

Economic outlook for Europe in uncertain times

German Greek Chamber of
Commerce and Industry

Dr Michael Heise, Allianz SE
Group Economic Research

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Uncertain times



**Risk of EU
disintegration**

Hard Brexit

**Too loose,
too long**

**Emerging market
debt bubble**

Rise of populism

**Uncertainty about
US policy**

High EMU debt

**Instable Middle
East**

Terrorism threat

**Russia/Ukraine
conflict**

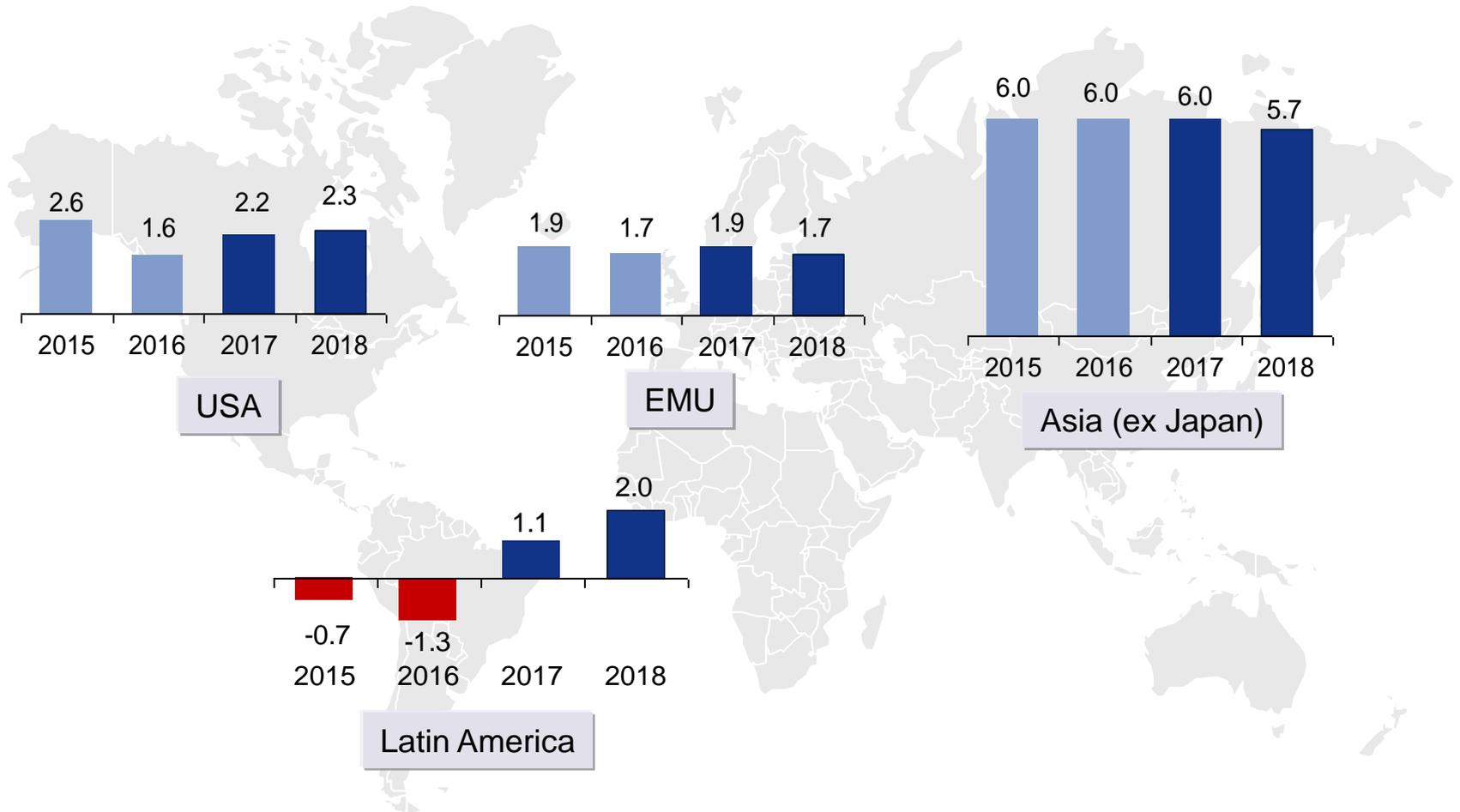
Refugee crisis

Protectionism

Economic outlook 2017/18



Resilient growth – despite high level of uncertainty



Trumponomics: Different economic growth scenarios

Real GDP growth (%)

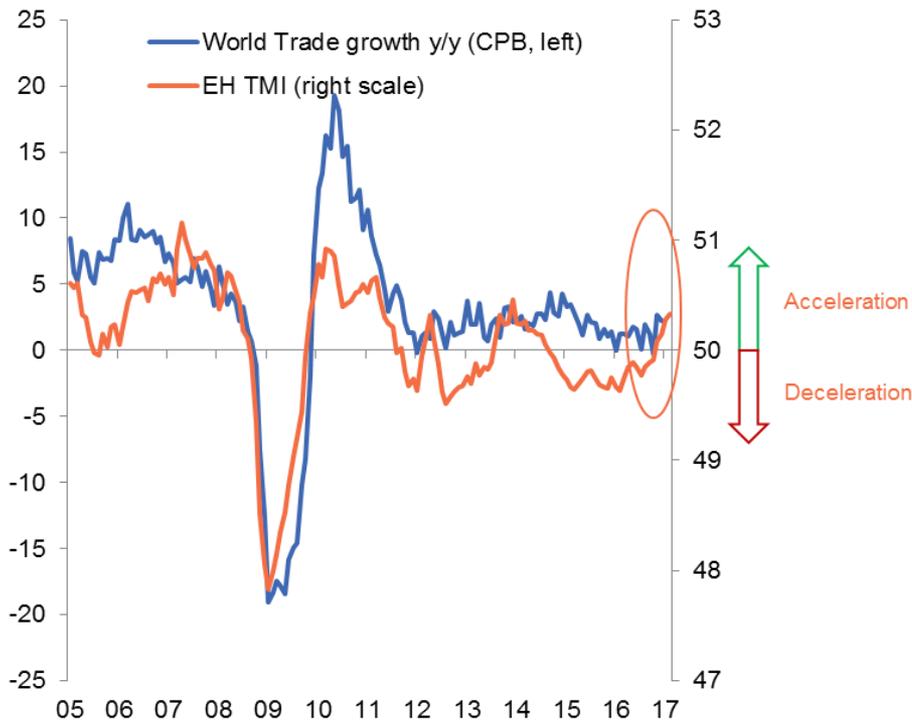
	2016	2017	2018
Fiscal boost	1.6	2.4	3.4
Base case	1.6	2.2	2.3
Trade war	1.6	1.5	1.0

Trade: No disruption in sight, despite tough words

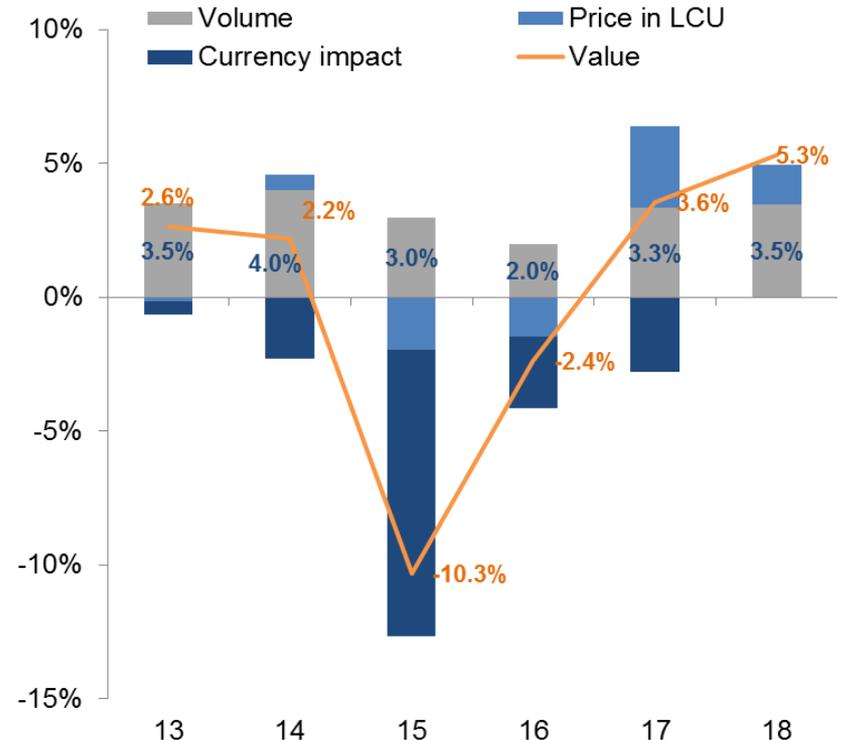
Trade is showing some signs of revival with improving new orders in China, the US, and the EU

Global trade to increase by 3.6% in 2017. Volume growth to accelerate. Positive price effect to be offset by a stronger dollar

World trade growth and Euler Hermes Trade Momentum Index (TMI)



Global exports of goods and services



Sources: CPB, Official sources, ISM, Eurostat, Euler Hermes.

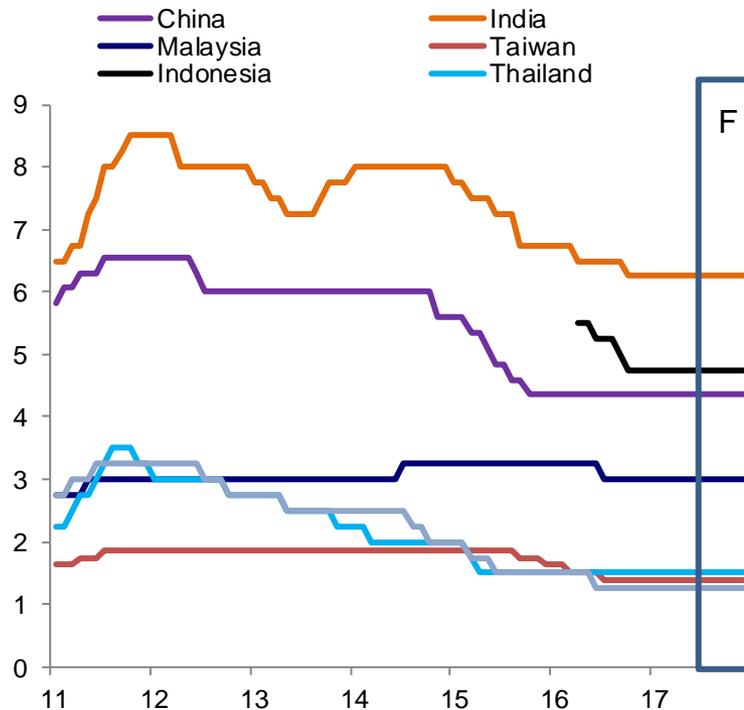
Sources: IHS, Euler Hermes.

