



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICIES

Macroeconomic Imbalances in the Euro Area

NOTE

Abstract

The Euro crisis has been most profoundly felt in countries such as Portugal, Greece, Ireland and Spain that have large private and public sector debt burdens. These can only be reduced if these countries move towards large and persistent current account surpluses. With an average inflation target of two percent for the Euro area, the pace of progress for these countries towards the size of current account surpluses required is going to be slow and the adjustment extremely painful. The Commission's Macroeconomic Imbalance Procedure provides an important opportunity for the EU to acknowledge that imbalances have two sides, that policies to actively reduce surpluses in countries like Germany are just as effective in restoring balance as policies aimed at increasing competitiveness in the European periphery. However, the new alert mechanism scorecard has an asymmetric focus on reducing deficits at the almost-complete expense of any focus on steps to affect large surpluses. It represents a missed opportunity to deal with the Euro area's problems in a balanced manner.

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1. INTRODUCTION

The crisis within the Euro area has uncovered many flaws in the design of the European Monetary Union. Some of these flaws, such as the problems caused by asymmetric macroeconomic shocks and the potential tensions raised by high levels of public debt in some member states, were widely flagged in anticipation of EMU by critics of the project. Other problems, such as the impact that the low interest rates associated with the common currency had in provoking housing bubbles, rapid growth in private sector credit and banking collapses in some member states, were less well-foreseen.

With the idea that the Euro area is a “no bailout zone” now dispensed to history, it is important that the European authorities play a role in monitoring macroeconomic developments in all countries that either currently or may in the future use the Euro as their currency. It is also important that this process go beyond the narrow scope of the fiscal monitoring that has been associated with the Stability and Growth Pact. For example, the EU may have had a better understanding of the fiscal fragilities of countries such as Ireland or Spain prior to 2008 if it had carried out more detailed analysis of developments in their property markets and banking systems.

For these reasons, the general idea of the new Macroeconomic Imbalance Procedure (MIP) is to be welcomed. That said, there are a number of important problems with the way the MIP is being implemented. In particular, its “imbalance scorecard” is a fairly arbitrary set of indicators assessed according to a fairly arbitrary set of thresholds. While the Commission has stressed the recently released Alert Mechanism Report (effectively a short summary of the indicators presented in the scorecard) is merely a “screening device” prior to more in-depth studies, the use of this scorecard suggests a lack of any coherent viewpoint on the causes and consequences of imbalances.

A more serious reason to be disappointed with the Alert Mechanism Report is that it suggests that the MIP will take a skewed and asymmetric stance on imbalances. The general emphasis in the scorecard is on countries taking deflationary actions to reduce public and private sector debts via lower current account deficits. However, it places almost no weight on encouraging current account surplus countries to take action to reduce these surpluses. With no exchange rate instrument available to deficit countries, it is not clear that the course of action recommended by the MIP scorecard approach will do anything other than keep the peripheral members of the Euro area trapped in an ongoing slump over the next few years.

The rest of this paper is organised as follows. Section 2 discusses the build-up of current account imbalances in the Euro area since the beginning of EMU and why there was so little discussion of current account balances during the period up to 2008. Section 3 focuses on why current account balances matter again: The only way both public and private sectors in a country can run down their debts is if the country runs a current account surplus. I discuss how difficult the adjustment process for current account deficit countries is likely to be given the restrictions imposed by Euro membership, by the ECB’s commitment to a two percent inflation target, and by the reluctance of surplus countries to pursue expansionary policies.

Against this background, Section 4 reviews the MIP scoreboard and argues that it is unlikely to help in resolving Europe’s macroeconomic imbalances. Section 5 offers some brief conclusions.

2. CURRENT ACCOUNTS BEFORE AND DURING EMU

In the years prior to EMU, current account imbalances featured more prominently than fiscal imbalances in macroeconomic policy discussions. In a world in which each country had its own exchange rate, maintaining a fixed exchange rate peg required central banks to have sufficient quantities of foreign currencies to allow them to credibly enforce their commitments to swap their own currency for the promised amount of foreign currency.

Within quasi-fixed exchange rate systems, such as Bretton Woods or the EMS, persistent current account deficits signalled that a country's exchange rate peg was unsustainable. The deficits would lead to a reduction in foreign exchange reserves and would often result in an exchange rate depreciation. The original role of the IMF largely related to assisting countries with balance of payments problems—providing foreign exchange funds to help a country defend a new exchange rate and give it time to return to current account surpluses that replenished its stock of foreign reserves. Indeed, even today the IMF still describes its role as being the provision of financing to countries with “balance of payments needs.”

