



The signatures of Euro area imbalances

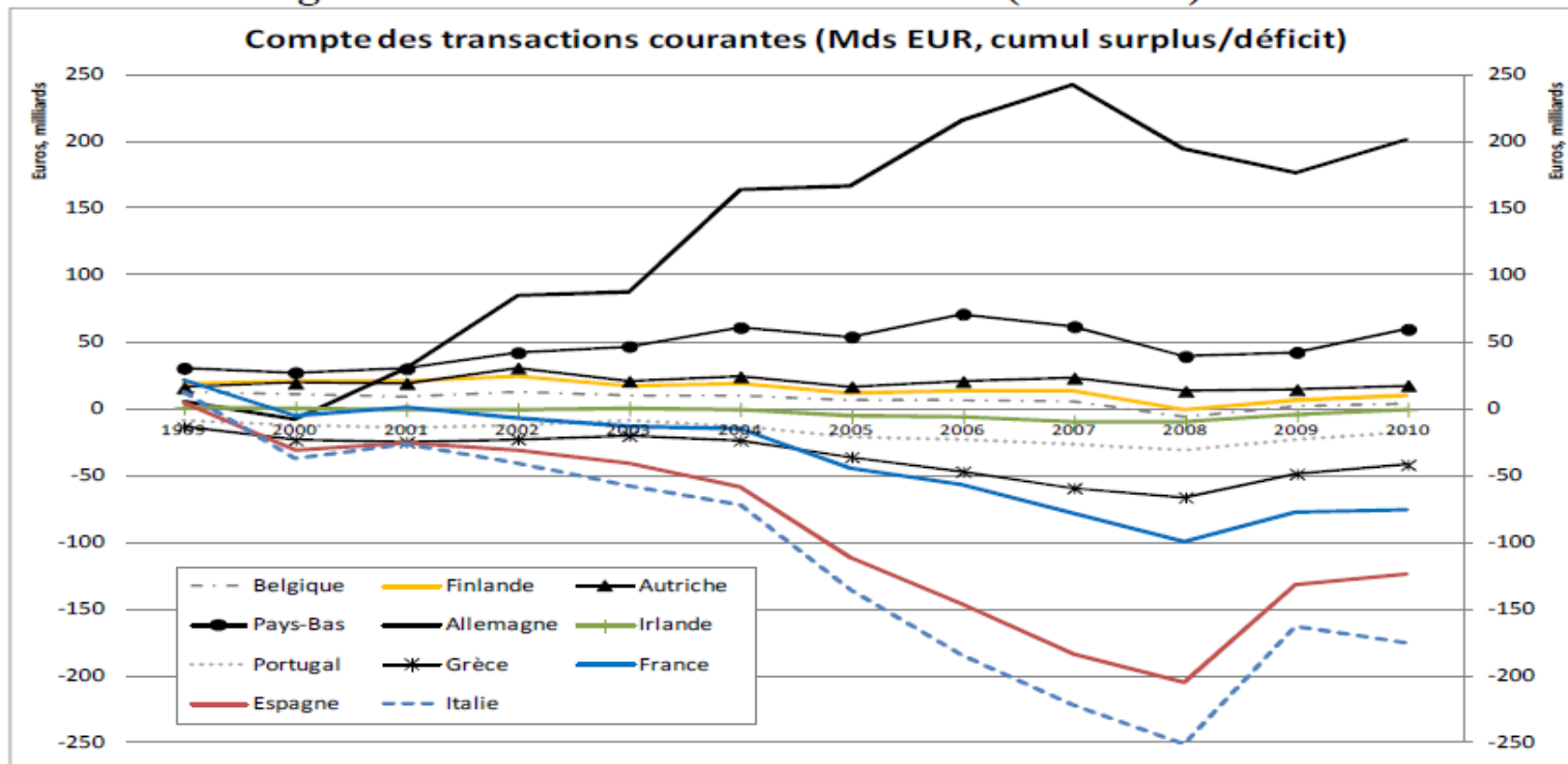
Guillaume Gaulier & Vincent Vicard

Banque de France



Current account imbalances in Southern EA countries matched by surplus in Germany, Austria and Netherlands.

