



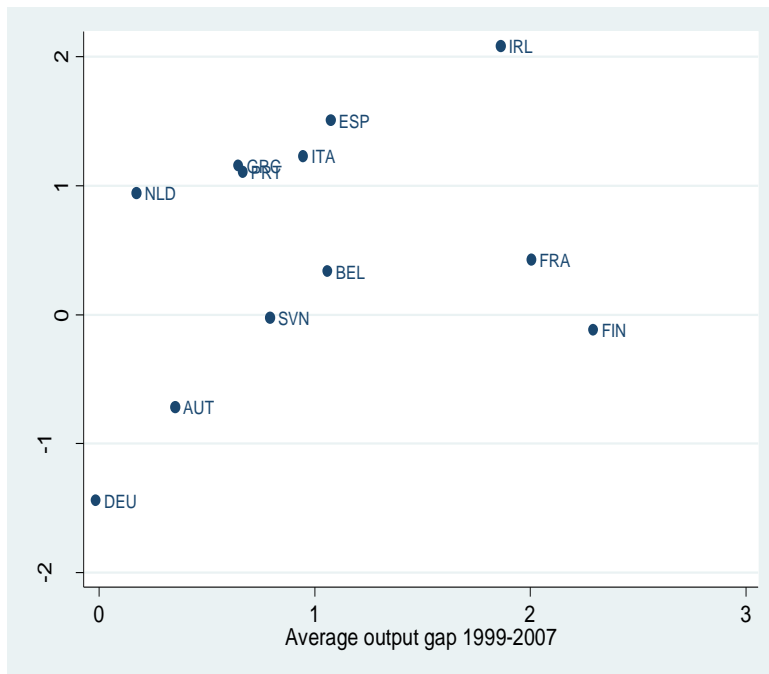
# **Adjustment and labour markets in EMU**

**Alessandro Turrini**  
**DG Economic and Financial Affairs**

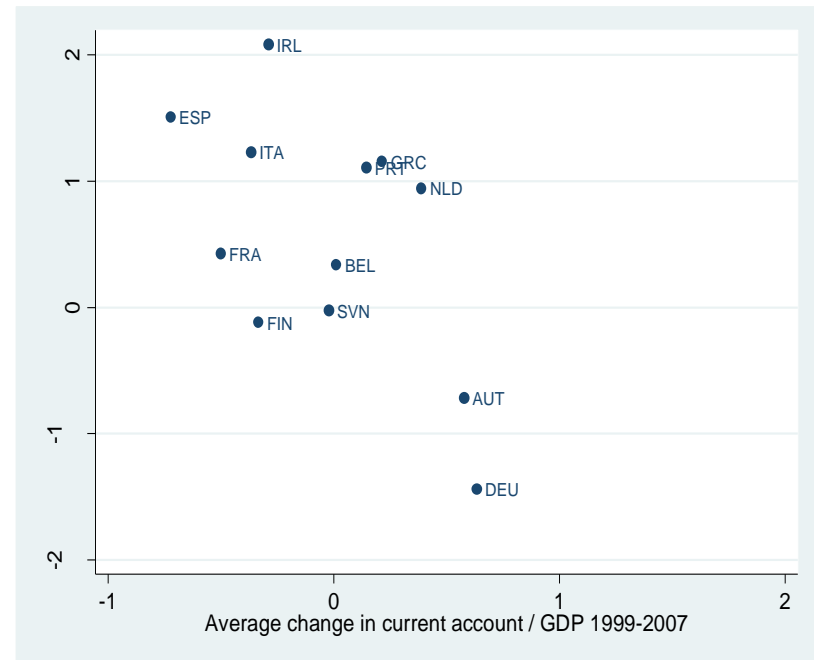
## The early EMU debate

- Nominal convergence: needed for a stable currency
  - Stabilisation to asymmetric shocks: OCA debate
    - **Likelihood of asymmetric shocks**
      - Synchronisation, co-movement (real convergence and integration)
    - **Adjustment to asymmetric shocks**
      - Fiscal transfers
      - Adjustment on the "quantity side" (migration, financial risk sharing)
      - Price adjustment: "automatic adjustment mechanism".
- Competitiveness channel versus real interest rate channel ("Walters' critique")

