
The Economic Situation in EMU – Where Do We Stand?

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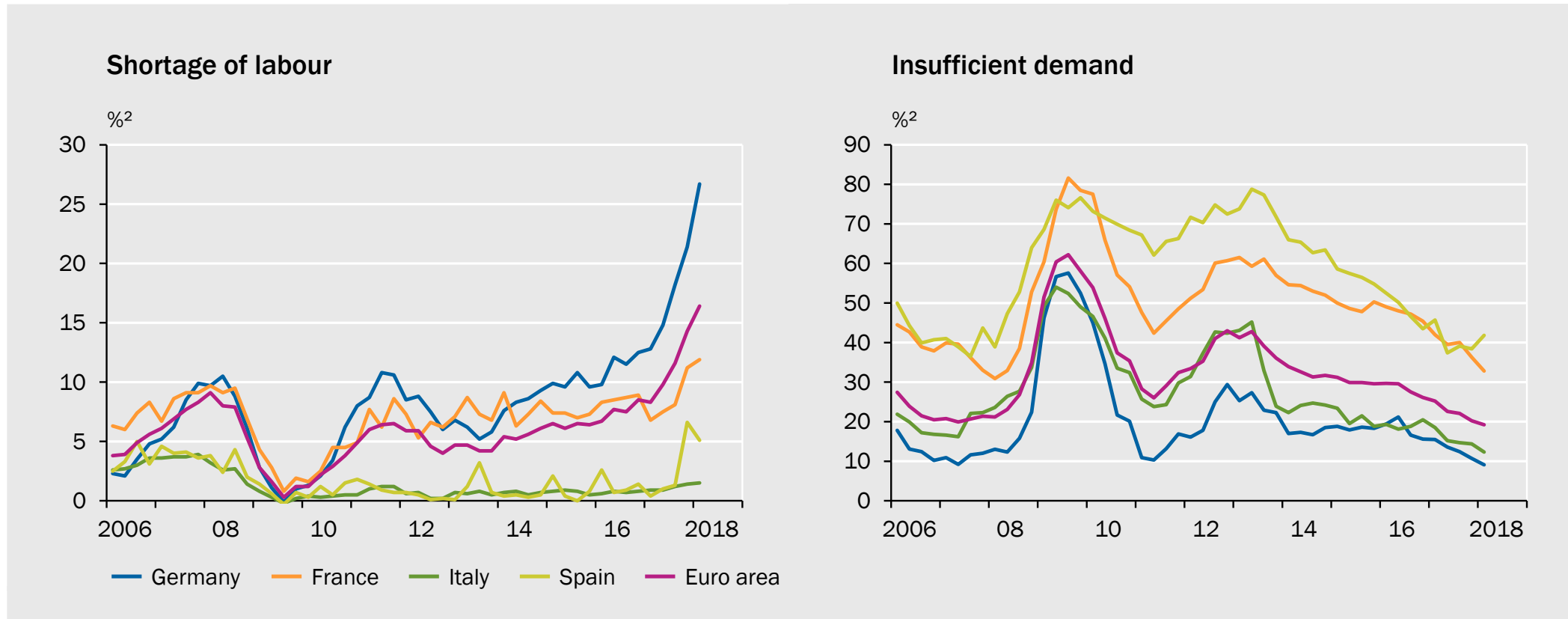
Berlin, July 18, 2018

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| Country/ country group | Weight in % ¹ | Gross domestic product ² | | | | Consumer prices (HICP) ³ | | | | Unemployment rate ⁴ | | | |
|------------------------------|-----------------------------|-------------------------------------|-------------------|-------------------------------------|-------------------|-------------------------------------|-------------------|-------------------------------------|-------------------|--------------------------------|-------------------|-------------------------------------|-------------------|
| | | Change on previous year in % | | | | | | | | % | | | |
| | | 2017 | 2018 ⁵ | | 2019 ⁵ | 2017 | 2018 ⁵ | | 2019 ⁵ | 2017 | 2018 ⁵ | | 2019 ⁵ |
| | | | Update | Diff. to AR 2017/18 ⁶ | | | Update | Diff. to AR 2017/18 ⁶ | | | Update | Diff. to AR 2017/18 ⁶ | |
| Euro area⁷ | 100 | 2.3 | 2.3 | (0.2) | 1.9 | 1.5 | 1.5 | (0.0) | 1.6 | 9.1 | 8.3 | (- 0.3) | 7.9 |
| including: | | | | | | | | | | | | | |
| Germany | 29.2 | 2.2 | 2.3 | (0.1) | 1.8 | 1.7 | 1.7 | (0.0) | 1.7 | 3.8 | 3.5 | (- 0.2) | 3.4 |
| France | 20.7 | 1.8 | 2.1 | (0.2) | 1.8 | 1.2 | 1.6 | (0.3) | 1.5 | 9.4 | 8.6 | (- 0.5) | 8.1 |
| Italy | 15.5 | 1.5 | 1.4 | (0.0) | 1.2 | 1.3 | 0.9 | (- 0.3) | 1.2 | 11.3 | 10.7 | (- 0.1) | 10.3 |
| Spain | 10.3 | 3.1 | 2.5 | (0.2) | 2.1 | 2.0 | 1.6 | (0.0) | 1.6 | 17.2 | 15.6 | (- 0.5) | 14.7 |
| Netherlands | 6.5 | 3.1 | 2.8 | (0.1) | 2.1 | 1.3 | 1.8 | (0.2) | 2.4 | 4.9 | 3.9 | (- 0.4) | 3.6 |
| Belgium | 3.9 | 1.7 | 1.7 | (0.1) | 1.6 | 2.2 | 2.0 | (0.2) | 2.0 | 7.2 | 6.4 | (- 0.9) | 6.3 |
| Austria | 3.2 | 2.9 | 2.8 | (0.3) | 2.1 | 2.2 | 2.3 | (0.4) | 2.0 | 5.5 | 5.2 | (- 0.2) | 5.0 |
| Ireland | 2.6 | 7.8 | 6.6 | (2.9) | 3.8 | 0.3 | 1.0 | (- 0.2) | 1.2 | 6.7 | 5.5 | (0.1) | 5.0 |
| Finland | 2.0 | 2.7 | 2.4 | (0.3) | 2.1 | 0.8 | 1.0 | (- 0.2) | 1.3 | 8.6 | 8.3 | (- 0.1) | 7.9 |
| Portugal | 1.7 | 2.7 | 2.3 | (0.4) | 1.9 | 1.6 | 1.6 | (- 0.2) | 1.7 | 9.0 | 7.5 | (- 0.7) | 6.8 |
| Greece | 1.6 | 1.4 | 2.0 | (0.0) | 2.0 | 1.1 | 1.0 | (- 0.1) | 1.4 | 21.4 | 19.4 | (- 0.6) | 18.3 |
| memorandum: | | | | | | | | | | | | | |
| Euro area without | | | | | | | | | | | | | |
| Germany | 70.8 | 2.4 | 2.3 | (0.2) | 1.9 | 1.4 | 1.5 | (0.1) | 1.6 | 11.0 | 10.0 | (- 0.4) | 9.5 |

