



# **The EU economy** *Today and Tomorrow*

**Central Bank of Malta Public Lecture**  
**7 August 2018**

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**DG ECFIN**  
**European Commission**

## ***Overview***

**The EU in the global economy**

**Economic forecast**

**Narrative and current issues**

**Risks**

## EU as a key economic player

- *Outsize share in global trade (roughly one-third)*
- *Top 3 economic area by income (17% acc. to PPP, 22% acc. to exchange rates in 2015)*
- *Major source and destination for investment*
- *The euro became a global currency*

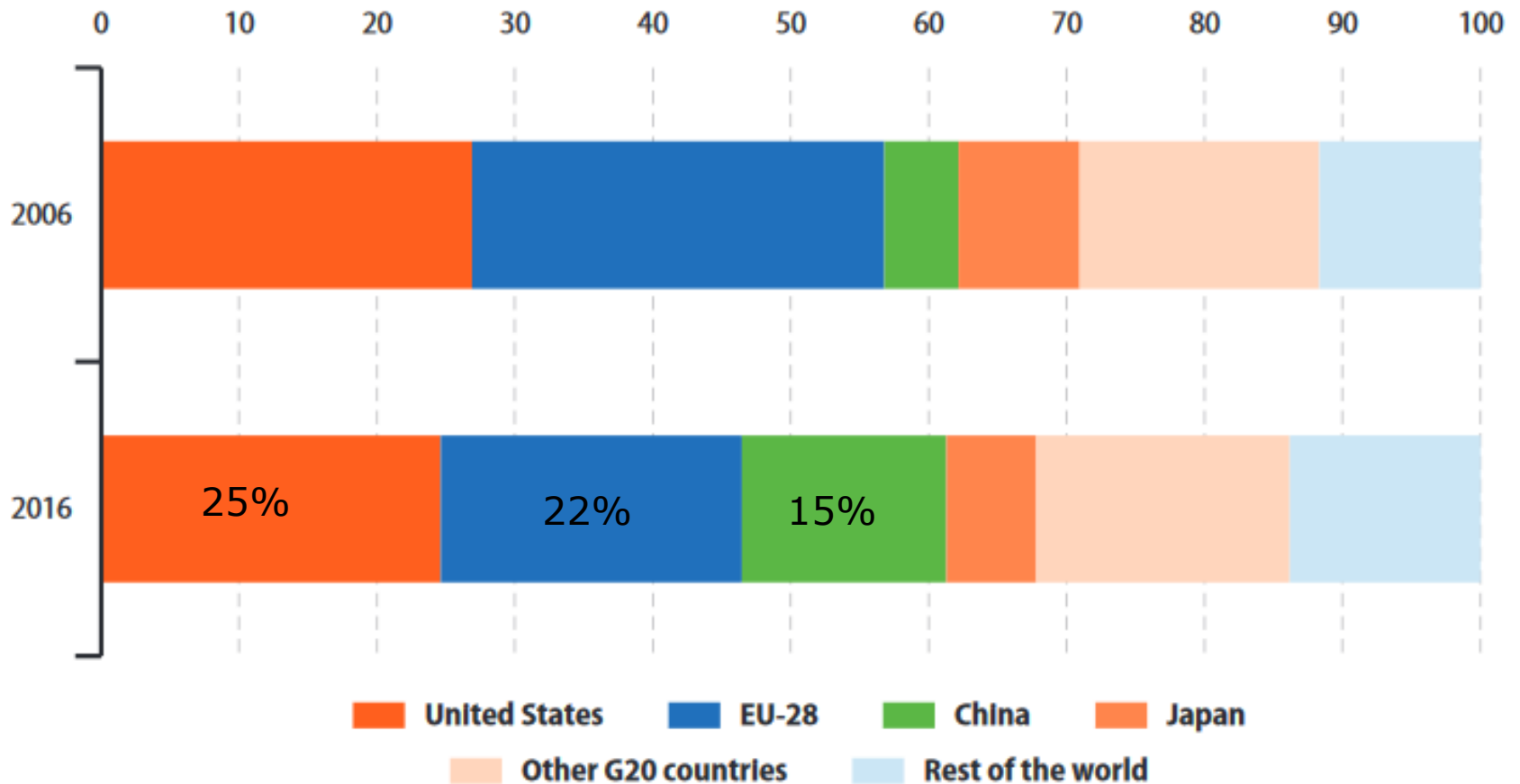
***Given its status in the global economy the EU has great interest in taking active part in global economic governance***

## EURO AS GLOBAL CURRENCY

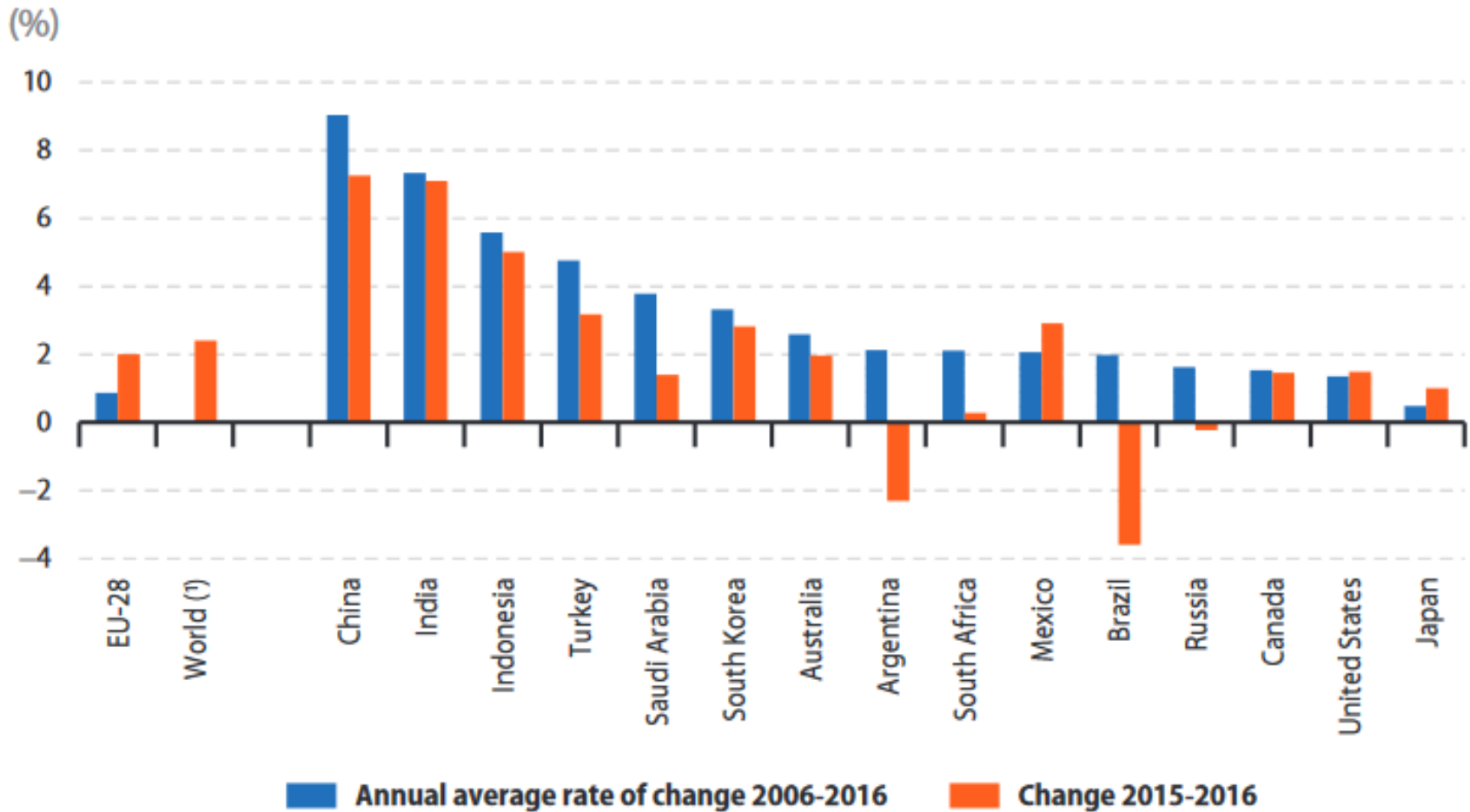


# EU share in world GDP

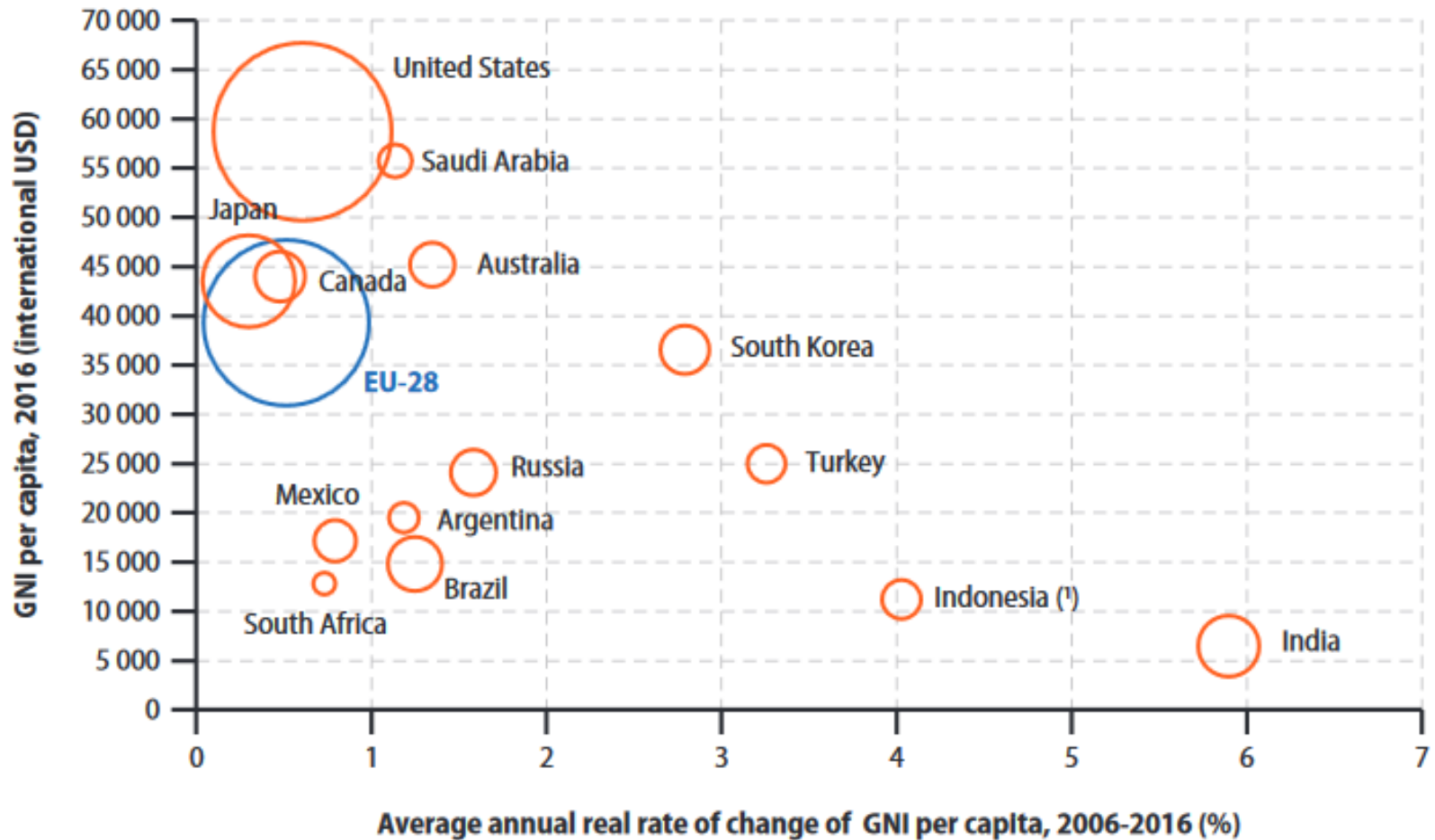
(% of world total)



