

# Could France have a different fiscal policy?

By [Jérôme Creel](#)

Shouldn't the economic crisis that is gripping the euro zone, including France, lead to calling into question the approach being taken by fiscal policy? In light of the unprecedented [broad consensus](#) among economists about the impact of fiscal policy on the real economy, it is clear that the austerity measures being adopted by France are a mistake. Moreover, invoking European constraints is not a good enough argument to exclude a much more gradual process of putting the public purse in order (also see the [iAGS project](#)).

There is no need to go beyond what European legislation requires, and doing so can be especially harmful if in fact the additional budgetary efforts generate less growth and, ultimately, further deterioration in the public finances due to higher social spending and lower tax revenue. What do the existing European treaties actually demand? In the case of a government deficit that exceeds 3% of GDP, the minimum effort required for fiscal adjustment consists of reducing the cyclically adjusted deficit, *i.e.* the structural deficit, by at least 0.5% of GDP per year. Furthermore, the time period for reducing the debt to 60% of GDP is 20 years. Finally, exceptional circumstances now include an "unusual event" that could justify deviating from the current standards for the deficit.

Based on these exceptional circumstances and on the rule requiring an annual improvement of at least 0.5% of GDP in the structural deficit, it can be shown that the French government has fiscal maneuvering room in 2012 and 2013, while still complying with European fiscal rules.

Table 1 lists the sequence of public deficits and of GDP growth from 2011 to 2013 according to two forecasts produced by the European Commission in the Spring and then the Autumn of 2012. According to the Spring forecast, the French structural deficit was supposed to decrease by 1.2% of GDP between 2011 and 2013, on average slightly above what is required by the Commission. In fact, the improvement from 2011 to 2012 exceeded 0.5% of GDP, while it fell below that from 2012 to 2013.

What about the Autumn 2012 forecast? The expected improvement in France's structural deficit was now expected to be 1.1% of GDP between 2011 and 2012 and then 1.4% of GDP between 2012 and 2013, taking into account [the government's commitment to reduce public spending and raise taxes](#). These projected improvements in the structural deficit are two and three times greater than what European fiscal rules require, which is a lot! For the year 2013, this amounts to almost 20 billion euros that need not be levied on French households and businesses. Abandoning this levy does not mean abandoning fiscal austerity, but rather *spreading it out over time*.

Furthermore, the European Commission now expects a slowdown in the French economy in 2013. Unless one argues that the French government is responsible for this slowdown – and while this might indeed be the case in light of the austerity budget the government is imposing on the French economy, it is far from clear that the European Commission would want to employ such an argument, given its role in championing austerity! – this deterioration in the country's growth prospects could fall within the category of an "unusual event," thus giving France an opening to invoke exceptional circumstances in order to *stagger* and *extend* its fiscal adjustment efforts.

Instead of awaiting the miraculous effects of structural reform – a potentially lengthy and uncertain process – all that is really needed is to apply the regulations in force,

without imposing an overly restrictive reading of what they contain, so as to limit the reduction in growth being caused by austerity and avoid a new period of rising unemployment. According to the conclusions of the [iAGS report](#), staggering the fiscal austerity measures in France would lead to adding 0.7 GDP point to growth every year from 2013 to 2017.

The “unusual event” constituted by yet another year of very low growth in 2013 for France also opens the possibility of suspending the austerity policies, at least temporarily. Once again according to the findings of the iAGS report, the French government should put off till 2016 its policy of consolidating the public finances. The gain in terms of growth would be 0.9 percentage point per year between 2013 and 2017. Provided that this policy is actually conducted carefully and not postponed indefinitely, it would enable France to reduce its public debt to GDP ratio in compliance with existing EU treaties.

#### Forecast for the French economy

|                                  |             | 2011 | 2012 | 2013 |
|----------------------------------|-------------|------|------|------|
| Public deficit<br>(% of GDP)     | Spring 2012 | 5.2  | 4.5  | 4.2  |
|                                  | Autumn 2012 | 5,2  | 4.5  | 3.5  |
| Structural deficit<br>(% of GDP) | Spring 2012 | 4.1  | 3.2  | 2.9  |
|                                  | Autumn 2012 | 4.5  | 3.4  | 2.0  |
| PIB<br>(%)                       | Spring 2012 | 1.7  | 0.5  | 1.3  |
|                                  | Autumn 2012 | 1.7  | 0.2  | 0.4  |

Source: European Commission forecasts.

# 2013: what impact will the (national) fiscal measures have on growth?

By [Mathieu Plane](#)

This text supplements the [October 2012 forecasts for the French economy](#)

After having detailed the multiplier effects expected for the different fiscal policy instruments, the average domestic fiscal multiplier associated with the austerity measures being implemented in France in 2013 will be 0.9. This policy will cut GDP by 1.7% in one year alone. After a cumulative fiscal effort of 66 billion euros in 2011 and 2012, the structural saving expected for 2013 represents about 36 billion euros (1.8 GDP points) if we include both the measures in the 2013 budget bill (*Projet de loi de finances – PLF*) and the various measures adopted previously (Table). The fiscal shock resulting from the PLF for 2013 comes to 28 billion euros, of which 20 billion is solely on tax and social security contributions (*prélèvements obligatoires – PO*). Of the remaining 8 billion, an increase of nearly 5 billion euros in tax and social security contributions is from the second supplementary budget (*Loi de finances rectificative – LFR*) for the summer of 2012, the rest being mainly due to the first LFR for 2012 and to the hike in contributions resulting from the revision of the pension reform in summer 2012.

In total, the fiscal effort in 2013 can be broken down between tax and social contributions of about 28 billion euros (1.4 GDP points) and structural savings on primary public expenditure of 8 billion (0.4 GDP point). The burden of higher taxes and social contributions breaks down to nearly 16 billion euros for households and more than 12 billion for

business. This breakdown does not take into account the competitiveness measures announced on 6 November by the Prime Minister. The tax credits for competitiveness and employment (CICE) will not have any fiscal impact in 2013, with the exception of the possible establishment in 2013 of an advance on their future tax credits for some companies short of cash.

Based on the variants in the fiscal multiplier, made with e-mod.fr according to the economy's position in the cycle, for the main taxes and social security contributions as well as for the key components of public expenditure [\[1\]](#) and based on the different evaluations we were able to carry out, particularly in the context of [the assessment of the Five-year economic programme](#), we applied a specific fiscal multiplier to each measure for 2013 (Table). The short-term multipliers take into account only the direct effects of the measures on domestic activity, regardless of the fiscal policies of our trading partners, which amplify the impact of national policy. It is also assumed that monetary policy remains unchanged. The long-term multiplier values differ from the short-term ones, being generally lower unless a long-term negative output gap is maintained.

Of the 16 billion euro increase in tax and social security contributions on households in 2013, the discretionary increase in personal income tax (IR) will be 6.4 billion, including 3.2 billion from the 2013 Budget Act (*Loi de finances*) – against 4 billion in the PLF, as the proposal to tax capital gains on securities at the income tax scale will be largely amended, and the yield from the measure could decrease by about 0.8 billion, with the shortfall being able to be offset by the extension of the exceptional 5% contribution from the IS tax on large corporations), and with the rest coming from the supplemental LFR for 2012 (including 1.7 billion solely from the de-indexation of the personal income tax schedule). While the increase in personal income tax from the 2013 PLF is targeted at high earners, the amount

this will contribute (3.2 billion) represents only 11% of the increase in tax and social security contributions (20% if we limit ourselves to households) in 2013, and less than 9% of the total fiscal effort. According to our calculations, the average fiscal multiplier associated with the different measures that increase personal income tax will be 0.7 in 2013.

The increase in taxes and social contributions from households will come mainly from the increase in payroll taxes and social security contributions (8.7 billion euros) set out in the Social Security budget act (PLF) for 2013 (2.9 billion) and the measures in the supplemental LFR for 2013 (5.3 billion, which includes changes to the tax exemption on overtime, a limitation on tax breaks and employee savings, a higher CSG wealth tax on income from capital, etc.) and pension reform, with an increase in the contribution rate (0.5 billion). The average fiscal multiplier related to these measures is 0.9. Finally, the reform of inheritance tax will raise a further 1.1 billion in tax and social contributions. On the other hand, the revenue from the ISF wealth tax will be 1.3 billion lower than in 2012. Indeed, the yield from the one-off wealth tax contribution set up under the supplemental LFR for 2012 will be greater than from the one set up under the new reform in 2013. The fiscal multiplier for these two measures is 0.3.

In total, according to our calculations, the increase in levies on households in 2013 will on average have a multiplier of 0.8 and will amputate growth by 0.6 GDP point.

For business, the measures adopted mainly involve an increase in the corporate income tax as provided in the budget bill (PLF) for 2013 (8 billion euros, of which 4 billion is related to the reform of the deductibility of financial expenses). The average multiplier for the increase in the corporate income tax (IS) is estimated at 0.7 in 2013. 2.3 billion euros will come from a rise in social security contributions and payroll taxes with a fiscal multiplier of unity. Finally, other

measures such as the sectoral measures on the taxation of insurance or the exceptional contribution of the oil industry will increase the tax burden on business by 1.9 billion in 2013, with an average fiscal multiplier estimated at 0.5.

In our assessment, the increase in taxes and social contributions from companies will on average have a multiplier of 0.8 and will reduce GDP by 0.5 GDP point in 2013.

In addition, the short-term fiscal multiplier associated with public expenditure in a low phase of the cycle is, in our model, 1.3, so it is higher than that associated with tax and social contributions. This result is consistent with the most recent empirical literature (for details, see the box, "[Fiscal multipliers: size matters!](#)") The estimated loss of activity resulting from tightening up on public expenditure will come to 0.5 GDP point in 2013.

In total, the average domestic fiscal multiplier associated with the austerity policy being implemented in France in 2013 will be 0.9, and this policy will reduce GDP by 1.7%. This result is in the lower range of the [latest work of the IMF](#); using recent data on 28 countries, it has estimated the actual multipliers at between 0.9 and 1.7 since the beginning of the Great Recession.

## Main measures affecting the structural public deficit in 2013

|  | Measures<br>(in bn) | Fiscal multiplier<br>estimated in<br>the short term | Impact<br>on GDP<br>(%) |
|--|---------------------|---|-------------------------|
| <b>Households</b>  | <b>15.7</b>         | <b>0.8</b>  | <b>-0.6</b>             |
| <b>Income tax</b>  | <b>6.4</b>          | <b>0.7</b>  | <b>-0.2</b>             |
| PLF 2013 (taxation of capital income at IR tax rate, new brackets, etc.)*  | 3.2                 | 0.6   | -0.1                    |
| LFR II 2012 (reversal of tax exemption of overtime)  | 0.5                 | 0.4   | 0.0                     |
| LFR I 2012 (de-indexation of IR brackets, suppression tax breaks and Scellier scheme, etc.)  | 2.7                 | 0.8   | -0.1                    |
| <b>ISF wealth tax</b>  | <b>-1.3</b>         | <b>0.3</b>  | <b>0.0</b>              |
| PPLF 2013 (reform of ISF wealth tax)   | 1.0                 | 0.3   | 0.0                     |
| LFR II 2012 (repercussions from one-off 2012 contribution)   | -2.3                | 0.3   | 0.0                     |
| <b>Inheritance tax</b>   | <b>1.1</b>          | <b>0.3</b>  | <b>0.0</b>              |
| LFR II 2012 (reversal of breaks on inheritance tax)  | 1.1                 | 0.3   | 0.0                     |
| <b>Social contributions and payroll tax</b>  | <b>8.7</b>          | <b>0.9</b>  | <b>-0.4</b>             |
| Social security PLF 2013 (reform of self-employed payroll tax, higher tax on beer and tobacco, etc.)                                     | 2.9                 | 1.0   | -0.1                    |
| LFR II 2012 (reversal of overtime exemption, limitation of tax breaks and employee savings, higher CSG wealth tax, capital income, etc.) | 5.3                 | 0.8   | -0.2                    |
| Pension reform (higher contributions)  | 0.5                 | 1.0   | 0.0                     |
| <b>Other</b>   | <b>0.8</b>          | <b>0.6</b>  | <b>0.0</b>              |
| PLF 2013 (higher tax on vacant housing, tougher "automobile malus", etc.)  | 0.9                 | 0.6   | 0.0                     |
| LFR II 2012 (lower VAT on books)   | -0.1                | 1.0   | 0.0                     |
| <b>Business**</b>  | <b>12.2</b>         | <b>0.8</b>  | <b>-0.5</b>             |
| <b>Corporate income tax</b>  | <b>8</b>            | <b>0.7</b>  | <b>-0.3</b>             |
| PLF 2013 (limits on financial expenses deductibility, reform of the "cinquième acompte", etc.)   | 8                   | 0.7   | -0.3                    |
| <b>Payroll tax and social contributions</b>  | <b>2.3</b>          | <b>1.0</b>  | <b>-0.1</b>             |
| Social security PLF 2013 (higher CNRACL contribution rate, reform on wage tax, etc.)   | 1.8                 | 1.0   | -0.1                    |
| Pension reform   | 0.5                 | 1.0   | 0.0                     |
| <b>Other</b>   | <b>1.9</b>          | <b>0.5</b>  | <b>-0.1</b>             |
| PLF 2013 (sectoral measures on taxation of business insurance) (sectoral measures on taxation of business insurance)                     | 1.3                 | 0.8   | -0.1                    |
| LFR II 2012 (one-off contribution of oil industry, taxation of financial transactions, etc.)   | 0.6                 | 0.2   | 0.0                     |
| <b>Total Business and Household Taxes and Contributions</b>  | <b>27.9</b>         | <b>0.8</b>  | <b>-1.1</b>             |
| <b>Structural saving on primary public expenditure</b>   | <b>8.0</b>          | <b>1.3</b>  | <b>-0.5</b>             |
| <b>Total fiscal impulse</b>  | <b>35.9</b>         | <b>0.9</b>  | <b>-1.7</b>             |

\* This amount incorporates the downward revision of the yield initially foreseen in the PLF 2013 of the measure taxing capital gains at the personal income tax rate, which is to be offset by the extension of the exceptional 5% corporate income tax contribution for large corporations.

