

# WIFO

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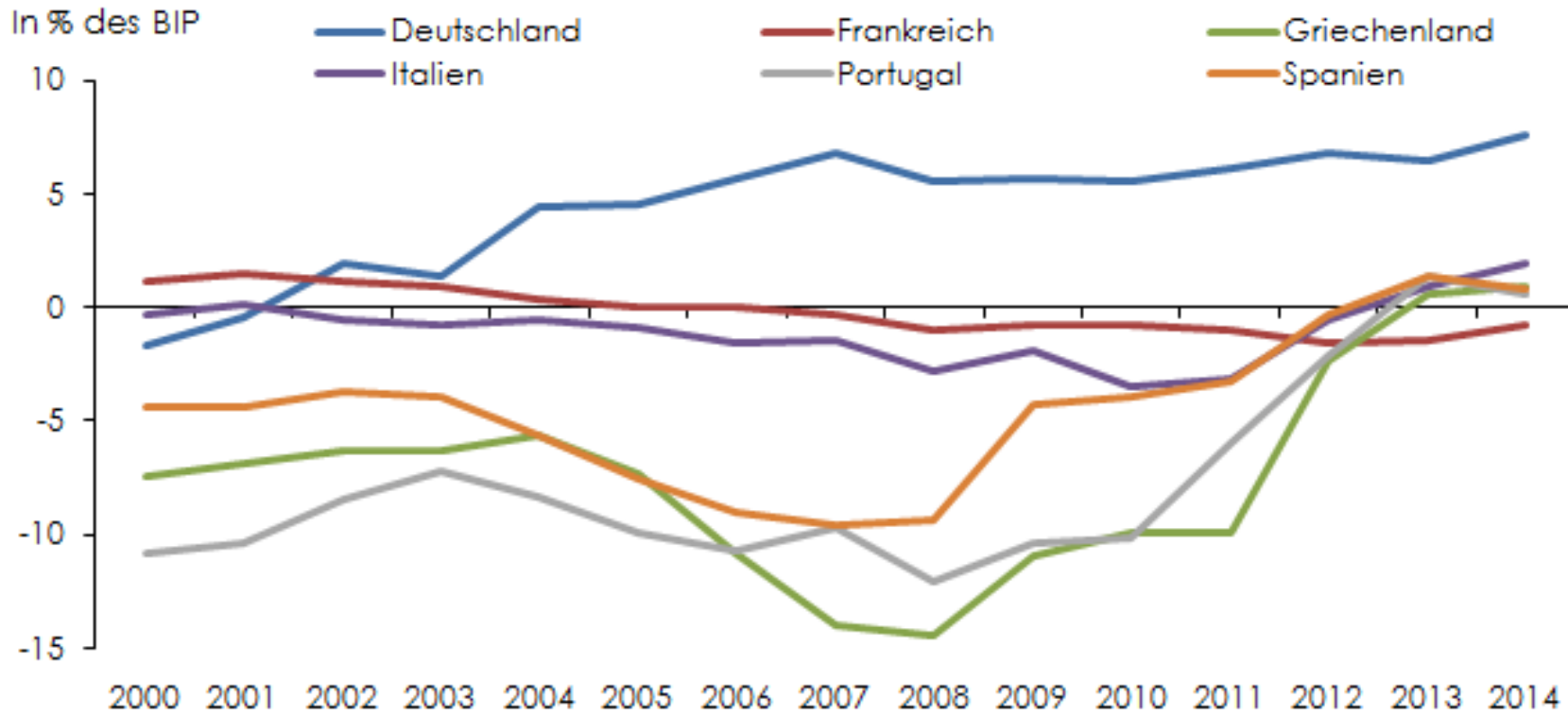
## **Macroeconomic imbalances and institutional reforms in the EMU**