## Real GDP growth, average

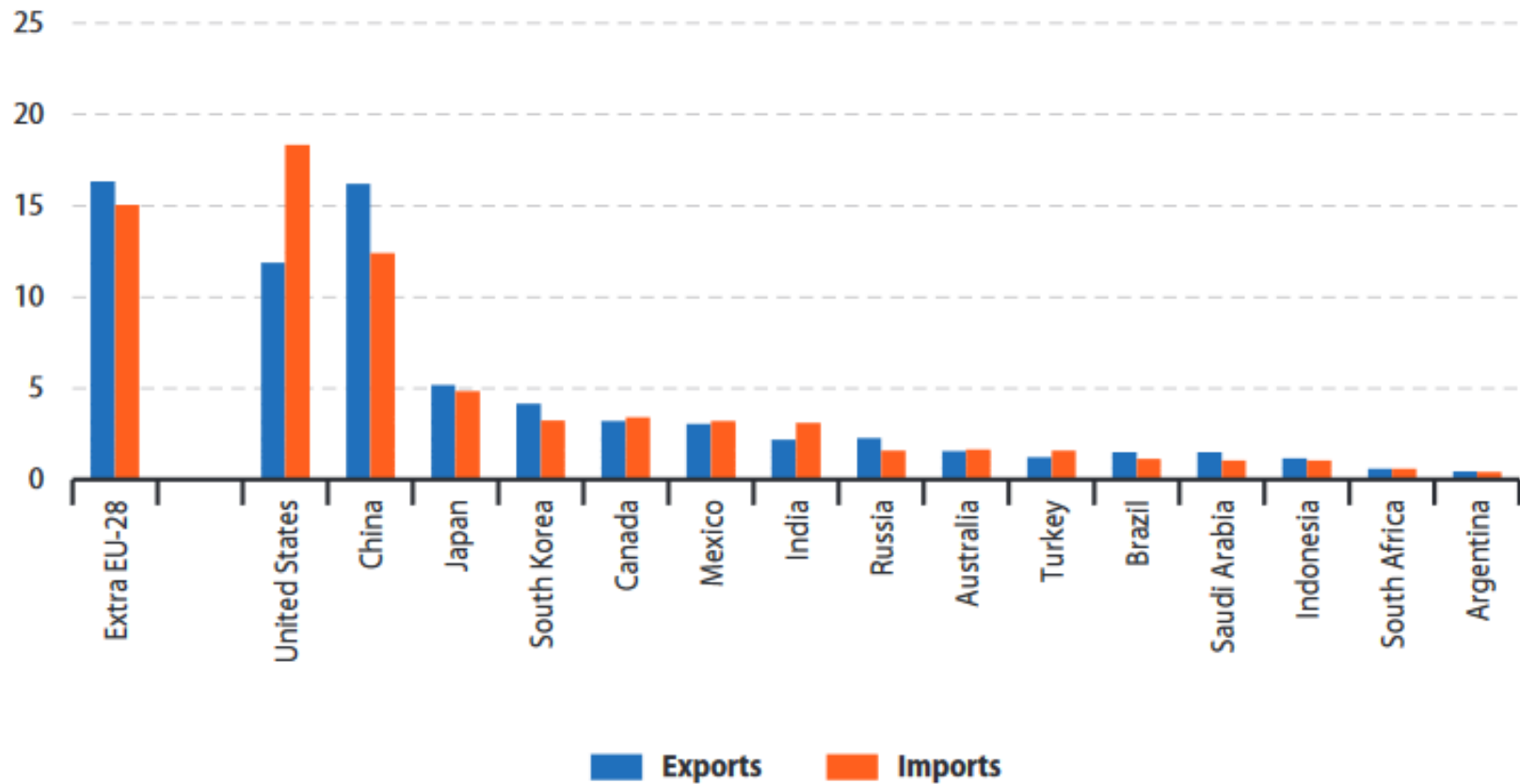


## GNI per capita and average growth, 2006-2016



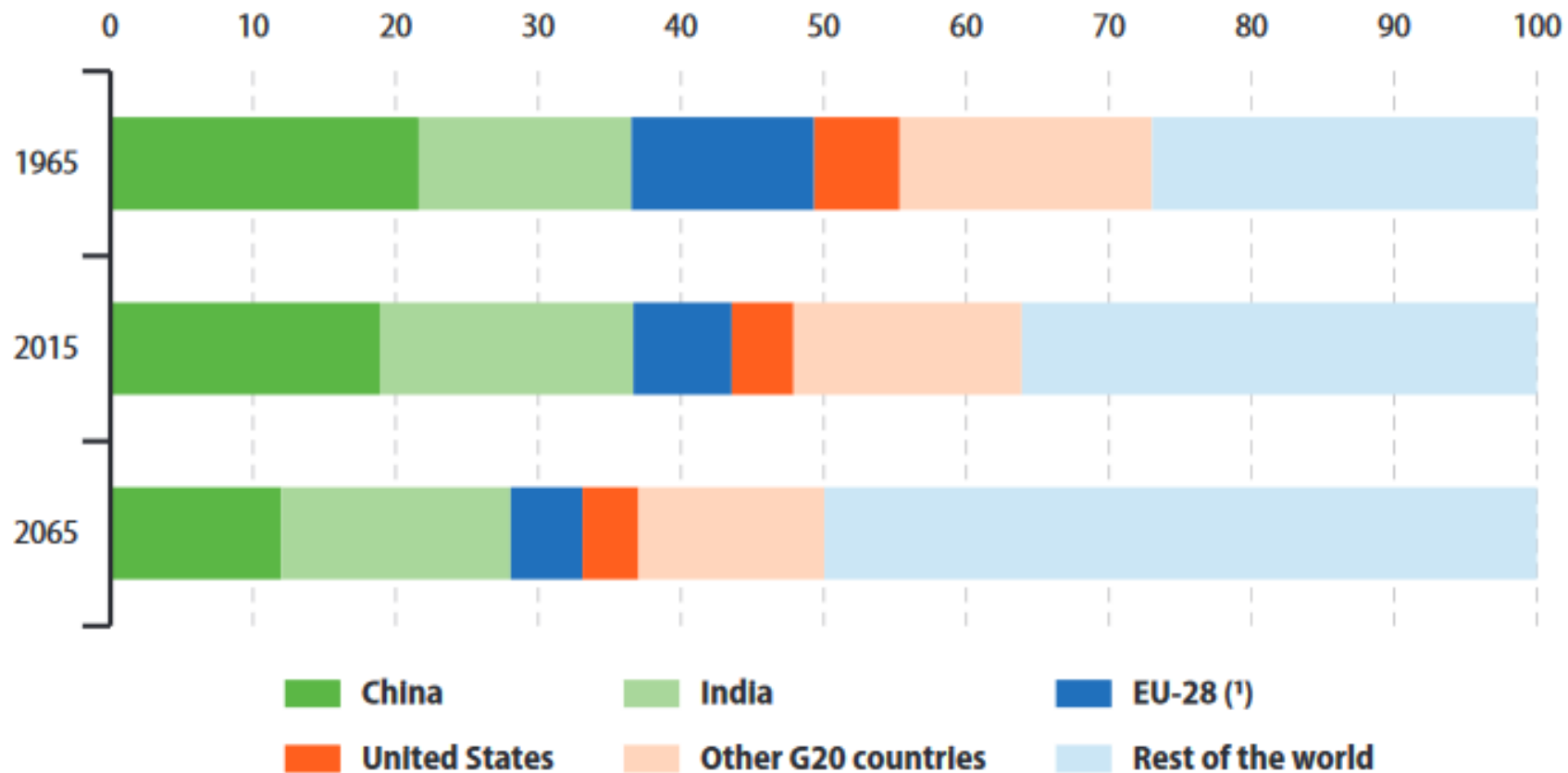
## Trade in goods, 2016

(% of world total)



## EU population as a % of world total

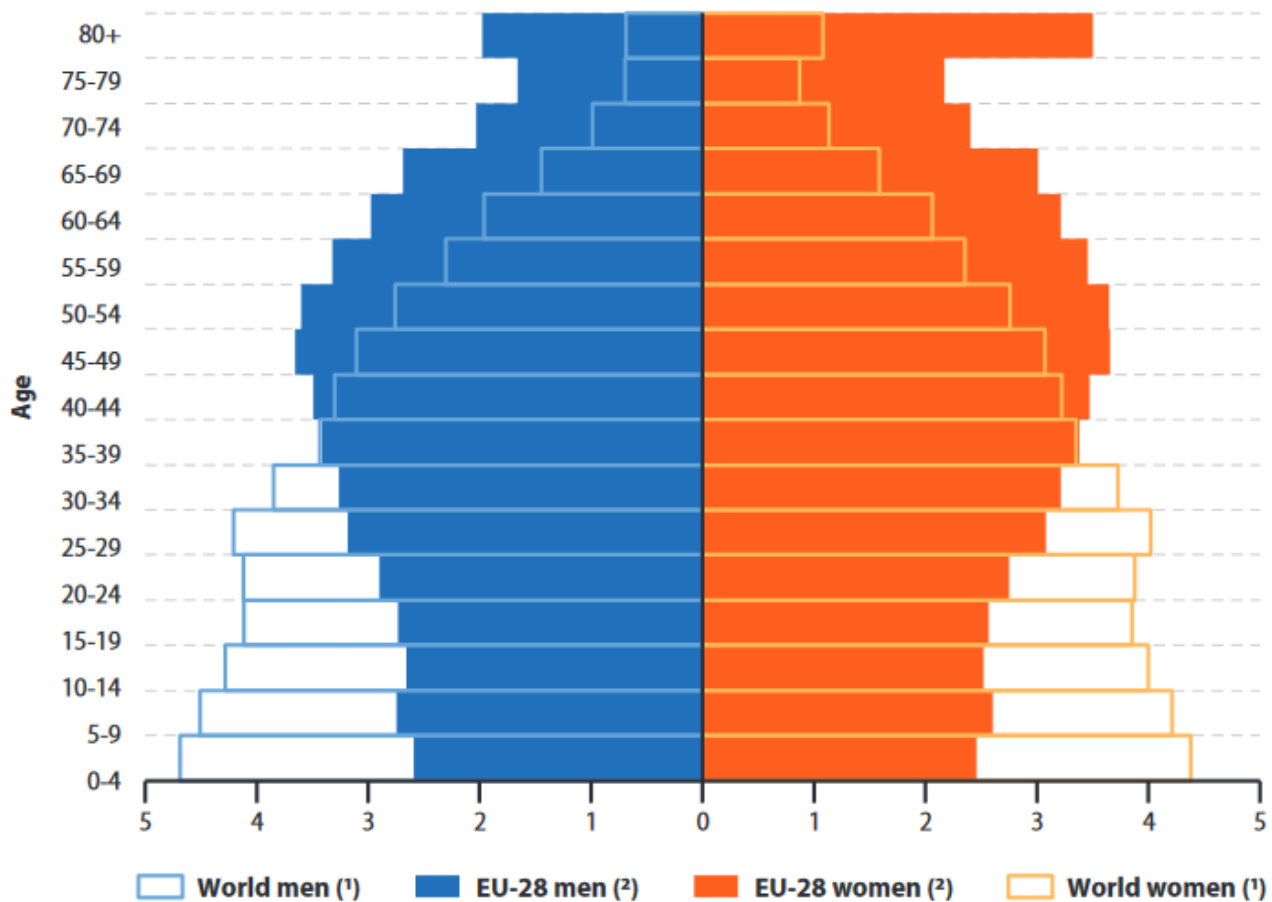
(% of world total)



