

Philip R. Lane
Member of the Executive Board

Europe's role in a changing global economy

European Commission Directorate General for Economic and Financial Affairs

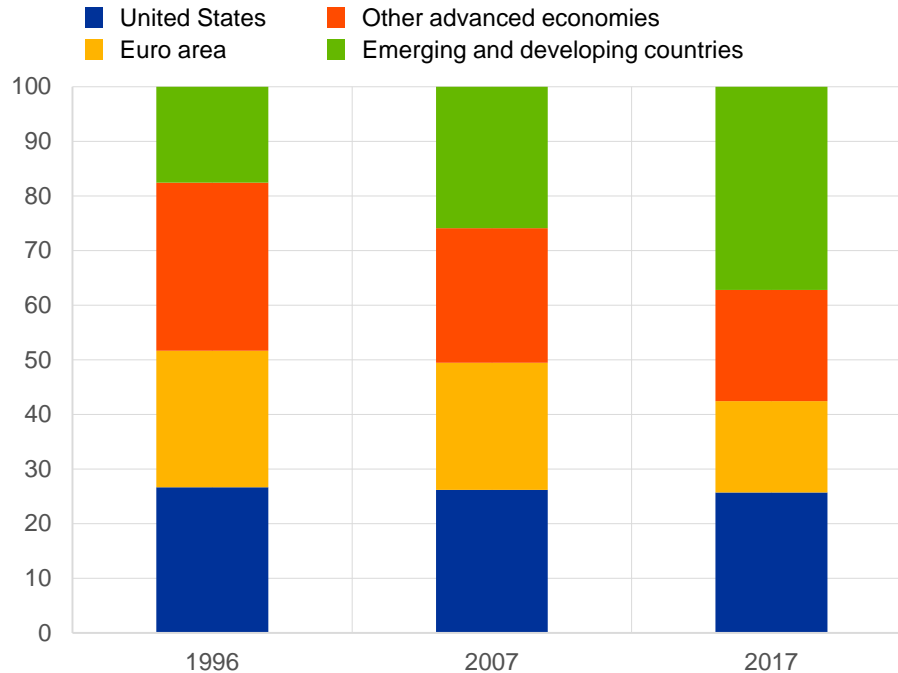
Annual Research Conference

Brussels

15 November 2019

Evolution of distribution of world GDP

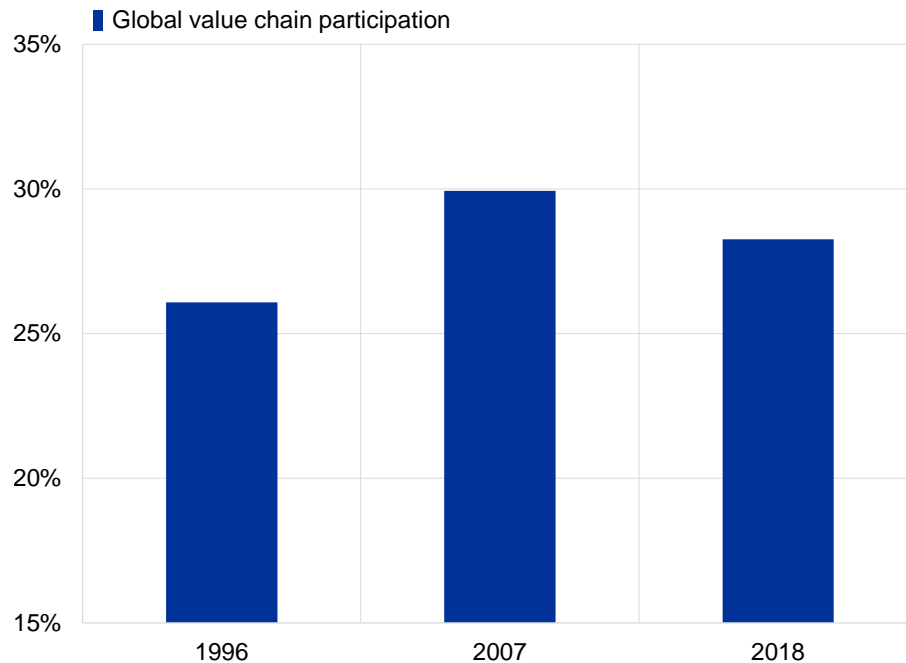
(percentage shares of world GDP in USD)



Sources: IMF World Development Indicators and Haver Analytics.