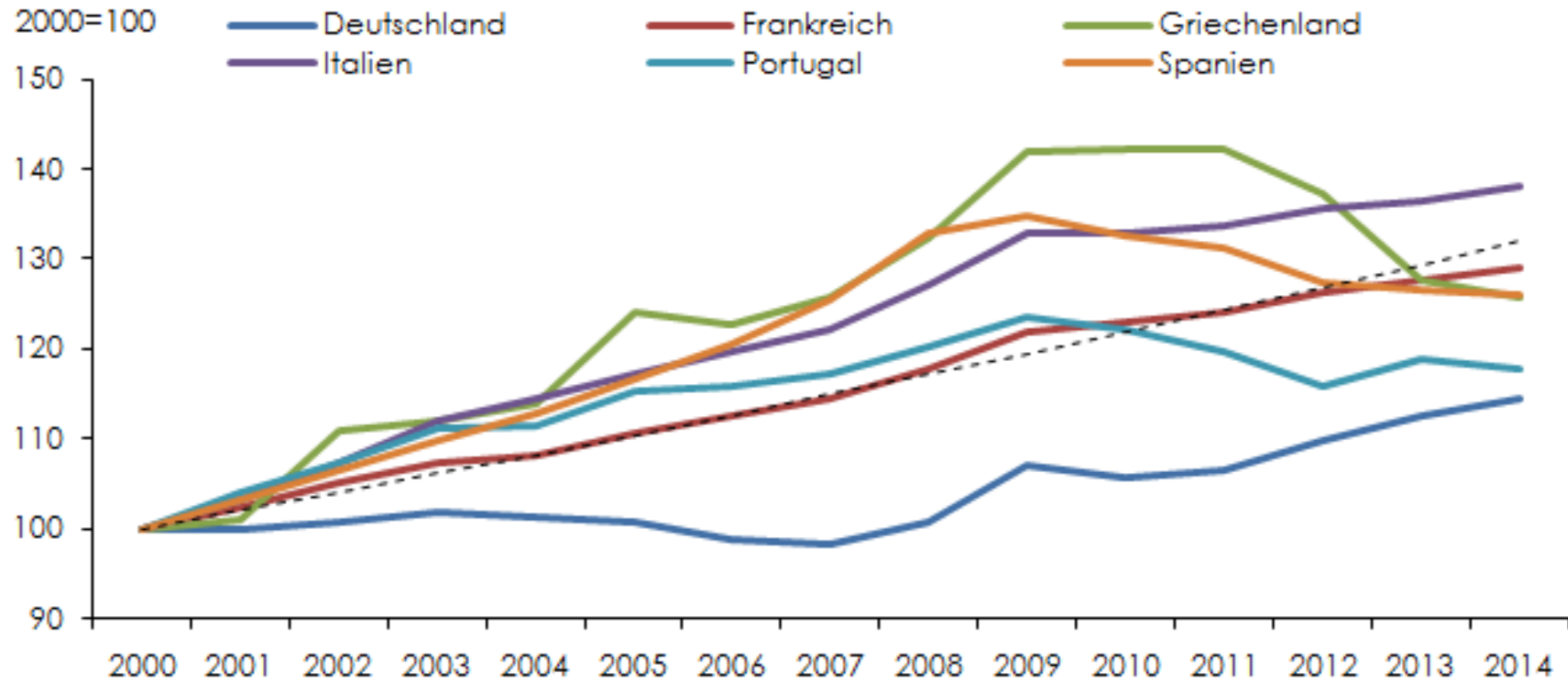
**Stefan Ederer**

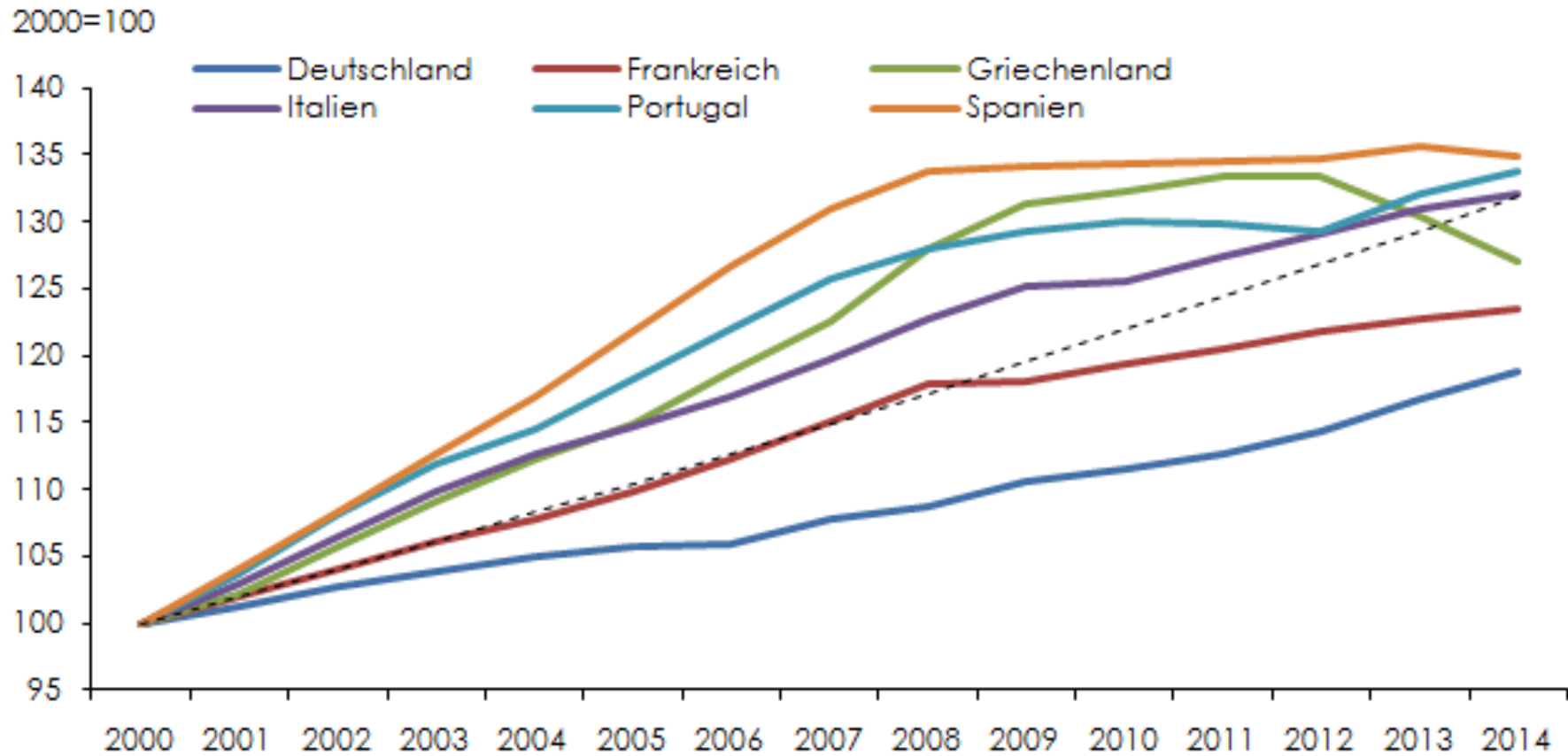
**OeNB Workshop**

**10/09/2015**

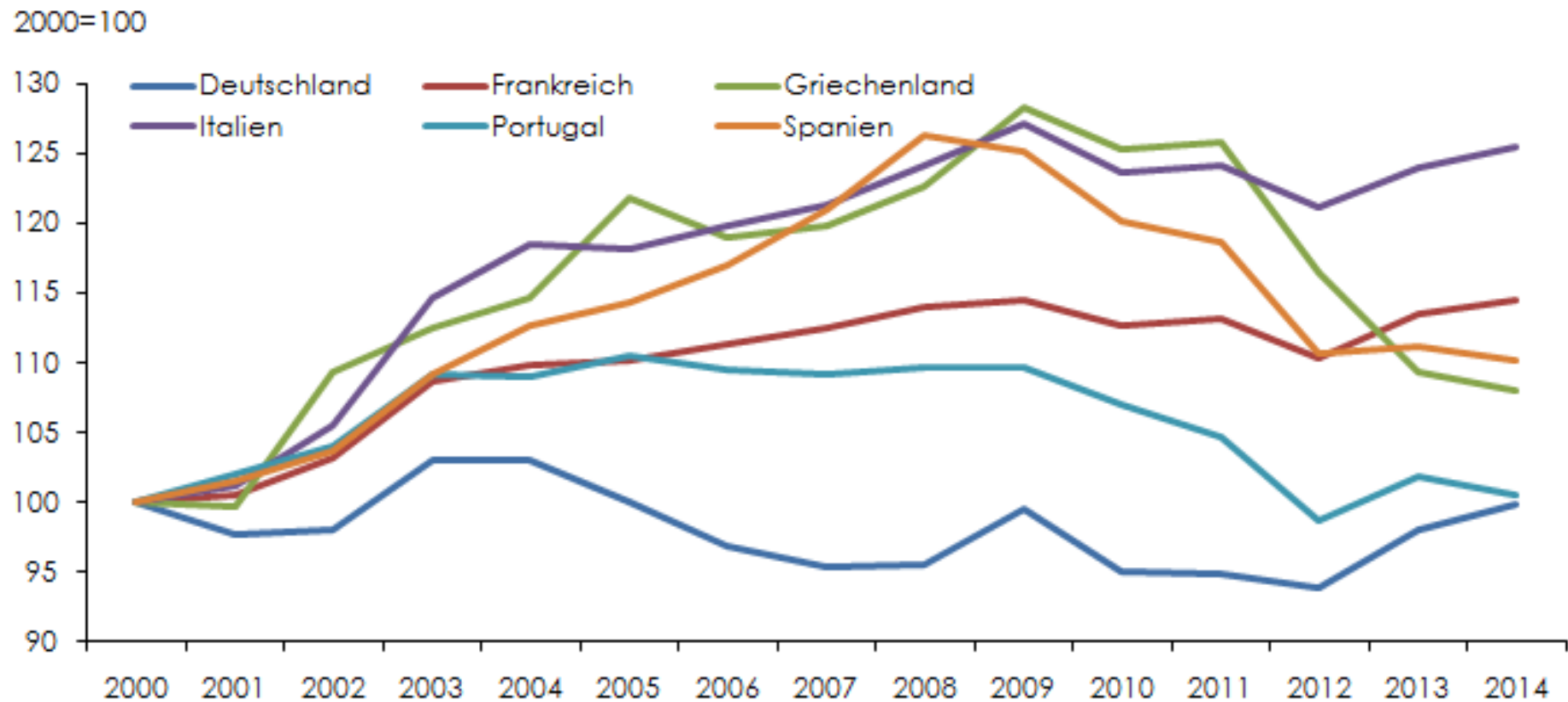
- **Macroeconomic imbalances**
- **Institutional deficiencies of the EMU**
- **Crisis and (lack of) recovery**
- **Institutional reforms**