\*\* This breakdown does not measure the final fiscal impact that is to be borne by households if the increase in business taxes is passed on in prices.

Sources : PLF 2013, Social security PLF 2013, LFR I and II 2012, OFCE calculations.

[1] For more on this, see Creel, Heyer, Plane, 2011, "Petit précis de politique budgétaire par tous les temps", *Revue de l'OFCE*, no. 116, January 2011.



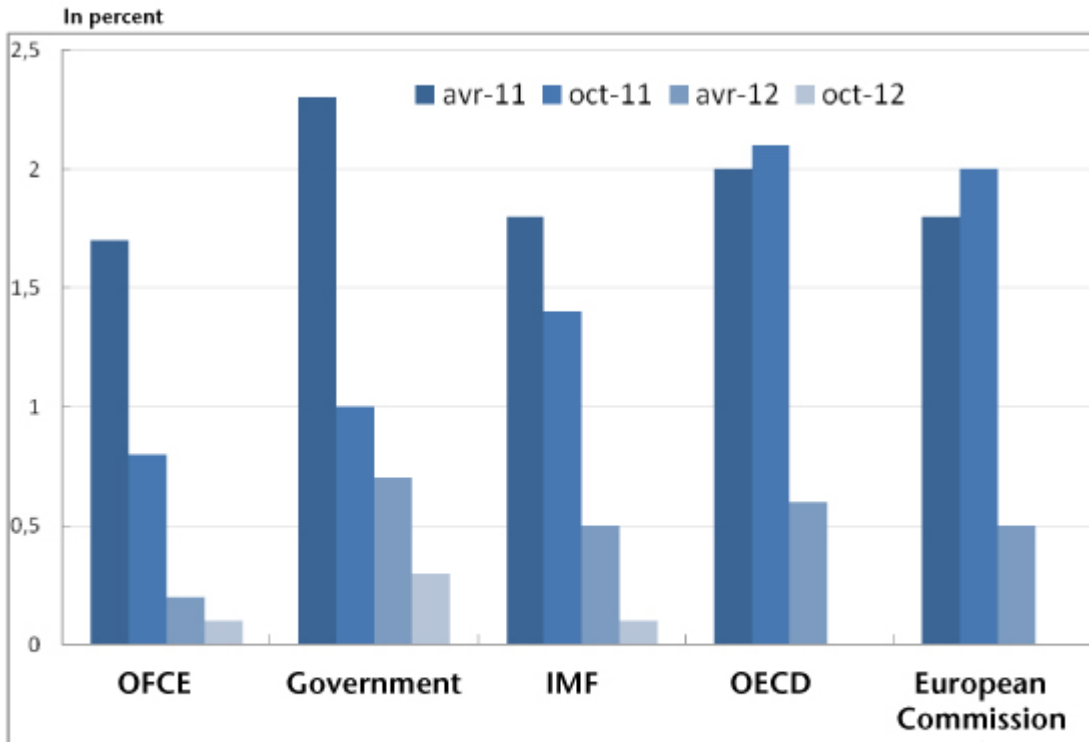
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# Why has French growth been revised downwards?

By Bruno Ducoudré and [Eric Heyer](#)

In its [October 2012 forecasts](#), the OFCE has revised its growth forecast for 2012 and 2013. The major international institutions, the OECD, the IMF and the European Commission, also regularly review their growth forecasts to incorporate newly available information. An analysis of these revised forecasts is particularly interesting in that it shows that these institutions use low fiscal multipliers in developing their forecasts. In other words, the recessionary impact of fiscal policy has been underestimated by the OECD, the IMF and the European Commission, leading to substantial revisions of their growth forecasts, as is evidenced by the dramatic shifts by the [IMF](#) and the [European Commission](#) in the size of the multipliers.

Graphique 1. Révisions of growth in French GDP for 2012



Note : Growth in 2012 is reviewed four times each year by each institution. The first revision took place in April 2011, the second in October 2011, the third in April 2012 and the final one in October 2012. The OECD has not yet published its latest revisions.

Sources : IMF, European Commission, OECD, OFCE October 2012 calculations and forecasts.

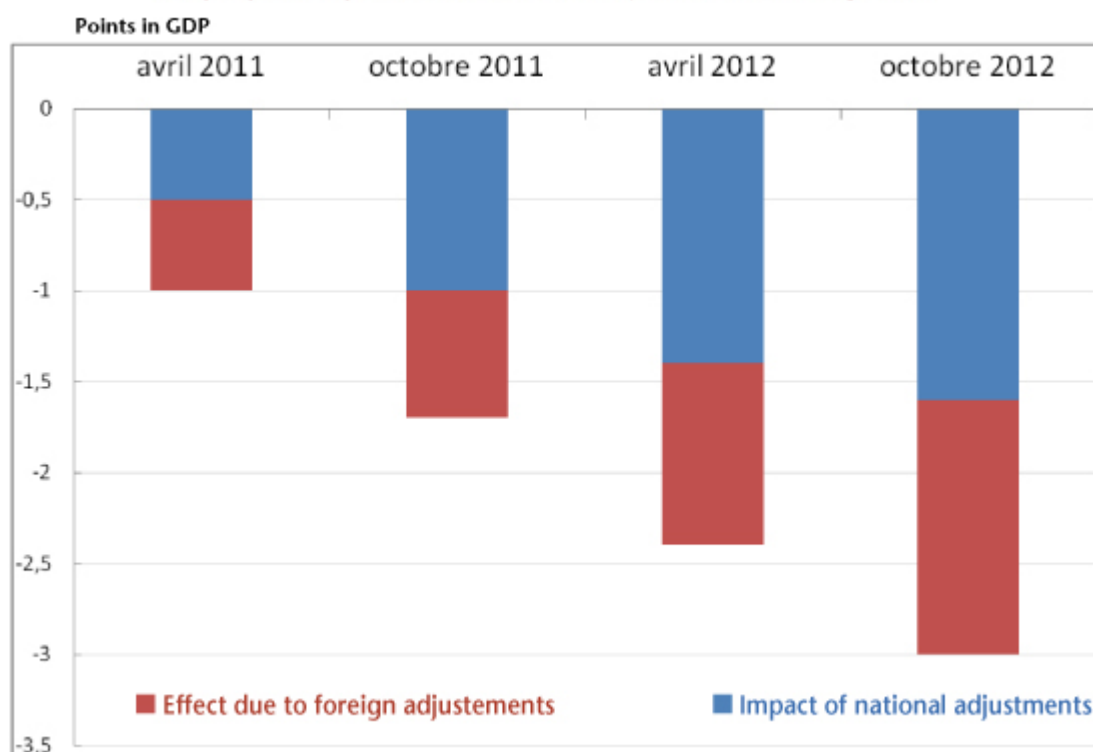
Figure 1 shows that between the forecast made in April 2011 and the latest available forecast, the government, like all the other institutions, revised its growth forecast for France sharply downwards.

The austerity policies have also been strengthened at the same time, particularly in the euro zone. The European countries undertook their stability program in order to return to balanced public finances within three years. In contrast to the years before the crisis, the implementation of these commitments is now considered a necessary or even sufficient condition for pulling out of the crisis. Moreover, in a context of financial uncertainty, being the only State not to meet its commitment to fiscal consolidation would be punished immediately by the markets (higher sovereign rates, a downgraded rating, a fine from the European Commission, implicit contagion of sovereign defaults). But in trying to reduce their deficits abruptly and synchronously, Europe's governments are inducing new slowdowns in activity.

A vicious circle has been created: with each downward revision in their forecasts for 2012 growth, Europe's governments implement new austerity measures to meet their deficit commitments. This has happened in France, but especially in Italy, which has virtually tripled its fiscal effort, and in Spain, which is now engaged in the greatest austerity effort of any major European country.

According to our estimates for the French economy (that is to say, using a multiplier of 1), the series of fiscal savings plans adopted at the national level have led to revising growth downwards by -1.1 points between April 2011 and October 2012 (from an impact of -0.5 GDP point to -1.6 points). Since these same policies are in force in our trading partners, this has led to revising growth for this same period by 0.9 point due to foreign trade (from -0.5 GDP point to -1.4 point) (Figure 2).

**Graphique 2. Impact of the latest fiscal adjustments on 2012 growth**



Source : OFCE October 2012 calculations and forecasts.

For the year 2012, the OFCE's revisions for the French economy can be explained in full simply by the escalation in the fiscal savings measures announced over the last 12 months,

*i.e.* the national plans and those applied by our partner countries (Table 1).

**Tableau 1. Determinants of the revisions to the OFCE forecast for France for 2012**

|   | April 2011 | October 2012 | Revision |
|---|------------|--------------|----------|
| GDP growth  | 1,7        | 0,1          | -1,6     |
| (a) - Austerity measures (in GDP pt)                  | -0,6       | -1,60        | -1,0     |
| (b) - Value of the fiscal multiplier                  | 0,95       | 0,95         | 0,0      |
| Impact of austerity plans in France (a + b)           | -0,5       | -1,6         | -1,1     |
| Impact of the austerity measures of France's partners | -0,5       | -1,4         | -0,9     |
| Other adjustment factors                              |            |              | 0,4      |

Source : OFCE calculations.

Leaving aside this escalation of austerity, our diagnosis of the French economy has changed very little over the last 18 months: without it, we would have even revised our growth forecast slightly upwards (0.4%).

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## The euro zone: confidence won't be enough

By [Céline Antonin](#), [Christophe Blot](#) and Danielle Schweisguth

*This text summarizes the OFCE's October 2012 forecasts for [the economy of the euro zone](#).*

After more than two years of crisis in the euro zone, this time the meeting of the European Council, held on 18 and 19 October, had nothing of the atmosphere of yet another last-chance summit. Even though discussions on the future banking union [\[1\]](#) were a source of tension between France and Germany, there was no sword of Damocles hanging over the heads of the European heads of state. However, it would be premature to

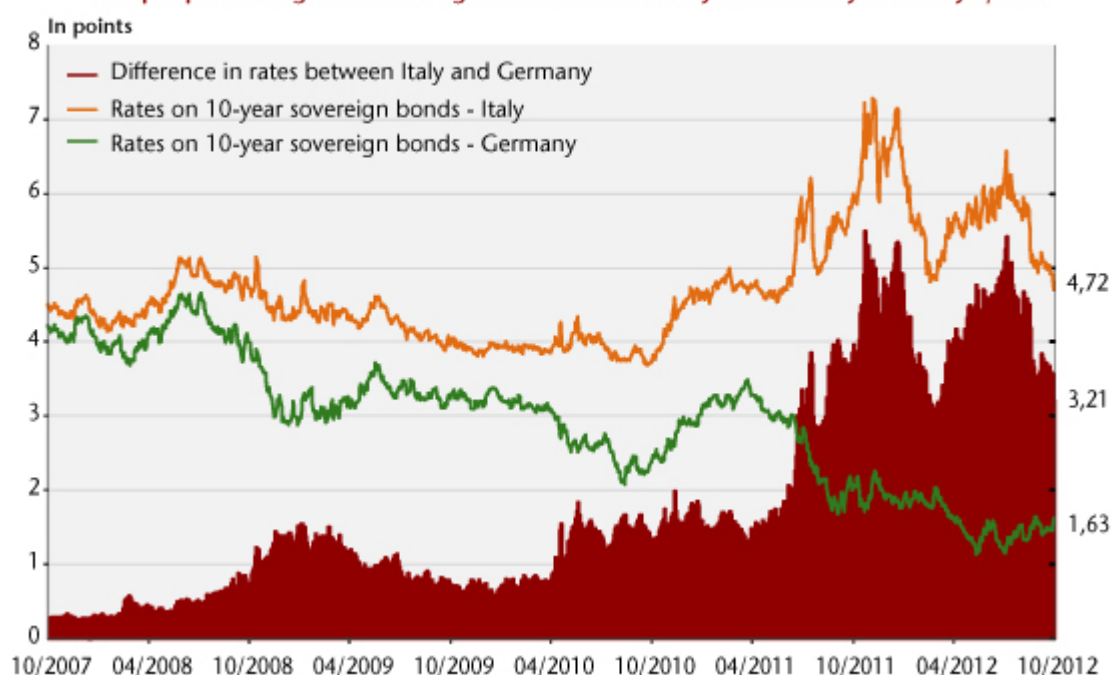
assume that the crisis is coming to an end. It is sufficient to recall that the GDP of the euro zone has still not regained its pre-crisis level, and in fact declined again by 0.2% in the second quarter of 2012. This decline is forecast to continue, as we expect GDP to fall by 0.5% in 2012 and by 0.1% in 2013. Consequently, the unemployment rate in the euro zone, which has already surpassed its previous historical record from April 1997, will rise further, reaching 12.1% by end 2013. What then are the reasons for the lull? Can the euro zone quickly resume its growth and hope to finally put an end to the social crisis?