Credit cycle in Asia: Authorities to focus on financial stability

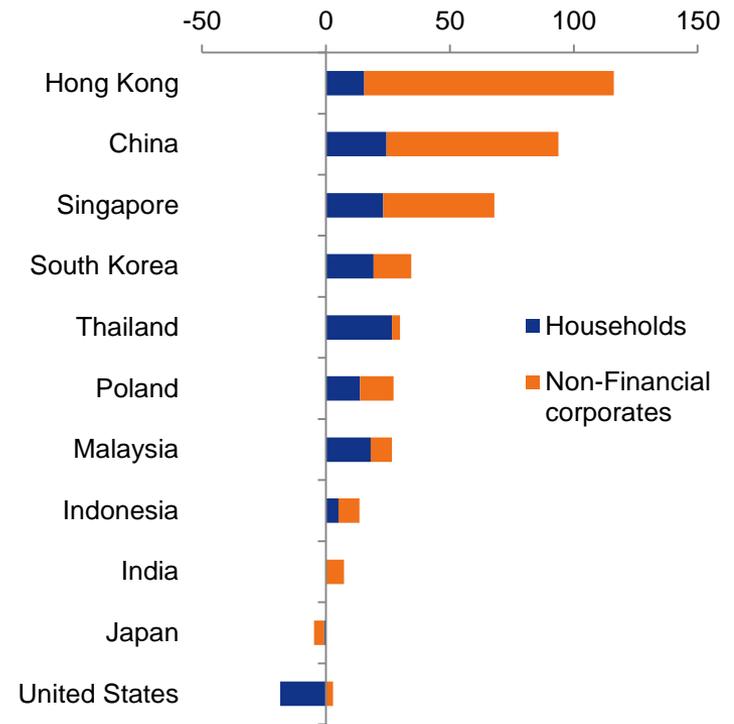
Monetary policy: no further easing is expected in 2017

Monetary authorities and regulators to move in concert to reduce rising private debt

Policy rates



Change between 2007 and 2016 (pp of GDP)

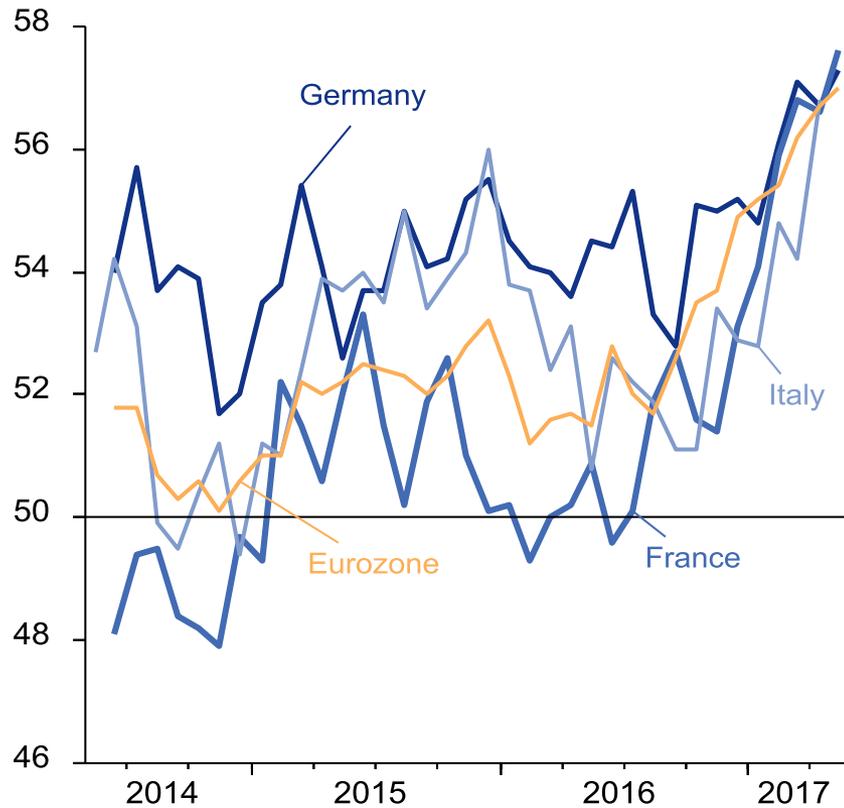


Sources: IHS, Allianz Research.

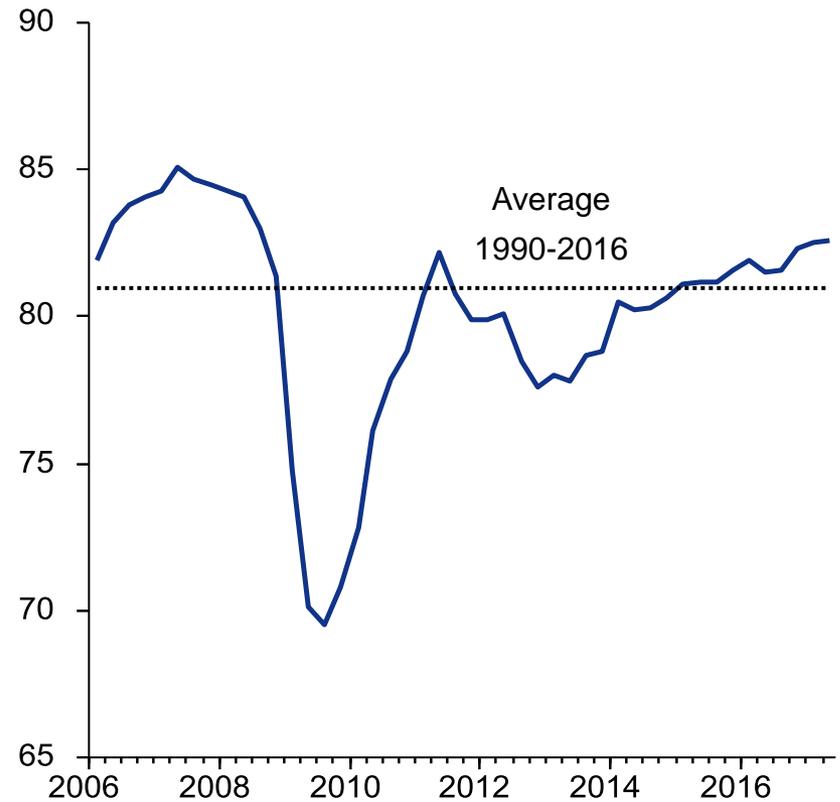
Sources: BIS, Allianz Research.

Eurozone: Upside risks prevailing

Eurozone composite PMIs

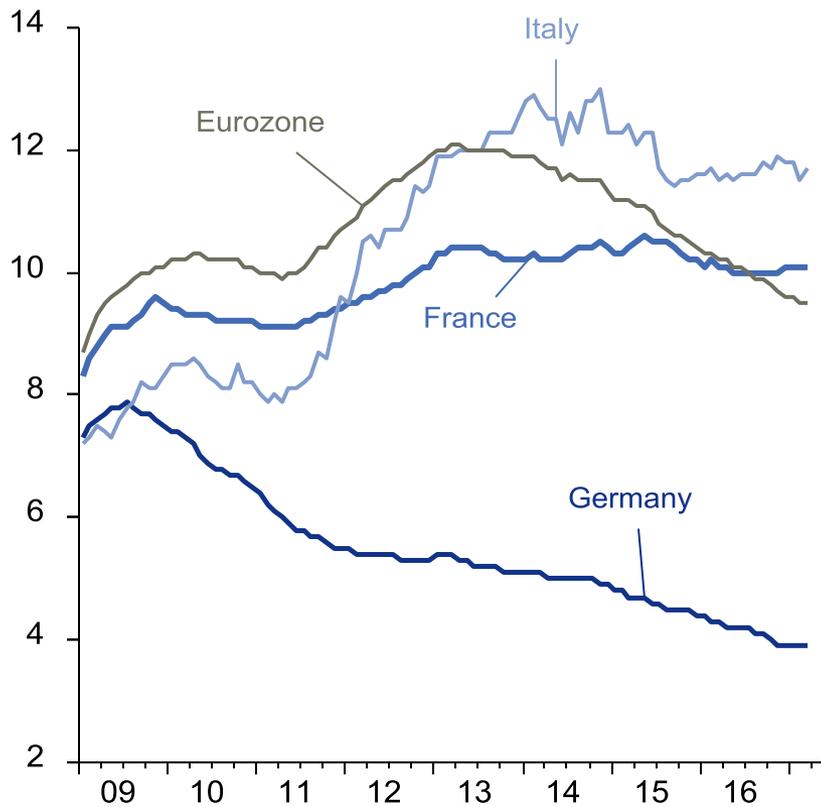


Eurozone capacity utilization rate (%)

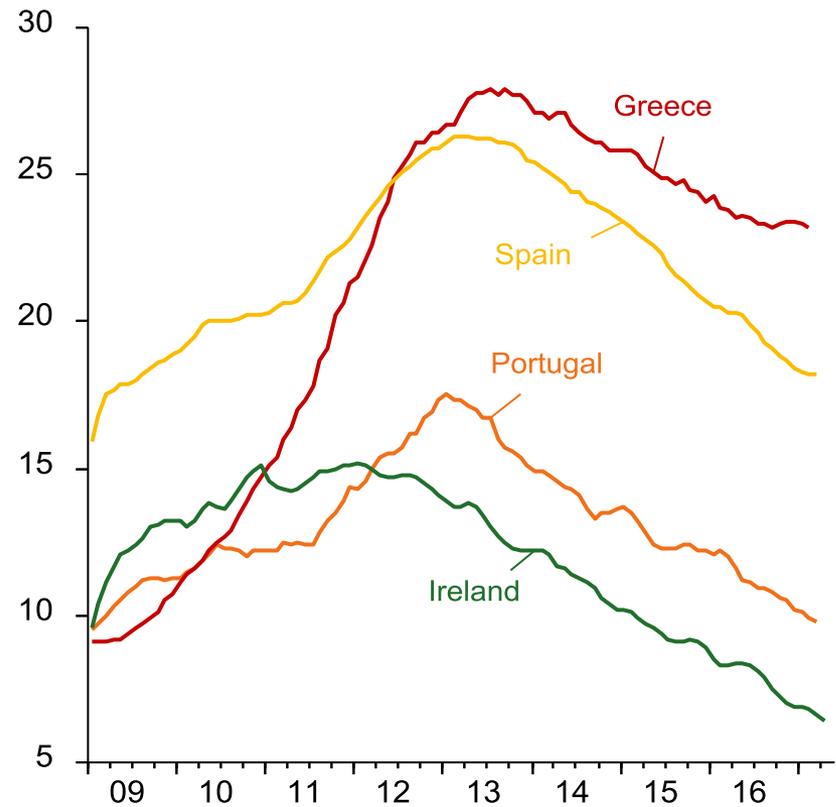


Eurozone: Labor market improvements widespread but uneven

Unemployment rate (%)

