



# **The ECB and Its Watchers**

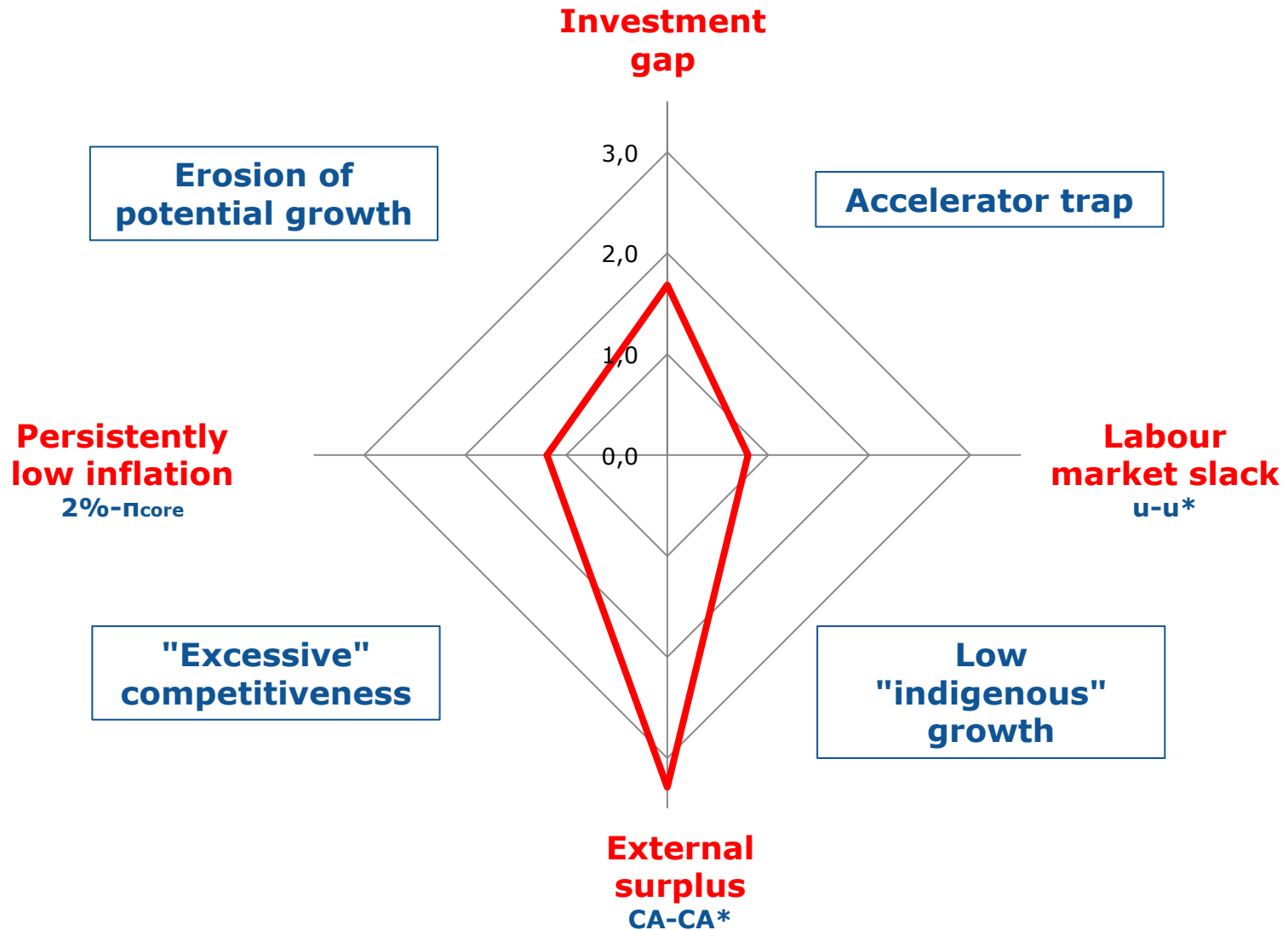
## **Macroeconomic adjustment in the euro area: the role of monetary policy, fiscal policy and structural reforms**

