The European economy has gradually moved clear of the recession and austerity that have dominated the past ten years.

But how important will the economy be in the minds of Europeans as next May’s European Parliament elections approach?

This Special Report looks at how stable Europe’s economies are and questions whether the citizens are seeing the benefits of the recovery. It also examines the risks of a looming trade war with the United States, Brexit and how populists are seeking to exploit economic fears.
European elections amid a looming economic storm

Economic growth, migration and EU elections – a strange mix for Romanian voters

Papadimoulis: The next EU elections are crucial for the future of European unification

German economy booms but Brexit and US clouds are on the horizon

European funds: What next for the Polish economy?

French people barely comforted by positive economic conditions
The slowdown of Europe’s economic growth and the risk of a new recession if the ongoing trade war worsens could steer the political agenda in the run-up to next May’s European elections.

When voters went to the ballot box in the last European elections in 2014, the EU economy was coming out of the woods after suffering the most severe recession in the history of the Union.

The European economy’s growth remains “solid”, but faces headwinds as May’s European elections approach. [European Commission]

But if member states were coming out of the hole in 2014, this time around they may be nearing a new one.

Institutions, analysts and economists agree that European output is losing steam. Following a better-than-expected 2017, the economy is slowing.

The alarm bells are not sounding yet, because the engine of internal demand is still working.

But an increasing choir of voices are starting to point to 2020 as a critical year when this expansionary cycle may come to an end.

It could be before, an EU source pointed out, if external risks, in particular, the global trade war deployed by US President Donald Trump, continue to worsen.

In 2014, the EU economy grew
at 1.8%, and the eurozone at 1.4%. Next year, the EU 27 countries (without the UK) are expected to grow at 2.1, according to the European Commission forecast published in July.

The EU executive revised downwards expected grow for this year and the next, given that the economy is starting to decelerate and the trade dispute is already denting global growth.

“I don't want to underestimate downside risks, they undoubtedly exist”, especially the trade disputes, but “we are still on this cycle of expansion so we are not expecting any kind of catastrophe”, the Commissioner for Economic Affairs Pierre Moscovici commented in July.

The raw economic numbers are promising. All European economies are growing, unemployment is falling across Europe and public deficits are below 3%.

Since 2013, 9.2 million jobs have been added, although in some countries and sectors, employers still find it difficult to hire workers.

European Central Bank chief Mario Draghi told EU leaders on Thursday (18 October) that, when it comes to the labour market, the end of the cycle is nearing, given the difficulties in some member states to find workers.

The positive side effect is that the scarcity of skilled workers is pushing up salaries. Annual growth in negotiated wages in the eurozone increased from 1.5% in 2017 to 2.2% in the last quarter.

But the loss of economic steam is coming in parallel with piling external risks and a large number of potential triggers of the next recession. For analysts, China’s high debt level is a worrying factor.

In Europe, meanwhile, the bitter clash between Italy and its EU partners over Rome’s budget for next year could also bring a repeat of the market turmoil seen in 2011 and 2012.

But investors and experts agree that crises always come from unexpected flanks, the “unknown unknowns” as Donald Rumsfeld once said.

Extreme parties and populist forces have been on the rise across Europe in recent years despite the robust economic figures. Their numbers could only improve once the consequences of the slowdown start to kick in.

In the last Eurobarometer, published last week, the number of citizens who consider that things are moving in the wrong direction in Europe started to increase again after two years of decline. Today, half of Europeans are unhappy with the direction Europe is heading.

In recent years, economic dissatisfaction has proved to be a powerful force to shake up the political landscape in Europe and elsewhere, from the ‘Indignados’ movement in Spain to Occupy Wall Street or the Arab Spring.

Extreme parties are starting to turn back again to the economic agenda to throw their punches.

The leader of far-right Lega in Italy, Matteo Salvini, attacked Brussels’ “politics of austerity” when he launched a new political platform together with French nationalist Marine Le Pen.

