

External Imbalances in the European Union Before and After the Financial Crisis

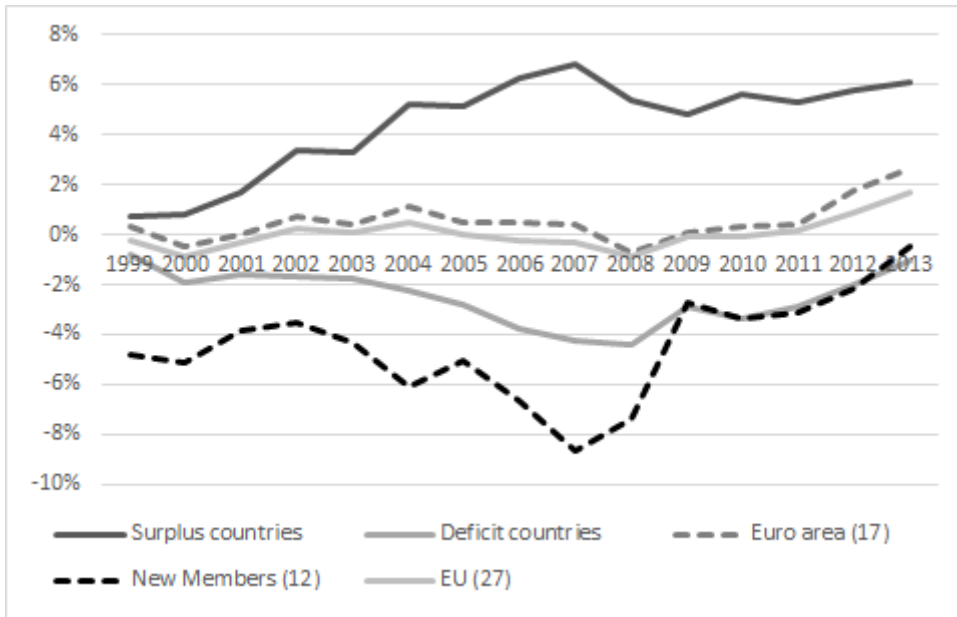
(stylized facts and elementary regressions, May 2014)

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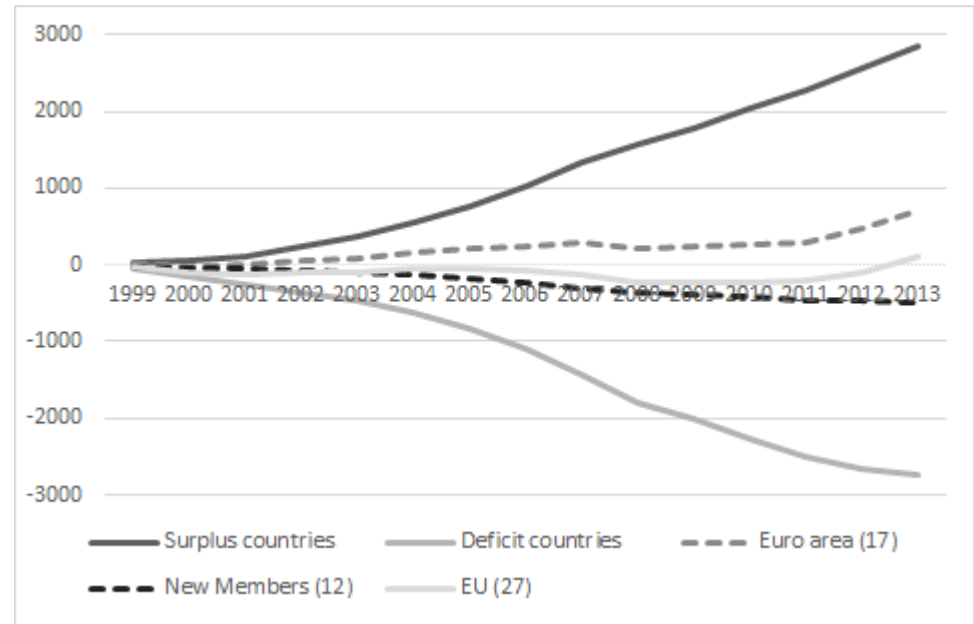
Abstract

Economic development in the EU during the pre-crisis period was typical of substantial macroeconomic and financial imbalances. Since the start of the crisis the size of imbalances has reduced rapidly, creating severe adjustment pressures. The aim of the research is to quantify the effect of the crisis on the size of external imbalances and to demonstrate the adjustment process in the EU. An emphasis is put on imbalances in the current account savings and investment, and divergence in international competitiveness. Stylized facts on evolution of the imbalances are supplemented with regression analysis covering pre-crisis and post-crisis periods to document the effect of the financial crisis. The results suggest that the crisis contributed significantly to reduction of the imbalances mainly due to a sudden stop in private capital flows that financed and stimulated domestic demand in deficit countries.

