

Macroeconomic Dialogue
Bruxelles, May 25, 2009
Special meeting at technical level

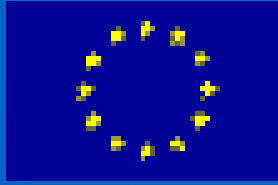
HITTING GROUND ?

**RECENT ECONOMIC DEVELOPMENTS,
OUTLOOK AND POLICY OPTIONS**



Karl Pichelmann

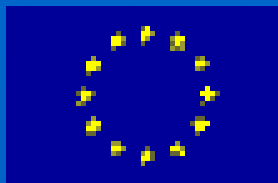
**Economic
and Financial Affairs**
DIRECTORATE • GENERAL



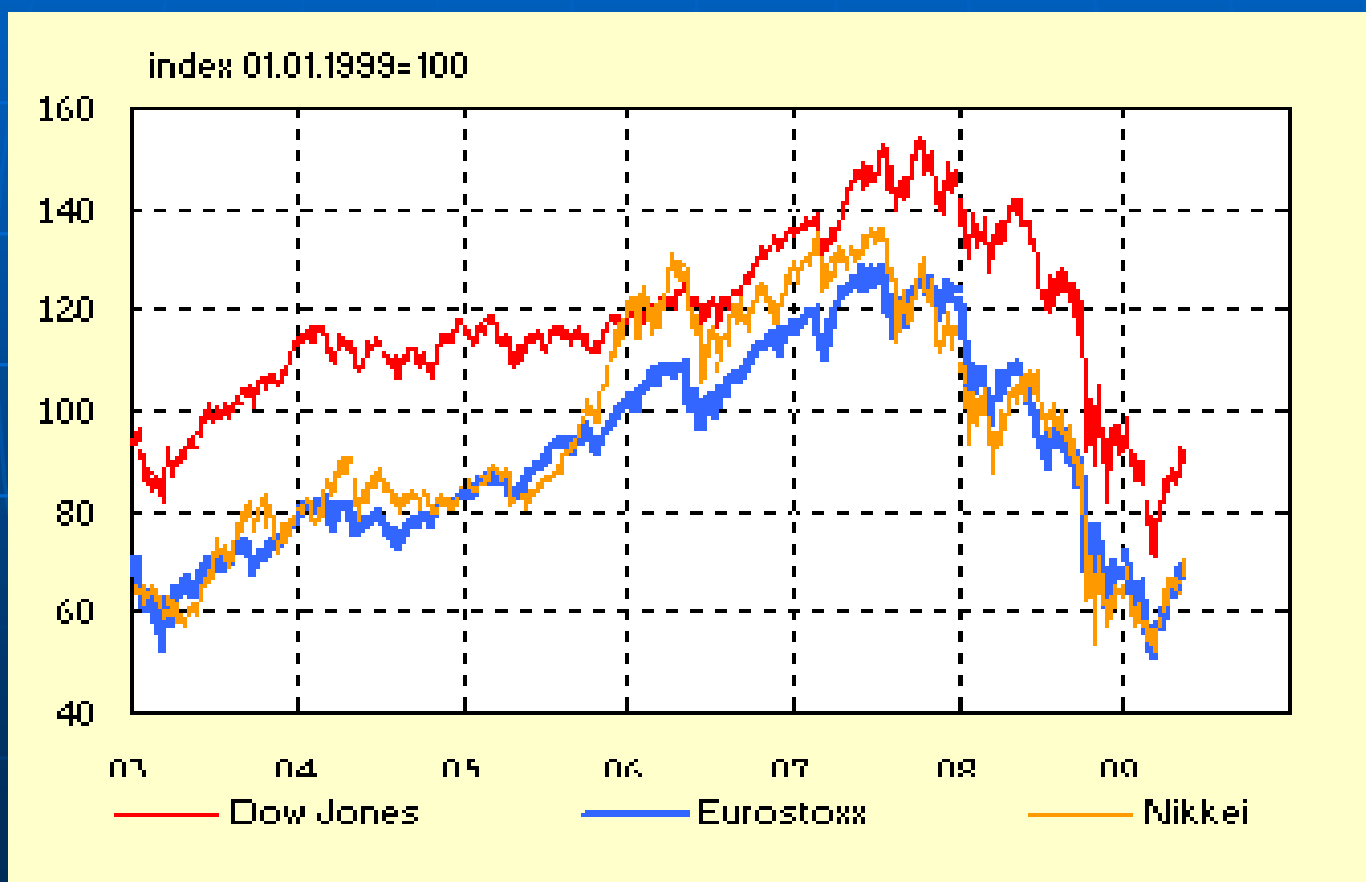
Facing the worst global shock since WW II

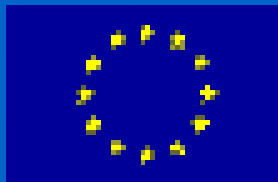


- **Financial markets still precarious**
- **Negative feed-back loops emerging**
- **A severe global downturn**
- **But: Some green shoots visible?**
- **Euro area not spared a deep recession**

