

EUROPE'S RESILIENCE IN THE FACE A DOUBLE-SHOCK

Europe emerging from the shock of the Covid-19 pandemic and the war in Ukraine

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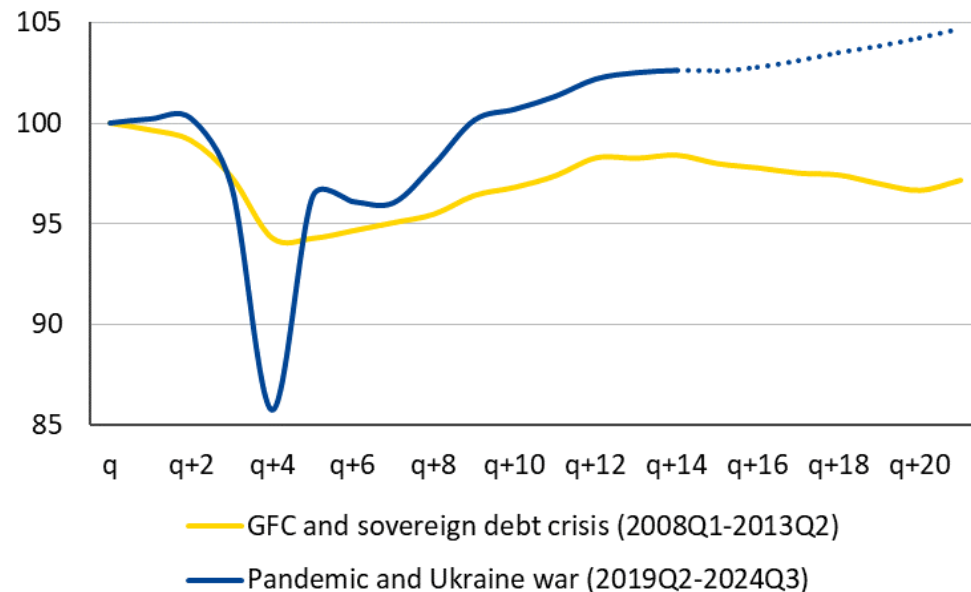
London, 15 March 2023



GROWTH AND BALANCE OF PAYMENTS SHOW RESILIENCE

Strong rebound after the pandemic on track

Real GDP index q = 100

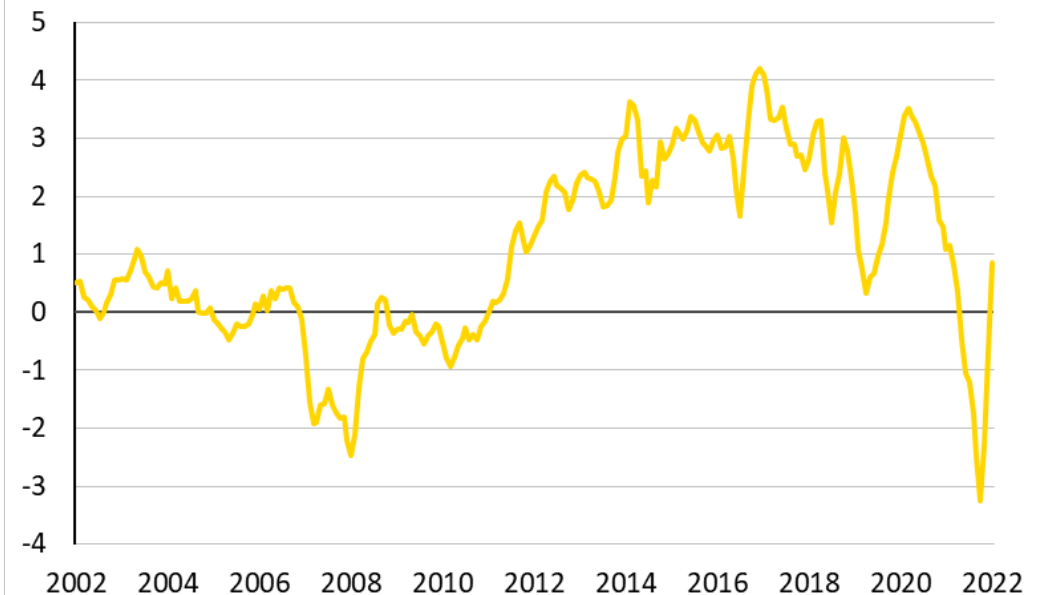


Source: ESM calculations based on Eurostat.