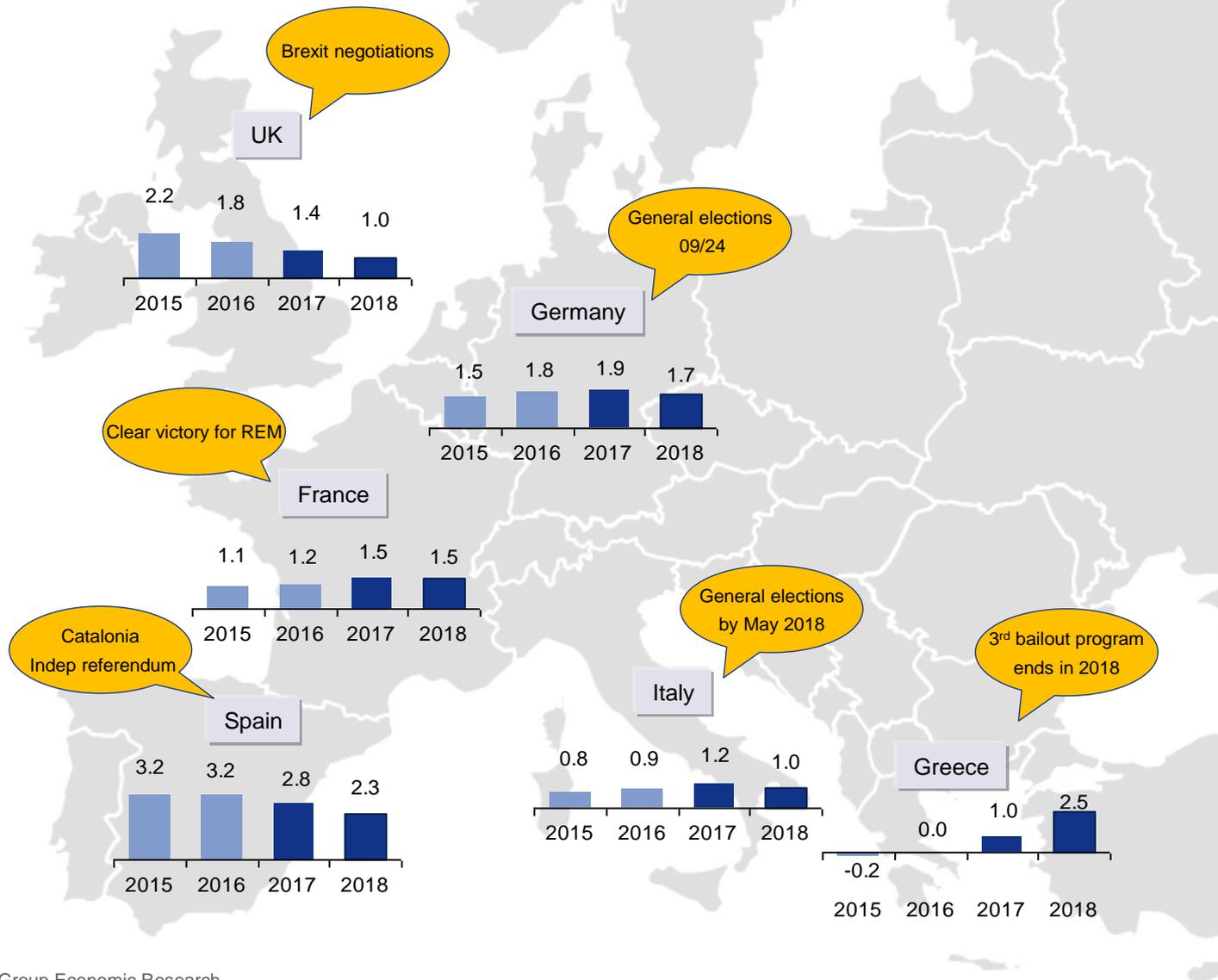


Unemployment rate (%)



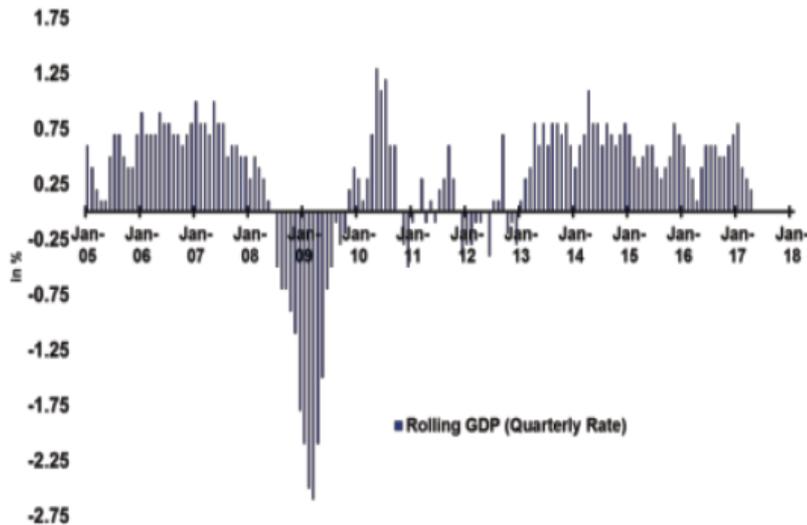
Source: Thomson Reuters Datastream.

EU growth continues at moderate pace

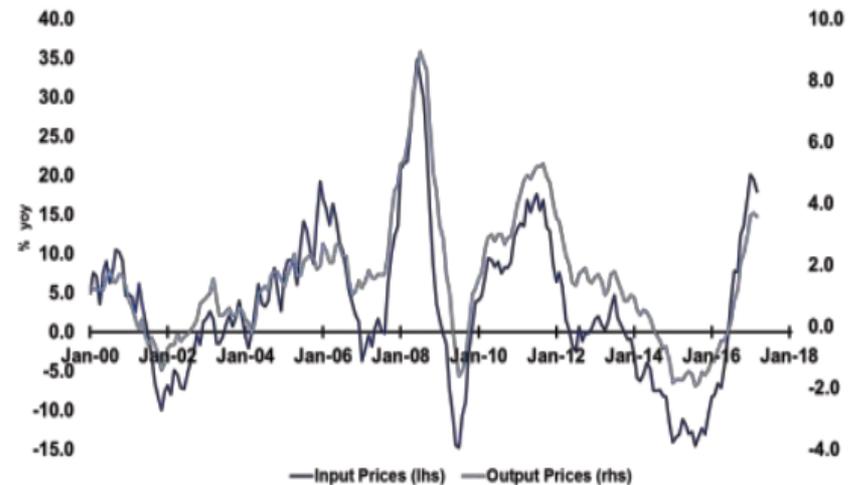


UK: signals that GDP growth is drifting down – high price pressure on the producer level

