



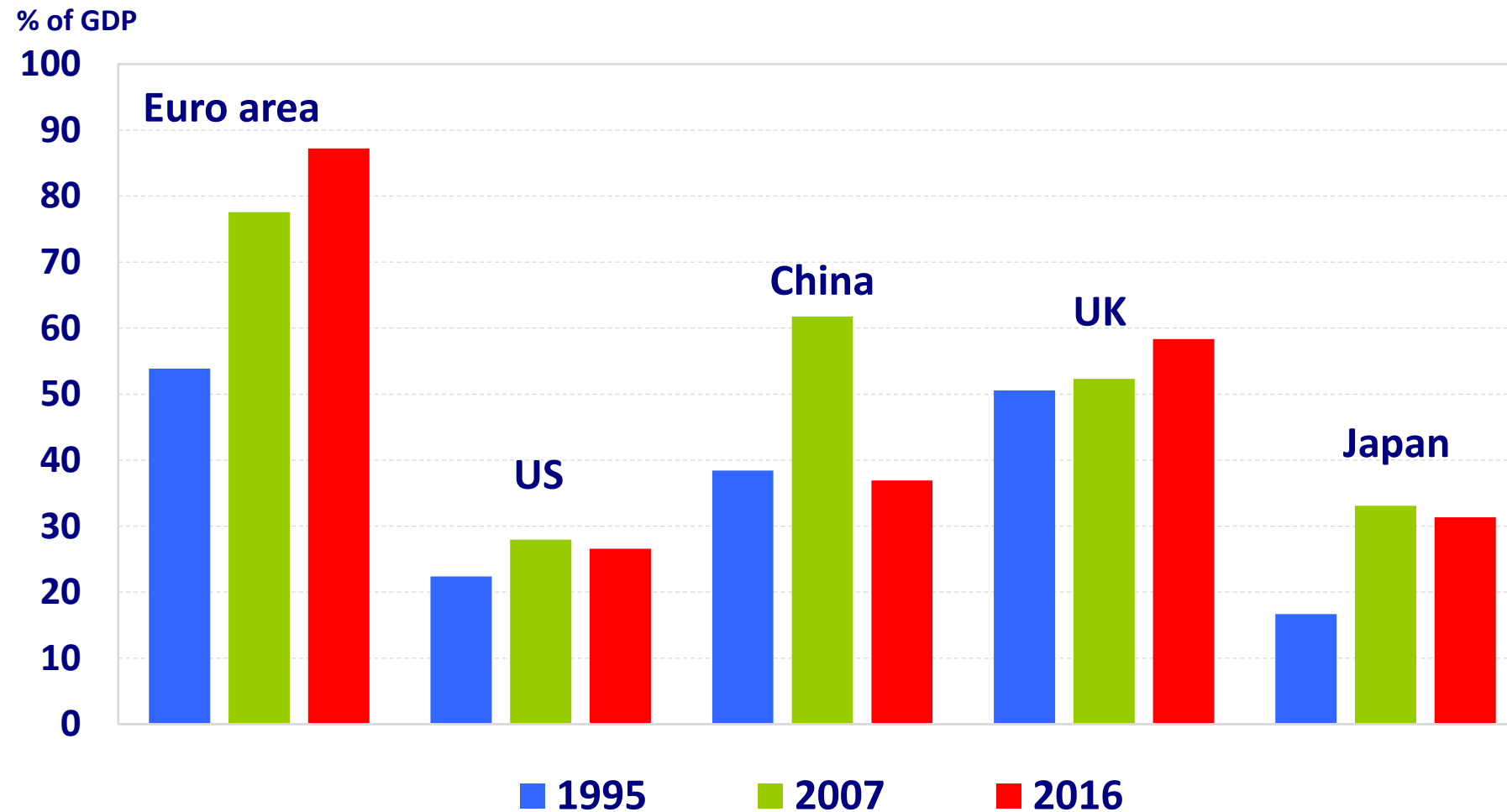
The structure of the euro area recovery

Rolf Strauch, Chief Economist

**JPMorgan Investor Seminar, IMF Annual Meetings
Washington, October 2017**

The euro area: a systemic player in global trade

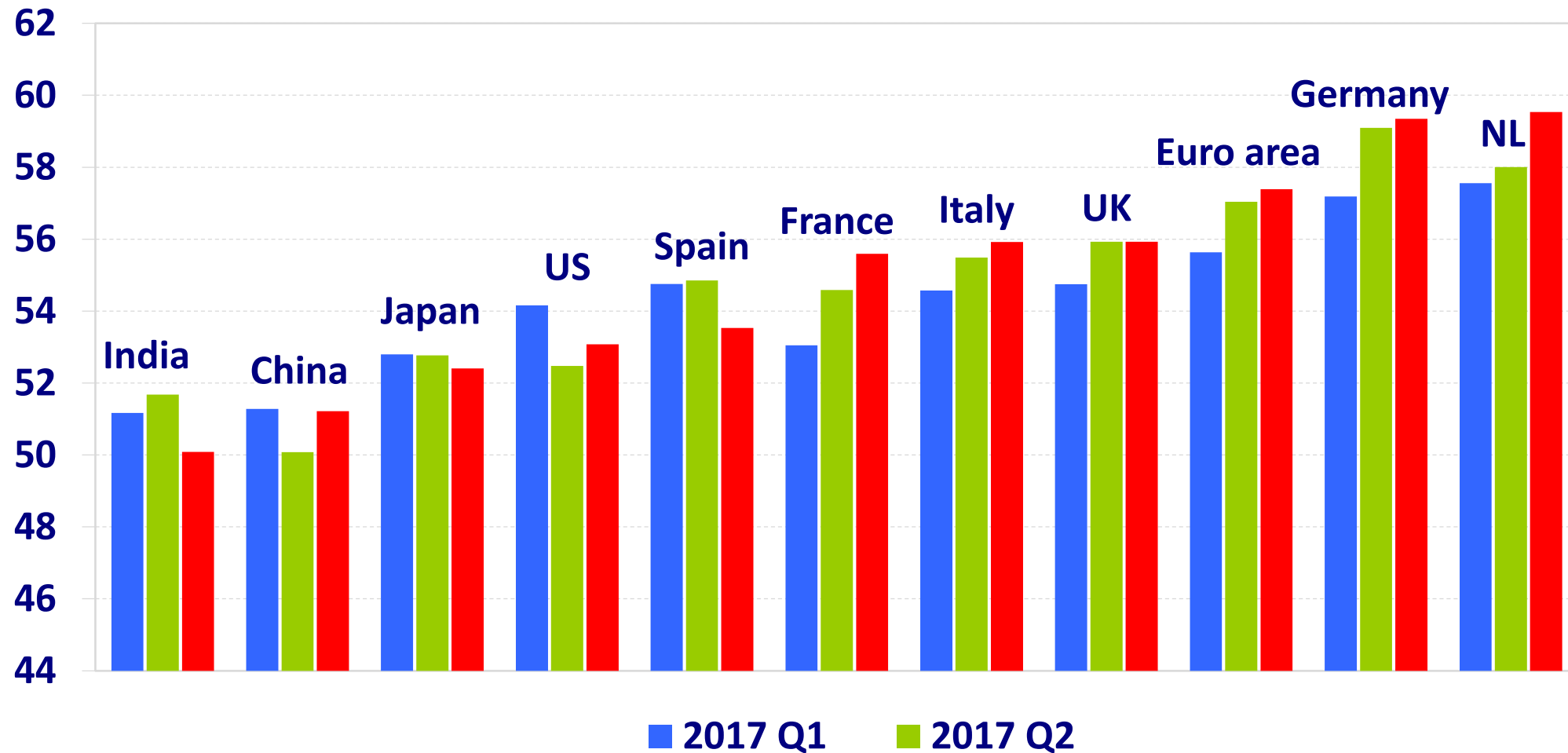
Trade openness (exports plus imports of goods and services)