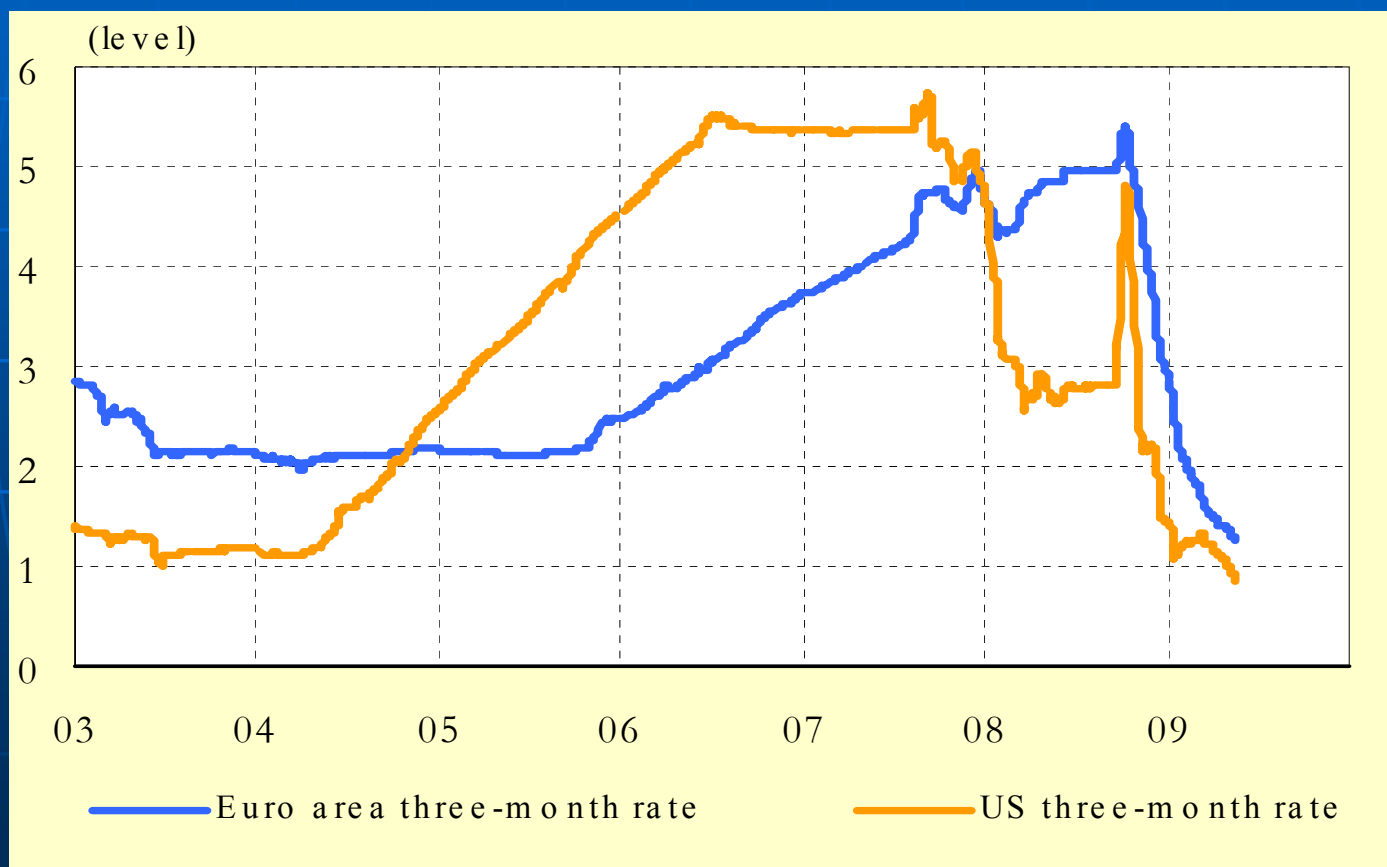


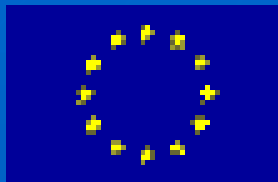
Stock markets volatile - but no longer bearish?



