

Five years and counting: the euro's next challenges

Presentation by
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Vice-President of the European Central Bank

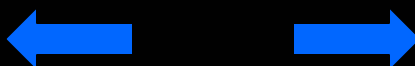
at the

John F. Kennedy School of Government
Harvard University

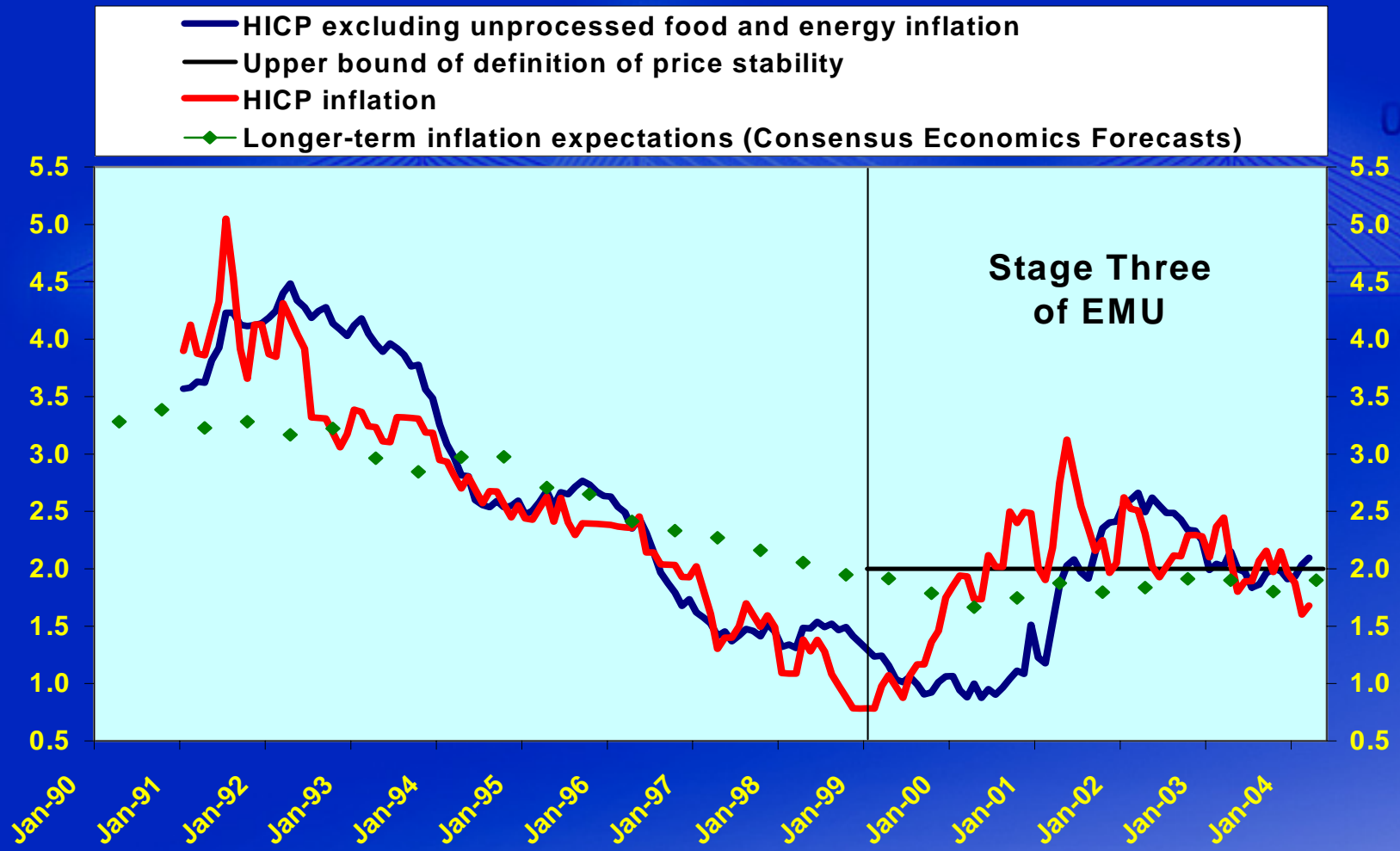
Cambridge/MA, 29 April 2004



EUROPEAN CENTRAL BANK

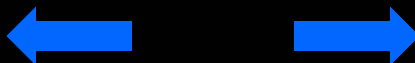


Anchoring inflation expectations: Euro area longer-term inflation expectations and inflation

