Coronavirus: threat to the economy. GDP growth in Europe, Italy ranks last

The Coronavirus, an increasingly devastating threat to China and a cause for concern at global level, hits global economies, with possible repercussions in Europe. The message was reiterated by EU Commissioner for Economic Affairs, **Paolo Gentiloni**, on Thursday, 13 February, presenting the Winter Economic Forecasts for the first time since his appointment in Brussels. He takes over from his predecessor Pierre Moscovici (France). Economic forecasts are affected by global instability. The epidemic that broke out in China is accompanied by adverse U.S. trade policies (trade tariffs), the uncertain financial impact of Brexit, rising oil prices, instability in the Middle East and Africa, social and political turmoil in Latin America... However, for Gentiloni the “outlook for Europe's economy is for stable, albeit subdued growth over the coming two years.” **The figures.** The forecast published by the Commission projects that euro area gross domestic product (GDP) growth will remain stable at 1.2% in 2020 and 2021. For the EU as a whole (27 Member Countries) growth is forecast to ease marginally to 1.4% in 2020 and 2021, down from 1.5% in 2019. Despite subdued growth in the next two years jobs are set to increase, coupled by an upward revision for inflation, a sign that household incomes and private consumption maintain a steady pace. Gentiloni explained that *most Central and Eastern European economies “are expected to grow faster than the large euro area countries”.* In fact the German economy experienced a downturn (weaker export growth, especially automotive industry), while wages and public investment increase, leading to positive effects in the medium term. In France, “growth decelerated sharply”, due mainly to many months of strikes. Italy: sluggish growth and continuing heavy debt. **The situation of Italy.** The Commission documents projects Italy to gradually gain traction from 0.2% in 2019 to 0.3% in 2020 and 0.6% in 2021, ranking lowest in EU countries, with ultimately stagnating economy. Moreover, the Commission revised its forecast for Italy downwards from last Autumn, when it was projected at 0.4% for 2020 and 0.7% in 2021. By comparison, it is worth noting that Italy ranks just below Germany (1.1% in 2020 and 2021) and France (1.1 and 1.2% respectively).

Subdued economic performance of the three largest EU countries.

Poland, on the other hand, is projected to grow from 4% in 2019 to 3.3% in 2020 and next year. Bulgaria, Hungary and Romania are also showing good performance, with annual GDP growth of around 3%. Greece is on track with over 2%, with higher growth projected in Ireland (over 3%) and Malta (4%). **No rebound.** With regard to Italy, Commission experts write: “Business surveys suggest a slow start into 2020. Industrial confidence improved in January but does not yet suggest an imminent rebound in industrial production.” “The tentative stabilisation of manufacturing output associated with the turn of the inventory cycle, coupled with reduced domestic policy uncertainty and favourable financing conditions are likely to underpin domestic demand beyond the short term.” Further ahead, private consumption “propped up by the new minimum income is expected to support growth. However, real disposable incomes are forecast to rise only moderately, as households are likely to feel repercussions from the softening of the labour market.” **Necessary reforms.** “Despite a challenging environment, the European economy remains on a steady path, with continued job creation and wage growth. But we should be mindful of potential risks on the horizon: a more volatile geopolitical landscape coupled with trade uncertainties”, declared **Valdis Dombrovskis**, Executive Vice-President of the EU Commission, commenting on the data released by his colleague Paolo Gentiloni. “Member States should use this weather window to pursue structural reforms to boost growth and productivity – he said - . *Countries with high public debt* – such as Italy - *should also shore up their defences by pursuing prudent fiscal policies*.” According to the forecasts, “Public investment is expected to increase significantly in a number of countries, involving transport and

digital infrastructure investment. Together with tentative signs of stabilisation in the manufacturing sector, and a possible bottoming out of the decline in global trade flows, this should allow the European economy to continue expanding." At the same time, "these factors appear insufficient to shift growth into a higher gear."

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