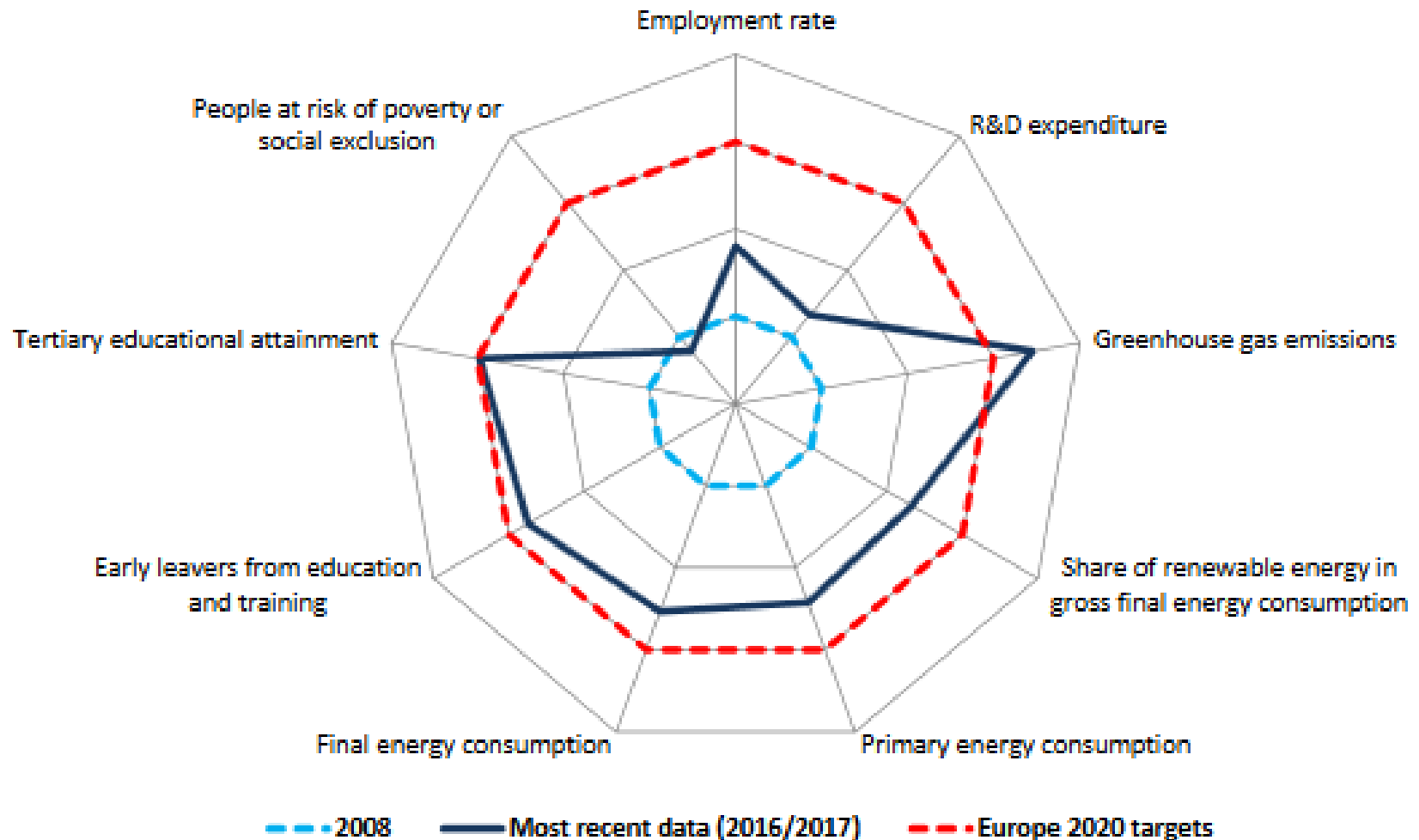


# Age pyramid (as at 2017)

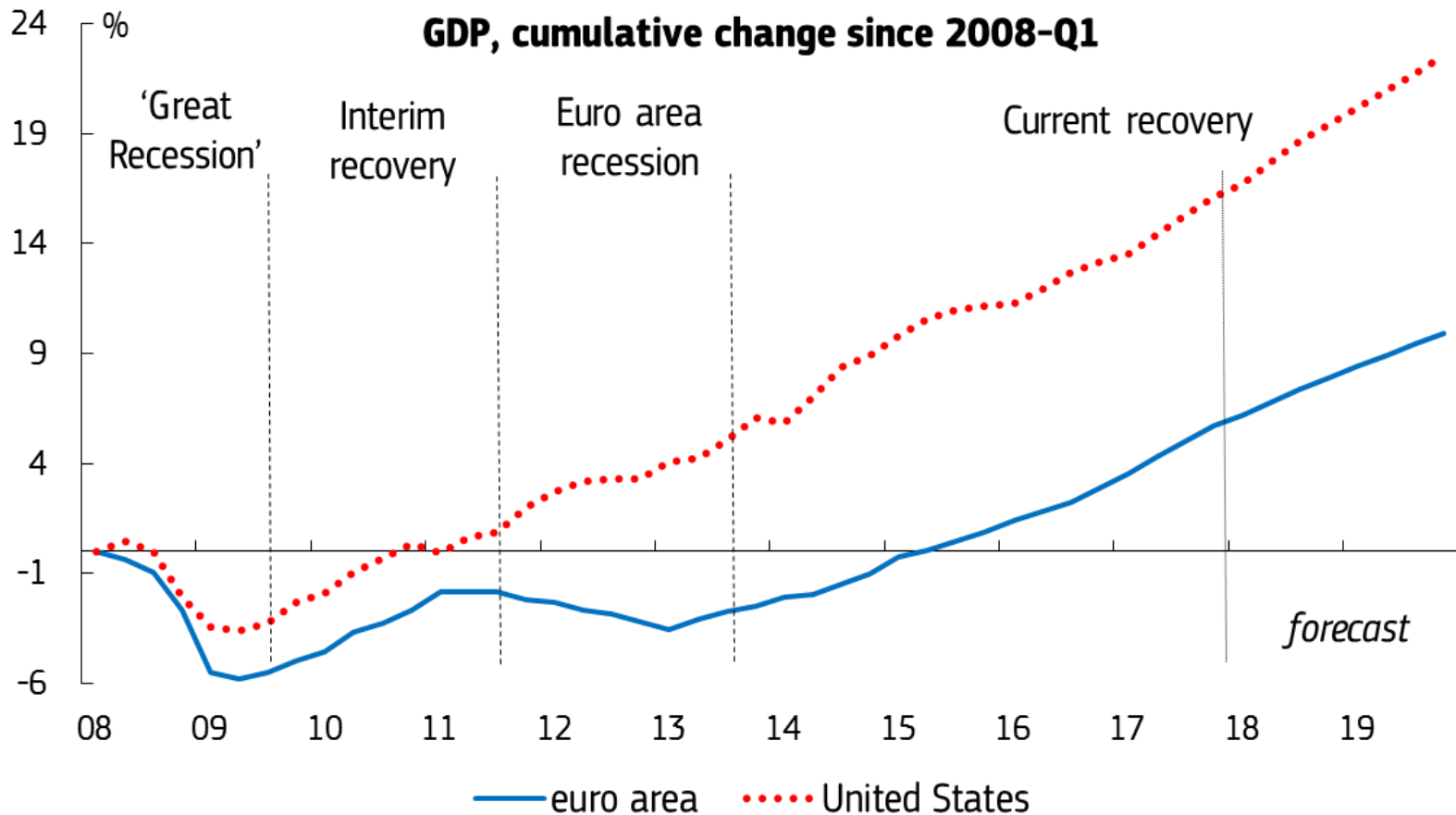
(% of total population)



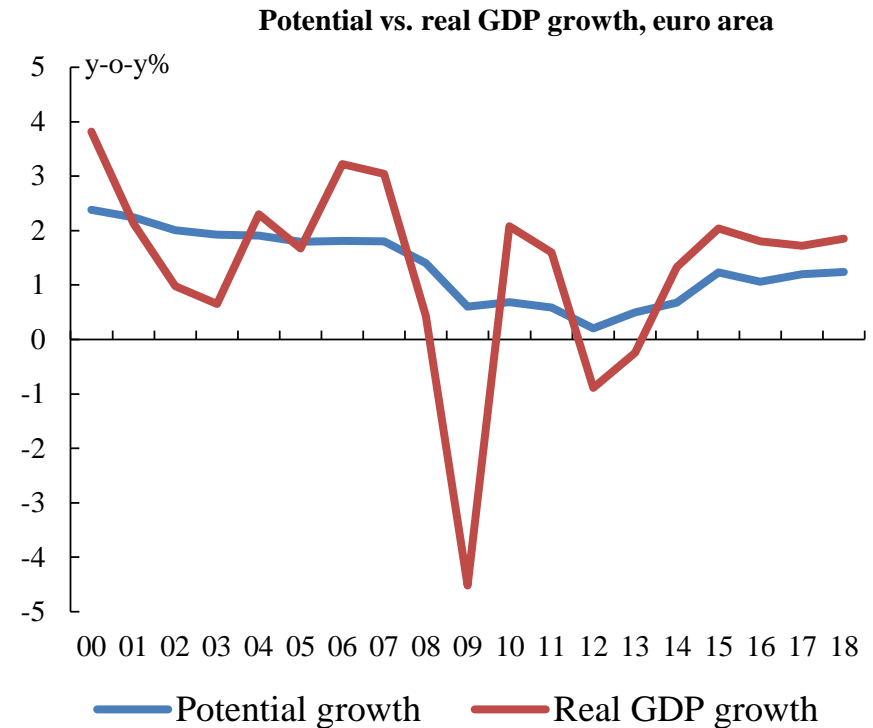
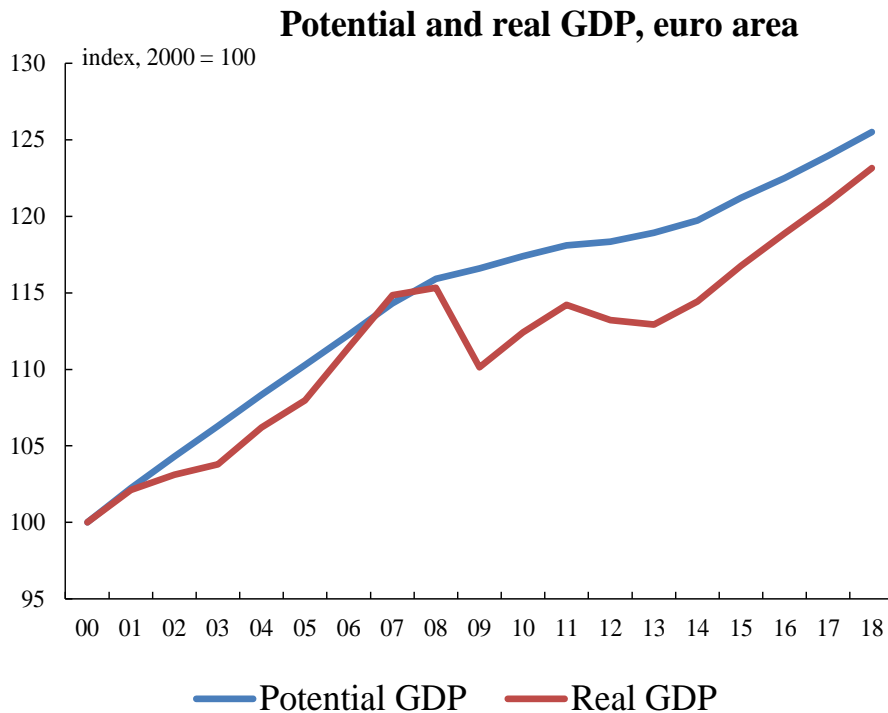
## Europe 2020: targets and progress



