

FINANCIAL TIMES

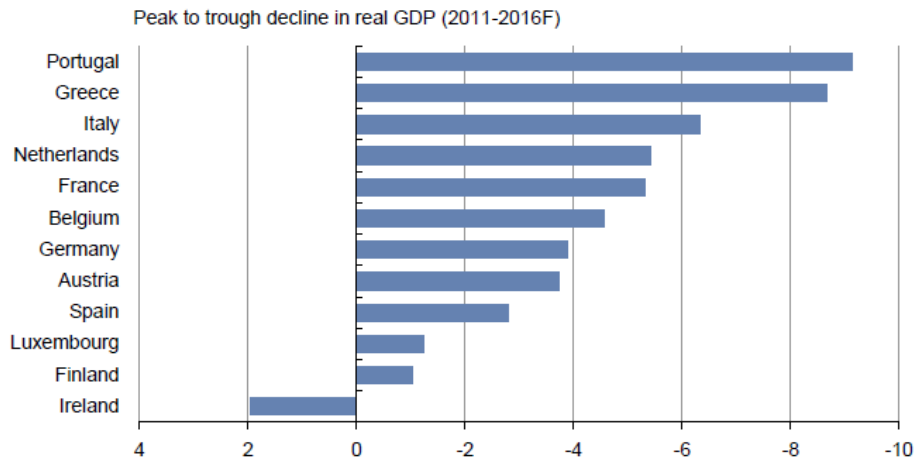
# ft.com/alphaville

## Post-euro economies, charted

Posted by **Joseph Cotterill** on Dec 08 16:50.

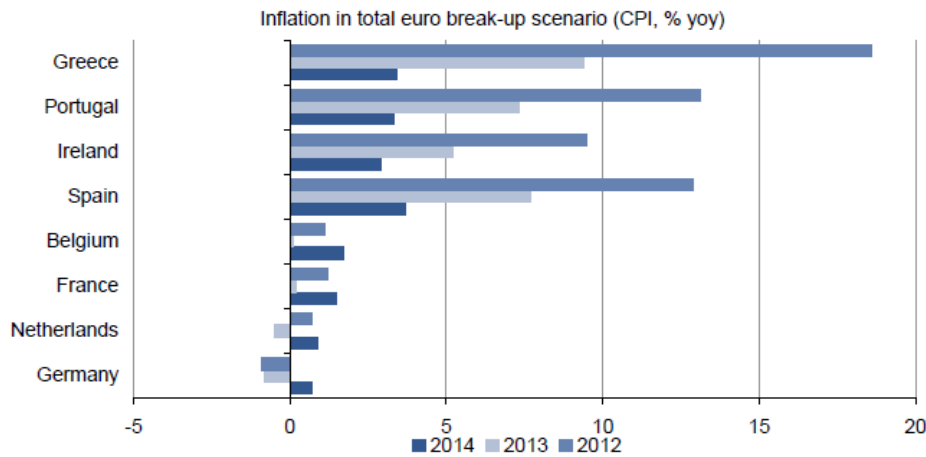
Crystal-ball charts via Mark Cliffe of ING (click to enlarge):

**Fig 12 Cumulative Loss of Output, 2011-16**



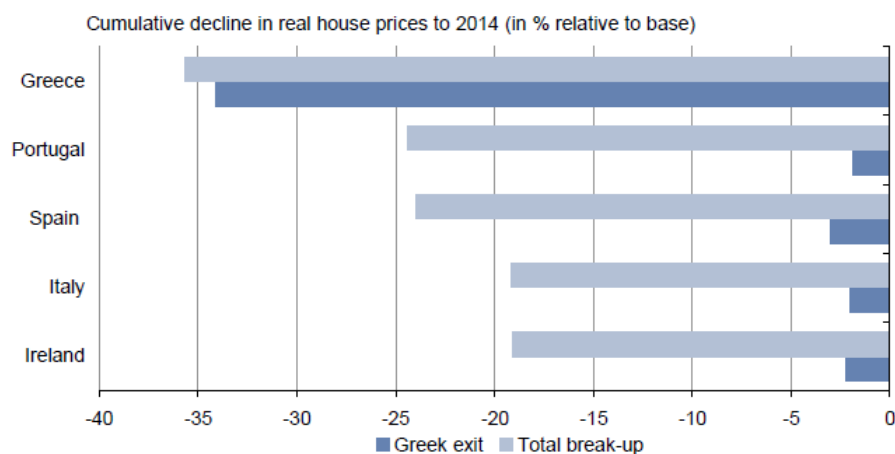
Source: ING

**Fig 14 Deflation for the core, Inflation for the periphery**



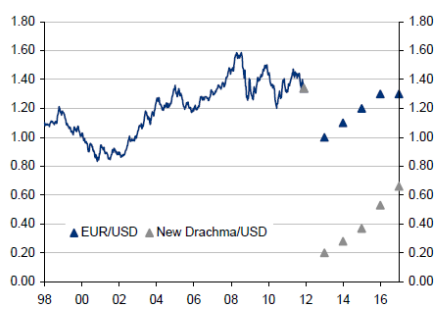
Source: ING

**Fig 31 House prices under pressure in EMU periphery**



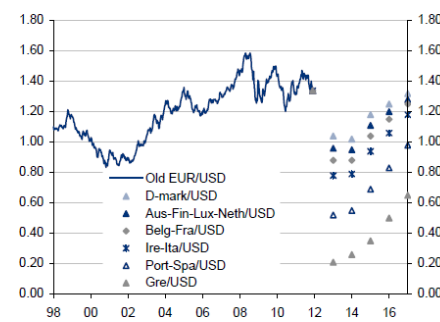
Source: ING

**Fig 29 New Greek Drachma may fall 80% initially**



Source: EcoWin, ING projections

**Fig 30 New D-mark would also fall versus the USD**



Source: ING

We lay emphasis on “crystal ball” given the long time-frame ING has employed, and the intense difficulty in quantifying the damage which complete break-up would cause to cross-border trade and so on. How would one big debt crisis turn into lots of currency crises?, essentially.

