



INTERNATIONAL MONETARY FUND

EUROZONE: STRENGTHENING RESILIENCE IN COMPLEX TIMES

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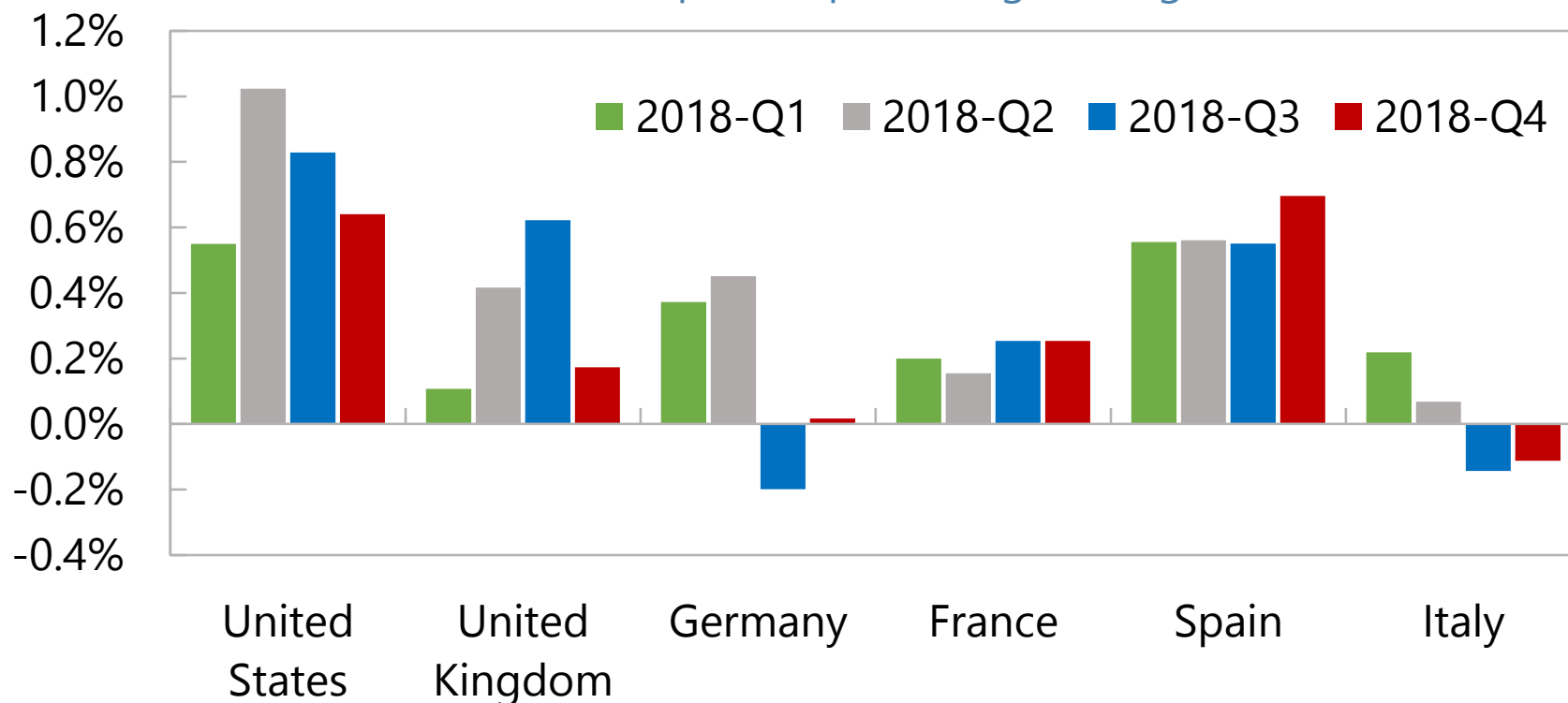
- 1. ECONOMIC OUTLOOK**
- 2. SHORT TERM RISKS**
- 3. MEDIUM TERM CHALLENGES**
- 4. POLICY RECOMMENDATIONS**

- 1. ECONOMIC OUTLOOK**
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Disappointing 2018 Q3 and Q4

GDP growth

Quarter over quarter, percentage change

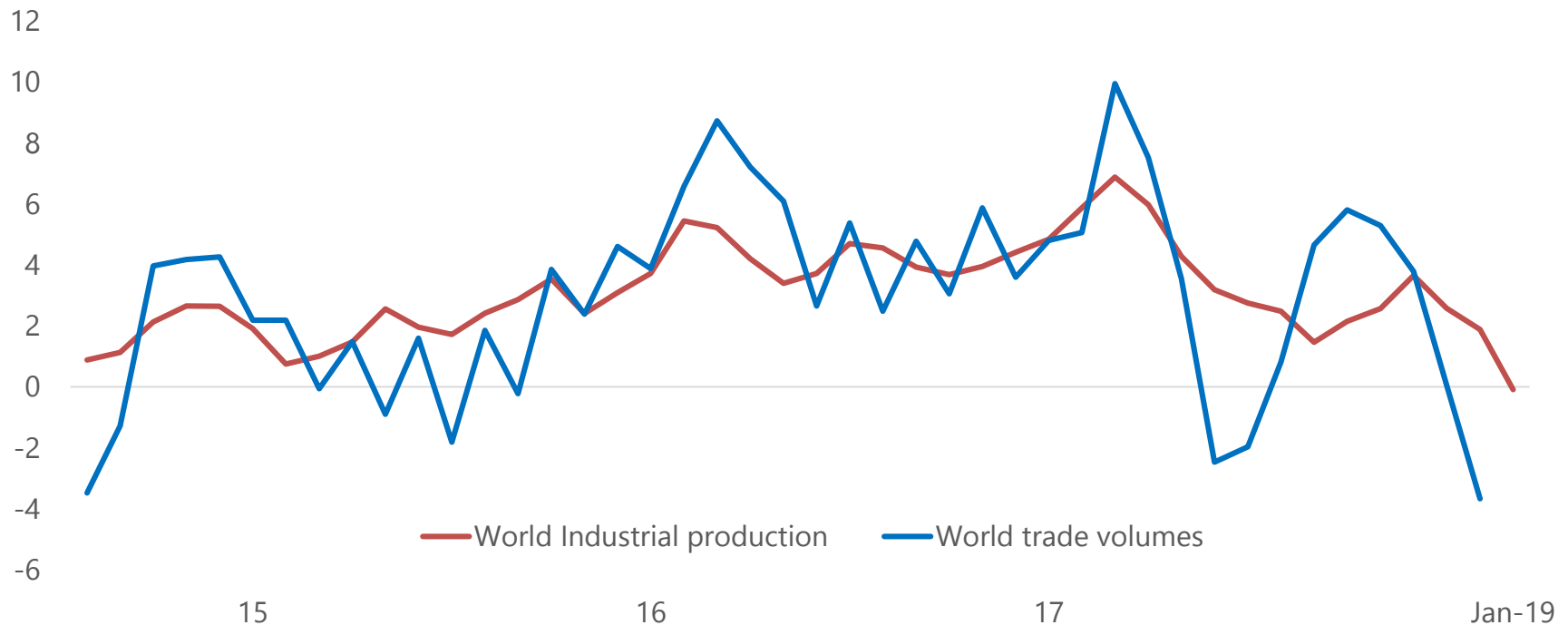


Sources: IMF IFS, Haver analytics, IMF staff calculations.