With the advent of EMU, the traditional role played by current accounts disappeared. The euro was not a fixed exchange rate regime involving a national currency but rather a shared common currency. National central banks in the Eurosystem had no need to accumulate stocks of foreign currencies to maintain their membership of the Euro and so the issue of current account imbalances largely disappeared from European macroeconomic discussions.

The period after EMU saw a series of developments that lead to a widening of current account imbalances inside the Euro area.

- *Low Interest Rates:* With the ECB committed to low inflation, nominal interest rates for short-term bank financing were far lower in EMU than previously for countries that had histories of higher rates of inflation.
- *Disappearance of Exchange Rate Premia:* With investors no longer worried about the exchange rate depreciation involved with lending to people in their local currencies, the premium associated with this risk disappeared from the interest rates charged to governments, businesses and households in countries that had previously had long histories of inflation and depreciation.
- *Near-Elimination of Pricing of Sovereign Risk:* Financial markets decided (incorrectly it turned out) that joining the Euro effectively ruled out a sovereign default, so government borrowing rates all around Europe converged. Since government bond rates usually act as a baseline for private borrowing rates, much of the decline in borrowing costs for peripheral governments was passed on to the private sector.
- *Financial Integration:* With most of Europe now using a single currency, an integrated European financial market emerged which channelled a lot of money from Europe's core to its periphery either via bond market lending or via core country financial institutions expanding their operations into Euro-area member states in which they had previously not done business.

The result of this new and widespread availability of low-cost credit was that households and businesses in Europe's periphery felt able to take on larger amounts of debt than had been possible prior to EMU. Ratios of private sector debt to GDP rose steadily during the years leading up to the crisis in Portugal, Ireland, Spain and Greece (see Figure 1).

This accumulation of debt allowed for sharp increases in household consumption in these four countries and fuelled house price inflation, most notably in Ireland and Spain. Booming domestic demand conditions also lead to an acceleration in domestic wage costs. As Figure 2 shows, unit labour costs in these countries consistently grew faster than in Germany up to 2008.

Figure 1: Private Sector Debt-GDP Ratio for Selected Countries.

