

AIECE GENERAL REPORT

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KEY GLOBAL DEVELOPMENTS

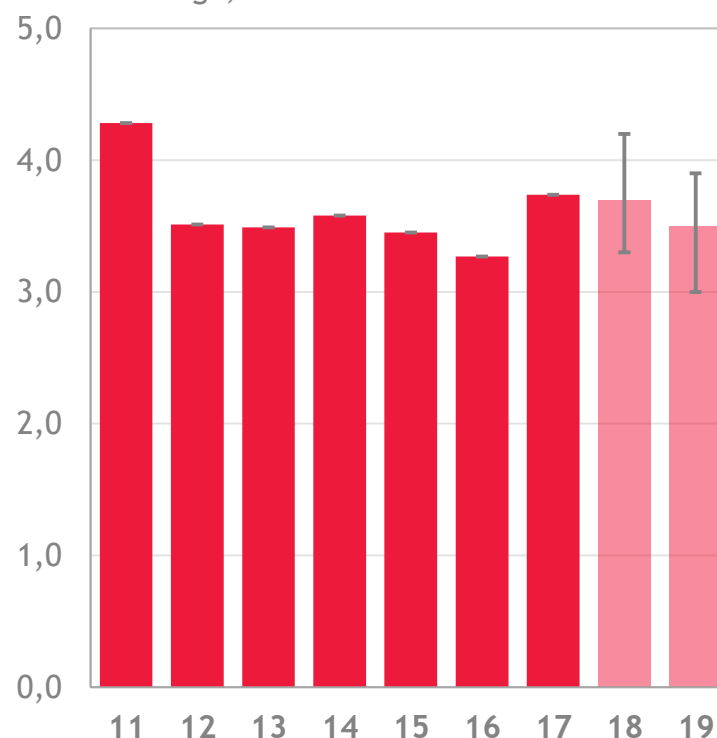
KEY GLOBAL DEVELOPMENTS

Slower growth, growing uncertainties

- World GDP is expected to plateau in 2018-2019 according to the IMF (3.7%) . AIECE institutes are less optimistic for next year as they forecast World GDP to grow by 3.5% in 2019 (3.7% in 2018)
- Overall, both developed and emerging economies are losing momentum. IMF and the European Commission have downwardly revised their forecasts for world growth (resp. -0.2 and -0.4 for 2019)
- Economies are close to the end of the business cycle, output gaps are closing
- Confidence indicators are weakening, on the backdrop of increasing uncertainty
- Risks are slightly tilted to the downside, as the policy environment becomes unclear

Global GDP

% change, volume



Source: IMF WEO, AIECE institutes. All institutes with the same weight. Error bands indicate the upper and lower extremes of the member institutes' projections (n=20)

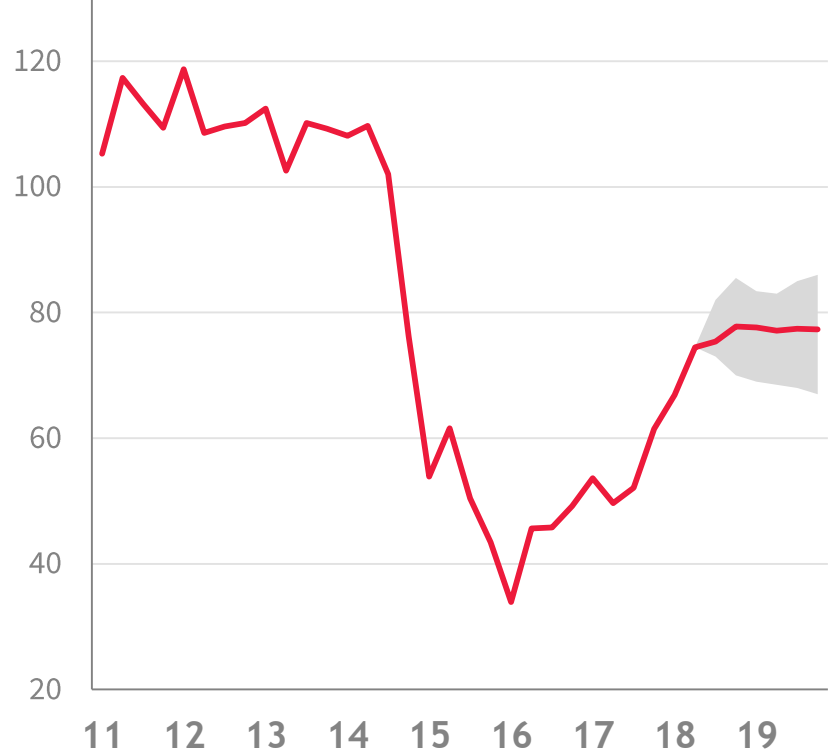
KEY GLOBAL DEVELOPMENTS

Oil prices are on the rise

- Oil prices have been on an upward trend since January 2018 (+45% in Q3 2018 y-o-y). In October, the price of Brent has reached its highest level since 2014 and then lost more than 20\$/bbl.
- Prices went up as markets were concerned by the supply side of the equation (question about the capacity of Saudi Arabia to meet demand, supply losses from Iran and Venezuela...)
- But on the demand side of the equation, lower global demand and the strengthening of the US dollar weighed on price
- AIECE institutes forecast a stability of oil prices slightly above 75\$/bbl

Crude oil prices

Brent, USD/barrel, average over the period



Source: EIA, AIECE institutes. All institutes with the same weight. Error bands indicate the upper and lower extremes of the member institutes' projections (n=20)



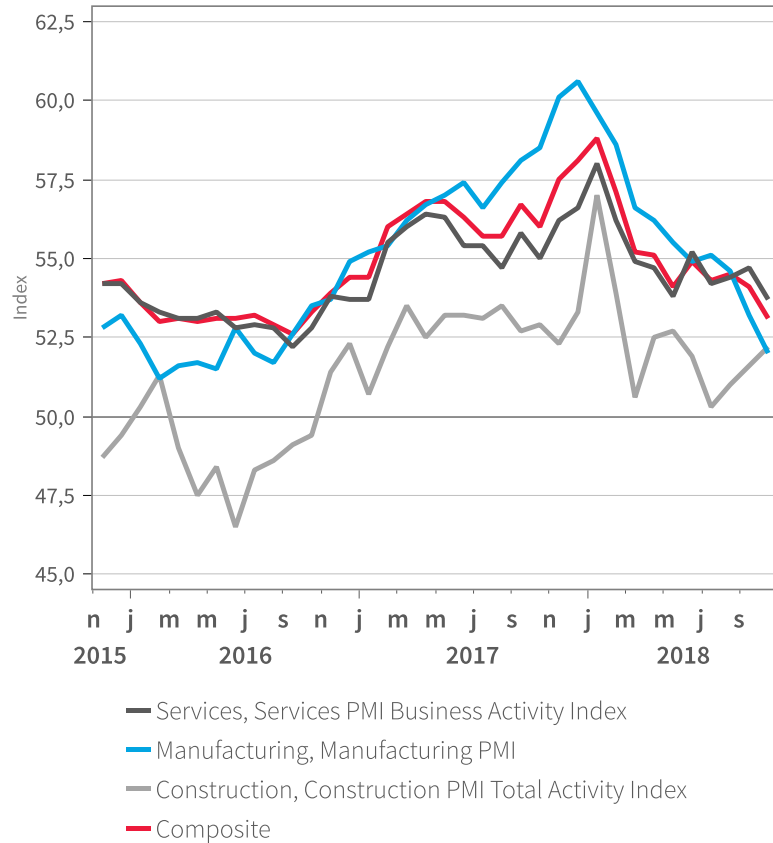
OUTLOOK FOR EUROPE

- Euro Area growth outlook
- Labour market
- Inflation development
- Non-Euro Area outlook
- Risks to the outlook

OUTLOOK FOR EUROPE

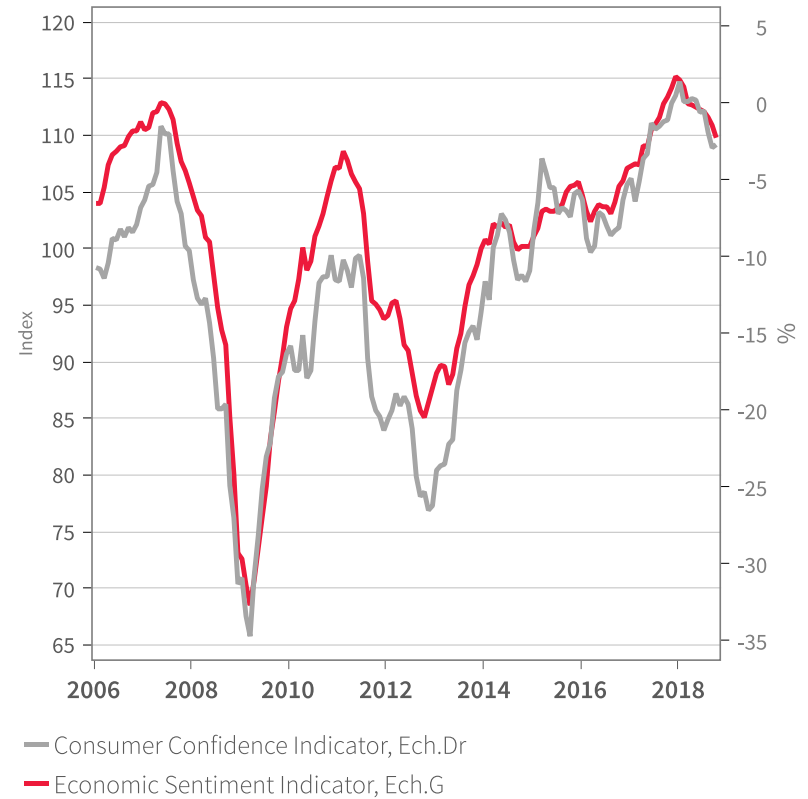
Confidence indicators are weakening

PMIs Eurozone



Source : Markit

Euro Area 19, Eurostat, Business Surveys, Eurostat, Sentiment Indicators, SA



Source : Eurostat

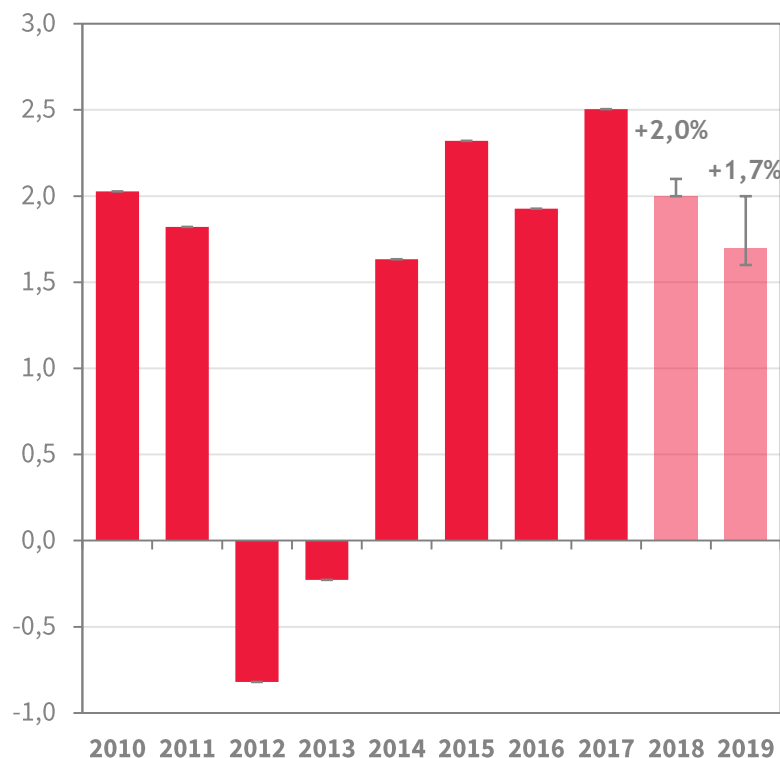
OUTLOOK FOR EUROPE

In the Euro Area, growth is losing momentum

- Activity in the Euro Area has lost some momentum in 2018.
- Estimated growth for 2018 and 2019 has been downwardly revised by AIECE institutes to 2.0% in 2018 and 1.8% in 2019
- Private consumption is less dynamic than initially foreseen, on the backdrop of higher inflation figures.
- Sentiment indicators for business and consumer confidence have weakened since the beginning of the year, reflecting an increase in uncertainty. They remain however at high levels.
- Fundamentals are still strong, with labour market conditions improving and financing conditions remaining favourable.

Euro area GDP

Annual % change, volume



Source: Eurostat, AIECE institutes. All institutes with the same weight. Error bands indicate the upper and lower extremes of the member institutes' projections (n=26)

OUTLOOK FOR EUROPE

Forecasts have been downwardly revised... except for public consumption

Average of AIECE forecasts (Euro Area)	2018			2019		
	Autumn 2018	Spring 2018	Δ	Autumn 2018	Spring 2018	Δ
GDP	2,0	2,3	-0,3 🇺🇸	1,7	1,9	-0,2 🇺🇸
Private consumption	1,5	1,7	-0,2 🇺🇸	1,6	1,7	-0,1 🇺🇸
Public consumption	1,5	1,4	+0,1 🇩🇪	1,6	1,3	+0,3 🇩🇪
Gross fixed investment	3,5	3,7	-0,1 🇺🇸	3,2	3,4	-0,2 🇺🇸
HICP	1,7	1,5	+0,2 🇩🇪	1,7	1,6	+0,1 🇩🇪
Unemployment	8,3	8,4	-0,1 🇺🇸	7,9	7,9	= ➡
Global GDP	3,7	3,9	-0,2 🇺🇸	3,5	3,8	-0,3 🇺🇸

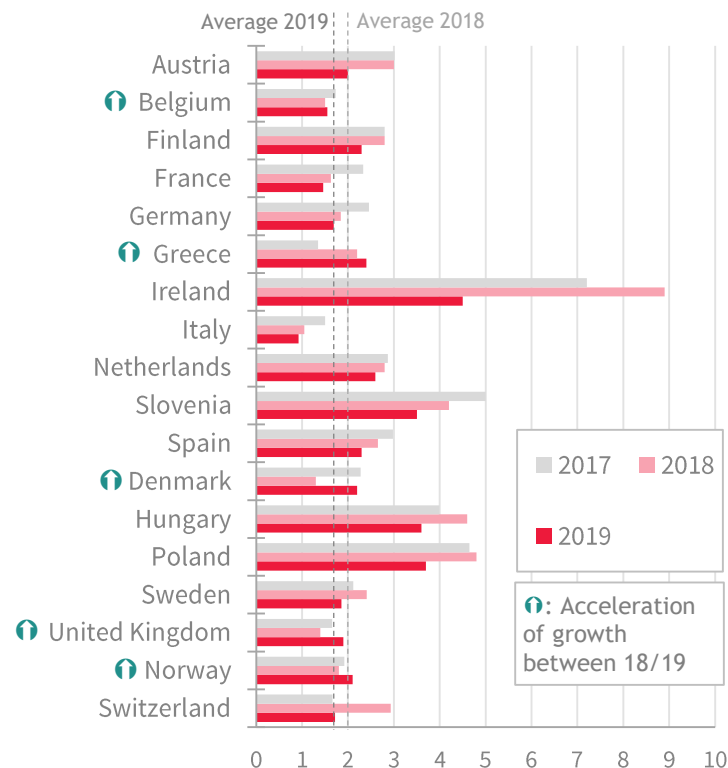
OUTLOOK FOR EUROPE

Growth is slowing down almost everywhere

- Except for 5 countries, growth is expected to slow down in AIECE economies in 2019.
- Overall, non euro-area countries are forecast to grow faster than EA countries.
- In 2018, growth rate will range from 1,0% (Italy) to 8,9% (Ireland). In 2019, the range will be smaller, from 0,9% (Italy) to 4,5% (Ireland).

