

EU economic developments and projections

This briefing provides a summary of the recent economic developments in the EU Member States and gives an overview of relevant economic projections forecasted by major international and EU institutions.



1. Recent economic developments

According to the most recent Eurostat [estimates](#), the seasonally-adjusted Gross Domestic Product (GDP) in the euro area has rebounded by 12.7% in the third quarter of 2020, compared to the previous quarter while the growth in the EU was 12.1% during the same period. This was a rebound compared to the second quarter of 2020, when GDP had decreased by 11.8% in the euro area and by 11.4% in the EU.

Among the EU Member States, for which the third quarter GDP data is available, the largest GDP increase was observed in France (18.2%), Spain (16.7%) and Italy (16.1%), while Lithuania (3.7%), Czech Republic (6.2%) and Latvia (6.6%) have experienced the lowest increases. While a rebound was observed for all these countries compared to the second quarter, the year on year growth rates were still negative.

The next estimates for the third quarter of 2020 will be released by Eurostat on 13 November 2020

The first [estimate](#) of annual inflation in the euro area is -0,3% in October (it has remained stable compared to September 2020 inflation in the euro area while in October a year ago it was 0.7%). The main components that contributed positively were food, alcohol and tobacco, as well as services, while industry goods and most notably energy contributed negatively.

Please see the Annexes for an overview of a more detailed data on GDP and Inflation for each Member State.

2. Latest economic forecasts

2.1. European Commission

On 5 November, the European Commission (Commission) presented their [Autumn 2020 Economic Forecast](#). Given the rapidly changing economic environment and uncertainty, the European Commission relies on several key patterns when estimating the projections: *“first, it is clear that the future course of the pandemic will play a key role in determining the future path of economic growth ... second, the economic impact of the pandemic and future recovery prospects will differ widely across the EU ... [and] third, policy measures matter”*. Given such a strong reliance on the abovementioned assumptions, the Commission has provided one alternative scenario analyses for the plausible evolution of the pandemic and its economic impact.



The baseline scenario assumes that containment measures after a significant tightening in the fourth quarter of 2020, will gradually ease in 2021 and 2022, however, will remain to some degree in force through the entire forecasting horizon (which is end-of-2022). Another important baseline scenario assumption is made with regard to the future trading relationship between the UK and the EU, which assumes (without any prejudice to the outcome of the ongoing negotiations) that *“the EU and the UK will trade on WTO Most Favoured Nation rules from 1 January 2021 onwards”*.

Under this baseline scenario, *“overall, EU GDP is forecast to contract by about 7½% this year before rebounding by 4% in 2021, which is less than previously forecast, and by 3% in 2022. This implies that the output in the European economy would barely return to pre-pandemic levels in 2022.”*

Based on the Commission baseline forecasts for each Member State, by the end of 2021, only Ireland and Lithuania will recover to their pre-pandemic GDP level¹ (Ireland will have 0.5% and Lithuania will have 0.7% higher GDP than at the end of 2019).

By the end of 2022, Germany (by 0.2%), Estonia (by 2.1%), Cyprus (by 0.2%), Latvia (by 2.5%), Luxembourg (by 1.9%), Malta (by 1.4%), Slovenia (by 1.3%), Slovakia (by 1.0%), Finland (by 1.0%), Czech Republic (by 0.3%), Denmark (by 1.9%), Hungary (by 1.7%), Poland (by 3.1%), Romania (by 1.6% and Sweden (by 2.2%) will surpass their GDP levels observed in 2019.

All the remaining Member States (Belgium, Greece, Spain, France, Italy, Netherlands, Austria, Portugal and Croatia) will not reach their pre-pandemic GDP levels even at the end of 2022.

In addition, the Commission highlights several downside and upside risks that could have significant impact on the economic outlook. Among the downside risk factors are: further unanticipated development of the pandemic, deeper economic scars resulting from the pandemic and confinement, weaker global economic developments as well as financial market stress would lead to lower growth, higher unemployment, higher number of corporate bankruptcies and higher levels of non-performing loans, just to name a few. On the upside: faster medical advances in the treatment and vaccine, a positive impact from a trade agreement between the EU and the UK, and Next Generation EU programme (including the Recovery and Resilience Facility) would provide a stronger boost to the EU economy that are not accounted for in the current projection round.

See Annex for the forecast figures for all Member States.

