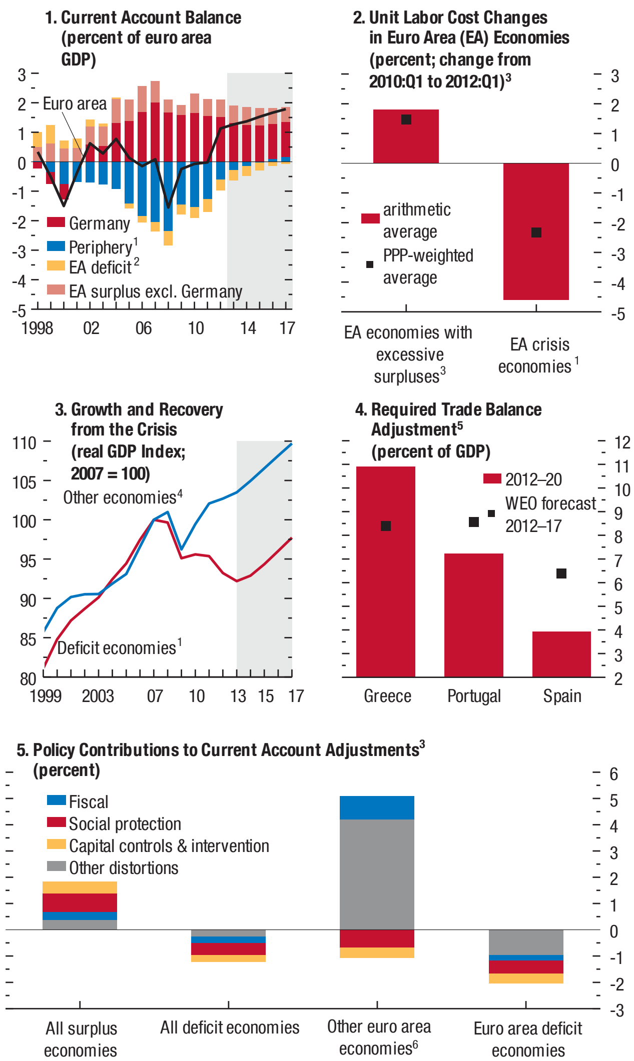
Figure 1.18. Euro Area Imbalances

Current account imbalances have also narrowed within the euro area, reflecting mainly a collapse of demand in the deficit economies in the periphery rather than stronger demand in surplus economies, such as Germany and the Netherlands. Since the onset of the crisis, unit labor costs have grown less in the deficit economies than in the surplus economies, but more adjustment will be needed. Reducing global and euro area current account imbalances will also require further policy changes. In external-deficit economies, these include reducing large fiscal deficits, slowing entitlement spending, and, within the euro area, reforming labor and product markets. In external-surplus economies, policies should improve social protection and remove a variety of distortions.



Sources: Eurostat; and IMF staff calculations.
Note: PPP = purchasing power parity.
[1]Greece, Ireland, Italy, Portugal, Spain.
[2]Excludes five periphery economies.
[3]Classifications based on the IMF staff's *Pilot External Sector Report* (2012d), which covers Australia, Belgium, Brazil, Canada, China, euro area, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, Poland, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States.
[4]Austria, Belgium, Finland, Germany, Luxembourg, and Netherlands.
[5]Required adjustment of the trade balance between 2012 and 2020 to lower net foreign liabilities to 35 percent of GDP by 2030, assuming that the nominal external interest rate is 3 percent and that the nominal GDP growth rate stays at the level projected for 2017.
[6]Germany, Netherlands.