GDP growth in AIECE economies

Annual % change, volume



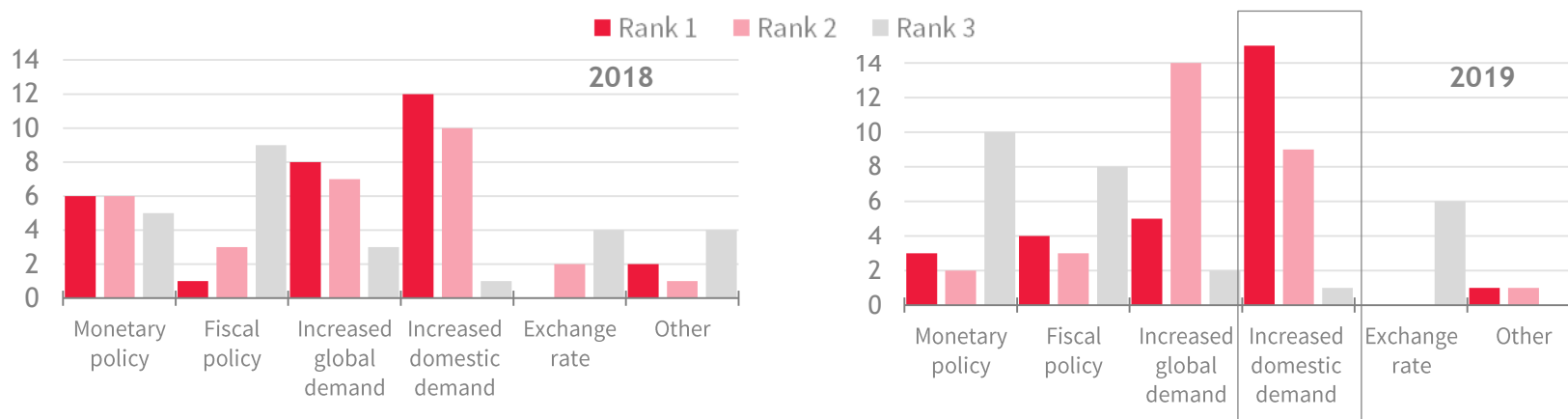
Source: IMF WEO, AIECE institutes (n=30)

OUTLOOK FOR EUROPE

Growth will be supported by the dynamism of domestic demand

Most important factors with a positive effect on growth in your home country

of ranks 1, 2, 3 with 1 = most important factor



Source: AIECE institutes (n=29 for 2018, n=28 for 2019)

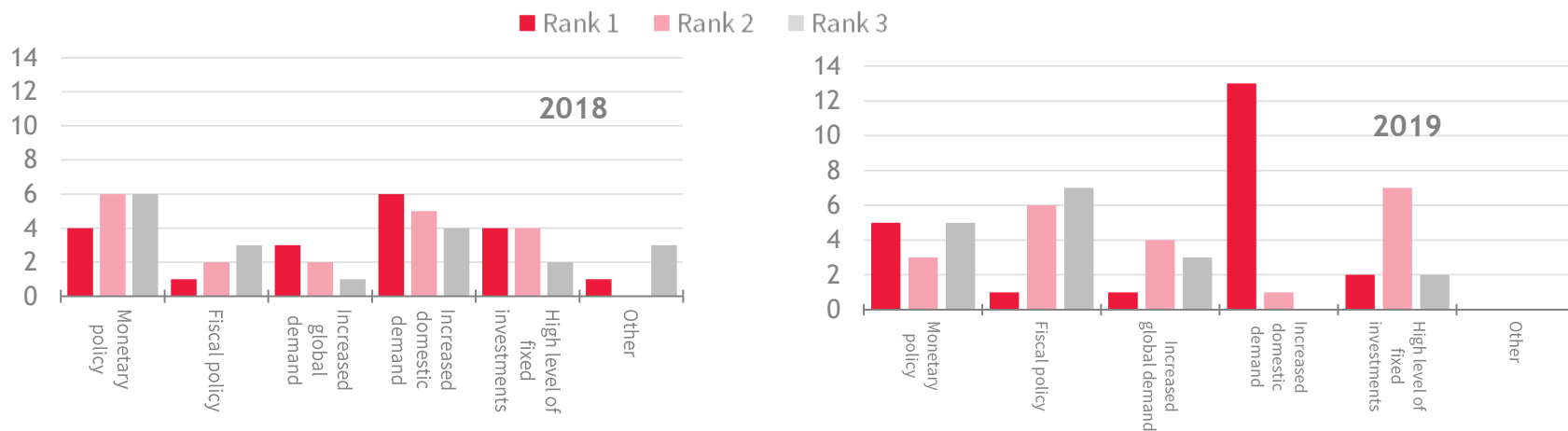
- Domestic and global demand have been the most important factors for growth in 2018. AIECE experts expect these factors to remain the most important drivers of growth in 2019. The increase in global demand is forecast to have a positive effect on growth, to a greater extent than in 2018 (despite trade barriers ?)
- Monetary policy is an important factor as well but institutes have ranked it evenly between factors of first, second and third importance. In 2019, Monetary policy will be of lesser importance (cf. normalization policy) in 2019. Fiscal policy is mostly a factor of third importance.
- French and German institutes believe that fiscal policy will be the major factor driving growth in 2019, while Ireland, Italy or Norway only rank this factor 3.

OUTLOOK FOR EUROPE

Growth will be supported by the dynamism of domestic demand

Most important factors with a positive effect on growth in your Eurozone

of ranks 1, 2, 3 with 1 = most important factor



Source: AIECE institutes (n=19 for 2018, n=20 for 2019)

- The same diagnosis applies to the Eurozone when we look at aggregated data.
- For 2018, Increased domestic demand was the factor with the most “rank 1” answers. Institute believe it will play an even greater role next year. Increased global demand, on the opposite, is expected to play a more moderate role in 2019.
- Fiscal policy is also expected to play a greater role, but mainly as a factor of second and third ranking.

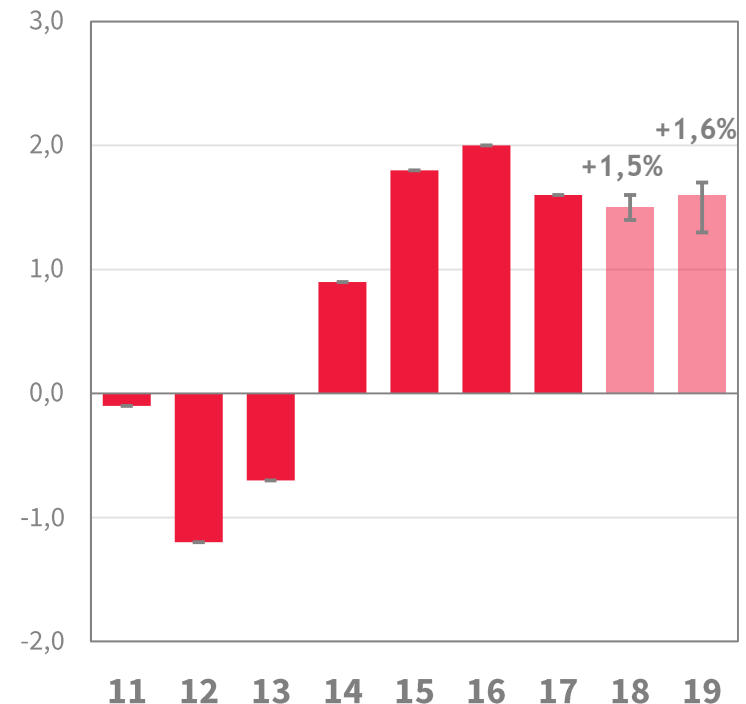
OUTLOOK FOR EUROPE

Private consumption will plateau

- AIECE members expect private consumption to plateau next year.
- Continuous improvements on the labour market are expected to generate purchasing power gains, and thus fuel consumption in return.
- Higher inflation will limit the capacity of households to consume. On average, AIECE members expect private consumption to grow by 1.5% this year and 1.6% next year.
- In the different AIECE countries in 2018-2019, private consumption is expected to grow at the fastest pace in Hungary (+5,0% then 4,0%) . It should grow at the slowest rate in Greece (0,7% then 0,9%).

Private consumption (Eurozone)

% change, volume



Source: Eurostat, AIECE institutes. All institutes with the same weight. Error bands indicate the upper and lower extremes of the member institutes' projections (n=16 for 2018, n=15 for 2019)

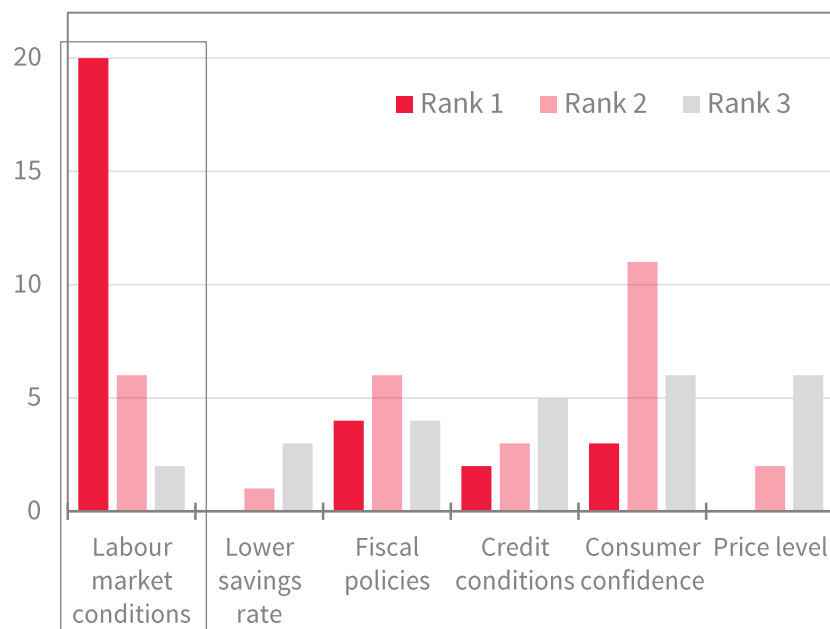
OUTLOOK FOR EUROPE

The dynamism of labour markets will support private consumption

- Without a doubt, improvements on the labour market will drive consumption up in 2018-2019. 2/3 of institutes believe it will be the most important factor. Fiscal policies is the second most important factor expected to contribute positively to consumption over the forecast horizon.
- Consumer confidence will play an important role too, as a factor of second rank.
- Price levels and lower savings rates are not expected to contribute significantly to private consumption in 2018-2019.

Important factors with a positive effect on private consumption in 18-19

Number of rank 1, 2, 3 (1= most important)



Source: AIECE institutes. All institutes with the same weight (n=29)

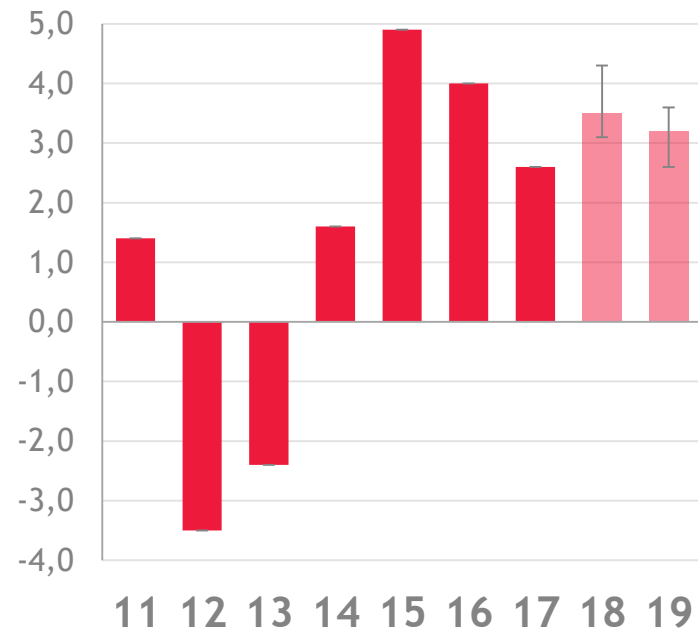
OUTLOOK FOR EUROPE

Investment is slowing down but will remain dynamic

- Investment is expected to accelerate in 2018 and slightly slow down next year.
- AIECE members expect investment to grow by 3.5% on average in 2018 in Europe. Growth should slow down to 3.2% next year.
- Levels of capacity utilization rates are very high in many countries, thus generating a need for investment. Financing conditions remain very well oriented as well.

Gross fixed capital formation (Eurozone)

% change, volume, Eurostat definition

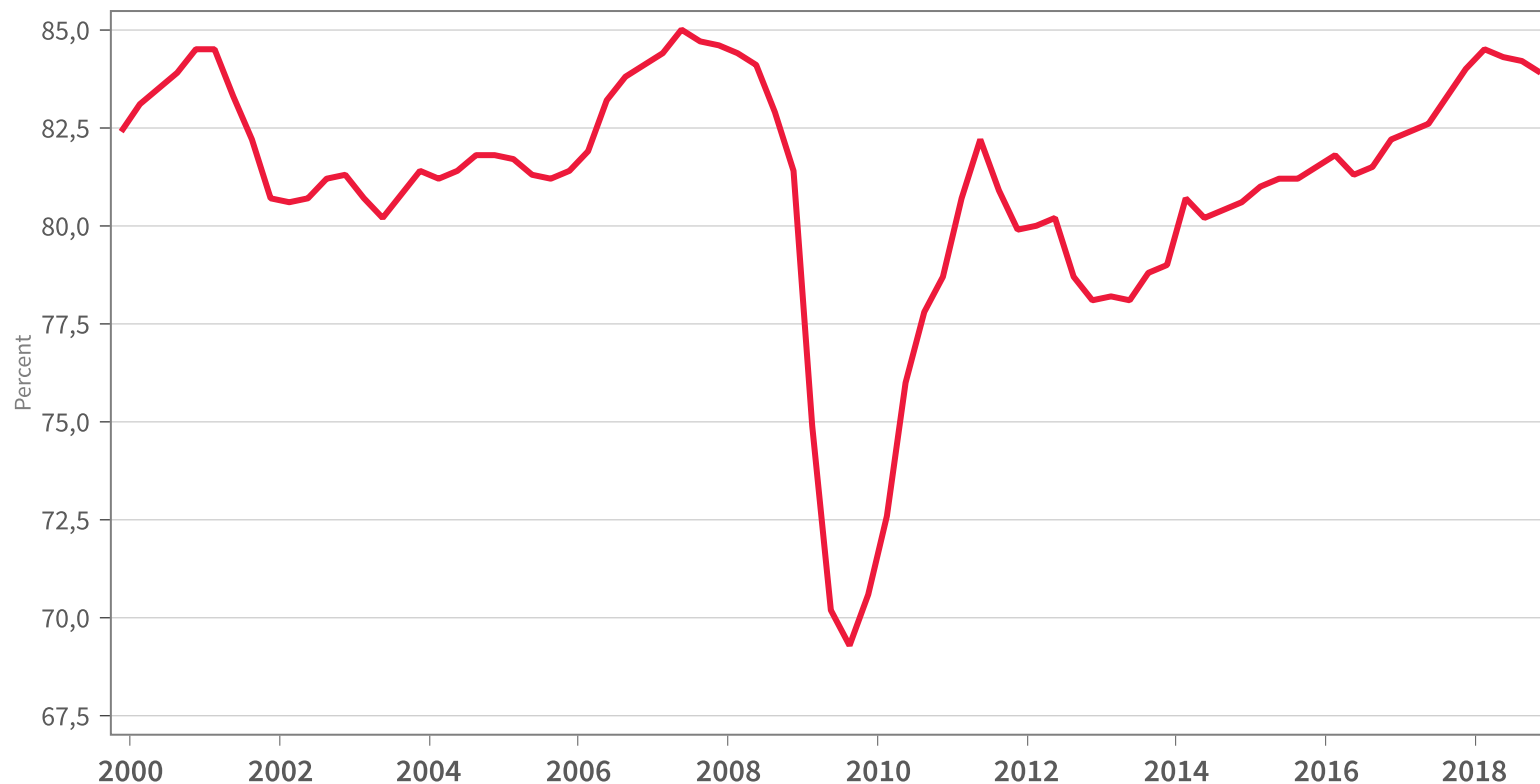


Source: Eurostat and all AIECE institutes (n=16 for 2018, n=15 for 2019)

OUTLOOK FOR EUROPE

Capacity utilization rates are very high in the Eurozone

Euro Area, Business Surveys, DG ECFIN, Industrial Confidence Indicator, Total Sector, Quarterly, Current Level of Capacity Utilization, SA



Source : DG ECFIN

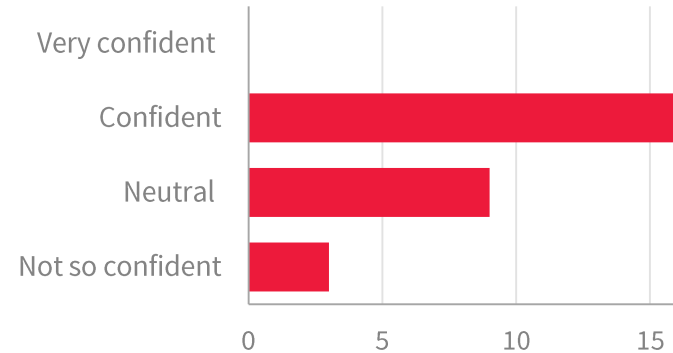
OUTLOOK FOR EUROPE

Institutes are confident about investment

- Institutes are in general confident regarding investment strength: 16 of them chose this answer. 9 institutes are neutral, while 3 institutes from the UK, Italy and Ireland are not so confident
- Regarding the strength of investment with respect to the position of the country on the business cycle, 14 institutes believe it is of normal strength. One institute from Greece finds it very weak. 9 institutes find it weak. For 5 institutes from Spain, France, Finland, Belgium and Germany investment is strong related to the country's cyclical position.
- High risks, uncertainty and geopolitical risks as well as weaker business perspectives are the main factors limiting investment over the next two years.

How confident are you regarding investment growth in your country?

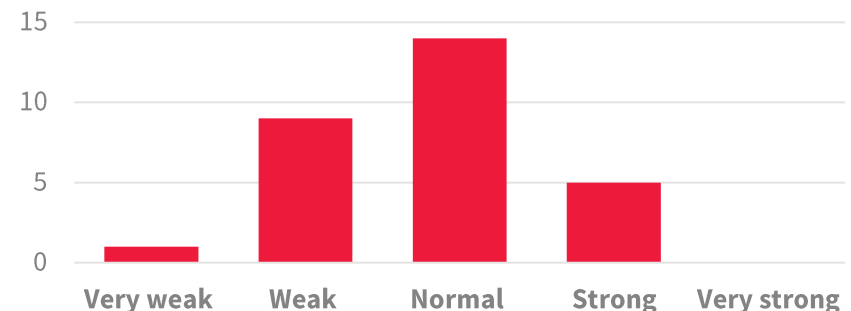
Number of respondents



Source: AIECE institutes, (n=28)

Judging on your country's cyclical position, would you say that private investment is...

