Polish Economic Institute

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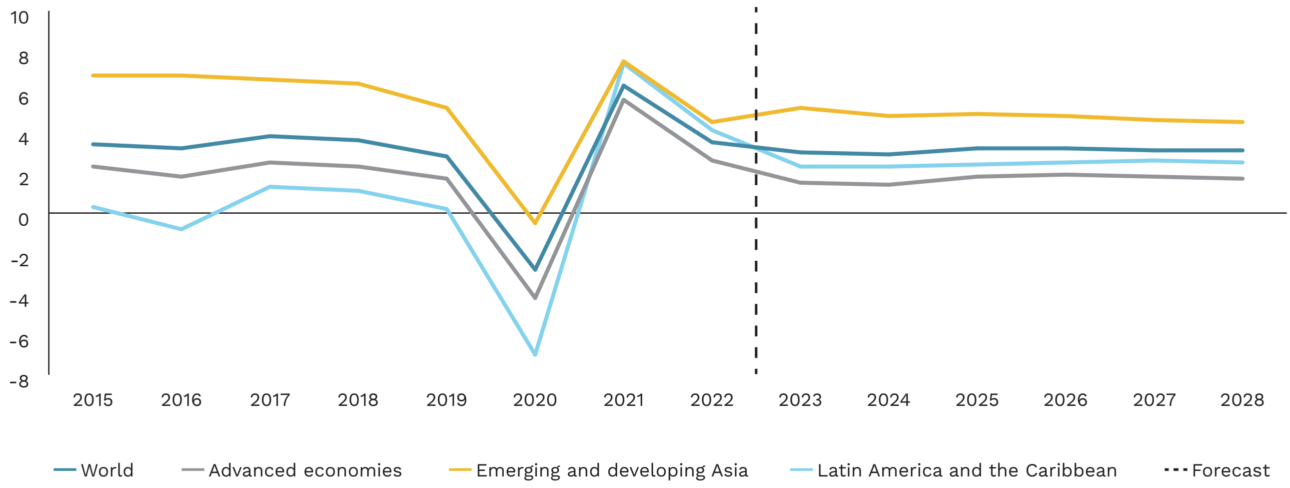
1. The external environment

The forecasting of the economic cycle remains a challenge for the central banks and for companies. The consensus points to the continuation of reasonably good economic growth. The IMF forecasts that global growth will reach 3.0% in 2023 and 2.9% in 2024. Much of next year's growth is expected to be driven by the rising emerging Asian economies (GDP growth at 4.8%), including India (6.3%) and China (4.2%). The outlook for Latin America (2.3%) and the US (1.5%) is weaker. AIECE members outlook is slightly more pessimistic – Institutes forecasts growth rate of 2.9% in 2023 and 2.7% in 2024.

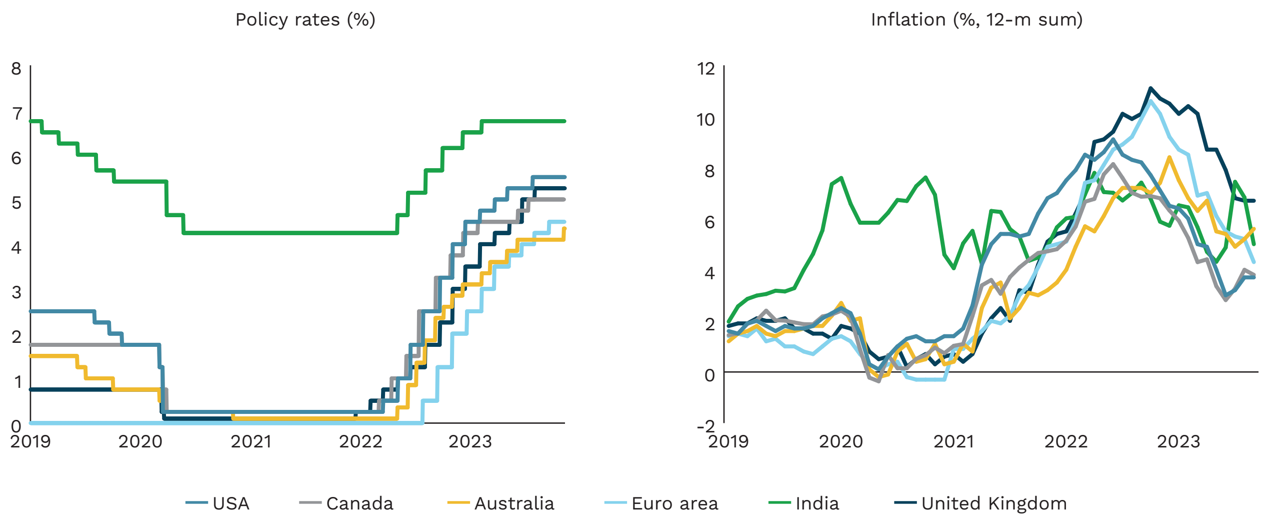
Figure 1.1: Global economic growth prospects (%)



Sources: IMF; prepared by PEI.

Inflation remains a challenge for central banks in most of the world. Annual inflation rates remain clearly above inflation targets. For example, CPI reached 3.7% in the US, 3.8% in Canada, 5.0% in India and 6.7% in the UK. As a result, central banks are maintaining a restrictive monetary policy. Market expectations suggest that nominal interest rates in most economies have peaked. As a result, this will require start of easing cycle in 2024 to adjust the restrictiveness of the real interest rates. The exception may be Australia, where interest rates were raised to 4.35% in November and the inflation forecast for 2024 was raised. Japan is also in a special situation: monetary policy restrictiveness there could be increased by further adjusting yield curve control, rather than through classical rate hikes. It is worth noting that inflation and interest rate cycles remain highly synchronised. This suggests that GDP and inflation surprises may have global spillover effects and non-linear externalities.

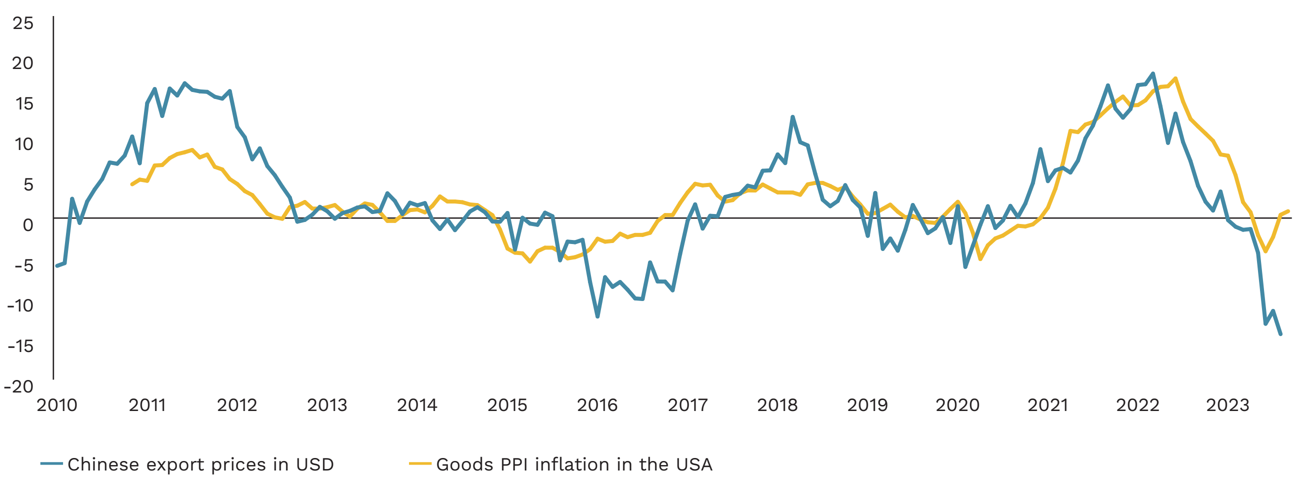
Figure 1.2: Global inflation outlook and policy rates remain synchronised



Sources: Macrobond; prepared by PEI.

The outlook for China's economy remains problematic. The IMF expects China's GDP to grow by 5.0% in 2023. However, performance in subsequent years prove weaker – an area of uncertainty is mainly the behaviour of the real estate sector and the heavy debt burden of the private sector and local governments. In addition, industry performance will be highly sensitive to the economic performance of Western economies. In the longer term, maintaining solid GDP growth in China will depend largely on building a robust domestic demand. The subdued GDP outlook translates into CPI and PPI deflation. The European Central Bank estimates that deflation from China will lower next year's HICP inflation in the eurozone next year by about 0.4 percentage points.

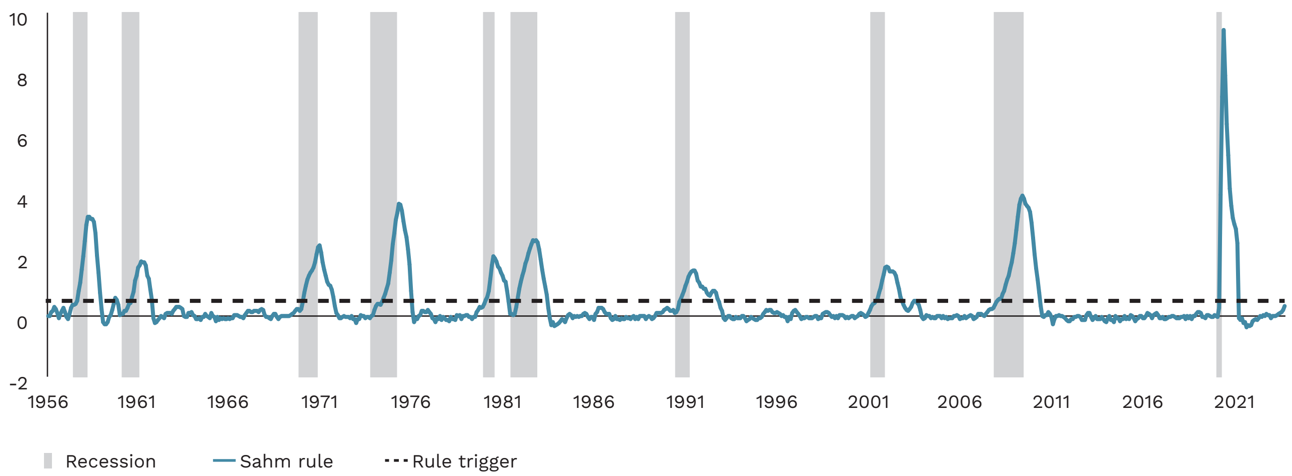
Figure 1.3: Chinese export prices and global inflation (%, annual rate of change)



Sources: CPB and BLS; prepared by PEI.

