AIECE GENERAL REPORT
SPRING MEETING 2024
PART 1

SUMMARY

We would like to thank all AIECE member institutes who participated in the AIECE General Report survey. Their answers greatly contributed to this document. The AIECE General Report is published to elicit comment and to encourage debate. The views expressed are those of the author(s) alone and do not necessarily reflect the views of their Institutes.

The AIECE report is the result of a collaborative effort, coordinated by Davide Zurlo (zurlo@istat.it) and with contributions from Cristina Brandimarte, Roberta De Santis (rdesantis@istat.it) and Roberto Iannaccone (iannacco@istat.it).
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1 EXTERNAL ENVIRONMENT

The international economic scenario has been characterized in the past two years by high uncertainty, accentuated by the escalation of geopolitical tensions in the Middle East and the continuation of the war between Russia and Ukraine.

In the first half of 2024, global economic activity, despite the cumulative effects of several partially overlapping shocks, has continued to show resilience. Inflation has decelerated more rapidly than expected, and labour market conditions have remained tight, with unemployment near historic lows. Countries performances remain heterogeneous.

According to International Monetary Fund (IMF) April estimates, global growth in 2023 showed a deceleration (+3.2% from +3.5 % in 2022), settling at a rate of expansion that remains below historical levels (the average growth rate for the period 2000-2019 was +3.8 %). Global growth is projected to continue at the same pace in 2024 and 2025.

AIECE Institutes on average display a more pessimistic view than IMF (and OECD). For this year, the Institutes expect on average a slowdown in World GDP which will accelerate only marginally in 2025 (+2.9% and 3.0%, Table 1.1). The dispersion among Institutes forecasts is elevated. The most pessimistic Institute expects World GDP to growth by 2.4% and 2.5% in 2024 and 2025, whereas the most optimistic one expects a growth rate of 3.5% in both years.

Table 1.1 Global GDP Growth according to the AIECE Institues Forecasts

	2024	2025
AVERAGE	2.9	3.0
MINIMUM	2.4	2.5
MAXIMUM	3.5	3.5

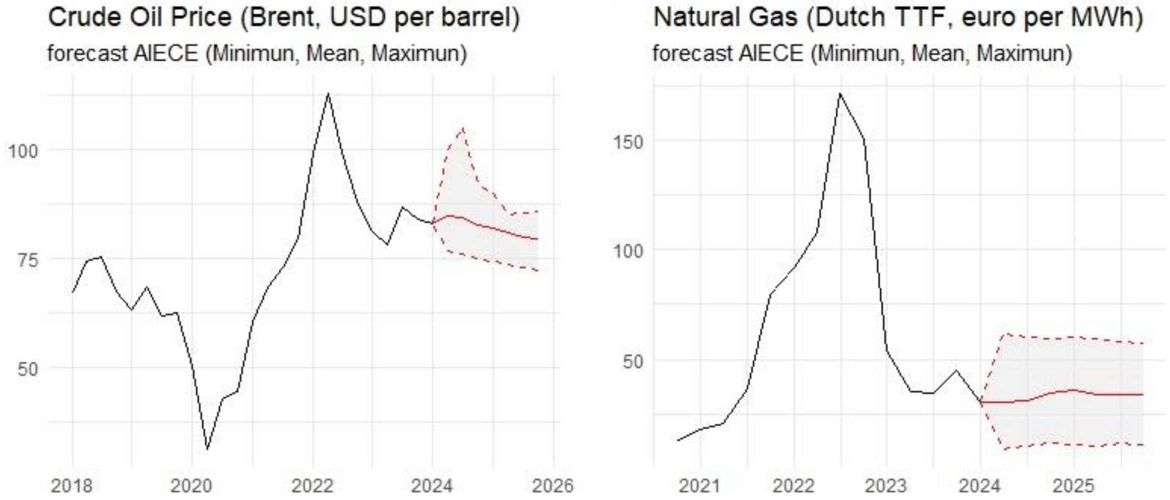
All major regions/countries have experienced a decline in overall inflation, but at the beginning of 2024 it remains above the central banks' targets. The IMF estimated a global consumer price inflation rate of 6.8 % in 2023, forecasting a further decline in 2024 and 2025 (to 5.9% and 4.5%, respectively), a rate of increase still above the targets of the main central banks. Also for inflation trend there is some heterogeneity across countries. On average, according to IMF estimates, in 2023, consumer prices rose in the United States by 3.6% and in the Euro Area by 6.0%. In China, on the contrary, prices growth was negative accentuated by the problems in the real estate sector and the need to stimulate domestic demand (-0.3% average overall inflation in 2023).

The disinflationary process is expected to continue, mainly driven by the decline in energy commodity prices and still restrictive monetary conditions. In 2024 and 2025, according to IMF estimates, inflation will decelerate further in the USA and Euro Area (2.4% and 1.8% and 2.9% and 2.5% respectively) while accelerating gradually in China (1.9% and 2.0%).

As for the trends of commodities prices, the average Brent price in 2023 was $82.6 per barrel, down significantly from the previous year ($99.8). The natural gas price, which followed a similar trend to Brent in 2023, averaged 42.3 TTf euro/MWh, more than halving from its price in 2022 (130.4 euro/MWh).

However, in the first four months of 2024, Brent prices resumed their upward trend ($84.9 the average January-April), also driven by the effects of geopolitical tensions, while natural gas prices continued to decline (30 euro/MWh the average gas price between January and April).

Figure 1.1 Energy Price



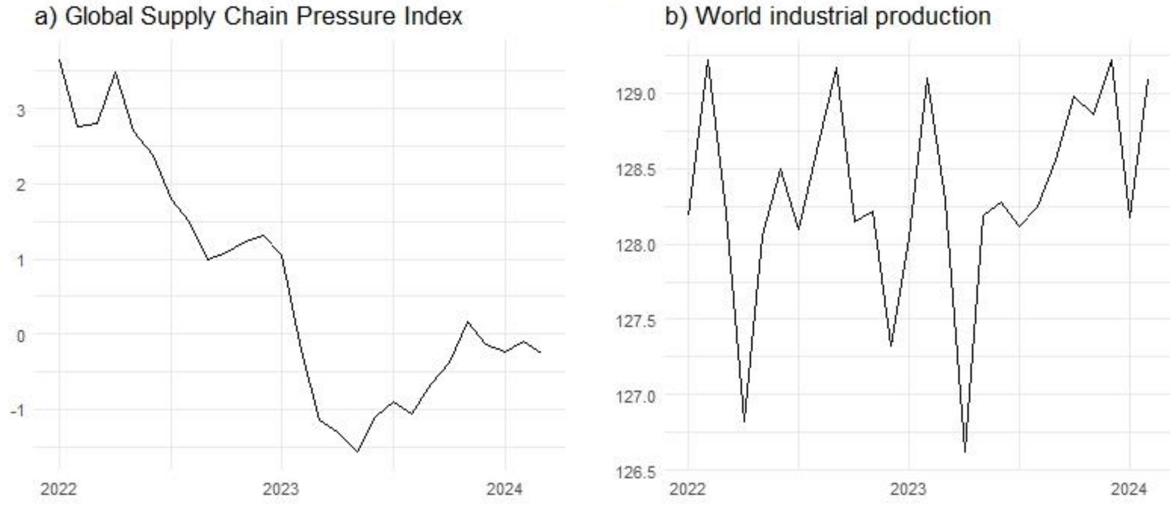
Sources:World Bank; AIECE Institute forecast

AIECE Institutes forecasts are quite heterogeneous especially for 2024 for both oil and gas prices, reflecting the high uncertainty which continues to cloud the international environment (Figure 1.1). As for the Brent, on average, the AIECE Institutes forecast that the decreasing trend will continue this year and the next (83.7 $ for barrel and 80.6$ respectively) while for natural gas a decrease is expected for 2024 followed by a moderate increase in 2025 (31.5 euro euro/MWh and 34.3 respectively).

On the supply side, in the first five months of 2023, the bottlenecks in global distribution chains continued to ease, showing a new moderate growth from June to November. Afterwards, with few exception, the Global Supply Chains pressures have been on a declining path, as summarized by the trend of the Global Supply Chain Pressure Index (GSCPI, Figure 1.2).

The attacks on commercial ships in the Red Sea in the early months of 2024 have made access to the Suez Canal riskier and have prompted a redirection of global trade flows. As a result, shipping costs have risen significantly and delivery times have lengthened, but for the moment the impact on Global Supply Chains has been moderate.

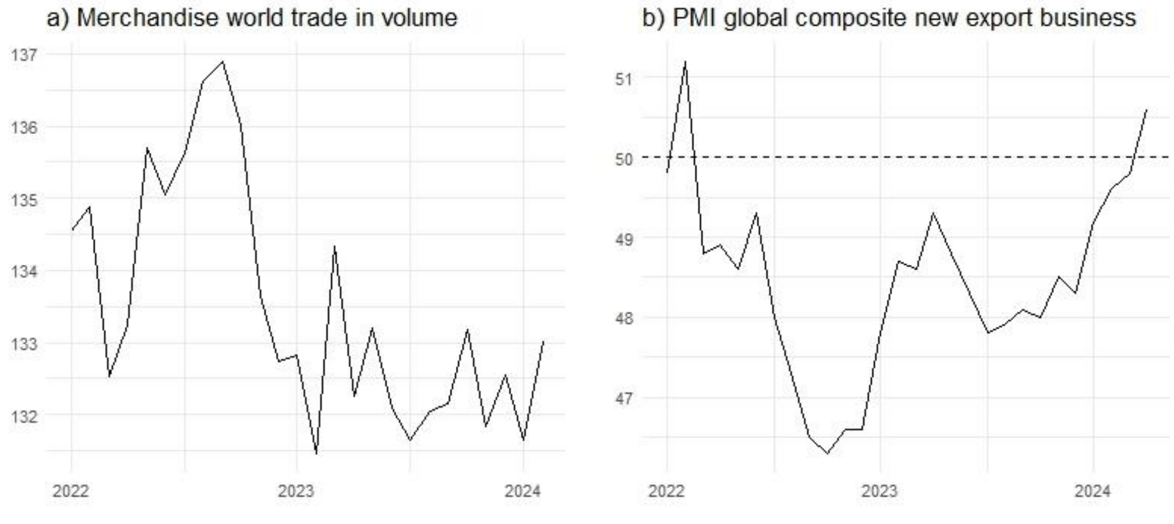
Figure 1.2



Sources:CPB and Benigno et al 2022

World trade is on a recovering path but continues to grow below its long-term average. According to the latest forecasts of the International Monetary Fund (IMF), the volume of World trade in goods and services is expected to grow by 3.0% this year (after +0.3% in 2023). The global Purchasing Managers Index (PMI) for new export orders, which anticipates the trend in international trade (below the expansion threshold of 50 points since February 2022), in April finally surpassed the expansion threshold (Figure 1.3).

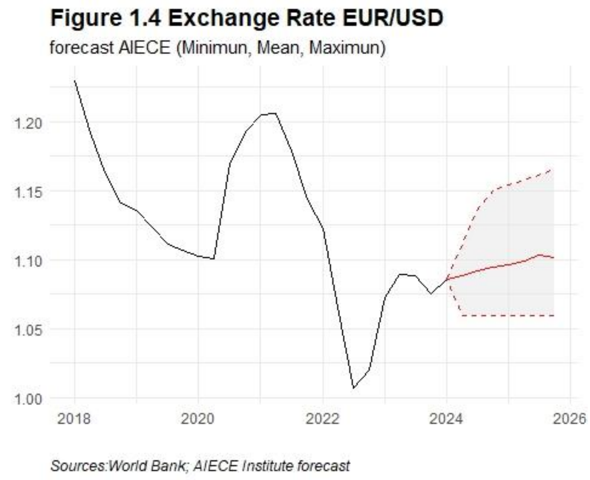
Figure 1.3



Sources:CPB and Markit IHS

The euro dollar exchange rate in the past years, despite the multiple shocks, has been relatively stable and consistent with the different growth prospects and intensities of the monetary tightening process implemented by the respective central banks: The European currency, on average in 2023, appreciated by 2.6% against the dollar (1.08 dollars per euro, from 1.05 in 2022).

In the first part of 2024, the euro-dollar exchange rate has continued to fluctuate around the 2023 levels (on average 1.08 dollars per euro between January and April).



Euro dollar exchange rate estimates this year and the next are quite heterogeneous among AIECE Institutes despite the fluctuations remaining moderate.

On average, the institutes expect the euro dollar exchange rate to remain substantially stable at 1.09 dollars at end 2024 and marginally depreciated at1.10 dollars in 2025 (1.08 dollars per euro average 2023 Figure 1.4). The most pessimistic (about the relative value of euro) Institute expects dollar to appreciate at 1.07 and 1.06 in 2024 and 2025, whereas the most optimistic one expects euro to appreciate at 1.12 and 1.16 (that would be an appreciation from 2023 average value by respectively 3.7% and 7.4% in the two years).

The global economy in 2023 was characterized by mixed performance at the national level, with strong growth momentum in the United States and China and more moderate growth in the Euro Area. The latter was negatively affected by a deterioration in consumer confidence in the second half of the year, the asymmetric effects on energy prices, and the adverse reactions to the tightening of credit conditions.

