

Competitiveness and external balances

EU surveillance and the role of National Productivity Boards

Alessandro Turrini
European Commission, DG ECFIN
National Productivity Boards workshop
14 November 2019

The views are those of the author and do not necessarily reflect those of the European Commission

EU surveillance on external balances and competitiveness

- Art. 121 TFEU
 - 121.1 "Member States shall regard their economic policies as a matter of common concern", ... "sustainable BoP", BEPGs
- Rationale for surveillance / coordination
 - Externalities
 - Market-based dynamics in relative prices not always working in the direction of addressing external imbalances, or insufficient
- Pre-EMU: ERM: regular discussions on XR, interventions, realignments
- EMU – crisis: "benign neglect"
- Post-crisis
 - Governance, institutions: EFSF, ESM; banking union, ...;
 - Surveillance: Macroeconomic Imbalances Procedure (Art. 121 + 136; broad focus)

Role for independent boards

- Policy recommendations to steer competitiveness: non-trivial assessments
 - One-off shifts vs, enhancing market-based responsiveness;
 - Choice of instruments (taxation, labour +product market regulation, infrastructure, R&D,...);
 - Role of country-specific institutions, social partners' prerogatives
- Early contributions to the debate (Benassy and Ragot, 2015; Sapir and Wolff, 2015)
 - Complement EU surveillance instruments
 - Ownership of structural reforms
 - Wage setting is national, but needs to integrate euro-area dimension
- 5 Presidents report (2015)
 - Competitiveness authorities
 - Aim: monitor, advice (including on wage setting), enhance ownership of reforms
 - Independent
 - Coordinated by the Commission on an annual basis

Role for independent boards

Recommendation

	Commission blueprint	Council recommendation
Competitiveness vs. productivity	Competitiveness boards	Productivity boards "Potential growth in the euro area and in the Union as a whole has slowed down considerably since 2000", Recital 1
Tasks of NCBs	"Monitoring competitiveness developments..."; "informing the wage setting process"	"Diagnosis and analysis of productivity and competitiveness developments... take into account euro area and Union aspects"
	Providing "policy advice"	"independent analysis policy challenges... assessment of the effects of policy options, making trade-offs of policy explicit"
Interactions at EA level	"Commission...facilitate coordination..."	"Commission...facilitate exchange of views..."

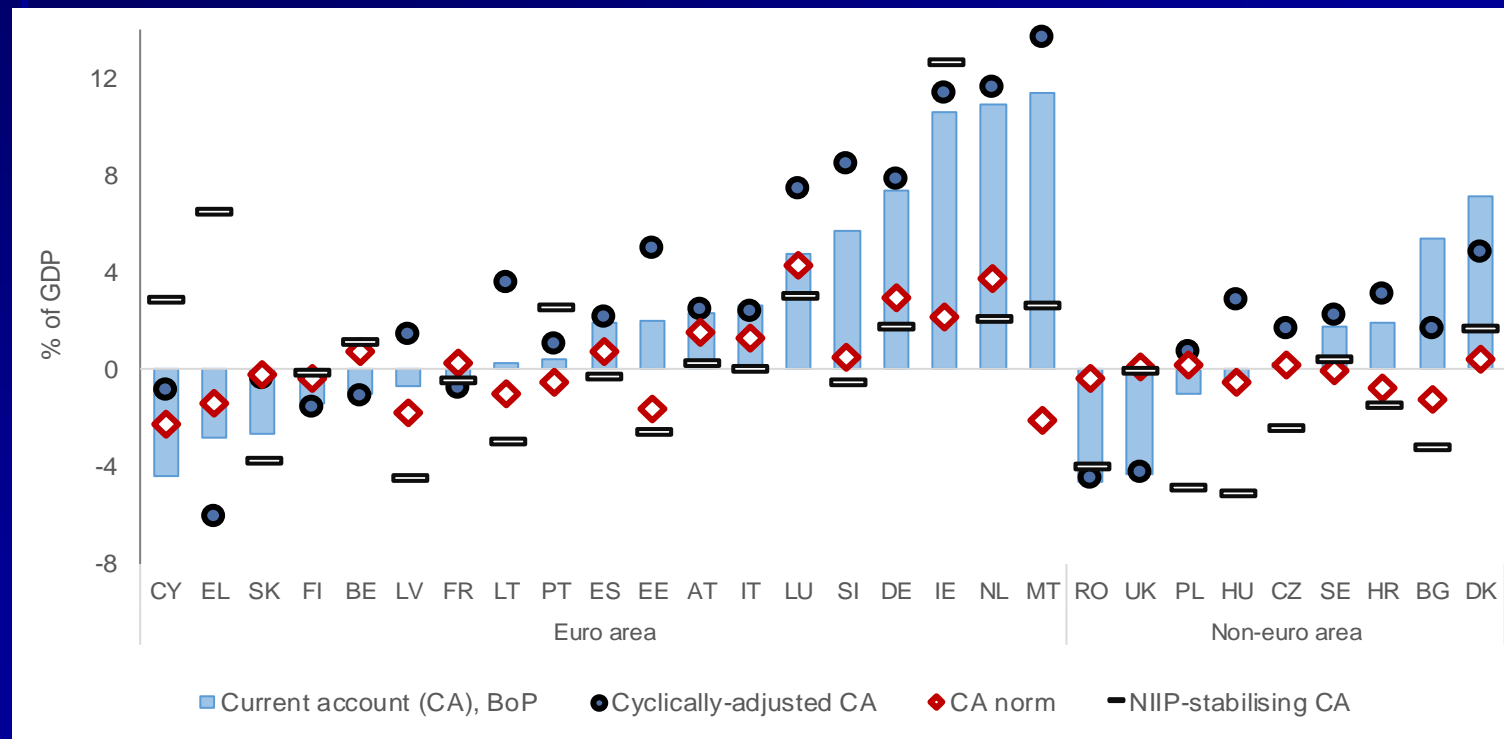
Carrying out competitiveness surveillance

