



EUROPEAN CENTRAL BANK

EUROSYSTEM

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The external dimension of the euro area

ECB Central Banking Seminar
July 2018

With inputs by EES Division Data Centre

1 Euro area competitiveness

1.1 Price competitiveness

1.2 Export market shares

2 Current account adjustment

3 Conclusion - Main messages

Euro's depreciating trend has stabilised

EUR/USD real exchange rate and EUR real effective exchange rate (CPI-deflated; monthly data)



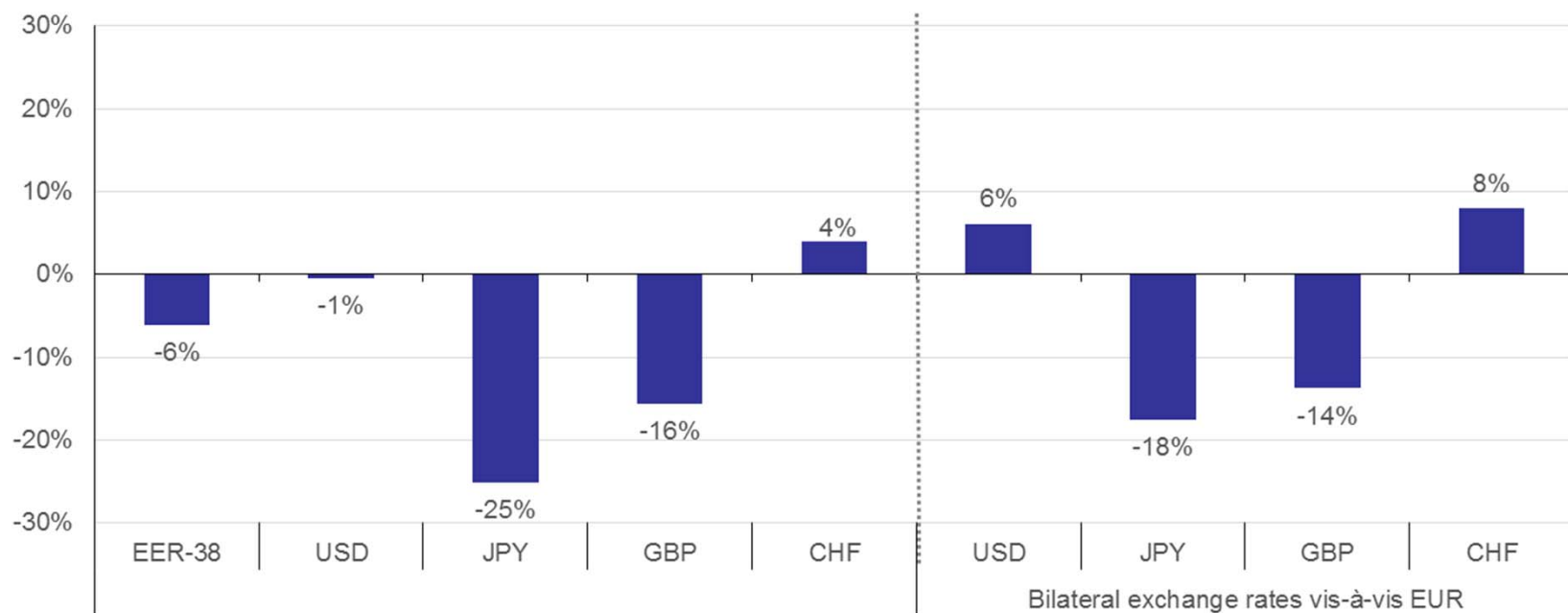
Source: ECB.

Notes: The latest observation refers to May 2018. REER-38 is an index (1999Q1=100). A decline indicates a depreciation.

Based on EER-38, euro close to its long-term average value

Deviations from the 1980-2018 average, CPI-deflated bilateral and effective rates

(monthly data)



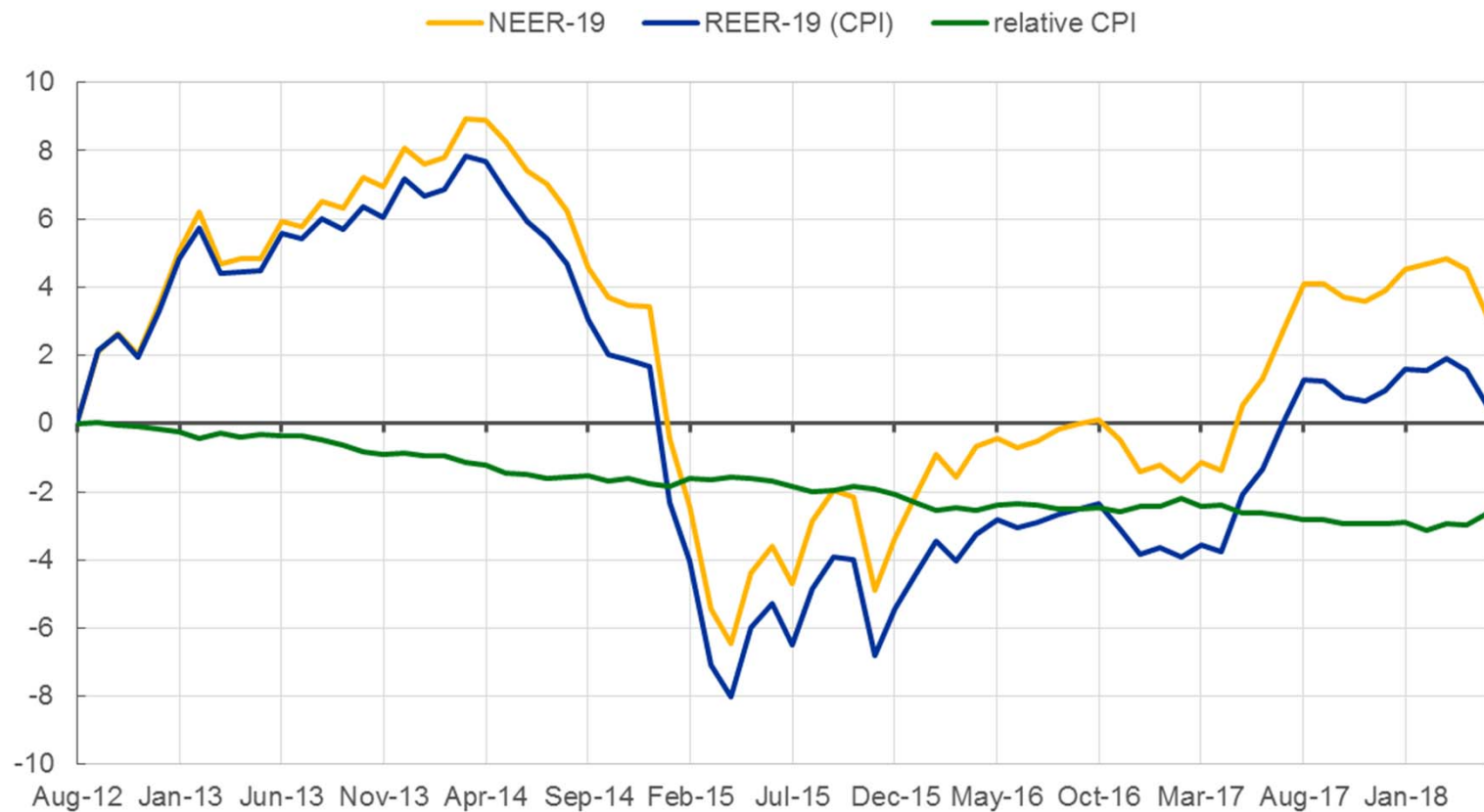
Sources: ECB and BIS.

Note: Last observation refers to April 2018 for EER-12 and EER-38 and all bilateral exchange rates and April 2018 for USD, JPY, GBP and CHF of the effective exchange rates. For EER-38 data were only available from 1993. A negative number indicates a depreciation.

