

## Slowing economies

We now see that most of the main western economies slowed in the first quarter of 2018. Part of this is likely to have been bad weather, possibly with insufficient seasonal adjustments in the figures. The UK economy slowed as I predicted, both through the EU slowdown and from the change of domestic policy designed to slow it. This had nothing to do with Brexit. The Bank's decisions to raise rates, withdraw substantial special credit lines from the clearing banks, and ask them to rein in consumer and car loan credit have had an effect as expected. The tax rises on Buy to Let, dearer homes and cars have reduced activity and investment. In the months after the referendum vote car sales and consumer sales generally flourished, with good overall growth, before these policy actions were taken to rein it in some nine months later. Shop prices continue to fall, boosting consumers' effective spending power.

The government should be thinking about what it can do to speed growth up again. Across the Atlantic the Trump tax cuts are having very positive effects on growth and confidence. Consumers have more money to spend. Companies have more money to invest, to grant pay rises and to reward shareholders who in turn can spend more. Many US corporations are busy repatriating cash to the USA, and there have been numerous announcements of pay awards and of increased investment programmes to raise US capacity.

The US has also given itself a big boost by granting more licences to drill for oil and gas, and allowing more pipelines construction to deliver the results. Cheap energy and cheap feedstock for the chemical industry are two important underpinnings of a successful industrial strategy.

It looks as if this year the US is going to grow faster again than the EU, benefitting from a climate that favours enterprise. The US is also capturing more and more of the consumer spending through its highly successful technology based companies. The latest figures from Apple show huge cash generation, whilst Amazon continues to lift turnover from traditional retailers on both sides of the Atlantic.

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**If President Juncker wants to use the EU budget to demonstrate 'solidarity', it is EU Cohesion Policy that makes a**

# real difference to how citizens perceive and identify with the EU

The launch of the European Commission's proposals for the next Multiannual Financial Framework (MFF) throws a spotlight on how the EU budget should be used to maximise the added value of EU spending. In presenting the MFF proposals, President Juncker referred to the fundamental EU principle of "solidarity" and the need for spending to make "a real difference to the lives of citizens and businesses." Yet, new research indicates a potential contradiction between the MFF proposed by the Commission, and what makes a difference to citizens' perception of the EU.

On 26 April 2018, the multi-disciplinary Horizon2020 project COHESIFY presented its main research results at the European Committee of the Regions. For two years a consortium of 8 universities and 2 SMEs investigated the question of how EU citizens perceive Cohesion Policy and whether they identify themselves with the EU.

- The study found clear evidence of **the impact of Cohesion Policy on citizens' perceptions of the EU and European identity** .
- A key finding is that **Cohesion Policy improves the recognition of the advantages of the EU and EU integration** .

The key recommendations and results of the project were presented to EU policy-makers and to the Commissioners responsible for the EU budget and Cohesion Policy just in time for the finalisation of the **Multiannual Financial Framework** (MFF) which sets out the annual budget of the EU for the period 2021 – 2027 – and actually proposes major cuts to spending on Cohesion Policy after 2020.

According to **Prof. John Bachtler**, lead COHESIFY researcher from the **University of Strathclyde** and responsible for coordinating the 10 project partners, there is a contradiction between the EU's ambitions and its proposals in the MFF.

*"Public trust in EU institutions has deteriorated over the past decade. A key message from our study is that citizens recognise the importance of Cohesion Policy for their region or locality and want to see more control of EU spending at local level. The MFF is going in the reverse direction: proposing the biggest cuts in Cohesion Policy in its history and centralising rather than decentralising EU spending."*

The COHESIFY study is ground-breaking in providing a new and much more comprehensive view of how Cohesion Policy – currently accounting for one third of the EU budget – is perceived by citizens on the ground. The project applied an innovative methodological approach by combining case studies in 17 pilot regions across 12 Member States, stakeholder interviews, a large-scale telephone survey among 8,500 citizens, a cross-national media framing

analysis (including over 110,000 posts and comments on social media) as well as 47 focus groups including 240 citizens.

