

# CHALLENGES TO INTEGRATED LABOUR MARKETS

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Wages and nominal and real unit  
labour cost differentials in EMU

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Andrew Watt

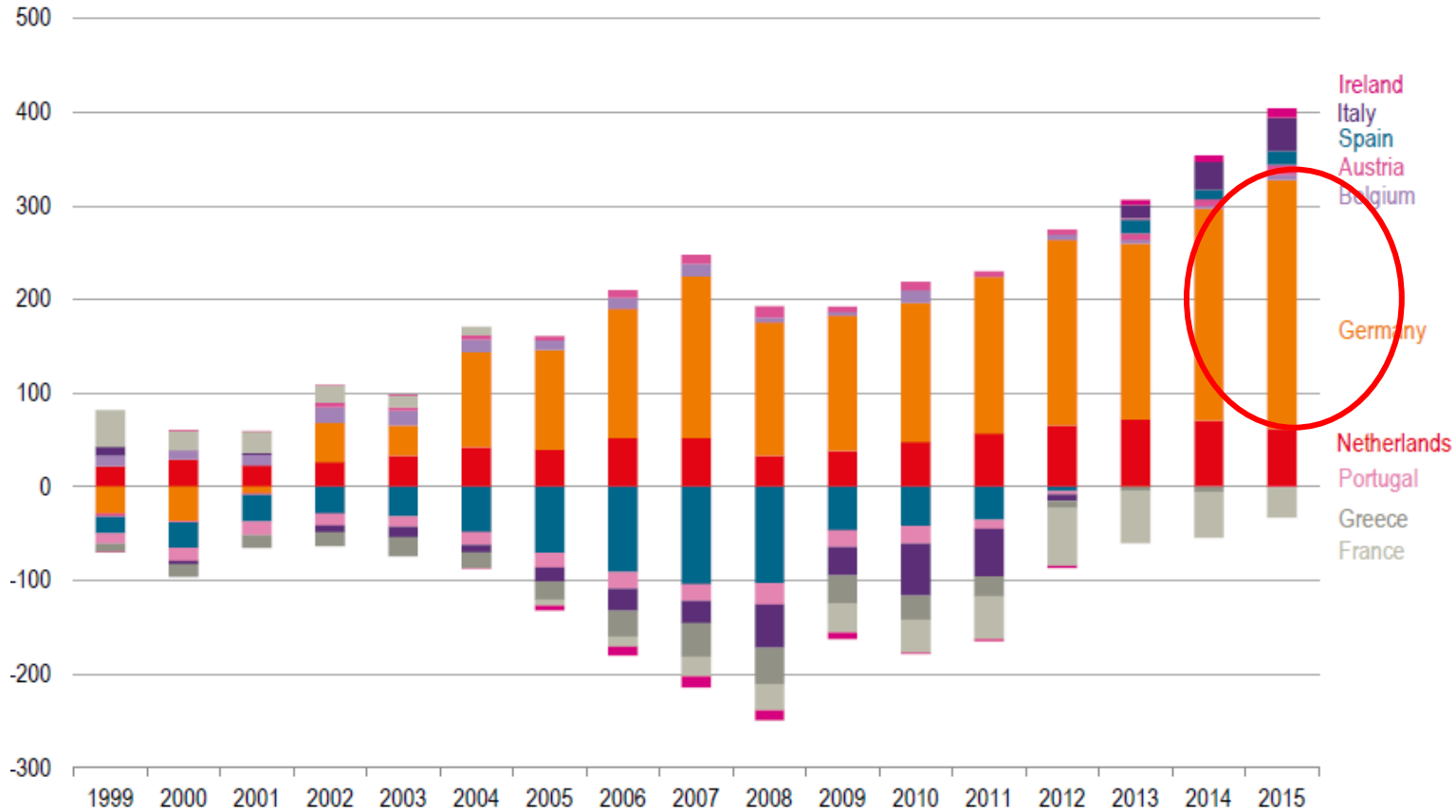
