

Curing Europe's Growing Pains: Which Reforms?

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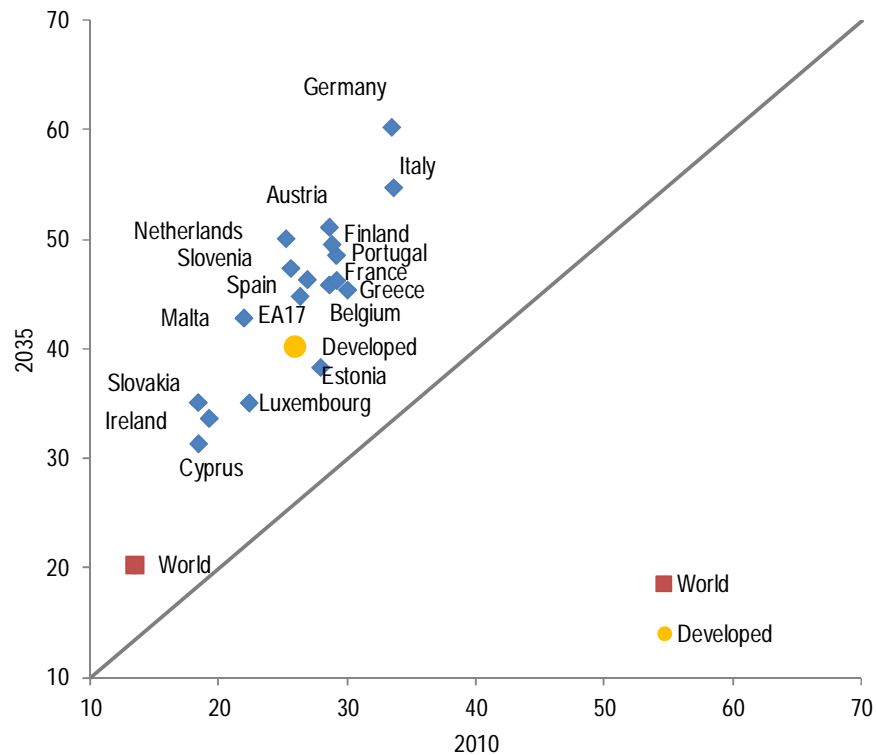
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Overview

- Growth Emergency:
 - Death and Debt
 - Average and Distribution
- Reform dynamics:
 - Crisis = opportunity?
 - Short-term pain for long-term gain
 - Traps and space
- Which reforms?
 - Confidence
 - Close the gaps
 - Competition and integration

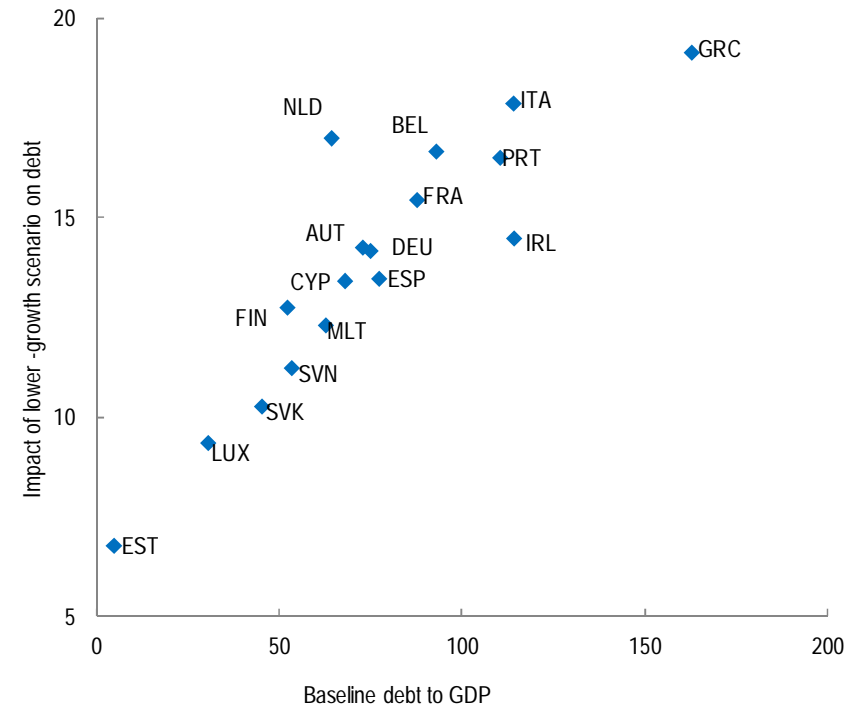
Death and Debt

Figure 1. Old-age Dependency Ratio 1/



Source: United Nations.
1/Ratio of population age 65+ per 100 population of age 20-64.

