

AIECE Spring Meeting 2016

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# General Report

Bologna, 12/13 May 2016

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DIW Berlin

# Overview: Discussion of General Report

## Thursday

- 14.30 – 14.45 Euro Area and Non Euro Area Short-term Outlook (DIW Berlin)
- 14.45 – 16.00 Discussion: Short-term Outlook
- 16.20 – 16.35 Risks to the Short-term Outlook (DIW Berlin)
- 16.35 – 17:00 Discussion: Risks
- 17:00 – 17:15 Fiscal Policy Environment (DIW Berlin)
- 17:15 – 18.00 Discussion: Fiscal Policy

## Friday

- 9:00 – 9:10 Monetary Policy Environment (DIW Berlin)
- 9:10 – 9:25 ECB Monetary Policy (P. Karadeloglou, ECB)
- 9:25 – 10:00 Discussion: Monetary Policy
- 10:15 – 10:25 Focus on 'Brexit' Risk (DIW Berlin)
- 10:25 – 10:40 The UK Perspective on BREXIT (S. Kirby, NIESR)
- 10:40 – 10:55 Norwegian Experience (R. Hammersland, A. Benedictow, SSB)
- 10:55 – 11.15 Discussion: BREXIT
- 11:15 – 11:30 Challenges: Greece, Debt Crisis, European Architecture (DIW Berlin)
- 11:30 – 12:30 Discussion: Challenges

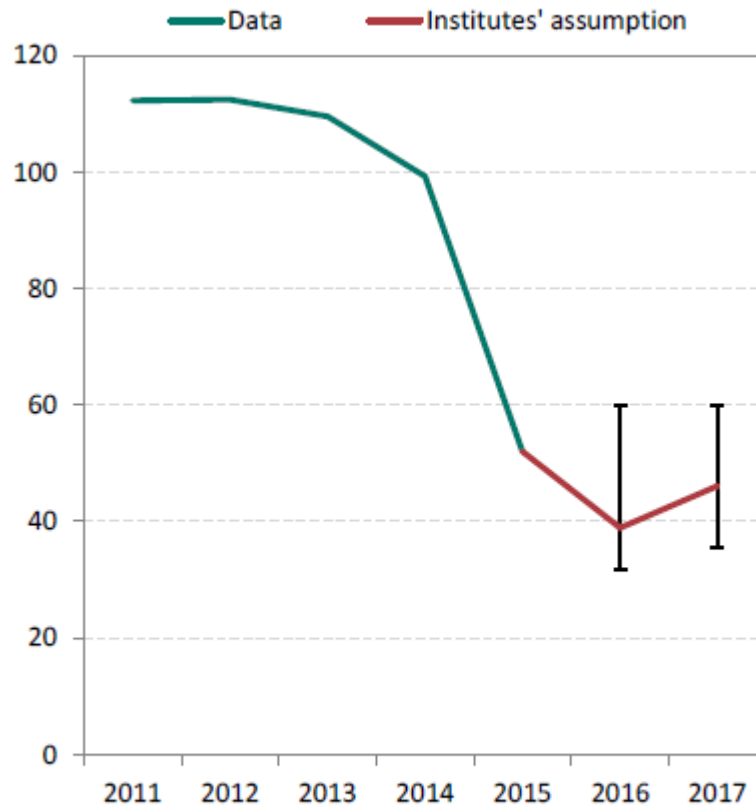


## Part 1

# Euro Area and Non Euro Area Short-term Outlook

# Institutes' assumptions show some heterogeneity

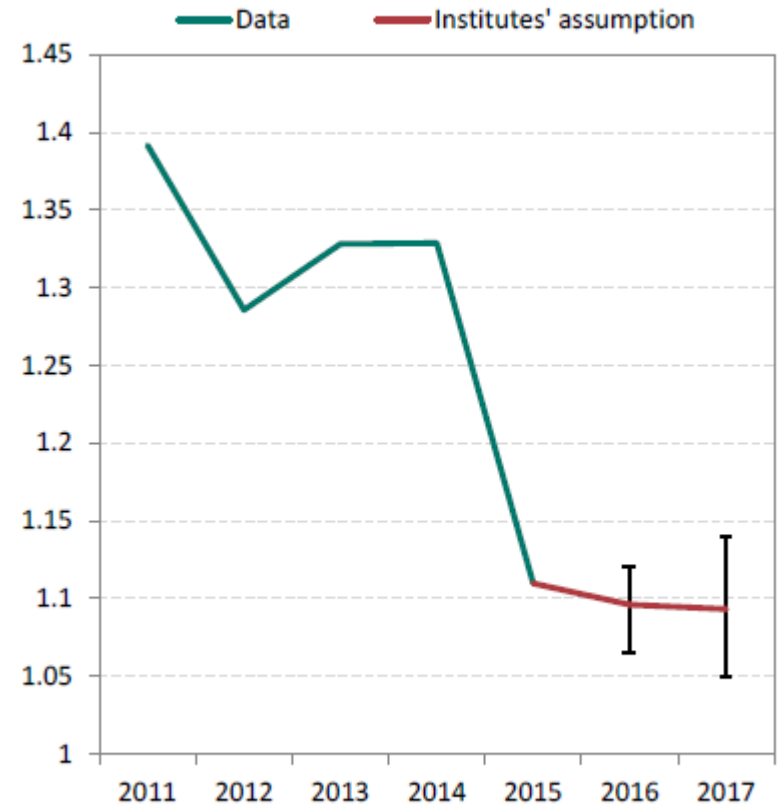
Figure 1: Raw oil prices  
(USD/barrel)



*Note: Error bands indicate the upper and lower extremes of the member institutes' projections.*

*Source: Datastream, AIECE Institutes.*

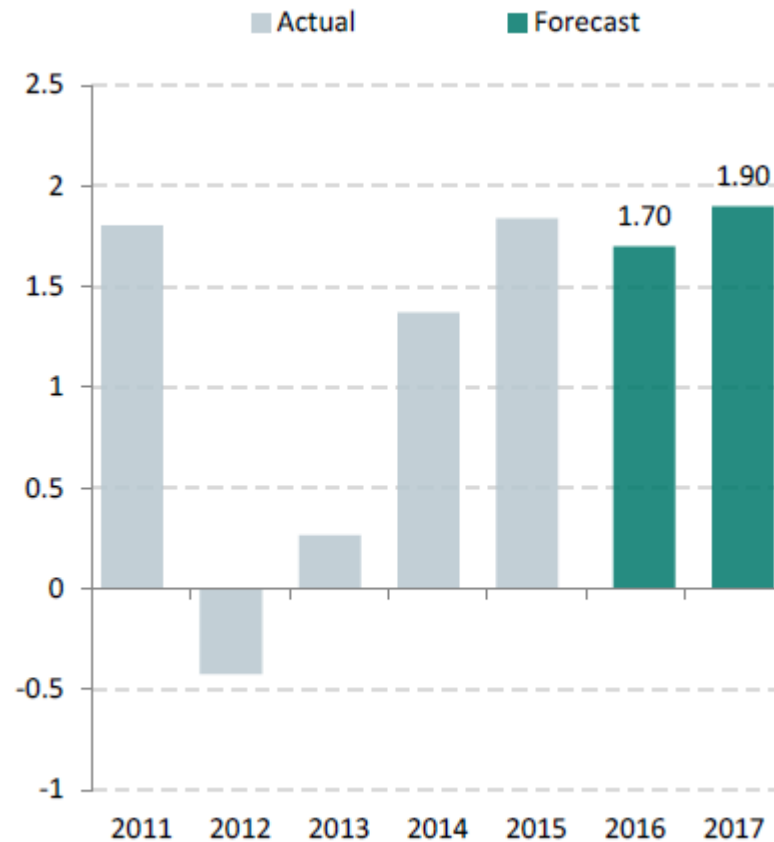
Figure 2: Euro exchange rate  
(USD/EUR)



*Source: Datastream, AIECE Institutes.*

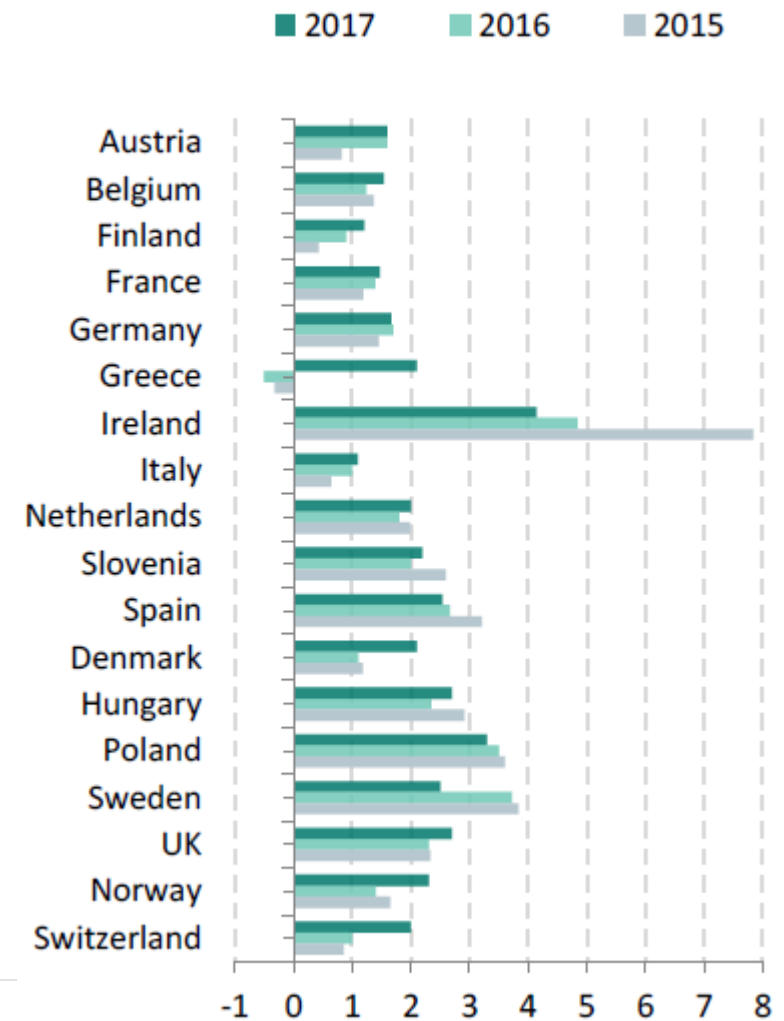
# Growth in European economies expected to stabilize

Figure 21: EU GDP growth forecast



Source: Datastream, AIECE institutes.

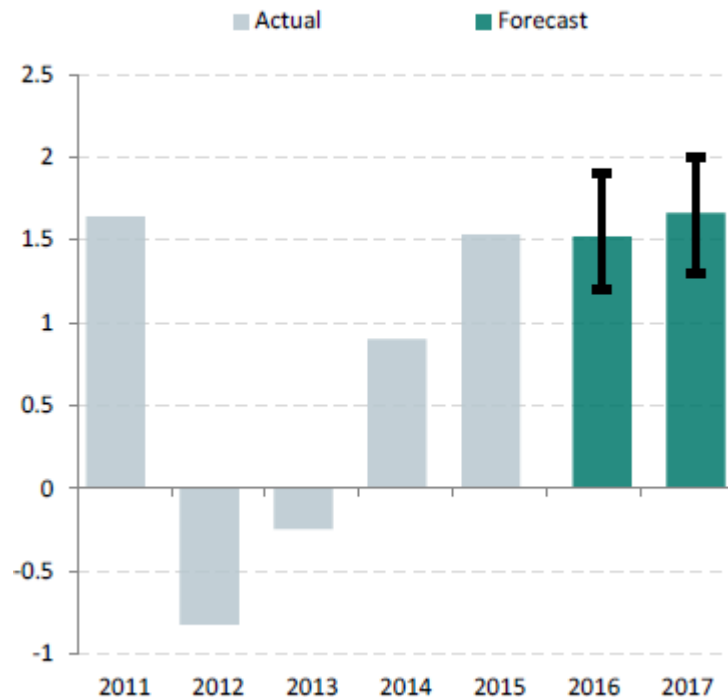
Figure 3: Growth in European economies (in percent)



Source: Eurostat, AIECE Institutes.