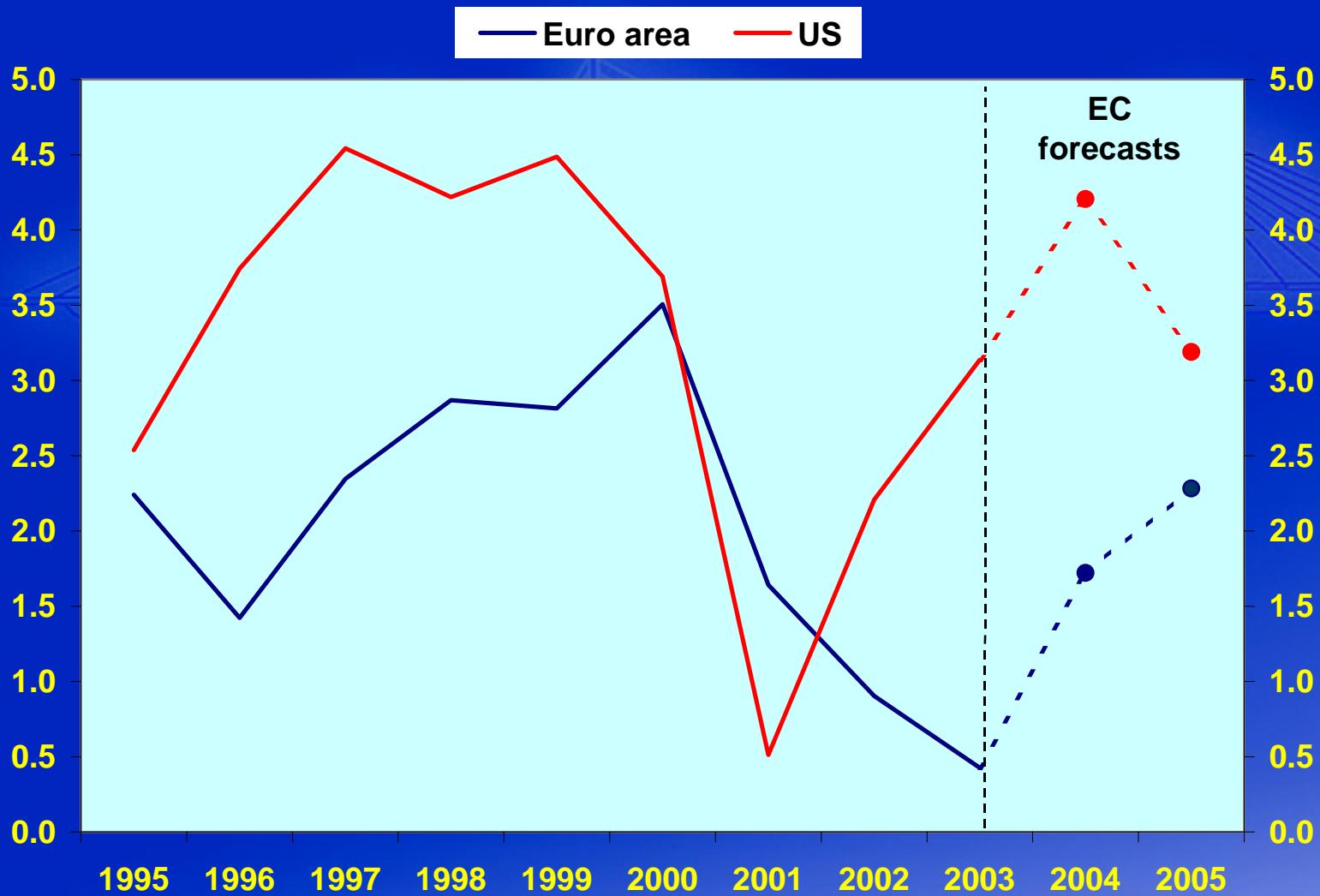


Sources: Eurostat, Consensus Economics Forecasts and ECB calculations.