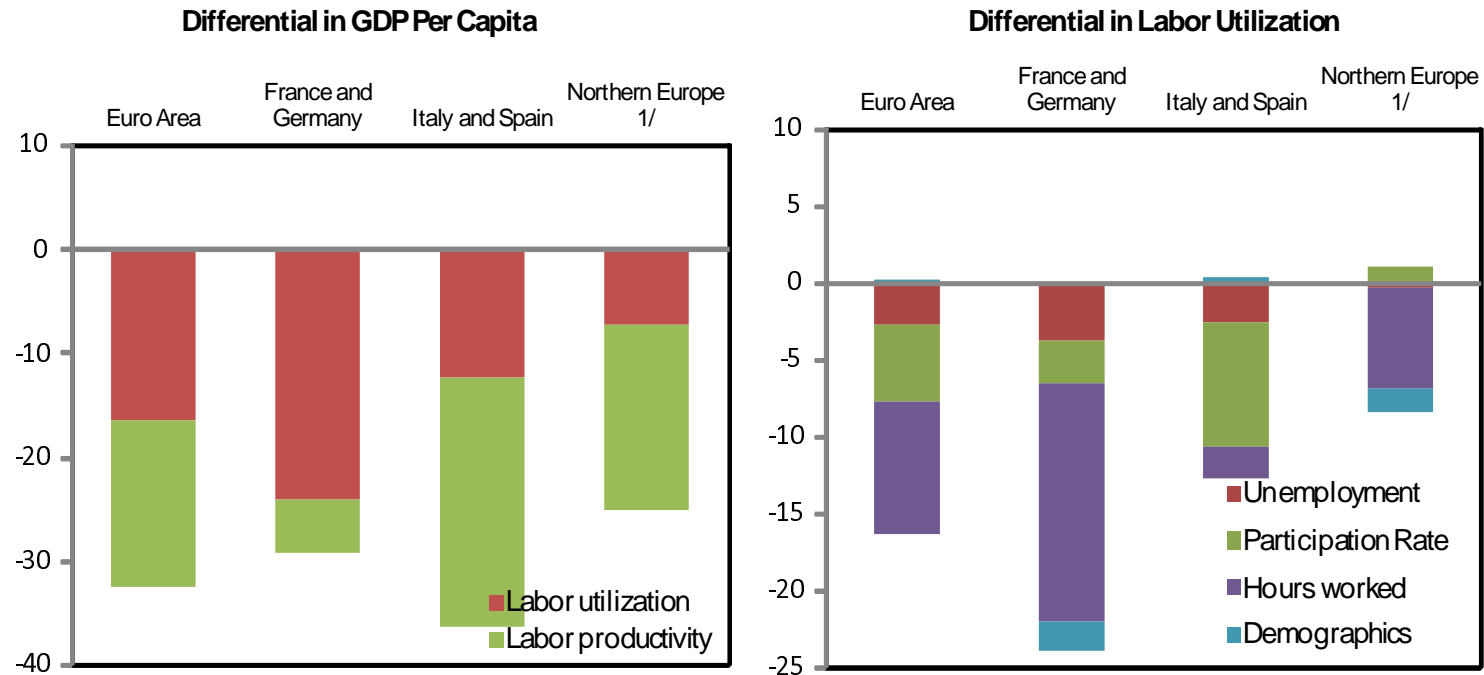
Figure 2. Impact of a Negative Growth Shock on Gross General Government Debt, 2016
(Percent of GDP)



Sources: IMF staff estimates and projections.
Note: Shock assumes that GDP growth is 1 percentage point below the baseline scenario from 2011 to 2016.

Average

Selected Advanced Economies: Differential with the United States, 2006-08 (Percentage points)

