

Why Portugal and Spain should not be pushed towards further austerity

Removing the effects of stupid cyclical adjustment

Presentation at the 22nd Euromemo Conference

Coimbra, 16 September 2016

Achim Truger

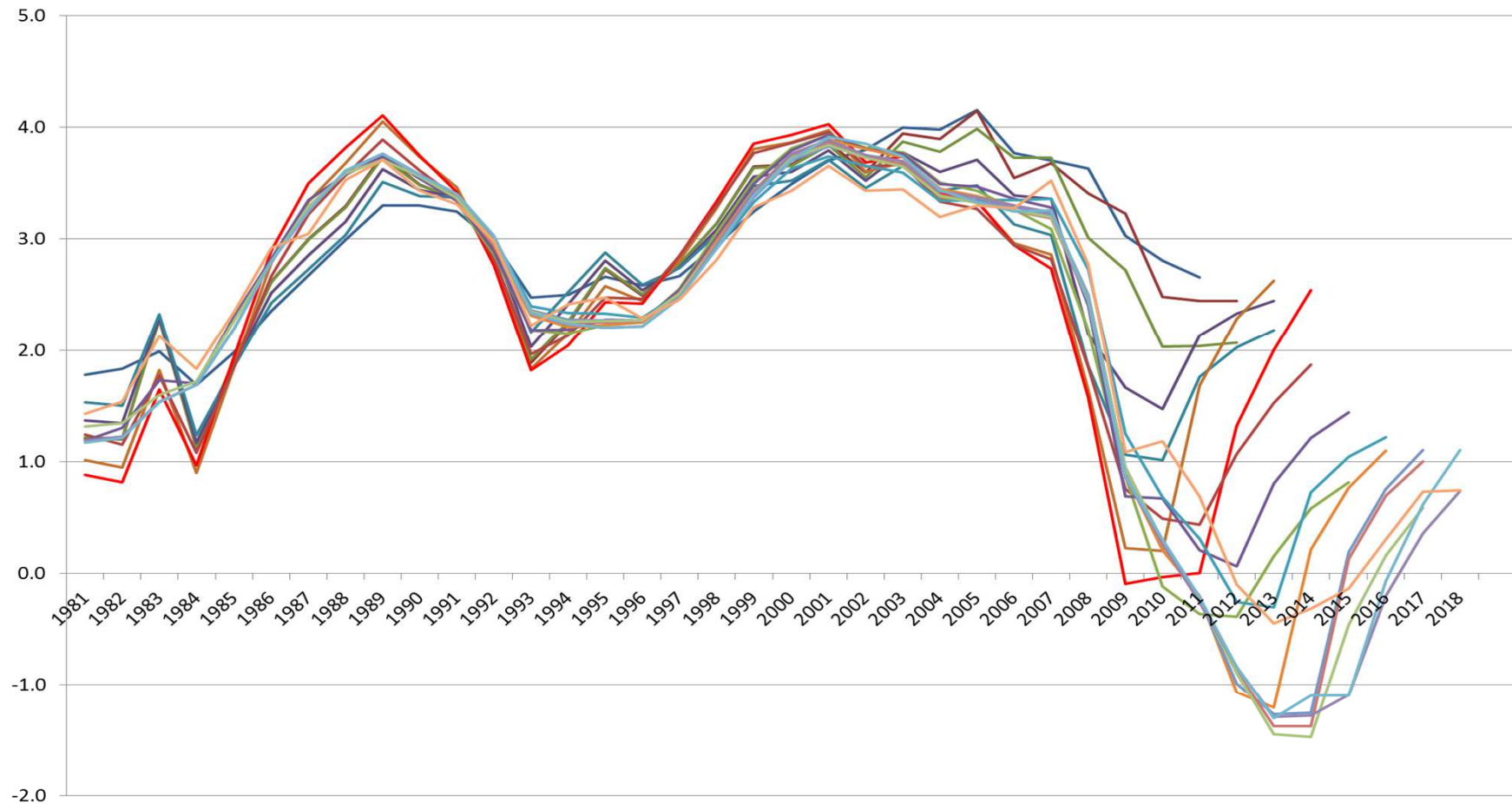
Berlin School of Economics and Law

&

**Macroeconomic Policy Institute (IMK) of
Hans Boeckler Foundation**



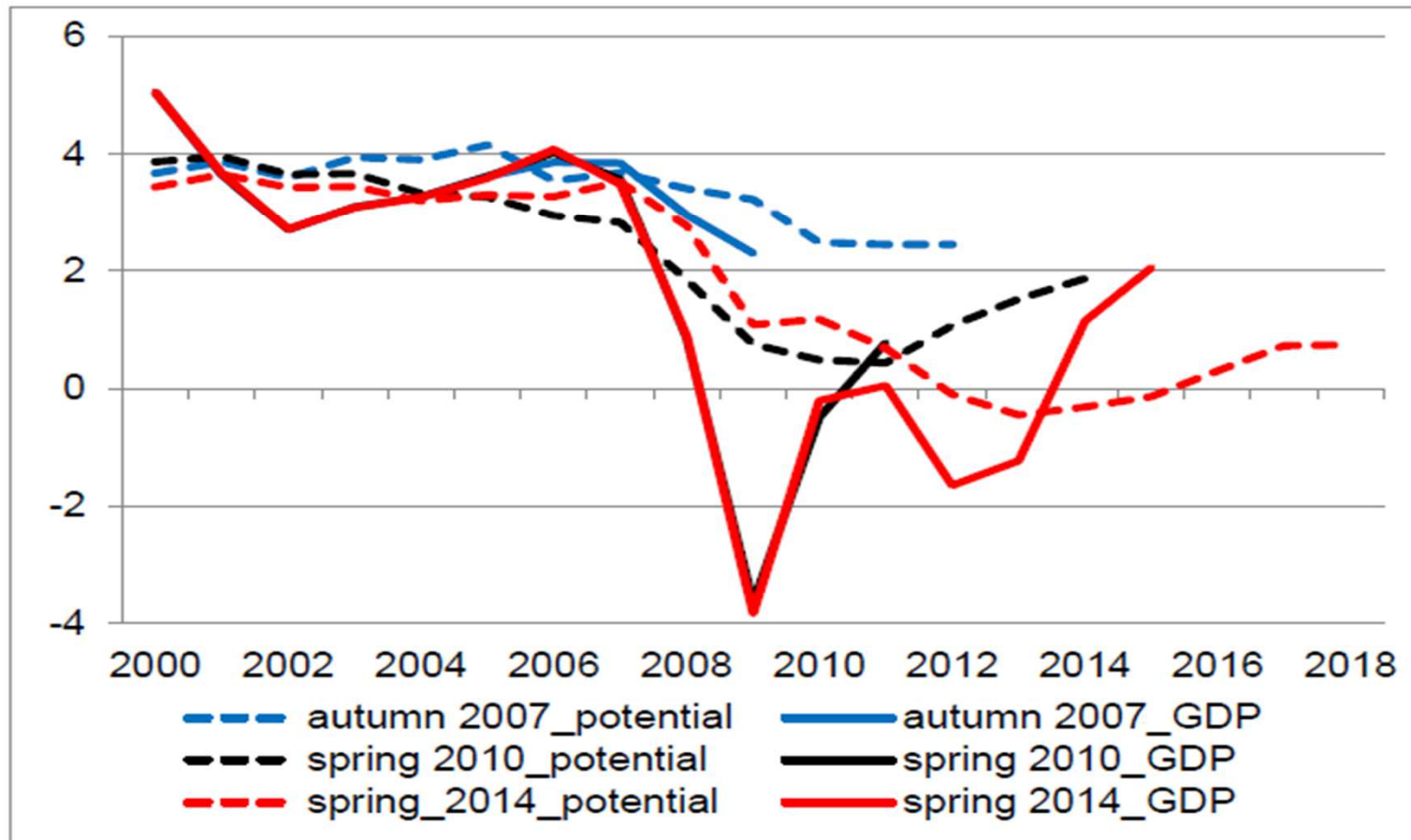
Potential output growth revisions for Spain



