



**EUROPEAN
DEPARTMENT**

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

OCTOBER 17, 2023

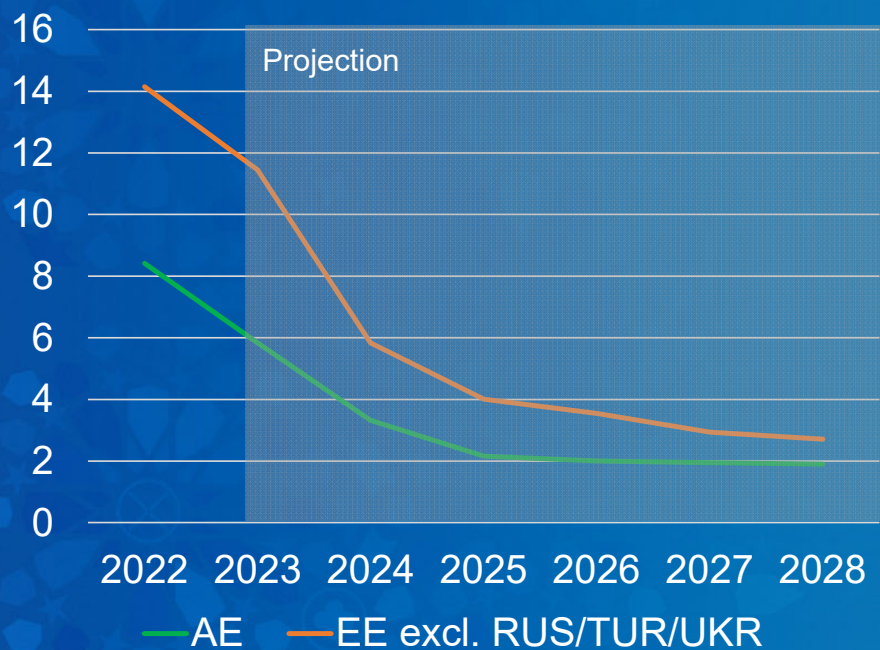
Laura Papi

Deputy Director, European Department, IMF

OUTLOOK FOR EUROPE: INFLATION EASING, GROWTH SLOWING BUT STILL POSITIVE AND EXPECTED TO RECOVER

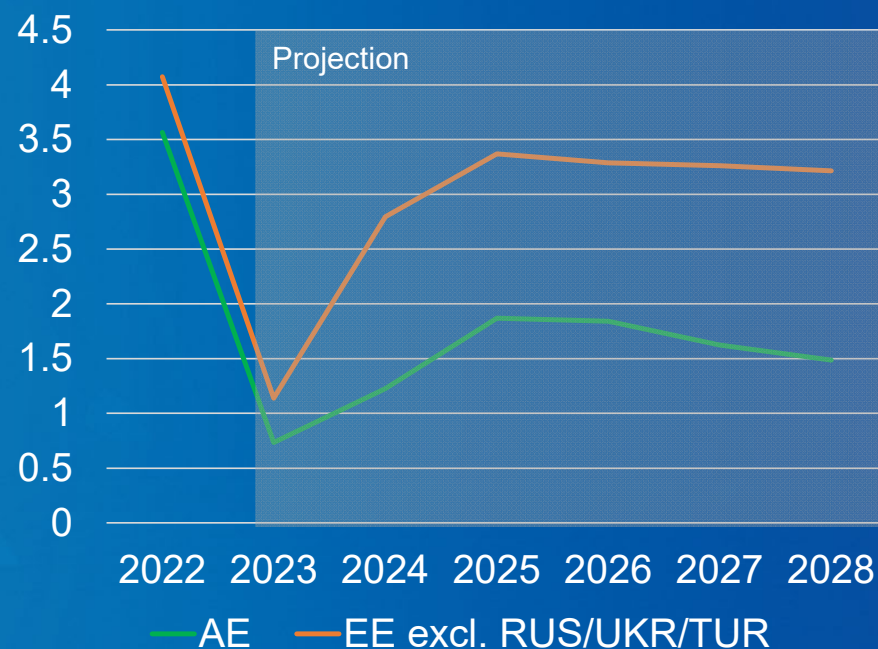
Headline Inflation

(Percentage change; average, YoY)