Figure 1: Current account balances (bn EUR)

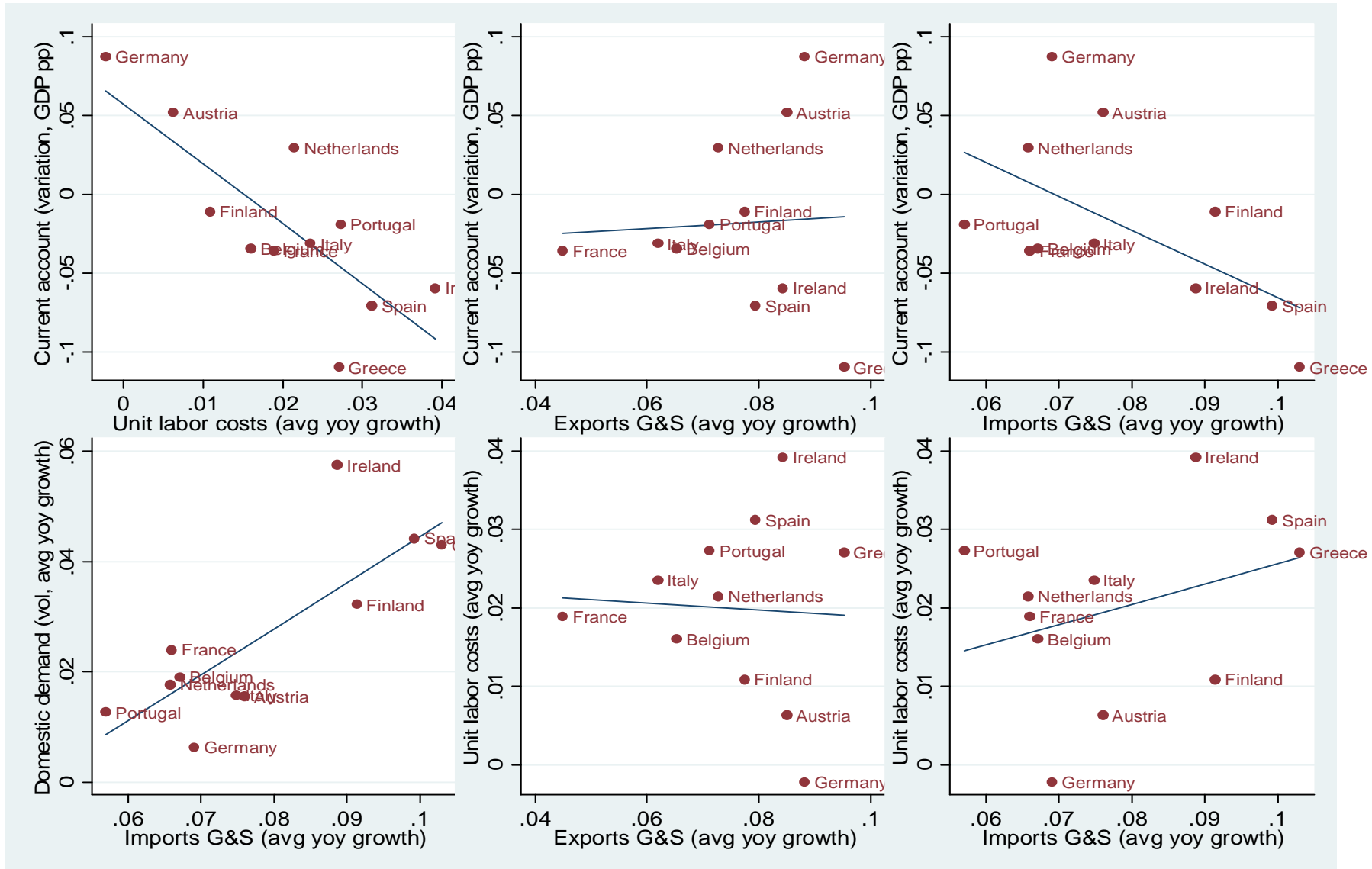


Source: Eurostat

- Within EU, capital flows from rich to catching-up countries (Blanchard and Giavazzi, 2002; Lane & Pels, 2012).
- Sources of the current account (or savings-investment) imbalances within the EA?
 - “Good” / “bad” imbalances?
 - Difficult to identify robustly the determinants of EA imbalances (Eichengreen, 2010).
- No systematic under-performance of exports of deficit countries despite (rapidly) rising ULC: explanation?
 - Components of ULC increases
 - Composition effects