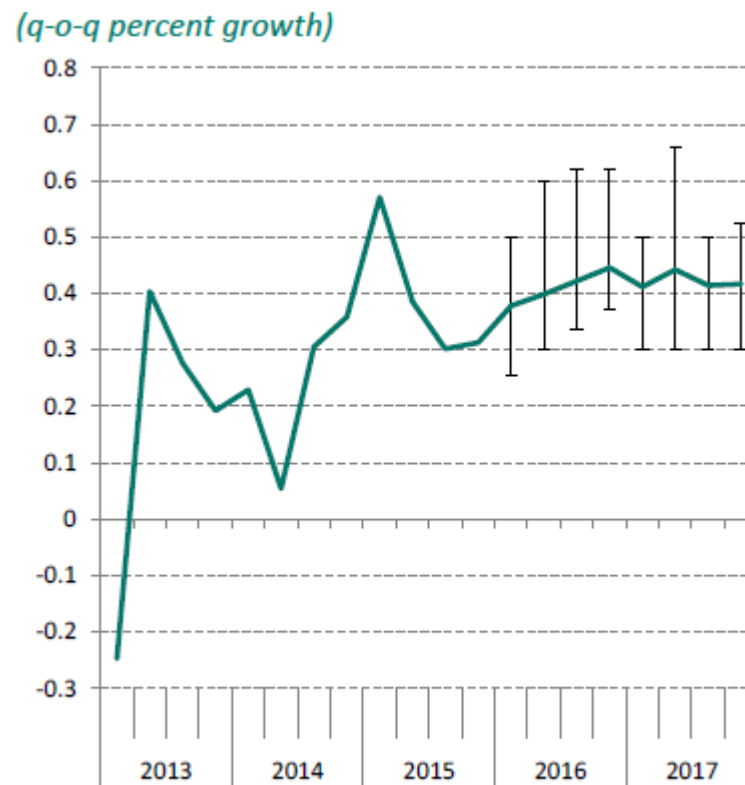
# Growth in the euro area stable at 2015 rates

Figure 5: Annual euro area real GDP growth  
(y-o-y percent growth)



Source: Eurostat, AIECE Institutes.

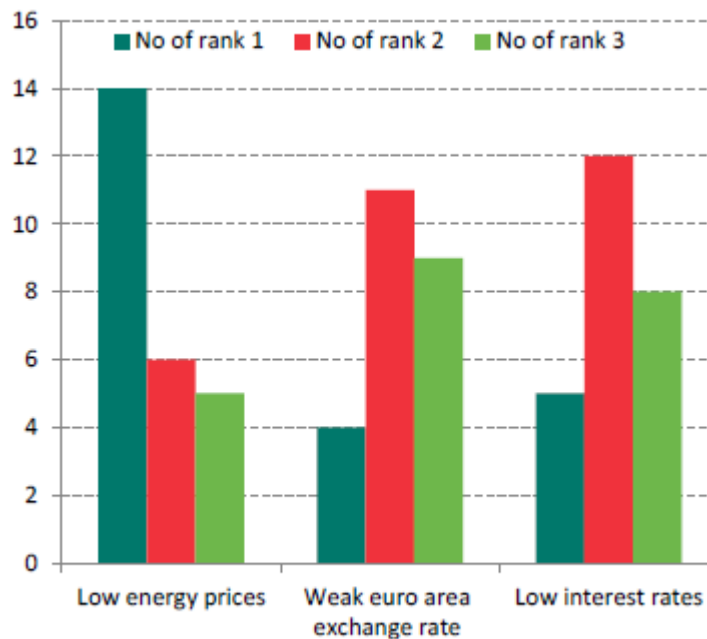
Figure 4: Quarterly euro area real GDP growth  
(q-o-q percent growth)



Source: Eurostat, AIECE Institutes.

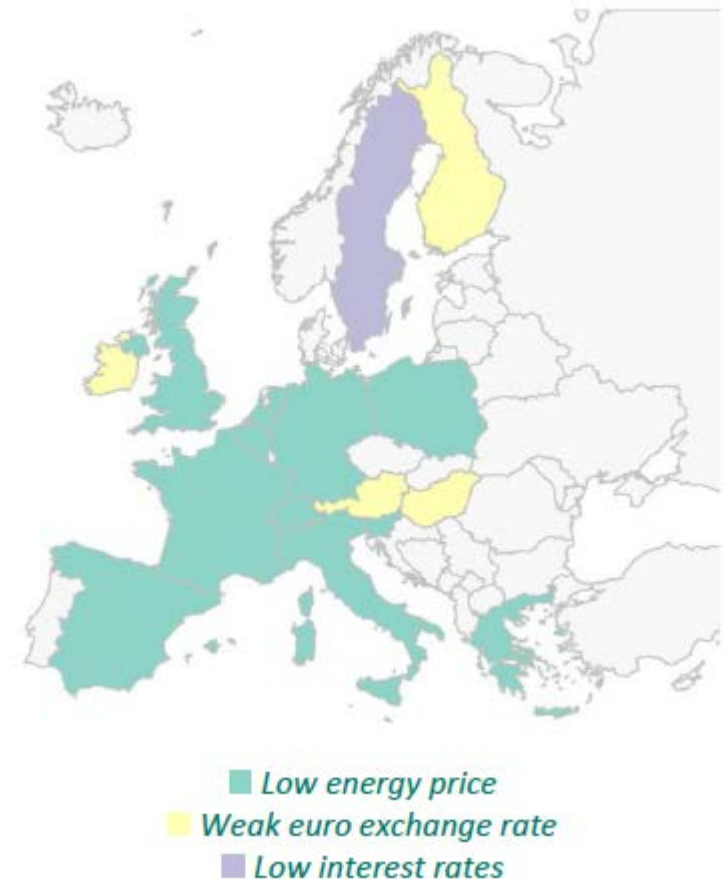
# Low energy prices are most important driver of growth

Figure 6: Positive factors for 2016 growth



Source: AIECE Institutes, question A.1.1.<sup>4</sup>

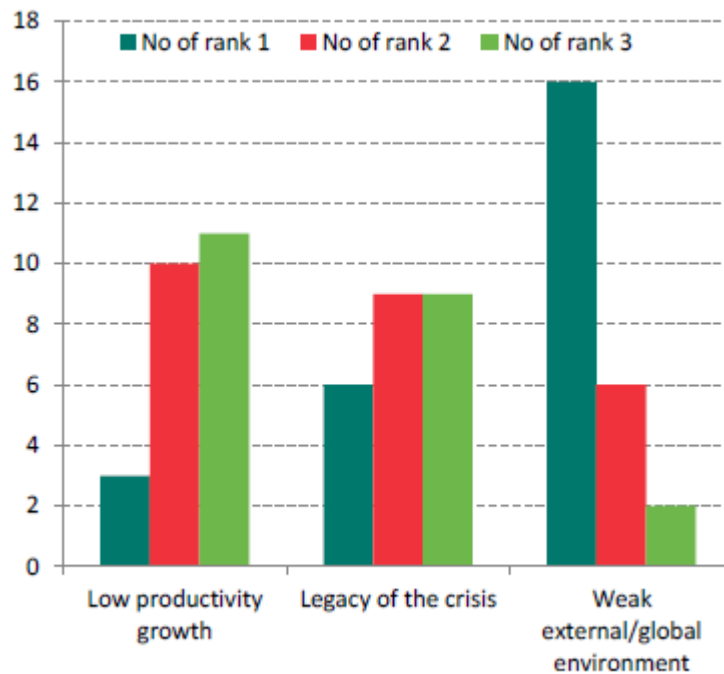
Figure 8: Most important positive factor for 2016 growth



Source: AIECE Institutes, question A.1.1.

# Weak external environment dampens considerably

Figure 7: Negative factors for 2016 growth



Source: AIECE Institutes, question A.1.2.<sup>5</sup>

Figure 9: Most important negative factor for 2016 growth



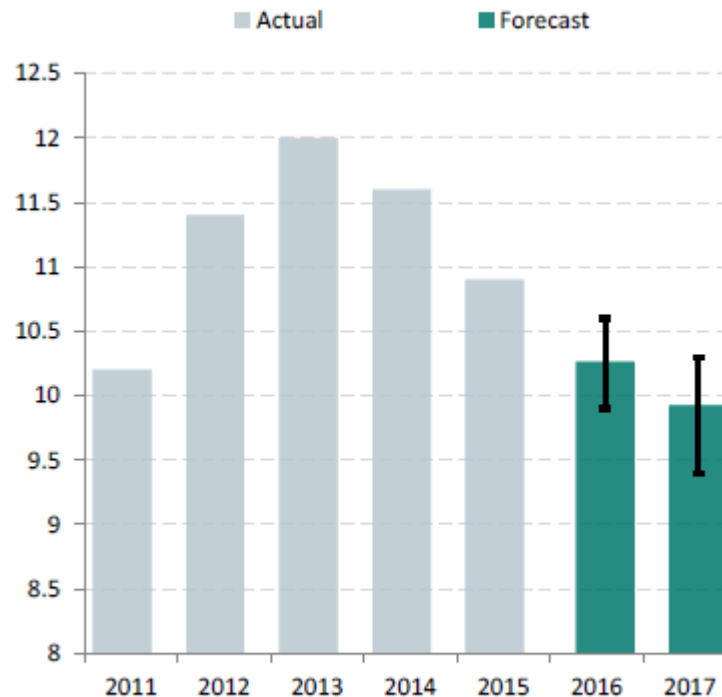
■ Low productivity growth  
■ Legacy of the crisis  
■ Weak external/global environment

Source: AIECE Institutes, question A.1.2.



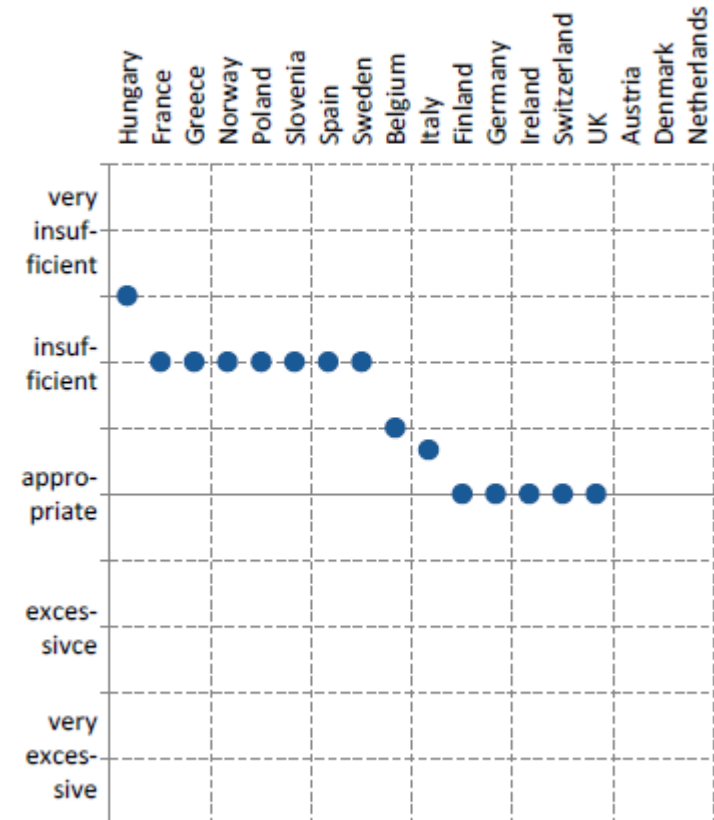
# Unemployment decreases only gradually

Figure 10: Euro area unemployment rate (in percent)



Source: Eurostat, AIECE institutes.

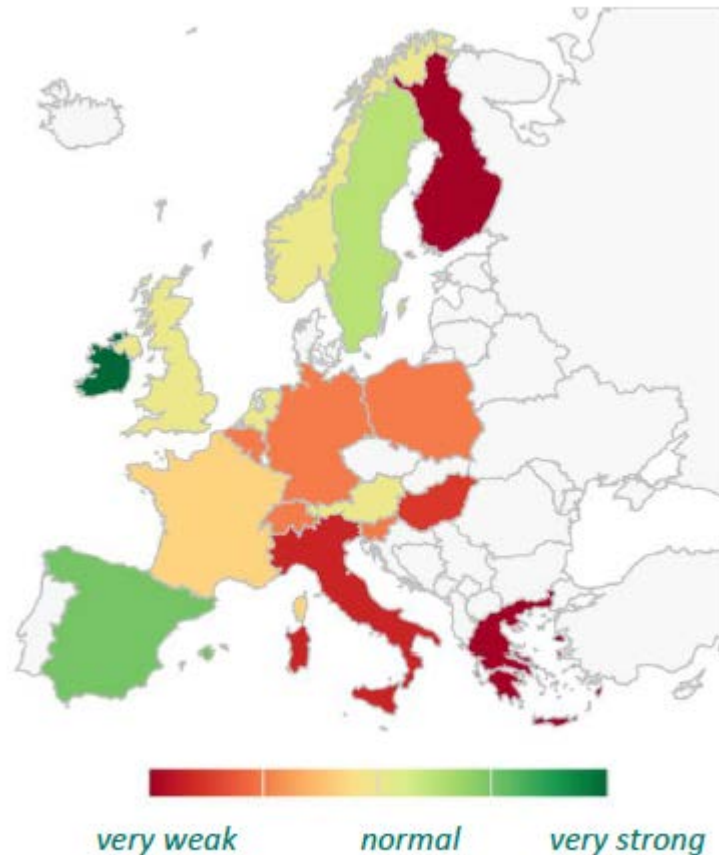
Figure 12: Government measures against unemployment



Source: AIECE Institutes, question A.4.1.

