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INTERNATIONALES**

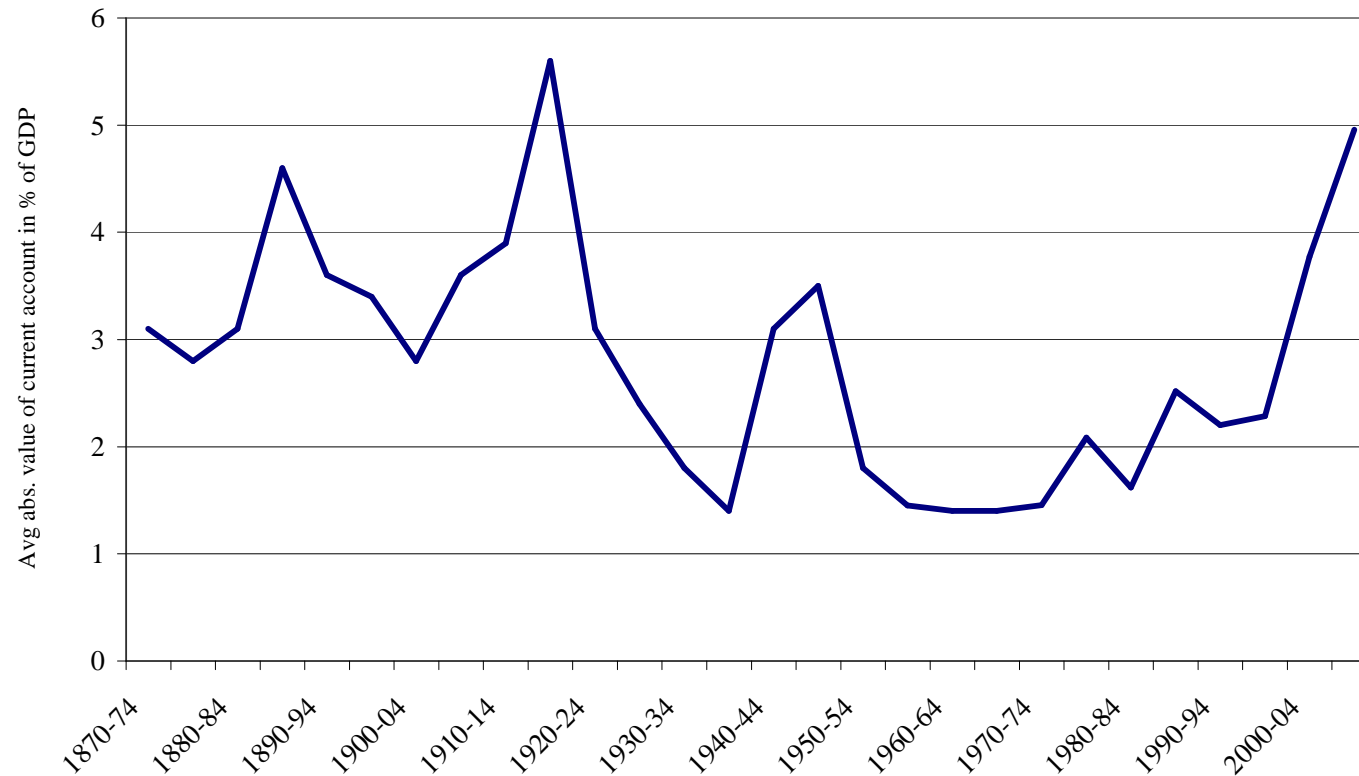
Current Account Imbalances in the Euro Area

