

EURO AREA ECONOMIC OUTLOOK: RESILIENCE IN UNCERTAIN TIMES

27th Annual Global ABS

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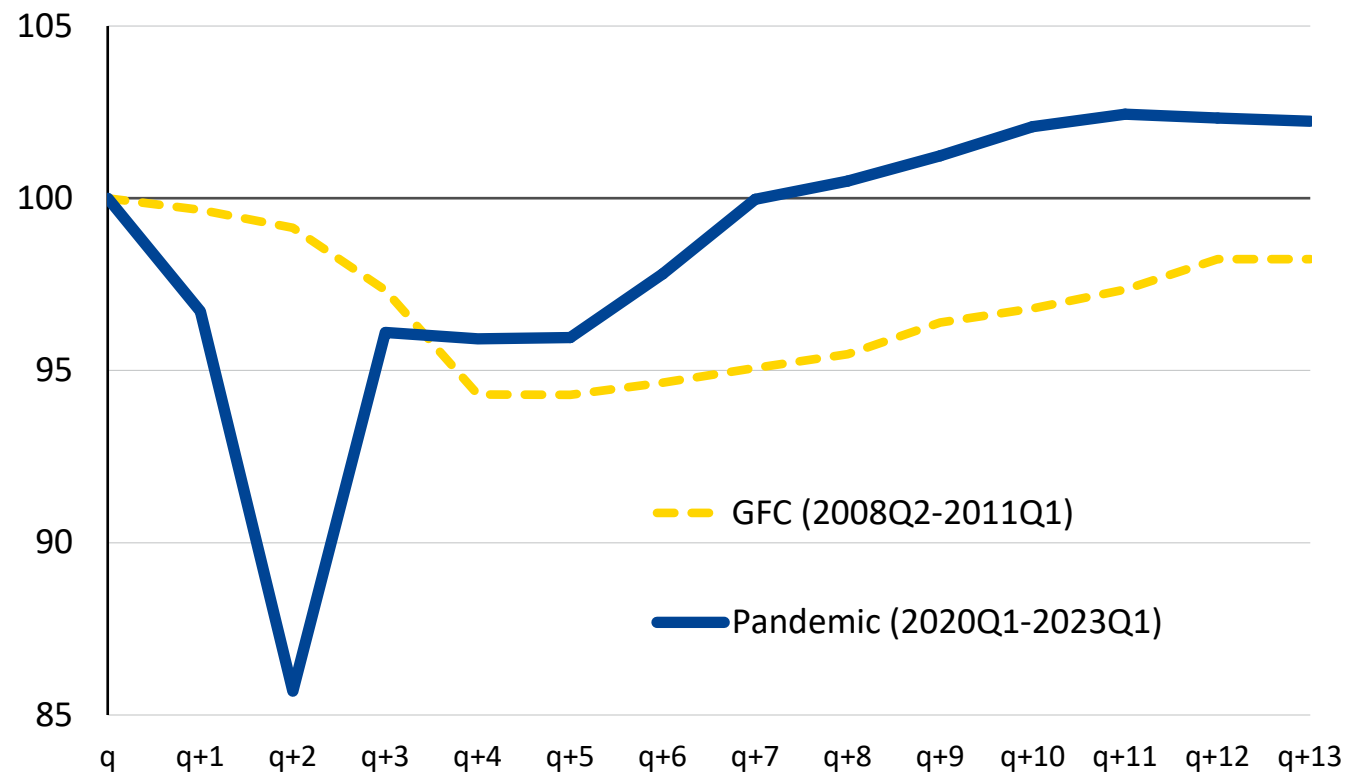
13th June 2023