Brussels, September 16th

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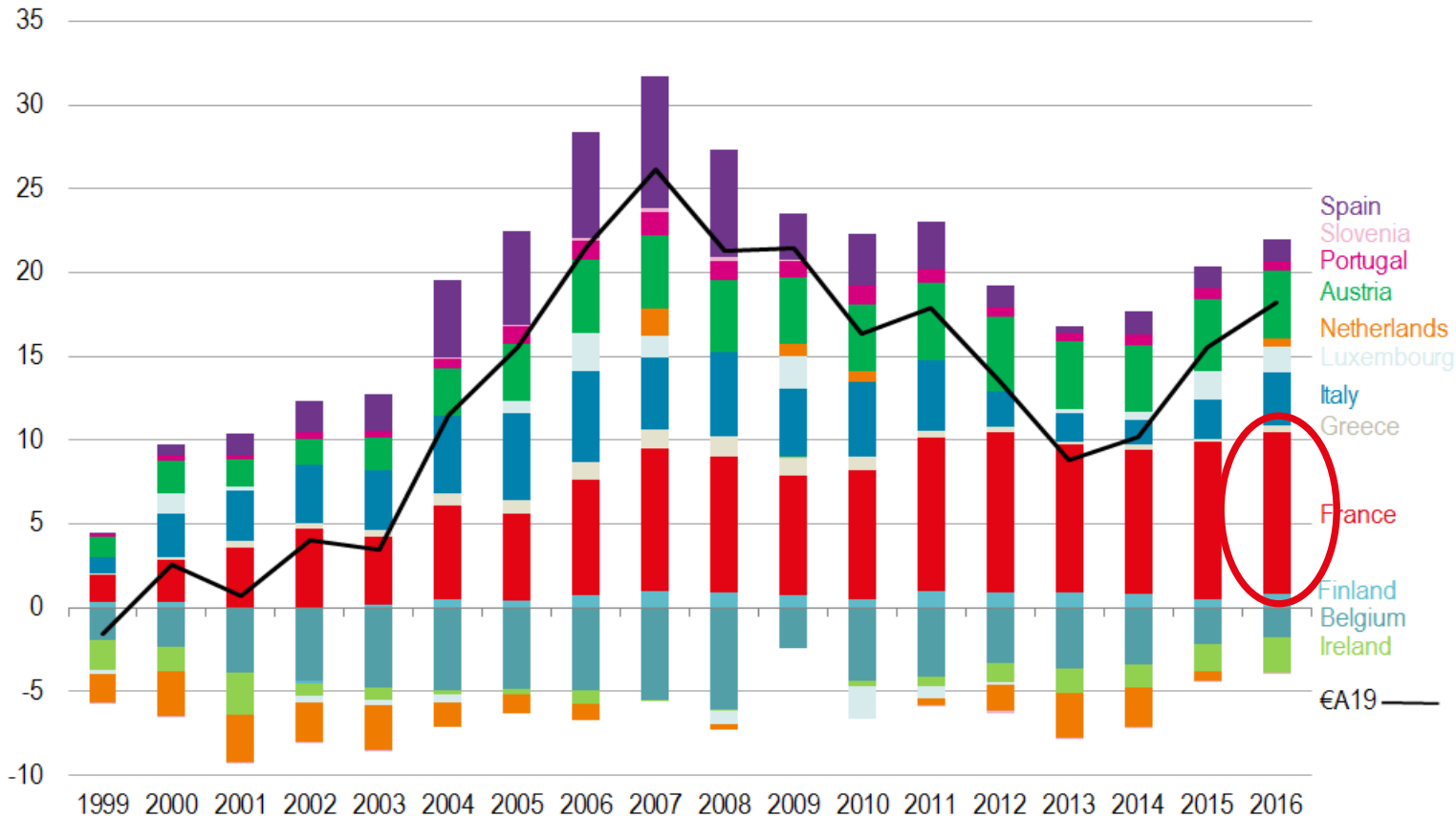
1. The Role of External Imbalance
2. Wages and External Imbalances
3. Simulation on IMK Model
4. Preliminary Conclusions