Note: The dashed line are forecasts from EC Winter 2023 Interim Forecast.

Current account deficit closed swiftly

3-month rolling sum of the euro area's current account balance, seasonally-adjusted annualized, % of GDP

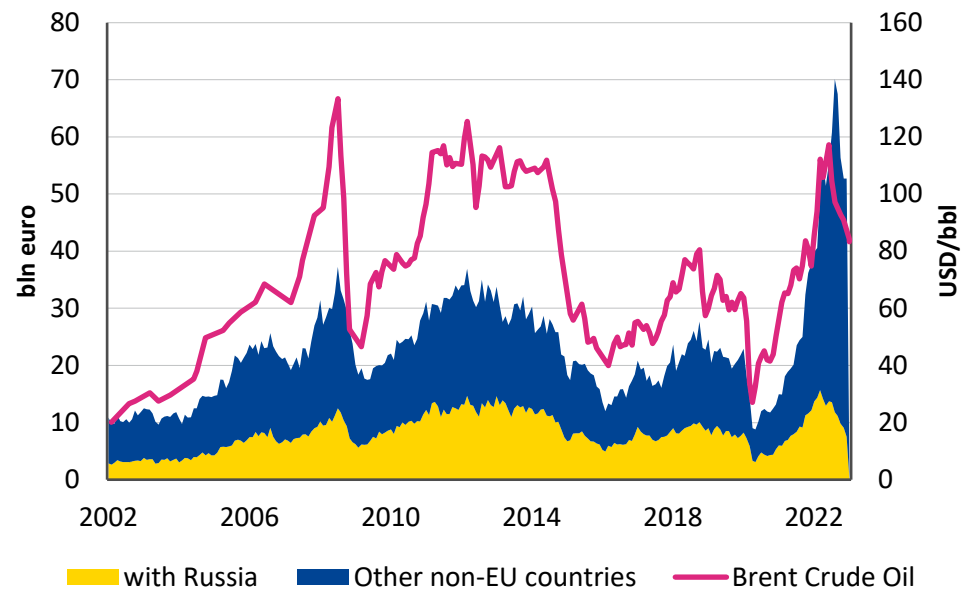


Source: ESM based on ECB data.

OVERCOMING THE ENERGY SHOCK

Cost of EU's energy imports

EU energy trade deficit and oil prices

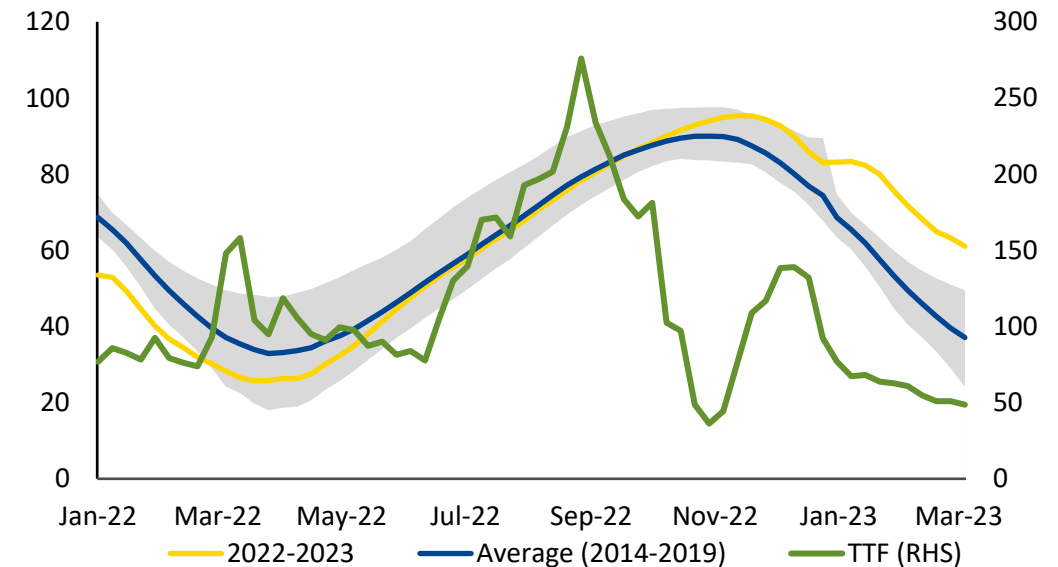


Source: Eurostat and Haver Analytics.

Note: Last data point is 2 January 2023 for oil prices and December 2022 for the trade deficit.