ECONOMIC RESILIENCE VS TWO UNPRECEDENTED SHOCKS: PANDEMIC AND RUSSIAN INVASION OF UKRAINE

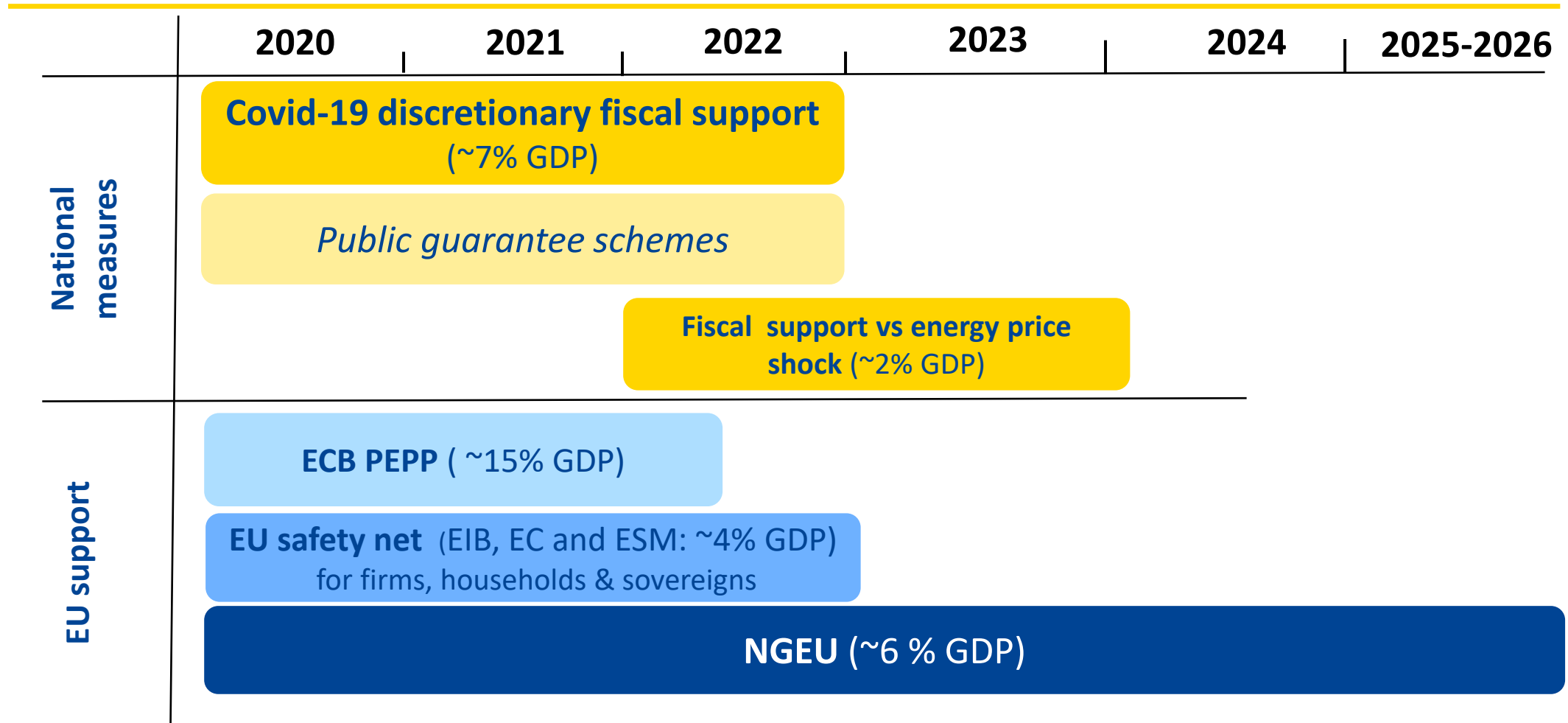
Euro area real GDP level since the pandemic: comparison with global financial crisis

(Index pre-recession quarter = 100)



Sources: Eurostat

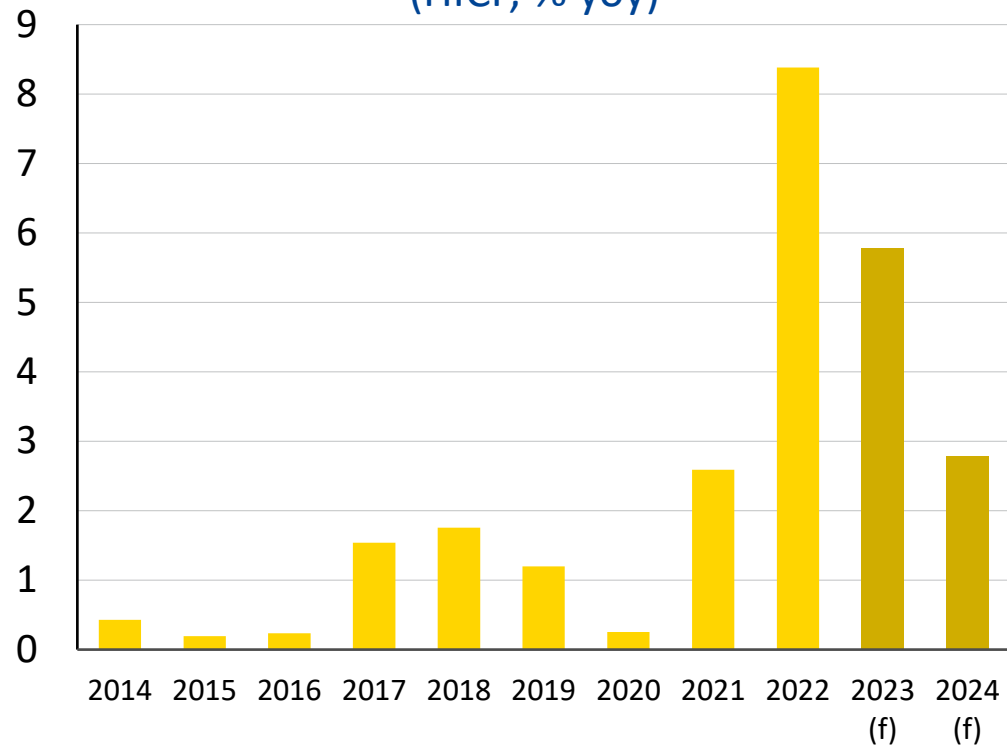
EXTRAORDINARY SUPPORT IN SIZE AND FORMAT



Source: ESM based on EC, ECB, ESRB. Discretionary fiscal support calculated as net budgetary impact of temporary measures. The % for EU and ECB schemes is calculated using the overall volume estimates and the average GDP over the availability period.