The US is currently enjoying the best economic performance among developed economies. Cumulative economic growth from Q4 2019 to Q3 2023 reached 7.4% – almost 2.5 times the eurozone's 3.0%. Strong demand is further fuelled by excess consumer savings accumulated during the pandemic, investment spending tied to the Inflation Reduction Act and the high fiscal deficit. Yet excess savings will be exhausted in about two quarters and the deficit will have to be reduced. As a result, the Conference Board consensus forecast points to a deceleration in annual GDP growth from 2.2% in 2023 to 0.8% in 2024 – far below the IMF's forecast. Inflation will fall as the economy slows down; analysts expect inflation to return to target in Q4 2025. However, the threats to the outlook are asymmetrical. Leading indicators point to a somewhat stronger slowdown in activity. For example, the number of corporate bankruptcies is the highest since 2010 (apart from 2020, when the number was about the same) and the labour market has begun to cool down. As a result, the popular Sahm rule is creeping towards the threshold signalling the onset of a recession. This would mean a downward revision of GDP in most of the world's economies.

Figure 1.4: Sahm rule recession indicator for the US (pp)



Sources: FRED St. Louis; prepared by PEI.

Table 1: Global assumptions of AIECE institutes – distributions

Global GDP growth (%)			
Year	2023	2024	2025
Average	2.9	2.7	3.0
25th percentile	2.7	2.5	2.8
75th percentile	3.0	2.9	3.1
Commodity prices – Brent Oil (USD / bbl)			
Year	2023	2024	2025
Average	83.0	83.0	79.3
25th percentile	84.9	91.4	89.9
75th percentile	84.0	87.7	84.7
Commodity prices – TTF natural gas (EUR/ MhW)			
Year	2023	2024	2025
Average	46.7	53.2	47.8
25th percentile	42.8	51.3	45.3
75th percentile	51.0	55.3	50.0
Interest rates – European Central Bank (%)			
Year	2023	2024	2025
Average	3.6	3.9	3.1
25th percentile	3.7	3.9	2.8
75th percentile	4.1	4.5	3.7
Interest rates – US Federal reserve (%)			
Year	2023	2024	2025
Average	4.7	4.5	3.9
25th percentile	5.0	4.7	3.5
75th percentile	5.3	5.2	4.4
Foreign exchange rates – EUR/USD			
Year	2023	2024	2025
Average	1.07	1.08	1.08
25th percentile	1.08	1.07	1.06
75th percentile	1.09	1.10	1.10

Survey conducted between 23 October and 4 November. The sample includes 19 responses for 2024 data and 9 responses for 2025 data.

Sources: AIECE institutes; prepared by PEI.

2. The outlook for Europe

The current outlook is still dominated by inflation. Data points to significant disparities in inflation between different regions of Europe. Inflationary pressure varies between countries, leading to differences in how soon individual member states reach the inflation target. We are observing significantly higher rates in certain Central and Eastern European countries, compared to most Western European countries, as well as the average in the eurozone and the entire EU.

In the eurozone, the annual inflation rate in September 2023 was 4.3%, a decrease compared to 5.2% in August. The previous year, this was 9.9%. In the EU as a whole, the annual inflation rate that month was 4.9%, which was also a decrease compared to 5.9% in August and 10.9% a year earlier. The lowest annual inflation rates were recorded in the Netherlands (-0.3%), Denmark (0.6%) and Belgium (0.7%), and the highest in Hungary (12.2%), Romania (9.2%) and Slovakia (9.0%). Compared to August, the annual inflation rate decreased in twenty-one member states, remained stable in one, and increased in five.

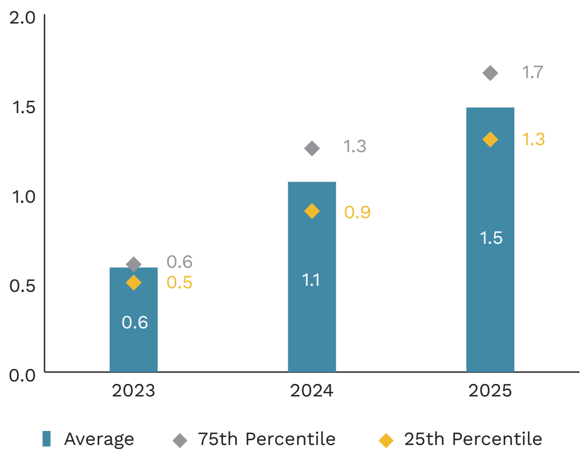
2.1. The eurozone countries

2.1.1. Economic growth

Economic growth in the eurozone was lower than suggested by forecasts produced in May. The AIECE institutes have revised their forecasts downward from 1.0% to 0.6% for 2023, and from 1.3% to 1.1% for 2024. The current consensus is similar with the latest European Commission forecasts for this year and lower for next year. The Commission expects GDP to grow by 0.6% in 2023 and 1.2% in 2024. Respondents' answers are heavily concentrated at a rate of 0.6-0.7% this year, without significant outliers. The uncertainty regarding 2024 is much greater: the interquartile range spans from 0.9 to 1.3%.

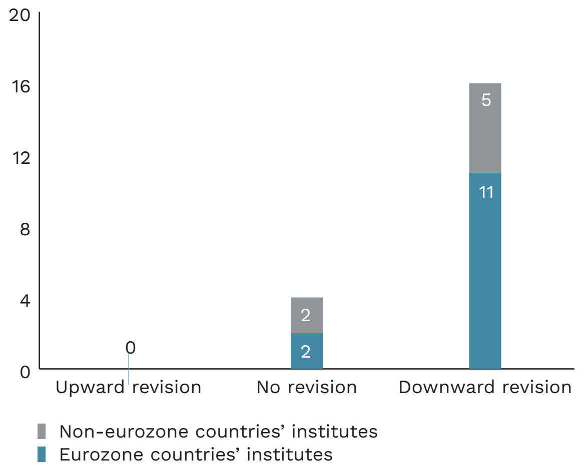
The vast majority of the institutes expect improvement next year; only one expects a recession with a contraction of 0.1% next year. The revision trend points to downside risks: 80% of respondents have revised their forecasts downward. At the same time, none of the AIECE institutes had anticipated a lower level of economic activity than in May, with just 20% maintaining their previous projections. Similar patterns are visible if we compare country forecasts.

Figure 2.1: Forecast GDP growth in the euro area



Sources: AIECE institutes; prepared by PEI.

Figure 2.2: Have you recently revised your forecast for eurozone GDP growth in 2024? How?

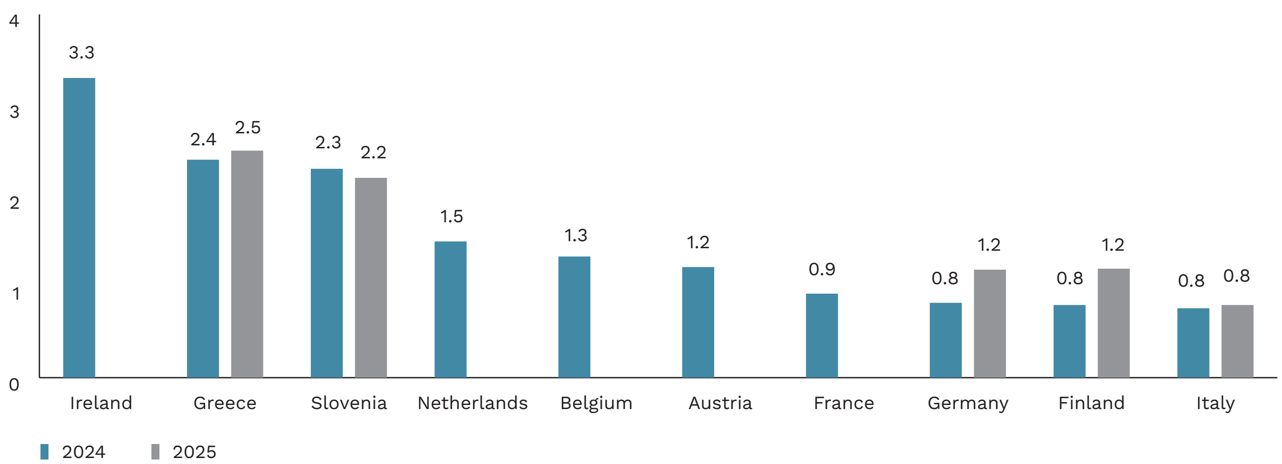


Survey conducted between 23 October and 4 November. The sample includes 20 responses.

Sources: AIECE institutes; prepared by PEI.

The deceleration is broad-based across sectors. High inflation has significantly reduced consumers' purchasing power, which has translated into lower spending. Retail sales in the eurozone fell by 0.3% in September. Furthermore, industry recorded weaker results; industrial production in the eurozone fell by 5.1% in August 2023, compared to the same month the previous year. This is the result of the significant increase in energy prices due to the escalation of the conflict in Ukraine – the energy-intensive sector has been affected. The worst results were observed in Germany, the largest economy in the EU, which is likely to be the only large member state to experience a recession in 2023.

Figure 2.3: Forecast for GDP growth in the eurozone (%)



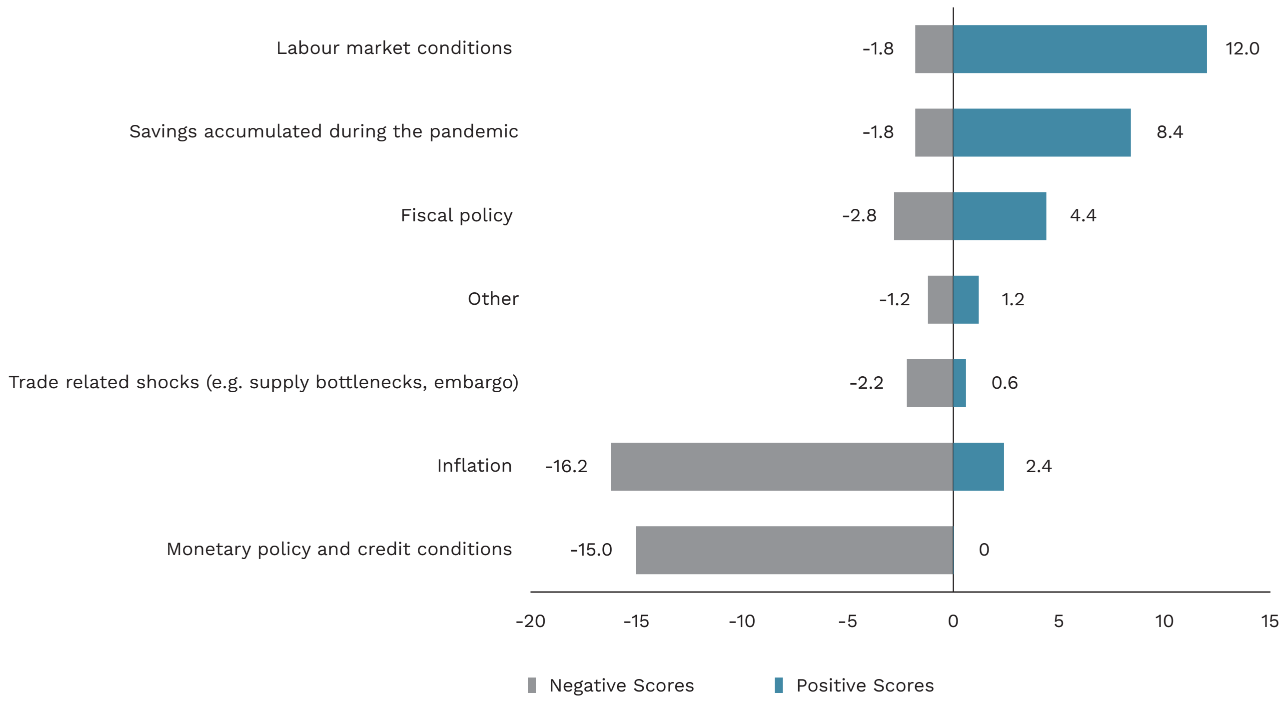
Survey conducted between 23 October and 4 November. The sample includes 14 responses.