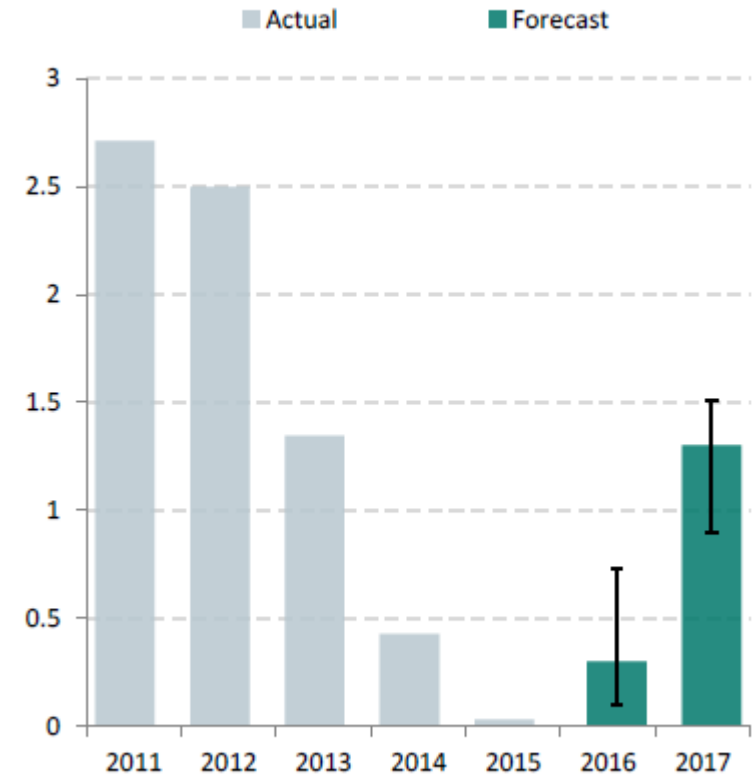
# Weak investment, low inflation

Figure 13: Private investment dynamics



Source: AIECE Institutes, question A.4.3.

Figure 14: Euro area HICP inflation rate (in percent)



Source: Eurostat, AIECE Institutes.

# Guiding questions for discussion

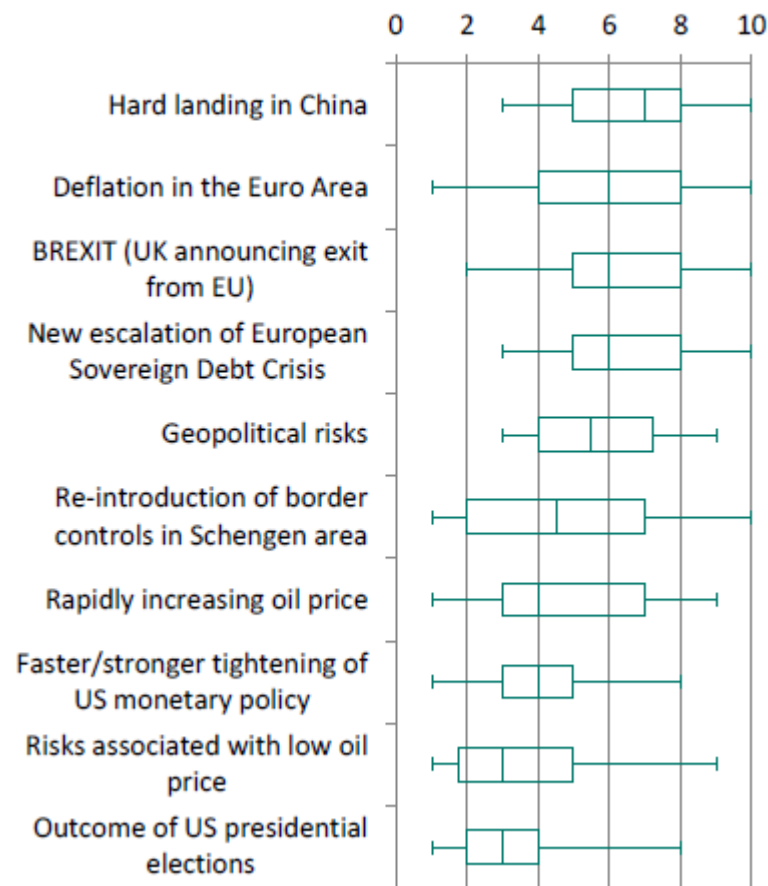
- Despite fairly high GDP growth rates projected for some of the European countries, why is the unemployment rate decreasing only gradually?
- What policy measures could contribute to an acceleration of investment dynamics? What's the role of the banking system in this context?
- What is the effect of low interest rates on different parts of the economy?
- What are the perspectives for the output gap in your countries?
- Are price dynamics expected to accelerate beyond the fading influence of the decline of commodity prices? How is core inflation expected to develop?
- How do the ECB's non-standard monetary policy measures spill over to non-Euro area economies? What are the main implications for financial stability and growth?
- Do you consider inequality and wealth distribution to be a severe problem for growth in your country? If so, what can and what should be done about it?

## Part 2

# Risks to the Outlook

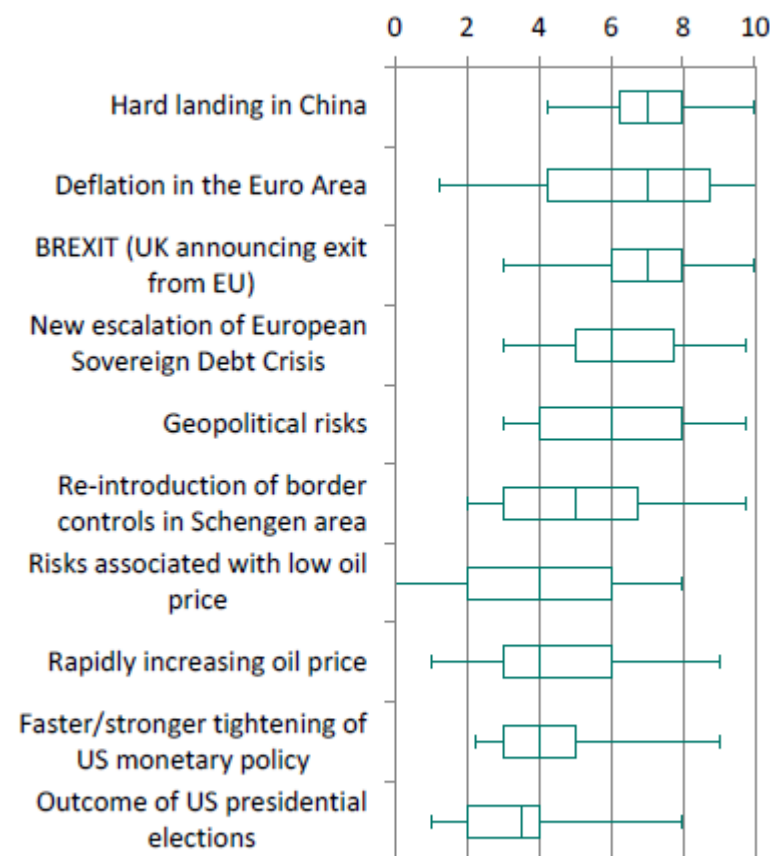
# Biggest downside risks: China, BREXIT, deflation

Figure 24: Main downside risks to the projection for the home economy



Source: AIECE Institutes, question A.5.1

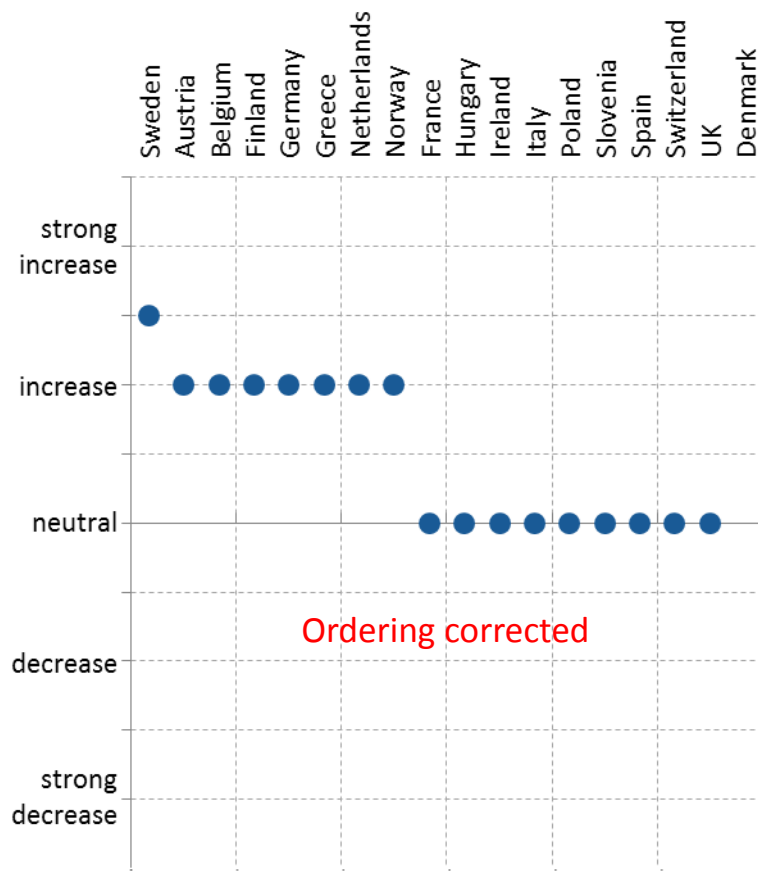
Figure 25: Main downside risks to the projection for the Euro area



Source: AIECE Institutes, question B.5.1.

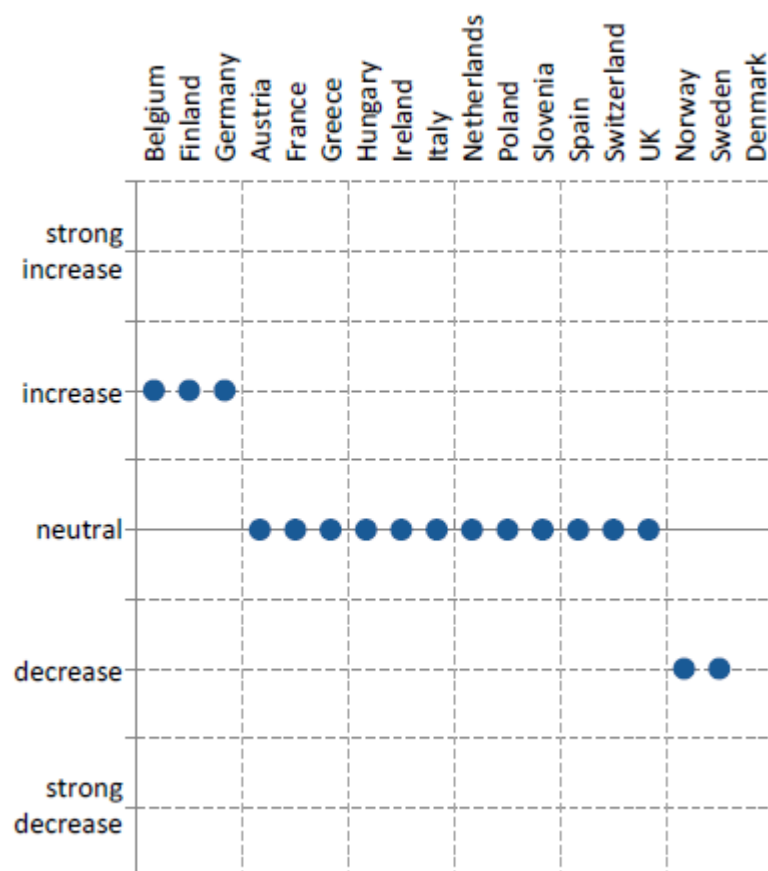
# Refugee inflow expected to be positive for growth

Figure 45: Short-run effect of refugee inflow on GDP growth



Source: AIECE Institutes, question A.2.1.