Since the end of 2011, Europe has adopted a new treaty (the Treaty on stability, coordination and governance, the TSCG) which is being ratified in the 25 signatory countries. The new law is specifically intended to strengthen both budgetary discipline – through the adoption of national golden rules – and solidarity through the creation of the European Stability Mechanism (ESM), in so far as the use of the ESM is conditional on ratification of the TSCG. On 6 September, the ECB unveiled the basic points of its new conditional purchase of sovereign debt ([see here](#)), which is aimed at reducing the interest rates of countries subject to the ESM. Thus, the risk premium, as measured by the difference between the Italian and Spanish sovereign interest rates and the German rate, after peaking on 24 July 2012, decreased respectively by 2.2 and 2.5 points (Figures 1 and 2). This is of course still far from normal, but this lull is nevertheless welcome and it shows that the spectre of a breakup of the euro zone has receded.

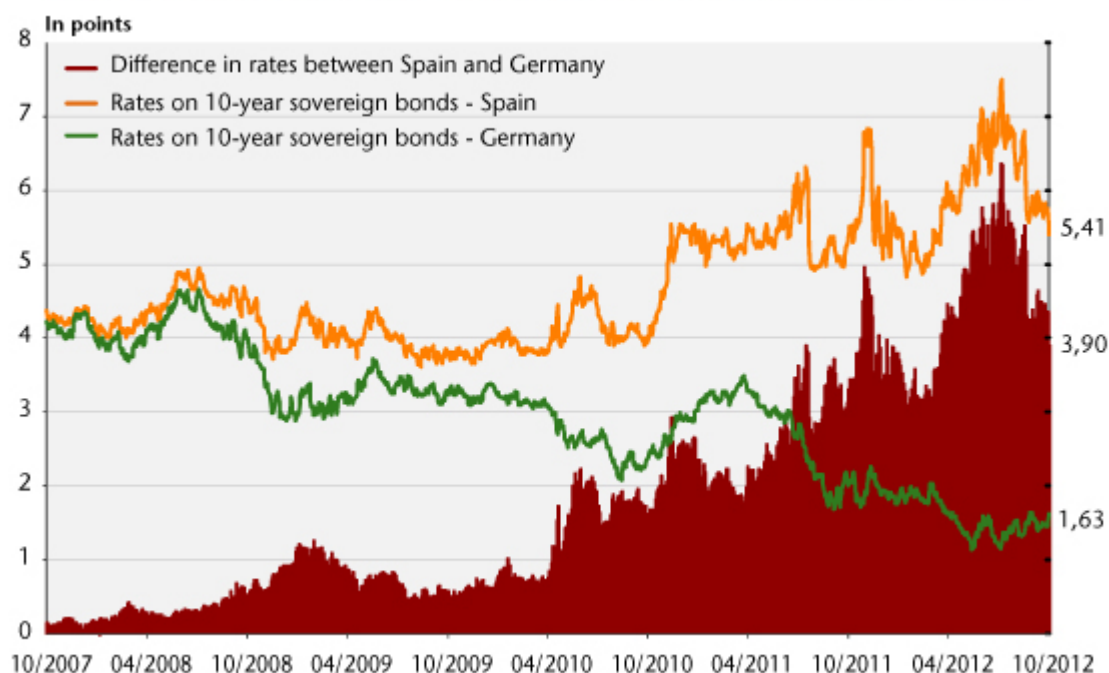
Could this new wave of optimism be a precursor to an upturn in the economy of the euro zone? The answer to this question is, unfortunately, negative. The fiscal policies of countries in the zone are still highly restrictive, a situation that has even intensified in 2012, pushing Italy and Spain back into recession and deepening the recession that was already hitting Portugal and Greece. For the euro zone as a whole, the fiscal

stimulus will come to 1.7 percent of GDP in 2012 (table). The series of votes on national budgets confirms this strategy of a forced reduction of budget deficits for 2013, with the overall fiscal consolidation for the euro zone as a whole coming to 1.3%. There will be significant differences between the countries, since in Germany the fiscal stimulus will barely be negative (-0.2 point) while in Spain, Italy and Greece it will be more than -2 GDP points. However, the recessionary impact of this synchronized fiscal consolidation will be even greater given that the euro zone countries are still at the bottom of the economic cycle. In these conditions, the targets for budget deficit reduction will not be met, which will inevitably raise the question of the appropriateness of further budget cuts. More and more Member States thus risk being caught in a vicious circle where low growth calls for further fiscal adjustments that in turn deepen the economic and social crisis. It is essential that any decision about improving the governance of the European Union or the transmission of monetary policy restores confidence and creates the conditions for a return to growth. But this will be insufficient to escape the recession and should not obscure the impact of the fiscal strategy.

Graphique 1. Long-term sovereign interest rates in Italy and the Italy-Germany Spread



**Graphique 2. Long-term sovereign interest rates in Spain and the Spain-Germany Spread**



Source : Datastream.

**Tableau. Fiscal stimulus in the euro zone countries**

In GDP points

|               | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------|------|------|------|------|------|
| Germany       | 0,7  | 1,5  | -0,9 | -0,5 | -0,2 |
| Autria        | 0,4  | 0,6  | -1,6 | -0,1 | -0,9 |
| Belgium       | 1,9  | -0,3 | -0,1 | -1,1 | -0,8 |
| Spain         | 3,8  | -2,5 | -1,1 | -3,4 | -2,4 |
| Finland       | 0,4  | 1,5  | -1,6 | -0,4 | -1,3 |
| France        | 2,3  | -0,5 | -2,9 | -1,6 | -1,8 |
| Greece        | 3,2  | -8,0 | -5,3 | -5,0 | -3,9 |
| Ireland       | 2,2  | -4,4 | -1,5 | -2,4 | -1,8 |
| Italy         | 0,8  | -0,4 | -1,2 | -3,2 | -2,1 |
| Netherlands   | 4,0  | -1,1 | -0,2 | -1,0 | -1,2 |
| Portugal      | 5,0  | -0,7 | -3,7 | -3,7 | -1,8 |
| Euro zone 11* | 1,8  | -0,3 | -1,3 | -1,7 | -1,3 |

\* Excluding Cyprus, Luxembourg, Malta, Slovakia, Slovenia and Estonia.

Note : The fiscal stimulus is measured by the opposite of the variation in the cyclically adjusted primary balance, that is, excluding interest charges and exceptional revenue: it approximates the discretionary budget policy.

Sources : OFCE calculations and forecasts, October 2012.

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[1] See [here](#) for an analysis of the importance of the proposed

banking union and the questions it raises.

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# France: will the war of the 3% take place?

By [Eric Heyer](#)

*This text summarizes the [OFCE's October 2012 forecasts for the French economy](#).*

The French economy is expected to see average annual growth of 0.1% in 2012 and 0.0% in 2013. This performance is particularly poor and far from the path that an economy recovering from a crisis would normally experience.

Four years after the onset of the crisis, the French economy has real potential for a rebound: this should lead to spontaneous average growth of about 3.0% per year in 2012 and 2013, making up some of the output gap built up since the start of the crisis. But this spontaneous recovery is being hampered, mainly by the establishment of budgetary savings plans in France and throughout Europe. The fiscal consolidation strategy imposed by the European Commission is likely to slice nearly 6 percentage points off GDP in France during 2012 and 2013.



**Table 1. The brakes on growth in France**

En points of GDP

| Rythm                | ... quaterly |      | ... annually |      |
|----------------------|--------------|------|--------------|------|
|                      | 2012         | 2013 | 2012         | 2013 |
| Spontaneous recovery | 0,8          | 0,8  | 2,1          | 3,1  |
| Budget impact        | -0,4         | -0,4 | -1,6         | -1,7 |
| Oil shock            | -0,05        | 0,0  | -0,2         | 0,0  |
| External environment | -0,4         | -0,3 | -1,4         | -1,2 |
| Achievement          |              |      | -1,0         | -0,2 |
| Growth forecasts     | -0,04        | 0,04 | 0,1          | 0,0  |

Sources : INSEE, OFCE calculations.

By setting a pace that is far from its potential, the expected growth will increase the output gap accumulated since 2008 and will lead to a further deterioration on the labour market. The unemployment rate will rise steadily and hit 11% by late 2013.

Moreover, the reduction of the budget deficit expected by the Government due to the implementation of its consolidation strategy – the target for the general government deficit is 3% of GDP in 2013 – will be partially undermined by the shortfall in tax revenue due to weak growth. The general government deficit will come to 3.5% in 2013.

Under these conditions, should the government do whatever it can to fulfil its commitment to a 3% deficit in 2013?

In a context of financial uncertainty, being the only State not to keep its promise of fiscal consolidation is a risk, *i.e.* of being punished immediately by an increase in the financial terms on the repayment of its debt. This risk is real, but limited. The current situation is that of a “liquidity trap” and abundant savings. The result is a “flight to quality” phenomenon on the part of investors seeking safe investments. But among these are both German and French government bonds. Under these conditions, reducing the government deficit by 1 GDP point instead of 1.5 point would have very little impact on French bond rates.

However, maintaining a target of a 3% deficit in 2013 could

have a dramatic impact on economic activity and employment in France. We simulated a scenario in which the French government maintains its budgetary commitment regardless of the costs and the economic situation. If this were to occur, it would require the adoption of a new programme of budget cuts in the coming months in the amount of 22 billion euros.

This strategy would cut economic activity in the country by 1.2% in 2013. It would lead to a further increase in the unemployment rate, which would reach 11.7% at year end, nearly 12%. As for employment, this obstinacy would intensify job losses, costing nearly 200,000 jobs in total.

A darker scenario is also possible: according to our forecasts, and taking into account the draft budget bills known and approved, no major European country would meet its deficit reduction commitments in 2013. By underestimating the difficulty of reaching inaccessible targets, there is a high risk of seeing the euro zone countries locked into a spiral where the nervousness of the financial markets would become the engine driving ever greater austerity. To illustrate this risk, we simulated a scenario in which the major euro zone countries (Germany, France, Italy and Spain) implement new austerity measures to meet their deficit targets in 2013. Adopting such a strategy would result in a strong negative shock to economic activity in these countries. For the French economy, it would lead to additional austerity that either at the national level or coming from its euro zone partner countries would cause a severe recession in 2013. French GDP would fall by more than 4.0%, resulting in a further increase in the unemployment rate, which would approach 14%.

**Table 2. Illustrative scenarios of risks to French growth**

In %

|   | 2011 | 2012* | 2013* |
|---|------|-------|-------|
| <b>Central scenario</b>   |      |       |       |
| GDP   | 1,4  | 0,1   | 0,0   |
| Gov't deficit (in GDP points)   | -7,1 | -4,4  | -3,5  |
| Unemployment rate   | 9,4  | 10,2  | 11,0  |
| Market employment   | 104  | -95   | -166  |
| <b>Scenario where France alone meets its budget commitments</b>         |      |       |       |
| GDP   |      |       | -1,2  |
| Gov't deficit (in GDP points)   |      |       | -3,0  |
| Unemployment rate   |      |       | 11,7  |
| Market employment (in 1000s)  |      |       |       |
| Change  |      |       | -361  |
| Deviation from central scenario   |      |       | -195  |
| <b>Scénario where euro zone countries meet their budget commitments</b> |      |       |       |
| GDP   |      |       | -4,6  |
| Gov't deficit (in GDP points)   |      |       | -3,0  |
| Unemployment rate   |      |       | 18,8  |
| Market employment (in 1000s)  |      |       |       |
| Change  |      |       | -910  |
| Déviation from central scenario   |      |       | -744  |

\* OFCE forecast October 2012

Sources : INSEE ; OFCE calculations e-mod.fr.

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# France - Germany : The big demographic gap

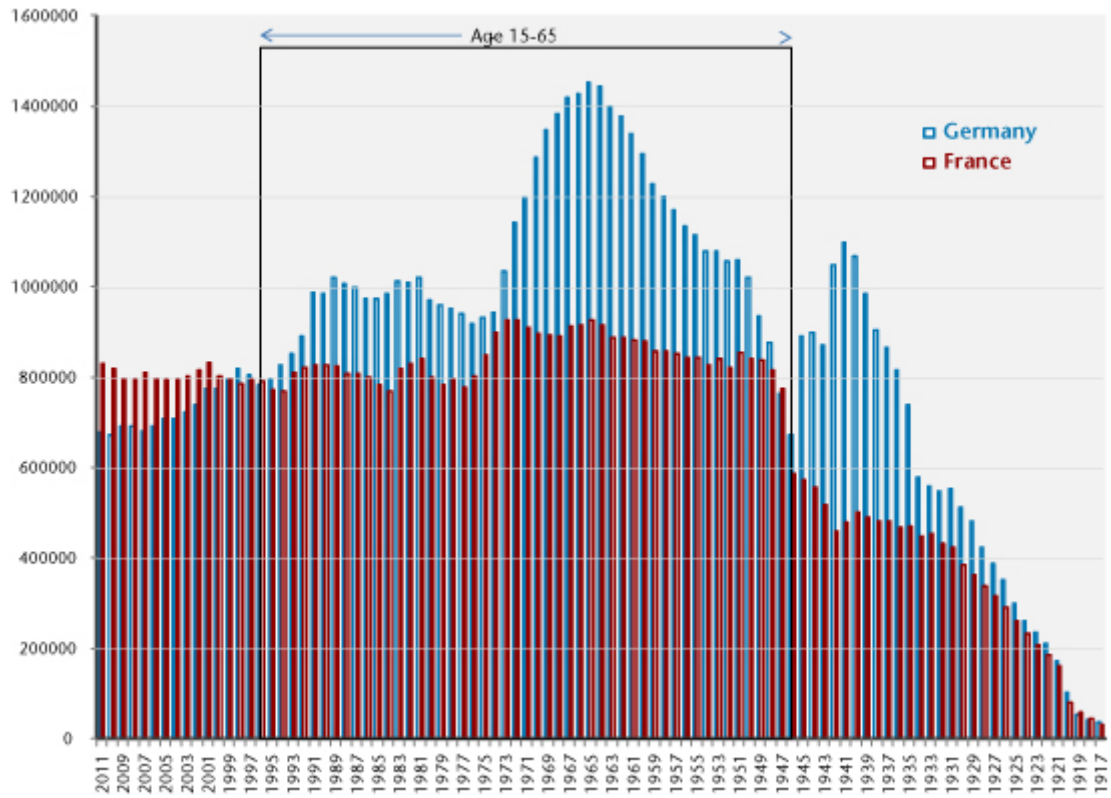
By [Gérard Cornilleau](#)

The divergence in the demographic trajectories of Germany and France will have a major impact on social spending, labour markets, productive capacity and the sustainability of public debt in the two countries. The implications are crucial in particular for understanding Germany's concern about its debt.