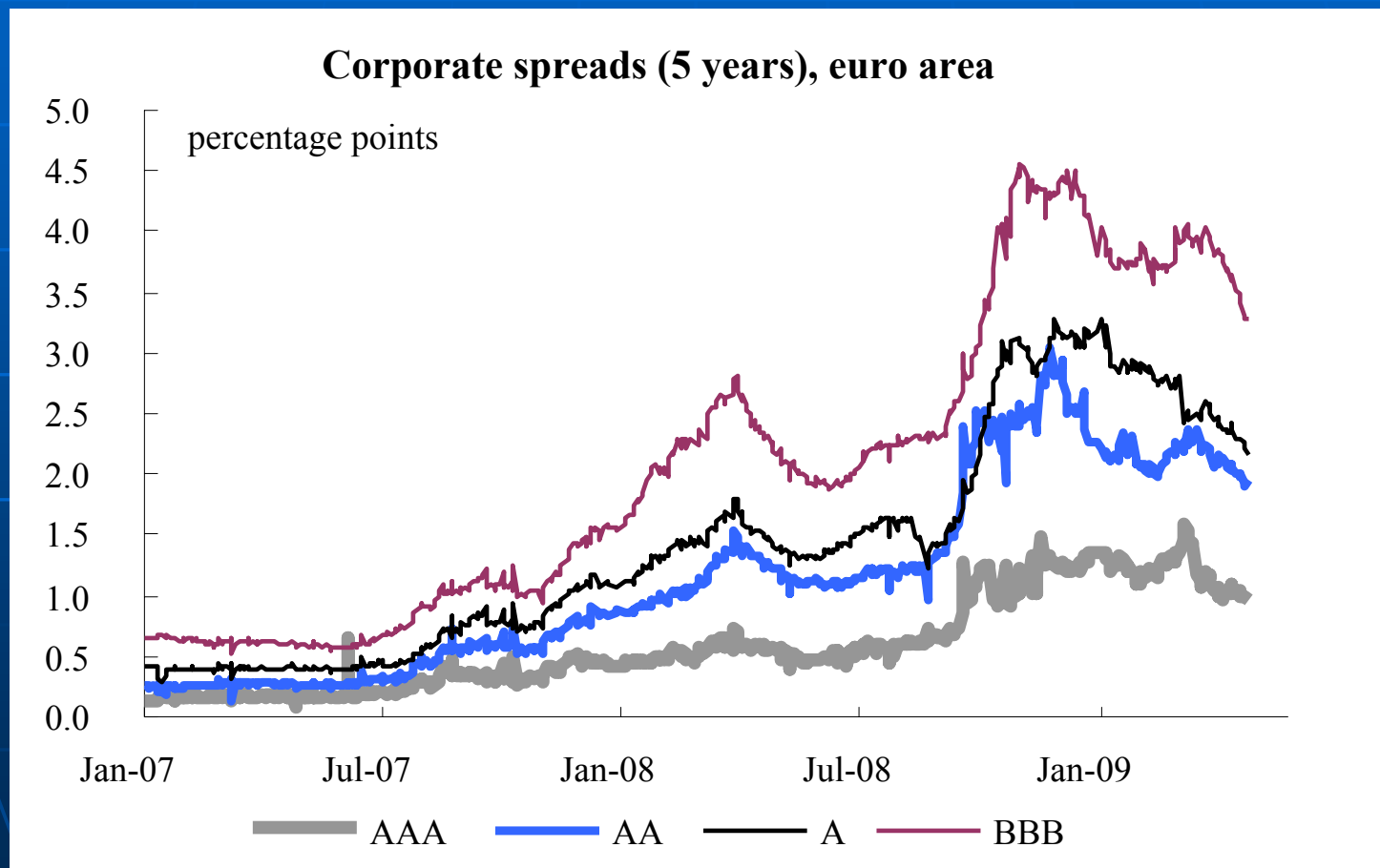


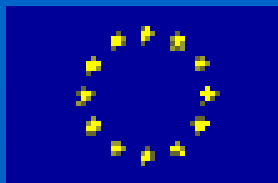
Nominal interest rates coming down



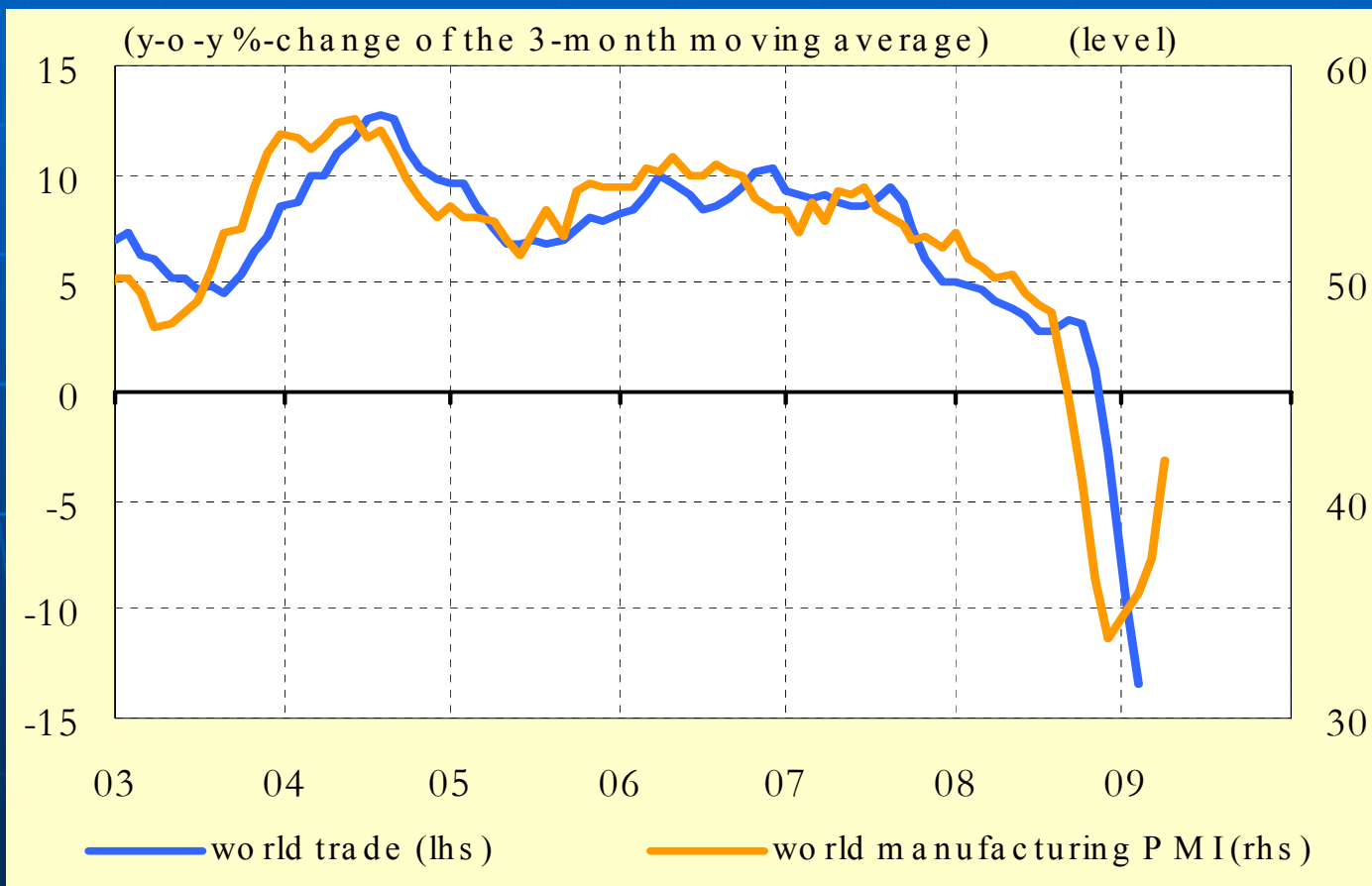


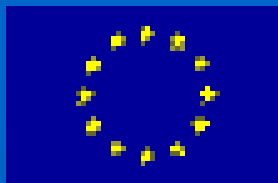
Corporate bond rates: spreads still high





World trade down, but expectations rebounding

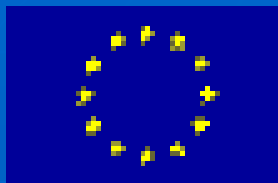




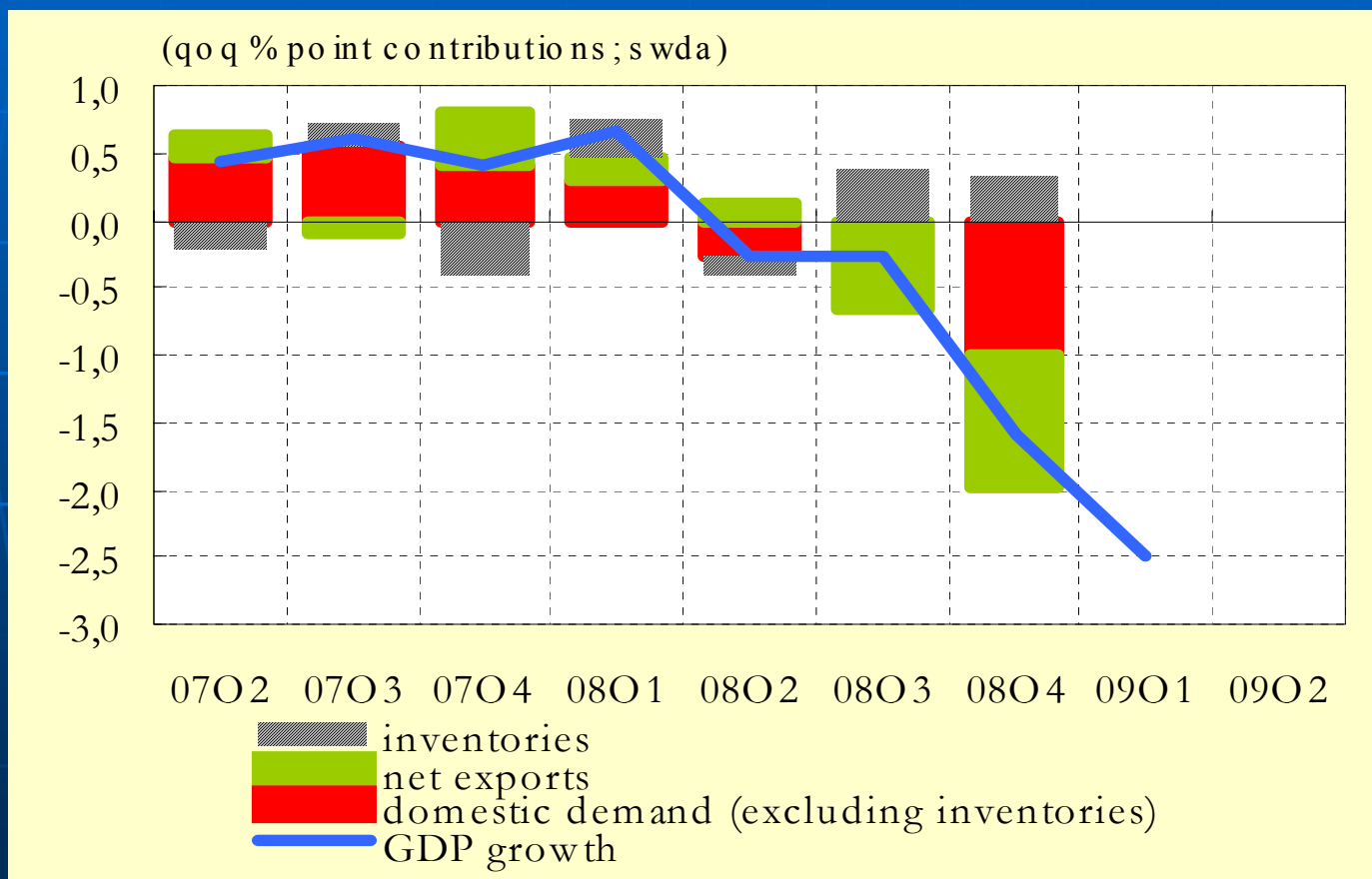
A grim global outlook

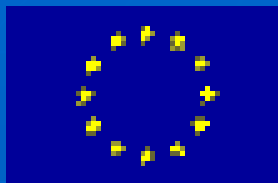


	2007	2008		2009		2010	
(percentage change on preceding year)		Spring	Jan ⁰⁹	Spring	Jan ⁰⁹	Spring	Jan ⁰⁹
World GDP growth	5.1	3.1	3.3	-1.4	1/2	1.9	2/4
GDP growth in:							
- the US	2.0	1.1	1.2	-2.9	-1.6	0.9	1.7
- Japan	2.4	-0.7	-0.1	-5.3	-2.4	0.1	-0.2
- China	13.0	9.0	9.7	6.1	6/4	7.8	8
- EU	2.9	0.9	1.0	-4.0	-1.8	-0.1	0.5

