



# 2018 OECD ECONOMIC SURVEYS OF THE EURO AREA and the EUROPEAN UNION

## *Reforms for a stronger and more integrated Europe*

Brussels, 19 June 2018

<http://www.oecd.org/eco/surveys/economic-survey-european-union-and-euro-area.htm>



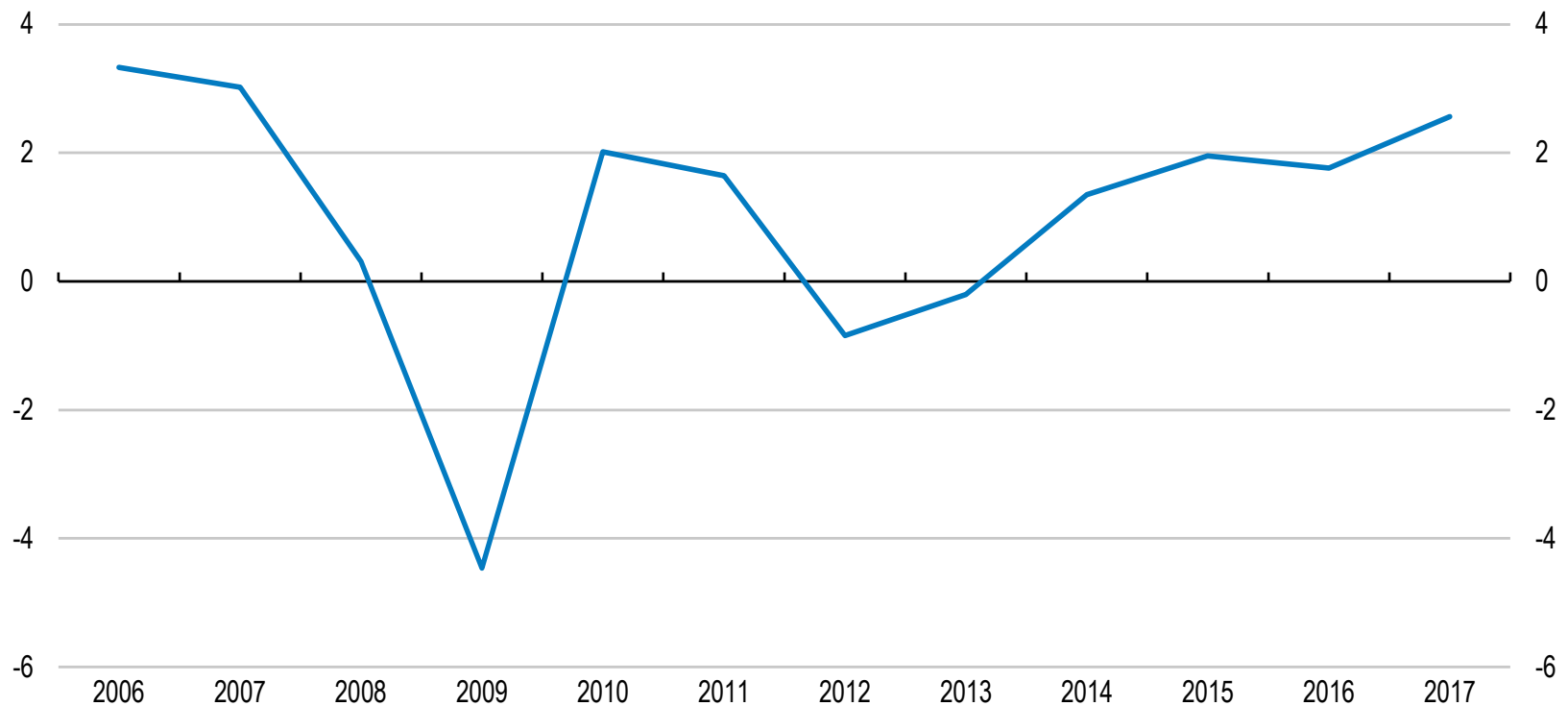
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# The economy is expanding

Real GDP growth in the Euro area<sup>1</sup>, year-on-year % changes



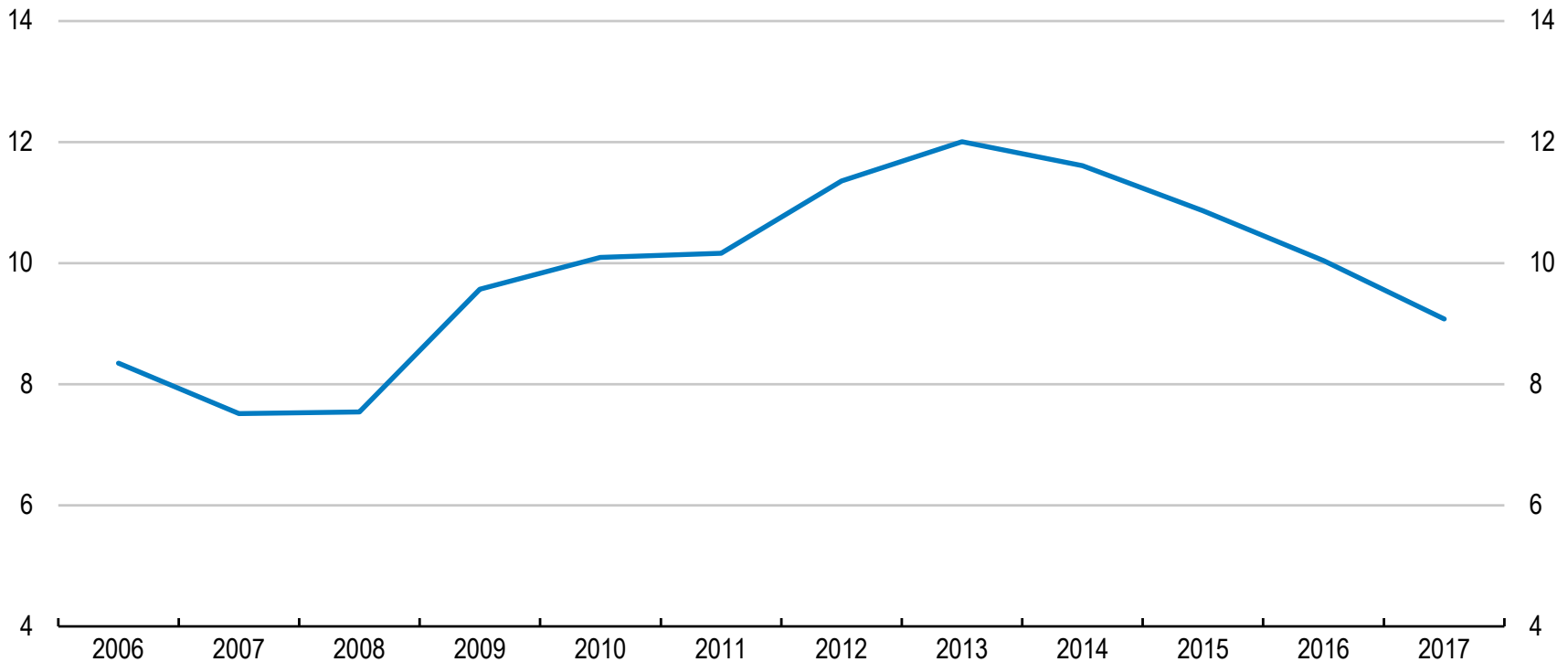
1. Euro area member countries that are also members of the OECD (16 countries).

Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database).



# Unemployment continues to fall

Unemployment rate in the Euro area<sup>1</sup>, as a % of the labour force



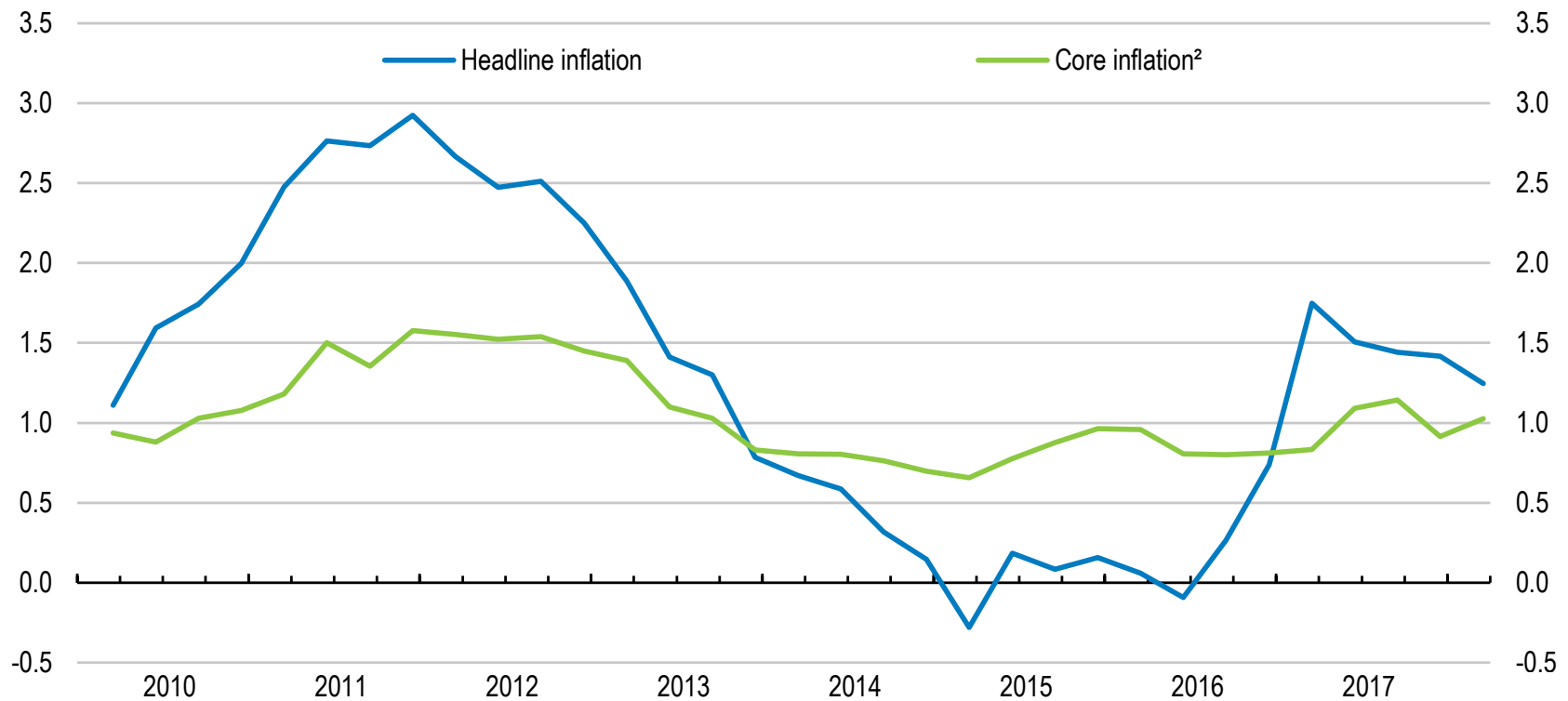
1. Euro area member countries that are also members of the OECD (16 countries).

Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database).



# Inflation is still below target

Harmonised consumer price indices in the Euro area<sup>1</sup>, year-on-year % changes



1. Euro area member countries that are also members of the OECD (16 countries).

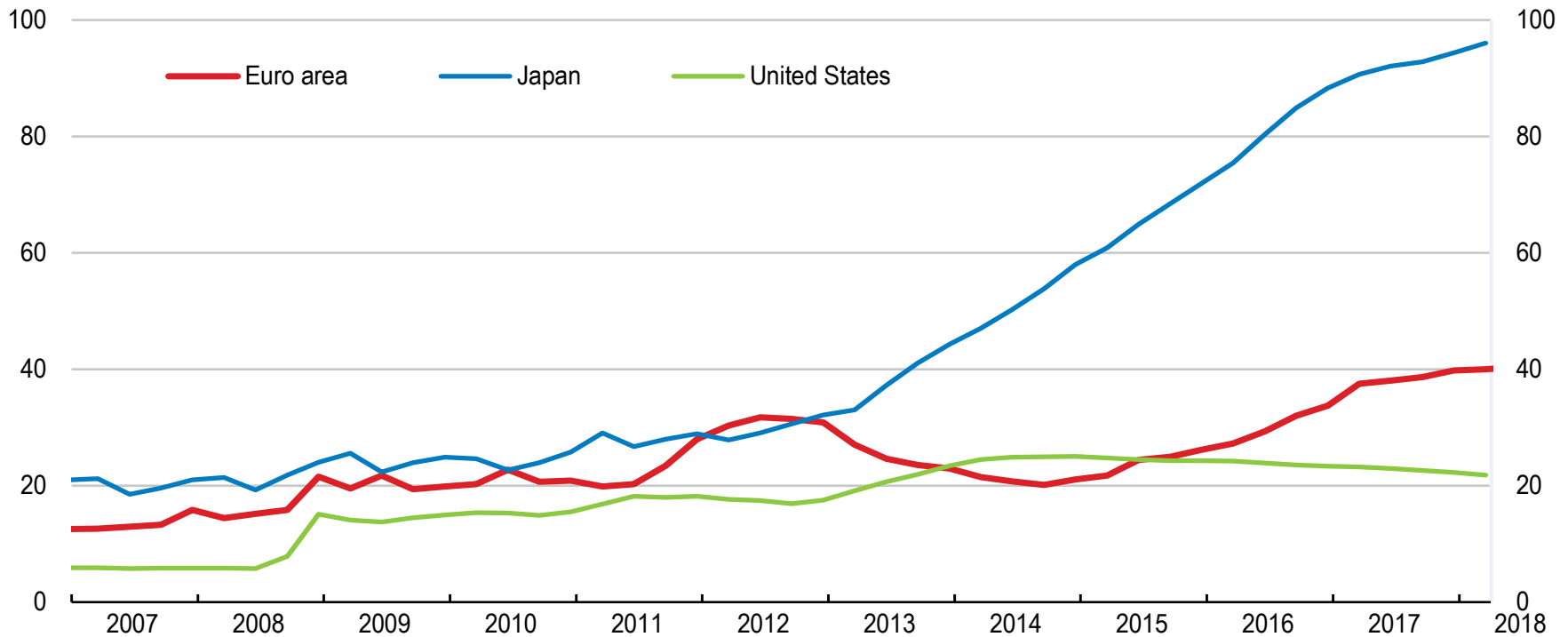
2. excluding energy, food, alcohol, and tobacco.

Source: OECD (2018), OECD Economic Outlook: Statistics and Projections (database).



# ECB policy has remained accommodative

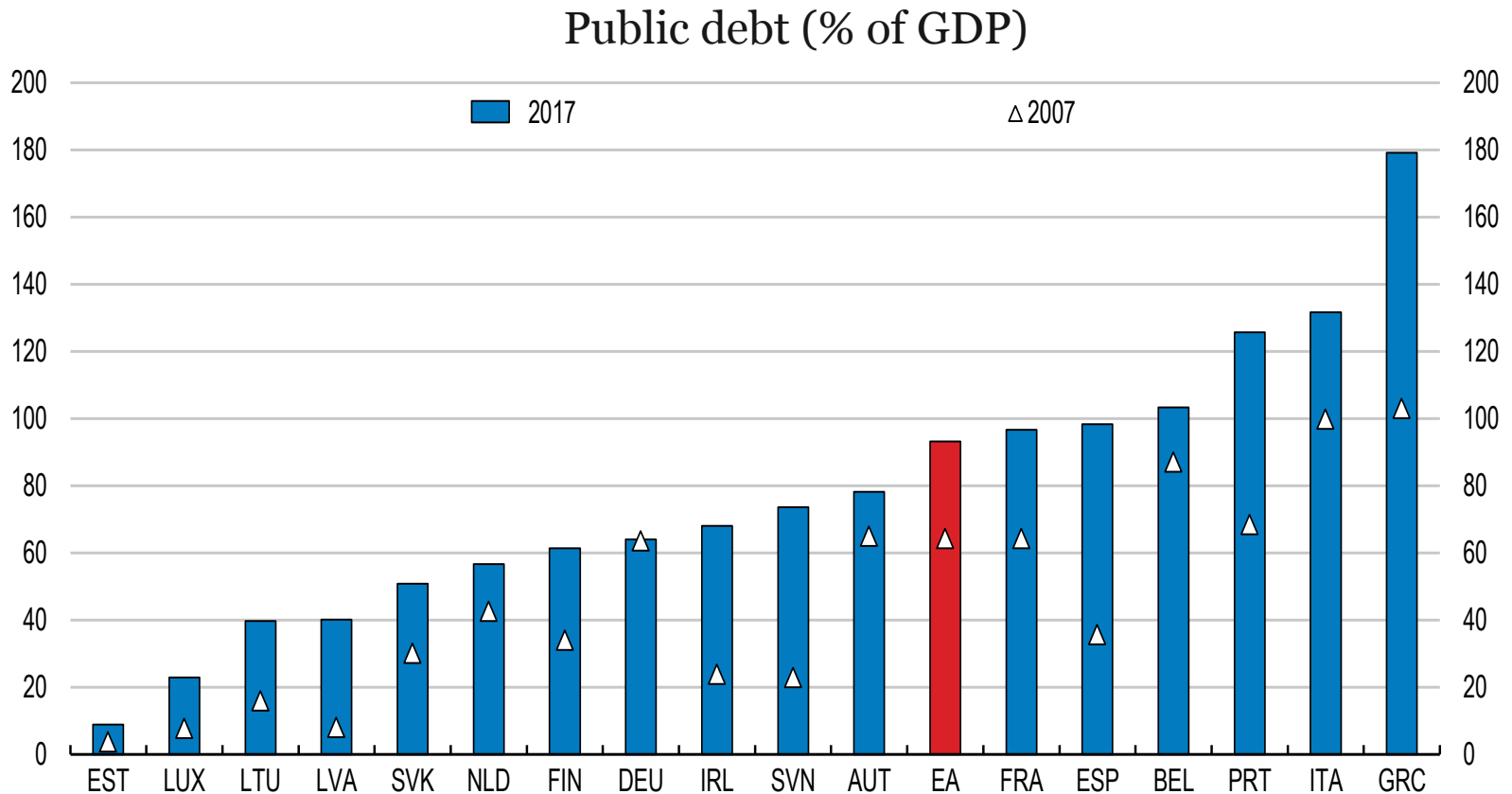
Stock of central banks' total liabilities (% of GDP)



Source: Thomson Reuters (2018), *Datastream Database* and OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database).



# Public debt remains high



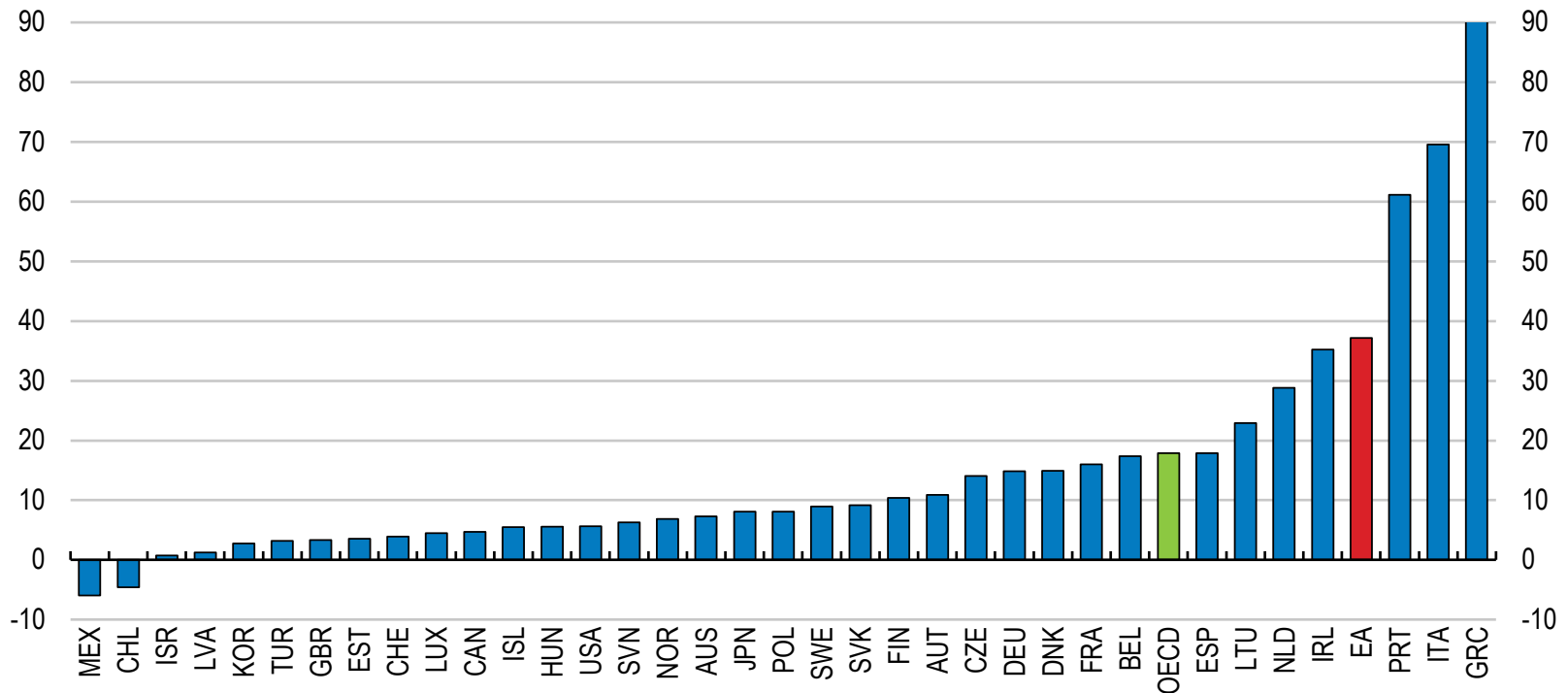
Note: Maastricht definition. Euro area member countries that are also members of the OECD (16 countries) and Lithuania; weighted average.

Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database).



# Non-performing loans are still high

Non-performing loans as a percentage of capital (net of provisions)  
Q4 2017<sup>1</sup>

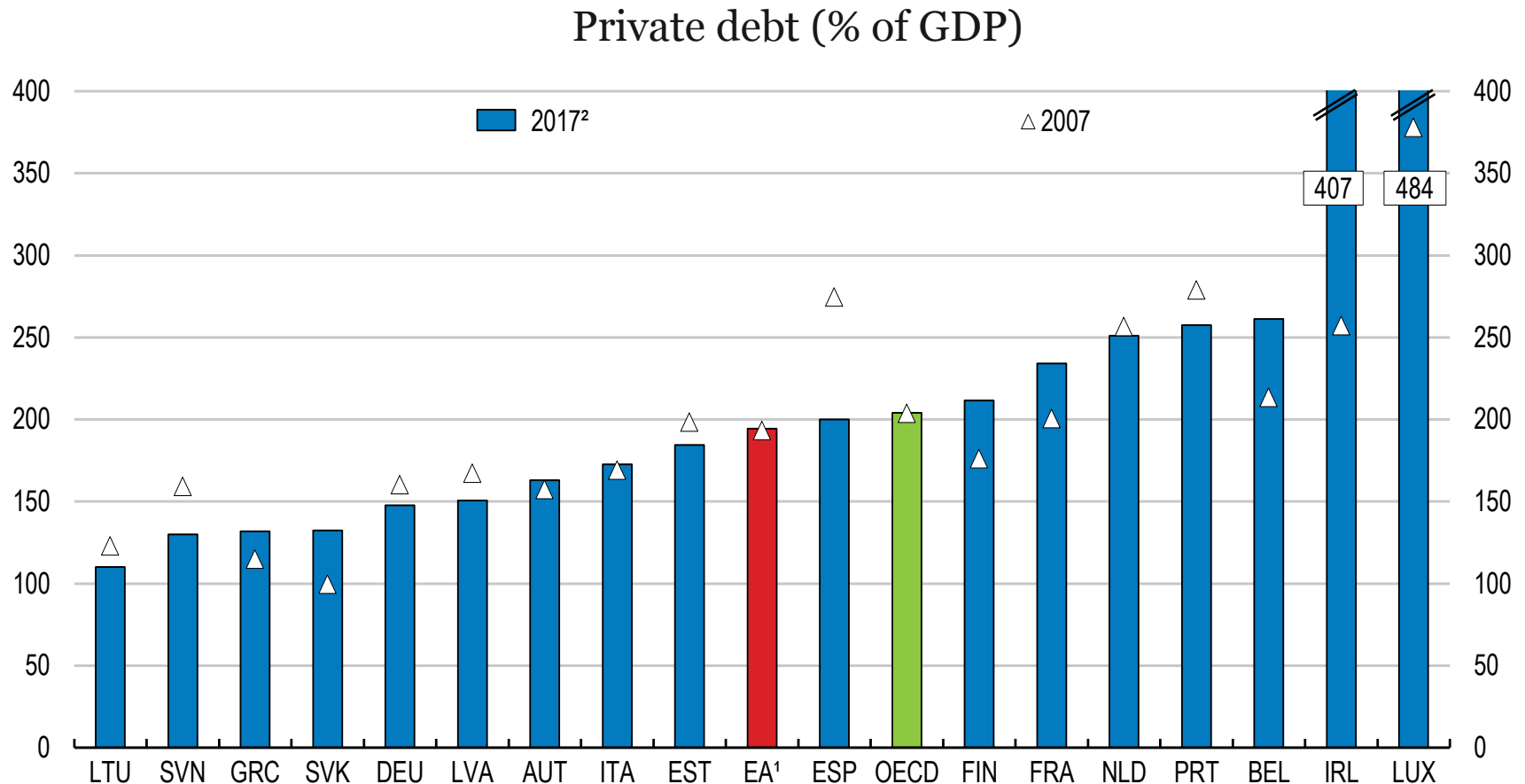


1. Or latest observation available.

Source: IMF (2018), *Financial Soundness Indicators* (database), International Monetary Fund, Washington, D.C.



# Private debt remains high



1. Euro area member countries that are also members of the OECD (16 countries) and Lithuania; weighted average.
2. Or latest year available.

Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database).





# Macroeconomic policies to ensure a sustainable expansion

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- 1. Keep committing to accommodative monetary policy until headline inflation is durably back to the objective, but gradually reduce support.**
- 2. As the expansion continues, euro area countries should ensure their fiscal position improves, gradually reducing debt ratios.**
- 3. Eventually, countries should follow an expenditure objective that ensures a sustainable debt-to-GDP ratio.**
- 4. The European Fiscal Board could assess the appropriate fiscal stance for each country consistent with the optimal stance at the euro area level.**



# Recommendations to strengthen financial stability

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- 1. To limit side effects of accommodative monetary policy, encourage policy measures such as lower loan-to-value or add-on capital requirements.**
- 2. To better gauge commercial real estate price dynamics, systematically collect harmonised data.**



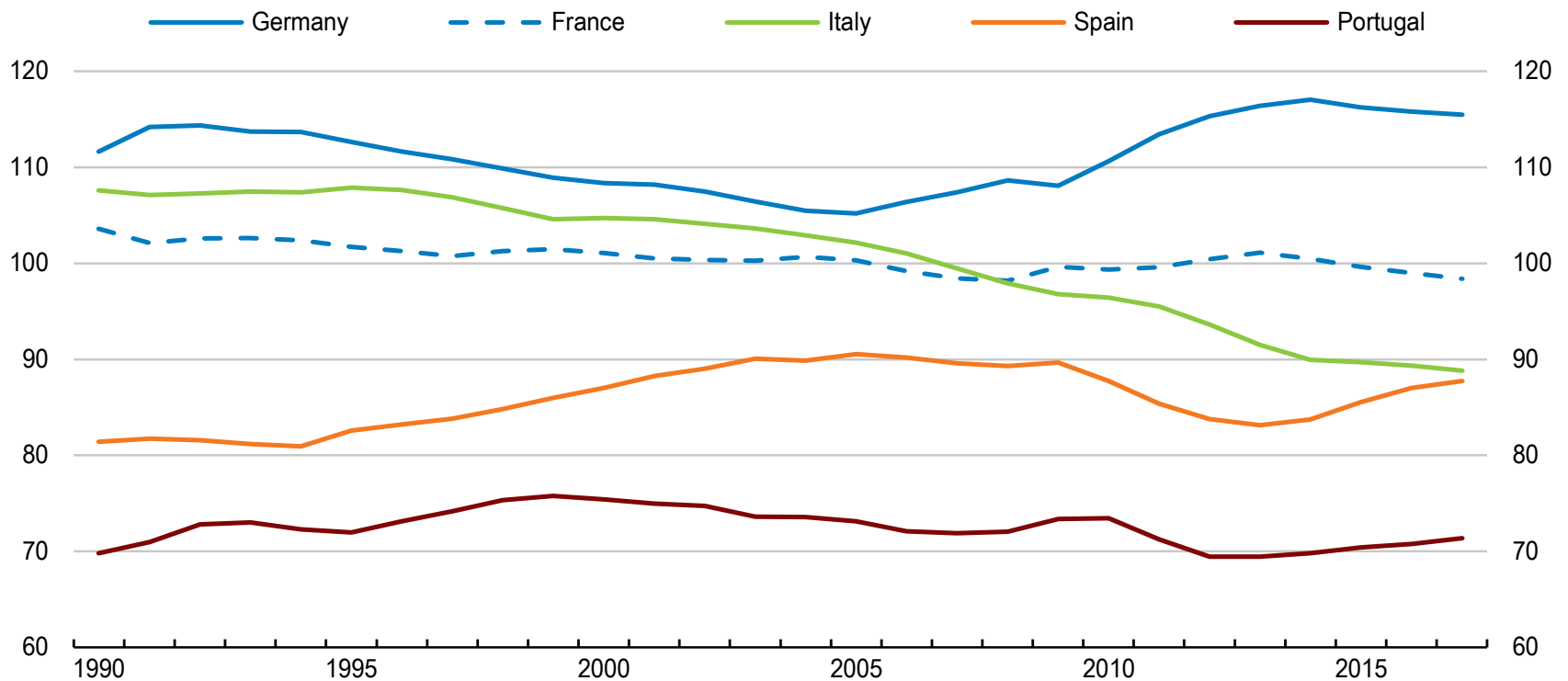
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# Reforms to strengthen the monetary union



# The crisis halted convergence

GDP per capita relative to EA16=100<sup>1</sup>, per cent



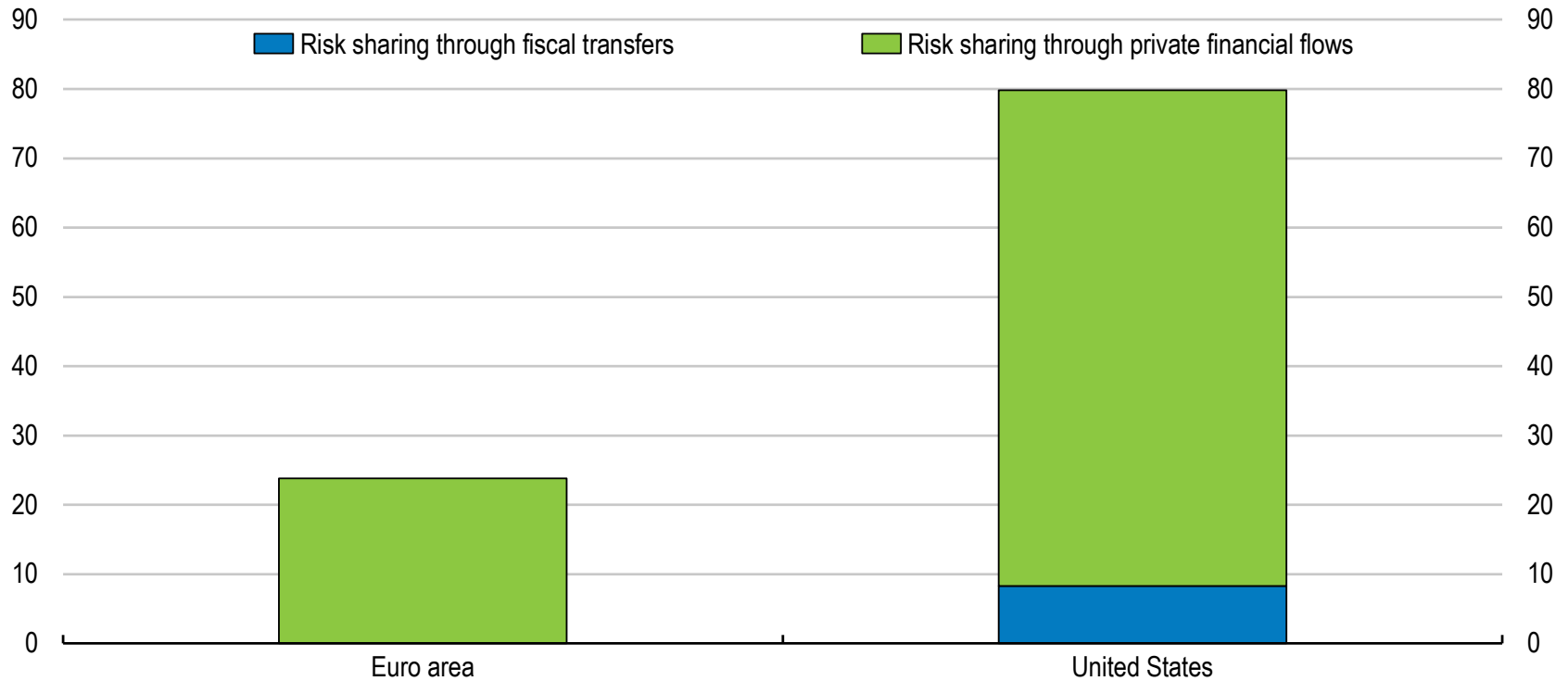
1. Euro area member countries that are also members of the OECD (16 countries), population-weighted average (PPP-adjusted).

