

**CONFERENCE « FUTURE EUROPE »**

**Paris June 20, 2018**

**Banque de France**

**1. Heterogeneity within Europe has increased over the years.**

- ✓ During 2000 to 2010, economic divergence widened :
  - Wages
  - Fiscal deficits
  - Current account imbalances
  
- ✓ On a structural plane, a monetary union tends to sharpen specialization.  
The leader in terms of productivity growth and in terms of high quality brands tends to increase its competitive edge because of exchange rate fixity (and implicit devaluation).
  
- ✓ Therefore, economic models and patterns (some based more on services, others on high quality manufactured goods) tend to diverge as well as incomes.

**2. In such a heterogeneous framework, corrective actions are needed and, indeed, are being taken.**

- ✓ Income divergencies that flourished between 2000 and 2010 are now reducing.  
Southern members per capita incomes are reducing versus the ones of Northern economies, which is helping convergence.

Growth is picking up albeit lately (**See Graph 1**).

Fiscal positions in the South are improving significantly. (**See Graph 2**).

Deficits have shrunk :

2009 = from - 14 to - 4% GDP  
2016 = from - 3% to + 4%

- ✓ All peripheral countries are now running current account surpluses. (See Graph 3)

### 3. But further mitigating measures are called for.

- ✓ The current account situation shows unsustainable imbalances :

+ 8% GDP in Germany                      + 10% NL

This is the manifestation of a “fundamental disequilibrium” that calls for corrective measures, in particular in the North.

One cannot ask countries that have achieved balanced current account positions to be the only ones to adjust by reducing their incomes.

If we refuse a more symmetrical adjustment, populism will expand.

- ✓ A more mobile and efficient capital market is needed :

- In the US, shocks are smoothed at a level of 80% through :

½ capital markets

½ fiscal stabilizers

- In the UE shocks, only 20% are smoothed through capital markets

**(See Graph 3)**

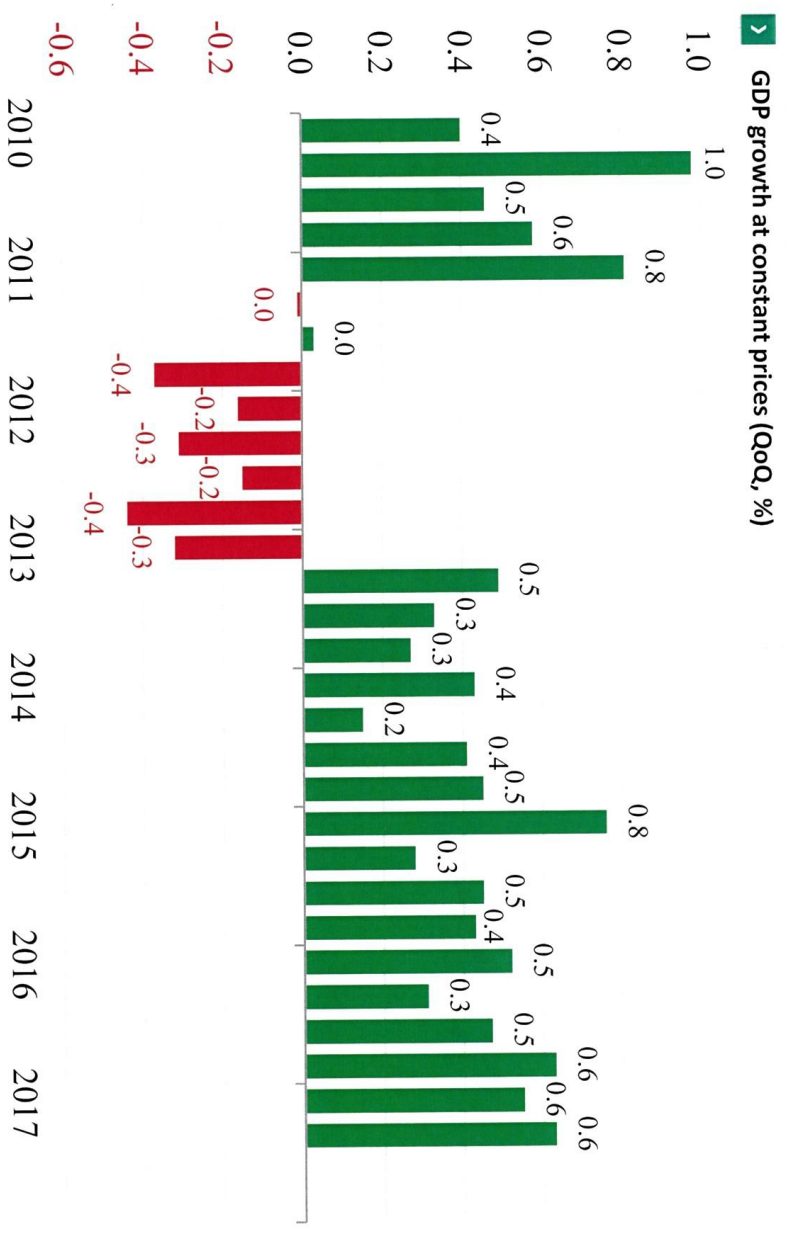
- ✓ We now need some mitigating policies :