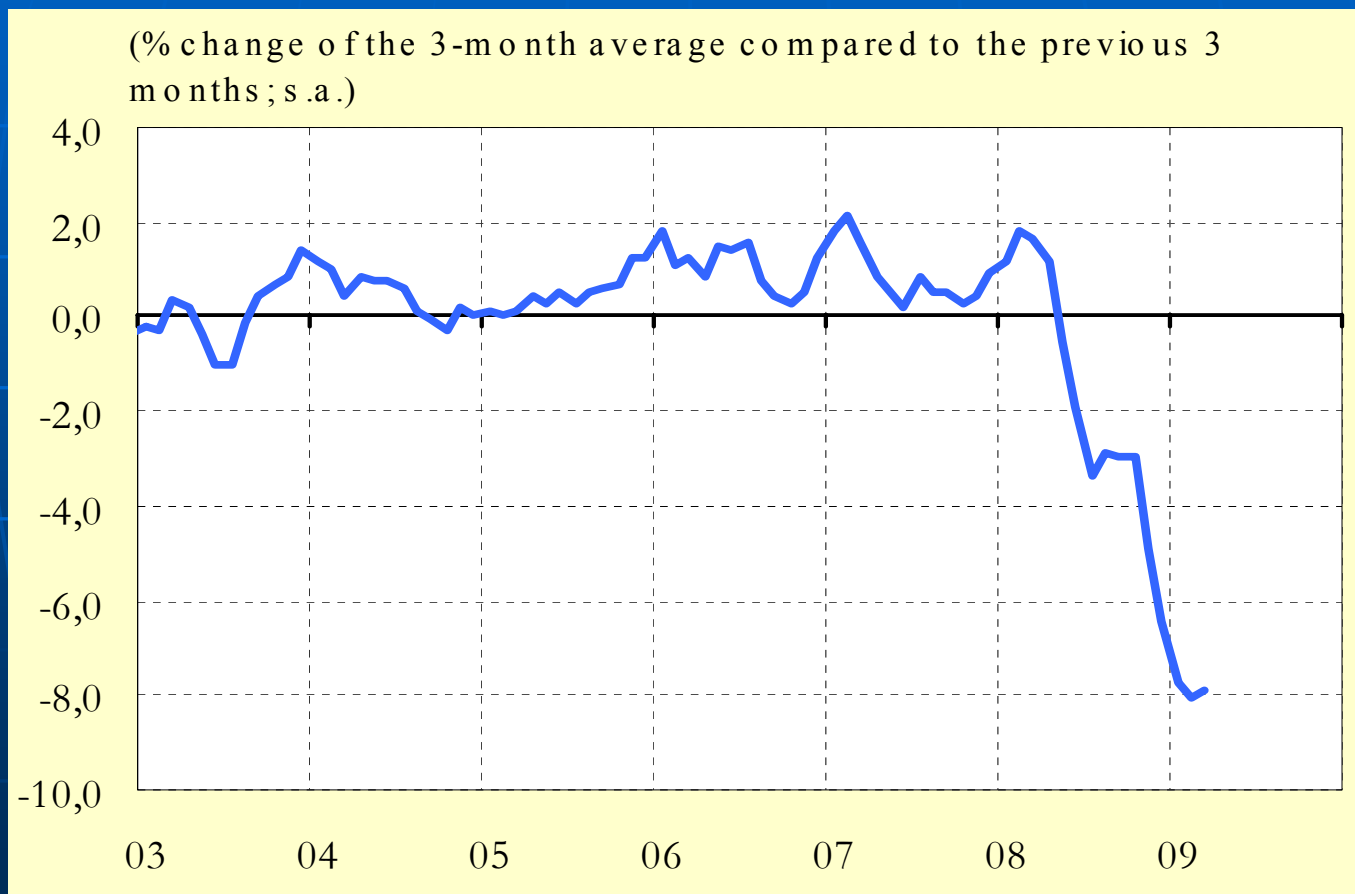


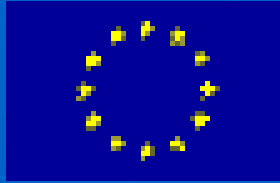
GDP growth turns increasingly negative



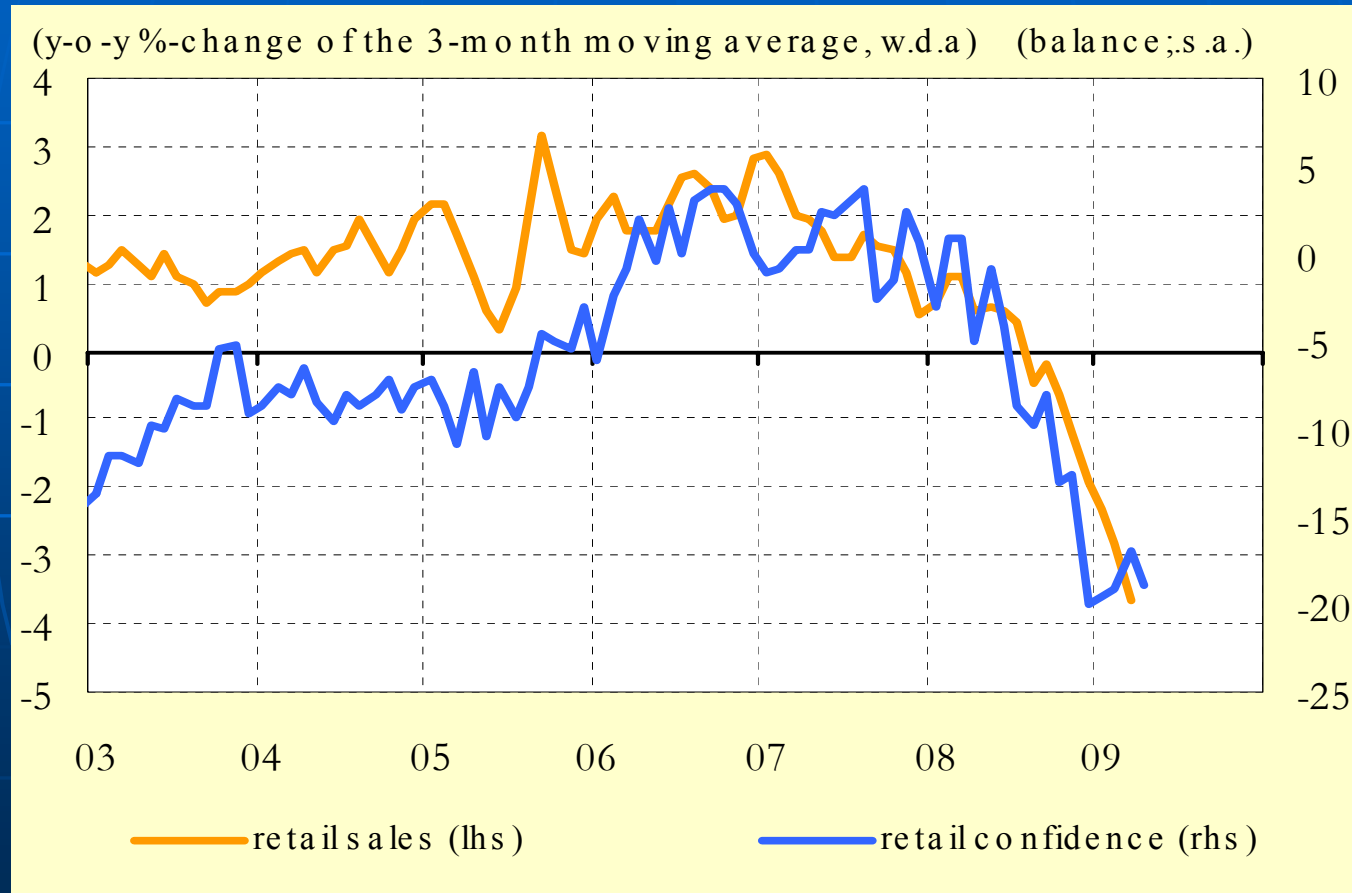


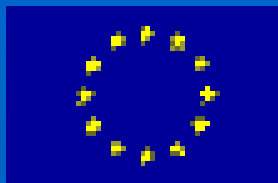
Industrial production - hitting ground?



