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## ECONOMIC RECOVERY IN EUROPE

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*15/03/2021*

# When and how?

*Conditions for economic recovery after COVID-19*



*Preconditions for a sustainable, resilient recovery*



Business as usual? New normal?

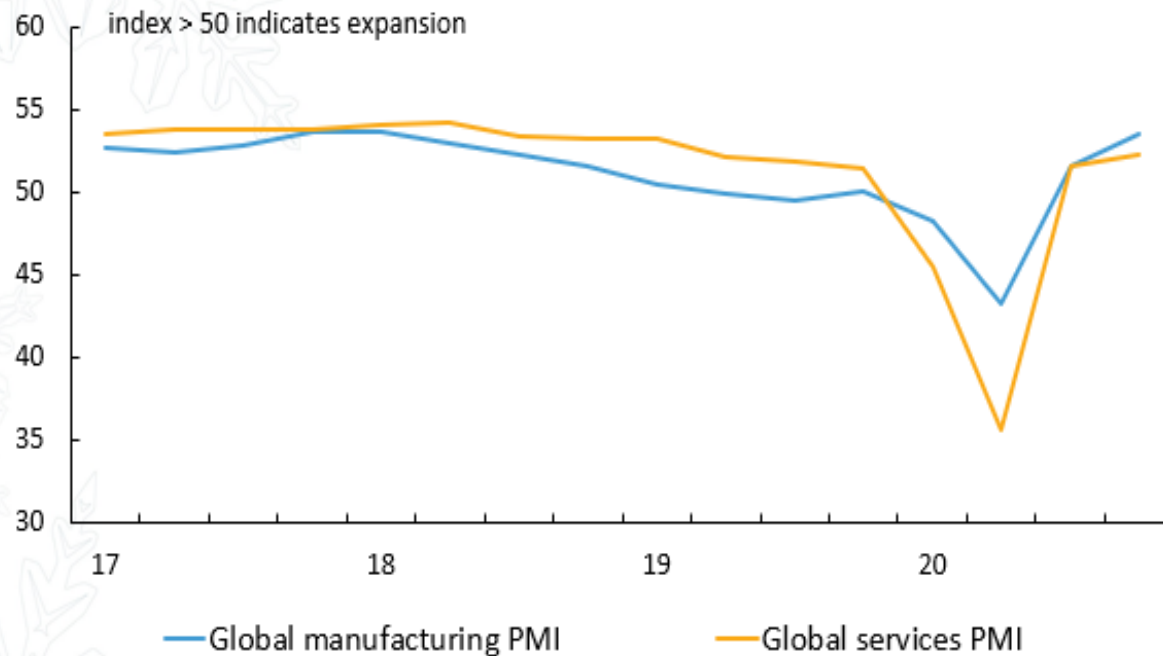
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**Recovery - light at the end of the tunnel?**

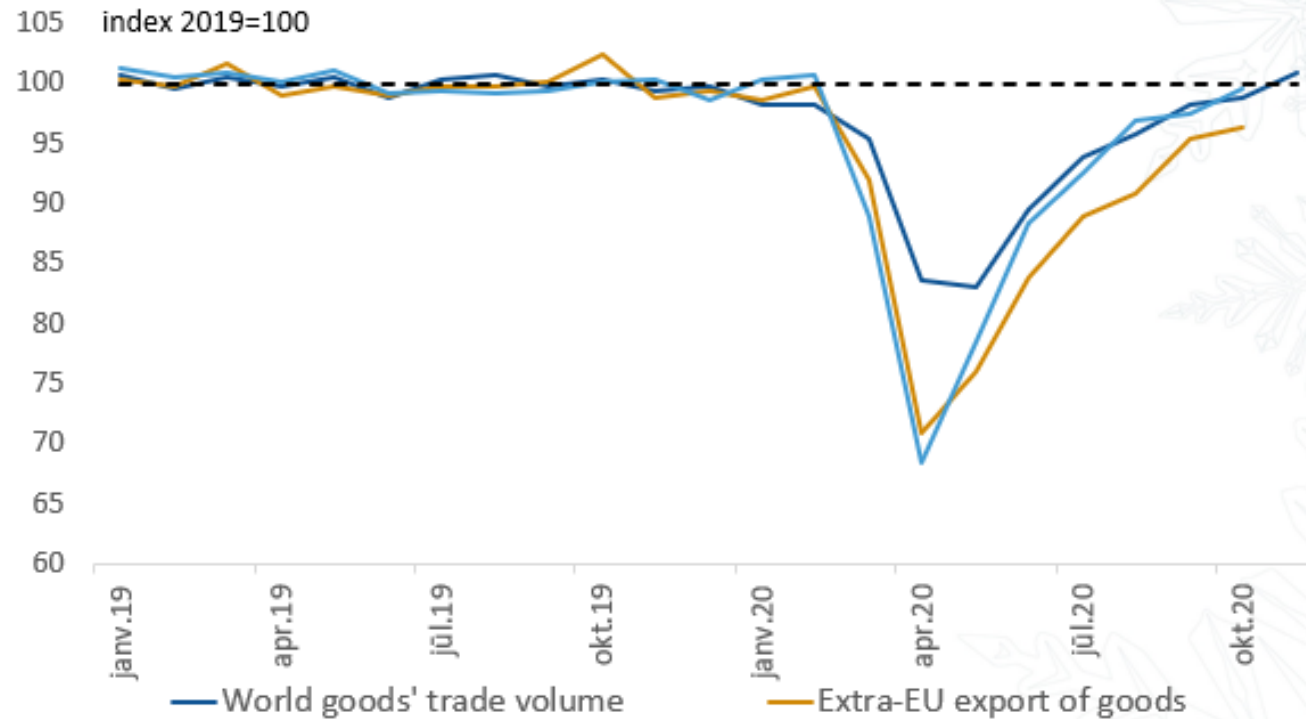
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# global economy is bouncing back

## Global PMIs

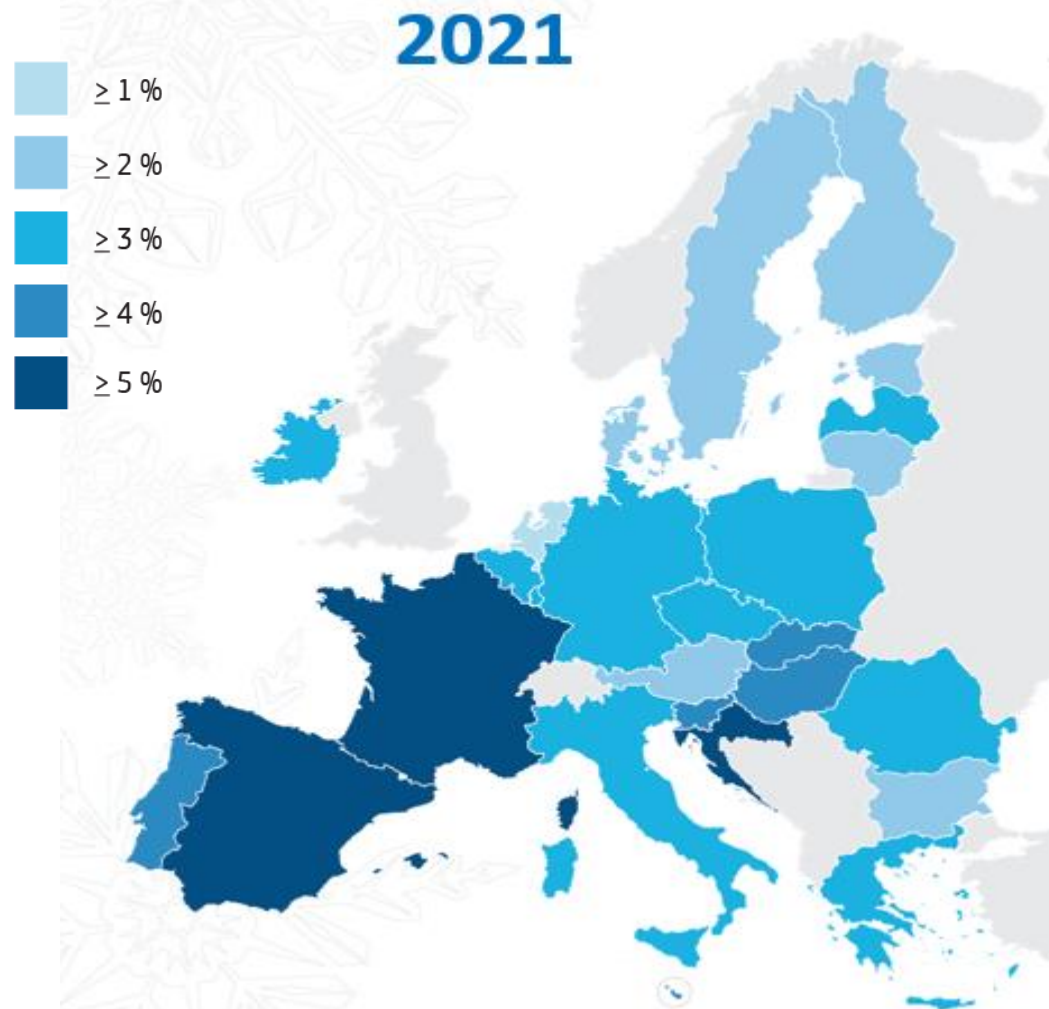


## Global and EU Trade



# In 2021 expansion is expected in all EU member states

Annual real GDP growth in %



but  
significant  
country  
divergences  
will persist

	2018	2019	2020	2021	2022
Belgium	1.8	1.7	-6.2	3.9	3.1
Germany	1.3	0.6	-5.0	3.2	3.1
Estonia	4.4	5.0	-2.9	2.6	3.8
Ireland	8.5	5.6	3.0	3.4	3.5
Greece	1.6	1.9	-10.0	3.5	5.0
Spain	2.4	2.0	-11.0	5.6	5.3
France	1.8	1.5	-8.3	5.5	4.4
Italy	0.9	0.3	-8.8	3.4	3.5
Cyprus	5.2	3.1	-5.8	3.2	3.1
Latvia	4.0	2.1	-3.5	3.5	3.1
Lithuania	3.9	4.3	-0.9	2.2	3.1
Luxembourg	3.1	2.3	-3.1	3.2	4.3
Malta	4.8	5.3	-9.0	4.5	5.4
Netherlands	2.4	1.7	-4.1	1.8	3.0
Austria	2.6	1.4	-7.4	2.0	5.1
Portugal	2.8	2.2	-7.6	4.1	4.3
Slovenia	4.4	3.2	-6.2	4.7	5.2
Slovakia	3.8	2.3	-5.9	4.0	5.4
Finland	1.3	1.1	-3.1	2.8	2.0
Euro area	1.9	1.3	-6.8	3.8	3.8
Bulgaria	3.1	3.7	-4.9	2.7	4.9
Czechia	3.2	2.3	-5.7	3.2	5.0
Denmark	2.2	2.8	-3.5	2.9	3.6
Croatia	2.8	2.9	-8.9	5.3	4.6
Hungary	5.4	4.6	-5.3	4.0	5.0
Poland	5.4	4.5	-2.8	3.1	5.1
Romania	4.5	4.1	-5.0	3.8	4.0
Sweden	2.0	1.3	-2.9	2.7	4.0
EU	2.1	1.6	-6.3	3.7	3.9

- vaccine roll-out pace
  - public health management
  - fiscal policy support
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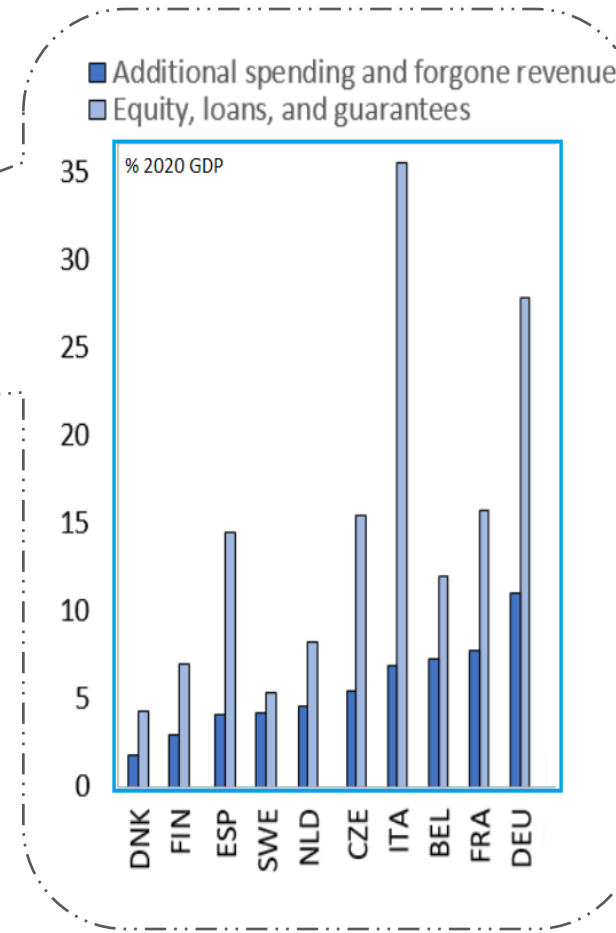
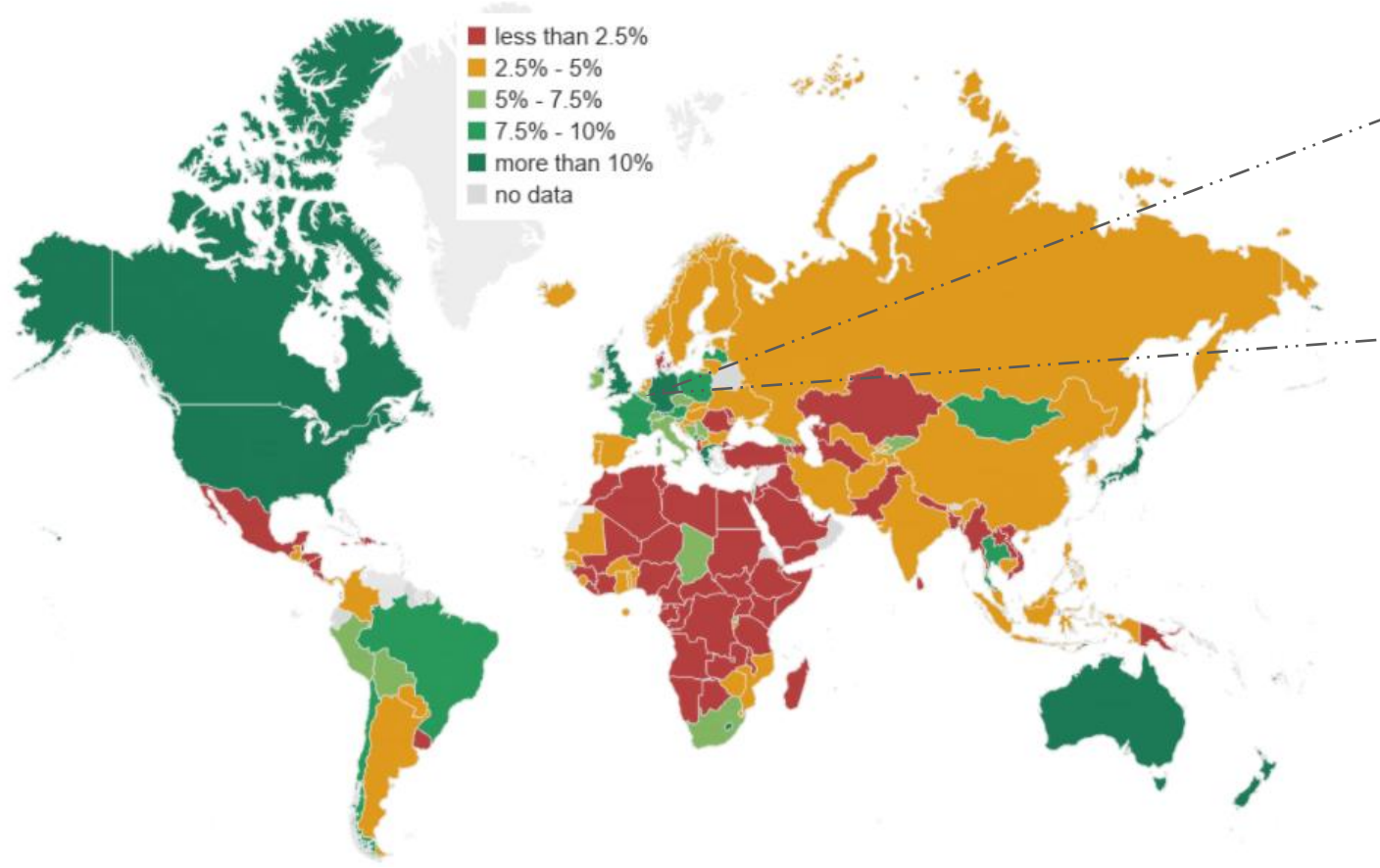
## What explains divergences across countries?

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- size of hard-hit sectors in economy
- legacy - economic situation, vulnerabilities before COVID-19
- external factors- trade, Brexit, geopolitical tensions,...

