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EUROSYSTEM

# Macroeconomic Policies in Europe: Quo Vadis

A Comment

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# Outline

- **Staff Projection of the Euro Area**
- **Monetary Policy**
- **Investment**
- **Rebalancing in the euro area**
- **Fiscal Policy**
- **Gender**
- **Questions**

## Modest recovery expected to continue, supported by domestic demand

	2014	2015	2016	2017
<b>GDP</b>	<b>0,9</b>	<b>1,5</b>	<b>1,7</b>	<b>1,9</b>
Private consumption	0,8	1,6	1,9	1,7
Government consumption	0,8	1,4	1,2	1,0
Investments	1,3	2,3	2,8	3,8
Exports	4,1	4,8	4,0	4,8
Imports	4,5	5,3	4,8	5,3
<b>Inflation</b>	<b>0,4</b>	<b>0,1</b>	<b>1,0</b>	<b>1,6</b>
<b>Unemployment Rate</b>	<b>11,6</b>	<b>11,0</b>	<b>10,5</b>	<b>10,1</b>

### Supporting factors

- Accomodative monetary policy
- Depreciation of the effective exchange rate of the euro
- Low oil prices
- Some fiscal easing
- Some improvements in labour markets

### But

- Weak growth in emerging market economies

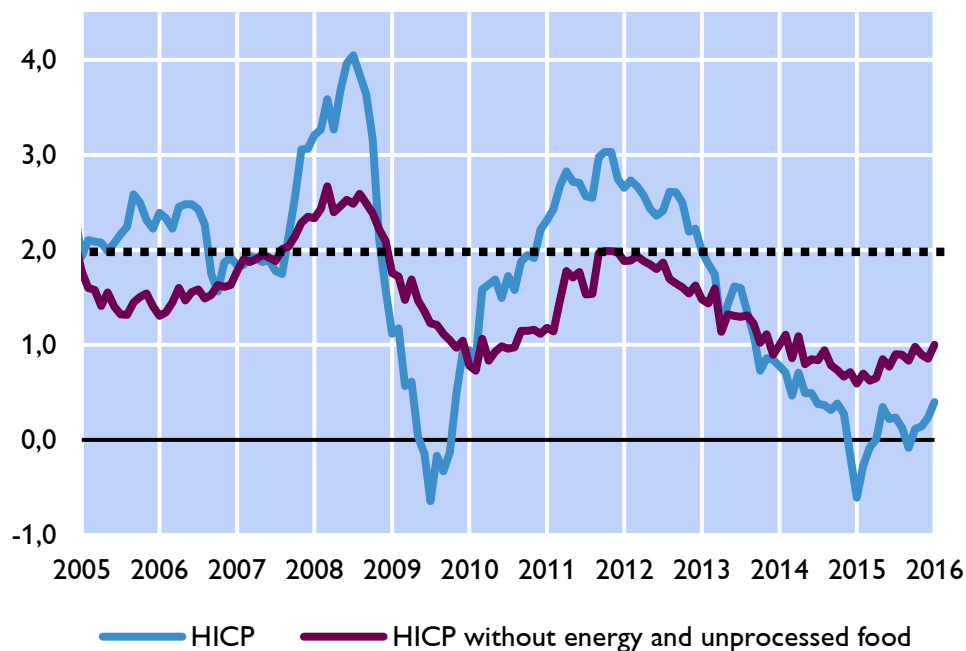
**Source: December 2015 Eurosystem Staff Macroeconomic Projections.**