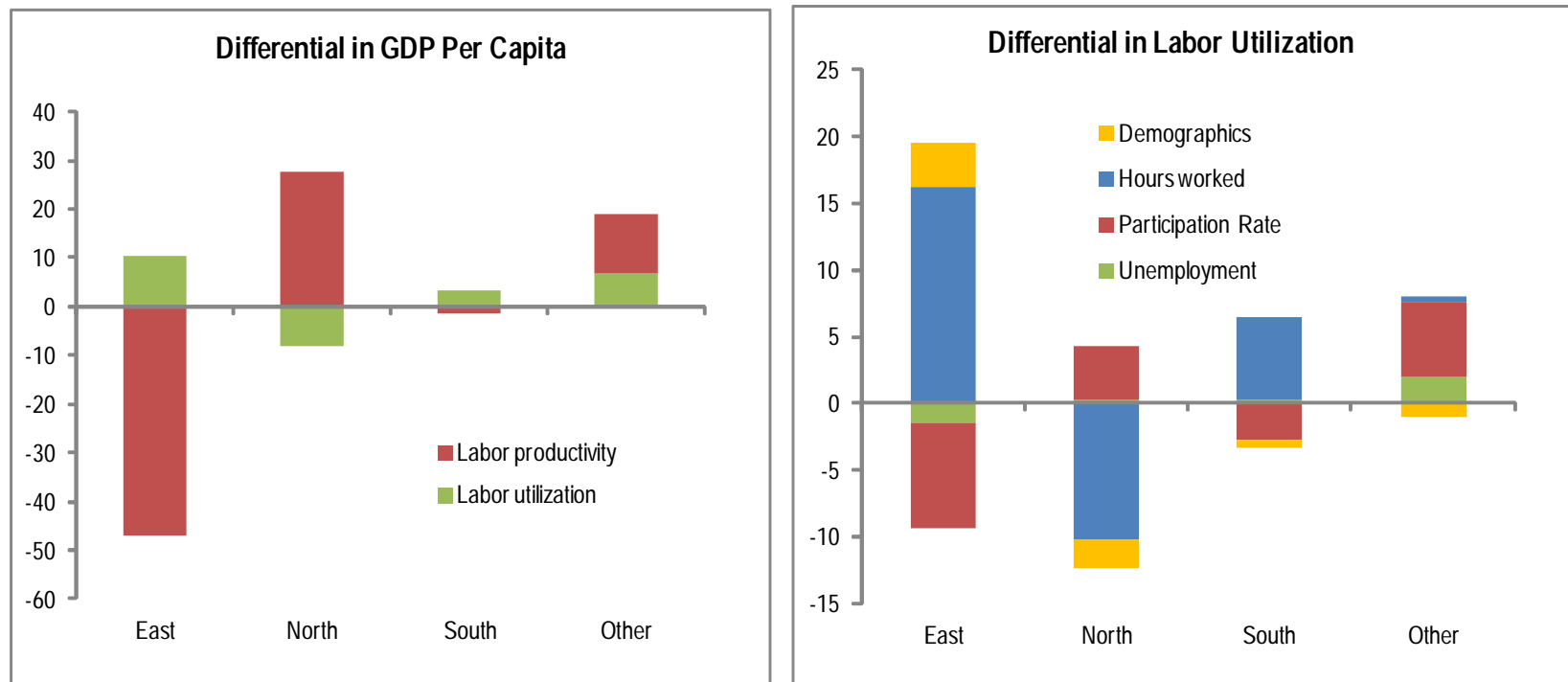


Source: Mourre (2009), European Commission, and IMF staff calculations.

1/ GDP-weighted average of Denmark, Sweden and UK.

Distribution I

Figure 3. GDP Per Capita and Labor Utilization: Differential with EU, 2006-08
(Percentage points)

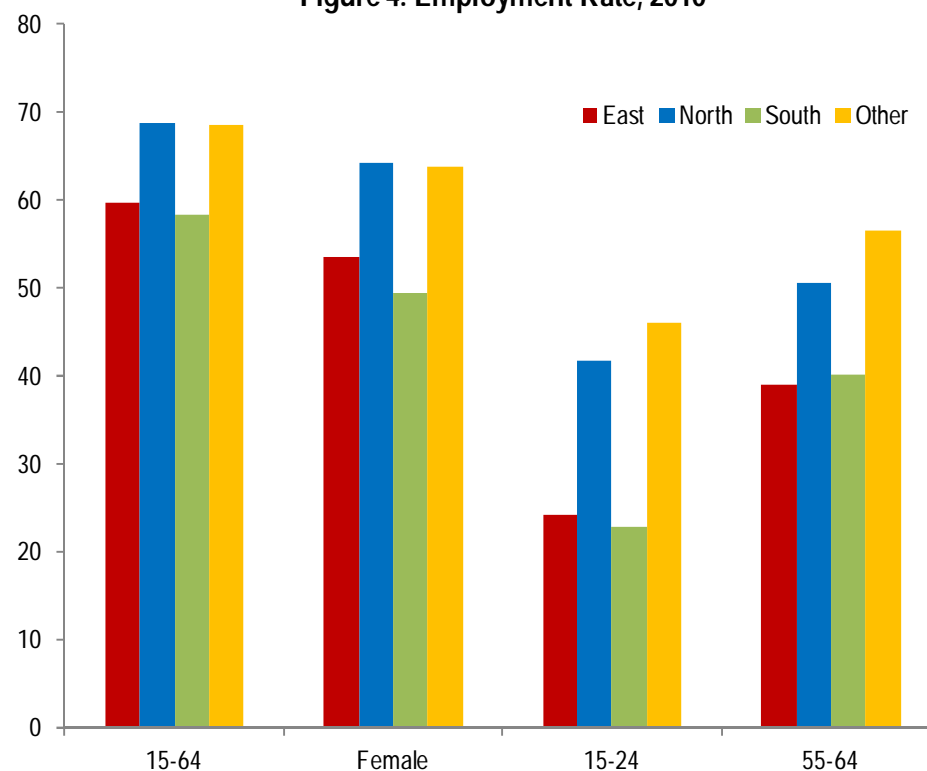


Source: Mourre (2009), European Commission, and IMF staff calculations.

