25th workshop on alternative economic policy in Europe

September 26th – 28th, 2019, Paris University 13

The economic state of the Union

Henri Sterdyniak

hsterdyniak@gmail.com

- **After the 2008 financial crisis and austerity policies imposed in 2011-2013, Euro zone GDP growth accelerated at 2% per year in 2014-2018**, with some disparities: **GDP hardly grew in Italy and Greece, while growth was rapid in Ireland, Spain, as well as in most of the Central and Eastern European countries (CEECs)**. The unemployment rate is still above 12% in Greece and Spain, close to 10% in Italy, above 8% in France, while it is below 5% in Germany, Austria, the Netherlands, Denmark and in most CEECs. **Europe, and especially the euro zone, remains a heterogeneous zone.**
- **For the past 20 years, Southern Europe countries (and especially Italy) have had poor performances, in contrast with the good performances of other countries, such as Sweden and the CEECs. Disparities are particularly clear in the industrial sector**, where output growth is strong in Belgium, Austria, and the CEECs; while it is declining in France, the United Kingdom and Southern European Countries.
- The whole Euro area growth has been weak (1.45% a year versus 2.2% for the

- Euro area growth has been slowing down sharply since mid-2018, to 1.2% in mid-2019, as compared with 2.7% in 2017. The slowdown was particularly severe for Germany (from 3.4% to 0.4%). Italy (-0.1% over one year) remains the sick country of the zone. On the other hand, growth remained strong in Central and Eastern Europe.
- This slowdown can be explained both by exogenous factors: the slowdown in world demand induced by the deceleration of Chinese imports, the trade war launched by the United States, and the uncertainty around Brexit. It is also partly cyclical, after the 2014-2018 strong growth period and the proximity of full employment in some countries (Germany, the Netherlands, Austria, the United Kingdom), if this concept still makes sense.
- Finally, it is also due to internal imbalances in the area between countries close to full employment and reluctant to implement expansionary policies and countries in difficulty that can no longer use their fiscal policy, their

*GNI

Heterogeneities in the euro area

	GNP Annual Growth			Unemployment rate	Industrial Production
	1998-2018	2014-2018	2019-20	July 2019	2000=100
Belgium	1.65	1.5	1.1	5.7	151.8
Germany	1.4	1.9	0.6	3.0	127.6
Ireland	4.55*	7.2 *	3.3	5.3	229.6
Greece	0.4	0.7	1.7	17.2	77.6
Spain	2.0	2.8	2.0	13.9	84.4
France	1.5	1.4	1.25	8.5	94.8
Italy	0.45	0.9	0.2	9.9	93.6
Netherlands	1.7	2.0	1.55	3.4	108.4
Austria	1.75	1.8	1.55	4.4	159.9
Portugal	0.9	1.9	1.55	6.5	83.1
Slovakia	3.65	3.5	3.3	5.3	275.1
Finland	1.75	1.5	1.25	6.7	111.5
EA	1.45	2.0	1.1	7.5	110,8
Denmark	1.35	2.0	1.6	4.6	99.0
UK	1.9	2.0	1.15	3.7	91.6
Sweden	2.4	2.8	1.5	6.8	108.1
Czech Rep.	2.8	3.6	2.45	2.1	181.5
Croatia	1.8	2.3	2.25	7.1	123.7
Hungary	2.4	3.8	3.6	3.5	188.5
Poland	3.8	4.0	3.85	3.3	244.6
Romania	3.75	4.6	3.35	3.9	195.1
EU	1.65	2.1	1.3	6.3	112,4
Japan	0.85	1.0	0.8	2.4	
US	2.2	2.4	2.2	3.7	

GDP growth, annual/q-o-q-4

	2017	2019-Q2
Belgium	1.9	1.2
Germany	3.4	0.4
Ireland	6.2	6.3
Greece	2.1	1.9
Spain	3.1	2.3
France	3.0	1.4
Italy	1.7	-0.1
Netherlands	2.9	1.8
Austria	2.8	1.6
Portugal	2.5	1.8
Slovakia	3.7	2.6
Finland	3.4	1.2
EA	2.7	1.2
Denmark	1.0	2.3
RU	1.6	1.2
Sweden	2.7	1.4
Czech Rep.	5.1	2.7
Croatia	2.2	2.5
Hungary	4.5	5.2
Poland	4.7	4.2
Romania	6.8	4.6
UE	2.6	1.4
US	2.2	2.3

Heterogeneneities in the euro area

- Thus, in mid-2019, Europe faces a cyclical slowdown: how to respond?
- The monetary policy tool is already fully used (with zero interest rates, a large refinancing of banks, purchases of public and private securities). Fiscal policy could be more expansionary, but countries with the largest room for manoeuvre are reluctant to use them. The European authorities maintain inappropriate pressures for fulfilling bad rules. A logical solution, a wage recovery especially in northern countries, is not feasible. This argues for a non-conventional fiscal policy: massive support for public and private investment as part of the ecological transition.
- At the same time, current difficulties illustrate the weaknesses of the growth model chosen by countries such as Germany and the Netherlands, and advocated by the European authorities: growth based on competitiveness, exports and external surpluses.
- Europe must choose between two models which are difficult to reconcile: technological innovation and ecological transition.
- The euro area has not solved the problem of internal disparities. The Italian question, and more generally that of Southern countries, remains important. On the contrary, Central and Eastern European countries are experiencing satisfactory convergence.

The world economy

- On the whole, world economic growth tends to decelerate since the beginning of 2018: from 3.8% in 2017, to 3.6% in 2018, and would be only 3.2% in 2019.
- So far, the US economy has not been substantially affected by this slowdown: US GDP grew by 2.8% in 2018, but business climate indicators have been deteriorating since early 2019. GDP growth is still driven by a budget deficit of 4.6% of GDP; GDP is expected to grow by 2.3% in 2019, the unemployment rate is at 3.7%. The depressive impact of protectionist measures has not yet materialised, hidden by the performance of growth. After a long period of growth, some slowdown is likely to occur in the second half of 2019, that fiscal policy will not offset, while monetary policy may become slightly more expansionary (the Fed rate is only at 2.125%).
- In Japan, GDP growth was low (0.8% in 2018, 1% in 2019), and is expected to slow further down in 2020 (0.2%), given the uncertainties on world trade and the rise in VAT.
- The Chinese economy is engaged in a delicate restructuring of growth, relying more on consumption than on investment and exports, aiming at upgrading its production, from consumer industries with high content of unskilled jobs, to innovative high-tech sectors. China expects a gradual slowdown in growth (from 6.8% in 2017 to 6% in 2020).
- Several emerging countries are experiencing serious political or economic crises: Turkey, Brazil, Argentina.

