

Threats to European Recovery

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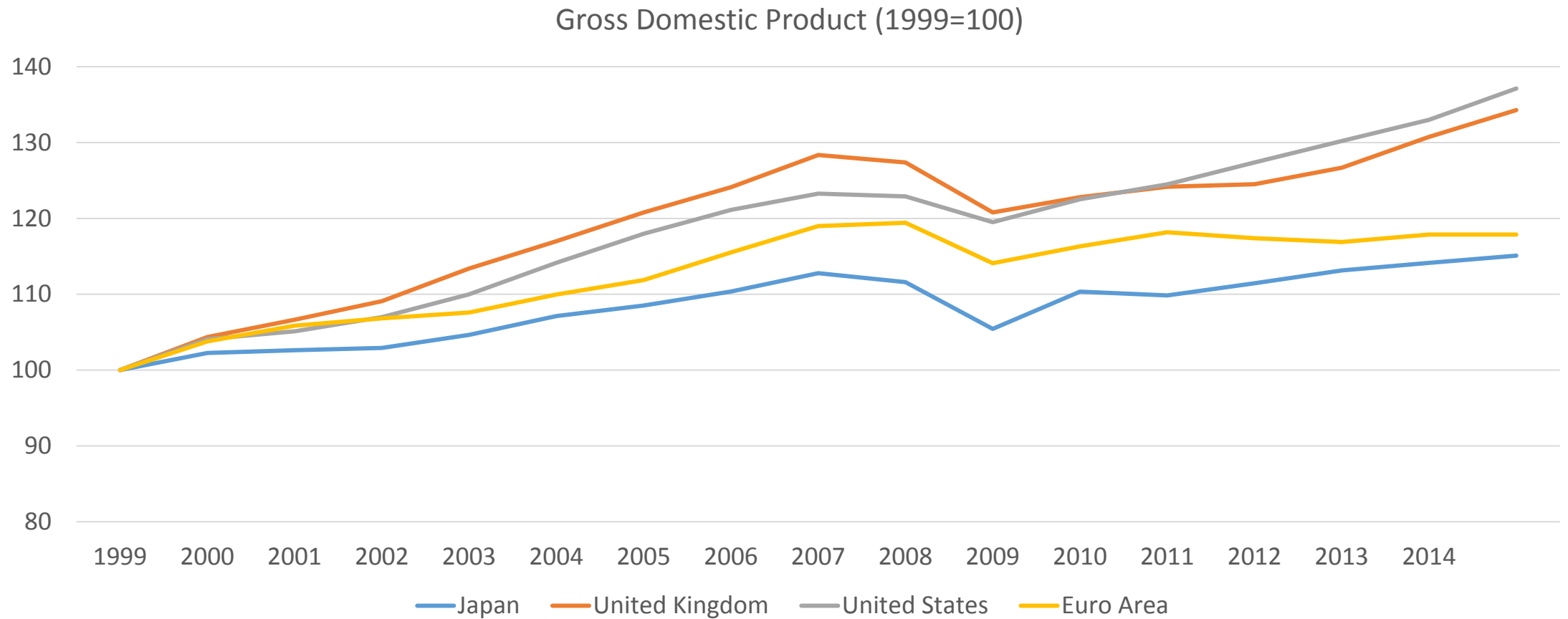
The German therapy for growth

- Consolidation
- “Structural reforms”

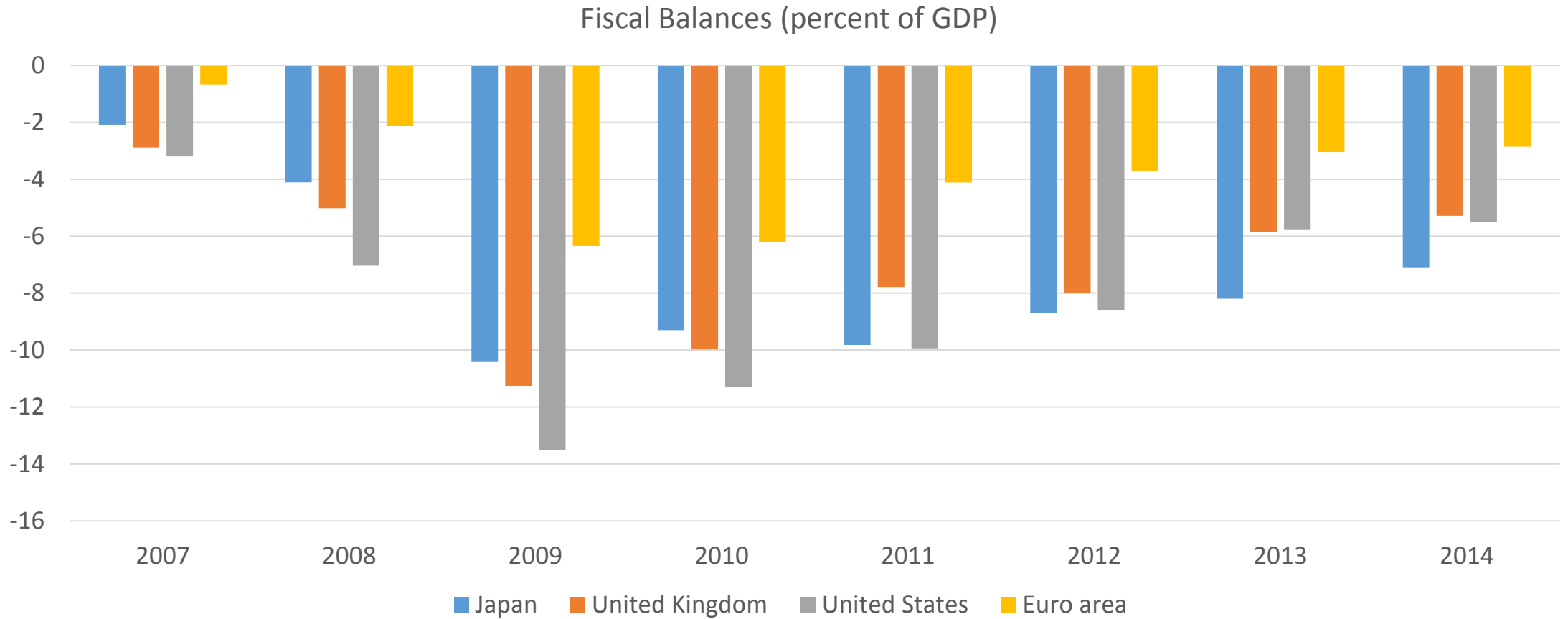
The German contribution to growth

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What has happened to the Euro Area?

