



**EUROPEAN  
DEPARTMENT**

# **The European Regional Economic Outlook in the Global Context**

**NOVEMBER 6, 2019**

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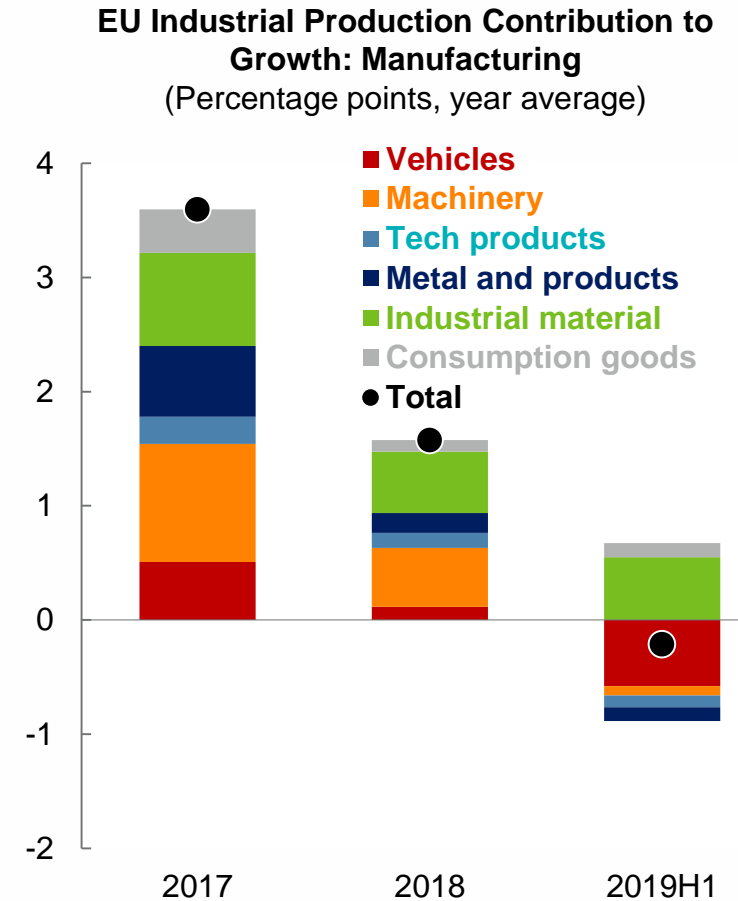
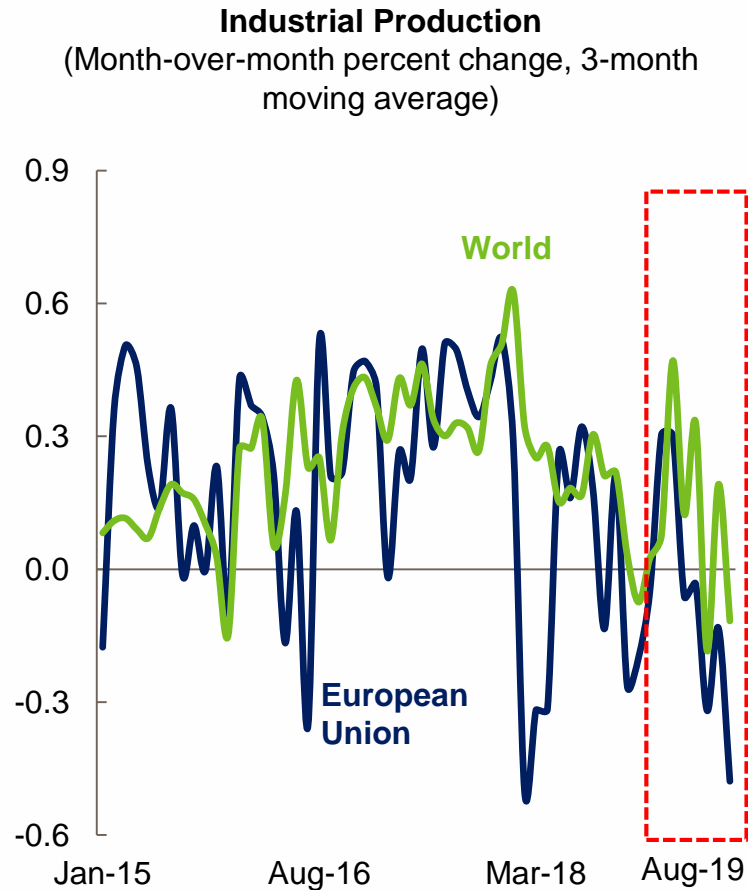
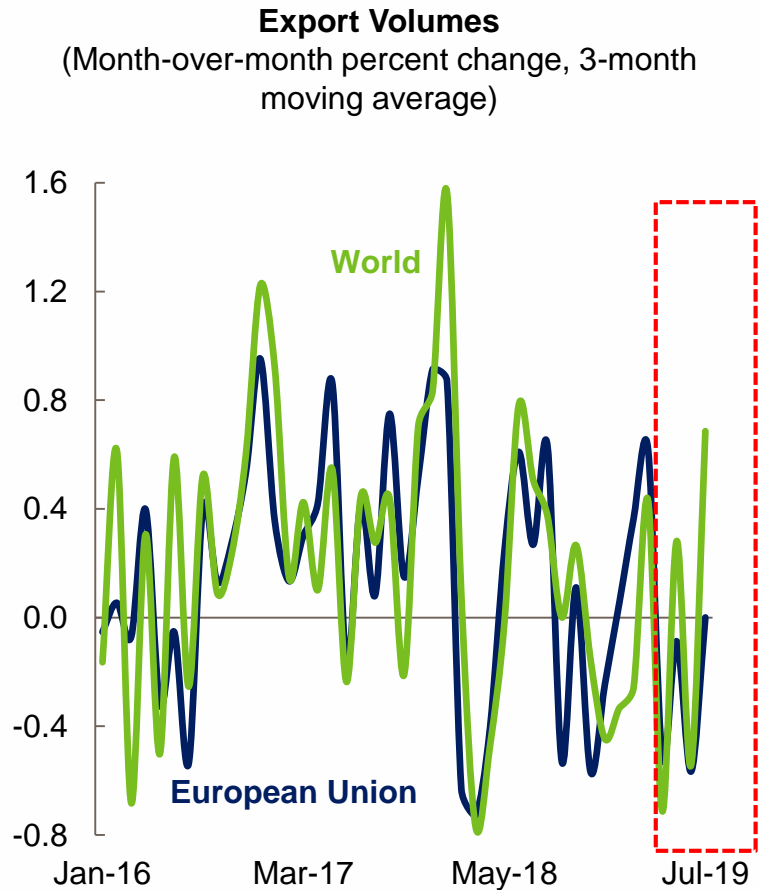