- Asymmetric risks but symmetric surveillance
- Balances vs. relative costs/prices
 - Prevention: assessment of sustainability of (growing) CA imbalances (destination of foreign funds ...)
 - Correction: assessing sustainability of correction (REERs, output composition, export capacity,...)
- Stocks vs. flows
 - Current accounts + NIIP
 - CA norms vs. NIIP-stabilising CA
- REER
 - Levels vs. index, deflators, relative price T, NT; output composition, relative productivity prospects,...
- “Non-price competitiveness”
 - Need to get granular

Post-crisis adjustment

State of play, questions, prospects

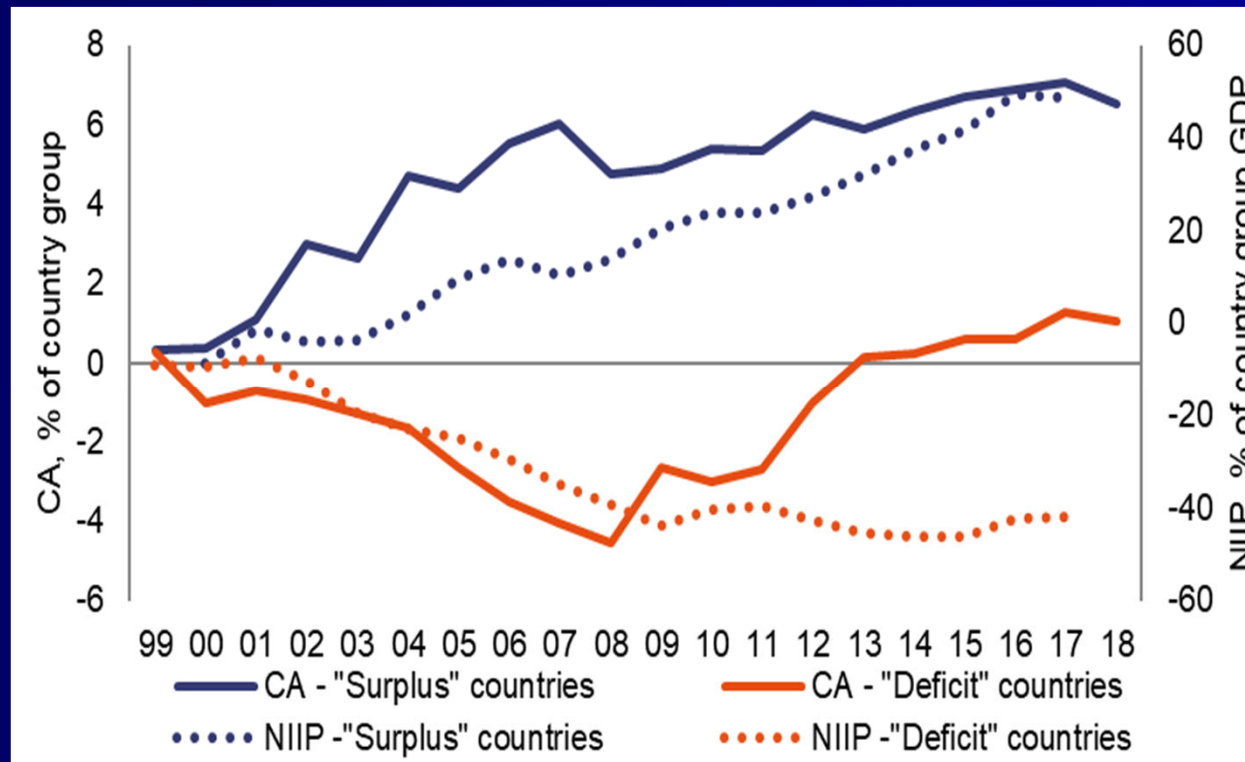
Current account balances and benchmarks, 2018