2.2. International Monetary Fund

On 13 October, the International Monetary Fund (IMF) published its latest [World Economic Outlook](#) including economic projections. Given the better-than-anticipated second quarter GDP results and early indicators for a stronger recovery in the third quarter, the IMF has revised its' previous projections upwards. The baseline forecasting scenario assumes that in the short-term *“social distancing will continue into 2021 but will subsequently fade over time as vaccine coverage expands and therapies improve”*. *“Adjustments costs and productivity impact for surviving firms as they upgrade their workplace safety, the amplification of the shock via firm bankruptcies, costly resource reallocation across sectors, and discouraged workers' exit from the workforce”* will be dominating negative economic effects over the medium term, according to the baseline scenario.

Euro area GDP is projected to decline by 8.3% in 2020 and get back to positive 5.2% growth in 2021. According to the IMF, in the medium term global growth is expected to average about 3.5% in 2020-2025, which implies only limited progress towards catching up to the economic activity before the pandemic. Overall, the pandemic crisis will setback the average living standards causing increasing inequality and rise in extreme poverty.

¹ EGOV calculations based on the European Commission Autumn 2020 forecast.

There is a large uncertainty surrounding the baseline forecasting scenario: *“A first layer relates to the path of the pandemic, the needed public health response, and the associated domestic activity disruptions ... another source of uncertainty is the extent of global spillover from soft demand, weaker tourism, and lower remittances ... a third set of factors comprises financial market sentiment and its implications for global capital flows”.*

Box: Economic effects of COVID-19

In its recent [World Economic Outlook](#), the IMF has tried to shed some light on the extent to which the economic contraction was driven by the adoption of government lockdowns instead of by people voluntarily reducing social interactions for fear of contracting or spreading the virus. The IMF argues *“this issue is important to understand retrospectively the nature of the recession and to provide insights into the strength of the upcoming recovery. If lockdowns were largely responsible for the economic contraction, it would be reasonable to expect a quick economic rebound when they are lifted. But if voluntary social distancing played a predominant role, then economic activity would likely remain subdued until health risks recede.”*

The analysis reveals that countries that endured more stringent lockdown measures experienced larger growth declines relative to pre-COVID-19 forecasts. Furthermore, the analysis suggests that *“lockdowns and voluntary social distancing played a near comparable role in driving the economic recession. The contribution of voluntary distancing in reducing mobility was stronger in advanced economies, where people can work from home more easily and sustain periods of temporary unemployment because of personal savings and government benefits.”*

“When looking at the recovery path ahead, the importance of voluntary social distancing as a contributing factor to the downturn suggests that lifting lockdowns is unlikely to rapidly bring economic activity back to potential if health risks remain. This is true especially if lockdowns are lifted when infections are still relatively high because, in those cases, the impact on mobility appears more modest. Further tempering the expectations of a quick economic rebound, the analysis documents that easing lockdowns tends to have a positive effect on mobility, but the impact is weaker than that of tightening lockdowns. These findings suggest that economies will continue to operate below potential while health risks persist, even if lockdowns are lifted.”

Therefore, IMF argues that policymakers should be wary of removing policy support too quickly and consider ways to protect the most vulnerable and support economic activity consistent with social distancing. These may include measures to reduce contact intensity and make the workplace safer, for example by promoting contactless payments; facilitating a gradual reallocation of resources toward less-contact-intensive sectors; and enhancing work from home.

Furthermore, the IMF notes that women carry a disproportionate burden in caring for children, which may jeopardize their employment opportunities. Data also show that lockdowns tend to have a stronger impact on younger cohorts, who are economically more vulnerable because they generally rely on labour income and have less stable jobs. Thus, targeted policy intervention is needed to protect especially the employment prospects of women and younger cohorts and prevent a widening of income inequality.

See Annex for the forecast figures for all Member States.

2.3. Organisation for Economic Co-operation and Development

On 16 September, the Organisation for Economic Co-operation and Development (OECD) published its [interim economic projections](#). The projections assume that sporadic local pandemic outbreaks will continue (which will be addressed by targeted local interventions) and vaccination is assumed to be widely available by late 2021. Given these assumptions and taking into consideration better than expected economic developments during the second quarter of 2020, the OECD projects that the euro area GDP declines by 7.9% in 2020 and picks up by 5.1% in 2021, year-on-year. Nevertheless, the OECD highlights that there are considerable differences across individual countries.