Sources: AIECE institutes; prepared by PEI.

Private consumption is expected to face significant constraints, primarily due to inflation and tight monetary policy. AIECE members ranked the top five factors affecting consumption forecasts, both positively and negatively. We created an index based on following formula: the most important answer increases the factor by 1 point, the second one by 0.8, the third one by 0.6, and so on. We calculated a balance index by subtracting the positive scores from the negative ones for each factor.

The lowest indices occurred in the case of inflation and monetary conditions: (-13.8) and (-15), respectively. Notably, 65% of economists highlighted that price growth will be the most adverse factor affecting private consumption next year. Moreover, expectations of continued contractionary ECB interest rates suggest that both monetary policy and credit conditions, coupled with inflation, are seen as the primary limitations on private consumption. The AIECE institutes surveyed consistently ranked them as the second and third most important factor influencing private consumption. Conversely, the resilient labour market and savings accumulated during the COVID-19 pandemic will boost consumer spending in 2024. Seventy percent Institutes named the strong labour market the most important positive factor for private consumption in 2024.

Figure 2.4: The most important factors affecting private consumption in your country in 2024

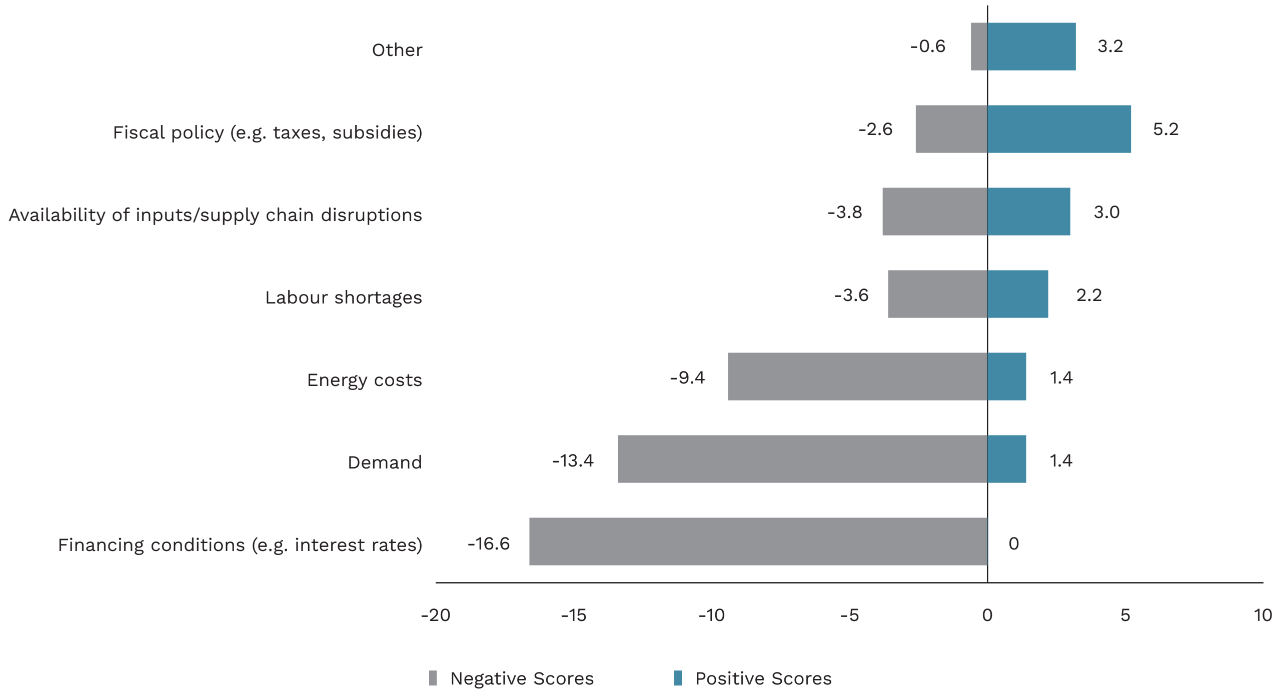


Survey conducted between 23 October and 4 November. The sample includes 24 responses.

Sources: AIECE institutes; prepared by PEI.

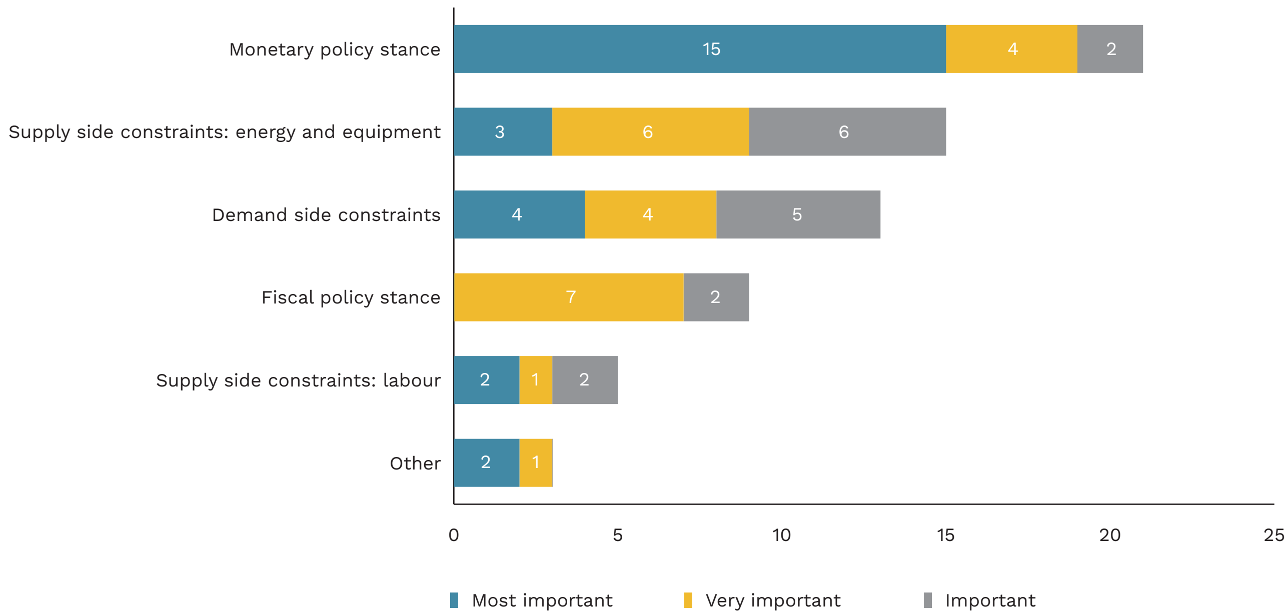
Private investment is also expected to be limited, mostly by tight monetary policy. Half the economists surveyed said that financing conditions are the most important negative factor. Economists still frequently highlight the impact of slowing demand and energy costs as a binding constraint on the expansion of production capacity. At the same time, there is some belief that expansive fiscal policy could improve investment significantly.

Figure 2.5: The most important factors affecting private investment in your country in 2024



Survey conducted between 23 October and 4 November. The sample includes 24 responses.
Sources: AIECE institutes; prepared by PEI.

Figure 2.6: The most important factors affecting economic growth in the euro area



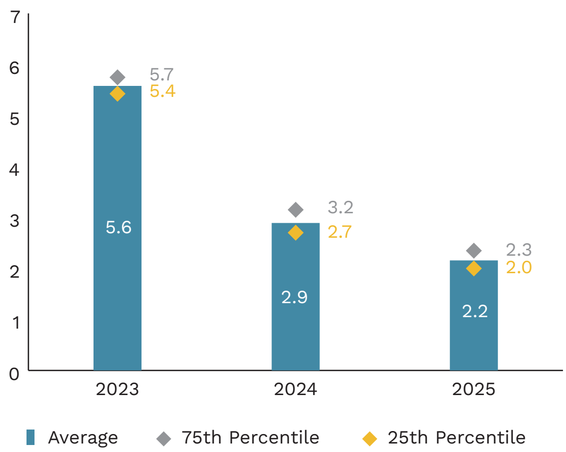
Survey conducted between 23 October and 4 November. The sample includes 22 responses.
Sources: AIECE institutes; prepared by PEI.

Monetary policy is viewed as the pivotal factor influencing economic growth in the eurozone, with 58% of responses ranking it first. This complies with the expected monetary policy stance – all the institutes surveyed agree that the ECB's policy will be restrictive in 2024. On the other side of the policy mix, fiscal policy will play an important role; one in three responses deemed it the second most impactful factor. Additionally, both demand side and supply side constraints – especially in energy and equipment – are seen as crucial elements shaping economic activity.

2.1.2. Inflation

Disinflation in the eurozone is expected to continue. AIECE institutes forecast that eurozone inflation will decelerate from 5.6% to 2.9% in 2024. More optimistic forecasters suggest that inflation could be as much as 0.2 percentage points lower (25th percentile of responses). Respondents indicate that HICP inflation in the eurozone will be lower than in the EU as a whole: it is expected to be 6.5% in 2023, 3.2% in 2024, and 2.6% in 2025.

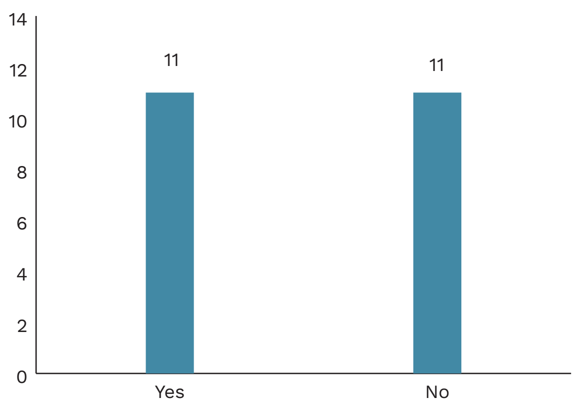
Figure 2.7: Forecast HICP in the euro area



Sources: AIECE institutes; prepared by PEI.

Nevertheless, opinions about whether inflation targets will be met in the foreseeable future still diverge. Inflationary pressure varies between countries, leading to differences in the pace of disinflation. We are observing notably higher rates in Central and Eastern Europe (CEE) than in Western Europe. CEE economists are also more likely to forecast a permanent overshooting in their countries. However, disagreement is also evident in the eurozone economies.

Figure 2.8: Do you think that the inflation rate (HICP) in your country will come close to 2 per cent in 2024?



Survey conducted between 23 October and 4 November. The sample includes 22 responses.