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**European Commission - DG ECFIN**

**Goethe-University Frankfurt, 6 April 2017**

# Resilient but still unusual recovery reflecting the legacy of the crisis

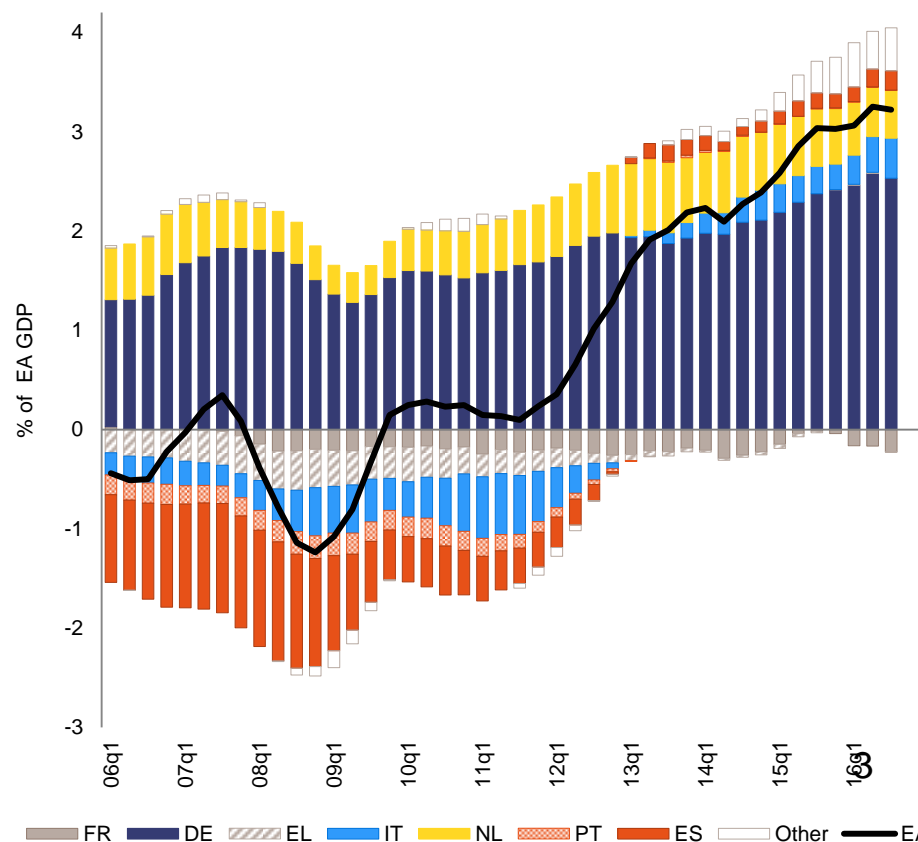
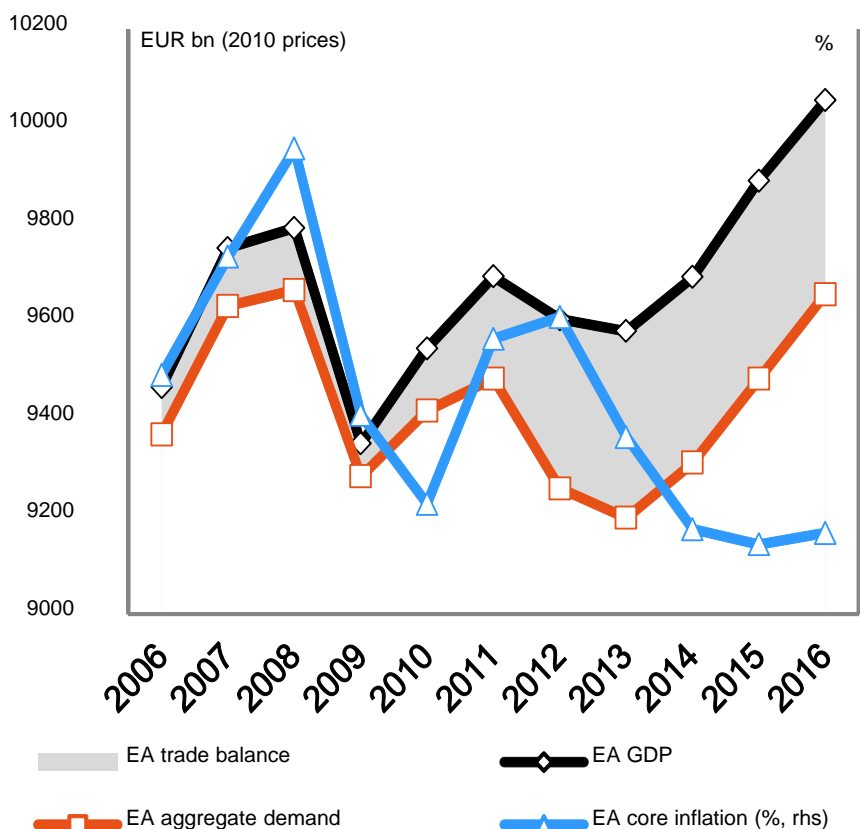


