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EUROPEAN CENTRAL BANK

EUROSYSTEM

The outlook for the euro area economy and some insights on SMEs

Access to finance for SMEs: assessment and perspectives

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Key features of the March 2024 MPE

Activity

- Weaker activity in the near term than expected in December BMPE
- Then, subsequent growth recovery, overshooting potential growth until the end of the horizon,...
- ...supported, first, by strengthening real income and, then, by stronger demand for EA exports and fading of adverse monetary policy impact.
- Labour market remains resilient; demand for labour keeps easing gradually.

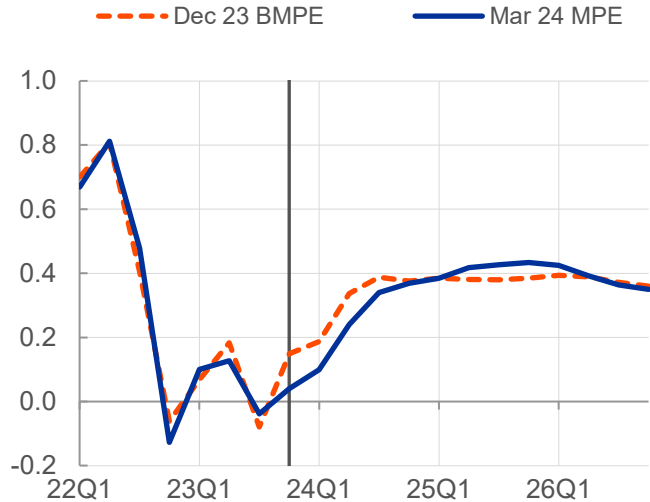
Inflation

- In 2024, lower energy prices push HICP inflation down.
- Wage growth slightly lower (than Dec BMPE) from 2024H2 onwards due to lower inflation (easing catching-up motive), and weaker activity.
- Then, lower ULC (and weaker indirect effects from energy) motivate somewhat lower HICPX inflation in 2025/26.

	Mar 24 MPE (annual % changes)				Revisions vs Dec 23 BMPE (percentage points)			
	2023	2024	2025	2026	2023	2024	2025	2026
Real GDP	0.5	0.6	1.5	1.6	-0.1	-0.2	0.0	0.1
HICP	5.4	2.3	2.0	1.9	0.0	-0.4	-0.1	0.0
HICP excl. energy and food	4.9	2.6	2.1	2.0	-0.1	-0.1	-0.2	-0.1

Real GDP and growth

(q-o-q % changes)



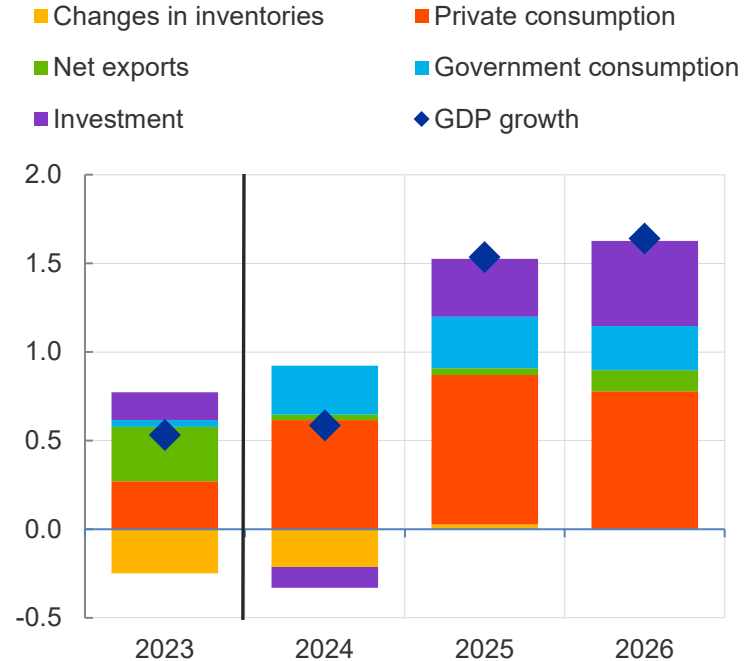
Notes: based on seasonally and working day adjusted series.

Real GDP growth (annual % change)

