

PhD in Development Studies

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Development challenges for Southern Europe in the Euro zone

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Topics

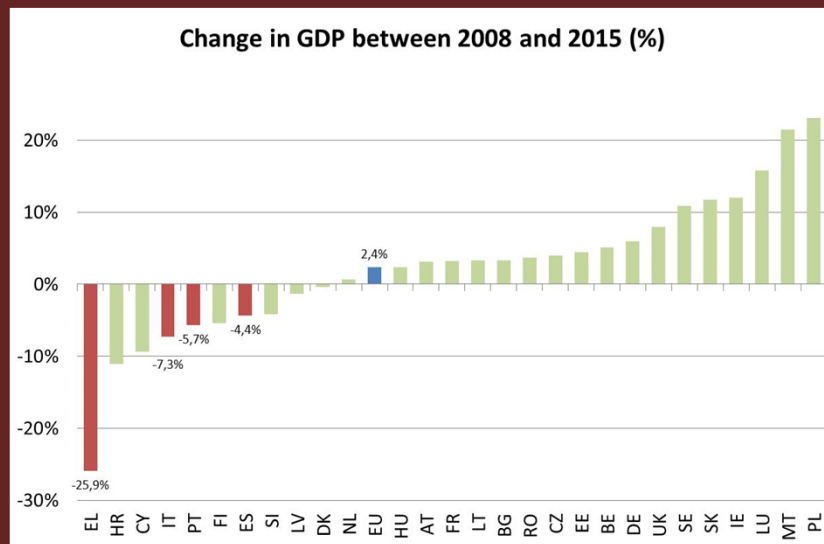
- 1) The impacts of the financial and euro zone crises
Southern European countries (Gr, It, Pt and Es)
- 2) Structural similarities and differences between the
Southern European countries
- 3) The different paths towards the euro zone crisis
- 4) Alternative approaches to the development challenges
in the Southern European countries

1) The impacts of the financial and euro zone crises Southern European countries

The impacts of the financial and euro zone crises on the Southern countries

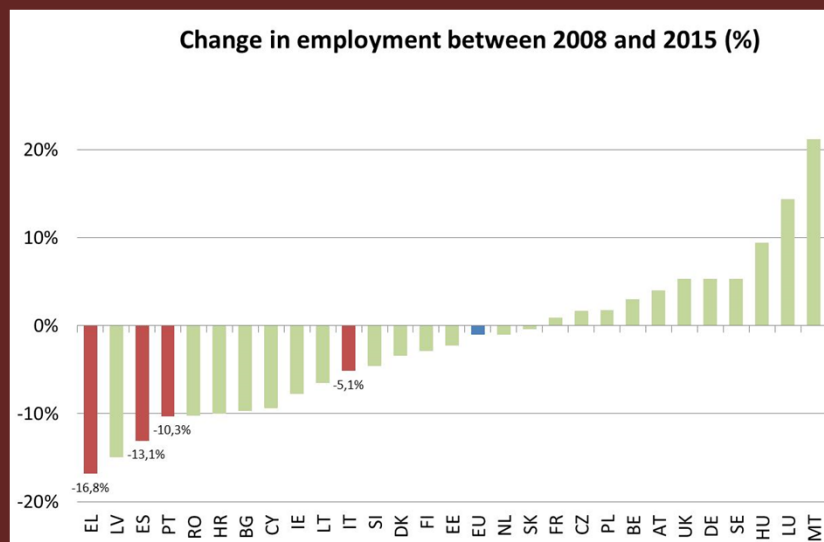
- Contraction of GDP and employment
- Growth of (long-term) unemployment
- The risk of a 'lost generation'
- Growth of poverty and social exclusion
- Decreasing population (in Portugal and Greece)

