

The euro area economy: an update

Euro Challenge – November 2016



Delegation of the European Union to the United States
www.euro-challenge.org





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



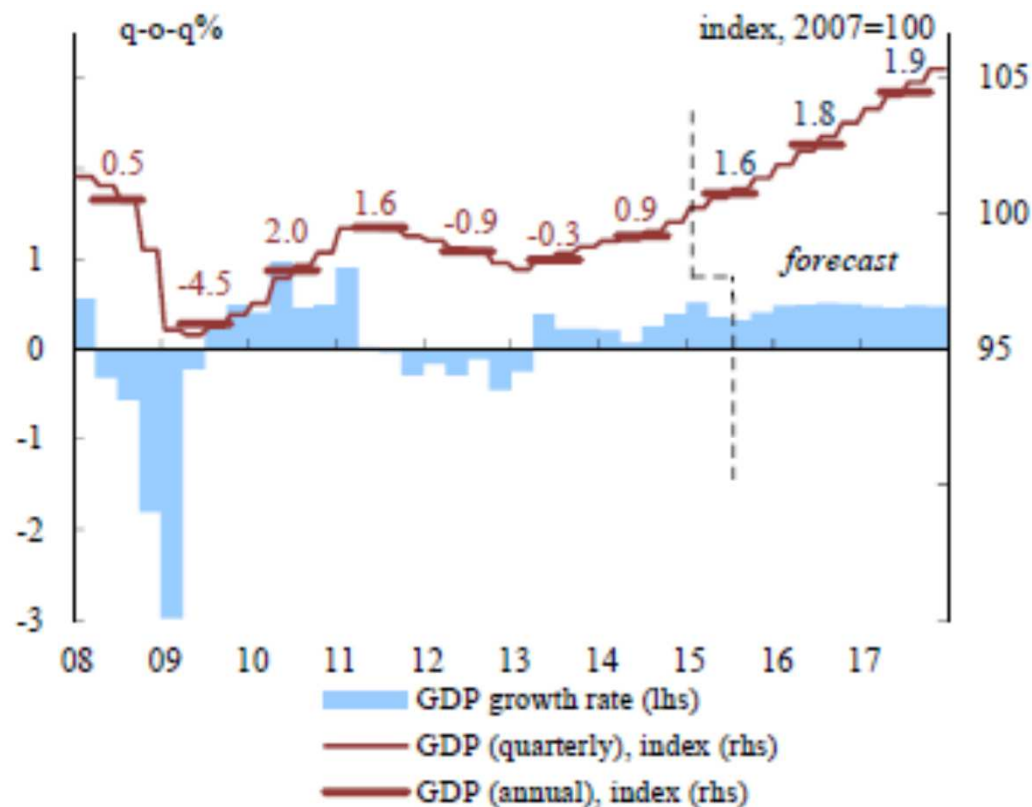
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Growth is gradually improving

GDP growth, EU



Figures above horizontal bars are annual growth rates.

- 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.



Growth is forecast in all EU countries except Greece in 2016.

