Panel on Policy Analysis

in the Post Great Recession Era

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Emerging Europe and the Global Crisis of 2008

- The inception of the Euro in 1999, was followed by massive capital inflows in the region, possibly driven by expectations of quick convergence of peripheral and central Europe.

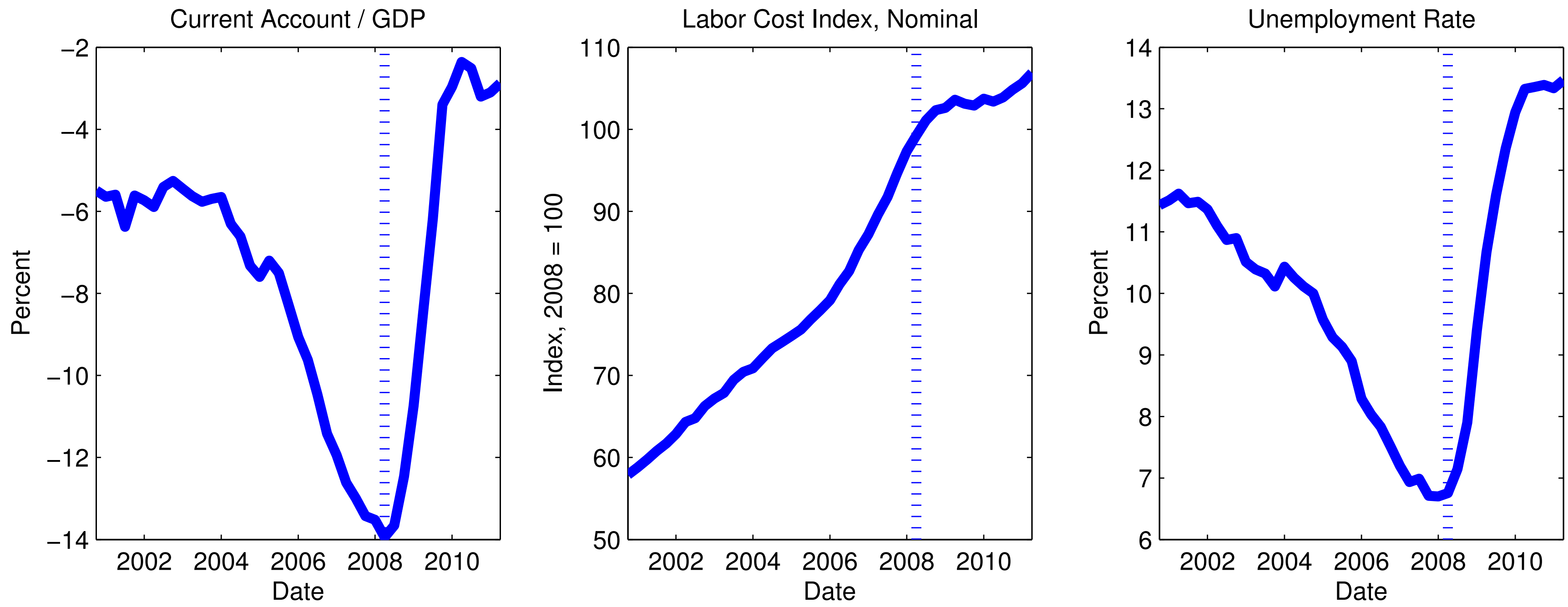
- Large current account deficits and nominal wage increases, with declining rates of unemployment between 2000 and 2008.

- With the Global crisis, capital inflows dried up abruptly. The region suffered a severe sudden stop (sharp reductions in current account deficits).