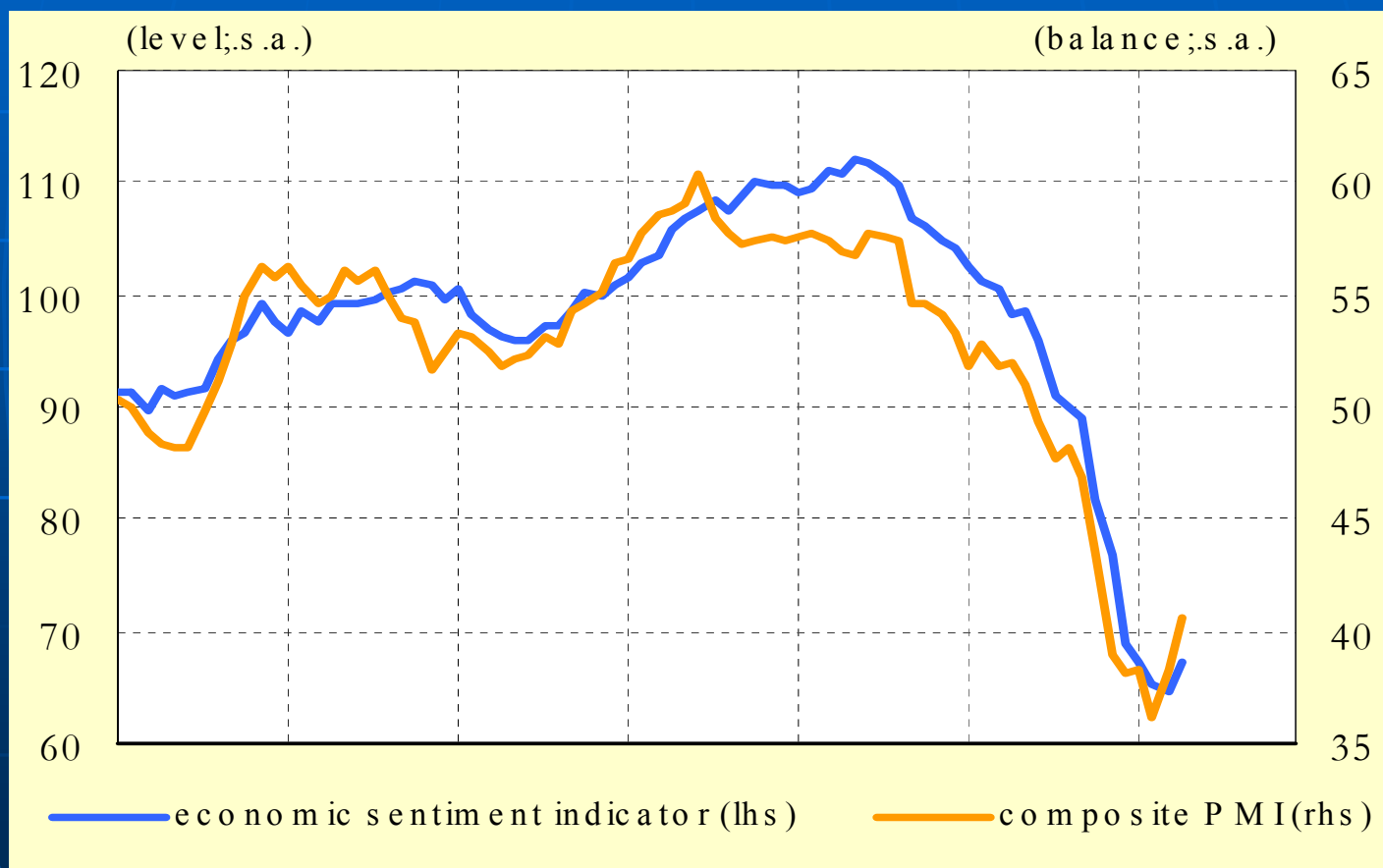


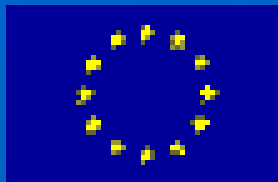
Retail sales down - confidence stabilising?



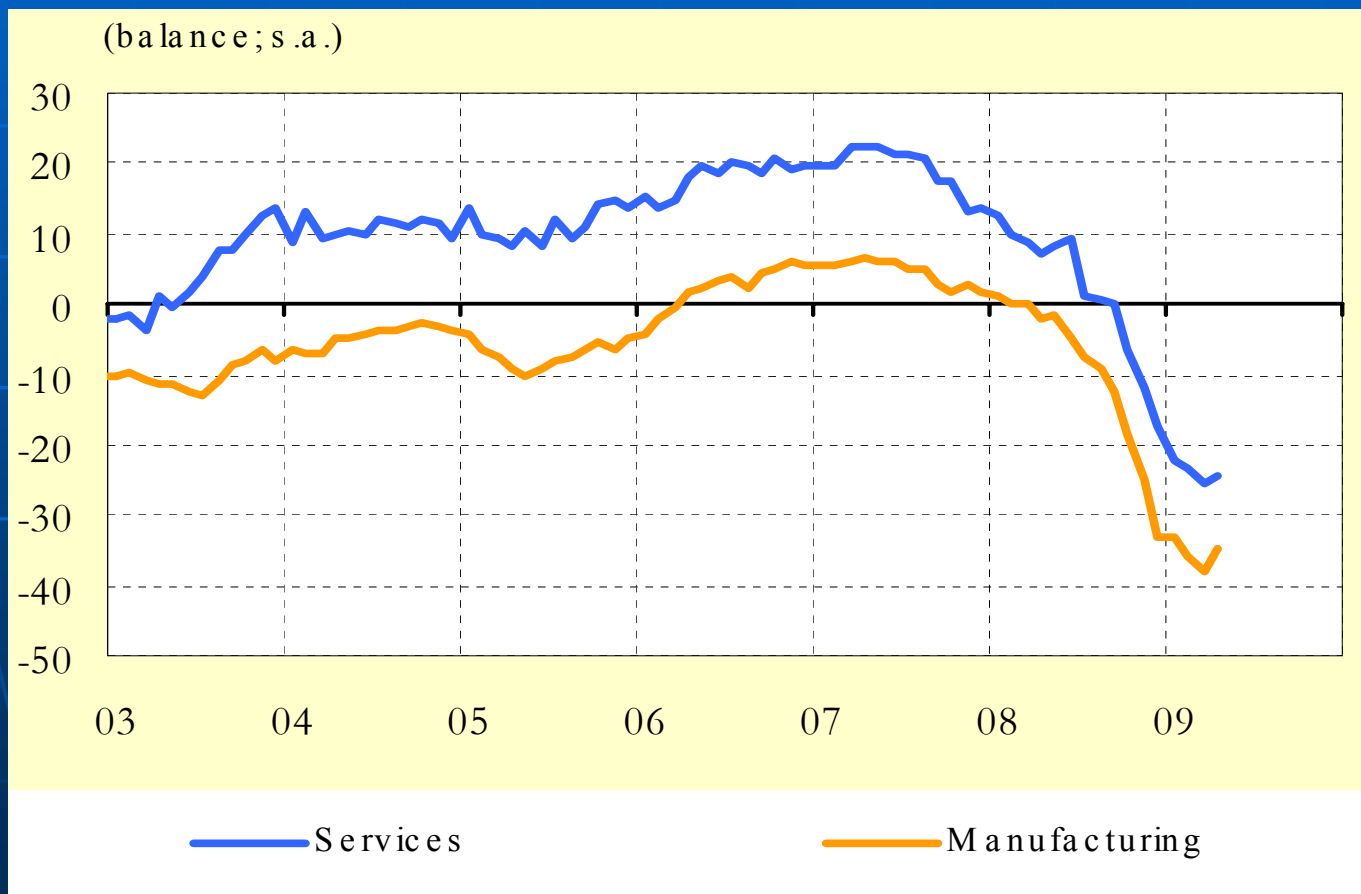


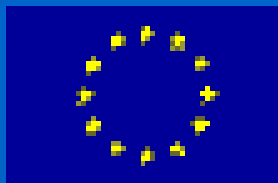
Economic sentiment bottoming out?





Confidence indicators finding ground?