 **Advanced Europe**  
 **Emerging Europe**

# Key messages

- ❑ As in the rest of the world, Europe's manufacturing and trade have weakened considerably.
- ❑ Europe's slowdown is mostly externally driven. But signs of softness in investment have started to appear.
- ❑ Consumption has been resilient so far, reflecting still very strong labor markets.
- ❑ Growth has been weaker in advanced Europe, while it has been robust in emerging Europe excluding Russia and Turkey.
- ❑ A modest recovery is expected for 2020. Risks are on the downside.
- ❑ Policies:
  - Monetary policy to stay accommodative for longer, but vigilance about adverse side-effects.
  - Fiscal policy to be anchored by medium-term objectives with contingency plans for a severe downturn at hand.
  - Structural reforms remain vital.

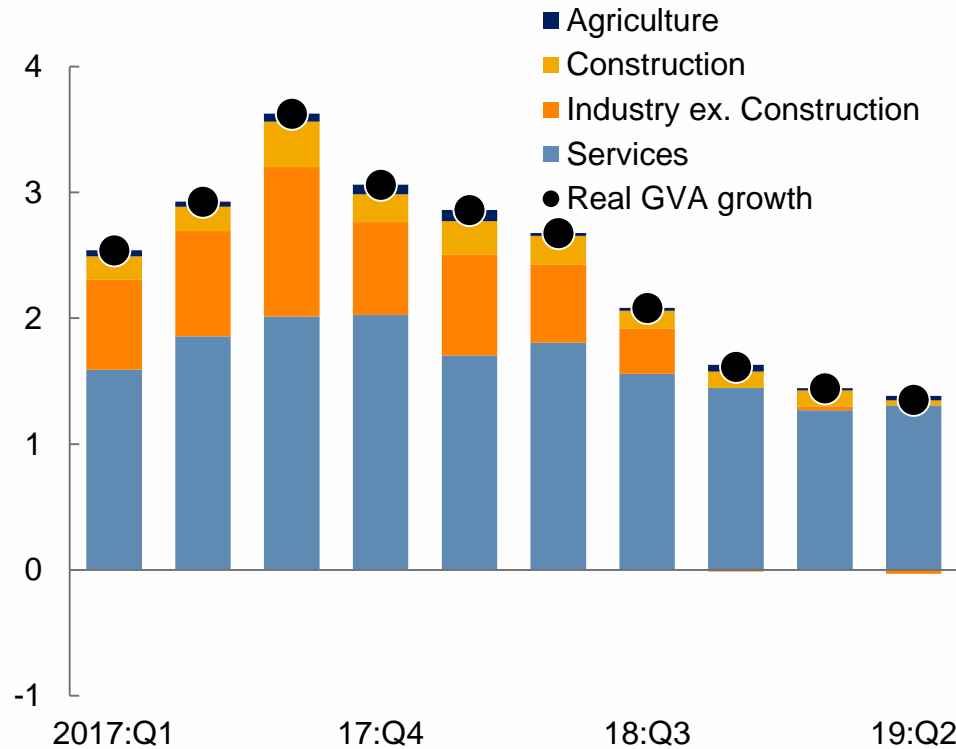
# As in the rest of the world, manufacturing and export sectors in the EU have weakened driven by vehicles and machinery



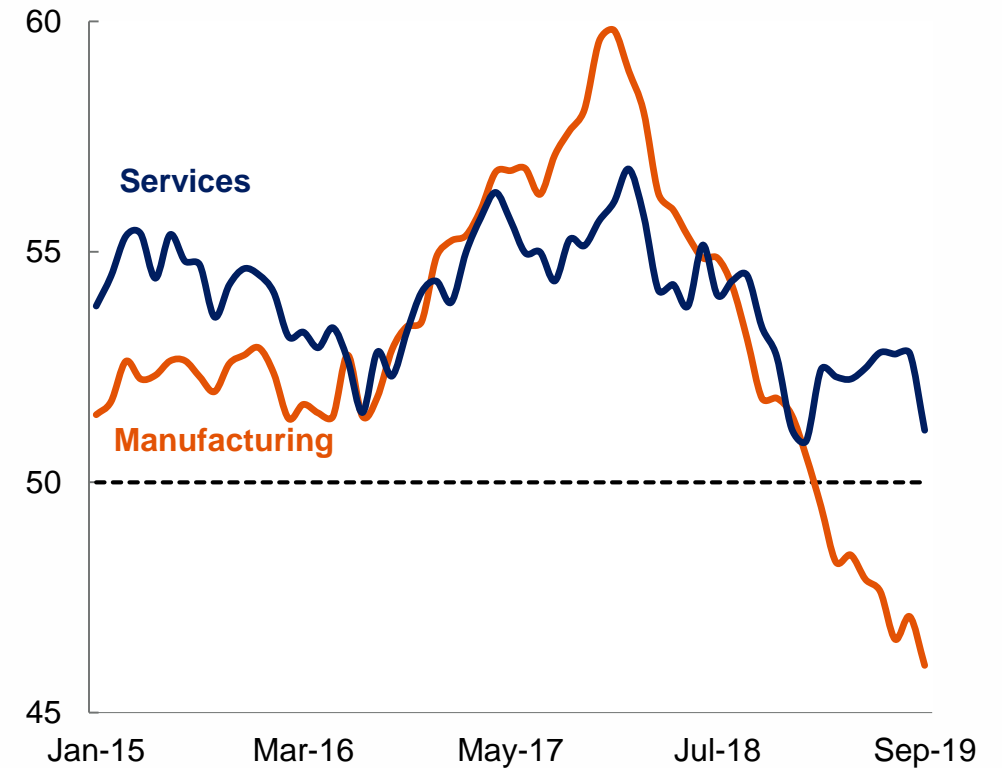
Sources: Eurostat; IMF, GDS; and IMF staff calculations.  
Note: EU exports are based on seasonally and working data adjusted data.