Source: ESM Based on national sources
Note: Extra-Euro area trade openness 51% in 2016

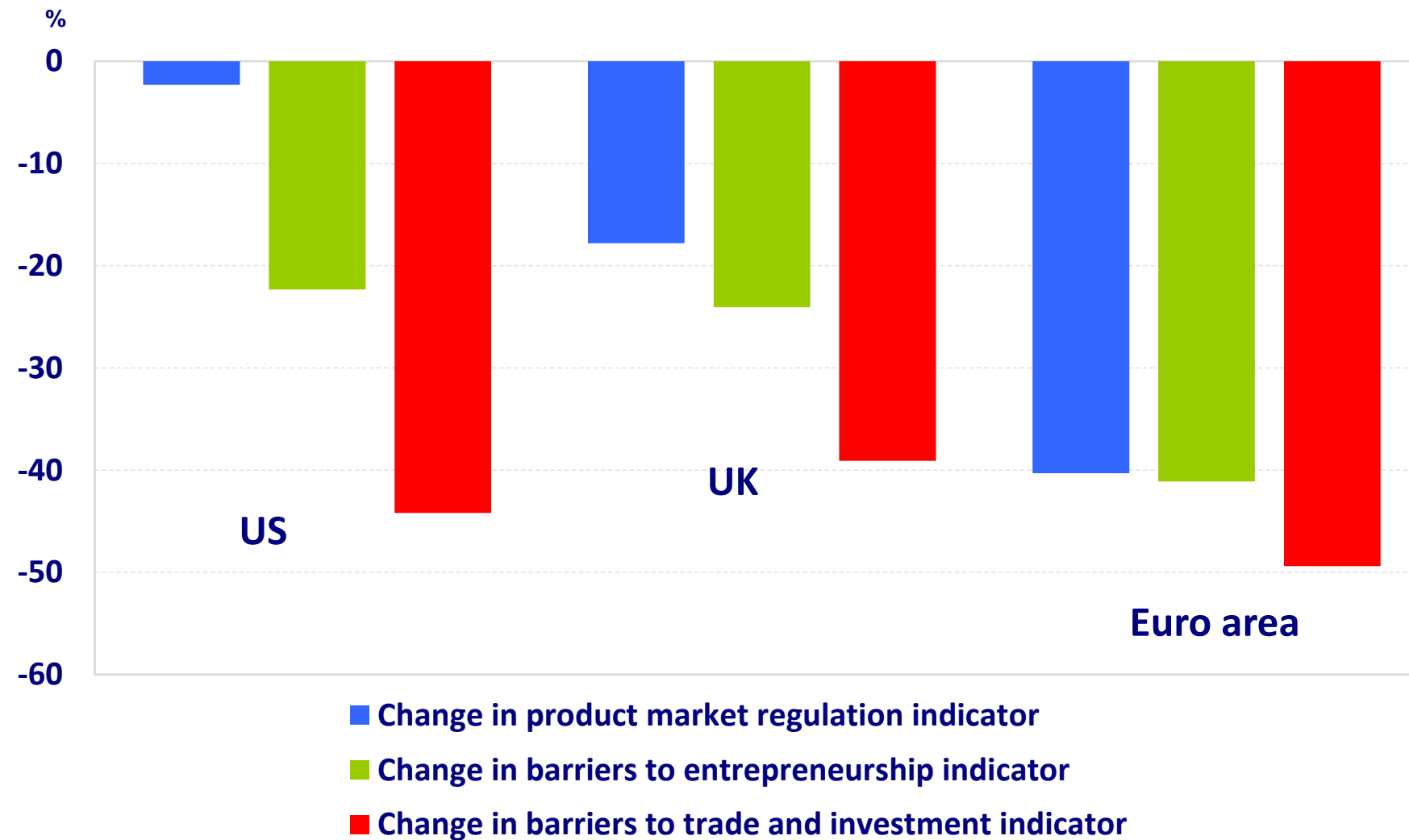
Euro area economies lead the recovery of global activity

Purchasing managers' index: Manufacturing



A stronger euro area: improved competitiveness

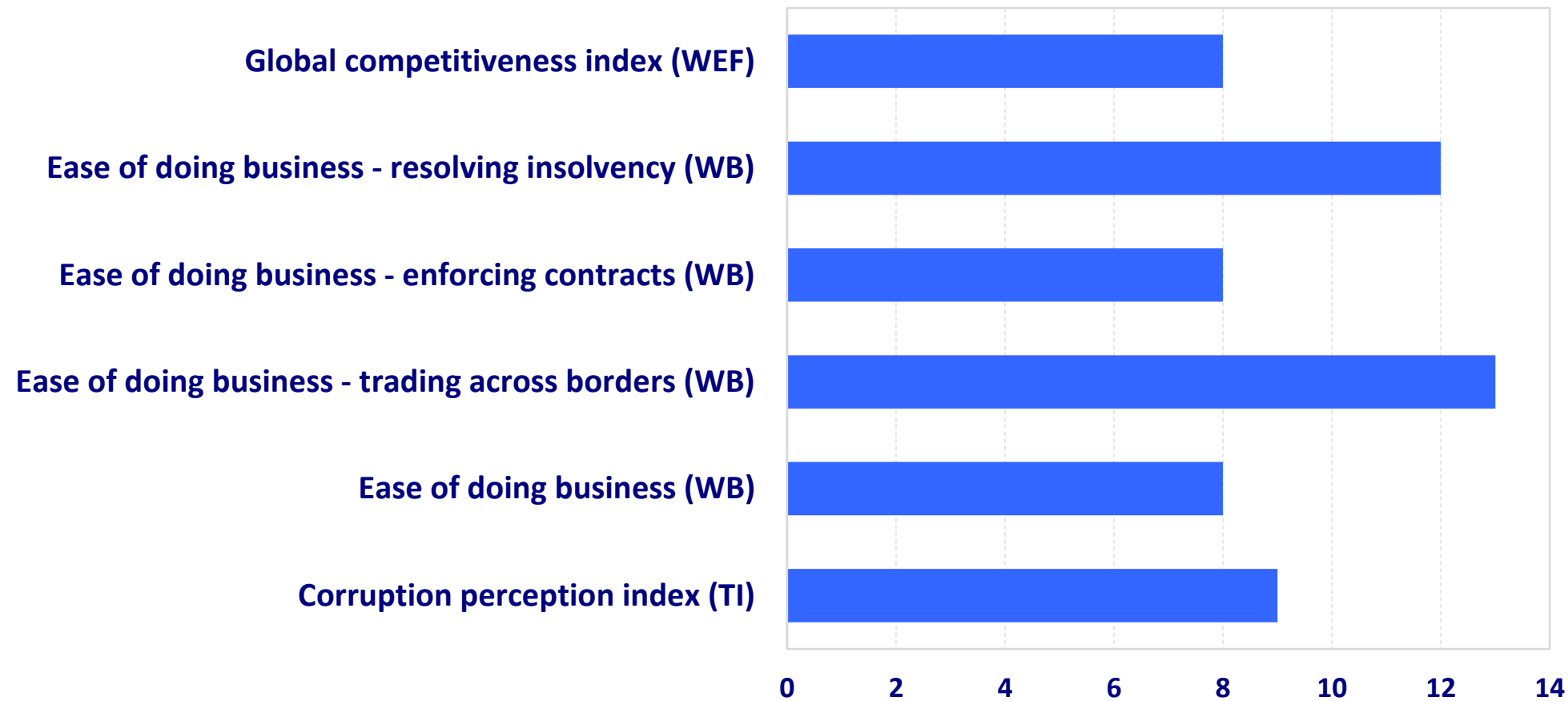
Reduction in regulation and barriers (1998-2013)



