

# Europe is picking up on several fronts

Diario Expansión (Spain)

Miguel Jiménez

11 Dec 2017

Nobody will have failed to notice that Europe's economy is responding better than many had thought a little over a year ago, when there was not much faith in the sustainability of growth. Moreover, the outcome of the Brexit referendum and the problematical election schedule had increased the risks looking ahead into 2017.

The news has been upbeat though, and at the end of the year solutions to some of the issues that have been bogged down in the past few months are starting to take shape, which bodes for a relatively calm future going into 2018.

On the one hand, a recovery of activity, which had been confined to Germany and Spain among the major countries, has spread to France and Italy over the year, potentially leading to GDP growth of 2.2% for the eurozone as a whole in 2017, whereas early in the year forecasts only stood at a shade over 1.5%.

Aside from the macroeconomic figures, the political environment has steadily taken a turn for the better after a year when the threats posed by the more populist alternatives have morphed into gravitation towards the political centre in various different countries. The resumption of negotiations to form a grand coalition in Germany (or at least one to prop up a minority government) following the failure to try and build a "Jamaican" coalition bears witness to this and is good news for Europe. For those who think that German politics hardly changes regardless of who is at the helm, it should be sufficient to compare the recent statements by Schulz, the Social Democrat leader (in which he prioritises progress for Europe in talks on governing), with those earlier from the Liberal leader to realise that substantial differences do actually exist.

The political climate would also improve if the first phase of the Brexit negotiations are successfully concluded before the European Summit next week and allow the European Council to clear the way for talks about the future trade deal and the transitional phase from January onwards. The British government has offered to pay an amount for the "divorce bill" that is very close to what the European Union was asking for, although the sticking points regarding the Irish border have still not been sorted out. And even if the way is cleared for the second phase, surprises over 2018 cannot be ruled out, particularly when one considers how volatile the British position is. This week, for example, many members of parliament have recalled that it would be easy to arrive at a solution to the Irish question whereby the UK would remain in the customs union or the single market, if only the government were to give up on the idea of a hard Brexit which it had opted for around March. And then there are those who are in favour of developments moving towards either of the two extreme solutions: a sudden departure without an agreement or a reversal of Brexit. A situation that is typical of what in economic jargon is known as "multiple equilibria".

Finally, Europe also appears to be speeding up progress on the institutional reforms yet to be addressed since emerging from the crisis. This week the European Commission has presented a set of proposals for moving ahead towards fiscal union, which include a European super finance minister, a specific budget for the eurozone and converting the ESM into a European Monetary Fund (EMF) in charge of any future bail-out

programmes. The new body would also have authority to manage a counter-cyclical fund to ensure investment in countries undergoing crisis. The proposals are not satisfactory for the countries close to Germany, which would only accept the new EMF if it were allowed to reinforce control of national budgets independently and move these away from the Commission. And these are hardly drastic moves in the direction of progress either: eurobonds, which for many are key to any fiscal union, have been off the table in European debate for some time now; counter-cyclical funds would not be enough to neutralise major crises such as the last one; and finalisation of the banking union (along with the crucial question of Europe's deposit guarantee fund) is yet to be decided. Nonetheless, the moves represent a step forward, have considerable symbolic importance, and could go some way to restoring confidence between Europe's northern and southern countries, which was so hard hit during the crisis.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.