# Europe's slowdown is mainly due to industry, but services have started to soften

**Europe: Real Gross Value Added by Sector**  
(Percentage points; growth in year-over-year percent change)



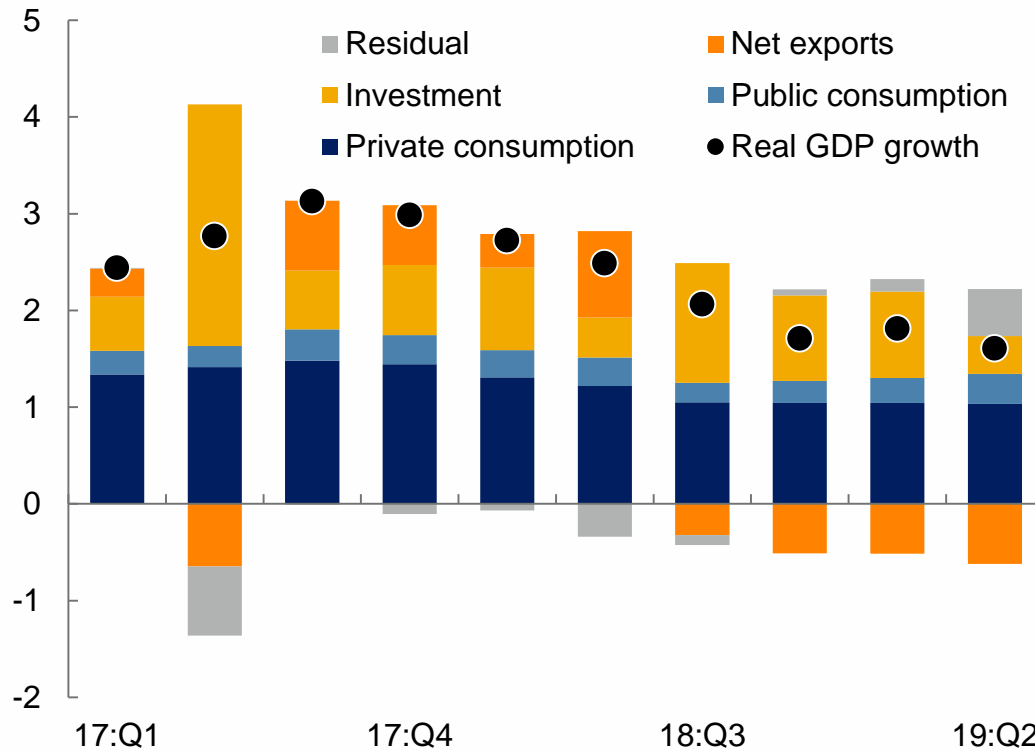
**European Union: Purchasing Managers; Index (PMI)**  
(Index, seasonally adjusted, 50 += expansion)



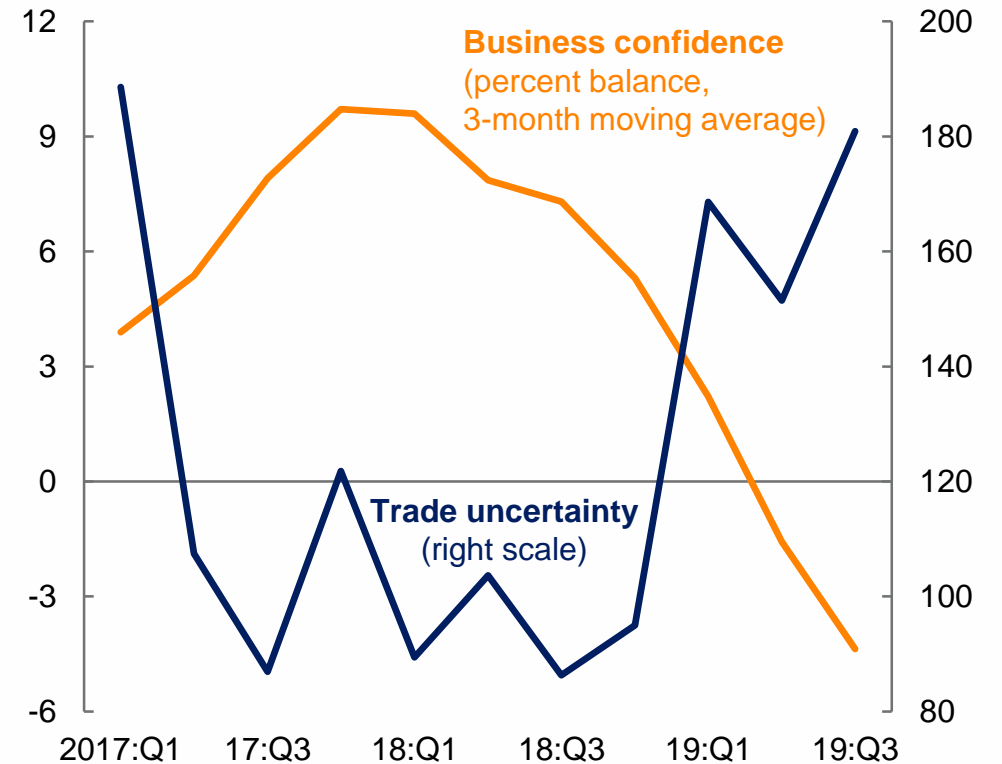
Sources: Eurostat; Haver Analytics; IHS Markit Purchasing Managers Survey; IMF, *World Economic Outlook*; and IMF staff calculations.

# Net exports are driving the slowdown, but investment has also started to weaken

Europe ex. Russia & Turkey: Contributions to Real GDP Growth  
(Percentage points; growth in percent change)