Discussion by

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May 25, 2007

International financial integration

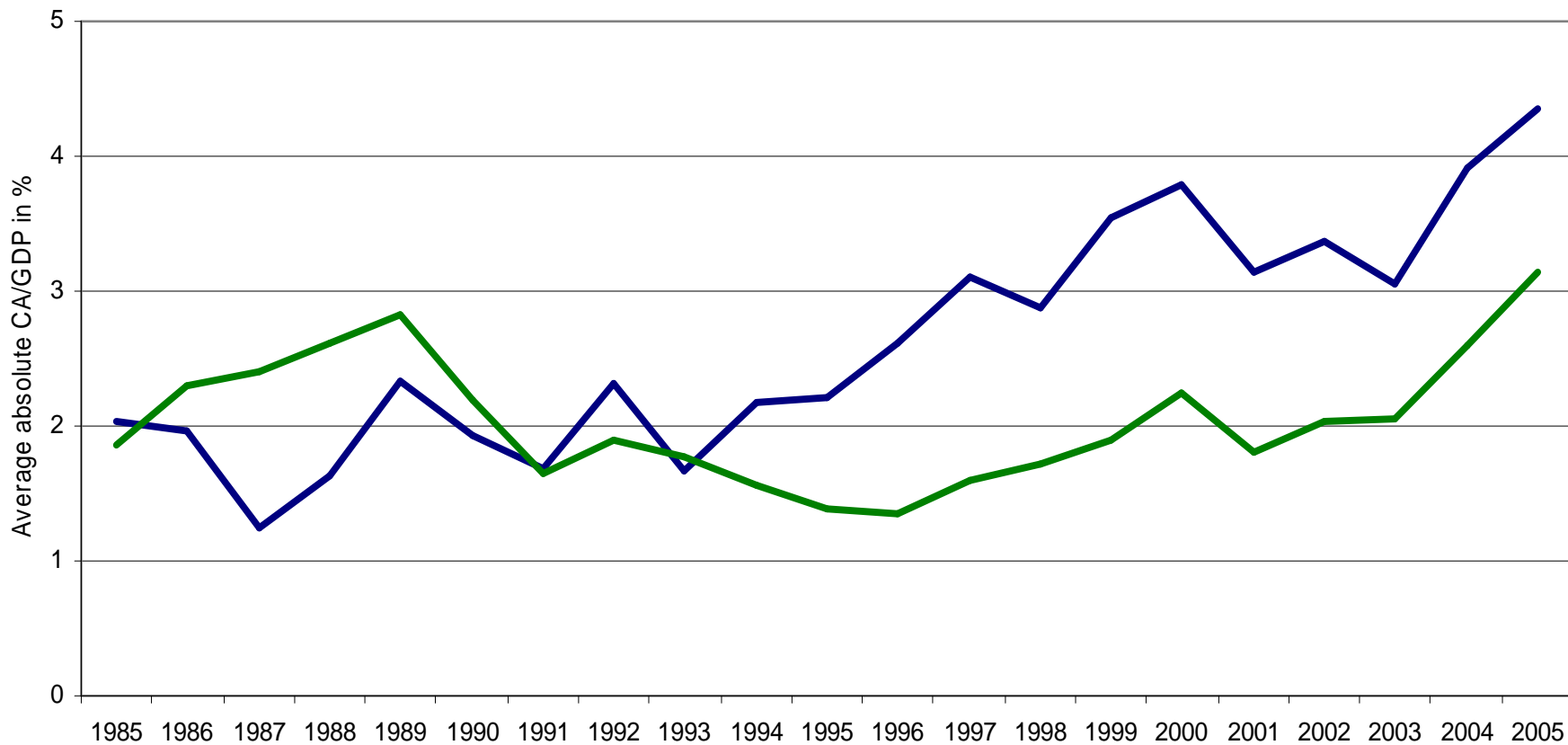


Sources: Taylor (1996), FERI.

Note: The capital mobility index is defined as the average of the absolute values of current accounts relative to GDP for major capital-importing and capital exporting countries. The countries include Argentina, Australia, Canada, Denmark, France, Germany, Italy, Japan, Norway, Sweden, the United Kingdom, and the United States.

Eurozone vs G7

International financial integration



Source: IMF, CEPII.