Frühjahrg 2007 Herbst 2007 Frühjahrg 2008 Herbst 2008 Winter 2008 Frühjahrg 2009
Herbst 2009 Frühjahrg 2010 Herbst 2010 Frühjahrg 2011 Herbst 2011 Frühjahrg 2012
Herbst 2012 Winter 2013 Frühjahrg 2013 Herbst 2013 Winter 2014 Frühjahrg 2014

Potential output growth revisions for Spain

Figure 1: Real actual and potential GDP in Spain as of different European Commission's forecasts, annual growth rate in % 2000-2018



Source: European Commission (2014b), author's calculations.

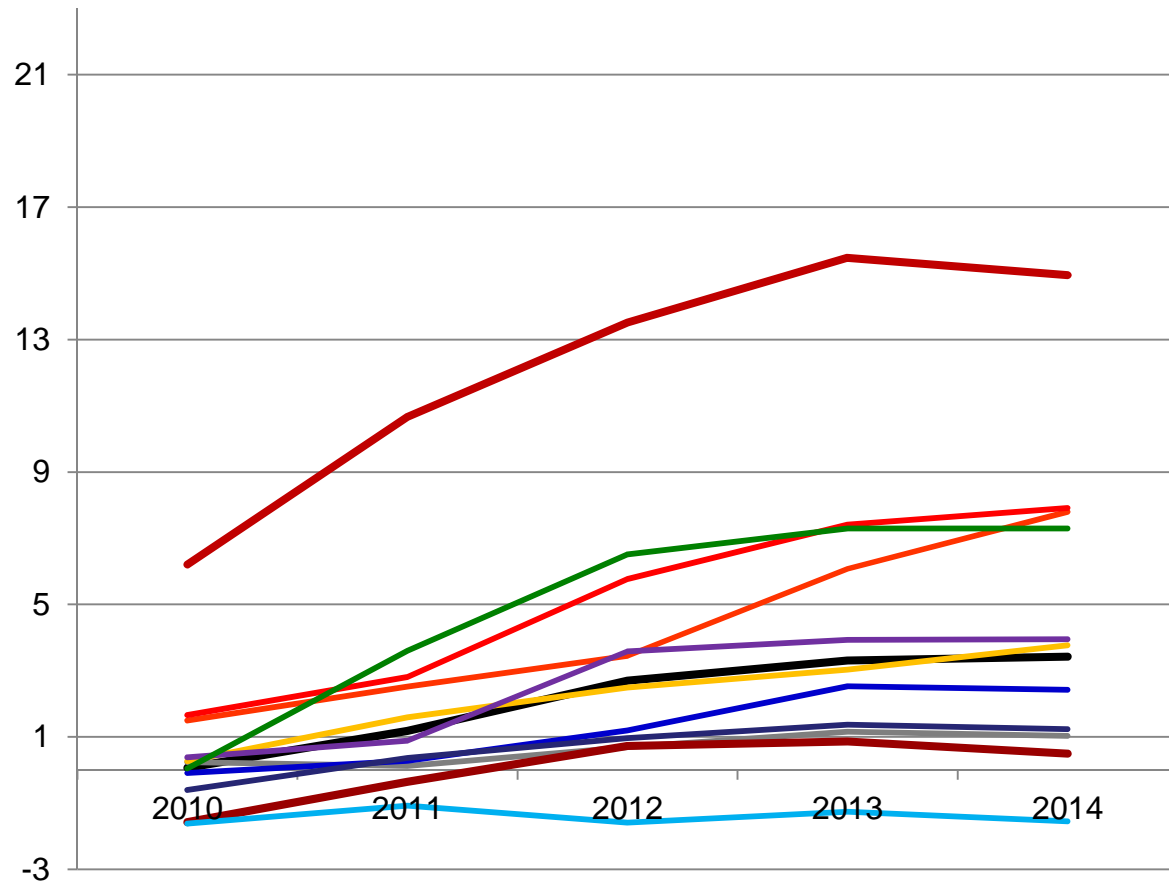
Table 1: Output gap in % of potential GDP, EMU-12 countries 2007-2015 with potential GDP growth of EU Commission's spring 2014 forecast compared to EU Commission's spring 2010 forecast