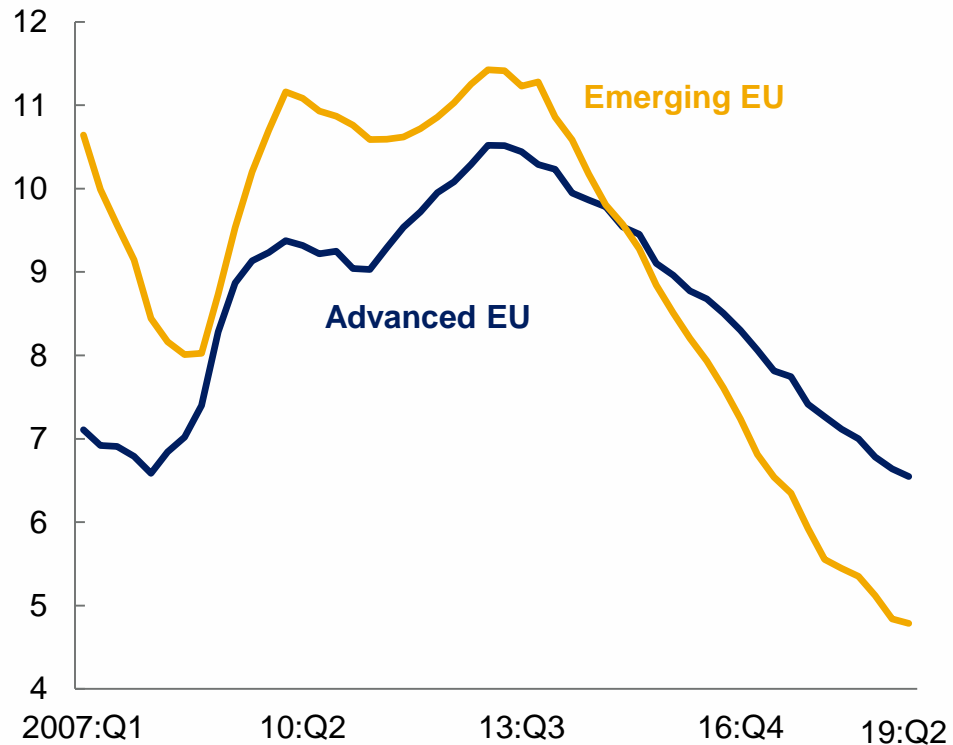
Europe: Trade Uncertainty Index and Business Confidence  
(Index, 2014Q1=100)



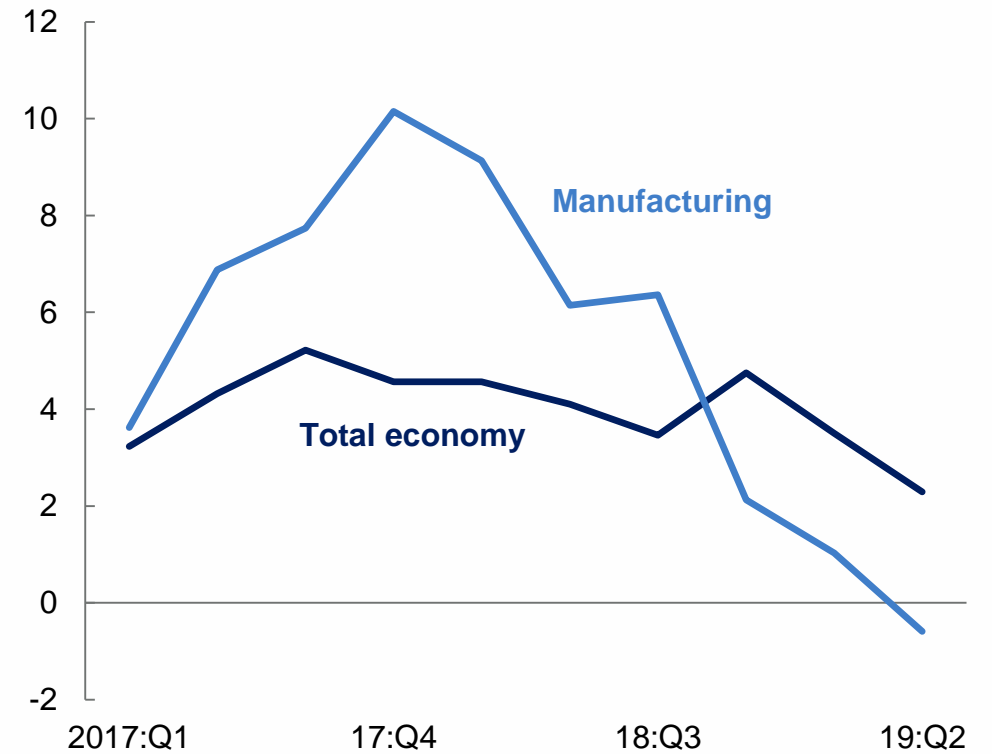
Sources: Eurostat; Haver Analytics; IMF, *World Economic Outlook*; World Uncertainty Index (WUI); and IMF staff calculations.  
Note: Europe Trade Uncertainty Index: higher values indicate higher uncertainty.

