European economic forecast, Winter 2017

EPC
14 February 2017

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The European economy has proven resilient
## Key factors surrounding the outlook

<table>
<thead>
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<th>Positive factors</th>
<th>Negative factors</th>
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<td>STRONGER GLOBAL ECONOMY</td>
<td>HIGH LEVELS OF UNCERTAINTY</td>
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<td>IMPROVING LABOUR MARKET</td>
<td>STILL SLOW GROWTH OF INVESTMENT</td>
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<td>NORMALISING INFLATION</td>
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<tr>
<td>SUPPORTIVE ECONOMIC POLICIES</td>
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Global uncertainty exceptionally high

- Impact of US policies
- Impact of the Brexit vote
- Political uncertainty in the EU

Policy uncertainty index

Source: Baker, Bloom and Davis at www.PolicyUncertainty.com
'Europe' includes news indices of the five largest EU Member States.
Improved global growth prospects

Real GDP

- Advanced economies excluding EU
- China
- Emerging Asia excluding China
- CIS and Latin America
- MENA, SSA and other emerging markets
- World excluding EU (y-o-y%)
Economic policies remain supportive

Budgetary developments, euro area

Composite credit cost indicators, euro area

Sources: ECB, Bloomberg, own calculations

Last observation: December 2016
Economic growth 2017
Private consumption keeps driving growth

Real GDP growth and its components, euro area
Investment still lacks strong momentum

Investment (2008-2018), euro area

Total investment, advanced economies
More jobs to be created but not yet enough

Employment and unemployment, euro area

Labour market indicators, euro area
Energy prices temporarily drive inflation up

Inflation breakdown, euro area
Budgetary outlook 2017

- Deficit > 3%
- Deficit ≤ 3%
- Surplus
Greece: outperforming forecasts and targets 2015 and 2016

*Real GDP: 2015 outturn data, 2016 -2018 forecast
**Primary balance: 2015 outturn data, 2016 provisional, 2017-2018 programme targets
Downside risks have increased, but...
... there could be an upward surprise

Inflation expectations derived from implied forward inflation-linked swap rates

Source: Bloomberg
Policy challenges

- Banking Union, Capital Market Union, Internal market
- Supporting investment
- Macroeconomic policy mix
- Tackling low bank profitability
- Labour market reforms
- Globalisation sharing
Making a positive case for Europe

Sense of purpose and a new unity to respond to populist challenge

Decision-making based on subsidiarity

National political stability

EU as scapegoat in national debates

European Commission