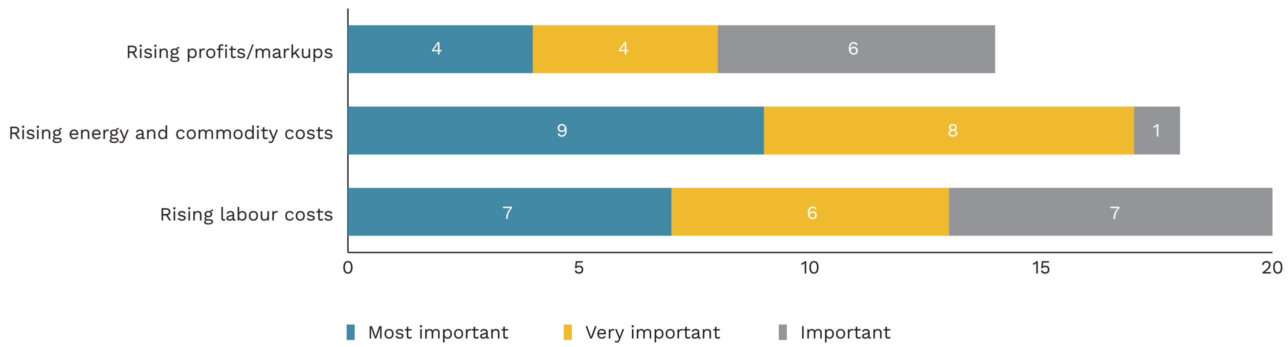
Sources: AIECE institutes; prepared by PEI.

There are three major factors shaping inflation: rising profits and markups, energy prices, and labour costs. We asked AIECE institutes to rank the top three factors shaping inflation. 85% of the responses chose these options. Other factors, such expansive fiscal or monetary policy, or changes in the inflation rate, did not receive three votes.

Figure 2.9: Inflation forecasts for 2024 in selected eurozone countries

Sources: AIECE institutes; prepared by PEI.

Figure 2.10: What are the three main factors that could contribute to an increase of HICP in your country in 2024?



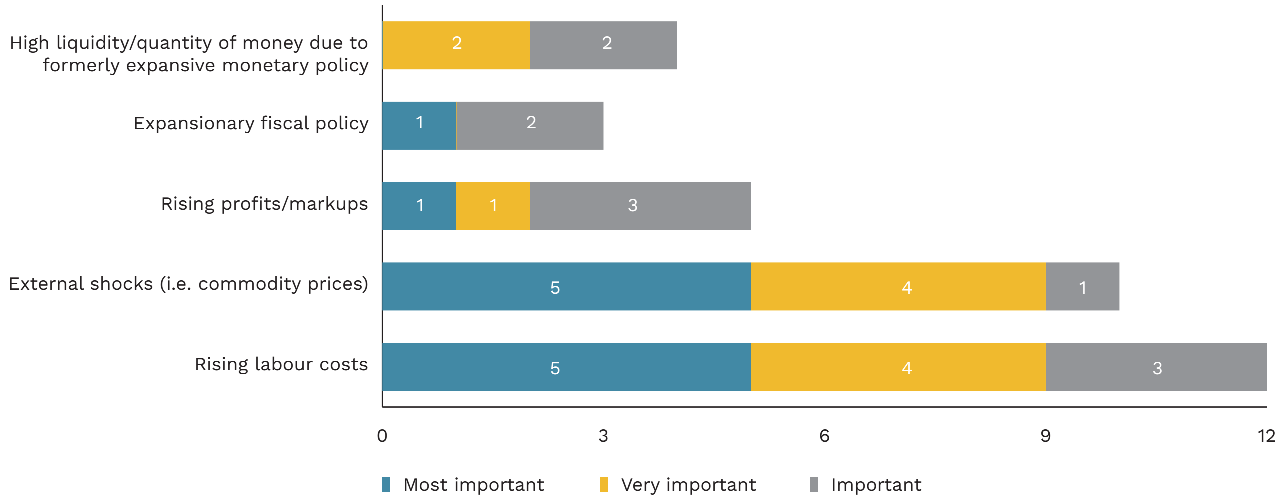
Survey conducted between 23 October and 4 November. The sample includes 20 responses.

Sources: AIECE institutes; prepared by PEI.

The long-term risks are mainly associated with the price-wage spiral and external shocks. We asked the institutes who anticipate a permanent overshooting of the inflation target in the next few years to share their views on the potential causes. As in the previous question, AIECE members ranked the three most relevant issues, emphasizing their significance. The primary concern is rising labour costs, which was highlighted by 12 participants (around 34% of responses). Furthermore, it encompasses 42% of the most crucial answers. Similar magnitudes are evident in the case of external shocks.

The economists tended to downplay the risk of the margin spiral and monetary-driven inflation. Both factors received less attention. Similarly lower scores are seen in case of monetary and fiscal policy.

Figure 2.11: Main factors that may contribute to inflation target overshooting



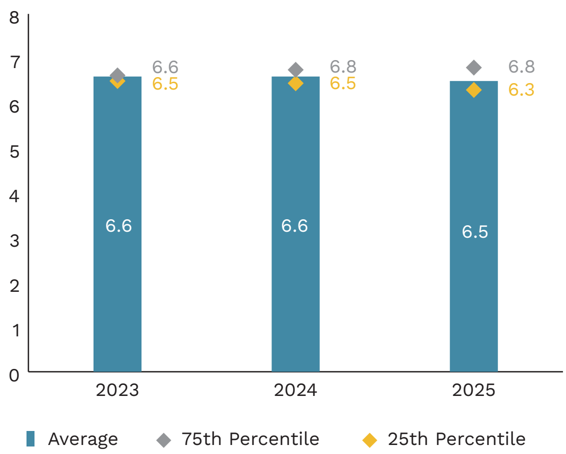
Survey conducted between 23 October and 4 November. The sample includes 20 responses.

Sources: AIECE institutes; prepared by PEI.

2.1.3. The labour market

The economic slowdown does not pose a threat to employment. Despite the weak economic results, an increase in unemployment in the eurozone has not been observed; it has been at a stable 6.5% for most of the year, subject only to seasonal fluctuations. This is why most of the AIECE institutes predict that the unemployment rate will be stable in 2024. In subsequent years, there is a slight risk that it will increase. 40% of respondents expect it to increase, while 20% predict that it will decrease. Still, the consensus is that the unemployment rate will not change much next years.

Figure 2.12: Forecast unemployment in the euro area

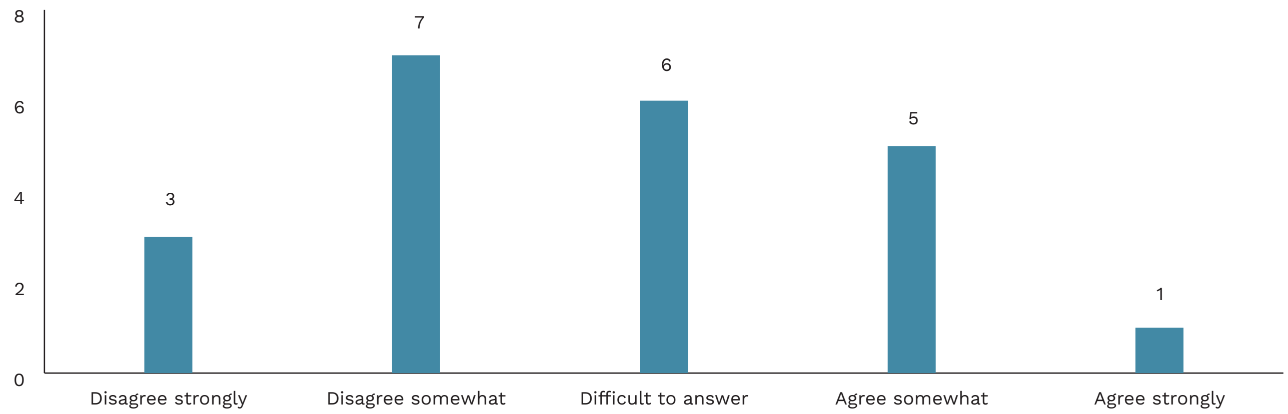


The sample includes 20 responses.

Sources: AIECE institutes; prepared by PEI.

We also asked respondents whether production capacities are being underutilised. The answer indicates whether there is a scope for an increase in employment. 27% of respondents, mainly economists from Southern Europe, pointed to room for improvement. The results in the case of the major economies are much less encouraging.

Figure 2.13: Production capacities in my country are clearly underutilised



Survey conducted between 23 October and 4 November. The sample includes 22 responses.

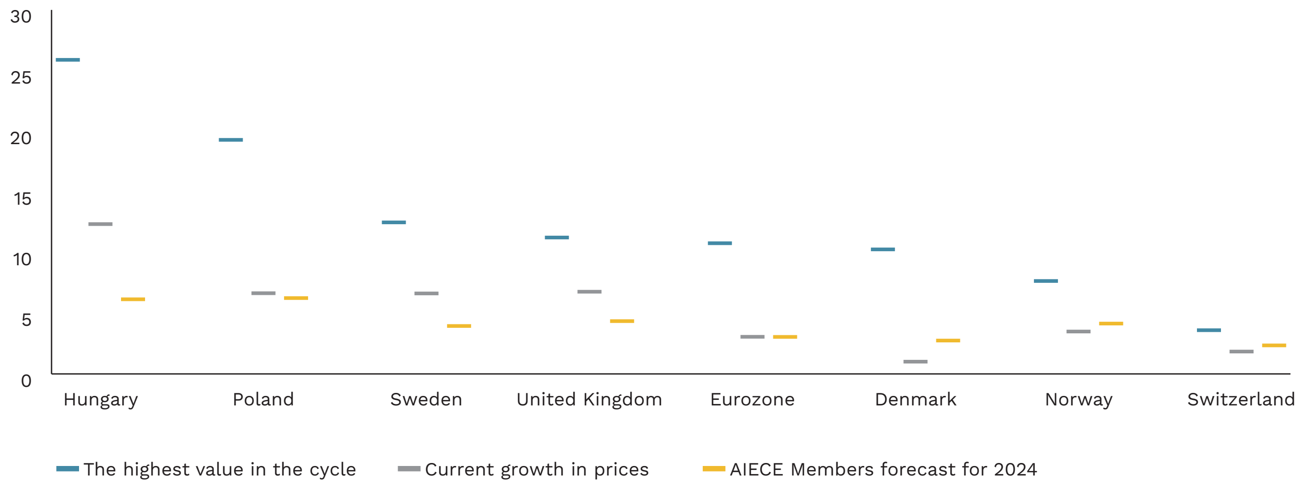
Sources: AIECE institutes; prepared by PEI.

2.2. Non-eurozone countries

In this section, we take a brief look at the European economies outside the euro area. The forecasts, as well as most of the views, represent those of the AIECE member from that country.

Most AIECE institutes outside the eurozone expect a moderate decline in inflation next year, much smaller than observed so far. At the same time, the forecasts for all the non-eurozone countries indicate that inflation will be above the inflation targets in 2024. Lower inflation readings would probably require a recession in the eurozone. This scenario goes against the consensus of forecasts and is only advocated by individual economists such as Mario Draghi.

