



European Economic Forecast

Spring 2023

#ECForecast

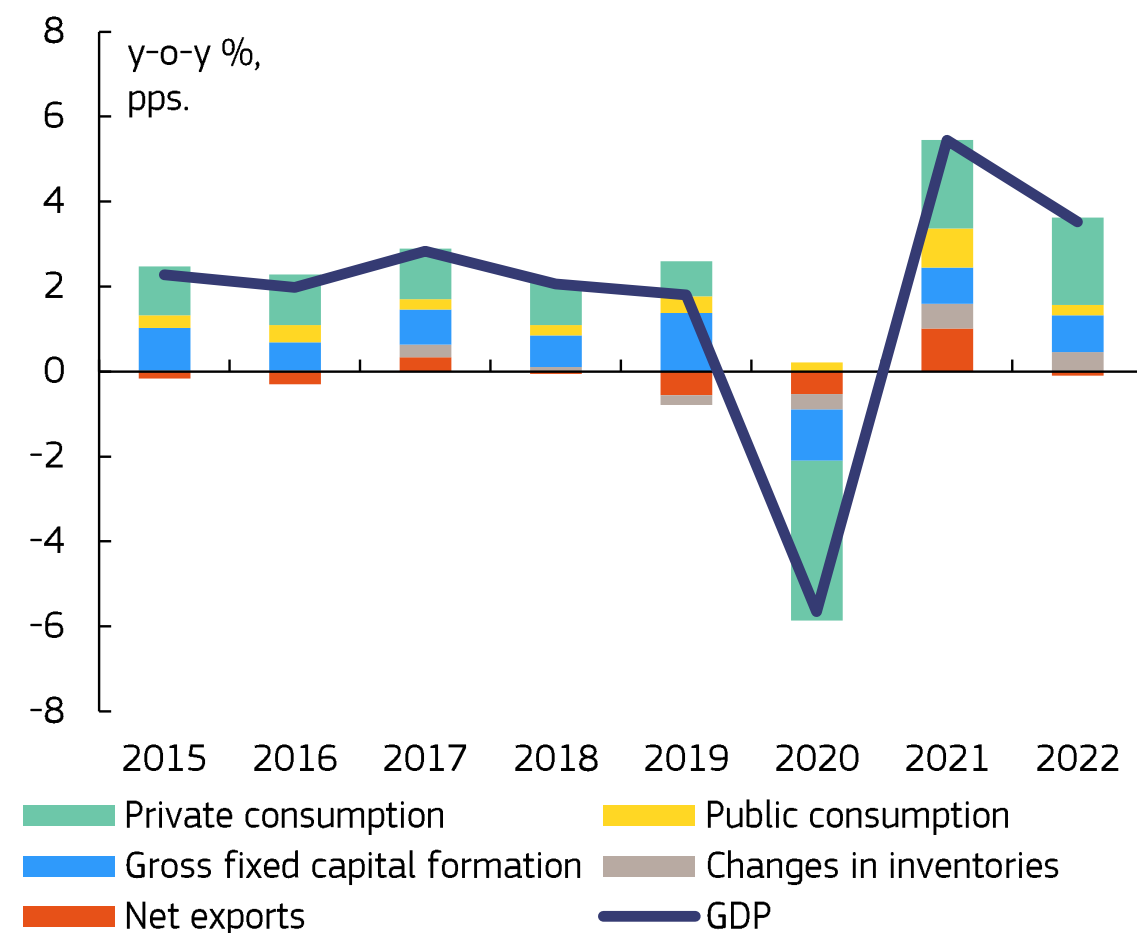
25 May 2023

Susanne Hoffmann

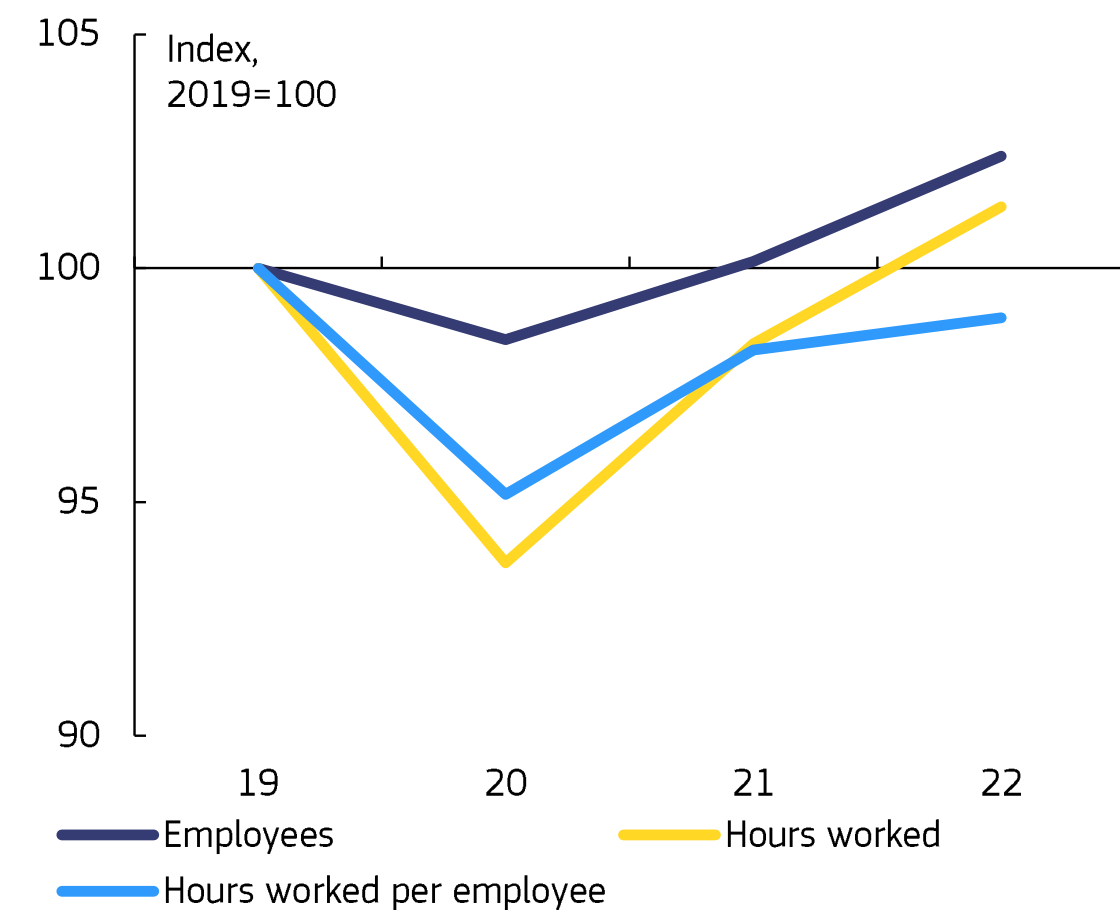
AIECE meeting, Ljubljana, Spring 2023

Good news I – Economic resilience supported by strong labour market

Real GDP growth and contributions, EU

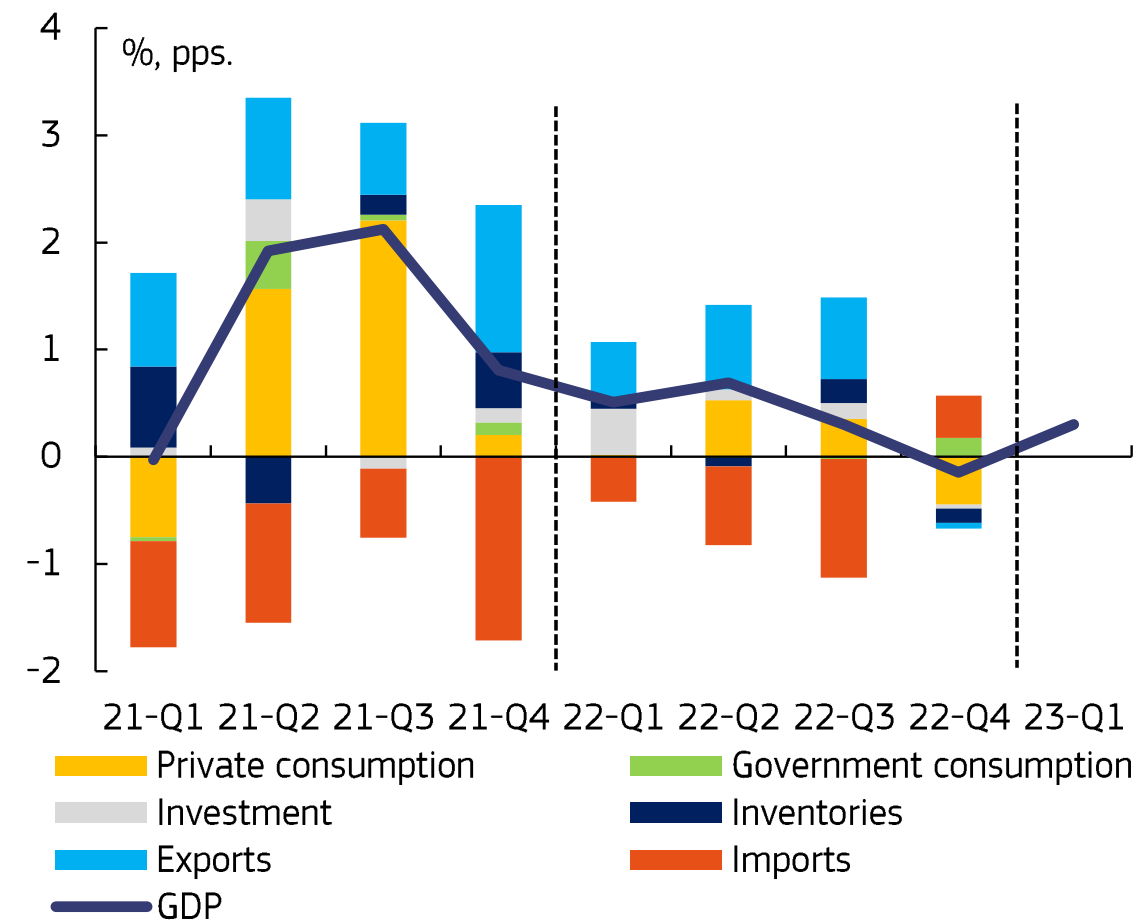


