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ECONOMIC GROWTH SLOWDOWN AND PRODUCTION DECLINE IN THE EU

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Abstract. The author considers the problems of EU economic growth in the period before the coronavirus pandemic, as well as during the economic crisis of 2020 and the subsequent gradual recovery of economic activity. The decline in economic growth in 2017-2019 was due to many long-term reasons, the main ones being the slow technological renewal of the production base and the reduction of the trade surplus due to the loss of advantages in competition with producers in Southeast Asia. The mechanisms of the impact of the pandemic on the EU production volume, caused by the decline in the aggregate demand and supply of goods and services, are analyzed. The role of EU economic policy as a tool to support the livelihood of the population and protect companies from bankruptcy is explored. The leading factor of economic recovery to pre-crisis levels is not economic policy measures, but overcoming the pandemic. It is predicted that the growth of the region's economy after its recovery will be slower due to the reasons that were formed even before the pandemic. In particular, it is the EU's policy to increasingly use "clean" energies and technologies that do not pollute the human environment, but force companies to increase production costs.

Keywords: economic growth, crisis, economic policy, efficiency, Recovery and Sustainability Fund, ECB, digitalization, ecology, forecast.

It was shown that, at the macro-level of individual countries, economic growth is determined by aggregate demand, which, in turn, is formed based on the income of subjects of economic activity and income distribution, regulated by Keynesian laws of propensity to save and liquidity preference. In addition, aggregate demand is affected by external conditions that expand or narrow the demand for national production at the level of foreign trade and foreign direct investment. It was also noted that the growth rate is influenced by micro-level factors: the state and renewal of production, and the use of new innovative technologies. In other words, growth rates, their slowdown or acceleration can be explained within the concept of neoclassical synthesis, which combines the Keynesian interpretation with the neoclassical theory.

ISSN 2181-3187

EU economic growth rate before the pandemic

Before the pandemic, the EU economy's slow growth rate was combined with a decline in global output. The regional association's GDP growth was 2.6% in 2017, 2.0% in 2018, and 1.5% in 2019.

At a micro level, at the level of firms and corporations, localized on the territory of association, the factor of decay of the growth, is connected with the character of technological updating of the industrial device operates. Unlike developing countries, which pass from traditional to modern technologies in leaps and bounds, which allows increasing labor productivity, in the EU, due to a high level of economic development, qualitative perfection of used machinery and technologies has smooth character, that is productivity increase occurs more slowly.

The only factor capable of significantly increasing the growth rate in the EU under these conditions is an increase in investment in science and new technology, the constant creation of products with fundamentally new properties, which at least temporarily were beyond competition with the products of other world manufacturers. However, this source of development is underused for two reasons. On the one hand, as it is known, financing of research and development here does not exceed 2% of GDP, which roughly corresponds to the level of appropriations for research and development in China and is much lower than in the United States and Japan. This does not allow the union to become a world leader in the implementation of innovations. On the other hand, the nature of scientific and technological progress now is such that it does not contribute (with some exceptions) to the appearance on the market of fundamentally new goods, which could radically update the world range of commercial products and provide developed countries with a long-term advantage in the global commodity market. At present, the world is only at the initial stage of the new sixth technological mode. According to Academician S. Glazyev, it is experiencing a period of "births" of this pattern, which promises an explosive increase in the production of products with fundamentally new properties, but still not now, but soon [Glazyev, 2018: 32].

Such factors as foreign trade and the dynamics of foreign direct investment also hurt the pace.

Table 1

EU balance of foreign trade in goods and services (in billions of USD)

Years	Profit
2017	604,7
2018	590,3
2019	556,6

ISSN 2181-3187

The trade balance of the European Union in the last three years before the pandemic was strictly positive, the surplus reaching very impressive values, in large part due to trade transactions with U.S. residents. At the same time, it is noteworthy that the period saw a slight decline in the surplus from $604.7 billion to $556.6 billion, which could not hurt the rate of economic growth in the European Union. The main reason was the expansion of Chinese manufacturers in the European market and the resulting increase in the EU's trade deficit with China. In 2017 this deficit amounted to 135.1 billion euros, in 2018 to 142.2 billion, and in 2019 to 147.0 billion 2. The United States also raised import duties on steel and aluminum in 2018, which greatly affected several European exporters of these products.

