SPECIAL ANALYSIS

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EU out of the crisis: the European Commission's Outlook from autumn 2015

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Introduction

Statistical data indicate that the economic crisis which rocked the European economy is perhaps definitively behind us. Even despite the fact that economic growth falls short of dazzling figures, it's evident that the EU as a whole is out of the recession – it grew on average in 2015 by 1.9% and in the coming years it should even accelerate to more than 2%. The recession is receding across the entire European Union – according to the latest European Commission prediction in 2015 negative growth is being experienced only by Greece, which can to a considerable extent blame itself for its problems. Growth is thriving thanks to several positive factors – the low price of oil, and a relatively weak Euro in comparison to the rest of the world, but also friendly policies, especially monetary. The advantage of the current growth is not its amount, but its ability to resist shocks – whether it is the crisis in Greece, Russia or China.

Economic growth

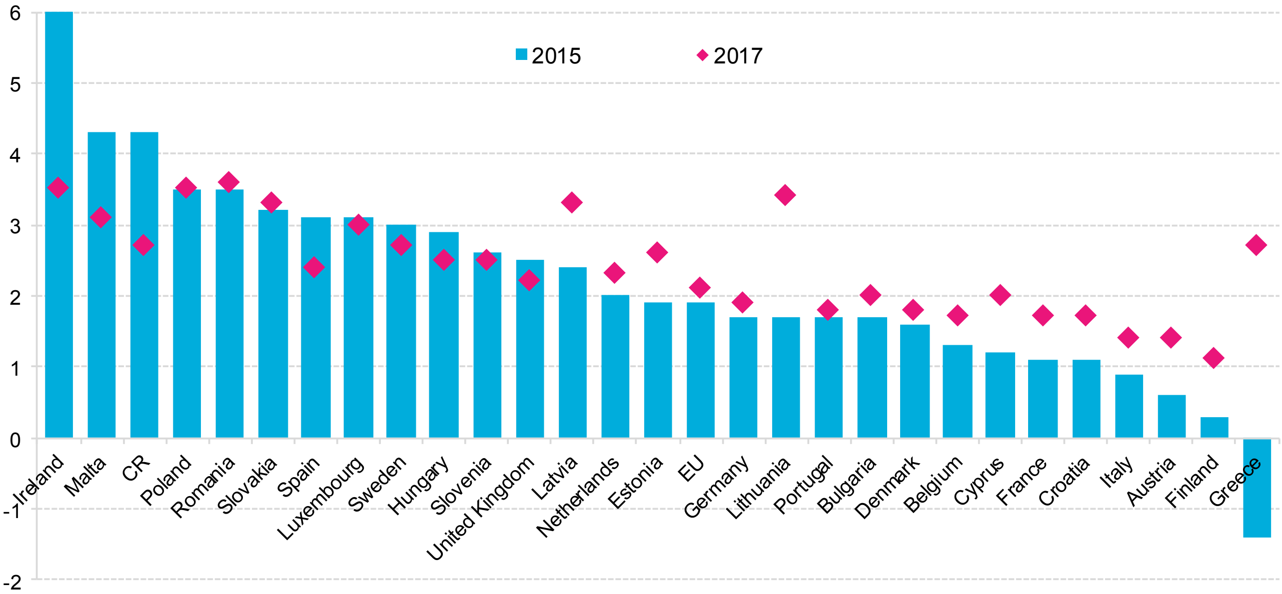
The winner of the economic race in 2015 is Ireland with economic growth of a hard-to-believe 6% of GDP. Despite huge growth in public debt over the period of the economic crisis Ireland has stubbornly stuck with lower tax, which has supported foreign investment.

Currently, it is also growing thanks to large growth in domestic demand. It's necessary to add that Ireland has space to grow – its fall during the financial crisis was particularly great – accumulated losses against potential product since 2008 reached one-third of Irish GDP in 2014. The Commission, however, expects that this year Irish GDP should again achieve its potential. The Czech Republic is also surprisingly well placed with estimated growth of 4.3% of GDP, followed closely by Poland, Romania and Slovakia. The record holders in the western world are Sweden, Luxembourg and Spain, which should exceed 3% growth in 2015.