## Euro area GDP since the crisis



# Actual growth expected to remain stronger than potential, further closing the output gap



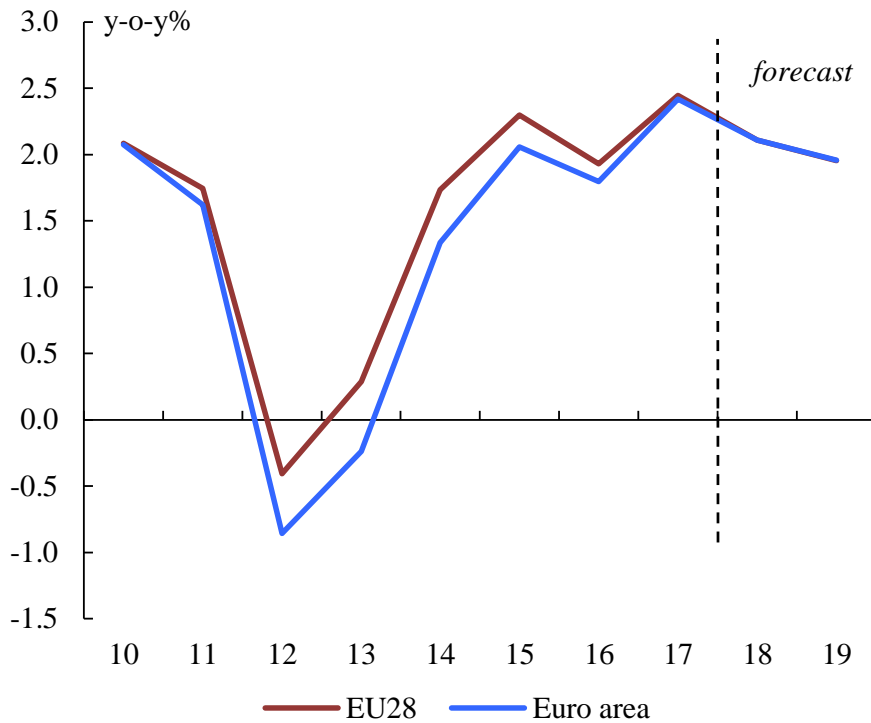


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# Economic Forecast

# GDP Forecasts

Real GDP growth, euro area and EU28



## Overview - the summer 2018 (interim) forecast

### Real GDP

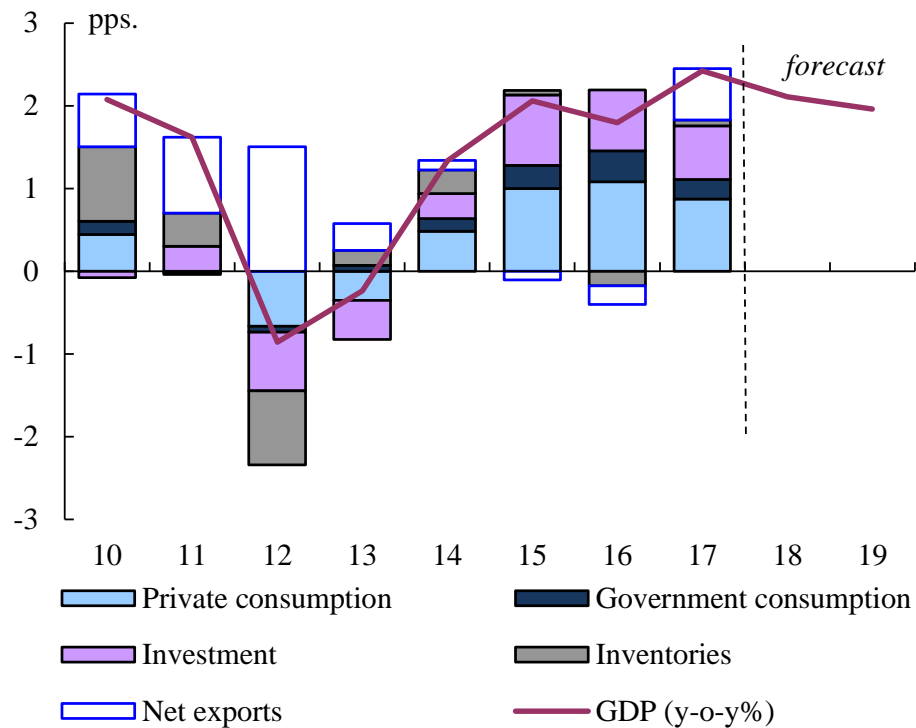
|           | Summer 2018 forecast |      |      | Spring 2018 forecast |      |
|-----------|----------------------|------|------|----------------------|------|
|           | 2017                 | 2018 | 2019 | 2018                 | 2019 |
| Euro area | 2.4                  | 2.1  | 2.0  | 2.3                  | 2.0  |
| EU27      | 2.4                  | 2.3  | 2.1  | 2.5                  | 2.2  |
| EU28      | 2.4                  | 2.1  | 2.0  | 2.3                  | 2.0  |

## **Key messages from the Summer 2018 (Interim) Forecast**

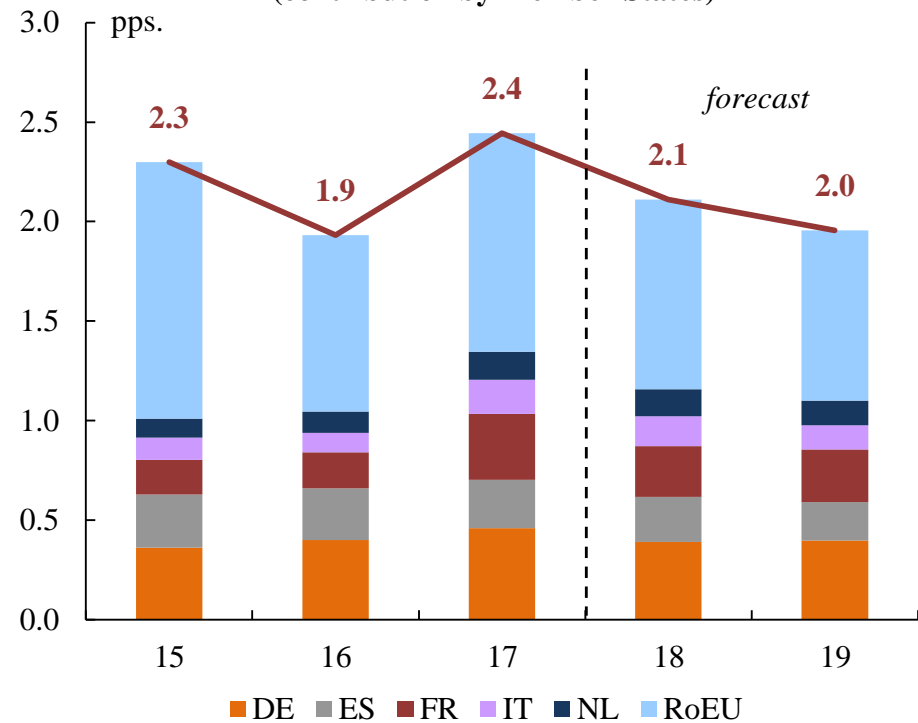
- 1. Fundamentals for sustained growth remain in place**
- 2. The small downward revision for this year mainly mirrors a weaker first half**
- 3. Labour market conditions are set to continue improving**
- 4. Higher energy prices drive inflation up**
- 5. External downside risks have risen further**

# Growth drivers, by component and country

Real GDP and its components, euro area



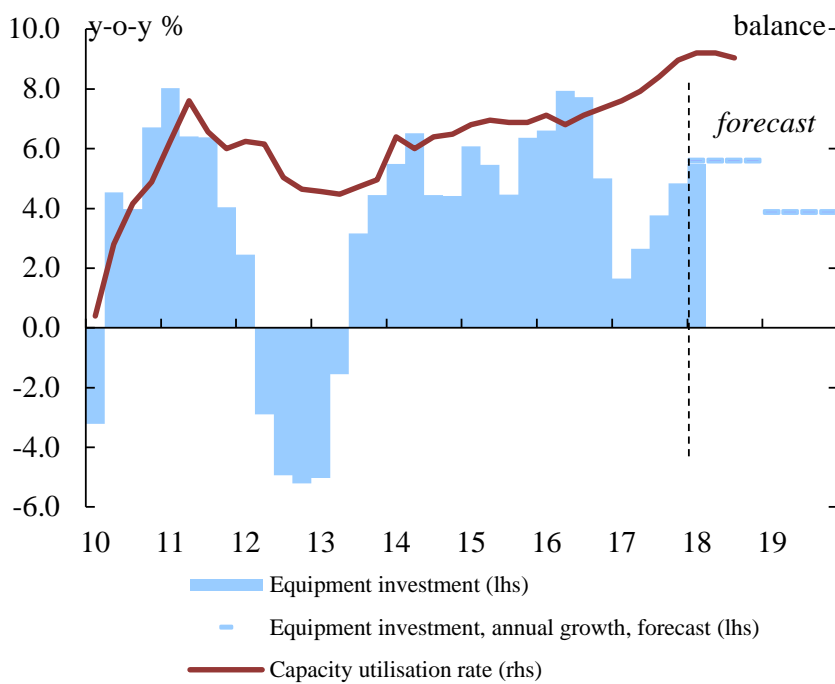
Real GDP growth, EU28  
(contribution by Member States)



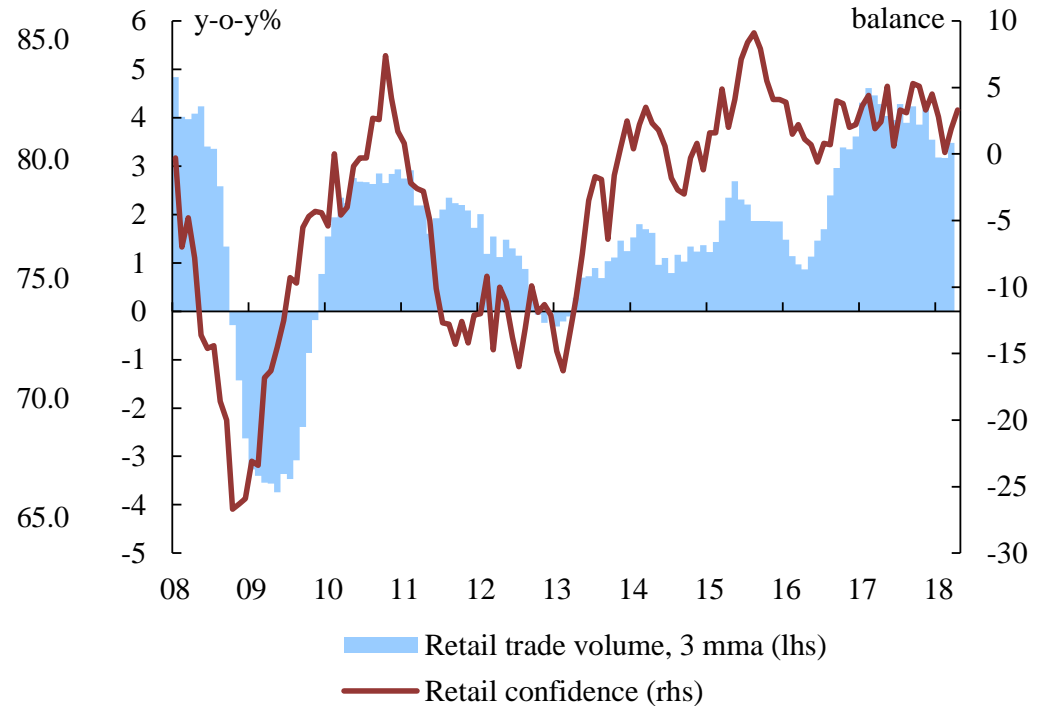


# Domestic demand expected to remain strong

**Equipment investment and capacity utilisation, EU**

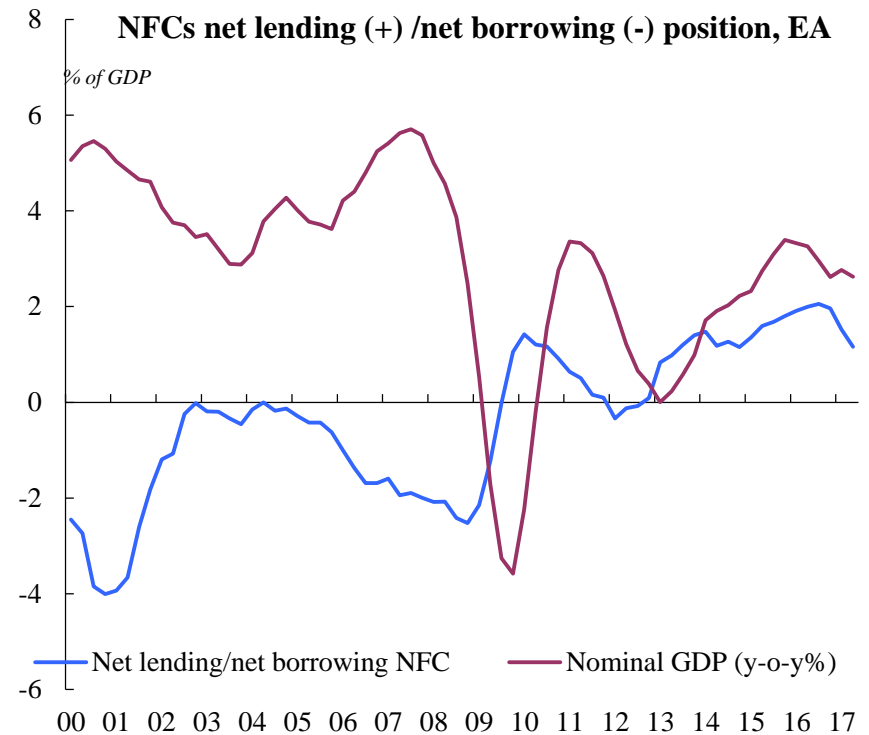
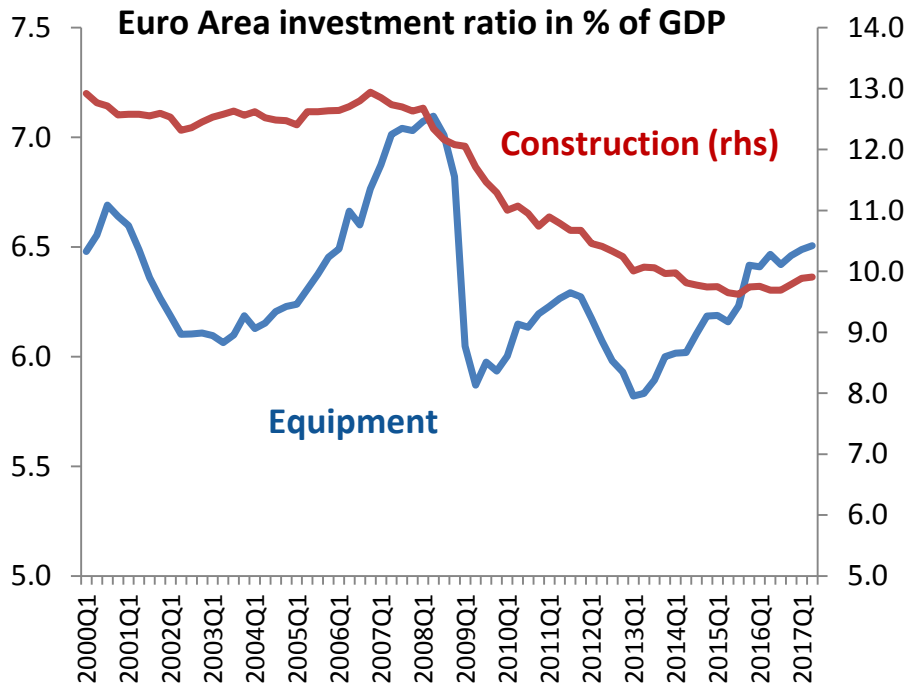