**Dr Carlos Mendez**, COHESIFY Project manager from the **University of Strathclyde**, added:

*“Our study found that perceptions of the EU and specifically EU Cohesion Policy are influenced by the scale of funding under the policy as well as its performance and good management. The results also show the importance of EU spending being regionally and locally differentiated – and considered by citizens to be addressing the needs and development changes that matter to them. Introducing a more participatory citizen-focused approach to the programming and communication of EU funds is therefore needed and would undoubtedly further strengthen people’s identification with the EU.”*

The study also has important implications for how the EU communicates with citizens. Although many people recognise the importance of the policy for addressing regional disparities and improving their quality of life, they do not feel adequately informed about it. Future communication strategies therefore need to be given a higher priority and need to target citizens more explicitly so that they feel an ownership of the projects in their area. *“It needs to be a two-way process,”* **Dr. Andreja Pegan** from **Trinity College Dublin** stressed, *“ citizens want to have more say on how funds are allocated or governed in their area .”*

Another part of the study also analysed the way Cohesion Policy is currently framed in the media. **Dr. Vasiliki Triga** from the **Cyprus University of Technology** explained that *“ indeed Cohesion Policy frames are rich and diverse and overall positive since the two dominant frames describe the positive economic effects of Cohesion Policy for Member States as well as the dominant impact on the citizens’ quality of life.”* However, the analysis also brought to the fore a difference between regional and national media: the former frame the effects of Cohesion Policy more positively while the national media focus more on criticising national governments or authorities regarding the way Cohesion Policy is being implemented.

All the results of the project and the presentations of the final event are available at [www.cohesify.eu/final-conference](http://www.cohesify.eu/final-conference)

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## Commissioner Pierre Moscovici presents the 2018 Spring Economic Forecast

Bonjour à toutes et à tous. Merci d'être venus ce matin à cette présentation désormais traditionnelle des prévisions économiques de printemps pour 2018 et 2019. Je commence à compter celles qui restent sans oublier celles qui sont passées, mais celles-ci sont bonnes.

Le principal enseignement que je voudrais partager avec vous est à la fois économique et politique. Nos prévisions montrent clairement, sans la moindre ambiguïté, que les indicateurs économiques européens sont au vert, qu'ils sont souvent comparables à ceux d'avant la crise financière, voire historiquement élevés. Et pour le dire en français plus clair, meilleurs.

J'en donne quelques exemples pour résumer un peu nos messages.

Premièrement, je voudrais confirmer que la croissance européenne 2017 a été la meilleure performance économique depuis 10 ans, car elle a atteint, c'est définitivement établi, un taux de 2.4%, et qu'elle a été positive dans tous les Etats Membres. C'est une très bonne nouvelle! L'économie de l'Union Européenne et de la zone euro devrait continuer de croître dans les années qui viennent à un rythme soutenu: de 2.3% cette année et de 2.0% en 2019. Et ça confirme notre diagnostic qui est aussi un pronostic, à savoir que nous sommes non seulement dans une phase de reprise mais dans une phase d'expansion qui est solide et bien installée.

Deuxièmement, dans la zone euro, et ça c'est une donnée humaine qui est évidemment précieuse, indispensable, le chômage est à son plus bas niveau depuis 10 ans aussi et le nombre de personnes ayant un emploi a même atteint un niveau record depuis 20 ans.

Troisièmement, l'inflation devrait augmenter très graduellement depuis un niveau qui reste toujours bas, je reviendrais bien sûr sur tous ces chiffres. L'inflation dans la zone euro resterait au même niveau qu'en 2017, soit 1,5% et atteindrait 1,6% en 2019, vous voyez qu'on reste sur des niveaux qui sont toujours bas et toujours très stables.

Quatrièmement, les perspectives budgétaires parce que dans ces prévisions, nous élaborons aussi, continuent de s'améliorer. La réduction des déficits budgétaires et des dettes publiques devrait se poursuivre en 2018-2019. Pour

la première fois depuis la création de l'Union Economique et Monétaire, c'est pour ça que c'est une date à marquer d'une pierre blanche, tous les pays de la zone euro, je dis bien tous les pays sans exception, vont ramener leurs déficits sous la barre des 3% du PIB cette année. Je ne parle pas à ce stade des conséquences procédurales, elles sont différentes pour différents pays, mais tous les pays seront en dessous de 3% en 2018. C'est une étape historique qu'il convient de saluer, donc je le fais. Aidés par la croissance, les pays fortement endettés devraient voir aussi leur stock de dette diminuer significativement dans les prochaines années. Là encore, nous pouvons nous en réjouir. Voilà pour les bonnes nouvelles, je ne veux toutefois pas laisser penser que nous sommes passés du noir au rose, ça ne se passe jamais comme ça.

