



# **External Rebalancing: Is it Cyclical or Structural?**

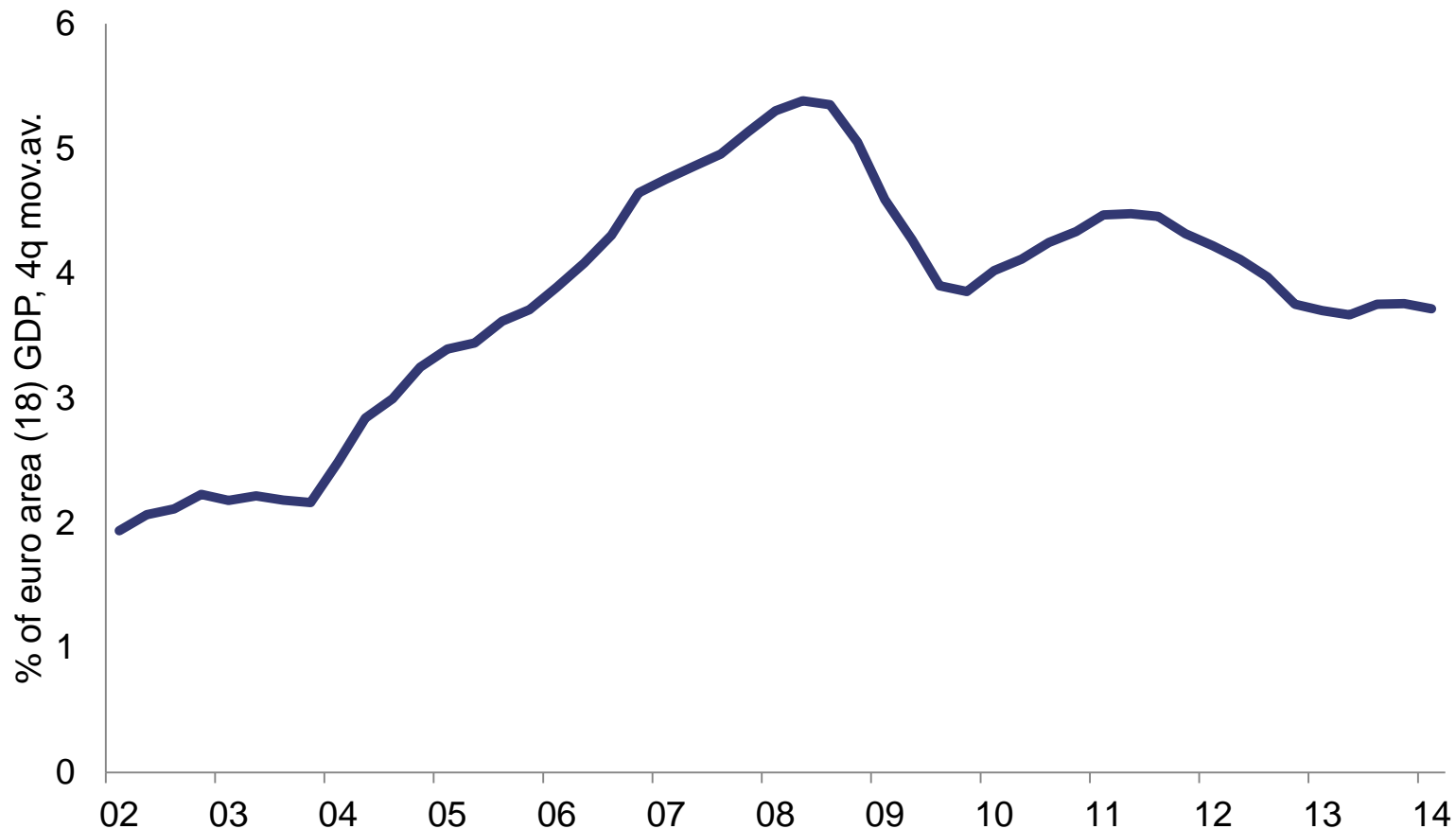
João Nogueira Martins & Stefan Zeugner

European Commission, ECFIN B1

**25 November 2014**

# Euro area: Current account imbalances have declined

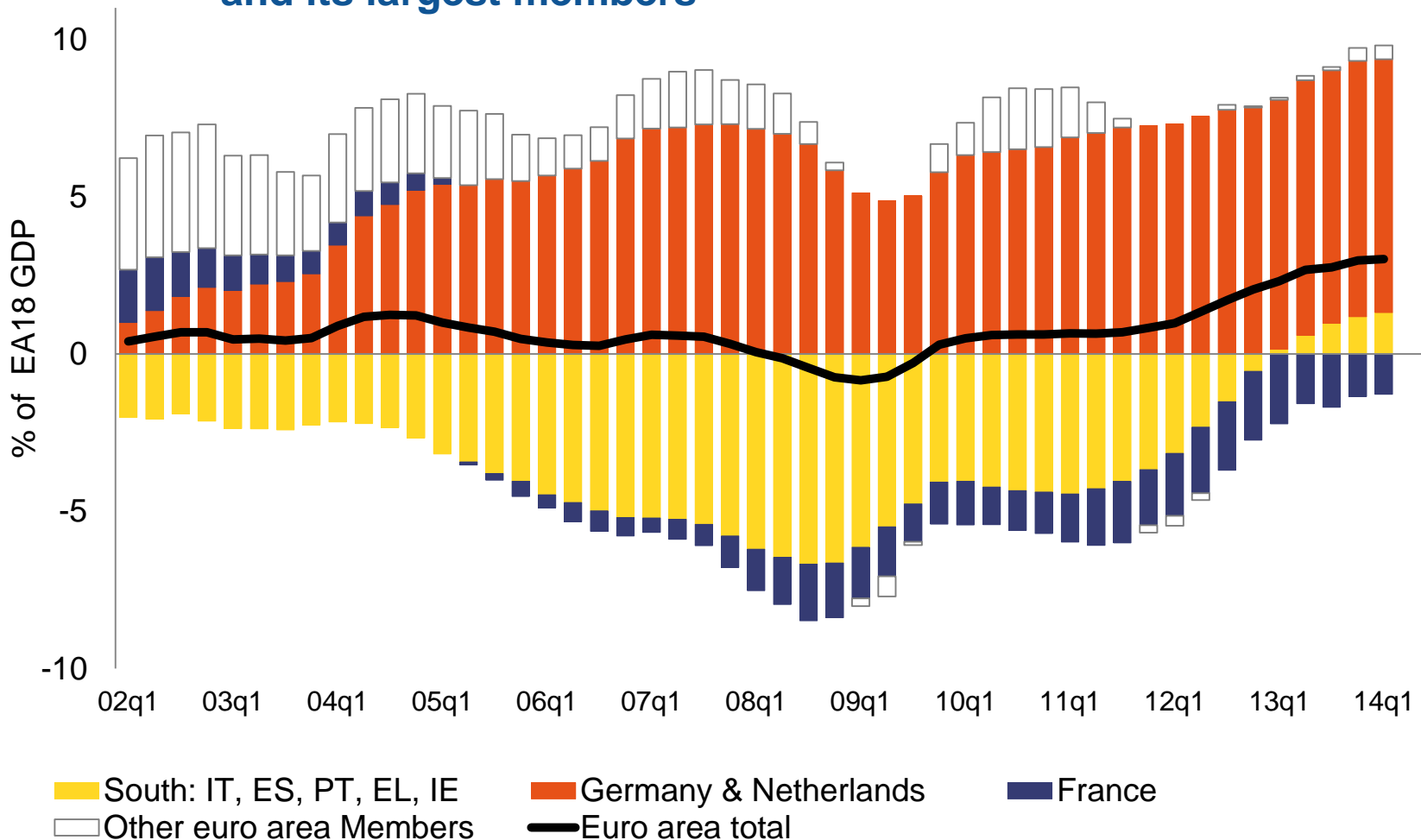
Sum of euro area 18 Member current account balances as % of euro area GDP, absolute values



Source: Eurostat BoP, BPM5

# Euro area: Asymmetric current account adjustment

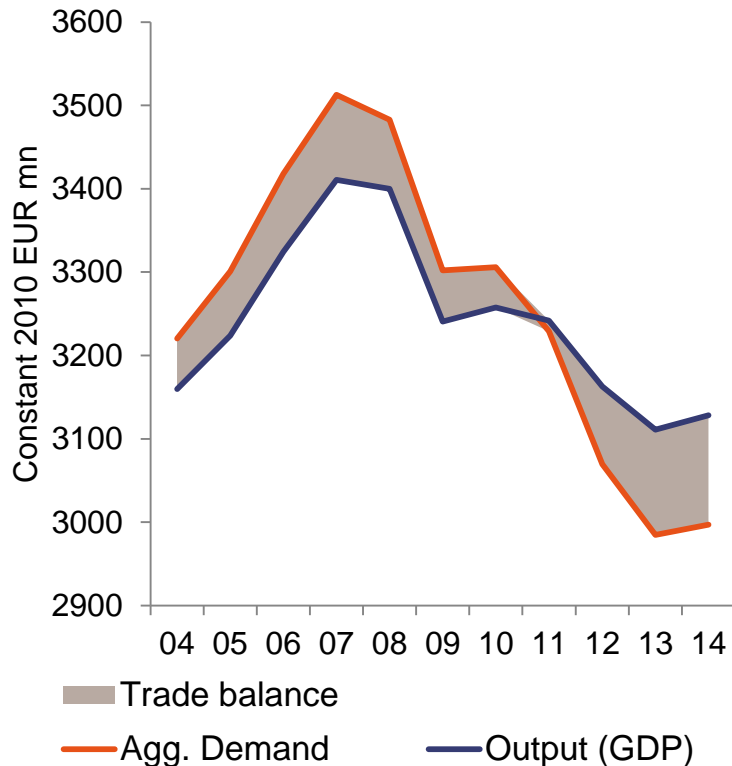
## Current account balance of the euro area, and its largest members