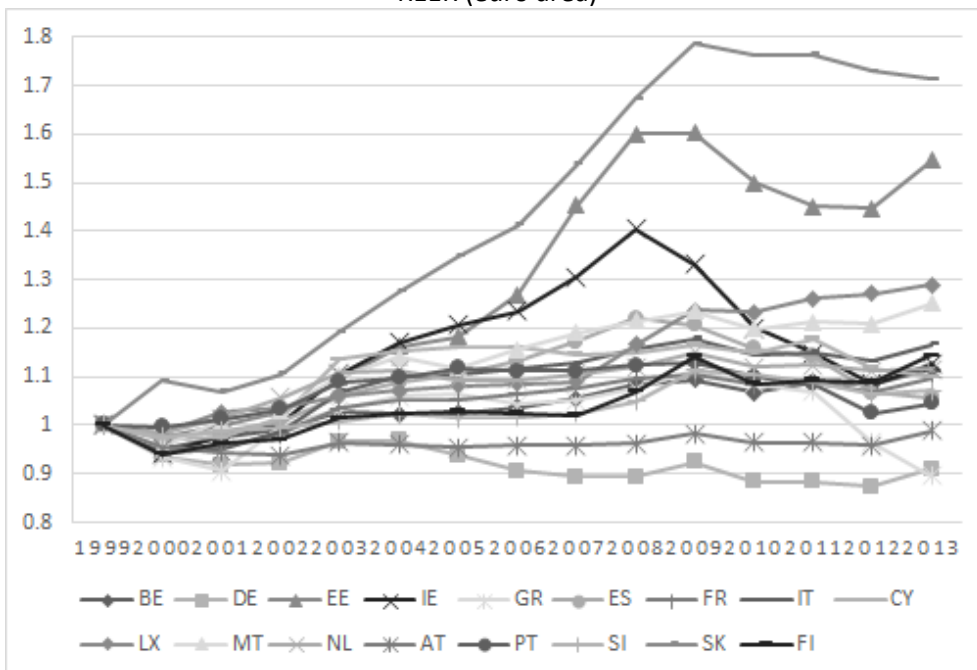
Current account (% GDP)



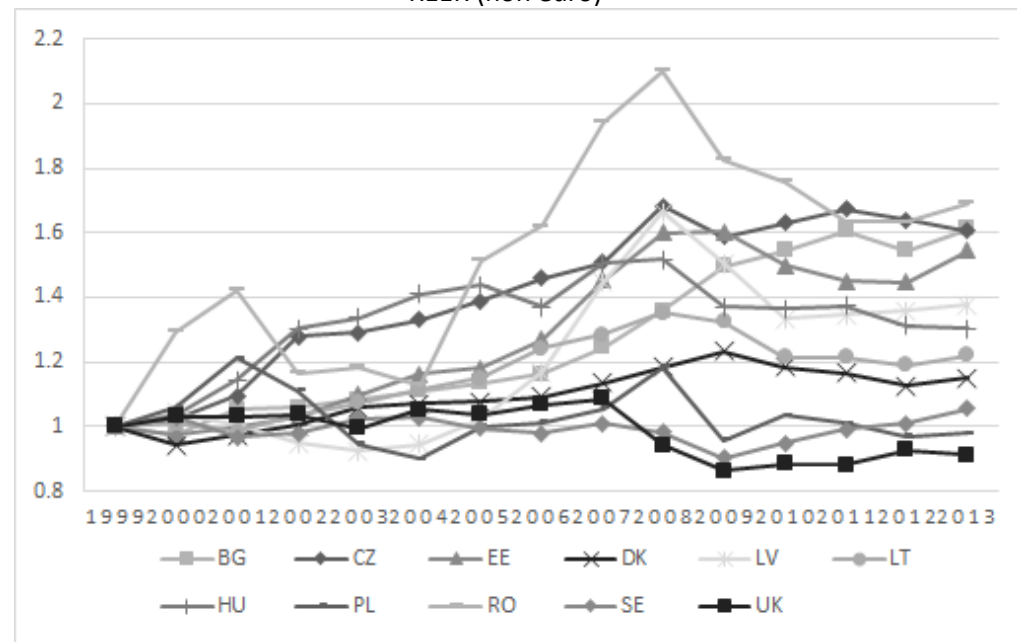
Current account (cumulative mld. EUR)