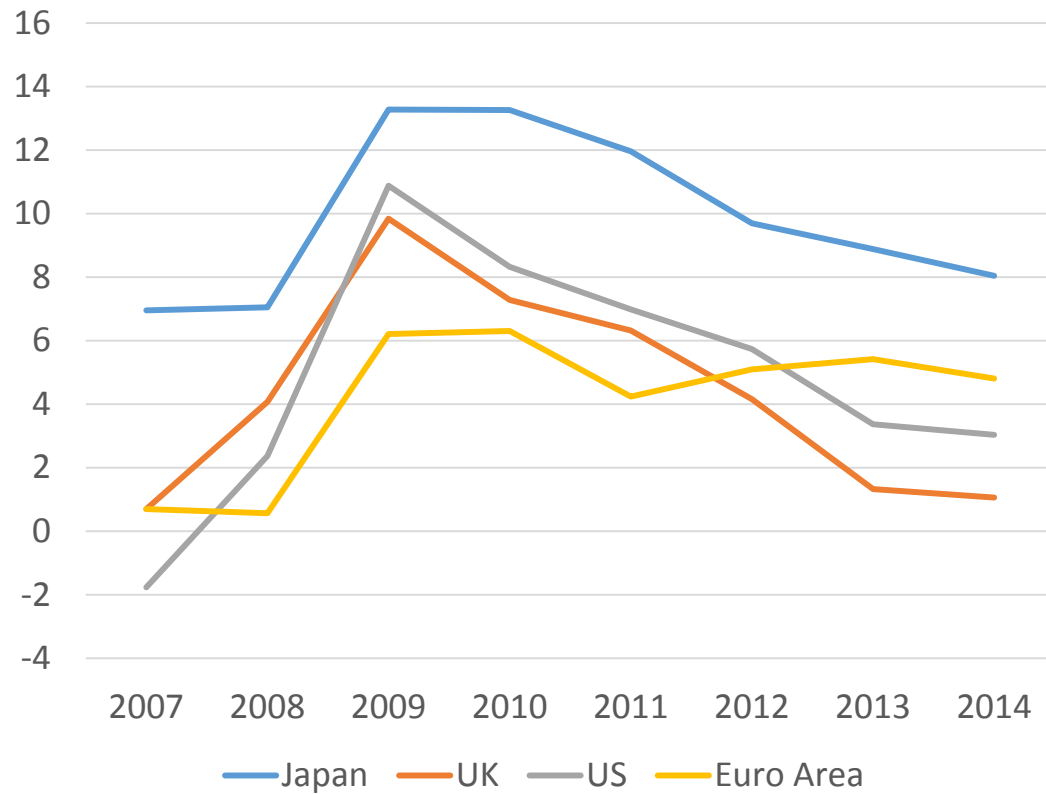


Insufficient fiscal stimulus

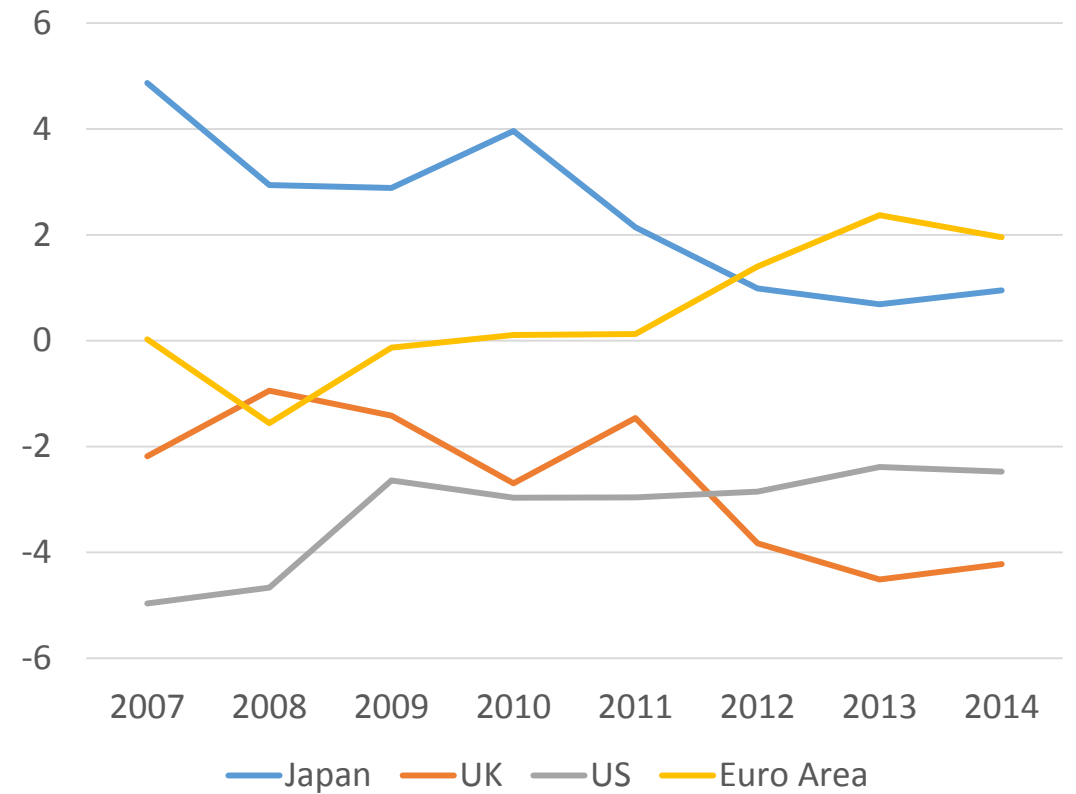


Deleveraging with and without fiscal support

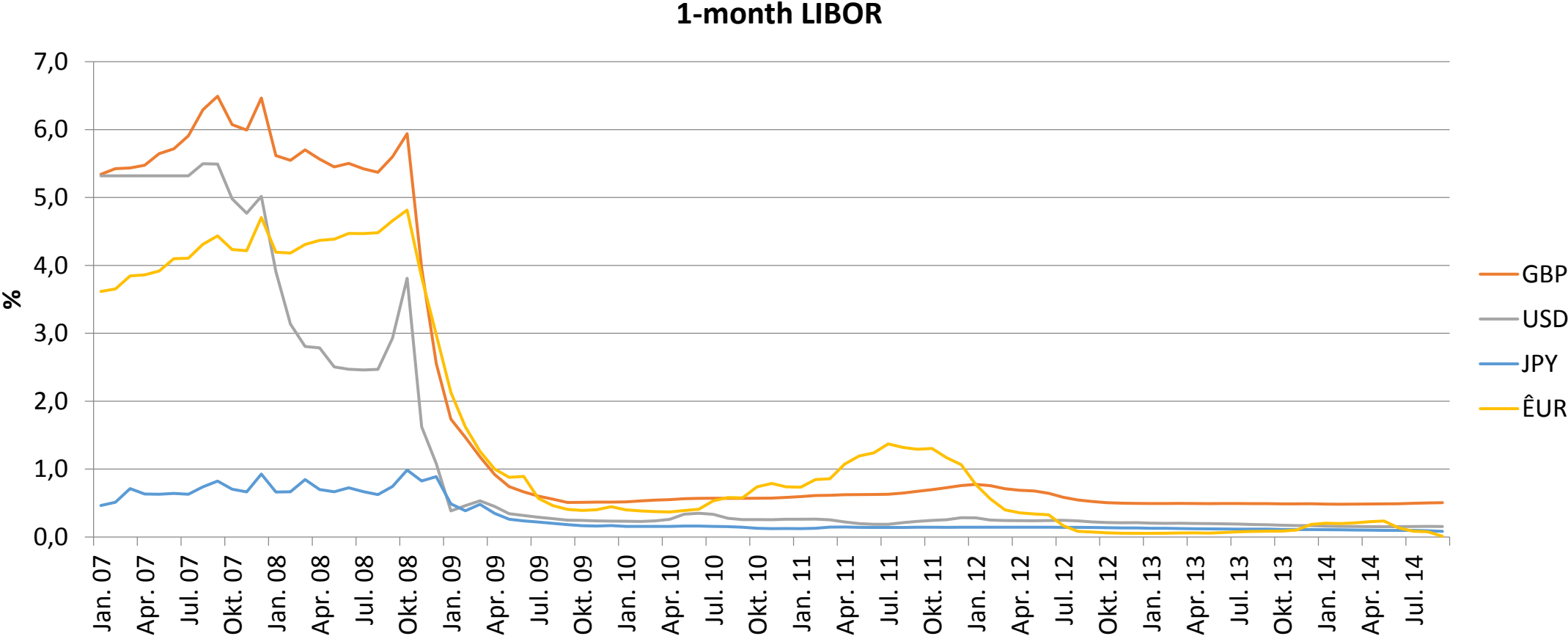
Private financial balances (% of GDP)



Current account balance (% GDP)

