

# The euro area economy: an update

Eurochallenge – November 2013



Delegation of the European Union to the United States  
[www.euro-challenge.org](http://www.euro-challenge.org)

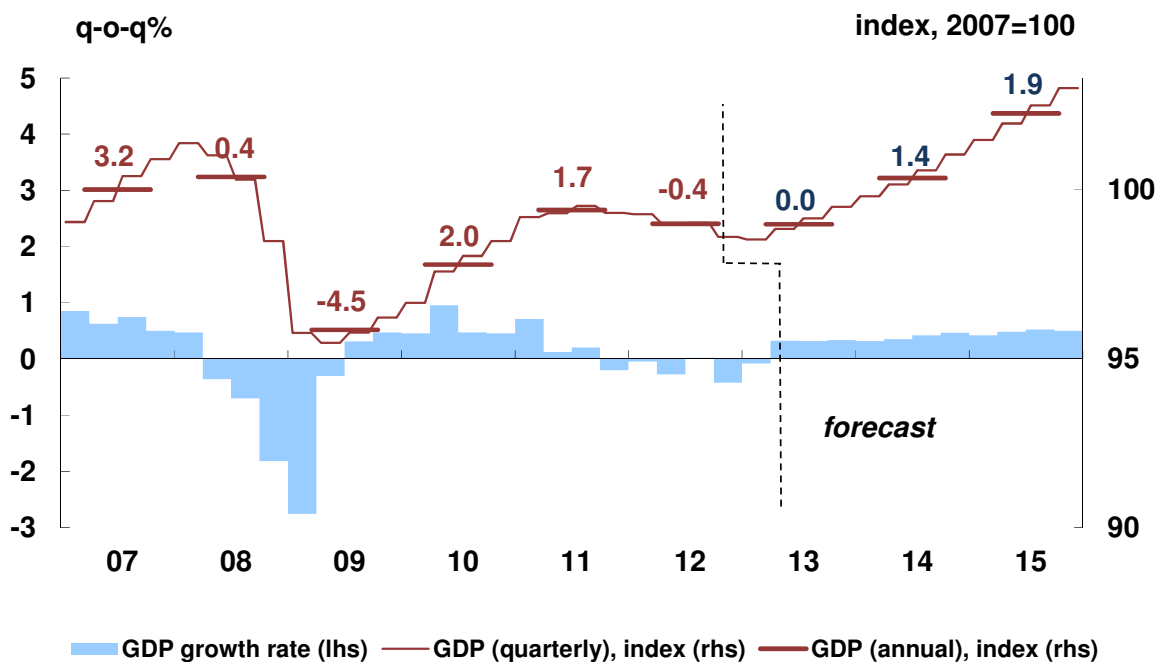


## What this presentation will cover

- Update on the economic situation in the euro area
  - Progress with “rebalancing” the euro area economy
  - Moving towards a more integrated economic and financial area
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# 1. Growth is gradually returning

## Gradual recovery, EU

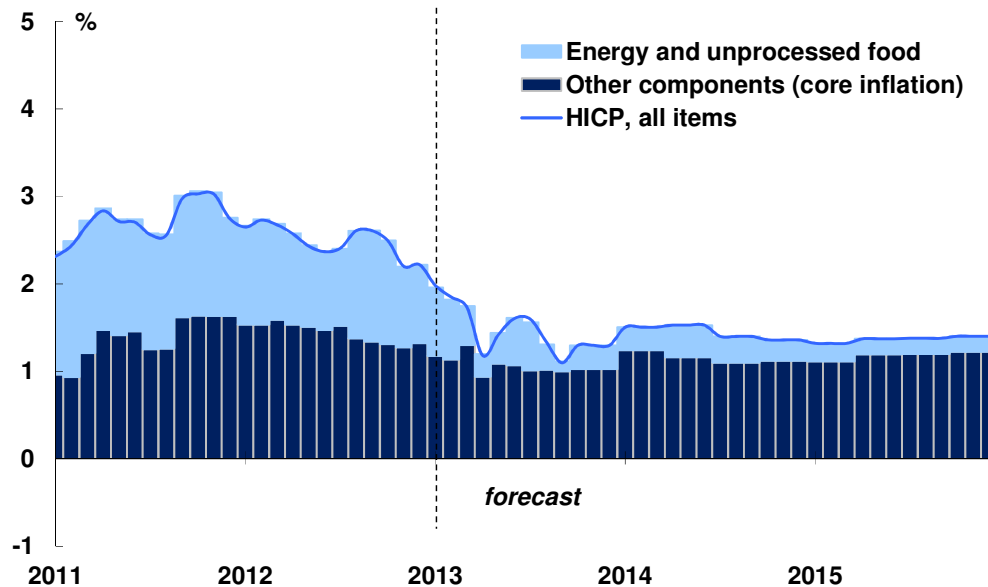


Figures above horizontal bars are annual growth rates

- On an annual basis, real GDP growth this year is estimated at 0.0 % in the EU and -0.4 % in the euro area.
- Economic growth is forecast to gradually gather pace over the forecast horizon, to 1.4 % in the EU and 1.1 % the euro area in 2014, reaching 1.9 % and 1.7 % in 2015, respectively.
- Several years of negative growth in countries hardest hit by the crisis. Others in a better shape.