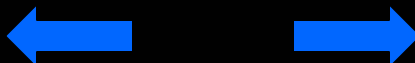
Note: Data are annual percentage changes. Longer-term inflation expectations are market inflation expectations at a horizon of six to ten years. Until December 2002, weighted average of five largest euro area countries, accounting for more than 80% of euro area GDP.



Real GDP growth in the euro area and the US



Source: European Commission (AMECO database).



Long-term per capita growth gaps reflect two broad factors

- Productivity growth
- labour utilisation

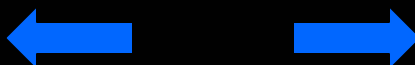
Decomposition of annual real GDP growth 1996-2003

(percentages and percentage points)

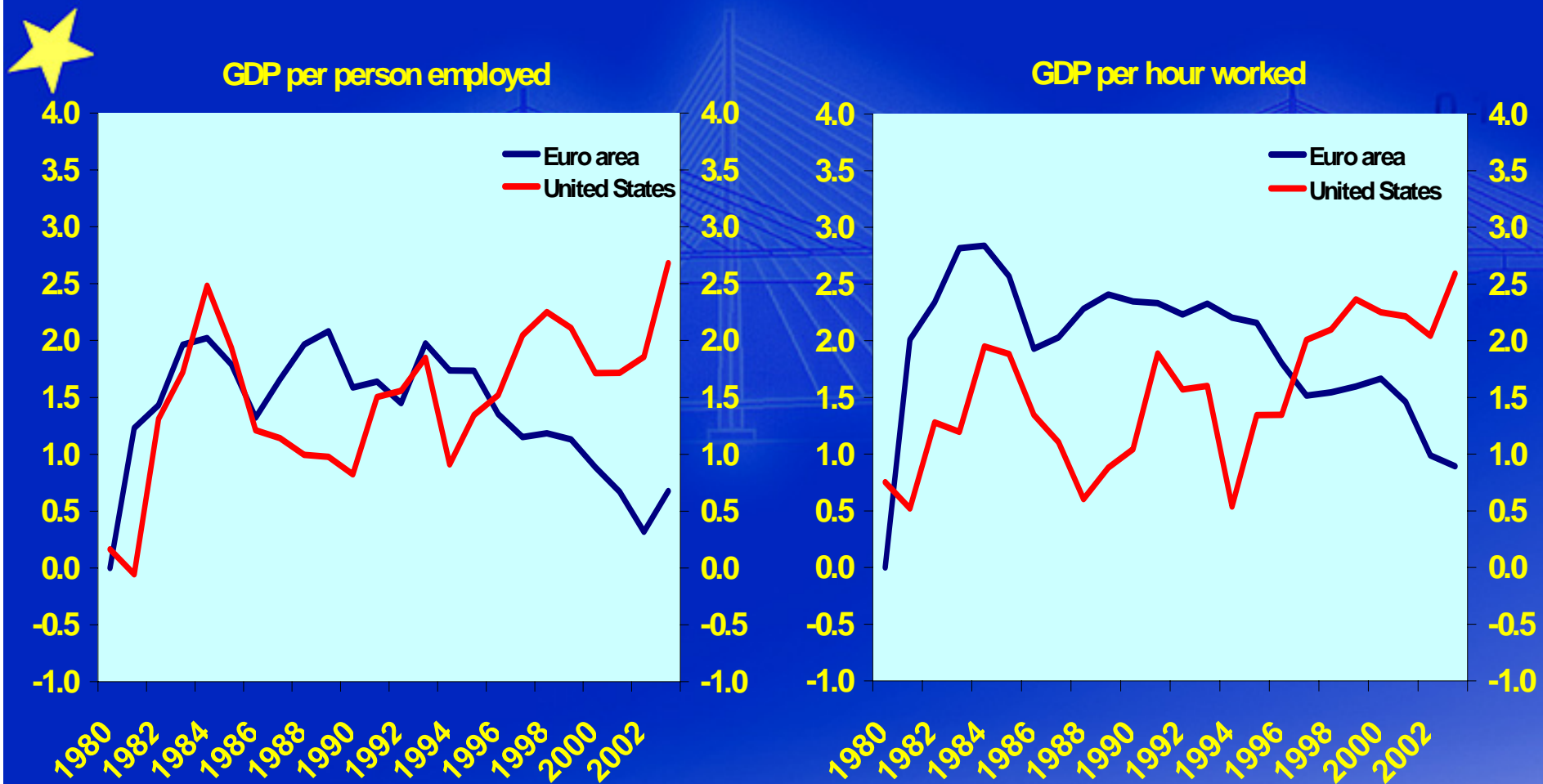
	GDP	GDP per hour worked	Labour force participation rate	unemploy- ment rate	Average hours worked	share of working age in total population	population
	sum (a) to (f)	(a)	(b)	(c)	(e)	(e)	(f)
Euro area	2.0	1.4	0.7	0.2	-0.5	-0.1	0.3
United States	3.3	2.2	0.3	0.0	-0.2	0.1	0.9