# National fiscal policies have provided critical support for workers and firms

Budgetary fiscal support to people and firms has varied widely across countries



EU member states undertook an unprecedentedly strong and rapid fiscal policy response, with **fiscal and liquidity measures** estimated to **have cushioned the contraction in GDP in 2020 by around 4.5 pp\***

Sources: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic; and IMF staff estimates; Note: Estimates as of end-December, 2020

\*Source: Communication "One year since the outbreak of COVID-19: fiscal policy response", European Commission, 03/2021

# National fiscal responses have been supported by the EU response

## Monetary policy



**€1 850  
BILLION**

European Central Bank  
pandemic emergency  
purchase programme

## Flexibility in EU rules



- **STATE AID MEASURES**  
for businesses and workers
- **RELAXED FISCAL RULES**  
for member states
- **STRUCTURAL FUNDS**  
easier transfers between  
funds and regions



**€540  
BILLION**

Support package for  
jobs and workers,  
businesses and  
member states

**€100 BILLION**

Support to mitigate  
unemployment risks in an  
emergency (SURE)

**€200 BILLION**

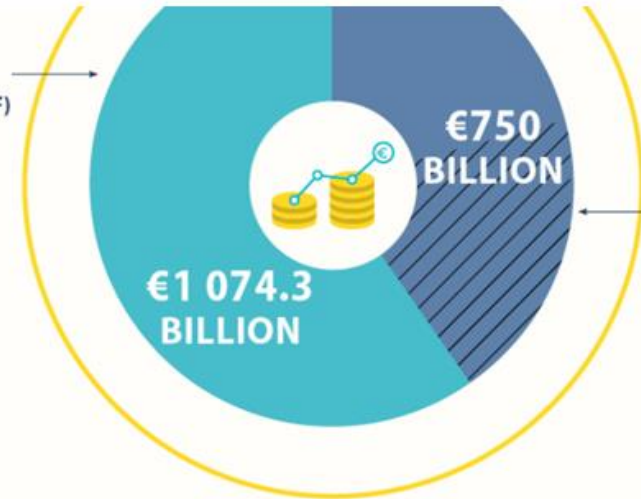
Pan-European guarantee fund for  
loans to companies (European  
Investment Bank)

**€240 BILLION**

Pandemic crisis support for  
member states (European Stability  
Mechanism)

**€1 824.3 BILLION**

Multianual  
financial  
framework (MFF)  
The EU's 7-year  
budget



Next Generation EU  
(NGEU)

COVID-19 recovery  
package front-loaded  
over the first years

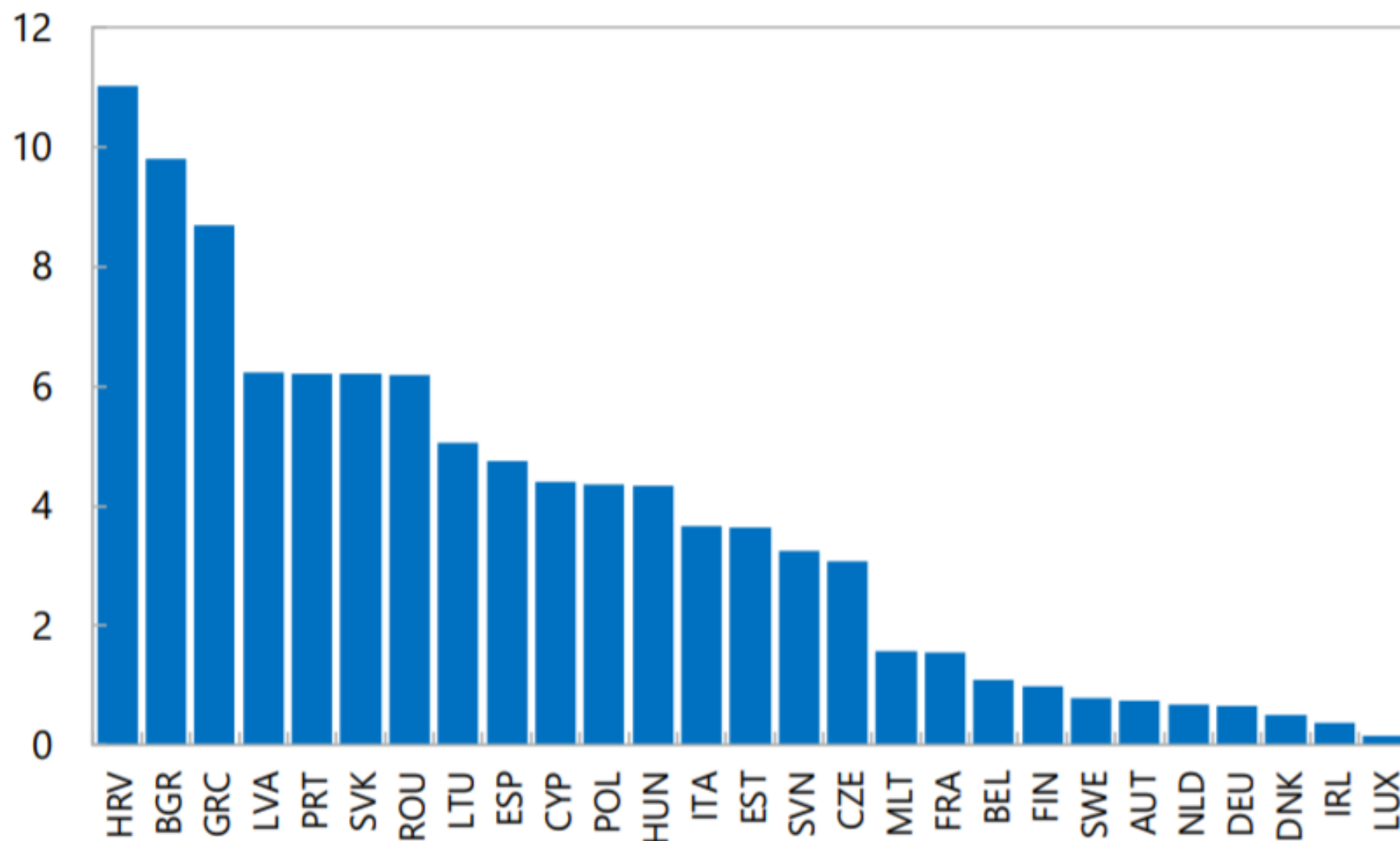
- €390 bn grants
- €360 bn loans

Capital raised on  
financial markets

**Overall EU's recovery package amounts to €2 364.3 billion**

# Recovery and Resilience Facility Grants

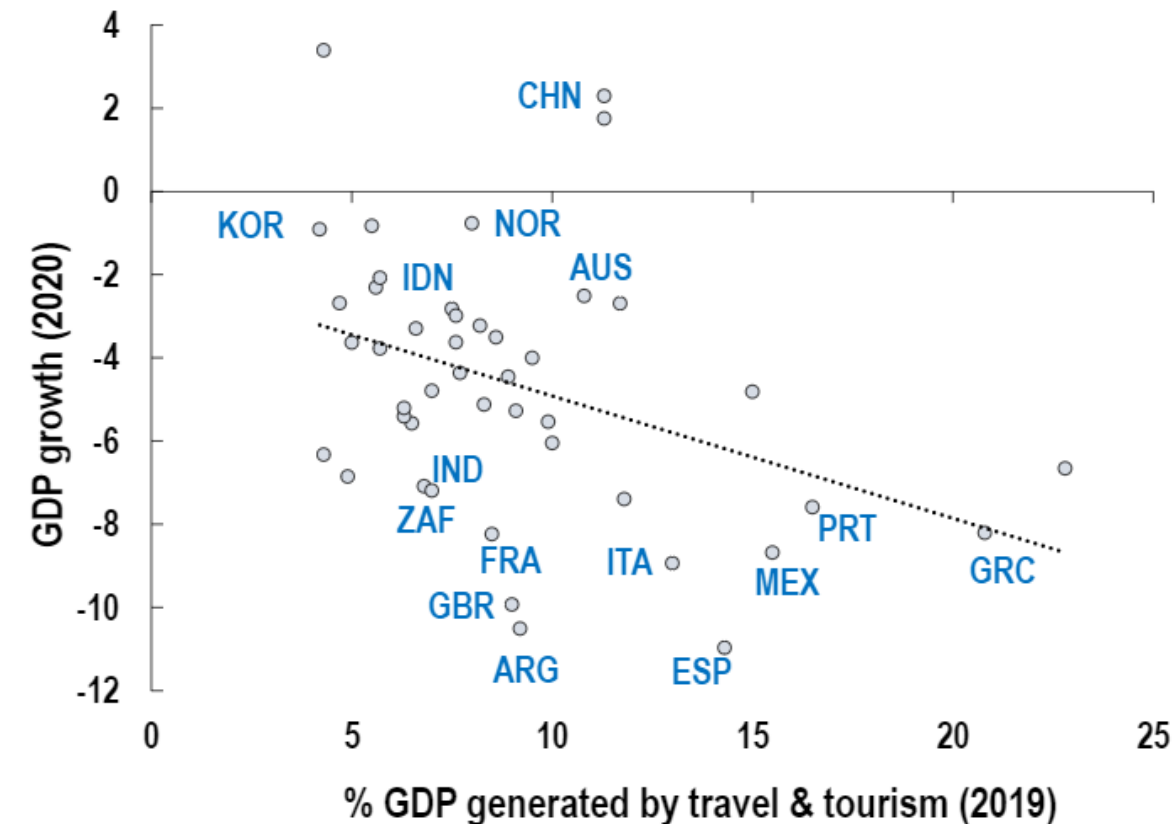
(Percent of 2019 GDP)



Sources: European Commission, IMF World Economic Outlook, and IMF staff calculations.

# Sectoral divergences - travel and tourism sectors are being hit hard

## Countries with larger travel and tourism sectors had steeper declines in GDP



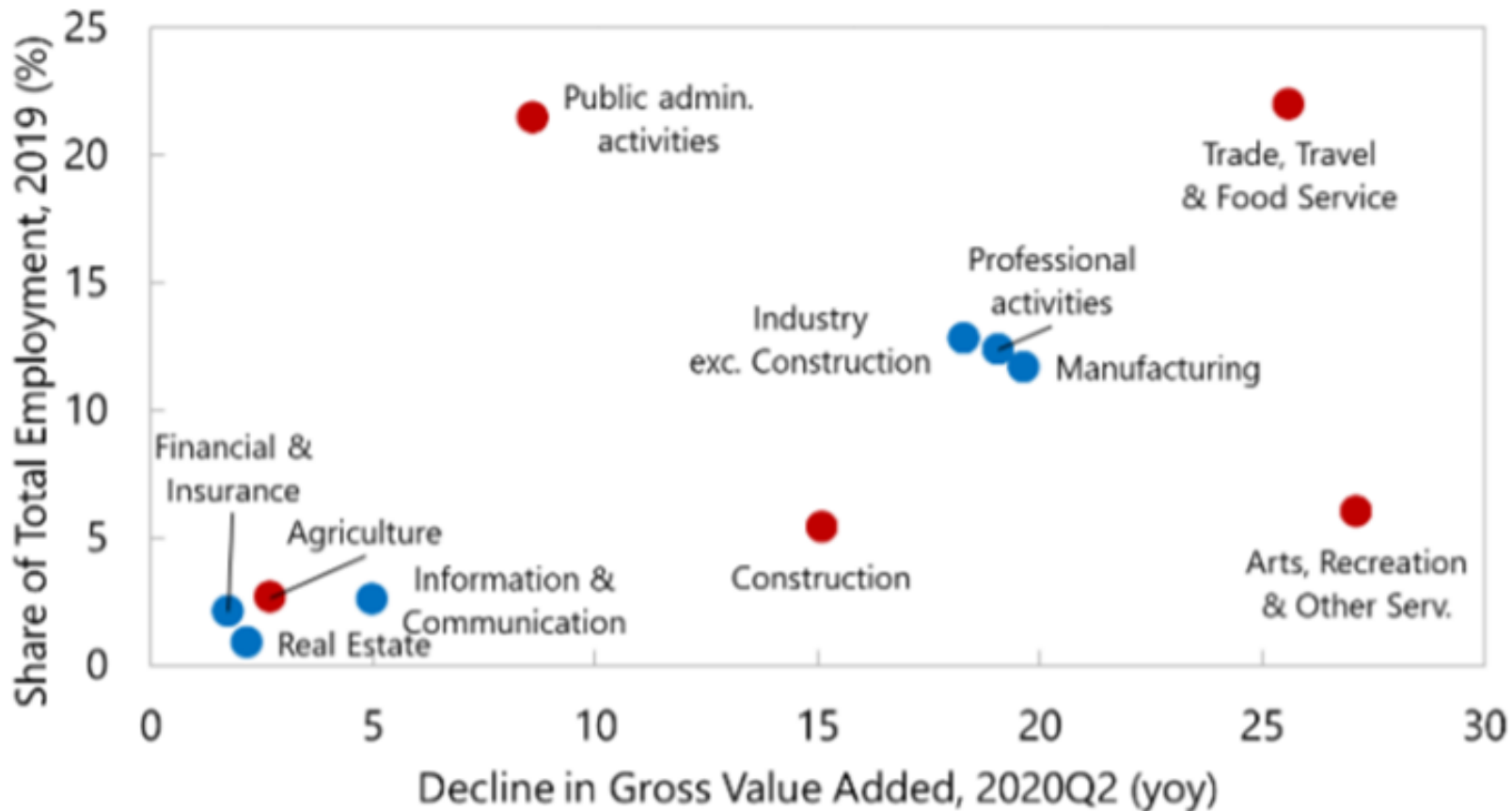
For the EU in 2020 compared to 2019 - nights spent by domestic residents declined by almost 30%, but by non-resident tourists declined by about 70%

City travel has been much more affected by the crisis than coastal and rural regions

Country	Nights spent 2020, total		Nights spent, non-residents	
	Millions	% change y-o-y	Millions	% change y-o-y
Greece	39	-73%	27	-77%
Malta	3	-71%	2	-74%
Ireland	11	-70%	5	-73%
Spain	145	-69%	61	-79%
Cyprus	6	-64%	6	-65%
Portugal	30	-61%	14	-74%
Hungary	14	-57%	4	-76%
Croatia	41	-55%	35	-58%
Bulgaria	12	-55%	5	-72%
Italy	200	-54%	65	-70%
Romania	15	-51%	1	-79%
Belgium	21	-51%	7	-68%
EU-27	1443	-50%	418	-69%
Estonia	4	-49%	1	-67%
Luxembourg	1	-49%	1	-53%
Latvia	3	-47%	2	-60%
Lithuania	5	-45%	1	-72%
Czechia	31	-45%	8	-72%
Poland	52	-44%	7	-64%
Slovakia	10	-44%	2	-62%
Slovenia	9	-42%	3	-71%
Germany	268	-39%	33	-63%
Austria	79	-39%	51	-44%
Finland	14	-38%	2	-66%
Sweden	40	-37%	5	-71%
France	282	-37%	43	-69%
Denmark	23	-32%	5	-63%
Netherlands	86	-31%	22	-58%

# Crisis is likely to have **persistent effects on economic structures**

## Euro Area: Sectoral Distribution of the Pandemic Impact

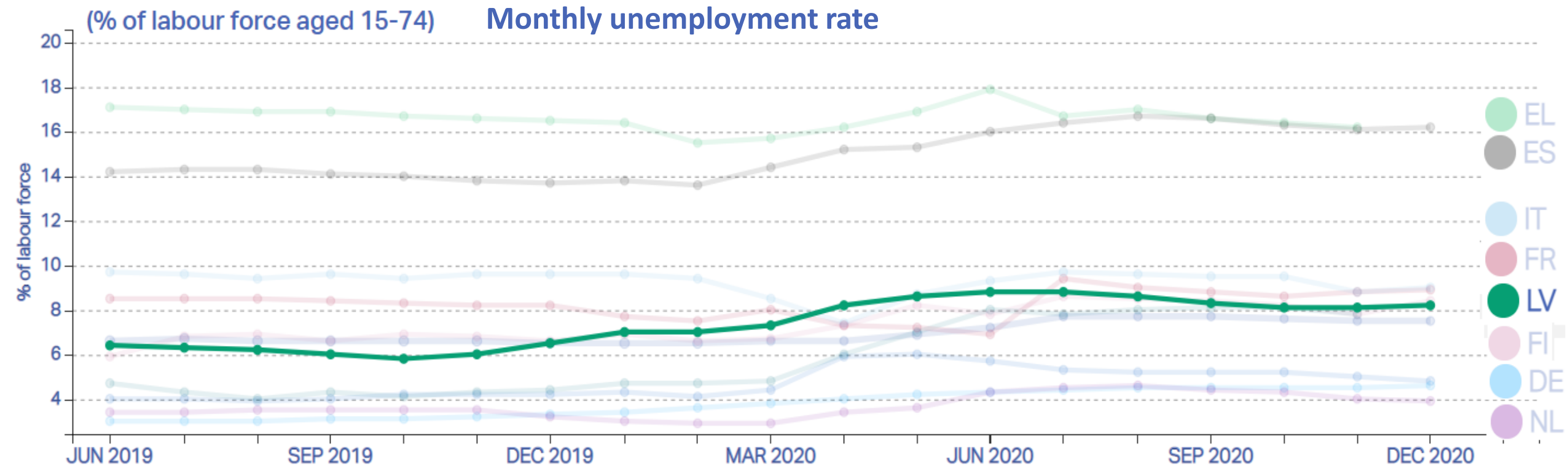


Social distancing and behavioral changes **are likely to persist** for some time, reducing the demand in contact-intensive sectors and constraining their operations

The potential reallocative and distributional consequences **could have significant implications for labor and product markets**

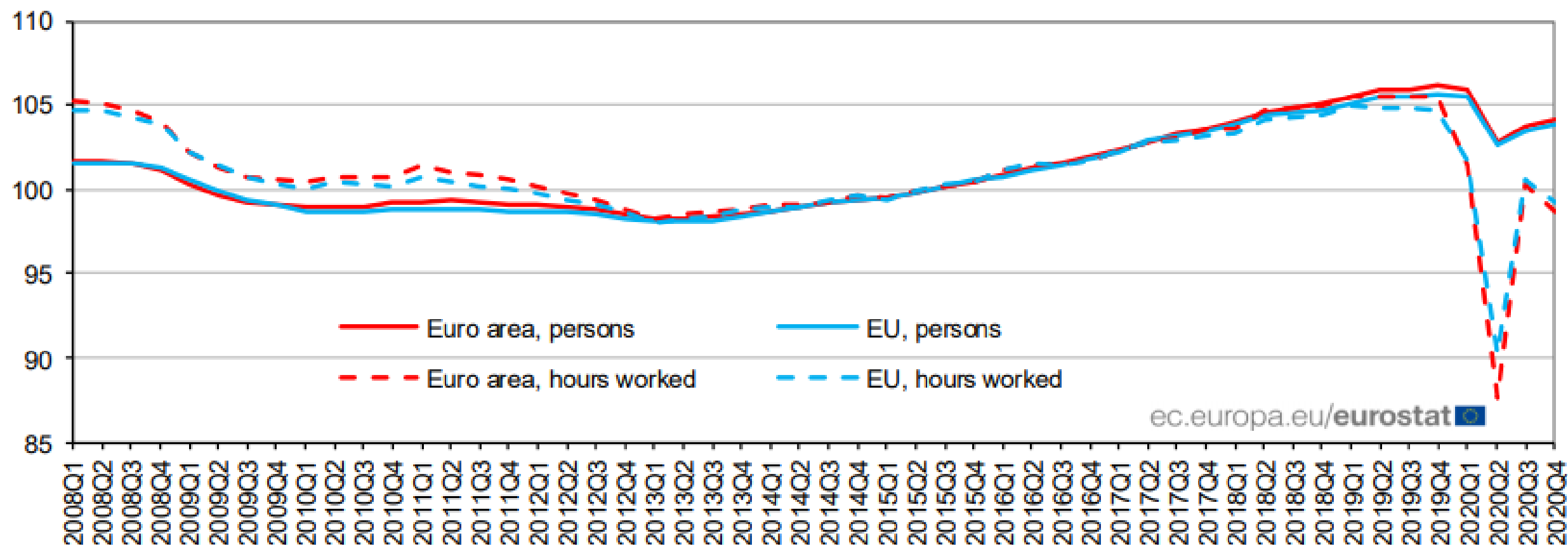
# Policy support continues to cushion the hit to the labour market

National short-time employment support initiatives protected around 20% of employment in the EU



## Evolution of employment in persons and hours worked

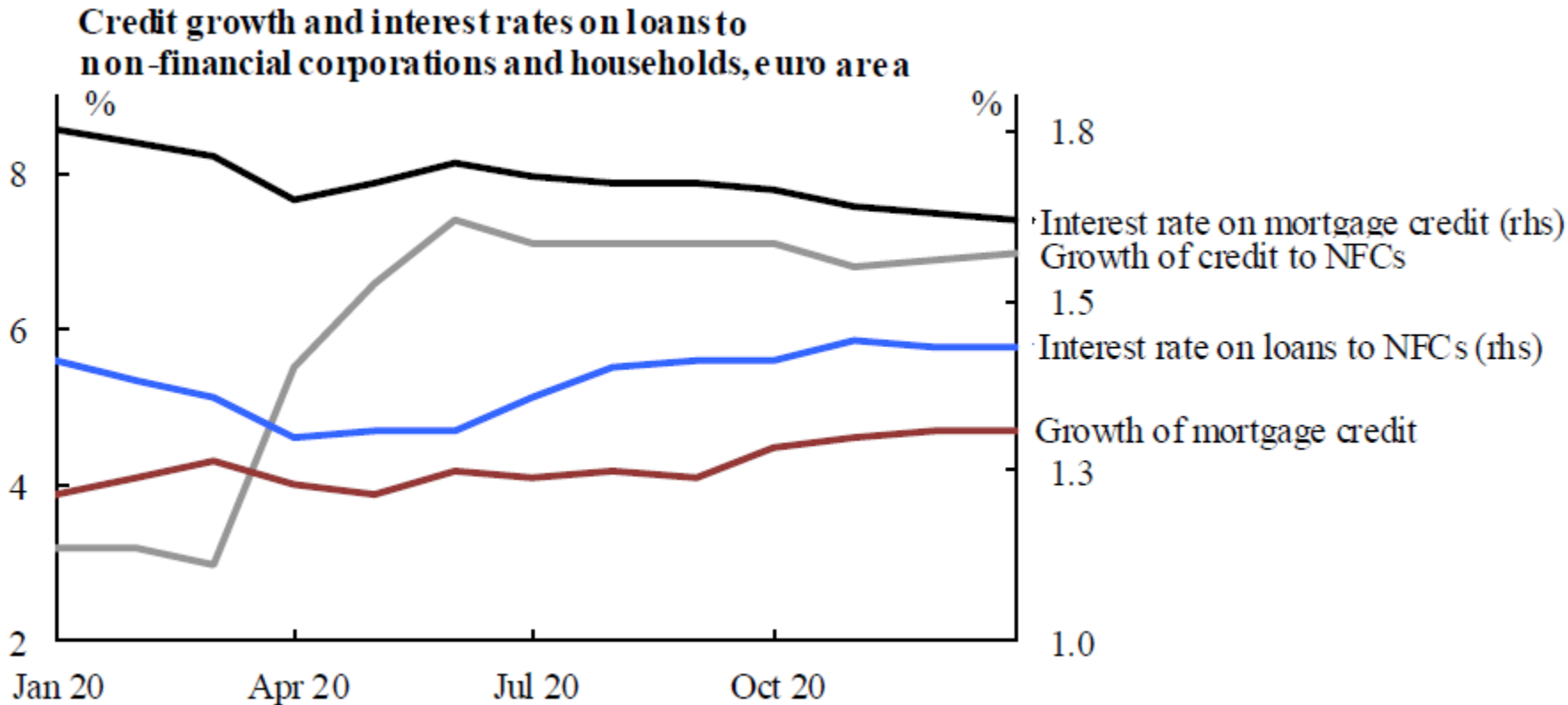
Index, 2015=100, based on seasonally adjusted data



ec.europa.eu/eurostat



# So far firms are **weathering an unprecedented shock well** and private sector **funding has been sustained**



Current situation reflects exceptional and effective policy support aimed at cushioning the impact of the **liquidity shock**.

