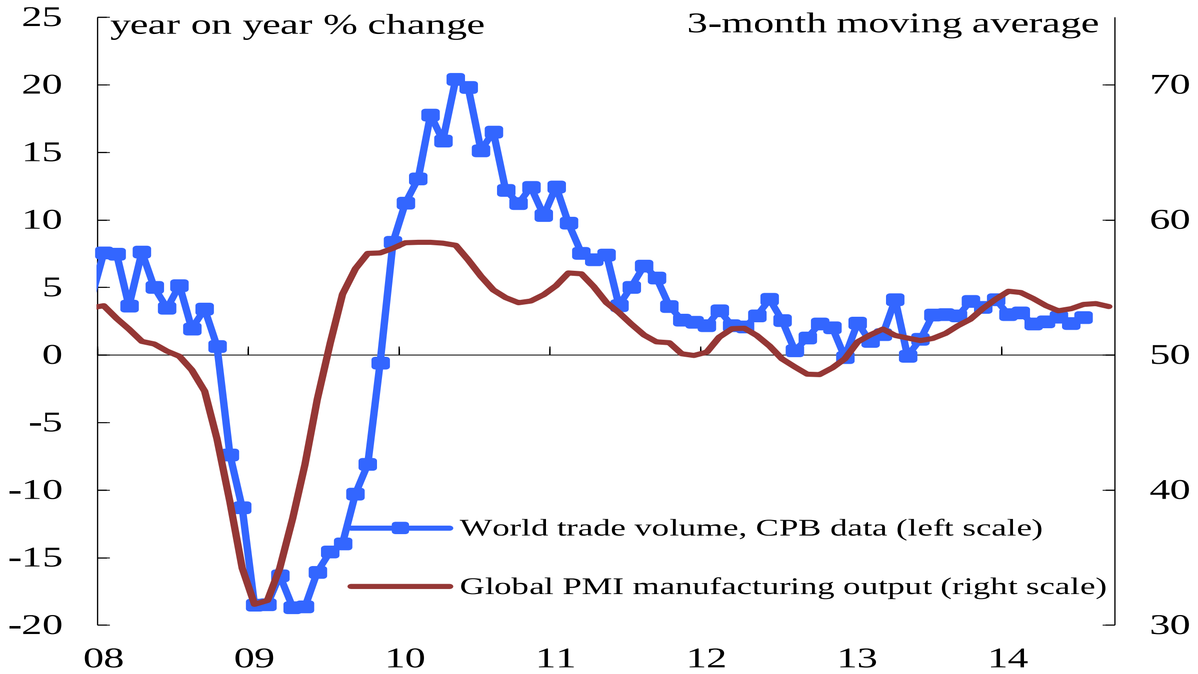
European Economic Forecast – Autumn 2014

Jyrki Katainen, Vice-President, responsible for Jobs, Growth, Investment and Competitiveness –
Pierre Moscovici , Commissioner for Economic and Financial Affairs, Taxation and Customs

Press Conference, 4 November 2014

Less favourable global economic conditions...

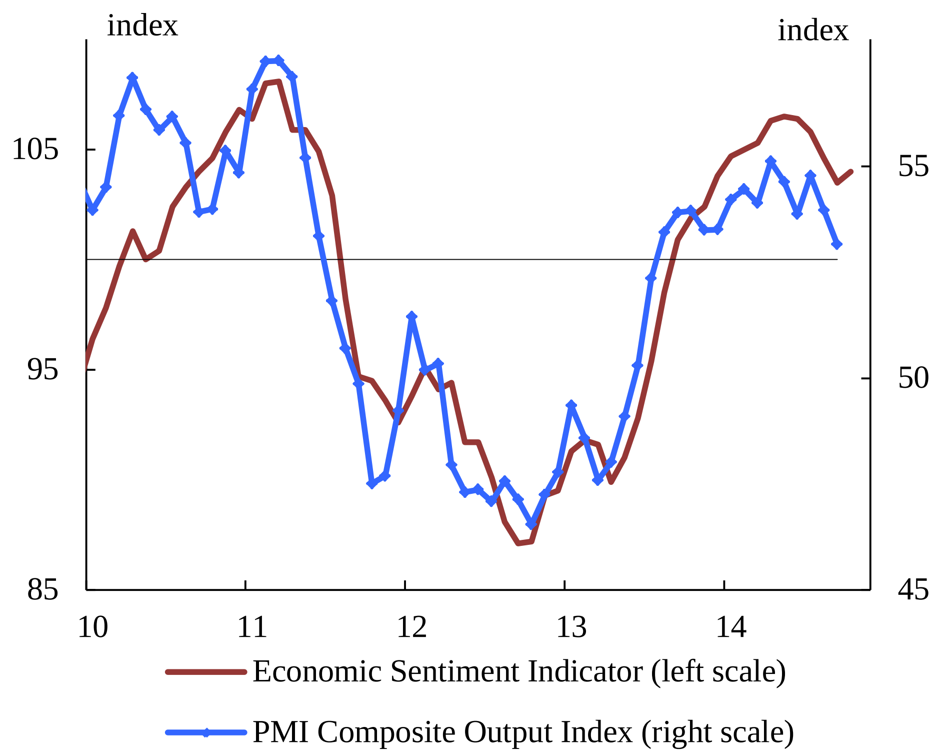
World trade and Global PMI manufacturing output