Post-crisis adjustment

State of play, questions, prospects

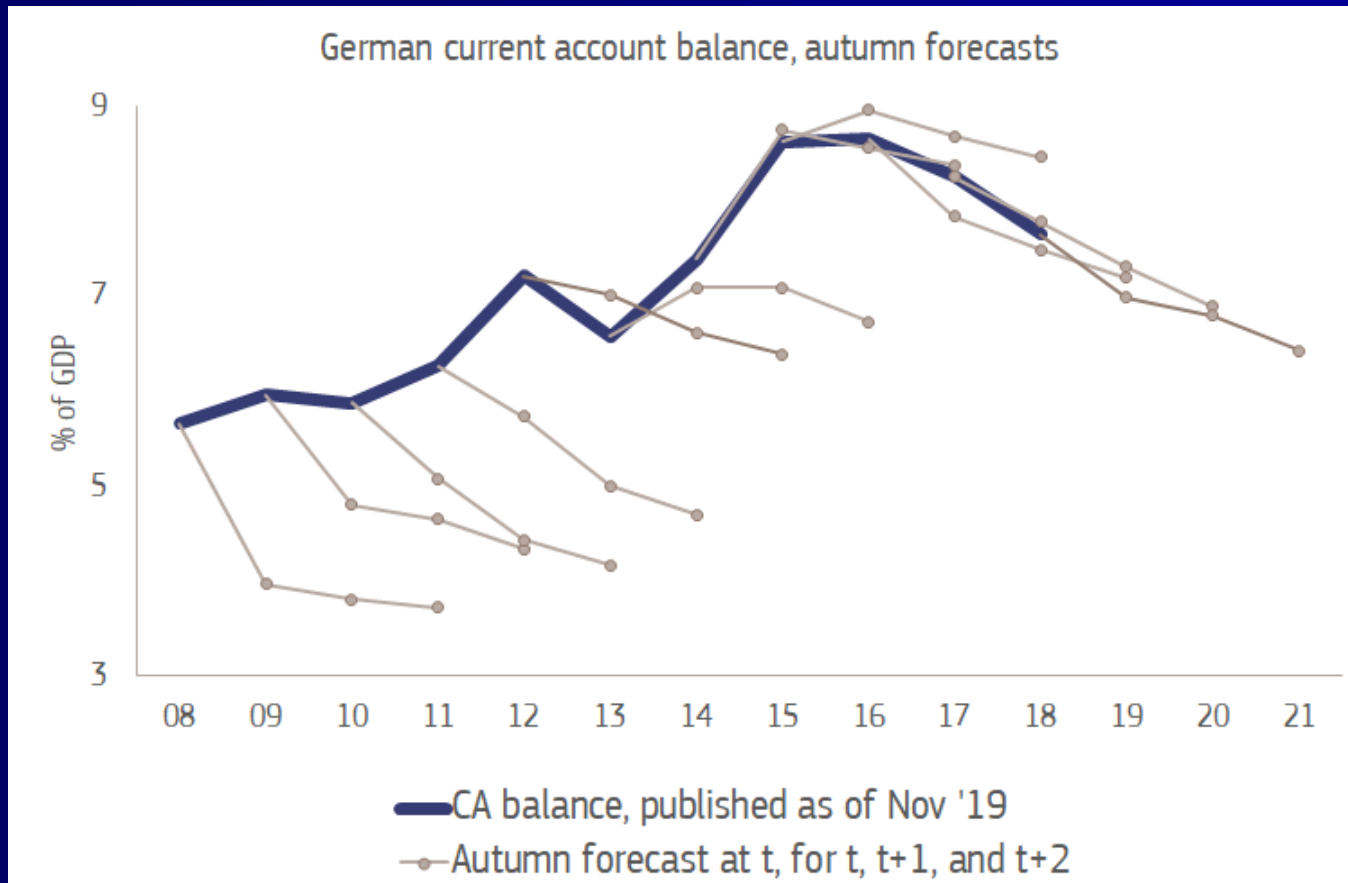
Current account balances and NIIPs, deficit vs. surplus countries



GDP-weighted averages. Surplus countries: BE, DE, FI, LU, NL.