Their punches will only hit harder if the numbers start to turn red again.
Economic growth, migration and EU elections – a strange mix for Romanian voters

By Bogdan Neagu | EURACTIV Romania

Romania’s government boasts about the largest economic growth in the EU, while Romanian people are leaving the country in large numbers. But something has changed compared with the previous decades – this time it’s not only the poor who are leaving but also highly educated and high-skilled persons.

Can the EU elections in 2019 change the trend or, on the contrary, will the pace of migration intensify, considering the anti-European statements of some politicians?

Romania, like other eastern European states, has been an attractive destination for foreign investors since joining the EU in 2007. The 2006-2008 period was the best for Romania in terms of foreign direct investment inflows, but the financial crisis hit the economy and investors’ interest.

Therefore, from annual inflows of over €8 billion before the crisis, FDI flows dropped abruptly to some €2 or €3 billion between 2009 and 2013 and reaching €4.8 billion in 2017, or about half of the 2008 peak.

The post-crisis slow rise of foreign investment went hand in hand with economic expansion. In recent years, economic growth accelerated, fueled by a rapid rise in private consumption due to tax cuts and salary increases, which were, however, criticised by both economic analysts and the European Commission.

In 2017, Romania’s economy grew by almost 7%, the largest GDP growth in the EU, but the consumption-fueled rise won’t last. This year, the economic growth slowed to a more pedestrian 4%, still robust but below the Government’s forecast.

But the rapid economic growth hasn’t brought a similar rise in wellbeing. Income levels are still modest compared with the European average, despite the salary rises in recent years, and a large part of the population is at risk of poverty.

Romania is one of the three EU member states (the others being Bulgaria and Greece) where more than a third of the population was at risk of poverty or social exclusion, with 35.7% of Romanians in that situation, according to Eurostat.

But, besides the poverty and the unfavourable economic conditions during the crisis, there must be other grounds for migration, such as disappointment with economic and social conditions or a lack of personal development options, according to...
Continued from Page 6

Claudiu Tufis, deputy dean of the Political Sciences School at Bucharest University, points that, as Europeans are mostly preoccupied with social inequality, migration and unemployment, people in Romania are less interested in inequalities.

“In Romania, social inequality is on the third spot but is a rarely heard subject. The economic growth and migration are at the top of the public agenda”, said Tufis.

The government hopes it can bring back at least some of those who left, but analysts are sceptical, saying just the economic relaunch won’t stop migration. In 2017, a year which saw economic growth of 6.9% and very good news for Romanian wallets (with salary and pension increases, and tax cuts), more than 220,000 people left the country, according to the statistics office.

So, despite any fiscal incentives and low costs, some investors have fled Romania due to the brain drain, which has caused a lack of qualified workforce. PwC estimates the economic losses due to skills shortages in Romania at 6% of GDP, or €10 billion in lost revenue for private businesses.

In this context, next year’s EU elections could provide the ideal platform for talks about migration, although one can expect local issues to be more vividly discussed during the electoral campaign than international subjects.

“I believe the main themes will be national and ‘national in European context’, at most. Which are the subjects that put Romania on fire? Corruption, obviously, but also the migration as, on average, nine Romanians leave the country each hour,” said Catalin Ivan, a Romanian MEP who recently left the Socialist and Democrat group.

On the other hand, multiple “statements of independence” from the EU by high profile politicians seem to have awoken a Eurosceptic movement in Romania. According to the most recent EU public opinion survey conducted by the European Parliament, only 49% of Romanian people consider their country’s membership of the European Union to be a good thing, a drop of 10 percentage points from the April survey.

However, 43% of Romanian citizens hold a positive view of the European Parliament and 63% of them would like a bigger role for the legislative body. Moreover, the survey also showed an increased interest and awareness of the 2019 EU elections.

Economic subjects are high on the people’s agenda, although politicians don’t think the economy will be much debated during the campaign. “In Romania, we will discuss more about corruption, justice, and less about the economy,” said MEP Marian Jean Marinescu (EPP).

But the Parliament shows that the Romanian citizens’ campaign priorities are the economy (53%), youth unemployment (44%), followed by promoting human rights and democracy (38%), consumer protection and food safety (36%) and social protection (35%).