**Liquidity risks may prove easier to address than solvency ones**

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## **Sustainable, resilient recovery after COVID-19**

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Transformation to a "new normal" - **what are the main challenges ahead?**

# Post-Covid world – short and medium-term challenges



Recovery will depend critically on **how effective policies** are at mitigating the economic damage of containment measures in the near term

while **facilitating the necessary economic restructuring and reallocation of resources** across sectors and regions over the medium term

- **Difficult transition** between crisis management and progression towards a "new world", especially exiting the emergency and avoiding a cliff edge
- **Fiscal vulnerabilities**
- **Disparities** across geographic areas and across workers
- Challenges of a **structural transformation**
- **External factors:** relations with UK and global trade tensions, regionalization

# EU-UK relations – Brexit impact

- For the EU on average, the exit of the UK from the EU is **estimated to generate an output loss of around ½ % of GDP by the end of 2022, and some 2 ¼ pp for the UK.**
- Although the concluded EU-UK Free Trade Agreement (FTA) sets tariffs and quotas on goods at zero, there is a **significant increase in non-tariff barriers (NTBs)** for both goods and services.

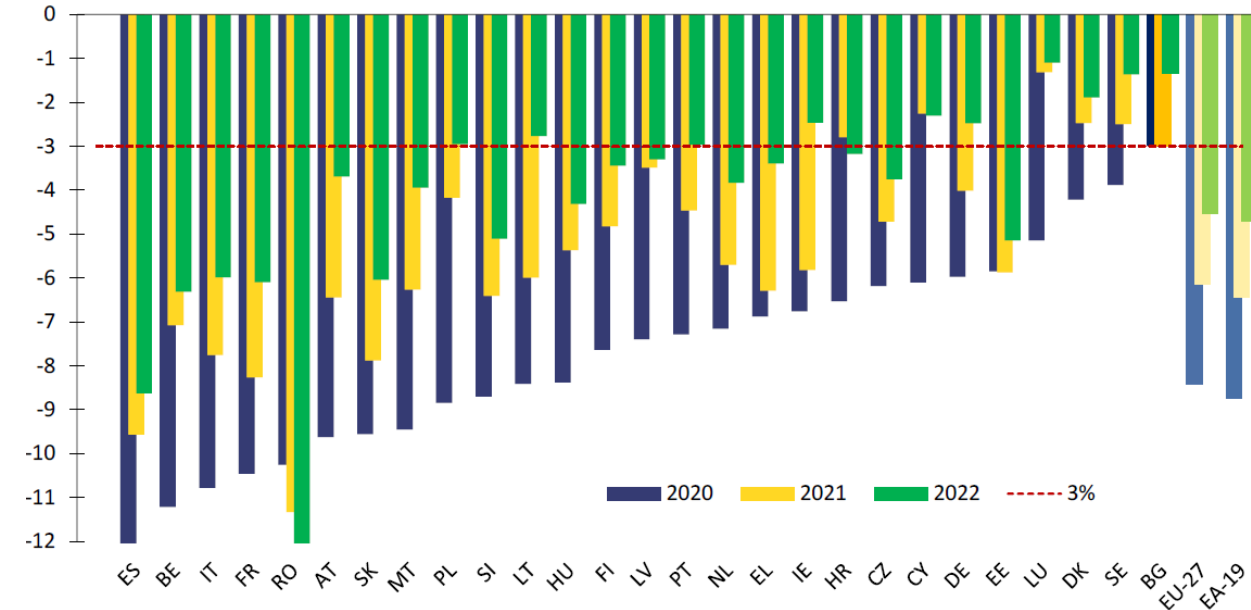
The tariff equivalent of the **NTBs amount to 10.9% and 8.5 %** on average (trade-weighted at sectoral level) for EU and UK imports, respectively.



After Brexit transition period ended in January 2021  
UK goods **exports to the EU fell 40.7%** and **imports dropped 28.8%** from a month earlier

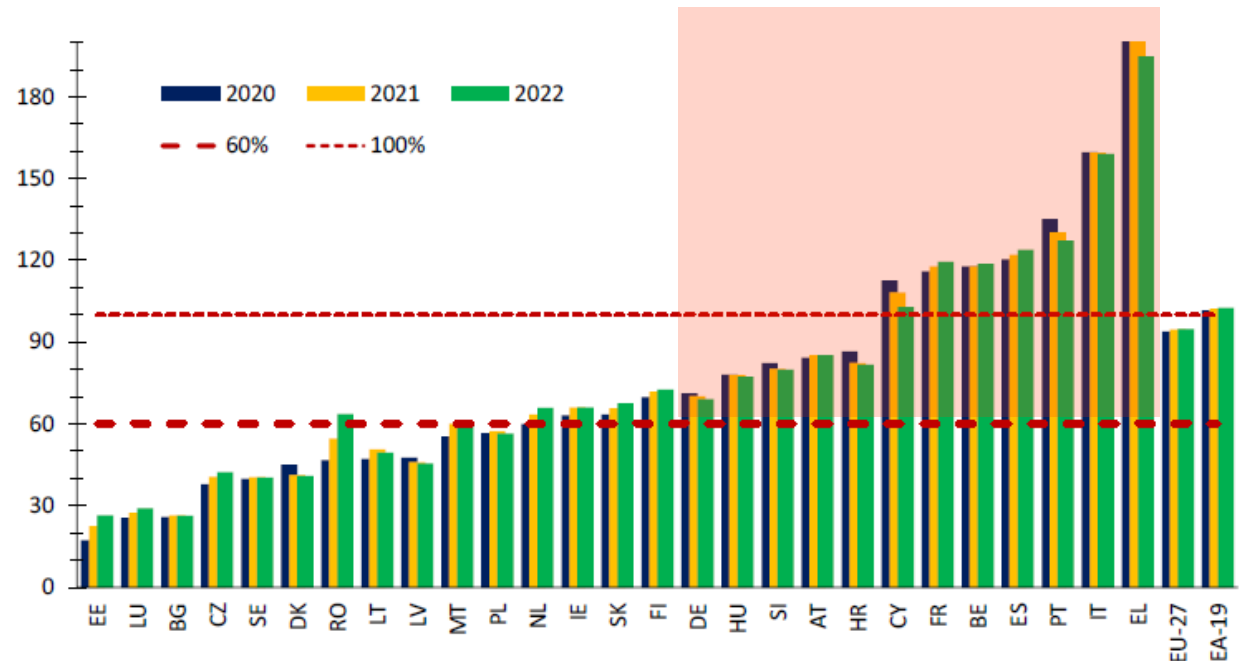
# Fiscal sustainability risks

General government balance (in Member States, 2020-2022, in % of GDP)

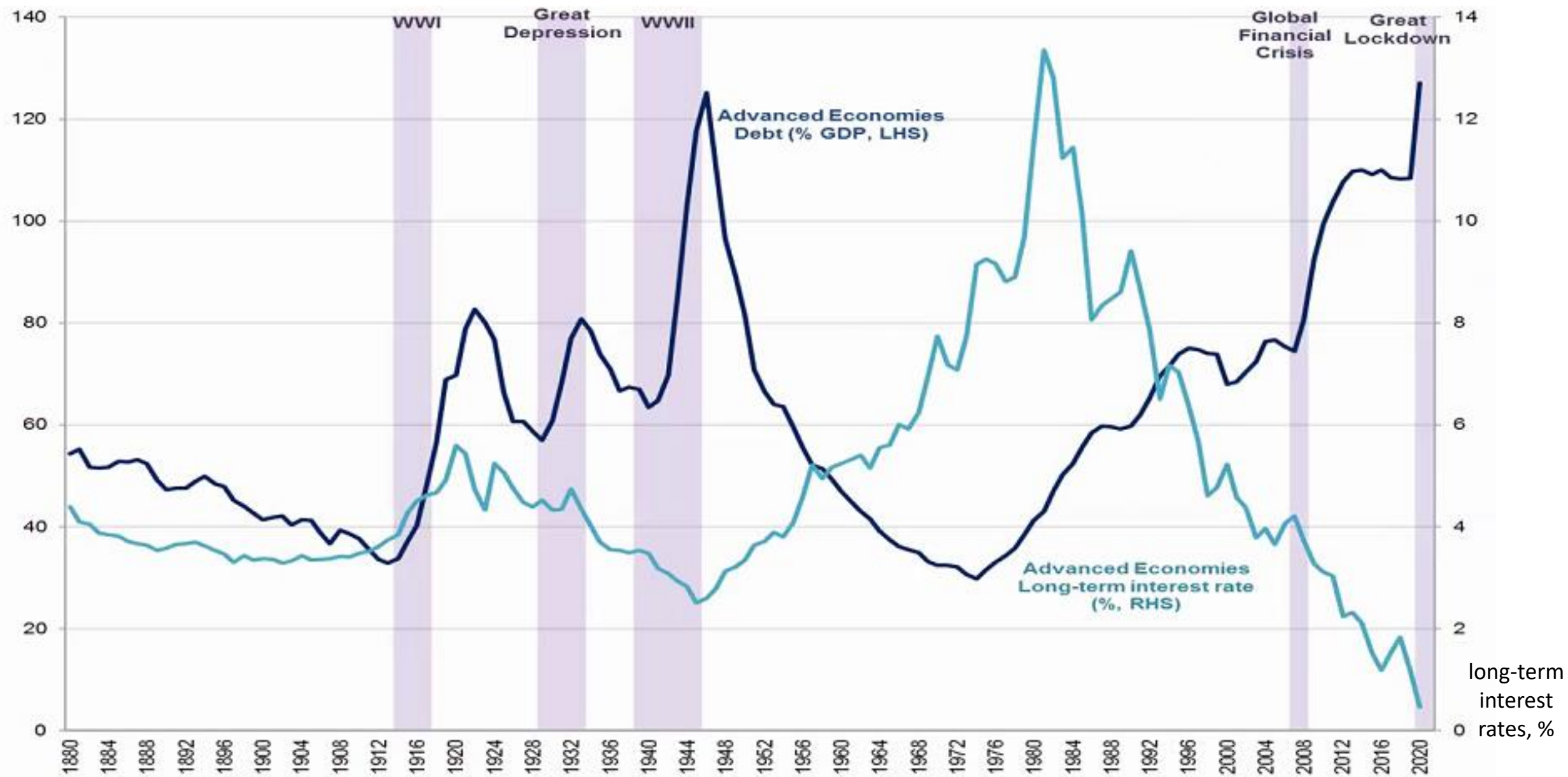


Severe economic situation and the large fiscal policy response **have led to higher budget deficits and debts**

General government debt developments (in Member States, 2020-2022, % of GDP)

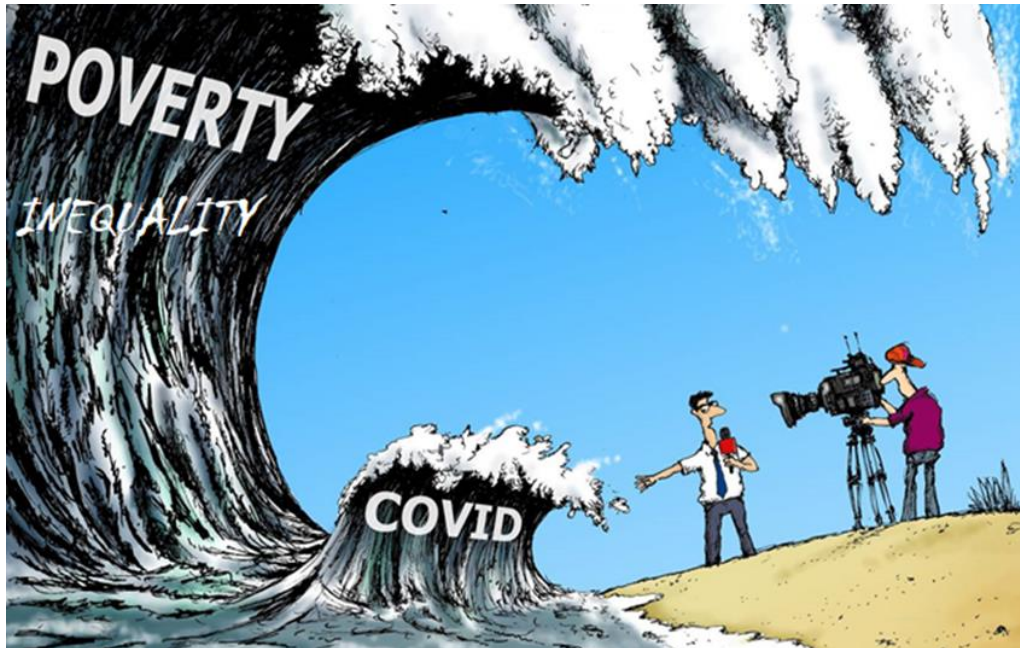


## Debt, % GDP

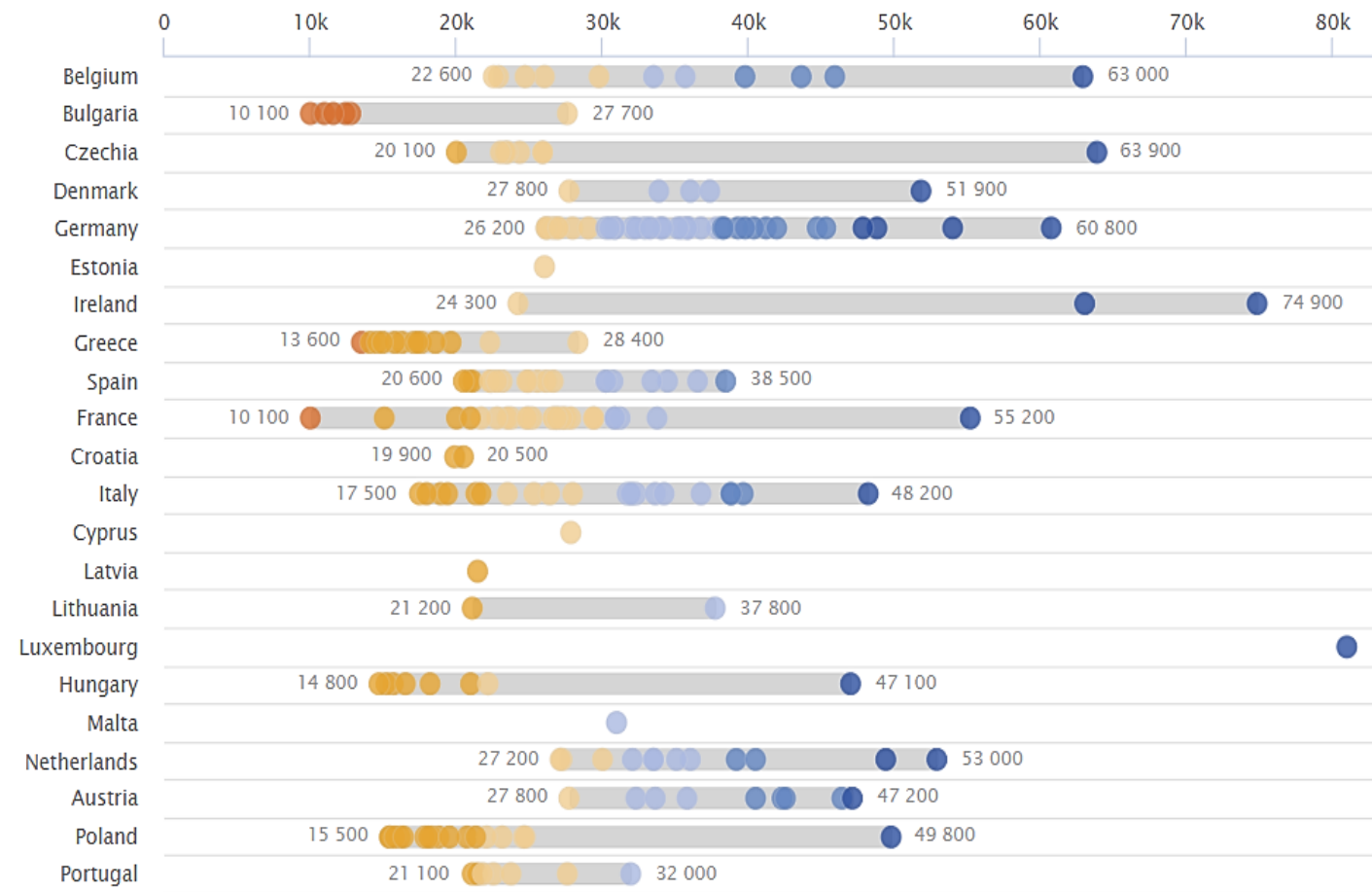


# COVID-19 crisis has the **potential to exacerbate disparities and inequality** – across geographic areas and across workers

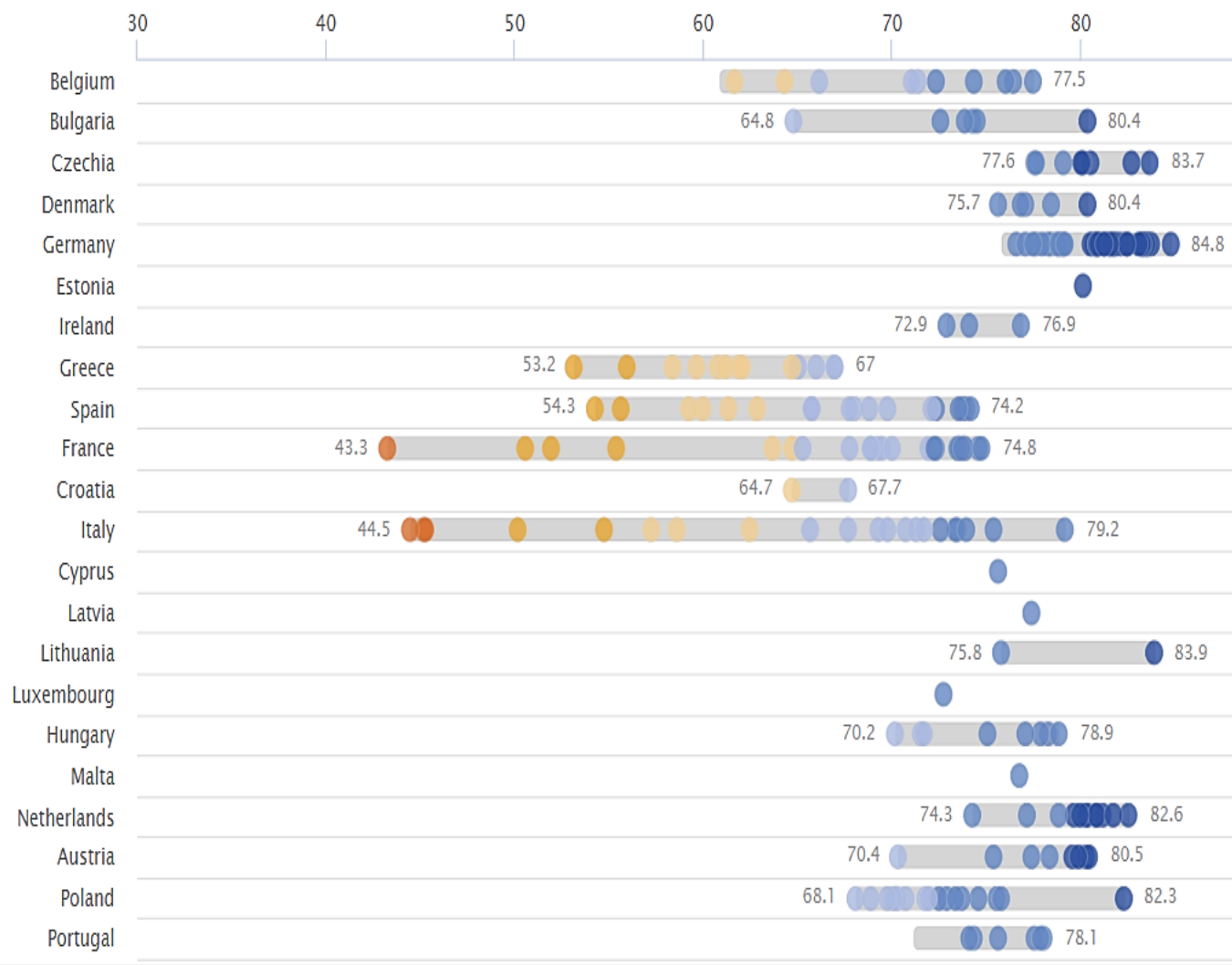
European regions with lower GDP per capita and subdued economic performance prior to the pandemic **appear to be more exposed to the effects of the crisis**



Gross domestic product (PPS per inhabitant), 2019



## Employment rate, From 20 to 64 years , 2019



Source: Eurostat

The pandemic also has the potential to **exacerbate intergenerational inequality**. The young and poor appear to be hit doubly hard.

