

Can the euro still be saved?

Morning session: the threats

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Berlin, June 2017



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**Fiscal and monetary policies:
some problems have not yet been fully fixed!**

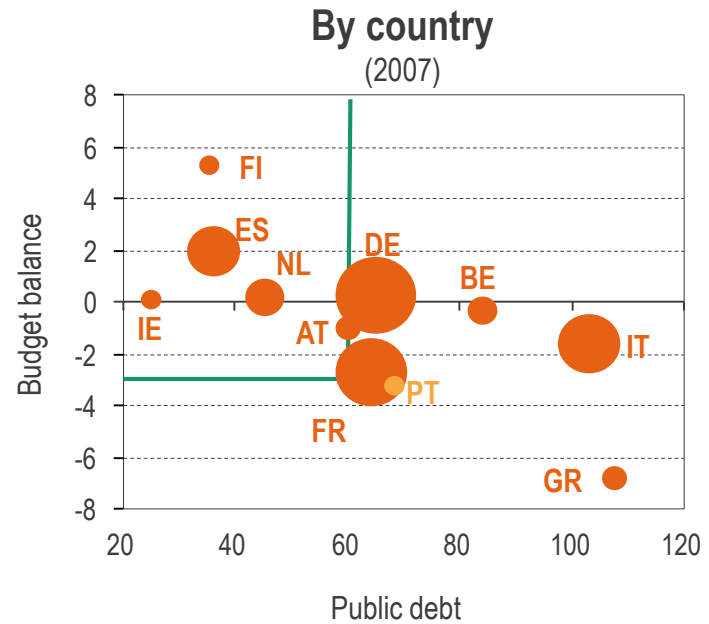
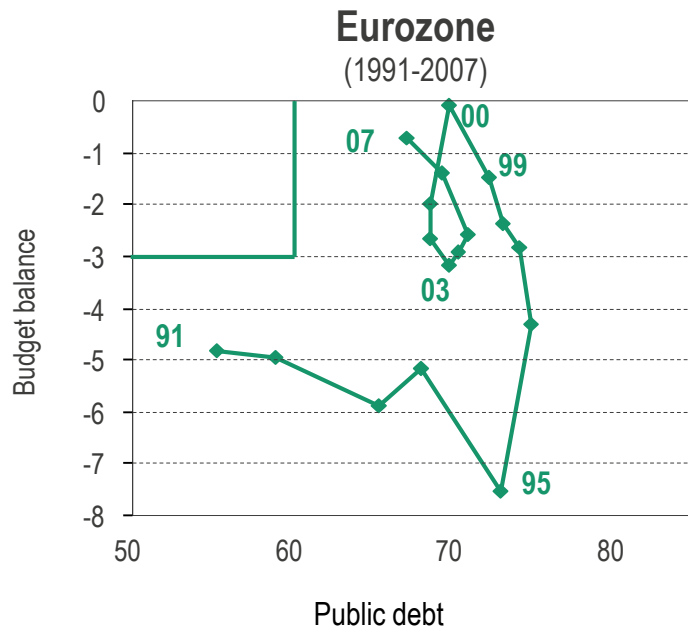
1.1 FISCAL DISCIPLINE HAS PROVEN ILLUSORY

Before the Global Financial Crisis (GFC),

Eurozone countries had a poor track record in fiscal discipline

Evolutions in public balances and public debt and the Maastricht criteria

(% of GDP)

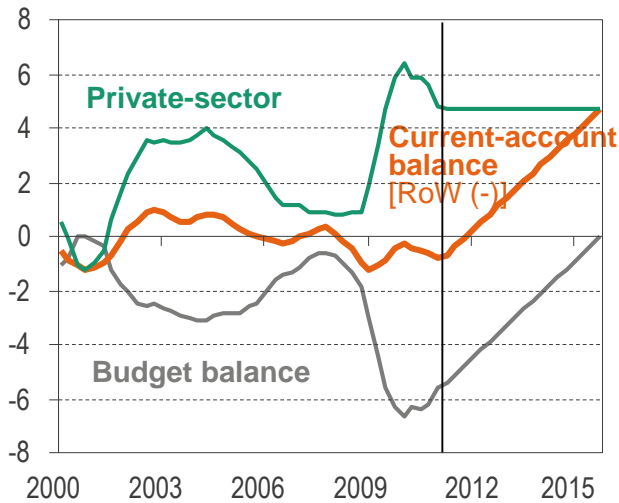


1.1 AFTER THE GFC, IMPLEMENTATION OF THE RULES HAS BEEN TOO RIGID (I)

The implications of the “double” deleveraging on growth have been grossly underestimated

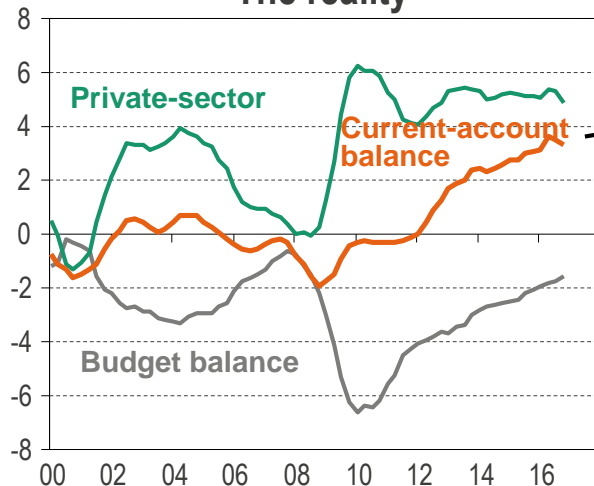
Net lending (+) or borrowing (-) by sectors (% of GDP)

A theoretical case

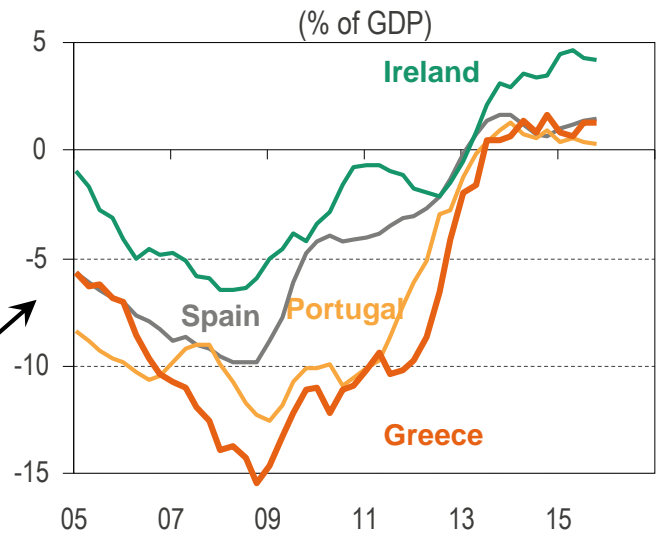


With a stable private saving propensity, fiscal rebalancing implied an improved current account