In detail, the Chinese economy grew by 5.2% in 2023 (3.0% in 2022), a rate above the government's 5% target but modest compared to the country's pre-pandemic growth rates. Despite the removal of "zero Covid" measures, Chinese performance was less dynamic than expected, also due to the worsening of the real estate crisis, in a general context of private sector over-indebtedness. According to IMF estimates, GDP is expected to slow down in 2024 and 2025 (4.6% and 4.1% respectively), despite additional public support measures for the economy implemented recently.

In the United States, GDP grew by 2.5% in 2023. Economic activity was particularly dynamic during the year, supported by strong consumer spending underpinned by robust labor market conditions. Households, unlike many other countries, continued to finance consumption using the extra savings accumulated since the start of the pandemic, which is however decreasing. Net exports overall made a positive contribution to GDP growth, but this was largely due to a decline in imports. For the 2024-25 biennium, the IMF expects the US economy to slow down (2.7% in 2024, 1.9% in 2025), due to the lagged effects of monetary tightening, gradual fiscal tightening and a weakening labour market that will weigh on aggregate demand.

In the first quarter of 2024, Chinese economy showed moderate positive results. GDP grew by 1.6% on a quarterly basis, accelerating from 1.2% in the previous three months. Even though growth is higher than expected and consistent with the government's objectives, the Chinese economy remains characterized by some critical issues related to the real estate sector and the high indebtedness of the private sector and local governments.

In the same period, US economic activity grew by 0.4% on a quarterly basis showing a sharp slowdown from the previous quarter (+0.8%). Fixed investment, private consumption, and public spending contributed positively to growth, while the increase in imports and inventories had a negative impact. Consumer inflation continued to show some downward rigidity (3.5% y-o-y figure for March), and labour market conditions remained tight.

2 THE OUTLOOK FOR EUROPE

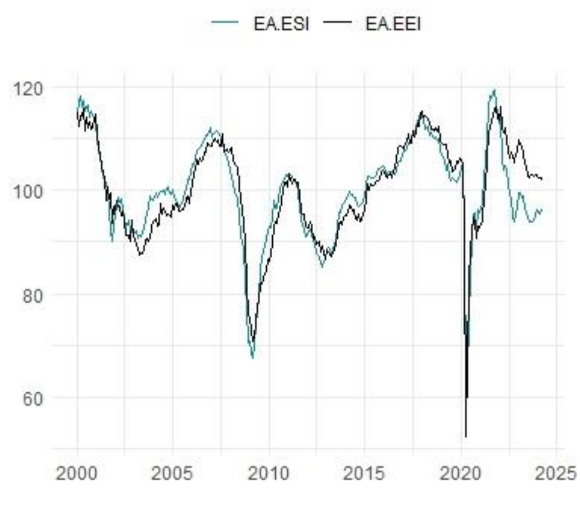
2.1 Euro Area

In the Euro Area, the main economies in 2023 continued to suffer from the asymmetric impact of the energy crisis caused by the war between Russia and Ukraine. Declining global demand, bottlenecks along international supply chains and the appreciation of the euro against the currencies of some emerging economies weighed on European industrial activity, and especially on the German economy.

The average result in 2023 was particularly disappointing (0.4%, a sharp slowdown from 3.4% the previous year). In the Euro Area recent macroeconomic data have been above expectations. Euro Area GDP grew by 0.3% on a quarterly basis in the first three months of 2024, a sharp acceleration compared to the previous two quarters (+0.1% in both). This result summarized a strong heterogeneity at country level, with Spain growing by 0.7% in quarterly terms and France and Germany by 0.2%.

The available data at national level seem to suggest that economic activity was driven by a recovery in foreign trade. On the other hand, domestic demand remains stagnant overall despite there are signs of recovery in some countries. The disinflationary process in Europe has continued. In April, consumer inflation remained stable (2.4% y-o-y), but with the services component, which is characterized by a certain stickiness, slowing to 3.7% after having stood at 4.0% in each of the previous five months. In this context, with inflation very close to the target, the European Central Bank is expected to start loosening its monetary policy in June, while the Federal Reserve may postpone the first rate cut to September.

Figure 2.1 ESI and EEI, Euro Area

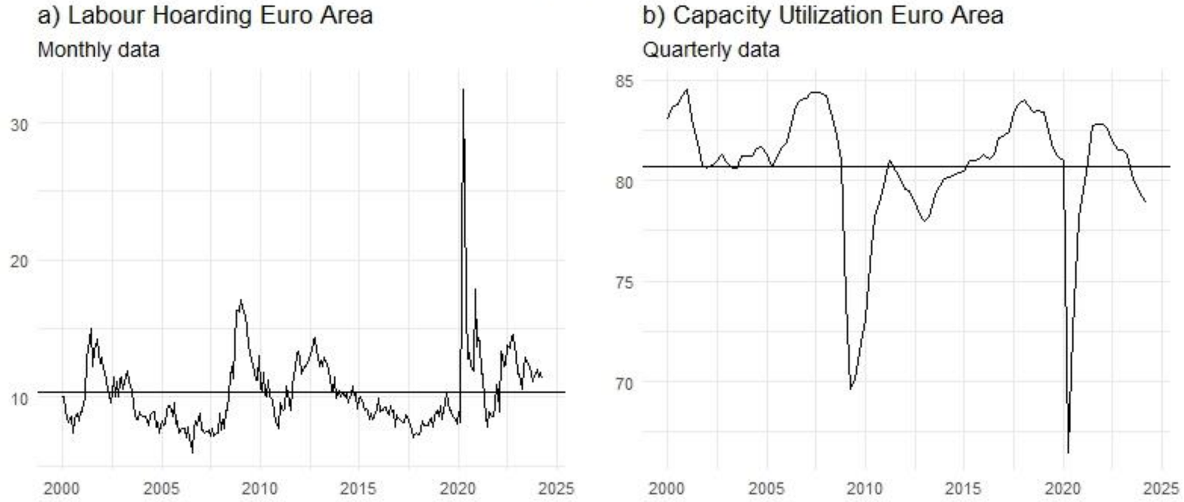


Sources:European Commission

In April 2024 the Economic Sentiment Indicator (ESI) in Euro Area (-0.6 points) show a marginal decline; a similar slowdown affected The Employment Expectations Indicator (EEI) in Euro Area (-0.7 points) but, contrary to the ESI, the EEI continued to score above its long-term average (Figure 2.1). The marginal decline of the ESI reflected a lower confidence in industry and retail trade, a slightly one for service and construction and an increase for the consumer confidence.

An indicator of the potential impact on the productivity is given by the European Commission's Labour Hoarding Indicator (LHI) that measures the percentage of managers expecting their firm's output to decrease, but employment to remain stable or increase is a signal of labour underutilization. In April, the EA LHI is 11.4%, showing a decrease with respect to March (-0.4 points), the lowest value in the 2024. Moreover in the EU industry sector, the estimated rate of capacity utilization decreased by 0.3 percentage points from January to April, reaching 78.9% and protracting the downward trend that started in 2022 (Figure 2.2).

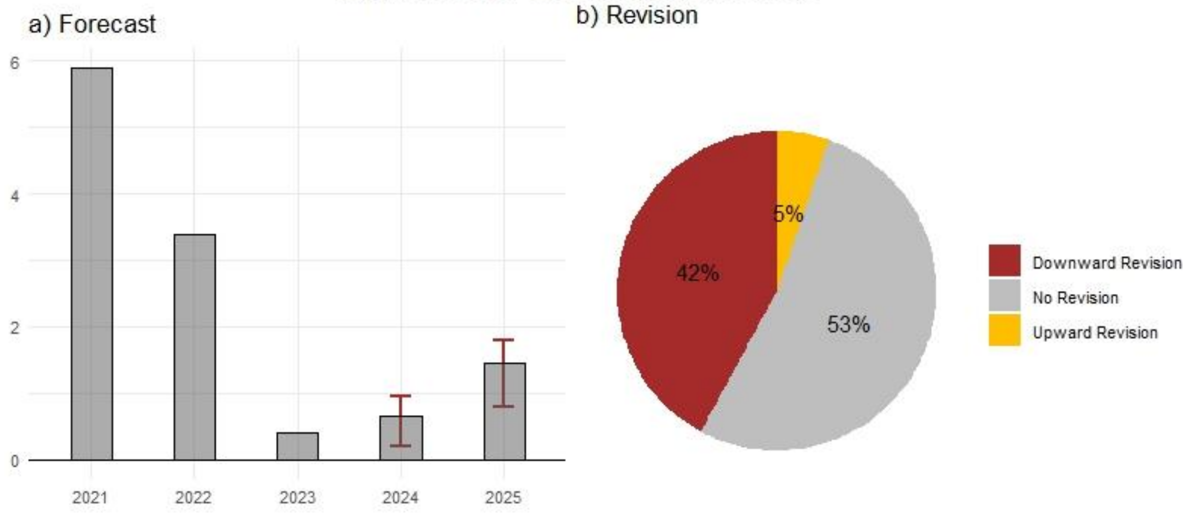
Figure 2.2



Sources:European Commission

For the Euro Area, AIECE members expect GDP to grow by 0.7% (a more pessimistic view with respect to the 0.8% forecasted by the IMF) and 1.5% (as the IMF estimate), respectively in 2024 and 2025. In the current year forecasts range from 0.2 to 0.9 percent. The range for GDP growth next year is instead from 0.8% to 1.8% (Figure 2.3).

Figure 2.3 GDP Growth rate, Euro Area



Sources:Eurostat; AIECE Institute forecast

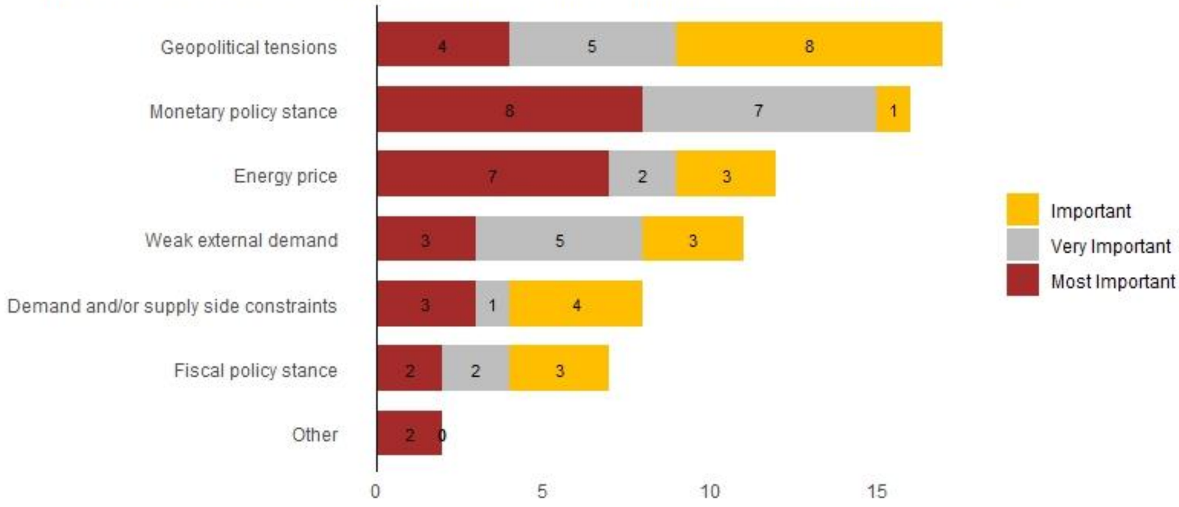
Sources:Answer AIECE Institute

Therefore, it seems to be a general agreement that 2024 will be a year of recovery followed by a further acceleration of the economic activity in 2025.

The revisions of the forecasts of AIECE members are in line with the hypothesis of downward revision in GDP growth in 2024, as out of 26 respondents, only 5% have revised upwards their previous forecasts (Figure 2.3).

Based on the responses of AIECE institutes regarding the most important factors that could affect economic growth in the Euro Area in 2024, there is no clear consensus. While geopolitical tensions received the most mentions, it appears that the elements with the greatest impact on growth in 2024 are still related to inflation and the consequent monetary policy decisions. Indeed, the factors "monetary policy stance" and "energy price" received the most mentions as "most important" (rank 1). Risks related to foreign demand, domestic demand and supply, and the influence of fiscal policies seem to be perceived less relevant.

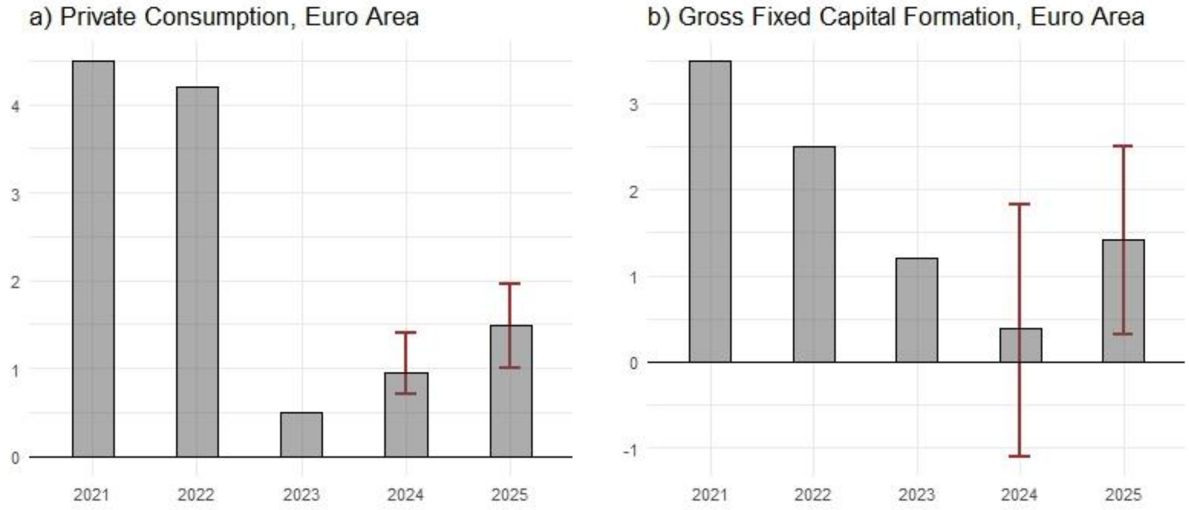
Figure 2.4 The three most important factors on Economic Growth in the Euro Area



Sources:Answers AIECE Institute

Regarding the domestic demand components, the average forecast of AIECE institutes predicts a recovery in consumption (respectively 0.9% in 2024 and 1.5% in 2025), and a slowdown in growth for investment in 2024 (0.4%) followed by a recovery in 2025 (+1.4%) with a range of forecasts for the capital accumulation process that is wider than for private consumption (Figure 2.5).

