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Economic Forecasts from the World's Leading Economists

CONSENSUS FORECAST

Major Economies
July 2020

Interview with HSBC

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Euro area

Interview with HSBC

Covid-19 is presenting the Euro area with arguably the greatest challenge since its foundation. The virus has pummeled economic activity across the bloc and laid bare the stark disparities between member states. In a bid to reboot the economy, the European Commission has proposed a EUR 750 billion recovery fund. To discuss the fund, and the outlook for the Euro area more broadly, we spoke to Simon Wells, HSBC's chief European economist.

Simon Wells was appointed HSBC's chief European economist in 2016. He joined the bank as chief UK economist in 2011 following a long career at the Bank of England. Simon also worked for two years at the Monetary Authority of Singapore, heading a team in the Macroeconomic Surveillance Department. Simon won the Best Overall Forecast award for the Euro area in the 2019 FocusEconomics Analyst Forecast Awards.

FE: Do you see the Commission's recovery fund being approved?

SW: *The 'frugal four' countries (the Netherlands, Austria, Sweden, Denmark), which had previously rejected a French/German proposal to give 'grants' rather than loans, might still be reluctant to commit to such a large amount of future liabilities. The President of the European Council did not "underestimate the difficulties" in reaching agreement after the 19 June European Council meeting. But given the high-profile and ambitious nature of the plan—and with Germany and France having thrown their weight behind it—we doubt it will be rejected completely.*

FE: Do you see the final approved version of the plan differing substantially from the Commission's initial proposal?

SW: *The final plan could end up being diluted as a result of the negotiations. For example, it could be downsized with a smaller component of 'grants' and/or tougher conditions attached to them – perhaps tied to meeting European fiscal rules. Some countries may negotiate bigger discounts on their own contributions to the EU budget. We could also see an increase in the 'green' component of the plan, which is high on the agenda of many governments across Europe.*

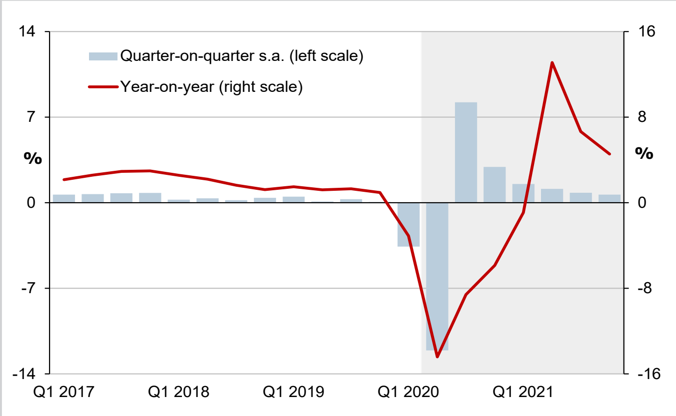
"To achieve more meaningful growth in long-term prosperity, there still needs to be more sustained fiscal integration"

FE: Is the plan sufficient to kickstart the EU economy?

SW: *Compared with previous EC initiatives, the proposed recovery fund contains fresh cash from real borrowing (rather than a reallocation of existing funds, aimed mainly at mobilising private investment). Large countries such as Italy and Spain could receive up to 10% of GDP in funds. Most money should be spent on high-multiplier investments. Based on realistic assumptions in terms of the spending profile and a near-term fiscal multiplier of 0.5, we calculate that this could lift the Eurozone's GDP level by 2ppt by 2025 and by about 5ppt in Italy and Spain.*

Given its investment focus, the plan could lift long-term growth potential slightly. But in the end it is a temporary, crisis-response tool. To achieve a more meaningful rise in growth in long-term prosperity, there still needs to be more sustained fiscal integration, increased mobility of labour that could be facilitated by the completion of the single market and deeper financial integration. Of course, the problem is that while economists prescribe 'more Europe' many voters want 'less Europe'.

Gross Domestic Product | variation in %



Note: Quarter-on-quarter changes of seasonally adjusted GDP and year-on-year variation in %.
Source: Eurostat and FocusEconomics Consensus Forecast.

FE: What is your outlook for the ECB's monetary policy going forward?

SW: *ECB President Christine Lagarde referred to getting back to the "pre-COVID inflation path" five times in the press conference after the June decision. So while PEPP (Pandemic Emergency Purchase Program) is a crisis tool, what constitutes the 'crisis phase' may be not only the pandemic itself, but the more persistent economic effects of it. This opens the door to another expansion of PEPP in September. But at HSBC Economics, we don't think that is a given. Although the ECB's inflation forecasts are very low, they do not factor in all of the recent policy response or the rise in the oil price. Come September, inflation might be closer to its 'pre-COVID path'. In that sense, if the ECB wants to loosen policy again, it may choose to do so later in the year and using its regular PSPP (Public Sector Purchase Program) rather than the PEPP.*

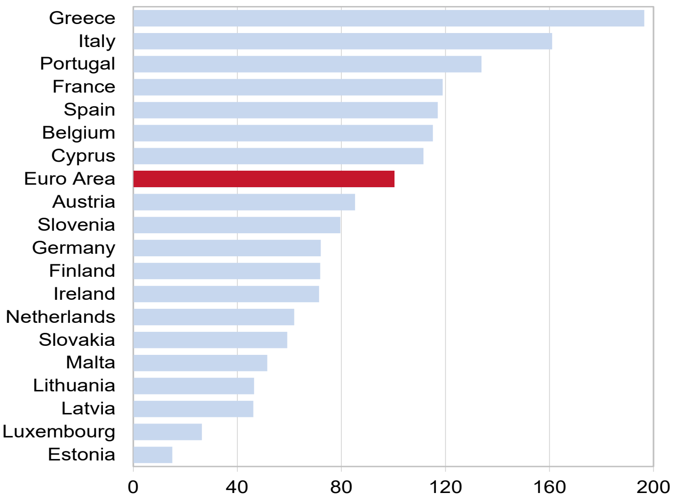
FE: How do you judge individual countries' response to the Covid-19 crisis? Has the fiscal stimulus been sufficient?

