

Imbalances in the Euro Area

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Blanchard-Giavazzi (2002)

• Theory

- Deepening (product/financial/monetary integration) + widening
- => increasing CA imbalances, i.e. Increasing capital flows rich => poor

• Empirics

- $CA/GDP = a + b \text{ GDP/POP}$

• b	<u>OECD</u>	<u>EU</u>	<u>EMU</u>
• 1985-93	0.09	0.12	0.23
• 1994-00	0.49	0.94	1.10

• Greece and Portugal

- High CA deficits in 2000-01
- So far, benign neglect by EC and ECB
- “As a general rule”, no reason to worry and reduce CA deficits

Eichengreen

- **Why such neglect in the face worrisome developments?**
 - Worrisome developments: saving/investment/productivity/inflation
 - But intrinsic difficulty in distinguishing good and bad imbalances
 - Yet policymakers need to do so
- **Imbalances need to be monitored and their sources identified**
 - Financial problems in the form of asset bubbles
 - Fiscal problems in the form budgetary excesses

von Hagen and Schmitz

- **Intra-EA imbalances are mostly good**
 - Mainly reflect differences in capital endowments
- **However such imbalances can have ST adverse effects**
 - If financial market regulation inappropriate
- **Only a small impact on CA imbalances of**
 - Fiscal imbalances
 - Changes in competitiveness

	Avg '99-'08	Avg '99-'03	Avg '04-'08
St. Kitts and Nevis	- 26,64	- 29,87	- 23,41
Grenada	- 25,58	- 20,07	- 31,08
Chad	- 24,97	- 40,28	- 9,67
Liberia	- 23,89	- 10,55	- 34,56
Montenegro	- 22,95	- 6,73	- 26,20
Maldives	- 21,96	- 8,31	- 35,62
Dominica	- 21,69	- 19,62	- 23,77
São Tomé and Príncipe	- 21,66	- 16,99	- 26,32
St. Vincent and the Grenadines	- 20,98	- 13,94	- 28,03
St. Lucia	- 19,50	- 14,97	- 24,04
Nicaragua	- 18,37	- 19,74	- 16,99
Antigua and Barbuda	- 17,86	- 10,31	- 25,42
Seychelles	- 16,99	- 11,09	- 22,88
Mauritania	- 15,09	- 6,76	- 23,43
Mozambique	- 13,86	- 16,81	- 10,90
Belize	- 13,24	- 17,65	- 8,84
Bosnia and Herzegovina	- 13,19	- 13,04	- 13,33
Lebanon	- 13,13	- 16,26	- 9,99
Lao People's Democratic Republic	- 13,11	- 9,92	- 16,29
Equatorial Guinea	- 12,63	- 23,79	- 1,47
Latvia	- 11,94	- 7,23	- 16,66
Iceland	- 11,83	- 4,89	- 18,76
Georgia	- 11,56	- 8,05	- 15,08
Bulgaria	- 11,27	- 4,84	- 17,70
Zambia	- 11,20	- 15,80	- 6,59
Cape Verde	- 10,83	- 11,50	- 10,16
The Bahamas	- 10,58	- 7,94	- 13,22
Burkina Faso	- 10,47	- 10,61	- 10,33
Sudan	- 10,25	- 9,63	- 10,87
Kosovo	- 10,24	- 11,23	- 9,45
Estonia	- 10,03	- 7,35	- 12,71
Jamaica	- 9,47	- 6,79	- 12,14

