

EUROPEAN COMMISSION  
DIRECTORATE GENERAL ECONOMIC AND FINANCIAL AFFAIRS

The Brussels Economic Forum, 22-23 April 2004

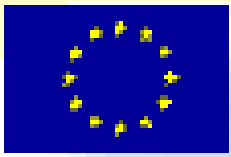
# **The Spring 2004 Forecast of the Commission and the Broad Economic Policy Guidelines**

**by Klaus REGLING**

**Director General**

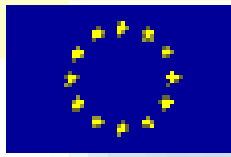
**for Economic and Financial Affairs**

**European Commission**



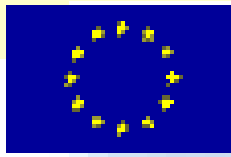
## Two parts

- **The Spring 2004 Forecast**
- **The Broad Economic Policy Guidelines**



# The Spring 2004 Forecast

1. Recent economic developments
2. The forecast and related risks
  - the labour market
  - inflation
  - fiscal developments
3. Acceding and other candidate countries



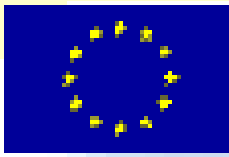
# The Spring 2004 Forecast

## **1. Recent economic developments**

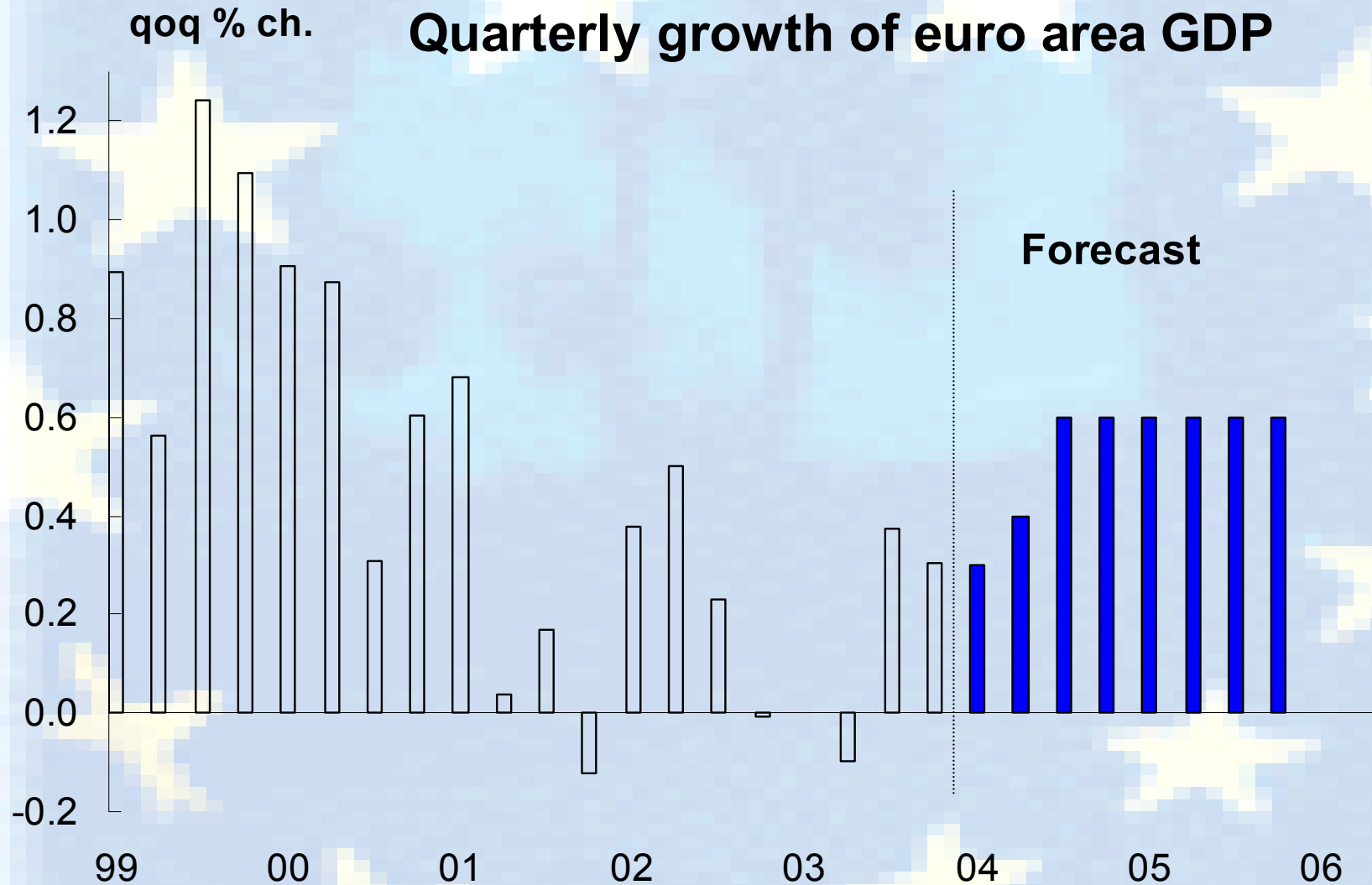
## 2. The forecast and related risks

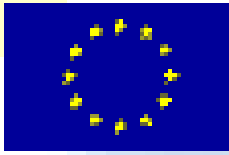
- the labour market
- inflation
- fiscal developments

