

The **EEAG** Report

on the European Economy

2015 | No. 14



BLURRING THE BORDERS

MACROECONOMIC OUTLOOK
THE EUROPEAN ENERGY CONUNDRUM
EUROPEAN REGIONAL DISPARITY
MIGRATION IN THE EUROPEAN UNION

Group Members



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 - *KOF Swiss Economic Institute, ETH Zurich*
- **Akos Valentinyi (Chairman)**
 - *Cardiff University*

Blurring the Borders

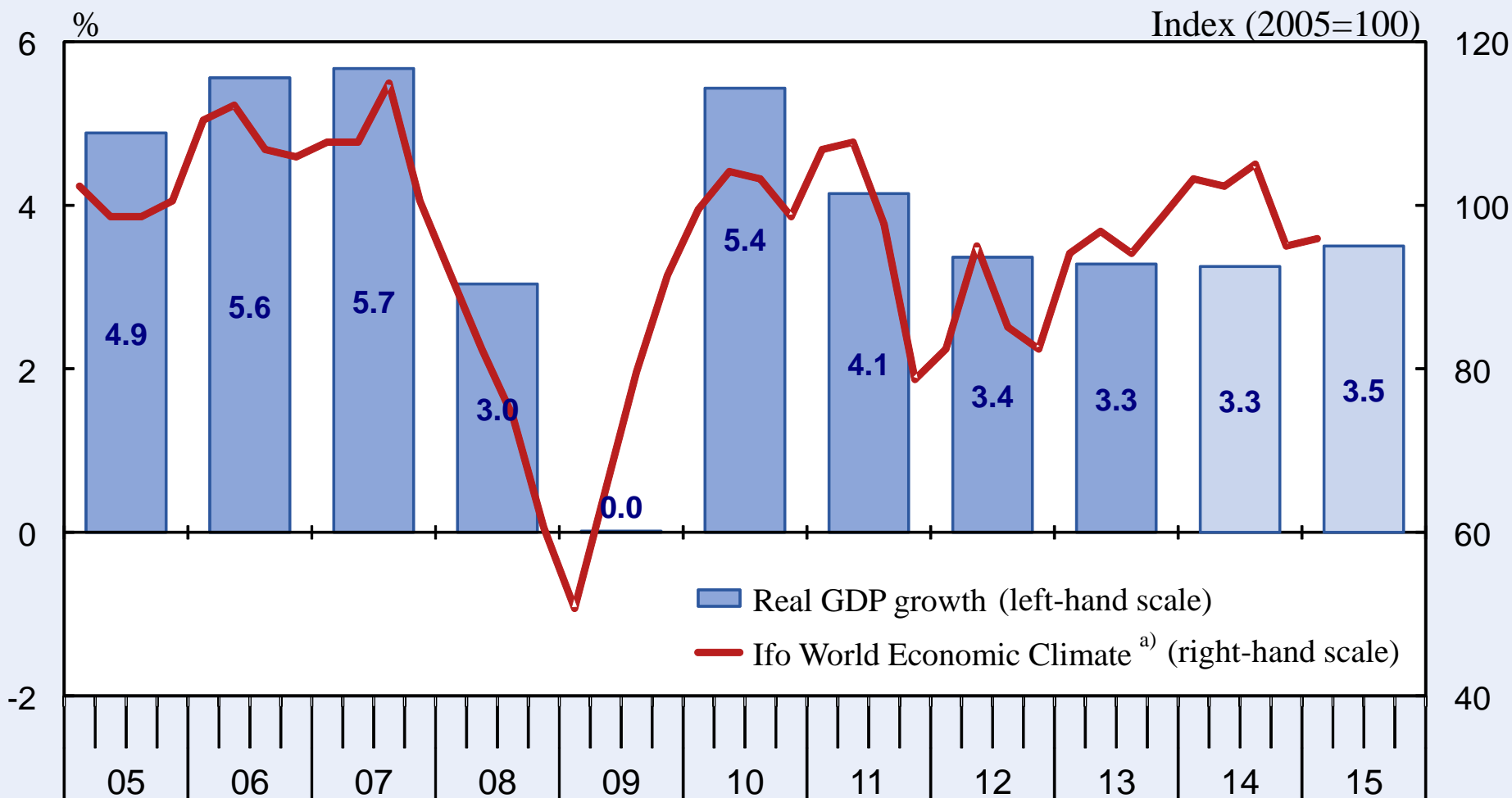
Macroeconomic Outlook

The European Energy Conundrum

European Regional Disparity

Migration in the European Union

World economic growth and the Ifo World Economic Climate

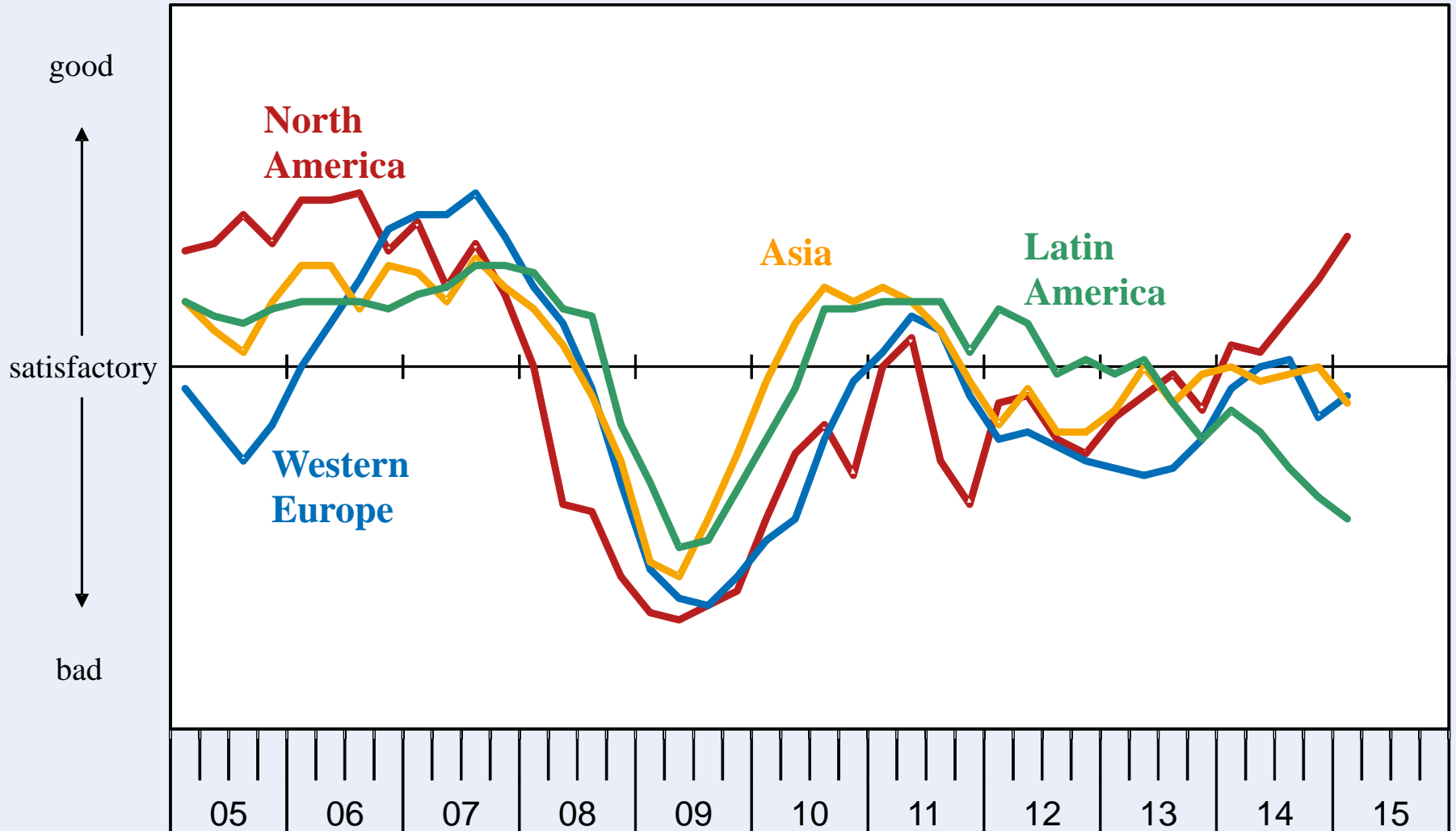


^{a)}Arithmetic mean of judgements of the present and expected economic situation.

Source: IMF, World Economic Outlook, November 2014; GDP 2014 and 2015: EEAG forecast; Ifo World Economic Survey I/2015.