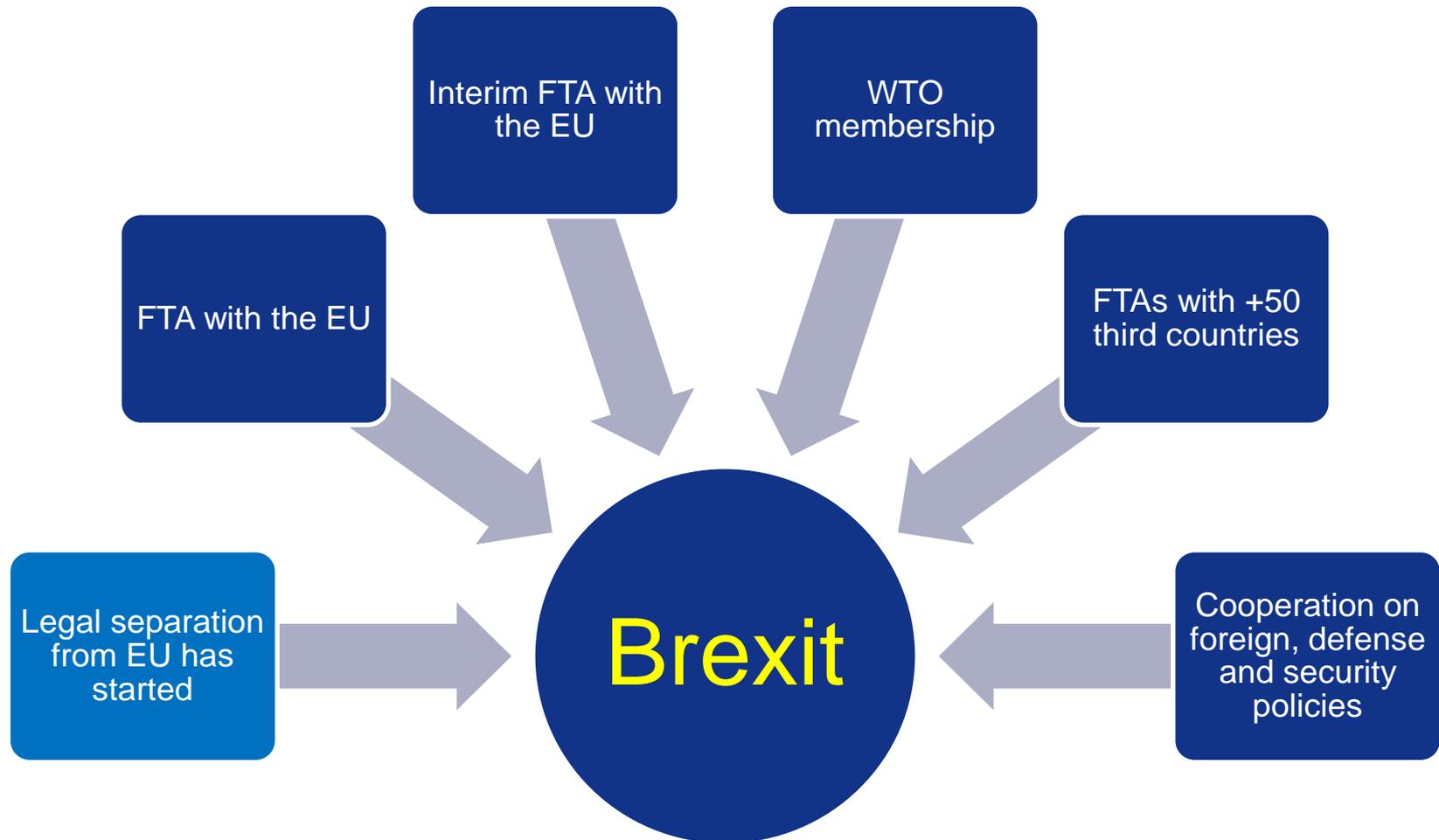
UK: GDP slowing



... but price pressure is mounting



“Brexit means Brexit” – A huge negotiation effort



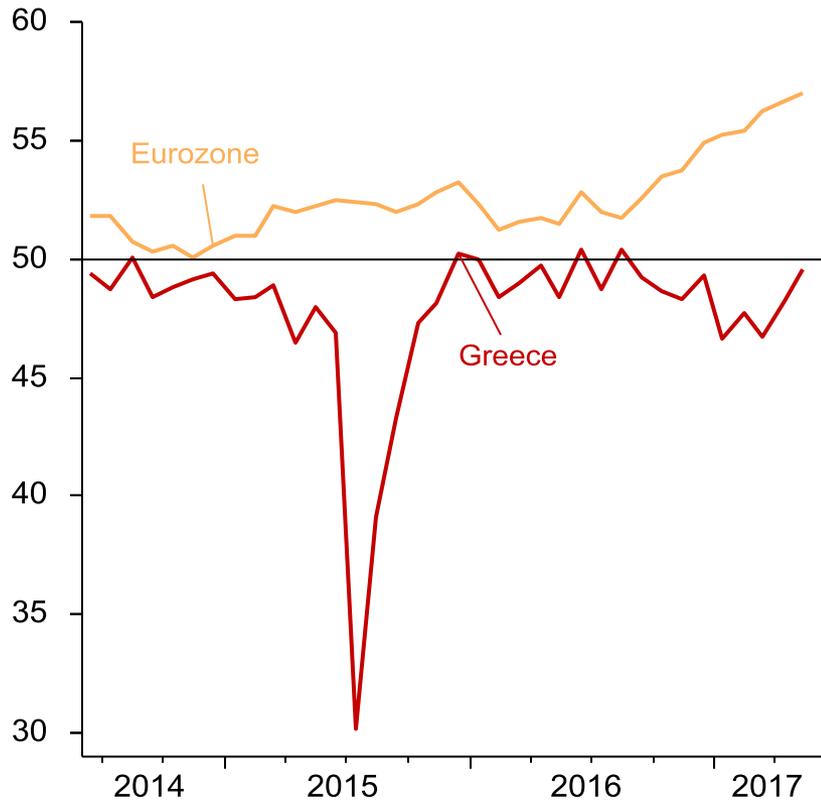
Sources: Center for European Reform, Group Economic Research.

How to make the EU fit for the future

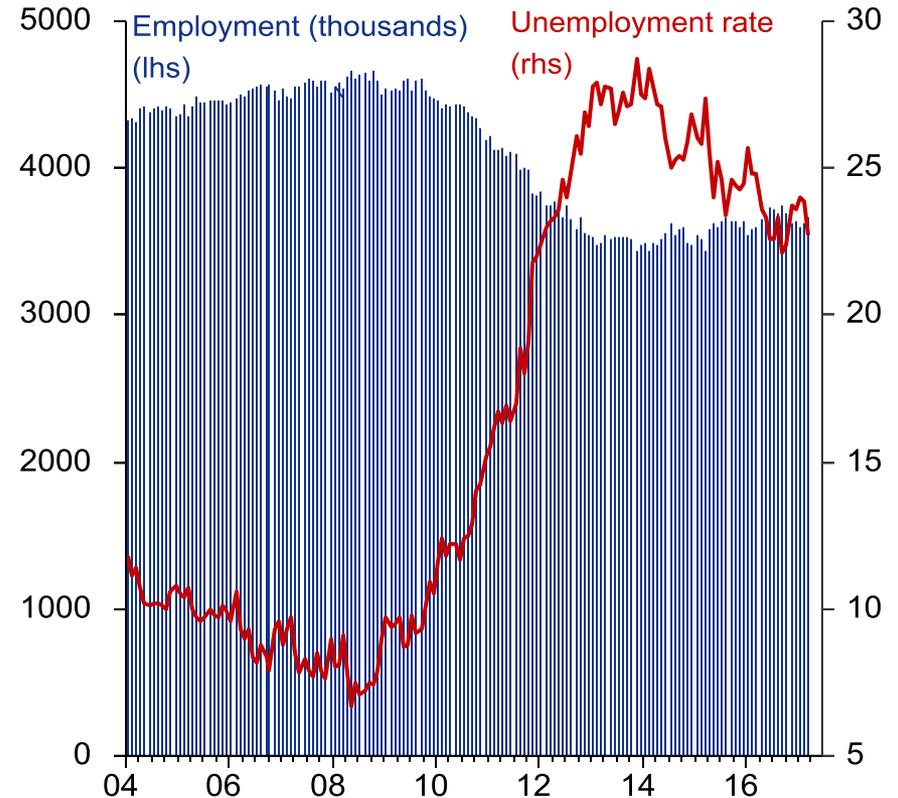


Greece: Return to positive GDP growth in sight

Composite PMI



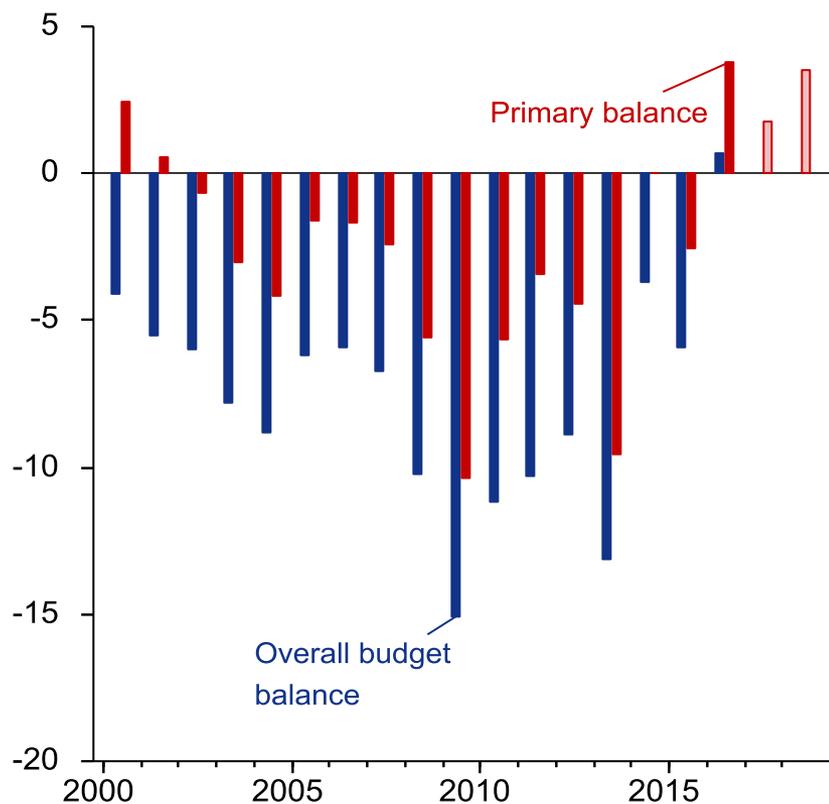
Greek unemployment & employment



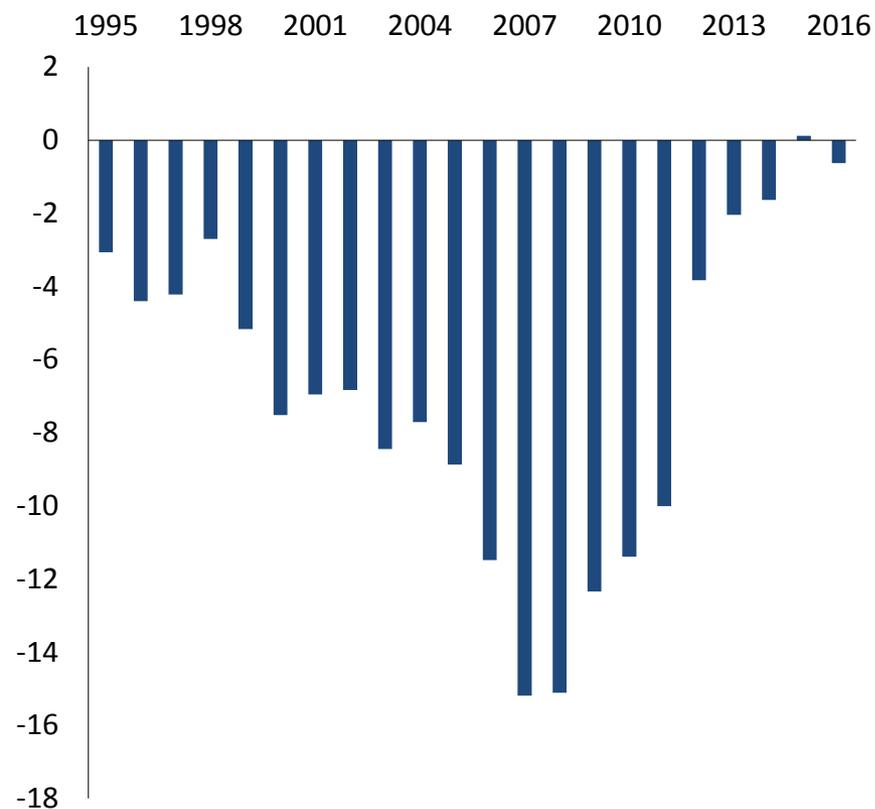
Sources: Thomson Reuters Datastream.

