

# 1. The Crucial Role of Policies in Cushioning the Pandemic's Impact

*The coronavirus disease (COVID-19) pandemic has caused dramatic loss of life and major damage to the European economy, but thanks to an exceptionally strong policy response, more devastating outcomes have been avoided. European real GDP is now projected to contract by 7 percent in 2020, its biggest decline since World War II, followed by a rebound of 4.7 percent in 2021. But the recovery's strength will depend crucially on the course of the pandemic, people's behavior, and the degree of continued economic policy support. While the lifting of lockdowns led to a major rebound of the European economy, it also led to a new surge in infections, posing the risk of a virulent second wave that could dampen the recovery. As long as the recovery is not entrenched and prospects for a vaccine continue to improve, there is a good case for continuing with the various policies that subsidize jobs. These programs are estimated to have reached at least 54 million jobs and scaling them back prematurely could lead to a wave of bankruptcies and widespread social hardship. But over time, support will need to shift increasingly to people and public goods, to foster structural transformation and the required reallocation of resources away from contact-intensive activities. To sustain the recovery from the pandemic, policies should try to address long-lasting challenges, such as low productivity growth, transition to a low-carbon economy, and increasing inequality.*

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## Recent Developments

### Mobility and Infections Return with Reopening

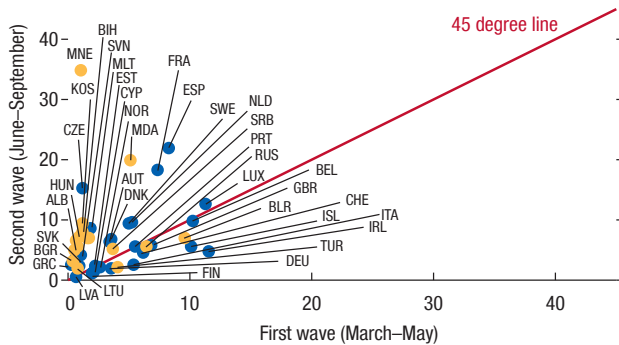
Despite a surge in infections lately, most European countries have chosen not to fully reinstate the stringent measures of earlier in the year. Strict social distancing measures and the shutdown of non-essential parts of the economy from March to May led to a decline in the pace of infections and hospital intensive care occupancy rates. However, after restrictions were gradually relaxed, infections resurged to varying degrees. In *France* and *Spain*, for example, daily new cases jumped back to levels not seen since April. In the *Western Balkans*, this second wave hit much harder than the first. Nevertheless, hospitalization and death rates have generally stayed much lower than during the first wave, and most countries reinstated only targeted containment measures (Figure 1.1).<sup>1</sup> However, *Israel* reinstated a full lockdown, while several countries (*the Czech Republic, France, Spain, and the United Kingdom*) have put in or are considering stronger restrictions than those in place at the end of September.

Mobility bounced back quickly with the relaxation of lockdowns and has not retreated appreciably since then. Some of the initial mandatory containment measures included shelter-in-place orders and closures of schools, workplaces, and international borders. These measures lowered the number of new cases by halting people's mobility. With their gradual relaxation, *de facto* mobility for grocery stores and retail trade rebounded to pre-pandemic levels, whereas the recovery for transit and workplaces has been more muted, though this may also reflect seasonal factors

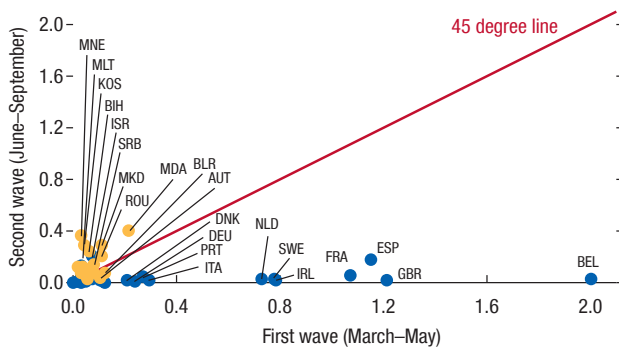
<sup>1</sup>The positivity rate (i.e., the ratio of number of cases to number of tests), also suggests that the second wave hit several European countries harder than the first wave.

Figure 1.1. The Pandemic in Europe: First versus Second Wave

1. New Cases in Peak Month  
(Average cases per 100,000 people)



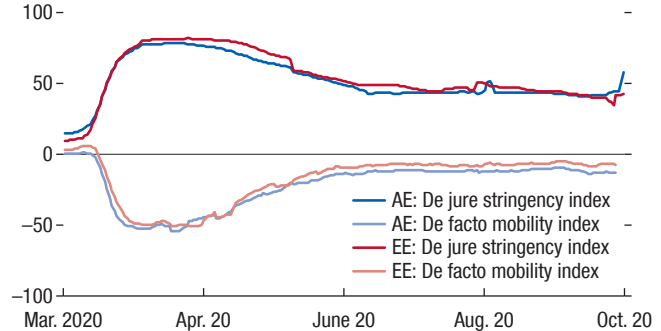
2. New Deaths in Peak Month  
(Average deaths per 100,000 people)



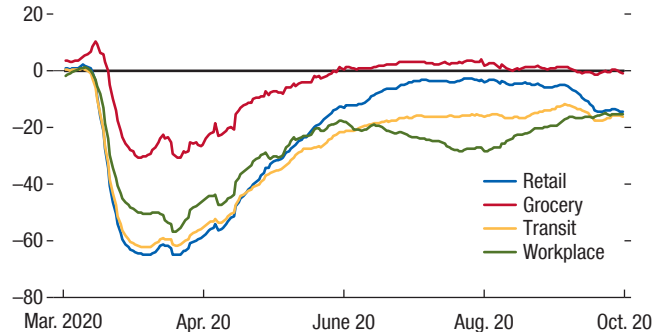
Sources: Bloomberg Finance L.P.; and IMF staff calculations.  
Note: Country abbreviations are International Organization for Standardization country codes.

Figure 1.2. Mobility: de Jure versus de Facto Indicators

1. Europe: De Jure Stringency and De Facto Mobility<sup>1</sup>  
(7-day moving average)



2. Europe: De Facto Mobility Sub-Indexes<sup>2</sup>  
(7-day moving average)



Sources: Oxford Covid-19 Government Response Tracker; Google Covid-19 Mobility Report; and IMF staff calculations.

<sup>1</sup>To reflect quickly evolving developments, this chart includes data on stringency indices as of October 12, 2020, and data on mobility indices as of October 9, 2020.

<sup>2</sup>To reflect quickly evolving developments, this chart includes data as of October 9, 2020.

Note: AE = advanced economies; EE = emerging market economies.

(Figure 1.2; see also Chapter 2). So far, the second wave has not had a major impact on these mobility indicators.

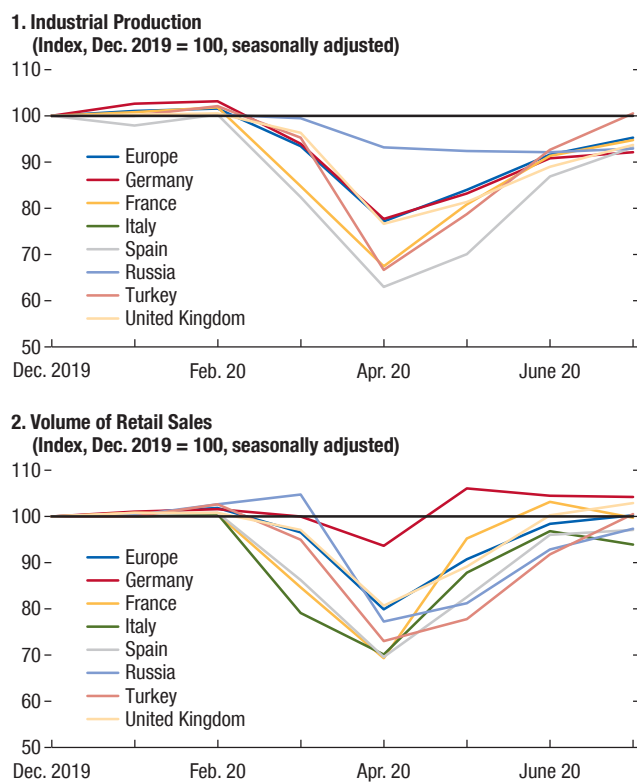
### Economic Activity Has Begun Recovering

With the reopening of Europe, retail sales and industrial production rebounded. European retail sales increased by 15 and 6 percent (month-over-month) in May and June, respectively, reaching 95 percent of the (pre-pandemic) level of February by the end of June. Industrial production has also rebounded and is estimated to have reached 91 percent of the pre-pandemic level by the end of June (Figure 1.3). However, purchasing managers' index levels show that the recovery appears to

have lost steam lately, after a sharp bounce-back in May–June.