The contraction of GDP



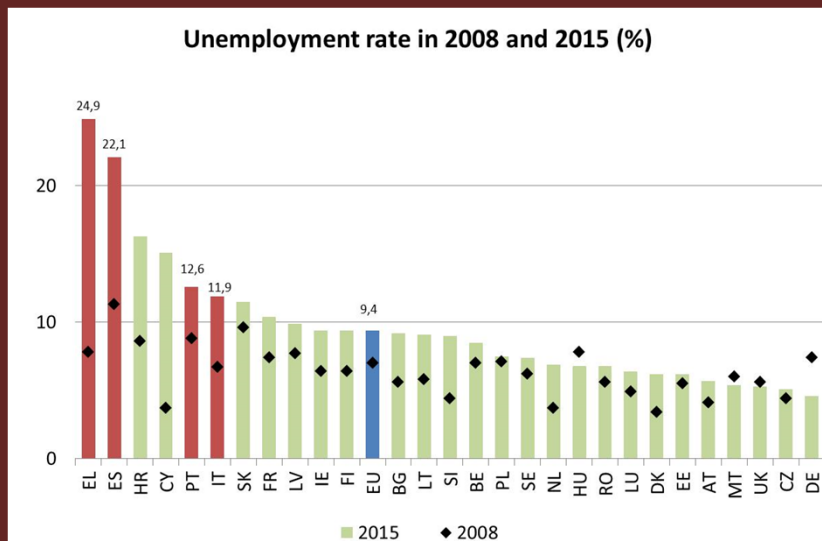
Source: AMECO

The contraction of employment



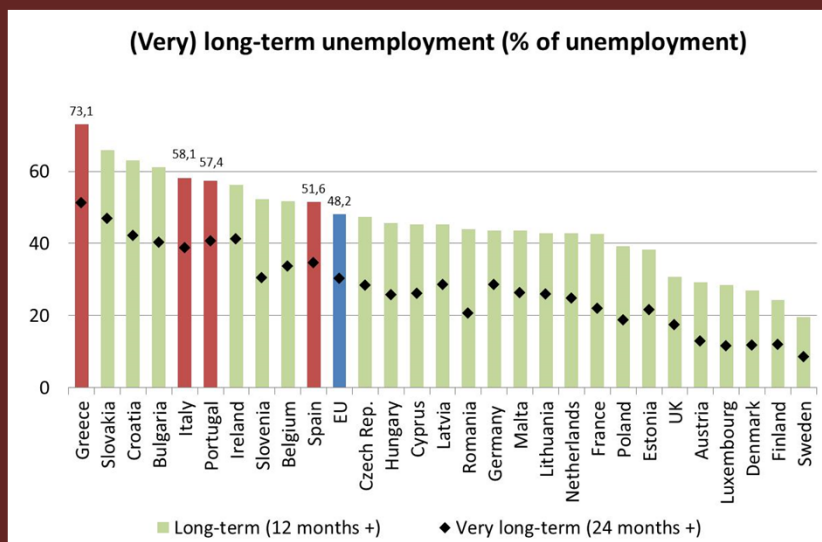
Source: AMECO

The growth of unemployment



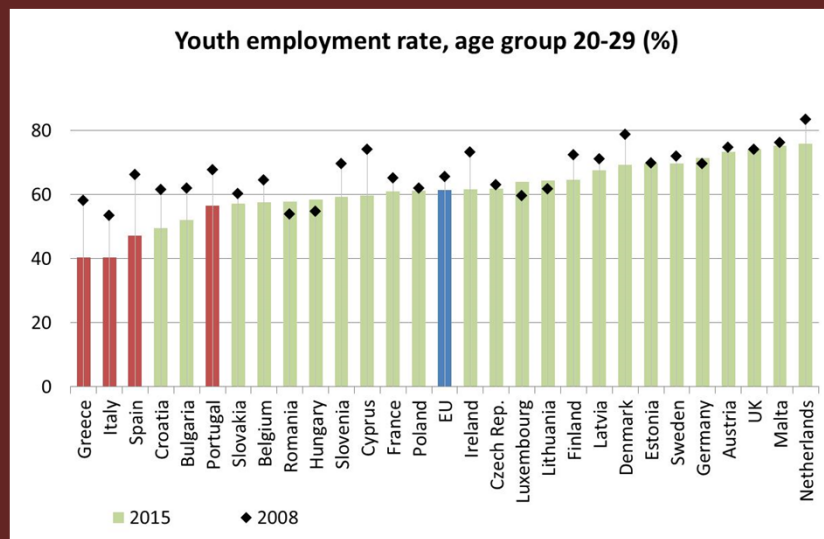
Source: AMECO

The increasing duration of unemployment

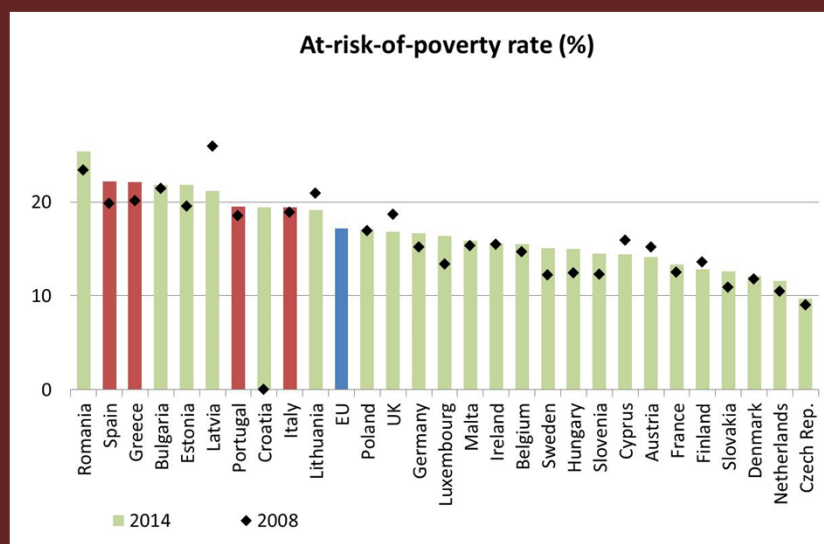


Source: Eurostat

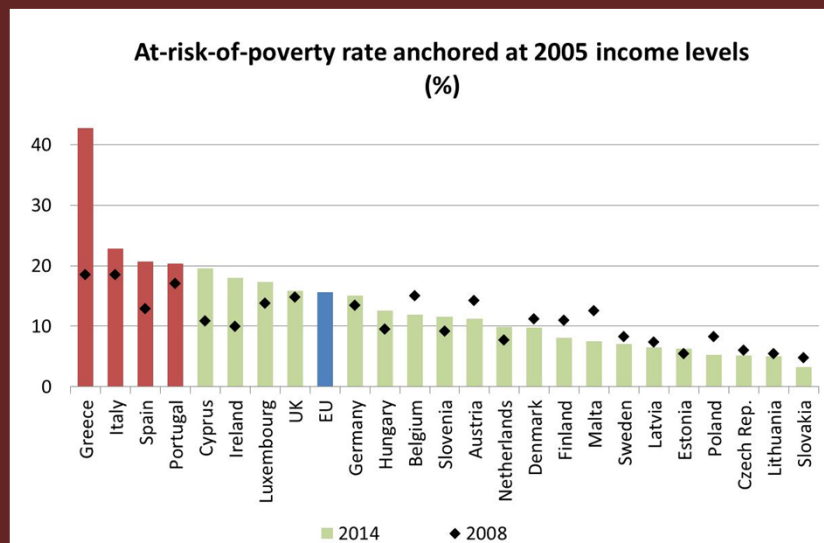
The risk of a 'lost generation'



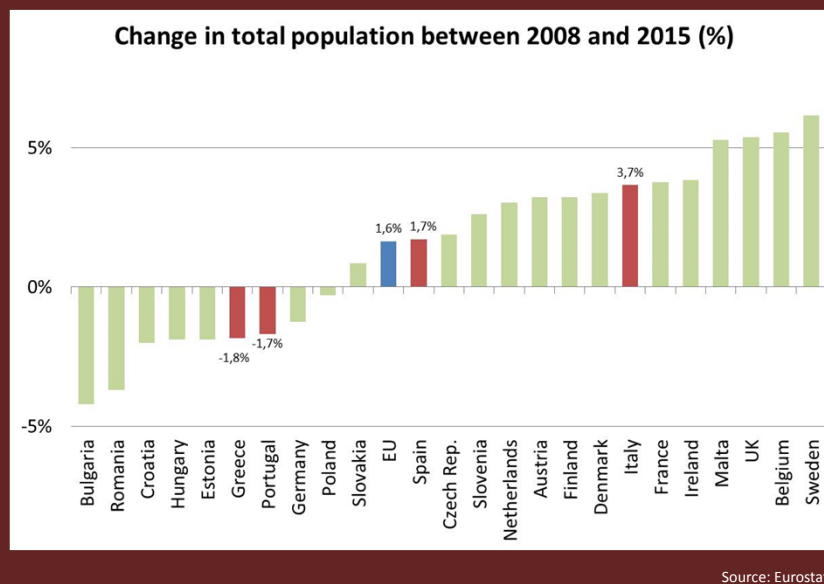
Growth of poverty and social exclusion (1)



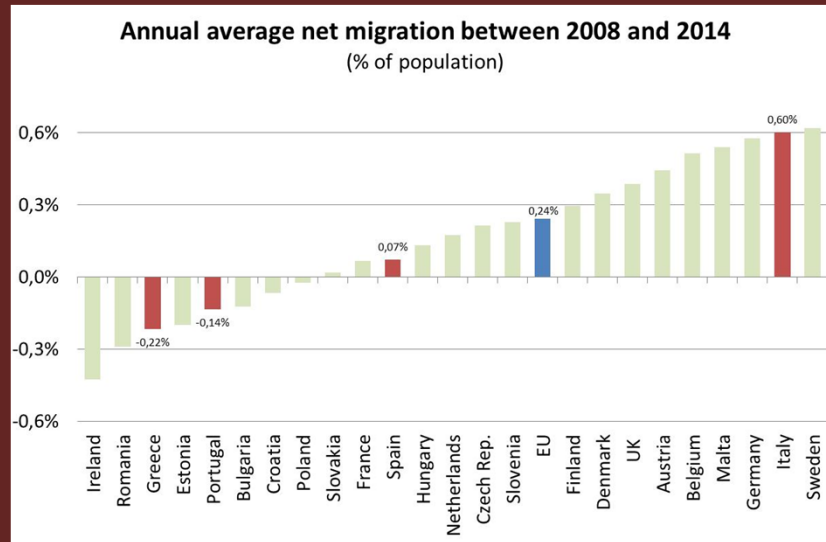
Growth of poverty and social exclusion (2)



Decreasing population in PT and GR (1)



Decreasing population in PT and GR (2)



Source: Eurostat

Two key questions:

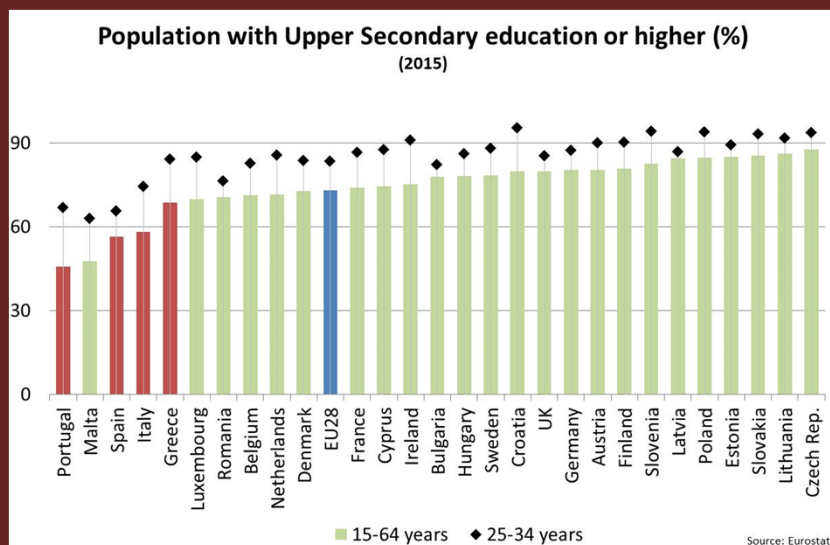
- What made the Southern European countries so vulnerable to the crises of the past decade?
- How can they find a sustainable way out of the current situation?

2) Structural similarities and differences between Southern European countries

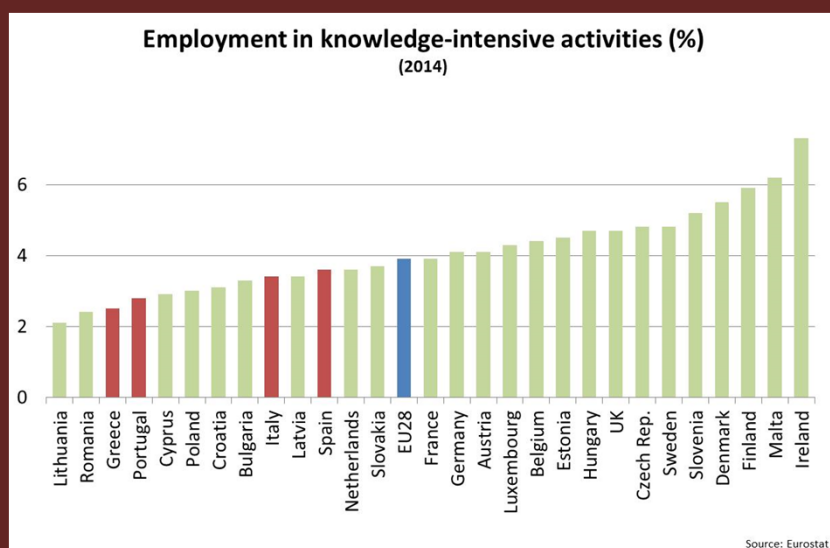
Structural features of Southern euro zone countries in comparative perspective

Similarities	Differences
<ul style="list-style-type: none"> • Low levels of education • Weak specialization profile • Weak business structure • Institutional inefficiencies • High inequality • Ageing population 	<ul style="list-style-type: none"> • Domestic market size • Catching up trajectory • Employment share of agriculture and manufacturing • Presence of world-leading corporations

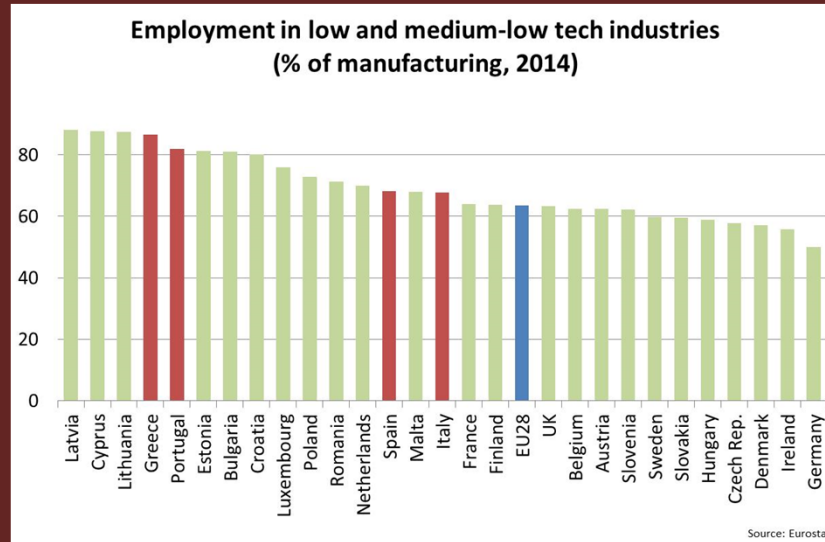
Low levels of education attainment



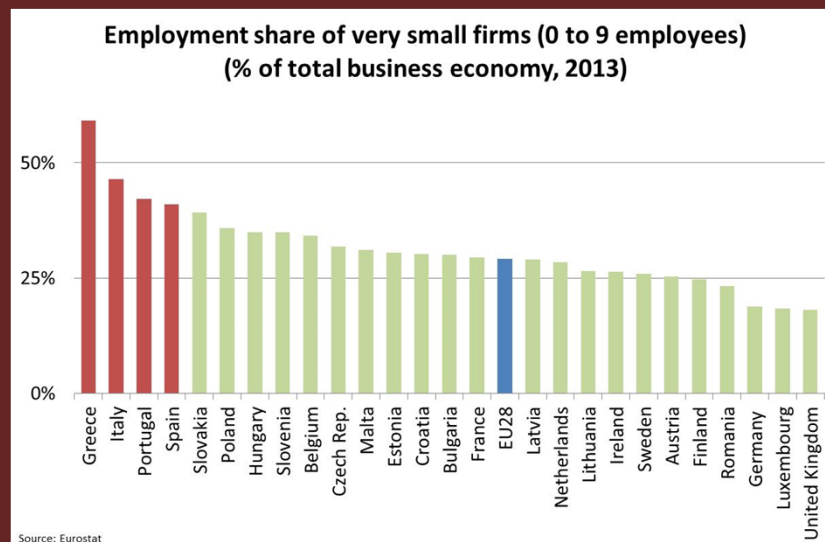
Weak specialization profile (1)



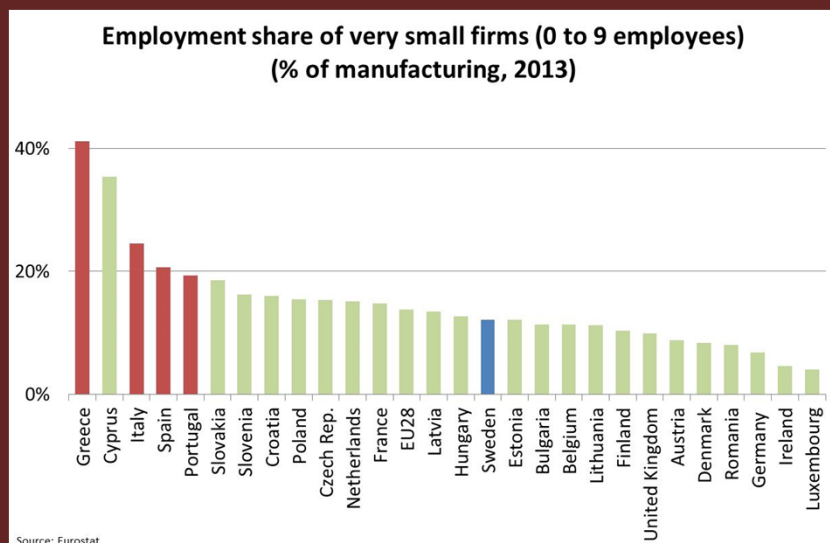
Weak specialization profile (2)