Notes: Due to data availability, the euro area is comprised of Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal and Spain
Source: ESM based on OECD

A stronger euro area: improved competitiveness

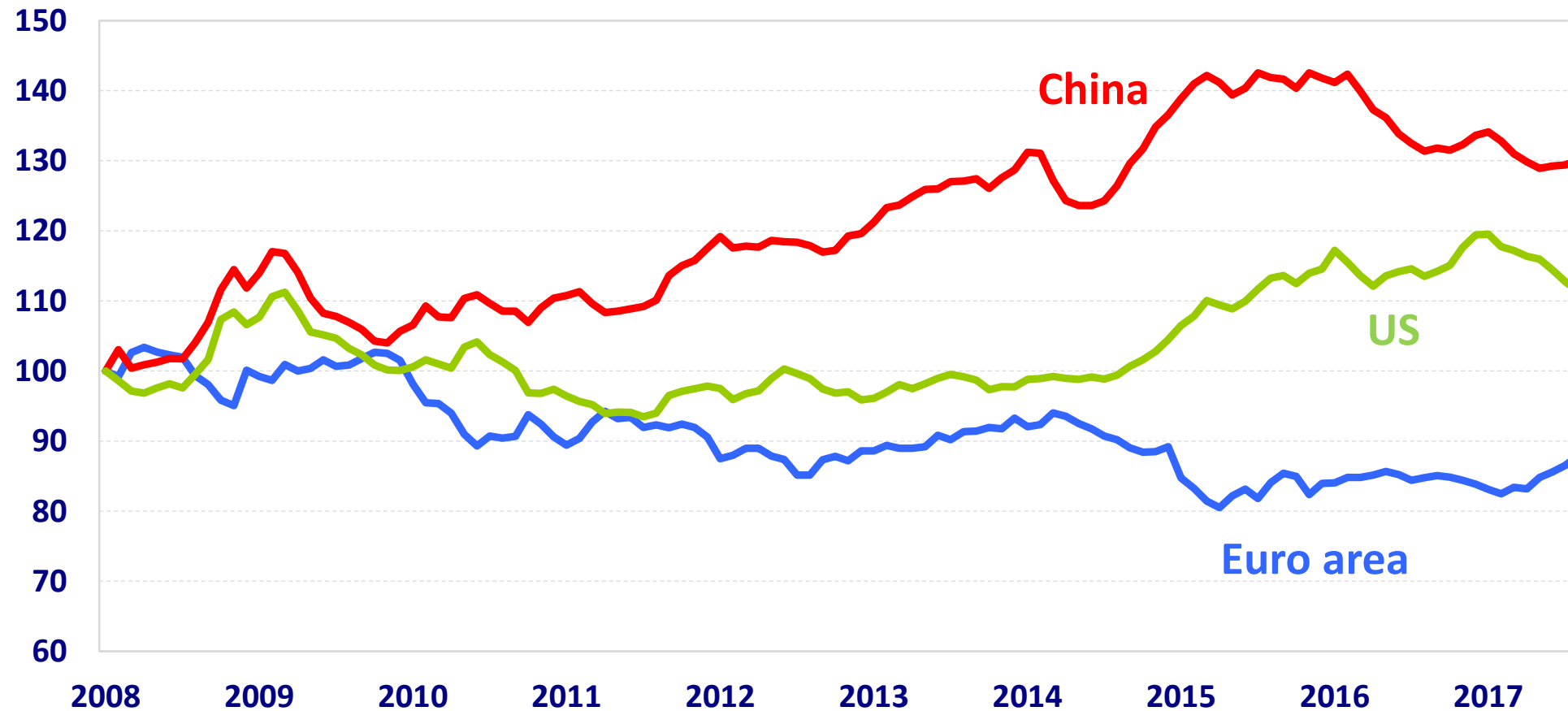
Number of euro area countries within top 25 best performers (2016)