Note: East EU comprises Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic; North EU comprises Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Sweden; South EU comprises Cyprus, Greece, Italy, Malta, Portugal, Slovenia, Spain; and Other EU comprises Ireland, United Kingdom. Aggregations are GDP weighted.

Distribution II

Figure 4. Employment Rate, 2010



Source: Eurostat and IMF staff calculations.

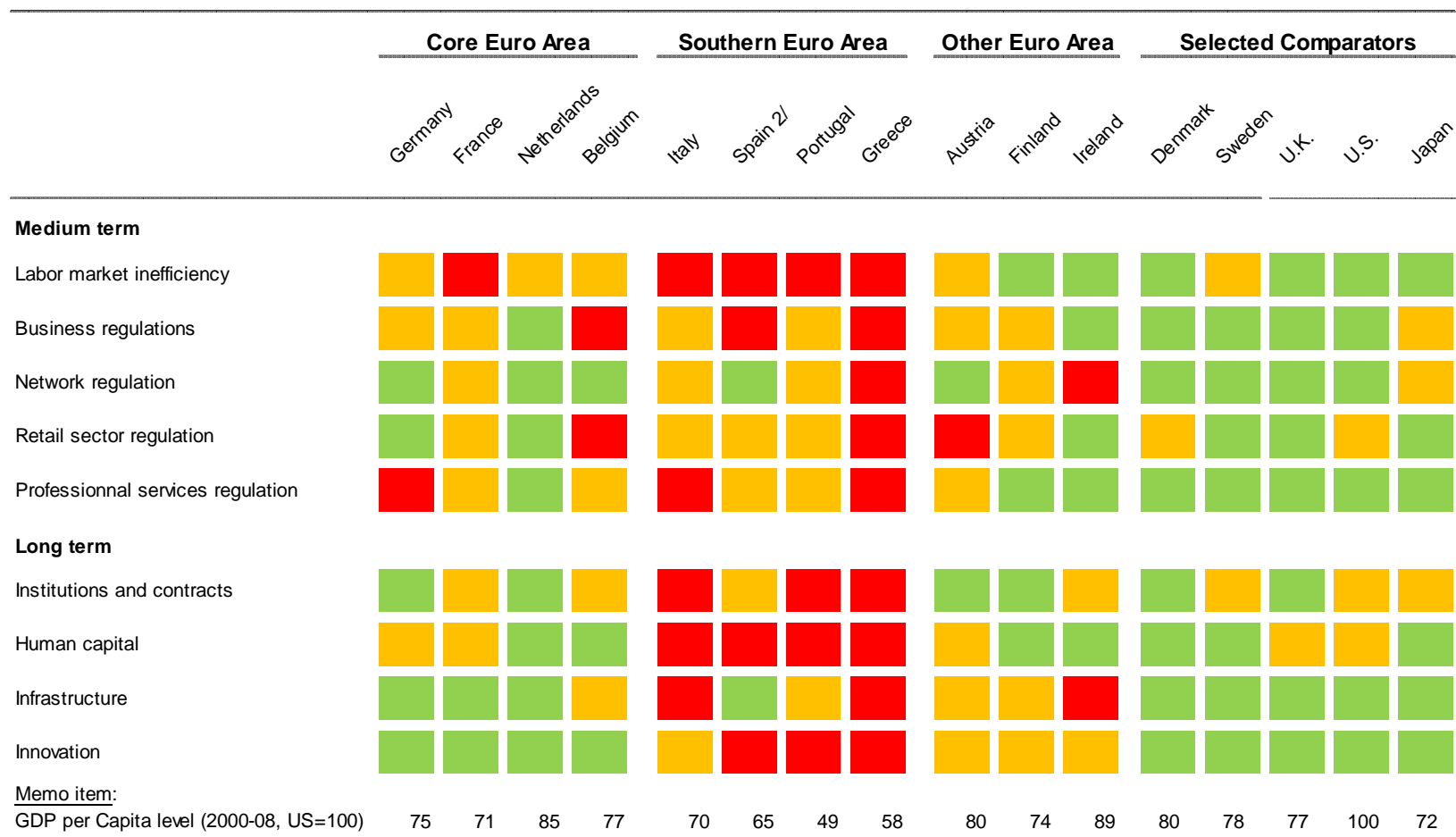
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Reform Dynamics

- Crisis = opportunity?
- Short-term pain for long-term gain
- Traps and space

Reforms: Closing the Gaps

Figure 10. Structural Reforms Gaps in European Economies: A Heatmap 1/



Sources: OECD; World Economic Forum; Fraser Institute; and IMF staff calculations.