Global value chain participation

(foreign value added as a percentage of gross exports)

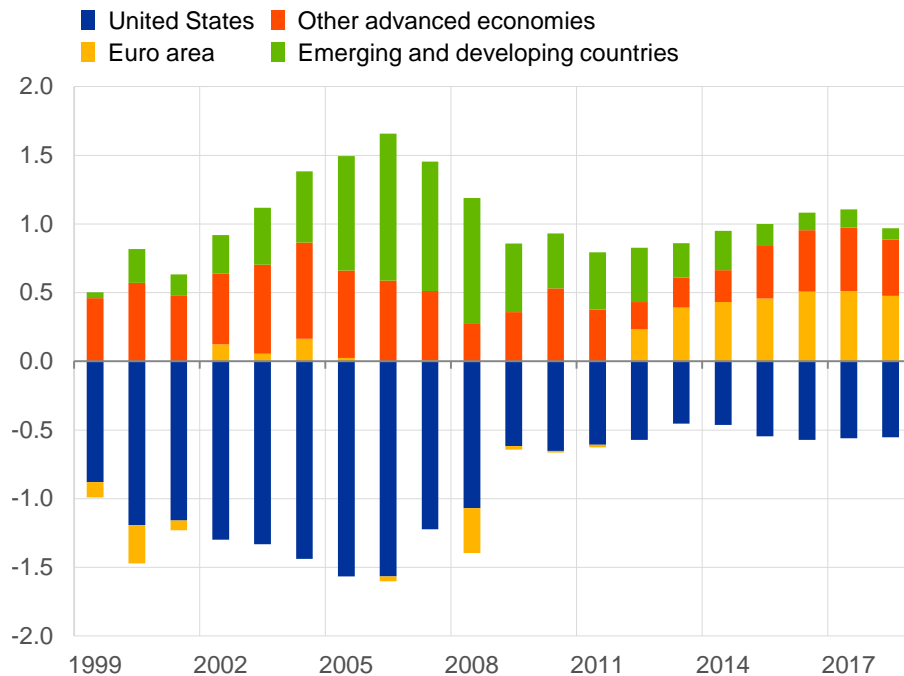


Sources: UNCTAED EORA database and ECB staff calculations.

Notes: The global value chain participation figure for 2018 is based on now-casting. The sample includes 190 countries.

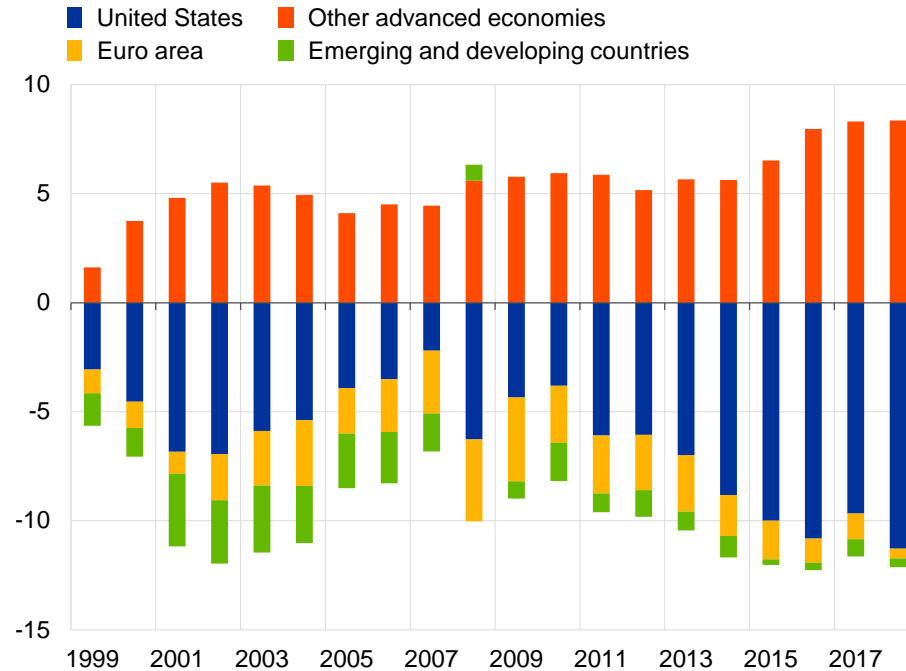
Evolution of current account balances

(percentage shares of world GDP)