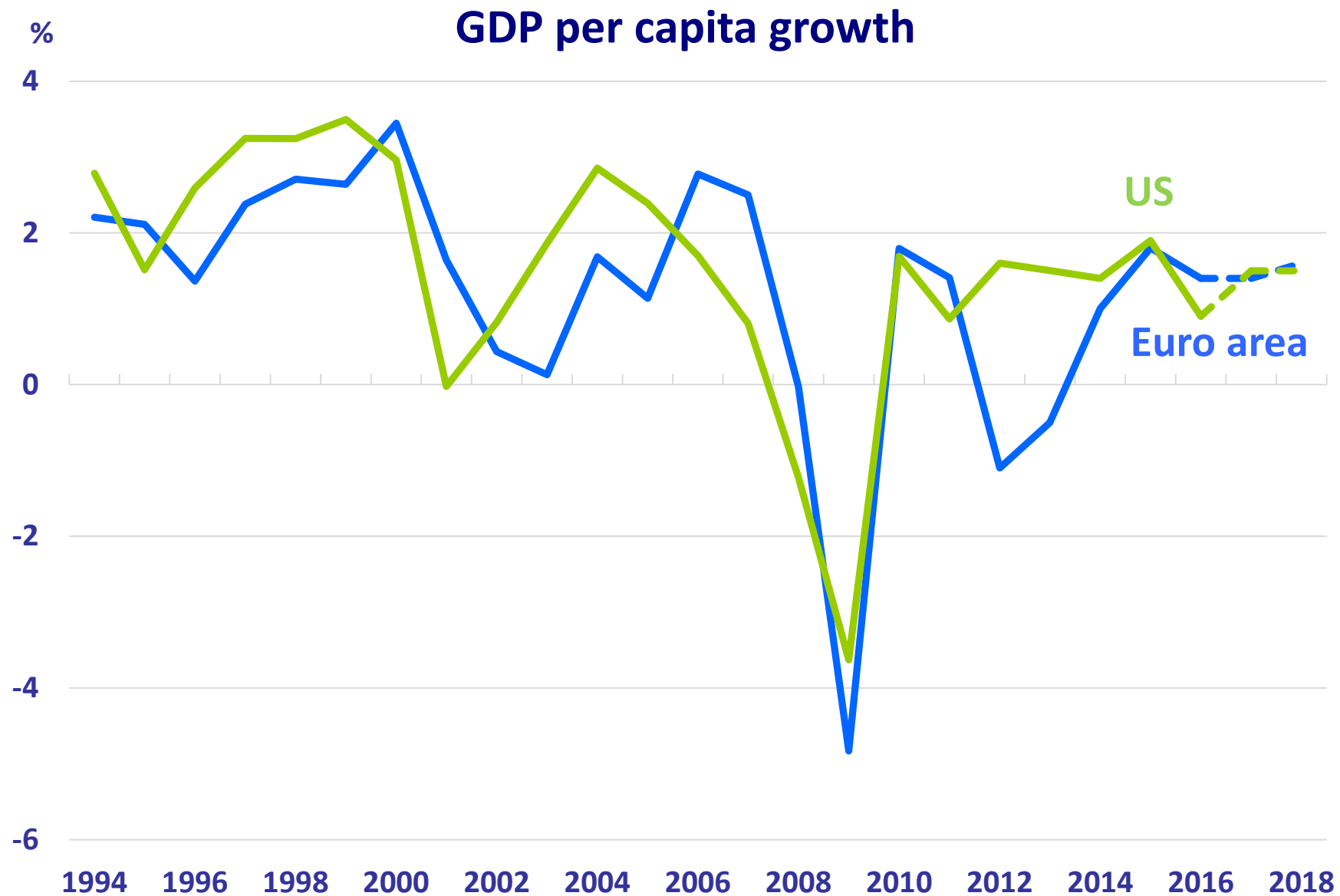
Source: ESM based on World Economic Forum (WEF), World Bank (WB) and Transparency International (TI)

Improved price competitiveness after the crisis despite recent appreciation

Real effective exchange rate (ULCT-based, 2008Q1=100)