Euro movements important factor in price competitiveness

Effective exchange rate – price component

(Rebased to August 2012=0, monthly data)



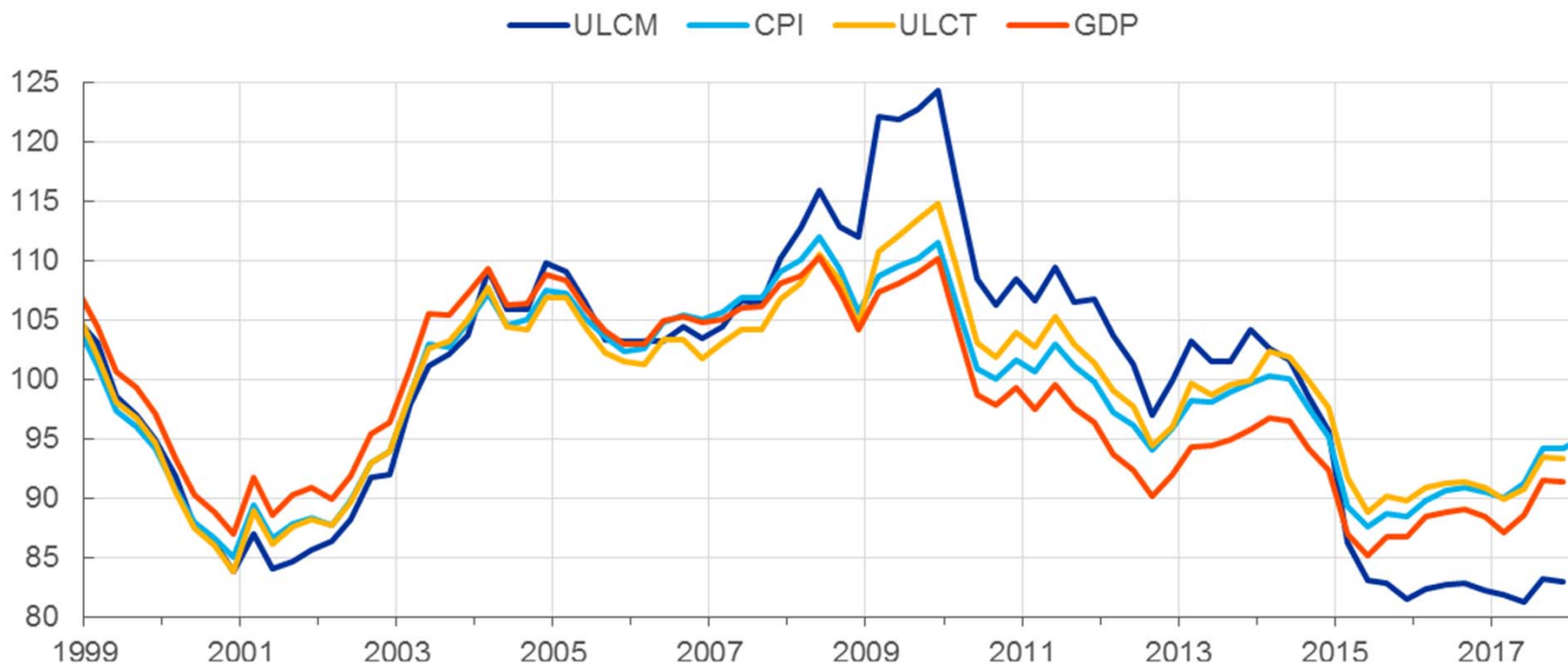
Source: ECB.

Note: The last observations refer to May 2018. Relative CPI refers to the euro area CPI relative to the EER-19 group of trading partners. An increase in EER indicates a worsening in price competitiveness.

The improvement price competitiveness has stabilised

Real effective exchange rate

(Indexed to the 1995-2013 average, quarterly data)



Source: ECB.

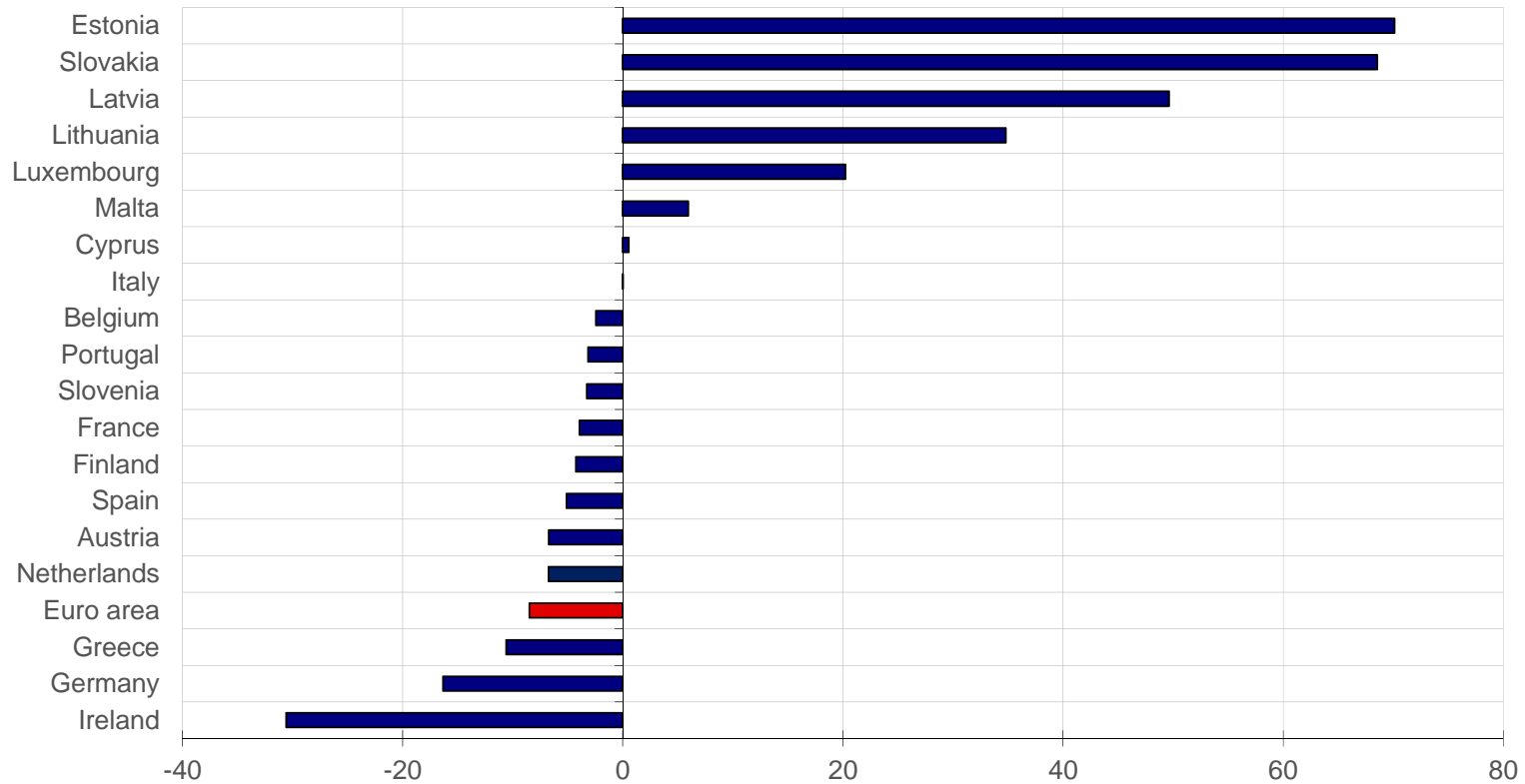
Note: The last observations refer to 2018Q1 for CPI and 2017Q4 for ULCT, ULCM and GDP. For CPI, ULCT and GDP the EER-19 and for ULCM the EER-18 is the group of trading partners.

An increase indicates a worsening in price competitiveness.

...but divergences at country level

Developments in HCIs

(ULCT-based, including intra- and extra-trade; percent change between 1999Q1 and 2017Q4)



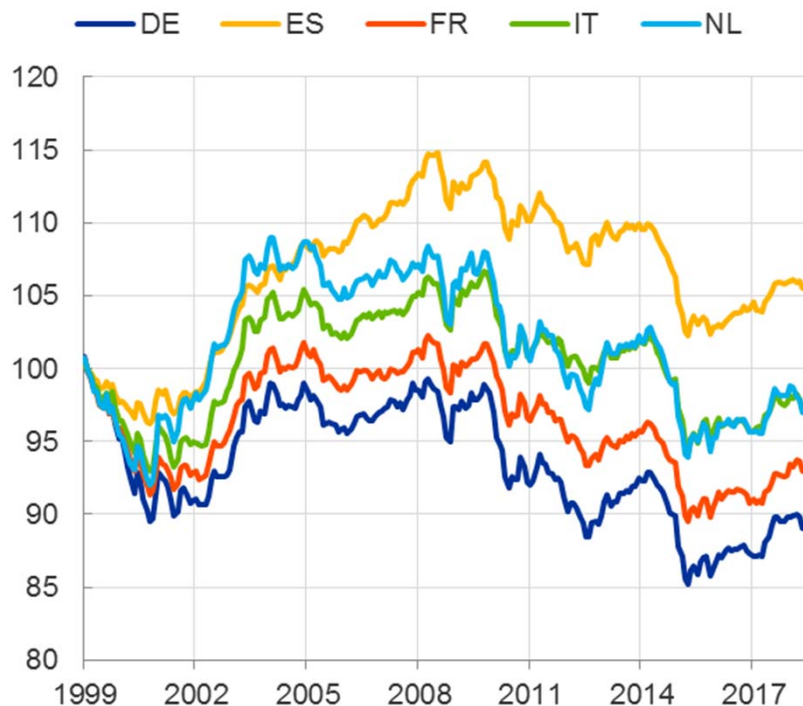
Source: ECB.

