



Crisis and Growth in Europe

István P. Székely

Country Director



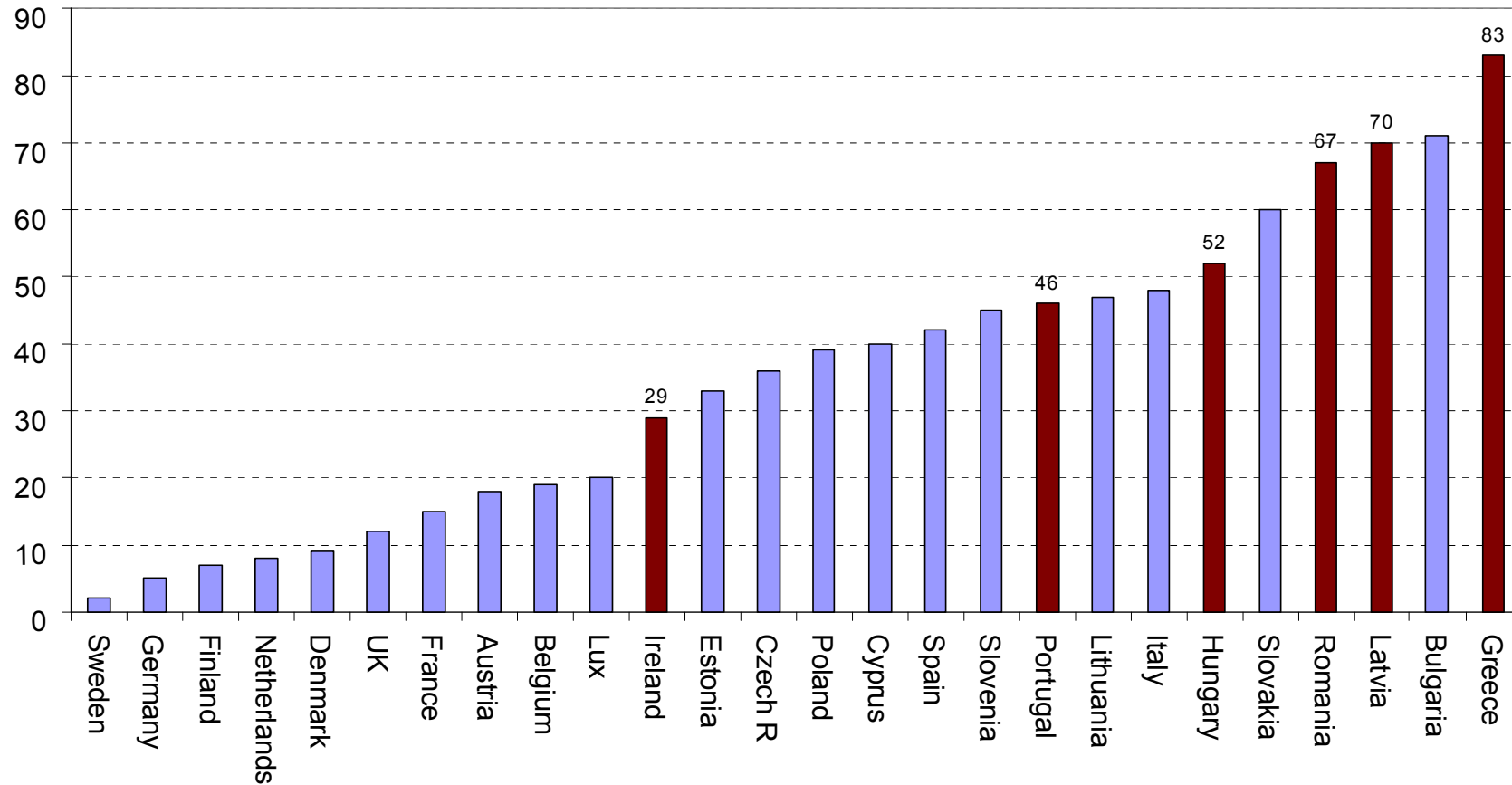
**Economic
and Financial Affairs**
DIRECTORATE • GENERAL

CASE 2011 International Conference on
Europe 2020: Exploring the Future of European Integration
Falenty, November 18-19, 2011

The views expressed here are those of the authors and do not necessarily reflect the opinion of the European Commission

