Institute for Economic
and Enterprise Research

Economic outlook of Europe in the light of the COVID-19 pandemic

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In this analysis of HCIC's Institute for Economic and Enterprise Research (IEER) based on EC and IMF data, we present, how the novel coronavirus pandemic is expected to affect the economic situation of the EU member countries. As part of public health considerations, major containment and lockdown measures were introduced all across EU countries. This has put the EU economy to a halt – although the rate of the slowing down differs among member states – a -7,4% growth rate is forecasted for the region. Although this is followed by a return at least of circa 5% in 2021, the GDP will not reach its pre-pandemic forecasted levels. According to predictions, Hungary will have a milder slump in, with a -3,1% of real GDP change.

The global coronavirus pandemic has put a strain on economies of the world, this is a phenomenon, European countries are no exception to. Although EU members in general have been quick in their response to the crisis a recession for 2020 is still inevitable.

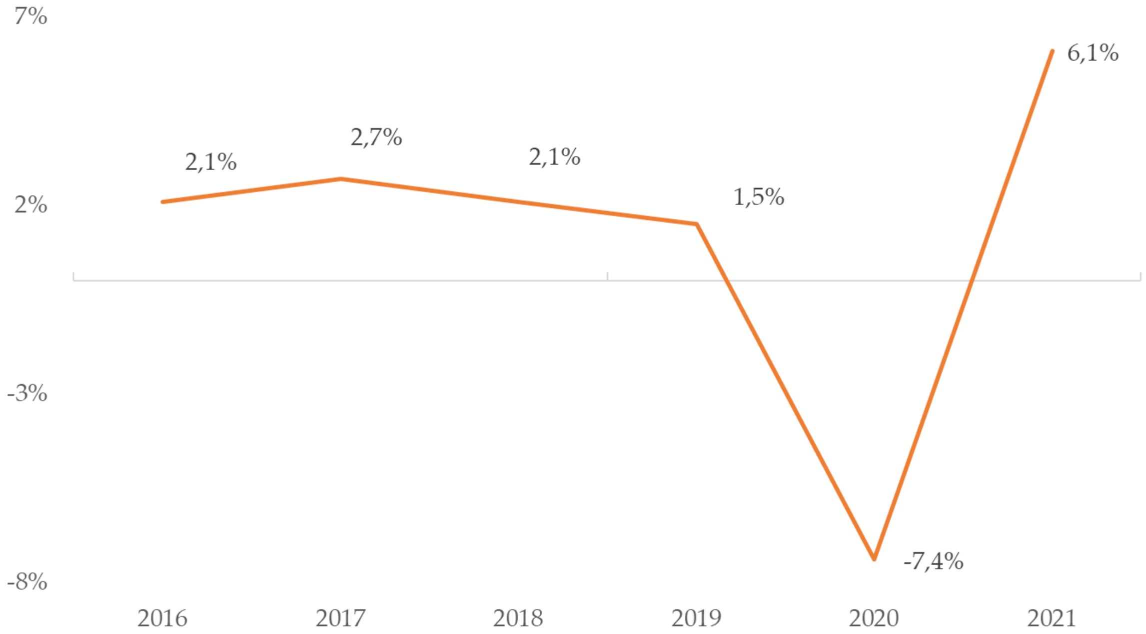
Forecast for the EU countries, 2020 and 2021

According to the forecast of the European Commission1, the European Union will experience a negative growth of around 7,4 percentage2 in 2020, which is a major contraction very similar to, if not greater than the Great Recession of 2009. In 2021, the EU economy is expected to bounce back, with a 6.1% real GDP growth. However, this rebound is not complete, since it would leave the EU economy at a smaller GDP level than the one presented by 2019 autumn forecasts. Figure 1 shows the real GDP growth in the previous years and the forecasts for 2020 and 2021.

All major areas of EU member states' economies were hit by the corona crisis with consumer spending (as consumers hold off buying big ticket items) and industrial output (as distressed firms likely to sell assets, reduce investment and employment) taking the lead. It is also clear that this crisis is affecting all member countries, with no exception, due to the interconnectedness by trade and production linkages within the EU. Despite the fact that all EU countries universally are affected by the crisis: the recovery can be potentially very asymmetrical, since it is highly dependent upon the sovereign decisions of member states. The pace of the recovery can be affected by various factors for each member state. These factors include the following: how severely is a country hit by the pandemic, how rigorous are the containment and lockdown measures, the extent of the exposure of its domestic economy, initial level of economic development etc. Due to these differences, an asynchronized recovery of countries might happen within the region, which would make returning to normal more difficult for the entire EU.