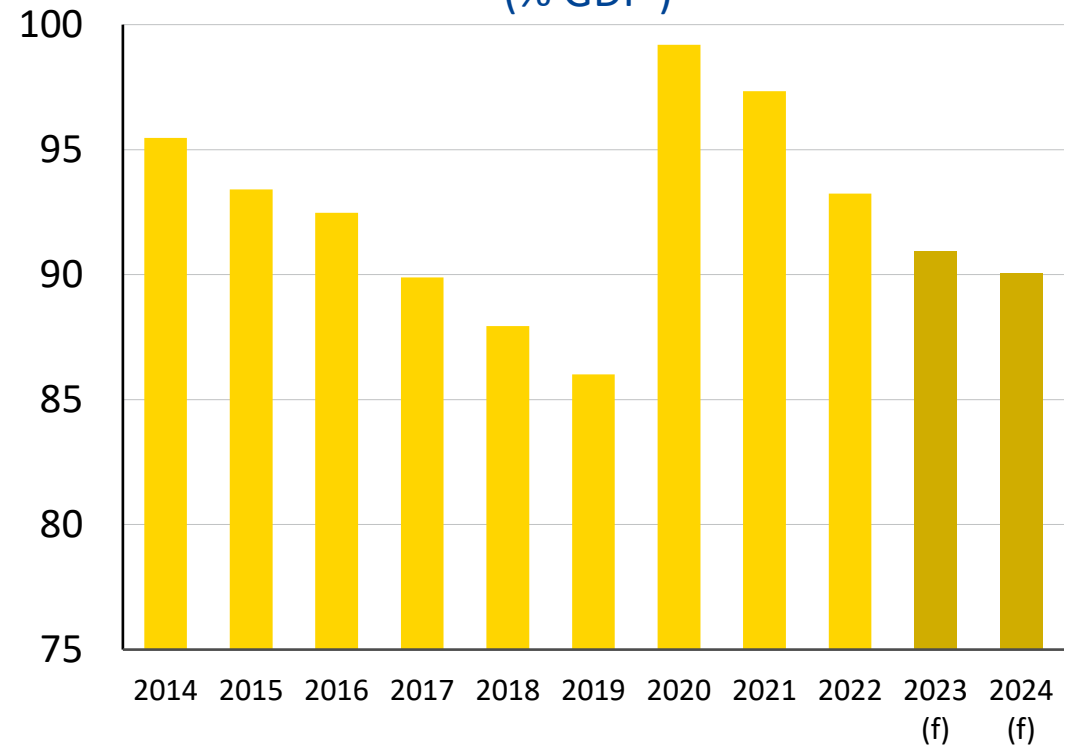
LEGACIES I: HIGHER INFLATION AND PUBLIC DEBT

Euro area inflation
(HICP, % yoy)



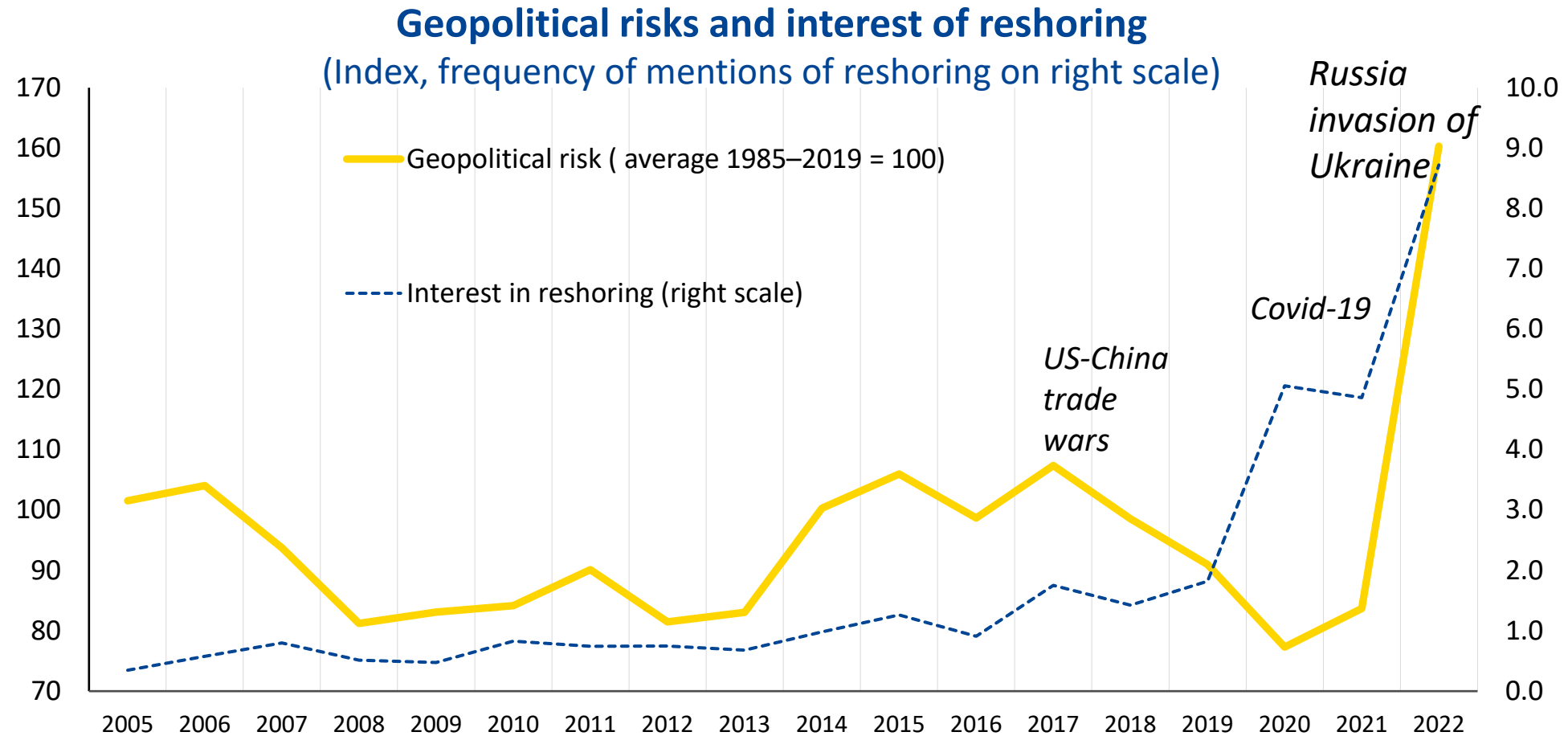
Source: European Commission

Euro area gross government debt
(% GDP)