Les risques baissiers entourant nos prévisions ont de leur côté clairement augmenté et donc ils doivent être étroitement surveillés. Ces incertitudes concernent majoritairement l'environnement extérieur à l'UE qui doit nous occuper, parfois nous préoccuper, mais toujours nous occuper.

J'en viens maintenant aux détails. Comme vous pouvez le voir sur ce graphique, le PIB de la zone euro continue d'augmenter. Il a désormais largement dépassé son niveau d'avant 2008. Au cours des prochains trimestres, l'économie devrait continuer à croître à un rythme supérieur à son potentiel, soutenue par plusieurs facteurs:

- D'abord un climat des affaires qui est très favorable,
- La poursuite des créations d'emplois, qui évidemment libère le pouvoir d'achat,
- Des faibles coûts de financement qui persistent,
- Une amélioration continue de la situation financière des ménages et des entreprises, c'est l'effet de l'emploi et des réformes,
- Et enfin, une demande mondiale qui reste non seulement robuste, mais consistante permettant à nos exportations de rester très dynamiques.

Même si les indicateurs conjoncturels récents suggèrent, et c'est vrai, que le rythme de croissance a quelque peu ralenti au début de 2018 – vous avez vu le chiffre de 0,4% de croissance en zone euro publié hier par Eurostat – nous estimons que ce ralentissement est dû à un certain nombre de facteurs temporaires, notamment à un hiver plus froid que d'habitude, ce qui affecte toujours la consommation. Nous conservons donc une prévision de croissance 2018 à 2.3%. Et vous savez que nos économistes ne sont pas particulièrement réputés pour leur optimisme frénétique donc je leur fais confiance.

La croissance du PIB devrait rester plutôt vigoureuse cette année et se modérer légèrement en 2019, au fur et à mesure que les stimuli monétaires se dissipent ou s'estompent, que la croissance du commerce mondial ralentit et que certains pays approchent du plein emploi.

A l'échelle mondiale, et vous le voyez aussi, la dynamique mondiale reste solide: la reprise est généralisée et elle devrait se poursuivre malgré un léger recul de certains indicateurs de court-terme. La forte croissance de l'investissement et de la production manufacturée ainsi que la reprise du commerce mondial suggèrent une croissance économique robuste et de surcroît

synchrone parmi les pays développés et les pays émergents.

À court terme, l'activité économique mondiale devrait également bénéficier des retombées du stimulus budgétaire américain, on verra pour le plus long terme, mais celui-ci est significatif – bien que pro-cyclique est à mon sens temporaire.

Compte tenu de cela, la croissance globale en dehors de l'UE accélérerait de 3.9% en 2017 à 4.2% en 2018 et 2019, ce qui constitue bien sûr un environnement très porteur, C'est une excellente nouvelle pour les capacités d'exportations européennes, dès lors que notre appareil de production s'adapte à la demande mondiale.

Pour ce qui concerne les politiques macro-économiques, elles devraient continuer à soutenir l'expansion économique.

D'abord, comme le montre ce graphique, la politique monétaire dans la zone euro devrait rester très accommodante. Nous attendons en effet à un retrait plutôt graduel, c'est bien sûr le travail de la Banque Centrale Européenne mais elle a déjà annoncé sa guidance, des mesures de politique monétaire non-conventionnelle.

De plus, l'orientation budgétaire de la zone euro dans son ensemble, d'après nos prévisions, resterait globalement neutre sur cette même période.

J'en viens maintenant au marché du travail. À 8,5% pour la zone euro et 7,1% pour l'EU dans son ensemble, le taux de chômage est maintenant presque revenu aux niveaux d'avant-crise et le nombre de personnes ayant un emploi, je le disais, est à son niveau le plus haut depuis 20 ans. L'emploi est à la hausse, que ce soit en nombre de personnes ou en nombre d'heures travaillées. C'est une autre très bonne nouvelle, sinon la meilleure nouvelle de toutes celles que j'annonce aujourd'hui !