Slowing trade and industrial production

World trade and industrial production

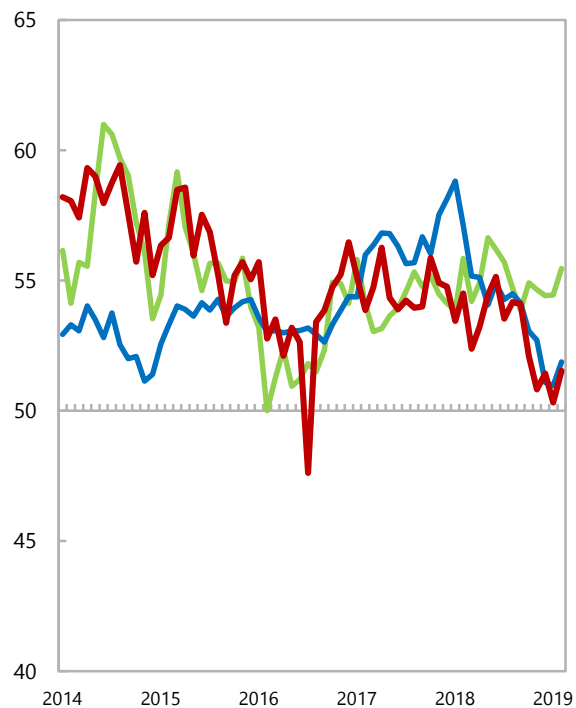
Three-month moving average; annualized percent change



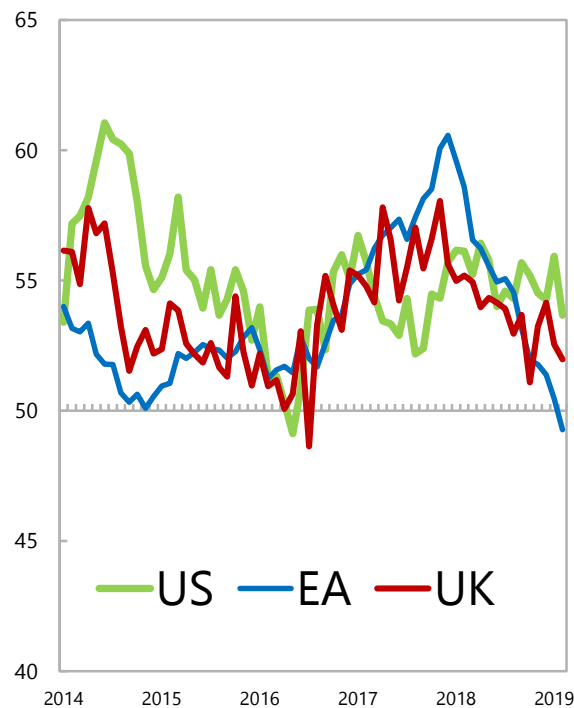
Sources: Haver analytics, CPB, IMF staff calculations.

Market indicators show a softer momentum

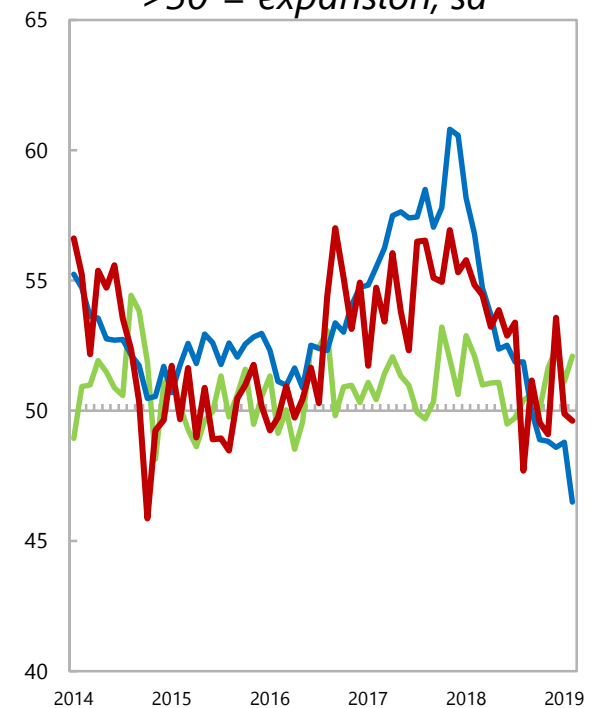
Composite PMIs
>50 = *expansion, sa*



Manufacturing PMIs
>50 = *expansion, sa*

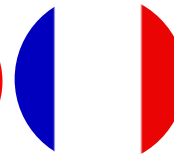


**Manufacturing PMIs
export orders**
>50 = *expansion, sa*



Sources: Haver analytics, Markit, IMF staff calculations.

Advanced economies



	World	Advanced Economies	U.S.	U.K.	Japan	Euro Area	Germany	France	Spain
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2018	3.7	2.3	2.9	1.4	0.9	1.8	1.5	1.5	2.5
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2019	3.5	2.0	2.5	1.5	1.1	1.6	1.3	1.5	2.2
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Revision
from
Oct.
2018

-0.2	-0.1	0.0	0.0	0.2	-0.3	-0.6	-0.1	0.0
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2020	3.6	1.7	1.8	1.6	0.5	1.7	1.6	1.6	1.9
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Revision
from
Oct.
2018

-0.1	0.0	0.0	0.1	0.2	0.0	0.0	0.0	0.0
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Sources: IMF, *World Economic Outlook* January 2019 update.

Emerging economies



Emerging
Market and
Developing
Economies

China

India

Brazil

Russia

ASEAN-
5

Middle East,
North
Africa,
Afghanistan
Pakistan

Low
Income
Developing
Countries

2018

4.6

6.6

7.3

1.3

1.7

5.2

2.4

4.6

2019

4.5

6.2

7.5

2.5

1.6

5.1

2.4

5.1

Revision
from Oct.
2018

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0.0

0.1

0.1

-0.2

-0.1

-0.3

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2020

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1.7

5.2

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Revision
from Oct.
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0.0

0.0

-0.1

-0.1

0.0

0.0

-0.2

Sources: IMF, *World Economic Outlook* January 2019 update.

1. ECONOMIC OUTLOOK
- 2. SHORT TERM RISKS**
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Risks to the outlook are tilted to the downside

