

# The European Economy in the Medium Term

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# This report

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- Should have been worked out for the AIECE meeting in the spring of 2014
- Basically, we have used the same questionnaires as for the previous reports
- Many AIECE institutes apparently do short-term forecasting only, so the results in this report are likely to overlap with those of the general report
- Hence, the most interesting part of the report is probably about reform needs and the discussion about this
- We start with a brief presentation followed by a discussion on selected topics

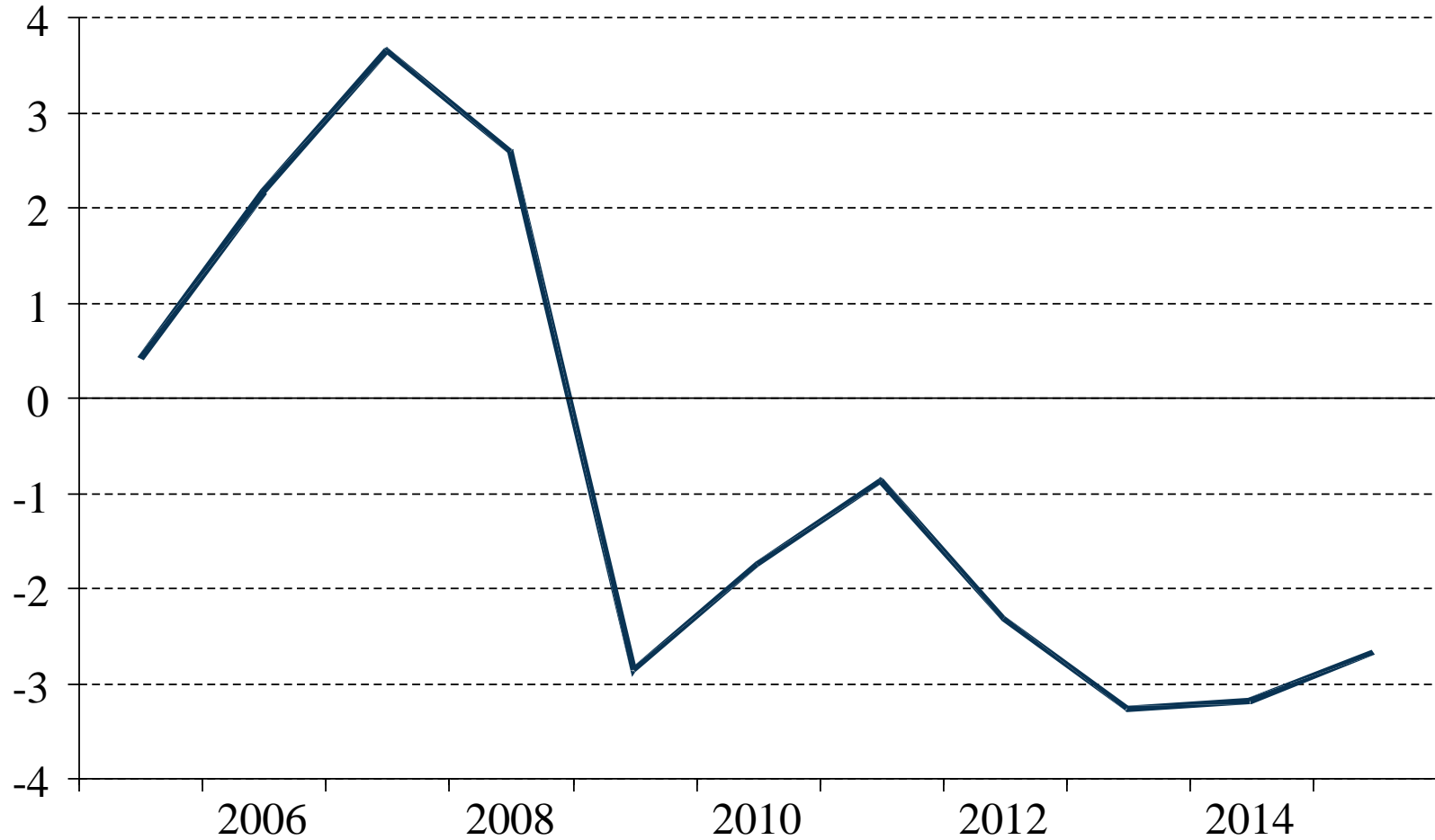
# Progress in the euro area ...