The reality



Current accounts in some euro area countries



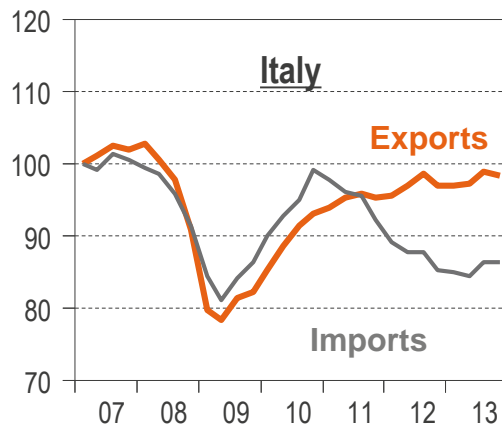
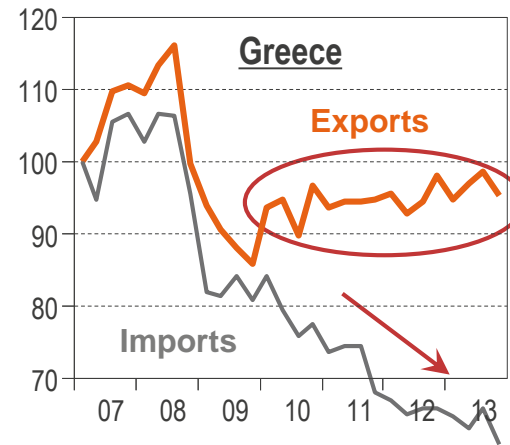
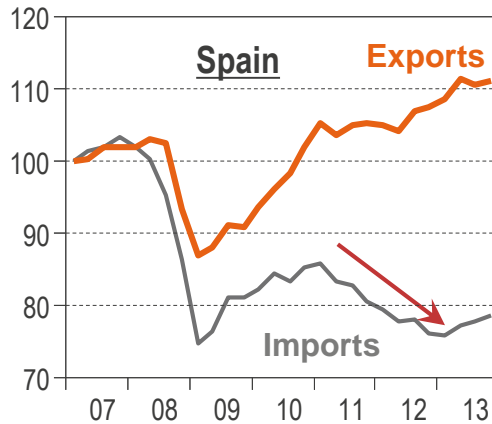
Calling for all countries to bring, within a short period of time, their public deficit back to the 3% of GDP limit... whatever the starting point was a mistake!

1.1 AFTER THE GFC, IMPLEMENTATION OF THE RULES HAS BEEN TOO RIGID (II)

Given the unfavorable global environment, part of the improvement in current accounts was achieved by a depression of domestic demand

Exports and imports in the “periphery” countries

(goods & services, in real terms, 2007=100)

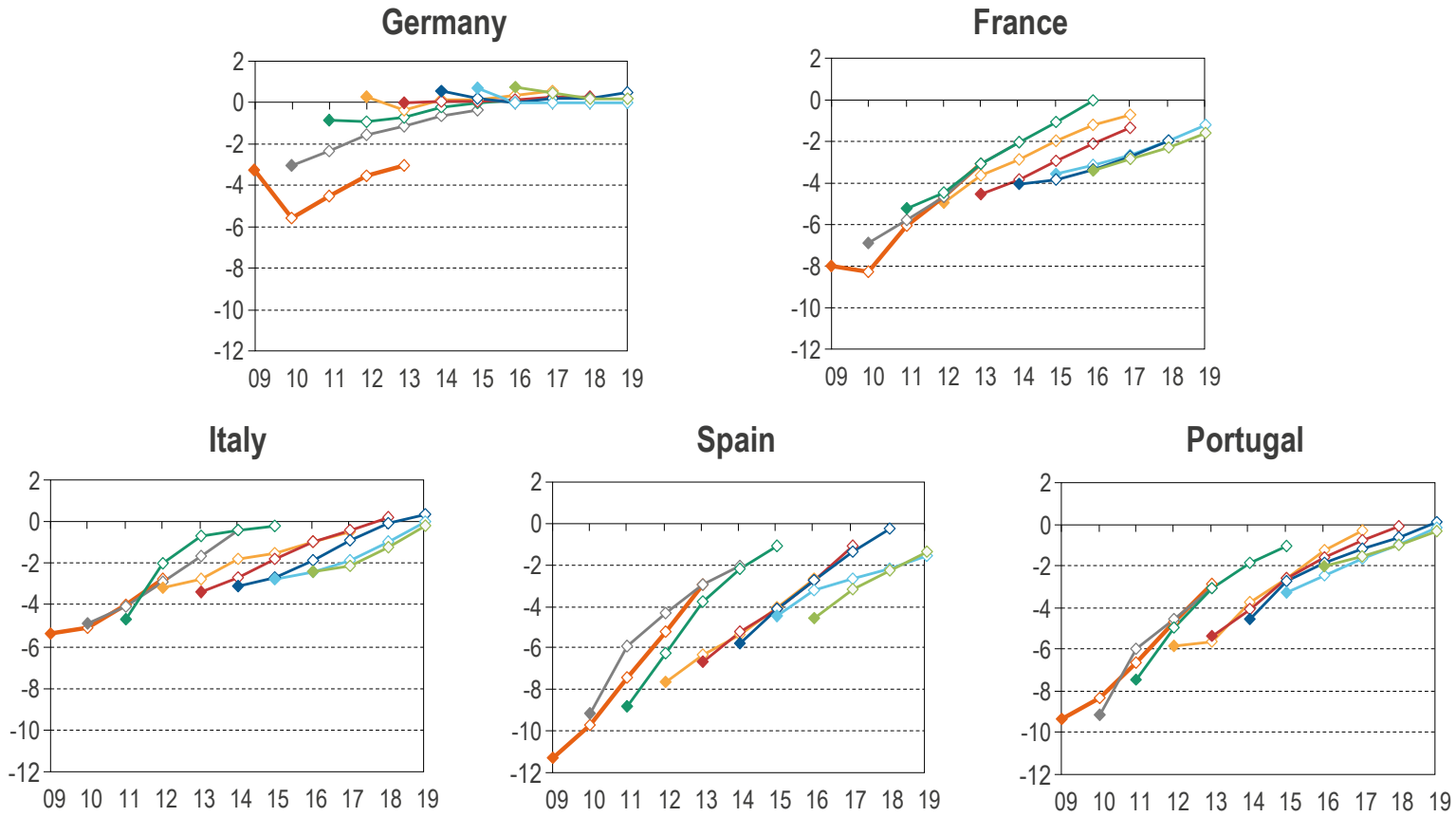


1.1 A “TRUE” FISCAL COORDINATION FRAMEWORK IS STILL MISSING (I)

Continuously loosening fiscal targets is not a proper way to coordinate policies

General government balance in Stability and Convergence Programs

(% of GDP)

