

Europe: fallout from the pandemic is compressing economic activities
The expected recovery is subject to great uncertainty, says UN report

New York, 25 January — The United Nations today warned that the devastating socio-economic impact of the COVID-19 pandemic will be felt for years to come unless smart investments in economic, societal and climate resilience ensure a robust and sustainable recovery of the global economy.

In 2020, the world economy shrank by 4.3 per cent, over two and half times more than during the global crisis of 2009. The modest recovery of 4.7 per cent expected in 2021 would barely offset the losses of 2020, says the latest *World Economic Situation and Prospects*.

Developed economies, projected to see a 4 per cent output growth in 2021, shrank the most, by 5.6 per cent, due to economic shutdowns and subsequent waves of the pandemic, increasing the risk of premature austerity measures that would only derail recovery efforts globally. Developing countries saw a less severe contraction at 2.5 per cent, with an expected rebound of 5.7 per cent in 2021, according to the estimates presented in the report. However, economic contraction among developing nations, falling exports and local consumption rates as well as high levels of public debt will significantly increase poverty levels.

Europe experienced an economic crisis of historic proportions, with the economies of the region contracting by an estimated 7.8 per cent in 2020 as a consequence of the pandemic. After some respite, the situation has been deteriorating again during the end of 2020, with many countries in the region reintroducing various lockdown measures.

“We are facing the worst health and economic crisis in 90 years. As we mourn the growing death toll, we must remember that the choices we make now will determine our collective future,” said UN Secretary-General António Guterres, who will address the Davos Agenda event later today.

“Let’s invest in an inclusive and sustainable future driven by smart policies, impactful investments, and a strong and effective multilateral system that places people at the heart of all socio-economic efforts.”

The report underscores that sustained recovery from the pandemic will depend not only on the size of the stimulus measures, and the quick rollout of vaccines, but also on the quality and efficacy of these measures to build resilience against future shocks.

Europe has been severely hit by the crisis

“While Europe is expected to see a return to positive growth of 5.2 per cent in 2021 and 2.6 per cent in 2022, the outlook is predicated on the assumption that renewed lockdown measures in the fourth quarter will significantly improve public health situation in the region,” said Hamid Rashid, Chief of the Global

Economic Monitoring Branch at the UN Department of Economic and Social Affairs, and the lead author of the report.

Consequently, an exceptional degree of uncertainty is tied to this forecast. The major risks include a longer-lasting wave of pandemic infections, leading to a continued contraction of economic activities.

In addition, the region is also facing challenges that predated the pandemic, including those related to the future relationship between the European Union (EU) and the United Kingdom as well as disruptive structural changes in the automotive industry in a number of countries.

Countries with larger exposure to tourism have been hit hard

There has been some variation in the fallout from the pandemic across the region. Belgium, France, Italy and Spain have been hit especially hard, in terms of the case numbers and fatalities or the magnitude of their economic contraction.

In Germany, on the other hand, the fallout and resulting economic contraction, while still significant, have been more limited. The length of the instituted lockdowns and the role and share of the service sector in the economy largely account for the differences in economic shocks across countries.

The economies of Southern Europe generally rely to a greater extent on services, in particular tourism. Consequently, large swaths of economic activities were shut down in a matter of days and the travel industry, including hotels, restaurants and airlines, suffered a complete collapse.

The crisis triggered unprecedented policy measures

The need to address the pandemic and its fallout triggered significant policy measures. On the fiscal side, these included, among others, wage support schemes, liquidity assistance and tax deferrals. The size and impact of those measures depended, however, on the individual country's fiscal position at the onset of the crisis. The pandemic also led the EU to take unprecedented fiscal policy-related steps.

For example, it activated the escape clause of the Stability and Growth Pact (SGP) and agreed for the first time on joint-debt issuance. At the same time, central banks in the region also rolled out significant support measures. Notably, the European Central Bank initiated a pandemic emergency asset purchase programme with significant flexibility regarding the timeframes and types of assets purchased.

About the World Economic Situation and Prospects 2021

The World Economic Situation and Prospects 2021 is a report produced by the UN Department of Economic and Social Affairs (DESA), in partnership with the UN Conference on Trade and Development (UNCTAD), and the five UN regional commissions. The UN World Tourism Organization also contributed to the report. For more information, please visit: www.bit.ly/wespreport

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