Figure 2.14: Progress on inflation (%, annual rate of change)



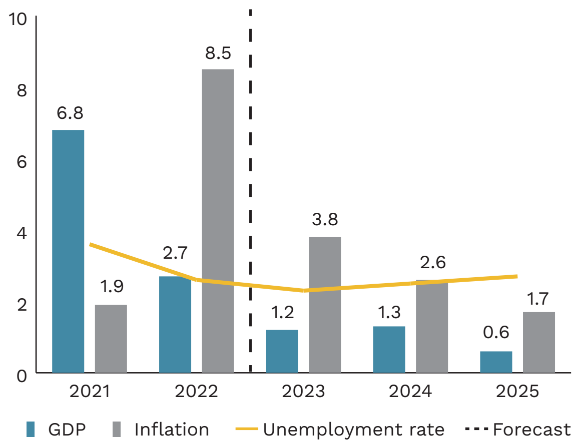
Note: For current growth in prices the latest available annual CPI rates were taken. October data for Poland, Switzerland and the Eurozone. For remaining countries September data was utilized.

Sources: Eurostat and national statistical offices; prepared by PEI.

Denmark

The Danish economy is entering a period of economic slowdown. An European Commision estimate shows GDP growth slowing from 2.7% in 2022 to 1.2% this year. AIECE institutes expect a further slowdown in subsequent years, to just 0.6% in 2025. Weaker economic performance is expected to bring a steady decline in inflation: to 2.6% in 2024 and 1.7% in 2025. The recovery from the period of high inflation is therefore expected to take four years. The labour market will remain robust, despite the slowdown. The unemployment rate is expected to rise to 2.7% in 2025, just 0.1 percentage points higher than last year. Overall, the scale of the slowdown in activity has turned out to be smaller than expected and results were further improved by developments in the pharmaceutical industry.

Figure 2.15: Outlook for Denmark

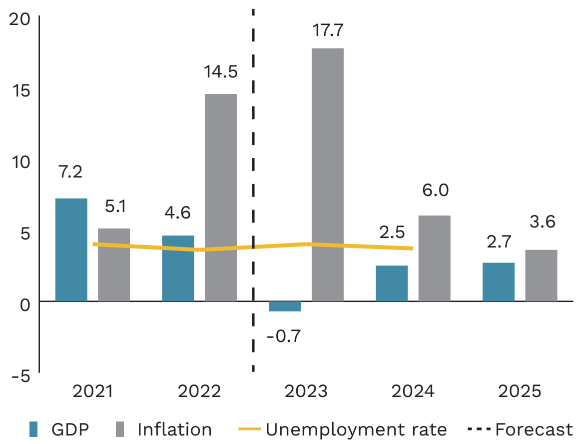


Sources: Eurostat and national statistical offices; prepared by PEI. Estimate for 2023 by the European Commision. Forecast for 2024 and 2025 by the Danish Economic Council.

Hungary

Hungary's economy is currently experiencing very rapid disinflation. Forecasts indicate that price growth this year will reach 17.7%. However, this is mainly caused by the beginning of the year, when it exceeded 25% y/y. In September, it dropped to 12.2% and the market consensus points to single-digit CPI inflation at the end of the year. Similar expectations are being formulated by the AIECE institutes; inflation is expected to decline to 6.0% in 2024 and 3.6% in 2025. In subsequent years, a rebound in GDP growth to around 2.5-2.7% is expected. However, this suggests that growth rates will remain below potential. Private consumption and household investment are expected to contribute to economic growth next year. However, public investment will likely remain a drag on growth and some risks are attributed to the external environment.

Figure 2.16: Outlook for Hungary

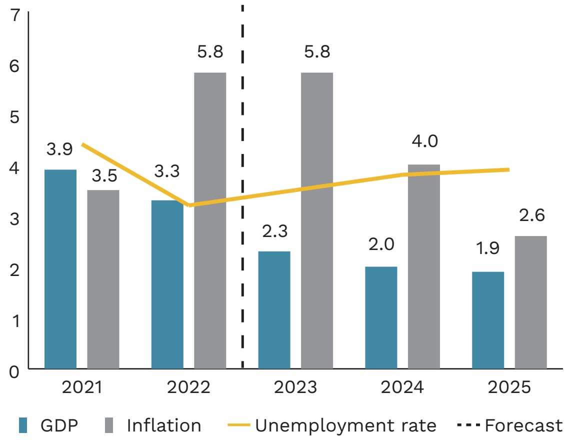


Sources: Eurostat and national statistical offices; prepared by PEI. Estimate for 2023 by the European Commision. Forecast for 2024 and 2025 by the Kopint-Tárki Insititute.

Norway

Norway's economy will maintain its solid performance in the coming years. The latest forecasts show GDP growth slowing to 2.3% this year and around 2.0% in the next two years. However, this implies performance close to potential, given the country's wealth. At the same time, forecasts point to the slow normalisation of inflation, from 5.8% this year to 4.0% in 2024 and 2.6% in 2025, but this suggests that, even in 2025, inflation will remain 0.6 percentage points above the target. The labour market outlook is stable and the main risk to both inflation and GDP appears to be linked to global oil demand and the related volatility of the USD/NOK exchange rate.

Figure 2.17: Outlook for Norway

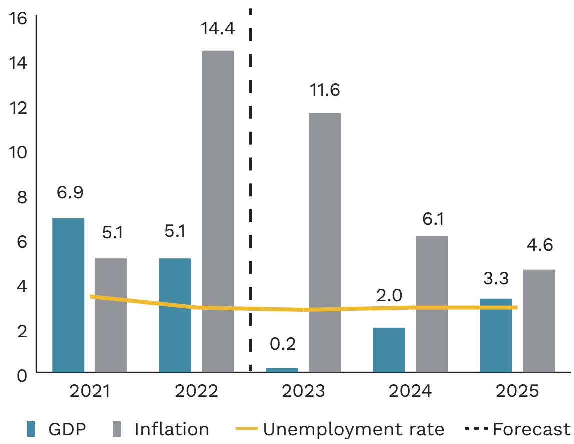


Sources: Eurostat and national statistical offices; prepared by PEI. Estimate for 2023 by the IMF. Forecast for 2024 and 2025 by the Norway Statistics.

Poland

The Polish economy is expected to rebound in the next two years. The consumer recession translated into a weak GDP performance this year (0.2%). Now, real wage growth and a recovery in sentiment should translate into an improvement to 2.0% next year and 3.3% in 2025. Such an outcome, however, means maintaining a negative demand gap throughout the forecast horizon. A partial economic rebound next year and strong fiscal spending give limited room for inflation to fall. Consequently, price growth in 2025 could be as much as 2.0 percentage points above the inflation target. The share of unfilled vacancies is significant due to record labour shortages and aging population. Main risks to the outlook are external and related to the euro area's GDP outlook.

Figure 2.18: Outlook for Poland

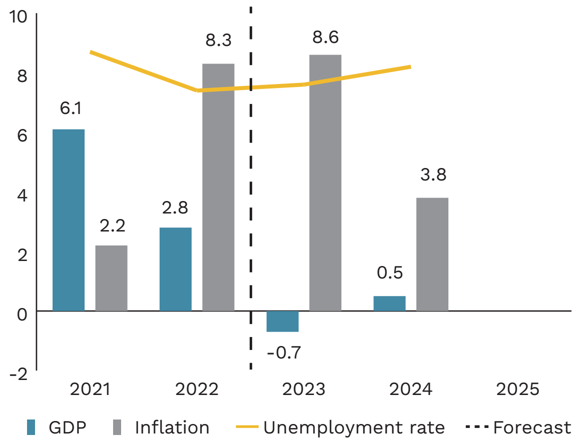


Sources: Eurostat and national statistical offices; prepared by PEI. All forecasts by the Polish Economic Institute.

Sweden

Sweden will emerge from recession next year, but performance is likely to remain weak. AIECE institutes expect GDP to decline by 0.7% this year, with a 0.5% rebound next year. However, this means that GDP in 2024 will be lower in real terms than in 2022. The overall output gap could remain negative until at least 2026. The disappointing economic performance is expected to translate into a decline in inflation to 3.8% next year, which would suggest a drop in inflation to near the target a year later. Forecasters expect only a slight increase in unemployment. A risk to the forecasts is the situation in real estate linked to the need to refinance old debt at higher interest rates and second-round effects after a drop in real estate prices.

Figure 2.19: Outlook for Sweden

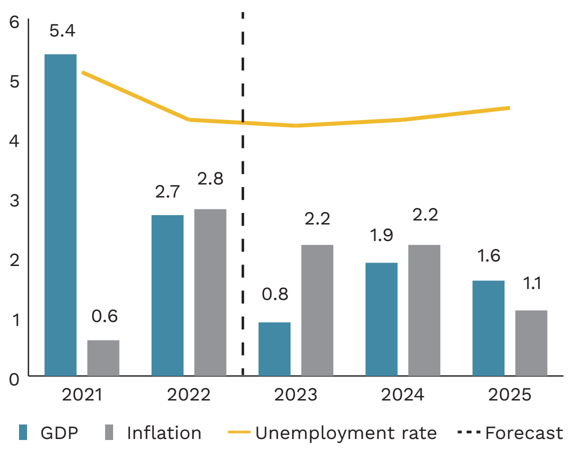


Sources: Eurostat and national statistical offices; prepared by PEI. For years 2023 and 2024 average of forecasts by the National Insitute of Economic Research and the Svenskt Institute was utilized.

Switzerland

The Swiss economy is facing an economic rebound, with inflation falling below target. Current estimates point out a deceleration in GDP growth to 0.8% this year. At the same time, AIECE institutes' forecasts suggest a rebound to 1.9% in 2024 and 1.6% in 2025. Growth prospects have been revised down slightly, mainly due to weaker performance in international trade in goods. Inflation will oscillate around the target in 2024 and fall below it to around 1.1% in 2025. Some of the price increases will result from sharper increases in rent and electricity prices. At the same time, like in most other economies, the labour market is expected to remain structurally stable, and the unemployment rate should not react to changes in economic activity.

Figure 2.20: Outlook for Switzerland

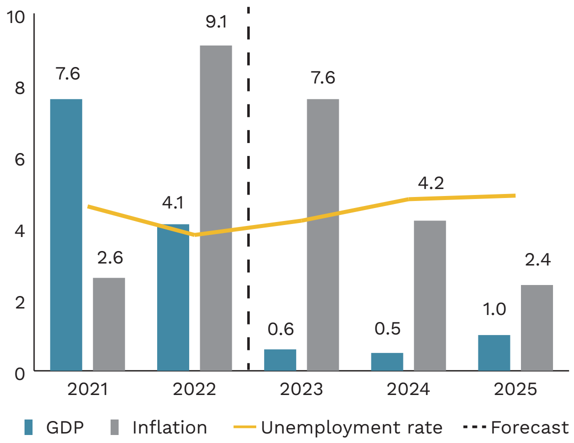


Sources: Eurostat and national statistical offices; prepared by PEI. All forecasts by the KOF Swiss Economic Institute.

