



European Economic Forecast – Winter 2015

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EPC Policy Dialogue

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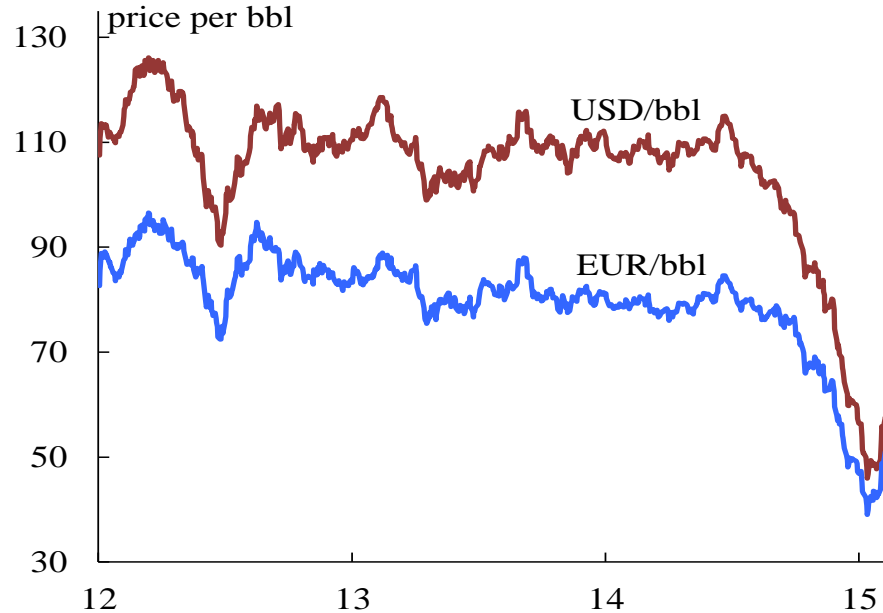
Forecast in a snapshot

	Real GDP				Inflation				Unemployment rate			
	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016
Germany	0.1	1.5	1.5	2.0	1.6	0.8	0.1	1.6	5.2	5.0	4.9	4.8
Spain	-1.2	1.4	2.3	2.5	1.5	-0.2	-1.0	1.1	26.1	24.3	22.5	20.7
France	0.3	0.4	1.0	1.8	1.0	0.6	0.0	1.0	10.3	10.3	10.4	10.2
Italy	-1.9	-0.5	0.6	1.3	⇒1.3	0.2	-0.3	1.5	12.2	12.8	12.8	12.6
Portugal	-1.4	1.0	1.6	1.7	0.4	-0.2	0.1	1.1	16.4	14.2	13.4	12.6
Euro area	-0.5	0.8	1.3	1.9	1.4	0.4	-0.1	1.3	12.0	11.6	11.2	10.6
Poland	1.7	3.3	3.2	3.4	0.8	0.1	-0.2	1.4	10.3	9.1	8.8	8.3
United Kingdom	1.7	2.6	2.6	2.4	2.6	1.5	1.0	1.6	7.6	6.3	5.6	5.4
EU	0.0	1.3	1.7	2.1	1.5	0.6	0.2	1.4	10.8	10.2	9.8	9.3
USA	2.2	2.4	3.5	3.2	1.5	1.6	-0.1	2.0	7.4	6.2	5.4	4.9
Japan	1.6	0.4	1.3	1.3	0.4	2.7	0.6	0.9	4.0	3.7	3.7	3.6
China	7.6	7.4	7.1	6.9	2.6	2.3	2.5	3.0	:	:	:	:

➤ **Very gradual and uneven recovery**

Steep fall in oil prices

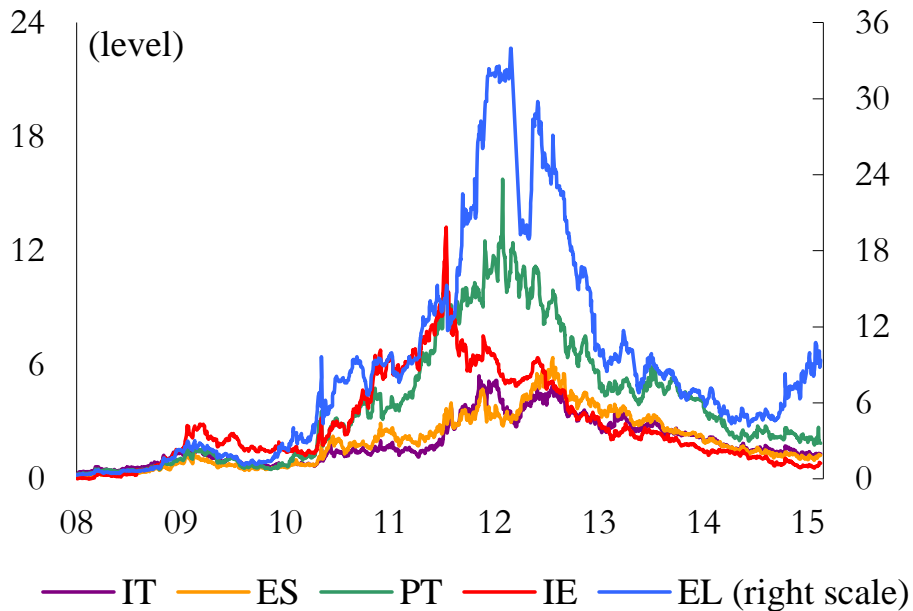
Brent oil spot prices (USD/€)