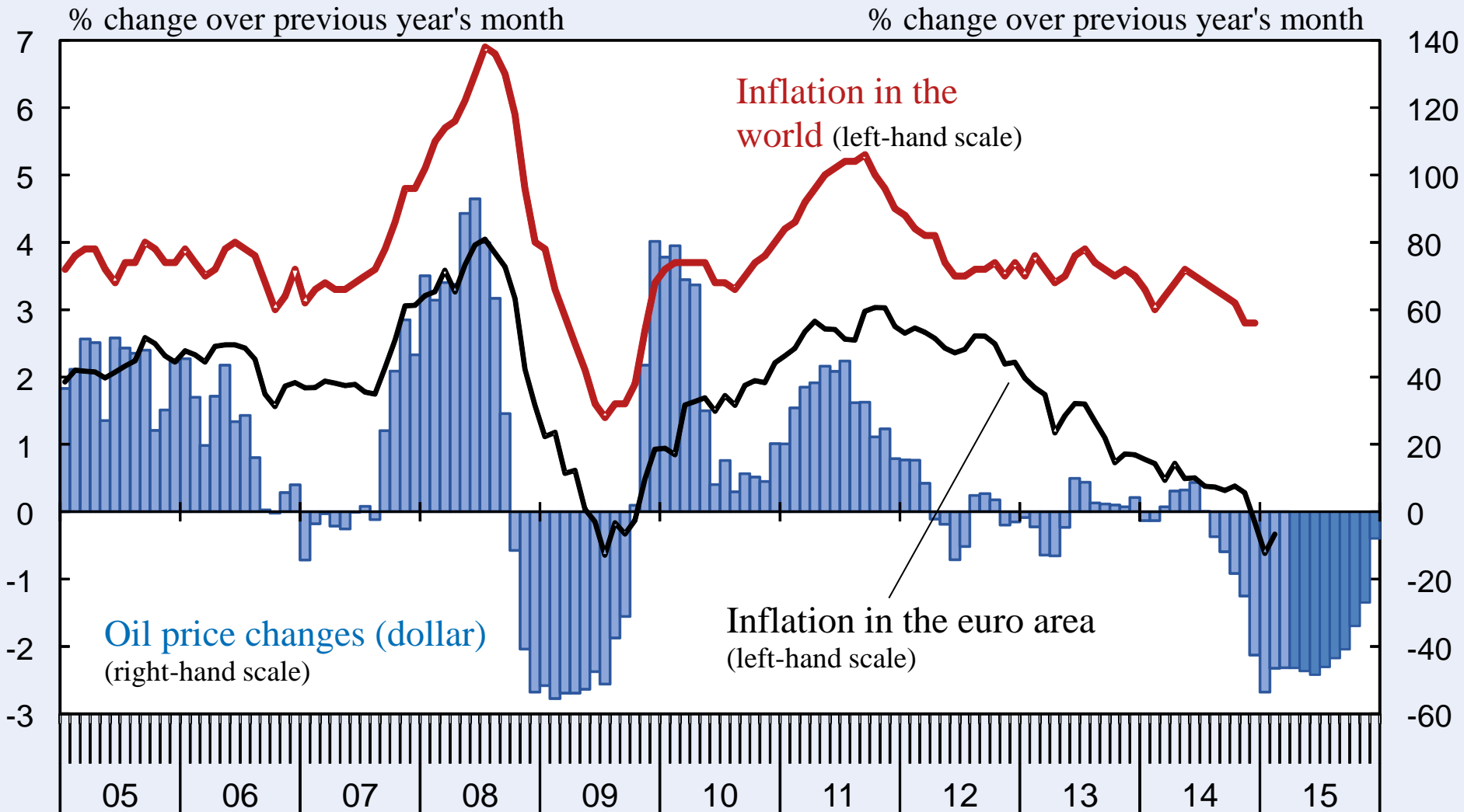
Ifo World Economic Survey

Economic situation



Source: Ifo World Economic Survey I/2015.

Inflation in the world and oil price movements

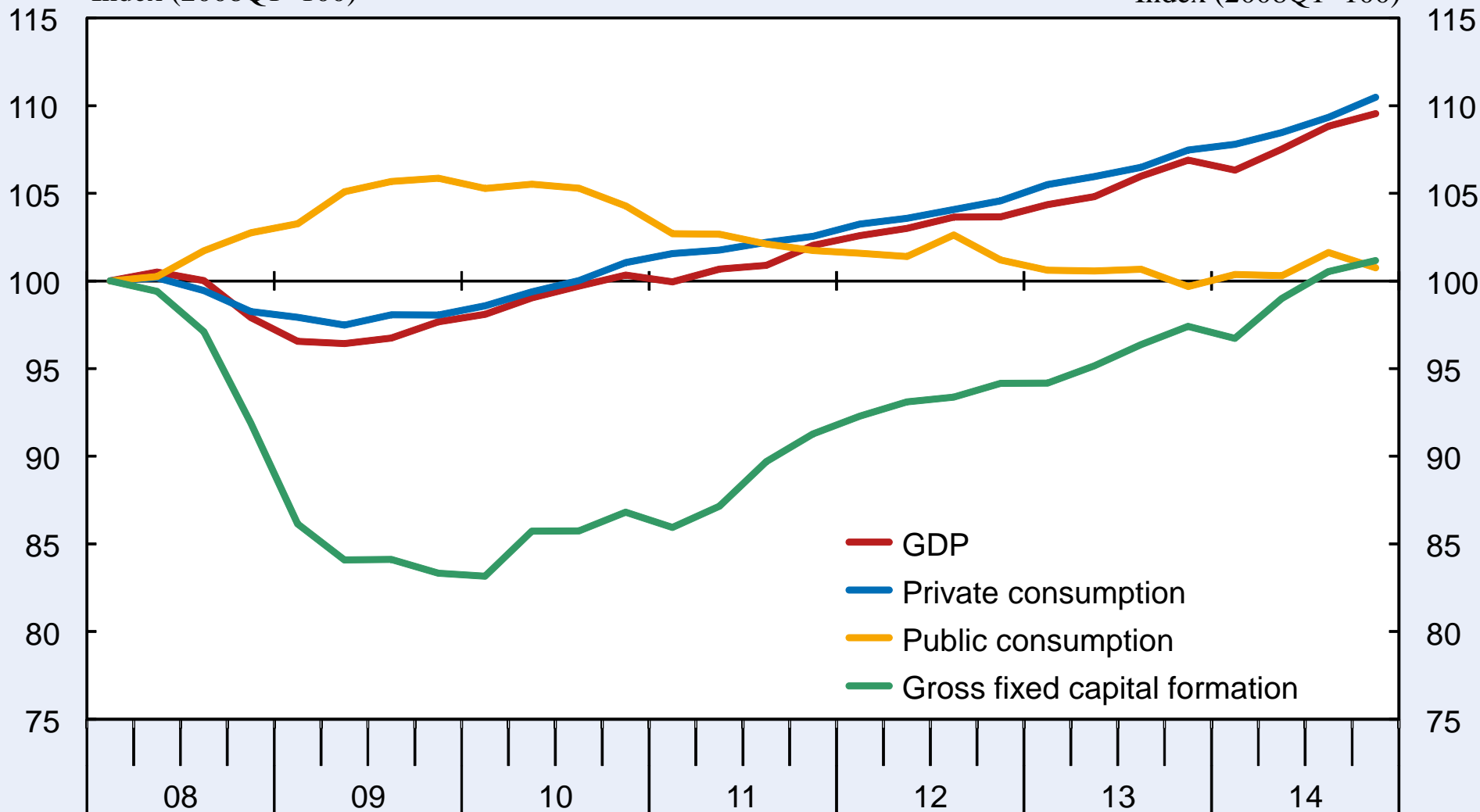


Source: International Monetary Fund, International Financial Statistics, last accessed on 14 January 2015.

Domestic spending developments in the United States

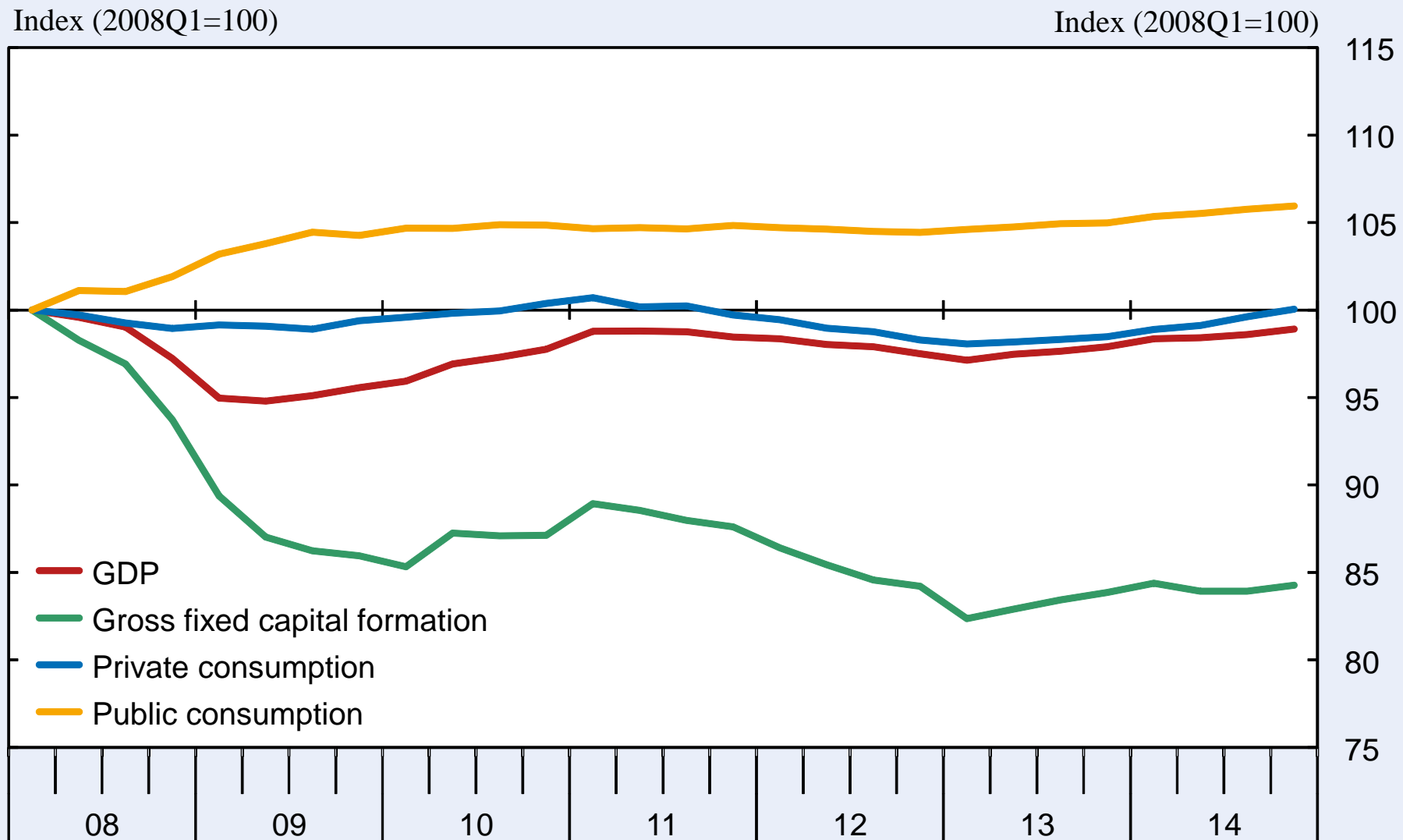
Index (2008Q1=100)