Labour market recovery since 2019, EU

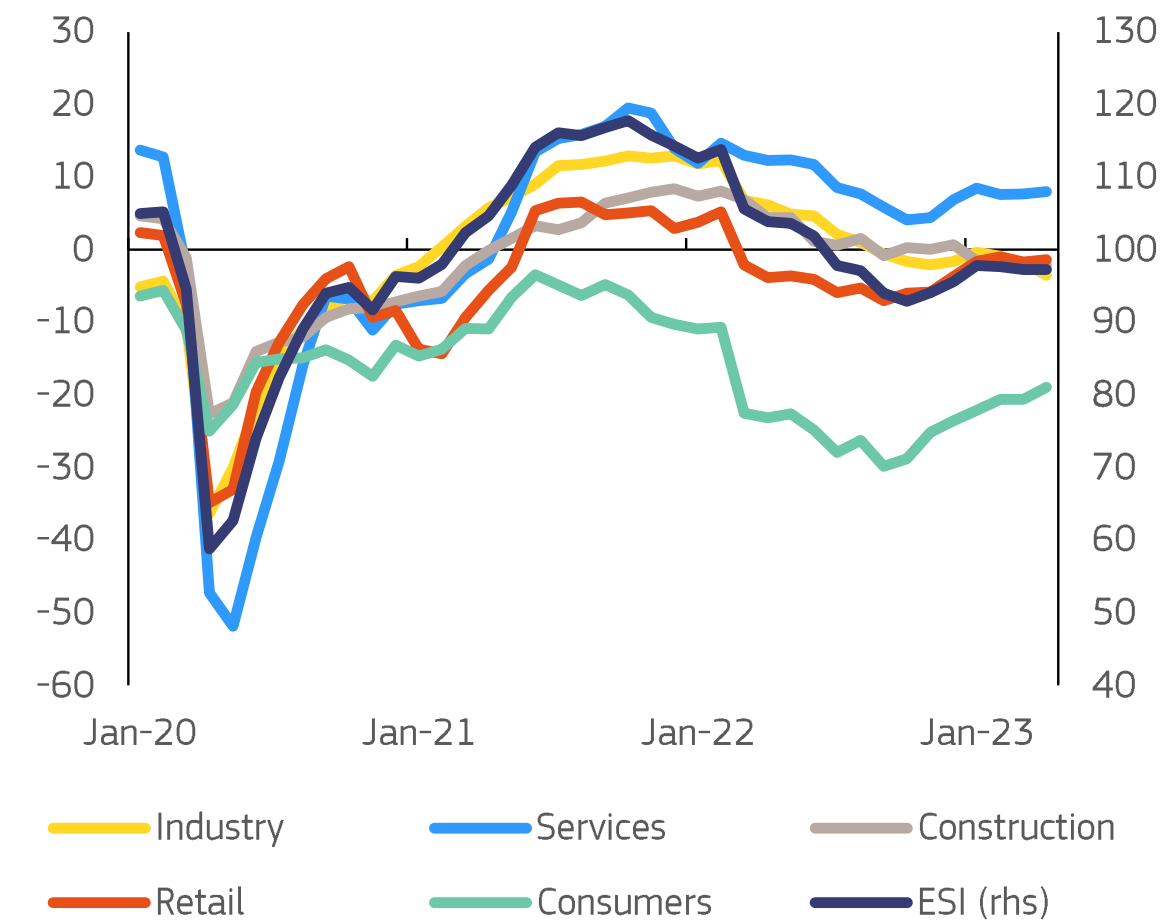


Good news II – Recession avoided and short-term outlook could be worse

GDP growth and contributions, EU (exIE)

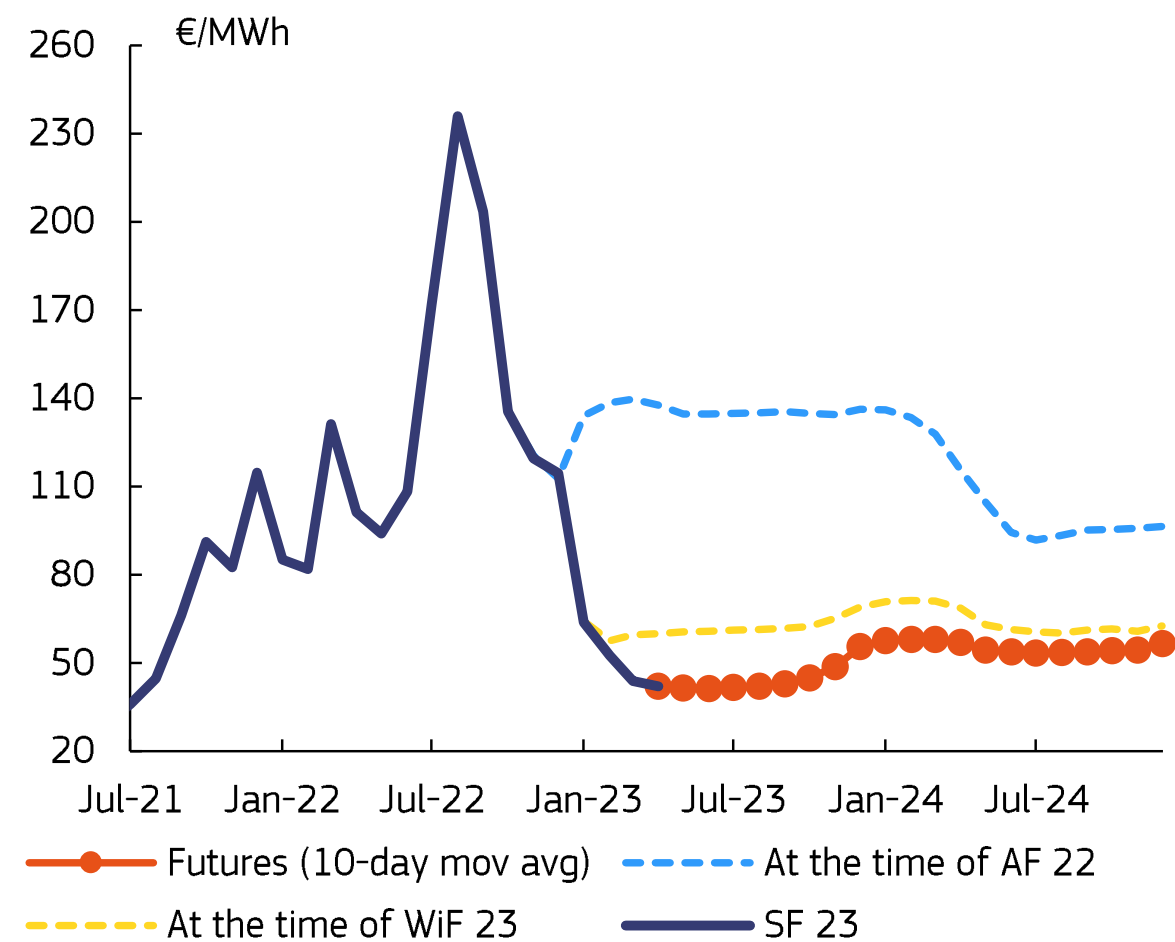


ESI and confidence, EU

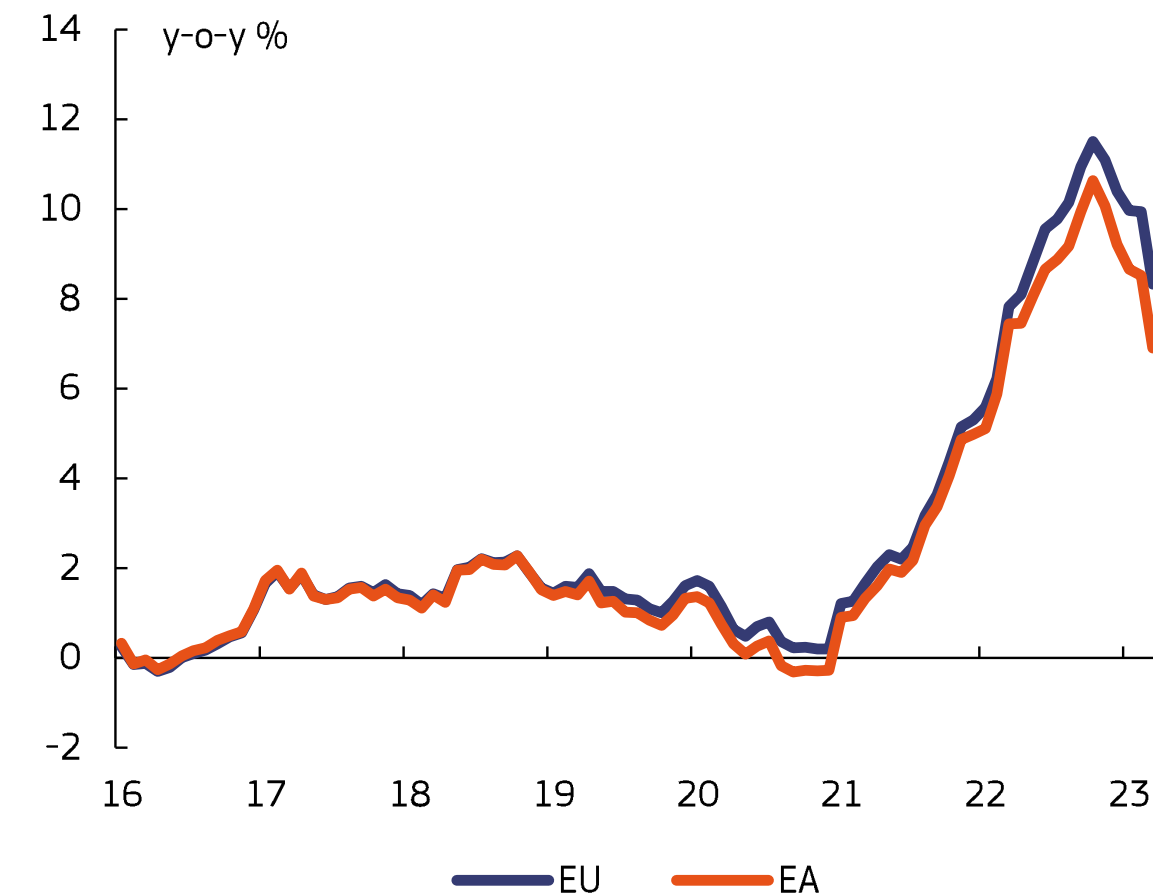


Good news III? – Peak of inflation appears behind and energy commodity prices further down

