

Box 6

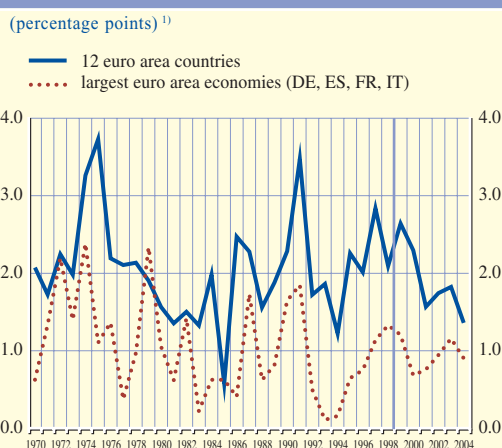
RECENT DEVELOPMENTS IN OUTPUT GROWTH DIVERGENCE ACROSS EURO AREA COUNTRIES

Some recent reports have suggested that divergence in real economic activity in the euro area widened somewhat in the course of 2004. However, this assertion appears to be based only on the relatively volatile quarter-on-quarter real GDP growth rates for the four largest euro area economies and does not take into account developments in the rest of the euro area. Moreover, in order to assess recent developments properly, it is important to take a historical perspective.

Looking only at the four largest euro area economies, a wider divergence of real GDP growth rates in quarter-on-quarter terms was indeed seen at the end of last year. This reflected a decline in real GDP in Germany and Italy in the fourth quarter, in contrast to a significant increase in activity in France and Spain. At least part of this greater dispersion in the fourth quarter may reflect some unusual factors, namely the negative impact of the working-day adjustment on quarterly GDP in Germany and the very large correction in the net trade contribution seen in Italy, following an exceptionally strong net trade contribution in the third quarter.

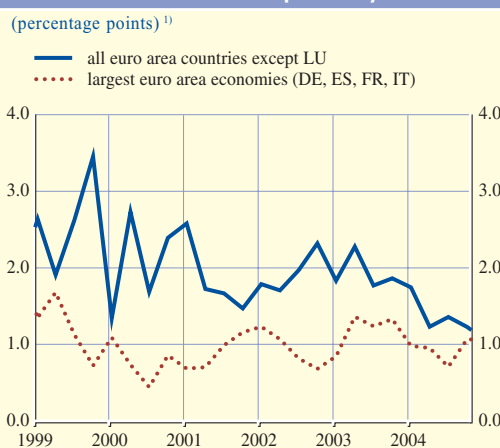
However, from a historical perspective, such an increase in dispersion does not appear to be exceptional. Differences in real GDP growth among the four largest euro area economies have been seen, to varying degrees, over the last few years. Germany and Italy have seen, on

Chart A Dispersion of real GDP growth rates (annual averages) across the euro area countries



Sources: European Commission and ECB calculations.
1) Unweighted standard deviation. Before 1991, Germany refers to West Germany.

Chart B Dispersion of real GDP growth rates (in year-on-year terms) across the euro area countries based on quarterly GDP data



Sources: Eurostat and ECB calculations.
1) Unweighted standard deviation. No quarterly GDP data are available for Luxembourg.

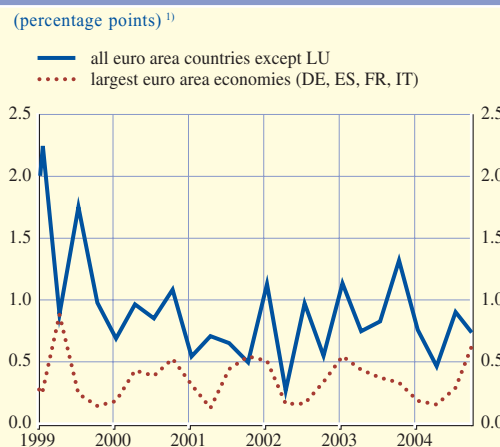
average, the lowest real GDP growth rates in the euro area since the start of EMU in 1999. Over the period from 1999 to 2004, average annual GDP growth in these two countries was between 1.2% and 1.4% – well below the euro area aggregate of 1.9%.

An assessment of divergence in the euro area must also take into account the other euro area countries. As can be seen in Chart A, dispersion of real GDP growth rates across the 12 euro area countries actually declined somewhat in 2004, in annual average terms, to a relatively low level. Measured by the unweighted standard deviation, dispersion fell to around 1.4 percentage points last year. By contrast, since the 1970s it has fluctuated, on average, around a level of 2.0 percentage points.

Similar developments are visible in the quarterly GDP profile for 2004. Real GDP growth rates can be computed either in year-on-year or in quarter-on-quarter terms for this purpose. The results show that the degree of dispersion in the euro area declined in terms of year-on-year growth rates and remained broadly unchanged in terms of quarter-on-quarter growth rates in 2004 (see Charts B and C).

Nevertheless, there have been enduring differences in growth between euro area countries. As these differences largely appear to reflect structural factors, they must be addressed by appropriate national measures. The ECB's single monetary policy cannot

Chart C Dispersion of real GDP growth rates (in quarter-on-quarter terms) across the euro area countries based on quarterly GDP data



Sources: Eurostat and ECB calculations.
1) Unweighted standard deviation. No quarterly GDP data are available for Luxembourg.

resolve them. Suitable structural reforms by national authorities in persistently underperforming countries are therefore urgently needed. Such reforms would not only contribute to raising potential growth rates and smoothing growth differentials but would also facilitate the communication and implementation of the single monetary policy.