World Trade

- **World trade growth decelerated from 5.5% in 2017 to 3.7% in 2018 and 2.5% in 2019. It has suffered from slowing investment and purchases of durable goods. Uncertainty over global demand weighs on investment.**
- **There was a sharp slowdown in Chinese imports (-7.3% in value, year-on-year in June 2019), uncertainty around Brexit and even more by the trade war launched by Donald Trump. Donald Trump wants to reduce the US trade deficit ($880 billion in 2018, of which $420 billion with China, $170 billion with the EU, $80 billion with Mexico) by protectionist measures (rising tariffs), an imposing the opening of foreign markets to US products. Donal Trump also wants to slowdown Chinese high-tech firms' expansion, and refuses the US to remain in the WTO multilateral framework.**
- **The conflict between the United States and the EU remains limited. In June 2018, the United States decided to apply a 25% tax on EU steel exports in the US, 10% on aluminium exports (i.e. 6.4 billion euros). The EU complained before the WTO and applied as of 1 July 2018 10% or 25% tariffs on a list of US exports (for 2.8 billion euros). However, in July 2018, the EU agreed to import more soya beans and liquefied natural gas from the United States. Donald Trump is still threatening to introduce taxes on European car exports and to taxes on French wines in response to GAFA taxation. He plans to impose customs duties on European goods worth $11.2 billion a year to compensate for EU subsidies given to aircraft manufacturer Airbus.**
- **The EU and the United States share the same aim to reform the WTO and to combat unfair practices (in fact China's): to protect intellectual property, prevent forced transfer of technology, subsidies, distortions created by public companies and production overcapacity.**

World Trade

- Donald Trump increased tariffs on Chinese imports, and the Chinese responded. In September 2019, the increase in US tariffs on imports from China is 25% on $ 200 billion of products, 10% on 300 billion other products, i.e. a potential increase of 80 billion, corresponding to a average tariffs increase of 16% on Chinese products. The increase in Chinese tariffs on imports from the United States is 25% on products amounting to $60 billion; 10% out of $50 billion in other products, a potential increase in $ 20 billion, a 18% average increase in tariffs on US products.
- China's response is limited by the weakness of its imports from the US. Donald Trump has also taken action against Chinese high tech companies.
- Conversely, China had accepted a 33% increase in the yuan from 2004 to 2013, while the yuan has fallen 12.2% since Donald Trump's measures.
- Donald Trump is more a mercantilist than a protectionist. He wants to expand US exports and to protect US high tech firms. His strategy, however, shows the risks of export-led growth at the expense of domestic demand, as countries with a huge deficit react.
- This does not prevent the EU from continuing to negotiate trade agreements harmful to the environment, to social cohesion, which encourages countries to develop on the basis of their exports.

- The price of Brent remainedat $ 63 per barrel in the first half of 2019, a relatively low level. But, it could increase sharply following tensions in the Middle East.

Euro zone: Slowing down again

- **Euro zone growth has been slowing down again since mid-2018, with year-on-year growth at 1.2% only in the second quarter of 2019. GDP would grow by 1.1% only in 2019-20. The slowdown is driven by foreign trade, but also by public and private consumption. In 2019 and 2020, foreign trade would weigh on growth. Investment in equipment would decelerate due to the lack of industrial dynamism. Households' purchasing power would benefit from lower inflation, from a somewhat more favourable fiscal stance, and from wage increases in Germany. But the rise in consumption has been limited by the rise in savings rate.**
- **Growth deceleration is particularly sharp in Germany, where the industrial sector is hit by the slowdown in world demand and where the automobile industry is struggling to adapt to new standards; but all exporting countries are affected (the Netherlands, Sweden outside the euro zone). The Italian government, under the surveillance of the European Commission and of financial markets, has failed to revive its economy. France is doing better, not because of its supply side policy, but because of the fiscal stimulus induced by the yellow vests. Greece would be the only country in the zone to see some rebound in growth. The United Kingdom has not experienced the economic crisis announced after the vote for Brexit, but the uncertainty remains between a soft Brexit scenario, which would lead to a rebound in result in activity, and a hard brexit which possibly translate into negative growth in 2020.**
- **So far, growth is hardly affected by the slowdown in western countries and**

Euro zone economic developments

In %, except stocks (contribution to growth)

	2017	2018	2019	2020
GDP	2.7	1.9	1.1	1.1
Private Consumption	1.8	1.4	1.3	1.2
Public Consumption	1.5	1.1	1.3	1.3
Investment	3.0	3.3	3.2	2.9
Exports	5.4	3.2	2.3	2.0
Imports	4.1	3.2	3.2	3.3
Stocks contribution	-0.1	0.1	-0.1	0.0

- **Households' disposable income would increase by 1.7% in purchasing power in 2019, which is a slight acceleration as compared to recent years, thanks to France, Spain, Portugal and Finland. The rise would be small in Italy and the Netherlands (due to a rise in VAT). However, the rise in the savings rate would limit consumption growth to 1.3%. The catch-up would remain strong for the CEECs. Households' income has not returned to its pre-crisis level in Greece (-33%), Spain and Portugal (-5%).**
- **In one year, employment in the euro area rose by 1.2%, with Italy lagging behind (+0.5%); unemployment fell by 0.6 percentage points (and fell in all euro area countries). In the EU, the unemployment rate rose only in Sweden. According to business surveys, employment growth is expected to slowdown significantly, particularly in the industry. The unemployment rate remains high on the whole (7.5%), but with large disparities that make any coordinated policy difficult.**

Households situation

	Real disposable income growth		Saving Rate
	19/18	18/13 (annual rate)	2019 (19-18)
Belgium	1.7	0.9	12.6 (+0.6)
Germany	2.0	1.9	18.6 (+0.7)
Ireland	2.5	3.5	11.8
Greece	3.1	0.2	-4.3 (+1.9)
Spain	2.5	1.4	5.5 (+0.6)
France	1.9	1.2	14.1 (+0.4)
Italy	0.6	0.8	10.0 (+0.1)
Netherlands	0.8	1.7	15.0 (-0.4)
Austria	1.6	0.9	12.1
Portugal	2.4	1.7	4.6
Slovakia	2.3	3.1	7.6 (-0.8)
Finland	5.4	1.2	20.7 (+2.4)
EA	1.7	1.5	12.5 (+0.5)
Denmark	1.9	2.9	12.7 (+0.1)
UK	1.35	1.7	4.2 (-0.3)
Sweden	3.0	2.7	20.5 (+1.0
Czech Rep.	3.1	3.4	10.9
Hungary	3.7	4.6	13.1 (-1.0)
Poland	5.7	4.7	1.7 (+1.0
Romania	8.3	7.0	-3.1 (+2.9)
Japan	1.1	0.5	9.6 (+0.3)
US	2.7	3.0	12.5 (+ 0.2)

- Industrial production contracted by 2% yoy in the euro area, but particularly strongly in Germany (-5%), and hardly in the CEECs. In July 2019, the outlook in the industry is negative in the whole area, especially in Germany, but also in many highly exporting countries. Opinions are particularly negative regarding foreign order books. The capacity utilisation rate fell down to 82.8% after 84.2% in 2018-Q1. However, the outlook is better in services.
- Business investment slowed sharply in 2019, not because of an autonomous fall in profitability, or deterioration in financing conditions, but because of slowing exports and uncertainties in the Chinese, British and US markets.

