Eurozone – Safe Zone

What is the issue?

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- Most Eurozone members' fiscal positions have undergone considerable improvement in recent years.
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- Cyclically, the eurozone is doing well, both by its own standards and relative to others.
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What is the current global economic scenario?

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- From 2010-2016, global output rose at an average annual rate of 3.4%, according to the International Monetary Fund.
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- That may be lower than the 2000-2010 average, but it is higher than the growth rate in the 1980s and 1990s—decades that are not typically viewed as economically disappointing.
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- Despite significant political trauma, the US and the UK have performed as expected.
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- China, India, and Japan have also grown close to their potential.
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- In a rare occurrence, no major economy has dramatically outperformed its potential.
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- Three economies have, however, genuinely disappointed: Brazil, Russia, and the Eurozone.
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What is the position of Eurozone?

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- In the first quarter of this year, the eurozone grew more strongly than the US or the UK.
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- Most of the eurozone’s larger countries have been showing stronger relative growth for some time.
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- Nonetheless, the eurozone’s long-term structural outlook remains uninspiring.
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- The prospects for the two key drivers of long-term growth—the size and growth of the working-age population and productivity—look grim for the eurozone’s largest countries.
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- But the **prospects lies in the migrant flow** (refugees) many of them young continuing to pour into Europe from troubled parts of the Middle East and Africa.
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- But tapping the potential of refugees **requires assimilating them to European societies and economies**—a challenge that has many Europeans justifiably worried.
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- But if met it would certainly mitigate Europe’s mounting demographic challenge, especially in Germany and Italy.
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- Most eurozone members’ fiscal positions have undergone considerable, so much so that the eurozone-wide fiscal deficit is now less than 3% of GDP, much better than the US or the UK.
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- Moreover, soaring tax receipts in some parts of the eurozone—notably Germany—are feeding almost embarrassingly large fiscal surpluses.
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- If France’s new president, Emmanuel Macron obtains sufficient backing in the National Assembly in the June election, he could try reducing France’s structural government spending, while pursuing tax cuts and improved labour-market flexibility.
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Source: Live Mint

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