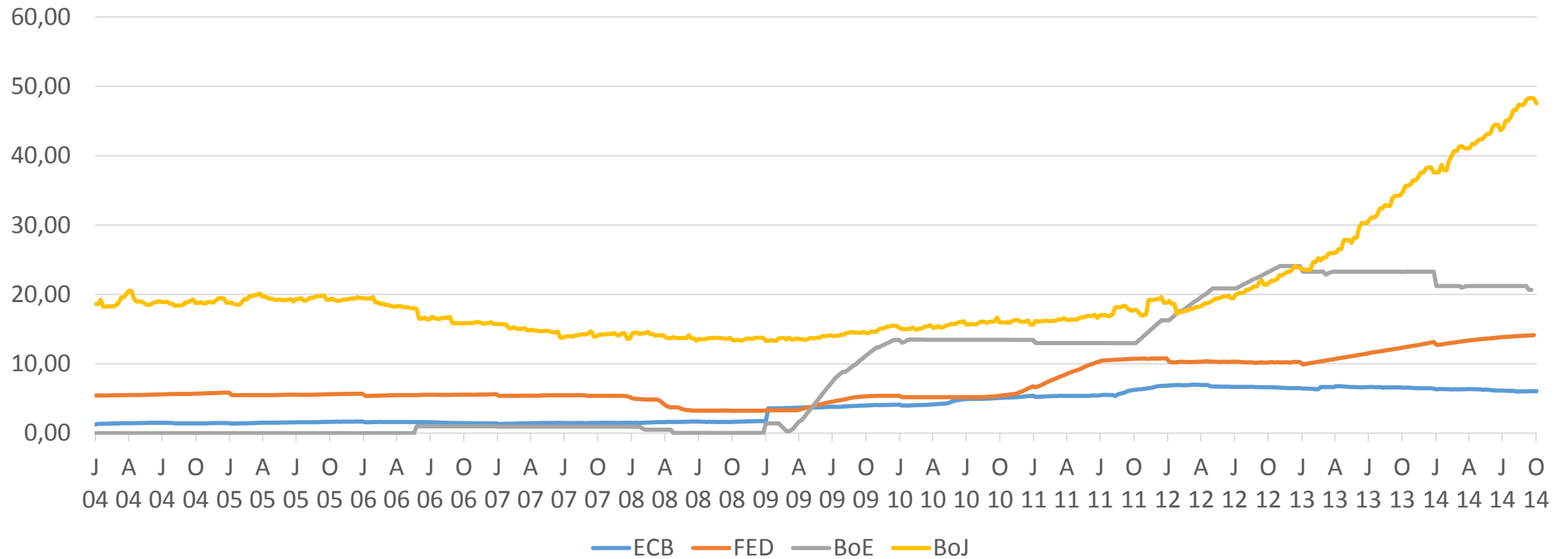


Delayed monetary policy response

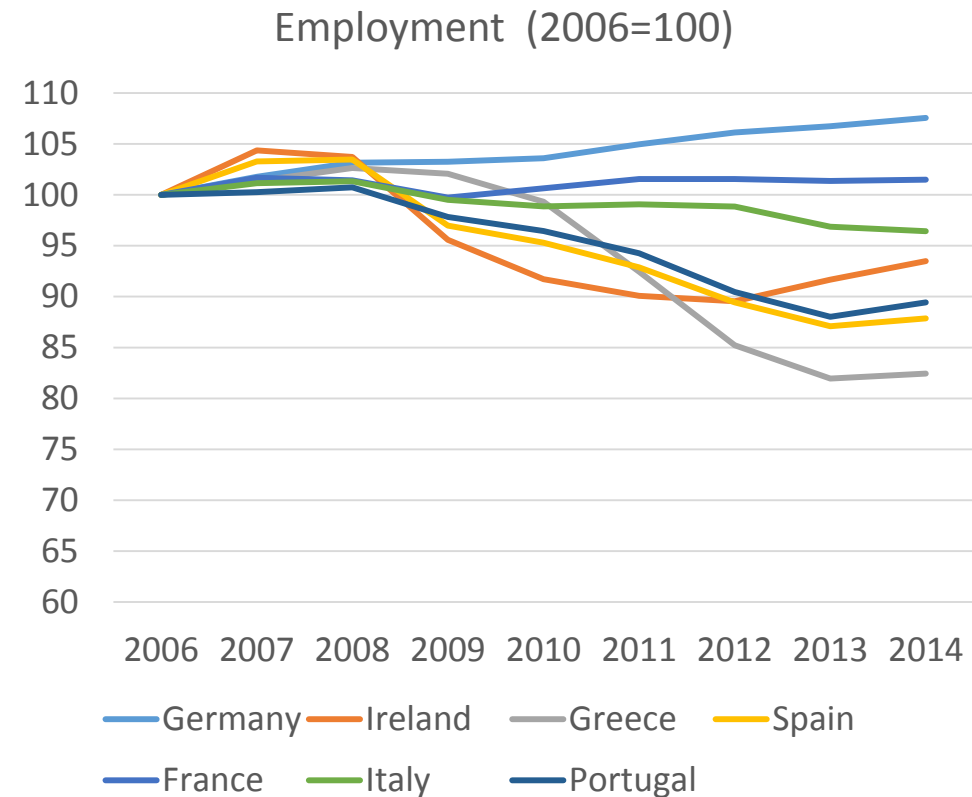
