



## Europe : Summary

Project LINK Meeting , Mexico City  
May 17, 2005

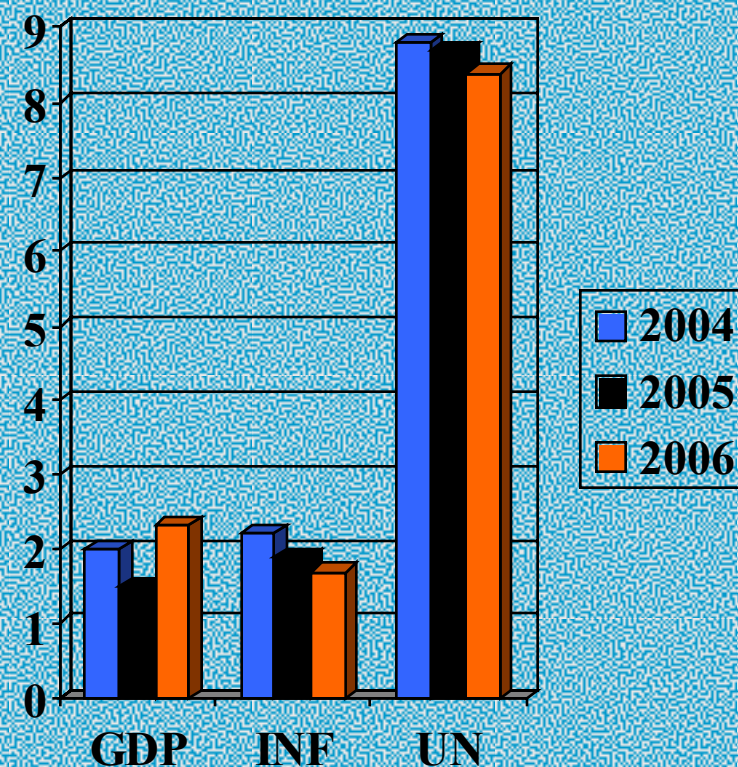
Peter Pauly  
University of Toronto

# Overview

- European growth rates below potential; remaining concerns about strength of expansion.
- 2005 outlook revised downward, Euro area growth around 1.5%; improvement in subsequent years
- Accession countries expansion solid
- Structural problems in core countries addressed only slowly and unemployment remains stubbornly high
- Overall, little scope for expansion in Europe
- Trend growth deficiency

# EU15 Summary

- Growth in 2005 anemic
- Expansion picking up in 2006, closer to potential growth
- Headline inflation below 2%
- Labor Markets remain concern