More than half of member countries, however, did not record growth higher than 2% of GDP – one can therefore certainly not speak of any great miracle. On the one hand, the economy has been shown to be resistant to shocks, but that doesn't mean there is no risk threatening a slowdown in the European economy.

One of the most pressing is the expected slowdown in some of the global economies, especially in China and Russia. According to the Commission, world economic growth in 2015, thanks to this, will be the slowest since 2009.

Economic growth forecast in the EU countries (% of GDP)



Source: European Commission

For an understanding of economic development in the EU it's necessary to bear in mind development in other world economies. According to expectations, the world as a whole should slightly accelerate to an anticipated economic growth of 3.7% of GDP in 2017. The Commission estimates the Chinese economy will slow down to 6.2% GDP in 2017, i.e. by nearly two percentage points. The Chinese economy is going through a significant structural transformation where from a mere export assembly plant it is beginning to more substantially promote the internal market and its needs. While industrial production in China is falling, retail on the contrary is increasing by 10% per year. This structural transformation, however, may cause unexpected changes that could also have unpleasant consequences for Europe.

Like in Europe, one can also expect relatively robust growth in America, and on average even higher than in the EU. The European Commission estimates approximately 2.5% growth there. The American economy is constricted by geopolitical uncertainty and an unusually strong dollar that increases the cost of American goods and services abroad. In contrast, the Japanese economy is encountering insufficient domestic demand that is undermining its prospects for economic growth, which should only barely exceed the 1% threshold in 2016.

The European economy has growth of around 2% of GDP annually. Signs of economic convergence can also be found in Europe – according to forecasts of growth, new member states should on average grow faster at an average rate of 2.5%, while in the "old" states it should be about 1.9%. The fastest economy in the EU in 2017 should be Romania, which is benefiting from increasing private consumption and expanding investment encouraged by low taxes. The Commission also forecasts growth of more than 3% for Ireland, Poland, Lithuania, Latvia, Slovakia and Malta.

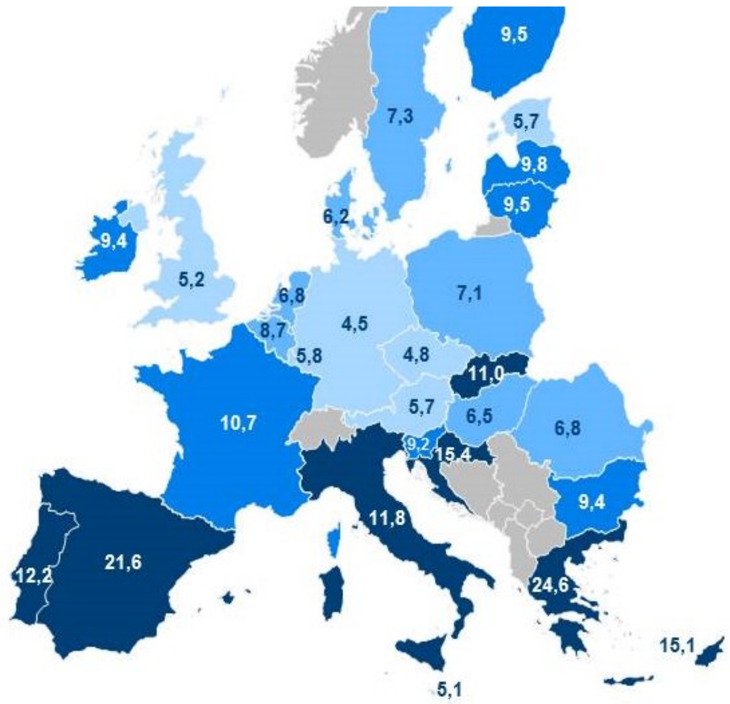
The only country next year with negative growth should be Greece, but in 2017 all member countries without exception will have higher growth than 1% of GDP. For some it is surprising that the lowest growth in 2017 is expected in Finland with growth of 1.1% of GDP.