- Completion of the Banking Union (Deposit Insurance System)
- Encouraging Pan European banks (not “ring-fenced” banks)
- A somewhat larger budget (federal)
- Incentives to capital fluidity (proposal by Thomas Mayer, Olivier Garnier, Jacques de Larosière, Edmond Alphandéry, Daniel Gros)
- A true macro-economic surveillance and monitoring system with powers at the EU level

**Enc : 3 Graphs**

After the 2011-'12 recession, Eurozone growth has picked up, but remains low

Graph 1

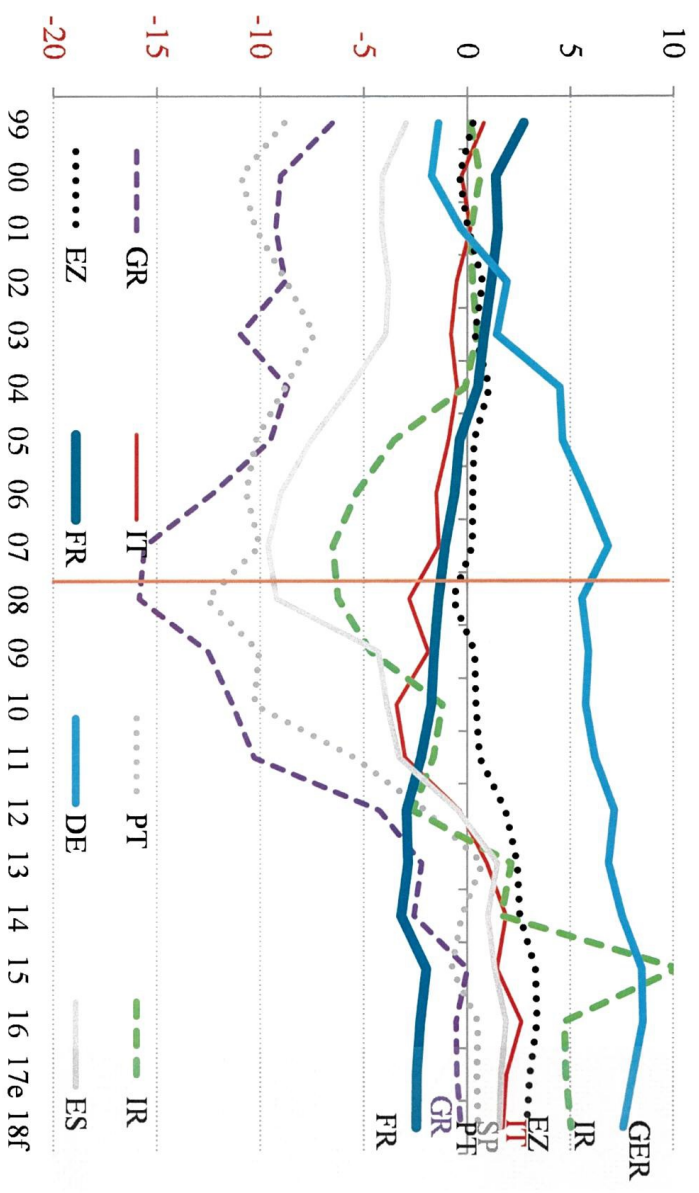


Source : eurostat

Except for France, the Eurozone is now in current account surplus

Graph 2

> Current accounts as a % of GDP

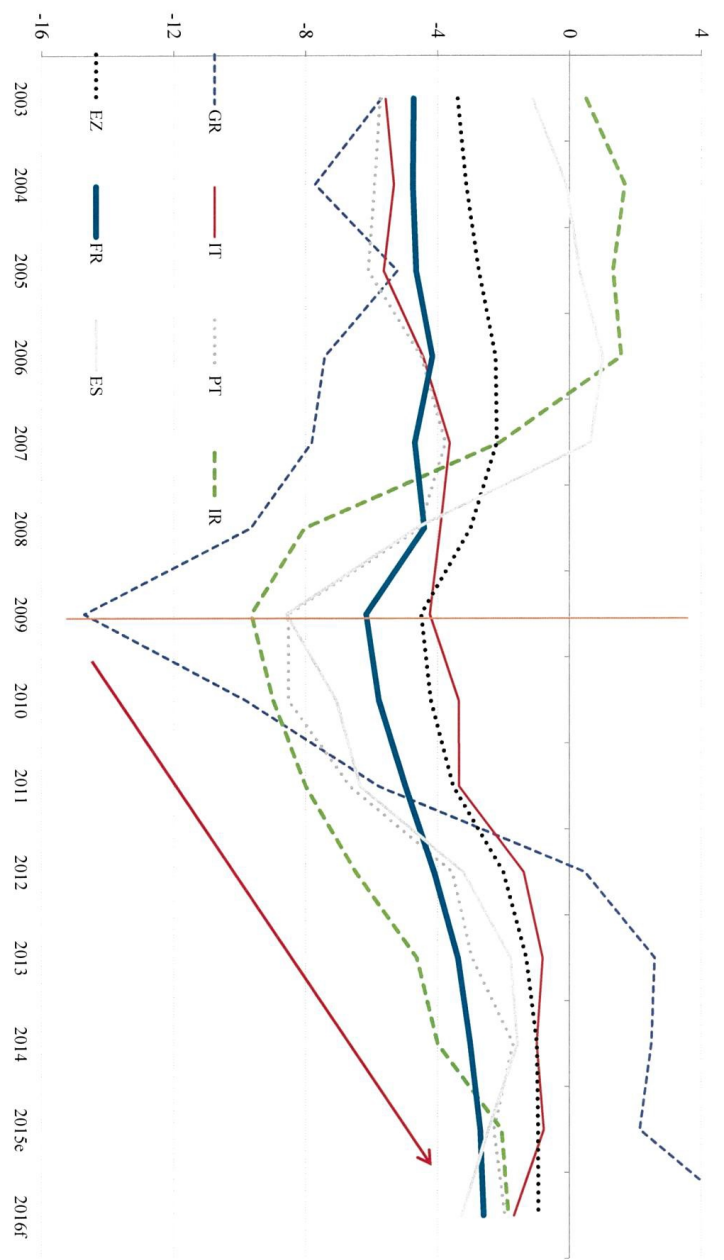


Source and forecasts : EUROPEAN COMMISSION (Ameco)

graphique 3

### Les comptes publics de la périphérie se sont considérablement améliorés depuis 2009

En pourcentage du PIB, soldes budgétaires



\*  
\*