THE PRETENCE OF BARGAINING POWER IN THE EMU:
FRANCE VERSUS GERMANY

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Table 1 – Currency Adjustment Required During EMU Dissolution

Economy	Degree of FX Over/Undervaluation
Germany	22% Under-valued
France	20.5% Over-valued
Spain	19.2% Over-valued
Italy	28.2% Over-valued
Portugal	19.1% Over-valued
Greece	17.9% Over-valued

Source: Authors' calculation, Eurostat's Relative ULC, Overall Economy data used. 1999-2013.

Table 2 – Incremental Annualized Inflation Impact post EMU Dissolution Based on FX Pass-through Estimates

Economy	4 Quarters Cumulative Impact	8 Quarters Cumulative Impact
Germany	-2.99ppt	-4.74ppt
France	+1.14ppt	+2.31ppt
Spain	+4.87ppt	+8.62ppt
Italy	+2.08ppt	+4.39ppt
Portugal	+0.8ppt	+1.8ppt
Greece	+1.24ppt	+2.8ppt

Source: Authors' calculation

Table 3 –Impact on Exports post EMU Dissolution Based on FX Pass-through

Economy	Exports Impact of EMU Break-Up (Annualized)
Germany	-12.32%
France	+8.4%
Spain	+0.4%
Italy	+6.1%
Portugal	+1.52%
Greece	+0.72%

Source: Authors' calculation

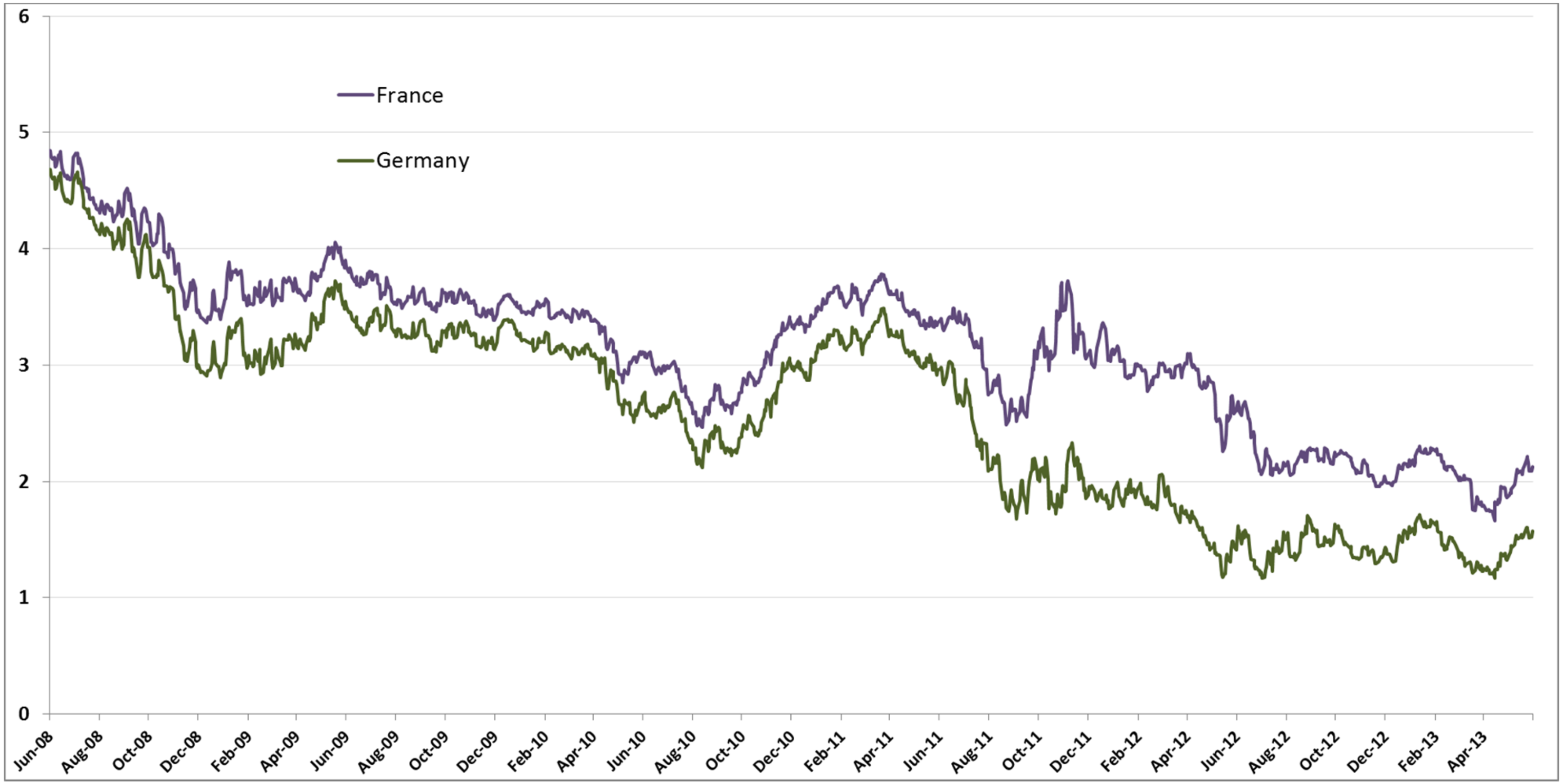
Table 4 – Germany inside or outside of the EMU?