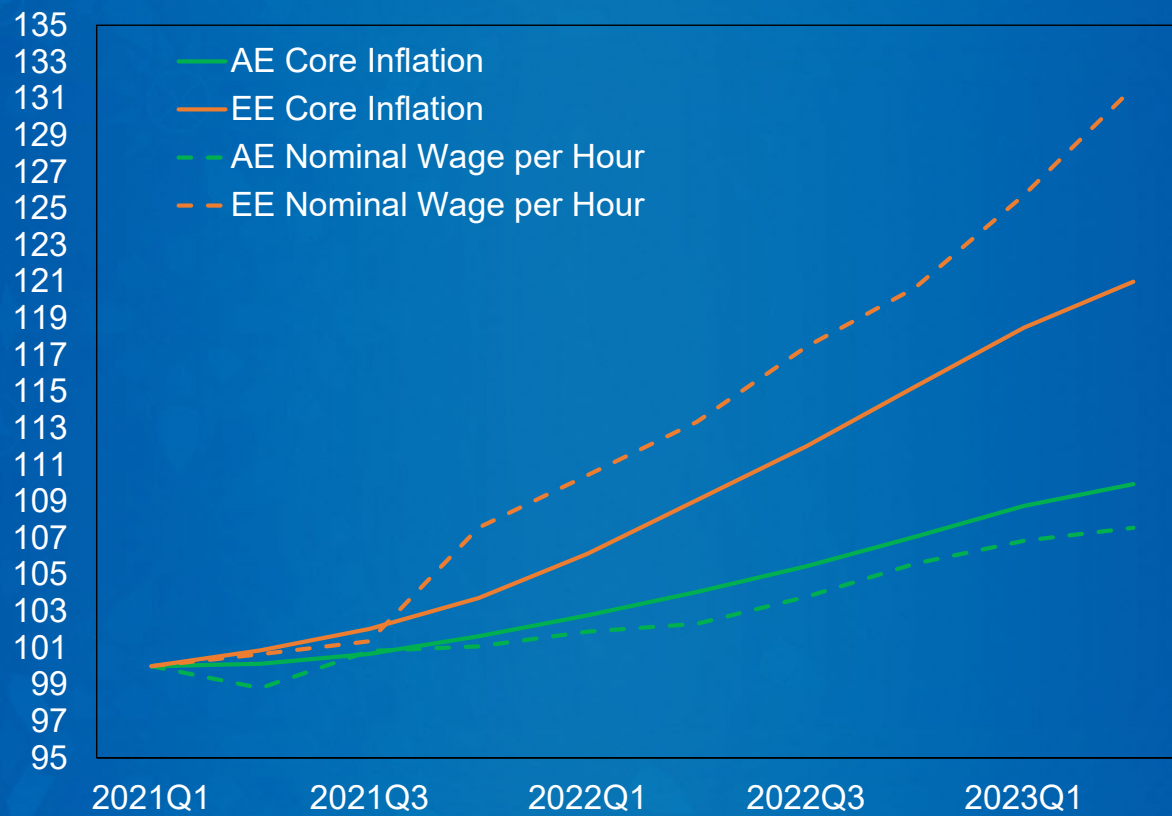


Real GDP Growth

(Percentage change; YoY)



BUT RISKS TO THE DOWNSIDE. CORE INFLATION STILL HIGH. WAGE GROWTH PICKING UP AND EXCEEDING INFLATION IN EE



Note: Due to data availability, Emerging European Market Economies (EE) includes ALB, BIH, BGR, HUN, KOS, MKD, MDA, MNE, POL, ROU, SRB