EU economic growth map 2016

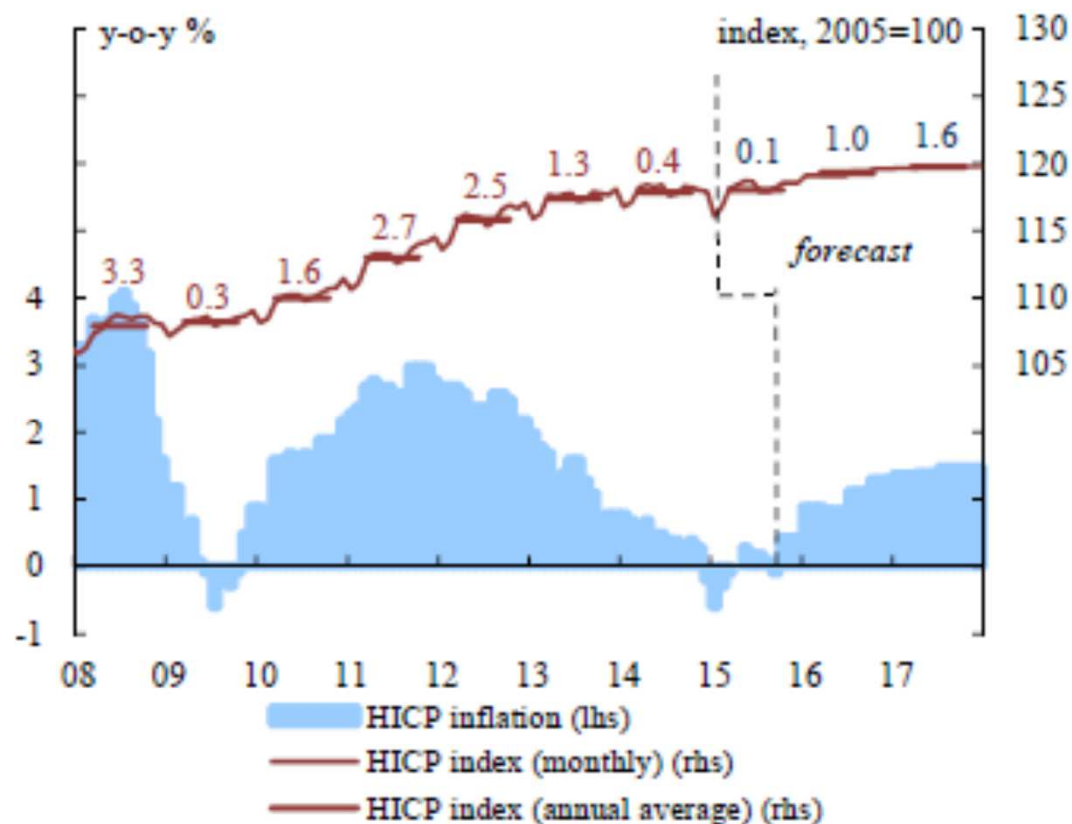
Real GDP growth in %

- Below 0 pct
- 0 - 1 pct
- 1 - 2 pct
- 2 - 3 pct
- Above 3 pct



Inflation is low

Inflation, Euro Area



- 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.

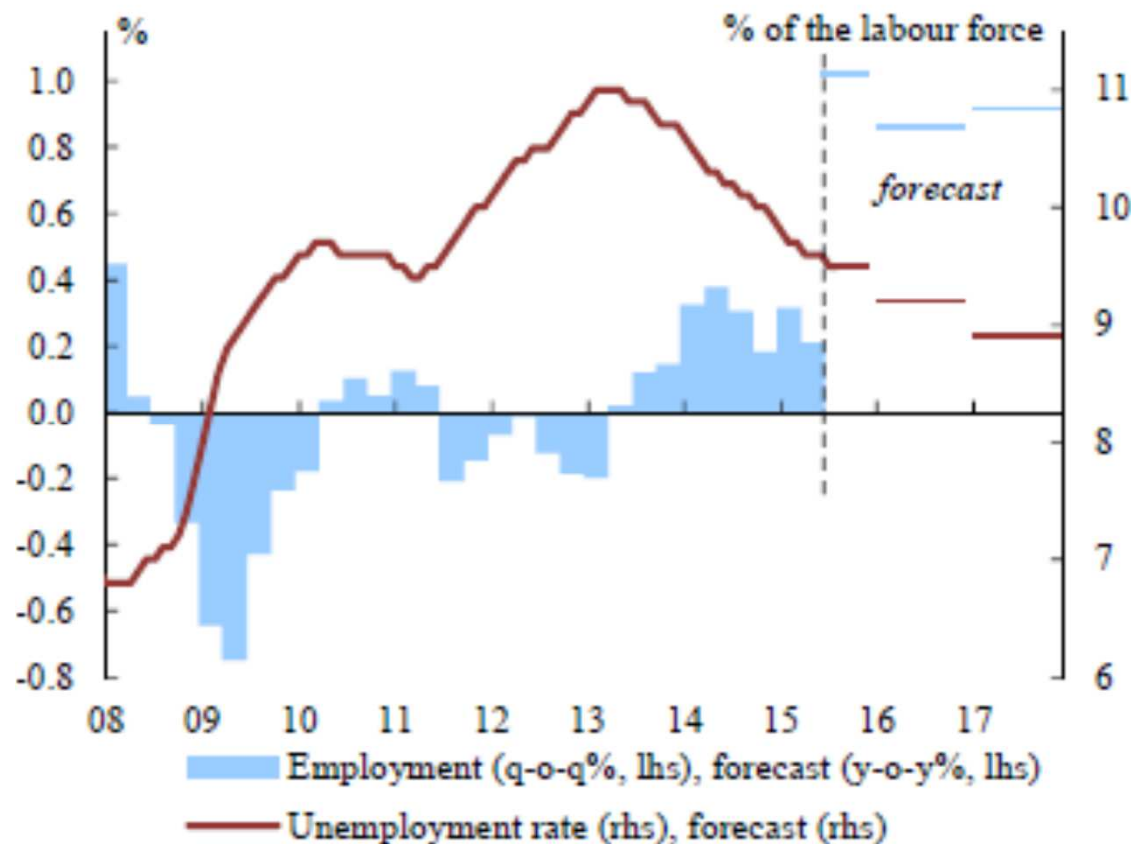
- Low energy prices are keeping inflation low for now, but prices will start rising as the transitory effects of these factors wear off and the economic recovery gathers pace.