Source: European Commission (AMECO database), OECD (Economic Outlook database) and ECB calculations.

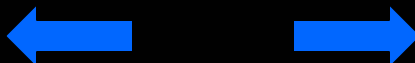
Note: Figures may not add up due to rounding. Positive contributions from unemployment reflect a decline in unemployment rate.



Productivity growth rates in the euro area and the US diverged in the period since the mid-1990s



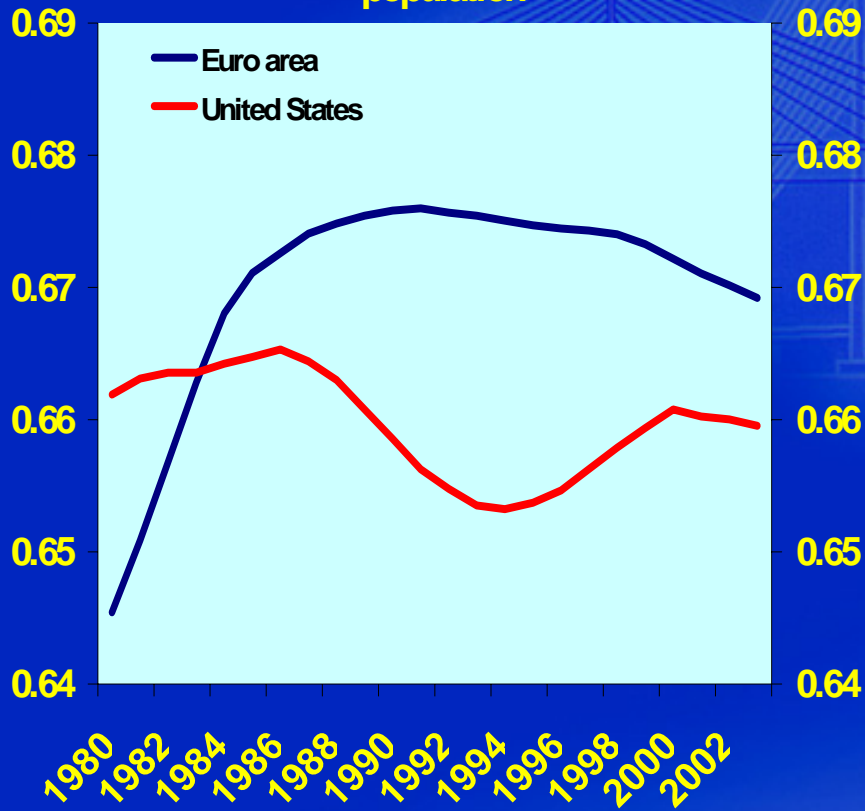
Sources: European Commission (AMECO database), OECD (Economic Outlook database) and ECB calculations. Data shown are three-year centred moving averages.