# ECB fights deflation risk

## Inflation very low

### Inflation and core inflation in the euro area

annual change of HICP in %



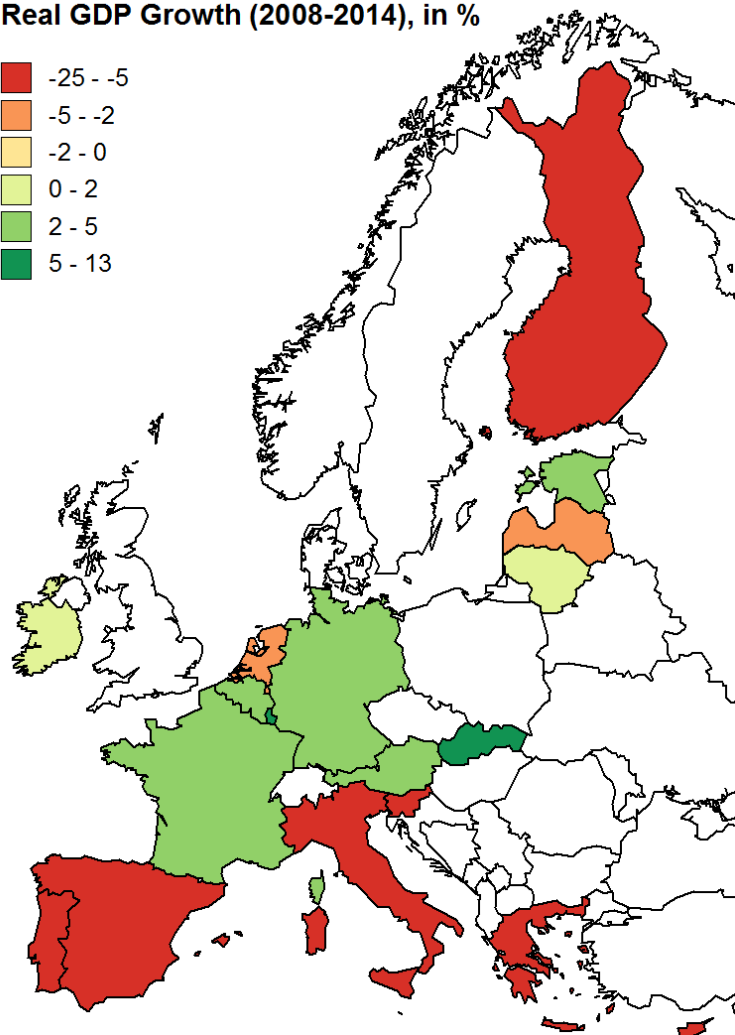
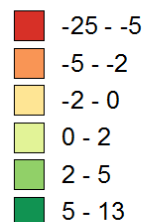
Source: Eurostat.

## Monetary easing

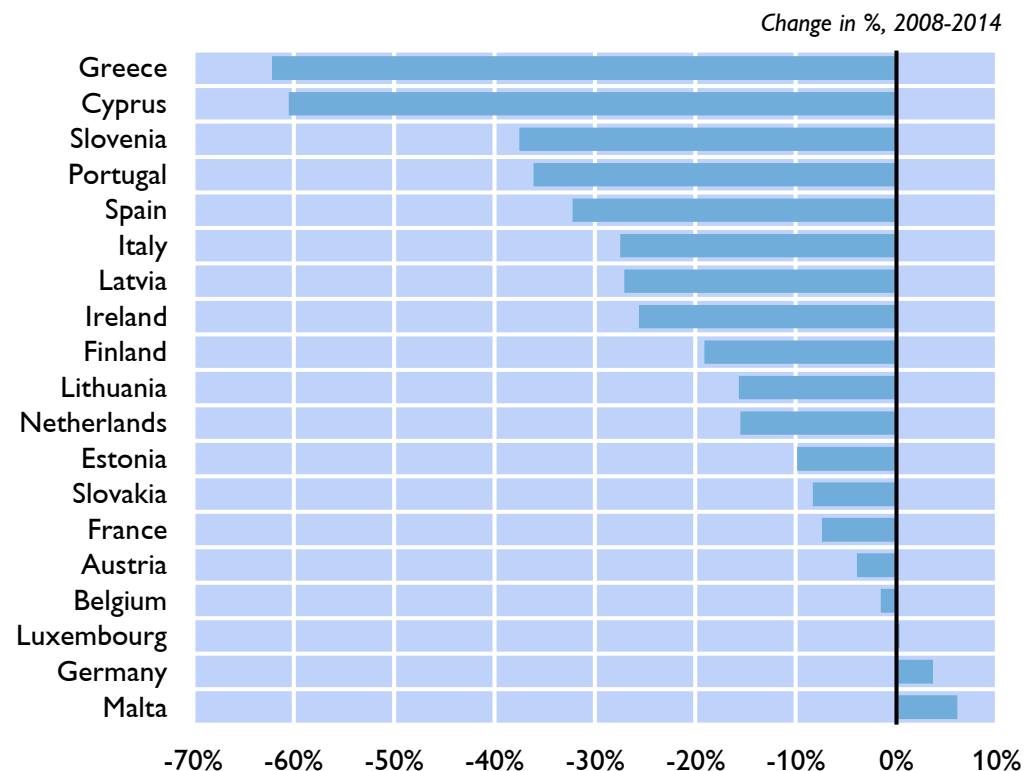
- **Conventional monetary policy:**
  - Interest rates at record low
- **Nonstandard measures**
  - Generous bank liquidity
  - Purchasing programs: mainly sovereign bonds
    - EUR 60 billion per month at least until March 2017
    - Balance sheet still smaller than U.S. (Fed), Japan or U.K. (BoE)
- **Aim:**
  - anchor expectations
  - inflation below, but close to, 2% over the medium term