Greece: Significant fiscal and external adjustment

Fiscal balance (% of GDP)



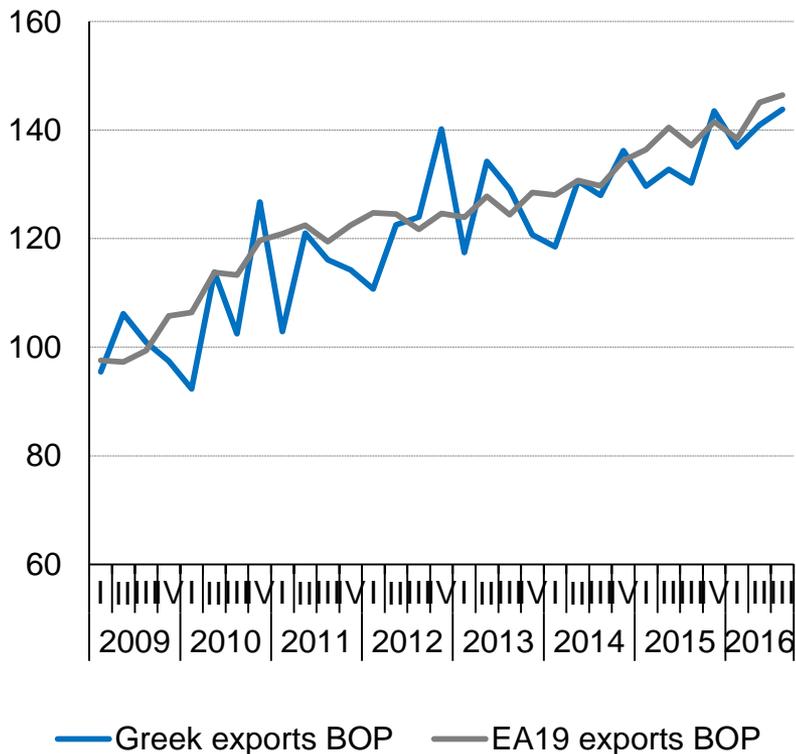
Current account (% of GDP)



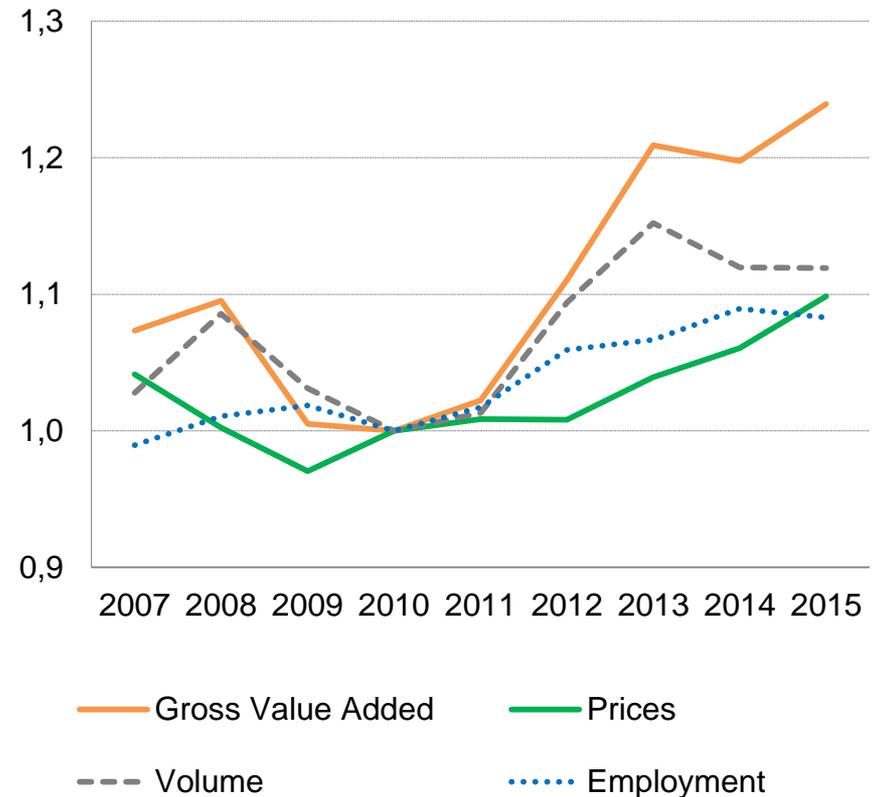
Sources: Thomson Reuters Datastream, Bank of Greece.

Greece: Rebalancing of the economy under way

Real exports of goods (Index 2009=100)



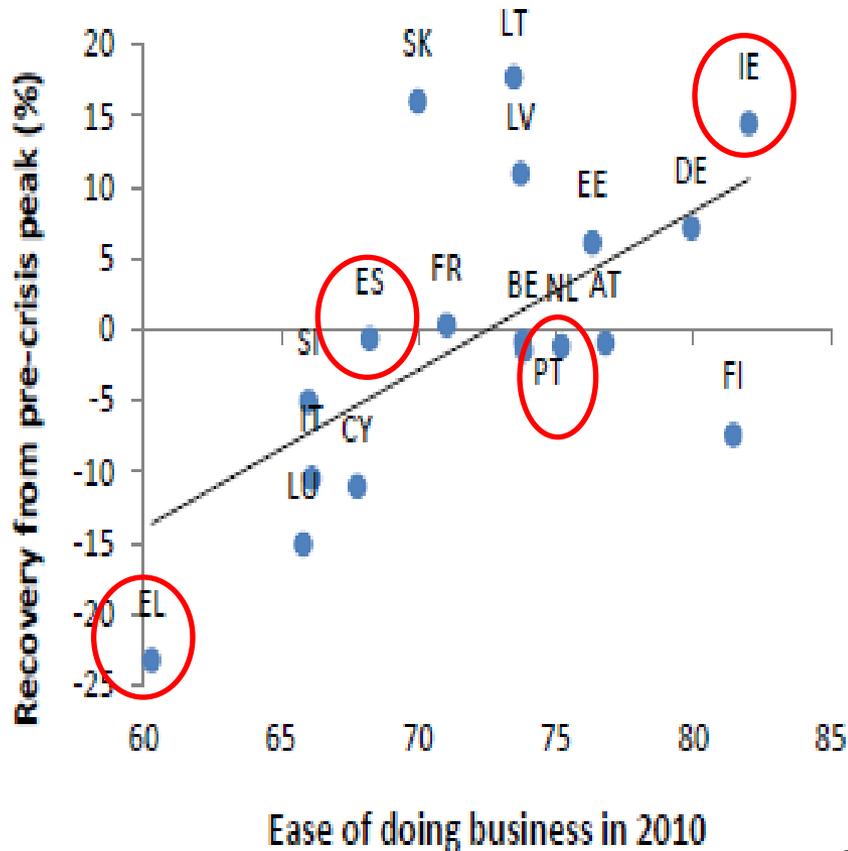
Relative size of tradeable to non-tradeable sector (index: 2010=1)



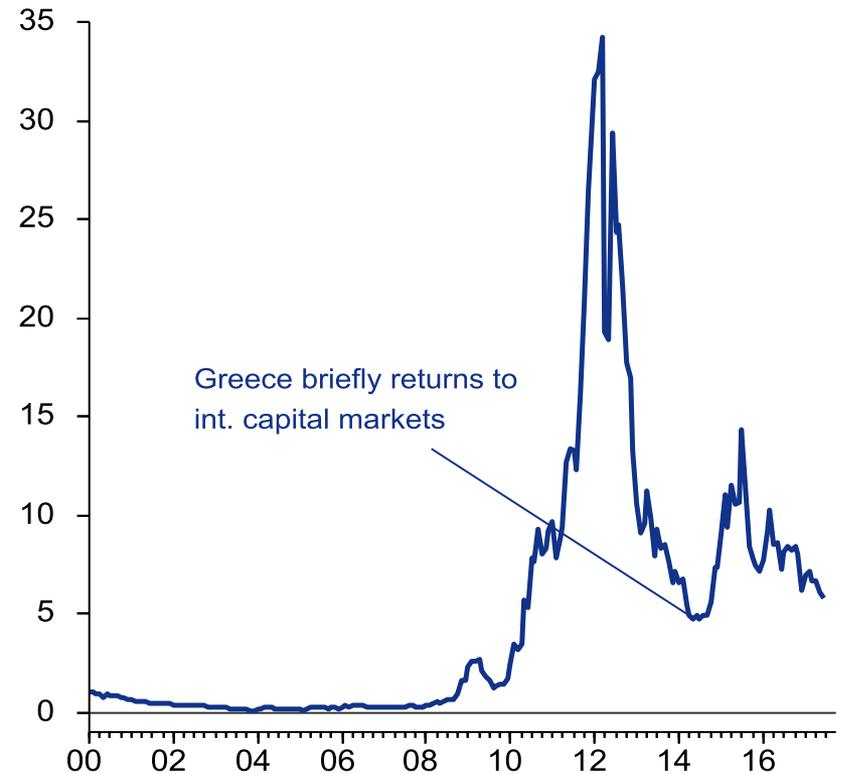
Note: Relative prices are based on (implicit) price deflators of value-added. Tradeables: agriculture, industry, business and financial services, telecommunications and services related to tourism (transport and accommodation and restaurants). Non-tradeables: else except public administration and non-market services.

Greece: An economic success story beyond the short-term & a lasting return to capital market requires additional reforms

Business environment & resilience in the euro area



10yr government bond yield spread Greece/Germany



Sources: EU Commission, World Bank, Thomson Reuters Datastream..