➤ **How large is the bonus?**

Monetary policy has eased further, and financial fragmentation has receded

10-year government bond spreads



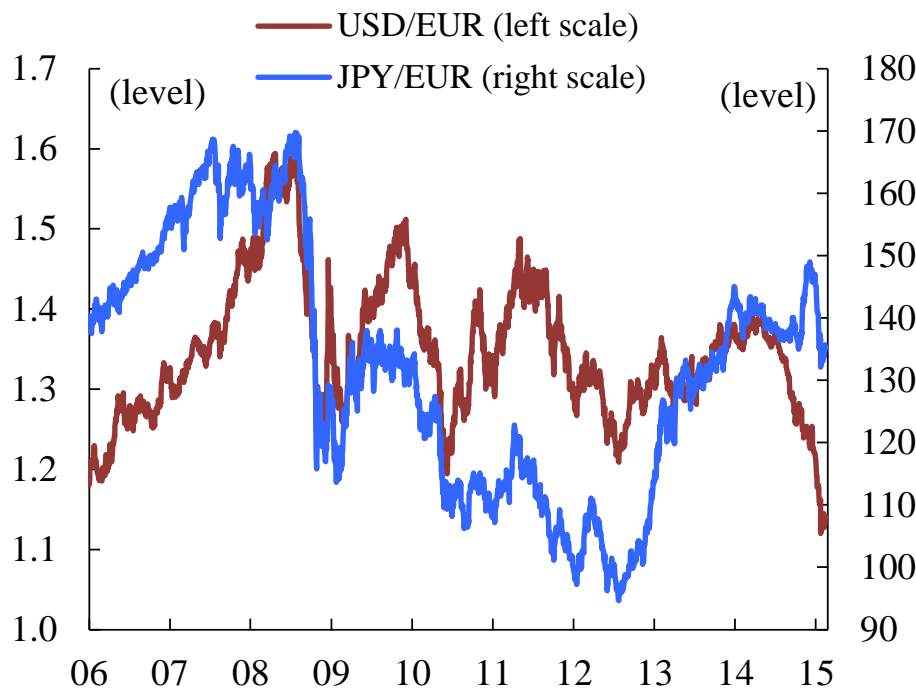
Long term inflation expectations



