

## European Commission upgrades economic forecasts

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The European Commission has sharply raised its economic forecasts for the coming two years, as an accelerating vaccination campaign helps the eurozone recover from the historic blow delivered by the pandemic.

The euro area will expand by 4.3 per cent this year and 4.4 per cent in 2022, Brussels said on Wednesday, compared with previous forecasts for 3.8 per cent growth in both years. As a result, all member states are now expected to regain their pre-crisis output levels by the end of next year, following a historic 6.6 per cent slump in 2020.

The stronger outlook was driven by the rising vaccination rates and the prospect of lockdowns easing across the region, as well as improving export demand driven by a global rebound. Brussels for the first time fully factored in the impact of the €800bn Next Generation EU economic relaunch package, which is expected to begin paying out in the second half of the year.

“The shadow of Covid-19 is beginning to lift from Europe’s economy,” said Paolo Gentiloni, the EU’s economics commissioner. “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.”

Europe slid into a double-dip recession early this year amid renewed lockdowns and a shaky start to the vaccination effort. However, evidence has been mounting more recently that the economy has “moved up a gear”, according to the commission, which cited improved business and consumer sentiment surveys.

Further easing of containment measures combined with the early payouts from the recovery fund should mean economies would accelerate in the third quarter — including those with big tourism sectors, which should benefit from the return to “quasi-normality of social activities over the summer”, according to the commission.

Stronger global growth, driven in part by the US stimulus packages and improved growth in China, will also help lift the EU’s export sector and contribute to the recovery. The broader EU economy will grow 4.2 per cent in 2021 and 4.4 per cent in 2022, according to the forecast, also an upgrade from the February outlook. The bloc’s unemployment rate will hit 7.6 per cent this year before heading back down to 7 per cent in 2022.

Spain, which was the hardest-hit EU economy last year, losing more than a tenth of its output, will grow 5.9 per cent in 2021 and 6.8 per cent in 2022, according to the new outlook. Italy is set to expand by 4.2 per cent this year and 4.4 per cent next.

Germany, which suffered a much smaller 2020 contraction, could grow 3.4 per cent in 2021 and 4.1 per cent in 2022. France is tipped to expand by 5.7 per cent this year and 4.2 per cent next.

The outlook next year will be supported by the highest public investment levels as a share of gross domestic product in more than a decade. That will be driven in part by the Next Generation EU package, which is meant to start paying out in the summer once member states get their recovery plans signed off by the commission.

In total, the six-year programme should pay out about €140bn of grants over the two years covered by the commission's forecasts. That should deliver a 1.2 per cent of GDP uplift, according to the outlook.

The crisis will still continue to exert a massive strain on public finances, however, with the overall eurozone deficit set to rise to 8 per cent of GDP this year. That is predicted to halve next year to 4 per cent, but the legacy of the vast government spending programmes will still loom large. The overall euro area public debt-to-GDP ratio will remain above 100 per cent this year and next, the commission said.

EU member states face a tense debate later this year over how to rapidly pare back their stimulus programmes and whether to reform the bloc's fiscal rules, which are set to remain suspended until 2023.

Among the risks to the outlook, the commission said, was the possibility that governments would decide to start paring back their economic support packages too soon, undermining the recovery. The continued effectiveness of vaccines and the evolution of the pandemic will also play a critical role in determining whether the EU's upgraded forecast proves justified.

*This article has been amended to correct the year when the bloc's unemployment rate is expected to fall back to 7 per cent.*

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