

# Chapter 1

## EUROPE'S CURRENT ECONOMIC SITUATION

**T**he European economy as a whole is on a path of robust growth with low inflation, as are a growing number of countries. Many signals have turned green, indicating the gradual narrowing of output gaps and the decrease in growth imbalances in the euro area. The current growth momentum leads to a decline in the unemployment rate throughout the euro area; unemployment remains high in a number of countries, though. The main deviation from this scenario concerns the consequences of Brexit. The British economy is slowing down, and will continue to do so. This will nevertheless have only a limited impact on Europe's other economies. In effect, growth has been gaining momentum and is now drawing not only on the support of monetary policy but also on internal dynamics. Beyond, the cyclical on-going recovery, the issue of long-term growth is also raised as most recent estimates of potential growth point to a risk of decrease. Besides, the current fiscal rules also impose to reduce public debt in the long term raising a risk of a new episode of fiscal consolidation, that would weigh down on growth and slow down the on-going recovery.

### 1.1. The growth momentum

The world economic situation has improved in the first half of 2017. Year on year, the weighted average growth of the world's major economies rose from 2.6% to 3.2% between the third quarter of 2016 and the second quarter of 2017. This acceleration applies to the European Union as well, with the exception of the United Kingdom. In the euro area, the year-on-year increase in GDP in the second quarter reached 2.3%, the best performance since the first quarter of 2011.