# Demand gap and asymmetric rebalancing

- EA countries with external deficits made progress in rebalancing; large CA surpluses remain, and continue growing in some cases
- Measures to foster investment, domestic demand and growth potential to underpin a more symmetric rebalance

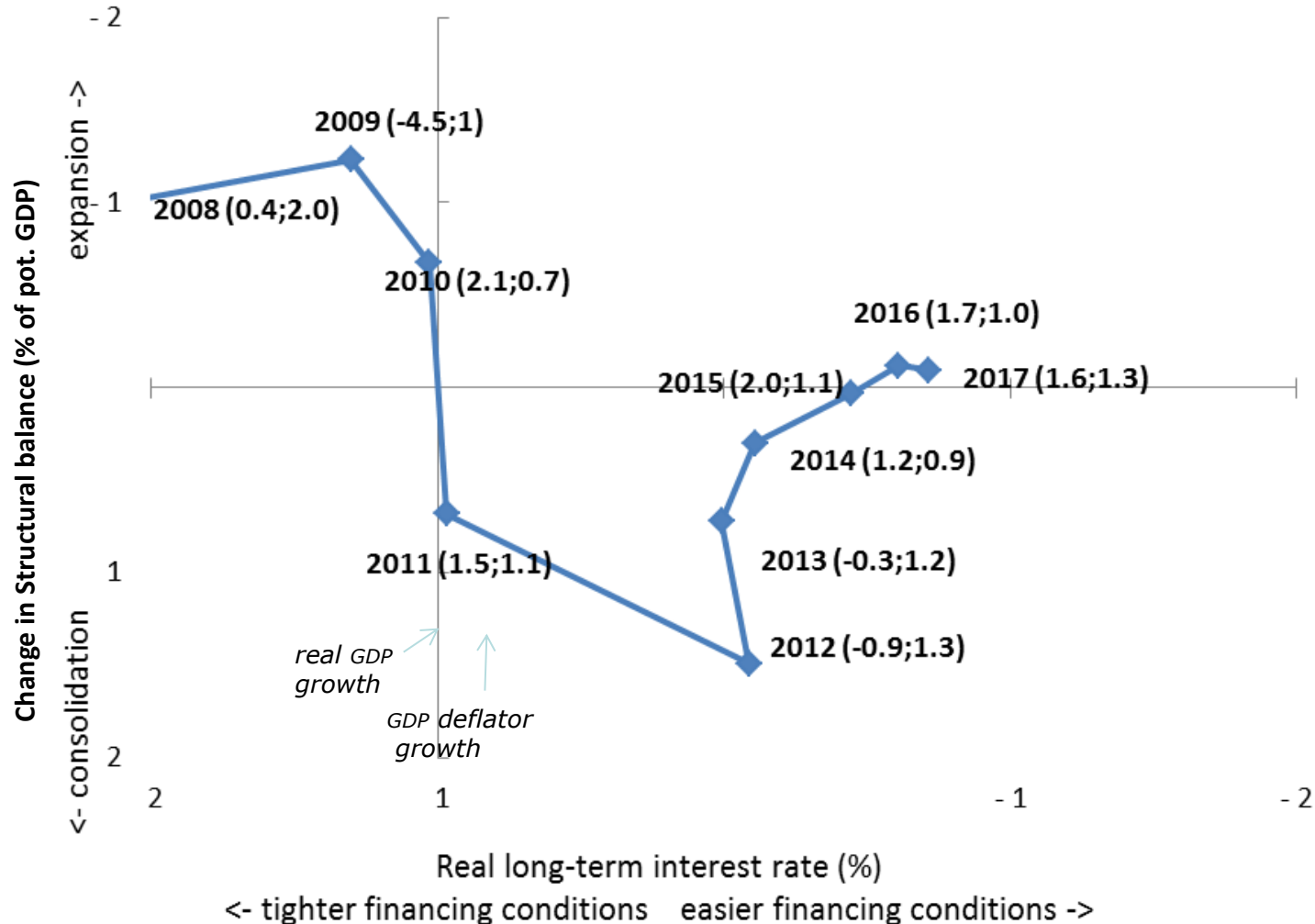
## Growing gap btw output & demand, EA

## Current account balance, EA



# An unbalanced policy-mix: excessive reliance on MP

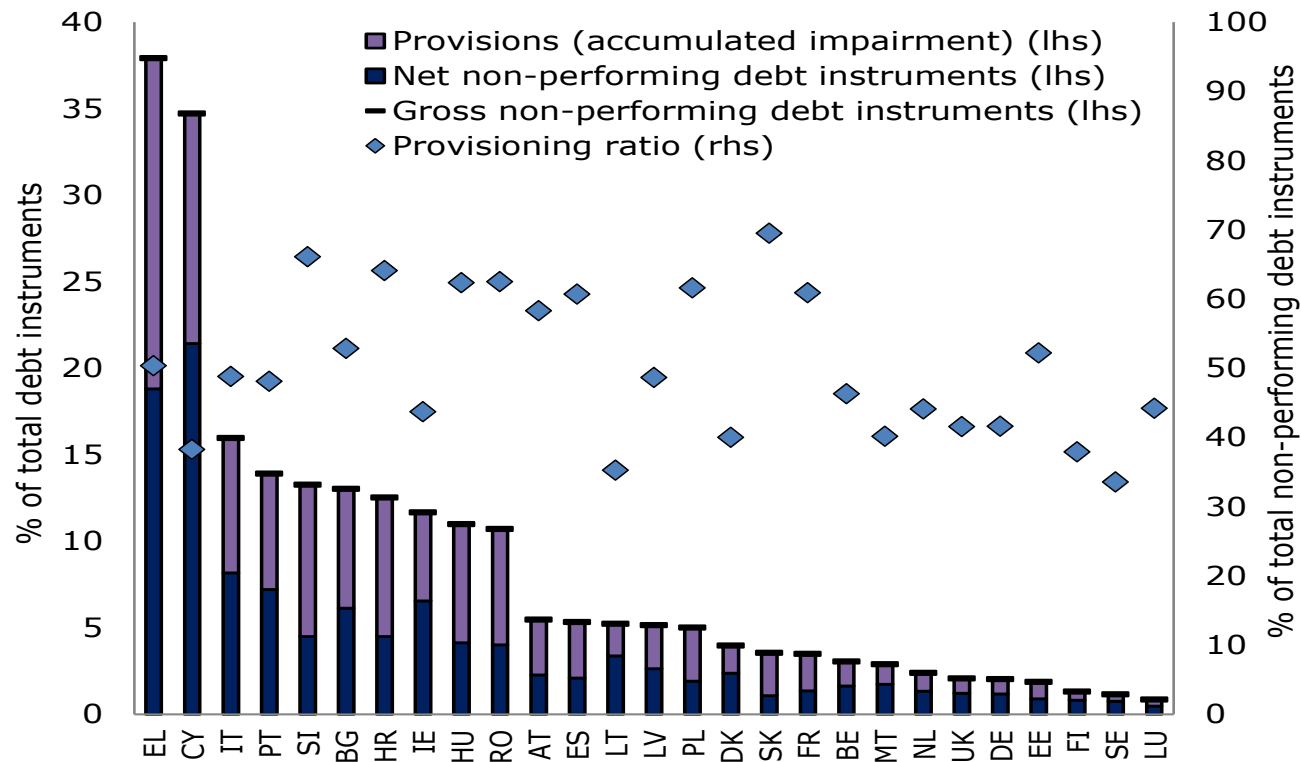
## Real long term interest rates and structural balance change, euro area