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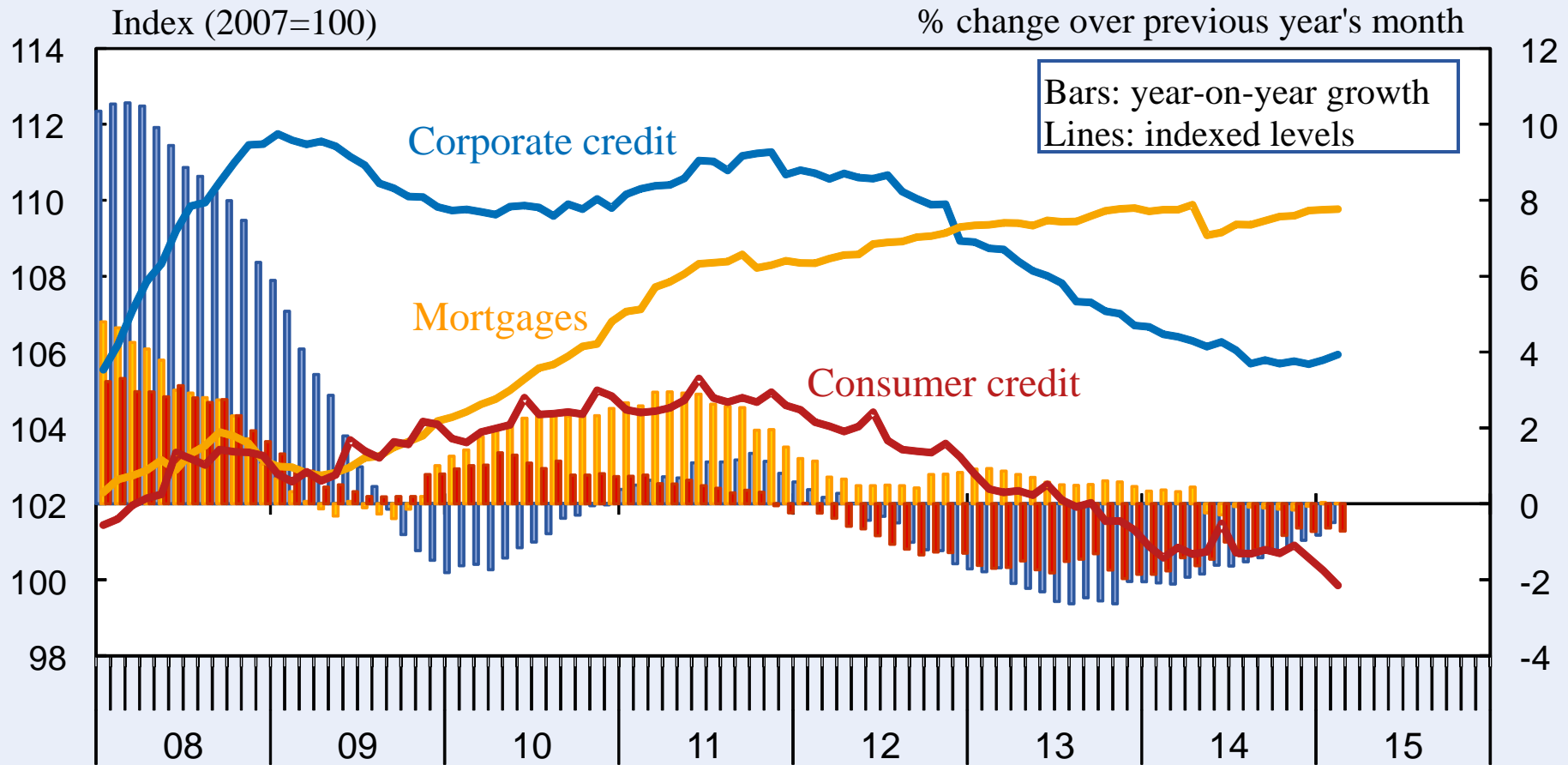
Source: US Bureau of Economic Analysis, last accessed on 31 January 2015.

Domestic spending developments in the euro area



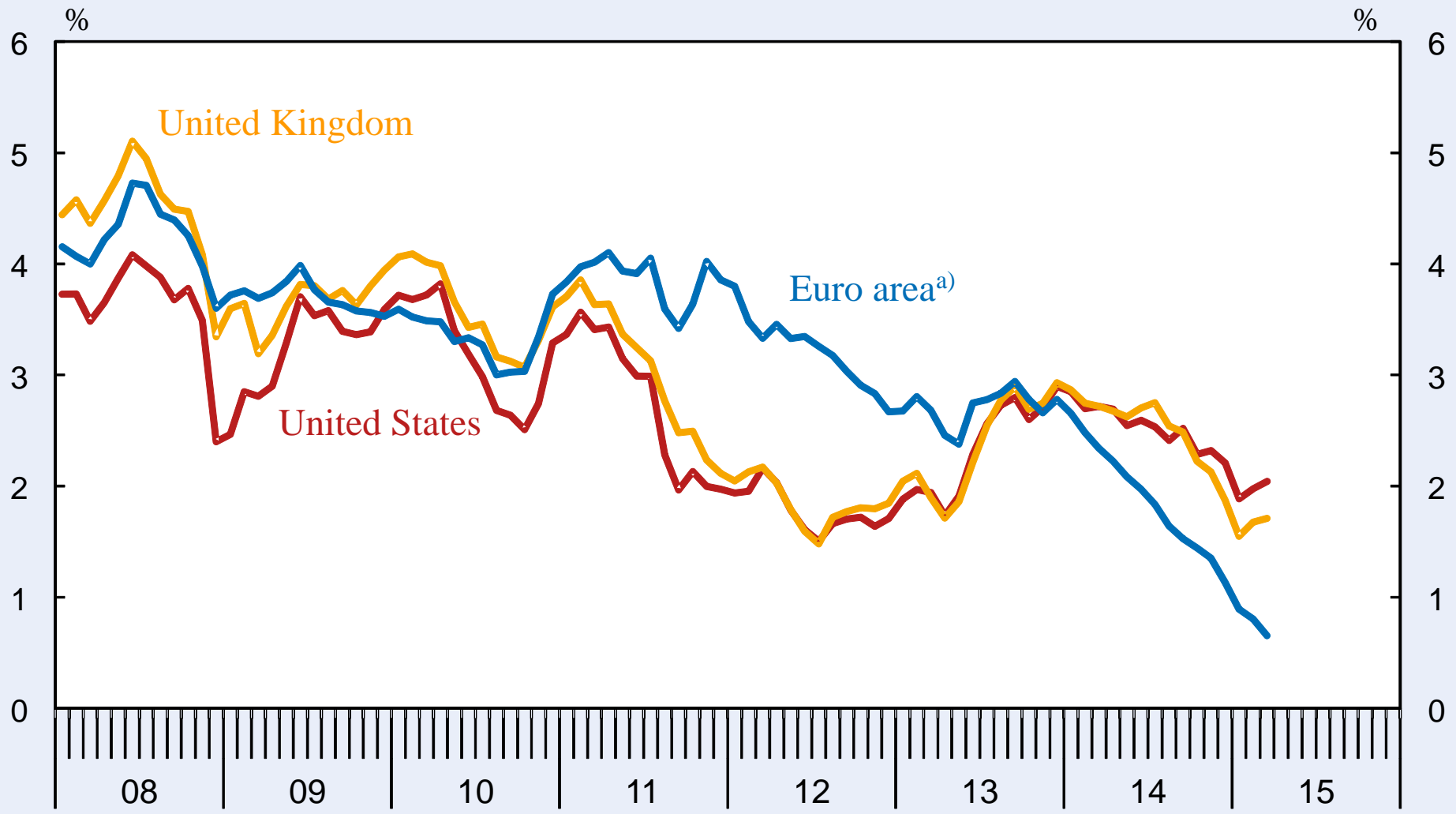
Source: Eurostat, 14 March 2015.

Credit developments in the euro area^{a)}



^{a)} These indexes of adjusted outstanding amounts are calculated according to $I_t = I_{t-1}(1 + F_t/L_{t-1})$, where L stands for the outstanding nominal amount of credit and F the amount of transactions (credit granted). The transactions F are calculated from differences in outstanding amounts adjusted for reclassifications, other revaluations, exchange rate variations and other changes which do not arise from transactions (see European Central Bank, 2010, for details). A specific securitisation operation in France has led to a downward level shift in mortgages in May 2014.
Source: European Central Bank, last accessed on 28 March 2015.