Gas price developments and future prices

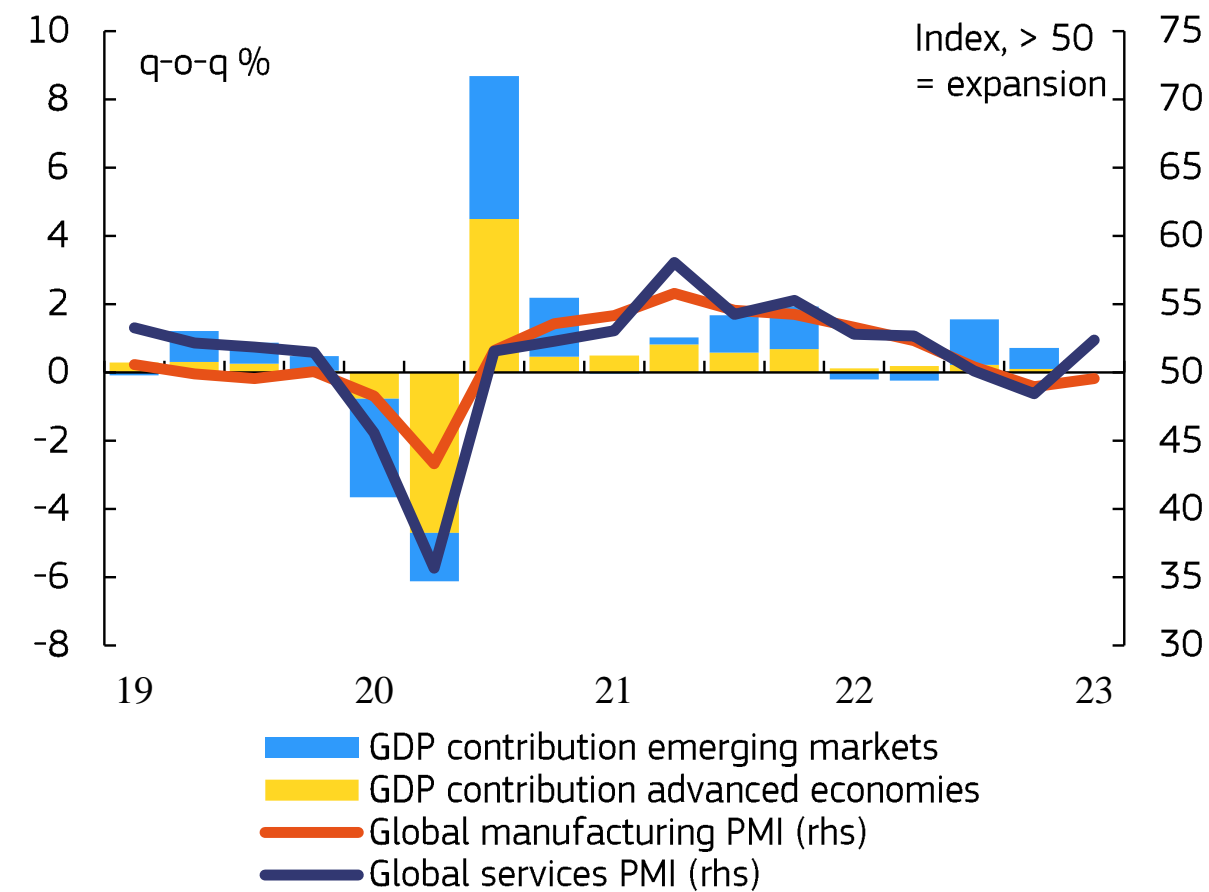


HICP inflation developments, EU and EA



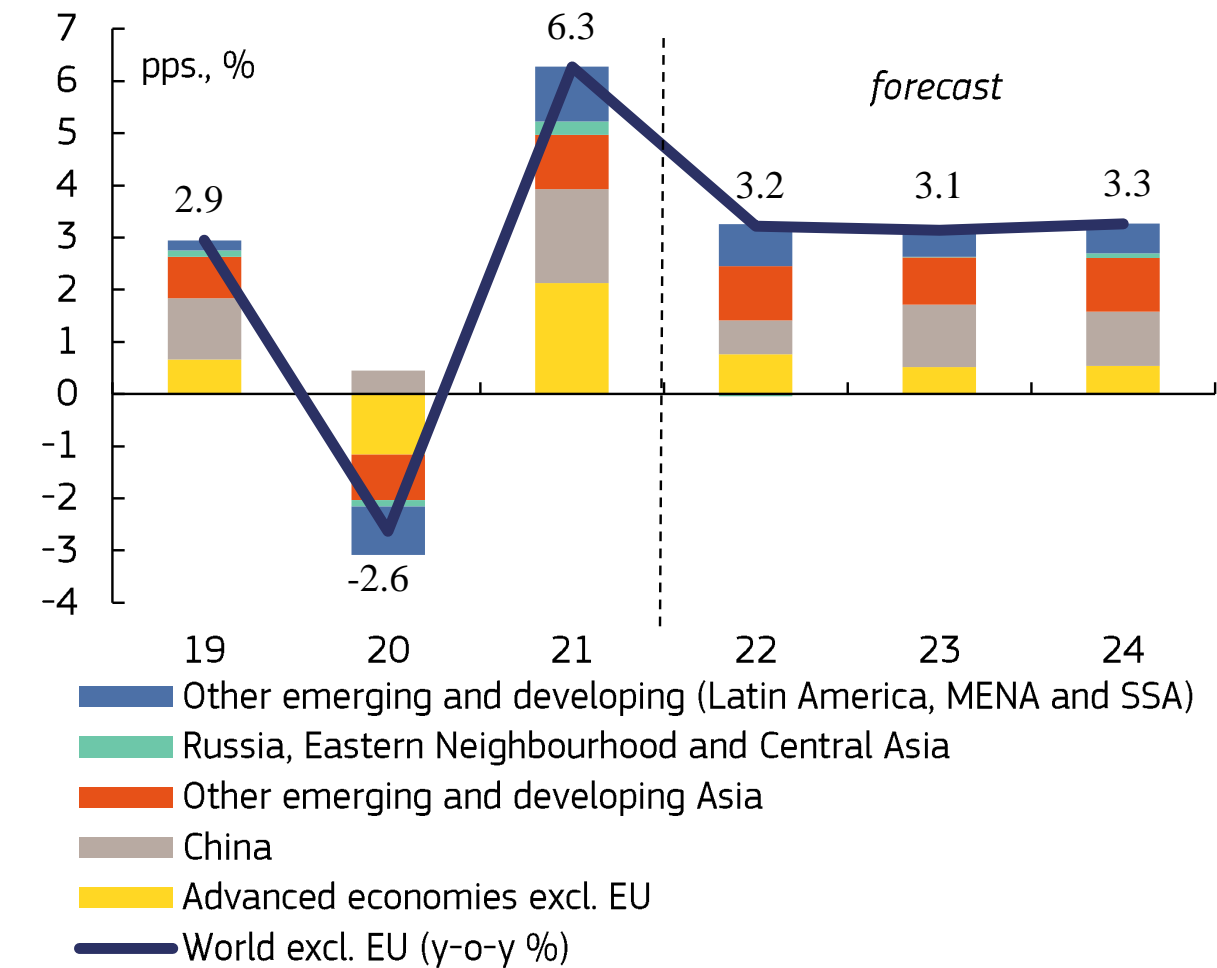
All is well then? Little support from external environment

Growth in global GDP and global PMIs



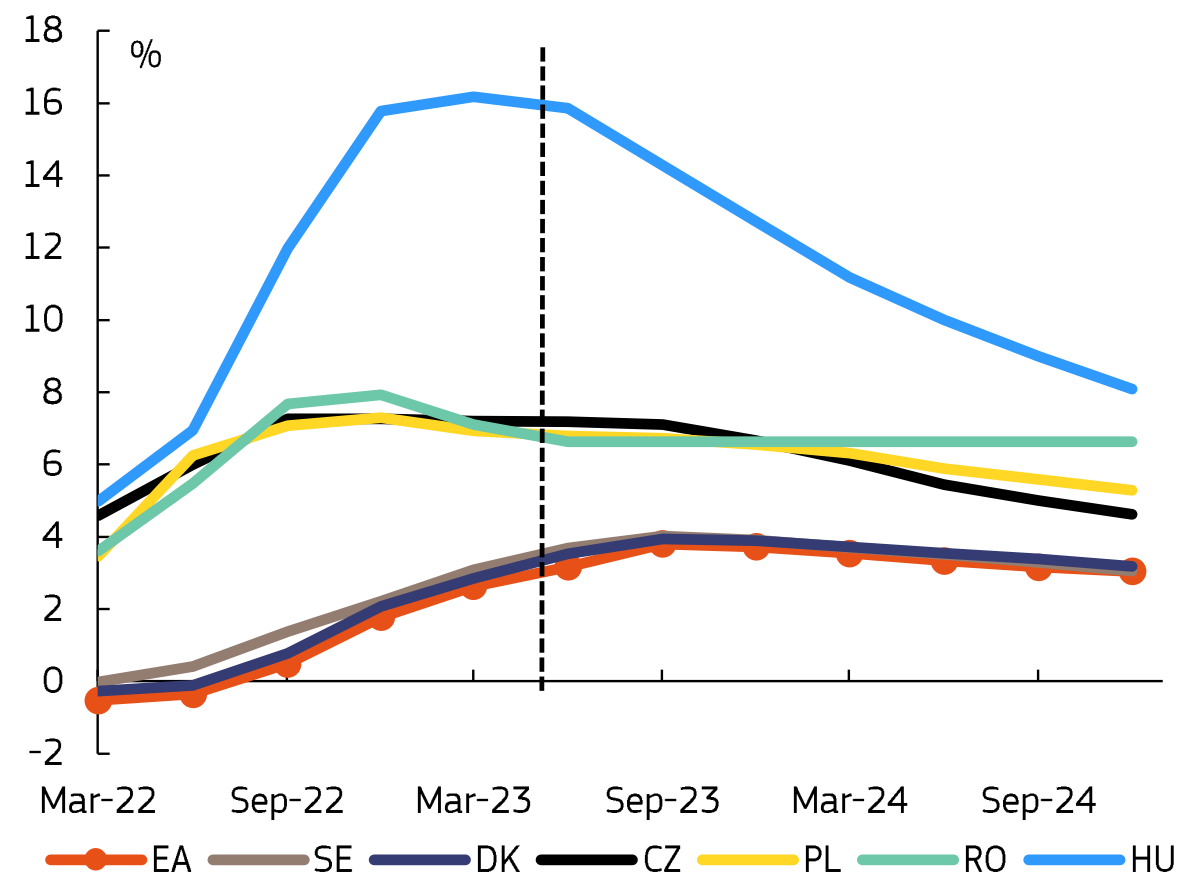
Sources: OECD, IMF and national sources for GDP, S&P Global for PMI.

Contributions to global GDP growth (excl. EU)



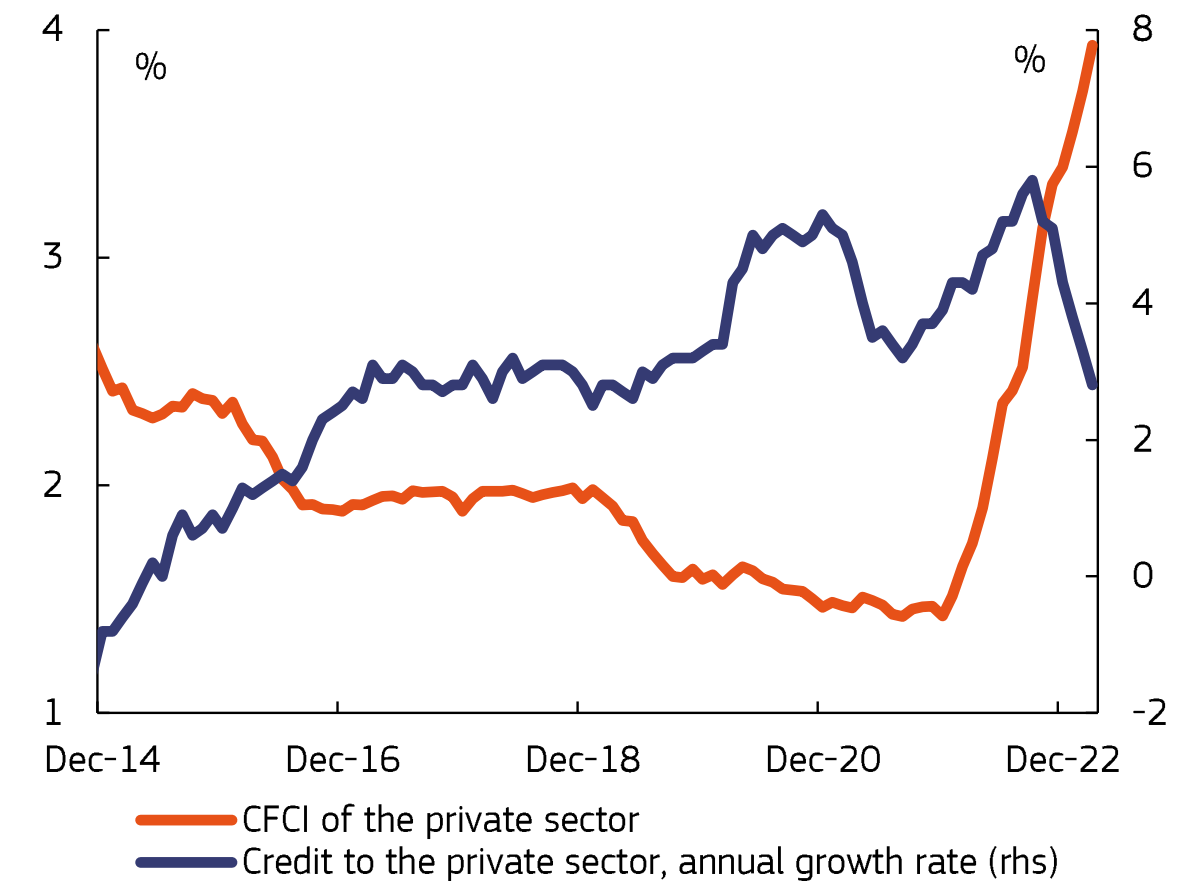
All is well then?? Tightening of financing conditions ongoing

Short-term interest rate expectations, EA and non-EA EU Member States



Source: IHS Markit, Refinitiv, Bloomberg.

