



EUROJÄRJESTELMÄ
EUROSYSTEMET

Macroeconomic Realities

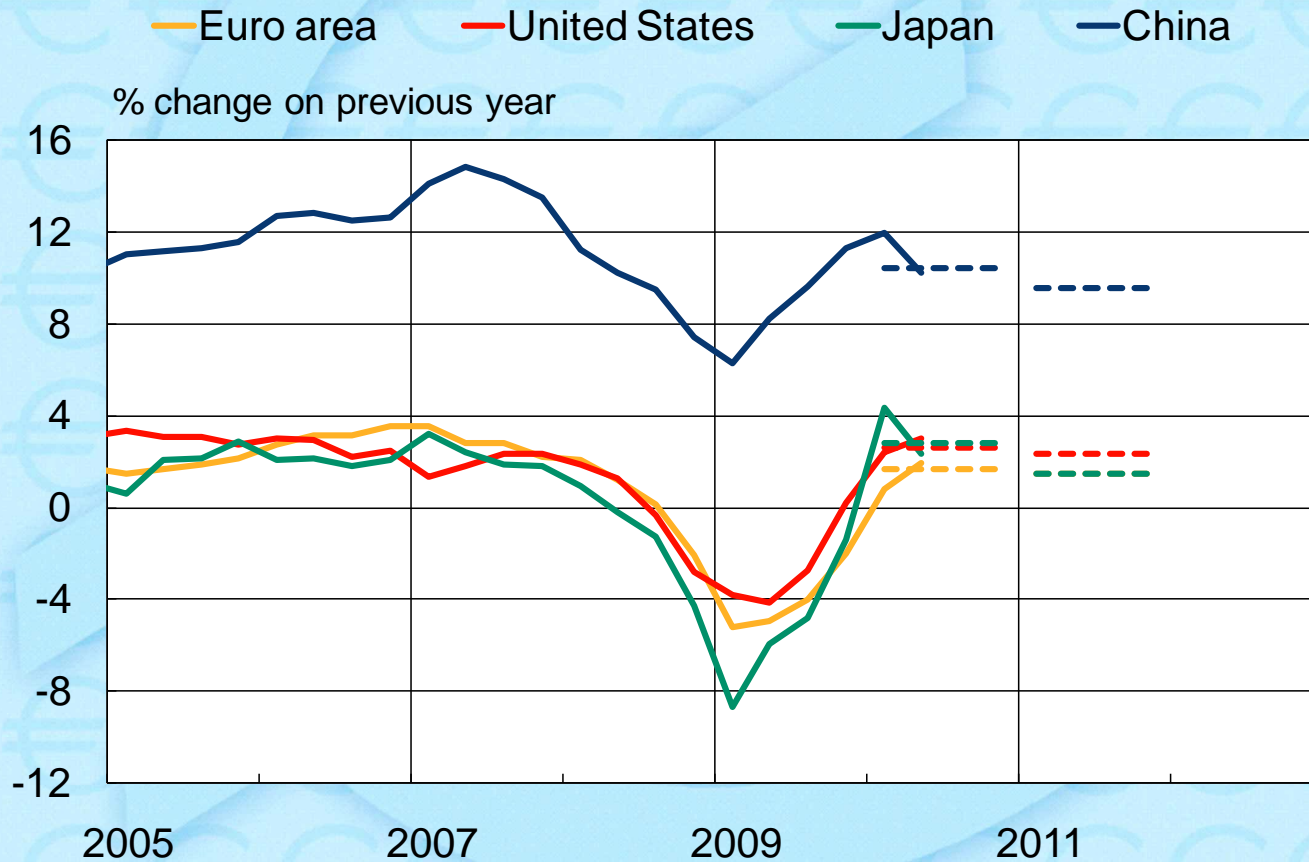
Governor
Erkki Liikanen
October 19, 2010

Structure of the presentation

- ◆ ***World growth prospects***
- ◆ ***Global current account imbalances***
- ◆ ***Deleveraging***
- ◆ ***Deteriorating fiscal positions***
- ◆ ***Demographics, aging***
- ◆ **Need for growth through productivity**

Economies face diverging growth prospects

GDP growth in key economic areas



Sources: Miscellaneous statistical sources and IMF.

