



Economic situation and outlook

EUROPE: THE OPPORTUNITY FOR GLOBAL INVESTORS

Dubai, 1st May 2024

**#EURO
at 25**

*Reinhard Felke
European Commission / DG ECFIN*



Key messages



The global economy has turned the curve: “*steady but slow*” (IMF)



The EU economy is bound to resume growth



Inflation is returning to target



The EU economy has shown remarkable resilience in the face of unprecedented shocks



The new fiscal rules provide a robust framework to balance EU’s growth and sustainability challenges.

Outline

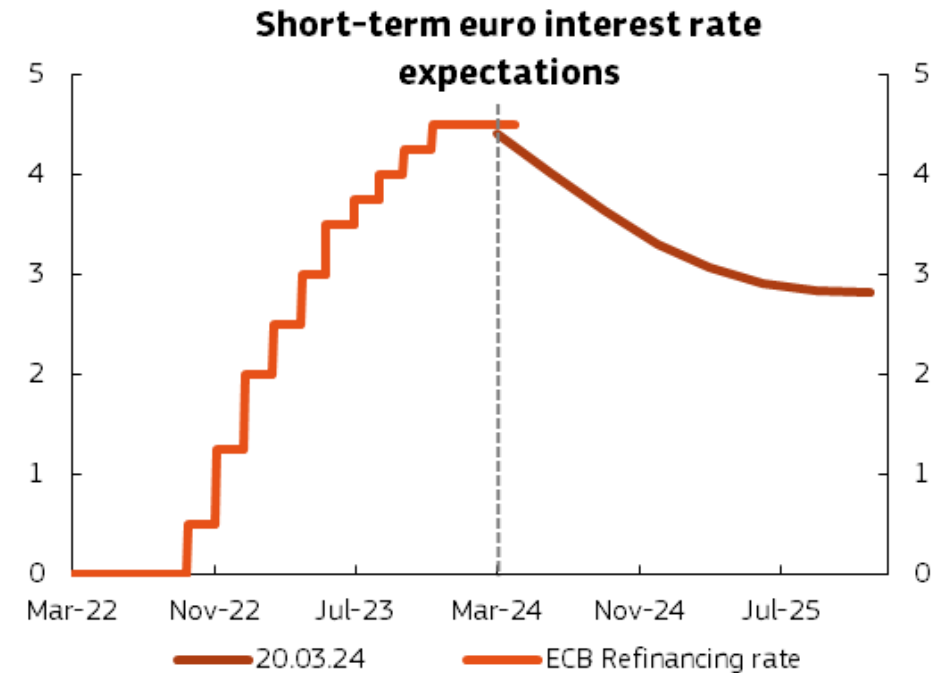
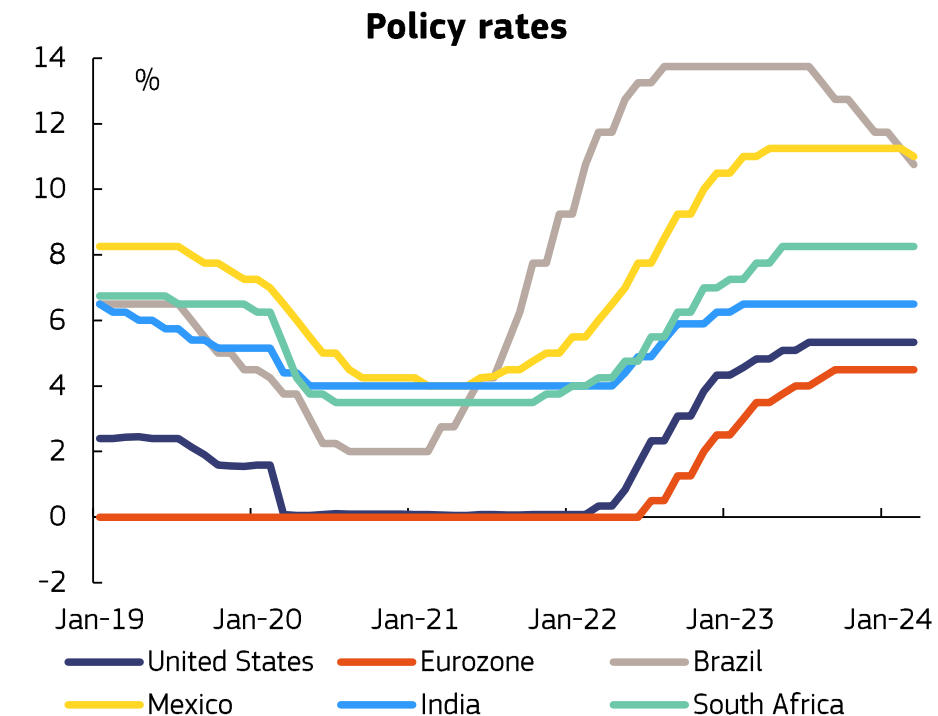
Global and EU economic outlook

Structural features of EU resilience

A new fiscal governance framework

Global and EU economic outlook

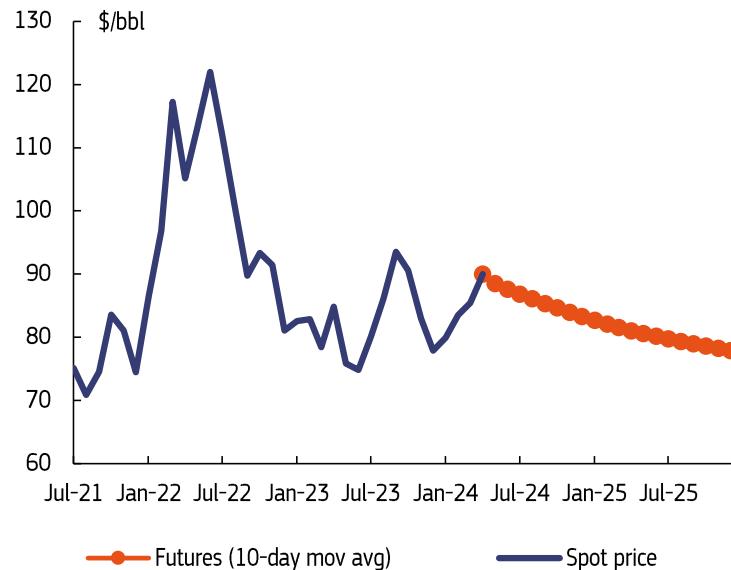
The synchronised monetary policy cycle is about to turn



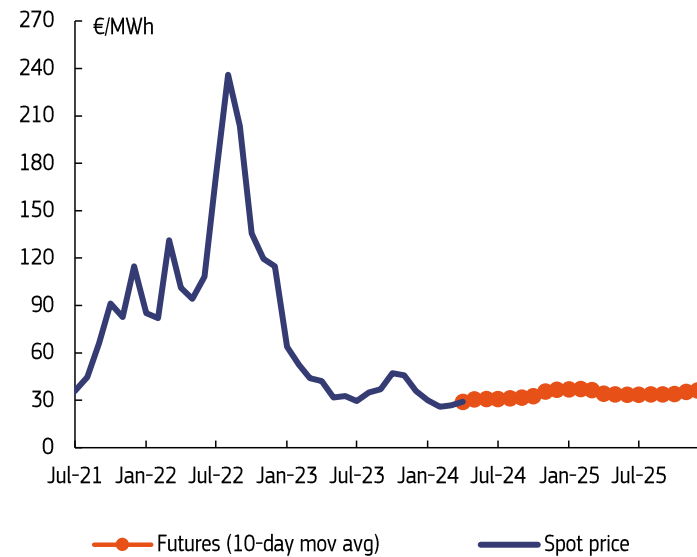
Note: Expectations based on future contracts for 3 months Euribor.
Source: IHS Markit, Refinitiv, Bloomberg, ECB.