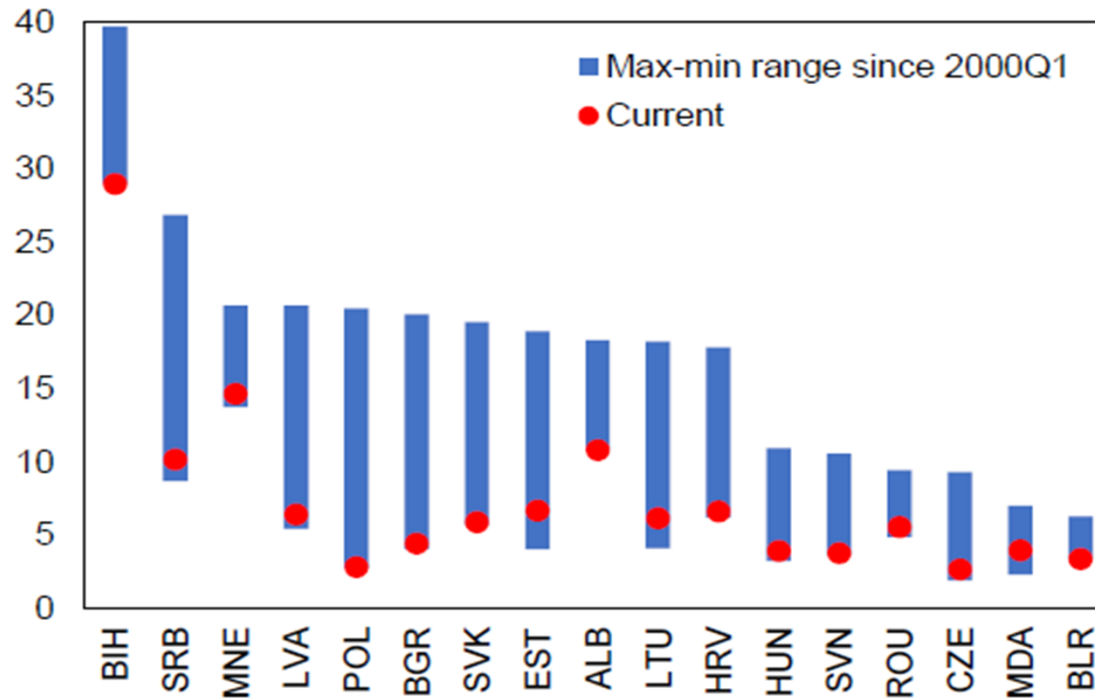
WAGES IN CESEE ARE STARTING TO GROW IN EXCESS OF INFLATION EXPECTATIONS AND PRODUCTIVITY GROWTH



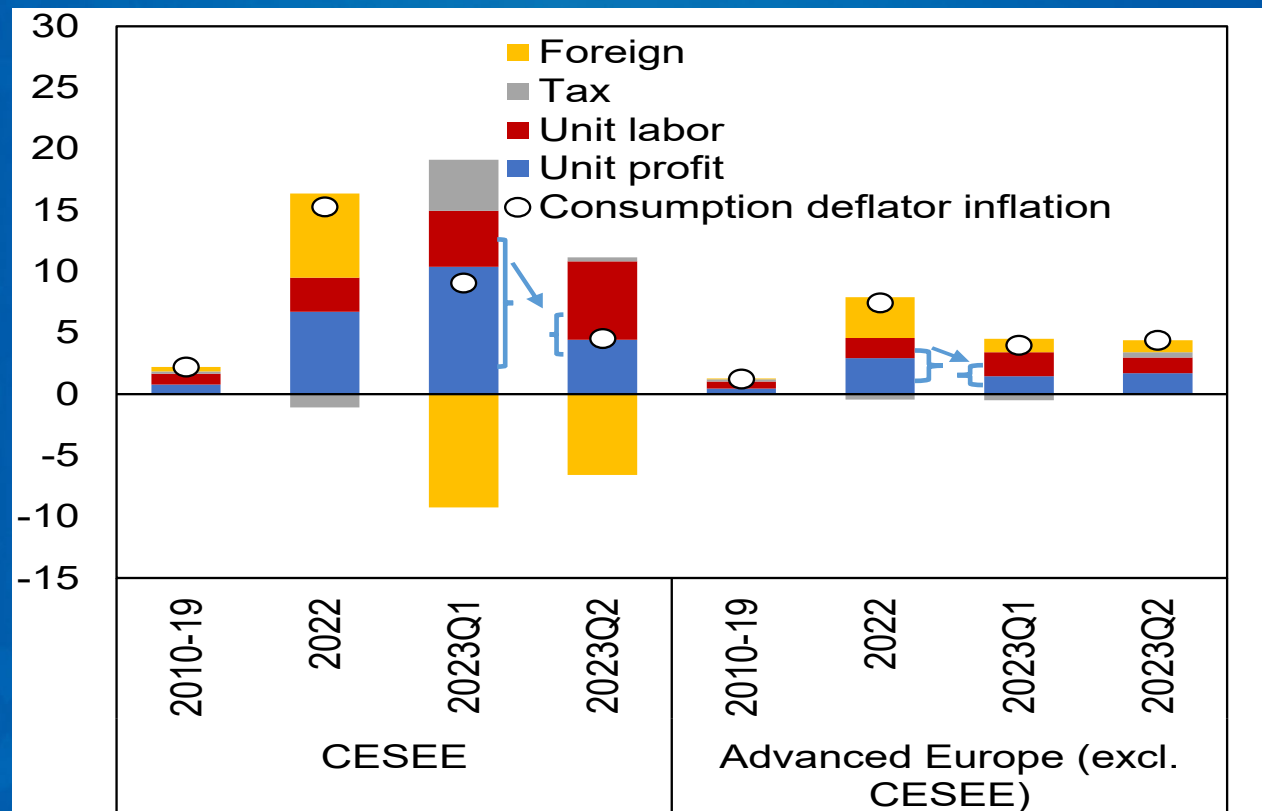
Note: The bars represent cross-country and time period averages. Contributions based on country-by-country wage Phillip's curve regressions. The neutral unemployment rate is based on an HP filter and held constant post-COVID. The wage expectation term includes inflation expectations and wage catchup 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