# Resilience of consumption depends on labor markets

**European Union: Unemployment Rate**  
(Percent, seasonally adjusted)



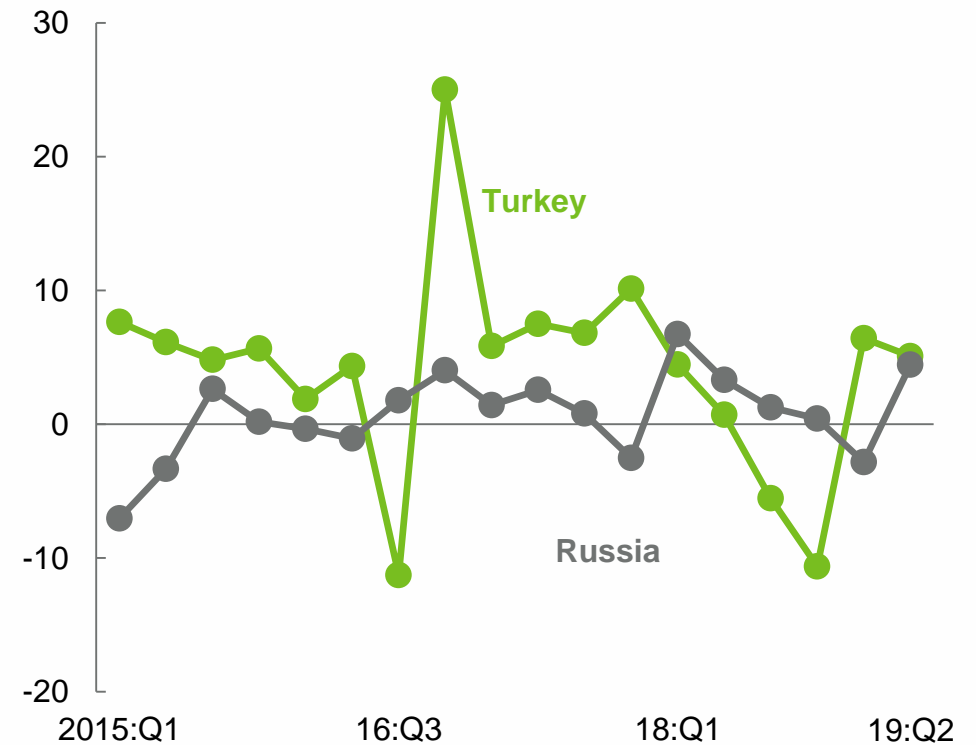
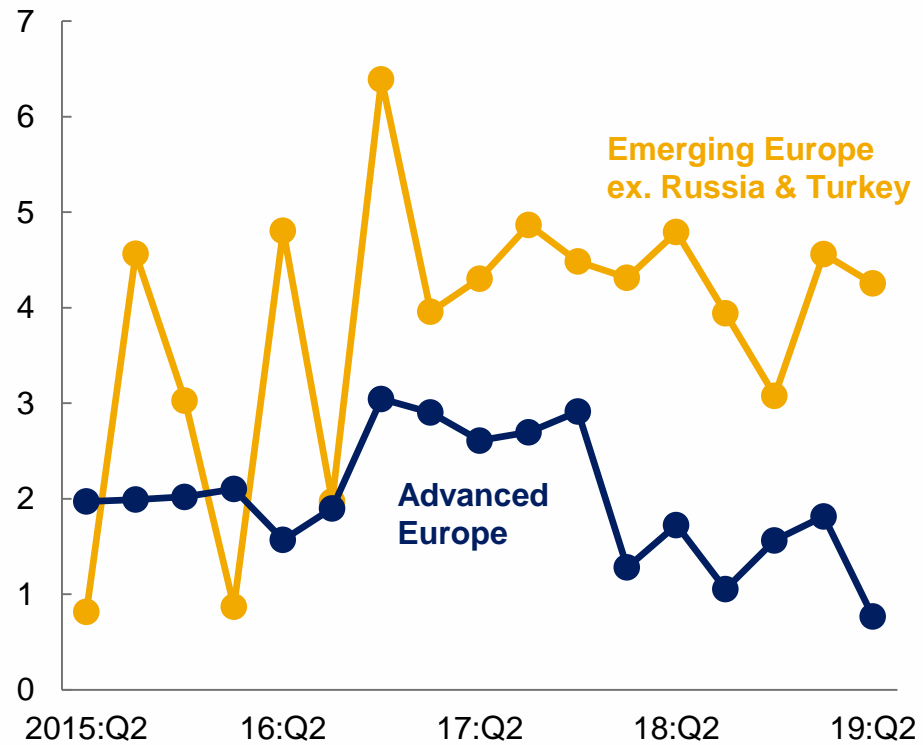
**European Union: Job Vacancies**  
(Quarter-over-quarter percent change)



Sources: Eurostat; and IMF staff calculations.

# Slowing growth in Advanced Europe (AE). Generally solid growth in Emerging Europe (EE)

**Real GDP Growth**  
(Quarter-over-quarter percent change, annualized)



Sources: Haver Analytics; and IMF staff calculations.

# A modest recovery is projected based on improving external demand. **But risks are on the downside**

Real GDP Growth Projections  
(Year-over-year percent change)

	Outturn	IMF Forecast	IMF Forecast
	2018	2019	2020
World	3.6	3.0	3.4
Europe	2.3	1.4	1.8
Advanced Europe	2.0	1.3	1.5
<i>Euro area</i>	1.9	1.2	1.4
<i>Emerging Europe ex. Russia &amp; Turkey</i>	4.3	3.7	3.1
<i>Memo: world trade volume (goods and services)</i>	3.6	1.1	3.2

Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

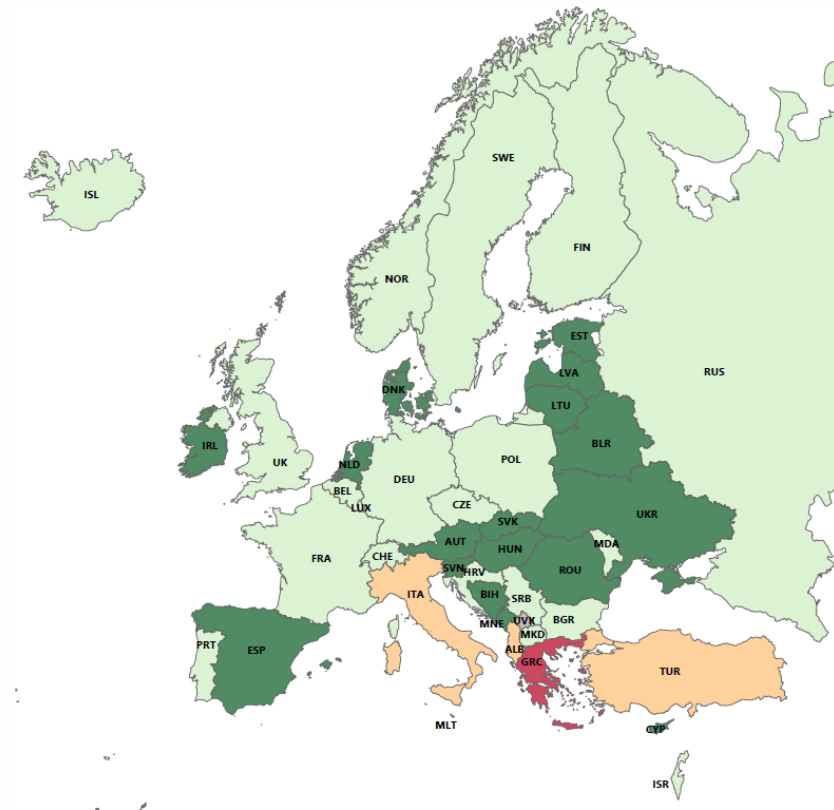
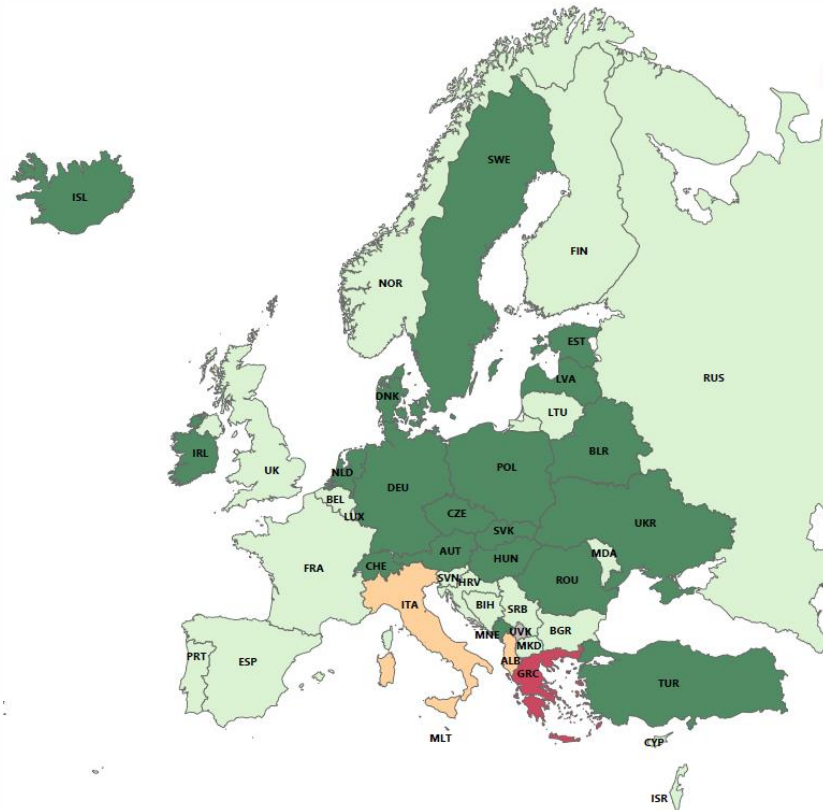


