



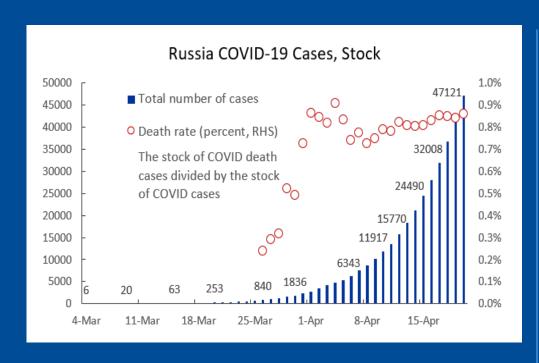
# EUROPEAN ECONOMIC OUTLOOK

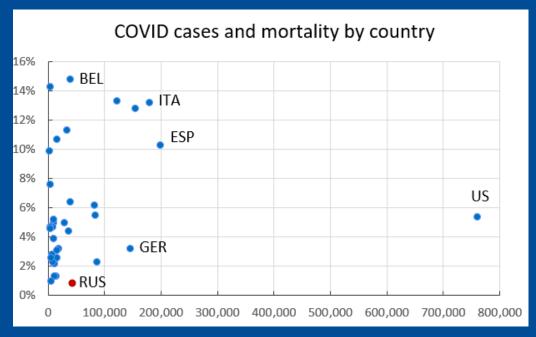
**Association of European Businesses** 

**APRIL 21, 2020** 

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## **COVID** in Russia

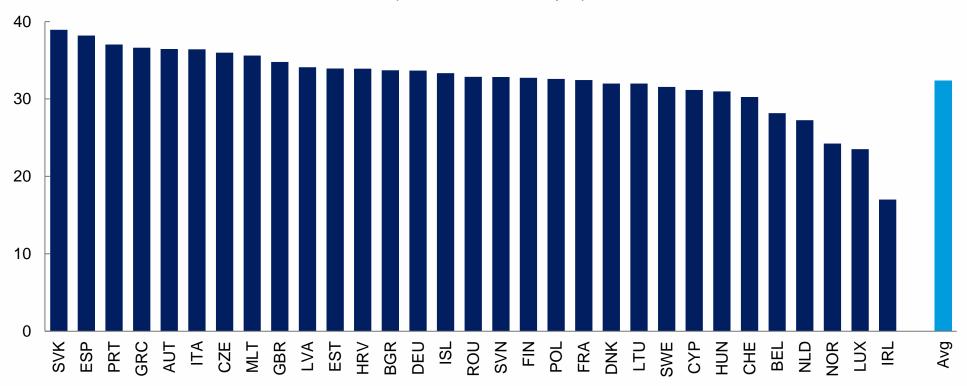




# Severe economic impact of COVID-19: each month of shutdown of non-essential sectors implies a 3 percent drop in annual GDP

#### **Share of Non-essential Sectors**

(Percent of total output)



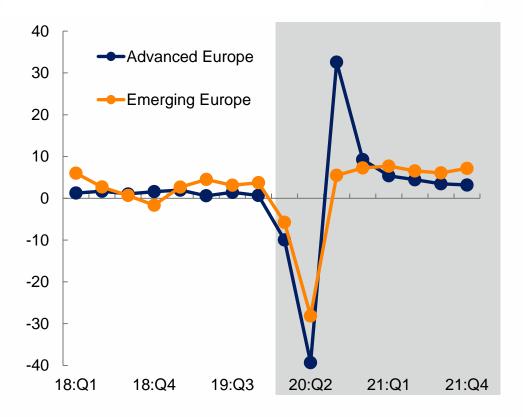
Sources: Haver Analytics; and IMF staff calculations.

Note: The classification of sectors generally follows the decree that Italy announced on March 22, 2020. Non-essential sectors: Textiles & apparel; Basic metals; Transport equipment; Construction; Wholesale and retail trade and repair of motor vehicles; Accommodation and food services; Real estate; Arts and entertainment. For wholesale and retail trade (except motor vehicles), adjusted to exclude items related to food, pharma, and other medical products. Figures refer to 2018; earlier year used for some countries.

