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Delegations will find attached document COM(2017) 291 final ANNEX 3.

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ANNEX 3

ANNEX

to the

REFLECTION PAPER

ON THE DEEPENING OF THE ECONOMIC AND MONETARY UNION

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Annex 3. Main economic trends within the euro area so far

The introduction of the euro initially led to some convergence between participating Member States, notably in terms of economic growth and interest rates.

However, the crisis exposed some significant differences that had accumulated over the preceding years in terms of competitiveness, the strength of the banking sector and the sustainability of public finances. It also resulted in greater divergences in economic outcomes.

In recent years, there has been some evidence of an ongoing trend in reducing divergences. However, stark differences between Member States and important legacies from the crisis remain and a strong process of re-convergence is not yet visible.

While significant growth occurred in the first years of the euro area, many Member States saw significant declines in living standards during the crisis. For example, whereas growth in Germany has picked up in a robust way since then, Italy's GDP remains below pre-crisis levels. Not all euro area economies have recovered to the same extent.

Trends in real GDP per capita

Index 1999=100
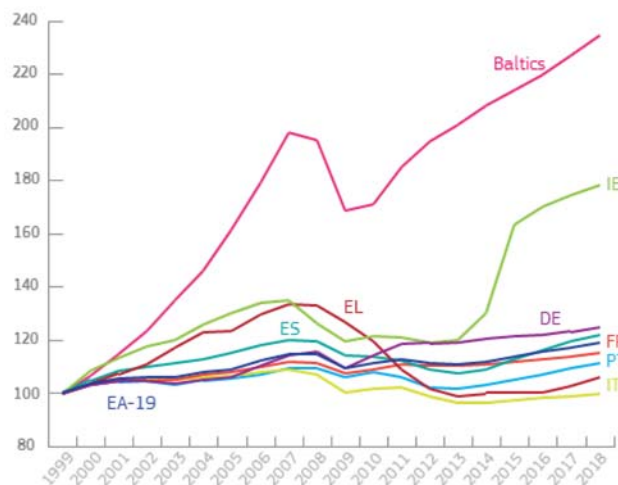
Source: European Commission

One of the underlying reasons for the divergence in economic performances is linked to investment levels. Following a significant decline during the crisis, investment took years to recover and has only started rising again in recent years. It remains particularly low in the Member States that experienced financial difficulties during the crisis.

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**Trends in total investment**
Index 1999=100
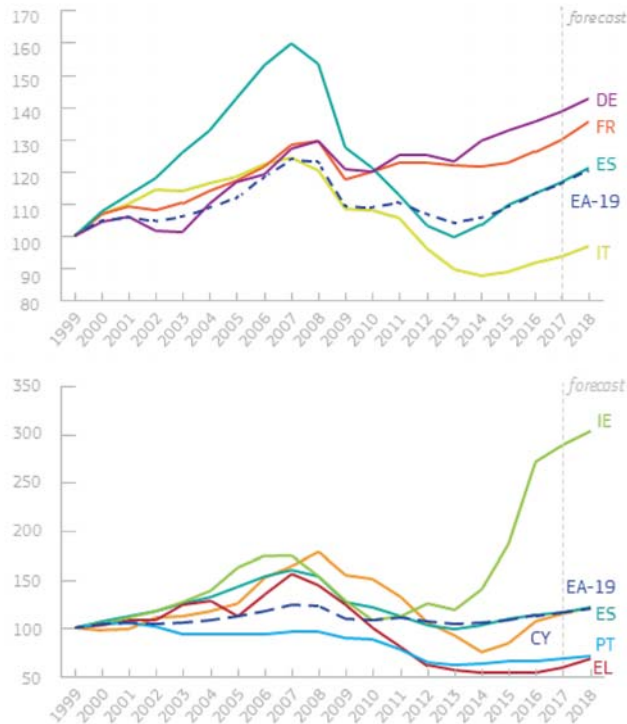
Source: European Commission

Competitiveness, when expressed in terms of labour costs, diverged widely in the initial years of the euro. For example, Germany experienced particularly favourable cost developments compared to France, Italy and others. Spain has established a strong correction of labour costs following the introduction of reforms in response to the crisis.

Trends in nominal unit labour costs
Index 100=1999
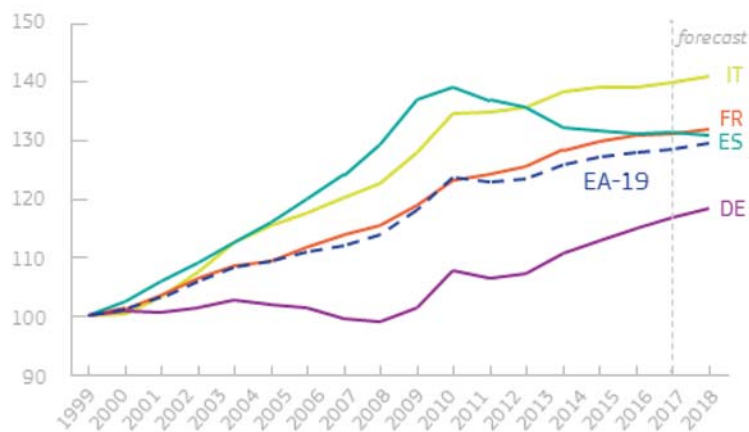
Source: European Commission

In terms of financial indicators, private-sector interest rates have converged since 2012. However, significant differences remain and the financing conditions of firms still very much