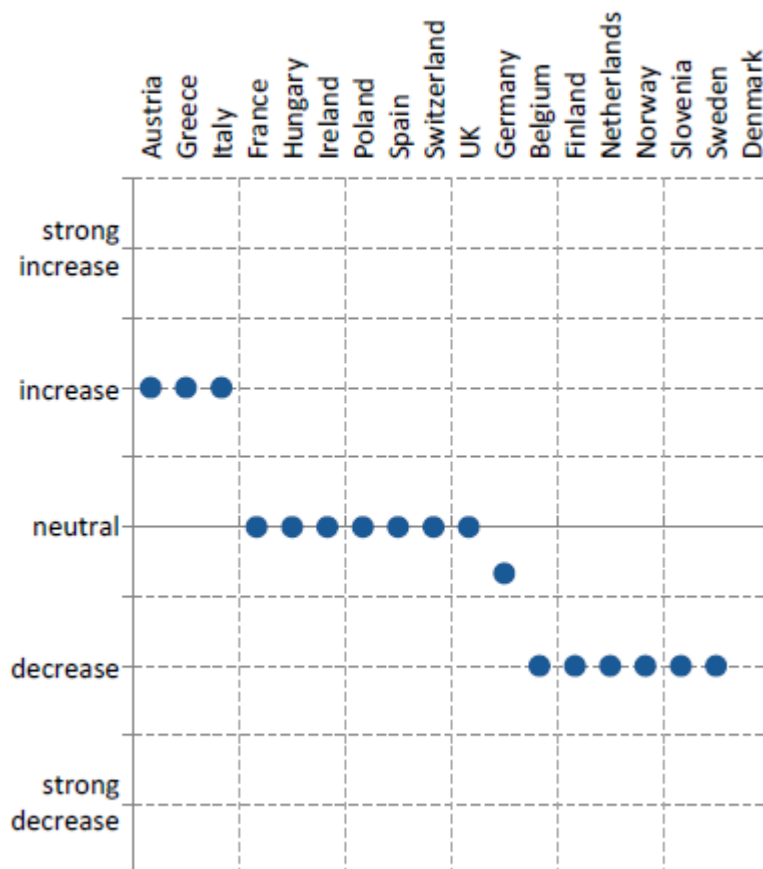
Figure 46: Short-run effect of refugee inflow on the unemployment rate



Source: AIECE Institutes, question A.2.3.

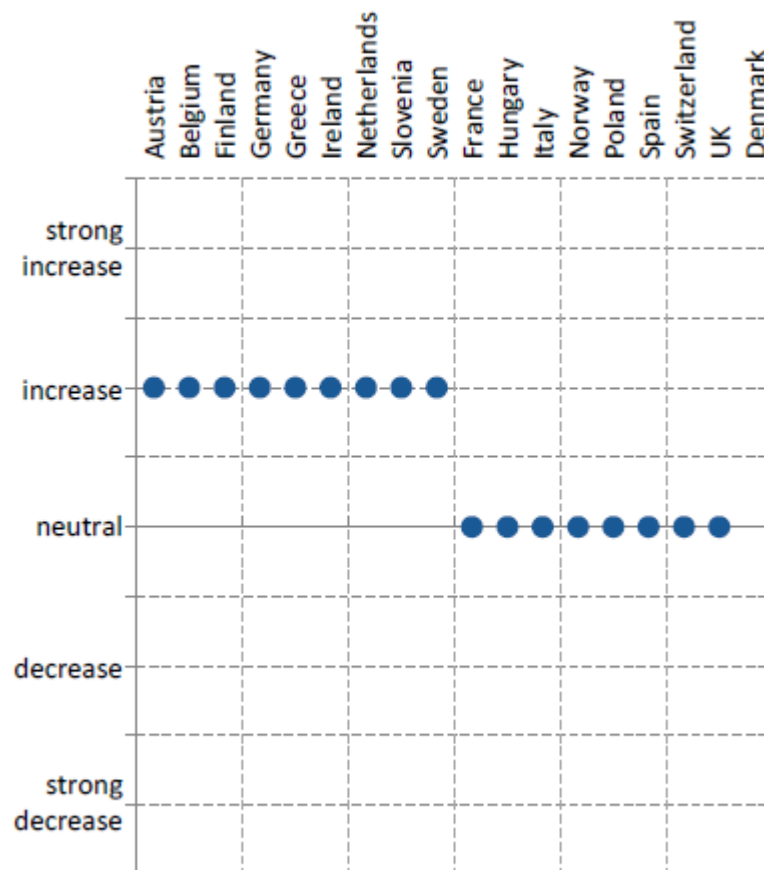
## ... in particular in the medium run

Figure 47: Short-run effect of refugee inflow on the fiscal balance



Source: AIECE Institutes, question A.2.5.

Figure 48: Medium-run effect of refugee inflow on potential GDP



Source: AIECE Institutes, question A.2.7.

# Guiding questions for discussion

- What are the most important downside risks to the projection of your country?
- What are the most important upside risks to the projection of your country?
- How is deflation in the euro area expected to affect the real economy?
- What are the main risks associated with the low oil price?
- What are the consequences of a re-introduction of border controls on the economy in your country?
- What policy measures are necessary to realize the expected gains from migration – and can they be expected?

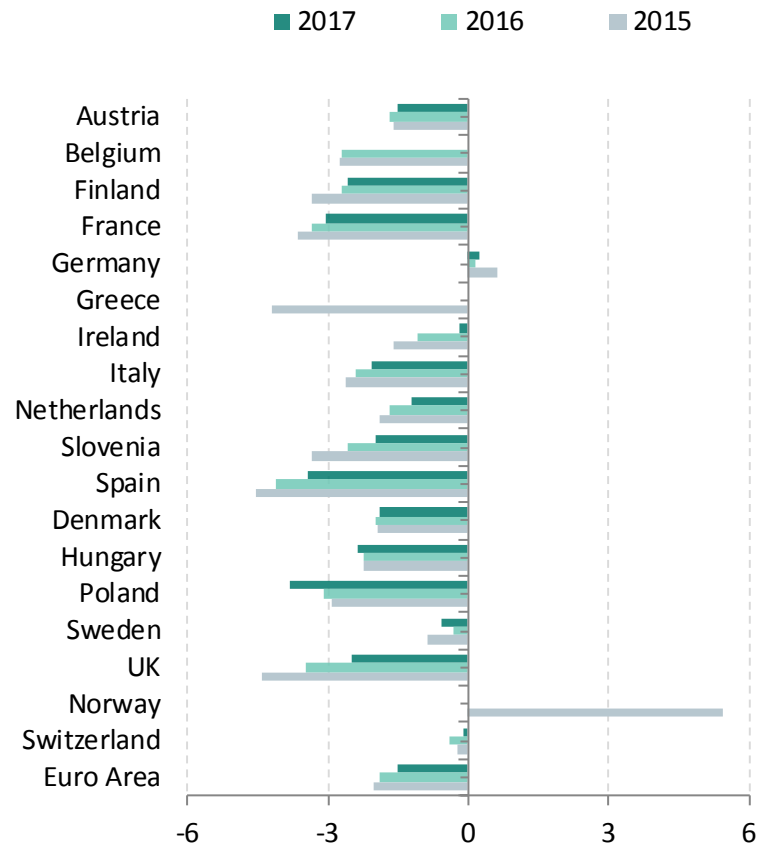


# Part 3

## Fiscal Policy Environment

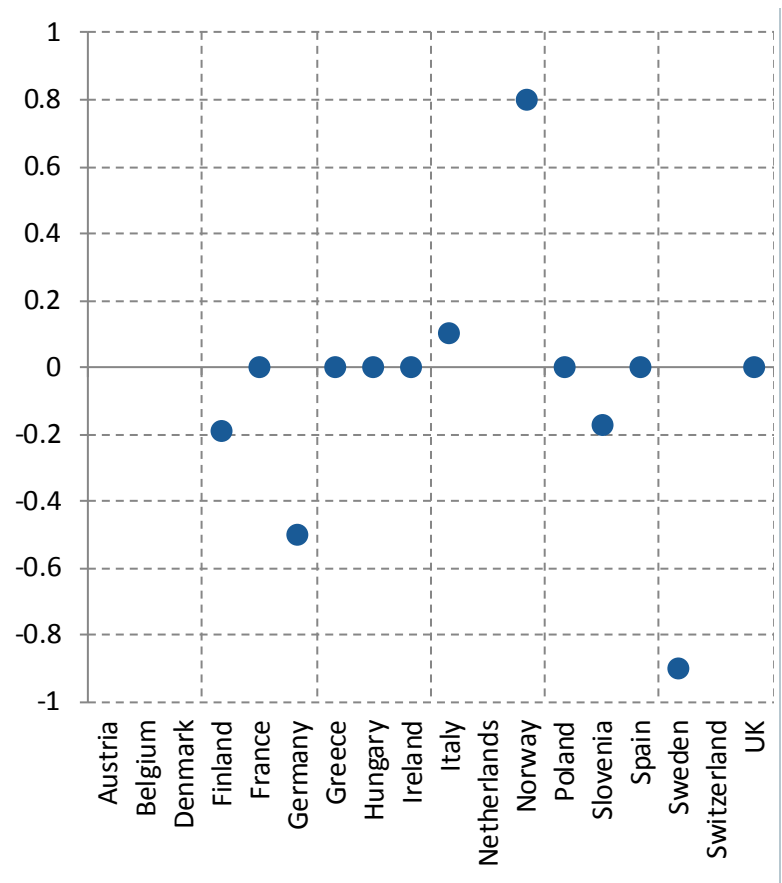
# Public finances are easing

Figure 26: Public sector fiscal balance in European economies  
(in percent of GDP)



Source: Eurostat, AIECE Institutes.

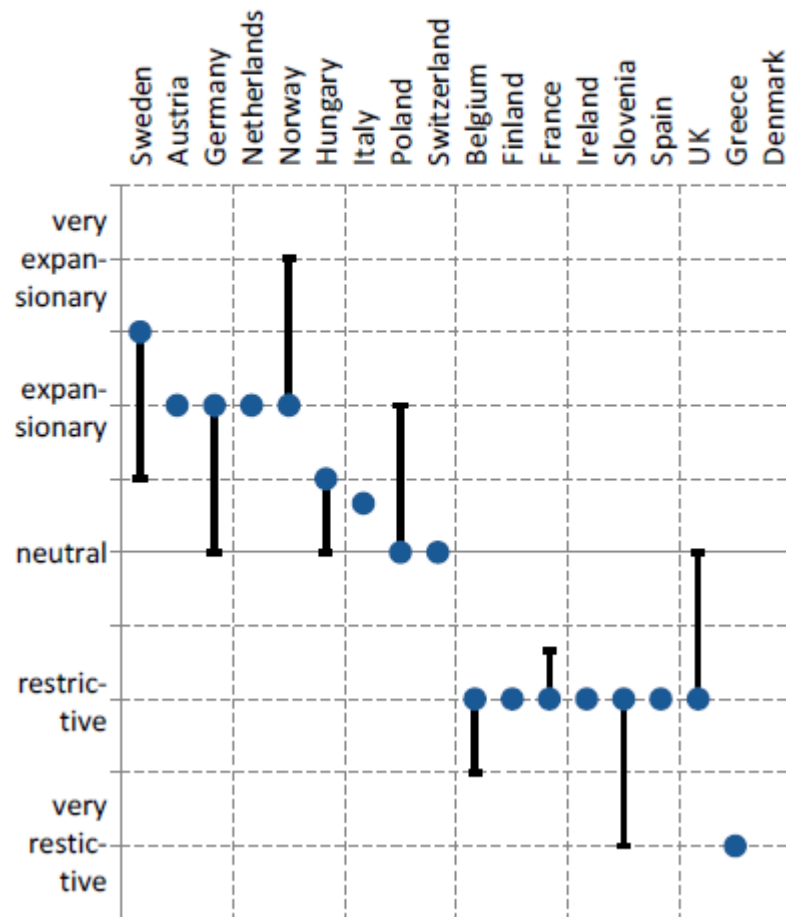
Effect of refugee inflow on 2016 fiscal balance



Source: AIECE Institutes.

