
Europe's economy in freefall, Italy at the tail end. "Recovery Plan at once"

The severe impact of the lockdown-induced recession is worming its way throughout Europe, albeit unevenly across Member States. The gloomiest figures were recorded in Italy, followed by France and Spain, with fewer negative repercussions in other countries, such as Germany, Poland and Scandinavia. Businesses collapse, unemployment rates rebound, State deficit and debt are increasing as measures aimed at supporting economic recovery and paying social security contributions are implemented. Thus, compared to last spring, the Economic Forecasts released on 7 July by the EU Commission in Brussels indicate worsening performance. **Impact worse than initially expected.** In 2020 the EU-27 economy "will experience a deep recession due to the coronavirus pandemic, despite the swift and comprehensive policy response at both EU and national levels", explained the EU executive. Because the lifting of lockdown measures is proceeding at a more gradual pace than assumed" in the Spring Forecast,

"the impact on economic activity in 2020 will be more significant than anticipated."

The euro area economy "is set to contract by 8.7% in 2020 and grow by 6.1% in 2021, while the EU economy is forecast to contract by 8.3% in 2020 and grow by 5.8% in 2021." The contraction in 2020 is, therefore, "projected to be significantly greater than the 7.7% projected for the euro area and 7.4% for the EU as a whole in the Spring Forecast." Growth in 2021 will also be slightly less robust than projected in the spring. Against this backdrop, Italy's registers the deepest contraction with real GDP forecast to fall by 11.2 % this year with an expected 6.1% growth in 2021. In May, the Commission forecast -9.5% for Italy in 2020 only to report a "rebound" of 6.5% in 2021.



Immagine non disponibile

[EU Commissioner for the Economy, in his presentation of the Economic Forecasts depicted a gloomy picture: "Coronavirus has now claimed the lives of more than half a million people worldwide, a number still rising by the day - in some parts of the world at an alarming rate. And this forecast shows the devastating economic effects of that pandemic. The policy response across Europe has helped to cushion the blow for our citizens, yet this remains a story of increasing divergence, inequality and insecurity. "This is why it is so important – he underlined - to reach a swift agreement on the recovery plan proposed by the Commission – to inject both new confidence and new financing into our economies at this critical time." The Heads of State and Government will meet next week in Brussels \(17-18 July\) to deliberate on the Recovery Plan: businesses, jobs and families need resources, urgently.](#)



Immagine non disponibile

Executive Vice-President for an Economy that works for People, are in line with those of his colleague Gentiloni. “If anything – he added - this forecast is a powerful illustration of why we need a deal on our ambitious recovery package, NextGenerationEU, to help the economy.” Looking forward to the coming months of the year, and to 2021, “we can expect a rebound but we will need to be vigilant about the differing pace of the recovery”: this is a further challenge in the current state of the European economy, with substantial differences between countries. “We need to continue protecting workers and companies and coordinate our policies closely at EU level to ensure we emerge stronger and united.” Clearly, the impact of the pandemic on economic activity was already considerable in the first quarter of 2020, even though most Member States only began introducing lockdown measures in mid-March. However, adds the Commission, “early data for May and June suggest that the worst may have passed. The recovery is expected to gain traction in the second half of the year, albeit remaining incomplete and uneven across Member States.” **Downside and ... upside risks.** A chapter of the forecast delves into the risks for the economy, described as “exceptionally high.” The scale and duration of the pandemic, and of possibly necessary future lockdown measures, “remain essentially unknown.”

The forecast assumes that lockdown measures will continue to ease and there will not be a ‘second wave’ of infections.

“There are considerable risks that the labour market could suffer more long-term scars than expected and that liquidity difficulties could turn into solvency problems for many companies.” Furthermore, there are “risks to the stability of financial markets and a danger that Member States may fail to sufficiently coordinate national policy responses.” A failure to secure an agreement on the future trading relationship between the UK and the EU could also result in lower growth, “particularly for the UK.” More broadly, protectionist policies and an excessive turning away from global production chains could also negatively affect trade and the global economy.” Conversely, there are also “upside risks”, such as an early availability of a vaccine against the coronavirus and the positive effects of Next Generation EU, the new instrument proposed by the EU Commission to tackle the impact of the pandemic on Europe’s social and financial system.