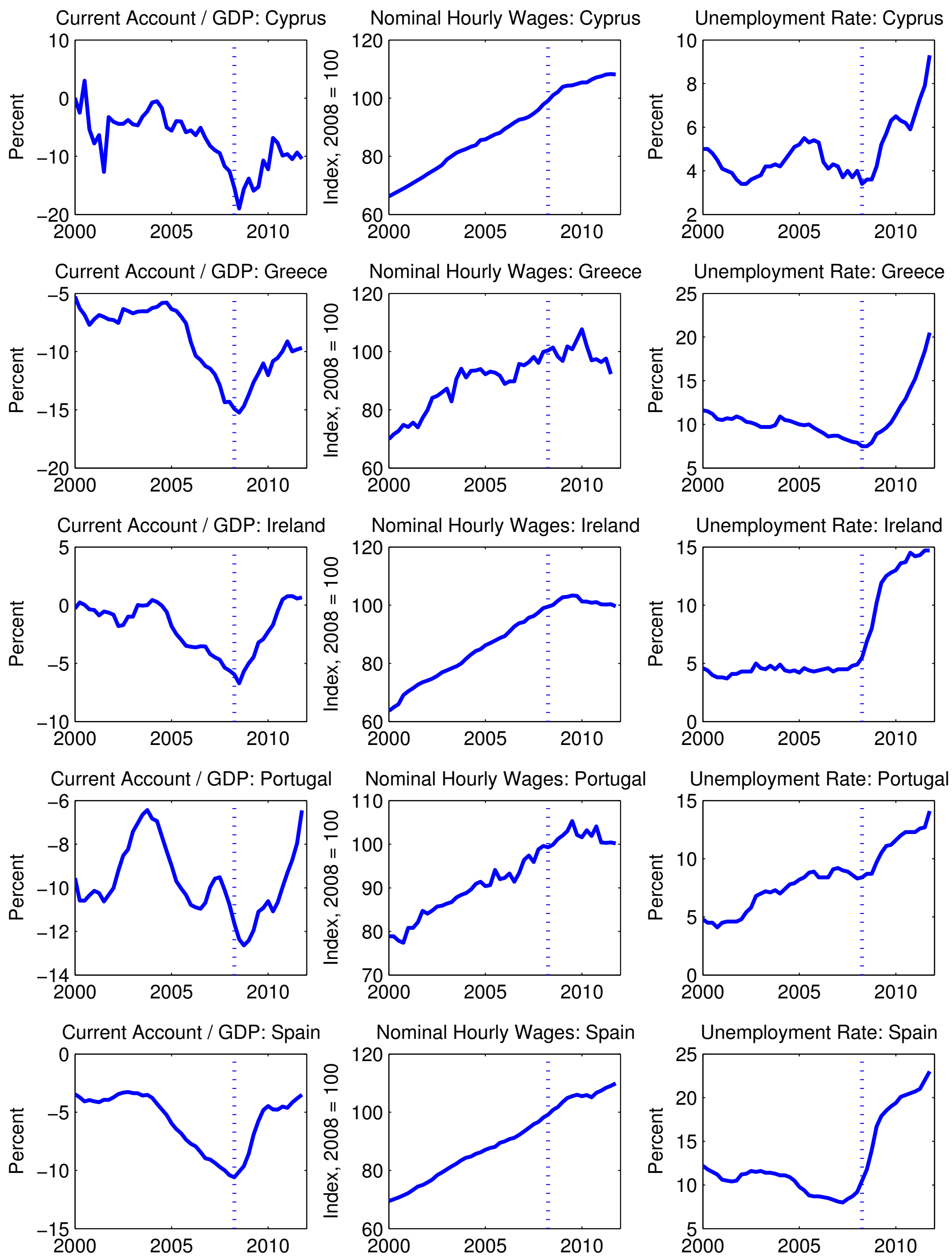
- Despite the collapse in aggregate demand and the lack of a devaluation, nominal wages remained as high as during the boom.

- Massive unemployment affected all countries in the region.