Output gap with potential GDP from EU Commission spring 2014									
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Euro area (12 countries)	2.8	1.7	-3.4	-2.1	-1.3	-2.4	-3.3	-2.7	-1.8
Belgium	2.6	2.0	-1.9	-0.8	-0.3	-1.3	-1.7	-1.1	-0.5
Germany	1.9	1.8	-4.2	-1.4	0.6	-0.1	-1.1	-0.7	-0.3
Ireland	4.5	1.3	-4.1	-4.1	-1.2	-0.6	-1.4	-1.0	0.0
Greece	3.2	1.5	-1.5	-4.7	-8.7	-12.2	-12.6	-9.3	-4.0
Spain	2.8	0.9	-4.0	-5.3	-5.9	-7.3	-8.1	-6.7	-4.7
France	3.4	1.8	-2.4	-1.8	-0.9	-2.0	-2.7	-2.8	-2.4
Italy	3.4	1.8	-3.5	-1.7	-1.4	-3.0	-4.3	-3.6	-2.5
Luxembourg	4.6	1.3	-5.0	-2.4	-1.8	-3.6	-2.8	-1.6	-0.3
Netherlands	2.1	2.2	-2.5	-1.4	-1.0	-2.4	-3.3	-2.6	-1.8
Austria	2.1	1.9	-2.9	-2.0	-0.1	-0.4	-1.1	-0.8	-0.4
Portugal	1.1	0.3	-3.0	-1.6	-2.6	-5.0	-5.6	-4.0	-2.3
Finland	5.0	3.8	-5.4	-2.5	-0.1	-1.4	-2.7	-2.6	-1.9
Output gap with potential GDP from EU Commission spring 2010									
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Euro area (12 countries)	2.9	1.9	-3.3	-2.2	-1.7	-3.6	-5.4	-5.7	-5.6
Belgium	3.9	1.5	-2.4	-1.1	-0.5	-1.7	-2.6	-2.3	-2.0
Germany	1.4	3.3	-2.8	0.2	2.2	1.2	0.0	0.2	0.6
Ireland	4.7	0.0	-6.0	-6.2	-4.4	-6.0	-8.9	-10.5	-10.9
Greece	2.2	1.1	-3.4	-8.9	-16.1	-22.3	-25.7	-25.8	-24.3
Spain	1.0	0.8	-3.8	-4.4	-4.8	-7.3	-9.9	-10.5	-10.3
France	3.9	0.0	-4.3	-3.9	-3.0	-4.2	-5.3	-5.7	-5.6
Italy	3.5	2.3	-3.4	-2.0	-2.2	-5.3	-8.0	-8.7	-8.8
Luxembourg	4.9	0.4	-7.3	-6.4	-6.9	-9.9	-11.1	-12.0	-12.7
Netherlands	3.6	2.4	-2.6	-2.0	-2.3	-4.8	-7.3	-8.2	-8.9
Austria	6.0	3.2	-2.0	-1.7	-0.3	-1.2	-2.5	-2.8	-2.9
Portugal	1.6	4.2	1.1	2.7	0.9	-3.5	-6.2	-6.6	-6.8
Finland	5.0	3.7	-6.2	-4.0	-2.6	-4.9	-7.6	-8.8	-9.3



The incredible degree of austerity (I)

Fiscal effort as of
EU-Commission
spring 2014:
Cumulative change in the
primary structural balance
in % of GDP, 2010-2014