Figure 2.5

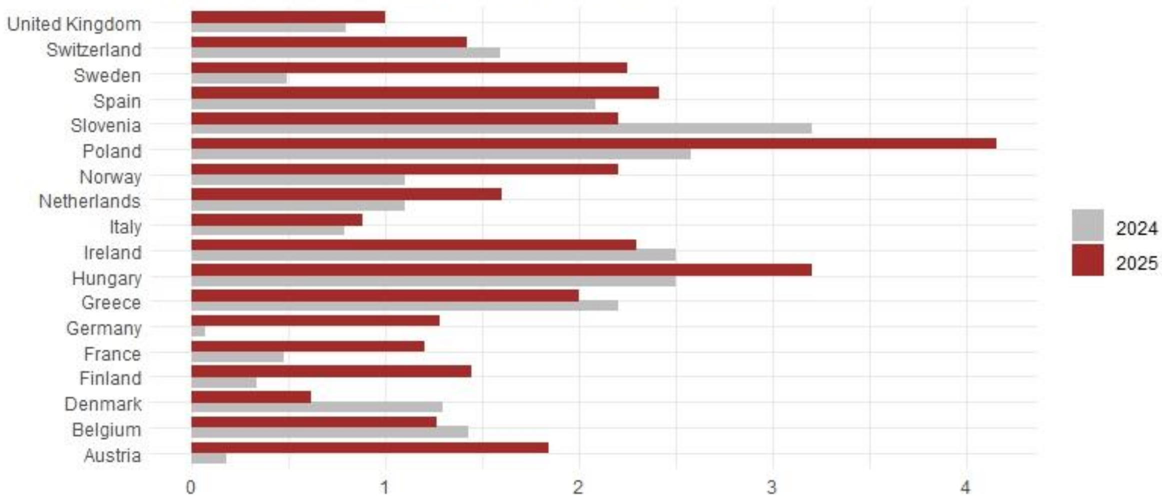


Sources:Eurostat; AIECE Institute forecast

2.2 AIECE Institutes' countries outlook

Looking at the forecasts for the 18 countries to which AIECE members belong, a slowdown scenario emerges in the forecast period (2024-2025) (Figure 2.6). In all countries except Denmark, Greece, Belgium, Ireland, Slovenia and Switzerland, growth in 2024 is expected to be lower than in the 2025. For France, Germany and Austria, their own growth rate is expected to be lower than the AIECE average for the Euro Area.

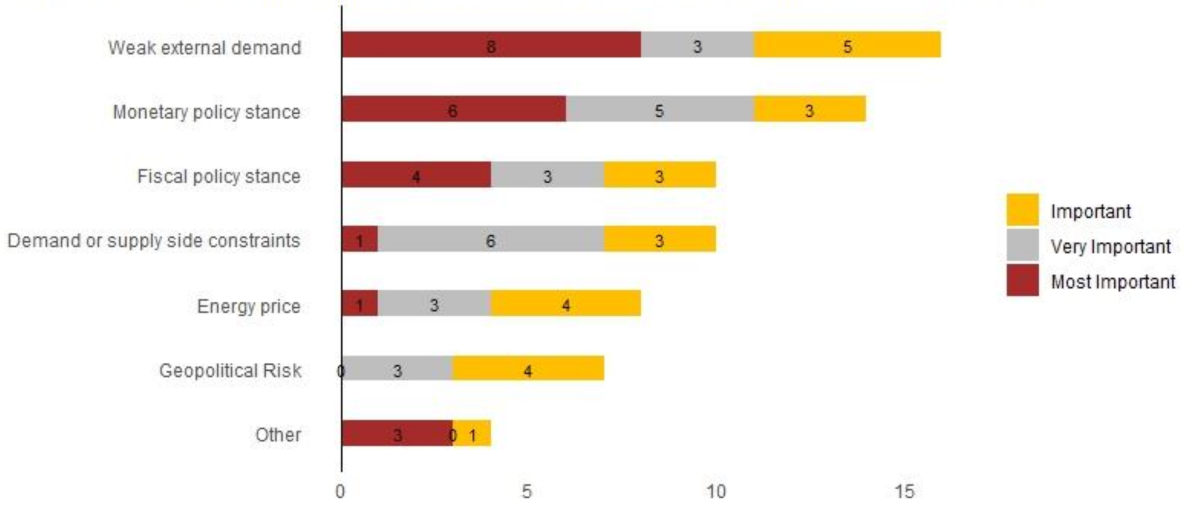
Figure 2.6 GDP forecast AIECE Countries



Sources: AIECE Institute forecast

The revisions were 35% downward and 25% upward. The factors that can have an effect on economic growth weak external demand remains among the "most important". However, monetary and the fiscal policy stance are the other factors with greater responses and more weight, which were instead considered less important for the Euro Area forecasts (Figure 2.7).

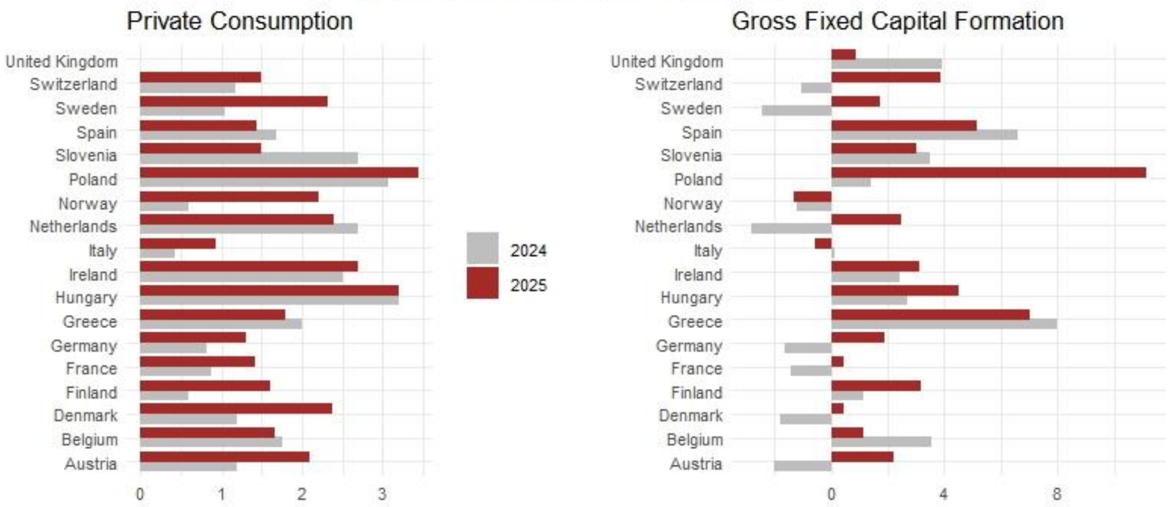
Figure 2.7 The three most important factors on Economic Growth in AIECE Countries



Sources:Answers AIECE Institute

Regarding the domestic demand, while all AIECE members provide positive forecasts for consumption for both years, a reduction in investment is expected for 8 out of 18 countries in 2024 and 2 of 18 in 2025 (Figure 2.8).

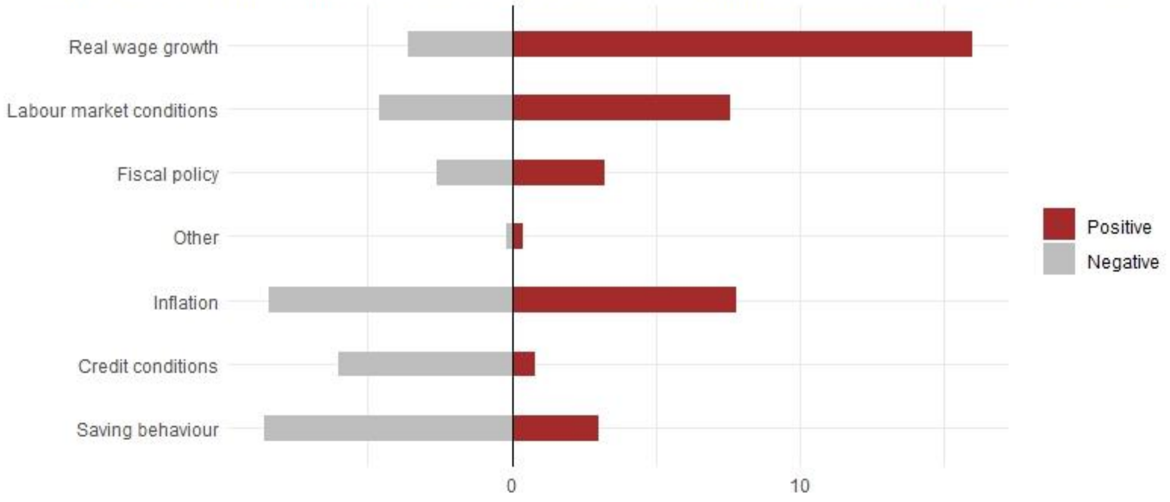
Figure 2.8 Forecast AIECE Countries



Sources: AIECE Institute forecast

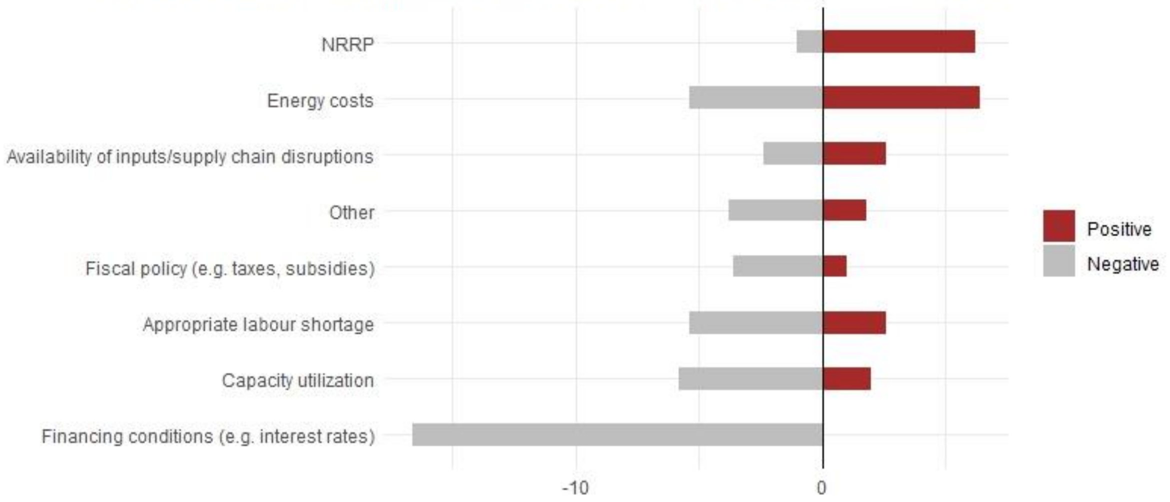
For most AIECE members, real wage growth is the most positive factors driving the increase in private consumption (Figure 2.9), followed by a tightening of labour market conditions. Inflation represents at the same time a factor capable of supporting or slowing down private consumption. Most of institutions believe that the disinflationary process could be a driving force for consumption, but the decline in inflation might not be sufficient to stimulate consumption. Furthermore, also credit conditions and saving behavior could lead to less robust growth. Regarding investments, on the other hand, financing conditions represent the most relevant negative factor, due to high interest, followed by the increase in energy costs. This latter is deemed as a stimulus together with the implementation of the NRRP (National Recovery and Resilience Plan) in the various Euro Area countries (Figure 2.10)[1].