# Most European economies at or above full employment, but ...

**Output Gap, 2018**  
(Percent)

**Output Gap, 2019**  
(Percent)

- 1. Appreciably above full-employment output (greater than 0.5 percent)
- 2. Around full-employment output (between -0.5 and 0.5 percent)
- 3. Below full-employment output (between -0.5 and -2 percent)
- 4. Significantly below full-employment output (smaller than -2 percent)
- 5. Data not available

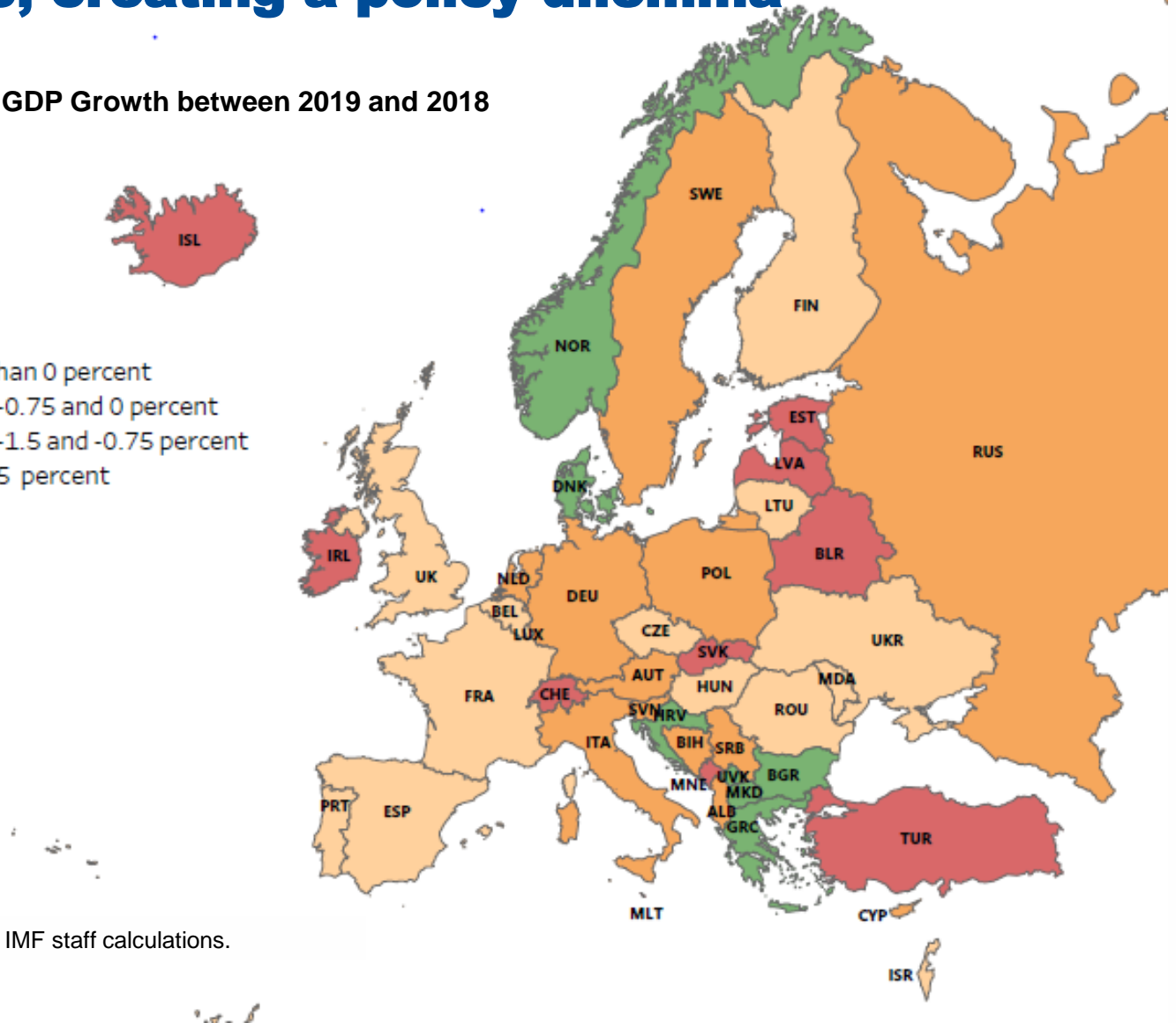


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

# ... almost all economies projected to have slower growth in 2019 versus 2018, creating a policy dilemma

Difference of Real GDP Growth between 2019 and 2018  
(Percent change)