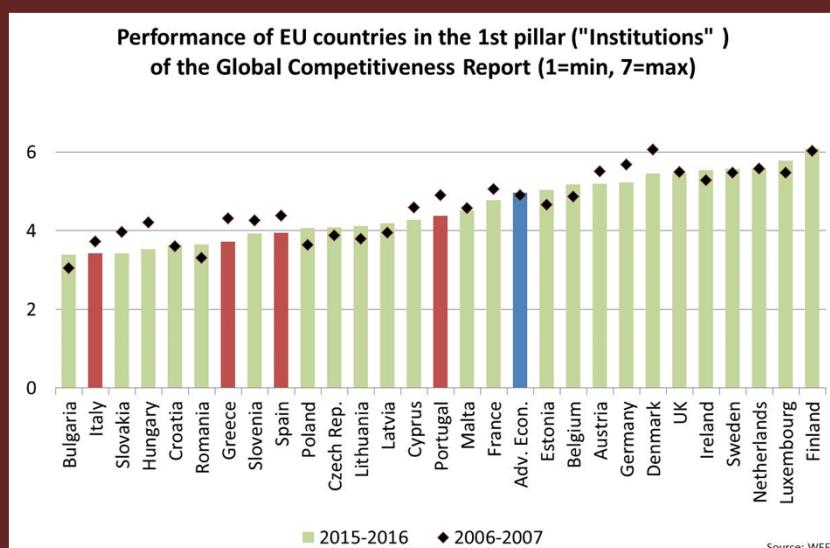
Weak business structure (1)



Weak business structure (2)

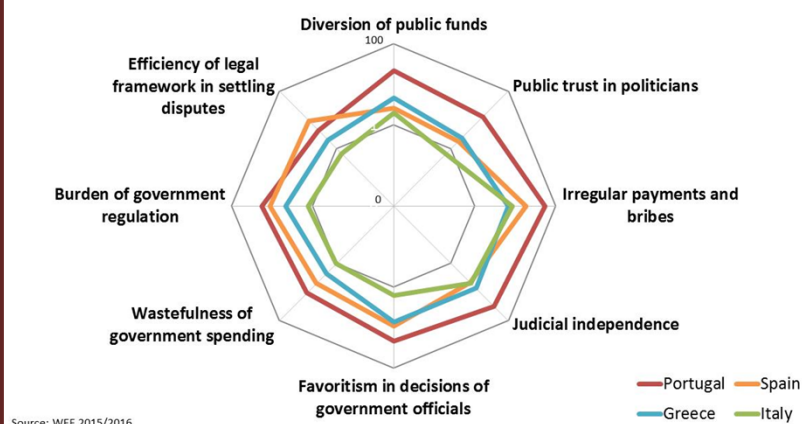


Institutional inefficiencies (1)



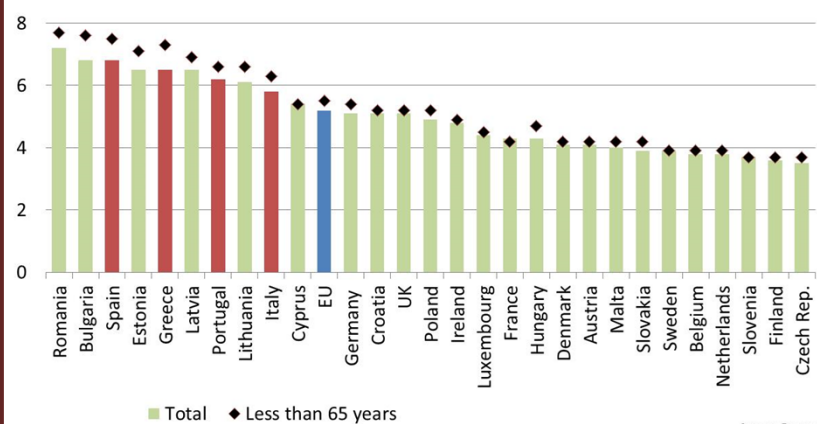
Institutional inefficiencies (2)

Performance in selected GCR's 1st pillar indicators (Institutions)
relative to the average of Advanced Economies (=100)

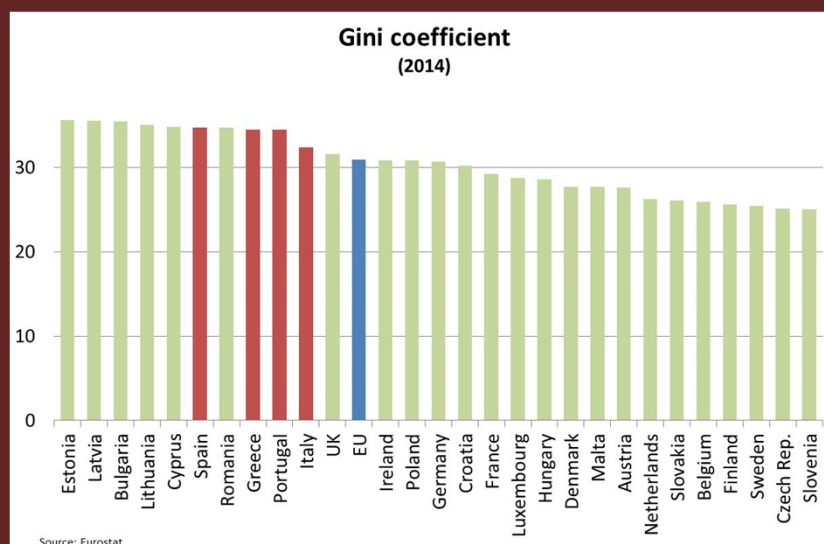


High inequality (1)

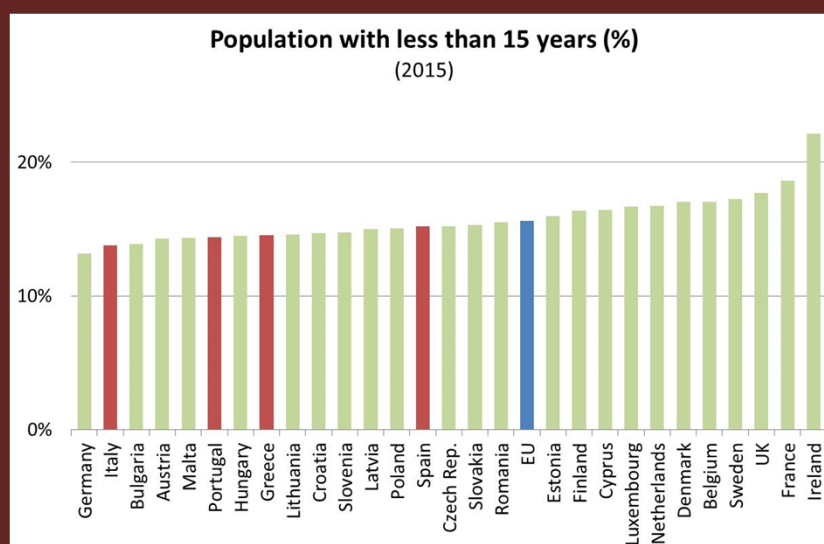
Income quintile share ratio (S80/S20)
(2014)