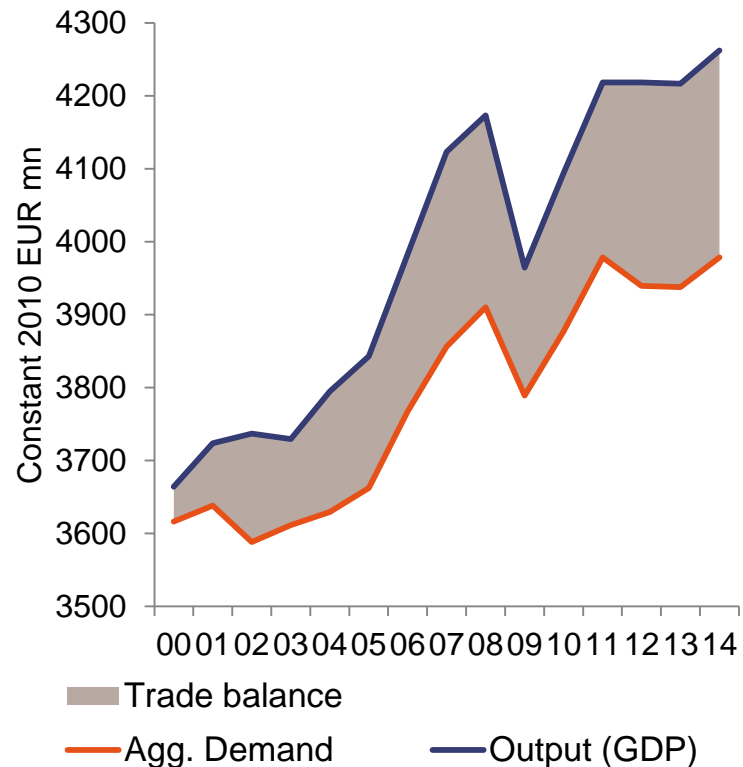
Data source: Eurostat BoP, BPM5, for Euro area 18

# Demand declines the periphery, and lags in the core

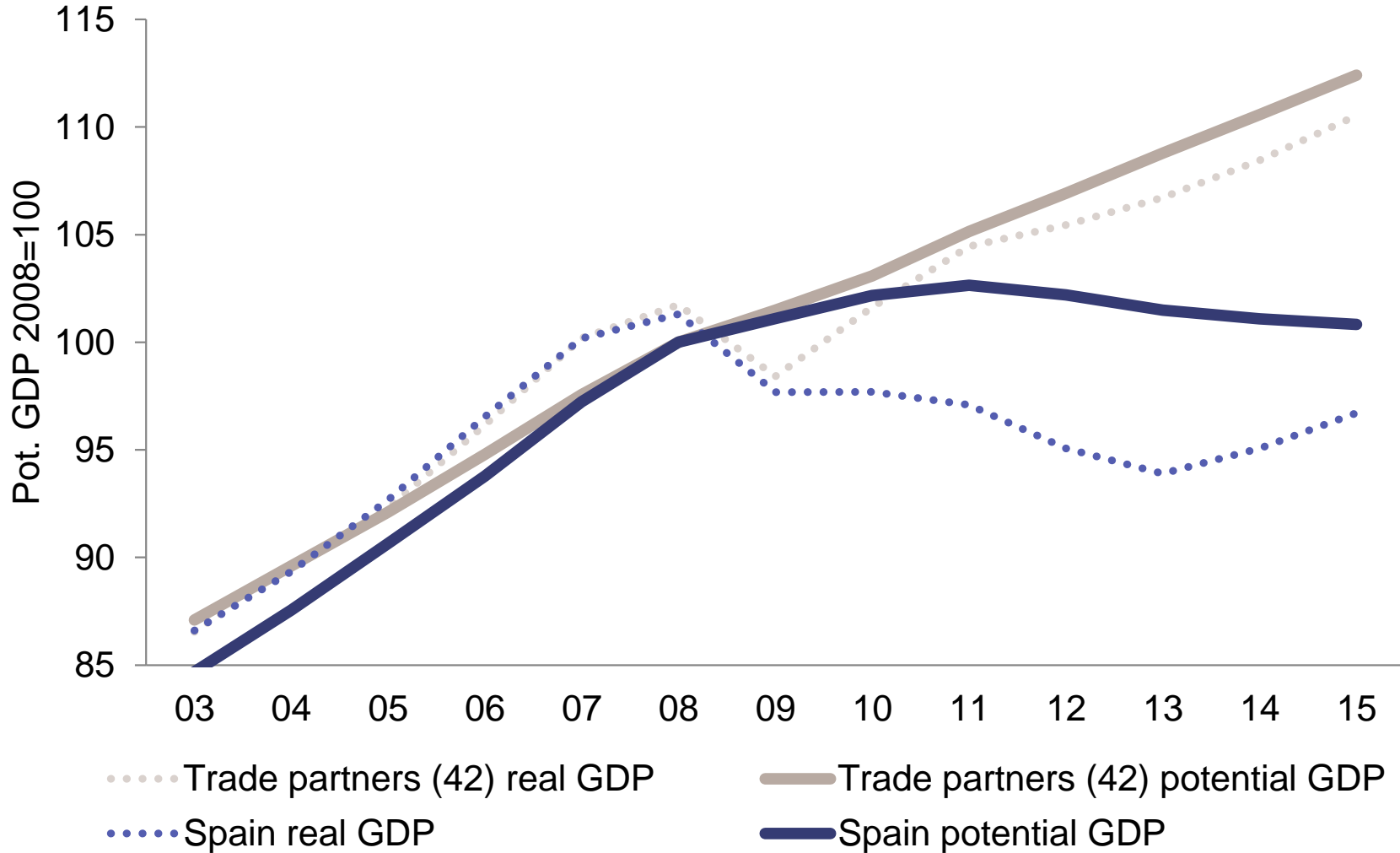
**Deficit countries:  
Italy, Spain, Portugal, Greece,  
Ireland**