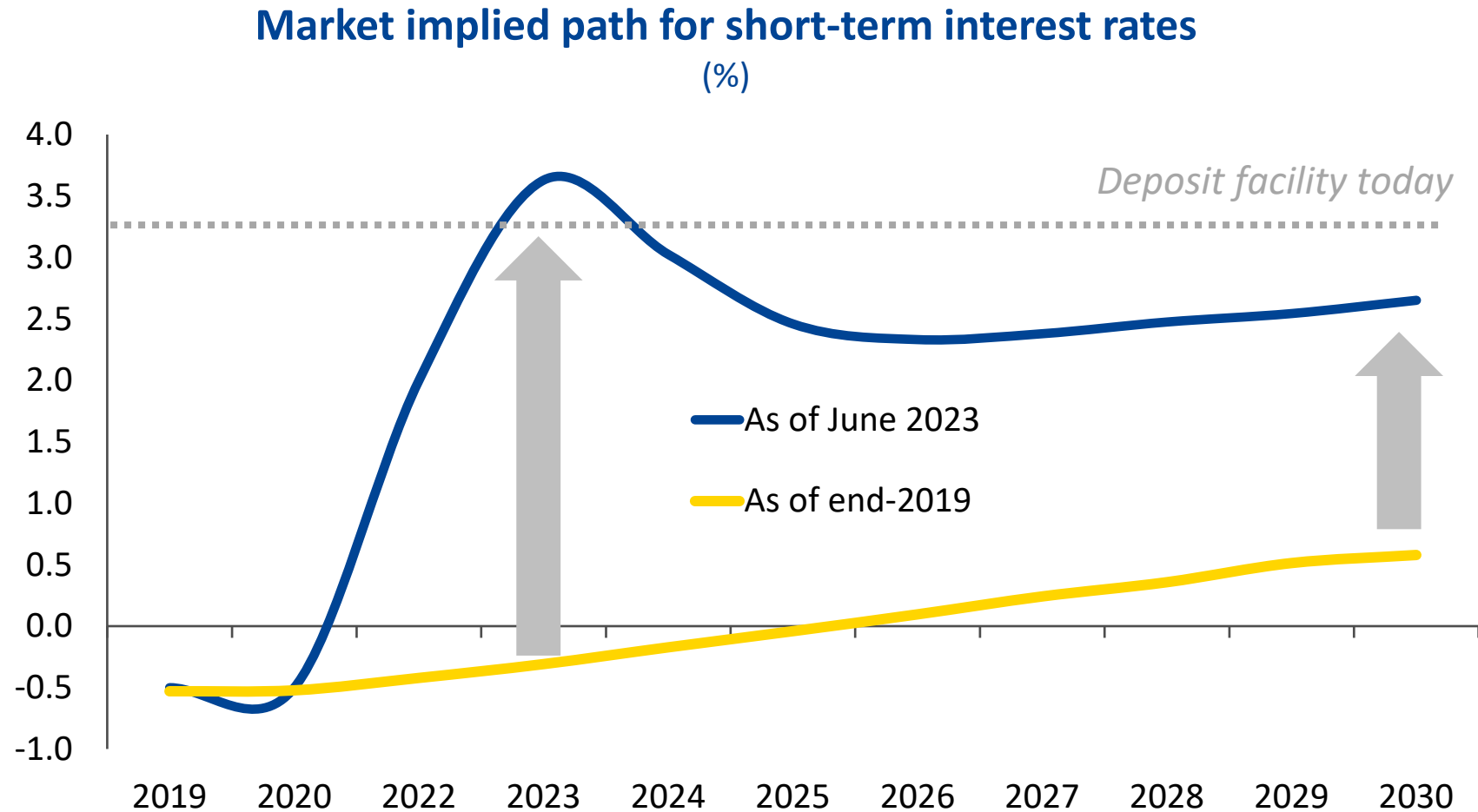
Source: European Commission

LEGACIES II: GEOPOLITICAL TENSIONS & RISK OF GLOBAL ECONOMIC FRAGMENTATION



Source: IMF, World Economic Outlook April 2023 based on Bailey, Strezhnev and Voeten (2017), Hassan and others (219); NL Analytics. Note: the interest in reshoring measures the frequency of mentions of reshoring, friend shoring or near-shoring in firms' earnings calls .