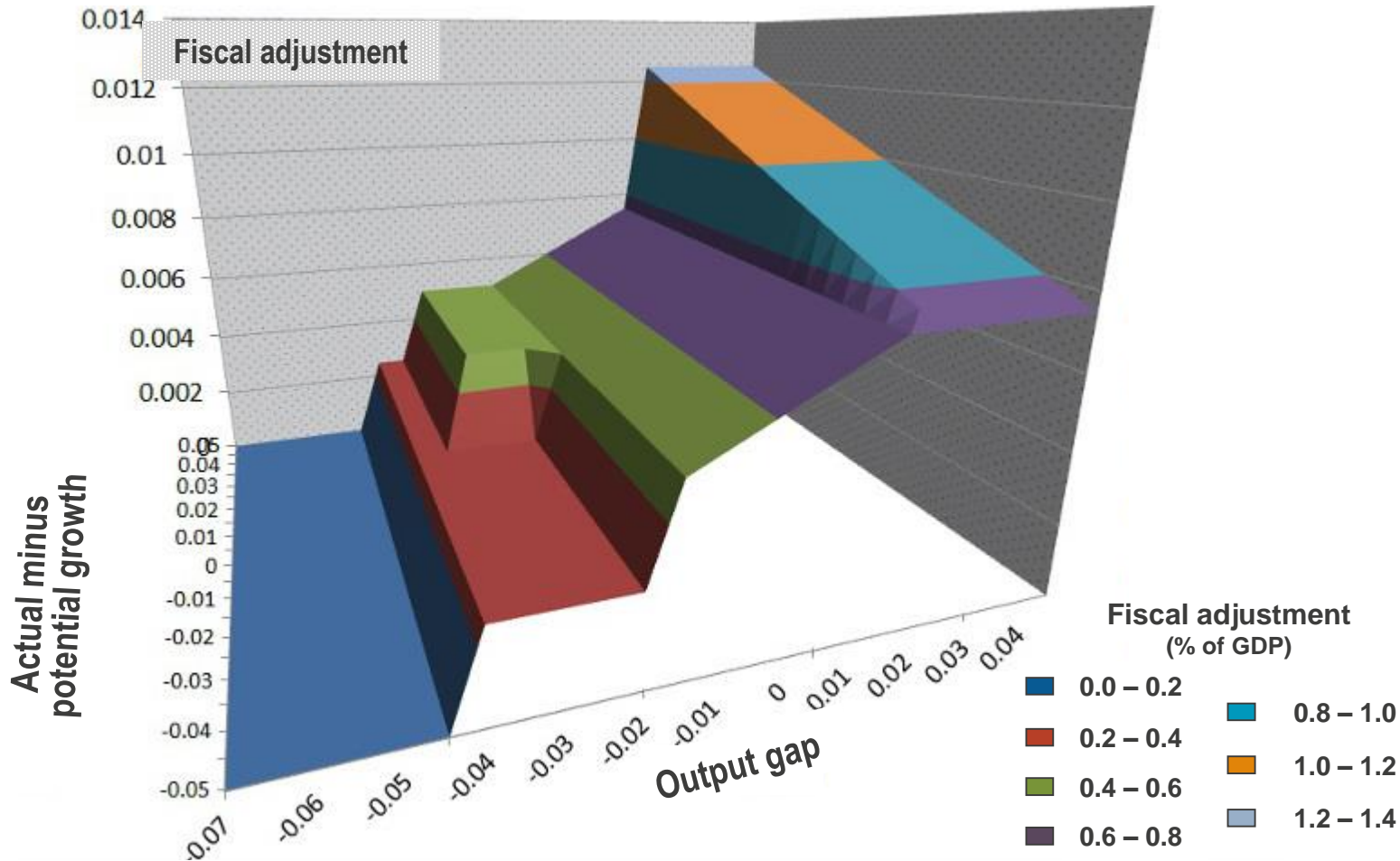


1.1 A “TRUE” FISCAL COORDINATION FRAMEWORK IS STILL MISSING (II)

“Making the best use of the flexibility within the existing rules”

still doesn't provide for a tool to collectively address macro-economic shocks

Fiscal adjustment towards the medium-term objective under the preventive arm of the pact (for countries with debt-to-GDP ratio in excess of 60%)

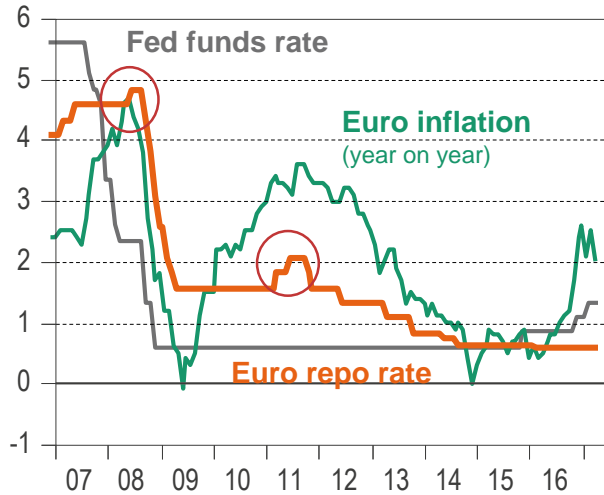


1.2 MONETARY POLICY

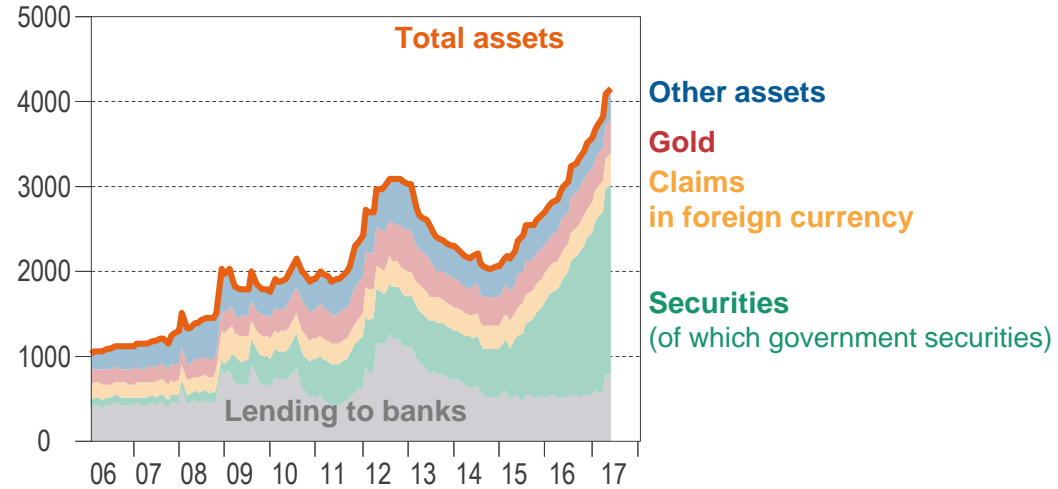
Departing from the established rules has allowed to save the euro

ECB policy

Policy rates (%)



Balance sheet (assets, billions of euros)

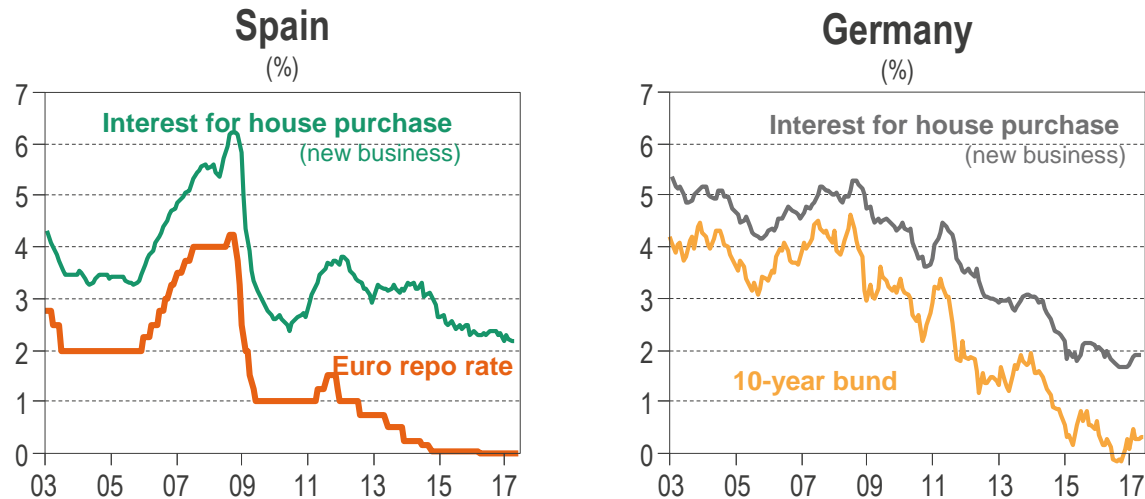


1.2 MONETARY POLICY

Still, the heterogeneity in the transmission of monetary policy has not been addressed

It is now largely admitted that household mortgage borrowing is central in the transmission of monetary policy.

