Beat: Politics

Tailwinds support the recovery in Europe

According Spring 2015 Economic Forecast

Madrid, 05.05.2015, 12:16 Time

USPA NEWS - Economic growth in the European Union is benefitting from positive economic tailwinds. According to the European Commission's Spring 2015 Economic Forecast, these short-term factors are boosting an otherwise mild cyclical upswing in the EU.

Europe´s economies are benefitting from many supporting factors at once. Oil prices remain relatively low, global growth is steady, the euro has continued to depreciate, and economic policies in the EU are supportive. On the monetary side, quantitative easing by the European Central Bank is having a significant impact on financial markets, contributing to lower interest rates and expectations of improving credit conditions. With the overall fiscal stance in the EU broadly neutral "" neither tightening nor loosening "" fiscal policy is also accommodating growth. Over time, the pursuit of structural reforms and the Investment Plan for Europe should also bear fruit.

As a result, real GDP in 2015 is now expected to rise by 1.8 % in the EU and by 1.5 % in the euro area, respectively 0.1 and 0.2 percentage points higher than projected three months ago. For 2016, the Commission forecasts growth of 2.1 % in the EU and of 1.9 % in the euro area. Domestic demand is the main contributor to GDP growth, with an acceleration of private consumption expected this year and a rebound of investment next year.

Valdis Dombrovskis, Vice-President for the Euro and Social Dialogue, said that "the recovery of Europe's economies is strengthening. While this is encouraging, we have to make sure economic growth is lasting "" sustainable. This can happen by implementing the three priority approach endorsed at EU level - structural reforms, stepping up investment and encouraging fiscal responsibility, while addressing country-specific challenges. The country-specific policy recommendations to be presented by the European Commission in mid-May will be another important step in translating this approach into concrete growth-friendly policies."

Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: "The European economy is enjoying its brightest spring in several years, with the upturn supported by both external factors and policy measures that are beginning to bear fruit. But more needs to be done to ensure this recovery is more than a seasonal phenomenon. Delivering on investment and reforms and sticking to responsible fiscal policies are key to obtaining the lasting jobs and growth Europe needs."

Economic growth uneven across countries

All countries in the EU are set to gain from these positive tailwinds. However, the extent to which each economy benefits will depend on its responsiveness to lower oil prices and the depreciation of the euro in particular. The ECB´s quantitative easing is likely to have a higher impact in countries with previously tight financing conditions. In some Member States, however, relatively low capital buffers and high levels of non-performing loans may reduce the positive impact of quantitative easing on bank lending.

Inflation is expected to remain close to zero in the first half of 2015, mainly due to the effects of the fall in energy prices. Consumer prices should, however, pick up in the second half of the year and even more so in 2016 as domestic demand strengthens, output gaps narrow, the effects of lower commodity prices fade, and the depreciation of the euro triggers higher import prices. Annual inflation in both the EU and the euro area is expected to rise from 0.1 % this year to 1.5 % in 2016.

Employment growth is benefiting from strengthening economic activity. Unemployment, though on a declining path, still remains high. Unemployment in the EU and in the euro area is expected to fall this year to 9.6 % and 11.0 % respectively, as improvements in the labour market spread across sectors. With economic growth expected to strengthen further in 2016, the trend should continue, particularly in countries which have recently implemented labour market reforms. In 2016, unemployment is set to fall to 9.2 % in the EU and 10.5 % in the euro area.

The fiscal outlook in the EU and the euro area continues to improve, thanks to the adjustment efforts of recent years, stronger economic activity and lower interest payments on outstanding public debt. Even with a broadly neutral fiscal stance on aggregate, the deficit-to-GDP ratio of the EU is expected to fall from 2.9% in 2014 to 2.5 % this year and 2.0 % next year. In the euro area, it is forecast to decline from 2.4% in 2014 to 2.0 % in 2015 and 1.7 % in 2016. The public debt-to-GDP ratio in both areas is expected to have peaked in 2014 and to decline this year and next to reach 88.0% in the EU and 94.0 % in the euro area in 2016.

The level of uncertainty surrounding the economic outlook remains high, but overall risks to the outlook appear broadly balanced. GDP growth could turn out stronger than expected if tailwind factors last for longer or prove stronger than anticipated. GDP growth, however, could disappoint if geopolitical tensions rise, or if there is financial market stress, for instance as a result of the normalisation of monetary policy in the United States. Risks to the inflation outlook have declined in response to the ECB´s quantitative easing and in response to the upward revisions to the growth outlook.

Article online:
https://www.uspa24.com/bericht-4038/tailwinds-support-the-recovery-in-europe.html

Editorial office and responsibility:
V.i.S.d.P. & Sect. 6 MDStV (German Interstate Media Services Agreement): Jose A. Martin

Editorial program service of General News Agency:
United Press Association, Inc.
3651 Lindell Road, Suite D168
Las Vegas, NV 89103, USA
(702) 943.0321 Local
(702) 943.0233 Facsimile
info@unitedpressassociation.org
info@gna24.com
www.gna24.com