## 3. Acceding and other candidate countries

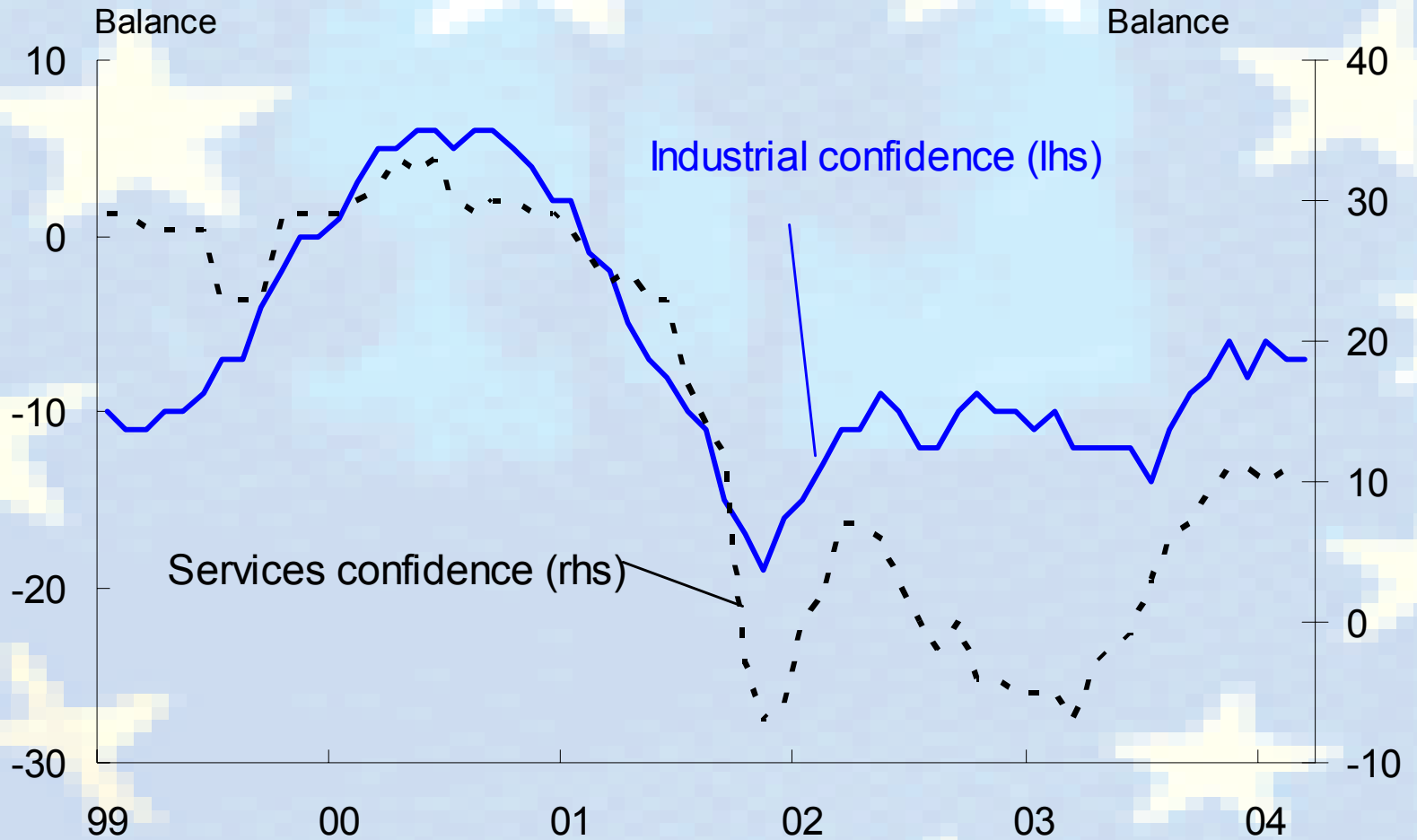


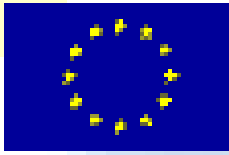
# Turning point in mid-2003



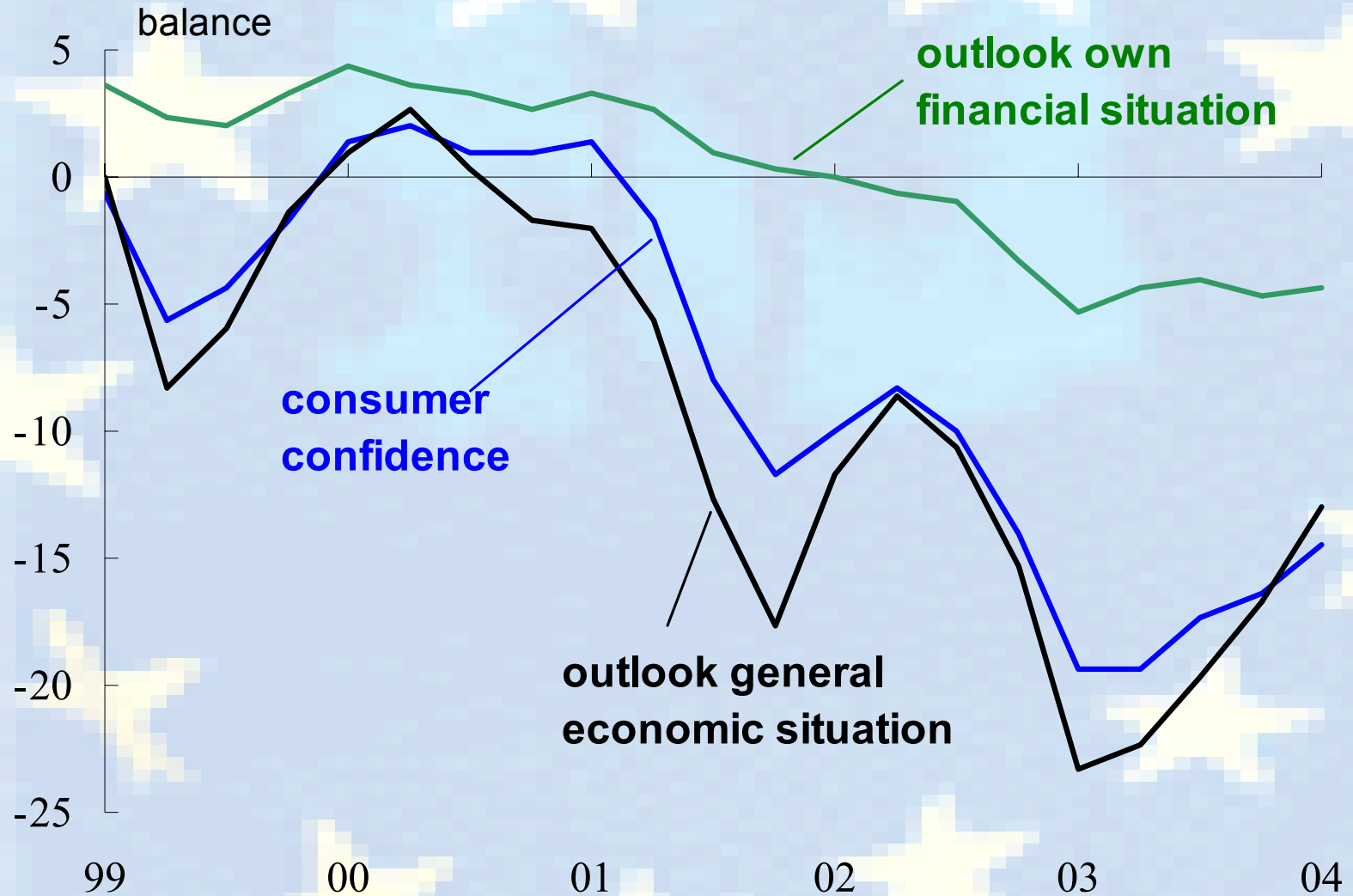


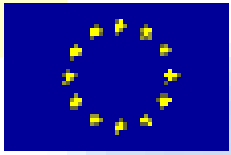
# Business confidence





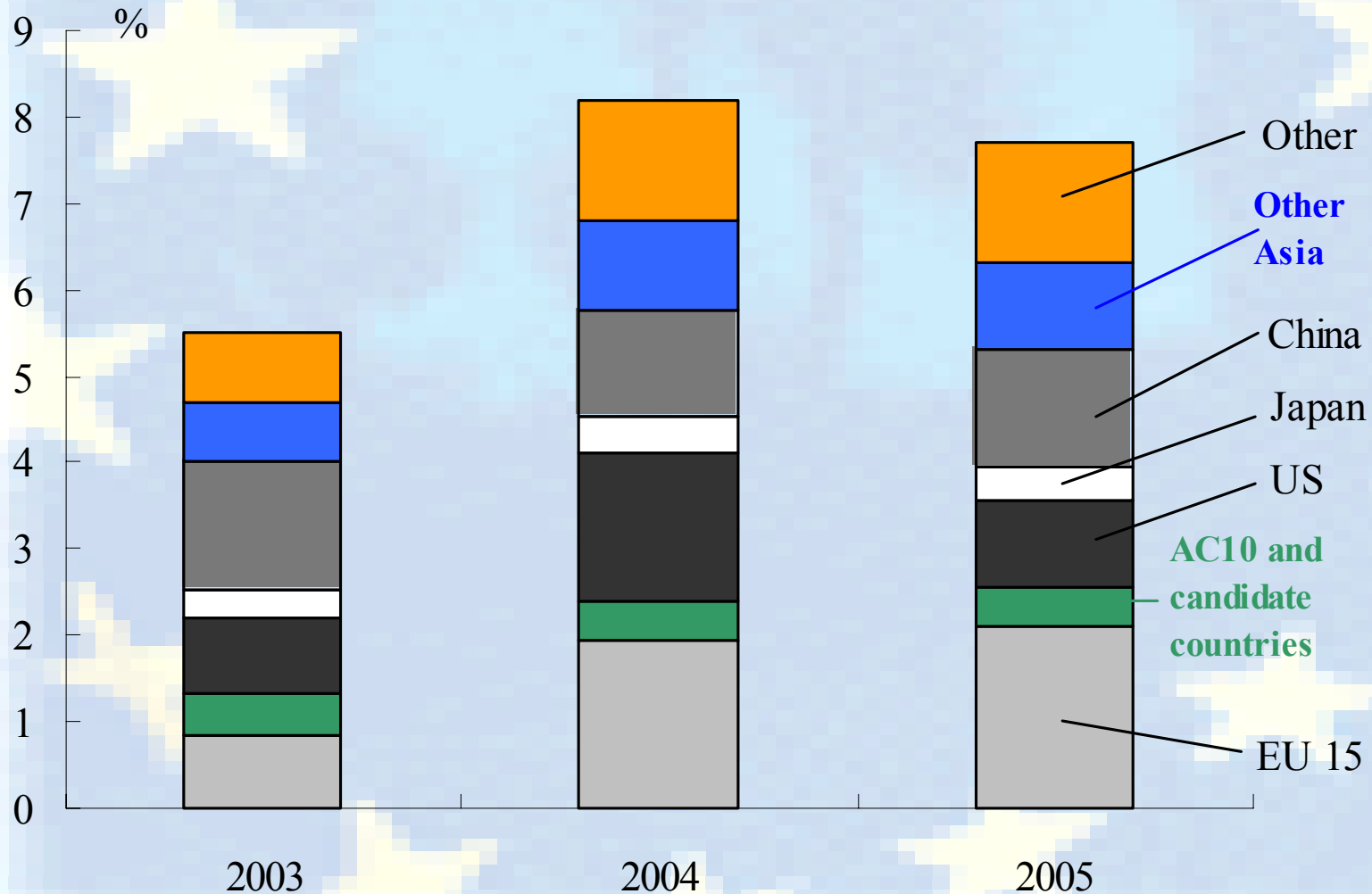
# Consumer sentiment



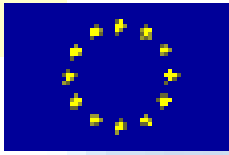


# Synchronised upturn

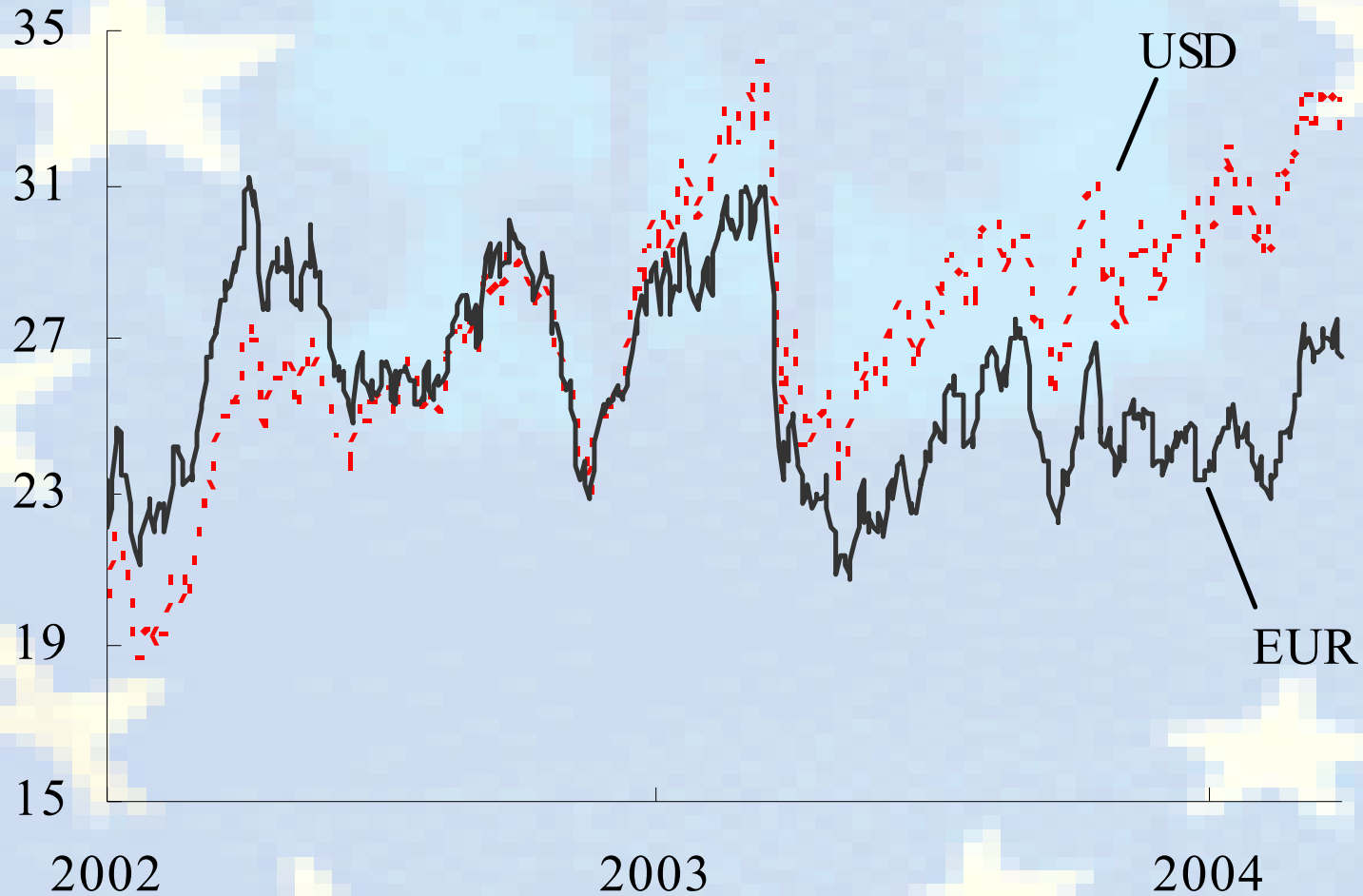
## world import growth



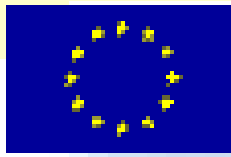




# Euro appreciation keeps domestic oil prices down (Brent crude prices shown)



Source: Datastream



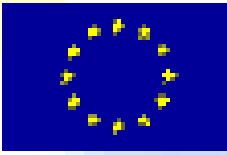
# The Spring 2004 Forecast

1. Recent economic developments

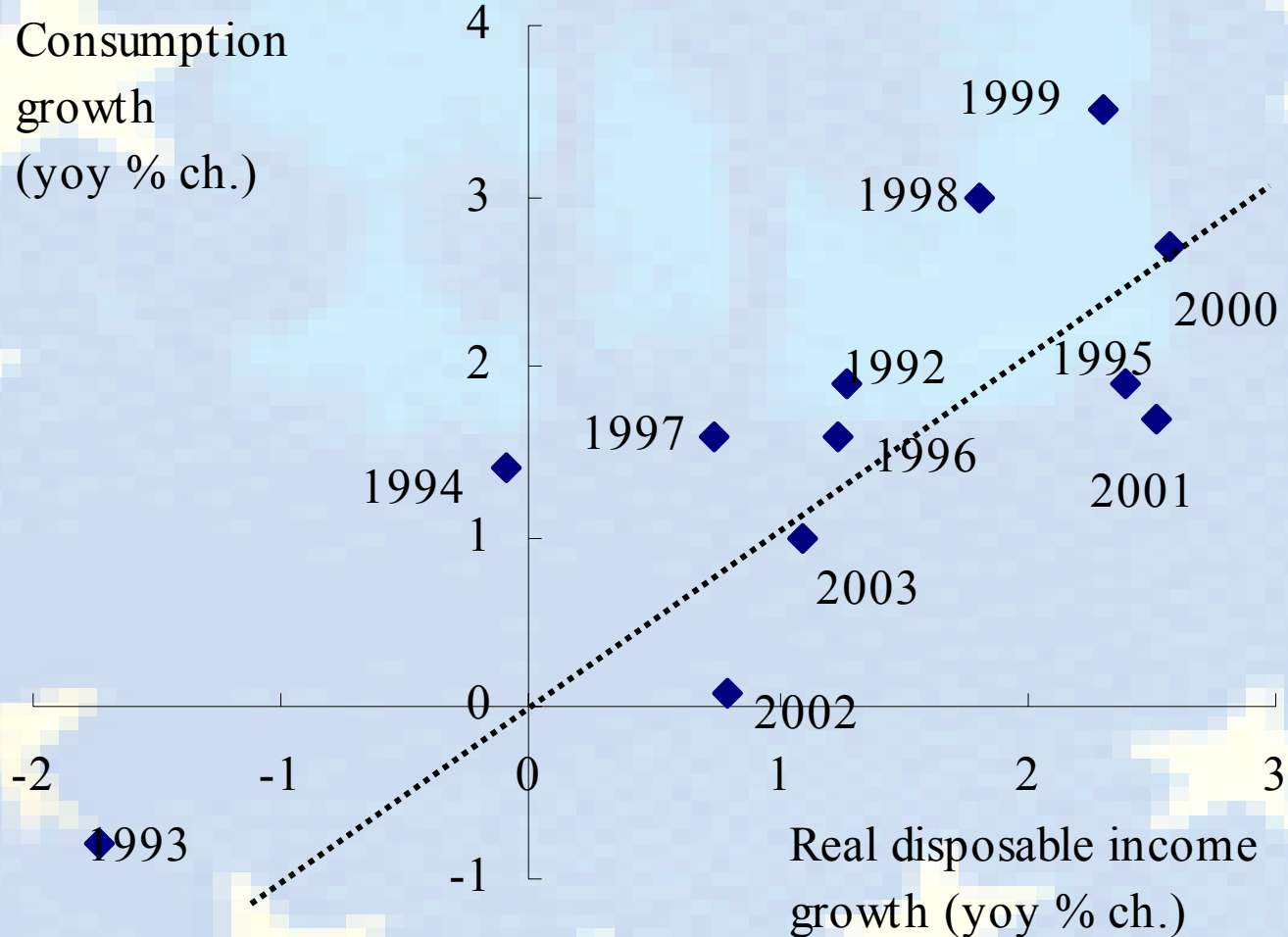
## **2. The forecast and related risks**

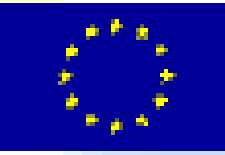
- the labour market
- inflation
- fiscal developments

3. Acceding and other candidate countries

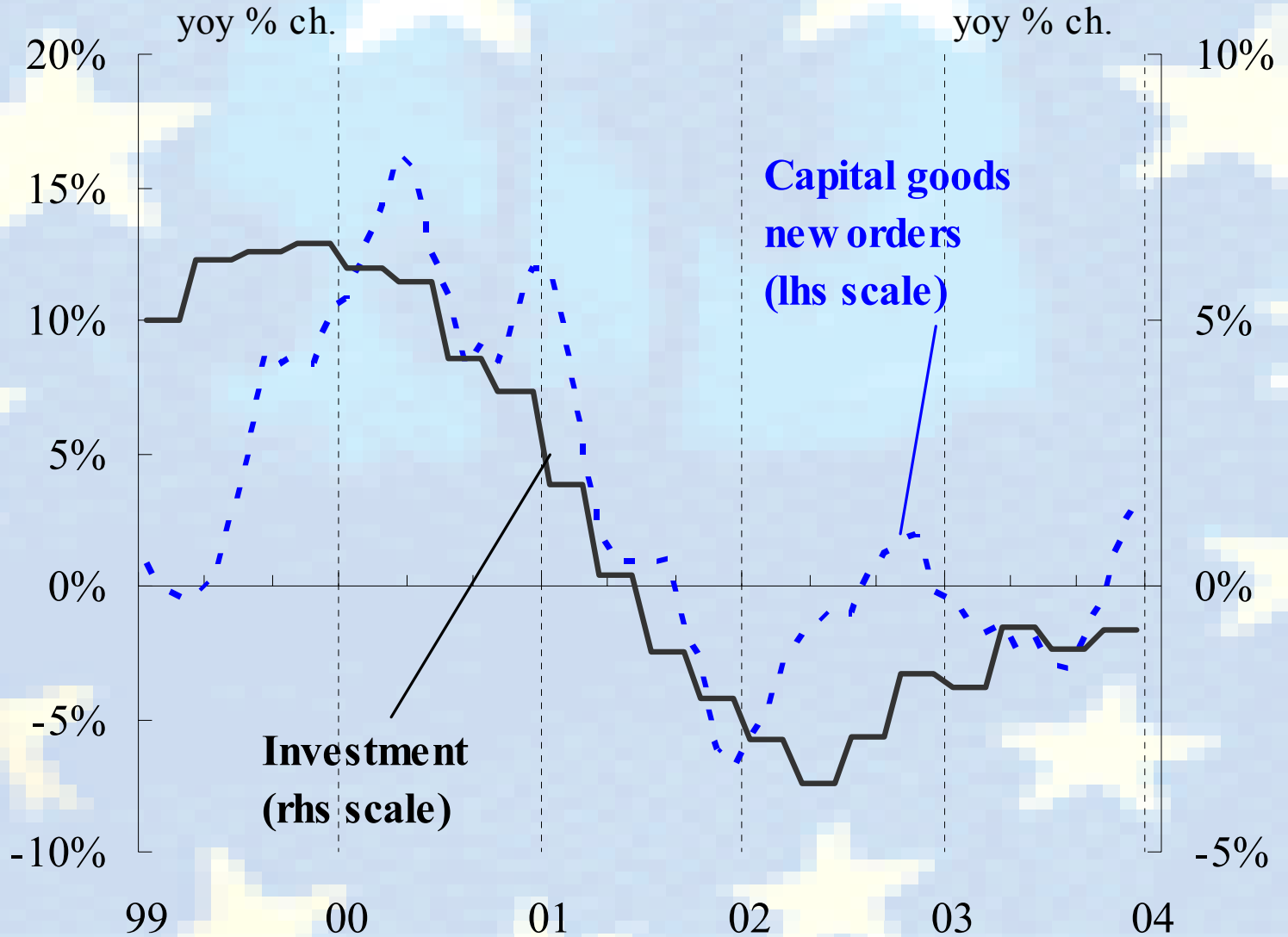


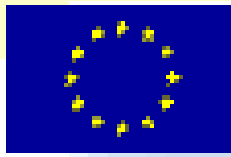