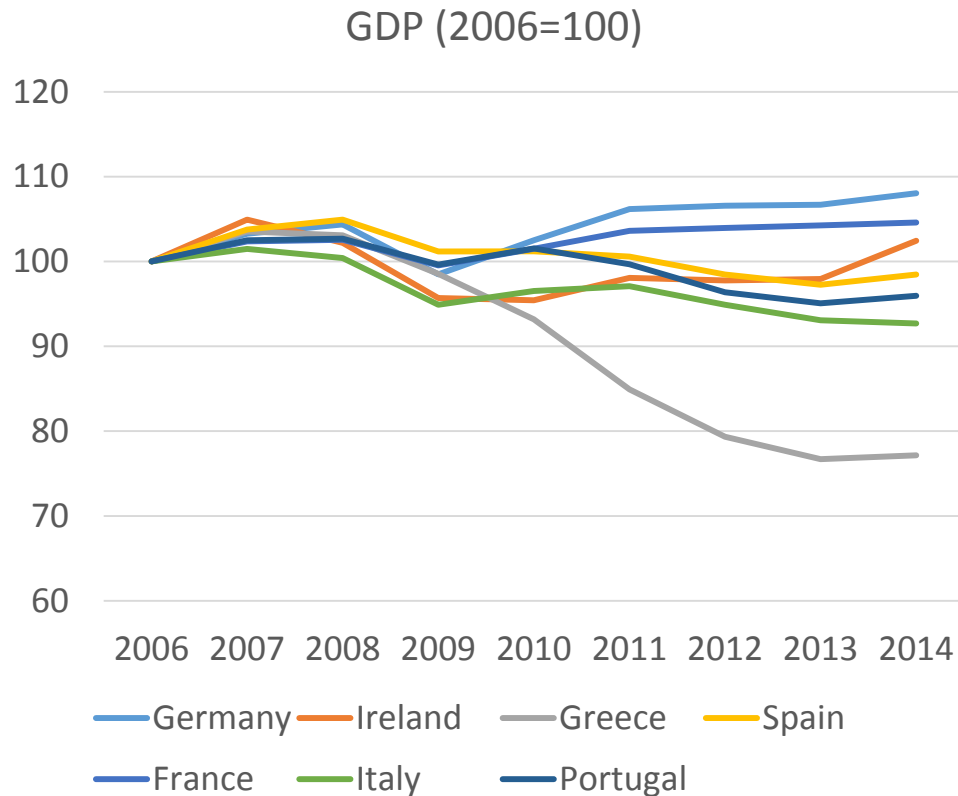


Insufficient QE

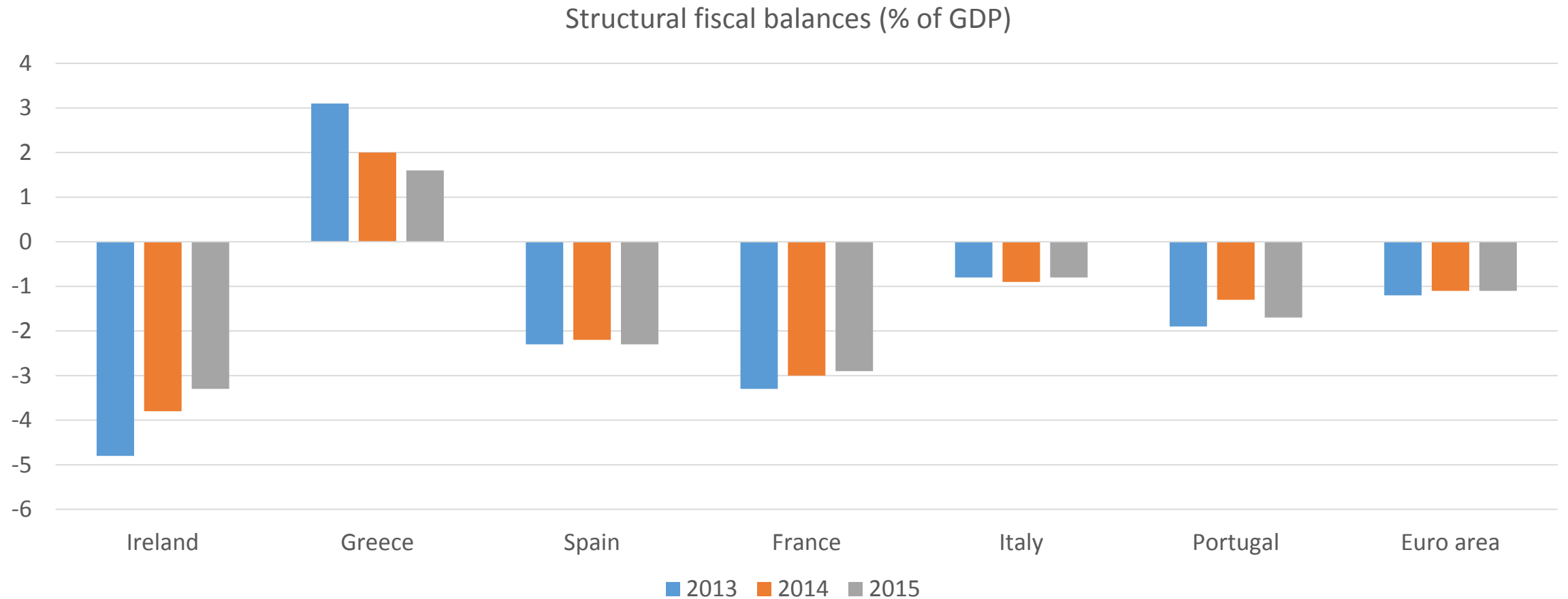
Central Bank Bond Holdings (percent of GDP)