- 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.



Unemployment is slowly declining

Employment growth and unemployment rate, EU



- 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.

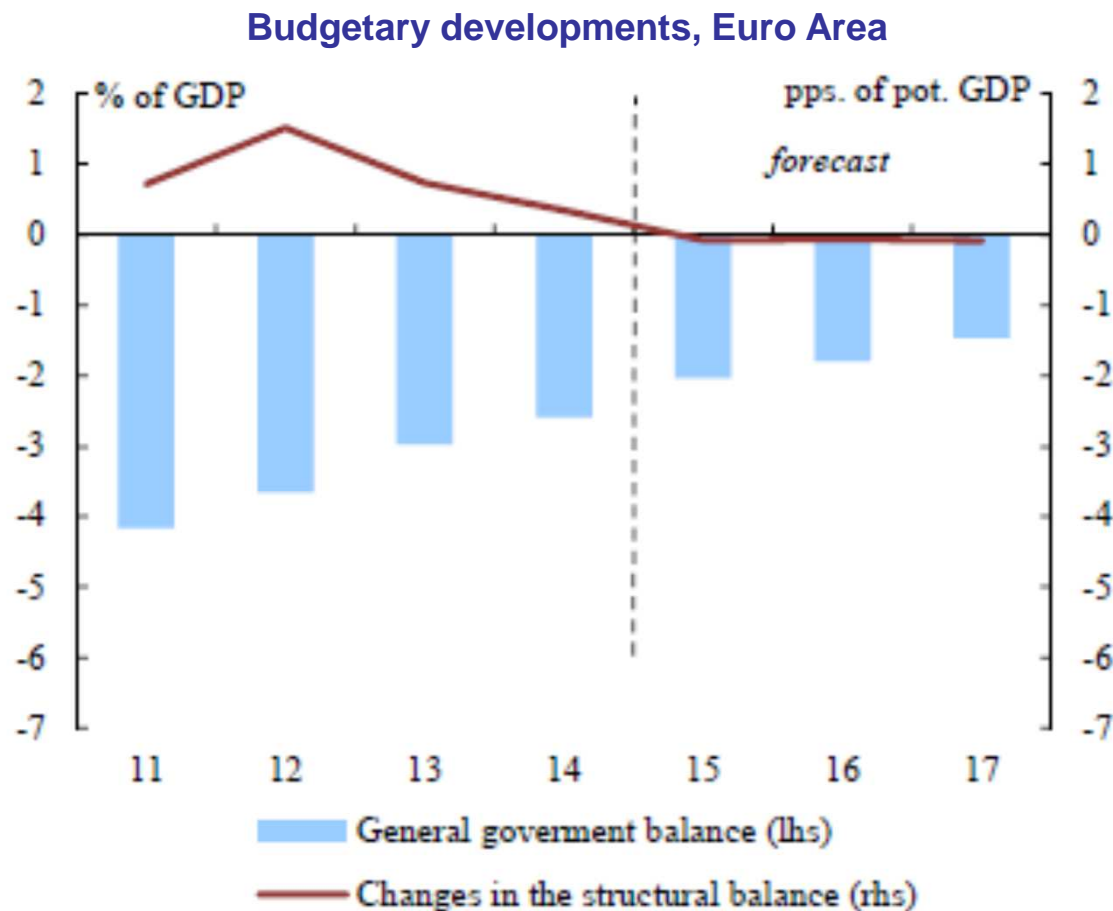


What this presentation will cover

- 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.