— Avg Eurozone — Avg G7

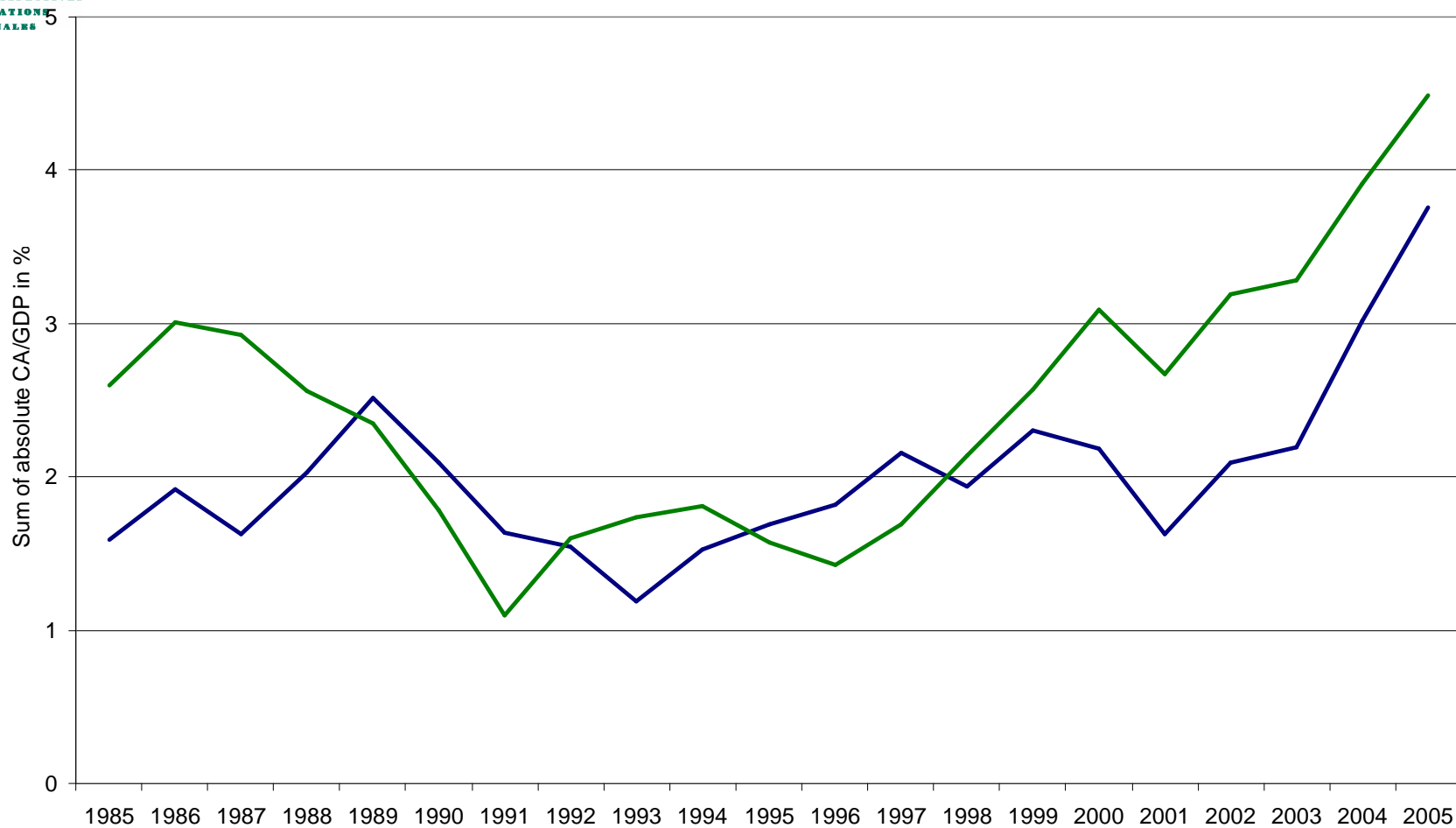


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Eurozone