## 2. Inflation is low

### Inflation, EU



- Inflation is forecast at around 1 ½ % in 2014-15.

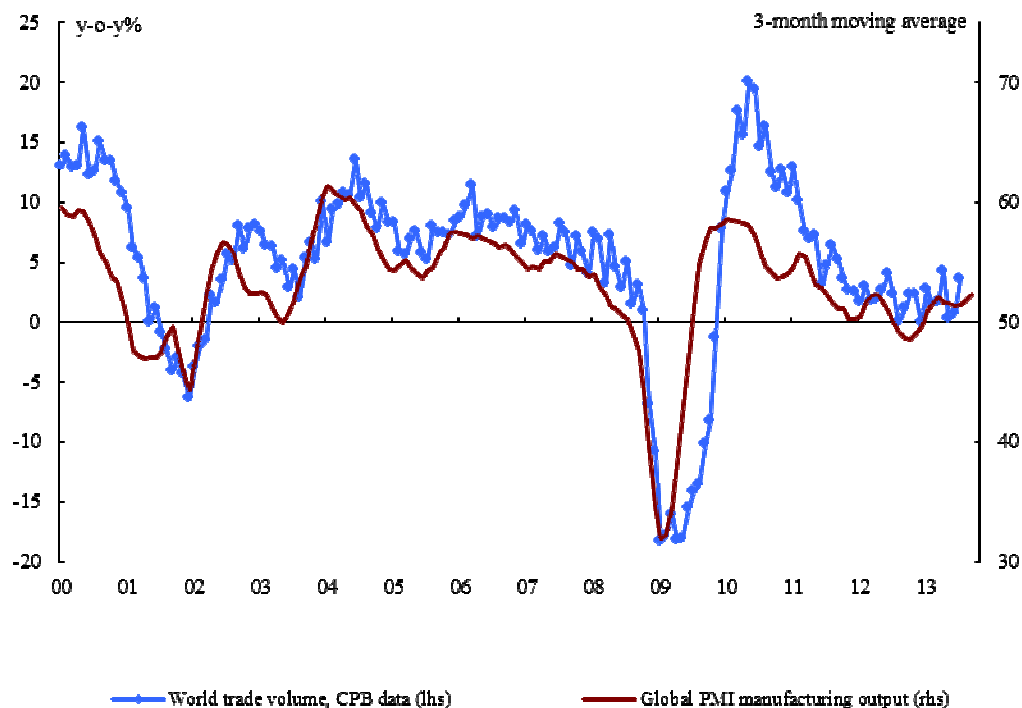
- This is consistent with a very slow recovery in economic activity.

- It is possible to see lower monthly inflation rates in the near term (e.g. October 2013: 0.7%), thus below the ECB's monetary target (below, but close to, 2% over the medium term).

### 3. Amidst a weakening global recovery

#### World trade and global manufacturing output

Graph L.6: World trade and Global PMI manufacturing output



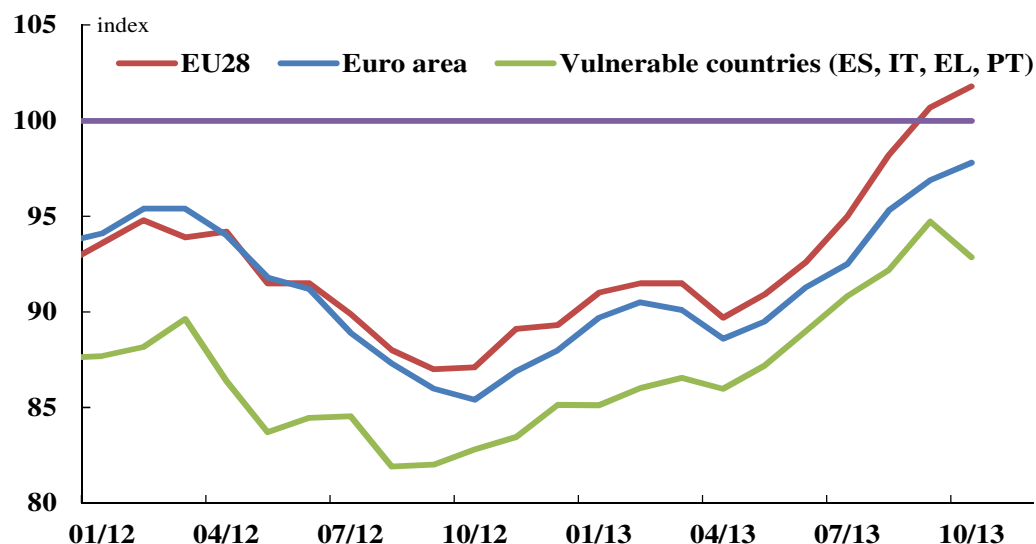
- After the financial and economic crisis of 2008-09, the global economy started to recover in 2010-11 but weakened again.