Figure 2.9 The most important factors on Private Consumption Growth in AIECE Countries



Sources: AIECE Institute forecast

Figure 2.10 The most important factors on GFCF Growth in AIECE Countries

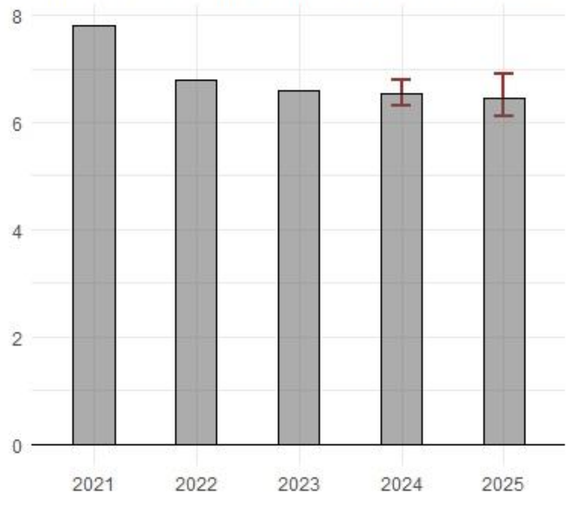


Sources: AIECE Institute forecast

[1] As in AIECE General Report Autumn 2023 the figure 2.9 and 2.10, that correspond to the questionnaire questions 4.2.1 and 4.2.2, show an index based on following formula: the most important answer increases the factor by 1 point, the second one by 0.8, the third one by 0.6, and so on. We calculated a balance index by subtracting the positive scores from the negative ones for each factor

2.3 Labour market

Figure 2.11 Unemployment rate, Euro Area

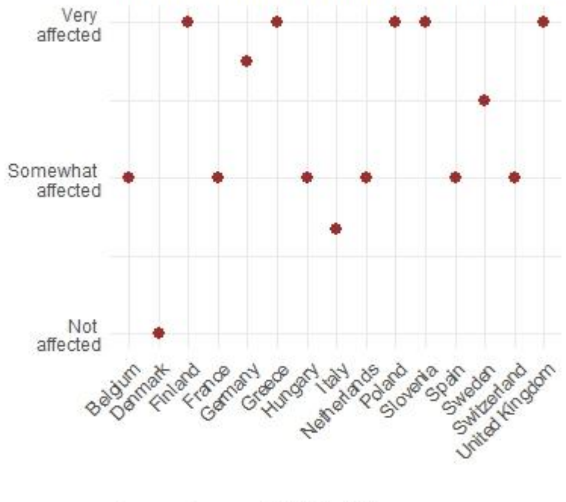


Sources:Eurostat; AIECE Institute forecast

The recent data for the Euro Area confirm a strengthening of labor market conditions, continuing the downward trend in the unemployment rate over the past 10 years, which was only interrupted during the pandemic period. In March 2024, 11.087 million people were unemployed.

With respect to February 2024, unemployment decreased by 94,000 in the Euro Area. Compared with March 2023, unemployment decreased by 51,000 in the Euro Area. In March 2024, the euro area seasonally adjusted unemployment rate was 6.5%, stable compared with February 2024 and down from 6.6% in March 2023. AIECE member forecasts confirm the downward trend in the unemployment rate for the current and next year, stabilizing around 6.5% (Figure 2.11).

Figure 2.12 Influence of shortage in Labour Market in AIECE Countries

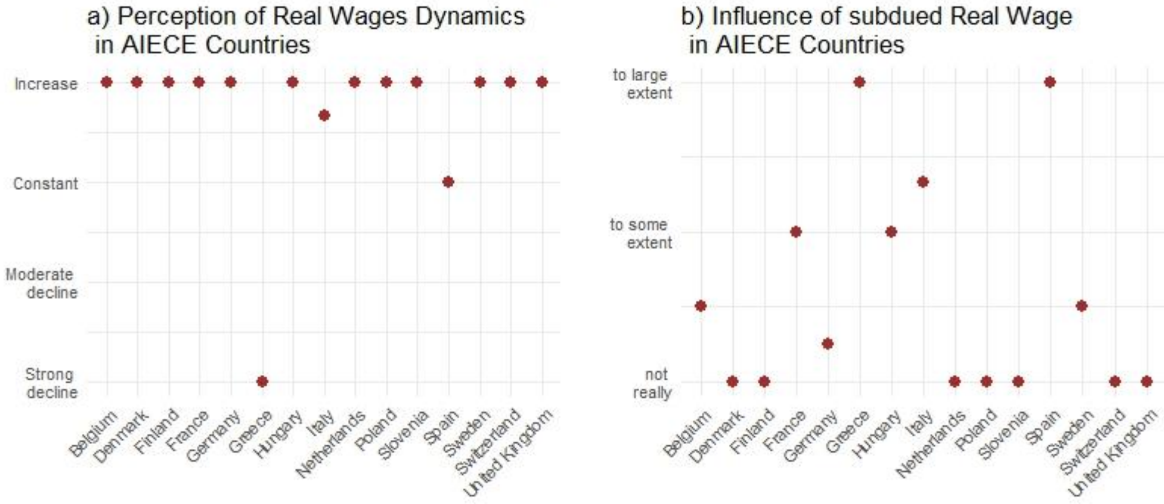


Sources:Answers AIECE Institute

As for the workforce, the mismatch between supply and demand remains a problem that affects almost all AIECE countries with varying intensity. Only Denmark is not affected by this situation, while Germany, Greece, Poland, Slovenia and the UK are defined as "very affected by a shortage of appropriate labor." (Figure 2.12)

As reported in the OECD Wage Bulletin, "*After a decline in the past two years, real wages are now growing on an annual basis in several countries but remain below 2019 levels in most*." The perception regarding the future dynamics of real wages in 2024 is positive for all AIECE member countries except for Greece, which expects a strong decline in real wages in the near future (Figure 2.13 a). However, the problem of compressed real wages persists for 3 out of 14 member countries (Italy, Spain, Greece), while for 9 others it is "not really" a problem (Figure 2.13 b).

Figure 2.13

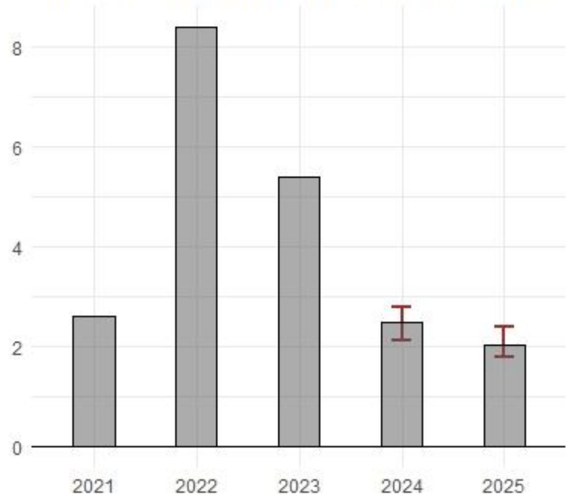


Sources:Answers AIECE Institute

2.4 Inflation development

The disinflation process continues in the Euro Area thanks to the fall in energy prices and still restrictive monetary conditions. However, in the first four months of 2024, Brent prices have resumed growing, also driven by the effects of geopolitical tensions, while natural gas prices have continued to decline. The disinflationary process in Europe has continued: in April, consumer inflation remained stable (2.4% year-on-year) but with the services component, which is characterized by a certain stickiness, slowing to 3.7% after standing at 4.0% in each of the previous five months. In this context, with inflation very close to the target, the European Central Bank is expected to start the expansionary monetary policy cycle from June, while the Federal Reserve could postpone the first interest rate cut to September

Figure 2.14 Inflation rate (HICP), Euro Area

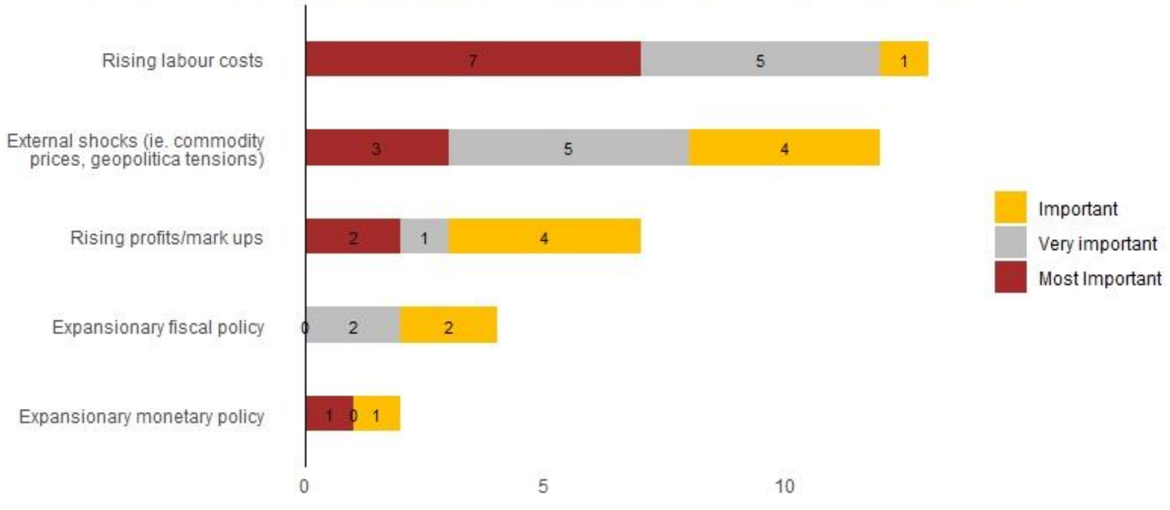


Sources:Eurostat; AIECE Institute forecast

AIECE members confirm a decline in the inflation rate (average 2.5 and 2) for the Euro Area in 2024 and 2025. Looking at the situation in the countries, 53% does not expect to reach the ECB target in 2024 (Figure 2.14).

The main factors that would keep the inflation rate above the GDP level are rising labour costs, which had the most responses and the highest number of "most important." External shocks caused by commodity prices and geopolitical tensions would also have a "most important" or "very important" impact.

Figure 2.15 The three most important factors for High Inflation in AIECE Countries



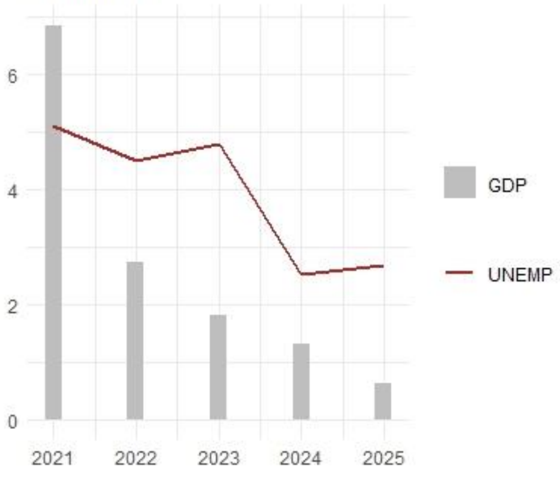
Sources:Answers AIECE Institute

2.5 Non-EA countries

In this section, we take a brief look at the European economies outside the Euro Area. The forecasts as well as most of the views represent those of the AIECE member of the respective country.

Denmark

Figure 2.17 Macroeconomic outlook Denmark

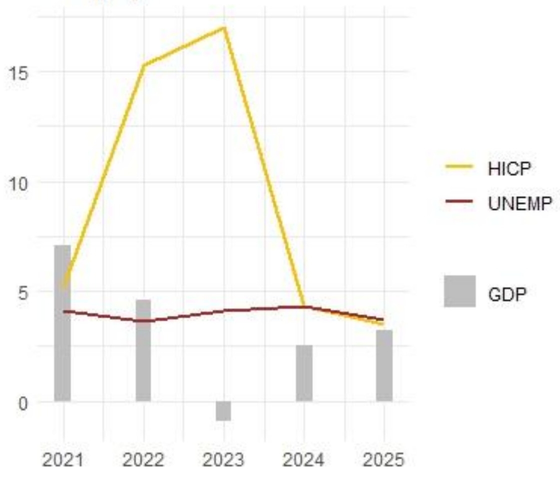


Sources:IMF and AIECE Institute forecast

The Danish economy will continue to slow down over the forecast period. After recording an increase of +1.9% in 2023, the AIECE member expects more contained growth: +1.3% in 2024 and +0.6% in 2025 (Figure 2.17). Monetary policy and weak external demand are the two most important factors that could affect growth in 2024. In particular, financing conditions (i.e.. interest rates) could negatively affect private investment growth and credit conditions private consumption. The labour market will remain robust: the unemployment rate will fall to 2.5% and is expected to rise to 2.7% in 2025. The Danish labour market is not affected by a shortage of appropriate labour. At the first reopening after the pandemic, mismatch rose sharply and since then it has slowly moved back towards historical averages.

Hungary

Figure 2.18 Macroeconomic outlook Hungary

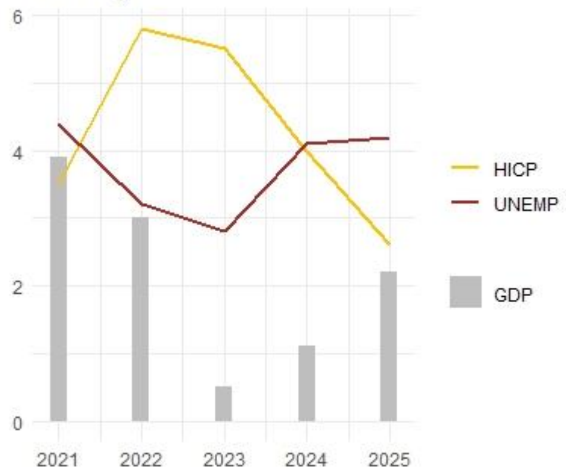


Sources:IMF and AIECE Institute forecast

Hungary's economy is currently experiencing very rapid disinflation (Figure 2.18). After the peak registered at the beginning 2023, HICP annual growth rate was 17.6% and forecasts indicate that price growth in 2024 will be 4.3%, and 3.5% in 2025. After recording a decrease of 0.9% in 2023, the AIECE member expects more a robust and steady growth: +2.5% in 2024 and +3.2% in 2025 driven by internal demand even if, as pointed out, consumption growth will be moderate, and the resulting incentive for domestic-oriented firms to increase their investment activity will be moderate as well. At the same time, the export outlook is profoundly uncertain, due to the weak growth prospects in Europe and especially in Germany. Weak external demand, along with demand or supply side constraints, are the two most important factors that could affect growth in 2024. But real wage growth will sustain private consumption and "the revival of domestic and external demand, or the lack of thereof, is expected to shape business investment decisions to a large degree". The labour market will remain robust: the unemployment rate will be 4.3% this year and is expected to reduce to 3.7% in 2025. The Hungarian labour market is somewhat affected by a shortage of appropriate labour, which was a recurring complaint from large segments of companies in recent year. In the past half year, the labour market softened somewhat, due to weak demand, and the firms became more reticent to fill job vacancies, thereby easing the pressure.