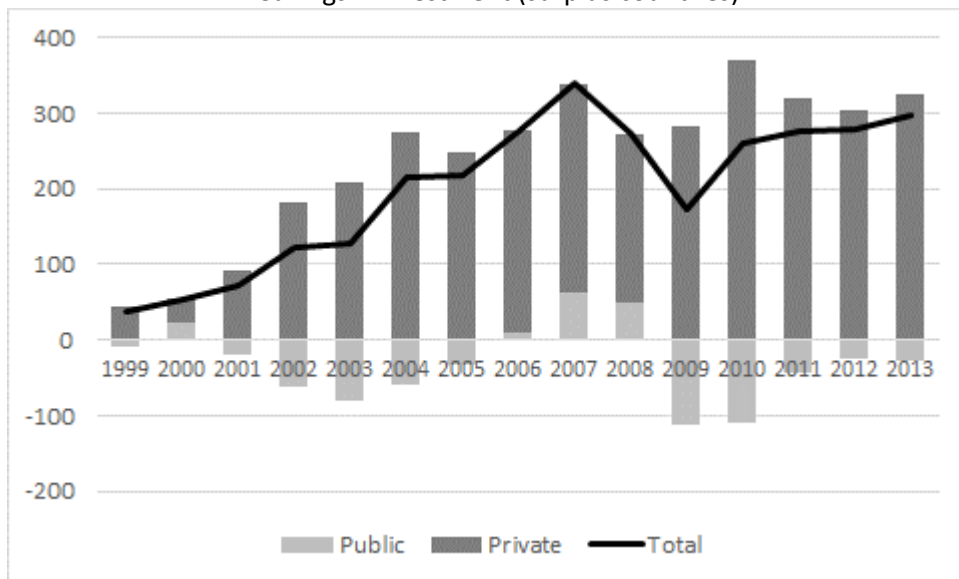
REER (euro area)



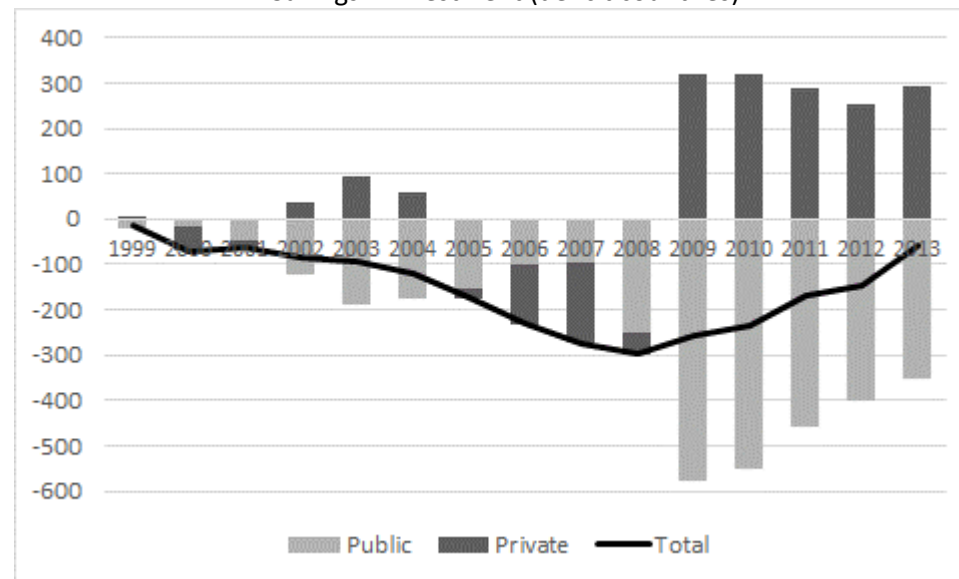
REER (non euro)



