ECONOMIC OUTLOOK AUTUMN 2021

KEEPING THE RECOVERY ON TRACK DESPITE MOUNTING PRICE PRESSURES

November 2021

Economic situation

- The EU economy is undergoing a strong recovery, but rapid price increases and bottlenecks in global supply chains are threatening to blunt the upturn. We project the EU27 economy to grow by 4.8% this year, followed by 4.3% next year.

- The recovery is propelled by consumer-led rise domestic spending, with retail sales now 6% above the 2019 average. A household saving rate of 21%, well above the pre-crisis average of around 12%, provides scope for further increases in demand, particularly for services, provided that consumer confidence is not damaged by either price rises or virus concerns.

- In contrast production in the EU is suffering from supply chain bottlenecks, ranging from computer chips to shipping containers, with industrial production falling 1.5% from July to August

- Bottleneck and supply side constraints are pushing up prices throughout the global and EU economy. Energy prices, in particular, are now 7% above the January 2020 level, accounting for half of the 3.4% HICP price rise in September. There is a clear risk that even short-term price pressures could translate into longer-term inflationary pressures if wage increase to fully reflect such rises.

Policy recommendations

- The strong economic recovery gives cause for optimism, but it remains essential that a premature tightening of supportive fiscal policy and related measures is avoided in the short run in countries where this would not be appropriate. In the medium term EU Member States must return to fiscally sustainable positions, aided by rapid agreement on a revised EU economic governance framework.

- Wage moderation will be important in ensuring that temporary price rises do not give rise to a damaging wage-price spiral, forcing both a premature withdrawal of monetary policy support, and risking damaging Europe's global competitiveness and causing permanently higher inflation.

- Full implementation of Member States' Recovery and Resilience plans, including ambitious, growth-enhancing reforms, is also essential to support both growth and sustainable finances.

- Renewed efforts to support vaccinations, particularly in Member States will relatively low rates, are required to reduce the risk of an increased in hospitalisation rates leading to a return of restrictions on activity.

Strong recovery but supply side strains risk blunting the upturn

The EU economy is undergoing a strong recovery, but rapid price increases and bottlenecks in global supply chains are threatening to blunt the upturn.

The rollout of vaccinations allowed EU governments to largely remove lockdown restrictions over the summer. The result has been a very strong surge in consumer spending, with retail sales having risen well above their pre-crisis levels.

At the same time however, Europe's exports performed very strongly in the earlier stages of the pandemic, supported by our main trading partners recovering faster, but are now increasingly suppressed by the growing strains and bottlenecks in global supply chains that push up input prices and cause production to come to a halt due to lack of necessary materials.

Further exacerbating the upward price pressure and costs on companies, energy prices have surged and are now 7% higher than in January. At the same time bottlenecks have also appeared in the labour market, adding to the upward wage pressures, with the proportion of firms experiencing hiring difficulties back at pre-pandemic levels.

As a result, there is a clear risk that they, if not met with sufficient moderation, give rise to a damaging wage-price spiral, forcing both a premature withdrawal of monetary policy support and risking damaging Europe's global competitiveness.

Overall, we project for the EU27 economy to grow by 4.8% this year, boosted by the strong stronger than expected recovery following the end of pandemic restrictions, followed by 4.3% next year. This also means we expect the EU economy overall to reach its precrisis level this 2021, albeit with strong country differences.

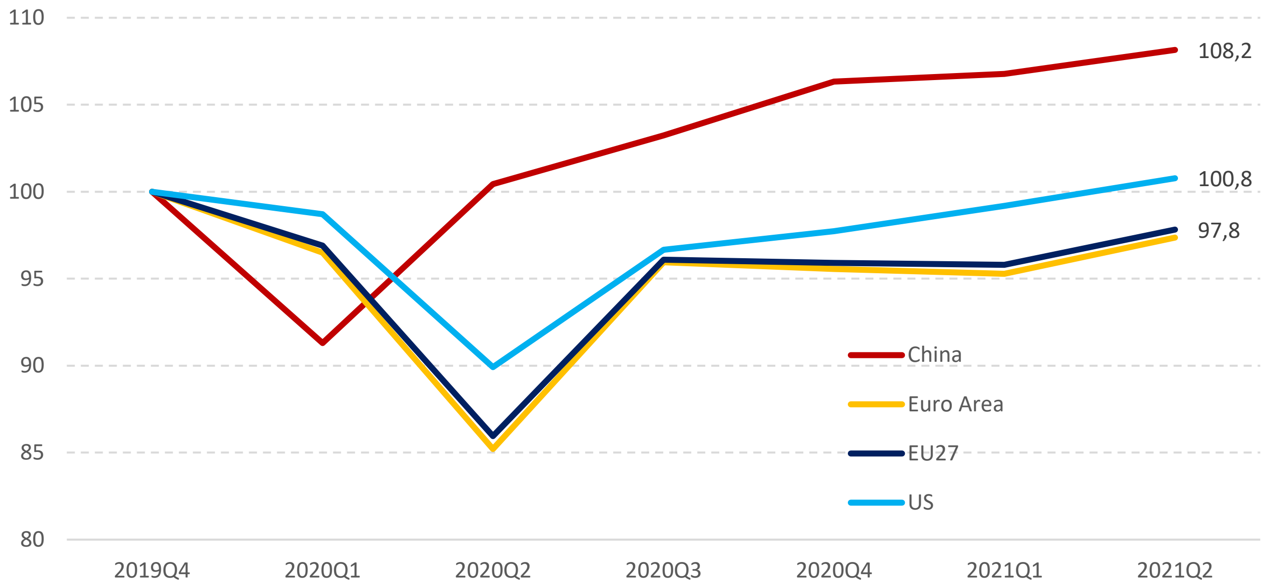
Economic projections

	GDP (real)		Inflation (HICP)	
	2021	**2022**	**2021**	**2022**
EU27	4.8%	4.3%	2.3%	1.8%
Euro Area	4.8%	4.3%	2.2%	1.6%

Source: BusinessEurope and member federations

Whilst the European economy is on track to recover from the pandemic, with 3.9% growth in the third quarter of 2021 relative to same quarter last year, the path back to pre-crisis levels has been longer than in other large economies. China managed to recover in the middle of last year, and the United States in the middle of this year, whereas the EU in 2021Q2 was still around 3% below the precrisis level. While the strong consumer-led rebound means we can expect the EU27 to reach the pre-pandemic GDP level in the third or fourth quarter of this year, we cannot escape the conclusion that Europe in economic terms weathered the pandemic less well than other major economies.

Quarterly real GDP level, seasonally adjusted, index 2019Q4=100



Own calculations based on OECD

Domestic demand growing, but household savings still above pre-crisis levels

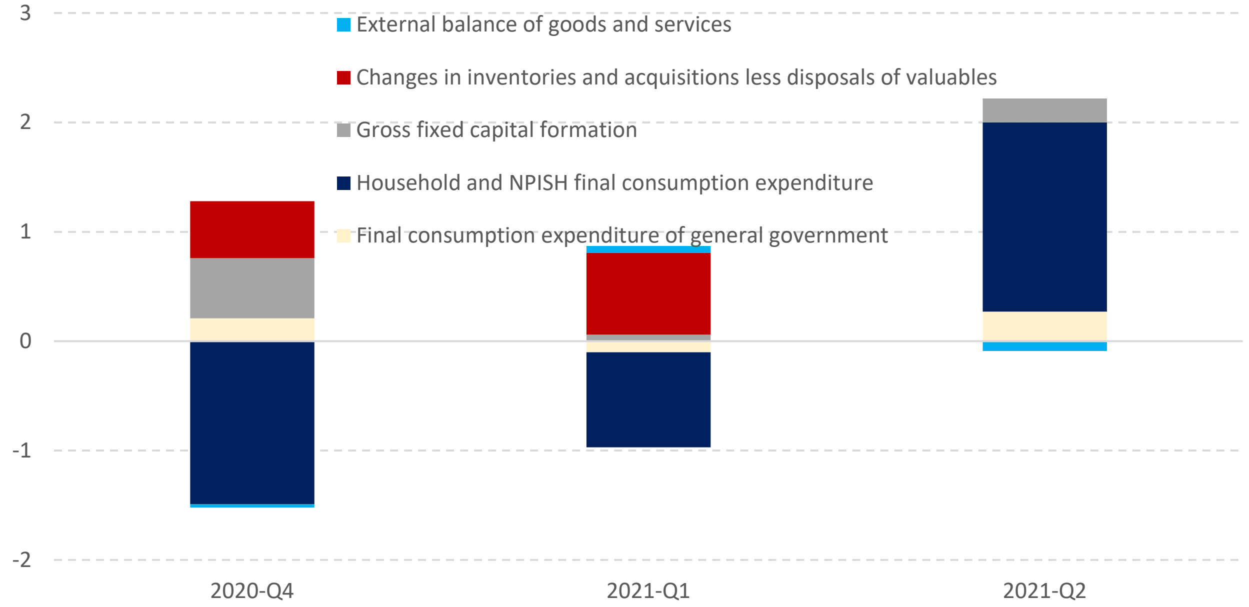
A more detailed analysis of the components of GDP shows that the strong rebound in the EU was driven particularly by the very strong growth of domestic consumption, rebounding from the lockdown-induced fall in 2020, as restrictions on activity were reduced during the spring.