Norway

Figure 2.19 Macroeconomic outlook Norway

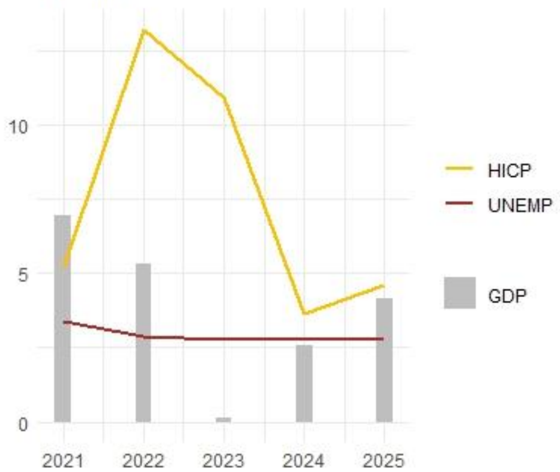


Sources:IMF and AIECE Institute forecast

Norway has seen virtually no real wage growth in the period 2015–2023. Last year, nominal wage growth was 5.2%, while prices rose by 5.5%, measured by the CPI (Figure 2.19). This implies a slight reduction in real wages. Consumer price growth in recent years has been high in a historical perspective, not seen since the 1980. Annual growth in the CPI ended at 5.5% in 2023. Price growth was thus slightly lower than in 2022, when the CPI rose by 5.8%. The key policy rate was raised from 0% in September 2021 to 4.5% in December last year. This is the highest since the 4.5% rate in 2008. Norges Bank has indicated that the key policy rate is likely to remain at the current level for quite some time. Interest rates for revolving credit mortgages, estimated at 6% in 2024, will then fall by almost 1.5 percentage points until 2027. One year ago, unemployment, measured by the Labour Force Survey (LFS), was just over 3%. It continued to increase throughout 2023, and in January 2024 was 3.9%, which is on a par with the average for the 2010s. The estimates suggest that GDP growth among Norway's trading partners, which has grown by an average of just under 2% annually since 2005, will be around 1.0% this year, gradually rising to around 2% in 2027. Economic activity is expected to remain close to its potential over the forecast horizon and to average 1.1 percent in 2024 and 2.2 percent in 2025. Gross fixed capital formation will register a decline in the forecast horizon (-1.2% and -1.3% respectively in 2024 and 2025) with main negative factor being financing conditions (e.g. interest rates). Real wage growth will negatively impact private consumption. Norway labour market is somewhat affected by a shortage of appropriate labour because most sensitive areas (particularly new builds of housing) of the economy have contracted substantially. The labour market has proven somewhat flexible, but unemployment has risen somewhat.

Poland

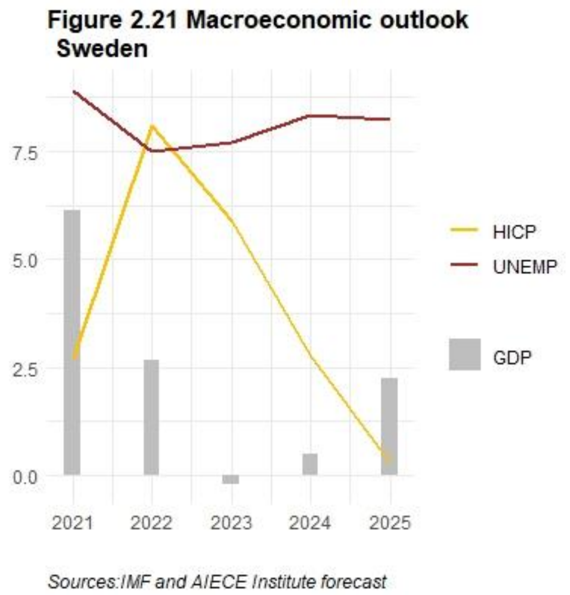
Figure 2.20 Macroeconomic outlook Poland



Sources:IMF and AIECE Institute forecast

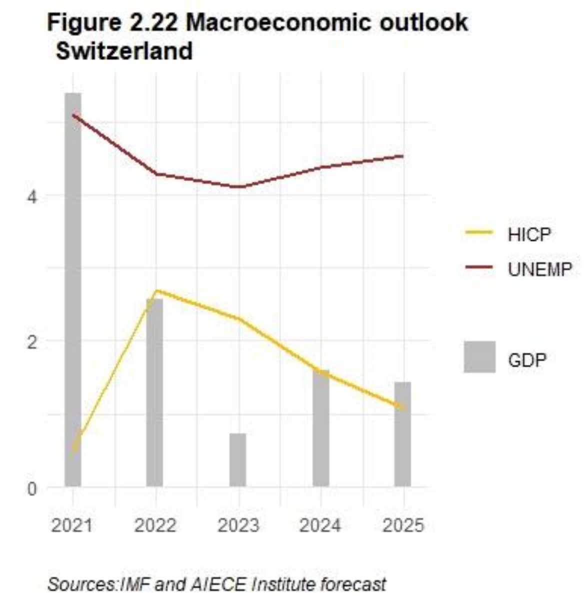
The Polish economy is expected to rebound in the next two years accelerating following a weak 2023 with the major boost related to consumption. After inflation drop, real wages expand at approximately 10% year-on-year and, furthermore, disposable incomes are supported by fiscal policy (increasing child benefit). Overall economic activity will grow by 2.6% and 4.2% in 2024 and 2025 (Figure 2.20). But the gross capital fixed formation is likely to be subdued in 2024 and the AIECE member see a weak outlay of local governments related to transition period between two EU budget perspectives (cohesion funds). The RRF funds should have minimal impact visible rather in Q4 while the NGEU funds should boost economic growth in 2025 (it is expected that the impulse should add 1.2% point to the headline GDP figure). Main risk to affect economic growth will be the fiscal policy stance and geopolitical Risk. The prices will remain high as effect of rising labour costs. The labour market will be very affected by a shortage of appropriate labour as Polish enterprises, especially in manufacturing and construction sectors, systematically complain to a problem with recruitments.

Sweden



The Swedish economy has been operating below capacity for almost a year and is going through a recession. The first half of the year, the growth will continue to be low. Inflation has dropped back rapidly in recent months and will continue to fall in 2024. Soon the Riksbank will therefore commence a series of interest rate reductions helping the economy to begin a recovery at the end of the year because with low inflation and interest rate cuts in sight, the consumers will enjoy real wage increases which will fuel an increase in the private consumption. Increased spending in areas such as defence means that central government consumption will also grow much faster than normal, as it will also do this year. Moreover, an expected moderate increase in the external demand will support exports as well. Overall, the economy will grow by 0.5% in 2024 and 2.2% in 2025. The construction sector will still show negative numbers for 2024 but a mild recovery will start during the year, supported by falling interest rates and increase in house prices. The slowdown will have a clearer impact on labour market and therefore the unemployment is expected to continue to increase rising to 8.3% in 2024 being affected by a shortage of appropriate labour.

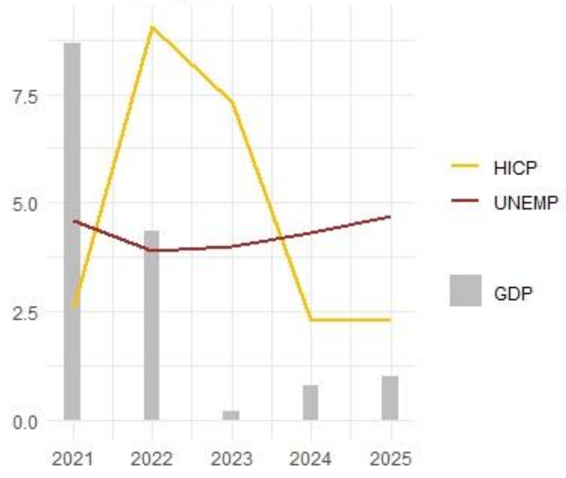
Switzerland



Due to the past real appreciation of the Swiss franc, the weak international economy and the associated weak demand for investment, economic growth in Switzerland will remain below potential in the first half of 2024. The manufacturing industry will remain under pressure for the time being, while the service sectors will provide support. A recovery is expected from the second half of 2024, driven by global demand and industrial momentum (Figure 2.22). This will be accompanied by an increase in investment demand. GDP growth amounts to +1.6% in 2024 and a +1.4% in 2025 (adjusted for international sporting events to +1.2% and a more optimistic +1.8% respectively). Uncertainty will be an important factor to affect private consumption and investment (even if with bigger impact on the latter). Despite the weak GDP growth, solid employment growth and low unemployment are expected for 2024. Real wage gains should also be possible again in the forecast period. Due to the significant decline in inflation and weak economic momentum, the Swiss National Bank already lowered its key interest rate in March. The unemployment rate remains low at 4.4% and 4.5% respectively in 2024 and 2025, and inflation should continue to fall at 1.6% this year and 1.1% next year.

United Kingdom

Figure 2.23 Macroeconomic outlook United Kingdom



Sources:IMF and AIECE Institute forecast

Following the lacklustre growth in 2023, the UK GDP will likely remain sluggish into the medium term. The AIECE member expects GDP to grow by 0.8 per cent in 2024 and by 1 per cent in 2025. Inflation will come down close to the Bank's target of 2 percent: +2.3% in both 2024 and 2025. Dampened domestic demand and supply side constraints, driven by low business and housing investments, are considered the most important factors weighing down on economic growth in 2024. While inflation is expected to be a negative factor for private consumption, this is expected to be offset by the positive impact of real wage growth. The unemployment rate will slightly increase in 2024 to 4.3% and to 4.7% in 2025 with a labour market affected by the shortage of appropriate labour.

Box-The impact of the German recession and the interdependence between Italy and Germany

In this box we evaluate the effects of the global economic growth slowdown in 2023 on the Italian economy, adopting two analytical approaches. Initially, the effects of the international slowdown and the German recession on Italy's GDP are estimated. Subsequently, given the importance of German demand for the Italian economic system, the trade relationships between these two countries are analyzed from a perspective of mutual dependence in the long run.

The impact of the international cycle slowdown and the German recession is estimated by carrying out two simulation exercises using the Istat MEMo-it macroeconometric model. In both cases, it is assumed that in 2023, global trade and Italian exports to Germany, in the absence of shocks, would have recorded the same dynamics observed in 2022. Therefore, the differences between the latters and the respective 2023 growth rates determine the magnitude of the shocks underlying the two exercises.

The results show that the deceleration of global trade induced by the international cycle slowdown would reduce, in 2023, the growth of Italian goods exports in volume by 3.7 percentage points (Table 1), also causing a lower demand for imported intermediate goods (-1.5 percentage points for total imports). These dynamics would consequently lead to a *lower growth in the trade balance as a percentage of GDP (-0.9 points). The simulated scenario is associated with a slight deflationary outcome: the lower quantity of exported and imported goods and services would favour a slight decrease in the GDP deflator. Export prices would increase slightly less than import prices, leading to a modest reduction in the terms of trade (-0.1 p.p.); the very limited impact, in terms of lower growth in household and investment deflators, would not impact on 2023 volumes of these two aggregates, which remained unchanged compared to the baseline scenario. More evident effects emerge on the labour market, with a lower growth in labour units (+0.6 p.p.). The overall impact of the international cycle slowdown on Italian GDP growth would amount to 0.8 p.p. in 2023.*

In this context, the recession in Germany stands out. The relevance of the German economy for the EMU countries, and for Italy in particular, is widely known; its relative weight (in 2022, the share of German GDP in volume in the Euro Area was 27.9%) and its dynamism have been the engine of economic activity for the whole continent in recent decades. Even during 2009 and 2020 crises, Germany has shown greater speed and strength in recovery compared to the main European economies; only in the early 2000s did the German economy experience a recession contrary to the major Euro Area countries, particularly against the very lively dynamics of Spain, the growth of France, and the substantial stagnation (in 2002-03) of Italy.

The simulation results (Table 1) show that the lower demand for Italian goods from Germany alone would result in a decrease in total exports compared to the baseline scenario (-1.0 p.p. in 2023), also triggering a less lively import dynamic (-0.3 p.p.); once again, a slowdown in volumes is associated with a slight decrease in trade and consumption and investment deflators. Overall, the negative impact on GDP growth would be 0.2 p.p. The effects of the German shock would therefore account for about a quarter of the overall impact of the international cycle slowdown.