The rebound occurs amid a recession that is much deeper than the one during the global financial crisis (GFC), while a much stronger policy response limited the damage to labor markets. The March–April lockdowns and voluntary social distancing caused real GDP in Europe to fall by about 40 percent in the second quarter of 2020 (annualized quarter-over-quarter), three times deeper than during the GFC.<sup>2</sup> *Advanced economies* (AE) experienced a much deeper fall in activity than *emerging market economies* (EE), which were caught later by the pandemic and reacted more quickly. Because of the strong policy response, the drop in employment and rise in unemployment

**Figure 1.3. The Pandemic's Impact on Activity and Recent Recovery**



Source: Haver Analytics.

rates—relative to the contraction in output—have been appreciably less than they were during the GFC, although the pandemic's full impact on labor markets will likely appear with some delay. Nonetheless, immediate job and income losses would have been much larger without the job-retention programs that subsidized wages and shorter work hours. In the euro area, for example, employment in the second quarter of 2020 was 2.9 percent lower than in the second quarter of 2019, while hours worked dropped by more than 16 percent.

Contact-intensive sectors (hospitality, travel, and tourism) and those with complex value chains (electronics and automobiles) suffered the most. Restricted cross-border mobility has lowered hotel occupancy rates to 40 percent through August, suggesting that countries where tourism accounts for a sizable share of GDP (for example,

*Croatia, Italy, Montenegro, and Spain*) are exposed to larger economic damage. In the automobile sector, factory shutdowns led to a decline of 27 percent (year-over-year) of European auto production in the first half of 2020 and affected nearly one half of the workers directly employed, imposing a heavy blow on countries where the sector commands a large share of industrial production (for example, the *Czech Republic* and the *Slovak Republic*). The impact of the crisis has been particularly damaging for small and medium sized enterprises, which dominate some of the most contact-intensive sectors and account for more than one-half of total output and around two-thirds of employment in Europe.

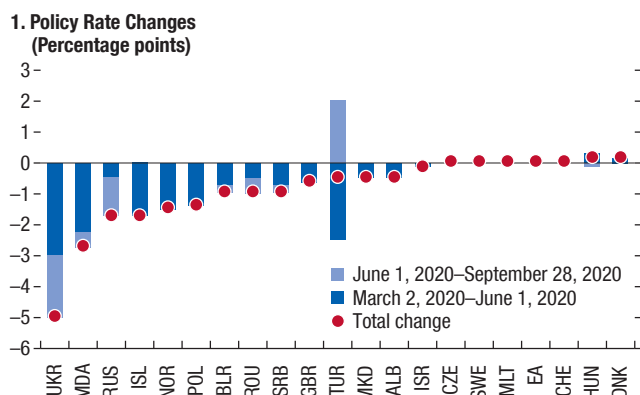
The fall in commodity prices and the decline in demand are pushing inflation down, more than offsetting the upward pressures from supply disruptions. In AE, where pre-COVID-19 inflation was already running below target in many economies, the great lockdown pushed it into negative territory. In EE, inflation has generally remained contained, although some large emerging market economies (*Turkey* and to a lesser extent *Russia*) are experiencing an uptick in inflation as currency depreciations more than offset the impact of weaker demand and lower commodity prices. Since June, inflation has ticked up in all countries after the rebound in oil prices and demand. But inflation expectations have remained stable, as these upticks are expected to be temporary in a context of widespread demand weakness.

## The Policy Response: Unprecedented and Multifaceted

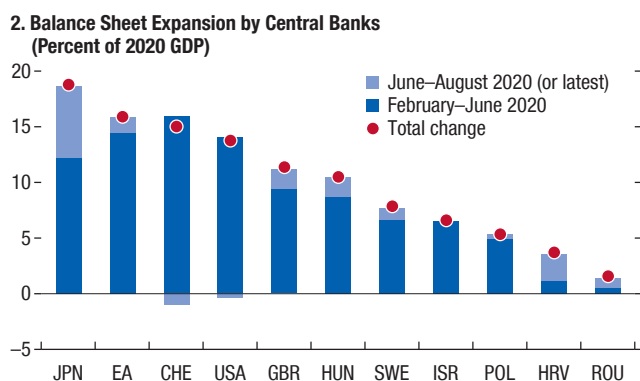
Europe's policy response to the pandemic has been unprecedentedly strong and multifaceted.<sup>3</sup> Governments across Europe simultaneously deployed large fiscal packages to support vulnerable households and firms, eased monetary

<sup>3</sup>The IMF has also helped combat the adverse health and economic fallouts from the COVID-19 pandemic through providing financing, policy advice, and technical support to several European countries.

**Figure 1.4. Monetary Easing through Conventional and Unconventional Measures**



Source: Haver Analytics.  
 Note: EA = Euro area. Country abbreviations are International Organization for Standardization country codes.



Sources: Central banks; Haver Analytics; and IMF, *World Economic Outlook*.  
 Note: EA = Euro area. Total expansion is calculated as the difference between central banks' assets value in latest available month and February 2020. The data include valuation changes. Country abbreviations correspond to the International Organization for Standardization country codes.

policy to support the flow of credit and tackle financial market disruptions, and adopted macroprudential measures that cushioned the impact of the crisis on both banks and borrowers. The objective was twofold: supporting demand; and protecting supply, by avoiding a string of potentially disruptive bankruptcies of individuals, corporations, and banks.

## Monetary Policy Rate Cuts and Unconventional Responses

Central banks across Europe have embarked on substantial monetary easing. Policy rates were cut significantly in many economies (e.g. *Iceland, Norway, Poland, Romania, Russia, Serbia, United Kingdom*) and when they were close to the effective lower bound, deposit rates were moved into negative territory (Figure 1.4). Moreover, central banks across the region also resorted to unconventional monetary policy (UMP). Expansionary monetary policies in AE and other reserve currency economies greatly facilitated the policy response in EE by easing global financial conditions. The latter stands in sharp contrast with the tightening during the GFC and meant that initial exchange rate pressures in a variety of EE quickly receded.

- In the *euro area*, the European Central Bank (ECB) did not change policy rates, but it expanded its balance sheet by about 16 percent of euro area GDP between March and August, and provided liquidity to the financial sector through targeted and untargeted long-term financing operations. The new Pandemic Emergency Purchase Program (PEPP) has helped contain sovereign spreads and reduced financial market stress, thereby enabling a substantial relaxation in the monetary policy stance. Staff expect ECB's sovereign bonds purchases over 2020–21 to represent about 85 percent of the euro area's projected fiscal deficit of about €1.7 trillion. The ECB also strengthened its support to central banks of non-euro area countries with new bilateral swap lines (*Bulgaria, Croatia*) and repo lines (*Albania, Hungary, North Macedonia, Romania, Serbia*).
- Central banks in EE engaged in policy rate cuts and secondary market asset purchases of government (or government guaranteed) securities. Asset purchases (which have been significant in *Croatia* and *Poland*) have aimed to stabilize domestic government bond markets during the pandemic-induced

sell-off and to enhance monetary policy transmission. In most cases, the central banks' balance sheets did not expand in proportion to asset purchases, because they were sterilized (*Croatia*) or dwarfed by liquidity assistance to banks. UMP has not led to significant currency pressures so far, while globally easy financial conditions and some use of foreign currency reserves have limited currency depreciation in *Croatia, Romania* and *Turkey*. Uncertainty at the start of the pandemic had led to an increase in sovereign spreads and capital outflows from EE, but this also reversed quickly as monetary and financial easing in reserve currency economies contained financial stress and stabilized emerging markets. Exchange rates have thus broadly returned to pre-crisis levels, except in *Russia* and *Turkey*.

### Macroprudential Easing and Regulatory Forbearance

The swift implementation of macroprudential policies has provided capital and liquidity relief for banks to strengthen their capacity to absorb losses and maintain the flow of credit, thereby supporting the easing of monetary conditions. In the *euro area*, the ECB Banking Supervision allowed banks to operate temporarily below both the level and quality of capital required under "Pillar 2." The ECB also allowed flexibility in the classification and provisioning of loans backed by public support measures. These temporary measures have been enhanced by the appropriate relaxation of macroprudential requirements, with national authorities either releasing countercyclical capital buffers or revoking previously announced increases. Together with the restrictions on dividend distribution and share buybacks, this has helped cushion the impact of the crisis on banks and supported lending,

Governments across Europe also approved borrower relief measures to mitigate economic disruptions, avert a dislocation in financial markets, and preserve financial stability.