# Slow fixing of the banking sector

*NPLs affect the capacity of Banks to lend to the economy and has an impact on banks profitability*

**NPLs per EU member state**  
(2015)



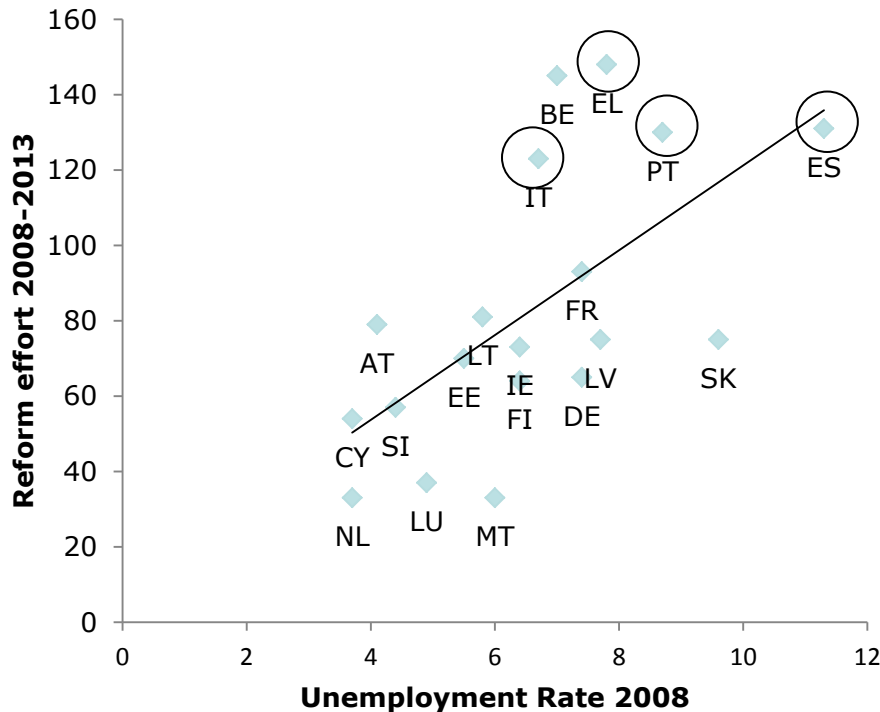
**Source:** ECB and DG ECFIN calculations.

# Reform efforts and structural divergences

- Large reform efforts only when countries are under pressure?
- ... and structural divergences still persist