Despite the slight upward revision of the economic projections for 2021, output levels in many countries both worldwide and in Europe will be below the levels observed at the end of 2019 (and well below the levels that were projected prior to the pandemic). Obviously, both a more positive

and a more negative scenario could happen: *“if the threat from the coronavirus fades more quickly than expected, improved confidence could boost global activity significantly in 2021. However, a stronger resurgence of the virus, or more stringent containment measures, could cut 2-3 percentage points from global growth in 2021, with higher unemployment and a prolonged period of weak investment.”*

See Annex for the forecast figures for all Member States.

2.4. European Central Bank

On 10 September, the European Central Bank (ECB) [published](#) its economic projections for the euro area. The main story line defining the assumptions behind the baseline forecast scenario is that the resurgence of infections seen in some European regions at the time of preparations of the forecasts is assumed to broaden and intensify over the next few quarters. It is assumed that this would lead to a continuation of containment measures and/or behavioural changes by economic agents. By virtue of the experience gained on how to deal with the pandemic, these responses were assumed to become more efficient, implying lower economic costs than in the initial wave. In addition, it is assumed that a satisfactory medical solution (such as a vaccine) will be found by mid-2021, with a gradual widespread deployment by the end of 2021. The economic recovery is assumed to be initially largely focused on manufacturing and some service sectors, while other services, e.g. arts, entertainment, accommodation and recreation, would continue to be particularly hampered.

Based on the above mentioned baseline scenario, the ECB is projecting that the euro area real GDP will contract by 8.0% in 2020 and should rebound by 5.0% in 2021, followed by 3.2% growth in 2022. By the end of the projection horizon (end-of-2022), the level of real GDP would stand 3.5% below its expected level in the pre-COVID-19 December 2019 Eurosystem staff projections. Similarly, the HICP inflation is expected to increase from 0.3% in 2020 to 1.0% and 1.3% in 2021 and 2022, respectively.

In view of the uncertainty about how the pandemic will evolve, the ECB has prepared economic projections under two alternative scenarios: *“The mild scenario sees the shock as temporary, with a swift implementation of a medical solution allowing a further loosening of the containment measures. In this scenario, real GDP would decline by 7.2% this year, then rebound strongly in 2021. By the end of the horizon, real GDP would slightly exceed the level expected in the December 2019 Eurosystem staff projections, with inflation reaching 1.8% in 2022. In contrast, the severe scenario with a strong resurgence of the pandemic implies a return to stringent containment measures. These weigh severely on economic activity and cause substantial and permanent losses to activity. In this scenario, real GDP falls by 10% in 2020. By the end of the horizon, it stands around 9% below its level in the December 2019 Eurosystem staff projections, with inflation at only 0.7% in 2022.”*

See Annex for the forecast figures for all Member States.

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Contact: egov@ep.europa.eu

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Annex 1: EU Gross domestic product