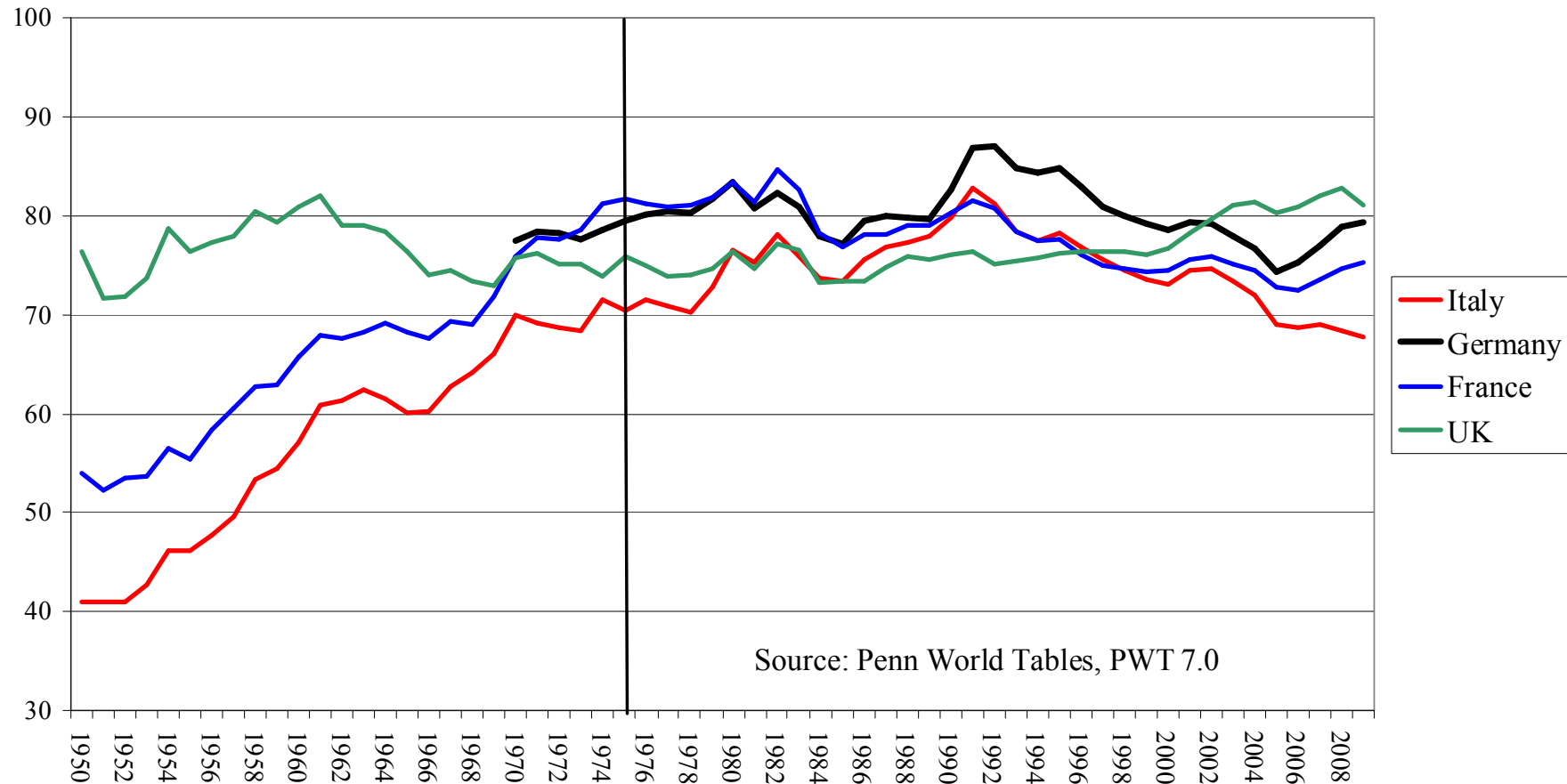
Europe's competitiveness

World Economic Forum Global Competitiveness, 2010



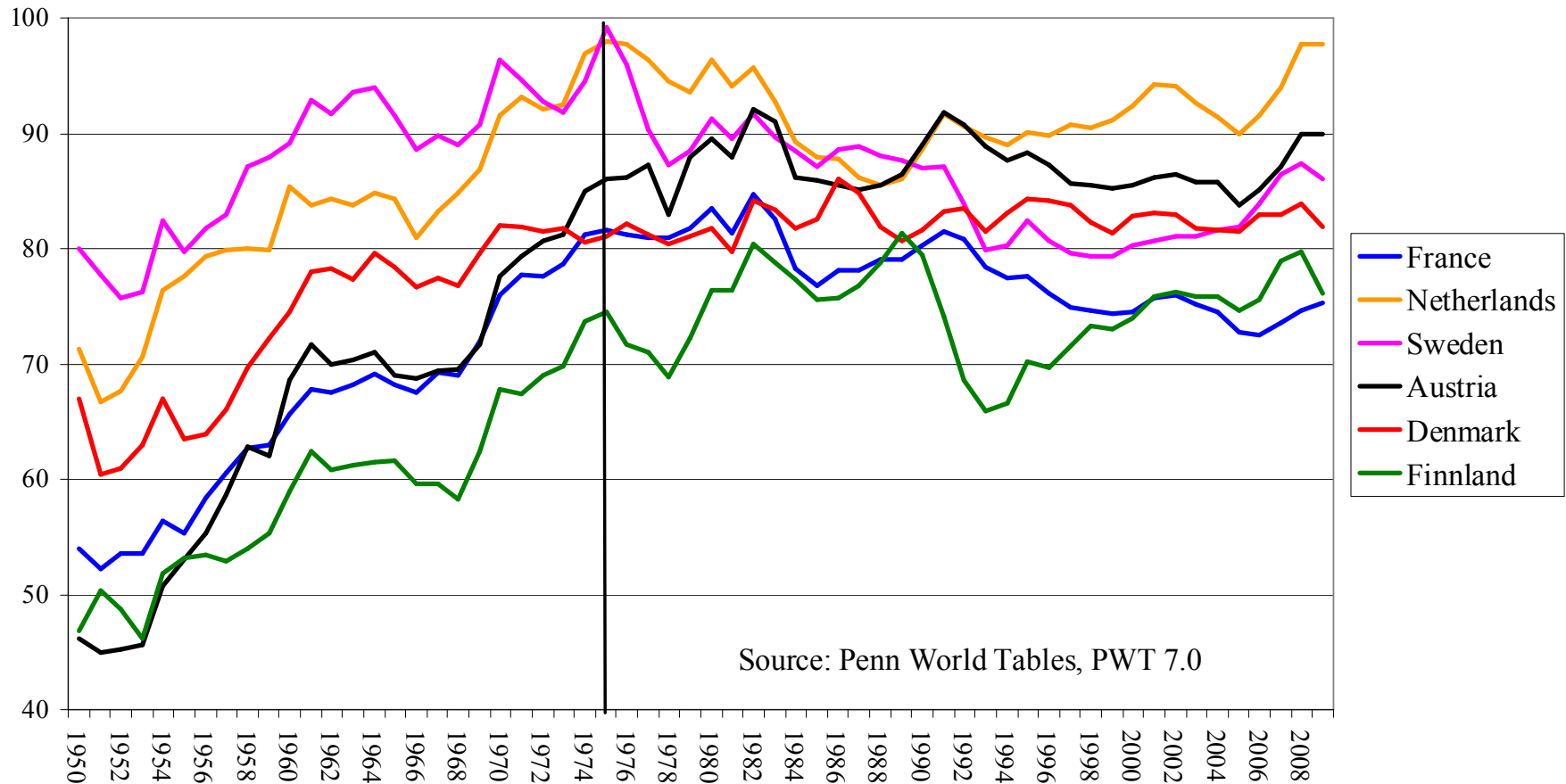
The history of Europe's catching up

Europe: Per capita GDP relative to the US, 1950-2009
(PPP, US=100)



The history of Europe's catching up

Europe: Per capita GDP relative to the US, 1950-2009
(PPP, US=100)

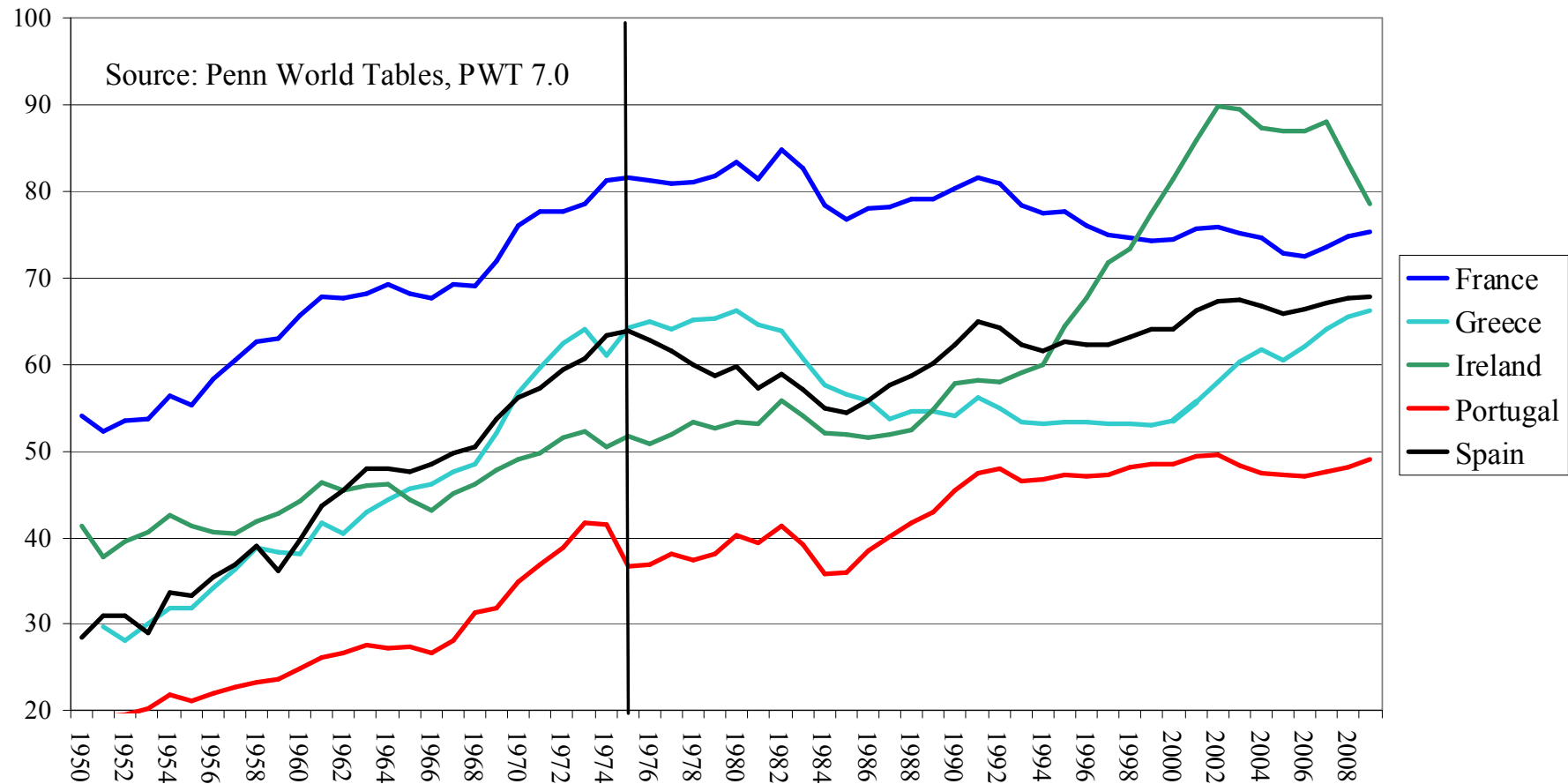


Source: Penn World Tables, PWT 7.0



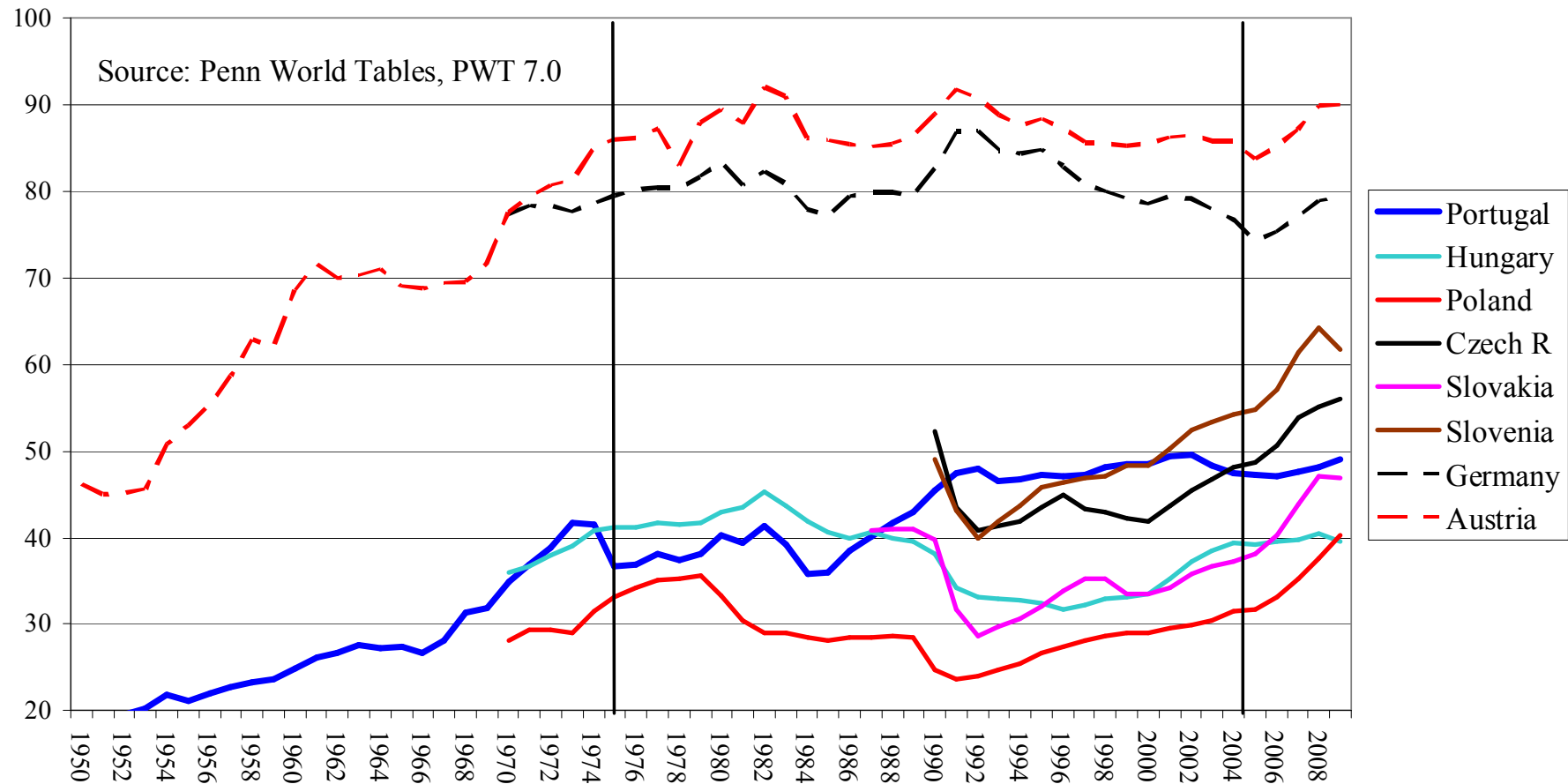
Catching up within the Euro Area

Europe: Per capita GDP relative to the US, 1950-2009
(PPP, US=100)