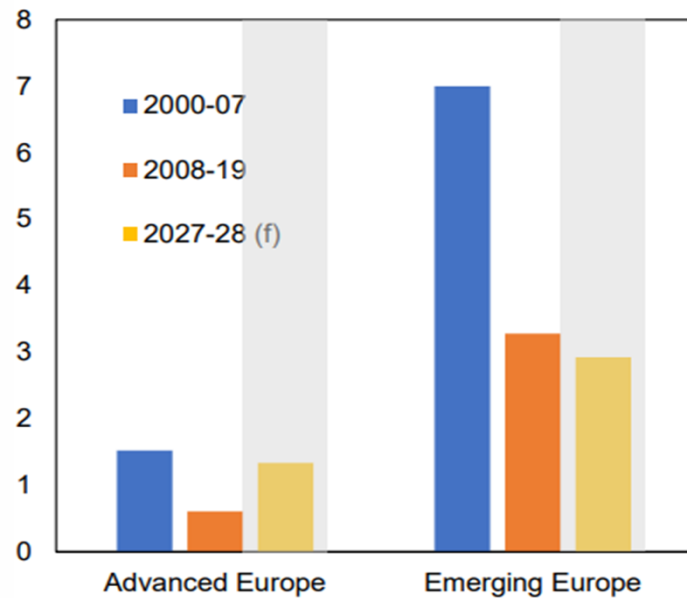


Sources: Hansen et. al. (2023).

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

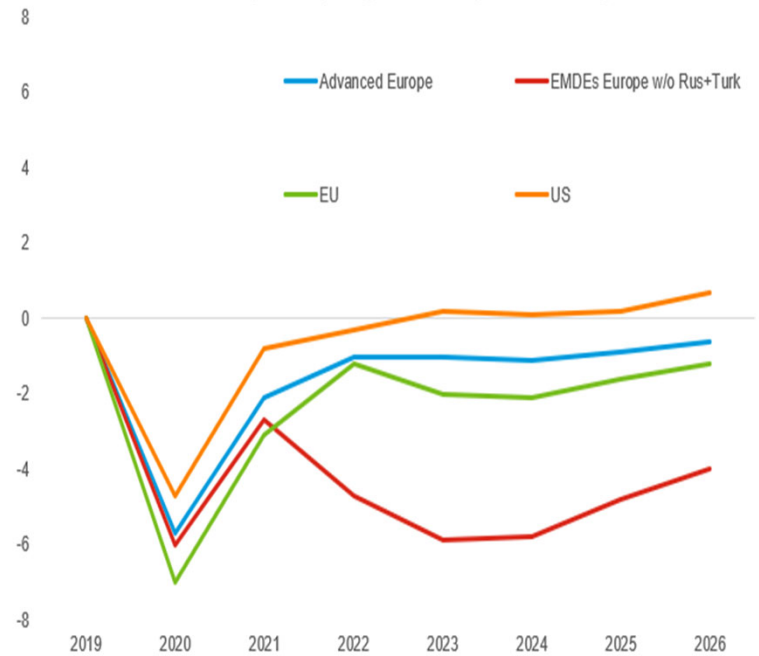
GDP per-capita Growth (percent)