Doing Business Heatmap 2015-2017: Too little progress in Greece

	Starting a business	Dealing with construction permits	Getting electricity	Registering property (2016 methodology)	Getting credit	Protecting minority investors	Paying taxes (old methodology)	Trading across borders	Enforcing contracts	Resolving insolvency
EA Countries	Austria	↗	↗	↗	→	→	↗	→	→	↗
	Belgium	↗	↗	↘	↗	→	↘	→	↘	↗
	Cyprus	↗	↗	↗	↗	→	↗	→	↗	↗
	Estonia	↗	↗	↘	↘	→	↗	→	→	↗
	Finland	↗	↘	↗	↗	→	↗	→	→	↗
	France	↗	↗	↗	↘	→	↗	→	→	↗
	Germany	↗	↗	↗	↗	→	↘	→	↘	↗
	Greece	↘	↘	↘	↗	→	↘	→	→	↗
	Ireland	↗	↗	↗	↗	→	↘	→	→	↘
	Italy	↗	↗	↗	↗	→	↗	→	↗	↗
	Latvia	↗	↘	↗	↗	↗	↗	→	↗	↗
	Lithuania	↗	↗	↗	↗	→	↘	→	→	↗
	Luxembourg	↗	↗	↗	↗	→	→	→	→	↘
	Malta	↗	↗	↗	↘	↗	↘	→	→	↗
	Netherlands	↗	↗	↗	↗	→	↘	→	↗	↗
	Portugal	↗	↗	↗	↗	→	↗	→	→	↗
Slovak Republic	↗	↗	↗	↗	→	↗	→	→	↗	
Slovenia	↗	↗	↗	↗	→	↘	→	↗	↗	
Spain	↗	↗	↗	↗	→	↗	→	↗	↗	
Non EA Countries	Bulgaria	↗	↗	↗	→	→	↘	↘	→	↗
	Croatia	↗	↗	↗	↗	→	↘	→	→	↗
	Czech Republic	↗	↗	↗	↗	→	↗	→	→	↗
	Denmark	↗	↗	↗	↗	→	↗	→	→	↗
	Hungary	↗	↗	↗	↘	→	↗	→	↗	↗
	Poland	↗	↗	↗	↘	→	↗	→	→	↗
	Romania	↘	↘	↘	↘	→	↗	→	→	↗
	Sweden	↗	↗	↗	↗	→	↘	→	↗	↗
	United Kingdom	↗	↗	↗	↘	→	↗	→	↘	→

Note: The frontier is attributed a score of 100 to which other countries' performance is compared. A higher value hence indicates a better performance. The colors refer to the values on 1 June 2016: Orange refers to a value below 71, yellow to a value between 71 and 79 and green to a value above 79. The arrows show the evolution between 1 June 2014 and 1 June 2016.

Key reform areas under the 2nd review

Restoring fiscal sustainability - Ambitious post-program fiscal package

- primary surplus target of 3.5% of GDP through 2022 and thereafter a fiscal trajectory consistent with commitments under the European fiscal framework, e.g. a primary surplus of close to 2% of GDP in the period 2023 to 2060
- fiscal savings to the tune of 2% of GDP via pension cuts and an income tax reform to broaden the tax base
- In return for these efforts the Greek government will be free, if it exceeds fiscal targets, to use any excess revenues for fiscal stimulus measures, thus offsetting, in part at least, the impact of the reforms.

Safeguarding financial stability - Tackling the large stock of NPLs

- establishing an active secondary market for NPLs
- setting up an Out-of-Court Debt Workout framework
- actions to make the Hellenic Corporation of Assets and Participations (HCAP) fully operational

Structural measures to boost growth

- wide range of labor and product market reforms including adopting legislation safeguarding previous reforms on collective bargaining and bringing collective dismissals in line with best EU practices
- Implementation of OECD recommendations to strengthen competition, to facilitate investment licensing and to further open-up regulated professions
- Implementation of an ambitious privatization program and set-up of a new independent Privatisation and Investment Fund (HCAP) to support a more efficient use of resources

A modern State and public administration

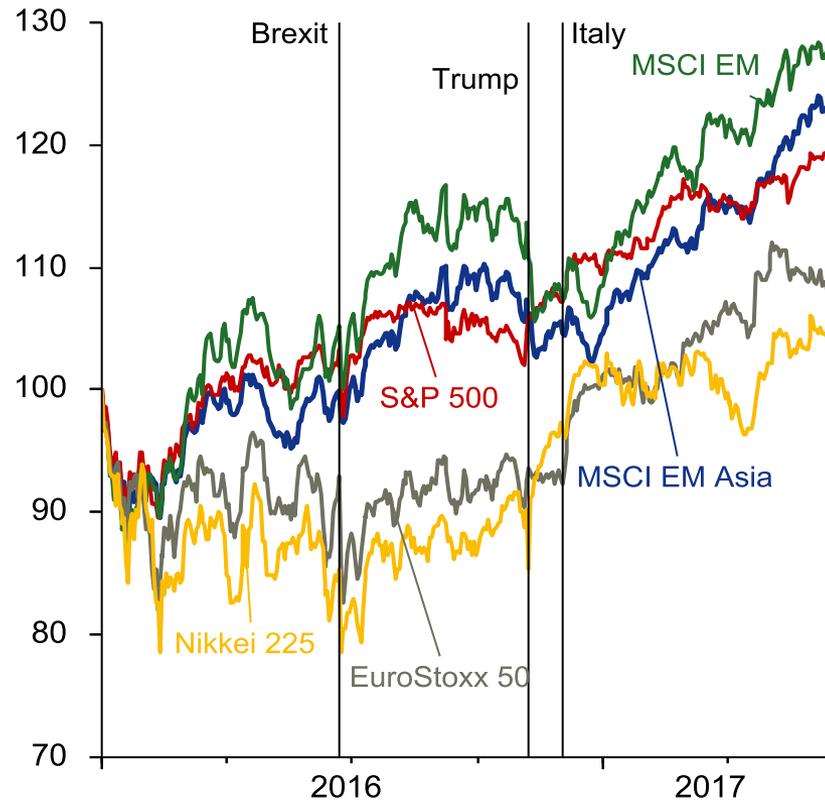
- implementation of reforms to increase the quality and efficiency of the public sector in the delivery of essential public goods and services including measures to enhance the efficiency of the judicial system and to upgrade the fight against corruption
- Reforms will strengthen the institutional and operational independence and effectiveness of key Institutions and agencies such as the statistics institute (ELSTAT), the Hellenic Competition Commission and other regulatory agencies

Financial market outlook 2017/18

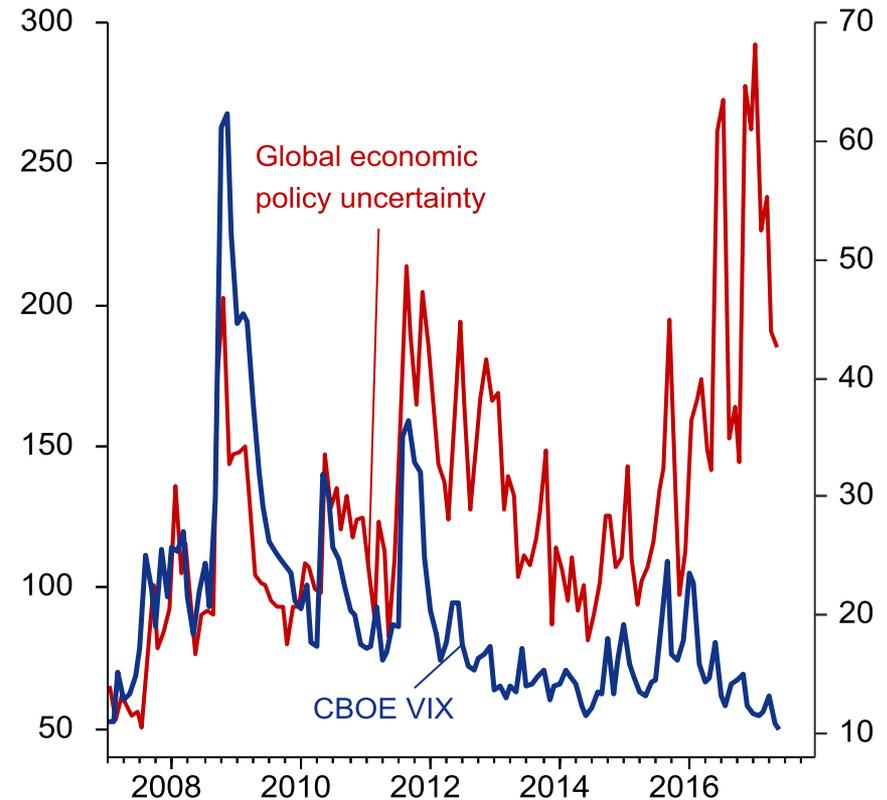


Elevated global uncertainty fails to impress financial markets

Stock market indices (Jan 1, 2016=100)

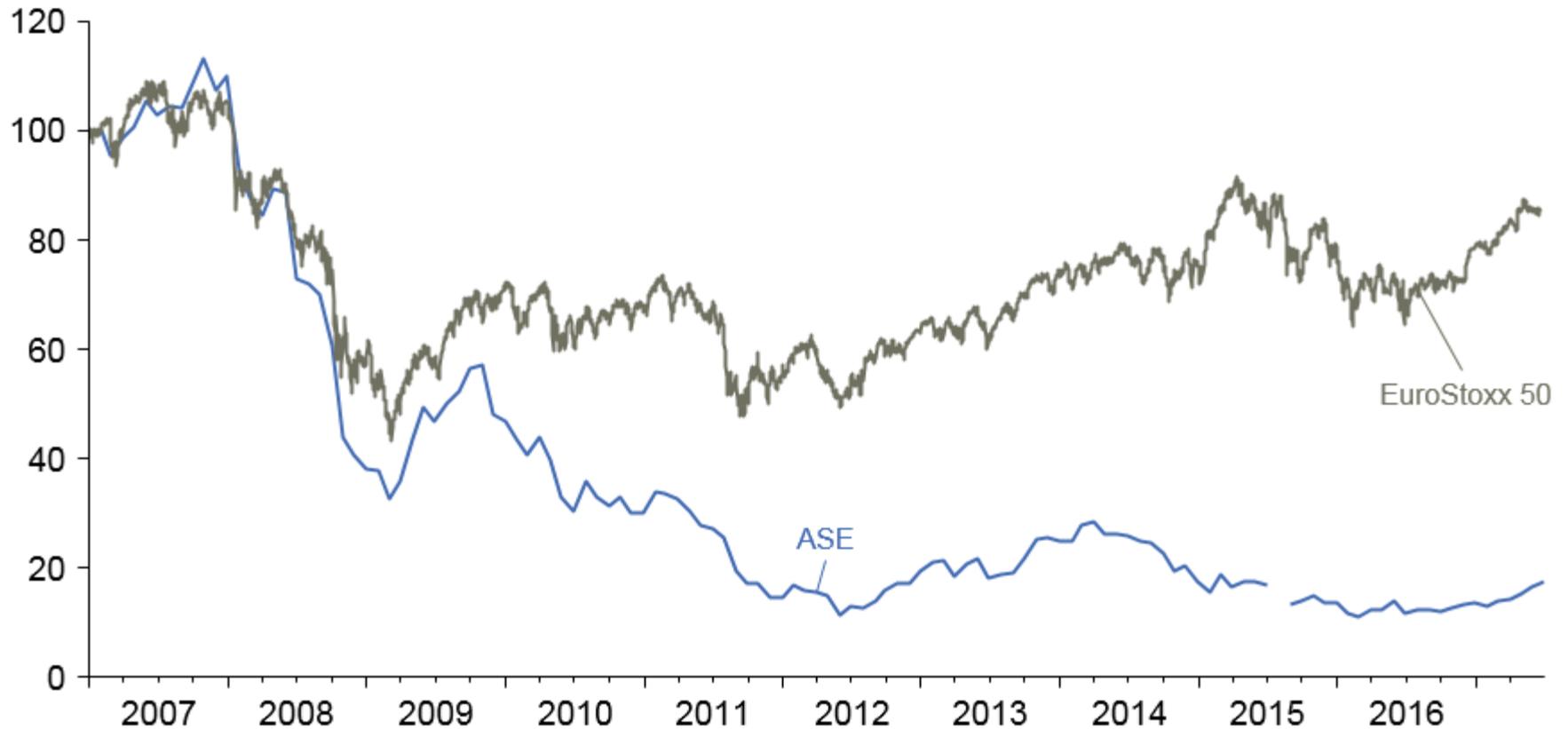


Global economic policy uncertainty Index (lhs) & CBOE VIX (rhs)