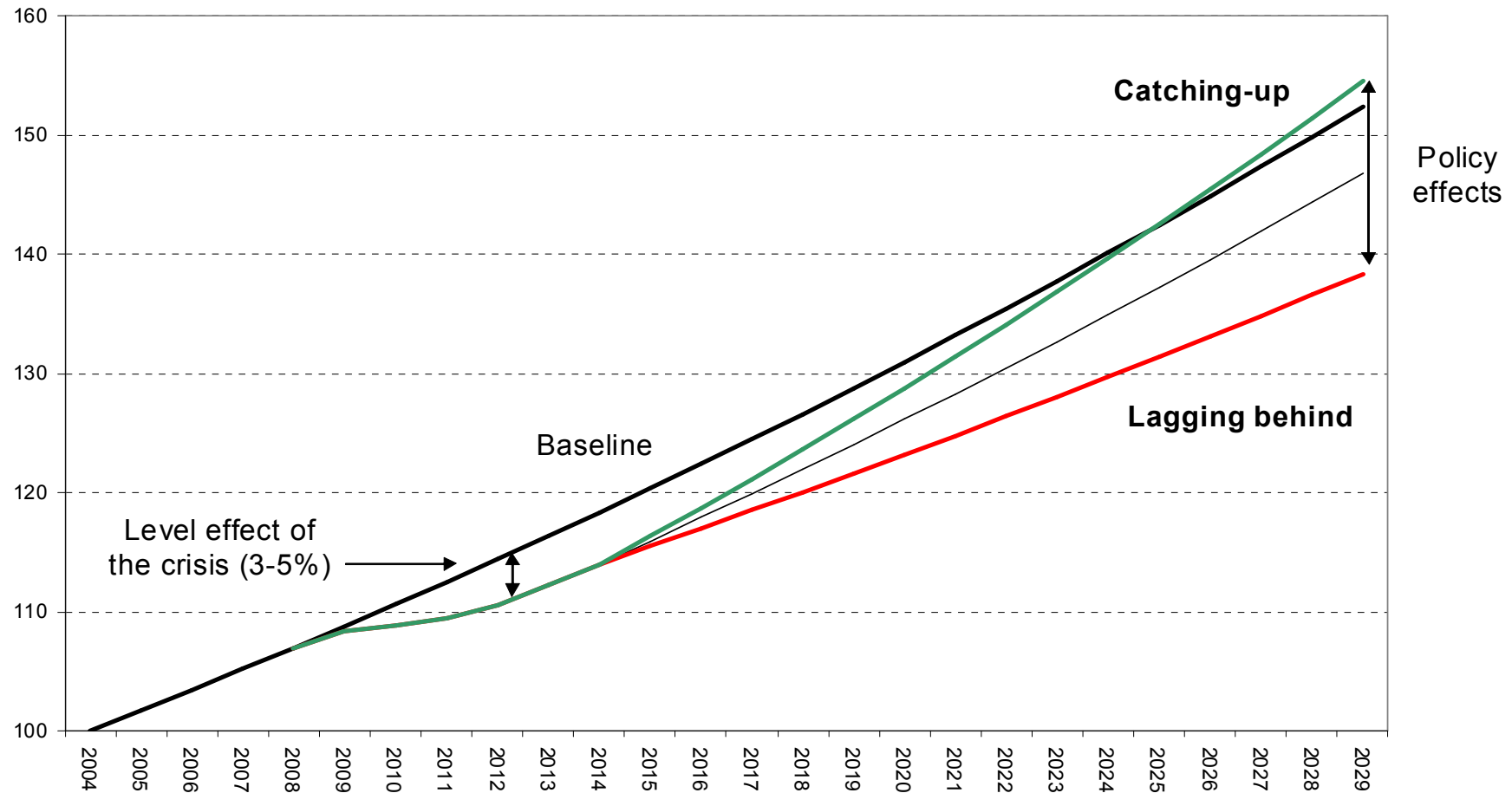
Catching up of CEE

Europe: Per capita GDP relative to the US, 1950-2009
(PPP, US=100)



The impact of the crisis on potential growth

Potential output

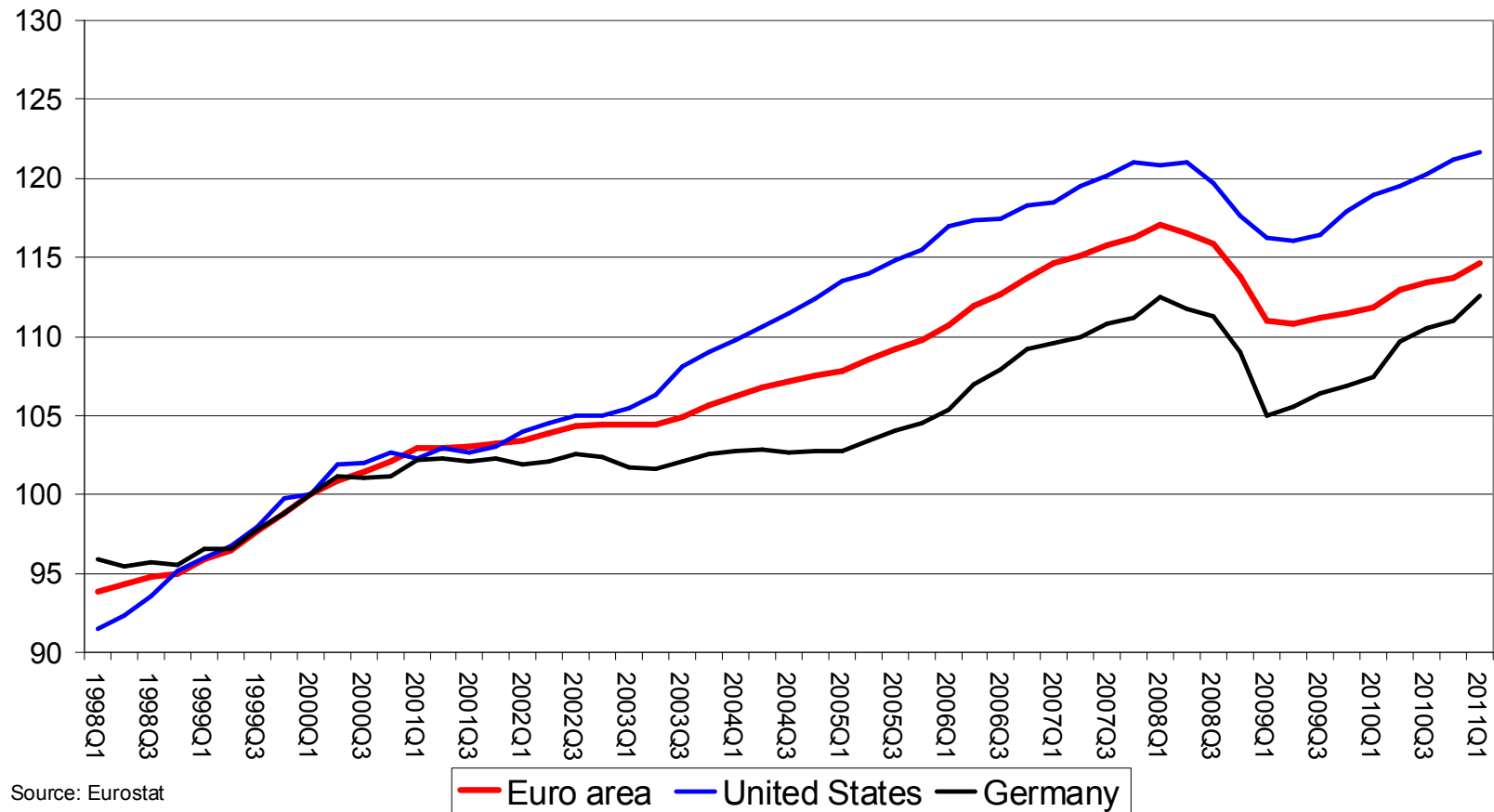


Source: European Commission Services



The impact of the crisis on potential growth

Real GDP (level Q1 2000 = 100)

