



EUROPEAN CENTRAL BANK

EUROSYSTEM

Vítor Constâncio

Vice-President
European Central Bank

Growth and resilience in the euro area

**Conference on “The Quest for
Normality in an Uncertain World”**

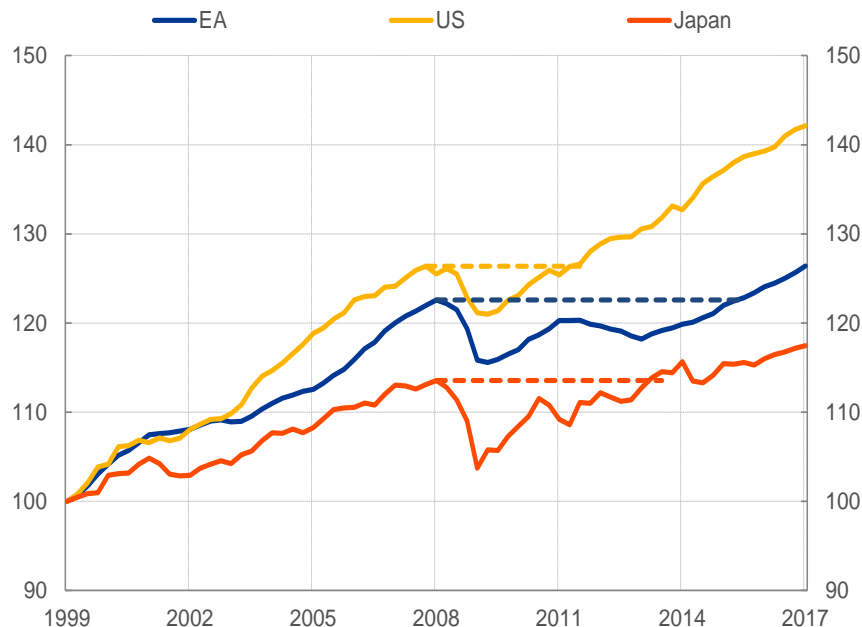
Washington D.C., 13 October 2017

1. The **ongoing cyclical recovery in the euro area is now broader and more consolidated.**
2. The strong worldwide reflationary phase that seemed likely at the beginning of the year has not materialised. Therefore, **normalising inflation and unemployment to acceptable levels continues to be quite difficult.**
3. **The euro area peripheral countries have completed a notable adjustment phase.** Consequently, the monetary union is now more resilient to future shocks as a result of a reduction in imbalances and stronger synchronisation of the economic cycle across countries. **The euro area is thus better prepared to resist financial market shocks.**
4. **Resuming real economic convergence among member countries is vital for the euro area.** This is the next fundamental challenge and it will require more structural and institutional reforms both at national and European levels.

GDP developments in US, Japan, Euro area

Real GDP in G3 economies

(index, 1999Q1=100)



Sources: Eurostat, BEA, Cabinet Office, ECB calculations.
Notes: Horizontal dotted lines represent pre-crisis peak real GDP level.
Latest observation: Q1 2017.

Real GDP per capita growth – IMF forecasts WEO

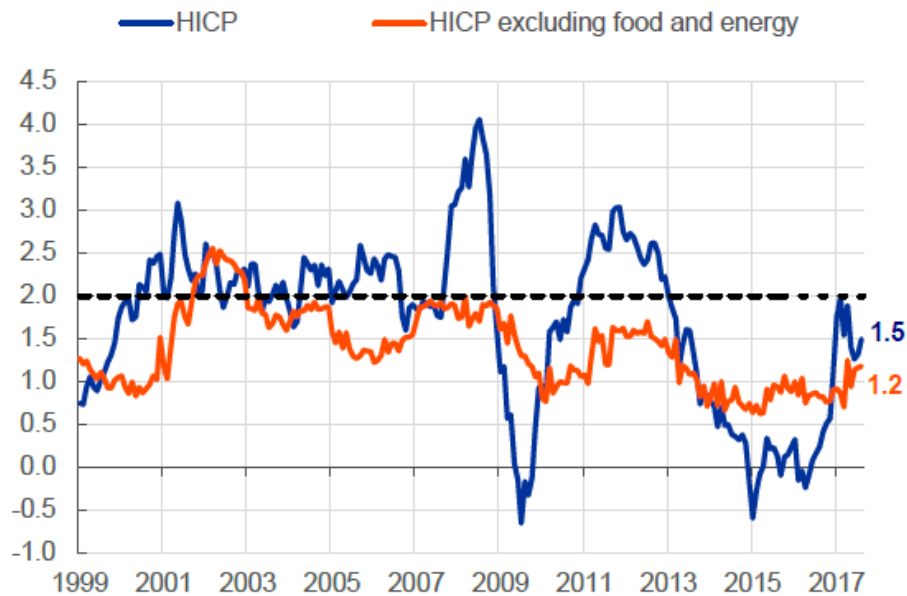
(percentage change)