A stronger euro area: the robust recovery

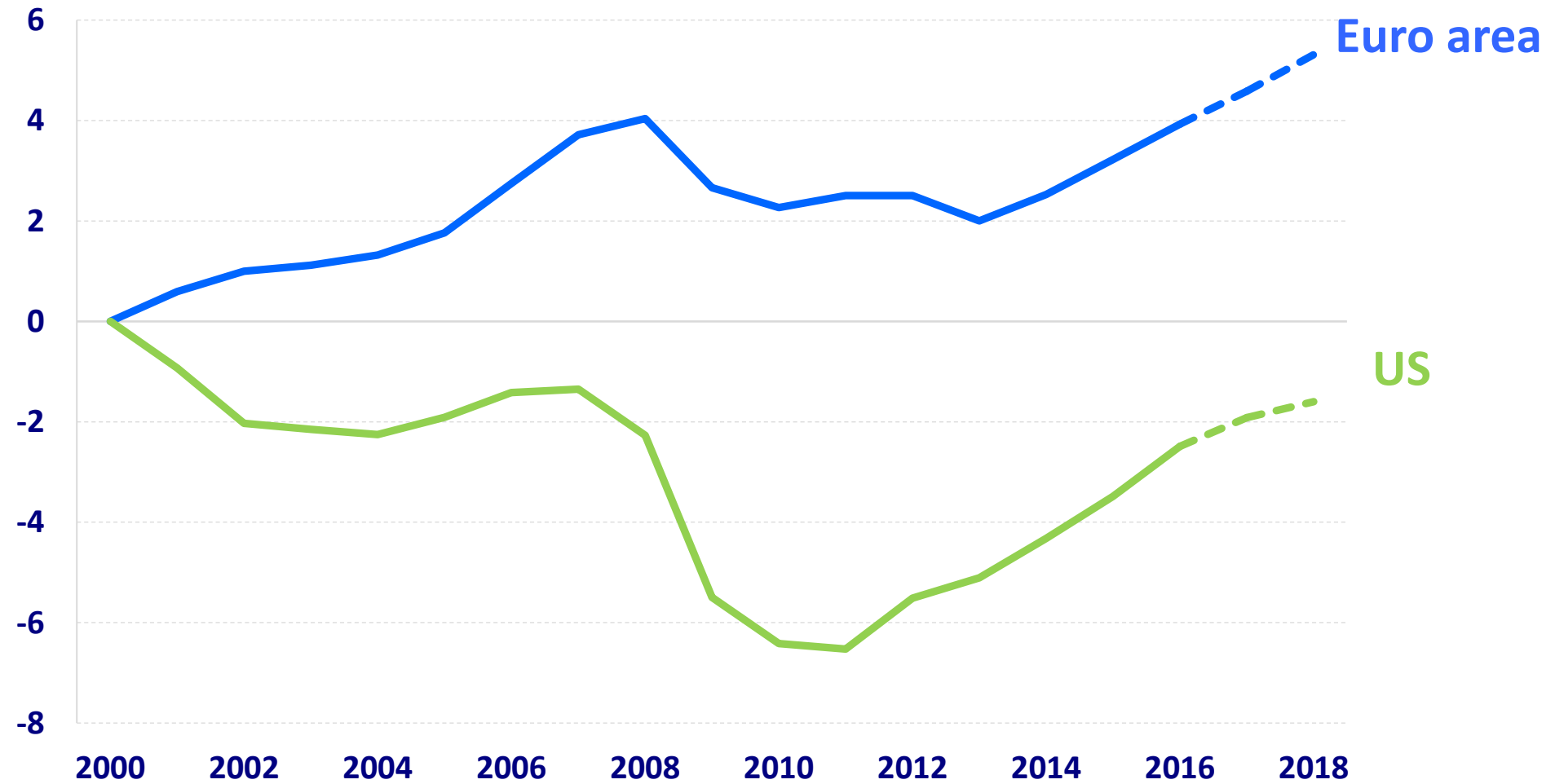


Average GDP growth per capita, 1999-2008

Euro area	1.6%
US	1.6%

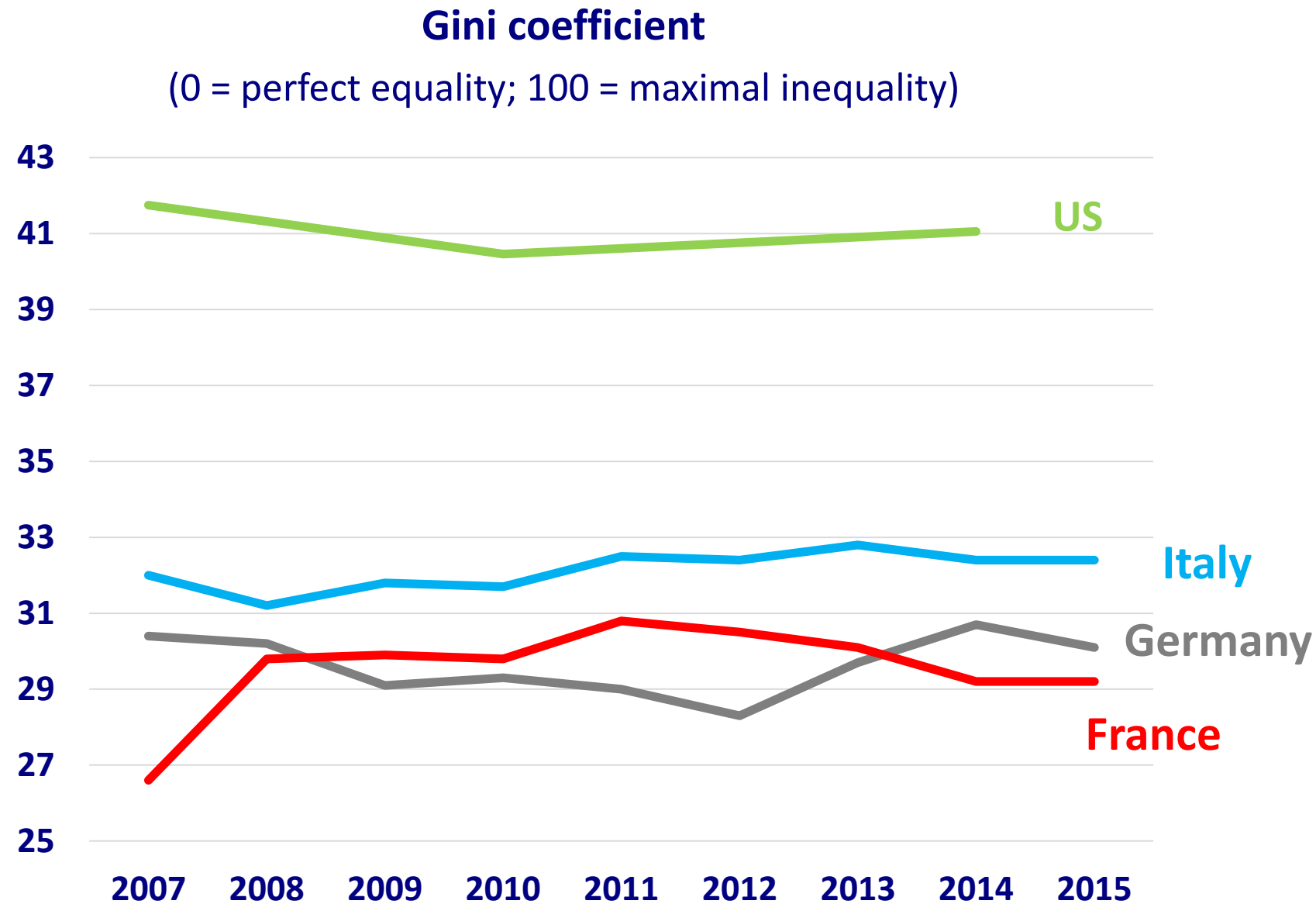
A stronger euro area: the robust recovery

Employment rate in euro area and US since 2000
(Cumulative change in percentage point)



Source: Eurostat and BLS

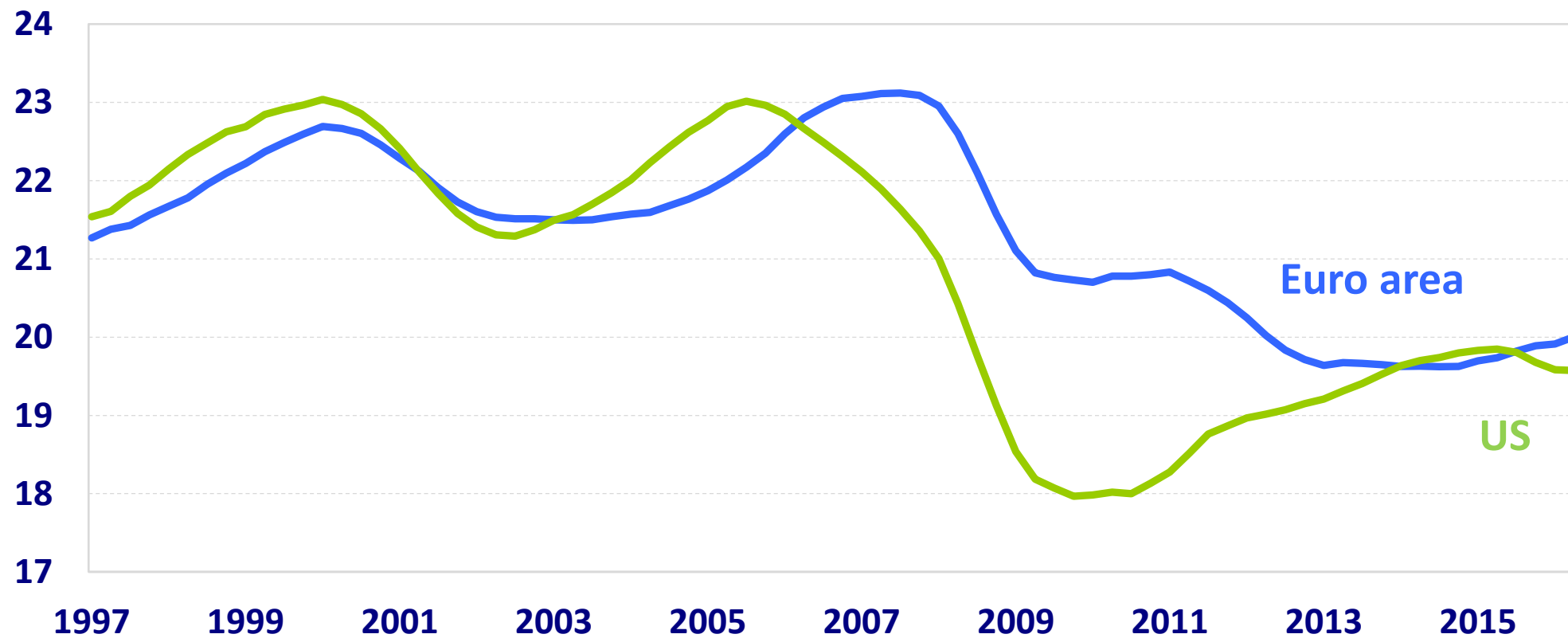
A stronger euro area: the robust recovery



