

Sectoral Risks in Western Europe

December 2016

Western Europe: Sectoral Challenges

- Europe faces another year of slow growth, forecast at 1.5% in 2017. Between 2013/2016 cumulative output loss exceeded 10% in France and Italy, and 18% in Italy and Portugal. Unemployment is stalled at 6-10%.
- The fiscal knock-on effect is pervasive, with budget deficits of 3-4% in most countries (Germany is the notable exception.) Public debt has risen to 74% of GDP across the region, leaving states vulnerable to funding risks.
- External accounts are surprisingly strong. Export volumes surged 10% to 20% in 2016, with huge current surpluses in Germany, the Netherlands and Switzerland. The UK's deficit at 6% of GDP is worrisome, in the face of aggressive Brexit measures.
- EU banks need significant capital infusions. NPLs range from 25-35% of core capital. Liquidity and funding are stable in all states, except France .

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