Source: The Conference Board (2018), Total Economy Database.



# Cross-border risk sharing is limited

Percentage of absorbed shocks through private and public risk sharing

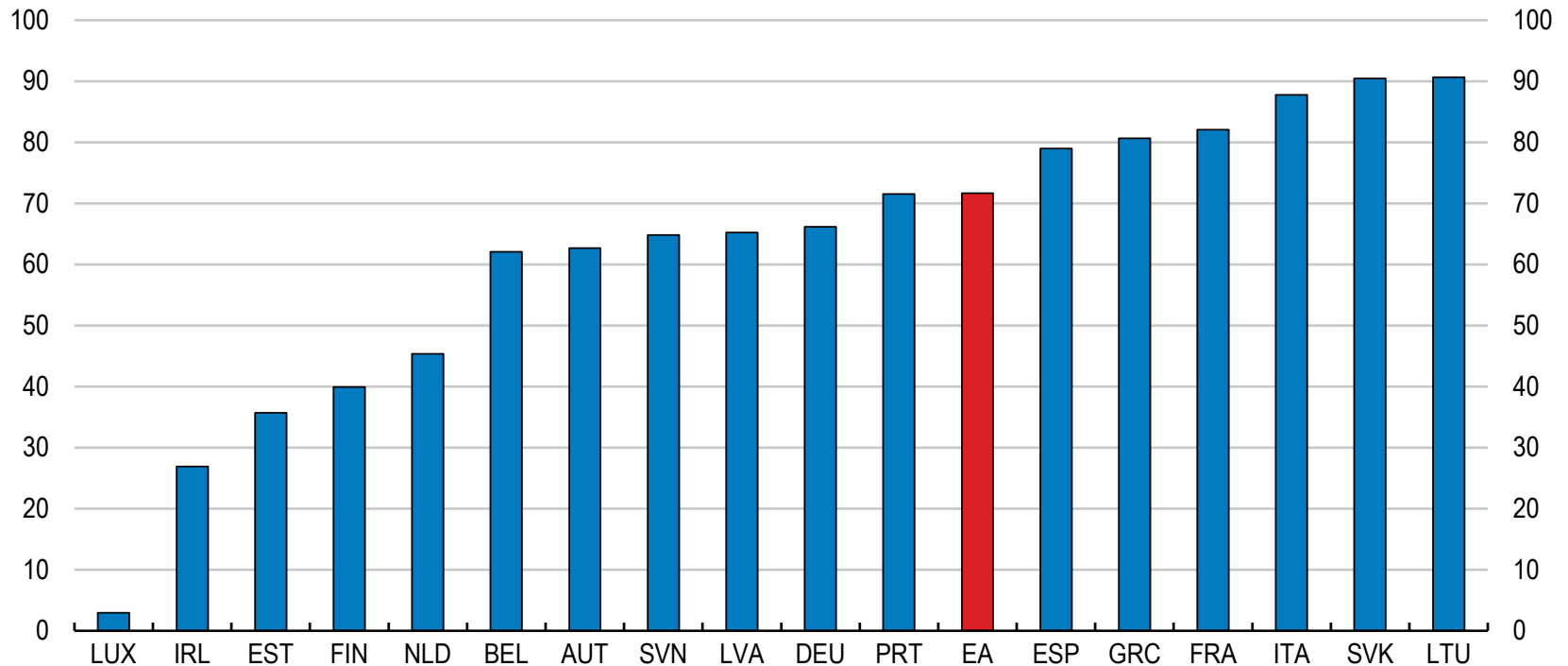


Source: European Commission (2016), "Cross-Border Risk Sharing after Asymmetric Shocks: Evidence from the Euro Area and the United States", Quarterly Report on the Euro Area 15(2), Brussels.



# Reforms should reduce links between banks and their own State

Share of domestic sovereign bonds in banks portfolios, March 2018 (%)

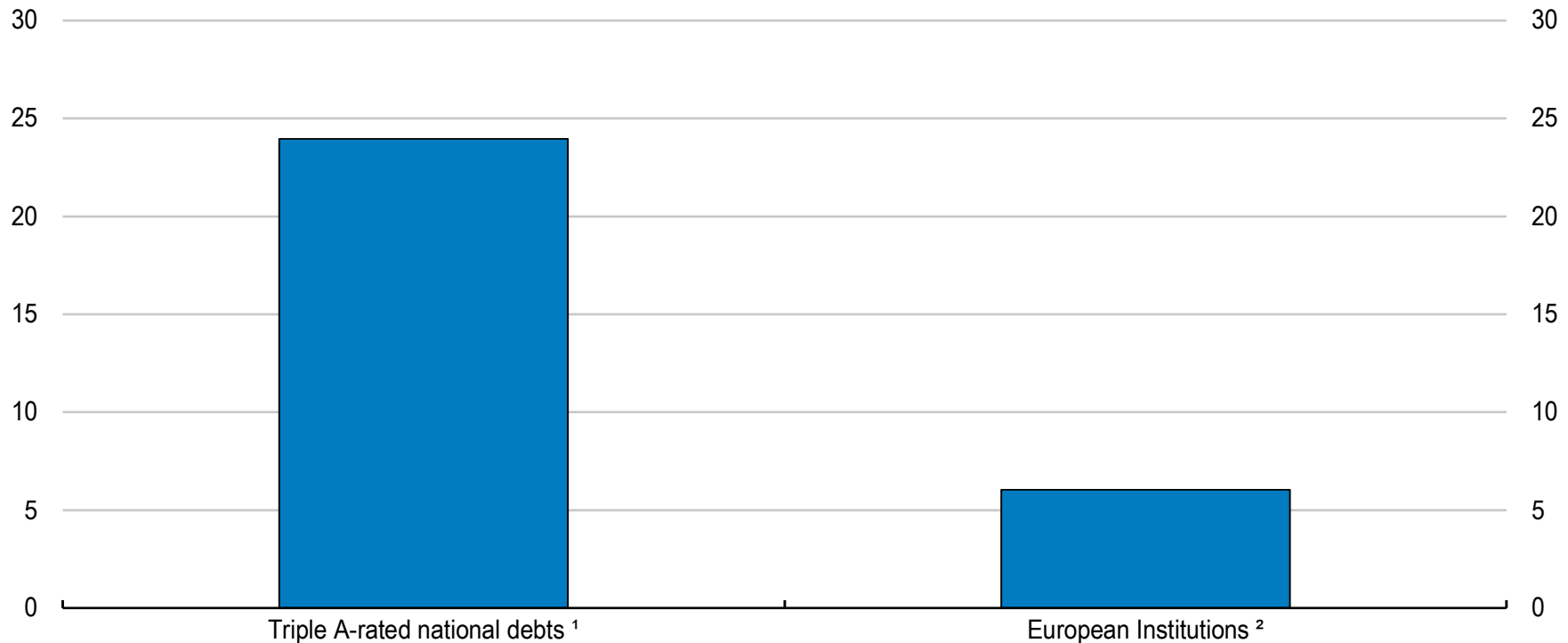


Source: OECD calculations based on ECB (2018), “Balance Sheet Items statistics”, *Statistical Data Warehouse*, European Central Bank.



# The supply of European safe assets is limited

Debt securities issued by governments and European institutions  
As a percentage of euro area GDP, 2016



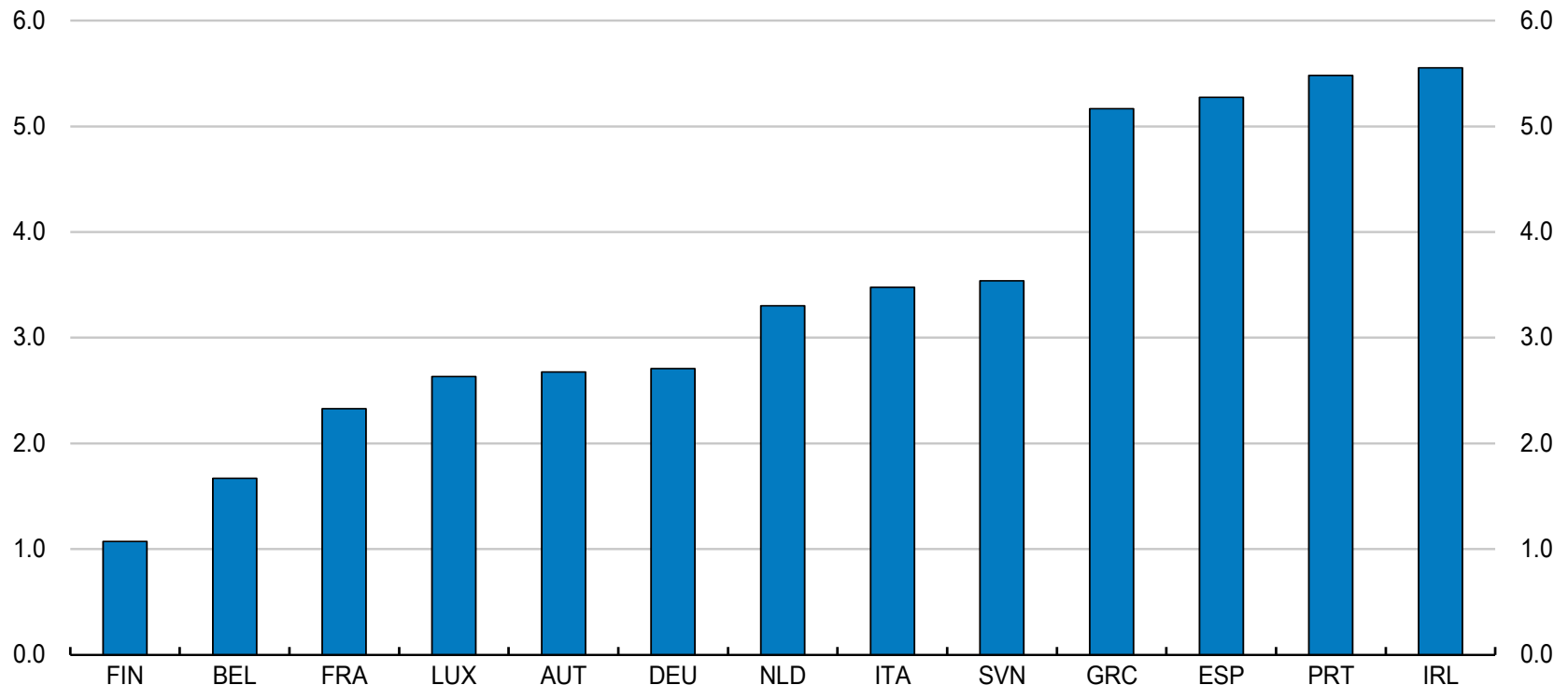
1. Sovereign debt securities issued by the governments of Germany, Luxembourg and the Netherlands.
2. Triple A-rated securities issued by the EU institutions and authorities (EIB, ESM, EFSM, BOP Facility and the Macro-Financial Assistance Programs).