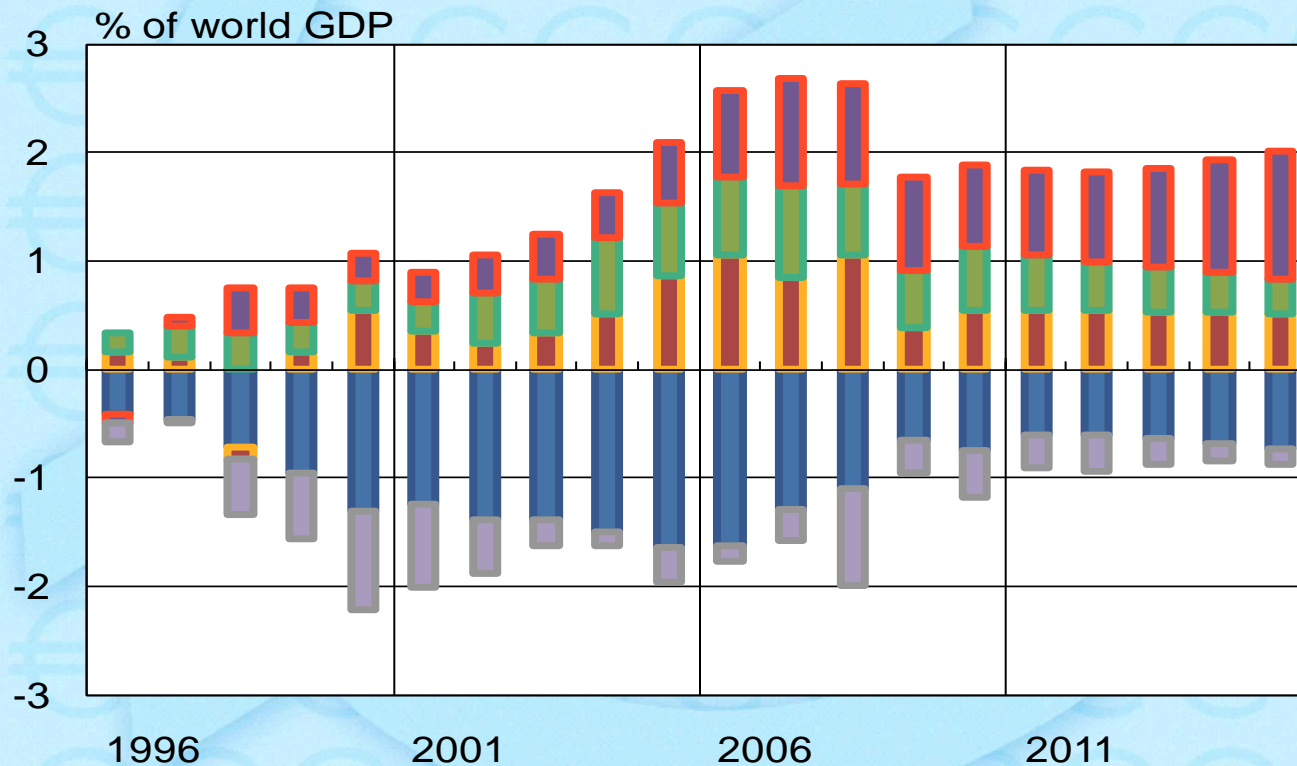
The financial crisis has probably increased the gap between the growth rates in advanced and developing economies

”Real per capita GDP growth rates are significantly lower during the decade following severe financial crisis and [the] synchronous world-wide shocks. The median post-financial crisis GDP growth decline in advanced economies is about 1 percent.”

by Reinhart, C. and Reinhart, V. (2010) ”After the Fall”, NBER Working Paper No. 16334

