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From Recession to Growth amidst Uncertainty – EBF Economic Outlook

There are signs that the economy has definitely turned the corner, announced the Economic and Monetary Affairs Committee (EMAC) of the European Banking Federation, which published today its latest economic Outlook.

The Chief Economists of European banks and banking Associations who make up the EMAC estimate that—at least over the short term, the rebound seems likely to gather momentum. They explain much of the recent improvement by the rebuilding of stocks and a picking-up in world trade stimulated by the emerging markets, against a background of accommodating monetary and fiscal policies and low inflation. They however agree that, while the development paths differ from one euro area country to another, the recovery path over the forecast horizon remains fragile. Taking the average of EMAC members' individual forecasts, **the euro area GDP is expected to grow by a moderate 1.2% this year and to accelerate somewhat to 1.5% in 2011.**

“We expect the growth to be mostly export-led, declared Alejandra Kindelán, Chair of EMAC and Chief Economist of Santander. This is due to higher external demand, which is benefitting industrial production in net exporting countries. This economic growth will take place on a background of low inflation, expansionary monetary policy, high regulatory uncertainty, and – last but not least – the burden of sharply rising public debt. All in all difficult conditions”, she added.

EMAC views converge on the opinion that world growth will accelerate further in the coming quarters. The overall stimulating effect of the revival of global trade is reflected in the Chief Economists' outlook on the euro area trade: exports are expected to grow by around 5% in each of these years.

While the Euro area recovery will be export-led, it will be very moderate in terms of domestic demand. The real economy is only re-starting its engine and it already faces significant uncertainty as regards the level of government debt in the coming years. EMAC members' projections hover around 84-85% of GDP in 2010 and range between 83% and 90% of GDP in 2011. The crisis-induced government support packages continue to bear fruit but they have – at least in the short term – had harsh consequences on public finances. Most euro area governments are expected to be running deficits of between 6 and 7 per cent both this year and next. EMAC Economists stress that, while rising government debt in the aftermath of a major financial crisis is not unusual, the current levels are unprecedented and disquieting in the current context. They believe, however, that investor confidence could be restored by quickly reforming the budget rules in the euro area.

You can access EBF Economic Outlook at: <http://www.ebf-fbe.eu/>

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Note to the Editor

Set up in 1960, the European Banking Federation is the voice of the European banking sector (EU and EFTA countries). The EBF represents the interests of some 5000 European banks: large and small, wholesale and retail, local and cross-border financial institutions