# The Role of Current Account Imbalances



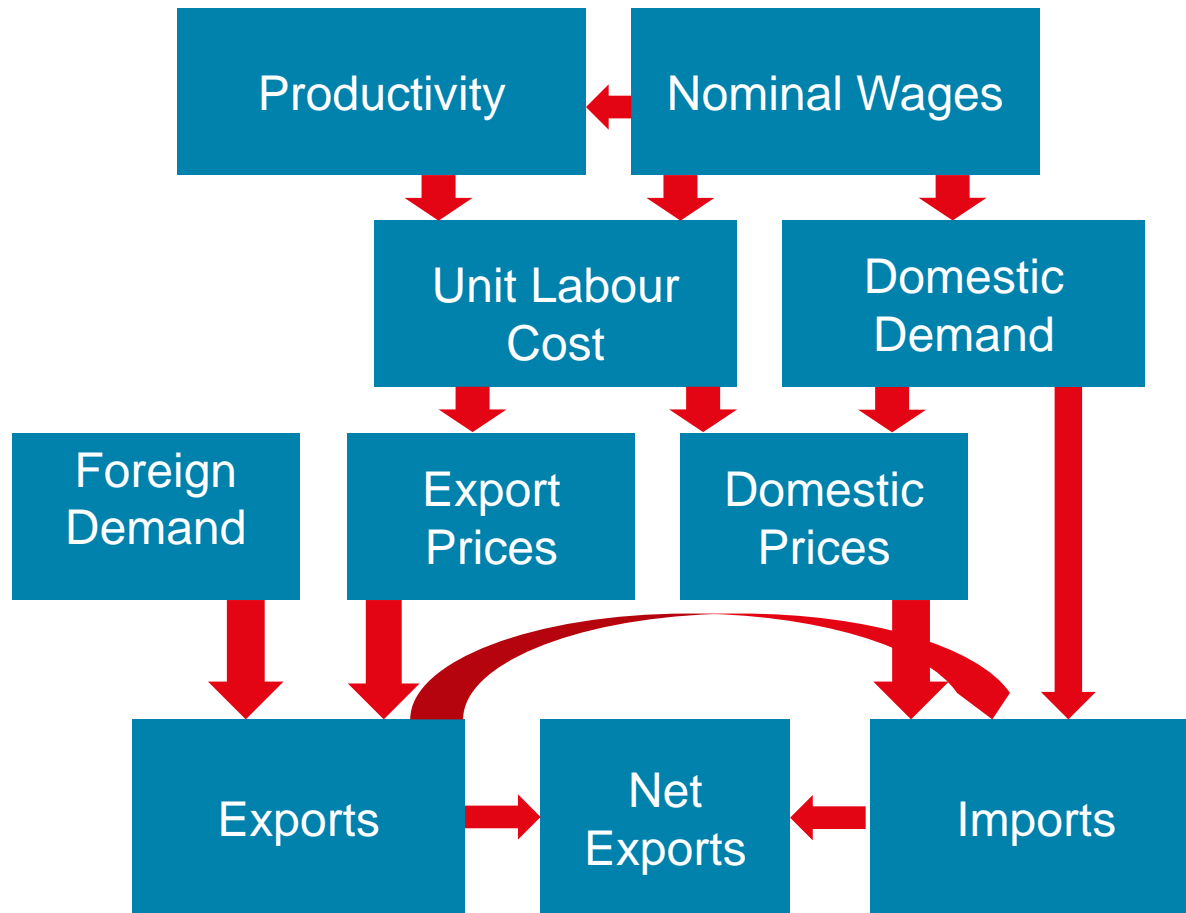
# Germany's Current Account Surplus within EMU