	1999-2008	2016	2017	2018	2022
World	2.7	1.9	2.3	2.5	2.5
Advanced Economies	1.8	1.1	1.7	1.6	1.3
USA	1.5	0.8	1.5	1.7	1.1
Euro area	1.7	1.4	2.0	1.8	1.4
Japan	0.9	1.0	2.1	1.0	1.1
Emerging Economies	4.5	2.8	3.1	3.5	3.6

Sources: IMF/WEO (October 2017 and April 2017).

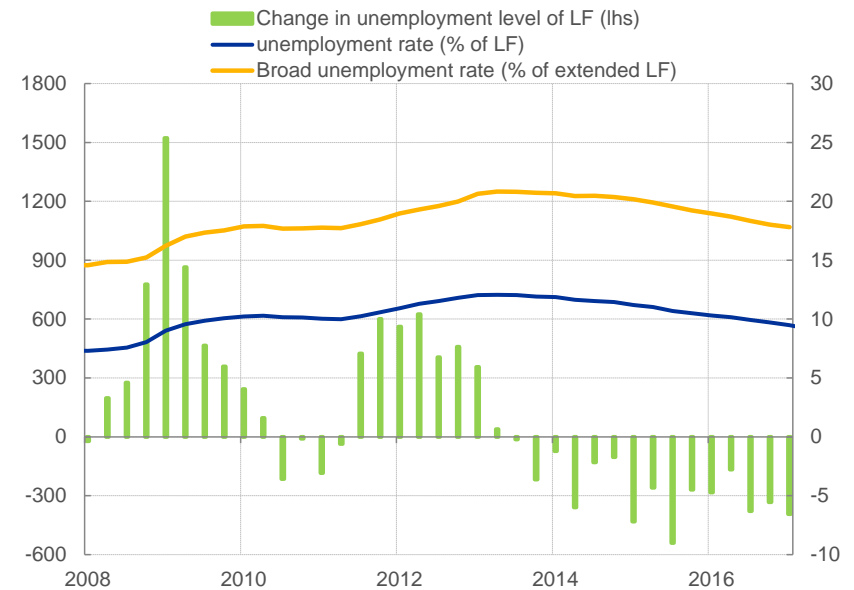
Developments in inflation and unemployment

HICP total and excluding food and energy (percentage)



Source: Eurostat.
Latest observation: August 2017 (flash estimate).