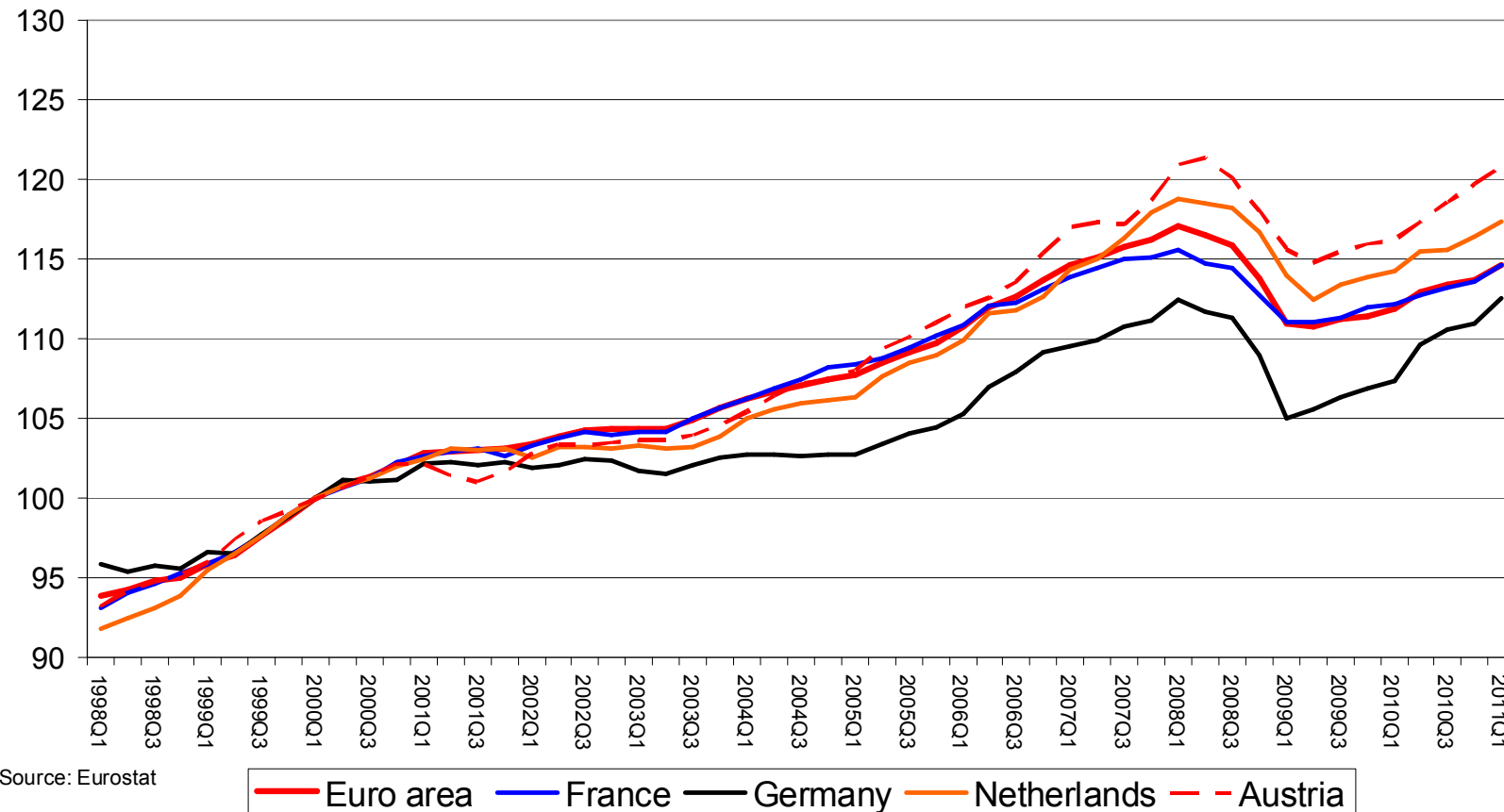


Source: Eurostat



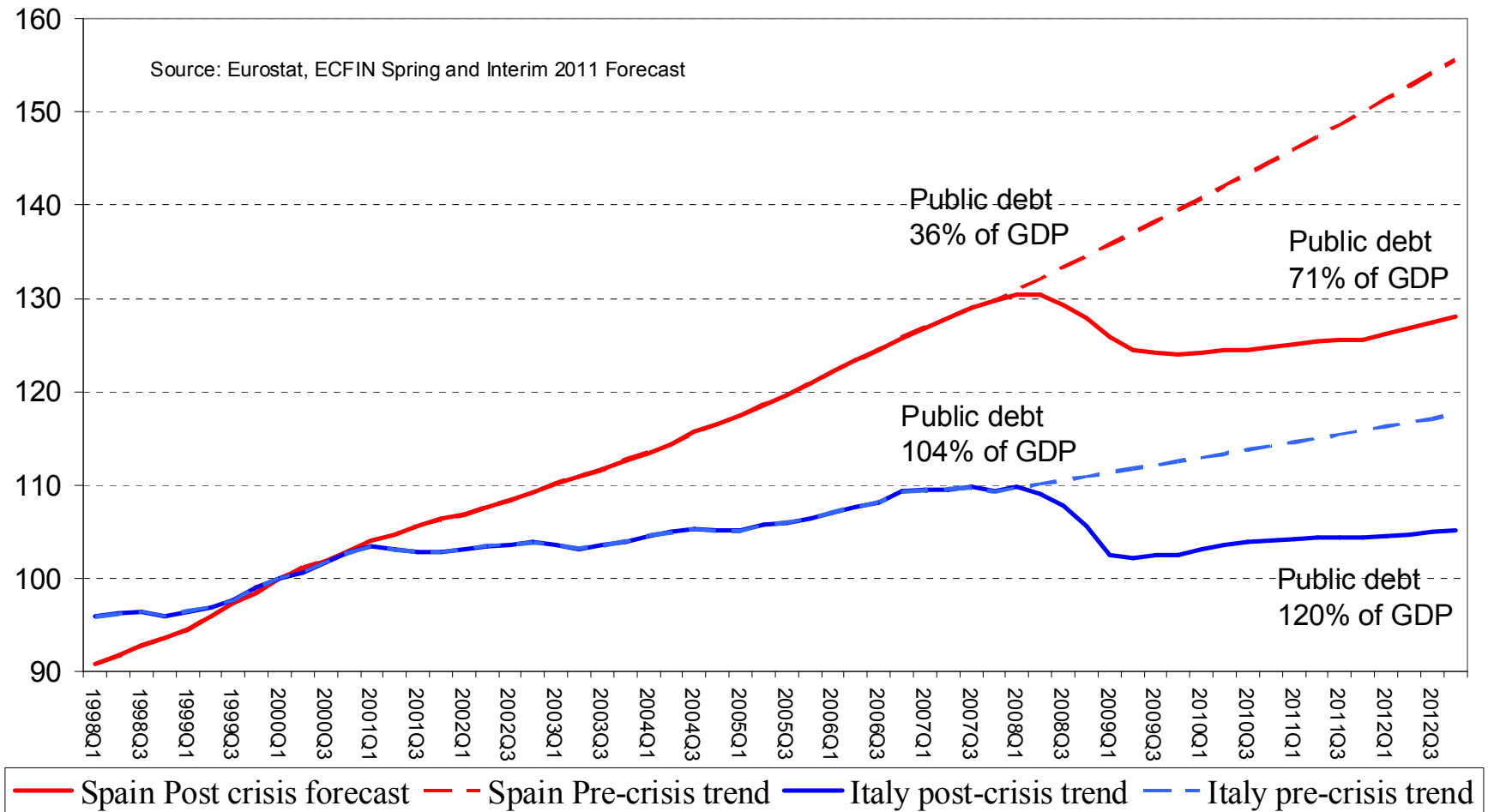
The impact of the crisis on potential growth

Euro area countries: Real GDP, 1998-2012 (level Q1 2000 = 100)