## Labour market reforms

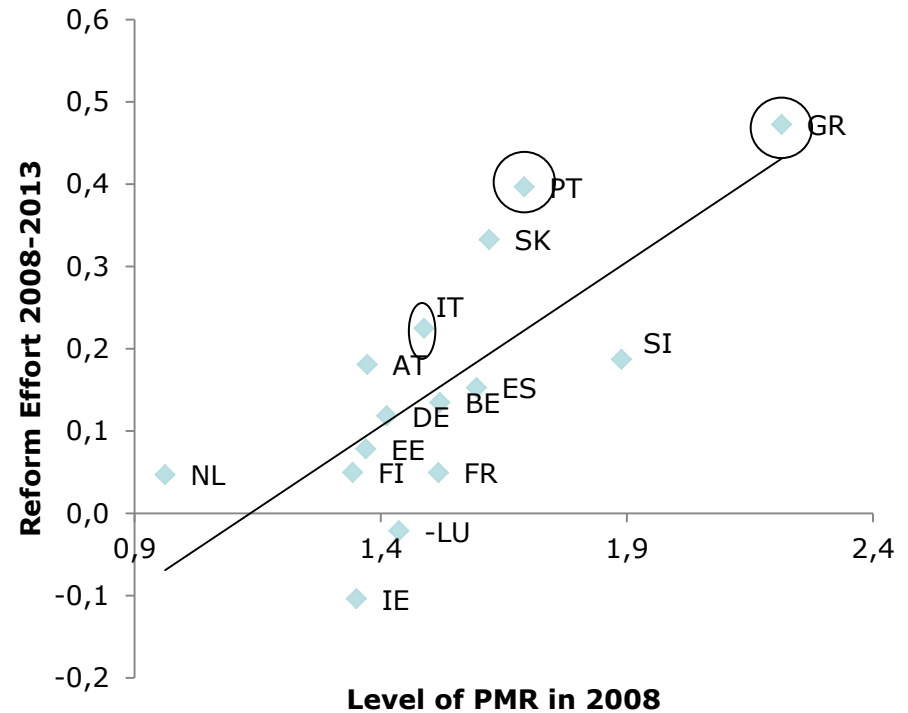
Reform effort (2008-13) and unemployment rate (2008)



Source: European Commission

## Product market reforms

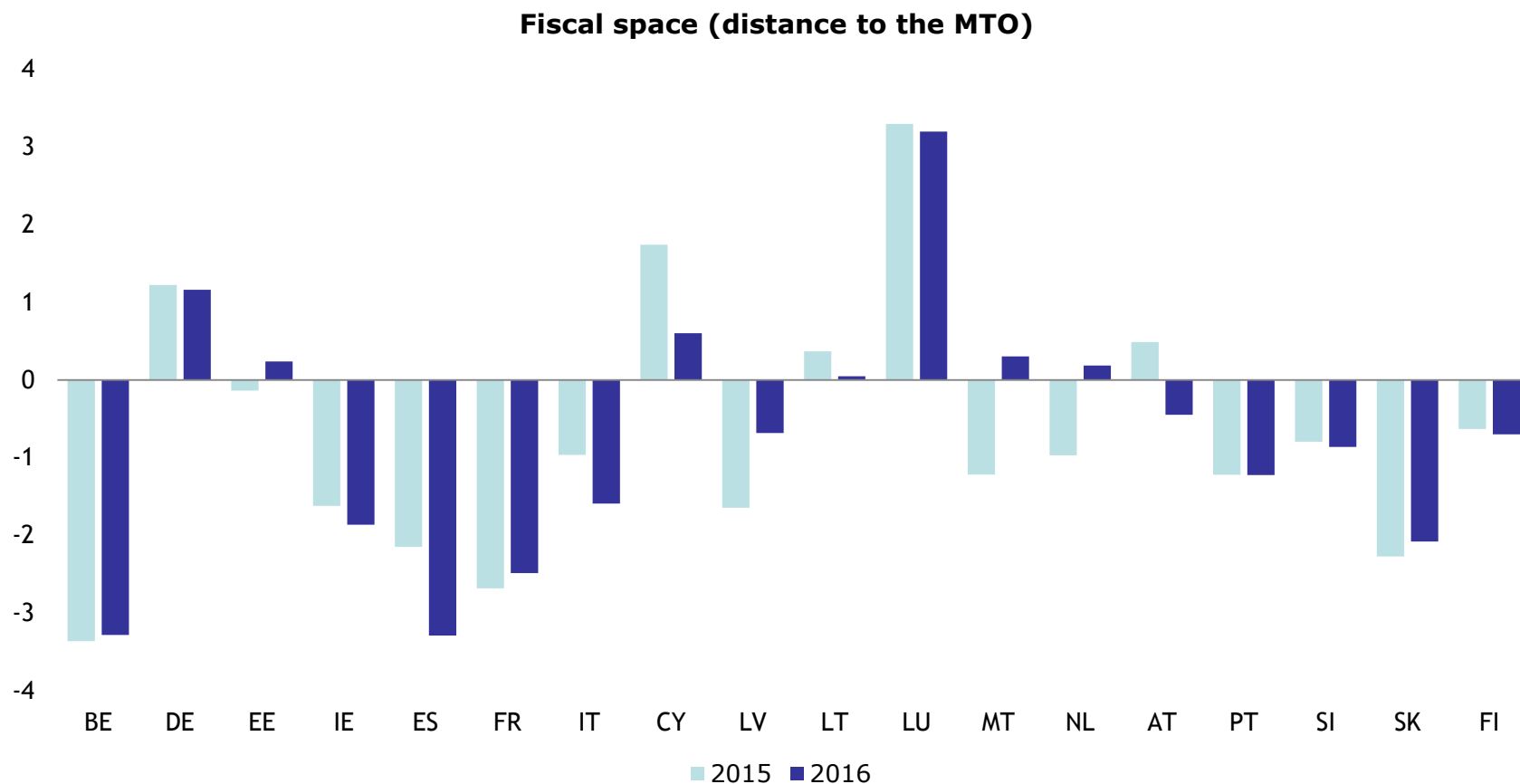
Reform effort (2008-13) and level of regulation - PMR (2008)