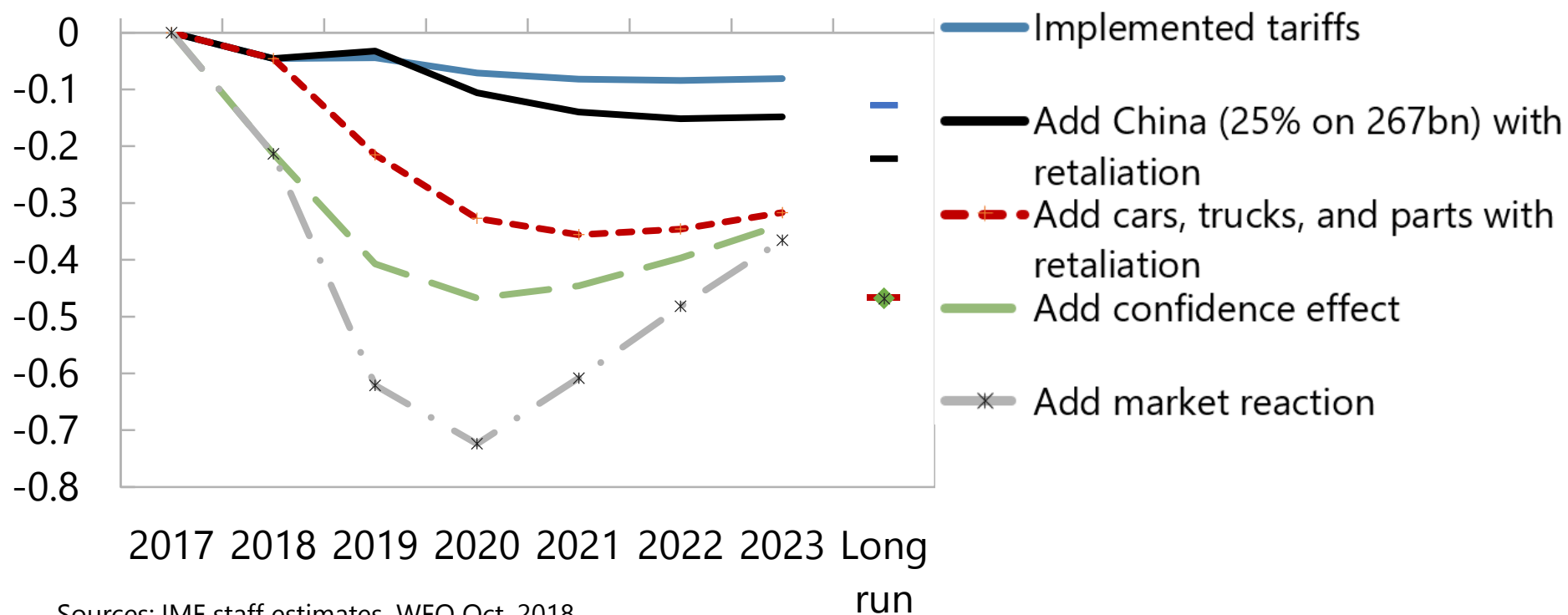
Immediate risks include:

- **An escalation of trade tensions**
- **Sharper slowdown in China**
- **A no deal Brexit**
- **Renew market uncertainties**
- **Political discontents (e.g. Gilets Jaunes)**

Escalation of trade tensions

G20 Advanced Economies

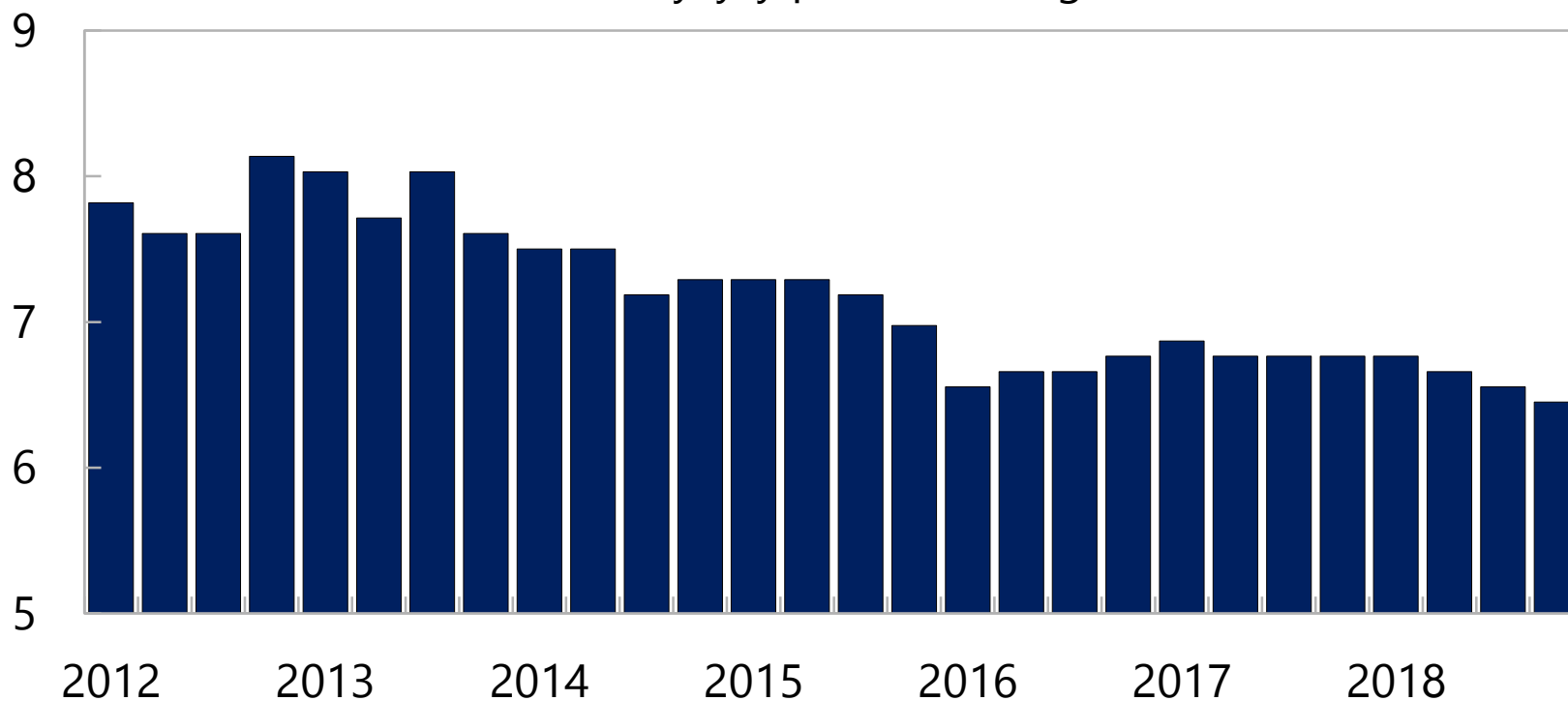
Real GDP in trade tensions scenarios



Slowing demand in China under the impact of trade sanctions

China GDP growth

Quarterly, y/y percent change, sa

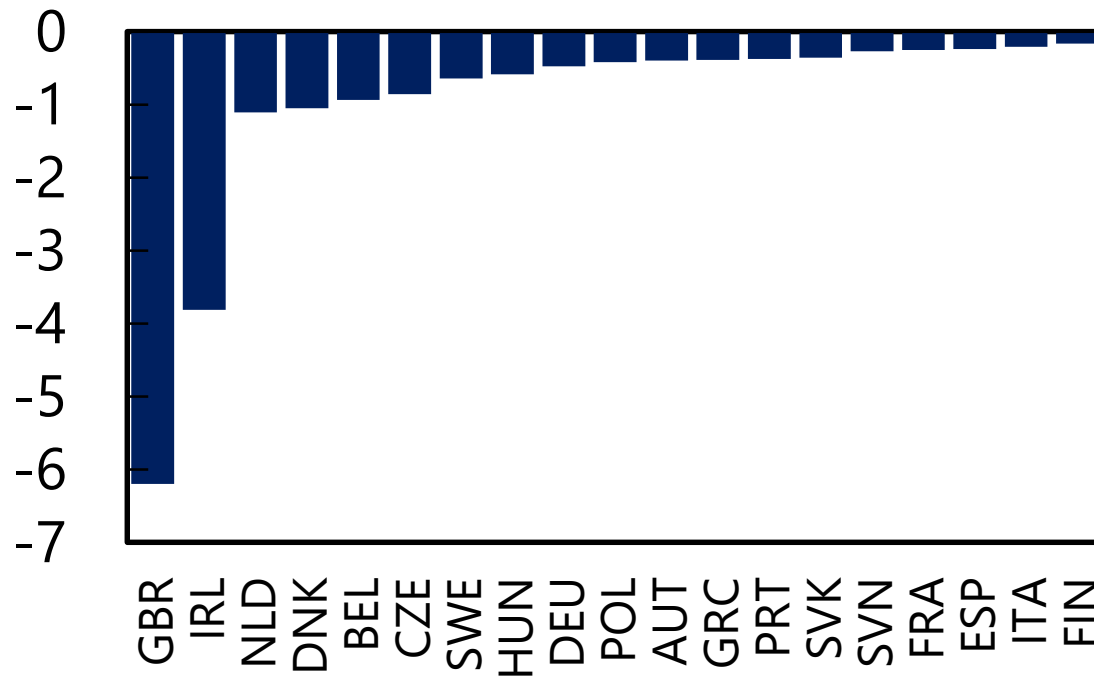


Sources: China NBS, IMF staff estimates.