In contrast, as we explore below, the EU's trade balance has swung in the oppositive direction, contributing positively to growth in the first quarter of 2021, but negatively in the second quarter, as disruptions and bottlenecks impeded global trade.

Many producing companies also replenished their inventories in anticipation of future sales in 2020Q4 and 2021Q1, which helped cushion the blow to GDP growth during the second lockdown wave. This inventory build-up effect has now dissipated.

Investments were on the rise in 2021Q1, adding 0.2 percentage point to growth that quarter. This is an important reminder that as long as investments remain suppressed the EU economy needs more private sector investments to fully recover and make up for the dearth of investments during the lockdowns.

Contributions to GDP (change from previous quarter, seasonally and calendar days adj.)

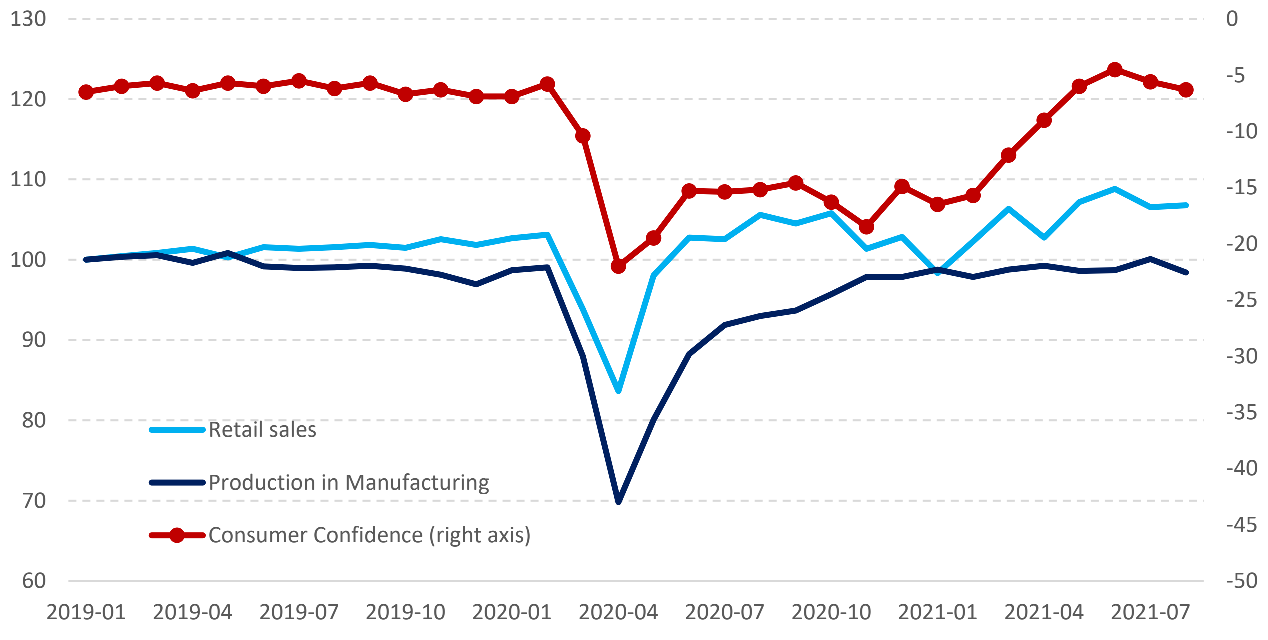


Own calculations based on Eurostat

This pattern of domestic consumption growth contrasting with faltering trade performance is also reflected in in the graph below. Production in the heavily export-oriented manufacturing sector declined slightly in the summer, while retail sales have performed very well and reached levels higher than the pre-crisis level (up 6% in September 2021 relative to the 2019-average).

Whilst probably containing an element of temporary catching up (as deferred purchases are made and people spend more on services that had been unavailable during lockdowns etc.), the strong surge in consumer spending has put Europe on to a fast growth trajectory. However, as shown in the graph, production in Manufacturing fell 1.5% relative to July as supply-side problems are beginning to cause disrupt supply chains.

Production in Manufacture and Retail sales (Index, January 2019=100, seasonally adjusted and calendar days adjusted, left hand side) and consumer confidence index (right hand side)



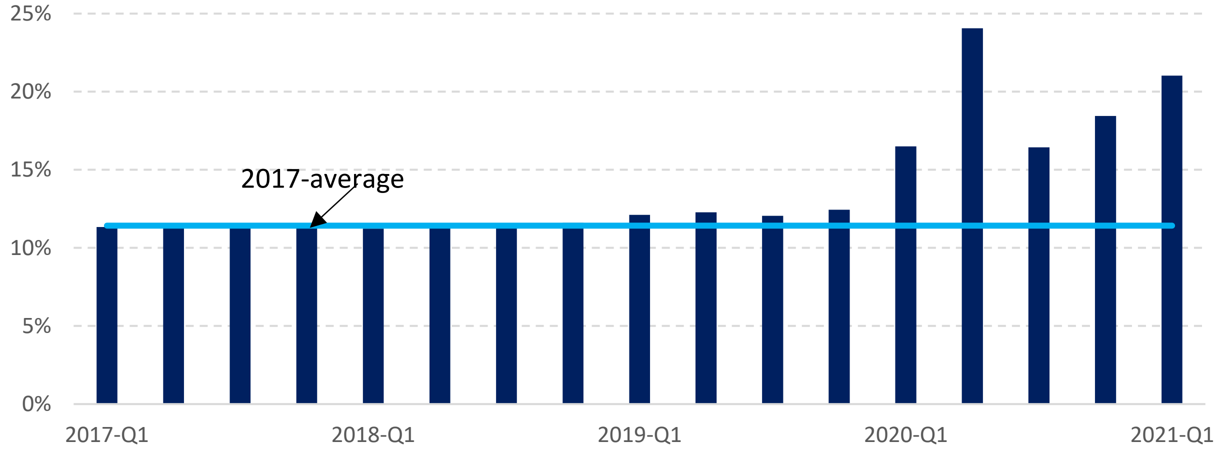
Eurostat and DG ECFIN

However, retail sales account for an important part of overall consumer expenditure but ultimately limited to roughly a third of private household consumption.

Thus whilst retail sales may be above pre-crisis level as shown in the graph above, overall household savings rate remains elevated, as spending on many service related activities remain constrained, with some consumer still apparently reluctant to go out quite as much whilst the threat of this virus remains.

This suggests potential for higher spending once European households revert to pre-crisis spending patterns, provided that consumers are not put off by rising inflationary pressures.

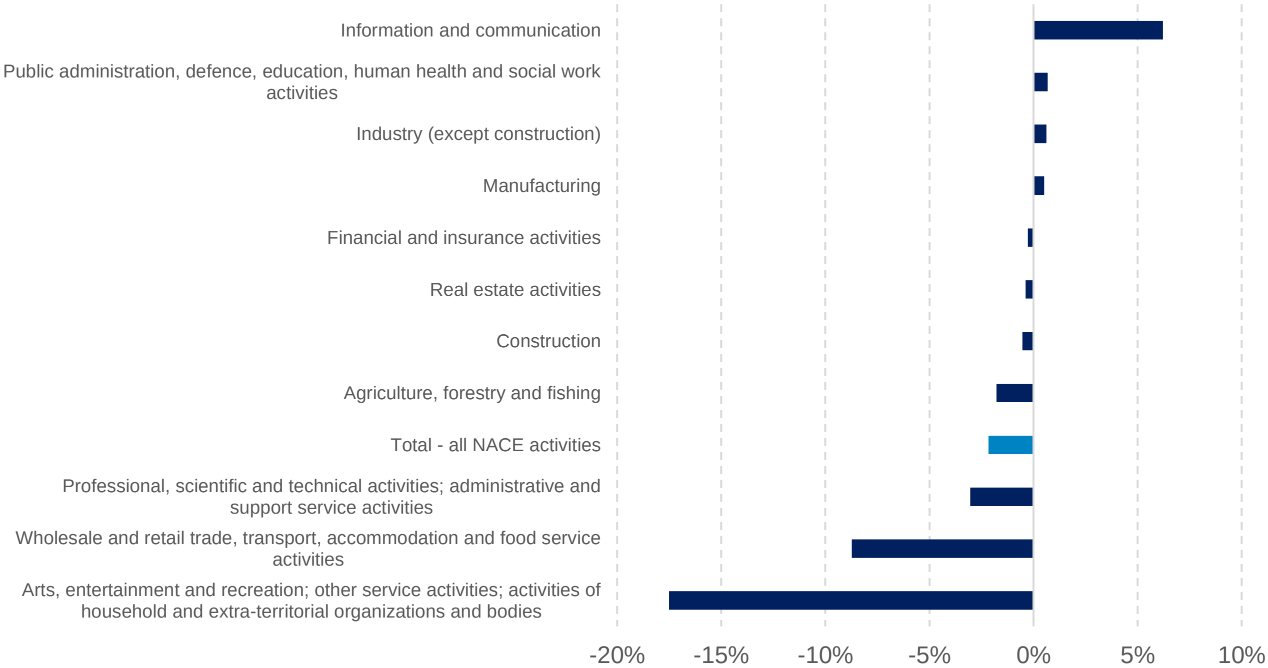
Household gross savings rate (seasonally and calendar days adjusted)



