



## Europe: Not a global engine

- We expect euro area GDP growth to be broadly unchanged at 1.6% in 2016 and to slow in 2017. The global recovery will be less supportive than we previously thought. This year's stimulus from lower oil prices won't be repeated and probably reverses in 2017. Joint monetary and fiscal policy will help compensate in 2016 but not in 2017.
- Broad financial conditions should start 2016 easy before tightening into year-end. The output gap will gradually narrow even with these modest rates of GDP growth and past euro depreciation is starting to become more visible in inflation. By end 2016, the ECB's medium-term headline inflation projections should be at levels consistent with a tapering discussion. While refugee and security-related public spending is likely to see fiscal policy relax next year, we expect compliance with fiscal rules to improve in 2017.
- Political uncertainty is likely to rise into 2017. The refugee crisis has created frictions but the common threat to security may unify Europe and reduce the risk of local political events — Greek debt relief negotiations, Portugal's minority government, Catalonia's independence bid, the UK's EU negotiations — from undermined area-wide stability in 2016. The unity won't last into 2017. The closer we get to the Dutch, French and German elections in 2017 — Italy may bring forward its election into 2017 too — the more disharmonious the EU is likely to sound. This will weigh on structural reform, and market may take notice.
- Despite fiscal austerity, a strong currency and maybe some EU referendum-related uncertainty, UK GDP growth will be no worse than trend in 2016, helped by robust private consumption. Inflation base effects will push inflation back up and we continue to see the Bank of England achieving rates lift-off in May. The referendum vote could be as soon as late next year. According to opinion polls, the outcome looks closer than the last referendum in 1975 when 66% voted to remain in the EU.
- The EMEA region is a case of contrasting paths. CEE is characterized by decent growth with little or no inflation and scope to ease further if necessary. The economies elsewhere in EMEA are either experiencing recession or faltering growth but high inflation affords little if any room to provide offsetting policy support.

Figure 1: Macro-economic activity & inflation forecasts:

	GDP (% yoy)			CPI (% yoy)				GDP (% yoy)			CPI (% yoy)		
	2015F	2016F	2017F	2015F	2016F	2017F		2015F	2016F	2017F	2015F	2016F	2017F
EU	1.8	1.9	1.7	0.1	1.0	1.7	EEMEA	1.0	1.9	2.5	8.7	6.7	5.9
Euro area	1.5	1.6	1.5	0.1	0.9	1.6	Poland	3.4	3.5	3.5	-0.9	1.1	1.7
Germany	1.7	1.9	1.6	0.2	1.2	1.7	Hungary	2.7	2.4	3.3	0.0	2.1	2.7
France	1.1	1.4	1.5	0.1	0.8	1.3	Czech Republic	4.5	2.7	3.2	0.4	1.6	2.0
Italy	0.7	1.4	1.0	0.1	0.8	1.5	Romania	3.7	4.0	3.0	-0.6	-0.2	2.6
Spain	3.2	2.8	2.3	-0.6	0.7	1.6	Russia	-3.7	-0.7	0.5	15.6	9.2	7.1
UK	2.4	2.5	2.3	0.0	1.1	1.9	Ukraine	-9.7	3.0	3.0	48.7	15.3	9.3
Sweden	3.2	2.7	2.5	0.0	1.0	1.9	Kazakhstan	1.5	2.0	3.6	6.4	14.2	6.5
Denmark	1.6	1.7	1.8	0.5	1.4	1.8	Israel	2.4	2.8	3.5	-0.5	0.8	1.2
Norway	1.4	1.4	2.2	2.1	2.4	2.3	Turkey	2.9	3.1	3.5	7.6	7.8	7.5
Switzerland	1.0	1.2	1.6	-1.1	-0.4	0.3	South Africa	1.3	1.1	1.3	4.6	6.4	6.5

Source: National authorities, Deutsche Bank Research