MACROECONOMIC DIFFERENTIALS AND ADJUSTMENT IN THE EURO AREA¹

By Iulia Siedschlag

Head of the Centre for International Macroeconomic Analysis
The Economic and Social Research Institute
Whitaker Square, Sir John Rogerson's Quay
Dublin 2
IRELAND

Tel: +353-1-863 2116 E-mail: iulia.siedschlag@esri.ie

¹ This is a revised version of the Special Policy Issue paper prepared for the EUROFRAME-European Forecasting Network, Autumn Report 2006. We benefited from useful comments on earlier drafts received from colleagues from the EUROFRAME-European Forecasting Network and DG ECFIN staff. Sandra Proske, Carolin Mainz, Jean Goggin and Claire Delaney provided excellent research assistance.

TABLE OF CONTENTS

	•	
1.	Introduction	,
2.	Macroeconomic Differentials	9
	2.1 Output growth differentials	10
	2.2 Inflation differentials	1
3	Macroeconomic Linkages and Transmission of Shocks	23
	3.1 Trade linkages	. 2:
	3.2 Financial linkages	2:
	3.3 Business cycle synchronisation	2
4	Macroeconomic Adjustment in the Euro Area	32
	4.1 Price and output adjustment	32
	4.2 Fiscal adjustment	30
	4.3 Labour mobility	38
5	Summary and Policy Implications	40
6	References	4.
SU	ERF – Société Universitaire Européenne de Recherches Financières ERF STUDIES ERF COLLOQUIUM VOLUME	49 50 52
Co	untry Abbreviations used in Charts and Tables	
BE DE EL ES FI FR IE IT LU	Austria Belgium Germany Greece (Hellas) Spain Finland France Ireland Italy Luxembourg The Netherlands	
	Portugal	