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Europe holds the red lantern

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Europe´s economies have lost further momentum at the beginning of 2019. Especially in Germany, industrial production is declining and companies do not expect a turnaround in the near future in view of the weak order intake. Forecasts for growth are being strongly revised downwards on all sides.

Whether there will be a pronounced recession depends primarily on two factors. For one, the spending decisions by consumers and investors have been subject to the uncertainties of numerous political disputes, the outcome of which are very difficult to predict: trade conflicts with the United States, Brexit, budget disputes between the EU and Italy and increasing resistance to the reform policy in France. Under plausible assumptions, these factors are likely to have reduced growth in the EU as a whole by half a percentage point to 1.8 percent in 2018 (2017: 2.4 percent).

The political uncertainty is even higher for the further developments in 2019. Most forecasters are probably right in assuming that governments will work to minimize damage. But the road to conflict settlement can be long and winding. And as long as uncertainty persists, economic expectations remain depressed.

The economy in Europe and in particular the German economy, which strongly depends on exports, is currently being held back by the slowdown in the global economy and world trade, which has been evident since the beginning of 2018. Higher tariffs and trade restrictions are having an effect. In addition, China, which has gained eminently in importance for Germany and other European countries in recent years, is experiencing a rather strong economic slowdown. The leadership in Beijing is trying to stop the deceleration with forceful stimulus measures. In 2018, far-reaching tax cuts were decided and additional funds made available for infrastructure measures. For 2018 and 2019 combined, the fiscal programme is likely to amount to around 3.5 trillion yuan or 4 percent of GDP. An increasingly expansionary monetary policy will reduce reserve obligations for banks, provide large amounts of liquidity through balance sheet expansion and at the same time try to keep the shadow banking sector under control.

There is much to suggest that China's expansionary policy will sooner or later have an impact. But we should not rely on it. Europe itself must do more to end the downward trend and strengthen growth. Otherwise we will keep the red lantern of the world economy. Trade disputes and Brexit chaos are not easy to resolve. Brussels and the capitals of Europe can however, pursue forward-looking and growth-oriented economic policies. That would be all the more important today.