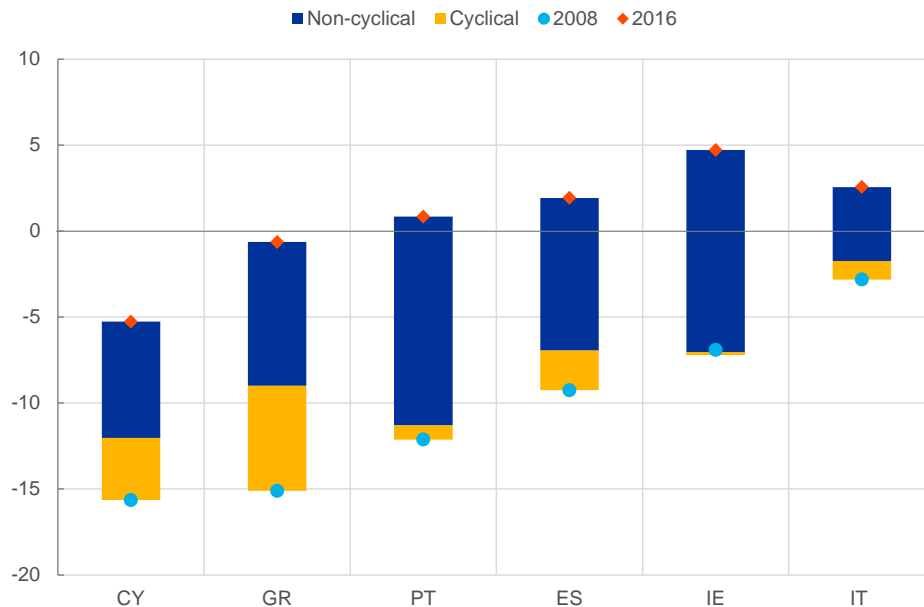
Unemployment, broad unemployment and change in unemployment level in the Euro area (percentage; level)



Adjustment in the periphery: current account and competitiveness

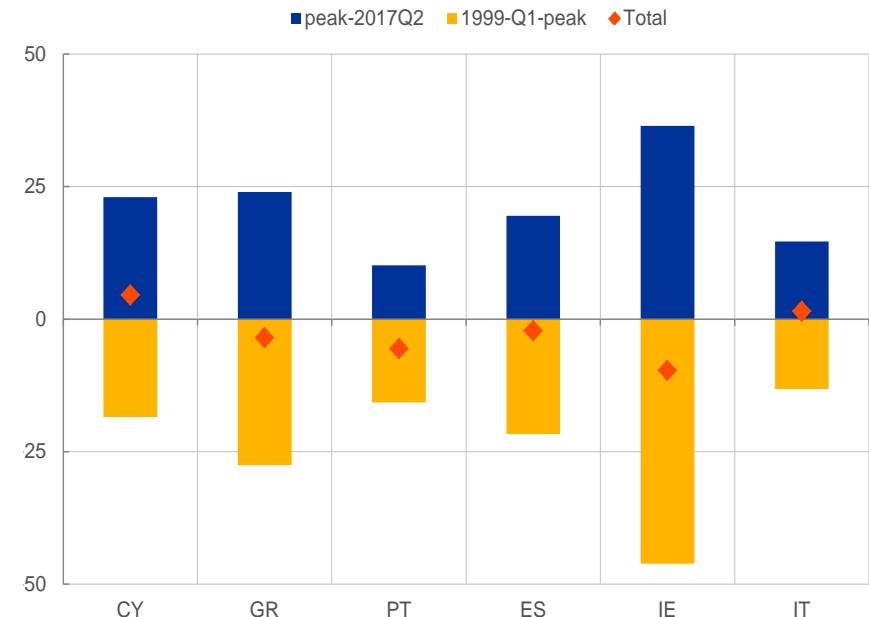
Current account adjustments in selected Euro area countries

(percent of GDP)



Real exchange rate adjustments in selected Euro area countries

(percentage change of the ULC-deflated real effective exchange rate)