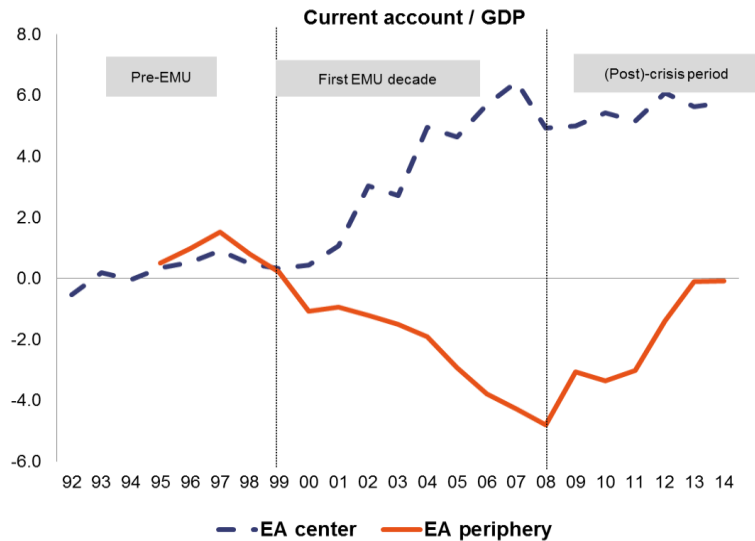
**Competitiveness channel: working as expected before the crisis in response to EMU start up shock...**



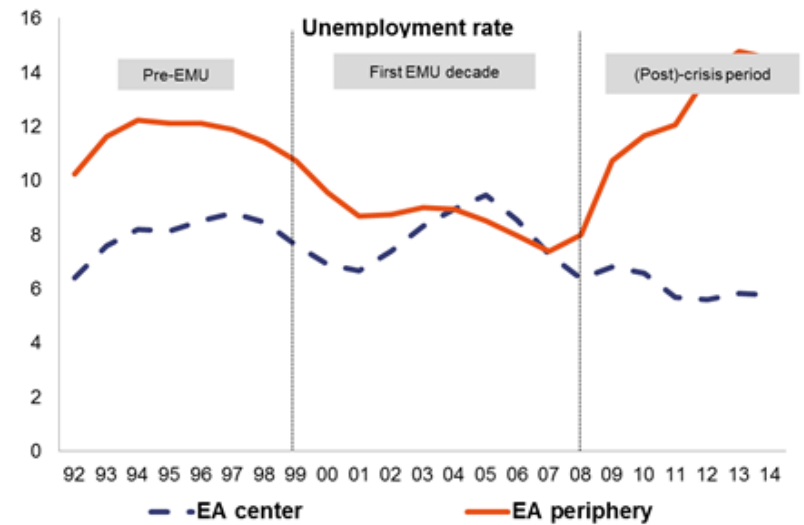
**...and associated with current growing account divergences...**



...which adjusted suddenly after the crisis...