Eurostat

An examination of various sectors and industries in our economy provides further insight as to why spending patterns have not fully reverted to the pre-pandemic situation. As shown in the graph below the service sectors including accommodation and other hospitality-oriented businesses had a much lower turnover in the second quarter of this year than last year.

Change in turnover, 2019Q4 to 2021Q2, seasonally and calendar days adjusted

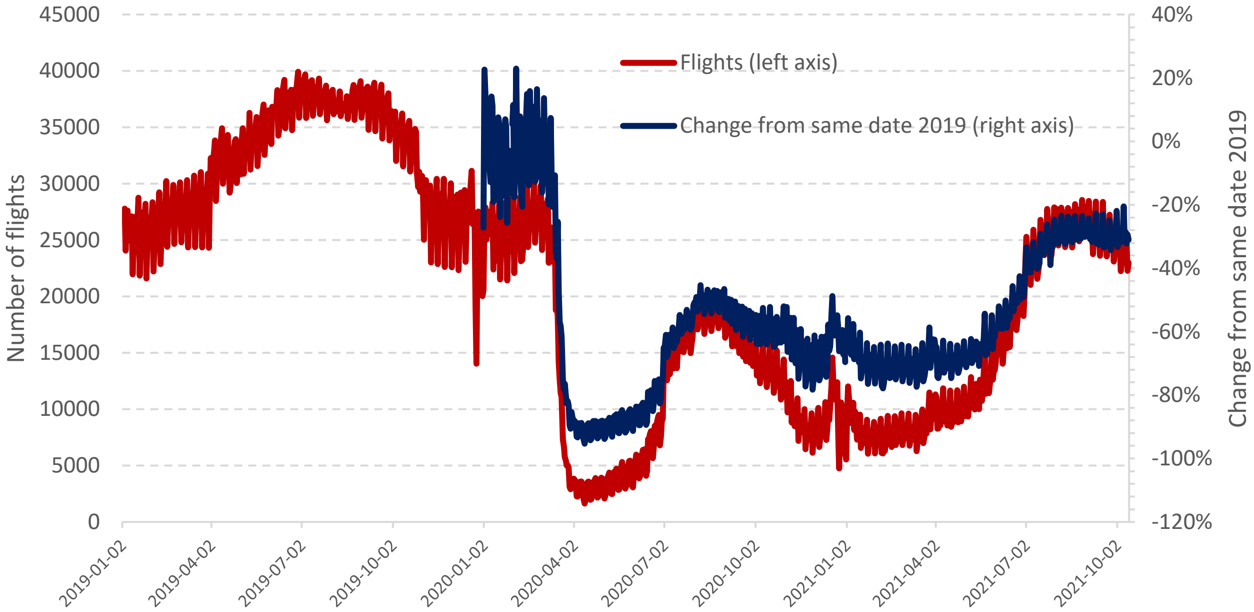


Own calculations based on Eurostat

This comes as no surprise as the lockdowns were still in place throughout Europe at the beginning of this quarter, and Europe only reached the 70% vaccination target at the end of August. But it emphasizes the need for greater normalization of travel and tourism patterns, in particular, before the European private sector can recover fully.

In 2020 tourists spent 1.5 billion fewer nights in the European hospitality sector (i.e. a 52% reduction) than in 2019[1]. We still do not have a full statistical picture of how the tourism season 2021 played out, but it clearly was still affected by pandemic restrictions. Most European countries still had significant restrictions in place at the beginning of the summer, and France and Italy opted to further tighten their restrictions by requiring digital vaccination certificates to be shown in restaurants, cafes and bars. Flight numbers data suggest travel recovered relative to last summer, but remains severely below the pre-pandemic levels, suggesting some scope for continuing increases in consumer spending in travel and related activities.

Number of flights in the EU27 countries and change from same date 2019



Own exposition based on European Organisation for the Safety of Air Navigation (EUROCONTROL)

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Industrial production losing steam given supply chain problems

Whilst domestic spending is increasing with higher activity levels in many sectors of the economy, industrial production fell 1.5% from July to August in the EU27 as noted above as supply chain problems are causing disruptions and long delays.

Total extra-EU goods exports has grown 13.8% this year (year-to-date relative to same months last year), with double-digit export growth to our two main trading partners. China managed to constrain the pandemic relatively well with very strict lockdown measures (China +14.8%) and the United States (United States +11.9%) managed to commence large-scale roll-out of vaccinations earlier than the EU[2], meaning both economies have experienced fast growth that has supported trade.

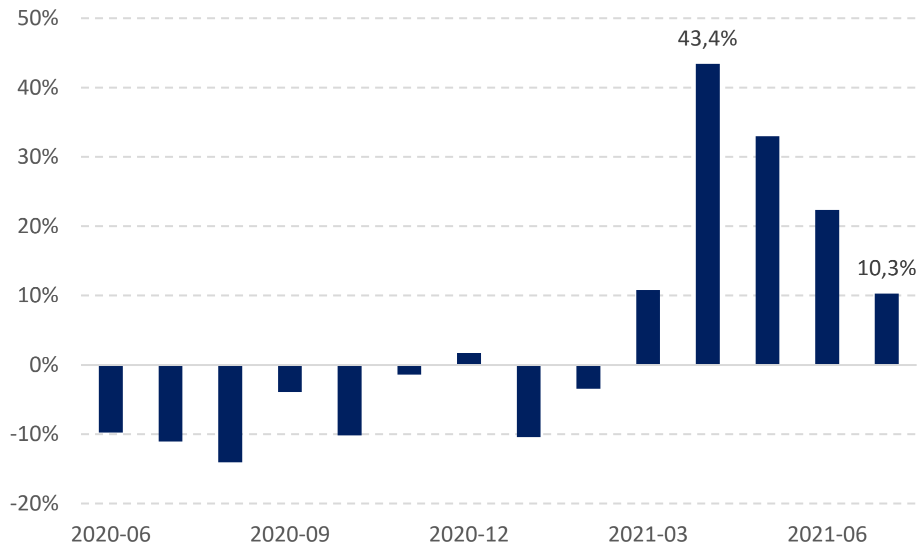
[1] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Tourism_statistics_-_nights_spent_at_tourist_accommodation_establishments

[2] https://trade.ec.europa.eu/doclib/docs/2013/december/tradoc_151969.pdf

But as shown in the graph below, Europe's exports are faltering. In the first half of this year extra-EU goods exports were well above the corresponding level same month last year, but the momentum has weakened so that the July 2021 goods exports were only 10% higher than July last year.

While exports were crucial in the earlier stages of Europe's economic recovery from the pandemic, the recovery is increasingly reliant on strong consumer-led surge in domestic spending, whilst international trade in contrast is reeling from bottlenecks, supply constraints and rising input prices.