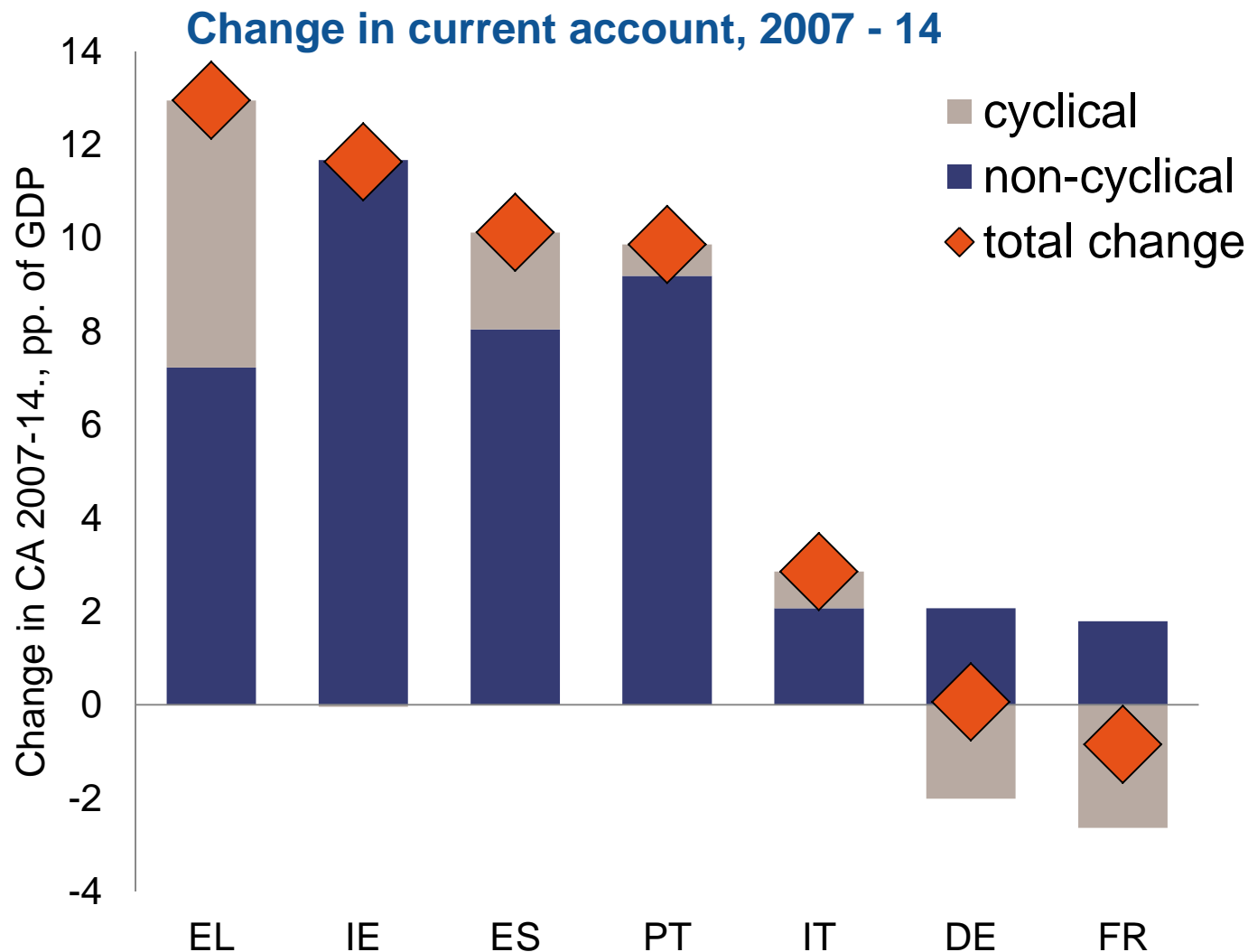
**Rest of euro area**



# Spain's potential GDP declines vis-à-vis trade partners



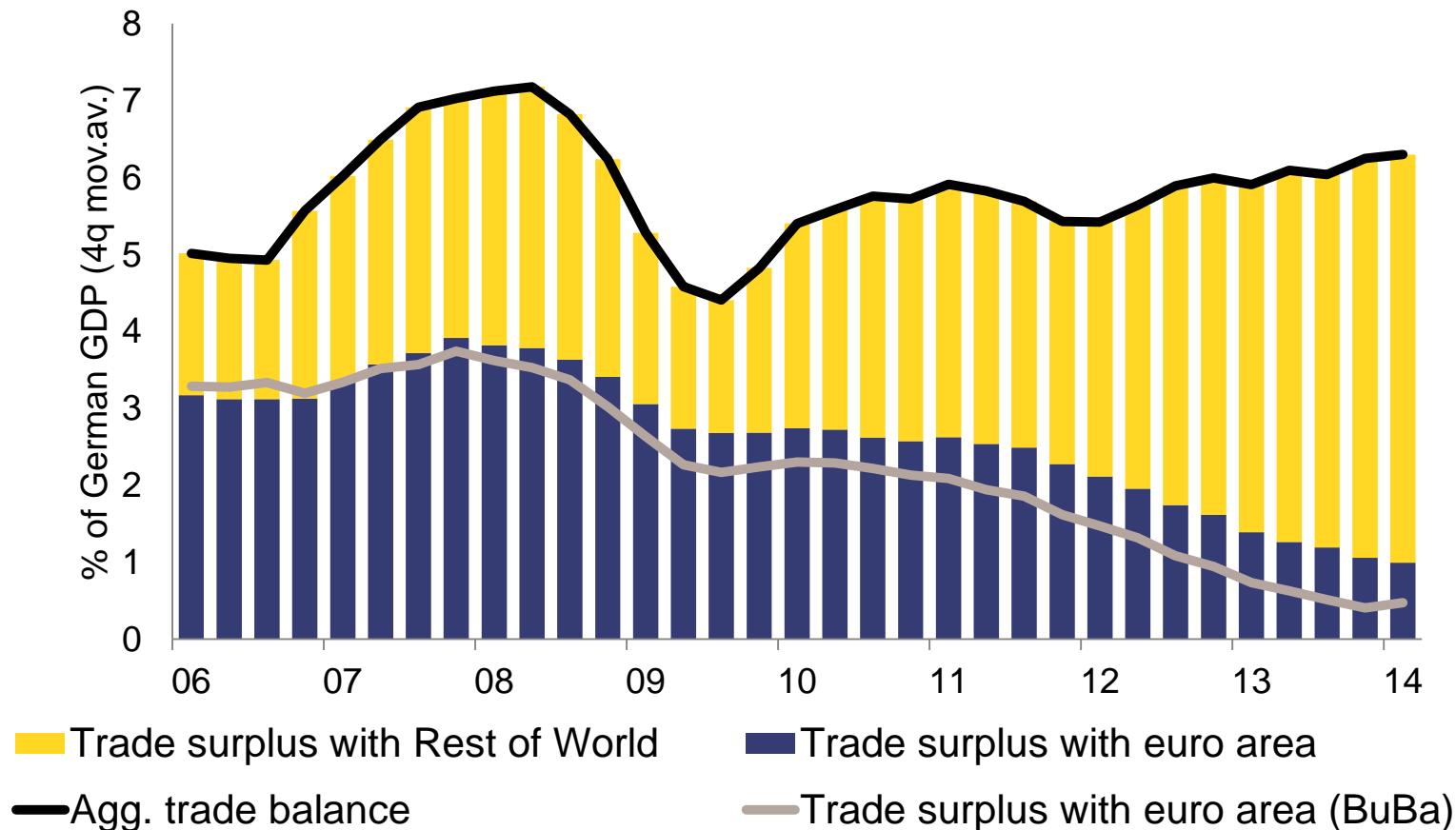
# Most of the Rebalancing was non-cyclical



Change in current account balance as % of GDP, 2014 minus 2007. Source: Commission forecast and estimates

# Bilateral trade balances: Beware of Rotterdam effects...

## German trade surplus vs. euro area and world Reported by Eurostat ... and Bundesbank

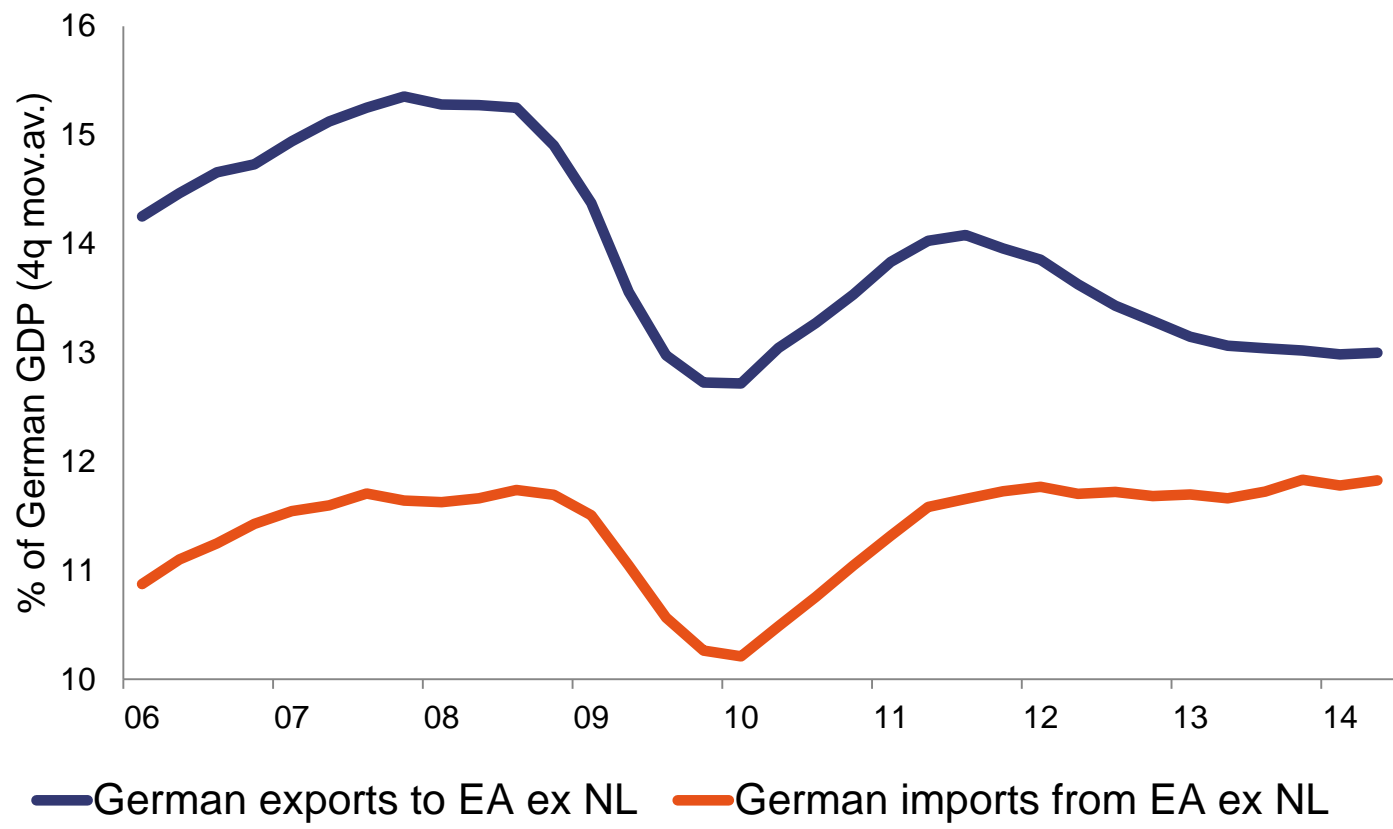


Data source: Eurostat (Bundesbank for 'Buba')