vs G7, weighted

International financial integration



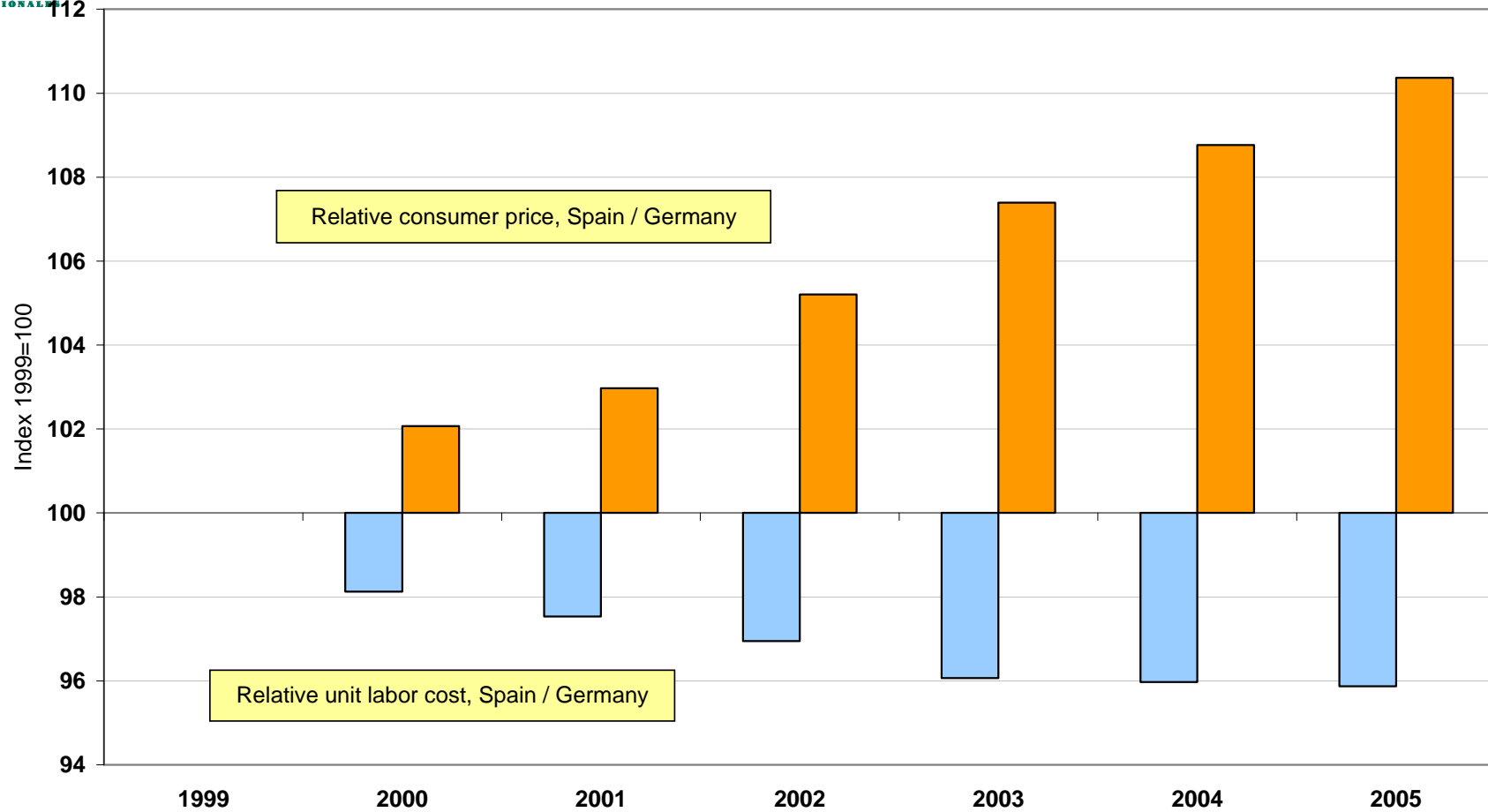
Source: IMF, CEPII.