Economic growth in the euro area

Assessment of factors limiting production by companies¹

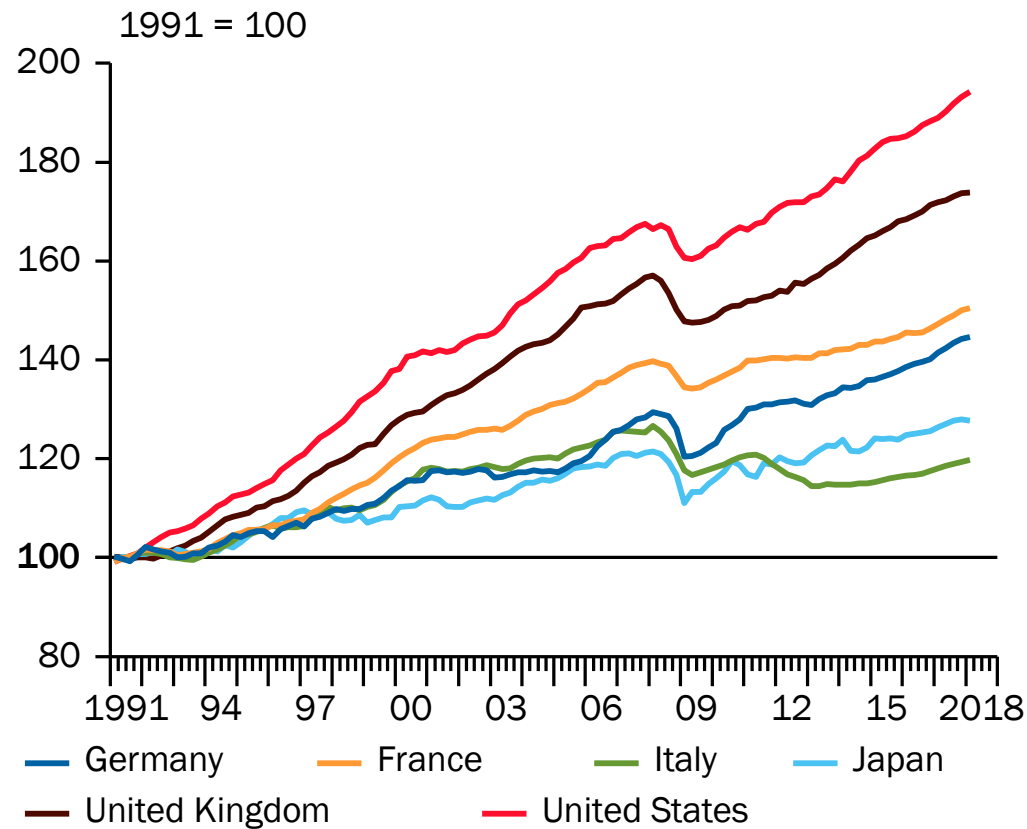


1 – Quarterly survey of industrial companies conducted by the European Commission. Companies are asked about the factors limiting production. Possible answers are: none, insufficient demand, shortage of labour, shortage of space and/or equipment, financial constraints, others. Multiple answers are possible. Seasonally adjusted data. In total about 24,000 industrial companies are surveyed in the euro area. Usually, about 18,000 of them respond. 2 – Share of companies.