1/ See IMF, 2010d for a description of the methodology, and of the detailed components of the labor market heatmap. □

2/ The indicators do not incorporate the labor market reform implemented in Spain in 2010.

More Competition

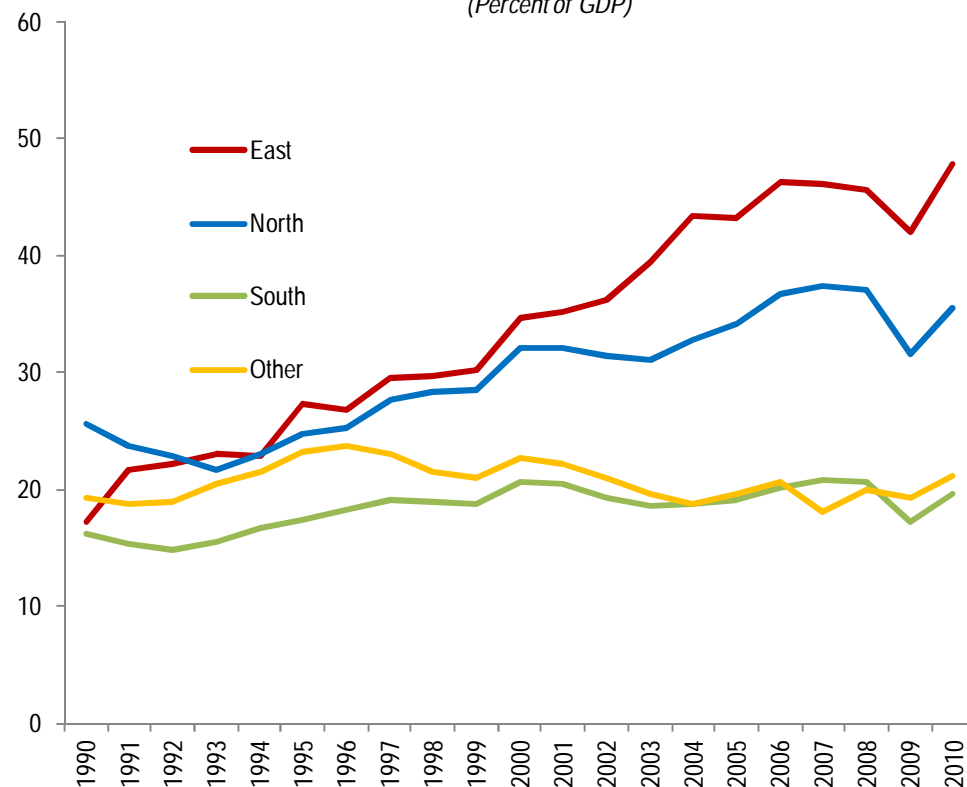
Table 2. Weighted Average Mark-ups

	U.S.	Euro Area	Germany	France	Italy	Spain
Manufacturing and construction	1.28	1.18	1.16	1.15	1.23	1.18
Market services	1.36	1.54	1.54	1.26	1.87	1.37
Research and development	1.62	2.11	1.11	1.11	2.40	2.14
Financial intermediation	1.39	1.56	1.88	1.43	1.42	1.29
Air transport	1.16	1.64	1.13	1.11	1.84	1.14
Retail	1.19	1.42	1.12	1.24	1.95	1.53

Source: Christopolou and Vermeulen (2008).

Trade integration

Figure 9. Export of Goods, 1990-2010
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