Note: For single countries, the REER-19 plus the euro area is the group of trading partners. For the euro area, the REER-19 is used. A negative value indicates an increase in price or cost competitiveness. Latest observation 2017Q4.

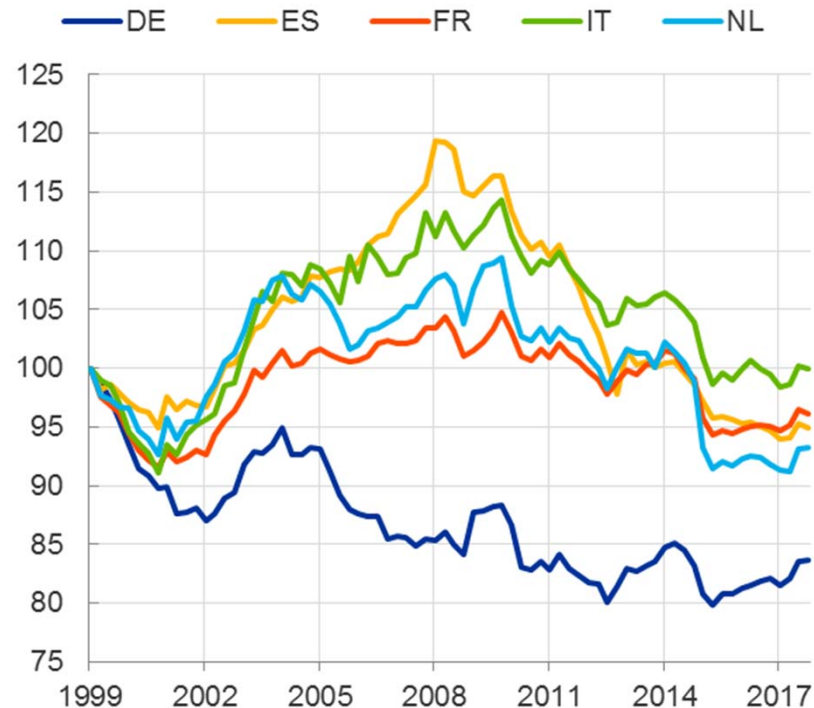
Competitiveness: message may differ depending on indicator

Developments in HCIs for euro area Big 5 countries

CPI-based



ULCT-based



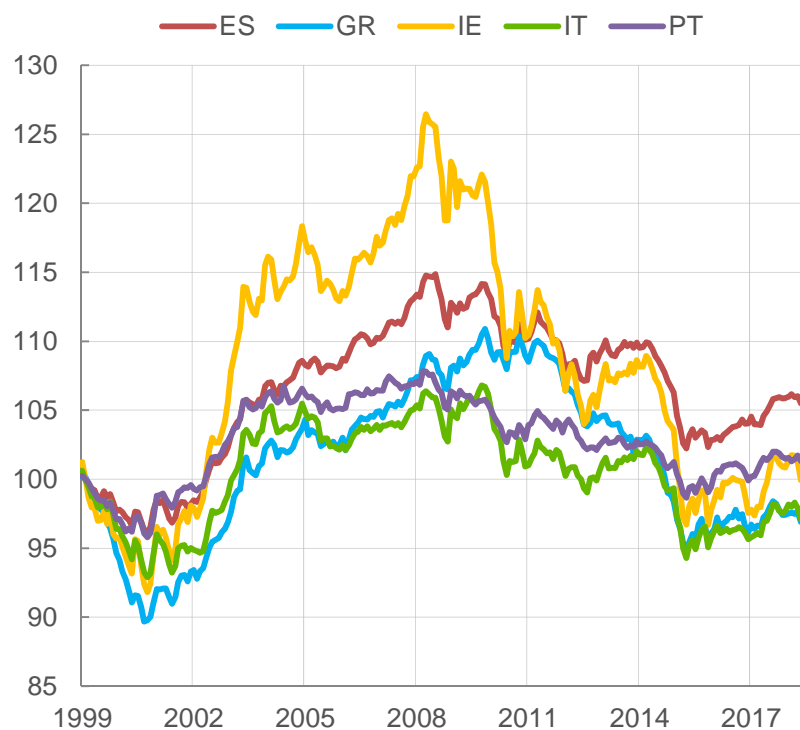
Source: ECB.

Note: The latest observation refers to May 2018 and Q4 2017 for LHS and RHS chart respectively. HCI computed vis-à-vis other euro area countries and the group of 18 trading partners. An increase indicates a worsening in price competitiveness.

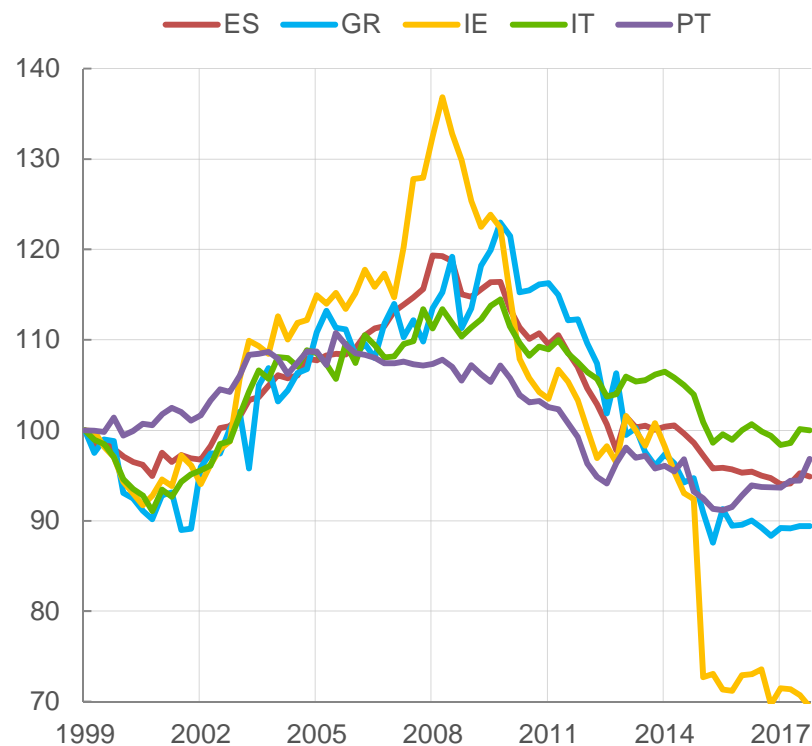
Competitiveness: message may differ depending on indicator

Developments in HCIs for euro area stressed countries

CPI-based



ULCT-based



Source: ECB.

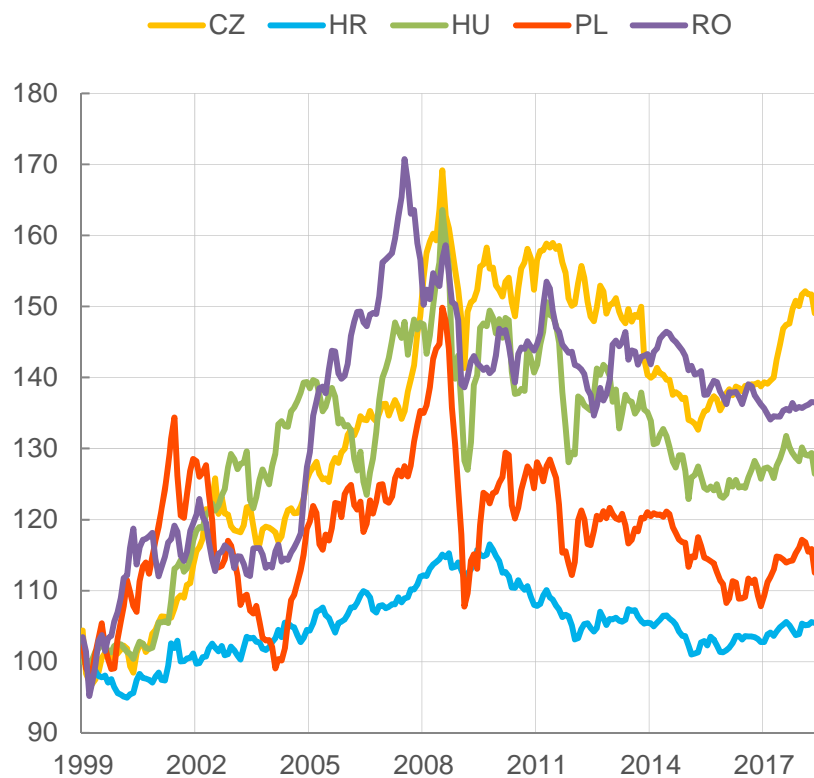
Note: The latest observation refers to May 2018 and Q4 2017 for LHS and RHS chart respectively. HCI computed vis-à-vis other euro area countries and the group of 18 trading partners. An increase indicates a worsening in price competitiveness.