Les créations d'emplois devraient d'après nous rester fortes cette année et l'année prochaine, grâce à une croissance économique robuste que j'annonce par ailleurs. Nous nous attendons toutefois à un ralentissement des créations d'emplois, essentiellement dû au fait qu'au fur et à mesure que l'emploi se développe, apparaissent des tensions sur les marchés de travail dans certains Etats Membres et l'adéquation formation – emploi est là sans aucun doute une clé de l'avenir.

En même temps, il demeure des capacités inutilisées sur le marché du travail dans la zone euro. Mais nous pensons que le sous-emploi devrait continuer à se réduire progressivement avec des différences toutefois toujours importantes entre les Etats Membres.

Au final, la création d'emplois dans la zone euro devrait croître de 1,3% en 2018 et de 1,1% en 2019, après avoir augmenté de 1,6% en 2017. Ce ralentissement, associé à une croissance régulière de la force de travail, devrait limiter les futures baisses du taux de chômage par rapport aux années précédentes. Mais cette tendance à la baisse du taux de chômage s'affirme.

L'inflation devrait remonter graduellement, depuis des niveaux qui restent

toujours très bas.

Vous savez que la hausse des prix à la consommation a ralenti au premier trimestre de cette année, mais elle devrait repartir dans les trimestres à venir, en particulier du fait de la hausse des prix du pétrole.

Les pressions sous-jacentes sur les prix commencent aussi à émerger, du fait des tensions sur les marchés de travail que j'évoquais et aussi de hausses plus rapides de salaires dans un certain nombre d'Etats Membres.

Au total, notre prévision pour l'inflation reste inchangée par rapport à nos prévisions d'hiver: à 1,5% en 2018 comme en 2017, et à 1,6% en 2019. Donc tout ça reste d'une très grande stabilité en vérité.

Now I turn to the growth map. As I mentioned in my introduction, economic growth in the euro area and in the EU reached a 10-year high in 2017, which was also the first year in a decade in which all EU economies were growing. This widespread positive news is expected to be repeated this year, with GDP expanding all over Europe.

Among the largest EU economies, GDP growth in 2018 is expected to be above the EU average (of 2.3%): in Poland at 4.3%, in the Netherlands at 3.0%, in Spain at 2.9%.

Growth in Germany is expected to remain strong, in line with the EU average at 2.3% in 2018, after 2.2% in 2017. It should be supported by robust domestic demand and strong foreign trade, which is quite a habit in this country.

En France, l'activité économique devrait continuer d'accélérer en 2018 avec une croissance de 2,0%, après 1,8% en 2017. Les exportations rebondiraient de façon marquée grâce à la forte demande mondiale, contribuant je l'espère à diminuer le déficit commercial de ce pays.

The Italianeconomy is expected to continue to grow at the same pace as last year, at 1.5%, largely supported by domestic demand.

In Spain, as I said, growth is expected to decelerate slightly but remain strong at 2.9% in 2018. We never know with Spain. We have had surprises in the past which were generally positive, with this slight moderation driven in our view by a slowdown in private consumption.

Finally in the UK, the slowdown is expected to continue, with growth of 1.5%, projected for 2018. Let me take this opportunity to recall that our forecast for next year is based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK, this is a convention that has to be taken into account.

The fiscal outlook is improving on the back of the robust economic expansion and historically low interest rates:

- In the euro area, the headline deficit is now forecast to fall to 0.7% of GDP in 2018 and to reach 0.6% in 2019 based on of course as always on

a no-policy-change assumption. To give some perspective – I'm not only talking about the past, we were over 6%, this was not so long ago, for those who think we are being too flexible, it's a proof of efficiency – no, in the present, this compares to a 2019 deficit expected at 5.9% of GDP in the US, also the effect of the stimulus, and 2.7% of GDP in Japan.

- In the EU as a whole, the deficit is forecast to fall to 0.8% of GDP in 2018 and to remain at the same level in 2019.