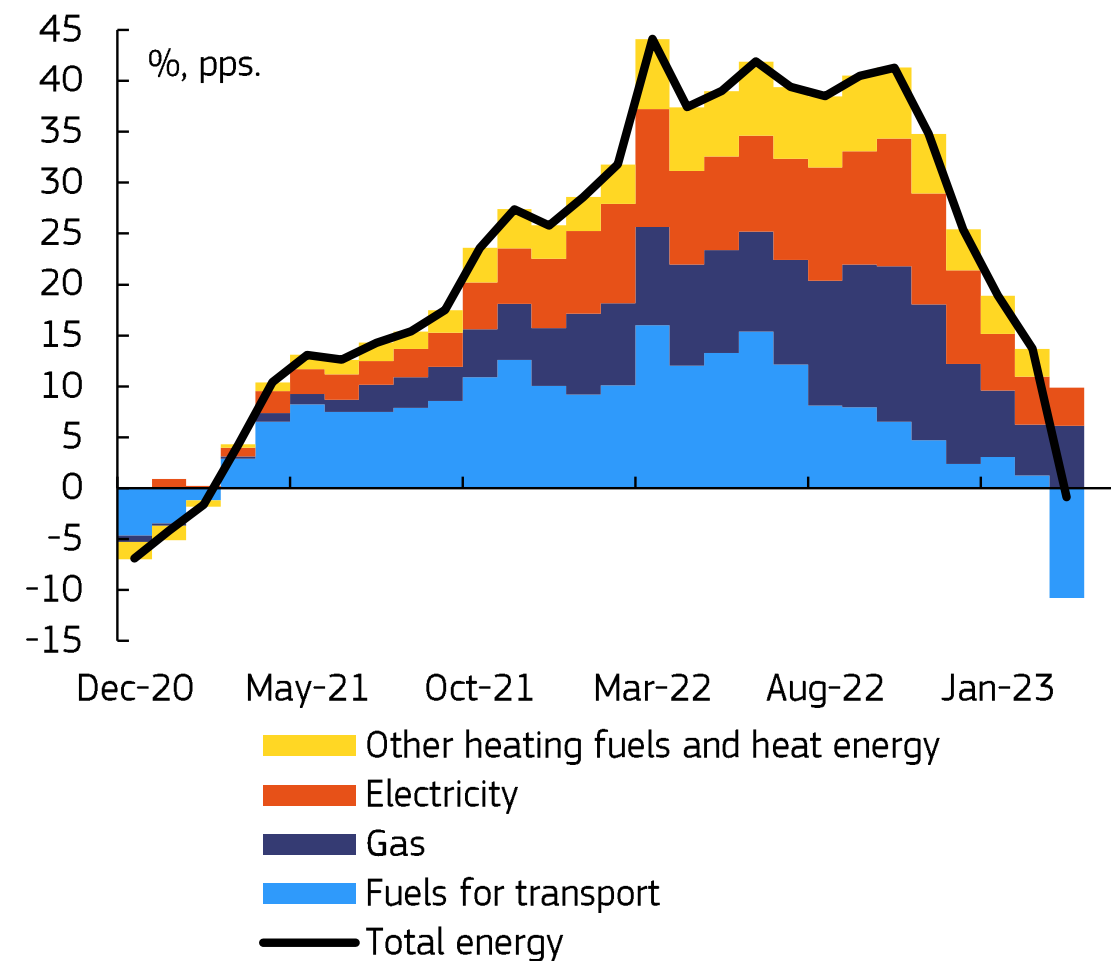
Composite Financing Cost Indicator and credit to the euro area private sector



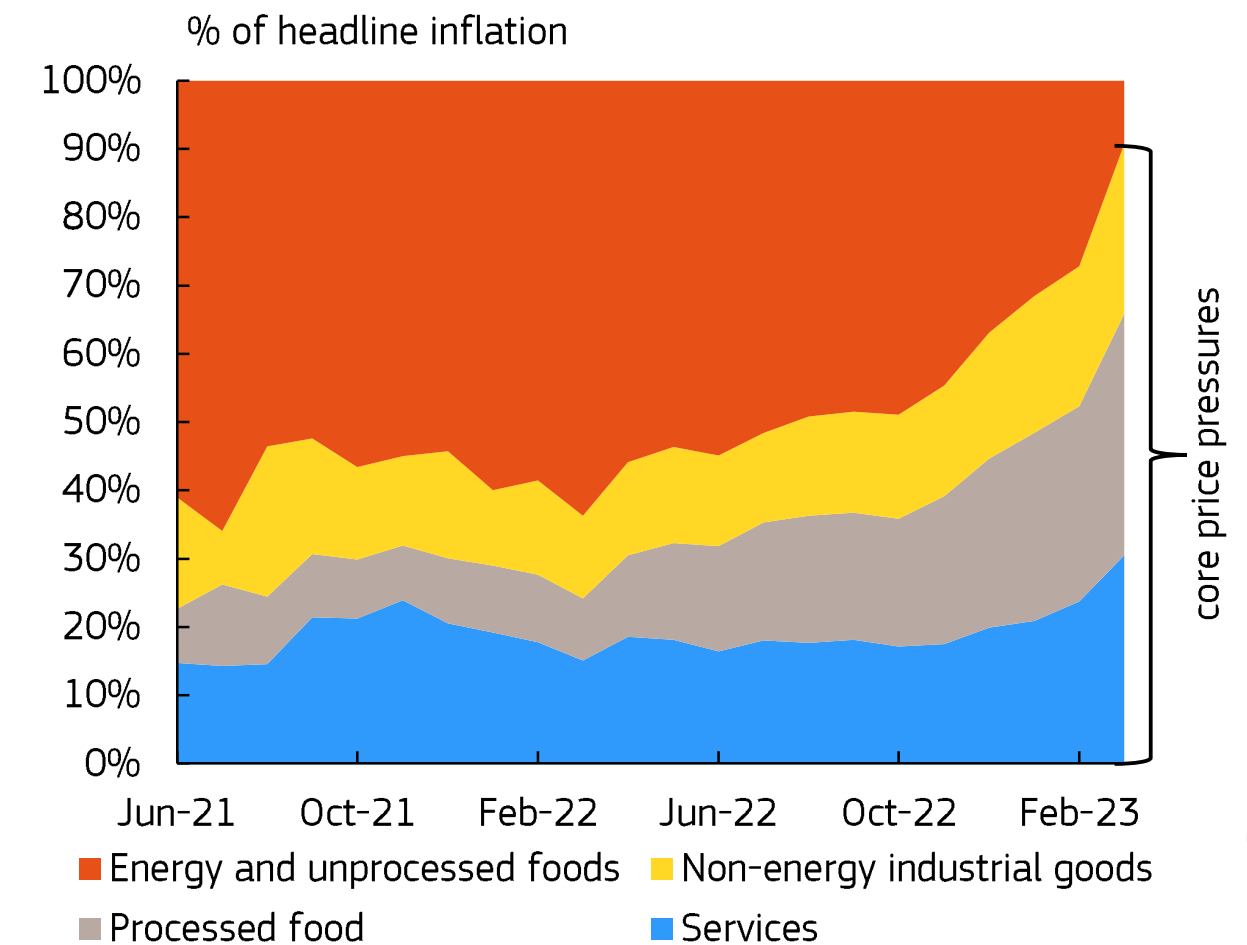
Source: ECB, Bloomberg, Datastream.