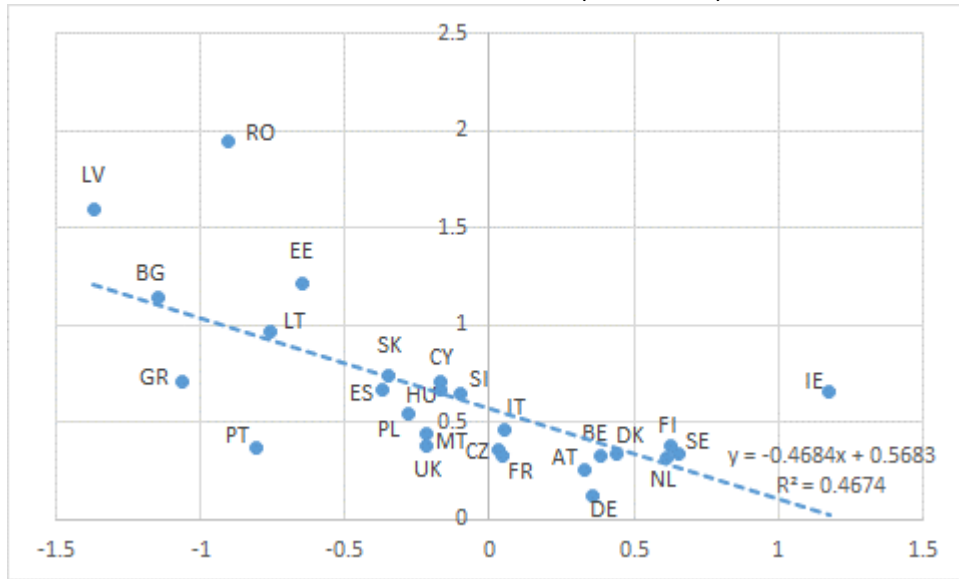
Savings – Investment (surplus countries)



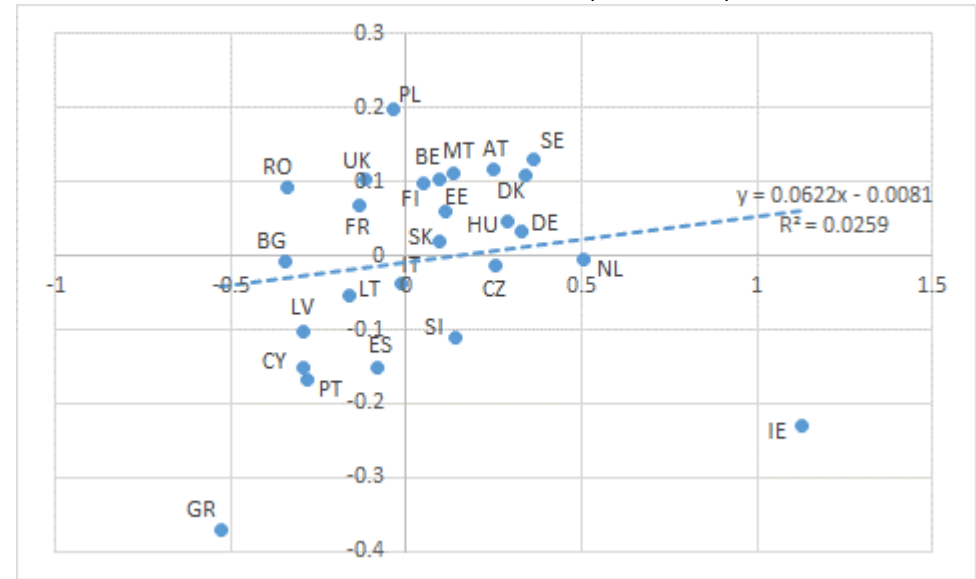
Savings – Investment (deficit countries)



