



**EUROPEAN
DEPARTMENT**

European Economic outlook

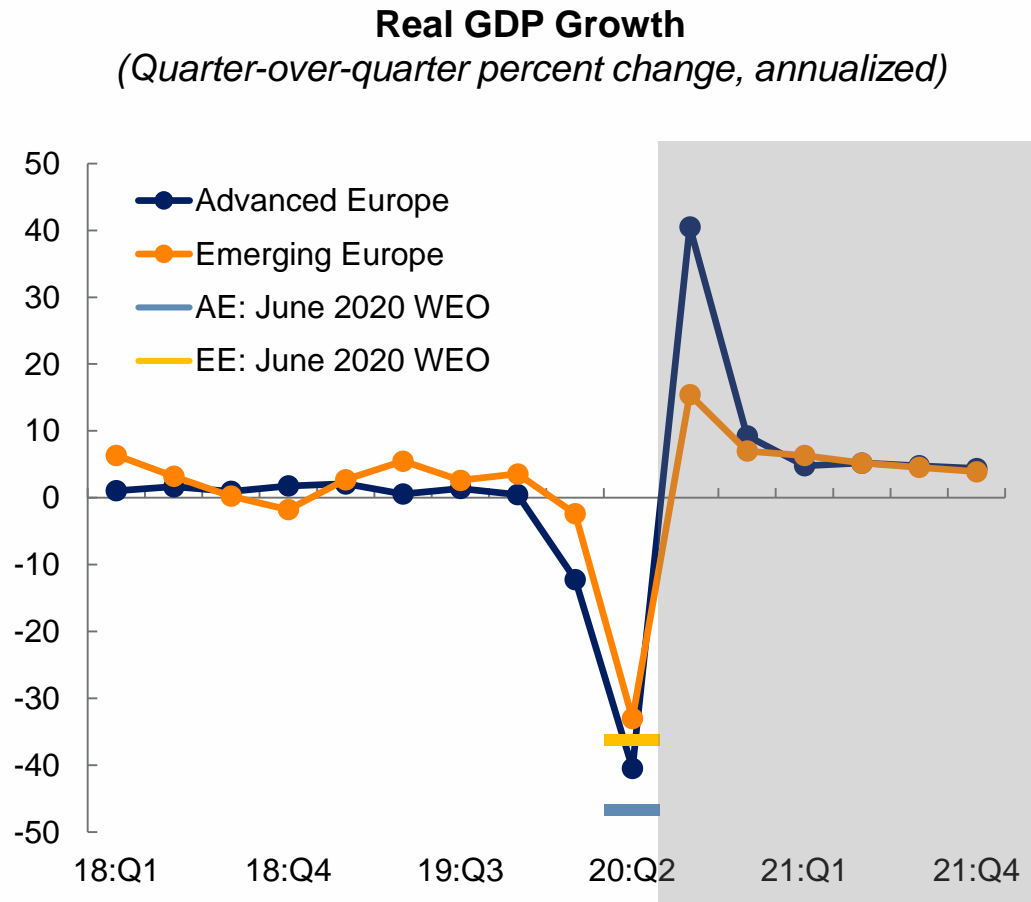
NOVEMBER 30, 2020

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Road map



The contraction in 2020 will be severe (but less so than previously expected) and a rebound is projected for 2021



Real GDP Growth
(Year-over-year percent change)

	Oct. WEO 2019	June WEO 2020	Oct. WEO 2020	Oct. WEO 2021
Europe	1.6	-8.5	-7.0	4.7
Advanced Europe	1.4	-9.8	-8.1	5.2
Emerging Europe	2.1	-5.8	-4.6	3.9