# Germany: exports to EA decline - imports from EA stagnate



### German exports to, and imports from, euro area-17 ex-Netherlands



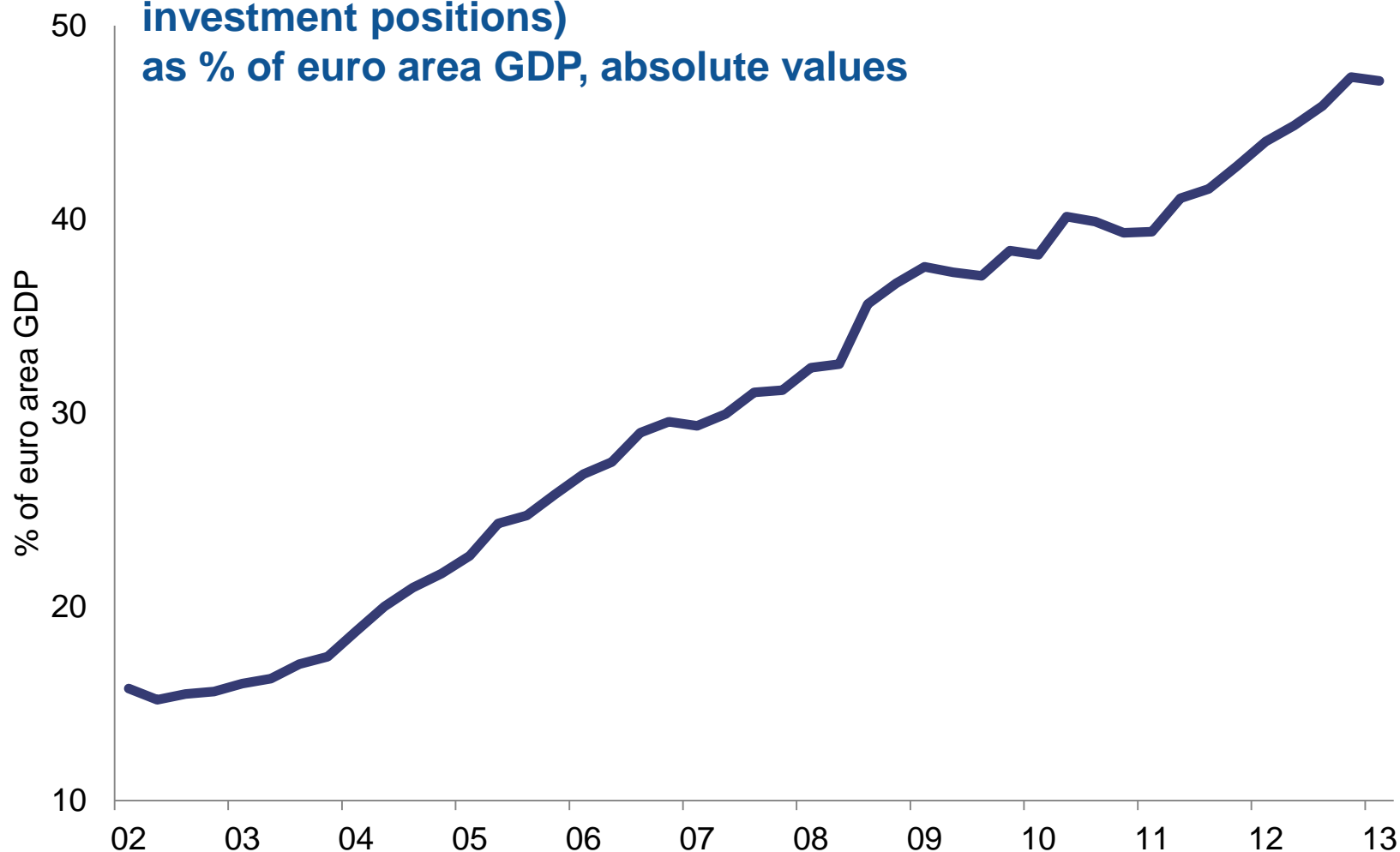
Exports from and imports to Germany of goods and services. Data source: Bundesbank



# Euro area: Stock imbalances persist

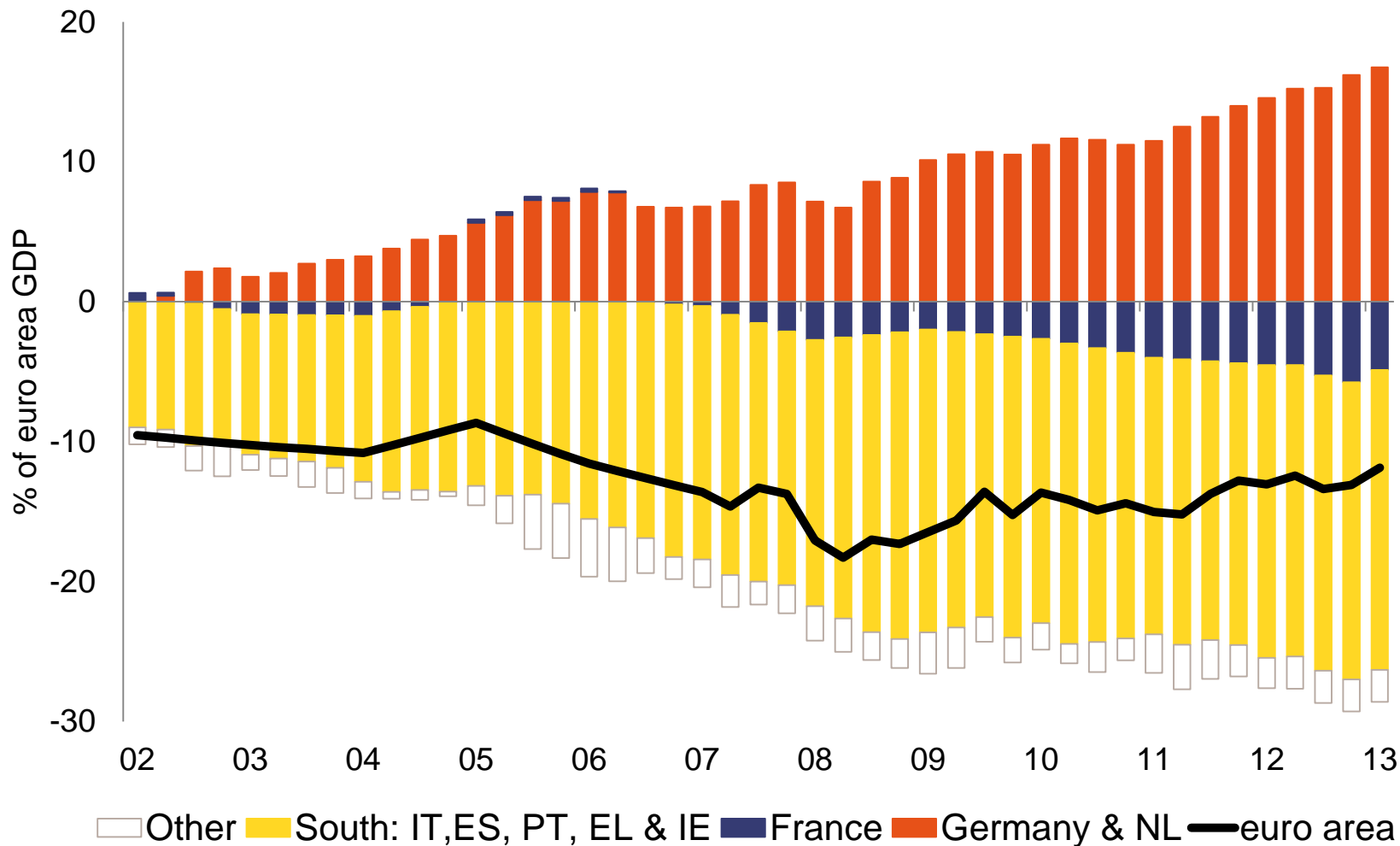


**Sum of euro area 18 Member NIIPs (Net international investment positions)  
as % of euro area GDP, absolute values**



Source: Eurostat BoP, BPM5

# Euro area: Stock imbalances persist



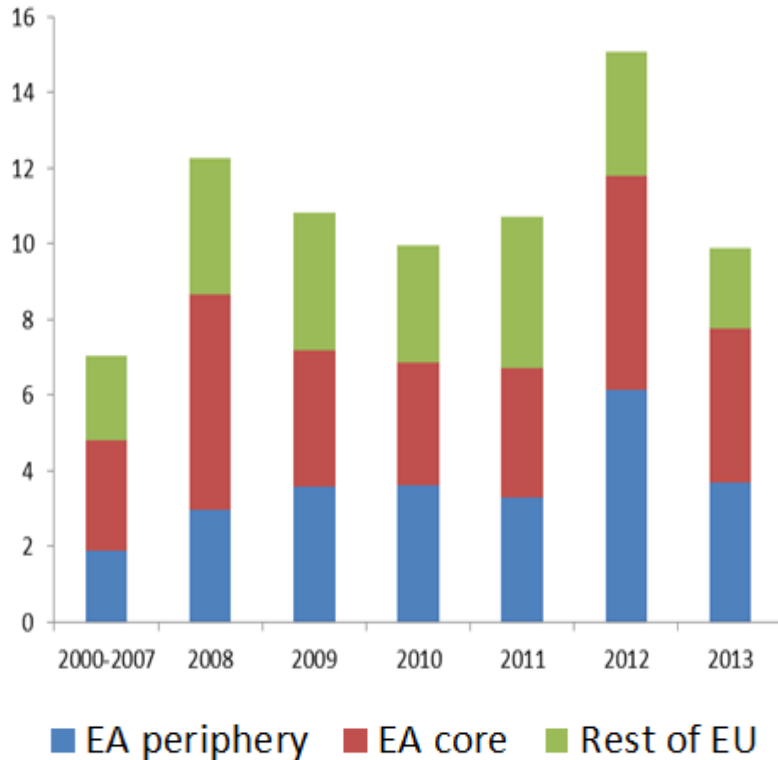
Source: Eurostat. Net international investment position, as % of euro area (mov. comp.) over last 4 quarters