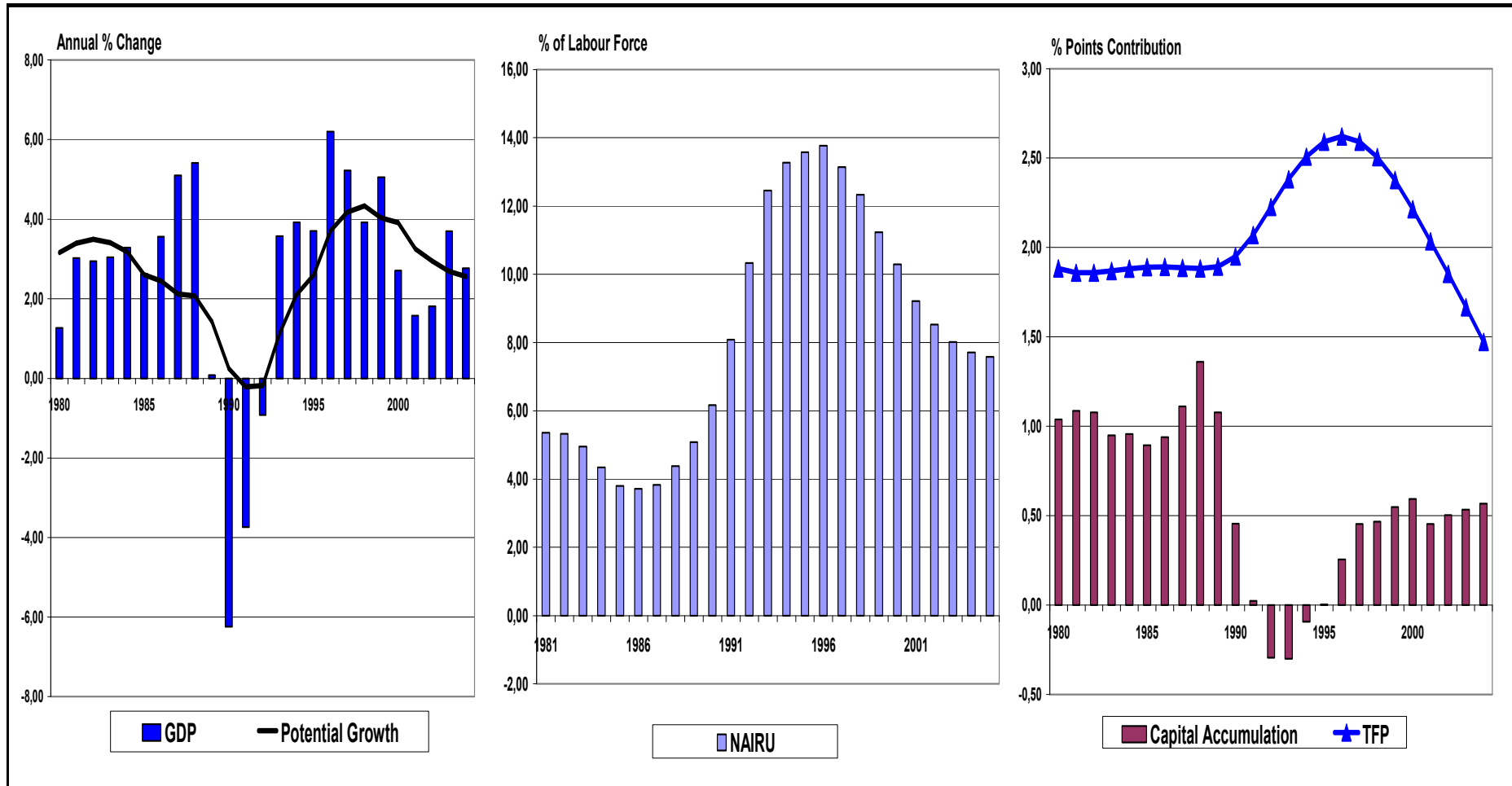


The impact of the crisis on potential growth

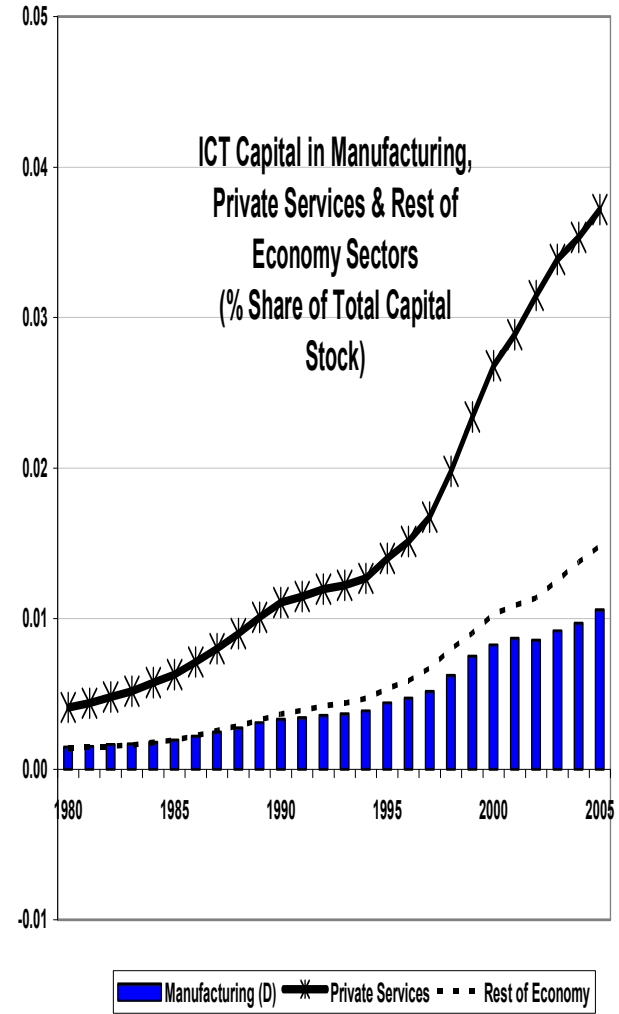
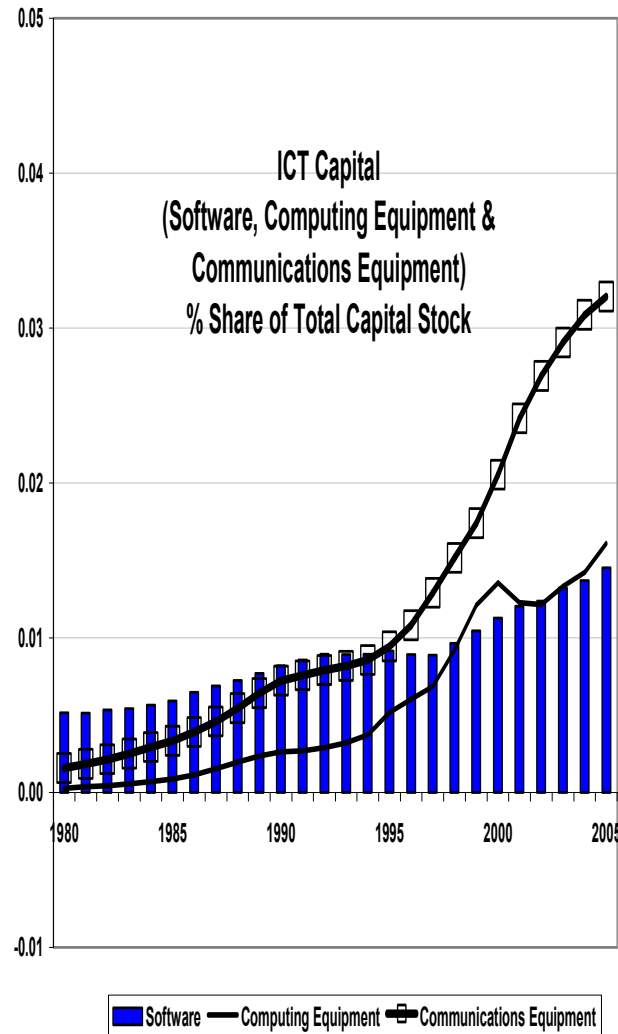
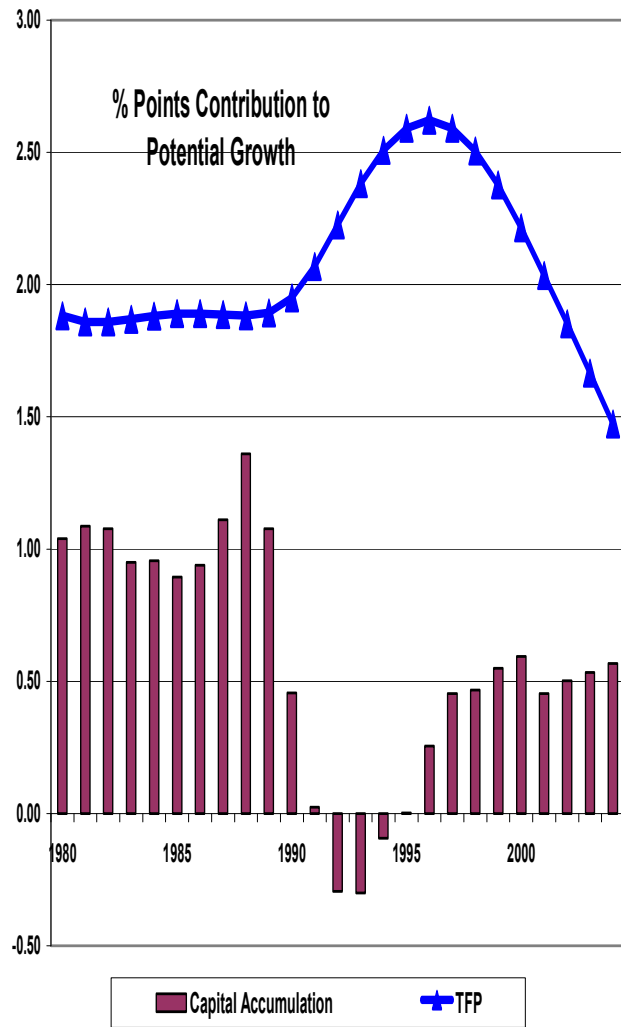
Italy and Spain: Real GDP, 1998-2012 (level Q1 2000 = 100)