# Consumption growth recently not in line with income evolution





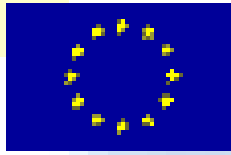
# Faster growth in capital formation





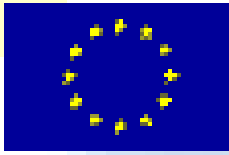
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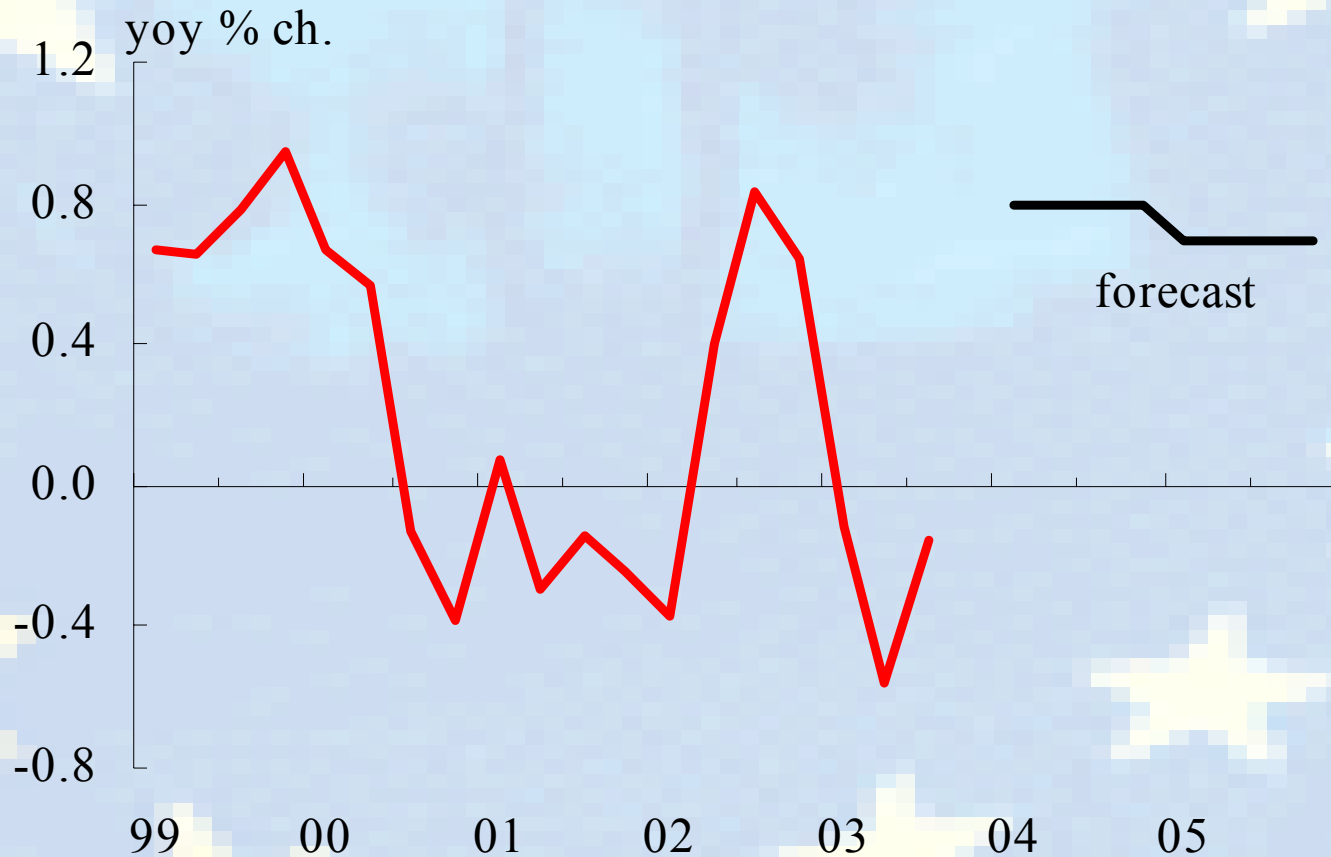
# Risks to the forecast

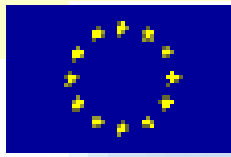
|             | Upside risks  | Downside risks   |
|-------------|---|--|
| Exports     | Strong global recovery  | Exchange rates   |
| Consumption | Wealth effects of stock markets<br><br>Positive inflation outlook<br><br>Early recovery in employment<br><br>Pent-up demand | Hysteresis in confidence effects<br><br>Slow increase in disposable income and rising savings rate |
| Investment  | Impetus from export demand<br><br>Favourable financing conditions   | Adjustment of corporate balance-sheets incomplete?<br><br>Oil prices                               |



# Recovery in profits

Corporate mark-ups in the euro area  
(approximated by GDP price deflator/unit labour costs)

