European Commission - Press release

Spring 2021 Economic Forecast: Rolling up sleeves

Brussels, 12 May 2021

The Spring 2021 Economic Forecast projects that the EU economy will expand by 4.2% in 2021 and by 4.4% in 2022. The euro area economy is forecast to grow by 4.3% this year and 4.4% next year. This represents a significant upgrade of the growth outlook compared to the Winter 2021 Economic Forecast which the Commission presented in February. Growth rates will continue to vary across the EU, but all Member States should see their economies return to pre-crisis levels by the end of 2022.

Economic growth resumes as vaccination rates increase and containment measures ease

The coronavirus pandemic represents a shock of historic proportions for Europe's economies. The EU economy contracted by 6.1% and the euro area economy by 6.6% in 2020. Although in general, businesses and consumers have adapted to cope better with containment measures, some sectors - such as tourism and in-person services - continue to suffer.

The rebound in Europe's economy that began last summer stalled in the fourth quarter of 2020 and in the first quarter of 2021, as fresh public health measures were introduced to contain the rise in the number of COVID-19 cases. However, the EU and euro area economies are expected to rebound strongly as vaccination rates increase and restrictions are eased. This growth will be driven by private consumption, investment, and a rising demand for EU exports from a strengthening global economy.

Public investment, as a proportion of GDP, is set to reach its highest level in more than a decade in 2022. This will be driven by the Recovery and Resilience Facility (RRF), the key instrument at the heart of NextGenerationEU.

Labour markets improve slowly

Labour market conditions are slowly improving after the initial impact of the pandemic. Employment rose in the second half of 2020 and unemployment rates have decreased from their peaks in most Member States.

Public support schemes, including those supported by the EU through the SURE instrument, have prevented unemployment rates from rising dramatically. However, labour markets will need time to fully recover as there is scope for working hours to increase before companies need to hire more workers.

The unemployment rate in the EU is forecast at 7.6% in 2021 and 7% in 2022. In the euro area, the unemployment rate is forecast at 8.4% in 2021 and 7.8% in 2022. These rates remain higher than pre-crisis levels.

Inflation

Inflation rose sharply early this year, due to the rise in energy prices and a number of temporary, technical factors, such as the annual adjustment to the weightings given to goods and services in the consumption basket used to calculate inflation. The reversal of a VAT cut and the introduction of a carbon tax in Germany also had a noticeable effect.

Inflation will vary significantly over the course of this year as the assumed energy prices and changes in the VAT rates generate noticeable fluctuations in the level of prices compared to the same period last year.

Inflation in the EU is now forecast at 1.9% in 2021 and 1.5% in 2022. For the euro area, inflation is forecast at 1.7% in 2021 and 1.3% in 2022.*

Public debt to peak in 2021

Public support for households and businesses has played a vital role in mitigating the impact of the pandemic on the economy, but has resulted in Member States increasing their levels of debt.

The aggregate general government deficit is set to rise by about half a percentage point to 7.5% of

GDP in the EU this year and by about three quarters of a percentage point to 8% of GDP in the euro area. All Member States, except for Denmark and Luxembourg, are forecast to run a deficit of more than 3% of GDP in 2021.

By 2022, however, the aggregate budget deficit is forecast to halve to just below 4% in both the EU and the euro area. The number of Member States running a deficit of more than 3% of GDP is forecast to fall significantly.

In the EU, the ratio of public debt to GDP is forecast to peak at 94% this year before decreasing slightly to 93% in 2022. The euro area debt-to-GDP ratio is forecast to follow the same trend, rising to 102% this year and then falling slightly to 101% in 2022.

The risks to the outlook remain high but are now broadly balanced

The risks surrounding the outlook are high and will remain so as long as the shadow of the COVID-19 pandemic hangs over the economy.

Developments in the epidemiological situation and the efficiency and effectiveness of vaccination programmes could turn out better or worse than assumed in the central scenario of this forecast.

This forecast may underestimate the propensity of households to spend or it may underestimate consumers' desire to maintain high levels of precautionary savings.

Another factor is the timing of policy support withdrawal, which if premature, could jeopardise the recovery. On the other hand, a delayed withdrawal could lead to the creation of market distortions and barriers to exit of unviable firms.

The impact of corporate distress on the labour market and the financial sector could prove worse than anticipated.

Stronger global growth, particularly in the US, could have a more positive impact on the European economy than expected. Stronger US growth, however, could push up US sovereign bond yields, which could cause disorderly adjustments in financial markets that would hit highly indebted emerging market economies with high foreign currency debts particularly hard.

Members of the College said:

Valdis **Dombrovskis**, Executive Vice-President for an Economy that Works for People said: "*While we are not yet out of the woods, Europe's economic prospects are looking a lot brighter. As vaccination rates rise, restrictions ease and people's lives slowly return to normal, we have upgraded forecasts for the EU and euro area economies for this year and next. The Recovery and Resilience Facility will help the recovery and will be a real game changer in 2022, when it will ramp up public investments to the highest level in over a decade. Much hard work still lies ahead, and many risks will hang over us as long as the pandemic does. Until we reach solid ground, we will continue to do all it takes to protect people and keep businesses afloat*."

Paolo **Gentiloni**, Commissioner for Economy said: "*The shadow of COVID-19 is beginning to lift from Europe's economy. After a weak start to the year, we project strong growth in both 2021 and 2022. Unprecedented fiscal support has been – and remains – essential in helping Europe's workers and companies to weather the storm. The corresponding increase in deficits and debt is set to peak this year before beginning to decline. The impact of NextGenerationEU will begin to be felt this year and next, but we have much hard work ahead – in Brussels and national capitals – to make the most of this historic opportunity. And of course, maintaining the now strong pace of vaccinations in the EU will be crucial – for the health of our citizens as well as our economies. So let's all roll up our sleeves*."

Background

The Spring 2021 Economic Forecast is based on a set of technical assumptions concerning exchange rates, interest rates and commodity prices, with a cut-off date of 28 April 2021. For all other incoming data, including assumptions about government policies, this forecast takes into consideration information up until and including 30 April. Unless policies are credibly announced and specified in adequate detail, the projections assume no policy changes.

Following the final adoption of the RRF regulation and significant progress on the preparation of the recovery and resilience plans, the Spring Forecast incorporates the reform and investment measures set out in draft RRPs for all Member States. However, at the time of the cut-off date, details of some plans were still under discussion in a number of Member States. In such cases, simplified working assumptions have been used for the recording of RRF-related transactions, specifically regarding the time profile of expenditure (assumed to be linear over the RRF lifetime) and its composition (assumed to be split between public investment and capital transfers.)

For More Information

Full document: Spring 2021 Economic Forecast

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Follow Commissioner Gentiloni on Twitter: @PaoloGentiloni

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Press contacts:

Arianna PODESTA (+32 2 298 70 24)
Enda MCNAMARA (+32 2 296 49 76)

General public inquiries: Europe Direct by phone 00 800 67 89 10 11 or by email

Related documents

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Related media

Press conference by Paolo Gentiloni, European Commissioner, on the Spring 2021 Economic Forecast