The odds for the domestic agenda to dominate the EU elections campaign are quite high, because internal politics is more familiar to both journalists and the public, said Victor Bostinaru, vice-chair of the S&D group in the European Parliament. “Moreover, this kind of subjects can generate conflicts and breaking news,” Bostinaru explained.

“It’s only that, this time, the EU elections are crucially important for the survival of the Union itself and, as a consequence, of our country’s position and role in the European Union.”
There is a need to form progressive alliances to tackle critical issues such as immigration, social inequalities and inefficient economic policies in the run up to European elections 2019 stressed the Vice-President of the European Parliament and head of the SYRIZA delegation, Dimitris Papadimoulis, in an exclusive interview with EURACTIV Greece.

Dimitris Papadimoulis spoke to Euractiv Greece’s, Eirini Sotiropoulou.

What should be the EU’s priorities after the European elections?

The challenges and priorities that we have ahead of us are specific and of paramount importance. There are three main pillars for progressive forces in the EU.

The first pillar is to combat social, regional and income inequalities.

The second pillar is the emergence of an alternative economic and developmental model that affects many people, the large social majority, the social groups that have been afflicted and continue to suffer from the consequences of austerity and recession policies.

The third pillar concerns the promotion of institutional reforms, which are necessary in order to enhance the democratic functioning, transparency and accountability of European institutions, to promote tax harmonisation, to increase investment and better and more efficient distribution and exploitation of the EU funds among the Member States.

The promotion of the above agenda calls for widespread alliances, progressive on social issues, even more widespread in terms of democracy and in particular recognition of the critical environment in which the EU and European societies are located.

How do you evaluate the EU’s response of migration crisis so far and what can the EU do about countries like Poland and Hungary who are unwilling to take their share of the burden?

The EU has so far failed to give a convincing European response to

Continued on Page 9
Continued from Page 8

the refugee crisis and to develop a coherent policy on legal immigration. With the main responsibility of the Council and of certain Member States, with the tolerance of the Commission, the conflicting national interests of many member states, as well as the far-right demagoguery, which is also being adopted by a significant part of the conservative political forces, make it difficult to form and implement an effective policy on refugee and migration issues.

The European Parliament exerts a positive pressure on the refugee crisis for European solutions. The responsibility of the Left is to constantly push for a better and fairer management of the issue, for the benefit of both refugees and immigrants themselves, as well as member states and local communities. It is embarrassing for our European culture, that the EU of 500 million people cannot integrate 1-2 million refugees and offer them a better and safer future.

The EU cannot go forward without coherent policies, without solidarity, without a fair sharing of burdens among member states. As member states, we have not only rights but also obligations and this is something that many political leaders forget.

Various analysts have warned about a possible Germanization of Europe, arguing that if the new President of the European Commission is a German, then the general bias is once again confirmed - namely that the EU is a German entity. What is your opinion about this?

Manfred Weber is unsuitable for President of the Commission because he is very conservative and not just because he is a German from Bavaria. The policies that have been implemented over the years have affected social cohesion, worsened inequalities, reinforced de-investment in many European regions and strengthened Euroscepticism and far-right forces.

The responsibility of the German governments over the years is clearly great. However, the rest, especially the largest and most powerful member states of the Eurozone, have a significant share of responsibility because they did not try to change the course of the European project and did not ignore the destructive austerity policies. This responsibility lies on the conservative political forces, as well as a large part of the social democrats that followed and served neo-liberal policies.

For us, the political progressive powers that imagine a different Europe, the opportunity and challenge is to change political correlations and promote sustainable development policies. The next European elections in May 2019 are probably the most important for the future of European unification.

How do you see the future of transatlantic relations after the trade conflict with the USA? Is there any scope of cooperation from now on?

Clearly there is a scope of cooperation, despite the fact that there are no appropriate conditions at this time.

And of course, it is important to avoid a trade war and a new wave of protectionism that will hit both sides.

