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

% of EA18 GDP

02q1 03q1 04q1 05q1 06q1 07q1 08q1 09q1 10q1 11q1 12q1 13q1 14q1

-10 -5 0 5 10

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

Source: Ameco
Spain's potential GDP declines vis-à-vis trade partners

Data source: AMECO
Most of the Rebalancing was non-cyclical

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

Change in current account, 2007 - 14

-4
-2
0
2
4
6
8
10
12
14
EL IE ES PT IT DE FR
Change in CA 2007-14, pp. of GDP
cyclical
non-cyclical
total change

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

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

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

Periphery: EL, IT, IE, PT, ES;
Rest of EU: CZ, DK, UK, SE, HU
Core: AT, BE, FI, FR, DE, NL, SK;
Source: Commission services.
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*

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

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

Combined Dutch and German trade surplus vs. euro area

Source: Bundesbank

Source: Eurostat
Bilateral trade balances: Beware of Rotterdam effects...

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

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

Source: Bundesbank

Source: Eurostat
Germany: exports to EA decline - imports from EA stagnate

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