EU gas storage vs gas prices

Gas storage levels (% of capacity) and TTF gas prices (€/Mwh)



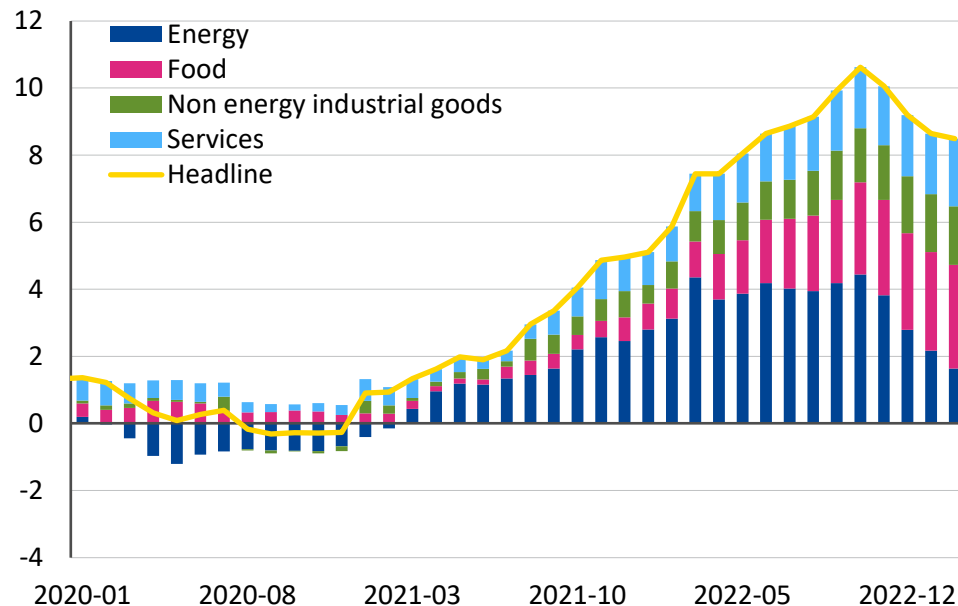
Source: Gas Infrastructure Europe/Haver Analytics and Bloomberg.

Note: The grey area represents the min-max range 2014-2019.

INFLATION HAS PEAKED BUT CORE REMAINS STICKY

Inflation peaked, energy prices decline

HICP inflation (% yoy) and components (pps)

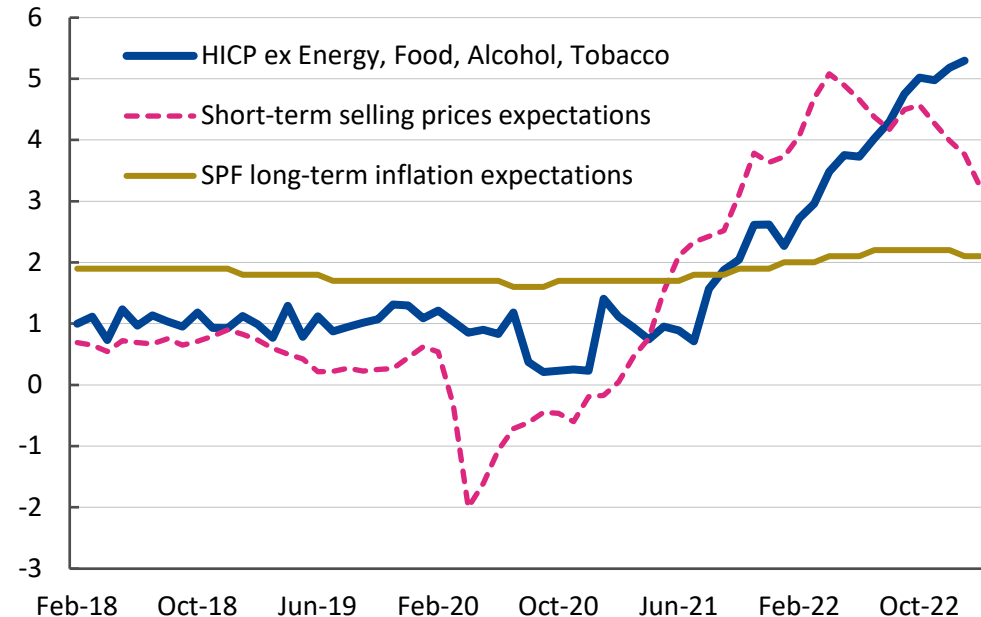


Source: Eurostat.

Note: Last data point reflect Eurostat flash estimate.