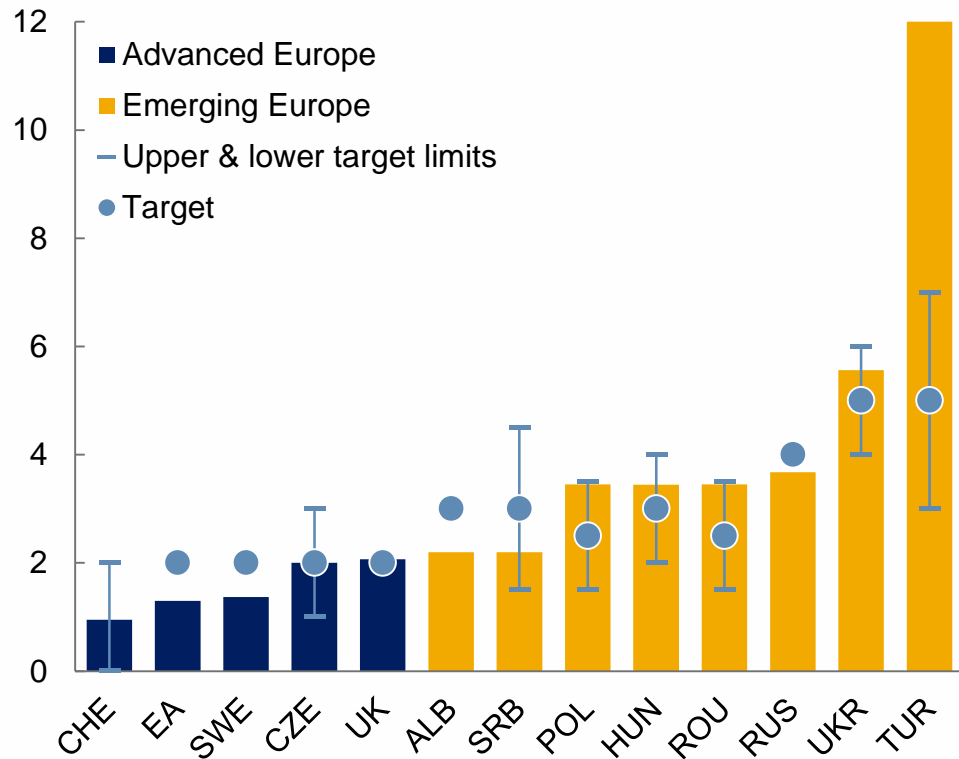
- 1. Greater than 0 percent
- 2. Between -0.75 and 0 percent
- 3. Between -1.5 and -0.75 percent
- 4. Below -1.5 percent



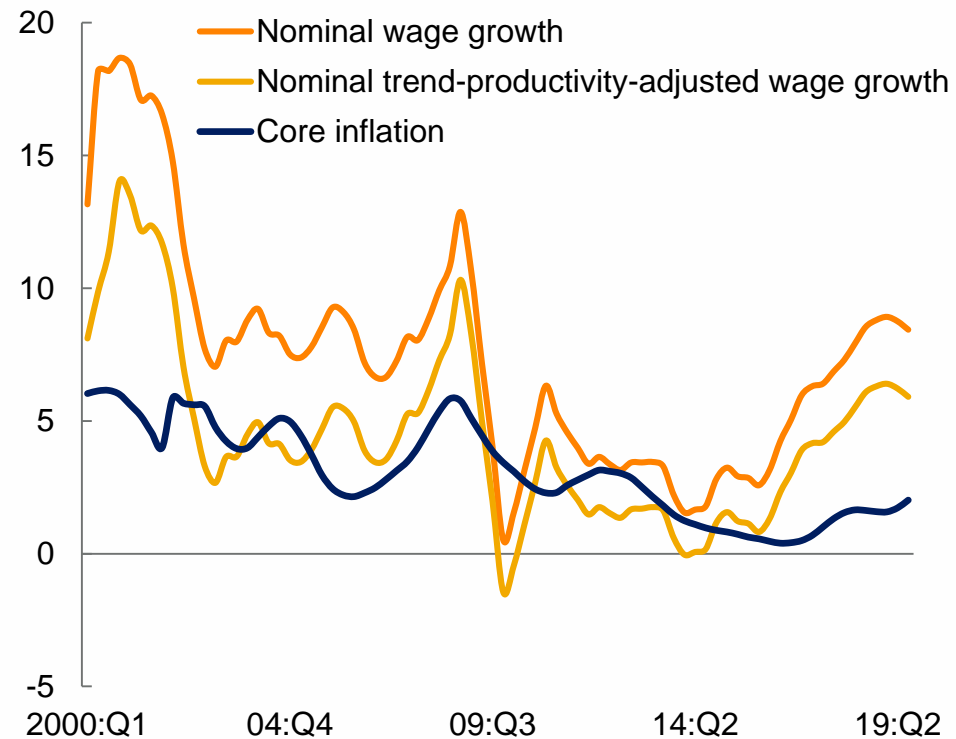
Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

# With low inflation and wage passthrough, monetary policy to stay accommodative with heightened vigilance of adverse side effects

Projected End-2020 Inflation and Target Range (Percent)



Nominal Wage Growth and Inflation in the Newer EU Member States (Year-over-year percent change)



The passthrough is weaker when:

- ✓ Inflation expectations are better anchored
- ✓ Firms are exposed to more competition
- ✓ Corporate profits are higher

Sources: Eurostat; Haver Analytics; Central banks; BIS; IMF, *World Economic Outlook*; and IMF staff calculations.

Note: Newer EU members (NMS) include Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, the Slovak Republic, and Slovenia.

