



## Summer 2020 Economic Forecast: An even deeper recession with wider divergences

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The EU economy will experience a deep recession this year due to the coronavirus pandemic, despite the swift and comprehensive policy response at both EU and national levels. Because the lifting of lockdown measures is proceeding at a more gradual pace than assumed in our Spring Forecast, the impact on economic activity in 2020 will be more significant than anticipated.

The [Summer 2020 Economic Forecast](#) projects that the euro area economy will contract by 8.7% in 2020 and grow by 6.1% in 2021. 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.

Valdis **Dombrovskis**, Executive Vice-President for an Economy that works for People, said: *"The economic impact of the lockdown is more severe than we initially expected. We continue to navigate in stormy waters and face many risks, including another major wave of infections. If anything, 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 this year and next, we can expect a rebound but we will need to be vigilant about the differing pace of the recovery. We need to continue protecting workers and companies and coordinate our policies closely at EU level to ensure we emerge stronger and united."*

Paolo **Gentiloni**, Commissioner for the Economy, said: *"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 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."*

### Recovery expected to gain traction in second half of 2020

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. With a far longer period of disruption and lockdown taking place in the second quarter of 2020, economic output is expected to have contracted significantly more than in the first quarter.

However, 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.

The shock to the EU economy is symmetric in that the pandemic has hit all Member States. However, both the drop in output in 2020 and the strength of the rebound in 2021 are set to differ markedly. The differences in the scale of the impact of the pandemic and the strength of recoveries across Member States are now forecast to be still more pronounced than expected in the Spring Forecast.

### An unchanged outlook for inflation

The overall outlook for inflation has changed little since the Spring Forecast, although there have been significant changes to the underlying forces driving prices.

While oil and food prices have risen more than expected, their effect is expected to be balanced by the weaker economic outlook and the effect of VAT reductions and other measures taken in some Member States.

Inflation in the euro area, as measured by the Harmonised Index of Consumer Prices (HICP), is now forecast at 0.3% in 2020 and 1.1% in 2021. For the EU, inflation is forecast at 0.6% in 2020 and 1.3% in 2021.

### Exceptionally high risks

The risks to the forecast are exceptionally high and mainly to the downside.

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. 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.

There are also upside risks, such as an early availability of a vaccine against the coronavirus.

The Commission's proposal for a recovery plan, centred on a new instrument, [NextGenerationEU](#), is not factored into this forecast since it has yet to be agreed. An agreement on the Commission's proposal is therefore also considered an upside risk.

More generally, a swifter-than-expected rebound cannot be excluded, particularly if the epidemiological situation allows a faster lifting of remaining restrictions than assumed.

### **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 nor prediction as regards 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 26 June. For all other incoming data, including assumptions about government policies, this forecast takes into consideration information up until and including 30 June. 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 Autumn 2020 Economic Forecast which is scheduled to be published in November 2020.

### **For More Information**

#### [Summer 2020 Economic Forecast](#)

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