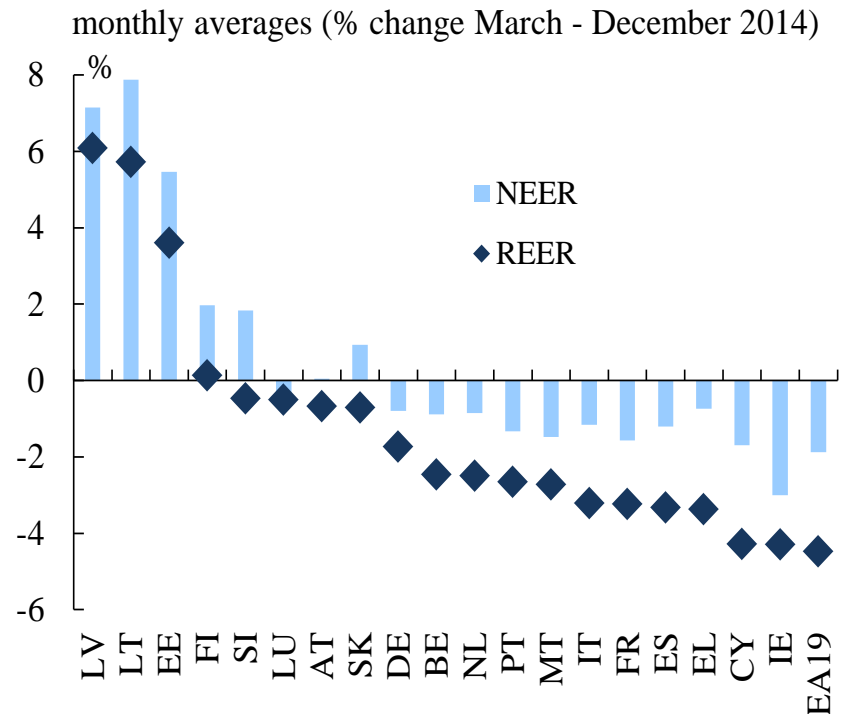
➤ **QE effects may surprise on the upside**

Euro has depreciated against major peers

Euro exchange rates, USD and JPY



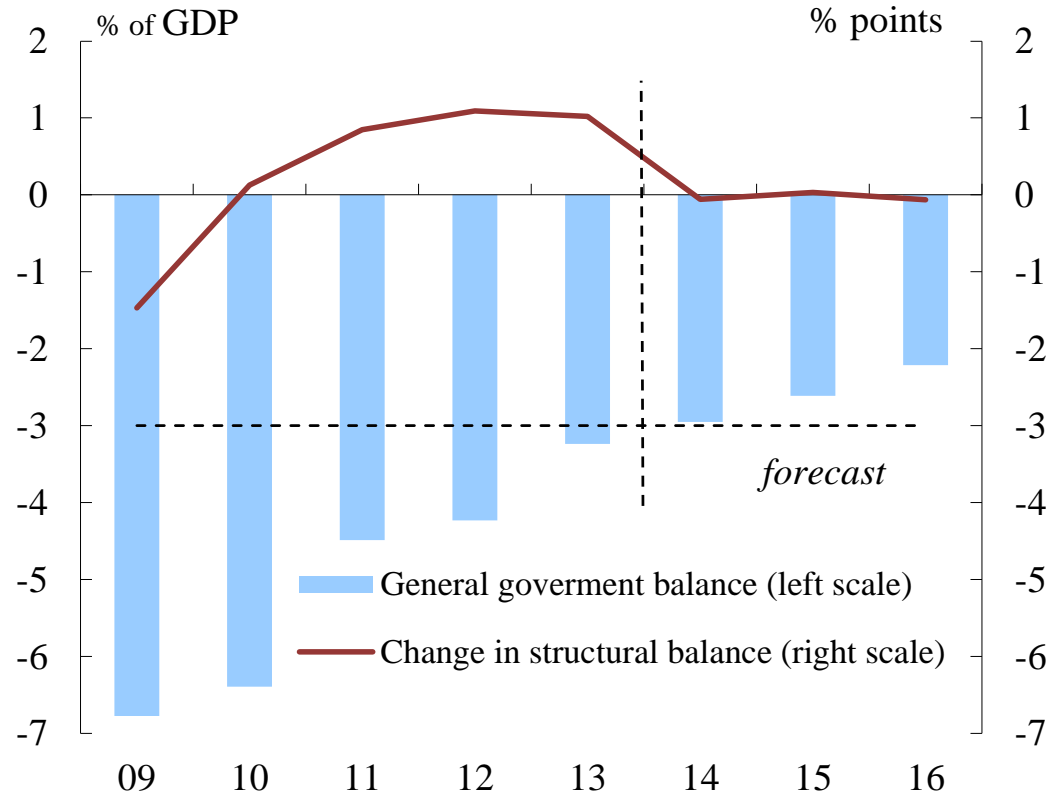
Real and nominal effective exchange rate