The EU and the US are strategic allies and must strengthen their relations at all levels, against the complex geopolitical challenges we face. Different approaches to the issue of Iran’s nuclear program, the Palestinian issue, trade cooperation, relations with China and Russia need to be mitigated, as the priority is to ensure peace, stability and growth for our societies and for our wider geographical “neighborhood”.

What will be the impact of Brexit? Is a ‘velvet divorce’ feasible?

It is difficult but necessary. I am worried about delays because they are producing uncertainty.

The important thing is to find a viable solution that protects the interests of European citizens in Great Britain and at the same time will not have punitive features for British citizens. The deal must be win-win, aiming at maintaining and developing the best possible relationships.

Brexit is a major issue that still has a way to go and in the coming years we can more safely assess the wider implications for Europe.

Euroscepticism and populism are on the rise. What further steps should be taken in order to bridge the ‘democratic deficit’?

It is necessary to establish a strong, progressive and democratic front, capable of uniting in common objectives all those political and social forces that are opposed to the far-right turn in the EU and the intention of a significant wing of the EPP to cooperate with far-right representatives, such as Salvini and Le Pen.

Against these forces of obscurantism and regression, we must form wide alliances, on a single, strong, broad and democratic front, capable of promoting European unification and a better and fairer future for our societies.

Neoliberal policies fuel nationalist proliferation, xenophobia and social division. They constitute an explosive policy mix that has completely weakened social and regional cohesion, which pushes the European project back into the dark 1940s.
German economy booms but Brexit and US clouds are on the horizon

By Florence Schulz | EURACTIV Germany

Germany’s Minister for Economic Affairs and Energy Peter Altmaier presented the German government’s autumn projection to journalists last week in his customary sober manner. “The German economy is going through the longest period of upturn since 1966,” he said.

The forecast he made for the German economy sounded near flawless. While economic growth is predicted to slightly drop by 2020, wages will rise, as will consumption, there is supposed to be greater investment again and Germany will head towards full employment.

Germany has recovered well from the euro crisis but not all eurozone countries have fared so well. Many states are still struggling with high unemployment – almost one in five Spaniards are still looking for work. Italy, meanwhile, is sitting on the eurozone’s second biggest mountain of debt and is still planning expensive social reforms.

In Germany, however, there has been such a big upturn since the 2009 euro crisis that the economy is setting records again.

“Ten or fifteen years ago, nobody could have imagined that our economy would look like it does now,” says Jürgen Matthes from the German Economic Institute. He sees the catalyst in the so-called “Agenda 2010” reforms under Social Democratic Chancellor Gerhard Schröder, which created a low-wage sector and gave the German economy greater competitiveness.

Continued on Page 11
German export capacity continues to benefit from those reforms today, Matthes added.

However, Germany’s competitiveness is repeatedly the subject of criticism at the international level. The country has recorded the world’s largest trade balance surplus for three years in a row.

US President Donald Trump is not alone in being bothered by this – “the Germans are bad, very bad” – the IMF and the European Commission complain repeatedly that Germany should adhere to the 6% trade balance surplus, as specified by the EU. Higher figures endanger the eurozone’s stability – a painful lesson learnt from the euro crisis.

There are also other member states crossing the 6% line. For instance, the trade surpluses of Ireland, the Netherlands and Malta were significantly higher. However, in absolute numbers, the German export capacity stands out far beyond the European mean. The data from the first quarter of 2018 illustrates this difference: Austria, in second place, had a surplus of €5.3 billion. In contrast, the German export giant achieved €71.5 billion.

Germany’s extremely ‘positive’ trade balance is the result of exporting its goods on a massive scale without importing to the same extent. The problem is, some argue, that other states import too much as a result and are pushed into the red. In other countries, the demand for its own products is restrained because German products have been asserting themselves through their high competitiveness.

Moreover, Germany benefits from a relatively weak euro. Added to this is the typically German characteristic of wanting to save money. The state is building large reserves and, according to the Ifo Institute, private investors have deposited around €63 billion abroad, rather than putting this into circulation.

At the German Economic Institute, and within the German government, the surplus is not necessarily seen as a bad thing.