Inflation expectations reached a turning point, but core inflation remains sticky

Underlying measures of inflation (% yoy)

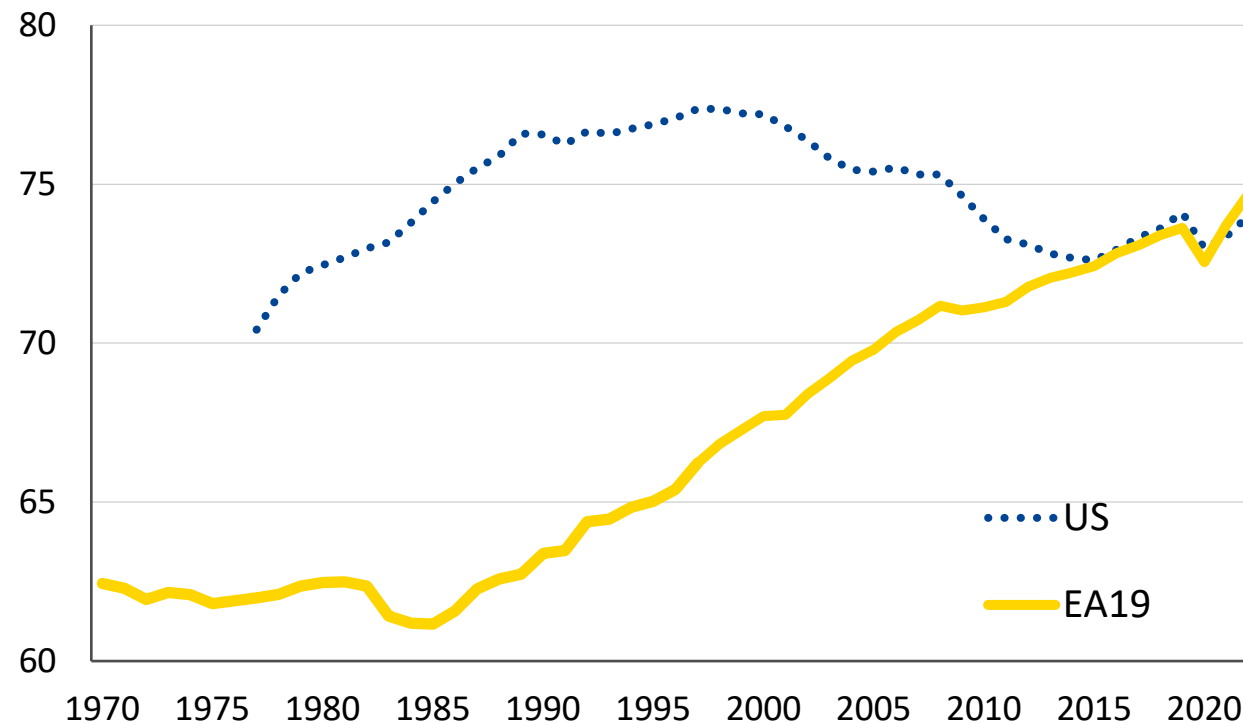


Source: ESM calculations based on Eurostat, ECB, European Commission. Note: For short-term (3month ahead) selling price expectations, the figure shows z-score composite indicators, as an average of EC expectations in industry, retail, service and construction. SPF stands for Survey of Professional Forecasters.

LABOUR MARKET SHOWS THE BENEFITS OF PAST REFORMS

Labour force and employment rate at record high

Labour participation rate: Euro area vs US, % (15-64 years)