High inequality (2)



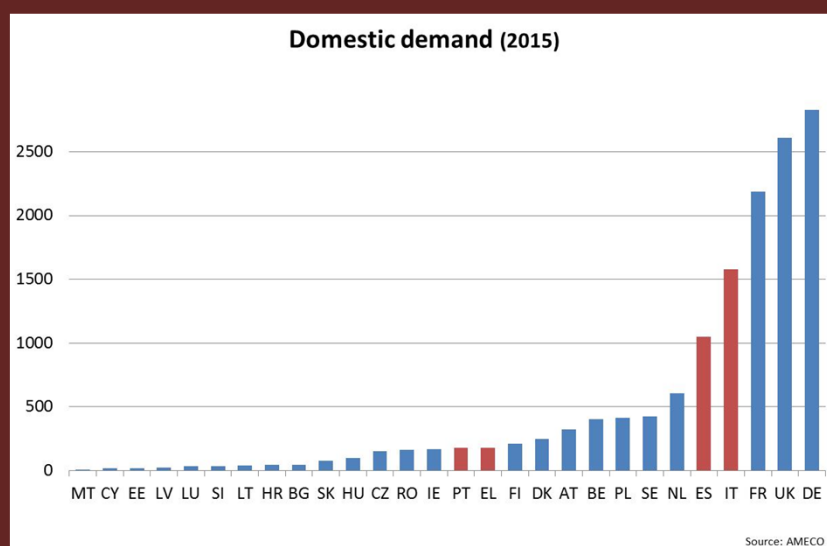
Ageing population



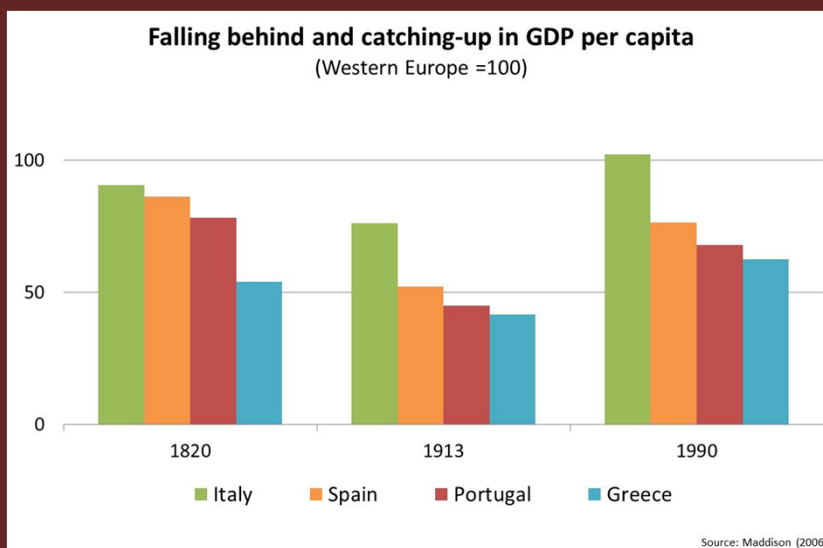
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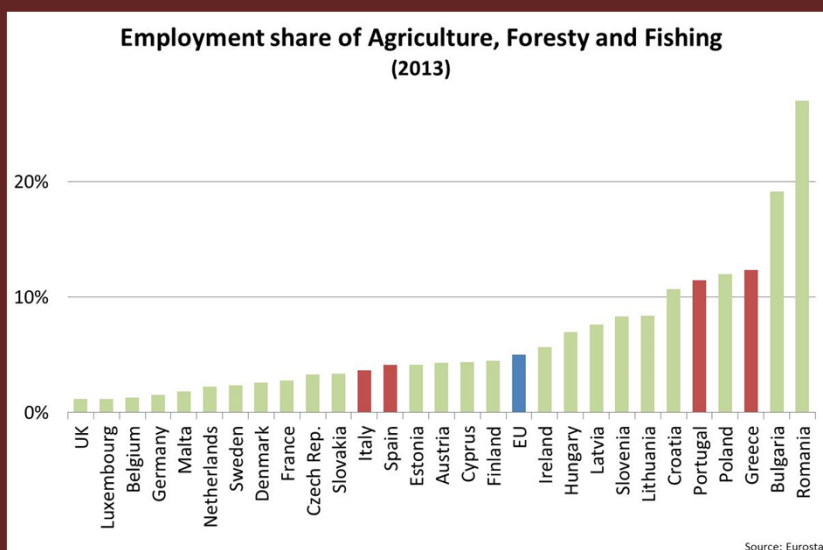
Domestic market size



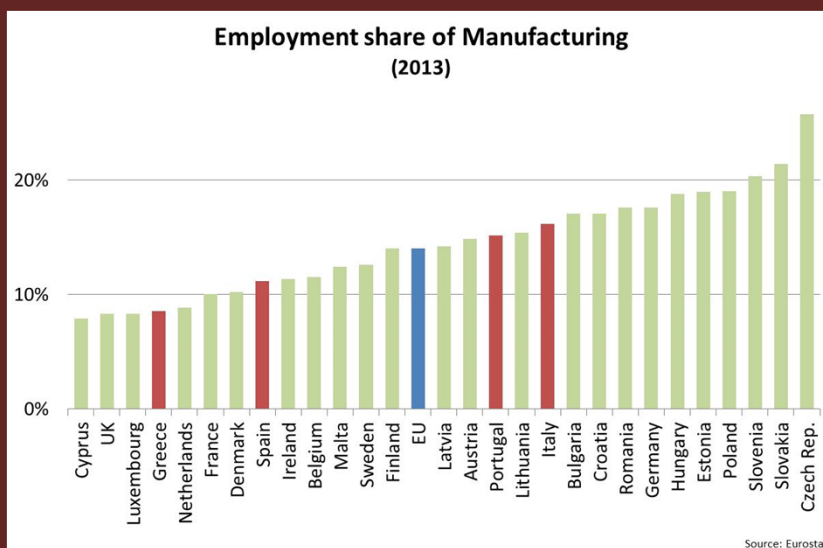
Catching-up trajectory



Employment share of Agriculture



Employment share of Manufacturing



Presence of world-leading corporations

Forbes' List of the World's 2000 Biggest Public Companies (2015)

	Italy (30)	Spain (27)	Portugal (6)	Greece (8)
Bank & insurance	17	10	3	5
Construction & transport infrastructures	1	6	0	0
Oil, gas & electricity	6	5	2	3
Other	6 Finmeccanica Prada, Atlantia, Luxottica, Telecom Italia, Seat-Pagine Gialle	6 Inditex, Grifols, Amadeus IT, Abengoa, Telefónica, Ferrovial	1 Jerónimo Martins	0