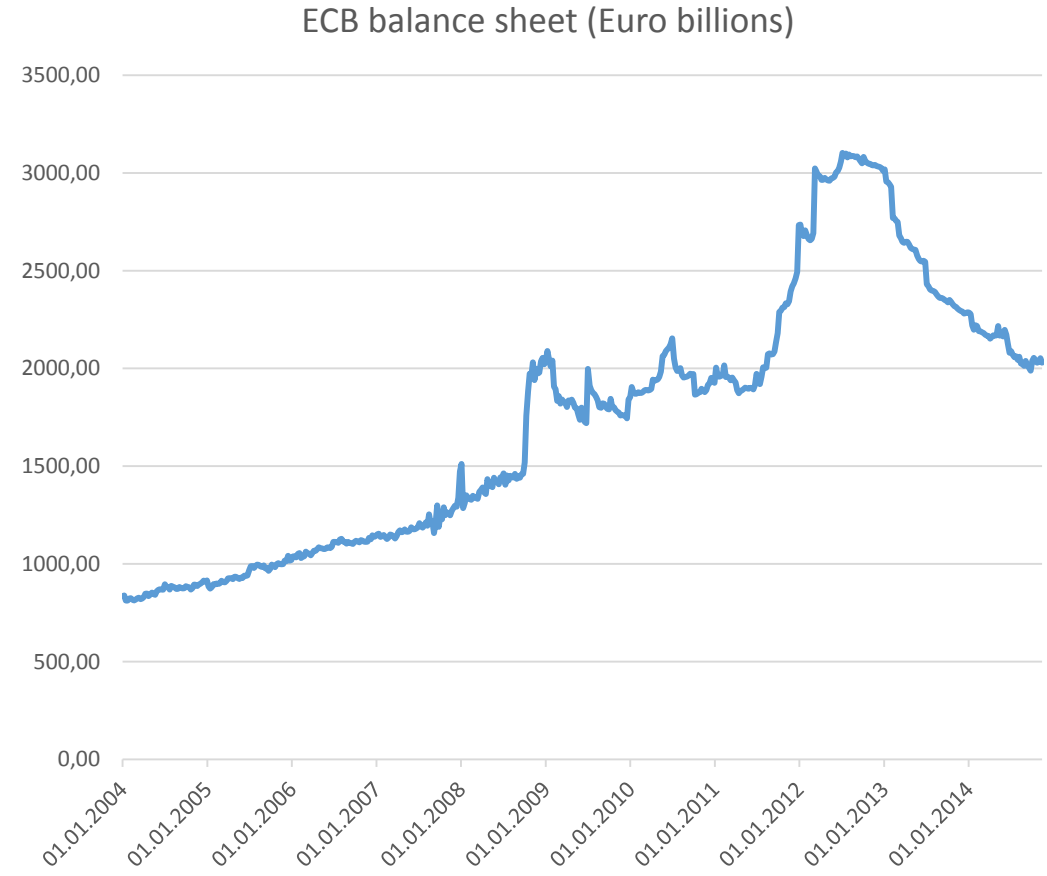
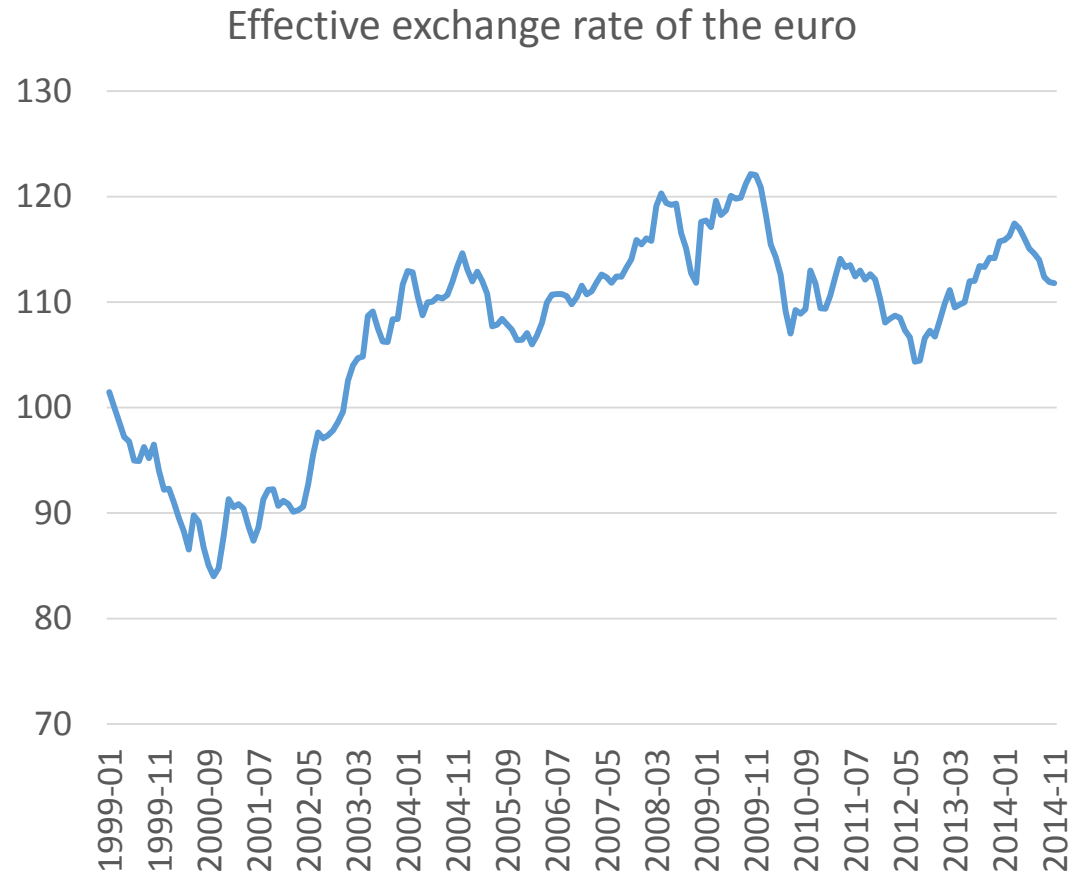
Situation has stabilized in 2014