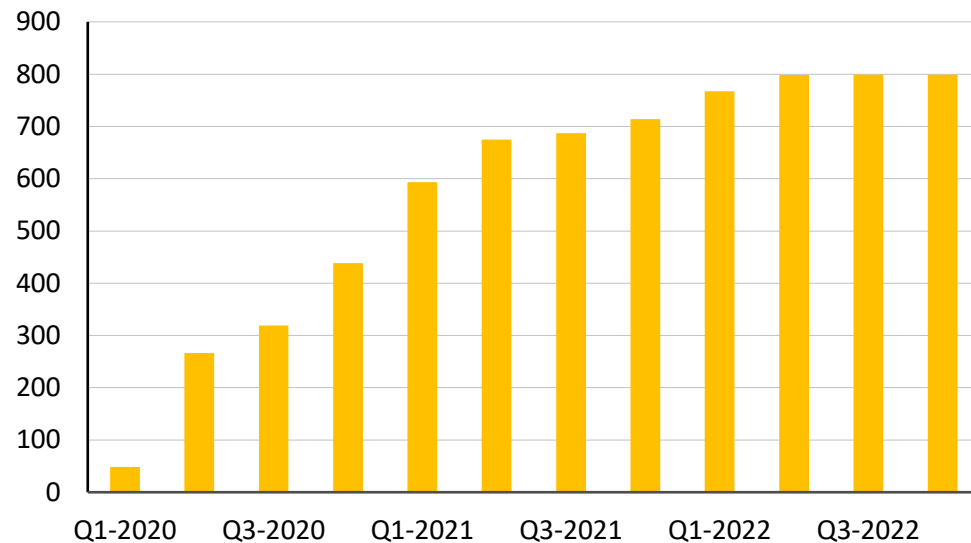
CHALLENGE #1: HIGHER FOR LONGER INTEREST RATES



Source: Bloomberg and ECB

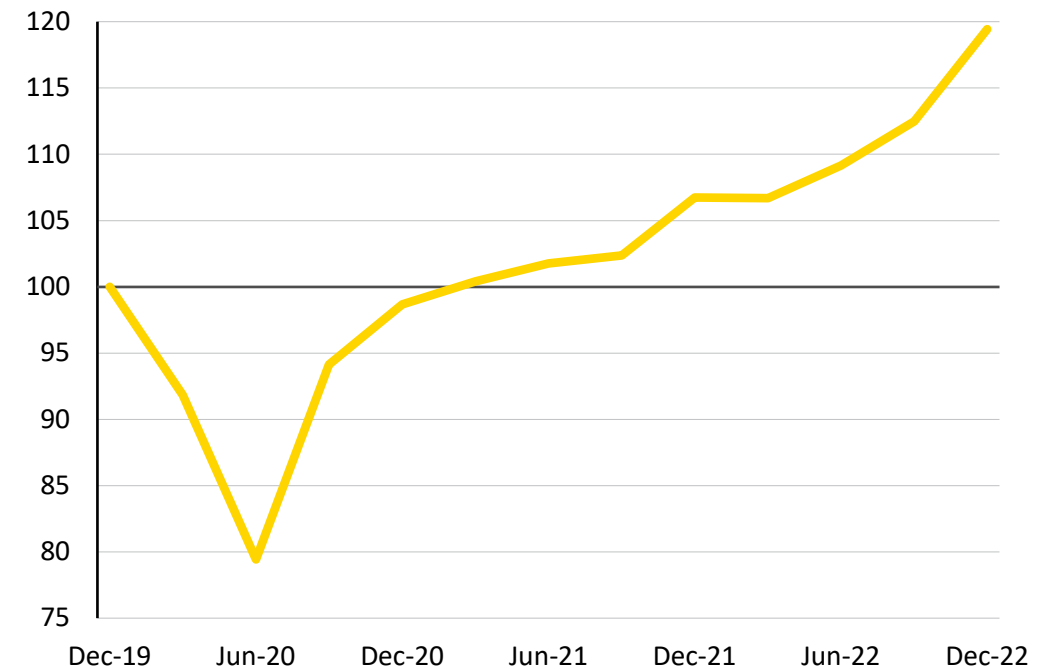
CORPORATES AND HOUSEHOLDS: WITH SOME BUFFERS TO FACE THE INTEREST RATE SHOCK

Euro area households: accumulated excess savings (EUR bn)



Source: Eurostat and ESM calculations. Note: Excess saving is defined as the sum of the elevated precautionary and forced savings compared to pre-crisis, due to uncertainties about the future and forced savings due to missed consumption opportunities. The calculations follow Capolongo and Kühn, "From savings to spending: Fast track to recovery", ESM blog, July 2021.