Data for Ireland in 2015 is distorted due to exceptional GDP revision in 2015, which accounted for the profits of re-domiciled companies, as well as the depreciation of intellectual property products and aircraft leasing companies.

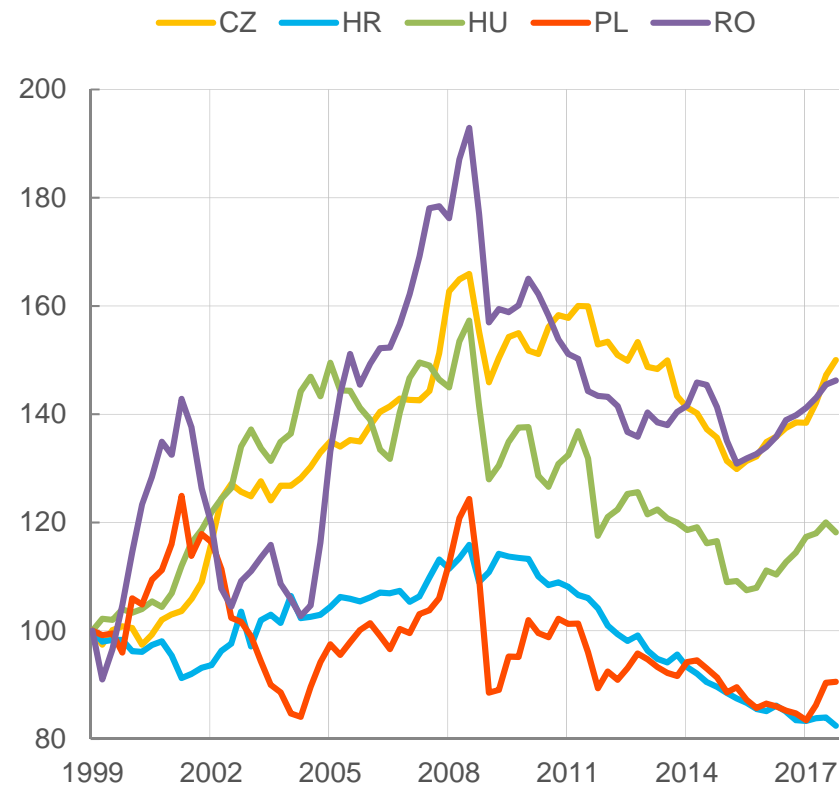
Competitiveness: increased volatility in non-euro area EU countries

Developments in REERs for non-euro area EU countries

CPI-based



ULCT-based



Source: ECB.

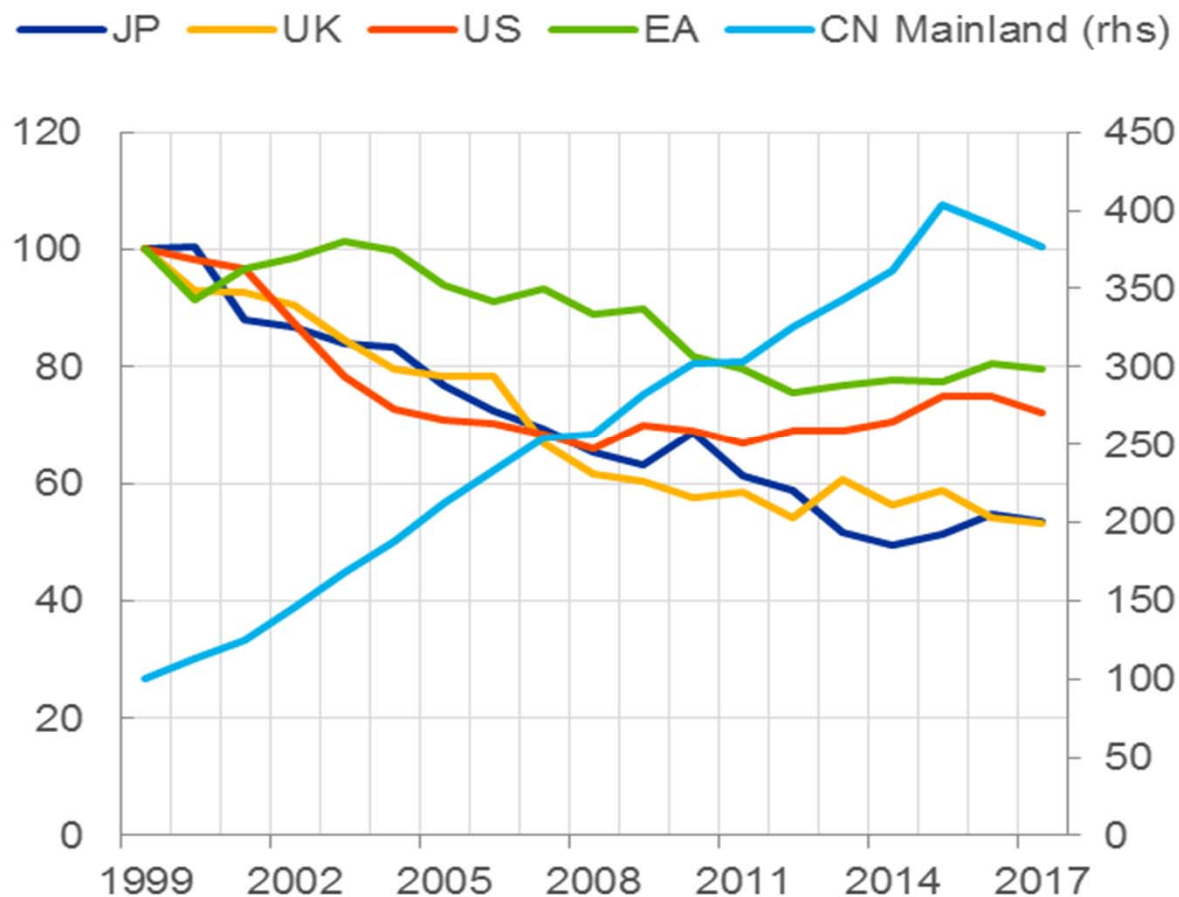
Note: The latest observation refers to May 2018 and Q4 2017 for LHS and RHS chart, respectively. REER computed vis-à-vis the group of 18 trading partners. An increase indicates a worsening in price competitiveness.

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Export market shares stabilise, price competitiveness deteriorates

Export market shares

(index, 1999=100; annual aggregate of monthly data)



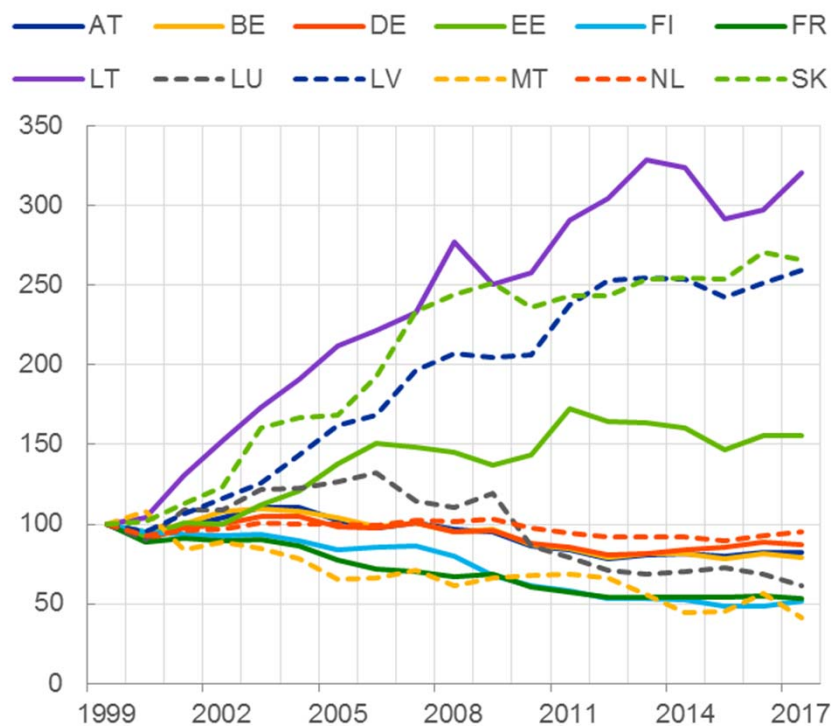
Sources: IMF Direction of Trade Statistics (DOTS) and ECB staff calculations.
Note: Export market shares are measured as total exports of goods (extra) divided by world exports. Latest observation refers to 2017.

At country level, export performance varies significantly...