	2023	2024	2025	2026
March 24 MPE	0.5	0.6	1.5	1.6
Dec 23 BMPE	0.6	0.8	1.5	1.5

Real GDP growth and contributions

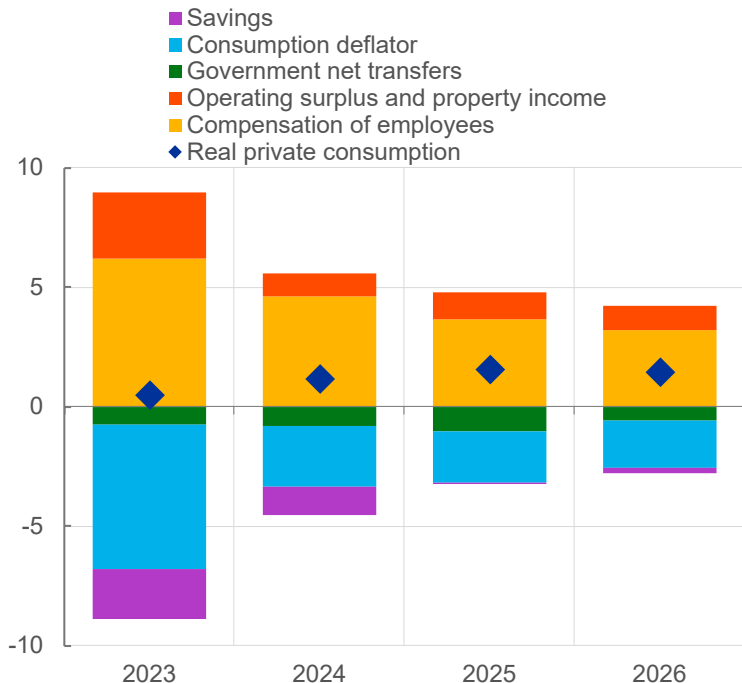
(annual % changes, p.p. contributions)



The levers for recovery (I): Consumption and investment

Outlook for private consumption

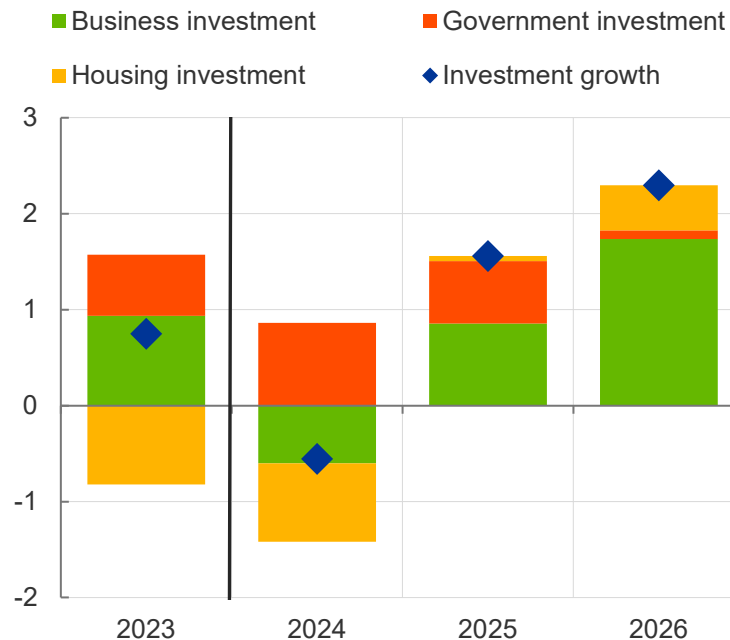
(annual percentage changes and pp contributions)



Sources: March 2024 MPE and ECB calculations.

Total investment and contributions

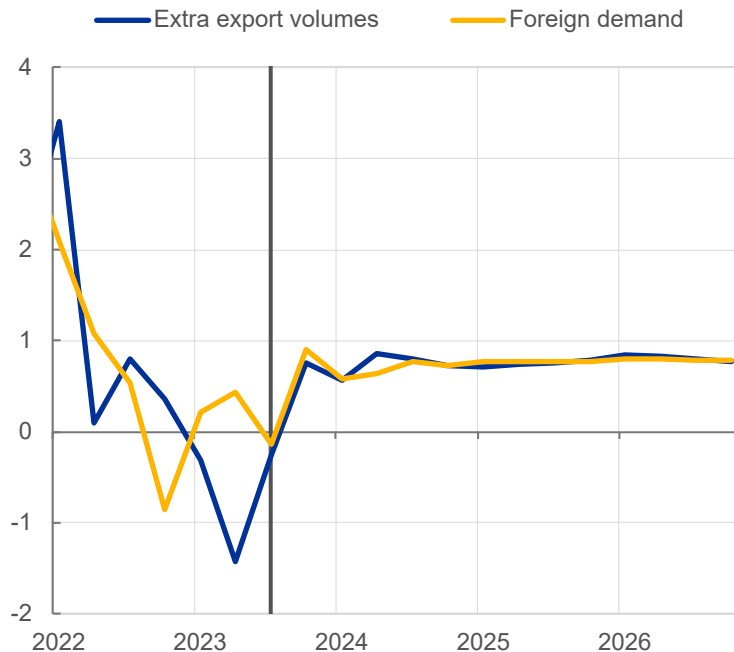
(annual % changes, p.p. contributions)