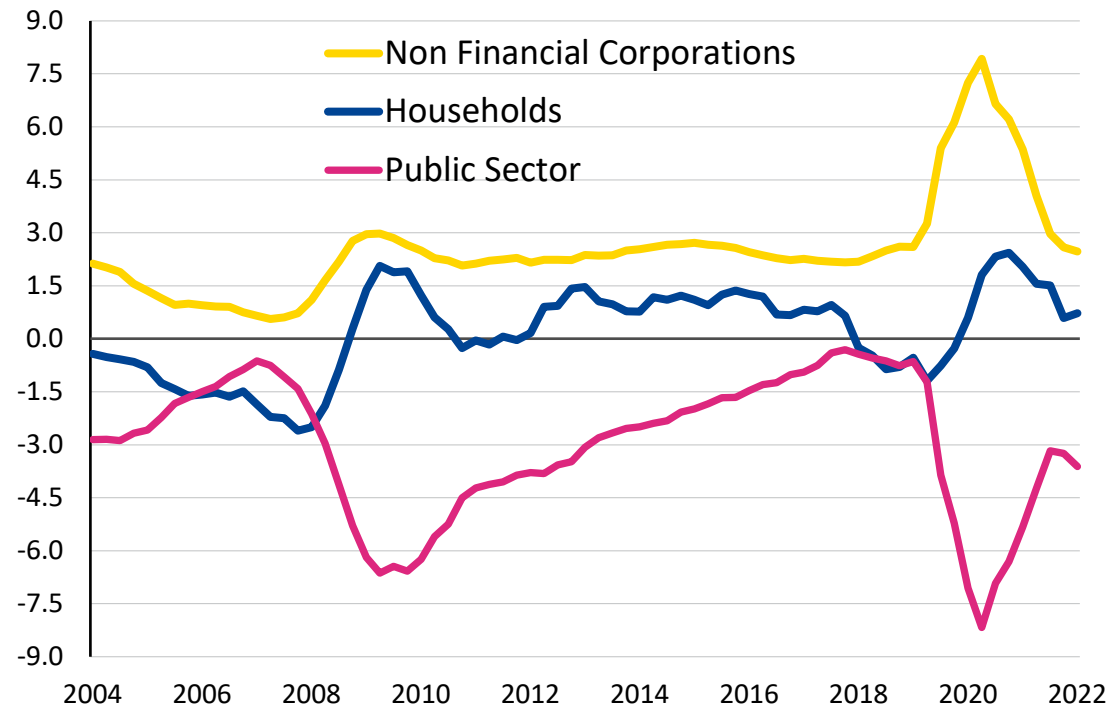
Euro area non-financial corporations: gross operating surplus (Index. 2019-Q4=100)



Source: Eurostat.

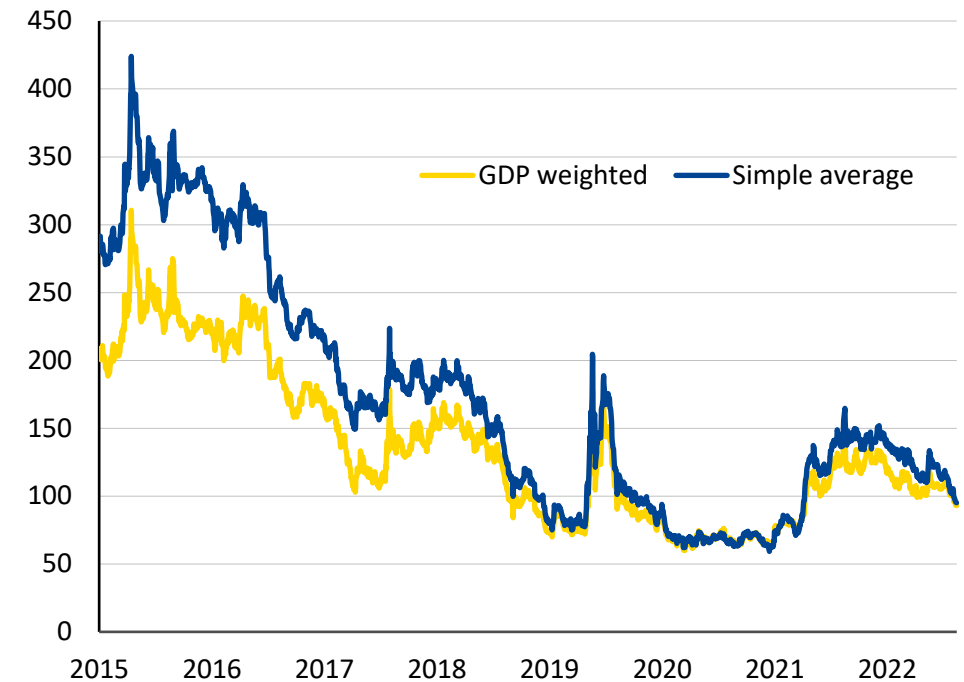
SOVEREIGNS: VULNERABLE BUT WITH SOME MITIGATORS

Euro area net lending(+)/borrowing capacity (% GDP)



Source: Eurostat

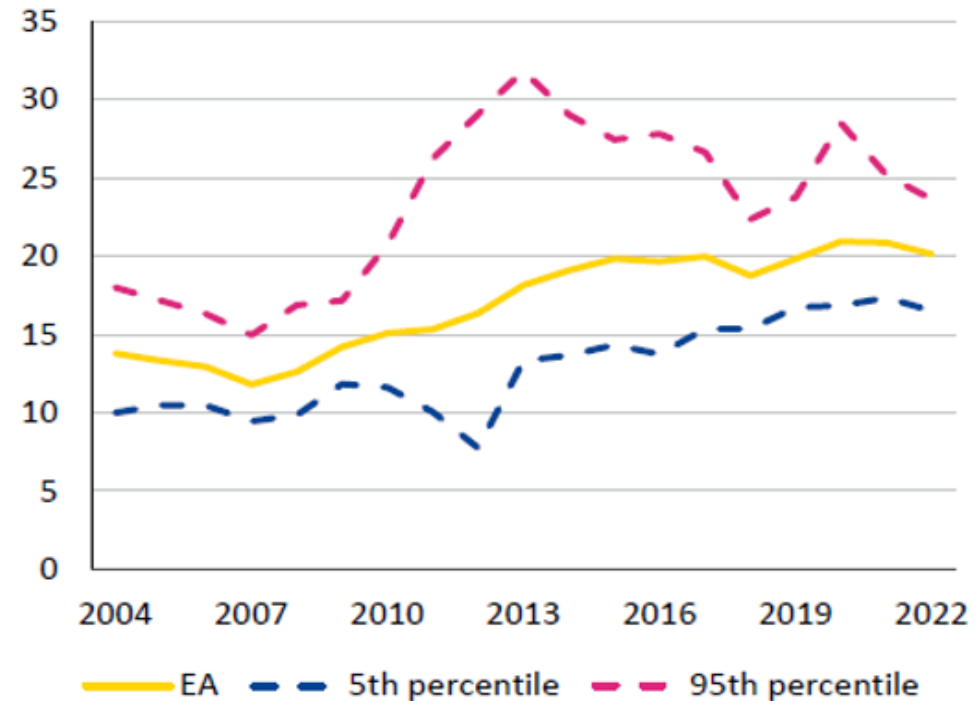
Sovereign credit spreads (ESM beneficiary Member States, bps)