**Retail trade volumes and retail confidence, EU**



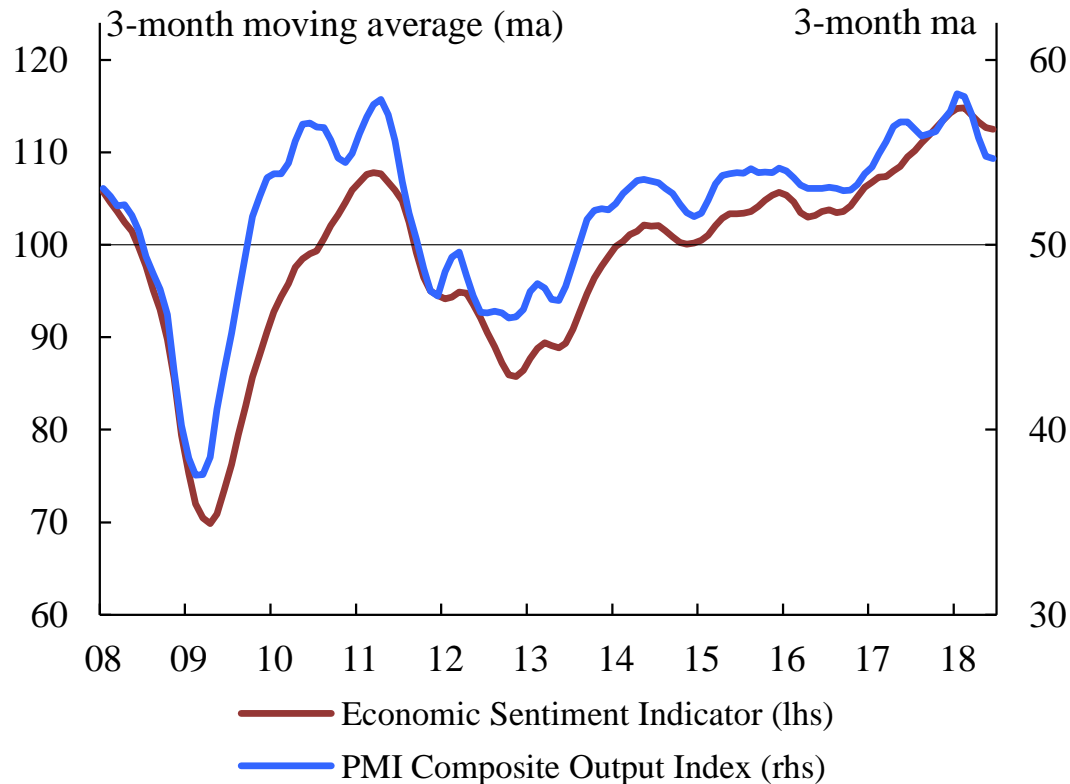
# EA investment ratio increasing; corporate sector with strong balance sheet

Corporate sector internal funds: a potential boost for investments ?

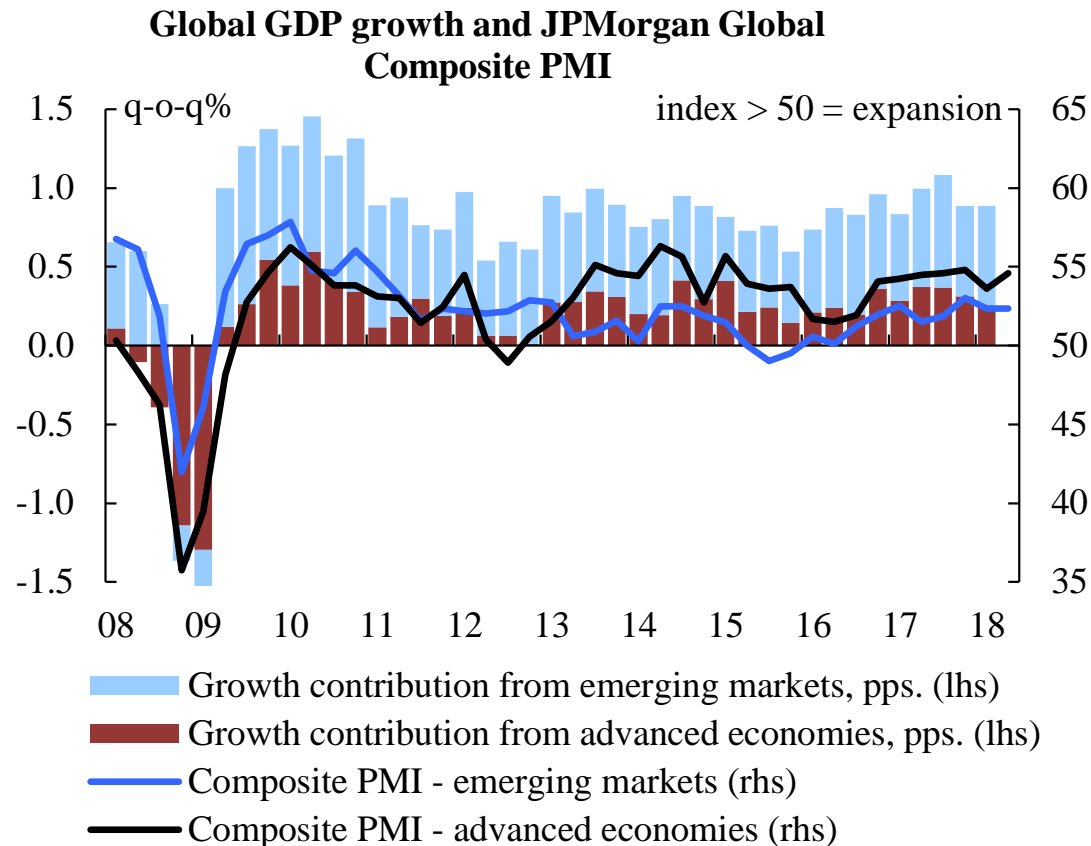


## Economic sentiment softened but still at a high level

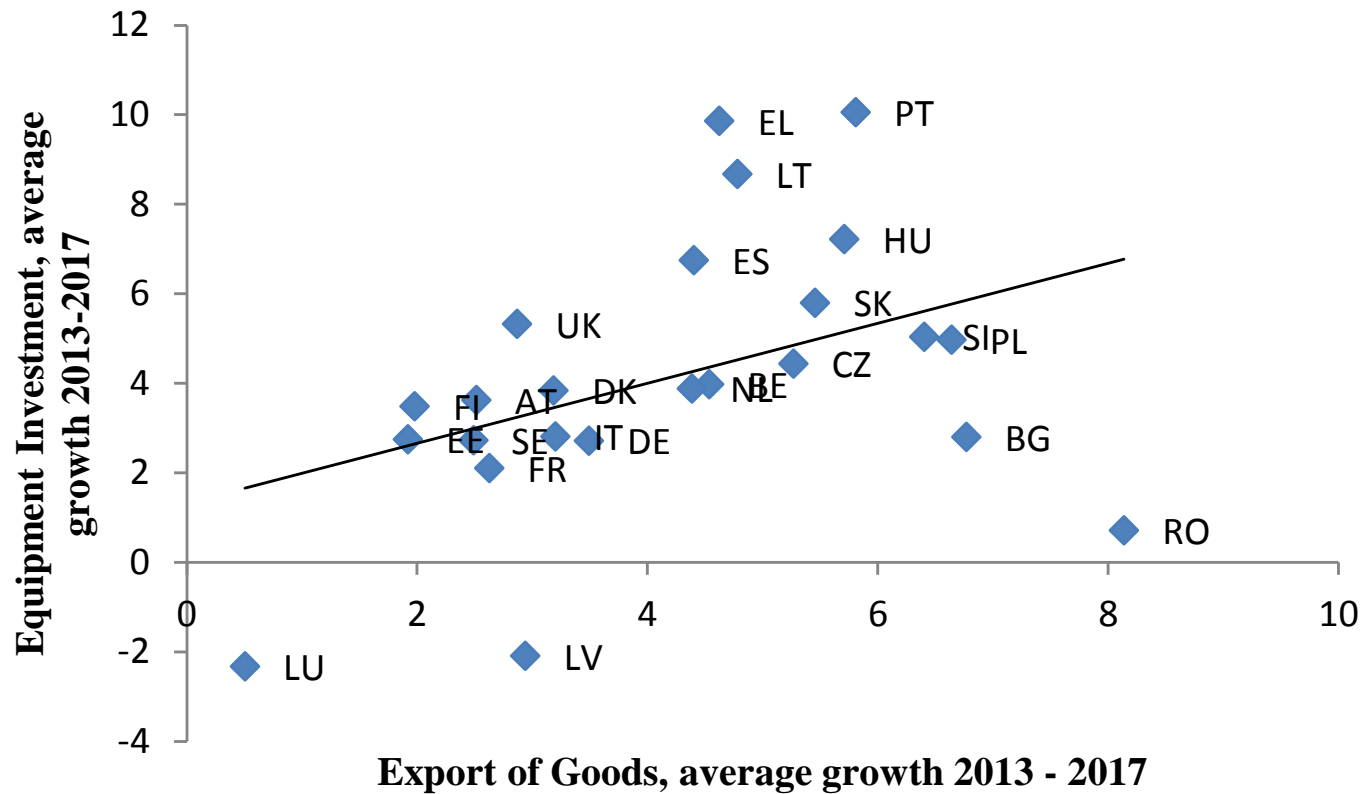
**Economic Sentiment Indicator  
and PMI Composite Output, euro area**