All is well then??? Core inflation stickier than expected

Annual energy inflation and contributions from key energy commodities, EA

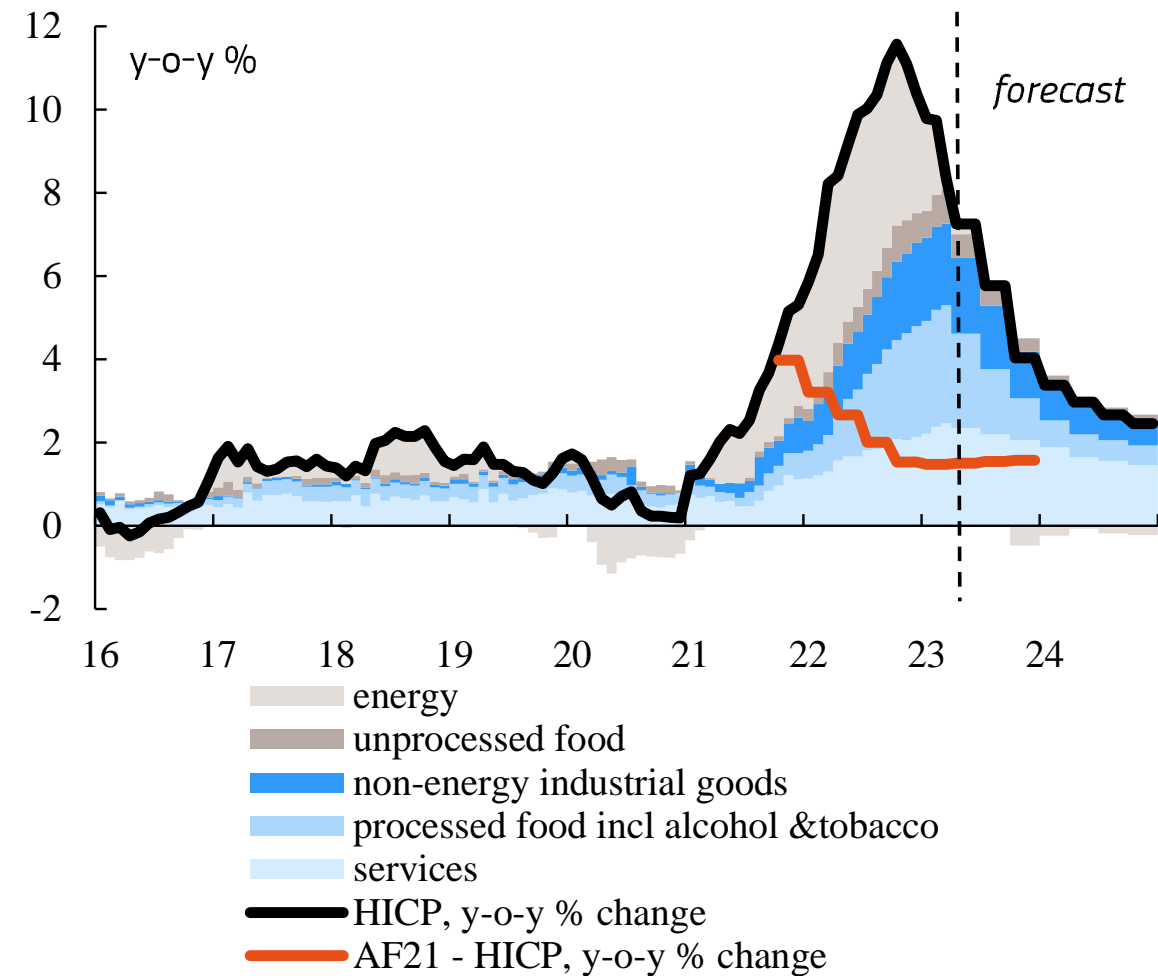


Structure of contributions to annual headline inflation, EA

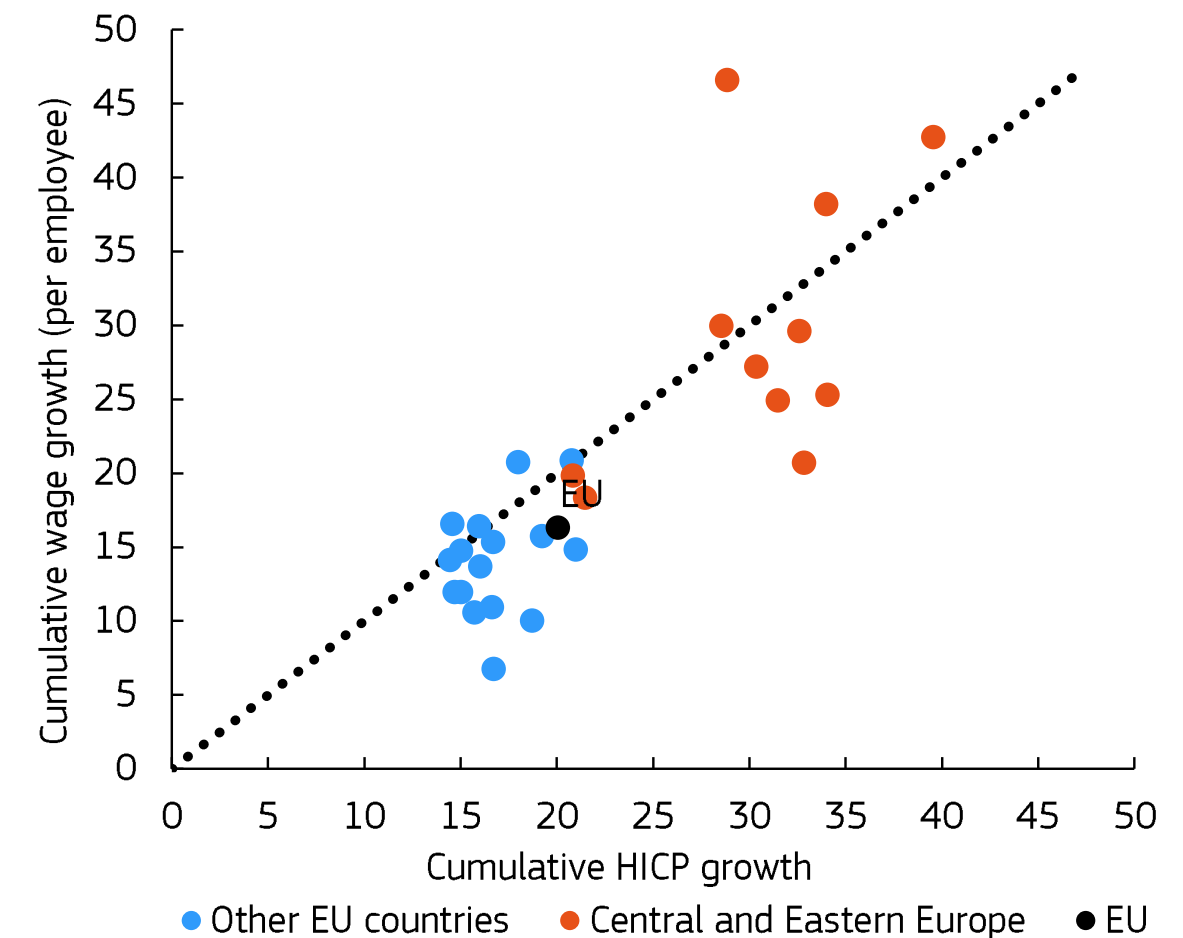


The outlook I - Headline inflation to decline but what about wage growth?

Inflation breakdown, EU

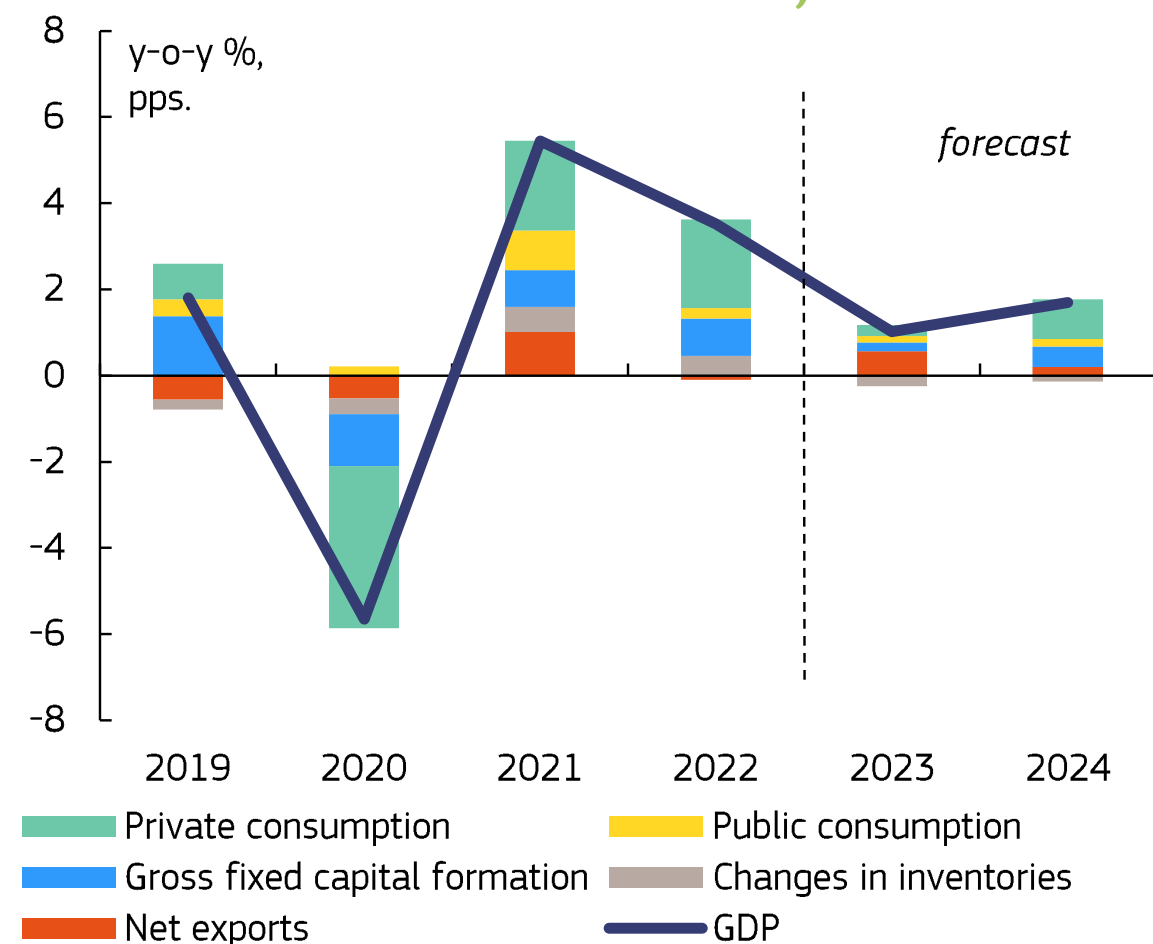


Inflation vs. wage growth, cumulative in 2022-2024

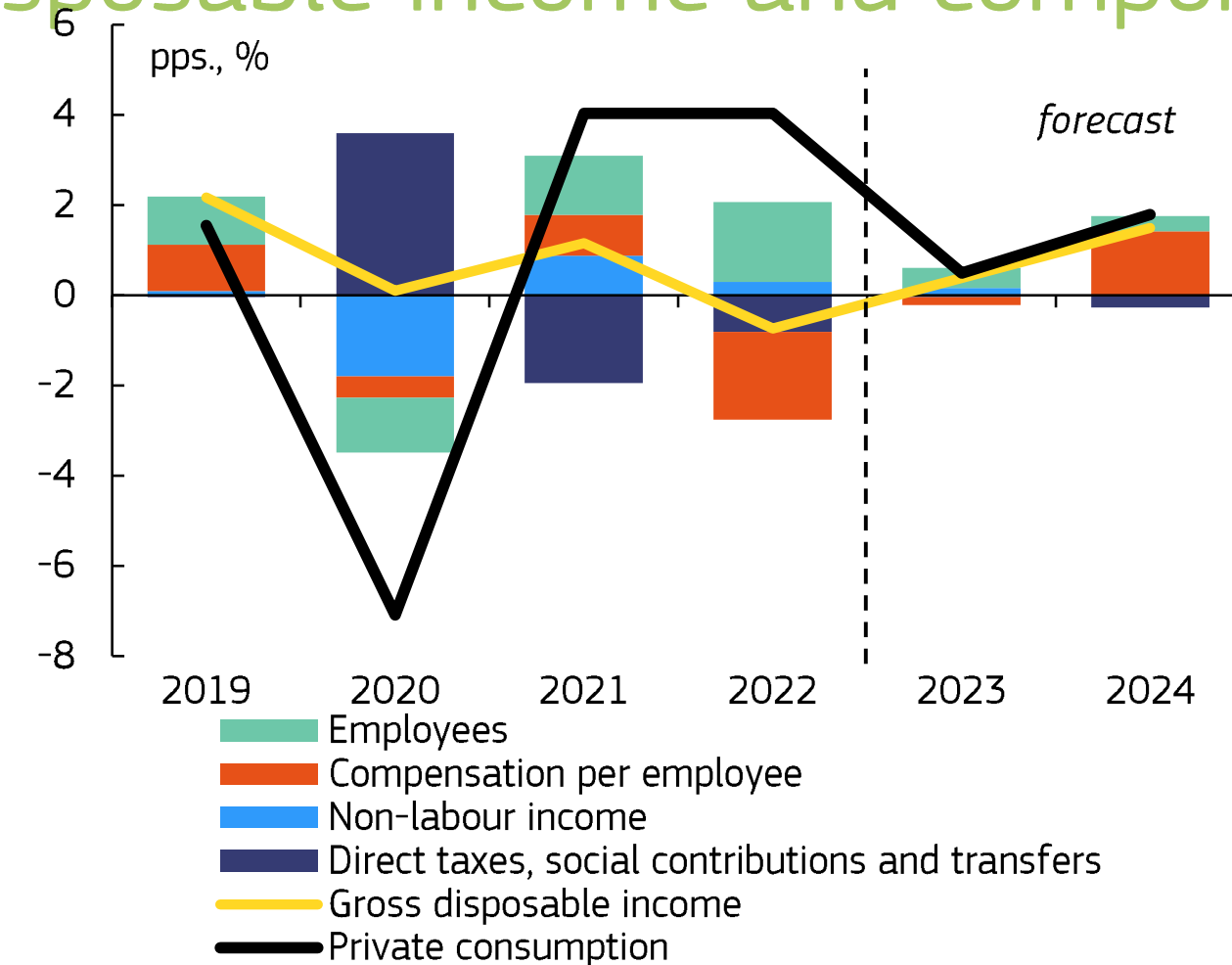


The outlook II: Economic activity expected to gather pace next year as inflation loosens its grip on the economy