Finland's comeback

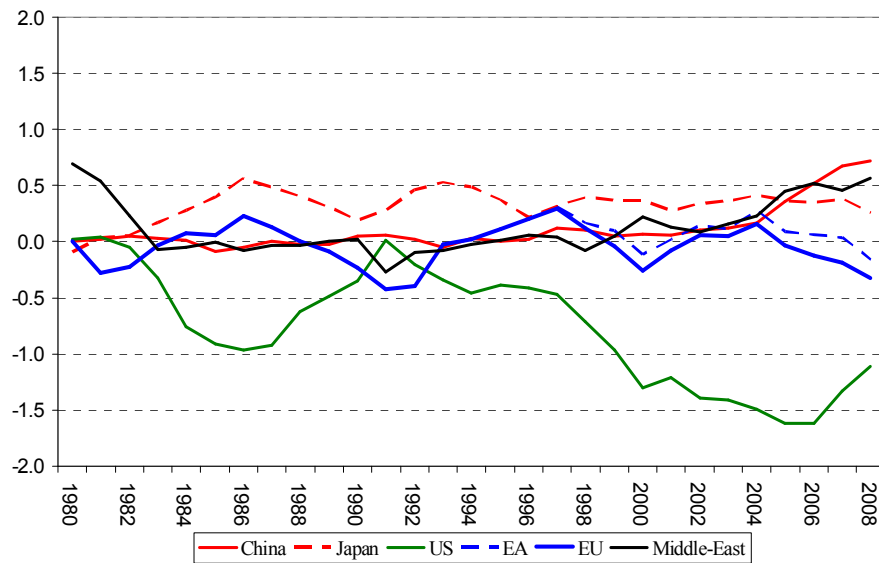


Not the amount but the efficiency of investment that matters

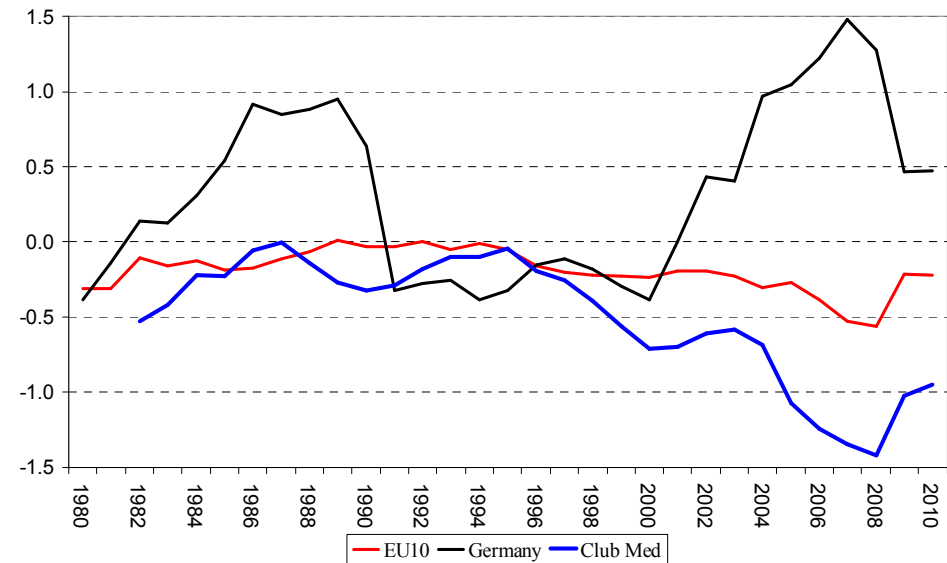


External imbalance

Global External Positions
(CA balance as percent of World GDP)



External Imbalances within the EU: the relative size of EU10
(CA balance as percent of EU GDP)