“However, we wonder why the surplus is still so high since Germans have been consuming more again for several years. Businesses are investing less dynamically than previously but the degree to which this is having an impact it is not very clear,” said Matthes.

He added that in order to encourage Germans to invest, there needed to be political incentives, such as less bureaucracy, lower corporation taxes and better conditions for investment. In particular, public investment was also required, according to Matthes.

“The German government is still resting on the achievements of Agenda 2010. Overall, nothing very reasonable is coming out of the ‘Grand Coalition’ that would address the investment problem.”

Of course, the German government sees this differently. The National Reform Programme 2018 underlined that the government has taken measures to strengthen domestic demand. For example, there have been reductions in income tax and social security contributions.

In addition, Matthes states that the state is, of course, unable to influence certain factors, such as the price of oil or the high competitiveness of “Made in Germany”.

Setting out the autumn projections, Minister Altmaier insisted that his hands were tied: “We don’t want to prevent our companies from bringing to bear their competitiveness on the international markets.”

He considered greater investment in infrastructure or innovation to be absolutely vital but this would not automatically result in other economies benefiting.

The fact that Germany’s export surpluses have been defying the Commission’s recommendations and warnings for years while the EU rejected Italy’s draft budget just this week, plays into the hands of populist parties. With the EU elections approaching, they speak of hypocrisy and criticise Germany’s alleged supremacy in the EU. Such rebellion again the “EU establishment”, as seen in Italy these days, could become a popular election campaign tactic, some say.

Nevertheless, Altmaier has revised downwards his forecast for the German economy – and also its trade balance. “The central risk is the further escalation of the global trade war, which could also hit German exports hard,” he said. Mentions were also made of Brexit and the economic crises in Turkey and Argentina.

Exporting a lot of goods means that the German economy is heavily dependent on international events. Industry representatives are accordingly concerned about Brexit.

In the event of a hard Brexit, which could involve tariffs, trade barriers and exchange rate effects, Germany could suffer heavy damage as an exporting country. The German Economic Institute has calculated that exports to the United Kingdom could initially decrease by up to 57%.

The question is what will happen to the German trade balance surplus – and will German products then be exported more strongly into other member states? This would be particularly bad for southern EU countries.

Finance expert Matthes considers such a scenario “tends to be possible” though he added that nobody could know for sure. “But I suspect that even the car industry would be able to adapt quite well. The German industry has proven to be relatively flexible.”

Despite the export sector’s vulnerability, Matthes said, the German economy is “relatively resistant to crises.”
European funds: What next for the Polish economy?

By Michał Strzałkowski | EURACTIV.com

European funds were one of the factors that helped Poland avoid the serious effects of the financial crisis. Negotiations on the new seven-year financial framework have already begun in the European Parliament. The outcome could have a major effect on how Poles vote in next May’s elections.

The vast majority of Poles – 87% in fact – think that their country’s membership in the European Union is beneficial. This is much higher than the EU average of 62%, according to the latest Eurobarometer survey.

The people who appreciate EU membership tend to point to the economic benefits that it brings. 46% of respondents said that EU membership is beneficial for Polish economic development, 42% add that European integration has opened up new professional opportunities for Poles.

Some 36% see an improvement in the quality of their lives. It is not surprising then that if there was a referendum on Poland’s membership in the EU now – 71% of Poles would vote for staying in. Only 11% would be against it.

This is one of many studies showing that Poles are among the strongest euro-enthusiasts across the EU. This is largely due to the volume of European funds that have been flowing into the country – even before its accession to the EU. Poland is, among others, the largest beneficiary of cohesion policy in the entire Union.

As has recently been reported by the Polish Ministry of Finance, the net settlement balance between Poland and the EU budget exceeded €100 billion in June. €150.2 billion came
from the EU budget, while Polish contributions amounted to €49.3 billion. Only €169 million had to be returned to the EU budget.

When the financial crisis hit almost all member states in 2008, Poland was for a moment the only country in the EU whose GDP did not shrink. The state managed to avoid a serious recession, and the government at the time described it as a "green island" (of economic growth).