The United Kingdom

The UK's economic outlook remains challenging. Forecasts point to continued underperformance not only this year, but also over the next two years. As a result, GDP growth will reach just 0.5% in 2023 and 2024, and rebound to just 1.0% in 2025. Growth is likely to remain subdued as long as monetary policy remains restrictive and the external environment adds up to risks. The weak economic performance will go hand in hand with a drop in inflation to 4.2% next year and 2.4% in 2025, which will still mean price increases above the inflation target. This means that the challenges for both monetary and fiscal policy will accumulate. The deterioration in economic activity is expected to affect the labour market, as with vacancies and activity rates falling.

Figure 2.21: Outlook for the UK



Sources: Eurostat and national statistical offices; prepared by PEI. All forecasts by the National Institute for Economic and Social Research.

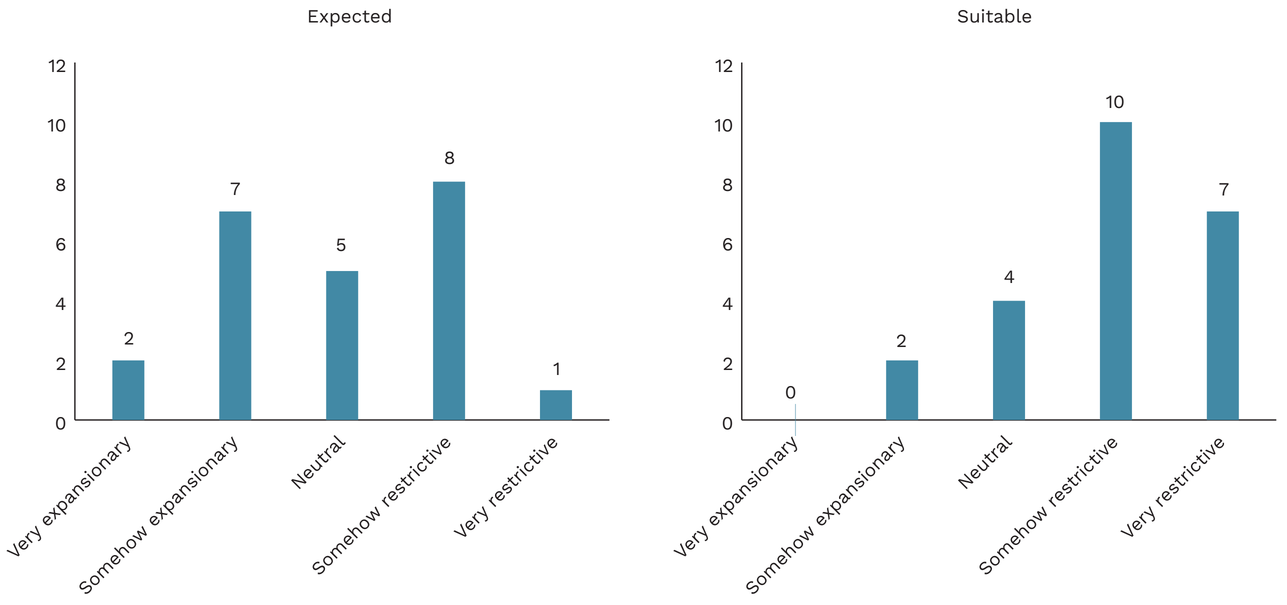
3. The policy environment

This section describes AIECE members' views on suitable policies for their domestic countries and eurozone. We examine their expectations regarding both fiscal and monetary policy. Finally, we present their policy forecasts and their views on the optimal policy mix.

3.1. The policy outlook for the institutes' own country

AIECE economists suggest that in 2024 fiscal policy is likely to be overly expansive. Of the 20 respondents surveyed, 40% forecast a somewhat restrictive policy in their countries, which should result in fiscal consolidation. In contrast, 35% predict a somewhat expansionary fiscal approach, forecasting economic stimulus. A very expansionary policy is expected by 10%; a minority predict aggressive expansion. Meanwhile, a quarter of the respondents envision a neutral fiscal policy, pointing towards a balanced approach.

Figure 3.1: Fiscal policy stance in your country in 2024



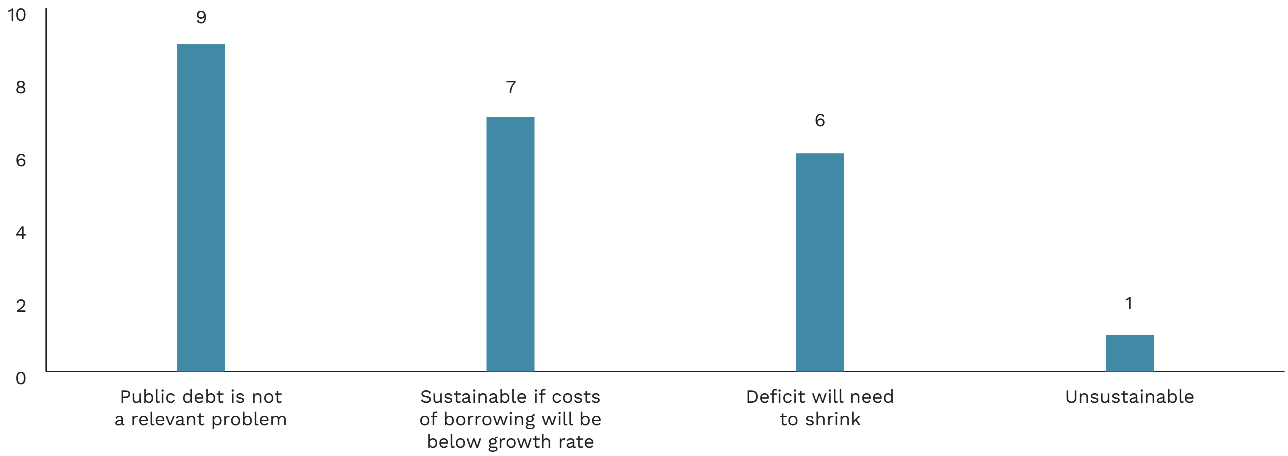
Survey conducted between 23 October and 4 November. The sample includes 23 responses.

Sources: AIECE institutes; prepared by PEI.

When assessing these policies' appropriateness in their own countries, the respondents' opinions diverge. Half the respondents support a somewhat restrictive policy, favouring a careful and measured reduction in fiscal expansion. A considerable proportion, 35%, advocate a very restrictive fiscal policy, underscoring a strong preference for austerity measures. Conversely, 20% consider a neutral policy the most suitable, highlighting a segment that prioritises fiscal stability over adjustment. A minority of 10% see a somewhat expansionary policy as favourable, suggesting an inclination towards fostering economic growth through fiscal measures.

The final bar chart shows the respondents' views on the sustainability of public debt in their countries over a medium-term horizon. The largest group (45%) minimise concerns over public debt, pointing to a strong sense of fiscal robustness in their country. A significant share (35%) are conditionally optimistic, considering debt levels sustainable as long as borrowing costs do not outpace economic growth rates. This reflects a nuanced optimism predicated on favourable economic conditions continuing. In contrast, 30% of the economists advocate a reduction in fiscal deficits to ensure debt sustainability, implying a proactive approach towards fiscal discipline. A mere 5% view public debt as a serious concern, unsustainably poised for the medium term, highlighting a critical minority.

Figure 3.2: Do you believe that public debt in your country is sustainable in the medium term (3-5 years)?



Survey conducted between 23 October and 4 November. The sample includes 23 responses.

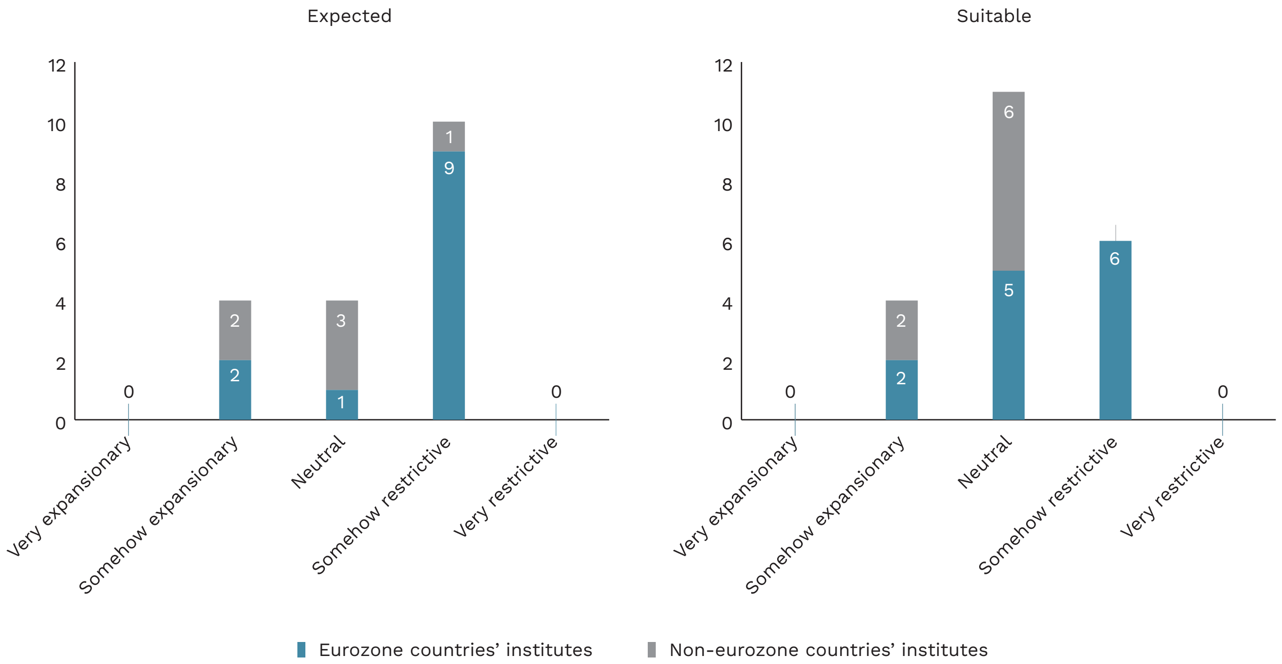
Sources: AIECE institutes; prepared by PEI.

3.2. The policy outlook for the eurozone

The fiscal policy stance for the eurozone is expected to be more restrictive than that for respondents' own countries. A significant 75% of economists from AIECE institutes in the euro area countries expect a contractionary policy stance. Conversely, economists outside the eurozone forecast a fiscal policy that is either neutral or potentially somewhat expansionary.

AIECE economists suggest that a neutral fiscal policy in the euro area in 2024 is appropriate, yet views differ significantly between eurozone and non-eurozone countries. Within the eurozone, AIECE economists lean towards a neutral or contractionary fiscal policy – 46% consider a somewhat restrictive fiscal approach the most appropriate, while 38% favour a neutral stance. In contrast, economists from non-eurozone countries overwhelmingly support a neutral fiscal policy, with 75% favouring this stance in the eurozone in 2024.