The levers for recovery (II): Exports and monetary/financing conditions

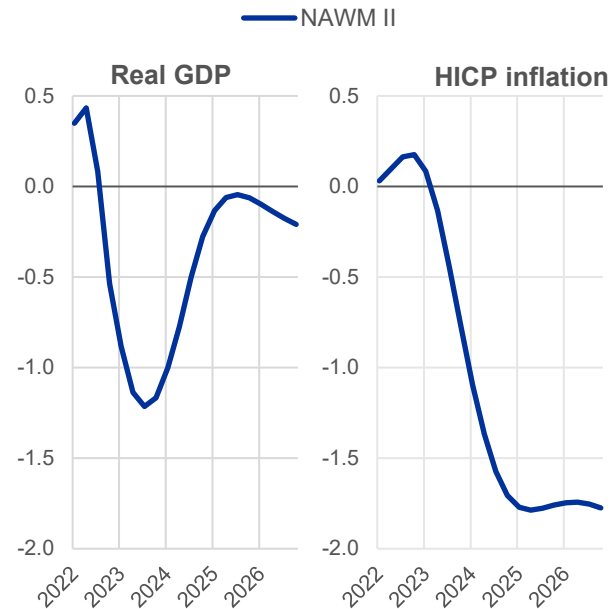
Extra exports and foreign demand

(q-o-q %)



Impact of monetary policy based on macro models

(q-o-q and y-o-y, p.p. contributions)



Sources: ECB staff calculations using the NAWM II.

Notes: The NAWM evaluation shows the total impact of the central bank reaction according to the model's Taylor rule (systematic part) and the impact of structural monetary policy shocks (non-systematic part).

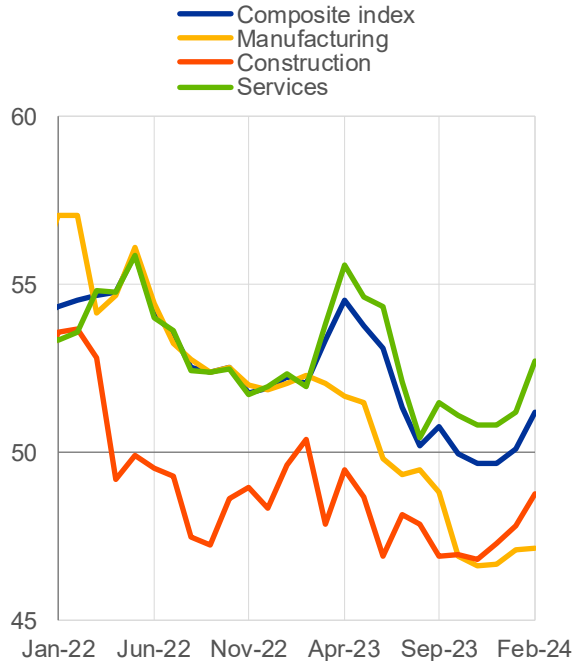
References: EB Issue 3/2023: A model-based assessment of the macroeconomic impact of the ECB's monetary policy tightening since December 2021

ECB-OP No. 344 (forthcoming): ECB macroeconomic models for forecasting and policy analysis

Labour market: Recent developments and outlook

PMI employment

(diffusion index)

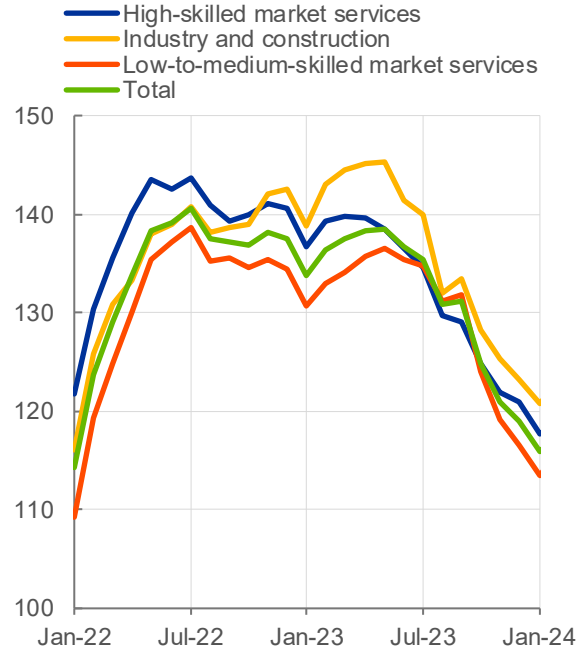


Source: S&P Global.

Notes: A value of 50 implies no job creation compared to the previous month. Retail services are not included in the PMI. Latest observation: February 2024.

Indeed job postings

(index: 2019H2 = 100)

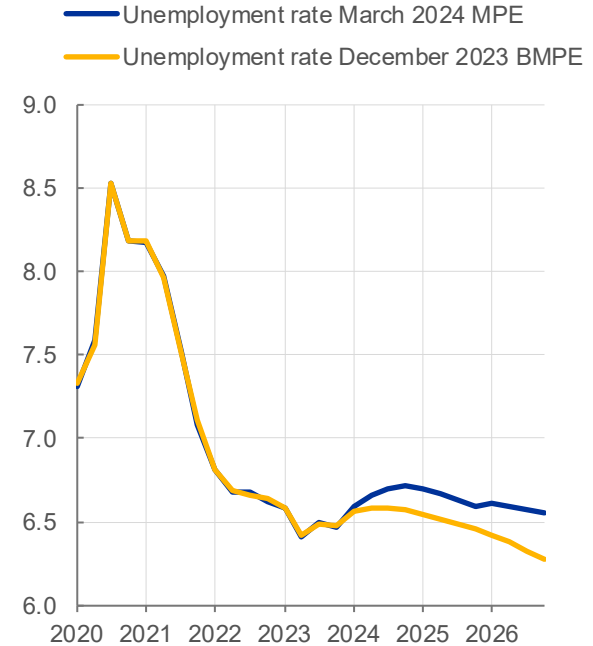


Source: Indeed.

