Box 2.1

Recent economic performance of the selected member economies in the eurozone

The eurozone came out from recession in mid-2013 and resumed modest growth. The growth momentum early this year seemed to show some pick-up, conceivably helped by better sentiment following the enlarged asset purchase programme rolled out by the European Central Bank. Nevertheless, the economic performance varied considerably among different member economies. To shed light on the recovery progress of the currency bloc from a macroeconomic perspective, this note examines and compares the latest economic situations of the four biggest member economies in the currency bloc, viz. Germany, France, Italy and Spain (referred hereafter as the Big Four)(1).

In 2014 when the economy of the eurozone rebounded, over half of the annual growth was contributed by Germany, while that by France and Spain combined was subtle, and Italy was still mired in recession, posing a drag on the region's growth. But the recovery was more broad-based on entering 2015, as Spain outperformed Germany to be the biggest growth driver of the region in the first quarter, and France saw a further pick-up in growth momentum. Meanwhile, Italy also reverted to some positive growth for the first time since 2011. Apart from the Big Four, nearly all other members (except Finland) registered year-on-year increases in GDP, ranging from 0.2 % to 4.9 % over the same period (***Chart 1***).

Along with the gradually recovering economy, deflationary pressures have generally receded. The inflation rate of Germany returned to positive territory in March 2015, followed by France in April. That of Italy also started to see some price increases in May, while Spain came out of an eleven-month deflation in June. Nevertheless, their inflation rates remained very low (i.e. 0.1%, 0.3%, 0.2% and 0.0% in June respectively) (***Chart 2***). It should also be noted that five of the member economies within the eurozone are still in deflation(2).

Chart 1 : Growth remained uneven despite recent improvements

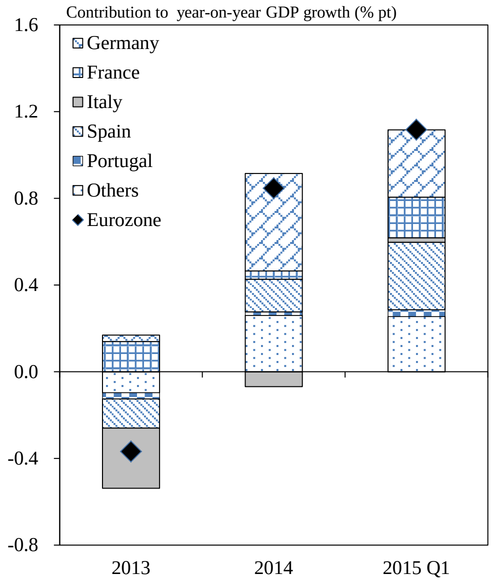
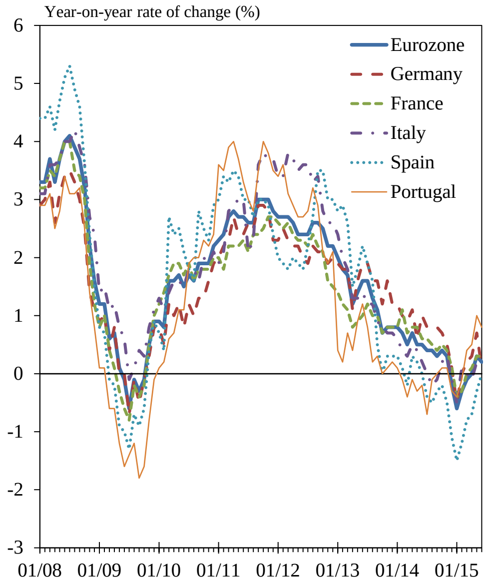


Chart 2 : Inflation rates stayed low despite easing deflationary pressures



Business sentiment has generally stayed positive, though the outlook is now clouded by the uncertainties stemming from the Greece's debt negotiations. The composite PMIs for the Big Four economies all stayed comfortably above the boom-bust line of 50, in particular for Spain which saw a more visible improvement over the period, hinting a further expansion in economic activities in the second quarter (***Chart 3***). Externally, export performance of the Big Four also reverted to some growth in euro terms, partly helped by a rather visible depreciation in euro over the period. But their growth was still rather modest and there were no distinct outperformers (***Chart 4***).

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(1) The four economies contributed to around three-fourth of total GDP of the eurozone in 2014.
(2) The five economies are Greece, Cyprus, Lithuania, Slovenia and Slovakia.