10-year government bond yields

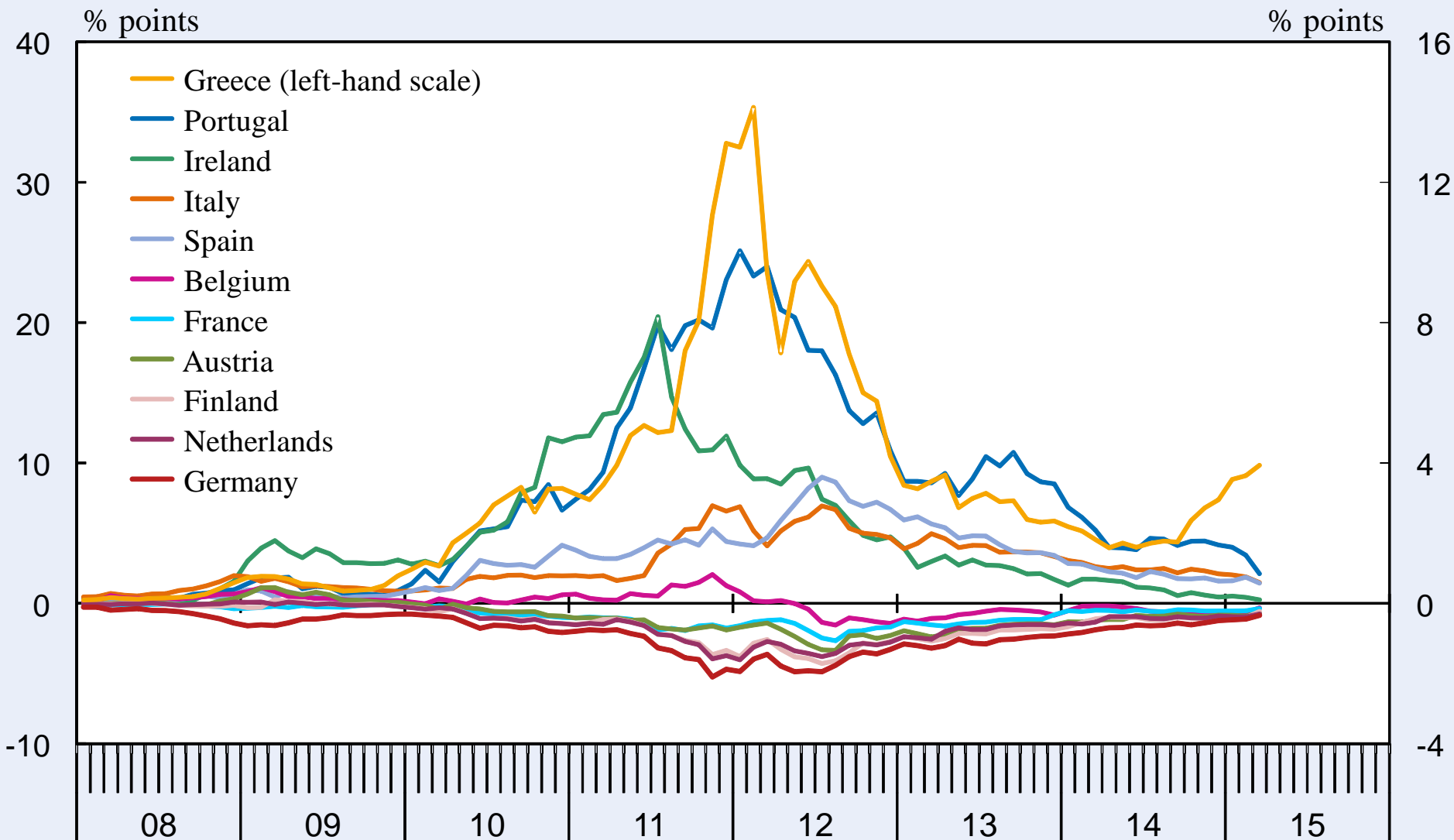


^{a)} The synthetic euro area benchmark bond refers to the weighted average yield of the benchmark bond series from each European Monetary Union member.

Source: Datastream, last accessed on 28 March 2015.

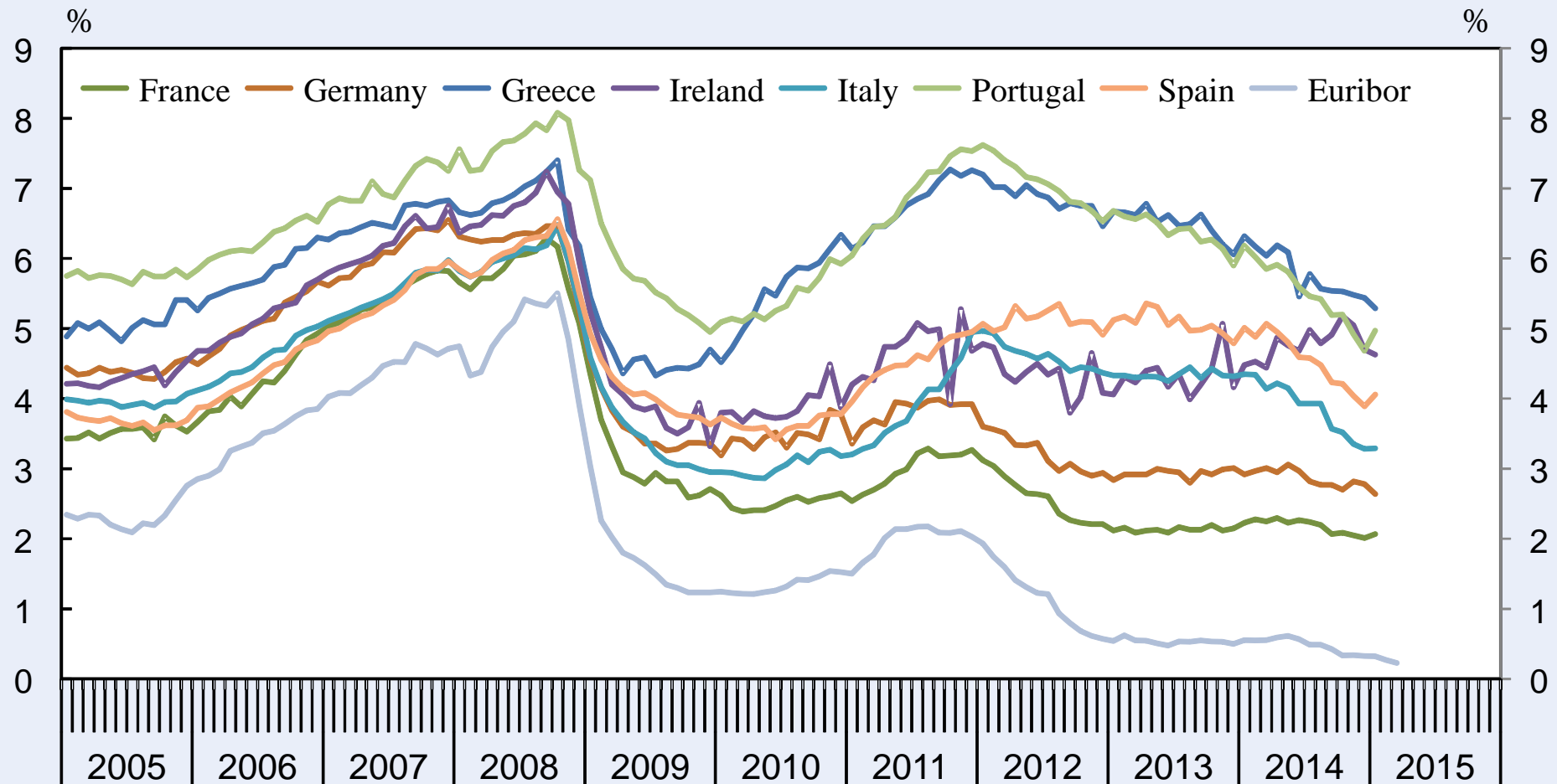
Regional disparities w.r.t. government bond yields in the euro area

Differences between 10-year national and synthetic euro area benchmark bond yields



Source: Datastream, last accessed on 14 March 2015.