➤ **Who will benefit most?**

Fiscal stance neutral in aggregate is appropriate

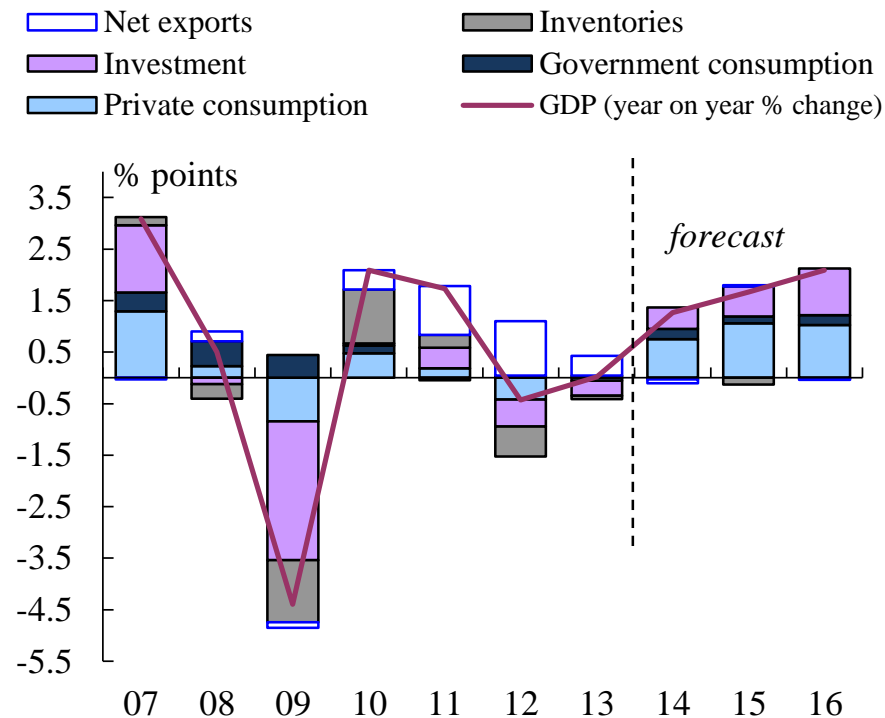
Budgetary developments, EU



➤ **Composition and distribution not optimal**

Policy measures and lower oil prices stimulating domestic demand

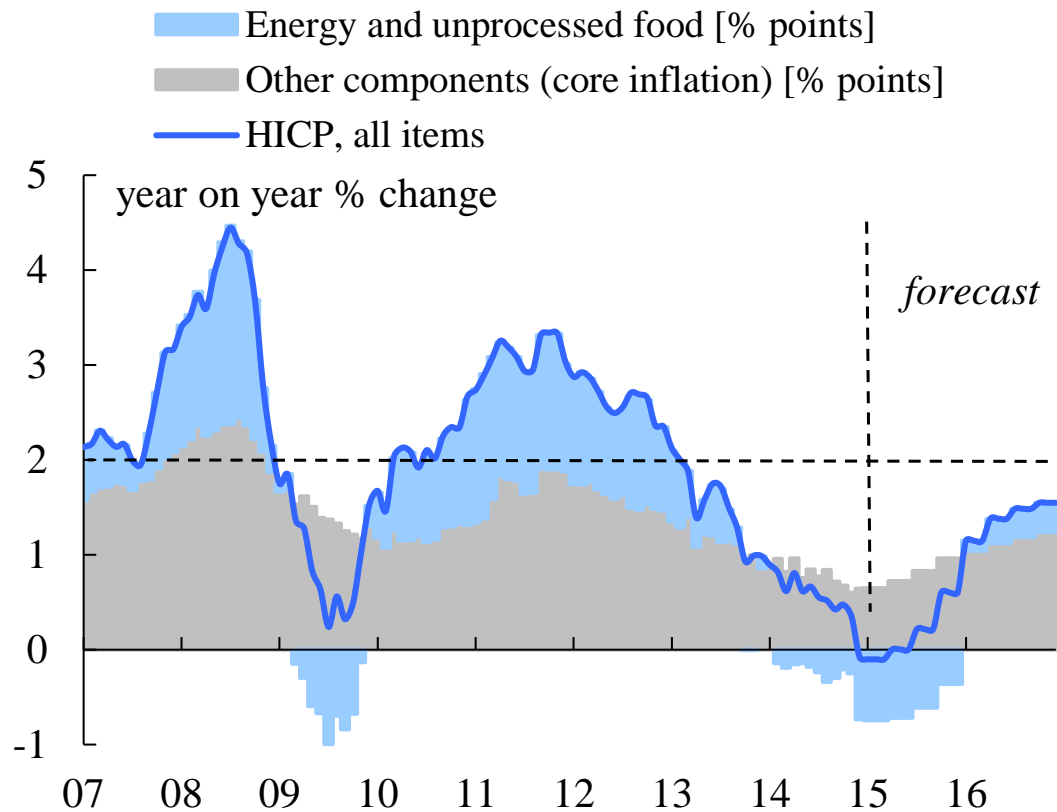
Real GDP growth and its components, EU



➤ **Though still subdued**

Energy prices drive the fall in inflation