Real GDP growth and contributions, EU

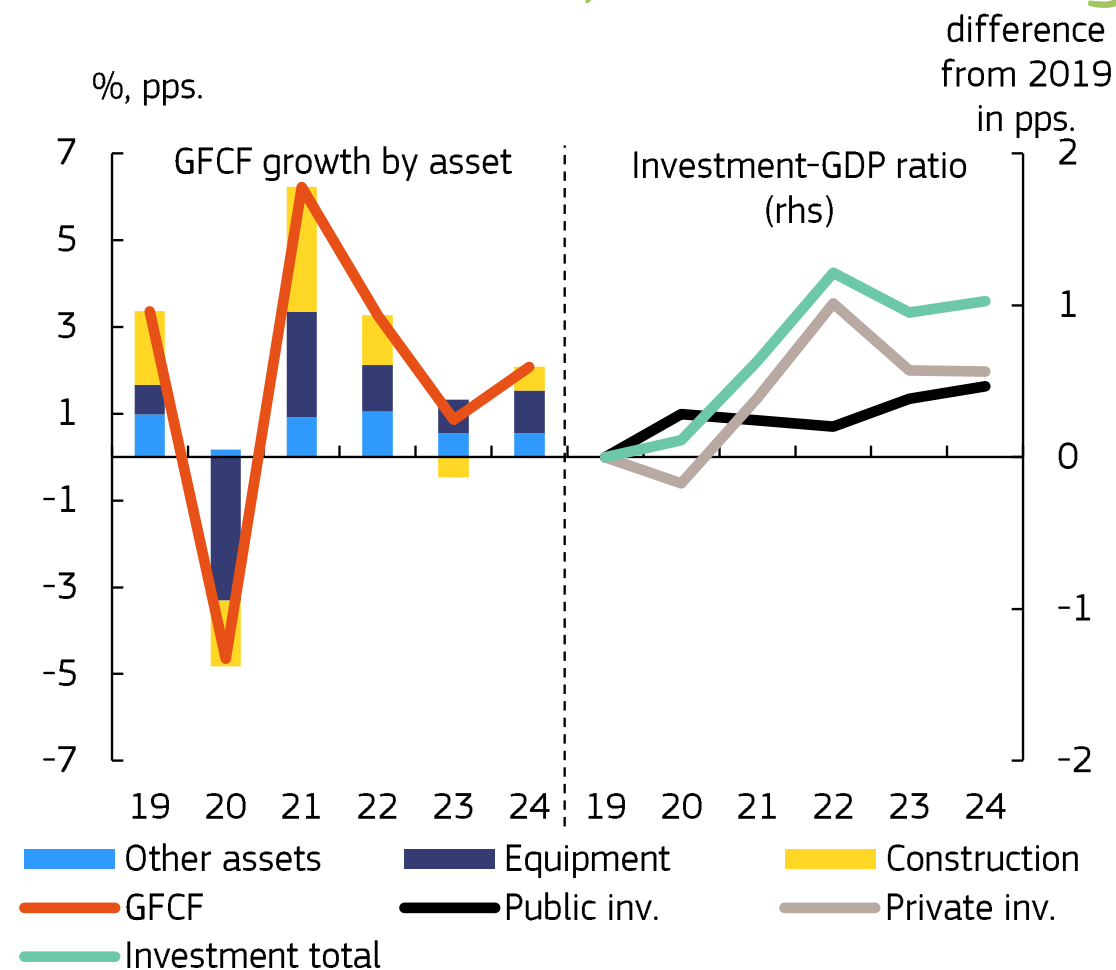


Real private consumption, gross disposable income and components, EU

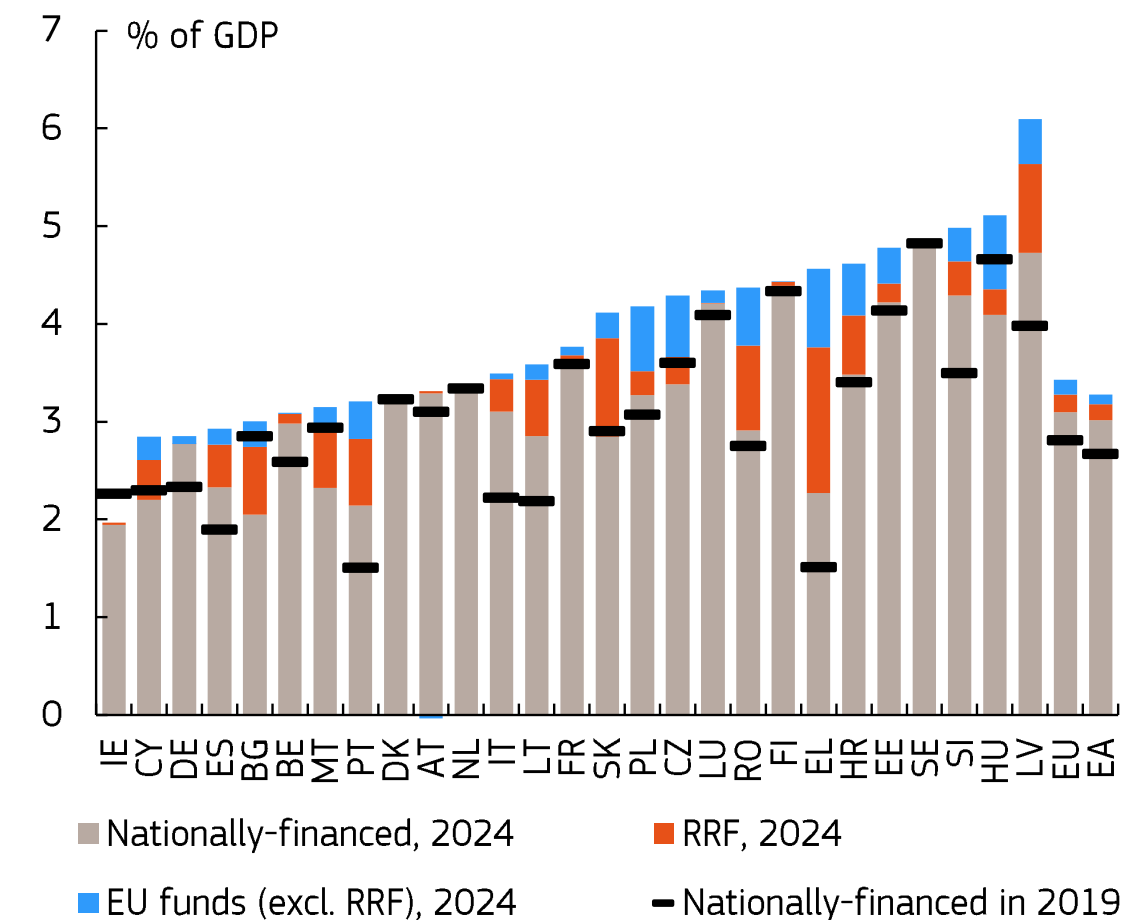


The outlook III: Investment growth cushioned by RRF

Investment breakdown and investment rates since 2019, EU excluding IE

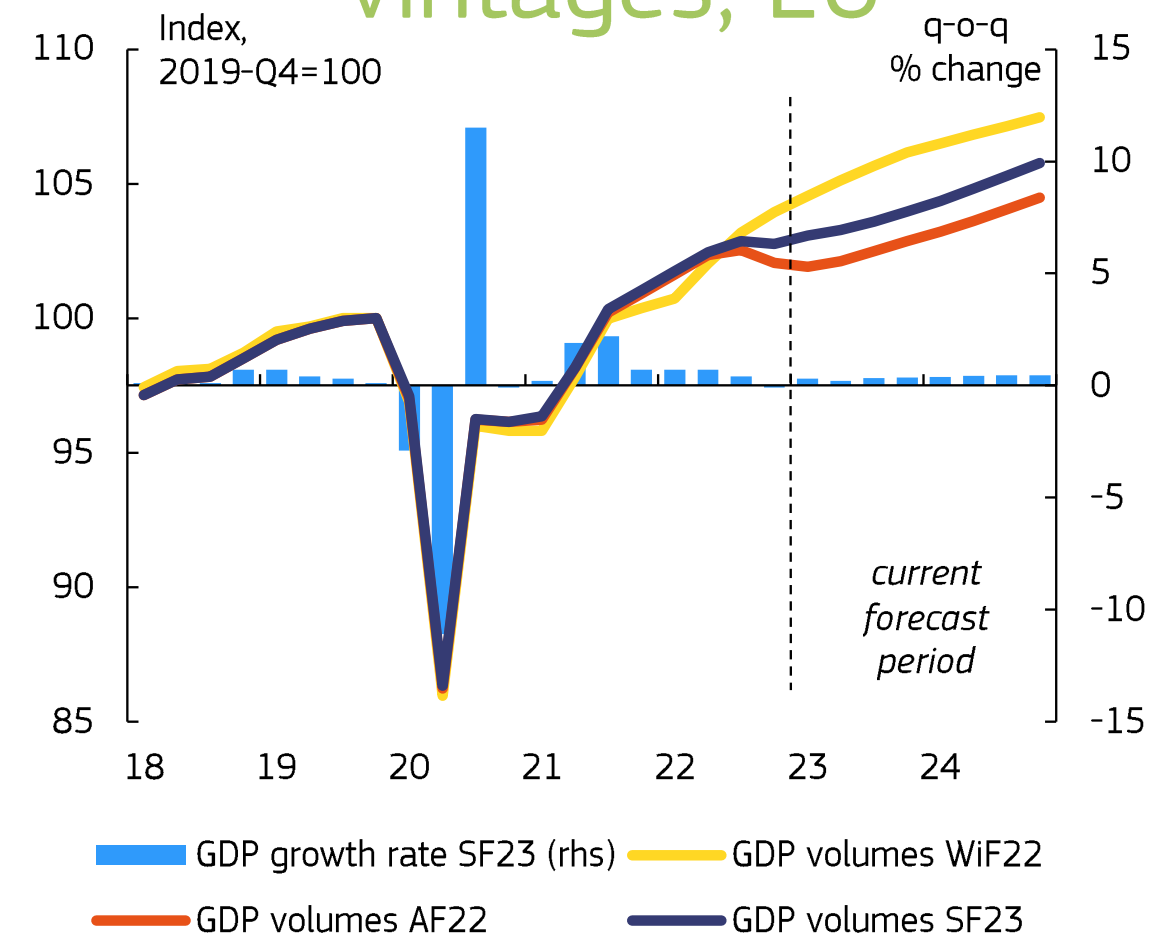