Source: European Commission

Economic growth in the euro area

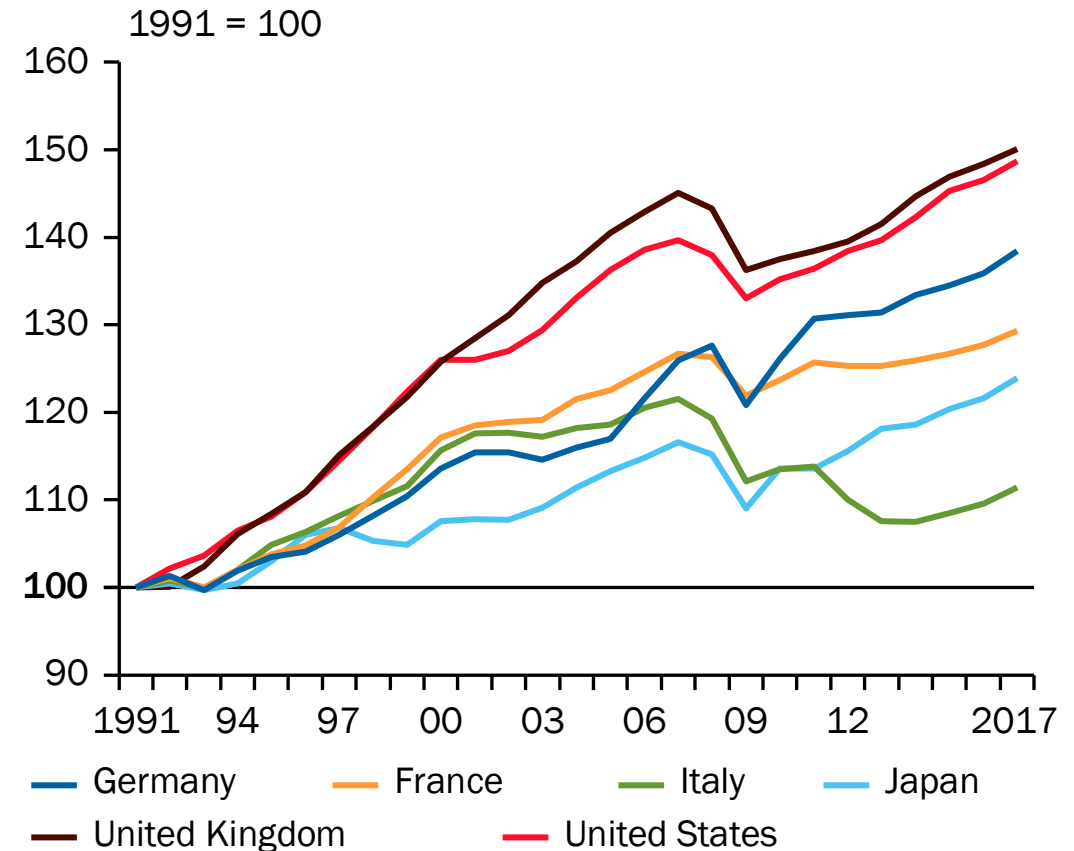
Real GDP



Sources: OECD, own calculations

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Real GDP per capita

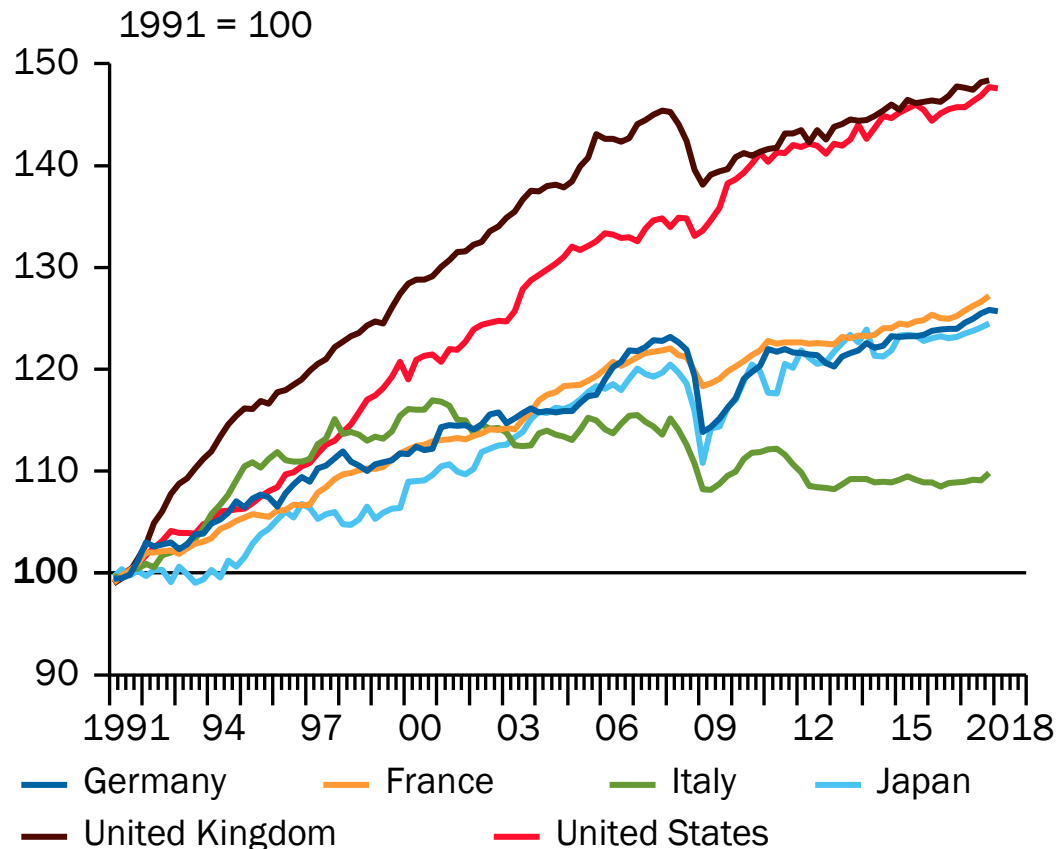


Sources: OECD, own calculations

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Productivity in the euro area

Labour productivity



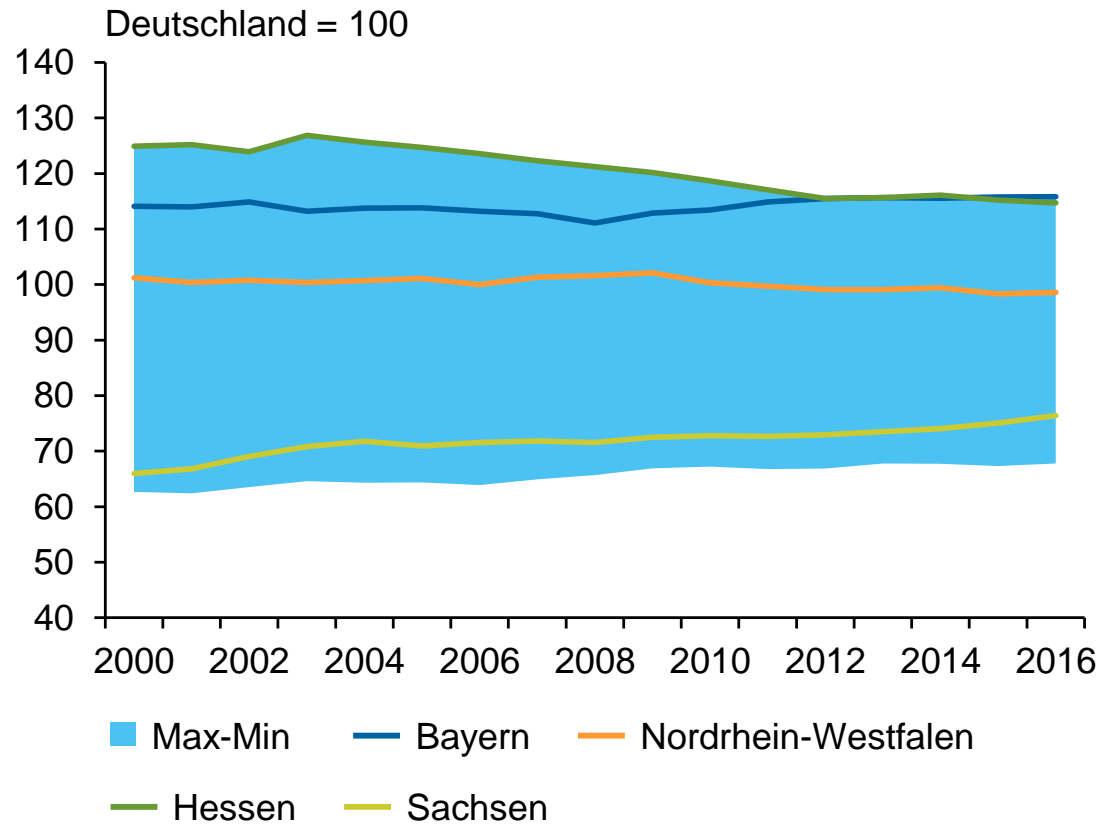
Sources: OECD, own calculations

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- Large Euro countries and Japan lag behind the U.S. and the U.K.
- Particularly bad performance of Italy
 - No or even slightly negative productivity growth between 1997 and 2007
 - Clearly negative productivity growth since 2007.