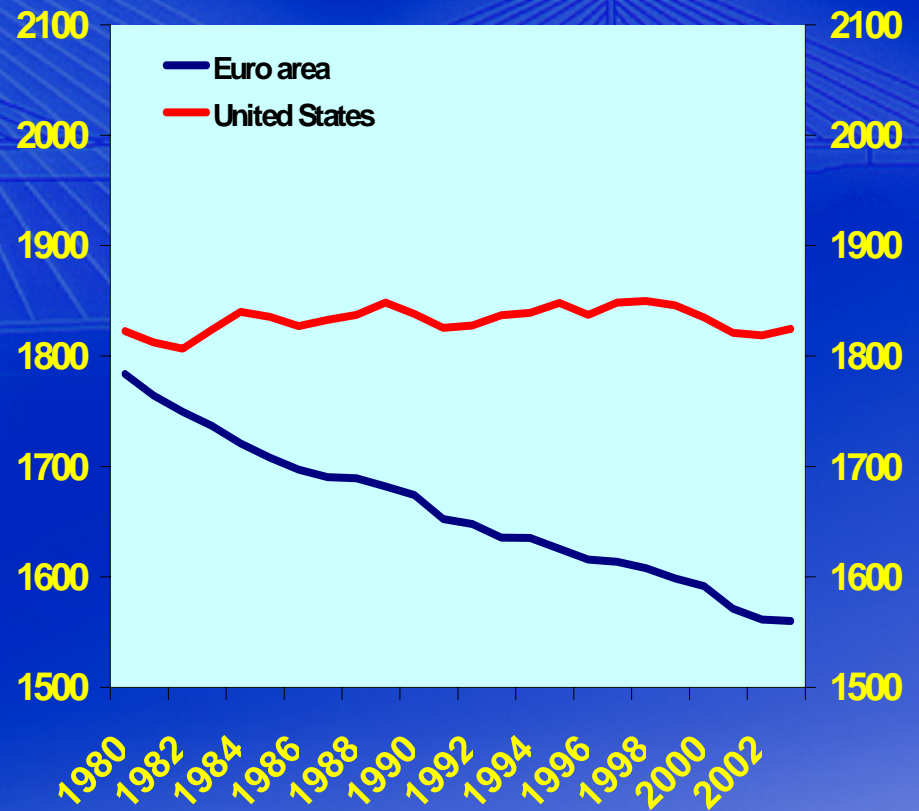
Euro area labour utilisation has been reduced by declining trends in the working age population share and working hours...



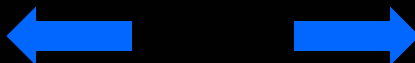
Ratio of working age population to total population