Billions EUR



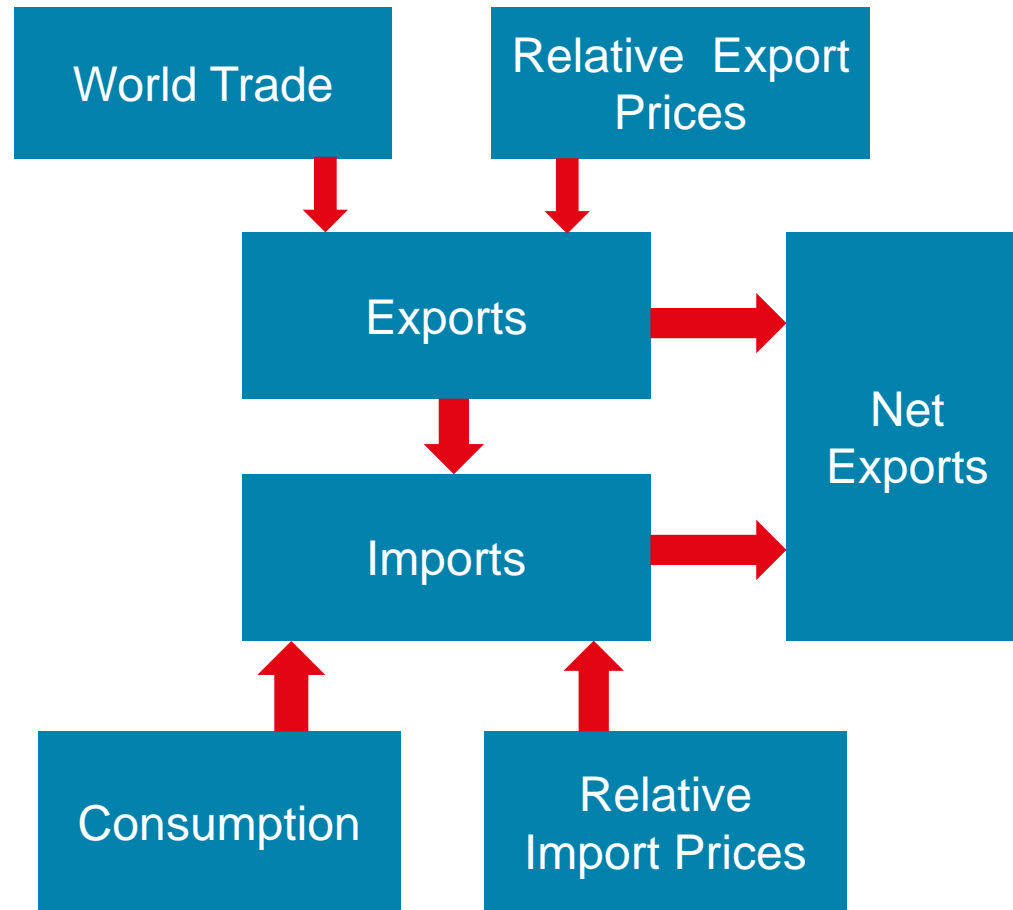
# Wages and Net Exports

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# Foreign Trade Equations

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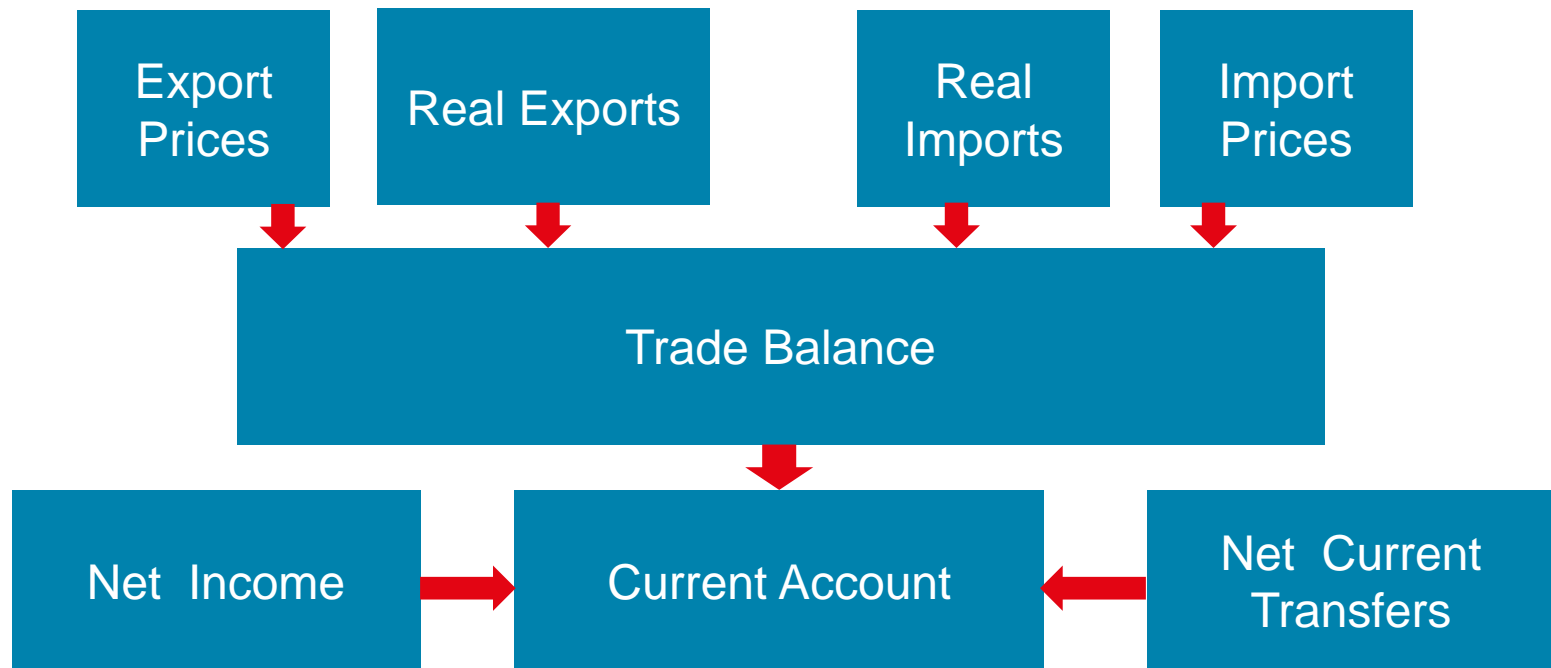
# Pricing to Market