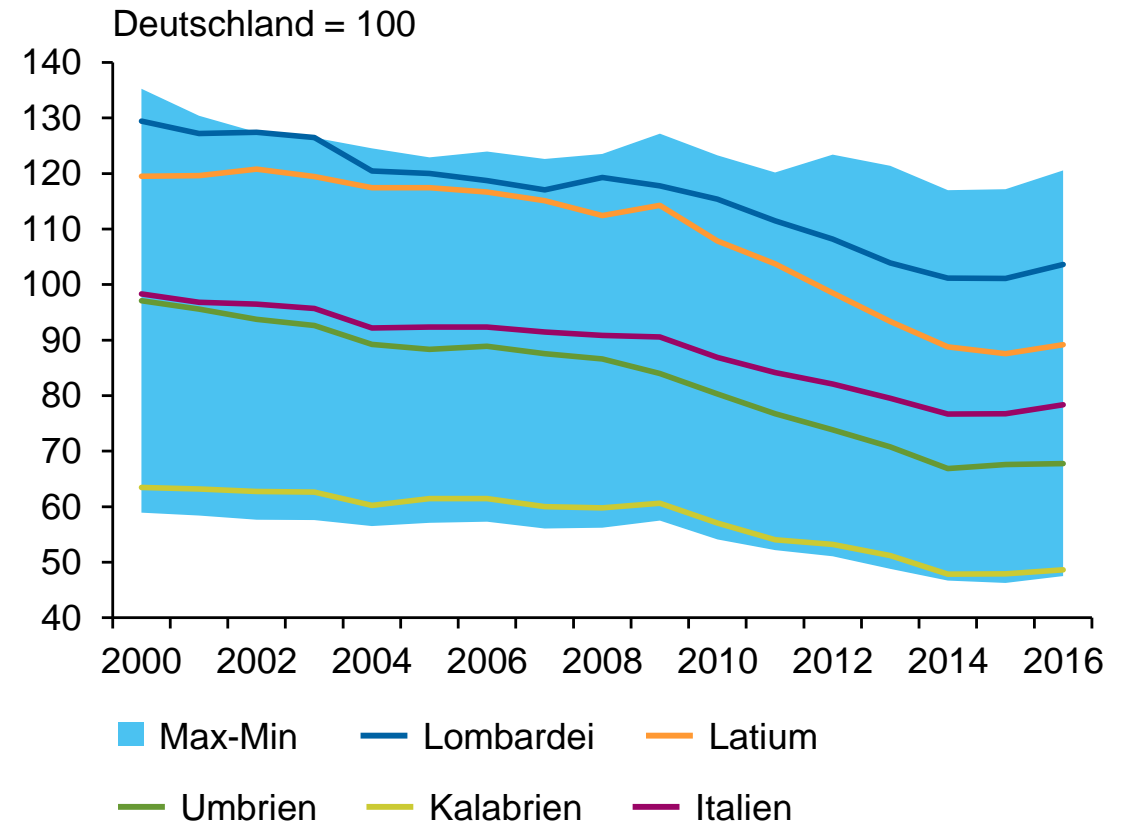
GDP per capita: Regional development

Deutschland



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Italien

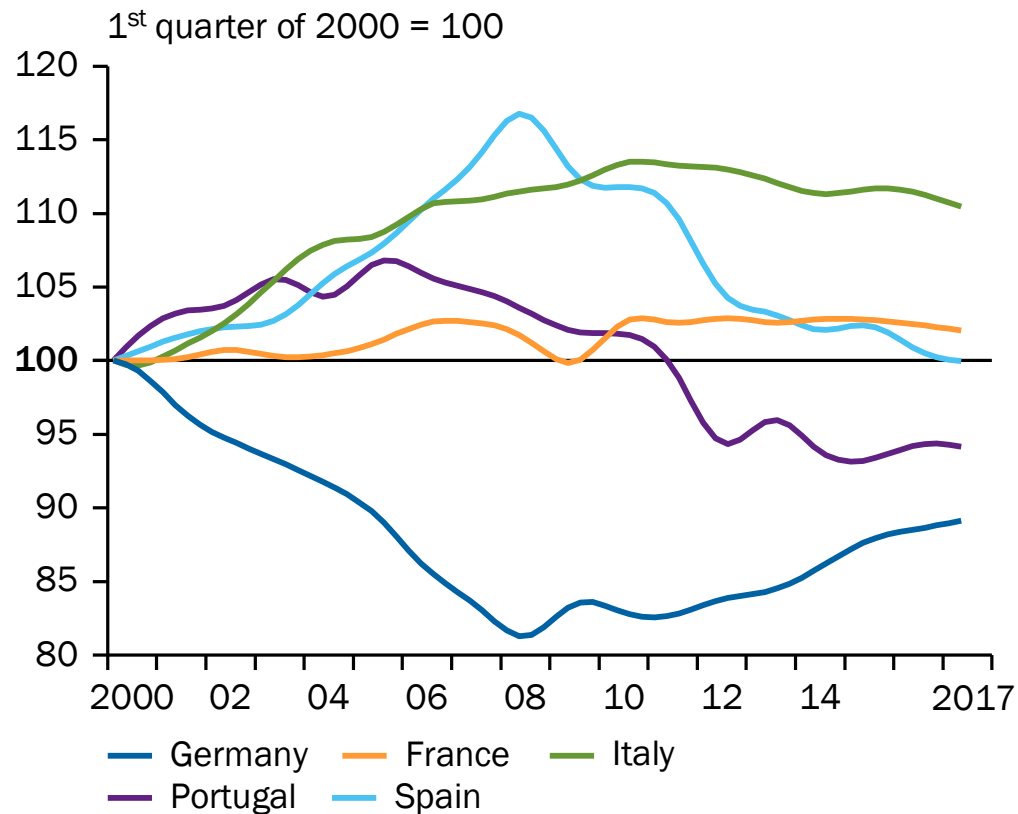


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Convergence in the euro area