Source: Eurostat Macroeconomic Imbalance Procedure Webpage

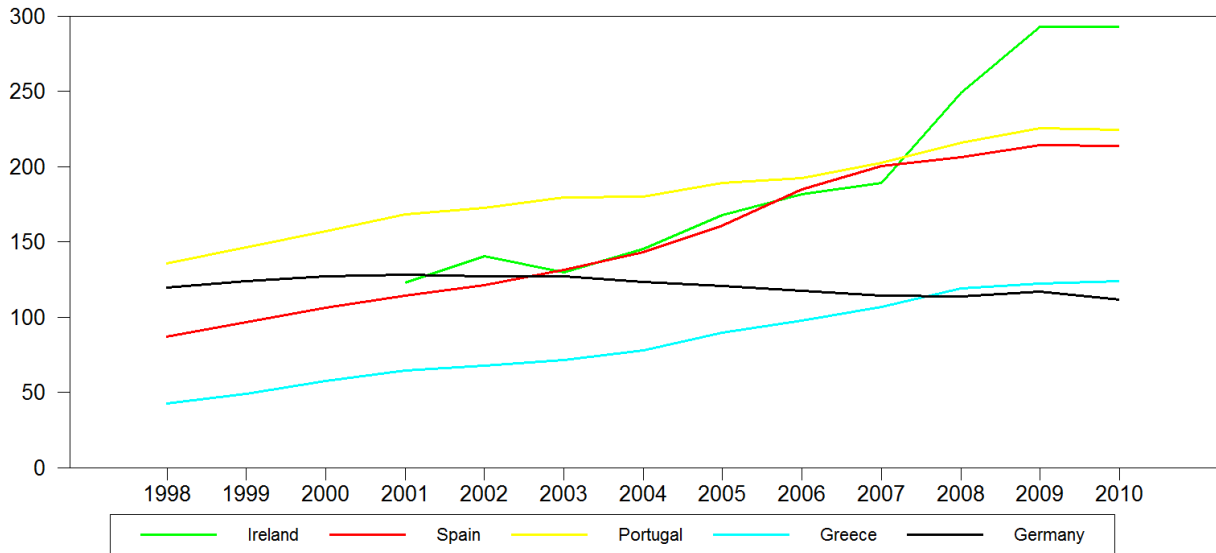


Figure 2: Growth in Unit Labour Costs for Selected Countries

Source: European Commission AMECO-Online Database



The fast pace of wage growth in these four countries lead to a deterioration in competitiveness and a worsening of current account balances (see Figure 3). The flip side of these current account deficits was the build-up of a large current account surplus in Germany. Figure 4 shows that the combined current account deficits of Greece, Ireland, Portugal, Spain and Italy are closely mirrored in Germany's current account surplus.

Figure 3: Current Account Balances as a Percent of GDP for Selected Countries
Source: European Commission AMECO-Online Database

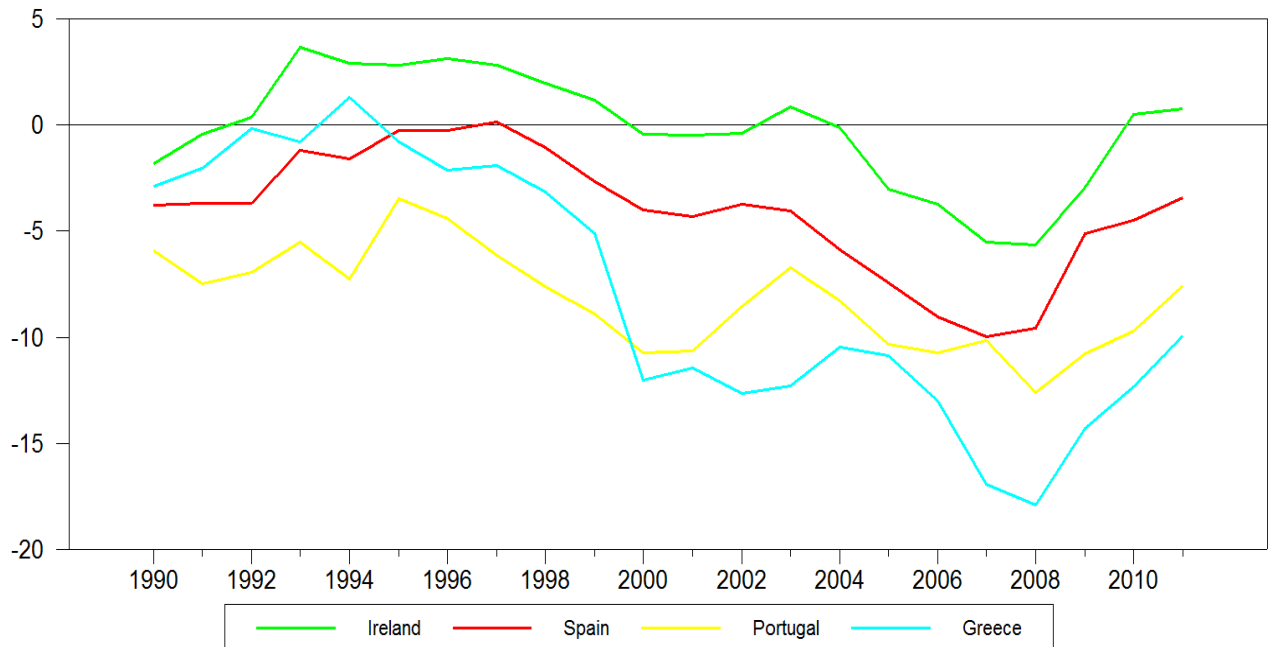
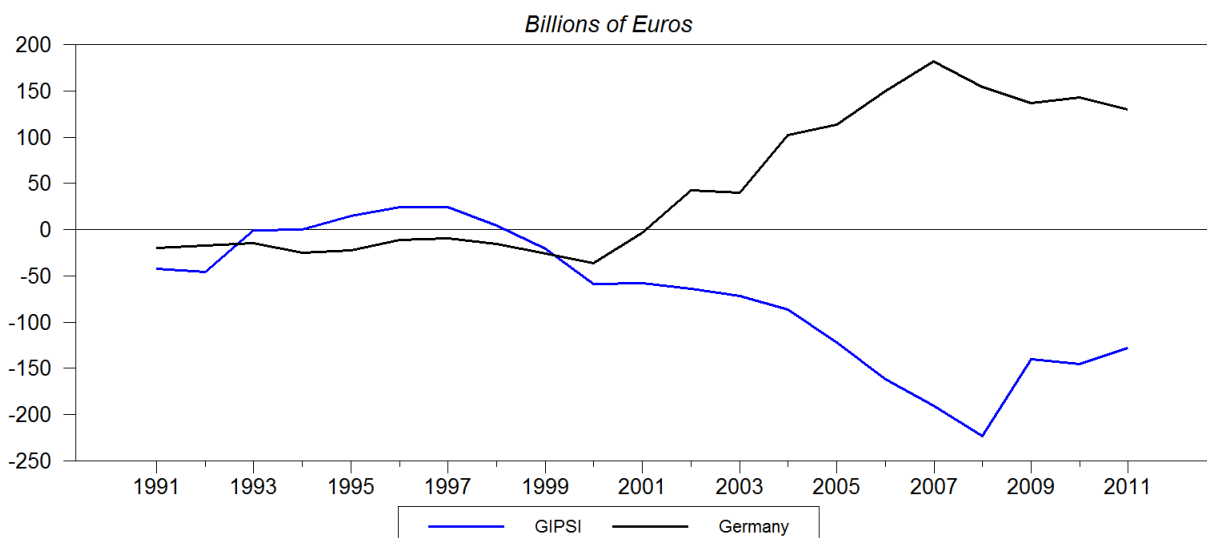