The lack of a unified euro mortgage market played a key role in the building of financial imbalances until 2007.



While addressing this issue is essential, the CMU seems to be missing the point: it makes no distinction between EU member states that belong to the Economic and Monetary Union (EMU) and those that don't and it is targeted mainly at unifying financing conditions for firms, rather than for households.



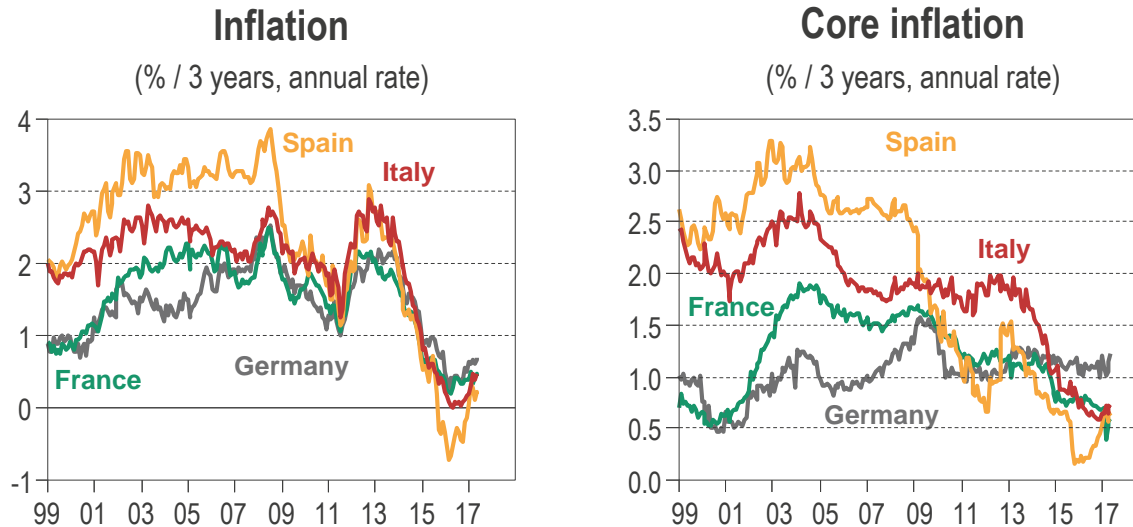
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**Divergences across bigger countries
have dangerously widened**

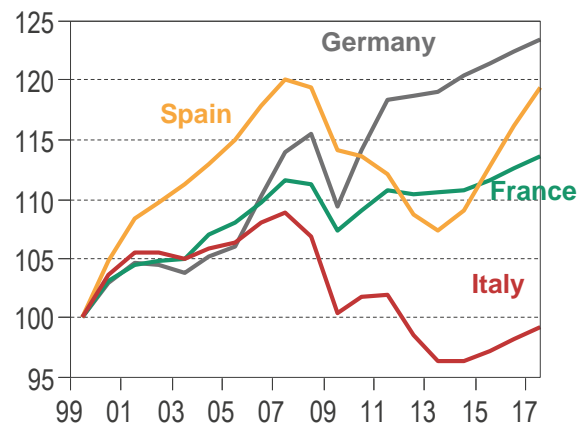
2.1 TODAY'S DIVERGENCES ARE NOT THE EXPECTED ONES!

While inflation rates have converged, GDP per capita trends are more and more different

Inflation and GDP per capita



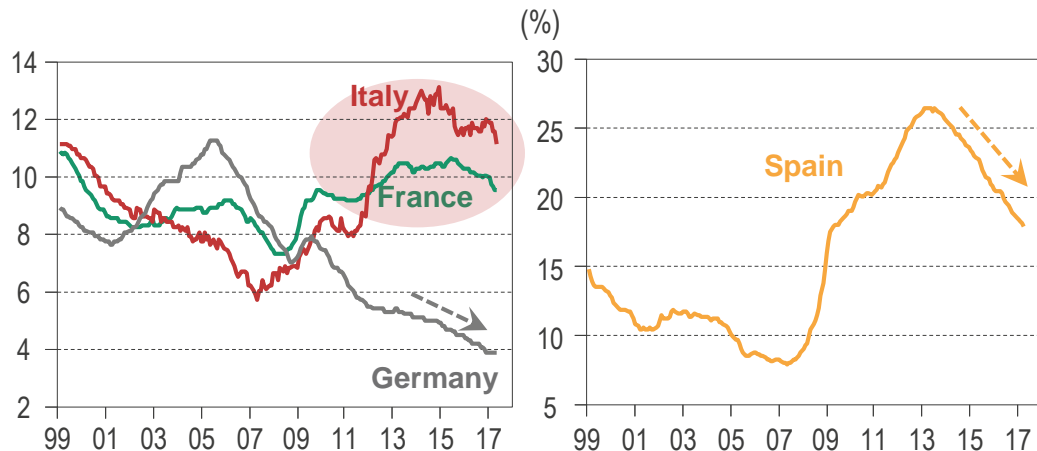
Real GDP per capita (1999 = 100)



2.1 LABOR MARKETS EVOLUTIONS HAVE BEEN DIVERGING

Unemployment rates remain elevated in Italy and France

Unemployment rates



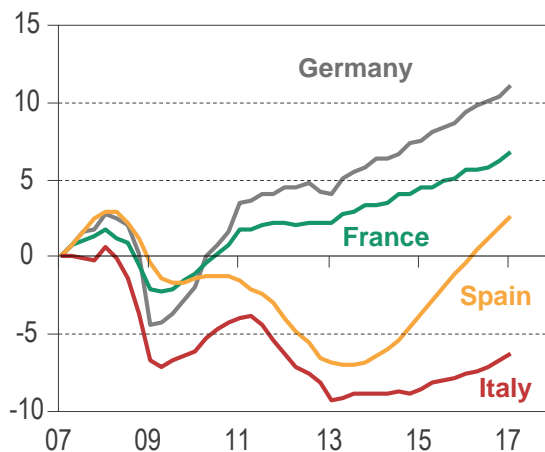
Cumulated changes since 2007

	DE	FR	IT	ES
GDP	11%	7%	-6%	3%
GDP per employee	1%	4%	-5%	12%
Employment	10%	3%	-1%	-9%
Labor force	5%	4%	4%	1%
Unemployment rate	-5%	+1%	+5%	+10%

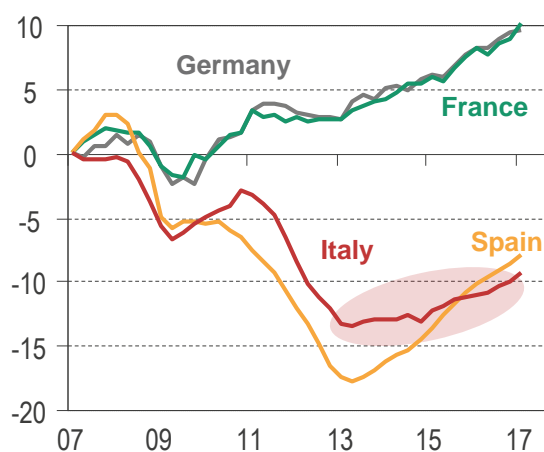
Cumulated contributions to GDP growth

(%, cumulated since 2007)