# Strong revival of investment critical to achieving sustainable growth and income convergence

Real GDP Growth (2008-2014), in %



Change of real gross fixed capital formation, 2008-2014



Source: AMECO.

## Still incomplete rebalancing process

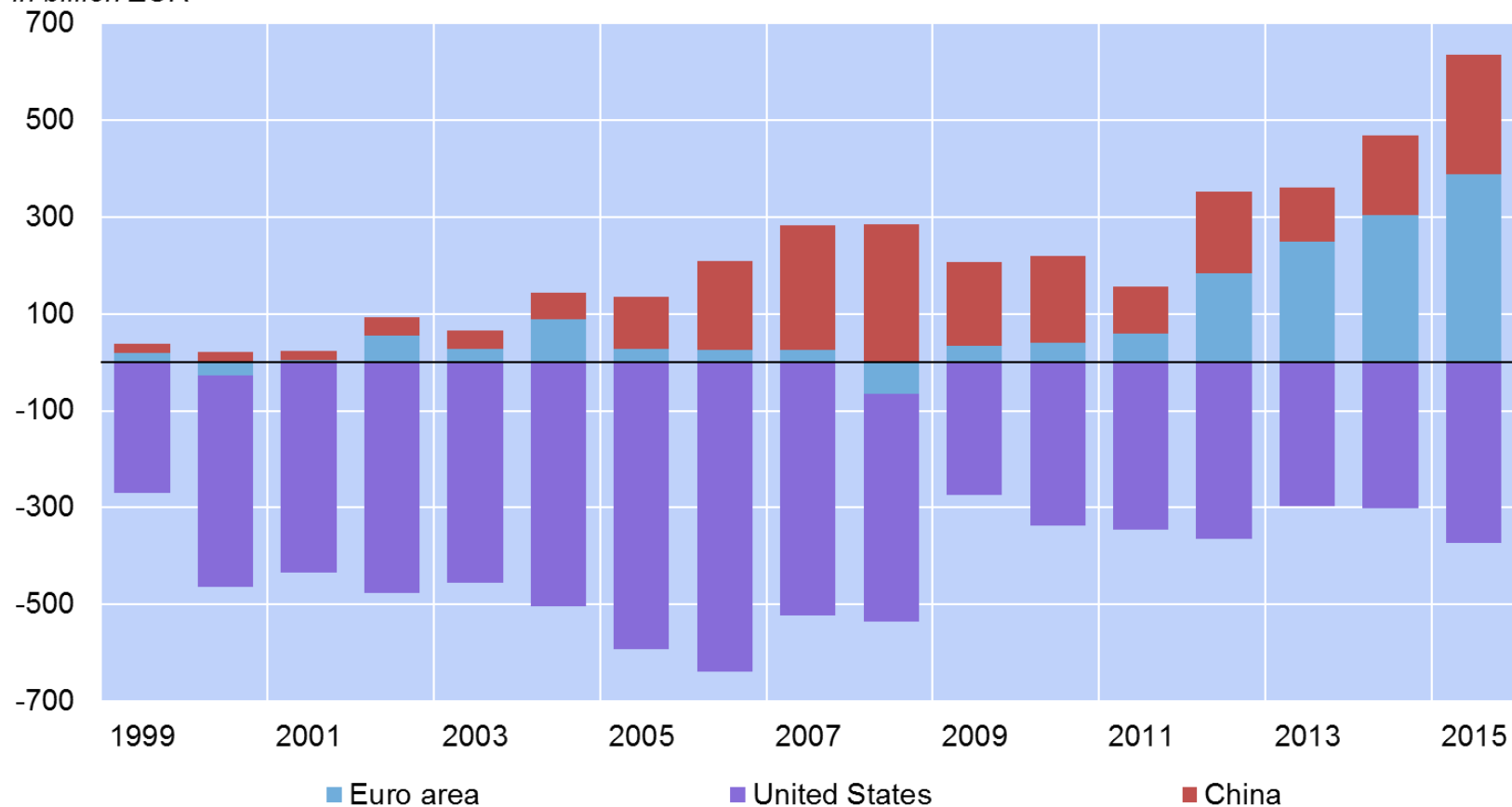
### External rebalancing asymmetric

- **Vulnerable countries have eliminated their current account deficits**  