Industrial production/industrial confidence

	Growth July 19/18	Industrial confidence
Belgium	11.7	-10.6
Germany	-5.3	-11.2
Ireland	-2.9	9.6
Greece	-2.2	-9.6
Spain	0.3	1.6
France	-0.3	-5.9
Italy	-0.7	-5.1
Netherlands	-1.1	2.3
Austria	-1.3	-4.5
Portugal	-3.4	-2.9
Slovakia	2.8	-8.0
Finland	3.8	-1.3
EA	-2.0	-5.9
Denmark	5.1	-7.7
UK	-0.7	-12.2
Sweden	5.0	-6.2
Czech Rep.	0.1	-4.5
Croatia	3.0	5.1
Hungary	8.7	4.5
Poland	3.3	-9.9
Romania	-5.2	0.0
EU	-1.2	-6.4

	Investment in equipment growth	
	2018	2019
Belgium	1.9	1.6
Germany	4.2	2.1
Greece	-10.2	4.2
Spain	5.4	3.0
France	2.2	2.0
Italy	5.5	-0.5
Netherlands	2.8	2.8
Austria	3.3	2.1
Portugal	6.1	6.2
Slovakia	2.3	3.1
Finland	5.4	1.2
EA	3.3	2.2
Denmark	6.6	-0.5
UK	-4.5	-4.0
Sweden	1.3	0.8
Czech Rep.	10.5	3.5
Hungary	-2.0	5.6
Poland	9.0	6.1
Romania	1.5	2.4
US	7.2	5.0

Inflation

- **In mid-2019, euro zone inflation was at 1%, also in terms of underlying inflation.**
- **This low inflation may lead two contradictory interpretations: either, it signals that the zone remains with a negative output gap (this is the interpretation of the ECB), or it corresponds to a new normal level, taking into account the functioning of the goods market (competitive pressures related to markets' opening) and the labour market (relatively low unemployment rates hide precarious jobs). In this case, the notion of potential production disappears.**
- **In July 2019, in the euro area a few countries have very low inflation rates: Italy (0.3%), Greece (0.4%), Ireland (0.5%), Spain (0.6%). In two countries inflation is above 2% (the Netherlands, 2.6%, Slovakia, 3%). German inflation (1.1%) is not strong enough to contribute to the resorption of imbalances. Finally, the CEECs may have rates above 2.5%. UK inflation returned to 2,1%. Since the referendum on Brexit, the additional price increase induced by the devaluation of the pound is in the order of 1.5%.**

Inflation

- Labour productivity growth is around 0.7% per year for the euro area countries, which is only slightly below the US level. It did not increase significantly during the 2014-18 growth period. This makes it easier to reduce unemployment, but can also limit growth in the medium term. It is much stronger for the CEECs, in a catching up process.
- In the area as a whole, real wages have increased like productivity. However, some rebalancing seems at work. Thus, wage increases are strong in Germany, low in Spain. Wage igrowth remain low in countries having margins such as the Netherlands, Austria and Belgium.
- Unit wage cost increases over the 2014-18 period (0.7%) were well below the ECB's 2% inflation target. They increased more rapidly in Germany (1.6%), but this remained too low, given the need for rebalancing. In 2019 real wage growth is expected to accelerate, particularly in Germany. So far, this has not translated into price acceleration.
- The euro zone a a whole has not found a way out of a dangerous logic: labour market deterioration, liberal reforms, competitiveness objectives weaken the situation of employees; wages increases are small, which exerts downward pressure on demand; the ECB has to set interest rates at very low levels; which does neither sufficiently raise demand nor tighten the labour market to increase wage growth to the necessary level (2.7%).

Wage and productivity Annual growth 2015-2018 /2019

	Labour productivity	Real Wages	Nominal labour unit costs
Belgium	0.5	-0.2 /0.8	0.6/0.6
Germany	0.75	1.6/1.7	1.6/3.4
Greece	-0.4	0.1/1.6	0.0/1.6
Spain	0.2	-0.4/0.8	0.2/1.9
France	0.75	0.65/-1.2	0.5/-0.5
Italy	0.2	0.1/0.0	0.5/0.7
Netherlands	0.	0.15/0.2	0.4/2.4
Austria	0.7	0.3/0.8	1.0/2.1
Portugal	-0.1	-0.15/1.1	1.2/1.6
Slovakia	1.45	2.95/4.2	2.6/3.7
Finland	0.8	-0.1/1.9	-0.3/2.8
EA	0.7	0.65/0.6	0.7 /1.8
Denmark	0.55	0.95/1.3	0.95/2.0
UK	0.5	0.4/1.6	1.55/2.6
Sweden	1.0	1.15/1.6	1.3/2.5
Czech Rep.	1.85	3.45/2.4	2.4/3.2
Croatia	0.5	-0.55/2.6	-1.0/2.6
Hungary	0.9	2.7/3.3	2.65/4.2
Poland	2.65	4.65/5.8	1.35/3.9
Romania	4.4	7.5/9.9	5.3/10.3
EU	0.8	0.8/1.1	1.0 / 2.1
Japan	0.2	0.35/0.7	0.4/0.6
US	0.8	0.8 / 1.2	1.3/1.8

Monetary policy

- Central bank interest rates remain low in all major industrialized countries (1.875% in the United States, 0% in the Euro Zone and Japan, 0.75% in the UK). The same is true for 10-year rates (1.85% in the United States, -0.45% in Germany, -0.15% in Japan, 0.75% in the United Kingdom). This reflects a structural lack of demand and weak pgrowth prospects. Both the Fed and the ECB have indicated that they intend to maintain accommodative monetary policies in the coming months.
- From mid-2017 to mid-2018 equity prices were at levels close to historical highs. They had dropped in April (by 15% for the Stoxx600) because of international trade tensions. They have recovered since then by about 9%, given the fall in interest rates.
- Since the results of the referendum on Brexit, the London Stock Exchange has held up well (an increase by 18% of the FTSE 100 against 11.5% for the Eurostoxx 600). This resilience of equity markets, supported by very low interest rates, is a supportive element for short-term activity, but also a threat of fragility for the longer term.

Monetary policy

- The ECB's refinancing rate is now at 0% (against 2.375% for the Fed and 0.75% for the BoE). This rate is significantly lower than would imply a Taylor rule, calculated using the Commission's estimates:

Potential growth rate + inflation rate + 0.5 output gap +0.5 (inflation rate - target rate),

i.e 1.3% + 1% + 0.5 (0.3) + 0.5 (2-1) = 1.95%.