Source: CPB, Markit Economics

...have negatively affected confidence

Confidence indicators for the EU

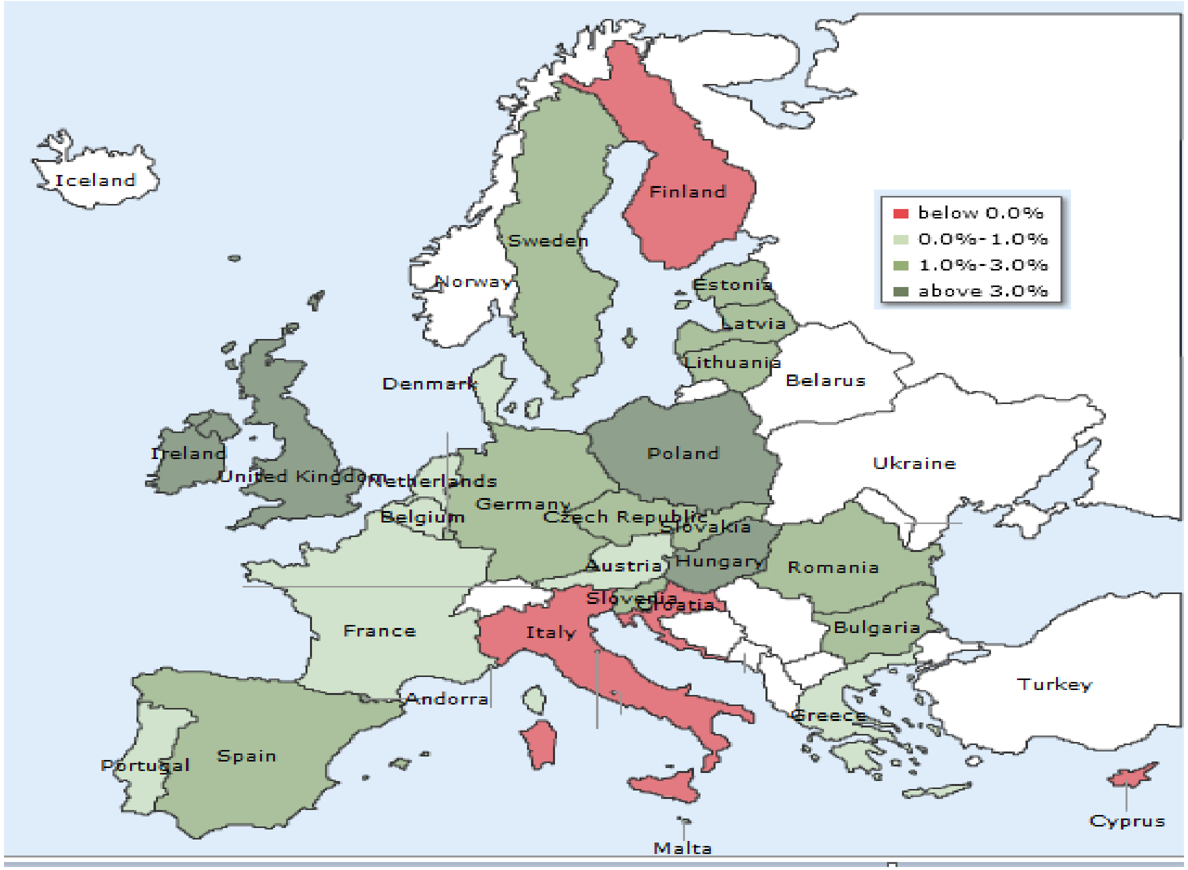


Source: European Commission

EU specific factors also hold back growth

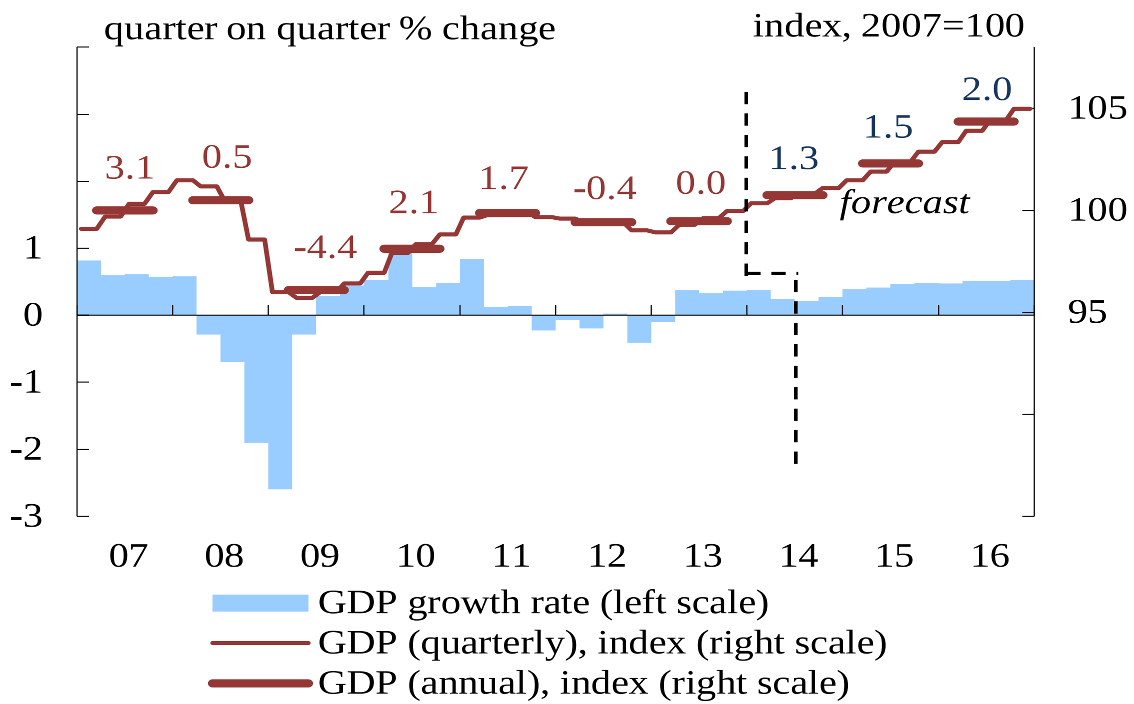
- Already existing deep-seated structural problems
- Public and private debt overhang
- Ongoing financial fragmentation related to the sovereign debt crisis