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# Trade Balance and Current Account

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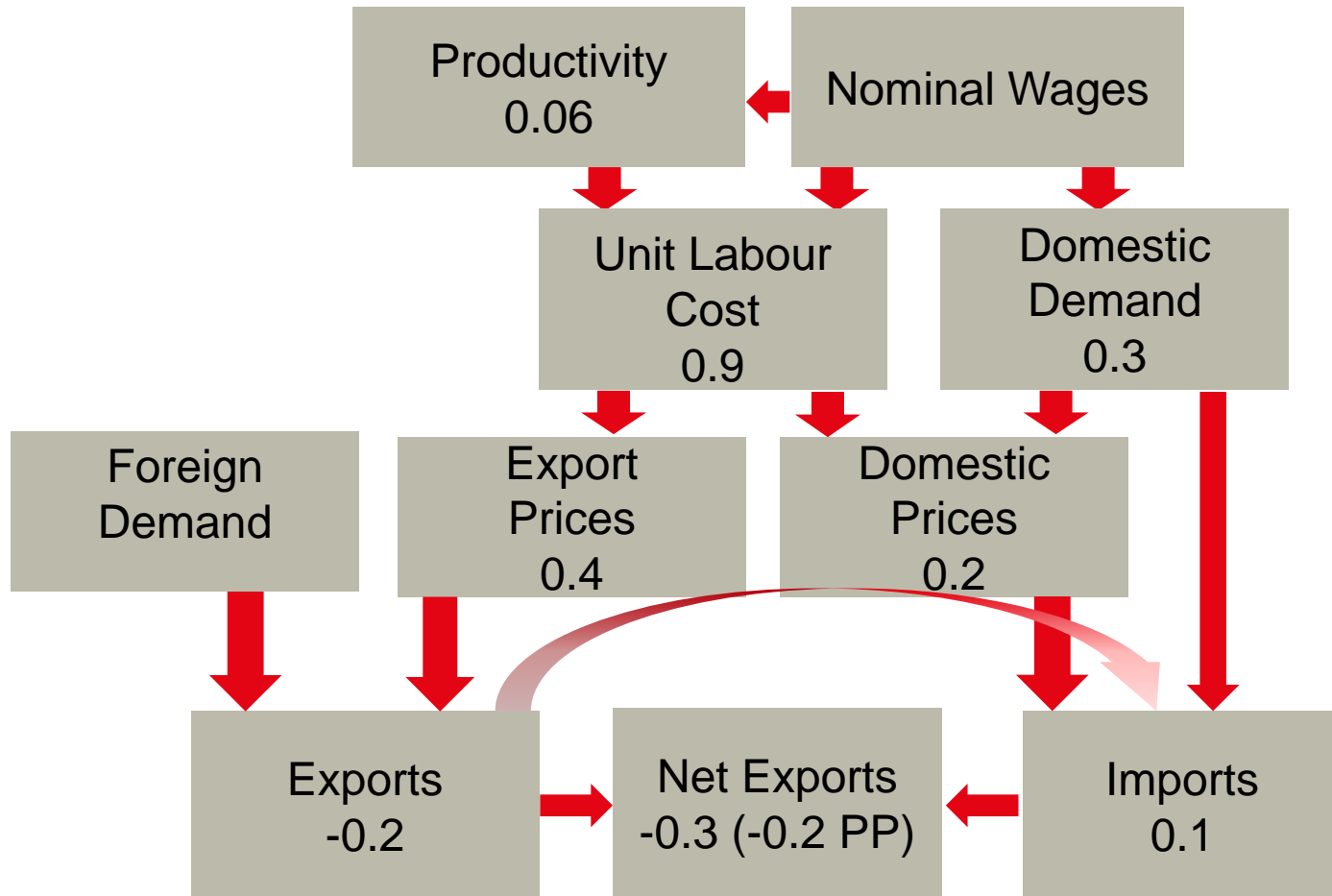