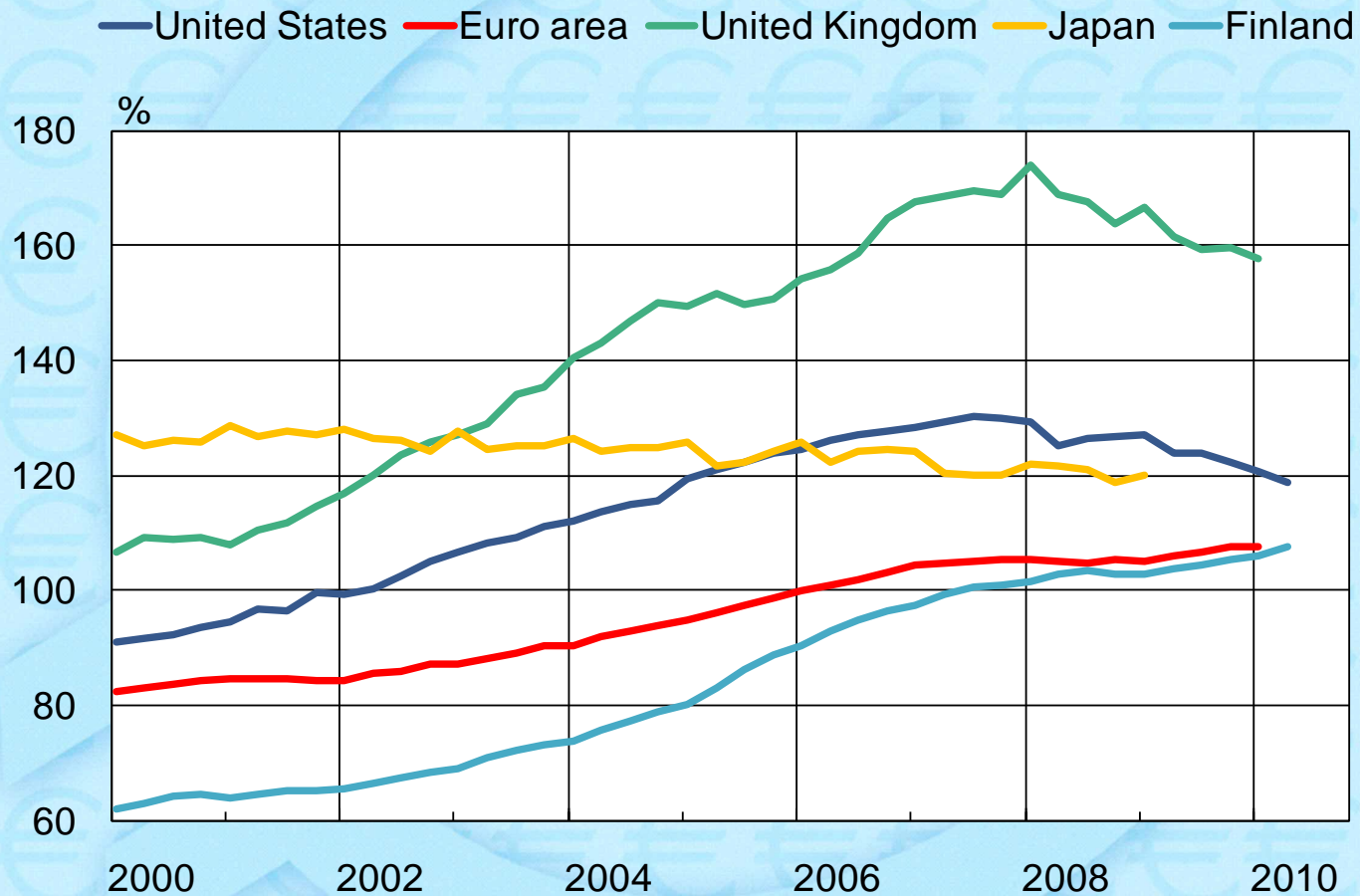
Global imbalances have remained large

- United States
- Germany and Japan
- RoW and statistical discrepancy
- Oil producing countries
- Developing Asia



Source: IMF WEO October 2010.
 Years 2010 to 2015 refer to IMF forecasts.