Source: Macrobond

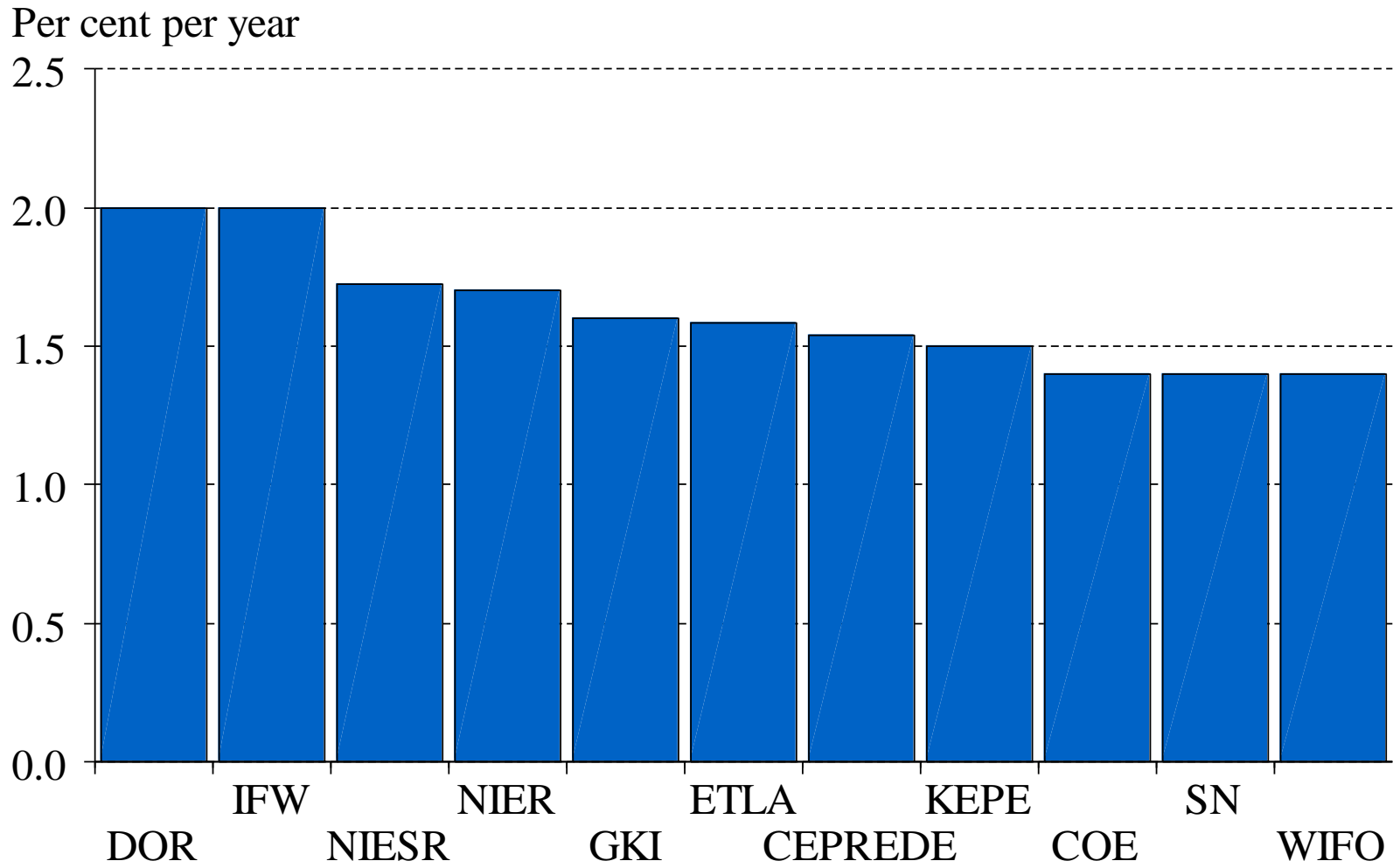
# .. but still the output gap is huge and negative