Although it is instructive to compare ING’s estimate of economic loss to those of (say) UBS, who [previously said](#) it might be 40 to 50 per cent of GDP in the first year after break-up for peripheral countries or 20 to 25 per cent for core countries.

There are many other interesting parts of the scenario used by ING, such as the US dollar soaring, crude prices falling to \$55 per barrel, and Germany’s debt hitting 100 per cent of GDP in 2013 (because of the decline in the denominator). In particular we think ING’s point that the New Deutschmark would be weak against the dollar will ruffle more than a few feathers — including views that the German economy would survive breaking the euro in relatively fine fettle.

Oh, and the other thing to recommend the ING note... is that a European Commissioner [tweeted it](#).

**Related link:**

[Post-euro currencies, charted](#) - FT Alphaville

This entry was posted by [Joseph Cotterill](#) on Thursday, December 8th, 2011 at 16:50 and is filed under [Capital markets](#). Tagged with [currencies](#), [Deflation](#), [Depression](#), [euro](#), [eurozone](#), [gdp](#), [germany](#), [inflation](#).

**Comments**

All of the currencies on those graphs start out in the hole and rapidly climbs. The new Drachma will DOUBLE in value between '12 and '18. And I don't think the graph takes into account that popular support for pro-growth measures would probably increase rapidly in the

fallen Euro countries in order to get back to their old standards of living ASAP.

Note that the individual currencies would be at those levels right now if not for the Euro.

As for the numbers themselves, I can see every country with a big expensive government and strong union presence disappearing down the hole due to a lack of competitiveness. This includes France, Belgium and all of the countries further down on the list. Unlike Rik I don't believe in a breakup of Belgium anymore because a lot of people invested a lot of savings into (heavily promoted) medium term government bonds, cheered on by the media.

The disintegration scenario seems almost inevitable at this point. Maybe Merkozy manage to kick the can further down the road, but even then things are not going to get better, only get worse slower. This isn't about Greece anymore, or even Italy. This is about the fact that the Eurozone is so unstable that something as silly as a tiny country getting in trouble escalates into a major crisis, which is not likely to inspire confidence with investors.

It's like if the firefighters arrived at your house fire after 30 minutes. It doesn't matter how efficient they are at putting out the fire, it doesn't matter if the fire wasn't actually dangerous - you're not going to trust them anymore, EVER.

---

A laughing riot. And these are the people in charge of our banks. Predict the future... Yeah right. I prefer prof karamba's predictions. At least he's got a matching outfit!

---

More randomly generated numbers from this great breed of mathematicians?

Please.

---

Cool. Could we relabel "Inflation" to "competitive devaluation" and conclude that the break up fixes most of Eurozone competitive problems which will never be fixed under the current hard currency sado-fiscal burning building?

- 
1. I clearly prefer UBS at least they promis us a few civil wars and some military coups.
  2. It mainly depends on the exchange rates:  
Greece will be an absolute disaster everybody agrees on that, but with others?
  3. A split is most likely to happen in the way that PIIGS keep falling of. Imho it would have been much better to work on this scenario than with a total split. It is mainly political which means France and Germany are likely stay together and more or less the same with most of the real AAAs. However I will be assuming a total split up hereinafter.
  4. This will not be an event that will come totally out of the sky, people can see it coming. Say this week becomes a disaster, many things can happen but a direct split looks extremely unlikely.
  5. What will happen in that process. Mainly 2 relevant things: non Euro investors will heavily sell (except some that will gamble on Germany and Co) and money will move from PIIGS to Germany, Finland and Holland. Preferably Germany, but as we have seen there is probably not enough.
  6. Starting from this effect, combined with the fact that Germany, Holland, Finland have even after a split up still substantial trade surplusses and very likely will have a hard currency policy. It is difficult to see that the if they become separate currencies the new DM will lose value. The same with Holland and Finland, however because of the volume slightly behind Germany..
  7. Austria is clearly more doubtful.
  8. France will drop no longer being backed by Germany and with pretty awful basics (perpetual deficits and simply uncompetitive and very likely a lot of Greek style political problems)
  9. Belgium will move slightly behind France, unless the political situation runs out of control. Not unlikely The people in Flanders would be roughly in a Dutch situation were it not for having the Wallons as a big drag.
  10. Italy compared to Spain will depend on whether the basics will be most important (positive for Italy) or the political situation runs out of hand (in Italy, negative for Italy).
  11. Spain will be ahead of Portugal.
  12. Ireland will do relatively well imho. It has of the businessmodel as a country that is most suited for the new situation. It government sector is relatively small therefor less of a drag for new investments even though slaries for civil servants look much too high.
-

---

© THE FINANCIAL TIMES LTD 2011 FT and 'Financial Times' are trademarks of The Financial Times Ltd.