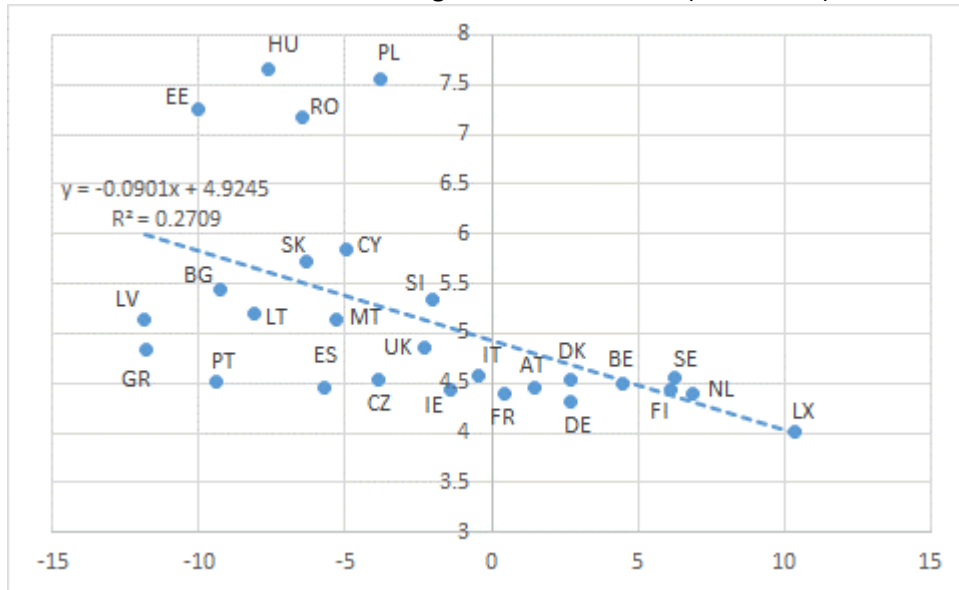
Trade balance – Demand (1999-2007)



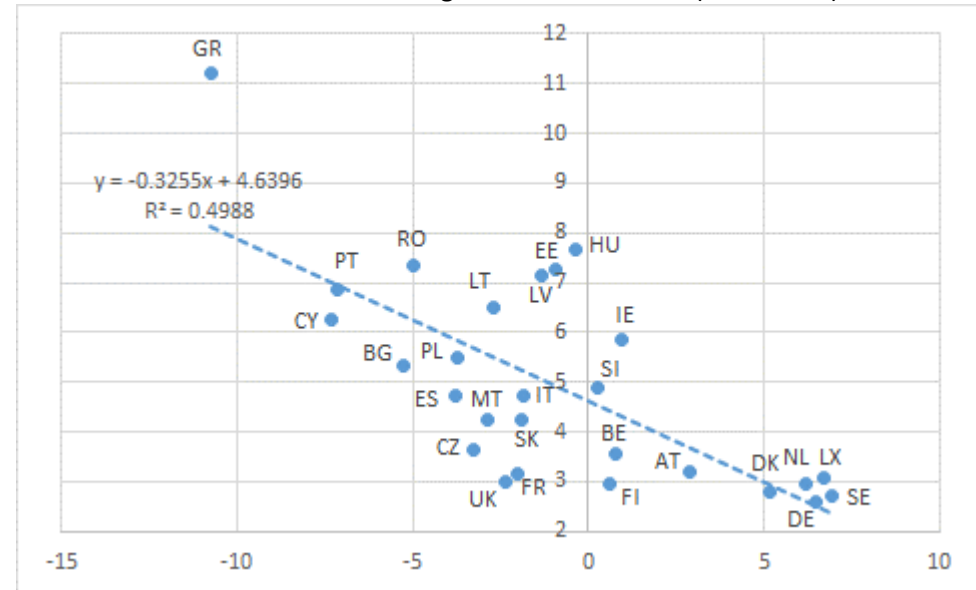
Trade balance – Demand (2008-2013)