- Historically, economies recover slowly following financial crises.

- A slowing global economy is not helping Europe grow faster.

## 4. Confidence is returning

### Economic actors are becoming more positive



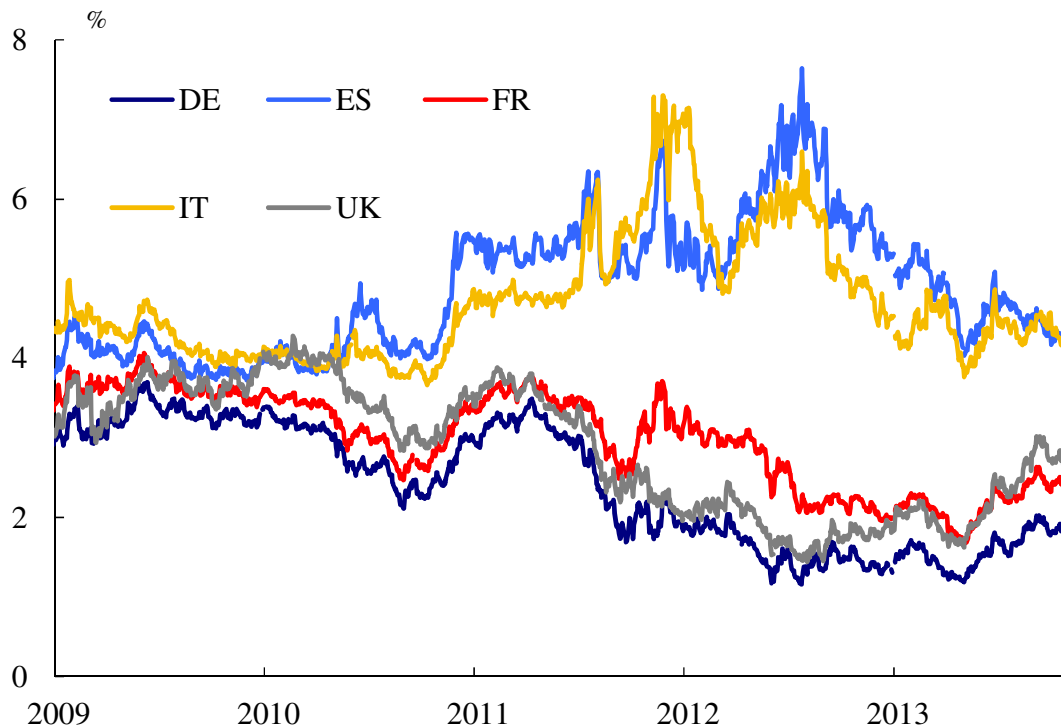
Source: European Commission, November 2013

- Surveys have improved substantially since spring, especially among managers in all business sectors.
- Manufacturing and services output have expanded since July this year, even if the rise has moderated somewhat in October.
- Confidence readings have also been encouraging in vulnerable Member States.



## 5. Financial market tensions have eased

**Ten-year government-bond yields,  
selected euro-area Member States**

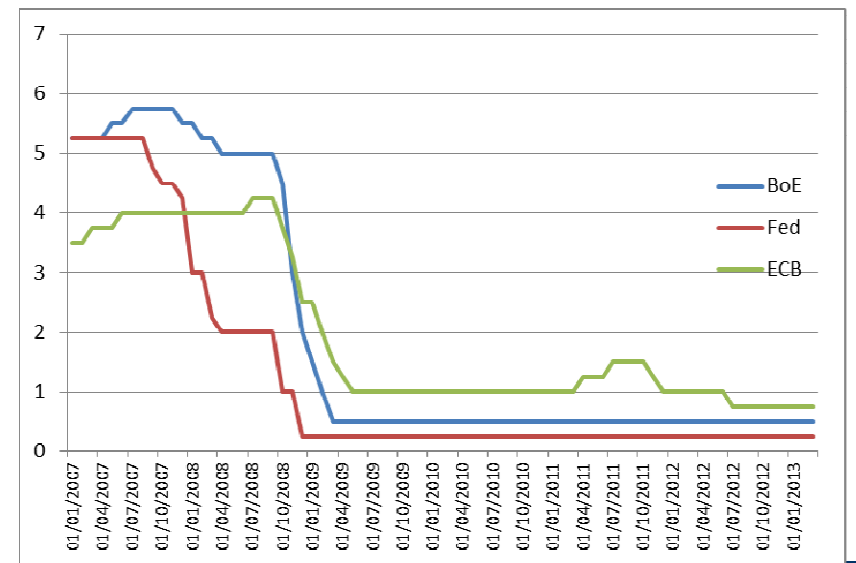


Source: European Commission, November 2013

- Euro area countries have set up a permanent assistance fund; the European Central Bank played a large role.
- These actions have brought down interest rates on government bonds of troubled euro area countries, further reducing the risk of default (not being able to pay back their debts)
- European stock markets have also stabilized.