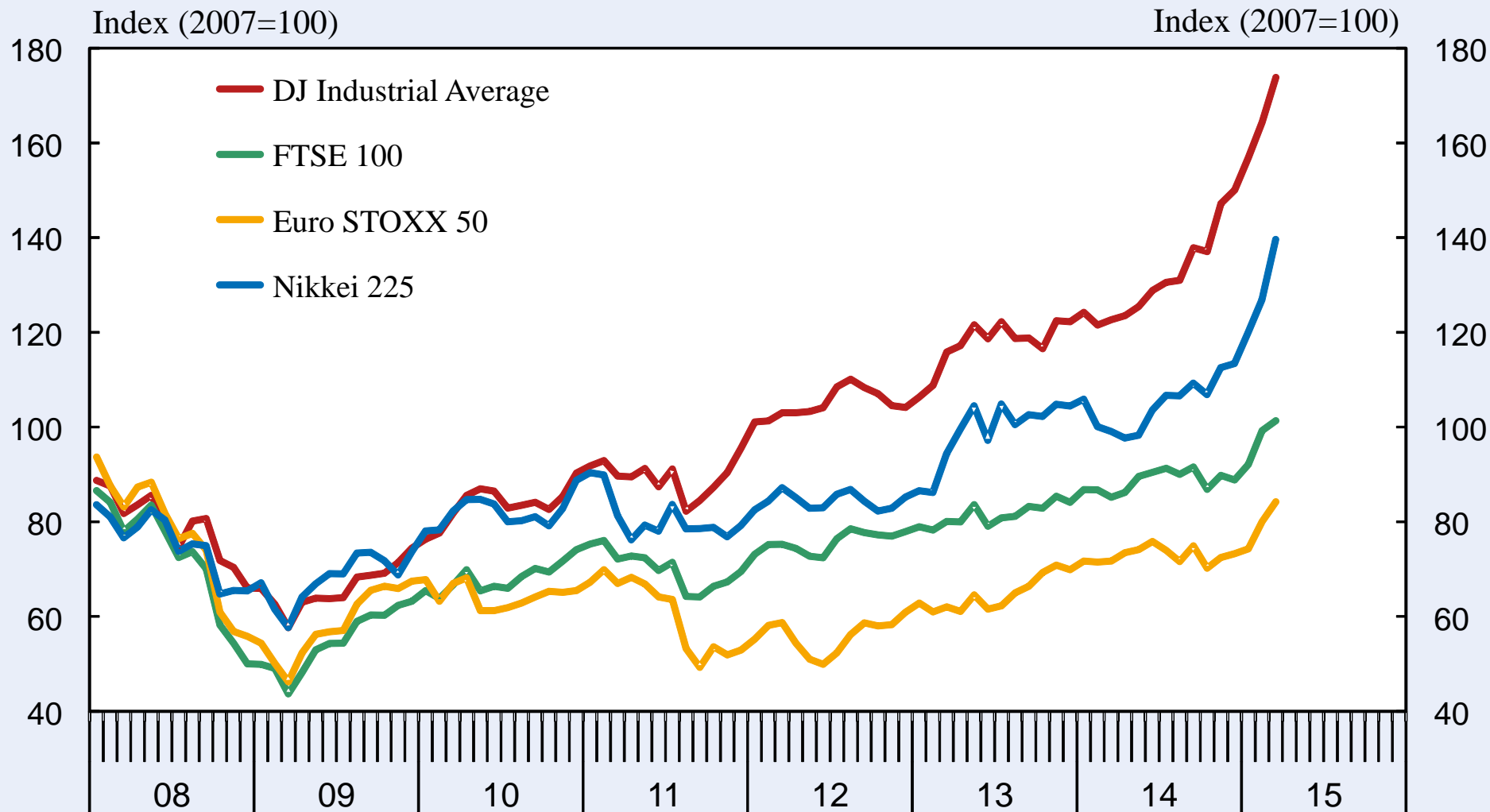
Interest rates on loans to businesses in selected countries of the euro area^{a)}



^{a)} New loans to non-financial corporates up to one million euros using floating rates or up to 1 year initial rate fixation. The Euribor rate is based on secured interbank loans with a maturity of one year.

Source: European Central Bank, last accessed on 14 March 2015.

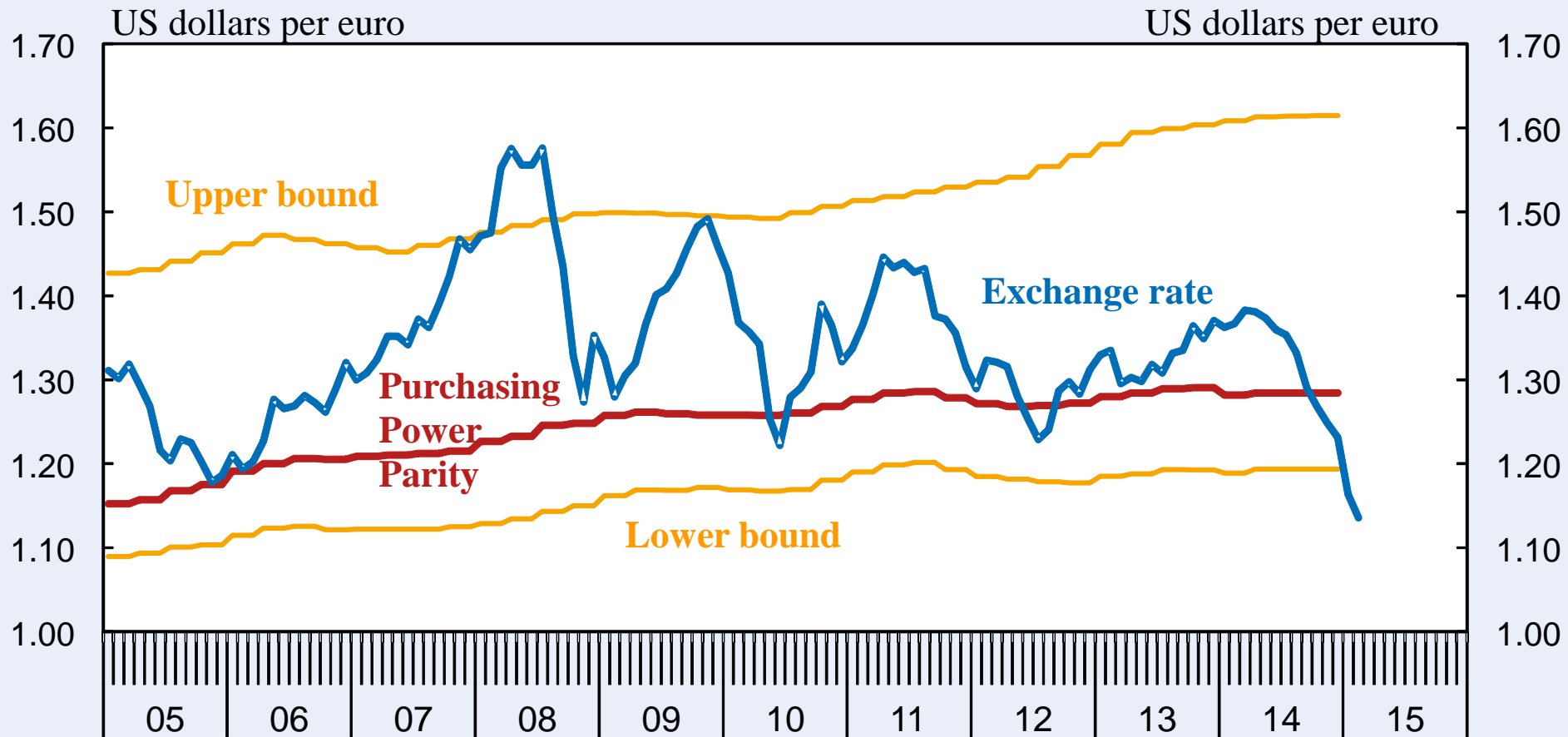
Developments in international stock markets from a euro area perspective^{a)}



^{a)} Stock market indexes outside the euro area are first converted into euros.

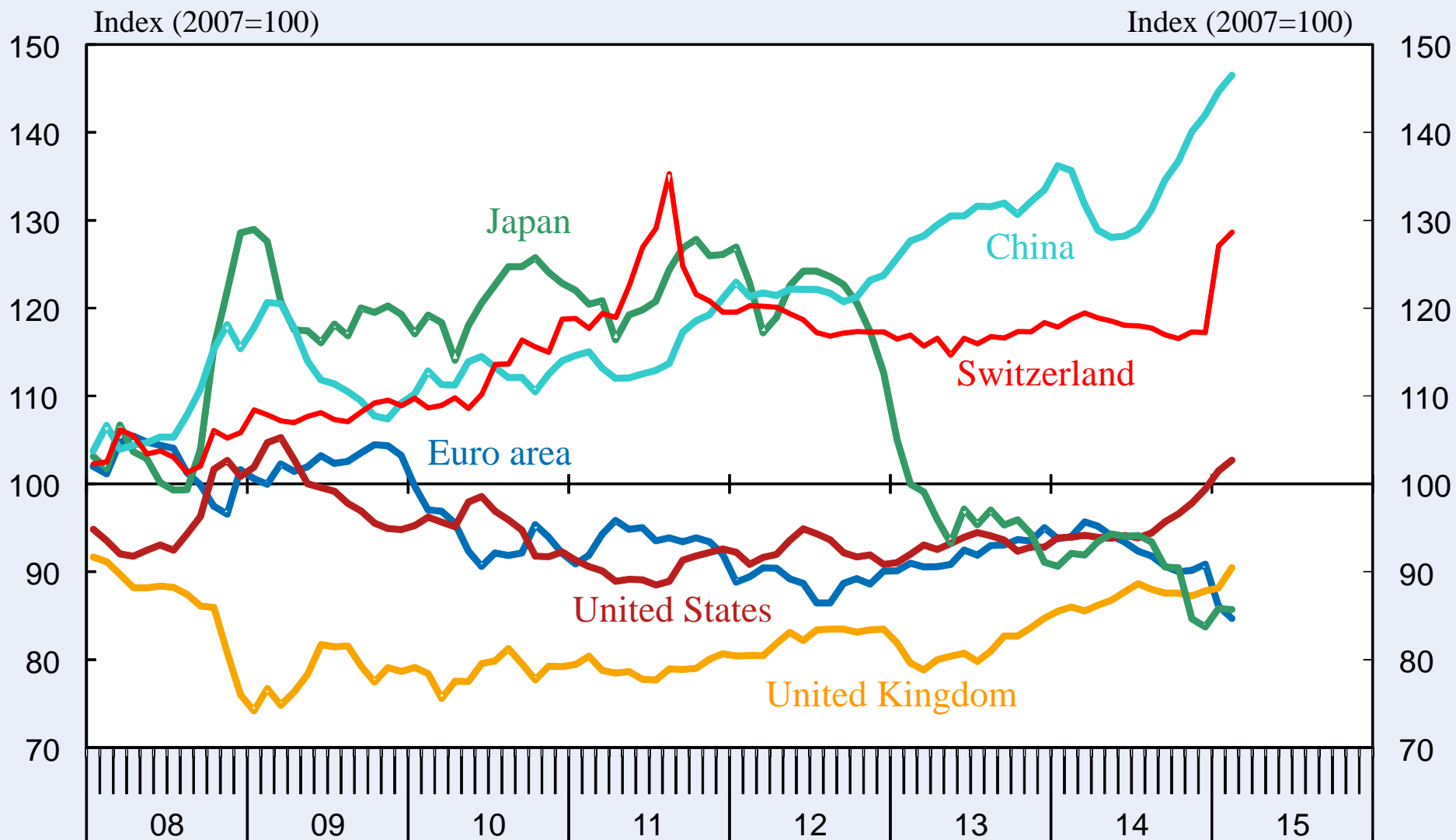
Source: Datastream, last accessed on 14 March 2015.