…and create significant growth differences in Europe (2014)



Source: European Commission

Looking ahead, we see a gradual recovery…

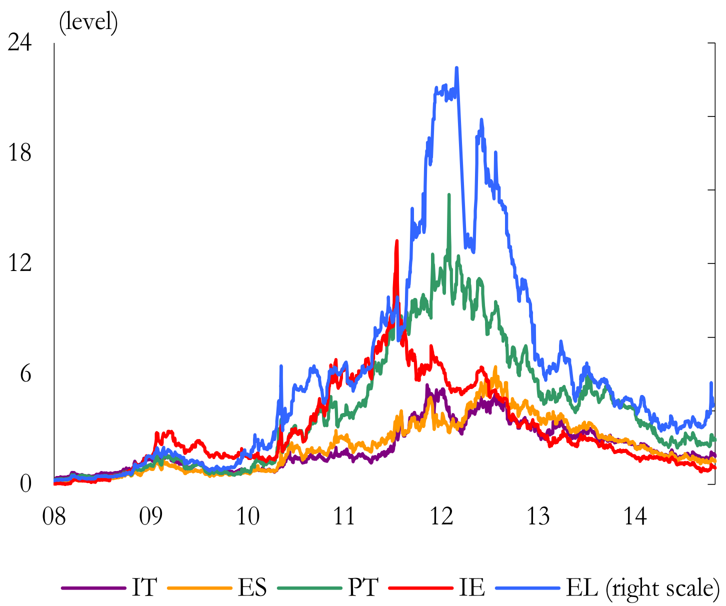


Figures above horizontal bars are annual growth rates.

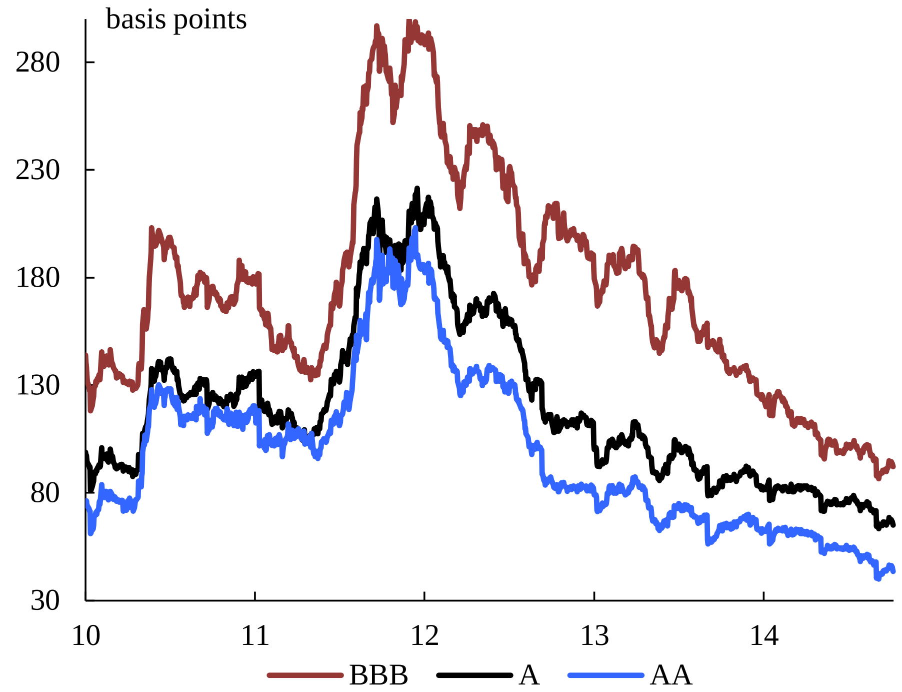
Source: European Commission

...based on financial market conditions that continue to ease...