## Seasonally adjusted youth (under 25s) unemployment

	Rates (%)				
	Jan 20	Oct 20	Nov 20	Dec 20	Jan 21
<b>Euro area</b>	15.6	17.4	17.2	17.2	<b>17.1</b>
<b>EU</b>	15.0	16.9	16.8	16.9	<b>16.9</b>
<b>Belgium</b>	11.9	16.6	16.6	16.6	:
<b>Bulgaria</b>	12.1	14.2	13.8	13.8	<b>16.5</b>
<b>Czechia</b>	5.6	8.6	9.4	10.5	<b>10.8</b>
<b>Denmark</b>	10.5	12.3	12.3	11.6	<b>11.3</b>
<b>Germany</b>	5.7	6.5	6.4	6.3	<b>6.2</b>
<b>Estonia</b>	8.6	22.9	23.3	18.9	:
<b>Ireland</b>	12.4	16.5	16.4	15.5	<b>15.7</b>
<b>Greece</b>	31.7	32.9	34.0	:	:
<b>Spain</b>	31.3	40.2	40.0	40.7	<b>39.9</b>
<b>France</b>	19.5	19.1	18.5	18.1	<b>18.4</b>
<b>Croatia</b>	17.4	22.2	22.2	22.2	:
<b>Italy</b>	28.9	29.8	29.4	29.7	:
<b>Cyprus</b>	13.4	20.1	20.1	20.1	:
<b>Latvia</b>	14.0	12.6	13.1	14.1	<b>15.5</b>
<b>Lithuania</b>	15.6	19.9	18.4	17.7	<b>18.2</b>
<b>Luxembourg</b>	18.1	22.3	22.3	23.1	<b>22.0</b>
<b>Hungary</b>	12.6	10.3	12.7	10.9	<b>15.3</b>
<b>Malta</b>	10.6	10.7	11.1	11.6	<b>11.5</b>
<b>Netherlands</b>	6.4	10.1	9.4	9.5	<b>9.1</b>
<b>Austria</b>	9.7	8.7	10.2	11.0	<b>9.7</b>
<b>Poland</b>	8.9	12.7	13.6	13.8	<b>14.3</b>
<b>Portugal</b>	19.5	24.7	23.4	23.7	<b>24.6</b>
<b>Romania</b>	18.2	18.0*	:	:	:
<b>Slovenia</b>	10.3	14.6	14.6	14.6	:
<b>Slovakia</b>	16.4	19.9	20.4	20.5	<b>20.8</b>
<b>Finland</b>	18.8	21.4	21.5	21.6	:
<b>Sweden</b>	20.5	25.0	24.4	24.0	<b>24.1</b>

: Data not available

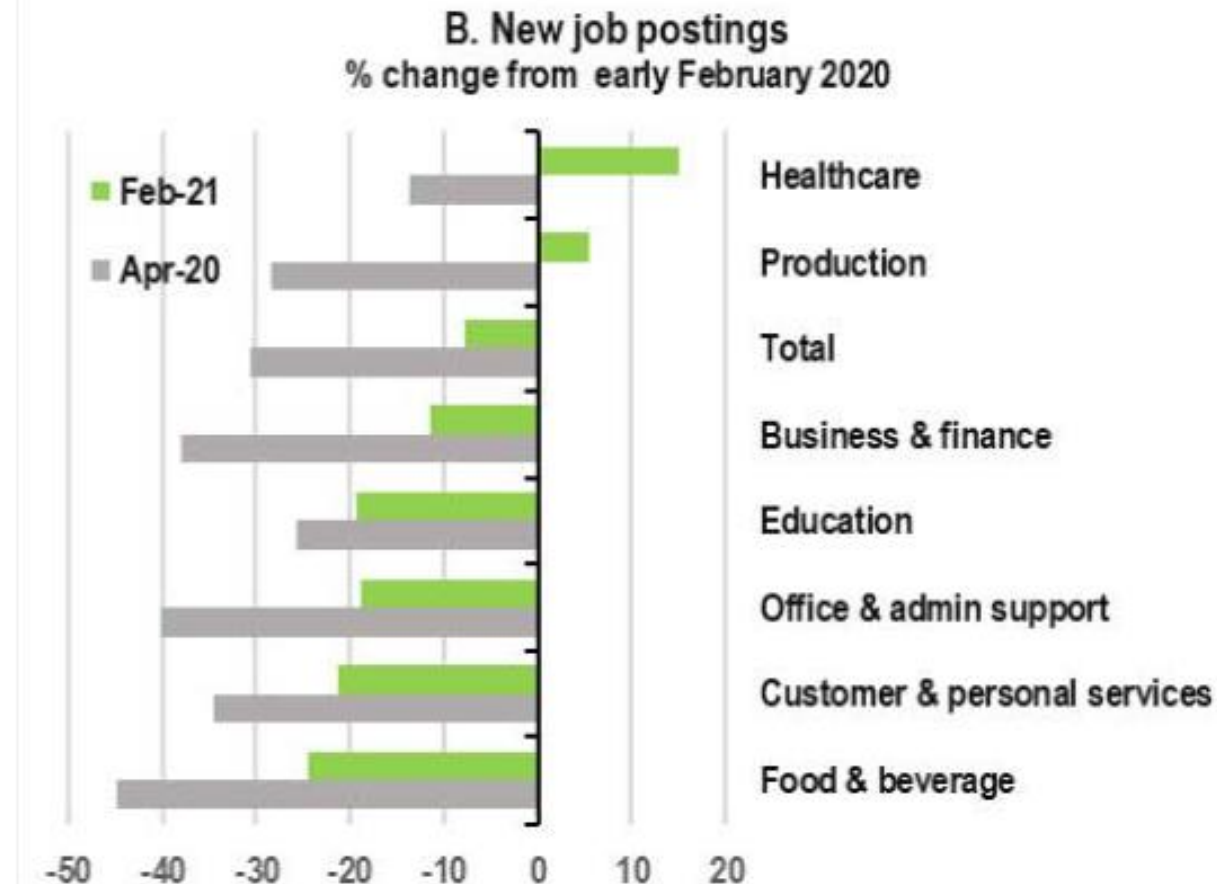
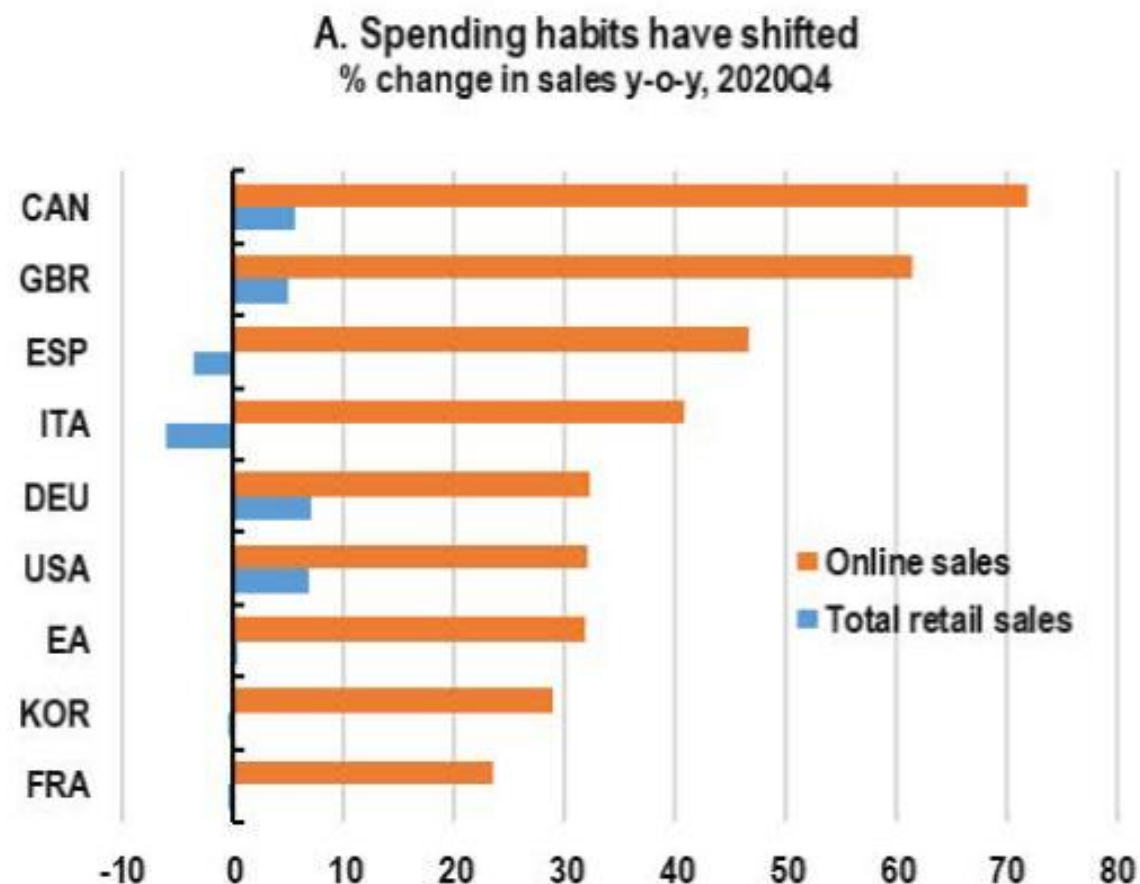
\* 2020 Q3 data

Belgium, Croatia, Cyprus, Romania and Slovenia: quarterly data

Source datasets: [une\\_rt\\_m](#) (rates) and [une\\_rt\\_m](#) (in 1 000 persons)

[ec.europa.eu/eurostat](https://ec.europa.eu/eurostat)

# COVID-19 pandemic has led to **marked changes in product and labour markets** and this process will continue



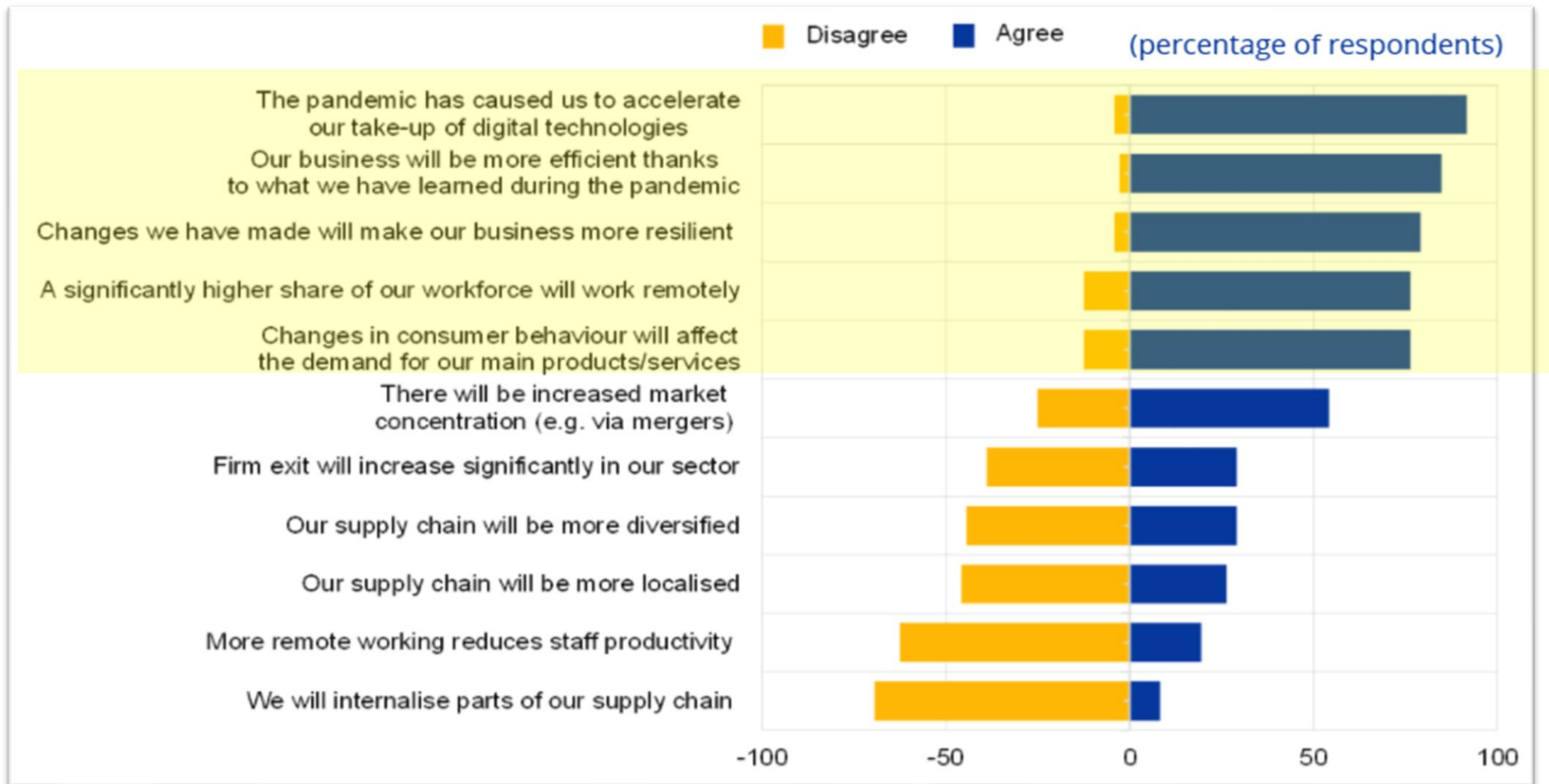
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## Long term effects and challenges

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What does it mean sustainable economic growth?

# Long term effects of the pandemic



# Which of the following do you think are the **main global challenges for the future of the EU?** (% EU)



A word cloud on a light orange background listing various global challenges. The text is arranged in a non-uniform, scattered pattern. The challenges listed are: RISKS ARISING FROM NEW TECHNOLOGIES, FURTHER RISE OF POPULISM, ORGANISED CRIME, RAPID CHANGES IN OUR POPULATIONS, CYBER WAR AND NEW FORMS OF CONFLICTS, DECLINE OF THE SHARE OF THE EUROPEAN POPULATION COMPARED TO THE REST OF THE WORLD, TERRORISM, RISKS RELATED TO HEALTH, CLIMATE CHANGE AND ENVIRONMENTAL ISSUES, BREAKDOWN IN GLOBAL RELATIONS BETWEEN COUNTRIES, and FORCED MIGRATION AND DISPLACEMENT.