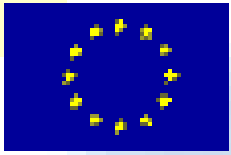




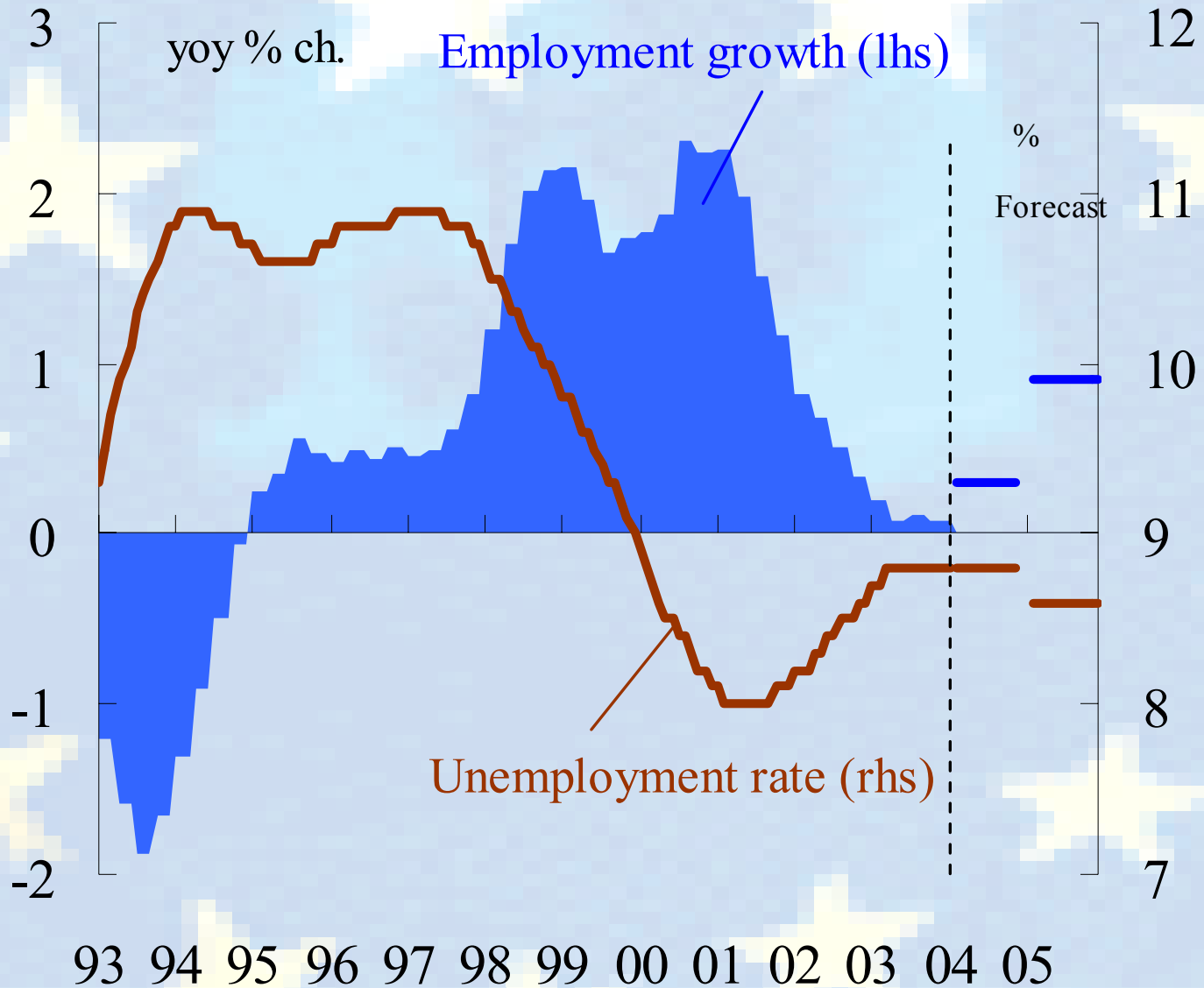
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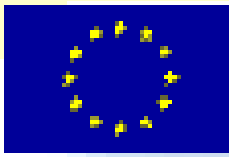
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# Unemployment stable

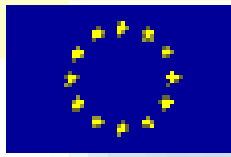




# Euro area unemployment rate projected to fall in 2005

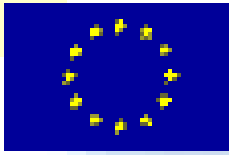
## Number of unemployed (as % of civilian labour force)

|                    | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------------|------|------|------|------|------|------|
| <b>Belgium</b>     | 6.9  | 6.7  | 7.3  | 8.1  | 8.3  | 7.9  |
| <b>Germany</b>     | 7.8  | 7.8  | 8.6  | 9.3  | 9.1  | 8.8  |
| <b>Greece</b>      | 11.0 | 10.4 | 10.0 | 9.3  | 8.4  | 8.0  |
| <b>Spain</b>       | 11.3 | 10.6 | 11.3 | 11.3 | 10.9 | 10.5 |
| <b>France</b>      | 9.3  | 8.5  | 8.8  | 9.4  | 9.6  | 9.4  |
| <b>Ireland</b>     | 4.3  | 3.9  | 4.3  | 4.6  | 5.0  | 4.9  |
| <b>Italy</b>       | 10.4 | 9.4  | 9.0  | 8.7  | 8.6  | 8.5  |
| <b>Luxembourg</b>  | 2.3  | 2.1  | 2.8  | 3.7  | 4.7  | 5.0  |
| <b>Netherlands</b> | 2.9  | 2.5  | 2.7  | 3.8  | 5.3  | 6.0  |
| <b>Austria</b>     | 3.7  | 3.6  | 4.3  | 4.4  | 4.5  | 4.3  |
| <b>Portugal</b>    | 4.1  | 4.1  | 5.1  | 6.4  | 6.8  | 6.7  |
| <b>Finland</b>     | 9.8  | 9.1  | 9.1  | 9.0  | 8.9  | 8.6  |
| <b>Euro area</b>   | 8.5  | 8.0  | 8.4  | 8.8  | 8.8  | 8.6  |