- There is a strong contradiction between the Commission's estimate of the output gap (+0.3%) and the absence of any inflationary pressure.
- Forecasters expect long-term inflation at 1.7%; those still making a link between central money and inflation are very much a minority.
- On 12 September, the ECB decided to maintain its refinancing rate at 0%, to lower the interest rate on bank deposits from -0.4% to -0.5% (while exempting from these negative rates part of bank deposits). The ECB announced that rates would remain at this level until inflation comes sufficiently close to 2%. It reduced the rates on TLTROs (targeted longer-term refinancing operations). It announced that it would continue its QE policy by reinvesting the securities held and by purchasing 20 billion securities each month.

Monetary policy

- **The ECB cannot run a more expansionary monetary policy, and so it has to ask member states to use fiscal policy.**
- **The problem is that it is difficult to manage a heterogeneous area: countries like Germany that could implement this policy already estimate that interest rates are too low. And Italy, which would need a lower exchange rate, has hardly any budgetary margins.**
- **This leads some economists to advocate even more unconventional policies. The ECB could directly distribute money to households, but the ECB would then run fiscal policy in place of the Member States; it would be an accounting trick if the deficit and the ECB's debt were not counted in the deficits and debts of the Member States.**
- **The ECB could directly finance projects that banks and states refuse to finance, it would be a parallel Juncker plan, which the ECB probably does not have the tools to organize.**

Monetary policy

- In September 2019, 10-year interest rates are negative in many euro area countries, reflecting the financial markets' view that the euro area will experience a long period of weak growth and low inflation.
- Interest rate spreads diminished in the recent period. Thus, the Italy / German spread is no more than 1.3 percentage point; this spread was 1.3 percentage point in May 2018, it rose to 3 points in November following tensions between Brussels and Rome; it fell down quickly with the new government. **Financial markets quickly punish countries who do not remain in the good line.**
- For all euro area countries, long-term public interest rates are well below trend growth (in value terms) of around 3%, so borrowing has no cost.
- Let us note however that the apparent interest rate on public debt is 2.7% for Italy instead of 1.7% for France, which costs Italy 1.5% of its GDP each year.

Monetary policy : 10Y public interest rates

Belgium	**-0.14**
Germany	-0.46
Ireland	0.07
Greece	1.58
Spain	0.31
France	-0.18
Italy	0.86
Netherlands	-0.33
Austria	-0.21
Portugal	0.33
Finland	-0.20
Denmark	-0.43
UK	0.75
Sweden	-0.12
Japan	-0.16
US	1.86
CZ	1.40
Poland	2.15
Hungary	2.15
Romania	4.17

Monetary policy

- **In the recent period, the European authorities and the economists at their service promoted two projects. Either, strongly encourage commercial banks to no longer hold their country’s debt, declaring it as risky. Or, encourage banks and financial institutions to hold a so-called risk-free composite assets produced by financial engineering. In both cases, the capacity of Member States to finance themselves would be called into question; the power of financial markets over states would be strengthened.**

- **Low interest rates translate into a general increase in debt, which in the short term certainly supports investment and consumption, but can be used to finance speculative operations (such as increased corporate debt in France) and which is a source of financial fragility, if interest rates rise compared to the rate of growth.**

Monetary policy : dects as % of GDP

	Households	Firms	Government	Total
US	101	47	101	249
Japan	58	94	212	364
EA	57	61	86	201
Germany	53	39	85	178
France	60	73	100	233
Italy	41	64	134	239
Spain	61	65	99	225
UK	87	65	85	237

- **The euro is currently at $1.10, a sharp decline from 1.22 in early 2018 (-10%), both because of the interest rate differential and the less dynamic activity in the euro area as compared to the US.**
- The pound fell sharply vis-à-vis the euro after the June 2016 referendum, from 1.30 to 1.15 (-12%). It has since then fluctuated around this value according to the vicissitudes of Brexit.
- **In 2019, no country in the euro zone has a worrying external deficit.** The euro zone has, on the contrary, a high surplus thanks to Germany and the Netherlands, on the one hand, to the restrictive policies that Southern countries have had to implement. **The euro zone exchange rate is undervalued implying the zone should implement a fiscal stimulus and a more restrictive monetary policy**. The United States and the United Kingdom are playing the role of last resort consumers today, but they are protesting against the present states of globalisation.
- According to price-competitiveness indicators (which is however fragile**), Germany has kept a significant part of its competitiveness gains**; Spain and France are at the same level as in 1998 while the positions of Italy and the United Kingdom have deteriorated.

	Competitiveness indicator 1998=100		External balances % GDP
	2008	2018	2019
Belgium	96.1	97.7	0.2
Germany	76.1	81.2	6.8
Ireland	137.1	74.9	8.5
Greece	122.7	104.6	-1.4
Spain	118.6	101.0	0.9
France	97.6	96.0	-0.6
Italy	127.0	123.6	2.5
Netherlands	101.3	99.0	10.1
Austria	86.5	89.7	2.4
Portugal	114.6	105.8	-1.0
Slovakia	168.9	184.0	-0.5
Finland	91.3	92.0	-1.5
EA	94.1	91.5	3.3
Denmark	113.8	109.8	6.3
UK	125.4	116.8	-3.7
Sweden	99.3	97.6	4.1
Czech Rep.	202.2	208.3	-0.5
Hungary	156.4	135.2	-1.2
Poland	135.6	111.4	-1.0
EU	117.7	106.6	2,0
Japan	53.6	48.4	3.6
US	95.6	119.2	_-2.4

Fiscal policy

- **The Commission persists in assessing fiscal policy based on its estimates of potential growth and the output gap. These estimates are fluctuating and questionable. They forget that the increase in the growth rate necessarily results in an increase in investment, growth in labour productivity, and the available population (rise in activity rates, migration).**
- **It is not serious to estimate, for example, that a country like Spain has a positive output gap, with an unemployment rate of 13.5%, stable inflation at 1.2%. These estimates underestimate the expansionary fiscal policy that would be needed. They result in demanding restrictive policies in low growth countries. No policy coordination can be done in the EU until the Commission changes its method.**
- **Corrected by the underestimation of potential growth (if this concept makes sense), it appears that fiscal policy will be slightly expansionary in the euro zone in 2019 and 2020 (0.2% of GDP). Even if German policy becomes less restrictive, no country has announced a recovery plan that takes into account the risk of recession.**
- **Overall, the euro zone would have a deficit of 0.9% of GDP, a structural equilibrium (if the output gap is estimated at -2%) and a primary surplus of 1.5% of GDP. To set the objective of a neutral primary surplus, would leave a margin of 1.5 percentage point of GDP; to set the objective of stabilizing the debt at 80% of GDP with growth of 3.5% would leave a margin of 2.8 percentage points.**