Energy price expectations moved significantly lower since their peak in 2022

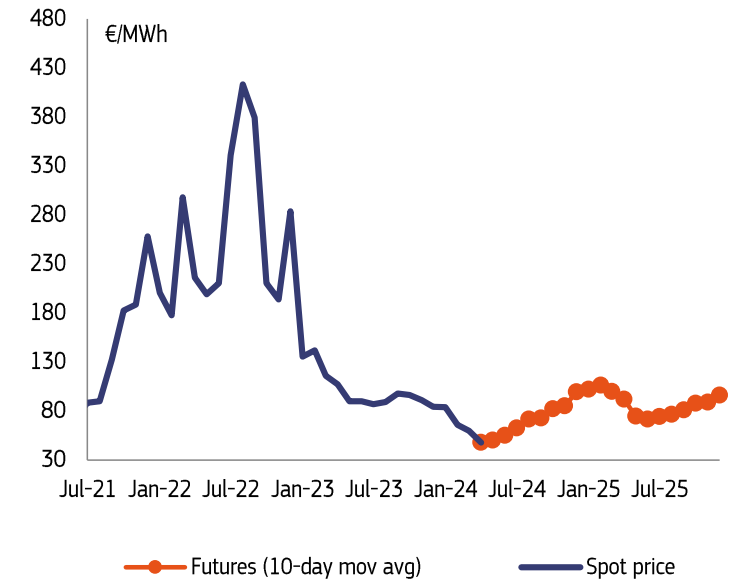
Brent oil



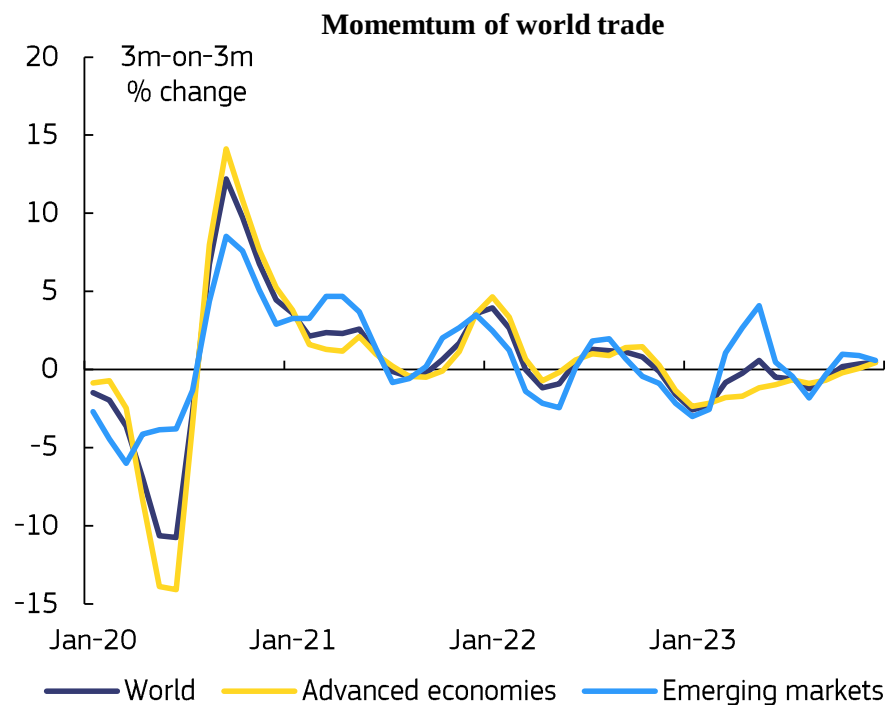
Natural gas (TTF)



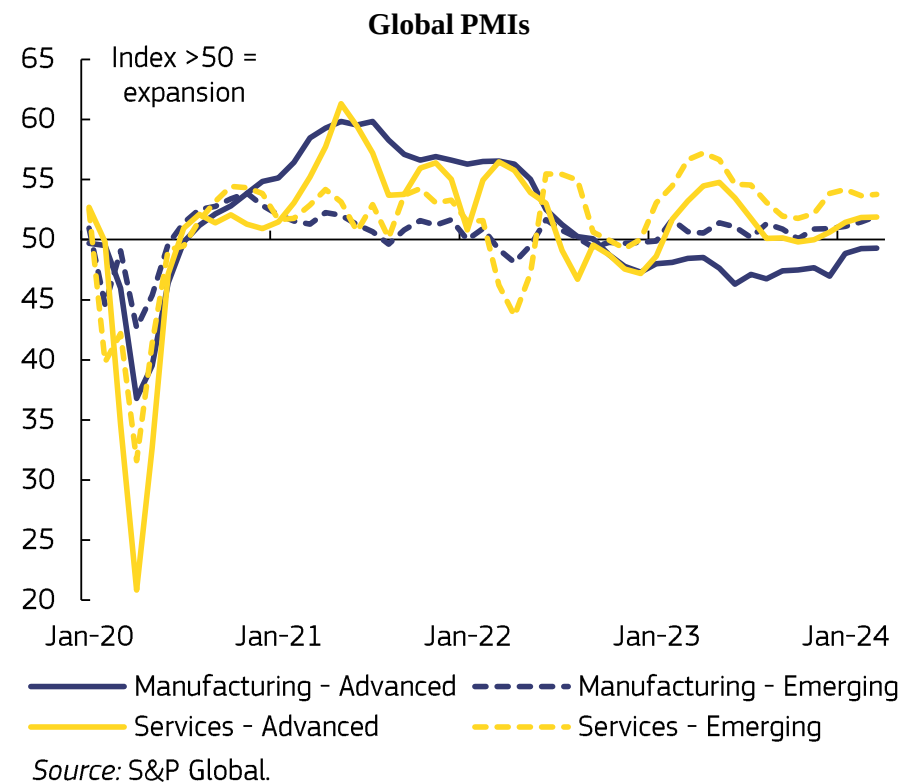
Electricity



Global growth « *steady but slow* », global trade recovers

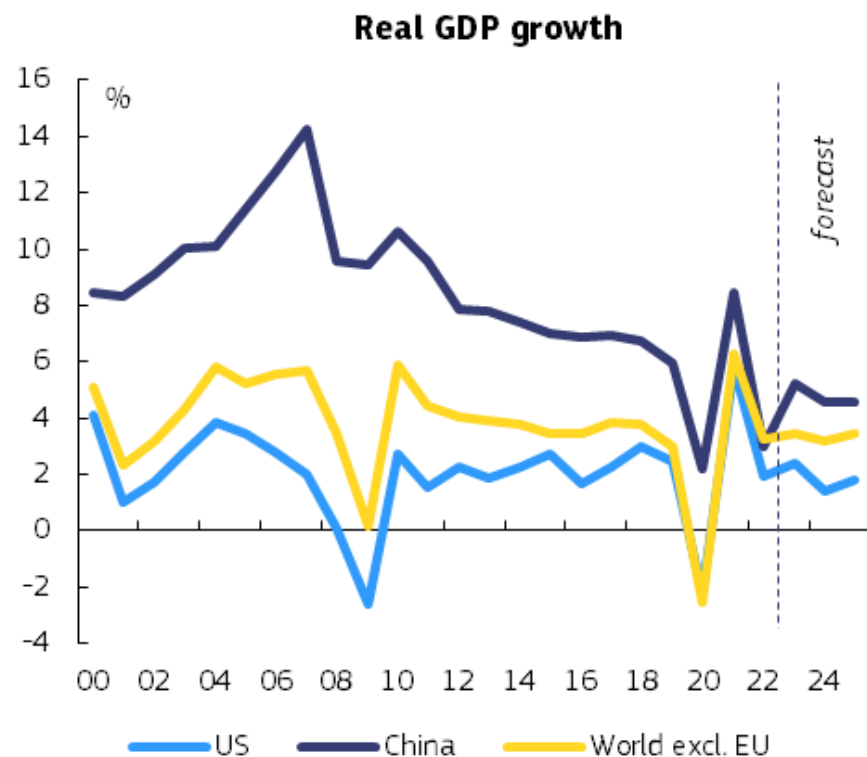


Source: Own calculation based on CPB data.