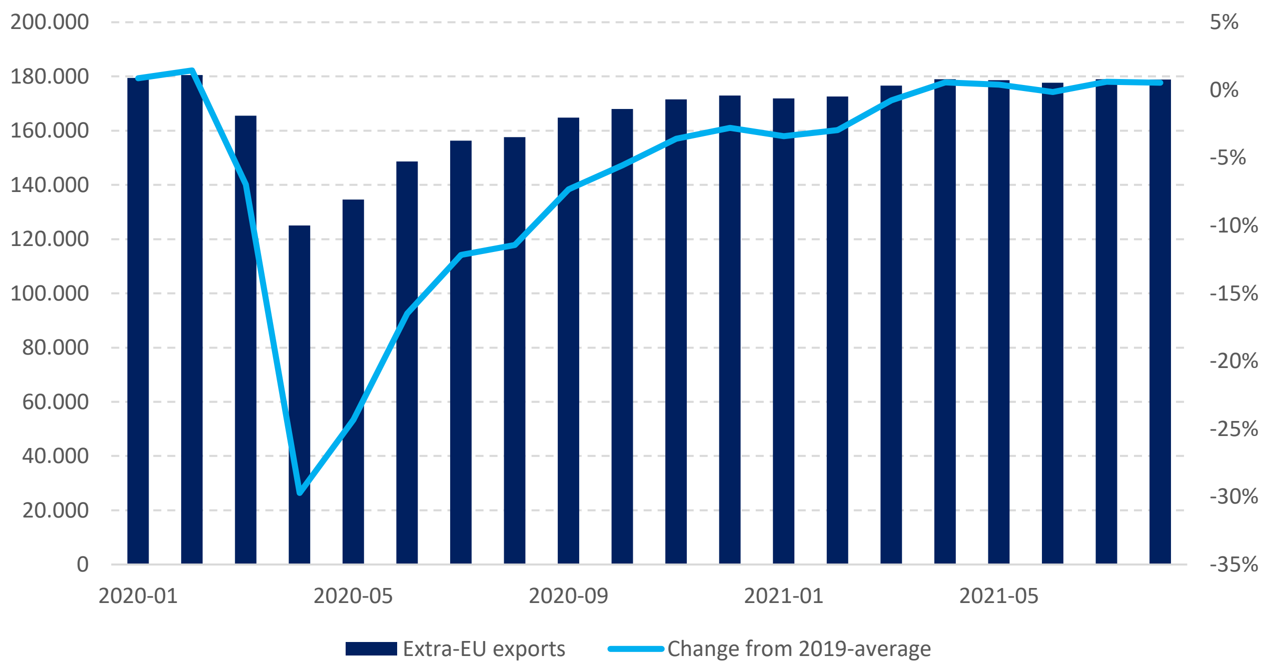
Extra-EU goods exports, change from same month previous year (current prices)



Own calculations based on Eurostat

While these effects also reflect large base effects owing to the significant and sudden shock to global trade as lockdowns were imposed last year, a similar picture of the export momentum having lost some steam and instead stagnating recently emerges if assessing the developments against a 2019-benchmark, as shown in the graph below.

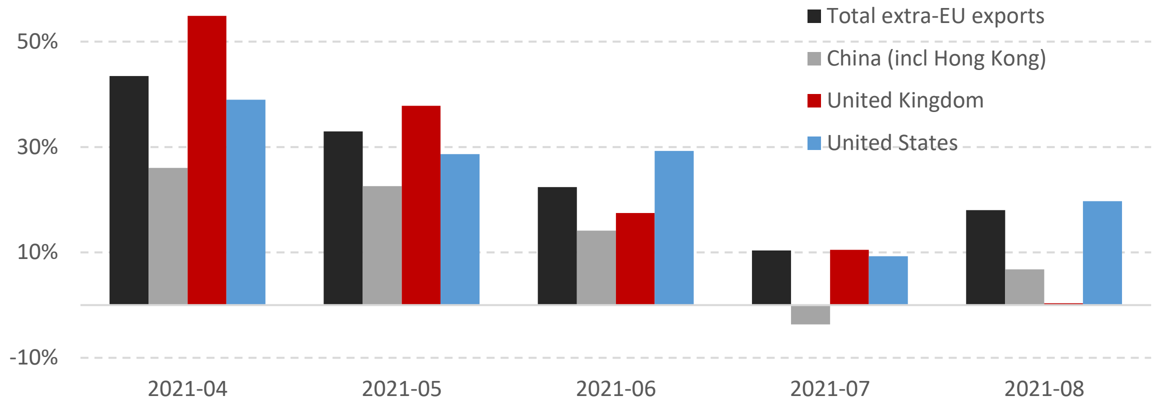
Extra-EU goods exports (seasonally adjusted, million euro), and change from 2019-average



Own calculations based on Eurostat

The general pattern of exports rising strongly in the spring and summer, but in recent months registering slower growth, holds for all our main trading partner countries.

Monthly EU goods exports, change from same month 2020



Own calculations based on Eurostat

EU exports to China have grown 15% in 2021 so far, relative to same time period last year, but is now feeling the effects of disruptions in supply chains originating in China. With significant concerns over current developments on the Chinese real estate market there is a risk that the current tailwinds will continue to weigh in on Europe's largest trading partner for some time.

EU exports to the United States have grown strongly with the roll-out of vaccinations allowing for a gradual return to normal economic activity and operations, but is also under strain from rising price pressures and trade disruptions.

Closer to home, EU exports to the United Kingdom have only increased 6% relative to last year, a relatively weak export performance reflective of the trade disruptions caused by Brexit which continue to weigh in negatively on trade.

Change in goods exports from Jan-Aug 2020 to Jan-Aug 2021

Extra-EU	13,8%
Japan	12,3%
China (incl Hong Kong)	14,8%
European Free Trade Association countries	11,7%
United Kingdom	5,6%
United States	11,9%

Own calculations based on Eurostat

Business investment picks up, alongside start-ups

After a dramatic drop to investments when lockdown restrictions were imposed in 2020, gross fixed investments finally recovered in the second quarter of 2021 to the pre-crisis level. This could however be merely temporary as many companies likely carried out a number of necessary investments they postponed during the lockdowns, rather than a lasting trend. The appearance of significant bottleneck disruptions in global value chains also pose obstacles and will likely serve to depress investor confidence at least in the short run. Until EU27 investments have consistently stabilized at or above pre-crisis levels the European economy will struggle to make a full recovery back to a solid growth path. Moreover as investments will often help European business become more productive and exploit new market opportunities the dearth of investments may represent a permanent loss with negative long-term consequences to competitiveness and growth.

Gross fixed investments relative to 2019 average, seasonally and calendar days adjusted

2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2
2.1%	-16.4%	-5.9%	-3.0%	-1.9%	0.2%

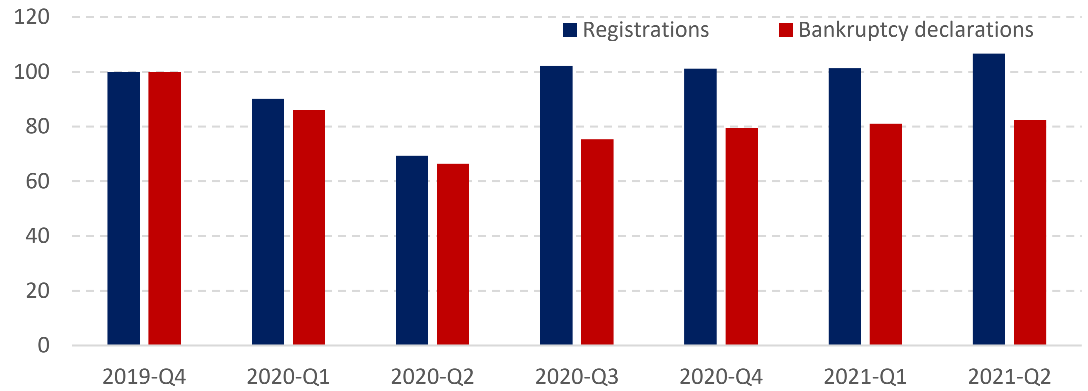
Own calculations based on Eurostat

There is also positive news regarding business start-ups with new business registrations, which as shown in the graph below, back to and in 2020Q2 even 7% above the pre-crisis level.

A key risk through the pandemic has been that of insolvencies, as many companies and even many that would in normal times be very sound and profitable companies have been under great strain and seen their equity dwindle during the long period of lockdowns. However the rate of insolvencies has been lower than normal during the lockdown with government support extended to keep companies afloat, and still remains below normal levels.

While it looks like the European business community has weathered the storm better than expected, there is still a risk of a backlog of insolvencies now that restrictions have been lifted and businesses, as well as the creditors that some are dependent on to continue operations, can assess the situation and decide what post-pandemic prospects there are for companies. The fact that bottlenecks and price pressures are now increasingly apparent throughout our economy adds to that concern.