Latest observation: January 2024.

Unemployment rate

(% of the labour force)

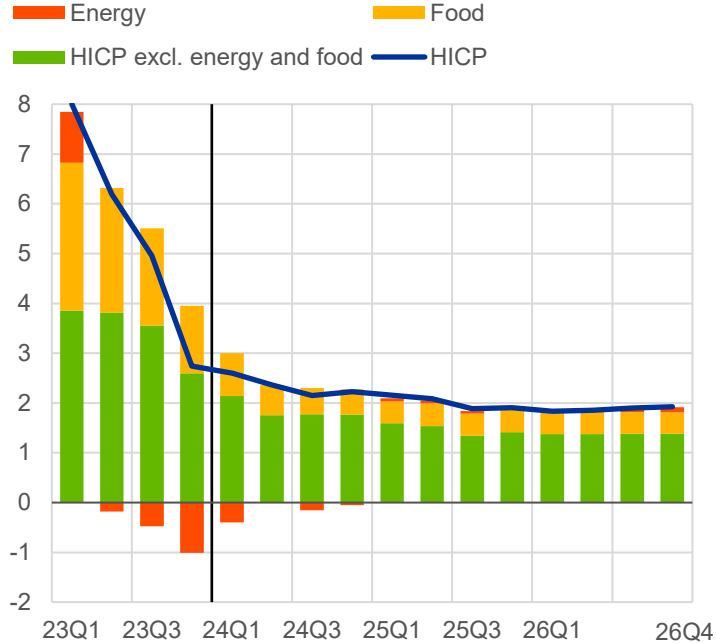


Source: ECB.

Headline and underlying inflation

HICP

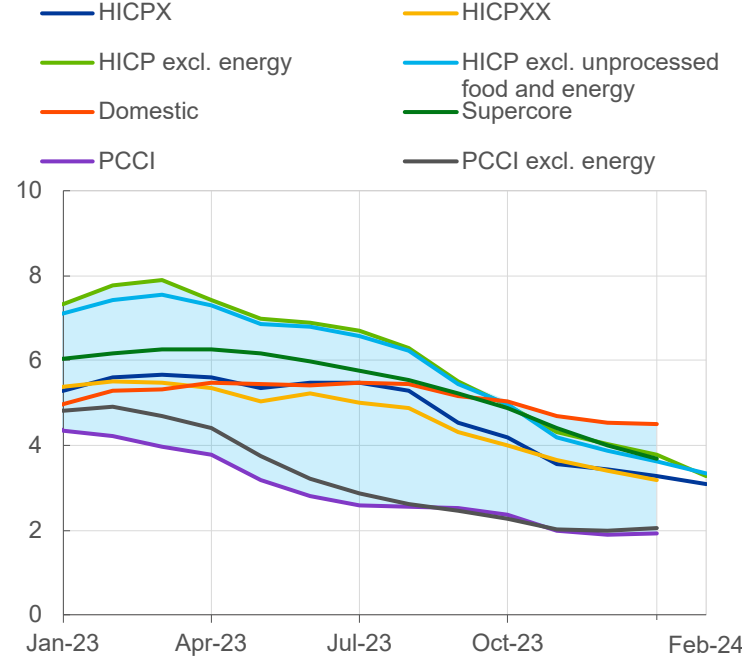
(annual % changes, percentage points)



Sources: March 2024 MPE, Eurostat and ECB calculations.
 Note: The vertical line indicates the start of the current projection horizon.

Measures of underlying inflation

(annual % changes)

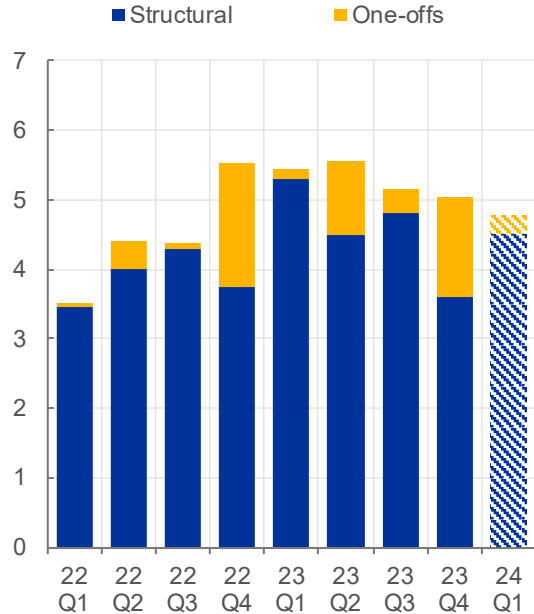


Sources: Eurostat and ECB calculations.
 Latest observations: February 2024 (flash) for HICPX, HICP excl. energy and HICP excl. unprocessed food and energy, January 2024 for the rest.