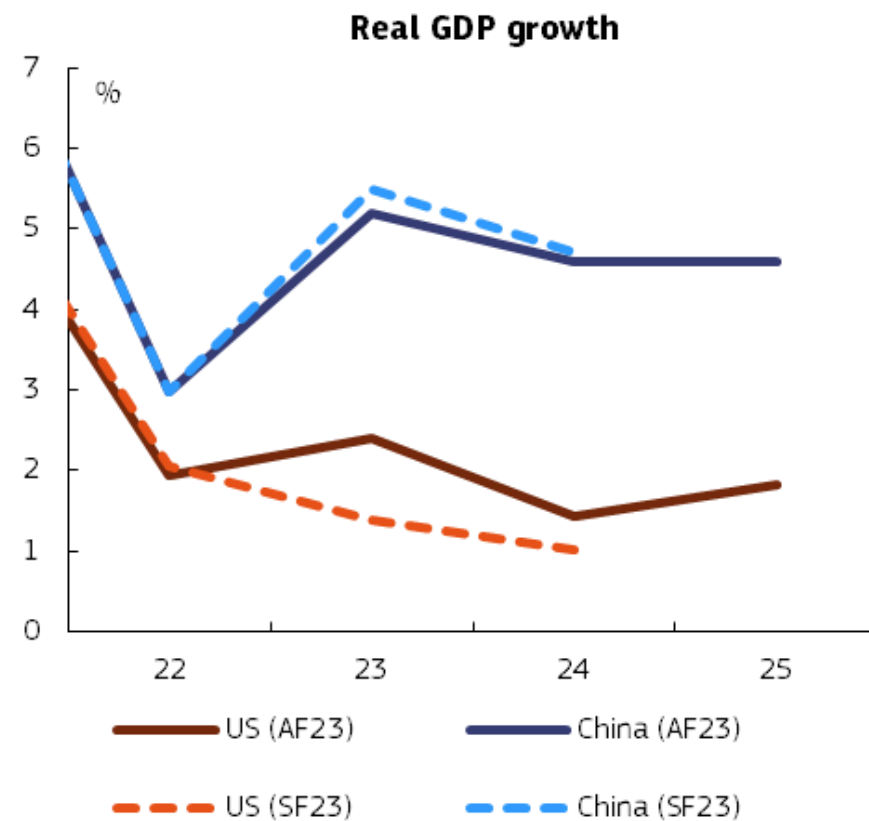


Source: S&P Global.

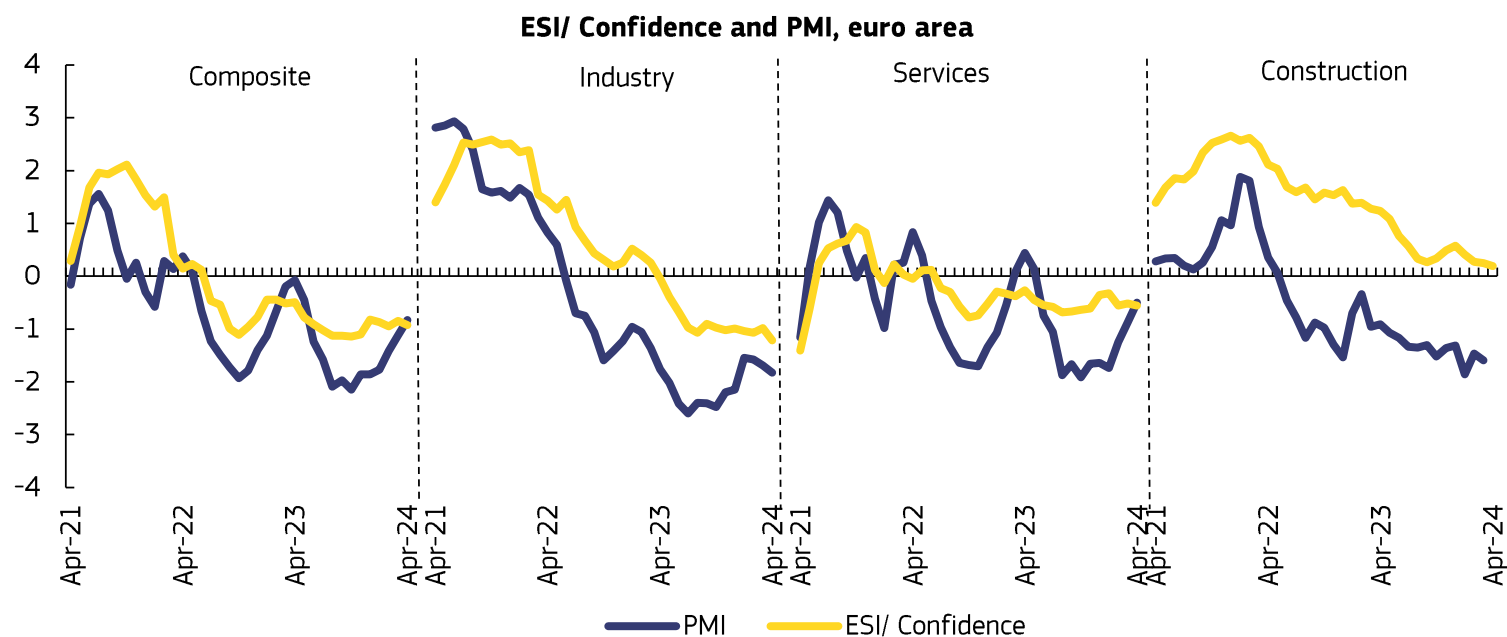
US growth surprised on the upside last year



Source: European Commission AF23.



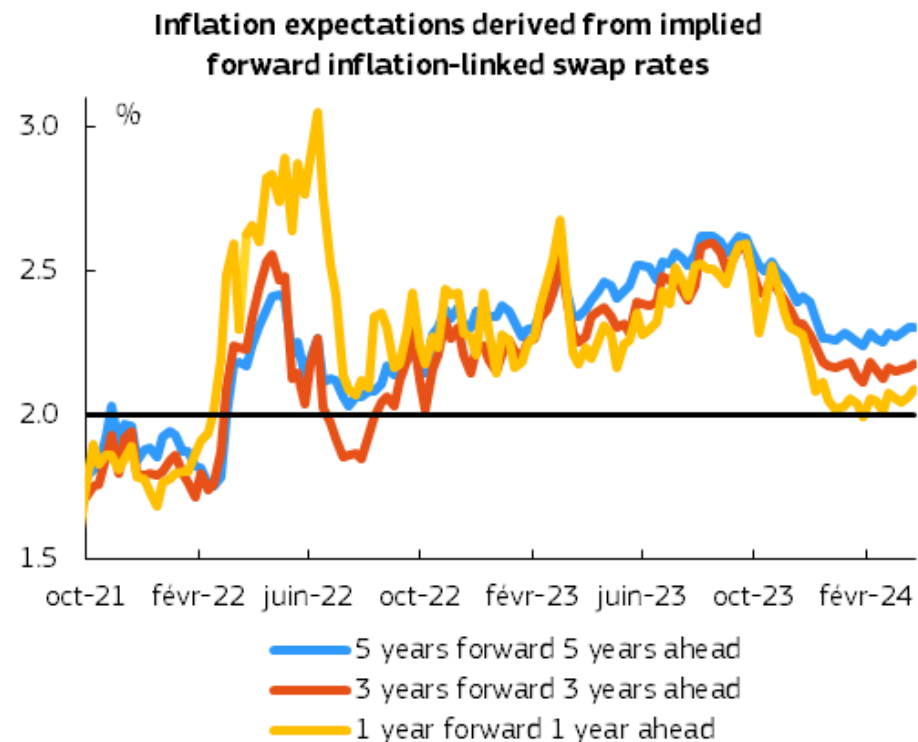
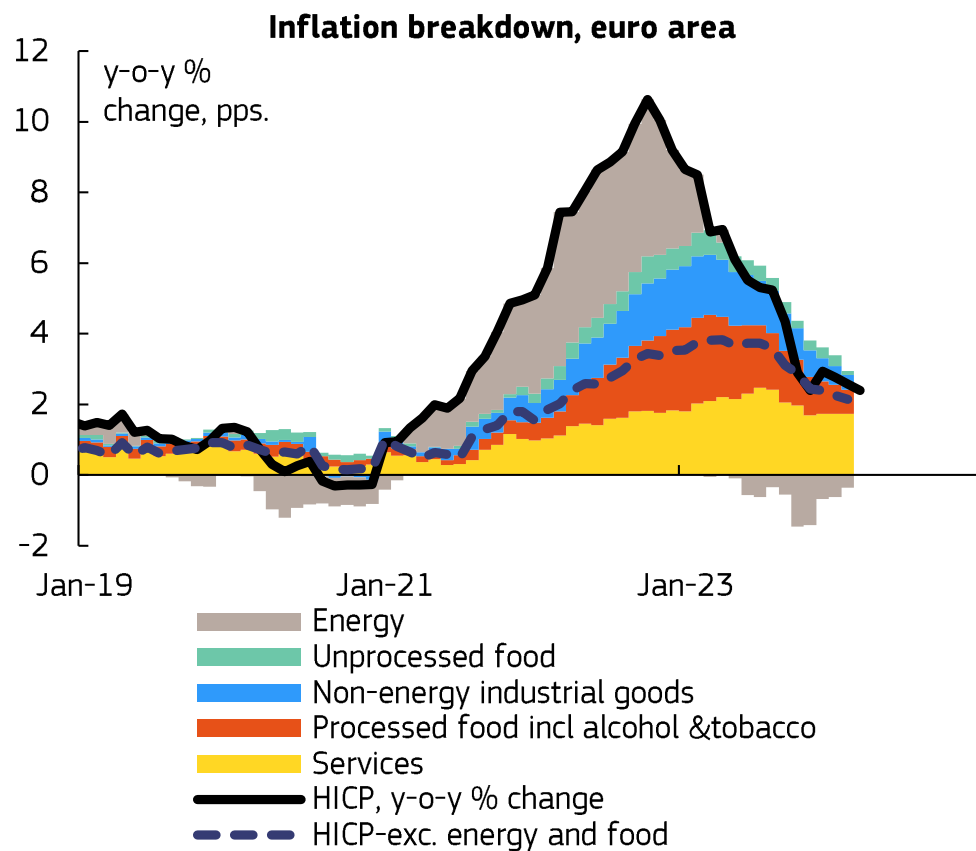
The latest confidence indicators for the EU point to improving outlook



Source: S&P Global, European Commission.