Business Registrations and Bankruptcy Declarations, seasonally and calendar days adjusted, index 2019Q4=100

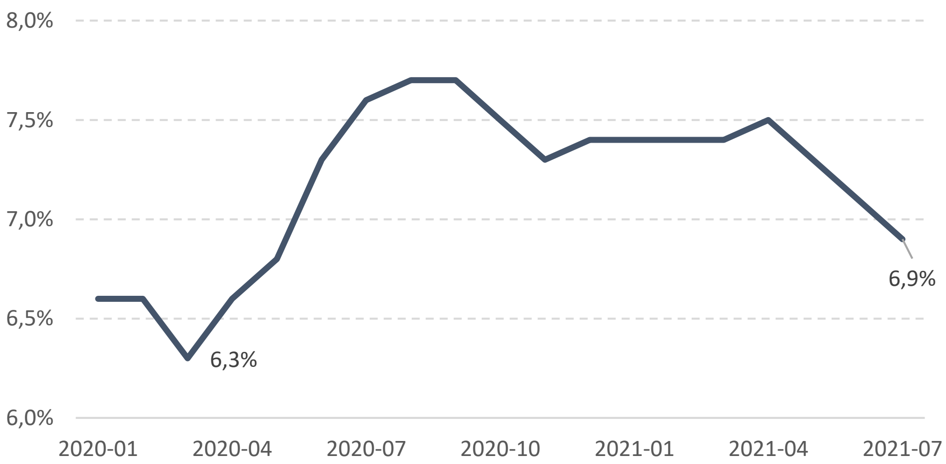


Eurostat

Unemployment is falling quickly, albeit in part due to falling participation

With the European economy bouncing back unemployment is falling fast. After reaching 7.7% at the peak of the pandemic (a number which does not include the millions placed on furlough schemes) it has now fallen to 6.9%. While still above the pre-crisis level of 6.3% in March 2020, unemployment has already fallen below the average for the year 2019, and continues to fall further.

EU27 Unemployment rate (seasonally adjusted, not calendar-days adjusted)



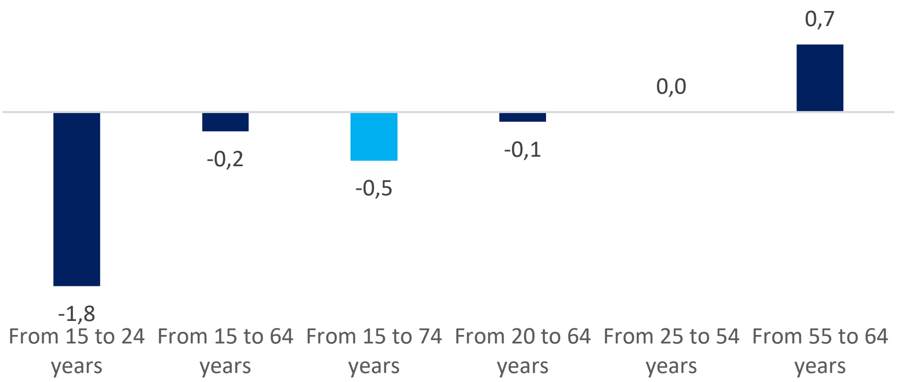
Eurostat

Although this is welcome news, the labour force also shrunk by 2.6 million from 2019 to 2020[3], with the labour force participation rate in particular falling for young people (dropping by 1.8 percentage points among under 25 year olds). The pandemic has clearly caused many young people to temporarily leave the labour force, presumably to pursue options in education or living off family income.

This does not necessarily entail a permanent reduction of the labour force as discouraged young workers may decide to seek employment after the pandemic lockdowns are fully past us, but there is a risk of longer-term hysteresis effects. Moreover, the unemployment figures should also be viewed in light of the dramatic change to the total size of the labour force as the unemployment figures do not capture the full effect on labour markets of the pandemic.

Policymakers should recognize that the crisis has affected young people disproportionately and attention needs to be paid to ensuring job creation and educational/skills policy designed to ensure their return to the labour market.

Labour force participation rate: Percentage point change 2019Q4 to 2020Q4



Own calculations based on Eurostat

Global bottlenecks are threatening to blunt the recovery…

Whilst Europe has experienced stronger-than-expected economic growth, a number of risk factors are now manifesting themselves more strongly than expected in recent months. This now threatens to put a sustained damper on the recovery as bottlenecks and supply chain strains are increasingly evident throughout the global and European economy.

There have been a number of flare-ups of the COVID-19 virus which has caused port facility and factory closures in China, (exacerbated by floods in some areas of China) with downstream disruptive effects on global value chains.

As a result of these factors, and reflective of global supply chains still not having recovered fully from the damages wrought by the pandemic and ensuing lockdowns, delays in ocean shipping have increased dramatically with 37% of containers experiencing delays[4], with downstream effects for European businesses and consumers as a wide ranges of products from overseas manufacturers now risk significant delays.

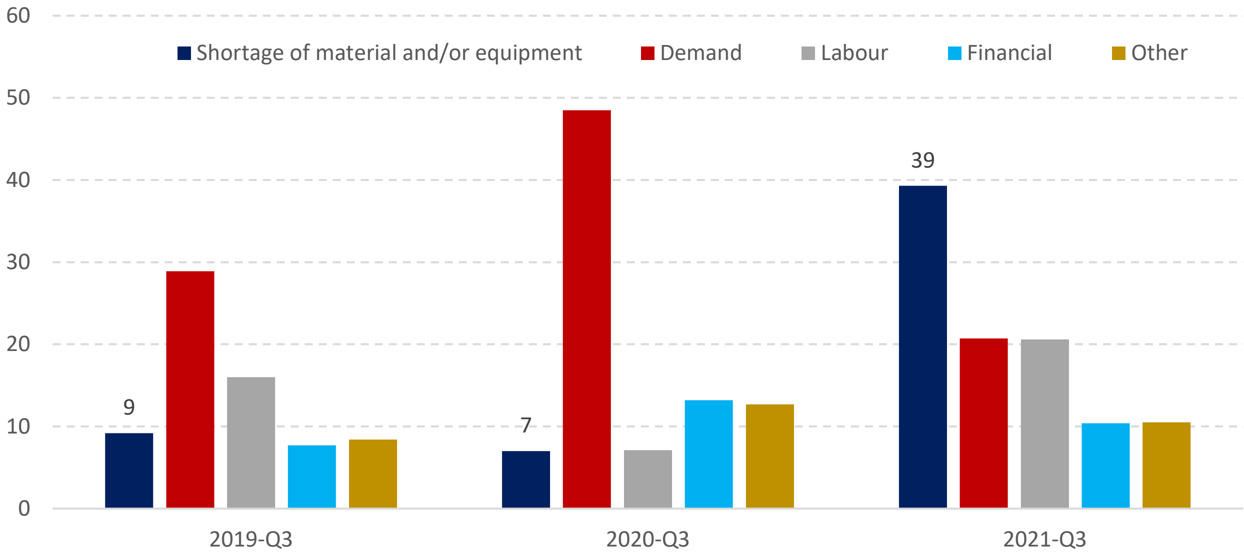
As a result there are widespread shortages of materials and production inputs which negatively affects European production. As seen in the graph below, the share of European companies that report Materials/equipment as a factor limiting their production has shot up from 9% in 2019Q3 to

[3] https://data.worldbank.org/indicator/SL.TLF.TOTL.IN?locations=EU

[4]https://www.maritime-executive.com/article/delays-are-growing-with-increasing-reports-of-rollover-cargo-worldwide

39% in 2021Q3, i.e. has gone from a less important to the most important constraint on Europe's industry. For example the automobile sector[5], a central pillar of the European economy, is reeling from microchips shortages, causing the number of new passenger car registrations in the EU to fall by 23% in September, which represents the lowest level since 1995[6].

