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The IMF's Take on Eurozone Growth

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The IMF's Global Economic Outlook gives a balanced view on the euro area recovery, expected to proceed 'at a broadly similar pace in 2017-18 as in 2016'. Output is expected to grow by 1.7 percent in 2017 and 1.6 percent in 2018. The modest recovery will rely on a mildly expansionary fiscal stance, accommodative financial conditions, a weaker euro and beneficial spill overs from a likely US fiscal stimulus. At the same time, political risk is on the rise, as elections are to be held in several countries and there is still widespread uncertainty about the European Union's future relationship with the United Kingdom.

The new normal (Ms Lagarde called it the 'new mediocre') is well and truly strengthening its grip on European economies. Persistent low growth however demoralises European citizens who feel left out; in a number of countries, the distribution of income has continued to benefit the highest earners, while lower earners have had to fend for themselves, fighting to preserve existing living standards, let alone advance them; growing disillusionment with globalisation has trickled down to the European project, already in turmoil over its future direction, multi-speed or other.

Persistent low growth can also become self-reinforcing, as negative effects on potential output can be difficult to reverse. Policy makers have shied away from far-reaching (and politically costly) reforms to support a lasting increase in production and employment. While enhancing productivity growth remains key to long-term growth, they have by and large failed to create the conditions that would expedite the rate of technological innovation in the economy, restructure the less efficient sectors with sufficient speed, or reemploy inactive or underutilised resources in a flexible and constructive manner.

The national policy framework remains central to long-term sustainable growth and the political responsibility to upgrade it, when and if necessary, cannot be outsourced. At the same time, for all the European tools that have been created and for all the talk of a European growth strategy, Europe has yet to adopt convincing actions to boost potential output, promote an expansionary fiscal policy where there is fiscal space, and switch to realistic debt management approaches. The IMF paints a rather sober picture for the eurozone's medium term outlook. Projected potential growth could be held back by weak productivity, adverse demographics, and in some countries, unresolved legacy problems of public and private debt overhang, with a high level of nonperforming loans.

Is there a way out of the conundrum? It is difficult to prioritise and map out a route, when there is so much 'noise': on top of current woes, protectionist voices are becoming increasingly audible on this side of the Atlantic, and party platforms could well introduce them into the European mainstream. Scepticism toward trade can be added on to scepticism toward immigration, multiplying the effect and potentially generating scepticism toward multilateral engagement. The idea of global co-ordination, long discredited by ineffective action to back it, has to be taken seriously; potential global spill overs cannot be ignored, nor economic linkages dismissed. In Europe, a good starting point would be to address the imbalances in savings and investment, and to adopt a 'European' strategy to resolve the nonperforming loan burden. At home, there is no room for serious policy mistakes, not when affected earners and communities live under conditions of low and non-inclusive growth.