



Research Unit International Economics and Economic Outlook

Our Topics

The research unit “International Economics and Economic Outlook” focusses its work on how the European and international economy develops and how economic policy can become more effective in providing wealth, growth and jobs. We address our recommendations to policy makers in Brussels and Berlin alike. Our research includes the following policy areas:

Future of the EU and of EMU

We provide policy advice for the reform of the EU and the euro area. For example, we analyse the reform needs in the EU’s Multi-annual Financial Framework and in cohesion policy.

Brexit

We closely follow the Brexit debate, monitor the negotiations and evaluate the repercussions for the economies in the UK, Germany and the EU.

Economic outlook and structural change

The research unit leads and contributes to the IW’s semi-annual economic out-look for Germany and the international economy. Furthermore, we analyse economic growth and structural change from a macroeconomic perspective.

Globalisation, trade, competitiveness

Topics in this policy area include pros and cons of globalisation, free trade agreements, emerging markets as well as German and European competitiveness.

The Research Unit cooperates within the Association of European Conjuncture Institutes (AIECE) and is a partner in a consortium headed by the London School of Economics (LSE) providing expertise on trade policy to the European Parliament. Research-oriented contacts also exist to the OECD, the IMF and to the EU Commission.

Our Findings

Euro area governance

Our research indicates that further fiscal integration does not appear necessary for the European Monetary Union (EMU). We point out that the adjustment capacities of euro area countries to asymmetric shocks – e.g. in terms of wage flexibility – are considerably better than generally perceived. Moreover, significant structural reforms taken by Southern euro area countries during the crisis have fostered regulatory convergence among euro area countries again, that have reinvigorated economic growth and competitiveness - as clearly shown by the examples of Spain and Ireland. Structural reforms also make EMU more viable because they render wages and prices more flexible and increase the homogeneity among euro area members. Both aspects are important preconditions for sharing a single currency.

In order to make EMU sustainable, policy makers should focus more strongly on reducing the likelihood and severity of future crises. Before all, macro-prudential policy instruments should be vigorously used to this aim, also in view of non-performing loans. Moreover, sovereign bonds have to be de-privileged in banking regulation in order to break the sovereign banking nexus.

Brexit

We have surveyed studies on the long-term impact of Brexit on the UK and concluded that the detrimental effects could be considerably larger than most mainstream studies suggest. In our research we have also provided an analytical framework to evaluate possible outcomes of the Brexit negotiations. Moreover, we have quantified the impact a Pound devaluation has on the export of German goods to the UK.

Macroeconomic imbalances

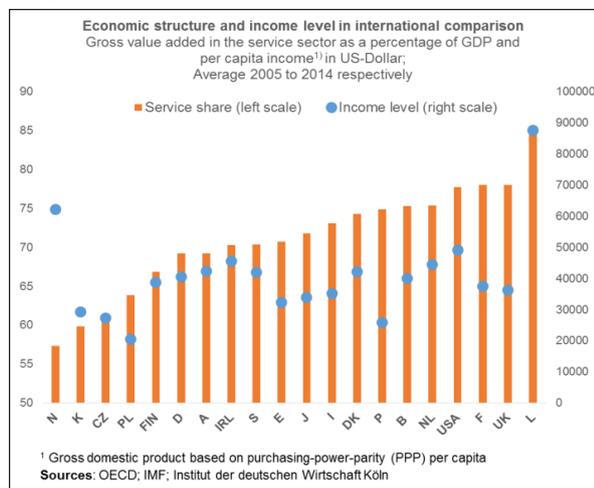
The discussion about the German current account surplus continues. Indeed, Germany should increase public infrastructure investment and improve the general conditions for business investment. However, several reasons support the notion of a moderate structural surplus of the German current account. For example, the specialisation of the German economy in investment goods and the demographic challenge which is particularly large in Germany. Moreover, German unit labour costs have increased considerably in recent years in a booming labour market, which still benefits from the supply-side reforms of the preceding decade.

Globalisation, WTO and FTAs

Open markets are essential for a dynamic global economy. The WTO is best suited to combat protectionism and to foster trade liberalisation. As the multilateral road has become rough, bilateral avenues are required. We analysed, for example, the pros and cons of TTIP and the non-tariff barriers in EU-Mercosur trade. In doing so, we point out that the legitimate concerns of the sceptics can and need to be sufficiently addressed.

Structural change and welfare

Our research finds that there is no clear relationship between sector shares and welfare implications (figure). To be successful, it is crucial that countries enable their businesses to integrate into international value chains with innovative solutions. Moreover, production factors need to be continuously (re-)allocated to modern and efficient uses.



Selected publications

Busch, Berthold, 2017, The network of production and supply links between British industries, the EU and Germany, IW Report, No. 23/2017, Cologne

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Busch, Berthold / **Matthes**, Jürgen, 2016, What next after Brexit? - Considerations regarding the future relationship between the EU and the UK, IW Policy Paper, No. 16/2016, Cologne

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Grömling, Michael, 2014, A Supply-Side Explanation for Current Account Imbalances, in: Intereconomics. Vol. 49, No. 1, pp. 30-35

Kolev, Galina / **Matthes**, Jürgen, 2013, Smart Fiscal Consolidation, Centre for European Policy Studies, Brussels

Kolev, Galina / **Matthes**, Jürgen, 2015, TTIP: Motor Vehicles, European Parliament, Policy Department Economic and Scientific Policy, IP/A/IMCO/2014-14, Brussels

Matthes, Jürgen / **Iara**, Anna, On the future of the EMU: Is more fiscal integration indispensable?, in: European View, Vol. 16, No. 1, pp. 3–22

Matthes, Jürgen, 2017, Risks and opportunities of establishing a European Monetary Fund based on the European Stability Mechanism, IW policy paper, No. 8/2017, Cologne

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