The euro area debt-to-GDP ratio is expected to fall to 84% by 2019, which will be 10 points below the post-crisis peak reached in 2014, with steady declines now underway in several high-debt countries including Portugal, Spain and Belgium.

In the EU, the debt-to GDP ratio is expected to fall to about 79% in 2019.

If I look now at the budgetary outlook, 2018 is set to be the first year, I repeat that because that's certainly one thing that could be the headline, although I'm not suggesting anything, since the start of the Economic and Monetary Union in 1999. Not only since the crisis, in which all euro area governments achieve budget deficits of less than 3% of GDP, with France below 3% since last year 2017, and Spain set to be below 3% this year.

Within the EU, only Romania shows a deficit forecast larger than 3% of GDP in 2018.

In fact, no less than 8 euro area countries, 12 EU Member States, are projected to have budget surpluses this year. This is of course an impressive achievement.

Our forecast takes into account measures included in the Stability or Convergence Programmes for 2018, provided that these were known before the cut-off date (23 April) and were considered to be credibly announced and specified in sufficient detail. The Commission is currently assessing compliance with the rules of the Stability and Growth Pact against the background of today's forecast. This assessment will conclude with our country-specific recommendations which will be published later this month. It will be at this moment that we will be capable of taking some procedural decisions on the excessive deficit procedure. One of them I think is evident if you look at the figures and concerns France.

As usual, the forecast for 2019 rests on a no-policy-change assumption.

If I look at financial markets, after a prolonged period of rising valuations, global financial markets have displayed signs of stress this year, as investors reacted to any hints of stronger-than-expected interest rates increases. The market stress episode in the US was mirrored in other regions and notably in Europe. Still, the adjustment of global equity prices was minor by historical standards and did not expand into other market segments.

Increased financial market volatility is however likely to become a more



permanent feature in the future. This is mainly as a result of recent policy developments and their potential impact on global financial conditions and trade.

In recent months, downside risks to the economic outlook have clearly increased. We must be conscious of that, in particular, the combination of a pro-cyclical fiscal stance in the US and inward-looking trade policies presents a dangerous nexus in our view.

The pro-cyclical fiscal stimulus in the US, as I said already, is expected to boost short-term growth, but it also raises the risk of overheating and the possibility that US interest rates may rise faster than currently assumed. If higher interest rates were to lead to investor risk aversion globally, there could be significant spillovers in terms of capital flows, financial market stability and financial conditions.

In addition, an escalation of trade protectionism presents an unambiguously negative risk to the global economic and trade outlook. It could also trigger market corrections to which Europe would not remain immune. This is why, in the view of this Commission, protectionism must not become the new normal: that would only hurt those of our citizens we most need to protect.

But it is not all bad news as we also see an upside risk on the domestic front, which is that the momentum in investment growth may prove stronger and more durable than currently expected.

Let me conclude by recalling the key messages of today's forecast for you:

- The European economy is in good shape, really good shape. Thanks to the efforts of governments, citizens and businesses, all indicators are currently flashing green.
- Europe has finally turned the page on the crisis era and is seeing rates of growth and unemployment comparable to a decade ago.
- The number of people in work in the euro area has never been so high.
- And for the first time in the history of the euro, all Member States are finally below the 3% limit. The Commission forecasts that this positive dynamic will continue in 2018-2019.

In short, we have come a long way – but now is not the time to sit back and relax. With supply set to become gradually more constrained over the coming years, and external risks having increased, it is more important than ever to swiftly implement policies that increase our growth potential. This is the main challenge for the future. That means encouraging higher labour force participation, focussing on qualifications and education, training, this means favouring productivity growth and removing bottlenecks in physical and digital infrastructure.

This would also make the economy more resilient to adverse financial market conditions and weaker world trade – or simply the next economic downturn, whenever it comes.

To be more resilient, we also have to make sure we have the capacity to use

macroeconomic policy in the future. We therefore need to continue reducing debt. This is also a major message for our public policies.

And we need an ambitious push to complete our Economic and Monetary Union. Again this is not the time to sit and relax. It's not because the situation is getting better that we can withdraw any action. The June European Council will be a crucial moment in that sense. You know that the Commission is always contributing with its proposals to an ambitious EMU package and decisions which I expect and hope in June.

And now, I am ready to take your questions.