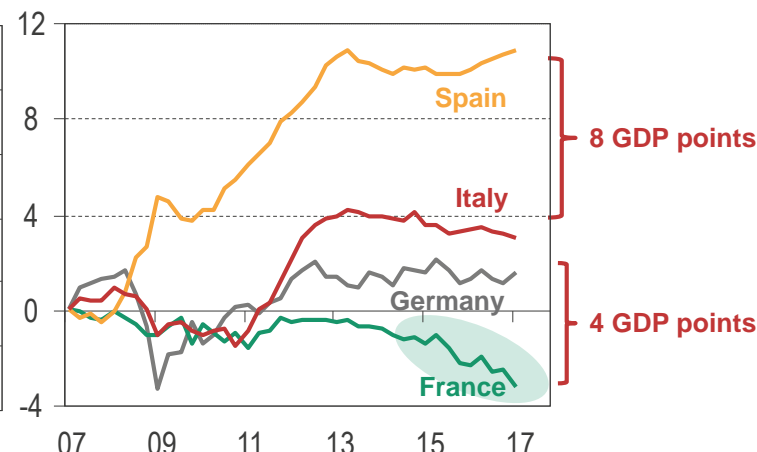
GDP



Domestic demand



Net exports

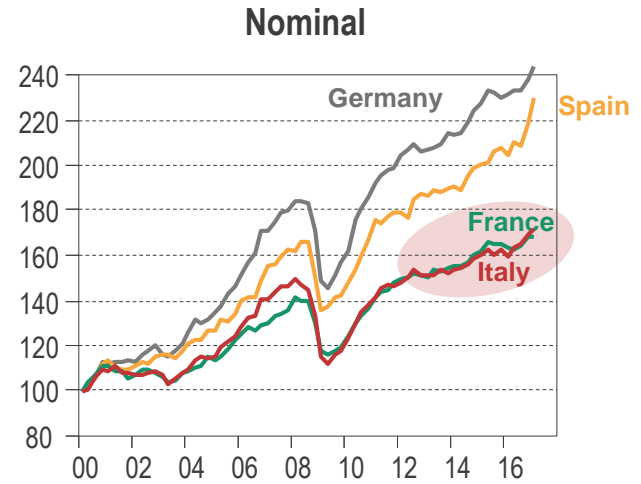
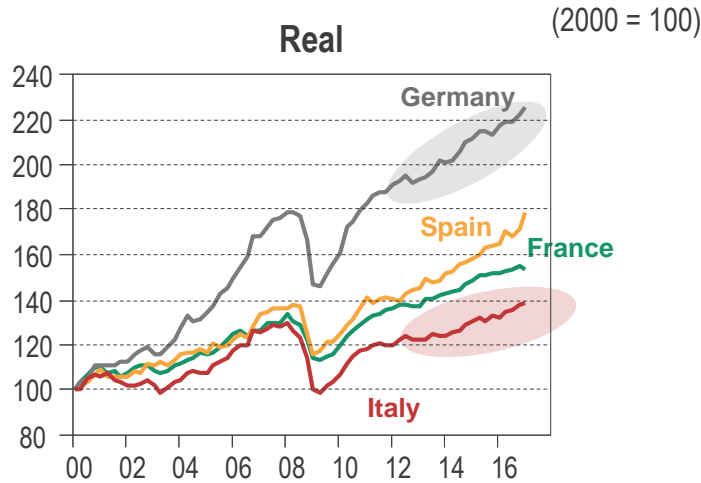


2.1 COMPETITIVENESS IS MAKING MORE AND MORE OF A DIFFERENCE

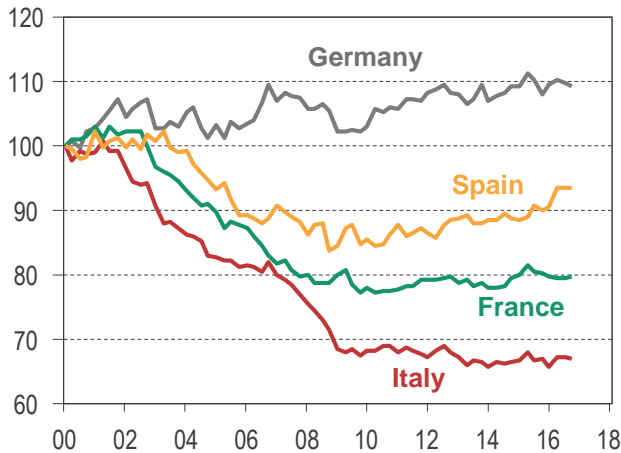
Exports performances have been much less favorable in France and Italy than in Germany and Spain

Exports growth

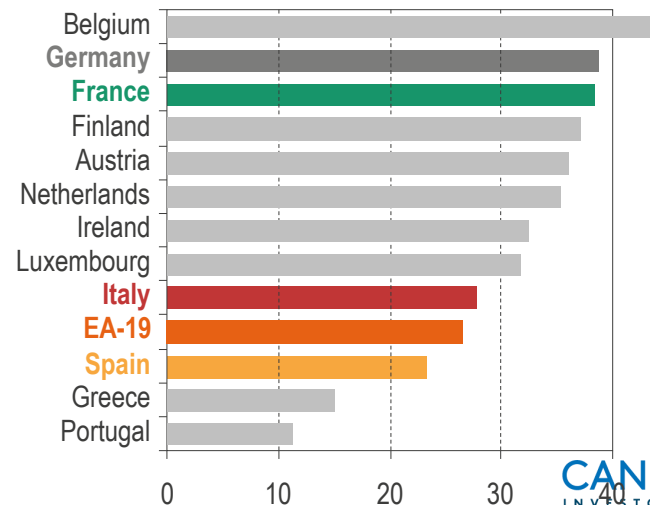
Goods and services



Export performance index (2000 = 100)