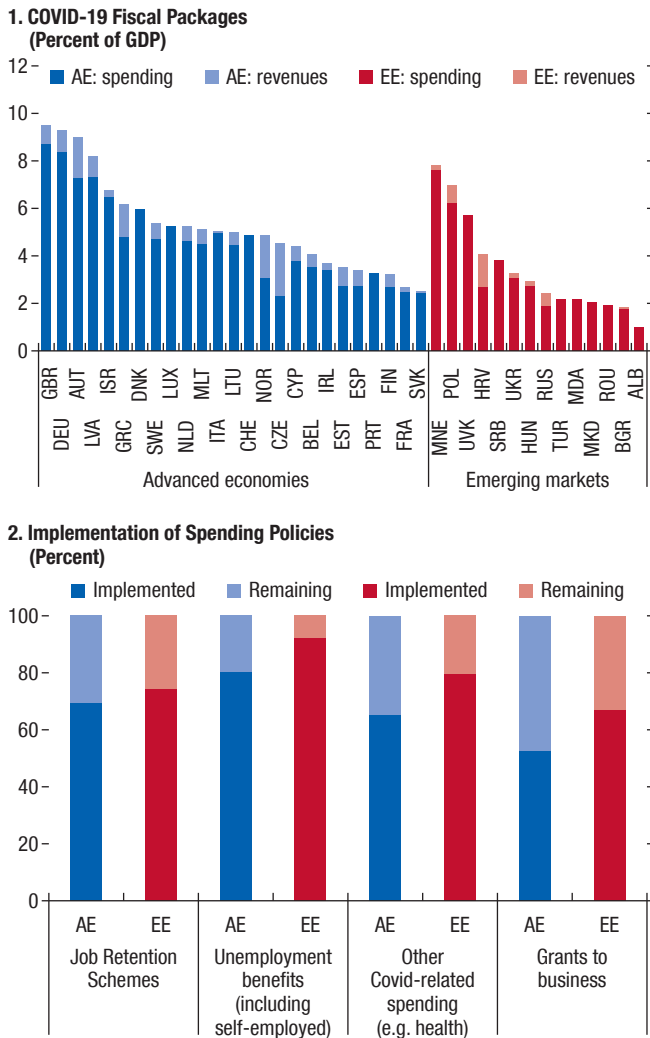
Temporary moratoria were introduced in many countries (*Albania, Bulgaria, Germany, Hungary, Italy, Kosovo, Montenegro, Serbia, Slovenia, and Spain*), allowing the suspension or postponement of bank payments (for example, for 3–18 months), while regulatory forbearance allowed banks to postpone provisioning of reprogrammed loans. Most countries tried to target these measures to borrowers severely affected by the pandemic. Banks were also encouraged to provide relief on a case-by-case basis through debt rescheduling and restructuring, reduced payments, or a temporary switch to interest-only payments.

### Fiscal Policy: Unprecedented and Impactful

National authorities have deployed unprecedented fiscal support. Sizable discretionary fiscal packages added to large automatic stabilizers, with each accounting for about half of the average decline in fiscal balances in 2020. The average size of discretionary fiscal measures for AE (6.2 percent of GDP) was larger than that for EE (3.1 percent of GDP; Figure 1.5). Among AE, countries with more fiscal space before COVID-19 have generally been able to provide more support. The relationship between fiscal space and the size of policy response is less evident among EE, when space is measured by public debt.

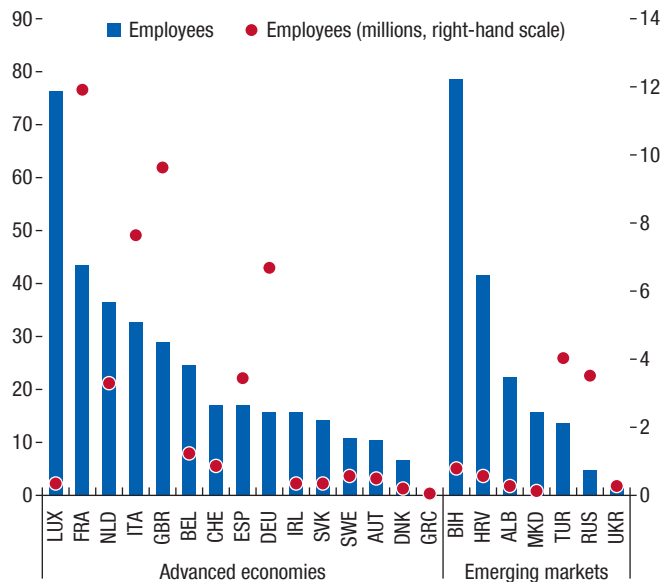
- **To protect jobs and support workers,** governments expanded health spending, provided direct income assistance, subsidized jobs, and strengthened unemployment insurance. Several economies expanded job-retention programs, helping firms to retain their workers by using public funds to pay up to 70–80 percent of gross wages for hours not worked, or by providing relief on nonwage labor costs. The coverage of unemployment benefits was also expanded. Planned fiscal spending in 2020 averages 1 percent of GDP on job retention programs and about 0.4 percent of GDP on additional unemployment benefits.

**Figure 1.5. Fiscal Policy Support: New Spending Measures and Tax Deferrals**



Sources: National authorities; and IMF staff calculations.  
 Note: AE = advanced economies; EE = emerging market economies. COVID-19 = coronavirus disease. Country abbreviations follow those of the International Organization for Standardization country codes. Country compositions varies by group. Advanced economies—job retention schemes: Austria, Belgium, Czech Republic, Denmark, France, Germany, Greece, Ireland, Italy, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Spain, Sweden, Switzerland, United Kingdom. Unemployment benefits (including self-employed): Austria, Belgium, Estonia, Finland, France, Greece, Ireland, Israel, Italy, Lithuania, Malta, Portugal, Spain, Switzerland, United Kingdom. Other COVID-related spending (health, other benefits): Austria, Czech Republic, France, Germany, Greece, Ireland, Italy, Lithuania, Malta, Portugal, Slovak Republic, Spain, United Kingdom. Grants to business: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Lithuania, Luxembourg, Malta, United Kingdom. Emerging market economies—short-term work programs: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Moldova, Montenegro, North Macedonia, Poland, Romania, Russia, Ukraine. Unemployment benefits (including self-employed): Albania, Kosovo, Moldova, Montenegro, North Macedonia, Poland, Russia, Ukraine. Other COVID-related spending (health, other benefits): Bosnia and Herzegovina, Croatia, Hungary, Kosovo, Moldova, North Macedonia, Poland, Romania, Russia, and Ukraine. Grants to business: Croatia, Kosovo, Moldova, North Macedonia, Poland, Russia.

**Figure 1.6. Labor Market Support: Job Retention Programs (Percent of employees, 2020)**



Sources: National authorities; and IMF staff calculations.  
 Note: Country abbreviations are International Organization for Standardization country codes.

- **To support businesses**, governments approved tax deferrals, loan guarantees (with coverage ratios of 70–100 percent), and direct equity injections. The size of announced guarantee programs varies greatly (1–25 percent of GDP) but their take-up through August is estimated at about half of the maximum envelope, with considerable cross-country variation. Staff analysis shows that government support programs could be effective in addressing a large part of corporate liquidity needs, especially in AE, although much less so as far as equity needs are concerned (Chapter 3).

The degree of policy implementation has been high, including in job-retention schemes. The execution rate of spending programs through August varied from 50 to 80 percent of planned envelopes and was especially high (more than 70 percent of announced support) for job-retention programs, reaching an estimated 54 million workers (Figure 1.6). On revenues, staff

estimate that much of the announced tax relief will become foregone revenue.

The cost of the policy response combined with falling revenues will lead to a surge in budget deficits. Staff estimate that in 2020, primary balances will decline by 9.9 percentage points of GDP in AE and by 6 percentage points of GDP in EE. The large increases of household savings and declines in private investment expanded the room for the massive fiscal stimulus to operate (even in more vulnerable economies) without creating excess demand pressures. Improved external market conditions allowed most EE to cover their fiscal and external 2020 financing needs. Several EE sovereigns returned to the Eurobond market and secured financing for the whole of 2020 at favorable terms.<sup>4</sup>

## European Union-Wide Responses Created Additional Policy Space

The European Union (EU) relaxed existing rules to accommodate increased fiscal deficits and larger support to firms. The general escape clause in the EU fiscal rule was activated to allow countries to temporarily deviate from fiscal limits in a coordinated manner. The European Commission (EC) also swiftly relaxed EU State Aid rules, so that governments could subsidize key national companies; this resulted in the approval of €2 trillion of budgeted state aid, with *Germany* accounting for more than half.

The EU also mobilized supranational resources to finance new facilities and complement national fiscal policies.

- **In April, EU leaders approved an assistance package of €540 billion.** This comprises €100 billion in loans to help protect jobs through job-retention programs (the Support to mitigate Unemployment Risks in an Emergency program); a €200 billion pan-European guarantee fund, enabling

the European Investment Bank to increase support to firms; and a €240 billion European Stability Mechanism precautionary credit line, to cover COVID-19-related healthcare costs (for up to 2 percent of GDP per state).

- **In July, EU leaders agreed on the “Next Generation EU” package for €750 billion.** The funds will provide a one-off augmentation of the EU’s Multiannual Financial Framework for 2021–27 through a joint EU bond issuance during 2021–23, with €390 billion to be distributed as grants. The EC is encouraging countries to submit national recovery plans for 2021–23, specifying their reform and investment agenda for strengthening growth potential, job creation and social resilience. These plans are also required to contribute to the green and digital transition.

National fiscal packages together with expected disbursements from the “Next Generation EU” package can have a meaningful impact on growth over 2020–25. Staff analysis using the “Flexible System of Global Models” shows that output losses in 2020 could have been about 4 percentage points larger without the timely and sizable fiscal support. The analysis further shows that over the medium-term, grants from the “Next Generation EU” package can have a sizable positive impact on the pace of recovery, while easing the pressure on public debt accumulation. Assuming that grants are distributed according to the new allocation key, the impact on output will be higher in new member states and in highly indebted countries, including in AE (Box 1.1). However, the growth impact will depend on the quality of spending and the speed at which programs are implemented.