# Aside: the ECB's response: standard and non-standard measures

- The European Central Bank (ECB) is the central bank for the euro area. Its mandate is to keep prices stable. This is done by steering interest rates (affects borrowing/lending by consumers/companies)
- The ECB operates independently from Member State governments.
- Exceptional circumstances - exceptional monetary policy measures, with a separation between:
  - Standard measures: key ECB interest rates
  - Non-standard measures: to support the effective transmission of decisions to the wider euro area economy (dysfunctional segments)
- Announcement of Outright Monetary Transactions (OMTs)



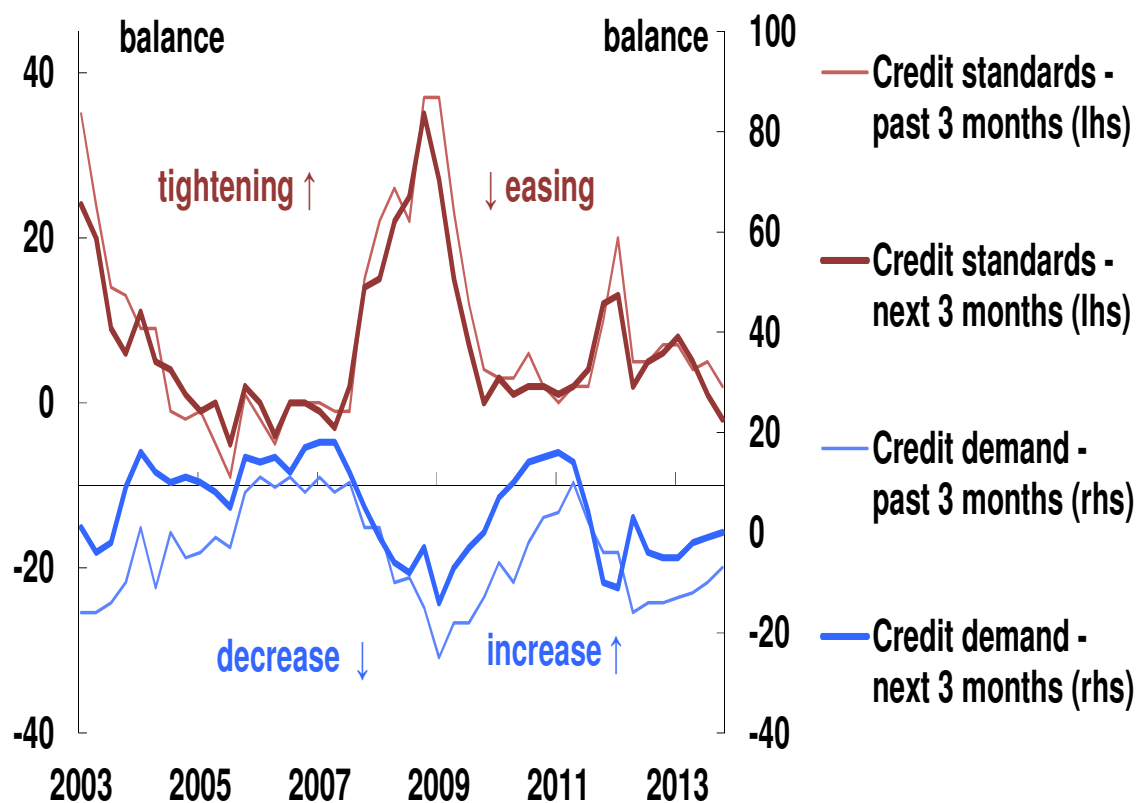
Sources: Central banks





## 6. Bank lending to the real economy must improve

### Credit standards and credit demand for loans to non-financial corporations in the euro area



Source: ECB bank lending survey, November 2013

- An economy needs a functioning banking sector to support growth, through bank lending to consumers and businesses