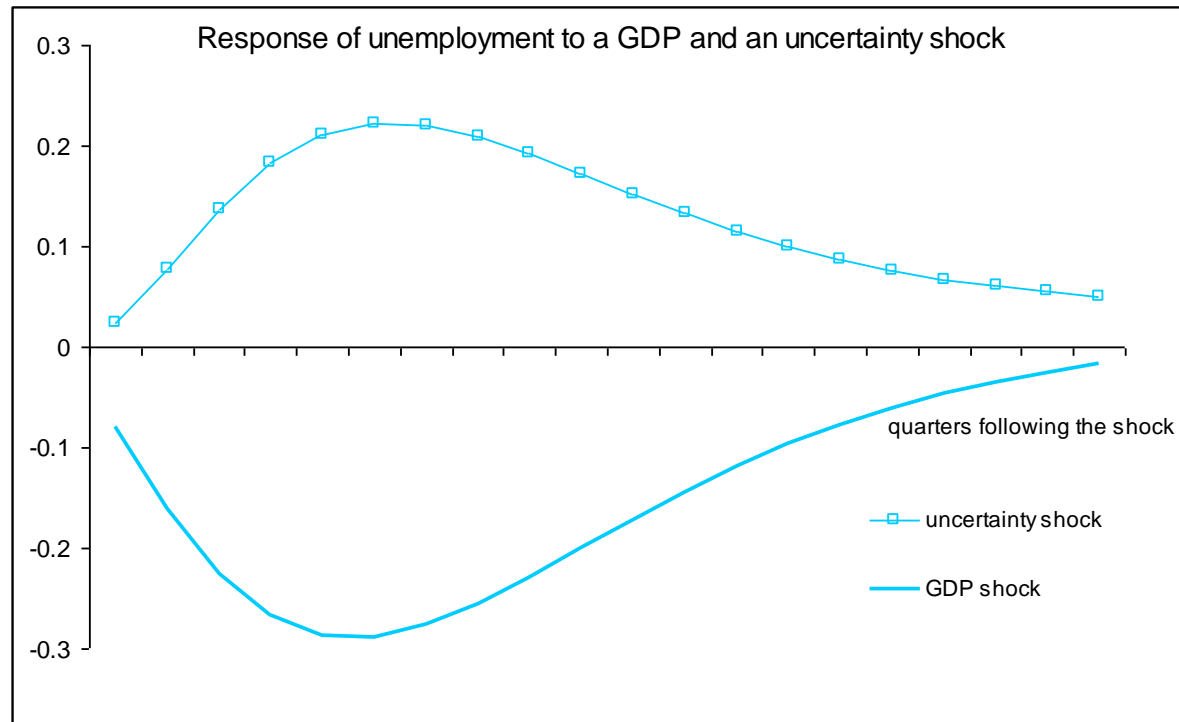


...leading to major output and employment divergences



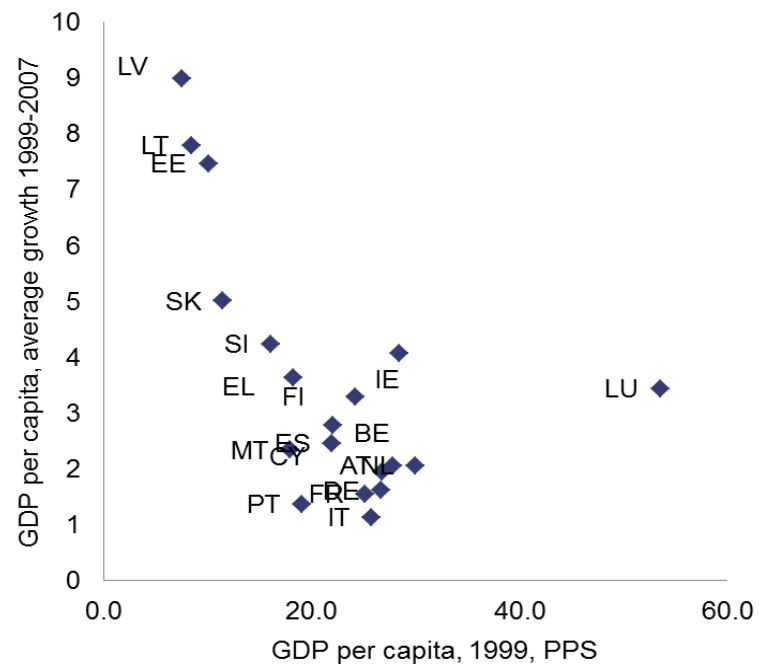
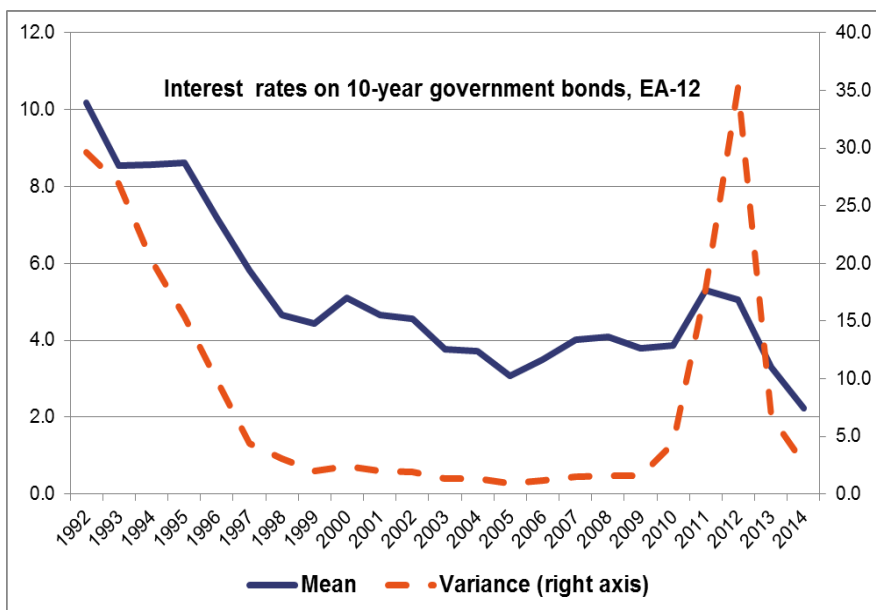
Note: countries grouped according to their external position.  
EA center: BE DE LU NL AT FI EA; EA periphery : EE IE EL ES FR IT CY LV LT MT PT SI SK.