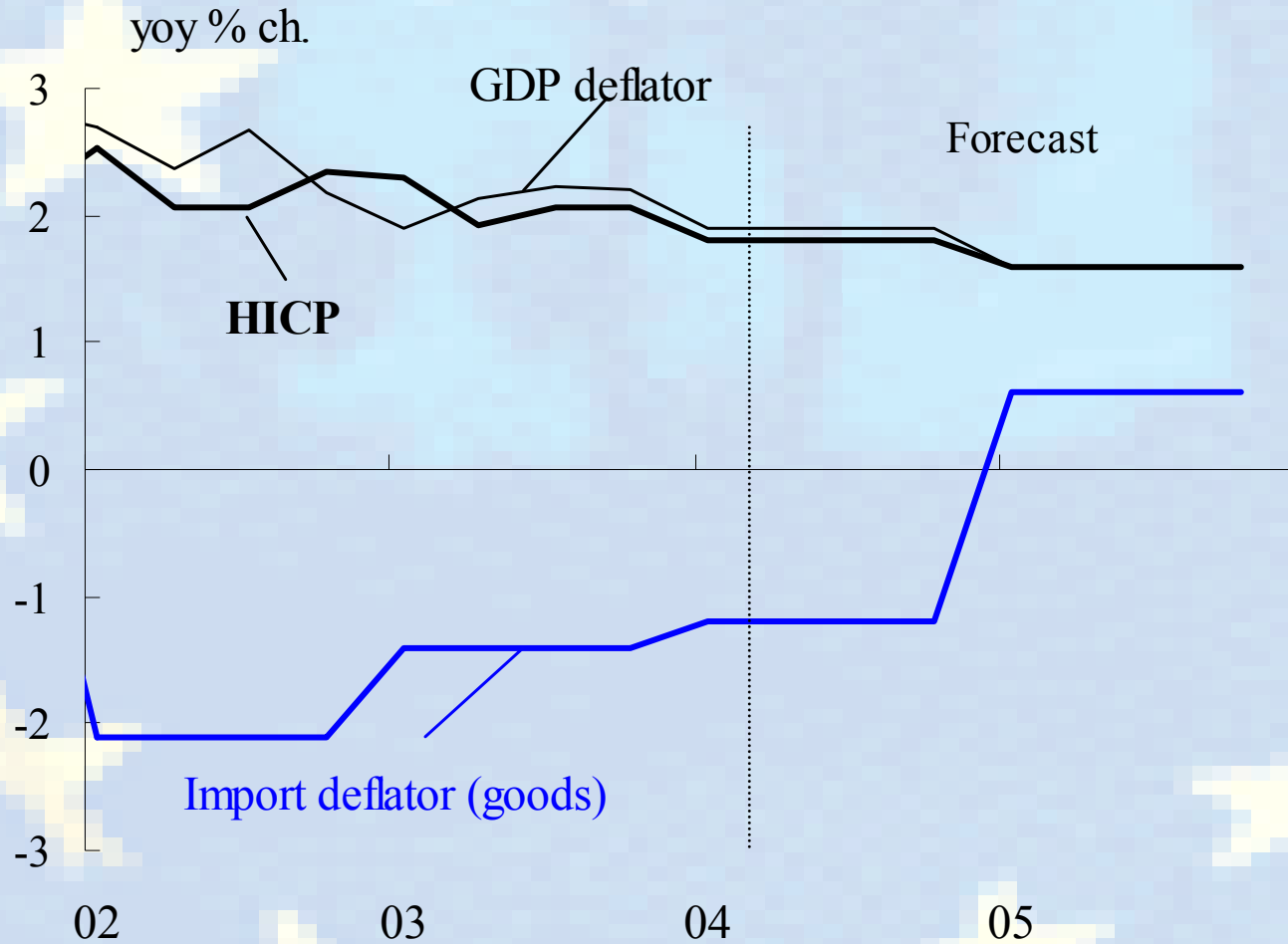


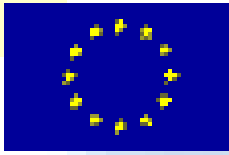
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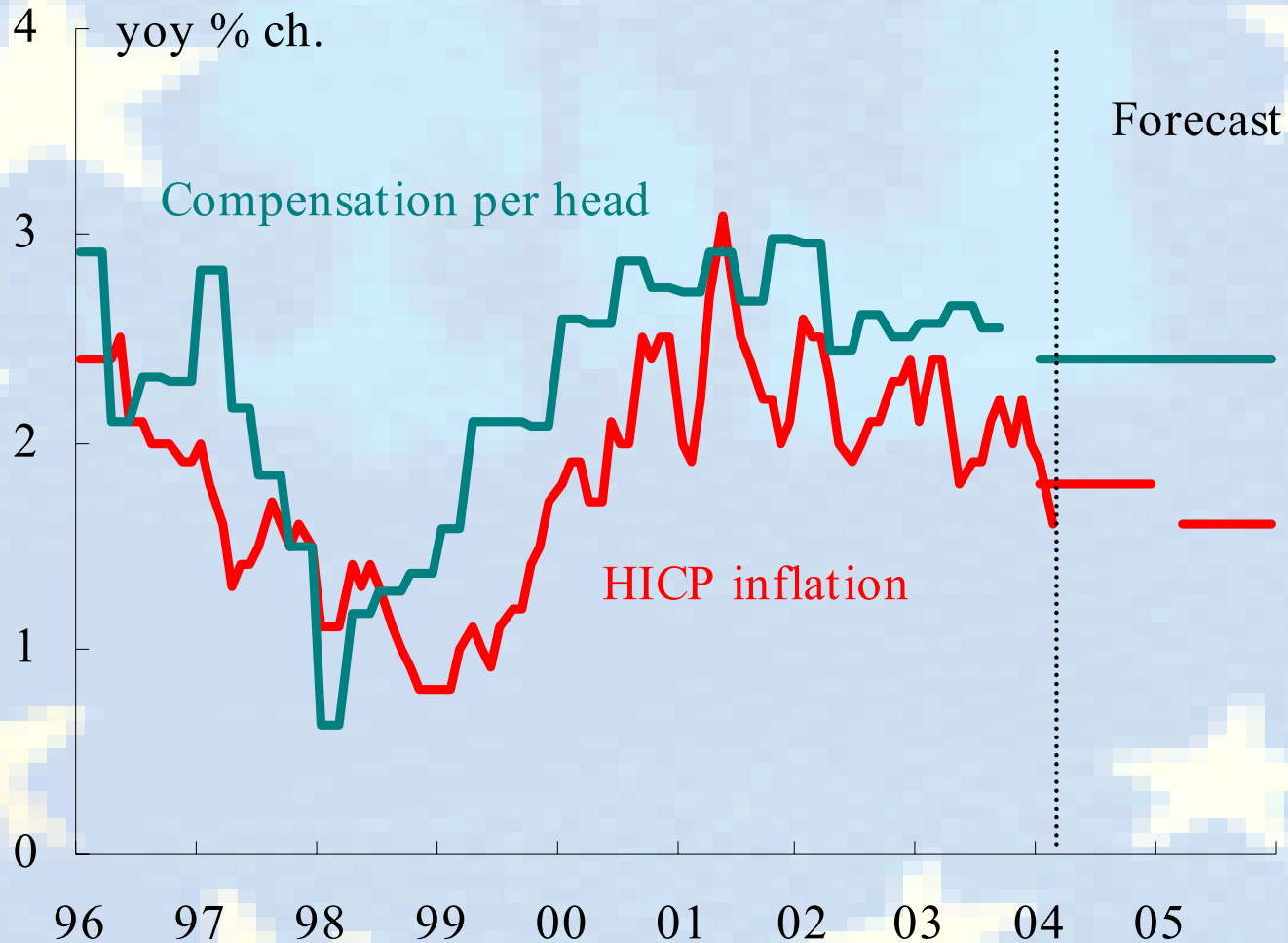


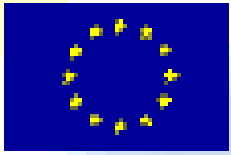
# Appreciation puts downward pressure on prices



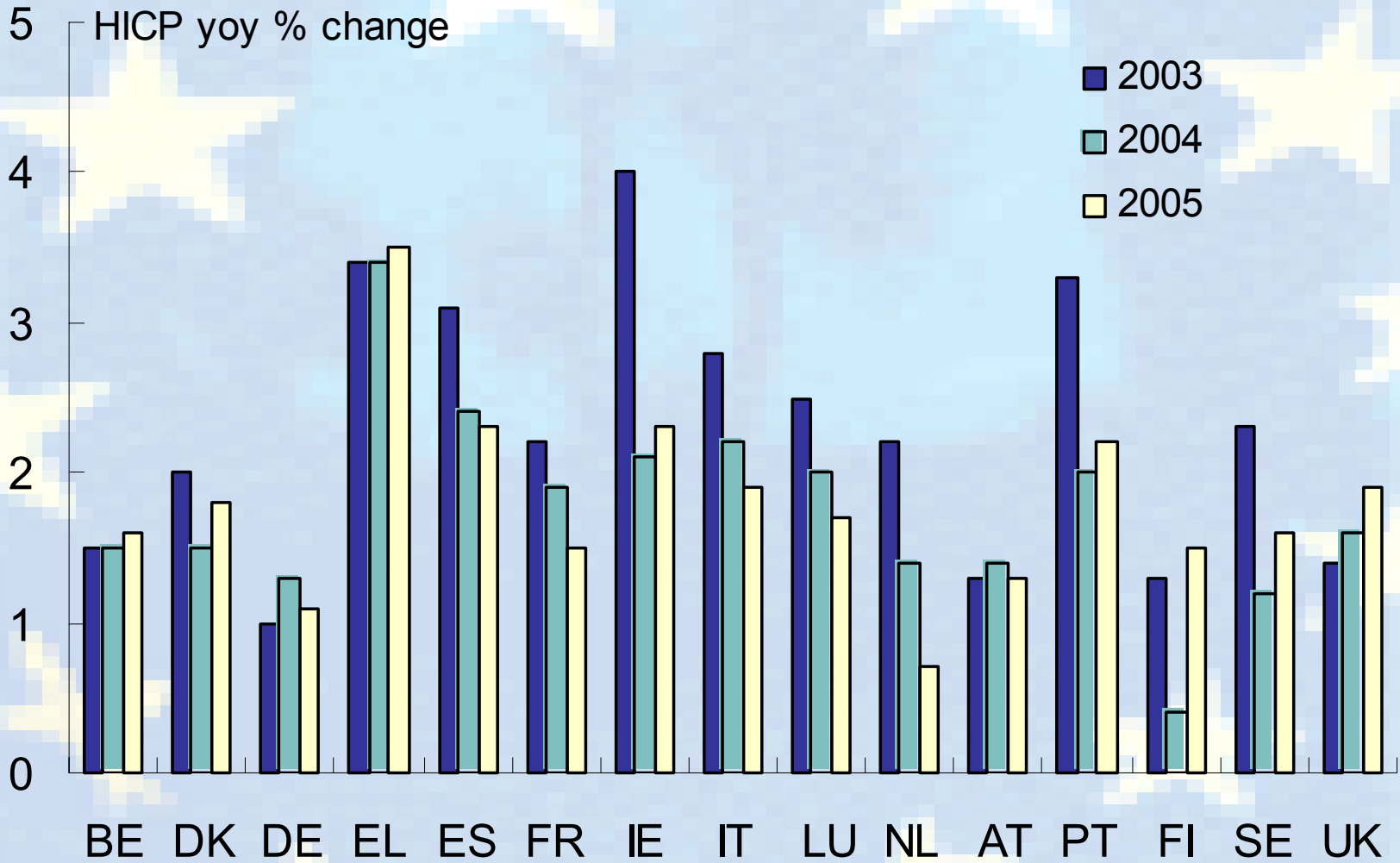


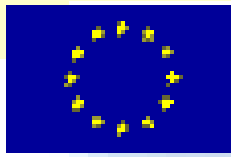
# Continued wage moderation





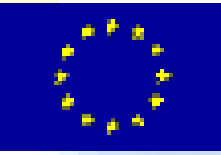
# Inflation differentials





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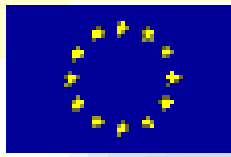


# Aggregate fiscal situation

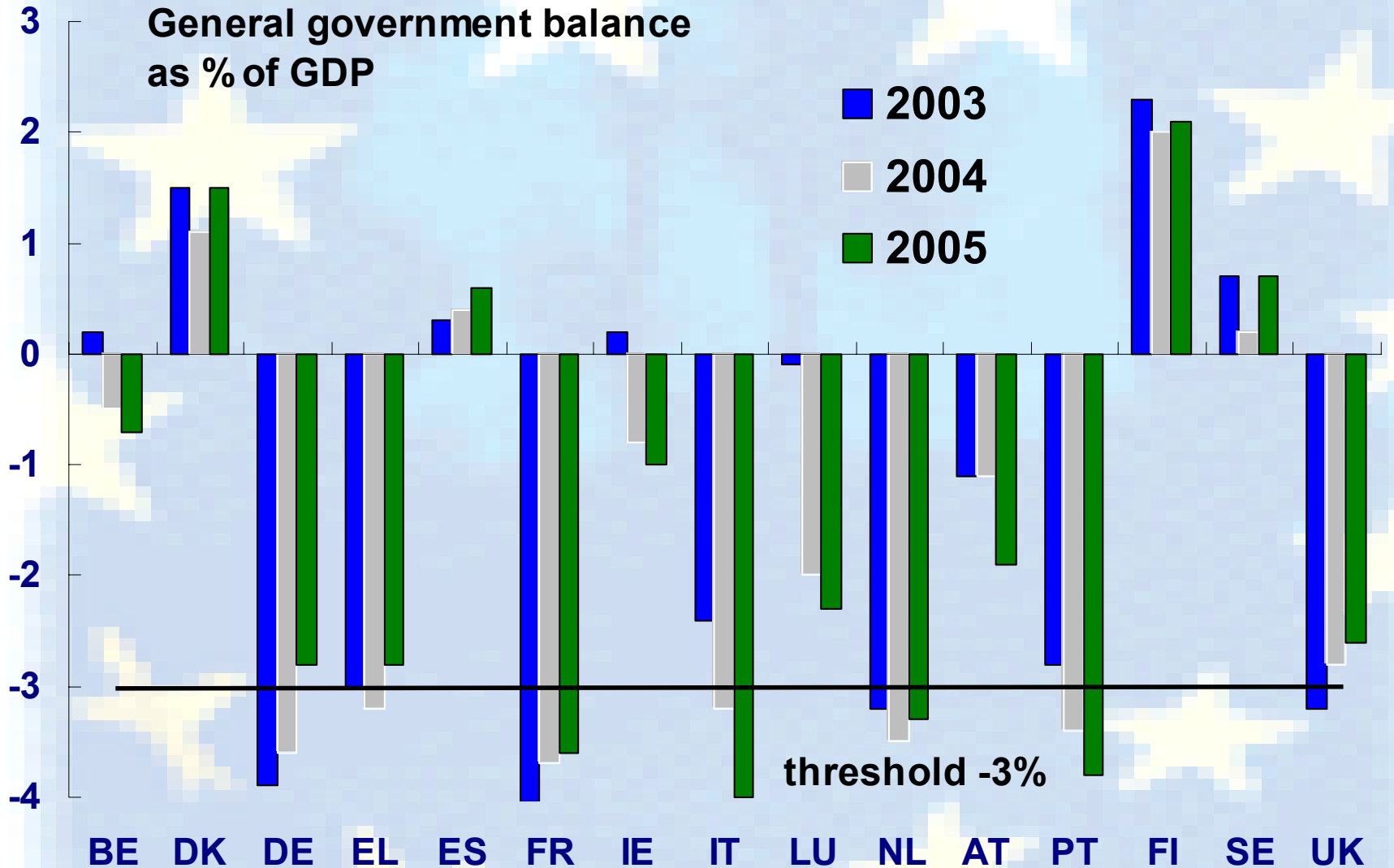
**Net lending (+) or net borrowing (-)  
general government (% of GDP)**

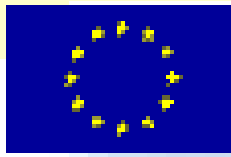
|                  | 2001 | 2002 | 2003 | 2004 | 2005 |
|------------------|------|------|------|------|------|
| <b>Euro area</b> | -1.6 | -2.3 | -2.7 | -2.7 | -2.6 |
| <b>EU-15</b>     | -1.0 | -2.0 | -2.6 | -2.6 | -2.4 |





# Member States' fiscal situation



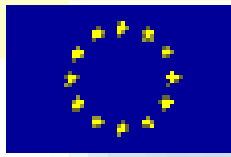


# The Spring 2004 Forecast

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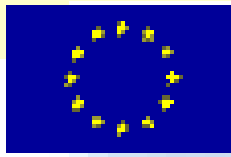
## **Summary of EU forecast**