— SumEurozone/GDP % — SumG7/GDP %

Current account imbalances: two views

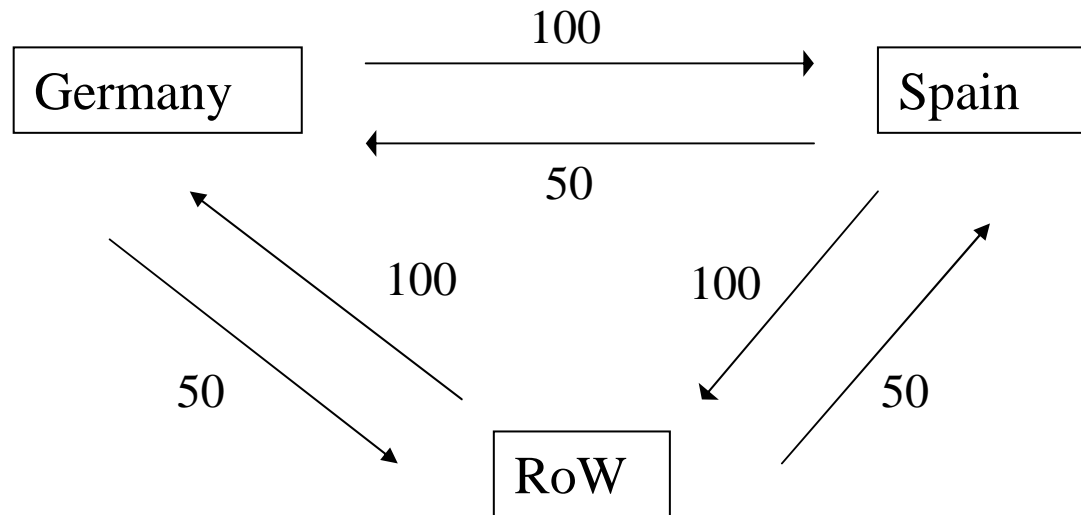
- *Trade* view: competitiveness, demand → *extra* Euro area
- *Capital* view: growth in an open economy → *intra* Euro area

Intra: trade view insufficient



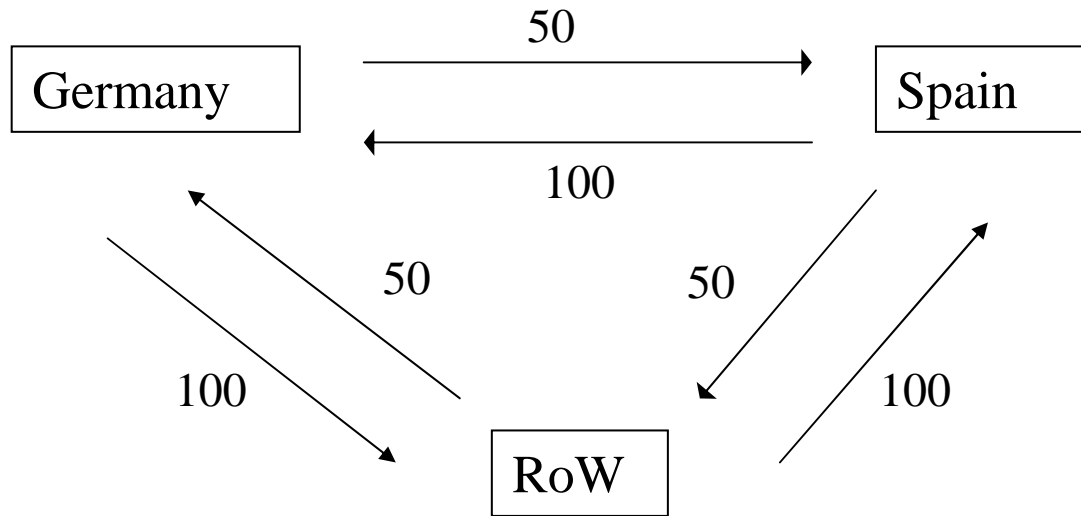
Source: Eurostat.