RISKS ARISING FROM NEW TECHNOLOGIES

FURTHER RISE OF POPULISM

ORGANISED CRIME

RAPID CHANGES IN OUR POPULATIONS

CYBER WAR AND NEW FORMS OF CONFLICTS

DECLINE OF THE SHARE OF THE EUROPEAN POPULATION COMPARED TO THE REST OF THE WORLD

TERRORISM

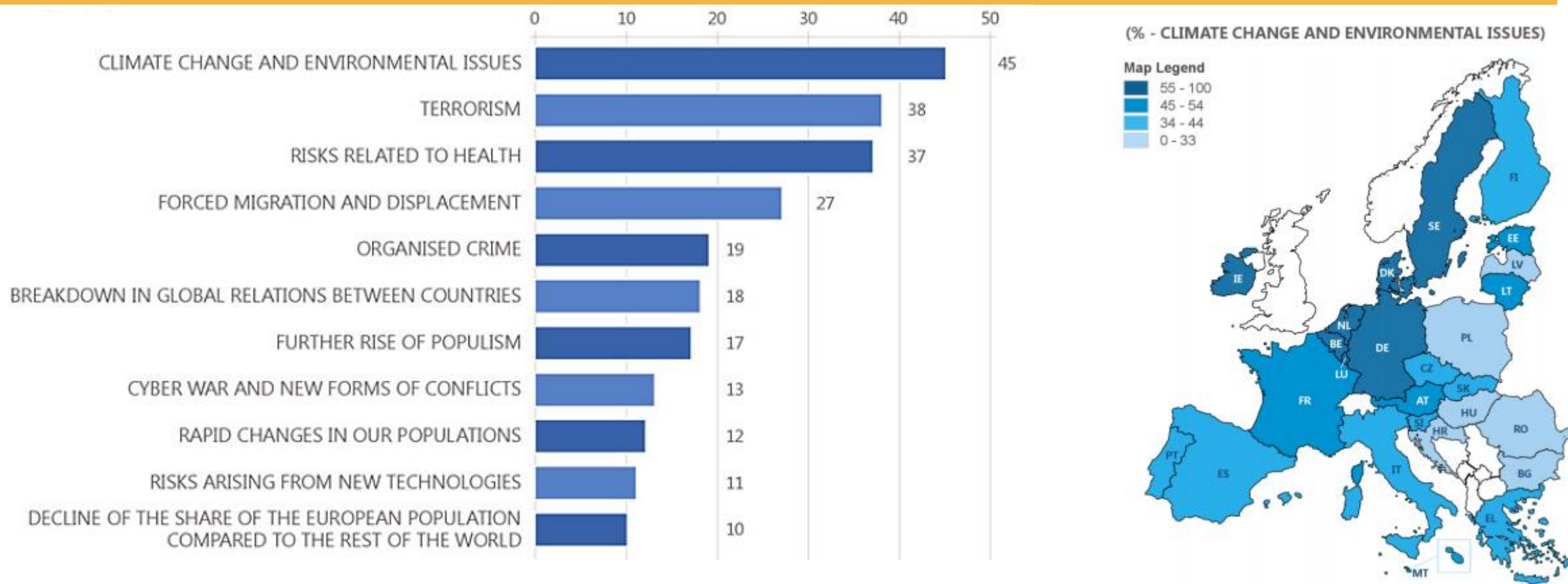
RISKS RELATED TO HEALTH

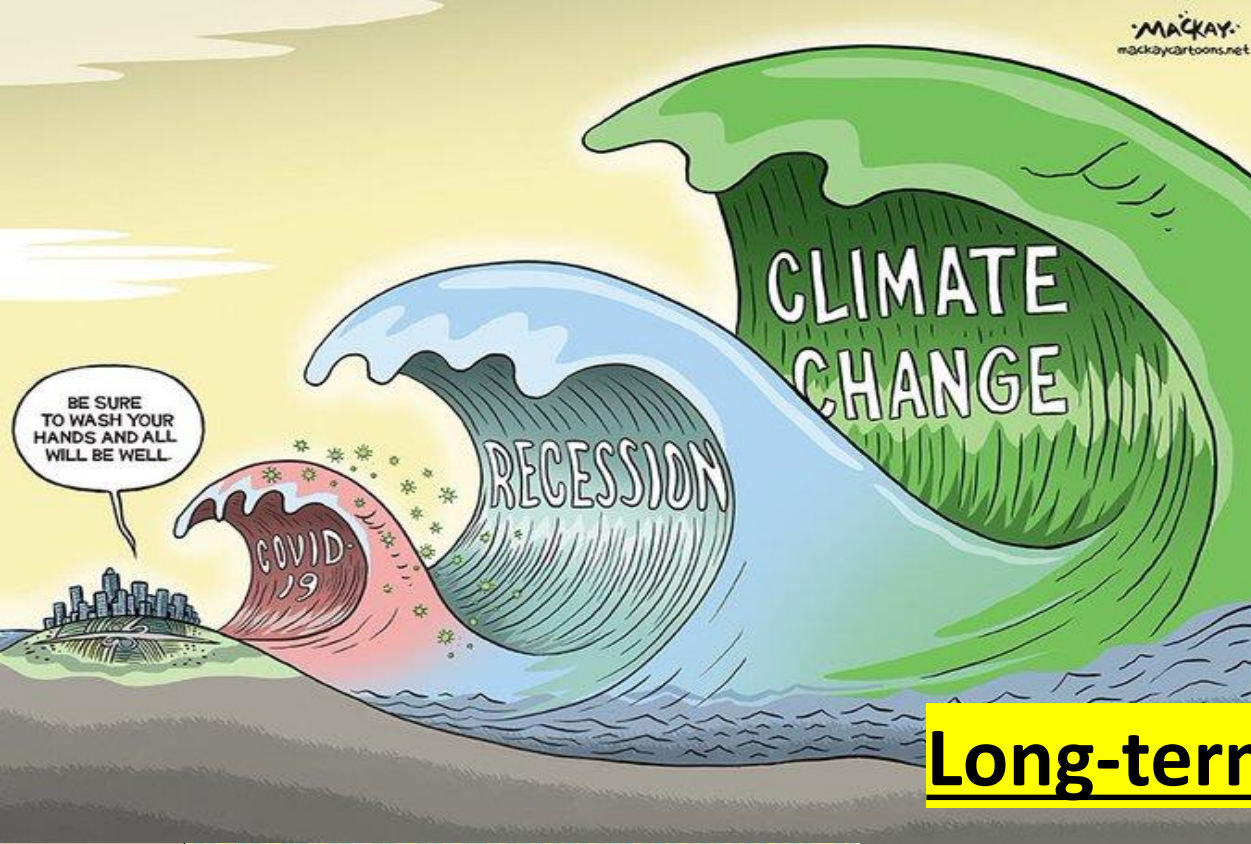
CLIMATE CHANGE AND ENVIRONMENTAL ISSUES

BREAKDOWN IN GLOBAL RELATIONS BETWEEN COUNTRIES

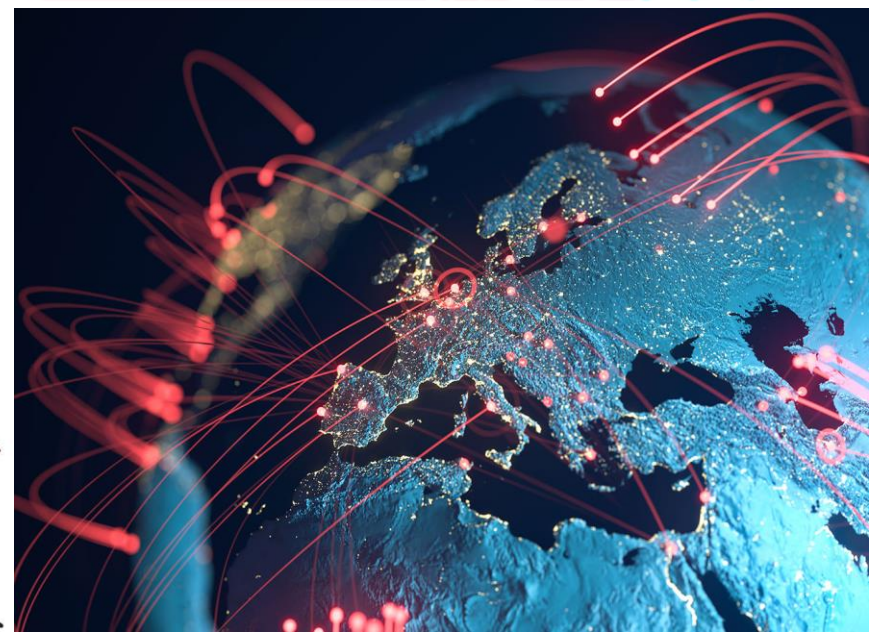
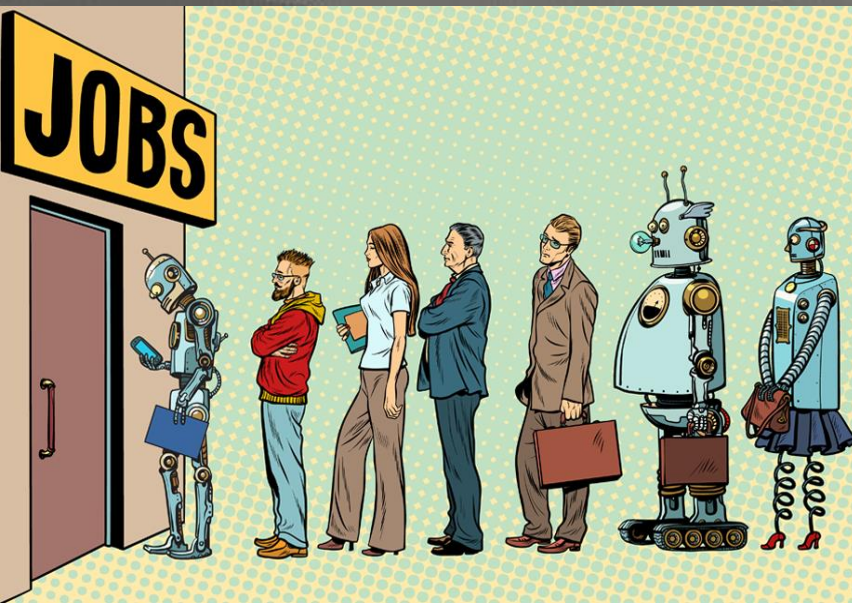
FORCED MIGRATION AND DISPLACEMENT

Which of the following do you think are the **main global challenges for the future of the EU**? (% - EU)



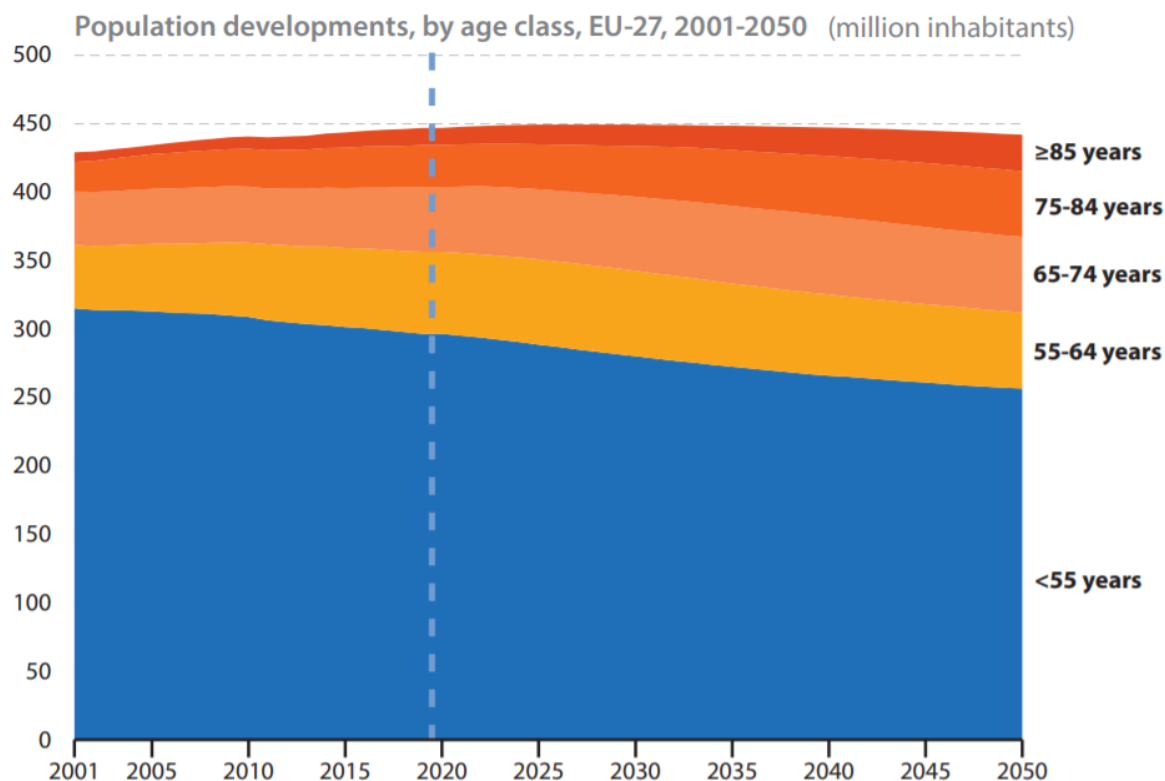


## Long-term challenges

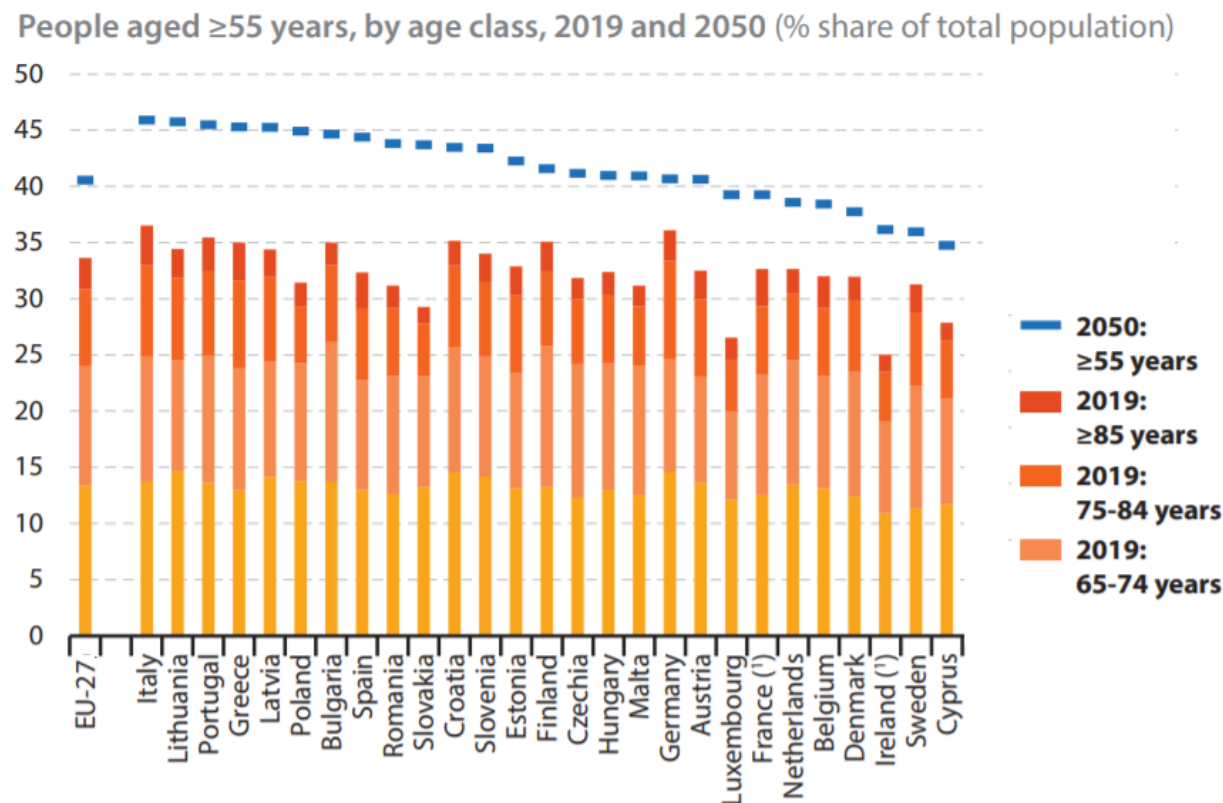


# Population ageing will transform the structure of society

Population of older people (those aged 65 years or more) in the EU-27 will increase significantly, rising from 90.5 million at the start of 2019 to reach 129.8 million by 2050



Source: Eurostat (online data codes: demo\_pjangroup and proj\_19np)

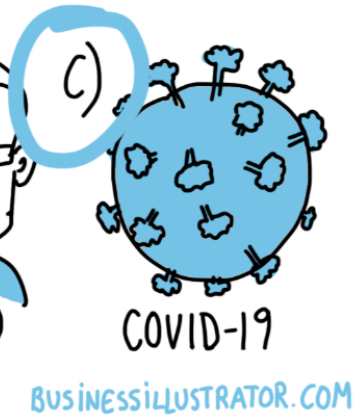


Source: Report "Ageing Europe", Eurostat, 11/2020

# Digital transformation and automation

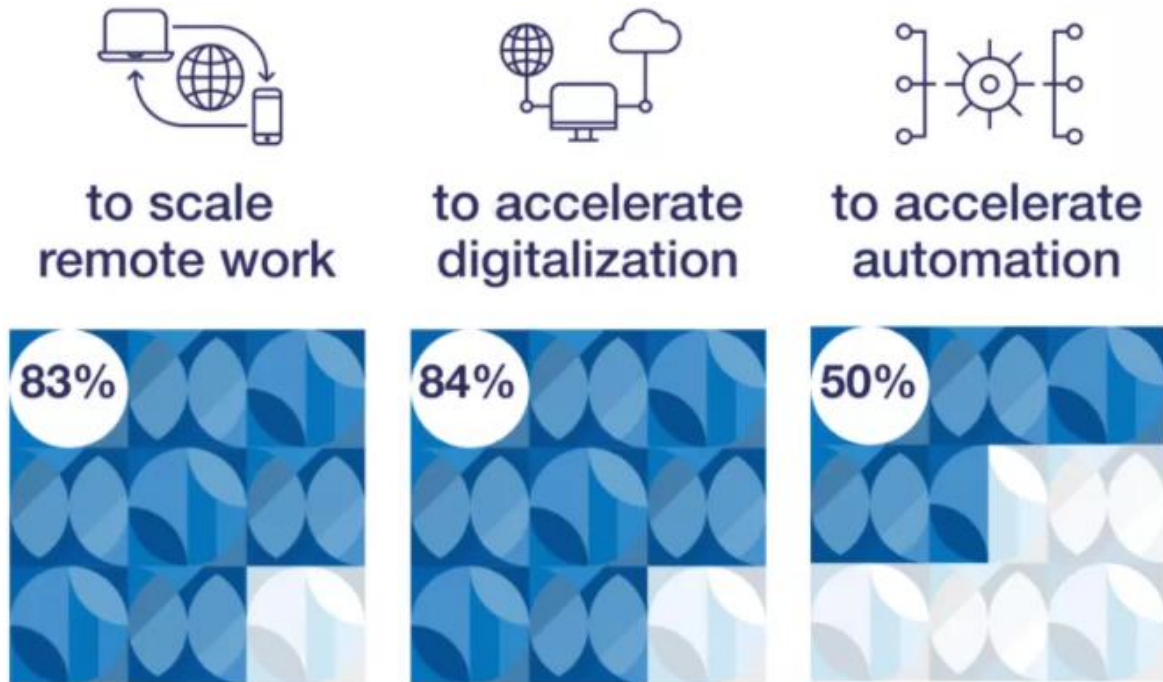
humans vs machines?

WHO LED THE DIGITAL TRANSFORMATION  
OF YOUR COMPANY ?