Source: www.forbes.com/global2000

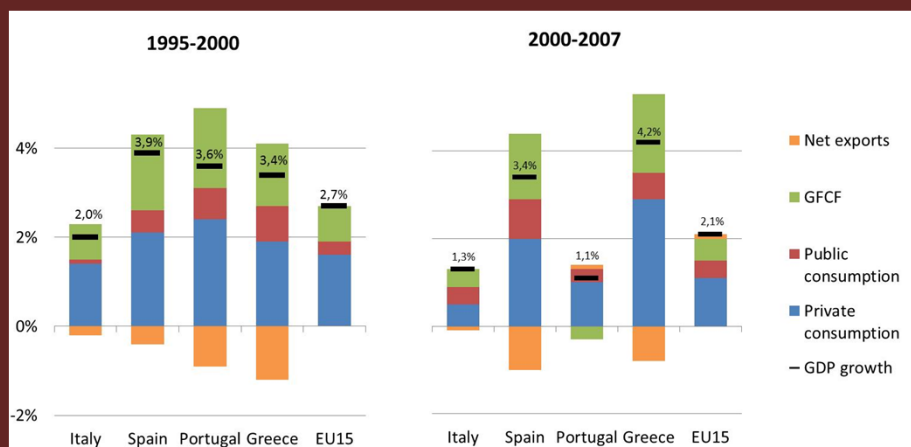
In sum

	Italy	Spain	Portugal	Greece
Weaknesses in education, productive structure, institutions, inequality, and demography	x	x	x	x
Small domestic market			x	x
Still catching-up in GDP per capita		x	x	x
No world-level firms			x	x
High share of agriculture			x	x
Small share of manufacturing		x		x

3) The different national paths towards the euro zone crisis

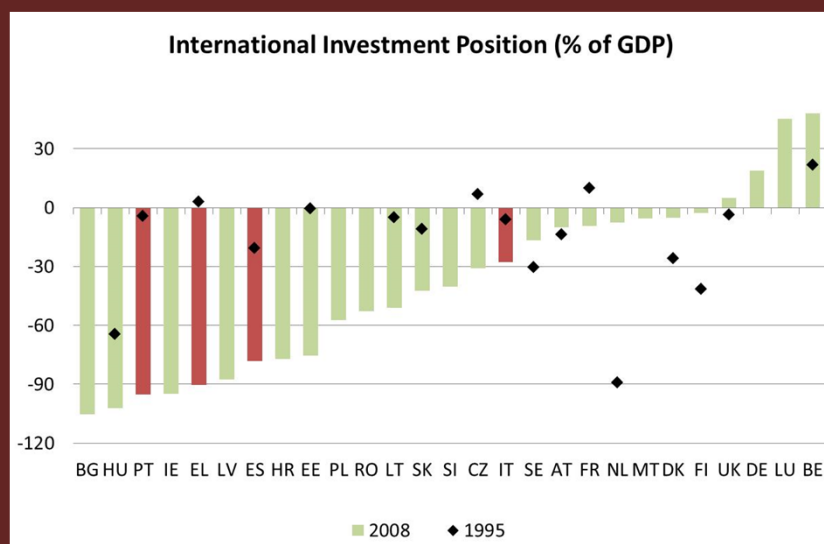
GDP growth and its drivers in the run-up to the euros zone crisis

Average annual GDP growth rate and its components (%)



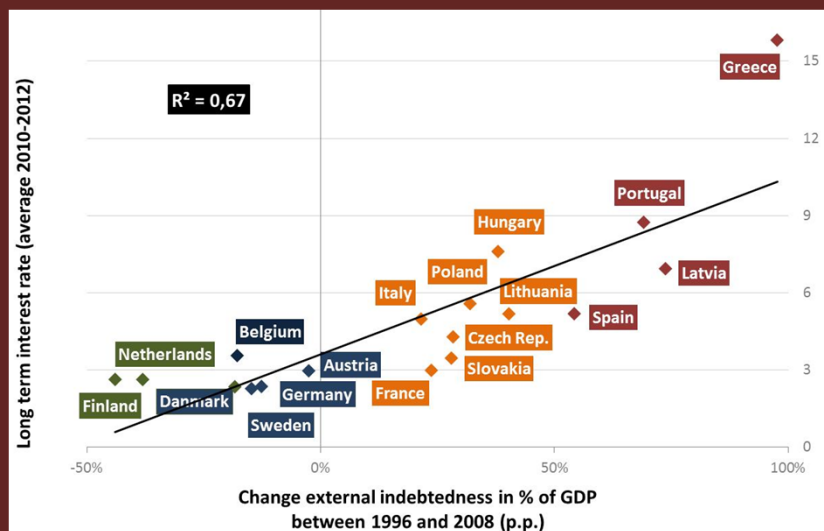
Source: AMECO

Growing external imbalances in the euro zone



Source: AMECO

The relation between the 'sovereign debt crisis' and external indebtedness



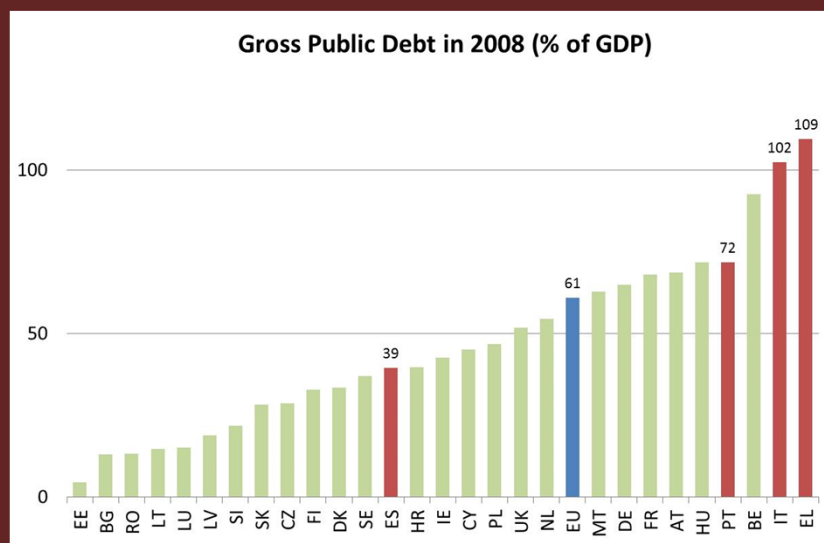
Which factors led to the growing external indebtedness in the Southern European countries?

Possible determinants of the external imbalances within the EU

- Fiscal positions of national governments

Source: Carrasco and Penedo (2015)

Fiscal positions of national governments



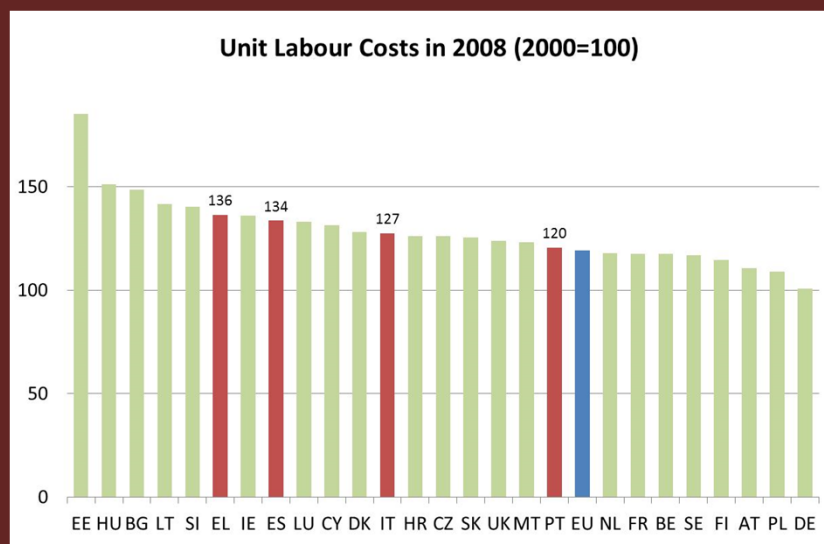
Source: AMECO

Possible determinants of the external imbalances within the EU

- Fiscal positions of national governments
- Diverging trends in price competitiveness