The Commission's estimates

	Potential growth	Output gap
Belgium	1.2	0.2
Germany	1.4	-0.2
Ireland	4.4	2.2
Greece	-0.2	-4.0
Spain	1.4	1.6
France	1.2	0.5
Italy	0.3	-0.3
Netherlands	1.7	1.0
Austria	1.8	0.7
Portugal	1.8	1.3
Slovakia	3.2	2.1
Finland	1.8	0.9
EA	1.4	0.3
Denmark	1.7	-0.5
UK	1.6	0.5
Sweden	2.0	-0.1
Czech Rep.	2.2	0.8
Hungary	3.7	3.3
Poland	4.0	2.3
Romania	3.6	0.6
EU	1.6	0.4
US	2.2	0.9

Fiscal policy

	Fiscal balance		Fiscal impulse	Public debt
	2018	2019	2019	2018
Belgium	-0.7	-1.3	+0.3	102.0
Germany	1.7	0.9	+0.7	60.8
Ireland	0.0	0.2	+ 0.1	64.8
Greece	1.1	0.1	+0.9	181.8
Spain	-2.5	-2.0	0.0	97.1
France	-2.5	-3.2	-0.2	98.5
Italy	-2.1	-2.4	-0.1	132.2
Netherlands	1.5	1.2	+ 0.3	52.4
Austria	0.1	0.3	-0.3	73.7
Portugal	-0.5	-0.5	+0.4	121.5
Slovakia	-0.7	0.0	-0.7	48.9
Finland	-0.7	-0.4	-0.3	58.9
EA	-0.5	-0.9	+0.2	87.1
Denmark	0.5	0.3	+0.9	34.1
RU	-1.6	-2.1	+0.5	86.8
Sweden	0.9	0.8	-0.1	38.8
Czech Rep.	0.9	0.7	_+0.2	32.7
Hungary	-2.2	-2.0	+0.4	70.8
Poland	-0.4	-1.4	+1.4	48.9
Japan	-2.5	-2.5	0.0	236.1
US	-6.6	-6.6	+0.2	102.4

Fiscal policy

- It is counterproductive that European authorities cling to the rules of the TSCG, which leads to demand restrictive policies in countries where debt exceeds 60% of GDP (Greece, Spain, France, Italy, Portugal) and to reprimand countries where fiscal effort does not reach 0.5% of GDP (ie Belgium, Spain, France, Italy, Portugal, Finland).
- It goes without saying that fiscal rules should be changed. Many projects are on the table.
- For some economists, new rules can be put in place such as : expenditure growth (excluding unemployment benefits and interest payments) must be lower than potential growth by an amount rising as the debt ratio is above 60% of GDP. But this 60% level is arbitrary, the rule does not take into account the economic situation, a country should be able to increase its structural expenditure if it finances them by structural revenues, once reached the level of 60%,the rule tells nothing about the structural balance level.
- Some propose to remove net public investment from the fiscal balance, who should be in equilibrium. But the rule would be more strict in more MS.
- For us, the rule should be: fiscal policy must only take into account the output gap and inflation and possibly the external balance (but this point requires a European coordination, a country running an external deficit due to the overly restrictive policy of other MS should not implement a restrictive policy).

Fiscal Policy

- Many economists and policy makers consider that the euro area could implement stabilisation mechanisms at the euro area level, managed by a euro area minister, with transfers organized between MS according to their economic situation measured by their output gap or their unemployment rate, and with the possibility to run a deficit for stabilisation purposes. This is an illusion, as the European Commission minimizes the size of output gaps, denies the implementation of discretionary policies and sticks to automatic fiscal rules. Implementing stabilisation tools at the euro area level would be dangerous if, as a counterpart, countries have to abandon stabilisation policies in order to bring their structural budget (as measured by the EC) in balance and should wait for the Commission's green light to implement a stabilisation fiscal policy.
- A two-step procedure is often proposed: The Commission would set the broad fiscal stance of the euro area, and would then verify the compliance of all MS budgets. But this could make sense only if the SGP and the Fiscal Treaty were abandoned, and the full-employment target in the euro area re-affirmed. However, this proposal is irrelevant if euro area cyclical developments and objectives differ too much. Why say that fiscal efforts should be neutral in the euro area if countries with fiscal room for manoeuvre refuse to run expansionary policies, while countries in depression have to fulfil EU constraints?

Fiscal Policy

- **Since 2O12, the Commission proposed to introduce a Convergence and Competitiveness Instrument (CCI): MS would sign an agreement with the EU, committing to implement structural reforms, which would allow them to benefit from a financial reward or from indulgence for their fiscal deficits.** Emmanuel Macron proposed, in 2017, to create a budget for the euro area with three functions (investments for the future, emergency financial assistance and macroeconomic stabilization). In the Meseberg declaration (June 2018), Germany supported the French proposal to set up a euro area budget to promote "competitiveness, convergence and stability". However, the size of this budget is not specified. Expenditure should come in substitution to national expenditure; public debt reduction remains a priority. It is not said that this budget could be run in deficit. The stabilisation function would not mean permanent transfers. Strategic decisions on this budget would be made by euro area MS, but expenditure would be managed by the Commission.
- Eight MS (the Netherlands, Finland, Ireland, Estonia, Latvia, Lithuania, Denmark and Sweden), dubbed the New Hanseatic League, as well as Austria, Belgium, Luxembourg and Malta, criticized the euro area budget proposal; they refuse any increase in EU expenditure and transfers, any EU-level taxation, and far-reaching transfers of competence to the European level. The priority is to meet the requirements of existing fiscal rules and to implement structural reforms at country level.

Fiscal Policy

- In December 2018, the Eurogroup decided that the euro area budget will be a part of the EU budget. It will be limited to a Budgetary Instrument for Convergence and Competitiveness (BICC). No agreement was reached on public investment or macroeconomic stabilization schemes.
- "The Council will each year set strategic orientations on reforms and investment priorities for the euro area as a whole. Later on, the Council will also adopt a Recommendation with country-specific guidance addressed to each euro area MS. The objective will be to support combined structural reforms and investments in euro area MS with the aim to strengthen potential growth and to enhance the resilience and adjustment capacity of euro area economies. Euro area MS will submit, on a voluntary basis, duly substantiated and coherent proposals for reform and investment packages, which will be assessed by the Commission based on transparent criteria. The size of the BICC will be determined in the context of the negotiations on EU's next long-term budget for 2021-2027".
- So, the European institutions will have a new tool for impulsing liberal reforms.

Fiscal Policy

- **Some economists try to promote an « European Unemployment Stabilisation Fund », without permanent transfers.**
- **Transfers are expected to be nil for each country in the long term, and thus may have only a limited impact.**
- **They suggest a reinsurance unemployment system, based on short-term unemployment developments, normalized according to their past volatility, with MS contributions depending on the extent to which they previously resorted to the Fund.**
- **Social transfers cannot be based on complicated mechanisms, so re-insurance would have no direct impact on unemployment benefits, but only an *ex post* impact on the financial equilibrium of unemployment regimes.**
- **The risk is that this mechanism will allow European Commission to intervene in national unemployment system and national labour law.**

.