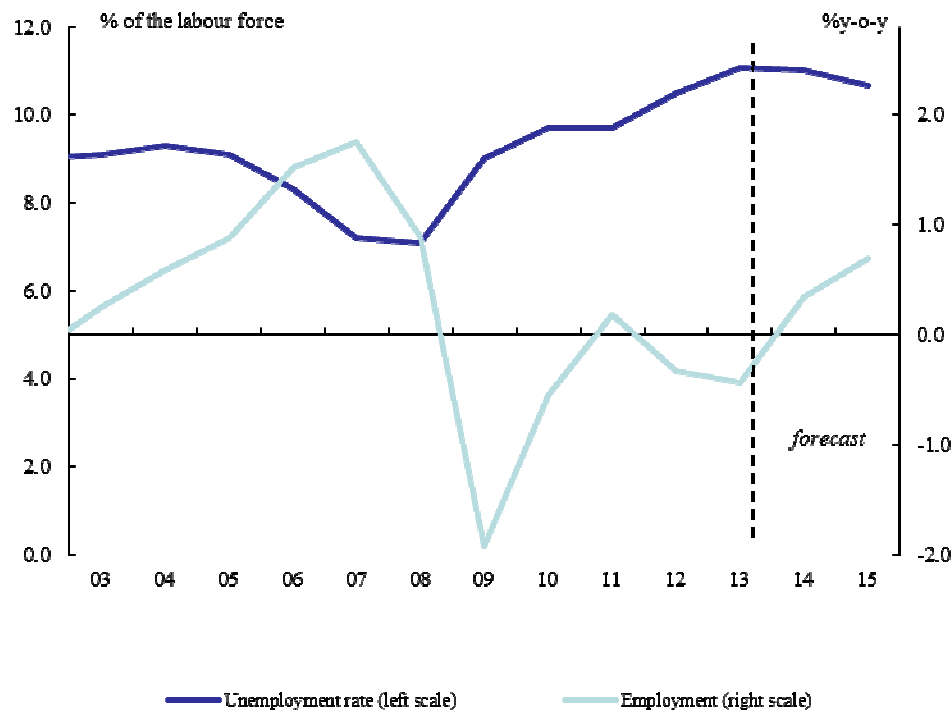
- Banks had tightened their “credit standards” and were lending out less money. Less money in the economy means less economic growth.

- There was too much (private sector) borrowing before the crisis hit. Now conditions have to loosen up to support growth.



## 7. Unemployment remains unacceptably high

### Employment growth and unemployment rate, EU



- The unemployment rate has currently stabilized at a high level (youth)
- Employment growth is expected to recover with a lag.
- There are huge differences between countries' unemployment rates, which range from an expected low of 5% in Austria to a high of 26.5% in Spain in 2014.



# Looking beyond: Europe's progress towards a more integrated economic and financial area



# EC-ECB-IMF programs in place for vulnerable countries

## Greece

Preserve financial stability;  
restore debt sustainability;  
and boost competitiveness

## Ireland

Reform banking system;  
fiscal consolidation;  
and structural reforms

## Portugal

Measures to enhance growth;  
fiscal consolidation;  
and ensure financial stability



EFSM



European Stability Mechanism



€500 bn

## Spain

Measures to strengthen  
the financial sector

## Cyprus

Measures to restructure  
the financial sector

## Rebalancing within the euro area

- Countries that were running large trade deficits have started to import less and export more (competitiveness)
- Countries that were running large trade surpluses are starting to import and consume more.
- Adjustments in labour costs (wages falling in some countries and rising in others)



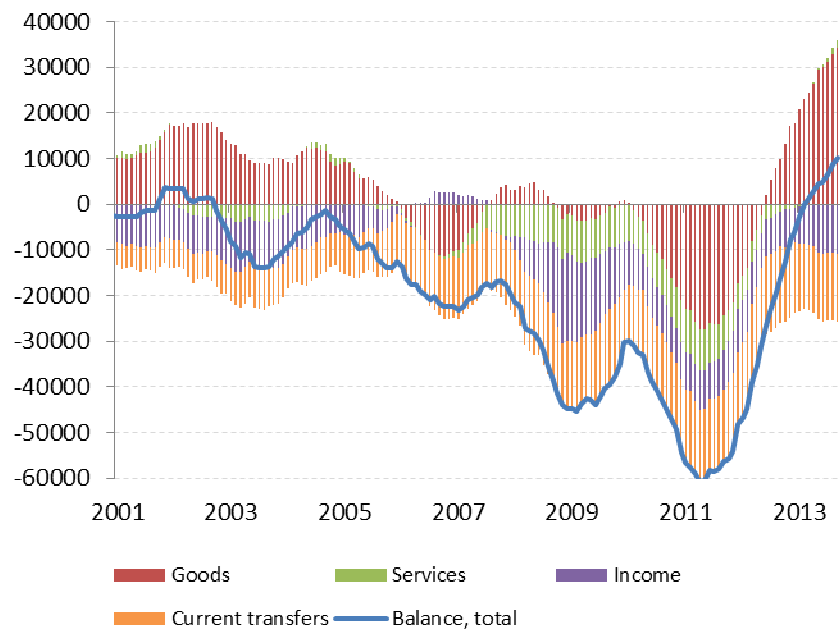
- Countries in better economic shape must sustain economic growth
- They should also keep their budgets under control because of long-term costs (e.g., of pensions and health care in aging societies)