# Fiscal policy guided by MTOs, but ready to act forcefully in case of a severe downturn

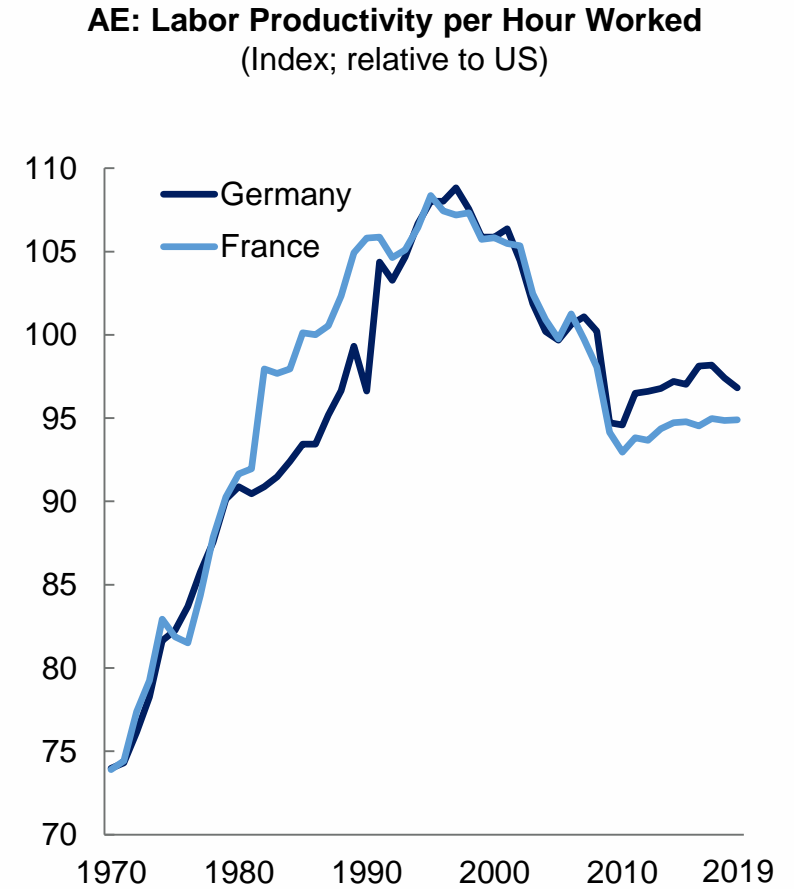
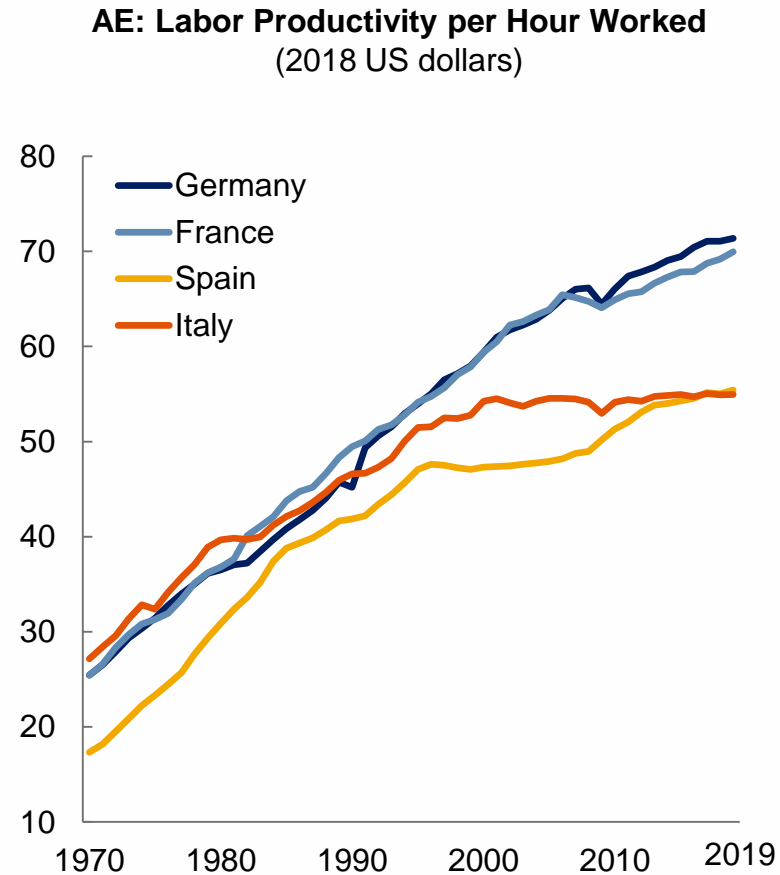
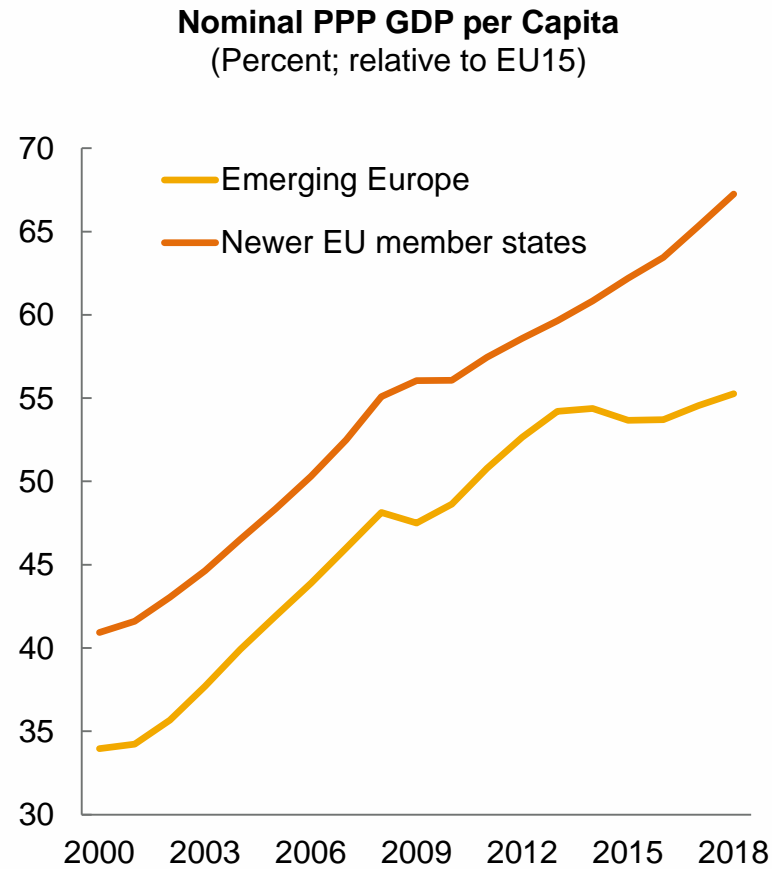
## Considerations in favor of discretionary relaxation

- Slowing growth and downside risks
- Monetary policy approaching its limit
- Need to address supply-side bottlenecks
- Low/negative interest rates

## Considerations against discretionary relaxation

- Still-strong labor markets and positive output gaps
- Projected recovery in 2020
- High sovereign debt levels
- Possibility of sudden reversal in yields

# Structural reforms remain vital



Sources: The Conference Board Total Economy Database™ (Original version), April 2019; IMF, *World Economic Outlook*; and IMF staff calculations.

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