## The Outlook: The Recovery Depends on the Pandemic's Course

Europe’s projected economic contraction of 7 percent in 2020 will be the largest since World

<sup>4</sup>Eurobond issuance in May–June were generally 4–5 times oversubscribed, at long maturities (5–15 years) and at relatively favorable interest rates.

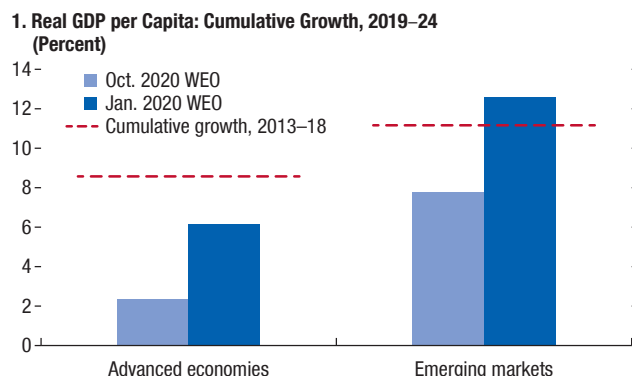
War II. This is down from an expected 8.5 percent contraction in the June’s *World Economic Outlook Update*, reflecting better-than-anticipated outturns in the second quarter of 2020 as lockdowns were scaled back. Economic activity is forecast to rebound by 4.7 percent in 2021, though the strength of the recovery will crucially depend on the pandemic’s course in the second half of 2020 (Annex Table 1.1.1). In this regard, the second wave of infections is raising some major concerns.

- *AE* are expected to be hit harder by the crisis. On average, these economies are projected to contract by 8.1 percent in 2020. Among the hardest hit in this group are *France, Italy, Portugal, San Marino, Spain*, and the *United Kingdom* where activity is forecast to plunge by about 10 percent. On the other side of the spectrum, *Finland, Ireland, Lithuania, and Norway* are forecast to suffer less, with GDP declining by 4 percent at most. Growth in *AE* is forecast to reach 5.2 percent in 2021 and to hover around 3 percent over the medium-term.
- Activity in *EE* is forecast to shrink by 4.6 in 2020, with growth returning to 3.9 percent in 2021. While substantially larger output losses (of about 10 percent) are forecast for 2020 in *Croatia and Montenegro*, growth is projected to drop by about 3 percent in *Belarus and Serbia*.

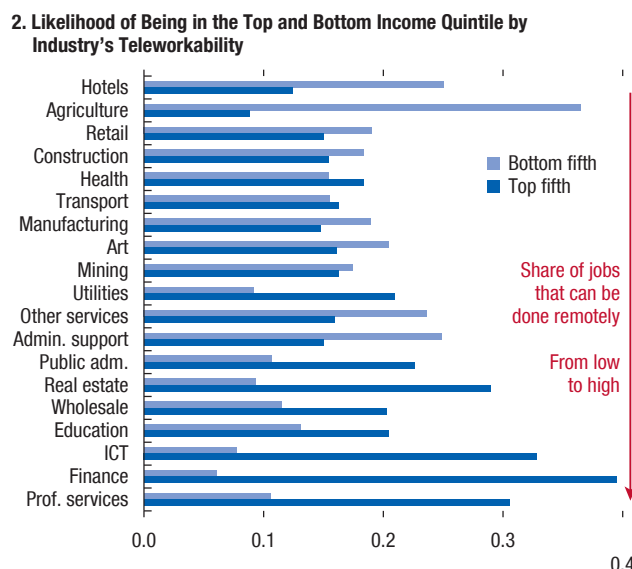
Inflation pressures are projected to abate further, despite some counteracting forces. Lower energy prices combined with greater economic slack and weaker private demand are forecast to outweigh the impact of negative supply shocks, leading to a decline of headline inflation to 2 percent in 2020, 1 percentage point below 2019. Inflation is forecast to weaken both in *AE* and *EE*, though within the latter group it is expected to hold in countries where exchange rates have depreciated. With a projected revival in economic activity, inflation in Europe is forecast to pick up to 2.4 percent in 2021 (Annex Table 1.1.2).

Beyond its short-term impact, the recession is likely to leave lasting scars. Lower investment and trade, erosion of job skills in the unemployed,

**Figure 1.7. The Crisis Will Leave Long-Lasting Scars and Deepen Inequality**



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



Sources: European Social Survey, 2018; and IMF staff calculations.

and disruptions of global value chains will have negative implications for potential growth and labor productivity over the longer horizon, leading to permanent output losses. Inequality is also likely to rise as workers in contact-intensive sectors tend to be poorer and more vulnerable (Figure 1.7).

However, the extent of these losses is difficult to determine at this stage, and depends, among other things, on how sustained and effective the policy response will be and how people deal with the virus.



## Risks to the Outlook: Tilted to the Downside

The forecast is surrounded by much more than the usual uncertainty and the ongoing resurgence of infections in various European economies presents perhaps the greatest downside risk at this stage. The baseline projection assumes no pervasive lockdowns in Europe, even without widespread availability of safe and effective vaccines during the forecast horizon. However, uncertainty will remain elevated until improved therapeutics and (or) an effective vaccine is developed and widely distributed.

- *On the downside*, more voluntary social distancing, a need for restoring stricter measures or even lockdowns in the face of the ongoing second wave or new waves of infections could result in greater scarring and a weaker recovery. Spillovers from soft global demand and tourism would strike a hard blow to export-oriented European economies. Although buoyant financial markets have mitigated financing risks so far, these could suddenly unwind and cause an abrupt fall in risk appetite, creating troubles for several EE that rely on the Eurobond market for fiscal financing. With only two months left until the end of the Brexit transition period (following the June 2016 United Kingdom referendum result in favor of leaving the European Union) and no significant progress in negotiations, the risks of no-deal Brexit are high, implying an additional and potentially sizable shock to activity in the United Kingdom and the EU.
- *On the upside*, a faster-than-expected vaccine availability and (or) improved therapeutics could accelerate the reopening, pushing mobility and economic activity upwards; in addition, the impact of policy measures may become stronger than projected.

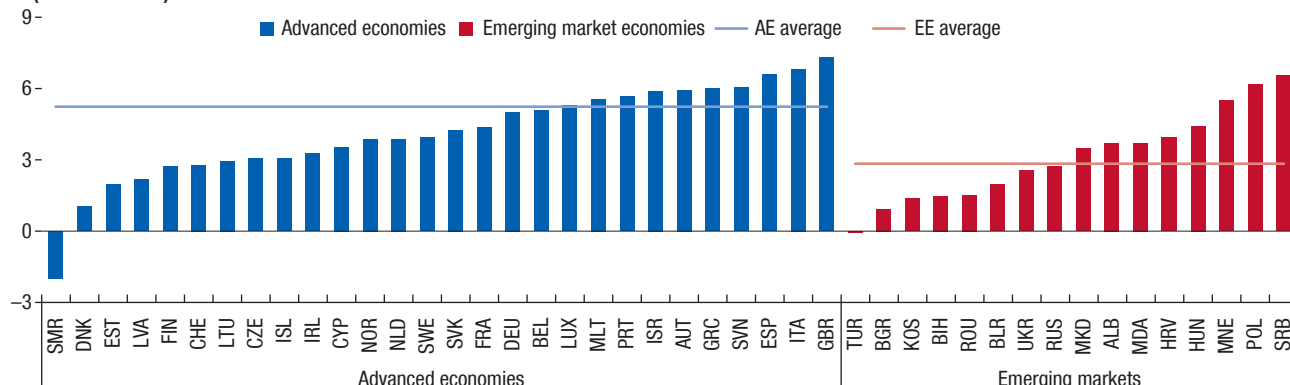
## Policy Requirements: Calibrating the Reopening while Sustaining the Policy Effort

A key challenge facing policy makers in the near term will be to continue calibrating the speed and extent of the reopening and the lifting of other restrictions. This calibration should also factor in the likely need to reimpose containment measures not to overwhelm the health system. The ongoing second wave of infections illustrates how difficult it is to bring the pandemic under control. Staff analysis shows that during the first round of the reopening, countries that lifted restrictions more gradually observed a similar improvement in economic activity but at a lower cost in terms of infections compared with those that reopened faster and earlier (Chapter 2). With losses to economic activity broadly “linear” and infections “exponential” functions with respect to time, there could be a premium on early actions in response to new surges. Furthermore, the cross-country experience suggests that containment measures can be targeted and fine-tuned in a way that can change the trajectory of infections, while minimizing disruptions to economic activity. In this regard, enforcing social distancing (for example, avoiding large gatherings) is important for keeping mobility from resulting in spiraling new infections.