10-year government bond spreads



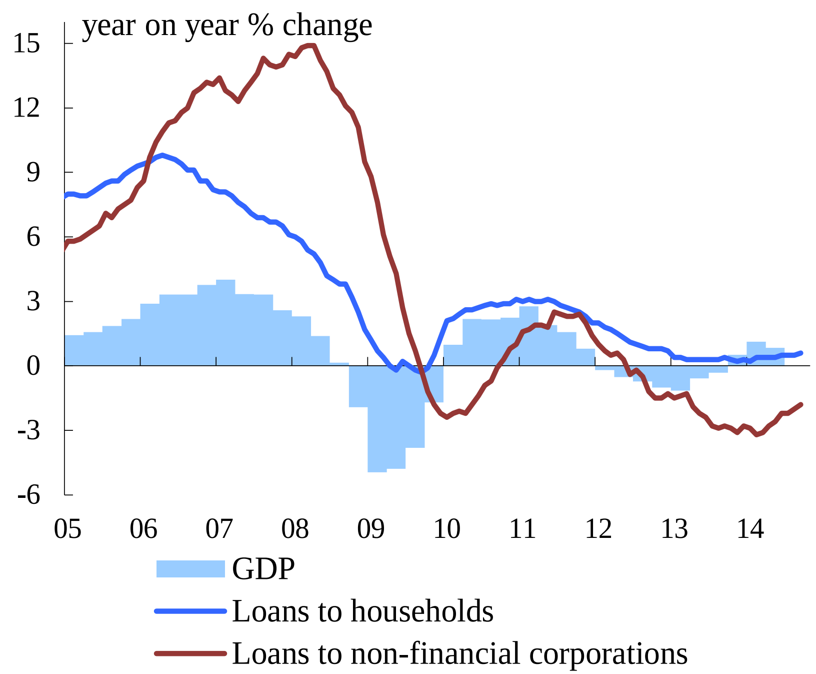
Corporate bond spreads



Source: Bloomberg

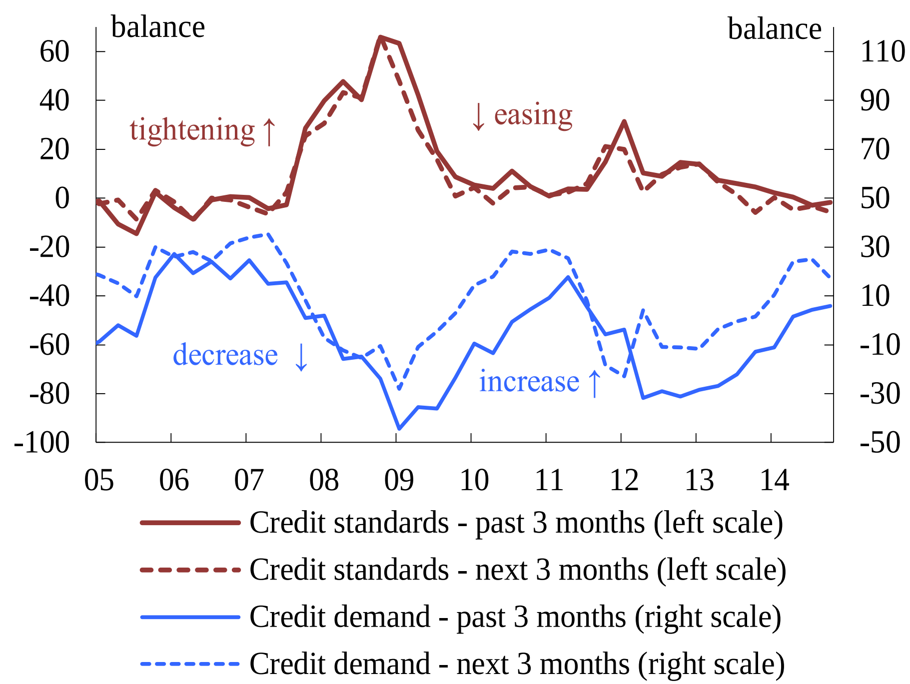
...a possible turning point in loan dynamics, related to the ECB's recent assessment...

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



Source:ECB

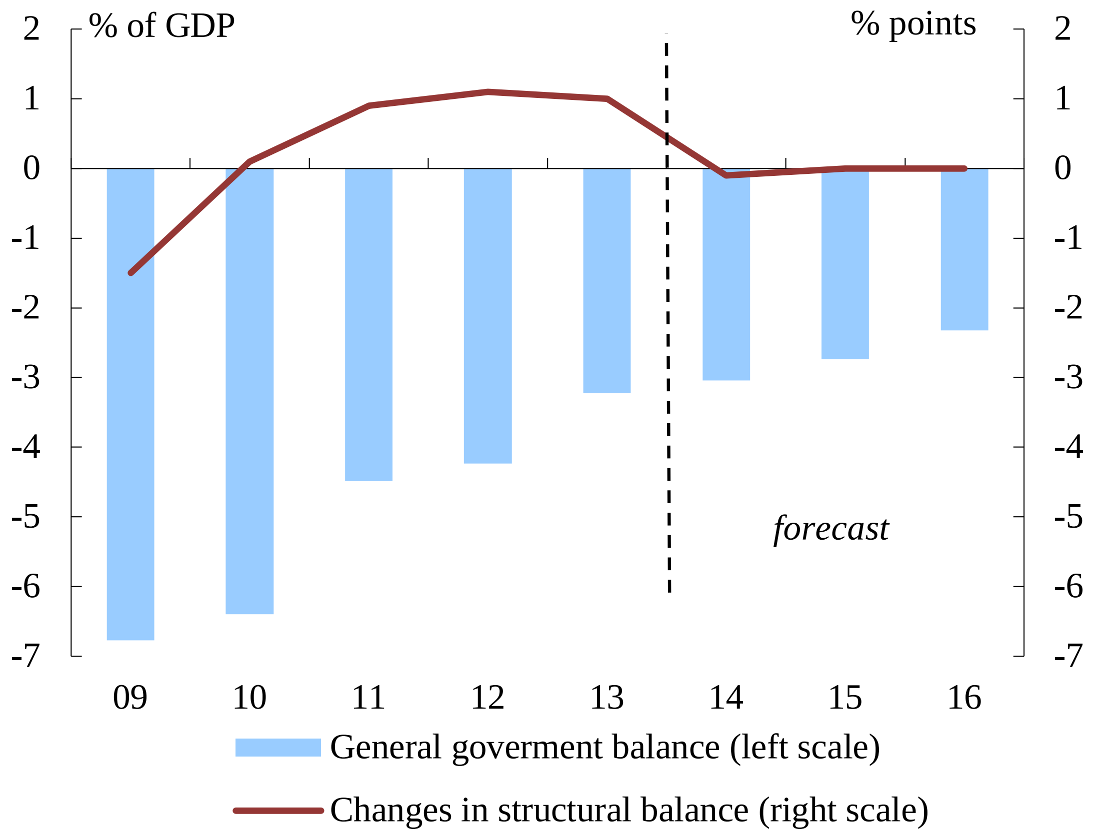
Net changes in credit standards and credit demand, euro-area