Figure 4: Current Account Balances for Germany and Combined Current Account for Greece, Ireland, Portugal, Spain and Italy (GIPSI). Source: European Commission AMECO-Online Database

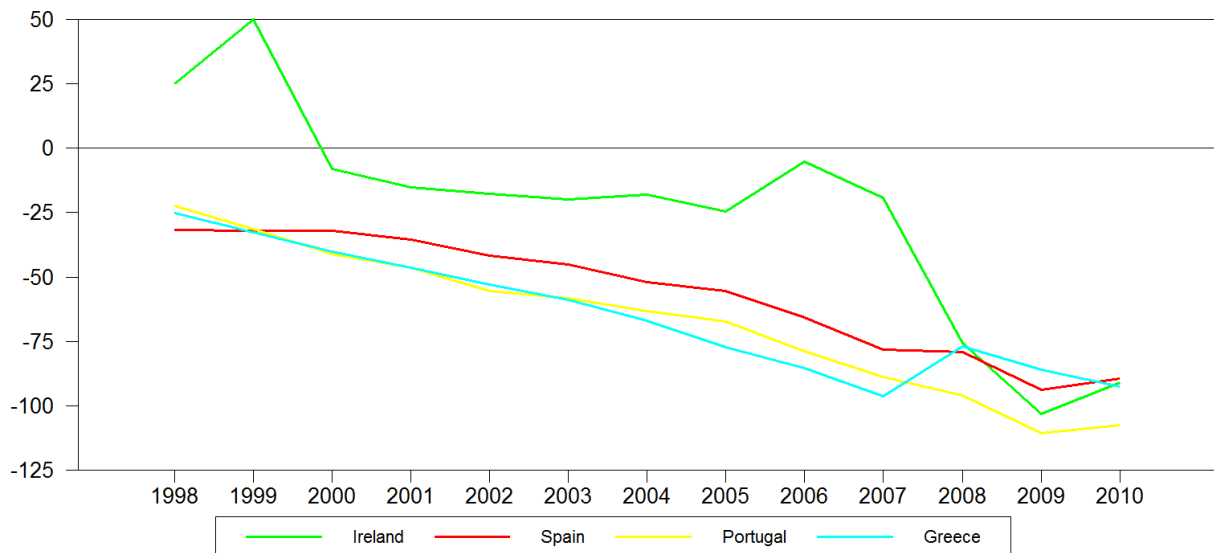


The global financial crisis that began in 2007, and which still rumbles on in the Euro area, brought an end to many of the trends that had allowed the build-up of debt in the periphery.