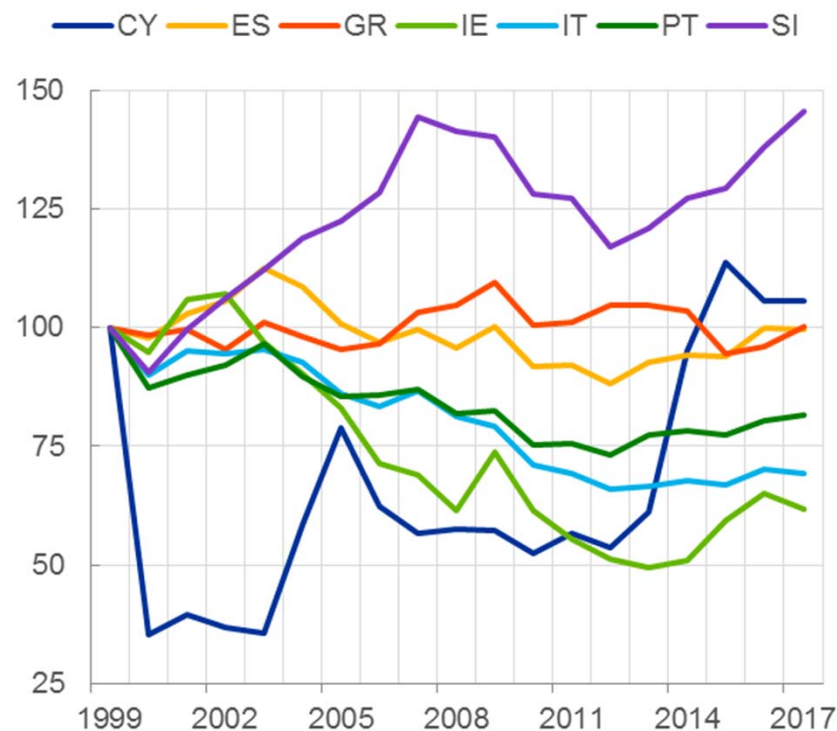
Export market shares of euro area countries (intra + extra)

(index, 1999=100, annual aggregate of monthly data)

Non-stressed countries



Stressed countries



Sources: IMF DOTS and ECB staff calculations.

Note: Export market shares are measured as total exports of goods (intra + extra) divided by world exports.

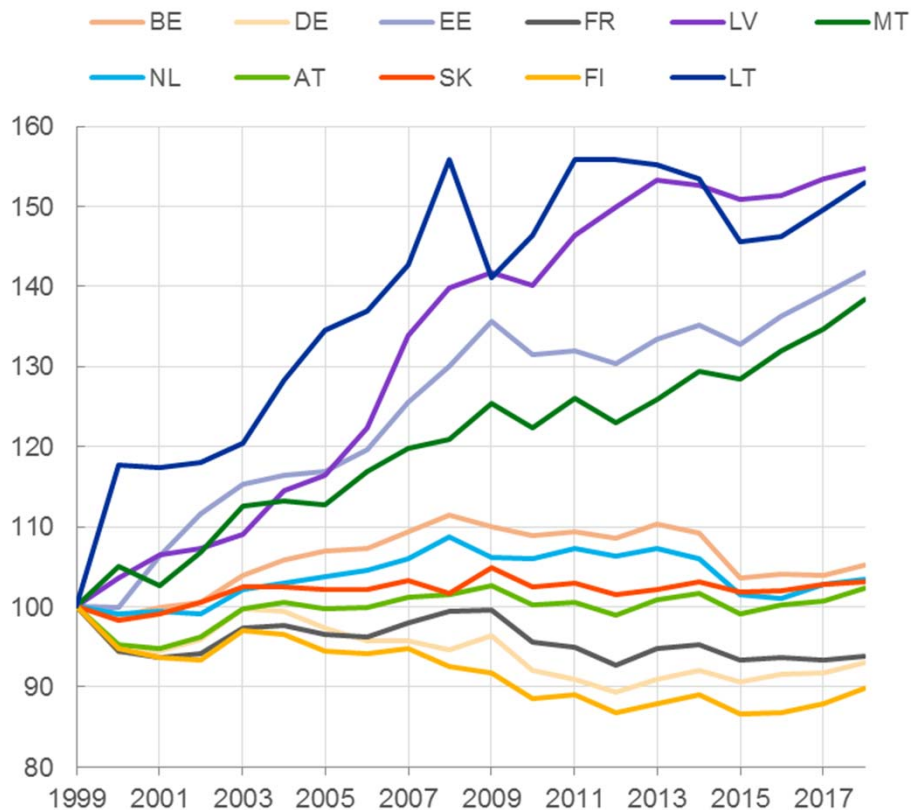
Latest observation refers to 2017.

...partly reflecting differences in price competitiveness

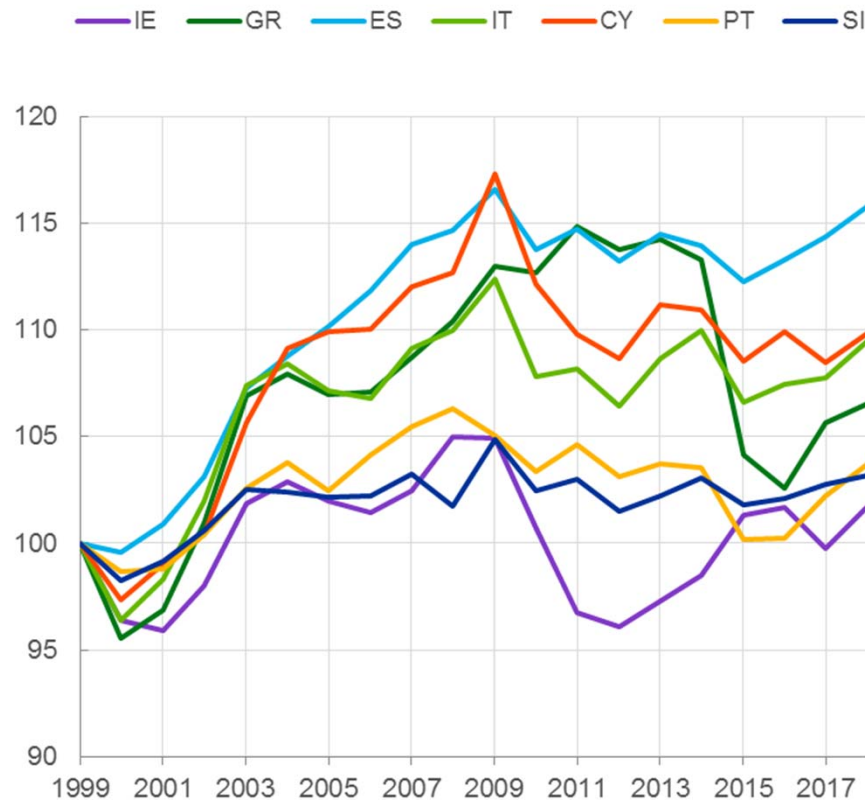
Relative export prices of selected euro area countries

(index, 1999=100, annual data, seasonally adjusted)

Non-stressed countries



Stressed countries



Source: AMECO.

Note: Price deflator exports of goods and services (foreign trade weighted relative performance). A decrease means an improvement in price competitiveness. Performance relative to the rest of 37 industrial countries. Latest observation refers to 2018, where 2018 is partly forecast.