Real effective exchange rates

vis-a-vis the euro area



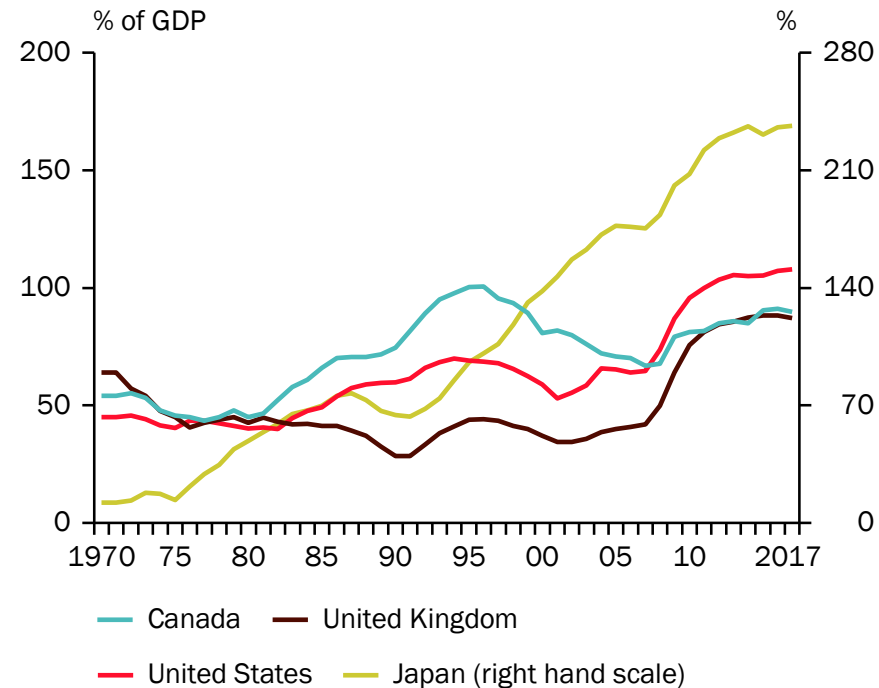
Sources: European Commission, own calculations

- Differences in competitiveness in different member states still exist
- Structural reforms to increase productivity
 - Particularly in good times
- Responsibility of national governments

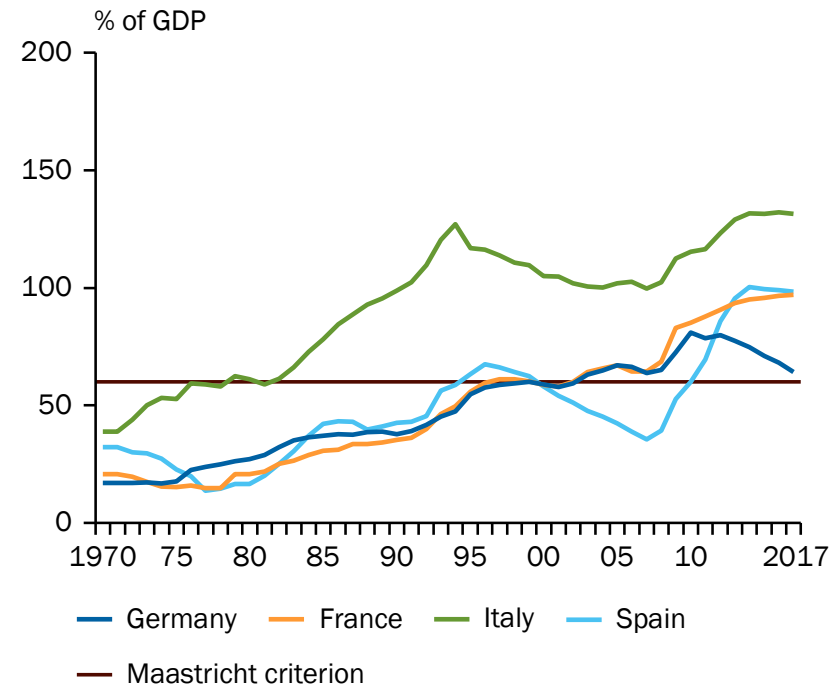
High public debt ratios (not only) in the euro area

Debt-to-GDP ratios of selected countries

G7 excluding member state for the EMU



Largest member states of the EMU



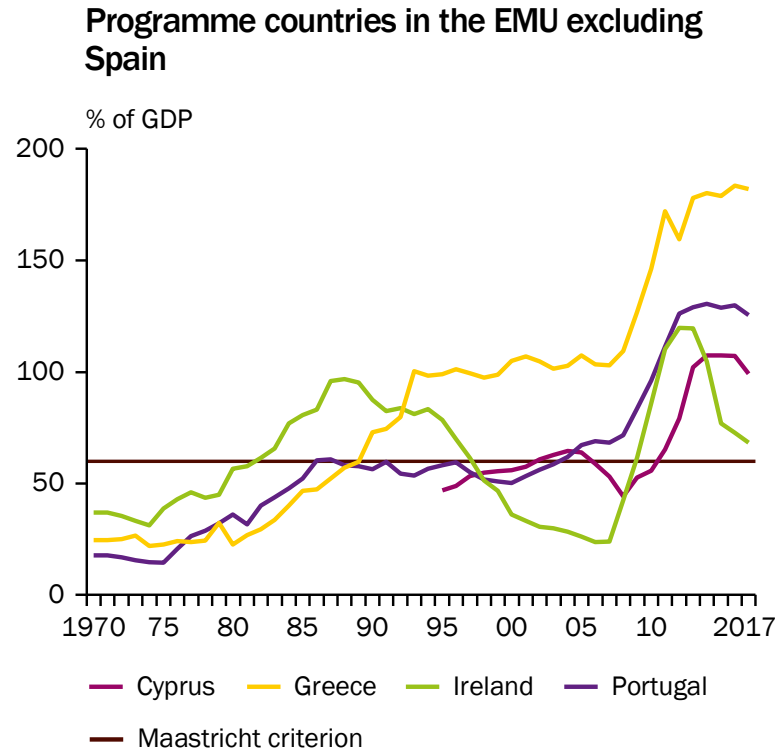
Sources: IMF, Mauro et al. (2015), own calculations

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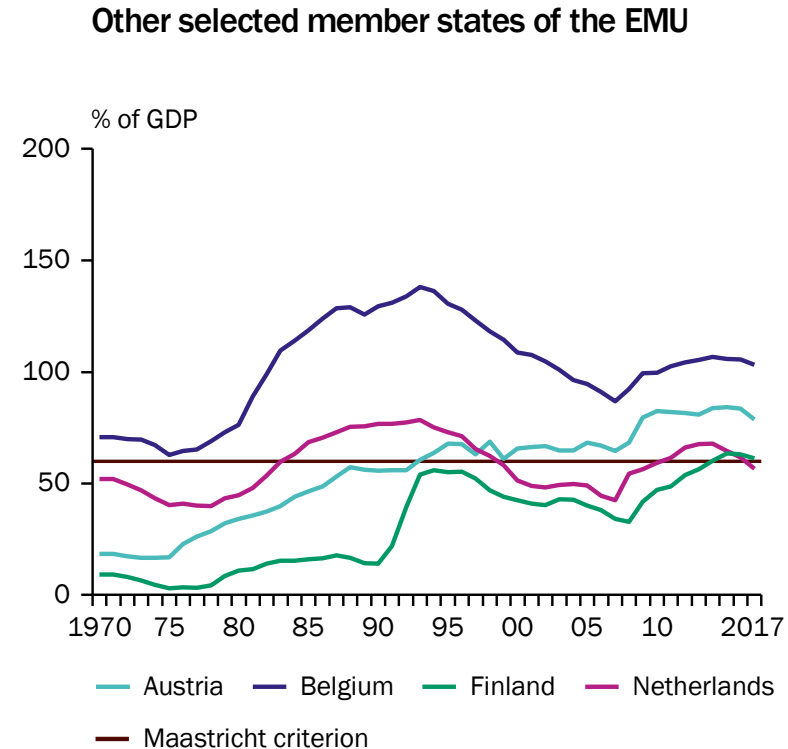
- Almost all member states comply with the 3 % deficit Maastricht limit by now
- But: Public debt ratios exceed the 60 % limit in 13 of 19 member states in 2016

