Group Economics

Ulster Bank

# What has the eurozone crisis got to do with us?

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Many of us will be familiar with the "What have the Romans ever done for us?" sketch from *"Monty Python's Life of Brian."* The joke was in the blinkered nature of the question, because as it soon became clear, the Romans were responsible for a huge amount of positive developments from which everyone derived benefit - from sanitation to medicine and education to roads.

Similarly, many in Northern Ireland might be wondering what has the Eurozone crisis got to do with us? Isn't it something going on over there? But, in many respects, after a bit of closer inspection, the answer to the question is just as obvious.

The reality is that for reasons ranging from exchange rate movements to the impact on business confidence, potential job losses amongst our exporters and reduced incomes from annuity-based pensions, everyone in Northern Ireland will be impacted by the crisis – not least because 440 Eurozone-owned companies employ 36,000 people here.

The crisis has seen the euro dip below the 80p mark. Holiday-makers will find the Mediterranean cheaper this summer than at any time since 2008, but the exchange rate is a double-edged sword. Those who might have holidayed here may well spend their money across the border.

Farmers' incomes from the EU Single Farm Payment will also be reduced because the SFP is paid in Euro – therefore a weaker Euro means less money in sterling terms. Those with holiday homes in the Eurozone will have seen the value of their property fall significantly, and this would be intensified with the further weakening of the euro and massively so if the country in which they have their home were to leave the Eurozone.

If we were to see a break-up of the Eurozone, this would most likely trigger a change in buying habits on items widely purchased by people in Northern Ireland. German premium cars *(e.g. Audis, BMWs & Mercedes Benz)* and household appliance brands *(e.g. Bosch & Siemens),* have been cheaper than they would have been if Germany had its own currency.

If a Greek exit was to occur, speculation on the viability of other member states (notably Spain) would mount and could become self-fulfilling. Should more countries exit, the euro - if it remained intact - would rise in value. German exports would become more expensive whilst the scenario of a return of the peseta, though unlikely, would lead to cheaper Spanish exports. In turn, price sensitive consumers here would probably switch from Audi to Seat cars and from Bosch fridges to the lesser known Spanish brand, Fagor.

Ultimately, the deterioration in the Eurozone economic and financial outlook automatically affects the growth prospects of other economies, particularly the two most important drivers of our local economy – the UK and the Republic of Ireland.

Already, the UK economic recovery is significantly weaker than its fiscal plans allow for. The fiscal adjustments *(including public spending cuts up to 2017)* are insufficient in the face of a Eurozone recession and a potential break-up of the single currency. Therefore, the UK will require further tax hikes and spending/benefit cuts.

The electorate needs to be prepared for the fact that austerity has hardly started in Northern Ireland. So far, the pain being felt by households is largely from inflation, not spending cuts. Much more pain is to come, even if Northern Ireland only has to pay its pro rata share of UK austerity.

And that is before our existing fiscal deficit is tackled - the largest relative deficit of the UK regions. When that comes under the microscope in the years ahead, there will be further pain.

Interest rates with 10-Year UK government bonds *(Gilts)* have hit record lows. These rates are used to provide *(record low)* annuities *(or annual income)* for those with private sector pensions. Meanwhile, the Bank of England warned last week that mortgage rates for new borrowers and those not on tracker deals will likely rise due to higher funding costs associated with the Eurozone turmoil.

So, what has the Eurozone crisis got to do with us? Well, unfortunately, quite a lot really.

*Richard Ramsey,*
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