Bhutan	-	9,42	-	10,61	-	8,23
Serbia	-	9,38	-	4,93	-	12,93
Guyana	-	9,02	-	7,20	-	10,85
Fiji	-	8,84	-	3,12	-	14,56
Portugal	-	8,76	-	8,20	-	9,32
Greece	-	8,66	-	6,64	-	10,68
Malawi	-	8,66	-	8,13	-	9,19
Madagascar	-	8,65	-	4,93	-	12,37
Djibouti	-	8,60	-	2,87	-	14,32
Lithuania	-	8,58	-	6,71	-	10,44
Samoa	-	8,45	-	6,67	-	10,23
Lesotho	-	8,28	-	19,40	-	2,83
Niger	-	8,18	-	7,17	-	9,19
Senegal	-	8,07	-	5,85	-	10,28
Ghana	-	8,02	-	5,44	-	10,60
The Gambia	-	7,98	-	5,30	-	10,66
Burundi	-	7,85	-	5,28	-	10,42
Mali	-	7,76	-	7,51	-	8,00
Suriname	-	7,66	-	14,46	-	0,87
Romania	-	7,63	-	4,48	-	10,78
Moldova	-	7,54	-	4,60	-	10,47
Armenia	-	7,54	-	10,74	-	4,34
Hungary	-	7,35	-	7,42	-	7,28
Barbados	-	7,16	-	5,57	-	8,75
Benin	-	6,98	-	6,67	-	7,30
Slovak Republic	-	6,63	-	6,07	-	7,20
Sierra Leone	-	6,52	-	5,94	-	7,09
Honduras	-	6,38	-	5,50	-	7,27
Cyprus	-	6,35	-	3,27	-	9,44
New Zealand	-	6,15	-	4,40	-	7,91
Spain	-	5,89	-	3,52	-	8,26
Croatia	-	5,86	-	5,01	-	6,71
Albania	-	5,80	-	3,33	-	8,26
Panama	-	5,71	-	4,56	-	6,87
Former Yugoslav Republic of Macedonia	-	5,70	-	5,07	-	6,32

Malta	- 5,62	- 4,10	- 7,14
Tanzania	- 5,41	- 4,24	- 6,57
Guatemala	- 5,37	- 5,89	- 4,84
Costa Rica	- 5,13	- 4,43	- 5,84
Australia	- 4,74	- 3,96	- 5,52
Democratic Republic of Congo	- 4,73	- 2,55	- 6,91
United States	- 4,72	- 4,05	- 5,40
Islamic Republic of Afghanistan	- 4,69	- 10,39	- 2,40
Ethiopia	- 4,60	- 3,83	- 5,37
Togo	- 4,46	- 6,27	- 2,64
Vanuatu	- 4,37	- 2,23	- 6,50
Comoros	- 4,29	- 1,38	- 7,20
Tonga	- 4,25	- 1,82	- 6,68
Guinea	- 4,19	- 3,86	- 4,53
Uganda	- 4,06	- 5,74	- 2,39
Poland	- 3,97	- 4,39	- 3,56
El Salvador	- 3,89	- 2,71	- 5,08
Tajikistan	- 3,80	- 2,46	- 5,14
Sri Lanka	- 3,77	- 2,53	- 5,01
Czech Republic	- 3,74	- 4,89	- 2,58
Central African Republic	- 3,64	- 1,70	- 5,57
Mongolia	- 3,61	- 7,70	0,47
Belarus	- 3,59	- 2,55	- 4,62
Jordan	- 3,26	4,58	- 11,09
Turkey	- 3,09	- 0,98	- 5,20
Cambodia	- 3,03	- 2,99	- 3,06
Tunisia	- 2,77	- 3,26	- 2,27
South Africa	- 2,66	- 0,10	- 5,21
Kyrgyz Republic	- 2,62	- 4,53	- 0,71
Solomon Islands	- 2,59	- 1,79	- 3,38
Rwanda	- 2,53	- 3,35	- 1,72
Slovenia	- 2,50	- 1,33	- 3,67