These demographic differences will require the implementation of heterogeneous policies in the two countries, meaning that the days of a “one-size-fits-all” approach are over.

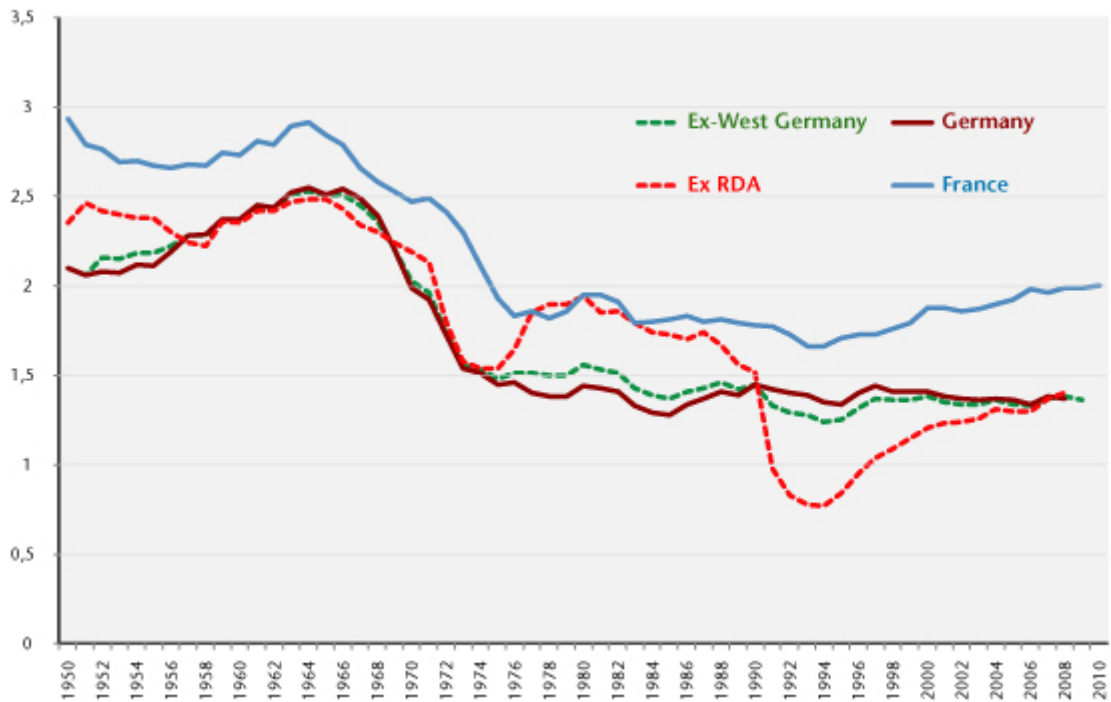
The demographic trajectories of France and Germany are the product of Europe’s history, and in particular its wars. The superposition of the age pyramids (Figure 1) is instructive in this regard: in Germany the most numerous generations are those born during the Nazi period, up to 1946; then come the cohorts born in the mid-1960s (the children of the generations born under the Nazis). In contrast, in France the 1930s generation is not very numerous. As a consequence, the baby-boomer generation which, as can be easily understood, kicked off earlier than in Germany (starting in 1945, at a time of a baby crash in Germany that ended only in the early 1950s, with the German baby boom peaking somewhat late, in the 1960s), was limited in scale, as people of childbearing age were not numerous. On the other hand, the birth rate in France slowed much less in the wake of the 1970s crisis, and most of all it has risen again since the early 1990s. This has resulted in the fertility rate remaining close to 2 children per woman of childbearing age, so that the size of the generations from 1947 to the present has remained virtually constant. German reunification led to a collapse in the birth rate in former East Germany, which converged with the rate in ex-West Germany in the mid-2000s (Figure 2). Overall, French fertility has generally been higher than German fertility in the post-war period, with the gap widening since the early 2000s. As a result, the number of births in France is now substantially higher than the number in Germany: in 2011, 828,000 compared with 678,000, *i.e.* 22% more births in France.

Figure 1. Age pyramids in 2011



Source: Eurostat.

Figure 2. Instantaneous fertility indicators in France and in Germany



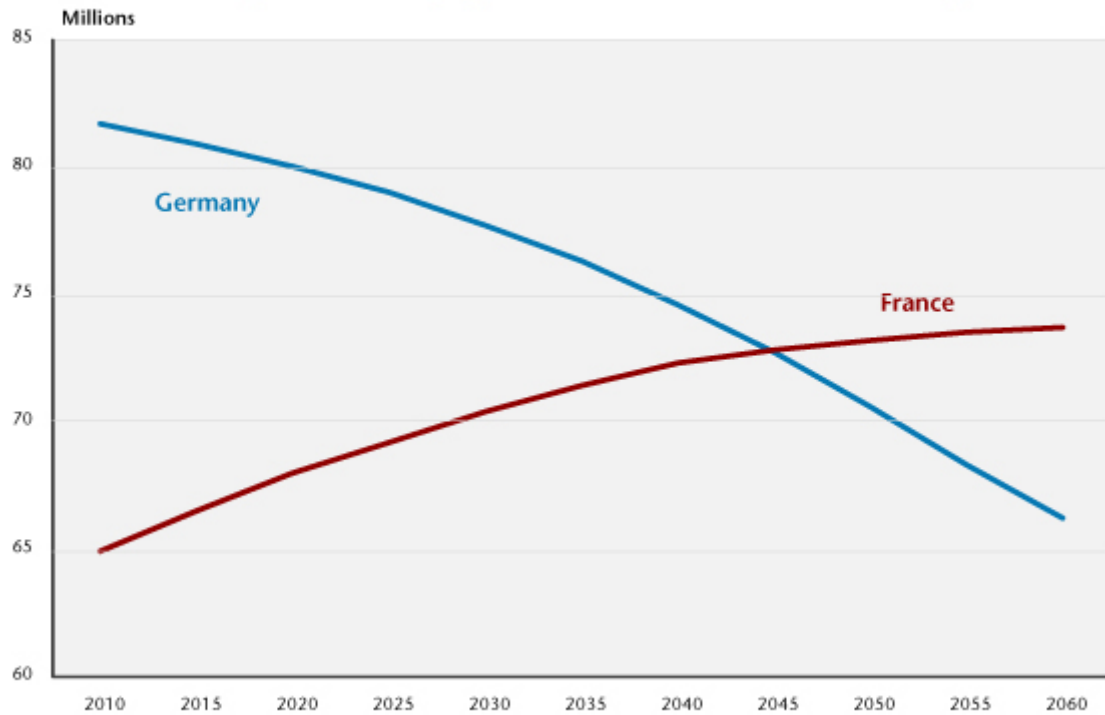
Source: INED.

From a demographic standpoint, France and Germany are thus in radically different situations. While France has maintained a satisfactory fertility rate, almost sufficient to ensure the long-term stability of the population, Germany's low birth rate will lead to a substantial and rapid decline in the total population and to much more pronounced ageing than in France (Figures 3 and 4).

According to the population projections adopted by the European Commission [\[1\]](#), Germany should lose more than 15 million inhabitants by 2060, while France gains just under 9 million. By 2045, the populations of the two countries should be the same (a little under 73 million), while in 2060 France will have approximately 7 million more people than Germany (73 million against 66 million).

Migration is contributing to population growth in both countries, but only moderately. Net migration has been lower in Germany during the most recent period, with a rate of 1.87% between 2000 and 2005 and 1.34% between 2005 and 2010 against, respectively, 2.55% and 1.62% in France [\[2\]](#). The net migration rates adopted by the European Commission for France and Germany are similar, with a contribution to population increase by 2060 on the order of 6% in each country [\[3\]](#). The UN [\[4\]](#) uses a similar hypothesis, with the contribution of migration growing steadily weaker in all countries. This reflects a general slowdown in overall international migration due to rising incomes in the originating countries. In this situation, Germany does not seem to have a large pool of external labour available, as it has limited historical links with the main regions of emigration.

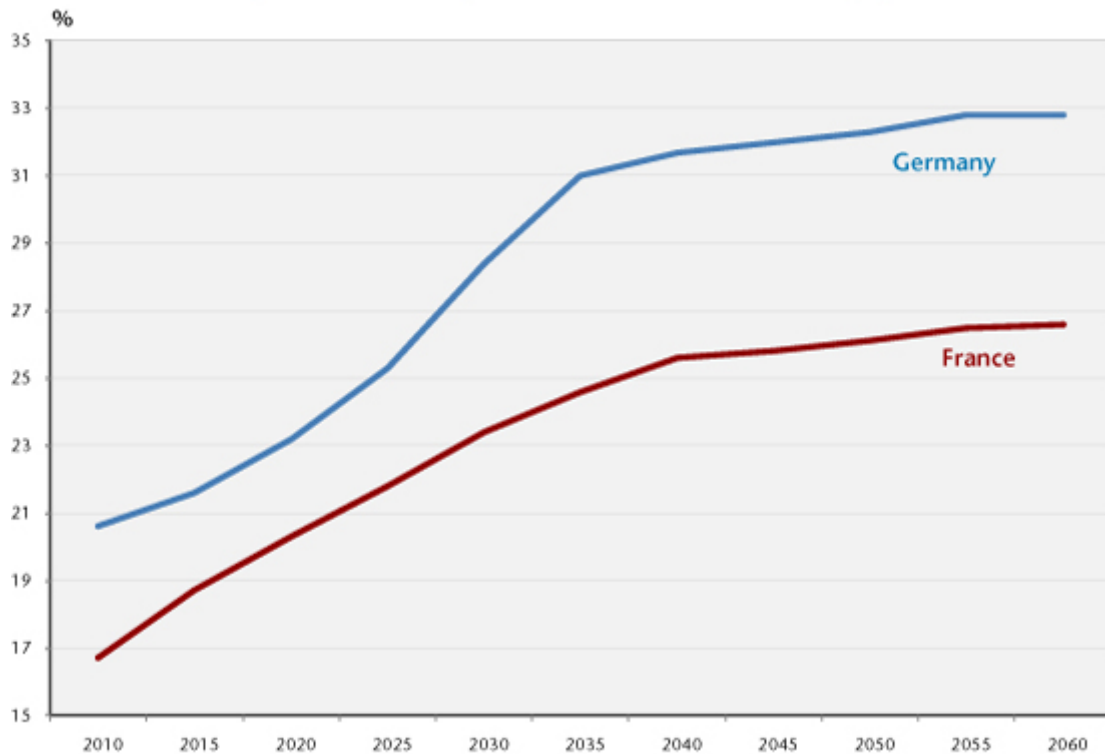
**Figure 3. Total populations in France and in Germany**



Source: European Commission, "The 2012 Ageing Report".

This inversion in demographic weight thus seems inevitable, and it will be accompanied by a divergence in the average age of the population, with considerably more graying of the population in Germany than in France (Figure 4). By 2060, the share in the total population of those aged 65 or older will reach almost one-third in Germany, against a little less than 27% in France.

**Figure 4. Share aged 65 and over in the total population**



Source: European Commission, "The 2012 Ageing Report".

As a consequence, and in light of the reforms implemented in the two countries, the share of GDP that goes to public spending on pensions would increase a little in France and a lot in Germany. According to the Report of the European Commission (*op. cit.*), between 2010 and 2060 this share would rise in France from 14.6% to 15.1% of GDP, up 0.5 GDP point, but by 2.6 points in Germany, from 10.8% to 13.4%. This is despite the fact that the German reform of the pension system provides for postponing the retirement age to 67, while the French reform postpones it only to 62.