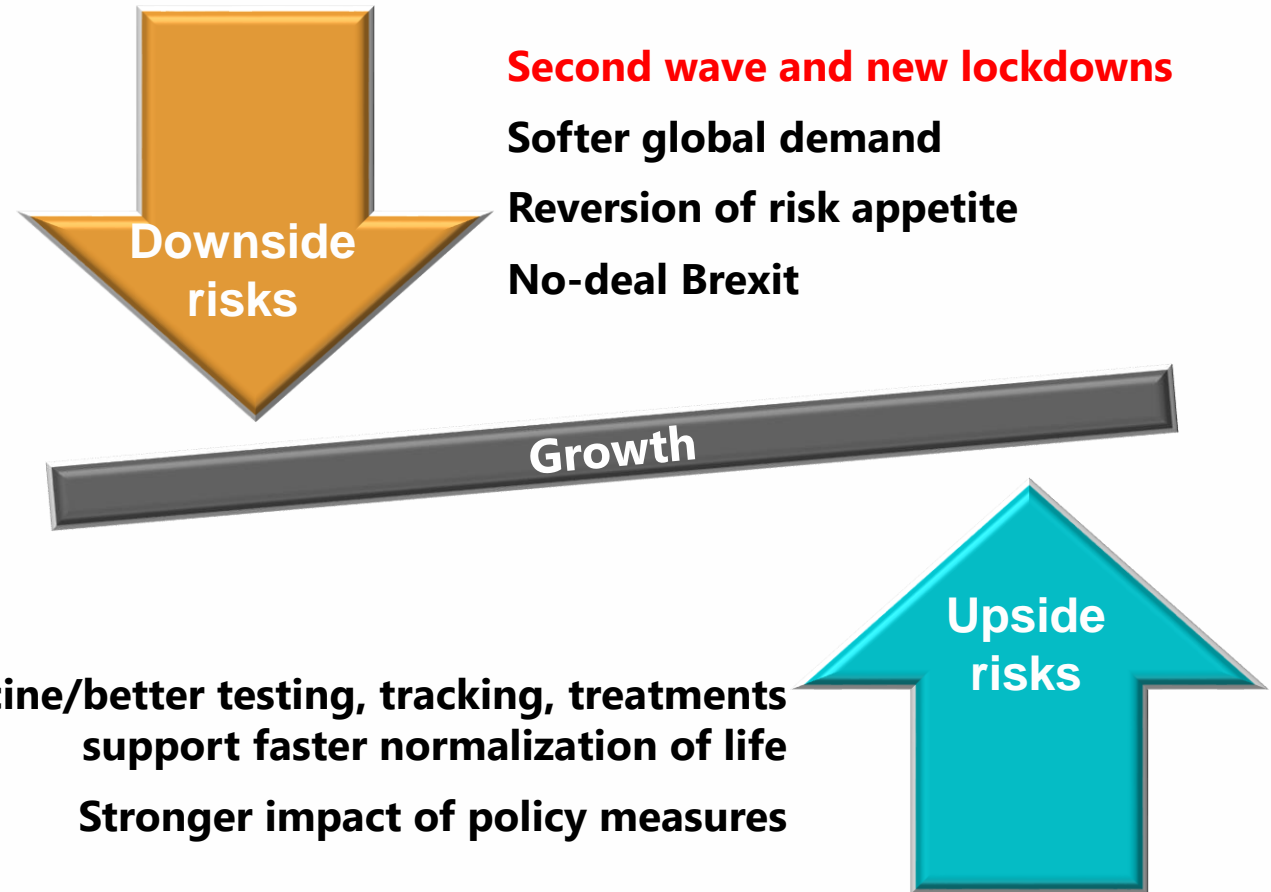
Sources: Haver Analytics; IMF, *World Economic Outlook*; and IMF staff calculations.

Note: Emerging Europe excludes ALB, BIH, BGR, KOS, MKD, and Advanced Europe excludes SMR due to lack of quarterly real GDP data and projections.