Wage pressures and domestic inflation outlook

Wage tracker: Indicator of latest agreements

(annual percentage changes)



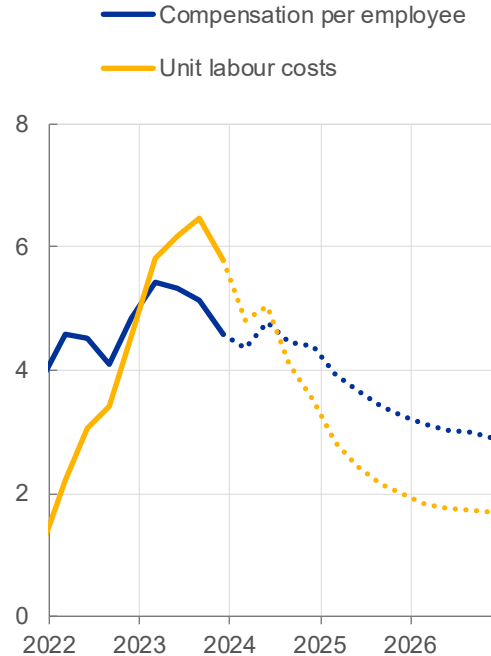
Source: Bundesbank, BdE, the Dutch employer association (AWVN), OeNB, BoG, Bdl and BdF. ECB Staff calculations

Notes: Indicator reflects wage growth in the agreements reached in a certain quarter for the 12 months after an agreement. EA aggregate based on ES, IT, GR, AT, DE, NL, FR.

Latest data: February 2024

Labour cost indicators and projections

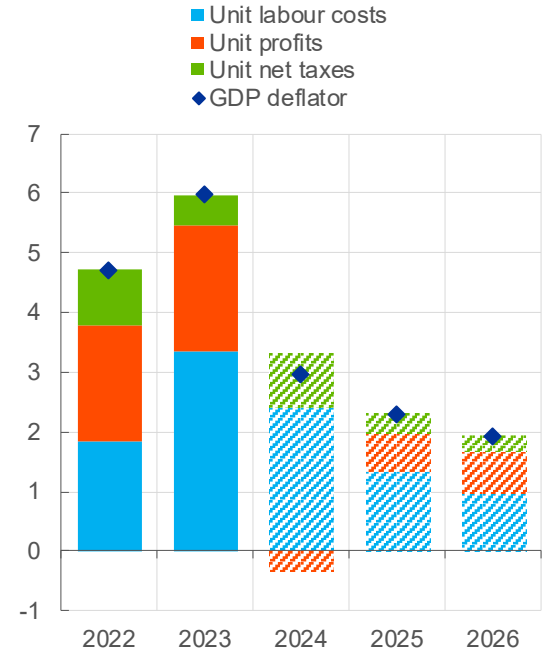
(annual percentage changes)



Sources: Eurostat, ECB, ECB calculations and March 2024 MPE. Latest observations: Q4 2023.

GDP deflator

(annual percentage changes and pp contributions)



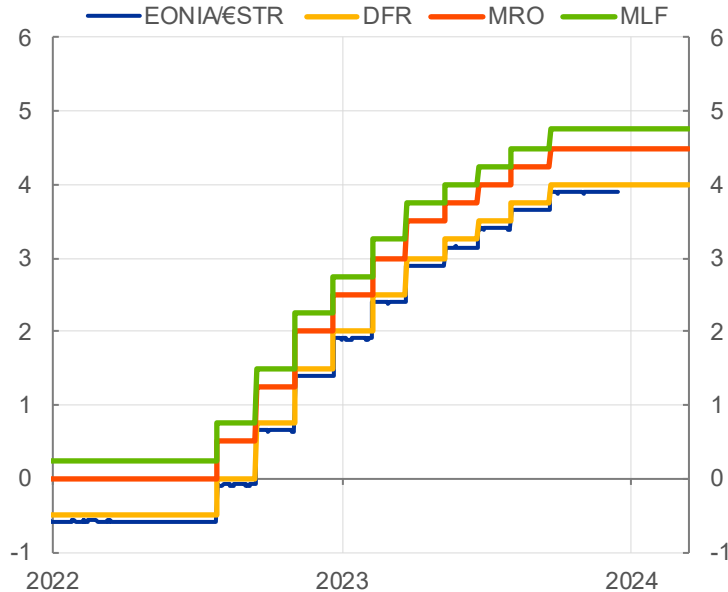
Sources: Eurostat, ECB calculations and March 2024 MPE.

Notes: Unit taxes reflect taxes minus subsidies. When the contribution of subsidies on products is larger than the contribution of indirect taxes, the unit tax contribution turns negative. Shaded areas refer to the March 2024 MPE.