Impact Outlook Policies

### The WEO forecast for Europe is grim

Real GDP Growth (Quarter-over-quarter percent change, annualized)



Sources: Haver Analytics; IMF, *World Economic Outlook*; and IMF staff calculations. Note: The content of this slide is embargoed until April 14, 2020, 8:30 am EDT.

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

	2019	2020	2009	2021
Europe	1.6	-6.6	-4.7	4.5
Advanced Europe	1.4	-7.3	-4.3	4.7
Euro area	1.2	-7.5	-4.5	4.7
Emerging Europe	2.1	-5.2	-5.7	4.2
Emerging Europe ex. Russia & Turkey	3.8	-5.0	-3.4	4.4
Russia	1.3	-5.5	-7.8	3.5
Turkey	0.9	-5.0	-4.7	5.0

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### **Downside risks are large**

The baseline scenario does not assume that:

- ☐ Major disruptions could continue until a vaccine is available, implying a delayed and weaker recovery
- ☐ Large balance sheet impairment

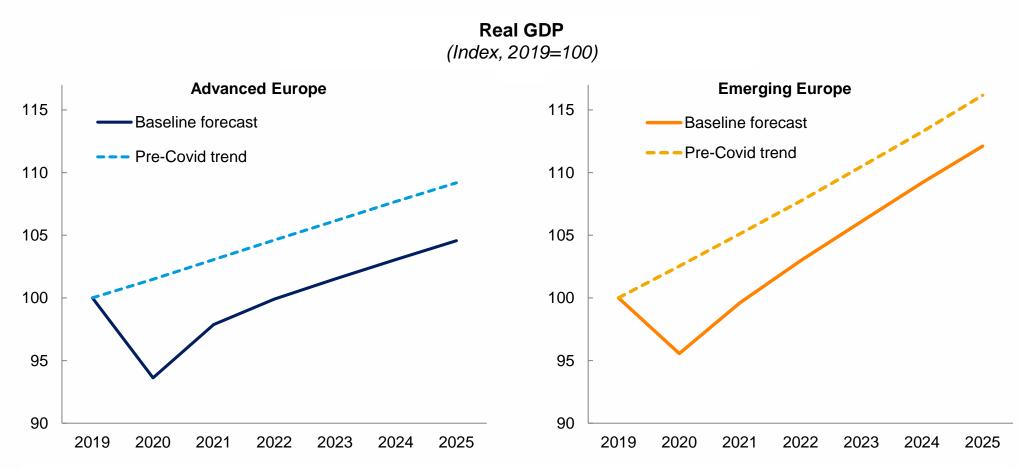
If these risks materialize, many countries will face significant constraints responding to a protracted downturn

# Different assumptions can lead to very different output trajectories

- ☐ The baseline assumes two months of containment measures, a recovery in Q3 with limited damage to balance sheets
- ☐ The downside scenario assumes three months of containment measures, deeper balance sheet impairment, with a more gradual recovery

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## We envisage permanent output losses relative to pre-COVID trend of about 5 percent in the baseline—could be double in a downside scenario



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

Impact Outlook Policies

IMF | European Department

# The whole policy toolkit has been deployed, supported by substantial easing of fiscal and monetary policy

## **Policy goals** Saving lives **Protecting** jobs/people Protecting companies Ensuring credit flow

#### **Targeted policy measures**

- Quarantines & lockdowns
- Border control
- Health spending
- Reduction of working hours
- Unemployment insurance
- Direct income support
- Parental/sick leave
- Tax cuts/deferrals
- State guarantees for firms
- •Wage subsidies
- Equity injections
- •Easing of bank regulations
- State-backed loans
- Debt moratoria
- Lower counter-cyclical buffers
- New swap lines

### **Macro policies**

### Fiscal policy

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

### Monetary policy

- Cut in policy rates
- QE/asset purchases
- Liquidity injections
- FX interventions

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