**=> Hence a differentiated approach to fiscal consolidation**

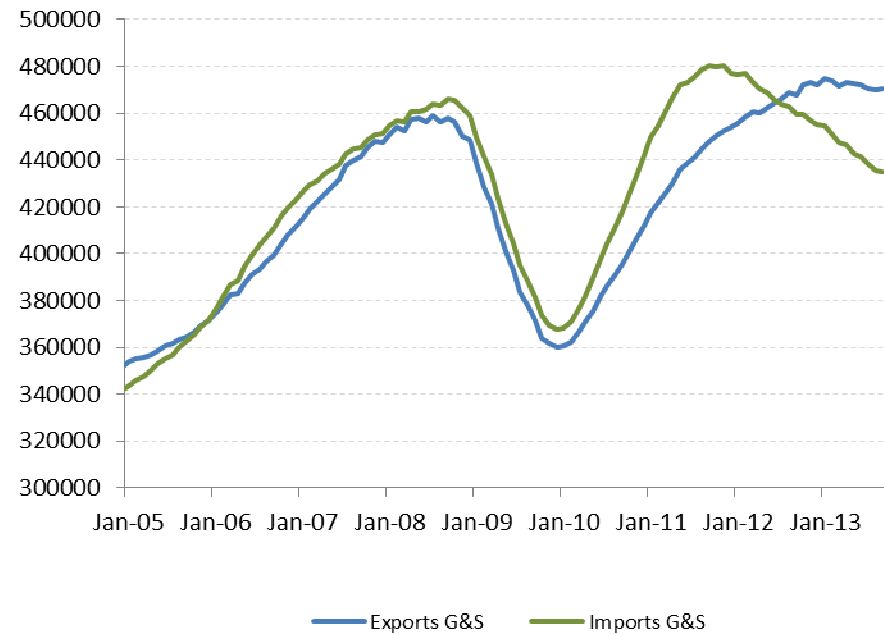


# “Rebalancing” is progressing (e.g.)

**ITALY - Current account balance and components**  
(EUR mio - 12-month moving sum)



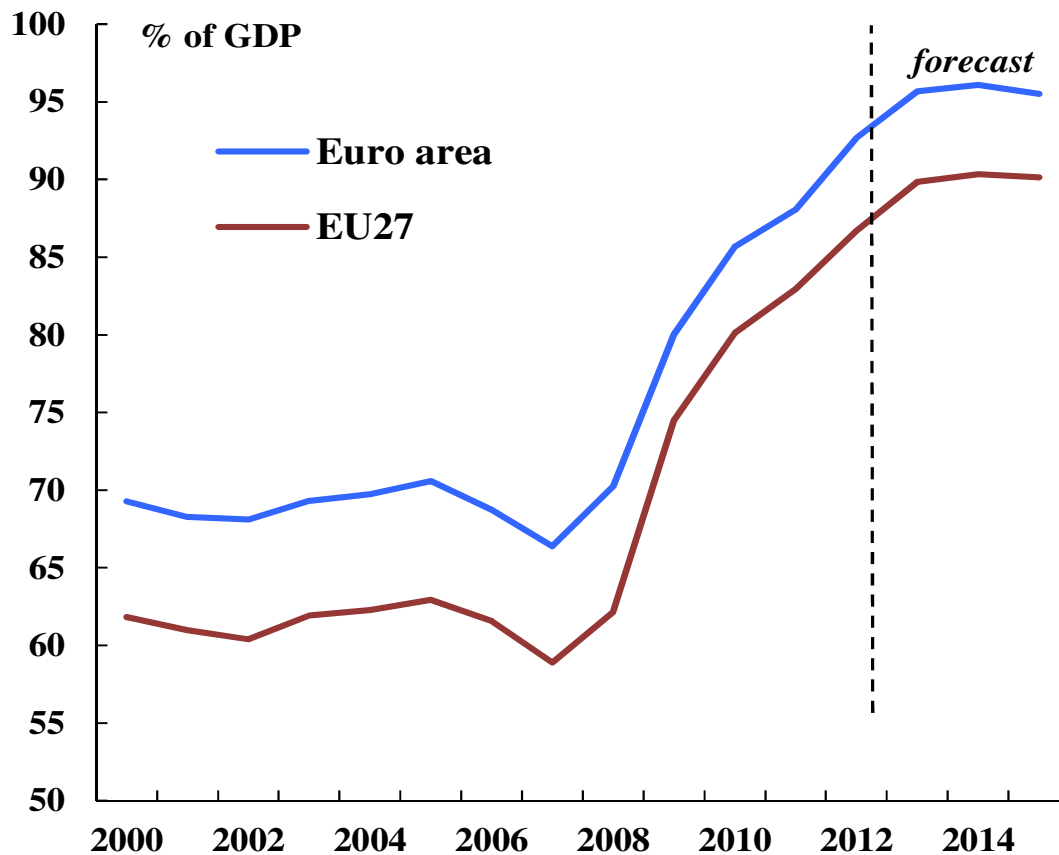
**ITALY - Exports and Imports of G&S**  
(EUR mio - 12-month moving sum)