3. Acceding and other candidate countries



# Summary of EU forecast

1. External side: buoyancy of global growth and trade
2. Domestic side: supported by macroeconomic policy conditions, disinflation, financial conditions and progress in structural reforms
3. Half a million jobs to be created this year, more than a million in 2005
4. Public finances: 6 countries may breach the 3% threshold in 2004

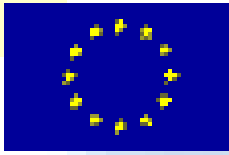


# The Spring 2004 Forecast

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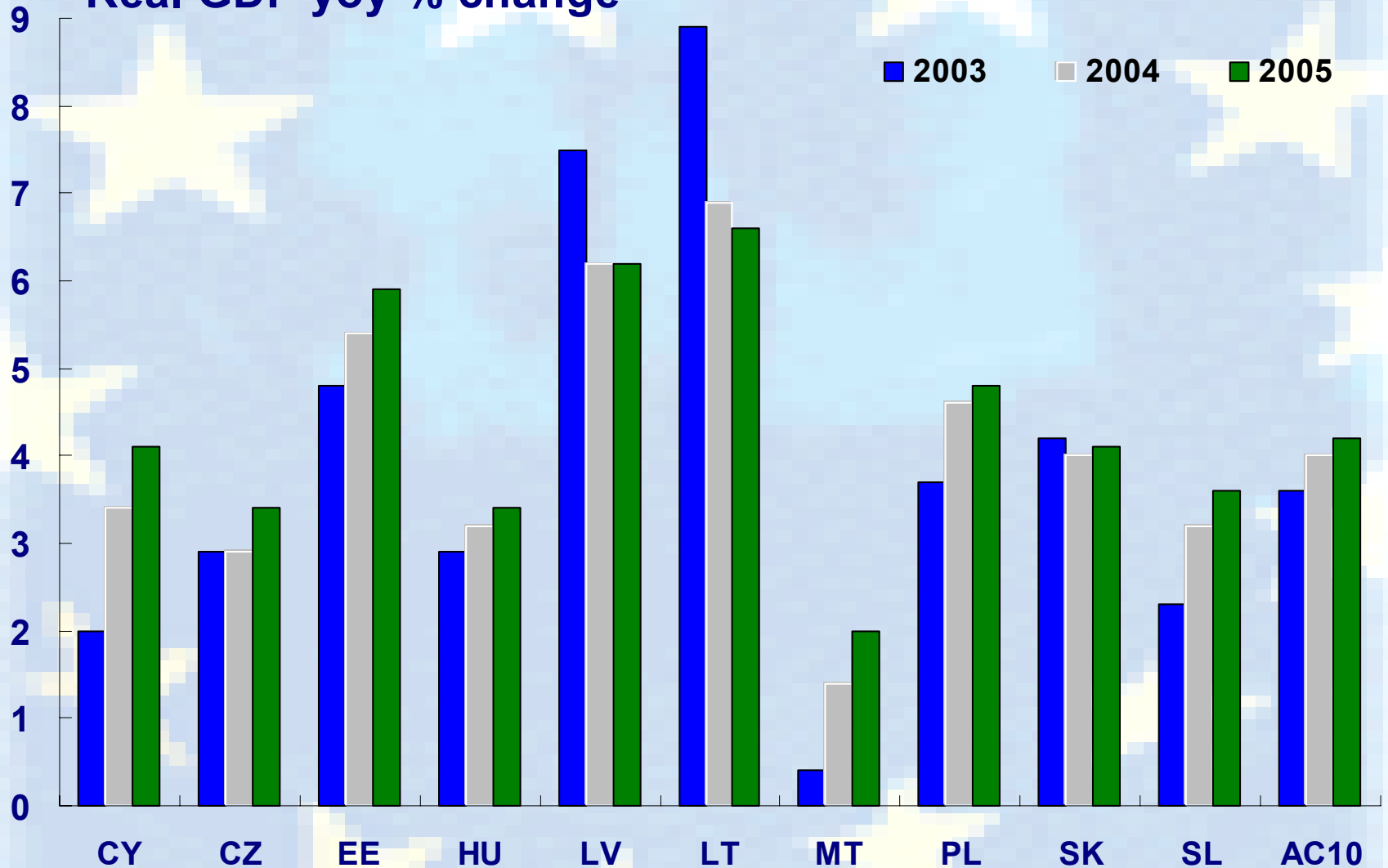
Summary of EU forecast

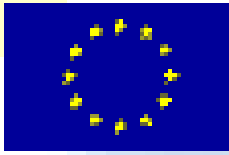
## **3. Acceding and other candidate countries**



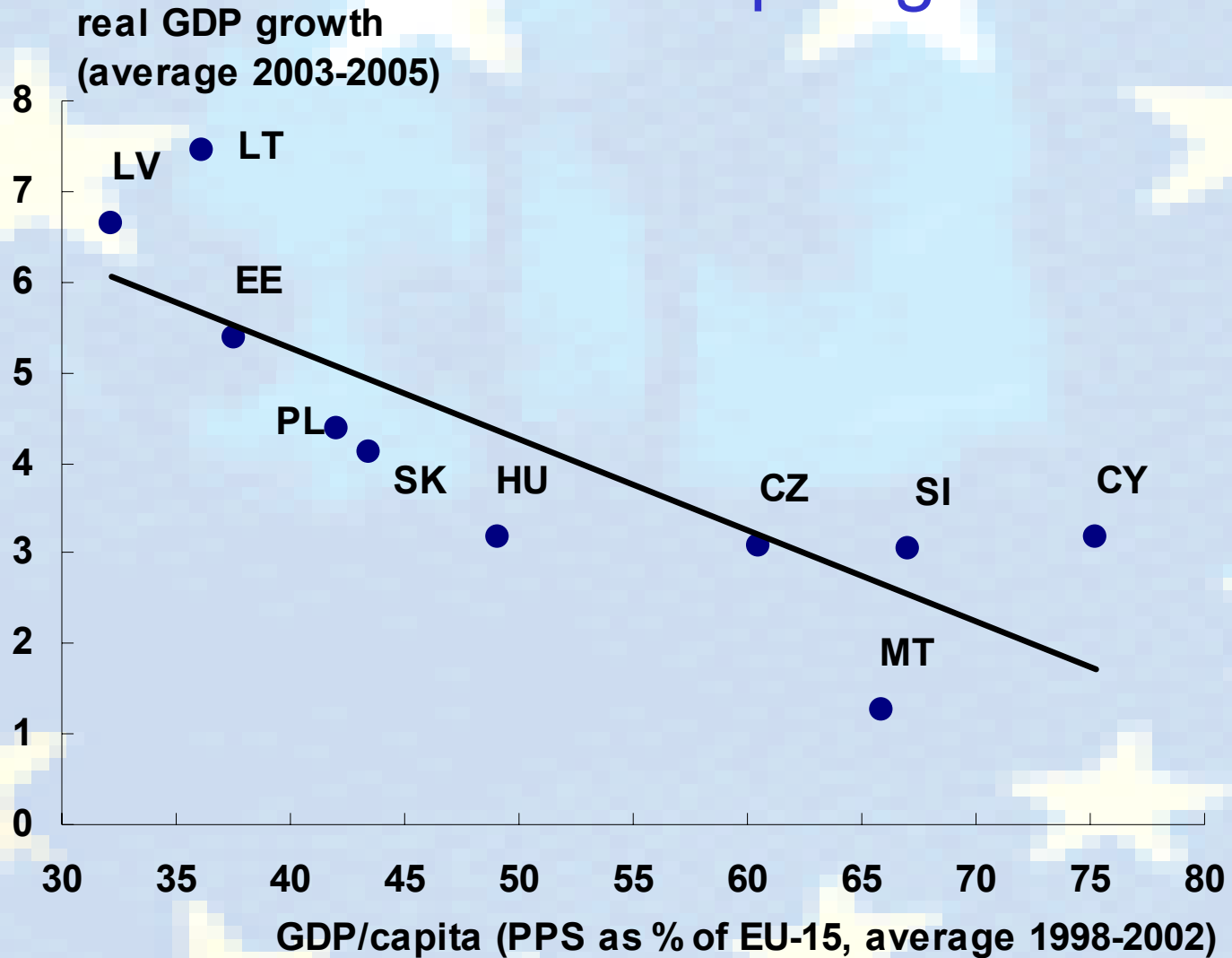
# Growth in acceding countries

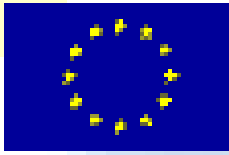
Real GDP yoy % change



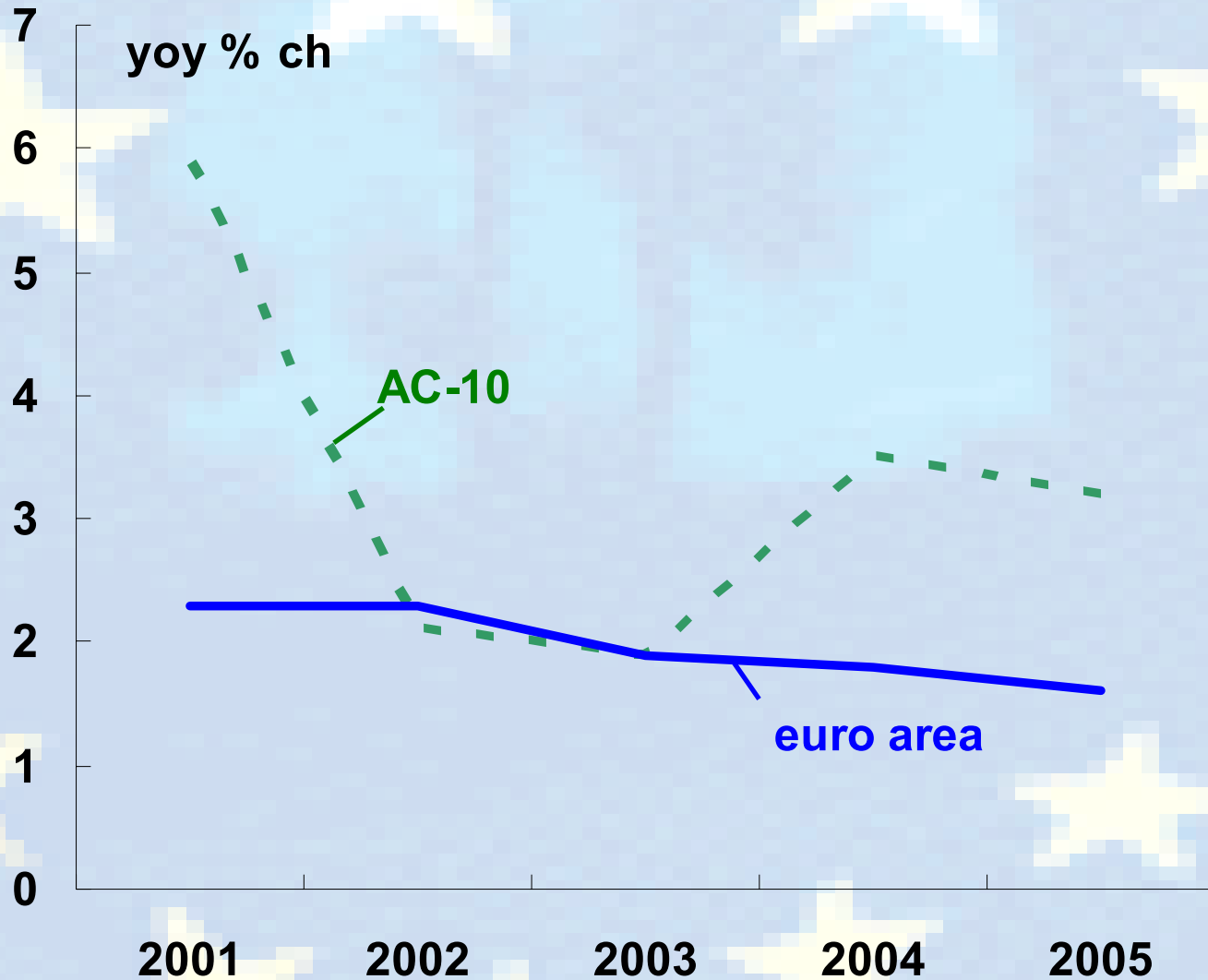


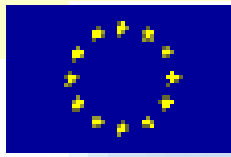
# Acceding countries with lower GDP/capita grow faster