Demography also has an impact on the labour market, which will be subject to changing constraints. Between 2000 and 2011, the French and German workforces increased by the same order of magnitude – +7.1% in Germany and +10.2% in France – but while in Germany two-thirds of this increase resulted from higher labour force participation rates, in France 85% of the increase was due to demography. In the near future, Germany will come up against the difficulties of further increasing its rate. Germany's family policy now includes provisions,

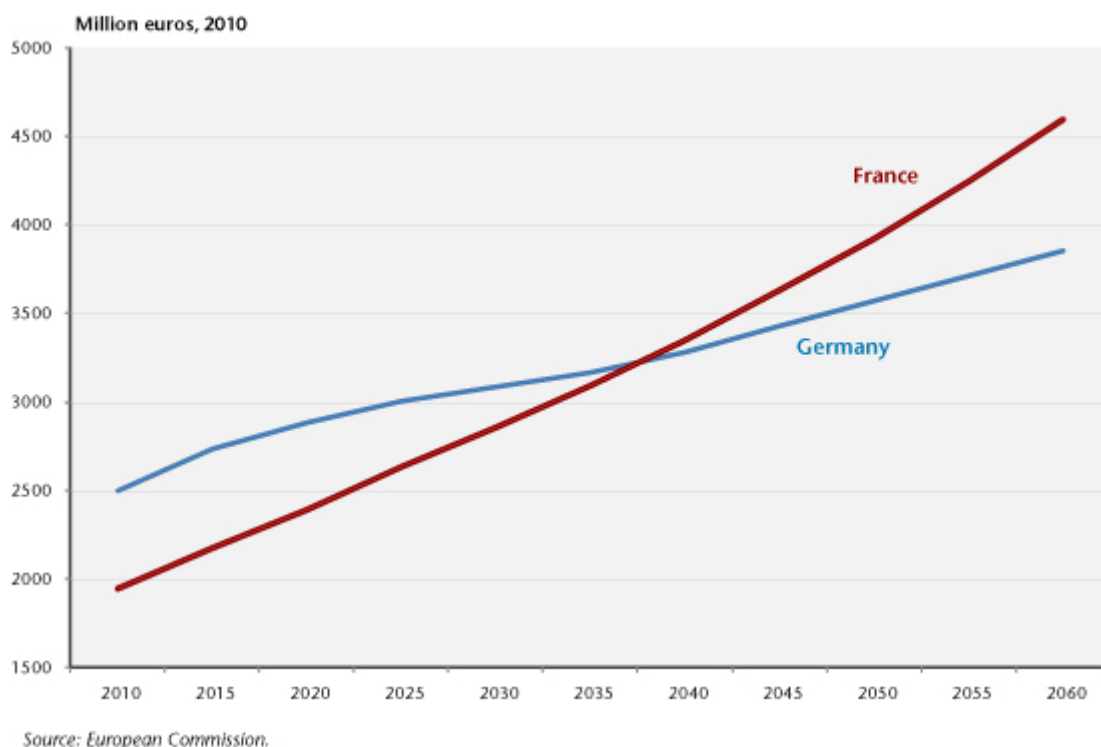


such as parental leave, which aim to encourage female employment through a better reconciliation of work and family life, but female participation rates are already high, so that the problem now is more that of increasing the fertility rate than the labour supply. France, which is starting from a lower participation rate, especially because older workers leave the labour market much earlier than in Germany, has greater reserves to draw on. In recent years, the disappearance of early retirement and the increase in the working years required to receive a full pension have begun to have an impact, with the employment rate of older workers rising significantly, even during the crisis [5]. The employment of older workers has also increased in Germany, but it is not possible to continue to make significant increases in this area indefinitely. The most likely result is a long-term convergence in employment rates between France and Germany. Ultimately, then, according to the projections of the European Commission [6], the German participation rate is likely to increase by 1.7 points between 2010 and 2020 (from 76.7% to 78.4%), while the French rate increases by 2.7 points (from 70.4% to 73.1%). By the year 2060, the French participation rate will increase more than twice as much as the German rate (4.2 points against 2.2). But France's rate would still be lower than Germany's (74.7% against 78.9%), meaning that France would still have reserves to draw on.

This divergence in demographics between the two countries has major consequences in terms of long-term average potential growth. Again according to the projections of the European Commission (which are based on the assumption of a convergence in labour productivity in Europe around an annual growth rate of 1.5%), in the long term potential growth in France will be double the level in Germany: 1.7% per year by 2060, against 0.8%. The difference will remain small until 2015 (1.4% in France and 1.1% in Germany), but will then grow quickly: 1.9% in France in 2020, against 1% in Germany.

Just as for the population figures, this will result in a reversal of the ranking of French and German GDPs by about 2040 (Figure 5).

**Figure 5. GDP in France and in Germany**



The demographic situations of France and Germany thus logically explain why there is more concern in Germany than in France for the outlook on age-related social spending. This should lead to a more nuanced analysis of the countries' public debts: given the same ratios of debt to GDP in 2012, over the long term France's public debt is more sustainable than Germany's.

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[1] Cf. "The 2012 ageing report", *European Economy* 2/1012.

[2] Cf. United Nations, Department of Economic and Social Affairs, Population Division (2011). *World Population Prospects: The 2010 Revision*, CD-ROM Edition.

[3] Net migration is projected to be slightly higher in Germany than in France, at a level of 130,000 per year in 2025-2030, but under 100,000 in France. But the overall

difference is very small: in 2060, cumulative net migration between 2010 and 2060 would increase the population by 6.2% in Germany and by 6% in France (as a percentage of the population in 2010).

[4] *Op. cit.*

[5] See the summary of changes in the labour force in 2011 by the Insee: <http://www.insee.fr/fr/ffc/ipweb/ip1415/ip1415.pdf>

[6] *Op. cit.*

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# Social action, but no end of the crisis

**Evaluation of the five-year economic programme (2012-2017)**

By [Eric Heyer](#), [Mathieu Plane](#), [Xavier Timbeau](#)

The initial decisions of the five-year programme are coming amidst an extremely difficult and very uncertain economic situation. In a recent [OFCE Note](#) (No. 23 of 26 July 2012), we first analyze the macroeconomic context for François Hollande's five-year programme and the XIVth legislature. This analysis details the likely consequences for the next five years of the strategy currently being implemented in Europe. We evaluate both the cost to the public finances as well as the impact on economic activity, employment and the distribution of income. In part two, we analyze the public

policy choices being given priority by the new government, including both those aimed at the young (generation contracts, jobs of the future), at some seniors (revision of the pension reform), and at the middle and lower classes (allowance for the start of school, boost to the minimum wage, Livret A bank accounts, rent control, revised taxation of overtime), as well as those intended to revive certain public expenditures that are deemed essential (public jobs in education, the justice system and the police in the "public finance" section, and public early childhood services).

François Hollande was elected President of the French Republic at a time when France and Europe are going through an unprecedented crisis. Unemployment in metropolitan France has increased by over 2 percentage points since the crisis began and is now (in ILO terms, 9.6% of the workforce in first quarter 2012) approaching the record levels of 1997 (10.5%). Gross domestic product per capita in terms of purchasing power has fallen since 2008 by 3%. If the growth trend for the five years preceding the crisis had continued at that same rate from 2008 until early 2012, GDP per capita would now be 8% higher than it is. The current account has deteriorated during the crisis by 1.5 GDP points (25.7 billion euros, 10 billion of which is for the oil bill), thus worsening France's net balance of trade by 7.8 GDP points. The public debt increased by 577 billion (nearly 30 GDP points), and at the beginning of 2012 represented almost 90% of GDP. Industry has paid a heavy price for the crisis (almost 300,000 jobs lost), with all signs indicating that the job losses and closures of industrial sites might be irreversible.

Yet this dire situation, which can be chalked up to the crisis that began in 2008, is not over. Due to the impact of austerity policies implemented at a time of panic at seeing financing of the public debt dry up, the sovereign debt crisis is threatening the euro zone with a prolonged recession in 2012 and 2013. And the even worse scenario looming on the

horizon – the disintegration of the euro zone – would transform the threats of recession into the risk of a major depression.

Assessments of the situation differ depending on the elements available. Some measures have been implemented by decree, while others are being discussed by the legislature, but the proposed bills do permit a quantitative analysis. Others are in the planning stage, with the main trade-offs still to be made, so our assessment tries to explore the main points.

Our assessment of the economic strategy for the five-year programme does not stop there. The outlines of the premises for a strategy to end the crisis can now be seen. The deficit reduction commitments and the initial steps taken in this direction in the budget packages in July 2012, such as those announced during the budget orientation debate of June 2012, point to a strategy whose first step is the achievement of a reduction in the public deficit to 3% of GDP by the end of 2013, regardless of the cost. Based on this fiscal virtue, this amounts to a strategy to end the crisis by stabilizing the state of the public accounts, thereby reassuring the financial markets and other economic agents and establishing the conditions for a strong future recovery. This strategy is based on cutting public expenditures and raising taxes (see the “public finance” section, government tax proposals and the taxation of the oil companies).

This strategy for ending the crisis is risky, to say the least, because it does not take full account of the crisis facing Europe today. It might be justified if we were already on course to end the crisis and if the point were simply to set priorities. But Europe remains in a situation of extreme uncertainty, living in the expectation of a massive failure of one or another Member State in the euro zone, fearing the collapse of this or that financial institution, and suffering the consequences of a spiral of austerity that is being fueled by rising sovereign interest rates. In this situation,

everything is coming together to strengthen the existence of a liquidity trap and to generate high fiscal multipliers. Given this, *ex ante* reductions in the deficit through tax hikes and spending cuts is weighing heavily on activity, and thus limiting or even cancelling out any actual deficit reductions. The factors pushing up the public debt are not being reversed, and the reduction in activity is heightening the risk that the unsustainable private debt will be socialized. The increase in sovereign interest rates is being fueled by an inability to meet deficit reduction targets and by rising public debt, and is thus pushing public deficits higher, forcing even more austerity.

One response to this dynamic that is bringing about the collapse of the euro would be one form or another of pooling public debts in Europe. This would require relatively complete control of the budgets of member countries by a federal body with strong democratic legitimacy. A response like this would therefore mean "more Europe", and would make it possible to define "more moderate" austerity policies for France as well as its major trading partners. It would make putting an end to involuntary mass unemployment and the liquidity trap prerequisites to an improvement in the public finances. It would also make it possible to ensure the sustainability of public finances without leading to the lost decades that are now gestating.

In the first part of the Note, we analyze the macroeconomic context for François Hollande's five-year programme and the XIVth legislature. This analysis details the likely consequences for the next five years of the strategy currently being implemented in Europe. The value of the fiscal multiplier is a critical parameter, and we show that the current strategy is valid only if the multipliers are low (*i.e.* on the order of 0.5). However, a slew of empirical evidence indicates that, in the exceptional situation we are experiencing today, the budget and fiscal multipliers may be

larger than 0.5 (between 1 and 1.5, see the Note). We detail in a second part the measures taken in the Supplementary Budget Act of July 2012 (for 2012) and the elements outlined in the budget orientation debate in preparation for the Budget Act for 2013 and for the period 2012-2017. To succeed in reducing the public deficit to 3%, it seems that there must be over 10 billion euros in additional tax revenue or in savings on expenditure, *ex ante*.

We then present an evaluation of eleven measures. Guillaume Allègre, Marion Cochard and Mathieu Plane have estimated that the implementation of the *contrat de génération* ["generation contract"] could create between 50,000 and 100,000 jobs, at the cost of a strong deadweight effect. Eric Heyer and Mathieu Plane point out that in the short term, subsidized *emplois avenir* ["jobs for the future"]-type contracts can help to reduce unemployment. Eric Heyer shows that the revision of taxation on overtime will help to cut the public deficit by 4 billion euros, without hurting the labour market. Guillaume Allègre discusses the consequences of increasing the *Allocation de rentrée scolaire* [allowance for the start of school] and shows that it mainly benefits the lowest five deciles in terms of standard of living. Henri Sterdyniak analyzes the possibilities for fiscal reform. The point is not to evaluate the government's proposals for fiscal reform, but to provide a comprehensive overview of the current system's margin for change and its inconsistencies. Henri Sterdyniak and Gérard Cornilleau evaluate the increased opportunities for retiring at age 60 and analyze the possible paths to a more large-scale reform of the pension system. Hélène Périvier evaluates the possibilities for an early childhood public service, the eventual cost of which could be covered in part by an increase in activity that would generate more than 4 billion euros. Eric Heyer and Mathieu Plane analyze the impact of a boost in the minimum wage (SMIC) and conclude that, given the small spillover of increases in the SMIC onto the rest of the wage structure, the impact on the cost of labour is

limited by the greater reduction in social charges on low wages. While the effect on employment is small, it would cost the public purse 240 million euros. Sabine Le Bayon, Pierre Madec and Christine Rifflart evaluate rent control. Hervé Péléraux discusses the compensation of Livret A bank accounts and the impact of doubling their ceiling. Céline Antonin and Evens Salies evaluate the new taxes on the oil companies, which could provide 550 million euros in tax revenue in 2012, at the risk that this tax might ultimately be passed on to the end consumer.

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## **Less austerity = more growth and less unemployment**

[Eric Heyer](#) and [Xavier Timbeau](#)

The European Commission has just released its [spring forecast](#), which anticipates a recession in 2012 for the euro zone (“mild” in the words of the Commission, but still -0.3%), which is in line with [the OFCE’s economic analysis of March 2012](#).