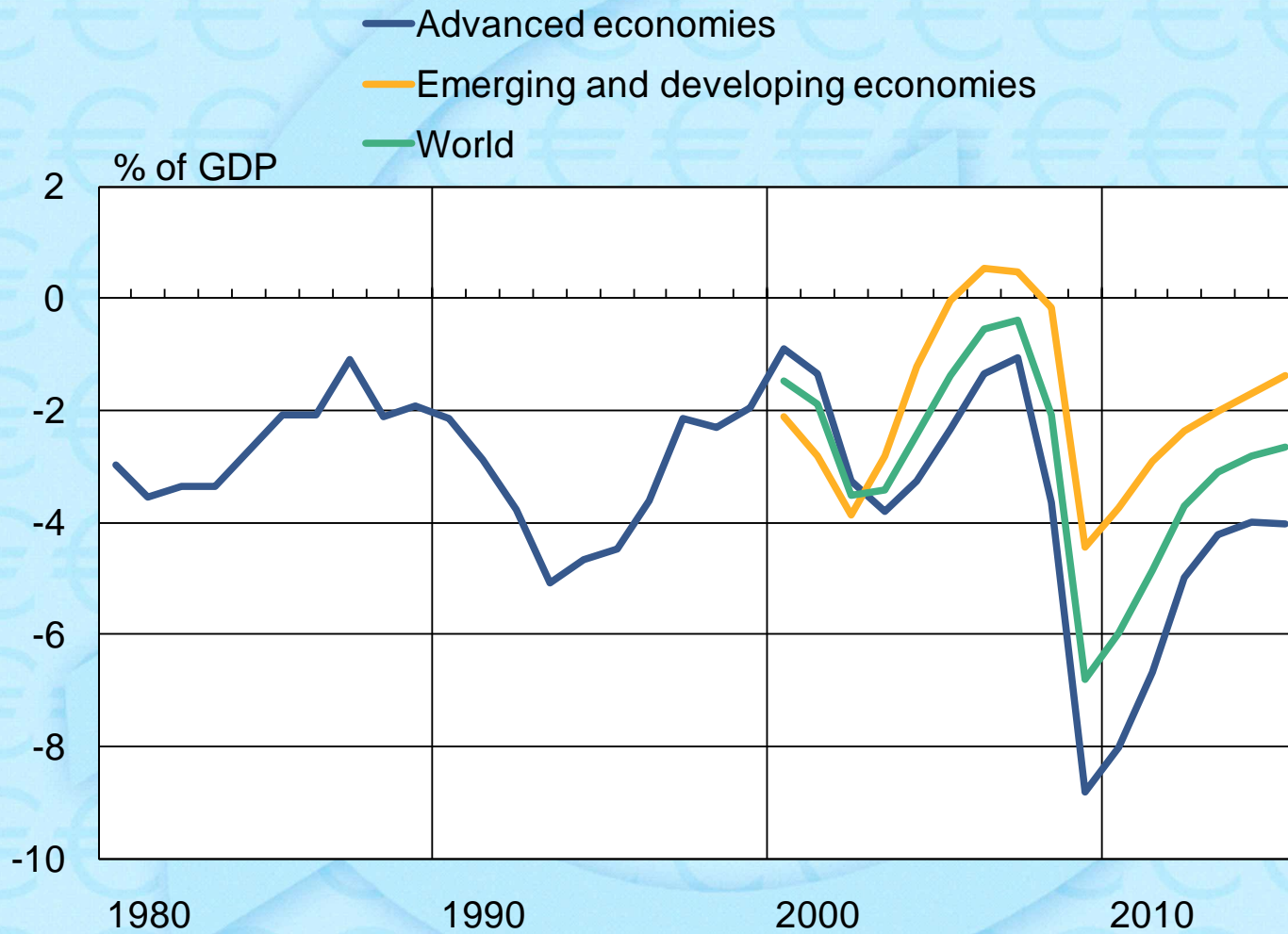
Household debt-to-income ratios still high



Source: IMF WEO October 2010, Statistics Finland.

Note that data on Finland is not completely comparable to the other data.