Percentage of companies in Industry reporting the following as a factor limiting production



Companies can report several factors as limiting production so this is non-additive i.e. cannot be interpreted as the total sum of companies reporting one/ several factors as limiting production. Source: DG ECFIN

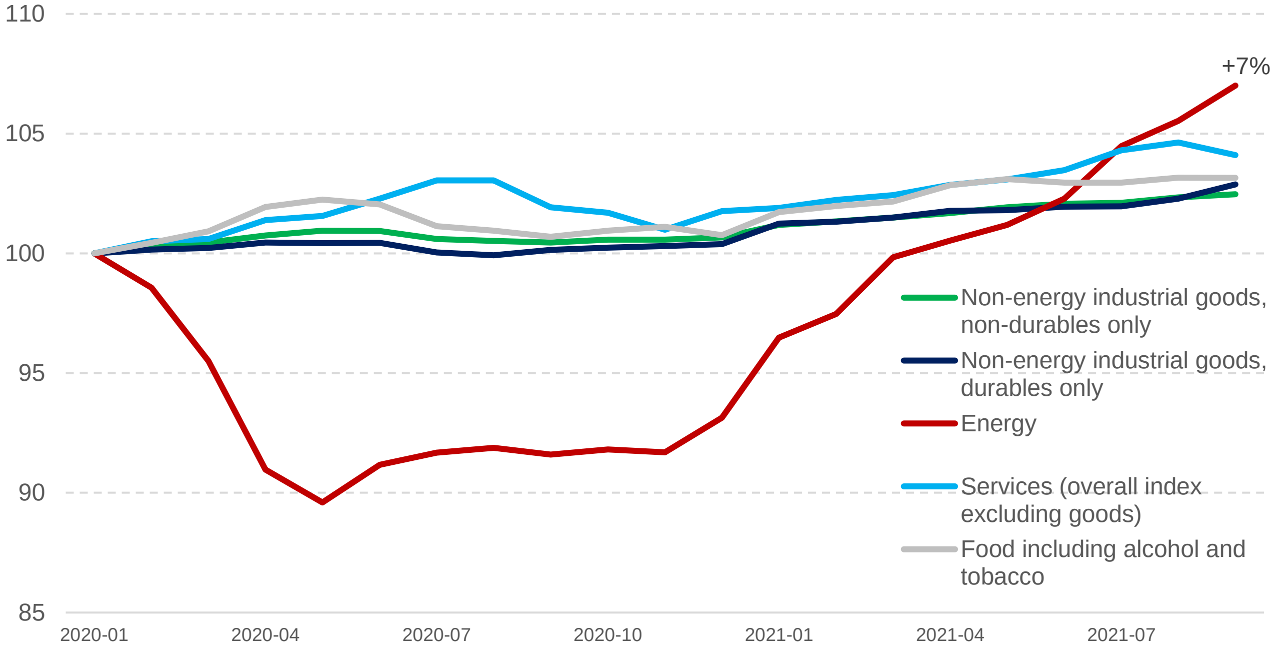
… and contributing to rising input prices

The various bottleneck and supply side constraints are also pushing up prices throughout the global and EU economy. For example, the price of container ocean shipping has doubled over the past six months[7] and increased 10-fold since pre-crisis levels[8]. As a result of these price pressures the HICP inflation level in September was 3.4% in the Euro Area, and according to preliminary data 4.1% in October.

Energy prices in particular have surged dramatically this year and accounted for half of the HICP price rise in September[9]. As shown in the graph below, the energy component of inflation fell strongly during the pandemic due to insufficient demand, and then normalized after the world economy began picking up again. However energy prices have continued to increase and are now well above pre-pandemic levels (7% higher than in January 2020), with the oil price for instance at a three-year high[10], and natural gas prices in Europe hitting record levels[11].

[5] https://www.ecb.europa.eu/pub/economic-bulletin/focus/2021/html/ecb.ebbox202104_06~780de2a8fb.en.html
[6] https://www.acea.auto/pc-registrations/passenger-car-registrations-6-6-nine-months-into-2021-23-1-in-september/
[7] https://en.sse.net.cn/indices/ccfinew.jsp
[8] https://www.ft.com/content/5341d046-7206-47aa-a919-a8d4e3d82d5b
[9] https://ec.europa.eu/eurostat/documents/2995521/11563327/2-20102021-AP-EN.pdf/e4d74a06-e0e6-b9eb-ed56-094eccd4109c?t=1634718508016
[10] https://www.reuters.com/business/energy/oil-prices-rise-tight-supply-set-weekly-gain-more-than-2-2021-10-15/
[11] https://www.bloomberg.com/news/articles/2021-10-01/european-gas-rises-to-record-100-euros-as-energy-crunch-worsens

Price index, January 2020=100, EU27



Own calculations based on Eurostat

As shown in the graph below, from September 2020 to September 2021, i.e. over the past 12 months, energy prices have increased 17%, whereas other items have increased by between 2.0% and 2.7% as shown in the graph below. With the exception of the category Food, price increases were much higher over the past 12 months than a corresponding period from 2019 to 2020.

Change in price index ….

	Sept 2019 to Sept 2020	Sept 2020 to Sept 2021
Non-energy industrial goods, non-durables only	1,0%	2,0%
Non-energy industrial goods, durables only	0,2%	2,7%
Energy	-7,2%	16,8%
Services (overall index excluding goods)	1,1%	2,1%
Food including alcohol and tobacco	2,3%	2,4%

Own calculations based on Eurostat

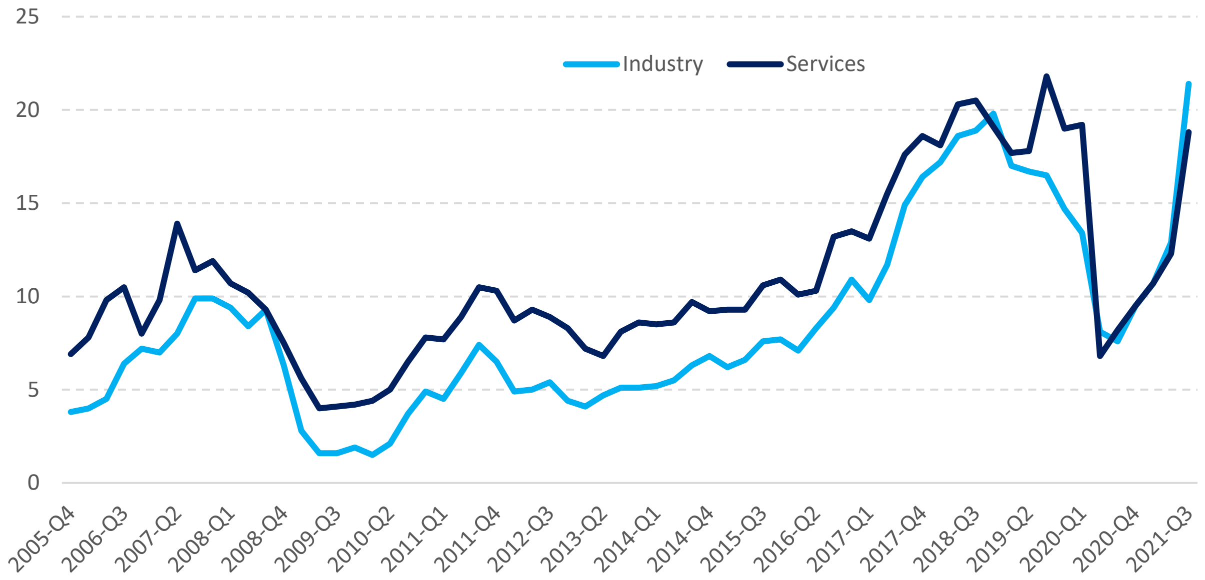
As energy is of vital importance both as input to production processes in the corporate sector and for households the rising energy prices in particular have pushed up the inflation rate in Europe, and as the current "energy crunch" continues it will increasingly weaken the economic upturn.

Unmoderated wage pressures risk damaging Europe's competitiveness

Rising prices entails costs on businesses which, in competitive markets, are at least in part passed on to consumers, with the result that consumer prices will also indirectly experience an upward pressure. This in turn entails the risk of labour requesting higher wages to compensate, which risks further increasing the costs on business and consumer prices in a so-called wage-price spiral.

Underlining the potential upward pressure on wages, the proportion of businesses in both industry and services that report that labour is now a constraint on their production has increased back to pre-crisis levels.

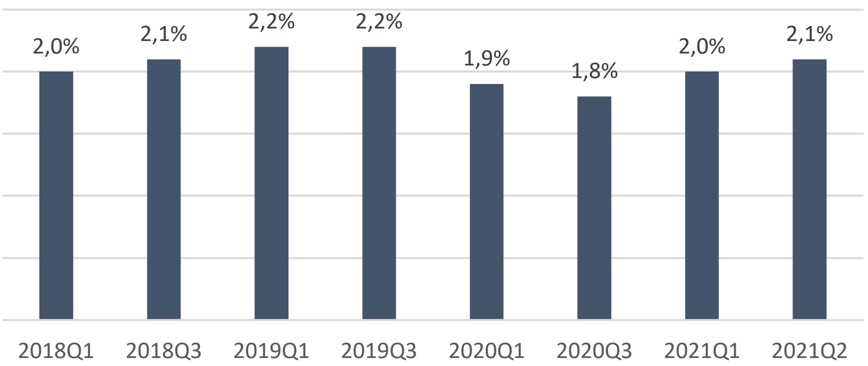
% of companies within Industry that consider access to Labour a constraint on production (unadjusted data)



Own exposition based on DG ECFIN Industry Survey, Services Survey

The job vacancy rate meanwhile has increased to 2.1%, up from 1.8% in 2020Q3, almost back at the 2.2% level registered in 2019Q4 before the pandemic, despite overall employment, and hence what we would normally expect to be the available workforce, being much lower than its pre-crisis level.