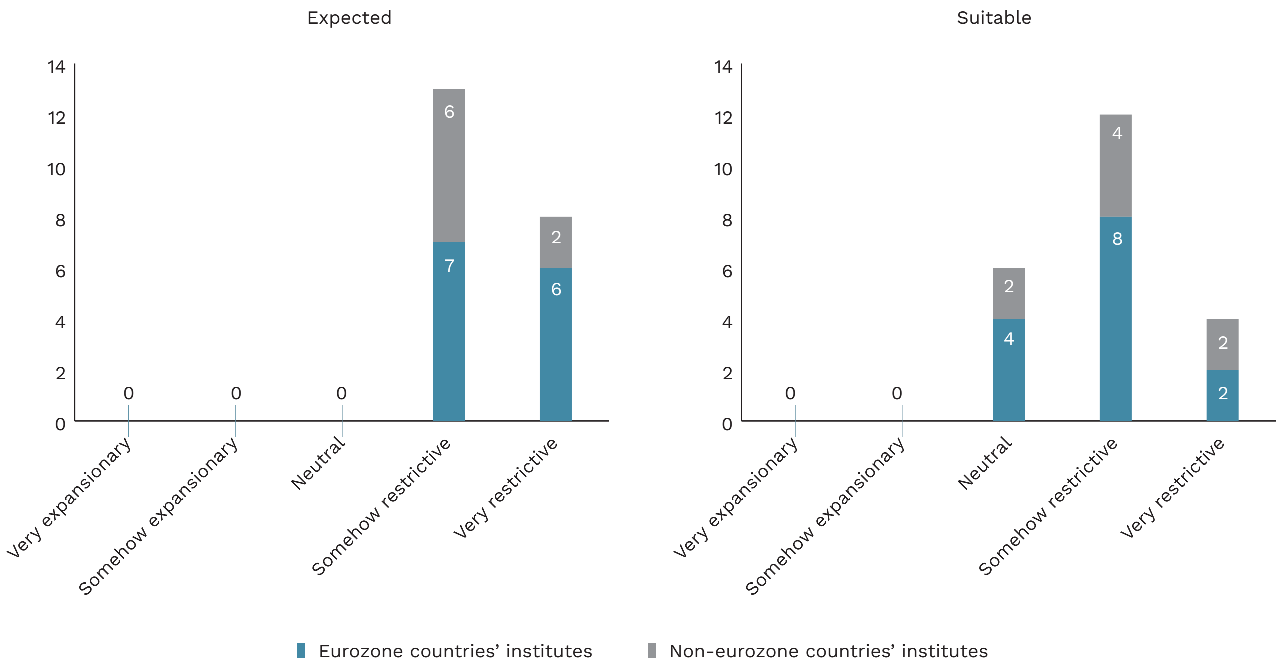
Figure 3.3: Fiscal policy stance in the euro area in 2024



Survey conducted between 23 October and 4 November. The sample includes 18 and 21 responses.

Sources: AIECE institutes; prepared by PEI.

Figure 3.4: Monetary policy stance in the euro area in 2024



Survey conducted between 23 October and 4 November. The sample includes 21 and 22 responses

Sources: AIECE institutes; prepared by PEI.

All the economists surveyed concur that the ECB's policy will lean towards restrictive in 2024, with 38% expecting a very contractionary approach. However, the AIECE economists' perspective on the appropriate monetary policy is significantly more dovish. While 73% of respondents expect a restrictive ECB policy, only 18% advocate for a very restrictive stance. Conversely, 27% of the economists consider a neutral monetary policy stance the most suitable. Interestingly, there is no significant difference between economists inside and outside the eurozone in this respect.

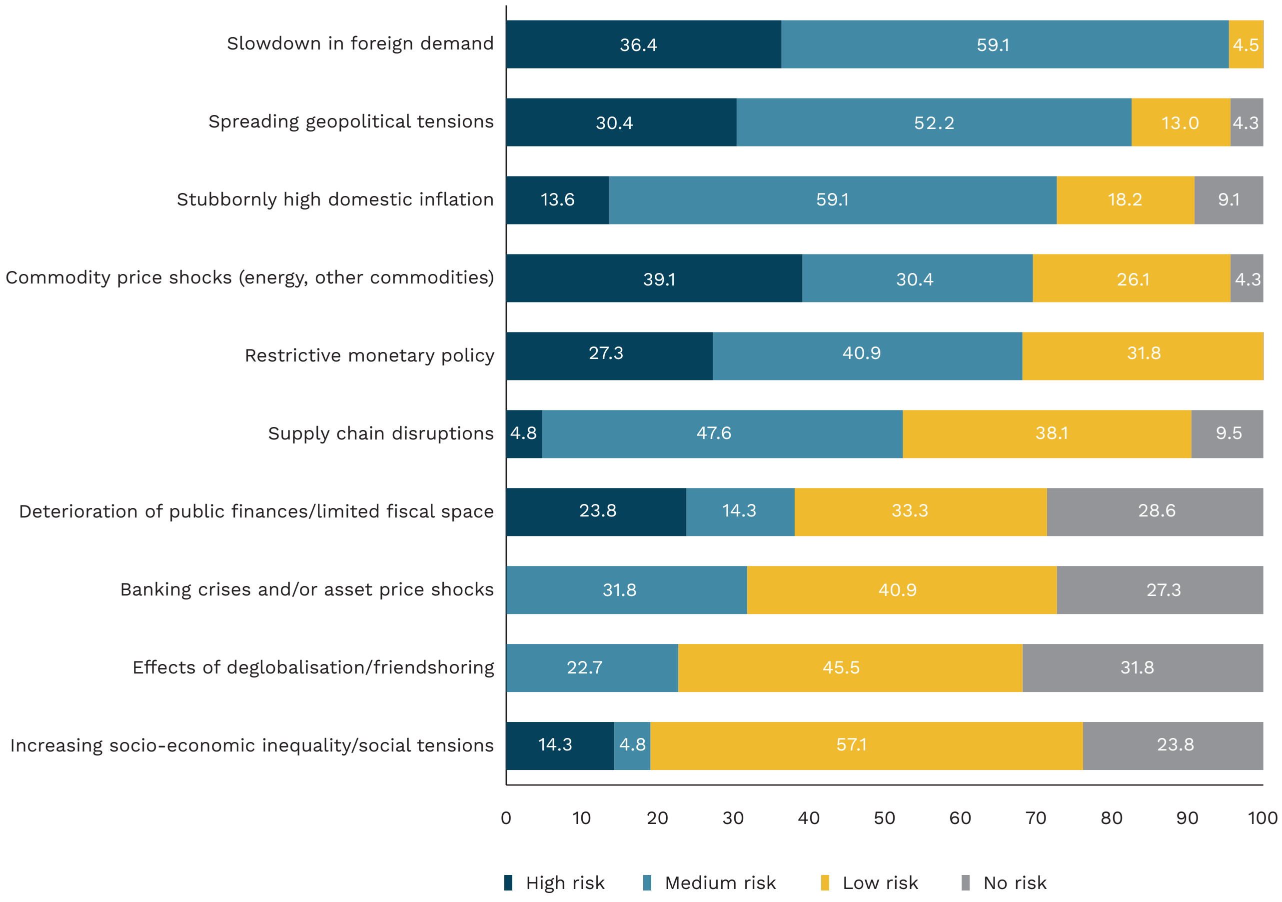
4. Risks and special questions

The final section of the questionnaire addresses current macroeconomic risks and topical policy issues. AIECE members were asked how they assess certain downside risks to their forecasts.

4.1. Risks to the GDP forecasts

The survey revealed that most respondents consider a slowdown in foreign demand and geopolitical tensions the most substantial risks affecting GDP growth forecasts. Nearly 95% of the economists regard a slowdown in foreign demand as a high or medium risk. In the case of geopolitical tensions, this is 85%. Interestingly, the nature of these potential shocks seems to be distinct from that in previous years. The share of participants reporting the risk of supply-side disruption is decreasing, and few cite deglobalisation as a major risk.

Figure 4.1: Major downward risk related to GDP forecasts in 2024 (% of respondents)



Survey conducted between 23 October and 4 November. The sample includes 22 responses.

Sources: AIECE institutes; prepared by PEI.

AIECE economists still see the resurgence of inflation as a potential scenario, despite the economic slowdown. Commodity price shocks are the most frequently-cited high-risk scenario, identified by almost 40% of participants. Domestically, over 70% of respondents see significant upside risks to inflation, with a similar percentage emphasising concerns about restrictive monetary policy.

While most respondents downplay risks such as the deterioration of public finances and social tensions, some who highlight their importance, predominantly clustered in certain countries beyond Southern Europe.

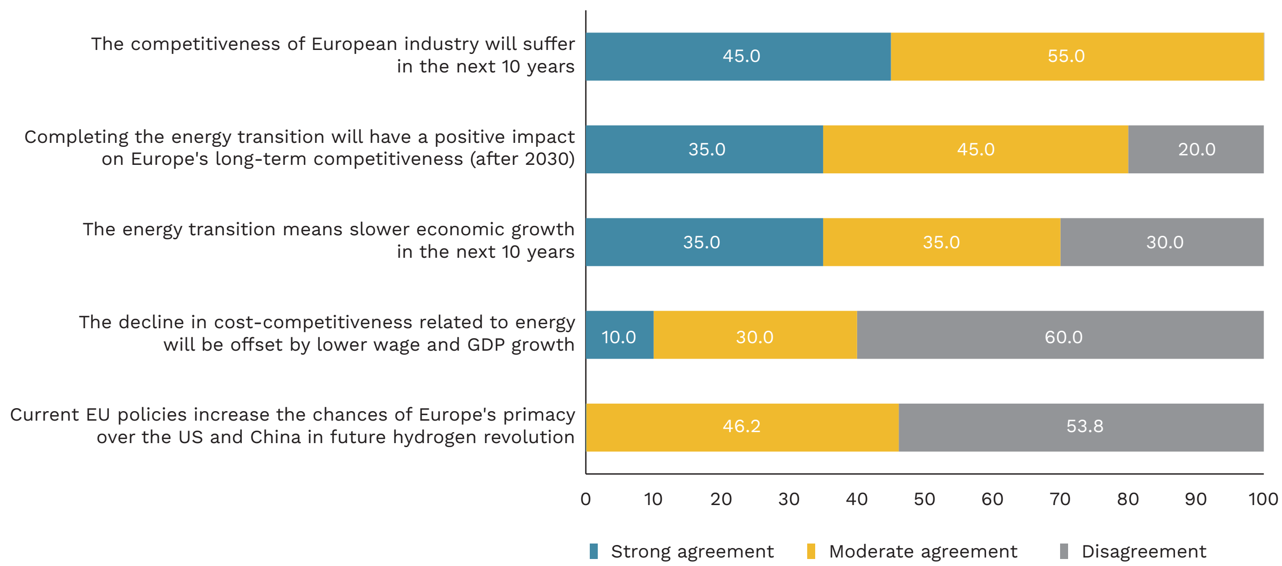
4.2. Policy questions – competitiveness

Secondly, we asked AIECE members about the energy transition's impact on the EU's long-term competitiveness.