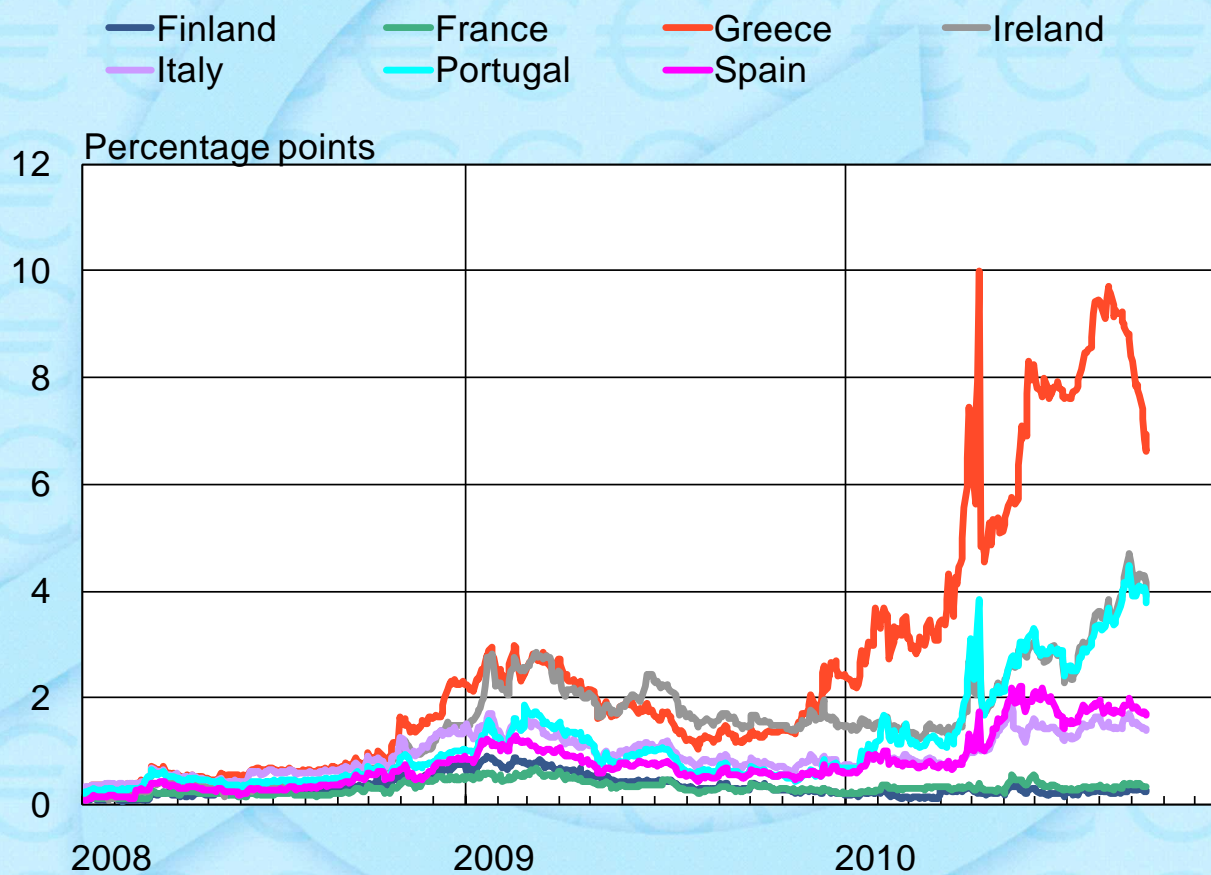
Fiscal balances have worsened sharply



Source: IMF WEO October 2010.
Years 2010 to 2015 refer to IMF forecasts.

Government bond spreads still elevated

(Last observation 15.10.2010)



