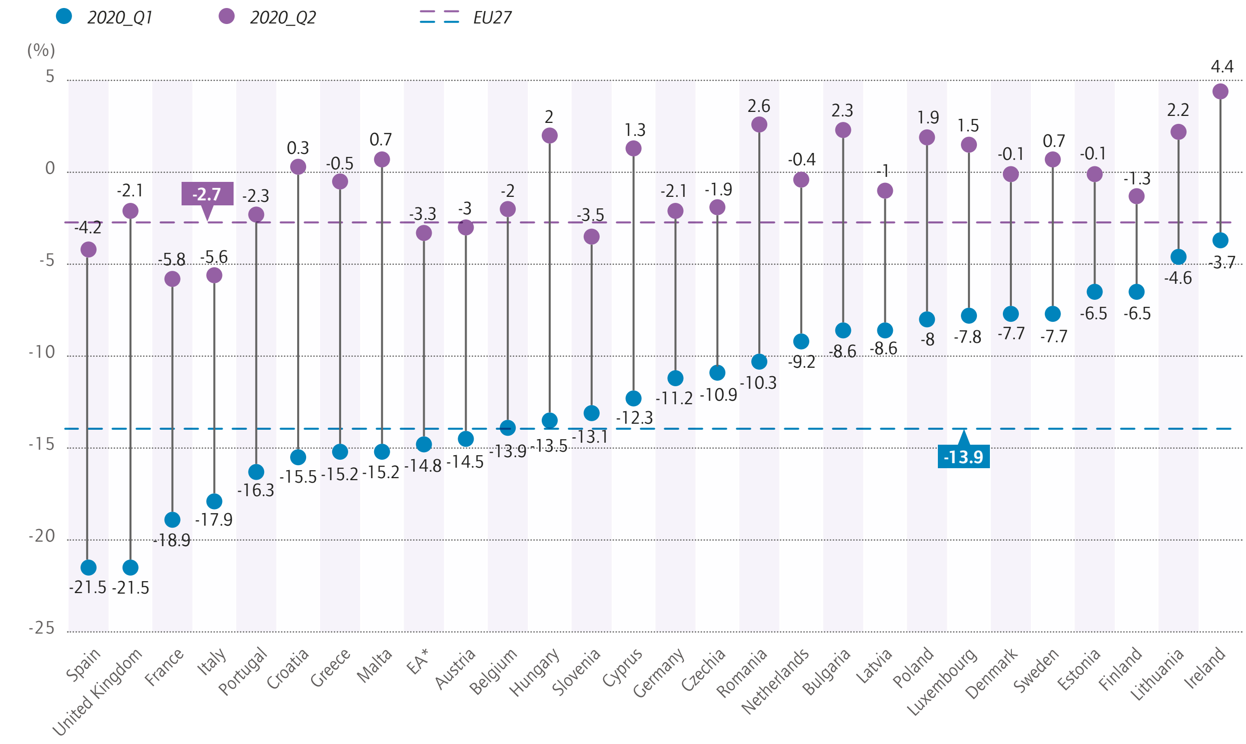
A common shock with diverse consequences