Number of respondents

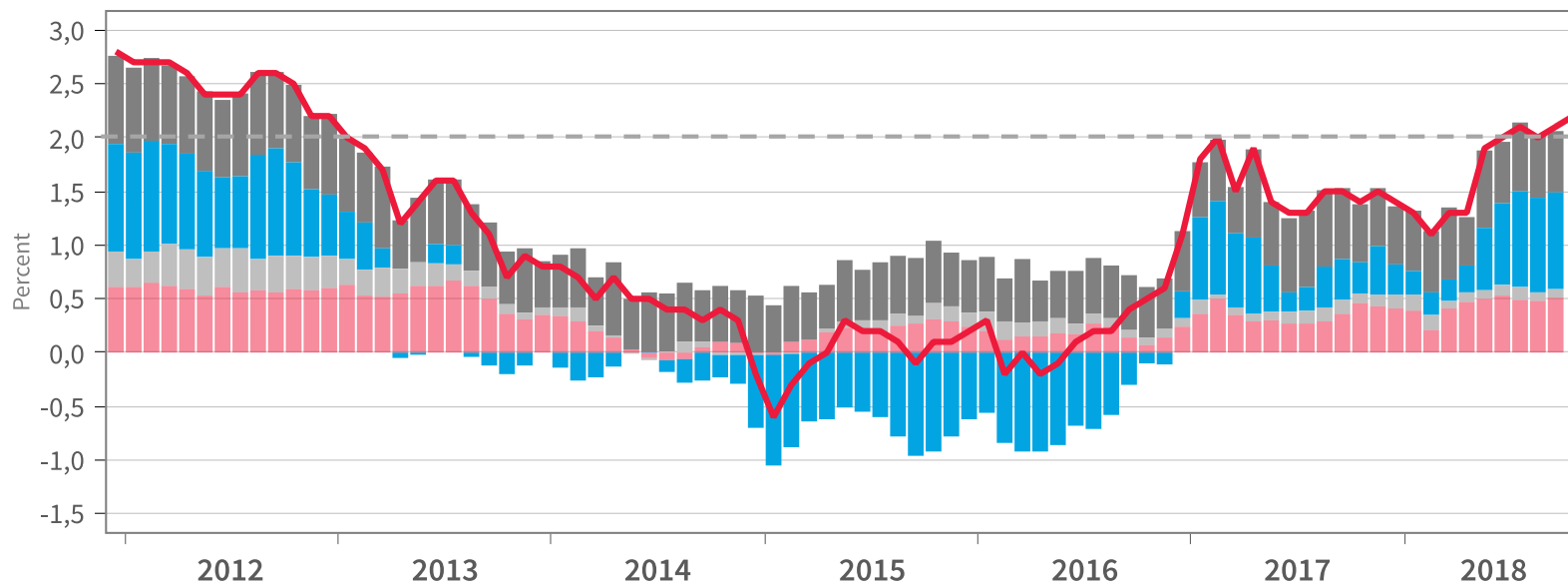


Source: AIECE institutes, (n=29)

OUTLOOK FOR EUROPE

Inflation is accelerating... for good?

Euro Area, Eurostat, HICP



- Annual Rate of Change, All-Items HICP, Change Y/Y
- Services (Overall Index Excluding Goods), Contributions to Euro Area Annual Inflation
- Energy, Contributions to Euro Area Annual Inflation
- Non-Energy Industrial Goods, Contributions to Euro Area Annual Inflation
- Food Including Alcohol & Tobacco, Contributions to Euro Area Annual Inflation

Source : Eurostat

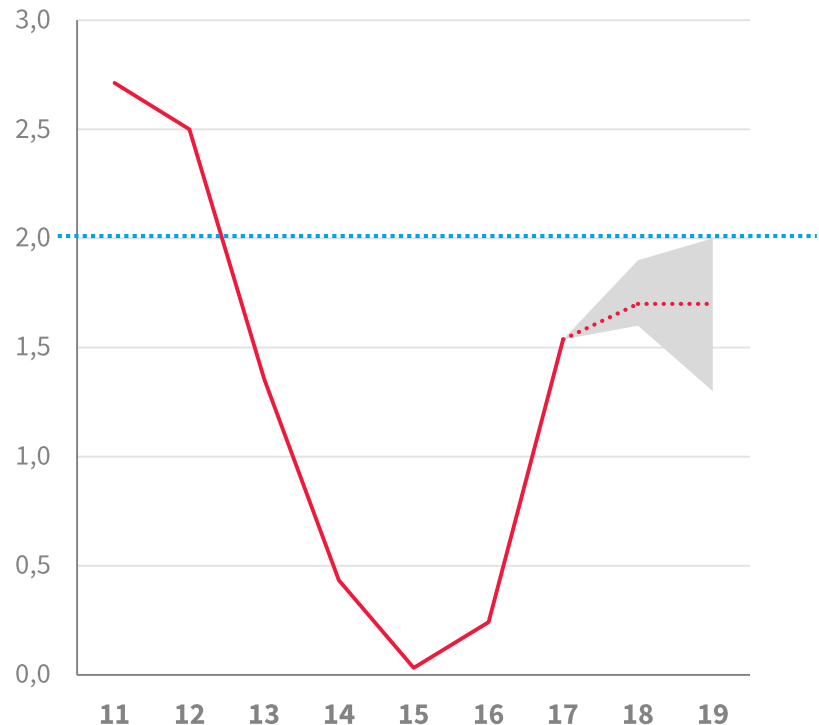
OUTLOOK FOR EUROPE

Inflation is accelerating... for good?

- In 2018, inflation is accelerating but will remain under 2% according to AIECE institutes.
- For 2019, the outlook is rather unclear: is inflation going to increase, or decrease ?
What are the underlying assumptions for your forecast?
- *What about core inflation?*

HICP (Eurozone)

% change



Source: Eurostat, AIECE Institutes (n=19 for 2018, n=28 for 2019). Error bands indicate the upper and lower extremes of the member institutes' projections.



OUTLOOK FOR EUROPE

Questions for discussion

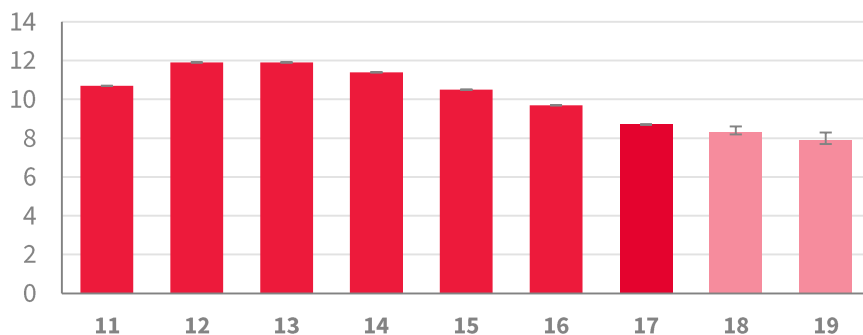
1. Is the cyclical peak behind in all European countries?
2. In your view what are the chances of a European “hard-landing” in 2019-2020?
3. Headline inflation has been rising, mainly due to oil prices, while core inflation is rather muted. One explanation is that wages have increased relatively slowly as compared to the high level of tensions on the labour market. Do you believe wage growth is set to accelerate in your country?

OUTLOOK FOR EUROPE

Labour markets are improving everywhere

Unemployment rate (Euro Area)

% of total labour force (Eurostat definition)

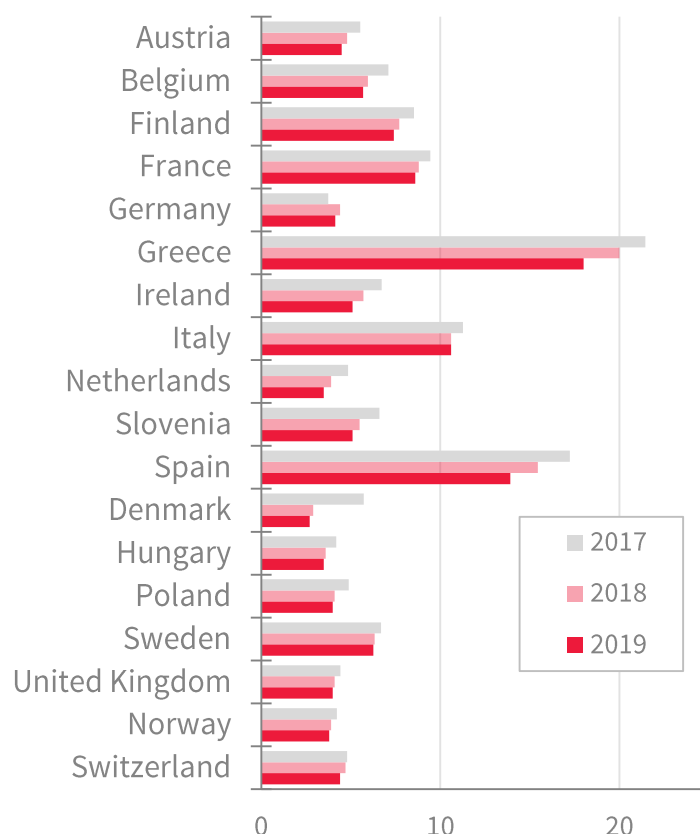


Source: Eurostat, AIECE institutes (n=17 for 2018, 16 for 2019). Error bands indicate the upper and lower extremes of the member institutes' projections.

- Continuous decrease of the employment rate in the EA since 2013 and further improvements expected.
- Unemployment is expected to decrease in all countries in 2018-2019.
- Average forecasts announce 8.3% this year and 7.9% in 2019, close to the equilibrium unemployment rate estimated at 7.4%.

Unemployment rate

% of total labour force (Eurostat definition)



Source: OECD (LAMA), Eurostat, AIECE institutes (n=30)

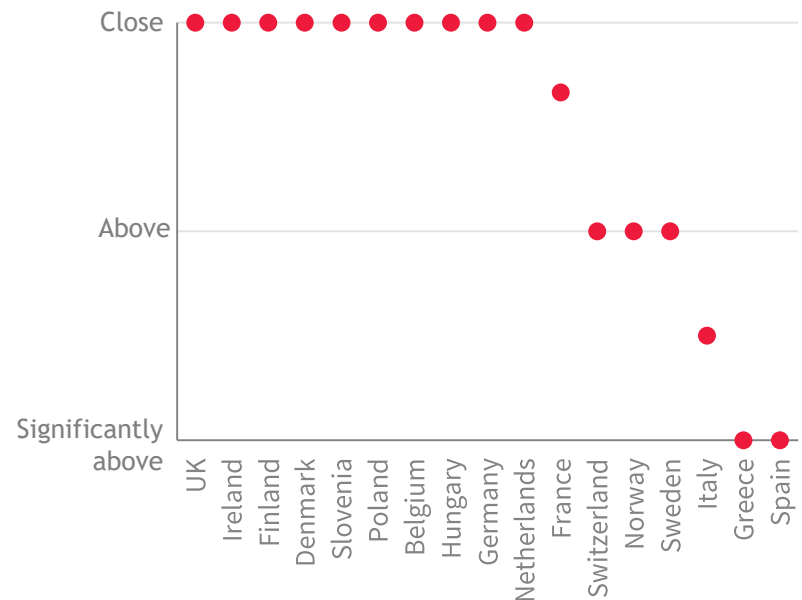
OUTLOOK FOR EUROPE

Unemployment rates get closer to their structural levels

- In 10 countries, institutes estimate that the current employment rate is close to its structural level. Institutes from France debate whether the rate is close or not.
- In 3 countries, the rate remains above its structural level, while it is *significantly* above in 3 other ones (Italy, Greece, Spain with unemployment levels over 10%).
- *Are the structural levels of unemployment higher than before the financial crisis?*

How would you qualify the current unemployment rate in your country as compared to the structural level?

Number of respondents

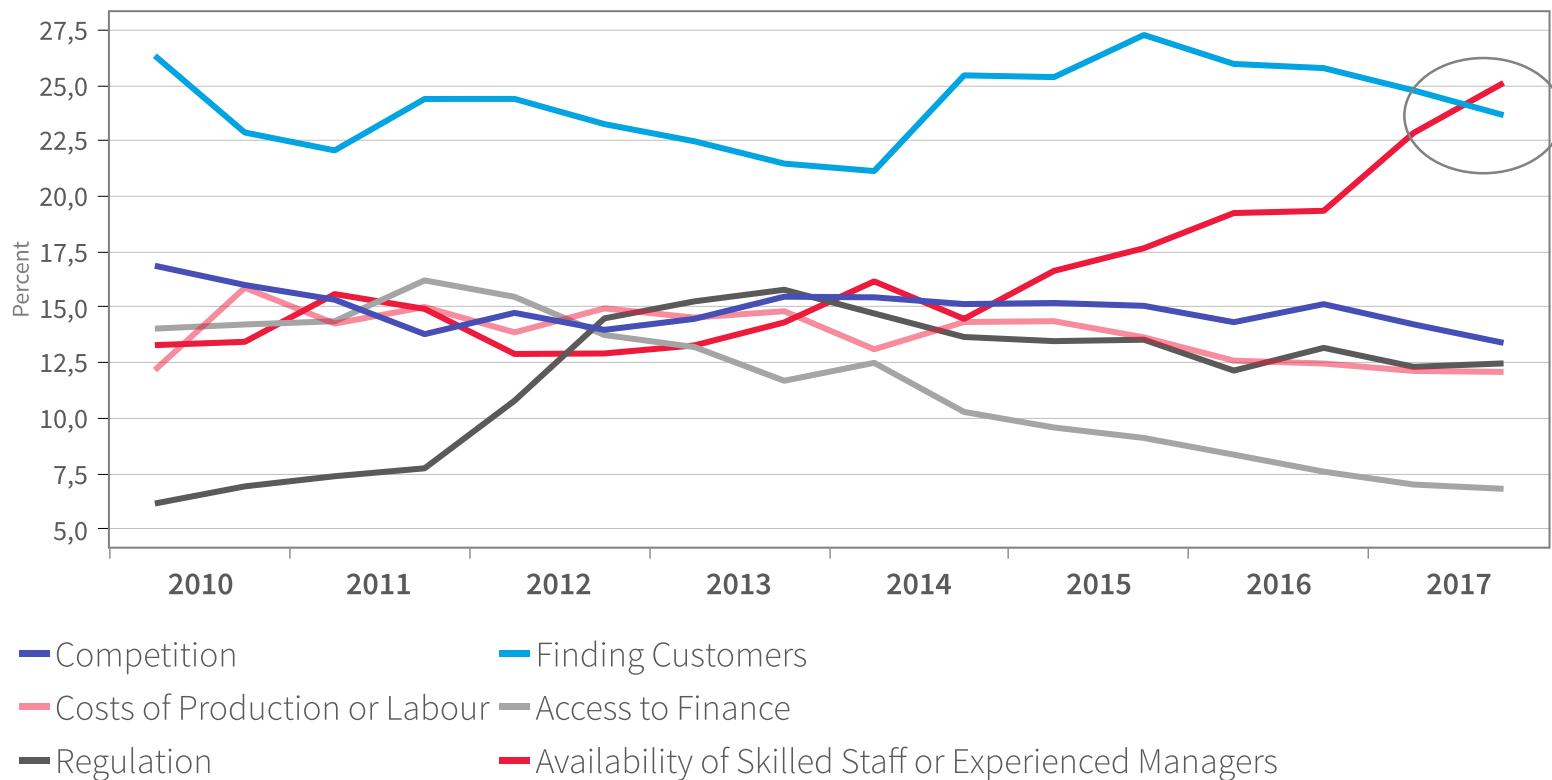


Source: AIECE institutes
(n=26)

OUTLOOK FOR EUROPE

As a consequence, labour shortages are increasing

Euro Area, SAFE, All firm sizes, Most Pressing Problem (Weighted Percentage of Responses)



Source : ECB

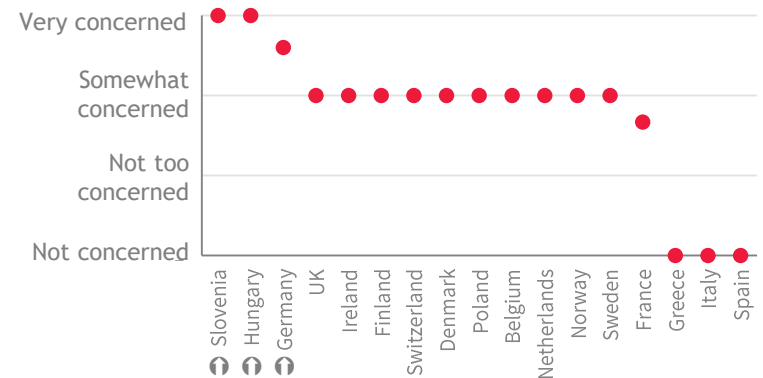
OUTLOOK FOR EUROPE

As a consequence, labour shortages are increasing

- Labour shortages are a significant problem in many countries. The SAFE survey by the ECB shows that it is the first issue faces by European companies.
- AIECE institutes from Slovenia, Hungary and Germany believe their country to be very concerned by this problem. 11 other countries are 'somewhat concerned' while Greece, Italy and Spain (where unemployment rates are significantly above the structural level) are not concerned by the problem.
- Low estimated levels of involuntary part-time work out of total part-time work seem to indicate that the level of slack on the labor market is getting lower. This is particularly true in countries that are very concerned by labor shortages

To what extent would say that your country is concerned with a shortage of labour?

