of relationship between IMF and commission being both part and being both necessary component of the financial assistance is a bit awkward. And finally on the commission side it would be better not to have -- I mean the commission institutionally is in a strange position also because as an institution it does not take responsibility for the program. So from the eyes of public of everybody, commission is very important part of the negotiation. At the same time commission as a body doesn't take responsibility for it. So it will be better to have, you know, commission staff second to DSM, the DSM taking responsibility meaning that DSM will be turned into a sort of European Monetary Fund.

MR. DERVIS: Yeah, I mean that -- the last point I think is very -- yes, I mean if DSM had those it would look much more like the IMF for Europe, right? Okay. Yes? Yeah, you are -- and then I wonder Liaquat if I can entice you because few people have written so wonderfully about central banks and central bank played such a huge role. So some words on that and some -- okay. Yeah.

MR. HENNING: Thank, Kemal. I'm Randy Henning at American University. I wanted to ask Jean to elaborate a little bit on your preferences about political integration as we move forward. Jörg Asmussen was in town at a conference a month ago and he suggested that the way forward was to recreate essentially -- I'm paraphrasing a little -- was to recreate within the euro area the institutions that we have within the European Union, kind of building on the ESM only, making it -- replicating the community method within the euro area rather than the intergovernmentalism. This

strikes me as a way forward but it's a break from putting all the eggs in the EU basket. Are you ready to do that? Is that that path that you prefer?

And my question for Jörg was about the European Central Bank. Many of us would like to see another big round of quantitative easing in the ECB, but what do you think the ECB should buy? That would be my question to you. I ask because I know you've given this a lot of though.

MR. DECRESSIN: Thank you very much. Let me turn to Liaquat to say a few words also maybe in linking to the role of the ECB. By the way is it the European Central Bank or the eurozone Central Bank? That's a question I always ask myself.

MR. AHAMED: Well, I'm not going to make any comments actually, I'm going to ask a question. I had always understood central banks as essentially providers of liquidity in the case of the liquidity crisis. Now as I look at Europe it seems much closer to a solvency crisis than a liquidity crisis. And I read all these articles about TARGET2 balances and this hidden debt that countries or -- the National Central Banks continue to owe to the ECB. And I'm just asking did the ECB in many ways overstep its true mandate and are we doing to -- is it going to take -- how are they going to wind down these large intra-European Central Bank debts?

MR. PISANI-FERRY: Should we go?

MR. DERVIS: Go.

MR. PISANI-FERRY: Okay. Two important questions. So, Randy, to me first of all we should be careful, you know, to do whatever we have to do for the euro area but not to destroy the EU in the process. That's a fine balance. I think this is one thing that worked very well. I mean it could have worked very badly but the relationship between the EU and euro area, non euro and euro area members has been smooth mostly, not always but mostly throughout the crisis. And I think we should thank the Brits

for having played a very constructive role in this respect. Having realized at some point in time that their national interest was that the euro survives and that, you know, being cooperative in helping the euro area countries to forge solution, not using their power to block, banking union being a good example. I mean almost the clearest example.

Now that being said there is question for the euro area about political integration which in my view comes from the fact that we could have chosen the federal route for the way we address the number of choices. We could have, you know, relied on the sort of traditional community philosophy. What has been done is the opposite, to build a different system that it's much more a system of -- based on a system of mutual support and mutual assistance among countries. The FSF was a sort of prime example of a contract of this sort. And in the process an important consequence has been that national parliaments have become players and very important players in some cases because basically the national parliaments are in control of the funds that were used. I mean they're controlling this with the DSM. So we've moved away from the traditional model and went to a model that relies much more sort of institutionalized cooperation between participating countries.

Now we have to, you know, solve this contradiction. Do we want to continue on this track and what it implies? In my view it would imply some things like, you know, creating a sort of chamber for the euro area, building a national parliament and representation of national parliament. Or do you want to go back and return to the sort of more community approach which would mean that we would have gradually to transform and absorb all these new instrument into the -- I think there is a lot of hesitation at the moment. I mean both are conceivable but there is a need for clarity.