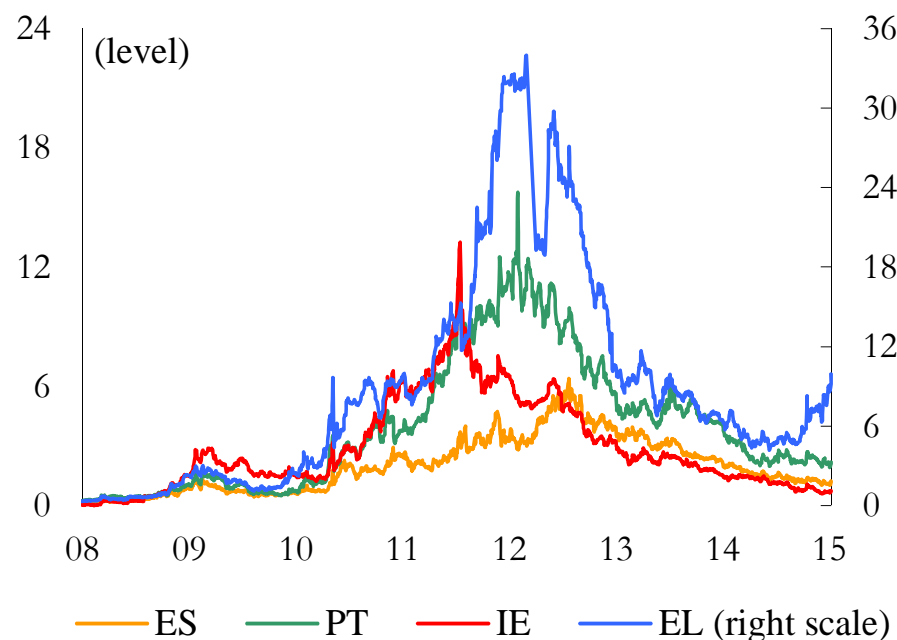
General government deficits are being reduced. Deficit to GDP ratios are forecast to fall to 1.8% in EA and 2% in EU in 2016.

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



Monetary policy is easing further

10-year government bond spreads



- The ECB provided additional measures of quantitative and credit easing

- These measures have eased financial fragmentation and improved access to credit

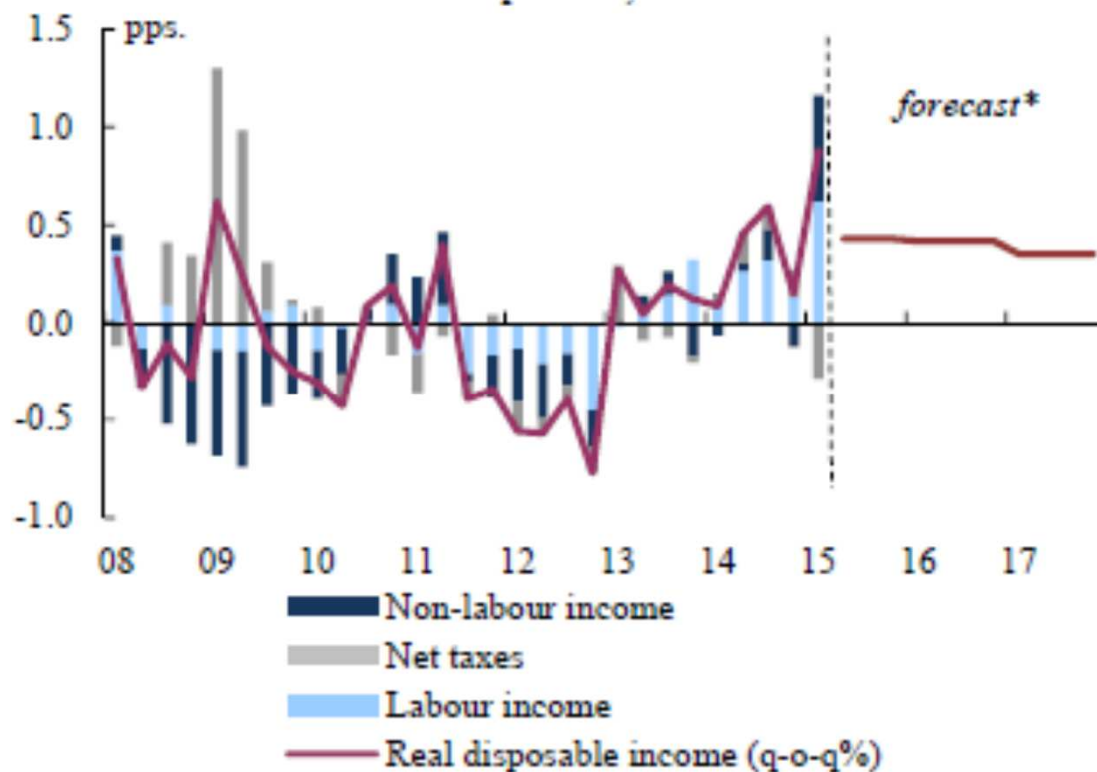
- Sovereign bond yields have continued to decline

- The positive impact on confidence and credit should continue, which will support investment and consumption.