TABLE 1. EFFECTS ON THE ITALIAN ECONOMY OF GLOBAL TRADE SLOWDOWN AND RECESSION IN GERMANY. YEAR 2023 (CHANGES COMPARED TO BASELINE SCENARIO, PERCENTAGE POINTS)

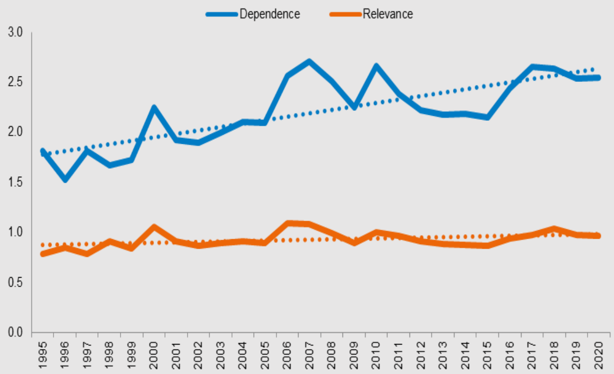
VARIABLES	EFFECTS OF THE SLOWDOWN IN WORLD TRADE	EFFECTS OF GERMAN RECESSION
GDP	-0.8	-0.2
Domestic demand	0.0	0.0
Household consumption and ISP	0.0	0.0
Total investments	0.0	0.0
Exports	-3.7	-1.0
Imports	-1.5	-0.3
GDP deflator	-0.3	0.0
Household consumption deflator	-0.2	-0.1
Investment deflator	-0.3	-0.1
Terms of trade	-0.1	-0.1
Work units	-0.6	-0.1
Unemployment rate	0.0	0.0
Trade balance (as % of GDP)	-0.9	-0.2

Source: calculations on Istat data.

Given the relevance of the German market for the Italian economy, it is useful to evaluate the trade and productive interaction between Italy and Germany also from a long-term perspective, considering the mutual dependence and relevance of the two economic systems. Dependency is defined here as the extent to which the production processes of a given country require the production inputs of another country (observing this relationship from the perspective of imports of the demanding country); relevance refers to the importance of the domestic inputs of the supplying country for the production processes of other countries (thus observed from the perspective of exports of the supplying country). Both elements can be measured through input-output tables, following a recent analysis of the exposure of US economy to foreign productions (Baldwin et al., 2023), based on the OECD ICIO tables[2]. In what follows, we evaluate the degree of dependence on, and relevance to, the German economy for the Italian economy between 1995 and 2020. Results are reported in Figure A1. Firstly, as of 2020, the degree of dependence of the Italian production system on German production inputs was about 2.5 times higher than the level of relevance of Italian production inputs for the German production system. In other words, at the beginning of the current decade, the Italian economy depended more on the German economy than vice versa. Analyzing the temporal dynamics, Italy's dependence showed a significant increase between 1995 and 2020 (in this period, the indicator value increased by 40%), while its relevance for Germany showed a more modest growth (+23%). Both indicators also decreased between 2018 and 2020 (-3.5 and -8.4%, respectively). More generally, the reduction trend is evident from the peaks recorded in the financial crisis year (2007), compared to which the 2020 levels were lower by 6% and 11%, respectively.

[2] ICIO tables provide information on international inter-sectoral links with reference to 76 countries and 45 sectors of economic activity (For details, see OECD 2023). The approach followed here consists of three steps. In the first step, starting from the complete ICIO matrix (i.e., concerning the links between all sectors of all countries), the Leontief direct and indirect activation coefficients are derived. For each relationship between countries and sectors, these coefficients provide a measure of the input requirement for each monetary unit of output. These coefficients therefore allow us to approximate how much the production process of sector i in country A depends on the production of input j in country B, taking into account all indirect production relationships as well. This means that production relationships between countries A and B are evaluated considering the interconnections of the entire network of production links, in order to capture all possible outward and inward feedback effects. In the second step, assuming the intention to derive dependency and relevance indicators for country A, the sub-matrices representing its incoming relationships (columns referring to country A, representing imports of productive inputs from abroad) and outgoing relationships (rows referring to country A, representing exports of productive inputs abroad) are isolated from the complete matrix. In the third step, by summing the activation coefficients by country and/or sector, it is possible to analyze their distribution with reference to a specific economy. In particular, considering incoming relationships provides a measure of an economy's dependency on foreign input production, while considering outgoing relationships, the distribution of activation coefficients by country shows the relative relevance of the country considered for foreign production systems. In this way, the notions of dependency and relevance are symmetrical: considering two countries (A and B), the dependency of country A on country B corresponds to the relevance of country B for country A, while the relevance of country A for country B is equivalent to the dependency of country B on country A.

FIGURE A.1. DEPENDENCE AND RELEVANCE OF ITALY WITH RESPECT TO GERMANY. YEARS 1995-2020 (ABSOLUTE VALUES)

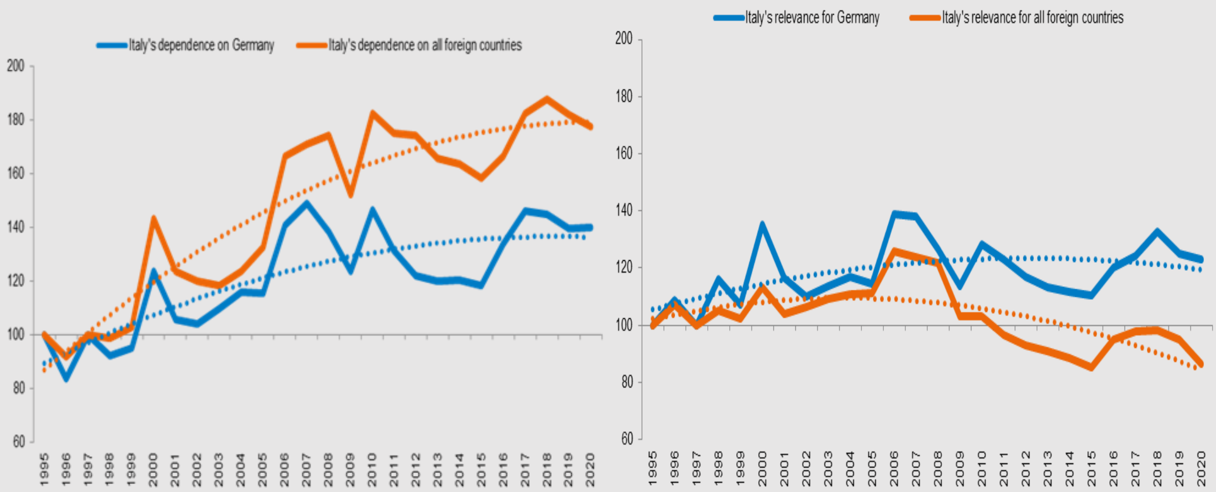


Source: calculations on ICIO data.

In other words, although over time Italy and Germany have shown a growing trajectory of integration of production systems, this trend experienced a slowdown during the financial crisis (partially recovered in subsequent years) and a further slowdown in the period 2018-2020. However, it is worth noticing that the observed period was characterized by several major events, which were able to modify the relations structure between the two countries (e.g., the birth of the EMU, the spreading of GVCs, China's entry into the WTO, the trade collapse of 2009). Consequently, the dynamics of the economic integration between Italy and Germany should also be observed taking into account the trend of the dependence and relevance of Italy's productive relations with all other countries.

FIGURE A.2. DEPENDENCE AND RELEVANCE: ITALY VS. GERMANY AND REST OF THE WORLD. YEARS 1995-2020 (INDEX 1995=100)

A) DEPENDENCE *B) RELEVANCE*



Source: calculations on ICIO data.

Regarding dependency (Figure A2), a divergence in growth trajectories is evident from the early 2000s: for the entire period considered, while the indicator related to the link with Germany increased by 40%, that related to the total of foreign countries grew by about 80%, reflecting an increasing articulation of international trade relations. As for relevance (Figure 2b), the divergence of indicators' trajectories is evident starting from the 2008-09 crisis with *a smaller reduction for Germany than for the rest of the world. For the entire period considered, the former increased by 22%, while the latter decreased by about 15%.*

To sum up, Italy's productive and trade dependence on Germany in recent decades has been increasing, but it decreased in pre-pandemic years. Such a weakening correlation, if confirmed in the following years, might confirm evidence from other studies (CSC, 2023), which find a progressive decrease in integration between the two economies, with a potential lower effectiveness in transmitting macroeconomic shocks between Italy and Germany compared to the past.

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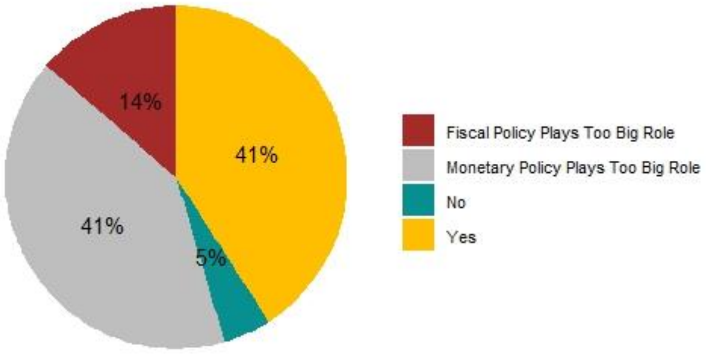
3 POLICY ENVIRONMENT

The responses of the surveyed institutions to questions on the assessment of fiscal and monetary policies until the end of 2024 clearly reflect the current economic and policy environment. After the exceptional levels reached in 2022, inflation is on a downward trend but is still above the ECB's target, while high key interest rates, risen at a record pace from July 2022, and the central bank's quantitative tightening make financing conditions very restrictive for households and businesses.

Uncertainties related mainly to the impact of the full transmission of past interest rate hikes and to global economic and geopolitical developments contribute to a challenging growth environment dominated by downside risks.

In addition, fiscal space is reduced, due to the return to fiscal rules under the new governance framework that entered in force at the end of April 2024, amid large structural deficits and high debt levels generated by the pandemic and energy shocks.

Figure 3.1 Appropriateness of the current balance between fiscal and monetary policy in the home country



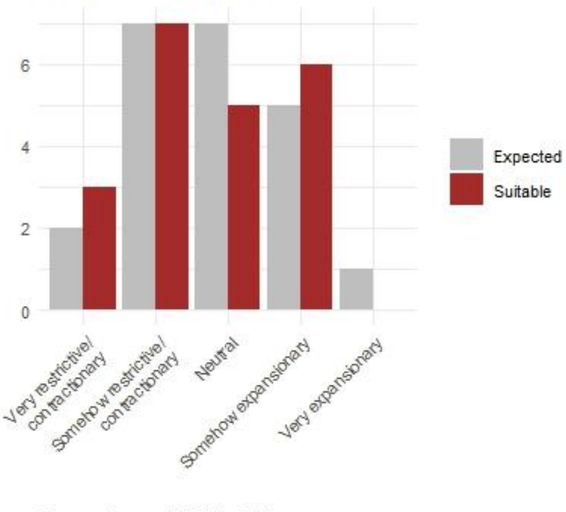
Sources:Answer AIECE Institute

In this context, the issue of rebalancing fiscal and monetary policy in the European area is considered relevant by most of the institutions surveyed. In fact, 59% of respondents believe that the current balance between fiscal and monetary policy is not appropriate for their country, while only 41% believe it is. Specifically, 41% believe that it is monetary policy that plays too important a role, 14% that fiscal policy does (Figure 3.1).

The rebalancing corrections indicated by respondents are mostly gradual monetary easing and, with some divergent views, tightening of fiscal policy. However, there is emerging concern that, at the area level, monetary policy in 2024 will be too restrictive than appropriate (over 54% of respondents), while there is greater confidence in the appropriateness of Euro Area fiscal stance (59% of respondents believe it will be appropriately restrictive).

Fiscal policy

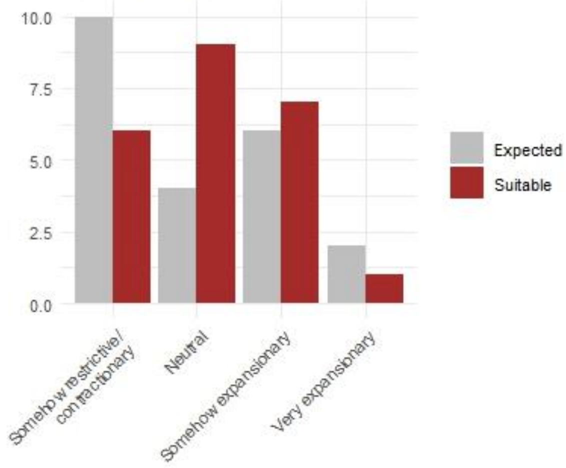
Figure 3.2 Fiscal Stance in AIECE Countries



Sources:Answer AIECE Institute

No clear indication emerges on the fiscal policy stance expected for 2024 or the appropriate stance. Thus, there is no clear indication of respondents' assessment of the appropriateness of the fiscal policy stance, that is, whether it is considered appropriate, too expansionary, or too restrictive. Although the expectation of restrictive fiscal policies prevails (38% of respondents) and the restrictive stance is indicated as appropriate (48%), a significant share of respondents (29%) believes that the appropriate fiscal policy should still be expansionary and just under a quarter (24%) believes it should be neutral (Figure 3.2).