# Simulation on IMK Model

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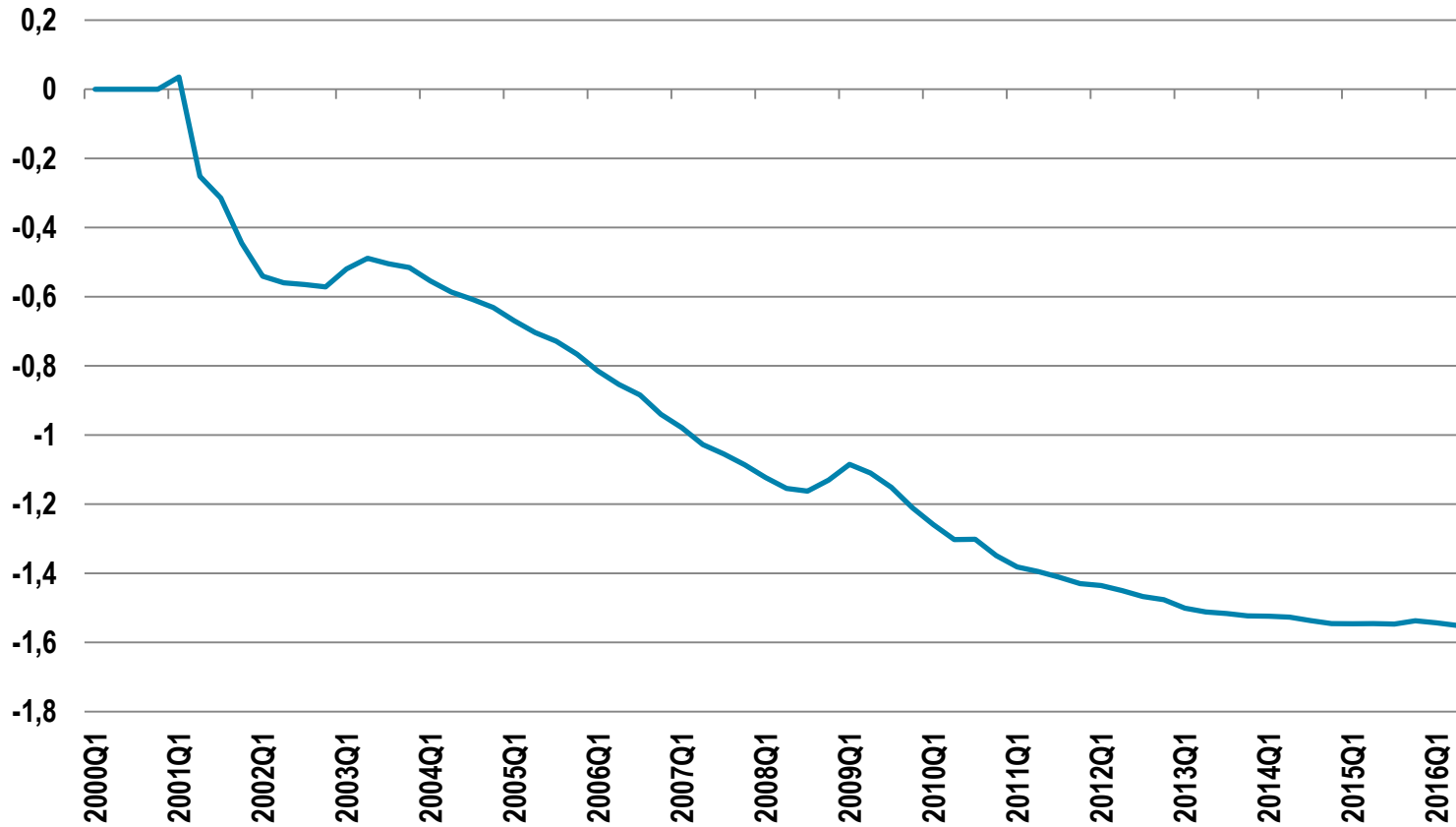
1. Nominal Wage Shock +10pc on baseline for one year
2. Stays permanently
3. Simulation period 16 years.
4. No monetary or fiscal policy reaction
5. Impact on Net Trade
6. Impact on Trade Balance