Bilateral trade imbalances as a measure of financial integration

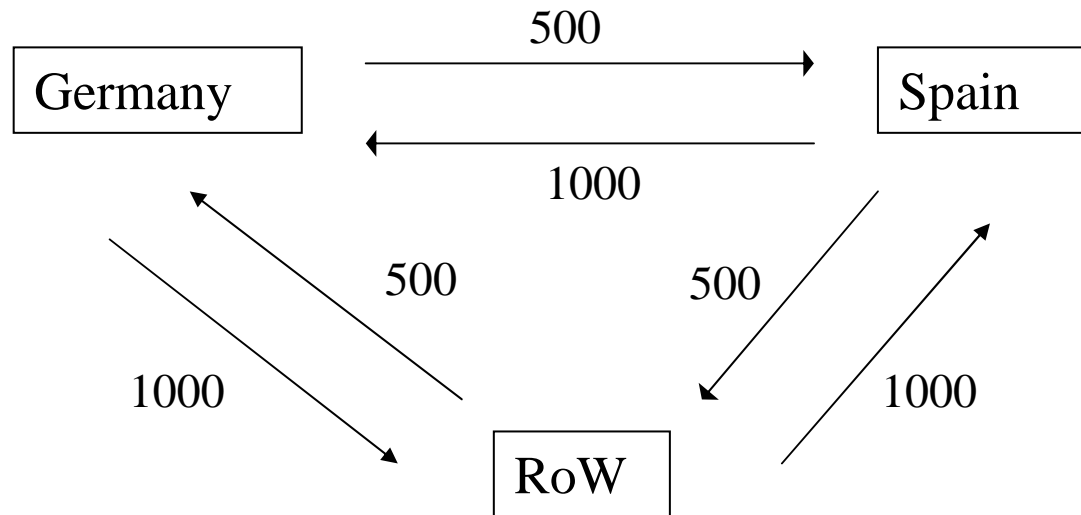


Is capital flowing from Germany to Spain?

Capital flows consistent with bilateral trade imbalances



And also



Bottom line:

- $(TB_{\text{Spain}} - TB_{\text{Germany}})$ rather than $TB_{\text{Spain/Germany}}$
- Or direct measure of bilateral flows (FDI?)

The Data

- Service exports?

Part des services dans les exportations et les importations totales (%)

	Exportations		Importations	
	1980	2003	1980	2003
France	28	22	20	18
Allemagne	14	14	18	23
Royaume-Uni	24	32	20	25
Etats-Unis	18	33	15	18

Source : CEPII, CHELEM-BAL-CIN.

- $\sum TB_{int ra} = 0 ?$

Intra-EU trade balances

$$TB_{intra} = f(DummyEMU, GDPcap, GDPcap * EMU, FiscalBal, Oil, REER)$$

Questions

- Theory
 - Intertemporal approach? not bilateral. Why not TB-TB*?
Productivity?
 - Trade approach? output gap, growth differential, exports/imports.
- Econometric methodology
 - Fixed effects?
 - Reverse causality (RER)?
- Interpretation
 - EMU dummy?

The Feldstein-Horioka Puzzle

- Pooled estimation?
- Correlation should be even lower for *private* saving and investment
 - SGP constraints public saving to more or less equalize public investment

Extra-EU trade balances

$$TB_{extra} / GDP_{US} = f(TB(-1), \Delta \ln(GDP / GDP^*), \ln REER)$$

Questions

- Theory
 - Trade approach. Output gaps? exports/imports.
 - Why not the same approach as for intra-eurozone trade?
- Econometric methodology
 - Dependent variable in % of US GDP: not comparable from one country to another.
 - Seasonal adjustment? Year-on-year?
 - Reverse causality (REER)? e.g. France
- Interpretation
 - Germany=only country where TB reacts to exchange rate?