SW: *Deep pockets help. Germany's new fiscal measures worth EUR130bn (almost 4% of GDP) takes its discretionary fiscal stimulus to 5% of GDP this year, the largest package in the Eurozone. But combined with loosening in other countries, the total fiscal impulse in the Eurozone will be almost 4% of GDP this year. This should provide significant support to the recovery. Research shows medium-run fiscal multipliers in the Eurozone tend to be larger when monetary policy is at the lower bound, and could even be greater than one. Based on a fiscal multiplier of one, in the absence of the stimulus 2021 GDP growth might be about half our current forecast of 6.5%.*

FE: How concerned are you about elevated and rising public debt levels in certain eurozone countries?

SW: *The Covid-19 crisis will leave behind a legacy of much higher debt, which could mean significantly higher financing needs. For some countries, this could lead to pressure from the market and ratings agencies to put their finances back on a more sustainable footing. Italy could be a major focal point for investors. Another concern is whether the EU has learned lessons from 2011–12. Fiscal rules have been suspended for this year, but what happens next? Pressure to consolidate the public finances could re-ignite the vicious circle of austerity, deeper GDP contractions and, in turn, potentially higher debt-to-GDP ratios.*

Public Debt as % GDP by country, 2020



Note: Public debt as % of GDP.
Source: Eurostat.

FE: Do you see the EU making progress towards greater fiscal integration in the coming years?

SW: *Policy stepped up in response to the pandemic. But it is unlikely that this causes a shift in the underlying politics. A monetary union before a fiscal union was always something of 'cart before horse' in our view. It was done first because it was politically more palatable. If you look at the current political landscape, it is not obvious that the politics of fiscal integration have got any easier—indeed they have probably got more difficult.*

Notes and Statements

PUBLICATION NOTE

Consensus forecasts are mean averages of projections of economic forecasters surveyed by FocusEconomics for our monthly publication. Quarterly averages may not correspond to the annual figures due to different forecast panels.

The GDP-weighted averages for the regional aggregates and the world refer to economies surveyed by FocusEconomics on a monthly basis. Weights are based on Consensus Forecasts for nominal GDP (USD billion).

The regional aggregates include the following countries:

G7 (Group of Seven, 7 countries): Canada, Japan, United Kingdom and United States; France, Germany and Italy are also Euro area countries.
BRIC (4 countries): Brazil, Russia, India, and China. The term was coined by Goldman Sachs in November 2001 and has since been widely adopted in investment and finance.
Euro area (19 countries): Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain.
Nordic Economies (5 countries): Denmark, Norway, Sweden and Iceland. Finland is also a Euro area member.
Additional Countries: Switzerland.
World: 130 countries, comprising around 98% of global output.

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ECONOMIC FORECASTS FOR KEY INDICATORS IN 131 COUNTRIES IN 12 REGIONS

MAJOR ECONOMIES & SWITZERLAND G7 countries (United States, Canada, Japan, United Kingdom, France, Germany & Italy), Switzerland and overview of the BRIC countries
EURO AREA Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain
NORDIC ECONOMIES Denmark, Finland, Iceland, Norway and Sweden
CENTRAL & EASTERN EUROPE Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia
CIS PLUS COUNTRIES Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan
SOUTH-EASTERN EUROPE Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Greece, Kosovo, Montenegro, North Macedonia, Romania, Serbia and Turkey
EAST & SOUTH ASIA Bangladesh, China, Hong Kong, India, Korea, Mongolia, Pakistan, Sri Lanka, Taiwan, Australia and New Zealand
ASEAN ECONOMIES Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, Australia and New Zealand
LATIN AMERICA Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela
CENTRAL AMERICA & THE CARIBBEAN Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama, Puerto Rico and Trinidad and Tobago
MIDDLE EAST & NORTH AFRICA Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, United Arab Emirates and Yemen
SUB-SAHARAN AFRICA Angola, Botswana, Cameroon, Côte d'Ivoire, DR Congo, Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda, Zambia and Zimbabwe

REAL SECTOR GDP per capita, Economic Growth, Consumption, Investment, Industrial Production, Unemployment Rate, Fiscal Balance and Public Debt
MONETARY & FINANCIAL SECTOR Money, Inflation Rate, Policy Interest Rate and Exchange Rate
EXTERNAL SECTOR Current Account, Trade Balance, Exports, Imports, International Reserves and External Debt

PRICE FORECASTS FOR 34 COMMODITIES IN 4 MAIN GROUPS

ENERGY Brent Crude Oil, WTI Crude Oil, Coking Coal, Gasoil (European market), Gasoline (U.S. benchmark), Natural Gas, Thermal Coal and Uranium
BASE METALS Alumina, Aluminium, Cobalt, Copper, Iron Ore, Lead, Molybdenum, Nickel, Steel (European and U.S. markets), Tin and Zinc
PRECIOUS METALS Gold, Silver, Palladium and Platinum
AGRICULTURAL Cocoa, Coffee, Corn, Cotton, Palm Oil, Rice, Soybeans, Sugar, Wheat and Wool

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