QNB Economics
economics@qnb.com
09 May 2021

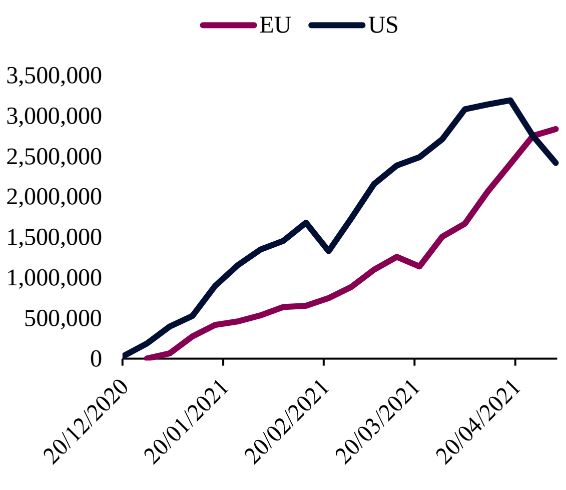
The European Union is expected to start a moderate economic recovery

The Euro area has faced challenges with the ongoing global economic recovery. After a 6.6% GDP contraction in 2020, the region is having difficulties in finding ground for a lasting recovery. In fact, recent GDP flash estimates suggest that the European Union (EU) has entered a "double dip recession," as quarter-on-quarter growth has contracted for two consecutive periods in Q4 2020 and Q1 2021.

The EU has been tormented by several waves of new Covid-19 cases, slow vaccination campaigns and delays between approval and disbursement of fiscal policy stimulus. However, we believe that the "old continent" may be just about to turn the corner from the great pandemic crisis.

Three main factors support the idea that the EU may be about to start catching up with the post-Covid-19 pandemic economic recovery.

New Covid-19 vaccine doses administered
(7-day average, total units)

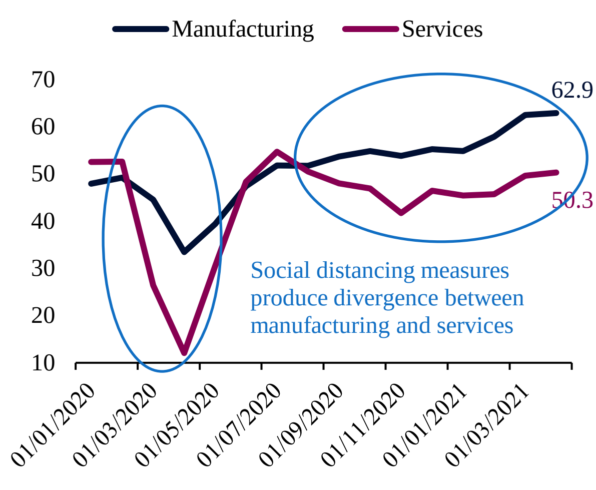


Sources: Bloomberg, John Hopkings University, QNB analysis

First, after months of bureaucratic uncertainty and ongoing political discussions about vaccine approvals and supply agreements, EU member countries are finally getting on with mobilizing resources for mass immunization campaigns. Several vaccines are now approved by major European regulators and the administration of new doses started to advance fast in some countries. Importantly, the EU has just recently surpassed the US in the total number of new Covid-19 vaccine doses administered, a milestone that puts the continent on the leading seat of global vaccination efforts. Mass immunization is a *sine qua non* condition for a sustainable recovery, allowing countries to open faster and more permanently.

Second, it was not all doom and gloom for the European economy in recent months. While consumer-facing services have been hit hard by tighter social distancing measures, manufacturing has been strong, supported by robust demand from the US and China. According to the IHS Markit Purchasing Managers Survey (PMI), a leading indicator for activity, Euro area manufacturing has been expanding since July 2020, with a significant acceleration in recent months. In contrast, the PMI for services has been in contraction territory from September 2020 to March 2021, just before breaching expansionary territory (above 50 points) last month. As the mass vaccination programs continue to accelerate in the EU, leading to mass immunizations, services will rebound more strongly, adding to the momentum in manufacturing activity.

Euro area's HIS Markit PMI
(>50 = expansion; <50 = contraction)



Sources: Bloomberg, QNB analysis

Third, a significant part of the policy support programs designed to stimulate activity in Europe will start to be disbursed over the coming quarters. The European Recovery and Resilience Facility, for example, which is set to provide up to EUR 673 billion in grants and loans to EU member states, will start disbursing funds in Q3 2021. This will add to existing tailwinds in supporting the ignition of a recovery in Europe.

All in all, we expect the EU to start a moderate economic recovery over the coming months. As manufacturing gains further momentum and offline retailers prepare to serve pent up demand, GDP is projected to grow by 4.6% in 2021 and 4% in 2022.

QNB Economics Team:

James Mason
Senior Economist
+974-4453-4643

Luiz Pinto*
Economist
+974-4453-4642

* Corresponding author