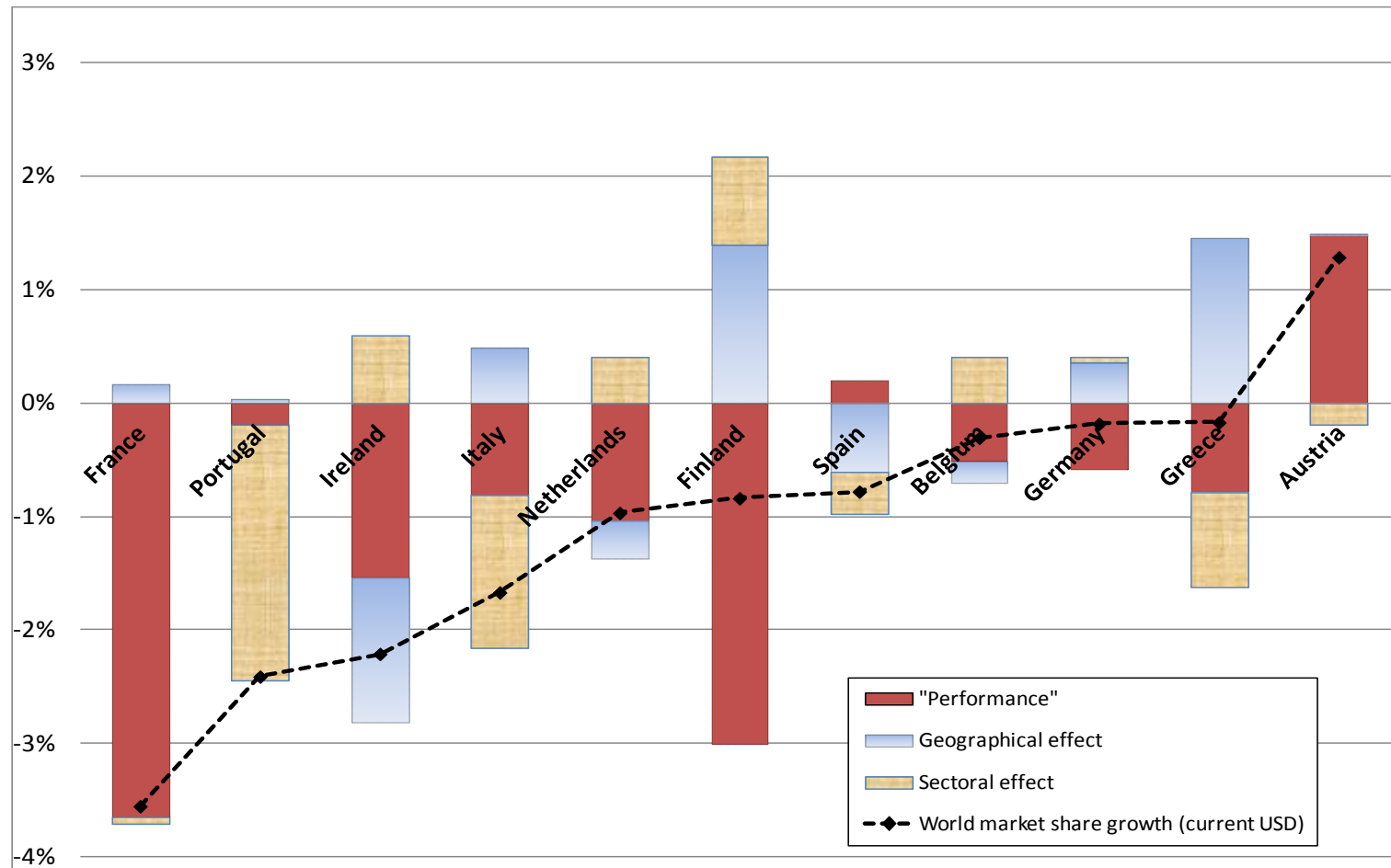
Current account imbalances: export competitiveness?