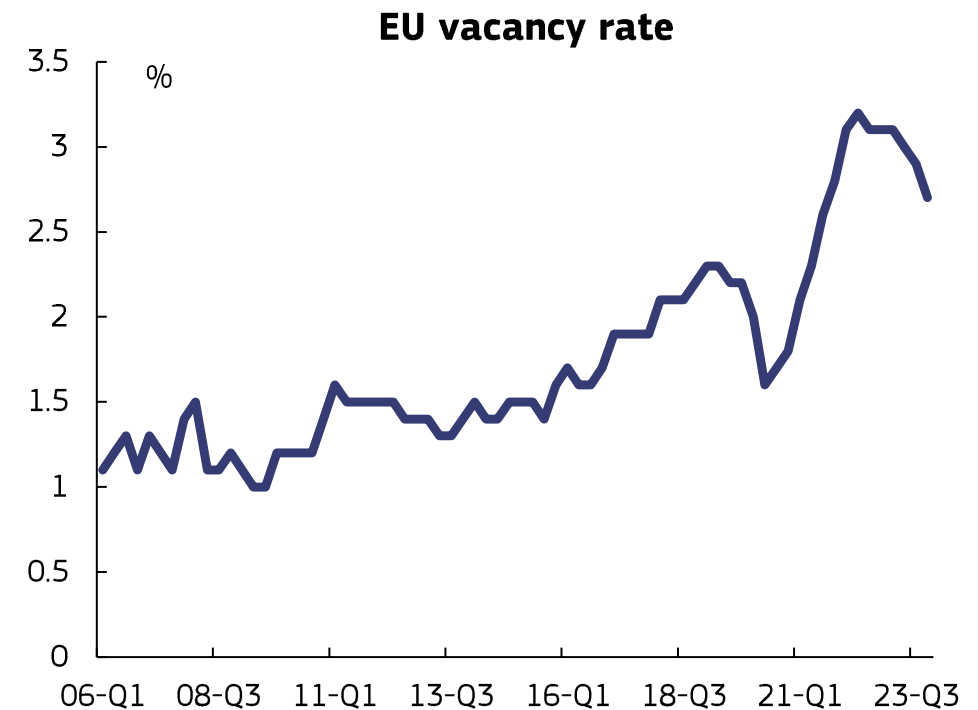
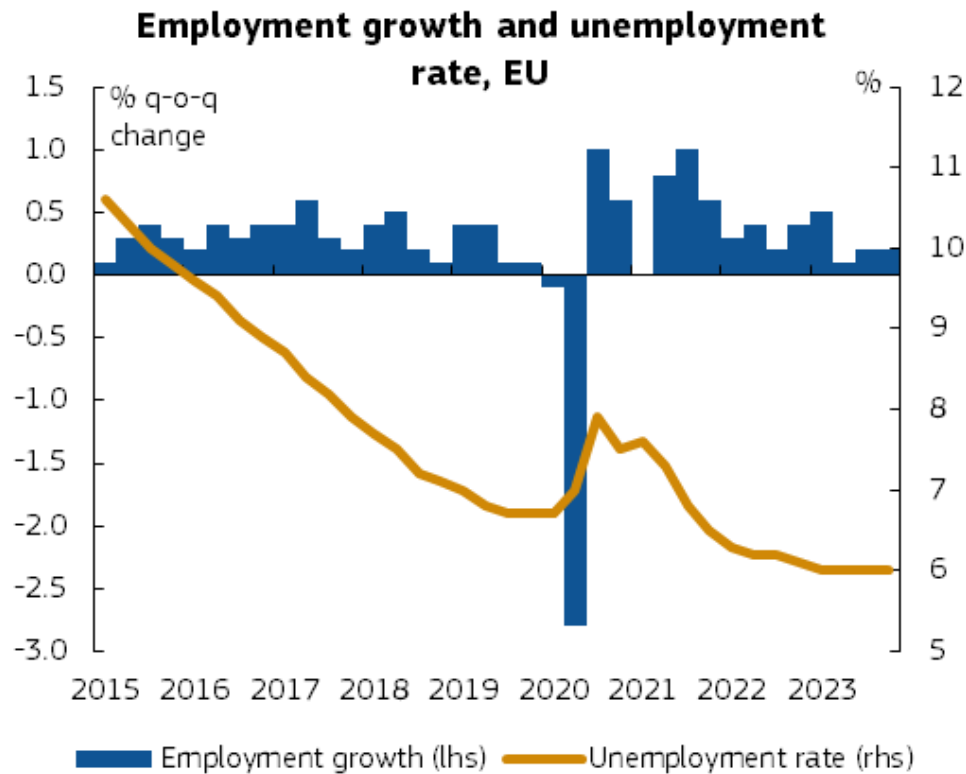
Note: Standardised data based on 2000-'07 sample.

Consumer inflation continues to ease amidst well anchored inflation expectations

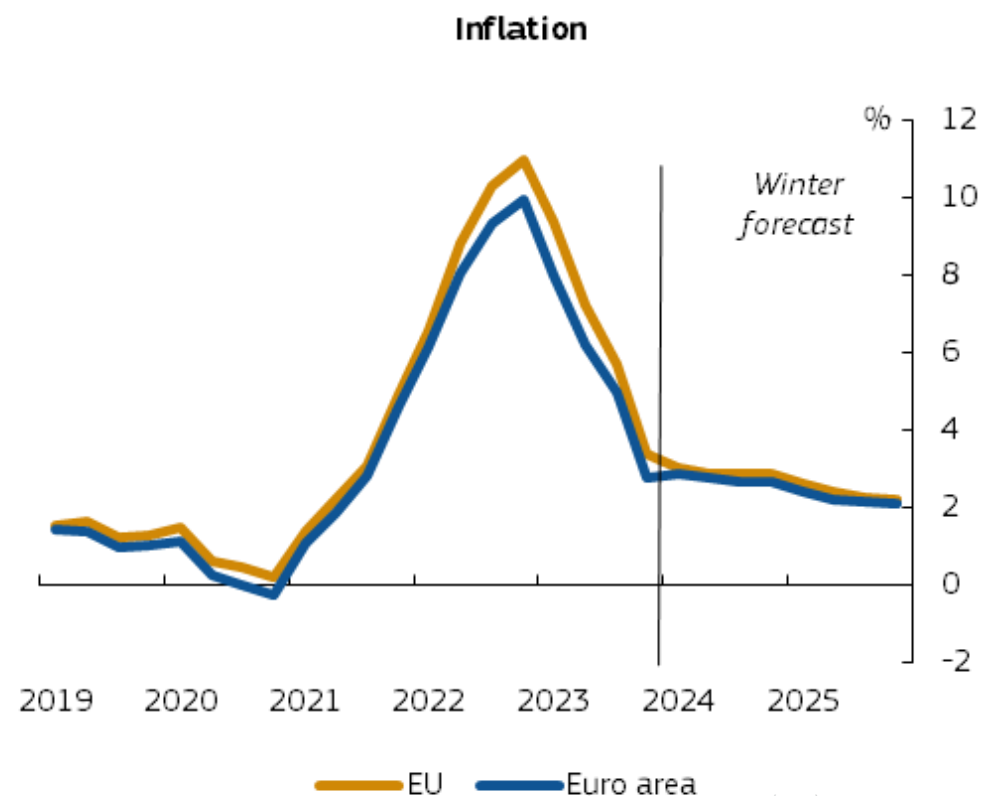
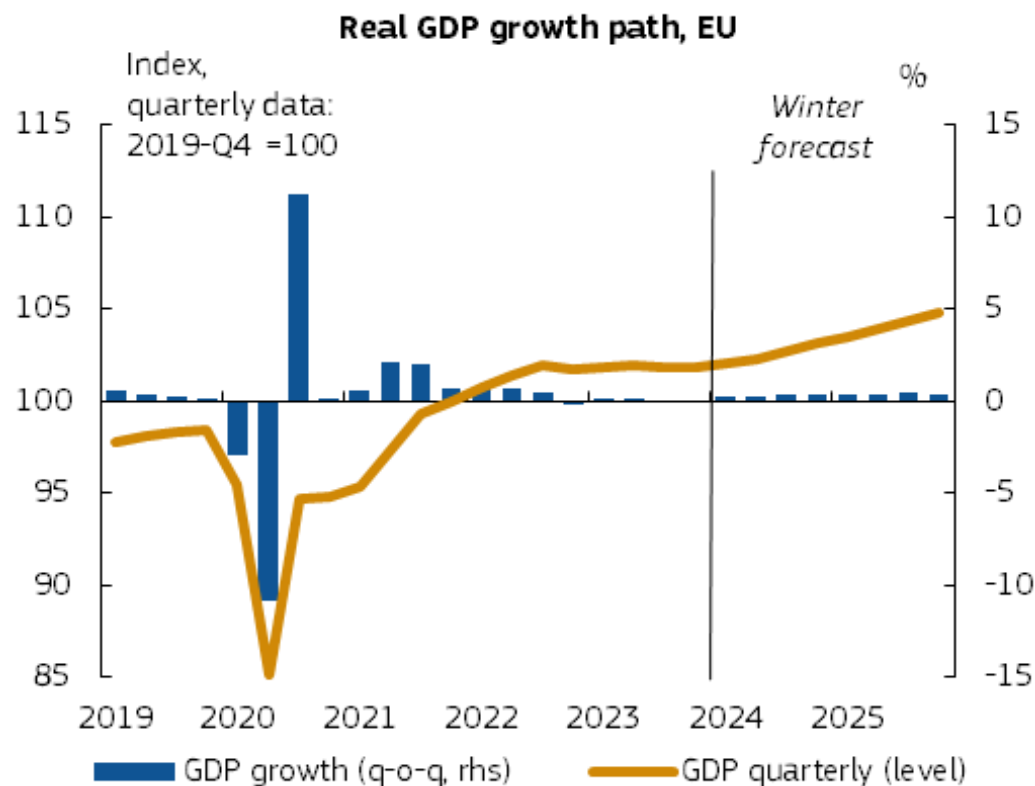


