Euro area economic situation and the foundations for growth

Presentation by
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at the Euro Summit
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Euro area real GDP
(annual % growth rate)
Latest data: January 2013 (December 2012 for Greece and Estonia).
Source: Eurostat.
External imbalances

Current account balance (% of GDP)

Note: For improved readability, this and subsequent charts only show the countries listed above and do not include FI, EE, SK, SI, CY, MT. Countries are assigned to “External surplus/deficit” group if they had a current account surplus/deficit in 2007 (the last pre-crisis year). “Surplus” countries in blue, “deficit” countries in red. Annual data (smoothed lines). Source: AMECO.
Credit situation

Bank credit to firms
(annual rate of growth)

Notes: MFI loans to non-financial corporations adjusted for loan sales and securitisation. 3-month moving average. Latest observation January 2013. Source: ECB.
Note: Budget balance is corrected for capital injections into banks.
Latest data: 2012Q4. Sources: Eurostat, ECB, EC.
Where does growth come from?

- strengthening of global demand
- supportive monetary policy anchoring price stability
- and restoring:

Foundations for growth

Confidence

Credit

Competitiveness
The competitiveness problem

Wage and productivity developments

Compensation

- Compensation per employee (deficit countries)
- Compensation per employee (surplus countries)

Productivity

- Productivity (deficit countries)
- Productivity (surplus countries)

Note: 1999 = 100. Total economy. Productivity is defined as real GDP per employee. GDP-weighted average by country group. Annual data (smoothed lines). Source: AMECO.
Wage and productivity developments

Country perspective (selection)

Note: 1999 = 100. Total economy. Productivity is defined as real GDP per employee. Annual data (smoothed lines). Source: AMECO.
Profitability problems

**Business margins**
(%, national accounts)

**Negotiated wages and employment**

Net operating surplus / value added for nonfinancial corporations (4-quarter averages)
Latest observation: 2012Q3. Sources: Eurostat, ECB.
Right-hand chart:
Note: 1999 = 100. GDP-weighted average by country group. Due to data availability, "External surplus" group does not include Luxembourg, and "External deficit" group does not include Greece and Ireland. Annual data (smoothed lines).
Source: Eurostat.
Confidence returning

Corporate bond yields

(percentage points)

- First 3-year LTRO
- OMT announced
- Return of confidence

Government bond yields

(percentage points)

- OMT announced
- Return of confidence

Note: EMU all maturities. Monthly data; Latest data: February 2013.
Sources: BofA Merrill Lynch, Datastream and ECB calculations.

Note: 3-month moving average of monthly data. Latest data: February 2013.
Sources: Thomson Reuters and ECB calculations.
Problems for smaller firms

Interest rate on new loans to firms
(Loans up to EUR 1 million to firms, percent per annum)

Source: ECB.
Government deficits in 2009 and 2012 (% of GDP)

Note: Budget balance is corrected for capital injections into banks.
Source: European Commission’s winter 2013 economic forecast and ESCB.
Conclusions

1. Review of product and labour markets to see whether they are compatible with participation in monetary union

2. Reform contracts for countries with pressing competitiveness problems.

3. Full implementation of Single Market legislation