A no-deal Brexit would be costly

Long-Term Impact of Brexit: WTO scenario

(Decline in the level of output compared to a non-Brexit scenario;
In percent)



Source: IMF staff estimates.

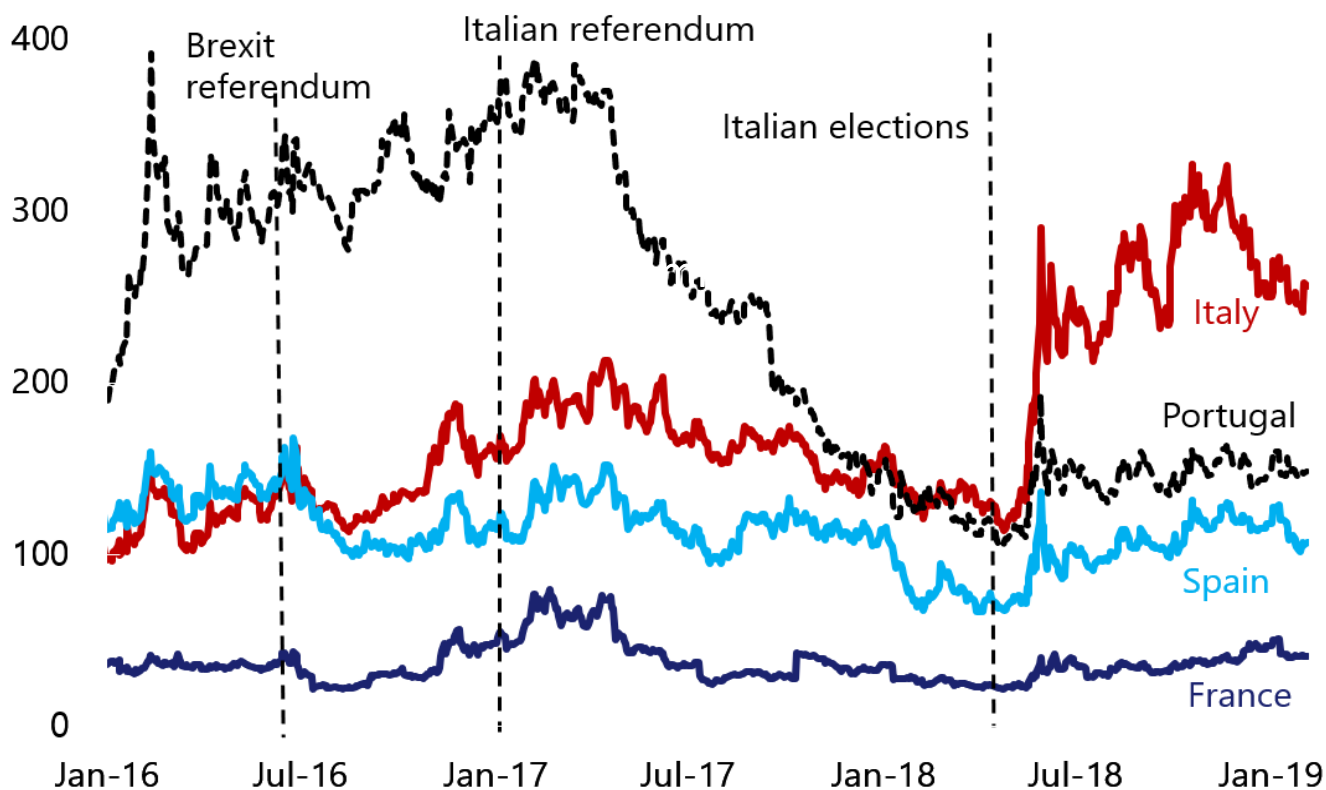
Short term risks

- Widespread disruptions of production
- Decline in confidence
- Financial volatility and asset prices decline

Market confidence: Italian spreads remain elevated

10-Year Government Bond Yield Spread

(Versus Bunds, basis points)