Public investment in 2019 and 2024 across Member States



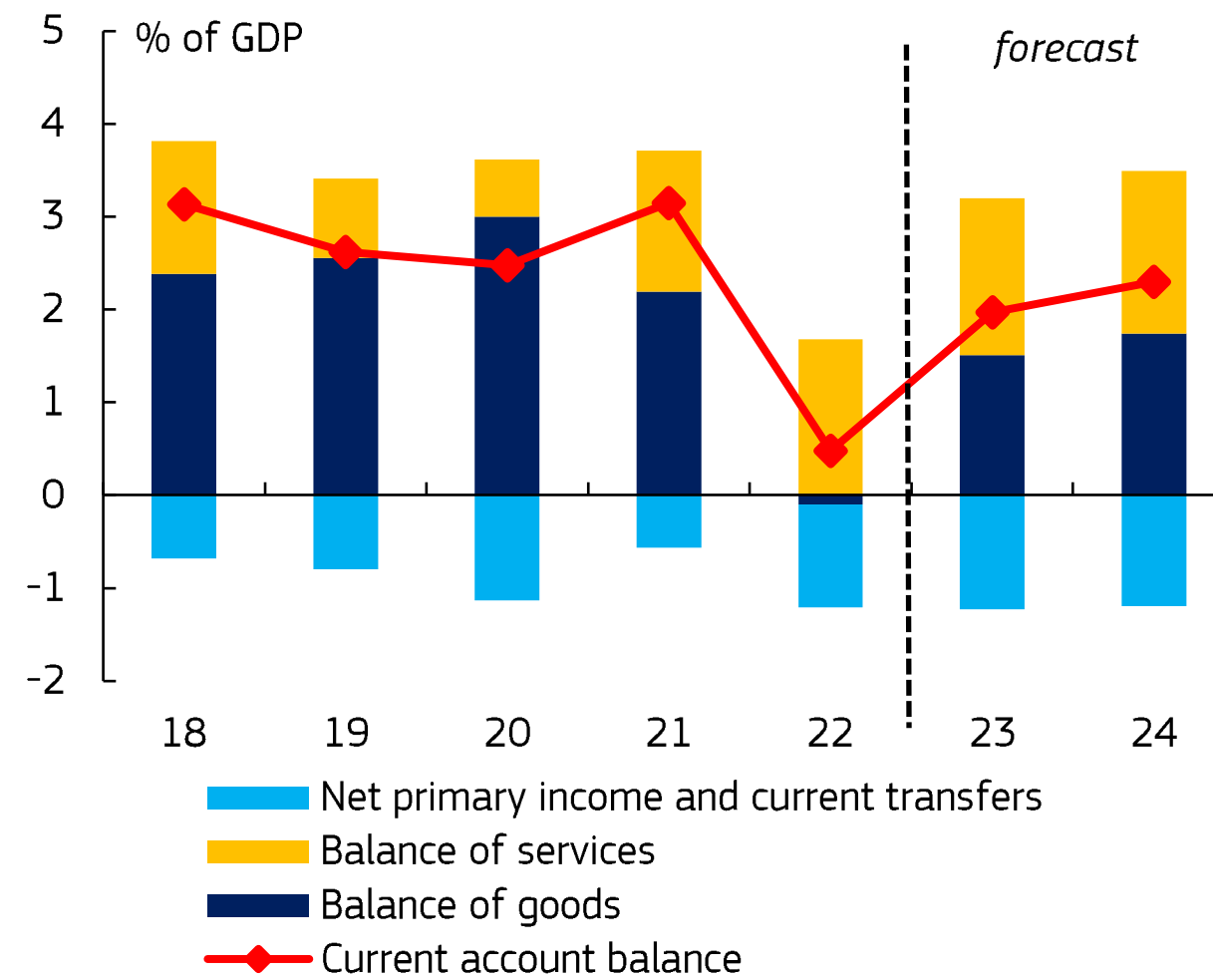
The outlook IV: Better than expected, but still far from the pre-war outlook

Real GDP growth paths across forecast vintages, EU



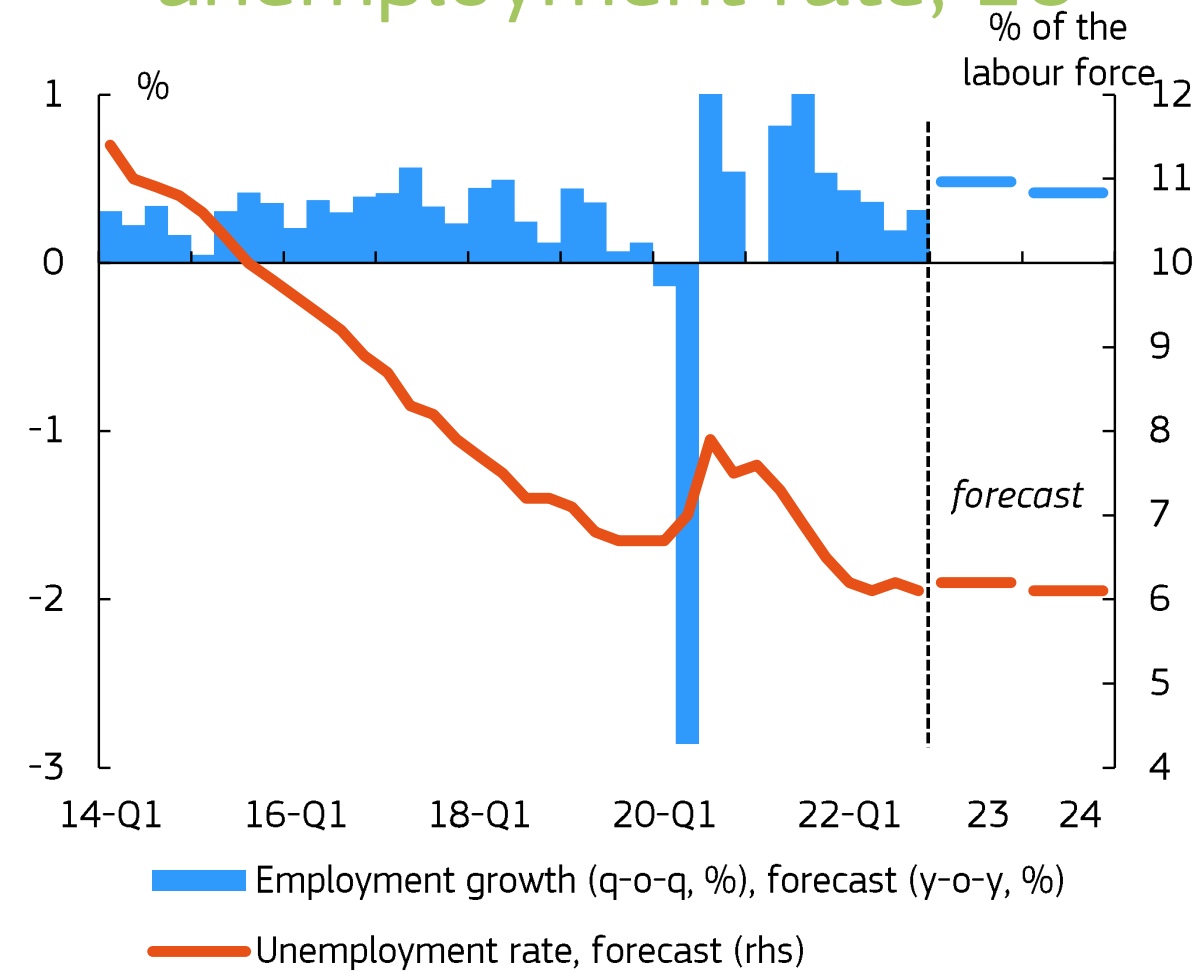
The outlook V: Current account to improve on the back of goods' performance