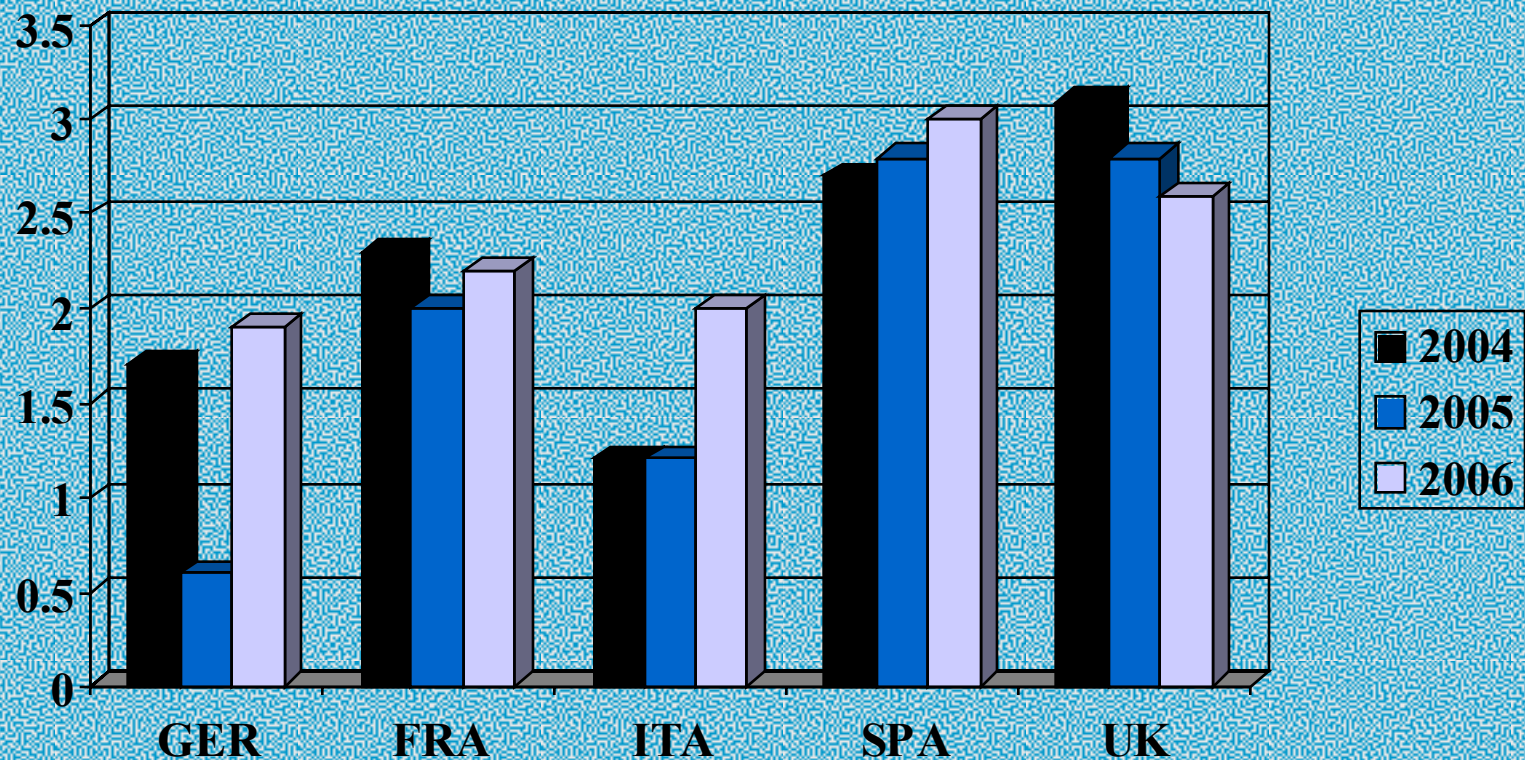




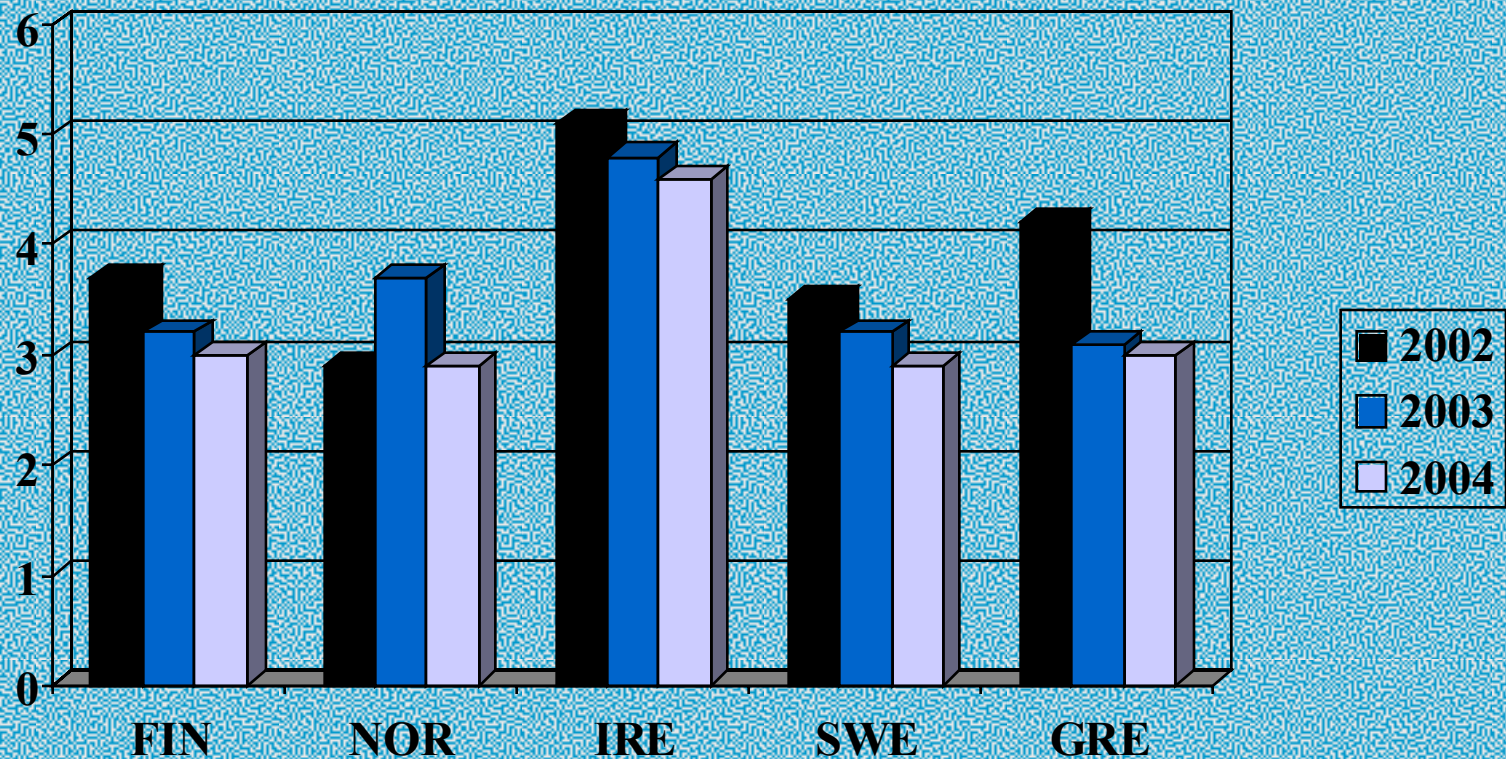
## Overview (cont.)

- Continued variance in economic performance across Euroland reflects differences in fiscal pressures and structural conditions
- Strong Euro has weakened growth in export-sensitive countries (Germany, Italy); export growth, however, still crucial in Germany
- Core inflation fallen to under 2% and continued debate about the ECB's room to maneuver
- Has reformed GSP reduced constraints on fiscal policy in several countries?