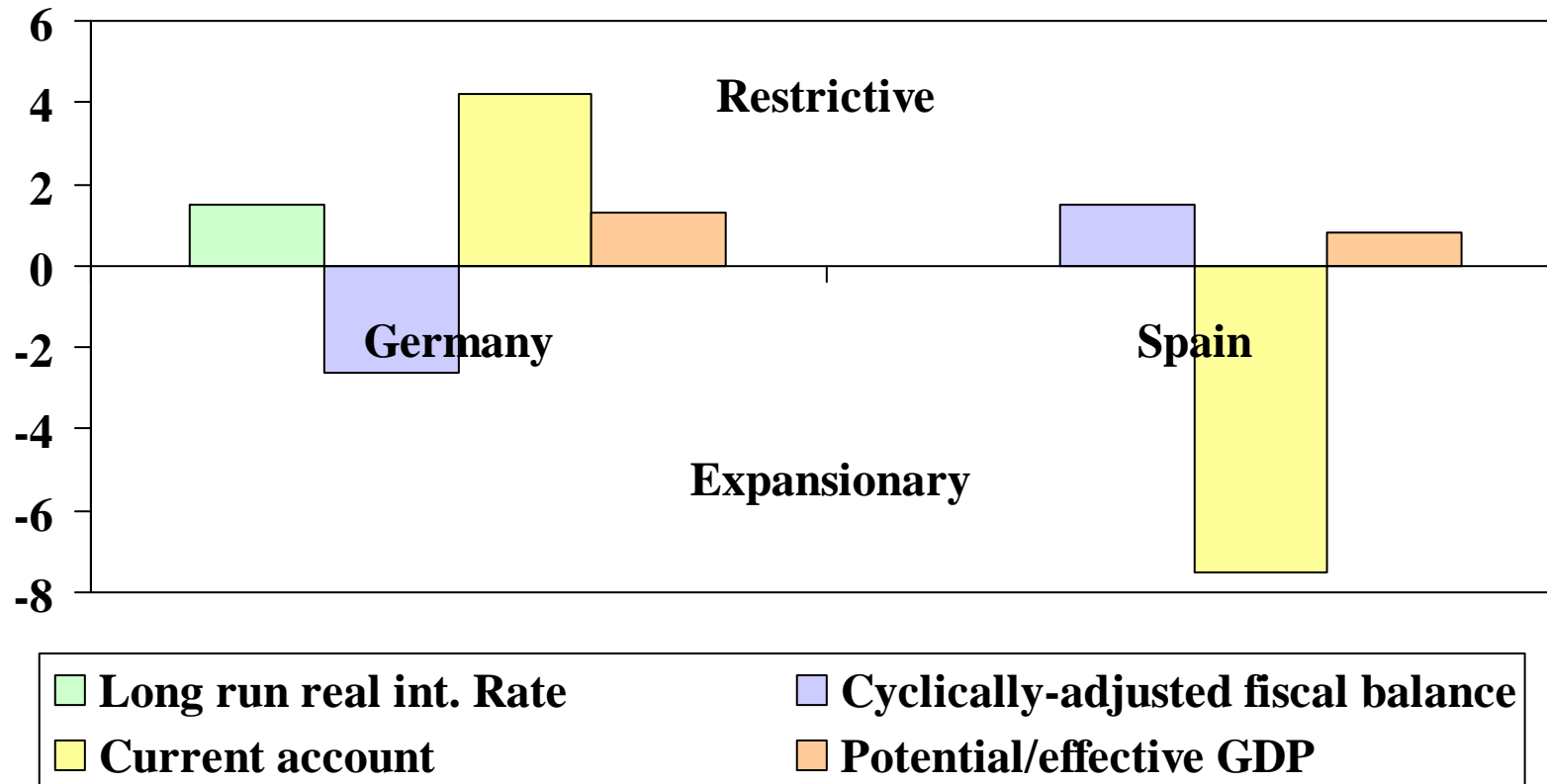


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Should we look at intra-euro imbalances?

