

A complicated year for Europe

Miguel Jiménez

Two of these problems are being discussed at the European Summit being held these days in Brussels. The talks about the UK's role in the European Union will probably result in an agreement that addresses the demands of the British Prime Minister, David Cameron. In principle, the UK wasn't asking for too much, although the measures that delay or limit the rights of immigrants from the rest of the EU do not send a very positive signal. In any case, the Brexit referendum - like most of the referendums concerning European topics - will not depend exclusively on the details of the agreement in question, but instead on unknown factors more related to the ever changing feelings of the British people and politicians toward Europe. A Brexit could have major long-term consequences for the British economy, but it would also sour the mood in the rest of Europe as well, which, at an important juncture, would see an important piece of the European project break off.

The other major topic at the Summit will be the strategy to deal with the refugee crisis in Europe, which may be the most daunting political and economic challenge the European Union faces this year. Although there is some consensus around the idea that a continent with demographic problems is going to need a lot of external labor over the next few years, as Angela Merkel bravely acknowledged in her reaction to the crisis after the summer, managing massive refugee flows is very difficult and the situation has become more complicated since then on various fronts, given that the quota policy has not been implemented, there are serious discrepancies among member states on how to address the problem and the steady flow of migrants doesn't look like it will abate due to the war in Syria and a certain "magnet" effect that is difficult to measure. The current strategy is focused on the agreements with Turkey to stem the tide of refugees entering the EU, but no one knows if it'll work.

As regards more economic concerns, Europe is off to a poor start this year, with drops in global financial markets and rising volatility, which could have an impact on the real economy if it drags out. In principle, Europe at present (and it was in 2015) is one of the pillars of (weak) global growth, thanks to a subdued euro and lower commodity prices. Public spending related to the refugee crisis in Germany and more fiscal maneuvering room after the adjustments of the last few years, should allow fiscal policy to be moderately expansive in 2016, while monetary conditions remain extremely accommodative.

However, uncertainties in the economic sphere have also intensified due to the possibility of Chinese imports slowing down more quickly than expected, or that the market situation drags on and ends up affecting the real variables or a banking system that faces low profitability. On the other hand, the more political or geopolitical risks may have an impact on sentiment and investment, which is still necessary to support growth in Europe. Apart from the Brexit question or the refugee crisis, the doubts about whether reforms will continue to be implemented in countries like Portugal or France, the provisional government situation in Spain or the on-going conflict between the Italian government and its neighbors to the North, are not conducive to growth or the dialogue necessary to cooperate further in the process to integrate the Eurozone, which, was the top priority in the European Union until recently.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.