Domestic demand will drive output growth

Real Disposable Income, Euro Area



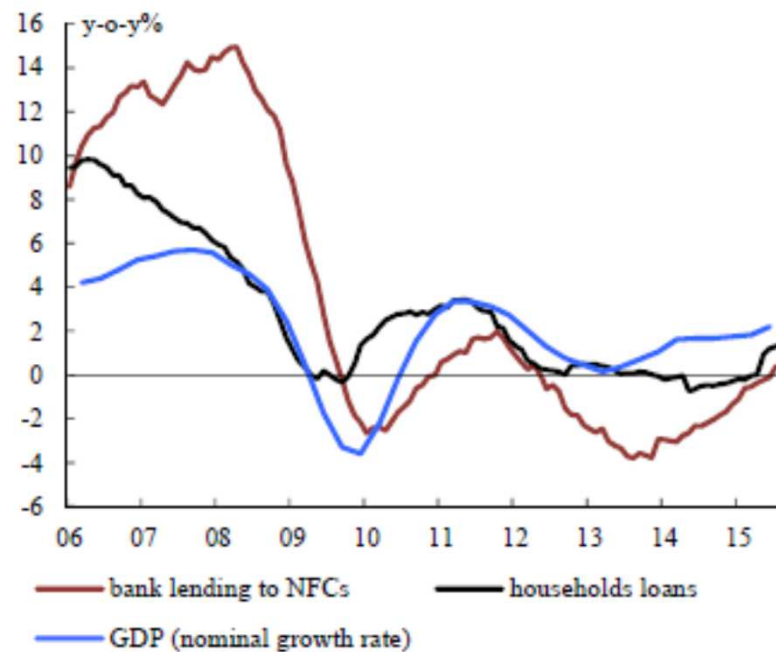
Private consumption has been the key factor in the recovery's recent strength:

- 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.