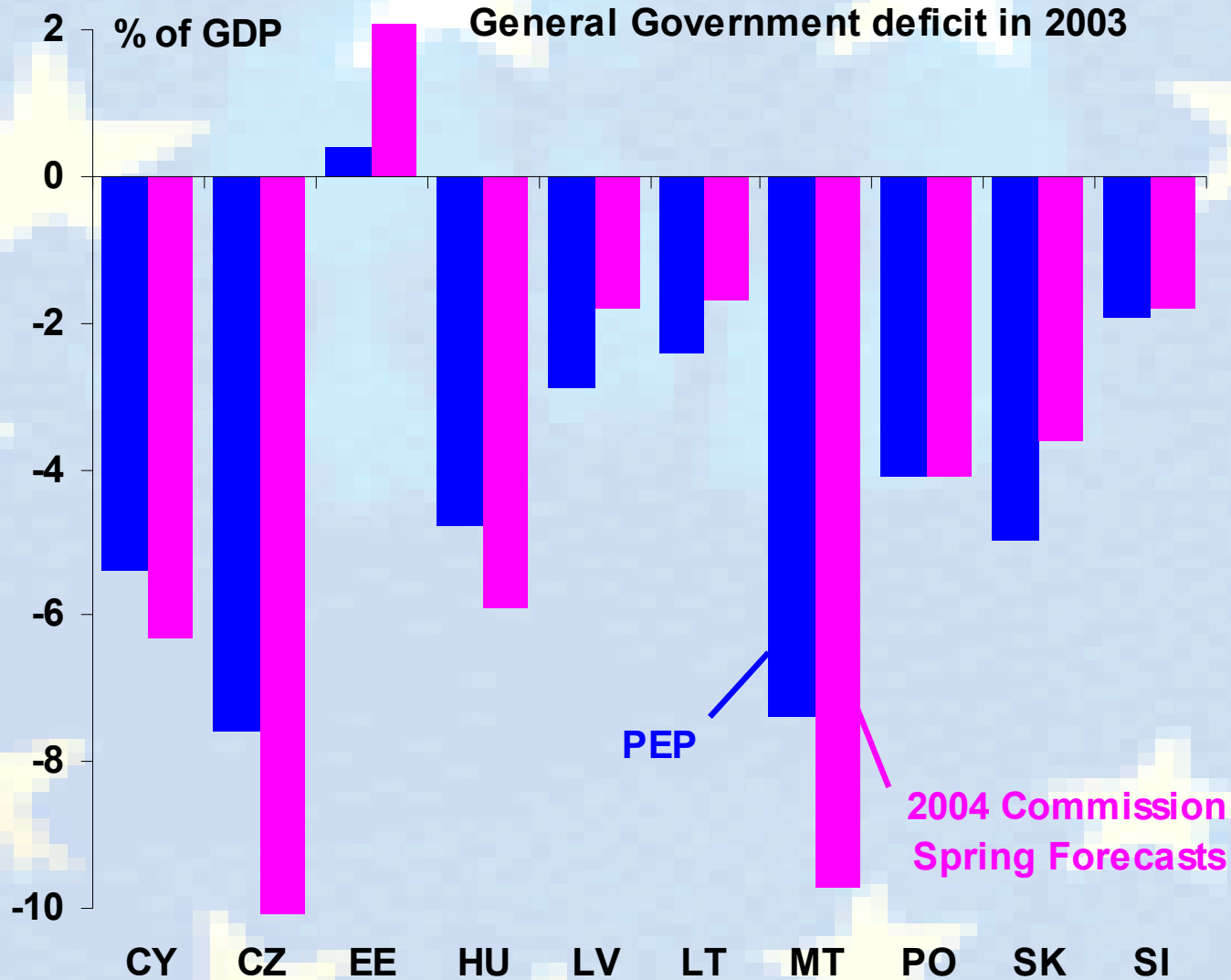


# Inflation developments in acceding countries

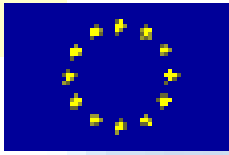




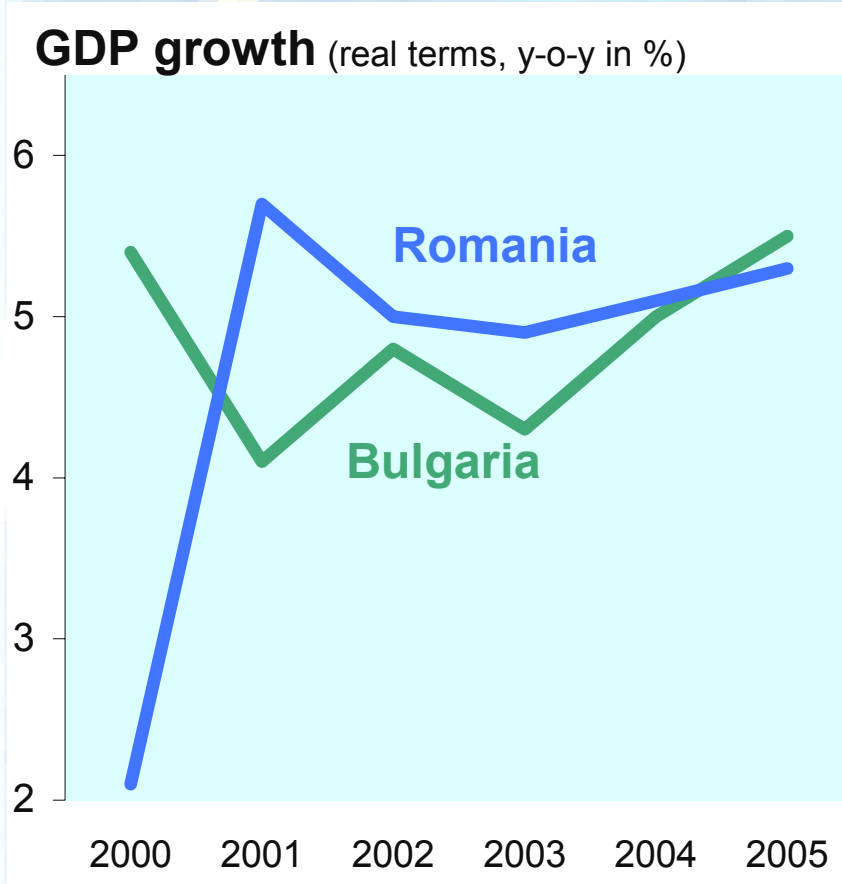
# Fiscal situation in acceding countries

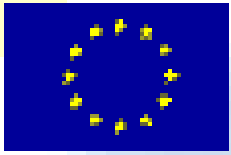






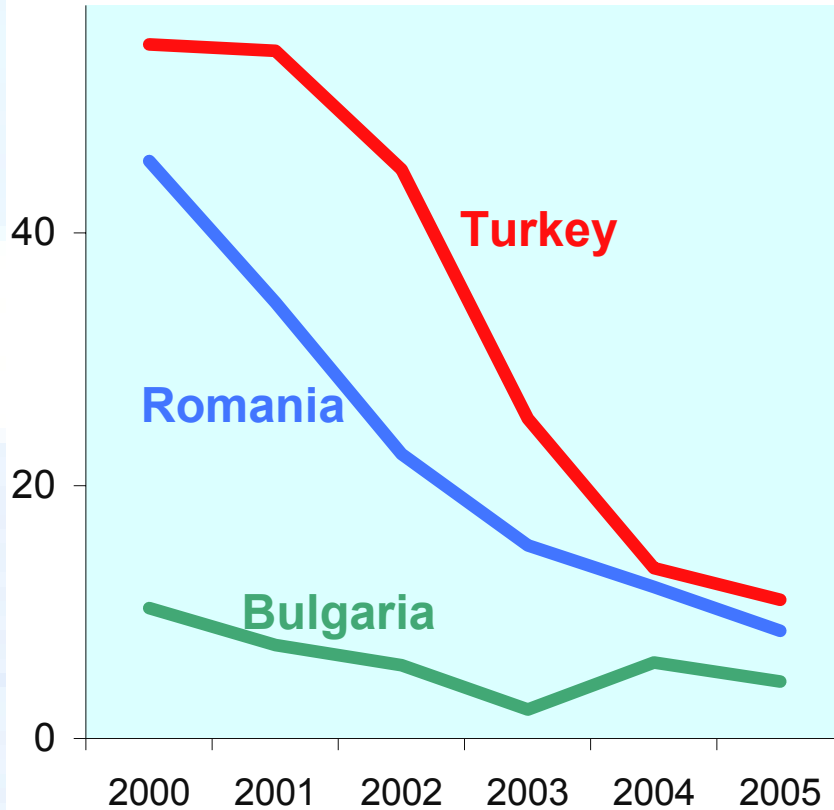
# Growth in candidate countries



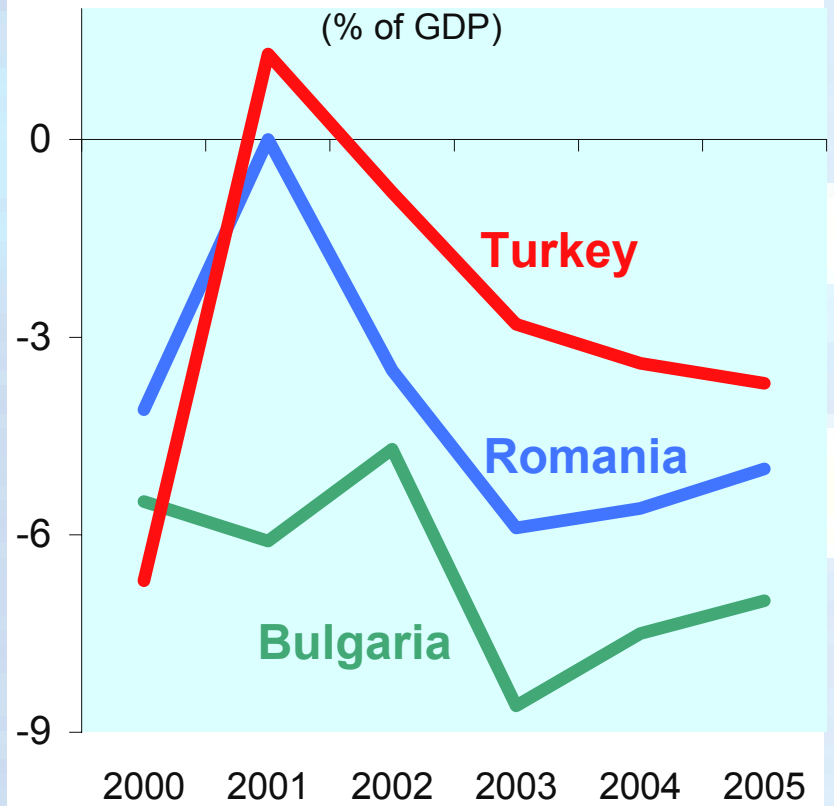


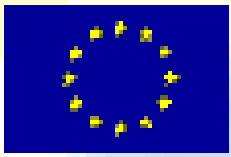
# Inflation and external accounts in candidate countries