Source: Bloomberg

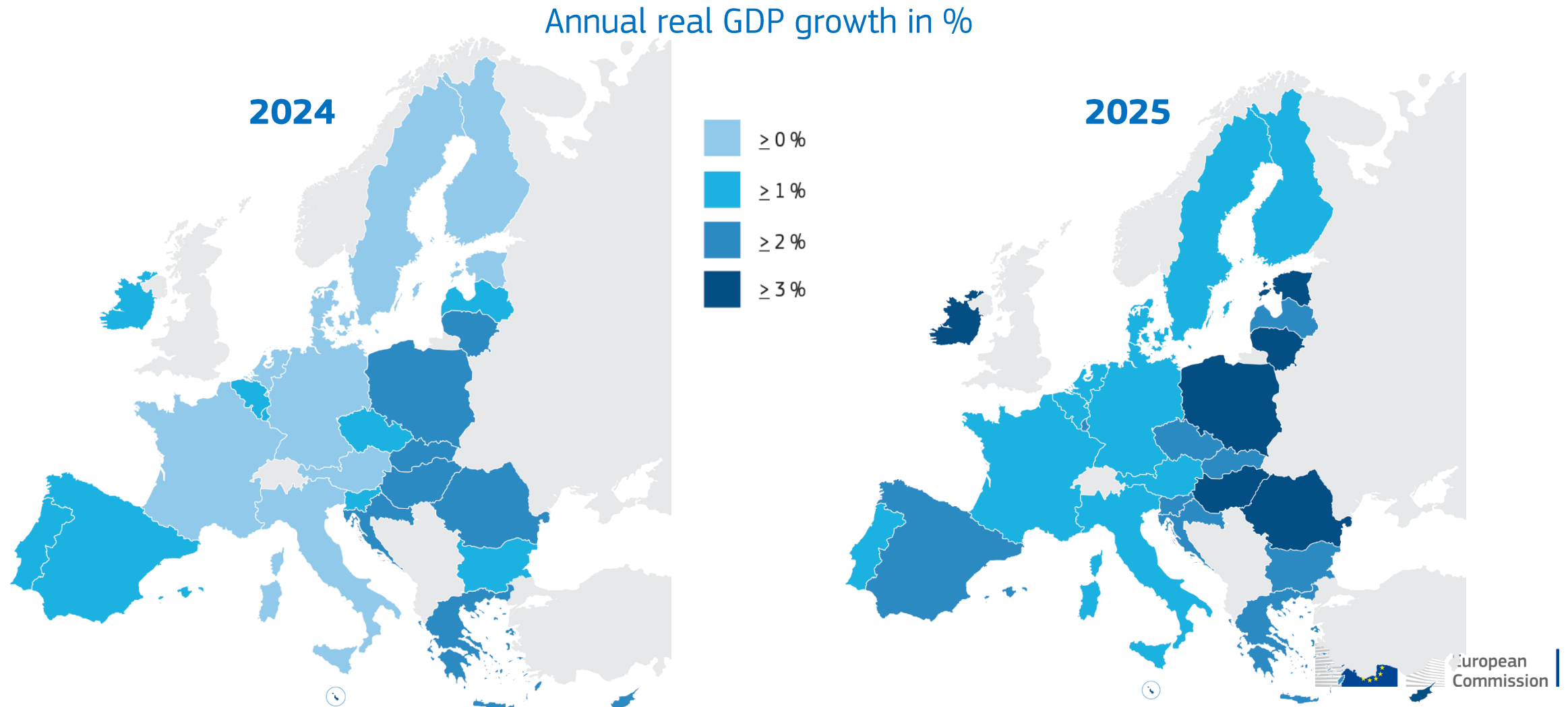
The labour market is particularly strong in the EU



The EU economy is expected to rebound this year and next while inflation is set to converge towards the ECB target