Job vacancy rate, seasonally adj. not calendar days adj, EU27



Eurostat

As pointed out by the ECB[12], the presence of “slack” in the economy (that is to say production factors – labour/unemployed people and capital – that are not currently utilized in the economy), acts as a counterweight to price and wage pressures.

However, with unemployment falling fast the counterweight to wage rises posed by such “slack” in labour markets is dissipating fast.

Moreover the European economy suffers from considerable mismatch issues with hard-to-fill roles in many sectors or professions even if the overall unemployment rate is still elevated.

[12] https://www.ecb.europa.eu/press/pressconf/2021/html/ecb.is210909~b2d882f724.en.html

Temporary or permanent price pressure?

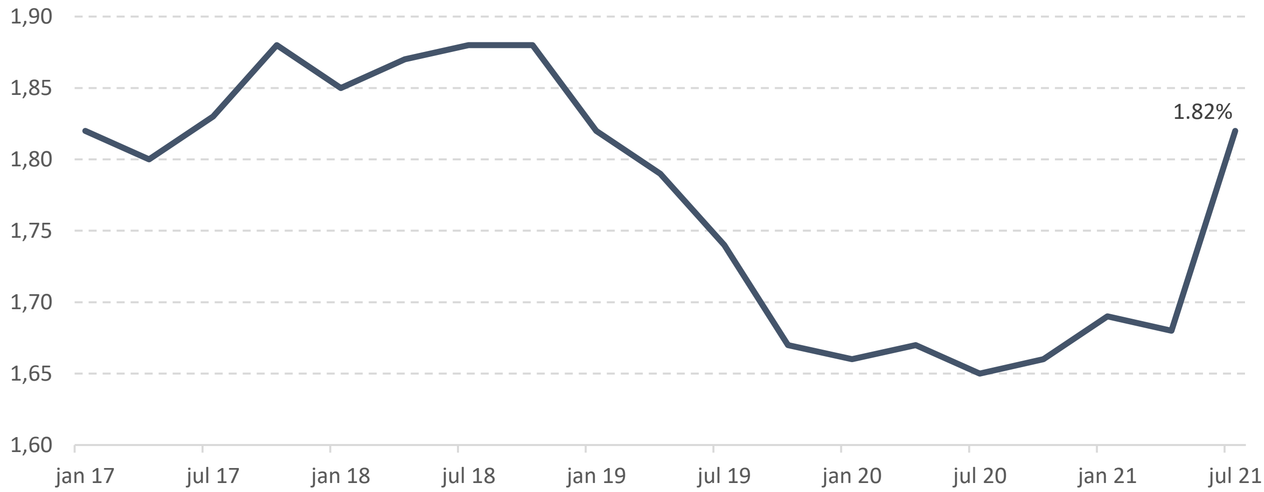
The key question for economic policymakers and businesses is whether these price pressures are temporary in nature or will result in longer-run higher inflation.

Some factors of temporary nature will certainly dissipate:

- The rapid increase in energy prices were in part – but not only - a reflection of demand catching up after a period of insufficient demand (with oil prices even hitting negative territory[13]) meaning that the upward pressure may be losing some momentum.
- Germany passed a large temporary VAT cut last year which has now expired, causing upward price pressure in Europe's largest economy.
- The disruptions to Chinese production and port facilities are also nonpermanent in nature (floods, virus outbreaks).
- Central banks initiated huge volumes of asset purchases in response to the lockdowns, and are poised to begin winding down monetary support to the economy. With inflation reflecting "too much money chasing too few goods" less accommodative monetary policy will also diminish the strong upward impetus in price movements.

While important factors pushing up inflation are temporary that is unlikely to be the full picture, however. As seen in the graph below, long-term expectations among market actors are increasing, so far having increased by 0.2 percentage points in recent months to 1.8%[14]. This raises the prospect of higher inflation in the longer term as a result of the price surge.

Longer-term average inflation expectations five years ahead, Percent



ECB Survey of Professional Forecasters

The ECB's position can be summarised by President Christine Lagarde's comment, "we expect inflation to rise further this autumn but to decline next year. This temporary upswing in inflation mainly reflects the strong increase in oil prices since around the middle of last year, the reversal of the temporary VAT reduction in Germany, delayed summer sales in 2020 and cost pressures that stem from temporary shortages of materials and equipment. In the course of 2022 these factors should ease or will fall out of the year-on-year inflation calculation".

But if prices continue to rise faster than expected, and longer-term inflation expectations continue to rise, central banks will likely respond by more aggressive tapering, with potentially negative growth implications. The US Federal Reserve is expected to begin reducing its quantitative easing purchases in November or December, whilst the ECB has already declared it intends to scale back its Pandemic Emergency Purchase Programme PEPP "moderately".

[13] https://www.bbc.com/news/business-52350082
[14]https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/html/ecb.spf2021q3~6a629d9dd3.en.html

Our own survey of our members' chief economists suggests the recent short-term increase in inflation will lead to a rise in long-term inflation expectations in a way which will require a monetary policy response likely to damage the recovery.

Ensuring full implementation of the Next Generation instrument boost growth

In the Euro Area the 2020 fiscal response to the outbreak of the pandemic amounted to a change in general government fiscal balance of 6.6 percentage points, as the total government deficit rose from 0.6% of GDP to 7.2% of GDP.

While this represents a massive stimulus, for perspective the fiscal reaction in the United States and United Kingdom were in excess of 10 percentage points.

These numbers do not take into account the Next Generation EU recovery instrument, which is set to channel out grants totaling around 2% of EU GDP over the coming years, with 13% pre-financing already paid out to many of the Member States. Clearly Europe needs to make the most out of the Next Generation EU and ensure it is implemented without delay on projects with high value-added to make up for a fiscal stimulus that was lower in comparative terms.

General government fiscal balance, % of GDP

	2019	2020	2021
Euro Area	-0,6	-7,2	-7,7
France	-3,1	-9,2	-8,9
Germany	1,5	-4,3	-6,8
Italy	-1,6	-9,5	-10,2
Spain	-2,9	-11	-8,6
China	-6,3	-11,2	-7,5
United Kingdom	-2,3	-12,5	-11,9
Japan	-3,1	-10,3	-9,0
United States	-5,7	-14,9	-10,8

Own calculations based on IMF Fiscal Monitor

The strong economic recovery gives cause for optimism, but it remains essential that a premature tightening of supportive fiscal policy and related measures is avoided in the short run at least in countries where this would not be appropriate. The EU27 economy is still operating well below its potential with an output gap in 2021 estimated to be 3,1% in the latest European Commission economic outlook, and expected to remain negative at -0,4% in 2022. Withdrawing fiscal support at a time with non-insignificant output gaps must be done with great care.

Member States will have to return to fiscally sustainable positions in the medium run and consolidate public finances to ensure their long-run sustainability. Getting the timing right by which to tighten fiscal policy is therefore a key challenge for EU member states. Combining fiscal policy with structural reforms will be important to ensure that the EU economy can keep growing despite the needs to address fiscal sustainability issues in the medium run.

Size of output gaps in the EU27, % of GDP

	2017	2018	2019	2020	2021
European Commission, Spring 2021	0,5	1,1	1,3	-5,9	-3,1
European Commission, Autumn 2019	0,3	0,8	0,6	0,4	0,3

European Commission

Our economic projections are preconditioned on governments getting the timing roughly right, avoiding premature tightening that would prove damaging to growth, whilst also maintaining enough market trust to avoid dangerous "debt explosion" dynamics.

Moreover, as we explore below and emphasizing the need for fiscal decisionmakers to remain vigilant to developments, whilst the EU economy has benefitted from the removal of many covid restrictions, particularly during the spring, the threat from the virus, both in health and economic terms is clearly not over.