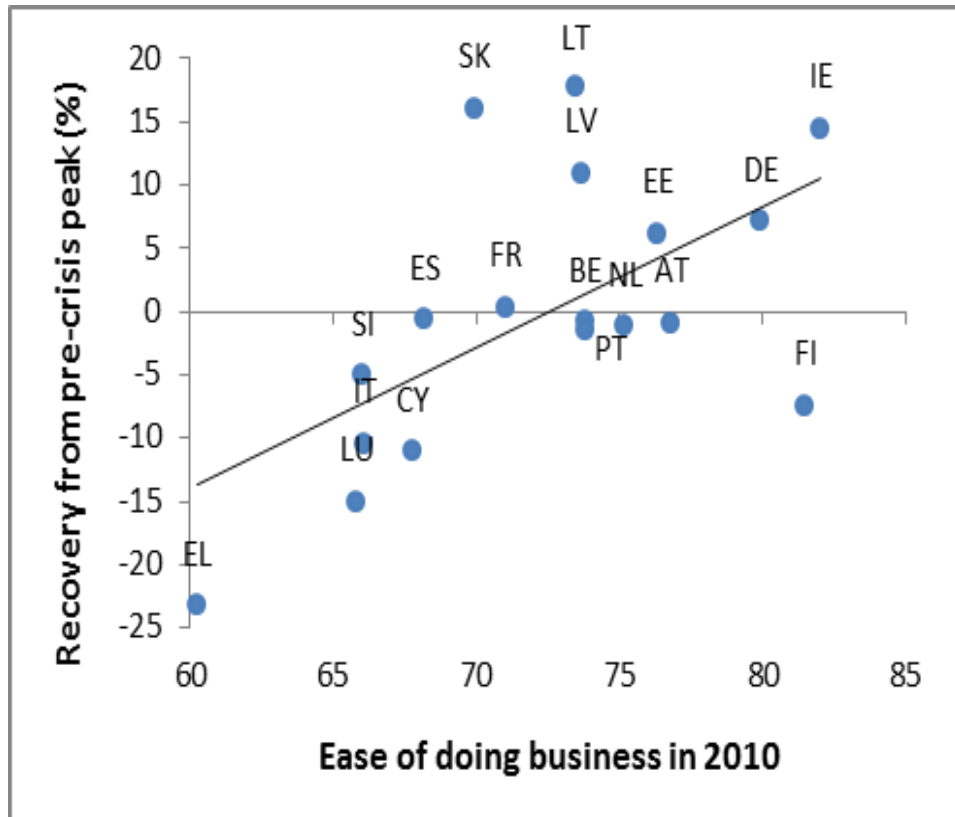
Source: OECD (PMR)

## Fiscal space: an uneven and suboptimal fiscal distribution

- Some MSs have clear margin to support demand
- Sustainability concerns still relevant in other MSs
- Currently no instrument to manage aggregate orientation of fiscal stance