1 Euro area competitiveness

1.1 Price competitiveness

1.2 Export market shares

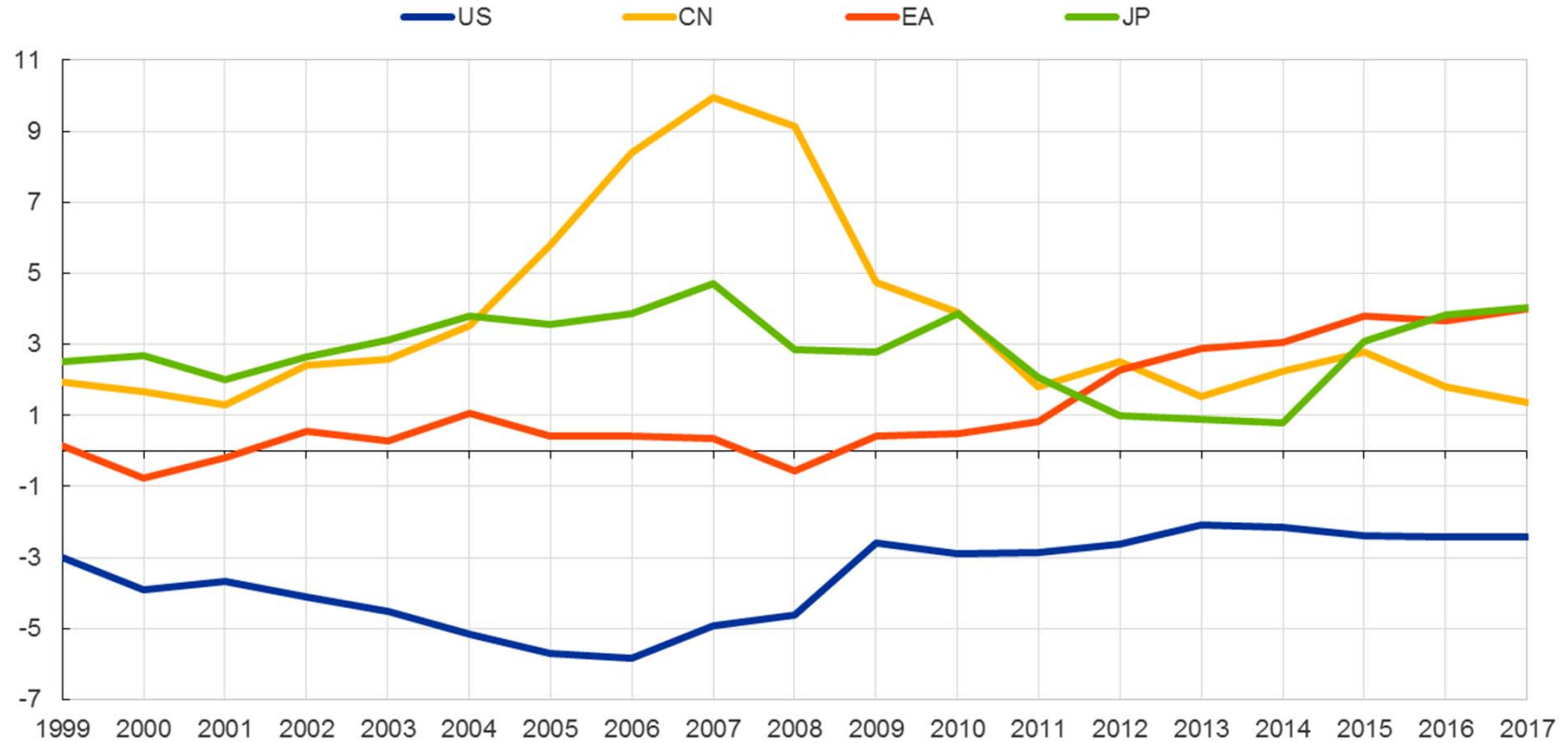
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Euro area current account in record surplus

Current account balances

(percentage of GDP, annual data)



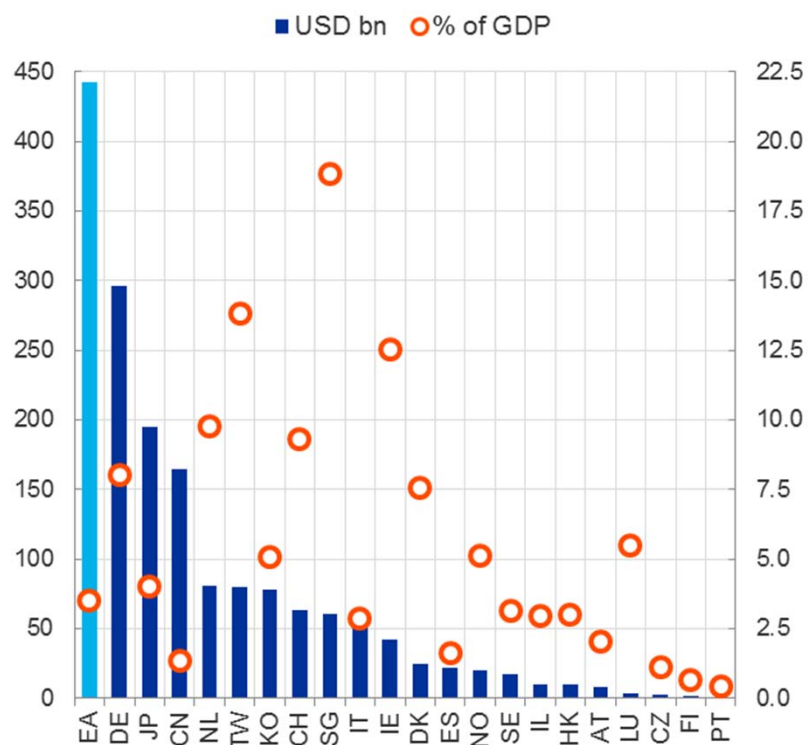
Source: OECD Economic Outlook.

Note: Latest observation refers to 2018.

Policy relevance

Current account balances of selected economies in 2017

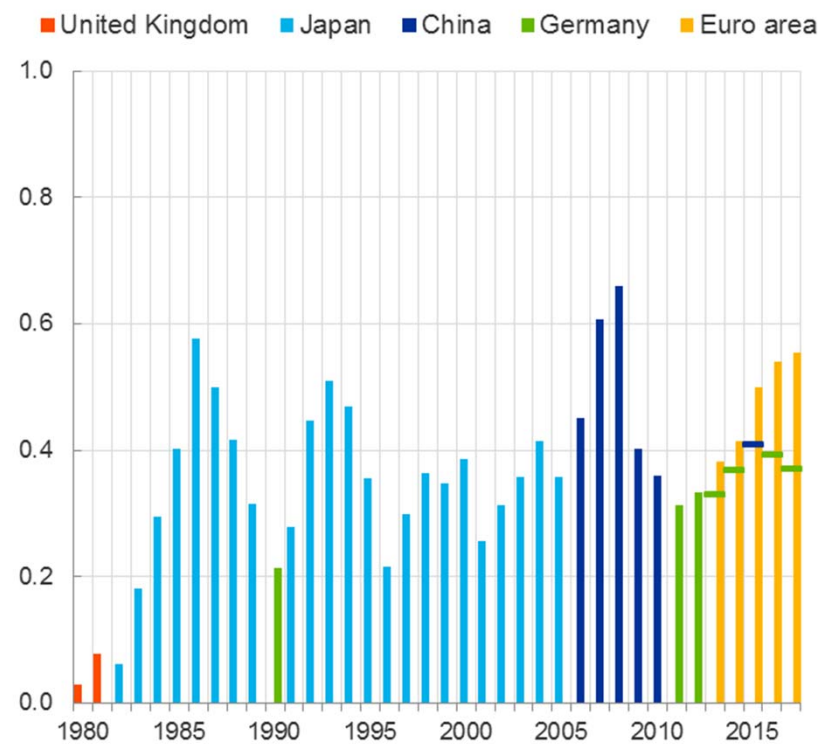
(USD bn; percent of own GDP)



Source: IMF.

Current account balances of selected economies: largest surplus economies

(percent of world GDP)

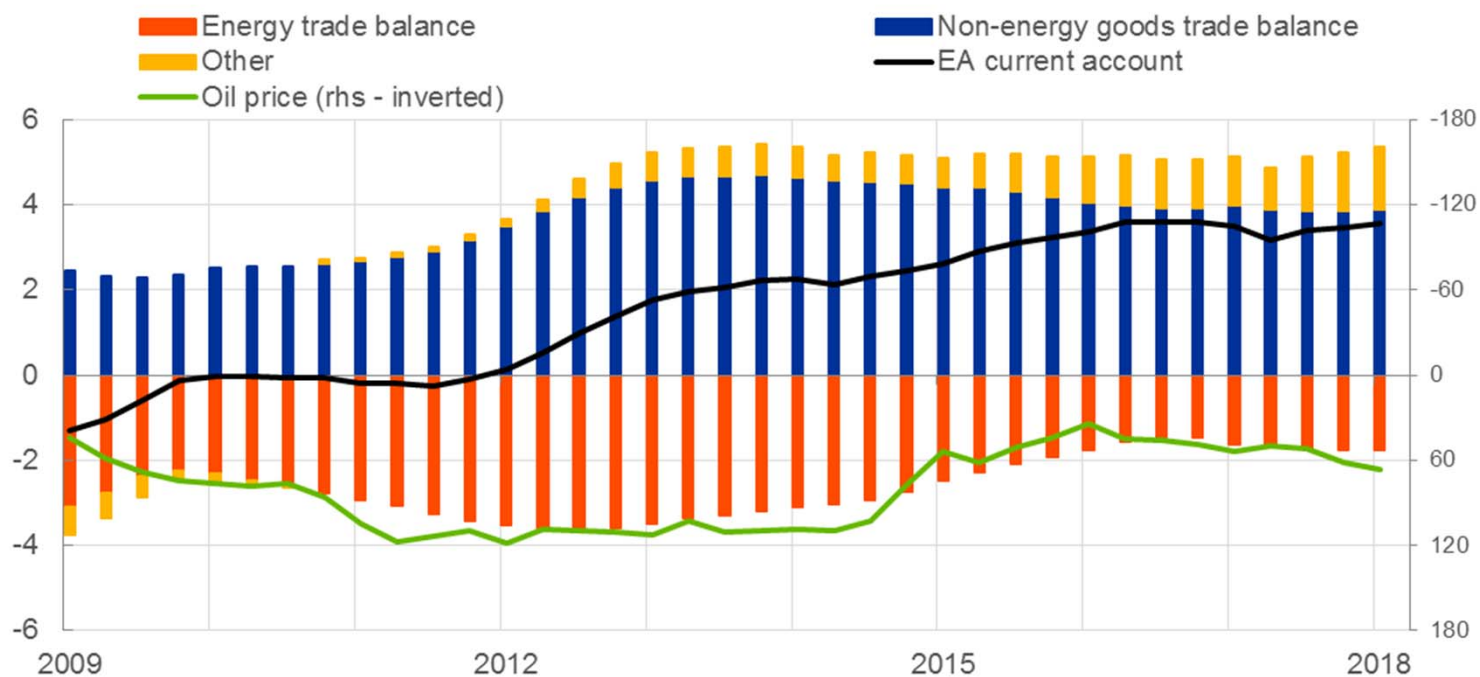


Source: IMF.