Source: Brunnermeier, M. et al. (2017). ESBies: Safety in the tranches. *Economic Policy*, 32(90), 175-219; OECD calculations based on public information released by European Institutions.



# Most countries would benefit from the unemployment re-insurance scheme

Cumulative payments received from the unemployment reinsurance scheme  
2002-2016 (% of GDP)



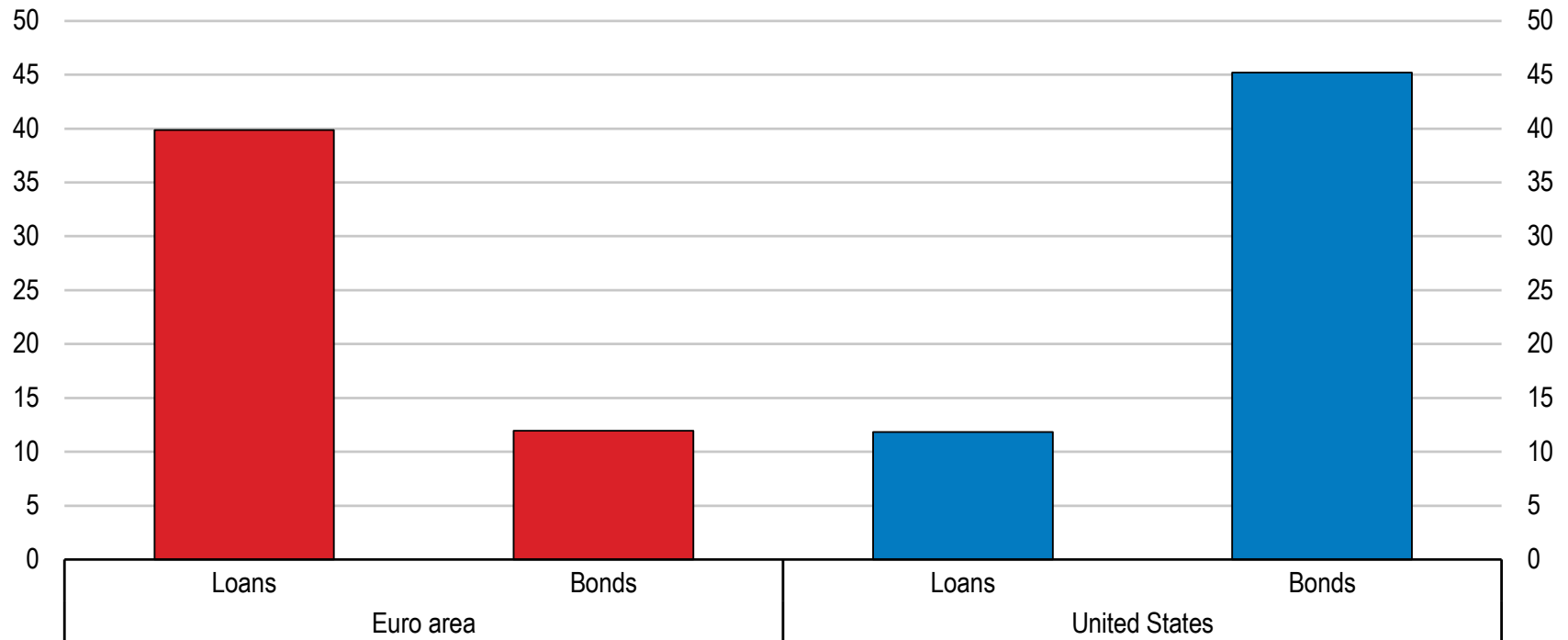
Source: : Claveres and Stráský (2018) based on OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database).





# European capital markets need to expand

Outstanding loans and bonds of non-financial corporations as a % of GDP



*Note:* Average 2015-2017.

*Source:* Eurostat, European Central Bank, US Bureau of Economic Analysis, Board of Governors of the Federal Reserve System, and Securities Industry and Financial Markets Association.



# Recommendations to reduce financial fragmentation and increase private risk-sharing

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- 1. Implement swiftly the ECOFIN action plan on non-performing loans and facilitate the creation of asset management companies.**
- 2. Building on progress in risk-reduction, develop a pre-funded common deposit insurance scheme with risk-based contributions by banks.**
- 3. Use the European Stability Mechanism as a fiscally-neutral backstop for the Single Resolution Fund that can be deployed rapidly.**
- 4. Diversify banks' exposure to sovereign bonds, including by sovereign concentration charges in parallel with a European safe asset.**



# Recommendations to strengthen resilience through a common fiscal capacity

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- 1. Set up a fiscal stabilisation capacity in the form of an unemployment benefit reinsurance scheme that can borrow in financial markets.**
- 2. Make access to the common fiscal stabilisation capacity conditional on past compliance with fiscal rules.**



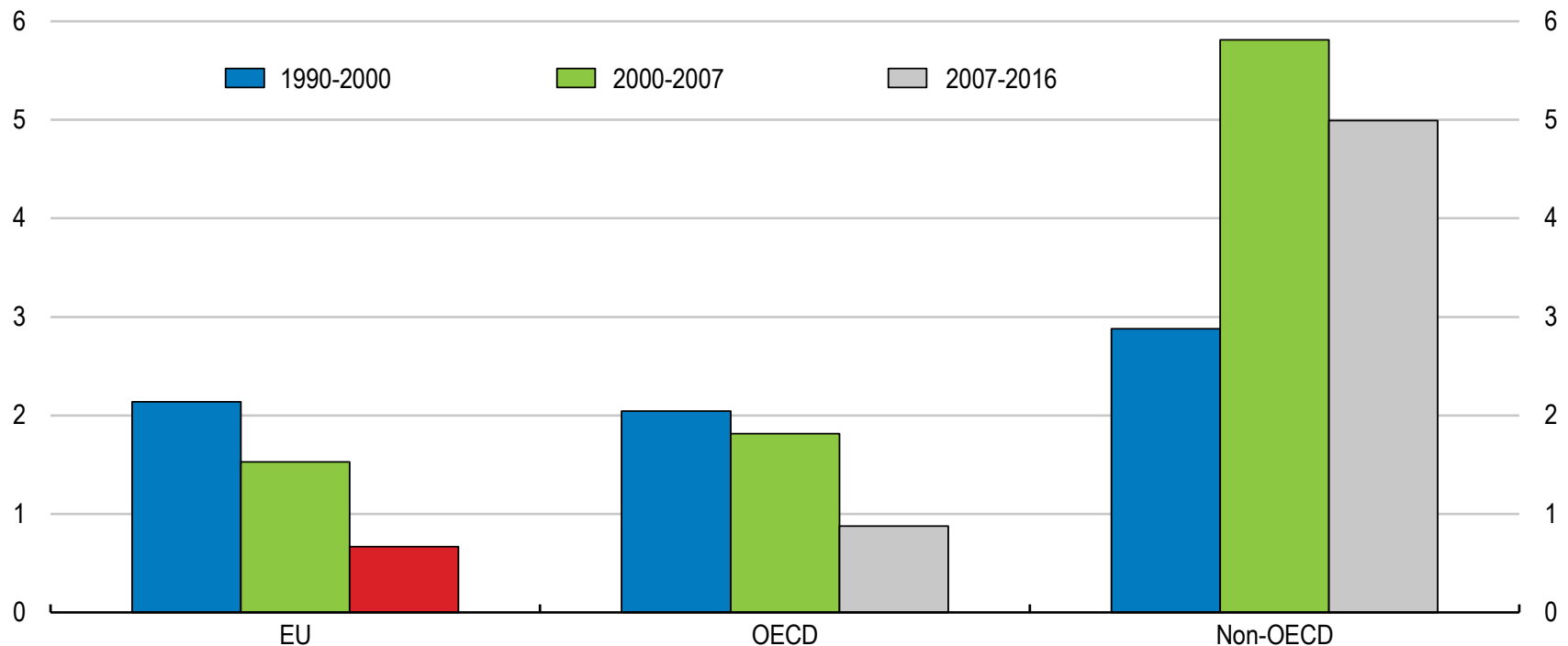
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# Improving growth and living standards



# Productivity growth has declined

Output per hour worked<sup>1</sup>, annualised growth rates (%)



