

A Bumpy Road to Recovery

The European Banks' Economic Outlook for the next year

The euro area economy starts slowly to gain momentum, gradually picking up the pace towards recovery, confirm Chief Economists of European banks who make up the European Banking Federation's EMAC* Committee, as they publish today their Economic Outlook for 2010.

Indeed, the massive monetary and fiscal policy impulse provided by the European Central Bank and governments in 2009 will prevent the EU from experiencing a more prolonged recession. "We know that this recovery will however not be an easy one", declared Alejandra Kindelan, Chair of EMAC and Senior Director of Economic Studies of Grupo Santander. "This is particularly underlined by the fact that the stimulus will have to be withdrawn; furthermore the uncertainty around the impact of the timing and speed of exit strategies has consequences for economic actors' behaviour and markets."

The consensus view among the Chief Economists assembled in the EBF's Economic and Monetary Affairs Committee is that the GDP growth in the euro area will pick up somewhat in 2010, to an estimated 1.3%, following a fall of about -4% this year. There is considerable caution in looking beyond the forecast period, into 2011 and onwards. The economy's growth potential in the coming years is in any case judged likely to be below the level of the past decade.

EMAC members however highlight that, on the other hand, increased trade linkages are a positive factor in the rebound, as they enable the euro area to react more quickly than expected to the revival in activity elsewhere. They also see the revival in exports towards the end of 2009 and into 2010, thanks to sustained growth in Asia, as one of the core drivers of the recovery.

On the issue of credit, they stress that credit demand is weakened by the recession. EMAC members add that "Banks will have to adjust to the cumulative effect on their business of new capital requirements, which are being introduced as part of the policy response to the crisis. They will also need to adapt balance sheets and business strategies to their own institution's experience of the crisis".

More generally, Members of EMAC have welcomed the ECB's careful steering of the monetary tiller over the past difficult months, appreciating the blend of interest rate cuts and unconventional measures.

**EMAC: Economic & Monetary Affairs Committee, bringing together Chief Economists of major European banks and national banking Associations.*

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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