The nature of the pandemic shock calls for a continuation of the extraordinary policy response. In countries where infections are rising again, the foremost priority is to contain the pandemic and prevent a deeper downturn. In countries that appear to have gone past peak infection rates, policies should prioritize supporting the recovery and facilitating resource reallocation by gradually shifting spending from economic support to investment in social and economic infrastructure. For all countries, depending on the pandemic's evolution and its impact on activity, adjusting the policy strategy and efficiently using the remaining policy space will be the main challenges in the near term.

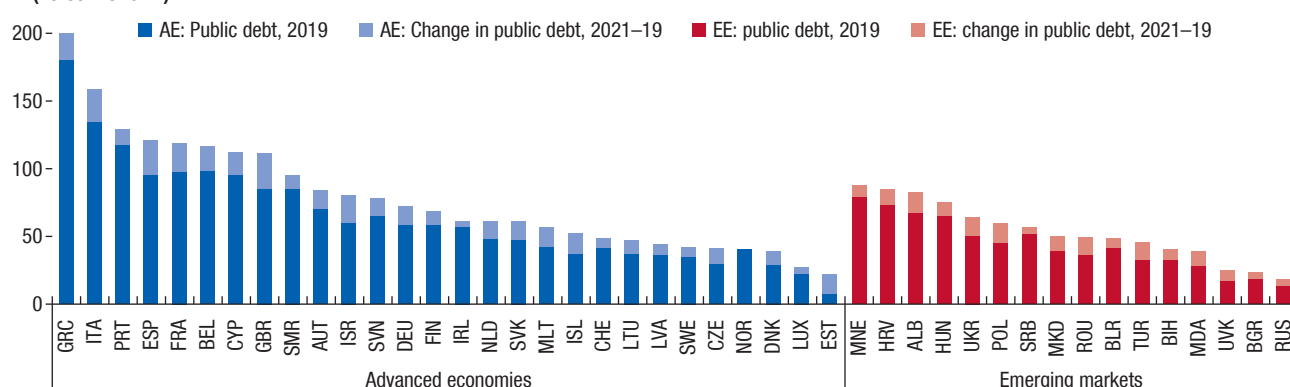
Figure 1.8. Large Consolidation of Fiscal Policy Should be Avoided

1. Europe: General Government Net Lending and Borrowing, 2021–20  
(Percent of GDP)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.  
Note: AE = advanced economies; EE = emerging market economies. Country abbreviations are International Organization for Standardization country codes.

2. Europe: General Government Public Debt, 2021–20  
(Percent of GDP)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.  
Note: AE = advanced economies; EE = emerging market economies. Change of public debt, 2021–19, for Norway is negative and not displayed on the chart for presentational purposes. Country abbreviations are International Organization for Standardization country codes.

## Short-Term Macroeconomic Policy Mix

### *Fiscal Policy Support Must Remain in Place as a Backstop of the Recovery*

The envisioned reduction in fiscal deficits will need to be kept under close review. On present policies, the October *World Economic Outlook* foresees a reduction in deficits by about 5 percentage points of GDP in AE and 3 percentage points of GDP in EE (Figure 1.8). These forecasts are subject to large uncertainty, because the final costs of ongoing support programs in several countries are still unknown. A reduction in fiscal imbalances because of the growth rebound is clearly desirable,

but policy support should remain largely in place. Concerns about subsidizing zombie firms under an extended policy support are understandable. But as long as prospects for a vaccine improve, so will the prospects for contact intensive activities. This argues for their continued support, at least over much of the forthcoming year, while the programs could be fine-tuned to better avoid moral hazard. For example, support could be targeted to facilitate take-up by firms that are expected to remain viable in the longer term (Chapter 3).

A premature scaling back of fiscal support risks dragging countries back into recession, undoing

much of what has been achieved so far. For example, abruptly ending job-retention programs would be highly damaging for the millions of workers and families that have benefited from them. Fiscal support must continue to focus on healthcare provision, vulnerable households, viable but liquidity-constrained firms, and public investment, including on green and digital projects. Countries with fiscal space can continue providing broad-based stimulus, but those that are more constrained will face difficult choices that, in some cases, external support could alleviate. The “Next Generation EU” initiative should help EU states (especially its newer members) expand their policy space for securing the recovery and boosting investment in areas that would place these economies on a path of higher productivity and faster emission reduction.

The extraordinary policy support needs to be anchored by credible consolidation plans to be implemented once the recovery has taken hold. The timely and large fiscal support has successfully preserved a large share of economic activity and thereby forestalled a much larger and destructive accumulation of bad debts. But together with the subdued medium-term outlook, this means that public debt ratios will remain much more elevated than before the crisis. Even if borrowing costs remain low for a long time, this could potentially pose risks to debt sustainability for several countries. Public debt ratios in 2021 are forecast to reach 96 and 39 percent of GDP in AE and EE respectively, almost 20 and 10 percentage points above their 2019 level. Guarantee programs (widely used during the crisis) pose additional risks that if materialized could push debt ratios up further. Governments must do all they can to mitigate the deep downturn, but they should begin considering strategies for a gradual consolidation path after the crisis abates. For many economies, notably in EE, this will mean mobilizing more revenue, by either tax rate increases or tax base broadening; because measures take time to prepare, the analysis of these issues should begin now.

#### *Below Target Inflation Calls for a Continuation of Accommodative Monetary Policies*

Anchored inflation expectations and wide output gaps suggest that central banks should keep accommodative monetary policies in place to support the recovery. In the short term, key policy rates should remain at their current levels to keep borrowing costs low and credit conditions supportive. Asset purchase programs should continue to reinforce the accommodative impact of low policy rates, but their size and composition will need to be tailored to protect the credibility of monetary policy frameworks and anchor inflation expectations. Specifically, for the *euro area*, further monetary policy accommodation may be needed to counteract the pandemic's disinflationary impact, including via PEPP expansion and adjustment of TLTRO terms.

#### *Macroprudential Measures: Allowing Banks to Gradually Absorb the Shock*

Banking supervision authorities should continue applying regulatory flexibility in order not to jeopardize the flow of credit. Although a weakening of capital and provisioning standards needs to be avoided and the true state of banks closely monitored, existing gaps between required and actual provisions should be tolerated and their subsequent closure should be pursued at a suitably gradual pace. If rising private sector debt levels and corporate insolvencies impact banks as policy support is gradually withdrawn (Chapter 3), the authorities will need to address the increasing fragility of bank balance sheets and adjust the pace of unwinding banks' capital relief measures. Uncertainty on the damage to credit quality suggests that supervision authorities may need to adapt their plans as data arrives, taking into consideration that the crisis may affect different banks (including some of systemic importance) differently.

## Medium-Term Policy Priorities: Addressing New and Pre-Existing Challenges

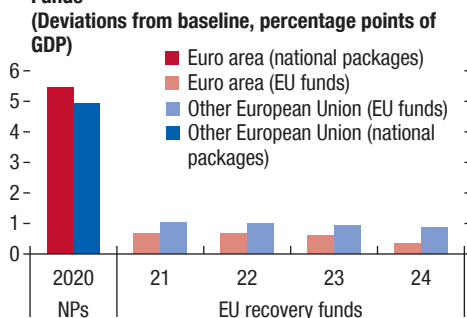
The current crisis has compounded pre-existing challenges and created new ones. As economies move from recession to recovery, it is imperative that support programs also address the challenges that predate the pandemic (for example, low productivity growth, the transition to a low-carbon economy, ageing and increasing inequality), along with the new ones (for example, damage to supply potential, the buildup of debt, and the setback to human capital accumulation).

- To keep economic ties alive, policies that prevent bankruptcies and limit discouraged workers from exiting the labor force will play a key role. *Active labor market policies* will facilitate retraining workers and helping them find new jobs to prevent the loss of firm-specific human capital, which can be costly over the medium term. Where needed, *temporary credit guarantees*, and loan restructuring can help solvent-but-illiquid firms remain afloat and preserve employment relationships, helping them to remain viable after the pandemic fades (Chapter 3).
- Once fiscal resources are freed from temporary support to households and companies, they should be redeployed to public investment that will support the recovery and make headways in tackling long-term challenges, like climate change, infrastructure gaps, and the digital transition (Box 1.2). Stimulating productive green investment could help achieve the ambitious EU emission goals while maintaining dynamic growth.
- To recover and further raise potential output, boost resilience, and strengthen inclusive growth, accelerated completion of *structural reforms* — the need for which often predates the pandemic — will be essential (for example, improving human capital, implementing effective bankruptcy procedures and out-of-court restructuring mechanisms, diminishing barriers to firm entry and exit, and measures to incentivize investment in new areas). Governments will also need to strengthen the mechanisms to prepare for, prevent, and respond to a new pandemic.