# Wages and Net Exports: End of period Elasticities

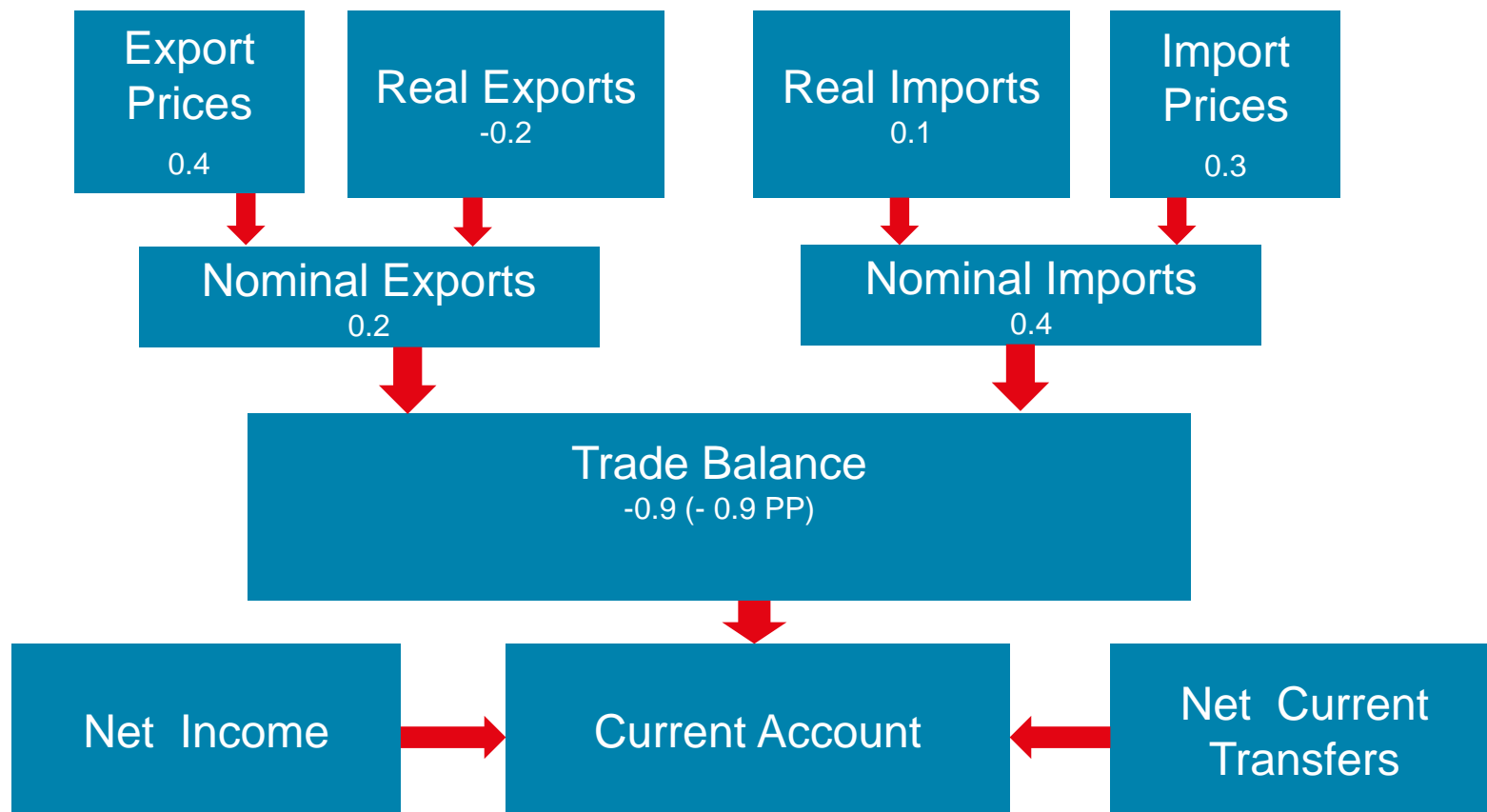


# Real Net Export Impact in % of GDP

## Deviation from baseline in PP

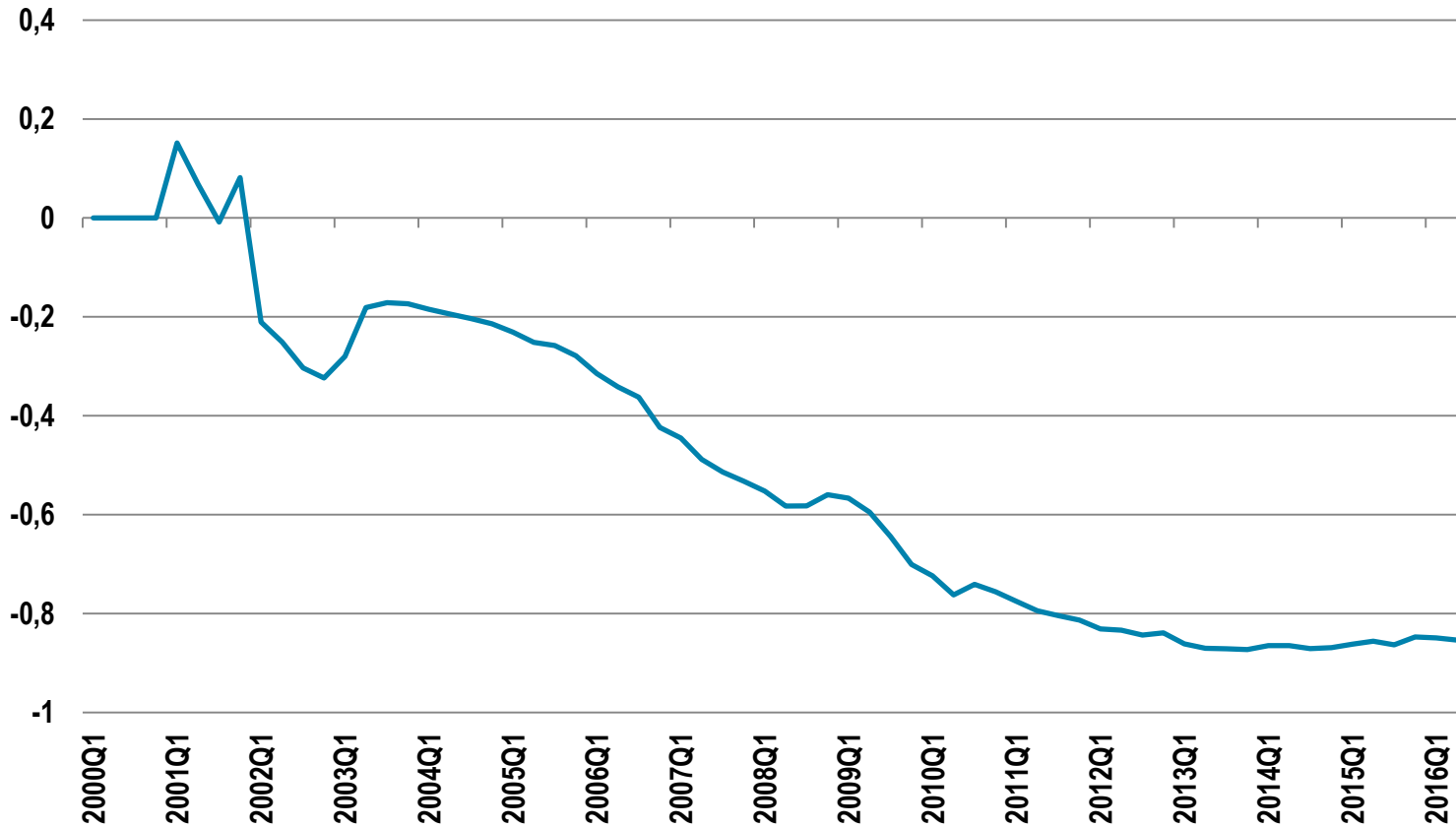


# Trade Balance and Current Account: End of period Elasticities



# Nominal Net Exports Impact in % of GDP

Deviation from baseline in PP



# Is Wage Adjustment a Good Balancing Mechanism für Foreign Trade?

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1. Yes, but given the size of the German surplus it takes a rather long period of time to reduce it to a level in line with MIB.
2. The impact may be smaller, if monetary policy would react.
3. Competitive Councils should not focus on wage co-ordination exclusively.

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# Thank you for your Attention

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