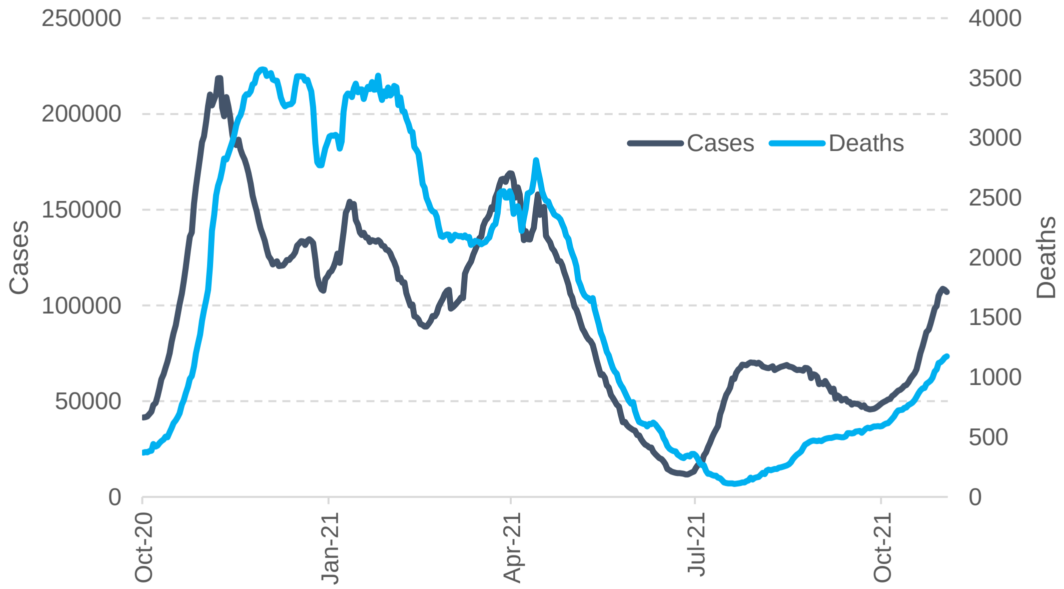
Member States must keep vaccinating to reduce the risks from Covid

Returning the EU to its pre-covid growth path will be dependent upon the long-term removal of restriction related to COVID-19. Whilst the EU vaccination campaign enabled such reopening during the spring, the threat from COVID-19 has not entirely gone away.

Most positively, as the graph below shows, vaccines have since the summer significantly reduced the ratio of deaths to infections. Although, as the graph also shows, whilst still well below the levels seen at the start of the year, COVID-19 deaths have now started to increase. But the overall EU figures hide the vast difference between member states.

Between 1 September and 15 October, around 24% of all EU COVID-19 deaths occurred in Romania, and 12% in Bulgaria, compared to only 8% and 9% in much larger countries such as Italy and Spain respectively.

Daily number of cases and deaths in the EU (1 October 2020 – 3 November 2021), 7 day rolling average



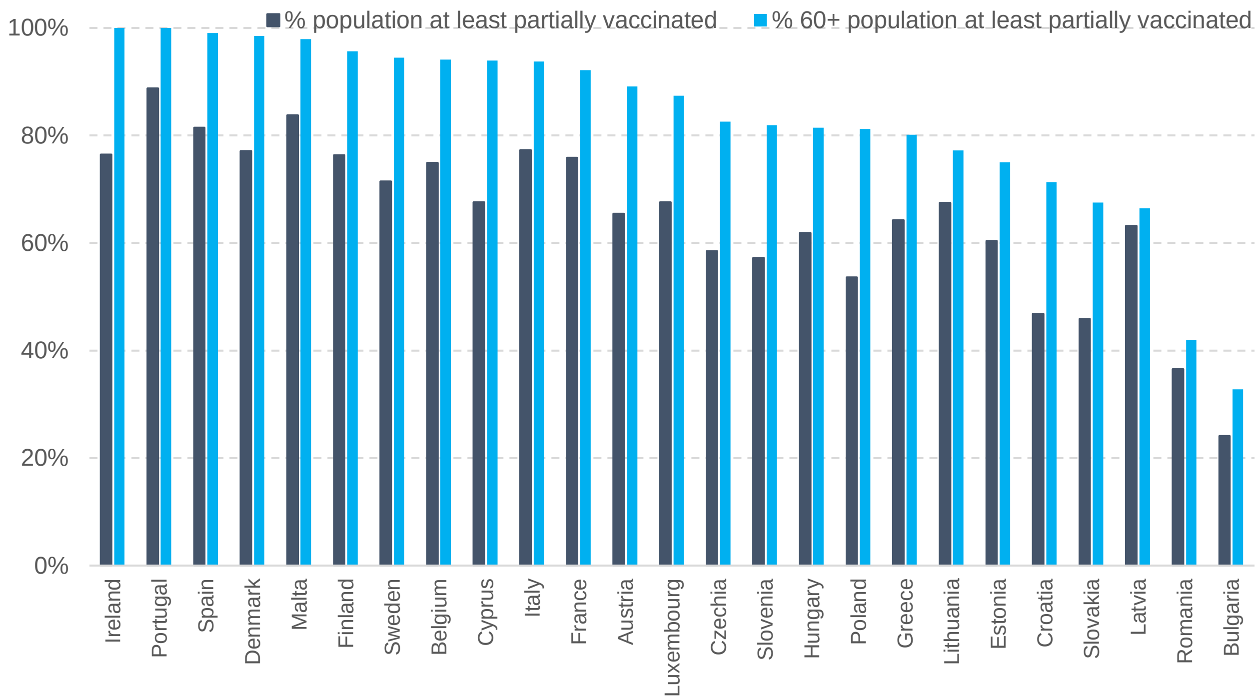
OurWorldinData

The vast country differences can be explained by the similarly large difference in vaccination rates, with low rates for more vulnerable people over 60, as seen in Latvia, Bulgaria and Romania, a particular concern.

The experience of Latvia where the government has imposed an almost month-long lockdown including curfew and closure of non-essential retail and services is a stark reminder of the risks the virus still poses.

Moreover, with evidence that the efficiency of vaccines falls over time, and with the winter seasons approaching, all Member States should seek to continue the vaccination programmes, including booster shots where appropriate, in order to reduce both the health and economic risks from the virus.

Vaccination coverage in the EU, share of general population at least partially vaccinated, share of 60+ years of age population at least partially vaccinated, 3 November



Eurostat, ECDC and OurWorldinData. Note: data for Germany and the Netherlands is missing.

Large country differences

Significant country differences persist within the EU27 economies.

The COVID-19 pandemic has in fact exacerbated these differences by affecting Member States very unevenly.

As shown in the table below, even when assessing likely developments in 2022 there are considerable disparities between Member States including in terms of how strong growth they are expected to achieve.

GDP and HICP inflation for each EU Member State

Country	GDP growth 2021	GDP growth 2022	Inflation 2021	Inflation 2022
Austria	4,5%	4,5%	2,6%	2,3%
Belgium	4,9%	3,8%	2,1%	2,8%
Bulgaria	4,1%	4,6%	3,5%	0,8%
Czechia	3,3%	4,0%	3,2%	3,0%
Estonia	9,5%	3,5%	3,6%	3,6%
France	6,3%	3,7%	1,8%	1,4%
Germany	3,0%	4,5%	3,0%	2,0%
Greece	6,1%	4,5%	0,0%	0,8%
Hungary	7,0%	5,0%	4,7%	4,0%
Luxembourg	6,2%	3,8%	2,5%	2,2%
Malta	5,6%	5,8%	1,1%	1,6%
Netherlands	3,9%	3,5%	1,9%	1,8%
Slovenia	6,1%	4,7%	1,4%	2,0%
Spain	5,7%	6,0%	2,4%	0,9%
Sweden	4,3%	3,6%	2,6%	1,9%
Italy	6,1%	4,1%	1,8%	1,4%
Croatia	5,4%	5,9%	1,5%	1,3%
Ireland	7,2%	5,1%	1,5%	1,2%
Denmark	4.4%	2.6%	1.7%	1.1%
Finland	2,7%	2,9%	1,5%	1,6%
Portugal	4,8%	5,1%	0,9%	1,6%
Poland	4,8%	5,2%	4,2%	3,1%
Cyprus	4,3%	3,8%	1,4%	1,3%
Latvia	3,8%	6,0%	2,0%	2,1%
Lithuania	3,8%	3,9%	2,3%	2,0%
Romania	7,4%	4,9%	3,2%	2,9%
Slovakia	4,9%	5,3%	2,1%	2,2%
EU27	**4.7%**	**4.3%**	**2.3%**	**1.8%**
Euro Area	**4.7%**	**4.3%**	**2.2%**	**1.6%**

Source: BusinessEurope and member federations

About this Outlook

BusinessEurope publishes a biannual Economic Outlook that provides business insight into recent and projected economic developments in Europe. In producing our economic projections and assessing current challenges and developments in the international and regional economy, BusinessEurope works closely with its member federations and draws on their specialist expertise and detailed knowledge of their national economies and ongoing interactions with business. In particular, our EU27 and Euro Area forecasting is informed by and reflects (GDP-weighted) economic forecasts, data and estimates the economic research departments of our national member federations. Our economic projections are therefore informed by leading country experts with indepth knowledge and day-to-day monitoring of the economic situation in every EU member state.

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