HICP and sub-components, EU

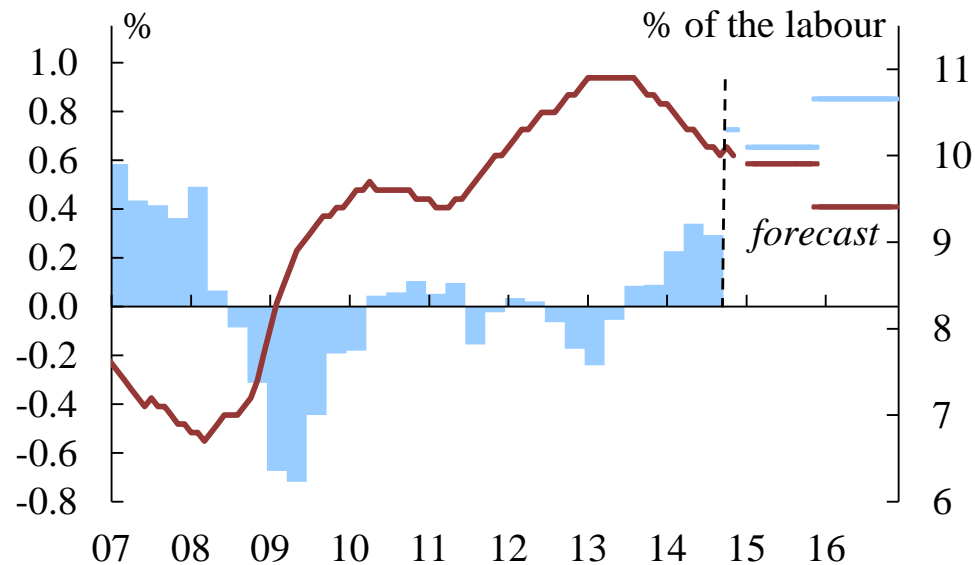


➤ **ECB`s move reduces the risk of a debt-deflationary trap**

Unemployment slowly declining, but still high

Employment growth and unemployment rate, EU

- Employment (quarter on quarter % change, left scale), forecast (year on year % change, left scale)
- Unemployment rate (right scale)

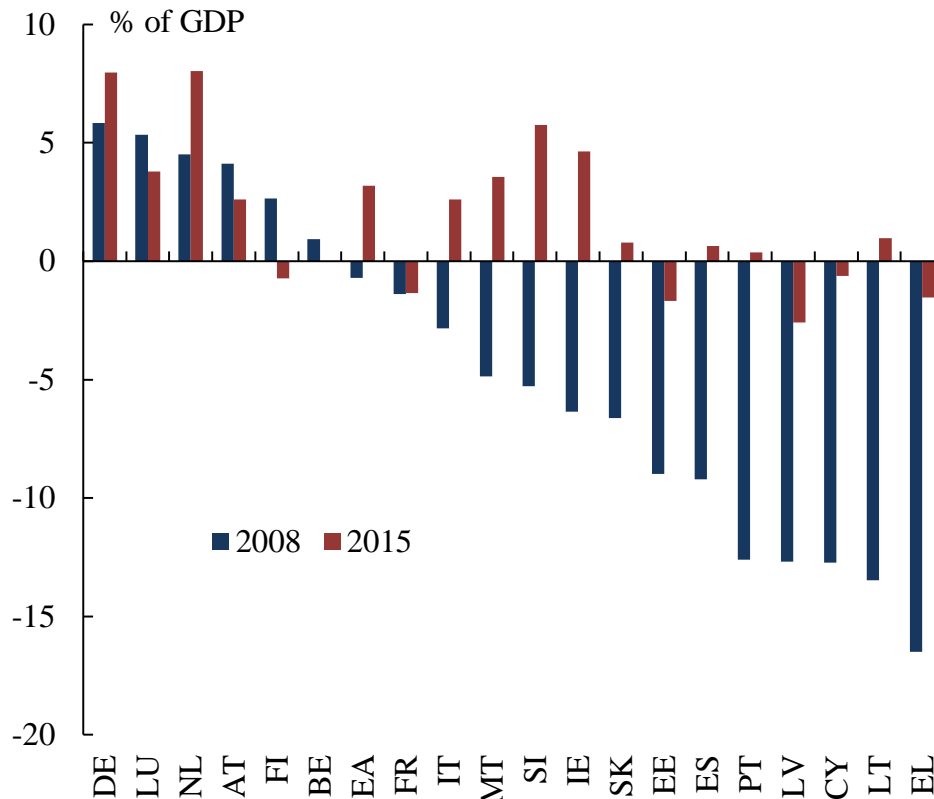


Forecast figures are annual data.

