

Sclerotic no more

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Annualised growth of 2% last quarter, levels of confidence close to all-time highs, industrial production and exports on the rise, consumer indicators strong, unemployment rate falling for more than three years... Utopia? No: recent indicators for the euro zone, which is not exactly conforming to the narrative of sclerosis and decadence so much talked about within and beyond its borders.

The recovery is based on factors that have been present for several years. On the one hand, the margin of growth following the crisis, which took the unemployment rate to 12% and caused investment to fall by nearly 15% relative to its level in 2008, was very wide; on the other hand, monetary conditions have been very favourable since at least 2012, practically eliminating the risk of deflation and leading to a recovery in lending; furthermore, in the past few years fiscal policies ceased to be contractive after a long period of adjustment. Added to all this is a recovery in international trade in the second half of 2016, which is having a positive effect on exports. Thus the euro zone, which grew by 1.9% in 2015 and 1.7% in 2016, is expected to grow by around 1.6% a year over the next two years. These figures may not seem very high, but they are above the zone's potential growth. (We should not forget that its population is stagnant). In GDP per capita it returned to 2008 levels as long ago as 2015, and if we compare GDP per working age population, which is a good approximation to an economy's use of productive resources, we are 21% above the 1999 level (the same degree of progress as that shown by the US economy).

Obviously this panorama is not without risks, and the last few years counsel particular caution. The winds of protectionism at global level may affect Europe more than other regions given the openness of its economy. Inflation is picking up, although in principle this is merely a return to normality, and core inflation is still low. The near stagnation of the Italian economy is worrying, and Greece's problems are still unresolved, as evidenced by the recent disagreements between the IMF and the Eurogroup.

But the biggest risk is the political one, which is going to be very much to the fore over the coming twelve months, since several political parties are proposing leaving the euro or the Union as the solution to all the problems. It is perhaps an irony of fate that these proposals should be so popular just when the economic recovery is becoming clearer. Although it also ironic that the more populist "solutions" should have come about first in the English-speaking countries, which have been most critical of Eurosclerosis.

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