

Reasons to be cheerful about Europe

By David Marsh

There has been a great deal of gloom about Europe since the Greek debt crisis began. This has diverted attention from good news about the European economy. The clouds over Greece have been obscuring some fundamentally positive developments favouring European financial markets.

1. The euro has been falling rapidly against the dollar because of Greek debt worries - an enormous boost to export-orientated companies across Europe, especially in Germany and the Netherlands but also in hard-pressed peripheral states. The euro's fall against the renminbi and other dollar-pegged Asian currencies also has a useful side-effect, indirectly helping the campaign of the US Congress for an overall appreciation of the Chinese currency.

2. At last, the euro area has had a crisis - after 10 years of waiting for one to happen. This is just what is needed to galvanise government leaders in countries such as Greece into action to correct disastrous policy shortcomings. Europe always responds best when it is in a tight spot. It is certainly in one now.

3. Germany is basically in charge of Europe. Other countries may not like it, but this underpins the future solidity of the euro and lowers the risk that the Greek imbroglio will turn into a catastrophe. However, Berlin does need to pay attention to its policy presentation skills. The German government's inability to consult the Bundesbank over its recent recommendations for a "European Monetary Fund" has been somewhat alarming.

4. Emerging economies that are large buyers of European capital goods are recovering more rapidly than expected. This is good news for manufacturing leaders across Europe's industrial heartlands. Over time, Asia and other developing regions will switch to much greater domestic consumption. There will be less eastern capital market fodder for debt-hungry western governments. But European companies exporting products ranging from escargots to excavators will have a field day.

5. The European Central Bank is highly unlikely to raise interest rates in the near future. A continuation of easy money will be good for equities.

6. The sense of impending doom surrounding Greece has acted as a useful reminder to other European governments of the dangers of Greek-style profligacy. This portends downward pressure on wages and government spending across Europe - great news for the corporate sector.

7. There have been some signs of a pick-up in consumption in Germany, which in Europe acts as a smaller version of China, with bloated savings, a large current account surplus, an ageing population and inadequate domestic demand. That may herald a more balanced European economy.

8. Disputes between Germany and France over running European policies may be less frequent in future. France is pleased that the German government has indicated it may help fund a Greek bail-out, while Germany is pleased that France is backing German-style budgetary and monetary stringency. That consensus may eventually turn out to be an illusion - but it suits nearly everyone for now and may hold for a while.

9. The increasing gap in economic growth between Europe and Asia is starting to make an impression on the public consciousness in the Old Continent. There is now much higher awareness that Europe needs a decisive strategy in areas such as research and development and education to rebuild economic prowess. European companies with strengths in science, technology and engineering can thus expect a more benevolent policy-making environment in the coming years.

10. Germany seems likely to secure the presidency of the European Central Bank next year for Axel Weber, currently head of the Bundesbank - Berlin's prize for signing a modest number of cheques to help some errant members of the euro club balance their books. With a German at the ECB helm for an eight-year term, Germany will remain a full-hearted member of the single currency at least until 2019 - giving Europe a 10-year-stretch of Bundesbank-style discipline and predictability, from which investors and consumers in Europe will surely benefit.

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