# What reforms to fosters resilience?



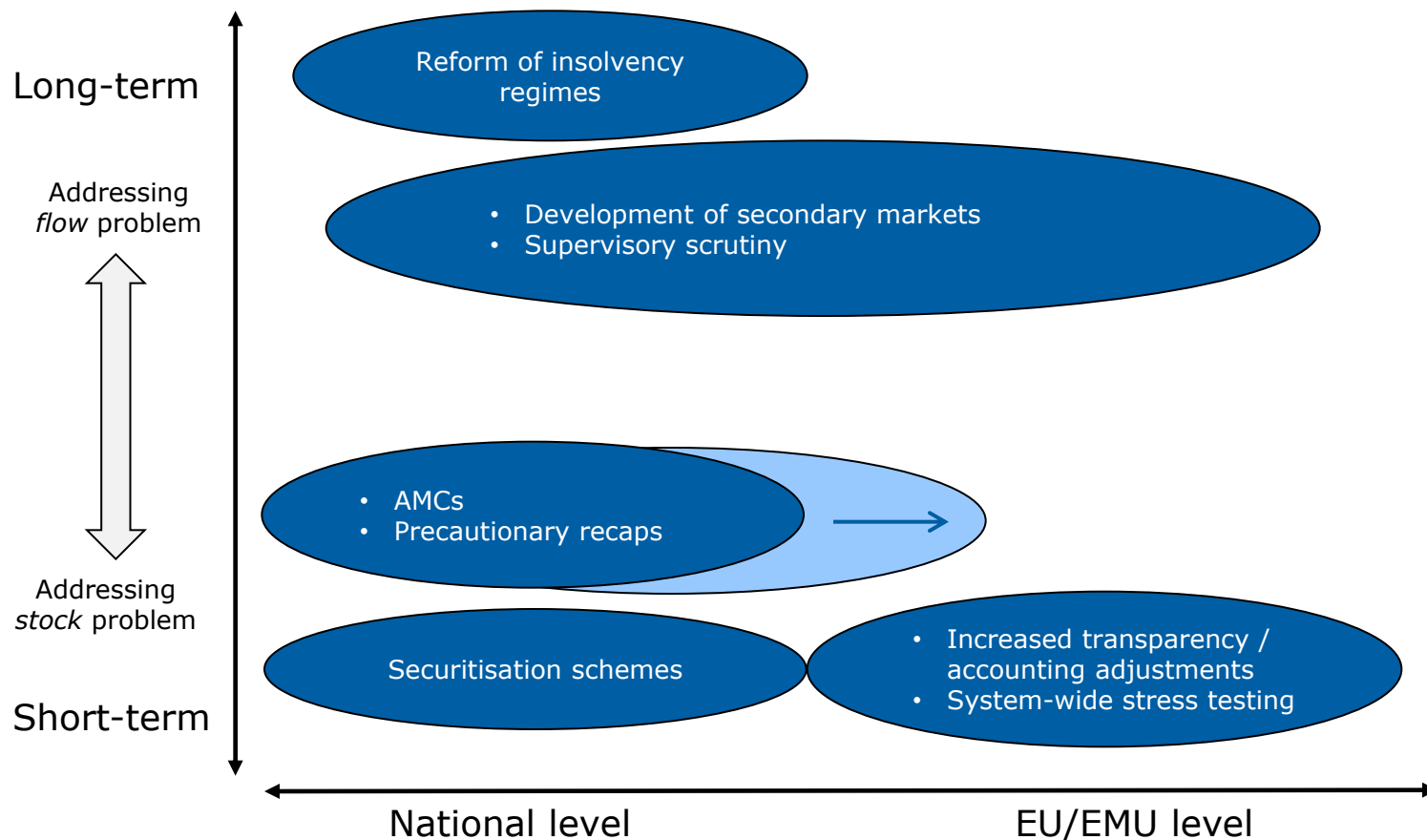
(Ease of doing business from World Bank)

EA countries with a performant business climate experienced a stronger post-crisis recovery

Heterogeneity between EA countries hampers functioning of EMU



# Addressing the NPL problem



# AND DEEPENING THE EMU...