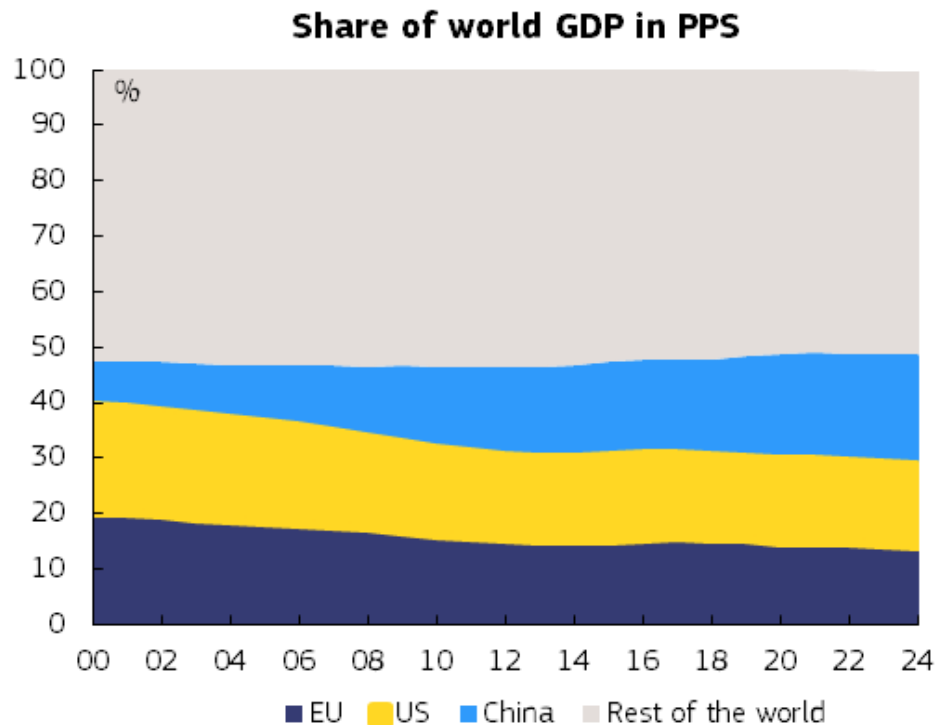


Expansion expected in all Member States; the Eastern bloc still catching up

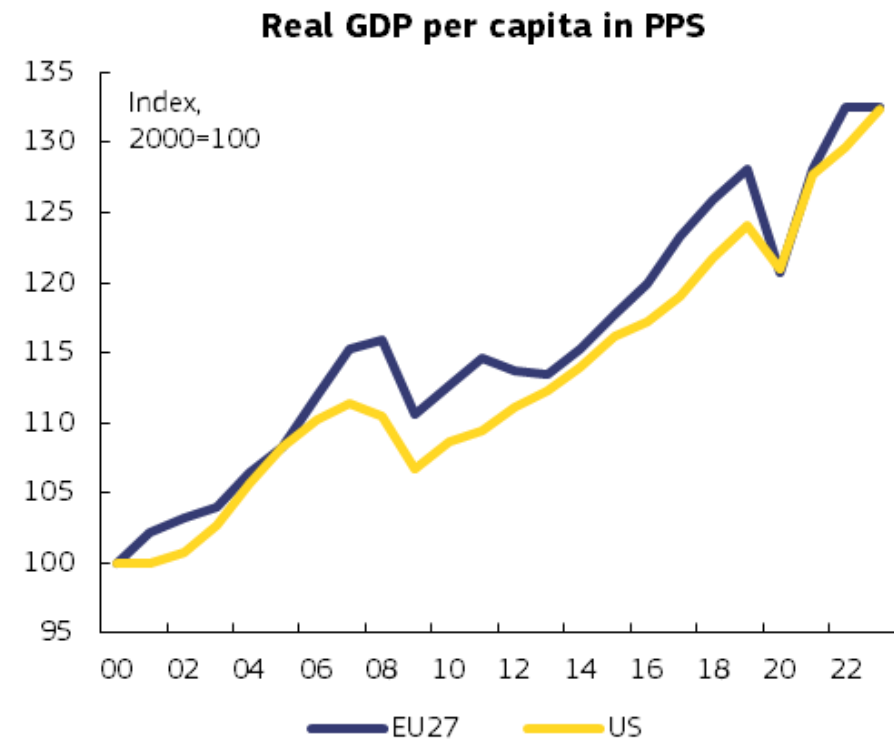


Structural features of EU resilience

The EU and the US have similar evolutions in GDP per capita, once adjusted by purchasing power

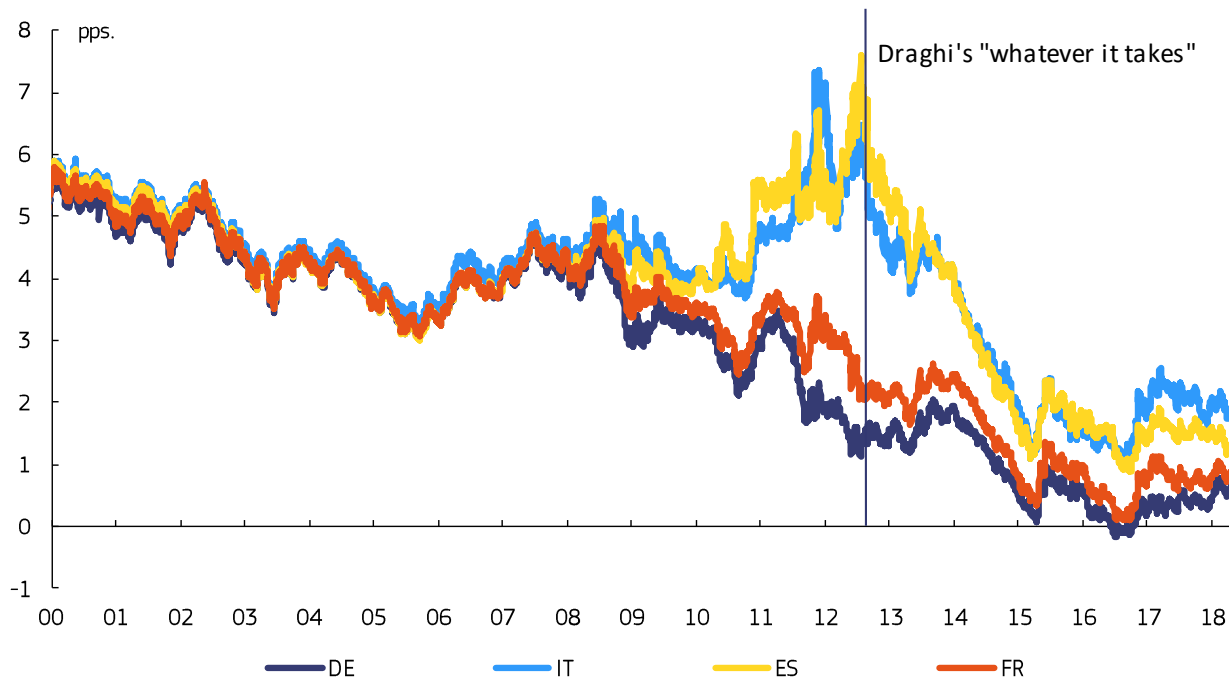


Source: IMF.