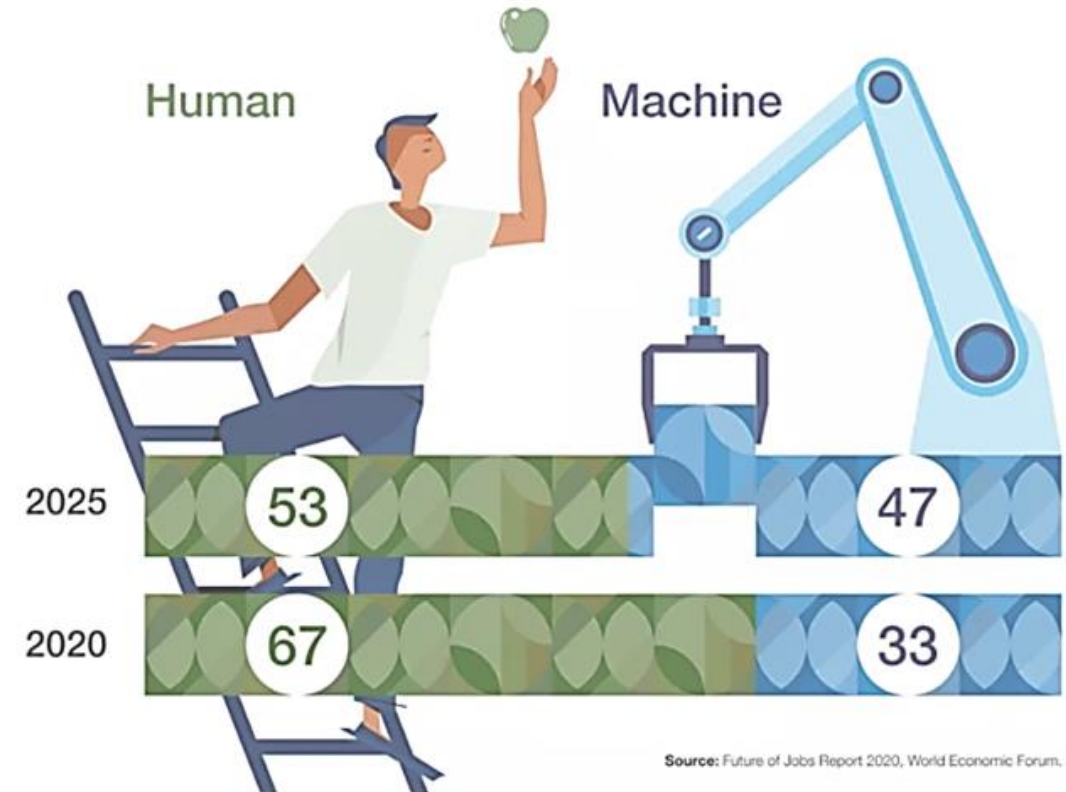


# Automation and digital transformation

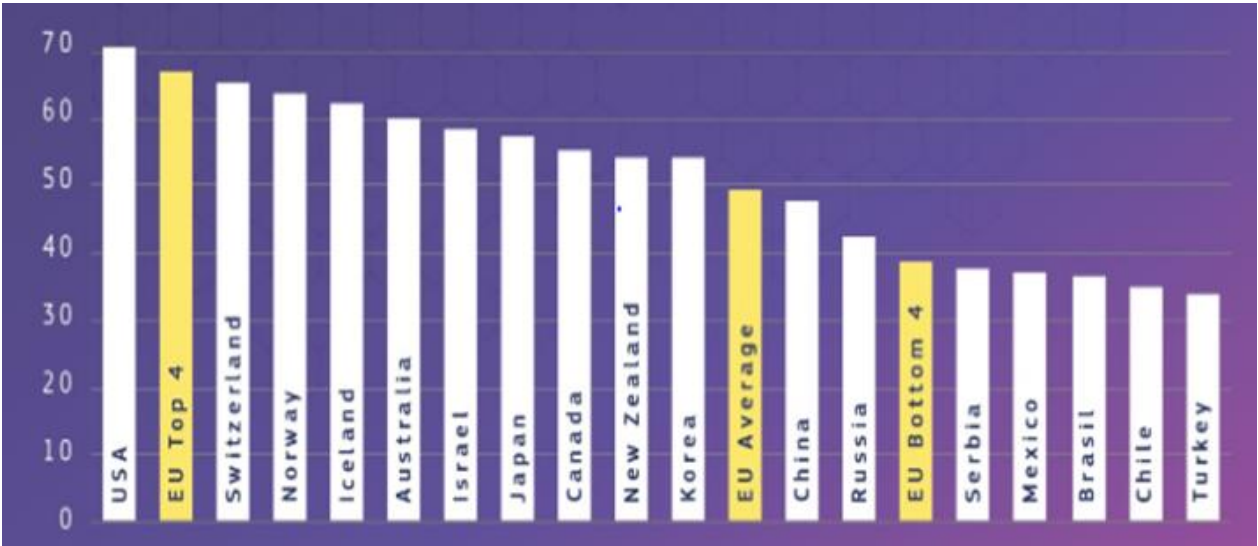
## COVID-19 is pushing companies



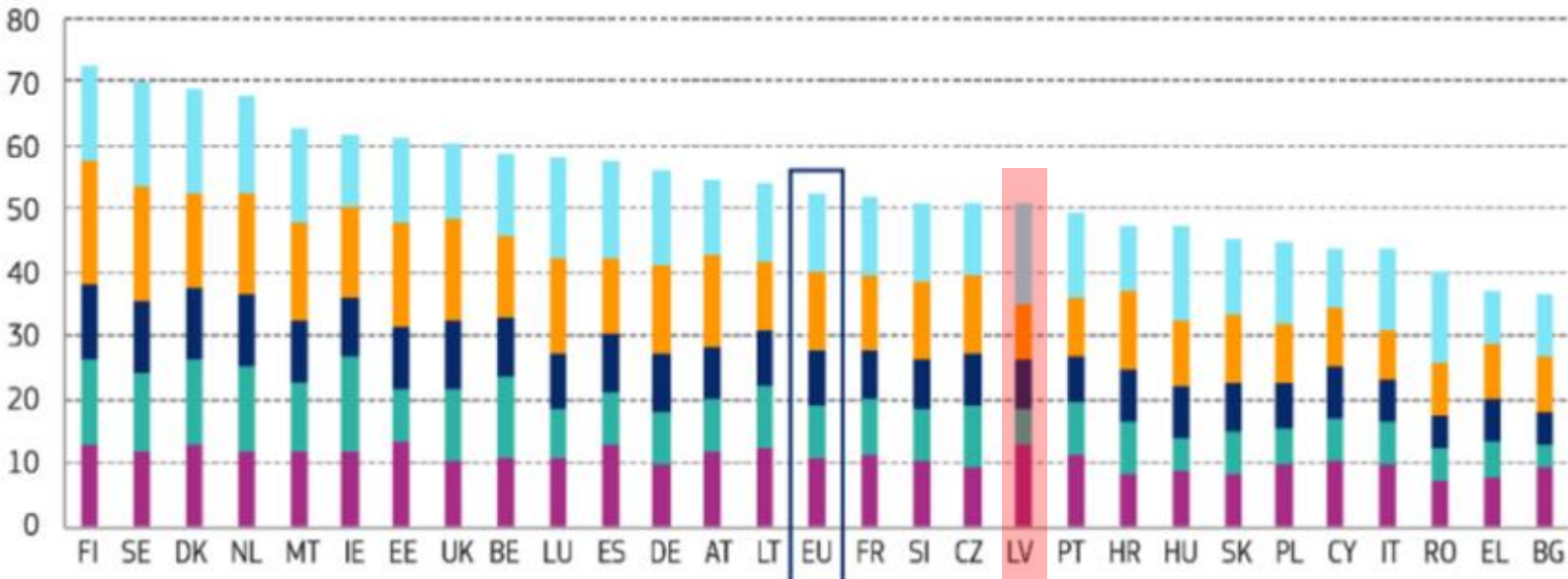
## Rate of automation



# Finland, Sweden, Denmark, Netherlands are among the global leaders in digitalization, but there are huge divergences among member states

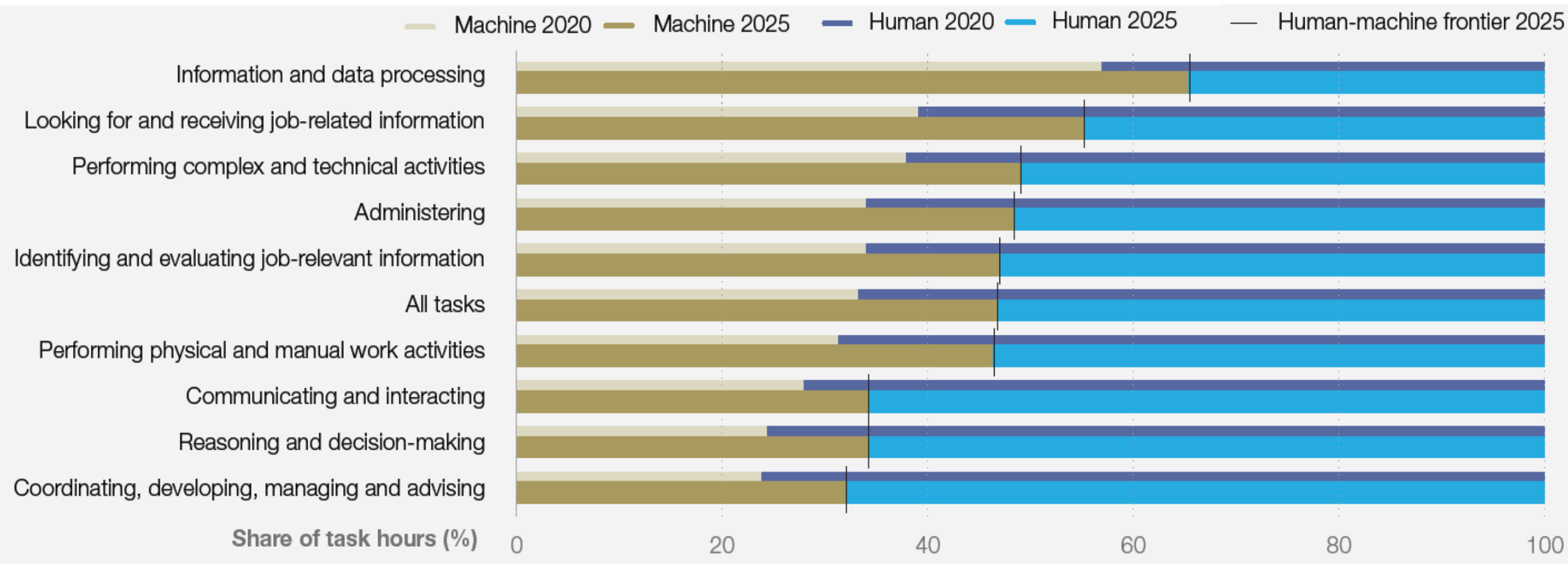


Source: European Commission, Digital Economy and Society Index (DESI), 12/2020

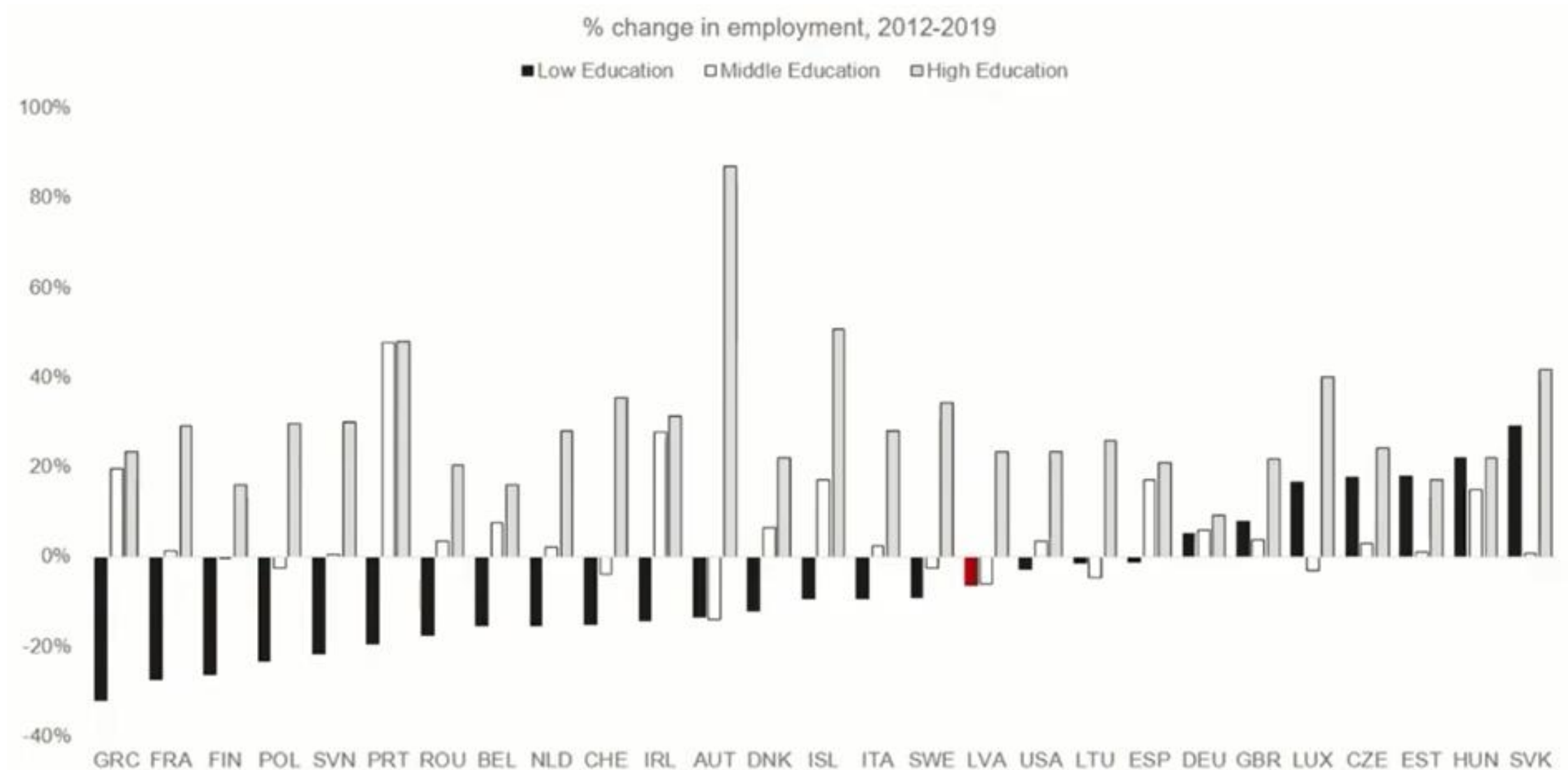


# Skills gaps will continue to be high as in-demand skills across jobs change

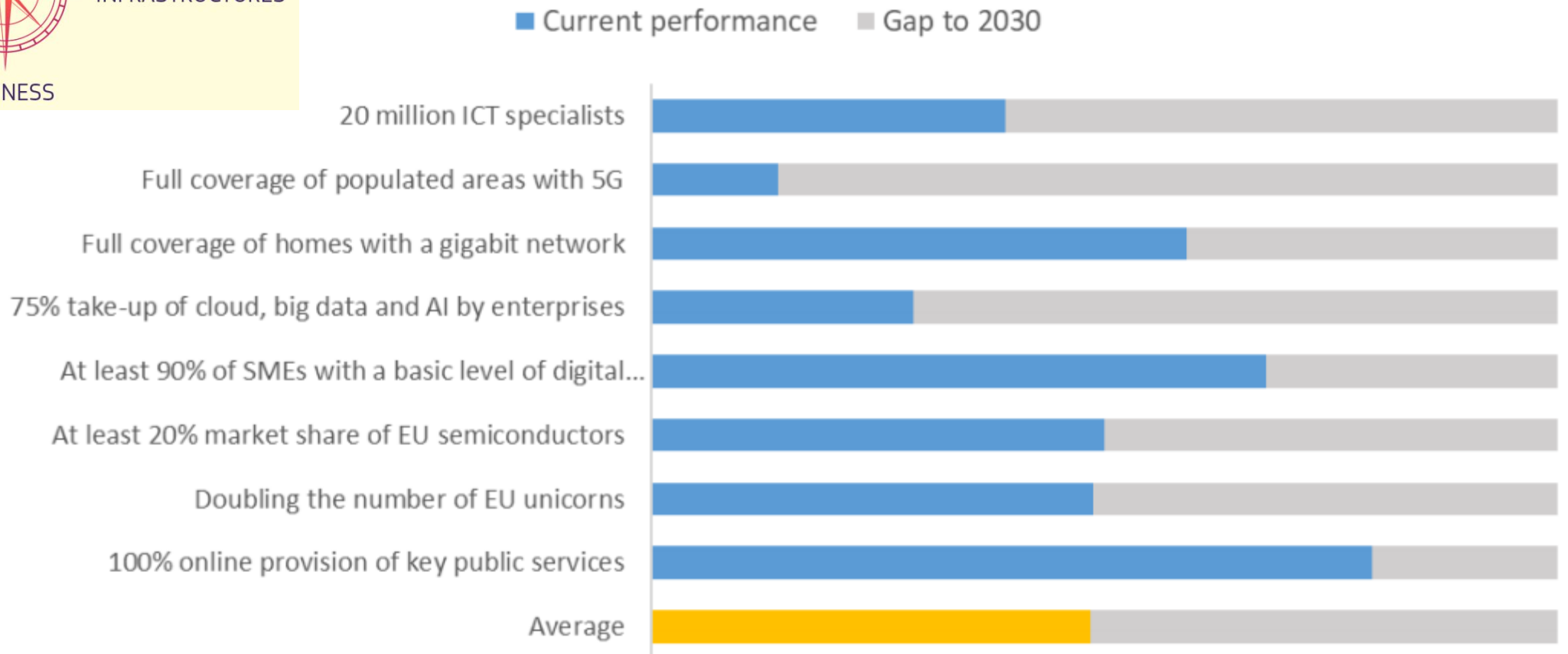
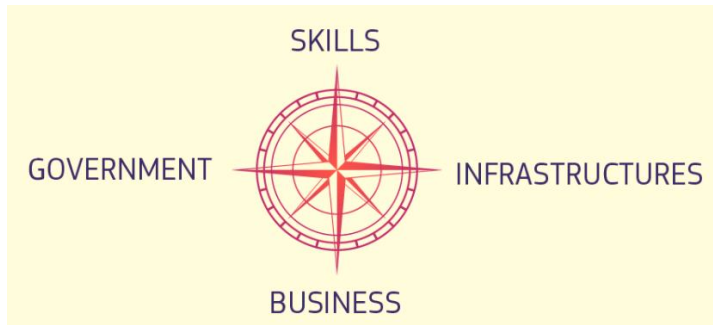
Share of tasks performed by **humans vs machines**, 2020 and 2025



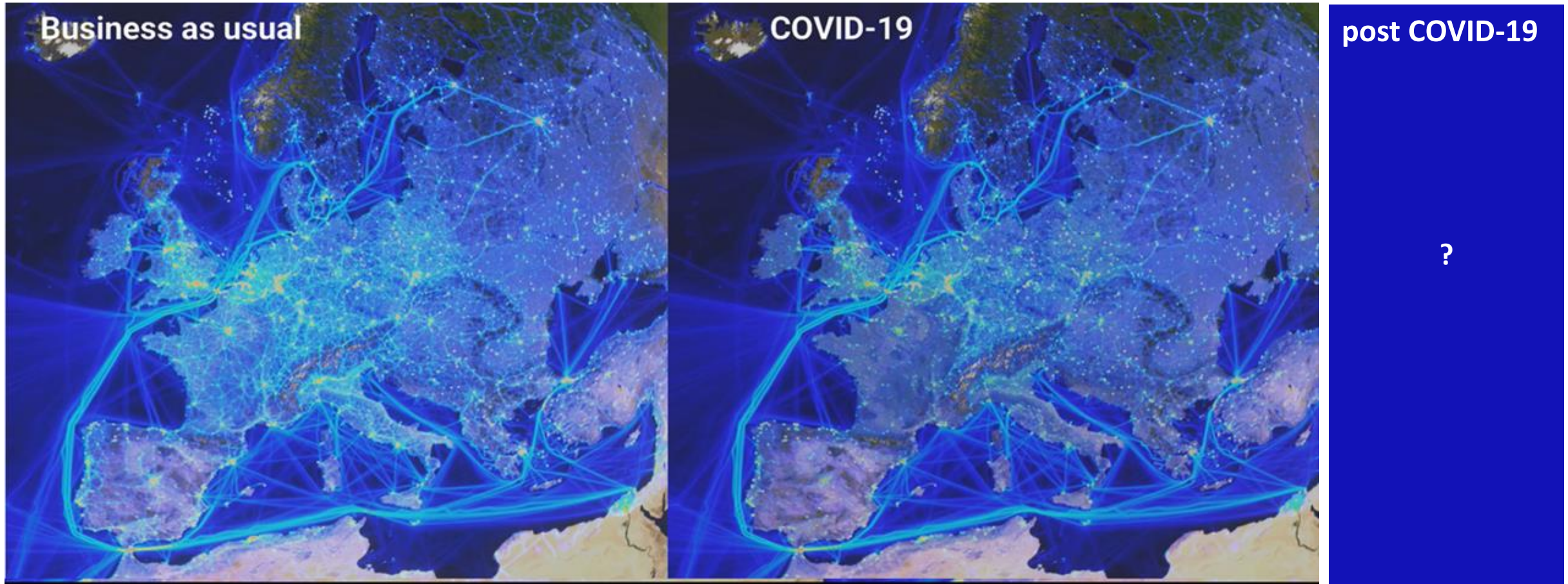
# Low-educated already exposed to automation risk may be even more vulnerable in a post-COVID-19 future