Exchange rate of the euro against the US dollar and PPP^{a)}



^{a)} The nominal exchange rate is based on monthly data, while the exchange rate based on purchasing power parity (PPP) is given at a quarterly frequency. The PPP upper bound represents the 75th percentile of the euro country - specific PPP estimates vis-à-vis the US dollar; the lower bound the 25th percentile. The US dollar-euro PPP rate is calculated as the GDP-weighted average of the euro country-specific PPP estimates vis-à-vis the US dollar.
Source: OECD Economic Outlook 96, November 2014, European Central Bank, last accessed on 14 March 2015.

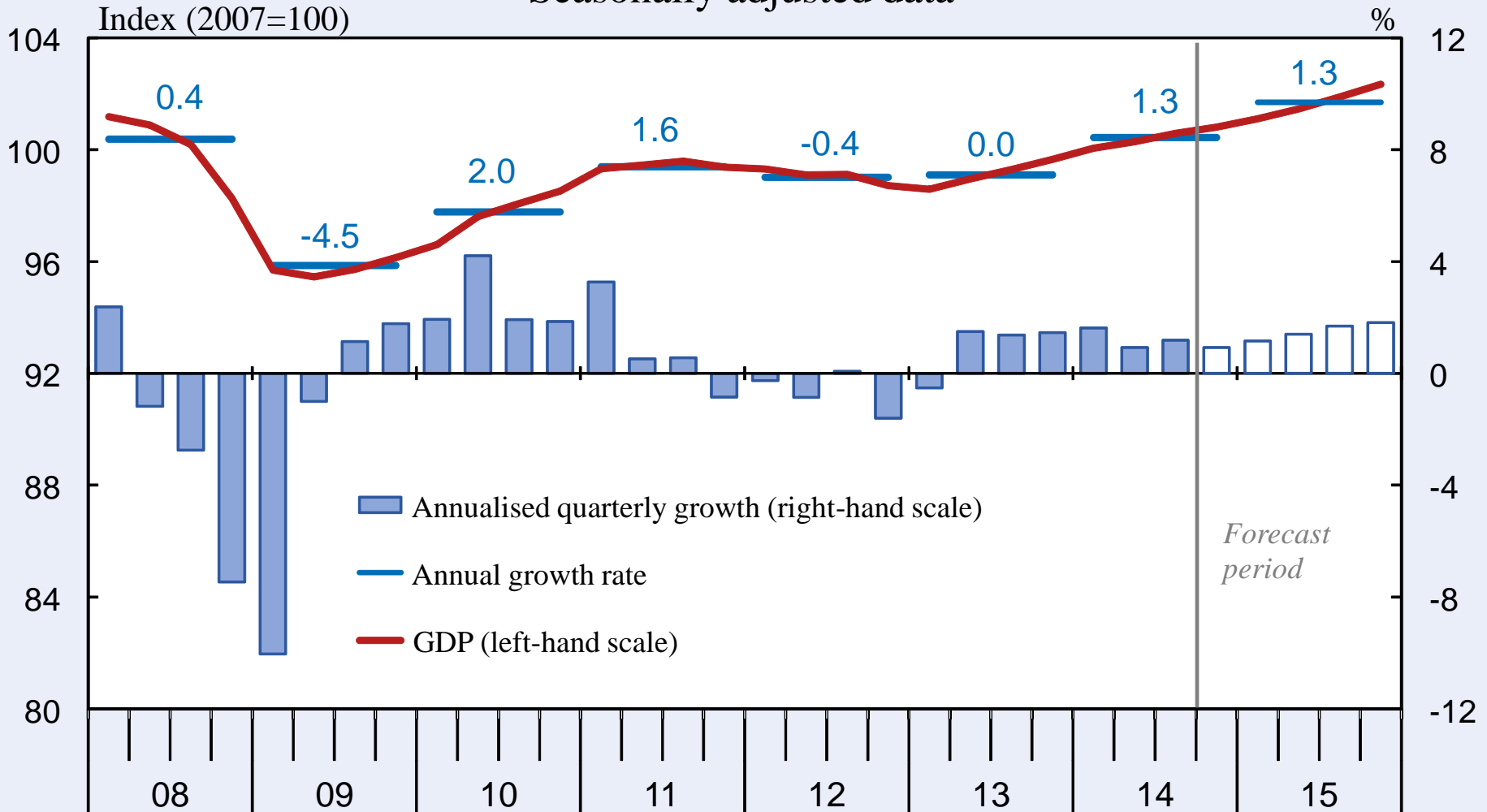
Real effective exchange rates around the world



Source: Bank for International Settlements, last accessed on 28 March 2015.

Real GDP in the European Union

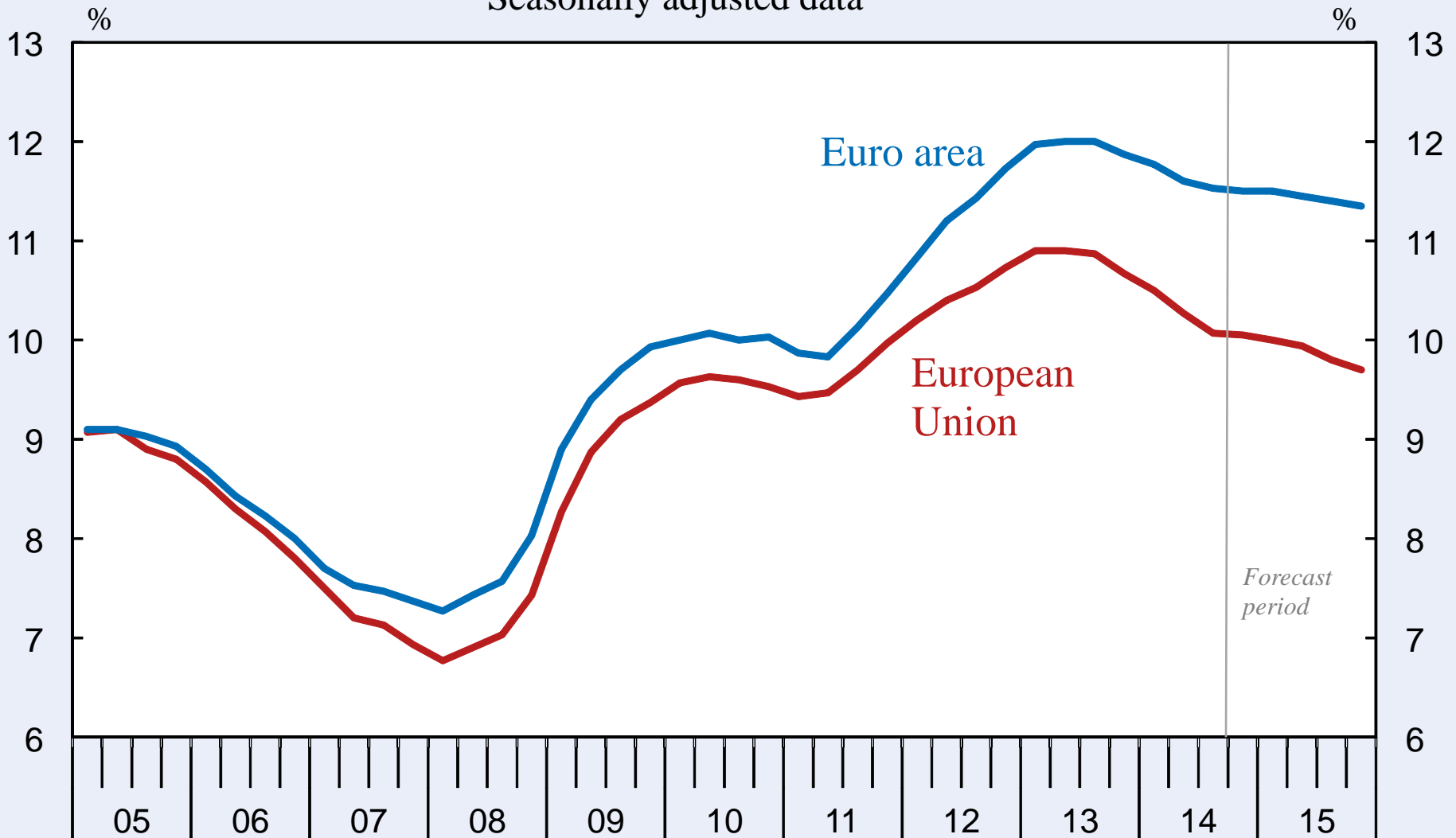
Seasonally adjusted data



Source: Eurostat; EEAG calculations and forecast.

