



ACCESSIBLE SUMMARY

Economic uncertainty continues, recovery expected to be uneven

9 Nov 2020 – Simply Short – International economy

The worldwide economic crisis caused by the corona pandemic peaked in March 2020. In the early part of the year both output and consumption contracted suddenly and strongly; in other words, goods and services were both produced and consumed considerably less than before. The global economy is forecast to contract in the current year by around 4–6%, and the euro area economy by around 8–10%. Prior to the corona crisis, in 2019 the economy grew 2.9% globally, and 1.3% in the euro area. In the current year, the euro area economy would appear to be diving slightly deeper than the US economy, but the pace of recovery for both is very uncertain. Unemployment is growing, but in the euro area sudden mass unemployment has been avoided through the deployment of furloughs and various support measures.



The economic outlook is very uncertain. The current assessment is that the deepest trough has already passed. The decline in the economy is, however, so deep that recovery will take a long time. If there is a significant second wave of the pandemic towards the end of the year, the OECD estimates the contraction in global GDP could be almost 8%, with an 11.5% drop in the euro area. The most recent data tell us that, after an initial

spurt, the recovery in economic activity in the euro area is progressing very slowly and the risks of a sudden setback have grown.

The recovery is expected to be uneven across different countries and sectors of the economy. The corona crisis differs from earlier crises in recent years in that this time the crisis was caused by the response to a virus that took each country by surprise irrespective of the country's current economic situation. In contrast, the global financial crisis of 2008, for example, was preceded by a substantial accumulation of debt. Even though the pandemic affects everyone in a similar way, country- and sector-specific differences in the effects can be substantial.

The depth of the crisis and recovery therefrom will depend on a number of factors. The economic recovery will be affected by e.g. the discovery of an effective vaccine and/or treatment and the starting point and structure of each country's economy. The expectations and behaviour of the public can also have a significant influence on the economy. Companies survive and can provide employment if consumers have the confidence to consume their goods and services. Also important are the economic policies pursued, in other words the measures by which decision-makers seek to influence the economy.

In the euro area, monetary policy is decided by the Governing Council of the European Central Bank (ECB), of which the Governor of the Bank of Finland is a member. The ECB has aided the economy, hit by the coronavirus, by making market purchases of securities and lending banks money at even more favourable rates than before, and has in this way lightened its monetary policy. These measures have been substantial, and the central bank has responded to the crisis rapidly. The measures have in fact stabilised the financial markets and substantially reduced the danger of deflation, i.e. a general drop in the level of prices, in the euro area. Going forward, the role of the ECB's monetary policy is to hold interest rates low and financing conditions light for a prolonged period still.

It is a positive feature of the current crisis that the different segments of economic policy, such as the monetary policy pursued by the central banks and the fiscal policies pursued by the politicians, have worked well together and supported each other. There has also been a wish to respond to the economic effects of the coronavirus by e.g. relaxing banking regulations.

The authorities responsible for the stability of the financial system have, for their part, sought to foster banks' ability to provide finance to companies and households during the corona crisis. International financial institutions, too, such as the International Monetary Fund (IMF), have responded to the record-high need for emergency funding in the emerging economies.

Unprecedentedly large economic policy measures have supported the economy through the acute phase by preventing mass unemployment and a wave of bankruptcies. These strong economic policy measures are directed at helping the economy recover. However, the employment outlook is weak, especially in those sectors of the economy that have suffered most from the virus. It is also to be expected that bankruptcies will rise. The corona pandemic can also influence the channelling of resources into different sectors, but it is still hard to say how substantial or permanent these changes will be.

The corona crisis is for us a new sort of crisis, and its long-term effects in particular are unclear. At the present moment it appears that it may cause a prolonged slowing of productivity growth and inflation and also increase the differences between countries within the euro area. The risk is that the euro area will be caught in a long-term trend of slow economic growth and low inflation. Other development trends are, however, possible.

Tags

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