Latest observation: 2023.

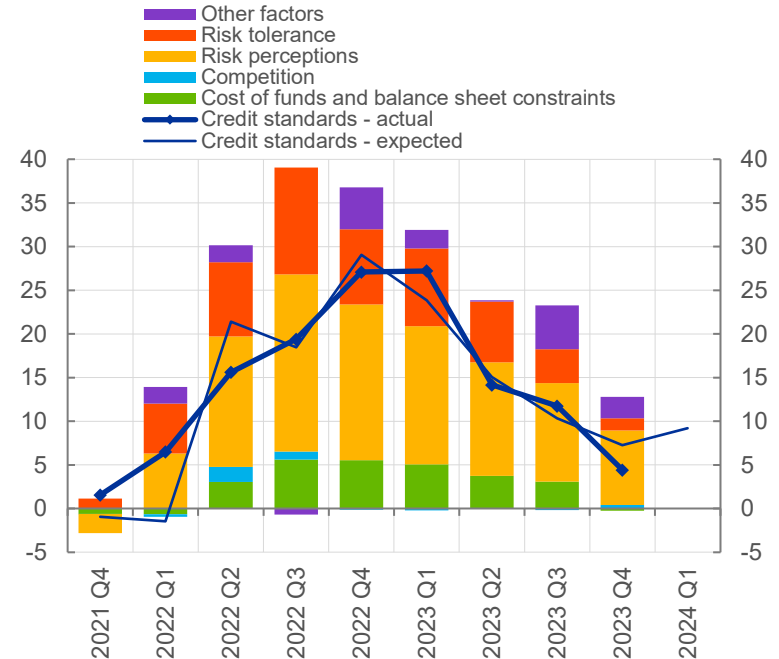
Monetary policy tightening

Key ECB interest rates (percent)



Sources: ECB and ECB calculations.
 Latest observation: 25 January 2024 for €STR, MP1 for key ECB interest rates (as decided in the 25 January 2024 GovC meeting)

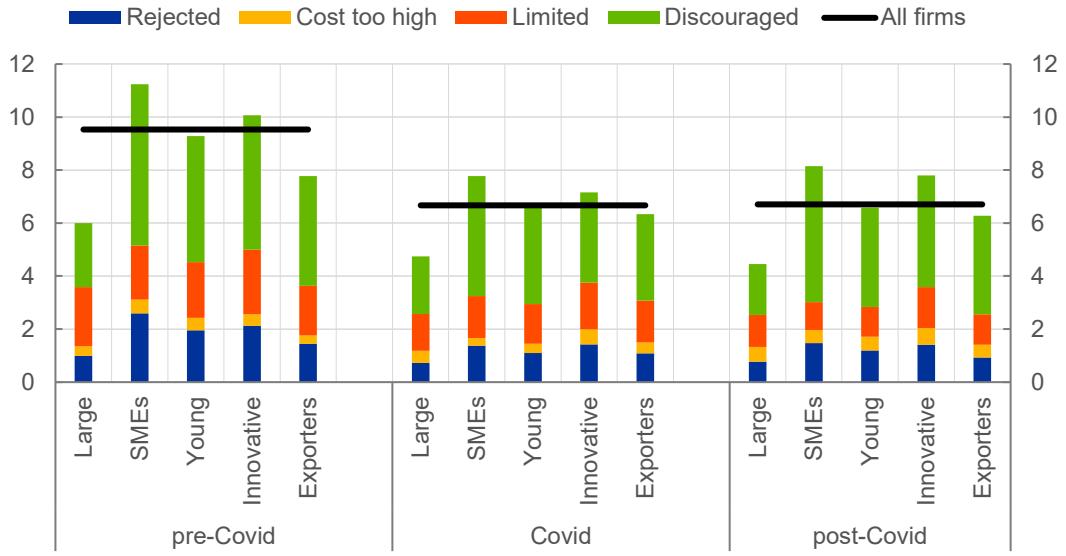
Changes in credit standards for loans to enterprises, and contributing factors (net percentages of banks reporting a tightening)



Source: ECB (Bank Lending Survey) and ECB calculations
 Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". "Other factors" refer to further factors which were mentioned by banks as having contributed to changes in credit standards.
 Latest observation: 2023 Q4.

Tighter financing constraints bite SME more than large corporates

Obstacles of obtaining a bank loan
(percentages of respondents)