Fiscal Policy

- The EU needs a specific European budget amounting between 2 or 3% of GDP to finance European projects, European investments and common goods (such as fighting against climate change) by common tax resources (such as a carbon tax and a financial transaction tax), and by euro-bonds issuing.
- These projetcs can be public or private if profitable due to a heavy tax carbon and well targeted grants.
- The articulation with national fiscal policies is not easy (for instance, the carbon tax must be used in each country to help the poorest, in energy precarity, hit by the tax).
- This would facilitate national fiscal policies but this should not be a pretext for adding constraints on national budgets.

About Brexit

- The results of the 23 June 2016 referendum in favour of the United Kingdom leaving the European Union opened a period of strong economic and political uncertainties in the UK, and also in the EU. The UK was expected to leave the EU on 29 March 2019, two years after the UK government officially notified its will to leave the EU, with a transition period until the 31 December 2020, but Brexit was postponed to 31 October 2019, and may be postponed again until 31 January 2020.
- As of today, three issues are possible:

1) After Parliamentary elections, a referendum could decide that the *UK will remain in the EU*. But this “missed” departure would probably translate in weaker British influence. There is no guarantee that the UK will continue to benefit from a rebate on its contribution to the EU and from the agreement negotiated by David Cameron in February 2016. It would be hardly promising for the EU if the UK finally remained reluctantly.
2) This Parliament or the next one can accept *the November 2018 agreement*, with only small changes; the UK and the EU can sign a deep and comprehensive Free Trade Agreement. This issue dismisses the scenario where the UK would become a regulatory and tax haven. It assumes that standards and regulations remain the same in the UK and the EU. It assumes that the UK will not soften its standards, which would lead EU countries to introduce physical border checks (with the specific Irish border issue). The UK must make a trade-off between the freedom to

- 3) **Leaving the EU without a deal would be a huge break.** It could occur on 31 October 2019. A *chaotic* Brexit would induce an immediate strong negative output shock. But such a scenario is unlikely, as it would be harmful for both parties. In the months preceding March 2019, a number of contingency measures have been enacted in the UK and in the EU-27 to limit the short-term effects of a no-deal: planes will continue to fly, trains will be allowed to cross the Channel... One may assume that there would be some sort of agreement in a *no deal Brexit* so as to limit the disruptive effects.
- Due to the WTO most-favoured-nation clause, the UK would have to choose between two strategies: to increase tariffs and introduce non-tariffs barriers (NTB) on imports of EU goods or reduce tariffs for third countries, and not introduce NTB, which would limit the inflationary effects and disruption in production chains. The EU27 could choose between an openness strategy (avoiding to raise non-tariff barriers, signing quickly a FTA, accepting a non-physical barrier in Ireland based on document controls only) and a strict strategy (with checkpoints at the UK-EU27 border), which would be difficult to introduce unilaterally.
- **The UK could however play the card of tax competition (in particular by lowering the CIT rate) and of a regulatory heaven. Brexit would allow the UK to strengthen its liberal model. However, it is unlikely that the UK, already having a very liberal legislation, benefits from a significant growth shock induced by even more liberal reforms.**

About Brexit

- The Sterling would fall, which would reduce the UK loss of competitiveness in EU27 markets. The UK would cut its tariffs on products from third countries, which would reduce the inflationary effect of devaluation. The pound devaluation and lower tariffs on products from third countries would make EU products less competitive in the UK while UK products exported to the EU would suffer from tariffs and non-tariff barriers, but would benefit from the devaluation, so that the costs of a *No Deal* would be split between the EU27 and the UK.
- The Brexit announcement has already an impact on UK activity, but smaller that predicted by UK officials' studies. The pound fell by 15% after the June 2016 referendum. Inflation accelerated (1.5 point in 2 years), which reduced consumption. Companies' investment was affected by the uncertainties on the future relationship between the UK and the EU27. But, even if GDP growth slowed down, the unemployment rate continued to fall and remains very low. The negative impact on GDP may be evaluated between 1.1 % and 2.5%.
- According to recent studies, a hard Brexit could induce a new fall of UK GDP (by 3.5%) and of EU27 GDP (by 0.5%). For the long run, the impact differs according to the studies: CGE models find small effects : 3% of GDP loss for the trade effect, some studies add 2% due to a migration effect, and some studies add effects on productivity growth as large as 5% cumulated in 2030.

About Brexit

- Two remarks to conclude: the accumulation of bilateral trade agreements creates a more and more complicated world trade system; one may advocate the return of unified rules under WTO supervision, which should consider labour rights, social protection, health and ecological standards as the fight against climate change.

- Even if some degree of harmonisation is necessary for standards and taxation, no country should be forced to abandon national sovereignty in order to benefit from advantages of free trade. This advocates for a third circle around the EU for countries linked to the EU by a customs union and a deep free trade agreement: Norway, Iceland, Liechtenstein, Switzerland today, the UK tomorrow and others (Turkey, Morocco, Ukraine, Georgia) later.

All depends of Germany

- Germany is particularly struck by the slowdown in world demand and the lack of industrial dynamism. Its growth has increased year on year from 2.7% in 2017 to 0.4 in 2019. Its industrial production fell by 5.3% in mid-2019, especially the capital goods sector and the automotive sector (12%). struck by the revelations about Volkswagen's practice and the new anti-pollution standards. Germany suffers from Brexit, the slowdown of China and its rise in the range, threats by Donald Trump on the automobile and aeronautics. Fears are growing about missing the turning point in the industry and digital services. However, services and especially construction are better.
- Wage growth accelerated in 2018 (3.7% in 2018, purchasing power 0.7% in 2017, 1.9% in 2018, 1.4% in 2019) and the labor market improved sharply (lowering of minijobs, increase of normal jobs).
- Households benefited from significant fiscal measures at the beginning of 2019 (lower taxes and higher family allowances and pensions, higher civil service wages), but their savings rate increased, weighing on consumption.

