European Commission - Press release

Spring 2020 Economic Forecast: A deep and uneven recession, an uncertain recovery

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The coronavirus pandemic represents a major shock for the global and EU economies, with very severe socio-economic consequences. Despite the swift and comprehensive policy response at both EU and national level, the EU economy will experience a recession of historic proportions this year.

The Spring 2020 Economic Forecast projects that the euro area economy will contract by a record 7¾% in 2020 and grow by 6¼% in 2021. The EU economy is forecast to contract by 7½% in 2020 and grow by around 6% in 2021. Growth projections for the EU and euro area have been revised down by around nine percentage points compared to the Autumn 2019 Economic Forecast.

The shock to the EU economy is symmetric in that the pandemic has hit all Member States, but both the drop in output in 2020 (from -4¼% in Poland to -9¾% in Greece) and the strength of the rebound in 2021 are set to differ markedly. Each Member State's economic recovery will depend not only on the evolution of the pandemic in that country, but also on the structure of their economies and their capacity to respond with stabilising policies. Given the interdependence of EU economies, the dynamics of the recovery in each Member State will also affect the strength of the recovery of other Member States.

Valdis **Dombrovskis**, Executive Vice-President for an Economy that works for People, said: " *At this stage, we can only tentatively map out the scale and gravity of the coronavirus shock to our economies. While the immediate fallout will be far more severe for the global economy than the financial crisis, the depth of the impact will depend on the evolution of the pandemic, our ability to safely restart economic activity and to rebound thereafter. This is a symmetric shock: all EU countries are affected and all are expected to have a recession this year. The EU and Member States have already agreed on extraordinary measures to mitigate the impact. Our collective recovery will depend on continued strong and coordinated responses at EU and national level. We are stronger together*."

Paolo **Gentiloni**, European Commissioner for the Economy, said:"*Europe is experiencing an economic shock without precedent since the Great Depression. Both the depth of the recession and the strength of recovery will be uneven, conditioned by the speed at which lockdowns can be lifted, the importance of services like tourism in each economy and by each country's financial resources. Such divergence poses a threat to the single market and the euro area - yet it can be mitigated through decisive, joint European action. We must rise to this challenge*."

A large hit to growth followed by an incomplete recovery

The coronavirus pandemic has severely affected consumer spending, industrial output, investment, trade, capital flows and supply chains. The expected progressive easing of containment measures should set the stage for a recovery. However, the EU economy is not expected to have fully made up for this year's losses by the end of 2021. Investment will remain subdued and the labour market will not have completely recovered.

The continued effectiveness of EU and national policy measures to respond to the crisis will be crucial to limit the economic damage and facilitate a swift, robust recovery to set the economies on the path of sustainable and inclusive growth.

Unemployment is set to increase, though policy measures should limit the rise

While short-time work schemes, wage subsidies and support for businesses should help to limit job losses, the coronavirus pandemic will have a severe impact on the labour market.

The unemployment rate in the euro area is forecast to rise from 7.5% in 2019 to 9½% in 2020 before declining again to 8½% in 2021. In the EU, the unemployment rate is forecast to rise from 6.7% in 2019 to 9% in 2020 and then fall to around 8% in 2021.

Some Member States will see more significant increases in unemployment than others. Those with a high proportion of workers on short-term contracts and those where a large proportion of the workforce depend on tourism are particularly vulnerable. Young people entering the workforce at this time will also find it harder to secure their first job.

A steep drop in inflation

Consumer prices are expected to fall significantly this year due to the drop in demand and the steep fall in oil prices, which together should more than offset isolated price increases caused by pandemic-related supply disruptions.

Inflation in the euro area, as measured by the Harmonised Index of Consumer Prices (HICP), is now forecast at 0.2% in 2020 and 1.1% in 2021. For the EU, inflation is forecast at 0.6% in 2020 and 1.3% in 2021.

Decisive policy measures will cause public deficits and debt to rise

Member States have reacted decisively with fiscal measures to limit the economic damage caused by the pandemic. 'Automatic stabilisers', such as social security benefit payments compounded by fiscal discretionary measures are set to cause spending to rise. As a result, the aggregate government deficit of the euro area and the EU is expected to surge from just 0.6% of GDP in 2019 to around 8½% in 2020, before falling back to around 3½% in 2021.

After having been on a declining trend since 2014, the public debt-to-GDP ratio is also set to rise. In the euro area, it is forecast to increase from 86% in 2019 to 102¾% in 2020 and to decrease to 98¾% in 2021. In the EU, it is forecast to rise from 79.4% in 2019 to around 95% this year before decreasing to 92% next year.

Exceptionally high uncertainty and risks tilted to the downside

The Spring Forecast is clouded by a higher than usual degree of uncertainty. It is based on a set of assumptions about the evolution of the coronavirus pandemic and associated containment measures. The forecast baseline assumes that lockdowns will be gradually lifted from May onwards.

The risks surrounding this forecast are also exceptionally large and concentrated on the downside.

A more severe and longer lasting pandemic than currently envisaged could cause a far larger fall in GDP than assumed in the baseline scenario of this forecast. In the absence of a strong and timely common recovery strategy at EU level, there is a risk that the crisis could lead to severe distortions within the Single Market and to entrenched economic, financial and social divergences between euro area Member States. There is also a risk that the pandemic could trigger more drastic and permanent changes in attitudes towards global value chains and international cooperation, which would weigh on the highly open and interconnected European economy. The pandemic could also leave permanent scars through bankruptcies and long-lasting damage to the labour market.

The threat of tariffs following the end of the transition period between the EU and United Kingdom could also dampen growth, albeit to a lesser extent in the EU than in the UK.

For the UK, a purely technical assumption

Given that the future relations between the EU and the UK are not yet clear, projections for 2021 are based on a purely technical assumption of status quo in terms of their trading relations. This is for forecasting purposes only and reflects no anticipation or prediction with regard to the outcome of the negotiations between the EU and the UK on their future relationship.

Background

This forecast is based on a set of technical assumptions concerning exchange rates, interest rates and commodity prices with a cut-off date of 23 April. For all other incoming data, including assumptions about government policies, this forecast takes into consideration information up until and including 22 April. Unless policies are credibly announced and specified in adequate detail, the projections assume no policy changes.

The European Commission publishes two comprehensive forecasts (spring and autumn) and two interim forecasts (winter and summer) each year. The interim forecasts cover annual and quarterly GDP and inflation for the current and following year for all Member States, as well as EU and euro area aggregates.

The European Commission's next economic forecast will be the Summer 2020 Interim Economic Forecast which is scheduled to be published in July 2020. This will cover only GDP growth and inflation. The next full forecast will be in November 2020.

For More Information

Full document: Spring 2020 Economic Forecast

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