Unemployment

The improving economic situation is also reflected positively on the labour market: growth in the number of employed and falling unemployment. The declining rate of unemployment is very good news, although the big differences and persistent structural problems in unemployment remain a pressing problem. The unemployment rate in the European Union and in the Eurozone peaked in 2013 when it was 12% in Eurozone countries and 10.9% in the whole of the EU. The lowest unemployment rate in 2013 was in Germany (5.2%) and Austria (5.4%), while conversely the highest was in Greece (27.5%) and Spain (26.1%).

The unemployment rate has gradually declined since 2013, but differences between individual member states still remain high. The recovery and rising consumption are helping to improve the situation. The latest Eurostat data show that the rate of unemployment in September 2015 in the European Union and in the Eurozone fell by 0.1 of a percentage point to 9.3% in contrast to the preceding month, or respectively 10.8%. Apart from having one of the highest economic growths, the Czech Republic also recorded another small triumph in the form of the second lowest unemployment rate (4.8%) among member states immediately after Germany (4.5%). The situation at the opposite end of the scale, however, remained the same, the worst being Greece (24.6% - data for August) and Spain (21.6%). In the whole European Union there were approximately 23 million people without work, of whom 17.5 million were in Eurozone countries.

Unemployment rate (September 2015)



Source: Eurostat

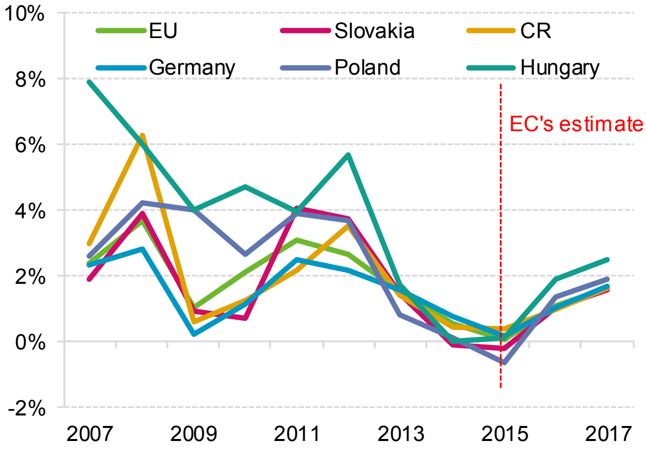
A big problem, however, remains (mainly in southern wing states) the structure of the unemployment rate. Long-term unemployment (longer than one year) represents a problem not only for the unemployed themselves, but also burdens the economy as a whole in the form of higher state budget expenditure as well as untapped potential. In 2014, long-term unemployment reached 5.1% in the EU, which represented half of the total.

It is not only the amount but also the proportion of the total rate of unemployment that represents a big problem in Greece and in Slovakia where this proportion comprises about 70% of the total. Another negative phenomenon is the unemployment rate of young people up to 25 years of age. In the EU it has reached 22%, but in Greece and Spain every second young person under 25 is without work.

Inflation

Currently, inflation in the EU is moving at historically the lowest levels since at least the mid-1990s. It's actually moving around that thin line between inflation and deflation – the average rate of inflation in the EU according to the estimate for 2015 will be 0.03%. Of this, the economy in 11 countries experienced mild deflation while in 17 countries the rate of inflation (as measured by the HICP) is just in the black. The close relationship in inflationary development is also well illustrated by the spread – while the lowest inflation in Europe is in Cyprus (-1.57%) and in Greece (-1%), the "record holder" on the other hand, is Malta with inflation of a mere 1% year-on-year. The simple reason for declining inflation is the falling price of energy and commodities – the lower price of oil reduces production costs. At the same time, however, it is applying pressure for wage increases and therefore growth in the population's disposable income, leading to an increase in consumption, which is reflected in pressure on the level of prices.