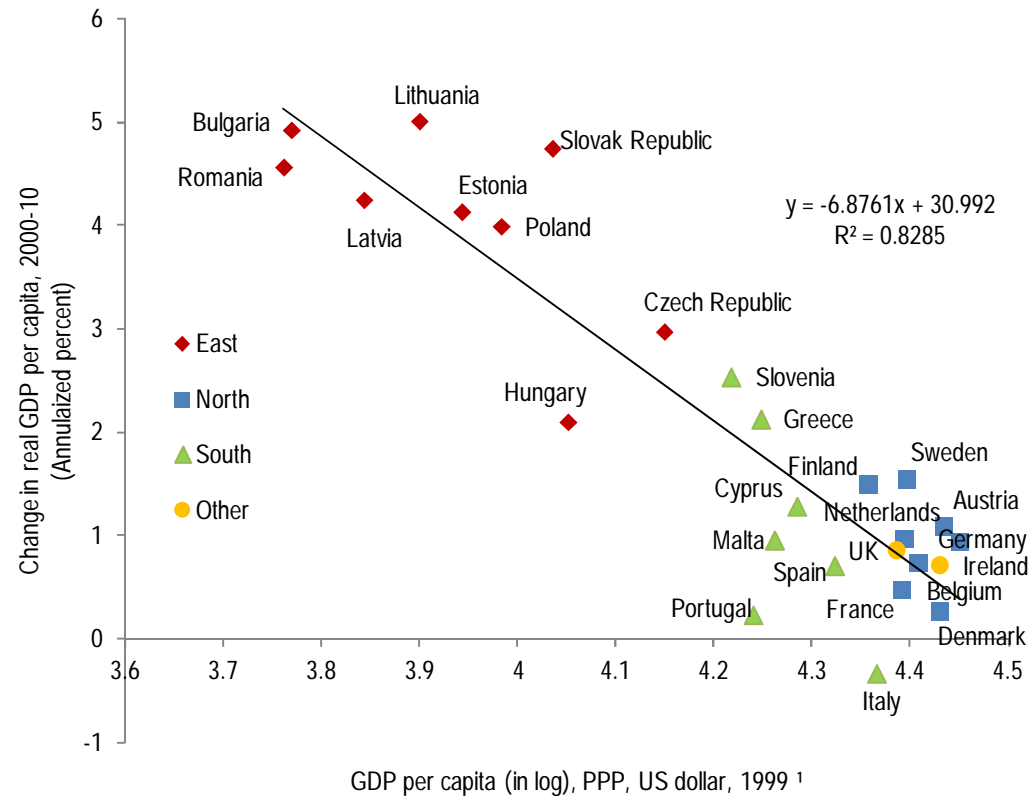
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Thank you

Spares

Convergence I: east-west

Figure 5. Convergence across EU Economies

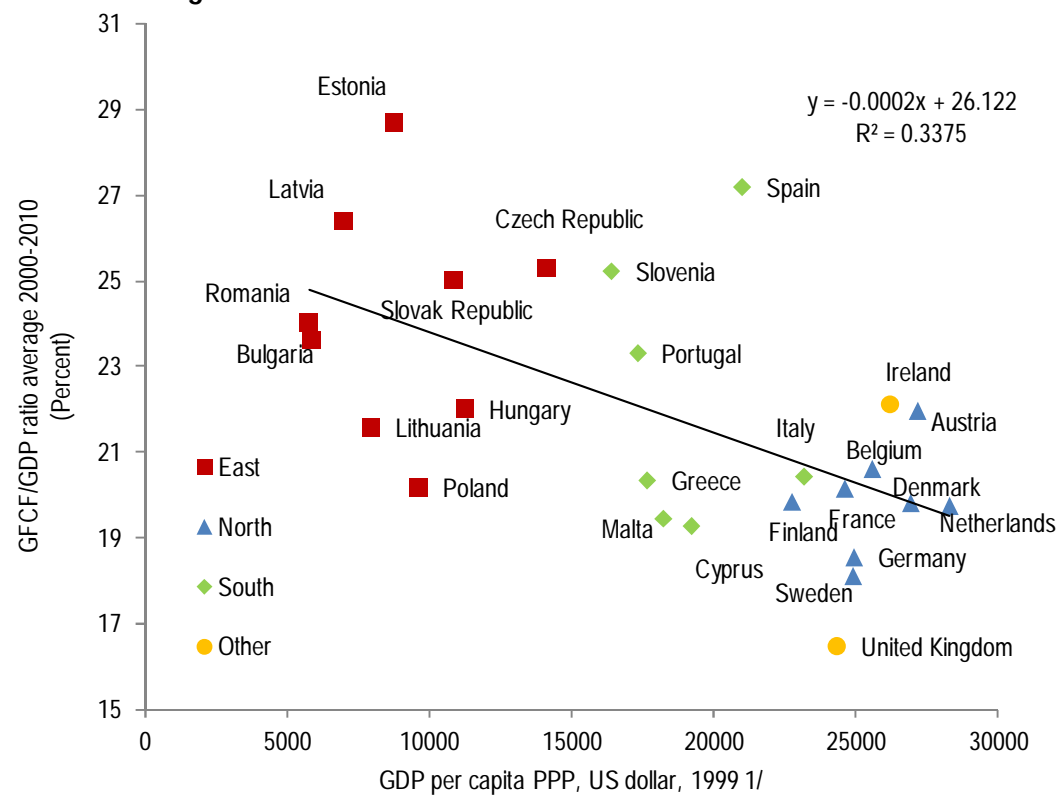


Source: WEO.