# European way for the Digital Decade – goals for 2030

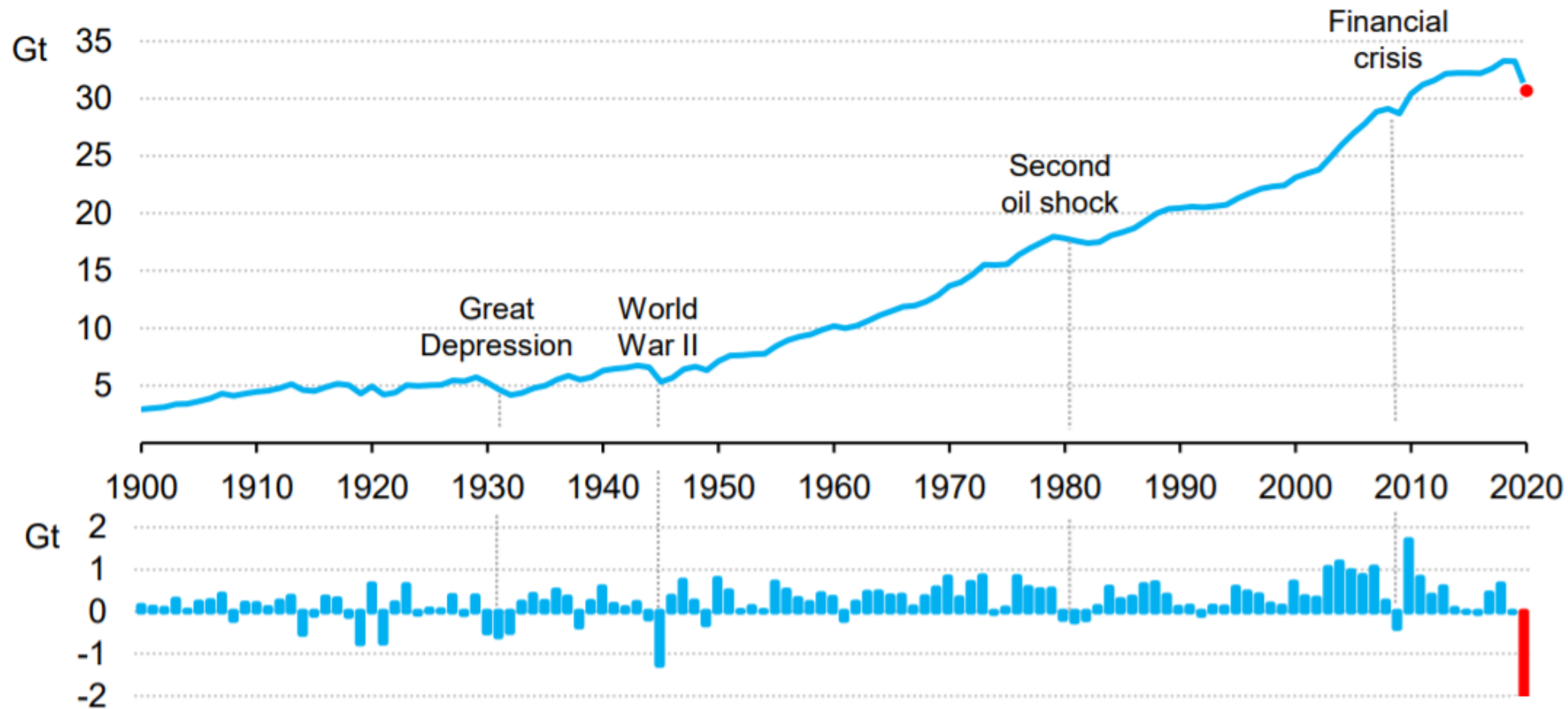


# Climate change



Largest **decreases in European emissions** between 1 January and 31 July 2020 attributed to the COVID-19 lockdown measures were found for **nitrogen oxides (NO<sub>x</sub>) (-13.1%)** and **CO<sub>2</sub> fossil fuel (-10.3%) emissions**

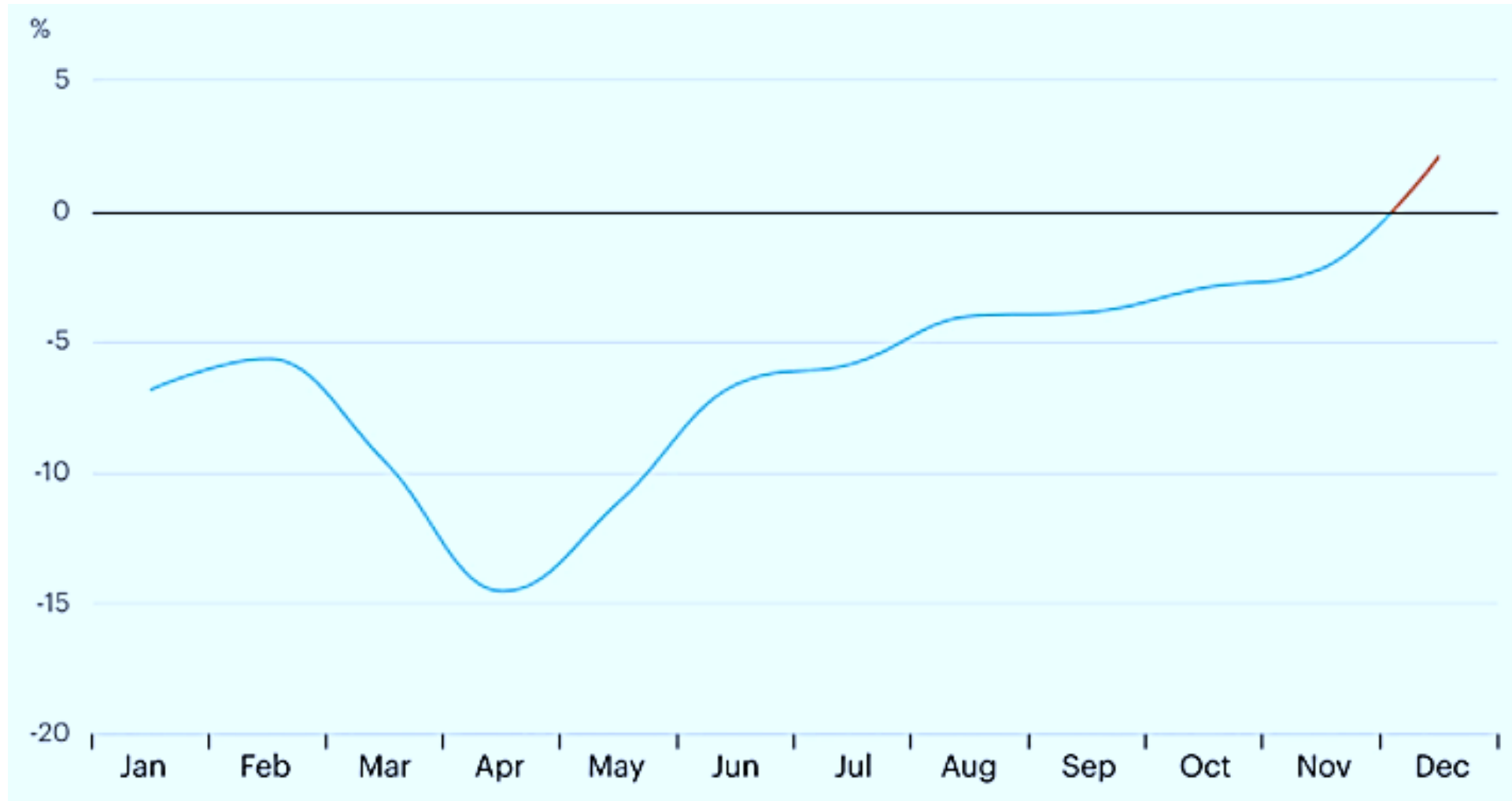
# Covid-19 resulted in the largest-ever decline in global emissions



As primary energy demand dropped nearly 4% in 2020, global energy-related CO<sub>2</sub> emissions fell by 5.8%

*decline in emissions of almost 2 000 million tonnes of CO<sub>2</sub> is without precedent in human history*

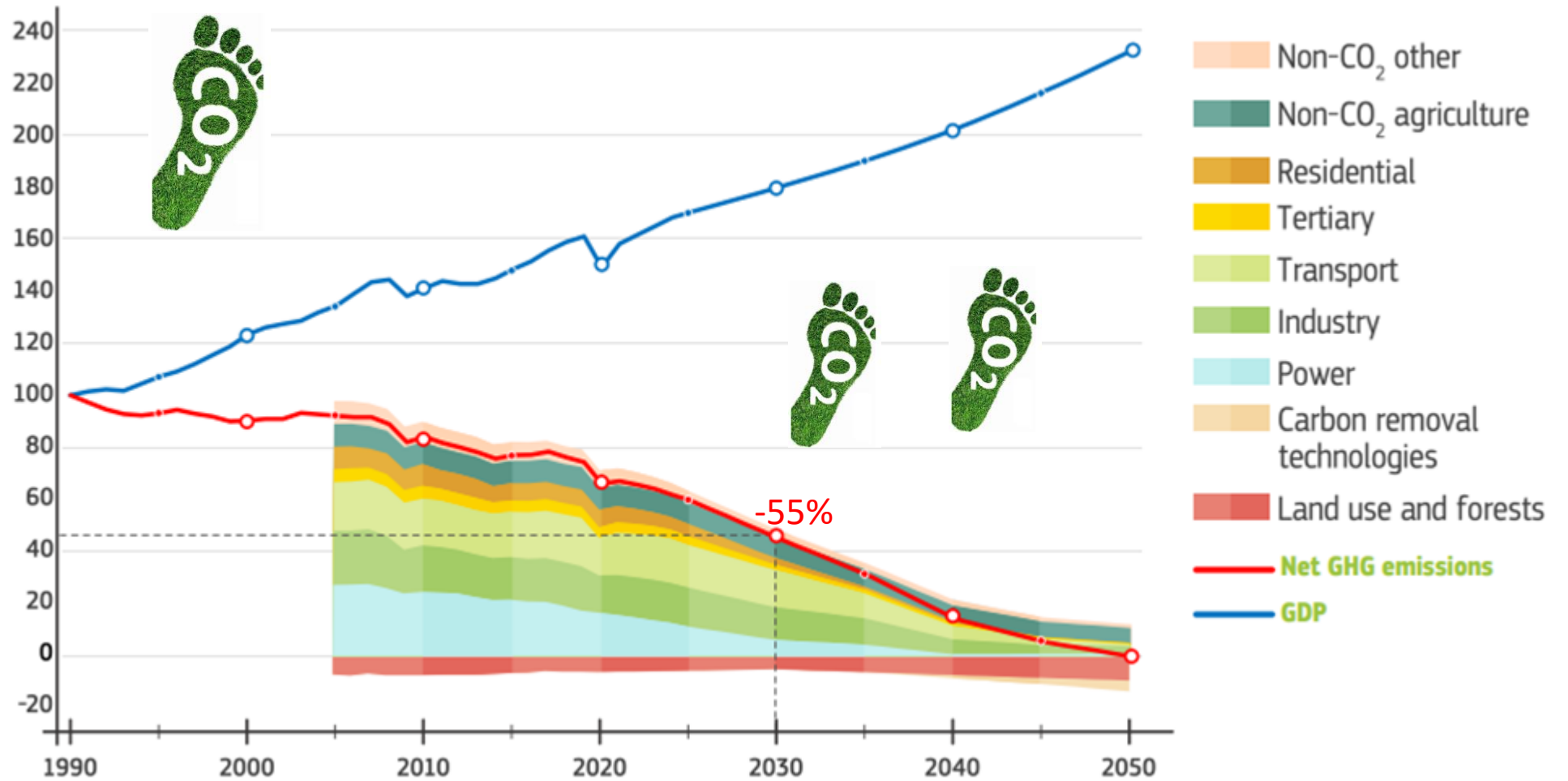
# Global CO<sub>2</sub> missions **have already rebounded** to pre-pandemic levels



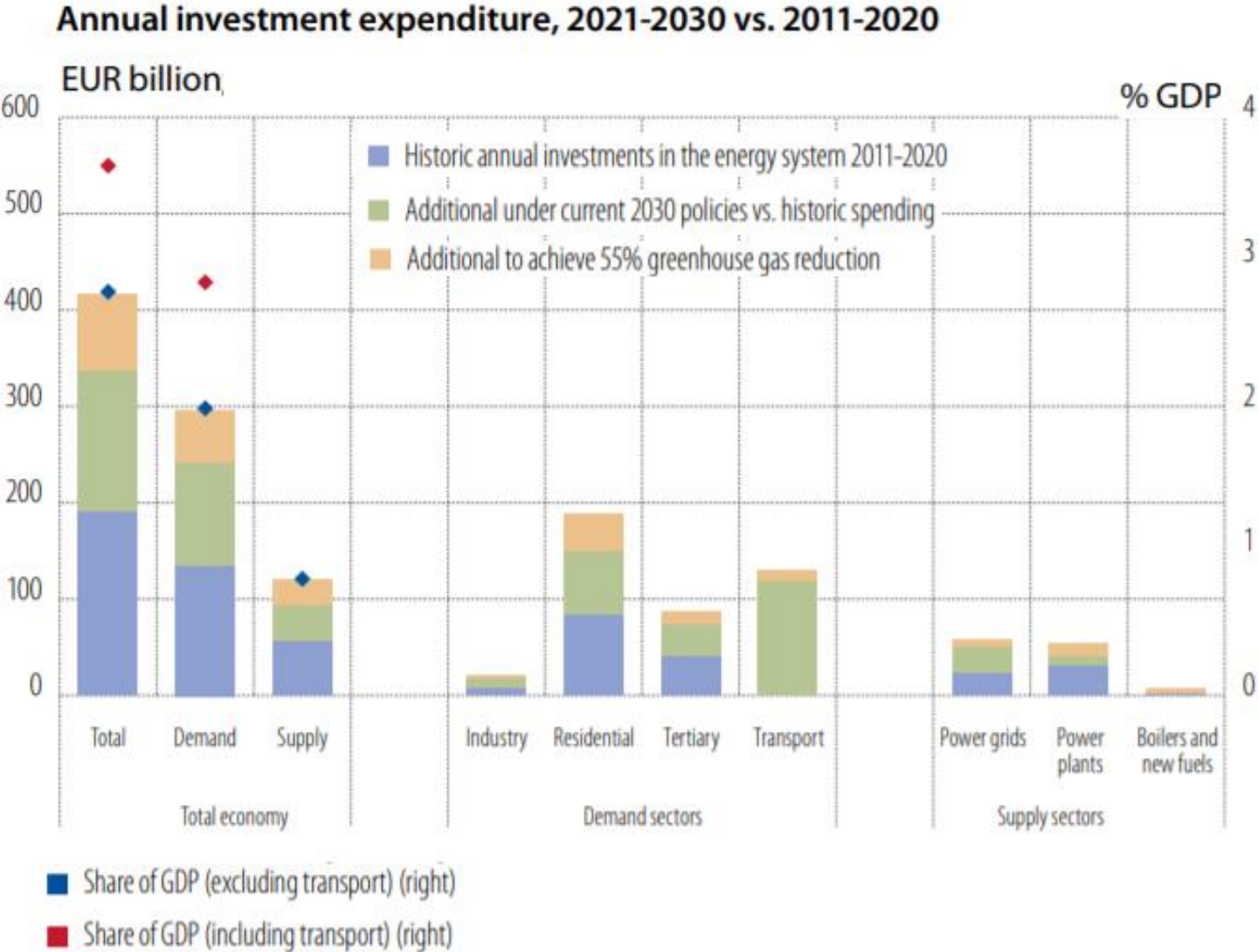
global CO<sub>2</sub> emissions in December 2020 were **2% higher** than the same month in 2019

# In order to meet EU's new climate targets for 2030 and to reach climate neutrality **many sectors will need to transform**

We will need to cut emissions while growing the economy

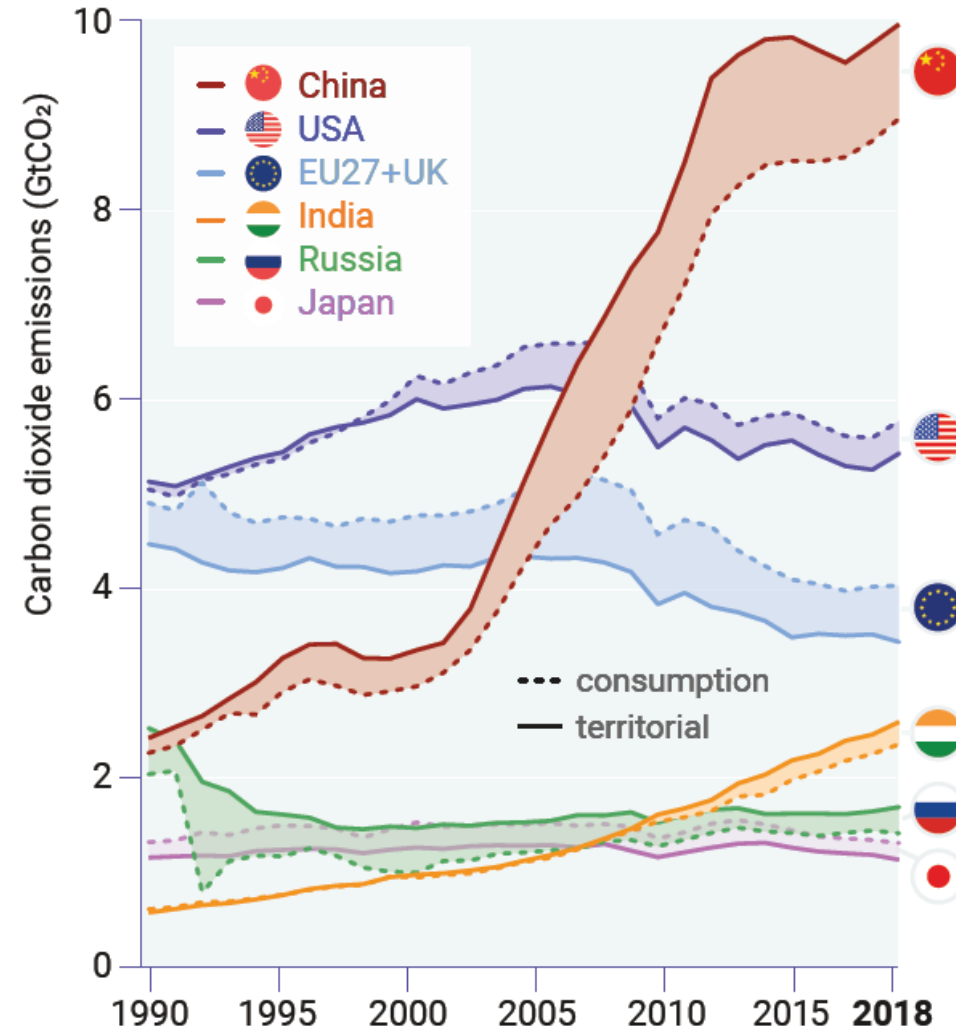
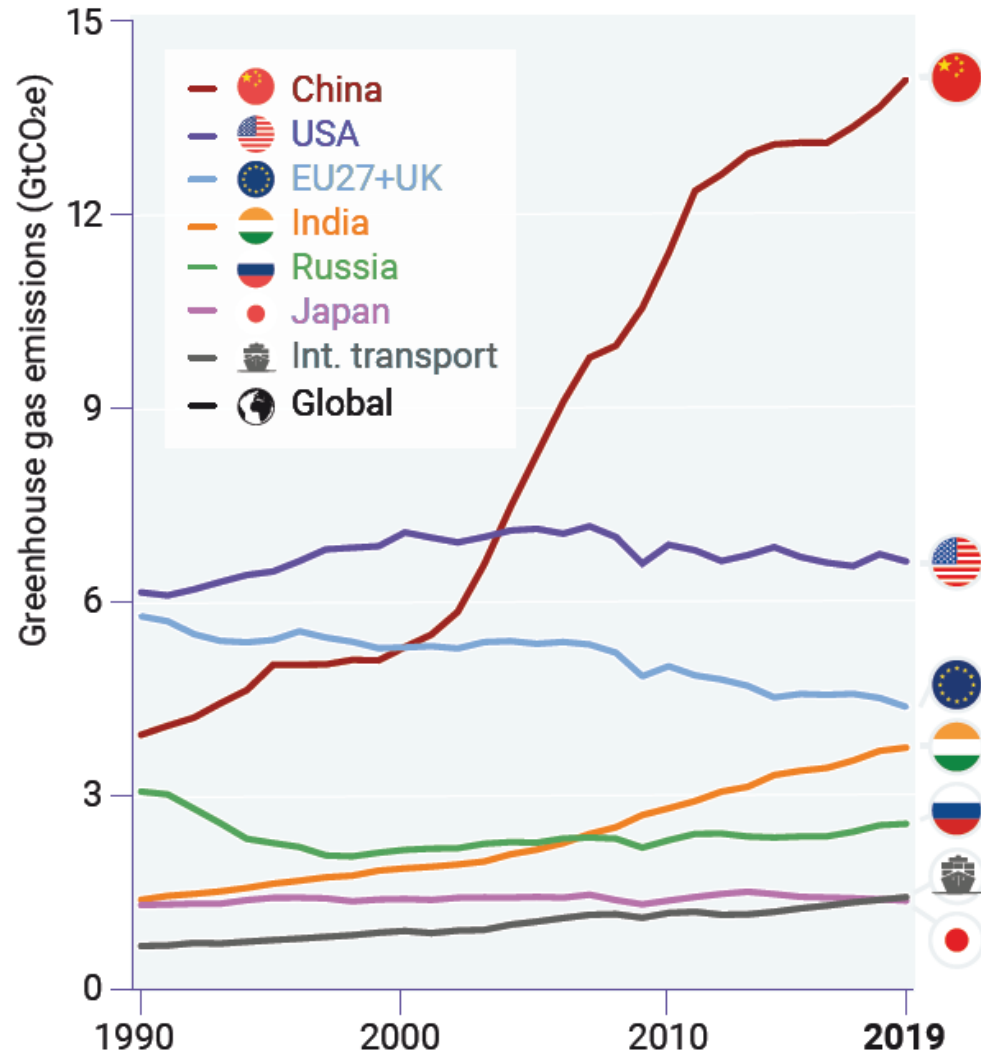