This improvement was to a large extent driven by a decline in investment rather than in increase in savings
- **Germany and the Netherlands have further widened their current account surplus**

# Euro area current account surplus exceeds China's

## Current account balance of the three largest economies

in billion EUR

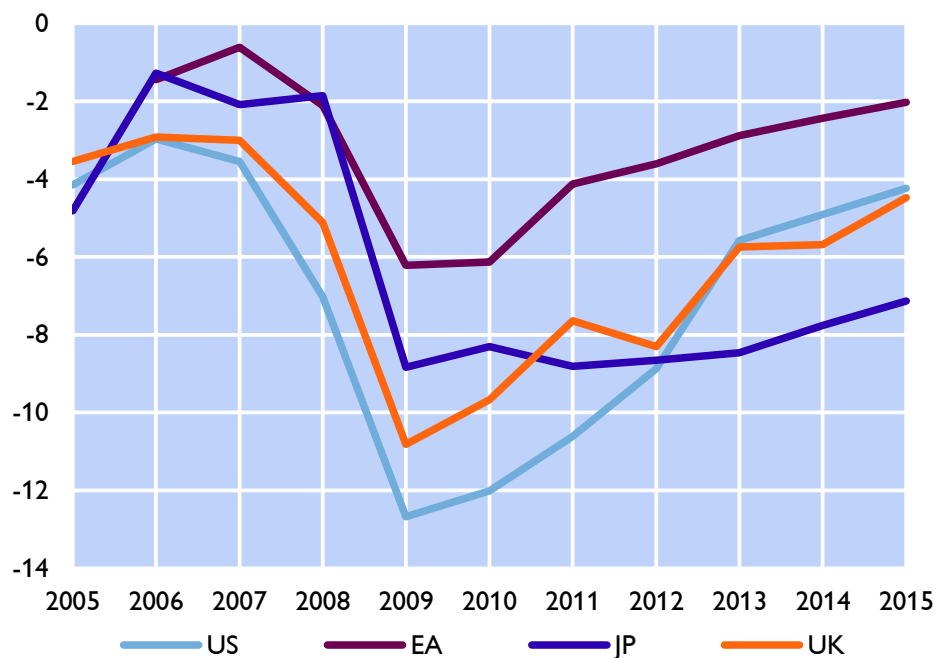


Source: AMECO, SAFE (China), own calculation.

