Euro Area

Growth should pick up somewhat in 2005, but productivity and labor participation must improve to tackle fiscal pressures from aging, including mounting pension liabilities.

Higher oil prices have weakened recovery.

![GDP growth chart]

Source: Eurostat and IMF staff projections.  
1IMF staff projections, as of January 2005.

Despite large exchange rate swings, the euro area’s current account has remained close to balance—in contrast to that of the United States.

![Current account balances chart]

Source: IMF, World Economic Outlook, September 2004.  
1Calculated as residual (excludes global discrepancy).  
2Based on data from the European Central Bank that exclude trade among euro area countries.

To catch up with U.S. per capita income, more people will need to join the labor force in the euro area.

![Labor force participation chart]

Sources: OECD and IMF staff estimates.  
1Output in 2003 Purchasing Power Parity (PPP) values per hour.  
2Total hours worked per capita.

The euro has strengthened, but its movements seem to have little effect on activity.

![Euro nominal effective exchange rate chart]

Source: Eurostat and IMF staff calculations.

Since the beginning of the 1990s, per capita income growth in the euro area has been a bit lower than in the United States.

![GDP per capita chart]

Source: OECD and IMF staff estimates.  
1In 2003 Purchasing Power Parity (PPP) values.

Euro area residents will also have to work longer to pay for their retirement.

![Public pension spending chart]

Source: IMF staff estimates.  
Note: Assumes that all pension system parameters except the elderly dependency ratio will remain constant at current levels.