

What effects is EMU having on the euro area and its member countries?  
16 – 17 June 2005, Frankfurt am Main

## Session II: Business cycles synchronisation, economic specialisation and risk sharing

**Discussant:**

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[Presentation slides – updated version]



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ECB Workshop

16-17 June 2005

**Comments on “Trends and cycles  
in the euro area: how much heterogeneity  
and should we worry about it?”**

**D. Giannone & L. Reichlin**

Mary R. McCarthy



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## What the literature tells us

- no conclusive evidence on increased business cycle synchronisation following EMU creation
- results depend on: type of data used, cycle-dating algorithms and techniques to evaluate synchronicity



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## Main findings of the DG-LR paper

- persistent gaps in Member State real GDP per capita vis-à-vis the euro-area avg. (1970-2003)
- .... with no sign of recent convergence
- but similar results hold for personal income comparisons across the eight US regions



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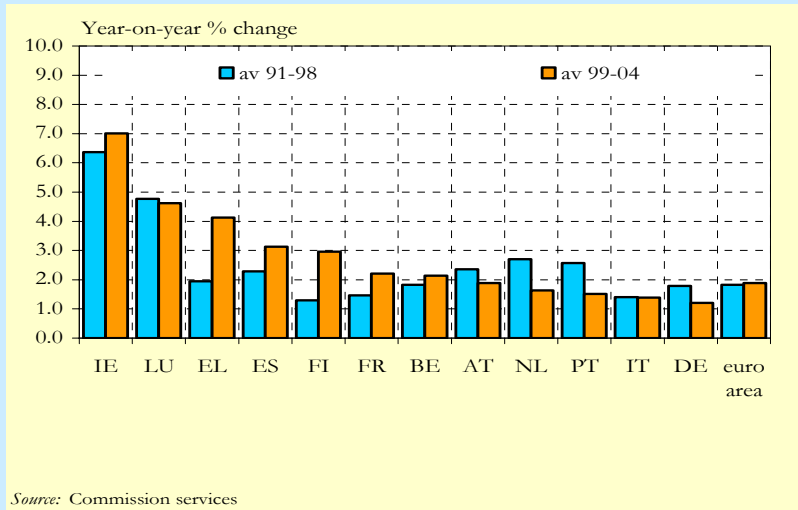
## Main findings (contd.)

- synchronisation of cycles within the euro area (classical reference cycle)
- most business cycle fluctuations are due to common euro-area shocks
- small and persistent effects of country-specific shocks on the gap vis-à-vis the euro area



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## Average annual GDP growth (before and after 1999)



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## Sources of Potential GDP Growth

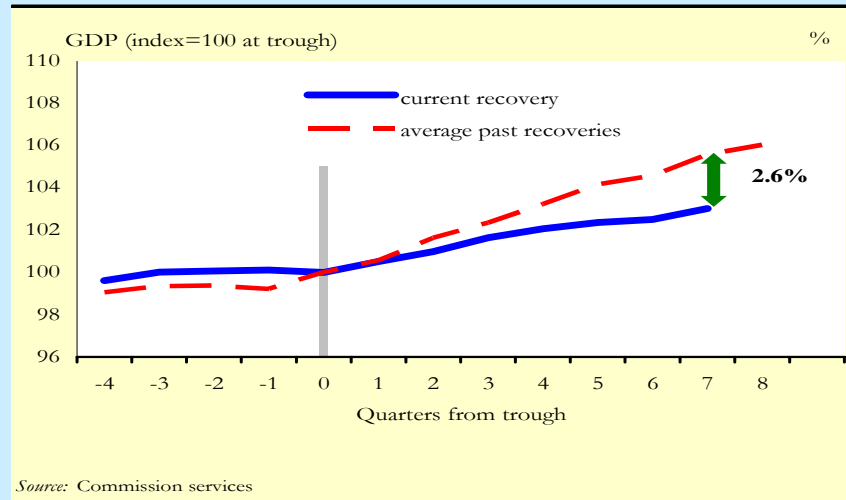
	1996-2000				2001-2005			
	Potential GDP growth	Contributions:			Potential GDP growth	Contributions:		
		Labour	Capital	TFP		Labour	Capital	TFP
BE	2.2	0.4	0.8	0.9	2.1	0.6	0.5	1.0
DE	1.5	0.1	0.7	0.7	1.1	0.2	0.4	0.5
EL	2.9	0.5	1.0	1.4	3.4	0.4	1.4	1.5
ES	3.0	1.7	1.2	0.1	3.3	2.0	1.3	0.0
FR	2.0	0.6	0.6	0.8	2.2	0.7	0.6	0.8
IE	8.1	2.8	1.7	3.5	6.6	2.1	1.7	2.7
IT	1.5	0.3	0.7	0.6	1.7	0.8	0.7	0.2
LU	5.2	1.1	1.9	2.2	4.4	1.1	1.8	1.5
NL	2.8	1.3	0.8	0.7	1.9	0.8	0.6	0.5
AT	2.3	0.3	1.0	1.0	1.9	0.3	0.8	0.8
PT	2.7	0.8	1.5	0.4	1.7	0.7	0.9	0.1
FI	3.2	0.6	0.3	2.4	3.3	0.7	0.4	2.2
Euro area	2.0	0.6	0.8	0.6	1.9	0.7	0.6	0.6