# Crisis accelerated labour market reforms product market reforms lag behind



## Labour market reforms

average number of adopted reforms per year

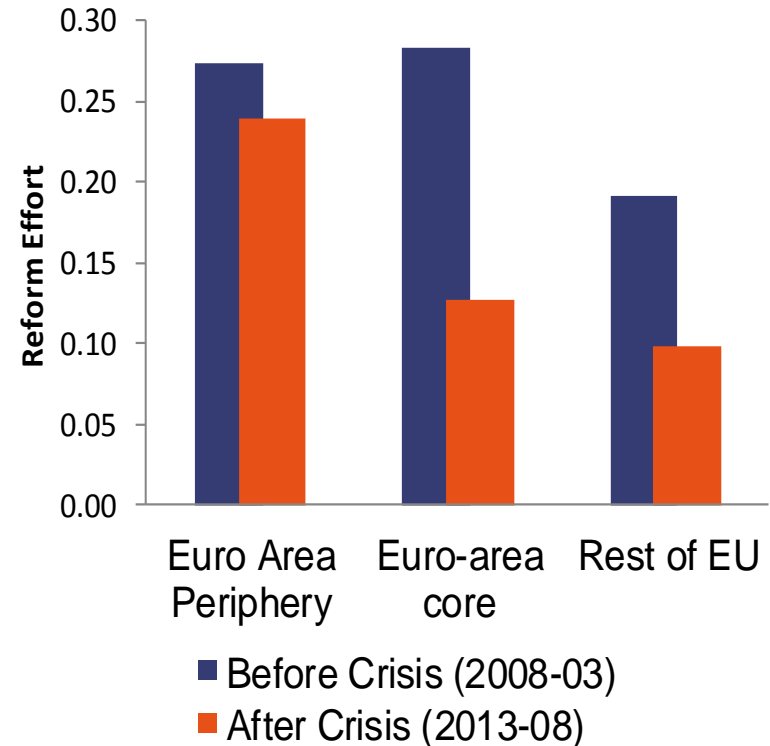


Periphery: EL, IT, IE, PT, ES;  
Rest of EU: CZ, DK, UK, SE, HU  
Source: Commission services.

Core: AT, BE, FI, FR, DE, NL, SK;

## Product market reforms

Reform effort (changes in the level of regulation in groups of Member States before and after crisis)

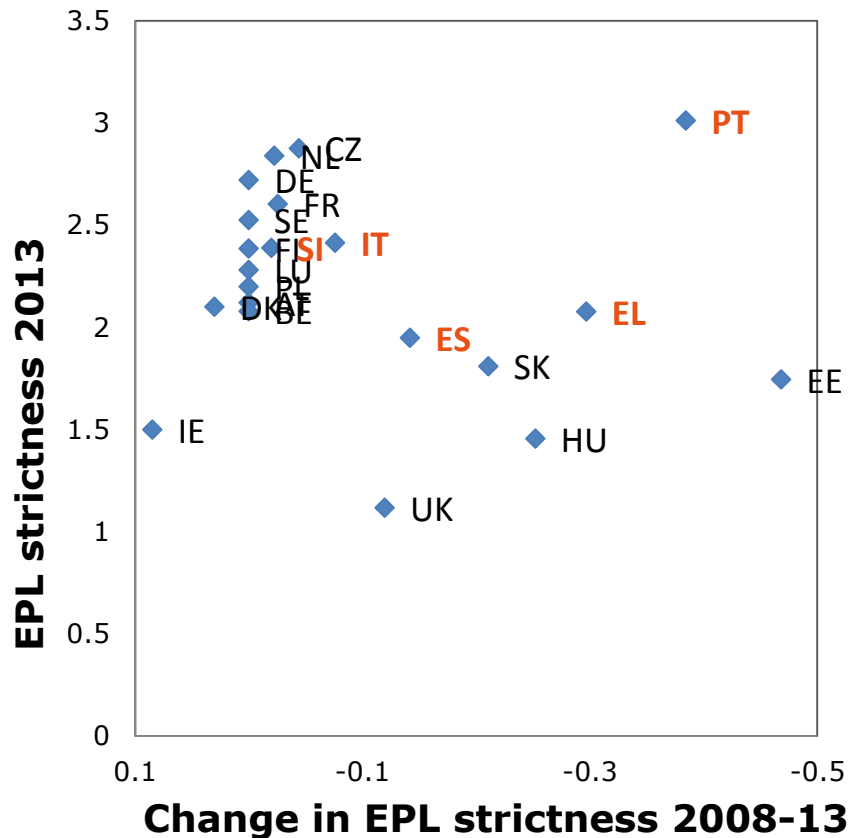


# Periphery with strong reform effort - but more is needed



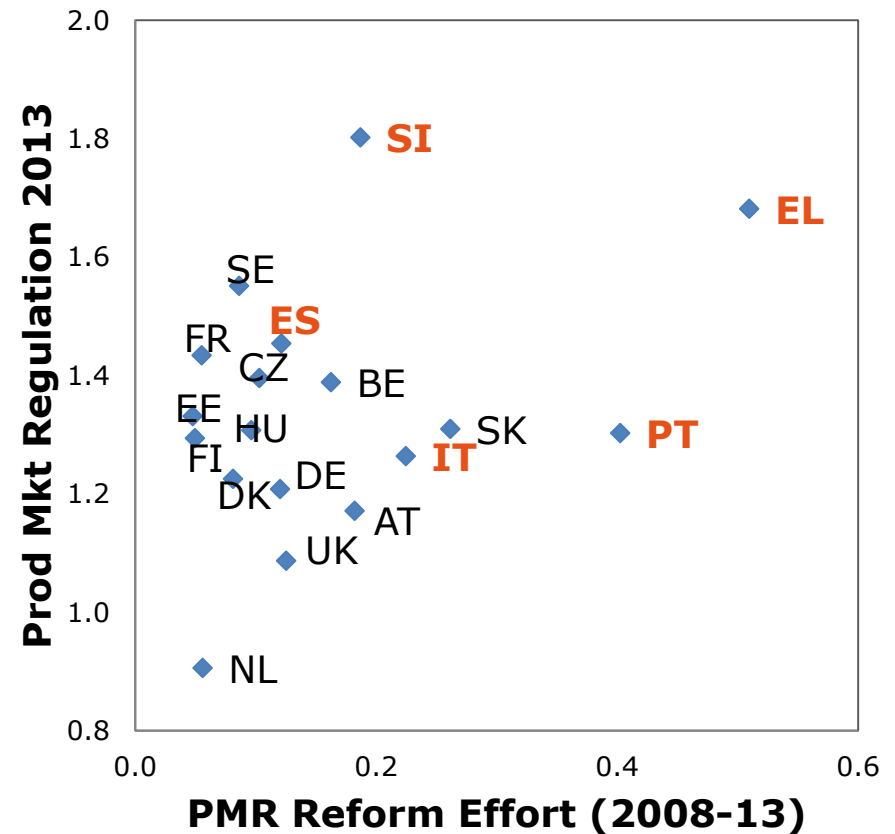
## Labour market reforms

Reform effort (2008-13) and employment protection legislation strictness (2013)

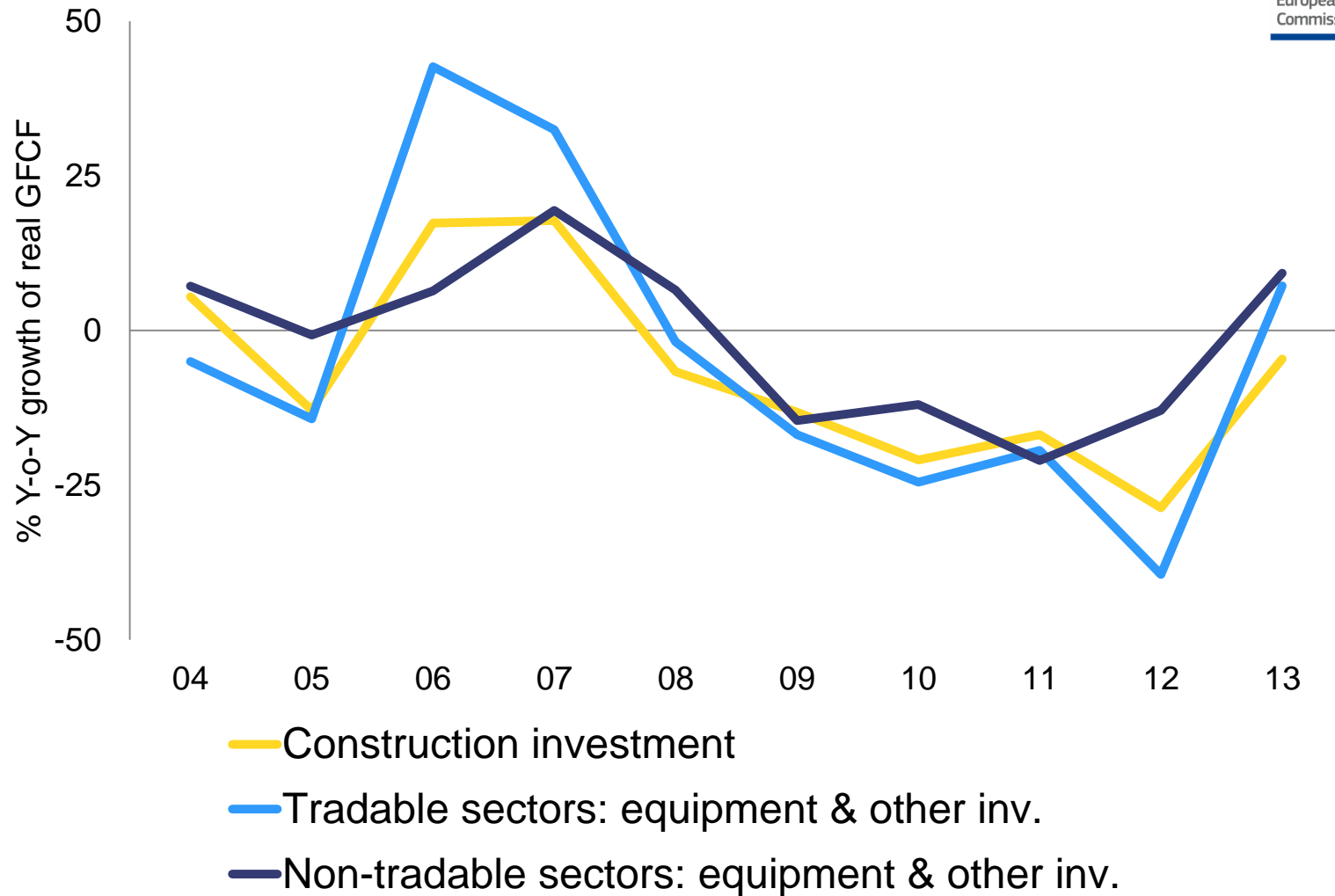


## Product market reforms

Reform effort (2008-13) and level of regulation (2013)