Asymmetric rebalancing

Unforeseen, pending questions

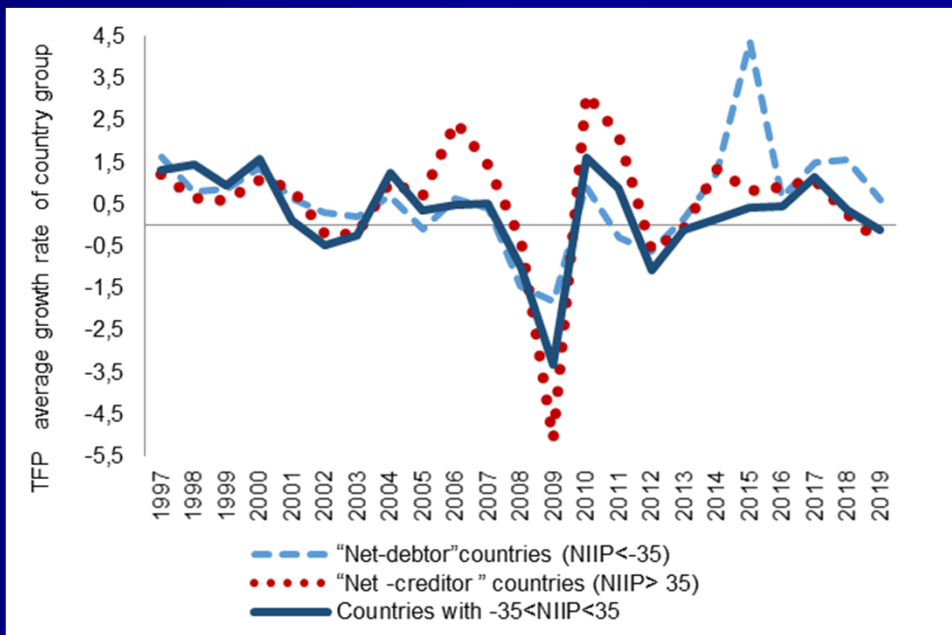
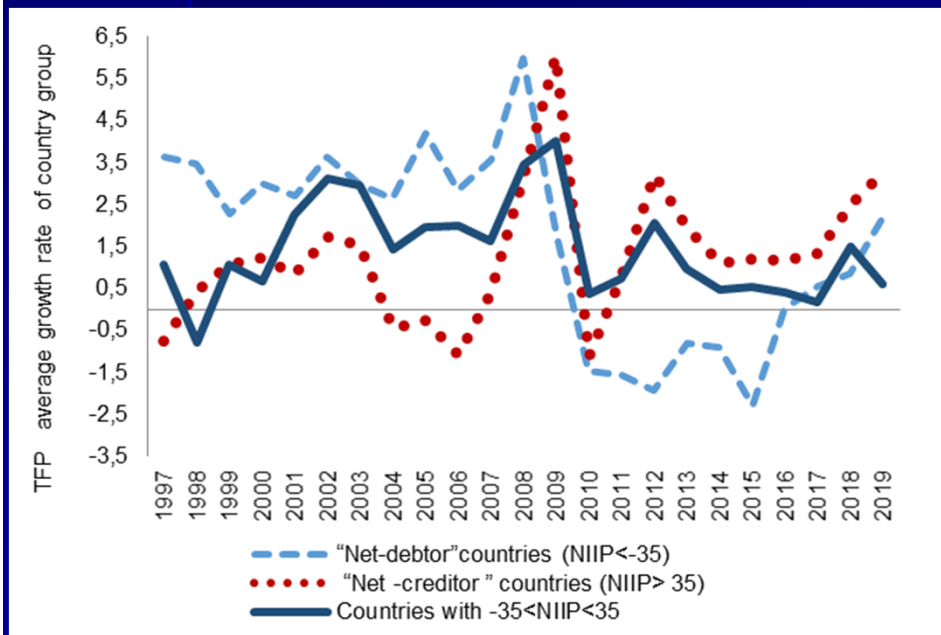


Cost competitiveness and rebalancing

What role going forward?