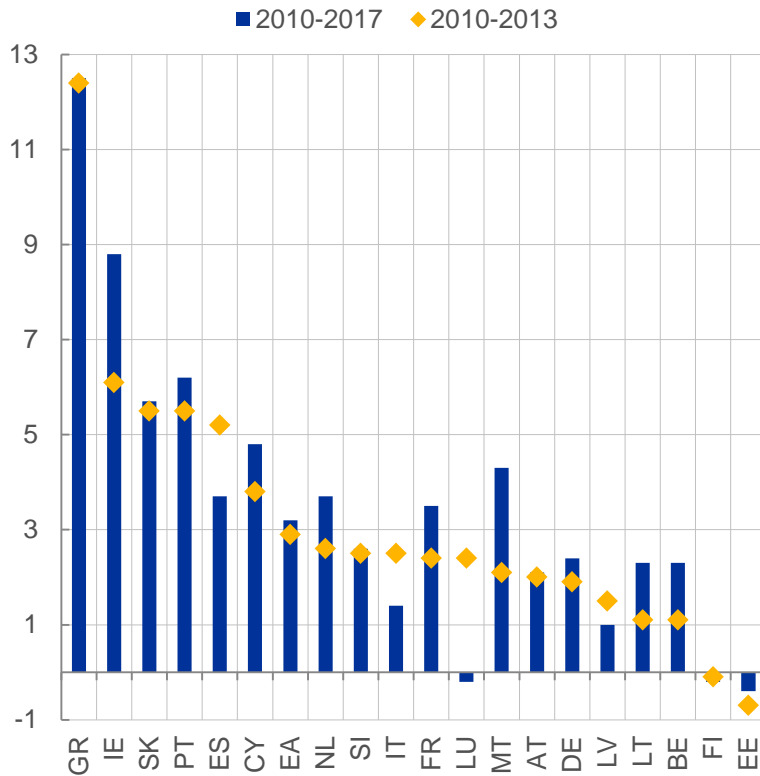


Source: ECB staff estimations.

Note: The estimates are based on an empirical model linking the current account balance to a broad set of cyclical, fundamental and policy variables.

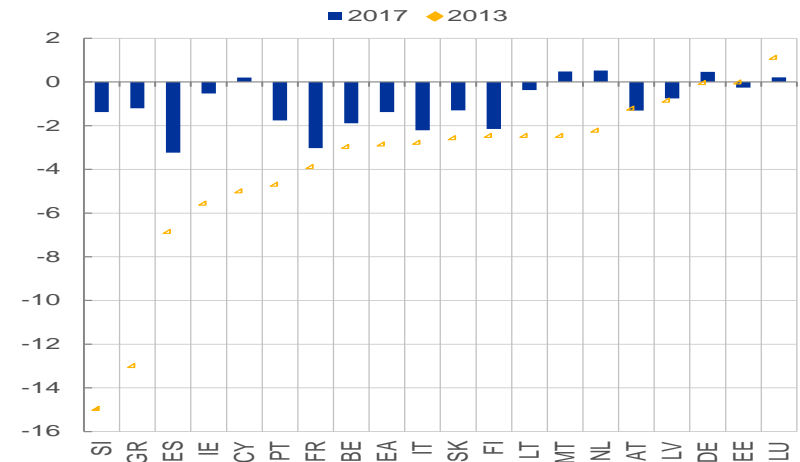
Adjustment in the periphery: strong fiscal effort and deficit reduction

Changes in the structural primary balance (percent of GDP)

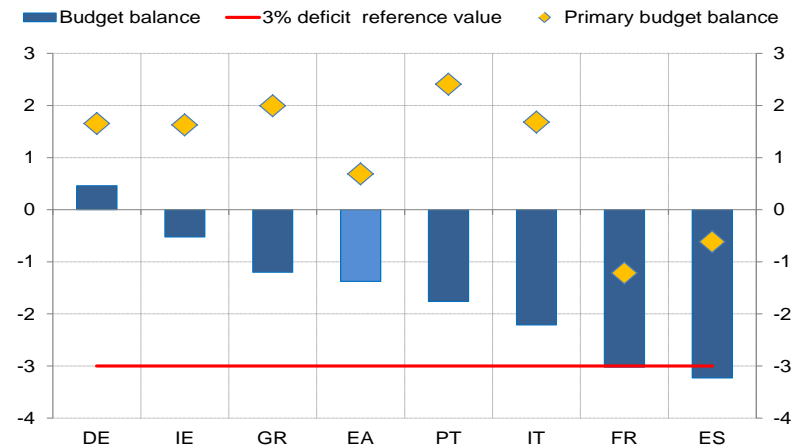


Source: European Commission.
 Note: Structural balances are adjusted for the impact of the business cycle and one-offs factors.

