CITI MACRO FORUM

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After three years of strong growth, momentum is fading

Leading to revisions for euro area GDP growth forecast

- Why is the EA suffering more than the others?
- Is the slowdown temporary or not?
A deteriorating external environment hitting particularly the euro area...

Export markets' growth
(3-month moving average of y-o-y growth)

Source: CPB, Eurostat. Last observation Jan-19 except for Extra-EA exports which refer to Dec-18.
... given its vulnerable growth model

Euro area
- 2015
- 2017
- 2018

Labour market slack
\( u - u^* \)

Persistently low inflation
(2% - core infl.)

Investment gap
\( |* - | \)

External surplus

Note: Axis normalised for each variable based on the distribution for EA countries in 2015, 2017 and 2018

Source: European Commission
A global manufacturing weakness

Weakness in manufacturing is observed in many countries...

PMI manufacturing, selected countries and regions

... and is visible in the euro area’s industrial production...

Industrial production (excl. construction), euro area
What to think about a rebound in 2019?

Some survey indicators continue declining...

PMIs and real GDP growth, euro area

...but ECFIN’s “consumer confidence” has rebounded

Consumer confidence and private consumption, euro area
Risks: interconnected and non-linear with repercussions on financial stability

- Global: Protectionism, trade tensions
- Euro area: Political uncertainty; Disruptive sovereign-bank loops
- Financial markets: Repricing of risk
- China: sharper slowdown
- Disorderly Brexit
- Emerging markets: Crisis and contagion
Policy considerations in view of the substantial risks

- The expected continued monetary support and a slightly expansionary fiscal stance in the euro area as a whole would allow the expansion to continue in the absence of additional shocks.

- But a sharper / longer downturn could tear on the already strained social fabric => exacerbate distributional conflicts => Short-termism and inward-looking policies.

- Fiscal space can be used more actively where it exists. High-debt countries need to remain prudent.

- Overall quality of public finances should be improved and investment prioritised.

- Steering clear of bad policies would reduce the risk of a sharper slowdown and could remove uncertainty
## Completing EMU’s architecture: progress, but at slow pace

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<th>Key issues</th>
<th>Deliverables</th>
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<td><strong>ESM</strong></td>
<td>Improve further the crisis prevention and resolution capabilities in the euro area</td>
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<td><strong>Banking Union</strong></td>
<td><strong>European Deposit Insurance Scheme (EDIS):</strong> disagreements, notably on the level of risk reduction already achieved <strong>Common backstop to the Single Resolution Fund (SRF):</strong> need to agree on the terms of reference</td>
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<td><strong>EA budget</strong></td>
<td><strong>Budgetary instrument for convergence and competitiveness:</strong> need to reach consensus on the design, modalities of implementation and timing of the tool</td>
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Note: * including the backstop to the Single Resolution Fund