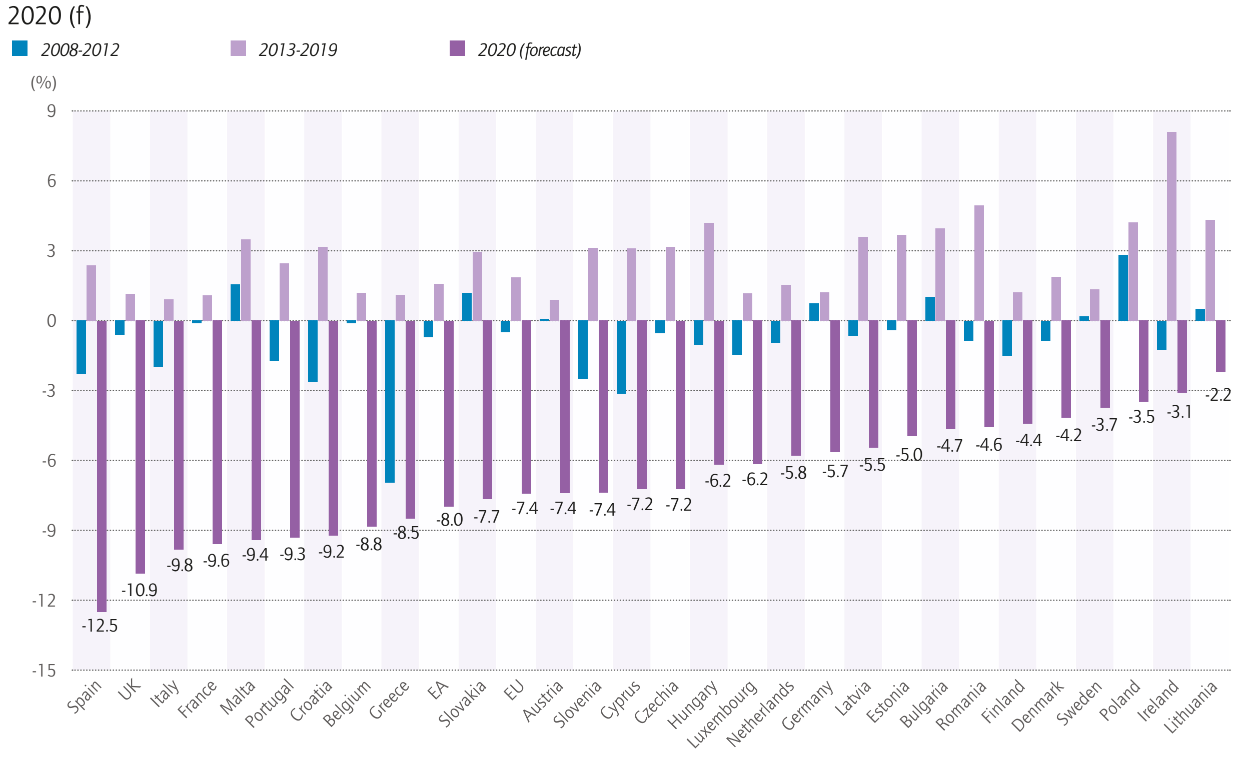
Figure 1.3 shows the change in real GDP in the first and second quarters of 2020 compared to the first and second quarters of 2019 (year-on-year) in the EU27, its Member States (bar Slovakia, for which there are no data yet available), and the UK. Figure 1.4 shows the European Commission's forecasted growth rate of real GDP per capita for 2020 for the EU Member States and the UK as well as the respective average annual growth rates for the periods of the previous recession (2008-2012) and the long-drawn-out recovery that followed (2013-2019).

Figure 1.3 Real GDP change (compared to same period in previous year), EU27, Member States and the UK, 2020_Q1 and 2020_Q2



Source: Eurostat NAMQ_10_GDP CLV_PCH_SM.
** EA11-1999, EA12-2001, EA13-2007, EA15-2008, EA16-2009, EA17-2011, EA18-2014, EA19-2015*

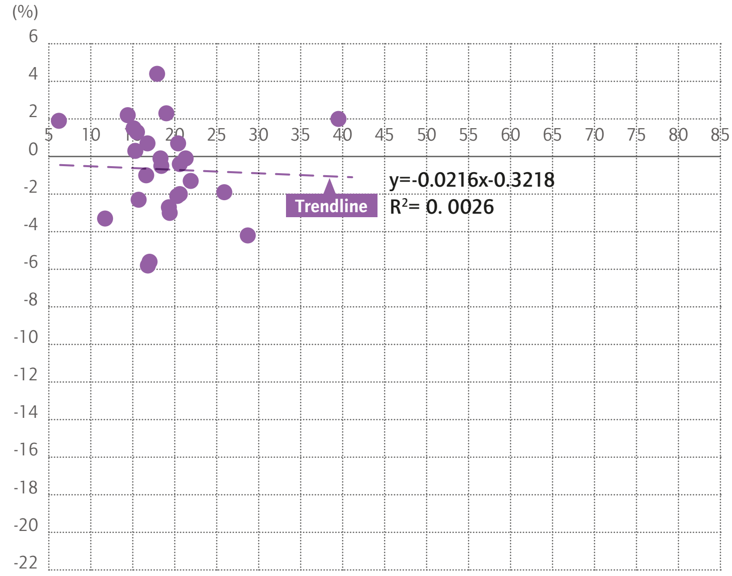
Figure 1.4 Real GDP per capita (average % change per year), EU27, Member States and the UK, 2008-2012, 2013-2019 and 2020 (f)



Source: own calculations using AMECO RVGDP series.