Signs of hope: speed-limits for consolidation

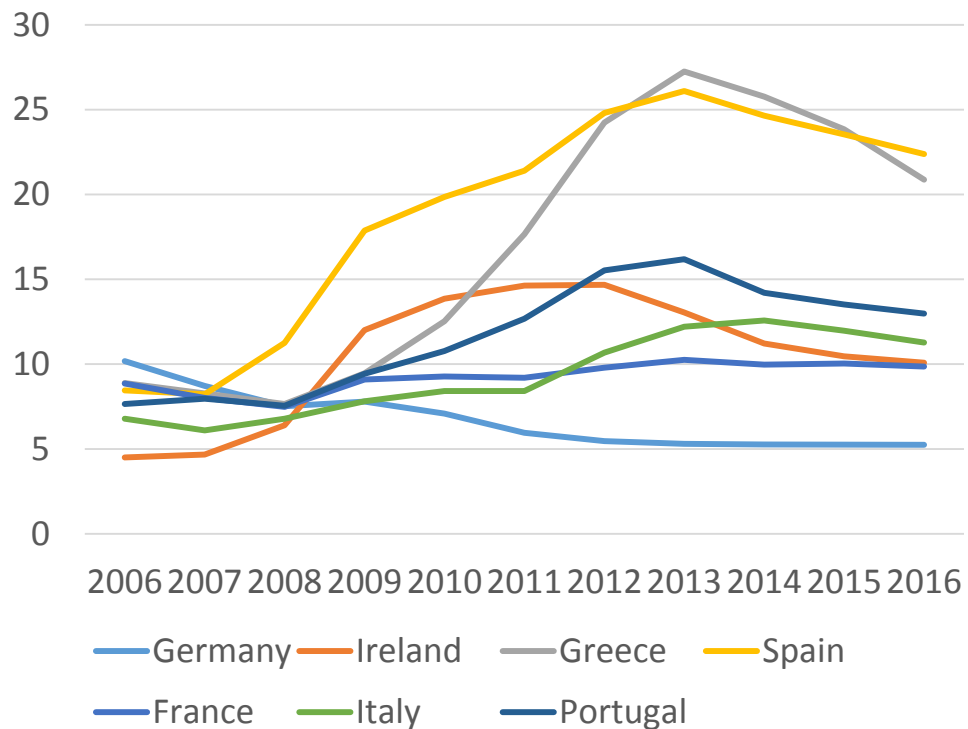


Signs of hope: Depreciation of the Euro

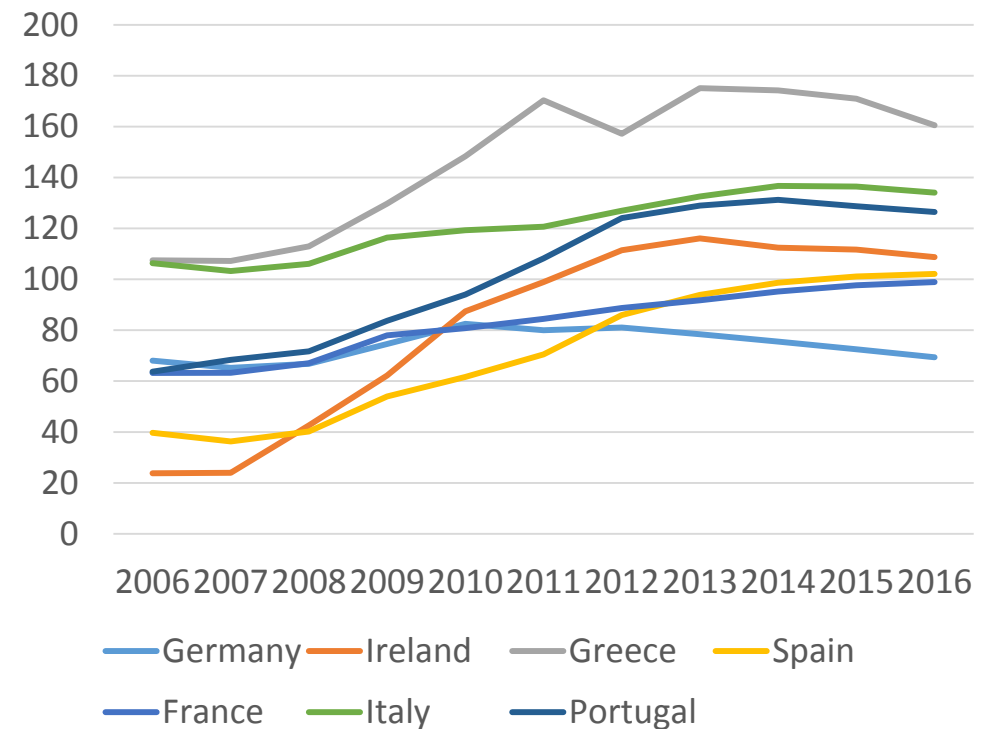


Unemployment and public debt remain very high

Unemployment rate



Gross public to GDP

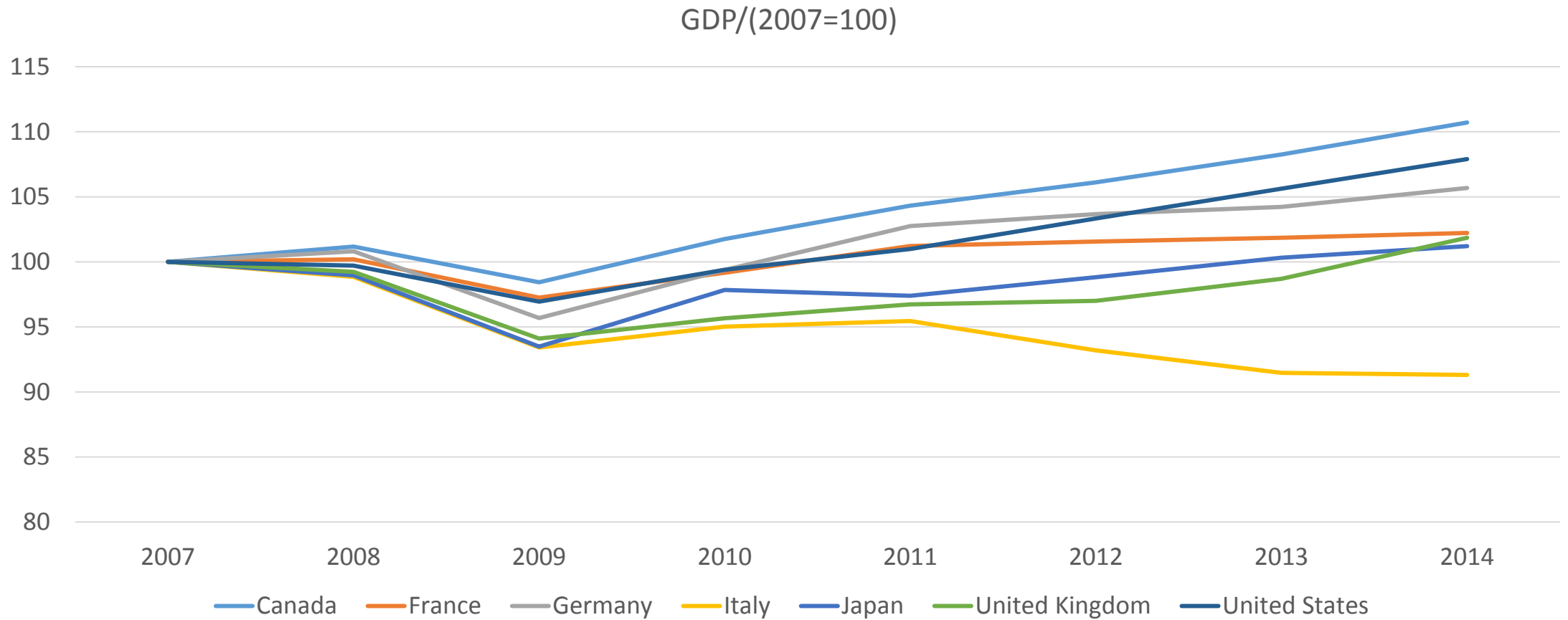


How important are structural reforms?

	Employment protection Regular employment	Employment Protection Temporary Employment	Replacement