

Is There any Rebalancing in the Euro Area?

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Highlights

- We estimate Fundamental equilibrium exchange rates for euro area countries since 2000.
- Estimated misalignments largely depend on output gap estimation.
- Greece appears massively overvalued without any significant progress since the crisis.
- Spain and Portugal have substantially reduced their misalignment.
- The Spanish and Portuguese rebalancing has found its counterpart in France and Italy, not in Germany.



■ Abstract

We assess the evolution of real exchange rate misalignments within the euro area from a Fundamental Equilibrium Exchange Rate (FEER) approach. We test the robustness of the results by comparing three different estimations of the output gap. Whatever the output gap assumption, Southern countries were massively overvalued before the euro area crisis. However, the magnitude of the adjustment since is sensitive to the output gap. In particular, Greece has not registered any improvement considering an output gap that captures the financial cycle (10-15 years) instead of the business cycle (5 years). Spain and Portugal have significantly reduced their misalignment but against France and Italy instead of Germany. As a consequence, imbalances in the euro area have not reduced.

■ Keywords

Exchange Rates; Current Account Adjustment; Euro Area.

■ JEL

F31; F32; F36.