¹Data for Malta are for 2000.

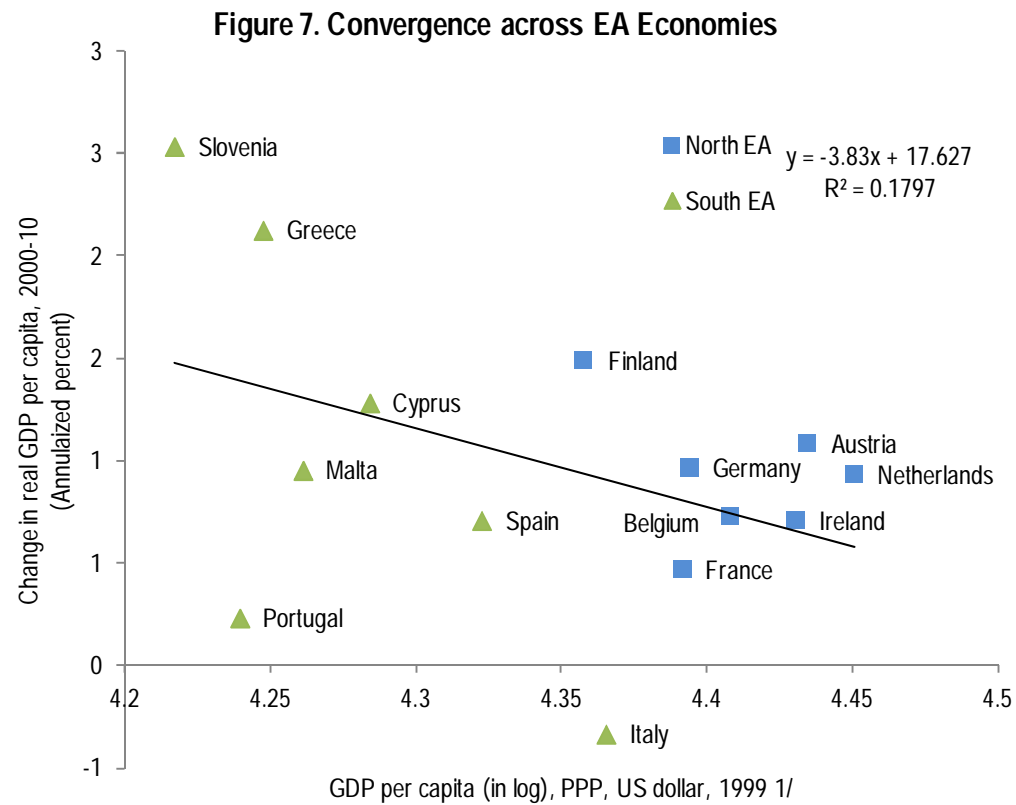
Eastern economies: high capital returns

Figure 6. Investment Ratios and initial Income Conditions



Sources: WEO and IMF staff calculations.
1/ Data for Malta are for 2000.

Convergence II: south-north



Source: WEO.
1/ Data for Malta are for 2000.

South: falling behind

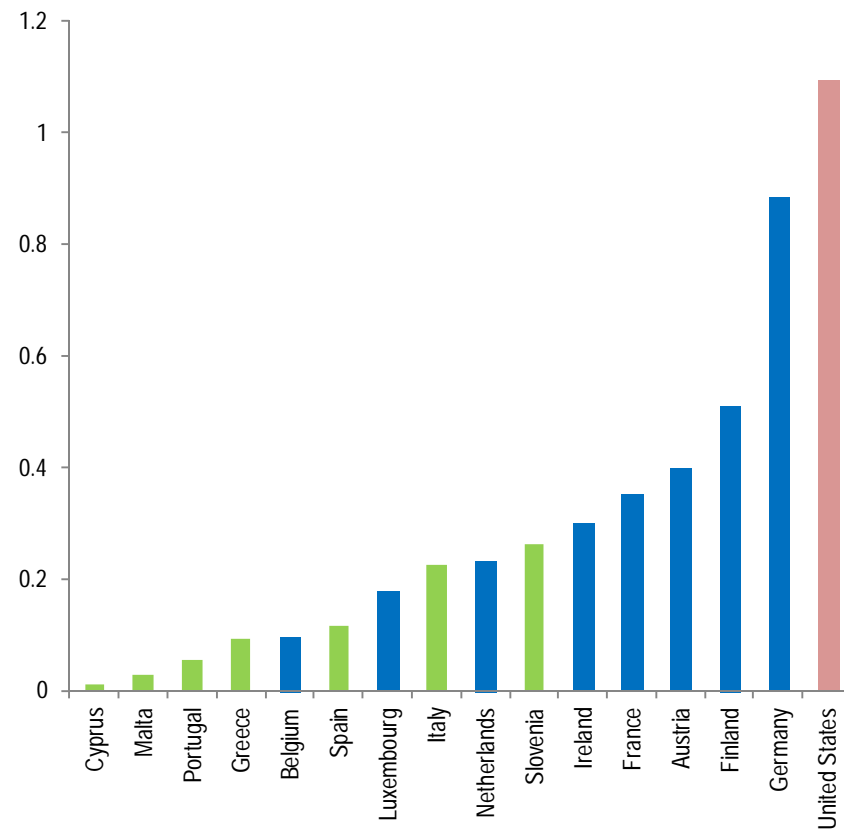
Table 1. Average Annual Real Labor Productivity Growth, 2000-2007
(Percent)