Source: Commission services



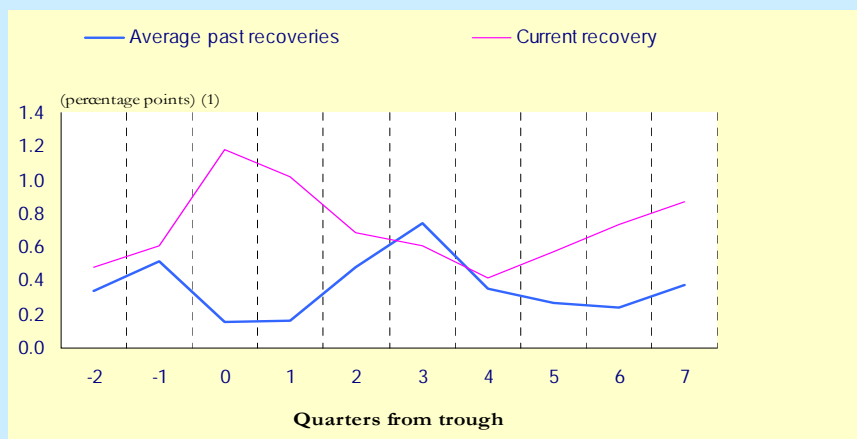
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## The evolution of GDP during different recoveries in the euro area



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## Dispersion of real GDP growth in the current and past recoveries (five largest euro-area MS)

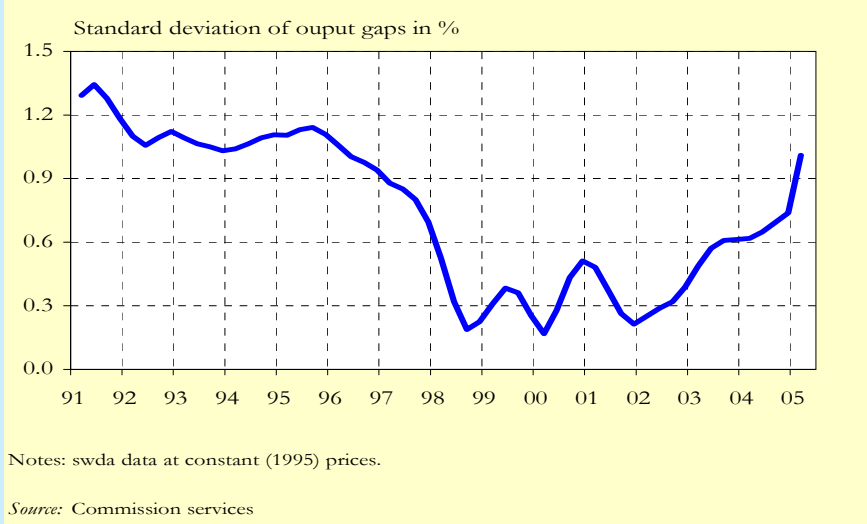


(1) Unweighted standard deviation.  
Source: Commission services.



