Taking stock of the euro area's pandemic response

By Rolf Strauch, Pilar Castrillo

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It's been over a year since most of Europe went into an unprecedented lockdown to stop the spread of the coronavirus and many European countries are still struggling with a third wave of the pandemic. Nevertheless, accelerating vaccinations seem to be raising prospects for sustained containment and the economic outlook has brightened, as the EU's recent spring forecast shows.

At the onset of the pandemic, government measures to buffer their economies were complemented by swift EU support of furlough schemes for workers and liquidity support for companies. In addition, the Recovery and Resilience Facility was launched to make the EU greener and more digital. At the national, and even more so at the European level, these measures embodied a two-pronged strategy: closing the economic and financial gap caused by the pandemic through temporary, targeted measures on the one hand, and encouraging a strong, lasting recovery on the other hand.

The strategy has been broadly successful: all euro area countries are expected to reach the pre-pandemic (end-2019) level of GDP either this year or the next. The abovementioned forecasts further suggest that euro area countries could catch up with the pre-pandemic growth trend the year thereafter with the right fiscal and monetary strategy.

While most commentators were impressed with the speed and depth of the EU's response to address the pandemic, some regarded it as too tame compared with the US, despite the clear commitment of governments to continue supporting the economy until the pandemic crisis has been overcome. In this blog post, we argue that this is not the case, the EU response was and remains adequate and comparisons between the EU and US responses solely based on the size of the stimulus do not take into account the different social security systems and approaches to support individuals and firms in need.

Unemployment and bankruptcies contained

Contrary to other regions around the world, most EU countries have extensive social security systems. Therefore, additional, discretionary fiscal measures could focus on complementing and expanding the existing systems to minimise lasting damage to the economy (scarring) by providing firms with liquidity and enabling workers to keep their jobs.

These timely, temporary and targeted measures brought strong relief to labour markets. At times, up to 30% of the EU workforce was covered by job retention schemes, which meant that the unemployment rate in the EU remained much lower this time than in past recessions.