Figure 3.3 Fiscal Stance in Euro Area

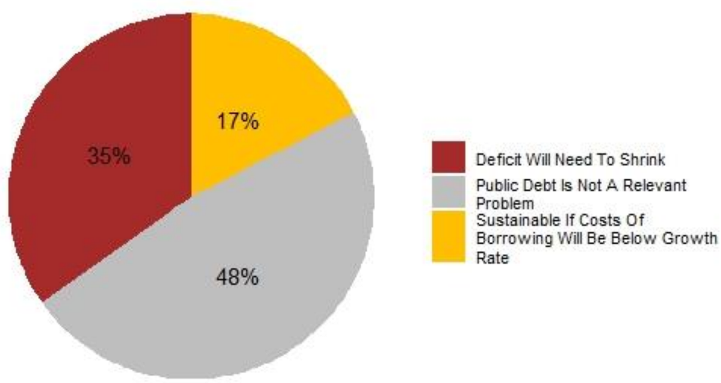


Sources:Answer AIECE Institute

To assess the extent to which respondents believe the fiscal policies that are going to be implemented in 2024 to be appropriate, the expected and suitable policies are compared. This comparison shows that 38% of respondents believe that fiscal policies in the home country will continue to be too expansionary than appropriate, while 33% are confident that appropriate policies will be implemented. However, only 18% believe that the impact of fiscal policies for the Euro Area as a whole will be too expansionary, while 60% believe they will be appropriate. This would seem to indicate that respondents are less confident that restrictive fiscal policies will be implemented in their own country, but that they believe that other countries will implement the necessary restrictions to achieve an adequate stance at the area level. The results also indicate that a not insignificant percentage of respondents fear that fiscal policies will be too restrictive, both at the country level (29%) and for the area as a whole (23%).

Perhaps these results also reflect a degree of uncertainty about how the new European fiscal governance rules will work. In fact, 41%of institutions do not answer the question "What do you think will be the impact of the new Stability and Growth Pact on your country's public finances" (4.4.4); another 41% indicate that at the national level they do not expect relevant effects or none at all, while the remaining 18%of responses are evenly distributed between expectations of more restrictive and more expansionary effects.

Figure 3.4 Medium term sustainability of public debt in the home country

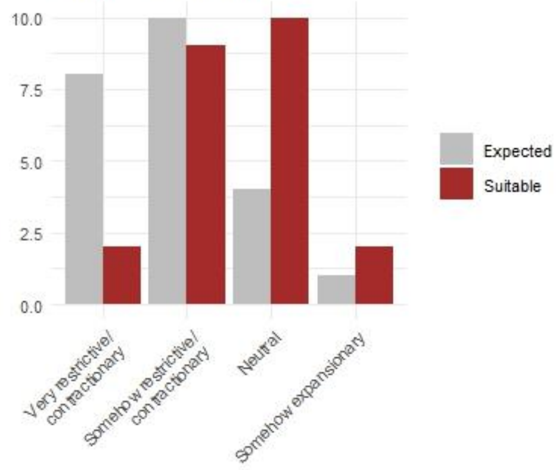


Sources:Answer AIECE Institute

Regarding public debt, respondents shared the view that any further increase in national public debt as a share of GDP should be avoided or that it should be reduced, but no institution surveyed perceives risks of debt unsustainability. Moreover, 48% of respondents do not see debt sustainability as a problem, while 35% highlight the need to reduce the deficit and 17% to keep economic growth above the cost of public debt (Figure 3.4).This is closely related to the issue of appropriate monetary policy that should control inflation without reducing growth and without unsustainable effects on the cost of debt.

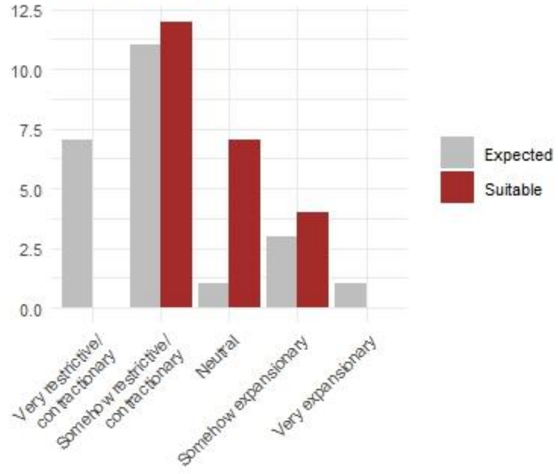
Monetary policy

Figure 3.5 Monetary stance in AIECE Countries



Sources:Answer AIECE Institute

Figure 3.6 Monetary stance in Euro Area



Sources:Answer AIECE Institute

Expectations and assessments on monetary policy are more uniform than on fiscal policy. The prevailing view is that it is appropriate for the ECB to move cautiously and implement a gradual easing of monetary policy conditions, maintaining a restrictive stance through 2024.Most respondents expects monetary policy to be very or somewhat restrictive (76% at the national level and 82% at the Euro Area level) and believe that the restrictive stance is the appropriate one in 2024 (50% and 57%, respectively, Figure 3.5, Figure 3.6).

However, the opportunity for further tightening is completely ruled out, and at the same time, several respondents are concerned that the monetary stance may be overly restrictive. In fact, although a high share of respondents trusts in the implementation of an appropriate monetary policy (57% at the national level and 36% at the euro area level), concern emerges about monetary policy being too restrictive than appropriate, both for home country (43%) and for the Euro Area as a whole (54%). Although most respondents expect a still-restrictive monetary policy stance (76%), only 51 percent consider it appropriate.

Fears of an overly restrictive monetary stance are also confirmed by the fact that 77%of respondents say that high interest rates have already had a negative impact (50% evident, 27% limited) on their country's economic system (Figure 3.7).

4 RISKS TO THE OUTLOOK AND SPECIAL QUESTIONS

6.1.1 In the first part of 2024, the international environment is still characterized by very high uncertainty related to geopolitical tensions. Looking forward, lower confidence out of the severe uncertainty will weigh on global economic activity, which is already hindered by tight financial conditions, weak World trade growth and risks of fragmentation. What are the main downside risks to your projection for growth in your country in 2024? Please evaluate each of them according to their importance.

The global economic outlook is experiencing a more balanced risk profile; though significant uncertainties remain. High geopolitical tensions pose a major near-term threat, particularly if escalating conflicts in the Middle East disrupt energy and financial markets, leading to higher inflation and lower growth. Additionally, inflation reduction could be slower than anticipated if cost pressures and margins stay elevated, especially in the service sector. This could delay interest rate reductions, potentially exposing financial vulnerabilities and triggering a sharper slowdown in job markets.

Another key downside risk lies in the potential for higher real interest rates to have a stronger impact than expected. Debt burdens are already high and could rise further as low-interest debt matures and needs refinancing, or as fixed-rate borrowing rates are renegotiated. Some sectors, particularly commercial real estate, are already under strain, with corporate bankruptcies and defaults exceeding pre-pandemic levels in several countries, posing risks to financial stability.

It is also worth underlining that despite productivity being very volatile globally, mostly because of capital deepening, shift in labour composition, and intensity of factors utilisation, overall it has remained on its slow growth trajectory that was evident before the pandemic. It seems the technological advancements triggered by the pandemic, such as the shift to remote work in many sectors, haven't produced any long-lasting changes in productivity statistics. The empirical research on this issue is still inconclusive, and it's possible this digital shift won't significantly impact long-term productivity growth.

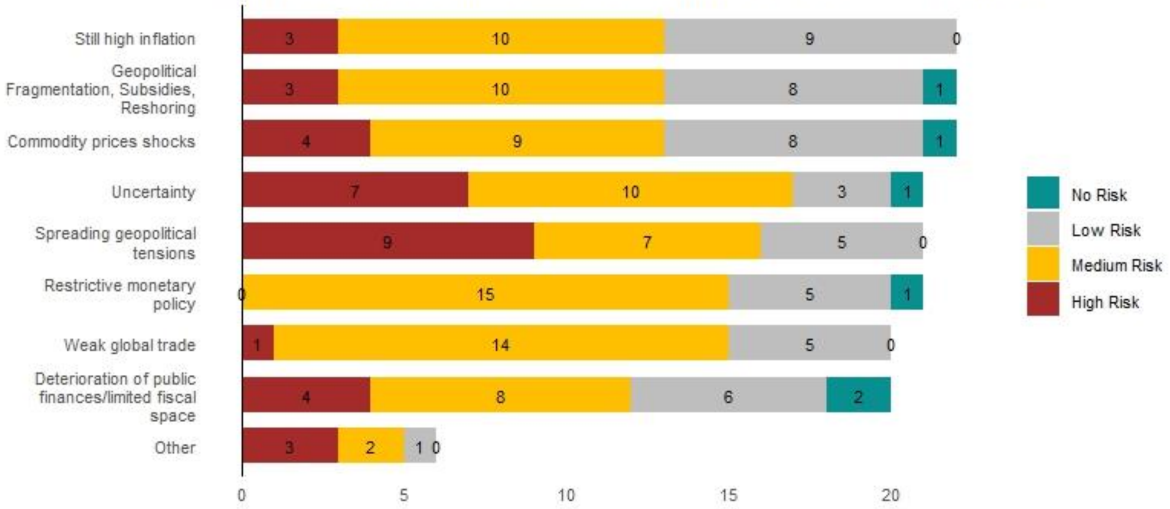
The effects of the pandemic induced technological shift, however, of historically high magnitude and speed, may not have unfolded in a linear way. The delay in the transmission therefore fuels uncertainty about the intensity and timing of the impact on productivity.

China's growth could also disappoint, either due to persisting weakness in the property market or lower-than-anticipated fiscal stimulus in the next two years. However, growth could outperform expectations if fiscal support is significant or well-targeted.

On the upside, demand growth could be stronger than anticipated, especially in developed economies if households and businesses tap more heavily into the savings accumulated during the pandemic. Additionally, continued strong labour force growth in many countries could lead to a faster-than-expected decline in inflation.

There is a relatively heterogeneous risk assessment across AIECE Institutes. The main downside risks to Institutes projections of economic growth in their own country are partly dissimilar across Institutes. However, uncertainty and spreading geopolitical tensions (medium and high risks) remain the main downside risks for the majority of the AIECE institutes (81% and 76%). This is followed by restrictive monetary policy and weak global trade (both 71%).

Figure 4.1 Main downside risks for Growth in 2024 in AIECE Countries



Sources:Answer AIECE Institute

6.1.2 Despite mild upward pressure from higher shipping costs in the wake of Red Sea trade disruptions, underlying inflation continues on a steady downward path with few exceptions. Oil and gas prices, after an initial surge, have settled back below pre-conflict levels, and shipping costs remain below 2021-2022 levels. Do you agree with the following statements?

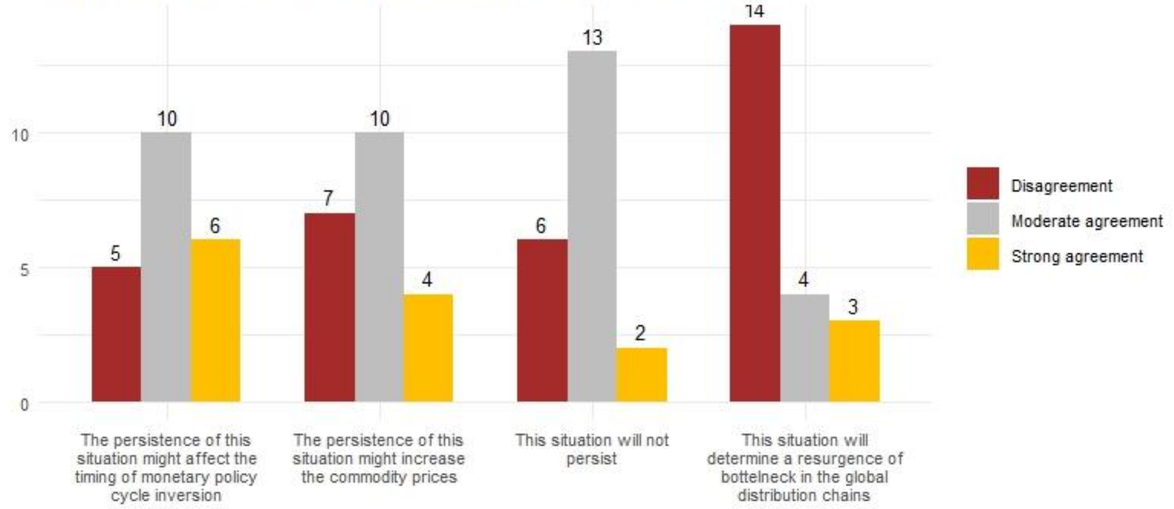
For the first time since the global spike in 2022, headline inflation in most economies is nearing pre-pandemic levels. Next to effective restrictive monetary policies, declining energy prices and easing supply chain bottlenecks have played a significant role in driving this progress. However, the pace of disinflation has slowed since the beginning of 2024 and core inflation is trending downward more gradually especially in the service sector. The fading "base effect" from falling energy prices, potential trade tensions disrupting the Suez Canal supply chain, and the severe drought affecting the Panama Canal are among the key factors contributing to the slowdown and potential inflationary surprises.

The recent Iranian strike on Israel might complicate efforts to bring inflation back to target if the conflict grows and transmits in the energy markets. However, by now, oil prices have been experienced just a moderate increase.

The disruption of shipments in the Red Sea could last for a long time, which implies that the associated increase in shipping costs could persist and propagate through the supply chains. However, weak demand and high inventories could dampen the transmission of cost increases to producer and consumer prices.

The majority of the AIECE institutes believes that the terrorist attacks in the Red sea will not persist (71%) and will not determine the resurgence of bottlenecks in the Global Supply Chains (67%). The majority of the AIECE institutes however (moderate and strong agreement) affirms that if persisting this situation could cause commodity prices resurgence (67%) and affect the timing of monetary policy inversion (76%).