The brutal fiscal austerity measures launched in 2010, which were intensified in 2011 and tightened even further in 2012 virtually throughout the euro zone (with the notable exception of Germany, Table 1 and 1a), are hitting activity in the zone hard. In 2012, the negative impact on the euro zone resulting from the combination of raising taxes and reducing the share of GDP that goes to expenditure will represent more than 1.5 GDP points. In a deteriorating fiscal situation (many euro zone countries had deficits of over 4% in 2011) and in order to continue to borrow at a reasonable cost, a strategy of



forced deficit reduction has become the norm.

**Table 1. The euro zone in 4 macroeconomic aggregates from 2009 to 2012**

|                             | 2009 | 2010 | 2011 | 2012 |
|-----------------------------|------|------|------|------|
| GDP growth (%/yr)           | -4,4 | 1,8  | 1,5  | -0,4 |
| Public deficit (% GDP)      | -5,5 | -5,5 | -3,6 | -2,9 |
| Jobless rate (% active pop) | 9,6  | 10,1 | 10,2 | 10,9 |
| Fiscal impulse (% GDP)      | 1,7  | -0,3 | -1,1 | -1,5 |

Sources : National accounts, OFCE calculations and forecasts.

This strategy is based on declarations that the 3% ceiling will be reached by 2013 or 2014, with balanced budgets to follow by 2016 or 2017 in most countries. However, these goals seem to be overly ambitious, as no country is going to meet its targets for 2013. The reason is that the economic slowdown is undermining the intake of the tax revenue needed to balance budgets. An overly optimistic view of the impact of fiscal restraint on activity (the so-called fiscal multiplier) has been leading to unrealistic goals, which means that GDP growth forecasts must ultimately be systematically revised downward. The European Commission is thus revising its spring forecast for the euro zone in 2012 downward by 0.7 point compared to its autumn 2011 forecast. Yet there is now a broad consensus on the fact that fiscal multipliers are high in the short term, and even more so that full employment is still out of reach (here too, [many authors](#) agree with the [analyses made by the OFCE](#)). By underestimating the difficulty of reaching inaccessible targets, the euro zone members are locked in a spiral where jitters in the financial markets are driving ever greater austerity.

Unemployment is still rising in the euro zone and has hardly stopped increasing since 2009. The cumulative impact on economic activity is now undermining the legitimacy of the European project itself, and the drastic remedy is threatening the euro zone with collapse.

What would happen if the euro zone were to change course in

2012?

Assume that the negative fiscal impulse in the euro zone is on the order of -0.5 percent of GDP (instead of the expected total of -1.8 GDP points). This reduced fiscal effort could be repeated until the public deficit or debt reaches a fixed target. Because the effort would be more measured than in current plans, the burden of the adjustment would be spread out more fairly over the taxpayers in each country, while avoiding the burden of drastic cuts in public budgets.

Table 2 summarizes the results of this simulation. Less austerity leads to more growth in all the countries (Table 2a), and all the more so as the fiscal consolidation announced for 2012 intensifies. Our simulation also takes into account the impact of the activity in one country on other countries through trade. Thus, Germany, which has an unchanged fiscal impulse in our scenario, would experience an 0.8 point increase in growth in 2012.

**Table 2. Fiscal impulse of -0.5 GDP point in the euro zone in 2012**

|                           | GDP (%/yr) |      | Public deficit (% GDP) |      | Jobless rate (% active pop.) |      |
|---------------------------|------------|------|------------------------|------|------------------------------|------|
|                           | 2011       | 2012 | 2011                   | 2012 | 2011                         | 2012 |
| 2012, under current plans | 1,5        | -0,4 | -3,6                   | -2,9 | 10,2                         | 10,9 |
| 2012, if 0.5% GDP impulse |            | 1,7  |                        | -3,1 |                              | 9,7  |

Note: The impulse is the change in the structural deficit. The structural deficit is the public deficit excluding the impact of the economic cycle. A negative impulse reflects a restrictive fiscal policy. Here the public («administrations publiques», or "APU") deficit includes the central state, regional government and social security agencies.

Sources: National accounts, OFCE calculations and forecasts.

In the "less austerity" scenario, unemployment would decline instead of continuing to increase. In all the countries except Greece, the public deficit would be lower in 2012 than in 2011. Admittedly, this reduction would be less than in the initial scenario in certain countries, in particular those that have announced strong negative impulses (Spain, Italy, Ireland, Portugal and ... Greece), which are the ones most mistrusted by the financial markets. In contrast, in some countries, such as Germany and the Netherlands, the government deficit would shrink more than in the initial scenario, with

the indirect positive effect of stronger growth outweighing the direct effect of less fiscal consolidation. For the euro zone as a whole, the public deficit would be 3.1 percentage points of GDP, against 2.9 points in the initial scenario. It is a small difference compared to more favorable growth (2.1%), along with lower unemployment (-1.2 points, Table 2) instead of an increase as in the initial scenario.

The key to the “less austerity” scenario is to enable the countries in greatest difficulty, those most obliged to implement the austerity measures that are plunging their economies into the vicious spiral, to reduce their deficits more slowly. The euro zone is split into two camps. On the one hand, there are those who are demanding strong, even brutal austerity to give credibility to the sustainability of public finances, and which have ignored or deliberately underestimated the consequences for growth; on the other are those who, like us, are recommending less austerity to sustain more growth and a return to full employment. The first have failed: the sustainability of public finances has not been secured, and recession and the default of one or more countries are threatening. The second strategy is the only way to restore social and economic – and even fiscal – stability, as it combines a sustainable public purse with a better balance between fiscal restraint and employment and growth, as we proposed in a [letter to the new President of the French Republic](#).

**Table 1a. Details on the 4 macroeconomic aggregates for the euro zone from 2009 to 2012**

|     | GDP growth (%/yr) |      |      |      | Public deficit (% GDP) |       |       |      | Jobless rate (% active pop.) |      |      |      | Fiscal impulse (% GDP) |      |      |      |
|-----|-------------------|------|------|------|------------------------|-------|-------|------|------------------------------|------|------|------|------------------------|------|------|------|
|     | 2009              | 2010 | 2011 | 2012 | 2009                   | 2010  | 2011  | 2012 | 2009                         | 2010 | 2011 | 2012 | 2009                   | 2010 | 2011 | 2012 |
| DEU | -5,1              | 3,6  | 3,1  | 0,3  | -3,2                   | -4,3  | -1,0  | -1,1 | 7,8                          | 7,1  | 6,0  | 5,5  | 0,7                    | 1,2  | -0,9 | -0,3 |
| FRA | -2,6              | 1,4  | 1,7  | 0,2  | -7,5                   | -7,1  | -5,2  | -4,4 | 9,2                          | 9,4  | 9,3  | 9,8  | 2,5                    | -0,7 | -1,7 | -1,7 |
| ITA | -5,5              | 1,8  | 0,5  | -1,7 | -5,4                   | -4,6  | -3,8  | -2,8 | 7,8                          | 8,4  | 8,4  | 9,4  | 0,8                    | -0,4 | -1,0 | -2,9 |
| ESP | -3,7              | -0,1 | 0,7  | -1,1 | -11,2                  | -9,3  | -8,5  | -6,5 | 18,0                         | 20,1 | 21,7 | 23,5 | 4,1                    | -1,9 | -1,2 | -3,4 |
| NLD | -3,5              | 1,6  | 1,3  | -1,1 | -5,6                   | -5,1  | -5,0  | -4,5 | 3,7                          | 4,5  | 4,5  | 5,4  | 3,8                    | -1,5 | -0,2 | -1,9 |
| BEL | -2,7              | 2,3  | 1,9  | 0,1  | -5,8                   | -4,1  | -4,0  | -3,4 | 7,9                          | 8,3  | 7,2  | 7,6  | 1,8                    | -0,3 | -0,1 | -1,4 |
| PRT | -2,9              | 1,4  | -1,5 | -2,9 | -10,1                  | -9,8  | -4,0  | -4,5 | 10,7                         | 12,1 | 12,9 | 13,4 | 4,9                    | -0,6 | -5,5 | -3,0 |
| IRL | -7,0              | -0,4 | 0,7  | -0,3 | -14,4                  | -32,0 | -10,1 | -8,7 | 11,9                         | 13,7 | 14,5 | 14,9 | 3,7                    | -4,1 | -2,5 | -3,0 |
| GRC | -2,3              | -4,4 | -6,2 | -5,3 | -15,8                  | -10,6 | -9,3  | -7,3 | 9,5                          | 12,5 | 17,2 | 19,5 | 3,4                    | -7,9 | -5,6 | -5,3 |
| FIN | -8,4              | 3,7  | 2,8  | 0,7  | -2,5                   | -2,5  | -1,2  | -0,9 | 8,8                          | 8,4  | 7,8  | 7,5  | 0,4                    | -1,5 | -1,1 | -1,1 |
| AUT | -3,6              | 2,5  | 3,0  | 0,4  | -4,1                   | -4,4  | -3,4  | -3,0 | 4,8                          | 4,4  | 4,2  | 4,5  | 0,4                    | 0,6  | -0,5 | -1,2 |

Note: DEU Germany; FRA France; ITA Italy; ESP Spain; NLD Netherlands; BEL Belgium; PRT Portugal; IRL Ireland; GRC Greece; FIN Finland; AUT Austria.

Sources: National accounts, OFCE calculations and forecasts.

**Table 2b. Fiscal impulse of -0.5 GDP point in the euro zone countries in 2012**

|                              | DEU  | FRA  | ITA  | ESP  | NLD  | BEL  | PRT  | IRL  | GRC  | FIN  | AUT  |
|------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| GDP growth rate (%/yr)       | 1,1  | 2,2  | 1,4  | 2,6  | 2,1  | 1,8  | 0,7  | 2,8  | 0,2  | 1,9  | 1,8  |
| Difference with Table 1a     | 0,8  | 2,0  | 3,1  | 3,7  | 3,2  | 1,7  | 3,6  | 3,1  | 5,5  | 1,2  | 1,4  |
| Of which: - direct impact    | 0,0  | 1,2  | 2,4  | 2,9  | 2,5  | 0,9  | 2,5  | 2,5  | 4,8  | 0,6  | 0,7  |
| - impact via trade           | 0,8  | 0,8  | 0,7  | 0,8  | 0,7  | 0,8  | 1,1  | 0,6  | 0,7  | 0,6  | 0,7  |
| Public deficit (% GDP)       | -0,7 | -4,6 | -3,7 | -7,5 | -4,3 | -3,4 | -5,2 | -9,7 | -9,4 | -0,9 | -3,0 |
| Difference with Table 1a     | 0,4  | -0,2 | -0,9 | -1,0 | 0,2  | 0,0  | -0,7 | -1,0 | -2,1 | 0,0  | 0,0  |
| Jobless rate (% active pop.) | 5,1  | 8,8  | 7,9  | 21,6 | 3,8  | 6,7  | 11,6 | 13,3 | 16,8 | 6,9  | 3,8  |
| Difference with Table 1a     | -0,4 | -1,0 | -1,5 | -1,9 | -1,6 | -0,9 | -1,8 | -1,5 | -2,7 | -0,6 | -0,7 |

Sources: National accounts, OFCE calculations and forecasts.

## The misfortunes of virtue\*

By [Christophe Blot](#)

\* This text summarizes the outlook produced by the Department of Analysis and Forecasting for the euro zone economy in 2012-2013, which is available in French on the [OFCE web site](#)

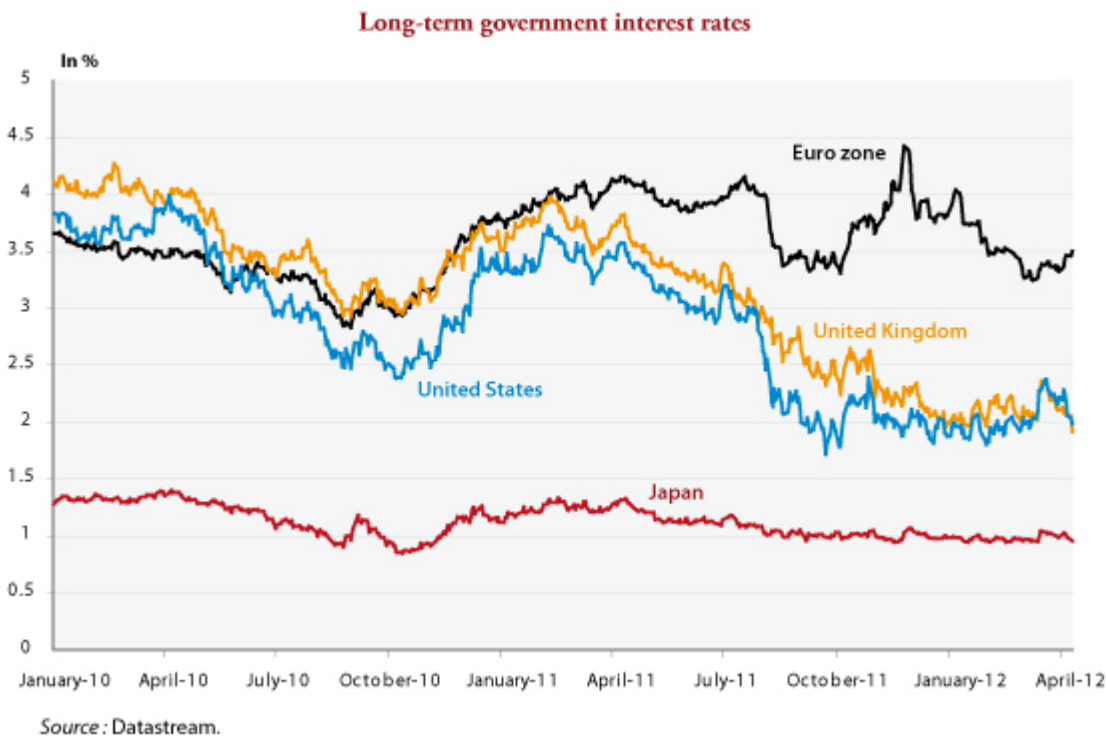
The euro zone is still in crisis: an economic crisis, a social crisis and a fiscal crisis. [The 0.3% decline in GDP in the fourth quarter of 2011](#) is a reminder that the recovery that began after the great drop of 2008-2009 is fragile and that the euro zone has taken the first step into recession, which will be confirmed in early 2012.