- *Re-Appearance of Sovereign Risk Premia*: After a long period in which financial markets ignored sovereign default risk, developments of recent years have seen sovereign debt risk premia re-emerge with much of this increase being passed through to private sector rates.
- *Increases in Private Risk Premia*: The Lehman Brothers failure of 2008 has led to a complete re-pricing of financial sector risk. Most financial institutions cannot raise private funds at anything like the low costs that prevailed prior to the crisis. And the assessment of the riskiness of private borrowers has also changed fundamentally. In particular, financial markets are now focusing on the build-up of debt that has occurred in peripheral Euro area economies. As Figure 5 shows, cumulative current account deficits (and in Ireland's case, poorly invested borrowings) have led to a significant deterioration in the net international investment position of the four countries focused on here.
- *Financial Sector Deleveraging*: The crisis has brought home to investors and regulators the problems associated with over-sized and over-leveraged financial institutions. As banks execute deleveraging programmes, there has been a significant decline in private sector lending to peripheral economies. While the ECB has stepped in to replace much of this lending previously provided by European bond markets, peripheral banks with large borrowings from the Eurosystem are generally under pressure to reduce these borrowings. (For example, Irish banks have been set strict deleveraging targets as part of their EU-IMF agreement with the aim of reducing the Eurosystem's exposure to the Irish banking sector.)
- *Reversal of Financial Integration*: With major banks in core countries having received significant assistance from governments, there has been a general tendency for banks to deleverage via withdrawing from lending to peripheral economies. The available evidence shows that European banking markets are becoming increasingly disconnected from each other. For example, recent research by Holton, Lawless and McCann (2012) has shown that interest rates on loans as well as loan rejection rates in peripheral economies increasingly reflect the problems of domestic banks backed by troubled sovereigns.

Taken together, these factors are acting to place significant pressure on private households and businesses (as well as governments) in peripheral economies to reverse the pre-crisis build-up of debt.

Figure 5: Net International Investment Position as a Percent of GDP for Selected Countries. Source: Eurostat Macroeconomic Imbalance Procedure Webpage



3. WHY CURRENT ACCOUNTS MATTER NOW

The factors just outlined explain why it is not just governments in peripheral Euro area countries that are under pressure to reduce their debt levels, but also the private sector. Here, I will explain why this combination of debt problems can only be addressed via a shift to running current account surpluses. I then discuss how difficult this process is likely to be given the current set of institutional policy constraints under EMU.

3.1 Some Often-Forgotten Identities

Much of the commentary surrounding the Fiscal Compact and the lesser-known Macroeconomic Imbalance Procedure views macroeconomic policy as a form of morality tale. Debt, this commentary declares, is a bad thing. Therefore, we should have less debt and follow the example of the Swabian housewife and balance our books.

One problem with this type of commentary is that it ignores an important, but often overlooked, fact: One person's debt must be another person's asset.

A Closed Economy Example

Consider how debt works in a closed economy. Here I will use a few basic national income accounting identities. It is well known that in a closed economy, national income can be expressed as the sum of consumption expenditures, investment expenditures and spending by government:

$$Y = C + I + G$$

It is also true that national income equals total consumption spending plus savings plus taxes paid to the government.

$$Y = C + S + T$$

Putting together these identities implies that

$$C + I + G = C + S + T$$

Cancelling consumption spending from both sides of this equation, we get

$$G - T = S - I$$

In other words, in a closed economy, a government can only incur extra debt (spend more than it gets in tax revenue) if the private sector saves more than it invests in capital goods. A build-up of government debt can only occur if there is a corresponding offsetting build-up of private sector assets in the form of additional holdings of government bonds. And more relevantly, the private sector can only pay off debt if the public sector runs up new debts.

Since the world is a closed economy, one can view the build-up of public debt in the global economy over the past few years as a response to the private sector reducing its debt levels. In an excellent recent Financial Times blog post, Gavyn Davies provides a response to the catchphrase "You cannot solve a debt crisis by creating more debt" often used to object to the recent period of public debt accumulation. His response: "Perhaps, but that is not what has been done up to now. Debt has been transferred between sectors and, in the process, disaster has been averted."

Open Economy Example

In an open economy, the national income expenditure identity changes to

$$Y = C + I + G + X - M$$

So the identity linking private and public savings is now slightly different, taking the form:

$$(T - G) + (S - I) = X - M$$

In other words, in an open economy it is possible for both the public sector and the private sector to run surpluses and pay down their debts but only if the economy as a whole runs a current account surplus.¹

3.2 The Hard Path to Surpluses

The previous considerations have important implications for those who argue that peripheral countries just need their governments, households and businesses to tighten their belts a little and start to pay back their debts. In the aggregate, what they are calling for is for these countries to move from current account deficits to large and persistent current account surpluses.