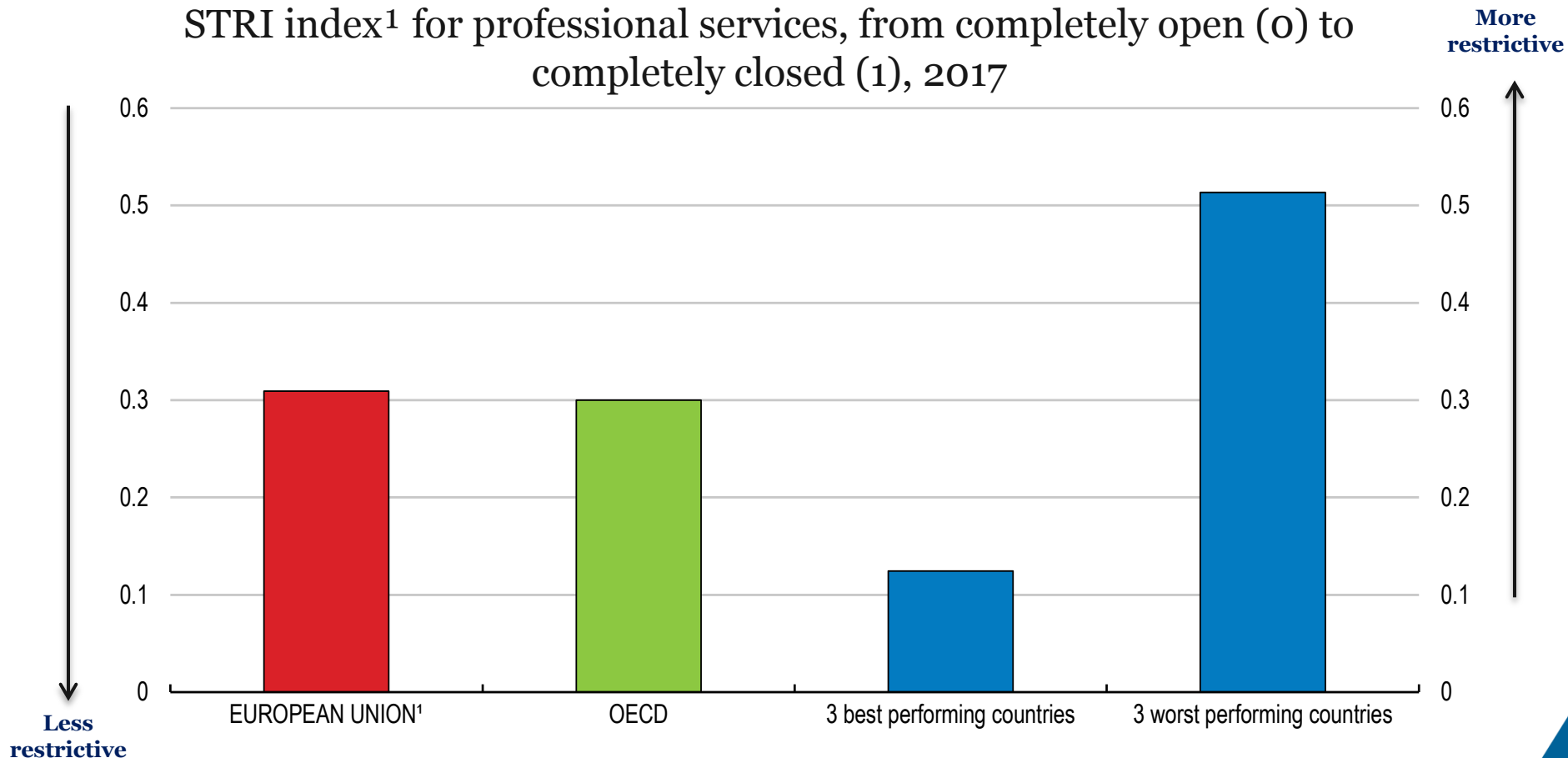
1. Productivity is measured as output per employee for Non-OECD countries.

Source: OECD estimations using OECD National Accounts database; OECD Productivity database; International Labour Organisation database.



# There is room to ease regulatory burdens

STRI index<sup>1</sup> for professional services, from completely open (0) to completely closed (1), 2017



1. Services Trade Restrictiveness Index.

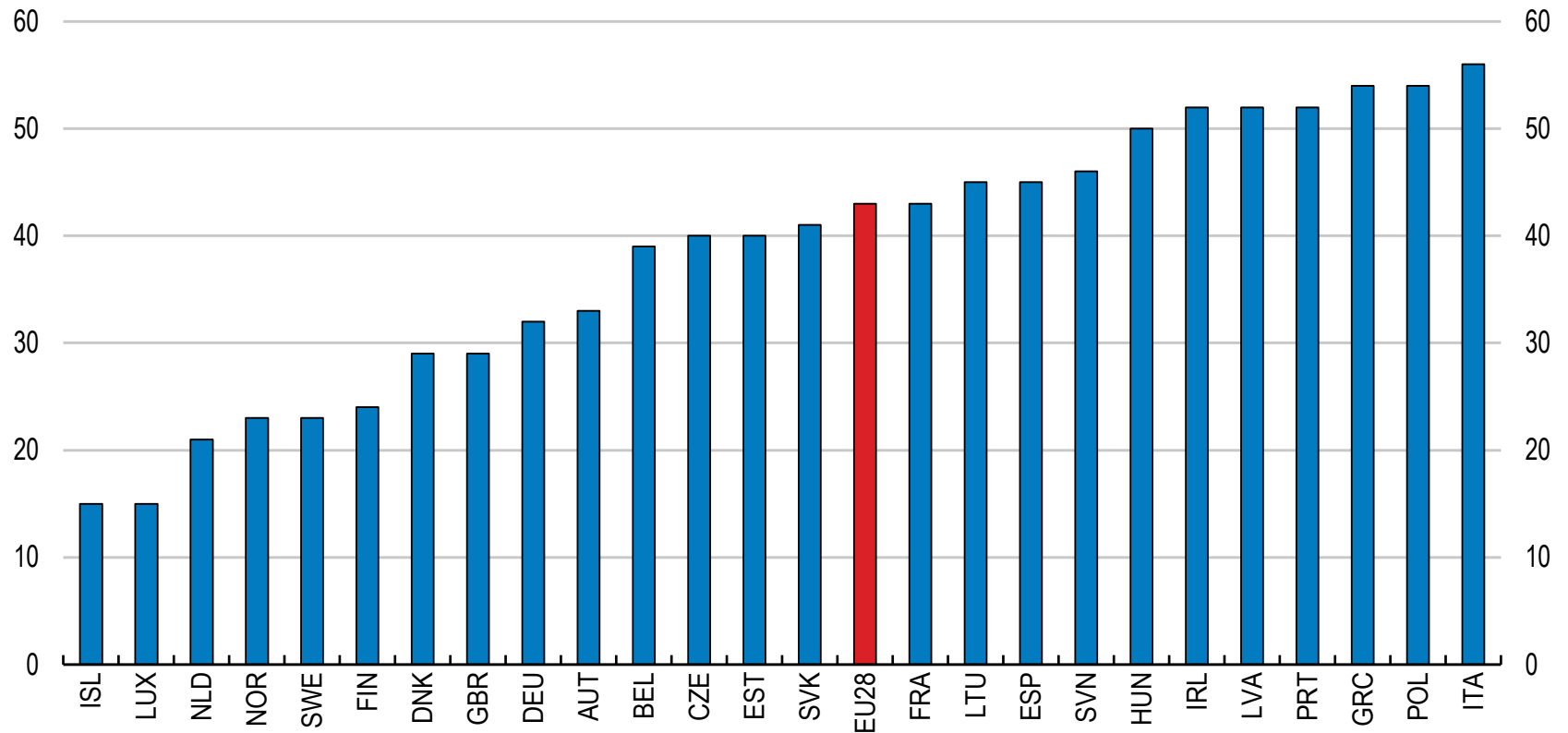
2. EU countries that are also members of the OECD (22 countries) and Lithuania.

Source: OECD (2018), *OECD STRI Index* (database).



# Many individuals still lack digital skills

Percentage of 16-74 year-olds who lack basic digital skills, 2017



Source: Eurostat (2018), "Individuals' level of digital skills", *Eurostat Database*.



# Recommendations to improve long-term growth

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- 1. Address barriers in the business services sector through simplified administrative formalities.**
- 2. Pursue cross-border co-operation on energy through better power system operation and trade.**
- 3. Develop tools to help member states monitor digital skill needs. Set EU standards for the monitoring of digital skills and task content of occupations.**





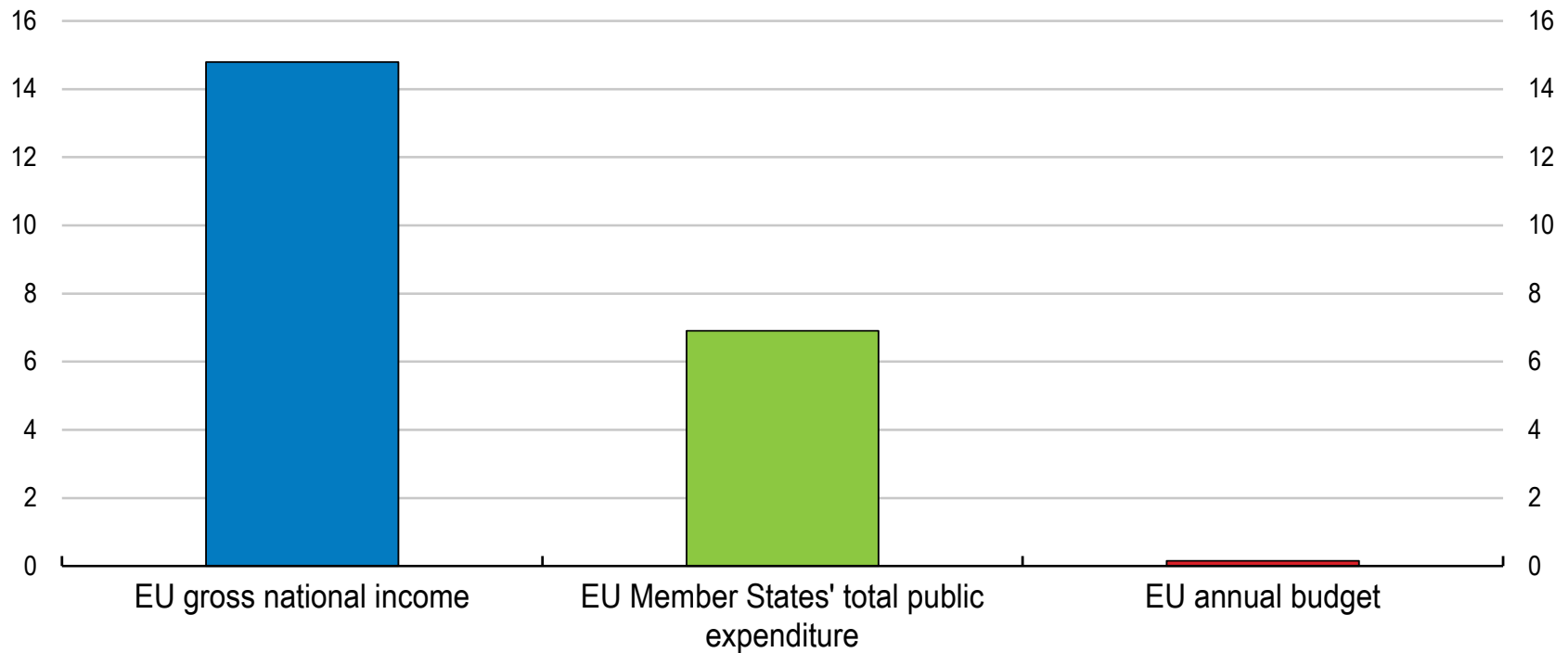
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# Reforming the EU budget