[1] European Economic Forecast, Spring 2020, https://ec.europa.eu/info/sites/info/files/economy-finance/ip125_en.pdf
[2] Percentage change on previous year

Figure 1: Real GDP growth in the European Union, compared to previous year, in percentage

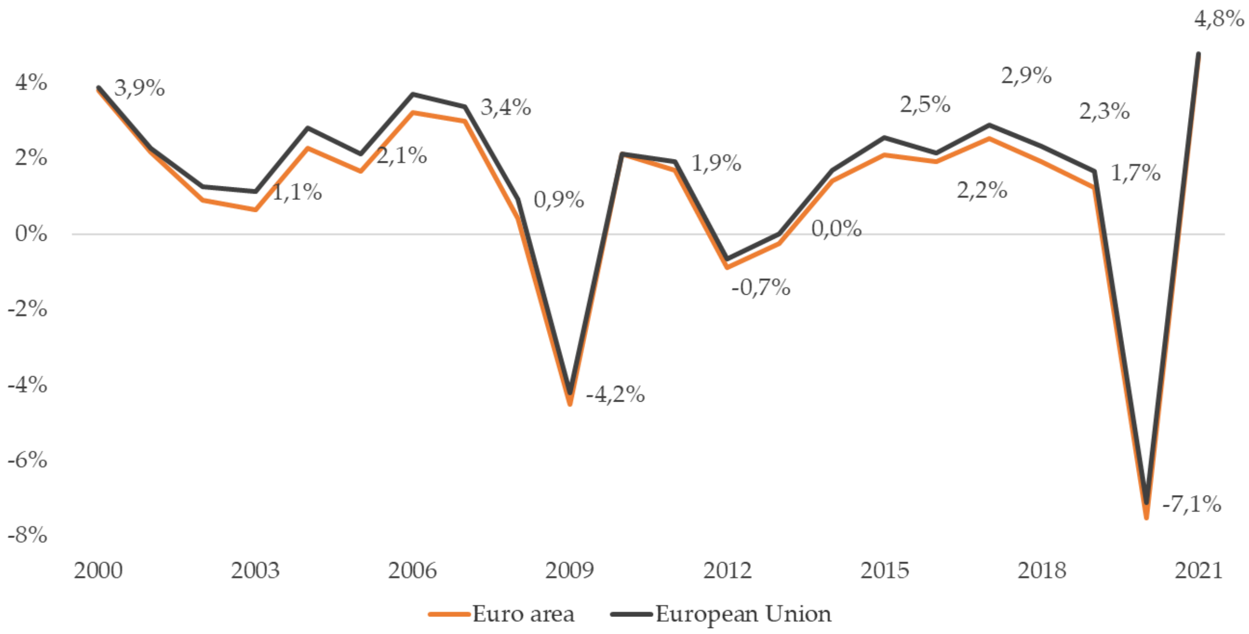


Source: EC Europa, 2020

The forecast of the International Monetary Fund3 shows similar prospects for the European Union and the Euro Area. Historical data also corroborates the prediction of the EC, namely that *the* drop in terms of real GDP growth is expected to be larger than it was during the 2009 recession. However, in this scenario, the growth predicted for 2021 is not as high as in the forecast of the European Commission (4,8% versus 6,1%) According to the IMF, the recovery is more unpredictable, due to a number of reasons4: protracted uncertainty about the contagion, business and consumer confidence failing to improve, tightening financial markets due to a lower investor risk tolerance and permanent shifts in firm and household behavior even with the pandemic passing. All these factors result in a more pessimistic outlook, which is demonstrated by Figure 2.

3 World Economic Outlook Database, April 2020
https://www.imf.org/external/pubs/ft/weo/2020/01/weodata/index.aspx
[4] World Economic Outlook Reports, April 2020: The Great Lockdown
https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