Uncertainty remains unusually large and risks are still to the downside

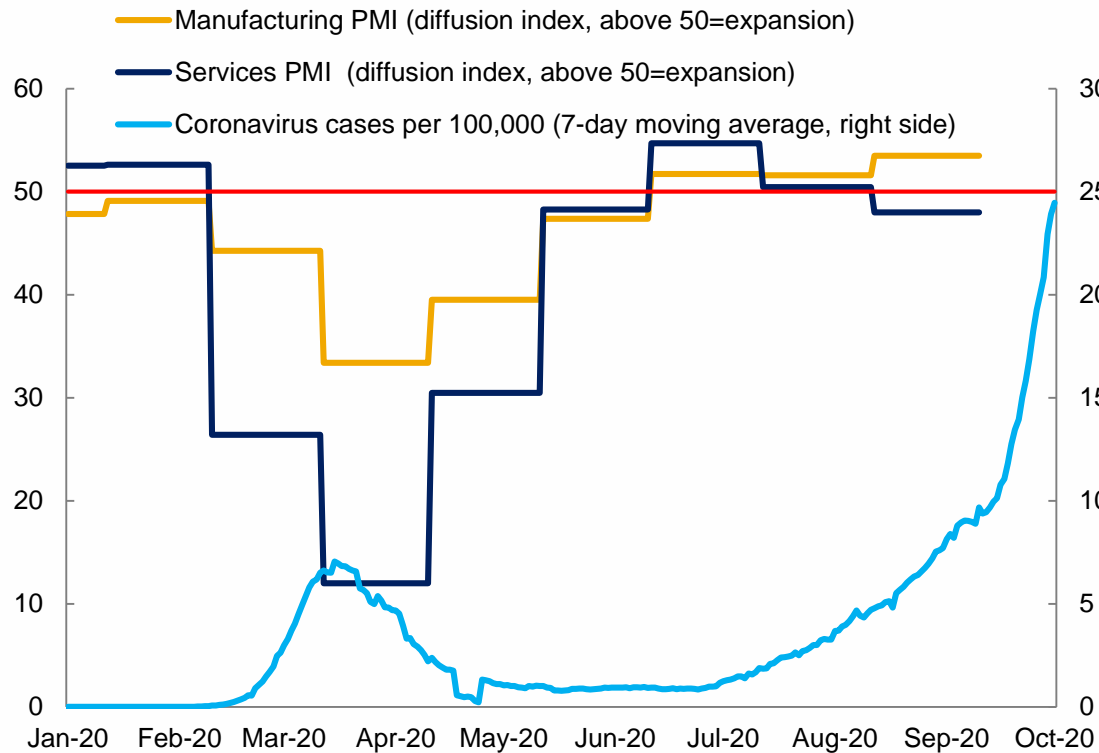
Uncertainty spans

- The Course of the Pandemic
- Reopening Strategies
- Effectiveness of Policies

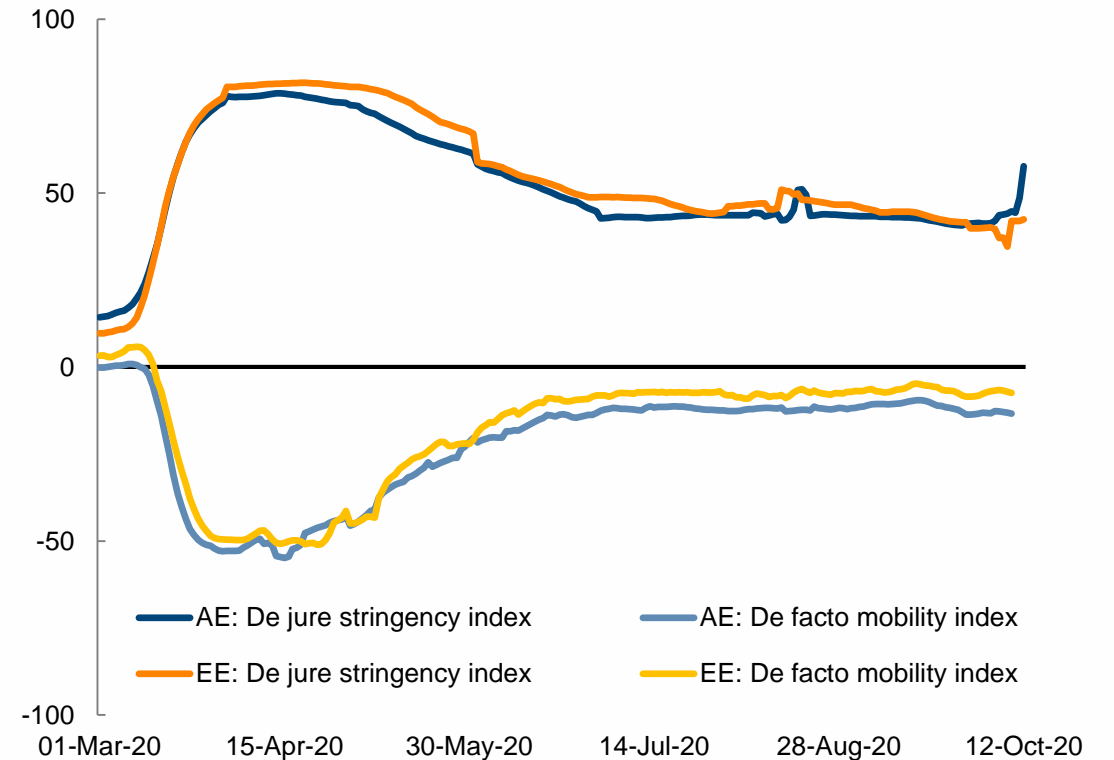


The rebound in activity has slowed amidst a surge in new infections

EU27: COVID-19 New Cases and PMI



De Jure Stringency and De Facto Mobility (7-day moving average)



Sources: Bloomberg Finance L.P.; Haver Analytics; and IMF staff calculations.

The unprecedented response to the unprecedented crisis is playing a crucial role in limiting the damage