Europe's response to the crisis



Stabilising financial markets

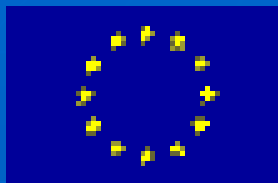
- Bank rescue plans in 19 countries, new bail-outs planned
- €270 bn in recapitalisation and €2.9 trillion in loan guarantees
- Action on the global front to tackle root problems

Supportive monetary policy

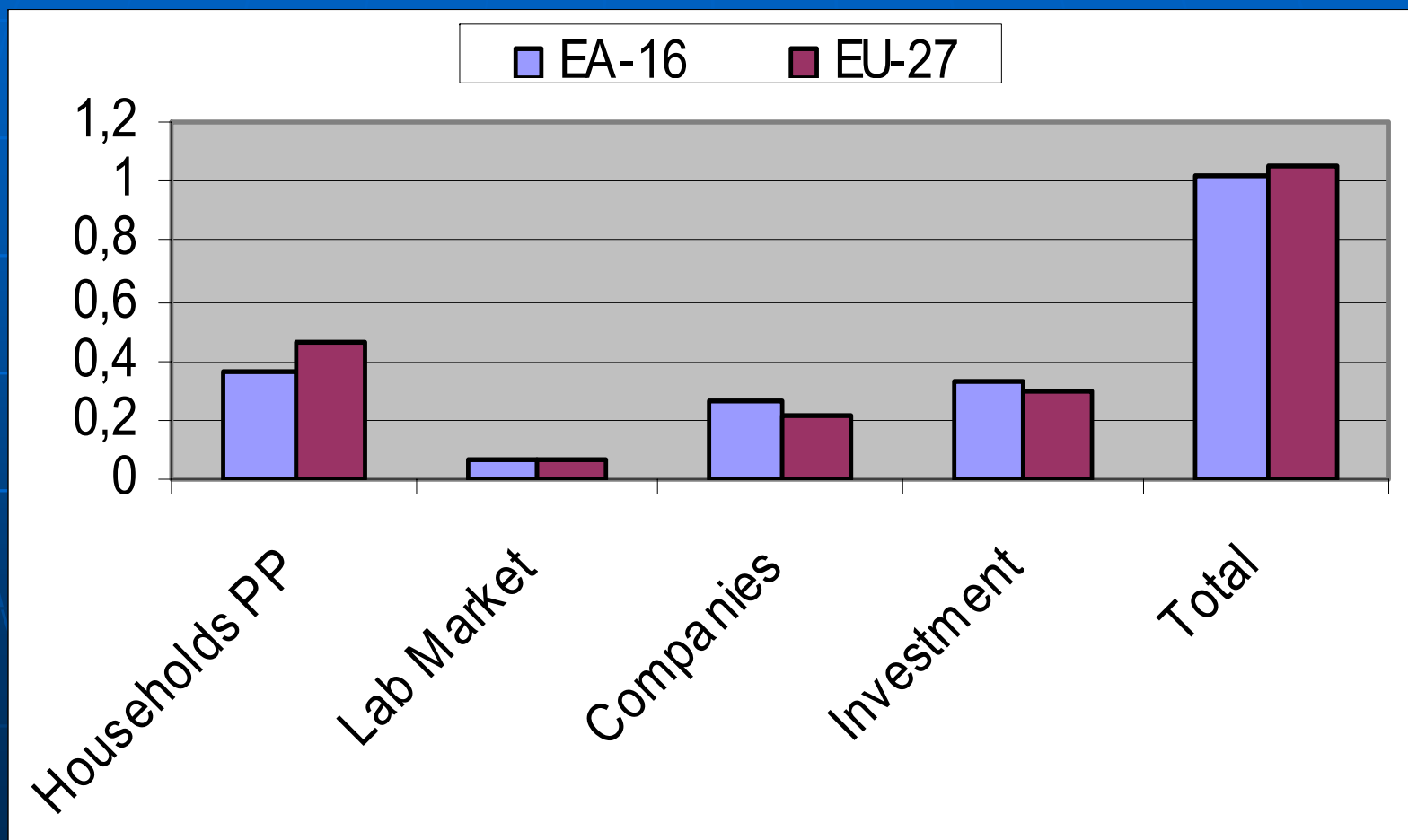
- ECB key policy (repo) rate falls by 325bp in 6 months to 1%
- Euribor at 1.27% (May 15)

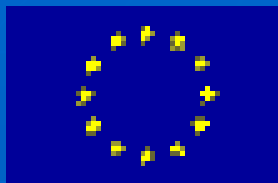
European Economic Recovery Plan

- 18 fiscal stimulus plans, 1.1% of GDP in 2009, 0.7% in 2010
- Extra budgetary measures and automatic stabilisers add up to
- an overall stimulus of about 4 % of GDP over 2009 and 2010
- Action on structural reform priorities



(Additional) fiscal stimulus packages 2009 in % of GDP

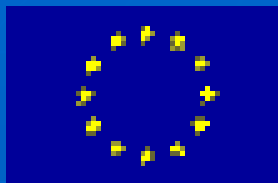




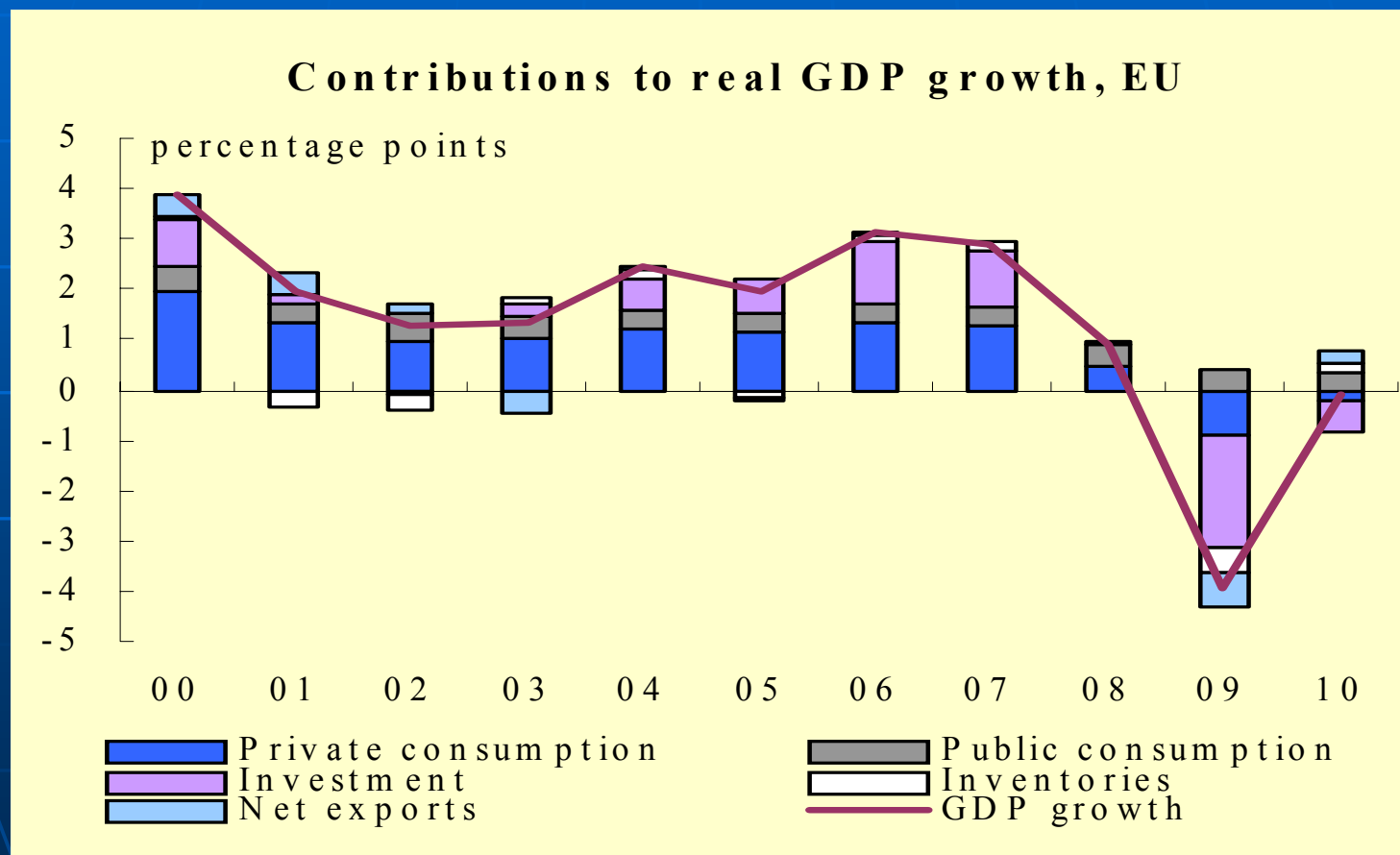
Downward revision(s) of forecasts stabilising