The combination of fiscal austerity and tight credit conditions has seen fairly large reductions in the current account deficits of peripheral Euro area countries.

- Ireland has gone from a current account deficit of 5.6 percent of GDP in 2008 to a projected small surplus in 2011.

¹ See Obstfeld (2012) for a more detailed discussion of the role of the current account in determining a country's debt dynamics.

- Spain has reduced its current account deficit from 9.6 percent of GDP in 2008 to 3.4 percent of GDP in 2011, according to European Commission estimates.
- Portugal has reduced its current account deficit from 12.6 percent of GDP in 2008 to 7.6 percent of GDP in 2011.
- Greece has reduced its current account deficit from 17.9 percent of GDP in 2008 to 9.9 percent of GDP in 2011.

These figures show that after three years of austerity, substantial progress still needs to be made to put these countries on the path towards a steady reduction in their net indebtedness. The constraints imposed by Euro membership mean that this progress is likely to be difficult.

This is for three reasons. First, the absence of an exchange rate adjustment mechanism. Second, the commitment of the ECB to low levels of Euro area inflation. Third, the inflexibility of macroeconomic policy making in the surplus countries.

The Absence of Exchange Rate Adjustment

Because current account deficits represent the gap between what a country's residents spend and what they earn, many often view the closing of these deficits as a simple matter of implementing policies to reduce domestic spending. However, as Paul Krugman has frequently pointed out, the truth is more complex.² In most open economies, the bulk of consumption spending goes on domestically-produced goods and services. So a reduction in spending also reduces national income and the end result is that the reduction in the current account deficit is much smaller than the original reduction in spending. This is a very slow and painful way to close a current account deficit.

Krugman labels the idea that current account deficits can be closed by simply reducing domestic spending "The Doctrine of Immaculate Transfer" and argues that closing current account deficits generally requires exchange rate depreciation to get consumers at home and abroad to switch towards the goods of the deficit country. Of course, this instrument is not available to countries in the Euro area unless they choose to leave the euro.

ECB's Commitment to Low Inflation

Without an exchange rate instrument, the alternative way to price goods produced in deficit countries back into markets is to obtain reductions in costs relative to the costs prevailing in surplus countries.

In part, these cost reductions can be achieved via reforms aimed at reducing non-wage costs related to uncompetitive providers of energy, telecommunications and other services. However, wages account for the majority of business costs in most economies and the current European environment makes it likely that improvements in wage cost competitiveness will be limited.

² See Krugman (1987) and (2011).

Figure 2 above shows that, over the last few years, the four peripheral countries highlighted in this paper, and Ireland in particular, made some progress in reducing their unit labour costs relative to Germany. However, these gains only offset a small fraction of the competitiveness losses during the pre-crisis years and with German unit labour cost inflation running at about 2 percent (consistent with inflation of 2 percent) significant progress can only be made if there are large cuts to nominal wage rates in peripheral countries. While labour market reforms and high unemployment rates can certainly act to restrain wage inflation, the evidence generally suggests that firms and workers are reluctant to agree to nominal wage cuts, so this is probably not going to happen (see Babecky et al, 2010). "Reforms" are not a magic wand that can undo genuine nominal rigidities that apply in all modern economies, Germany included.

The ECB's commitment to average price inflation in the Euro area of no higher than 2 percent is consistent with unit labour cost inflation of 2 percent if labour maintains its share of national income. If this prevails as the average level of unit labour cost inflation, then competitiveness gains in the periphery of the Euro area are likely to be limited. In addition, some of the competitiveness gains from reductions in costs in peripheral countries will be offset by the fact these countries will all be competing against each other to gain market share.

Another development that would be helpful for deficit countries would be a decline in the value of the euro against other major currencies. Currently the Euro area as a whole is roughly in current account balance. Even if the peripheral countries are unlikely to regain much of their lost competitiveness relative to Germany, a depreciation of the euro relative to sterling or the dollar could help them build market share elsewhere. Again, however, the ECB's commitment to a low inflation hard currency makes this development unlikely.

Macro-Policy Formulation in Surplus Countries

A final policy initiative that would help the deficit countries to run surpluses would be a change in policies in surplus countries to raise aggregate demand. These policies could involve fiscal stimulus, loosening credit guidelines or encouraging more generous wage awards for a couple of years. However, it is clear that policy-makers in surplus countries such as Germany are dead set against these measures.