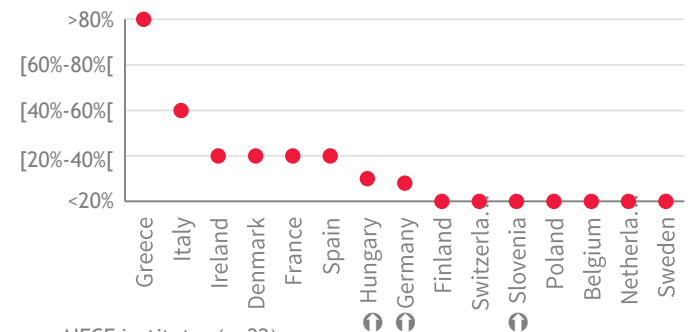
Number of respondents



Source: AIECE institutes (n=27)

Proportion of involuntary part-time work

% of total part-time work



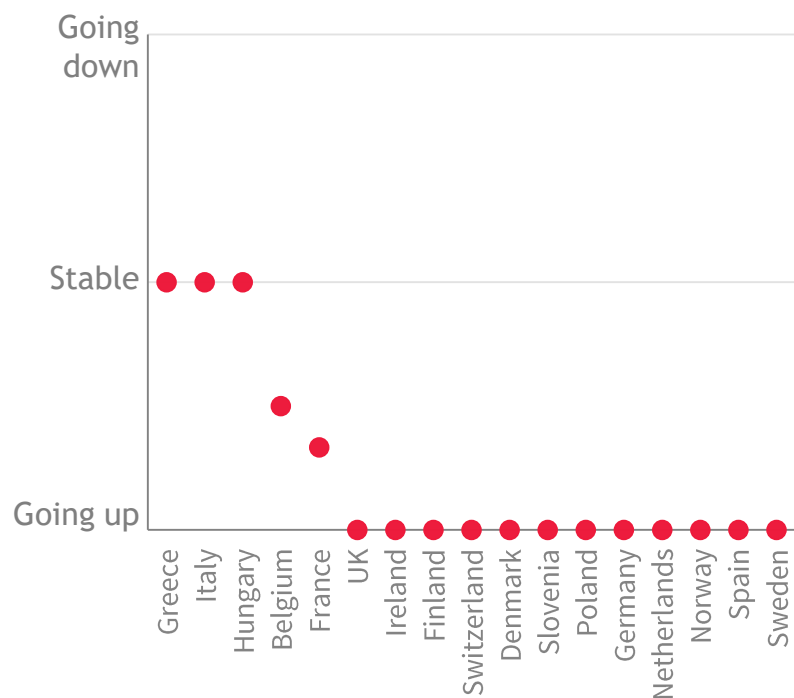
Source: AIECE institutes (n=22)

OUTLOOK FOR EUROPE

Pressures on the labour market pull wages up

How would you qualify the recent dynamics in nominal wages in your country?

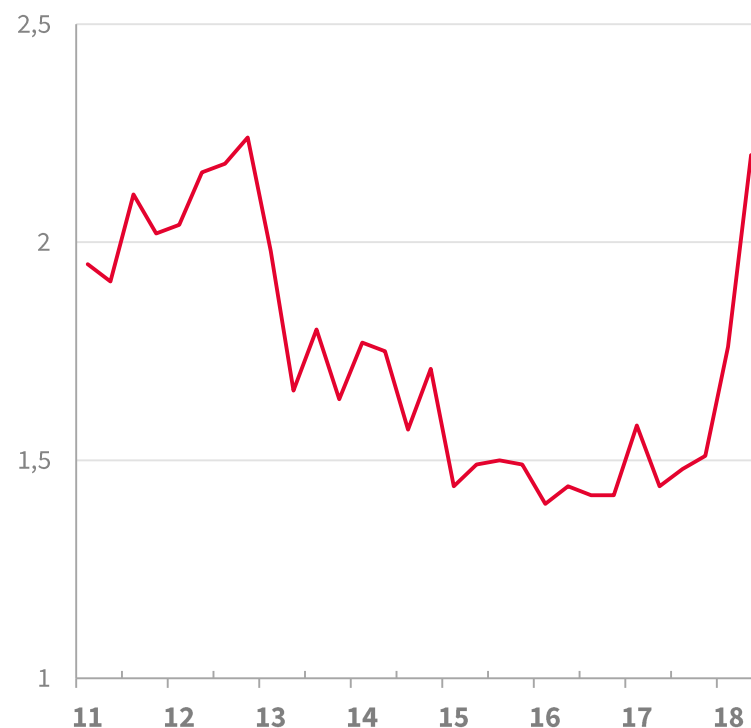
Number of respondents



Source: AIECE institutes (n=26)

Indicator of Negotiated Wages

EA 19, % change year on year



Source: ECB

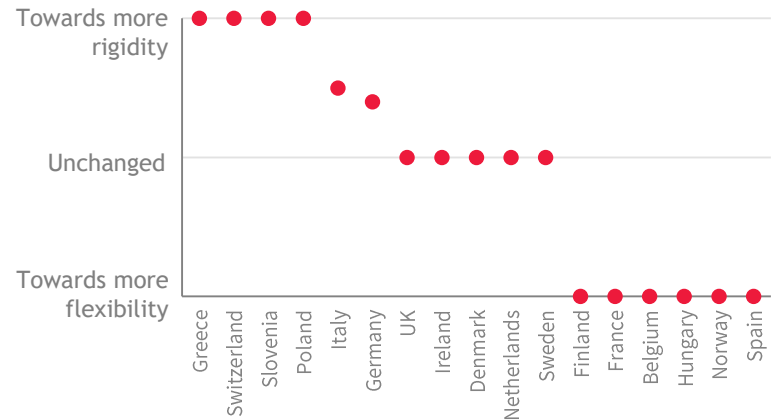
OUTLOOK FOR EUROPE

Policies regarding labour market

- Answers regarding the impact of government policies on the labor market are rather evenly spread in AIECE countries. In 6 countries, AIECE countries deem that government policies increase rigidity. In 5 countries, there are no changes related to flexibility on the labor market. In 5 other countries, policies tend to increase flexibility on the labor market.
- For all countries but Spain, Italy and Hungary, employment is rather secured. In Greece however, the employment is deemed « Highly unsecured ». *Why is that?*

Government's policy regarding labour market

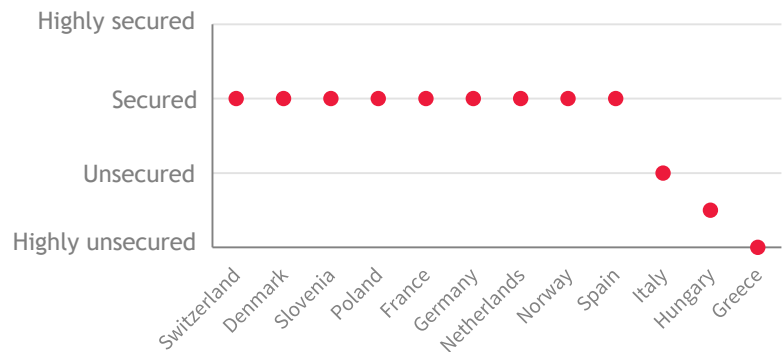
Average for each country



Source: AIECE institutes (n=26)

Perception of employment security

Average for each country



Source: AIECE institutes (n=26)

OUTLOOK FOR EUROPE

How to improve labor mobility in the European Union?

- In 2016, there were 11.8 Mio EU-28 movers in total. Germany and the UK host 50% of EU-Movers (Source: 2017 annual report on intra-EU labour mobility, European Commission).
- To increase labor mobility, institutes believe that allowing for the transferability of pension plans or harmonizing labour laws are good solutions.
- A better coordination of fiscal policies could work for 2 institutes.
- One institute suggests to implement common qualification standards across member states to improve labour mobility.

How to improve labour mobility across the EU?



Source: AIECE institutes (n=14)

NON EURO-AREA OUTLOOK

Questions for discussion

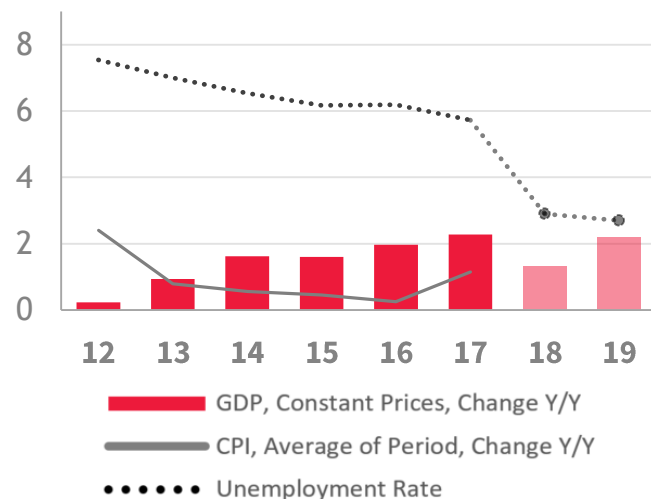
1. Headline inflation has been rising, mainly due to oil prices, while core inflation is rather muted. One explanation is that wages have increased relatively slowly with respect to the high level of tensions on the labour market. Do you believe wage growth is set to accelerate in your country?
2. Many countries report labour shortages. Which sectors are mainly concerned in your country? Is your government implementing measures to help companies face this problem? What measures do you think should be taken to limit the negative effects of labour shortages? What can be done to increase labour productivity in the short run?
3. Do you believe that an increase in labour mobility across European countries could be a good solution to reduce labour shortages?

NON EURO-AREA OUTLOOK

Denmark

- The Danish economy is expected to grow by 1.3% in 2018 and 2.2% in 2019.
- Private investment and private consumption are the main drivers of GDP growth in 2018. Exports are expected to boost GDP growth in 2019. Increased domestic demand is also contributing to 2019 GDP growth.
- Shortage of labour and low unemployment should fuel wage growth. The current unemployment rate is close to its structural level.
- Household debt is very high and should be closely monitored.

Outlook for Denmark



Source: IMF (WEO), Danish Economic Councils

Variables	% volume change from previous year	
	2018	2019
GDP	1.3	2.2
Private consumption	2.3	2.6
Public consumption	0.9	0.4
Gross fixed capital formation	8.4	1.7
Exports of goods and services	0.3	4.3
Imports of goods and services	3.7	3.5
Net exports (1)	-1.6	0.6
Consumer prices		
Unemployment rate (4)	2.9	2.7

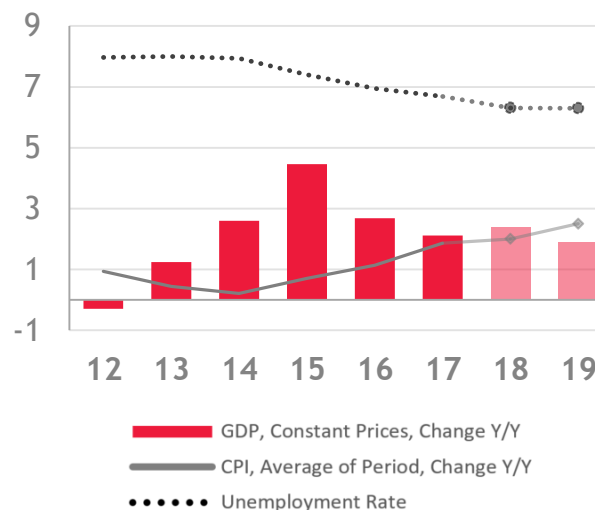
Source: Danish Economic Councils

NON EURO-AREA OUTLOOK

Sweden

- GDP in Sweden is set to grow by 2.4% in 2018 and between 1.8%-1.9% in 2019 according to the NIER and CSE.
- Exports and private consumption are key drivers for GDP growth 2018 and 2019.
- Falling house prices are of concern for households and consumer confidence was hit by this factor in the first half of the year. There is also a concern regarding the high levels of household debt, despite a recent cooling off in the housing market.
- Favorable labour market conditions are expected to bring down unemployment rate to 6.3% in 2018 but significant skills mismatch are likely to prevent unemployment rate from falling further in 2019. Wages are increasing for now.
- The Riksbank is expected to raise its policy rate starting February 2019 to contain inflation and the fiscal policy is set to be more neutral in 2019.

Outlook for Sweden



Source: IMF (WEO), CSE Confederation of Swedish Enterprise and NIER National Institute of Economic Research

Variables	% volume change from previous year	
	2018	2019
GDP	2.4	1.9
Private consumption	2.2	2.0
Public consumption	0.9	0.8
Gross fixed capital formation	2.5	1.5
Exports of goods and services	3.3	4.0
Imports of goods and services	3.2	3.4
Net exports (1)	0.0	0.4
Consumer prices	2.0	2.5
Unemployment rate (4)	6.3	6.3

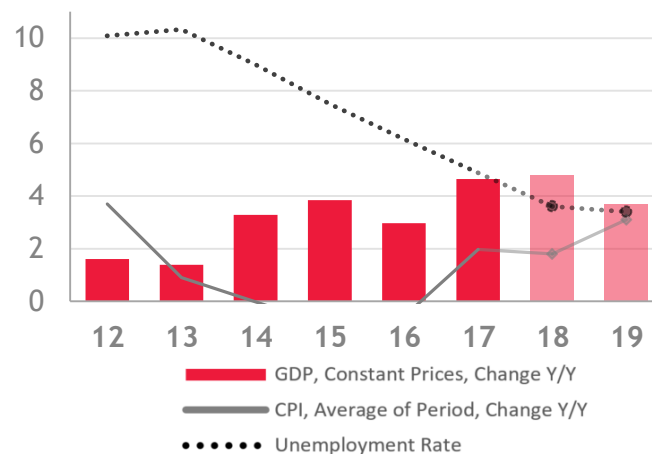
Source: CSE Confederation of Swedish Enterprise and NIER National Institute of Economic Research

NON EURO-AREA OUTLOOK

Poland

- Poland's GDP is expected to reach 4.8% in 2018 and 3.7% in 2019.
- Economic growth is mainly explained by strong private consumption, supported by favorable labor market conditions and high levels of consumer confidence. Dynamic public investment also contributes to GDP growth.
- Growth is forecast to slowdown in 2019 as inflation is set to constrain real disposable income. Labour market pressures and energy prices are the main reasons for this rise in consumer prices.
- Exports should continue to gain momentum in 2019 but strong domestic demand should turn the contribution of net exports to GDP growth slightly negative.

Outlook for Poland



Source: IMF (WEO), PIE Polski Instytut Ekonomiczny

Variables	% volume change from previous year	
	2018	2019
GDP	4.8	3.7
Private consumption	4.4	3.6
Public consumption	3.9	4.2
Gross fixed capital formation	9.0	8.0
Exports of goods and services	6.3	5.3
Imports of goods and services	7.7	7.0
Net exports (1)	-0.5	-0.7
Consumer prices	1.8	3.1
Unemployment rate (4)	3.6	3.4

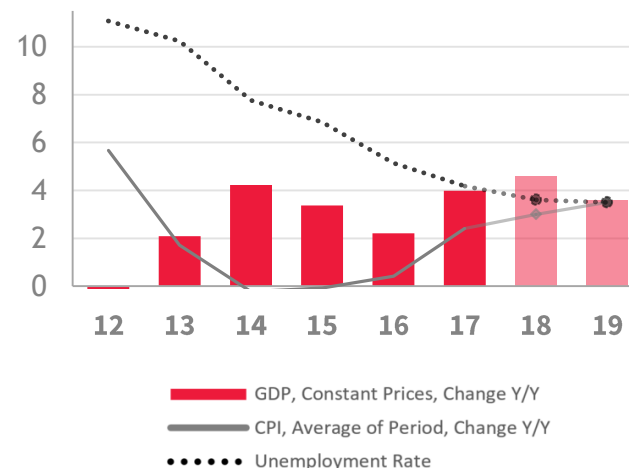
Source: PIE Polski Instytut Ekonomiczny

NON EURO-AREA OUTLOOK

Hungary

- Hungary's GDP is set to grow by 4.6% in 2018 and within a range of 3.5% to 3.6% in 2019.
- Public investment and private consumption are fueling GDP growth in 2018 & 2019. Inflows of EU funds should peak in 2019. Capacity constraints, especially in the construction sector, may slow the execution of projects.
- Growth is forecasted to slowdown in 2019 as inflation is expected to accelerate, thus impacting household disposable income. The deterioration of external demand is also negatively impacting 2019 GDP growth.
- Wages are increasing due to a shortage of skilled labour and will continue to feed the underlying inflation momentum.
- The government's policy regarding the labour market is going towards more flexibility despite a highly unsecured labour market according to GKI and Kopint.