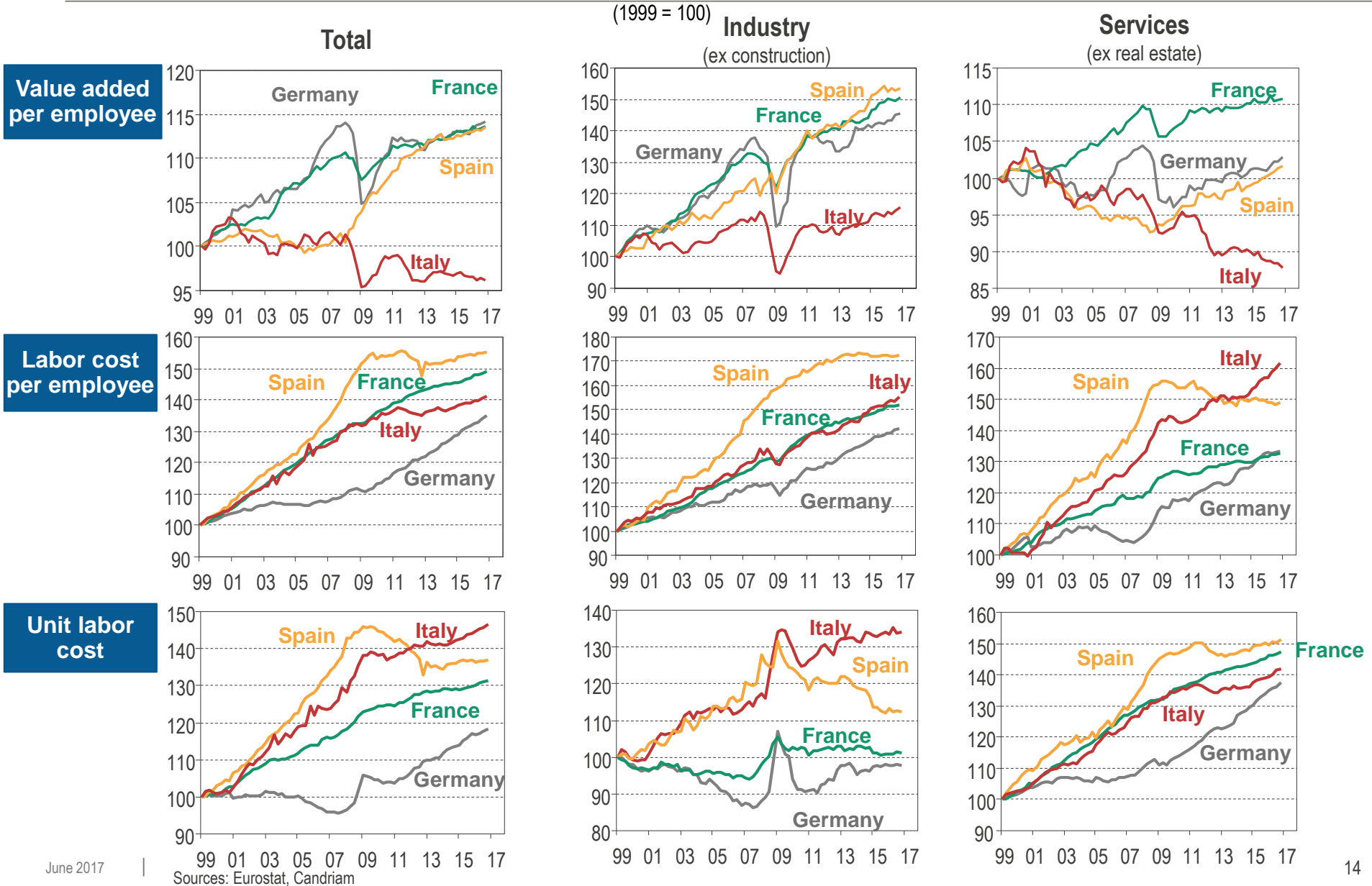


Labor costs per hour in euro in the industry (2016)



2.1 PRODUCTIVITY IS WORRYING IN ITALY... THE FRENCH PROBLEM IS DIFFERENT

France's and Italy's competitiveness problems are neither of the same nature nor have the same acuteness

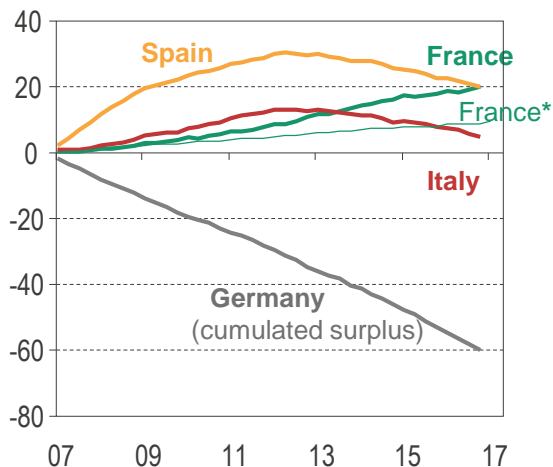


2.2 DIVERGENCES IN THE REAL ECONOMY ARE REFLECTED IN THE FINANCIAL SPHERE

Differences in current account evolutions partly explain different domestic debt dynamics (I)

Cumulated current accounts deficits since 2007

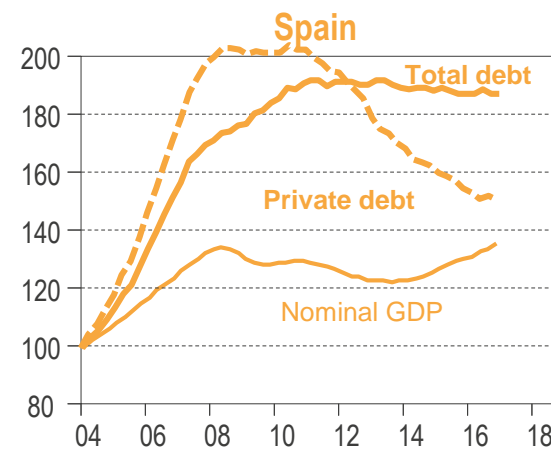
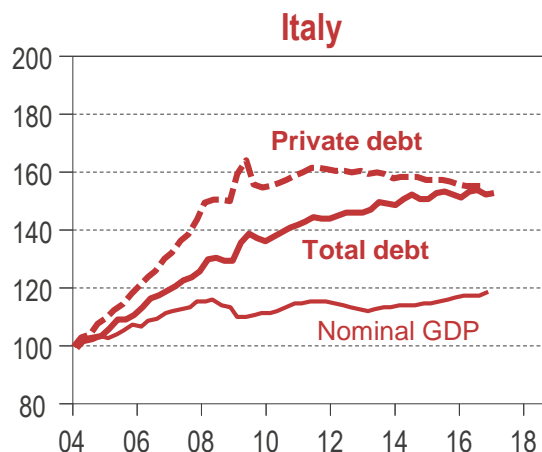
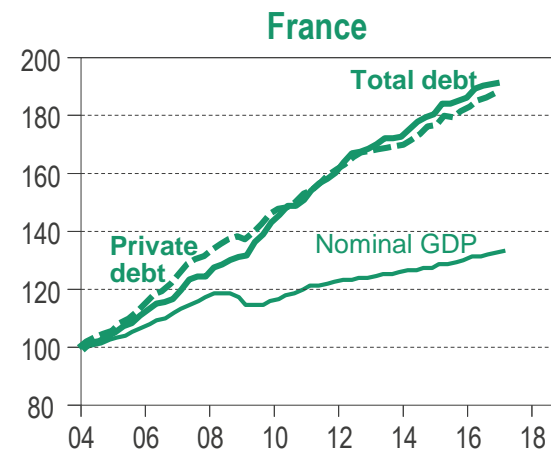
(% of country GDP)



(*) For France, given the discrepancy between BoP and national account data, cumulating the “rest of the world financing capacity” leads too a higher increase in debt than cumulating current account balances.

Non financial sector debt and GDP evolutions

(2004 = 100)



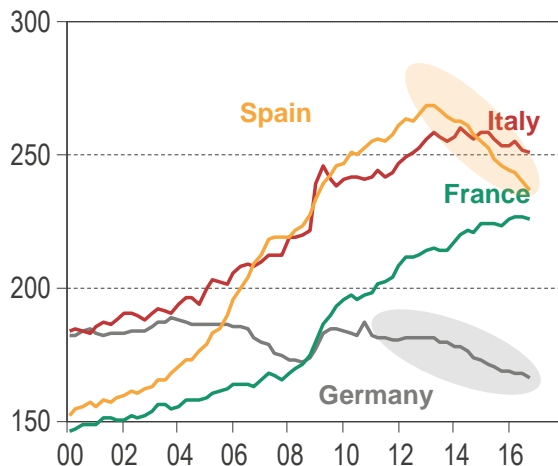
2.2 DIVERGENCES IN THE REAL ECONOMY ARE REFLECTED IN THE FINANCIAL SPHERE

Differences in current account evolutions partly explain different domestic debt dynamics (II)

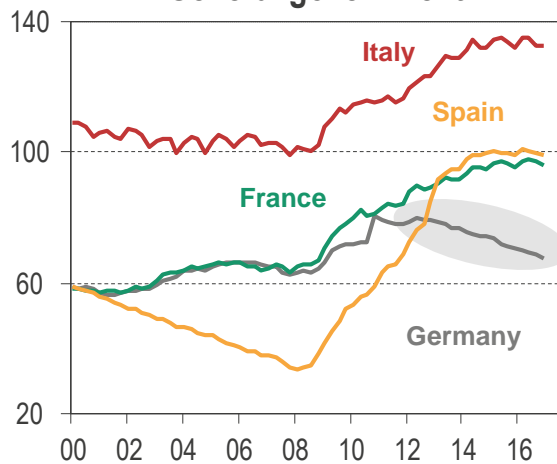
Non financial sector debt

(% of GDP)

