MACROECONOMIC IMBALANCES IN THE EUROZONE

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Macroeconomic imbalances - MI (диспропорции) play an important role in general, but they are especially challenging in the time of crisis.

They are especially important in the EU with its focus on open-economy macroeconomics reasons and financing current account imbalances (CAI) of its members.

Policies MIP (MIP) macroeconomic imbalances procedures that touch upon domestic and external dimensions.

Joined in 1999 (11 countries)

Austria
Belgium
Finland
France
Germany
Ireland
Italy
Luxembourg
Netherlands
Portugal
Spain

Joined later (8 countries)

Cyprus
Estonia
Greece
Latvia
Lithuania
Malta
Slovakia
Slovenia

Will join (in principle)

Bulgaria
Croatia
Czech Republic
Hungary
Poland
Romania

Special status

Denmark
Sweden
UK

	GDP	Exports
Austria	1.4	3.9
Belgium	1.3	3.3
Finland	1.2	1.6
France	1.1	2.3
Germany	1.1	5.6
Greece	0.0	3.7
Ireland	2.8	2.3
Italy	0.5	2.2
Luxembourg	2.8	2.4
Netherlands	1.1	4.3
Portugal	0.2	4.0
Spain	1.4	4.4

Even before the new members of the Eurozone joined in, the imbalances were already there.

Average annual rate of growth of total exports and GDP (at 2010 prices), 2000-2015 (Original EZ members + Greece)

MIP consist of three parts

- SURVEILANCE
- PREVENTION
- CORRECTIONS (sometimes even sanctions)

Indicators (two types)

Domestic - growth rates, per-capita income, unemployment rates

External - persistent current account imbalances

Note. There are deficit countries among EMU12 with negative cumulated CAI over 2000-11 **(periphery)**

Greece, Ireland, Italy, Portugal, Spain

and surplus countries among EMU12 with positive cumulated CAI over 2000-11 **(core)**

Austria, Belgium, Finland, Germany, Luxembourg, Netherlands.

France has about zero CAI.

Often asked questions with regard to MIP

- Relation to the crisis
- Relevance
- Policy implications

How large are Large MI?

EU pays special attention and possibly excessive attention to CAI

Growth rates: comparison of US states and EMU 12 (Tamborini, 2015)

	1990 - 2000	
	US states	EMU 12
Min-Max	**-1.4 – 6.9**	**1.6 – 7.1**
Average	3.5	3.0
Standard Deviation	1.6	1.6
	2000 - 2008	
	US states	EMU 12
Min-Max	- 0.4 – 4.1	1.3 – 5.0
Average	2.1	2.5
Standard Deviation	0.9	1.2

How important are CA?

US has huge CA deficit for more than 30 years, China has huge surplus, but is China more competitive than US?

Large CAI are useful indicators that can signal elevated macroeconomic risks. But they must be complemented by examination of gross flows and gross positions to fully assess financial risks. Moreover, inferring the scale and directional flows of capital and financing from CA positions is misleading. Net resource flows and financial flows are distinct concepts.

“ *The domestic dimension (growth, per-capita income, employment)*

Here the size of MI should be analyzed. There is no normative framework yet. Another question is whether the size of MI should be a policy tool. Federal governments usually care about the convergence but EU does not have supranational institutions. And leaving that convergence and reduction of MI to separate members has a limited chance for success.

The external dimension (CAI)

Too much reliance on CAI. In short, CAI for a single country can show its ability to pay foreign claims in foreign currency (under the fixed rate regime). It is irrelevant for the union. The focus may lead to wrong policies. What we have is the attempt to have a collection of independent open economies tied in fixed exchange regime. In a good federation there are strong federal institutions. But not in the EU.

This is the challenge of the union – the creation of right common institutions. It could be that the Banking Union and not MIP is a an answer.