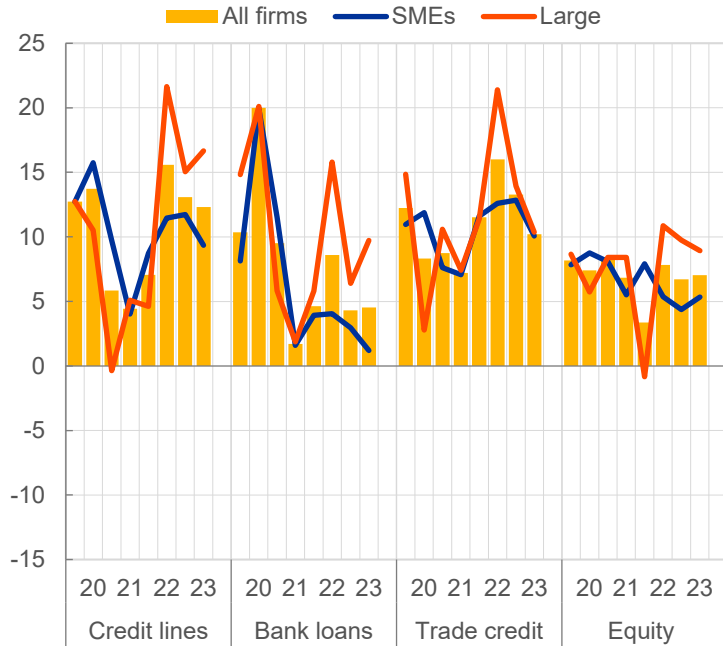
Source: ECB and EC SAFE.

Notes: Financing obstacles are defined here as the total of the percentages of enterprises reporting (i) loan applications that were rejected, (ii) loan applications for which only a limited amount was granted, (iii) loan applications that resulted in an offer that was declined by the enterprise because the borrowing costs were too high and (iv) a decision not to apply for a loan for fear of rejection (discouraged borrowers). In this chart the pre-Covid period refers to the period 2009- until March 2020, Covid period between April 2020 and March 2022 and post-Covid from April 2022 to September 2023. Black horizontal lines show the average share of firms indicating financings obstacles across the periods. Latest observation: September 2023.

Lower needs for external finance – but also reduced availability...

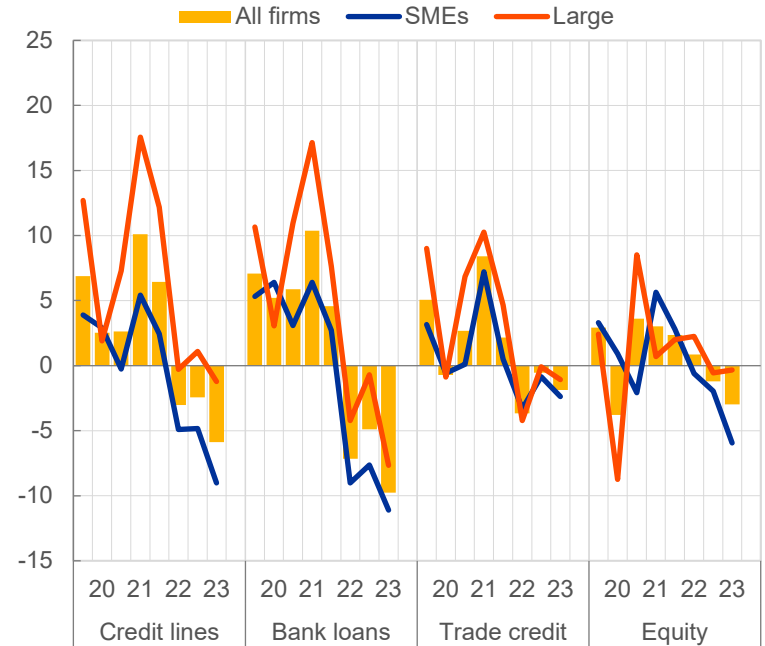
Changes in external financing needs

(net percentages)



Changes in external financing availability

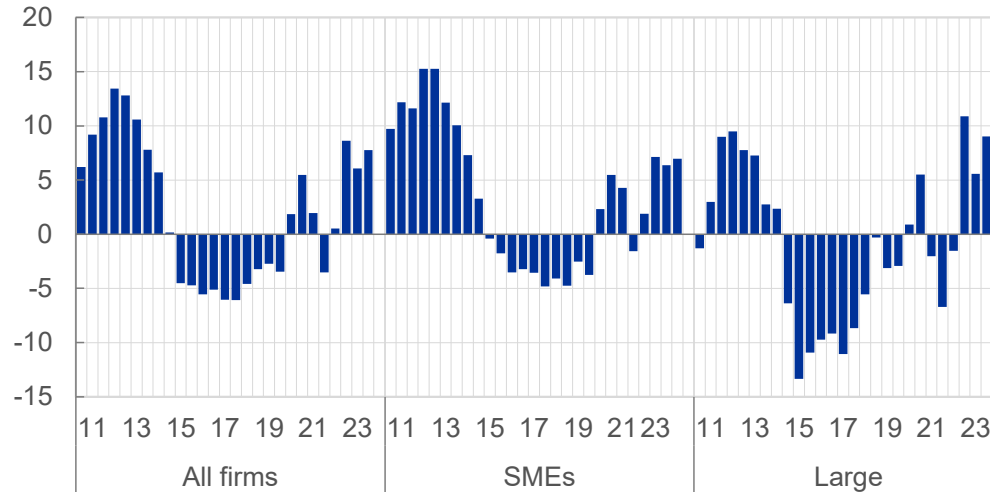
(net percentages)



Source: ECB and EC SAFE.
Latest observation: September 2023

- Firms' replies on bank loans' needs and availability reflect the recent monetary policy tightening

External financing gap reported by euro area firms (weighted net balances)



- Times of crises are associated with peaks in the financing gap (sovereign debt crisis, COVID-19 pandemic)
- Latest peaks associated to the recent monetary policy tightening

Source: ECB and EC SAFE.

