Structural reforms, inflation, and monetary policy

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Increasing resilience to shocks

**Chart 1**

**REER and relative demand**

- REER deflated by unit labor costs
- Domestics demand relative to foreign demand

**Chart 2**

**Unemployment rate**

- % of labor force
- Member state min–max range
- Euro area

Sources: ECB and European Commission (left); Eurostat (right).
Raising potential growth

**Potential output growth**

Range of estimates; percentages

**Potential output reduction due to crisis**

Index, potential GDP in 1999 = 100

Sources: IMF, OECD, and EC (left); EC Spring 2015 forecast, Output Gap Working Group (right).
The untapped potential of the euro area

Unemployed/underemployed/discouraged workers

Percentage point changes since 2008q2

Unemployment rate
Long term unemployment rate
Underemployed part time workers
Discouraged workers

Total factor productivity
Index: 2000 = 100

Sources: Labour Force Survey, ECB staff calculations (left); European Commission (right).
The untapped potential of the euro area

**Labor productivity of firms**

Real value added per employee; Average over period 2003–2007

- Germany
- Austria
- France
- Belgium
- Finland
- Italy
- Spain
- Portugal

0 50 100 150
⇐ Less productive     More productive ⇒

**ICT adoption**

Index: 1–7 (best); EA is unweighted average

- Business–to–business Internet use
- Firm–level technology absorption
- Business–to–consumer Internet use
- Capacity for innovation
- Extent of staff training
- Capacity for innovation
- Extent of staff training

4.5 5.0 5.5 6.0
⇐ Worst practices     Best practices ⇒

**Sources:** CompNet (left); World Economic Forum Networked Readiness Index 2015 (right).
Credibility and type of reforms

**Chart 9**

Longer-term GDP growth expectations

5–years ahead expectations, aggregated probability distribution

**Chart 10**

Ease of Doing Business (2015)

Distance to frontier; 100 = global best practices

Sources: ECB Survey of Professional Forecasters (left); World Bank (right).
Modelling the short-term effects

**EAGLE simulation**
Percent (GDP) and percentage-point (CPI) deviations

Gradualism and imperfect credibility  
Country-specific reform  
Endogenous monetary policy

Real GDP level

CPI inflation

Years since start of reform

- Base case: credible, area-wide reforms with monetary policy unchanged for 2 years
- Simulation

Sources: ECB staff calculations.