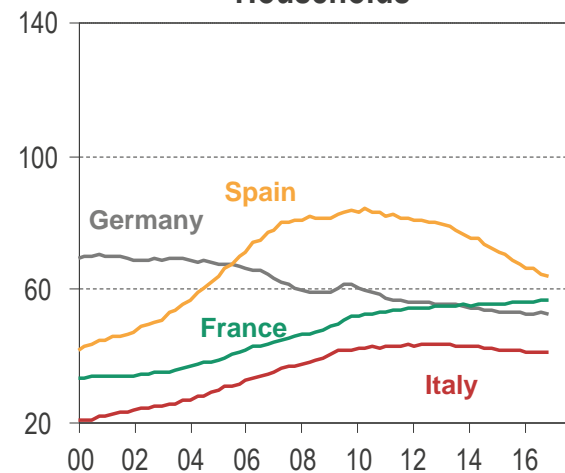
Non financial sector



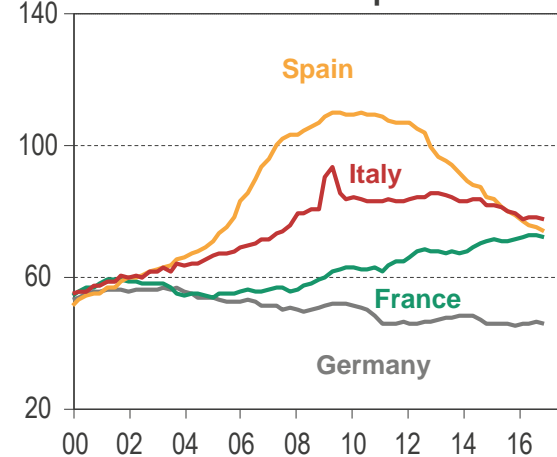
General government



Households



Non financial corporations





CONCLUSION

CONCLUSION

At the end of the day, the main threat is that we don't invest enough

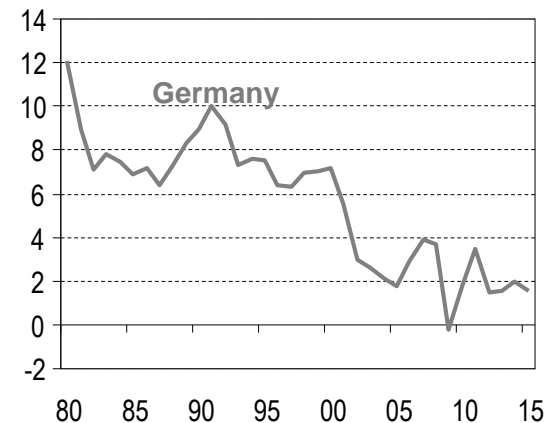
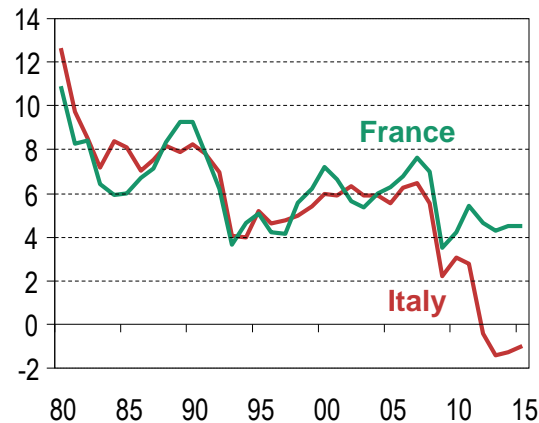
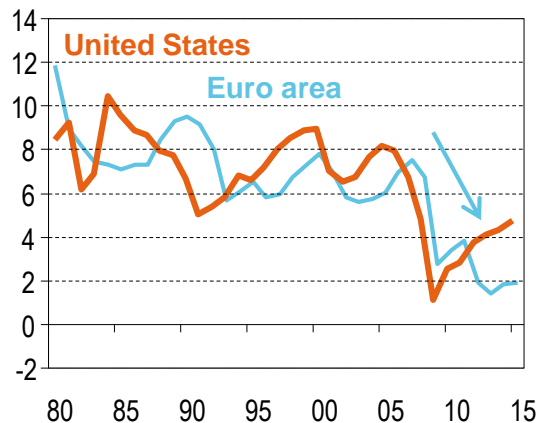
Aggregate demand management has not been optimal.

Competitiveness and debt dynamics are diverging across countries.

Underinvestment in Italy is a cause for concern... but Germany's investment effort is also worryingly modest.

Net investment

(% of GDP, overall economy)

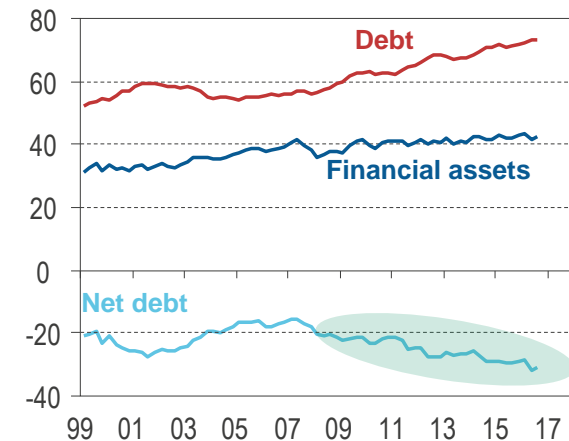
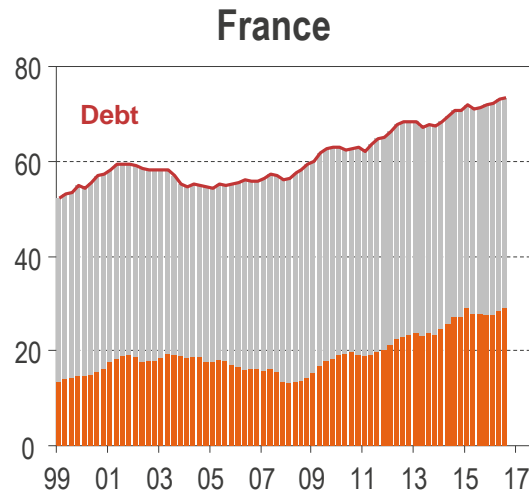
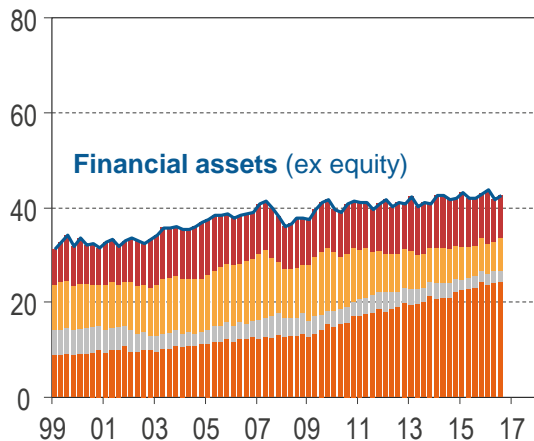
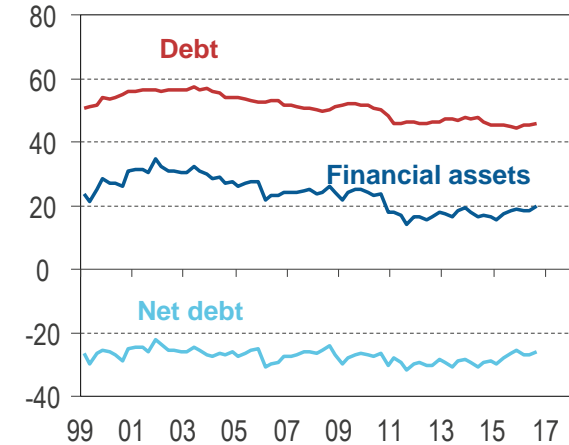
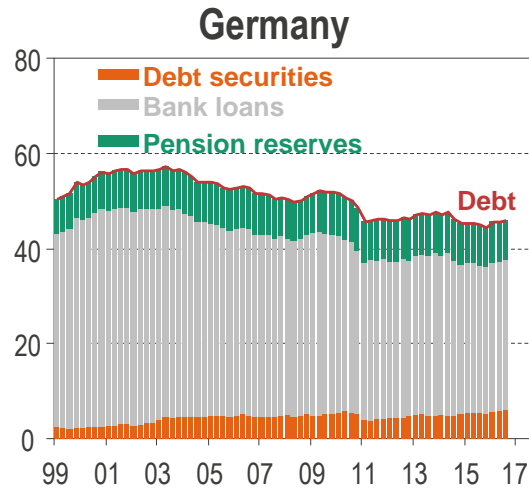
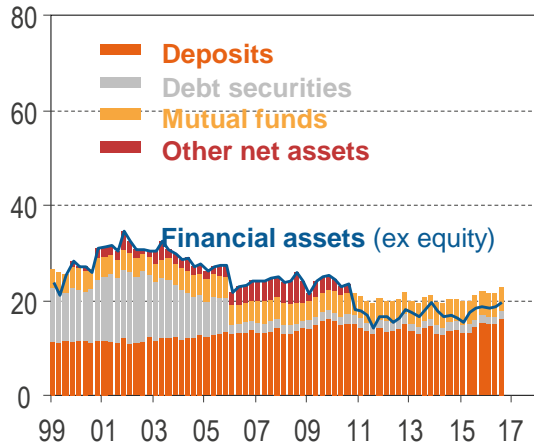