Germany	Short to Medium Term Impact	Long-Term Impact
EMU exit	-6% of GDP exports loss -16% of GDP reduction in NFA (born by the Bundesbank)	-0.6ppts decline in GDP growth on the back of the loss in competitiveness
Fiscal Transfers game continues	Commit -16% to -20% of its GDP to underwrite near term maturities of French government debt	-2% to -4% of GDP each year to finance debtor imbalances

Table 5 – France inside or outside of the EMU?

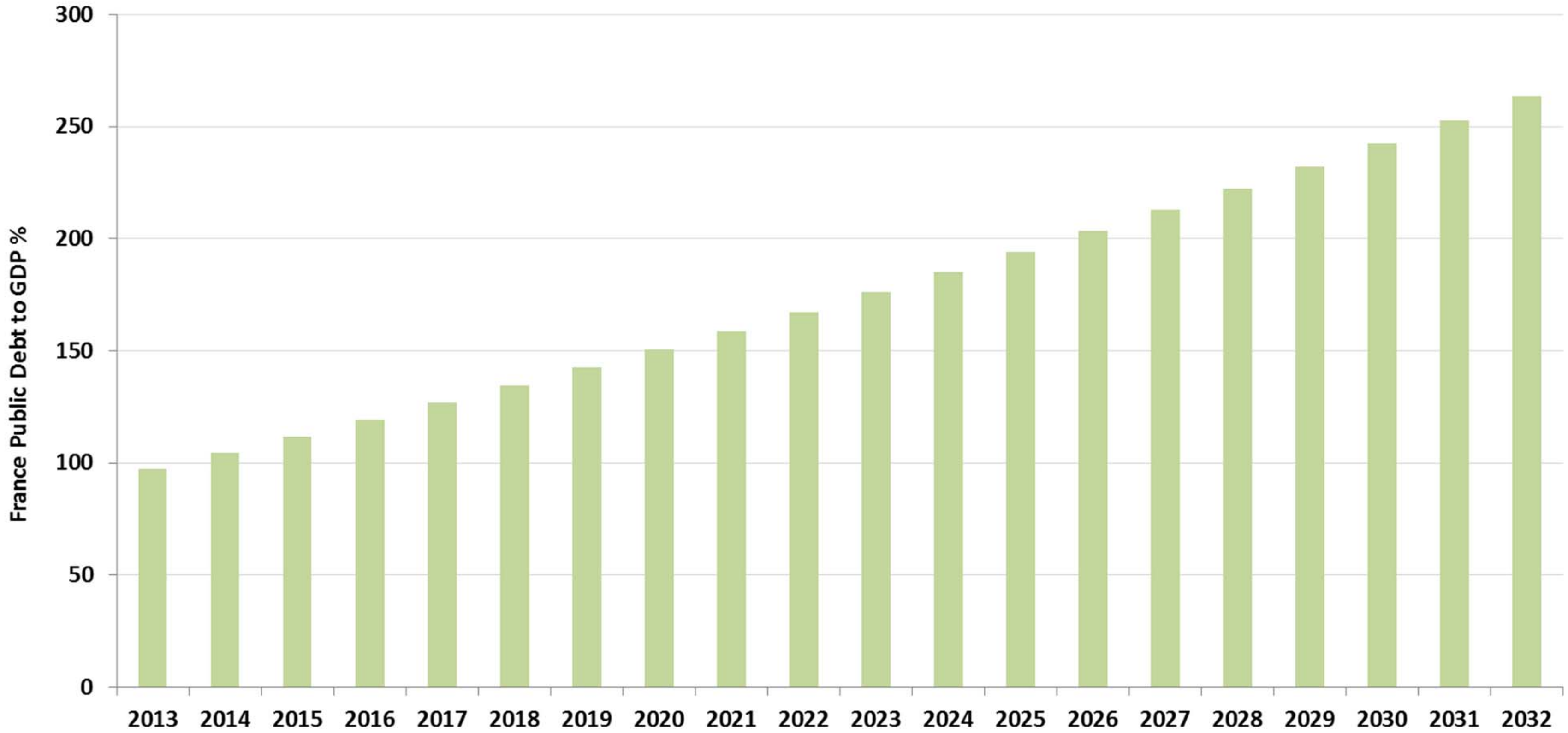
France	Short to Medium Term Impact	Long-Term Impact
EMU exit	- Sovereign financing becomes more expensive (but not punitive given central bank intervention) - Private sector credit conditions loosen up; - Mixture of growth and inflation used to smooth out deleveraging	- Net exports boosted by at least 7% as REER allowed to fall by 20%, - Labour market reforms assuming that euro exit would be accompanied by structural reforms
Fiscal Transfers game continues	- Sovereign financing remains cheap - Private sector credit conditions continue to tighten	- - Public debt continues to increase as a reflection of macroeconomic imbalances

Figure 1 – French and German 10 years Government bonds yields



Source: Thomson Reuters

Figure 2 – Projections of France's public debt to GDP ratio, 2013-2032



Source: Authors' calculations, data from Thomson Reuters.