# Investment growth in Italy: Tradables also hit

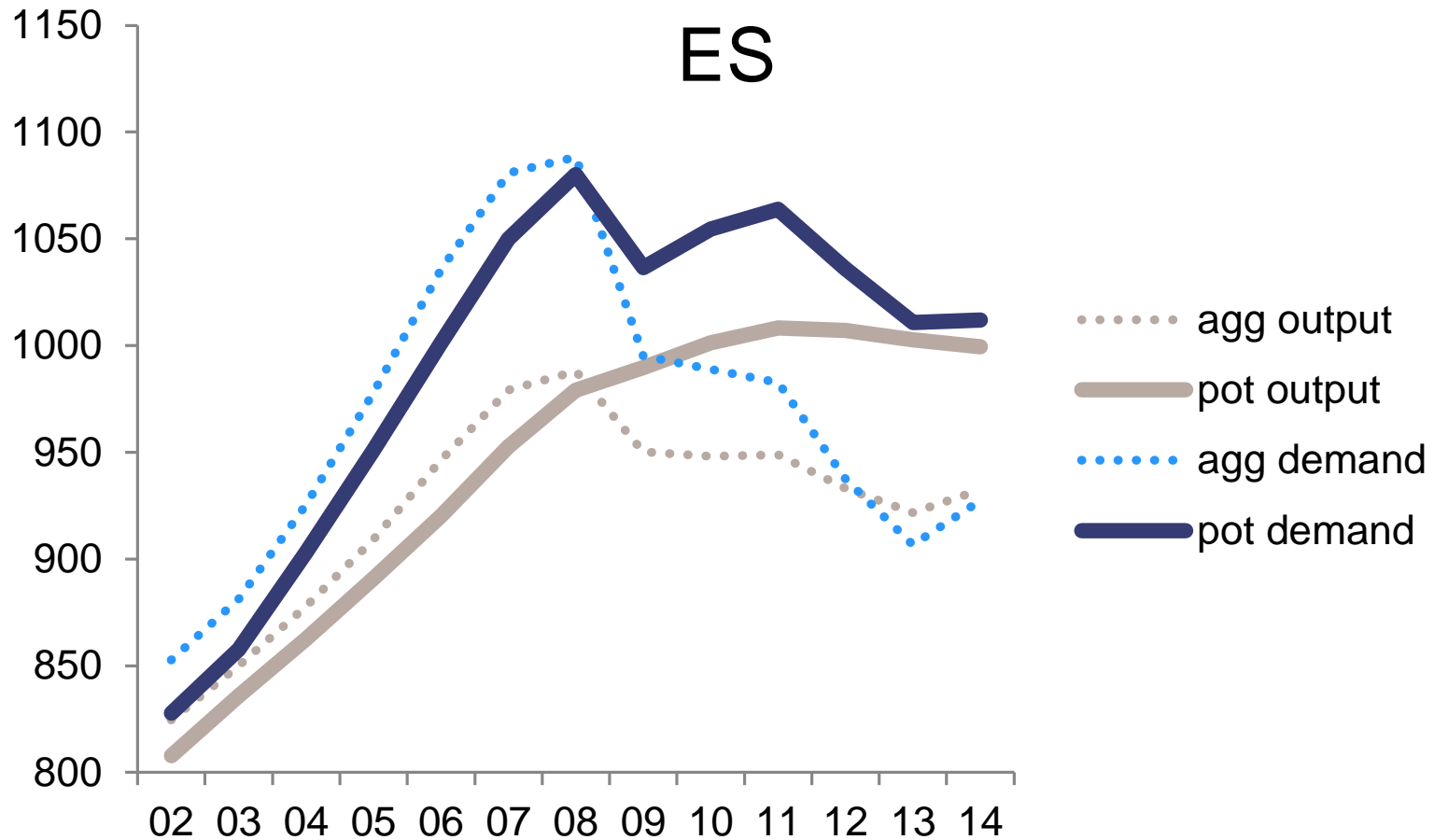


**Throughout the 'South', tradable investment is hit the same way as other sectors  
Capital market flexibility is hampered severely**

# Appendix



# Spain: Stagnating potential, 'structural' decline in demand



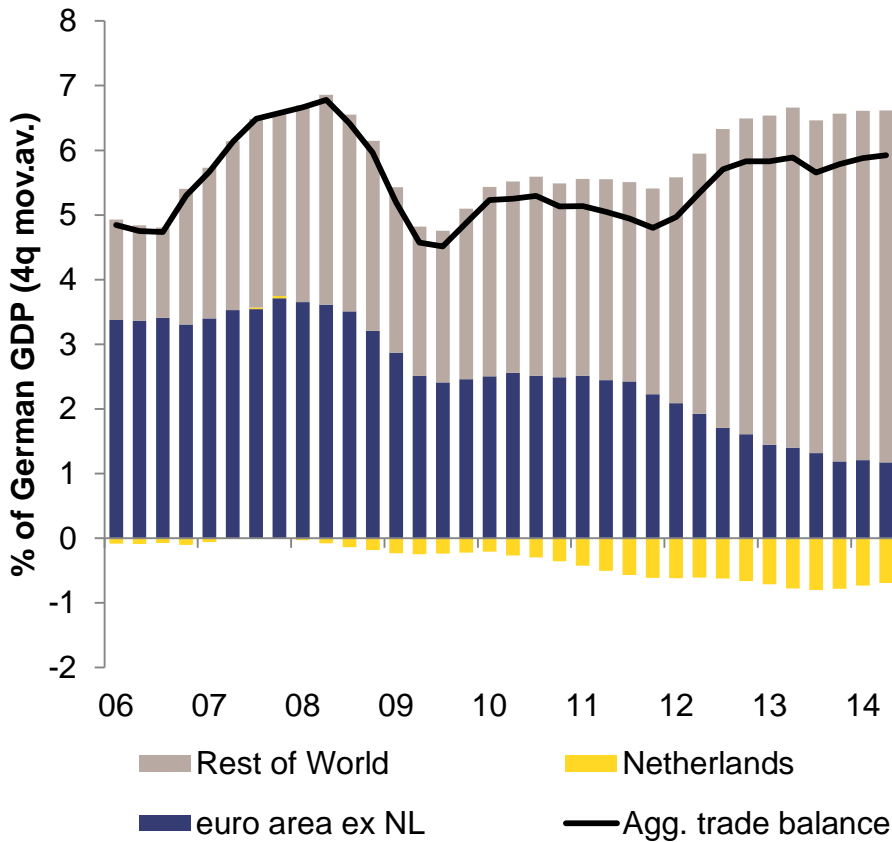
Source: Ameco & Commission estimates

'potential demand refers to potential output plus the cycl. adj. current account balance

