European Economic Outlook and Policymaking: Seeing Off Inflation and Pivoting to Longer-Term Reforms

OCTOBER 17, 2023

Laura Papi
Deputy Director, European Department, IMF
OUTLOOK FOR EUROPE: INFLATION EASING, GROWTH SLOWING BUT STILL POSITIVE AND EXPECTED TO RECOVER

**Headline Inflation**
(Percentage change; average, YoY)

**Real GDP Growth**
(Percentage change; YoY)
But risks to the downside. Core inflation still high. Wage growth picking up and exceeding inflation in EE.
WAGES IN CESEE ARE STARTING TO GROW IN EXCESS OF INFLATION EXPECTATIONS AND PRODUCTIVITY GROWTH

Note: The bars represent cross-country and time period averages. Contributions based on country-by-country wage Phillip's curve regressions. The neutral unemployment rate is based on an HP filter and held constant post-COVID. The wage expectation term includes inflation expectations and wage catchup to the long-run trends. Advanced European Economies includes AUT, BEL, DEU, DNK, ESP, FIN, FRA, GBR, GRC, IRL, ITA, NLD, NOR, PRT, SWE and CESEE includes BGR, CZE, EST, HRV, HUN, LTU, LVA, POL, ROU, SVK, SVN.
LABOR MARKETS REMAIN STRONG

2.6.2. Unemployment Rate: CESEE
(YoY; percent change)
SOME HIGHER WAGE GROWTH COMPATIBLE WITH DISINFLATION. DECLINING PROFITS COULD HELP HELP

![Graph showing wage growth and profits with inflation data]

Sources: Hansen et al. (2023).
Note: Advanced Europe (excl. CESEE) includes AUT, BEL, DEU, DNK, ESP, FIN, FRA, GBR, GRC, IRL, ITA, NLD, NOR, PRT, SWE and CESEE includes BGR, CZE, EST, HRV, HUN, LTU, LVA, POL, ROU, SVK, SVN.
SUBDUED GROWTH EXPECTED IN THE MEDIUM TERM
PREMATURE CELEBRATIONS ARE VERY COMMON

INFLATION

United States 1973

France 1974

Denmark 1973

Greece 1973

T-3  T-1  T+1  T+3  T+5

T-3  T-1  T+1  T+3  T+5
INFLATION FIGHTING PAY OFFS OFF

Resolved vs. Unresolved

Cumulative over 2-year horizon:
- Real GDP growth rate
  - Resolved
  - Unresolved

Cumulative over 5-year horizon:
- Real GDP growth rate
  - Resolved
  - Unresolved
POLICIES

- Monetary policy needs to finish the job to bring inflation back to target

- Fiscal policy has to consolidate to help fight inflation, prepare for new shocks, and address structural challenges

- Policies that boost supply needed to foster sustainable growth and resilience. EU policies are vital, as is the implementation of RRP.
Thank you