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depend on their nationality. Moreover, variations in lending volumes actually increased until 2013 and only started converging since then.
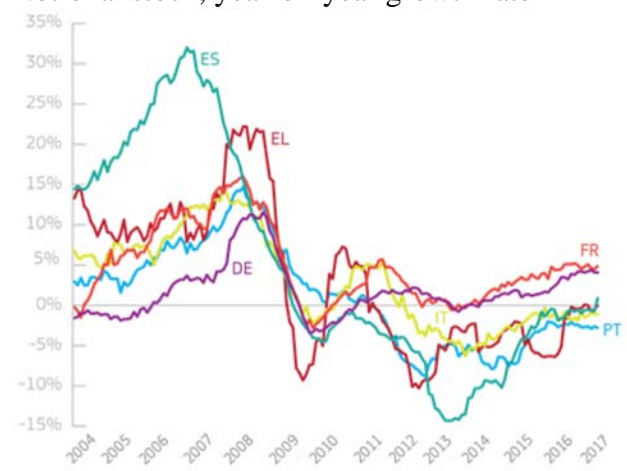
Trends in interest rates of loans to non-financial corporations and in the amount of loans to enterprises

Interest rates in %   Notional stock, year-on-year growth rate

Source: European Central Bank   *Source: European Central Bank*

The rise of non-performing loans – loans that are in default or close to it – in the balance sheet of banks is both a symptom of the crisis years and a source of vulnerability. These loans are much more prevalent in southern European Member States than elsewhere in the euro area.

Trends in the share of non-performing loans as a share of total gross loans
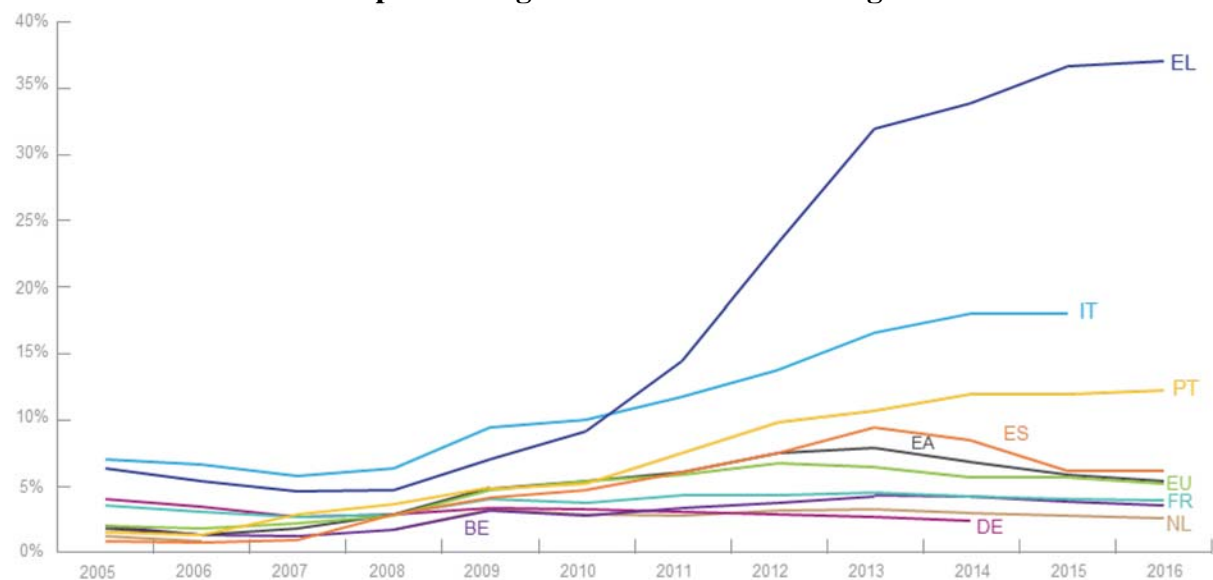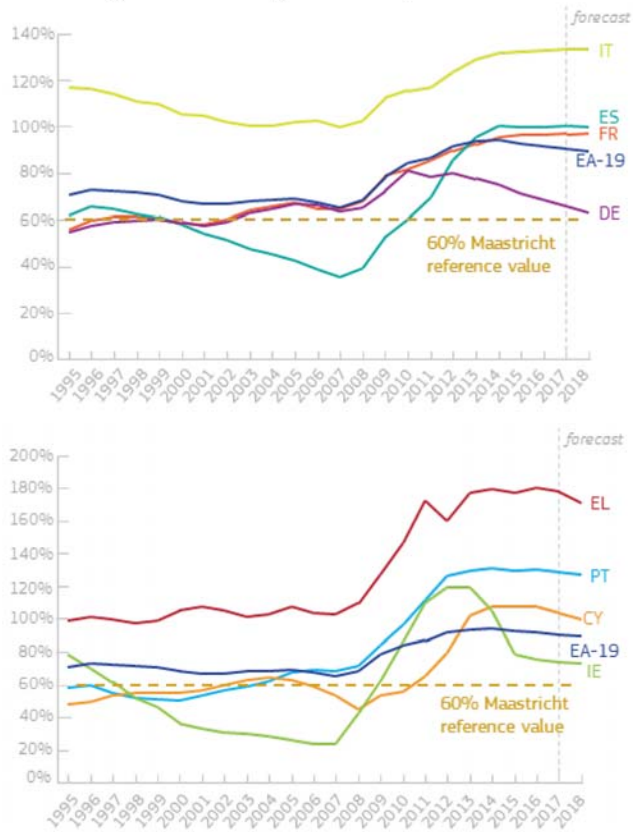

Source: World Bank and International Monetary Fund, latest data available

The crisis led to a significant rise in public debt. This trend has stopped in recent years and public debt levels have started to decrease on average. However, they still remain high and only a few Member States have achieved a significant decrease so far.

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Trends in public debt
General government gross debt, as % of GDP

Source: European Commission