Macroeconomic Policies in Europe: Quo Vadis
A Comment
February 12, 2016
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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

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

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 %

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

Source: Eurostat.
Strong revival of investment critical to achieving sustainable growth and income convergence

Real GDP Growth (2008-2014), in %

-25 - 5
-5 - 2
-2 - 0
0 - 2
2 - 5
5 - 13

Change of real gross fixed capital formation, 2008-2014

Source: AMECO.

Change in %, 2008-2014

Greece
Cyprus
Slovenia
Portugal
Spain
Italy
Latvia
Ireland
Finland
Lithuania
Netherlands
Estonia
Slovakia
France
Austria
Belgium
Luxembourg
Germany
Malta

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 an 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

Source: AMECO, SAFE (China), own calculation.
Balancing the objective of debt sustainability and counter-cyclical economic policy

**Budget Deficit**

*in % of GDP*

-14 to 0


US  EA  JP  UK

Source: AMECO.

**Debt-to-GDP Ratio**

*in % of GDP*

0 to 260


US  EA  JP (r.a.)  UK

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

- **high consolidation (SL, SK, ZYP, ES)**
- **low consolidation (EE, FI, NL, MT, LT, DE, FR)**

*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

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

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?