The EU Economy After the Great Recession

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Suggested hashtag for Twitter users: #LSEEUEcon
The EU economy after the great recession

Pier Carlo Padoan, Italian Minister of Economy and Finance
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Eurozone adjustment: several dimension

- Fiscal consolidation
- Internal devaluation in the periphery
- Banking system repair
- A comprehensive common European growth strategy is still lacking
GDP is recovering in core countries, but slower than in US. The periphery is still lagging.
Domestic demand is recovering in core countries
Market confidence almost restored: interest rates are converging

**KEY FACTS**

- Germany
- Periphery (excluding Greece)
- Greece

![Graph showing interest rate convergence](image_url)
Credit fragmentation: little improvement
KEY FACTS

Interest rates on loans: the gap is still wide

![Interest rates on loans chart]

- Germany
- Spain
- Italy
- Euro area
- France

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<th>Feb-09</th>
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<th>Feb-12</th>
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Public finances are now less vulnerable

KEY FACTS

Primary balance, % of GDP

Eurozone
Core
Periphery
THE WEAK POINTS OF EUROPE

Europe has lost market shares since 2004, well before the crisis

[Graph showing the world trade share from 2000 to 2012, with a decline starting in 2004 and continuing to 2012.]
The US economy has succeeded in defending its market share

**THE WEAK POINTS OF EUROPE**

2003

- USA: 10.7%
- China: 6.5%
- Eurozone: 34.9%
- Rest of the world: 58.6%

2012

- USA: 10.2%
- China: 13.5%
- Eurozone: 28.7%
- Rest of the world: 57.8%
Asymmetric correction of current account imbalances in the Eurozone

Source: OECD.
How much market reforms could foster economic growth

- The European Commission estimated that enforcing the Service Directive would boost GDP by 0.8% over a 5-10 year period (2.6% in case of full implementation)

- In Italy structural reforms already introduced would lead to 2.5% additional GDP in 2020 (of which 1.2% for liberalization and simplification)
Product market regulation improving in Europe

Source: OECD, Product Market Regulation Database.
Output gap in the Eurozone still close to -3%
Low confidence and weak competition breed low investment and low investment breeds low growth

Source: Eurostat.
THE WEAK POINTS OF EUROPE

Low investment implies weak innovation

![Graph showing R&D as percentage of GDP for Eurozone, United States, and China from 2003 to 2012.]

Source: Eurostat.
The Weak Points of Europe

Weak growth of TFP in Europe

Source: Eurostat.
Increasing unemployment in Europe, mainly in peripheral countries

Source: Eurostat.
Employment lagging in Europe, declining in peripheral countries

Source: Eurostat.
Low growth and resource misallocation increase inequality. Inequality slows down consumption and growth.

European Institute 'Perspectives on Europe' lecture series

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