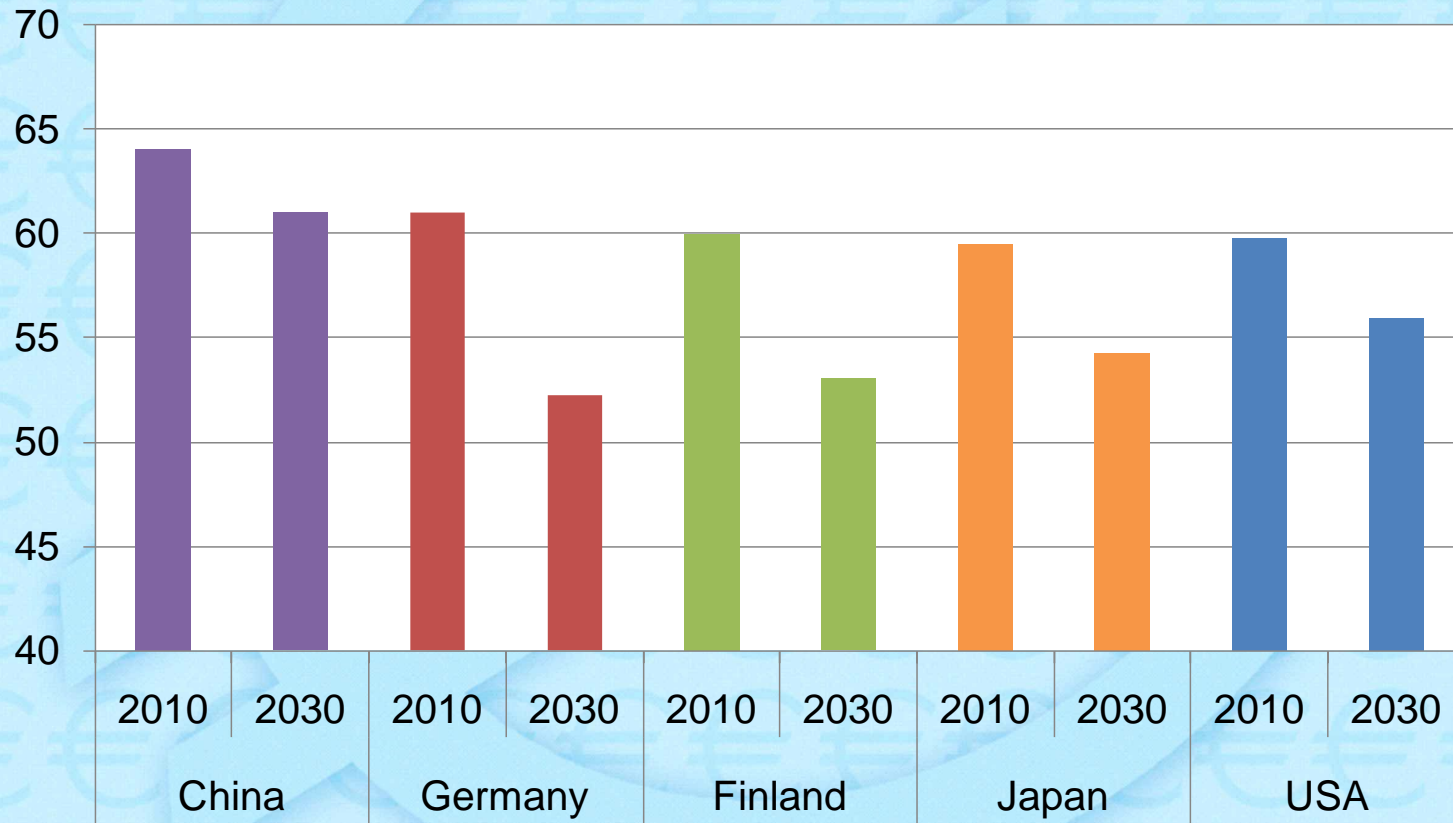
Bond maturity approximately 10 years.
Source: Bloomberg.

Economic growth is a necessary condition for the repayment of debt

- ◆ **Growth originates from an increase in the amount of hours worked and productivity growth**
- ◆ **Ageing will decrease the amount of hours worked in the coming years in many advanced economies**
- ◆ **As a consequence, economic growth can only be sustained via continuous growth in labour productivity**
- ◆ **Technological development is the most important source of productivity growth.**

