ECONOMIC RESEARCH

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EMU

EMU economy ahead at full speed

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The current economic momentum in the euro area (new GDP data, EU Commission sentiment indicators) clearly shows in retrospective that the loose ECB monetary policy is having an effect. Looking ahead, we consider the current monetary stimulus to be too strong. Furthermore, with respect to the euro area countries' public finances we see no good reason why the ECB should delay an end to QE.

According to Eurostat's preliminary flash estimate, EMU GDP grew by 0.6% (q/q) in the final quarter of last year. This means the euro zone continued to expand almost as strongly as in the previous quarters. For the year 2017 as a whole, economic growth reached a respectable 2.5%. And there is also a good basis laid for 2018 – we continue to expect GDP growth of at least 2.2% in the euro zone for this year.

The European Commission's sentiment indicators also published today contribute to the positive picture: Although the Economic Sentiment Indicator (ESI) for the euro area fell slightly to 114.7 points in January from the previous month, it is still at its highest level for over 15 years. In addition, capacity utilization in the industrial sector has risen to 84.4% in the first quarter of this year, according to the survey results. It has now been above its long-term average of 81.1% for 12 quarters.

In our opinion, the current economic momentum clearly shows in retrospective that the loose ECB monetary policy is having an effect (naturally with a time lag). Looking ahead, we consider the current monetary policy stimulus – the ECB's balance sheet continues to grow – to be too strong. In this context it should also be considered that the transmission mechanism of monetary policy

to the economy, which had been impaired in the crisis years, works better again.

We hope that the ECB will end its QE purchases in October. We believe that the moderate increase in long-term interest rates probably related to this will not challenge the EMU countries. First of all, the good economic situation helps to improve public budget balances: According to the latest data, the euro area budget deficit was only 0.3% in the third quarter of last year (although the overall picture is "biased" by a significant budget surplus in Germany). Secondly, the current low interest rates will continue to have an effect via maturities of government bonds, i. e. the average interest rate / overall interest burden will continue to be dampened. It is true that structural improvements are ultimately decisive for the long-term sustainability of public finances. Nevertheless, we do not see any good reason why the ECB should delay an exit from the very loose monetary policy in view of the euro area countries' public finances.

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