Figure 2: Real GDP growth in the European Union and Euro area, in percentage



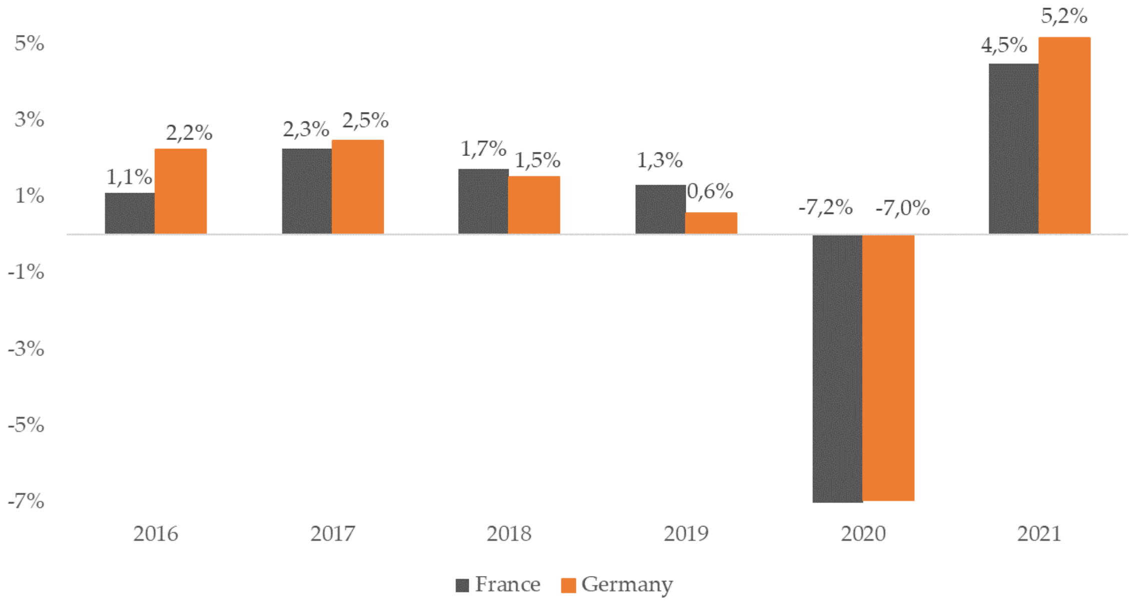
Source: IMF, 2020

A closer look: economies more directly affecting Hungary

When it comes to France and Germany, being amongst the largest economies of the European Union, the pattern is very similar. In 2019, Germany's growth was not as dynamic as the EU-average, although the coronavirus crisis seems to affect the country to a slightly lesser degree (-7,0%), and also the rebound is more powerful in comparison to the rest of the EU. In France, the negative effects of the pandemic are more accentuated and the return to normal in the year 2021 is also not as articulate as in the case of Germany. (4,5% compared to 5,2%, as it can be seen in Figure 3). The reasons for this are manifold; however, a generally higher growth path of Germany in the last ten years and a generous rescue package of 750 billion euros can be highlighted.5

[5] Reuters, Germany launches 750 billion euro package to fight coronavirus https://www.reuters.com/article/us-health-coronavirus-germany-budget/germany-launches-750-billion-euro-package-to-fight-coronavirus-idUSKBN21A2XU

Figure 3: Real GDP growth in France and Germany, in percentage



Source: IMF, 2020

From the point view of the Hungarian economy, there are specific countries which play an important role. These are the other countries within the EU, besides France and Germany, with which Hungary maintains strong trade linkages, i.e.: the top destination countries for Hungarian export activities. 6 These are Austria, Italy, Poland, Romania and the Slovak Republic. Austria's economic situation is similar to that of France, Germany and the EU-average, with a 7% negative growth by the end of 2020 and 4,5% positive change in 2021. The recoil of economic growth is the most intensive in the case of Italy, with a value of -9,1% for real GDP growth for the year 2020. The following year shows an average growth rate, in comparison to the EU-average (4.8%, see Table 1.)

In Table 1, it is also can be seen, that Hungary is forecasted to have a smaller drop in the growth rate by the end of this year in comparison to its trade partners – only -3,1%, which is only the one-third of what can be seen in the case of Italy. However, as Hungary is a relatively small and open economy it is also expected that the rate of the recovery will be affected by the economic health and resilience of other European countries, and mostly by its trade partners.

[6] Based on Hungarian Statistical Office data https://www.ksh.hu/docs/eng/xstadat/xstadat_annual/i_qkt019d.html

Table 1: Real GDP growth in the top export partners of Hungary, amongst the EU countries

	Austria	Hungary	Italy	Poland	Romania	Slovak Republic
2019	1,6%	4,9%	0,3%	4,1%	4,1%	2,3%
2020	-7,0%	-3,1%	-9,1%	-4,6%	-5,0%	-6,2%
2021	4,5%	4,2%	4,8%	4,2%	3,9%	5,0%

Source: IMF, 2020