Source : Eurostat. Export and import are in current euros.



Shift-share analysis of goods export performance (avg annual growth rate, 1999-2007)



Source : BACI and ITC, Gaulier, Taglioni and Zignago (2012).



Price and cost competitiveness

Unit labor costs: $ULC = \frac{\text{wages}}{VA} \text{price}_{VA}$

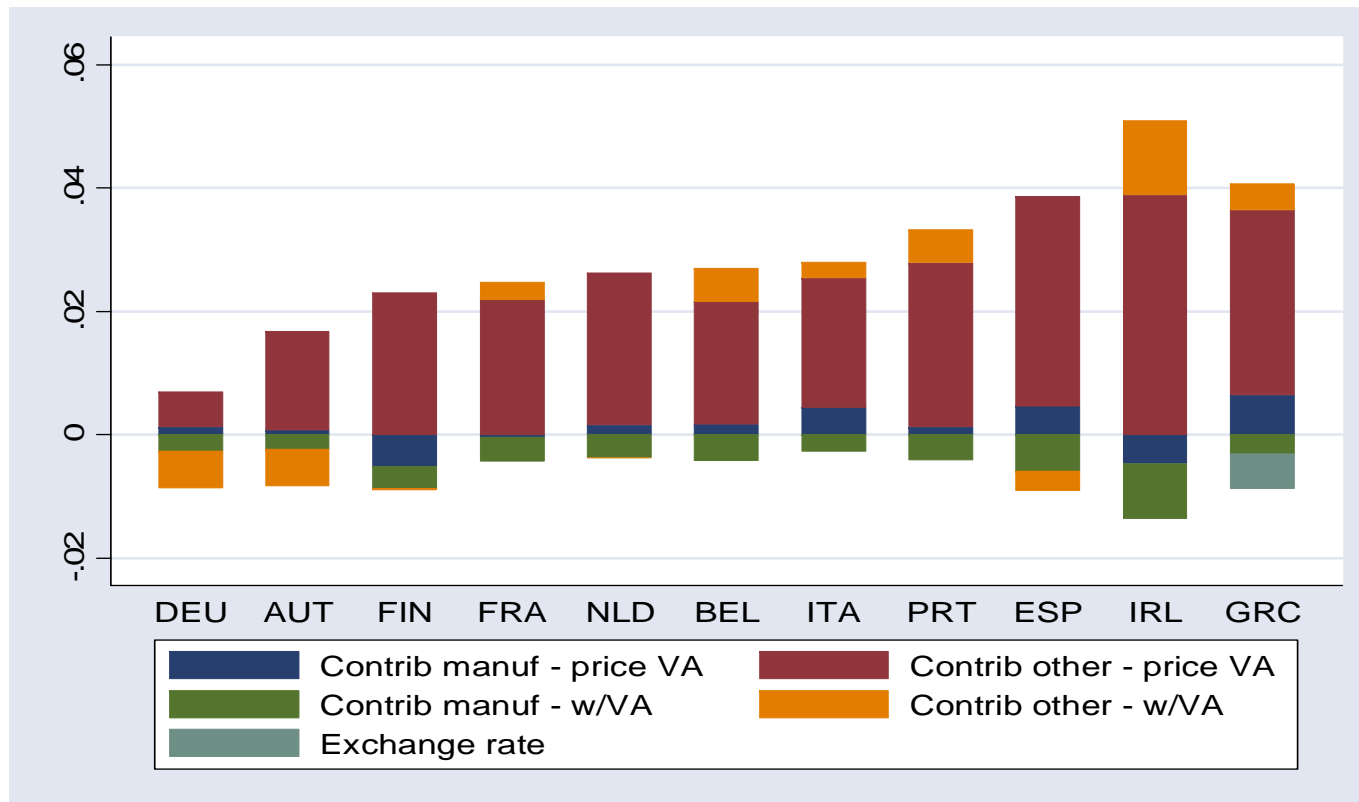
→ ULC reflect evolution of price competitiveness (price of VA) and distribution of VA.