Figure 4.2 Red Sea terrorist attacks and resurgence of inflation?

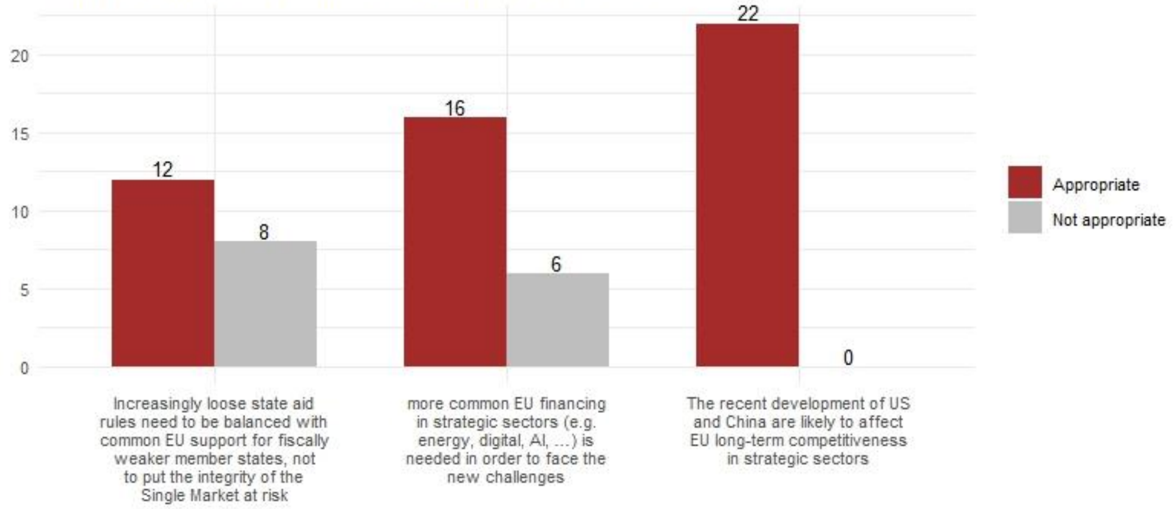


Sources:Answer AIECE Institute

6.1.3 The EU needs to remain competitive in an outlook characterised by intensifying pressures. Lately, US and China are implementing industrial policy measures to give strategic sectors (e.g. semiconductor and AI) an edge. In particular, the US Inflation reduction act might affect production costs in some strategic activities with obvious competitive advantage with respect of EU productions. The EU relaxed state aid rules, but this may generate distortions in the single market, because only deep-pocketed member states might be able to take a real advantage of it. Please indicate level of agreement to the statements below.

All the 22 AIECE Institutes which answered to this question acknowledge that US and China are taking steps to boost their strategic sectors, putting pressure on the EU's industrial competitiveness. The majority of the Institutes (73%) agrees that the EU should react with larger financial resources devoted to strategic sectors (such as energy, AI, digital) in order to face this challenge. However only the 55% of the Institutes believes that increasingly loose state aid rules need to be balanced with common EU support for fiscally weaker member states, not to put the integrity of the Single Market at risk.

Figure 4.3 Industrial policies and market distortions

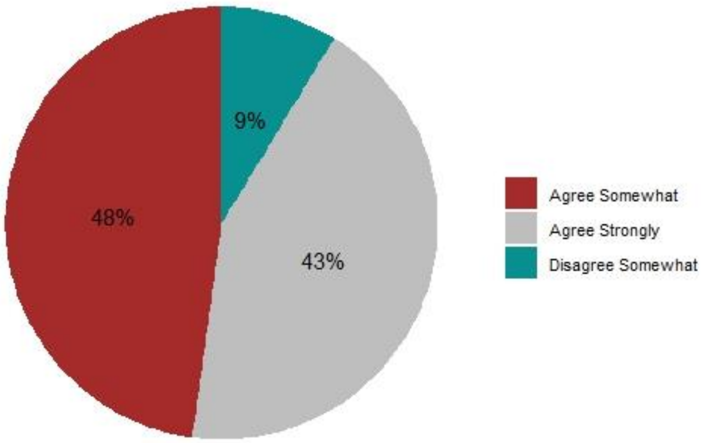


Sources:Answer AIECE Institute

6.1.4 2024 is a historic election year, with elections in a large number of countries. Elections will have a macroeconomic impact on the various countries and thus on global economy. New governments may implement structural reforms, and new policies or induce shifts in their geopolitical stance, potentially shaping priorities of some several strategic economies. Many aspects of the global economy are dependent on the outcomes of these elections (e.g., trade agreements, environmental policies).

2024 is poised to witness an unprecedented surge in global voter participation, with potential macroeconomic consequences for individual countries and the entire world economy. The concept of the political business cycle (PBC) has long been established in economic theory. This theory suggests that incumbent governments tend to pursue expansionary fiscal and monetary policies leading up to elections. The goal is to stimulate the economy and improve their chances of re-election. Nordhaus's (1975) pioneering model exemplifies this concept. It proposes that governments will increase spending and loosen monetary policy in the year before an election, hoping to boost output and employment, thereby enhancing their popularity. The potential downsides, such as increased debt and inflation, are often deferred until after the election.

Figure 4.4 Macroeconomic impacts of elections in 2024



Sources:Answer AIECE Institute

However, Nordhaus's seminal work goes beyond domestic considerations. He also predicted a phenomenon known as the foreign exchange cycle, which is particularly relevant for emerging market economies (EMDEs). This theory suggests that countries may attempt to artificially revaluate their currencies before an election, potentially by reducing foreign exchange reserves. However, this is often followed by a devaluation after the election.

Overall with very few exceptions, the AIECE Institutes (91%) agrees that many aspects of the global economy are dependent on the outcomes of these elections.

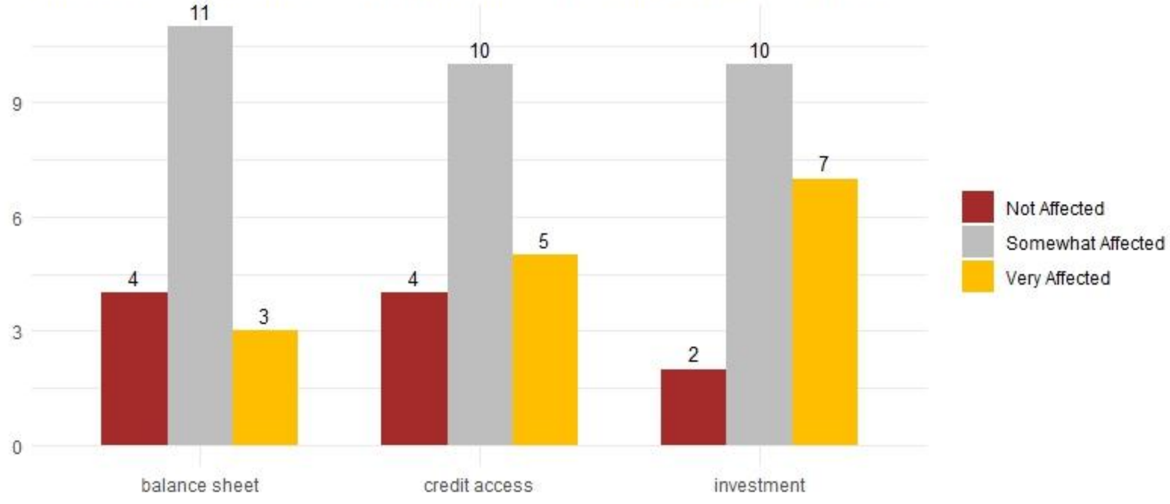
6.2.1 To what extent has the rise in interest rates affected your country's business sector, taking into account the cumulative effect from 2023 to 2024?

The main central banks continued to maintain a tightening monetary policy stance last year. There is still uncertainty about the start of the interest rate cut cycle in the main industrialized countries, which is weighed down by the growing geopolitical tensions in the Middle East, which could generate new rises in the cost of energy. Moreover, the extraordinary global resilience of the economy, despite the long period of monetary tightening, has fuelled the spread of a new vision among central banks and markets regarding the ability of economic systems to sustain a higher level of interest rates. Market expectations, therefore, are beginning to take into account the possibility that the economy may be characterized by a higher level of real interest rates in the long run. On the other hand, this new vision could encourage central banks to keep nominal rates high for too long, risking depressive effects on aggregate demand.

It is also important to underline that, the effects of the tightening of monetary policy in the last two years, of historically high magnitude and speed, may not have unfolded in a linear way. The delay in the transmission of the tightening to the real economy therefore fuels uncertainty about the intensity and timing of the impact on overall activity.

A large majority of AIECE Institutes believes that its domestic business sector (balance sheet 78%, credit access 79% and especially investments 90%) has been (somehow and very) negatively affected by high interest rates.

Figure 4.5 Cumulative effect of high interest rates in the past two years



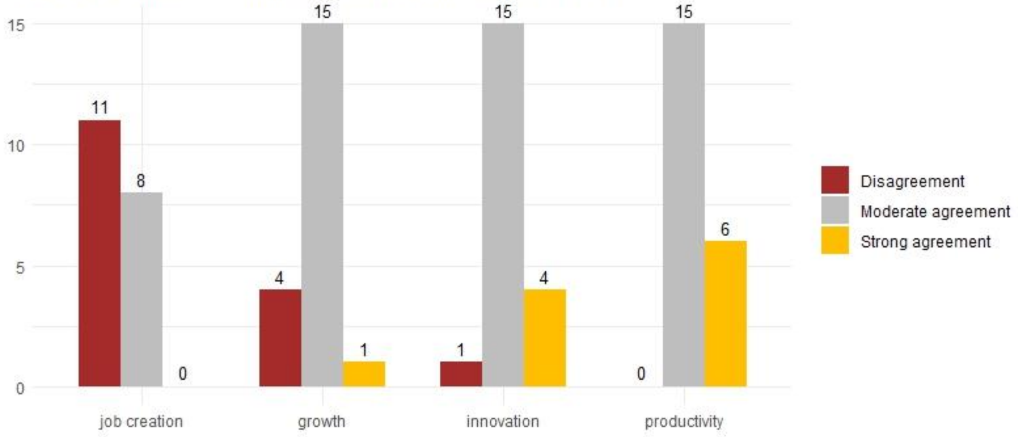
Sources:Answer AIECE Institute

6.2.2 Artificial intelligence (AI) will profoundly affect the ways in which businesses and governments engage with consumers and citizens alike. However, the adoption of AI is happening at a different pace in the various countries/regions. Over the next five years, how do you expect AI to improve each of the following areas of operations as they relate to your industry/country?

AI has the potential to reignite stagnant productivity growth and accelerate innovation, although estimates of its actual impact remain uncertain. While the adoption of AI by businesses has increased rapidly, it's primarily concentrated among large companies. The overall effect of AI on productivity will depend on several factors. These include how widely these new technologies are diffused across businesses, rather than remaining concentrated in just a few leading firms, and whether AI complements and enhances the work done by humans, or replaces human labour altogether.

A large majority of AIECE Institutes (moderately and strongly) agrees that AI in the next 5 years will improve, growth (80%), innovation (95%) and productivity (100%) in their country. However, only the 42% of the Institutes believe that AI will create additional jobs in the future.

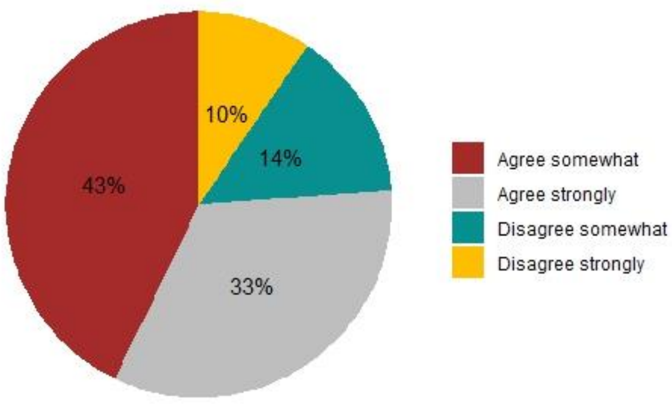
Figure 4.6 Macroeconomic impact of artificial intelligence



Sources:Answer AIECE Institute

6.2.3 As for fiscal policies, there is broad recognition of the fact that governments are facing a trade-off between the need for fiscal consolidation and the necessity to catalyse investment in green and digital transitions. Do you believe is it possible to overcome the trade-off between the need for fiscal consolidation and the necessity to catalyse investment in the green and digital transitions?

Figure 4.7 Governments fiscal challenges: control spending vs allocate resources towards digital and green transitions



Sources:Answer AIECE Institute

Governments are facing a trade-off: the need to reduce budget deficits (fiscal consolidation) while also stimulating investment in green technologies and digitalization. Expansionary fiscal policies were essential during the pandemic and the Ukraine war to support businesses and households. However, this has led to higher national debt in many countries, prompting a shift towards fiscal consolidation. To improve public finances, clear and growth-oriented medium-term fiscal plans are crucial. However, in a slowing global economy, it's important to avoid pro-cyclical cutbacks that could further dampen growth. Simultaneously, promoting long-term economic sustainability requires continued investment from both public and private sectors. Environmental protection, the energy transition, and digitalization should remain top priorities in this regard.

A large majority of AIECE Institutes (76%) agrees that it possible to overcome the trade-off between the need for fiscal consolidation and the necessity to catalyse investment in the green and digital transitions.