Current account balance, EU

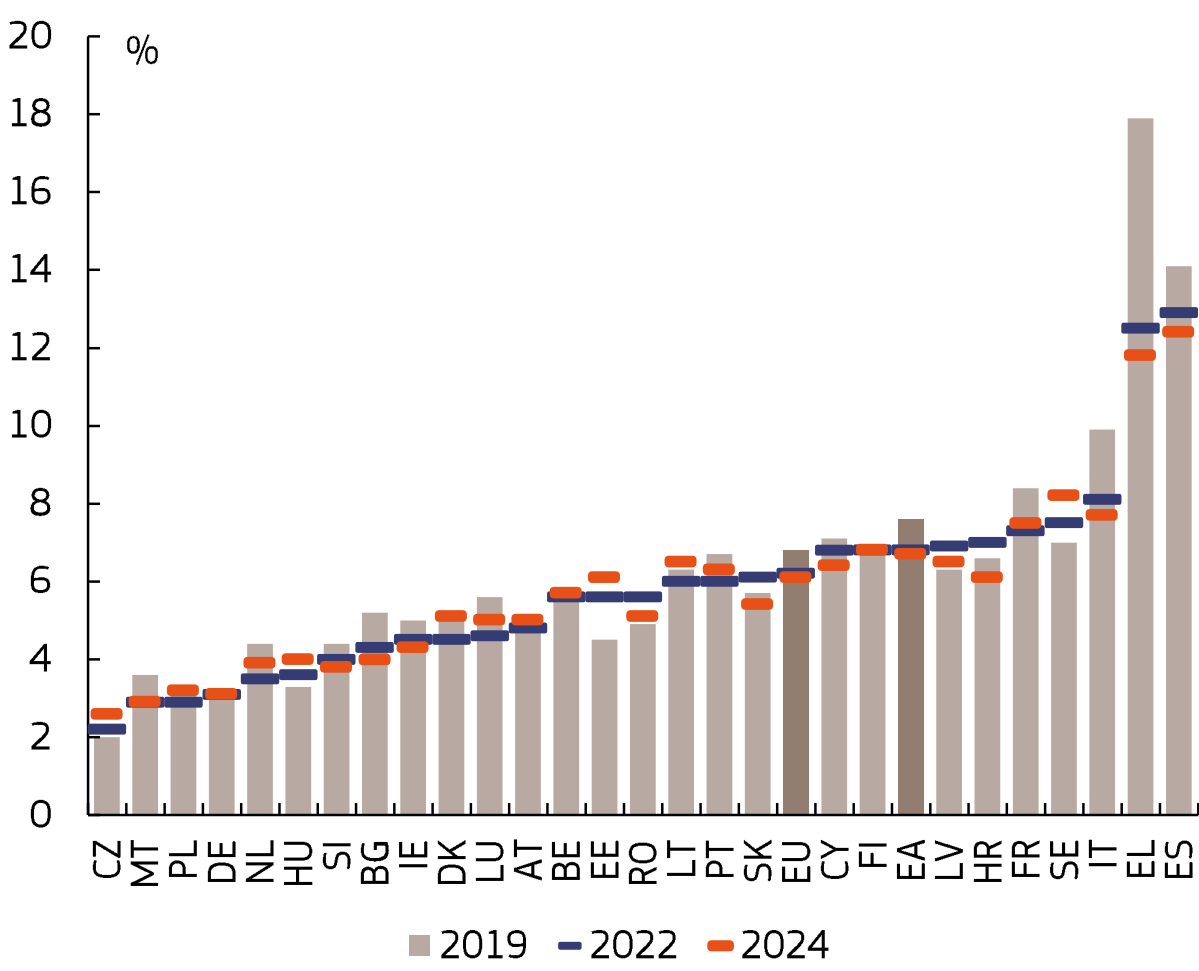


The outlook VI: Labour market expected to remain resilient

Employment growth and unemployment rate, EU

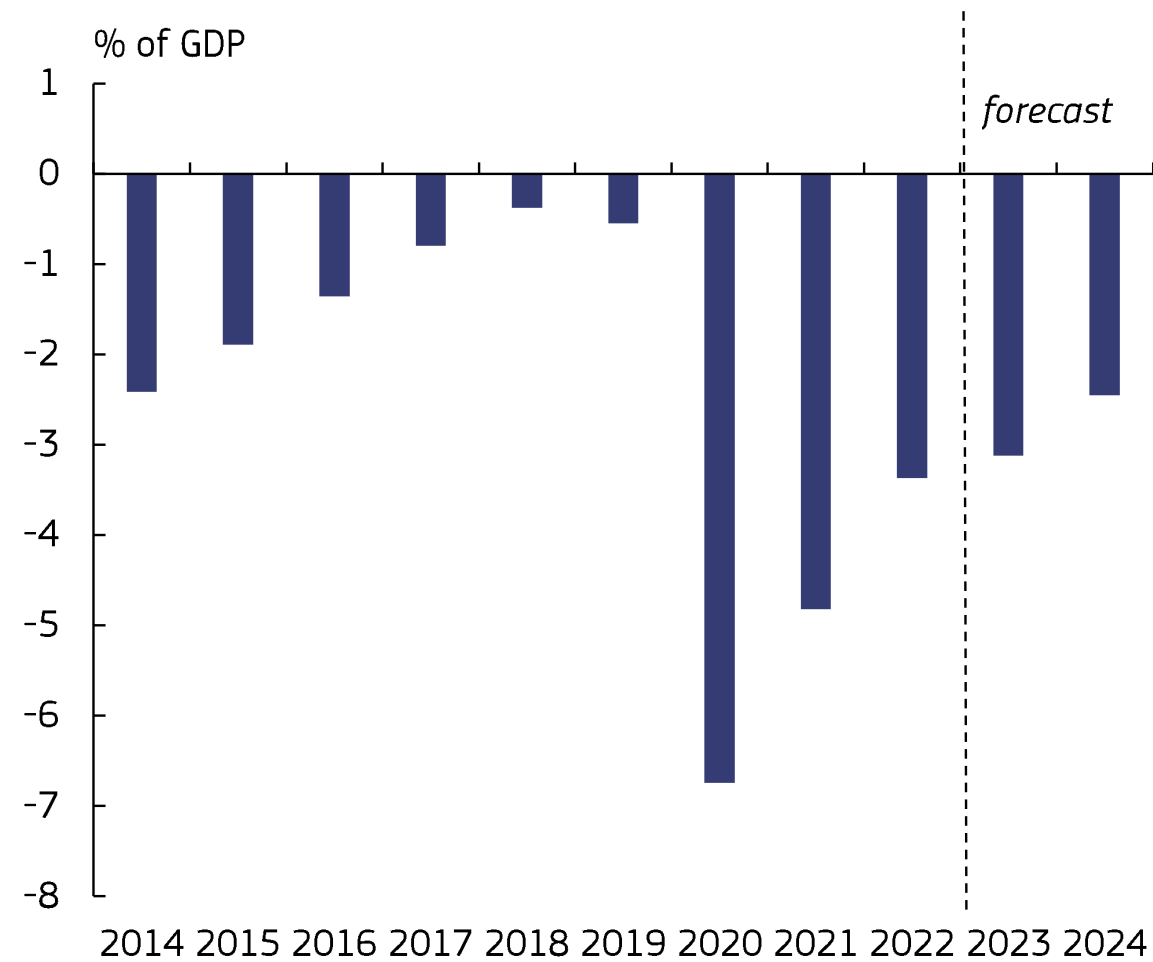


Unemployment rates across Member States

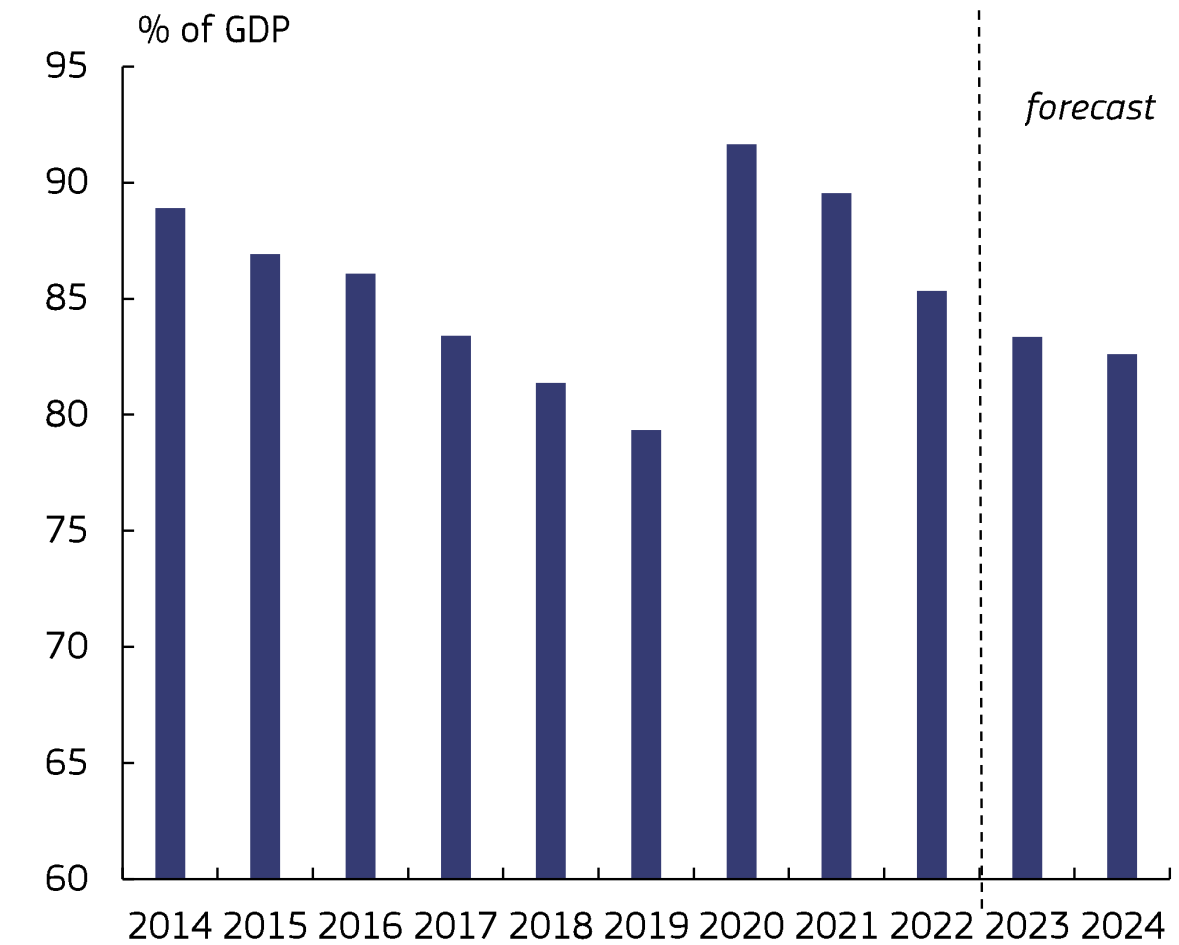


The outlook VII: Government deficits and debt ratios on the mend

General government budget balance, EU

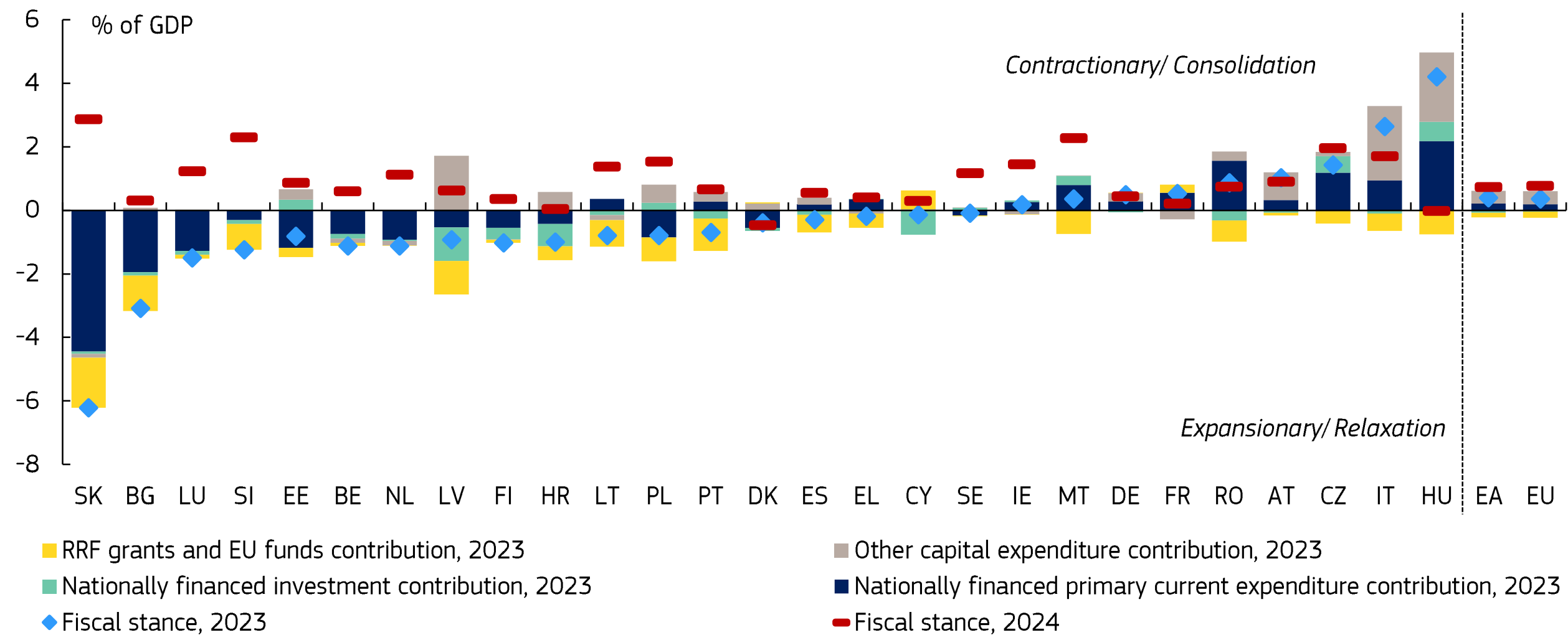


General government debt-to-GDP ratio, EU



The outlook VIII: Fiscal consolidation ahead

Fiscal stance in 2023 and 2024 across Member States



Risks: Tilted to the downside

- Higher-than-expected core inflation
- Stronger reaction of monetary policy leading to higher interest rates
- Less supportive international environment with heightened financial risks
- + Quicker pass-through of lower energy prices to firms and consumers
- + Lower headline inflation and stronger than expected private consumption

Key messages

- The EU economy expanded in the first quarter and is set to continue growing
- Europe is benefitting from declining energy prices and a resilient labour market, but faces tighter financing conditions
- Headline inflation is declining rapidly, but core inflation remains high
- Government deficits and debt ratios continue declining
- The balance of risks has tilted back to the downside

EU growth map 2023 & 2024

Real GDP growth, %