The role of oil prices

Oil price and euro area current account balance: energy and non-energy trade

(percent of GDP, 4-quarters cumulated balance; USD per barrel)



Source: ECB.

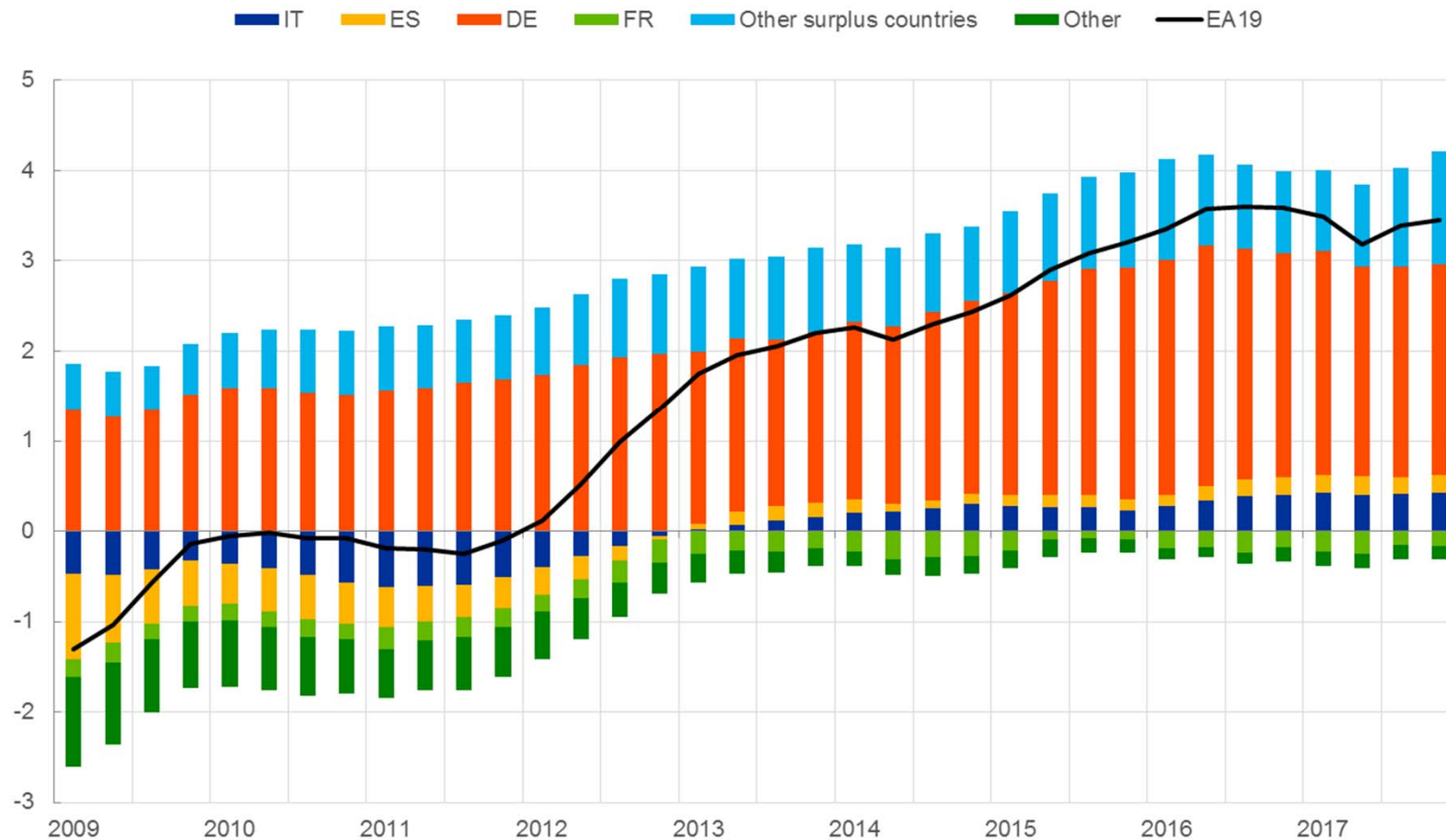
Notes: "Other" includes trade in services, primary and secondary income.

Latest observation refers to 2018Q1.

Current account improvement from 2009 to 2017

Current account balance

(in % of euro area GDP, quarterly data, 4q moving averages)



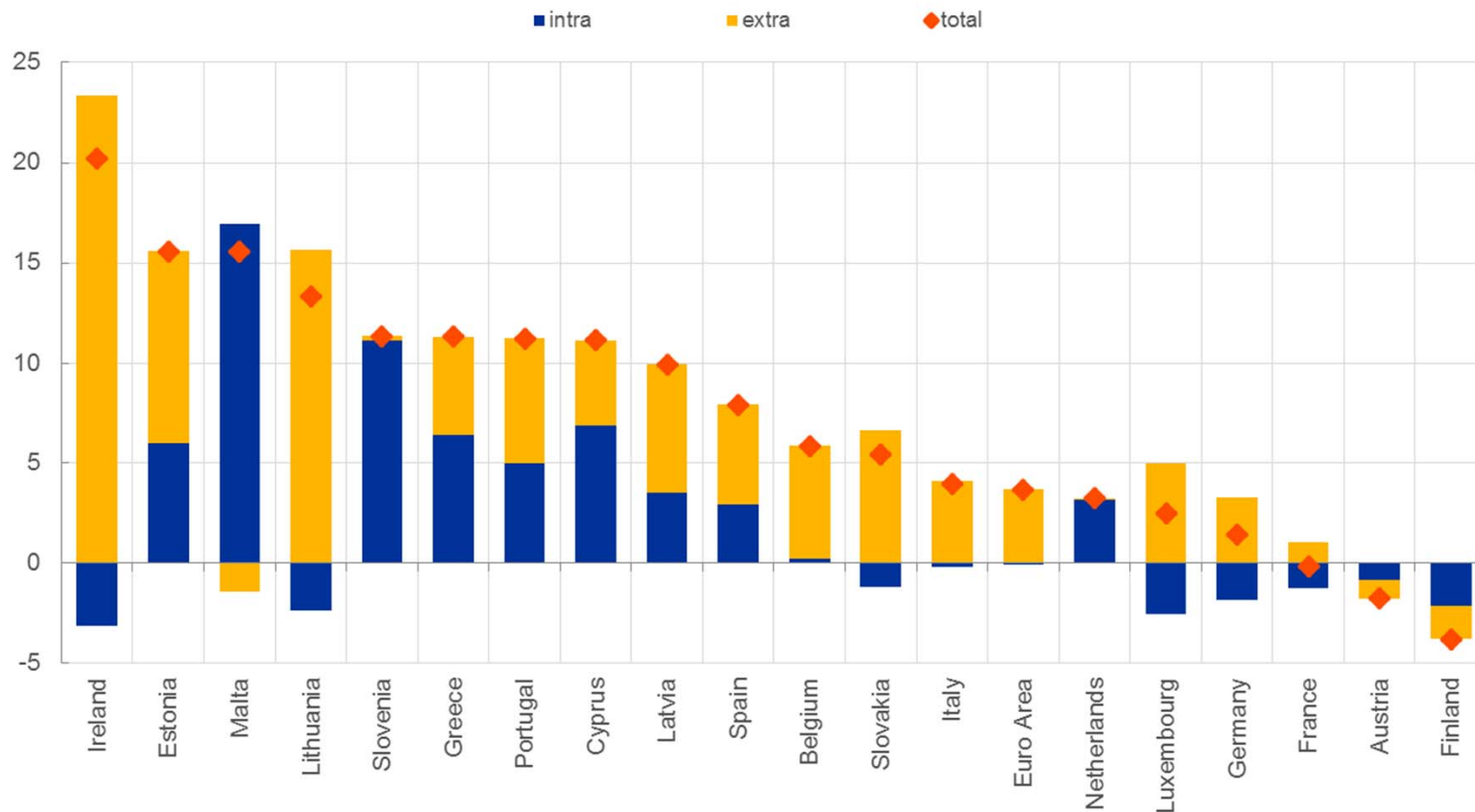
Sources: Eurostat and ECB.