Domestic demand remained at a high level. Poles did not get scared and did not limit their consumption. Having a domestic currency and maintaining its low exchange rate supported export. But European funds that fed the economy also played a role.

Jan Olbrycht, an EPP member of the European Parliament’s Budget Committee, sees three main elements of the impact that EU funds have had on Poland.

“First of all, it is supplying the Polish market with a lot of money for investments. This money significantly facilitates investments and significantly feeds investment budgets.”

“Secondly, there is an element of leverage. If public funding is involved in any investment, and also coming from an external budget, then the credibility of the enterprise rises. MEPs from more developed states, which are net contributors, also point it out. European funds can open many different doors,” said Olbrycht.

There is one more element, he added, “the fact that European funds carry instruments for planning, evaluating or controlling expenditure”.

“They changed how the public administration works and how it conducts investments or controls the implementation. And this is just as important as the investments themselves. We have seen a great improvement in this area in recent years. It was very useful to us,” he stressed.

Another Polish MEP who sits on the Committee, Zbigniew Kuźmiuk (PIS, ECR), also sees the very positive effect that EU funds have had on the Polish economy. However, he does not see this as a significant cause of Polish resistance to the financial crisis.

“All countries received the European funds then. Most helpful to us was the fact that we were not a eurozone member. Our currency was our shock absorber. At that time, export was an engine of the Polish economy,” explained Kuźmiuk.

“But the impact of European funds is huge. Thanks to them, we are making up for infrastructural backwardness and we are protecting the environment better. The ministry of investment and development published last year an analysis of the impact of EU funds on, for example, the GDP. It was at least 0.5 percentage point each year,” he said.

Data obtained from the ministry show some other things as well. The difference in GDP per capita between Poland and the EU average decreased in 2004-2016 by 21 percentage points. The greatest contribution to this was made by cohesion policy. Thanks to the implementation of investments co-financed by the EU, it was possible to create up to 600,000 new jobs. The unemployment rate fell and labour productivity increased.

“This money has an equally positive impact on the economies of western European countries. These countries are net payers, but the economic benefits are felt anyway. In this sense, they are also recipients. For every euro paid to the EU budget, they gain 80 eurocents. Taking into consideration the whole economy, they are also the beneficiaries of these funds,” he said.

Zbigniew Kuźmiuk, however, sees dangers in the current proposals to change the method of allocating European funds in the new Multiannual Financial Framework for 2021-2027.

“The emphasis will be more on innovation, new technologies and climate issues. Meanwhile, the countries of our region still have gaps in infrastructure. Both in hard and social infrastructure," said the MEP.

The work on shaping the EU funding after 2020 is ongoing and will only enter the decisive phase next year. But it seems likely that this will be the most difficult EU budget negotiation in recent memory.

At the beginning of May, the European Commission presented its proposal, which would allocate €442 billion to the implementation of cohesion policy, including €372 billion for spending on social, economic and territorial cohesion.

The division into national envelopes has not yet been agreed but according to the calculations of the ministry of investment and development, in the case of Poland, the cuts could reach 10% compared to the current financial framework. The main reasons for the cuts are Brexit and the need to find money for new challenges, such as security or migration.

The European Parliament is putting strong conditions on the shape of the future budget. In the negotiating position adopted in March, MEPs demanded an increase in the contributions of the member states. Today it is 1% of GDP and the EP calls for 1.3% of GDP. The European Commission proposes the so-called variant 1.1x, i.e. contributions from 1.11 to 1.19% GDP. However, many member states would prefer to stay at 1%.

Negotiations should be completed before the European elections in May 2019, although it is far from clear if this deadline will be met. The final settlement promises to have a major effect on how Poles approach the ballot box.
French people barely comforted by positive economic conditions

By Aline Robert | EURACTIV.fr / Translated by Rob Kirby

France tends to develop in the opposite direction to the rest of the eurozone and the economic lights are now on green. However, French morale tells a very different story and the international situation raises concerns among economic forecasters.

In the run-up to the European elections, the economic situation in the eurozone seems to be more cheerful than was the case in 2014. Growth has generally returned and budgetary slippages are but bad memories.