High public debt ratios (not only) in the euro area

Debt-to-GDP ratios of selected countries



Sources: IMF, Mauro et al. (2015), own calculations

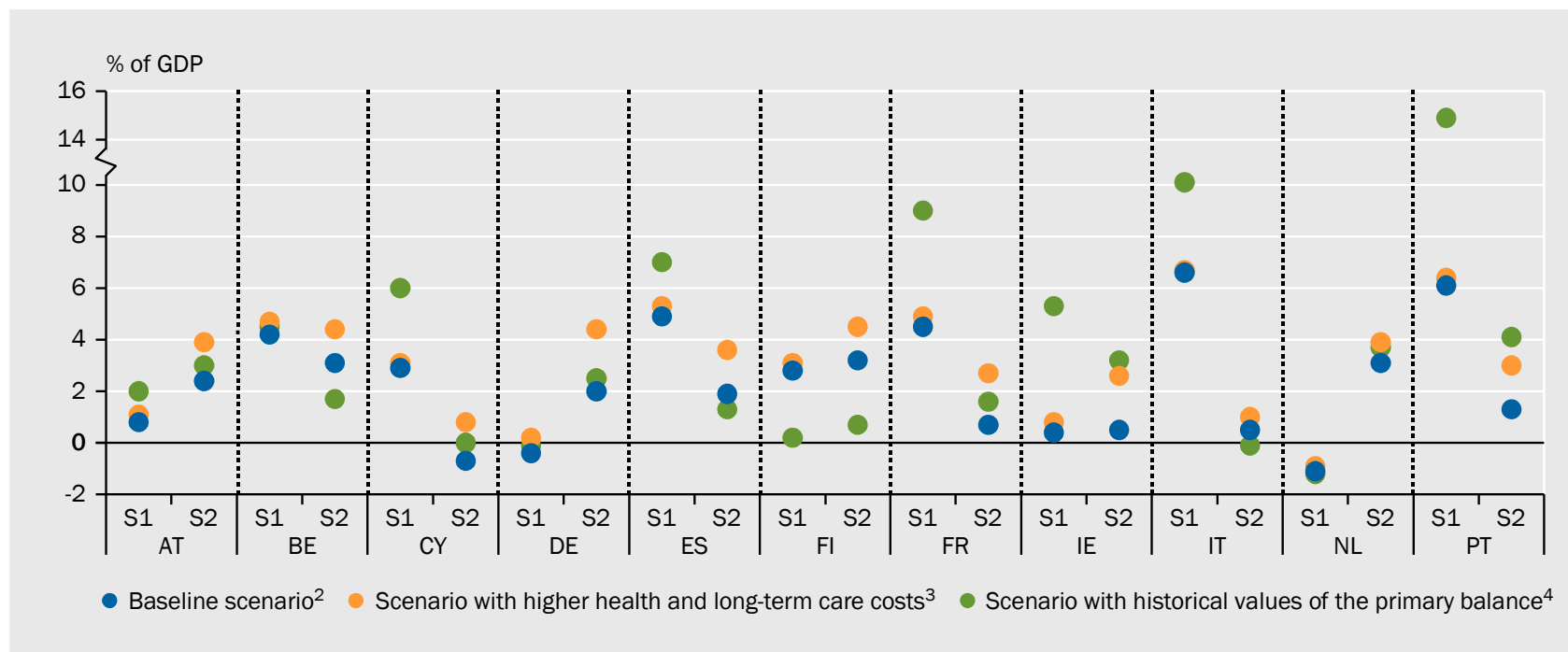


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Sustainability gaps in the euro area

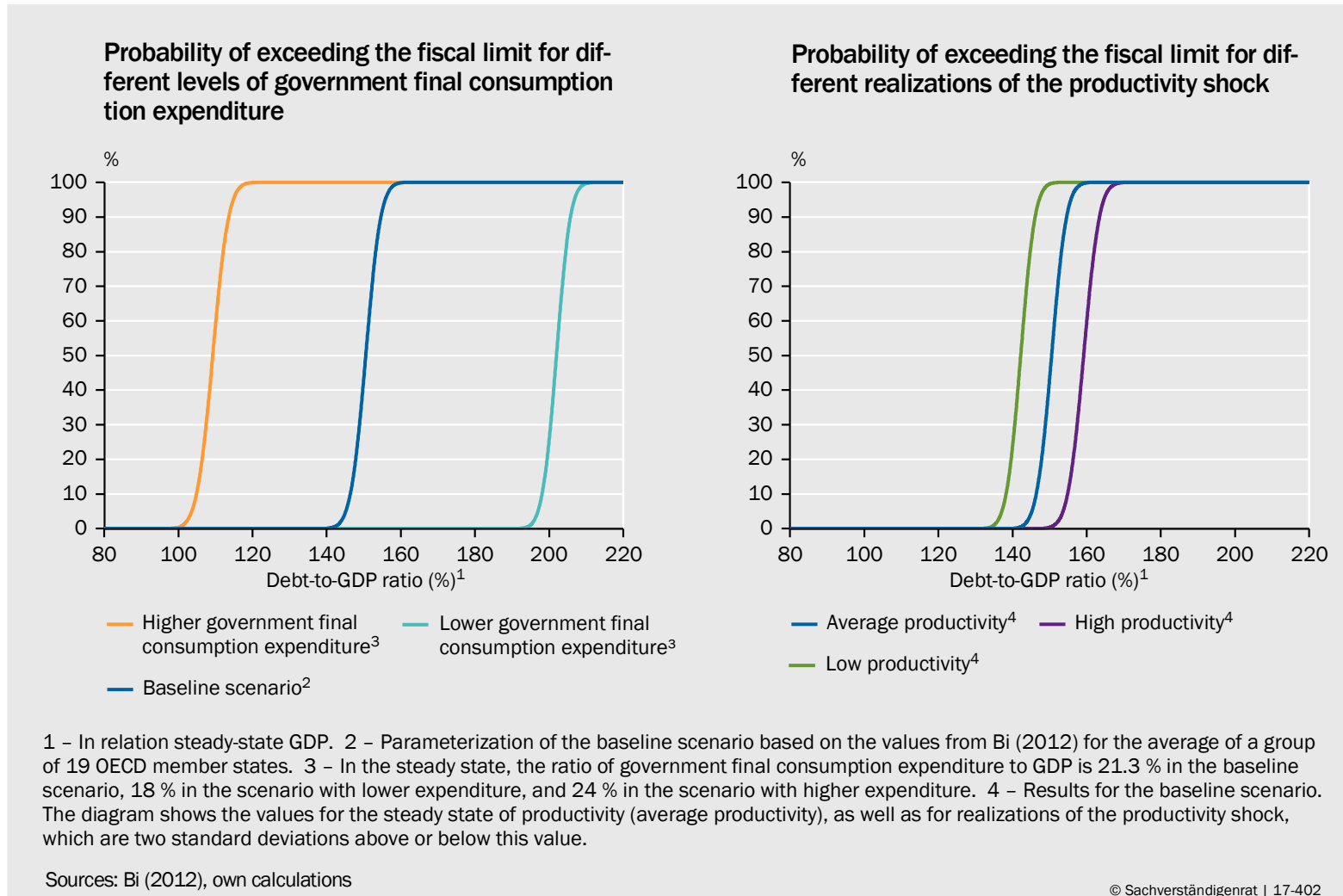
Sustainability gaps in selected euro area countries¹