Source: Eurostat, World Bank

Investment is weak globally

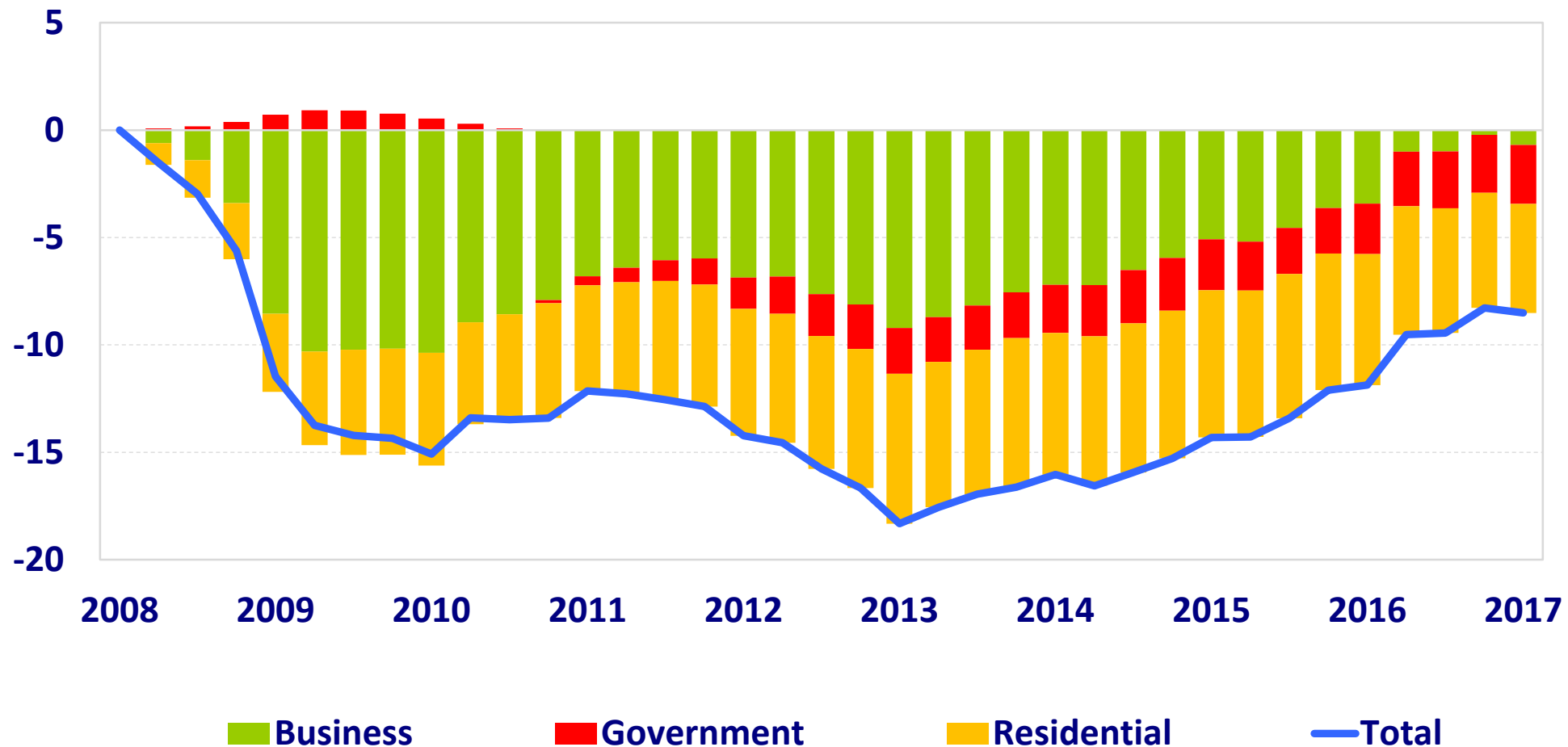
Investment to GDP ratio in the euro area and the US (nominal, % of GDP)



Source: ESM based on EC, Eurostat
Note: Euro area excl. Ireland

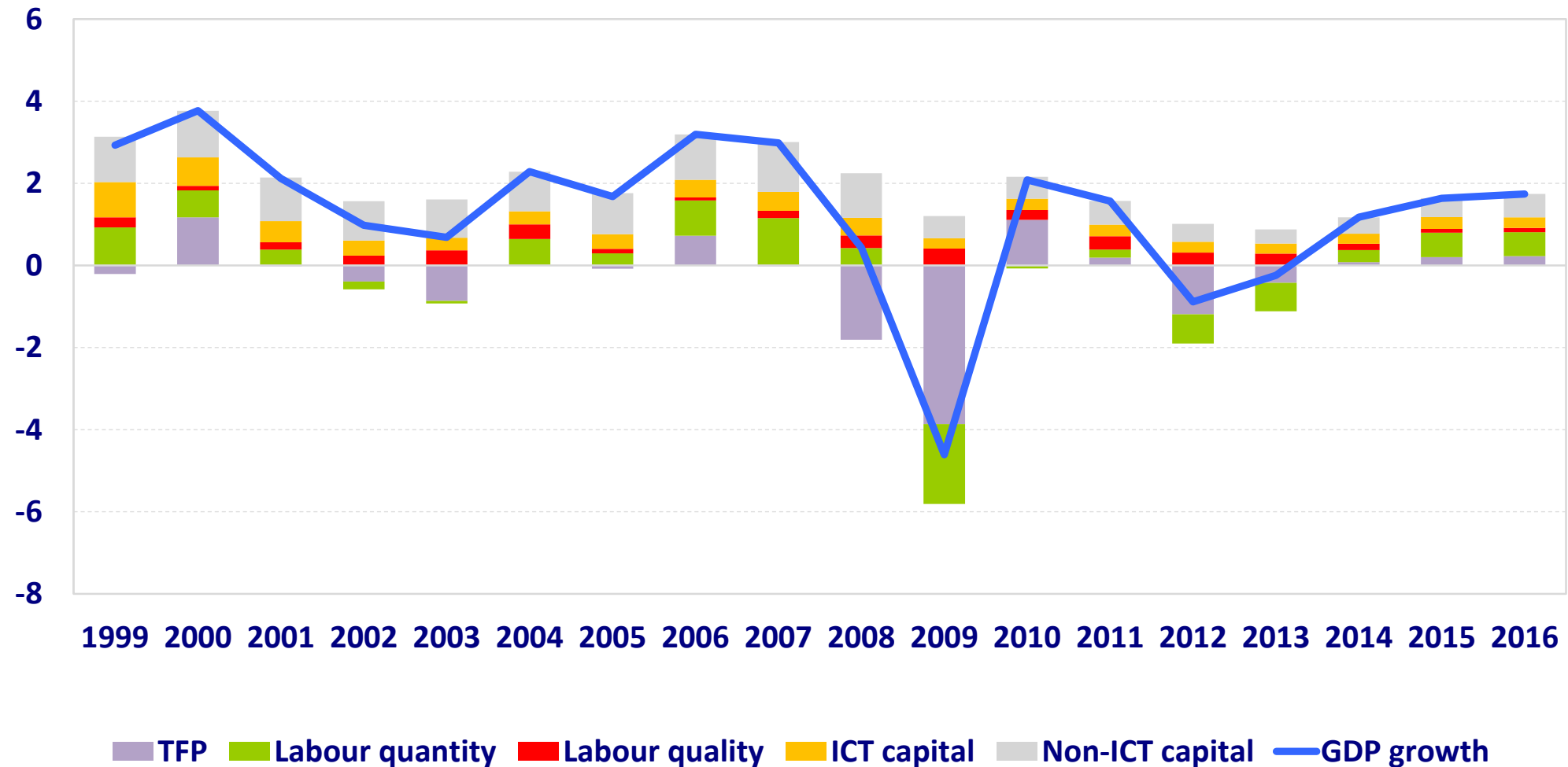
Business investment in the euro area recovered