Living with the virus

Supporting Demand

Limiting Damage to Supply Potential

Macro policies: Stronger than in the GFC

Targeted measures

- Health spending
- Containment measure
- Reopening strategies

Fiscal

- Deficit limits relaxed
- State aid rules eased
- Discretionary measures

Monetary

- Policy rate cuts
- QE/asset purchases
- Liquidity injections
- FX intervention

Macroprudential

- Ease bank regulations
- Lower counter-cyclical buffers
- New swap lines

Labor

Prevent discouraged worker exit

- Job retention schemes
- Parental and sick leave

Capital

Prevent firm closure

- Tax deferrals
- Guarantees
- Grants
- Equity injections
- Moratoria

Productivity

Support structural transformation

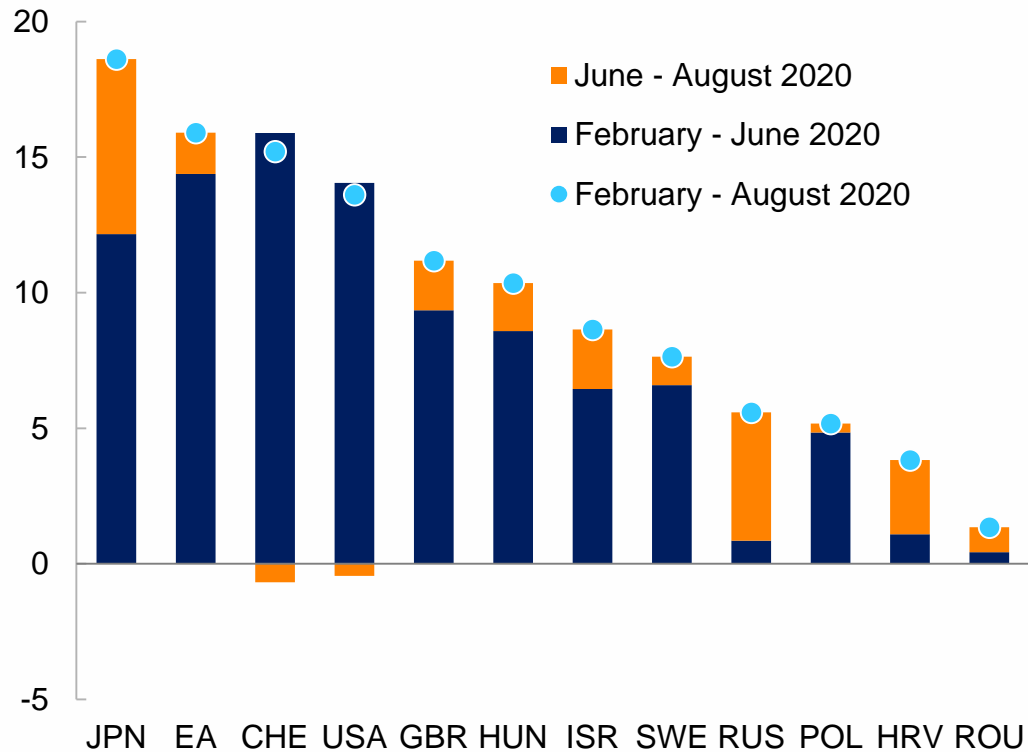
Outlook

Policies

Main Messages

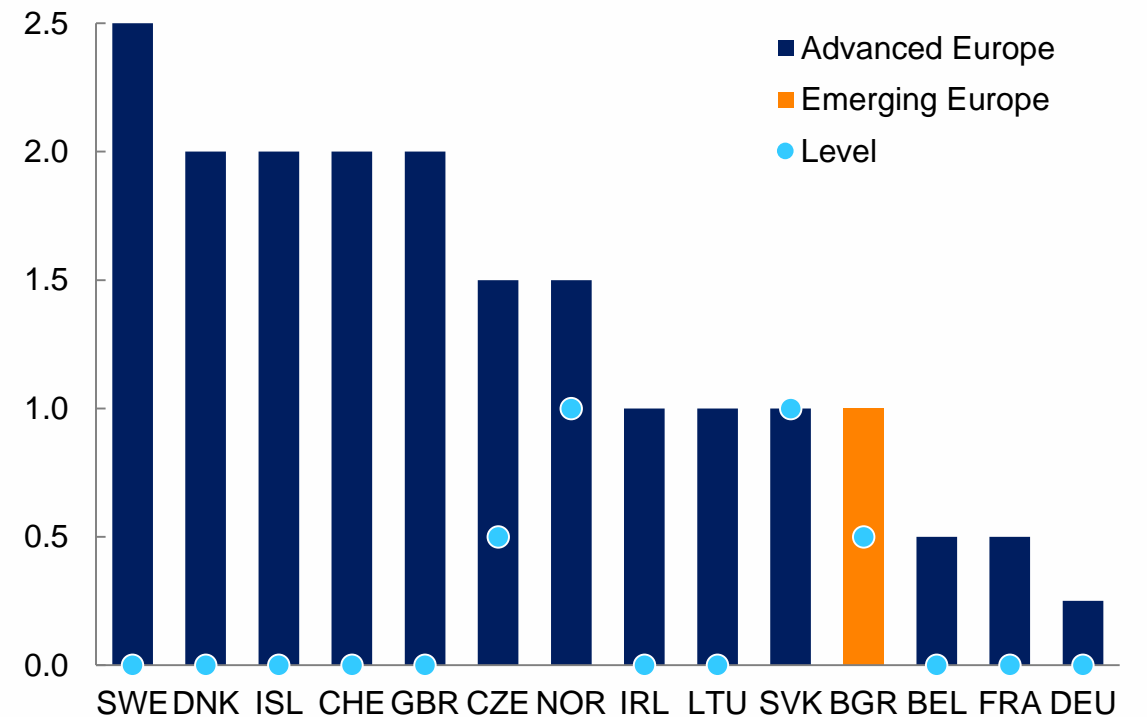
The monetary and macroprudential response instilled confidence and supported credit provision...