## Unemployment response to GDP and uncertainty shocks: euro area 1996Q1-2011Q4 (Arpaia and Turrini, 2013)

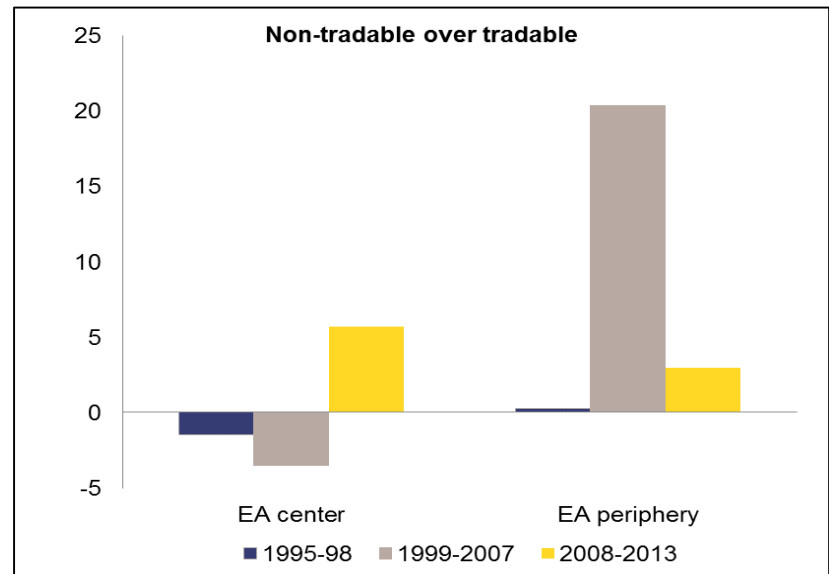
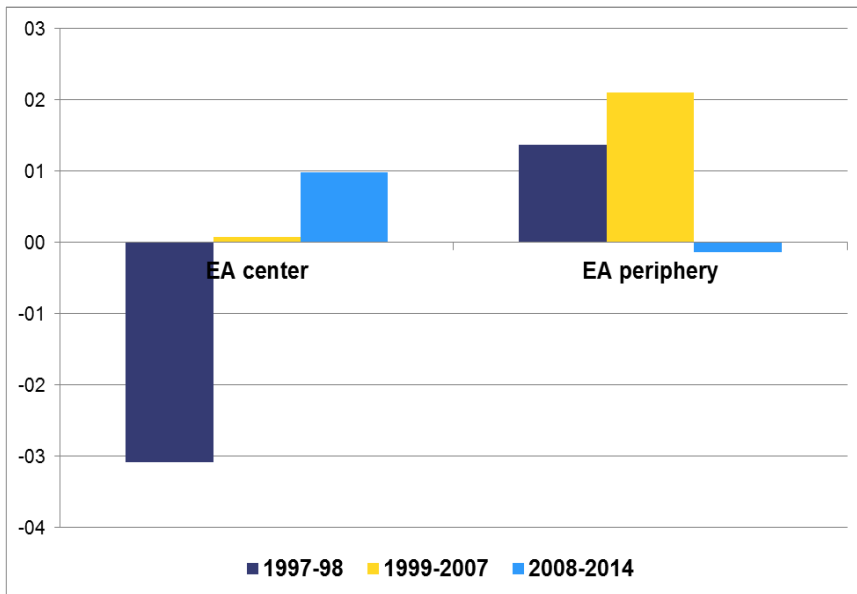