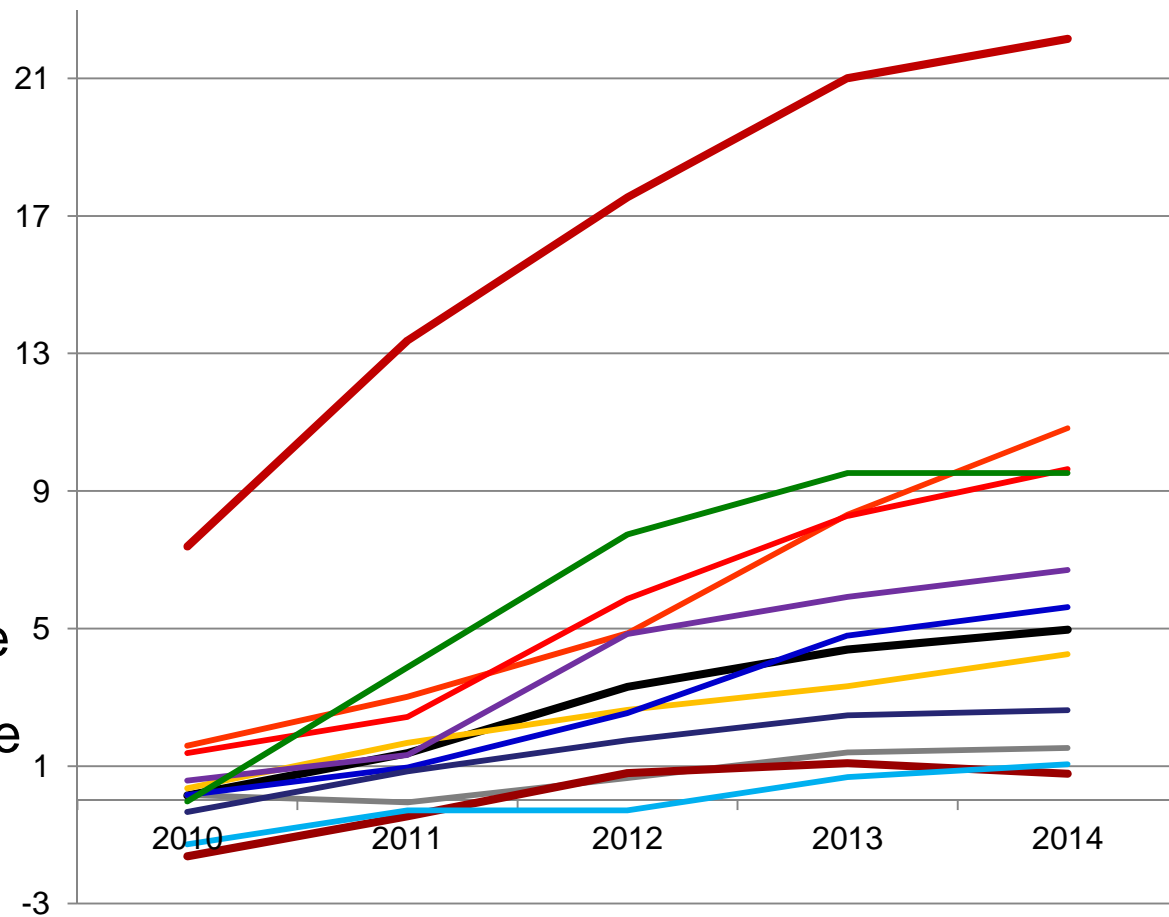


- Euro area (12 countries)
- Germany
- Greece
- France
- Netherlands
- Portugal
- Belgium
- Ireland
- Spain
- Italy
- Austria
- Finland



The incredible degree of austerity (II)

Fiscal effort as of EU-Commission spring 2014 (with potential output from Spring 2010):
Cumulative change in the primary structural balance in % of GDP, 2010-2014



- Euro area (12 countries)
- Germany
- Greece
- France
- Netherlands
- Portugal
- Belgium
- Ireland
- Spain
- Italy
- Austria
- Finland



**Thank you very much
for your attention!**