Balance Sheet Expansion by Central Banks
(Percent of 2020 GDP)



Sources: Central Banks; Haver Analytics; and IMF, World Economic Outlook.
Note: Expansion is calculated as difference between CB's assets value in latest available month and February 2020. The data include valuation changes.

Europe: Cuts in Countercyclical Capital Buffer Rates in 2020
(Percentage points)



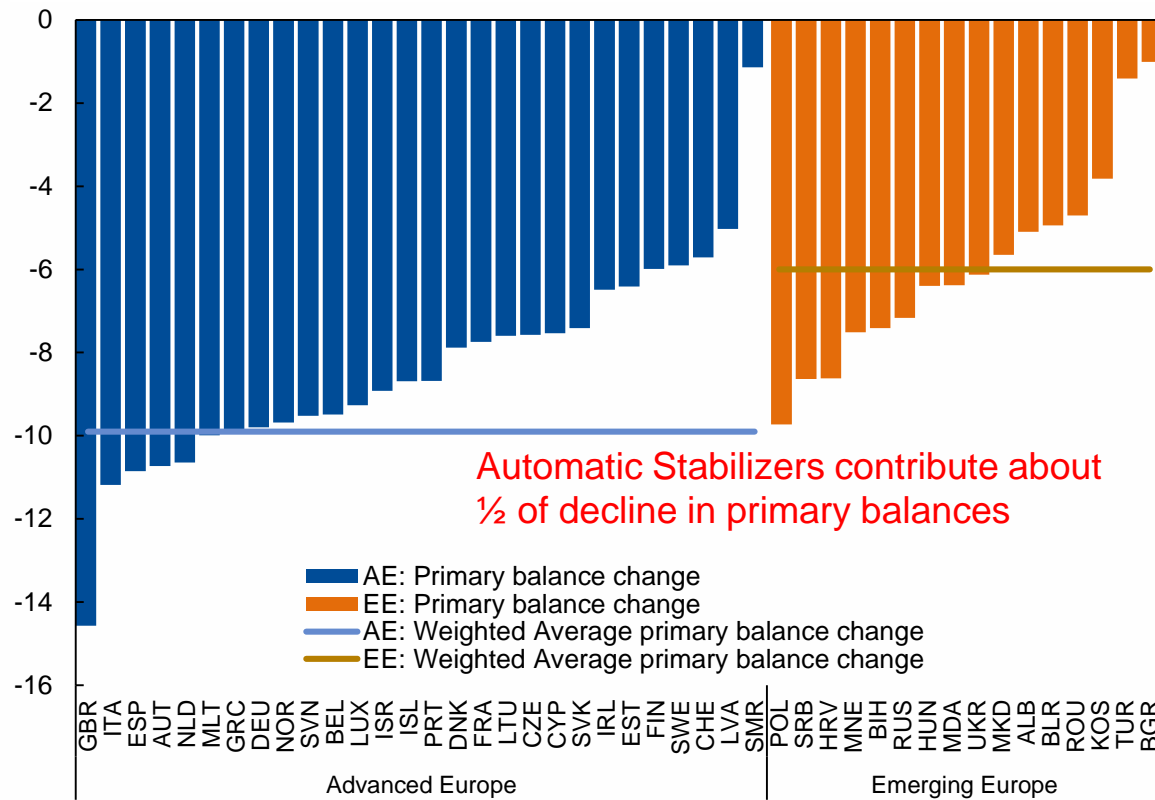
Sources: European Systemic Risk Board; and IMF staff calculations.
Note: The data include cancellation of previously-announced increases in the buffer. For Switzerland, change in the sectoral CCyB targeted at mortgage loans financing residential property is shown.