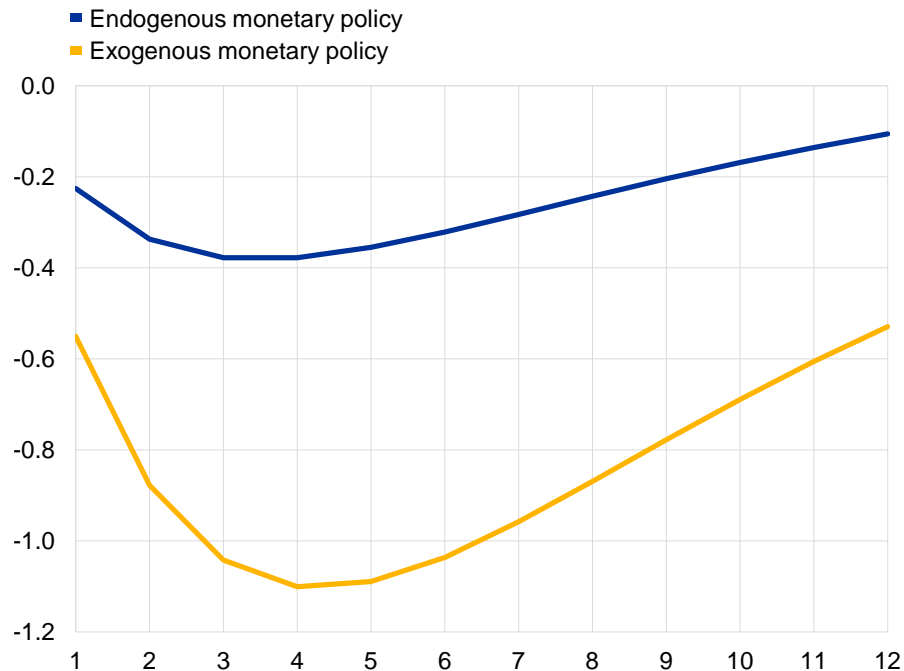
Sources: IMF World Economic Outlook and ECB staff calculations.

Evolution of net international investment positions (percentage shares of world GDP)



Sources: IMF International Financial Statistics and ECB staff calculations.