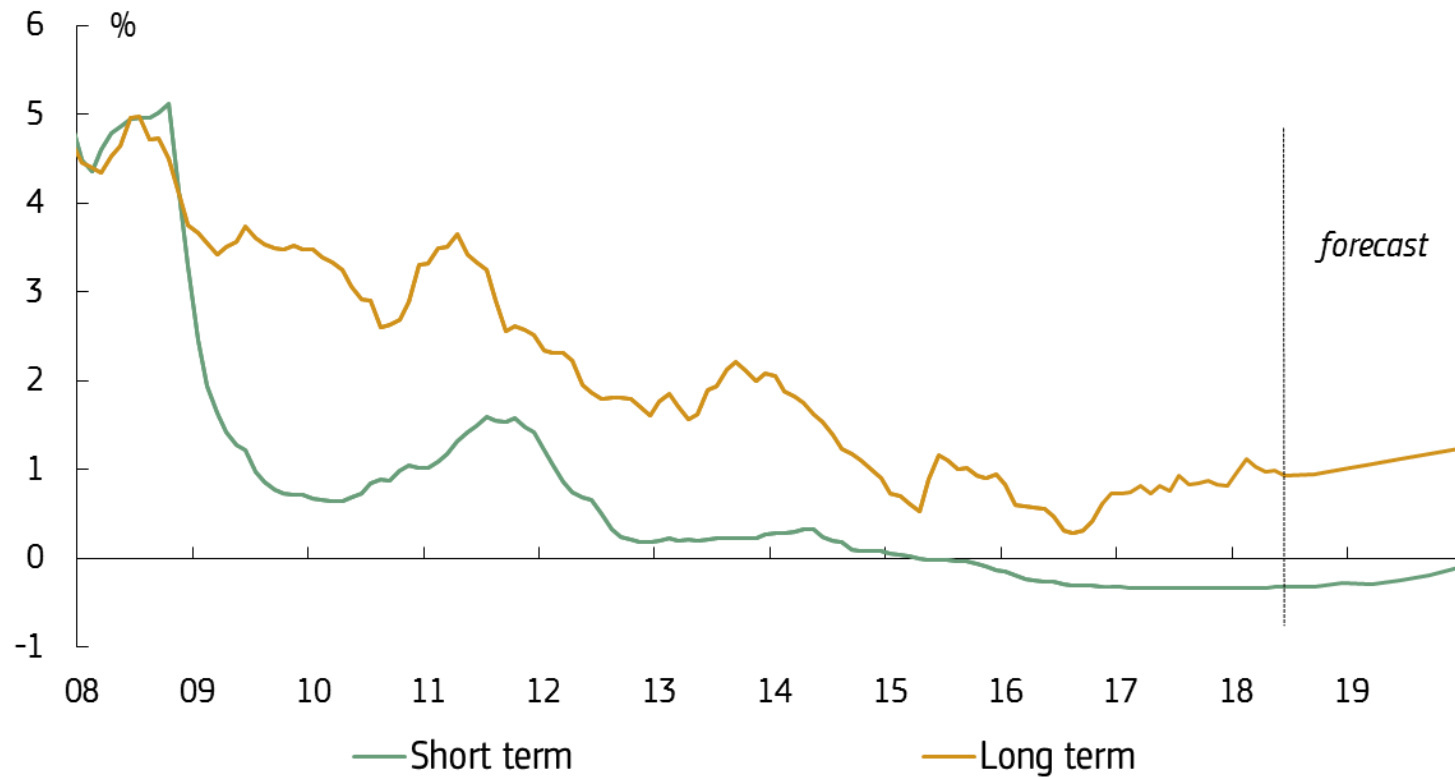
# Global growth and sentiment



## Trade important for investment

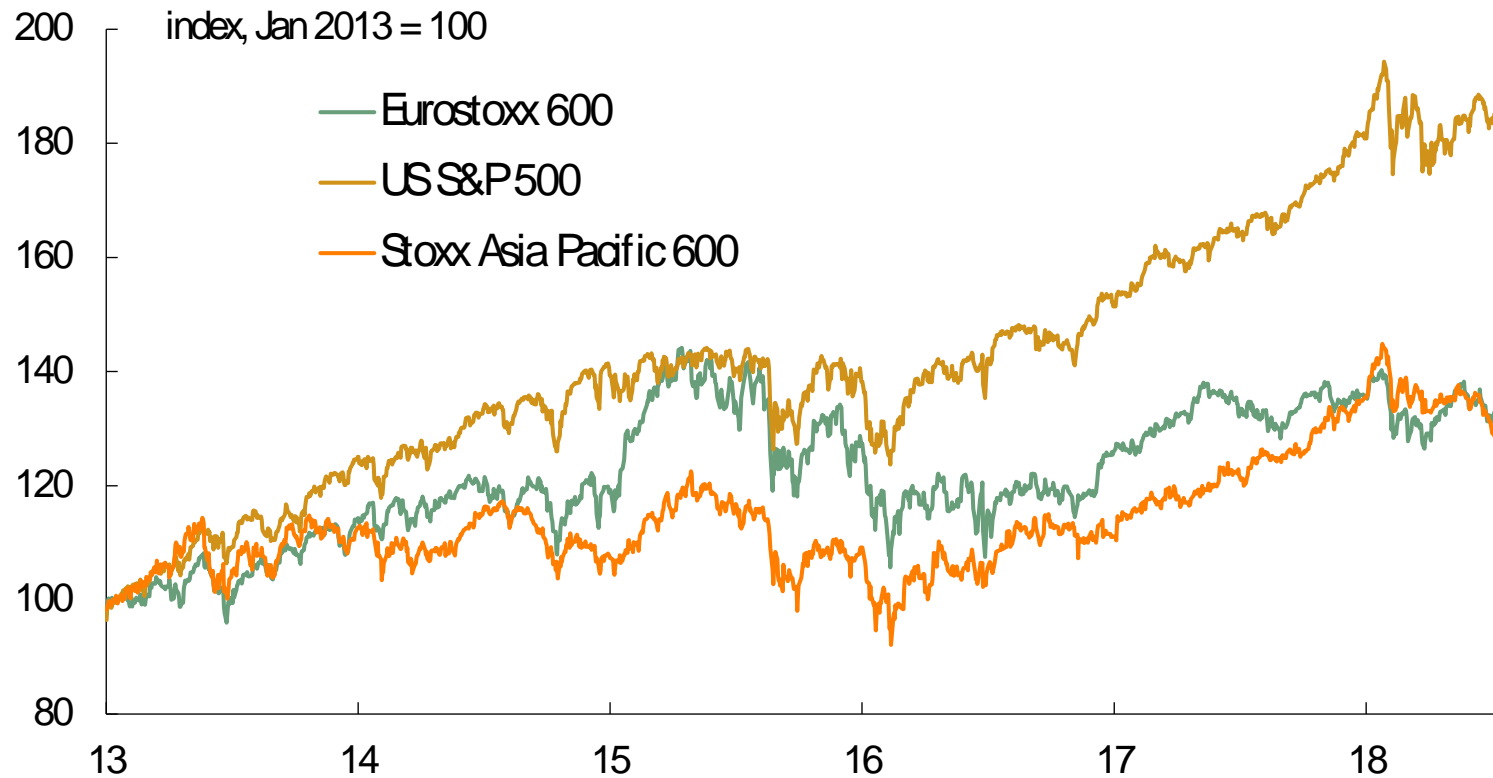


## Monetary policy remains supportive



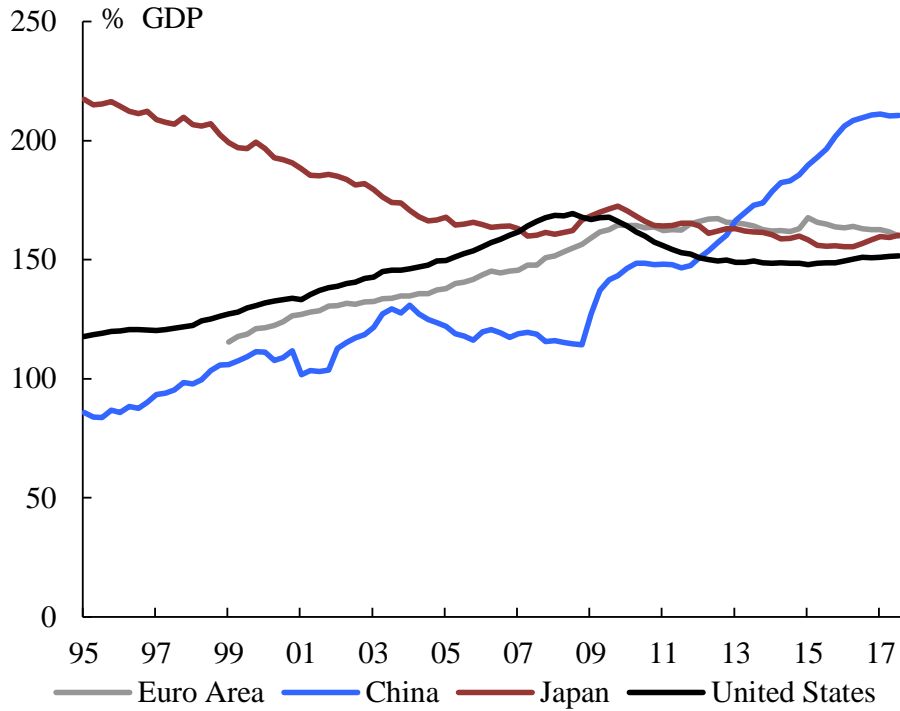
Short term rate: 3M Euribor; Long term rate: 10Y interest swap.

## Stock market performance



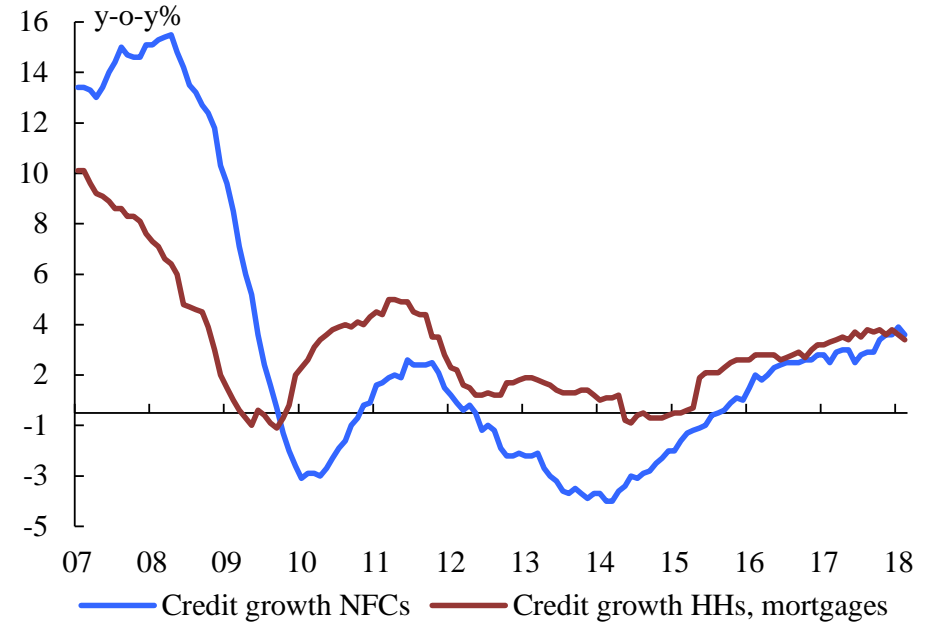
## Credit growth positive, but risks building up in EMEs

Private sector debt to GDP



Source: BIS.

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

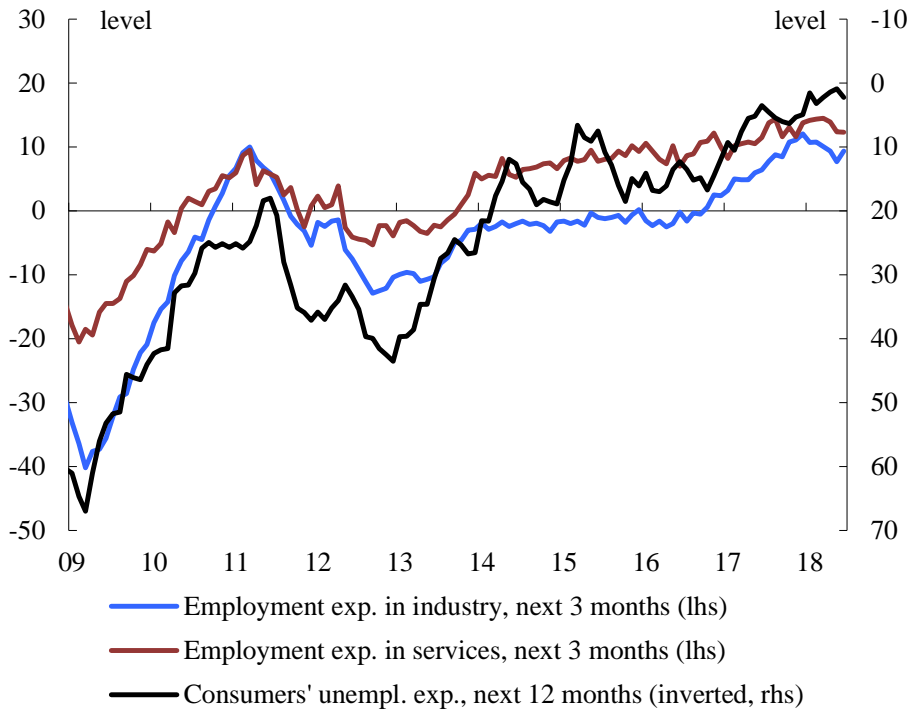


Source: ECB.