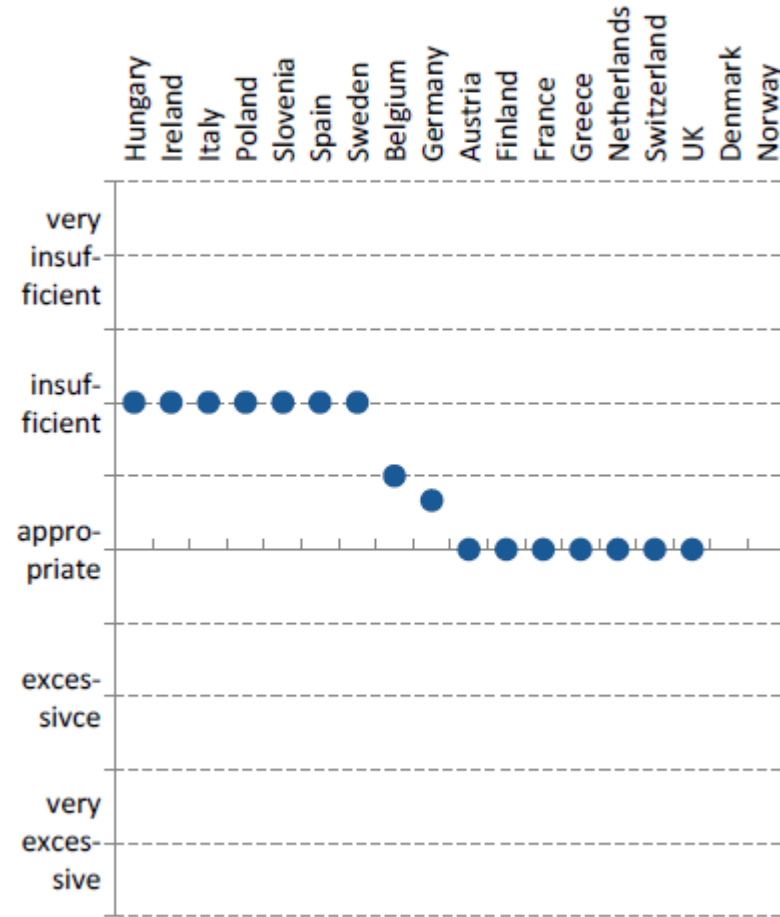
# But fiscal policy should be readjusted

Figure 27: Fiscal policy stance in European economies



Source: AIECE Institutes, question A.3.3.

Figure 28: Government measures against public debt



Source: AIECE Institutes, question A.3.5.

# Guiding questions for discussion

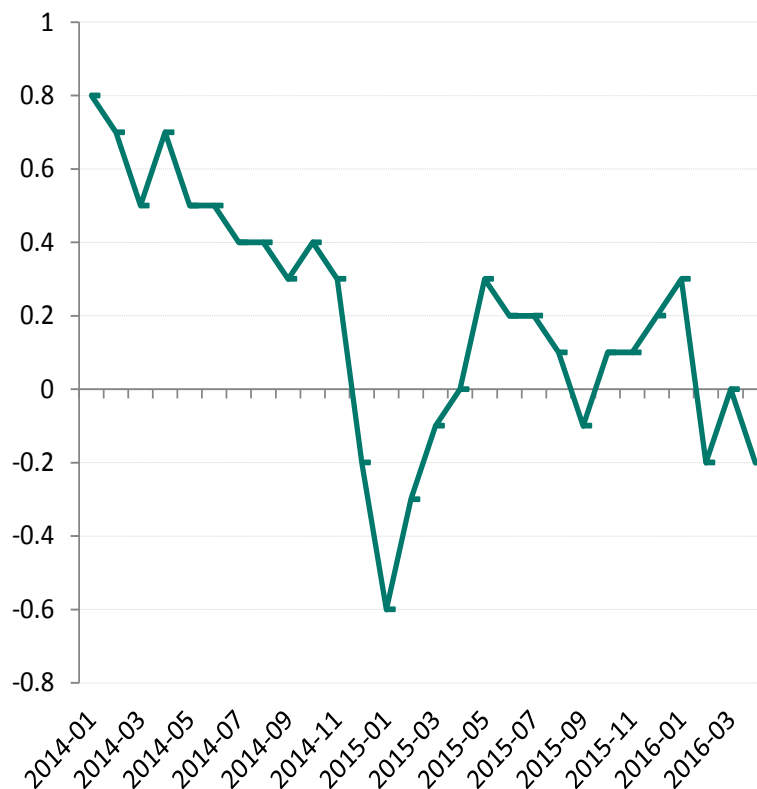
- When do you expect your country to meet the deficit rule of the SGP?
- Why should governments engage in further bringing down public debt levels?
- What are the risks for the projection of public finances?
- Is fiscal policy focusing on the short or long-term in your country – and what should it do?

# Part 4

## Monetary Policy Environment

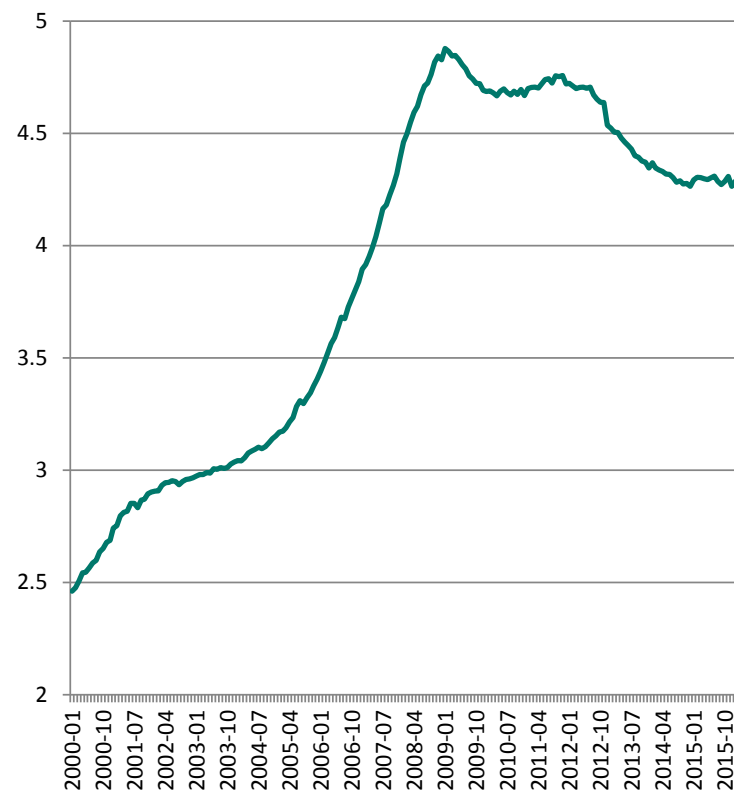
# Beyond zero rates and unconventional monetary policy?

Figure: Euro area inflation rate (monthly)



Source: European Central Bank.

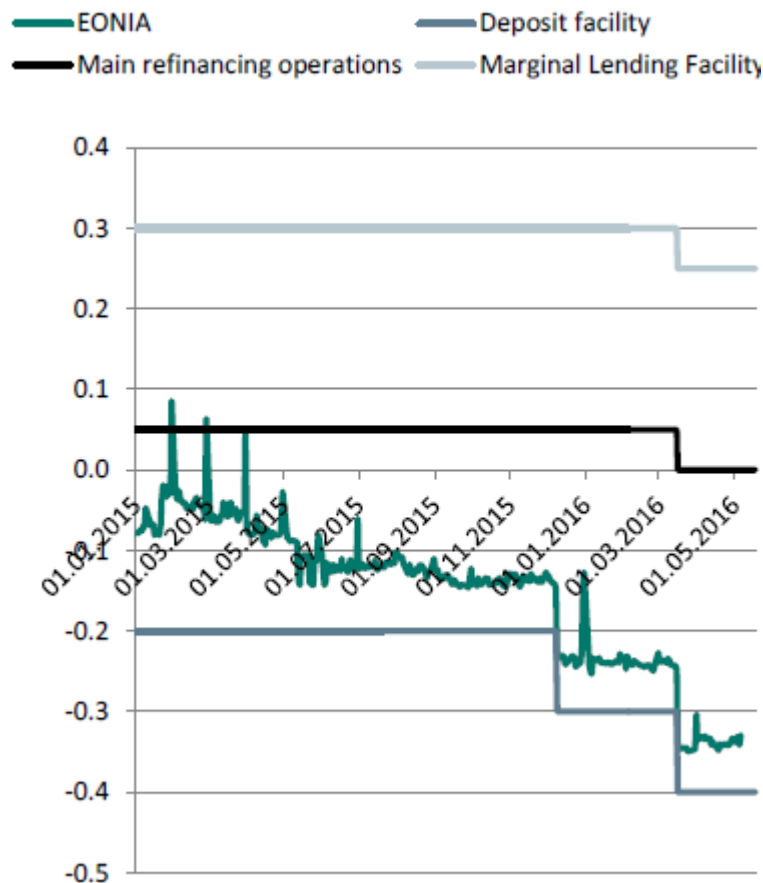
Figure: Loans to Non-financial corporations  
(total outstanding)



Source: European Central Bank.

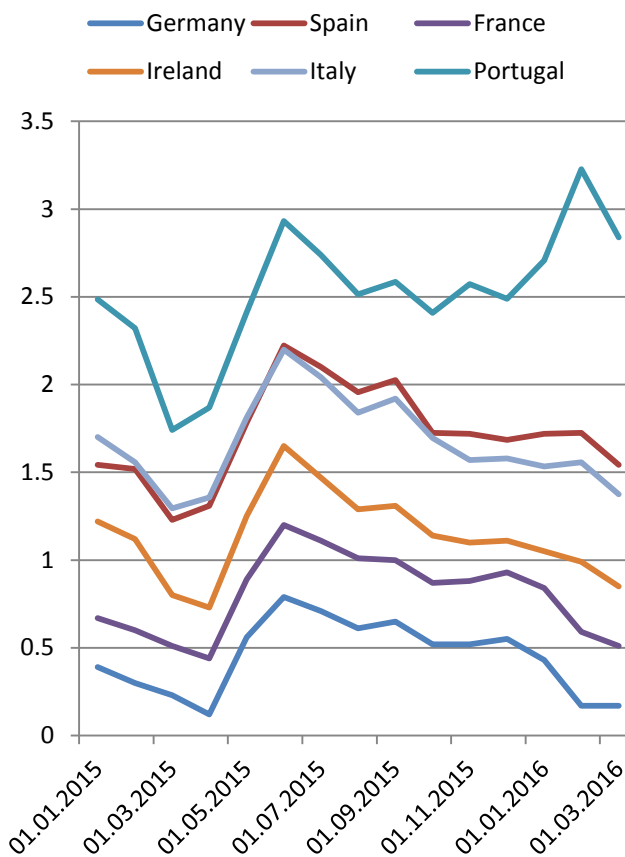
# Interest rates are heading further downward

Figure 29: Policy rates of the ECB



Source: Datastream.

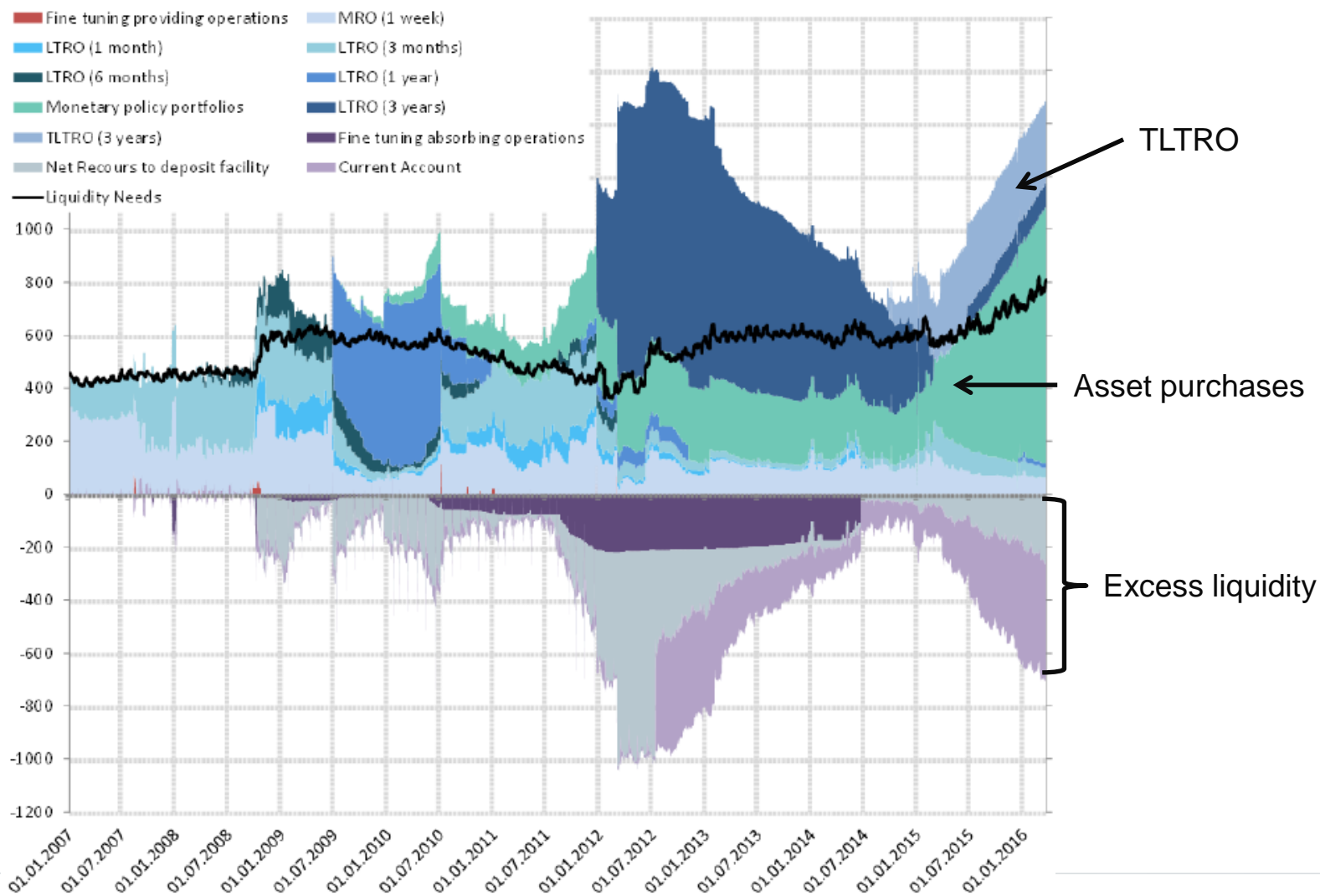
Figure: Long-term interest rates (in percent)



Source: European Central Bank.