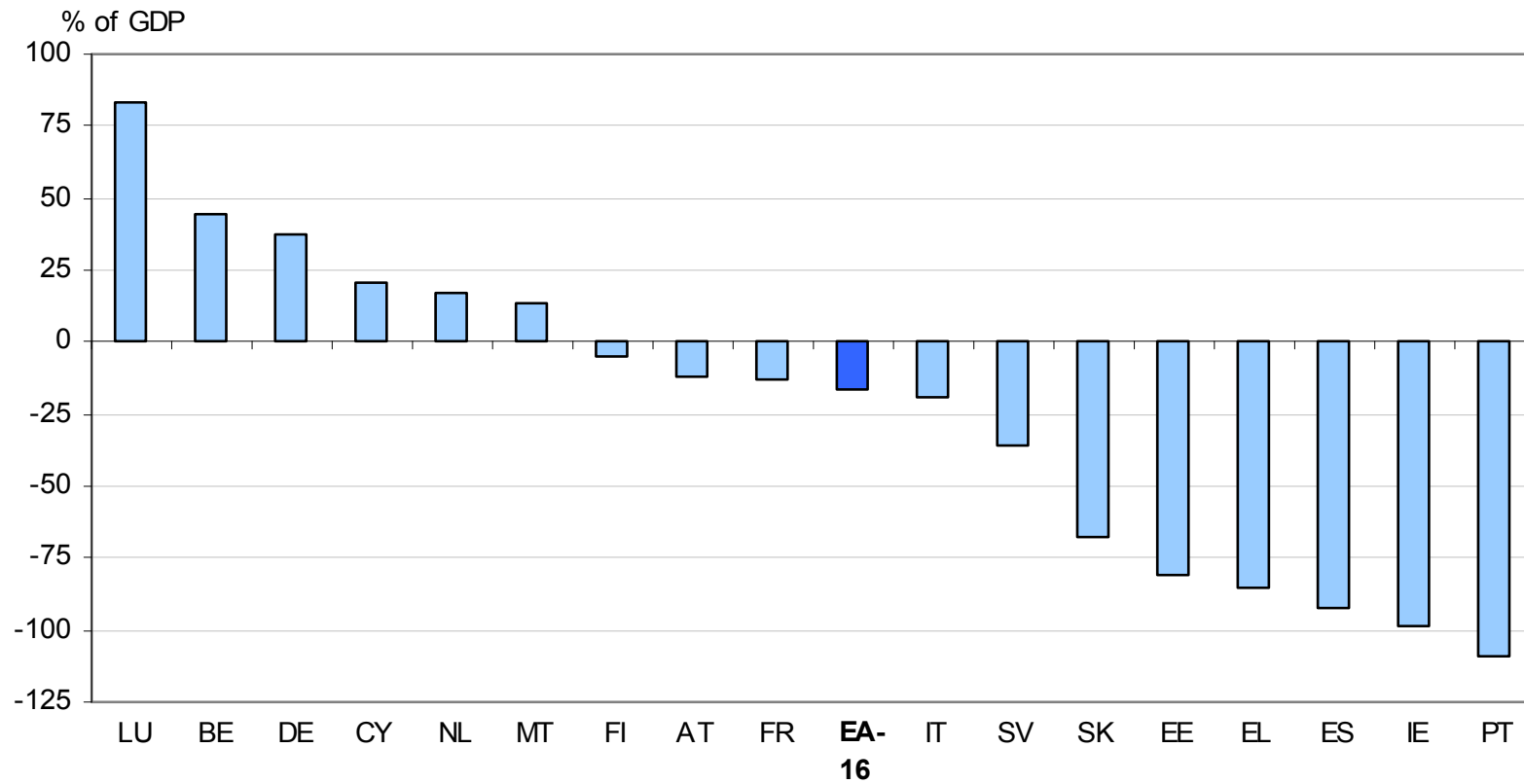


Source: AMECO, European Commission



External imbalance

Net international investment position of euro-area Member States in 2009

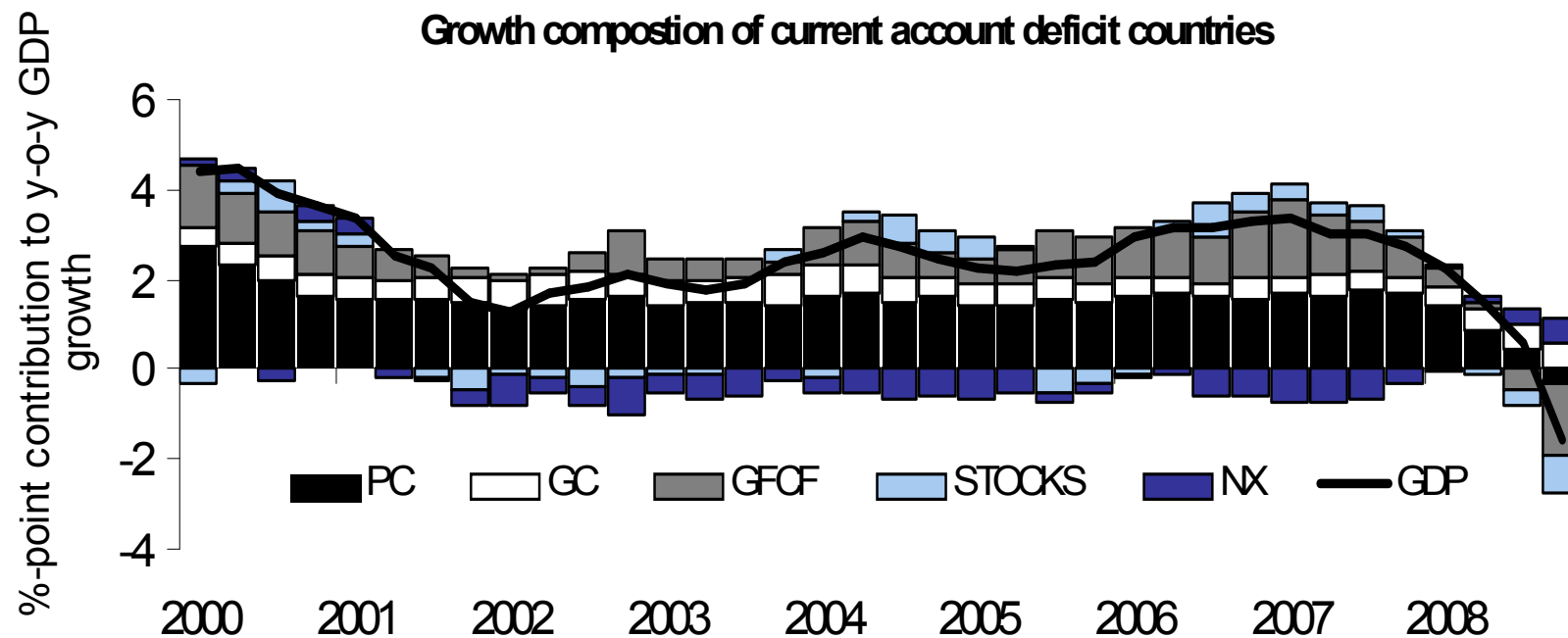


Source: Eurostat

Note: EA-16 includes all euro area members except Estonia



Misallocation of imported capital

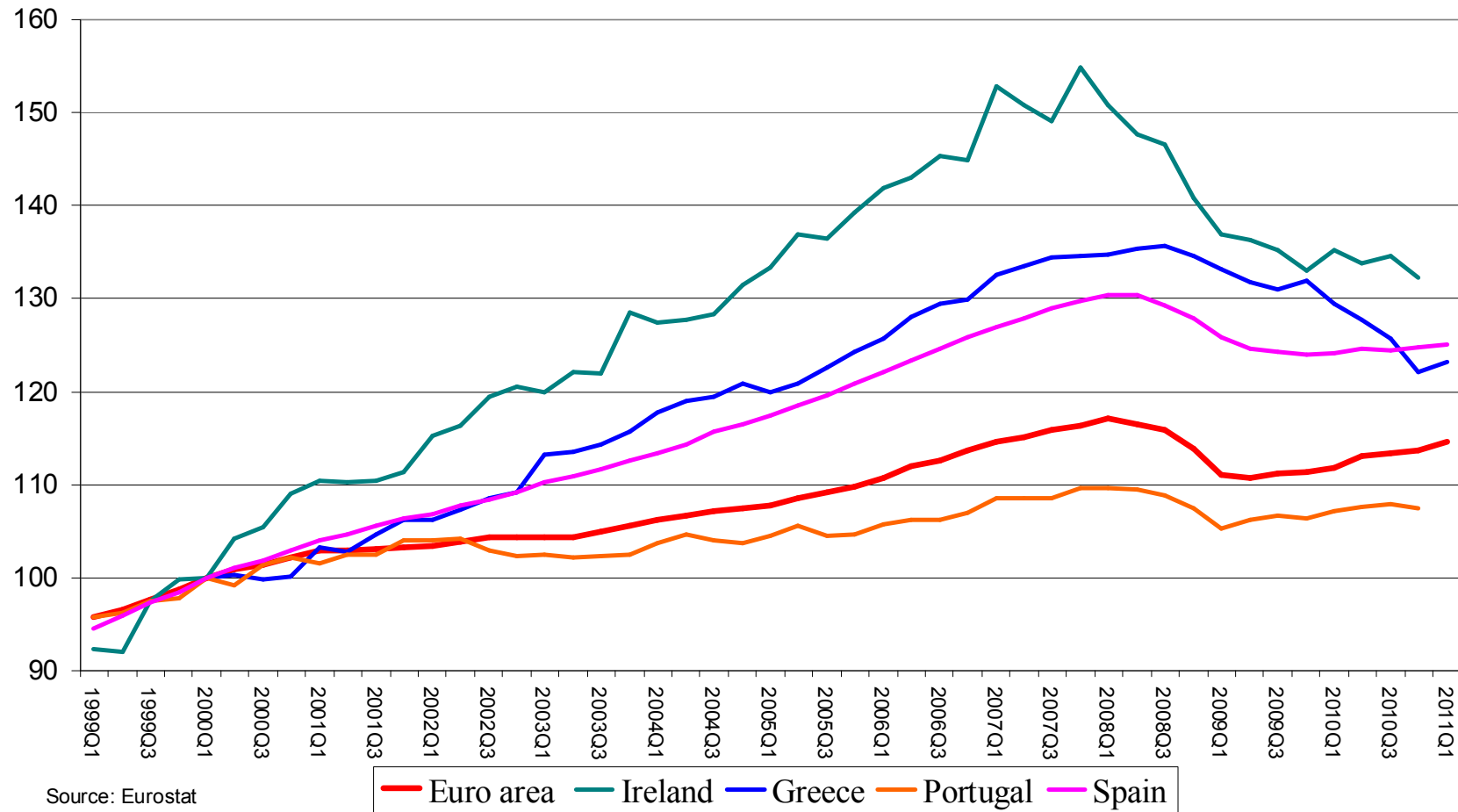


Note: weighted average of EU countries whose cumulative current account position over the period 1999-2008 was below that of the euro area. Source: European Commission



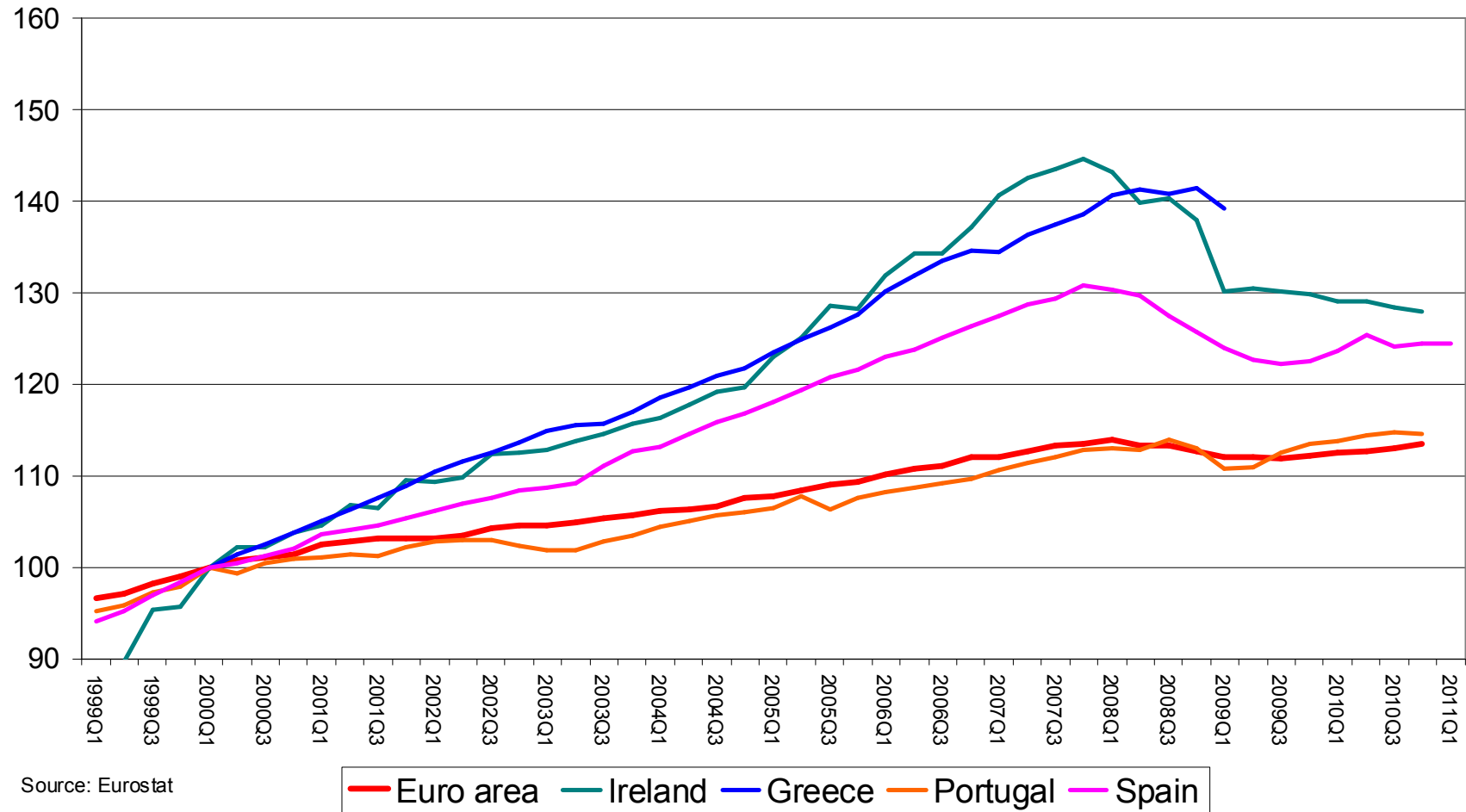
Unsustainable growth

Real GDP, 1998-2011 (level Q1 2000 = 100)

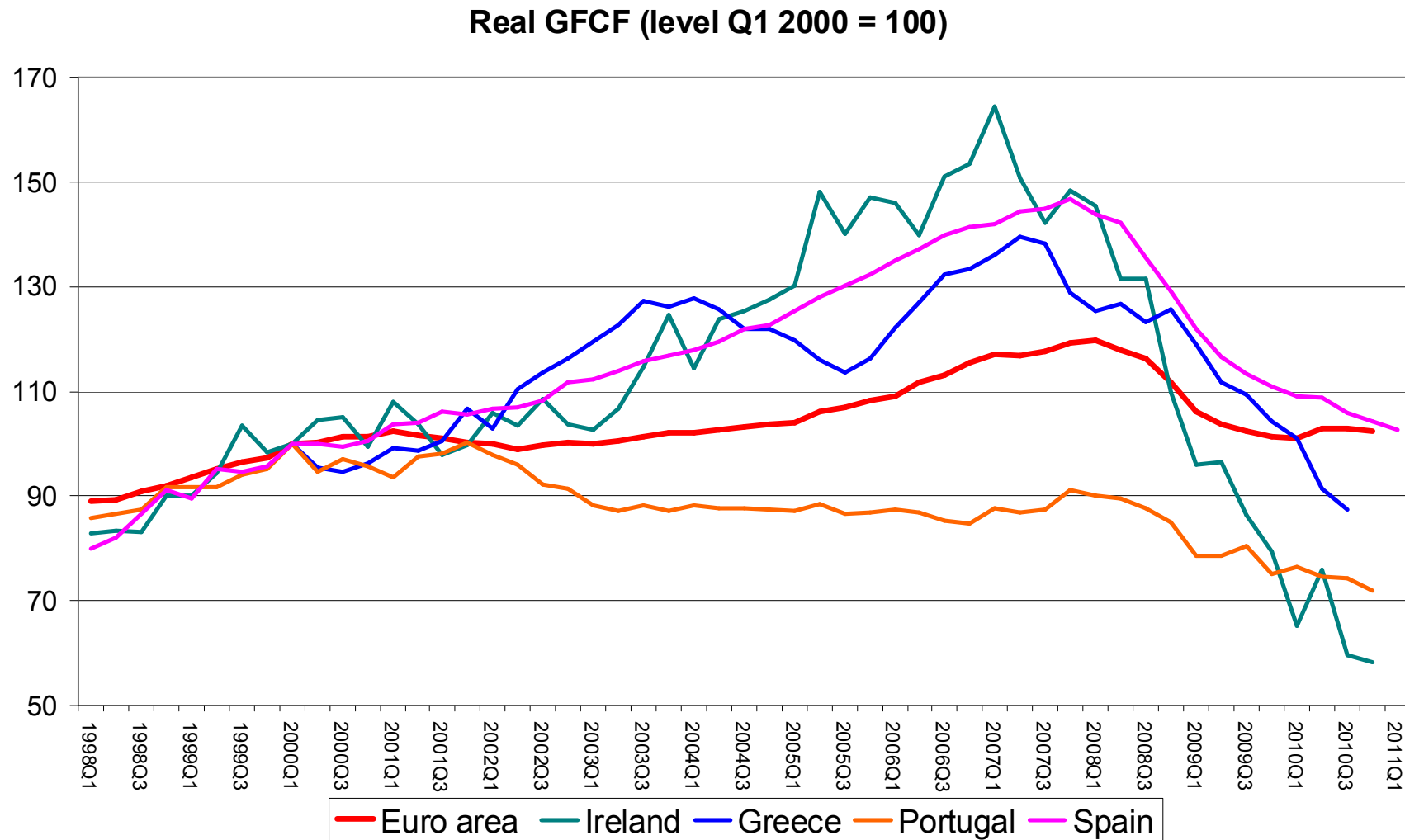


Misallocation: Excessive consumption

Real Household Consumption (level Q1 2000 = 100)