Source:ECB

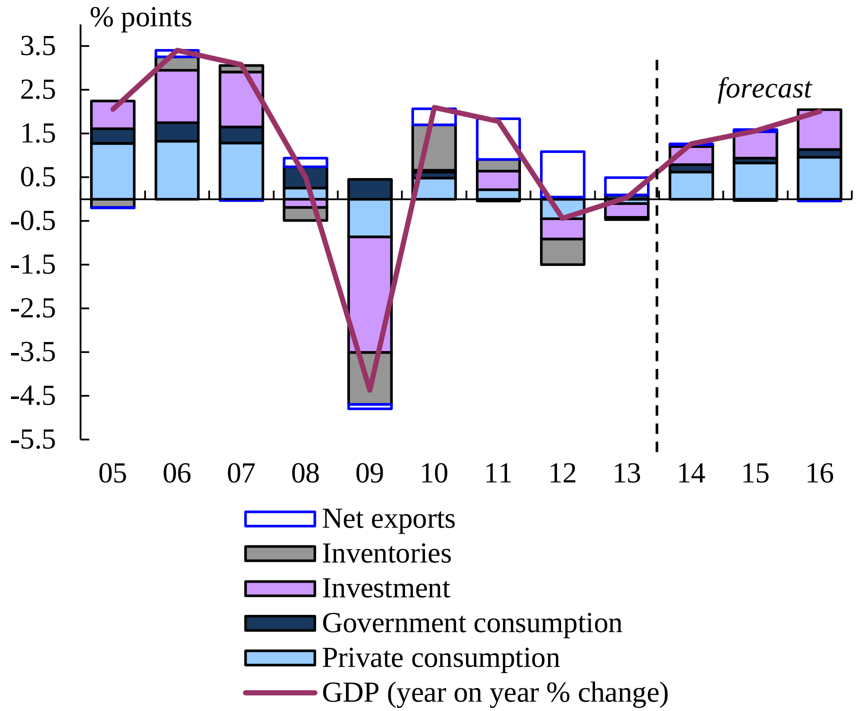
…and a broadly neutral fiscal stance

Graph I.35: **Budgetary developments, EU**



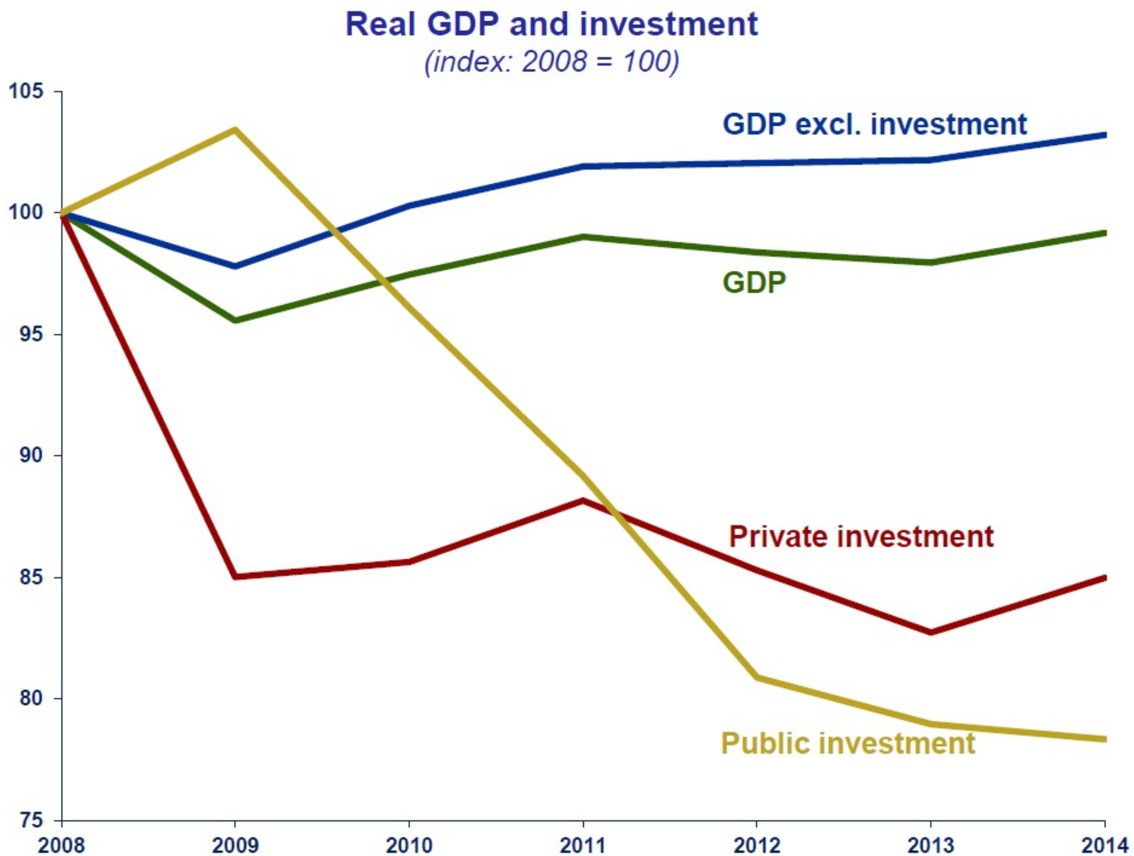
Source: European Commission

Domestic demand to drive output growth



Source: European Commission