All depends of Germany

- Germany must take two important turns, the ecological turning point and the digital turning point. The Merkel Plan for the ecological transition was played insufficient; it forecasts spending of 54 billion Euros (0.4% of GDP) to promote the eclectic car and the renovation of housing.
- Germany enjoys a large public surplus (1.8% in 2019) and an excessive external surplus (7.3% of GDP); its public infrastructure is in poor condition; poverty has developed among retirees. It borrows at negative rates. It recorded a surplus of 45 billion euros in the first half of 2019. However, it refuses to implement a significant fiscal stimulus, considering itself to be full employment. The logical solutions (higher wages and social protection) are not conceivable. In the face of the impending recession, there is hope that Germany will resign itself to a fiscal stimulus. The risk that it reinforces a policy of supply oriented towards competitiveness

All depends of Germany

	2017	2018	2019	2020
GDP	2.5	1.5	0.5	1.2
Private Consumption	2.0	1.1	1.0	1.2
Public Consumption	1.6	1.0	1.5	1.3
Investment	3.6	2.7	2.3	1.7
Exports	5.3	2.2	0.9	2.0
Imports	5.3	3.4	3.0	3.3
Stocks contribution	0.0	0.5	-0.2	0.0

Italie : the sick man

- Italy is the third country in the euro zone. It is also the country that has suffered the most from the creation of the Euro zone: its growth rate decreases from 2.2% to 0.2%. Italy has suffered from competition from low-wage countries which it has not been able to offset by a depreciation of its currency. It suffered from privatization, which destroyed the big public firms. It has suffered from an industrial structure of small enterprises, poorly prepared for technological change.
- Its industrial production has fallen by 14% since 1998. It has suffered from a slowdown in labour productivity growth (which was only 0.1% per year from 2000 to 2018).
- However, Italy has adjusted its current account (with a surplus of 2.5% of GDP in 2018).
- In 2018, it had a deficit of 2.1% of GDP, with a public debt of 132% of GDP and interest charges of 3.7% of GDP (an apparent rate of 3%). Its primary balance has therefore a surplus of 1.6 point of GDP surplus, the problem being the interest rate differential (the apparent rate on French debt was only 1.8%) and especially the low growth rate (1.9 % in value in 2013-18). With a growth of 3%, a deficit of 3% would be enough to slowly reduce the debt;.

Italie : the sick man

- The alliance government between the North Line and the 5-star movement, which came to power in June 2018, deviated from the European constraints and commitments of the previous government by announcing a stimulus policy for 2019, with a budget boost from 0.8 point of GDP and a public deficit of 2.4% of GDP for 2019, far from the original target of 0.8%. The budget included a tax cut of 5 billion euros, or 0.3 percentage point of GDP, linked to the gradual introduction of the flat tax at 15% for SMEs and an increase in public spending, which the overall, it amounts to 9 billion euros, or 0.5 percentage points of GDP, as a result of the introduction of a citizenship pension and a citizenship income, for a total estimated amount of 9 billion euros (0.5 pt of GDP), the reform of the pension reform, an increase in public investment of 4 billion euros in 2019 (0.2 percentage point of GDP).
- This project opened a crisis between the European Commission and Italy. The interest rate differential with Germany rose to 2.8 points (from 1.5), so the government had to reduce its project, limiting the projected deficit to 2.05%. The markets welcomed the new government, put in place in the summer of 2019, slipping the gap to 1.3 point. Even if the projects of the Italian government was questionable. This episode testifies once again to the corset in which are taken the national economic policies.

Italie : the sick man

- Italian growth reach 1.6% sin 2017. It has been flat since the beginning of 2018: the drop in foreign demand has been compounded by political uncertainties. It should hardly exceed 0.5% in 2020. Households, however, benefit from a new income citizenship, but they as businesses reduce their spending due to political uncertainty. The unemployment rate should rise above 10%. Given the economic slowdown, the public deficit should reach 2.4% in 2019, 3.0% in 2020, so that the government has little margin.
- Certainly, there is a consensus for a vigorous policy, make public spending more efficient, fight against tax evasion and corruption, increase the employment rate by encouraging employment, increase competition, launch an industrial policy in the region. South coupled with a reform of the public administration. But who would implement it?

The French situation

- France has experienced weak growth from 2012 to 2016, while hardly complying with European fiscal discipline. In 2017, it was experiencing high unemployment (9.4%), a large public deficit (2.8% of GDP) and a certain external deficit (0.6% of GDP). However, President Hollande implemented some fiscal stimulus during the last year of his mandate, and growth reached 2.3% year-on-year from mid-2016 to mid-2017. He had also initiated a turning point towards a more favourable economic policy for companies (Labour Law, lower taxes and social security contributions for companies).
- Having come to power in June 2017, Emmanuel Macron implemented a programme of liberal reforms: softening labour law, lowering taxes on the richest. However, to prevent the public deficit from rising, he cut some social benefits and increased taxes on pensioners, which led to a sharp decline in households' purchasing power at the beginning of 2018. He also announced an increase in energy taxation. There was no favourable supply shock induced by liberal measures. Due to lower households' purchasing power in early 2018 and higher oil prices, growth slowed in early 2018 and was only 1.1% in 2018. In the second quarter of 2018, the social movement of "yellow vests", caused by the rise in the energy prices and by the feeling of impoverishment and abandonment of the lower classes, has led the government to announce fiscal stimulus measures for 12 billion euros**. in 2019 (0.5% of GDP), for 22 billion** in the future. However, growth remains low (around 1.3%

France : after Macron reforms

- The government launched major reforms (unemployment benefits, pensions, vocational training ...). It did not succeed in cutting sharply public expenditure; it has given up on increasing ecological taxation; it has **undertaken a costly cut in housing taxation, and consequently has had to give up cutting heavily business taxation (the CIT rate will however be cut from 33.3 to 25%, but the cut has been delayed), as well as giving up reducing the public deficit.**
- **Households should see significant increases in purchasing power in 2019 (2.3% after 1.2% in 2018), but they have so far increased their savings rate: tax measures have benefited the richest, economic uncertainty is increased by reforms, consumption still retards on income.**
- **Firms have strongly created jobs since mid-2016, due to growth resumption and lower costs of unskilled jobs. Many firms now complain about hiring difficulties. Labour** productivity continues to grow by around 0.7% per year, allowing employment to rise by around 0.6% per year, but the fall in the unemployment rate (8.5% in mid-2018) is slow (0.5 point per year), due to the rise in the potential labour force.
- Inflation remains moderate: in mid-2019, year on year, 1.3% for inflation, 0.8% for core inflation, 1.5% for average wages. The firms difficulties in hiring did not have an impact on wage increases.
- The corporate margin rate has returned to a satisfactory level. Production bottlenecks remain at a high level in the industry. The investment rate is at a high level. Foreign trade has suffered from a sharp slowdown in global demand.
- France had a public deficit of 2.5% of GDP in 2018. It is expected to increase to 3.1% in 2019 (but 0.9% comes from repayment of CICE debt) and 2.2% in 2020. Given the

The social situation

- In the EU as a whole, in 2019, the unemployment rate fell below its pre-crisis level of 2008. However, the unemployment rate remains dramatically higher in Greece, Spain and Italy; slightly higher for Denmark, France and Sweden. It has fallen especially in Germany and the CEECs.
- In the EU as a whole, the participation rate rose from 75% at the end of 2007 to 78.7% at the end of 2018, having increased in all MS. The employment rate increased from 70.0 % at the end of 2007 to 73.8 % at the end of 2018. However, It has fallen in Spain and Greece. At the end of 2018, disparities are significant in Europe, from 70.5% in Italy to 88% in Sweden for activity rates, from 60 % in Greece to 83% in Sweden in employment rates.
- In most countries, this improvement in employment has been accompanied by an increase in poverty at work, particularly in Germany, Austria, the Netherlands and Spain. However, the minimum wage has risen sharply, in particular in Eastern countries. In Greece, it remains above its 2007 level (by 11% in nominal, by 22% in real terms).