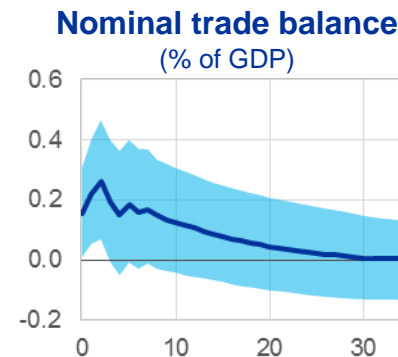
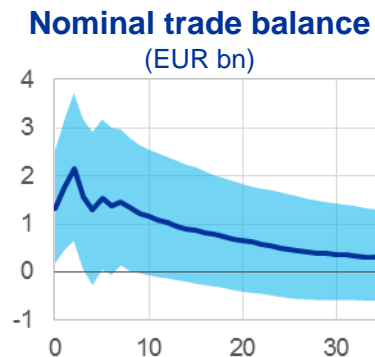
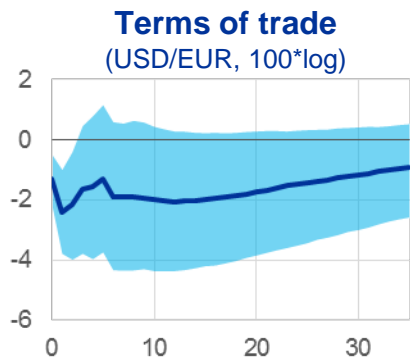
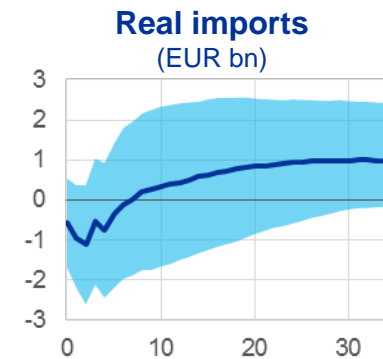
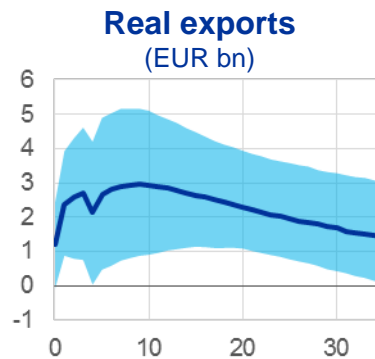
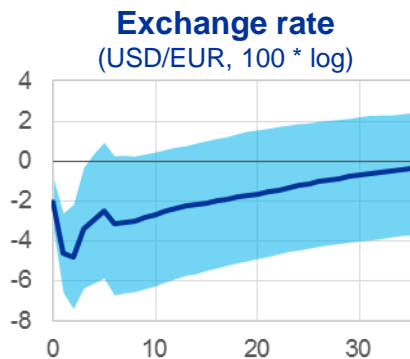
Effects of an export demand shock on euro area GDP (percentage deviation from trend/steady state)



Sources: New Area-Wide Model II and ECB calculations.

Notes: The export preference shock considered reflects a drop in exports which peaks at 4% deviation from their steady state value. Under the exogenous monetary policy the central bank is assumed to be unable to change its policy rate, which is akin to be constraining by a lower bound on the short-term interest rate. For the simulation it is assumed that the short-term interest rate cannot move for six quarters, which is known to agents. The model is solved under perfect foresight, see Adjemian, S. and Juillard, M. (2014), "Assessing long run risk in a DSGE model under ZLB with the stochastic extended path approach", unpublished manuscript. Under the endogenous monetary policy the central bank changes the short-term interest rate according to its policy rule (an estimated Taylor rule for the euro area) and does not use additional instruments.

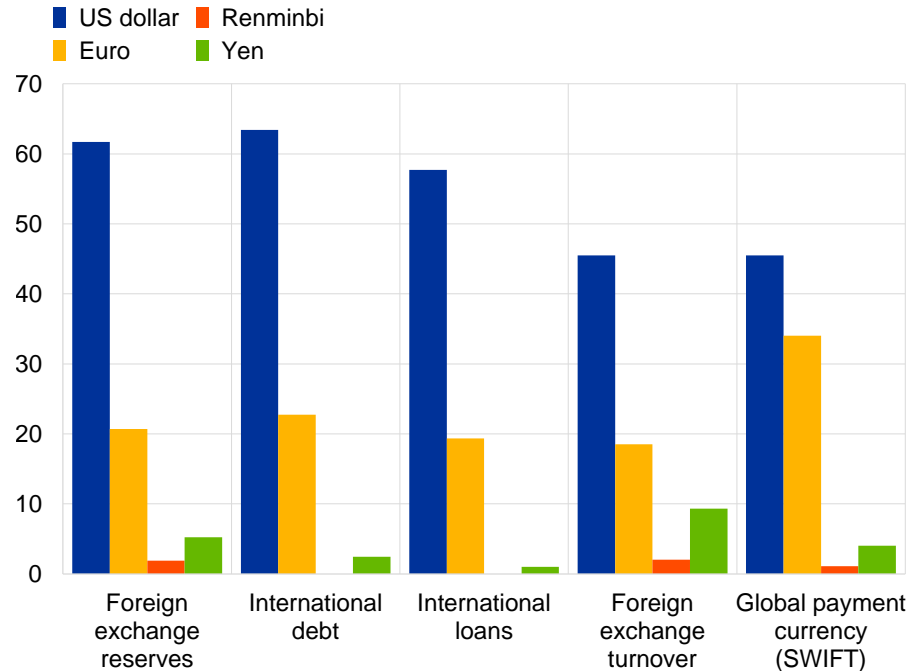
Impulse responses to an accommodative monetary policy shock – trade balance



Source: ECB.

