EUROPEAN CENTRAL BANK

EUROSYSTEM

DECEMBER 2013 EUROSYSTEM STAFF MACROECONOMIC PROJECTIONS FOR THE EURO AREA[1]

Real GDP is projected to gain some traction from the fourth quarter of the year onwards, shifting into a slightly higher gear at the end of 2014. A gradual recovery in domestic and external demand is expected to be the driving factor behind the projected sustained increase in activity. Domestic demand will benefit from a reduction in uncertainty, an accommodative monetary policy stance – further strengthened by the recent cut in the policy rate and by forward guidance – a lower fiscal drag, and a drop in commodity prices supporting real disposable incomes. It will also benefit over time from fading credit supply constraints. In addition, activity will be supported over the projection horizon by the favourable impact on exports of a gradual strengthening of external demand. However, despite some progress in rebalancing, which has improved the conditions for growth in stressed countries, the medium-term outlook will be dampened by the need for further adjustment of private and public sector balance sheets and high unemployment. Real GDP is projected to decline by 0.4% in 2013, increasing by 1.1% in 2014 and 1.5% in 2015. A significant amount of slack in the economy is expected to persist until the end of the horizon.

Euro area HICP inflation is projected to be 1.4% in 2013, 1.1% in 2014 and 1.3% in 2015. This moderate price outlook is expected to be partly driven by the downward impact on energy price inflation from declining oil price futures, the past appreciation of the euro and persistent slack in the economy. Food price inflation is also expected to decline substantially, reflecting past declines in international food prices and the assumed modest increase over the projection horizon. HICP inflation excluding energy and food is projected to increase only slightly from 1.1% in 2013 to 1.3% in 2014 and 1.4% in 2015, reflecting subdued domestic cost pressures in the context of the moderate recovery in activity.

Compared with the macroeconomic projections published in the September 2013 issue of the Monthly Bulletin, the projection for real GDP growth has been left unchanged for 2013 and has been revised upwards by 0.1 percentage point for 2014. The projection for headline HICP inflation has been revised downwards by 0.1 percentage point in 2013 and by 0.2 percentage point in 2014.

THE INTERNATIONAL ENVIRONMENT

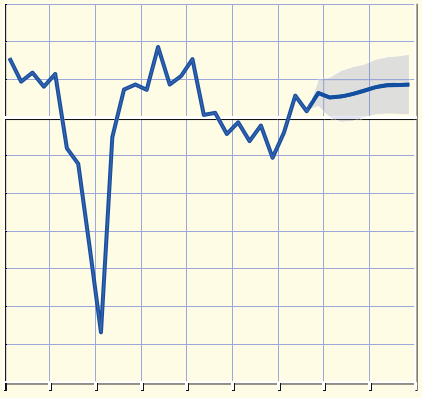
A guide to Eurosystem staff macroeconomic projection exercises

PRICE AND COST PROJECTIONS

Macroeconomic projections [1)]

Euro area HICP

Euro area real GDP [2)]



ECB staff projection ranges

New procedure for constructing Eurosystem and

FISCAL OUTLOOK

Box 2

FISCAL SENSITIVITY ANALYSIS

Assumptions underlying the fiscal sensitivity analysis

The estimated macroeconomic impact of additional fiscal consolidation on real GDP growth and HICP inflation in the euro area

Assumptions (% of GDP)	2013	2014	2015

Macroeconomic impact from additional fiscal consolidation

Working Paper Series

Monthly Bulletin

Box 3

FORECASTS BY OTHER INSTITUTIONS

A number of forecasts for the euro area are available from both international organisations and private sector institutions. However, these forecasts are not strictly comparable with one another or with the Eurosystem staff macroeconomic projections, as they were finalised at different points in time. Additionally, they use different (partly unspecified) methods to derive assumptions for fiscal, financial and external variables, including oil and other commodity prices. Finally, there are differences in working day adjustment methods across different forecasts (see the table below).

In the forecasts currently available from other institutions, euro area real GDP is expected to decline by 0.4% in 2013, which is identical to the Eurosystem staff projection. Real GDP growth is projected to gradually increase to between 0.9% and 1.1% in 2014 and to between 1.3% and 1.7% in 2015, similar to the path entailed in the Eurosystem staff projections.

As regards inflation, the forecasts from other institutions point to average annual HICP inflation of between 1.4% and 1.5% in 2013, which is close to the Eurosystem staff projection. HICP inflation is expected to average between 1.2% and 1.5% in 2014 and between 1.2% and 1.6% in 2015 in the other available projections.

Comparison of forecasts for euro area real GDP growth and HICP inflation

(annual percentage changes)

	Date of release	GDP growth			HICP inflation		
		2013	2014	2015	2013	2014	2015
Eurosystem staff projections	December 2013	-0.4	1.1	1.5	1.4	1.1	1.3
		[-0.5 – -0.3]	[0.4 – 1.8]	[0.4 – 2.6]	[1.4 – 1.4]	[0.6 – 1.6]	[0.5 – 2.1]
European Commission	November 2013	-0.4	1.1	1.7	1.5	1.5	1.4
OECD	November 2013	-0.4	1.0	1.6	1.4	1.2	1.2
Euro Zone Barometer	November 2013	-0.4	1.1	1.5	1.5	1.4	1.6
Consensus Economics Forecasts	November 2013	-0.4	0.9	1.3	1.4	1.3	1.6
Survey of Professional Forecasters	November 2013	-0.4	1.0	1.5	1.4	1.5	1.6
IMF	October 2013	-0.4	1.0	1.4	1.5	1.5	1.4

Sources: European Commission Economic Forecasts, Autumn 2013; IMF World Economic Outlook, October 2013; OECD Economic Outlook, November 2013; Consensus Economics Forecasts; MJEconomics; and the ECB's Survey of Professional Forecasters.
Notes: The Eurosystem staff macroeconomic projections and the OECD forecasts both report working day-adjusted annual growth rates, whereas the European Commission and the IMF report annual growth rates that are not adjusted for the number of working days per annum. Other forecasts do not specify whether they report working day-adjusted or non-working day-adjusted data.

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