# The EU budget is small

EUR thousand of billions, 2016

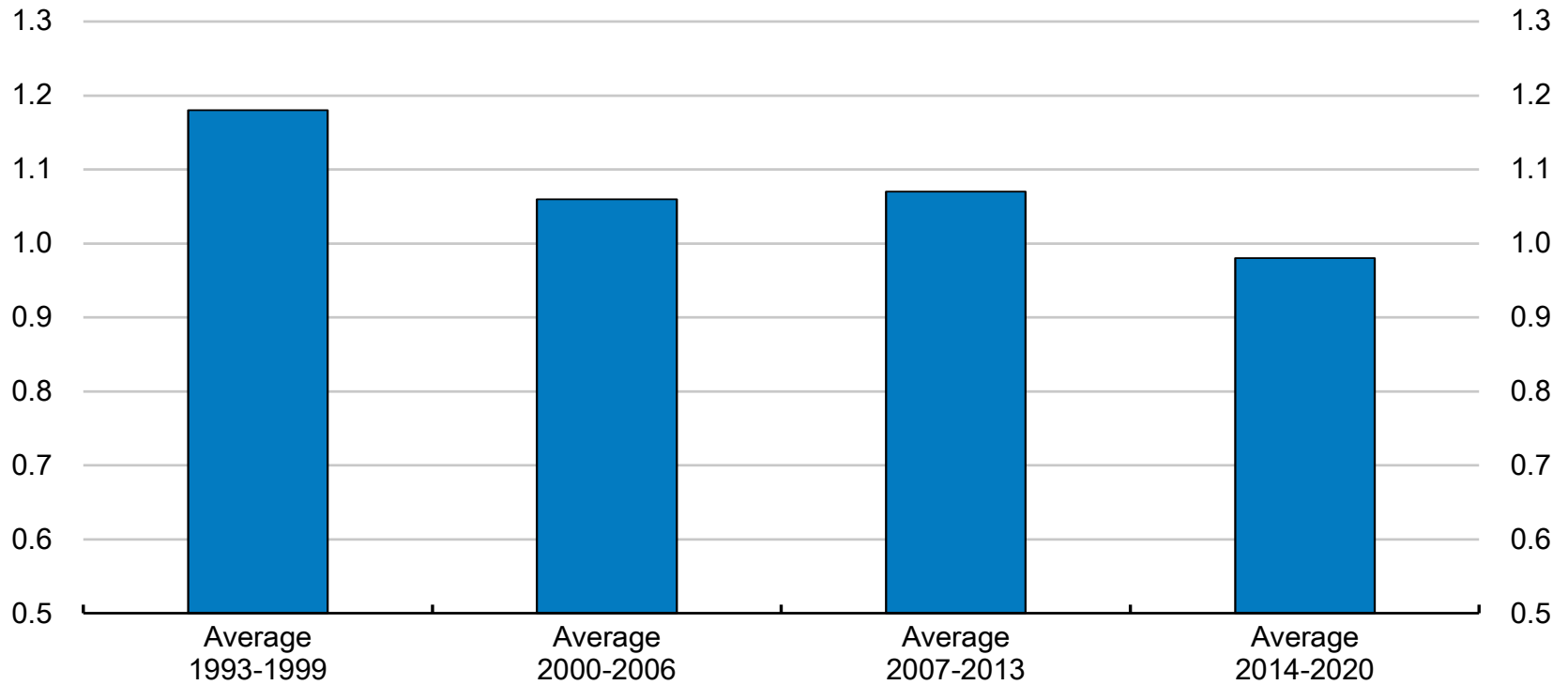


Source: European Commission.



# The EU budget has declined over time

Per cent of gross national income

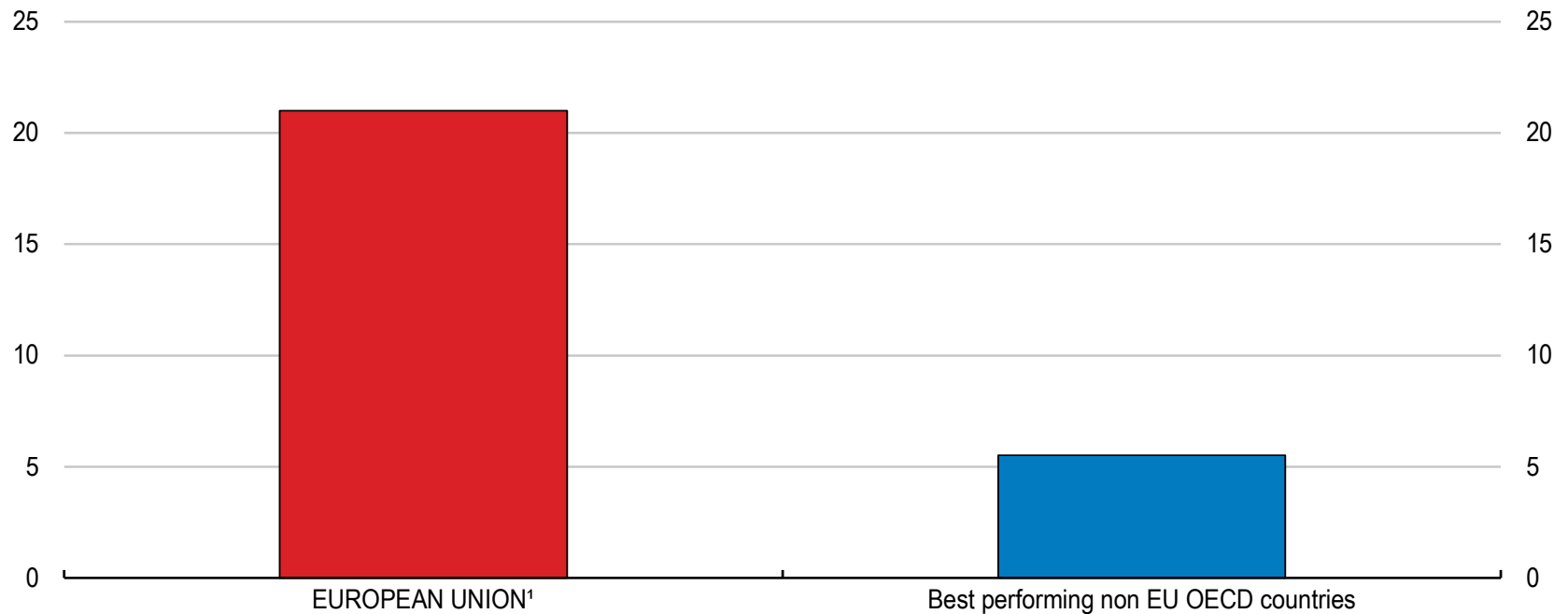


Source: European Commission.



# Producer support to agriculture remains high

Percentage of farm receipts, 2016

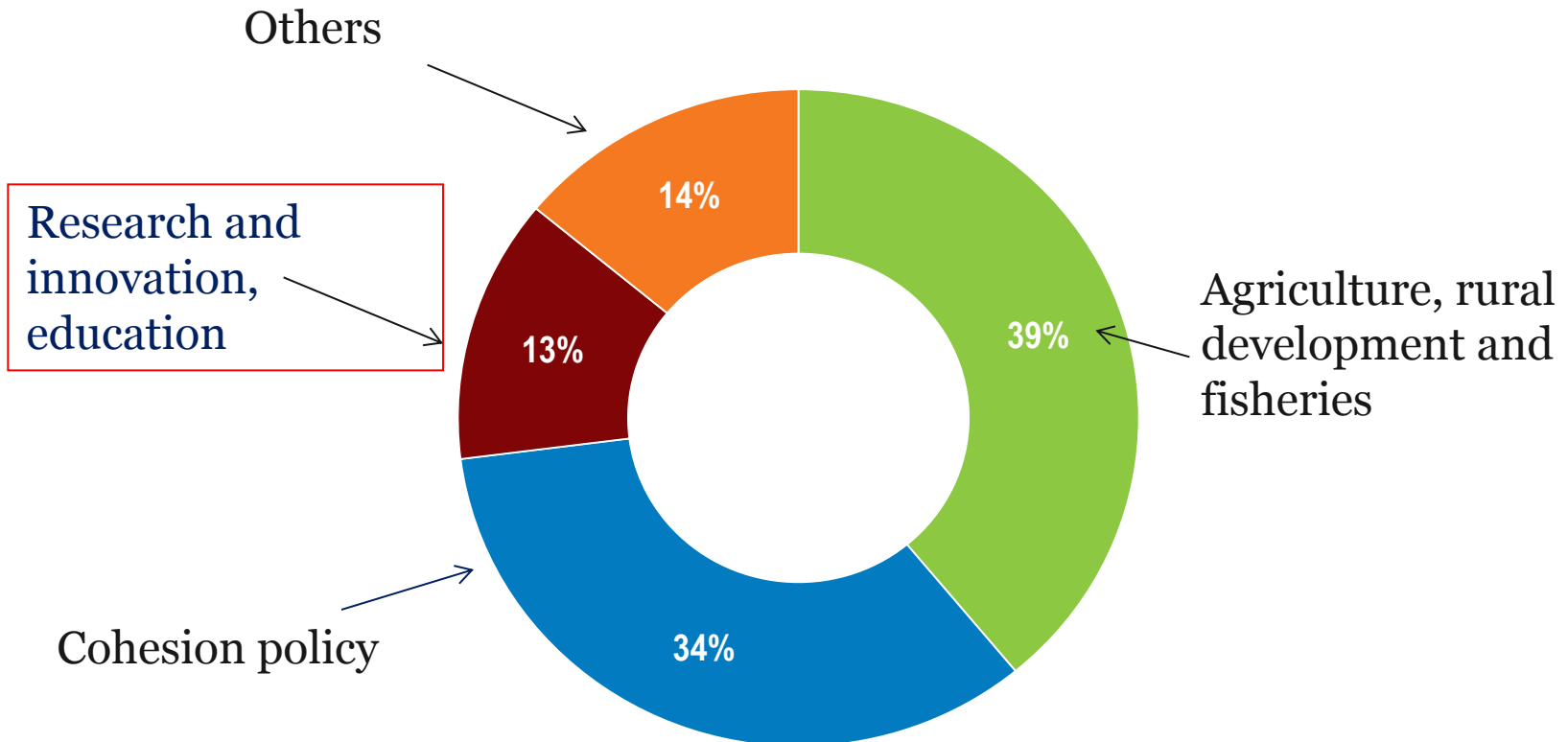


1. European Union refers to all 28 members of the European Union.  
*Source: OECD (2018), OECD, Producer Support Estimate Database.*



# There is scope to increase the EU research and innovation budget

2014-2020 multiannual financial framework



Source: European Commission.