General government net lending (percent of GDP)



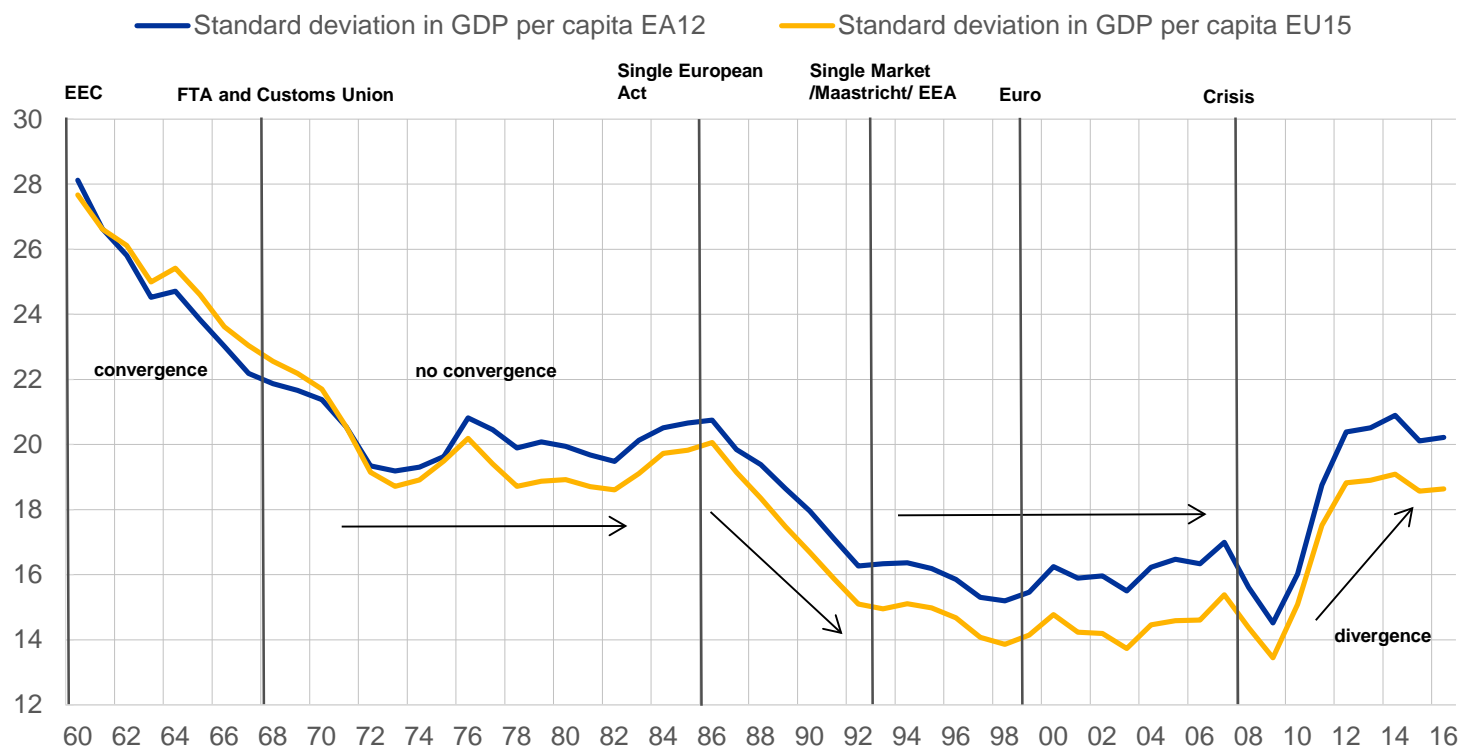
Forecasted primary budget balances in the Euro area in 2017



Source: European Commission.

Real convergence in the Euro area: a long-term perspective

(Standard deviation in GDP per capita)



Source: Diaz del Hoyo, Dorrucchi, Heinz and Muzikarova (2017), based on European Commission data.

Notes: The chart refers to the degree of dispersion of GDP per capita levels across economies. GDP per capita in purchasing power standards (PPS). EA12 denotes the countries that adopted the euro by 2002. EU15 is used as a benchmark and denotes the countries that were EU members by 1995. Luxembourg is excluded from the country sample. Data for Ireland are adjusted in order to control for the exceptional GDP revision in 2015, which did not reflect an actual increase in economic activity. Data for Germany are approximated by data for West Germany over the period 1960-1991. EEC: European Economic Community; FTA: Free Trade Area; EEA: European Economic Area.