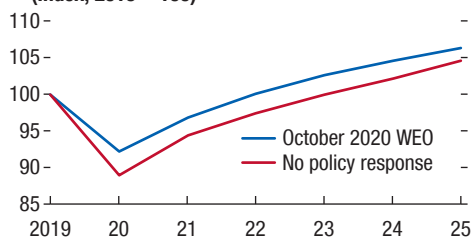
## Box 1.1. How Much Are Fiscal Policies Contributing to Activity in Europe: A Model-Based Assessment

**Figure 1.1.1. National and EU Packages: Size and Economic Impact**

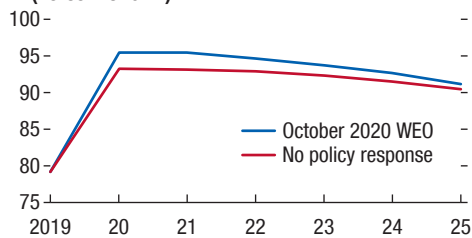
### 1. 2020 National Programs and 2021–24 EU Recovery Funds



### 2. Impact on Real GDP, EU27 Real GDP Level



### 3. Impact on Public Debt, EU27 General Government Debt



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

Note: NP = national program; WEO = World Economic Outlook. The no policy response scenario (Figures panels 2 and 3) represents a hypothetical situation assuming that no policy measures from Figure panel 1 are implemented. Public debt in Figure 3—October 2020 WEO scenario—has been quantified as a weighted average of debt ratios of EU27 countries plus the size of expected debt accumulation by the EU27 in order to finance Next Generation EU grants.

The pandemic has taken a sizable toll on European economies. Because the region is expected to contract by about 7 percent in 2020, national governments deployed fiscal packages of an unprecedented size to mitigate the impact of the crisis and prevent long-term scarring. Staff analysis using the “Flexible System of Global Models” shows that short-term output losses would have been significantly larger—by about 4 percent of GDP—without the swift fiscal support; and, over the medium-term, the “Next Generation EU” grants will have a positive impact on the pace of the recovery and on the dynamics of public debt.

Analysis using the “Flexible System of Global Models” suggests that deployed and prospective national and supranational fiscal support can have a significant impact on European growth. The analysis considers national fiscal measures, which in line with policy announcements amount to about 5 percent of GDP on average (Figure 1.1.1, top). It further considers that the size of the stimulus measures has been larger in advanced European countries (for example, the announced size of fiscal packages in Austria, Germany, and the United Kingdom is in the 8–11 percent of GDP range) and that about three-quarters of the measures affect expenditures. The analysis considers only above-the-line revenue and expenditure measures (for example, spending on health services and unemployment benefits, grants and transfers as well as tax cuts or other relief) and does not reflect below-the-line measures (such as loans and equity injections) and government guarantees.

For the medium-term, the analysis considers the recently approved €750 billion “Next Generation EU” recovery package, especially its €390 billion grant component. On average, EU members are projected to receive 0.6 percent of GDP per year in grants over 2021–23 (Figure 1.1.1, top). However, in the case of Bulgaria, Croatia, Greece, and Portugal, disbursements are forecast to reach at least 2 percent of GDP. The funds are projected to be spent during 2021–24, with the peak usage in 2022–23. The analysis assumes that about one half of these funds will boost public investment projects under national recovery and reform plans, and about one-fourth will finance current

Prepared by Kamil Dybczak and Keiko Honjo.

**Box 1.1** *(continued)*

spending. The remaining one-fourth will be used to fund already existing projects.

The analysis suggests that fiscal stimulus—as currently envisioned for 2020—will have a significant impact on European economic activity (Figure 1.1.1, middle). Without fiscal stimulus, economic activity would have dropped by 3–4 percentage points more than in the baseline for 2020 (that is, a contraction larger than 10 percent). At the same time, the large fiscal packages will translate to higher fiscal deficits and public debt ratios at the end of 2020 (Figure 1.1.1, bottom).

Beyond 2020, the analysis suggests that the strength of the recovery will partly depend on the delivery and absorption of “Next Generation EU” funds. The impact of these grants would be twofold. First, because it is assumed that grants will finance public investment, their growth dividend will be larger given the higher public investment multiplier, and because higher investment should boost productivity. Second, because about one-fourth of the grants are assumed to finance already existing projects, this would contribute to stabilization of deficits and a faster decline in public debt ratios from 2022 onwards. While public debt ratios reach a comparable level in both scenarios by 2025 (Figure 1.1.1, bottom), income losses are significantly lower in the scenario with national fiscal packages and Next Generation EU.

To support the near-term recovery, national fiscal policies are assumed to be complemented by accommodative monetary policy through the end of 2025. While the continued fiscal support will translate into larger deficits, the assumed monetary accommodation eases financial conditions, simplifies public deficit financing, and strengthens the effect of fiscal measures on activity.

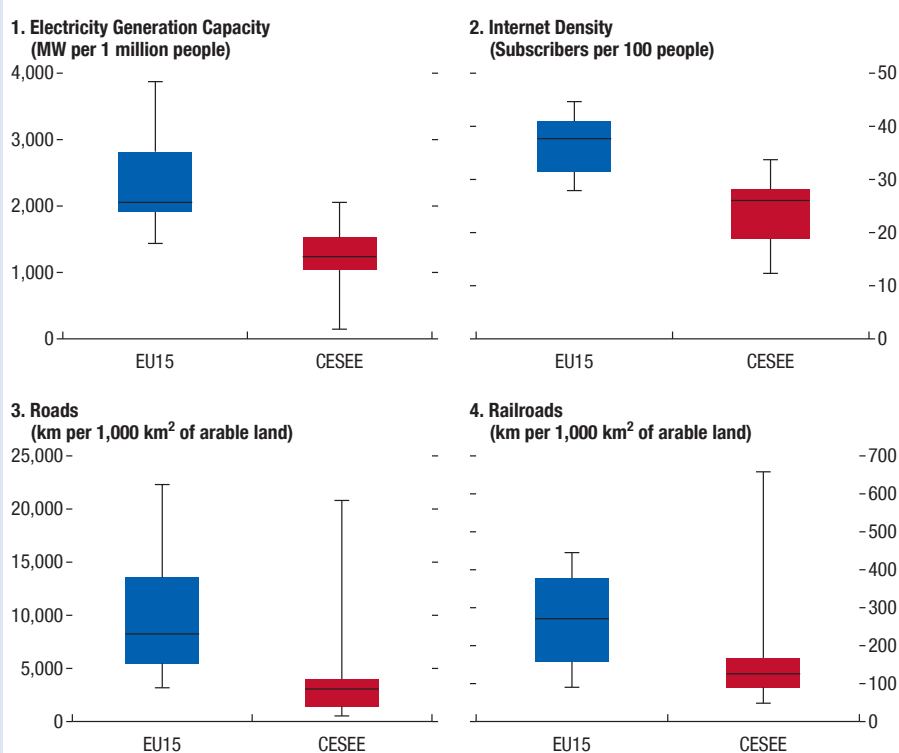
### Box 1.2. Infrastructure Push in Central, Eastern, and Southeastern Europe

*The coronavirus disease crisis has substantially worsened the outlook for Central, Eastern, and Southeastern Europe (CESEE). Infrastructure investment, with its high multiplier effects, can support the recovery, besides speeding up the region's convergence. With the crisis stretching budgets, making the most of infrastructure investment, while also accelerating the green and digital transitions, will be essential in the coming years.*

As in many countries around the world, the coronavirus disease pandemic has hit CESEE hard, erasing almost [three] years of economic progress and further slowing the process of income convergence. With the region set to receive significant resources in the context of the recently approved Next Generation EU Recovery Fund, scaling-up infrastructure investment can be an important tool to support activity in the recovery phase. It can also increase the region's productive capacity in the longer term and accelerate the green and digital transitions (Ari and others 2020).

Although there is significant cross-country variation, CESEE lags the EU15—the more advanced European countries—in the quantity of infrastructure, both traditional (such as transportation and electricity) and digital (Figure 1.2.1). The quality of the region's infrastructure and within-region connectivity are also significantly lower than in the rest of Europe. CESEE's infrastructure needs are sizable. In a new study, Ari

**Figure 1.2.1. Infrastructure Gaps in Central, Eastern, and Southeastern Europe**



Sources: Eurostat; national sources; World Bank, *World Development Indicators*; and IMF staff calculations.  
 Note: CESEE = Central, Eastern, and Southeastern Europe; km = kilometers; MW = megawatts. The EU15 comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom. The box denotes the 75th and 25th percentile, and the lines represent the median, minimum, and maximum within the sample.

Raju Huidrom prepared this box.

**Box 1.2** (continued)

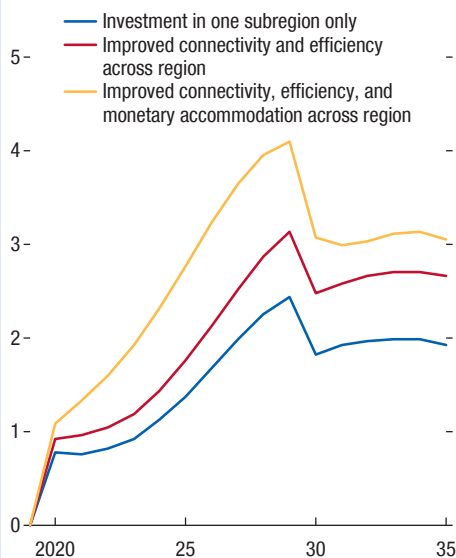
and others (2020) estimate that closing just 50 percent of the infrastructure gap with the EU15 by 2030 would cost between 3 and 8 percent of GDP per year and even more to make the infrastructure stock climate resilient and green.