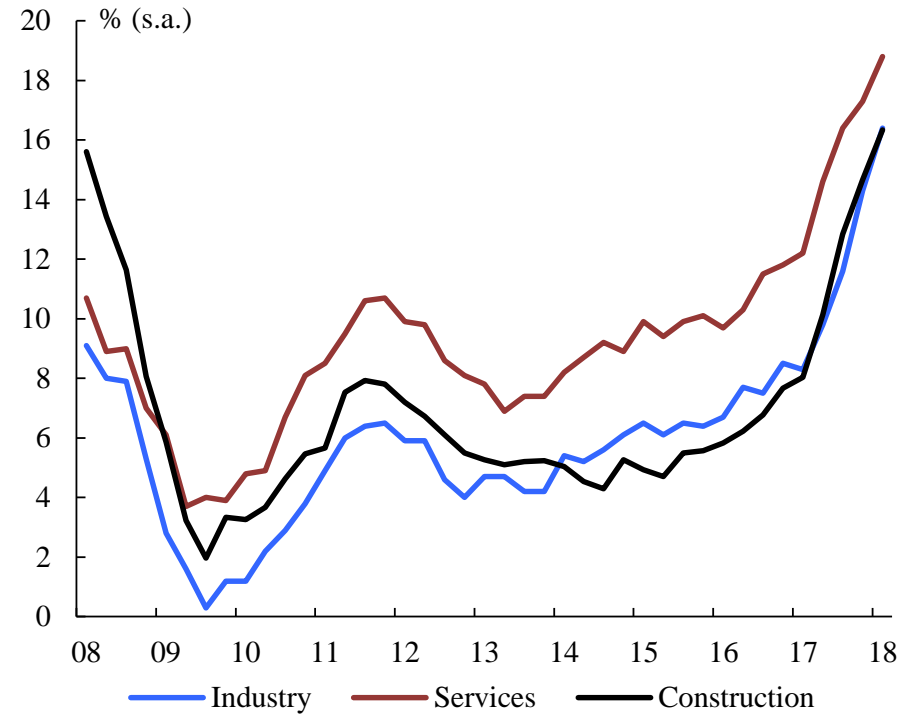


# Employment prospects are improving

Employment expectations,  
DG ECFIN surveys, EU

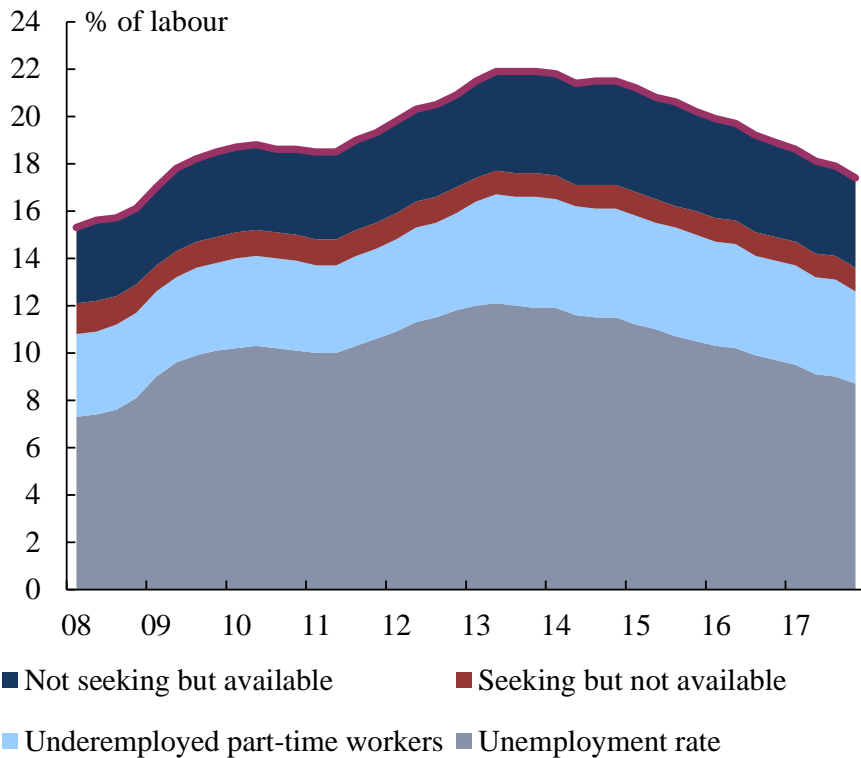


Labour seen as limiting factor of activity, euro area

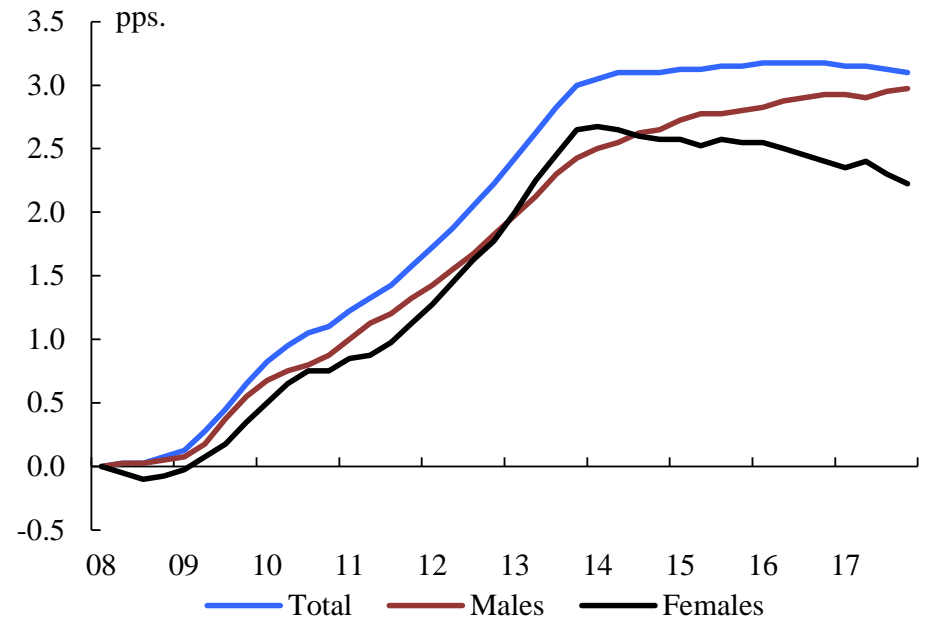


# Labour market slack still significant

**Total labour market slack, euro area**



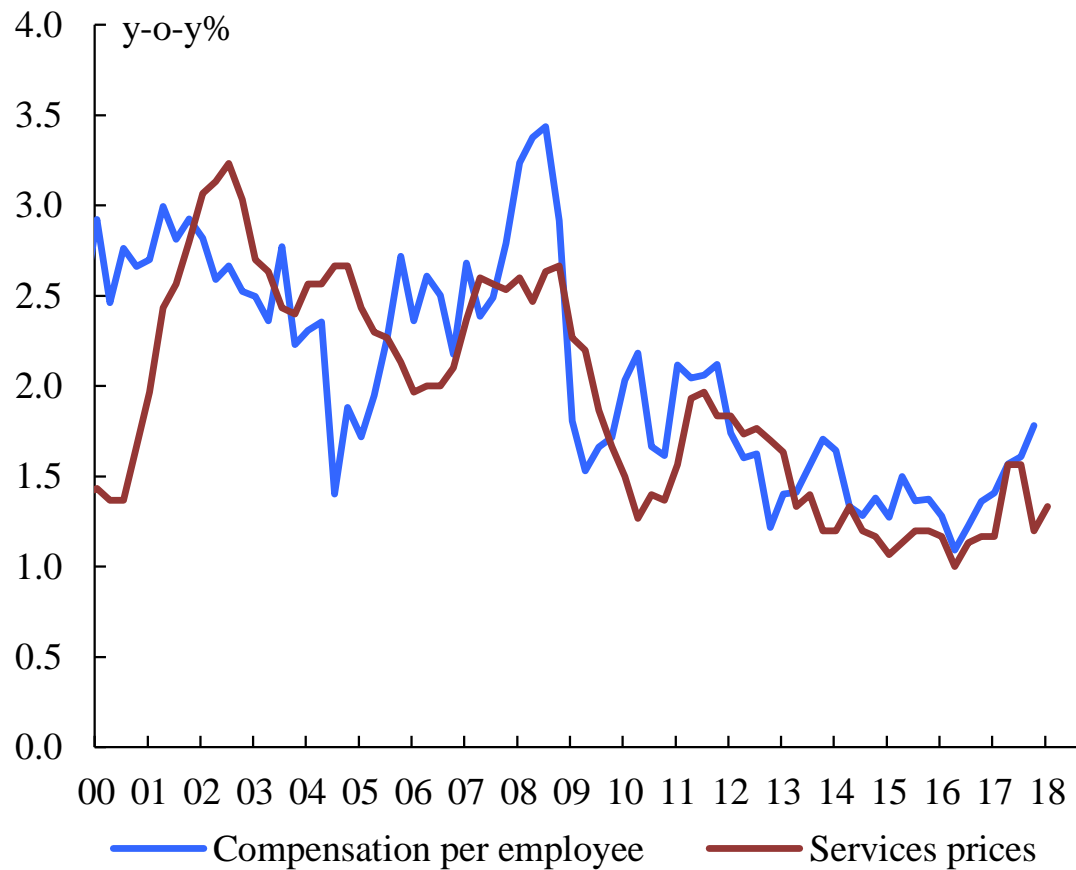
**Part-time employment as a share of total employment, euro area (change since 2008-Q1)**