ADDENDA

The French non financial corporations net debt position is not the most worrying, but it is slowly deteriorating

Non financial corporations financial assets and debt

(% of GDP)



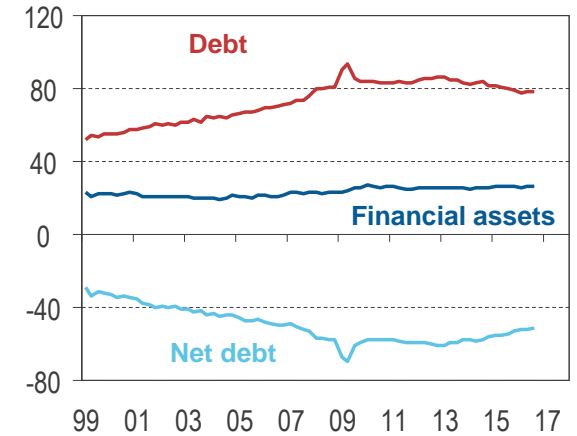
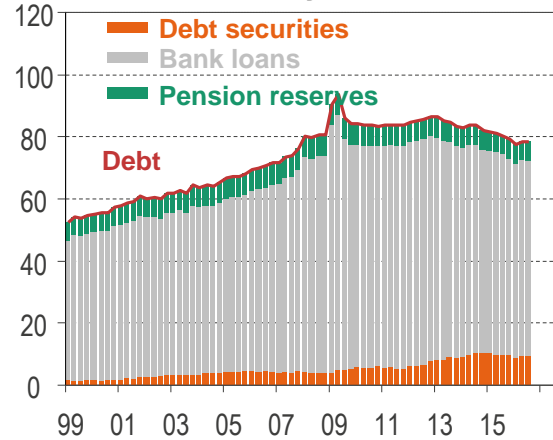
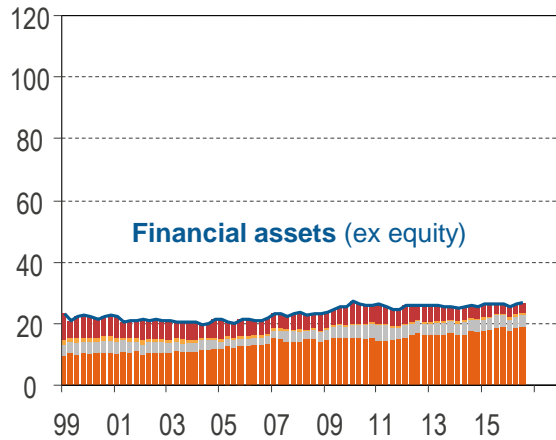
ADDENDA

Contrary to Spain, Italy's non financial corporations net debt position has barely improved

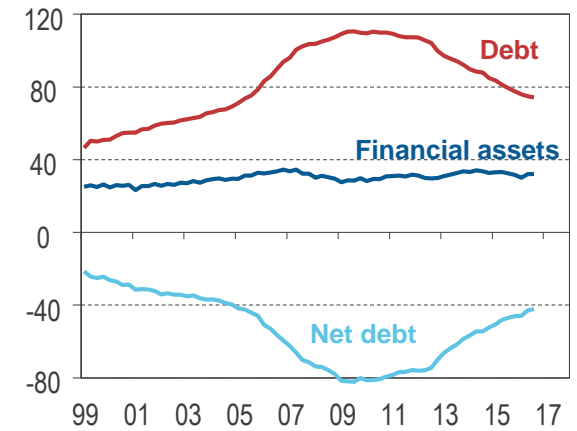
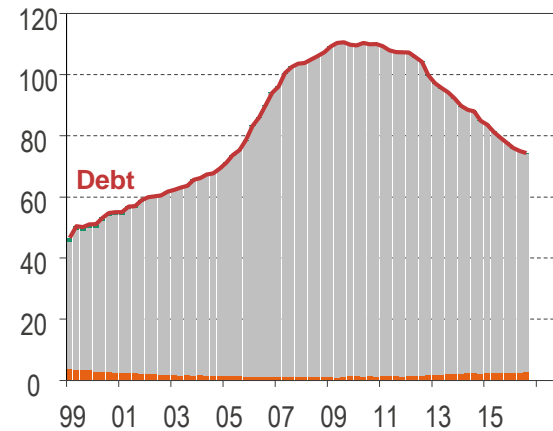
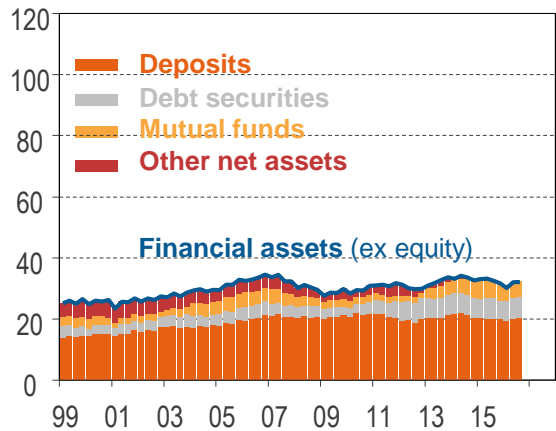
Non financial corporations financial assets and debt

(% of GDP)

Italy



Spain



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