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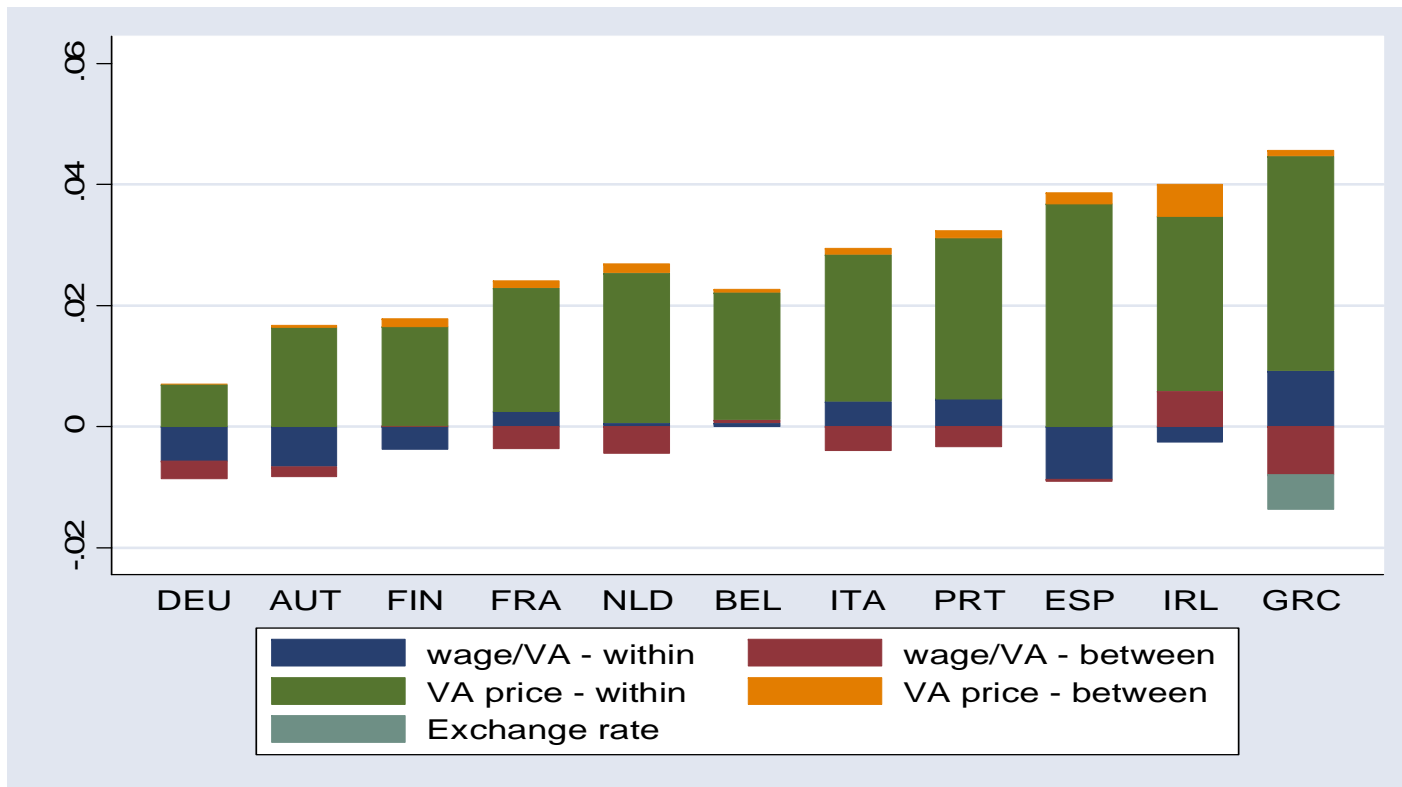
Source : EU-KLEMS. Portugal 1999/2006



Price and cost competitiveness

Unit labor costs:
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→ Within/between sector contributions to price of VA and wage share.