Most of the respondents see the energy transition as a short-term drag on EU competitiveness. All of them agree that EU industry will suffer in the next 10 years, while 45% consider this a strong phenomenon. 70% highlight that the loss of economic growth is directly attributable to changes in the energy sector, while 30% disagree.

However, AIECE economists believe that it should have a positive long-term impact. 35% of the economist think that the completion of the energy transition will foster competitiveness after 2030, while another 45% reports moderate agreement. However, the scale of improvement is uncertain; most of the respondents assume that Europe does not have advantages in the face of new opportunities, such as the hydrogen revolution.

Figure 4.2: Impact of Energy policies on EU economies (% of respondents)



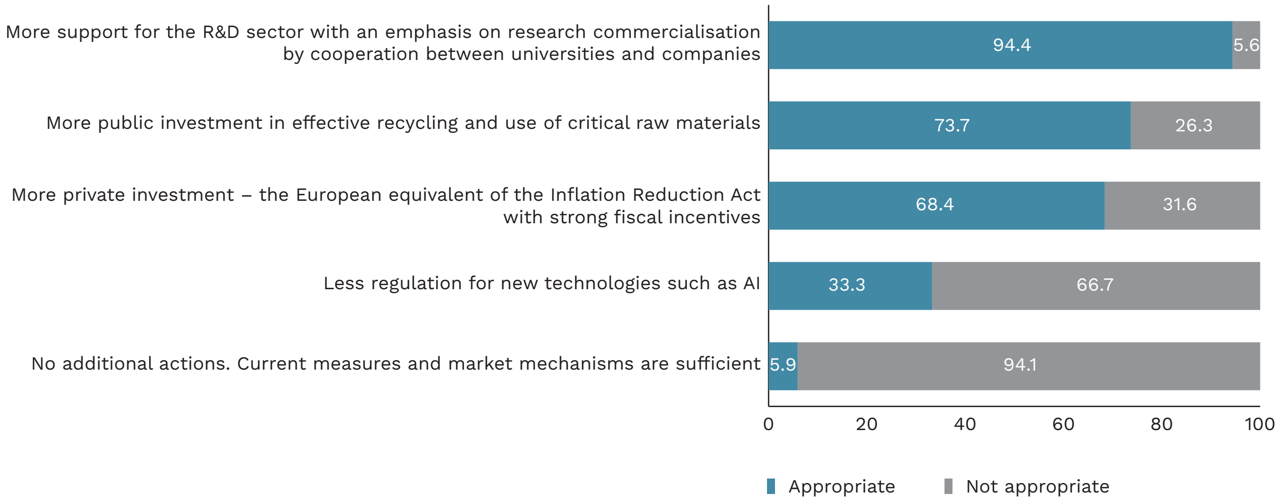
Survey conducted between 23 October and 4 November. The sample includes 20 responses. We received 13 responses to the question on the hydrogen revolution.

Sources: AIECE institutes; prepared by PEI.

The economists suggest that a short-term loss of competitiveness will have benign social consequences. 60% argue that EU policy will not lead to internal devaluation, indicating weaker wage growth. An additional 30% somewhat agree, while 10% strongly disagree with this view.

Still, EU countries need to take policy action to improve competitiveness. Nearly 95% of respondents highlight that the *laissez-faire* approach is not an appropriate strategy. However, as usual, the direction of the changes is not clear. The biggest agreement is visible in the case of reforms, supporting cooperation between academia and the business sector; this view is shared by 95% of respondents. Another 70-75% of economists opted for a greater number of investments. Surprisingly, a higher share of analysts suggests that public outlays are needed – the focus is on the circular economy.

Figure 4.3: Policy recommendations (% of respondents)



Survey conducted between 23 October and 4 November. The sample includes 19 responses.

Sources: AIECE institutes; prepared by PEI.

Policies should avoid easing of regulatory burdens. We asked whether less regulation should be applied to new technologies, such as artificial intelligence (AI). The 66% of respondents disagree with this statement, while only the third support it. This reflects a contrast between Europe and the US.

4.3. Policy questions – selected topics

The final policy recommendations questions concerned contemporary challenges faced by the EU and the eurozone. We asked respondents for their opinion on monetary policy, trade policy, tech, and research and development (R&D) regulations.

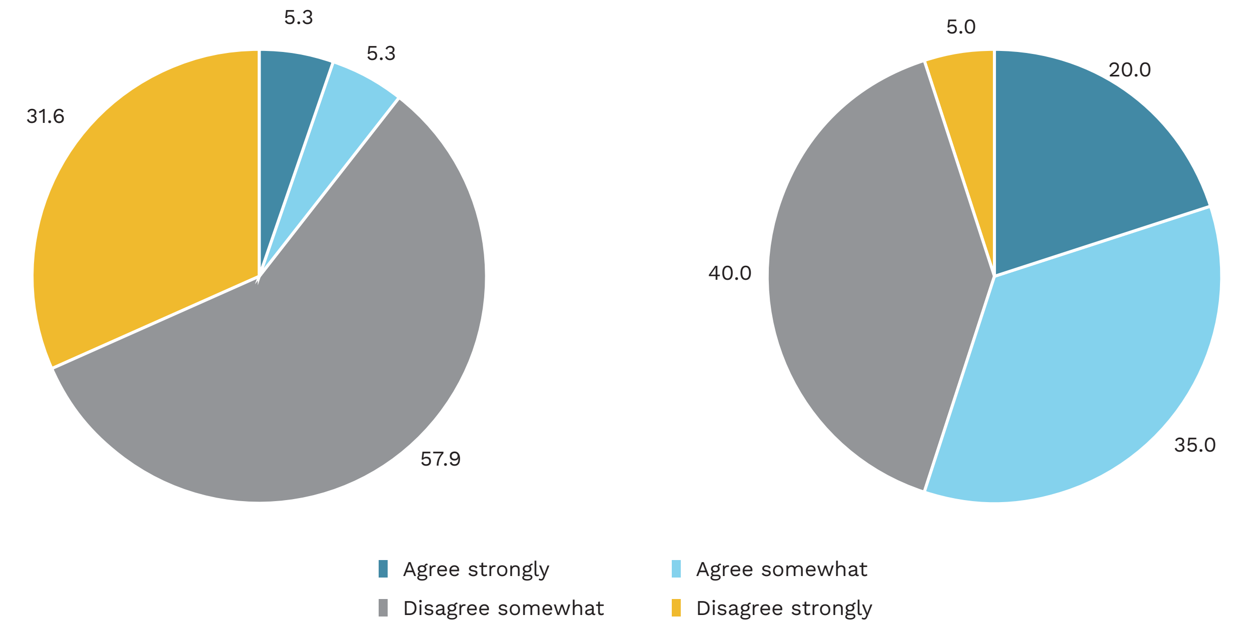
Figure 4.4: Policy recommendations – EU policies

Monetary Policy

The scale of ECB sovereign and corporate debt purchases has driven rates so low that they struggle to attract capital within the EU

Trade Policy

The European Commission should pursue a more stringent trade policy in critical technological sectors, such as electric vehicles, to prevent the dominance of Chinese products

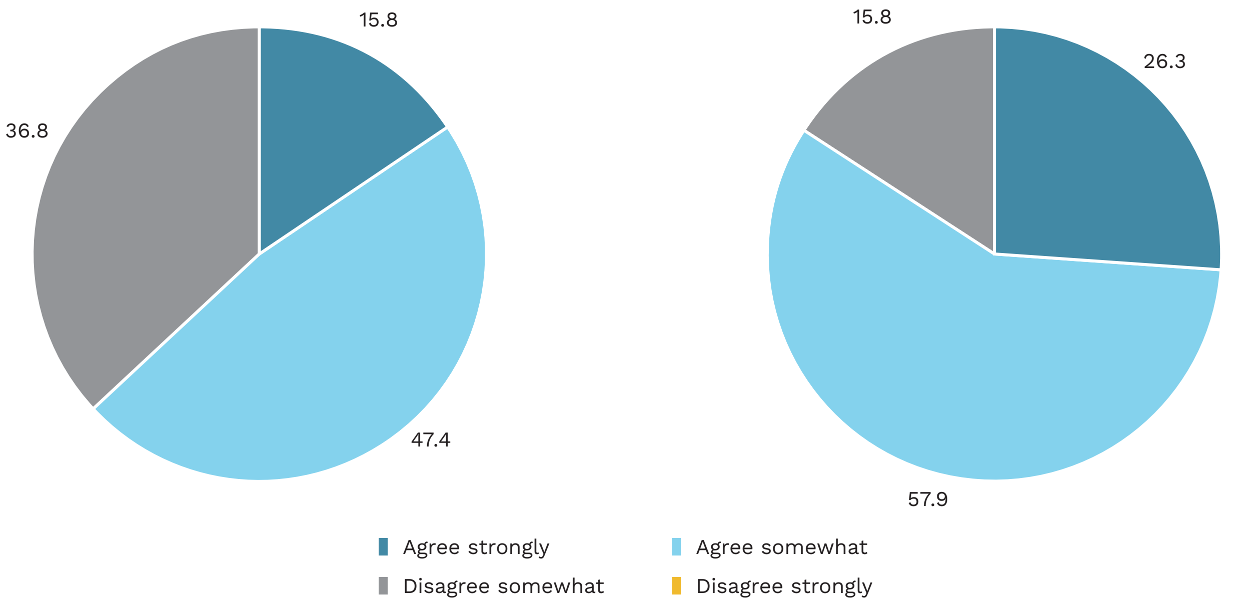


Policy towards tech companies

Excessive tech regulations in Europe hamper its ability to compete against the US and China

Common R&D Policy

Cross-border coordination of R&D policies is needed in the EU for it to remain globally competitive



Survey conducted between 23 October and 4 November. The sample includes 19 responses.

Sources: AIECE institutes; prepared by PEI.

AIECE economists do not believe that the ECB's policy is making Europe less financially attractive. Approximately 89% of respondents disagreed with the statement that lower interest rates than in the US or other advanced economies made it more difficult to acquire capital. Moreover, there was complete agreement between the economists from eurozone countries – no economists forecasts barriers for financing due to monetary policy. The respondents, who critically assessed ECB policy usually represents non-eurozone countries.

A narrow majority favours a more stringent trade policy against China. 20% of respondents strongly support trade restrictions, while 35% express moderate agreement. Another 45% oppose this, 5% of them strongly.

Surprisingly, AIECE economists highlights that excessive regulations hinder EU's ability to compete in tech. The 63% of respondents share this view, while 37% oppose it. Still, the most popular scenario here is inaction. The vast majority of respondents do not support the easing of regulations on AI as a policy option.

There is a greater consensus for common R&D policy in the EU; this course of action is supported by nearly 85% of respondents, while only 15% disagree.

The Polish Economic Institute

The Polish Economic Institute is a public economic think tank dating back to 1928. Its research primarily spans macroeconomics, energy and climate, foreign trade, economic foresight, the digital economy and behavioural economics. The Institute provides reports, analyses and recommendations for key areas of the economy and social life in Poland, taking into account the international situation.

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