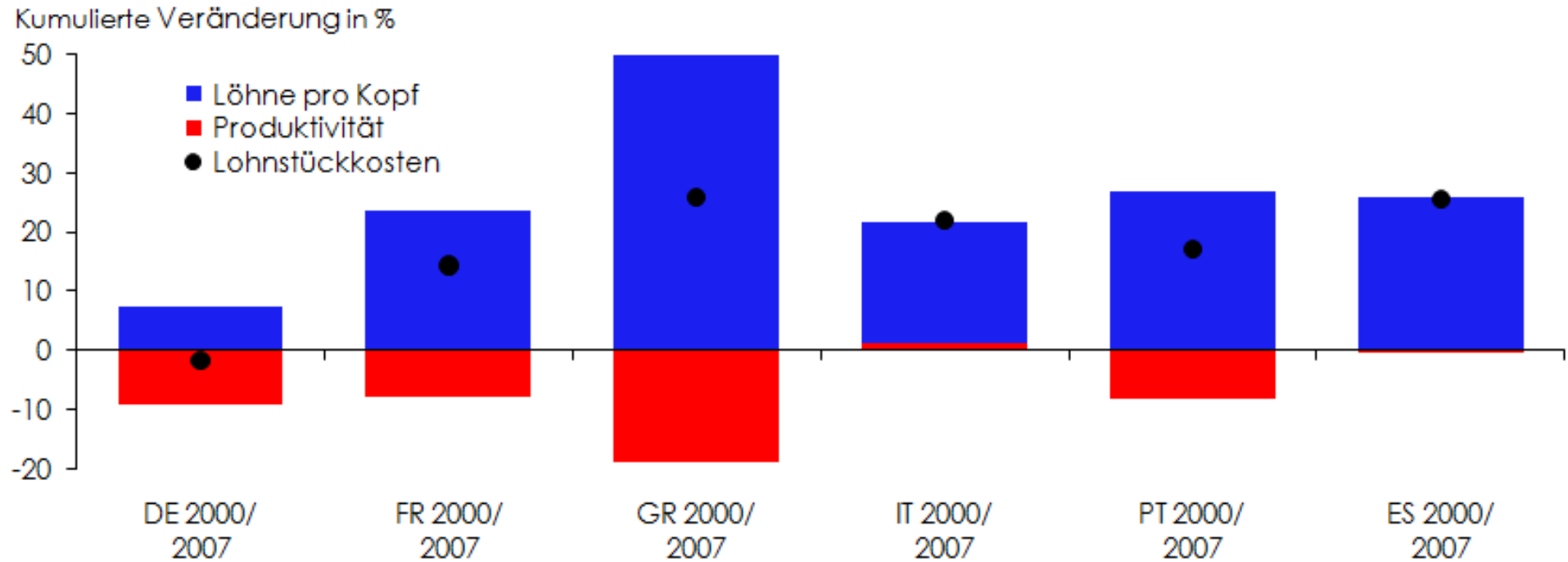




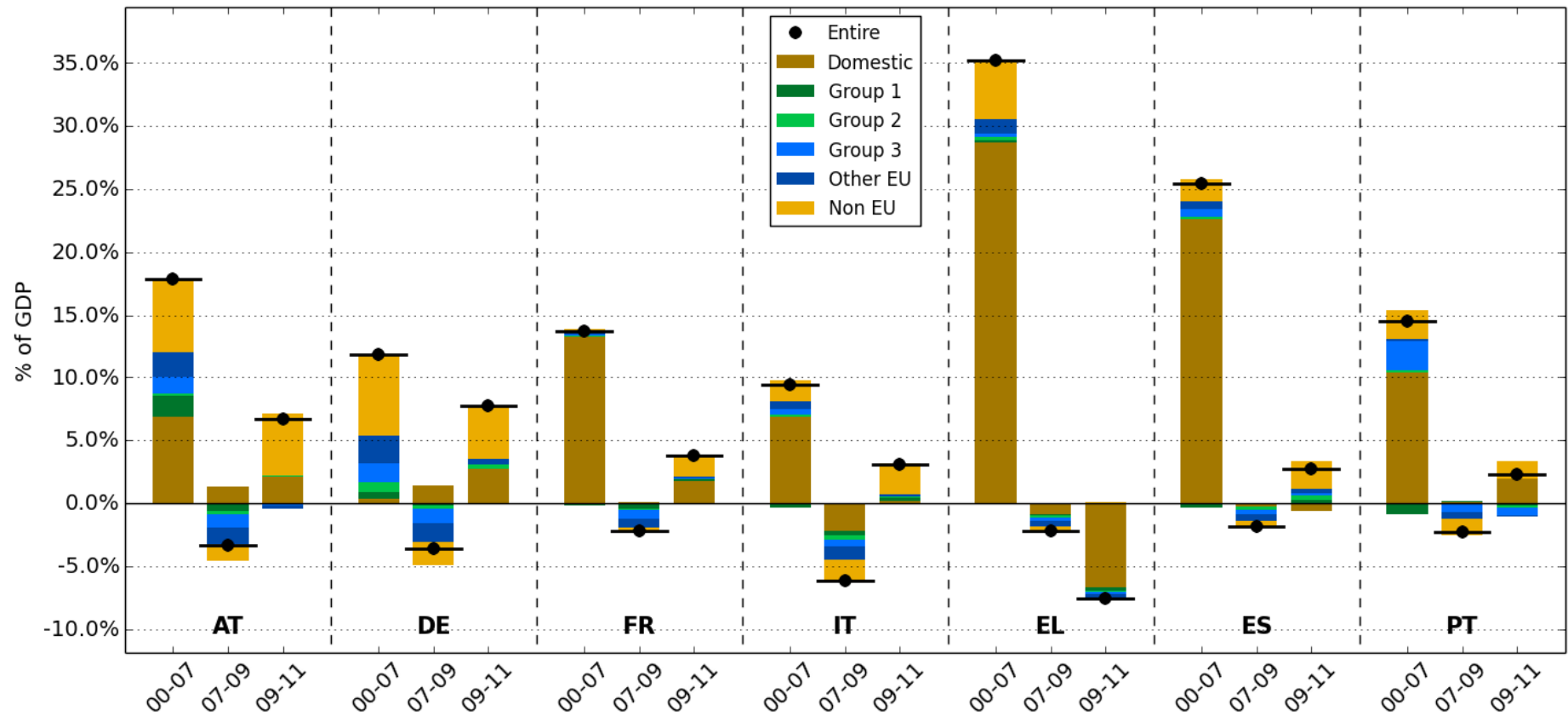


# Real effective exchange rate based on unit labour costs, 37 trading partners

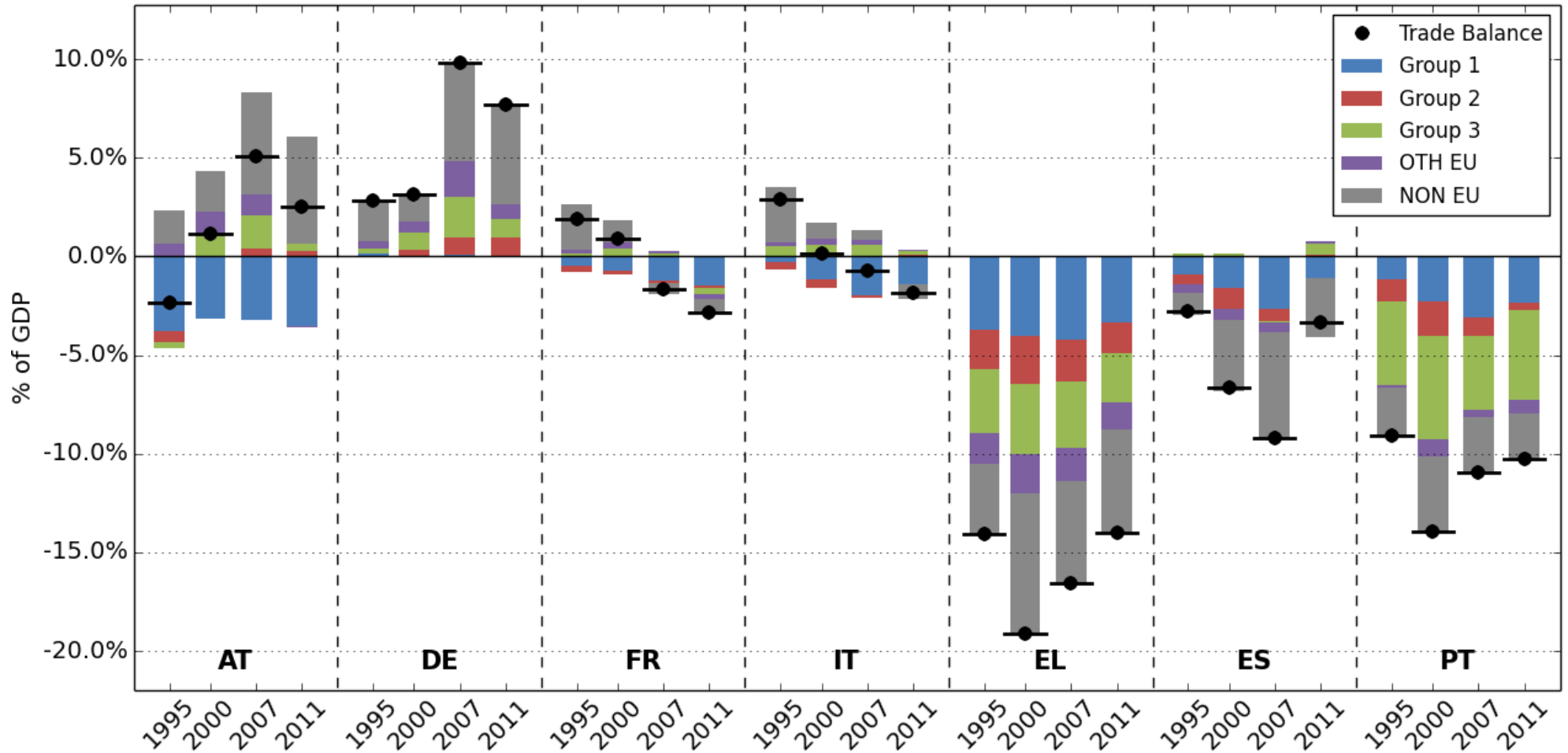




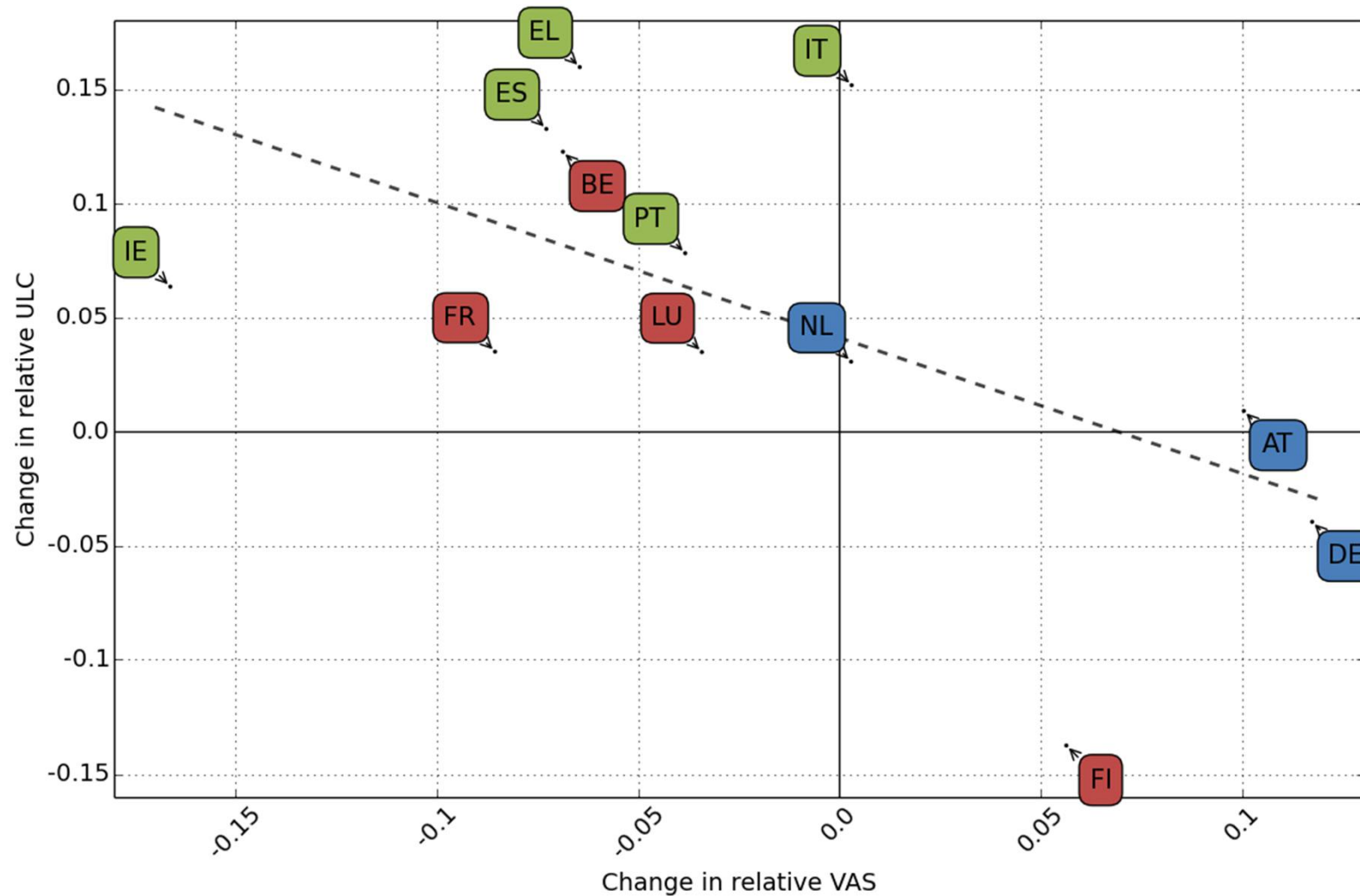
DE...Deutschland, FR...Frankreich, GR..Griechenland, IT..Italien, PT...Portugal, ES...Spanien.







# Relative ULC and value added share in export industries, 2000-2007



- **Absence of exchange rates within EMU**
- **EMU is no OCA**
- **EMU exacerbated diverging growth paths**
  - **Real interest rate channel**
  - **Common exchange rate vis-à-vis others**
  - **Common monetary policy oriented towards average inflation rates**
- **No coordination of wage setting across EMU**

- **Deflationary adjustment in South**
  - Unemployment  $\uparrow$  , Wages  $\downarrow$
  - Real debt  $\uparrow$
  - Deleveraging efforts („Balance sheet recession“)
- **Exacerbated by fiscal policy**
  - Debt increase due to bail-out of banks
  - Increase in interest rates
  - Consolidation efforts (SGP, Adjustment programmes)

- **Banking union**
- **Lender of last resort for states and/or debt mutualisation**
- **Coordinated wage policy to re-align competitiveness**
- **Industrial policy in South**
- **Fiscal transfers in EMU**

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- **Without a loss in relative price competitiveness in Germany and others, the South cannot regain competitiveness**
  - **Expansionary vs. deflationary adjustment strategy**
  - **Building competitive industries takes time; fiscal transfers are necessary**