Per cent of structural GDP



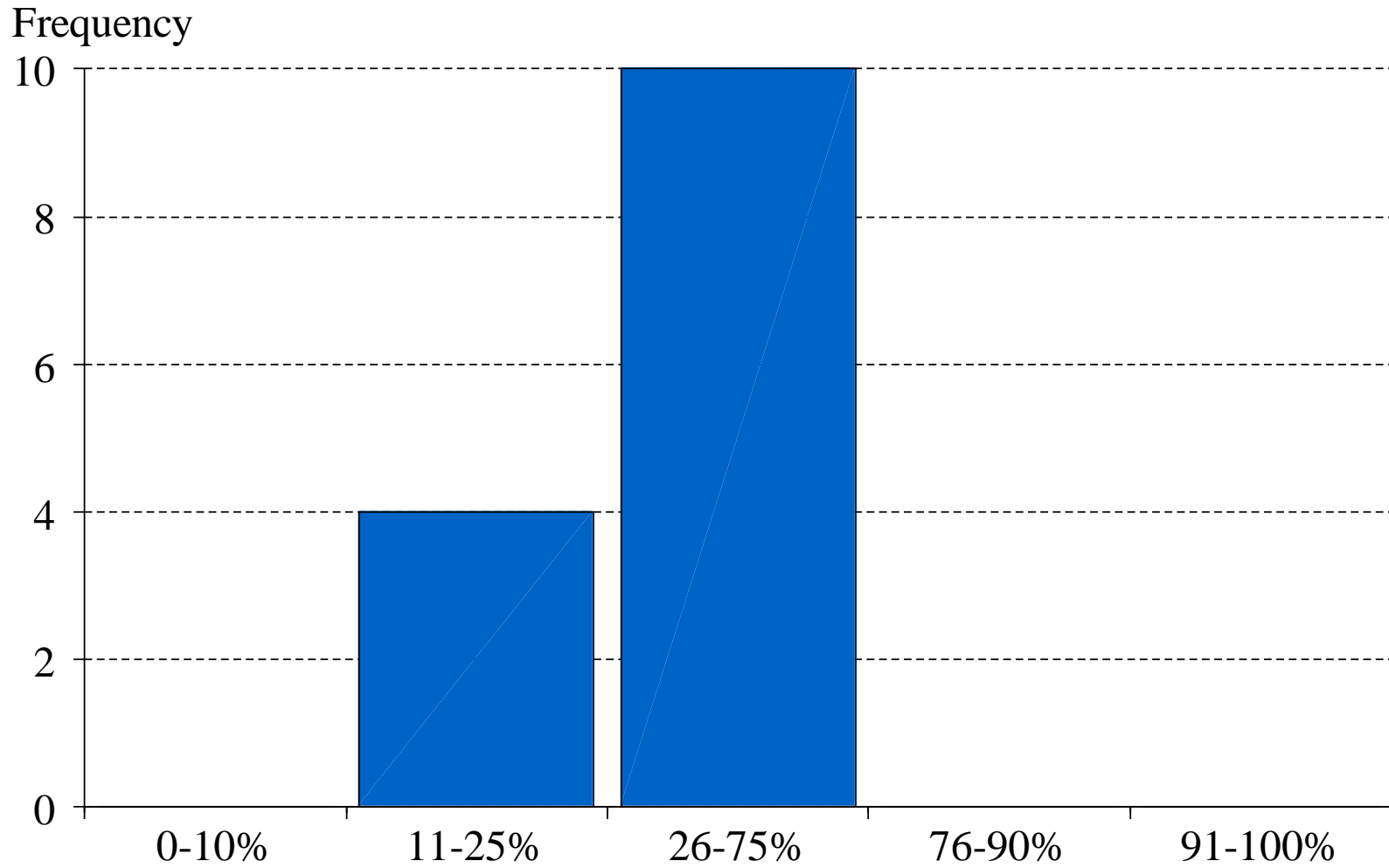
Source: Macrobond

# Projected GDP growth in the euro zone, 2015-20



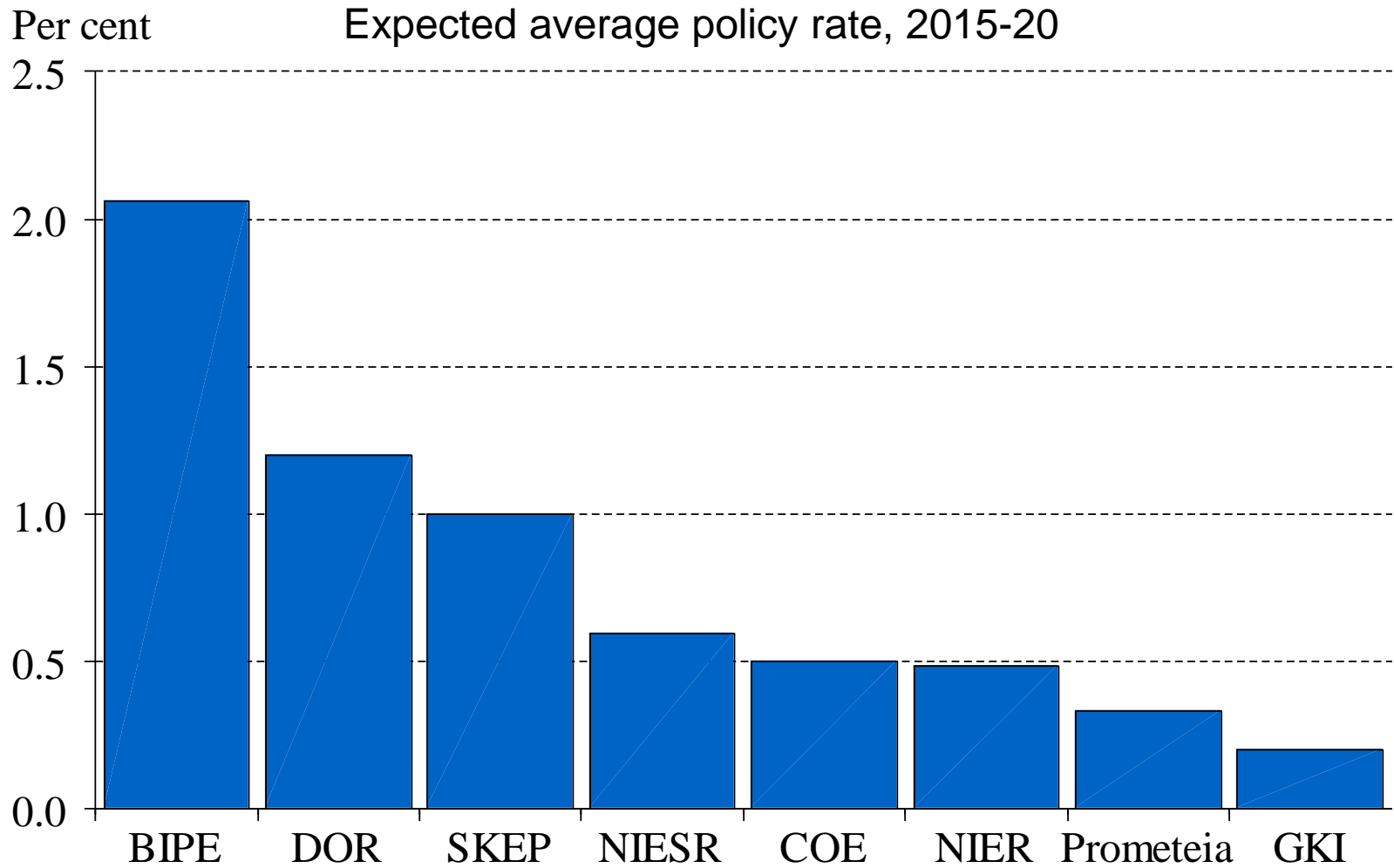
Source: AIECE institutes

# Risk of secular stagnation appear significant



Source: AIECE institutes

# ... which is also visible in the ECB policy rate



Source: AIECE institutes

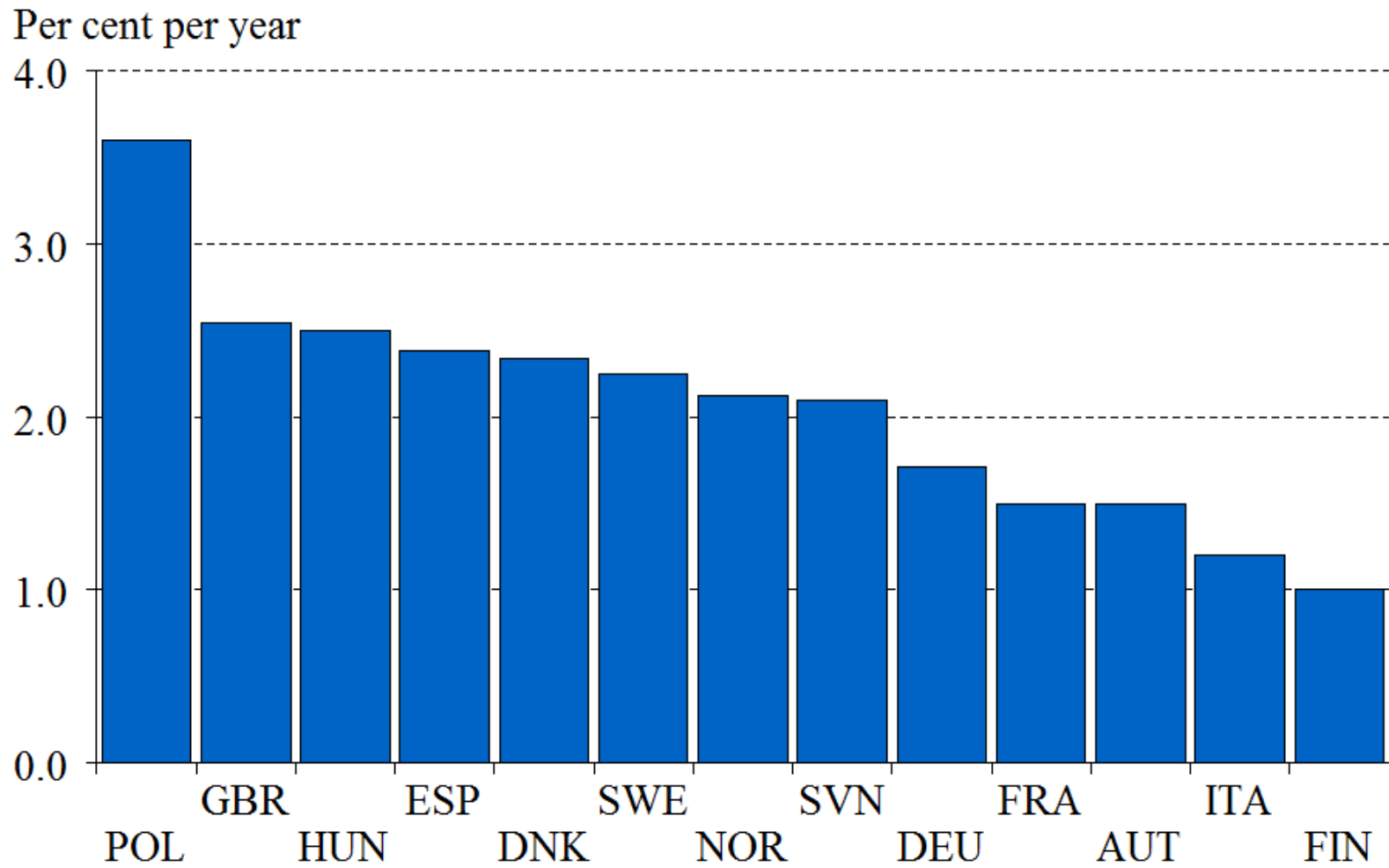
# Weak investments reflect the weak economy

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- There is an emerging consensus amongst leading international institutions that
  - In many countries weak investments mainly reflect weak demand
  - Tight credit conditions, political uncertainty, and weak public investments do play a role but are not the decisive factor
- The majority of AIECE institutes agree with this narrative
- The immediate implication is that investments will increase along with the cyclical upswing. In most countries no specific initiatives are needed



# Projected per capita GDP growth in, 2015-20



Source: AIECE institutes