# Recommendations to reform the EU budget

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- 1. Consider enhancing the efficiency of spending and increasing revenues, and reassess how the European budget is financed**
- 2. Phase out production-based payments in the Common Agricultural Policy**
- 3. Increase research and development (R&D) spending**
- 4. Increase spending on mobility programmes such as Erasmus+, and facilitate access irrespective of socio-economic background**



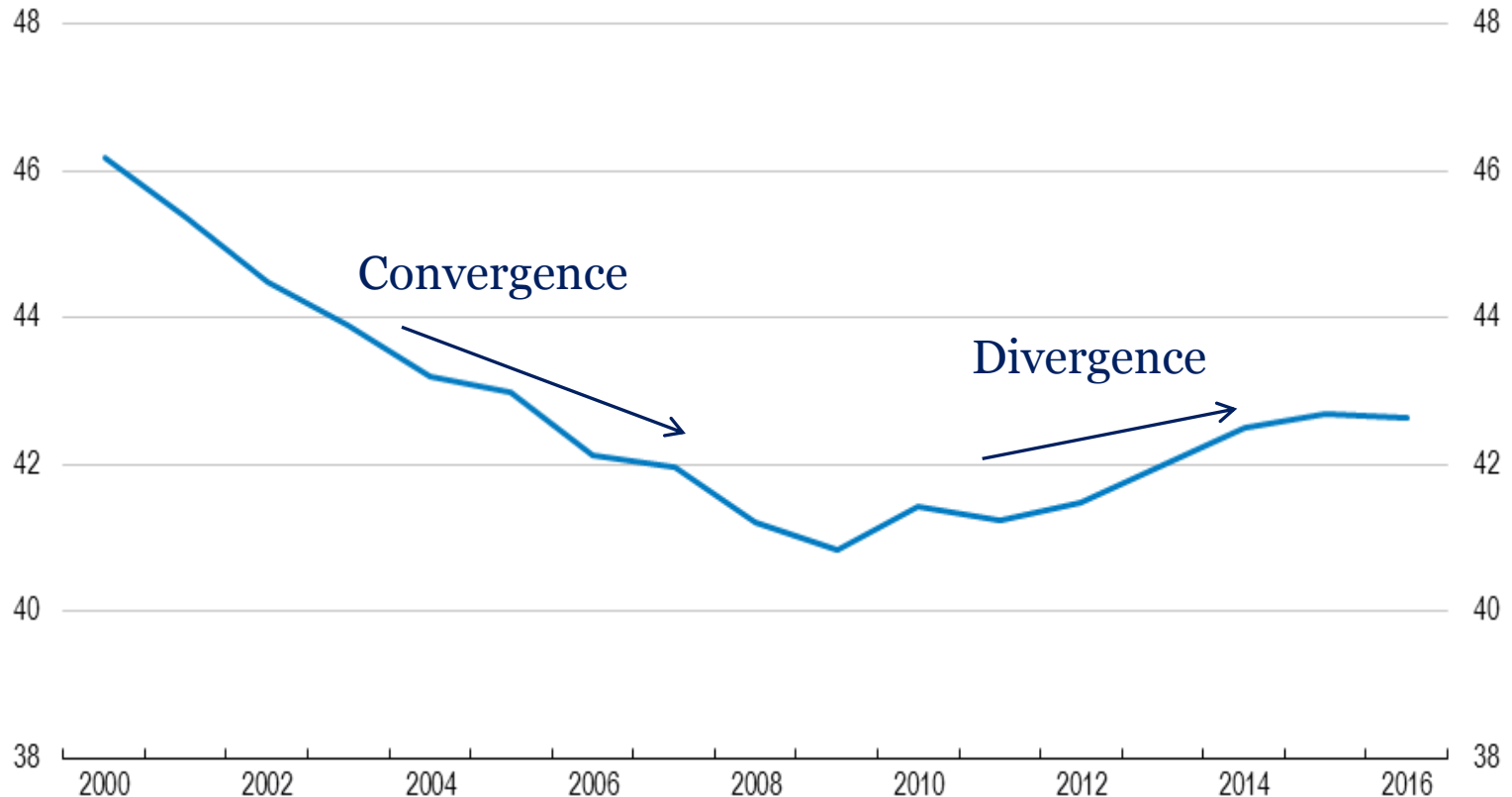
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# Reducing regional divides



# Regional convergence stopped after the crisis

Coefficient of variation in regional GDP per capita<sup>1</sup>, %



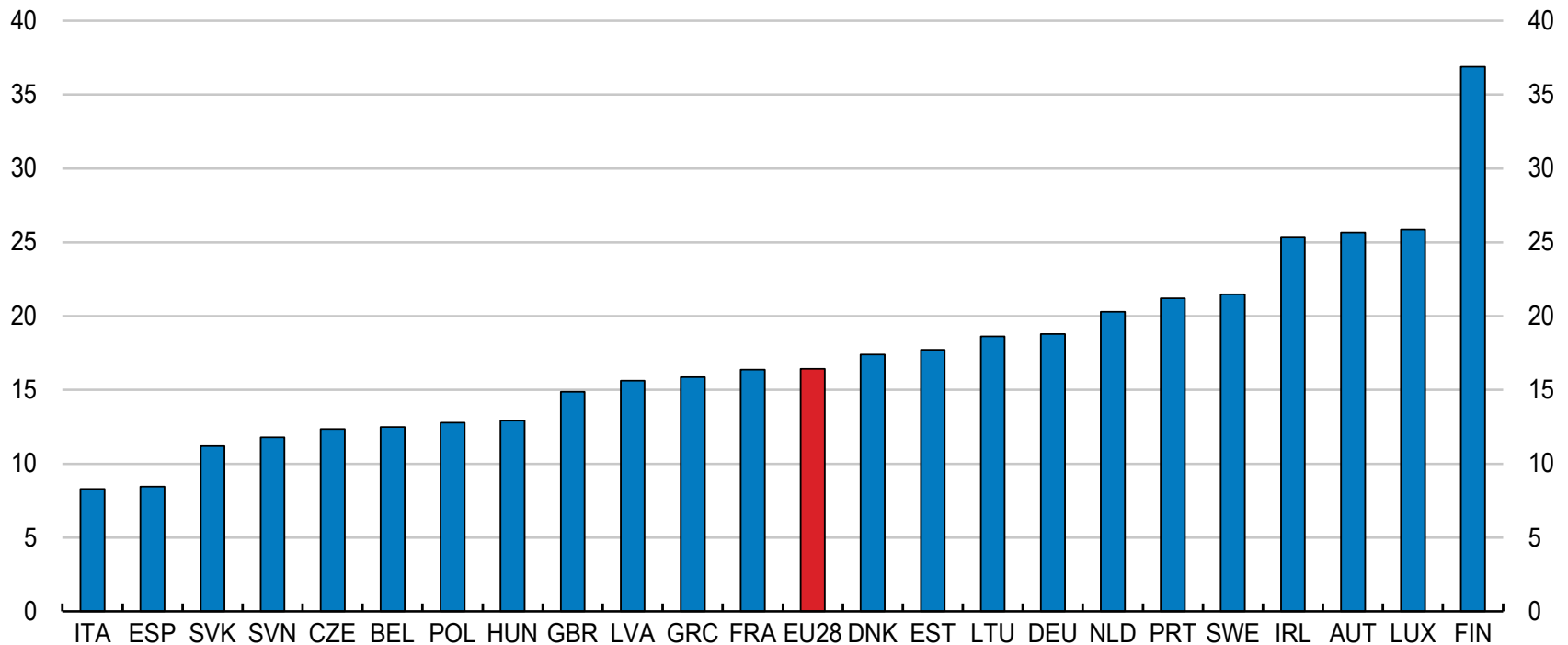
1. Disparities in GDP per capita (in PPS) between NUTS-2 EU regions; population-weighted.  
*Source:* European Commission (2018), DG for Regional and Urban Policy, calculations based on Eurostat data.





# Spending of structural funds is slow

Spending as a % of planned investment in the 2014-2020 programming period, as of end 2017

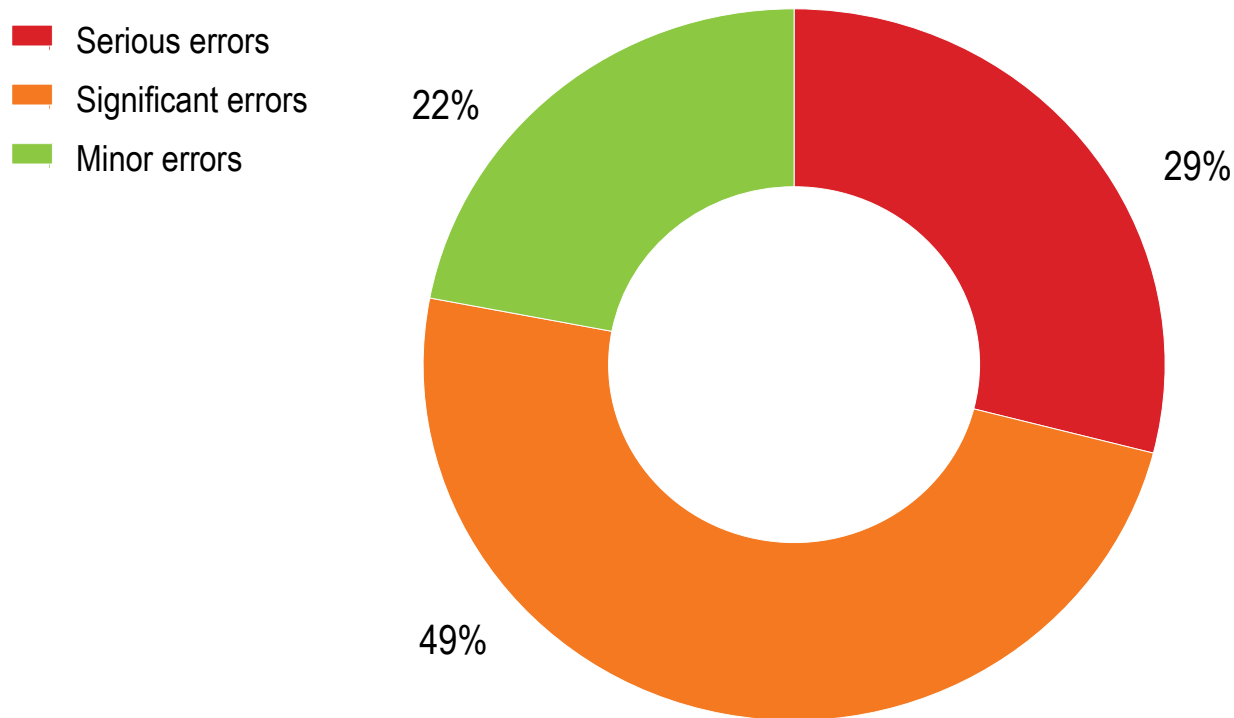


Source: European Commission (2018), *Open Data Portal for the European Structural and Investment Funds* (<https://cohesiondata.ec.europa.eu/>)



# The management of structural funds could improve

Implementation errors found by the European Court of Auditors<sup>1</sup>



1. Errors detected between 2009 and 2013.

Source: European Court of Auditors (2015), *"Efforts to address problems with public procurement in EU cohesion expenditure should be intensified"*, Special Report No. 10.



# Recommendations to reduce regional divides

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- 1. Prioritise cohesion funding to less developed regions.**
- 2. Better target cohesion funding on human capital, innovation and network infrastructure.**
- 3. Consider increasing national co-financing rates to encourage better project selection.**
- 4. Create a “single rule book” for EU funding programmes to facilitate spending.**
- 5. Use e-government and e-procurement more often to facilitate control of spending.**

# For more information

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