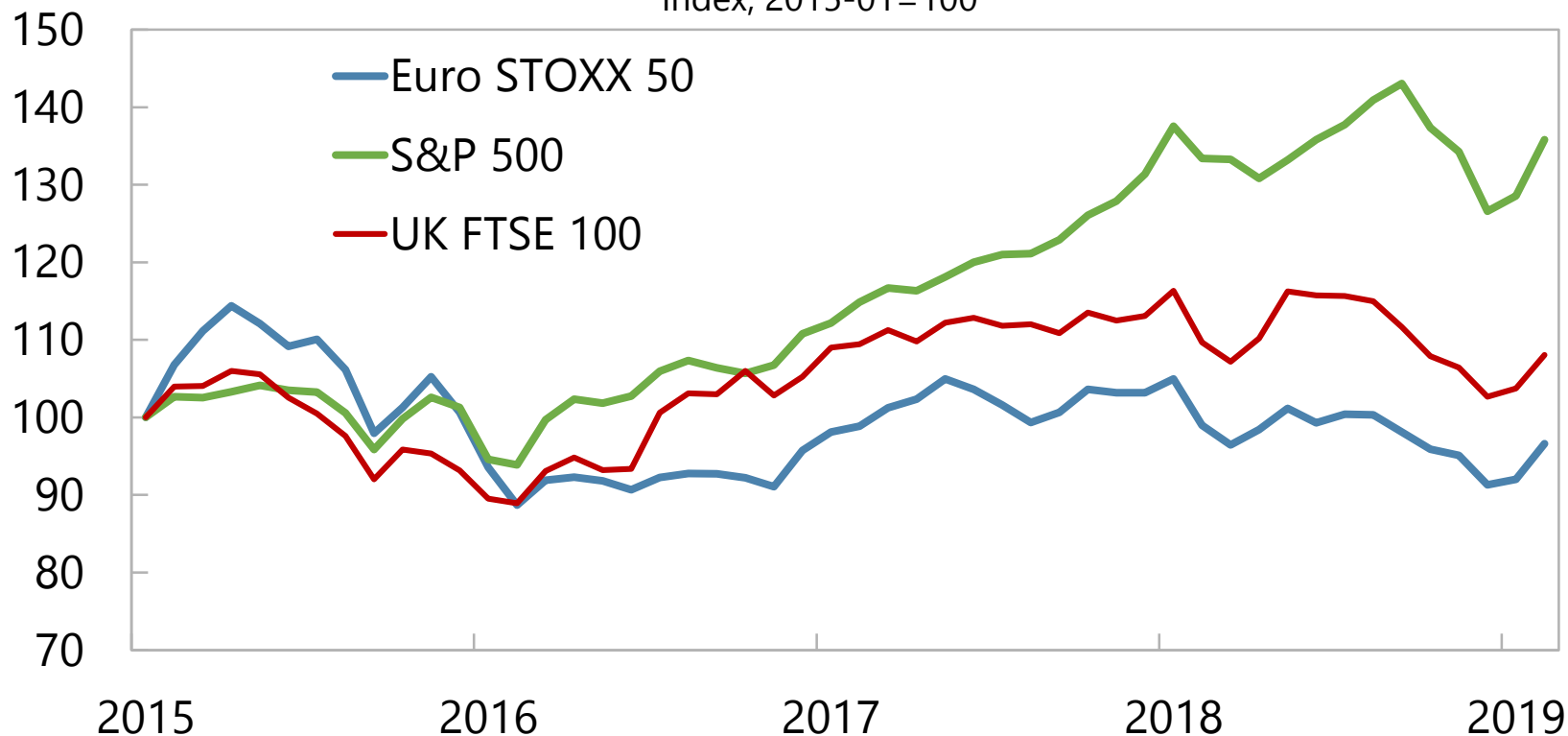


Sources: Bloomberg Finance L.P.

Financial markets have weakened

Equity markets

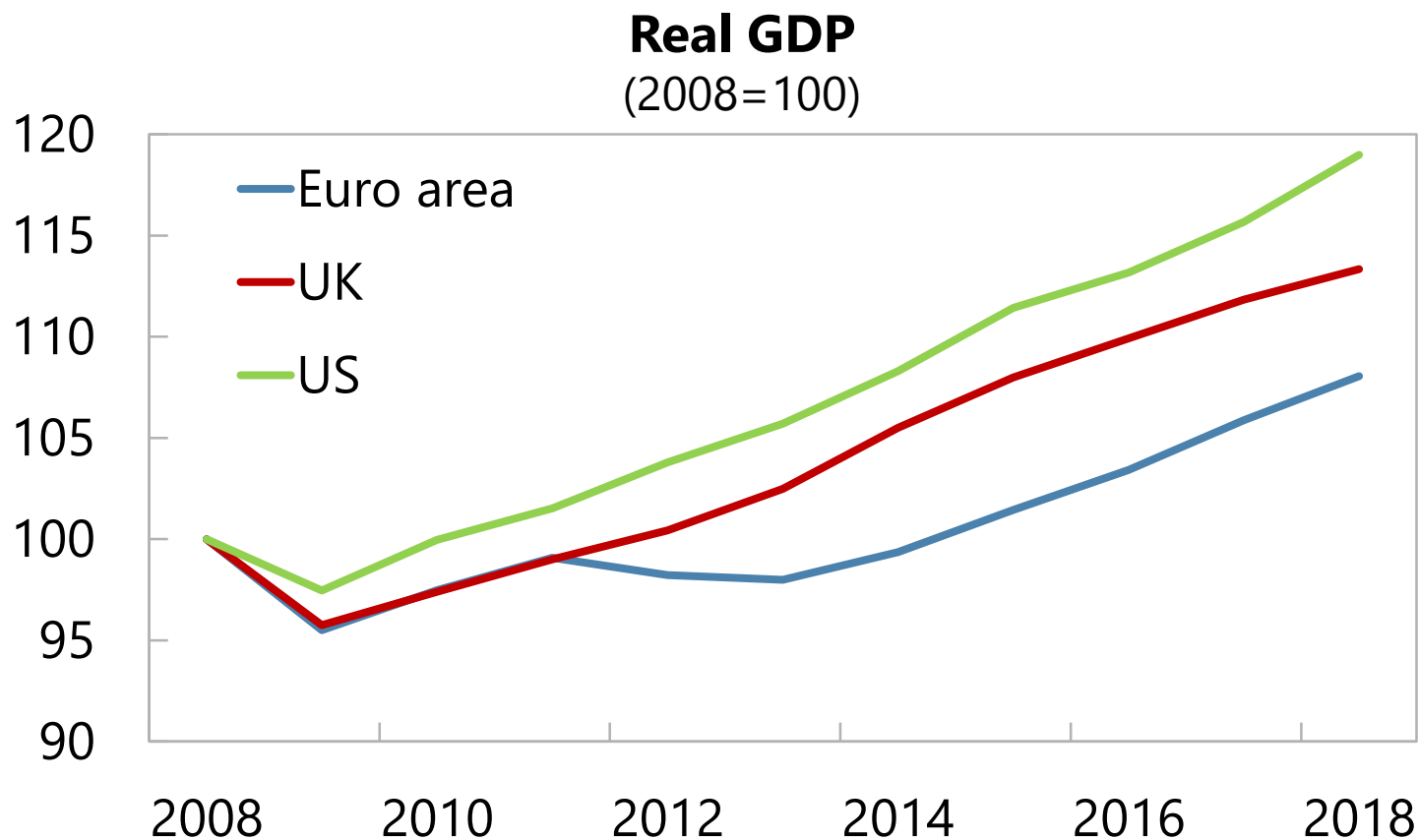
Index, 2015-01=100



Sources: Haver analytics, Markit, IMF staff calculations.

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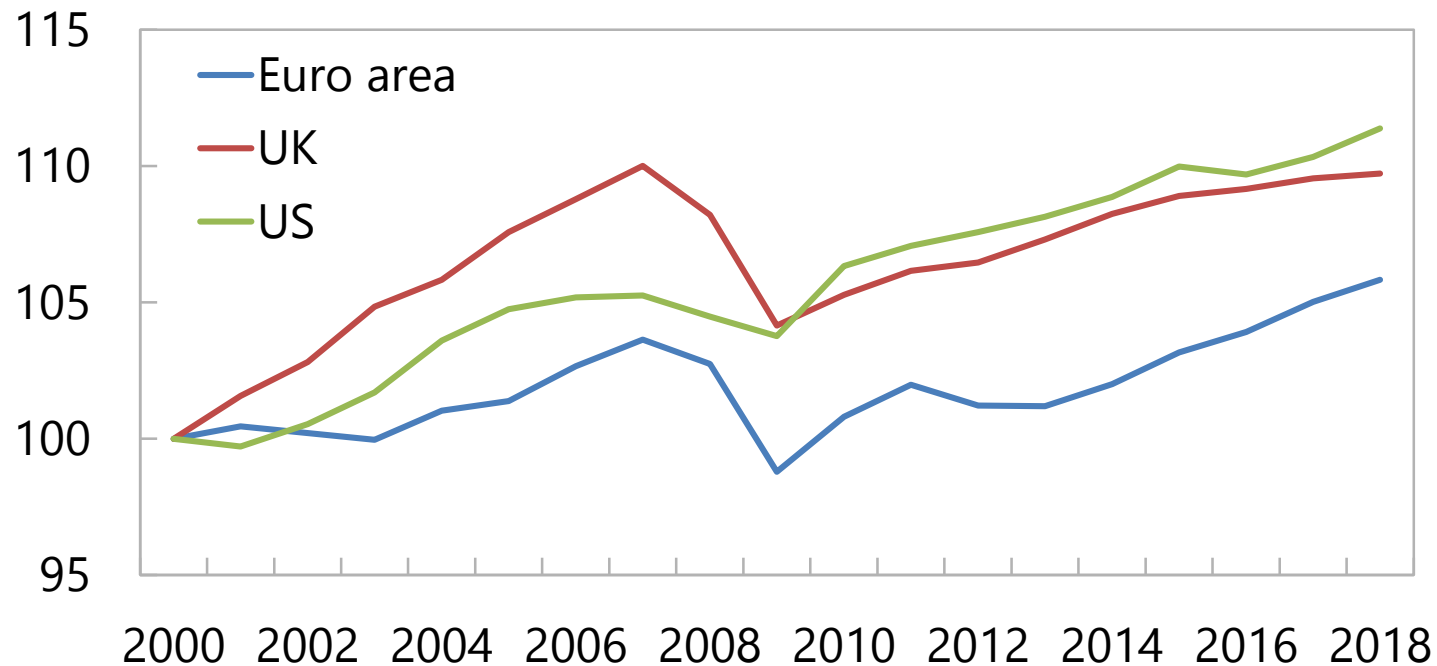
Euro area recovery has been slower



Sources: IMF WEO, IMF staff estimates.