# Balancing the objective of debt sustainability and counter-cyclical economic policy

## Budget Deficit

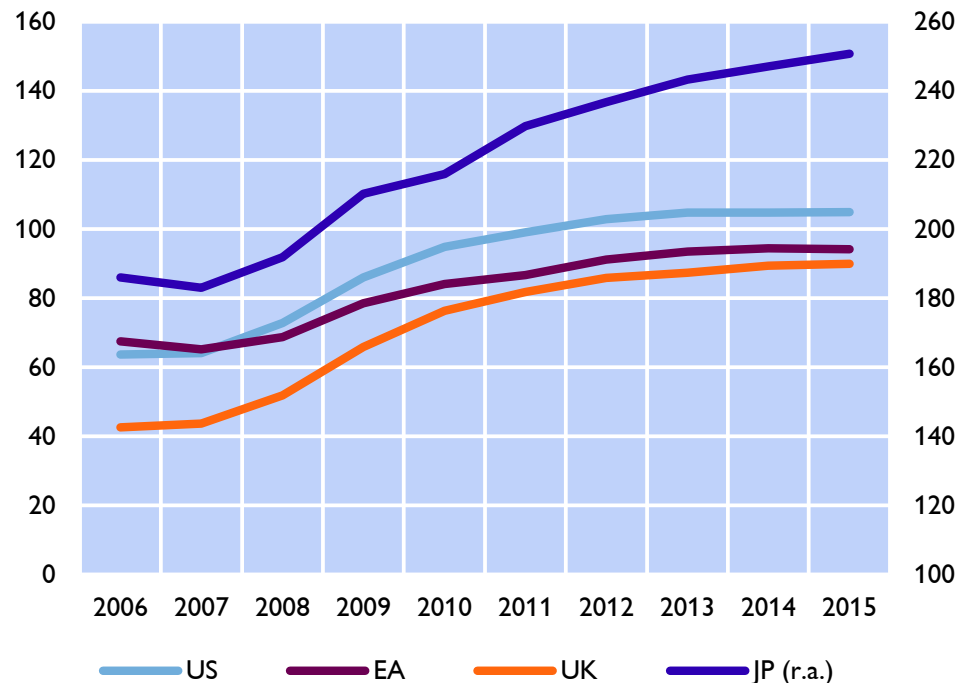
in % of GDP



Source: AMECO.

## Debt-to-GDP Ratio

in % of GDP



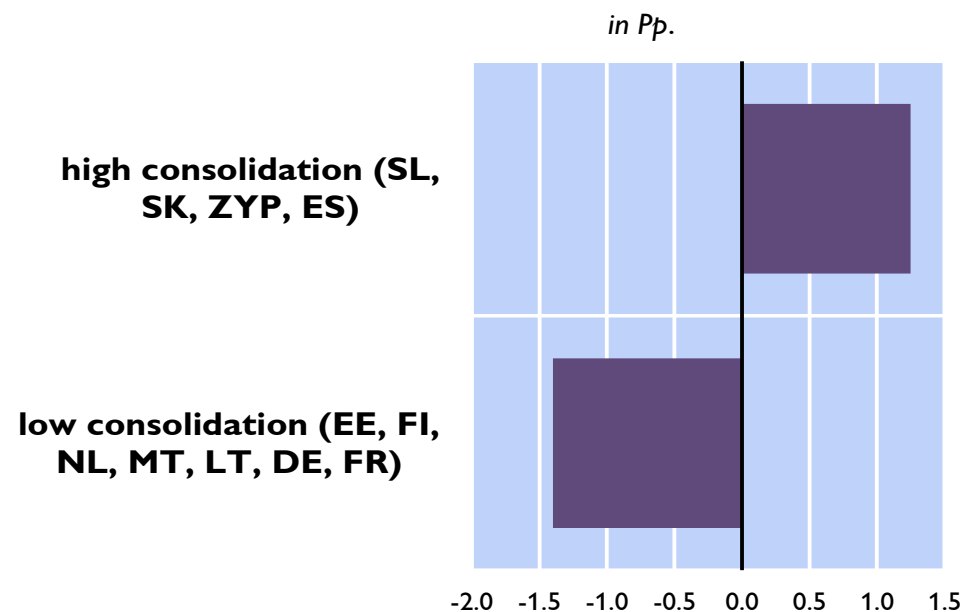
Source: EC.