The fall in the average long-term government interest rate in the euro zone seen since the beginning of the year has come to a halt. After reaching 3.25% on 9 March, it rose again due to new pressures that emerged on Italian and Spanish rates. Indeed, despite the agreement to avoid a default by Greece, Spain was the source of new worries after the announcement that its budget deficit had reached 8.5% in 2011 – 2.5 points above the original target – and the declaration that it would not meet its commitments for 2012, which has reinforced doubts about the sustainability of its debt. The Spanish situation illustrates the close link between the macroeconomic crisis and the sovereign debt crisis that has hit the entire euro zone. The implementation of fiscal adjustment plans in Europe, whose impact is being amplified by strong economic interdependence, is causing a slowdown or even a recession in various euro zone countries. The impact of synchronized restrictions is still being underestimated, to such an extent that governments are often being assigned targets that are difficult to achieve, except by accepting an even sharper recession. So long as the euro zone continues to be locked in a strategy of synchronized austerity that condemns in advance any resumption of activity or reduction in unemployment, the pressure will not fail to mount once again in 2012. Long-term public interest rates in the euro zone will remain above those of the United States and the United Kingdom (see the figure), even though the average budget deficit was considerably lower in 2011 in the euro zone than in these two countries: 3.6% against 9.7% in the US and 8.3% in the UK.

To pull out of this recessionary spiral, the euro zone

countries need to recognize that austerity is not the only way to reduce budget deficits. Growth and the level of interest rates are two other factors that are equally important for ensuring the sustainability of the public debt. It is therefore urgent to set out a different strategy, one that is less costly in terms of growth and employment, which is the only way to guarantee against the risk that the euro zone could fall apart. First, generalized austerity should be abandoned. The main problem with the euro zone is not debt but growth and unemployment. Solidarity must be strengthened to curb speculation on the debt of the weaker countries. The fiscal policies of the Member states also need to be better coordinated in order to mitigate the indirect effects of cutbacks by some on the growth of others [1]. It is necessary to stagger fiscal consolidation over time whenever the latter is needed to ensure debt sustainability. At the same time, countries with room for fiscal manoeuvre should develop more expansionary fiscal policies. Finally, the activities of the European Central Bank should be strengthened and coordinated with those of the euro zone governments. The ECB alone has the means to anchor short-term and long-term interest rates at a sufficiently low level to make it possible both to support growth and to facilitate the refinancing of budget deficits. In two exceptional refinancing operations, the ECB has provided more than 1,000 billion euros for refinancing the euro zone banks. This infusion of liquidity was essential to meet the banks' difficulties in finding financing on the market. It also demonstrates the capacity for action by the monetary authorities. The portfolio of government debt securities held by the ECB at end March 2012 came to 214 billion euros, or 2.3% of euro zone GDP. In comparison, in the United States and the United Kingdom, the portfolio of government securities held by the central banks represents more than 10% of their GDP. The ECB therefore has significant room for manoeuvre to reduce the risk premium on euro zone interest rates by buying government securities in the secondary markets. Such measures would make it possible to

lower the cost of ensuring the sustainability of the long-term debt.



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[1] See “He who sows austerity reaps recession”, [OFCE note no. 16](#), March 2012.

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## Europe’s banks: leaving the zone of turbulence?

By [Vincent Touzé](#)

The 2008 crisis almost endangered the entire global financial system. Thanks to support from governments and central banks, the banking sector has recovered and once again appears to be solid financially. In the aftermath of the crisis, the public finances of the Southern euro zone countries – Portugal,

Italy, Spain and Greece – and Ireland (the “PIIGS”) have, in turn, been severely weakened. Greece was forced to suspend payments, and the risk of default is still hanging over the others. Since early 2011, bank liabilities in these economies have become a significant concern of the financial markets. Despite good stress tests, this fear intensified in August 2011. European banks then entered a new period of turmoil, and the European Central Bank was forced to lend them more than 1,000 billion euros for 3 years at a rate of 1% in order to avoid a major credit crunch.

As part of their investments abroad and through their foreign branches, Europe’s banks hold liabilities from the PIIGS countries through lending to the banking sector, to the public sector (sovereign debts and credits) and to households and private non-bank enterprises. France is one of the countries that is most heavily exposed to the PIIGS (public and private sectors combined), with a total commitment by the banking system in the third quarter of 2011 of about 437 billion euros (see table), or 21.9% of GDP. Germany’s exposure, at about 322 billion euros (12.5% of GDP), is smaller. The exposure of the UK banking system is comparable and is valued at 230 billion euros, or 13.3% of GDP. In comparison, the Japanese and US banks hold little debt: 59 billion euros (1.4% of GDP) for Japan and 96 billion (0.9% of GDP) for the United States. In the course of the financial crisis, Europe’s banks have pulled back from these countries (1). According to the statistics of the Bank for International Settlements (Figure 1), the reduction in exposure was most pronounced in Greece (-55% since Q1 2007) and lowest in Portugal (-15%). Divestments of the debt of Spain (-29%), Italy (-33%) and Ireland (39%) have been comparable and are at an intermediate level compared to the previous two.

Guarantee funds can be drawn on if a bank goes bankrupt, but generally their provisions are insufficient to support a “big” bank in difficulty. According to the principle of “too big to



fail", the state must intervene to avoid bankruptcy. Possible avenues of action include acquiring some of the bank's capital, nationalizing it by refloating it, or facilitating its long-term refinancing through the purchase of bonds. A bank failure has to be avoided at all costs, because it is frequently accompanied by panic, with collateral damage that is difficult to predict or contain. The mere fact that a State announces credible support for a bank or a banking system is often sufficient to avert a panic. If the States were to come to the rescue of the banks in the case of the Greek default, the macroeconomic implications of a 50% default on all private and public debts seem relatively minor, since it would require, for example in the case of France, a cost of around 17 billion euros, an amount that is much less than 1% of GDP (see table). By contrast, a 50% default of all the PIIGS would require 220 billion euros in support from France (11% of French GDP). The macroeconomic cost beforehand might seem high, but it is not insurmountable. Unfortunately, the spontaneous failure of one or more PIIGS would lead to an uncontrollable chain reaction whose overall macroeconomic costs could be considerable.

This financial crisis is also hitting the life insurance companies, right in the midst of a period of reform in prudential regulations. The banking sector has just managed to come up to Basel II standards and will steadily have (until 2019) to adopt Basel III (2), while the insurance industry is changing rapidly towards Solvency II (3). These two regulatory reforms are leading to an increasing need for capital just as the financial crisis is undermining balance sheets and putting greater pressure on capital ratios. While equity capital can be used to withstand a financial crisis, at the same time regulations can compel recapitalizations in very difficult refinancing conditions. This is an undesirable pro-cyclical result of the prudential regulations.

The risk of a default on payments by some PIIGS has made □

financial analysts pay particularly close attention to the solvency and profitability of European banks. However, the results of the stress tests (4) on the European banks published in mid-July 2011 were considered good. The hypotheses used are far from being optimistic. In the euro zone (and respectively in the other countries), they point to a fall in the growth rate of 2 points (2.4 points respectively) in 2011 and 2 points (1.9 points respectively) in 2012 compared to a reference scenario. In the euro zone, this entry into recession (-0.5% in 2011 and -0.2% in 2012) would be accompanied by higher unemployment (0.3 point in 2011 and 1.2 points in 2012), a lower inflation rate (-0.5 point in 2011 and -1.1 points in 2012), a sharp drop in property prices, a rise in long-term rates as well as discounts on sovereign debt (5) of up to 30%. The objective of this "stressed" scenario is to test the capacity of the banks to be able to maintain a "core Tier 1" ratio greater than 5% (6). Under these extreme assumptions, only 8.9% of the 90 banks tested achieved a ratio that was below the 5% ceiling that would trigger a de facto recapitalization to meet the target (7). The four French banks succeeded on the stress tests without difficulty, as they maintain high ratios: 6.6% for Societe Generale, 6.8% for the Banque populaire-Caisse d'épargne, 7.9% for BNP Paribas and 8.5% for Crédit Agricole. The countries where failures were observed include Austria (1 bank), Spain (5 failures) and Greece (2 failures). In view of the stress tests, the European banking system could therefore be considered as capable of withstanding a major economic crisis.

After the second aid package to Greece on 21 July 2011, and with ongoing pressure on the other sovereign debts, worry seized the stock markets, and European bank stocks fell sharply from August to December 2011 (Figure 2). These stock market changes were in complete contradiction with the positive results of the stress tests. There are three possible ways to interpret the reaction of the financial markets:

- An actual crisis would be much sharper than the hypotheses of the stress tests;
- The stress test methods are not adequate for estimating the consequences of a crisis;
- The markets get swept up in the slightest rumors and are disconnected from basics.

For now, with respect to the most pessimistic forecasts, it does not seem that the stress test hypotheses are particularly favorable. However, they have weaknesses for assessing systemic financial crisis, in that each bank does not include in its assessment the damage brought about by the application of the scenario to other banks or the consequences for the credit market. There is no feedback from the financial interconnections. Moreover, the economic crisis can greatly increase the default rates of private companies. This point may have been underestimated by the stress tests. Note also that the tests are performed at an internal level, which can also lead to different assessments of the consequences of certain scenarios. In addition, the stress tests evaluate the financial soundness of the banks, but de facto, a bank, although solvent, can see its stock price fall in times of crisis for the simple reason that its expected profitability decreases. Most importantly, the runaway financial markets are due to the lack of a consensus on the decisions taken within the European Union on finding a definitive solution to the debt crisis but also to the fact that the statutes of the European Central Bank prohibit it from participating in public debt issues. These uncertainties reinforce the volatility of the stock price of banks that are particularly exposed to PIIGS, as evidenced by the strong correlation between CDS on private banks and on sovereign debt in the euro zone (8).

With the beginning of a solution on Greek debt, the stock market listings of European banks have been rising since January 2012. Hopefully the agreement of 21 February 2012 on Greek sovereign debt will calm the storm that hit the bond markets. The operation provides that private investors agree

to give up 107 billion euros of the 206 billion of debt they hold and that the euro zone States agree a new loan of 130 billion. The agreement is a swap of debt. The old bonds are exchanged against new ones at a discount of 53.5% of the face value (9) and at a new contractual interest rate. The write-down was not a surprise for the banks, which have already set aside provisions for the losses. The operation was a clear success (10), as 83% of the holdings were voluntarily offered for exchange on 9 March (11). The level of participation was increased to more than 95% by carrying through a compulsory exchange with creditors who had not responded positively to the operation (collective action clauses for debt held under Greek law). After this exchange, the European states, the IMF, and the ECB will hold "more than three-quarters of Greek debt" (12), which means that any new crisis of Greek sovereign debt would have little impact on private investors. A new source of uncertainty comes from the CDS that were taken out for the purpose of hedging or speculation ("naked CDS"). Initially, the International Swaps and Derivatives Association (ISDA) (13) announced on 1 March that this exchange was not a "credit event". On 9 March, it revised its judgment (14). The ISDA now believes that the collective action clauses are forcing owners to accept the exchange, which constitutes a credit event. The Greek default on payments is a legally recognized event, and the CDS are thus activated. According to the ISDA, the net exposure of CDS to Greece would amount to only 3.2 billion dollars. To estimate the overall cost of the CDS for the financial sector, the residual value of the bonds would have to be subtracted from that amount. Given the inability of Greece to resume growth, the sustainability of its remaining debt is not guaranteed, and the risk of contagion persists. In any event, the public debt of the Southern euro zone countries and Ireland are now considered risky assets, which is a factor that is weakening the European banking sector. In this respect, since late March the recent rise in interest rates on Italian and Spanish public debt has provoked a decline in the stock prices of European banks (Figure 2).

The ongoing financial crisis is weakening the banking sector in the euro zone, which could lead it to reduce its exposure to risk: a major credit crunch is thus to be feared. The latest ECB survey covering 9 December 2011 to 9 January 2012 (15) with regard to the lending conditions set by banks is not very reassuring. Tighter conditions are expected by 35% (against 16% last quarter) of banks on business loans and by 29% (against 18% last quarter) of banks on consumer loans. In light of this prospect, on 21 December 2011 the ECB conducted a long-term refinancing operation. This was a huge success, with 489 billion euros in credits granted to the banking sector. The funds were loaned at 1% for a period of 3 years. Although it is still difficult to assess the impact of this measure, ECB president Mario Draghi said in February that this injection of liquidity had clearly avoided a major credit crunch. On 29 February 2012, the ECB launched a second long-term refinancing plan (16). The subscription was very substantial, with 530 billion euros disbursed. It is therefore reasonable to think that a credit crunch will be avoided.