Source: Carrasco and Penedo (2015)

Diverging trends in price competitiveness



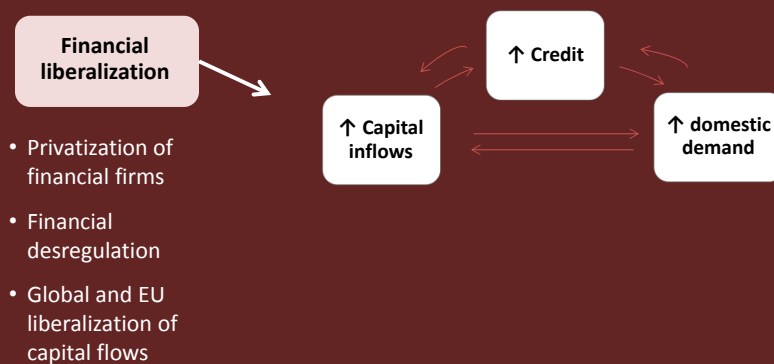
Source: AMECO

Possible determinants of the external imbalances within the EU

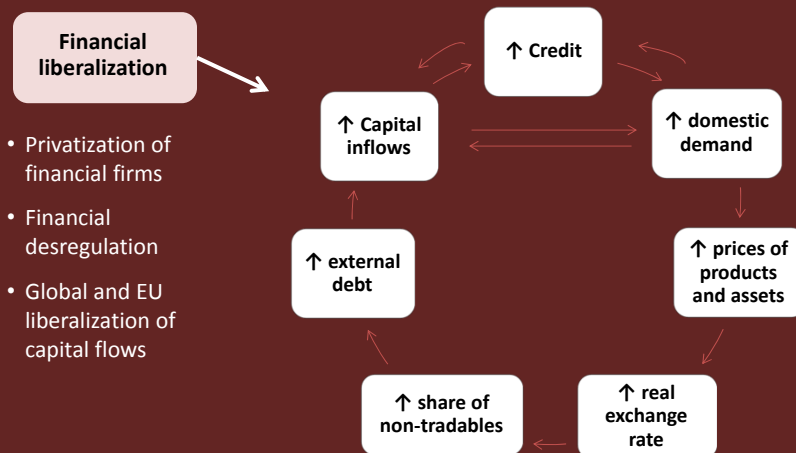
- Fiscal positions of national governments
- Diverging trends in price competitiveness
- Financial integration and catching-up

Source: Carrasco and Penedo (2015)

The impacts of financial integration of external imbalances



The impacts of financial integration of external imbalances



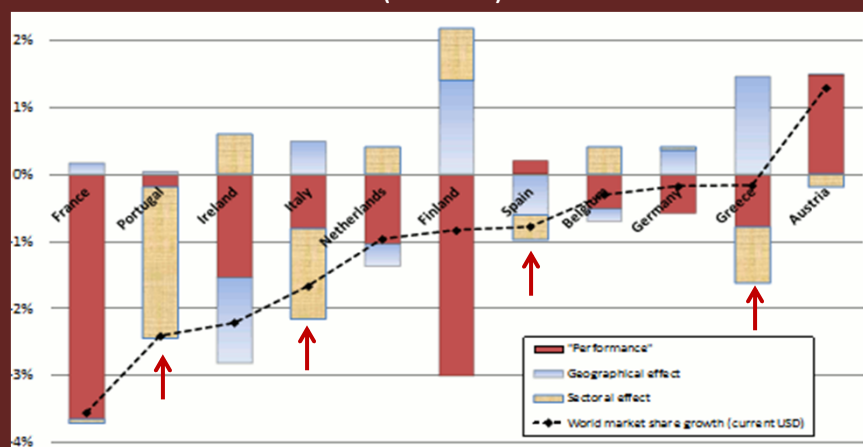
Possible determinants of the external imbalances within the EU

- Fiscal positions of national governments
- Diverging trends in price competitiveness
- Financial integration and catching-up
- Private saving-investment decisions (partially related to demographic features)
- Diverging trends in non-price competitiveness

Source: Carrasco and Penedo (2015)

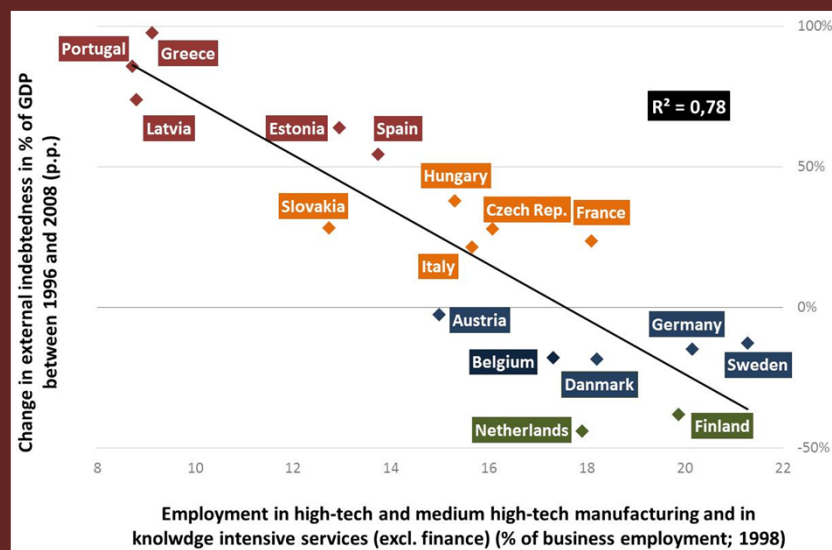
Trends in non-price competitiveness

Shift-share analysis of the average annual change in the world share of exports (1999-2007)



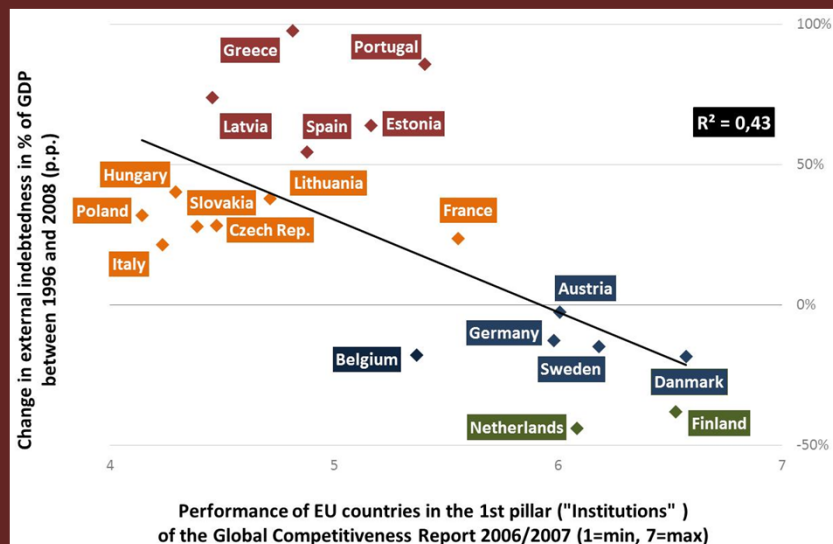
Fonte: Gaulier et al. (2012)