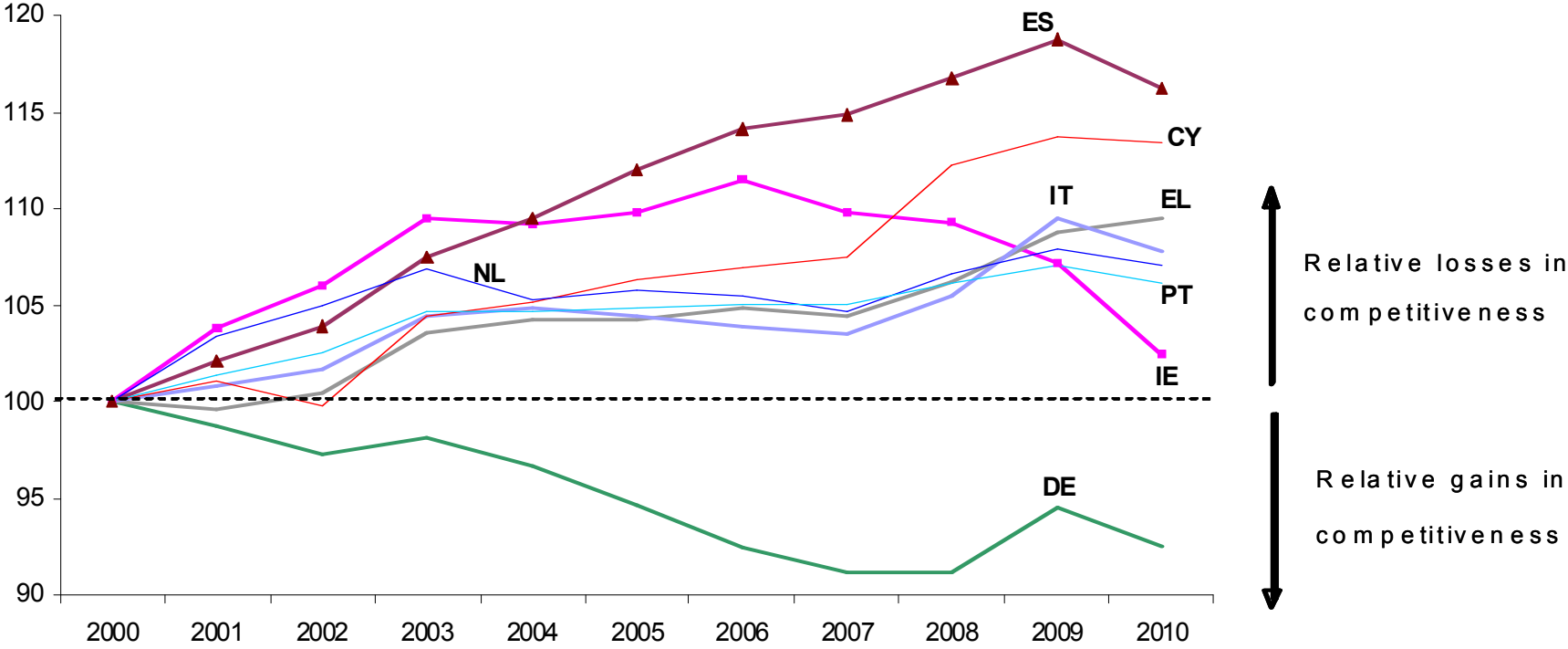


Misallocation: Excessive non-productive investment



Loss of competitiveness

Price competitiveness relative to the rest of the euro area
 (ULC indices; 2000 = 100, increases represent losses in competitiveness)

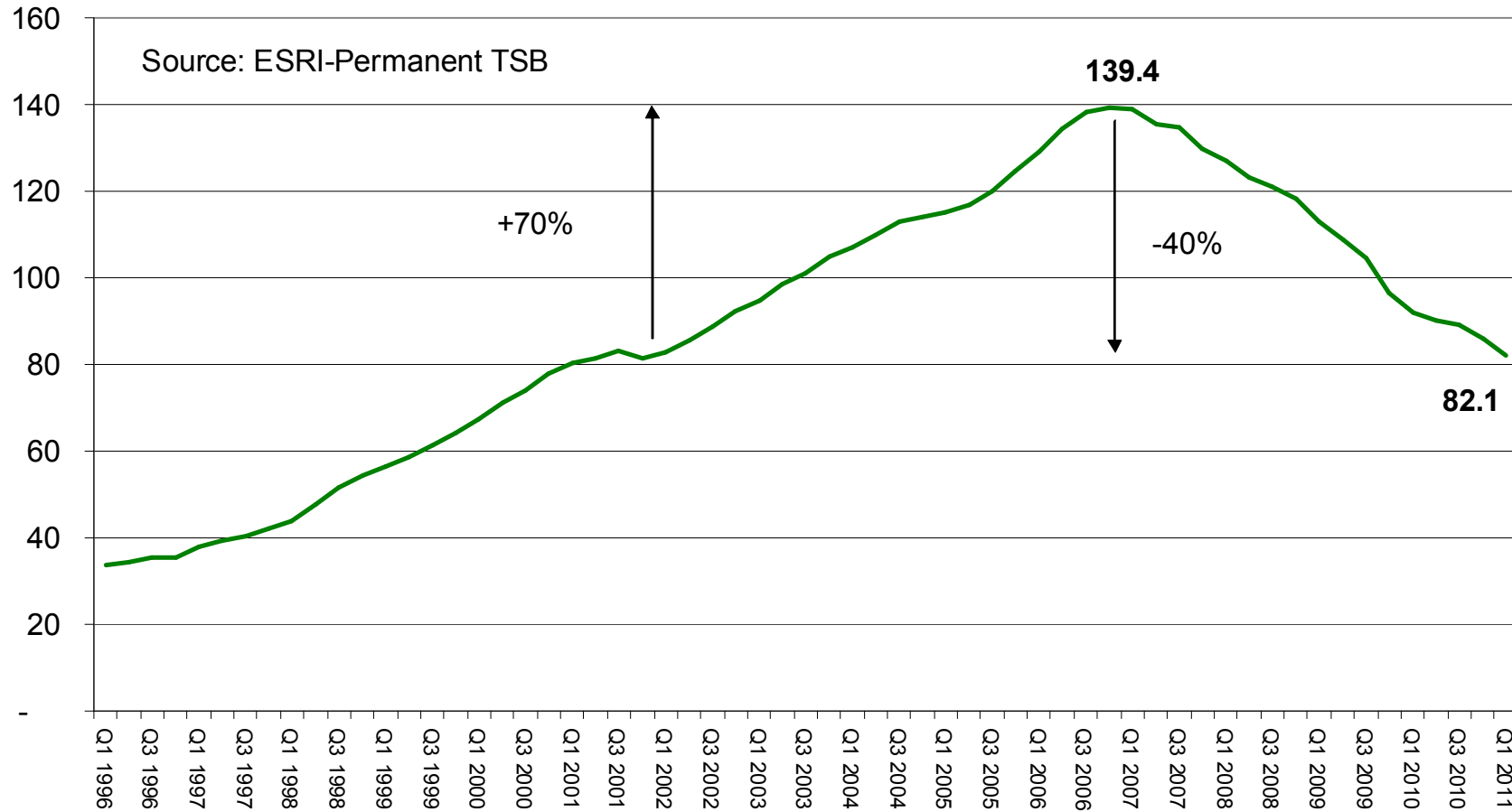


Source: AMECO



Asset price bubble

Ireland: House prices, 1996-2011 (2003=100)



Ireland: EU-IMF program

➤ Program

http://ec.europa.eu/economy_finance/publications/occasional_paper/2011/op76_en.htm

- Reform of the banking system
 - Restoring healthy public finances
 - Growth enhancing structural reforms
- ## ➤ Use of money
- Recapitalizing the banking sector €35 bn
 - Budget financing €50 bn
- ## ➤ Funding:
- EFSM €22,5 bn EFSM and bilaterals €22,5 bn
 - IMF €22,5 bn
 - Own funds: €17,5 bn



Growth enhancing structural reforms

- Strengthening competitiveness
 - Focus on non-tradable sector
- Labor market reforms
 - Institutional reforms
 - Labor force participation and employment
 - Wage formation and negotiation
- Social welfare system reform
- Product market reforms
 - Sheltered professions
 - Retail trade regulation
 - SOEs reorganization and privatization



Thank you for your attention!



Competitiveness: Business environment

Doing Business Ranking, 2011

