PRESS RELEASE

ECONOMIC OUTLOOK FOR 2013-2014

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How can balancing the public finances be coordinated with the growth needed to reduce unemployment? This is the question that runs through the OFCE economic forecasts for 2013-2014 for the global economy, the euro zone and France, which are being presented on 17 April 2013.

GLOBAL ECONOMY: THE BEGINNING OF DEFLATION

In 2013 and again in 2014, the developed countries will all be continuing their fiscal consolidation efforts despite the levels reached by unemployment. Since the multipliers are high, this fiscal effort will once again have a high cost in terms of activity. The developed countries will remain mired in the vicious circle of rising unemployment, protracted recession and growing doubts about the sustainability of their public finances. Growth worldwide will stabilize at 2.8% in 2013 before picking up slightly in 2014 to 3.2%. The continued pursuit of a fiscal austerity strategy contains the seeds of wage deflation in the countries hit hardest by unemployment. As the euro zone is a space with fixed exchange rates, this wage deflation will inevitably be transmitted to the other countries.

EURO ZONE: THE CHALICE OF AUSTERITY, RIGHT TO THE DREGS

Despite the hopes raised in the course of the second half of 2012, the euro zone has continued to sink deeper into recession due to the flawed macroeconomic strategy of deficit reduction. For 2013, the budget votes have already heralded the continuation of this scenario, which will keep the euro zone in recession: GDP will fall by 0.4%. Not until 2014 will the pace of consolidation ease. Growth will finally turn positive (0.9%), but it will be insufficient to permit any fall in unemployment. There will above all be a continuing risk of a downturn, due to the intensification of deflationary pressure, as has happened in Spain and Greece.

FRANCE: HOLDING TO THE COURSE DEMANDED

Four years after the onset of the crisis, the French economy has significant potential for a rebound: this would have led to spontaneous growth averaging around 2.6% a year in 2013 and 2014. But this spontaneous recovery will be hampered mainly by the implementation of fiscal austerity measures in France and the rest of Europe. To meet its commitment to a 3% public deficit by 2014, the French government will have to hold to the course of fiscal consolidation it adopted in 2010, which was imposed by the European Commission on all the euro zone countries. This strategy will slash 2.6 GDP points off activity in France in 2013 and 2.0 GDP points in 2014. By settling in at a rate that is far from
its potential, the situation on the labour market will continue to deteriorate. The unemployment rate will rise steadily to 11.6% by late 2014. **Only a shift in Europe’s fiscal policy would make it possible to halt the rise in unemployment.**

The entirety of the OFCE analysis is available (in French) on the OFCE site:

http://www.ofce.sciences-po.fr/indic&prev/previsions.htm

A post on the OFCE blog summarizes and comments on the 2013-2014 economic outlook:
http://www.ofce.sciences-po.fr/blog/?lang=fr

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