Productivity gaps is widening relative to the U.S. ...

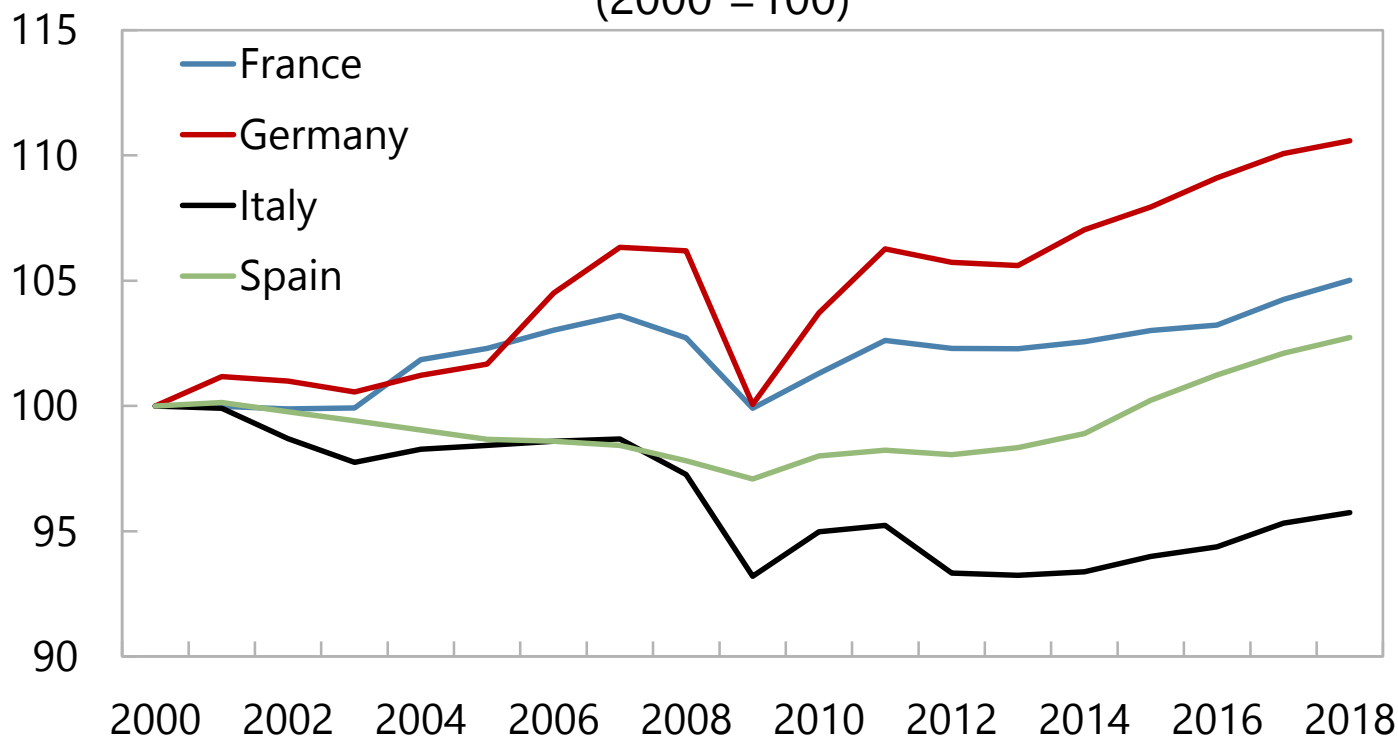
Total factor productivity (2000 = 100)



Sources: European Commission, AMECO.

... and within the euro area

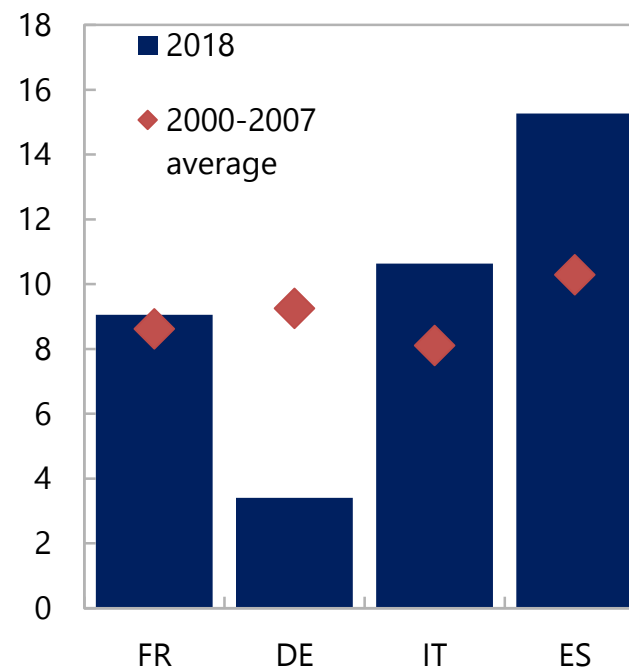
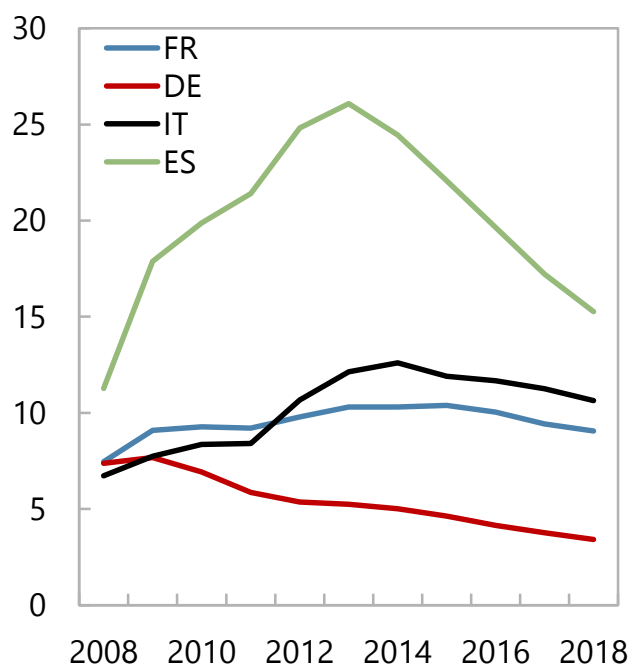
Total factor productivity (2000 = 100)



Sources: European Commission, AMECO.