# Reform needs in the labour market

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- **France** and other countries struggle with high levels of structural unemployment caused by high minimum wages and inflexible layoff rules
- **Sweden** has a growing mismatch problem. The high wage level makes it difficult for low-skilled workers to get jobs. Maybe also relevant in **Denmark**
- **UK** and **France** needs to improve entry to the job market for young people by e.g. apprenticeships
- Many countries need to improve job incentives for older people in order to stimulate labour supply

# Reform needs in the pension system

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- Many European countries, including **Germany, France, Poland, Slovenia, and Hungary**, have not yet fully handled the demographic challenge. Some countries deem their pension system “unsustainable”
- The current statutory retirement age is rather low in many countries...
- ... and more importantly; in many countries, the statutory retirement age is not linked to life expectancy

# Various reform needs

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- **Denmark, Sweden** and the **UK** would benefit from larger automatic stabilizers for the housing market
- **Sweden** report it needs to increase construction of new homes due to the inflow of refugees and immigrants. Maybe, this is also an issue in **Denmark** – and what about **Germany**?
- **Poland** needs to rebuilt the taxation system from scratch
- **German** labour costs are high when including social contributions
- **Hungary, Slovenia** and others have heavily regulated goods markets. In some cases price control and state ownership.
- **Greece** have pronounced reform needs in many areas

# Topics for discussion

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- Fiscal sustainability
- Pension reforms
- Labour market reforms
- Size of public sector – and link to productivity
- Where is the EU project heading?
- How should we address the risks of secular stagnation?