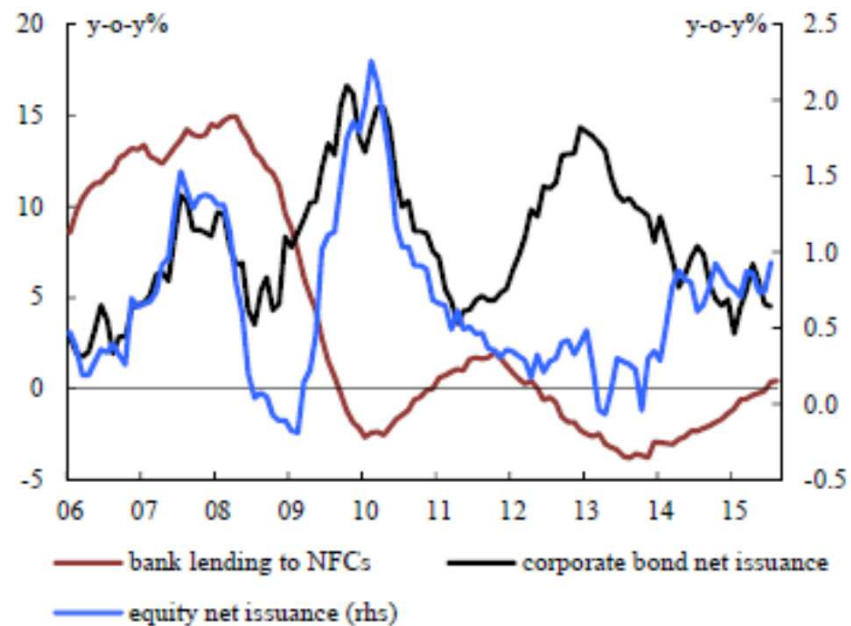
Improving bank lending conditions

- 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



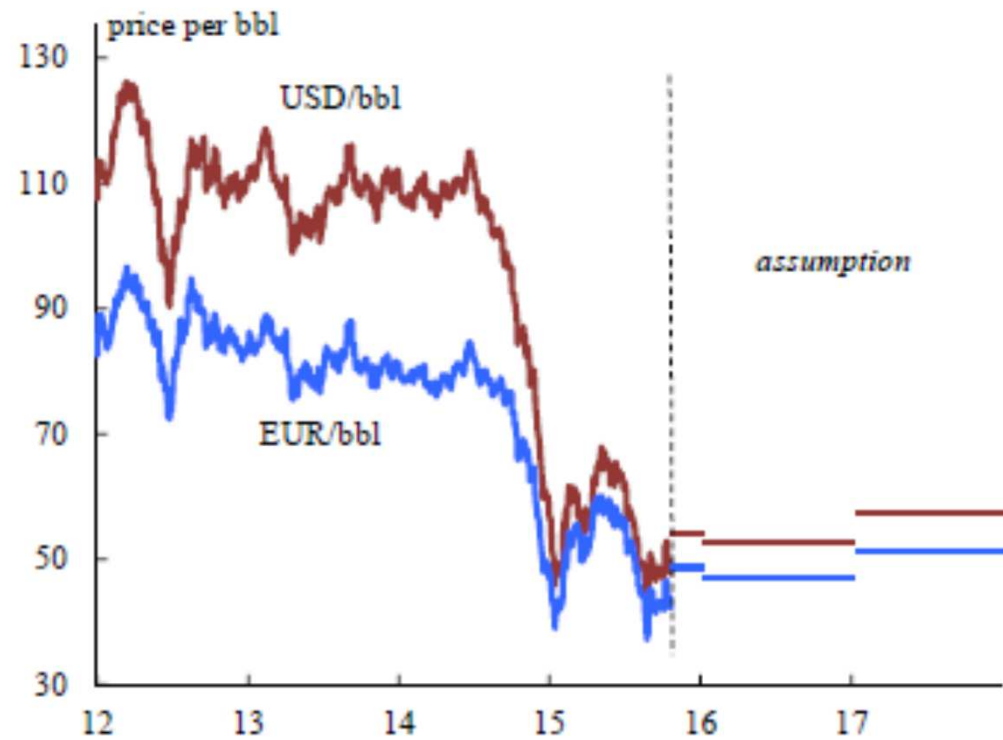


What this presentation will cover

- C. The External Environment: Global Growth, International Trade and Energy Prices

Steep drop in oil prices

Brent oil spot prices (USD/€)

