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VACCINATIONS IN THE EU: THE RISKS STEMMING FROM THE SLOW START

Berenberg Macro View

The European Union is lagging far behind the UK and the US in vaccinating its people against Covid-19. On 31 January, the total number of vaccinations administered per 100 people – the sum of first and second doses – had reached 14.4 in the UK and 9.4 in the US versus 2.8 in the EU (3.3 in Italy, 3.0 in Germany and 2.3 in France on 30 January) according to [OurWorldinData](#). Beyond the potential health consequences, slow vaccination progress can force countries to maintain tight lockdowns for longer, thus delaying the start of the economic rebound. In addition, we have to watch the potential political consequences. If a perception were to take hold that the EU is not handling the crucial vaccination process well, the fallout may (i) weaken national governments, (ii) nourish EU-sceptic sentiment in parts of the EU electorate, and (iii) complicate relations between the EU and countries outside the bloc.

The reasons for the lower vaccination rates in the EU include: 1) vaccine supply issues, 2) the later approval of two of the three vaccines accepted so far in the EU; and 3) the practice in some EU countries to hold back vaccines to administer them as the second dose in the appropriate window of time after the first dose, rather than providing more people with the first jab with a somewhat unclear timing of the second jab.

EU: in it together

By its very nature, the EU as a club of 27 countries tends to move more slowly, cautiously and with less tolerance for major financial risks than individual rich countries. In the EU, many national governments with different approaches and priorities need to be consulted during negotiations before the EU's executive arm, the European Commission, can implement the resulting common position. The EU is not well suited to a US-style "Operation Warp Speed", that is a fast, determined and potentially expensive push to tackle a novel task. Whether or not a different EU approach, be it faster, more energetic and/or with stronger focus on other vaccines under development last summer, would have helped to substantially raise the **global supply** of available vaccines and/or the **share of the EU** in that supply (at the expense of other regions) is difficult to judge for outsiders like us. Last summer and autumn, all decisions had to be taken under extreme uncertainty as to which potential vaccines may work and be ready in the near future. We can merely ponder some of the economic and political implications.

EU members have chosen a common approach to vaccination to forestall any risk of "vaccine nationalism" within the EU. Just imagine what might have happened if some richer or luckier member countries such as Germany, the home of BioNTech, would have used their clout and deep pockets to secure a disproportionate share of vaccines for themselves. The resulting disputes, say between the North and the South, or between the richer EU members in the West and the poorer ones in the South-East, could have caused political tensions in the EU that might have gone well beyond those of the euro crisis.



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The ultimate impact of the slow EU vaccination progress remains to be seen. In economic terms, it need not be huge for the time being as long as the advent of spring and the current set of restrictions help to contain the spread of the virus from late March onwards. Of course, if warmer and sunnier weather were to reduce the infections risks much less than last year, for instance due to virus mutations, the economic damage from slower vaccination progress and an even later easing of restrictions could be more significant.

As more vaccines get approved and production increases, partly because of more pharmaceutical plants being re-gearred to produce the vaccines that work, supply bottlenecks should ease in the EU in coming months. We continue to base our economic outlook for the Eurozone, as well as for the US and the UK, on the assumption that vaccinations will have progressed enough by October or November so that only modest restrictions to economic activity will be needed when the seasonal infection risks rise again in late 2021. This includes an assumption that enough of the vaccines will be and remain sufficiently effective – or can be “boosted” to be effective – against virus mutations. Of course, we need to monitor the medical risks closely.

Mind the politics

In political terms, we need to watch the fallout from the slower EU progress and the seemingly nervous reaction of the EU authorities to it.

- It may play a role in the national elections in the **Netherlands** on 17 March and in **Germany** on 26 September. However, the euro-sceptic AfD may not benefit from any criticism that the EU and the German government have not managed the vaccination campaign well because the party has consistently downplayed the Covid-19 risks.
- It could also be an issue if – against the odds – attempts to form a new government fail in Rome in coming weeks and **Italy** may have to hold snap elections in June.
- Even worse, a lingering impression that the EU was too slow could strengthen the narrative of EU-sceptic populists such as Marine Le Pen in **France** ahead of the next presidential elections in April and May 2022. Opinion polls for the first round put Le Pen neck-and-neck with President Emmanuel Macron, with some polls showing Le Pen ahead in the first – but not the second – round. But even for the run-off round, the lead of Macron over Le Pen has narrowed to 52% to 48% in January 2021 from 58% to 42% last July according to a Harris poll.

In the **UK**, the comparatively rapid vaccination progress at home – and the clumsy EU behaviour last week including a quickly-retracted threat to activate an escape clause in the Brexit agreement that might have allowed potential border controls between the Republic of Ireland and the UK province of Northern Ireland – could also reverberate over time. It may impact the discussion about potential independence (and subsequent EU membership) for **Scotland** and about the future of **Northern Ireland**.



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Early days

The considerations above refer to potential political and economic risks. It is still very early days, though. With faster vaccination progress in coming months and with some better diplomacy, current problems may well be defused. Although the EU is somewhat slow by nature, it tends to get its act together over time. In the first wave of the pandemic in March and April last year, a perceived lack of Northern European solidarity with hard-hit Italy made waves. But that was not the end of the story. Generous mutual support including an unprecedented €750bn package followed thereafter. Today, Italian political parties are locked into a dispute how best to spend an unexpectedly generous EU offer of €209bn of grants and loans to Italy (or €245bn including a potential credit line from the European Stability Mechanism with ultra-light conditionality). The discussion above thus serves to highlight the risks we need to watch. With luck, more political attention to such risks could help to avoid them.

An assessment of the response to Covid-19 in the EU should also take into account that, so far, the number of deaths associated with the SARS-CoV-2 virus in the Eurozone is some 20% below that of the US and 30% below that of the UK on a per-capita basis although major parts of the EU (Italy, France and Spain) had been hit hard before the pandemic spread to other advanced economies such as the US and the UK.

Any discussion of the vaccination progress and problems would be incomplete without stating a simple fact: Covid-19 is a global phenomenon. A global effort is best suited to beat the disease. Nothing illustrates this better than the story of the first vaccine approved and administered in an advanced economy. Showcasing the power of science and international co-operation, a small German biotech company led by two scientist of Turkish migrant stock developed a novel mRNA-type vaccine. Tested partly in Brazil and given the required scale by a US pharma giant, it was and is being shipped from a Belgian production site to the UK where it has been used to save lives since 8 December before being approved and used elsewhere as well. A closer look at the supply chain would probably reveal vital contributions from further countries. Cross-border co-operation is essential to get the pandemic under control.

Click here for our in-depth assessment of [Covid-19 trends](#) from 28 January.



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