European Economic Forecast – Autumn 2014
Less favourable global economic conditions…

World trade and Global PMI manufacturing output

Source: CPB, Markit Economics
...have negatively affected confidence

Confidence indicators for the EU

Source: European Commission
EU specific factors also hold back growth

- Already existing deep-seated structural problems
- Public and private debt overhang
- Ongoing financial fragmentation related to the sovereign debt crisis
...and create significant growth differences in Europe (2014)

Source: European Commission
Looking ahead, we see a gradual recovery...
...based on financial market conditions that continue to ease...

10-year government bond spreads

Corporate bond spreads

Source: Bloomberg
...a possible turning point in loan dynamics, related to the ECB's recent assessment...

Bank lending to households and non-financial corporations, euro area

Net changes in credit standards and credit demand, euro-area

Source: ECB
...and a broadly neutral fiscal stance

*Graph I.35: Budgetary developments, EU*

Source: European Commission
Domestic demand to drive output growth

Source: European Commission
The Investment Gap

Real GDP and investment
(index: 2008 = 100)

Sources: ECB calculations and European Commission.
Latest data: 2013 (forecast 2014).
Labour markets are improving only slowly

Employment growth and unemployment rate, EU

Forecast figures are annual data.

Source: European Commission
In 2015, most EU economies will grow at more than 1%
Country differences also narrowing in labour markets

Source: European Commission
Low inflation is persisting
Risks to the growth outlook remain tilted to the downside

Source: European Commission
No single, simple answer

In order to address current challenges, the EU needs a combination of:

• Structural reforms
• Fiscal credibility
• Investment

➡ President Juncker's agenda for jobs and growth
Key messages

- The economic recovery is not happening as fast and as strongly as expected last spring.
- GDP growth is expected to rise slowly in 2015 and accelerate in 2016.
- Diversity across Member States is large.
- Inflation is projected to pick up very gradually as economic slack is reduced and import prices increase.
Thank you for your attention