Beat: Business

Europe: outlook improve, but risks remain

Growth prospects are still limited

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USPA NEWS - For the first time since 2007, the economies of all European Union Member States are expected to grow again this year, according to the European Commission's winter forecast, according to an analysis released Thursday.

Over the course of this year, economic activity is expected to pick up moderately in the EU and in the euro area, before accelerating further in 2016. Growth this year is forecast to rise to 1.7% for the EU as a whole and to 1.3% for the euro area. In 2016, annual growth should reach 2.1% and 1.9% respectively, on the back of strengthened domestic and foreign demand, very accommodative monetary policy and a broadly neutral fiscal stance.

But growth prospects across Europe are still limited by a weak investment environment and high unemployment. However, since the autumn, a number of key developments have brightened the near-term outlook. Oil prices have declined faster than before, the euro has depreciated noticeably, the ECB has announced quantitative easing, and the European Commission has presented its Investment Plan for Europe. All these factors are set to have a positive impact on growth.

According Valdis Dombrovskis, Vice-President for the Euro and Social Dialogue, "today Europe stands at a critical juncture. The right economic conditions are in place for sustained growth and job creation. Following the difficult policy choices governments have made due to the crisis, the effects of reforms are emerging. We have to step up the reform momentum to strengthen the recovery and make sure it translates into money in people's pockets. The Commission is delivering on its commitments on three main fronts: investment, structural reforms and fiscal responsibility. Implementation now lies with the Member States. And that is where our results will be judged“�.

The Commissioner for Economic and Financial Affairs, Taxation and Customs, Pierre Moscovici, said that "Europe's economic outlook is a little brighter today than when we presented our last forecasts. The fall in oil prices and the cheaper euro are providing a welcome shot in the arm for the EU economy. Meanwhile, the Investment Plan for Europe and the ECB´s important recent decisions will help create a more supportive backdrop for reforms and smart fiscal policies. But there is still much hard work ahead to deliver the jobs that remain elusive for millions of Europeans“�.

While all Member States are expected to have positive growth rates this year and the recovery has continued to broaden in recent quarters, the divergence in economic performance across the EU is likely to continue. This is in part because the progress with deleveraging among banks, the public and private sectors still differs across Member States. The positive effect of low oil prices on growth will also vary according to each country's energy mix. The accommodative monetary conditions might have a stronger positive impact in countries where financing conditions are tight. The support to exports from the euro's depreciation will depend on national trade orientation and patterns of specialisation.

Inflation to fall further before rising in 2016

The trend towards low inflation has continued. In most Member States, inflation temporarily turned negative in December, on the back of the steep fall in energy prices. Inflation is set to remain subdued in 2015 as low commodity prices dampen the headline figure. Inflation should increase as of mid-2015 and in the course of 2016, as economic activity gradually strengthens, wages rise and the economic slack is reduced. In the EU, inflation is projected at 0.2% in 2015 and 1.4% in 2016. Inflation in the euro area is forecast to be -0.1% this year before rising to 1.3% in 2016.

The reduction in general government deficits continues, but the fiscal stance is now neutral. The deficit““to-GDP ratios are forecast to keep falling over the next two years. In the EU, they are expected to fall to 2.6% this year from 3.0% in 2014 and to 2.2% in 2016. In the euro area, they should drop to 2.2% in 2015 and 1.9% in 2016. For the EU as a whole, the debt-to-GDP ratio is expected to have peaked at 88.4% in 2014. For the euro area, it should peak this year at 94.4%, before declining.

Overall, uncertainty surrounding the existing economic outlook has increased. Downside risks have intensified, while new positive factors have emerged. This is due to geopolitical tensions, renewed financial market volatility in a context of diverging monetary-policy across major economies, and incomplete implementation of structural reforms. A protracted period of very low or negative inflation would also be detrimental to the growth outlook. On the positive side, certain factors could lead to a stronger-than-expected boost to global and EU growth stemming from low energy prices.

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