# German exports to EA decline imports from EA stagnate

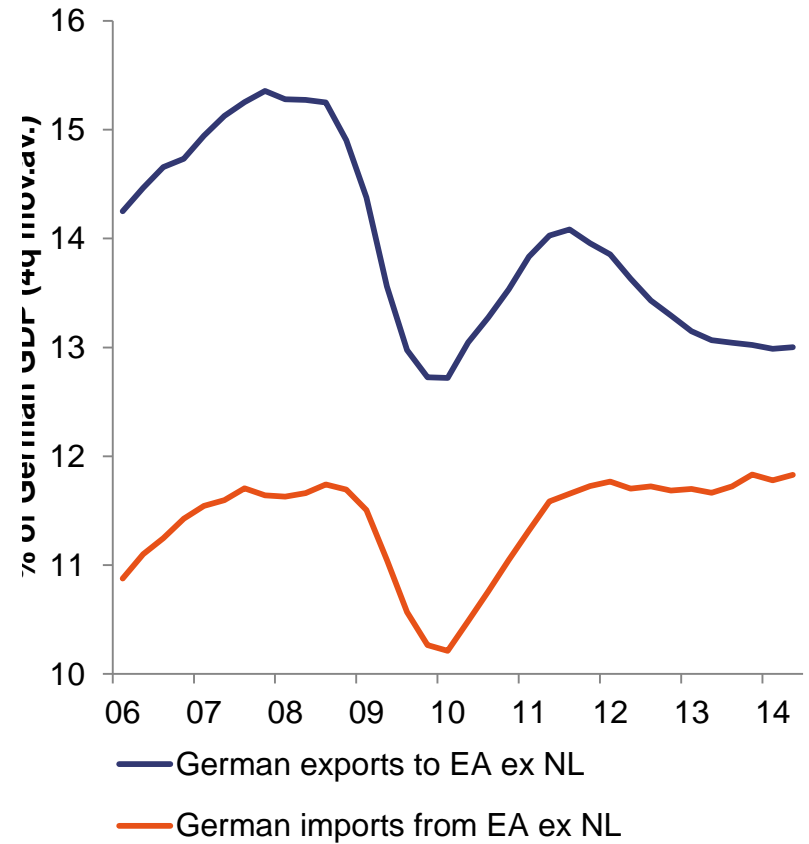


German trade surplus vs.  
World, Netherlands & rest of  
euro area



Source: Bundesbank

German exports to and imports  
from euro area ex-Netherlands



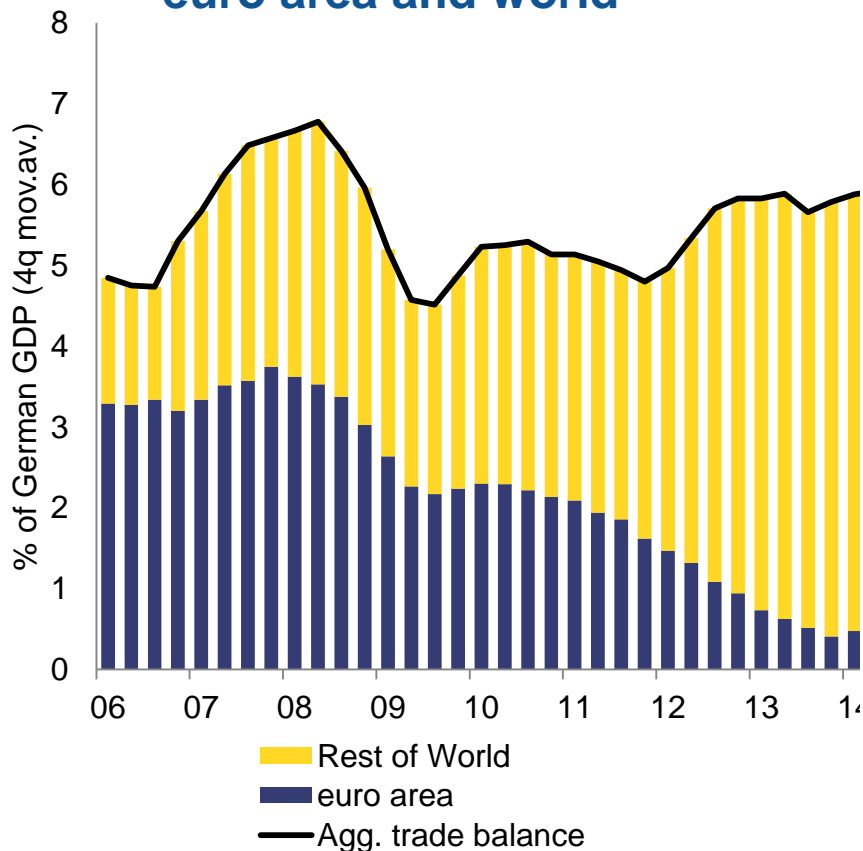
Source: Bundesbank



# Bilateral trade balances: Beware of Rotterdam effects...

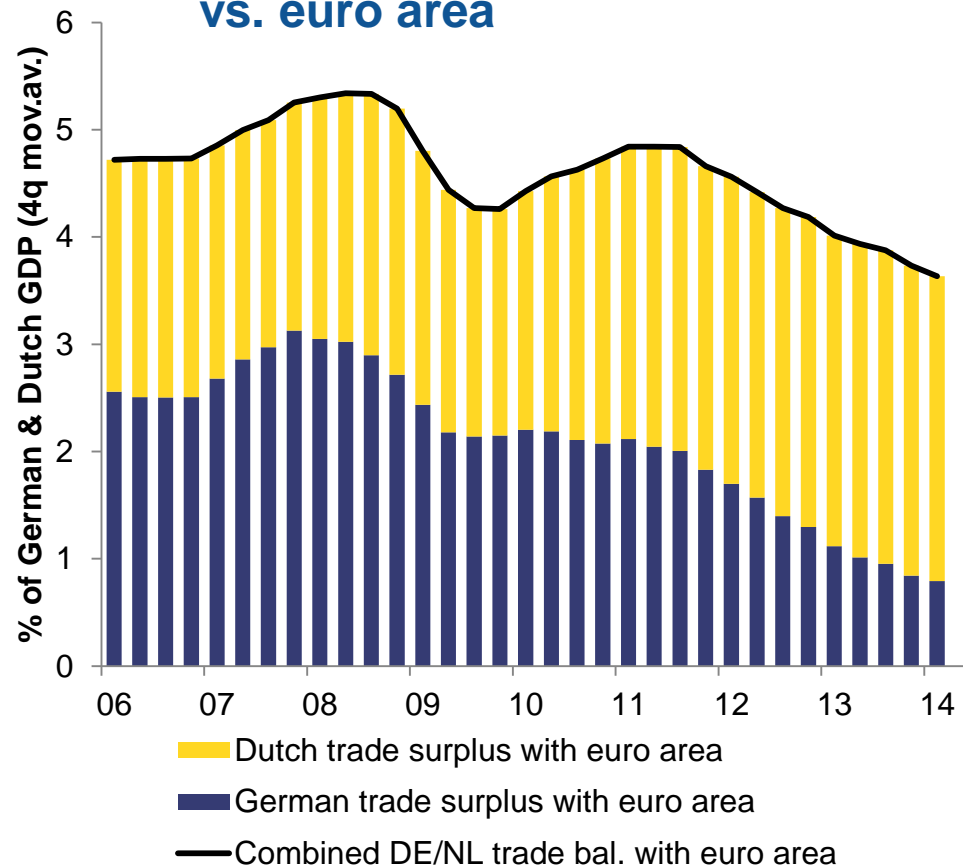


## German trade surplus vs. euro area and world



Source: Bundesbank

## Combined Dutch and German trade surplus vs. euro area

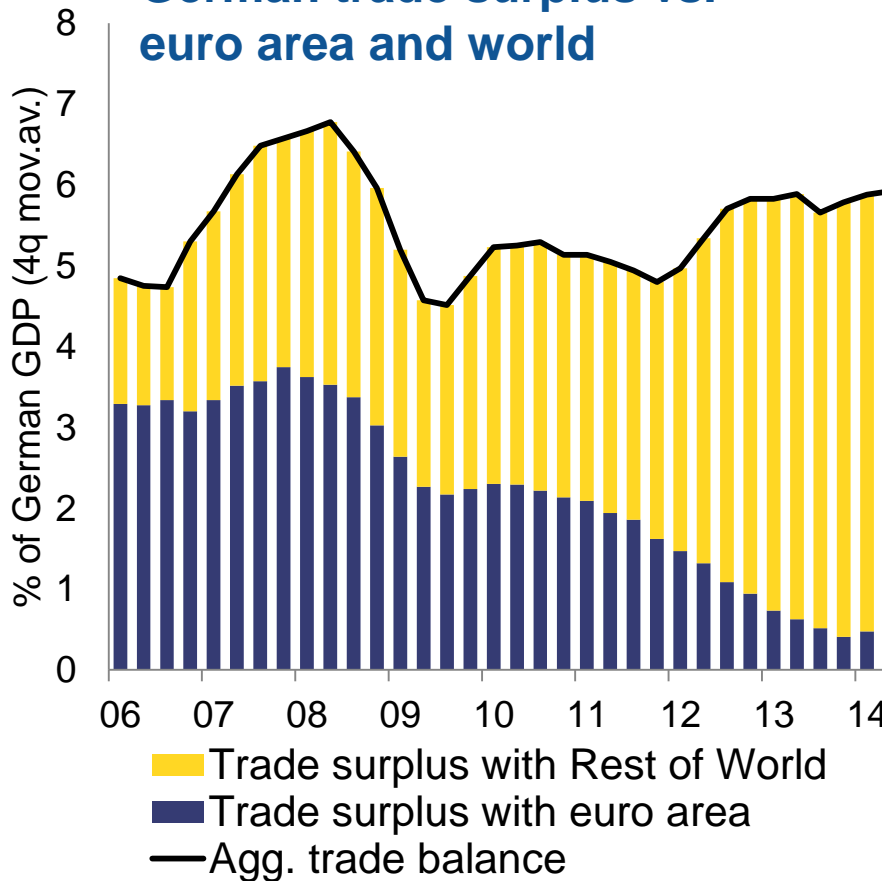


Source: Eurostat

# Bilateral trade balances: Beware of Rotterdam effects...

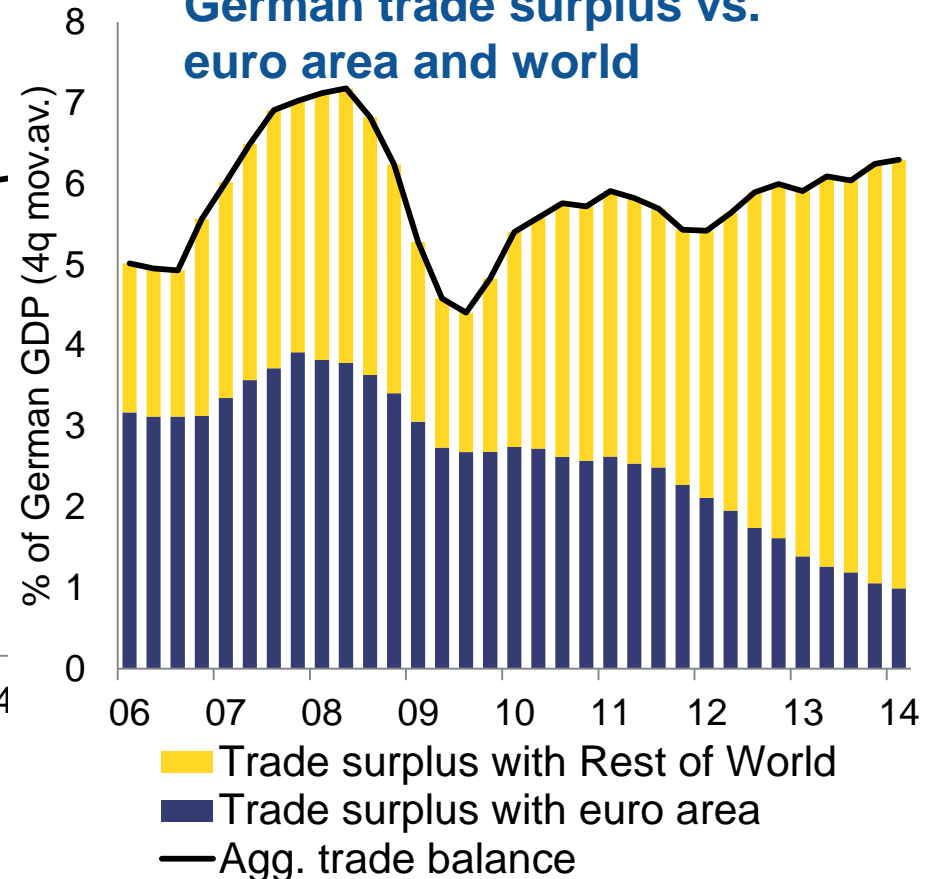