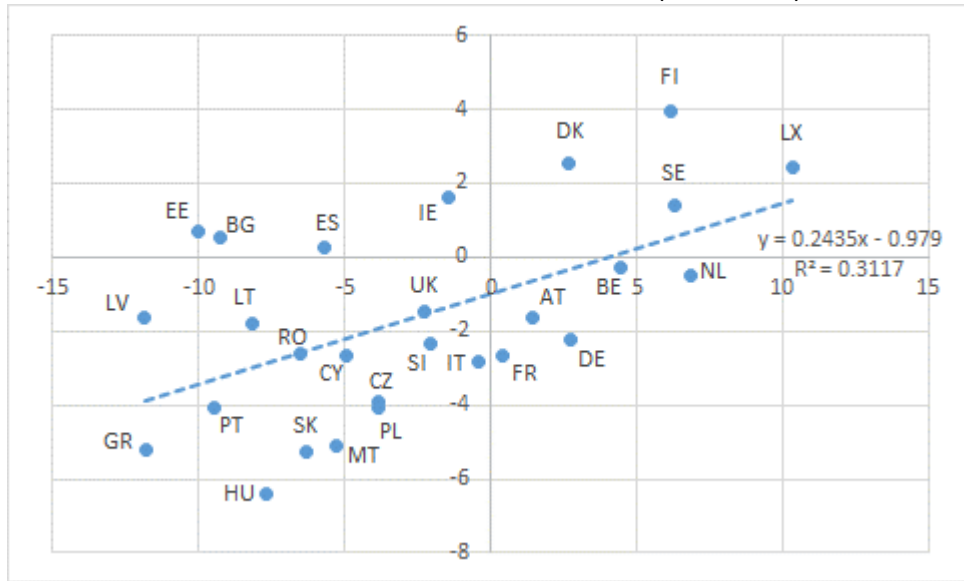
Current account – Long-term interest rates (1999-2007)



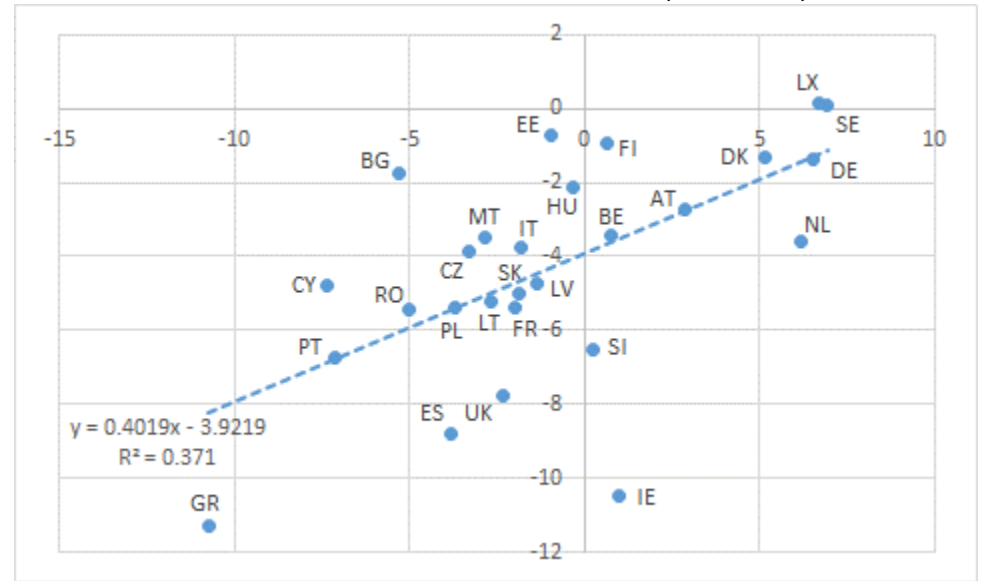
Current account – Long-term interest rates (2008-2013)



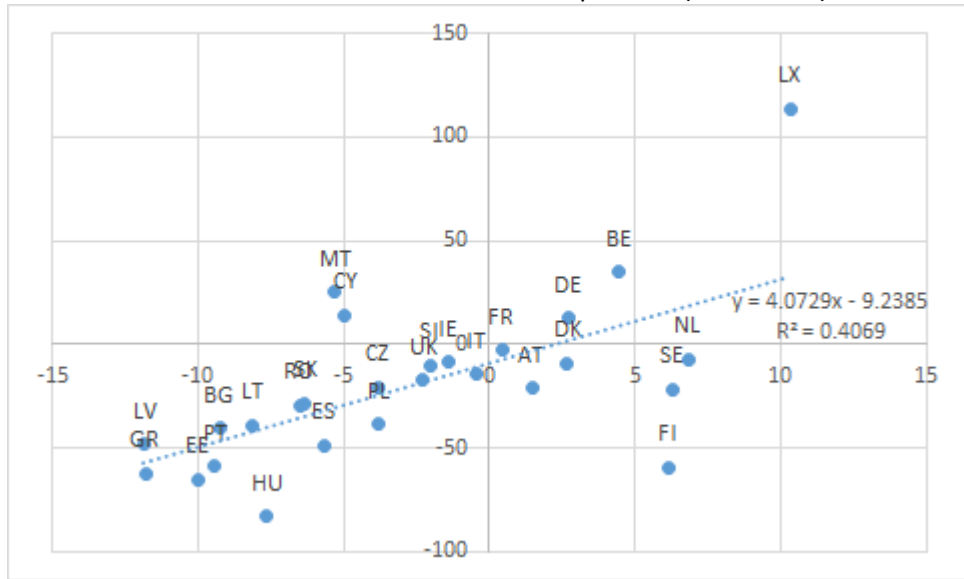
Current account – Government deficit (1999-2007)