	Eurostat* (11/2020)					EC (11/2020)			IMF (10/2020)			ECB (06/2020)			OECD (09/2020)		
	2018	2019	2020 Q1	2020 Q2	2020 Q3	2020	2021	2022	2019	2020	2021	2019	2020	2021	2019	2020	2021
BE	1.8	1.7	-3.4	-11.8		-8.4	4.1	3.5	1.4	-8.3	5.4	1.4	-9.0	6.4	1.4	-11.2	3.4
DE	1.3	0.6	-1.9	-9.8	8.2	-5.6	3.5	2.6	0.6	-6.0	4.2	0.6	-7.1	3.2	0.6	-8.8	1.7
EE	4.4	5.0	-2.2	-5.6		-4.6	3.4	3.5	5.0	-5.2	4.5	4.4	-10.0	8.5	4.4	-10.0	1.6
IE	8.5	5.6	-2.1	-6.1		-2.3	2.9	2.6	5.9	-3.0	4.9	5.5	-8.9	5.6	5.5	-8.7	-0.2
EL	1.6	1.9	-0.7	-14.0		-9.0	5.0	3.5	1.9	-9.5	4.1	1.9	-5.8	5.6	1.9	-9.8	2.3
ES	2.4	2.0	-5.2	-17.8	16.7	-12.4	5.4	4.8	2.0	-12.8	7.2	2.0	-11.6	9.1	2.0	-14.4	5.0
FR	1.8	1.5	-5.9	-13.7	18.2	-9.4	5.8	3.1	1.5	-9.8	6.0	1.3	-10.3	6.9	1.5	-14.1	5.2
IT	0.9	0.3	-5.5	-13.0	16.1	-9.9	4.1	2.8	0.3	-10.6	5.2	0.3	-9.2	4.8	0.3	-14.0	5.3
CY	5.2	3.1	-1.0	-12.8		-6.2	3.7	3.0	3.2	-6.4	4.7	3.2	-7.3	5.6			
LV	4.0	2.1	-2.3	-7.1		-5.6	4.9	3.5	2.2	-6.0	5.2	2.2	-7.5	6.7	2.2	-10.2	2.0
LT	3.9	4.3	0.0	-5.9	3.7	-2.2	3.0	2.6	3.9	-1.8	4.1	3.9	-9.7	8.3	3.9	-10.4	3.4
LU	3.1	2.3	-1.4	-7.2		-4.5	3.9	2.7	2.3	-5.8	5.9	2.3	-7.8	7.9	2.3	-7.7	0.2
MT	5.2	4.9	-2.6	-11.6		-7.3	3.0	6.2	4.9	-7.9	4.8	4.4	-4.8	5.8			
NL	2.4	1.7	-1.5	-8.5		-5.3	2.2	1.9	1.7	-5.4	4.0	1.8	-6.4	2.9	1.8	-10.0	3.4
AT	2.6	1.4	-2.5	-12.1	11.1	-7.1	4.1	2.5	1.6	-6.7	4.6	1.5	-7.2	4.9	1.5	-7.5	3.2
PT	2.8	2.2	-3.9	-13.9		-9.3	5.4	3.5	2.2	-10.0	6.5	2.2	-9.5	5.2	2.2	-11.3	4.8
SI	4.4	3.2	-4.7	-9.9		-7.1	5.1	3.8	2.4	-6.7	5.2	2.4	-6.5	4.9	2.4	-9.1	1.5
SK	3.8	2.3	-5.2	-8.3		-7.5	4.7	4.3	2.4	-7.1	6.9	2.4	-10.3	8.4	2.4	-11.1	2.1
FI	1.5	1.1	-1.4	-4.4		-4.3	2.9	2.2	1.1	-4.0	3.6	1.0	-6.9	3.0	0.9	-9.2	2.4
EA	1.9	1.3	-3.7	-11.8	12.7	-7.8	4.2	3.0	1.3	-8.3	5.2	1.2	-8.7	5.2	1.3	-11.5	3.5
BG	3.1	3.7	0.4	-10.1		-5.1	2.6	3.7	3.4	-4.0	4.1				3.4	-8.0	-0.3
CZ	3.2	2.3	-3.3	-8.7		-6.9	3.1	4.5	2.3	-6.5	5.1				2.5	-13.2	1.7
DK	2.2	2.8	-1.6	-6.8		-3.9	3.5	2.4	2.4	-4.5	3.5				2.4	-7.1	0.9
HR	2.8	2.9	-1.3	-15.0		-9.6	5.7	3.7	2.9	-9.0	6.0						
HU	5.4	4.6	-0.4	-14.6		-6.4	4.0	4.5	4.9	-6.1	3.9				4.9	-10.0	1.5
PL	5.4	4.5	-0.3	-9.0		-3.6	3.3	3.5	4.1	-3.6	4.6				4.2	-9.5	2.4
RO	4.5	4.2	0.0	-11.9		-5.2	3.3	3.8	4.1	-4.8	4.6				4.1	-8.6	1.8
SE	2.0	1.3	0.2	-8.3		-3.4	3.3	2.4	1.3	-4.7	3.5				1.2	-7.8	0.4
EU	2.1	1.5	-3.3	-11.4	12.1	-7.4	4.1	3.0									

* Note: For 2018 and 2019 the GDP growth is provided year-on-year change, while 2020 Q1, Q2 and Q3 are quarter-on-quarter changes.

Annex 2: EU HICP Inflation (annual rate of change)