Eritrea	-	2,36	-	1,63	-	3,10
Vietnam	-	2,35	-	0,63	-	5,32
Dominican Republic	-	2,28	-	1,48	-	3,08
United Kingdom	-	2,27	-	2,08	-	2,46
Mauritius	-	2,17	-	2,16	-	6,49
Cameroon	-	2,10	-	3,08	-	1,13
Kenya	-	2,00	-	1,04	-	2,96
Ireland	-	2,00	-	0,35	-	3,65
Kiribati	-	1,88	-	3,06	-	6,82
Mexico	-	1,53	-	2,26	-	0,79
Kazakhstan	-	1,46	-	1,53	-	1,39
Syrian Arab Republic	-	1,39	-	0,48	-	2,30
Italy	-	1,30	-	0,40	-	2,21
Uruguay	-	1,22	-	0,97	-	1,48
Colombia	-	1,17	-	0,41	-	1,94
Haiti	-	1,17	-	1,30	-	1,03
Swaziland	-	1,17	-	0,26	-	2,08
Pakistan	-	1,04	-	1,26	-	3,35
Brazil	-	1,02	-	2,63	-	0,59
Peru	-	0,96	-	2,35	-	0,43
Republic of Congo	-	0,92	-	0,40	-	2,25
Azerbaijan	-	0,58	-	11,53	-	10,36
Guinea-Bissau	-	0,57	-	1,23	-	0,09
India	-	0,34	-	0,29	-	0,98
Paraguay	-	0,16	-	0,92	-	0,61
Bangladesh	-	0,13	-	0,51	-	0,78
Myanmar	-	0,16	-	1,98	-	2,31
France	-	0,49	-	1,66	-	0,68
Philippines	-	0,64	-	1,83	-	3,11
Chile	-	0,68	-	0,92	-	2,27
Israel	-	0,81	-	1,10	-	2,72
Morocco	-	0,97	-	1,88	-	0,06
Côte d'Ivoire	-	0,99	-	0,81	-	1,16
Ecuador	-	1,04	-	0,26	-	1,82
Egypt	-	1,16	-	0,01	-	2,33

Canada	1,50	1,63	1,38
Austria	1,52	0,24	2,80
Argentina	1,73	1,21	2,24
Korea	1,82	2,40	1,24
Indonesia	2,64	4,06	1,23
Denmark	2,67	2,55	2,79
Angola	2,74	- 8,25	13,72
Bolivia	2,81	- 3,52	9,14
Ukraine	2,82	5,39	0,26
Republic of Yemen	2,83	6,69	- 1,03
Belgium	3,08	4,81	1,34
Germany	3,15	0,19	6,11
Japan	3,27	2,68	3,86
Thailand	3,47	5,85	1,09
Nepal	3,64	5,42	1,87
Uzbekistan	4,68	1,37	7,99
China	5,00	1,94	8,06
Papua New Guinea	5,02	4,14	5,90
Netherlands	5,36	3,22	7,50
Finland	5,59	6,96	4,23
Namibia	5,82	4,17	7,48
Turkmenistan	6,00	0,88	11,12
Nigeria	6,23	- 2,18	14,65
Sweden	6,25	4,89	7,62
Taiwan Province of China	6,38	6,09	6,68
Islamic Republic of Iran	6,59	5,63	7,55
Bahrain	6,95	2,90	11,01
Oman	8,31	6,46	10,17
Botswana	9,25	7,71	10,78
Hong Kong SAR	9,31	6,85	11,77
Luxembourg	9,95	10,27	9,63
Russia	10,11	11,67	8,56
Venezuela	10,34	7,24	13,44
United Arab Emirates	10,64	8,38	12,90
Switzerland	10,68	10,64	10,71

Malaysia	12,95	10,51	15,38
Norway	13,98	12,31	15,64
Gabon	14,61	11,09	18,13
Algeria	15,15	10,06	20,25
Trinidad and Tobago	15,23	4,35	26,12
Saudi Arabia	16,15	6,47	25,83
Singapore	18,41	15,26	21,56
Qatar	25,02	22,05	27,99
Libya	25,99	13,36	38,62
Kuwait	29,60	22,09	37,11
Brunei Darussalam	49,04	44,52	53,55

	Avg '99-'08	Avg '99-'03	Avg '04-'08
Avg ALL	- 2,79	- 2,69	- 2,83
Avg ALL MINUS	- 7,53	- 6,41	- 8,55
Avg ALL PLUS	7,70	5,55	9,85
Avg EU	- 2,83	- 1,79	- 3,87
Avg EU MINUS	- 6,36	- 4,62	- 8,10
Avg EU PLUS	4,23	3,86	4,59
Avg EMU	0,21	0,69	- 0,26
Avg EMU MINUS	- 5,32	- 3,82	- 6,82
Avg EMU PLUS	4,16	3,91	4,42

Conclusion

- **Not clear that intra-EA imbalances are bad**
- **Whether they are or not, what really matters is**
 - Financial stability: ESRB
 - Fiscal stability: SGP and ECRM
- **No need for additional mechanism?**