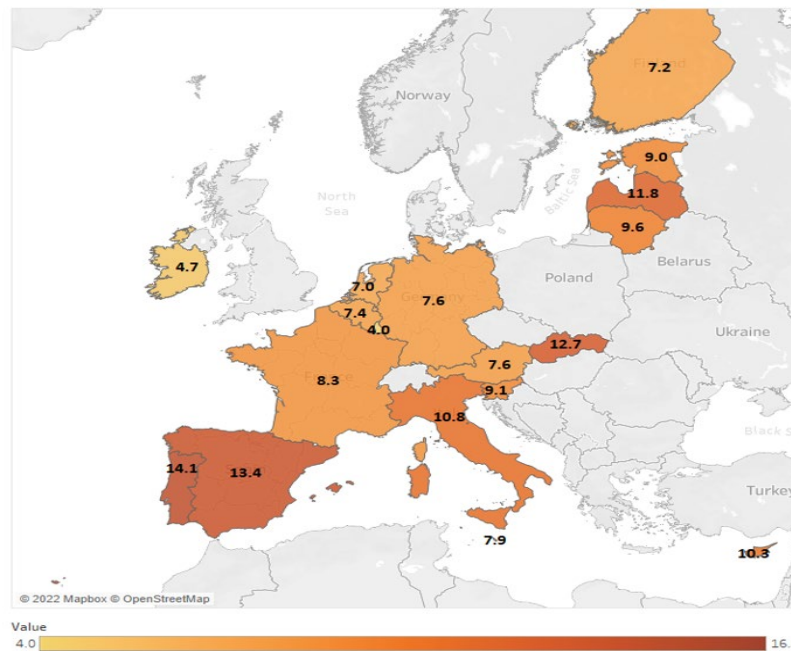


Source: AMECO, Eurostat and OECD. Data for the euro are before 1997 proxied by EA-12

CORE EU ACTION: TARGETED THE MOST VULNERABLE MEMBERS AND STRUCTURAL CHALLENGES

Next Generation EU package, total amount: €807 billion

Recovery and Resilience Facility: grants and loans: maximum allocations
(In % of 2021 GDP)



Recovery and Resilience Facility

- 37% green, 20% digital transitions
- Grants (€338 bn) and loans (€386 bn)
- High degree of solidarity
- National Resilience and Recovery Plans

Contribution to other EU programs

- Regional and rural development;
- climate neutrality;
- research and innovation

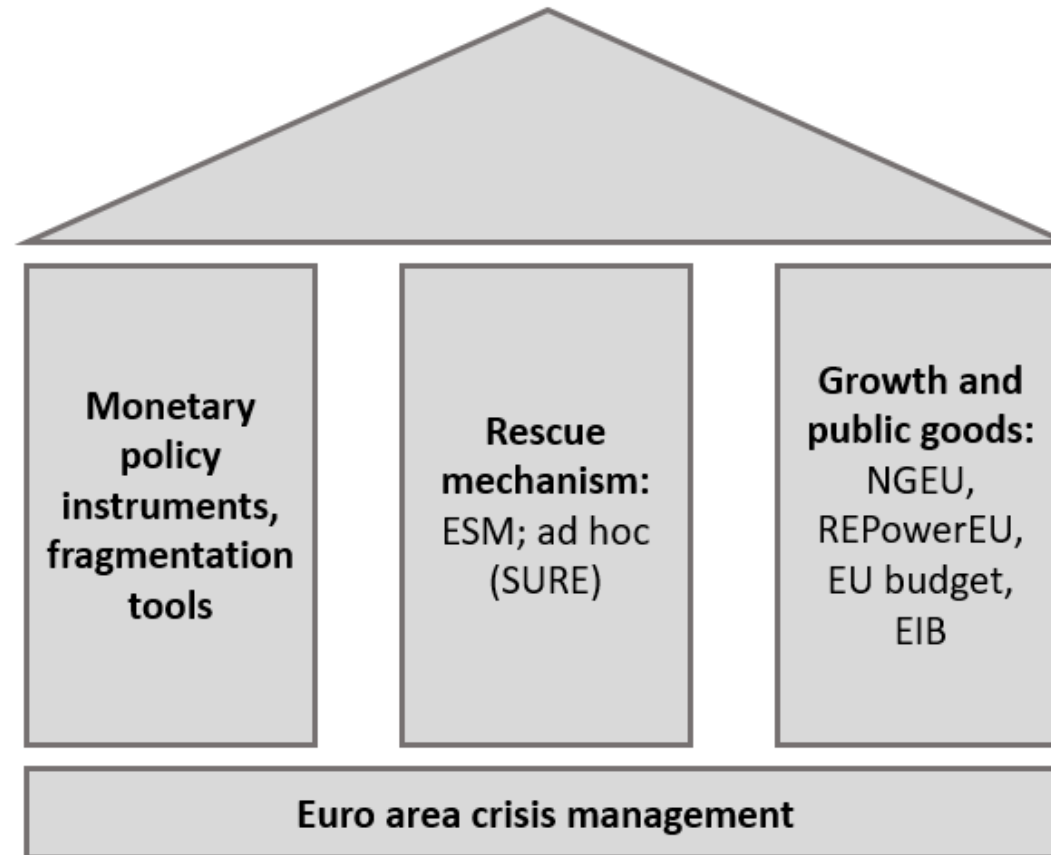
Contribution key:

- Skewed towards countries most hit by the pandemic
- **REDISTRIBUTION TOWARDS THE MOST VULNERABLE MEMBERS**

Source: European Commission, European Parliament.