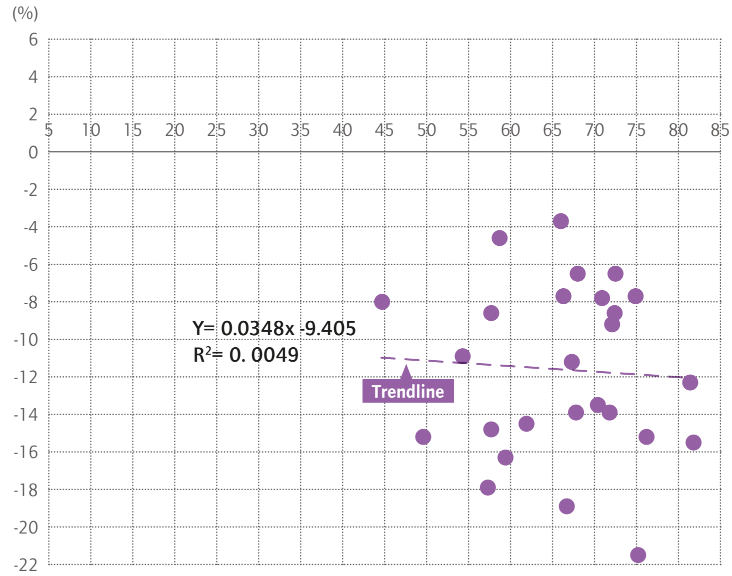
The first signs of the recession appeared in many, but not all, countries in the first quarter of 2020, as the pandemic and the measures to stem it began in March. Real GDP fell in the first quarter of 2020 compared to the first quarter of 2019 by as much as 5.8% in France and 5.6% in Italy. European economies then experienced a free fall in the second quarter of 2020. This dip in real economic activity varied widely however, from 3.7% in Ireland to 21.5% in the UK and Spain. Estonia, Finland and Lithuania also experienced losses of only around 4.5-6.5 % in the second quarter, whereas France, Italy, Portugal, Croatia, Greece and Malta saw some of the largest losses, with quarterly year-on-year GDP drops ranging from around 15% to, in the case of France, 19%.

Figure 1.5 Stringency of government measures and real GDP growth (change from same quarter in previous year), EU, 2020_Q1



Source: own calculations using data from Eurostat NAMQ_10_GDP CLV_PCH_SM.and Hale et al. 2020.

Figure 1.6 Stringency of government measures and real GDP growth (change from same quarter in previous year), EU, 2020_Q2



Source: own calculations using data from Eurostat NAMQ_10_GDP CLV_PCH_SM and Hale et al. 2020.

Turning to the annual GDP-per-capita forecasts, some of the Member States which are forecasted to suffer the most from the current recession are also those that were worst hit and/or have taken longer to recover from the previous recession; they are mostly concentrated in the south of Europe – namely Italy, Spain, Greece, Portugal, Croatia and Malta – but also include the UK, France and Belgium. The Spanish GDP per capita has been forecasted to shrink by 12.5% this year, followed by that of the UK (-10.8%), with Italy, France, Malta, Portugal and Croatia suffering expected losses of around 9-9.5%. The forecasts for the north and east of the EU were relatively less grave, although a lot will depend on the evolution of the pandemic. Lithuania, Ireland, Poland, Sweden, Denmark, Finland, Bulgaria and Estonia have all been forecasted to see their GDP per capita shrink by between 2.2% and 5%.

There are various possible explanations for the diversity in the current dip of economic activity across Member States, ranging from the stringency of the measures taken, the dominance of sectors in the economy that were relatively more affected, and the public policy responses to counter the economic shock.

Figures 1.5 and 1.6 illustrate the association between the losses in real GDP growth (year-on-year) in the first and second quarters of 2020 and the stringency of the measures taken by governments – that is, the lengths that governments went to in order to create and enforce social distancing among citizens (e.g. ordering the closing down of businesses in 'non-essential' sectors, or limitations on movements within or across countries), as measured by the Oxford Stringency Index (Hale et al. 2020). We see that more stringent measures have been associated with larger losses in output in each of the two quarters. However, the correlation is not particularly strong and there seem to be many Member States that have taken similarly stringent public health measures but that have experienced different degrees of output loss. This implies that there have been other factors influencing the depth of the recession.

The Oxford Stringency Index (Hale et al. 2020)

The Oxford Stringency Index of national policy responses summarises information on a range of government containment and closure policies. The policies falling under this category concern the shutting down of schools, workplaces and public transport, cancellations of public events, restrictions on gatherings, stay-at-home requirements, restrictions on internal movement between cities/regions, international travel controls, and public information campaigns on the coronavirus. These policies illustrate to what extent governments have imposed measures to restrict economic and social activities to curb the speed at which the coronavirus is spreading: the higher the score, the more stringent the policies. Each of these policies has an equal weight in calculating the overall index.