As for direct foreign investments, their flows between the EU and the rest of the world are characterized by the following data.

Table 2

EU: Foreign Direct Investment ($ billion)

Years	Import	Export	Balance
2016	591,3	448,4	+142,9
2017	465,1	511,8	-46,7
2018	415,1	345,2	+69,9
2019	446,9	455,2	-8,3

As we can see, in recent years there have been noticeable fluctuations in the volume of foreign direct investments both imported to the European Union and exported. The balance - the difference between inflows and outflows - has also been subject to significant changes, so direct investment flows have not had the same impact on economic growth rates. The year 2017 was unfavorable for the EU in this respect, as a rather large surplus in the previous year turned into a deficit, which hurt growth rates. Then, in 2018, the opposite was true: foreign net FDI was positive, with inflows greater than outflows. In 2019, there was a deficit again.

An interesting situation occurred in 2018 when the surplus of the balance sheet was formed against the background of a reduction in direct investment flows both imported from abroad to the EU and invested by Union residents abroad. The main reason is related to the U.S. economic policy. The point is that the U.S. economy is the main source of world investments and their main place of application. Changes in the economic situation in this country have a significant impact on global investment flows. In 2017, the United States passed tax reform, lowering income taxes, which encouraged U.S. corporations to repatriate significant amounts of income generated by subsidiaries abroad to their home country for tax optimization reasons. As a result, instead of exporting $316 billion of U.S. capital in 2017, 2018 saw an outflow of $48

ISSN 2181-3187

billion from abroad. This, in turn, had the effect of reducing the total flow of investment into the EU from $465.1 billion to $415 billion. The decline in exports, on an even larger scale than imports (from $511.8 billion to $345.2 billion) was also due to tax reform in the United States: the outflow of liquidity from Europe narrowed its sources for investments outside the organization.

However, the impact of the U.S. tax reform was short-lived. By the end of 2018, the country had recovered its position as the main source of global investments, which also affected international capital flows involving the European Union: in 2019, the volumes of exports and imports of direct investments of EU residents largely approached those of 2017.

So, in recent years, the impact of two major international economic factors on the EU economic growth rate has been unequal. In foreign trade, the downward trend in the surplus of the balance of trade in goods and services dominated, reducing GDP growth. As for the balance of foreign direct investments, its potential impact on the rates was unstable and multidirectional, as periods of net inflows were replaced by periods of net outflows.

Falling production in the face of a coronavirus pandemic

The pandemic has dealt a very tangible blow to the EU economy. While there was economic growth, albeit slow, until 2019, in 2020 the gross domestic product of the entire regional group fell by 6.1%, and in the Eurozone by 6.5%. At the same time, it should be emphasized that the current crisis came at a time when economic factors were creating conditions for economic growth. On the eve of the pandemic, the economic cycle was in the stage of a slight rise. Because of this circumstance, the crisis was milder; it could have been much harsher if it had coincided with an economic recession. The sharpness of the crisis was also softened by foreign economic conditions in 2020. Despite the decline in exports of goods and services, the foreign trade surplus rose to $278.3 billion, i.e. by 5.2% compared to 2019. The reason was that the decline in imports of goods was greater than the decline in exports. The contribution of export products to the regional association's GDP increased.

A characteristic feature of the EU production decline in 2020 was that it was deeper than the overall decline in global production. According to the UN, last year the latter was much smaller than in the EU: 3.9%. The lagging of the EU can be explained by severe vidual restrictions, lockdowns in many countries, and lower organization of anti-vidual measures than, for example, in China (its share in global production is now a very significant value, which significantly affects the global economic indicators), and also by the abovementioned reasons, which previously, in the pre-vidual period, hindered the development of the economy of the region. Restrictive measures have reduced labor hours, reduced the supply of goods, and increased unemployment from

ISSN 2181-3187

6.7% in 2019 to 7.0% in 2020, which has reduced output. As a result, an economic crisis erupted, which can be called a covidual economic crisis (CEC).

It is important to note that the economic processes associated with QEC do not fit fully into the framework of modern growth theory (neither Keynesian nor neoclassical). This is due to the cause of the decline in production, which is outside the economy, expressed in the impact on economic activity of the micro-biological factor. Indeed, the root cause of the fall was not a reduction in demand in EU markets under the economic laws once described by the great scientist. Nor was the crisis caused by economic problems in the use of the factors of production and the money and productive capital used in the economy. That is, it is not provoked by the causes that are considered within the framework of the theoretical views of neo-classics.