	Euro area average	Germany	Greece	Italy	Portugal	Spain
Market economy	0.8	1.6	2.9	0.0	0.9	0.9
Total manufacturing (excl. electrical)	4.4	2.8	1.4	0.3	1.7	1.7
ICT	4.4	5.8	6.2	4.4	7.1	3.2
Construction	0.5	-0.3	1.9	-0.9	-0.9	-0.4
Market services	1.4	0.6	2.5	-0.5	-0.2	0.8
Distribution	1.7	2.1	3.4	0.1	-0.9	0.8
Finance	2.2	1.1	6.0	3.0	6.6	8.0
Personal services	1.6	-0.6	1.1	-2.0	-1.3	-1.0

Source: Chen, Milesi-Ferretti and Tressel (2011).

Innovation gaps

Figure 11. Patent Applications, 2009 1/
(Per 1000 working age persons)

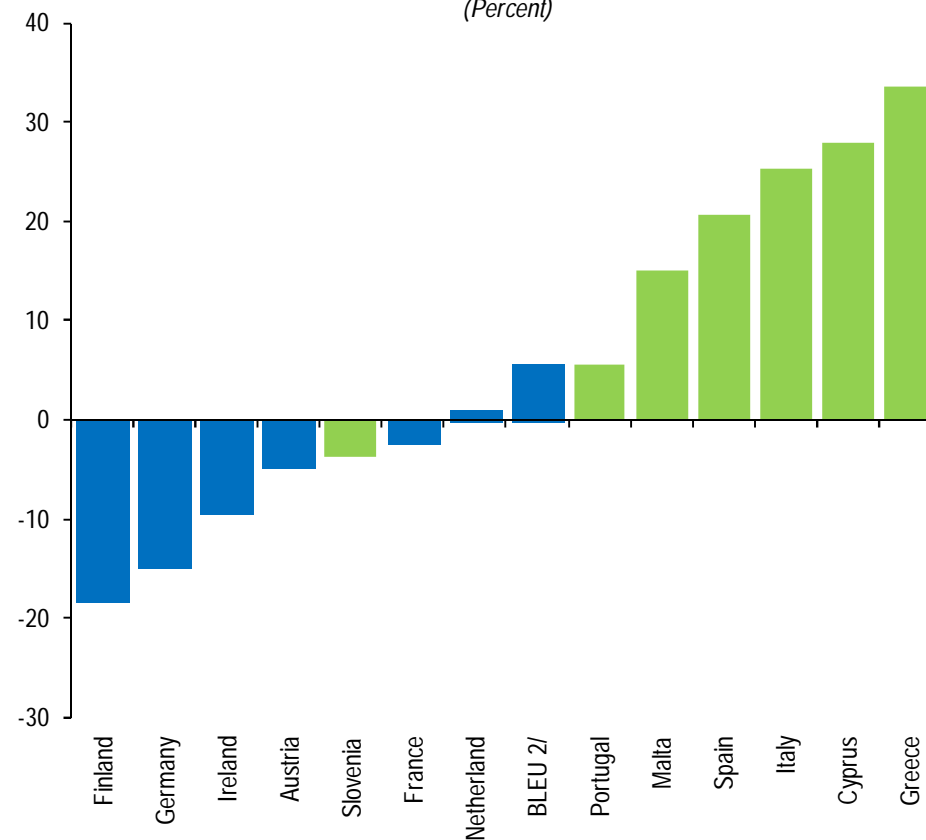


Source: WDI.

1/Data for Portugal are for 2008. Blue for North EA countries and green for South EA countries.

Restoring competitiveness

Figure 8. Euro Area: Appreciation of REER (ULC Manufacturing Based), 2000–07 1/
(Percent)



Sources: European Commission; and IMF staff calculations.

1/ Real effective exchange rates are relative to the rest of euro area and based on annual data. Blue for North EA countries and green for South EA countries.

2/ BLEU stands for Belgium Luxembourg Economic Union.