Notes: Trade in oil-related products and their respective prices are excluded from all series where applicable. Estimates are obtained with a VAR(6) model on monthly observations over the period January 2000 to December 2018. The VAR includes one-year German government bond yields, euro area stock prices, corporate bond spreads, industrial production and consumer price indices where the monetary policy shock is identified using the high-frequency response of financial asset prices shortly after ECB monetary policy meetings in the spirit of Jarocinski, M. and Karadi, P. (2019), "Deconstructing Monetary Policy Surprises - The Role of Information Shocks", *AEJ Macroeconomics*, forthcoming. The shock is re-scaled to correspond to a 25 basis point decline in the one-year German government bond yield on impact.

Snapshot of the international monetary system (percentages)

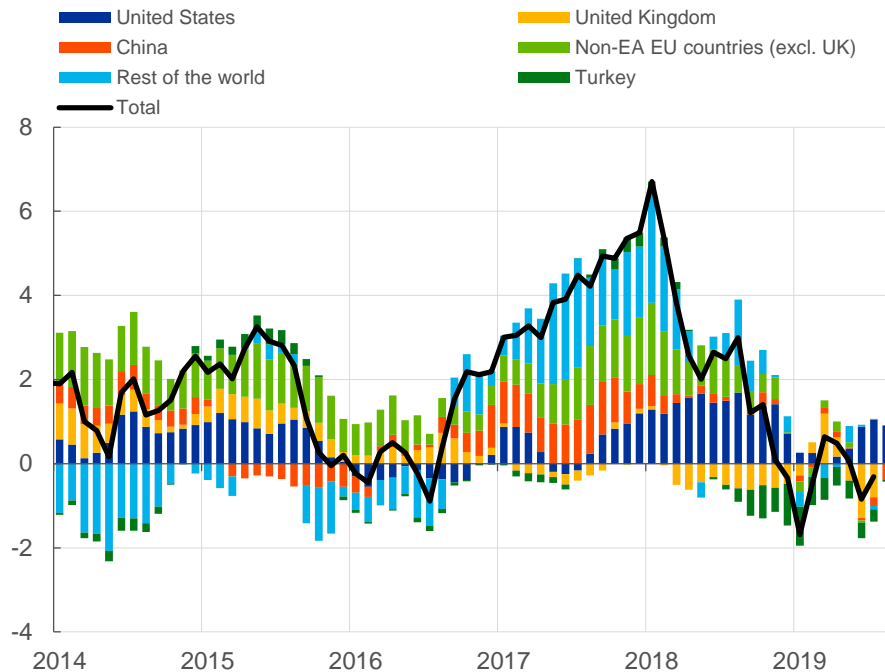


Sources: BIS, CLS Bank International, IMF, SWIFT and ECB calculations. See also ECB (2019).

Note: The latest data are for the fourth quarter of 2018 or the latest available.

Euro area goods exports to countries outside the euro area

(volumes; 3-month moving averages, annual percentage changes; percentage point contribution)