Demographic trends do not support future GDP growth in euro area

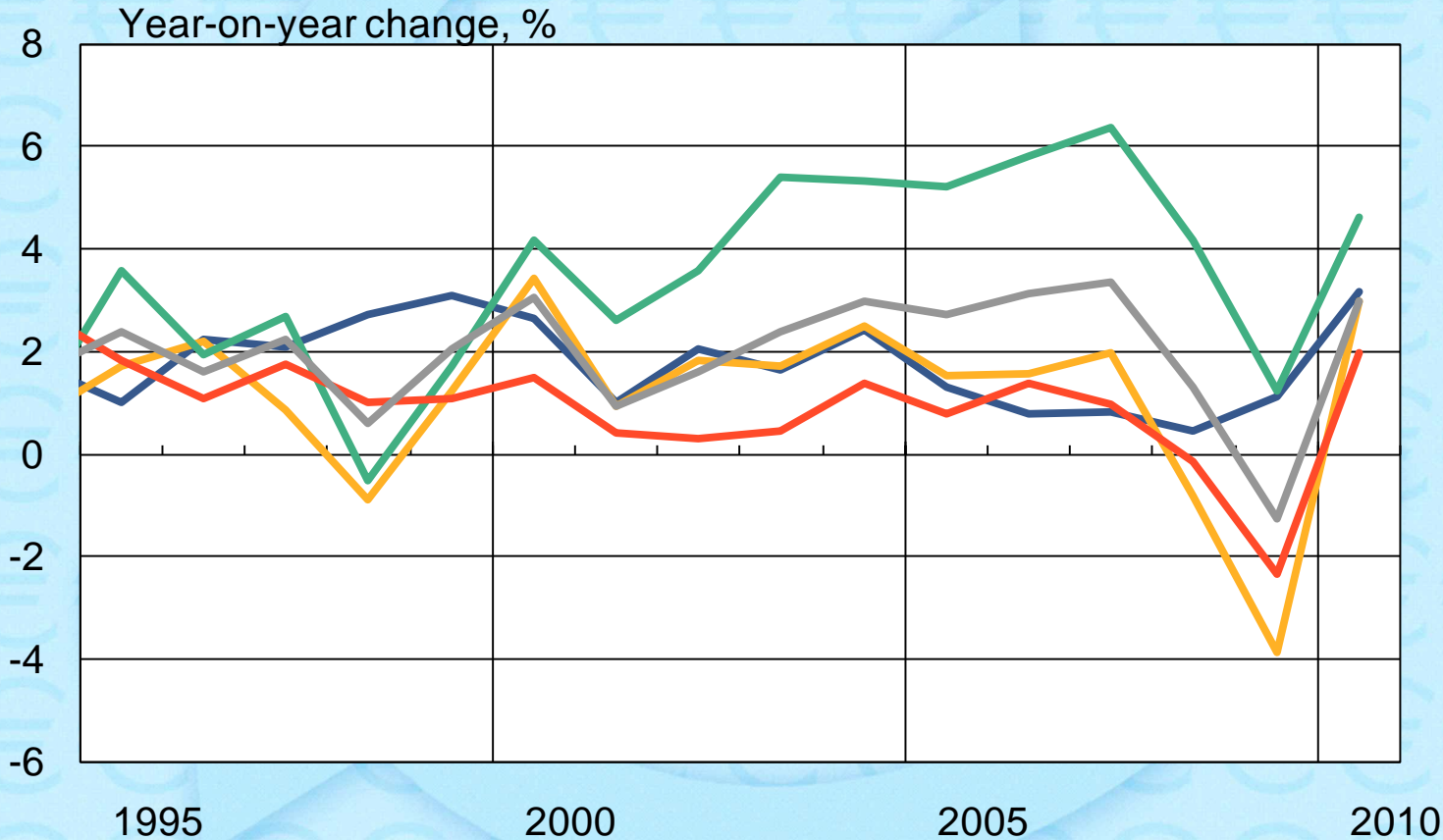
The share of population between 20 and 64 years