**Bundesbank:  
German trade surplus vs.  
euro area and world**



Source: Bundesbank

**Eurostat:  
German trade surplus vs.  
euro area and world**

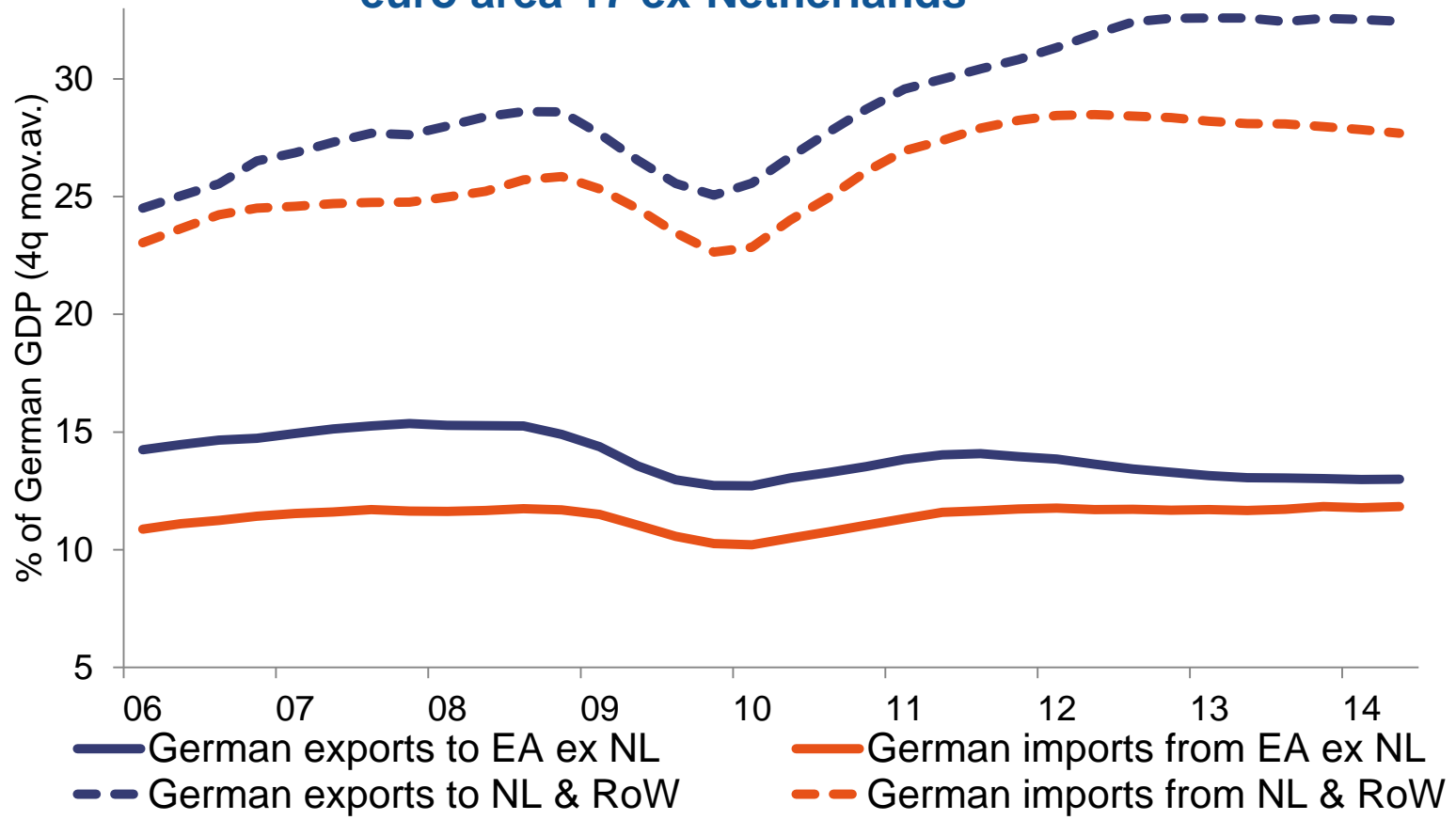


Source: Eurostat

# Germany: exports to EA decline - imports from EA stagnate



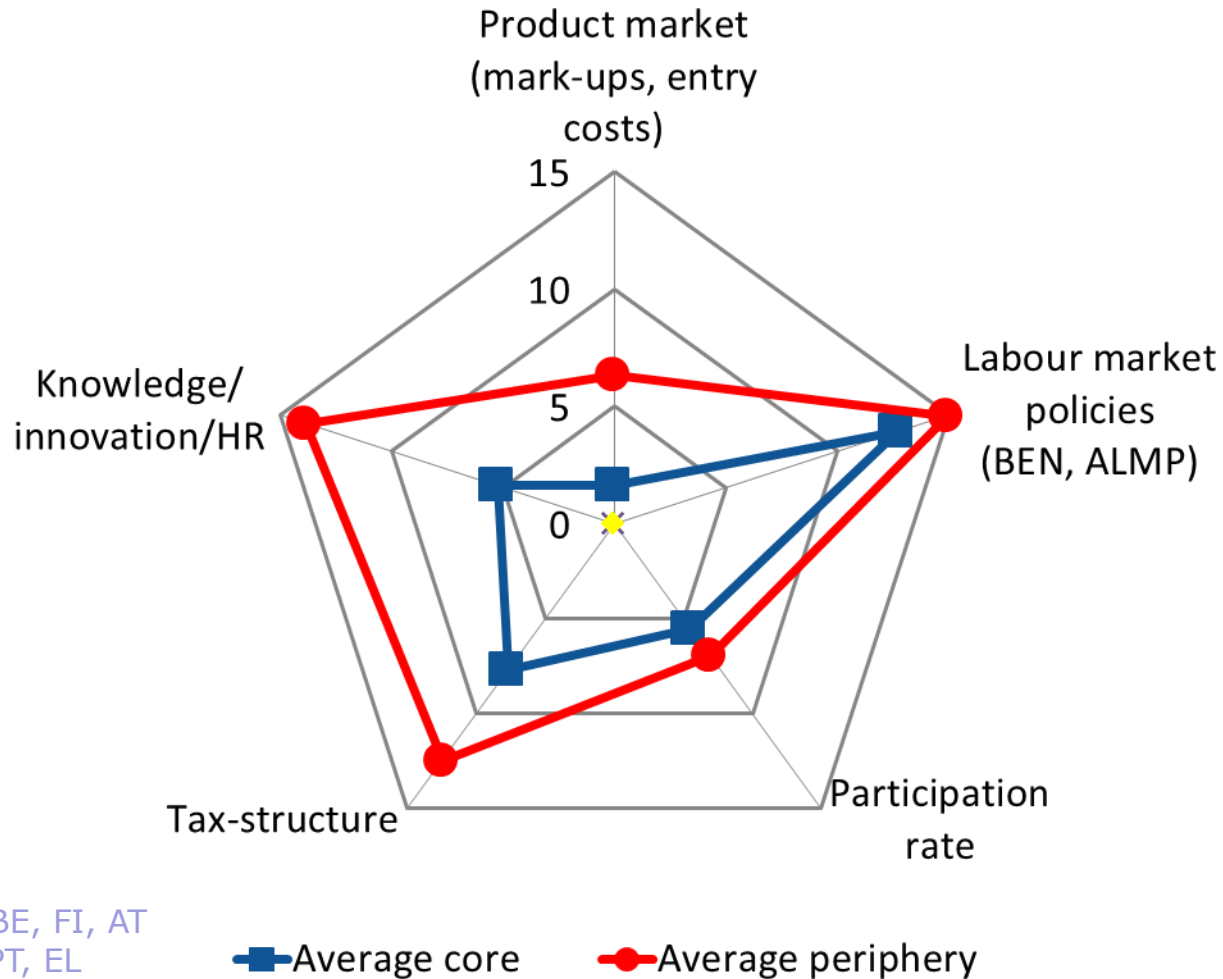
### German exports to, and imports from, euro area-17 ex-Netherlands



Exports from and imports to Germany of goods and services. Data source: Bundesbank

# Reform distance to best performers still large

Relative reform distance across countries (best performer = 0)



Core: DE, FR, NL, BE, FI, AT  
Periphery: IT, ES, PT, EL  
Source: Commission services