Note: Latest observation refers to 2017Q4.

extra trade growth higher than intra

Change in extra-euro area trade balance between 2008 and 2017

(percentage points of GDP)

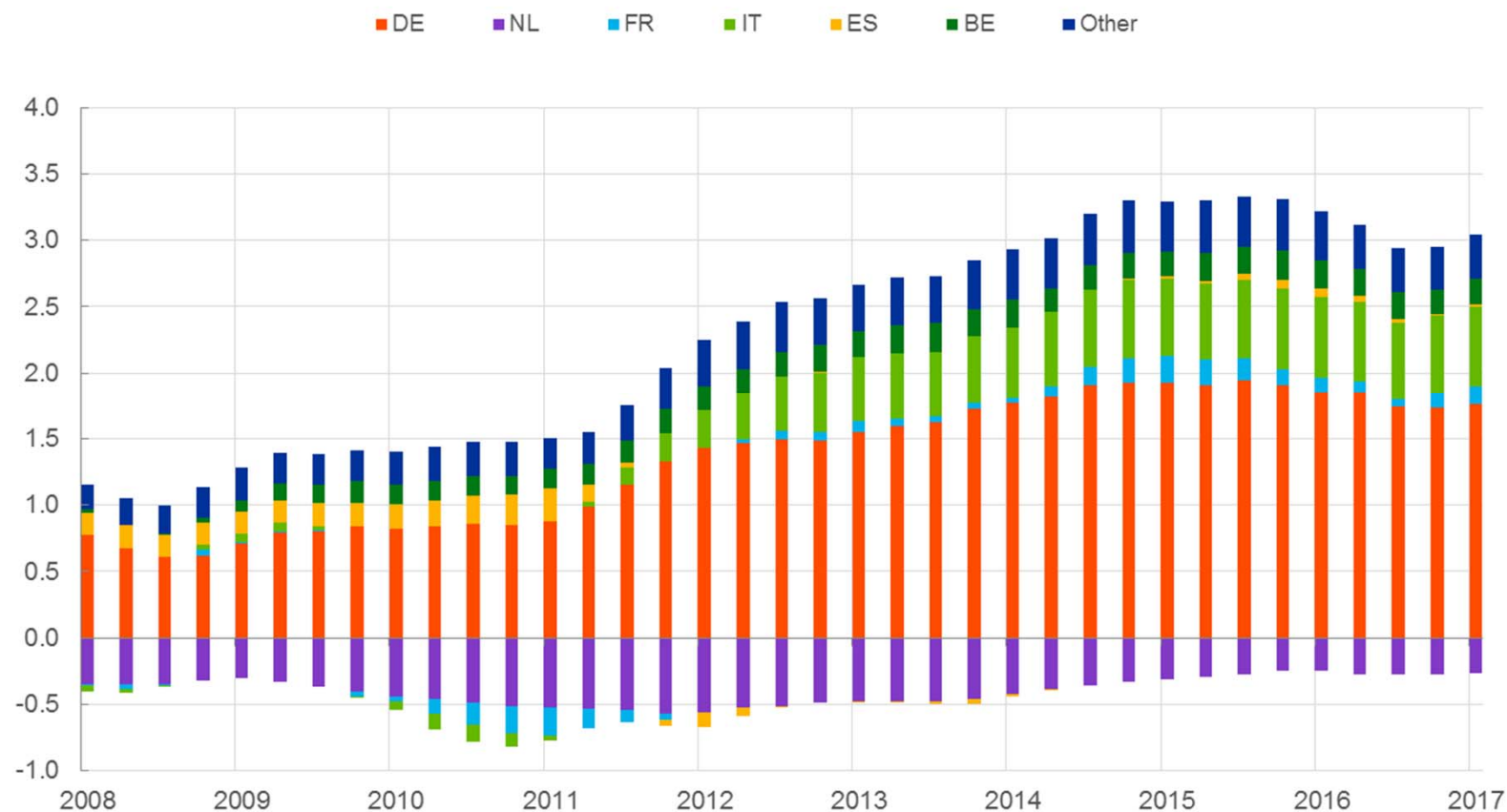


Source: ECB.

Which countries contribute to CA surplus?

Euro area trade balance: contribution to extra-euro area trade

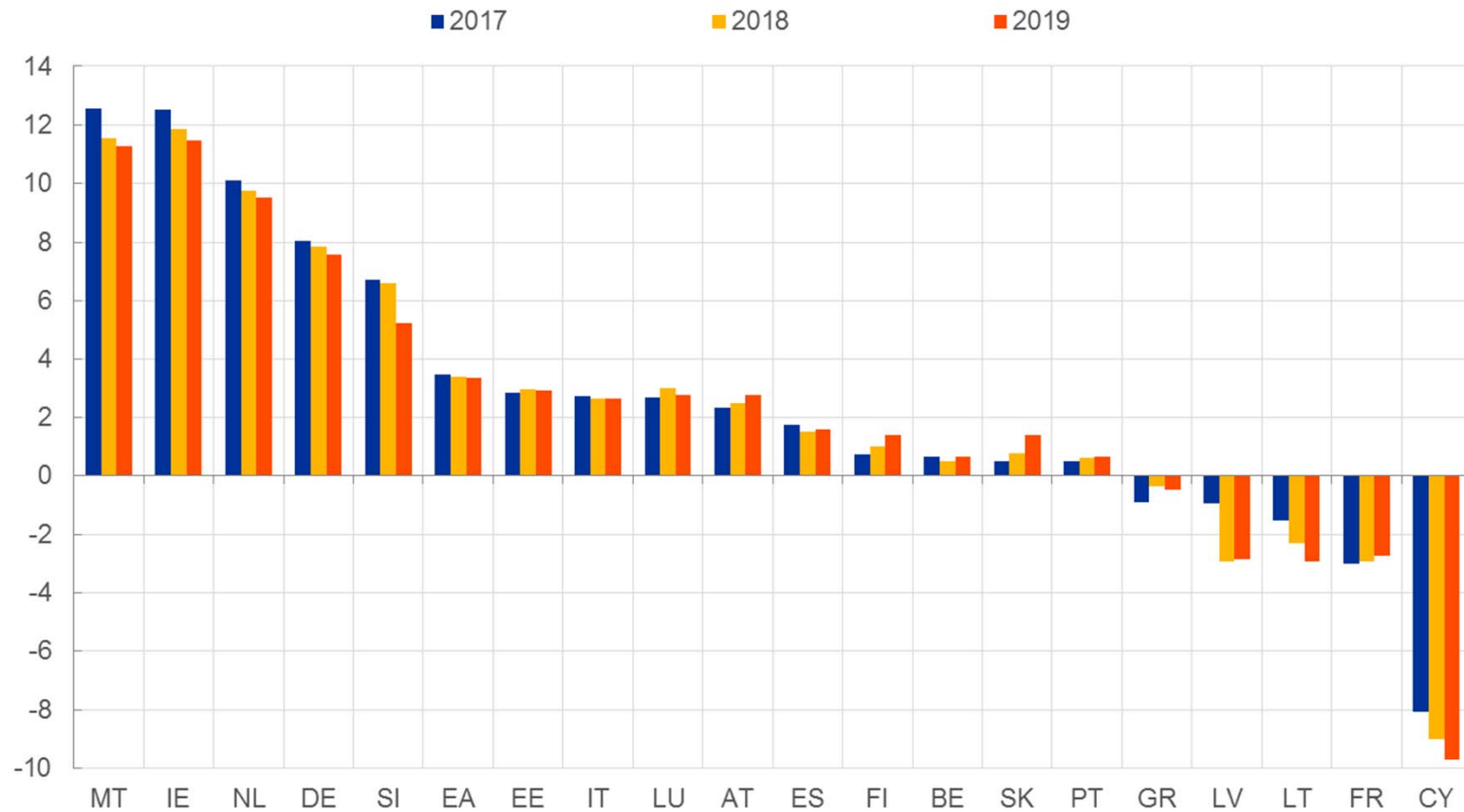
(percentage point of euro area GDP)



Source: ECB. Latest observation refers to 2017.

Current account imbalances should narrow further in the coming years

Current account by country (in % of GDP)



Source: European Commission (AMECO), Spring 2018.

Note: Countries are ranked in descending order according to their current account balance as % of GDP in 2017.

Outline

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Main messages

- The competitiveness gains of the euro area, resulted from euro's depreciation has now been stabilised.
- Price competitiveness improvement explains to a certain extend the stabilisation of export shares losses since 2004.
- The euro area current account record surplus is explained by the substantial efforts made by the stressed countries as well as by the low oil prices.



Thank you!