Inflation in selected countries



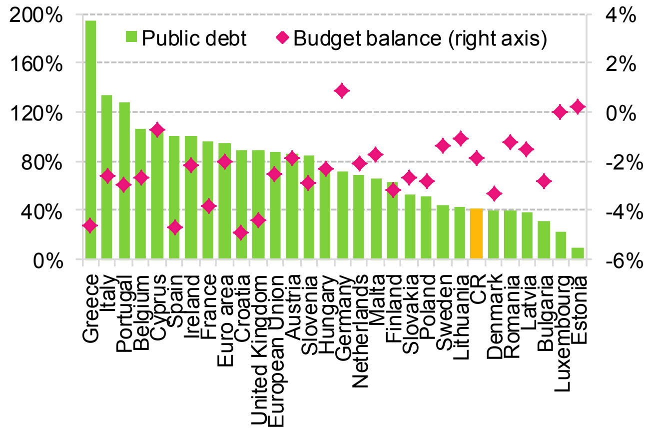
Source: Eurostat; HICP; 2015 - 2017 are EC estimates

The common inflation development in trading partners is clearly evident in the countries of the Visegrad Four. Inflationary development in these countries is comparable over the long term, yet in recent years they have achieved an almost identical trajectory. The Commission predicts the rate of inflation in the EU in 2016 will grow by 1.1% and in the Eurozone by 0.9 of a percentage point to 1.0%. For 2017 the inflation rate in the EU and in the Eurozone is estimated at 1.6%.

Public finances

The economic crisis of 2008 has moved very fast from the level of private to public debt – due mainly to the bailout of the banking sector and some companies, reduced budget revenues and increased social spending. We can at present say that the worst is behind us – public debt in the majority of countries should no longer increase. Public debt in the European Union in 2015 was approximately 88% and it should no longer grow – the European Union has therefore managed to maintain debt below the still manageable limit of 100%.

Public debt and budget balance (2015)



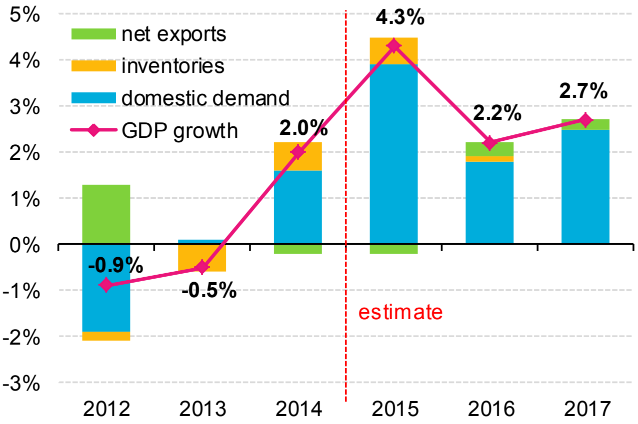
Source: Eurostat, AMECO

This does not mean, however, that there are no problematic states – Greece, with debt close to twice its GDP, is an example of this. During the attempts by the left-wing government of Syriza to rid the country of its debt burden, Greek debt grew between the years 2014 and 2015 by a further 17 percentage points. However, it should not grow too much in the coming years and if Greece does manage to get back on to a growth trajectory in practice it will no longer be able to pick itself up. Public debt has also exceeded the 100% limit in Italy, Portugal, Ireland, Belgium, Cyprus and Spain. Nevertheless, the level of public debt will fall in the coming years in all these countries thanks to the recovery of the economy. There are, however, also examples worth following – Estonian debt comprises a mere tenth of GDP there, and the managers of public coffers also deserve praise in Luxembourg, Bulgaria, Latvia and Romania.

The Czech Republic

The macroeconomic situation in the Czech Republic has greatly surprised – year-on-year growth of more than 4% is on a par with some pre-crisis levels and ranks among the best in Europe. Only Ireland is growing faster than the Czech Republic. Moreover, the growth structure is also highly favourable for us – like the rest of the EU the driver of growth is domestic demand, and to a lesser extent the growth in reserves. What may be surprising is that nett exports don't show up too much in Czech GDP even despite the fact that the industrialised Czech Republic is one of the most exporting economies in Europe. The reason is growing domestic demand, closely connected to a growth in imports which outweigh high exports. What is behind domestic demand is the strongest growing household sector, which has taken off from the doldrums and in 2013 entered a strong growth trajectory. Related to this is falling unemployment and increasing average wages.