It is all the more important to understand, at the level of theoretical comprehension, how the root cause (pandemic) gave rise to the CEC. In other words, through which economic mechanisms it affects production volumes. There are different interpretations of this question in our economic literature. A brochure published at the Higher School of Economics, which gives a detailed statistical analysis of the problems associated with the crisis, argues, in particular, that the pandemic directly caused the demand reduction, and through it the decline in production. The authors believe that "...it was household final consumption expenditures that had the greatest negative impact on GDP growth." [Kitrar, 2020: 4].

L.M. Grigoryev, V.A. Pavlyushina, and E.E. Muzychenko assess the impact of the pandemic differently. They write: "The global recession of the 2020s, which has begun, is unique in its starting trigger - the coronavirus pandemic - and the compression of economic activity due to supply constraints on many components of personal consumption". [Grigoryev, 2020: 5-6]. In their opinion, it is not the lack of demand, but the limitation of the supply of goods, primarily consumer goods, that is the per-redating mechanism through which the pandemic initiates the EEC.

In our opinion, the epidemic affected two channels simultaneously. In many cases, the fall in production began directly with administrative restrictions up to the suspension of activities of some enterprises and organizations in trade, catering, cargo transportation, tourism business, and other services, as well as in the production of material goods. In turn, this has reduced the demand for materials, equipment, and agricultural products to a large number of suppliers, providing their products to businesses and organizations. That is, in this case, it was not the reduction of demand that served as a factor of negative economic dynamics, but on the contrary: under the influence of state sanitary measures, the total effective demand decreased, which, of course, increased the negative economic effect.

There is another channel of influence of the pandemic so far. It may be of lesser importance, but it still affects economic activity: the spread of infection directly affects demand, and through it supply, since a certain part of the population, fearing to "catch" the virus, consciously limits social contacts in the acquisition and consumption of goods and services to a minimum necessary level.

It is important not only in theoretical terms to distinguish these two mechanisms of influence of infection on the economic situation. It is also of practical importance because it serves as a condition for conducting a correct economic policy, as well as adequate forecasts of the return of the economy to its normal state.

Based on an understanding of the mechanisms of pandemic effects, it would seem to be wrong to assume that with the removal of government anti-vidual restrictions, there would be an instantaneous time of rapid economic recovery. As the extra-economic, microbiological cause that leads to reduced demand is eliminated, economic growth will follow. It follows that to restore the economy to pre-crisis levels, it is primarily important to take extra-economic measures - to defeat the coronavirus, which requires the development of collective immunity in most of the population through vaccination. On the other hand, while the risk of new pandemic waves persists, the complete abolition of all sanitary restrictions remains unacceptable for many countries.

That is why some experts very reasonably believe that developed countries, including the European Union, have real prerequisites to ensure a faster economic recovery than developing countries (excluding China) can afford, since they have, due to financial and organizational factors, an incomparably greater capacity to provide the necessary level of vaccination [Robin, 2021].

The role of EU economic policy in these circumstances is now to support the economy and ensure its quickest possible recovery as the pandemic is overcome. We will not analyze the specific solutions applied by individual EU countries. Let us consider only the measures used at the level of the governing bodies of the regional organization.

It should be stated that they are based on a correct understanding of the nature of the pandemic's impact on the region's economy. The task is, firstly, to help support a large part of the production and financial organizations and protect them from bankruptcy, and individuals - from loss of jobs and qualifications (for example, through various types of financial support to enterprises, providing them with state guarantees for corporate loans and deferral of debt repayment, financing of wage payments, changes in the bankruptcy procedure in favor of firms under threat of insolvency, etc.), and secondly, to restore Some state methods are of a character that allows to protect the existing economic potential and to restore it by stimulating economic activity.