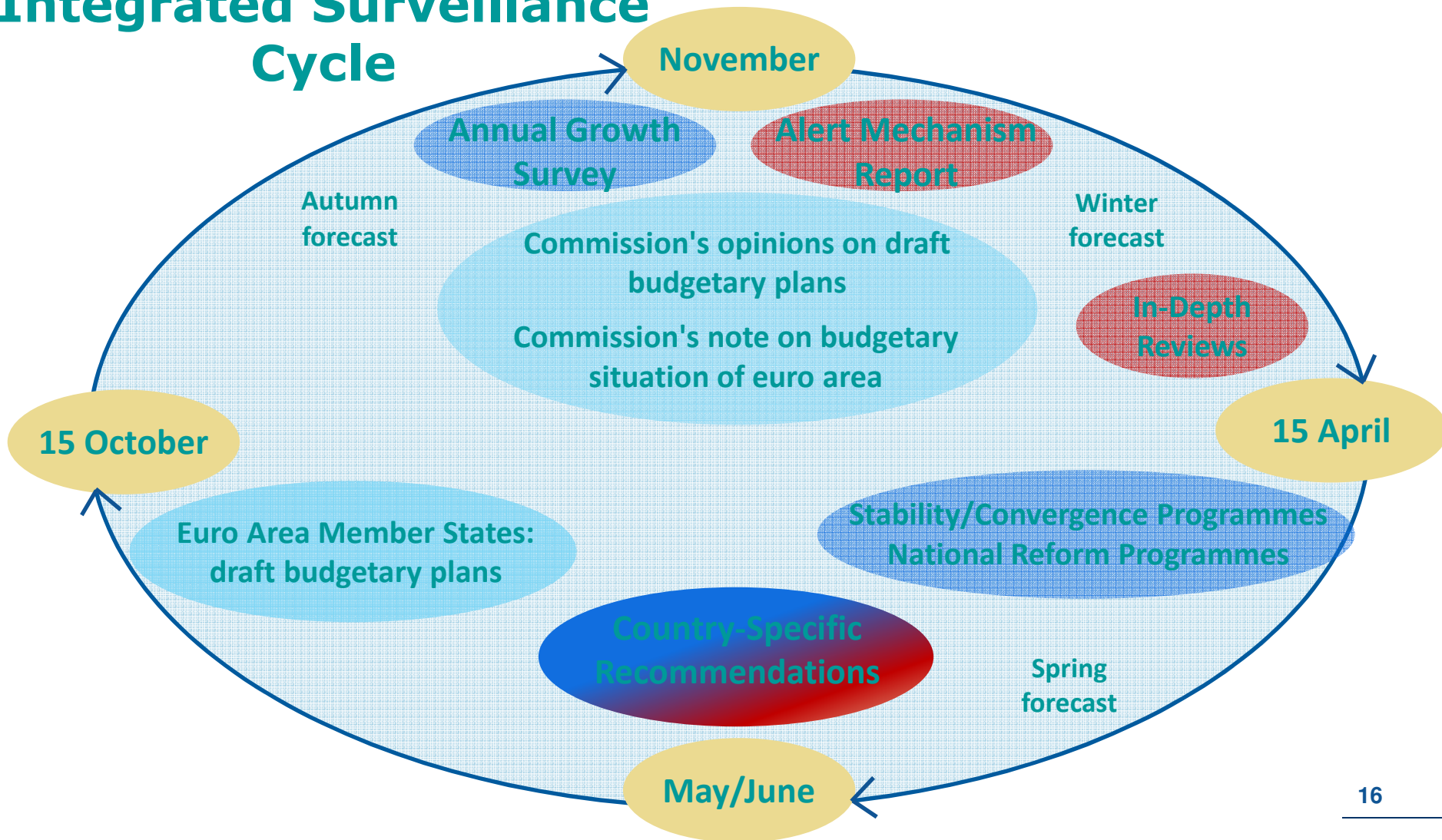
# Public finances set to improve further

## General government debt, euro area



- Governments are bringing their deficits down
- Government debt is expected to stabilize in 2014 and then decline in the euro area
- Improvement in public finances will help restore investor and public confidence; however, it must be done in a way that does not choke off growth