The social situation

	Unemployment rate		Employment rate
	2007	July 2019	2018.Q4
Belgium	7.5	5.7	70.4
Germany	8.5	3.0	78.4
Ireland	5.0	5.3	74.7
Greece	8.2	17.2	60.3
Spain	8.2	13.9	67.6
France	8.0	8.5	71.5
Italy	6.1	9.9	63.1
Netherlands	4.2	3.4	79.7
Austria	4.9	4.4	76.3
Portugal	9.1	6.5	75.7
Slovakia	9.6	5.3	73.0
Finland	6.9	6.7	77.1
EA	7.5	7.5	72.3
Denmark	3.8	4.6	78.4
UK	5.3	3.7	79.0
Sweden	6.1	6.8	83.0
Czech Rep.	5.3	2.1	80.3
Croatia	9.9	7.1	69.5
Hungary	7.4	3.5	74.7
Poland	9.6	3.3	72.2
Romania	6.4	3.9	70.2
EU	7.2	6.3	73.5
Japan	3.8	2.4	
US	4.6	3.7	

The social situation

	In-work poverty rate		Minimum wage (€)	
	2007	2017	14-S2/19-S2	level
Belgium	4.3	5.0	6.2/-2.1	1594
Germany	7.4	9.1	8.1/1.5	1557
Ireland	5.6	5.1	13.3/11.4	1656
Greece	14.2	12.9	10.9/9.3	758
Spain	10.0	13.1	39.6/31.9	1050
France	6.5	7.4	5.3/0.0	1521
Italy	9.3	12.2	-	-
Netherlands	4.6	6.1	9.4/2.2	1636
Austria	6.1	7.7	-	-
Portugal	9.7	10.8	23.7/14.4	700
Slovakia	4.9	6.3	130.0/115.8	520
Finland	5.0	2.7	-	-
EA	7.9	9.4		
Denmark	4.1	5.3	-	-
RU	8.0	8.9	17.1/9.3	1524
Sweden	6.4	6.9		
Czech Rep.	3.3	3.5	67.4/54.3	680
Hungary	5.8	10.2	35.7/23.7	464
Poland	11.7	9.9	29.5/23.8	523
Romania	17.4	17.4	117.6/101.1	446
UE	8.3	9.5		

The social situation

- **Over the long run, poverty rates have tended to increase in the euro area. The rise was strong in Germany, the Netherlands and Sweden, whose model is fragilized. Conversely, the decline was significant in Ireland and Poland. The rate of severe deprivation has significantly decreased, throughout the EU, particularly in CEECs. It has, however, increased in Greece, Italy and Spain.**
- **In 20 years, per capita consumption has increased at a rate of 1% per year in the EU, among which 0.15% in Italy and 3.3% in Poland. The central and eastern countries converged, while Greece and Italy diverged.**

The social situation

	Severe material privation rate		Poverty rate	
	2005	2017	2005	2017
Belgium	6.5	5.1	14,8	15.9
Germany	4.6	3.4	12,2	16.1
Ireland	5.1	5.2	19.7	15.6
Greece	12.8	21.1	19.6	20.2
Spain	4.1	5.1	20.1	21.6
France	5.3	4.1	13.0	13.3
Italy	6.8	10.1	19.2	20.5
Netherlands	2.5	2.6	10.7	13.7
Austria	3.5	3.7	12.9	14.4
Portugal	9.3	6.9	19.4	18.3
Slovakia	22.1	7.8	13.3	12.4
Finland	3.8	2.1	11.7	11.5
EA	6.3	5.9	15.5	17.8
Denmark	3.2	3.1	11.8	12.9
UK	5.3	4.1	19.0	17.0
Sweden	2.3	1.1	9.5	15.8
Czech Rep.	11.8	3.7	10.4	9.1
Hungary	22.9	14.5	13.5	13.4
Poland	33.8	5.9	20.5	15.0
EU	10.8	6.6	16.5	16.9

Consumption by head in PPP

	UE15=100	
	1998	2018
Belgium	111.9	105.7
Germany	106.0	107.4
Ireland	92.5	108.8
Greece	72.1	64.7
Spain	73.1	75.4
France	104.0	104.3
Italy	102.5	86.9
Netherlands	115.9	114.3
Austria	112.4	109.0
Portugal	61.7	61.9
Slovakia	31.3	44.3
Finland	106.0	116.8
Denmark	143.3	139.3
RU	102.0	111.5
Sweden	116.9	123.0
Czech Rep.	39.3	48.4
Hungary	27.9	36.0
Poland	24.4	38.6

To start the discussion

- **For a year, the euro zone has been experiencing a particular economic situation, through a a crisis in its industrial exporting sector rather than a financial crisis.**
- **In the short term, euro zone developments are threatened by four risks: Brexit, which may end in a No Deal exit, an exit with an agreement or a remain; Chinese-US tensions that weaken global trade with the ever-existing risk of tensions between the US and the EU; a financial crisis as the persistence of low interest rates may induce a stock market crash, a real estate crash, a banking crisis or a private debt crisis (but the latter seems unlikely); a political crisis in Italy, which is the sick man of the area and cannot find a way out under the European constraints.**
- **Globalisation and financialisaton increase inequalities of income and status in European countries. Should we add, as a risk, the break in many European countries, between the people and the so-called *elite*, which reinforces the mistrust of peoples about EU institutions and can lead to episodes such as Brexit, the 5-star movement and the “gilets jaunes”/yellow vests movement?**

To start the discussion

- The crisis in the German economy may be an opportunity if it encourages the Germans to abandon wage, social and budgetary austerity policies; it is a risk if Germany reacts by aiming to restore the position of its industrial sector by a competitiveness policy.
- It seems unlikely that the projects currently being discussed to improve European macroeconomic governance will lead to a tangible result. Some are even dangerous like the Capital Markets Union, the CCI, the European risk-free asset.
- The hope is rather in a massive revival of public and private investment, as part of the ecological and energy transition. At the same time, the consensus that could be built around this programme, presented as offering a double dividend - growth and climate, may hide the extent of the transformations needed to be made to fight climate change and protect ecological diversity. It is also necessary to introduce a general and heavy and carbon tax; the structure of production and consumption must be dramatically changed; the decline of some productions and consumptions must be organized.