Such methods include, in particular, the lifting of the ban on the provision of state aid to enterprises in need. The financial support of small and medium-sized enterprises

ISSN 2181-3187

and self-employed workers from the EU's general budget also plays a positive role. Next, the Stability and Growth Pact, which limits the state's budget deficits to 3% and its public debt to 60% of GDP, is suspended, providing additional financial aid to companies, medical institutions, and individuals. The EU took this step, even though it led to an increase in the cumulative deficit of state budgets from 0.5% of GDP in 2019 to 7% in 2020 due to tax breaks and increased budget spending. Part of the deficit growth was also due to the narrowing of the tax base as a result of declining economic activity.

The EU attaches great importance to the use of the Recovery and Resilience Fund (RRF), which was approved in February 2021 in the amount of 672.5 billion euros. The Fund is made up of domestic loans. Its purpose is to provide grants and loans until 2026 to countries of the association to support reforms and investments by approved national projects. It is believed that as a result both demand and supply will increase, and eventually the gross product of the EU. According to calculations by experts of the Economic Commission, the overall result of the use of the Fund over two years could be a value equal to 1.2% of GDP received in 2019.

The ECB's monetary policy also plays a significant role in supporting and reviving the economy. In March 2021, in addition to injecting EUR 750 billion into the economy under its earlier Pandemic Emergency Purchase Program (PEPP), it decided to increase purchases of stocks and bonds to EUR 1,350 billion and to extend the reinvestment of income on those assets at least through 2022. The Governing Board of the Central Bank also decided to increase purchases of private sector assets, which are made under the APP (Asset Purchase Program), by 120 billion euros in 2021.

Another ECB measure aimed at boosting investment activity in the European economy is the facilitation of long-term (two-year) loans to eurozone banks under the TLTRO III program (targeted long-term refinancing operations). The program was adopted before the pandemic as a means to combat the slowdown of economic growth. In the new environment, it was adjusted in favor of even lower interest rates. It is set to be 50 basis points below the average rate for the bulk of the Eurosystem's loans to commercial banks between June 2020 and June 2022. Meanwhile, the average rate is close to zero, so the adopted procedure ensured in many cases a negative real refinancing rate, which is of course very advantageous for banks. At the same time, to resort to such loans, banks must immediately put them into circulation, to invest in the economy, because the real rate on ECB de-posits is also negative. This means that it is unprofitable to leave money in accounts at the central bank, and the corresponding interest must be paid on them.

In addition, the Governing Council of the Central Bank decided in March 2021 to strengthen support for the financial system and money markets in the euro area to

ISSN 2181-3187

ensure their smooth functioning. To this end, it decided on a new series of untargeted emergency long-term pandemic bank refinancing operations (PELTROs).

In other words, the ECB's goal is to inject a huge amount of cheap liquidity into the region's economy, not only to directly support and encourage financial and non-financial institutions to grow but also to activate the mechanism of inflation: to bring annual price increases to 2%, thus stimulating the increase in demand and supply, to give as a result a greater momentum to the European economy.

Effectiveness of anti-crisis economic Policy of EU

How effective is such an economic policy? It is very effective in terms of supporting with money "afloat" existing EU productions and the livelihood of its population. The policy cannot be evaluated as a self-sufficient factor in the transition of the economy to the pre-crisis level, because the activation of economic activity occurs, as noted above, more depending on the evolution of the pandemic and the lifting of sanitary restrictions. Apparently, for this reason, and due to the spread of new and more aggressive strains of coronavirus infection, it is still largely a mystery when the global economy will be completely free of the pandemic and reach a pre-crisis level [Shohini, 2020: 16]. As for the European Commission, it does not give accurate forecasts either: in the last quarter of 2021 the volume of GDP will be approximately equal to the volume of the fourth quarter of 2019. A more accurate estimate can be given based on a comparison of the volume of annual production, which is not yet available.

Based on the May forecasts from 2021 of the EU real GDP growth rate, it is possible to calculate the approximate time for the full recovery of the economy. The results of the author's calculations are shown in Table 3.

Table 3

Volume and growth of total EU GDP in 2019-2022.

Years	Real GDP growth as % of the previous year	GDP volume in billion euros
2019	-	14 008
2020	-6,1	13 153
2021	4,2	13 706
2022	4,4	14 309

Calculations show that the full recovery of the EU economy will not occur until mid-2022 when GDP in 2019 prices will amount to 14309 billion euros and will exceed the level of 2019 by 301 billion.

