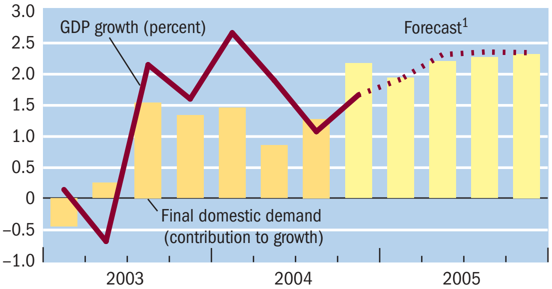
Euro Area

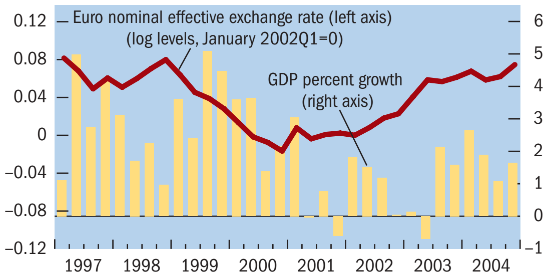
Growth should pick up somewhat in 2005, but productivity and labor participation must improve to tackle fiscal pressures from aging, including mounting pension liabilities.

Higher oil prices have weakened recovery.



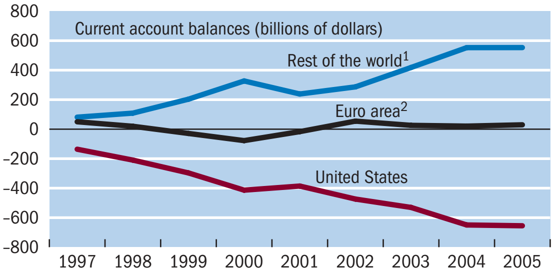
Sources: Eurostat and IMF staff projections.
[1]IMF staff projections, as of January 2005.

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



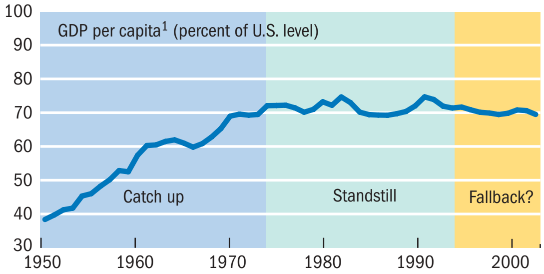
Source: Eurostat and IMF staff calculations.

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



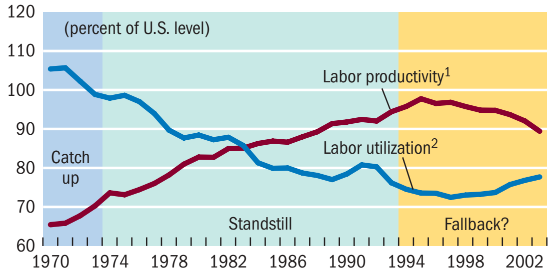
Source: IMF, *World Economic Outlook,* September 2004.
[1]Calculated as residual (excludes global discrepancy).
[2]Based on data from the European Central Bank that exclude trade among euro area countries.

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



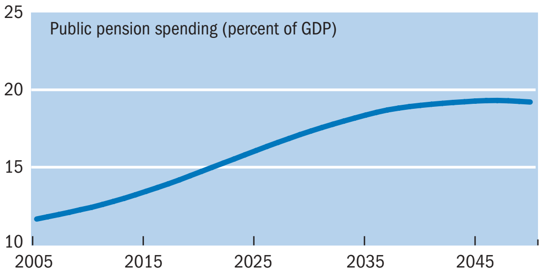
Sources: OECD and IMF staff estimates.
[1]In 2003 Purchasing Power Parity (PPP) values.

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



Sources: OECD and IMF staff estimates.
[1]Output in 2003 PPP values per hour.
[2]Total hours worked per capita.

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



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