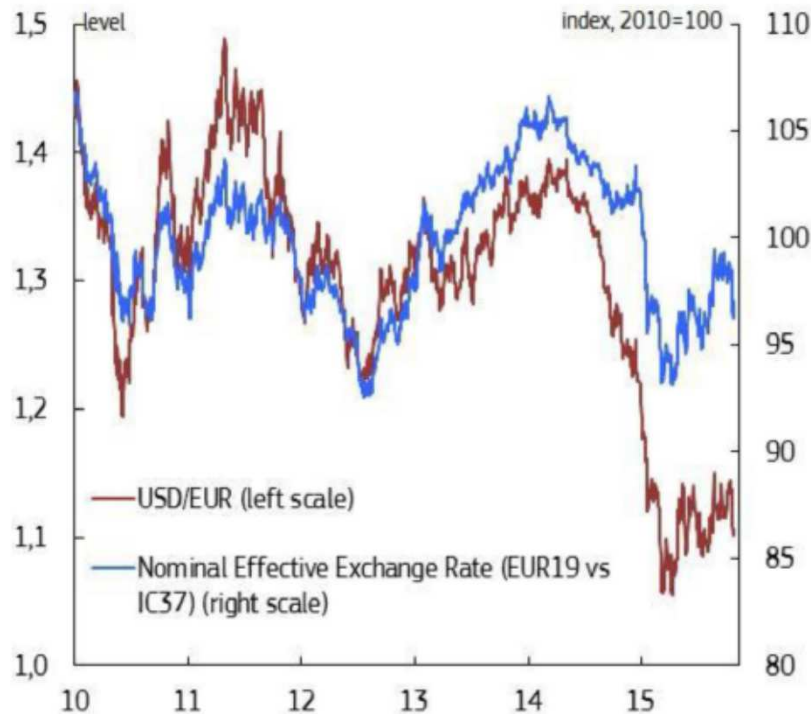


Source: European Commission, Autumn forecast 2015

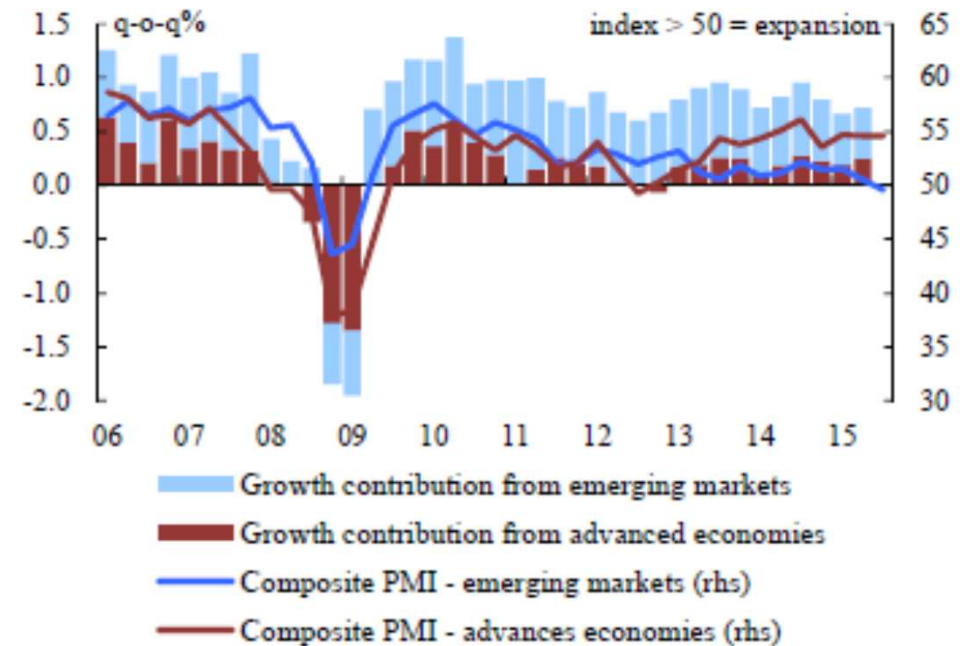


Euro has depreciated and emerging market growth is slowing

Euro exchange rates, USD and NEER

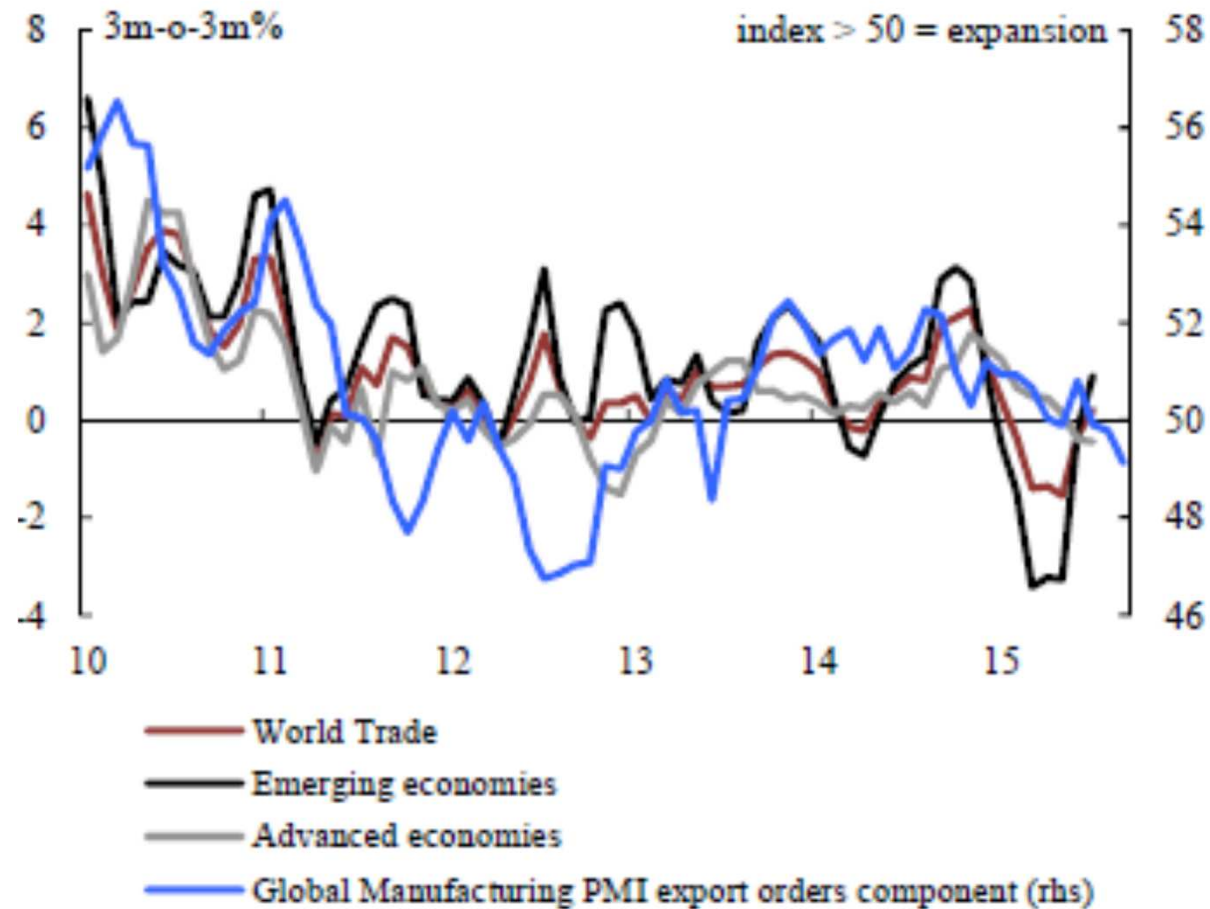


Global GDP and Composite PMI



Global trade is slowing