...and a synchronized multilateral response had positive spillovers for Europe's emerging markets

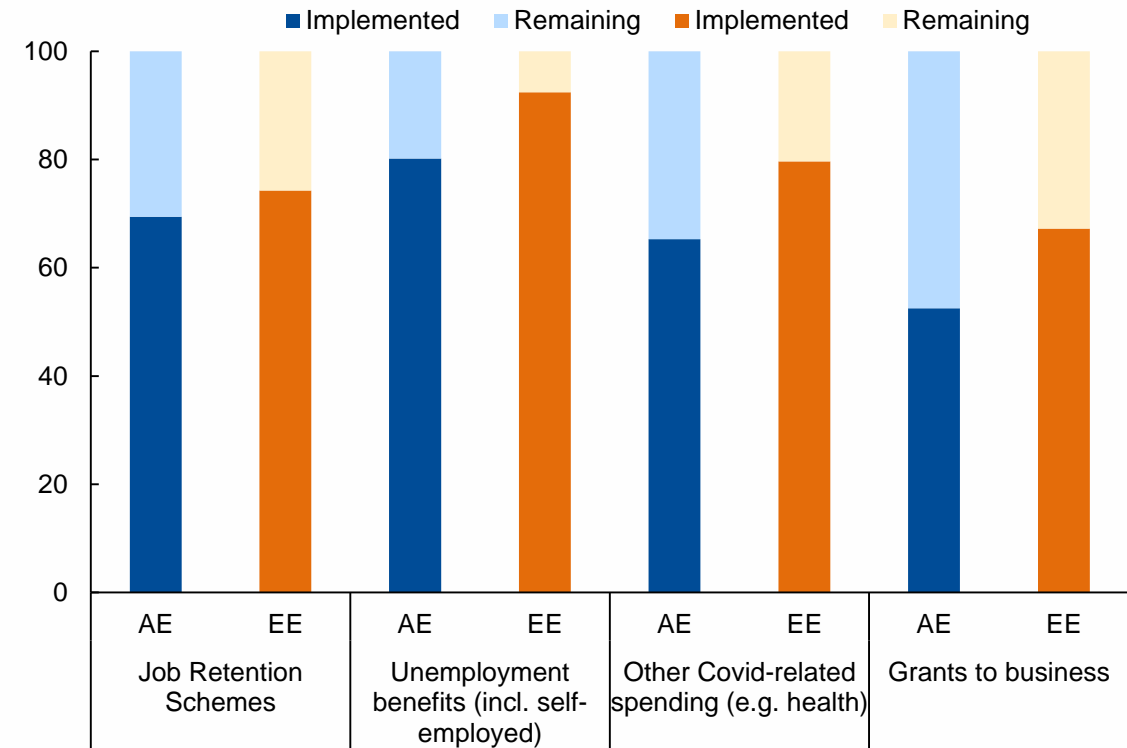
- ❑ Globally synchronized monetary policy easing and fiscal support
- ❑ **ECB**: new bilateral swap (Bulgaria, Croatia) and repo lines with central banks of non-euro area countries and a new repo facility (Albania, Hungary, Montenegro, North Macedonia, Romania, Serbia)
- ❑ **EU**: expanded MFA package to assist various countries (Albania, Bosnia and Herzegovina, Kosovo, Moldova, Montenegro, North Macedonia and Ukraine)
- ❑ **IMF**: RFI Assistance and SBAs, Capacity development, Surveillance

Fiscal packages and automatic stabilizers are providing extraordinary economic support

Primary Balance Change in 2020
(Percent of GDP)