*Note: four-quarter moving averages as compared to the base period 2008-Q1.*

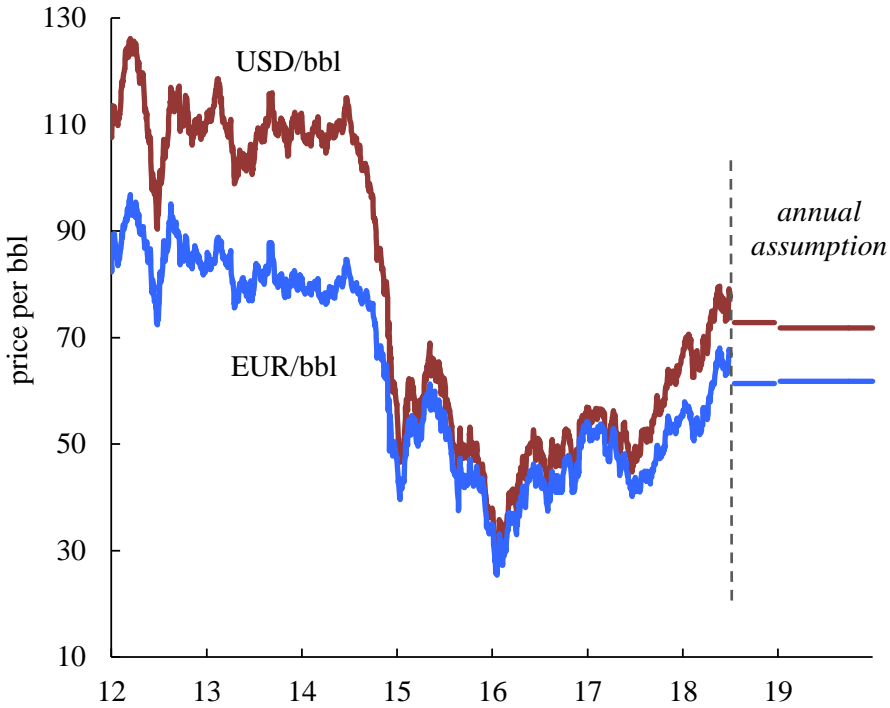
## Wage growth has been weak

Wage growth and services inflation, euro area



# Oil prices key for the price outlook in 2018/2019

**Oil price, developments and assumptions**

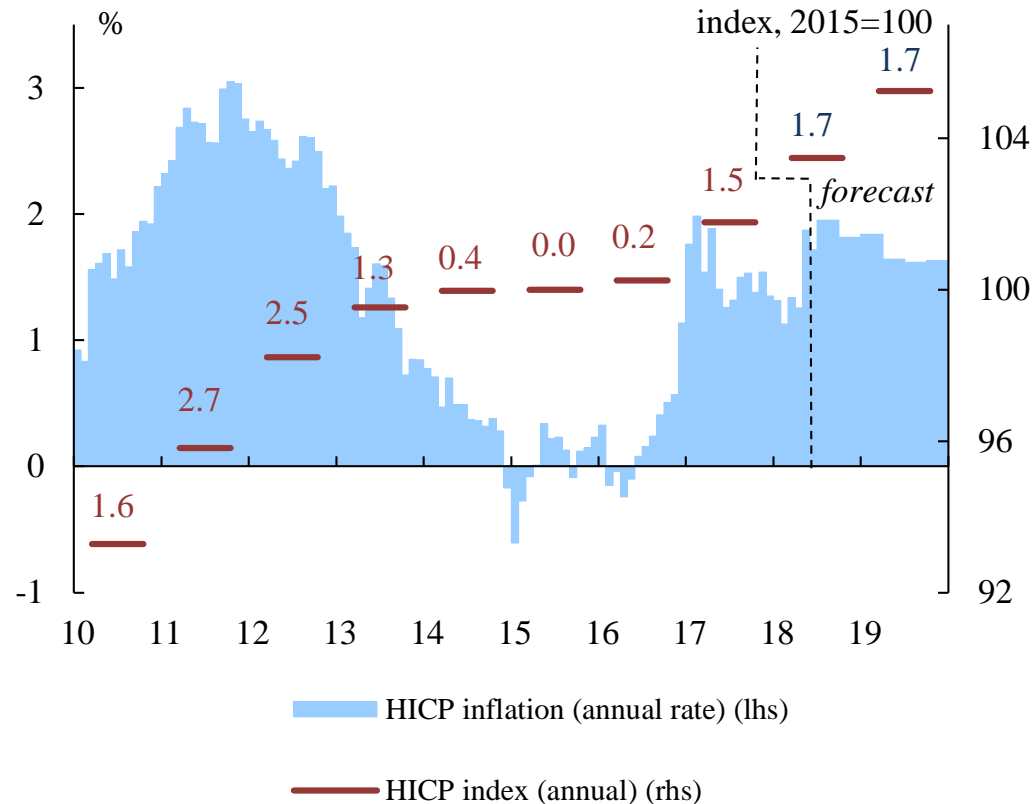


**Inflation expectations derived from implied forward inflation-linked swap rates**



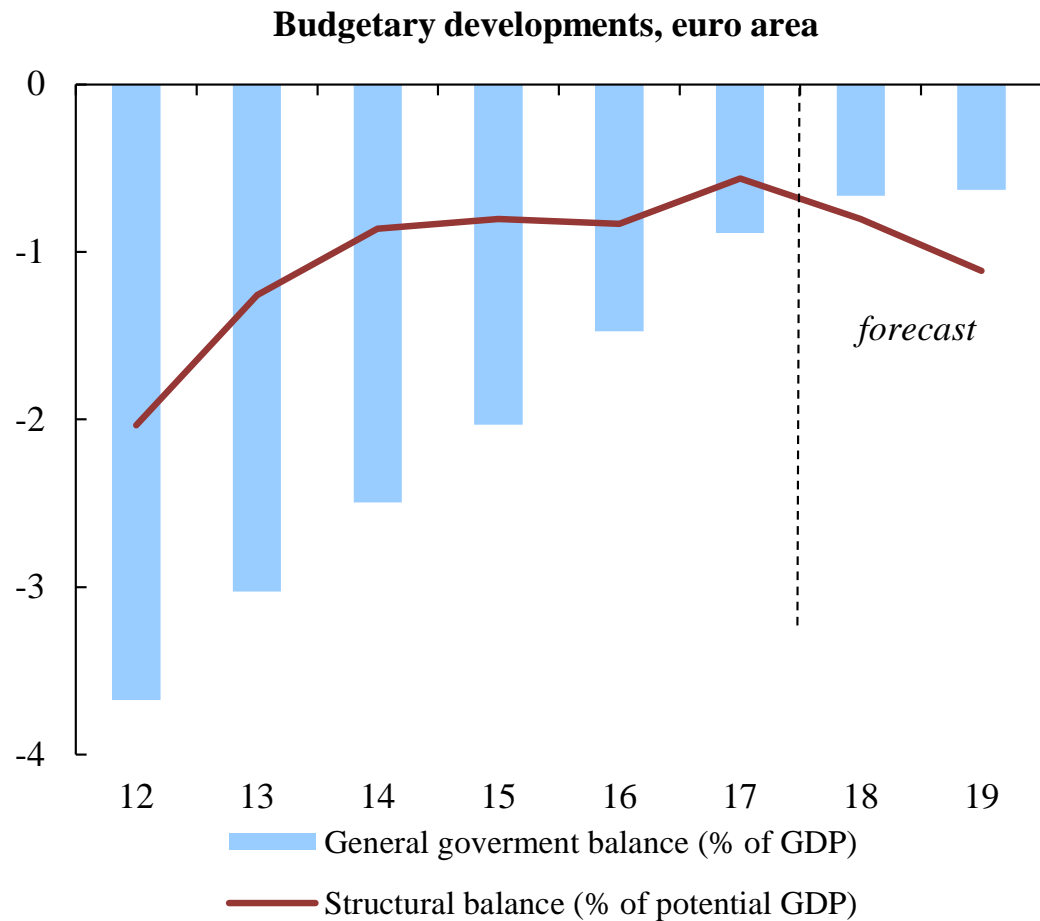
# Inflation expected to recover gradually

HICP, euro area



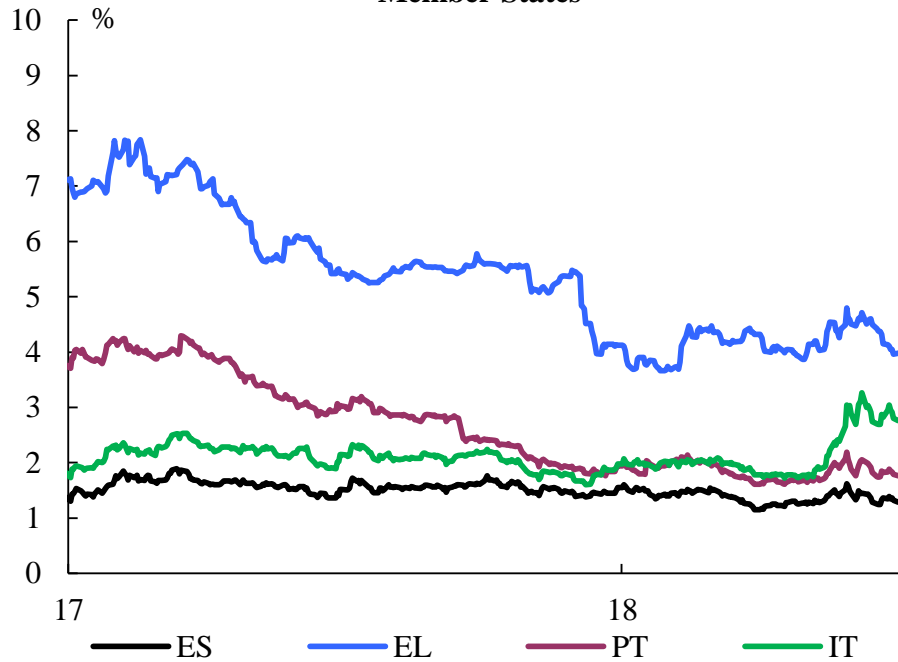
*Figures next to horizontal bars are annual inflation rates.*

## Public finances overall improving

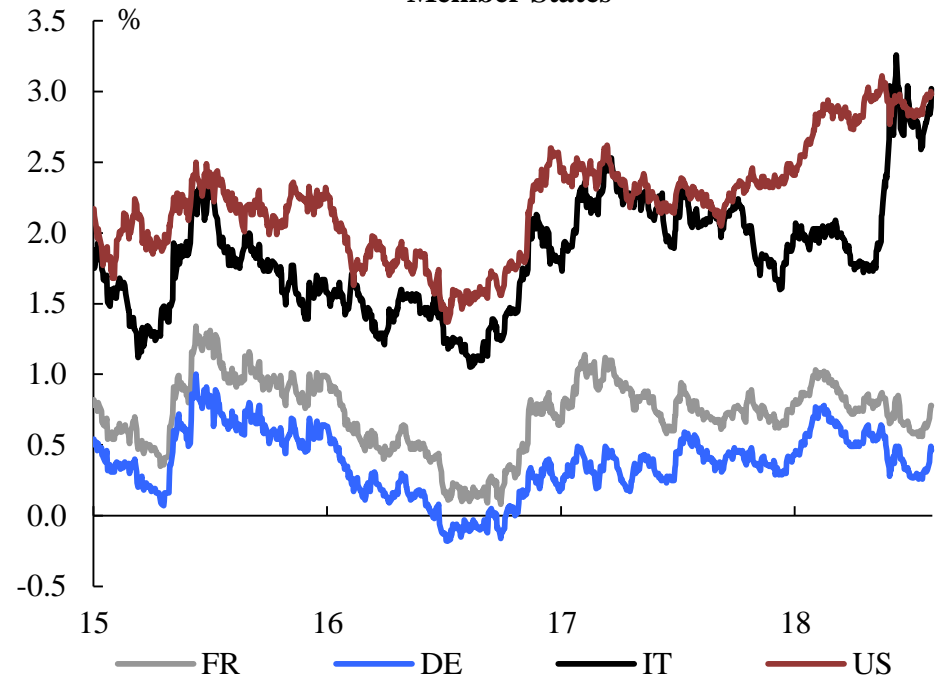


# 10-yr Government bond yields

Benchmark 10-year government bond yields, selected Member States

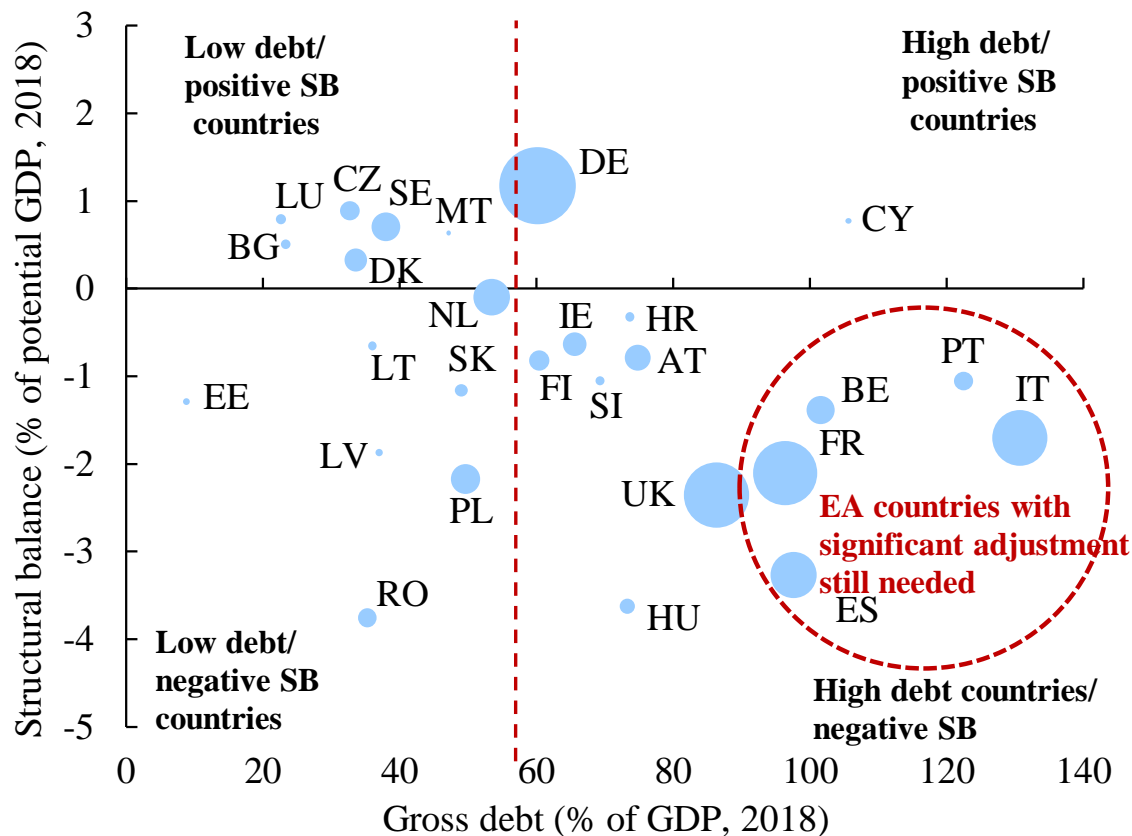


Benchmark 10-year government bond yields, selected Member States



## Public finances in vulnerable countries

Structural balance vs. government debt, 2018



Note: Bubble size is based on GDP level.



## **Downside risks dominate**

- **Escalation in trade tensions**
- **Tighter financial conditions**
- **Unwarranted effects of the US fiscal stimulus**
- **Geopolitical tensions**
- **Political and policy uncertainty in some EU Member States, including the outcome of the Brexit negotiations**



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**Thank you!**