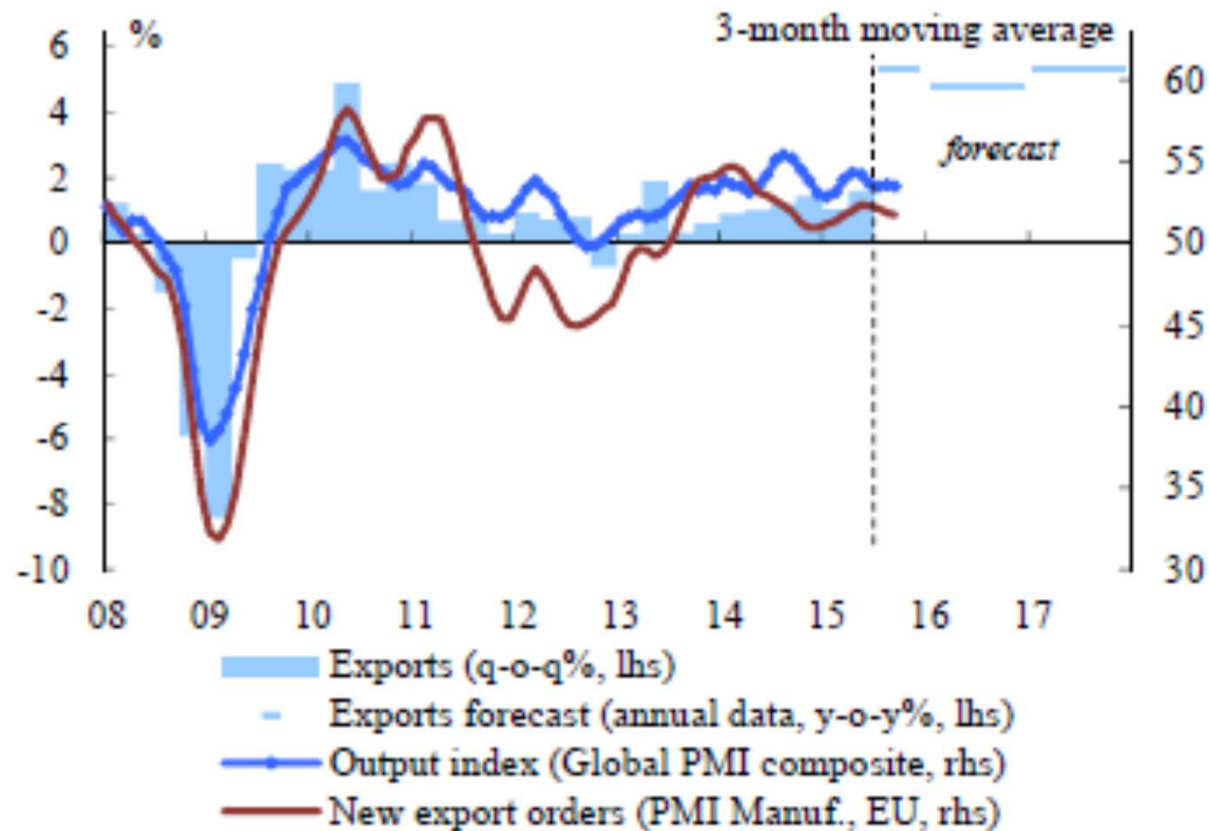
World Trade Volumes and Global Manufacturing PMI





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**
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Thank you for your attention!

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

www.ecb.int (Frankfurt)

euintheus.org (Washington)