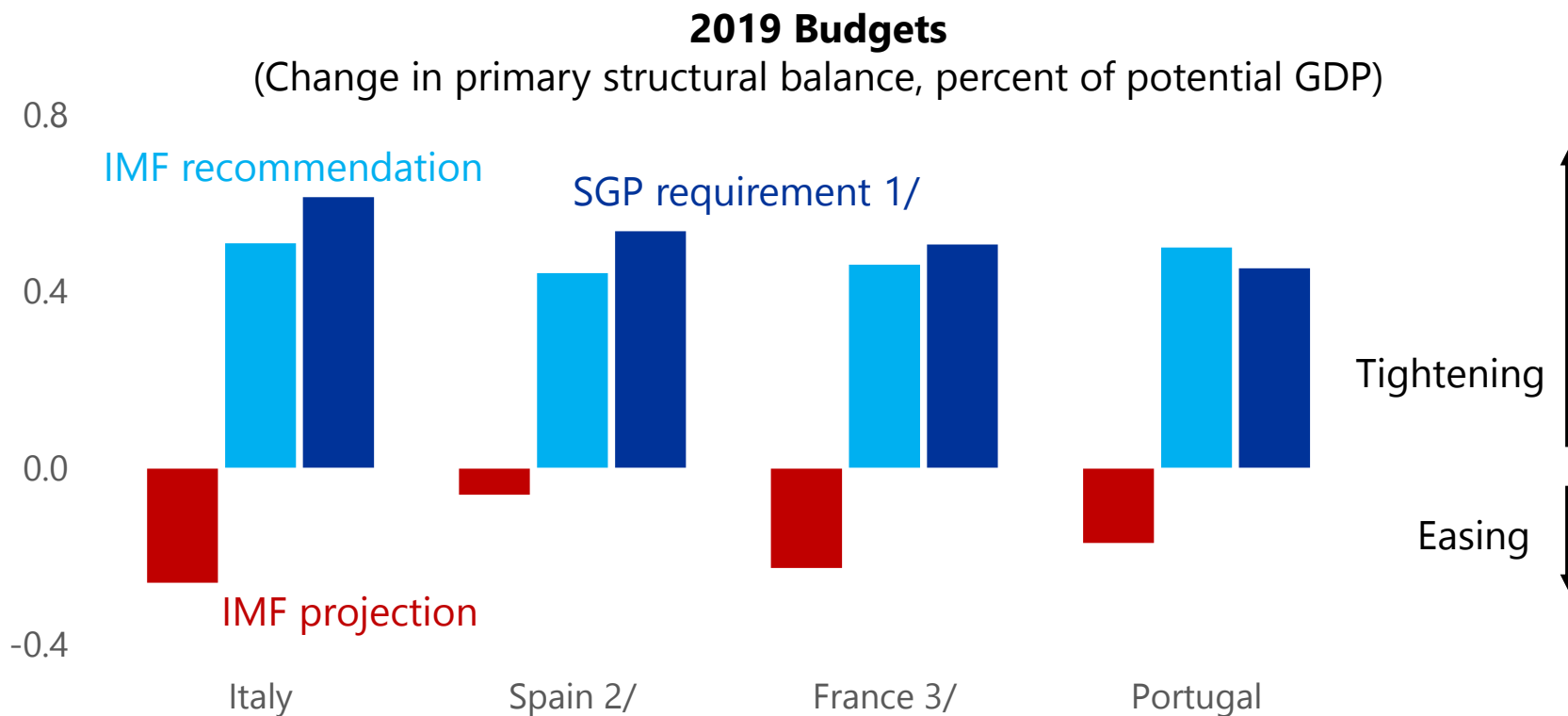
Unemployment rates are now closer to their pre-crisis level but remain elevated

Unemployment rate (Percent)



Sources: Eurostat.

Little consolidation is planned in 2019...



Sources: WEO and country authorities.

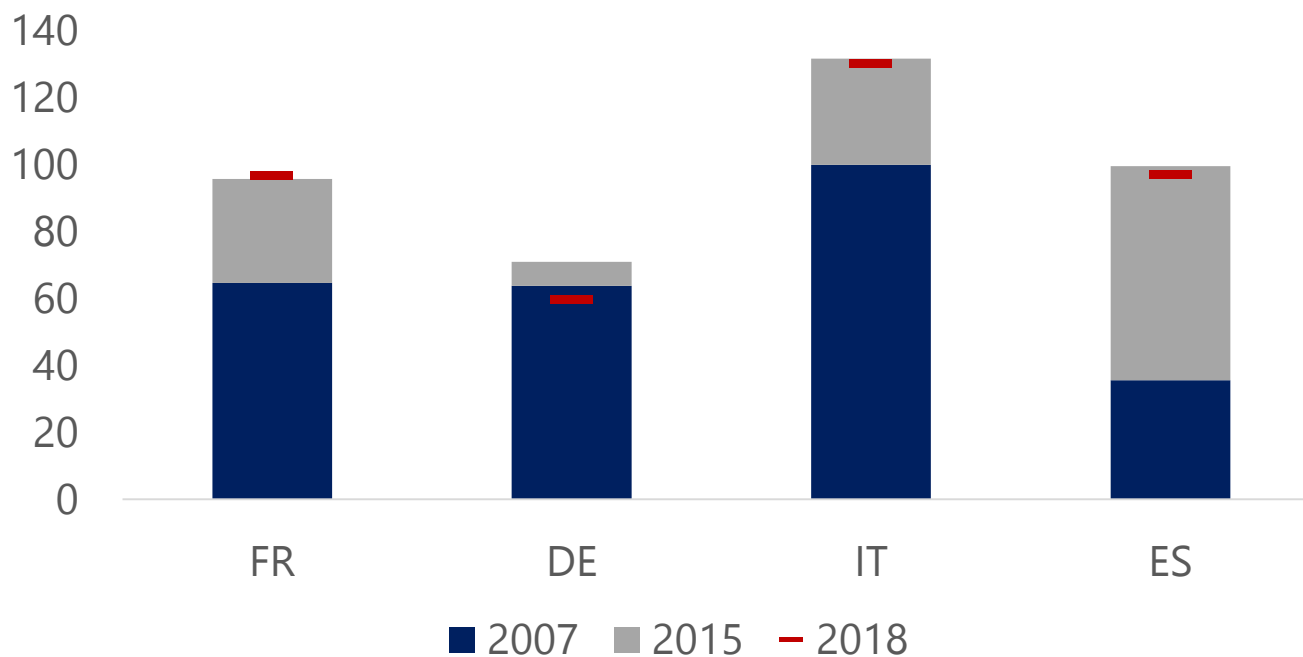
1/ SGP requirement on the structural balance is adjusted for the change of interest expenses to translate it into the primary structural balance.

2/ The IMF projection assumes the extension of the 2018 budget and already legislated measures.

3/ This corresponds to the average for 2019-20. The IMF projection is based on legislated and identified measures only.