Outlook for Hungary



Source: IMF (WEO), GKI Economic Research Co. and Kopint-Tárki

Variables	% volume change from previous year	
	2018	2019
GDP	4.6	3.6
Private consumption	4.8	3.8
Public consumption	1.3	0.5
Gross fixed capital formation	12.7	6.3
Exports of goods and services	5.4	6.0
Imports of goods and services	6.5	7.2
Net exports (1)	3.2	2.8
Consumer prices	3.0	3.5
Unemployment rate (4)	3.6	3.5

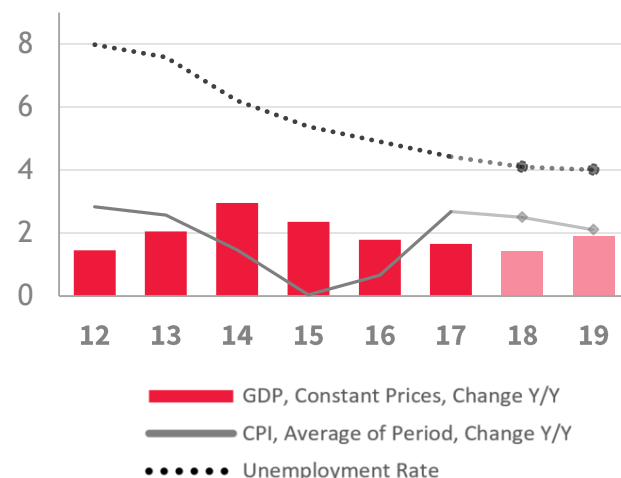
Source: GKI Economic Research Co. and Kopint-Tárki

NON EURO-AREA OUTLOOK

United Kingdom

- UK forecasts are largely subject to the outcome of Brexit negotiations. For the NIESR, GDP growth is expected to reach 1.4% in 2018 and 1.9% in 2019. The central forecast of the NIESR assumes a soft Brexit where GDP growth is expected to reach 1.4% in 2018 and 1.9% in 2019.
- Business and consumer confidence are markedly affected by the ongoing negotiations and business investment as well as exports perspective remain subdued due to the growing uncertainty.
- Inflation is set to continue falling from an average of 2.5% in 2018 to 2.1% in 2019. Under a hard Brexit scenario, NIESR reports Sterling's depreciation that in turn lifts inflation higher.
- The unemployment rate is now at its lowest level in 50 years, close to 4%, leading to wage growth that slightly outstrips inflation.

Outlook for the UK



Source: IMF (WEO), NIESR The National Institute of Economic and Social Research

Variables	% volume change from previous year	
	2018	2019
GDP	1.4	1.9
Private consumption	1.6	1.6
Public consumption	0.4	1.3
Gross fixed capital formation	0.6	3.1
Exports of goods and services	2.6	2.7
Imports of goods and services	1.2	3.1
Net exports (1)	0.4	-0.1
Consumer prices	2.5	2.1
Unemployment rate (4)	4.1	4.0

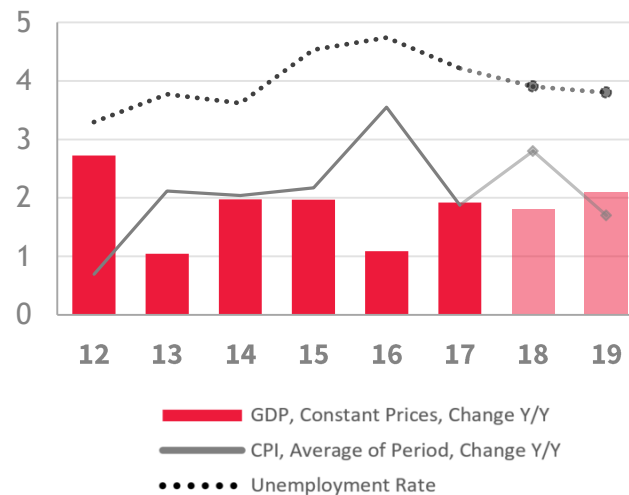
Source: NIESR The National Institute of Economic and Social Research

NON EURO-AREA OUTLOOK

Norway

- The Norwegian economy is set to grow next year, with Statistics Norway forecasts standing at 1.8% for 2018 and 2.1% for 2019
- Private consumption growth has been the primary driving force of the Norwegian economy in 2018 and is forecasted to become the second most important in 2019 after private investment.
- The GDP growth in 2018 has been boosted by an expansionary fiscal policy, weak krone exchange rate and low interest rates. These factors are expected to become more neutral going forward.
- The outlook for 2019 is very optimistic : sentiment indicators remain elevated, unemployment rate should further decrease while mainland demand is expected to remain solid and an upswing in petroleum investment should drive the upturn forward.

Outlook for Norway



Source: IMF (WEO), SN Statistics

Variables	% volume change from previous year	
	2018	2019
GDP	1.8	2.1
Private consumption	2.5	2.6
Public consumption	1.8	1.7
Gross fixed capital formation	0.6	4.0
Exports of goods and services	0.6	2.2
Imports of goods and services	2.7	3.7
Net exports (1)		
Consumer prices	2.8	1.7
Unemployment rate (4)	3.9	3.8

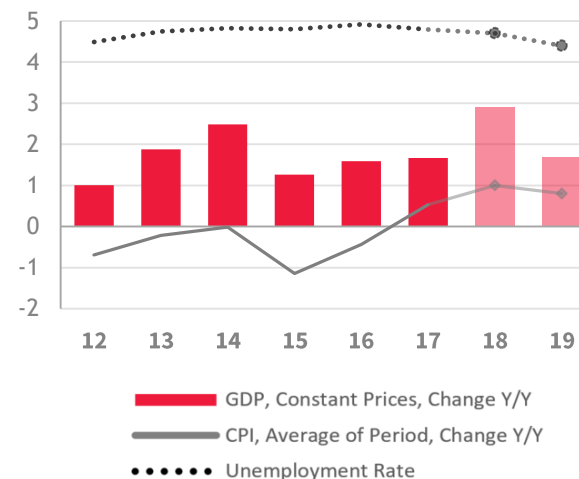
Source: SN Statistics Norway

NON EURO-AREA OUTLOOK

Switzerland

- The Swiss economy is predicted to grow by 2.9% in 2018 and 1.7% in 2019. The lower figure for 2019 stems from the lower levels of revenue received by the international sporting associations based in Switzerland.
- Private consumption, exports supported by a weak Swiss Franc and buoyant international demand in the first half of 2018 were the main driver of 2018 GDP growth.
- Real wages will stagnate in 2018 with the return of inflation but wage growth is expected to outstrip inflation in 2019 leading to a slight rise in real wages.
- Risks to the outlook are linked to the external environment. Geopolitical tensions and Brexit could sharply hit the exchange rate - Swiss franc is seen as a safe-haven currency- and in turn impact Swiss exporters.

Outlook for Switzerland



Source: OECD (LAMA), KOF Swiss Economic Institute

Variables	% volume change from previous year	
	2018	2019
GDP	2.9	1.7
Private consumption	1.4	1.7
Public consumption	1.1	1.3
Gross fixed capital formation	2.8	2.4
Exports of goods and services	3.0	3.6
Imports of goods and services	3.2	3.9
Net exports (1)	0.2	0.3
Consumer prices	1.0	0.8
Unemployment rate (4)	4.7	4.4

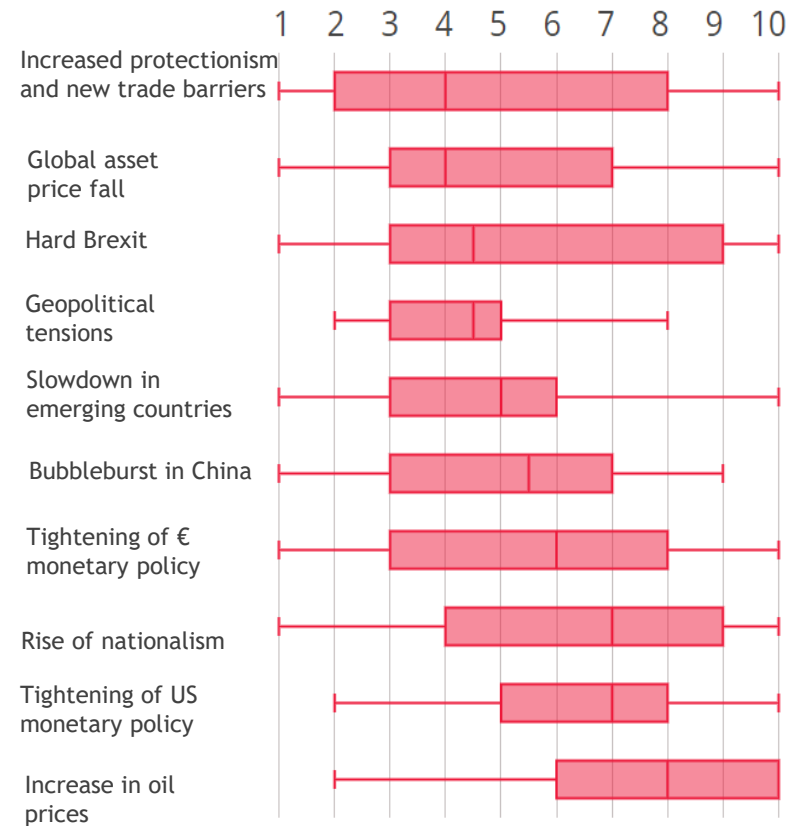
Source: KOF Swiss Economic Institute

RISKS TO THE OUTLOOK

Increased protectionism, global asset price fall and Hard Brexit are regarded as main downside risks for AIECE economies

- **New trade barriers and increased protectionism** are major downside risks to the outlook for most of AIECE's economies.
- **Global asset price fall and Hard brexit** are ranked second and third main downside risks but not affecting countries the same way as the large distribution underlines it.
- Some countries warned about **specific downside risks/ were more vigilant considering the current political or economic environment on specific risks** :
 - ⇒ Labor force shortage in Germany
 - ⇒ Rise of nationalism in Hungary & Poland
 - ⇒ Risk of financial instability in Europe due do Italy and risk of overheating in the US mentioned by the biggest AIECE economies (France, Germany)
 - ⇒ Sweden : High private debt
 - ⇒ Slowdown in emerging countries for Spain

Main downside risks to the growth-projection for AIECE economies

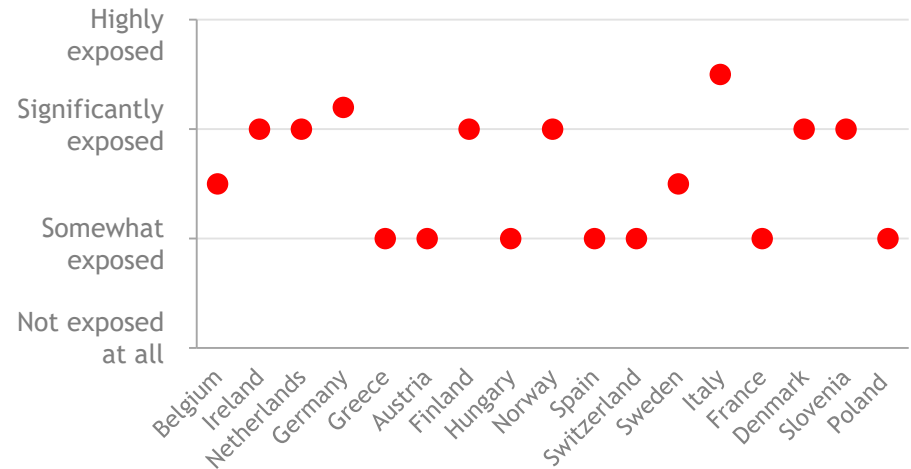


Source: All AIECE institutes. - The figure shows how AIECE institutes evaluate 10 main downside risks to the projection according to their importance, where 1 is the most important. For each risk, the figure shows a box plot with the minimum, the 25%-quartile, the median, the 75%-quartile and the maximum of the member institutes' answers (n=18)

RISKS TO THE OUTLOOK

All AIECE economies are exposed to the rising protectionism and tariff barriers

- Almost half of AIECE institutes (13 out of 28) consider their country to be « significantly exposed » to the rising protectionism.
- Europe's largest economies are those that reported the highest degree of exposition as well as Non euro area countries.



Source: AIECE institutes (n=28).

Extra EU-28 Exports as % in total exports



42%



41%



44%



33%



52%

Source: Eurostat

NON EURO-AREA OUTLOOK

Questions for discussion

1. Denmark and Sweden have reported a high household debt. How do you assess the risk for economic growth linked to this factor?
2. To what extent are EU funds fueling economic growth in your country?
3. How to avoid a fall in investment in the UK as uncertainty is increasing about the outcome of the Brexit negotiations?
4. Most of the non-euro area countries are expecting to register buoyant growth in 2018 and 2019 and seem unfazed by trade tensions and other main downside risks identified for the euro area, how long do you think it can last?
5. How is/will your country affected by the slowdown in the Euro area?



POLICY ENVIRONMENT

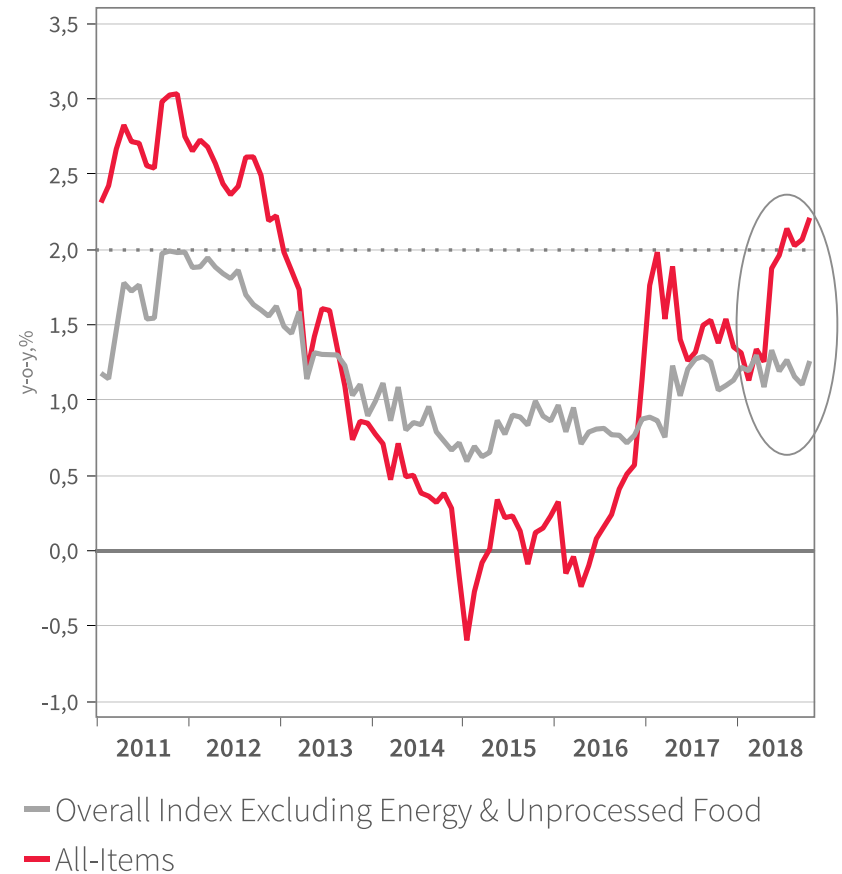
- Monetary policy
- Fiscal policy

POLICY ENVIRONMENT

Monetary policy

- The Eurozone has experienced an acceleration of inflation since the beginning of 2018
- The ECB expects inflation to plateau at 1.7% in 2018-19-20
- The ECB acknowledges that “*the medium-term increase in inflation that [they] predict is based on the premise of quite some degree of monetary policy accommodation*”

Euro Area, HICP, Index



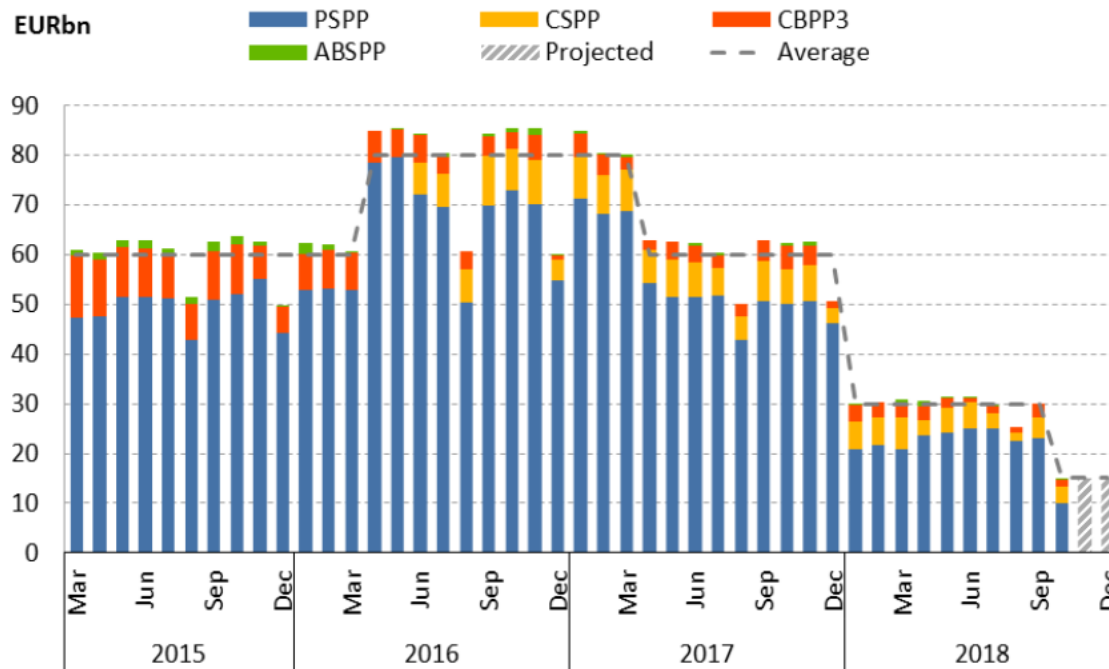
Source : Eurostat, Macrobond

POLICY ENVIRONMENT

ECB actions

- The ECB has reduced the level of the APP (Asset Purchase Programme) to 15 bio € over the last quarter of 2018. The APP is set to end in December 2018 but will not be followed by an immediate increase in policy rates.