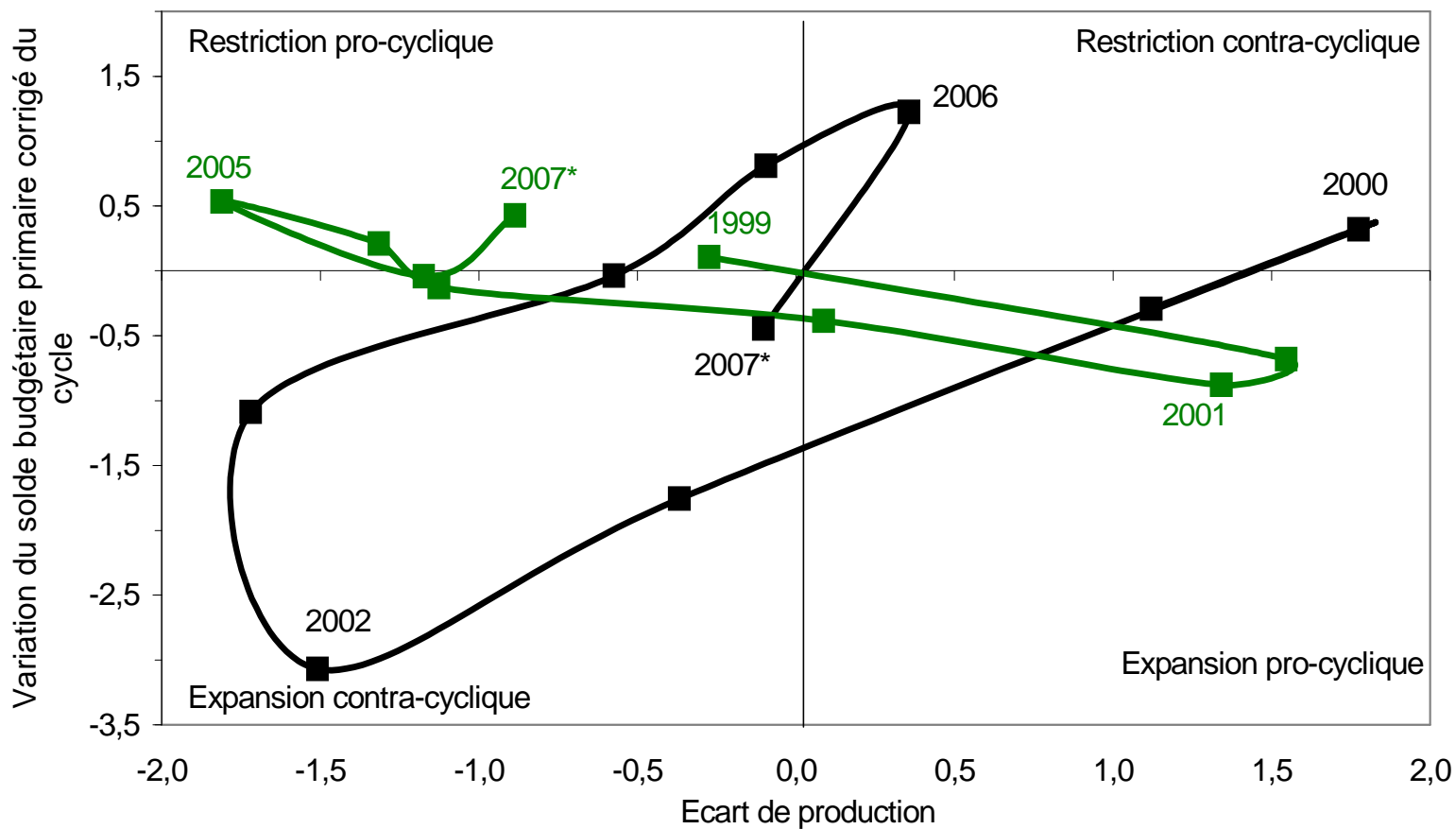
YES. Example: 2005



Productivity shock? DSGE modelling

The lack of fiscal policy at the euro area level

Politique budgétaire pro-cyclique en zone euro, contra-cyclique aux Etats-Unis



Source : OCDE, Perspectives Economiques n°80, 2006. *