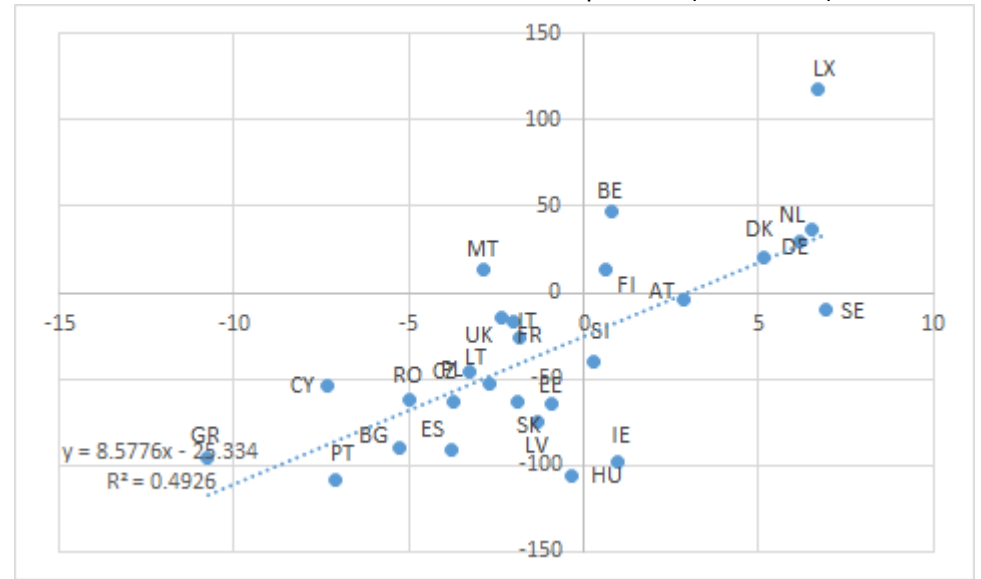
Current account – Government deficit (2008-2013)



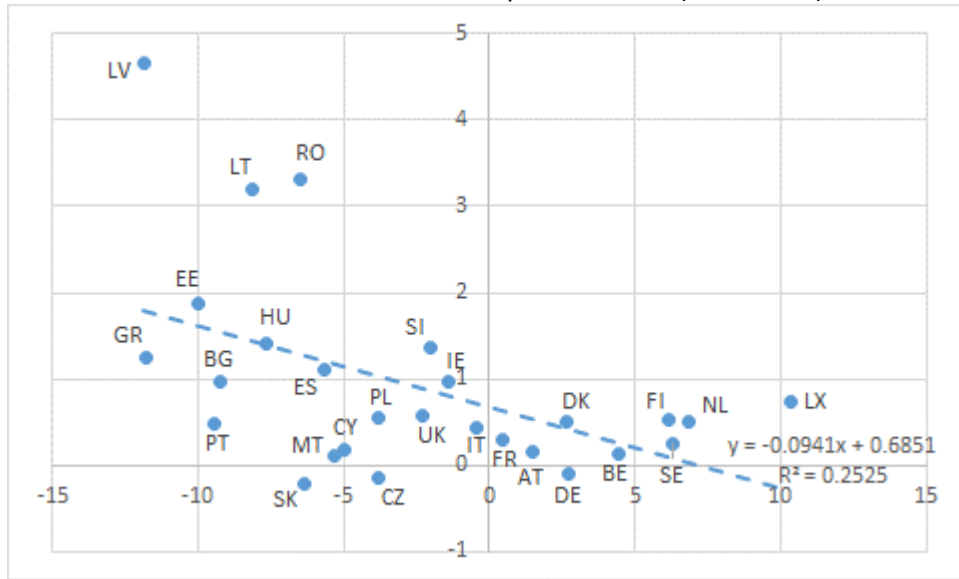
Current account – Intl investment position (1999-2007)