➤ **Past reforms start to pay off**

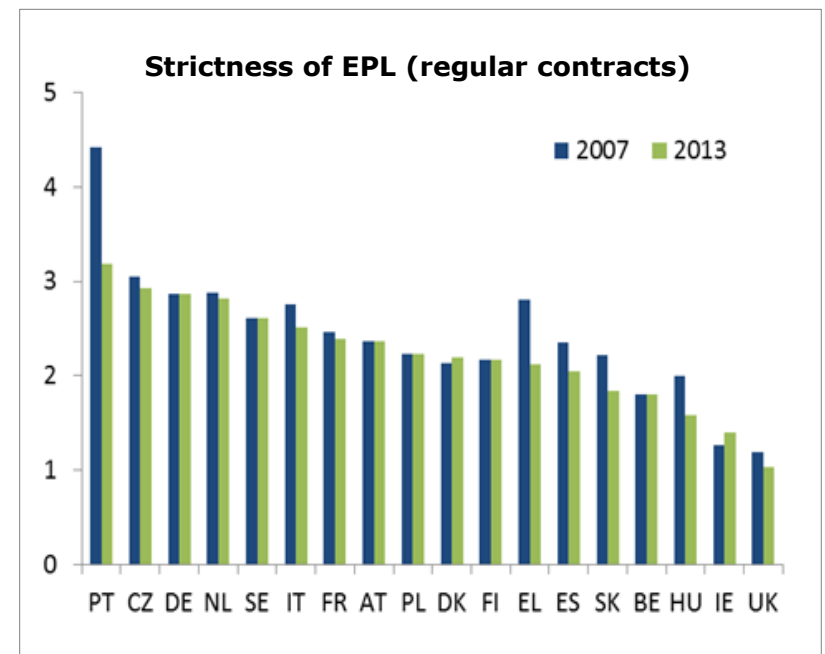
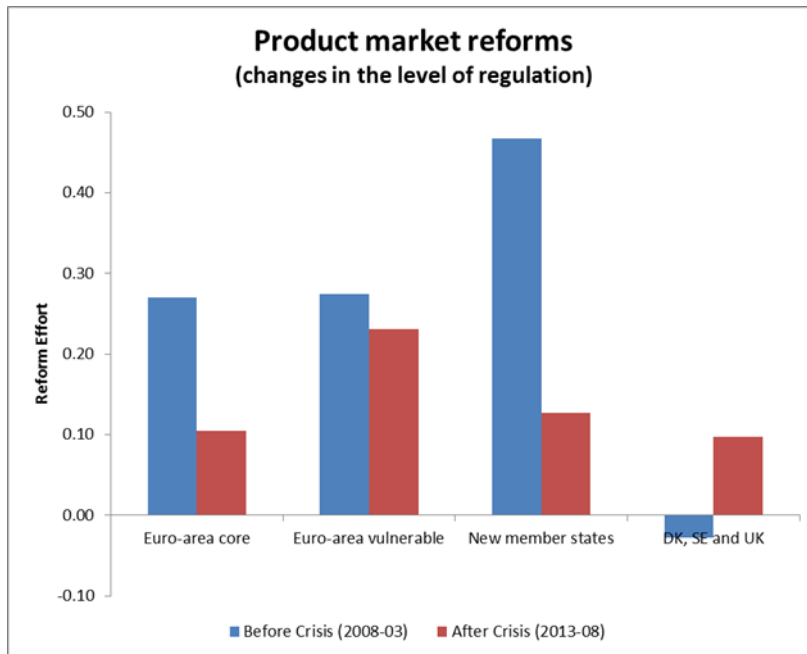
Current-account rebalancing, still lopsided

Current-account balance, EU



➤ "In the long run, we`re all ... in surplus". Or are we?

Structural reforms needed to boost growth and facilitate rebalancing



➤ **Enhance reform responsiveness across the board**

Risks to the growth outlook: increased in both directions

Risks on the downside:

- Geopolitical risks
- Renewed financial volatility
- Delayed implementation of structural reforms
- Long period of low inflation

Risks on the upside:

- Full effect of QE
 - Further exchange rate depreciation
 - Larger impact of low oil prices
 - Effect of EU action plan on investment
- **A bi-modal distribution? Economists and (even more) institutions are not good at spotting turning points**

Key messages

EU determined policy response needed to attain the good equilibrium:

- **Very accommodative monetary policy appropriate**
- **Broadly neutral fiscal policy stance: distribution and composition**
- **The Commission's guidance on the application of the Stability and Growth Pact**
- **The EU Investment Plan: implement in all strands**
- **Structural reforms: step up the gear also in core countries**



European
Commission

Thank you for your attention