Rate Unemployment	Coverage Collective agreements	Tax Wedge	GCI Labour Market Efficiency	EFoW Labour Market Regulation
US	2	2	23	2	10	1	1
UK	4	3	12	6	11	5	5
Spain	16	30	31	21	22	24	21
Greece	20	28	28	15	25	26	25
Germany	34	13	21	14	35	19	27
Italy	30	27	11	18	30	27	14
France	31	32	36	22	31	25	16

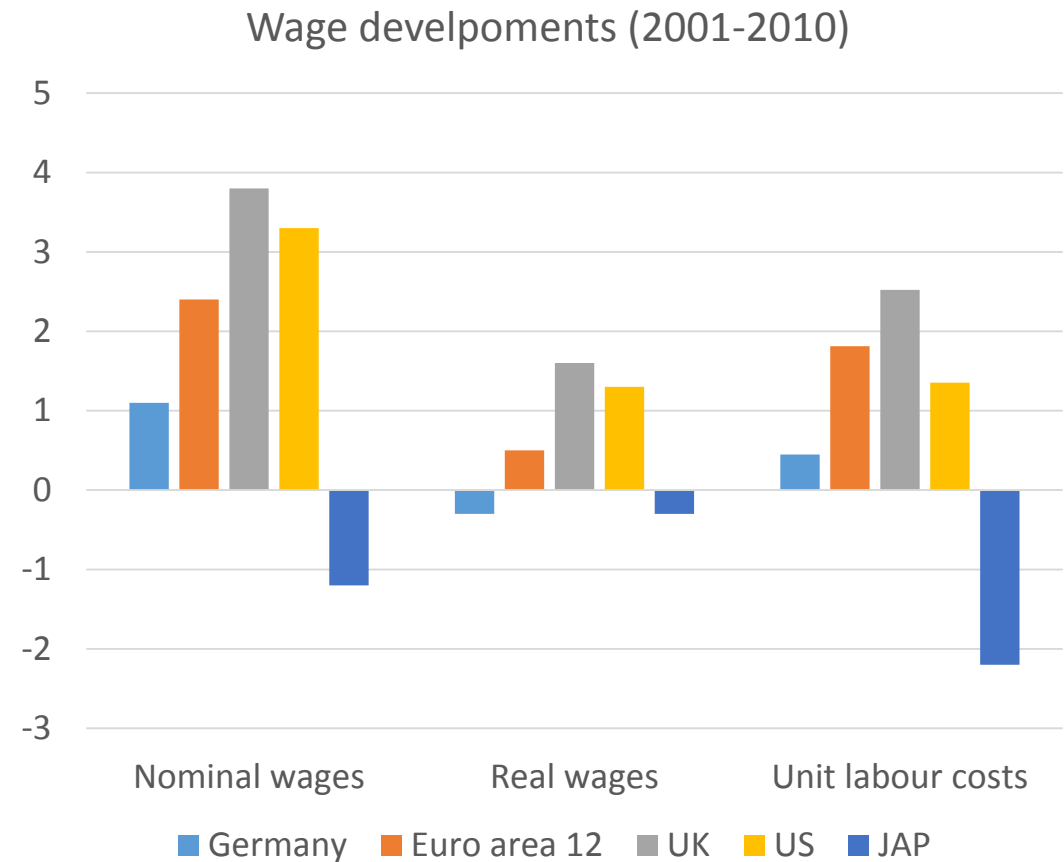
Sources: OECD, Global Competiveness Report, Economic Freedom of the World

How bad is France?