Boom-Bust Cycle in Peripherical Europe: 2000-2011

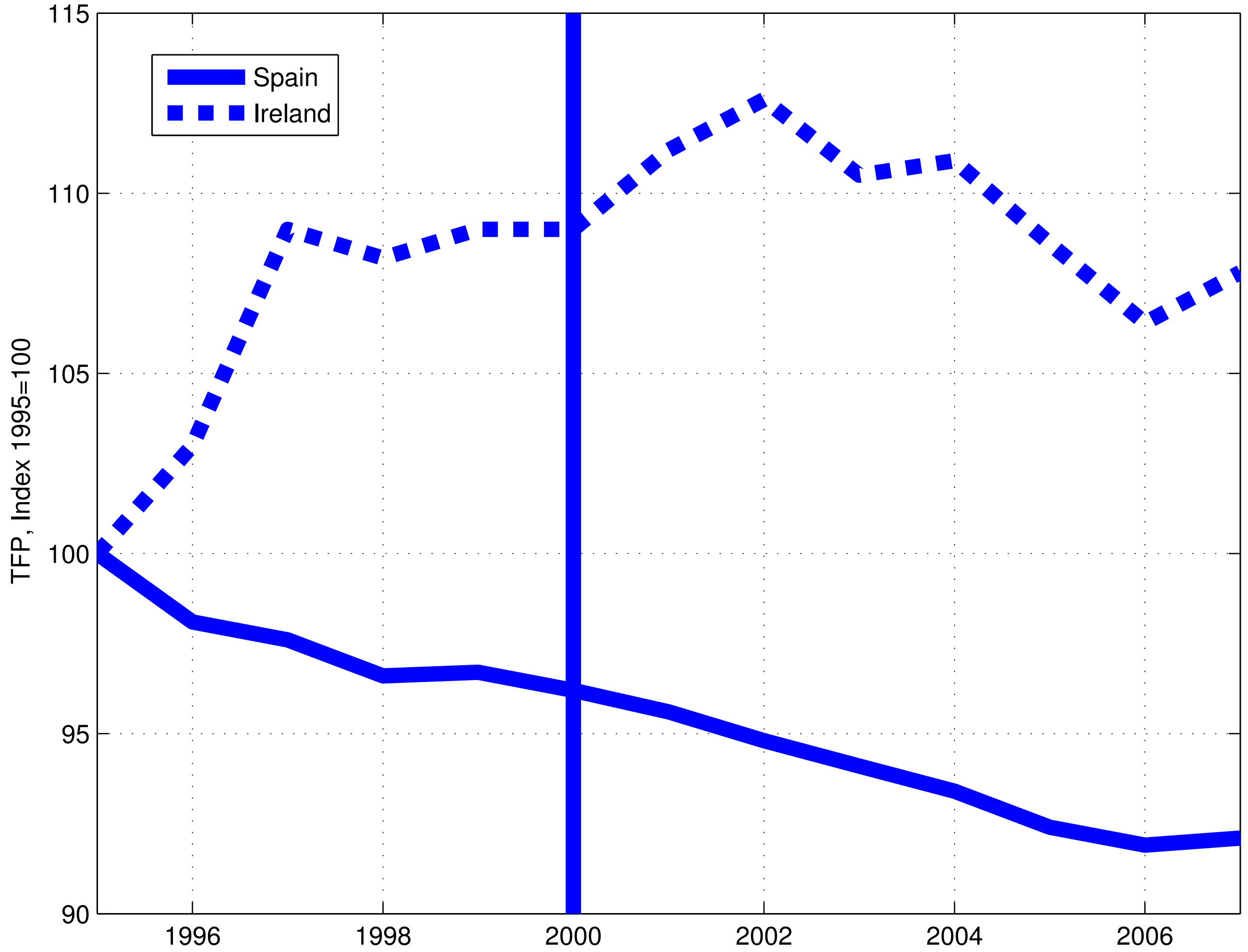


Data Source: Eurostat. Data represents arithmetic mean of Bulgaria, Cyprus, Estonia, Greece, Ireland, Lithuania, Latvia, Portugal, Spain, Slovenia, and Slovakia



Boom-Bust Cycle, Downward Wage Rigidity and Unemployment in the Eurozone

Total Factor Productivity



Total Factor Productivity: 2000-2007 (value added based), Index (1995=100)

	2000	2001	2002	2003	2004	2005	2006	2007
Spain	96.2	95.6	94.8	94.1	93.4	92.4	91.9	92.1
Ireland	109.0	111.2	112.6	110.5	110.9	108.6	106.4	107.8

Source: EU KLEMS Growth and Productivity Accounts. This database includes measures of output and input growth, and derived variables such as multifactor productivity at the industry level. The input measures include various categories of capital (K), labour (L), energy (E), material (M) and service inputs (S). The measures are developed for 25 individual EU member states, the US and Japan and cover the period from 1970 to 2007. The variables are organised around the growth accounting methodology, a major advantage of which is that it is rooted in neo-classical production theory. It provides a clear conceptual framework within which the interaction between variables can be analysed in an internally consistent way. The data series are publicly available on http://www.euklems.net. November 2009 release.