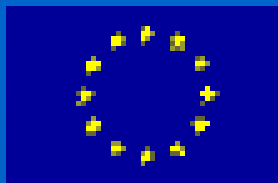
Recent forecasts ordered by release date			
		2009	2010
Euro-area GDP (y-o-y %)			
Commission	19-Jan	-1.9	0.4
ECB	05-Mar	-2.7	0.0
IMF	13-Mar	-3.2	0.1
OECD	31-Mar	-4.1	-0.3
Commission	04-May	-4.0	-0.1
World GDP (y-o-y %)			
Commission	19-Jan	0.5	2.7
IMF	13-Mar	-0.8	2.0
OECD	31-Mar	-2.7	1.2
Commission	04-May	-1.9	1.2



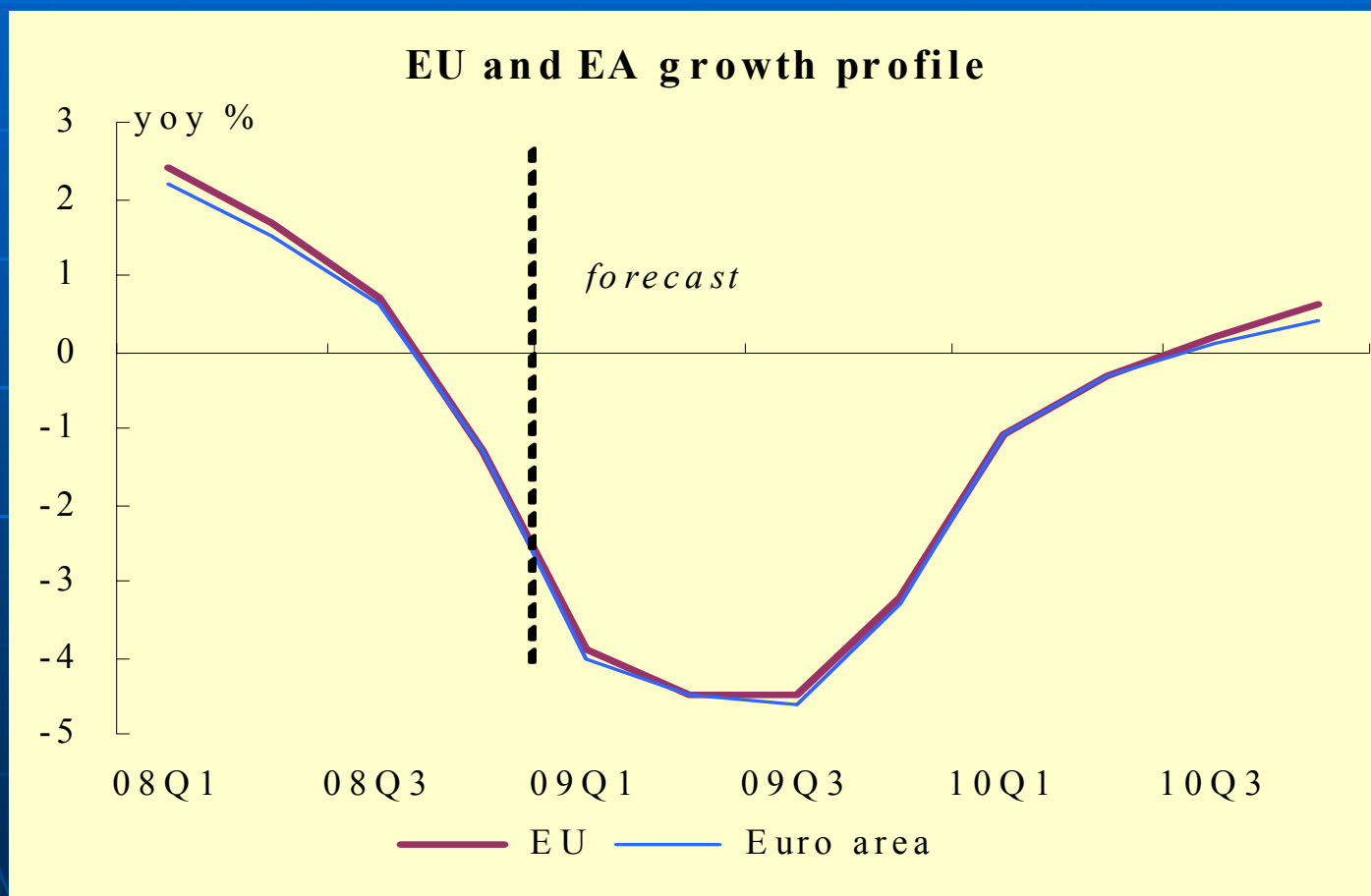
Contracting consumption and investment



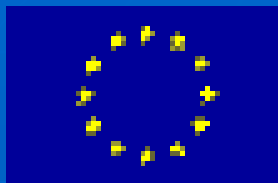
Source: Commission services, DG ECFIN



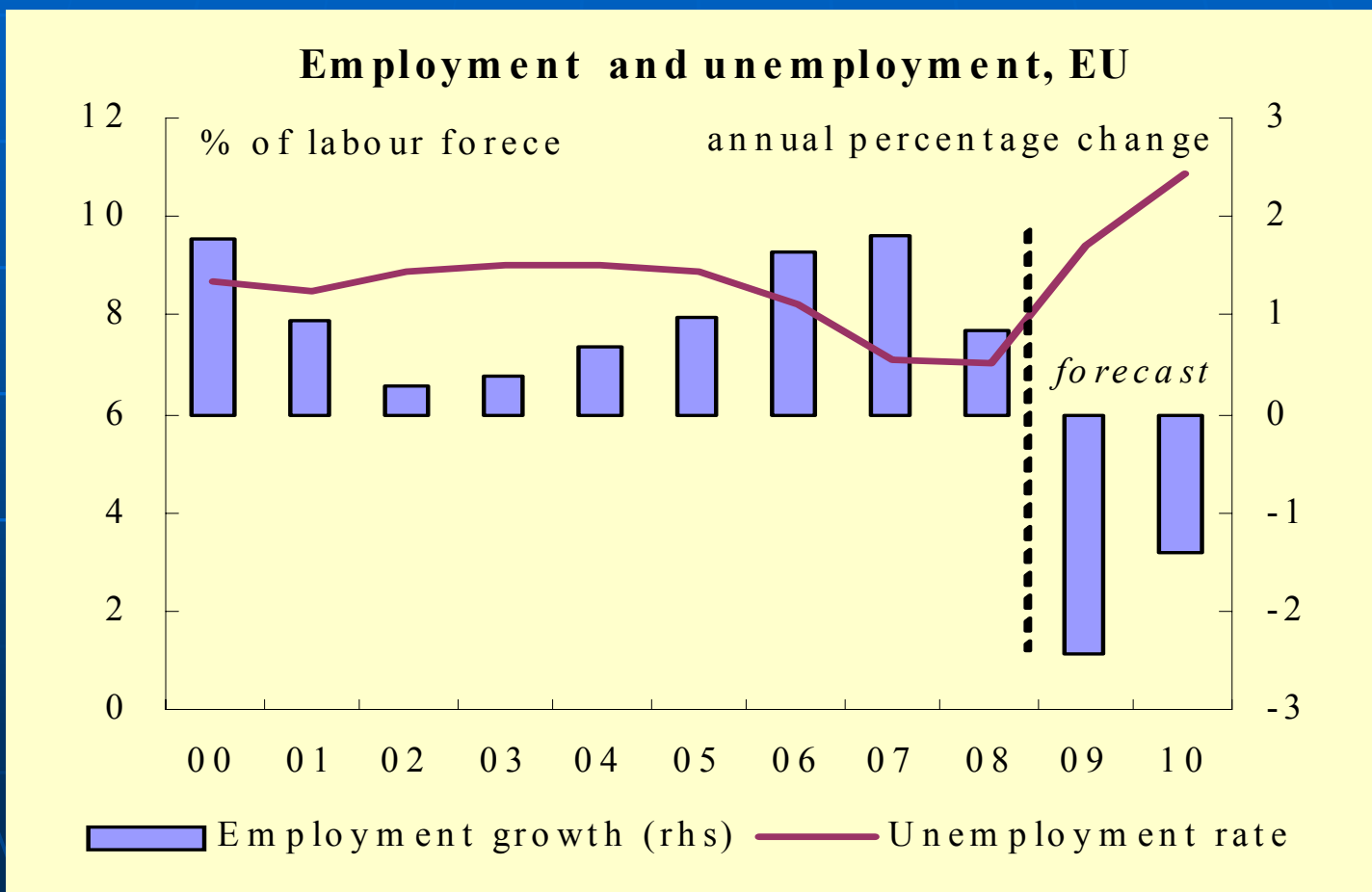
A modest recovery from mid-year on



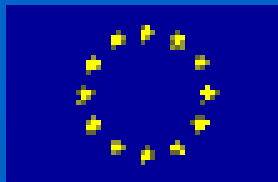
Source: Commission services, DG ECFIN



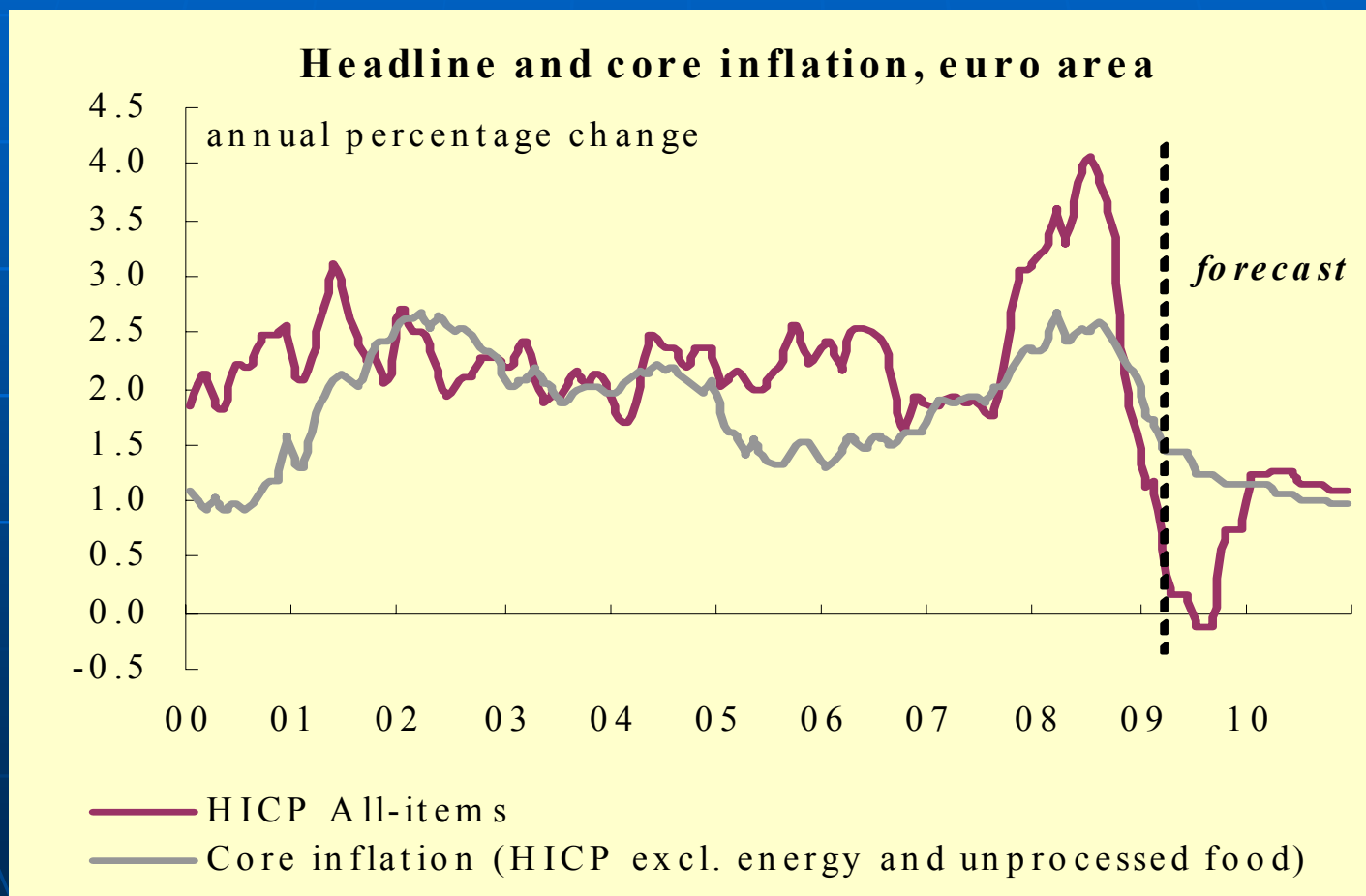
Sharp rise in unemployment

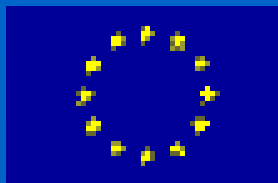


Source: Commission services, DG ECFIN



Inflation quickly abating





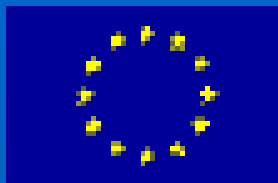
Public finances strongly affected



(% of GDP, general gov't)	euro area				EU27			
	2007	2008	2009	2010	2007	2008	2009	2010
Government balance	-0.6	-1.9	-5.3	-6.5	-0.8	-2.3	-6.0	-7.3
Interest expenditure	2.9	3.0	3.0	3.2	2.7	2.7	2.8	3.0