ULC dynamics in net creditor and net debtor countries

Productivity dynamics in net creditor and net debtor countries (TFP)

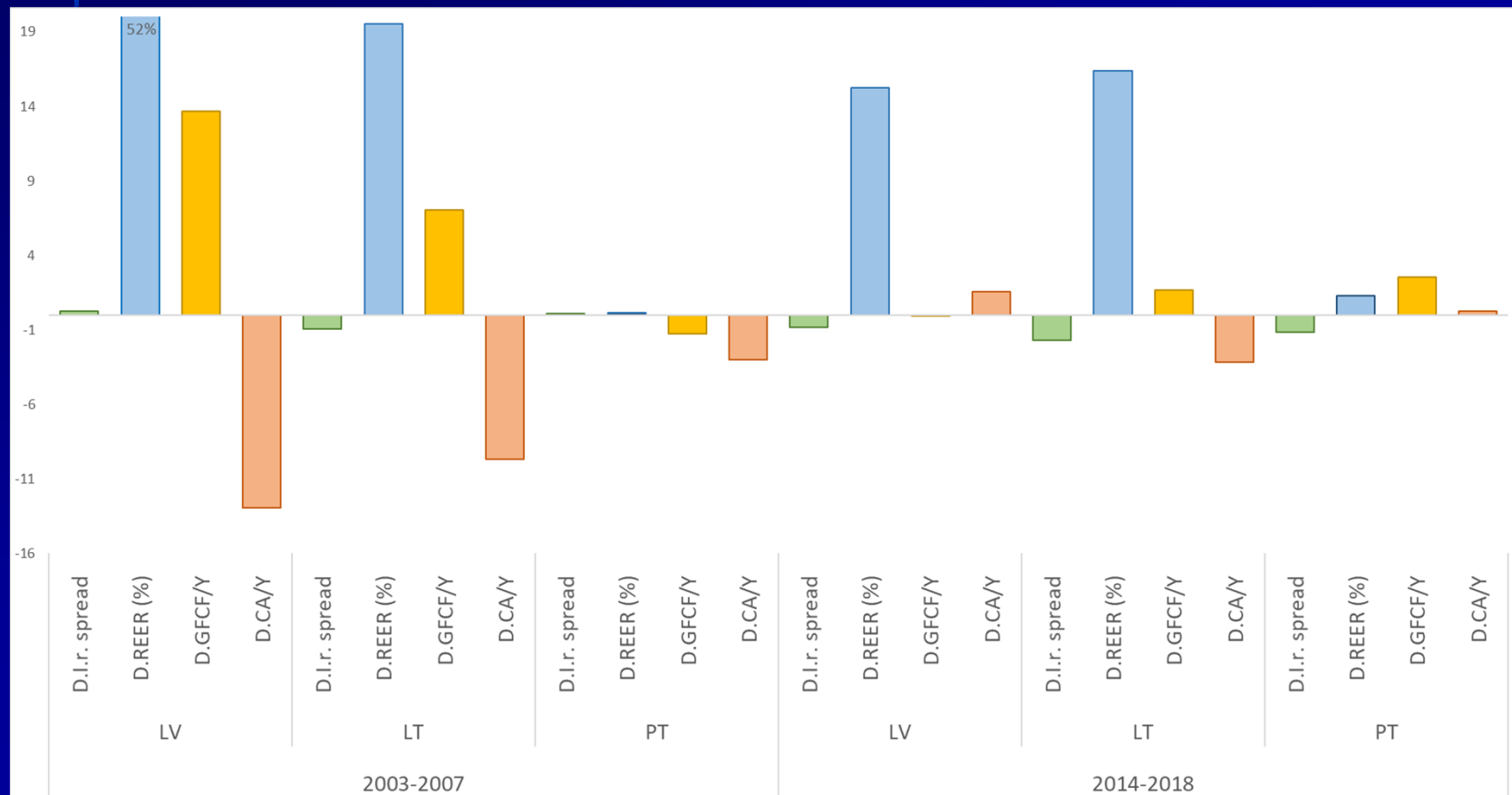


GDP-weighted averages. "Net-creditor" countries are DE, LU, NL, BE, MT. Countries with NIIP between 35% and -35% of GDP are FI, EE, IT, LT, FR, SI, AT.

Prospects

What co-movement between price competitiveness and current account balances?

Developments in selected variables, selected countries; pre-crisis vs. recovery



Prospects

What co-movement between price competitiveness and current account balances?

Macroeconomic effects of key shocks – results from the European Commission Global Multi-Country model