For example, in a recent speech titled "Rebalancing Europe", the Bundesbank president Jens Weidmann made it clear that he was against any contribution to rebalancing via demand management or cost adjustments in Germany. Weidmann claims that "*we will gain nothing if we try to rebalance by actively shifting weights at both ends of the scale*" and argues that "*the adjustment itself has to take place in the deficit countries.*"

Instead, it appears that surplus countries are set on the opposite path. The Fiscal Compact commitment to maintain a cyclically adjusted budget balance of 0.5 percent of GDP will see even those countries with relatively low debt and deficits (and current account surpluses) engaging in sustained fiscal contraction over the coming years.

In addition, there are suggestions from various German policy sources that inflation rates above 2 percent in Germany should not be tolerated and that extra fiscal measures should be taken to prevent this outcome. Such a policy would make competitive gains for the periphery even harder than under the current ECB policy of requiring average Euro area inflation of 2 percent.

4. THE MACROECONOMIC IMBALANCES SCORECARD

EU Regulation 1176/2011, passed on 16 November 2011, has established a Macroeconomic Imbalances Procedure. The first step in this procedure is an “alert mechanism for the early detection of emerging macroeconomic imbalances” based on a scorecard of indicators each with a threshold indicating a potentially serious problem. Based on this alert mechanism, the Commission can recommend that more in-depth reviews be taken of specific countries. If severe imbalances are identified, an Excessive Imbalance Procedure can be initiated, which can include enhanced surveillance and monitoring requirements and potential fines if the member state fails to take action.

As of yet, we have only a limited idea of how the MIP will work. However, the Commission has issued its first Alert Mechanism Report outlining the results of its scorecard. In this section, I discuss the scorecard, first providing a description of how the scorecard works and then critiquing it as asymmetric and not coherent.

4.1 The Alert Mechanism Scorecard

The scorecard contains ten variables. The variables and their corresponding thresholds are as follows.

- The three-year average of the current account balance. The threshold is 4 percent of a current account deficit or six percent for a current account surplus.
- The net international investment position. The threshold is a negative position of 35 percent of GDP.
- The percentage change over three years in the real effective exchange rate. The threshold for euro area member states is an appreciation of 5 percent.
- The percentage change over five years in export market share. The threshold is a decline of six percent.
- The percentage change over three years in unit labour costs. The threshold for euro area member states is an increase of 9 percent.
- The percentage change in real house prices. The threshold is an increase of 6 percent.
- The stock of private sector debt as a percent of GDP. The threshold is 160%.
- The flow of private sector credit as a percent of GDP. The threshold is 15%.
- The stock of public debt as a percent of GDP. The threshold is 60%.
- The three year average of the unemployment rate. The threshold is 10%.

While the idea of more detailed macroeconomic surveillance is a good one, in my opinion, this imbalances scoreboard is the wrong place to begin this process.

4.2 An Asymmetric Scorecard

In light of the difficulty facing current account deficit states in the Euro area in returning to surplus without access to an exchange rate adjustment, it is disappointing that the scorecard indicators relating to current accounts place almost all of their emphasis on deficit countries deflating their way towards surpluses.

The Regulation introducing the Macroeconomic Imbalance Procedure states that for

Member States that accumulate large current-account surpluses, policies should aim to identify and implement measures that help strengthen their domestic demand and growth potential.

As shown in Figure 4, the current German surplus is large by any reasonable interpretation of this word. Its estimated 2011 surplus is larger than the combined deficits of Italy, Spain, Greece and Portugal put together. There can be little doubt that efforts to boost aggregate demand in Germany would help to reduce current account deficits elsewhere in the Euro system. However, the scoreboard does nothing to encourage Germany to boost domestic demand. It measures the size of deficits and surpluses relative to an individual economy's GDP and uses a 6 percent surplus threshold which, somewhat conveniently, is 0.1 percent above the current three-year average for Germany.

The other indicators relating to competitiveness have purely one-sided thresholds. There is no threshold indicating that a country has accumulated too large a positive net international investment position, has cut labour costs too fast or accumulated too much of an increase in export shares. The overall impression is of a mercantilist "exports good, imports bad" philosophy which fails to join up the pieces and ask where it is that deficit countries are going to obtain these export sales.