APP monthly net purchases, by programme

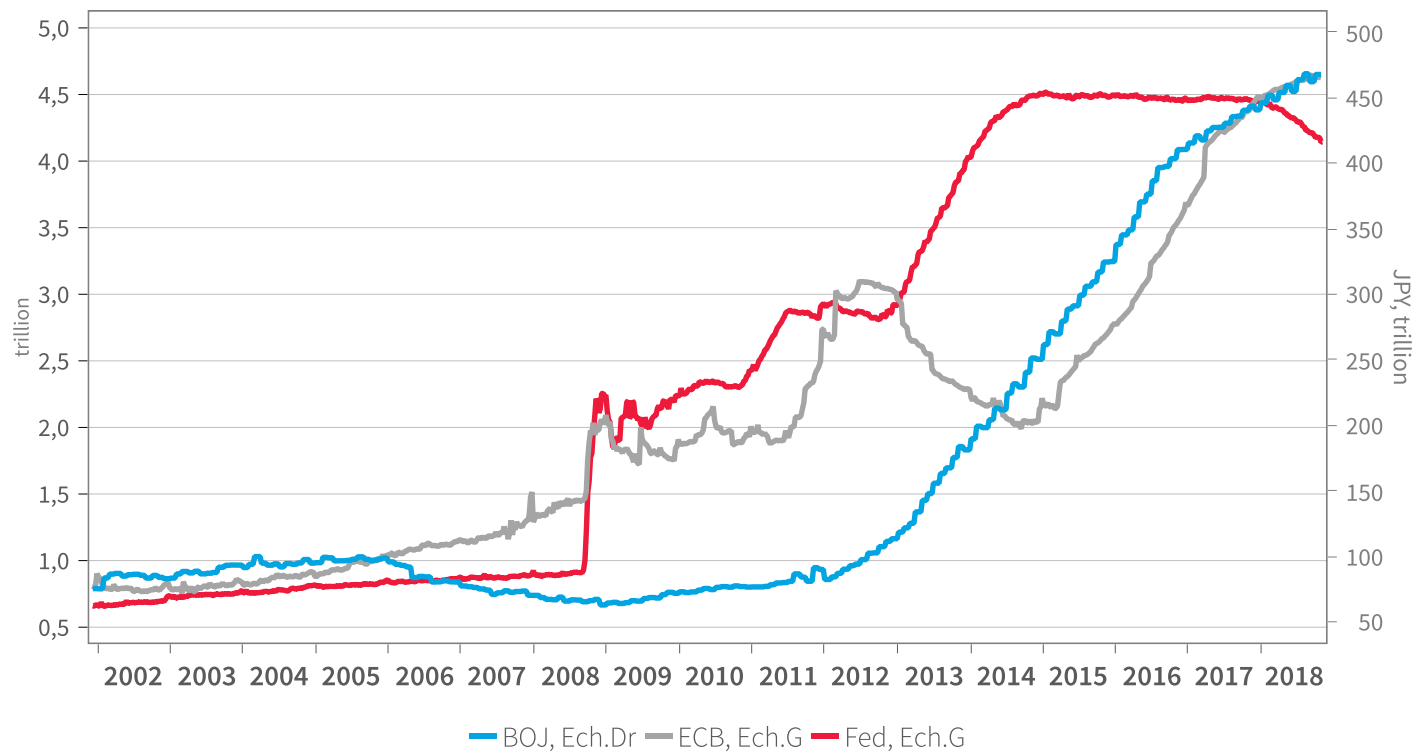


Source: ECB.

POLICY ENVIRONMENT

ECB actions

Balance sheets of Central Banks



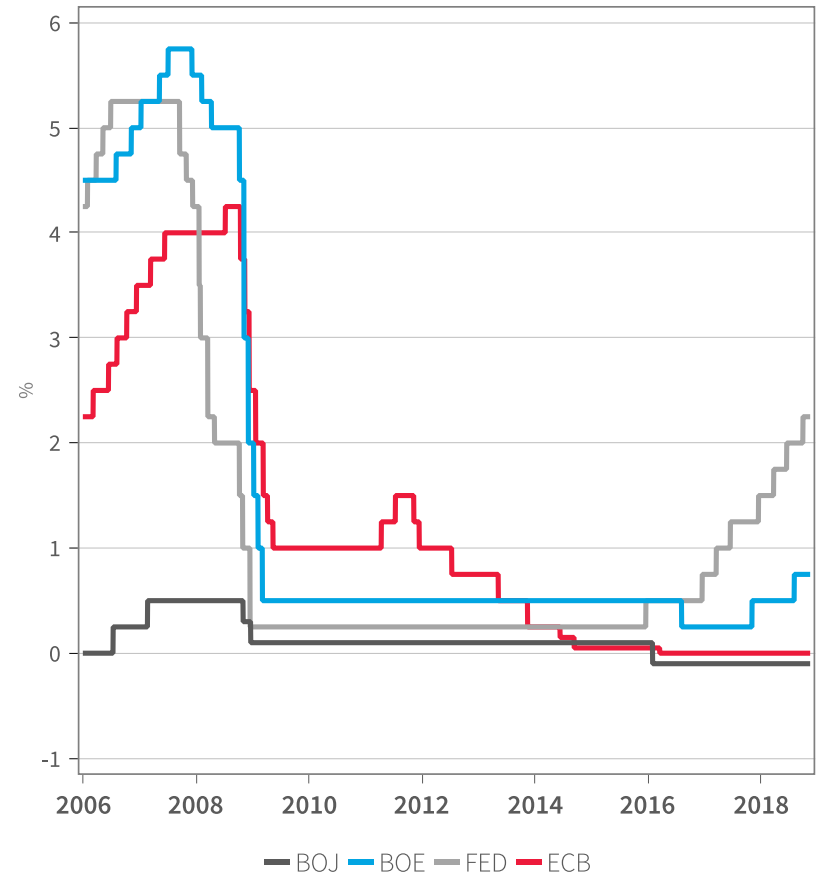
Source : FED, ECB, BOJ, Macrobond

POLICY ENVIRONMENT

Monetary policy out of Europe

- 3 rates hikes by the Federal Reserve in 2018 and AIECE Members expect a fourth one in December. AIECE Members expect the policy rate of the Federal Reserve to reach 3.0% at the end of 2019, at its highest level since 2006.
- In Japan, the BOJ is expected to continue with its accommodative policy on the backdrop of low inflation. However, a majority of institutes expect a return to zero interest rates starting 2019.
- The Bank of England has raised its rate once in 2019 and is expected to further tighten its monetary policy next year. AIECE institutes expect policy rates to be in an interval from 0.75% to 1.5% by the end of 2019.

Policy rates of Central banks



Source : Central banks, Macrobond

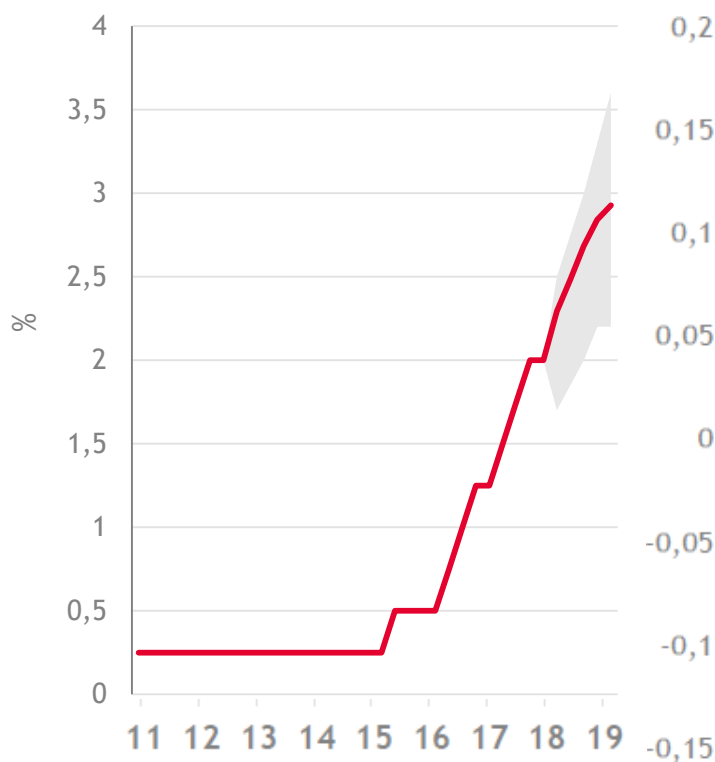
POLICY ENVIRONMENT

Towards tighter monetary policies

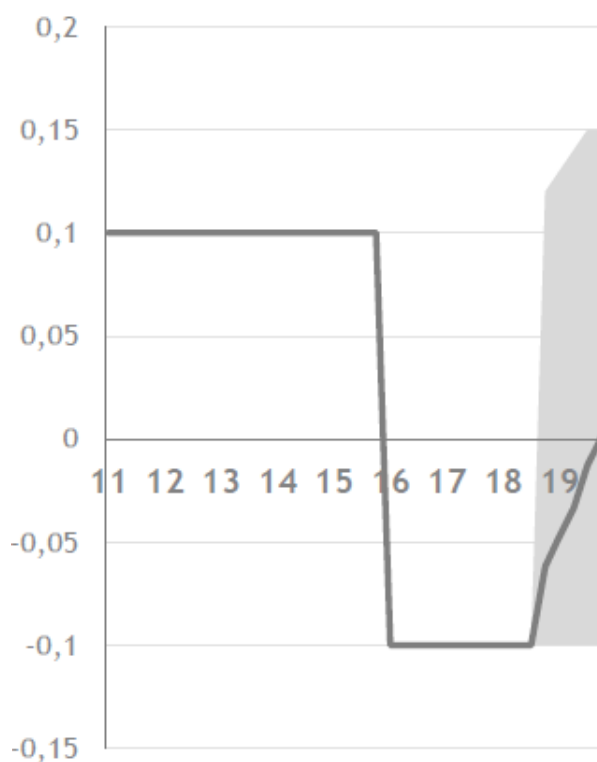
Policy rates of Central banks

Average of responses, AIECE institutes

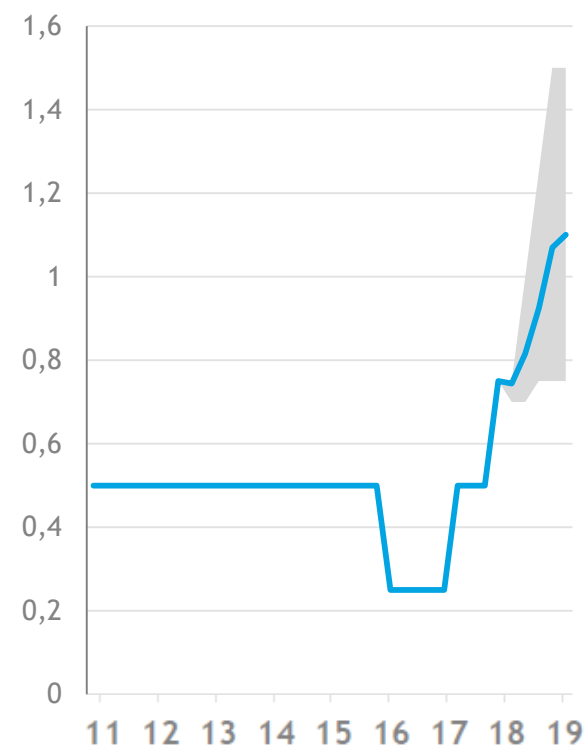
FED



BOJ



BOE



Source: Macrobond AIECE institutes (n=14, 11, 8)

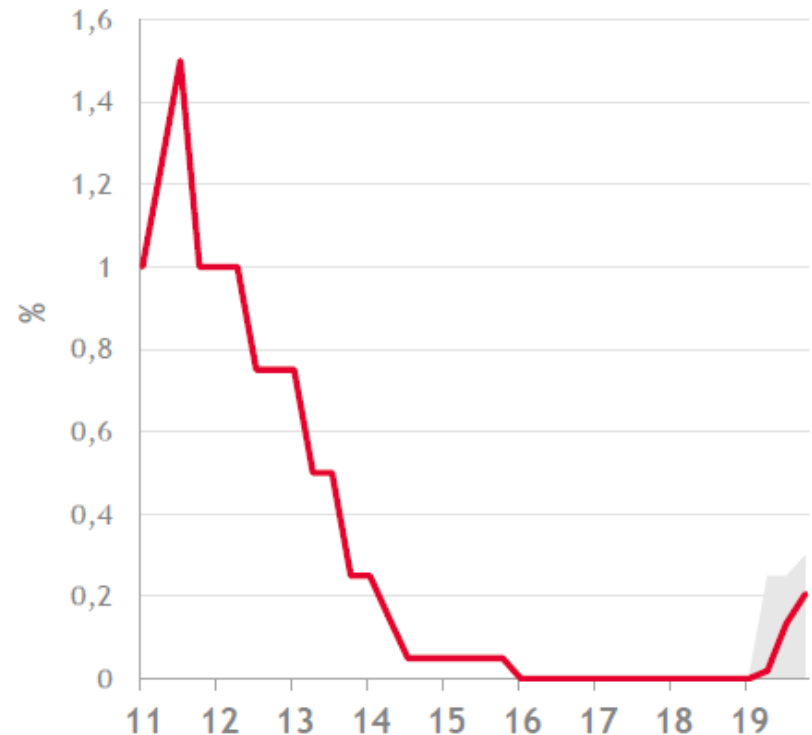
POLICY ENVIRONMENT

ECB actions

- According to the ECB *“rates are expected to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term”*
- 19 out of 21 AIECE institutes expect the European Central Bank will raise its policy rate in 2019
- On average, AIECE institutes expect the policy rate of the ECB to reach 0.21% in 2019.

Policy rates of the ECB

Average of responses, AIECE institutes. Value at the end of period (quarter)



Source: Macrobond AIECE institutes (n=16)

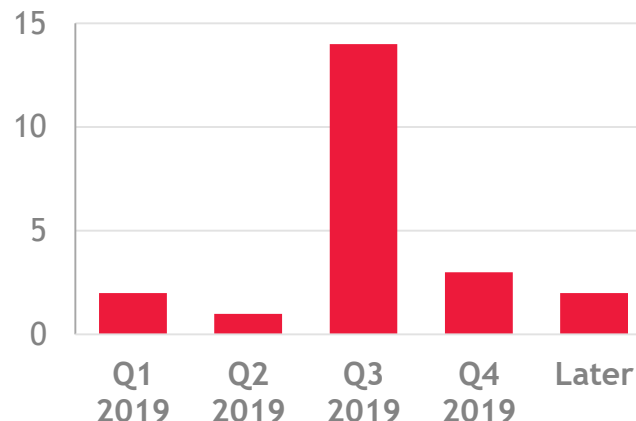
POLICY ENVIRONMENT

ECB actions

- The ECB has announced that *“rates are expected to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term”*.
- 20 out of 22 AIECE institutes expect the Central Bank to raise its policy rate in 2019.
- 14 institutes expect that the ECB will raise its policy rate over the Q3 2019. 3 institutes believe that the Central bank will do so over the first or the second quarter, while 5 institutes expect a hike in policy rate after the 3rd quarter.
- AIECE members mostly expect a slow increase in policy rates. 15 out of 22 expect that the pace at which the ECB will rise rates will be slow, while 5 expect the Central Bank to increase its rate at a gradual pace

When will the ECB raise its policy rate?

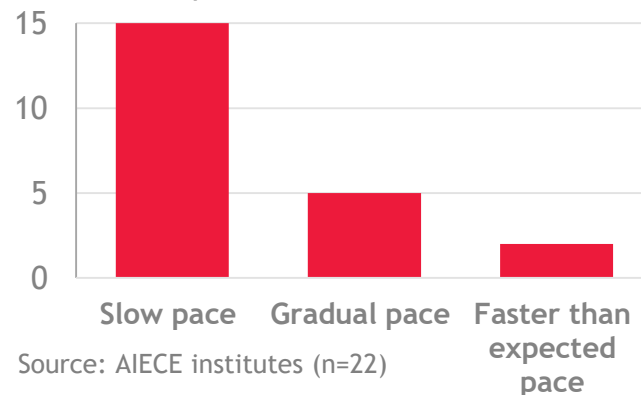
Number of respondents



Source: AIECE institutes (n=22)

At which pace will the rise of the interest rate be undertaken?