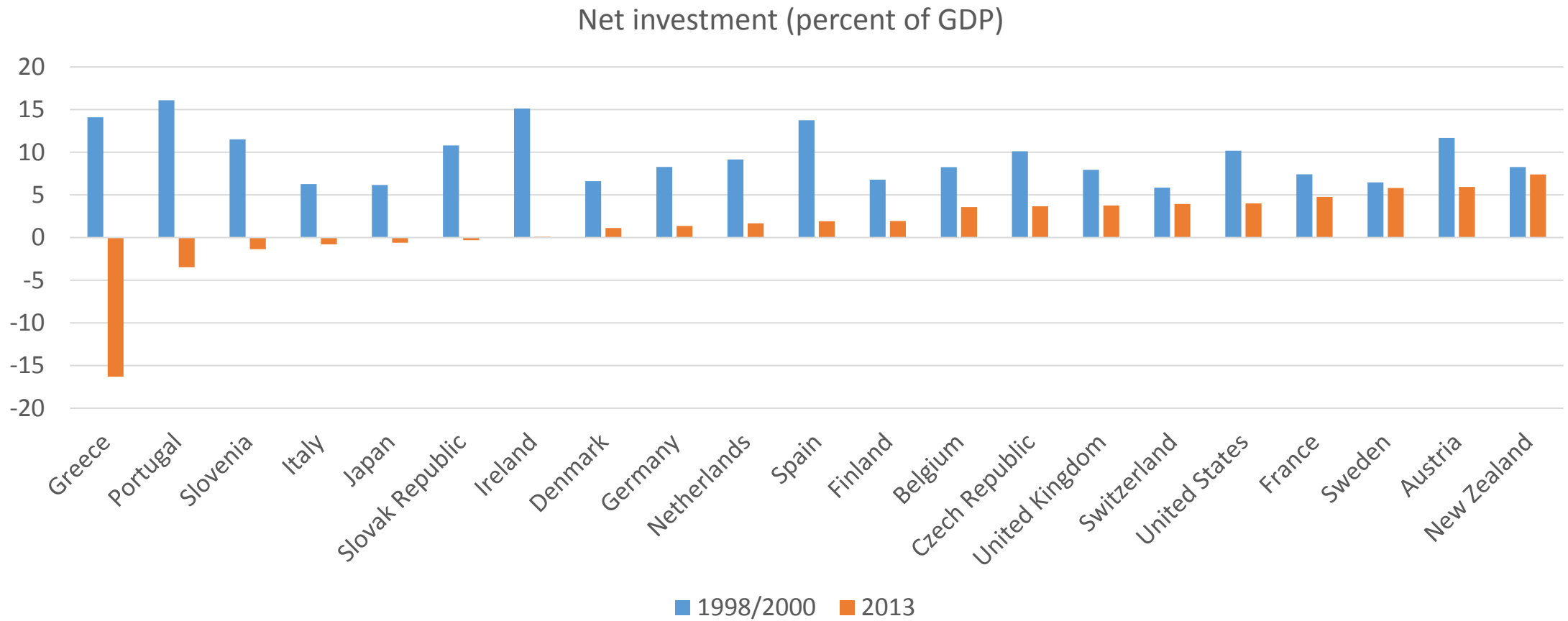


The German approach: a model for Europe?

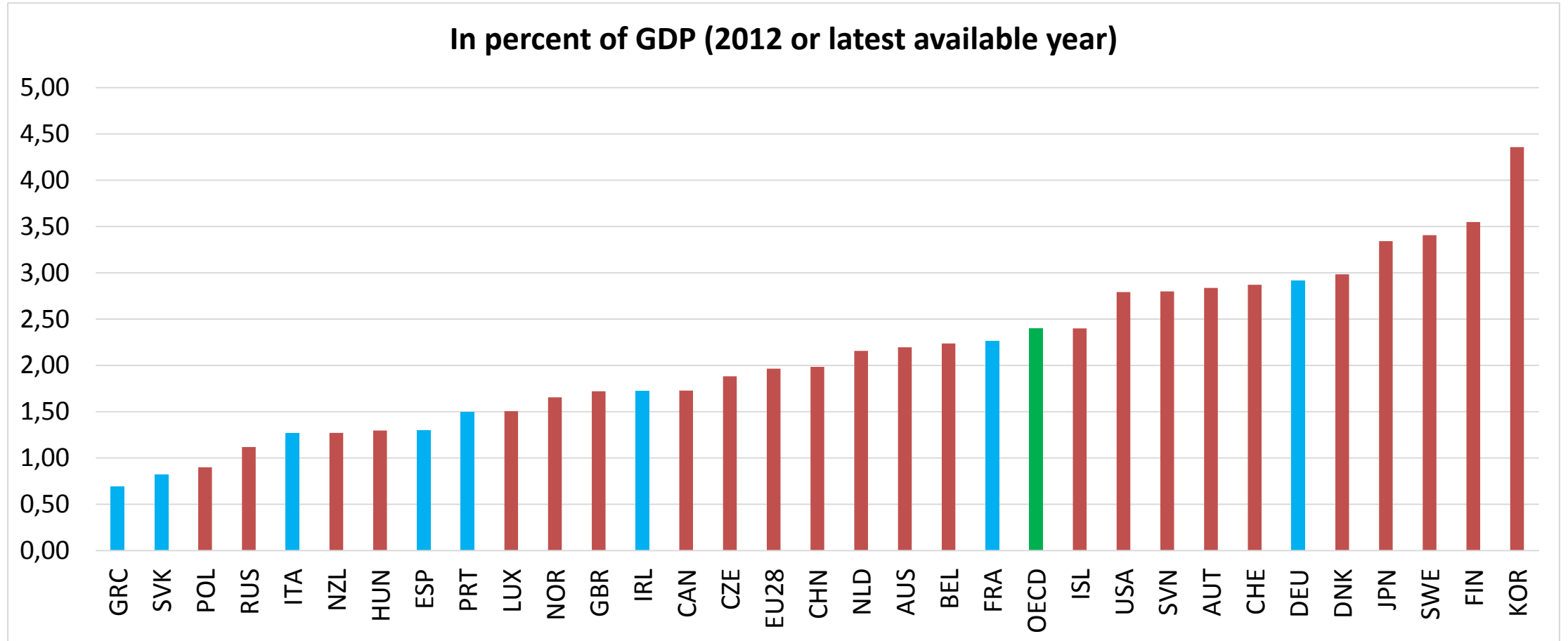
- “Hartz reforms did not play a decisive role“
- „Evolution of Germany’s per unit labour costs (...) has played an important role“
- Christian Dustmann, Bernd Fitzenberger, Uta Schönberg, and Alexandra Spitz-Oener (2014), From Sick Man of Europe to Economic Superstar: Germany’s Resurgent Economy. Journal of Economic Perspectives—Volume 28, Number 1—Winter 2014—Pages 167–188



Problem of insufficient investment



Problem of insufficient R&D spending



Two pillar approach: Investment for reforms

- Growth friendly fiscal compact: Golden rule for investments
- Golden-rule investments require an authorization by the European Commission
- Countries qualify for golden-rule investments by implementing structural reforms