Note: Grants distribution is computed based on European Commission June 2022 update. The maximum volume of the loan support for each Member State corresponds to 6.8 % of its 2019 gross national income (article 14 (5) of the RRF Regulation). Croatia not included in the graph, with an overall envelope of grants and loans is estimated at around 17.2% GDP.

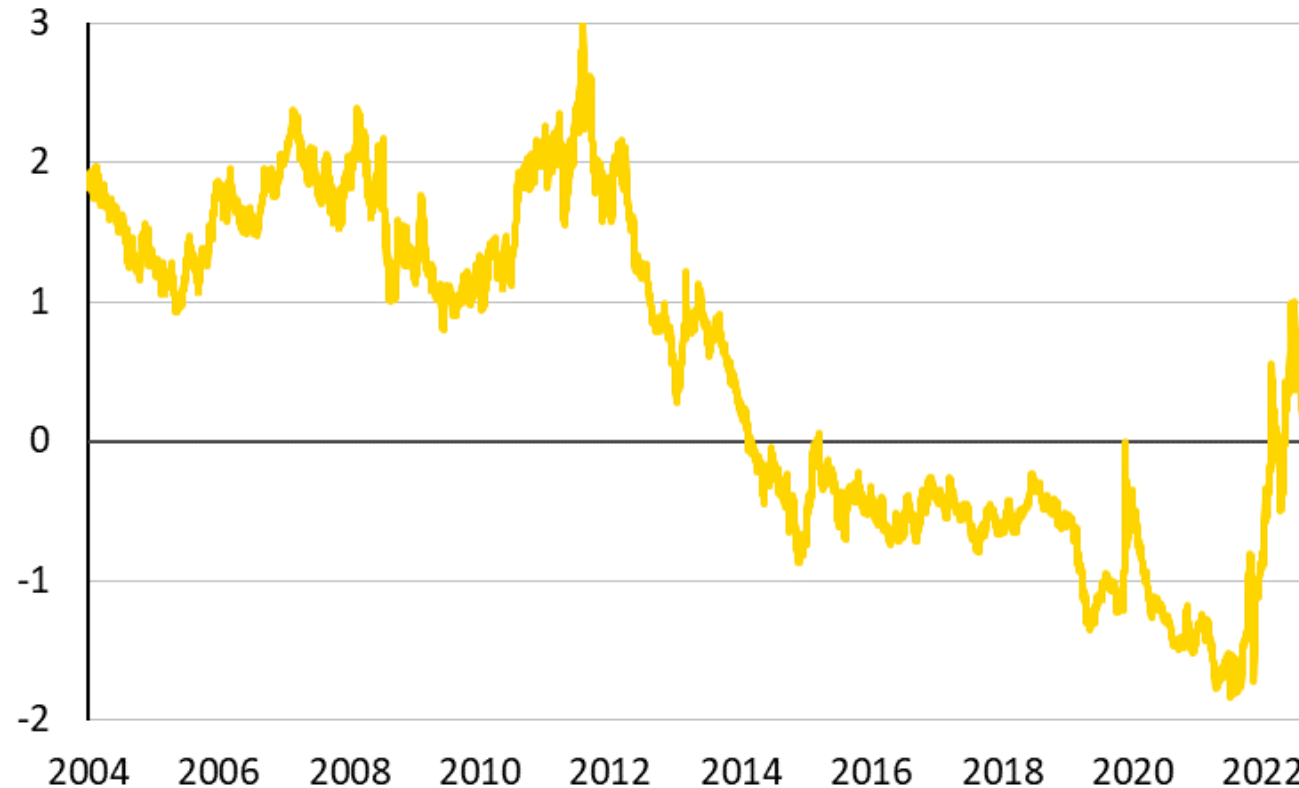
THREE PILLARS OF CRISIS MANAGEMENT IN EUROPE



INTEREST RATE SHOCK LIMITS FISCAL SPACE

Fastest long-term real interest rates increase in history of the euro area

GDP-weighted euro area long-term real yield, %



8 Note: Due to data availability, EA average includes Germany, France, Italy, Spain, Netherlands, Belgium, Austria, Portugal, Finland, Ireland from 2004, Greece from 2007, Slovakia from 2009, Slovenia from 2011 and Cyprus from 2015. Deflated with EUR 5y5y inflation swap forward. Source: Bloomberg Finance L.P.