The euro area economy: an update

Euro Challenge – November 2016
What this presentation will cover

• A. Update on the economic situation in the euro area (GDP, Inflation, Unemployment)
• B. Factors that constitute a supportive "policy mix"
• C. The external environment
• A. Update on the economic situation in the euro area (GDP, Inflation, Unemployment)
GDP growth, EU

- On an annual basis, real GDP growth this year is forecast at 1.9% in the EU and 1.6% in the euro area. (after 1.4% and 0.9% in 2014).

- Economic growth is forecast to continue to gather pace over 2016 and 2017.

- Growth is being supported by low energy prices, accommodative monetary policies and a neutral fiscal stance, which underpin private consumption.

Source: European Commission, Autumn Forecast, 2015
Growth is forecast in all EU countries except Greece in 2016.

Source: European Commission, Autumn Forecast, 2015
Inflation will remain very low in 2015, at 0.1% in the Euro Area but is then forecast to pick up, rising 1% in 2016 and 1.6% in 2017.

Low energy prices are keeping inflation low for now, but prices will start rising as the transitory effects of these factors wear off and the economic recovery gathers pace.

Still, inflation is forecast to remain below the ECB's target (below, but close to 2% over the medium term). Monetary policy will likely remain accommodative for as long as needed to secure a sustained adjustment in the path of inflation.

Source: European Commission, Autumn Forecast, 2015
Unemployment is slowly declining

• Employment has continued to grow since mid-2013.

• The unemployment rate is coming down gradually but remains above pre-crisis levels. It is expected to come down to 9.2% in the EU and 10.6% in the EA in 2016.

• There are large disparities between countries’ unemployment rates, which ranged from below 5% to above 25% in September 2015.

Source: European Commission, Autumn Forecast, 2015
What this presentation will cover

• B. Factors that constitute a supportive policy mix
The fiscal stance in the Euro Area is neutral

- After substantial adjustment in the past few years, fiscal policy is no longer a drag on growth.

General government deficits are being reduced. Deficit to GDP ratios are forecast to fall to 1.8% in EA and 2% in EU in 2016.

Debt to GDP ratios have peaked and should fall to 92.9% in the EA and 87.1% in the EU in 2016.

Source: European Commission, Autumn Forecast, 2015
Monetary policy is easing further

- The ECB provided additional measures of quantitative and credit easing
- These measures have eased financial fragmentation and improved access to credit
- Sovereign bond yields have continued to decline
- The positive impact on confidence and credit should continue, which will support investment and consumption.

Source: European Commission
Domestic demand will drive output growth

Private consumption has been the key factor in the recovery's recent strength:

- Job gains and wage increases are boosting nominal income.
- Low inflation is increasing purchasing power.
- Higher house prices and financial asset prices are adding to private wealth gains.

Source: European Commission, Autumn forecast, Nov 2015
Improving bank lending conditions

- Bank repair, improved financial conditions: signs of recovery in lending to the real economy

Bank Lending to Households and Non-Financial Corporations, Euro Area

NFC’s External Funding – Bank vs Market Lending, Euro Area
What this presentation will cover

C. The External Environment: Global Growth, International Trade and Energy Prices
Steep drop in oil prices

Brent oil spot prices (USD/€)

Source: European Commission, Autumn forecast 2015
Euro has depreciated and emerging market growth is slowing

Source: European Commission, OECD, Eurostat, IMF, Markit Group
Global trade is slowing

World Trade Volumes and Global Manufacturing PMI

Source: European Commission
But EU exports are holding up

Global Demand, EU Exports and New Export Orders

Source: European Commission, Markit Group
Risks to the growth outlook

Risks on the downside:
• Geopolitical risks
• Renewed financial market volatility
• Delayed implementation of structural reforms
• Slowdown in emerging markets

Risks on the upside:
• Faster than expected impact of policy measures
• Further depreciation of the euro
• Rebound in global growth
Thank you for your attention!

ec.europa.eu/dgs/economy_finance/index_en.htm (Brussels)

www.ecb.int (Frankfurt)

euintheus.org (Washington)