Sources: Eurostat, World Economic Outlook, and IMF staff calculations.

Note: GDP PPP weighted average for advanced Europe and Emerging Europe (EE). EE sample excludes BLR, BIH, UVK, MDA, RUS, TUR, UKR.

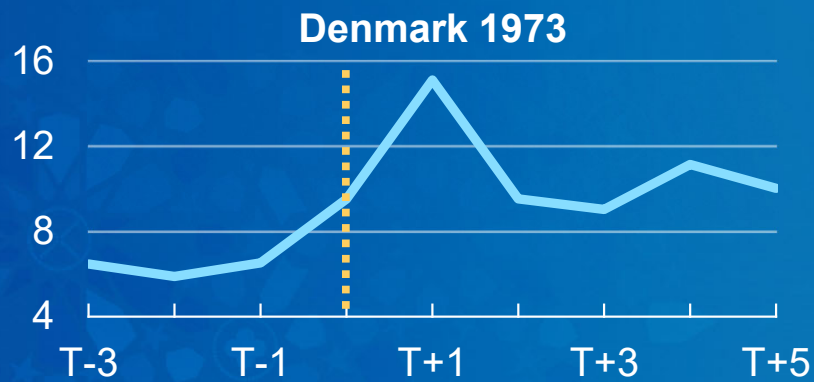
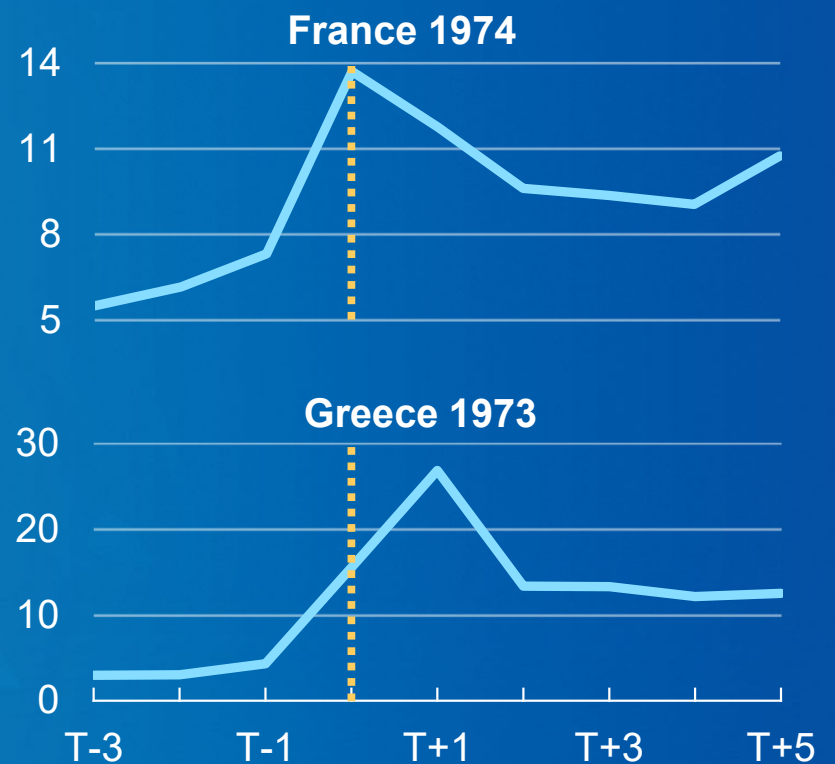
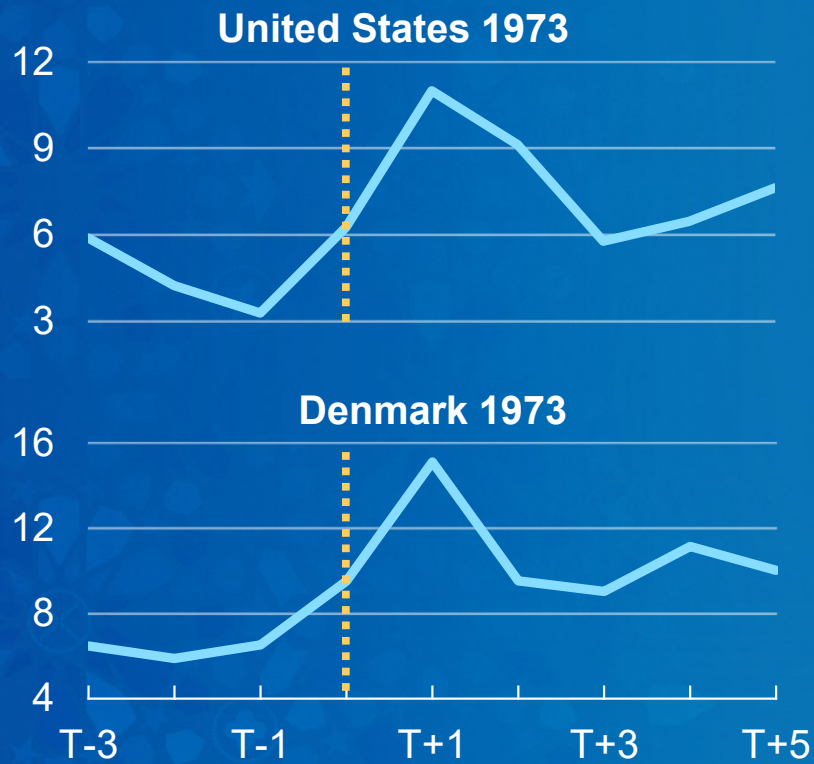
Scarring – Output Loss Relative to the Pre-crisis Trend (Percent, compared to the pre-Covid trend)