Primary balance	2.3	1.1	-2.3	-3.3	1.9	0.4	-3.2	-4.3
Structural balance (1)	-1.8	-2.8	-3.9	-4.7	-2.0	-3.1	-4.6	-5.5
Gross debt	66.0	69.3	77.7	83.8	58.7	61.5	72.6	79.4

(1) = The structural budget balance is the cyclically-adjusted budget balance net of one-off and other temporary measures, estimated by Commission services

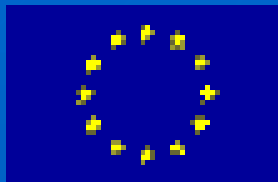
Source: Commission services, DG ECFIN



Significant uncertainty remains



	Downside risks	Upside risks
External	<p>Negative feedback loop from deteriorating real economy to financial sector</p> <p>Protectionism</p> <p>Disruptive exchange-rate developments</p>	<p>Stronger impact on confidence of recovery packages</p> <p>Faster adjustment in global inventory cycle, US housing sector, recovery in Emerging Markets (incl. China)</p> <p>Commodity prices weakening further</p>
Domestic	<p>Negative feedback loop from deteriorating real economy to financial sector</p> <p>External/domestic vulnerabilities in some MS exacerbated by current crisis</p>	<p>Stronger impact on confidence of recovery packages</p> <p>More favourable consumer response to lower inflation</p>



***Thank you very
much for your
attention***