Source: Own calculations based on ECB, Bloomberg. Average of spreads of Spain, Portugal, Greece, Ireland and Cyprus. GDP weights are fixed, based on 2022 GDP. Spread calculated as difference between the 10 year benchmark and Bund yields.

BANKING SECTOR: SOUND FUNDAMENTALS, CONFIDENCE KEY

Total capital ratio (%)
Euro area cross country distribution

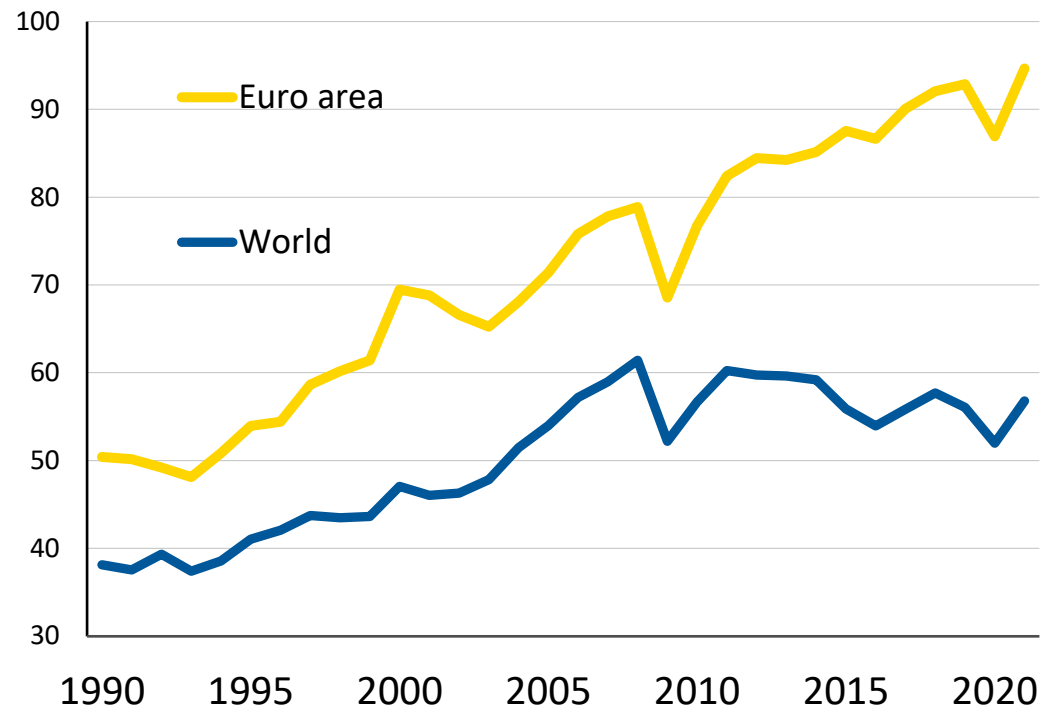


Source: ECB, latest available reporting date
2022Q3

CHALLENGE #2: VULNERABILITIES IN A NEW GLOBAL ORDER

Trade openness

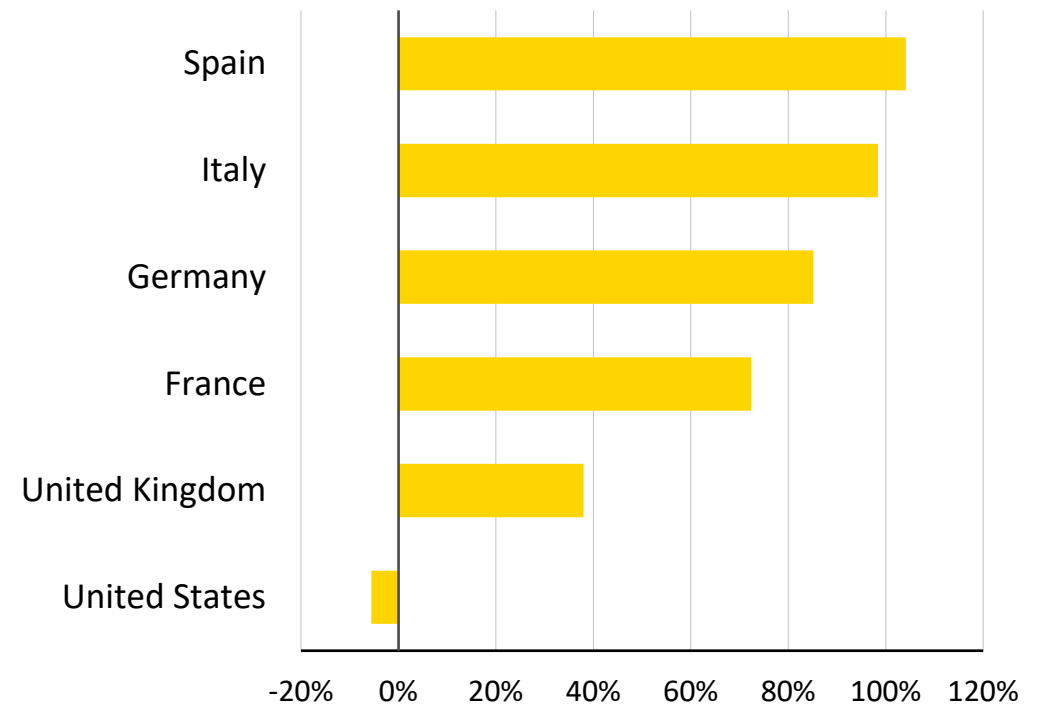
(Exports & imports of goods and services, % GDP)