Number of respondents



Source: AIECE institutes (n=22)

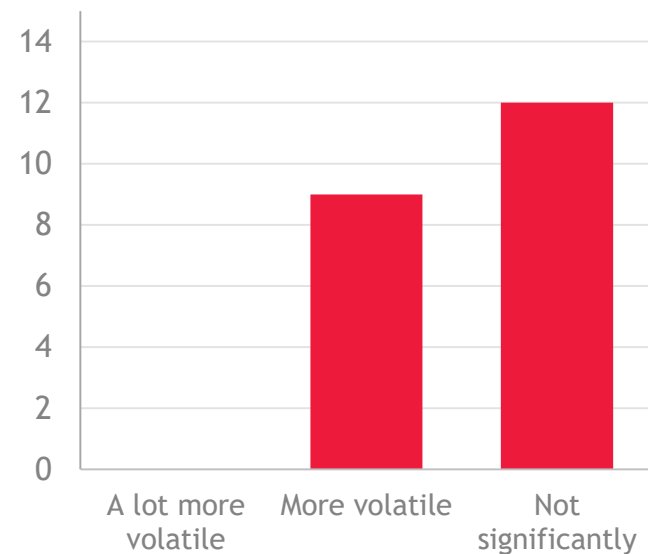
POLICY ENVIRONMENT

The normalization strategy should have a limited impact on volatility

- Out of 22 responses, 13 institutes believe that the policy of the central bank will have no significant impact on volatility.
- 9 institutes expect the normalization of monetary policy to increase volatility more significantly, while no institute believe that it will make markets a lot more volatile.

Do you think that the normalization strategy of the ECB will make financial markets more volatile?

Number of respondents

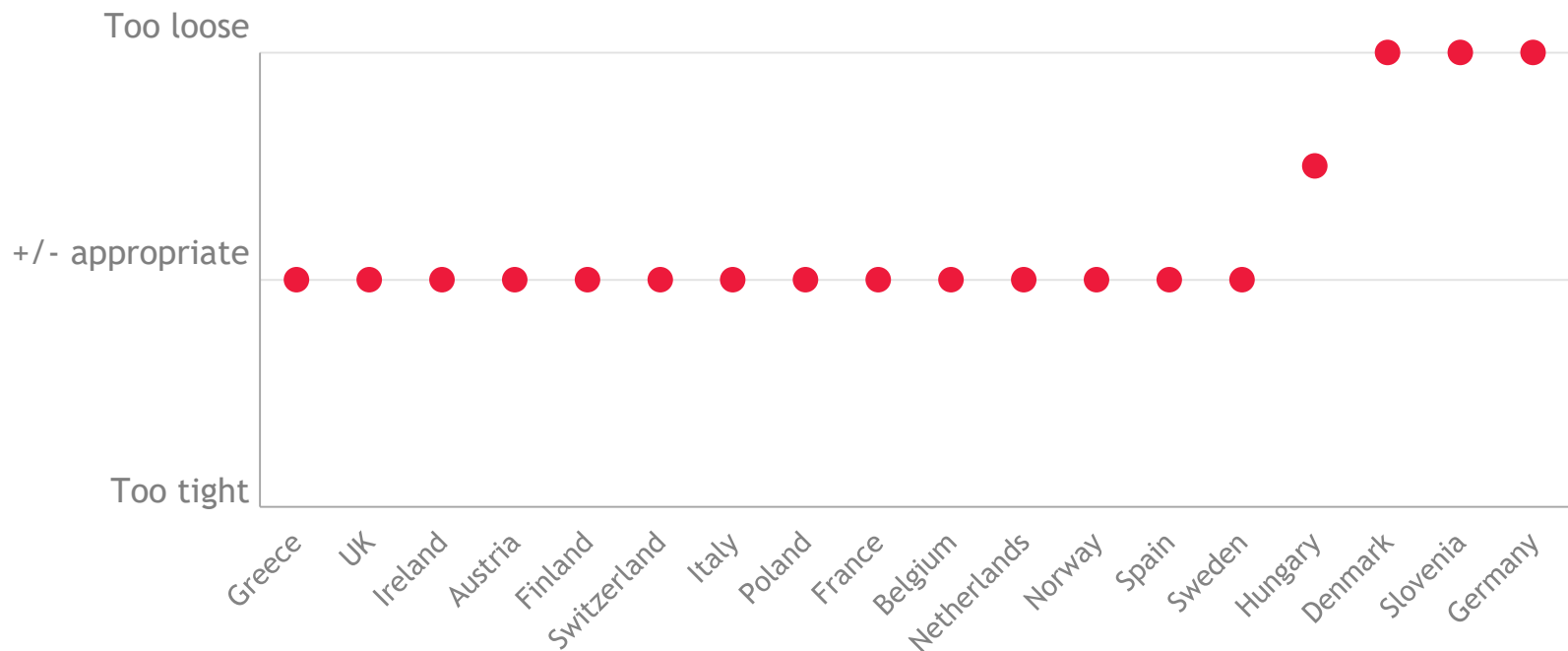


Source: AIECE institutes (n=22)

POLICY ENVIRONMENT

Monetary policy is currently more or less appropriate

From your country's perspective, the monetary policy environment is...



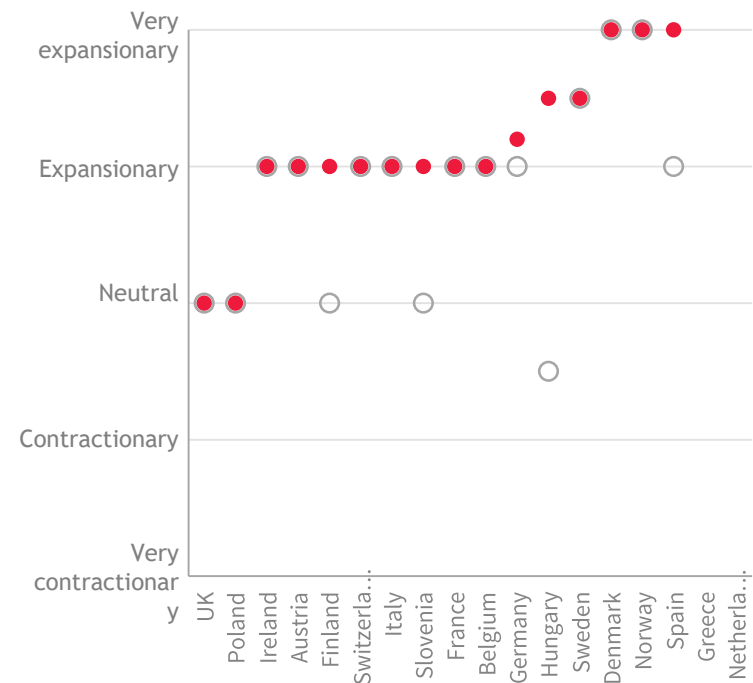
Source: AIECE institutes, n=28

POLICY ENVIRONMENT

Monetary policy are expected to become more contractionary in 2019

- Overall, monetary policy remains rather expansionary. 18 institutes find monetary policy to be expansionary, while 6 find it to be very expansionary.
- In the future, AIECE members expect monetary policy in their country to remain expansionary (15 institutes) or very expansionary (4 institutes).
- Monetary policy is expected to remain neutral in the UK. In Hungary, monetary policy is expected to be either neutral or contractionary in 2019 after having been expansionary this year.

Monetary policy stance 2018-2019



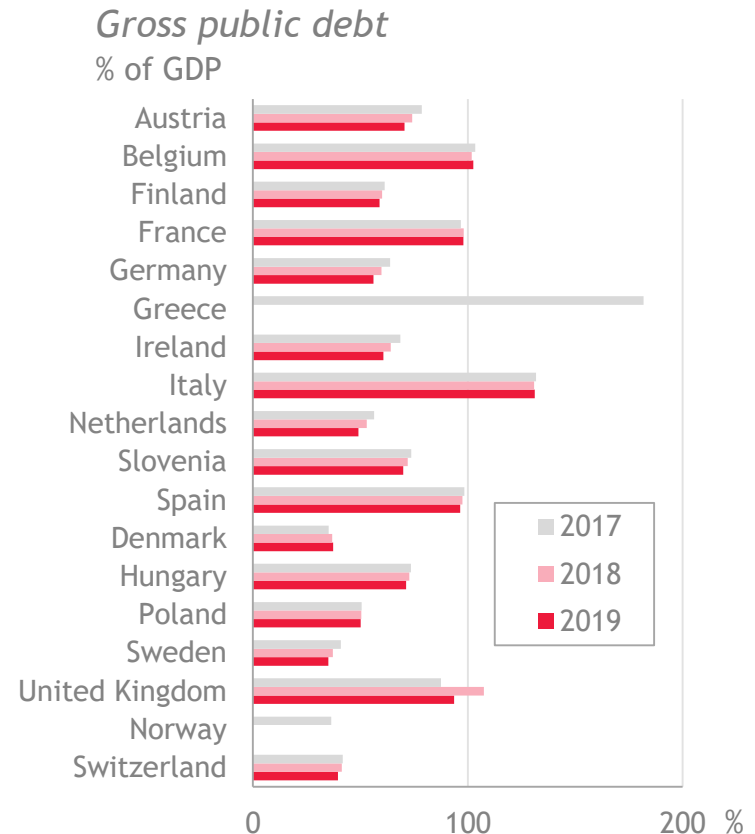
● Policy stance 2018 ○ Expected policy stance 2019

Source: AIECE institutes, n=26

POLICY ENVIRONMENT

Public debt is being reduced

- The debate about fiscal policy is still open: should countries increase public spending to boost the economy or aim at balanced budgets?
- Sustained growth and low interest rates over the last quarters have allowed fiscal policy to become more and more neutral
- Public debt has also been reduced in almost all Eurozone countries. The aggregate level of gross public debt went from 92% in 2014 to 87% in 2017.
- The debt-to-GDP ratio is above 100% in four member states, while it is below 60% in 13 member states.



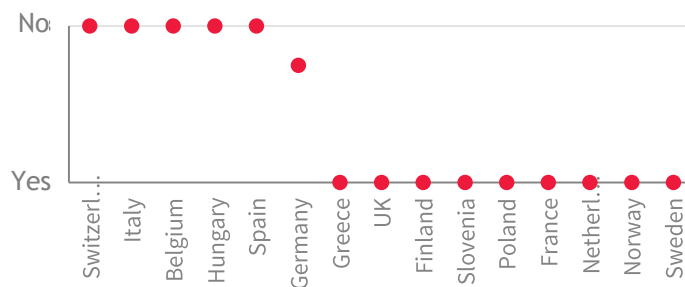
Source: IMF (WEO), AIECE institutes
(n=26)

POLICY ENVIRONMENT

Overall, measures implemented to reduce public debt are deemed appropriate

- 9 countries have implemented measures to bring down the level of public debt in their country.
- Institutes seem to believe that the measures are appropriate in the majority of cases.
- For Norway, measures are deemed excessive: the government aims at reducing red tape, increase productivity in the public sector, privatize public utilities. *To what extent are these measures excessive?*
- In France, Italy, Slovenia and Hungary, the measures are insufficient (or very insufficient for one institute from France). *What should be done? Do you believe the level of debt is excessive/a threat?*

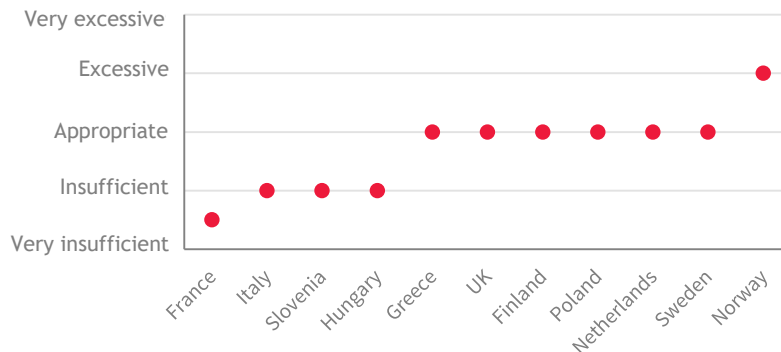
Are there currently implemented measures to bring down the level of public debt in your country?



Source: AIECE institutes, n=22

How do you evaluate them?

Average of institutes for each country



Source: AIECE institutes, n=12

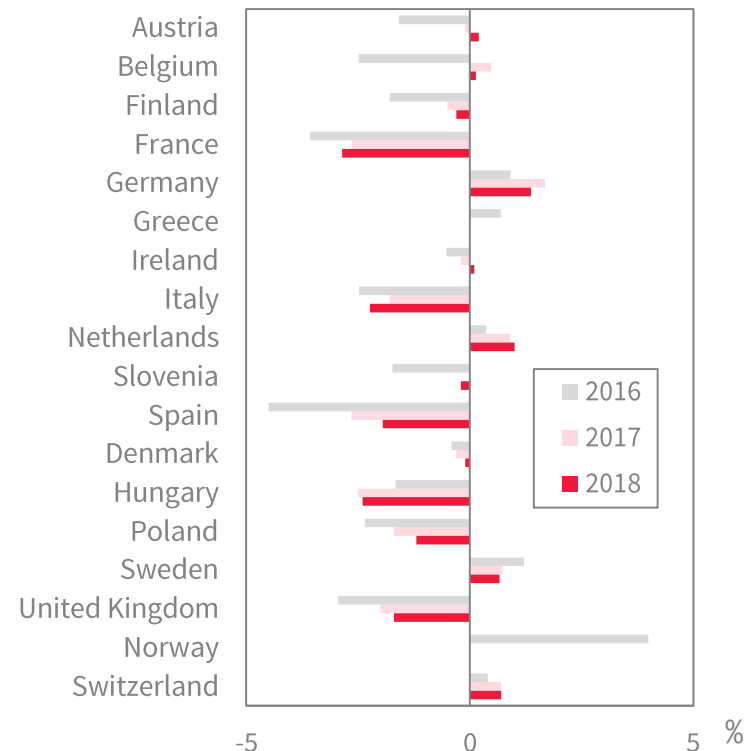
POLICY ENVIRONMENT

Public deficits are improving

- Public deficit has improved as well and is now very close to its historical lows (1.0% in 2017).
- The structural budget deficit has also improved. The number of countries under the Excessive deficit procedure of the European Commission also decreased: only one country remains subject to the procedures.
- According to AIECE forecast and to the last macro-economic forecasts of the European Commission (October 2018), **all Eurozone countries** are expected to comply with the 3%-deficit-rule.
- Improving cyclical conditions as well as sustained private demand have contributed to the improvement in headline budget balances.

Gross public deficit

% of GDP



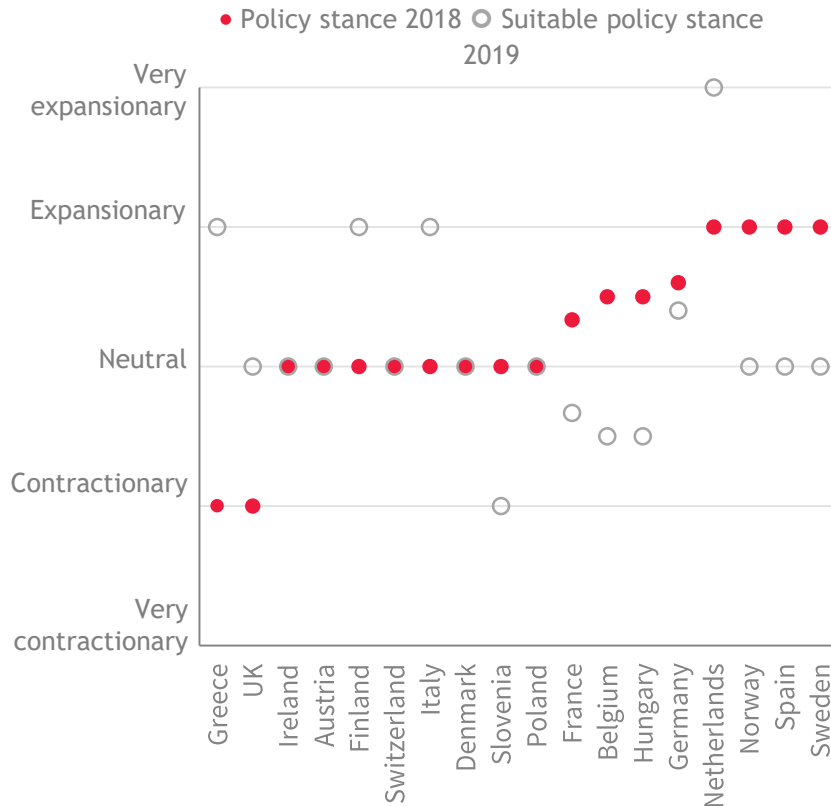
Source: IMF (WEO), AIECE institutes
(n=26)

POLICY ENVIRONMENT

Towards more contractionary fiscal policies in 2019?

Fiscal policy stance in your country

Average of institutes for each country



Source: AIECE institutes, n=27

- For most countries (all but 2), fiscal policies are neutral or expansionary.
- In Greece and in the UK, fiscal policies are contractionary. *What actions were taken by the government?*
- For 2019, countries are divided between those who advocate for an expansionary (or very expansionary) fiscal policy and those who would rather see a contractionary policy for their country. *What are the arguments?*
- For 2019, AIECE members seem to favor a more contractionary policy (or neutral). *Do you believe slowdown in your country could impact fiscal policy for 2019?*

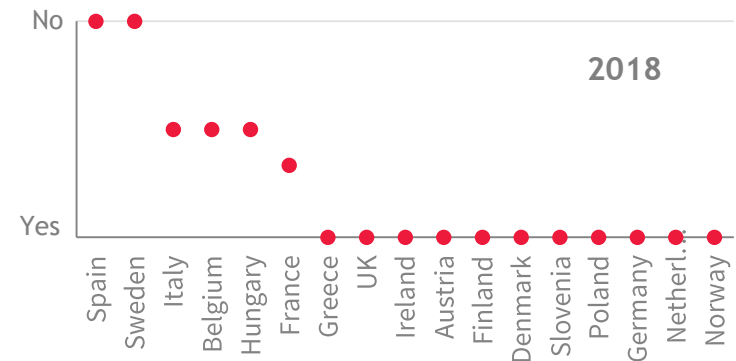
POLICY ENVIRONMENT

Towards more deficit in 2019?