POLICIES

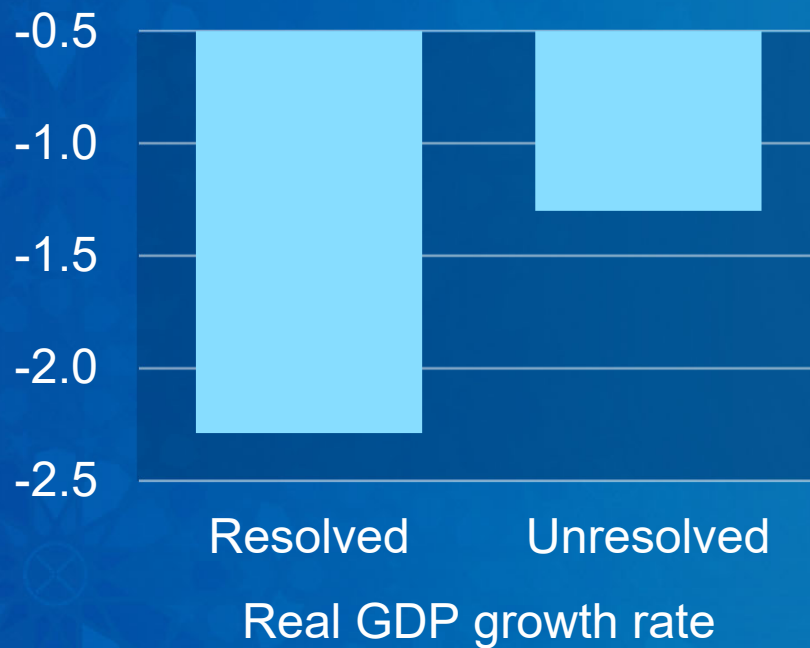
PREMATURE CELEBRATIONS ARE VERY COMMON

INFLATION



INFLATION FIGHTING PAYS OFF

Cumulative over **2-year** horizon



Cumulative over **5-year** horizon



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 RRPs.**



Thank you