Empirical analysis and model-based simulations suggest that narrowing these infrastructure gaps could yield significant dividends in CESEE. For each percent of GDP spent on infrastructure, output can increase by 0.5 to 0.75 percent in the short run and by 2 to 2.5 percent in the long term. With considerable slack in the economy, the stimulus effect of investment in infrastructure could be even larger. Strong governance of infrastructure projects—which improves public investment efficiency—and a focus on projects that improve regional connectivity and lower trade costs, such as those envisioned by the Three Seas Initiative, could also magnify the benefits (Figure 1.2.2).

However, infrastructure investment brings significant challenges and risks. New survey evidence from CESEE country authorities reveals that as in other countries, infrastructure projects suffer from implementation delays and cost overruns, manifestations of weaker infrastructure governance. Hence, strengthening infrastructure governance—to achieve more effective and integrated public investment and risk management—is critical to get the most out of public investment. It would also help mobilize private sector involvement, including public private Partnerships, and attract greater private financing.

The pandemic poses additional challenges to scaling up infrastructure investment, given the stress on current infrastructure projects, stretched public sector balance sheets, and highly uncertain future demand. Achieving value for money will be even more relevant in these circumstances and in light of the sizable transfers that the CESEE region is set to receive from EU initiatives. Policy efforts to strengthen the recovery from the pandemic present an opportunity to accelerate the transformation of the region's economies in line with future needs by scaling up public investment in digital and green infrastructure.

**Figure 1.2.2. Impact of Infrastructure Investment in Central, Eastern, and Southeastern Europe**  
(GDP, percent difference)



Source: IMF staff calculations.

## References

- Ari, Anil, and others. 2020. "Infrastructure in Central, Eastern, and Southeastern Europe: Benchmarking, Macroeconomic Impact, and Policy Issues." Departmental Paper, IMF.



## 1. THE CRUCIAL ROLE OF POLICIES IN CUSHIONING THE PANDEMIC'S IMPACT

**Annex Table 1.1.1. Real GDP Growth**  
 (Year-over-year percent change)

	October 2020 WEO				June 2020 WEO			Difference		
	2019	2020	2021	2022	2020	2021	2022	2020	2021	2022
<b>Europe</b>	1.6	-7.0	4.7	3.2	-8.5	5.4	3.3	1.5	-0.7	-0.1
<b>Advanced European Economies</b>	1.4	-8.1	5.2	3.2	-9.8	5.9	3.3	1.7	-0.7	-0.1
<b>Euro Area</b>	1.3	-8.3	5.2	3.1	-10.2	6.0	3.3	1.9	-0.8	-0.2
Austria	1.6	-6.7	4.6	2.1	-7.5	4.5	1.6	0.8	0.1	0.5
Belgium	1.4	-8.3	5.4	2.7	-10.4	6.0	2.5	2.1	-0.6	0.2
Cyprus	3.2	-6.4	4.7	3.6	-7.8	6.0	3.0	1.4	-1.3	0.6
Estonia	5.0	-5.2	4.5	3.7	-7.5	5.0	3.0	2.3	-0.5	0.7
Finland	1.1	-4.0	3.6	2.0	-7.5	5.0	1.3	3.5	-1.4	0.7
France	1.5	-9.8	6.0	2.9	-12.5	7.3	3.4	2.7	-1.3	-0.5
Germany	0.6	-6.0	4.2	3.1	-7.8	5.4	3.4	1.8	-1.2	-0.3
Greece	1.9	-9.5	4.1	5.6	-11.7	5.1	5.0	2.2	-1.0	0.6
Ireland	5.9	-3.0	4.9	4.3	-7.0	6.7	6.1	4.0	-1.8	-1.8
Italy	0.3	-10.6	5.2	2.6	-12.8	6.3	2.9	2.2	-1.1	-0.3
Latvia	2.2	-6.0	5.2	5.1	-8.6	5.0	2.7	2.6	0.2	2.4
Lithuania	3.9	-1.8	4.1	3.7	-8.1	8.2	5.1	6.3	-4.1	-1.4
Luxembourg	2.3	-5.8	5.9	3.8	-7.8	5.7	3.6	2.0	0.2	0.2
Malta	4.9	-7.9	4.8	5.5	-7.9	4.7	5.2	0.0	0.1	0.3
Netherlands	1.7	-5.4	4.0	2.0	-7.7	5.0	2.0	2.3	-1.0	0.0
Portugal	2.2	-10.0	6.5	4.8	-9.5	5.5	3.5	-0.5	1.0	1.3
Slovak Republic	2.4	-7.1	6.9	4.8	-9.4	6.9	4.0	2.3	0.0	0.8
Slovenia	2.4	-6.7	5.2	3.4	-9.5	5.5	3.4	2.8	-0.3	0.0
Spain	2.0	-12.8	7.2	4.5	-12.8	6.3	3.8	0.0	0.9	0.7
<b>Nordic Economies</b>	1.5	-4.2	3.5	2.8	-5.6	4.6	3.2	1.4	-1.1	-0.4
Denmark	2.3	-4.5	3.5	2.5	-7.0	6.0	3.5	2.5	-2.5	-1.0
Iceland	1.9	-7.2	4.1	2.7	-8.8	5.1	2.9	1.6	-1.0	-0.2
Norway	1.2	-2.8	3.6	3.0	-3.9	3.9	3.1	1.1	-0.3	-0.1
Sweden	1.3	-4.7	3.5	2.9	-5.9	4.2	3.0	1.2	-0.7	-0.1
<b>Other European Advanced Economies</b>	1.7	-8.5	5.4	3.3	-9.5	5.9	3.4	1.0	-0.5	-0.1
Czech Republic	2.3	-6.5	5.1	4.3	-8.8	5.0	3.4	2.3	0.1	0.9
Israel	3.4	-5.9	4.9	4.6	-6.8	5.8	5.0	0.9	-0.9	-0.4
San Marino	1.1	-11.0	5.7	2.9	-15.3	5.9	3.3	4.3	-0.2	-0.4
Switzerland	1.2	-5.3	3.6	2.1	-7.5	4.5	1.8	2.2	-0.9	0.3
United Kingdom	1.5	-9.8	5.9	3.2	-10.2	6.3	3.5	0.4	-0.4	-0.3
<b>Emerging European Economies</b>	2.1	-4.6	3.9	3.4	-5.8	4.3	3.4	1.2	-0.4	0.0
<b>Central Europe</b>	4.3	-4.1	4.5	4.4	-4.6	4.3	3.6	0.5	0.2	0.8
Hungary	4.9	-6.1	3.9	4.0	-4.5	4.5	3.1	-1.6	-0.6	0.9
Poland	4.5	-3.6	4.6	4.5	-4.6	4.2	3.7	1.0	0.4	0.8
<b>Eastern Europe</b>	1.6	-4.4	2.8	2.4	-6.7	3.9	3.0	2.3	-1.1	-0.6
Belarus	1.2	-3.0	2.2	2.0	-5.0	3.1	1.7	2.0	-0.9	0.3
Moldova	3.6	-4.5	4.1	4.0	-3.0	4.1	3.8	-1.5	0.0	0.2
Russia	1.3	-4.1	2.8	2.3	-6.6	4.1	3.0	2.5	-1.3	-0.7
Ukraine	3.2	-7.2	3.0	3.2	-8.2	1.1	3.0	1.0	1.9	0.2
<b>Southeastern European EU Member States</b>	3.8	-5.2	4.7	3.9	-5.3	4.1	3.3	0.1	0.6	0.6
Bulgaria	3.4	-4.0	4.1	3.7	-4.0	4.0	3.6	0.0	0.1	0.1
Croatia	2.9	-9.0	6.0	4.4	-9.0	4.9	4.0	0.0	1.1	0.4
Romania	4.1	-4.8	4.6	3.9	-5.0	3.9	3.0	0.2	0.7	0.9
<b>Southeastern European Non-EU Member States</b>	3.5	-5.0	5.5	5.2	-5.4	5.8	5.2	0.4	-0.3	0.0
Albania	2.2	-7.5	6.1	5.8	-7.5	6.1	5.8	0.0	0.0	0.0
Bosnia and Herzegovina	2.7	-6.5	5.0	4.0	-8.0	5.0	4.0	1.5	0.0	0.0
Kosovo	4.0	-7.5	6.0	3.7	-6.5	5.8	3.7	-1.0	0.2	0.0
North Macedonia	3.6	-5.4	5.5	4.5	-6.5	5.7	4.5	1.1	-0.2	0.0
Montenegro	3.6	-12.0	5.5	4.2	-9.0	6.5	4.5	-3.0	-1.0	-0.3
Serbia	4.2	-2.5	5.5	6.0	-3.0	6.0	6.0	0.5	-0.5	0.0
Turkey	0.9	-5.0	5.0	4.0	-5.0	5.0	4.0	0.0	0.0	0.0
<b>Memorandum</b>										
World	2.8	-4.4	5.2	4.2	-4.9	5.4	4.3	0.5	-0.2	-0.1
Advanced Economies	1.7	-5.8	3.9	2.9	-8.0	4.8	3.0	2.2	-0.9	-0.1
Emerging Market and Developing Economies	3.7	-3.3	6.0	5.1	-3.0	5.9	5.2	-0.3	0.1	-0.1
Emerging and Developing Europe	2.1	-4.6	3.9	3.4	-5.8	4.3	3.4	1.2	-0.4	0.0
Emerging Europe Excl. Russia and Turkey	3.8	-4.8	4.3	4.1	-5.2	3.9	3.5	0.4	0.4	0.6
European Union	1.7	-7.6	5.0	3.3	-9.3	5.7	3.3	1.7	-0.7	0.0
United States	2.2	-4.3	3.1	2.9	-8.0	4.5	3.1	3.7	-1.4	-0.2
China	6.1	1.9	8.2	5.8	1.0	8.2	5.7	0.9	0.0	0.1
Japan	0.7	-5.3	2.3	1.7	-5.8	2.4	2.0	0.5	-0.1	-0.3

Sources: IMF, *World Economic Outlook*; and IMF staff calculations.  
 Note: WEO = World Economic Outlook.

