Europe in a Fragmented World

FRANKFURT, JULY 17, 2023

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Soft landing expected, followed by a mild recovery.

Source: Haver Analytics; Eurostat; and IMF WEO projections.
Inflation pushed to worrying levels....

CESEE HICP Inflation 2019-2024
(percent y/y)

Source: Haver Analytics; Eurostat; and IMF WEO projections.
...global factors, profits, and labor costs all contributed.
Fragmentation will remain a disruptive force

Frequency of Mentions of Key terms in Corporate Presentations (Numbers)
This makes disinflation a first order policy priority.
Fiscal policy should help more with disinflation

Source: Haver Analytics; Eurostat; and IMF WEO projections.
Fragmentation potentially costly. Maybe inflationary

Permanent Growth cost from Geo economic Fragmentation
(In percentage points; cumulative)

IMF Estimates: scenario assumes barriers on all commodity trade between the US-EU and China; RoW countries trade either exclusively with the US and EU or with China.

Bolhuis, Chen and Kett (2023) Fragmentation in Global Trade: Accounting for Commodities, IMF WP
But offers also an opportunity to grow

**CESEE value added in exports**
(In percent)

- **76%** Value added by CESEE
- **24%** Foreign Value added

Exports by CESEE
Main messages

Soft landing expected, followed by a mild recovery.

Inflation risks are high and fragmentation a lasting disruptive force.

• Do not ease MP too early. Fiscal policy should be more ambitious
• Be prepared that fragmentation could add to inflation and lower growth—
• Take steps to withstand downsides and reap benefits:
  > Durably attract FDI – governance and transparency can help
  > Retain strong banks – avoid adding distortions
  > Strengthen and grow labor force: upskilling employment matching
Thank you