# Increase in the Gender Wage Gap in crisis countries

- Countries with **above-average consolidation** efforts (reduced sample) have experienced an increase in Gender Wage Gaps
- **Below-average consolidation** countries have seen a decline in Gender Wage Gaps

Change in the Gender Wage Gap 2010-2014

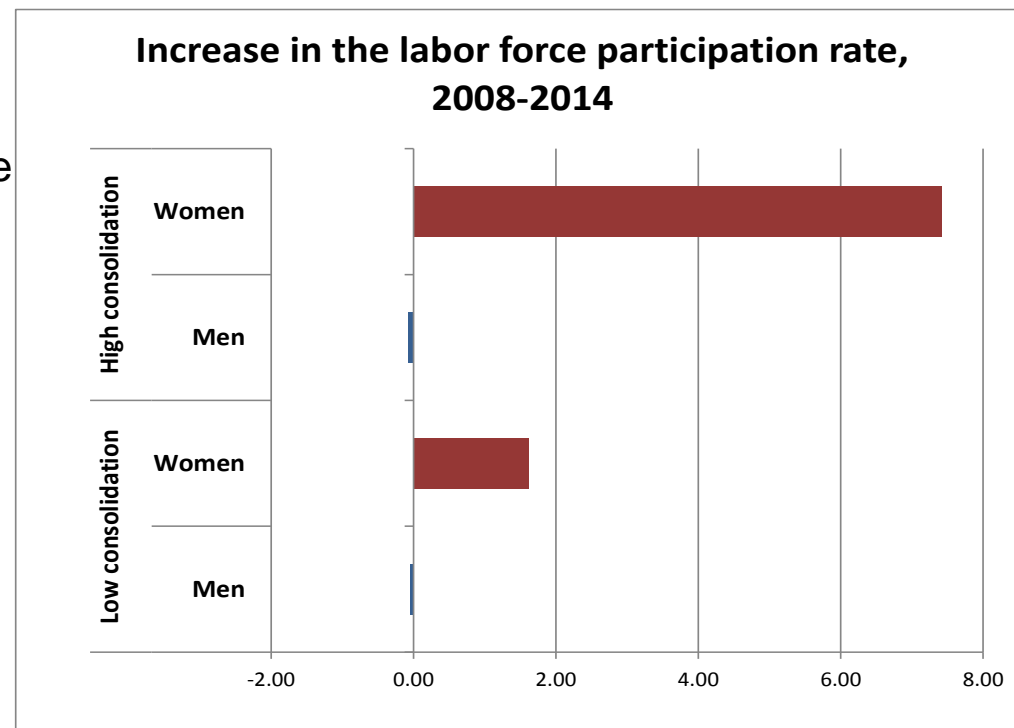


Source: Eurostat.