Czech Republic - GDP and contributions to growth



Source: Eurostat, 2015-2017 are EC estimates

New private investment has also played a role and recently the swift drawdown on European Funds from the previous financial framework for 2007 – 2013 also underwrote development.

Public finances in the Czech Republic are in a good state in comparison to the rest of the EU – public debt in 2015 will be 41% and in the coming years it should fall further thanks to high economic growth. The budget deficit at 1.9% is hence a bit exaggerated in a period of economic boom, but it won't economically burden the state coffers.

Macroeconomic indicators for the Czech Republic

	2015	Δ 2015-2017
GDP growth	4.3%	-1.6%
Inflation	0.4%	1.3%
Unemployment	5.2%	-0.4%
Current account	-2.5%	0.4%
Budget deficit	-1.9%	0.8%

Source: European Commission

Inflation in the Czech Republic is also very low and one can call it a positive zero. But low growth is certain not a purely Czech affair – it's currently happening all over Europe.

The Czech economy is in excellent condition and from the perspective of member states this is also demonstrated in the improving situation on the labour market. According to the Labour Force Survey (LFS), the rate of employment increased for people aged 15 to 64 to 70.5%, which is the most since 1993, i.e. since this survey began. Compared to the third quarter of 2014, the employment rate has increased by 1.2 percentage points. The Czech Republic has achieved excellent figures even from a Union perspective. The second lowest unemployment rate (4.8% - seasonally adjusted, September 2015) speaks for everything. Only Germany has better results. The Czech Labour Department recorded 430,000 job seekers in October 2015 (the smallest number since February 2009), which is 11,500 job seekers fewer than the preceding month and nearly 90,000 fewer than in October 2014.

In comparison to last year the number of unemployed fell, although the number of job vacancies also grew by 49,000, i.e. to 107,000. In October 2015 there was therefore one job vacancy for every four candidates. Apart from the declining number of unemployed, the structure is also gradually improving. The long-term unemployment rate is low in comparison with other EU states and in 2014 reached 2.7%, i.e. 0.3 of a percentage point less than in 2013. In regard to the unemployment rate of young people aged up to 25 years of age for 2014, the position of the Czech Republic in comparison to the Union is a very decent 7th place, although the amount is still high (15.9%).

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The labour market situation in the Czech Republic as at 31. 10. 2015

Percentage of unemployed	5.9%
Number of job seekers	430,432
Unemployment rate (September 2015)	4.8%
Number of job vacancies	107,324

Source: Labour Department, Czech Republic; Ministry of Labour and Social Affairs; Eurostat

The Commission's forecast for the Czech Republic is relatively conservative – a continuation of the current growth dynamics is not anticipated – growth should decline to 2 - 3% of GDP in 2016 and 2017 and it will thus be demoted from its position among the fastest growing economies in the EU. Nevertheless, the CR will continue to benefit from falling unemployment and growing wages. However, exports and imports will slightly weaken in the coming years. The situation on the labour market should also continue to improve – the unemployment rate will continue to fall slightly to 4.8% in 2017.

Conclusion

The latest economic forecast from the European Commission from November 2015 indicates that the economic crisis that occurred following the fall of Lehman Brothers in autumn 2008 is perhaps definitively behind us – the majority of European countries are growing at a solid pace and the growth will not be derailed by turbulences around the world. However, the economic crisis has clearly left a legacy – it is certainly responsible for the high unemployment in the Mediterranean and the high public debt in almost the whole of Western Europe. These are challenges that European politicians will have to continue to resolve.

The Czech Republic reached the pinnacle of the European economy in terms of economic growth. After years of very low growth, which in comparison with neighbouring states appeared to be inadequate, the Czech economy is finally rebounding. At present it is growing at a pace of 4.3%. Thanks to this, unemployment is declining and wages are growing. Nevertheless, Czechs should certainly not be resting on their laurels, and companies, the government and people should strive for a sustainable economy that will be competitive in future decades as well.

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