Source: World Bank

Energy dependence ratio

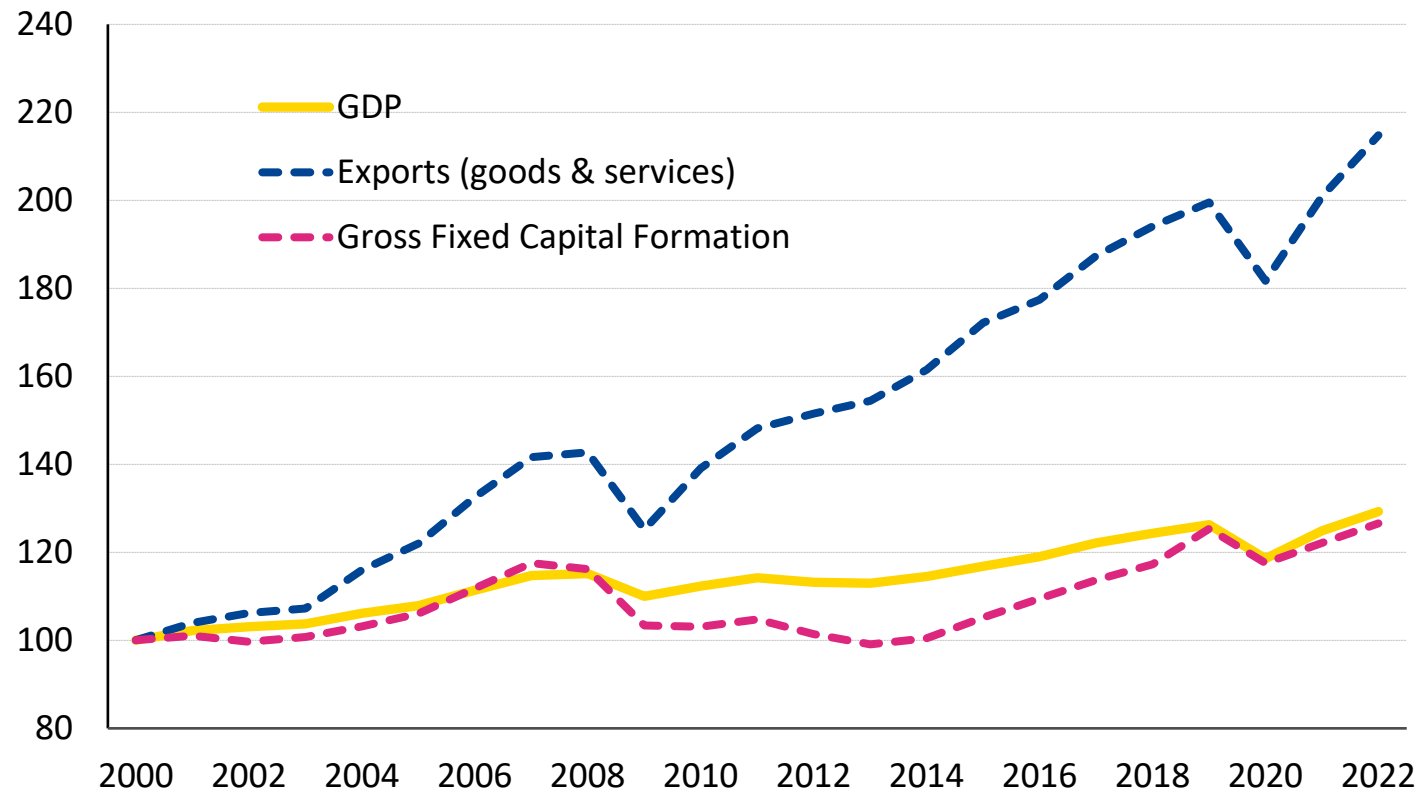
(net imports/consumption)



Source: International Energy Agency. Latest available data: 2020

EURO AREA GROWTH MODEL: FROM EXPORTS TO INVESTMENT?

Euro area GDP, exports and investment 2000-2022
(index, 2000=100)



Source: Eurostat

CONCLUSION: FURTHER STEPS NEEDED TO ENSURE RESILIENCE

**Complete EMU
institutional framework**



**Banking Union,
Capital Markets Union
Fiscal framework**

**Investment
Innovation
Reforms**



**RRP
Green & digital
transformations**



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