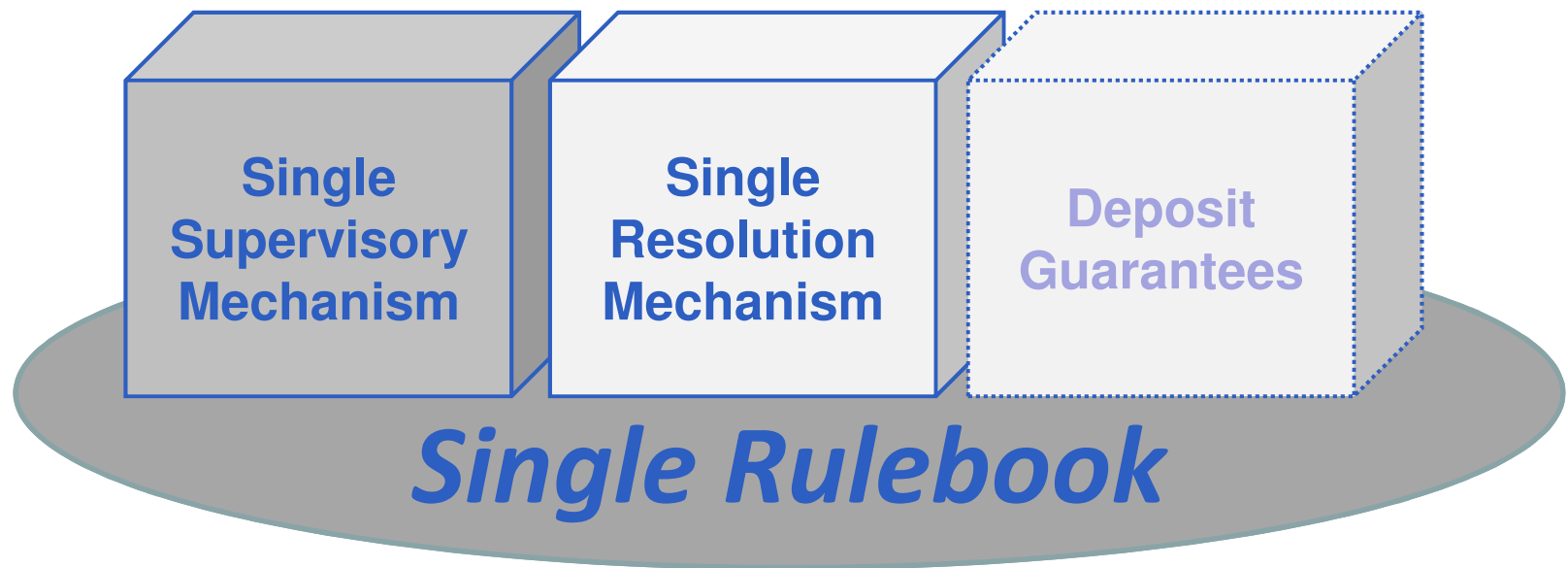
# Integrated Surveillance Cycle







# *First step towards a Banking Union*





# Strengthening the “E” in EMU

Europe is gradually solidifying

## PROGRAMS

Financial backstops for countries in difficulty (with policy conditions enforced by the “troika”)

## FIREWALL

A permanent mechanism (ESM) to stem the risk of contagion to other countries

## GROWTH

Boost growth through structural reforms and completing the single market



## BANKS

Strengthen the banking system, including better financial supervision at the EU level; role of the ECB

## RULES

Stronger, more effective fiscal rules and greater coordination of economic policies

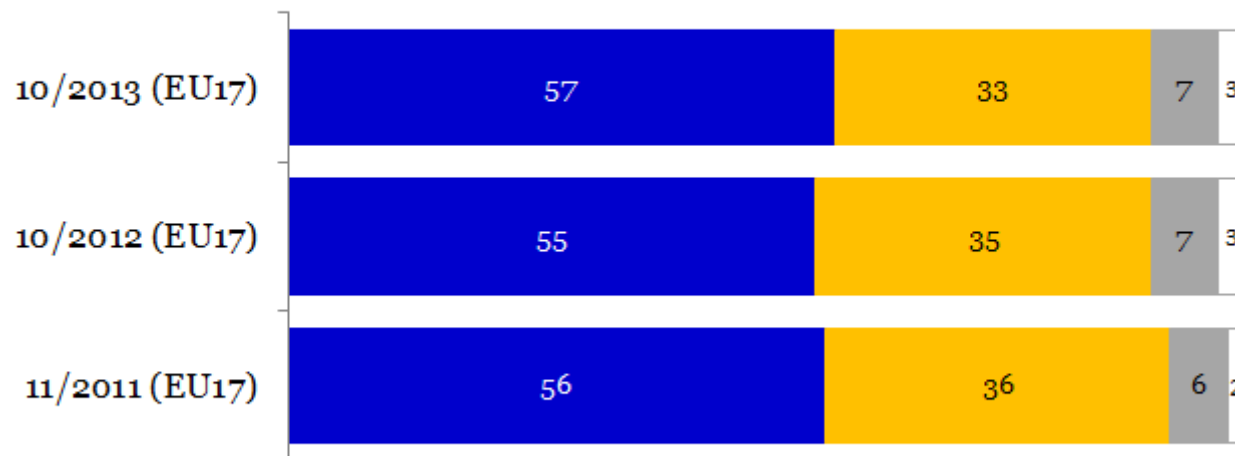
More economic and financial integration, now and later on, for a better "union"



# How do you perceive having the Euro?

## Having the euro is a good or a bad thing for your country

■ A good thing   ■ A bad thing   ■ Can't decide (SP.)   □ Don't know



### Q1.1. Generally speaking, do you think that...?

Base: all respondents, % EURO AREA

Source: European Commission, wave October 2013, released Nov. 2013



# Thank you for your attention!

*[ec.europa.eu/dgs/economy\\_finance/index\\_en.htm](http://ec.europa.eu/dgs/economy_finance/index_en.htm)  
(Brussels)*

*[www.ecb.int](http://www.ecb.int) (Frankfurt)*

*[euintheus.org](http://euintheus.org) (Washington)*