Investment weakness comes from households and government
(real change since Q1/2008 in %, contributions in pp)



Productivity falling behind as a driver of growth

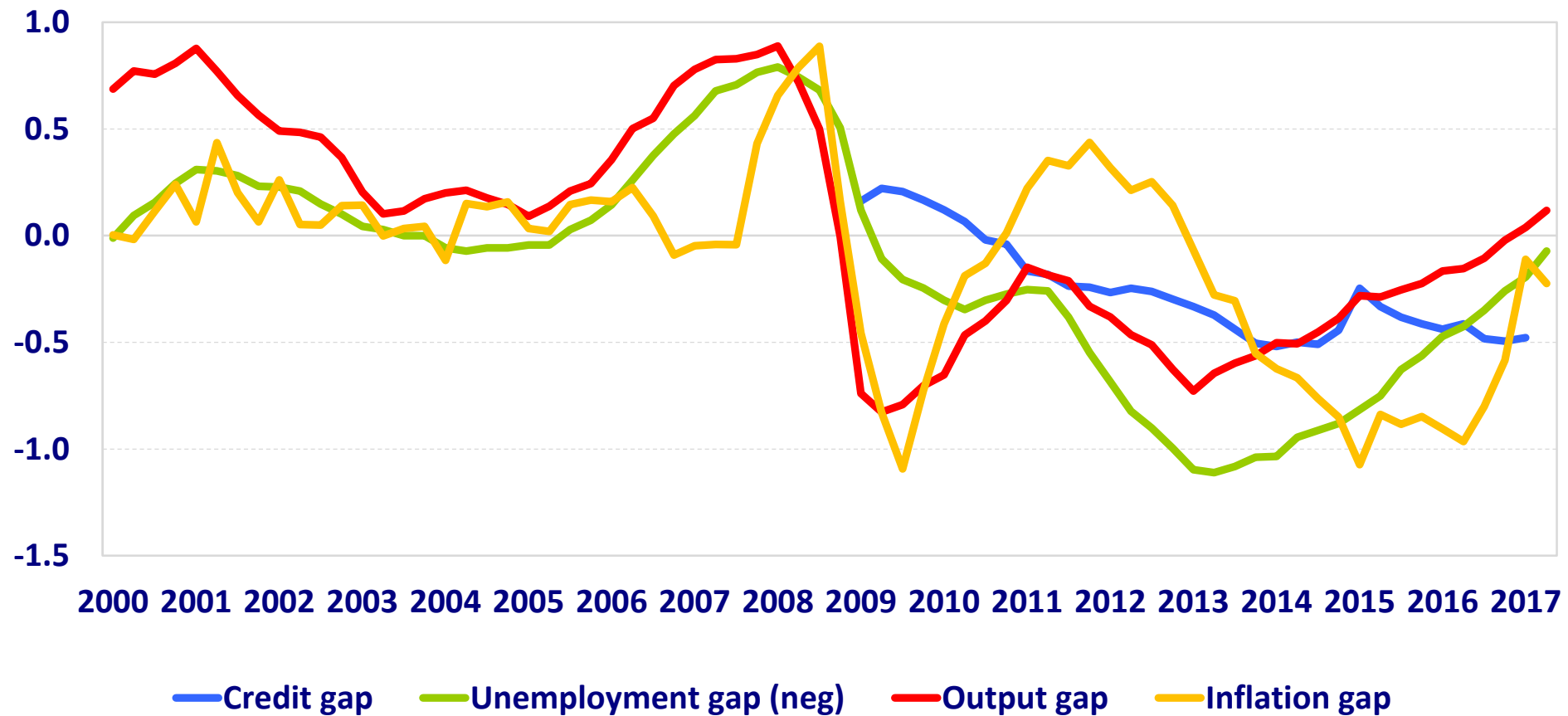
Sources of GDP Growth in the euro area (in %)



Source: ESM based on The Conference Board Total Economy Database™ (Adjusted version), May 2017

Monetary policy relevant gaps are closing

Euro area: Monetary policy-relevant gaps (in standard deviations)