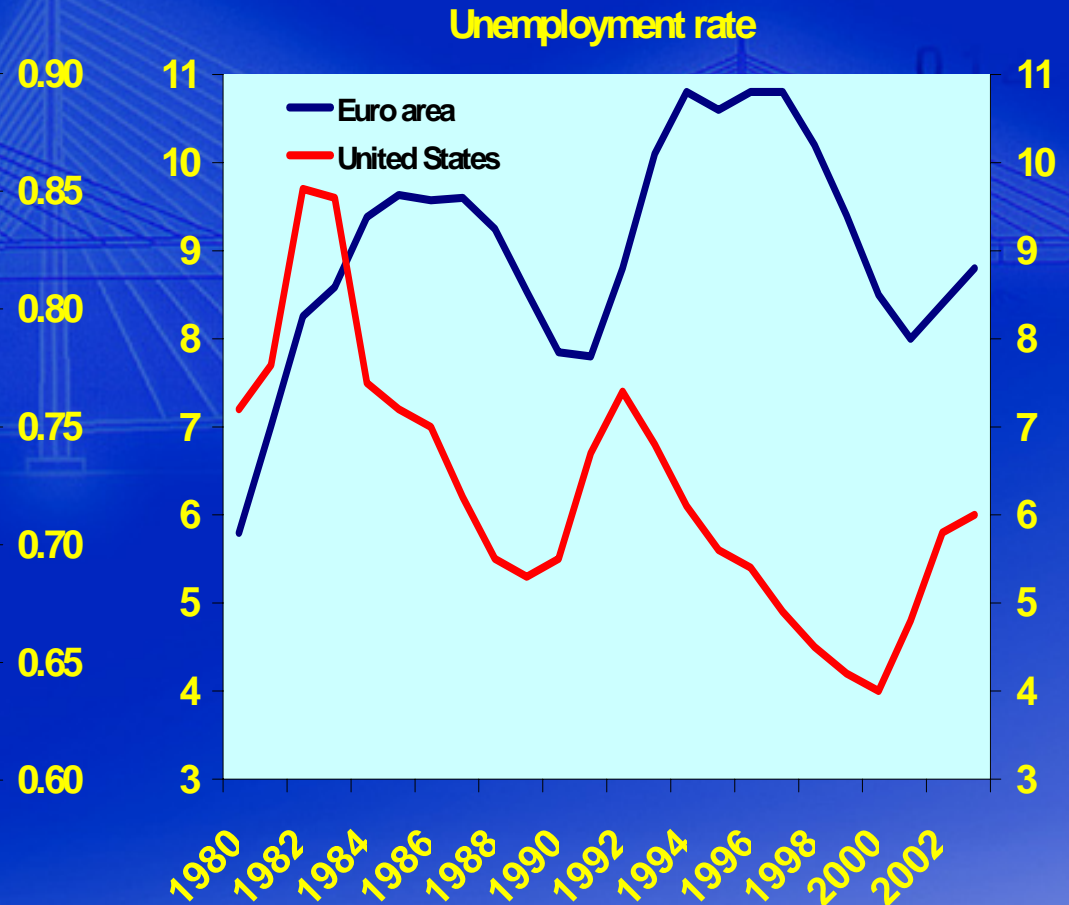
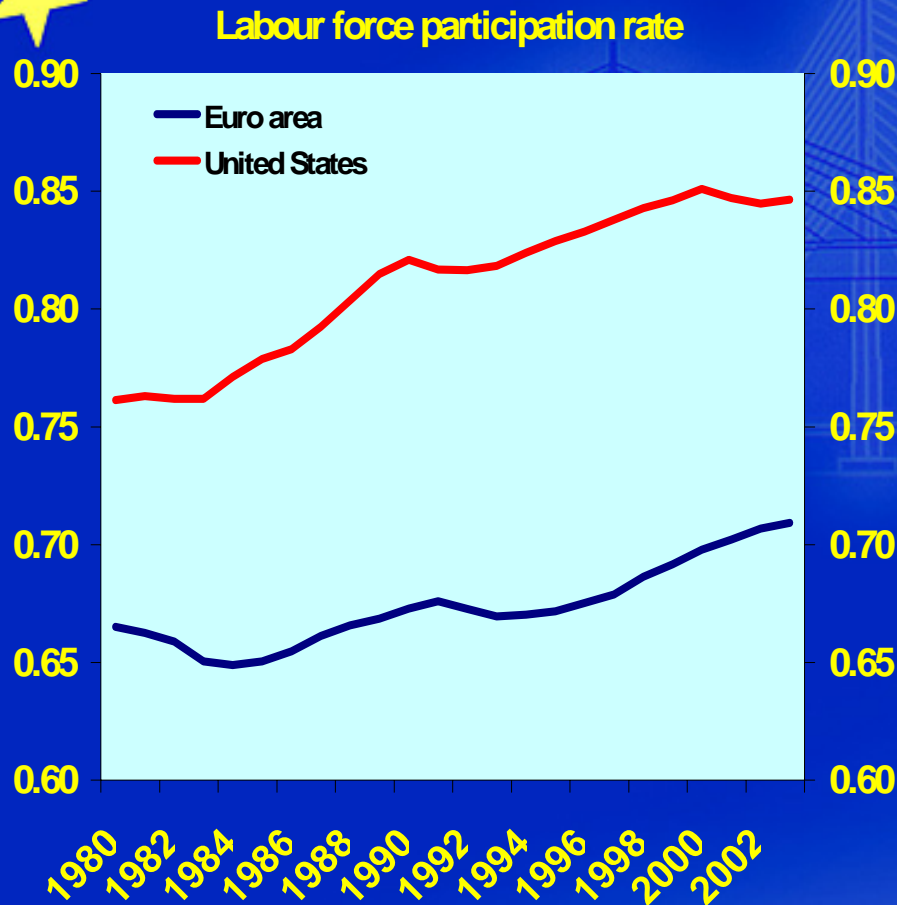
Average hours worked



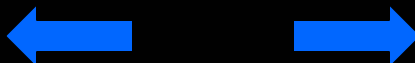
Sources: European Commission (AMECO database), Eurostat and ECB calculations.