Box 2.1 (Cont'd)

Chart 3 : Business sentiment remained upbeat

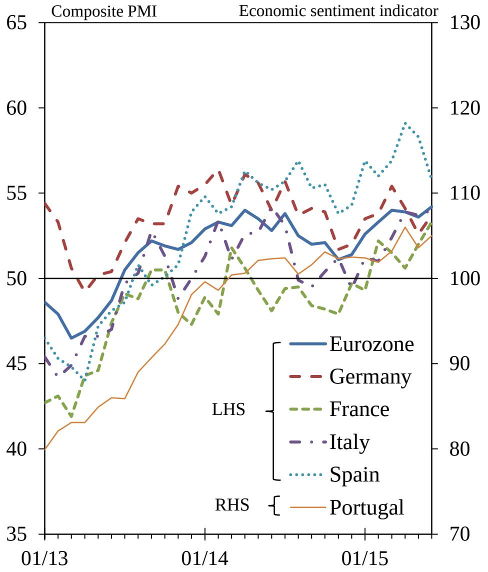
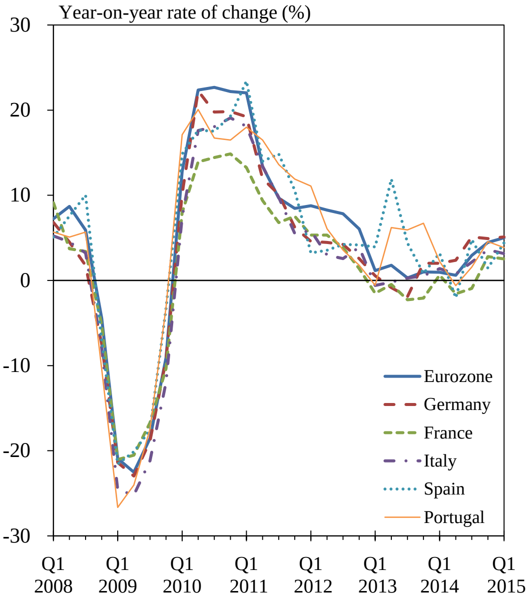


Chart 4 : Exports performance of the member economies were only mediocre



Despite the relative improvement in recent economic performance as seen above, deep-seated structural problems remain prominent. The double-digit unemployment rates in Spain (22.6%), Italy (12.5%) and France (10.2%) are still alarming, despite the visible improvements over the past year or so (***Chart 5***). The government gross debt-to-GDP ratios of these three economies were generally on an upward trend and stayed at dangerously high levels (with Italy surpassing 130% in the first quarter of 2015), which indicated their still rather fragile fiscal positions, and their limited rooms for fiscal policy manoeuvring (***Chart 6***).

Chart 5 : Unemployment rates stayed elevated except for Germany

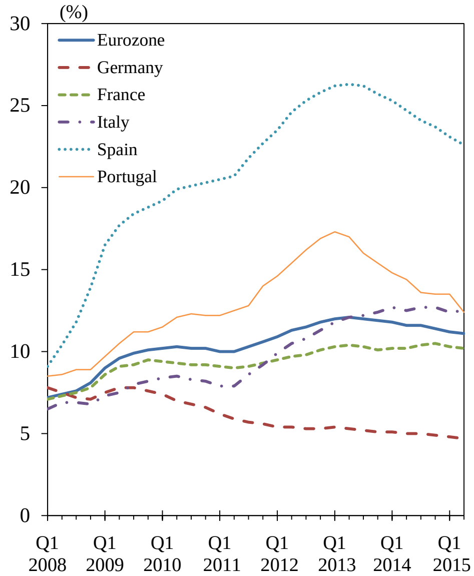
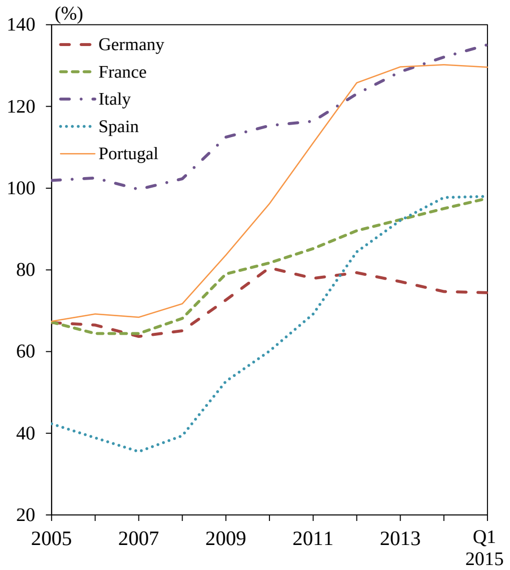


Chart 6 : High government gross debt-to-GDP levels are also worrisome



According to the latest forecast of the IMF in July, the eurozone is expected to grow by 1.5% in 2015, mainly steamed by Spain (3.1%) and Germany (1.6%), while France and Italy would show some slow growth (1.2% and 0.7% respectively). Yet, downside risks are still notable. Whilst the deal reached in mid-July mitigated the immediate threat of a Greek exit from the eurozone, whether the crisis could be fully resolved remains to be seen. The financial market volatility induced by the diverging monetary policies among major central banks, and the geopolitical tensions in Eastern Europe, could also weigh on the growth outlook for the eurozone, which would in turn further impact on our external trade performance. As such, we need to stay alert and closely monitor the developments.