## Three waves of convergence? (Buti and Turrini, 2015)

### Nominal and real convergence pre-crisis, followed by divergence

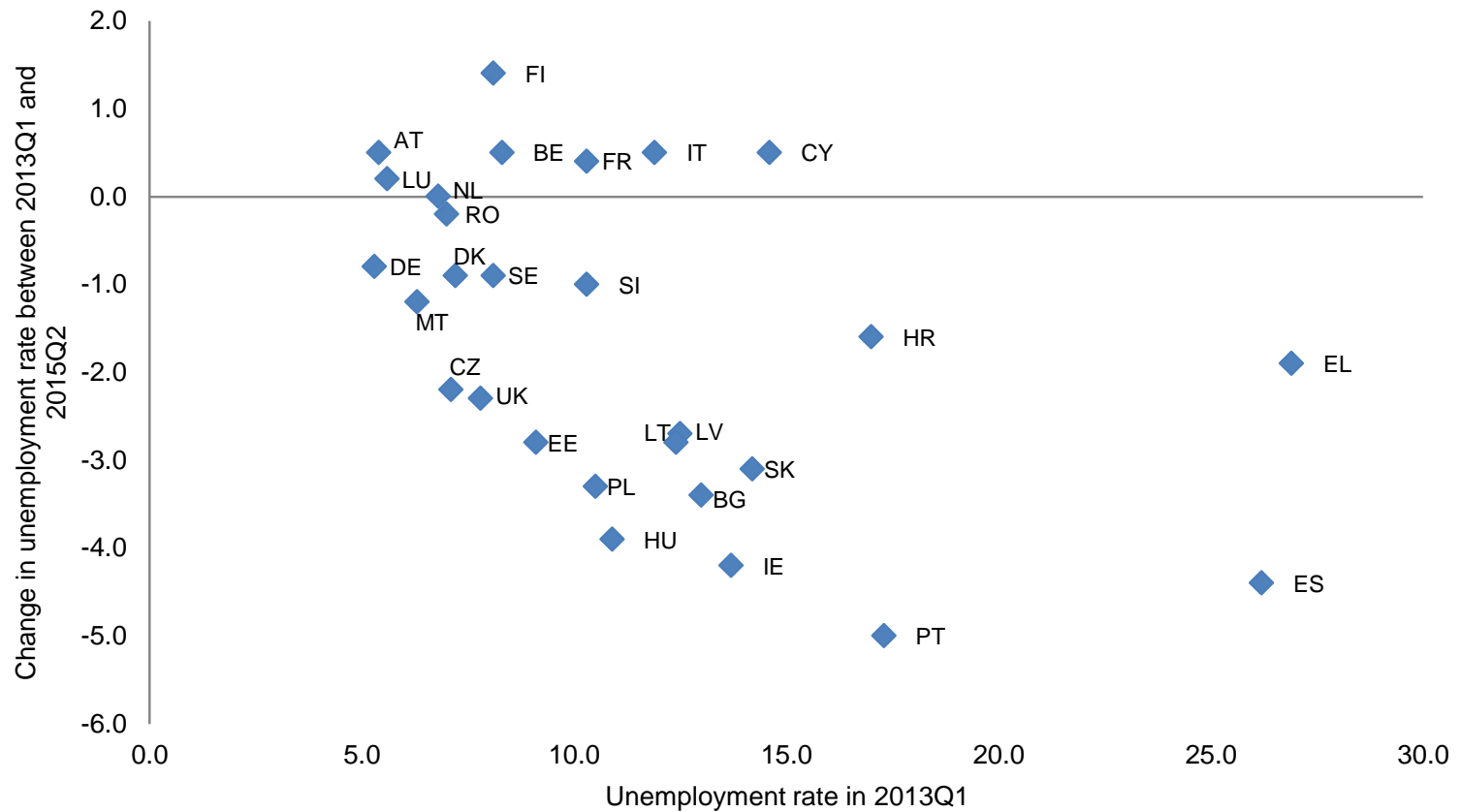


## Structural convergence post-crisis



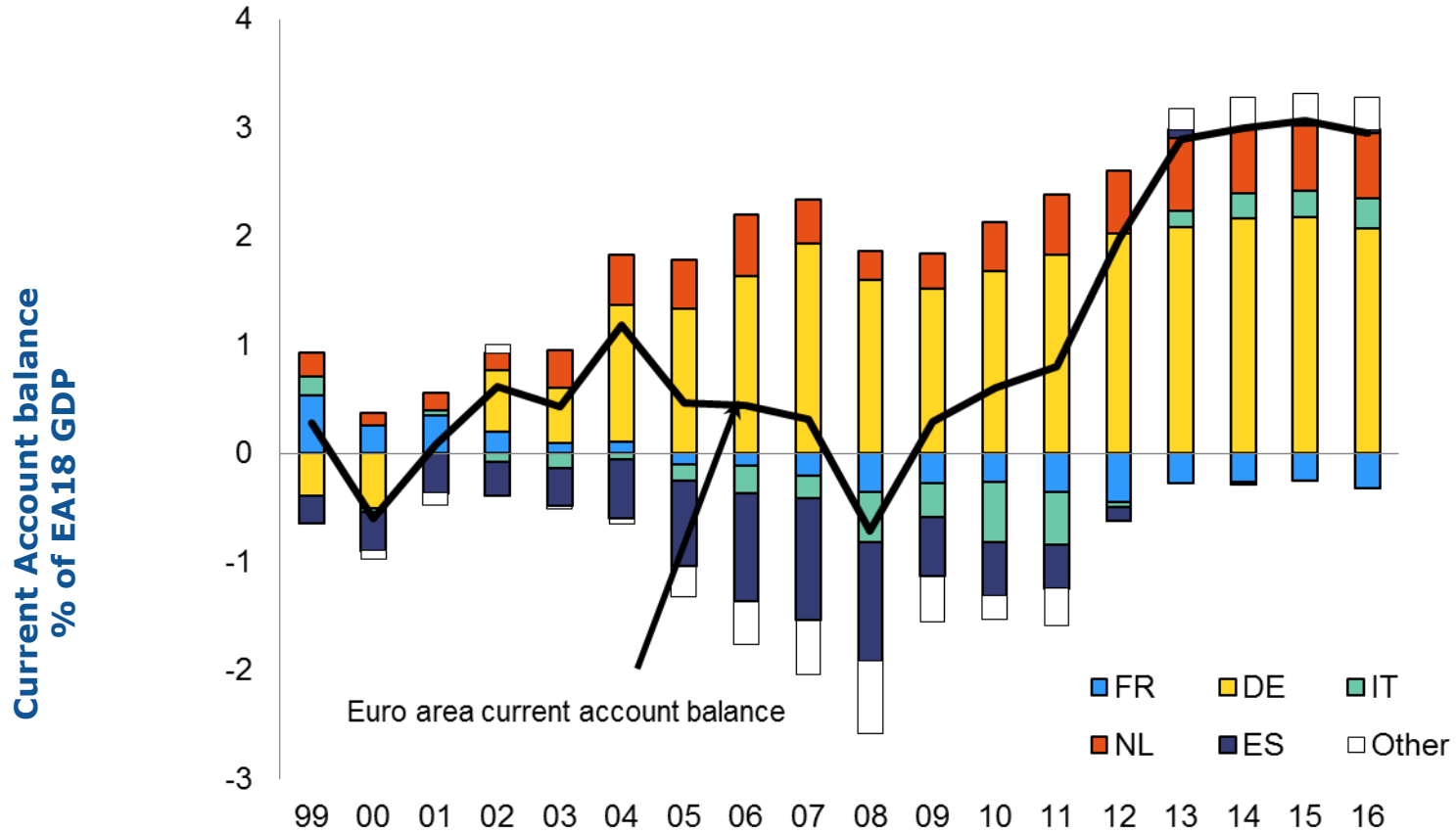
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## Restored convergence in unemployment rates since 2014





## Asymmetric rebalancing



# Implications

- Two notions of adjustment: tensions?
  - **Asymmetric shocks (internal adjustment)**
  - **External adjustment**
- External adjustment in an evolving rebalancing context
  - **Flows vs. stocks**
  - **Structural change**
  - **Low-inflation environment**
- Internal adjustment
  - **Supra-national fiscal stabilisation capacity**
- Preventing and dealing with current account crises
  - **Completing EMU: Banking union, capital markets union**
- Stable framework

## Current account: cyclically-adjusted balances and balances required to stabilise or reduce external liabilities