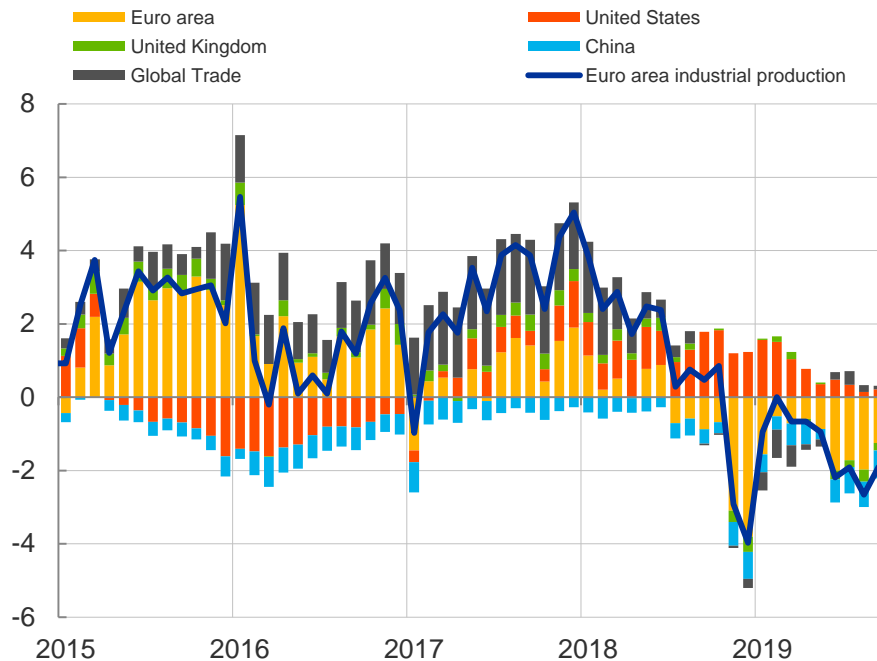


Sources: Eurostat and ECB staff calculations.

Latest observation: August 2019 for United States, China and Turkey; July 2019 for other countries and country groups.

Drivers of euro area industrial production: Domestic versus foreign factors

(year-on-year percentage change and percentage contributions)

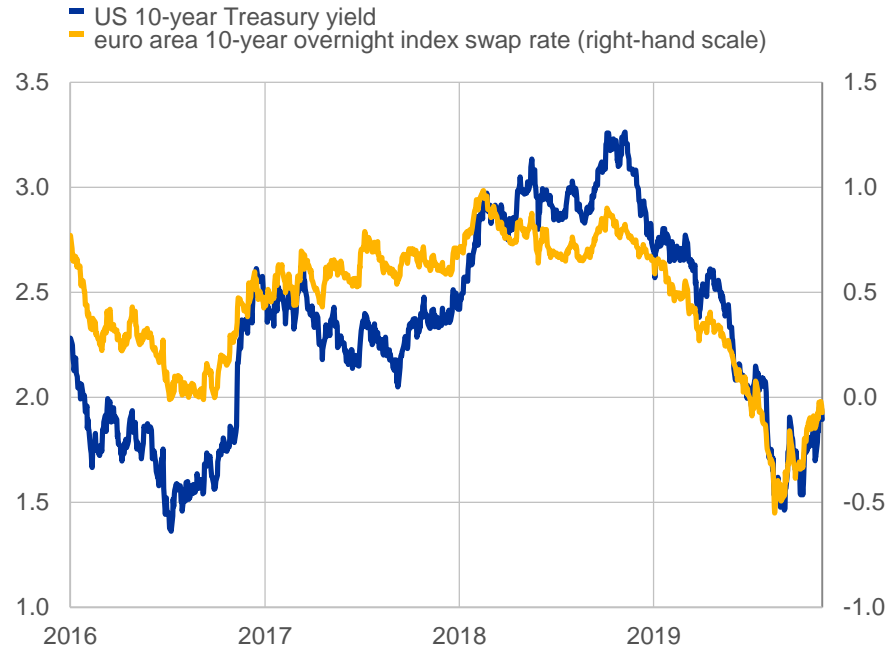


Sources: Eurostat, Markit and ECB calculations.

Notes: Industrial production here excludes construction. Shocks to countries' industrial production are identified using the absolute magnitude restriction method (see De Santis, R. A. and S. Zimic, *Journal of Applied Econometrics* 2018), which assumes that the effect of the shock on the domestic economy at the time of impact is larger in absolute value than the magnitude of the foreign spillover. The PMI for world new export orders, which is a proxy for global trade, is assumed to react to countries' industrial production shocks with one lag. The overall sample period is from January 2007 to September 2019.

Last observation: September 2019.

Euro area and US long-term yields (percentages)



Sources: Bloomberg and ECB staff calculations.
Latest observation: 13 November 2019.

Policy issues

- Global r^*
- Rebalancing: domestic reforms and fiscal policy
- Monetary policy reaction function
- International role of the euro
- Global monetary system