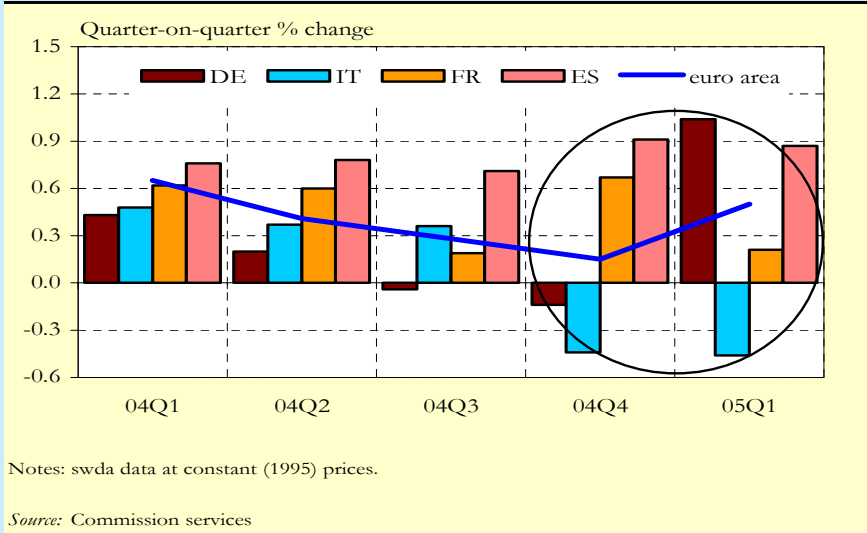
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## Output gap dispersion across the four largest MS



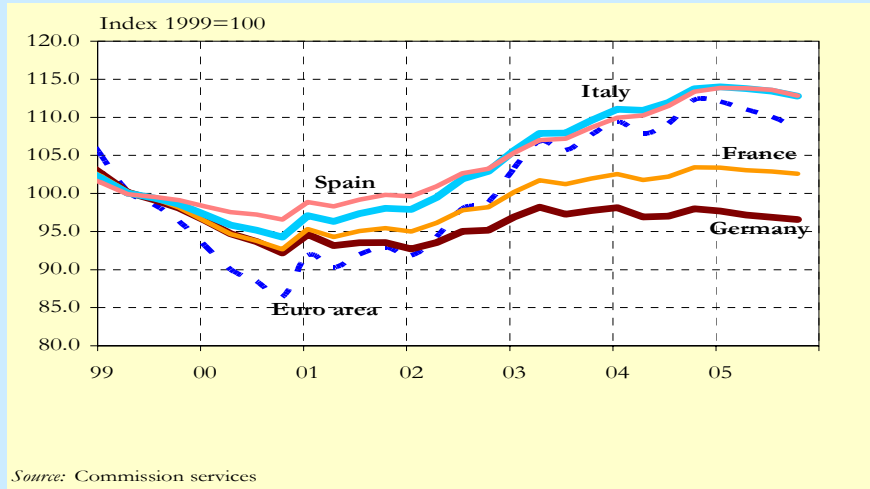
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## GDP growth since 2004Q1



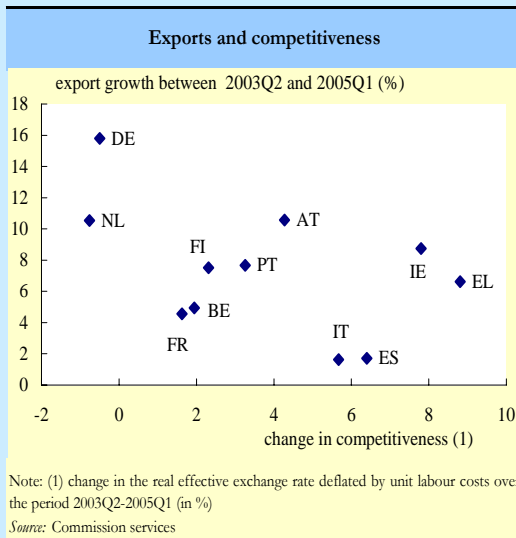
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## Real Effective Exchange Rates vs. Rest of IC24 (DE, FR, IT and ES - deflated by ULC)



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## Export performance and competitiveness



Export market shares

	Cumulated change 2001-2004
Greece	-24.8
Italy	-21.5
Finland	-12.8
France	-11.5
Netherlands	-7.8
Ireland	-6.8
Belgium	-6.1
Spain	0.9
Germany	1.2
Austria	5.8
<b>Euro area</b>	<b>-6.4</b>

Source: Commission services



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