To Liaquat, I think I disagree with you. I think, you know, we have much more with liquidity crisis than which you said. Then the solvency crisis was essentially

the Greek crisis. You could argue about certain other cases but, you know, what we've seen is essentially that at some point the interbank market was not providing liquidity to banks located in a certain number of countries and that the central bank did exactly what a central bank had to do, to provide liquidity to those banks. And the consequence of that has been this build up of target imbalances. But that's a counterpart of the central bank playing exactly the role that you -- what you expect a central bank to do. So I think I don't have the same reading.

MR. DERVIS: Could I just ask -- why do you say it's a solvency crisis, Liaquat? Can you clarify that, the reason for that? Because that will make the --

MR. AHAMED: I mean the tricky thing in -- when you look at sovereign debt is the distinction between a liquidity crisis and solvency crisis is always a gray area. But as I understand it if you looked at how much the Irish banks were borrowing through the Irish Central Bank and then from the ECB you are talking about 60-70 percent of GDP at the time. Now to accumulate foreign debts of that amount on top of the other foreign debts that are counted in the debt statistics strikes me as Ireland facing a major debt problem which is much closer to a solvency crisis than a liquidity crisis. And it's going to take a long time to unwind those TARGET2 balances.

MR. PISANI-FERRY: The TARGET2 balances are mostly the counterpart of massive capital outflows, right. Those countries, they had private capital inflows and those capital inflows built up and then there were sudden capital outflows. This was replaced almost entirely by TARGET2 balances. I mean the rest --

MR. AHAMED: And that capital is not coming back, is it?

MR. PISANI-FERRY: Well, marginally. I mean the TARGET2 balances have diminished from I think 800 maximum to -- the German maximum balance was I think 800 billion, it's down to 500 or something of this sort. So they are diminishing

gradually but we're far from having a return to normal situation.

MR. DERVIS: Can I intervene just using the progress of the chair? I mean isn't the real debate whether the current accounts that are sustainable, normal, like in Spain maybe three percent of GDP deficit, can be reconciled with a country like Spain again growing at two and a half, three percent a year? Because, you know, that would be resolving the solvency problem. I mean in a way I think you seem like you've solved it now, it may be so, by having depressed demand, particularly import demand, to a point where there's no more current account deficit, okay. But these countries cannot continue like this; they need to grow, they need to generate employment. At that point if the current account deficits reappear have they become sustainable or are we -- have we just provided enough liquidity to stem the crisis but in fact the structural adjustment that would make Spain grow at two or three percent with a reasonable current account deficit that's financed normally, are we there? I mean that's what's behind those balances I think.

MR. PISANI-FERRY: Well, I wouldn't see it as impossible. I would be a bit more cautious about the level of the current account deficit that a country like Spain can have going forward because I think the level of external liabilities is quite high. And so the question is what's sustainable in flow terms?

MR. DERVIS: But it's -- well, it's a very kind of sad commentary that markets -- many economists felt that nine-ten percent was fine five years ago, right. And now we're saying that Spain cannot even have two percent. You may be right but.

Jörg, any final words?

MR. DECRESSIN: Well, on this I like to look at it through the prism of the net international investment position of a country, right. And in the periphery like Ireland and Portugal, Greece, and various of these economies, you know -- no one should quote me on this -- but it's around 100 percent of GDP which means, you know,

there is every year going to be a very significant transfer of national resources abroad, you know. Fortunately interest rates are fairly low, right, and so the transfer is limited. But there is a big transfer abroad. It is also clear that at this stage there is very little scope for these current account deficits, also considering the net international investment position is too wide to reemerge and become wide again, right. So what does it mean for these countries? It means that in their new growth they have to develop growth in the tradable sector, right. And the question is are they ready to implement the structural reforms that are needed to foster the growth rate of the tradable sector? And I think on various fronts we have seen some good progress. I mean with reforms in the labor market. Maybe, you know, also some reforms in the current markets but maybe lagging those that have taken place in the labor market. But there certainly is more to be done so that they can then again within their tight budget constraints grow at a satisfactory pace. There is nothing that says simply because you cannot run a current account deficit you're doomed to have a low growth rate. There's nothing like that, right. And there's nothing that says, you know, your 80 percent or 100 percent net international investment position is unsustainable, right. You're going to explode, right. It is a function of how policy responds.

MR. DERVIS: All right. I think we have to close. Thank you all so much. Thank you, Jörg, and Jean. Thanks, Jörg and thanks to everybody for coming also. (Applause)

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Expires: November 30, 2016