In conclusion, the banking sector's escape from the zone of turbulence depends on four key factors:

1) Only a long-term return to growth across the euro zone as a whole will make it possible to consolidate the public purse and reduce the number of business failures (17), thereby de facto reducing banks' exposure to the risk of default, with responsibility incumbent on the European governments and the ECB to identify and implement the "right" policy mix and the appropriate structural measures.

2) The Greek State is insolvent; this failure in public finances must not be allowed to spread to other economies, since the banking crisis is also a test of the strength of financial solidarity in the euro zone, and it remains to be seen whether the Germans are more inclined to support Spain or Italy in case of a risk of default than they were with Greece.

3) The banking crisis has brought to the fore the procyclical effects of the prudential regulations, which need to be

corrected.

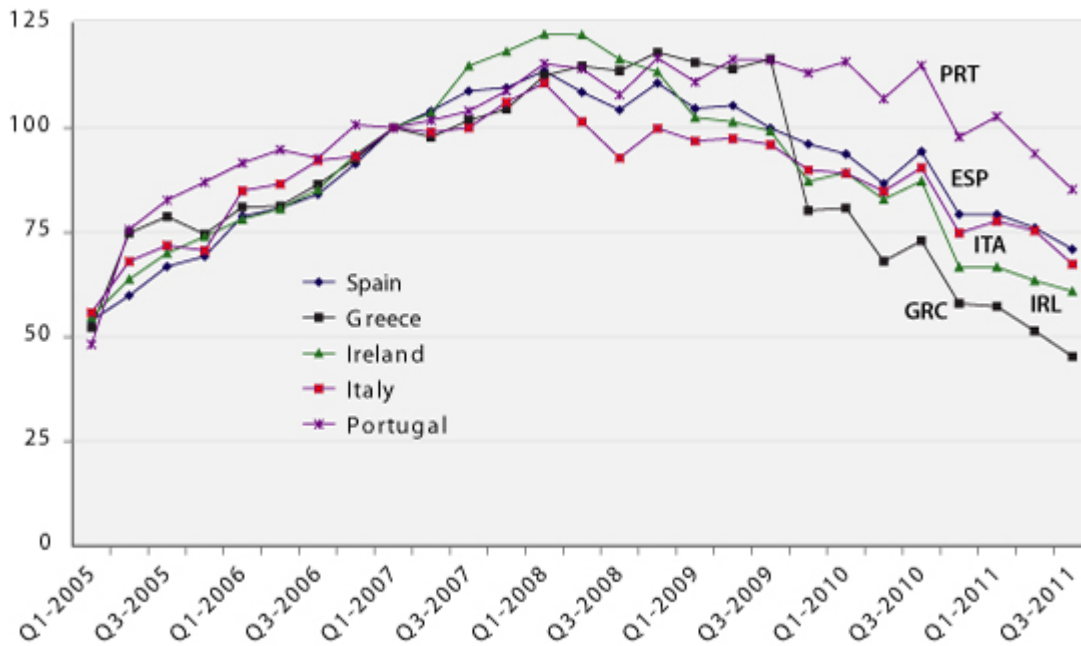
4) The maneuvering room of governments as first responders in a crisis has become very limited due to their massive debt. If there is a new major shock, the ECB could have no other choice but to be the lender of last resort.

**Exposure of the national bank sector to the PIIGS 3rd quarter 2011 (billion euros)**

| Creditor country        | DEU          | FRA          | GBR          | JPN         | USA         |
|-------------------------|--------------|--------------|--------------|-------------|-------------|
| <b>SPAIN</b>            |              |              |              |             |             |
| Bank                    | 44,3         | 25,0         | 13,4         | 2,9         | 13,0        |
| Public sector           | 18,6         | 19,1         | 4,3          | 7,0         | 3,7         |
| Private non-bank sector | 50,7         | 57,9         | 48,0         | 7,5         | 17,0        |
| <b>Total</b>            | <b>113,6</b> | <b>102,0</b> | <b>65,7</b>  | <b>17,4</b> | <b>33,7</b> |
| <b>GREECE</b>           |              |              |              |             |             |
| Banks                   | 0,7          | 0,4          | 0,7          | 0,2         | 0,9         |
| Public sector           | 8,0          | 5,1          | 1,5          | 0,1         | 1,0         |
| Private non-bank sector | 4,5          | 28,3         | 6,0          | 0,5         | 2,3         |
| <b>Total</b>            | <b>13,2</b>  | <b>33,8</b>  | <b>8,2</b>   | <b>0,8</b>  | <b>4,2</b>  |
| <b>IRELAND</b>          |              |              |              |             |             |
| Banks                   | 14,1         | 6,9          | 12,7         | 1,1         | 6,4         |
| Public sector           | 2,0          | 1,8          | 3,3          | 0,5         | 1,3         |
| Private non-bank sector | 55,6         | 11,7         | 80,8         | 12,2        | 23,2        |
| <b>Total</b>            | <b>71,7</b>  | <b>20,5</b>  | <b>96,8</b>  | <b>13,9</b> | <b>30,8</b> |
| <b>ITALY</b>            |              |              |              |             |             |
| Banks                   | 28,4         | 26,3         | 5,5          | 1,9         | 6,8         |
| Public sector           | 31,4         | 58,1         | 6,0          | 17,5        | 7,2         |
| Private non-bank sector | 42,4         | 178,6        | 31,7         | 6,3         | 9,3         |
| <b>Total</b>            | <b>102,1</b> | <b>262,9</b> | <b>43,3</b>  | <b>25,7</b> | <b>23,3</b> |
| <b>PORTUGAL</b>         |              |              |              |             |             |
| Banks                   | 6,2          | 4,4          | 2,3          | 0,1         | 1,1         |
| Public sector           | 5,6          | 3,8          | 1,2          | 0,3         | 0,6         |
| Private non-bank sector | 9,4          | 10,0         | 13,0         | 0,6         | 1,8         |
| <b>Total</b>            | <b>21,2</b>  | <b>18,2</b>  | <b>16,5</b>  | <b>1,0</b>  | <b>3,5</b>  |
| <b>TOTAL PIIGS</b>      |              |              |              |             |             |
| Banks                   | 93,6         | 63,0         | 34,6         | 6,3         | 28,2        |
| Public sector           | 65,6         | 87,9         | 16,3         | 25,4        | 13,9        |
| Private non-bank sector | 162,6        | 286,5        | 179,6        | 27,1        | 53,6        |
| <b>Total</b>            | <b>321,8</b> | <b>437,4</b> | <b>230,4</b> | <b>58,8</b> | <b>95,6</b> |
| <b>% of GDP</b>         | <b>12,5</b>  | <b>21,9</b>  | <b>13,3</b>  | <b>1,4</b>  | <b>0,9</b>  |

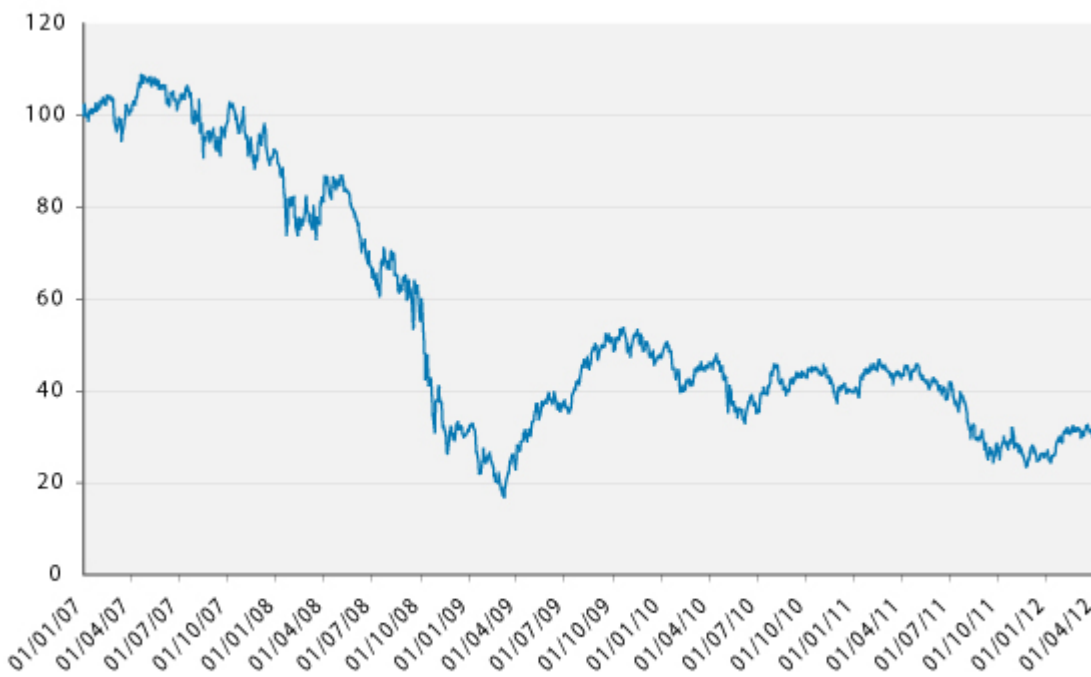
Sources : Banque des règlements internationaux – Consolidated banking statistics / ultimate risk basis – and author's calculations.

**Graphique 1. Foreign debt held by European banks (Base 100 = 1st quarter 2007)**



Sources : Banque des règlements internationaux – Consolidated banking statistics /ultimate risk basis – and author's calculations.

**Figure 2. Stock market index of European banks (base 100 = 1 January 2007)**



Sources : Datastream (FTSE World Europe Banks).

[1] Note that a financial depreciation (capital loss) on the balance sheet value of assets in the PIIGS implies an automatic reduction in the exposure to these economies.

[2] [http://www.bis.org/speeches/sp100921\\_fr.pdf](http://www.bis.org/speeches/sp100921_fr.pdf)

[3]

[http://ec.europa.eu/internal\\_market/insurance/solvency/background\\_fr.htm](http://ec.europa.eu/internal_market/insurance/solvency/background_fr.htm).

[4] *European Banking Authority*, 2011, [http://stress-test.eba.europa.eu/pdf/EBA\\_ST\\_2011\\_Summary\\_Report\\_v6.pdf](http://stress-test.eba.europa.eu/pdf/EBA_ST_2011_Summary_Report_v6.pdf).

[5] European Banking Authority (2011), *Methodological Note – Additional guidance*, June 2011.

[6] The minimum level required by Basel II for the Core Tier 1 ratio is only 2%, which rises to 4.5% under Basel III (in force in 2013). This ratio measures the proportion of risk-weighted assets covered by equity capital.

[7] For a bank whose ratio falls to  $x\%$ , the recapitalization requirement corresponds to  $(5\%-x)/x$  % of post-shock equity capital. Hence if  $x=4\%$ , the recapitalization requirement would correspond to 25% of the equity capital.

[8] “The correlation between interest rates on public debt and on private debt will make it difficult to resolve the sovereign debt crisis in the euro zone”, *Flash marchés*, Natixis, 14 March 2011 – N° 195, <http://cib.natixis.com/flushdoc.aspx?id=57160>.

[9] For example, each old bond with a face value of 100 euros is exchanged for a new one worth 46.5 euros. The EFSF guarantees 15 euros and the Greek state 31.5 euros.

[10]

<http://www.minfin.gr/portal/en/resource/contentObject/id/baba4f3e-da88-491c-9c61-celfd030edf6>.

[11] In light of the holders of public debt who are not subject to Greek law and who are refusing to take part in the operation, the deadline of 9 March (see



<http://fr.reuters.com/article/frEuroRpt/idFRL6E8F540020120405>) was put off to 4 April and then to 20 April. The Greek state considers that this refusal to exchange will not be sufficient to block the operation, as, given the collective action clauses, voluntary or required participation amounts to at least 95.7%. With regard to the recalcitrant investors, the Greek state has the choice of waiting a little longer, meeting its contractual commitments (continued reimbursement of the face value and interest as initially scheduled), make a new exchange offer (but this must be equitable with respect to those who accepted the previous offer) or default, with the risk of pursuit in the international courts.

[12] Olivier Garnier, "Comprendre l'échange de dette publique grecque", *Le Webzine de l'actionnaire – Analyses*, Société Générale, 13 March 2012, <http://www.societegenerale.com/actiorama/comprendre-l%E2%80%99echange-de-dette-publique-grecque>.

[13]

[http://www.isda.org/dc/docs/EMEA\\_Determinations\\_Committee\\_Decision\\_0103201202.pdf](http://www.isda.org/dc/docs/EMEA_Determinations_Committee_Decision_0103201202.pdf).

[14] <http://www2.isda.org/greek-sovereign-cds/>

[15] The Euro Area Bank Lending Survey, 1February 2012, [http://www.ecb.int/stats/pdf/blssurvey\\_201201.pdf](http://www.ecb.int/stats/pdf/blssurvey_201201.pdf).

[16]

[http://www.ecb.int/press/pr/date/2011/html/pr111208\\_1.en.html](http://www.ecb.int/press/pr/date/2011/html/pr111208_1.en.html).

[17] "Les entreprises après la crise", Colloquium Banque de France, 28 June 2011, [http://www.banque-france.fr/fileadmin/user\\_upload/banque\\_de\\_france/publications/Bulletin-de%20la-Banque-de-France/Bulletin-de-la-Banque-de-France-etude-185-2.pdf](http://www.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/Bulletin-de%20la-Banque-de-France/Bulletin-de-la-Banque-de-France-etude-185-2.pdf)