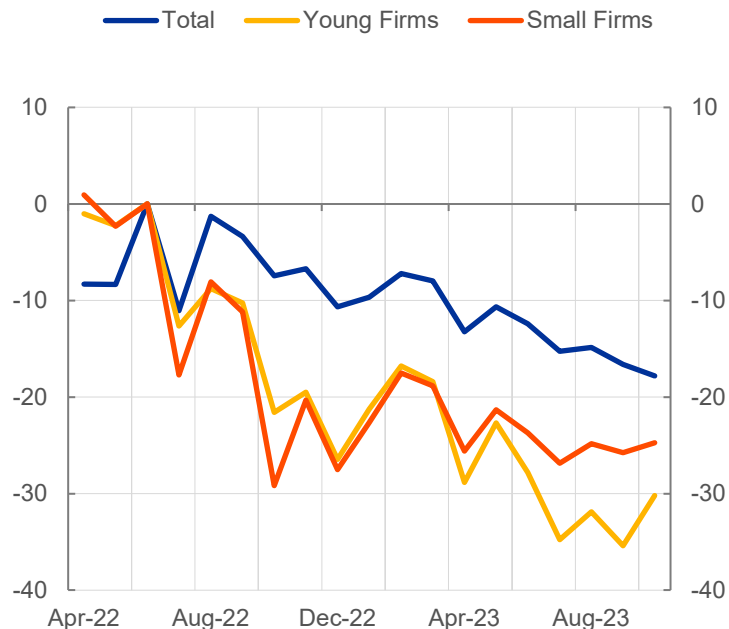
Notes: The financing gap indicator combines both financing needs and the availability of bank loans, credit lines, trade credit, and equity and debt securities issuance at firm level. For each of them, the indicator takes a value of 1 (-1) if the need increases (decreases) and availability decreases (increases). If enterprises perceive only a one-sided increase (decrease) in the financing gap, the variable is assigned a value of 0.5 (-0.5). This composite indicator is a weighted average of the financing gaps for the five instruments. A positive value for the indicator points to an increase in the financing gap.

Latest observation: September 2023

New business loan volumes moderate and default rates rise

Changes in new business loan volumes since the policy rate hike

(monthly percentage changes, June 2022 = 0)



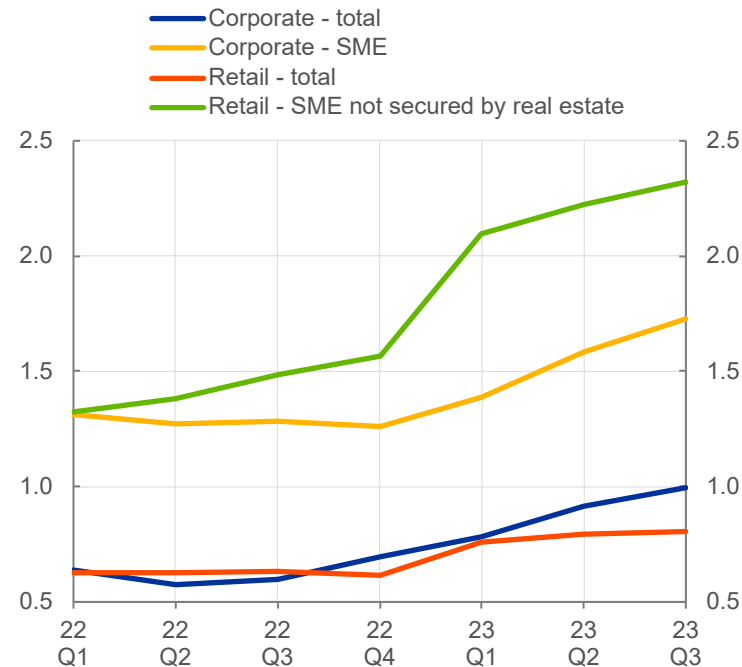
Sources: ECB (AnaCredit, RIAD, MIR), Orbis and ECB calculations.

Notes: The chart compares loan volume dynamics of small and young firms relative to general market movements around the start of the hiking cycle in July 2022 based on merged AnaCredit and Orbis data. The grey line denotes the start of the hiking cycle. The series are standardised to represent percentage changes in new business volumes since June 2022.

Last observation: October 2023.

Default rates of euro area corporate and retail exposures

(percentages of non-defaulted exposures)



Sources: ECB Supervisory Reporting and ECB calculations.

Notes: Based on a balanced panel of significant institutions reporting IRB. The sample has been adjusted for major M&As. Figures are four-quarter trailing annualised rates. "SME" stands for small and medium enterprises. Latest observation: 2023 Q3.

Thank you!