However, the hope generated by Emmanuel Macron’s election in 2017 has run out of steam. This is reflected just as strongly in economic activity as it is in French people’s sense of discontent. According to a survey conducted by BVA and La Tribune, 69% of French people think that the government’s economic policy is wrong.

**DISCREPANCY BETWEEN FRANCE AND THE REST OF THE EUROZONE**

Still, the picture is not as bleak as it used to be under previous governments. Admittedly, there has not been the 2% growth promised by the French government for 2018. Instead, it is expected to be limited to 1.6% or 1.7%. The rise in economic activity that began in 2017 weakened this year, as the government’s fiscal policy and train strikes in the spring weighed on consumption.

Consequently, in the first six months of 2018, France recorded a poorer performance than its eurozone neighbours, where the economy grew on average by 2.2% against 0.8% for France.

“The temporal nature of fiscal measures has much to do with the French picture: there were more charges at the beginning of the year, but there will be tax reductions, such as real-estate tax, in the second part of the year, which should boost consumption,” says Charles-Henri Colombier, economy director at Rexecode.

Continued on Page 15

Strikes in France in the spring slowed growth, which is now expected to accelerate.
He said that the reforms introduced by Macron – such as those concerning the labour market, capital taxation, education and training – will not have an effect before the end of the President’s five-year term.

During the second half of 2018, reductions in residence tax and general social contribution will restore purchasing power.

**LESS TAX, MORE GROWTH: TOWARDS REVERSING THE TREND**

The overall picture will be reversed during the second half of the year and in 2019. Several indicators are turning green for France, which could fare better than the other eurozone countries.

“I envisage a strong rise in purchasing power, or 2% in 2019, with more moderate inflation. Logically, this should renew growth if consumer morale rises again. This is what we need to monitor; without improved consumer morale, the recovery of consumption will probably not be as strong,” warned Hélène Baudchon, an economist at BNP Paribas.

Over 2019, French people will pay less taxes overall, which is a rare occurrence and could stimulate a rise in consumption. The gradually falling unemployment rate should also help to reassure French people, who tend to save more money when they are worried about their jobs.

Nevertheless, uncertainties remain due to the increase in oil prices, which do not seem likely to ease, and increases in indirect taxes on tobacco and fuels. These are factors which are likely to reduce purchasing power, while filling public funds, but without having an effect on consumption and overall growth.

**ITALY AND INTERNATIONAL TRADE: TWO DOUBTS FOR 2019**

In the medium term, Baudchon questions France’s deficit-reduction targets: the government has promised to reduce public spending by 4 points by 2022. Yet, it is failing in this respect at the moment, which suggests serious years of scarcity are to come in 2020, 2021 and 2022.

However, it is the international situation in particular which runs the risk of stemming the positive French momentum. This is all the more so given that France retains a major basic problem, which is its trade imbalance. Its exports’ lack of competitiveness accentuates the trade imbalance a little further every year, whereas many of its European neighbours are seeing their surpluses swell. This situation is explained by the costs of French labour as well as taxes on labour and production. The tax credit for competitiveness and employment has attempted to respond to this situation, with little success for the time being.

“We are monitoring what is happening in Italy especially. The European elections could notably increase the number of populists at the European Parliament. But the real risk is that that countries like Italy block the progress of European construction, and that’s already the case, whatever the outcome of the elections,” Colombier considered.

While the heads of state have planned to look into eurozone adjustments at a summit in December which will aim to complete the banking union and to review the European stability mechanism, others are concerned about the zone’s resilience in the event of a new financial crisis.

The window of opportunity to adopt the last necessary texts to consolidate the system’s stability will be short (between January and March), as the European elections campaign will mark a long period of legislative scarcity.

Over the medium term, it is rather an increase in interest rates which could threaten the French economic situation and the EU’s stability. Any hike in interest rates will place a heavy burden on the French budget, given that French debt represents 100% of its GDP. Moreover, the consequences of such a rise for Italy, whose debt is even higher at 130% of its annual output, could risk plunging the eurozone into a new ‘Greek’ crisis.