# Especially in crisis, women's participation in the labor force rises strongly

## Added Worker Effect

- An increase in the male unemployment rate leads often to an increase in the labor supply of women
- It is the crisis countries, where we observe an increase in the labor force participation rate of women
- On average, the rate increased by nearly 8 percentage points in those countries



## Added Workers are contributing to the increase in labor force participation, in particular in crisis countries

- **Added Worker:** formally inactive person, who enters the labor market as a response to the job loss of his/her partner
- Riedl and Schoiswohl 2015, EU-25 data:
  - Added worker effect is negatively related to the business cycle
  - Added worker effect was particularly pronounced during the global financial crisis
  - Added worker effect was mostly driven by **female workers** (~70%)

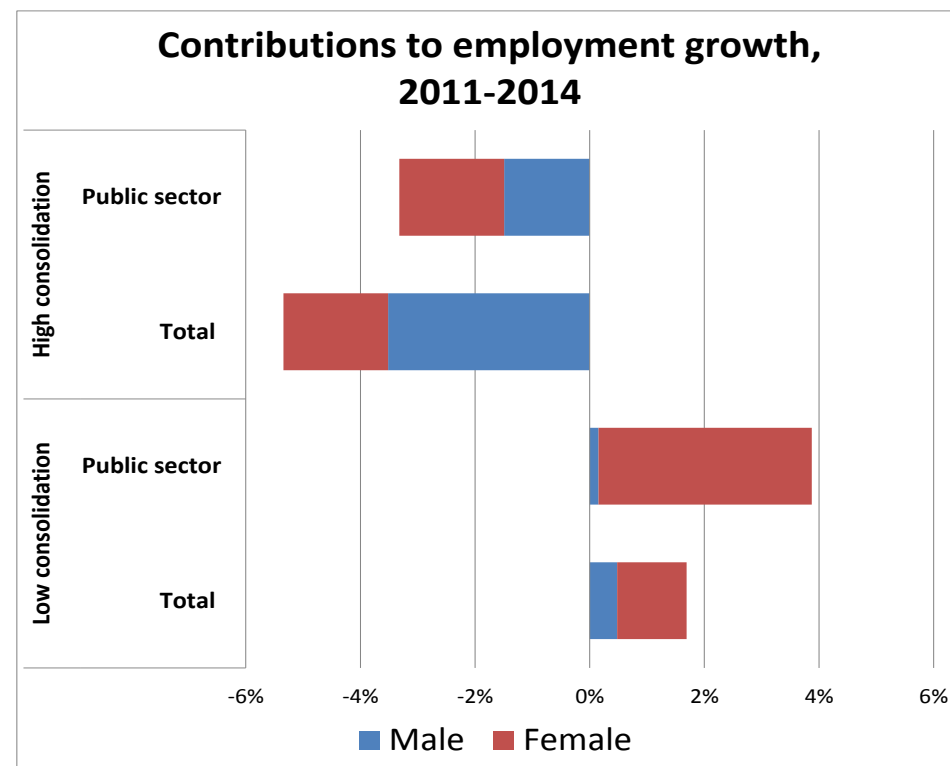
Table 2: Added workers in % of the working age population in the period 2009-2012

Country	Added workers	Country	Added workers
EU-25	0.51	GR	2.40
EA-17	0.60	HR	0.23
CESEE-6	0.35	HU	0.35
AT	0.11	IT	0.45
BE	0.33	LT	1.31
BG	0.41	LU	0.58
CY	1.38	LV	1.07
CZ	0.58	NL	0.54
DE	-0.45	PL	0.40
DK	0.53	PT	1.37
EE	0.58	RO	0.17
ES	2.74	SI	0.97
FI	0.18	SK	0.29
FR	0.36	UK	0.30

Source: Authors' calculations.

# Austerity measures lead to a reduction in the number of public sector employees in crisis countries

- It is predominantly women, who lost their jobs in the public sector (including education and health)
- In contrast, in countries with below-average consolidation **female public employment** increased by roughly 4%.



## Questions

- **How to better reconcile the Europe 2020 goals (smart, inclusive & sustainable growth) with fiscal rules in Europe?**
  - **Juncker Plan plus ‚Silver Rule‘?**
- **When ranking instruments of fiscal consolidation in terms of desirability, not the instruments per se but their specific design is eminent?**
- **What is the future of wage setting in EMU?**
- **Have the design flaws of the euro area governance been addressed properly? What is missing?**