The only official discussion of this issue appears in the Commission's Occasional Paper describing the construction of the scoreboard. The paper describes the approach of differential thresholds for surpluses and deficits as an "intelligent symmetry" approach. This paper says this approach "allows tackling both current account surpluses and deficits but recognises that the urgency for policy intervention is clearly greater in the case of current account deficits." I'm not sure how intelligent this approach actually is. The truth is that actions in surplus countries are just as effective at addressing imbalances as actions in deficit countries but this is perhaps an inconvenient truth for the Commission's officials.

4.3 A Scorecard in Search of a Question

It is also hard to figure out exactly what question it is that the scorecard is designed to answer.

The regulation establishing the MIP says the scorecard is to be an "alert mechanism for the early detection of emerging macroeconomic imbalances." However, the card is a mixture of stock variables (such debt levels) which often signify problems that have already emerged and flow variables (as credit flows) which may signify the emergence of future

problems. The Occasional Paper provides a series of ad hoc rationales in relation to the various thresholds chosen, none of which are particularly convincing.

In relation to leading indicators, there is a vast literature on “early warning indicators” in relation to macroeconomic and financial crises, some of which is alluded to in the Commission’s Occasional Paper on the scorecard. In general, however, even the most successful indicators are not very successful in forecasting crises and issue a lot of false warnings. Many of these papers also relate to developing countries with fixed exchange rates, so their applicability to the current Eurosystem framework is unclear.

Perhaps rather than split the indicators into “external imbalances” and “internal imbalances” it may be better to split the indicators into “leading indicators of problems” and “indicators of current problems”. Overall, however, I think the scoreboard is of very limited usefulness and, given its asymmetric focus, does little to suggest that the Commission are going to play a useful role in helping to resolve the large imbalances that exist within the Euro area.

4.4 The MIP and the ESRB

Finally, I’d note that the inclusion of house price growth and the flow of private sector credit in the scoreboard are to be welcomed. House price boom and bust cycles are far more destructive than asset price bubbles in instruments such as equities, which are less widely held by households and less likely to be acquired via borrowing. The attitude of regulatory authorities in many European countries to high levels of private sector borrowing was overly lax and there was very limited centralised oversight from either the European Commission or the European Central Bank.

The inclusion of financial indicators in the scorecard and, more generally, the examination of financial stability issues as part of the MIP process, raise the question of how the MIP process will operate alongside the work of the ESRB.

As of yet, it is hard to know exactly how the ESRB is going to influence financial stability issues in the coming years. Thus far, the meetings of the ESRB have produced very little by way of formal output and the statements accompanying the meetings have been relatively bland.

This is not to say that the ESRB isn’t doing valuable work. The idea of regular meetings of Europe’s central bankers and financial regulators is a good one and, particularly at times of systemic financial stress (such as now), it may be best if sensitive issues are dealt with in a low-key manner.

However, it does already seem as though the MIP and ESRB are playing quite different roles, with the MIP issuing publicly available reports for each country while the ESRB operates as a forum of harmonising financial regulatory policies and considering sensitive systemic risk issues.

5. CONCLUSIONS

The Euro area is facing a severe existential crisis. The crisis is most profoundly felt in countries such as Portugal, Greece, and Ireland and Spain which have emerged from the financial crisis with large public and private debt burdens that financial markets are unwilling to continue financing. The only way that these countries can reduce both private and public sector debt burdens is if they move towards large and persistent current account surpluses.

Without access to an exchange rate adjustment, the road to current account surpluses for these countries is difficult. EU policy makers repeat the mantra that “reforms” are the solution to all ills but reforms are unlikely to repeal the existence of downward nominal wage rigidity, a phenomenon that exists even in well-run countries that do not require such reforms. With an average inflation target of two percent for the Euro area, competitiveness gains for Greece, Portugal and Spain will be slow, as will the pace of progress towards the size of current account surpluses. Moreover, the adjustment period is likely to be extremely painful.

The Commission’s Macroeconomic Imbalance Procedure provides an important opportunity for the EU to acknowledge that imbalances have two sides, that policies to actively reduce surpluses in countries like Germany are just as effective in restoring balance as policies aimed at increasing competitiveness in the European periphery. However, the new alert mechanism scorecard has an asymmetric focus on reducing deficits at the almost-complete expense of any focus on steps to affect large surpluses. It represents a missed opportunity to deal with the Euro area’s problems in a balanced manner. To the extent that Europe is running out of time to come up with real solutions to the problems that afflict the common currency, it represents a serious disappointment.

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