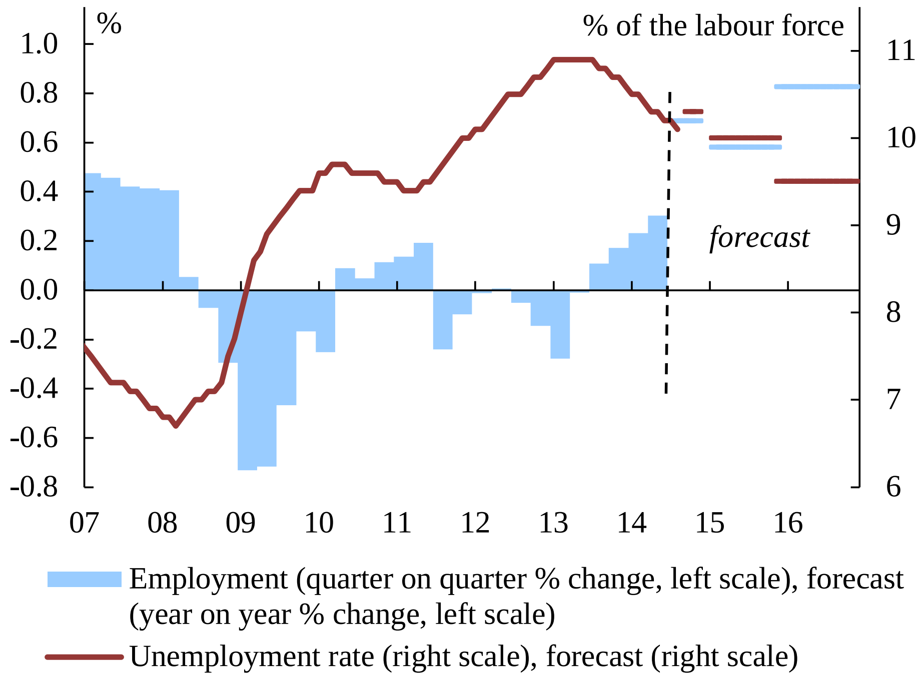
The Investment Gap



Sources: ECB calculations and European Commission.
Latest data: 2013 (forecast 2014).

Labour markets are improving only slowly

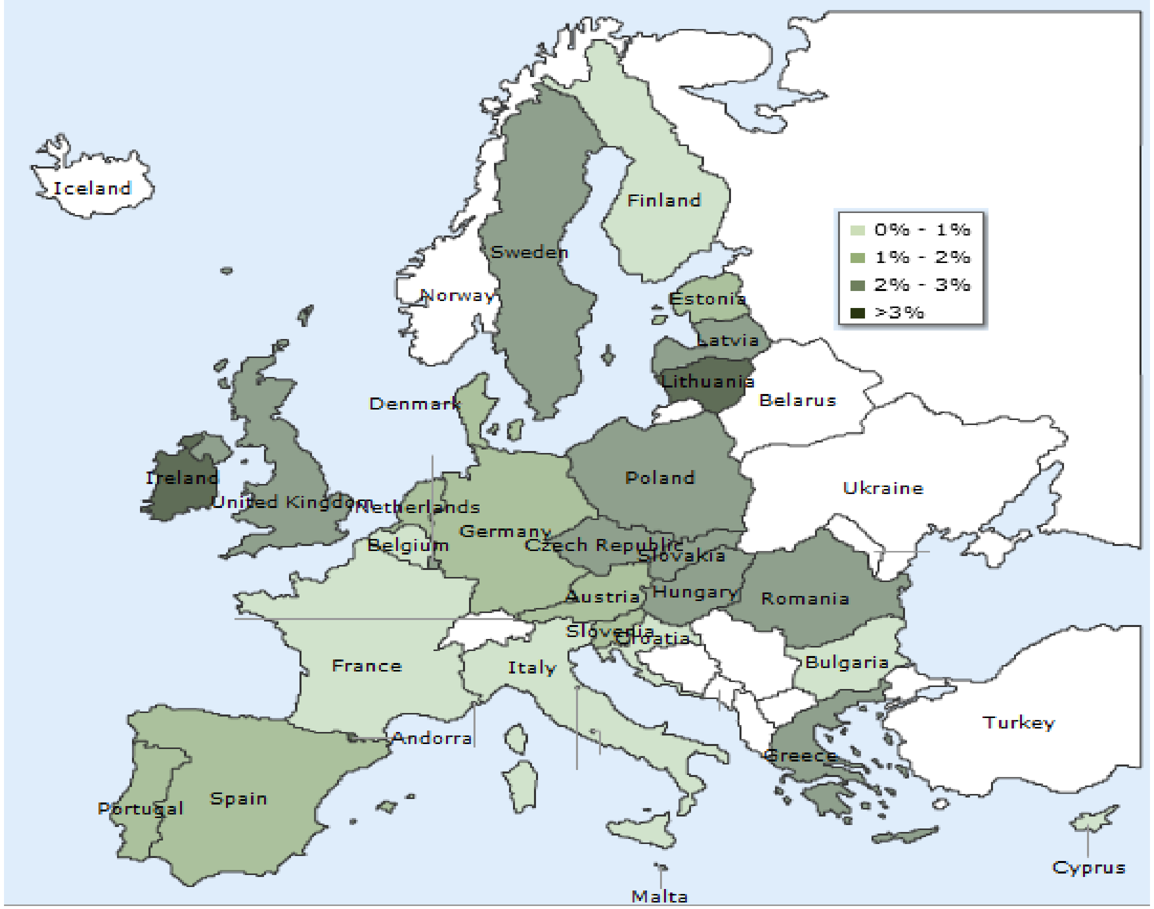
Employment growth and unemployment rate, EU