# Asset purchases and TLTRO feed excess liquidity

Figure 31: ECB balance sheet

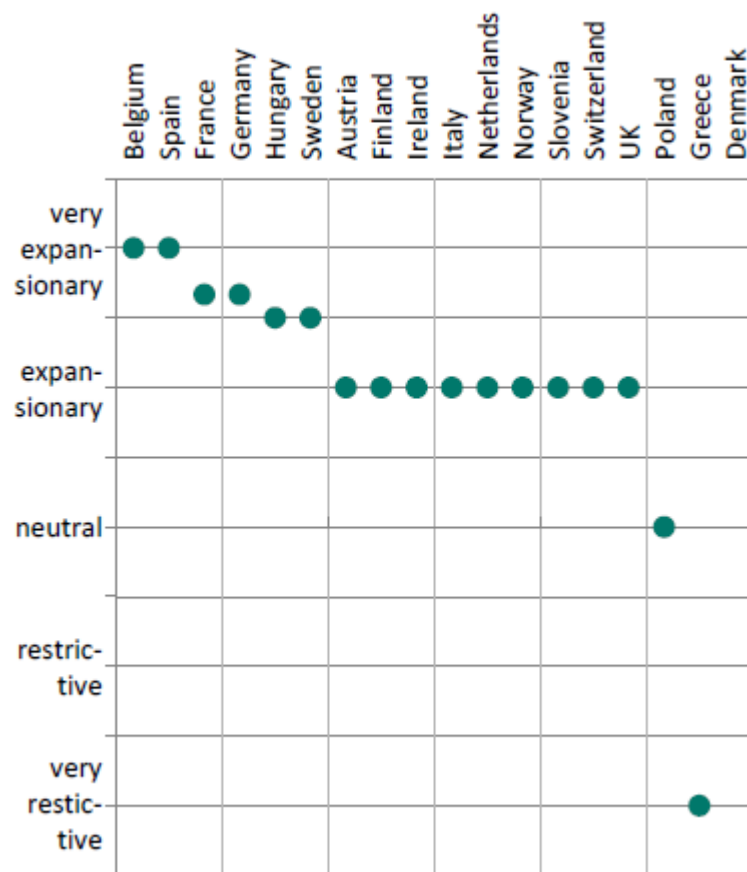


Source: European Central Bank.



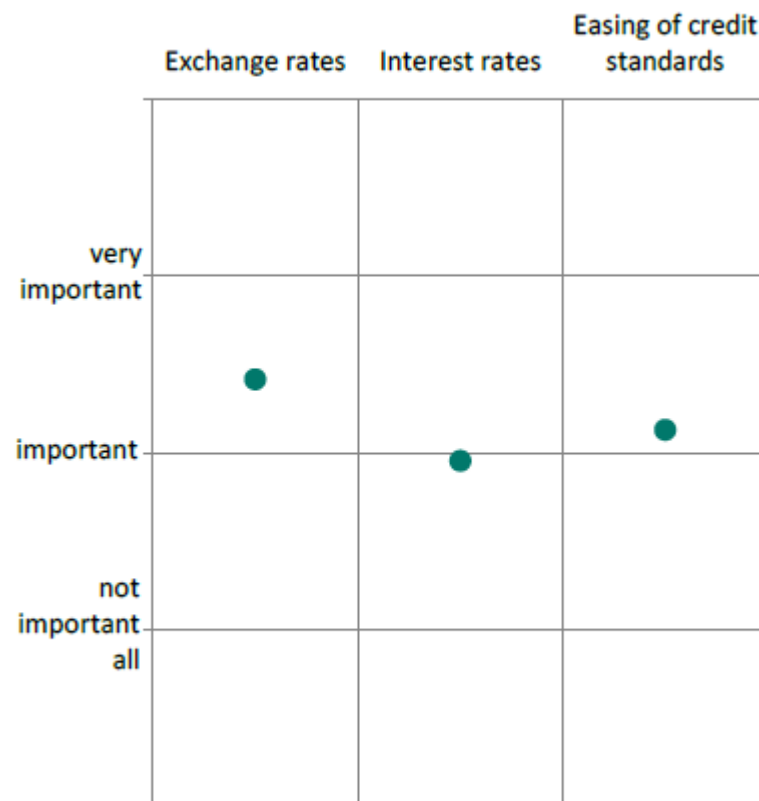
# Consensus view on stance of monetary policy

Figure 30: Monetary policy environment



Source: AIECE Institutes, question A.3.1.

Figure 32: Transmission channels

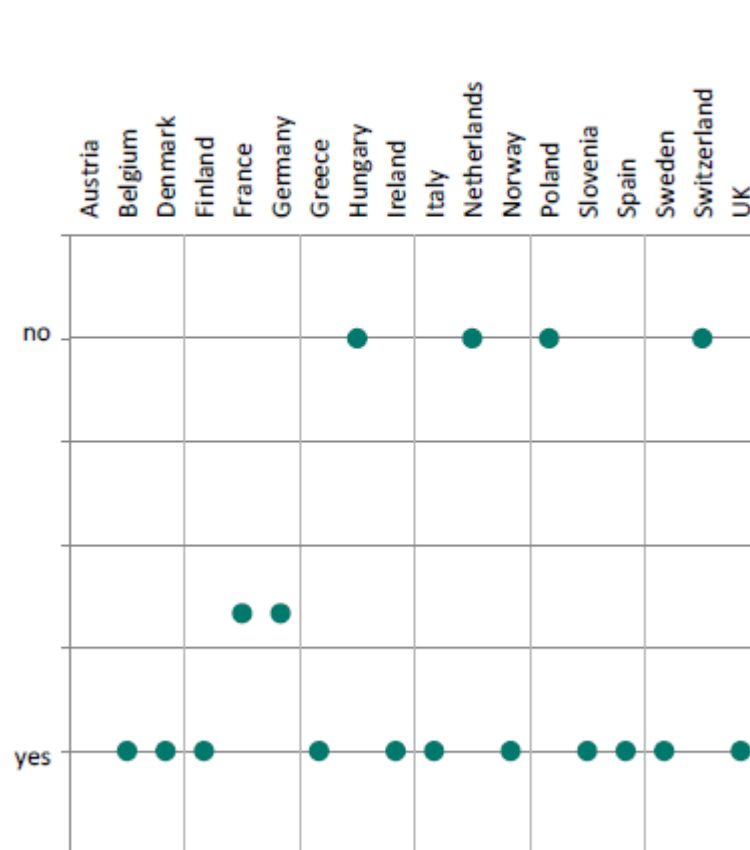


Source: AIECE Institutes, question B.4.4.

# Further action of the ECB: Is the toolbox empty?

Figure 35: Is the ECB's toolbox empty?

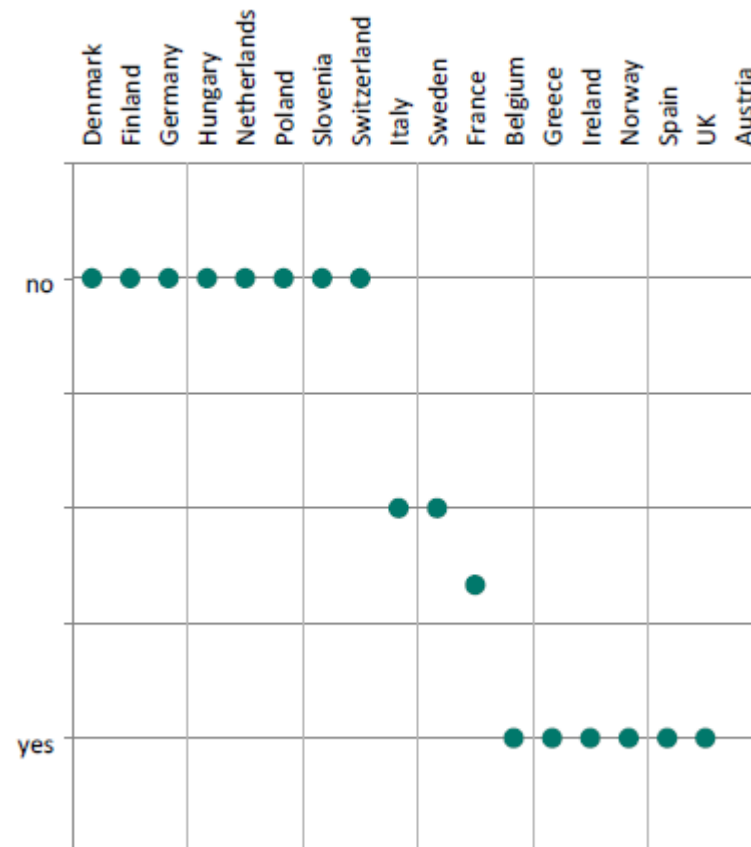
Q: Can the ECB do more to raise inflation / boost growth?



Source: AIECE Institutes, question B.4.2.

Figure 34: Further action of the ECB

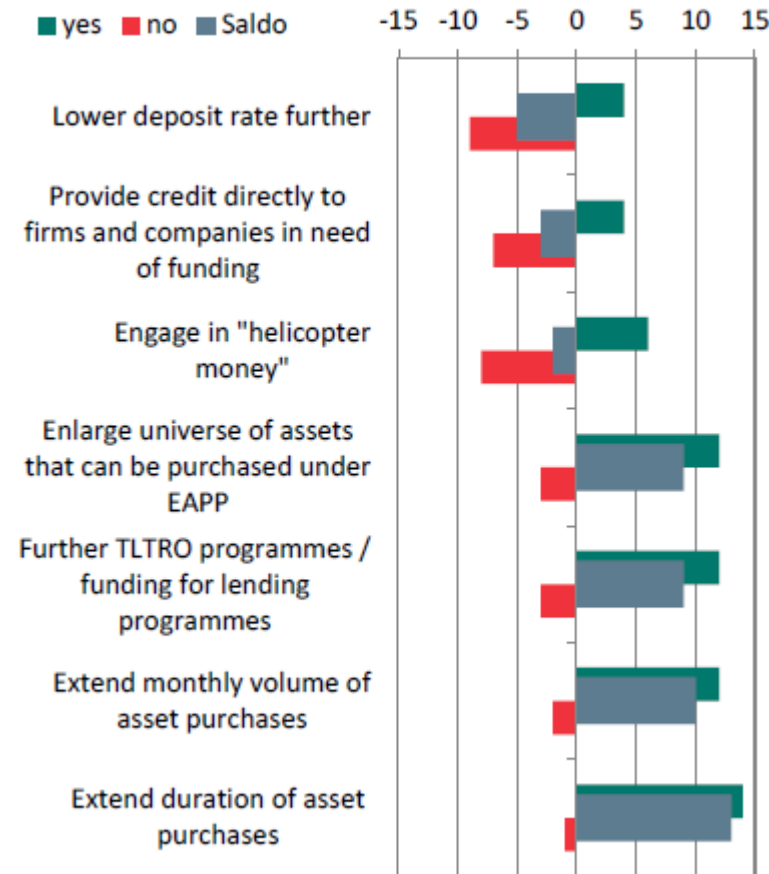
Q: Should the ECB do more to raise inflation / boost growth?



Source: AIECE Institutes, question B.4.1.