... in an environment of high debt

Gross public debt Percent of GDP

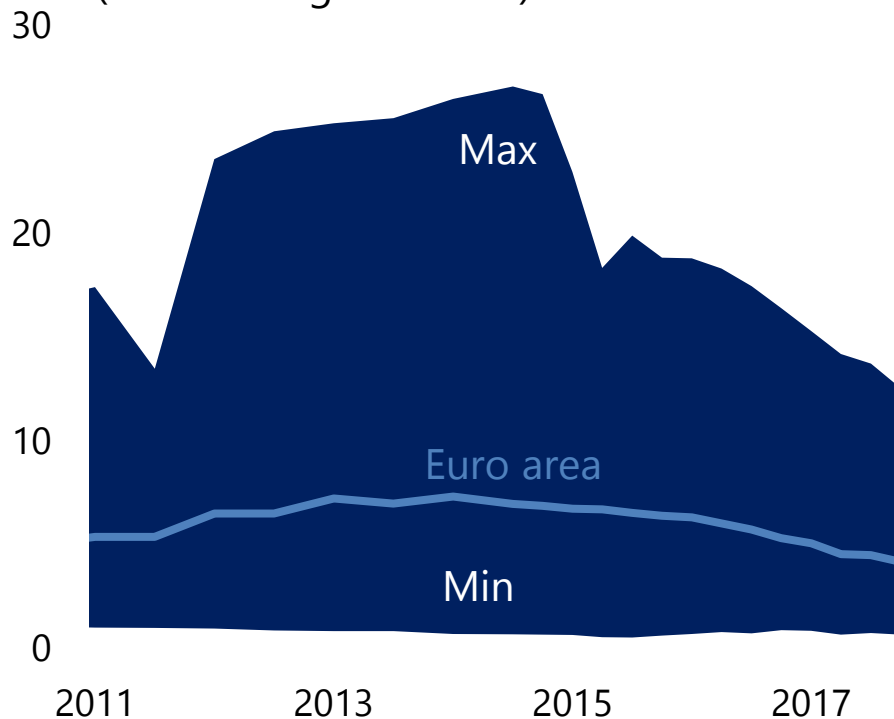


Sources: IMF WEO, IMF staff estimates.

The health of banks is improving but risks remain

Non-Performing Loans

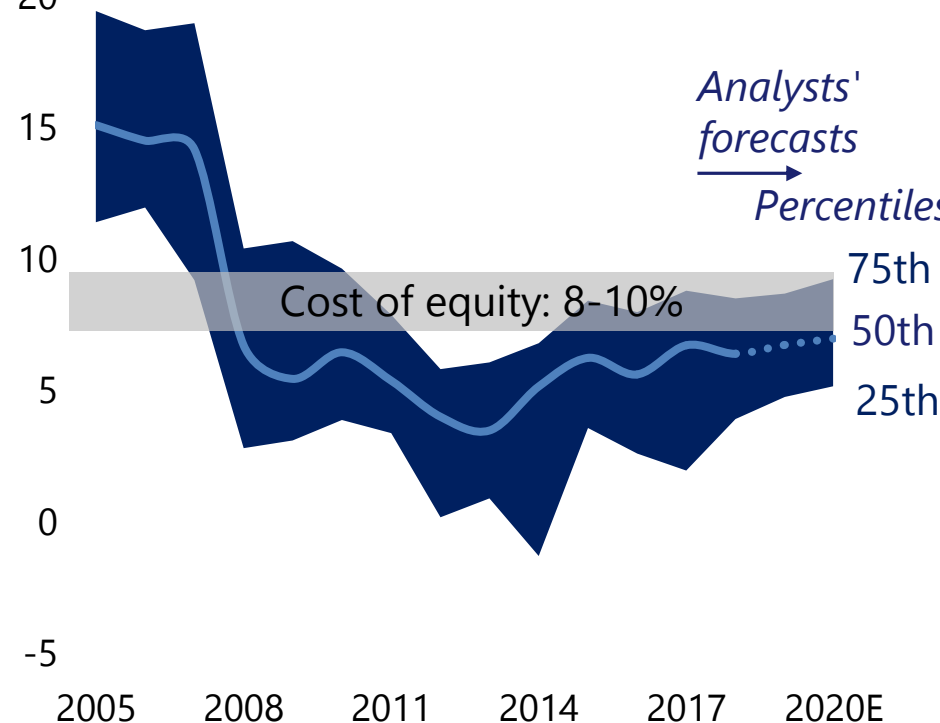
(Percent of gross loans)



Note: Cyprus and Greece excluded.
Source: ECB.

Return on Equity

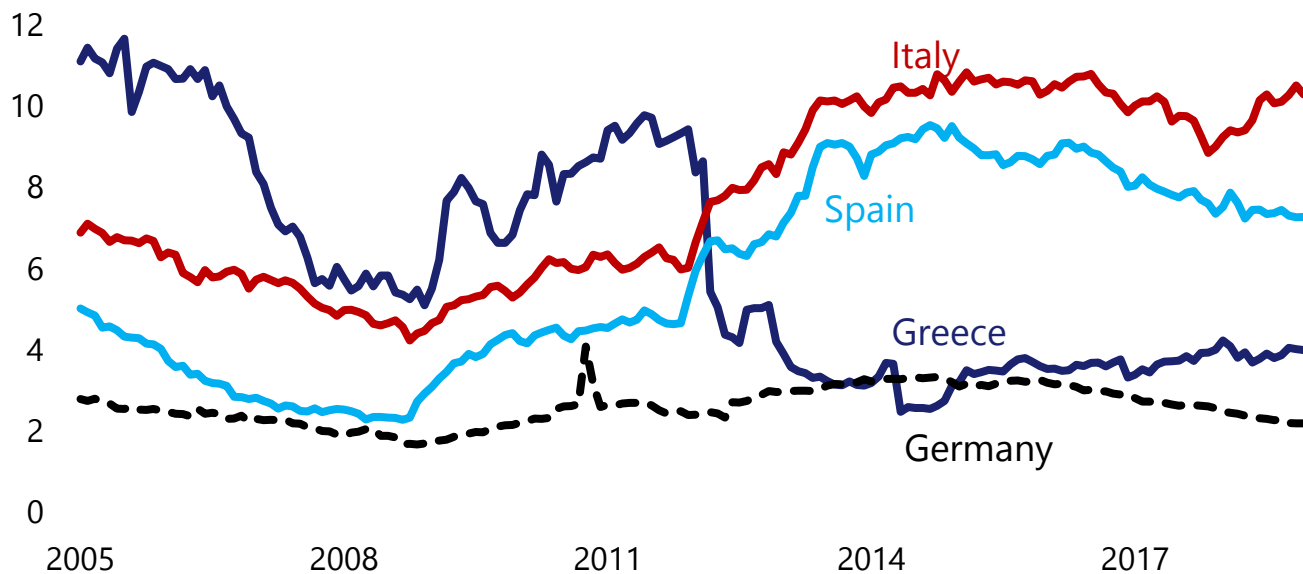
(Percent)



Note: The ROEs are average of 100 largest banks.
Sources: Bloomberg Finance L.P., Fitch; and IMF staff calculations.

Strong bank-sovereign links leave no room for complacency

Bank Holdings of Domestic Sovereign Bonds (Percent of bank assets)



Source: ECB.

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Policy priorities

Multilateral cooperation is needed!

Trade

- Deescalate tensions
- Address sources of dissatisfaction with the rules based trading system
- Limit disruptions related to Brexit

More cooperation

- Financial regulatory reform
- International taxation to avoid tax evasion
- Building a financial safety net
- Mitigating and adapting to climate change



Policy priorities

Structural reforms to boost productivity

→ **Country-specific structural reforms to enhance resilience and boost productivity growth** (product and labor markets; business environment)

→ **Strengthen EU reform governance** (benchmarking; fiscal incentives; coordination)



Policy priorities

Sound fiscal policies and shock insurance

→ **National fiscal policies towards reduction of imbalances**

→ **Simplified, enforceable EU fiscal rules**

→ Support macroeconomic stabilization through a **Central Fiscal Capacity**



Policy priorities

More robust and integrated financial sector

→ **Complete the Banking Union** (operationalize the SRF backstop; EDIS)

→ **Continue to repair balance sheets** (reduce NPLs)

→ **Build a European Capital Markets Union**

Thank You!

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