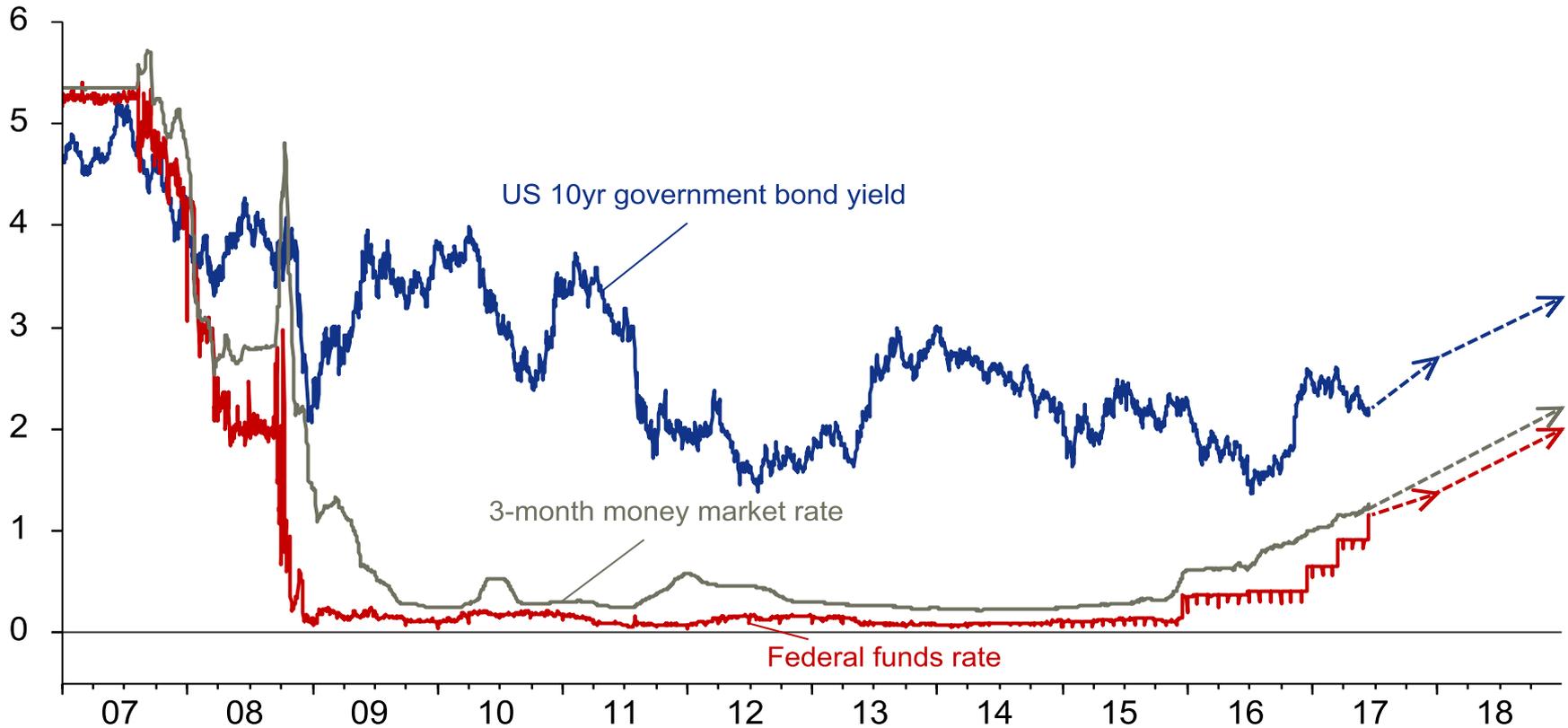
Greek stocks: Significant catch-up potential

Stock market indices (Jan 1, 2007=100)



US: Fed to continue to normalize monetary policy

Federal funds rate, 3-month money market rate and 10yr government bond yield (%)

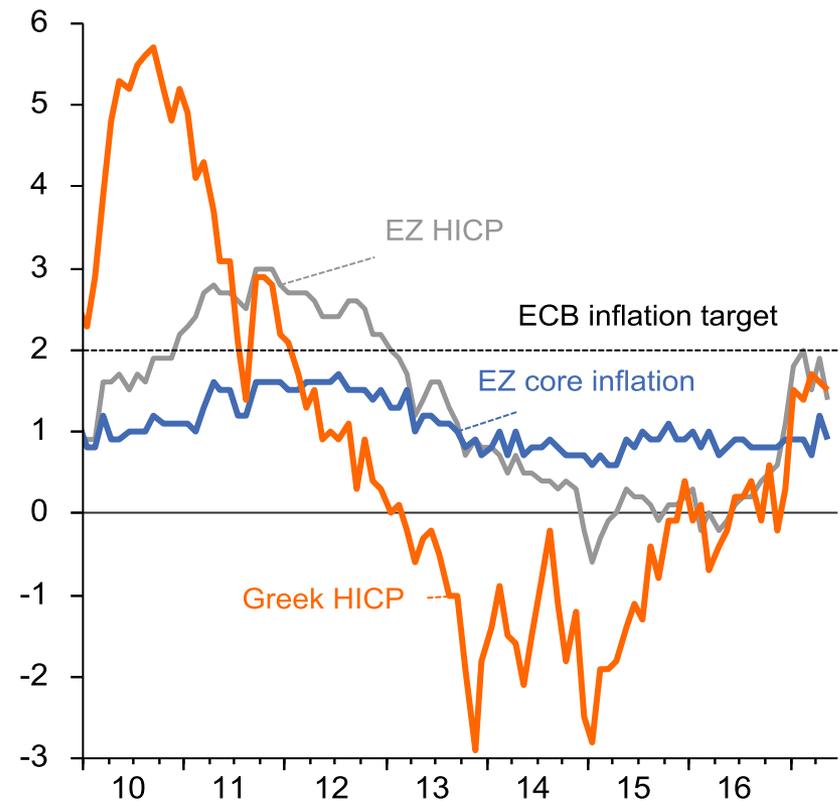


Eurozone: Deflation fears can be put aside

Inflation expectations* vs. oil price (Brent, EUR/Barrel)



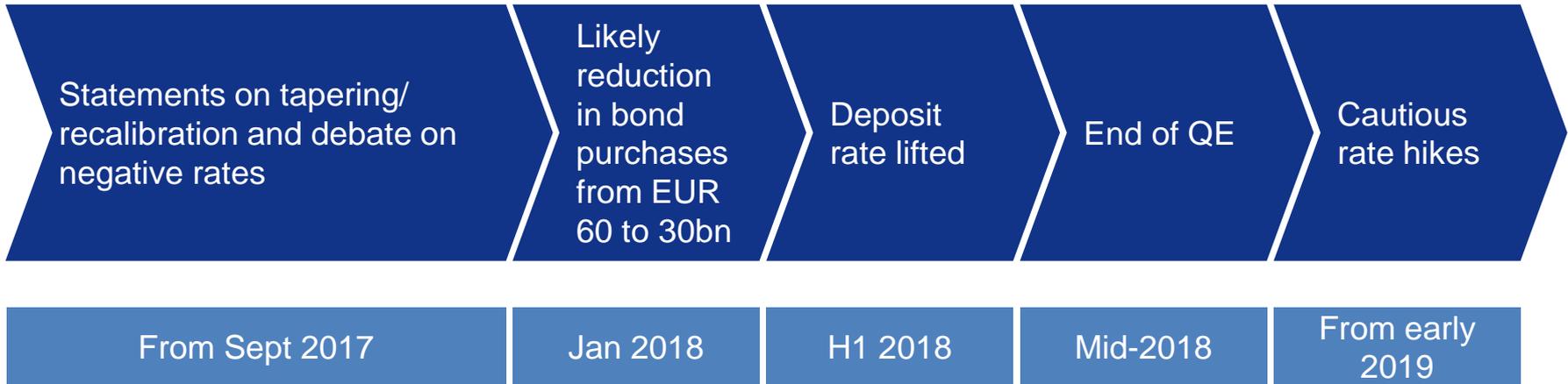
Headline inflation & core inflation (monthly data, y/y change, %)



*) 5 year/5 year inflation swap rate

Source: Thomson Reuters Datastream.

