European Commission - Press release

Winter 2016 Economic Forecast: Weathering new challenges

Brussels, 4 February 2016

The European economy is now entering its fourth year of recovery and growth continues at a moderate rate, driven mainly by consumption.

At the same time, much of the world economy is grappling with major challenges and risks to European growth are therefore increasing.

The Commission's winter forecast shows that the overall growth outlook has changed little since the autumn but that the risk that growth could turn out worse than forecast has risen, mainly as a result of external factors. In the euro area, growth is projected to increase to 1.7% this year from 1.6% last year, and to climb to 1.9% in 2017. EU economic growth is forecast to remain stable at 1.9% this year and rise to 2.0% next year.

Certain factors supporting growth are now expected to be stronger and last longer than previously assumed. They include low oil prices, favourable financing conditions and the euro's low exchange rate. At the same time, risks to the economy are becoming more pronounced and new challenges are surfacing: slower growth in China and other emerging market economies, weak global trade as well as geopolitical and policy-related uncertainty.

Valdis **Dombrovskis**, Vice-President for the Euro and Social Dialogue, said: *"Europe is continuing its recovery, with growth broadly in line with our previous forecast in autumn. We have to remain attentive. Europe's moderate growth is facing increasing headwinds, from slower growth in emerging markets such as China, to weak global trade and geopolitical tensions in Europe's neighbourhood. It is important to continue structural reforms that can help our economies grow, withstand shocks in the future, and improve job opportunities for our population."*

Pierre **Moscovici**,Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"The European economy is successfully weathering new challenges this winter, supported by cheap oil, the euro rate and low interest rates. Nonetheless, the weaker global environment poses a risk and means we must be doubly vigilant. There is more work to do to strengthen investment, enhance our competitiveness in a smart way and complete the job of fixing our public finances."*

A broad-based recovery across Member States

In 2015, economic output either increased or was stable in every Member State. By 2017, the economies of all Member States are expected to be expanding. GDP growth rates will, however, continue to differ substantially due to both structural features and different cyclical positions.

Private consumption is expected to remain the main driver of growth this year and next, supported by an improving labour market and growing real disposable incomes. Investment should also gradually benefit from increasing demand, improved profit margins, favourable financing conditions and gradually lower pressure to deleverage.

Labour market conditions continue to improve

Employment should continue to rise modestly. Unemployment rates are set to continue falling, albeit at a slower pace than last year. The decline should be more pronounced in Member States where labour market reforms have been implemented. The unemployment rate in the euro area is expected to fall from 11% in 2015 to 10.5% in 2016 and 10.2% in 2017. In the EU unemployment should fall from 9.5% in 2015 to 9.0% this year and 8.7% next.

More supportive fiscal stance; deficits decline further

The aggregate general government deficit in the euro area is expected to decline further thanks to stronger economic activity and, to a lesser extent, lower interest expenditure.

In the euro area, the general government deficit is expected to have fallen to 2.2% of GDP in 2015 (EU 2.5%) and should fall further to 1.9% of GDP this year (EU 2.2%) and 1.6% of GDP in 2017 (EU 1.8%). The fiscal stance of the euro area is expected to become slightly more supportive to the economic recovery this year. In the EU, it is set to remain broadly neutral. The debt-to-GDP ratio of the euro area is forecast to decline from its peak of 94.5% in 2014 (EU 88.6%) to 91.3% in 2017 (EU

85.7%).

Further decline in oil prices temporarily drives down inflation

Annual inflation in the euro area was only slightly above zero towards the end of 2015, mainly due to a further drop in oil prices. Consumer price increases in the euro area are expected to remain very low in the first half of the year and should start picking up in the second half when the impact from the sharp fall in oil prices abates. For 2016 as a whole, euro area annual inflation is now forecast at only 0.5%, partly because wage growth remains subdued. Inflation is expected to pick up gradually and to reach 1.5% in 2017 as higher wages, higher domestic demand and a moderate pick-up in oil prices increase price pressures.

Exports resilient to further slowdown in global growth

Given the deterioration of the global economic outlook, the recovery of the global economy (excluding the EU) is now forecast to be slower than expected in the autumn. In fact global growth in 2015 is set to have been at its weakest since 2009. Euro area export growth should accelerate over the course of 2016 following a moderation in the second half of 2015. This is due to lagging effects from the euro's past depreciation, lower unit labour costs, and a gradual increase in foreign demand.

Outlook is subject to increased risks

The economic outlook remains highly uncertain and overall risks are increasing. These include lower growth in emerging markets, a disorderly adjustment in China, and the possibility that further interest rate rises in the United States could cause disruption in financial markets or hurt vulnerable emerging economies and weigh on the outlook. A further fall in oil prices could also have a negative effect on oil-exporting countries and lower demand for EU exports. Risks from within the EU could also have an impact on confidence and investment. On the other hand, the combination of current supportive factors could translate into greater momentum than anticipated, especially if investment were to rebound.

Background

This forecast takes into consideration all relevant available data and factors, including assumptions about government policies, up until and including 22 January 2016. Only policies credibly announced and specified in adequate detail are incorporated. Projections assume no policy changes. This forecast is also based on a set of external assumptions concerning exchange rates, interest rates and commodity prices. The numbers used reflect market expectations derived from derivatives markets at the time of the forecast.

The Commission is due to update its economic forecast in May 2016.

For more information:

Winter Economic Forecast - Website and #ecforecast (document only available in English)

European Economic Forecast – explanatory website

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Attachments

Annex to IP-16-214.pdf