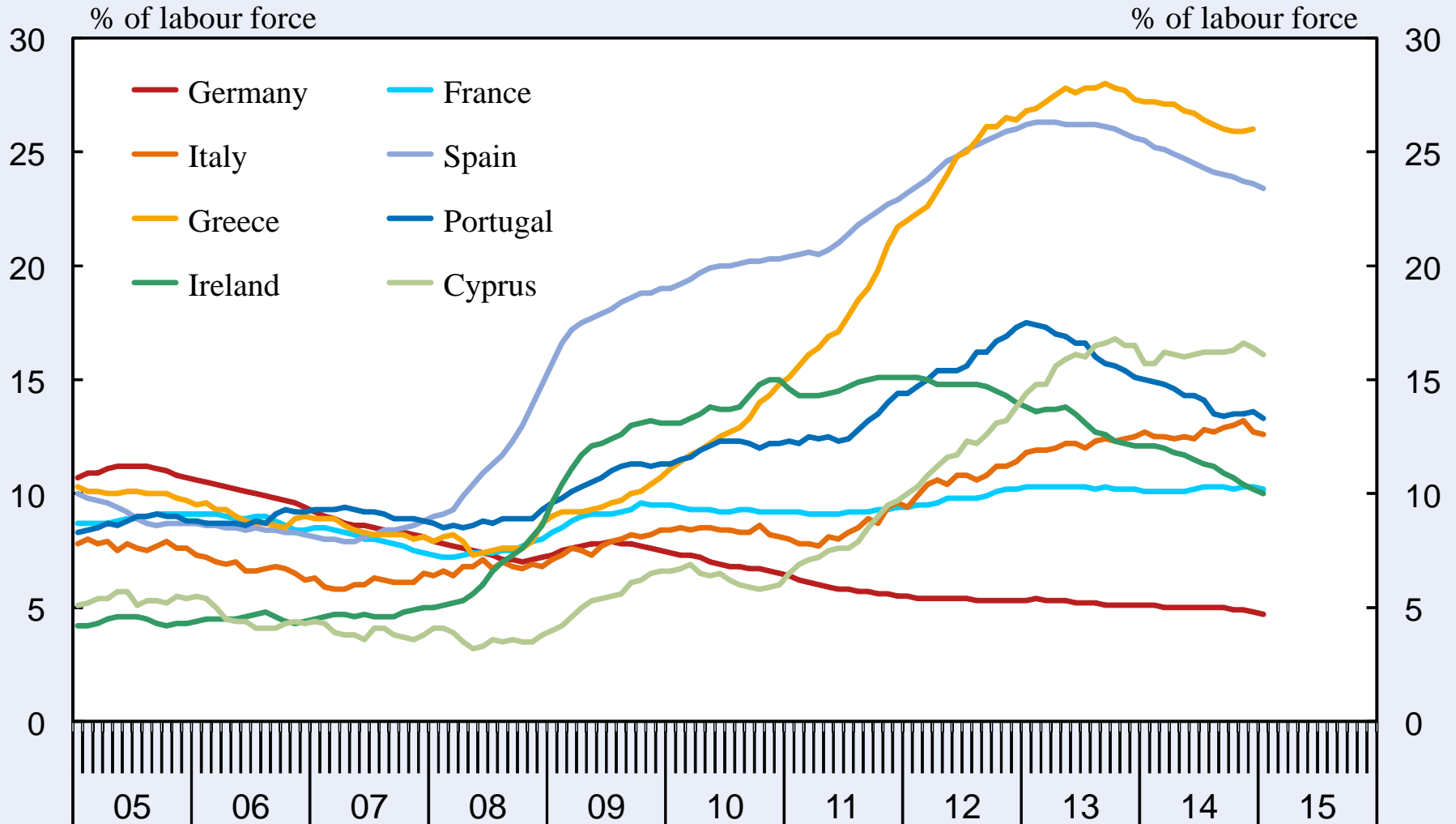
Unemployment rates in the euro area and the European Union

Seasonally adjusted data



Source: Eurostat; EEAG calculations and forecast.

Unemployment rates in selected countries of the euro area

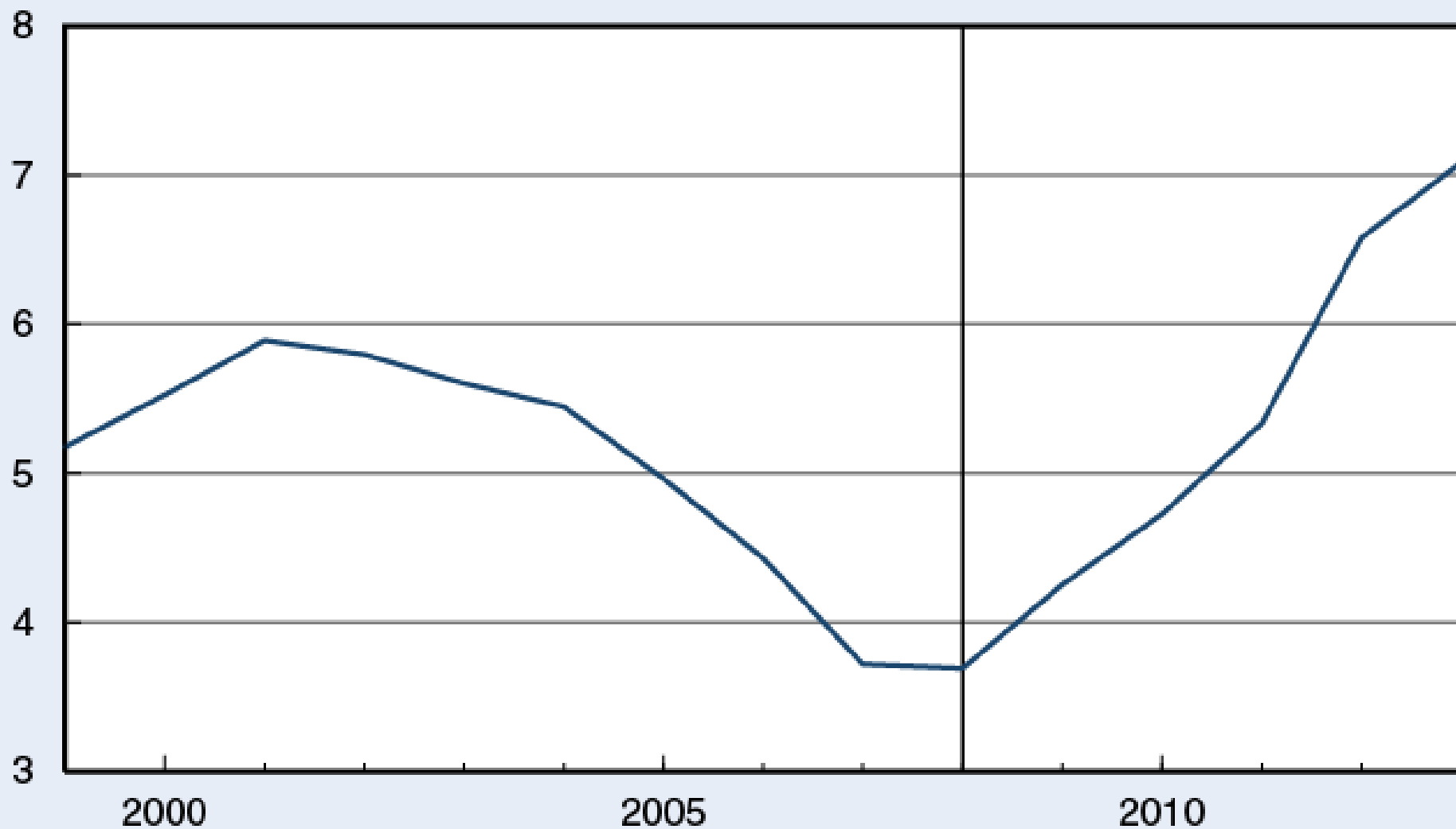


Source: Eurostat, last accessed on 28 March 2015.

European Regional Disparity

- European policy makers' goals
 - Spreading benefits of integration evenly across regions
 - Diminishing importance of national borders
- Have regional disparities been reduced?
- Did economic integration actually diminish the effect of national borders?

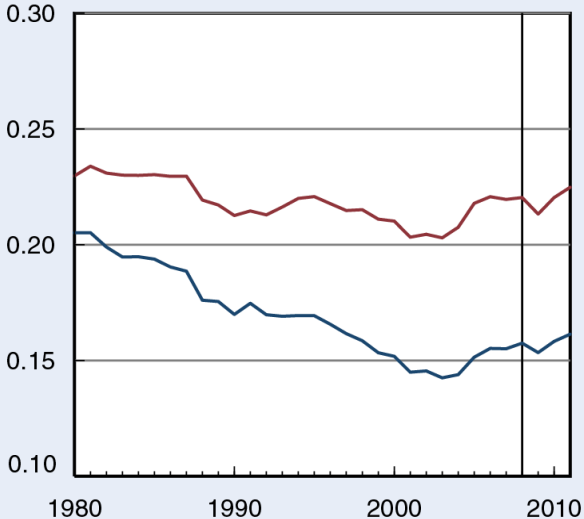
Standard deviation of the regional unemployment rates



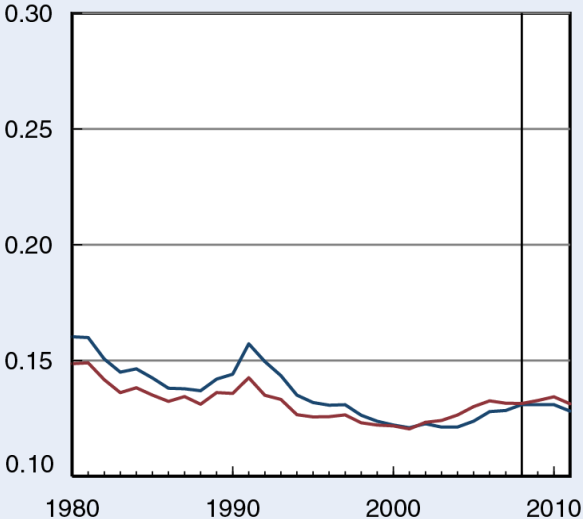
Source: Eurostat, last accessed 30 December 2014, and EEAG calculations.