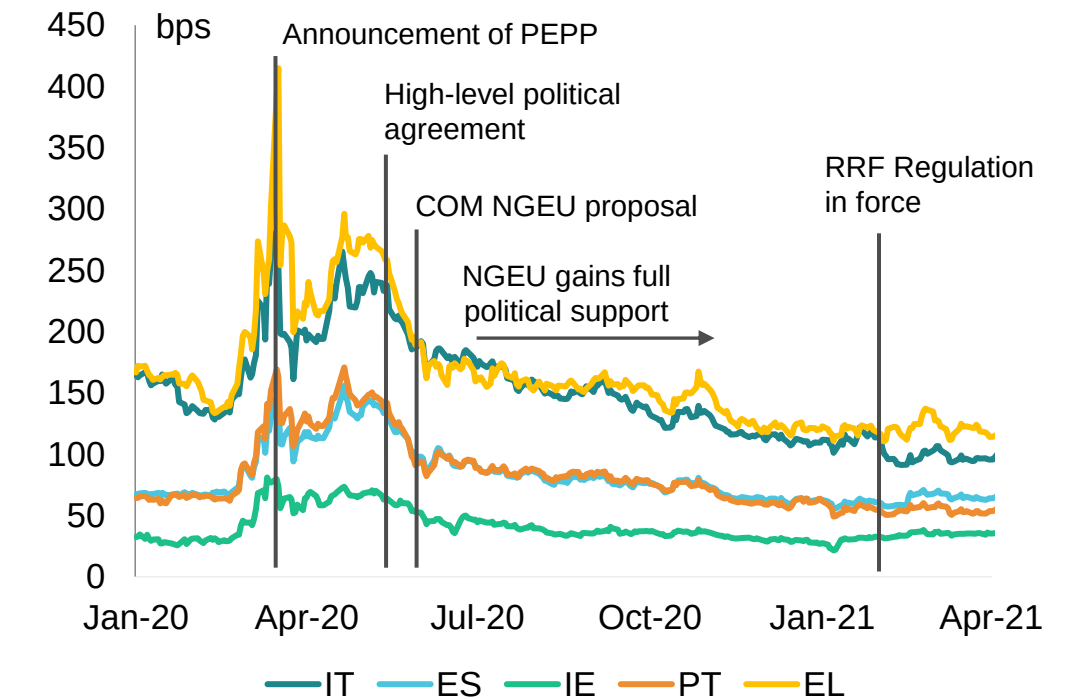


EU policies proved effective to ensure reconvergence within the euro area

Sovereign bond yields in the euro area



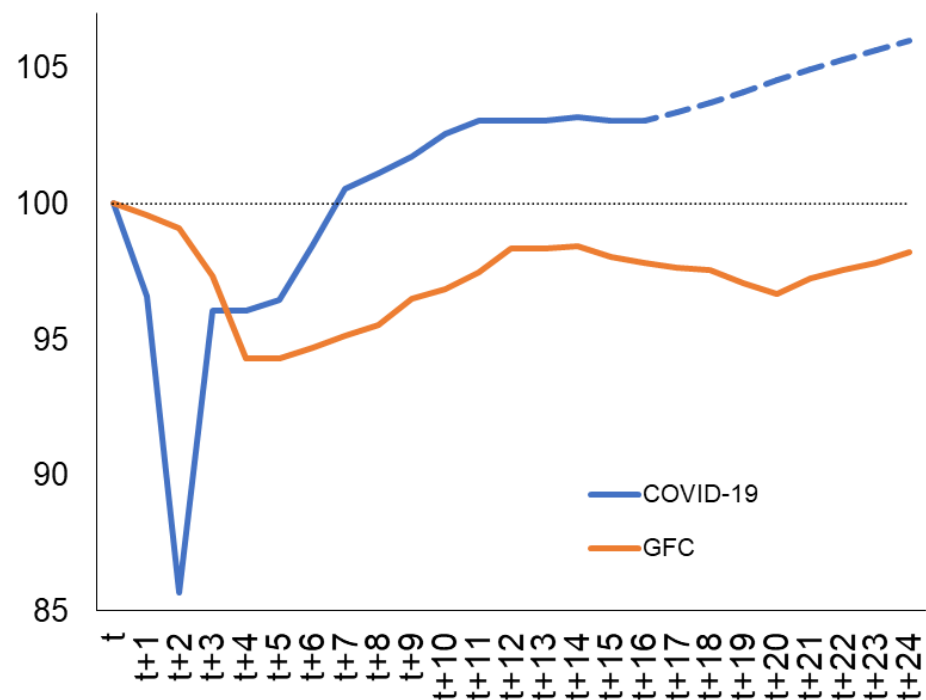
Sovereign spreads



Source: Bloomberg

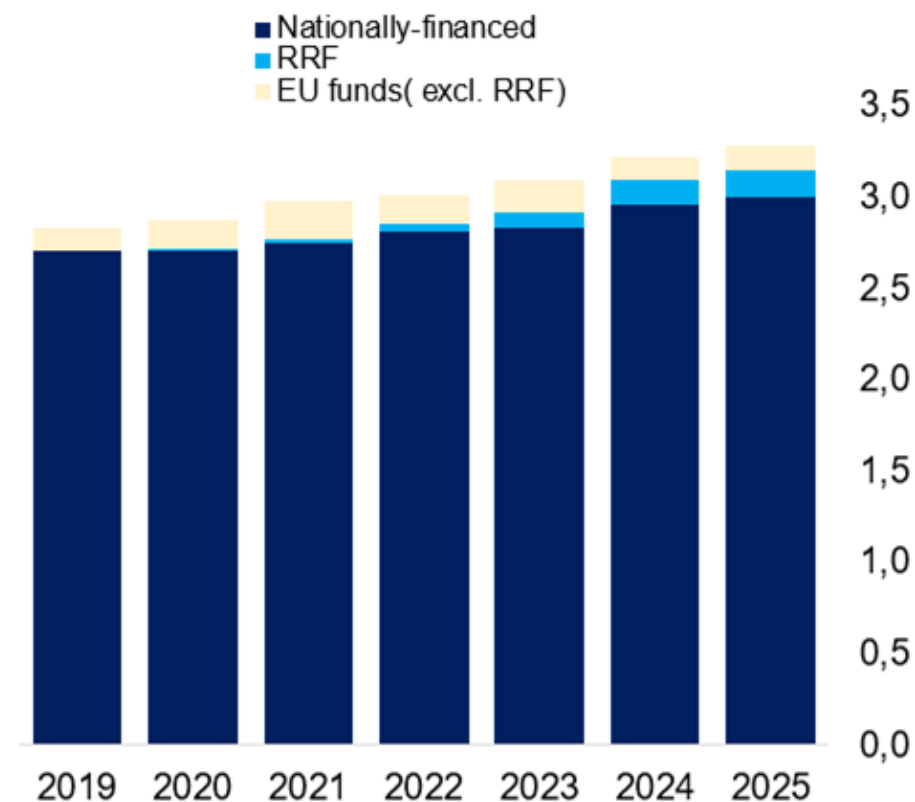
The RRF supports the EU economic recovery

GDP growth in the euro area following the COVID-19 crisis and Great Financial Crisis



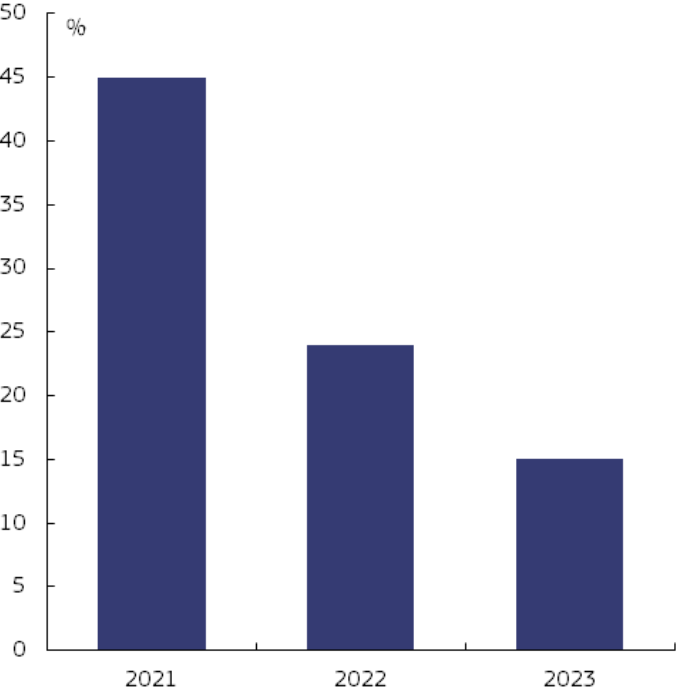
Note: The starting point (t) is equal to 2008Q1 for the GFC and 2019Q4 for the COVID-19 Crisis.
Source: Eurostat and Commission's Forecast

EU/RRF supported public investment

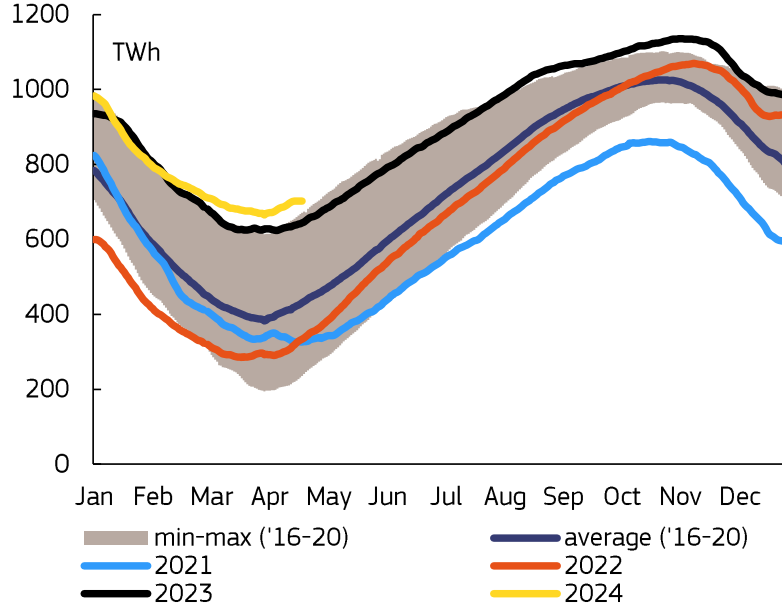


Private sector adjustment and public policies lessened EU's gas dependence on Russia