**Annex Table 1.1.2. Headline Inflation**  
(Year-over-year percent change)

	October 2020 WEO				June 2020 WEO			Difference		
	2019	2020	2021	2022	2020	2021	2022	2020	2021	2022
<b>Europe</b>	3.0	2.0	2.4	2.5	1.9	2.3	2.6	0.1	0.1	-0.1
<b>Advanced European Economies</b>	1.3	0.5	1.0	1.3	0.3	1.0	1.4	0.2	0.0	-0.1
<b>Euro Area</b>	1.2	0.4	0.9	1.2	0.2	0.9	1.3	0.2	0.0	-0.1
Austria	1.5	1.2	1.8	1.8	0.8	1.6	1.8	0.4	0.2	0.0
Belgium	1.2	0.6	1.2	1.4	0.2	1.1	1.4	0.4	0.1	0.0
Cyprus	0.6	-0.6	1.0	1.0	0.1	0.4	0.8	-0.7	0.6	0.2
Estonia	2.3	0.2	1.4	2.2	0.5	2.0	2.1	-0.3	-0.6	0.1
Finland	1.1	0.7	1.3	1.5	0.6	1.1	1.5	0.1	0.2	0.0
France	1.3	0.5	0.6	1.0	0.2	0.7	1.0	0.3	-0.1	0.0
Germany	1.3	0.5	1.1	1.3	0.4	1.4	1.5	0.1	-0.3	-0.2
Greece	0.5	-0.6	0.7	0.9	-0.7	0.0	0.8	0.1	0.7	0.1
Ireland	0.9	-0.2	0.6	1.9	0.0	0.4	1.9	-0.2	0.2	0.0
Italy	0.6	0.1	0.6	0.9	0.1	0.6	1.0	0.0	0.0	-0.1
Latvia	2.7	0.6	1.8	2.2	-0.3	2.5	2.3	0.9	-0.7	-0.1
Lithuania	2.2	1.3	1.7	1.9	0.5	1.8	2.1	0.8	-0.1	-0.2
Luxembourg	1.7	0.4	1.4	1.8	0.3	1.4	1.8	0.1	0.0	0.0
Malta	1.5	0.8	1.1	1.4	0.7	1.1	1.4	0.1	0.0	0.0
Netherlands	2.7	1.2	1.5	1.5	0.5	1.2	1.4	0.7	0.3	0.1
Portugal	0.3	0.0	1.1	1.2	-0.1	1.2	1.5	0.1	-0.1	-0.3
Slovak Republic	2.8	1.5	1.5	1.9	1.5	1.4	1.7	0.0	0.1	0.2
Slovenia	1.6	0.5	1.8	1.7	0.4	1.6	1.6	0.1	0.2	0.1
Spain	0.7	-0.2	0.8	1.4	-0.5	0.5	1.2	0.3	0.3	0.2
<b>Nordic Economies</b>	1.6	0.9	1.8	1.5	0.8	1.8	1.7	0.1	0.0	-0.2
Denmark	0.7	0.4	0.9	1.2	0.6	0.9	1.2	-0.2	0.0	0.0
Iceland	3.0	2.7	2.8	2.5	2.3	2.5	2.5	0.4	0.3	0.0
Norway	2.2	1.4	3.3	1.8	1.2	2.8	2.3	0.2	0.5	-0.5
Sweden	1.6	0.8	1.4	1.5	0.6	1.5	1.5	0.2	-0.1	0.0
<b>Other European Advanced Economies</b>	1.6	0.7	1.1	1.5	0.5	0.7	1.5	0.2	0.4	0.0
Czech Republic	2.9	3.3	2.4	2.2	2.7	2.4	2.0	0.6	0.0	0.2
Israel	0.8	-0.5	0.2	0.5	-0.5	0.3	1.0	0.0	-0.1	-0.5
San Marino	1.0	0.5	0.8	0.9	0.1	1.2	1.3	0.4	-0.4	-0.4
Switzerland	0.4	-0.8	0.0	0.3	-1.0	-0.1	0.3	0.2	0.1	0.0
United Kingdom	1.8	0.8	1.2	1.7	0.7	0.7	1.8	0.1	0.5	-0.1
<b>Emerging European Economies</b>	6.8	5.2	5.3	5.1	5.2	5.0	5.0	0.0	0.3	0.1
<b>Central Europe</b>	2.5	3.4	2.5	2.1	3.3	2.5	2.6	0.1	0.0	-0.5
Hungary	3.4	3.6	3.4	3.0	3.3	3.2	3.0	0.3	0.2	0.0
Poland	2.3	3.3	2.3	1.9	3.3	2.4	2.5	0.0	-0.1	-0.6
<b>Eastern Europe</b>	4.9	3.3	3.6	3.6	3.4	3.2	3.4	-0.1	0.4	0.2
Belarus	5.6	5.1	5.1	5.0	5.6	5.1	5.0	-0.5	0.0	0.0
Moldova	4.8	2.8	2.3	5.5	2.8	2.3	5.5	0.0	0.0	0.0
Russia	4.5	3.2	3.2	3.2	3.2	2.8	3.1	0.0	0.4	0.1
Ukraine	7.9	3.2	6.0	5.7	4.5	7.2	5.6	-1.3	-1.2	0.1
<b>Southeastern European EU Member States</b>	3.2	2.2	2.1	2.4	1.7	1.5	2.1	0.5	0.6	0.3
Bulgaria	2.5	1.2	1.7	2.1	1.0	1.9	2.1	0.2	-0.2	0.0
Croatia	0.8	0.3	0.8	1.1	0.3	0.9	1.2	0.0	-0.1	-0.1
Romania	3.8	2.9	2.5	2.7	2.2	1.5	2.3	0.7	1.0	0.4
<b>Southeastern European Non-EU Member States</b>	1.4	0.9	1.5	1.9	0.7	1.6	2.0	0.2	-0.1	-0.1
Albania	1.4	1.4	1.7	2.3	1.3	1.7	2.2	0.1	0.0	0.1
Bosnia and Herzegovina	0.6	-0.8	0.4	1.2	-1.1	1.3	1.6	0.3	-0.9	-0.4
Kosovo	2.7	0.8	1.2	1.7	1.1	1.5	1.7	-0.3	-0.3	0.0
North Macedonia	0.8	0.9	1.3	1.6	-0.5	1.0	1.4	1.4	0.3	0.2
Montenegro	0.4	-0.1	0.7	1.1	0.7	0.9	1.4	-0.8	-0.2	-0.3
Serbia	1.9	1.5	1.9	2.3	1.4	1.9	2.3	0.1	0.0	0.0
Turkey	15.2	11.9	11.9	11.4	12.0	12.0	11.4	-0.1	-0.1	0.0
<i>Memorandum</i>										
World	3.5	3.2	3.4	3.2	2.8	3.2	3.2	0.4	0.2	0.0
Advanced Economies	1.4	0.8	1.6	1.6	0.3	1.1	1.6	0.5	0.5	0.0
Emerging Market and Developing Economies	5.1	5.0	4.7	4.3	4.4	4.5	4.3	0.6	0.2	0.0
Emerging and Developing Europe	6.6	5.2	5.2	5.0	5.1	4.9	5.0	0.1	0.3	0.0
Emerging Europe Excl. Russia and Turkey	3.6	2.9	3.0	2.9	2.9	2.9	2.9	0.0	0.1	0.0
European Union	1.4	0.8	1.2	1.4	0.6	1.2	1.5	0.2	0.0	-0.1
United States	1.8	1.5	2.8	2.1	0.5	1.5	2.2	1.0	1.3	-0.1
China	2.9	2.9	2.7	2.6	2.8	3.0	2.6	0.1	-0.3	0.0
Japan	0.5	-0.1	0.3	0.7	-0.1	0.3	0.7	0.0	0.0	0.0

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

Note: WEO = World Economic Outlook.