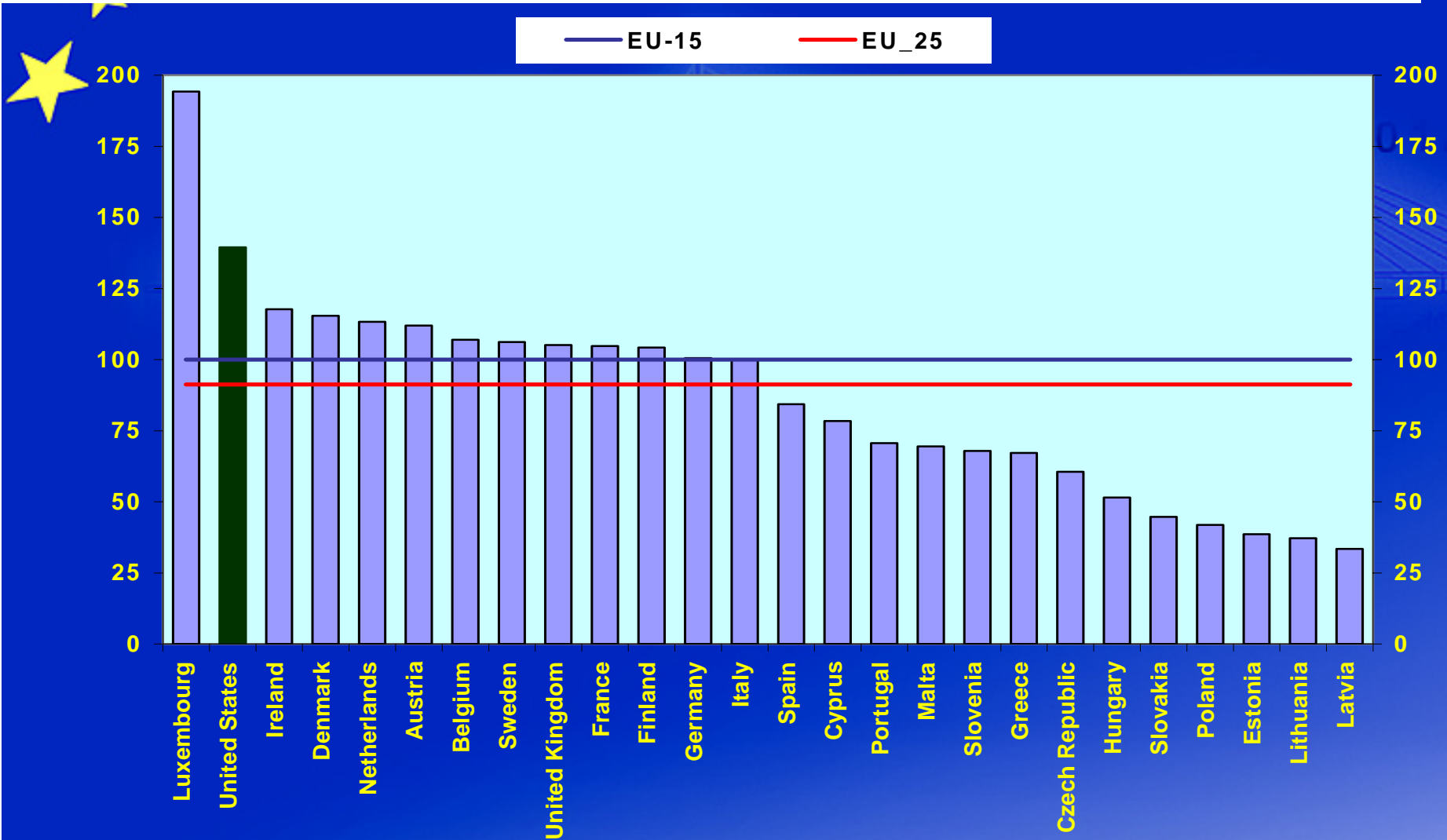
... but has benefited from relative improvements in participation and unemployment in the period since mid-1990s



Source: European Commission (AMECO database). Participation calculated as total labour force (employment and unemployment) over working age population.

