The euro area economy: an update

Eurochallenge – December 2014
What this presentation will cover

• Update on the economic situation in the euro area
• Building blocks for growth to resume
• Moving towards a more integrated economic and financial area
1. Growth is gradually returning

- On an annual basis, real GDP growth this year is estimated at 1.3 % in the EU and 0.8 % in the euro area.
- Economic growth is forecast to gradually gather pace over 2015 and 2016.
- After several years of negative growth in countries hardest hit by the crisis, some countries are experiencing robust growth.

Source: European Commission, Autumn forecast, Nov. 2014
In 2015, most EU/EA economies will grow at more than 1%

Economic growth is forecast to gradually gather pace over 2015 and 2016.

Source: European Commission, Autumn forecast, Nov. 2014
2. Inflation is low

- Inflation is forecast to remain low, at around 1 ½ % in 2015-16.

- This is consistent with modest recovery in economic activity, and also driven by low commodity prices (energy and food) and developments in the currency.

- Gradual increase is expected (as economy strengthens, wages rise, less declining energy prices and relatively higher import prices)

- It is possible to see lower monthly inflation rates in the near term (e.g. October 2014: 0.4%), thus below the ECB's monetary target (below, but close to, 2% over the medium term).

Source: European Commission, Autumn forecast, Nov. 2014
3. Less favourable global conditions...

- After the financial and economic crisis of 2008-09, the global economy started to recover but weakened again.

- Historically, economies recover slowly following financial crises.

- A slowing global economy is not helping Europe grow faster. (GDP growth lower in H1 of 2014)

Source: European Commission, Autumn forecast, Nov. 2014,
Data: CPB – Markit Economics
• Surveys had improved substantially since last year, especially among managers in all business sectors.
• But economic sentiment has been declining since spring.

• Up-tick in October, but consumer confidence edged down in November.

• Manufacturing and services output have expanded this year, but have moderated somewhat in the fall. Indicators are consistent with very modest growth in H2.
5. Financial market tensions have eased

- Euro area countries have set up a permanent assistance fund; the European Central Bank played a large role.
- Easier borrowing conditions, and financing conditions for firms
- Less financial fragmentation (re: ECB's comprehensive assessment)

Source: European Commission, data: Bloomberg
The European Central Bank (ECB) is the central bank for the euro area. Its mandate is to keep prices stable. This is done by steering interest rates (affects borrowing/lending by consumers/companies).

The ECB operates independently from Member State governments.

Exceptional circumstances - exceptional monetary policy measures, with a separation between:

- Standard measures: key ECB interest rates
- Non-standard measures: to support the effective transmission of decisions to the wider euro area economy (dysfunctional segments)
- Announcement of Outright Monetary Transactions (OMTs)
7. Labour market: improving only slowly

- The unemployment rate is gradually coming down (youth)
- Employment growth is recovering slowly (since mid-2013).
- There are huge differences between countries’ unemployment rates, which range from a low of around 5% in to highs around 25% in 2014.

Source: European Commission, Autumn forecast, Nov. 2014
A broadly neutral fiscal stance

- General government deficits are being reduced
- Deficit to GDP ratios are decreasing (3% in EA and 2.6% in EU in 2014)
- Neutral stance in 2014-15
- Debt dynamics will peak in 2015 (EA at 88.3%, EU at 94.7%)

Source: European Commission, Autumn forecast, Nov 2014
Domestic demand to drive output growth

- Benefitting from accommodative monetary stance, low financing costs, more favourable credit conditions, neutral fiscal stance
- Private consumption to expand moderately, helped by low commodity prices, rising incomes, and a slowly improving labour market

Source: European Commission, Autumn forecast, Nov 2014
The Banking Union

- Single Supervisory Mechanism
- Single Resolution Mechanism
- Deposit Guarantees

Single Rulebook
Strengthening the “E” in EMU

Europe is gradually solidifying

PROGRAMS
Financial backstops for vulnerable countries
(cf. EC-ECB-IMF Troika)

BANKS
Strengthen the banking system, including better financial supervision at the EU level (ECB)

FIREWALL
A permanent mechanism (ESM)

RULES
Stronger, more effective fiscal rules and greater coordination of economic policies

GROWTH
Boost growth through structural reforms and completing the single market

More economic and financial integration, now and later on, for a better "union"
How do you perceive having the Euro?

Having the euro is a good or a bad thing for your country

- A good thing
- A bad thing
- Can’t decide (SP.)
- Don’t know

10/2013 (EU17)
- 57
- 33
- 7
- 3

10/2012 (EU17)
- 55
- 35
- 7
- 3

11/2011 (EU17)
- 56
- 36
- 6
- 2

Q1.1. Generally speaking, do you think that…?
Base: all respondents, % EURO AREA

Source: European Commission, wave October 2013, released Nov. 2013
Thank you for your attention!

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

www.ecb.int (Frankfurt)

euintheus.org (Washington)