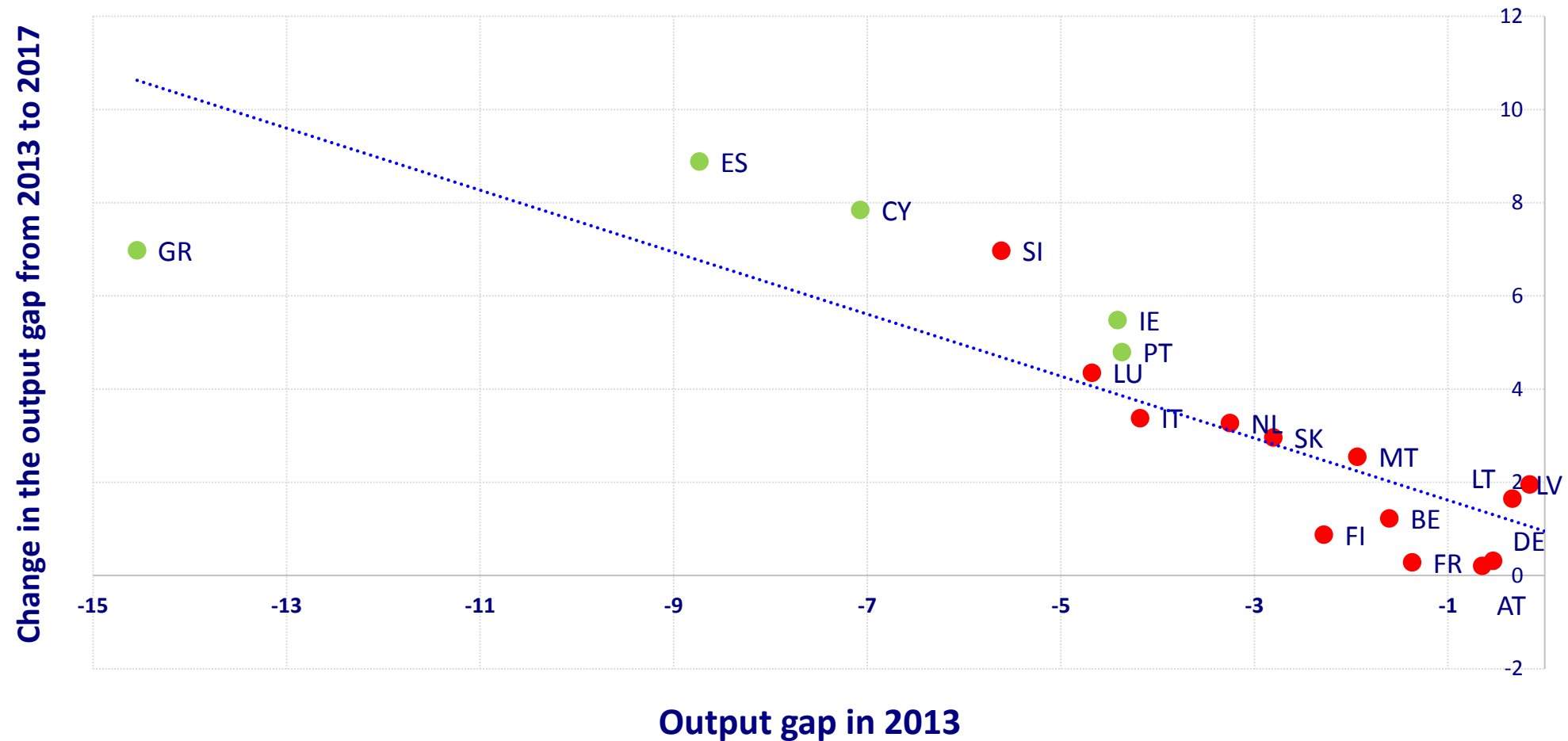


Source: ESM based on EC, Eurostat, BIS

Notes: data normalised relative to historic EA19+US sample of countries, NFC credit % GDP relative to historic trend, unemployment gap is relative to EC NAIUR estimate quarterly interpolation, output gap is relative to EC potential estimate quarterly interpolation, inflation gap is relative to 2%.

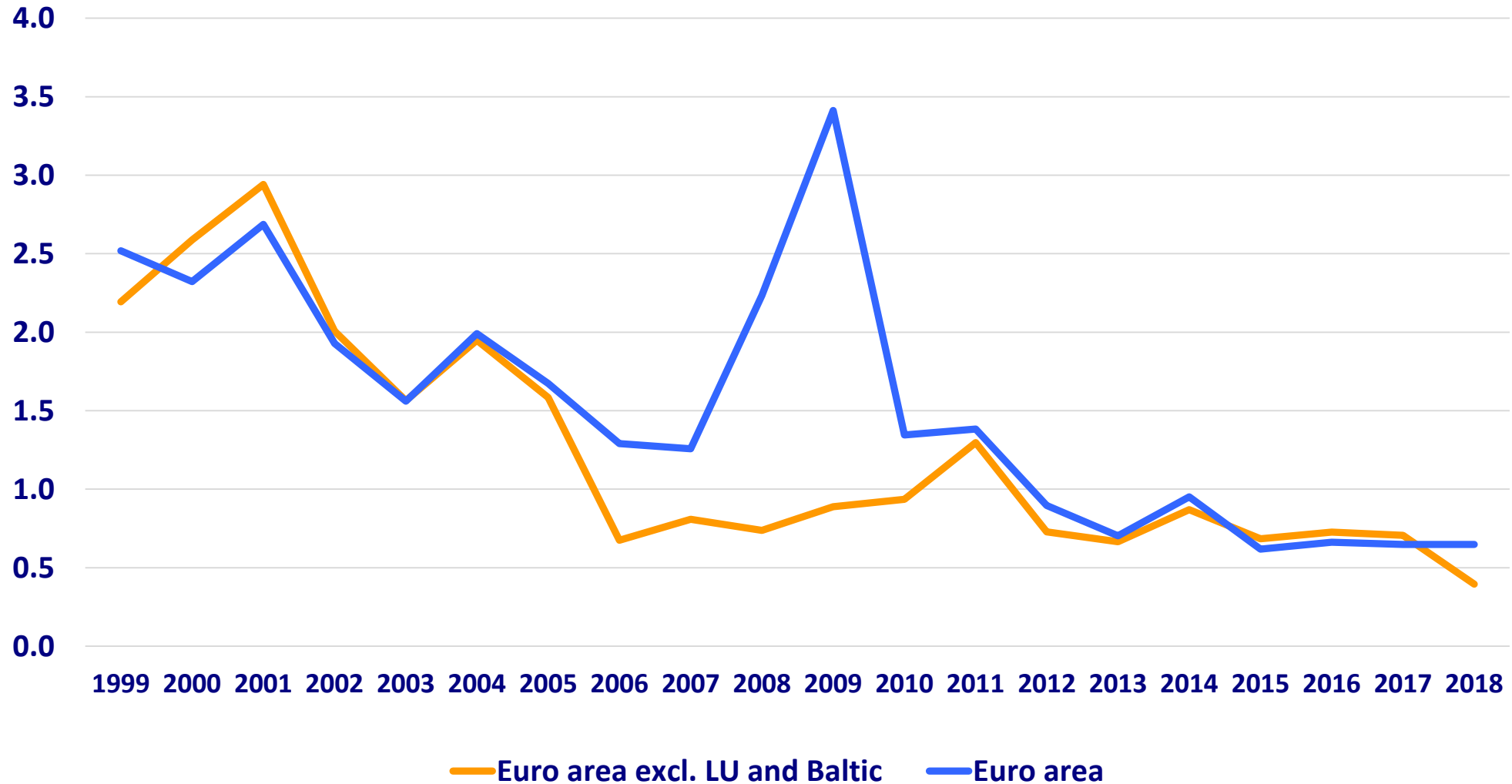
Faster recovery of countries most hit by the crisis

Convergence of Output Gaps since 2013 (in percentage points)



Convergence of HICP across the Euro area

Convergence of HICP (2015=100%; standard deviation)



Next steps for the euro area: Policy proposals

- **No full Fiscal Union needed**
- **No full Political Union needed**
- **Complete Banking Union**
 - European Deposit Insurance
 - Backstop for the SRF
- **Capital Markets Union**
 - To facilitate private sector efforts for financial integration
 - More capital flows, more risk sharing
 - Address taxation, insolvency and company law issues
- **Fiscal Union**
 - Limited fiscal capacity for the euro area

Next steps for the euro area: Risk sharing needs

- Economic risk sharing in the euro area is lagging behind the US

Percentage of shock smoothed by different channels