	Eurostat (11/2020)					EC (11/2020)			IMF (10/2020)			ECB (06/2020)			OECD (09/2020)		
	2018	2019	2020 Q1	2020 Q2	2020 Q3	2020	2021	2022	2019	2020	2021	2019	2020	2021	2019	2020	2021
BE	2.3	1.2	0.4	0.2	0.5	0.4	1.4	1.6	1.2	0.6	1.2	1.2	0.3	1.4	1.3	0.3	0.2
DE	1.9	1.4	1.3	0.8	-0.4	0.4	1.4	1.3	1.3	0.5	1.1	1.4	0.8	1.1	1.4	0.8	0.4
EE	3.4	2.3	1.0	-1.6	-1.3	-0.5	1.4	2.1	2.3	0.2	1.4	2.3	-0.9	-0.1	2.3	0.0	0.7
IE	0.7	0.9	0.5	-0.6	-1.2	-0.5	0.3	1.6	0.9	-0.2	0.6	0.9	-0.2	0.3	0.9	0.1	0.1
EL	0.8	0.5	0.2	-1.9	-2.3	-1.3	0.9	1.3	0.5	-0.6	0.7	0.5	-0.6	1.2	0.5	0.1	0.0
ES	1.7	0.8	0.1	-0.3	-0.6	-0.2	0.9	1.0	0.7	-0.2	0.8	0.8	-0.2	1.2	0.8	-0.1	-0.2
FR	2.1	1.3	0.8	0.2	0.0	0.5	0.9	1.5	1.3	0.5	0.6	1.3	0.4	0.5	1.3	0.4	0.5
IT	1.2	0.6	0.1	-0.4	-1.0	-0.1	0.7	1.0	0.6	0.1	0.6	0.6	-0.1	0.0	0.6	-0.2	-0.1
CY	0.8	0.5	0.1	-2.2	-1.9	-0.9	0.9	1.3	0.6	-0.6	1.0	0.5	-0.5	0.7			
LV	2.6	2.7	1.4	-1.1	-0.4	0.3	1.3	1.8	2.7	0.6	1.8	2.7	0.0	0.2	2.7	0.9	0.4
LT	2.5	2.2	1.7	0.9	0.6	1.3	1.5	1.7	2.2	1.3	1.7	2.2	0.6	0.9	2.2	0.8	0.7
LU	2.0	1.6	0.3	-0.4	-0.3	0.2	1.5	1.8	1.7	0.4	1.4	1.6	-0.1	1.4	1.6	0.7	0.7
MT	1.7	1.5	1.2	1.0	0.5	0.8	1.3	1.6	1.5	0.8	1.1	1.5	0.7	0.9			
NL	1.6	2.7	1.1	1.7	1.0	1.1	1.3	1.4	2.7	1.2	1.5	2.7	0.8	1.1	2.7	0.3	0.6
AT	2.1	1.5	1.6	1.1	1.3	1.5	1.7	1.7	1.5	1.2	1.8	1.5	0.8	0.8	1.5	0.8	1.1
PT	1.2	0.3	0.1	0.2	-0.8	-0.1	0.9	1.2	0.3	0.0	1.1	0.3	0.1	0.8	0.3	0.1	0.0
SI	1.9	1.7	0.7	-0.8	-0.7	0.0	0.9	1.8	1.6	0.5	1.8	1.7	0.0	1.3	1.7	1.0	1.7
SK	2.5	2.8	2.4	1.8	1.4	2.0	0.7	1.4	2.8	1.5	1.5	2.8	1.9	0.8	2.8	1.1	1.1
FI	1.2	1.1	0.9	0.1	0.3	0.4	1.1	1.4	1.1	0.7	1.3	1.1	0.2	0.7	1.1	0.8	0.8
EA	1.8	1.2	0.7	0.3	-0.3	0.3	1.1	1.3	1.2	0.4	0.9	1.2	0.3	0.8	1.2	0.4	0.5
BG	2.6	2.5	2.4	0.9	0.6	1.2	1.4	1.8	2.5	1.2	1.7				3.1	0.7	0.5
CZ	2.0	2.6	3.6	3.4	3.3	3.4	2.3	2.0	2.9	3.3	2.4				2.9	2.9	1.4
DK	0.7	0.7	0.3	0.2	0.5	0.3	1.1	1.3	0.7	0.4	0.9				0.8	0.4	0.3
HR	1.6	0.8	0.5	-0.4	-0.3	0.1	1.2	1.5	0.8	0.3	0.8						
HU	2.9	3.4	3.9	2.9	3.4	3.4	3.3	3.0	3.4	3.3	3.2				3.3	3.5	1.8
PL	1.2	2.1	3.9	3.8	3.8	3.6	2.0	3.1	2.3	3.3	2.3				2.2	2.9	1.2
RO	4.1	3.9	2.7	2.2	2.1	2.5	2.5	2.4	3.8	2.9	2.5				3.8	1.9	0.9
SE	2.0	1.7	0.8	0.9	0.6	0.6	0.8	1.3	1.6	0.8	1.4				1.8	0.2	0.8
EU	1.8	1.4	1.2	0.8	0.3	0.7	1.3	1.5									