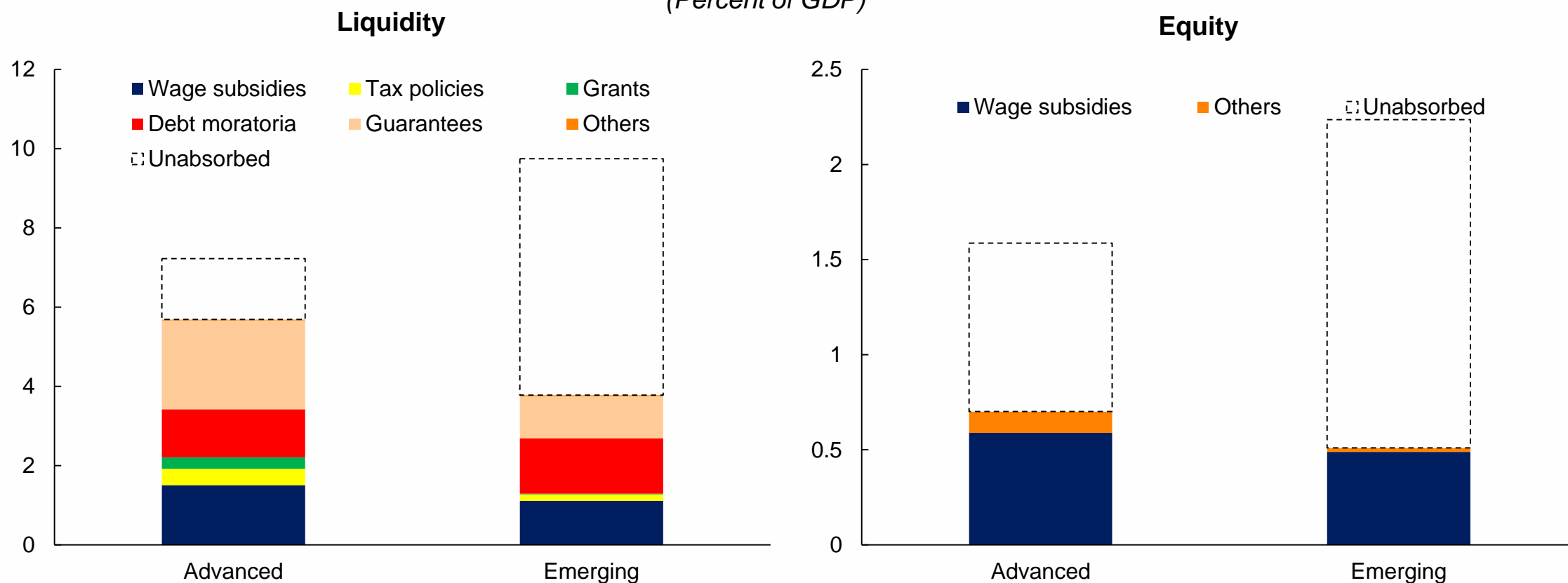
Implementation of Spending Policies
(Percent)



Sources: IMF, *World Economic Outlook*, and IMF staff calculations.

Corporate sector policies were designed to address liquidity shortfalls but may need refocusing to solvency support

Increase in Corporate Liquidity and Equity Shortfalls and Shortfalls Covered by Announced Policies
(Percent of GDP)



Sources: World Economic Outlook; Orbis; EUR Database on Corporate Sector Policy Measures; IMF staff calculations.

The recovery should be supported by transformative policies that address medium-term challenges and lift potential output

- ❑ **Accelerate infrastructure investment**, especially on digital transition and climate change, with fiscal resources freed from temporary support.
- ❑ **Implement reforms** to tackle pre-pandemic challenges, raise potential output, boost resilience, reduce inequality and protect the vulnerable.
- ❑ **Strengthen health-care preparedness** to prevent and respond to a new pandemic.

Main Messages

- ❑ **A recovery is underway following the record contraction.** Its strength depends on how countries deal with the resurgence of the virus. Prospects remain very uncertain and risks to the downside.
- ❑ **National and EU-wide policies played an essential role in limiting the damage so far.** Policy support does not only minimize short-term damage but can reduce medium-term scarring if properly designed.
- ❑ **Where policy space is limited, a more focused approach may be needed.** In these cases (e.g. in some of Europe's emerging economies), international support can contribute to expand policy space.
- ❑ **Policies to support the recovery** should also be transformational:
 - **Facilitate the structural transformation** needed in the post-pandemic economy
 - **Address medium-term challenges** like climate change, digitalization, and infrastructure gaps
 - **Lift potential output** and reduce inequality.
- ❑ **Tackling debt overhang and rebuilding policy space will be a challenge for years to come and should begin once the recovery is fully entrenched.**