# GDP Growth, Europe (in %)

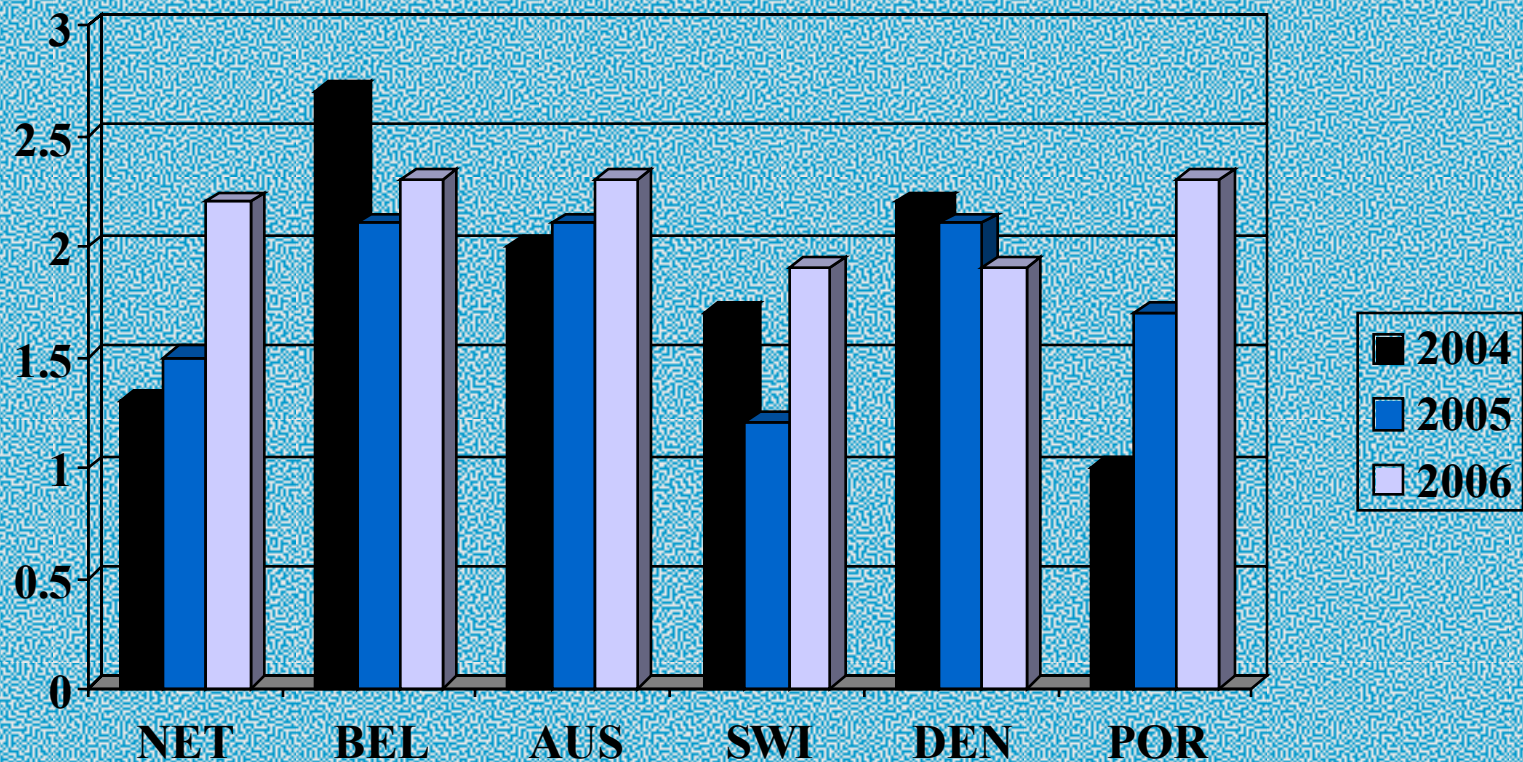


# GDP Growth, Europe (cont) (in %)

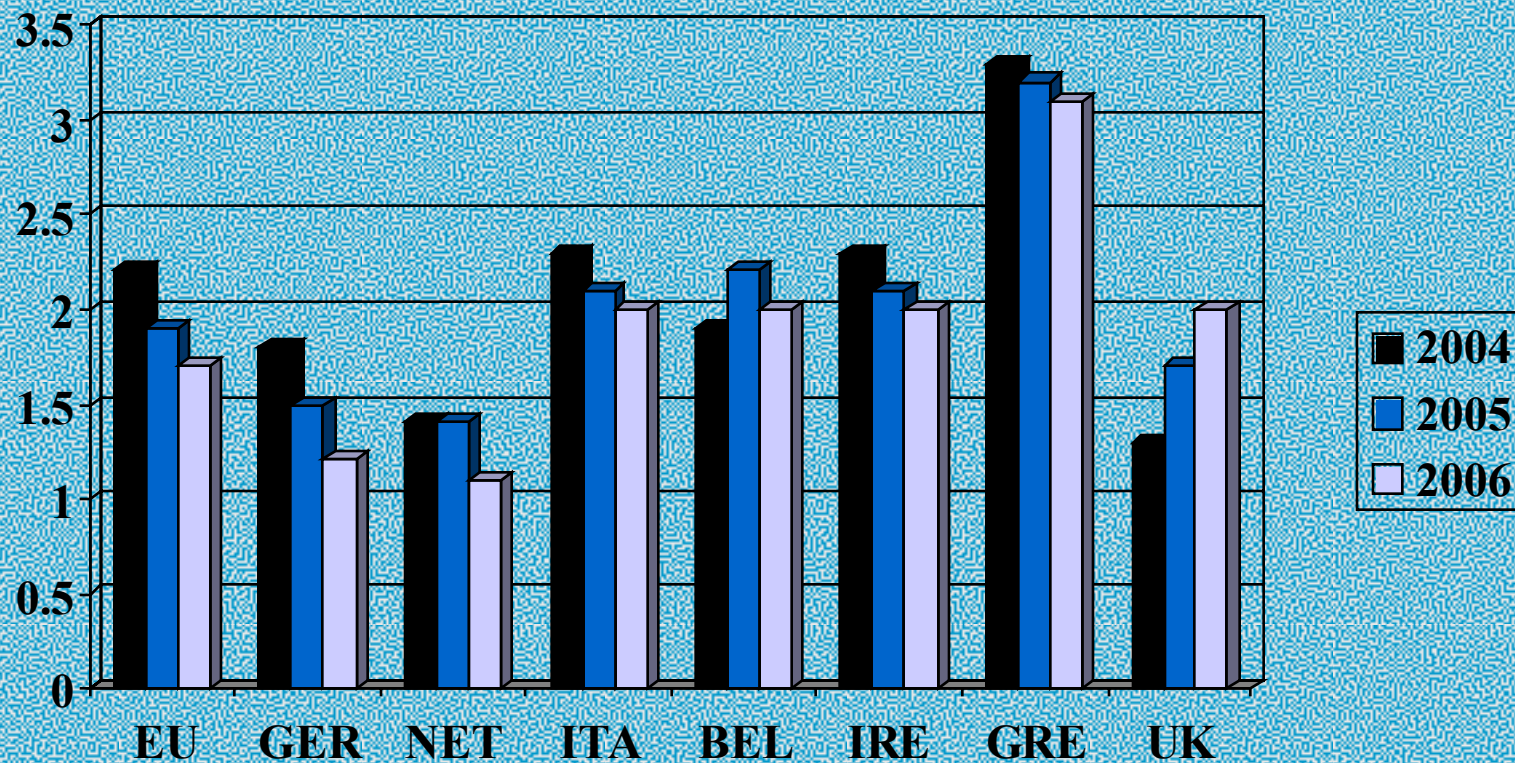




# GDP Growth, Europe (cont) (in %)

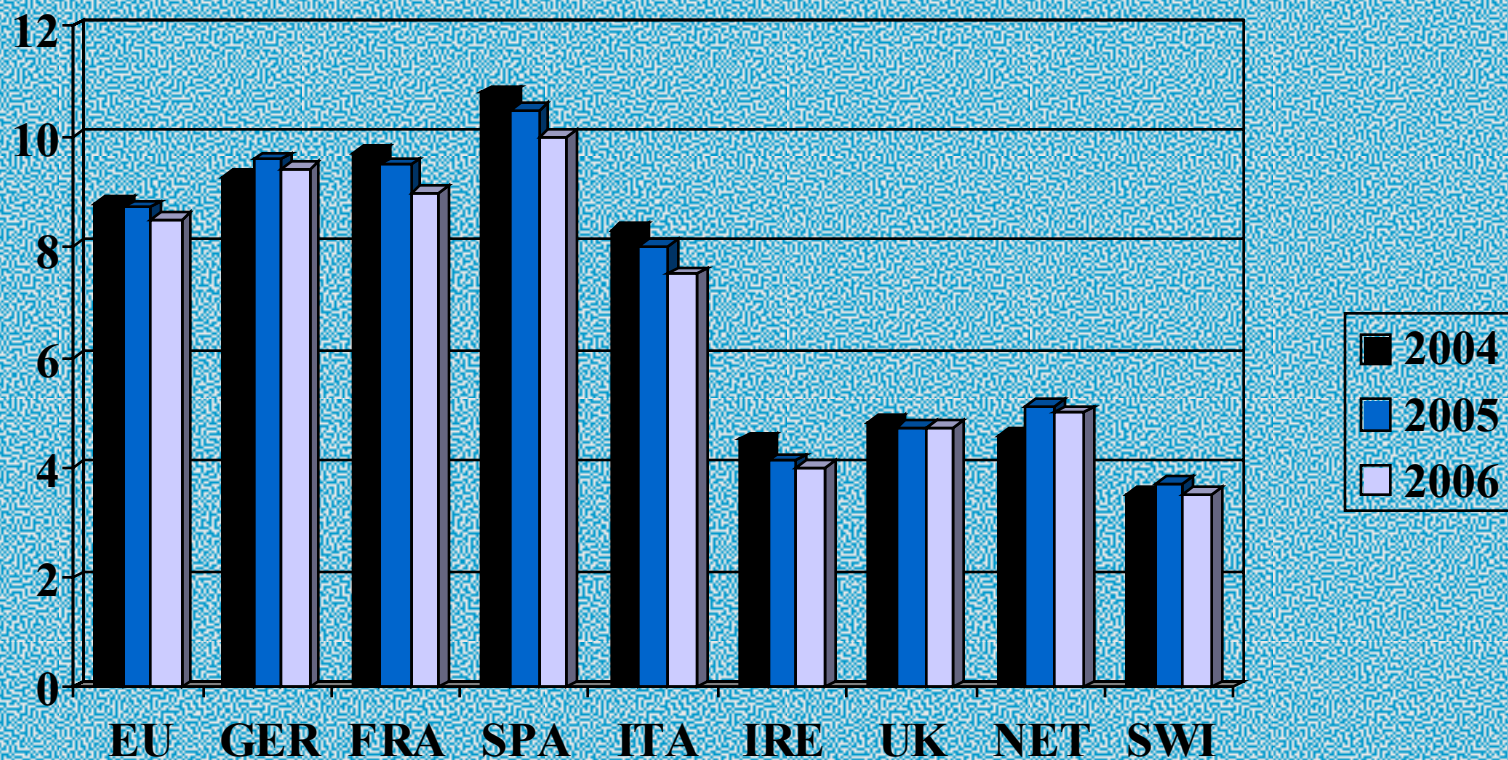


# Inflation



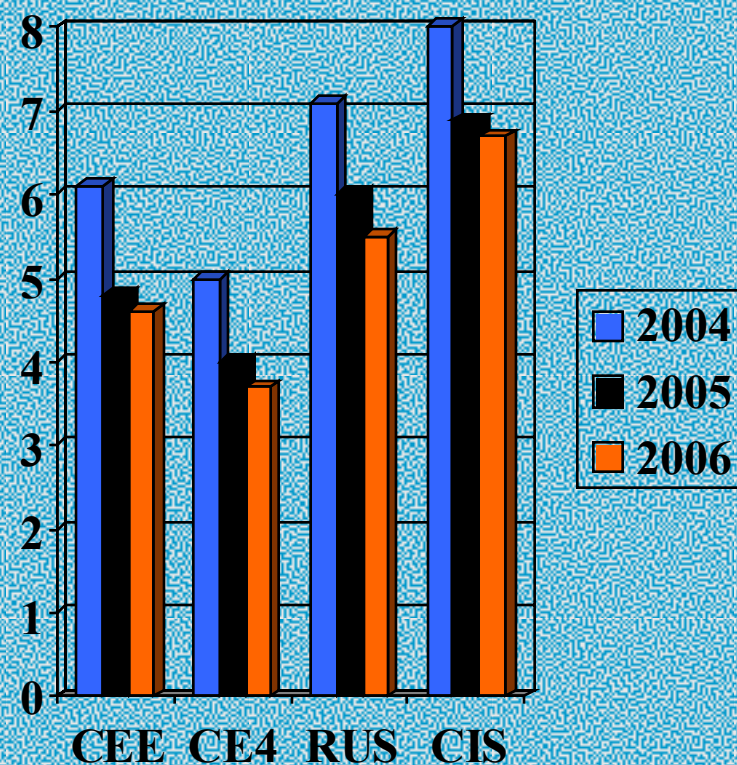


# Unemployment



# Central and Eastern Europe, CIS

- Solid growth in CEE
- CE4 slightly slower, but significantly stronger than EU15
- Baltic countries very strong
- Russia slowing down, but continued robust performance
- CIS very strong, driven by oil and gas (Azerbaijan, Kazakhstan)



# To Watch

- Structural adjustments in Germany
- ECB Policy : stability vs. stimulus
- Fiscal balances , reformed GSP has effectively eliminated fiscal constraints; fiscal discipline
- Progress in accession countries (macro vs. structural)
- Strength of the Euro
- EU constitution; UK referendum
- CAP and the Doha Round