To achieve both the new greenhouse gas target by 2030 and carbon neutrality by 2050, **spending must increase to ~ 3% of GDP a year** (excluding transport investment needs)



The new proposal to cut greenhouse gas emissions 55% by 2030 **increases the annual energy-related investment needed by an average of about EUR 100 billion a year** compared to the baseline scenario in 2021-2030 and **close to EUR 200 billion for 2031-2050**

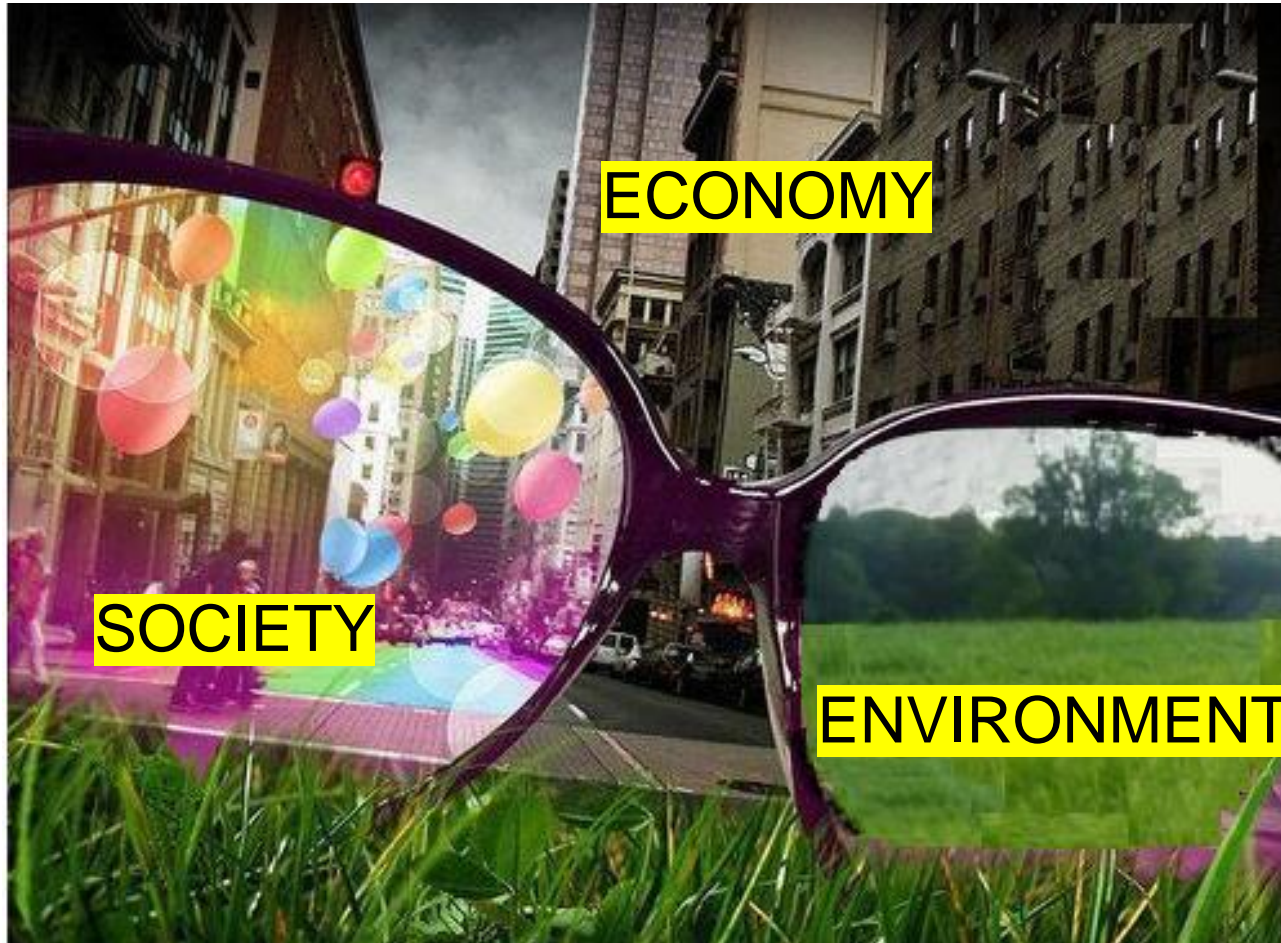
# International coordination will be crucial



*Consumption-based CO<sub>2</sub> emissions (dotted line) compared with territorial-based CO<sub>2</sub> emissions (solid line) for the top 6 emitters*

# Beyond climate policy - sustainable economic development

**Sustainability** - development that meets the needs of the present without compromising the needs of future generations

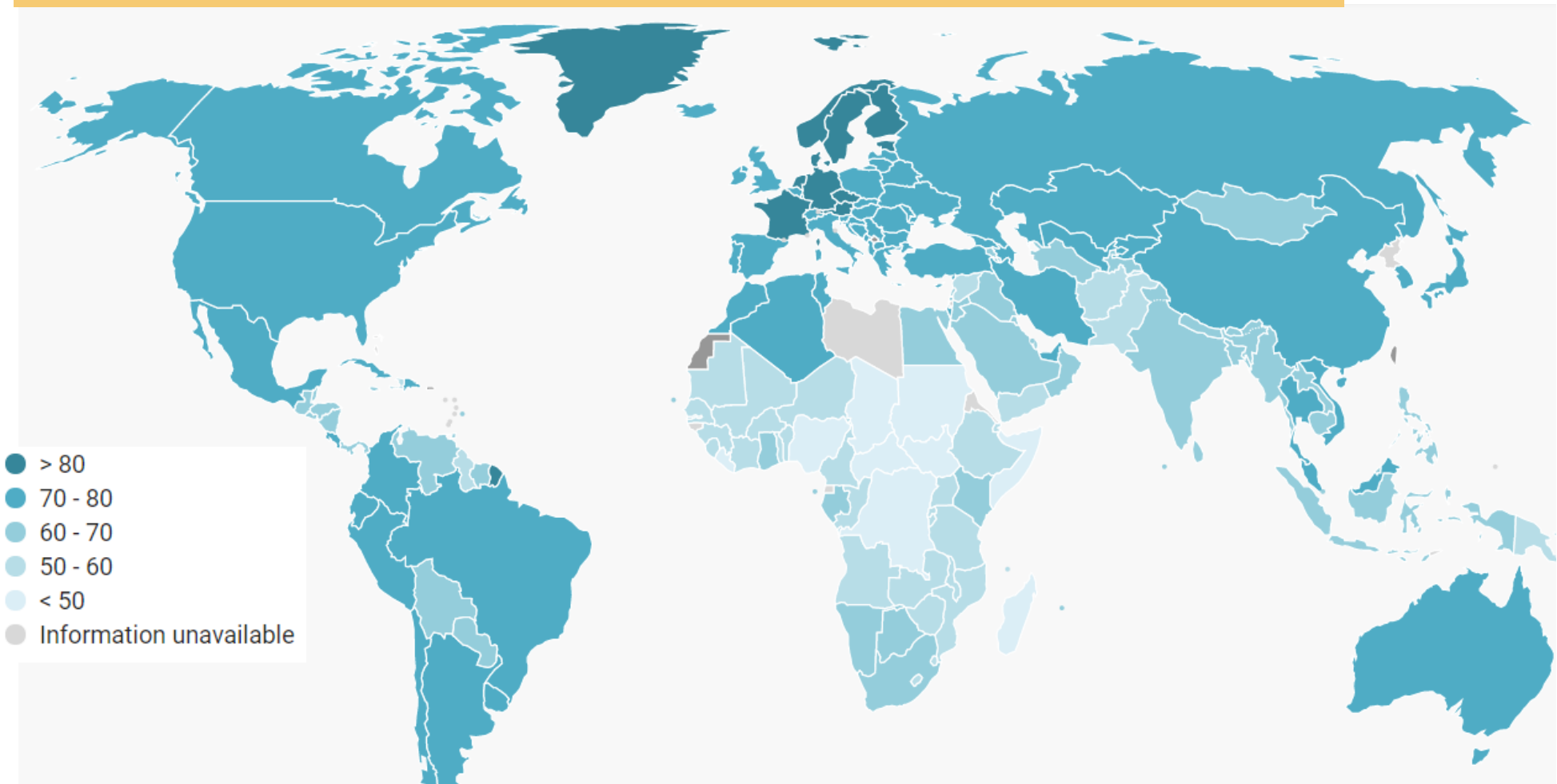


17 sustainable development goals (SDGs)



# Progress towards achieving all 17 SDGs

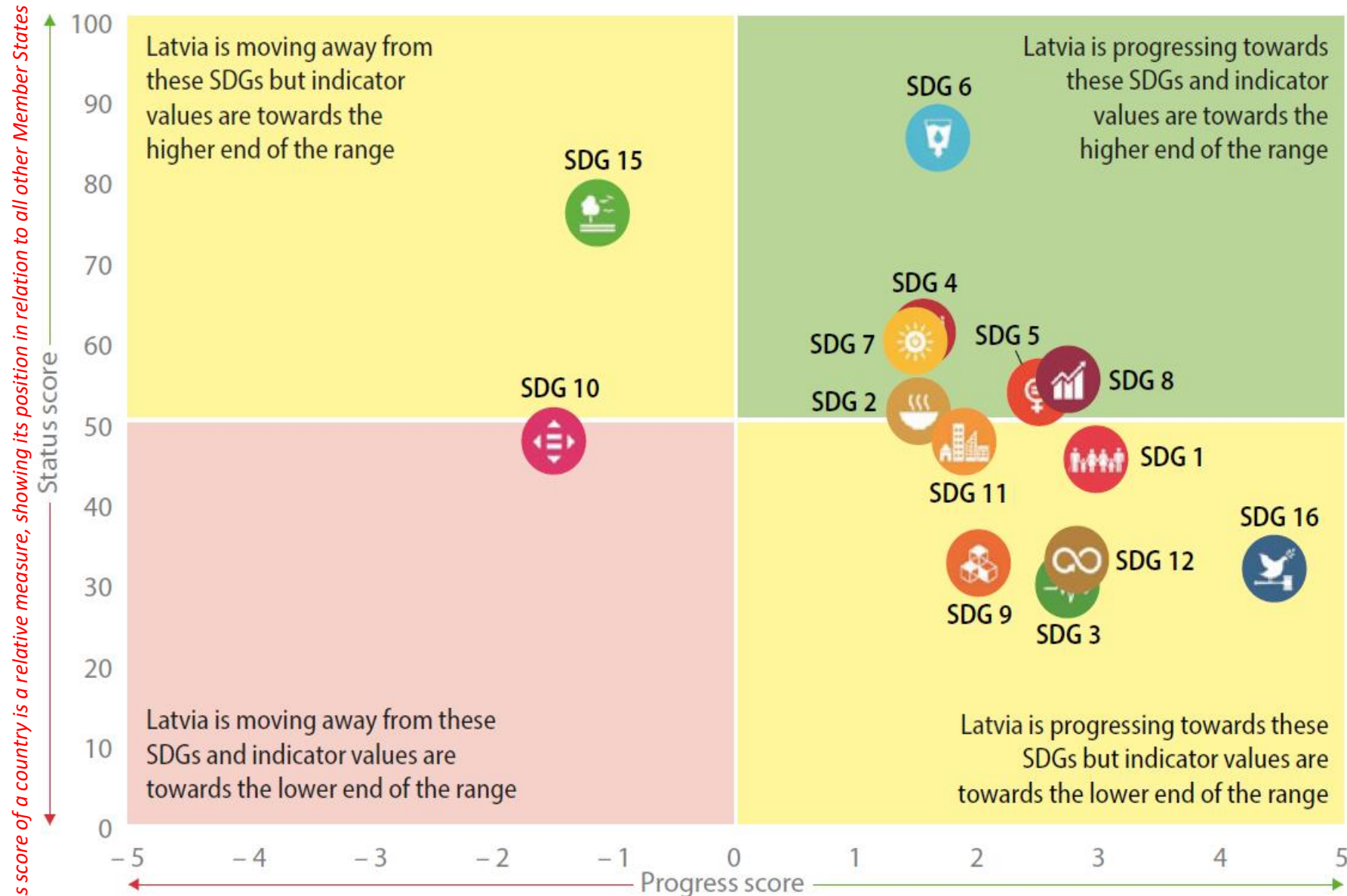
EU countries are among top performers



Rank	Country	Score
1	Sweden	84.7
2	Denmark	84.6
3	Finland	83.8
4	France	81.1
5	Germany	80.8
6	Norway	80.8
7	Austria	80.7
8	Czech Republic	80.6
9	Netherlands	80.4
10	Estonia	80.1
11	Belgium	80.0
12	Slovenia	79.8
13	United Kingdom	79.8
14	Ireland	79.4
15	Switzerland	79.4
16	New Zealand	79.2
17	Japan	79.2
18	Belarus	78.8
19	Croatia	78.4
20	Korea, Rep.	78.3
21	Canada	78.2
22	Spain	78.1
23	Poland	78.1
24	Latvia	77.7
25	Portugal	77.6
26	Iceland	77.5
27	Slovak Republic	77.5
28	Chile	77.4
29	Hungary	77.3
30	Italy	77.0
31	United States	76.4
32	Malta	76.0

Source: Sustainable Development Report 2020, Cambridge University Press; 06/2020

# PROGRESS TOWARDS SDGs: LATVIA



*Progress score of a country is an absolute measure based on the indicator trends over the past five years*

Source: Sustainable development in the EU, Eurostat, 06/2020  
Note: Due to data availability issues, not all 17 SDGs are shown for each country

# Globalisation & regionalization - Europe's path to **strategic autonomy**



French President E. Macron

*"It is vital that our Europe finds the ways and the means **to decide for itself to rely on itself, not to depend on others in every area**, technological, health, geopolitics, and to be able to cooperate with whomever it chooses"*



EU leaders: "**Achieving strategic autonomy while preserving an open economy is a key objective of the EU**"

## EU INITIATIVES:

### **Stronger international role of the euro, work on digital euro project**

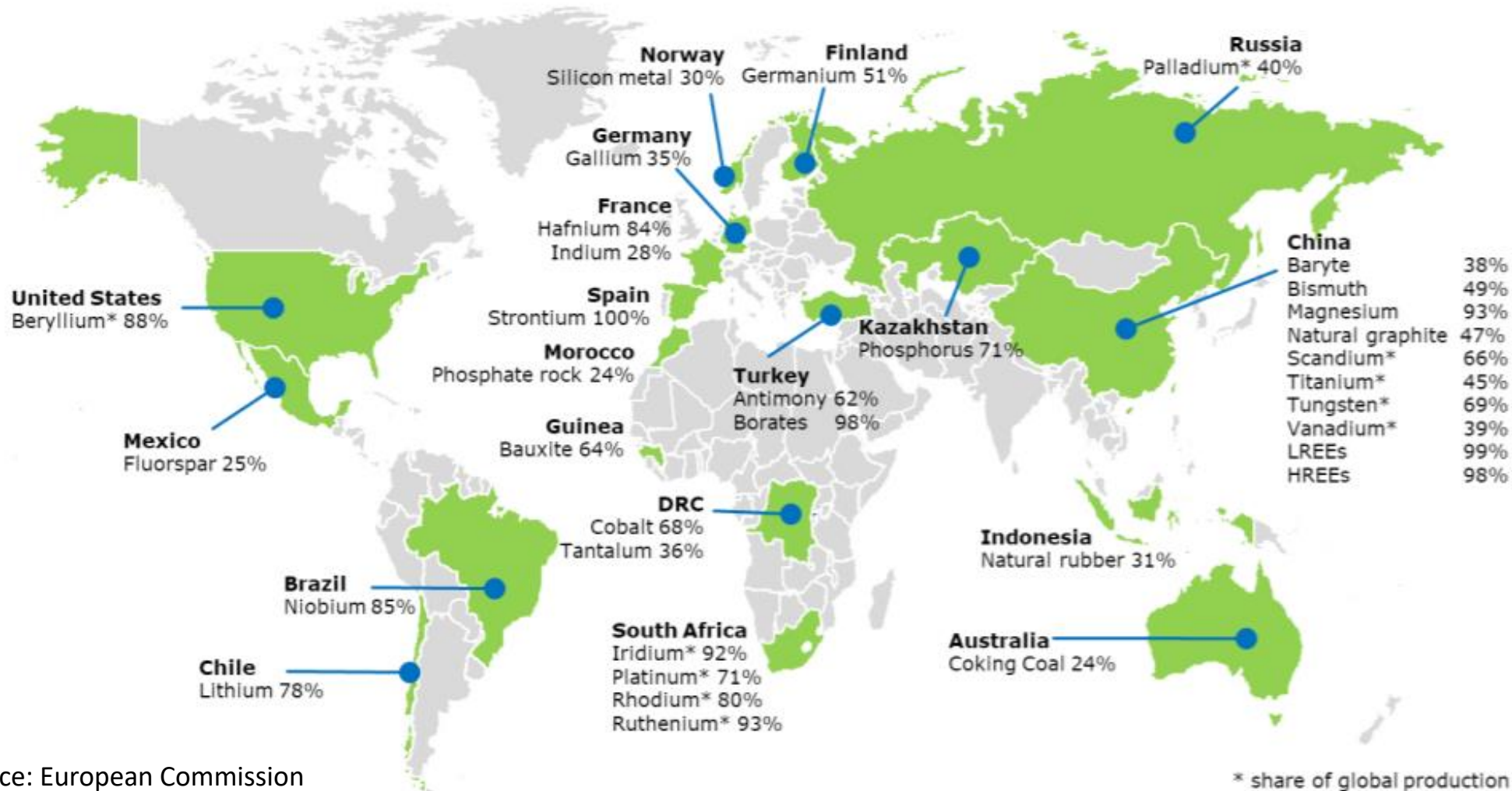
**Industrial strategy** – strategic autonomy in the most sensitive industrial ecosystems and specific areas, such as health, defence industry, space, digital, energy and critical raw materials.

**Investment, Trade and Competition policy review**- more assertive trade defense instruments; screening of foreign direct investment

**Digital sovereignty** - develop capacities in strategic digital value chains, especially microprocessors; accelerate the deployment of very high capacity and secure network infrastructures – including fibre and 5G; establish trusted, safe and secure European cloud services; digital levy

# China is the largest global supplier for the majority of the critical raw materials (CRM)

**Countries accounting for largest share of EU sourcing of CRMs**



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# THANK YOU FOR YOUR ATTENTION

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## ECONOMIC RECOVERY IN EUROPE

INESE ALLIKA, 15/03/2021

Please evaluate the lecture: <https://ej.uz/s9o5>