The association between external indebtedness and the specialization profile



Source: AMECO and Eurostat

The association between external indebtedness and the institutional performance

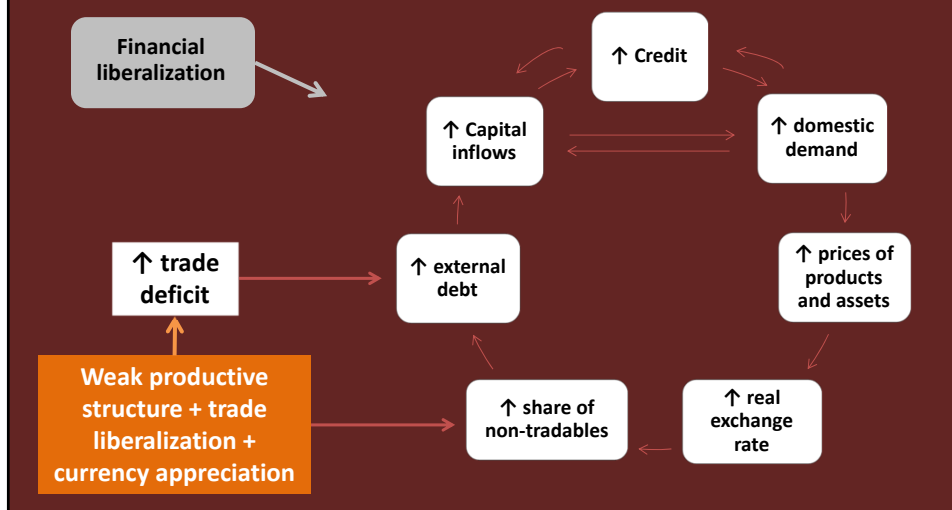


The contribution of different determinants to the external imbalances within the EU

Carrasco and Penedo (2015) find that current account changes are determined by:

- In the short term: real ULC [price competitiveness] and the cyclically-adjusted component of fiscal policy.
- In the medium term: GDP per capita [catching-up], old-age dependency ratio [saving preferences], and high-tech exports [non-price competitiveness].

The interaction of financialization with the lack of non-price competitiveness



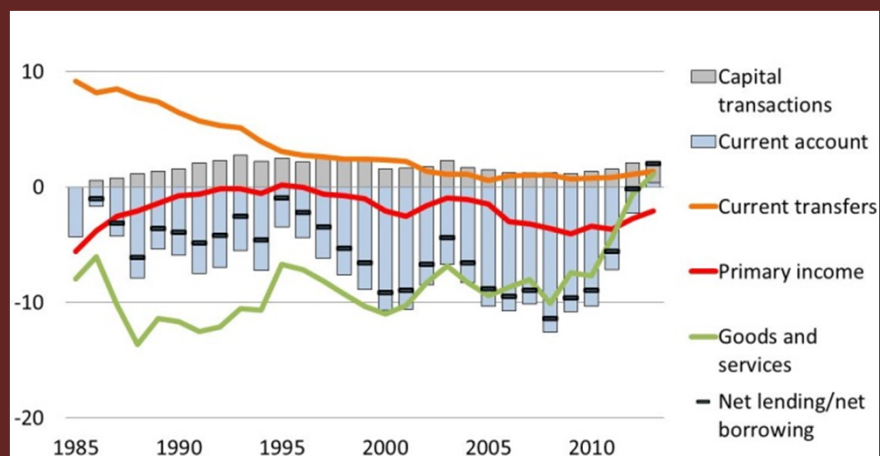
Possible determinants of the external imbalances within the EU

- Fiscal positions of national governments
- Diverging trends in price competitiveness
- Financial integration and catching-up
- Private saving-investment decisions (partially related to demographic features)
- Diverging trends in non-price competitiveness
- Diminishing EU transfers to the Southern countries

Source: Carrasco and Penedo (2015) Mamede et al. (2016)

Capital and current account imbalances and its drivers: the case of Portugal (1)

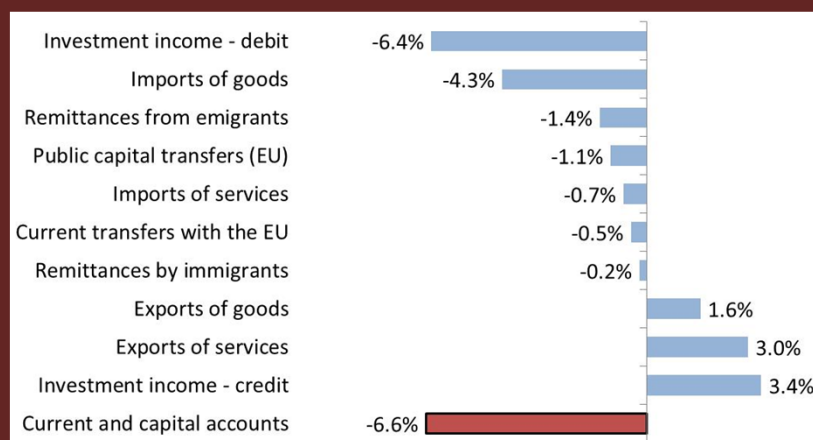
Net capital transactions and current account and its components, Portugal (% of GDP)



Source: AMECO

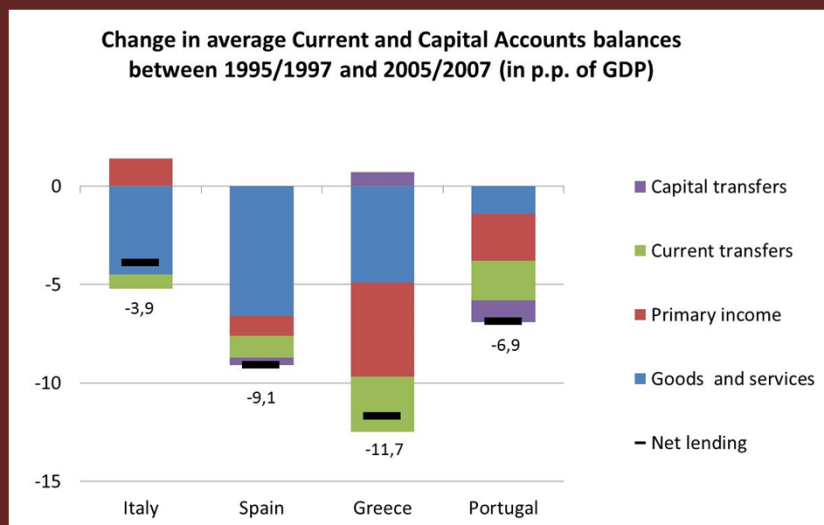
Capital and current account imbalances and its drivers: the case of Portugal (2)

Contributions to the change in the current and capital accounts between 1996-1997 and 2006-2007 (annual averages, in percentage of GDP)



Source: Mamede et al. (2016)

Capital and current account imbalances and its drivers in Southern European countries



4) Alternative approaches to the development challenges in the Southern European countries

The adequate approach depends on the relevant underlying problem(s)

Problem	Solution
Fiscal discipline	Increase the constraints on national fiscal practices

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