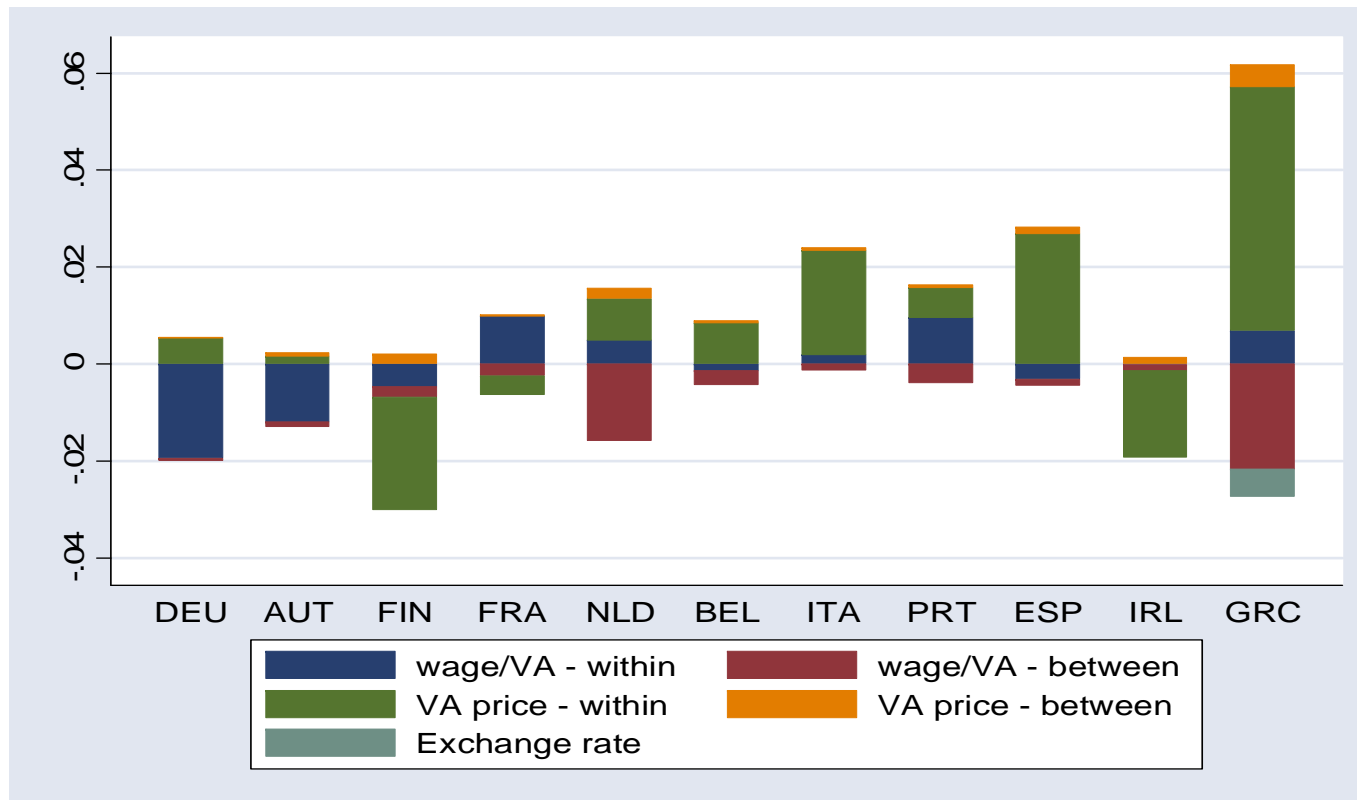
Source : EU-KLEMS. Portugal 1999/2006



Price and cost competitiveness

Unit labor costs:
$$ULC = \frac{\text{wages}}{VA} \text{price}_{VA}$$

→ Within/between sector contributions to price of VA and wage share in the tradable sector.



Source : EU-KLEMS. Portugal 1999/2006

- Prominent role of VA price increases in the non-tradable sectors in the divergence of ULC → demand shocks.
- Competitiveness of the tradable sector in deficit countries illustrated by rebound of exports in 2011.
- Composition effects (between sectors) dampen real ULCs increases.
 - Not significant for VA price indices.



ANNEXES