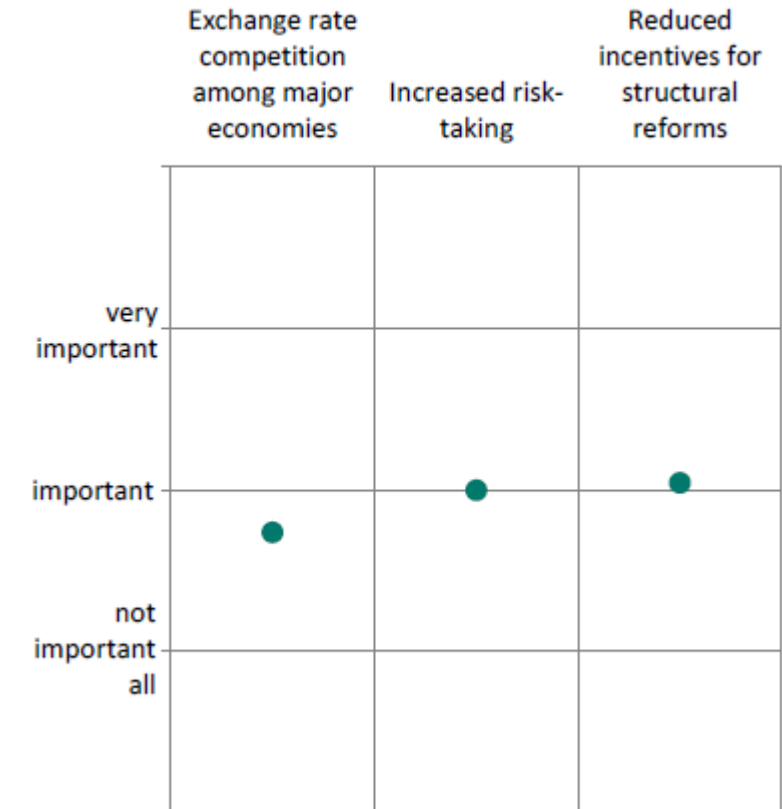
# Where to go from here? Remaining measures & risks

Figure 36: Remaining measures available to the ECB



Source: AIECE Institutes, question B.4.3.

Figure 37: Risks from asset purchasing programs

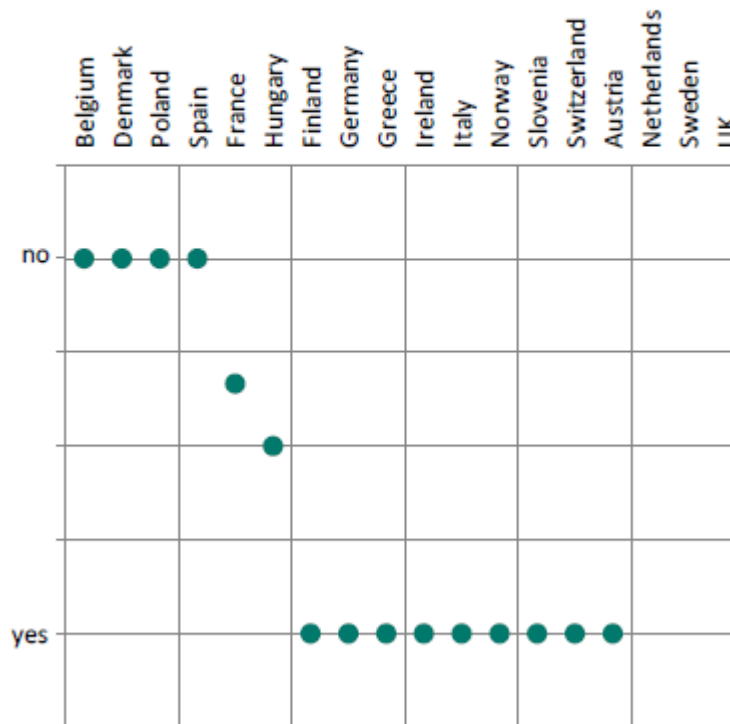


Source: AIECE Institutes, question B.4.5.

# TLTRO2: modest effects anticipated

Figure 40: Modalities of the TLTRO2 program

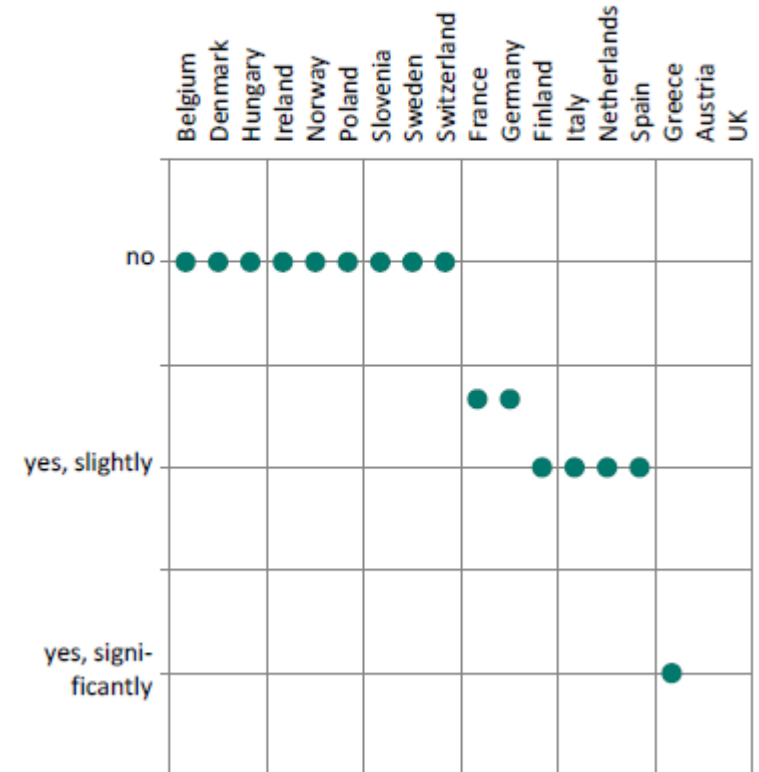
Q: Do you think that the modalities of the TLTRO2-programme raise the banks' incentives of banks to provide funding to the real economy compared to the previous TLTRO-programme?



Source: AIECE Institutes, question B.4.8.

Figure 38: Effects of TLTRO2 in home country

Q: Do you think that the TLTRO2 programme will boost lending in your home country?



Source: AIECE Institutes, question B.4.6.

# Guiding questions for discussion: Monetary Policy

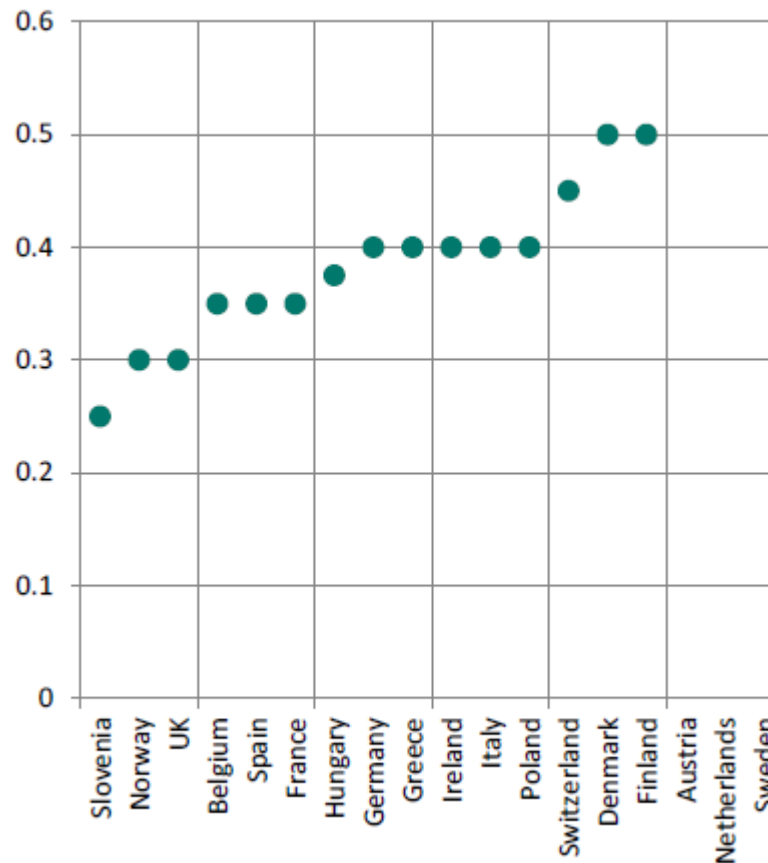
1. Noting that the **inflation rate in the US** is higher compared to the Euro area, what are the main reasons for this?
2. Why exactly are you **sceptical about TLTRO II**? Where is the money likely to go?
3. There are recent proposals to **abolish the zero lower bound** on interest rates. This could be done, for example, through *abolishing currency* such that negative interest rates could be implemented from a technical point. Do you think that this could prevent Europe from entering a liquidity trap?

# Part 5

## Focus on BREXIT Risk

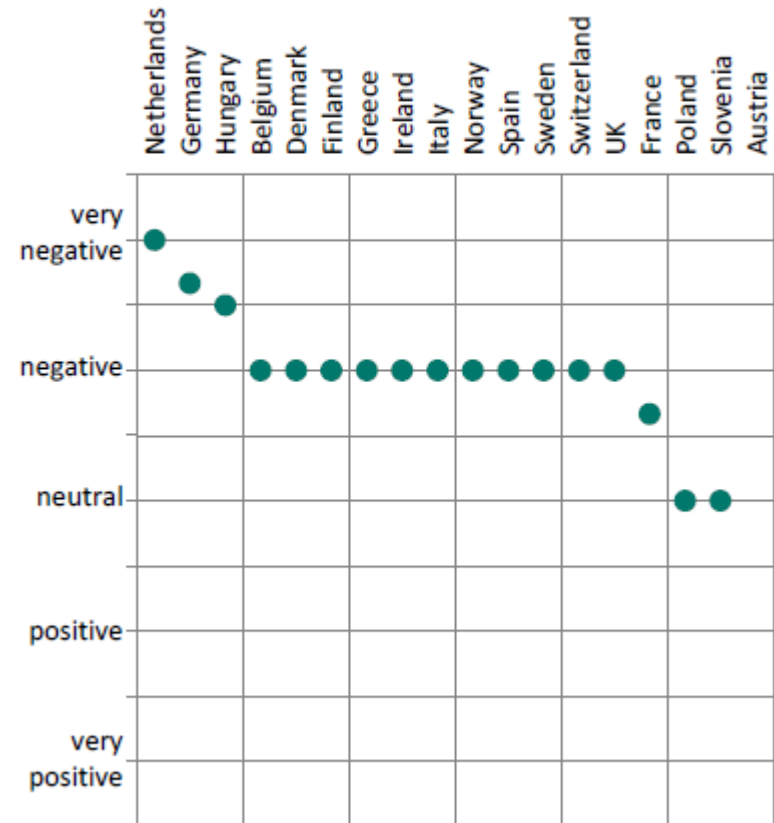
# Brexit considered unlikely, would affect the UK economy

Figure 41: Likelihood of a Brexit



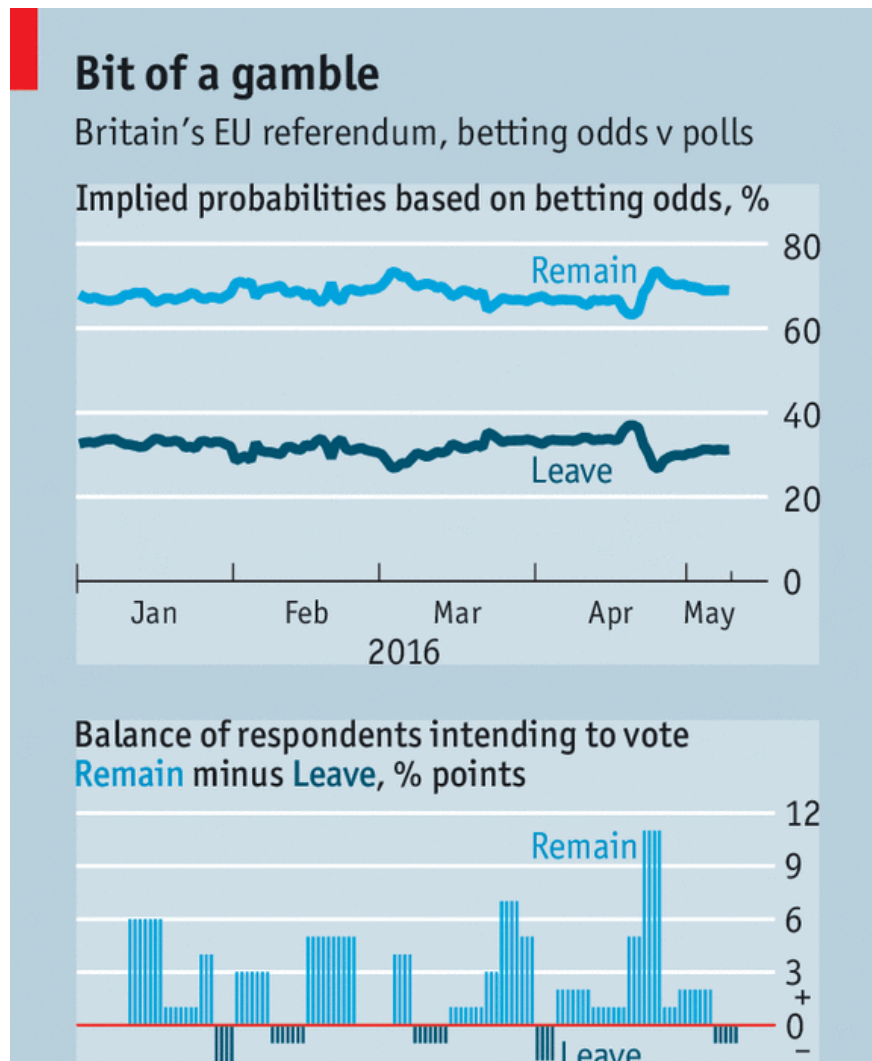
Source: AIECE Institutes, question B.3.1.