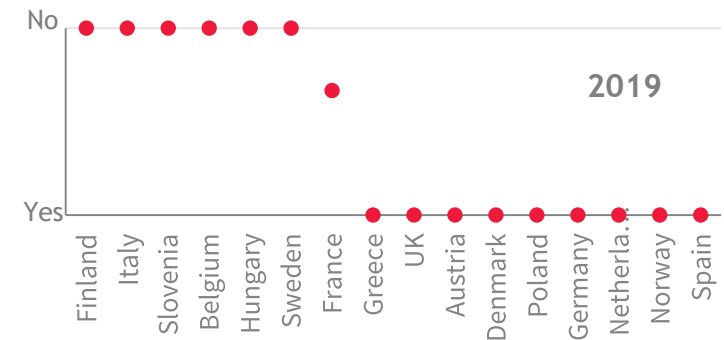
- For 2018, most institutes believe that the current stance of fiscal policies are adequate to meet the budget deficit target.
- In 2019, institutes from 7 countries believe that the fiscal policy will not be appropriate to satisfy the objective of the government. *How big do you expect the deviation from budget deficit target to be?*
- For Spain, what are the differences between the budget in 2018 and 2019?

Do you think that the current stance of fiscal policy is appropriate to meet the budget deficit target for...

Average of institutes for each country



Source: AIECE institutes, n=26



Source: AIECE institutes, n=25

POLICY ENVIRONMENT

Questions for discussion

1. The Federal Reserve has started to normalize its monetary policy in December 2015. As the American economy is close to overheating, some believe that the Fed could accelerate the pace of the rate increases. Do you agree with this statement? The ECB will most likely only start rising its policy rates over the Summer 2019, do you believe it is too late?
2. To what extent do you believe the normalization of ECB's monetary policy will limit investment growth and private consumption in your country?
3. Do you believe countries should start implementing expansionary fiscal policies to support the economy?



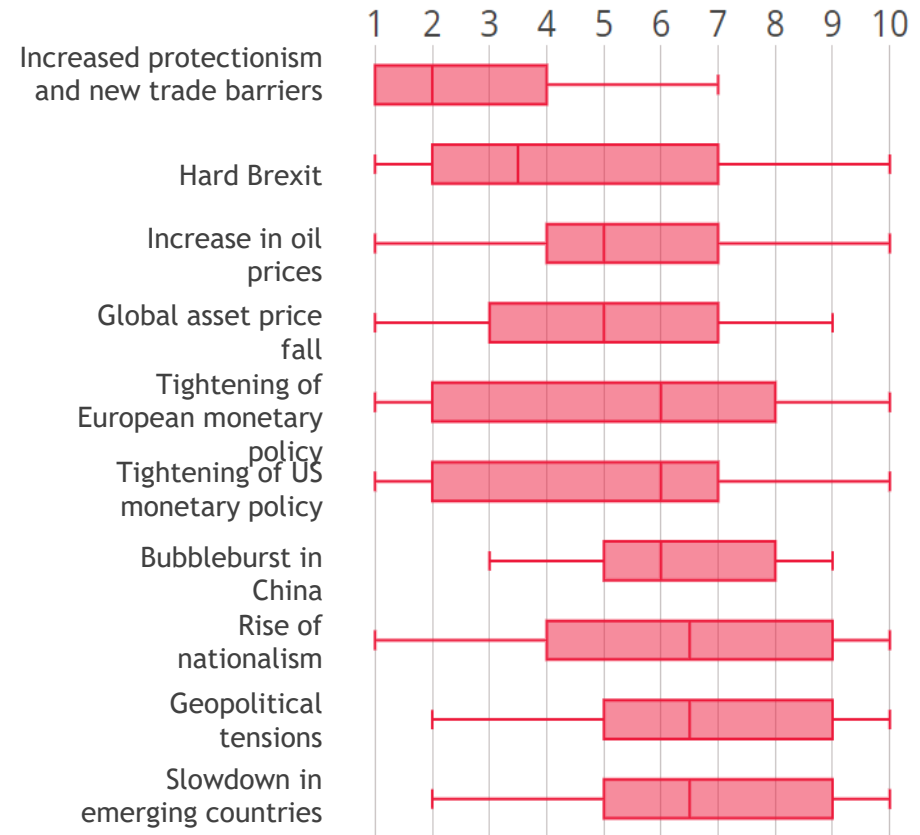
RISKS, CHALLENGES AND ECONOMIC POLICY

RISKS TO THE OUTLOOK

The main downside risks

- High level of uncertainty is probably the biggest risk weighing on GDP growth in Europe.
- Increased protectionism and new trade barriers are seen as a major downside risk for Europe
- Hard Brexit comes second as it is the most imminent risk and the likelihood of such an outcome remains high
- Some of the technical assumptions underlying forecasts also constitute a large risk, for instance increase in oil prices
- The tightening of US and EU monetary policy is not seen as a major risk to growth-projections in Europe, but uncertainty remains about the pace at which the rise of policy rates will come.

Main downside risks to growth-projections for Europe



Source: All AIECE institutes. - The figure shows how AIECE institutes evaluate 10 main downside risks to the projection according to their importance, where 1 is the most important. For each risk, the figure shows a box plot with the minimum, the 25%-quartile, the median, the 75%-quartile and the maximum of the member institutes' answers (n=21)

RISKS, CHALLENGES AND ECONOMIC POLICY

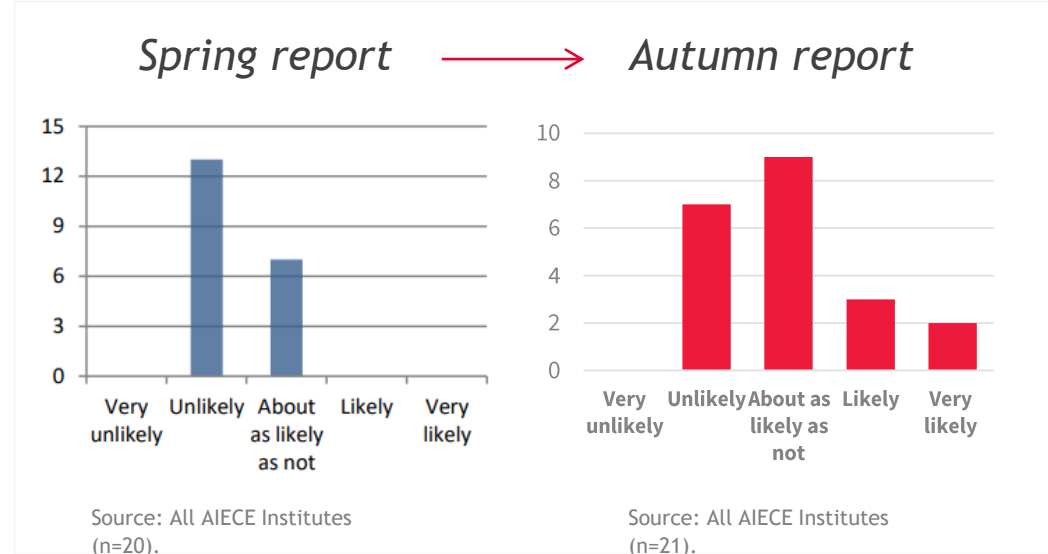
Brexit

- Most of AIECE Institutes are now considering the risk of a no-deal Brexit as a serious one (14 out of 21).
- The possibility of a “Final Say Vote” by Trade Unions is less likely according to AIECE’s Institutes.
- Regular surveys seem to show that, if the Brexit vote took place now, most people would vote “No”¹. There is an overwhelming perception that the Brexit negotiations are not running well, for both *Remainers* and *Leavers*.

¹Source: YouGov poll, updated September 3-4 2018

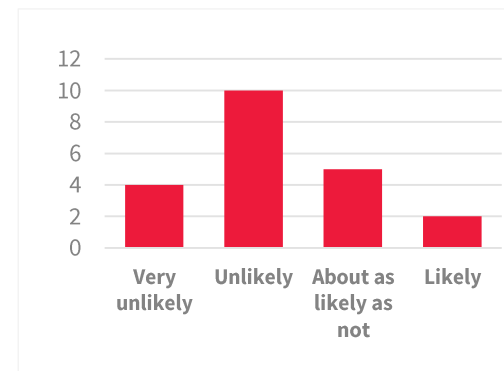
Possibility of no-deal Brexit

Number of answers



Possibility of a « Final Say Vote » by Trade Unions

Number of answers



Source: All AIECE Institutes (n=21).

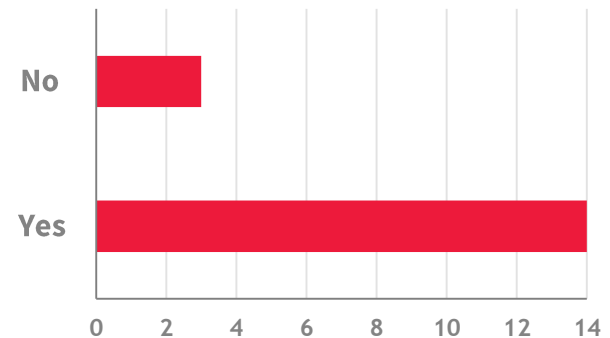
RISKS, CHALLENGES AND ECONOMIC POLICY

European Parliament Elections - May 2019

- Most of AIECE Institutes agree that new parties are likely to gain strength at the next elections, especially Eurosceptic parties
- Answers by AIECE Institutes show some concerns about a wave of nationalism that could impede the development of European governance
- The alliances for the elections are not settled yet and the dominant parties at the European Parliament are struggling with the current political environment : the European People's Party (EPP), with pro-European convictions, has to deal with Hungary Orbán's *Fidesz* party while the Socialists and Democrats (S&D) is facing a decline of all of its members across Europe (and will lose its third largest member, Labour, after the elections). The coalition between the French *En Marche* and the European Parliament's liberal ALDE is still uncertain.

Do you expect that the European elections of May 2019 will affect national party system (i.e opportunity for new parties to emerge v.s traditional ones)?

Number of answers

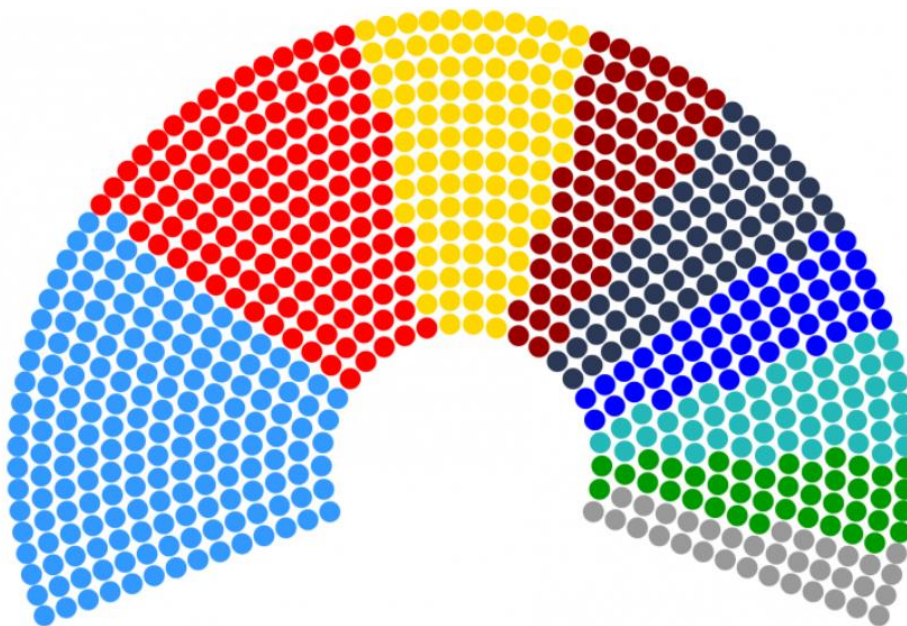


Source: All AIECE Institutes (n=18)

RISKS, CHALLENGES AND ECONOMIC POLICY

European Parliament Elections - Seat projections for May 2019

European Parliament : allocation of seats



Party	2014	2019 Projection	Seat change
● EPP	219	177	↓ 42
● S&D	189	134	↓ 55
● ALDE	68	98	↑ 30
● GUE/NGL	51	61	↑ 10
● ENF	35	61	↑ 26
● ECR	73	50	↓ 23
● EFDD	43	50	↑ 7
● G/EFA	52	40	↓ 12
● NI/*	21	34	↑ 13

Source: Europe Elects, November 2018
Poll aggregation and election analysis for
countries in the European Union

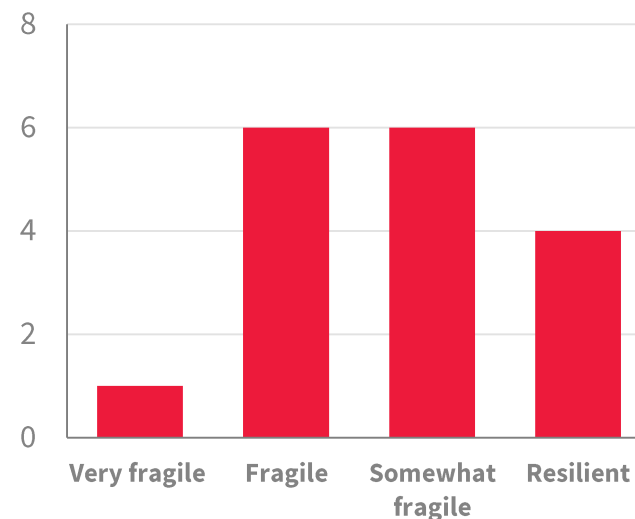
RISKS, CHALLENGES AND ECONOMIC POLICY

EU challenges/ fragility

- Diverging approaches between countries in the EU and ongoing events - Brexit, European Commission's rejection of Italy's 2019 budget - are questioning the capacity of the European Union to reach a consensus on even basic matters
- 13 out of 18 institutes agree on the fragility of the EU given the current environment and the rise of anti-EU feelings.
- The underlying question is about the legitimacy of the EU against national governments, which are becoming more and more critical towards its policy. Against this background, the EP election campaign is expected to have this issue as one of its central themes.

Given the current political environment, inside and outside of the EU, how would you evaluate the capacity of the European Union to carry out its basic governance functions?

Number of answers



Source: All AIECE Institutes (n=18)

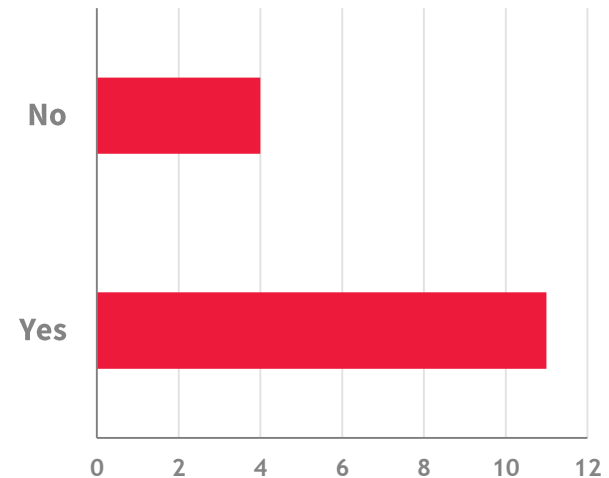
RISKS, CHALLENGES AND ECONOMIC POLICY

EU challenges/ fragility

- AIECE Institutes agree that the EU should strengthen its position against countries that are not complying with European rules and principles (11 out of 16).
- However, respondents suggest that a more assertive policy regarding the compliance with the rules of the Stability and Growth Pact could threaten the survival of the Euro area.
- Respondents also point out that being part of the EU comes with terms that national governments cannot circumvent permanently. Apart from economic rules, basic democratic principles have to be followed by EU members.

Do you think that the European Commission should strengthen its position against countries that are not complying with European rules and principles?

Number of answers



Source: All AIECE Institutes (n=16)

RISKS, CHALLENGES AND ECONOMIC POLICY

Questions for discussion

1. Do you think that policymakers in your country and in the EU as a whole are preparing enough for a “cliff-edge” Brexit?
2. How likely is further escalation of trade tensions with China? With the US? Does the WTO remain efficient in implementing/applying its rules on trade and tariffs?
3. Recent events have shown a growing disapproval towards EU policy among the population (in Italy and Hungary in particular). Do you think there is a democratic deficit in the EU and/or that institutional rules should be reviewed?
4. Are the next European elections a turning point for the future of the EU?
5. Aggregate debt levels in relation to global GDP have continued to grow and raise concerns about the global financial stability. The fear is gaining more relevance in a context of increasing interest rates. Do you believe a debt crisis could happen in the short term?
6. Considering the current problems faced by the Chinese economy, do you think a Chinese “hard-landing” is likely?
7. American stock markets have performed very well in the last years and reached historical highs. How do you assess the risk of a large correction in 2019?



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