**Inflation** (CPI, year-on-year in %)



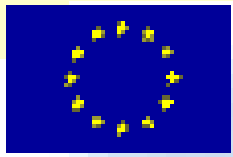
**Current account balance**





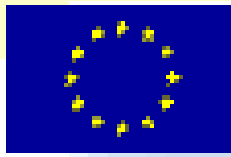
# The Broad Economic Policy Guidelines

- Background to the BEPGs
- The 2004 update for the EU-15
- Integration of new Member States into the BEPGs



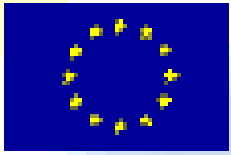
# The Broad Economic Policy Guidelines

- Focus on key challenges:
  - *Growth and stability-oriented macroeconomic policies*
  - *Economic reforms to raise Europe's growth potential*
  - *Strengthening sustainability*



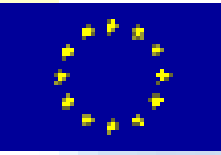
# The 2004 Update for EU-15

- 2003-05 BEPGs agreed by Council in June 2003.
- Implementation Report (January 2004): mixed progress.
- 2004 update revises some country recommendations regarding sound budgetary positions.



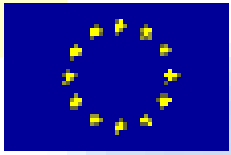
## The integration of new Member States into the BEPGs

- Different starting positions
- Pursue sound macroeconomic policies
- Accelerate economic reforms
- Strengthen sustainability
- Country specific challenges



# Different starting positions

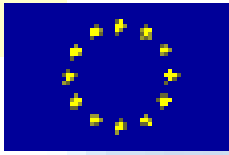
|  | <b>AC 10</b> | <b>EU 15</b> |
|--|--------------|--------------|
| <b>GDP per capita</b><br>(2003 estimate as % of EU-15) | 48.7         | 100          |
| <b>Unemployment rate (2003)</b>                        | 14.3         | 8.0          |
| <b>Government net borrowing</b><br>(% of GDP, 2003)    | 5.7          | 2.6          |



## Pursue sound macroeconomic policies

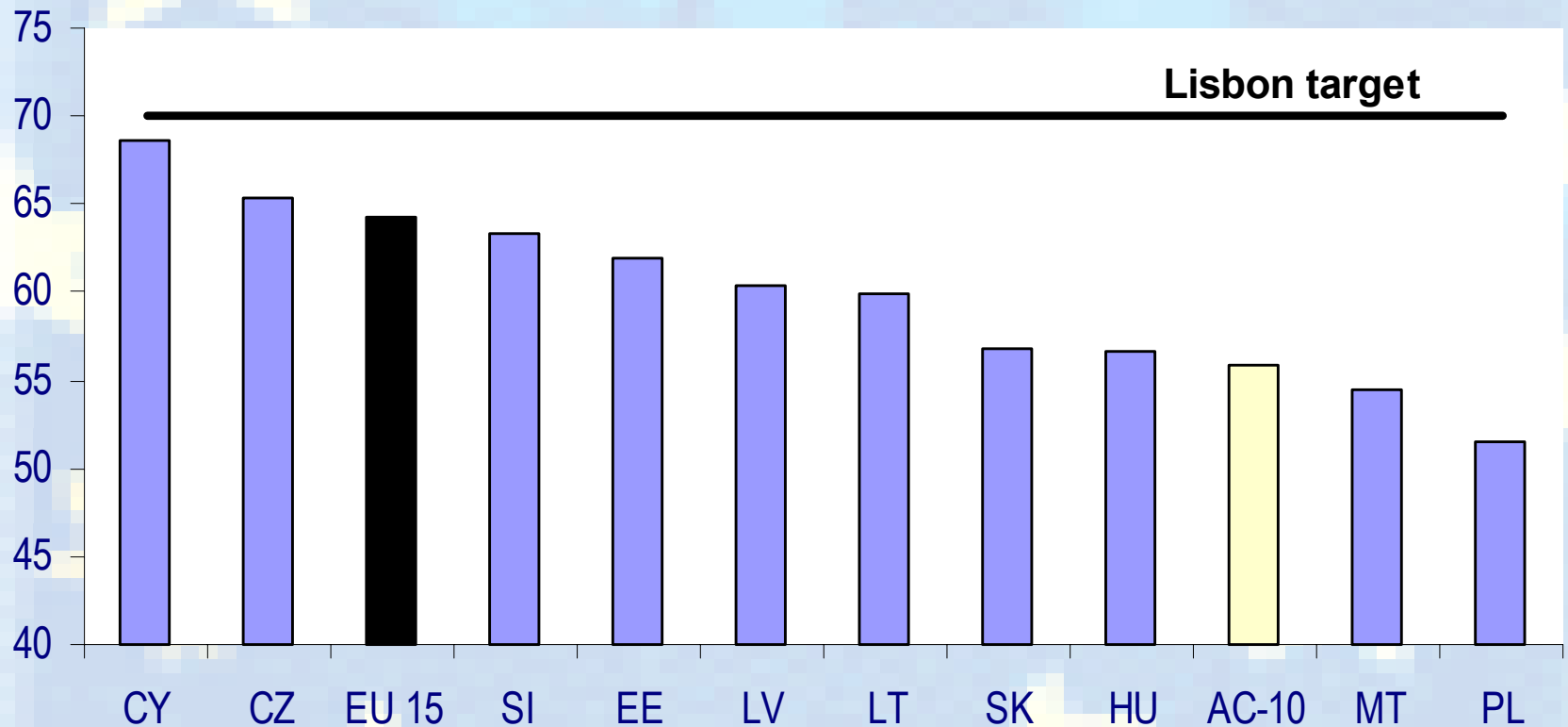
- **Sound budgetary positions** to be achieved within appropriate time path.
- **Exchange rate regimes** oriented towards convergence.
- **Current account deficits** should be restrained.
- **Nominal wage increases** should be consistent with price stability and productivity gains.

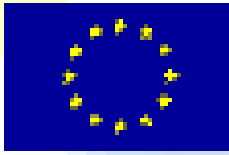




# Accelerate economic reforms: increase employment

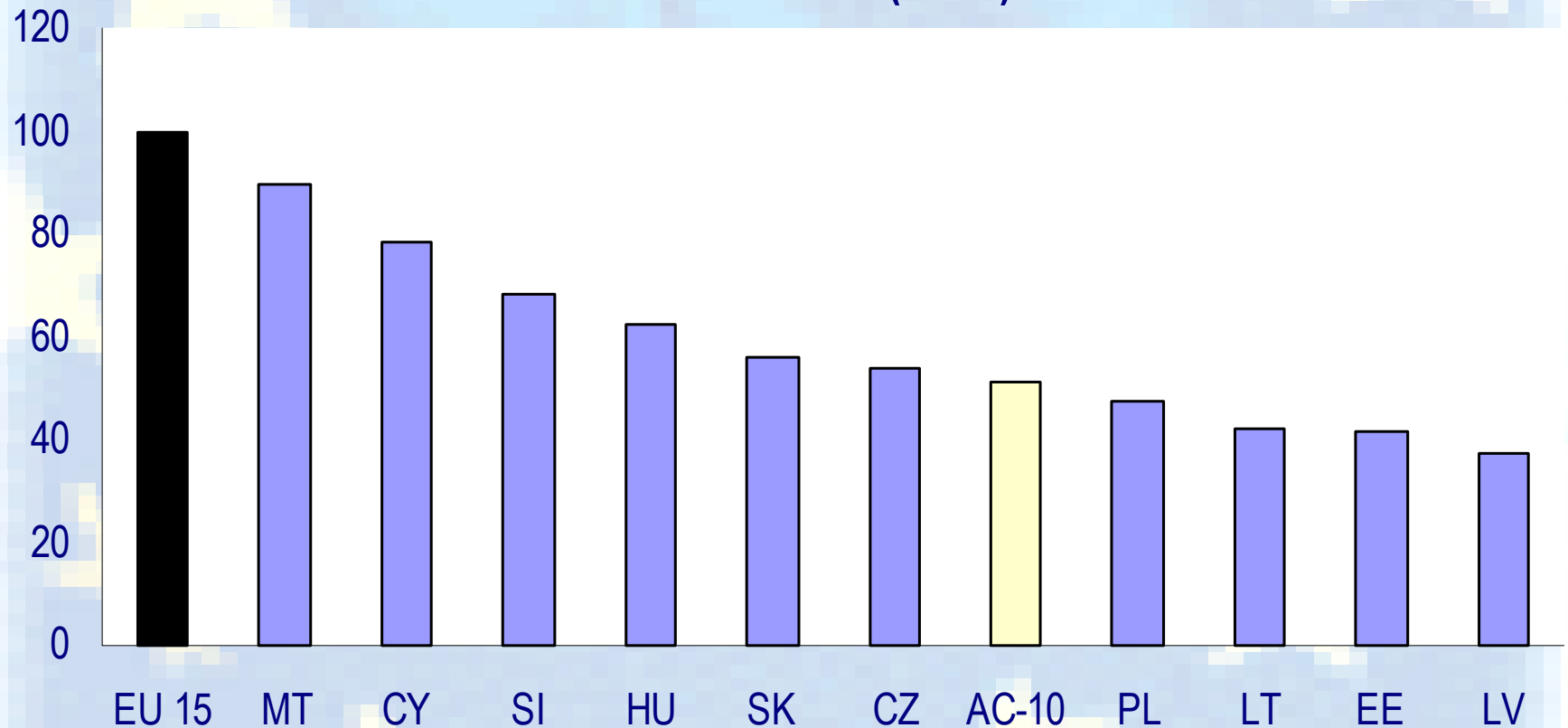
Employment rate as a percentage of working age population  
(2002)

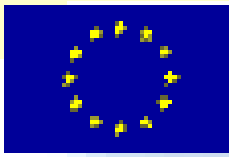




# Accelerate economic reforms: increase productivity

Labour productivity per person employed  
EU-15 = 100 (2002)

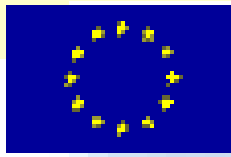




# Strengthen Economic, Social and Environmental Sustainability

## Sustainability indicators

|   | AC 10 | EU 15 |
|---|-------|-------|
| <b>Government debt (2003, % of GDP)</b>                 | 42.9  | 64.1  |
| <b>Employment rate of older workers (2002)</b>          | 30.4  | 40.1  |
| <b>Long-term unemployment rate (2002)</b>               | 8.1   | 3.0   |
| <b>Greenhouse gas emissions (2001) (1990=100)</b>       | 69    | 98    |
| <b>Energy intensity (2001) (energy consumption/GDP)</b> | 709   | 194   |



# Country Specific Challenges for new Member States

- Focus on:
  - *Public finances*
  - *Structural problems in the labour market*
  - *Increasing productivity*