Figure 42: Economic effect of Brexit on the UK economy



Source: AIECE Institutes, question B.3.2.1.

# Boradly in line with polls and implied prob.



72 % of gamblers' money in the ,Remain'-camp

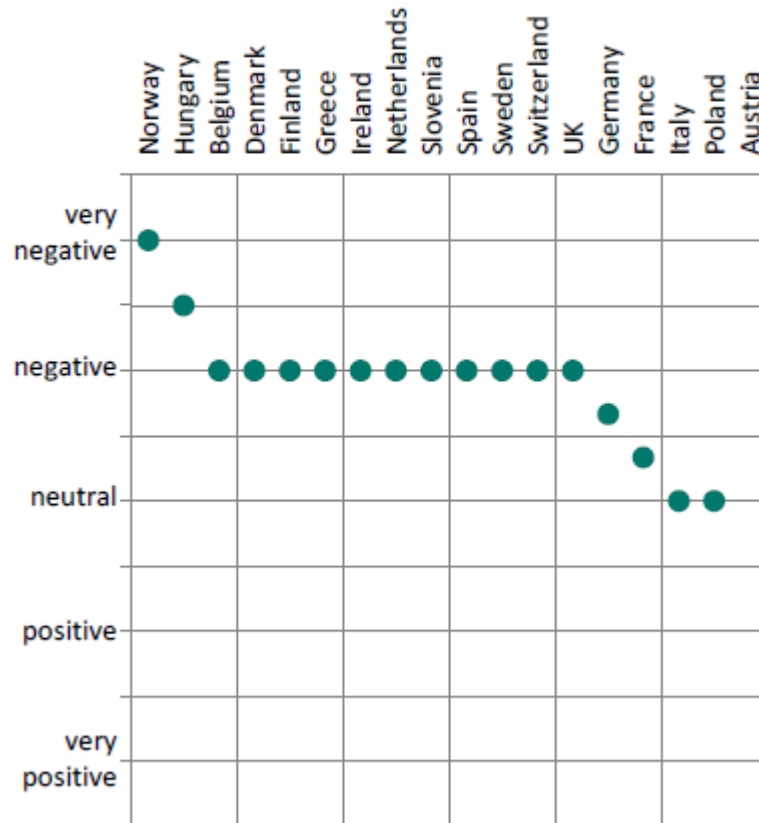
weaker majority for ,Remain' in polls

Source: *The Economist*



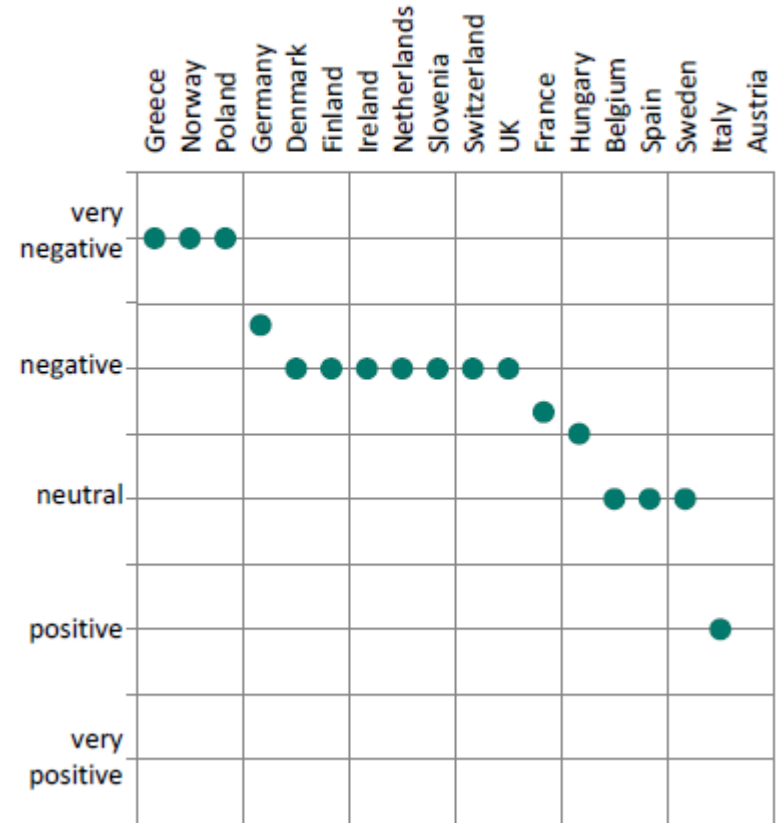
# Brexit has negative spillovers to EU countries

Figure 43: Economic effect of Brexit on EU countries



Source: AIECE Institutes, question B.3.2.2.

Figure 44: Effect of Brexit on political integration



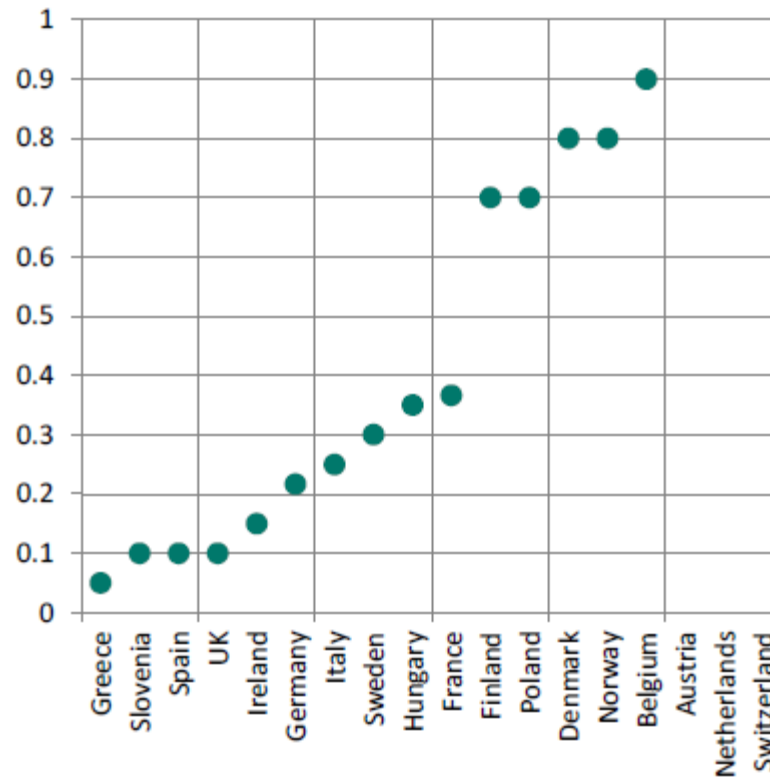
Source: AIECE Institutes, question B.3.2.3.

# Part 6

## Challenges for Europe

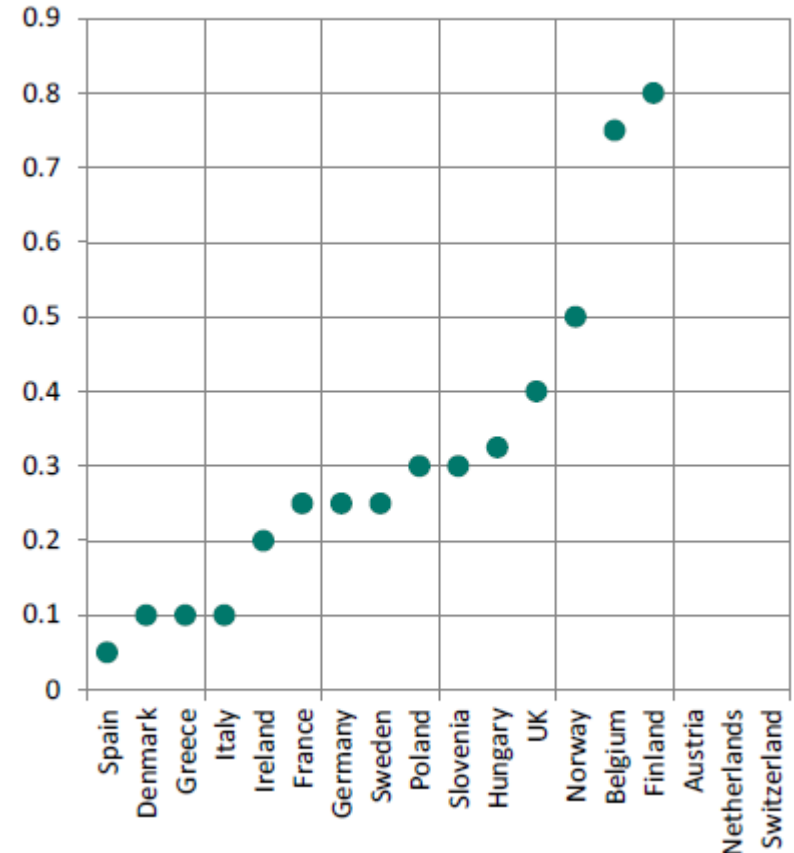
# Greece and the Sovereign Debt Crisis: high uncertainty

Figure 49: Likelihood of a haircut on Greek debt in the course of 2016/2017



Source: AIECE Institutes, question B.1.1.

Figure 50: Likelihood of renewed escalation of the sovereign debt crisis in 2016/2017



Source: AIECE Institutes, question B.1.2.

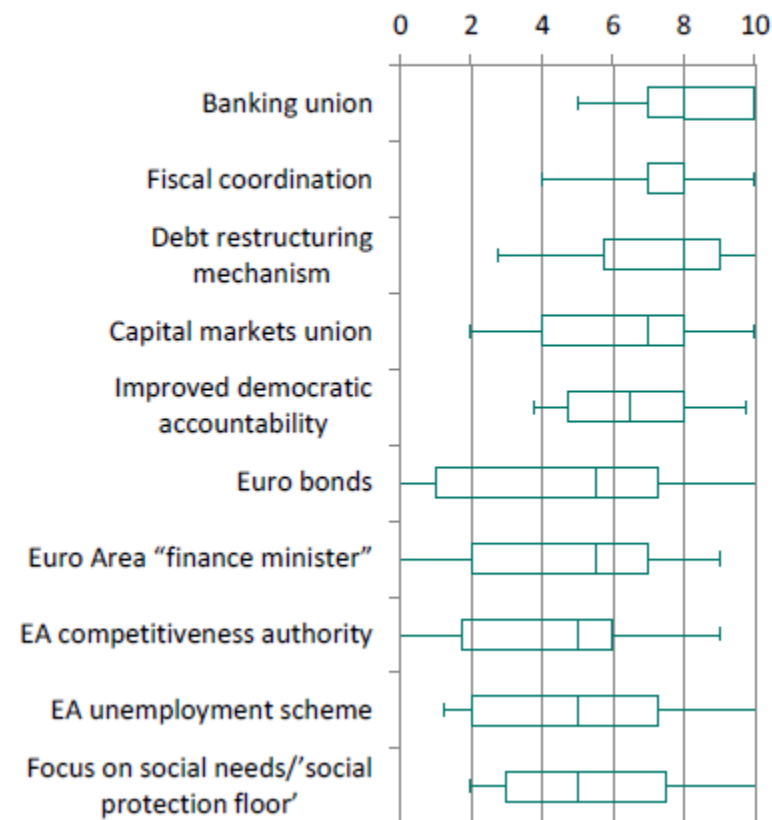
# Architecture of the euro area remains incomplete

Figure 51: Fiscal coordination in the euro area sufficient for fiscal sustainability?



Source: AIECE Institutes, question B.1.3.

Figure 52: Institutional architecture of the euro area



Note: The figure shows how AIECE institutes evaluate elements of a future European architecture according to their importance (from 1: not important at all, to 10: very important; with 0: undesirable). For each element, the figure shows a box plot with the minimum, the 25 %-quantile, the median, the 75 %-quantile, and the maximum of the member institutes' answers.

Source: AIECE Institutes, question B.2.1.

# Guiding questions for discussion: Challenges

1. Do you think that **EU Refugee bonds** are the right answer to the present influx of migrants?
2. Concrete **measures of fiscal coordination** are highly disputed. In view of the high importance of this topic, what should be the next steps in this direction?
3. If a fiscal union within the Euro area is unlikely in the near future, what are **necessary next steps** instead?

Thank you!

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