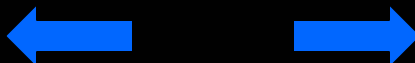


GDP per capita in the new Member States is still considerably below the levels in the euro area and the US

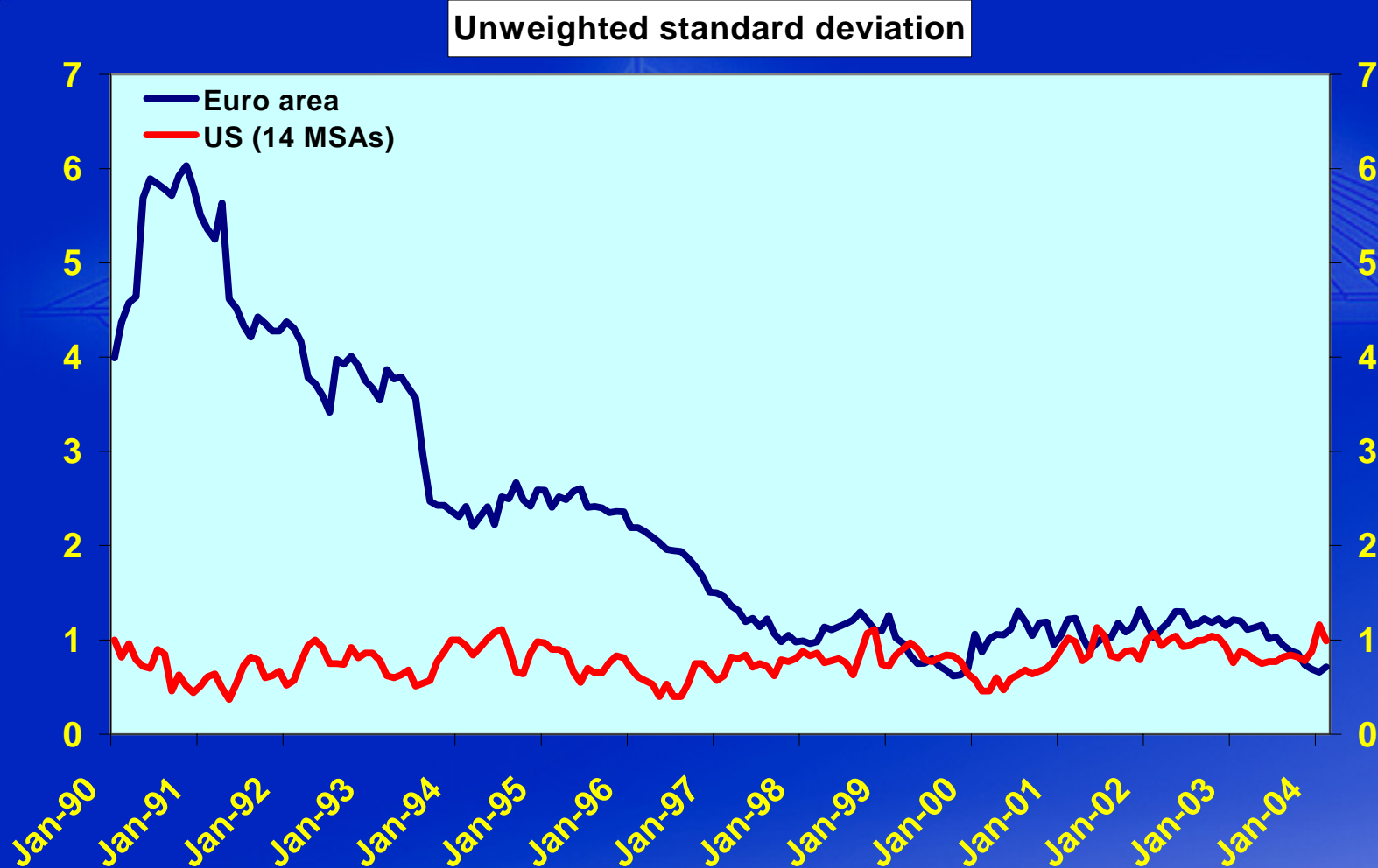


Source: Eurostat (NewCronos database).

Note: Data refer to 2001 and are measured in PPS; EU-15 = 100.



Inflation differentials in the euro area are now similar to those in the United States



Source: ECB Monthly Bulletin, April 2003.

Note: For the United States, MSAs refer to the 14 Metropolitan Statistical Areas.