Forecast figures are annual data.

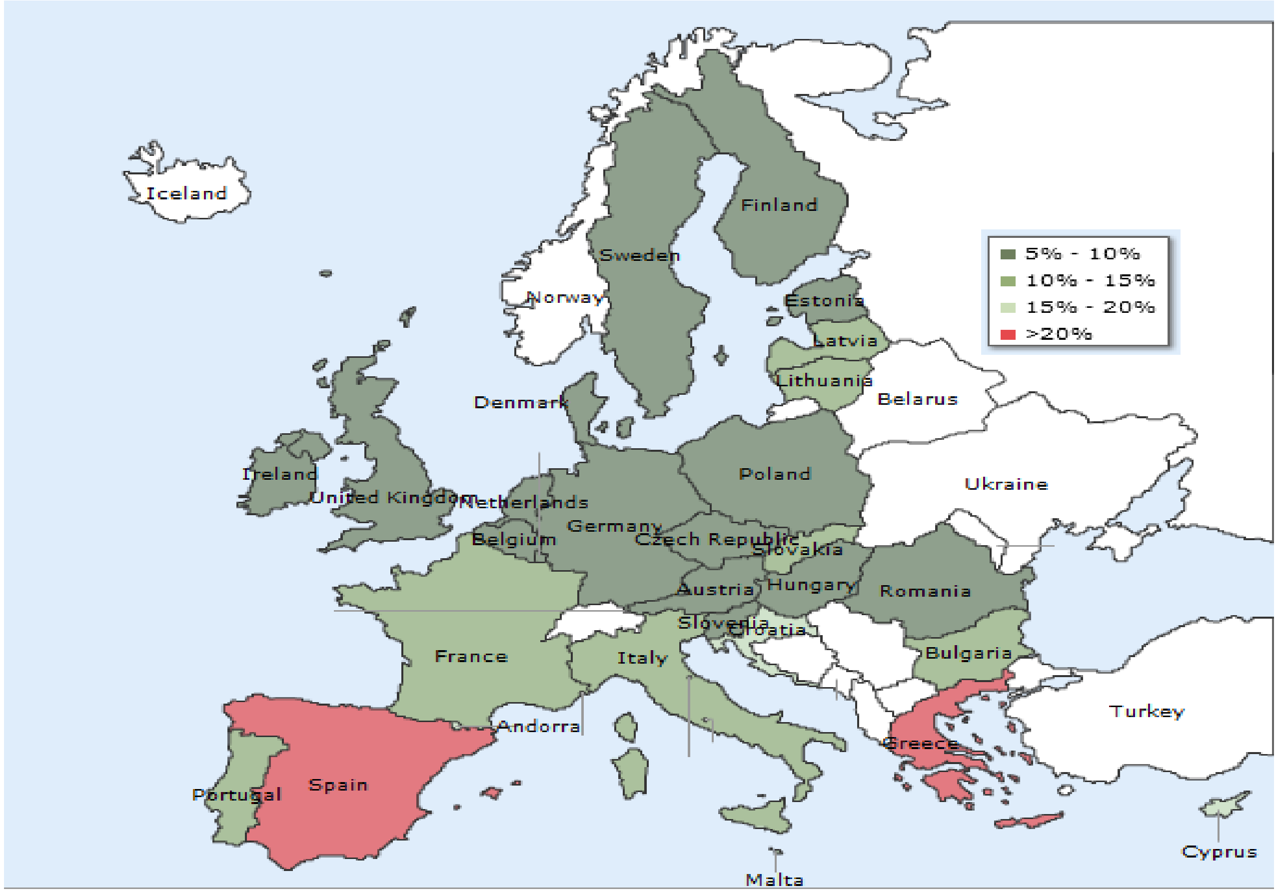
Source: European Commission

In 2015, most EU economies will grow at more than 1%



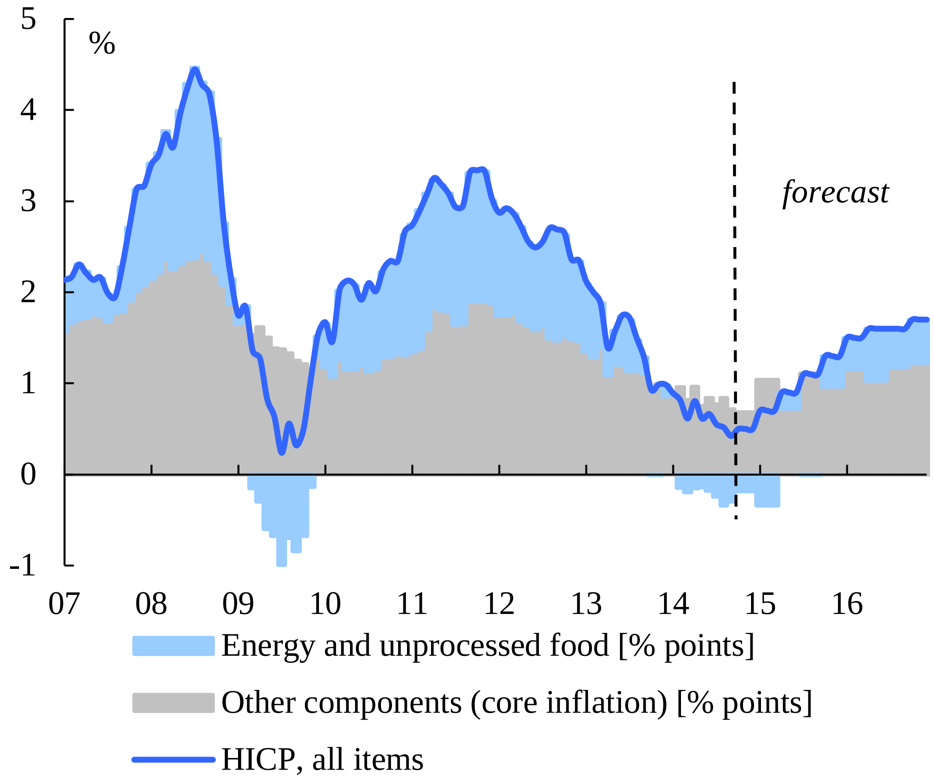
Source: European Commission

Country differences also narrowing in labour markets



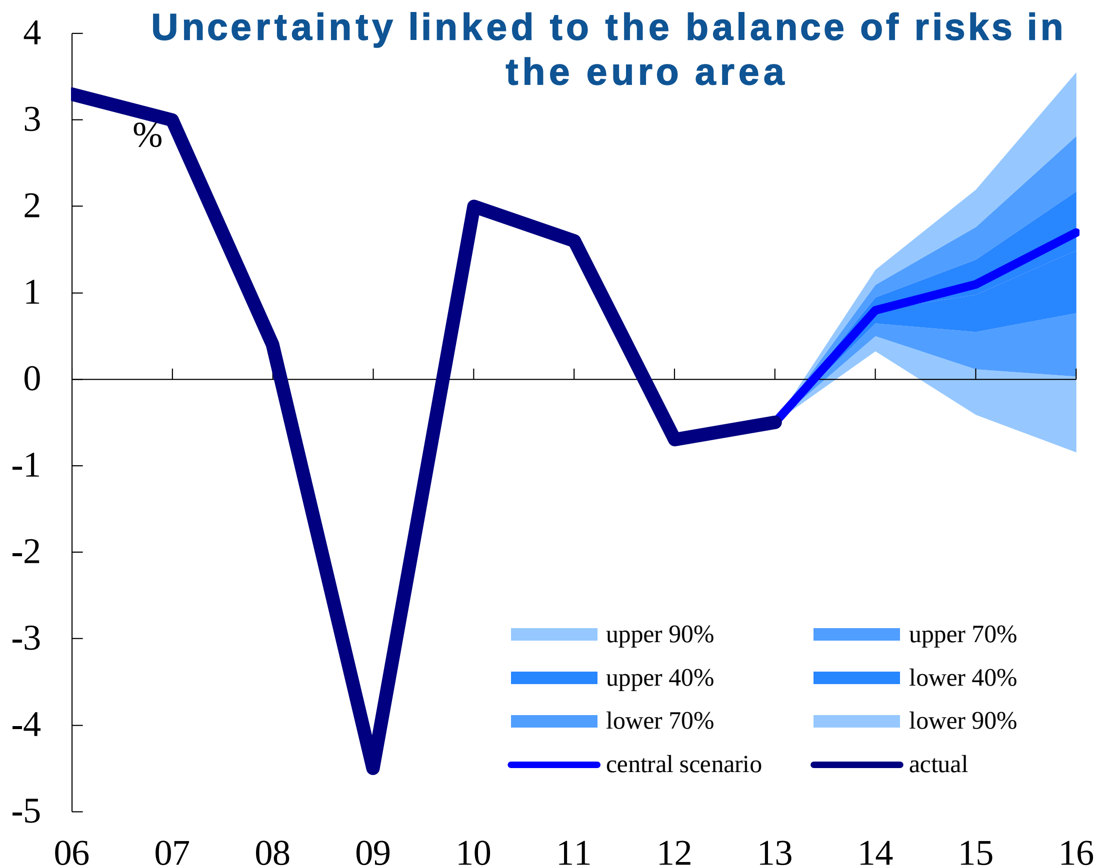
Source: European Commission

Low inflation is persisting



Source: European Commission

Risks to the growth outlook remain tilted to the downside



Source: European Commission

No single, simple answer

In order to address current challenges, the EU needs a combination of:

- **Structural reforms**
- **Fiscal credibility**
- **Investment**

➔ President Juncker's agenda for jobs and growth

Thank you for your attention

Key messages

- The economic recovery is not happening as fast and as strongly as expected last spring.
- GDP growth is expected to rise slowly in 2015 and accelerate in 2016.
- Diversity across Member States is large.
- Inflation is projected to pick up very gradually as economic slack is reduced and import prices increase.