1 – Calculations by the European Commission (Debt Sustainability Monitor 2016). The S1 indicator corresponds to the constant annual improvement in the structural primary balance that is required over the next five years to reduce the current level of debt to 60 % of nominal GDP within fifteen years. The S2 indicator shows the percentage of GDP by which the structural primary balance would have to be adjusted compared to the status quo in the case of an infinite horizon to stabilize the debt-to-GDP ratio at its current level. AT-Austria, BE-Belgium, CY-Cyprus, DE-Germany, ES-Spain, FI-Finland, FR-France, IE-Ireland, IT-Italy, NL-Netherlands, PT-Portugal. No figures are provided for Greece. 2 -No-fiscal policy change scenario (assuming that the structural primary balance remains constant at the last forecast value), and taking into account the costs of demographic change. 3 - As a result of non-demographic factors such as technological change (new treatment methods). 4 - Structural primary balance gradually converges to the historical average for the past 15 years within four years.

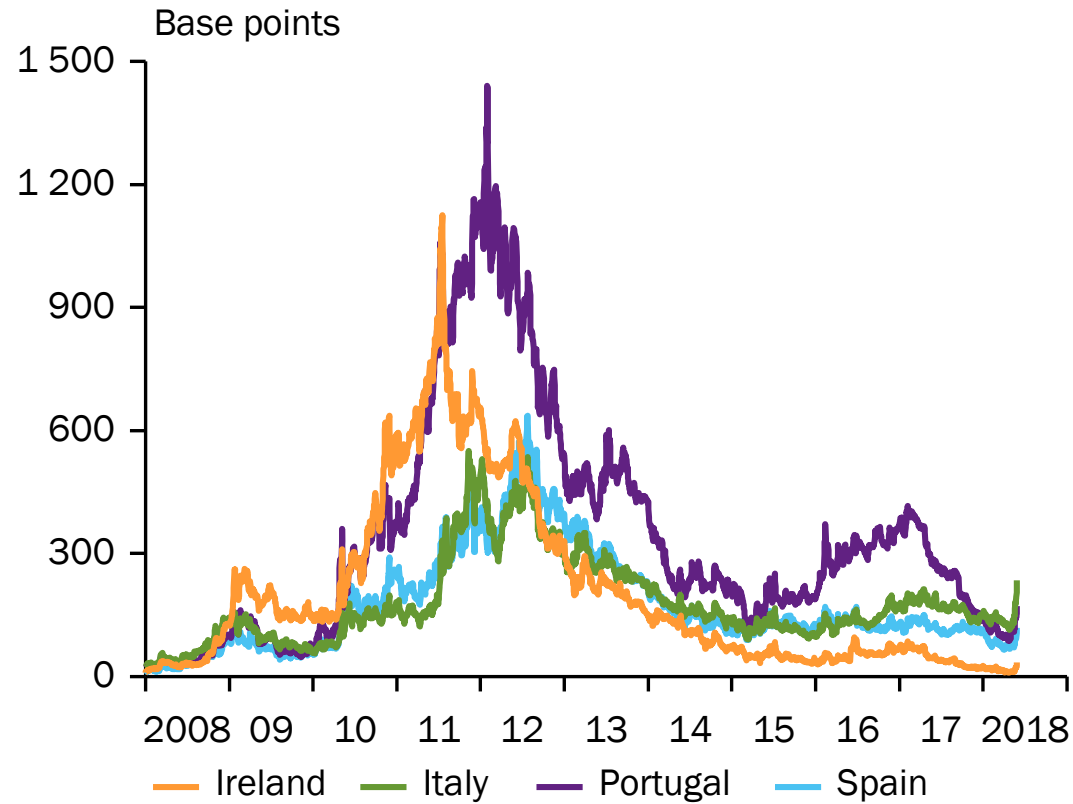
Sustainability gaps in the euro area

Simulation of the fiscal limit according to Bi (2012)