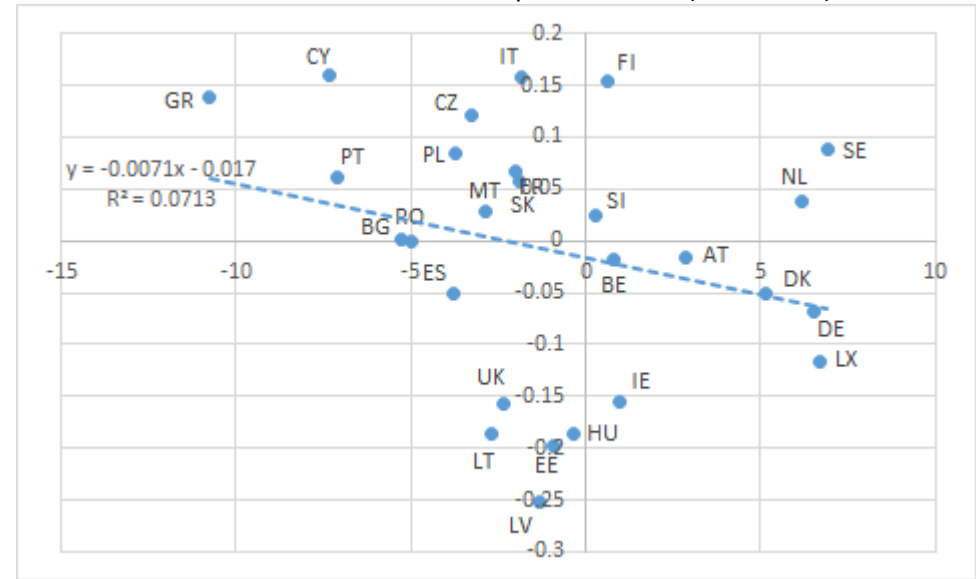
Current account – Intl investment position (2008-2013)



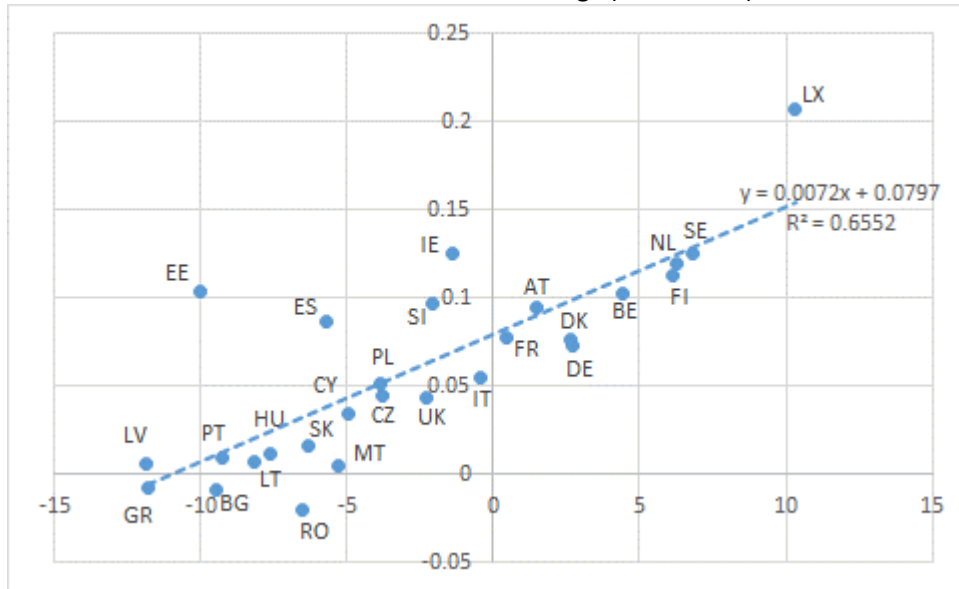
Current account – Credit to private sector (1999-2007)



Current account – Credit to private sector (2008-2013)



Current account – Net savings (1999-2007)



Current account – Net savings (2008-2013)