Source: UN

Labour productivity weakened during the recession in euro area and Japan

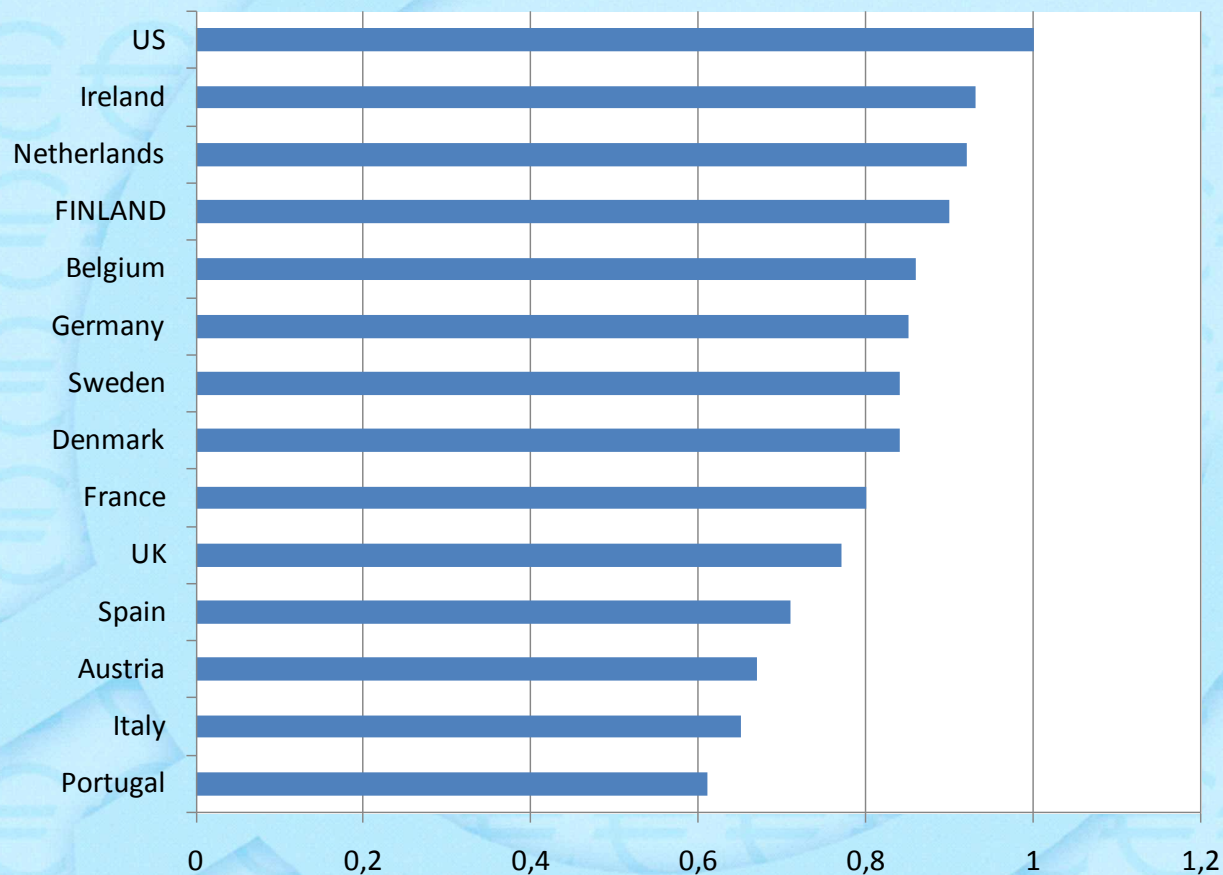
— US — Japan — Emerging Market and Developing Countries — Euro Area — World



The graph is based on labour productivity per person.

Source: The Conference Board Total Economy Database, September 2010.

Total factor productivity in the euro area is lagging behind the level in the US



Lähde: O'Mahony & Timmer (2009)

Three channels to increase productivity

- 1. Productivity increases in manufacturing of new technology products**
- 2. Productivity increases in the sectors using capital containing new technology**
- 3. Productivity increases in all sectors of the economy when enterprise, public and household sectors all benefit from using new, more productive business models and processes.**

In particular, productivity developments in the service sector are critical.

Conclusions

- ◆ ***Advanced and developing economies have different growth prospects.***
- ◆ ***The weak growth prospects of advanced economies are partly explained by the consequences of the economic crisis.***
- ◆ ***The current high level of public debt is only sustainable if economies grow.***
- ◆ ***Due to the absence of growth of labour force, the only source of growth may be labour productivity.***
- ◆ ***This is the real challenge for Europe and Finland.***