Spreads in the euro area

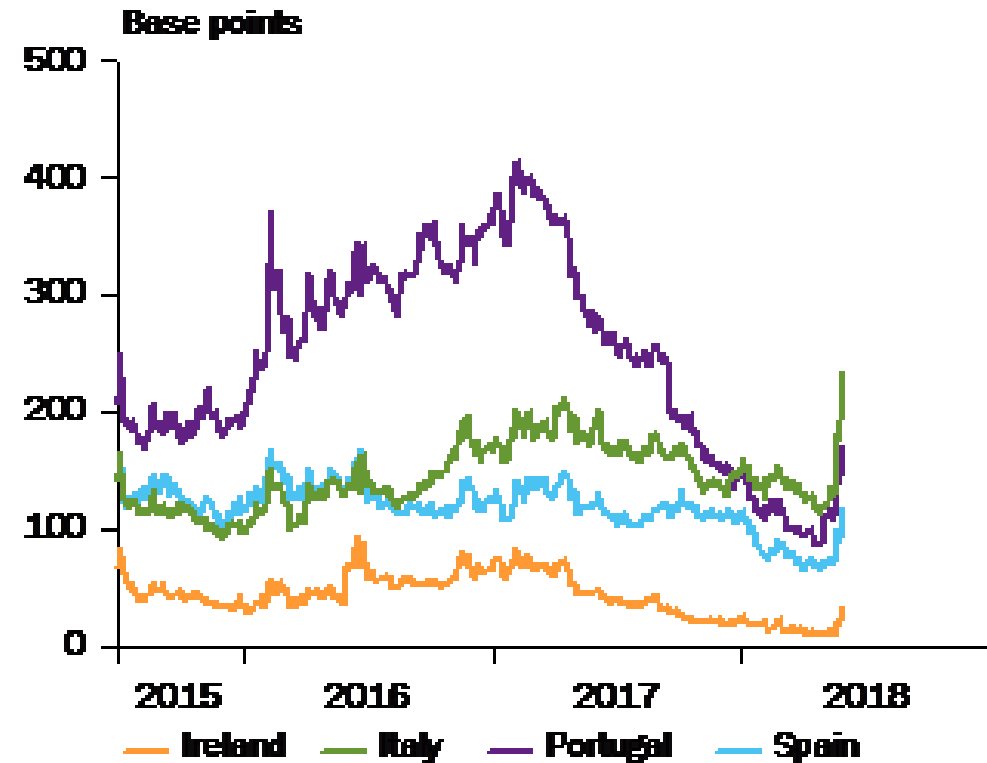
10 year government bonds spreads



Sources: Thomson Reuters, own calculations

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10 year government bonds spreads



Sources: Thomson Reuters, own calculations

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Spreads in the euro area

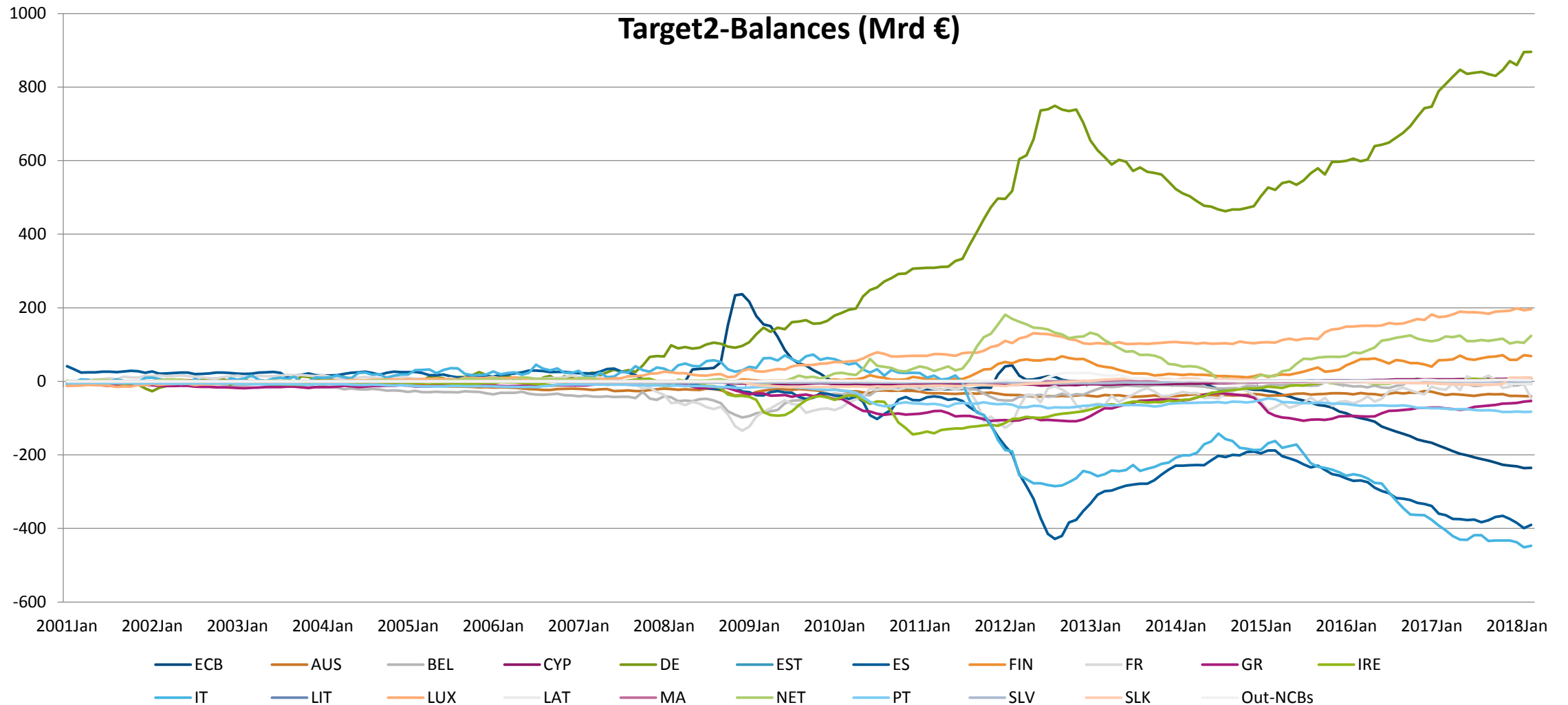
2 year government bonds spreads



Sources: Thomson Reuters, own calculations

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Target2 Balances



Don't say, we've not warned....

- GCEE Business Cycle Update, March 2018: “In the **euro area**, the level of **indebtedness** of many member states remains very high. This is particularly true of Italy where the national debt stands at over 130 % of GDP. Should financial markets lose confidence in the sustainability of public debt on account of the political uncertainty resulting from the outcome of the election, given the size of the Italian economy a return of the euro crisis cannot be ruled out. Furthermore, risks to financial stability continue to persist in certain member states due to the fragility of many banks, particularly with regard to the extent of non-performing loans.”

The Way Ahead....

- Hoping for the best in Italy, but ...
 - Markets will further punish Italian political chaos: hence stop it.
 - Otherwise, it will bring us to the brink of the next Euro crisis.
- Ringfencing the Italian problem as good as it gets.
 - ECB will only have restricted possibilities.
 - Completion of banking union (fiscal backstop) is key.
 - No further steps, rather defining conditions of access to the fiscal backstop restrictively, such that countries with low ratings are not allowed.
- For the time being, the Italian situation prevents Europe from further reforms.

Thank you!

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