ECB tiptoeing towards exit

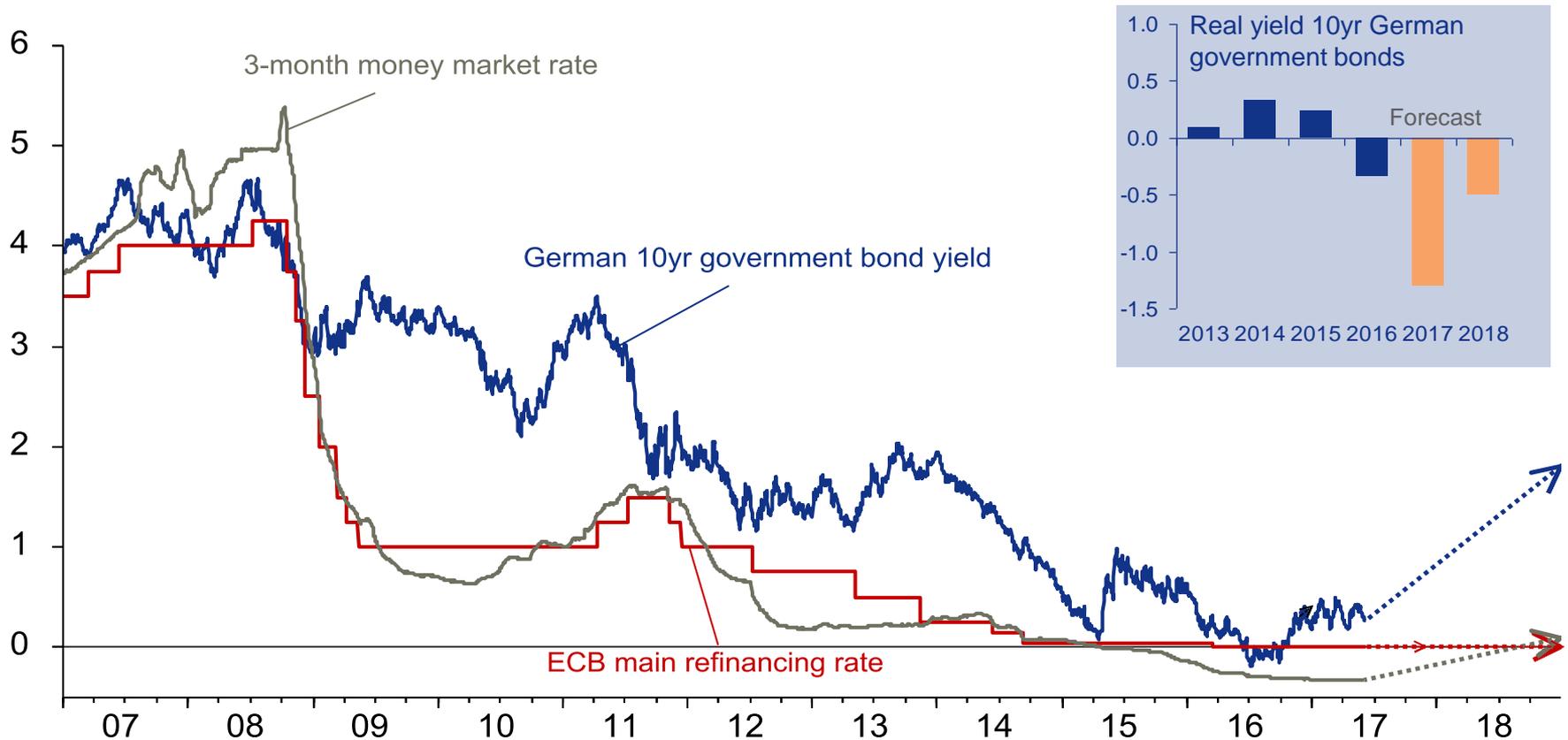


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ECB monetary policy set to remain loose for a long while yet. This sits uncomfortably with healthy economic backdrop in the eurozone; however, given moderate inflation, ECB sees “no need for swift exit”.

Eurozone: Real interest rates to remain negative

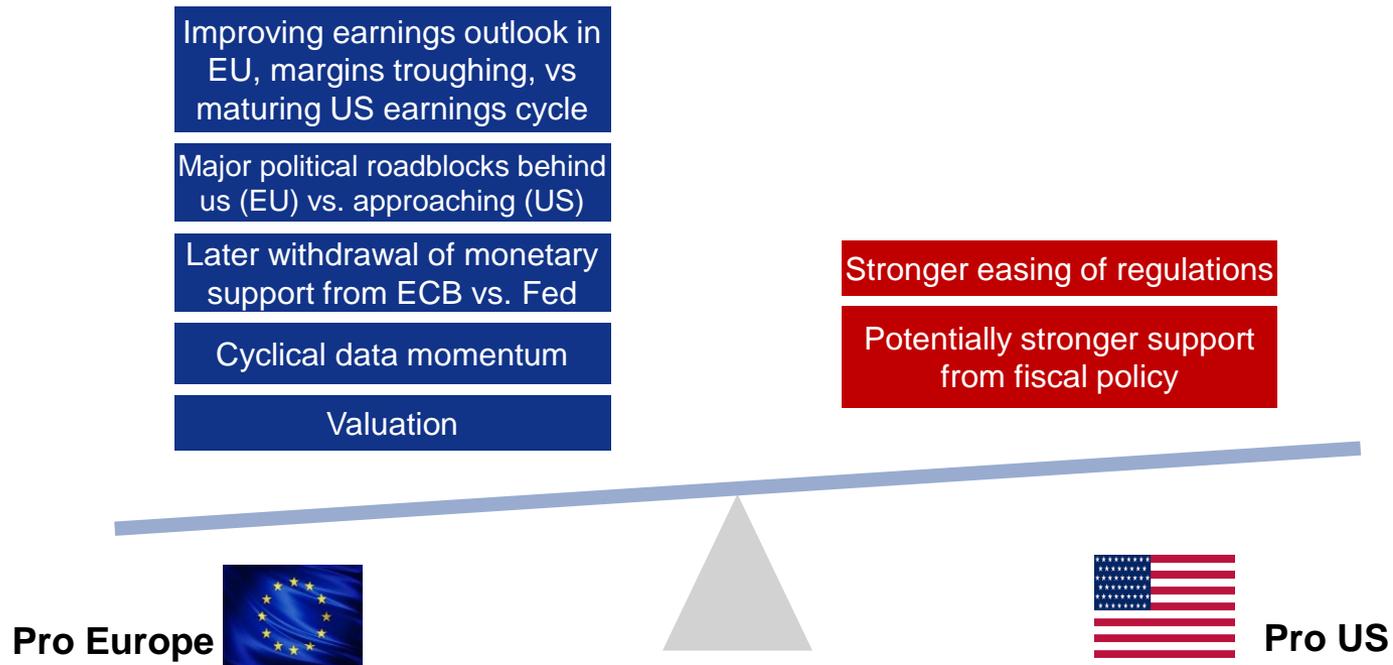
Key interest rates and yields on 10yr government bonds (in %)



Sources: Thomson Reuters Datastream, own forecasts.

Overview: Can Europe finally outperform the US?

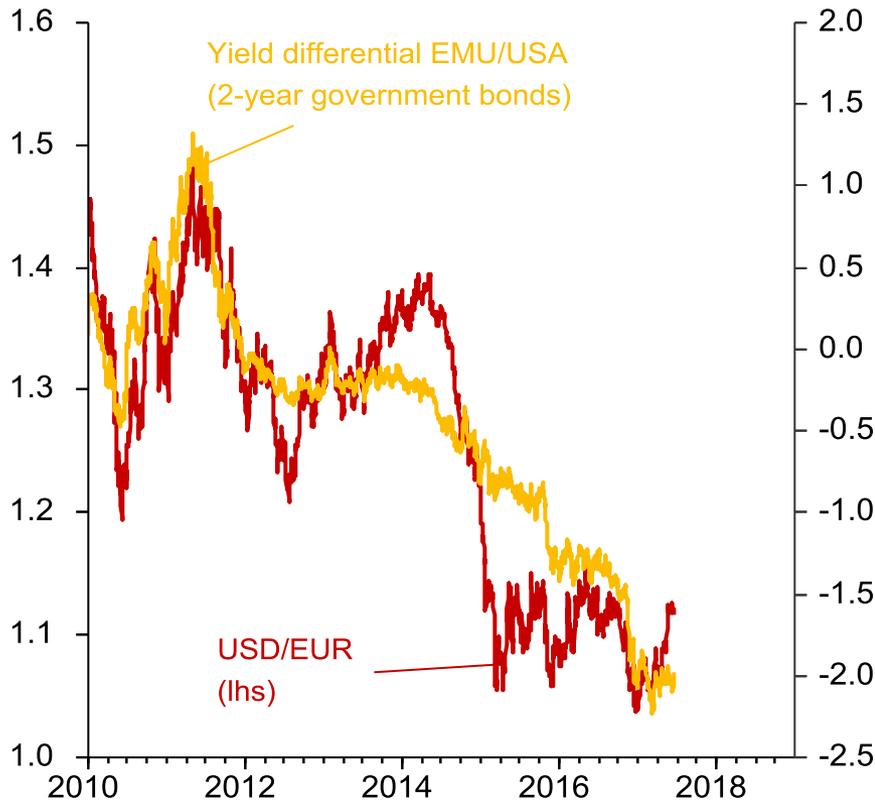
Factors in favor of Eurozone or US equity outperformance going forward



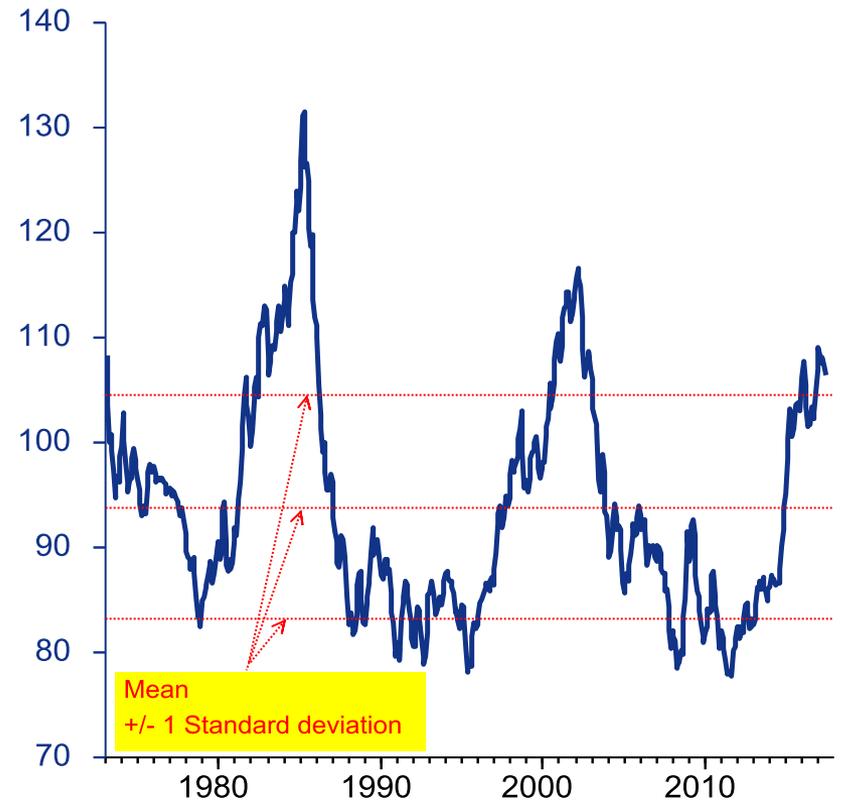
A majority of factors favors an overweight of Eurozone vs US equities at this juncture. The decisive factor will be earnings.

US dollar: Yield differential a key driver

Yield differential EMU/US (daily data)



Real effective exchange rate of the USD against major currencies (monthly*)



* Monthly data through May 2017.