Diversifying energy supplies:
share of Russian gas imports

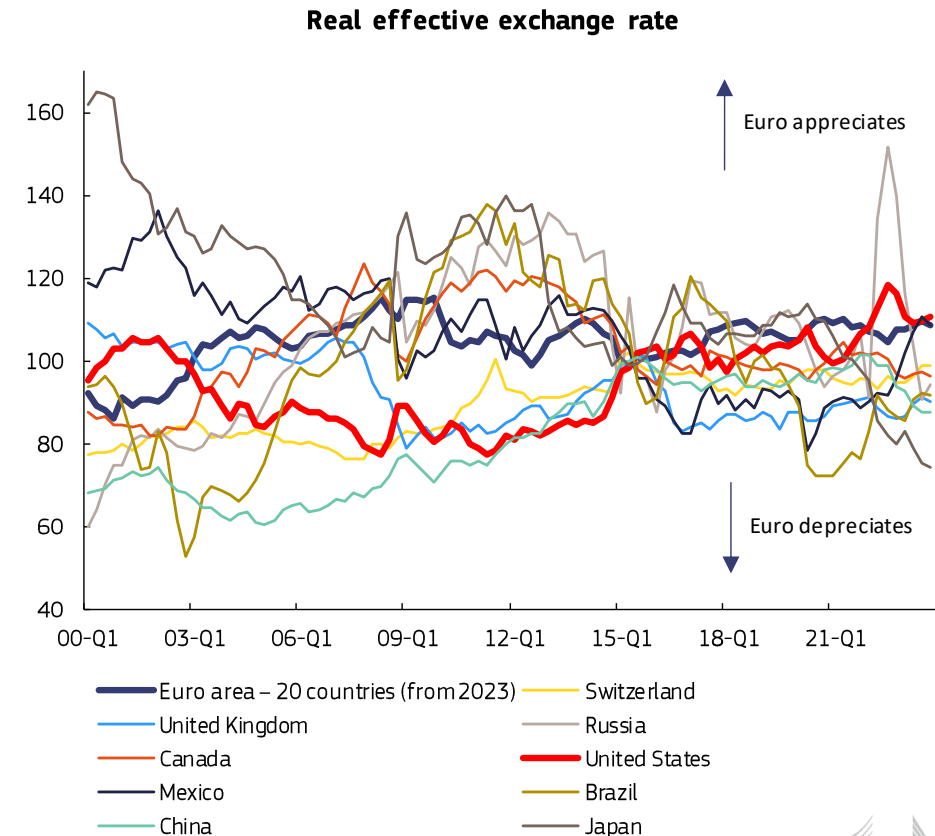
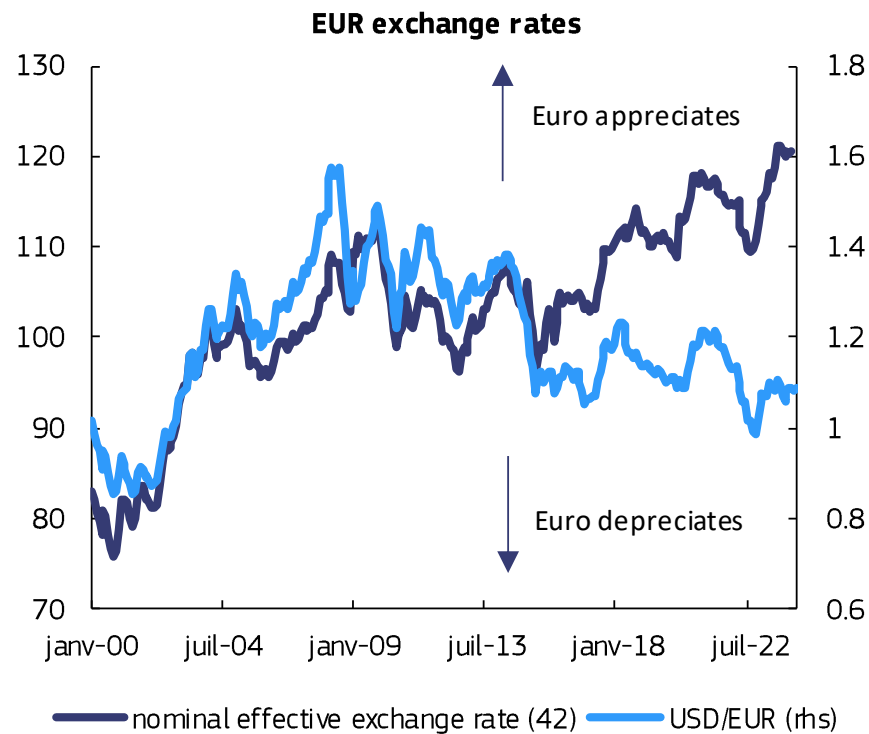


Gas storage levels



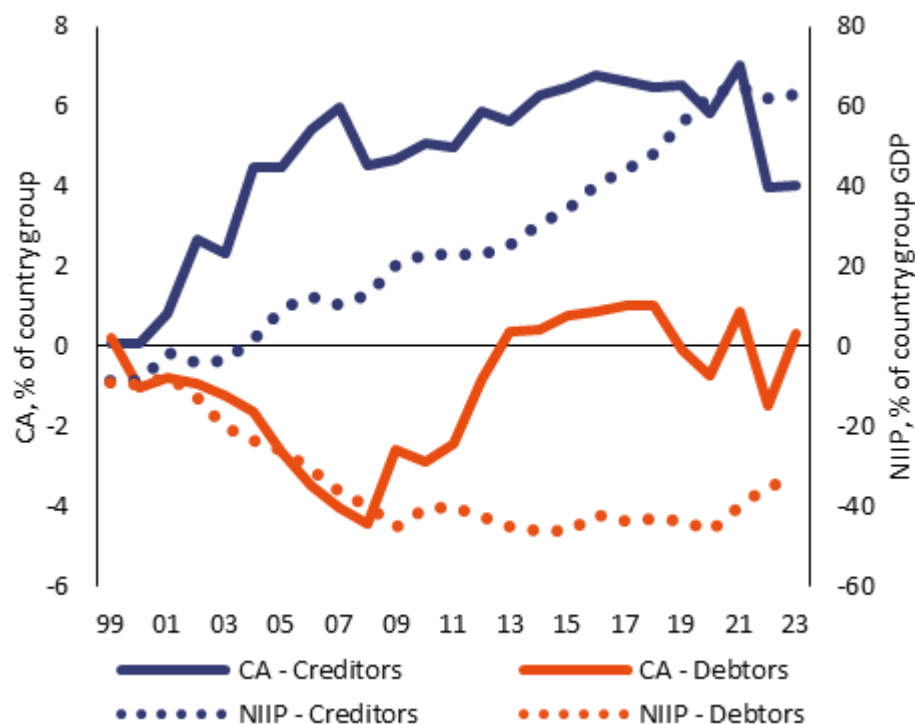
Source: Gas Infrastructure Europe.

The euro is a stable currency that broadly appreciated against a basket of global currencies

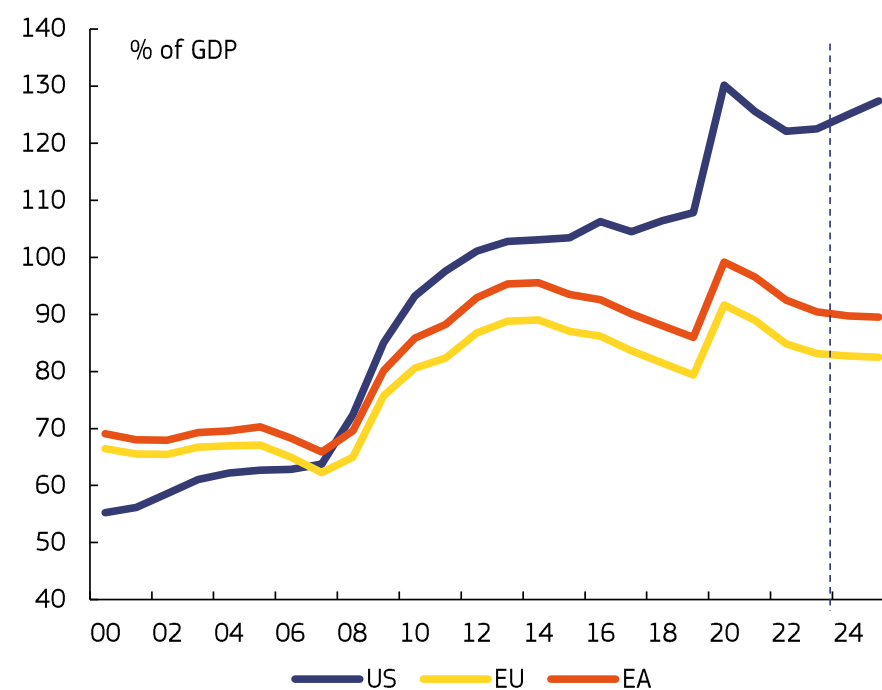


Strong and improving external position; gradually declining public debt

Current account and net international investment position



Public debt



Note: Based on AF23.

A new fiscal governance framework

A new fiscal governance framework

- 1. Medium-term fiscal structural plans** (4-year horizon), proposed by Member States but framed by EU requirements.
- 2. A country-specific net expenditure path** as single operational fiscal indicator. It should ensure that debt converges to prudent levels, while strengthening counter-cyclicality.
- 3. Extended adjustment period** (up to 7 years) underpinned by a relevant set of reforms and investments.
- 4. Adjustment pace adapted to the level of risks** but with **common numerical safeguards**.
- 5. General and country-specific escape clauses** for extraordinary situations.
- 6. Enhanced enforcement.** Control account; credible opening of debt-based EDP; gradual sanctions.

Thank you

Links:

[DG ECFIN Website](https://commission.europa.eu/about-european-commission/departments-and-executive-agencies/economic-and-financial-affairs_en) : https://commission.europa.eu/about-european-commission/departments-and-executive-agencies/economic-and-financial-affairs_en

[Recovery and Resilience Facility](https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility_en) : https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility_en