Standard deviation of the log regional real GDP per employee

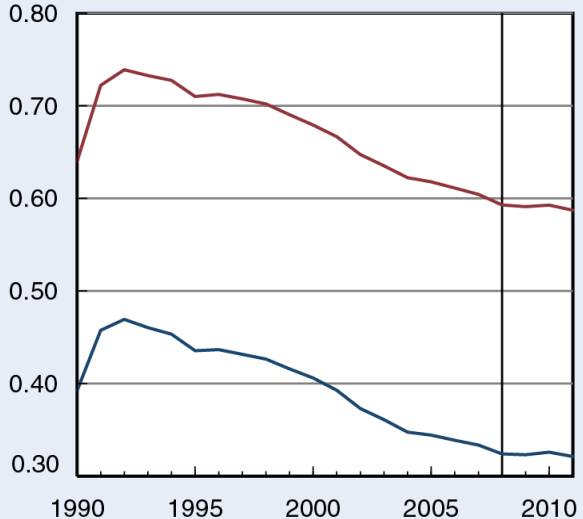
EU15^{a)}



EU15 excluding the crisis countries^{b)}



EU27



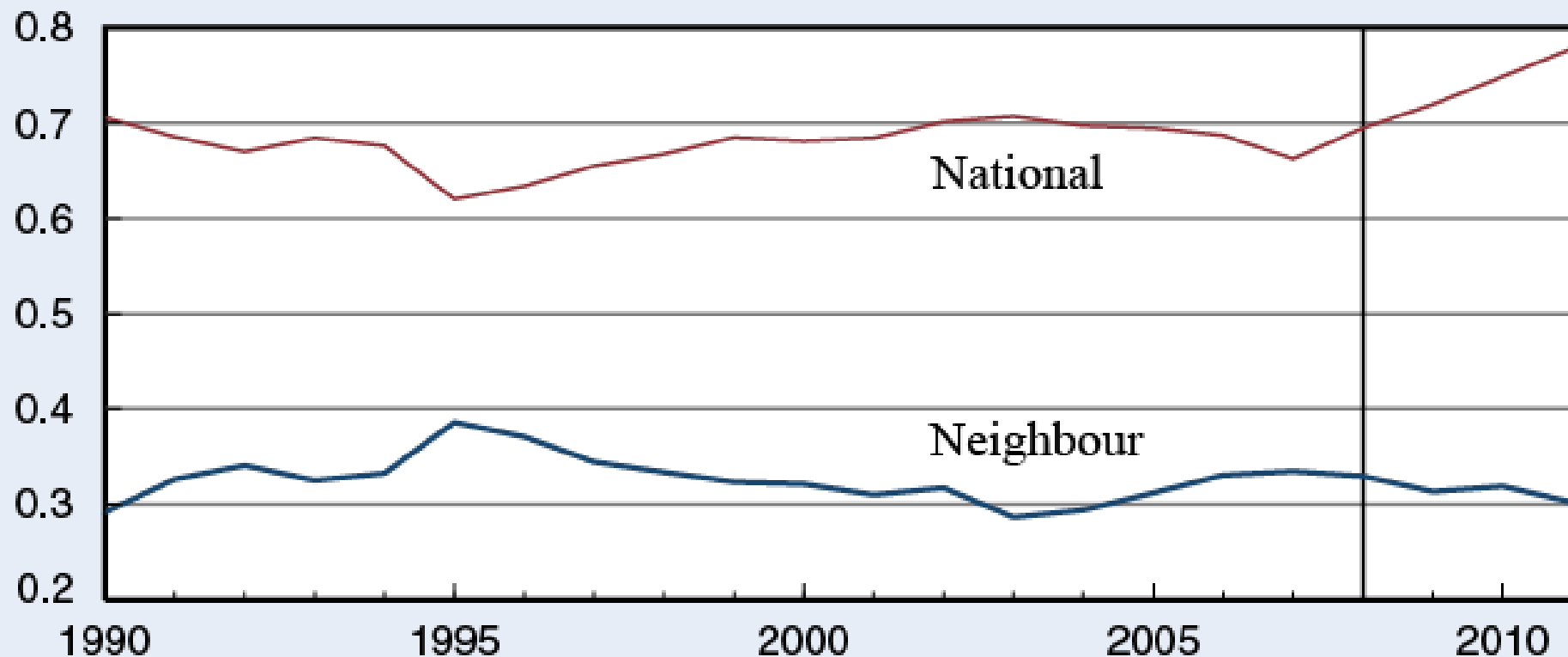
— in 2005 PPS — in 2005 euro

^{a)} EU15 excludes Eastern German regions.

^{b)} Crisis countries are Greece, Ireland, Italy, Spain and Portugal.

Source: European Regional Database 2013 (Cambridge Econometrics) and EEAG calculations.

Elasticity of regional real GDP per employee with respect to neighbour and national real GDP per employee^{a)} in EU15 regions^{b)}

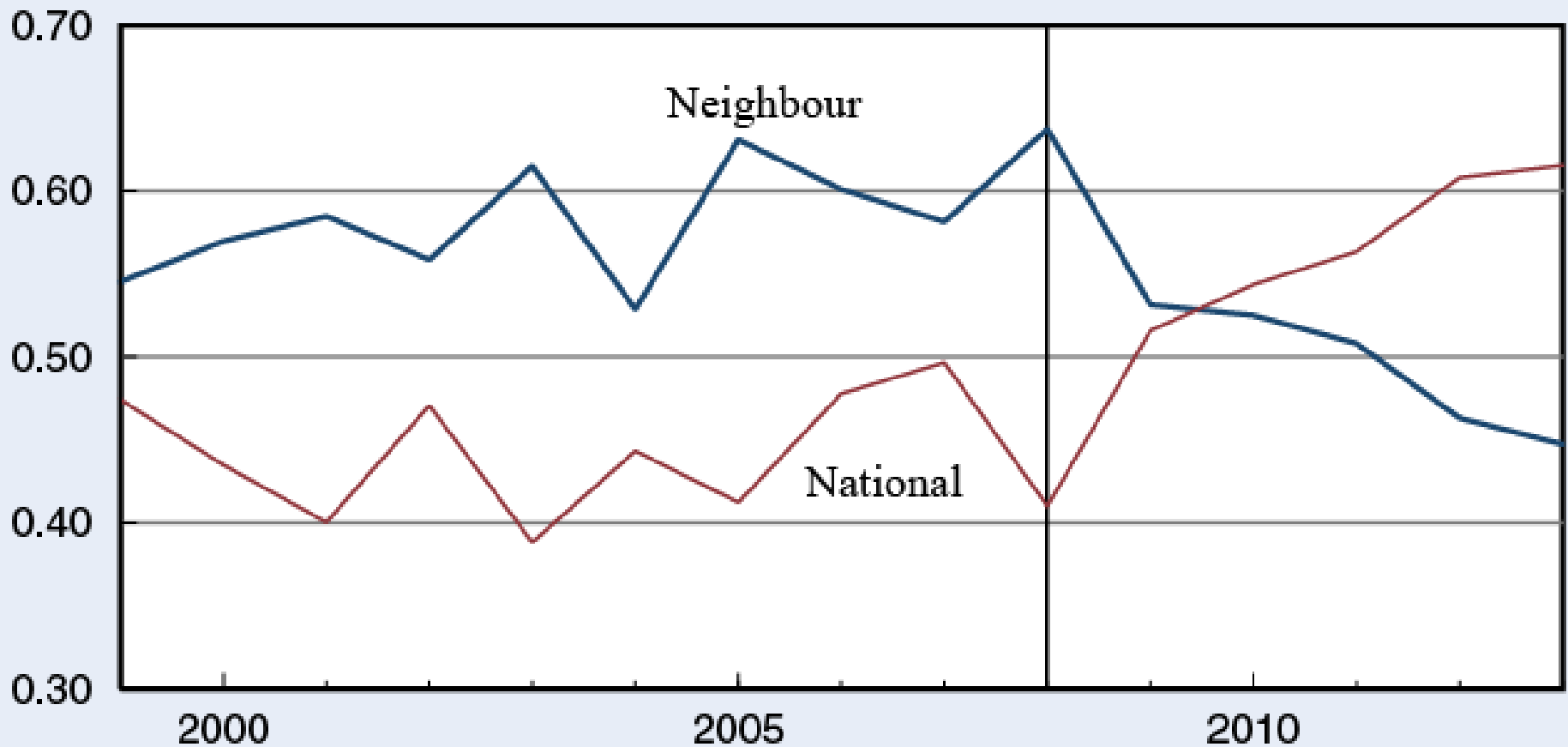


^{a)} Regional real GDP per employee in 2005 PPS is normalised with EU15 average.

^{b)} EU15 excludes Eastern German regions.

Source: European Regional Database 2013 (Cambridge Econometrics) and EEAG calculations.

Elasticity of regional unemployment rates with respect to neighbour and national unemployment rates^{a)}



^{a)} Unemployment rates are normalised with EU15 average.

Source: Eurostat, last accessed 30 December 2014, and EEAG calculations.

Summary of the Findings

- Declining regional disparities
 - Region-specific factors became relatively more important
 - Country-specific factors' contribution was more significant
- Rising disparities since the crisis
 - Country-specific factors account for most of the rise
- Before the crisis: uncoordinated policies
 - Expectations of convergence in the periphery
 - Capital flowed from the core to the periphery
 - Core: reforms – Periphery: no reforms
- Since the crisis
 - Reversal of initial convergence
 - Country-specific crisis responses
 - Country-level factors have gained importance

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