ISSN 2181-3187

The current economic policy of the EU aims to combine the use of financial support to members of the Union and the stimulation of the economy with the restructuring of the economy by implementing the development priorities formulated by the Commission under the leadership of Ursula von der Leyen back in 2019.

The economic priorities, as we know, include the green course of the EU, the creation of an economy for people, and digitalization. The first goal is to achieve full climate neutrality by 2050, that is, to create an economy that will not worsen the human environment, or increase the level of carbon dioxide in the atmosphere. The second priority is a list of various tasks, such as support for small businesses, tax reforms, development of conditions for improving the lives of citizens, etc. The third priority is to take maximum advantage of the digital era to develop the economy.

In this case, the tool for changing the structure is the already mentioned Fund for Recovery and Sustainability. It is the terms of its disbursement to member states that provide the impetus for transforming the structure of production. To receive investments from the Fund, a country must submit a recovery plan, which stipulates that 37% of the funds will be used for projects that reduce environmental pollution and 20 percent for digital technology development. The rest of the money will be used for other reconstruction needs.

It is noteworthy that the priorities do not directly aim to accelerate economic growth. Such an approach is understandable: during the period of economic support and recovery, economic growth is mainly determined by the evolution of the coronavirus pandemic, not by economic policy measures. It makes no sense to set economic growth targets for the countries of the alliance under these conditions.

Another question: will the transformation of the structure of the economy in the direction of its digitalization and ecological balance serve as a means, a driver of economic growth after the recovery, that is, after production returns to pre-crisis levels? In our opinion, there will be no significant effect. Firstly, calculations by Russian economists show that the contribution of "figures" to global GDP growth is extremely insignificant, measured at about two-tenths of a percent. There is no reason to believe that it will be significantly higher in the European Union as well.

Secondly, economic growth is not facilitated by the development of a green economy. Administrative measures of the EU for the transition to clean energy and non-polluting technologies, of course, stimulate the growth of production of appropriate machinery and equipment, and gradually change the appearance of industrial complexes, but on the other hand, as the experience of most countries using renewable energy sources shows, the production of the latter is usually subsidized by the state, and it is more expensive than energy produced based on traditional methods [Pakina, 2019:146]. This means that this transition is accompanied by an increase in

ISSN 2181-3187

the cost of GDP production, which, means a decrease in the competitiveness of the products of companies localized in the EU, and a slowdown in economic growth.

The realization of this fact plays a significant role in the fact that the EU leadership is promoting a project to introduce a "Border Carbon Adjustment Mechanism" (BCAM) as a kind of backstop to the green deal. The BCMA means that the EU intends to levy a tax on imported products commensurate with the greenhouse gas emissions ("carbon footprint") caused by the production of those products outside the EU. If this project manages to be implemented in the practice of EU international relations, the states where production is associated with high emissions into the atmosphere, in this way will subsidize the financial system of the EU, to partially cover the increased costs that are associated with the use of clean technologies. At the same time, the European Union believes that the tax will level the playing field for local and foreign manufacturers operating in the EU markets [Bazhan, Roginko, 2020].

In our view, the prospects of increasing the efficiency of monetary policy after the economic recovery should not be positive, because it is unlikely that the reasons that prevented the ECB before the pandemic from successfully combating deflation, that is, to provoke moderate inflation and influence the necessary degree of economic activity, will be eliminated.

All of the above suggests the following conclusions. Before the economic crisis caused by the pandemic coronavirus infection, the EU was characterized by a tendency to slow economic growth. The corona-crisis brought down the production and other spheres of economic activity, the slowed-down growth was replaced by a crisis, whose peculiarity consisted in the cause, which was purely biological, i.e. belonged to the extra-economic sphere. The pandemic affected the economy through two channels: firstly, through voluntary, forced, or state-administrative compulsory restriction of production in several enterprises to establish barriers to the spread of infection; secondly, through direct reduction of demand for the products and services of the EU economic structures. The EU has used a set of measures to revive the economy, bring it to the stage of growth and ensure its recovery. However, the main condition is not so much these measures as the eradication of infection through medical and sanitary measures.

Economic growth in the EU after the economic recovery will be determined by the same factors that acted before the crisis. This means that the economy of the region will be characterized by low and possibly declining growth rates. The EU's current policy of implementing a limited number of priorities (digitalization, the green deal, the economy for people) will not solve this problem.

ISSN 2181-3187

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